

STATEMENT ON THE ECONOMIC IMPACT OF COVID-19 ON UGANDA

(By the Minister of Finance, Planning and Economic Development)

1.0 INTRODUCTION/BACKGROUND

- 1.1** Right Honourable Speaker, as you are aware, the recent outbreak of the novel coronavirus disease (COVID-19) that started in Wuhan, China has spread globally with over 182,000 infections and a death rate of approximately 3.5 percent in over 160 countries by March 17th 2020.
- 1.2** Although the number of daily new cases of the COVID-19 is finally declining in China, it is increasing in the rest of the world, especially in the US, Europe, South Korea, Iran, and more recently in Africa with our neighbouring countries, Kenya, Rwanda, Tanzania and Democratic Republic of Congo (DRC) registering cases.
- 1.3** The virus will significantly affect economic activity at global, regional, and local levels. Moreover, an outbreak of the virus in Uganda would impose a significant strain on the health sector which will necessitate additional resources to deal with the pandemic.

2.0 IMPACT ON THE GLOBAL ECONOMY

2.1 The coronavirus outbreak is already having a negative effect on the global economy. The last few weeks have seen a large fall in the value of stocks and other financial instruments traded at the world leading stock markets in the USA, Europe and Asia. Preliminary estimates by the Organization for Economic Cooperation and Development (OECD) indicate that global growth in 2020 will reduce to 2.4 percent from an earlier projection of 2.9 percent.

2.2 The COVID-19 outbreak is affecting the supply of goods and services. The pandemic has already led to shortages of drugs, industrial chemicals, medical equipment, and consumer goods like smartphones, as factories in mainland China shutter and those closures disrupt complicated trade networks. Labour is in short supply too, with workers forced to stay home.

2.3 The coronavirus is also affecting demand for travel and car manufacturing resulting in lower demand for oil as economic activity in most affected countries slackens. The fall in oil prices has been exacerbated by the price war between Russia and Saudi Arabia that saw Brent crude oil prices drop to as low as US\$ 34 per barrel during the first week of March 2020 from about US\$ 56 per barrel in February 2020. The above effects on the global economy have implications for the domestic economy.

3.0 IMPACT ON THE DOMESTIC ECONOMY

Real Sector

- 3.1 Given the current situation, the projection for economic growth in FY2019/20 has been revised downwards from 6.0 percent to between 5.2 – 5.7 percent depending on the severity of the COVID-19 impact on Uganda.
- 3.2 The biggest impact will be on the services sector. Travel restrictions are already affecting the tourism sector including hotels, accommodation and transportation. Supply chain disruptions are hampering trade, and this is expected to continue until the virus is contained at the global level.
- 3.3 Travel restrictions at the global level will also affect the flow of imports into the country leading to disruption in supply of inputs into the Industry sector. This will affect industrial output.
- 3.4 The low activity in industry and services sectors will result into loss of jobs further leading to a decline in economic growth and an increase in the level of poverty. The number of people that could be pushed into poverty is estimated at approximately 780,000.

External Sector (Balance of Payments)

Right Honourable Speaker, in the external sector, the Corona virus will affect the following;

- 3.5 **Tourism** will be severely affected by a sharp drop in tourists coming to Uganda following extensive travel restrictions in the USA, Europe and Asia. Tourism earnings are expected to decline significantly in the last four months of the financial year.
- 3.6 **Exports** are expected to decline in the last four months of the financial year, on account of a sharp reduction in global demand and travel restrictions imposed by Uganda's key trading partners in the Middle East, European Union and Asia.
- 3.7 **Imports** will also be affected by travel restrictions and a reduction in demand within the local economy. The majority of Uganda's imports come from Asia, particularly China which has been the most affected country. Overall, imports are expected to decline by 44% in the last four months of this financial year. However, this provides an opportunity for the country to produce some of the imports locally in line with our import substitution and export promotion strategy. We therefore need to put more effort in the implementation of this strategy in order to reduce our dependence on imported inputs and final goods in the case of such emergencies.

3.8 **Worker's Remittances and Foreign Direct Investments**

(FDI) will also be affected by the slowdown in the global economy. In the last four months of the financial year, FDI and remittances are projected to each decline significantly.

3.9 **Loan Disbursements** are projected to decline by 50 percent in the last five months of the financial year because of the likely delays in projects execution and a disruption in the supply of inputs for the projects.

3.10 **Overall Balance of Payments Position**

Due to the travel restrictions, scarcity of goods and lower inflows (tourism, remittances, exports and FDI), the balance of payments is likely to deteriorate leading to a likely depreciation of the exchange rate and consequently inflation. This has already contributed to the depreciation of the exchange rate of 1 percent between February and 10th March 2020.

Given the above assumptions, the current account balance (CAB) in FY2019/20 is projected to widen by US\$ 363.1 million (12.7%). Consequently, foreign exchange reserves are expected to decline from 4.2 future months of imports to about 3.5.

3.11 **Impact of the coronavirus on the banking system**

The impact of the coronavirus on the banking system has an indirect effect through non-performing loans (NPLs). The

sectors that are likely to be most affected include trade, tourism, transportation and construction. Private sector credit extension to these sectors constitutes 45 percent of the total private sector credit. If NPLs in these sectors increase by 50 percent due to fallout from the COVID-19 outbreak, the ratio of non-performing loans to total loans would worsen from 4.7 percent to 5.9 percent which has negative impact on private sector credit growth as well as economic growth.

Fiscal Sector

3.12 **Revenue collections** will register an additional shortfall of about Shs 82.4 billion for the remaining period of the FY2019/20 (March-June) and about Shs 187.6 billion in FY2020/21 assuming that the corona virus does not enter Uganda or that it is quickly contained hence avoiding widespread infections within the population. The coronavirus will mainly impact international trade taxes (reduction in value of imports) as well as consumptive taxes (VAT and Excise duty) due to the slowdown in the industry and services sectors.

3.13 Impact on Public Investment Projects

There is likely to be a slowdown in the rate of execution of Government's development projects, especially in the transport and the energy sectors due to the impact on project financing as well as the likely impact on required inputs that are imported.

In addition, there is a risk to private sector financing for Public-Private Partnership (PPP) projects, which could delay completion of planned projects.

3.14 Additional expenditure requirements: Preliminary estimates from the Ministry of Health indicate a financing requirement of Shs 25 billion to deal with health challenges caused by the coronavirus (COVID-19) pandemic.

In addition, more financing may be required to facilitate continued surveillance, aerial and ground spraying of locusts as well as continued awareness creation and sensitization as well as to provide support to the people whose livelihoods will be affected.

3.15 Financing Gap: In total, the Government of Uganda is faced with a preliminary additional financing gap of approximately Shs 370 billion (equivalent to approximately US\$ 100 million in FY 2019/20) and Shs 350 billion (approximately US\$ 90 million in FY 2020/21) due to revenue shortfalls and additional expenditure needs to deal with the challenges in the health sector, needs arising from the desert locust invasion and related support to people whose livelihoods will be affected.

4.0 WORST CASE SCENARIO

- 4.1 In the event that the virus enters Uganda and spreads rapidly (as experienced in some African countries such as Egypt, South Africa and Algeria), the impact on the economy, the budget and the population would be significantly higher than discussed above.
- 4.2 In the worst-case scenario, there would be country wide restrictions on the movement and gathering of people (closure of schools, places of worship, entertainment venues, sporting events, etc) and closure of borders. This would have more significant effects on the economy and livelihoods of people.
- 4.3 In this scenario, economic growth for FY2019/20 would decline to between 4.6 percent and 5.1 percent. An additional 2.6 million Ugandans would be pushed into poverty.
- 4.4 Following the resultant severe reduction in exports, tourism receipts and workers remittances, the current account balance would deteriorate significantly.
- 4.5 On the fiscal side, there will be larger revenue shortfalls than anticipated, and additional expenditure requirements to cater for the health sector response to the virus spread as well as livelihood support for affected persons.
- 4.6 **Domestic Revenue** would register much larger shortfalls of about Shs 288.3 billion in FY 2019/20 and Shs 350 billion

in FY 2020/21. This would largely be on account of a reduction in international trade taxes due to travel restriction into and out of the country which would disrupt trade. Domestic taxes would be affected by severe reduction in economic activity.

- 4.7 **The health sector** would require significantly more funding for; - hospitalization and isolation structures for the infected people; Intensive Care Unit (ICU) facilities; Emergency response vehicles; More testing kits; Protective wear for medical personnel; Face masks and hand sanitizers; recruitment of additional medical personnel; and sensitization of the public about the virus.

5.0 CONCLUSION

- 5.1 To deal with this economic shock, both fiscal and monetary policy adjustments would be required. The fiscal policies will play a critical role in mitigating the negative impact of the pandemic on economic activity and the challenges in the affected sectors particularly health, while monetary policies will help to reduce the impact of the deterioration of the Balance of Payments.
- 5.2 To deal with the possible negative impacts on our balance of payments, the Government will seek support from the International Monetary Fund to support the Central Bank in ensuring that international reserve buffers remain strong and that the exchange rate remains stable.

- 5.3 To deal with the financing gap in the Government budgets for FY 2019/20 and FY 2020/21, my Ministry will seek for a budget support loan on concessional terms worth US\$ 100 million for FY2019/20 and US\$ 90 million for FY2020/21 from the World Bank.
- 5.4 Right Honourable Speaker, as one of the policy responses, we need to put more effort in the implementation of the import substitution and export promotion strategy. This will reduce our dependency on imported inputs and final goods in case of trade disruptions and other global economic shocks.
- 5.5 In this regard, my ministry will be meeting the private sector and financial institutions to enhance implementation of the import substitution and export promotion strategy and to discuss Government's short, medium- and long-term policy responses aimed at dealing with the negative impacts of the COVID-19 on our economy and future economic shocks.

Ministry of Finance Planning and Economic Development

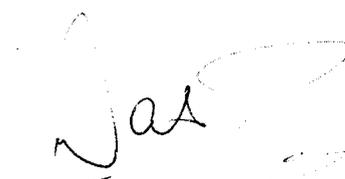
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