Global financial crisis: Signs, impact and mitigation measures in Uganda

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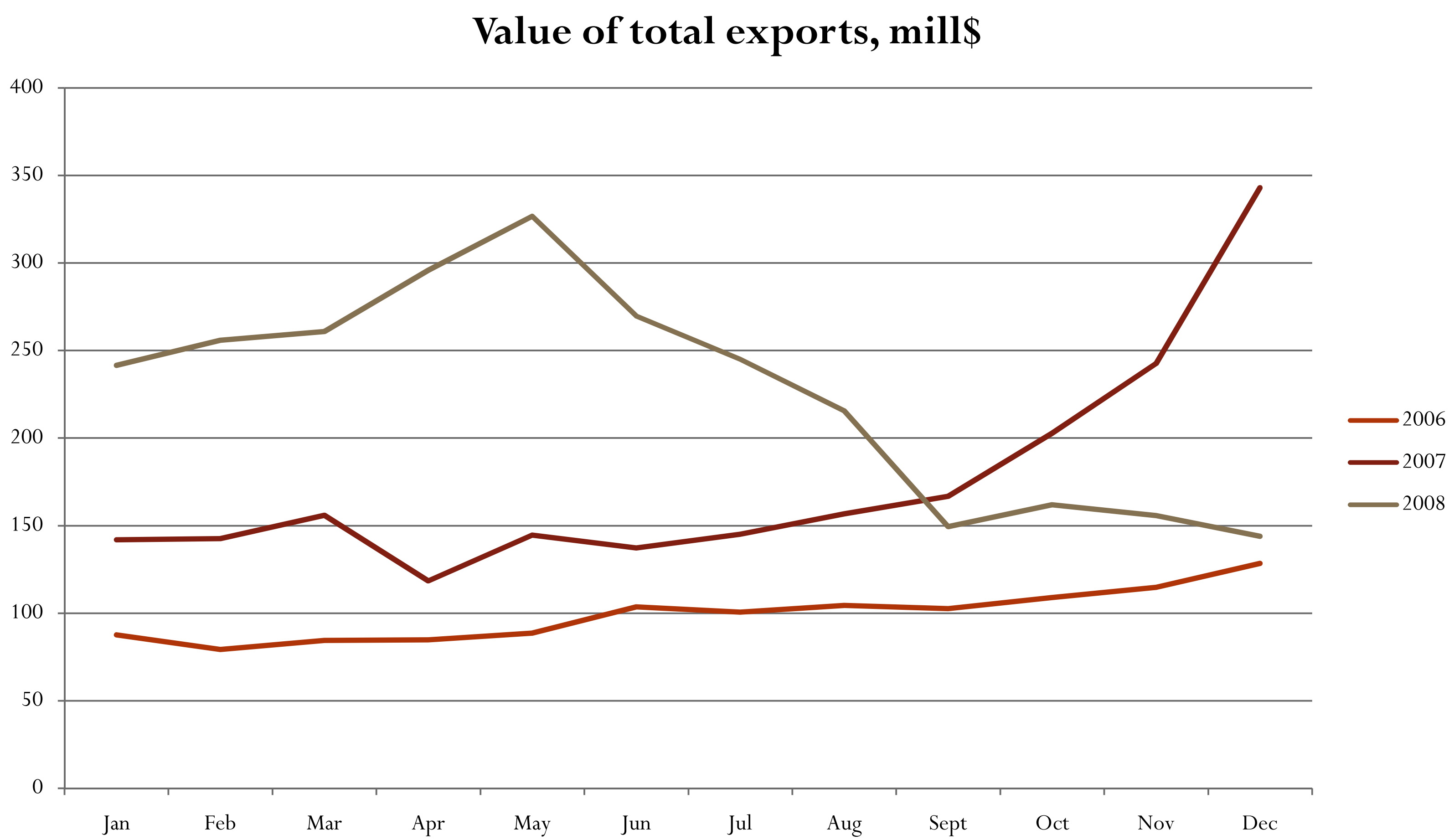
Introduction

- Uganda has
  - Recorded strong economic growth since 1992 driven mainly by services, construction and manufacturing
  - Contribution of services sector as %GDP is nearly half and agriculture is below 30%.
  - On employment: the share is highest in agriculture
  - Recorded impressive income poverty reduction but challenged with increasing inequality
- Uganda's constraints to growth revolve around low productivity (due to poor infrastructure, limited technologies etc)

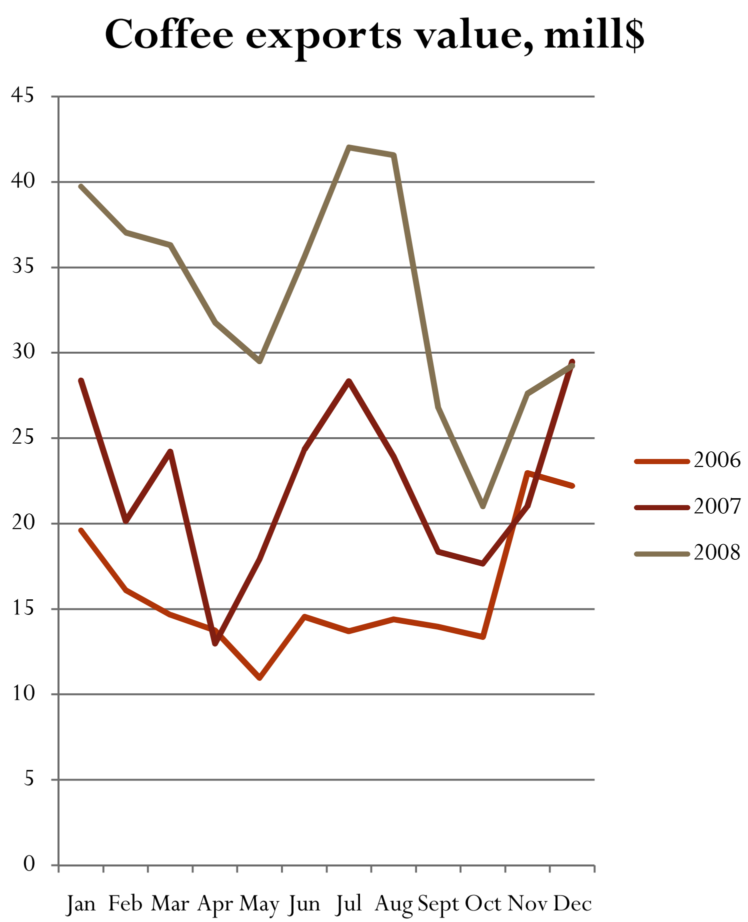
Introduction (contd.)

- Uganda like most SSA countries is challenged by the impact on development of multiple, interrelated global crises and challenges including high food prices, climate change, fluctuations in commodity prices and global financial crisis. The situation is exacerbated by the national challenges
- The main contribution of this paper is to provide some analysis on how the global financial crisis will affect Uganda and how government should possibly respond. But what is clear is that the impact will not show up at the same time.
- Caution: difficult to net out the impact of GFC on the economy

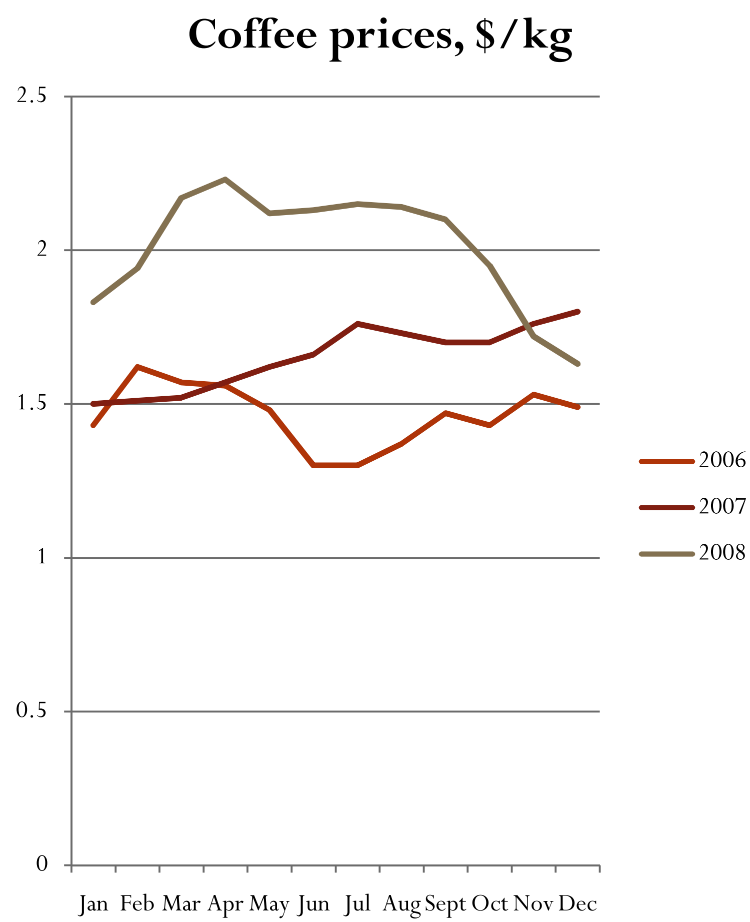
Visible effects of the crisis: Trade



Trade contd.

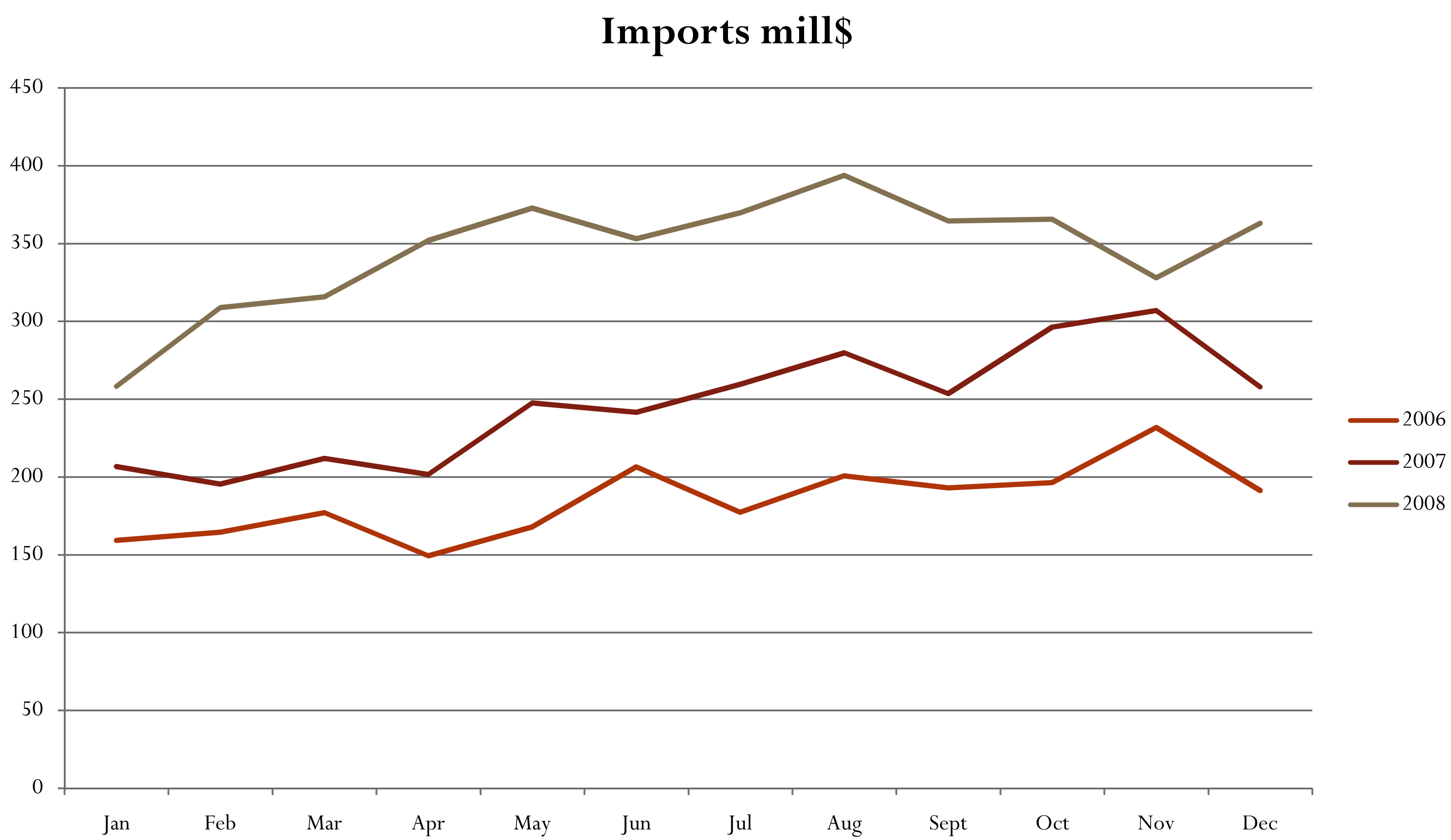


Coffee exports value, mill$
45
40
35
30
25
20
15
10
5
0
Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec
2006
2007
2008



Coffee prices, $/kg
2.5
2
1.5
1
0.5
0
Jan Feb Mar Apr May Jun Jul Aug Sept Oct Nov Dec
2006
2007
2008

Trade contd.


Imports mill$
450
400
350
300
250
200
150
100
50
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec
2006
2007
2008

Visible contd.

- Capital inflows have slowed down, with adverse balance of payment (BoP) effects
- The UgShs/US$ exchange rate has depreciated by nearly 20% since Oct 2008
- Interest rates on government treasury bills & bonds have increased
- The tax revenues short falls since July 2008 is estimated at UgShs.120bn
- Inflation is in double-digit level, since May 2009 and reached its peak in Aug 2008 (15.8%) but recently declined to around14% in Jan 2009; much of it is said to be imported inflation
- Slow down in remittances – from an average of US$41.34m during Q1 to US$40.17m in Q4. Uganda is more likely to witness decreased private financing

Visible contd.

- Foreign aid to Uganda decreased from US222.29m during 2007Q4 to US$178.9m during 2008Q4. Uganda more likely to register further declines in aid – both official and off budget aid. However, donors promise not to cut aid
- Rumours of closure of foreign related businesses e'g Barclays Bank Uganda Ltd
- Uganda has already registered job losses linked to the crisis
  - Through business closure e.g. GTV, closure of some fish processing plants
- Scaling down of the NGO activities
- Slow down in tourism business

Likely impacts of the crisis on growth, development and poverty

- The above suggests that a decrease in exports, private capital inflows, remittances, foreign aid. Yet Uganda's past growth has been heavily anchored in these financial flows => Uganda seems to face a high probability of decreased economic growth. This is in line with projections by MoF of reduced growth from 8.9% to 6-7% in 2008/09; some works at EPRC show a lower growth of 5.6%. But all these estimates remain higher than the IMF projections of 3.5% for SSA
- Inequalities are expected to continue unless government takes measures to protection the most vulnerable groups e.g NGOs especially those supporting children have scaled down their operations. Previous works have shown that increasing inequality deters poverty reduction

Response registered so far

- Policymakers are still grappling with understanding the nature and likely impacts of the crisis on the economy and in particular on social welfare of Ugandans. The messages remain mixed
- In the meantime, the macroeconomic and social policies remain unchanged (no response to the crisis); on the monetary side, Uganda has continued to implement tight monetary conditions to tame off inflationary pressures. This is contrary to the call by IMF, that increased spending in these circumstances brought about by the crisis is necessary to stimulate growth, investment and employment creation.

Why no response?

- Lack of response could be attributed to Uganda's current policy focus on "Growth, employment and prosperity for all", which the country was already pursuing even prior to the on-set of the crisis. The approach is to pursue macroeconomic stability and address constraints to growth that revolve around productivity enhancement through removal of bottlenecks such as poor infrastructure etc.
- The challenge remains – how will Uganda address the constraints to growth amidst declining exports, aid, private capital inflows, remittances? Time is now for policy makers to realize that the way the crisis is evolving over time will not spare the Ugandan economy
  - There are already talks on reducing on non-priority expenditures, maintaining the macroeconomic stabilization etc