Key Highlights from the REO-SSA

- SSA faces a new wave of shocks that could significantly undermine the economic recovery.
  - Amidst AE monetary policy normalization and debt vulnerability.

- The new wave of shocks could worsen the scarring effects of the COVID-19 pandemic.
BEYOND THE REGION...
The shock is global
The pace of the recovery for Uganda seems to be slowing down.

**Composite Index of Economic Activity (CIEA)**

- m-o-m percent change
- Source: Stanbic and BOU staff calculations

**Purchasing Managers Index (PMI)**

- Above 50 = positive; below 50 = negative
The COVID-19 related slowdown could have adversely affected Uganda’s production structure.

Whether the scarring effects will have a temporary or lasting impact on the potential growth path remains to be seen.

Foreign Direct Investment (FDI) rebounded and is expected to remain buoyant.

But there is a risk of long-term output scarring.

- Hysteresis effects.
  - Many workers may have been excluded from the labour market due to lockdown.

Source: UBOS and BOU staff calculations
Indeed, the War has caused a tightening financial condition for Emerging & frontier markets

- Except in the recent past, the UGX exchange rate remained stable
- But, risks of a global sell-off rising.

Source: BoU staff calculations
Persistent high inflation for Uganda

- High imported Inflation.
- High energy and non-energy commodity prices.
- High inflation expected to rise and become broad based.
- Risk of rising inflation expectations.

Source: OECD

Uganda: Decomposition of headline inflation
Source: UBOS

Uganda: Inflation expectations-Business & consumer expectations
Source: BOU staff calculations
Way-forward for macroeconomic policy?

- The shock is global!
- More of supply-side bottlenecks
- Knock-on effects on the recovery and could worsen the scarring effects from the Covid-19.

- Monetary policy will be data-driven.
  - Close monitoring and assessing second-round effects and take prudent action to bring down inflation expectations to ensure high inflation is not entrenched.
  - Monetary policy should help ensure stability of the exchange rate.
    - The observed recent stability of the exchange rate helped cushion the impact of the escalating increases in commodity prices.

- Need for Government to build and preserve adequate FX reserve buffer.
Lessons should be learned from some neighbors:

- It is crucial to keenly observe the situation.
- Avoid populist decisions.
- Rely on evidence-based data-driven policy
- Focus on medium-term to long-term strategies.

Conclusion
Thank you