BANK OF UGANDA

REGIONAL ECONOMIC OUTLOOK

SUB-SAHARAN AFRICA

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Key Highlights from the REO-SSA

- ❑ **SSA faces a new wave of shocks that could significantly undermine the economic recovery.**

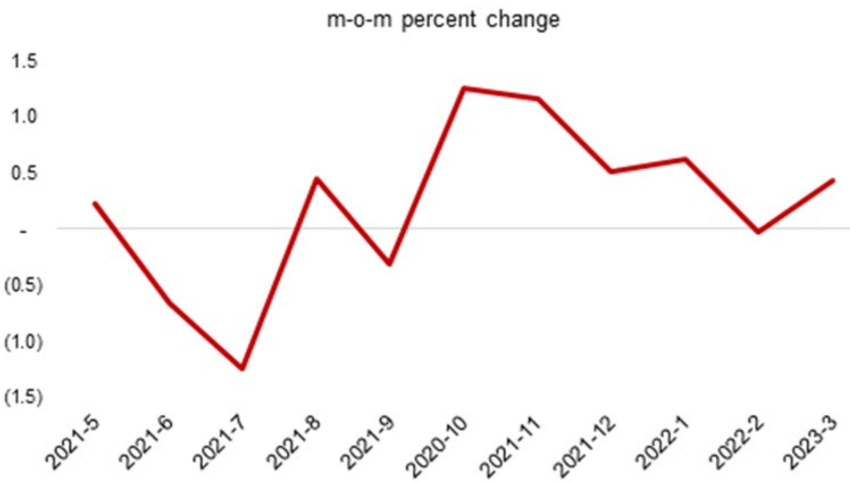
  - ❖ Amidst AE monetary policy normalization and debt vulnerability.

- ❑ **The new wave of shocks could worsen the scarring effects of the COVID-19 pandemic.**

BEYOND THE REGION…
The shock is global

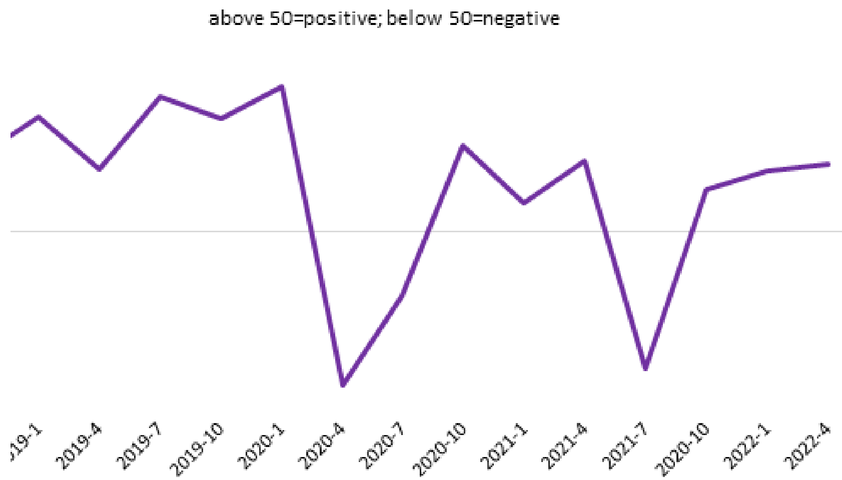
The pace of the recovery for Uganda seems to be slowing down

Composite Index of Economic Activity (CIEA)



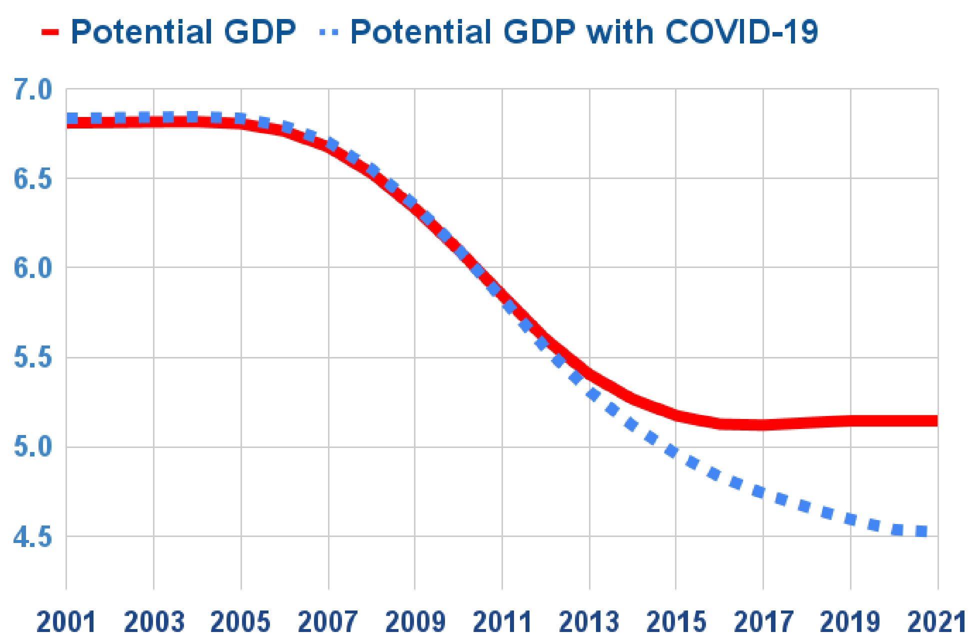
Source: Stanbic and BOU staff calculations

Purchasing Managers Index (PMI)



❑ 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.*

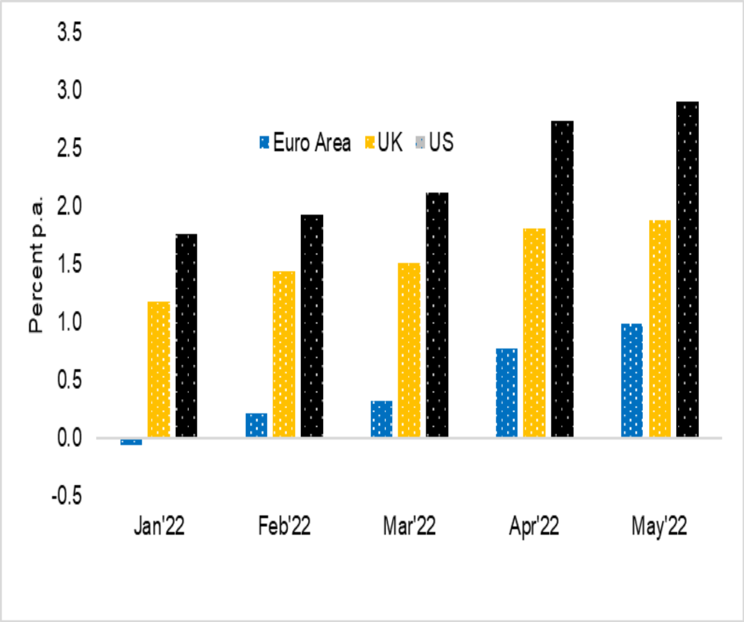


Source: UBOS and BOU staff calculations

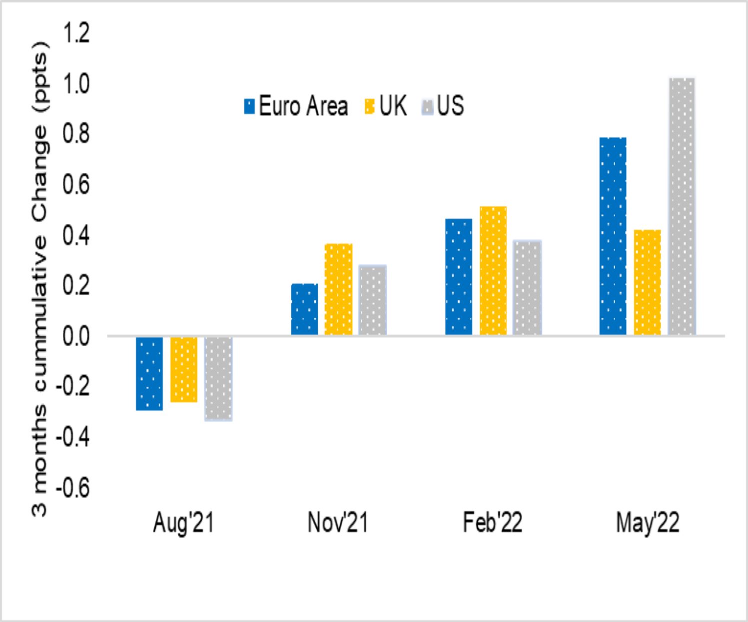
Indeed, the War has caused a tightening financial condition for Emerging & frontier markets

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

Ten-year bond yields (percent)



3-months cumulative change in ten-year bond yields (ppt)

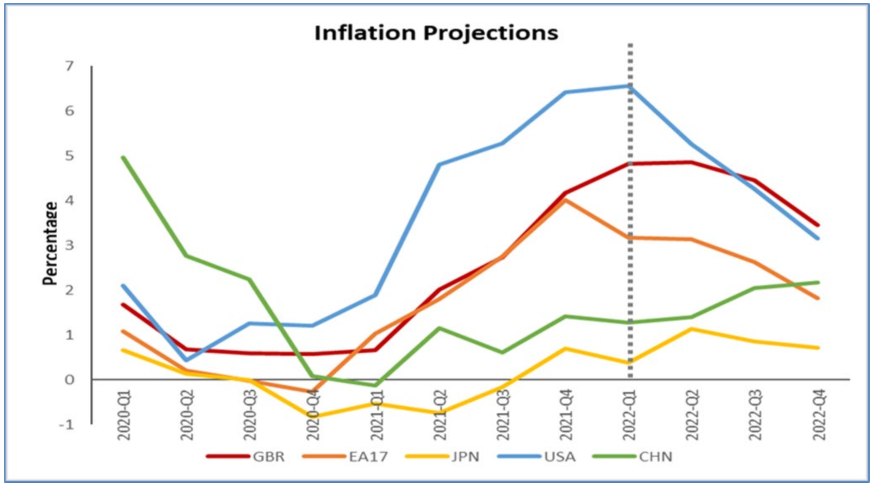


Source: BoU staff calculations

Persistent high inflation for Uganda

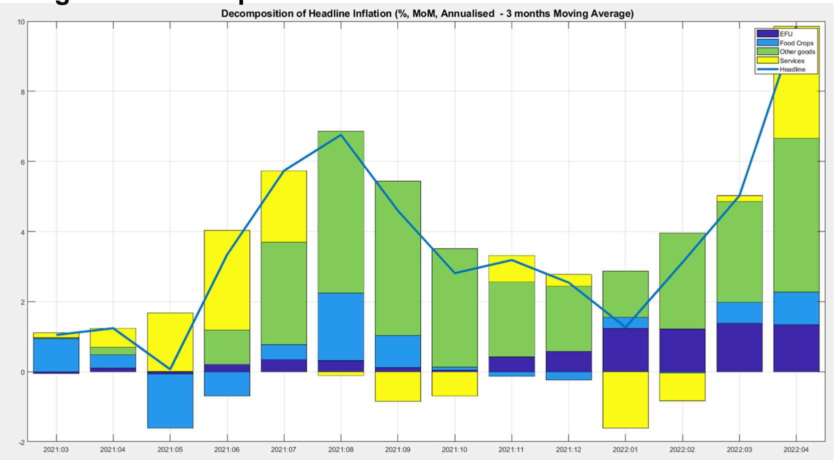
- ❖High imported Inflation.
- ❖High energy and non-energy commodity prices.

- ❑ **High inflation expected to rise and become broad based.**
- ❑ **Risk of rising inflation expectations.**



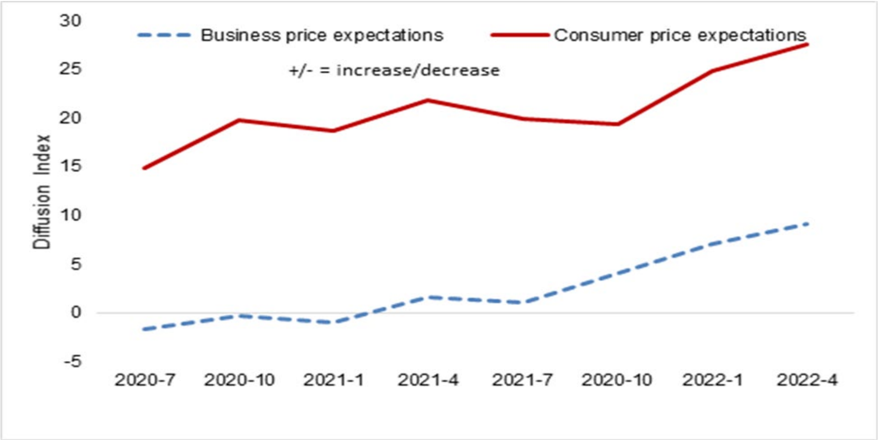
Source: OECD

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.**

Conclusion

- ❑ 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.

Thank you