Uganda

Recent macroeconomic and financial developments

Economic activity was hit by COVID-19 lockdowns in 2020 and 2021. Growth recovered from a contraction of 1.5% in 2020 to 6.0% in 2021, lifted by household consumption and investment. Agriculture was the least affected sector; industry was supported by strong expansion in mining and construction, while manufacturing remained sluggish. Services are returning to pre-COVID-19 trends, driven by public administration and education. Stable prices in 2020 and 2021—with inflation at 2.2% in the latter year—led the central bank to reduce its policy rate from 9% to 6.5% over the two years. Prudent management kept the financial sector stable, with NPLs at 4.8% of gross loans in 2021, that is, under the 5% regulatory threshold.

Public health spending increased for COVID-19 vaccines and recovery loans to keep businesses afloat. However, expenditure reprioritization reduced the fiscal deficit to 7.5% of GDP in 2021 from 9.5% in 2020; it was financed through domestic borrowing. Consequently, public debt increased by 14 percentage points to 49% of GDP in 2021 from 2020, leading to a downgrade of sovereign debt to moderate risk of debt distress. The current account deficit remained high at 9.5% of GDP in 2021 due to loss in tourism revenues and a rising trade deficit. Development funding, remittances, and FDI financed the deficit, while the SDR allocation boosted reserves by 1.3% of GDP.

Outlook and risks

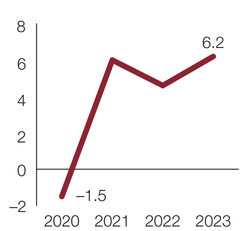
The economic recovery is expected to continue, with GDP projected at 4.6% and 6.2% in 2022 and 2023, driven by services, following the reopening of schools in 2022 and recovery in the hospitality sector. As global value chains stabilize and consumer demand rises, manufacturing growth is projected to accelerate. The pandemic has propelled expansion in mobile money transactions, which is projected to continue. With increased economic activity, domestic revenue is expected to strengthen, underpinning further fiscal consolidation. High imports and a muted recovery in tourism will keep the current account deficit wide. External risks emerging from the Russia–Ukraine conflict include inflationary pressures due to higher food and oil prices and continued supply chain disruptions. Domestic risks relate to pressure to ramp up public infrastructure spending amid weak tax revenues and implementation challenges, while poor rain patterns could undermine agriculture. Uganda has the reserves to counter shocks.

Climate change issues and policy options

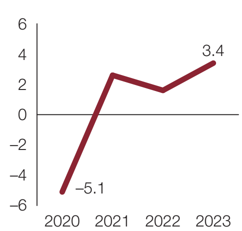
Uganda is undergoing more extreme weather events such as flooding, as well as prolonged dry and warmer spells. Climate change impacts are felt mainly in agriculture, water, health, and human settlements. These effects are mirrored in the 2021 GCRI on which Uganda is 31. Absent realistic actions to adapt to climate impacts, Uganda could incur annual economic costs of 2.8–4.5% of GDP in 2010–50. Significant economic losses, including severe damage to existing infrastructure in energy and agriculture, are expected given the increased frequency of climate change shocks and limited adaptation.

The National Climate Change Policy (2015) estimated the cost of adaptation and mitigation measures at about 5% of ODA in 2021–25 (about $644 million total). Yet, the government has hardly tapped into international climate funds, receiving only $94 million in 2000–19 from global environmental and climate change financing sources. It will therefore need to mobilize more external resources as it lacks the domestic financing for adaptation and mitigation measures. Still, Uganda is on track to meet SDG 13 on climate action.

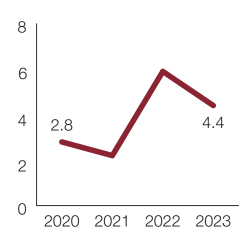
Real GDP growth (%)



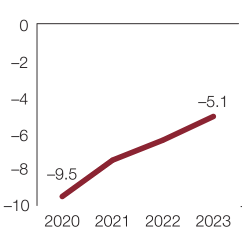
Real GDP per capita growth (%)



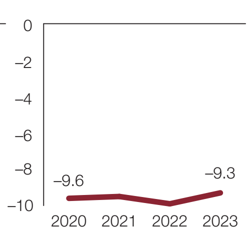
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Uganda's fiscal year, which runs from July 1 to June 30.