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UGANDA BRACED TO OVERCOME COVID- 19 PANDEMONIUM

1. PREAMBLE

A number of countries such as the United States (US), Japan and others are exercising their financial muscle in the tide against Corona Virus Disease (COVID-19) and reversing global economic recession. The US, for instance, through the Congress has approved a $2 trillion stimulus for the survival of the specific country and global economy over COVID-19 (See Financial Times 25th March 2020). It is this global economic imperative whose direction cascades to developing economies like Uganda and others in EAC and COMESA.

2. CAN UGANDA OVERCOME COVID - 19 PANDEMONIUM AMIDST DEBT CHALLENGES ?

Despite Uganda's increased debt, deeper household poverty situation, over depressed global economic functions due to risk of COVID-19, Uganda can overcome the risk. Already measures like closure of borders including Malaba that generates about 90% of Uganda's excise duty, coupled with air travel bans and near domestic economic lockdown, the country must eventually reverse this pathetic COVID-19 situation.

From the household debt, public debt and corporate debt perspectives, there was an estimated $50 billion loss of China's export earnings by mid-March 2020. Against the estimated situation of $2 trillion in imports, from the rest of the world is already indicative of difficult times ahead for fiscal spaces of a number of countries. China otherwise is a key export destination for EAC, COMESA and beyond. Uganda, for instance, fetched export earnings from China estimated at $ 58 million in FY 2018/19- including from raw hides and skin exports estimated at $22 million, coffee, tea and others.

In the case of Europe, risk spreads on the Italian bonds market has been increasing since January 2020. This worsening situation, meanwhile, stands against the fact that Italy was one of the most fragile economies, building into 2008-09 consequences of global financial meltdown, cascading through the lower performance of the European Monetary Union.

So, with the COVID-19 pandemonium in play, not only Europe's Aid (Grants and Loans) to EAC and COMESA but also Italian support to Uganda will increasingly diminish. Already Uganda had on the overall registered about 50% reduction in loan disbursement windows (especially with diminishing Grants funding) over the last 2 fiscal quarters of the current Fiscal period 2019/20.

We can extrapolate how worse the Development Aid resource inflows may be, especially over the short-term and medium- term for Uganda and other developing economies. In the case of Italy, Uganda will stumble on funding to Non-Government Actors who have been at the helm of refugee support at the humanitarian relief and development interventions, education sector and others. Lower resource inflows simultaneously indict Uganda's economy through lower purchasing parity for corporations and households, individual employment loss, more strain on livelihoods of refugees, lower Pay-As-You Earn and even Corporate Tax yield.

This will lead to a draw-down on the Central Bank reserves from the equivalent of the current 4.3 months of import cover to the economy, especially when Uganda has not adopted using gold into the reserves' equation. There is indication that banking industry's non-performing loans risk worsening from 4.7% by end of December 2019 to an approximate 6.3% by end of December 2020.

3. POLICY RECOMMENDATIONS

1. Arguably, it is inevitable and important that one of the measures for Uganda to realize the targets for fiscal periods 2019/20 and 2020/21 will be external borrowing. Thus, Government of Uganda move for a $190 million concessional loan from the World Bank will be key in mitigating the scale of missing fiscal targets, given COVID- 19 pandemonium. Moreover, the loan should be interest-free.

2. As a subscriber to the UN- Sustainable Development Goals (SDGs)- including SDG 6 on Clean water and Sanitation, Government of Uganda should make clean-and-safe water free to all citizens now, as one key measure in mitigating the spread and risk of COVID-19. In the fore-going expansion and access to clean-and-free water should take effect from the from FY 2020/21, by especially "re-routing" the non-essential elements of recurrent budgets and nugatory expenditure across Ministries, Departments, Agencies and Local Governments (MDALGs).

3. It is high time that Uganda's bank reserves build-up urgently takes consideration of gold in addition to the USD.

4. For the Small-Medium enterprises, households, individual borrowers and corporate institutions that may be unable to fully honor their debt obligations now and in the short-term, Government of Uganda (Bank of Uganda) preside over efforts that ensure appropriate debt restructuring measures that also balance the ability of financial institutions to keep afloat. This may diminish the otherwise increasing scale of bad debts and loans.

5. Given the less-than-usual yield of Development Aid to Uganda, especially through bilateral Donors, the multilateral institutions of World Bank and IMF should draw down on their Special Drawing Rights (SDR), as a financing window against adverse economic implication of COVID- 19 for developing countries, especially EAC and COMESA. In the case of Uganda, the SDR should through unconditional Grants into the budget and Central Bank reserves finance the monetary policy and fiscal deficits not only in FY 2019/20 but also over the medium-term.

4. CONCLUSION

There is hope for plausible economic and other measures for EAC, COMESA or even Uganda in in the wake of COVID-19. Let's all contribute to efforts that progressively recover the global and Uganda economic outlook against the tide of COVID-19 shocks now and over the medium term.

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