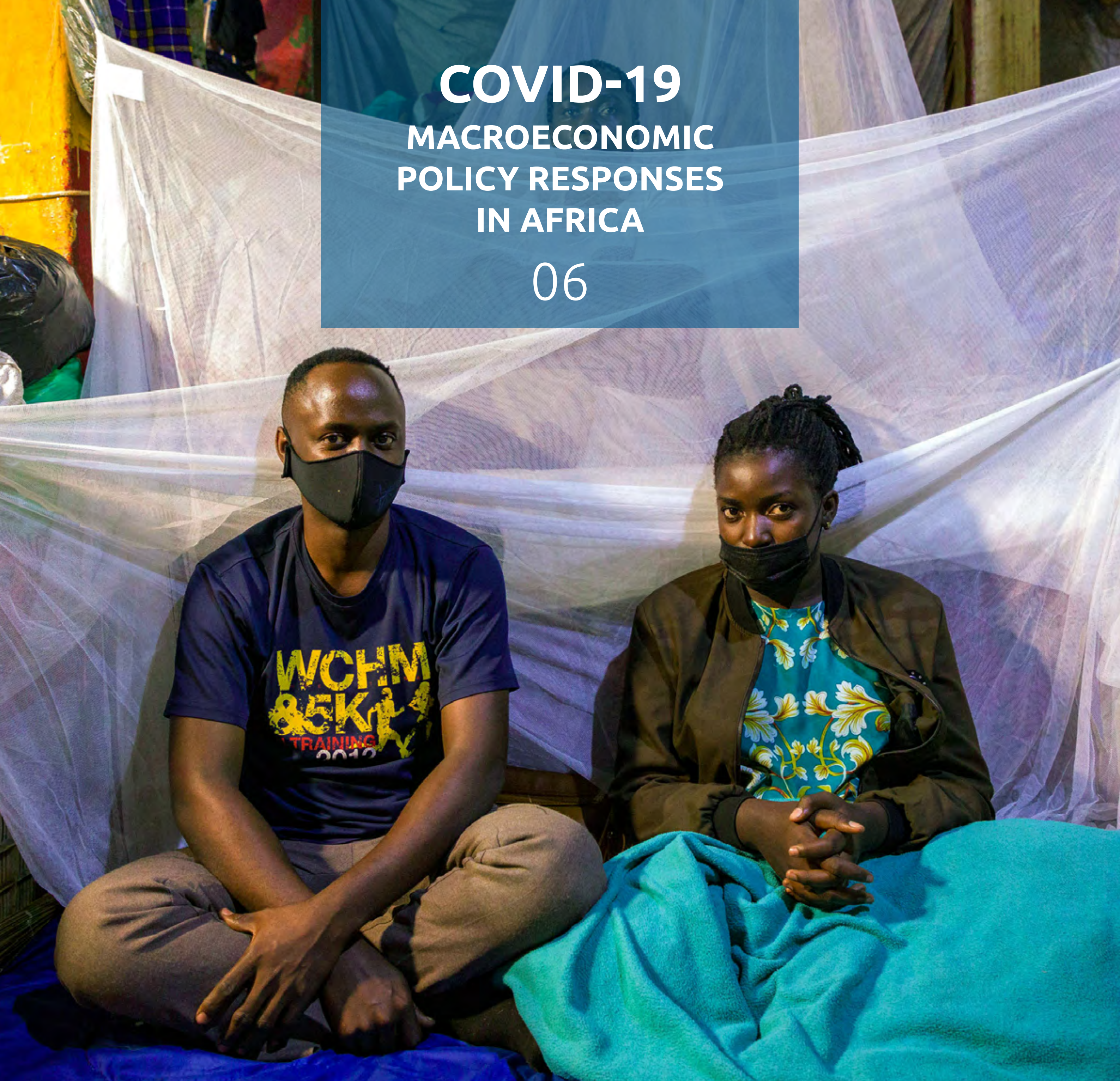


Efficacy of COVID-19 Macro-economic Policy Responses in Uganda

Ibrahim Mike Okumu, Susan Namirembe Kavuma & George Bogere

IDRC | CRDI
International Development Research Centre
Centre de recherches pour le développement international

Canada

CSEA
Centre for the Study of the Economies of Africa

SAIIA
South African Institute of International Affairs

About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

Our Donor

This project is supported by the International Development Research Centre (IDRC). The IDRC is a Canadian federal Crown corporation. It is part of Canada's foreign affairs and development efforts and invests in knowledge, innovation, and solutions to improve the lives of people in the developing world.

Abstract

COVID-19 has caused an unprecedented economic and health shock in Uganda, as has been the case globally. After the World Health Organization announcement that COVID-19 was a global pandemic, the government of Uganda undertook decisive measures to abate the spread of the virus through adopting COVID-19 containment measures. Also, in anticipation of the distortionary effects of COVID-19 on Uganda's economy through the external and domestic effects channels, the government adopted an expansionary fiscal and monetary policy alongside financial sector interventions. Fiscal policy interventions involved the following: tax relief measures; government

expenditure through extending seed capital to vulnerable groups; strengthening health systems; enhancing the supply of agriculture inputs through the use of e-vouchers; banning the disconnection of users from utilities such as water and electricity; and payment of domestic arrears, among others. Monetary policy interventions included reducing the central bank rate (CBR) to 7%, its lowest level since inception in 2011. Financial sector intervention involved credit relief, asset quality support and liquidity support measures alongside supporting a reduction in mobile money charges. As such, this paper explores the macroeconomic impact of COVID-19 on Uganda's economy, the macroeconomic policy choices undertaken and, finally, inclusiveness and viability of the various macroeconomic policy choices undertaken. The study used high frequency macroeconomic data to tease out the impact of COVID-19 on Uganda's economy. Furthermore, through exploring the policy choices adopted, we also assess policy choice viability and extent of inclusiveness. The aforementioned policy interventions mitigated the extent of COVID-19 distortions on Uganda's economy. Indeed, although economic growth was slow at 2.9% in the financial year (FY) 2019/20, with especially the service and industrial sectors paying the highest price, the supportive environment ensured that the industrial sector picked up quickly in the first quarter (Q1) of FY2020/21. The roll-out of public works in urban and peri-urban areas was aimed at hedging livelihoods against the impact of COVID-19 on households as a result of dampened production in the industrial and service sectors. While inflation remained subdued, the reduction in aggregate demand and trade disruptions suppressed inflationary pressure on food thereby undermining rural incomes and thus perpetuating rural poverty. Even then, the introduction of the Emyooga fund[1] and the rolling out of the e-voucher system to 10 additional districts in an effort to enhance the distribution of agricultural inputs are attempts to strengthen livelihoods in the rural areas in the midst of COVID-19 headwinds. Interest rates were relatively low on account of expansionary monetary policy and confidence in Uganda's financial sector. This was largely on account of the Bank of Uganda's interventions in the financial sector, which ensured a stable financial sector albeit with reduced profitability. The external sector was characterised by reduced foreign direct investment, tourism receipts and remittances. Overall, the policy interventions were inclusive as fiscal policy was both sensitive to the formal and informal sectors (except for households in urban, peri-urban and rural settings). Also, monetary and financial sector interventions were sensitive to commercial banks, credit institutions and microfinance deposit-taking institutions implying sensitivity to formal and informal businesses irrespective of size and location.

---

1 A specialised skills enterprise group.

Introduction

A regional disaggregation of COVID-19 confirmed cases and deaths shows that the Americas, Europe, South-East Asia, East Mediterranean, Africa and Western Pacific have had the highest number COVID-19 confirmed cases respectively (see Table 1). As shown in Table 1, Africa has not paid the same in human life as compared to the Americas, Europe, South-East Asia and Eastern Mediterranean.[2] Within the East African Community (EAC), the number of COVID-19 cases and deaths have been 190 142 and 2 684 respectively. In Uganda, there have been 40 607 and 331 COVID-19 cases and deaths respectively.

Table 1 COVID-19 cases and deaths as of March 19, 2021

Region	Cases	Deaths
Americas	53 536 387	1 287 792
Europe	41 811 235	919 964
South-East Asia	14 080 960	214 049
Eastern Mediterranean	7 053 434	152 511
Africa	2 974 616	75 410
Western Pacific	1 752 133	30 730
EAC	190 142	2 684
World	**121 209 510**	**2 680 469**

Source: World Health Organization, https://covid19.who.int/, 19 March 2021

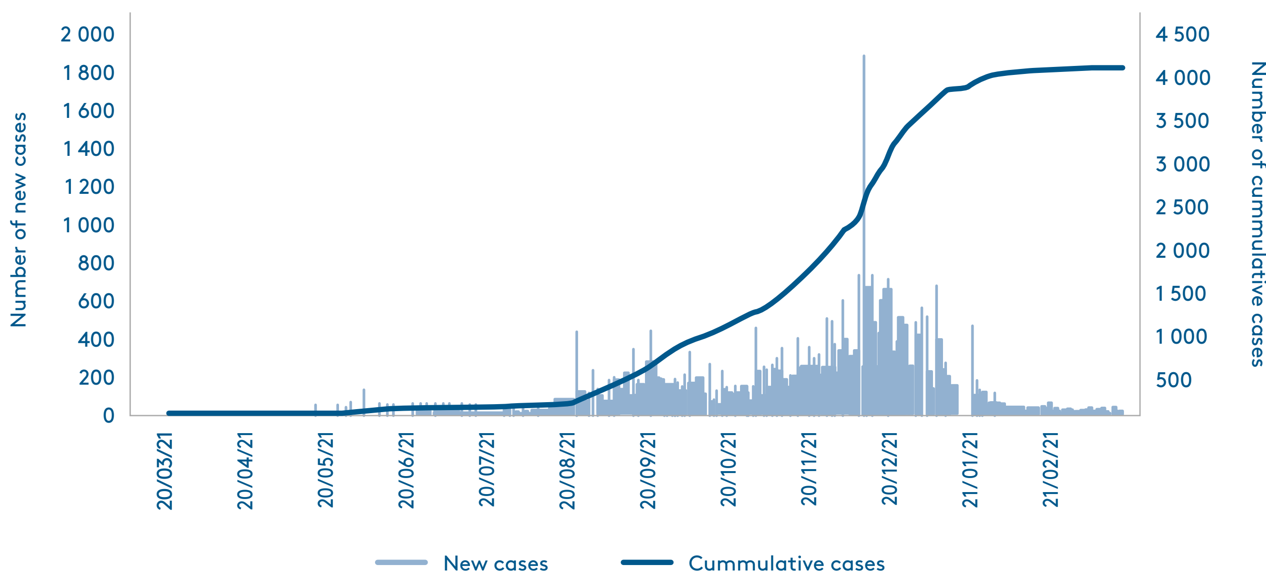
With regard to Uganda, the adoption of COVID-19 containment measures as early as March 2020 limited the spread of the virus. Indeed, Figure 1a) shows that Uganda has had two COVID-19 peaks, one in September 2020 and another in December 2020. The two peaks coincide with the easing of the COVID-19 containment measures in the first instance and the effects of the political party primaries in exacerbating the spread of COVID-19 in the second. The second peak, which covers the period October to December 16, 2020 (see Figure 1a), shows an increasing trend in the number of COVID-19 cases, which can partly be attributed to the general election campaign with its limited adherence to the standard operating procedures established by the Electoral Commission. Indeed, by December 14, 2020, the seven-day moving average was 719 infections per day (see Figure 1b). Even then, the human cost of the COVID-19 (in terms of loss of lives) in Uganda has been minimal in comparison to other countries within the EAC, such as

2 Bearing in mind the low intensity of COVID-19 testing in especially Africa, which could perhaps under represent the extent of the virus prevalence.

Kenya. The roll-out of the COVID-19 inoculation programme started in March 2021[3] and as of May 4, 2021, a total of 354 736 vaccine doses had been administered.[4] This implies that the human cost of COVID-19 is likely to reduce.

Apart from the human cost, COVID-19 has been deleterious to both the global and local economies. Uganda is an open economy and, as such, the distortionary effects of COVID-19 percolate into Uganda's economy through the external sector. To this end, COVID-19 disruptions to international trade in goods and services, and the flow of capital, has implications for Uganda's economy – notwithstanding the added distortionary effects of COVID-19's containment measures. Even then, the Ugandan government, through the Ministry of Finance, Planning and Economic Development and the Central Bank of Uganda, adopted expansionary fiscal and monetary policies with a view to mitigate the distortionary effect of COVID-19 on livelihoods and the private sector respectively. As such, this paper explores the macroeconomic effects of COVID-19 on Uganda's economy, the macroeconomic policy choices undertaken, and the inclusiveness and viability of these choices.

Figure 1a COVID-19 profile in Uganda

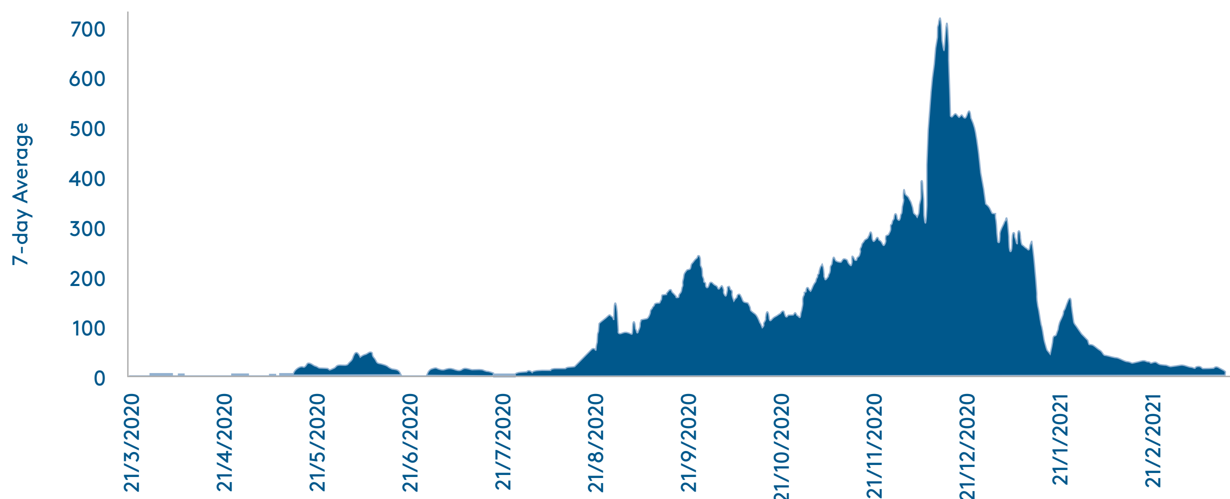


Source: World Health Organization, https://covid19.who.int/, 19 March 2021

3 Joachim Buwendo, "Uganda Launches First Phase of COVID-19 Vaccination Exercise", March 11, 2021, https://www.unicef.org/uganda/stories/uganda-launches-first-phase-COVID-19-vaccination-exercise.

4 See WHO, https://covid19.who.int/region/afro/country/ug for the number of vaccine doses administered.

Figure 1b COVID-19 cases, 7-day average



Source: World Health Organization, https://covid19.who.int/, 19 March 2021

Effects of COVID-19 on the global economy

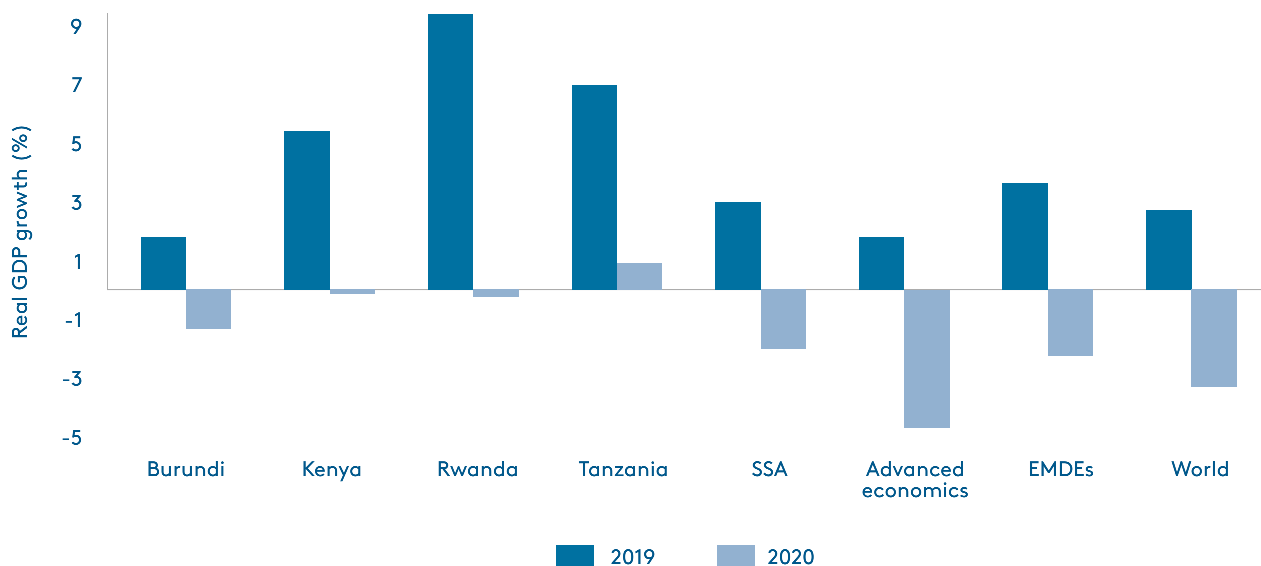
In the absence of a COVID-19 vaccine, countries around the globe adopted containment measures with the rationale of abating the spread of the virus. Global containment measures included a combination of:

- School closures;
- teleworking;
- cancellation of public events, including congregation and entertainment;
- restrictions on the size of gatherings, the number of persons in private cars and internal movement;
- closures of public transport, international travel both road and air except for emergencies;
- stay-at-home orders; and
- night curfews.

These measures disrupted the global supply chains for goods and services resulting in a global recession. While gross domestic product (GDP) growth was 2.8% in 2019, the distortionary effect of COVID-19 led to the world economy contracting by -3.3% in 2020 (see Figure 2). The contraction was irrespective of the region. For example, emerging markets and developing

economies, sub-Saharan Africa and advanced economies grew by 3.6%, 3% and 1.6% respectively in 2019. With COVID-19, however, emerging markets and developing economies, sub-Saharan Africa and advanced economies contracted by 2.2%, 2% and 4.7% respectively.

Figure 2 COVID-19 and real gross domestic product growth (%)



Source: IMF, https://www.imf.org/en/Publications/WEO/weo-database/2021/April, 30 July 2021

Within the EAC, the effects of the COVID-19 containment measures partly dampened growth. Indeed, while Burundi, Kenya and Rwanda grew by 1.8%, 5.4% and 9.4% respectively in 2019, they contracted by 1.3%, 0.1% and 0.2% respectively in 2020. Tanzania's economy was resilient although growth was sluggish: 1% in 2020 compared to the 7% growth rate in 2019.

Owing to the potential distortionary effect of COVID-19 containment measures, various countries adopted expansionary monetary and fiscal policies with varying degrees of intensity and extensiveness. Fiscal policy involves tax relief, social safety nets, payment of arrears to support liquidity among government service providers and strengthening health systems. The effect of the expansionary fiscal regime has come at the cost of increased public debt, especially among emerging markets and developing economies. The percentage of GDP public debt among emerging markets and developing economies was 60.8% in 2020 compared to 52.1% in 2019.[5] This has consequently increased the risk of debt vulnerability with a number of countries defaulting on their debt obligations while the risk of debt stress is on the rise especially among

5 Peter Nagle and Naotaka Sugawara, "What the Pandemic Means for Government Debt, in Five Charts", World Bank, January 11, 2021, https://blogs.worldbank.org/opendata/what-pandemic-means-government-debt-five-charts.

low-income countries.[6] With regard to monetary policy, central banks across the globe have adopted southward policy movements, quantitative easing and liquidity support in an effort to mitigate the impact of COVID-19 on the financial sector and by extension the economy. The effect of monetary policy has been to reduce liquidity risk, credit risk and capital risk in the financial sector, while inducing the sector to reduce lending rates to the private sector.

Effects of COVID-19 on Uganda's economy

Prior to the pandemic, Uganda's growth outlook was strong following the attainment of 6.2% and 6.8% real GDP growth in the 2017/18 and 2018/19 financial years respectively (Figure 3a). The strong growth outlook was due to the recovery of the agriculture, industry and services sectors. The agriculture sector, for instance, posted 4.4% and 5.4% growth in financial year (FY[7]) 2017/18 and 2018/19 respectively, which signalled an economic recovery following a 2.5% average growth over the period FY2012/13 to FY2016/17. Similarly, while the industrial sector averaged 5.5% growth over the FY2012/13 to FY2016/17, it posted 6.5% and 10.1% growth in FY2017/18 and FY2018/19 – implying strong industrial sector recovery. While services were relatively resilient – averaging 4.7% over the FY2012/13 to FY2016/17 period – it equally posted strong growth of 7.6% and 5.7% in FY2017/18 and FY2018/19 respectively. Consequently, growth was projected at 6.3% in FY2019/20. Inflation was well anchored with both annualised core inflation and headline inflation averaging 3.8% and 3.1% respectively in FY2018/19. Along with being profitable, the financial banking sector was stable with capital adequacy, liquidity and credit risk measures well above regulatory requirements. Against that background, tax revenue was projected to be 13.5% of GDP, a 1.9% increase from tax revenue collected in FY2018/19.

The external sector was equally well anchored, with Uganda earning a 3.5, 4 and 3.5 percentage of GDP from travel (tourism), personal transfers (remittances) and foreign direct investment (FDI) respectively in FY2018/19. It is important to note that remittances had passed the $1 billion barrier in FY2016/17 and posted 7.6% and 9.3% growth in FY2017/18 and FY2018/19 respectively. Similarly, travel had posted $1.2 billion earnings in FY2018/19. With strong foreign exchange earnings, Uganda was expected to continue to sustainably finance the current account deficit in FY2019/20 and to stabilise the value of the Ugandan shilling (UGX[8]) against foreign currencies, thereby minimising external public debt foreign exchange risk.

This economic outlook was, however, undermined by the unprecedented economic and health shock of the COVID-19 pandemic, which was transmitted through both domestic and external

6 Nagle and Sugawara, "What the Pandemic Means for Government Debt".

7 FY is financial year and covers the period July to June.

8 UGX is the currency code for the Ugandan shilling.

transmission channels. The domestic effects involve the mechanisms adopted by the Ugandan government to diminish the spread of COVID-19. These included social-distancing measures, lockdowns and curfews, international flight suspensions (except for essential/critical deliveries), establishment of isolation centres, land border restrictions, a 14-day mandatory quarantine period for travellers coming from COVID-19 affected countries, restrictions on domestic travel, insistence on teleworking, closure of schools and educational institutions, restrictions on large gatherings, restrictions on worship and closure of non-essential business. The effect of these COVID-19 containment measures was to disrupt supply chains, subdue aggregate demand, reduce capacity utilisation, and constrain the tourism, education and entertainment sectors. While the containment measures succeeded in containing the spread of COVID-19, they unfortunately negated gains made to enhance livelihoods, buffer the financial sector and support job creation.

In terms of the external transmission channel, shocks in the global economy percolate seamlessly into the domestic economy through Uganda's external sector (due to its open economy). Consequently, the global recession caused by the COVID-19 pandemic has impacted the Ugandan economy by among other things reducing demand for Ugandan exports, reducing remittances and reducing tourism receipts due to a reduction in travel, all of which have had a negative impact on the country's foreign exchange earnings. Furthermore, COVID-19 travel restrictions adopted by trading partners disrupted the supply of intermediate and capital goods, which are key to the industrial sector.

The combination of external and domestic transmission channels resulted in the following:

- Subdued domestic production and consumption,
- increased risks in the financial sector (as the private sector's ability to finance credit was compromised),
- reduced demand for credit,
- reduced taxable income and thus compromised tax revenue collection,
- increased appetite for public debt (to compensate for compromised tax revenue collection) and
- distortions in the current, capital and financial accounts.

As such, the subsequent section maps the effects of COVID-19 on macroeconomic indicators. While data is still evolving, this study uses high frequency data available up to February 2021. The study captures the period from March 2020 when the distortionary effects of COVID-19 started manifesting. However, the extent of the economic impact depends on how the outbreak continues to evolve within and outside Uganda.

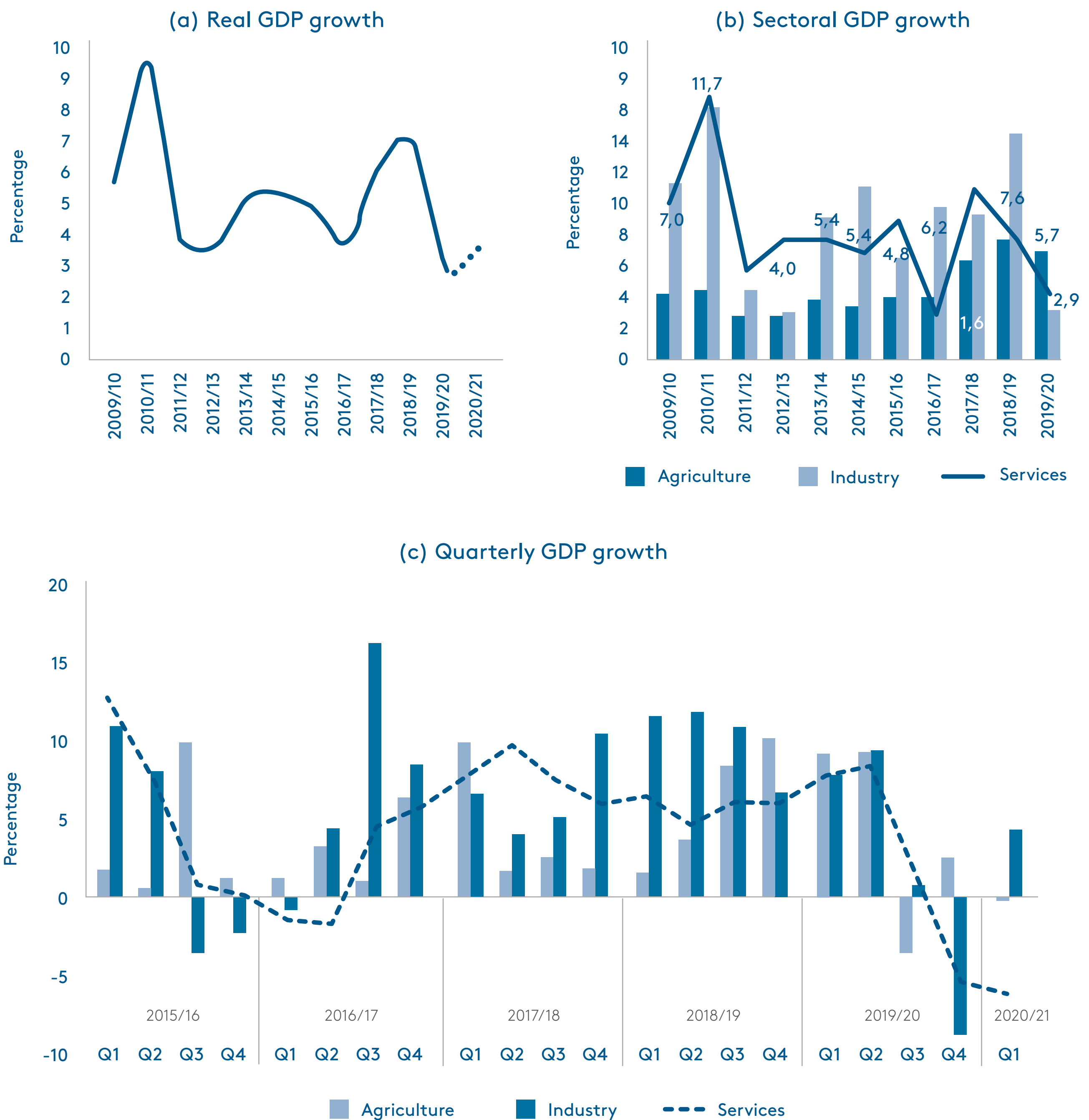
Effects of COVID-19 on the real sector

COVID-19 has disrupted economic activities to the extent that growth tapered to 2.9% in FY2019/20. The Ugandan economy was gaining momentum following the achievement of 6.2% and 6.8% real GDP growth in FY2017/18 and FY2018/19. However, following the disruptions brought about by COVID-19, as well as floods and locust invasions,[9] growth tapered off to 2.9% in FY2019/20 (see Figure 3a). COVID-19 affected demand for exports and disruptions to supply chains undermined the flow of goods, services and labour, which resulted in compromised economic performance. Specifically, growth in the services sector contracted from 5.7% in FY2018/19 to 2.9% in FY2019/20. This was on account of the trade, transport, accommodation, education and entertainment subsectors contracting by 2.9%, 1.3%, 8.5%, 4% and 8.7% respectively (see Figure 3b). The education, accommodation and entertainment sub-sectors, in particular, paid the highest price for the COVID-19 containment measures. For example, the closure of education institutions and all borders (except for emergencies), rendered institutions of learning, accommodation services, restaurants and the tourism industry out of business or underperforming.

The industrial sector equally registered sluggish GDP growth of 2.2% in FY2019/20 in comparison to 10.1% in FY2018/19. The slowdown in the industrial sector was attributed to slow growth in the manufacturing, mining and construction subsectors. The manufacturing subsector slowed down to 1.3% growth in FY2019/20 compared to 7.8% in FY2018/19. The growth of the construction subsector slowed down from 14.2% in FY2018/19 to 3.8% in FY2019/20. The mining subsector contracted from 33.4% growth in FY2018/19 to 0.2% in FY2019/20. The agriculture sector remained relatively resilient in the midst of the COVID-19 headwinds with growth decreasing by 0.6% to 4.8% in FY2019/20 (see Figure 3b). The reduction in agriculture performance was driven by a substantial decrease in the fishing subsector from 41.4% in FY2018/19 to 1.9% in FY2019/20. However, the performance of the agriculture sector was supported by growth of 7.2%, 4.5% and 7.9% in the cash crops, food crops and livestock subsectors respectively in FY2019/20.

9 Floods and locust invasions dampened growth in the first half of FY2019/20.

Figure 3 Dampened economic growth

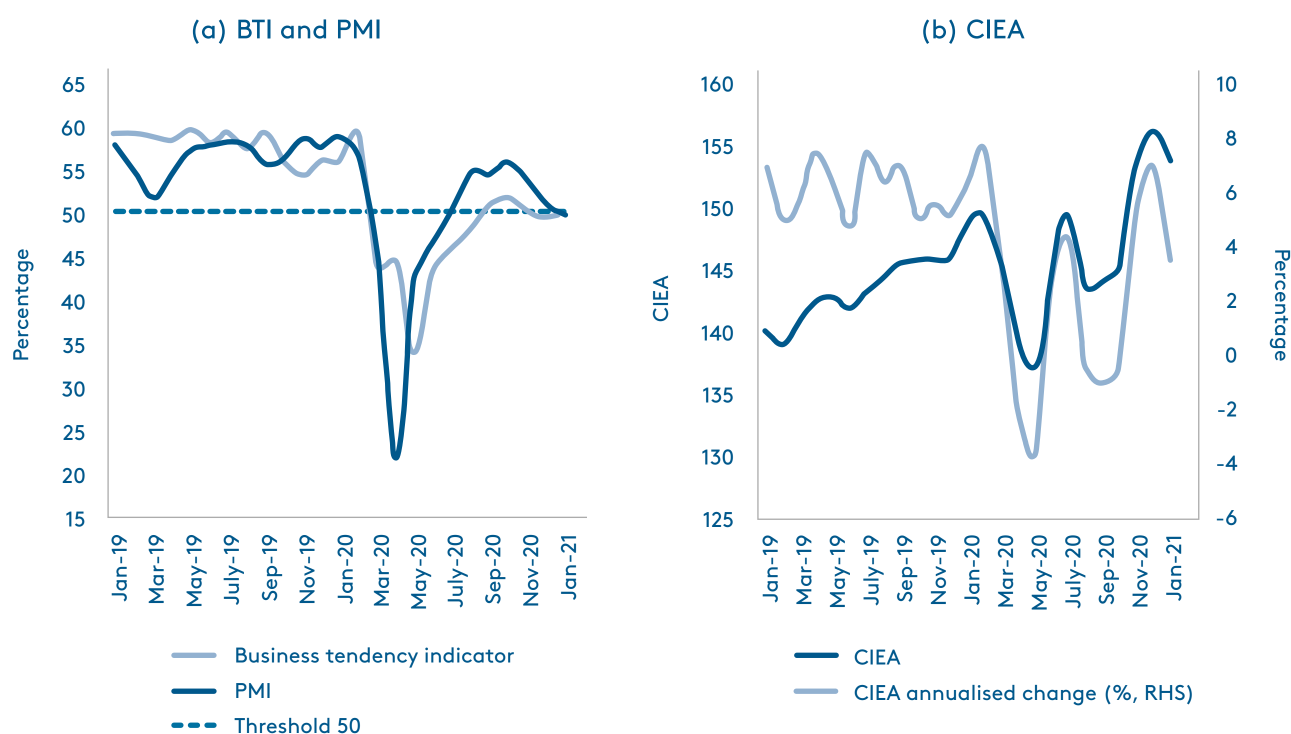


Source: Uganda Bureau of Statistics, Statistical Abstracts 2018-2021

According to various economic indicators, the result of COVID-19 has been sluggish economic activity. Indeed, the purchasing managers' index (PMI) dropped below the threshold of 50 to 45.3 in March and then dropped even further to 21.6 in April 2020, the lowest it has been since inception (see Figure 4a). Even though the PMI improved to reach 41.9 in May, economic actors had clearly factored COVID-19 disruptions into their decisions. Also, over the period March to

June 2020, the composite index of economic activity (CIEA) annualised growth averaged 0.04% compared to 6% over the same period in 2019 (see Figure 4b). Both the CIEA and PMI showed that the dampened economic environment in the period March to June 2020 was partly attributed to the aggressive COVID-19 containment measures, temporary company closures, subdued demand and travel restrictions. Similarly, the business tendency index (BTI), a measure of sentiments by business players about the business outlook, dropped below the threshold of 50 for the first time in March and stayed below 50 to August 2020 (see Figure 4 Panel a). This implied that the business agents were pessimistic about the business outlook on account of COVID-19 containment measures and the uncertainty about how fast businesses would recover after the pandemic.

Figure 4 Subdued economic activities and weak business sentiment



Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

The COVID-19-induced weak business environment – as revealed by the PMI, CIEA and BTI – is consistent with dampened economic growth in Q3 and Q4 of FY2019/20. Indeed, in Q3 and Q4 of FY2019/20, the economy contracted by 0.7% and 6.3% respectively. The 8.7% and 9.4% robust growth achieved in Q1 and Q2 respectively of FY2019/20 offset the contraction in Q3 and Q4 of FY2019/20 so that the economy registered an aggregate 2.9% growth performance in FY2019/20. The contraction in Q3 of FY2019/20 was on account of negative growth in the agriculture sector where growth tapered off from 9.2% in Q2 FY2019/20 to -3.7% in Q3 FY2019/20 (see Figure 3c).

The Q3 of FY2019/20 contraction in the agriculture sector was driven by -16.1% drop in the food crops subsector. The contraction in Q4 of FY2019/20 was on account of a drop to -8.8% and -5.5% growth in the industrial and services sectors respectively. The reduction in growth to -8.8% in the industrial sector was on account of a 30.1%, 11.5%, 6.8% and -1.3% growth in the mining, manufacturing, electricity and construction subsectors respectively. In addition, the achievement of -5.5% growth in the services sector was on account of a -6.4%, -8.7%, -45.5%, -2.2%, -39.7%, -2.3%, -8.7% and -40.6% growth in trade, transport, accommodation, financial, professional, administrative and educational services respectively.

The weak business environment as indicated by disruptions in supply chains and the contraction of consumer demand has resulted in micro, small and medium scale enterprises (MSMEs) exiting business. This is because of the potential loss in revenue that is likely to worsen their already vulnerable liquidity position – noting that 90% of the private sector is dominated by MSMEs spread across all sectors: 49% in the services sector; 33% in commerce and trade; 10% in manufacturing; and 8% in other fields,[10] implying that any negative shock to the sector represents a serious threat to Uganda's economy. The most vulnerable sectors among MSMEs are the trade and services sub-sector and hotels, bars and restaurants. For instance, at least 20% of firms in the informal sector are likely to close down and at least 11% of informal sector earnings are likely to fall below the national poverty line. Yet, this sector employs 85% of the working age population outside agriculture.

"At least 20% of firms in the informal sector are likely to close down and at least 11% of informal sector earnings are likely to fall below the national poverty line. Yet, this sector employs 85% of the working age population outside agriculture"

Furthermore, informal sector earnings are likely to be undermined. Assuming that the working age population not engaged in subsistence agriculture is only 13 million,[11] an estimated 4.4 million informal sector workers are expected to

10 Uganda Investment Authority, "SMEs Driving the Economy", April 5, 2016, https://www.ugandainvest.go.ug/smes-driving-economy.

11 Uganda Bureau of Statistics, "National Labour Force Survey 2016/17".

experience a contraction in earnings below the poverty line or register no earnings at all[12] – potentially resulting in increasing poverty, income inequality and vulnerability.

However, following the gradual easing of the COVID-19 containment measures, both the PMI and CIEA picked up. The PMI recovered above the threshold of 50 in July FY2020/21, signalling an improving business environment and an increase in output and new orders. Furthermore, the CIEA also signalled an improvement in the level of economic activity following the gloomy economic prospects in March to May of FY2019/20 with the CIEA hitting the trough at 137 in May (see Figure 4b). However, from July[13] of FY2020/21, it signalled improving economic conditions implying that the level of economic activity was stronger than the period March to May. Similarly, business sentiment remained positive. Indeed, the BTI for September, October and November of FY2020/21 was 50.7, 51.7 and 50.7 respectively – crossing the threshold of 50 for the first time since February of FY2019/20 (see Figure 4a). This suggests that there was increasing and persistent optimism in the business community for the first time since March 2020 and that the economy is on the path to recovery. Optimism in the economy should further increase with the rolling out of COVID-19 inoculations. Unfortunately, only 864 000 doses of the AstraZeneca vaccine had been procured at the time of writing, and it is estimated that Uganda needs at least 45 million doses – especially if the vaccines are to be administered in two doses.[14] The improving economic conditions are reflected by -2.2% growth in Q1 of FY2020/21 compared to -6.3% in Q4 of FY2019/20. The improving economic conditions were leveraged by the industrial sector as it posted 4.3% growth in Q1 of FY2020/21. The recovery in the industrial sector was on account of 55.1%, 3%, 3.5% and 4.3% growth in the mining, manufacturing, electricity and water subsectors respectively. The growth in the manufacturing sector is attributed to increased production in pharmaceutical products, starch products and grain milling.[15] The 9.6% contraction in the construction subsector undermined what could have been a potentially robust industrial sector growth. The relatively strong recovery in the industrial sector given the COVID-19 headwinds was offset by -6.2% and -0.2% growth in the services and agriculture sectors respectively. Within the services sector, even though trade recovered to 5.9% growth, it was not sufficient to offset the effects of the -5.8%, -24.2%, -5.7%, -63.2%, -3.5%, -20.4% and -50.7% growth in transport, accommodation, financial, professional, administrative, education and entertainment services respectively. The contraction in entertainment, education, financial and administrative services worsened in comparison to Q4 of FY2019/20. The contraction in the agriculture sector was on

---

12 UN Uganda, "Leaving No One Behind: From COVID-19 Response to Recovery and Resilience-Building – Analyses of the Socioeconomic Impact of COVID-19 in Uganda", Policy Brief, June 2020.

13 This is because in the month of June 2020, government allowed public transportation, and re-opened non-food stores (except those located in arcades), hotels and food restaurants. In addition, in the month of July, government further allowed 110 out of 171 arcades, saloons and boda bodas to go back to business subject to strict standard operating procedures.

14 Ministry of Health, "Update on COVID-19 vaccination in Uganda", March 2, 2021, https://www.health.go.ug/cause/update-on-covid-19-vaccination-in-uganda/.

15 Ministry of Finance, Planning and Economic Development, "Half Year Macroeconomic & Fiscal Performance Report Financial Year 2020/21", February 2021, https://www.finance.go.ug/sites/default/files/Publications/Half Year Macroeconomic%26 Fiscal Performance Report Feb 2021.pdf.

account of -0.1%, -3.8%, -7.7% and -18.4% growth in the food crops, fishing, and forestry and agriculture support services subsectors respectively. Cash crops and livestock registered 2.5% and 7.4% growth thereby offsetting the extent of contraction in the agriculture sector.

Inflation has largely been subdued. Annual headline inflation averaged 3.3% and 4.1% over the periods March to June of FY2019/20 and July to February of FY2020/21 respectively (see Figure 5). The subdued headline inflation was on account of food crops inflation averaging -2.2% and 5.7% over the periods March to June of FY2019/20 and July to February of FY2020/21 respectively. The further reduction in food crops inflation was on account of dampened demand coupled with excess supply especially given that COVID-19 induced disruptions undermined the export of agriculture produce.[16] Price reductions were mainly restricted to food crops such as matooke, sweet potatoes, cassava, fruits (bananas, pineapples and papaya), as well as vegetables (tomatoes, onions and garlic).[17] Consequently, food crops inflation offset the effect of the (on average) 8.2% energy fuel and utilities inflation over the period March to June of FY2019/20 on headline inflation. Nevertheless, energy fuel and utilities inflation was subdued in the period July to February of FY2020/21 averaging 1.9% on account of a decrease in the price of domestic liquid fuels (petrol, diesel, paraffin and liquefied gas) as international oil prices remained low.[18] Core inflation picked up from an average of 3.5% over the period March to June of FY2019/20 to 5.6% in the period to February of FY2020/21. The increase in core inflation was on account of an increase in transport costs due to COVID-19 induced travel restrictions.[19] However, core inflation remained within the Bank of Uganda's target of 2% and 8%.

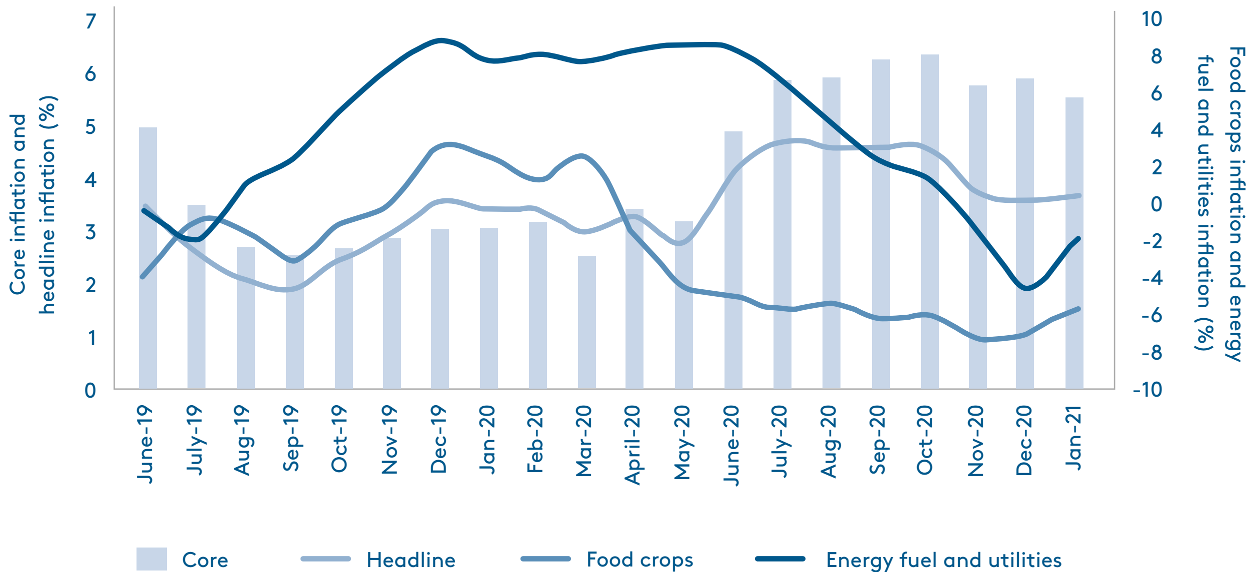
16 For example, annualised maize exports slumped from 199% and 184% growth in January and February of 2020 respectively to 50%, 9%, 36% and 41% growth in March, April, May and June of 2020 respectively. Similarly, annualised growth in exports of beans slumped from 154.3%, 17.7% and 61.1% growth in November 2019, December 2019 and January 2020 respectively to -44%, -47% and -82% growth in February, March and April respectively. Also, the annualised exports of fruits and vegetables reduced from 53%, 18.3% and 22.2% in December 2019, January 2020 and February 2020 to 4% and -20.1% in March and April respectively of 2020.

17 Ministry of Finance, Planning and Economic Development, "Half Year Macroeconomic & Fiscal Performance Report Financial Year 2020/21".

18 Ministry of Finance, Planning and Economic Development, "Half Year Macroeconomic & Fiscal Performance".

19 Ministry of Finance, Planning and Economic Development, "Half Year Macroeconomic & Fiscal Performance".

Figure 5 Inflation has been subdued



Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

Effects of COVID-19 on the monetary sector

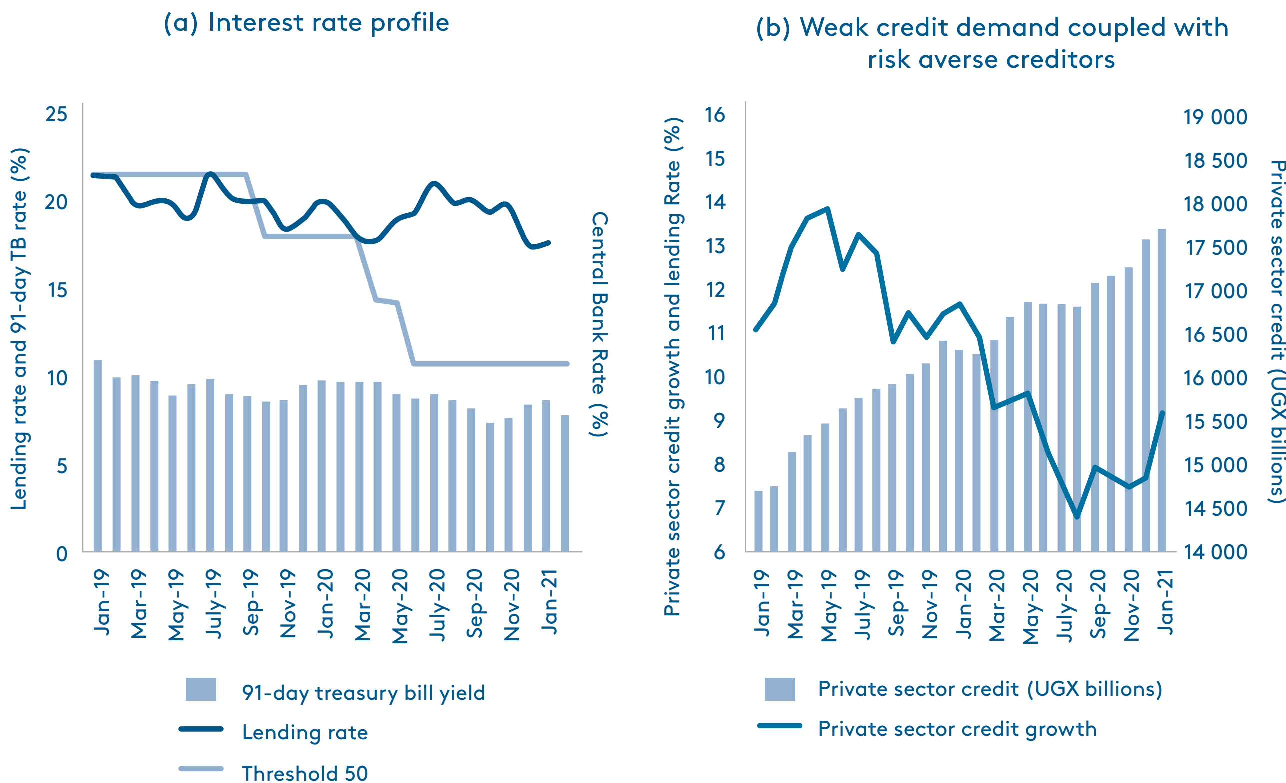
Owing to the need to boost economic growth in the midst of COVID-19 headwinds, the Ugandan government adopted an aggressive and persistent monetary policy framework. This has been characterised by the central bank rate (CBR) reducing from 9% in March 2020 to 8% in April 2020, and then a further reduction to 7% in June 2020 (see Figure 6a). The 7% CBR is the lowest it has been since its inception. In addition to lowering the CBR, the Bank of Uganda provided for a regulatory framework that enabled financial institutions to have adequate capital buffers while minimising liquidity and credit risks in the financial system. In turn, commercial lending rates dropped from 19.1% in February 2020 to 17.8% and 17.7% in March and April 2020 on account of the accommodative monetary policy and subdued demand for credit. The interest rate of 17.7% is the lowest lending rates that Uganda has seen since June 2018. However, lending rates picked up shortly afterwards peaking at 20.9% in July 2020 and later tapering off even further to 17.4% in January

"Owing to the need to boost economic growth in the midst of COVID-19 headwinds, the Ugandan government adopted an aggressive and persistent monetary policy framework"

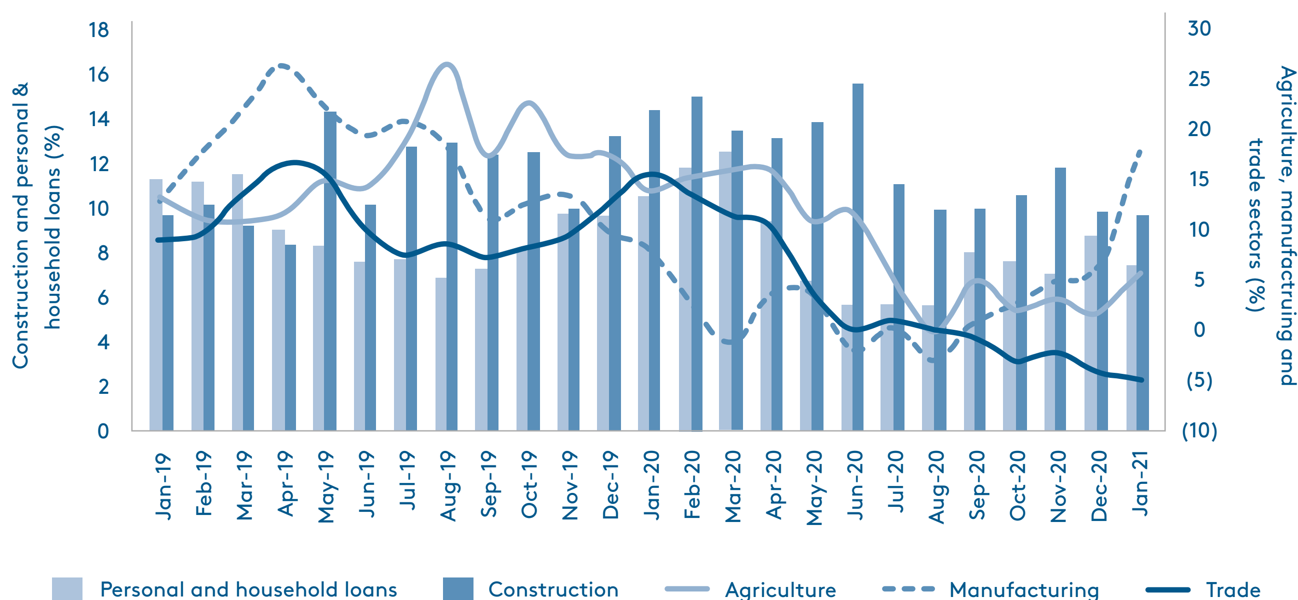
2021. While historically low in a Ugandan context, lending rates remain high on account of other structural rigidities in the financial sector especially operational costs and the risk averseness of creditors.

Private sector credit (PSC) growth has largely been weak, in particular for the period between February and July 2020 (see Figure 6b). This was on account of subdued demand for credit following the shutdown of the economy and risk averseness of creditors. The contraction in credit availed to the private sector was evident in manufacturing, trade and agriculture sectors, where the average annualised growth in commercial bank credit was 7%, 2% and 2% over the period March to December 2020 (see Figure 6c). Compared to the average annualised growth in commercial bank credit of 17%, 18% and 11% to the manufacturing, trade and agriculture sectors respectively over the same period in 2019, this implies a significant contraction in commercial bank credit among the aforementioned sectors. However, while the manufacturing and agriculture sectors post-September 2020 started picking up in terms of commercial bank credit uptake following the easing of COVID-19 containment measures, the commercial bank credit growth to the trade sector is still negative.

Figure 6 Interest rates and private sector credit



(c) Sectoral growth of commercial credit (annualised)



Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

Effects of COVID-19 on the financial sector

The financial sector was resilient albeit with reduced profitability. Given the COVID-19 disruptions, the fundamental role of the financial sector was to 'keep the lights on' through undertaking a financial intermediation function. However, given the COVID-19 headwinds, the financial sector needed support from the Bank of Uganda. As such, the bank not only revised the central bank rate downwards but also extended credit and liquidity relief measures to the financial sector. Consequently, the financial sector remained resilient although with reduced profitability. For example, as at Q2 of 2020/21, the banking sector's capital to risk-weighted assets was 22.15% in comparison to 21.78% and 21.9% during Q2 and Q3 of 2019/20 respectively (see Table 1), which are all above the minimum regulatory requirement of 10%. Also, among microfinance deposit-taking institutions (MDIs) and credit institutions (CIs), capital to risk-weighted assets were 35.4% and 16.1% respectively as at Q2 2020/21, which are equally above the minimum regulatory requirement of 15% and 10% respectively (see Table 1).

"The financial sector needed support from the Bank of Uganda. As such, the bank not only revised the central bank rate downwards but also extended credit and liquidity relief measures to the financial sector. Consequently, the financial sector remained resilient although with reduced profitability"

Similarly, asset quality measured by the non-performing loans (NPLs) to the total gross loans ratio initially deteriorated from 4.85% in Q2 of 2019/20 to 5.41% and 6.01% in Q3 and Q4 of 2019/20. It tapered off to 5.15% in Q1 of 2020/21. Although asset quality deteriorated in Q2 2020/21 as the NPLs to total gross loans ratio increased to 5.27%, these are still lower than the NPLs to total gross loans ratio of 5.41% in Q3 of 202/21. However, asset quality deteriorated by 2.25 and 1.76 times among CIs and MDIs. At Q2 of 2019/20, NPLs to total gross loans ratio among CIs was 3.6%, and at Q2 of 2020/21 NPLs to total gross loans ratio was 8.1%. Also, among MDIs, as at Q2 of 2019/20 NPLs to total gross loans ratio was 3.6%, and at Q2 of 2020/21, the NPLs to total gross loans ratio was 6.3%. This implies that the asset quality deteriorated more among MDIs and CIs as compared to commercial banks. Even so, the moderate rise in the NPLs to total gross loans ratio over the COVID-19 period is on account of the Bank of Uganda's credit relief intervention, which allowed supervised financial institutions (SFIs) to restructure loans of distressed businesses and households, thereby protecting their asset quality within the banking sector.

"The moderate rise in the non-performing loans to total gross loans ratio over the COVID-19 period is on account of the Bank of Uganda's credit relief intervention, which allowed supervised financial institutions to restructure loans of distressed businesses and households, thereby protecting their asset quality within the banking sector"

Regarding banking sector liquidity as measured by the liquid assets to total deposits ratio, it increased from 48.58% in Q2 of 2019/20 to 50.65 as at Q2 of 2020/21. Among CIs, liquid assets to total deposits ratio increased from 48.4% as at Q2 2019/20 to 59% as at Q2 of 2020/21. While among MDIs liquidity contracted 1.84 times, from 60.7% as at Q2 of 2019/20 to 32.9 as at Q2 2020/21. Overall, while MDIs experienced a reduction in liquidity, liquidity risks are still minimal given that the liquidity ratio is well above the 15% regulatory requirement. With regard to CIs and commercial banks, liquidity in both cases was well above the regulatory minimum of 20%. The enhanced resilience to liquidity shocks across CIs and commercial banks was on account of the Bank of Uganda's monetary and macro-prudential policy actions – build-up of deposits driven by fiscal expansion, and increased investment in government securities amidst COVID-19 induced risk averseness to private sector lending.[20]

20 Bank of Uganda, "Financial Stability Review", 2002, https://www.bou.or.ug/bou/bouwebsite/FinancialStability/StabilityReview.html.

Nevertheless, financial sector profitability has tailed off. Profitability as measured by a return on assets (ROA) and return on equity (ROE) both deteriorated. Specifically, ROA declined from 2.9% in Q2 of 2019/20 to 2.76%, 2.58% and 2.38% in the quarters ending March, June and December 2020 respectively (see Table 2). Among CIs, ROA declined from 0.1% in Q2 of 2019/20 to -0.8% December 2020. With regard, MDIs ROA declined from 2.9% in Q2 of 2019/20 to 2.7% in the quarter to December 2020. Also, the ROE declined from 16.74% in Q2 of 2019/20 to 15.89%, 15.24%, 15.12% and 14.25% in the quarters ending March, June, September and December 2020 respectively within the commercial banking sector. Among CIs, ROE declined from 0.3% as at Q2 of 2019/20 to -0.5%, -3.9% and -5.4% in the quarters ending June, September and December 2020. With regard to MDIs however, ROE improved from 9.5% in Q2 of 2019/20 to 10% in Q2 of 2020/21. The reduction in bank profitability reflects a subdued business environment. Indeed, overall, the commercial bank sector annual net-after-tax profit declined by 4.6% from UGX 883.4 billion ($241.0 million) in 2019 to UGX 844.3 billion ($231.3 million) in the year to 2020, while MDIs registered a 288% increase in aggregate net-after-tax profit from UGX 5.1 billion ($1.4 million) in year 2019 to UGX 19.8 billion ($5.4 million) in the year to 2020. However, CIs incurred losses in the year to 2020 with a consolidated loss to the tune of UGX 8.7 billion ($2.4 million) from a profitable position of UGX 1.5 billion ($0.4 million) for the year 2019.[21]

In spite of the reduced financial sector profitability, the financial sector has been resilient as measured by asset quality, liquidity and capital adequacy. So far, the central bank's interventions have successfully cushioned the sector from the COVID-19 headwinds.

"In spite of the reduced financial sector profitability, the financial sector has been resilient as measured by asset quality, liquidity and capital adequacy. So far, the central bank's interventions have successfully cushioned the sector from the COVID-19 headwinds"

21 Bank of Uganda, "Financial Stability Review".

Table 2 Selected financial sector soundness indicators (quarterly)

Indicator	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Capital adequacy (%)					
Regulatory capital to risk-weighted assets					
Commercial banks	21.78	21.90	22.70	22.51	22.15
CIs	22.0	23.5	24.0	22.0	17.3
MDIs	40.1	41.7	39.4	38.6	38.1
Asset quality (%)					
NPLs to total gross loans					
Commercial banks	4.85	5.41	6.01	5.15	5.27
CIs	3.6	4.2	7.6	5.3	8.1
MDIs	3.6	4.1	10.8	9	6.3
Earnings & profitability (%)					
Return on assets (ROA)					
Commercial banks	2.90	2.76	2.58	2.58	2.38
CIs	0.1	0.2	-0.1	-0.7	-0.8
MDIs	2.9	3.1	-1.4	2.6	2.7
Return on equity (ROE)					
Commercial Banks	16.74	15.89	15.24	15.12	14.25
CIs	0.3	0.9	-0.5	-3.9	-5.4
MDIs	9.5	10.3	-4.7	9.3	10
Liquidity (%)					
Liquid assets to total deposits					
Commercial banks	48.58	48.81	49.14	48.77	50.65
CIs	48.4	54.9	57.1	57	59
MDIs	60.7	31.9	34.1	32.7	32.9

Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

Effects of COVID-19 on the external sector

Current account deficit as a percentage of GDP improved from 7% in FY2018/19 to 6% in FY2019/20. This was on account of COVID-19 induced disruptions in the supply chain of goods and services. As such, imports of goods as a percentage of GDP contracted from 19.9 in FY2018/19 to 16.8 in FY2019/19 (see Table 3). Indeed, month-on-month growth in imports was 6.9%, -10.3% and -32% in February, March and April respectively of FY2019/20. Similarly, exports of goods contracted by 1.1% of GDP in FY2019/20. Specifically, in FY2019/20 month-on-month growth in exports was -7.7%, -11.4% and -34.3% in February, March and April respectively. Furthermore, the trade in services deficit as a percentage of GDP worsened from 1% in FY2018/19 to 2.8% in FY2019/20. This was partly on account of a reduction in tourism receipts from 3.5% of GDP in FY2018/19 to 2.4% of GDP in FY2019/20. Consequently, the trade deficit as a percentage

of GDP contracted from 9.4 in FY2018/19 to 9.3 in FY2019/20. However, the net income of 3.3% of GDP could not finance the trade deficit in FY2019/20 resulting in the current account deficit of 6% of GDP. Nevertheless, the current account deficit is manageable partly on account of net FDI inflows and capital transfers of 2.6% and 0.2% of GDP respectively.

Table 3 Balance of payments statement as percentage of GDP

Indicator	2017/18	2018/19	2019/20
Current account	-5.3	-7.0	-6.0
Trade in goods and services (net)	-7.3	-9.4	-9.3
Trade in goods (net)	-6.4	-8.3	-6.4
Exports of goods	10.8	11.5	10.4
o/w coffee	1.5	1.2	1.4
Imports of goods	-17.1	-19.9	-16.8
o/w oil imports	2.8	2.8	2.3
Trade in services (net)	-0.9	-1.0	-2.8
o/w travel (net)	2.7	3.5	2.4
o/w transport (net)	-3.5	-4.1	-3.3
Incomes (net)	2.0	2.4	3.3
Primary income (net)	-2.8	-2.7	-1.7
o/w public interest payments (debit)	-0.3	-0.3	-0.3
Secondary income (net)	4.8	5.1	4.9
Personal transfers (net)	3.8	4.0	3.6
NGO transfers (net)	1.2	1.3	1.5
Capital account	0.3	0.3	0.2
Net borrowing (balance from current and capital a/c)	-5.0	-6.7	-5.8
Financial account	3.4	7.1	5.7
o/w direct investment	2.8	3.5	2.6
o/w portfolio investment	-1.0	-0.5	-0.9
Other investment (net)	1.6	4.0	3.8
o/w government loans (net)	3.2	3.4	4.7
Disbursements	3.9	4.1	5.2
Repayments	-0.7	-0.7	-0.5
Net errors and omissions	1.0	-0.2	1.9
Overall balance	0.5	-0.2	-1.7
Financing	-0.5	0.2	1.7
Central bank net reserves (-increase)	-0.5	0.2	1.7
GDP at current prices ($ millions)	32 772.82	34 387.23	36 645.69
Gross international reserves in months of imports	4.2	4.3	5.2

Note: o/w stands for 'of which'

Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

Personal transfers play an integral role in mitigating the size of the trade in goods and services deficit. However, owing to COVID-19 these contracted to 0.4% of GDP. Personal transfers as a percentage of GDP reduced from 4% in FY2018/19 to 3.6% in FY2019/20 (see Table 1).[22] Specifically, personal transfers reduced from $481.82 million in Q2 of 2019/20 to $287.58 million and $186.72 million in the quarters ending March and June respectively. The personal transfers of $186.72 million in Q3 of 2019/20 is the lowest personal transfers have been since Q4 of 2014/15. The contraction in personal transfers is on account of the global economic slowdown partly attributed to COVID-19.

Both FDI and capital transfers contracted in FY2019/20. FDI and capital transfers are critical in financing Uganda's current account deficit. Indeed, in FY2019/20 both FDI and capital transfers financed 46.7% of the current account deficit. However, FDI in FY2019/20 as a percentage of GDP reduced by 0.9 to 3.5% in FY2018/19. Specifically, FDI reduced from $284.92 million in Q2 of 2019/20 to $217.17 million, and $178.96 million and $209.51 million in the quarters ending March, June and September respectively. Indeed, FDI in Q4 of 2019/20 is the lowest FDI recorded since Q2 of 2016/17, when Uganda received $156.35 million in FDI. Similarly capital transfers as a percentage of GDP reduced from 0.3 in FY2018/19 to 0.2 in FY2019/20. Specifically, capital transfers reduced from $32.57 million in Q2 of 2019/20 to $16.16 million, $8.75 million and $33.52 million in the quarters ending March, June and September respectively. In Q4 of 2019/20, capital transfers received are the lowest capital transfers have been since Q4 of 2012/13, when Uganda received $5.24 million in capital transfers. The contraction in both capital transfers and FDI is on account of the global economic slowdown that is partly attributed to COVID-19. Noting, however, that even though both FDI and capital transfers contracted in FY2019/20, they partly mitigated the vulnerability associated with Uganda's relatively sizeable current account deficit in FY2019/20 and contributed to the build-up of the central bank foreign exchange reserves.

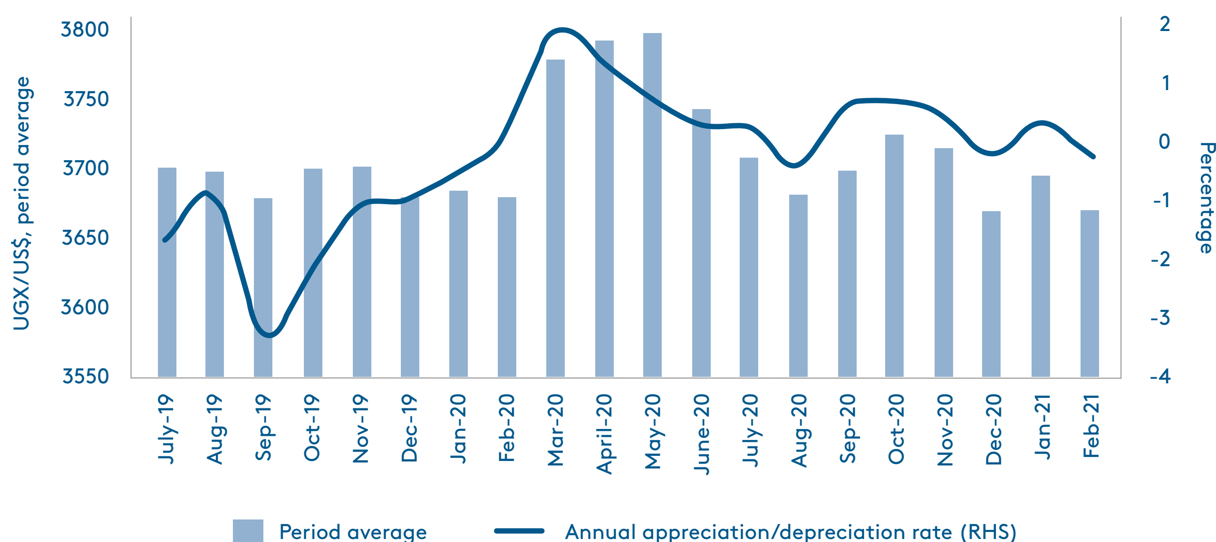
Trade in services deficit increased on account of a contraction in tourism receipts. Tourism receipts as a percentage of GDP reduced from 3.5 in FY2018/19 to 2.4 in FY2019/20. Specifically, tourism receipts reduced from $312.71 million in Q2 of 2019/20 to $237.54 million, $0.00 million and $42.29 million in the quarters ending March, June and September respectively. Tourism earnings are the lowest since Q4 of 2009/10, when Uganda earned $62.46 million. The slowdown in tourism earnings is on account of the COVID-19 induced closure of Uganda's airspace to travel except for emergencies.

Against the US dollar, the Ugandan shilling depreciated sharply but then recovered owing to the International Monetary Fund (IMF) debt. At the onset of the COVID-19-induced trade and services disruptions, the UGX depreciated against the $ from UGX 3 676.8 in February to UGX

22 Personal transfer consists of all current transfers in cash or in kind made or received by resident households to or from non-resident households. Personal transfers include workers' remittances, but are not confined to transfers within families and income from employment.

3 772.9, UGX 3 785.9 and UGX 3 791.5 in March, April and May of 2020 respectively (see Figure 7). The depreciation of the Ugandan shilling against the US dollar was on account of reduced forex inflows because exports and tourism receipts were choked off by the country's COVID-19 containment measures. Furthermore, as investors sought a safer investment destination, this resulted in capital outflow, which led to further depreciation of the UGX. However, both the IMF and World Bank COVID-19 emergency funding were instrumental in stabilising the UGX against the US dollar, along with the Bank of Uganda's strong commitment to maintaining foreign exchange market stability.

Figure 7 UGX depreciation on COVID-19 headwinds



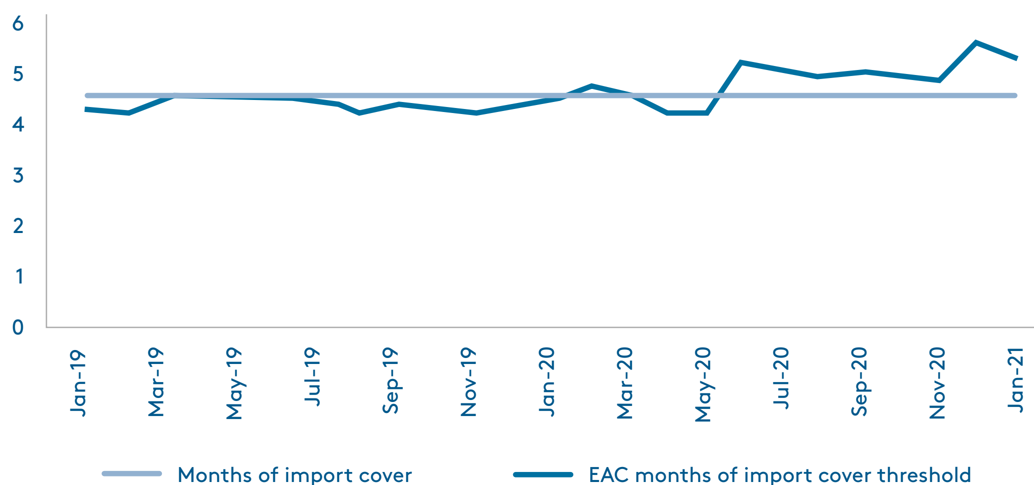
Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

The months of import cover improved partly due to the IMF loan. Owing to the contraction of export, tourism, personal transfer and FDI receipts, the reserves equally ran low from 4.6 months of import cover in February 2020 to 4.1 months of import cover in May 2020, which is lower than the 4.5 EAC months of import cover threshold (see Figure 8). However, following the IMF loan, reserves recovered to 5.2 months of import cover in June 2020. Indeed, the months of import cover have averaged 5.1 over the period June 2020 to January 2021.

Effects of COVID-19 on the fiscal sector

Fiscal deficit as a percentage of GDP increased by 2.5 in FY2019/20 compared to FY2018/19. The fiscal deficit as a percentage of GDP increased from 5 in FY2018/19 to 7.5 in FY2019/20

Figure 8 Months of import cover

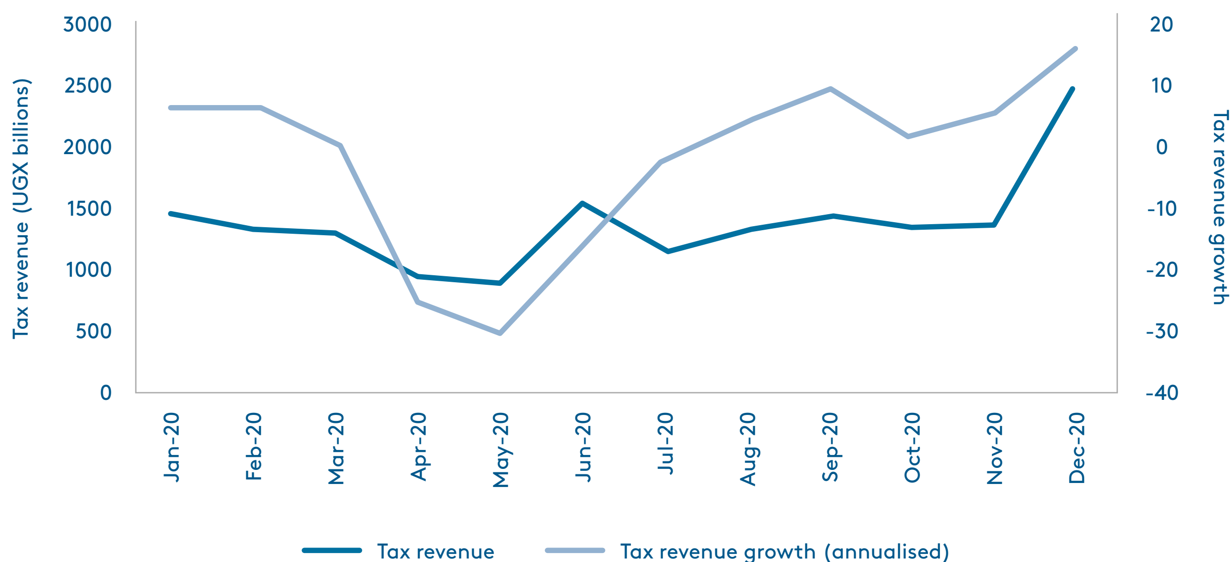


Source: Bank of Uganda, https://www.bou.or.ug/bou/bouwebsite/Statistics/Statistics.html, 30 July 2021

(see Table 4). The increase in the fiscal deficit was partly on account of government spending as percentage of GDP increasing from 18.9 in FY2018/19 to 21.2 in FY2019/20. The increase in government spending was partly on account of COVID-19 and locust invasion shocks.[23] Yet tax revenue collection fell from 12.4% of GDP in FY2018/19 to 11.6% of GDP in FY2019/20, a contraction of 0.8% of GDP. Similarly, grants as a percentage of GDP reduced from 0.9 in FY2018/19 to 0.6 in FY2019/20. The reduction in tax revenue collection is partly on account of COVID-19 containment and tax policy relief measures. Indeed, annualised tax revenue growth was dampened throughout the period March, April, May and June of FY2019/20 growing by 0.2%, -25.7%, -30.6% and -15.9% respectively (see Figure 9). Specifically, domestic taxes on a month-on-month basis contracted by -70.6% and -12% in April and May respectively. This was partly on account of subdued VAT collections, which on a month-on-month basis grew by -7.33%, -22% and -10.4% in the months of March, April and May respectively of FY2019/20 – at the peak of COVID-19 containment measures. Also owing to COVID-19 restrictions on the international movement of goods and services, international taxes in the months of March and April of FY2019/20 contracted, growing on a month-on-month basis by -7.4% and -43.5% respectively. Specifically, VAT grew by -9% and -41% in March and April of FY2019/20 respectively. Excise duty grew by -6% and -45% respectively over the same period. Also withholding tax grew by - 27.8% and -33.5% in March and April of FY2019/20 respectively. Consequently, tax revenue as a percentage of GDP was 1.9 lower than the 13.5 budgeted tax revenue in FY2019/20.

23 Locusts invaded eastern Uganda in 2020 resulting in regeneration of rangelands and delaying the starting of the planting season thereby increasing likelihood of food poverty, malnutrition and cattle rustling (see https://reliefweb.int/report/uganda/faqs-uganda-emergency-desert-locust-response-project).

Figure 9 Tax revenue performance



Source: Uganda Ministry of Finance, Planning and Economic Development, Monthly Performance of the Economy Report April 2021, https://www.finance.go.ug/sites/default/files/Publications/April%202021%20Performance%20of%20the%20Economy%20Report_0.pdf

COVID-19 spending amounted to 0.2% of GDP. The fiscal deficit was partly on account of COVID-19 induced spending, which was 0.2% of GDP. This spending was partly aimed at strengthening the health sector in preparation for COVID-19 patients, supporting livelihoods following the economy-wide lockdown and improvements to security. This contributed to recurrent spending of 0.5% of GDP and higher than planned recurrent spending of 11% of GDP. Even so, overall government spending was 2.4% lower than the planned spending of 23.6% of GDP in FY2019/20. This was partly on account of COVID-19 undermining externally-financed development spending, which turned out to be 3.7% lower than the planned development spending of 6.3% of GDP.

The fiscal deficit was partly financed by World Bank and IMF loans. As a percentage of GDP, the fiscal deficit was financed using external and domestic financing to the tune of 3.9 and 2.2 respectively. However, owing to COVID-19, government opted for emergency IMF and World Bank financing, which resulted in deficit financing of 0.8% of GDP and 0.4% of GDP respectively.

The stock of public debt increased from $12.55 billion in FY2018/19 to $15.27 billion in FY2019/20, a 21.7% increase. As a percentage of GDP, public sector debt rose from 35.3 in FY2018/19 to 41 in FY 2019/20. Specifically, external debt increased by 25.1% from $8.35 billion in FY2018/19 to $10.45 billion in FY2019/20. Domestic debt, on the other hand, increased by 14.8% from $4.20 billion to $4.82 billion. The increase in public debt in FY2019/20 was on account of COVID-19 disruptions to the economy and the subsequent containment measures, which resulted in a

revenue shortfall. Furthermore, the respective emergency measures to shore up the health sector and protect livelihoods among the vulnerable segment of society in the midst of a revenue shortfall resulted in increased public debt uptake.

Table 4 Fiscal Sector Indications (% of GDP)

	FY2017/18	FY2018/19	FY2019/20 Proj	FY2019/20 budget
REVENUE & GRANTS	12.7	13.9	13.6	16.1
Revenue	12.1	13.0	12.9	14.7
Tax	11.5	12.4	11.6	13.5
International taxes	0.4	0.7	1.2	–
Income taxes	4.7	4.7	4.8	–
Excises	2.8	2.9	3.0	–
VAT	4.2	4.3	4.5	–
Non-tax revenue	0.6	0.5	1.3	1.2
Grants	0.6	0.9	0.6	1.4
EXPENDITURE and NET LENDING	16.9	18.9	21.2	23.6
Recurrent expenditure	9.1	9.6	11.5	11.0
Wages and salaries	2.9	3.3	3.6	3.3
Interest payments	1.9	2.0	2.7	2.3
other recurrent spending	4.3	4.4	5.2	5.4
o/w COVID-related spending	0.0	0.0	0.2	–
Development Expenditure	6.3	7.8	8.4	11.8
External	2.7	3.2	2.6	6.3
Domestic	3.6	4.6	5.8	5.5
o/w COVID-related spending	–	–	–	–
Net lending and investment	1.2	1.1	1.0	0.6
o/w COVID-related spending	–	–	0.4	–
infrastructure projects	1.1	1.0	0.4	–
Central bank recapitalisation	0.0	0.0	0.2	–
Other spending	0.3	0.3	0.3	0.3
Clearance of domestic arrears	0.3	0.3	0.3	0.3
o/w COVID-related spending	–	–	–	–
OVERALL BALANCE	-4.1	-5.0	-7.6	-7.5
Primary balance	-2.2	-3.0	-4.9	–
FINANCING	4.0	5.0	6.1	7.5
External financing (net)	3.0	2.7	3.9	5.3
Domestic financing (net)	1.1	2.2	2.2	2.2
Other financing	–	––	1.5	–
World Bank	–	–	0.8	–
IMF	–	–	0.4	–
Other budget support	–	–	0.3	–

Note: o/w stands for 'of which'

Source: World Bank, "Uganda Economic Update, 15th Edition: Digital Solutions in a Time of Crisis", July 2020, https://documents1.worldbank.org/curated/en/775621594292073824/pdf/Uganda-Economic-Update-Fifteenth-Edition.pdf

Consequently, COVID-19 has induced public debt vulnerability, especially with regard to external debt. This is because the present value of external debt to exports ratio is expected to increase from 125.8% in FY2019/20 to 170.1% in FY2020/21 and further to 185.4% in FY2022/23 (see Table 5). This implies that any shock in exports is likely to undermine Uganda's debt sustainability since they are a source of foreign exchange earnings, which are critical for external debt repayments. It is important that measures are in place to bolster exports. Furthermore, the external debt service to revenue is below the low-income country debt sustainability framework threshold over the projection period, but is increasing – for example, in FY2022/23, it will be 11.7%. This implies that external debt service costs are growing at a higher rate than domestic revenue in the medium term. This is likely to increase the risk of resource reallocation from welfare enhancing sectors to debt service. Now more than ever, the government ought to prioritise domestic revenue mobilisation and better allocate public funds to productive sectors with the ability to increase productivity to boost revenue mobilisation.

Table 5 Public debt sustainability indicators (%)

	Low-income country debt sustainability thresholds	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Nominal debt to GDP		35.3	41	49.9	52.4	54.1	53.4	51.3	48.2
Present value (PV) of debt to GDP	55	26.7	31.8	39.3	41.7	42.9	42.3	40.7	38.2
PV of external debt to GDP	40	15.4	18.8	22.5	24	25.5	25.6	25.3	24.3
PV of external debt to exports	180	89.8	125.8	170.1	170.2	185.4	194.1	191.3	183.9
External debt service to exports	15	7.8	6.7	7.8	9.4	11.6	13.6	13.6	15.1
External debt service to revenue	18	10.3	8	8.1	10	11.7	12.7	11.8	11.9

Source: Ministry of Finance, Planning and Economic Development, "Debt Sustainability Report 2019/20", https://www.finance.go.ug/sites/default/files/Publications/DEBT SUSTAINABILITY ANALYSIS REPORT DECEMBER 2020_FINAL.pdf

The increased uptake of commercial loans has induced a 0.9% increase in international reserve requirements to fulfil short-term debt maturities. Owing to the increased uptake of commercial loans, which are typically characterised by shorter grace periods, international reserves to meet short-term debt maturities have increased from 5.6% in June 2019 to 6.5% in June 2020. This implies that the exchange rate risk is growing on account of the increase in external public debt as a proportion of total public debt from 66.5% in FY2018/19 to 68.5% in FY2019/20.

The private sector crowding-out effect of public domestic debt increased by 3.1%. Public domestic debt stock to PSC ratio increased from 102.8% in FY2018/19 to 105.9% in FY2019/20 (see Table 6). This implies increasing competition from the public sector for credit in the domestic

credit market, which undermines the ability of the private sector to access low-cost credit. Furthermore, domestic interest payments as a proportion of domestic revenue increased from 12.1% in FY2018/19 to 13.7% in FY2019 – a 1.6% increase. This means that domestic debt financing is undermining resource allocation to the welfare enhancing sectors of the economy, which could potentially result in compromised service delivery and poverty alleviation.

Table 6 Domestic debt sustainability benchmarks (%)

	Benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Domestic interest/domestic revenue (excluding grants)	<12.5	10.6	12.8	15.1	13.3	12.1	13.7
Domestic interest/total government expenditure	<10	7.4	8.8	11.2	9.6	8.3	8.3
Total debt service/domestic revenue	–	14.4	17.3	21.1	21.2	22.4	21.7
Total debt service/total government expenditure	–	10.1	11.9	15.7	15.2	15.3	13.2
Public domestic debt stock/ private sector credit	–	85.1	95	95.7	99.9	102.8	105.9
External debt service to revenue	18	10.3	8	8.1	10	11.7	12.7

Note: Total debt service does not include domestic debt amortisation

Source: Ministry of Finance, Planning and Economic Development, "Debt Sustainability Report 2019/20", https://www.finance.go.ug/sites/default/files/Publications/DEBT SUSTAINABILITY ANALYSIS REPORT DECEMBER 2020_FINAL.pdf

Policy responses to COVID-19

COVID-19 institutional response structure

The first COVID-19 case in Uganda was recorded on March 22, 2020, 11 days after the WHO had declared the disease a global pandemic. Even so, prior to Uganda recording its first COVID-19 case, the Ministry of Health developed the national COVID-19 preparedness plan (January-June 2020) with technical support from the WHO. From this, an implementation plan was developed with the following actions:

- Activating the national task force and the district task forces, and engaging the Presidency and the Office of the Prime Minister;
- activating the incident management system and the emergency operational centre;

- heightening health surveillance, active case search, contact tracing, and following up with high-risk travellers;
- designating three hospitals to manage COVID-19 cases and building capacity of all the 15 regional referral hospitals to manage the cases;
- ramping up the capacity to diagnose cases at the Uganda Virus Research Institute; and
- producing and disseminating education and communication materials, and various guidelines including for mass gatherings and clinical management.

Also, a COVID-19 response committee was set up to give strategic direction on how best to contain the virus. Consequently, before reporting a first case of COVID-19, preventive measures were in place, which among others included: screening all incoming travellers at ports of entries; training and preparing health workers; and repurposing hospitals in preparation for a surge in COVID-19 cases. In addition, travellers from countries that were deemed high risk were required to be quarantined on arrival. These measures played a key role in delaying the spread of COVID-19. However, the travel restrictions were the starting point towards undermining the flow of tourism receipts. Indeed, as COVID-19 cases picked up and the government closed all borders (including Entebbe International Airport) except for emergencies, it literally brought the tourism sector to a standstill to the extent that there were no earnings in Q4 of 2019/20. The lockdown of the tourism subsector also put at risk 605 500 workers[24] who eke out a living from the subsector, thus further choking off domestic consumption.[25] The closure of indoor activities, including gyms, casinos, cinemas, and gaming centres and hotels and restaurants implied that complimentary services of the tourism sector were equally halted.

Furthermore, the requirement that truck drivers needed COVID-19 clearance (plus additional restrictions[26]) caused unnecessary delays at ports of entry thereby disrupting the delivery of intermediate and capital goods, which undermined industrial sector performance. The sector contracted by 8.8% in Q4 of FY2019/20 with specifically the manufacturing subsector shrinking by -11.5%. The contraction in the industrial sector was further compounded by the suspension of public transport and non-essential sectors. Also border entry delays undermined the trade

---

24 This includes 229 000 persons directly employed by the tourism industry (that is hotels, travel agents, airlines and other passenger transportation services, excluding commuter services).

25 Ministry of Finance, Planning and Economic Development, “Budget Framework Paper FY2019/20: Sector-Tourism”, https://budget.go.ug/sites/default/files/SectorBudget Docs/2019-2020_SectorBFP_19_Tourism_12_5_20184_45_18PM.pdf.

26 Owing to increased COVID-19 positive test results among cross border truck drivers, especially via the Uganda-Kenya and Uganda-Tanzania border, the government came up with new restrictions involving the testing of truck drivers: each transit truck must have one driver for four weeks after which relay driving would commence; seclusion and health check points were categorically defined. Mandatory border health checks resulted in the Mombasa-Kampala border clearance time increased by 50%. This, along with other mandatory health check points in Uganda, resulted in a round trip between Mombasa and Kampala increasing from three days to two weeks. Although such measures were prudent in an attempt to abate and contain the spread of COVID-19 by avoiding transit drivers being super spreaders, the Ugandan industrial sector suffered due to delays in input supply.

subsector resulting in -3.4% and -6.4 growth in Q3 and Q4 of FY2019/20.

While the subsequent easing of COVID-19 containment measures was a sigh of relief to the economy, the requirement to observe standard operating procedures still ensured that the cost of doing business remained high. For example, in the public transport service the need to observe these procedures resulted in an increase in transport costs. Indeed, the observed core inflationary pressure post-June 2020 is attributed to the COVID-19 induced transport fare increases.

Overall, while the distortionary effect of COVID-19 containment measures on the economy are unprecedented, this is especially because the contraction in the industrial and service sectors and subsequent job losses is ultimately likely to unwind the gains made in reducing vulnerability and poverty. Indeed, the number of people living below the poverty line is likely to increase from 8.7 million to 11.7 million, a 34.5% increase.[27] Besides, gains made in structural transformation are at risk given the contraction in both the services and industrial sectors. The aforementioned risks are, however, partly offset by the fairly moderate number of recorded COVID-19 cases and deaths in the country, which meant that Uganda's health system was at no one time deemed overwhelmed by an overload of COVID-19 cases. As such the country is seen as successful in its COVID-19 management.

"These measures played a key role in delaying the spread of COVID-19. However, the travel restrictions were the starting point towards undermining the flow of tourism receipts. Indeed, as COVID-19 cases picked up and the government closed all borders except for emergencies, it literally brought the tourism sector to a standstill to the extent that there were no earnings in Q4 of 2019/20"

Monetary policy response

In an effort to moderate the distortionary effect of COVID-19 and COVID-19 containment measures on Uganda's economy, the government adopted an aggressive expansionary monetary policy strategy aimed at improving liquidity and

27 World Bank, "Uganda's GDP Contracts Under COVID-19, Investing in Uganda's Youth Key to Recovery", Press Release No. 2021/066/AFR, December 2, 2020, https://www.worldbank.org/en/news/press-release/2020/12/02/ugandas-gdp-contracts-under-covid-19-investing-in-ugandas-youth-key-to-recovery.

maintaining private sector access to credit at an affordable cost. The objective was to maintain momentum in the economy to enable a smooth and robust recovery. As such, the Bank of Uganda reduced the CBR by 1 percentage point to 8% in April 2020. Furthermore, in June 2020 the CBR was reduced by 1 percentage point to 7%. The CBR has been maintained at 7% up to March 2021. The reduction in the CBR was aimed at signalling to commercial banks to lower their interest rates on credit facilities and to avail affordable credit to MSMEs countrywide.

"In an effort to moderate the distortionary effect of COVID-19 and COVID-19 containment measures on Uganda's economy, the government adopted an aggressive expansionary monetary policy strategy aimed at improving liquidity and maintaining private sector access to credit at an affordable cost"

Monetary policy has been partly successful in bringing down the lending rate to 17.7% in April 2020, which is the lowest lending rates have been since June 2018. Nonetheless, the lending rates picked up again peaking at 20.9% in July 2020 and later tapering off to 17.4% in January 2021. The outcome could have been worse had the Bank of Uganda not reduced the CBR, especially with the hindsight of risk averseness among creditors and operational costs within the financial sector.

Financial sector responses

In order to moderate capital adequacy, liquidity and credit default risks within the financial sector were addressed. With regard to minimising credit default risk, the Bank of Uganda adopted the following credit relief measures: repayment holidays for a maximum of 12 months, loan tenor extensions and other forms of debt restructuring covered in existing regulations; and the prepayment of arrears as a condition for restructuring a credit facility suspended for 12 months with effect from April 1, 2020. The number of restructured loans to mitigate the impact of COVID-19 on borrowers was 500 000 in Q4 of FY2020 compared to 0 in FY2018/19.[28]

28 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report", Report No. PGD203, June 12, 2020, https://documents1.worldbank.org/curated/en/609321593741824637/pdf/Uganda-COVID-19-Economic-Crisis-and-Recovery-Development-Policy-Financing.pdf.

With regard to liquidity support, the Bank of Uganda set up a liquidity assistance programme for all SFIs facing liquidity pressures. It included provision of the following: liquidity assistance to SFIs for longer periods of up to one year, through the issuing of reverse REPOs of up to 60 days at the CBR, with the opportunity for roll over, as well as standing facilities; purchase of Treasury bonds held by MDIs and CI; and the provision to MDIs and CIs, which do not hold Treasury bills or bonds in their asset holdings, of liquidity secured by their holdings of unencumbered fixed deposits or placements with other SFIs.

These interventions buffered the financial sector from the COVID-19 headwinds and achieved the goal of ensuring financial sector stability. Indeed, all the indicators of capital adequacy, liquidity risk and credit risk are well above the threshold among commercial banks, CIs and MDIs. As such investor confidence in Uganda's financial markets was boosted as is reflected by the relatively lower money market interest rates and yields on government securities. Even the profitability indicators (ROA and ROE) show reduced profitability especially among CIs.

"These interventions buffered the financial sector from the COVID-19 headwinds and achieved the goal of ensuring financial sector stability. Indeed, all the indicators of capital adequacy, liquidity risk and credit risk are well above the threshold among commercial banks, CIs and MDIs"

Also, the Bank of Uganda adopted digital responses within the financial sector in an effort to abate the spread of COVID-19 through in-person financial transactions. As such, effective March 25, 2020, the bank spearheaded the zero rate charges for peer to peer, wallet to bank and bank to wallet transactions. Consequently, the financial sector witnessed an upsurge in digital financial services uptake in the year to December 2020. For example, the value of mobile and internet banking transactions rose by 135.2% and 30.2% respectively. Furthermore, the value of mobile money transactions grew by 28.2% to UGX 93.7 trillion ($26.7 billion), compared to 2.9% in 2019. Finally, over the quarter ending December 2020, the mobile money escrow account balances increased by 42.9% to UGX 1 083.4 billion

($296.8 million).[29] As such, it is evident that the financial sector has embraced digitalisation, which is equally critical in reducing the cost of financial transactions besides abating the spread of COVID-19 through paper money, physical visits to the premises of commercial banks and designated automated teller machine areas.

Fiscal policy responses

Government adopted a fiscal stimulus package targeting both households and the private sector. With regard to the private sector, government adopted the following tax relief measures: deferred payment of corporate tax income or presumptive tax for corporations and MSMEs; deferred pay as you earn (PAYE) until September 2020 by sectors most severely affected by COVID-19 pandemic such as, manufacturing, tourism and floriculture; and waived interest on tax arrears, provided for tax deductibility of donations for the COVID-19 response and committed to expedite payment of outstanding VAT refunds. Indeed, the liquidity provided to taxpayers on account of listed deferments on corporate tax, PAYE and presumptive tax payments for firms in the manufacturing, tourism, horticulture and floriculture sectors with a turnover below UGX 500 million amounted to UGX 125 billion in both Q4 of FY2019/20 and Q1 of FY2020/21 compared to 0 in FY2018/19 (see Table 7).

The tax relief measures were instrumental in enabling businesses to enjoy a temporary liquidity shield in the midst of dampened aggregate demand and risk averse creditors. However, this came at the cost of a revenue collection shortfall, the effect of which is an increase in public debt. The increase in public debt has been both in terms of external and domestic borrowing. Unfortunately, the increase in domestic borrowing has enhanced the crowding out of the private sector while increased external borrowing has resulted in increased external debt vulnerability as indicated by the present value of external debt to exports ratio. This implies that any shock to exports increases the risk of external debt default. Furthermore, external debt service to revenue is well below the low-income country debt sustainability framework threshold implying that external debt service is growing at a higher rate than domestic revenue in the medium term. This is likely to increase the risk of resource reallocation from growth and welfare enhancing sectors to debt service. Finally, the increase in external debt uptake has resulted in an increase in international reserve requirements to fulfil short-term debt maturities. This implies that there is an inherent exchange rate risk on account of the increase in external public debt as a proportion of total public debt from 66.5% in FY2018/19 to 68.5% in FY2019/20.

---

29 Bank of Uganda, "Financial Stability Review".

Table 7 Domestic debt sustainability benchmarks

Sector and type of tax	Expected revenue loss in UGX billion
Manufacturing: Corporate tax	12.5
Manufacturing: PAYE	57.4
Tourism: PAYE	8
Floriculture: PAYE	0.2
MSMEs: Presumptive	1.4
Tax refunds	120.5
Interest and penalty on tax arrears	50
Total	**250**

Source: World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report", Report No. PGD203, June 12, 2020, https://documents1.worldbank.org/curated/en/609321593741824637/pdf/Uganda-COVID-19-Economic-Crisis-and-Recovery-Development-Policy-Financing.pdf

While tax relief efforts induced an upsurge in public debt uptake and its associated risks, it was critical for government to undertake the intervention. This is because the survival of businesses was key to protecting jobs and livelihoods in the midst of COVID-19 headwinds. During tough times, businesses would be in a position to not only create more jobs but also contribute to the domestic revenue basket.

With regard to the spending stimulus, the Ugandan government spent 0.2% of GDP in FY2019/20 on strengthening health systems, additional security measures and mitigating the impact of COVID-19 containment measures on livelihoods especially in the Kampala and Wakiso districts. With only 48 231 hospital beds, 55 functional intensive care units, 411 functional ambulances for a country with a population of at least 44 million and 39 districts without a hospital,[30] it was paramount that health systems should be strengthened in preparation for possible COVID-19 hospitalisations. Indeed, the health system was strengthened through procuring medical supplies and equipment, and hiring of additional health workers, to enable the treatment of COVID-19 cases at the cost of UGX 120 billion ($32.87

"Unfortunately, the increase in domestic borrowing has enhanced the crowding out of the private sector while increased external borrowing has resulted in increased external debt vulnerability as indicated by the present value of external debt to exports ratio. This implies that any shock to exports increases the risk of external debt default"

30 Nambatya Prosscovia, "Uganda's Covid-19 Supplementary Budget: Pandemic Response or Cash Bonanza?", 2020, https://www.cmi.no/publica tions/7279-ugandas-covid-19-supplementary-budget-pandemic-response-or-cash-bonanza.

million) (see Table 8). Furthermore, because of the loss of jobs and livelihoods, the government intervened and supplied food to vulnerable households in Kampala and Wakiso. While this was commendable it unfortunately left out vulnerable households in other urban, peri-urban and rural areas who equally experienced COVID-19 induced livelihood disruptions. On a positive note, however, the government increased number of senior citizen grant[31] beneficiaries from 150 000 in FY2018/19 to 350 000 in FY2019/20, a 133.3% increase.[32]

Table 8 Expenditure response to COVID-19

Type of expenditure	Expected revenue loss in UGX billion
Strengthening health systems	120
Emergence funds for sectors complementing the health sector	220
Security	81
Local government	36
ICT	14
KCCA	30
Disaster preparedness/food to vulnerable groups in Kampala	59
Sub-total: health and complimentary measures	340
Support to water and electricity utilities	Not costed
Recapitalisation of UDB to provide funding for MSMEs	1 040.50
Recapitalisation of UDC to provide funding for MSMEs	100
Total	**1 480.5**

Source: World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report". Report No. PGD203, June 12, 2020, https://documents1.worldbank.org/curated/en/609321593741824637/pdf/Uganda-COVID-19-Economic-Crisis-and-Recovery-Development-Policy-Financing.pdf

Furthermore, the government also sought to buffer livelihoods through restoring household incomes and safeguarding jobs. Specifically, the government committed to the following:

- Enhance the provision of improved agricultural inputs using the National Agriculture Advisory Services (NAADs);
- create jobs for the vulnerable but able-bodied people affected by COVID-19 by extending labour intensive public works in urban and peri-urban areas;
- provide rainwater harvesting technologies in rural communities;
- roll out regional and community-based storage facilities; and

31 The grant is worth $6.8 paid per month to persons over 65 years.

32 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report".

- provide seed capital to organised special interest groups under the youth fund, women entrepreneurship fund and the Emyooga talent support scheme.

The Ugandan government has followed through with some of these promises. For example, through the Ministry of Agriculture, Animal Industry and Fisheries, the government rolled out the e-voucher system to 10 additional districts in an effort to enhance the distribution of agricultural inputs. Consequently, 288 900 farmers were registered for e-vouchers in FY2020/21 compared to 268 991 in FY2019/20, a 7.4% increase.[33] Also, with regard to the creation of jobs for the vulnerable but able-bodied persons[34] affected by COVID-19, 637 000 persons got jobs as a result of labour-intensive public works in FY2020/21 compared to 136 571 in FY2018/19, a 366.4% increase.[35]

The government deemed water and electricity as essential services, and as such it instituted a temporary ban on disconnecting water and electricity services to vulnerable consumers. This fiscal stimulus measure ensured that the struggling private sector could at the minimum stay in business given liquidity constraints as opposed to being disconnected from water and electricity because of an inability to pay. Indeed, the number of households disconnected from water services was 88 224 in FY2018/19 compared to 0 in Q4 of FY2019/20. Also, the number of residential, commercial and industrial customers receiving uninterrupted electricity services during the quarantine period remained the same in Q3 and Q4 of FY2019/20 respectively.[36] However, in an effort to avoid utilities from running out of capacity to cover operational costs and wages, the

"The government deemed water and electricity as essential services, and as such it instituted a temporary ban on disconnecting water and electricity services to vulnerable consumers. This fiscal stimulus measure ensured that the struggling private sector could at the minimum stay in business given liquidity constraints as opposed to being disconnected from water and electricity because of an inability to pay"

33 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report".

34 These are largely youths who lost their jobs due to COVID-19

35 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report".

36 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report".

government extended financial support to water and electricity service utilities. To further increase private sector liquidity, the government also prioritised the payment of domestic arrears. Indeed, the stock of domestic arrears as a percentage of GDP reduced to 2.4% in FY2019/20 from 2.8% in FY2018/19.[37]

Furthermore, in an effort to provide seed capital, the government launched the Emyooga fund in August 2019 – a poverty eradication scheme worth UGX 165 billion ($45.2 million).[38] Emyooga targets the informal sector and specifically savings and credit cooperative societies (SACCOs) formed in 18 specialised fields including *boda bodas*,[39] women entrepreneurs, carpenters, salon operators, taxi operators, restaurant owners, wielders, market vendors, youth leaders, persons with disabilities, produce dealers, mechanics, tailors, journalists, performing artists, veterans, fishermen and elected leaders. SACCOs for each of the aforementioned specialised fields were formed at the constituency level but with operations at the parish level through established parish associations.[40] Each constituency was budgeted to receive UGX 560 million ($153 421); however, the Wakiso district was to receive UGX 4.4 billion ($1.2 million) because of having eight constituencies.[41] While Emyooga is a poverty-eradication scheme targeting the informal sector, it might fail to fulfil its obligations partly because access to credit hinges on the formation of SACCOs. This may result in people forming SACCOs merely to access money as opposed to setting up a business or injecting more liquidity into their enterprises. In addition, not only is the money inadequate, but the scheme is also likely to be plagued by corruption, especially by the district authorities who will be overseeing the fund. Furthermore, the fund is limited to youths between

"While Emyooga is a poverty-eradication scheme targeting the informal sector, it might fail to fulfil its obligations partly because access to credit hinges on the formation of SACCOs"

37 World Bank, "COVID-19 Economic Crisis and Recovery Development Policy Financing Report".

38 The Daily Monitor, "Government Unveils Shs165b Poverty Eradication Scheme", https://www.monitor.co.ug/News/National/Government-unveils-Shs165b-poverty-eradication-scheme/688334-5591234-8uhjru/index.html.

39 Motorcycles registered for purposes of public transport.

40 The Daily Monitor, "Government Unveils Shs165b Poverty Eradication Scheme".

41 The Daily Monitor, "Government Unveils".

18 and 35 years thereby excluding other potentially more attractive business entities that are not eligible because the owners are not youths.

"Overall, 3 million people are estimated to have fallen into poverty because of COVID-19"

Conclusion

This paper sought to explore the macroeconomic effect of COVID-19 on Uganda's economy, the macroeconomic policy choices undertaken, and the inclusiveness and viability of the various macroeconomic policy choices made. The economy experienced an unprecedented economic and health shock, the effect of which was dampened economic growth at 2.9% in FY2019/20, affecting the service and industrial sectors in particular. The slowdown in these sectors resulted in job losses or reduced income among those employed in the respective sectors. As such, urban poverty and vulnerability is likely to increase. Low food inflation resulted in low demand due to a trade slowdown and low aggregate demand will likely contribute to an increase in rural poverty. Overall, 3 million people are estimated to have fallen into poverty because of COVID-19. Furthermore, the external sector has experienced a reduction in FDI, remittances and record low tourism earnings. The financial sector, on other hand, remained stable albeit with reduced profitability. The aforementioned economic effects were partly accounted for by the COVID-19 containment measures as the government attempted to minimise the spread of the virus.

"Monetary policy intervention was specifically aimed at boosting private sector investment and household consumption through influencing the reduction in market interest rates. Indeed, the expansionary monetary policy resulted in relatively low interest rates"

While the economic effects are unprecedented, the government at least succeeded in moderating the number of COVID-19 cases and deaths. Furthermore, through monetary, financial and fiscal interventions, the Ugandan government attempted to moderate the economic impact of COVID-19 on the economy. Monetary policy intervention was specifically aimed at boosting private sector investment and household consumption through influencing the reduction in market interest rates. Indeed, the expansionary monetary policy resulted in relatively low interest rates. Also, the government

intervention in the financial market to moderate against liquidity risk, capital adequacy risk and credit risk were successful as the sector was deemed stable given that all the financial soundness indicators were above the regulatory requirements. Investor confidence was enhanced as reflected by the relatively low market interest rates and low yields on government securities.

Fiscal policy was equally successful in giving formal businesses a temporary liquidity shield through tax relief. However, this came at the cost of increasing public debt. The effect of which has been crowding out of the private sector due to: increased domestic borrowing; increased external debt vulnerability as indicated by the present value of external debt to exports ratio implying that any shock to exports increases the risk of external debt default; the external debt service to revenue ratio is below the regulatory requirements implying that external debt service is growing at a higher rate than domestic revenue in the medium term; and finally, an increase in international reserve requirements to fulfil short-term debt maturities. Nonetheless, the number of formal businesses saved as a result of the liquidity and tax relief measures have protected jobs and livelihoods. The survival of these businesses guarantees future tax payment, which will be useful towards financing public debt.

"The number of formal businesses saved as a result of the liquidity and tax relief measures have protected jobs and livelihoods. The survival of these businesses guarantees future tax payment, which will be useful towards financing public debt"

Besides formal businesses, an effort was made to target the informal sector and especially youth through the UGX 165 billion Emyooga poverty eradication scheme. However, the Ugandan government ought to minimise leakages especially through corruption, which could undermine the flow of credit to the youth. Furthermore, opening up the funds to people in the informal sector beyond the ages of 18 to 35 years could ensure inclusivity and most importantly fund allocation to the most viable SACCOs. Also, by increasing the coverage of the e-voucher system for agriculture input supplies, the government is able to expand its reach to vulnerable households in rural settings.

Authors

Ibrahim Mike Okumu joined the School of Economics, Makerere University, in 2006, rising through the ranks from teaching assistant to senior lecturer. He is also an associate researcher at the Economic Policy Research Center, Makerere University, and the Centre for Dynamic Macroeconomic Analysis, University of St Andrews. He holds a PhD in Economics from the University of St Andrews (UK), MA in Economics from McMaster University (Canada) and BA Economics from Makerere University (Uganda). Okumu is interested in economic growth and development, company and household behaviour, public finance, corruption and governance. He has peer-reviewed publications for ***Development Policy Review***, ***African Development Review***, ***South African Journal of Economics*** and ***Journal of Innovation and Entrepreneurship***, among others.

Susan Namirembe Kavuma is an economist with wide experience in policy research and analysis, and lecturing at university level. She is a research associate at the Advocates Coalition for Development and Environment (ACODE) attached to the Centre for Budget and Economic Governance that undertakes research activities on budget monitoring and economic governance in Uganda. Kavuma holds a PhD in Economics from the University of Nottingham (2015), which she attained as a Commonwealth scholar. In addition, she holds a Master of Arts in Economic Policy Management and a Bachelor of Arts in Economics, both from Makerere University. She has authored and co-authored several research papers that have been published in peer-reviewed journals. Kavuma's research interests are economic governance, women empowerment, development economics, labour and education economics.

George Bogere is a research fellow. He is also a project manager at the Center for Budget and Economic Governance. He holds an MA in Economics from Makerere University. Before joining ACODE in January 2011, Bogere was a researcher at the Makerere Institute of Social Research, Makerere University, for more than five years. His areas of interest include economic growth and development, decentralisation, governance and service delivery, as well as natural resources management, particularly land.

Acknowledgment

The South African Institute of International Affairs, CSEA and our think tank partners acknowledge the support of the International Development Research Centre for this research paper and the CoMPRA project.

About ACODE

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy Think Tank based in Uganda, working in the East and Southern Africa sub-regions on a wide range of public policy issues. ACODE's core business is policy research and analysis, policy outreach and capacity building. Since the organisation was formed 19 years ago, ACODE has emerged as one of the leading regional public policy Think Tanks in Sub-Saharan African. ACODE has been recognised among the Top-100 Think Tanks worldwide by the University of Pennsylvania's 2017 Global-Go-To Think Tank Index Report. Visit their website – https://www.acode-u.org/ – for more information.

Cover image: Abu Kikomeko, her sister Rebecca Nakyanzi and mother Glades Ssebwira , all vendors, pose for a photo before sleeping next to their items to be sold at Nakasero Market in Kampala, Uganda, on June 29, 2021. Under a strict 42-day COVID-19 lockdown imposed on June 18, vendors at Nakasero market in downtown Kampala were allowed to keep trading - if they agreed not to return home and sleep where they worked. The government distributed mosquito nets, drinking water and soap to roughly 600 vendors suddenly faced with a six-week stretch away from home & confined to the cramped quarters of the marketplace (Badru Katumba/AFP via Getty Images)

IDRC | CRDI
International Development Research Centre
Centre de recherches pour le développement international

Canada

CSEA
Centre for the Study of the Economies of Africa

SAIIA
South African Institute of International Affairs