UGANDA

Table 1	2021
Population, million	47.1
GDP, current US$ billion	34.6
GDP per capita, current US$	733.9
International poverty rate ($2.15)[a]	42.2
Gini index[a]	42.7
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.7
Total GHG emissions (mtCO2e)	63.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

Uganda's real GDP grew by 4.6 percent in FY22, following the reopening of the country in January 2022. Relentless upward pressure on prices induced monetary tightening. After shedding more than two percentage points in FY22, the fiscal deficit is expected to decline further in line with the fiscal consolidation effort. Nonetheless, sustained recovery in private investment and consumption will raise real GDP growth close to 6 percent in FY23 and FY24. Poverty is expected to inch down, though the pace of poverty reduction may be affected by increasing prices.

Key conditions and challenges

The pace of economic growth, poverty reduction, and policy reform in Uganda has slowed. Real GDP per capita grew by only 1.0 percent per year between 2011 and 2021 in a context of rapid population growth, drought and other external shocks, a less supportive external environment, and reduced reform momentum. Although poverty declined in the pre-COVID period, most households rely heavily on agriculture and are vulnerable to climate change and weather shocks.

Structural transformation is essential to reinvigorate economic activity and reduce poverty. Services constitute a large share of GDP but many jobs in the sector are informal and low-skilled. Furthermore, approximately two thirds of the Ugandan workforce is occupied in agriculture, which produces less than a quarter of the GDP. To unlock its growth potential as Uganda moves towards oil production, a more productive employment of this labor is fundamental. In addition, given Uganda's small domestic market and distortions, trade will be important in boosting economic growth and development.

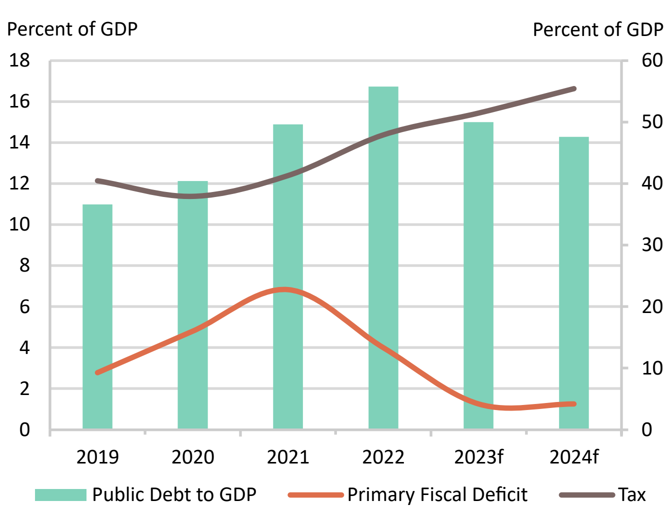
The private sector must drive growth. Uganda's growth model of debt-financed public spending – which emphasizes infrastructure and has crowded out private sector borrowing – is not sustainable. The state should instead support the economy through investments in human capital, regulations that facilitate investment and job creation, and measures to reduce inequality and strengthen resilience. The prospects for the shift to a private sector led growth model will also rely on maintaining macroeconomic stability; better supporting the vulnerable, farmers, and small enterprises; increasing the uptake of digital technologies; and more effective use of public resources.

Recent developments

The Ugandan economy grew at 4.6 percent during FY22, faster than had been anticipated, due to the up-tick of activities after the economy reopened in January 2022. On the supply side, the services sector and industry were the main drivers of economic growth for the fiscal year. There was a strong recovery in wholesale and retail trade, real estate activities and education services, while industry rebounded through construction and manufacturing. On the demand side, private investment and private consumption recovered towards pre-COVID levels. The current account deficit widened to over 9 percent of GDP in FY22 primarily reflecting a deterioration in the terms of trade and widened trade deficit.

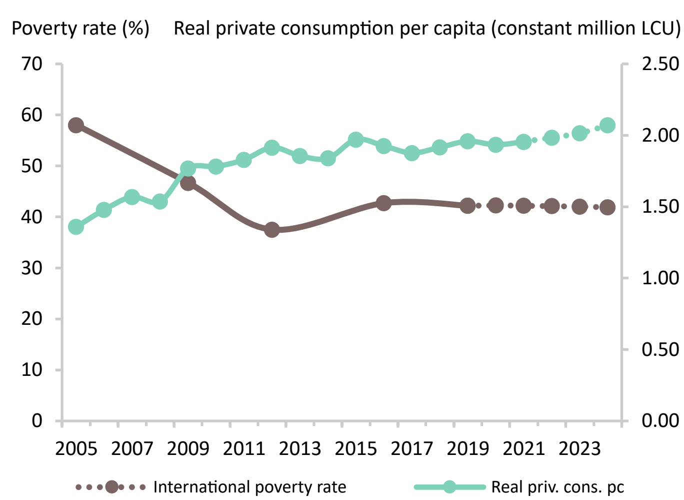
According to the high-frequency phone survey, employment rate fell from 91 percent in March/April 2021 to 79 percent in October/November 2021 and remained at this level in June/July 2022. Half of the population was moderately food insecure in June/July 2022. Households, in particular

FIGURE 1 Uganda / Fiscal adjustment



Sources: Ministry of Finance, Planning and Economic Development, and World Bank calculations.

FIGURE 2 Uganda / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

the poorest ones, are being negatively affected by increased prices, either through being unable to access food products or to buy the desired amounts.

Inflationary pressures increased in 2022, leading the Bank of Uganda to tighten monetary policy. Driven by the spike in commodity prices, which government allowed to pass through to consumers, and pandemic-related disruptions in global supply chains — both heightened by the war on Ukraine, the annual headline and core inflation reached 6.8 percent and 5.5 percent, respectively in June 2022, from 2.0 percent and 2.7 percent in June 2021. The central bank raised its policy rate by 1 percentage point in June 2022 to 7.5 percent. It adjusted the rate by an additional 1 percentage point in July and 0.5 percentage points in August.

The government has initiated a revenue-driven fiscal consolidation. In FY22, it was able to reduce the fiscal deficit to 7.3 percent of GDP (Table 2), despite increases in wages, the interest bill (primarily domestic borrowing) and use of goods and services driven by the reopening of schools and health sector supplies. Revenues benefitted from the increase in excise duty by UShs. 100 per liter of petrol and diesel, and increased collection of tax arrears. Notwithstanding the improvement in the fiscal balance, public debt rose to 56 percent of GDP, well above the path under the Charter of Fiscal Responsibility.

Outlook

Uganda's economic growth is expected to accelerate to about 6 percent in the medium-term, despite sustained commodity price driven inflation pressures, gradual fiscal consolidation, and tighter monetary policy. This will be bolstered by investments and exports of oil, and dividends from government's promotion efforts for tourism, export diversification, and agro-industrialization. Outside of the oil sector, the slowdown of global growth and heightened tightening of the global financial conditions constrain capital inflows.

Accelerated growth may slightly reduce the poverty rate from 42.1 percent in 2022 to 41.9 percent by 2024, but this projection is subject to several downside risks: The path of COVID-19, the evolution of the war in Ukraine, the pace of food inflation, and any environmental shocks that adversely affect households due to their limited adaptive capacity.

Inflation is projected to peak in 2023 due to lingering passthrough effects of commodity prices and a weaker shilling due to capital outflows as advanced economies raise interest rates further. In addition, drought conditions will exert pressure on food prices. The BoU is expected to maintain a 'tight' monetary policy stance to contain inflation around the policy target of 5 percent.

To sustain the fiscal consolidation into the medium-term, the planned reduction in recurrent spending is expected to be followed with improved efficiency in public investment projects and sustained revenue effort. A lower fiscal deficit is expected to ease pressure on debt, which combined with deliberate effort to minimize non-concessional borrowing should reduce fiscal risks. To avoid crowding out of the private sector, the government of Uganda plans to reduce domestic borrowing as a share of GDP to reach a debt to GDP ratio below 50 percent of GDP by FY26.

TABLE 2 Uganda / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.4	3.0	3.4	4.6	5.5	6.1
Private Consumption	5.9	2.0	4.2	4.3	4.2	5.4
Government Consumption	6.9	7.9	6.1	-24.8	6.6	7.9
Gross Fixed Capital Investment	9.9	-0.1	5.1	30.0	6.7	7.1
Exports, Goods and Services	6.3	-1.2	2.6	-20.5	26.2	8.3
Imports, Goods and Services	8.6	-5.4	8.6	1.8	15.4	7.1
Real GDP growth, at constant factor prices	6.4	3.0	3.4	4.6	5.5	6.1
Agriculture	5.2	4.6	3.8	5.1	5.4	6.2
Industry	9.0	3.1	3.4	5.5	6.5	6.6
Services	5.6	2.2	3.3	3.8	4.9	5.8
Inflation (Consumer Price Index)	2.6	2.3	2.5	3.0	7.2	6.5
Current Account Balance (% of GDP)	-7.1	-6.7	-10.2	-9.2	-12.7	-12.0
Net Foreign Direct Investment Inflow (% of GDP)	3.5	2.6	2.1	2.7	2.3	2.7
Fiscal Balance (% of GDP)	-4.9	-7.1	-9.5	-7.3	-5.5	-4.5
Debt (% of GDP)	36.6	40.4	49.6	55.7	50.0	47.6
Primary Balance (% of GDP)	-2.8	-4.8	-6.8	-4.0	-1.3	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	42.2	42.3	42.2	42.1	42.1	41.9
GHG emissions growth (mtCO2e)	2.1	2.4	2.8	3.4	3.7	4.0
Energy related GHG emissions (% of total)	19.9	20.3	20.3	20.5	20.8	21.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2016-UNHS and 2019-UNHS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2016-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.