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Abstract

The recent global financial crisis has made it clear that while financial integration have benefits, it exposes the international economy to risks of contagion if a shock hits any of the economies. The initial impact of the crisis on Uganda and other Low Incomes Countries (LIC) was muted however; the second round effects have hit both the financial and real sector. Using descriptive and graphical analysis on recent macroeconomic data from Uganda, this paper builds on the existing literature to evaluate the challenges and initial lessons from the crisis. The results reveal mixed impact of the crisis on the economy. The country’s pillars of economic strength; trade relations, remittances, foreign aid, and foreign private investment are all threatened by the worldwide recession but have been resilient. The main challenges the country faces are raising fiscal finance, commodities price volatilities, further exchange rate depreciation and reduced donor financing. The initial lesson drawn from the crisis is that capitalism and globalization are inherently risky. Uganda and other LIC should implement cautious approach to liberalization, deregulation and financial sector reforms through regular monitoring. While interventions have been effective in restoring confidence and stability in advanced economies, developing economies and particularly LIC can not afford such huge state expenditure to rescue failed companies. LIC should focus on diversification of trading partners and sources of finance, broadening the tax base, realignment of fiscal expenditure and strengthening regulations and the roles of firms and households in the production process.

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The views expressed in this paper are those of the authors and does not in any way represent the views of their employers; Bank of Uganda or Uganda Revenue Authority.
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1. INTRODUCTION

The global financial crisis caused the world economy to slide into an unexpectedly strong recession in 2009. The initial impact was mainly felt among advanced and emerging economies which have developed financial market. The crisis drove the global economy into a recession by 2009Q2. After the acute phase of the crisis in mid 2009, a gradual recovery among some advanced economies begun during 2009Q4. This recovery, however, was based on both renewed private sector confidence and supportive intervention measures by governments especially in the US, UK and some OECD countries to corporations weakened by the crisis. Low Income Countries’ (LIC)\(^3\) however, were not hit directly by the initial crisis, but have not been able to avoid the impact of the after-shocks as a result of the economic slowdown in advanced economies. In Uganda, the financial system remained resilient, robust, healthy, and was able to weather the initial shocks from the financial crisis (Tumusiime-Mutebile, 2008). The finance sector instead witnessed high entry of new enterprises especially in the banking industry through cross border Mergers and Acquisitions (M&A). Uganda’s banking industry was able to withstand the negative shock mainly because of limited exposures to toxic financial assets, their small operation size and products range, stringent regulatory requirements and limited integration with the global financial system.

The crisis was transmitted to Uganda’ economy through the external sector’s interaction to major trading partners in Europe, North America and Asia hit by the subsequent economic recessions. The global recession coupled with slowdown in domestic economic activity has resulted into slowdown of growth by 4.9 percent in 2009. The transmission channel being international trade, capital inflow for investment, workers’ remittances and aid as a result of low consumer demand, reduced multilateral finance and unemployment in advanced economies. The main risk arose from domestic macroeconomic instability especially renewed pressure from the Euro-zone leading to increased depreciation pressure on the shilling, interest rate volatility and international oil prices. The others relates to deterioration in fiscal tax revenue mobilization and aid\(^4\) for financing capital investments in infrastructure projects. This has created concerns on financing medium-term

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\(^3\) Uganda is one of the LIC countries which were not directly hit by the initial impact of the financial crisis partly because of its low level of integration with the global economy.

\(^4\) The deficit in the fiscal tax revenue collection rose from the decline in customs revenue whereas Official Direct Assistance (ODA) inflows for development financing has reduced and is likely to remain unsustainable because of the recession in donor economies.
recurrent by the government as well. The resultant impact is likely to undermine over two decades of economic growth and development achieved; progress achieved in poverty reduction and attainment of the Millennium Development Goals quite difficult for LIC (see, AERC, 2010; and Lindemann J., Kemah D. M., and Asin D., 2009).

There is already a growing body of research in the literature on the effects and policy implication of the global economic crisis around the world (Claessens et al., 2010; Lindemann et al., 2009 etc). These attempts in the literature have principally focused on: explanation of the genesis, transmission mechanisms, and sector specific effects without evaluating the policy challenges and lessons from specific group of countries. The literatures reveal that, while globalisation has far-reaching benefits; it can expose the entire global economic system to systemic risks of contagion arising from shocks from one or more economies. Such effect were witnessed between 2007H2 and 2009H1 when defaults from the US housing sector credits resulted into systemic risk with significant consequences for corporations and markets in many advanced countries (Claessens, 2009). The experiences from this financial crisis have highlighted the need for reforms in international and national financial architecture and regulations as well as macroeconomic management. However, the reforms implemented must be compatible with the level of economic and institutional development of an economy. In Uganda, some strategic and policy intervention have been adopted to guard the financial and real sector from adverse effects of the crisis.

This paper is intended to enrich the literature by evaluating the policy challenges and initial lessons from the crisis for LIC drawing on Uganda’s experience. This is achieved through review of the literature on the current crisis, experience with previous crisis and analysis of Macroeconomic data. The paper reviews the macroeconomic environment before and during the crisis, effects of the crisis on selected indicators and identify policy challenges as well as draw initial lessons for policy. This is in an attempt to answer three key research questions, namely: (i) what were the challenges to macroeconomic management and financial sector arising from the recent global financial crisis? (ii)

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5 For detailed discussions on the causes of the current global financial crisis, historical perspectives, its international dimensions, mechanisms through which it was propagated and spread globally is contained in Claessens S., Dell’Ariccia G., Igan D., and Laeven L., (2010).

6 Uganda is one of the low-income countries with an annual GDP of US$ 16billion (2009 estimate) and an income per-capita standing at approximately US$350 per annum.
How has Ugandan policy responded to the challenges paused by the crisis? (iii) What have been the lessons learned so far from the crisis for financial regulation and macroeconomic management? The next four Chapters of this report attempts to answer these questions and provides useful insights for policymakers and future research on this subject.

The rest of the paper is structured as follows: Section 2 reviews the macroeconomic environment before and during the crisis; Section 3 provides a brief overview of the existing literature on the financial crisis with specific focus on LIC. Section 4 describes the dataset, analysis and discussions. The challenges and initial lessons are presented in Section 5. Finally, Section 6 draws the conclusions and broad policy implications.

2. THE MACROECONOMIC ENVIRONMENT

Uganda's external macroeconomic environment was significantly affected by both the direct and indirect impacts of the global financial crisis. The shocks became particularly eminent between 2008H2 and 2009H2 following decline in global demand and confidence among investors which resulted into gradual slip of the global economy into recession\(^7\). This section presents the developments in the external and domestic macroeconomic environment following the onset of the global financial crisis. The section analyses the macroeconomic development in the global economy, among low income Sub-Saharan African (SSA) countries and within Uganda.

In 2009, the global economy contracted by 0.6 percent from the 3.2 percent growth in 2008 and 5.3 percent recorded in 2007 at the onset of the crisis as shown in Figure 2.1. This was as a result of weak international demands and confidence among investors. There were reported fluctuations in prices of financial assets, market indices, currencies exchange rates, commodities prices and interest rates creating unwarranted volatilities around the world. In advance countries, especially in the US, UK and some European countries, huge government interventions had to be taken in order to restore stability and confidence in the financial system and businesses. This was particularly in support of financial institutions which had been weakened by write-down of toxic mortgage assets and derivatives products. This was in marked contrast with the emerging and developing economies

\(^7\) The cause of the economic slowdown among advanced economies arising from the crisis can be attributed to; reduced capability of firms/ corporate to invest due to fall in access to financial resources and the propensity by the private sector to invest was affected by the gloomy economic prospects in the economies hit by the recession.
where growth moderated but remained robust by international standards in 2009. The recent IMF forecast projects the trend to be reversed and that the global economy is expected to experience a very modest recovery during 2010 and 2011. However, this recovery has been attributed chiefly to continued expansion of emerging economies. China and India have especially maintained robust growth in 2009 despite the effects of crisis.

In the years before the crisis, the implementation of economic reforms by low income SSA countries had resulted into sustained macroeconomic stability and robust GDP growth spanning over two decades. Some of these countries enjoyed their highest growth, mainly due to favourable external macroeconomic environment; markets for commodities produced and improved domestic policies. This resounding growth and stability has been reversed by the adverse effects of the global financial and the subsequent economic slowdown as shown in Figure 2.1. According to Lindemann et al, (2009), the medium of transmission of the crisis was through the external; foreign exchange earners for developing countries, namely: commodities exports, Foreign Direct Investment (FDI) inflows, remittances and Official Direct Assistance (ODA) inflows. LIC in particular require strategic approach to address the impact of this crisis on the real economy.

**Figure 2.1: The SSA’s GDP growth rate in comparison with the Global Economy**

The small low income developing economies within SSA have been rather less affected by the crisis because of few toxic derivative products in their finance system and limited integration with the
global financial system. However, large economies and oil-exporting countries such as South Africa and Nigeria who are more integrated with international financial system, saw the effects of the crisis from the beginning, and have continued to struggle with substandard growth rates and domestic banking crises of their own (Green et al., 2010). The economy of South Africa is projected to contract further into 2010 and 2011 having already recorded low growths in 2009. The region as a whole however, registered GDP growth averaging 2.8 percent per annum in 2009 and may expand by 4.5 percent in 2010 despite continued low demand from advanced economies as shown in Table 2.1.

Table 2.1 Average Growth Rates of African Regions (in Annual Percentage change)

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 (Projections)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>3.4</td>
<td>4.0</td>
<td>5.0</td>
<td>2.8</td>
<td>3.6</td>
</tr>
<tr>
<td>East</td>
<td>7.6</td>
<td>8.8</td>
<td>7.3</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>North</td>
<td>5.6</td>
<td>5.3</td>
<td>5.8</td>
<td>3.3</td>
<td>4.1</td>
</tr>
<tr>
<td>South</td>
<td>6.8</td>
<td>7.0</td>
<td>5.2</td>
<td>0.4</td>
<td>4.6</td>
</tr>
<tr>
<td>West</td>
<td>5.1</td>
<td>5.4</td>
<td>5.2</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Africa</td>
<td>6.0</td>
<td>6.1</td>
<td>5.7</td>
<td>2.8</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: African Economic Outlook, AfDB

For the advanced economies and most SSA economies, the worst part of the crisis is already over. However, analysts predict adverse impacts of the second round effects and new shocks from the Eurozone debt crisis to continue to hinder progress on growth and macroeconomic stability among low income SSA countries for sometimes.

The East African Community (EAC) economies moderated at aggregated average growth of 4.2 percent in 2009 as a result of the economic crisis in advanced economies and natural shocks arising from climatic changes. These five EAC countries are expected to recover from the mild slump and

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8 Whereas economic isolation has shielded many developing countries from the direct effects of the global financial crisis, the same lack of integration has also hindered their trade opportunities, and infrastructural development. Despite the stead growth in the global economy for over a decade, low-income countries and fragile states have been most insulated from global shocks, yet they enter the crisis from already weakened economic and political positions.

9 The five countries that constitute the expanded East African Community (EAC) are all LIC by World Bank classifications. The EAC countries are: Burundi, Kenya, Rwanda, Tanzania and Uganda. Southern Sudan has expressed interest in joining the community. However, South Sudan must first secede from the north in a referendum scheduled for January 2010 and meet 75% of the requirements of the EAC customs union which is fully fledged operations.
record significant growth rate of around 5.7 percent in 2010 (MoFPED, 2010). The limited impact of the global recession among EAC members has been attributed to diversification of their economies and increased opportunities for exports trade provided by the regional markets and neighbouring countries such as Sudan, Democratic Republic of Congo (DRC) and Malawi. The integrated market which became fully operational in July 2010 and new opportunities in neighbouring countries are expected to provide momentum for expansion of trade and growth.

Like the other LIC in SSA, Ugandan economy was not directly hit by the financial crisis. However, indirect effects arising from the global economic slowdown began to be observed from 2008H2 in the form of price spikes and depreciation pressure on the shillings. Against this backdrop, Uganda's economy expanded by 5.2 percent in 2009 down from 10.1 percent recorded in 2008 as shown in Table 2.2. The growth achieved during 2009 was however, significant when compared with the rest of Sub-Saharan African economies which had an average growth of 2.1 percent in 2009 (MoFPED, 2010). The fall in GDP growth in 2009 is expected to be replaced by only a weak recovery in 2010.

**Table 2.2 Uganda’s Macroeconomic Indicators in Uganda; FY 2004/2005 to 2008/2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP at Constant 2002 Price (%)</td>
<td>10.0</td>
<td>7.0</td>
<td>8.1</td>
<td>10.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Domestic revenue (in UGX Billions)</td>
<td>1,914.6</td>
<td>2,134.0</td>
<td>2,722.5</td>
<td>3,246.8</td>
<td>3,829.7</td>
</tr>
<tr>
<td>Grants (UGX Billions)</td>
<td>1,255.2</td>
<td>895.8</td>
<td>1,271.0</td>
<td>662.7</td>
<td>913.2</td>
</tr>
<tr>
<td>Net Foreign Assets (UGX Billions)</td>
<td>2,647.5</td>
<td>3,073.6</td>
<td>3,835.4</td>
<td>5,090.7</td>
<td>5,650.7</td>
</tr>
<tr>
<td>Inter Bank-middle FOREX (UGX)</td>
<td>1,780.7</td>
<td>1,831.5</td>
<td>1,723.5</td>
<td>1,720.4</td>
<td>2,137.0</td>
</tr>
<tr>
<td>Inflation rate (CPI) (%)</td>
<td>3.5</td>
<td>8.1</td>
<td>6.0</td>
<td>6.1</td>
<td>12.0</td>
</tr>
</tbody>
</table>

One major side effect of the developments in the global economy was sharp volatility in the shillings exchange rate, which, after showing signs of appreciation in 2009H1, started to depreciate significantly in 2010H1 as shown in Table 2.2. The exchange rate fluctuations had adverse impact on importers of, petroleum, industrial and consumer products. However, renewed appreciation pressure on exchange rate at the end of 2009 as a result of remittance inflows during the festive seasons was observed. This was in line with the other macroeconomic fundamentals within the period.
The drivers of Uganda’s GDP growth in 2009 was the services sector, particularly; the finance, transport and communications which grew by 21 and 20 percent, respectively followed by mining and Quarrying (9.2%) and Manufacturing (8.3%) during the period. Health services sector recovered from a contraction of 4.8 percent and grew by 8.1 percent in 2009 (MoFPED, 2010).

In general, the external macroeconomic environment was volatile during both 2008 and 2009 characterised by slowdown in the global economy, exchange rate depreciation and price spikes. Inflation which had jumped to double digit has already been contained to less than 5 percent by June 2010. The main risk to the economy going forward is the slowdown in exports, reduced current transfers and private capital inflows for investments the crisis in the Euro-zone and the continued depreciation pressure on the shillings witnessed in the last six months.
3. LITERATURE REVIEW

The global financial crisis has received considerable attention and has been widely studied by economist in advanced, emerging as well as low income developing economies. In principal three main schools of thoughts which attempts to explain the origin of the crisis in terms of; monetary easing in the US during the Greenspan era, fiscal imbalance and overly optimistic trading of asset backed securities in the financial markets. The later, sometimes referred to as the assets bubble is common with the causes of the previous financial crisis in Mexico, East Asia, Russia and Argentina. The literature on the causes and initial impact of the financial crisis internationally is already rich and yet its still growing. The focus of this literature search is to highlight genesis, transmission methods and impact of the global economic crisis on LIC.

The genesis and economic impact of the global financial crisis are widely discussed in the literature (see, Claessens et al, 2010; Tumusiime-Mutebile, 2008; Laeven and Valencia, 2008; IMF, 2008, 2009; etc). The literature sights multiple causes of the global financial crisis some were common in features to previous crises while others are new. Some of the common features with previous crisis include: assets price bubble, credit booms (IMF, 2008), marginal loans and systemic risk as well as inadequate regulations and supervision (Laeven and Valencia, 2008). For detailed discussions of each of these factors refer to Calessens, (2009) and Claessens et al (2010). The new dimension played a critical role in the transmission and amplification of the crisis, among these were: the widespread use of complex and opaque financial instruments; the increased interconnectedness among financial markets, nationally and internationally, with the U.S. at the core; the high degree of leverage of financial institutions; and the central role of the household sector (Claessens et al, 2010). These studies provide features of the US and other advanced economies at the on-set of the crisis through to the periods of its transmissions into the global financial system. However, in most of the previous crisis the current accounts of developing countries have been grossly affected leading to exchange and interest rate volatilities.

Internationally, several studies have been conducted since the inception of the crisis in mid-2008. Calessens, (2009) studied the policy challenges for emerging markets and developing countries from the financial crisis using graphical approach on key variables from a number of European countries and found similarities with previous crisis. Others like the IMF, (2009) argued for the need to address inadequacies in macroeconomic policies and the design of the international financial architecture and effective regulatory framework. They suggest that globally, there is need for wider
regulatory reforms and greater cooperation to prevent future crisis. Direct government interventions in forms of rescue packages was witnessed in some advance economies particularly the US and UK have been discouraged since this undermines the market system. For most developing countries, particularly LIC, state intervention is not a possible option given the limited financial resources available. An attempt in that direction will sink the LIC deeper into fiscal deficit. However, they argue for reforms in the regulation, provision of early warning information and strict preventive measures as the main lessons learnt from the crisis.

The crisis was transmitted into LIC, through reduced trade, investment, remittances and aid inflows\textsuperscript{10}. Existing literature have focused on assessing the underlying transmission mechanisms, potential risk, opportunities for competitiveness and consequences on achievements of the poverty eradication and attainment of the millennium development goals among Africa countries (AfDB, 2009; Lindemann et al, 2009, Green et al, 2010) without drawing lessons to guide future policy actions. National surveillance, provision of early warning economic data and policy reforms advocated for as means to maintain macroeconomic and financial stability as well as growth in the medium term. The resultant economic crisis among advanced economies and the subsequent reduced demands have resulted into commodities price volatility. As a result the overall growth in Africa was reduced by 4 percent in 2009 (AERC, 2010). In order to cope with the global economic slowdown, LIC needs to be proactive in reviewing their national and regional policies, as well as making global demands for the share of the world trade and commerce.

In Uganda, the initial impact of the crisis was muted, however; the economy has not been immune to the subsequent global economic slowdown. According to Tumusiime-Mutebile (2008), the finance sector was resilient to the shocks partly because of the strict licensing requirements, limited integration with the global financial systems, and therefore limited exposure to the toxic financial assets. Like other LIC, Uganda is experiencing the second round impact of the crisis in the form of the global economic slowdown. The country is still in the middle of the economic crisis and the impact may last long. Using data up to 2009 to assess the initial impact on the real economy, Sender and Erik von Uexkull, (2009) revealed that there are evidences of the negative effects on real wages, they argue that the crisis has contributed to this in two ways: first, rapid outflows of portfolio

\textsuperscript{10} In the advanced economies, the crises spread quickly through toxic products in the financial markets, lack of liquidity in the banking system, concerns on solvency of banks and insurance firms with toxic products in their books of accounts and loss of confidence among consumers and investors.
investment led to a steep depreciation of the Ugandan shilling from 2008Q4 through to 2009Q2 due to strong exports in neighbouring countries for food products. The second, relates to adjustment of workers compensation on inflation and exchange rates. However, they argue that demand for Uganda’s exports remains strong, both on world markets and within the region. Therefore overcoming supply constraints should unlock strong potential for intensive production, employment and renewed growth. The global economic slowdown has thus led to reshuffling and diversification of Uganda’s export portfolio from formal to informal cross-border trade. Some of Uganda’s traditional export crops, most notably coffee but also tobacco and cocoa, suffered a decline in export value caused by lower world market demand. Import values on the other hand declined during the crisis, partially because of the price effect due to lower world market prices for oil.

The financial crisis in the advance economies may not have affected developing countries directly; in fact it is the effects of the global economic slowdown that has moderated production and growth among LIC. In practice, the impact of the crisis seems to be evolving\textsuperscript{11}, the second round effects looks eminent especially with renewed debt hung in the Euro zone. Therefore corrective policy measures must be sought to ensure long-term stability, growth and development. The literatures (namely, AfDB, 2009 and AERC, 2010) have shown that, there are inflicting features of the short-to medium term burden on economic growth, poverty reduction and development. Uganda’s economy is still in the middle of the confusion and there are possibilities of second round effects.

This brief review shows that most of the causes of the global financial crisis identified in the literature were similar to those of the previous crisis. The genesis was invoked to explain the phenomenon of sustained impact of the global economic slowdown on LIC with weak financial indicators. This is not surprising given that for all countries except the US, their economies experienced various exogenous shocks to macroeconomic variables. Moreover some of the earlier studies were based on sentiments and reflect biased assessment of the evidences on the ground while advancing preconceived ideas. In view of this, this research is of the opinion that there is scope for LIC to benefits from fresh look at the challenges, lessons and policy implications of the crisis.

\textsuperscript{11} Kasekende (2010) argued that, whereas the most acute manifestation of the crisis in terms of the systemic failures in key financial markets around the globe is now over, the repercussions of the financial crisis will be felt for many years to come. This applies developing countries, such as Uganda, which were relatively less badly affected by it as well as to countries where the impact was very severe.
4. DATA, ANALYSIS AND DISCUSSIONS OF RESULTS

In this section we describe the dataset used for the analysis and present their basic properties. The impact of the global financial and economic crisis on Uganda’s economy has been studied before, this paper aimed at building on the previous work through application of more recent analytical tools and data sets including data on fiscal revenue. The study utilizes both the descriptive and graphical analytical tools on a set of macroeconomic variables that are perceived to have huge influence on Uganda’s economy. This is to provide the basis for assessing the challenges, drawing lessons and policy implication for Uganda and other LIC.

4.1. Data Sources and Description

Uganda’s aggregated macroeconomic datasets with monthly, quarterly and annual frequency spanning the period 2000 - 2010 were used in this study. The dataset includes: annual GDP and growth rates, quarterly current accounts balance and import cover ratio, Exchange rates margin and mid-rates, consumer price index (for inflation), external trade, fiscal revenue and interest rates.

Secondary dataset were obtained from the websites, official reports and databases of the Uganda Bureau of Statistics (UBOS), Bank of Uganda (BoU) and Ministry of Finance Planning and Economic Development (MoFPED). Other sources include the International Monetary Fund’s (IMF) International Financial Statistics (IFS) and World Economic Outlook reports.

4.2. Analysis and Discussions

This sub-section presents descriptive and graphical analysis and discussions of the impact of the financial crisis on key macroeconomic variables in Uganda. Given that the crisis has negatively affected some part of the economy, there is need to monitor the impact on key macroeconomic indicators which are critical in ensuring stability.

4.2.1. Descriptive Statistics

Table 4.1 presents summaries of the data mean, variance and median of the variables used in the analysis. The mean GDP growth for the period covered is 7.6 percent. Whereas the variance of import cover and GDP growth were small, there were huge variations in the other variables studied during the period. These results suggest high volatility of macroeconomic variables over the period.
The mean GDP growth rates shows that on average the highest level of growth was robust compared to the other developing countries.

**Table 4.1: Descriptive statistics of the variables**

<table>
<thead>
<tr>
<th>Macroeconomic Variables</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Variance</th>
<th>Median</th>
<th>Mean Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rates (%)</td>
<td>5.2</td>
<td>10.4</td>
<td>7.6</td>
<td>3.0</td>
<td>7.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Current account balance</td>
<td>(582.2)</td>
<td>119.3</td>
<td>(94.9)</td>
<td>19,971.1</td>
<td>(83.3)</td>
<td>98.3</td>
</tr>
<tr>
<td>Import cover (months)</td>
<td>4.8</td>
<td>6.9</td>
<td>5.0</td>
<td>0.3</td>
<td>5.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Bureau spread (Shs.)</td>
<td>0.72</td>
<td>49.2</td>
<td>13.3</td>
<td>80.0</td>
<td>10.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Bureau Mid-rate (Shs./ US$)</td>
<td>1,515.8</td>
<td>2,248.6</td>
<td>1,816.6</td>
<td>20,884.2</td>
<td>1,803.2</td>
<td>109.0</td>
</tr>
</tbody>
</table>

The average current account balance (including grants) was negative in the period covered a sign that despite donor support and capital inflows there is always on average deficit in the current accounts.

**4.2.2 Economic Growth**

The global financial crisis has already caused considerable slowdown in most developed countries. Governments in advanced countries have tried to contain the crisis. Many developing country economies are still growing strongly, but forecasts have been downgraded substantially and the worst is yet to come. The Figure 4.1 reveals that annual GDP which had peaked in 2008 dropped below the average annual growth rate attained for over a decade in 2009. The slowdown in growth has been attributed to the volatility in demands for the export commodities. While economists in the MoFPED are optimistic about strong rebound in growth in 2010, their sentiment depends on the global and regional demands.
Uganda’s economy is currently in a much better fiscal and external position compared to the 1980s and 1990s, the two decade in which the debt stock was high and there was high volatility in growth. The current condition may allow the economy to withstand mild shocks in the medium-term. However, there are still some worrying signs especially the combination of volatile prices and exchange rates.

4.2.2. Balance of Payments Stability

The Figure 4.2 plots two indicators of the extent of Uganda’s Balance of Payments (BOP) stability in terms of: current accounts balance (primary and current balance) and the total external reserve computed as imports cover ratio in future months of imports of goods and services.

Figure 4.2 Balance of Payments Indicators 1996 - 2009
Uganda traditionally runs current account deficits, financed by capital inflows, current transfers and donor support from abroad. The fact that surpluses were recorded in 2003Q4, 2004Q2, 2005Q2, 2005Q4 and 2007Q4 depicted in the figure is evidence of BOP instability during the period. These surpluses reflect the operation of the BOP constraints: in the aftermath of drought (2003 – 2005), the global financial crisis (2008 – 2009), current account surpluses had to be maintained to finance capital outflows. The primary balance in the BOP has a binding constraint on the growth potential of the Ugandan economy during 2009, although alleviated by the normalisation of Uganda’s access to donor support.

The import cover ratio also exhibit considerable instability. However, it was generally appropriate, always exceeding the ratio of three months future imports cover which is normally regarded as prudent by international financial institutions and agencies.

4.2.3 Developments in the exchange rates markets

The behaviours of the Uganda Shillings US$ exchange rates has been erratic throughout the crisis period presenting excessive depreciation and appreciation in 2009Q1 and 2010Q1 respectively. The initial appreciation was attributed to the pressures from the portfolio investment withdrawal from Government securities. The international portfolio investors though Uganda being a low income country was risky at the height of the crisis. These investors liquidated their assets holding, converted them into US$ and repatriated to support investments in advanced economies. The other
pressure on the local currency arose from the reduced export earnings and recurrent transfers creating supply-demand mismatch.

**Figure 4.3 Developments in the Bureau Foreign Exchange markets**

![Figure 4.3 Developments in the Bureau Foreign Exchange markets](image)

The Figure 4.3 reveal that the forex bureau rate spread were more stable in the crisis period. The spread ranged between Shs. 2 and Shs. 5 far much lower than the acceptable level of Sh.50. this shows that despite the depreciation pressure on the shillings, the exchange rate movements remained stable partly due the intervention of the central bank to ensure stability in the market.

In the interbank foreign exchange markets, activities depicted the movements in the Bureau transactions rates. The interbank markets were dominated by the corporate demanding hard currencies for capital investments while injecting forex for investments. The market movement in the inter-bank market is presented in Figure 4.4 below.

**Figure 4.4 The NEER, REER and Exchange rate developments in the Inter-bank markets**

![Figure 4.4 The NEER, REER and Exchange rate developments in the Inter-bank markets](image)
As a result of the intervention in the foreign exchange markets, the net foreign reserves stock and in terms of imports cover declined presented in Figure 4.2. The depreciation pressure on the shillings in 2009 and 2010 is shown by the exchange rate profile over the four years. Figure 4.5 however, reveals that the depreciation pressure is high in the middle of the year with the peak normally occurring in May. Could this be as a result of the reduced donor inflows towards the end of the fiscal years or increased corporate demands for dividends remittances? This requires further research on the cyclical behaviours of exchange rates.

**Figure 4.5 Exchange rate profile during the 12 months of 2007, 2008, 2009 and 2010**
In general the behaviours of exchange rate have witnessed both appreciation and depreciation pressures on the currency. The low volatility during the crisis period can be attributed to reduced aid flows which are normally associated with volatilities. Going forward we see the depreciation trends continuing owing to the volatilities in exports earnings, current transfers and depletion of the foreign reserves. In September 2010, the central bank announced that it will build-up the stocks of foreign reserves by buying US$5 million every week. This move may not cause an outright depreciation of the local unit but may maintain the Shs/ US$ rates above Shs.2,000.

4.2.4. Inflation and Monetary policy

Inflation which had been maintained at a single digit level began to rise in the Fiscal Year 2007/2008 due in part to; the international oil price upward swing, droughts experienced in many parts of the country, exchange rate depreciation making imports expensive and the political crisis in Kenya which interfered with Uganda’s access to the main sea port of Mombasa. The high inflation had a significant negative effect reducing the real GDP for the FY 2008/2009 by over 2 percent as shown in Figure 4.6. However, prudent monetary policy interventions through open market operations have since reduced the inflation rate to less than 4 percent by end June 2010.

Figure 4.6 Real GDP and Inflation rate

Observing the trends in money supply in Figure 4.7 within the period we notice that the total based money was within the desired path. This implies that the inflationary pressures were arising from exogenous factors rather than from the money supply within the economy. High prices were
recorded on food items and petroleum products due to the scarcity as supply was disrupted by natural catastrophe and international oil prices, respectively.

**Figure 4.7 Actual versus desired base money path**

![Graph showing Actual versus desired base money path](image1.png)

**Figure 4.8 Reserves and currency in circulation**

![Graph showing Reserves and currency in circulation](image2.png)

The volatility of the currency deviations in both 2008 and 2009 was the results of attempts by the central bank to quell inflationary pressures using monetary approach to reduce the growth of currency in circulation.
4.2.5 Foreign (International) Trade

Uganda’s foreign or international trade flows with the advanced economies were greatly affected by the economic slowdown in the advanced economies. The exports of coffee and non-coffee products declined during the crisis because of reduced demands. Particularly export items like flowers and fish to Europe were greatly affected leading in some cases to closure of production lines.

**Figure 4.9 Quarterly export trade values**

We notice some volatility in the quarterly trade flows. There is tendency of receded export earnings in the 2010 whereas imports have tended to grow. This has a huge implication on the current accounts balance particularly the terms of trade.

**Figure 4.10 Quarterly import values**
In most LIC export earnings finance the majority of national budgets, so the ramifications for public spending are significant. Government spending and international aid flows, both key players in determining the poverty consequences of the crisis, are operating on a significant time lag from the more immediate transmission channels; how they develop throughout 2010 will be key determinants of long-term resilience or vulnerability of Uganda’s economy.

4.2.6 Tax revenue mobilization

The performance of tax revenue has been below target in the last two fiscal years. This has been attributed to the volatility in the international (customs) revenue taxes. As shown in figure 4.11, customs revenue has been declining relative to domestic taxes. The slow growth in customs revenue has been attributed to the reduced international trade flows as shown in Figure 4.10. Thus Uganda trade flows has a significant impact on the fiscal revenue required to finance recurrent and development expenditures.

**Figure 4.11: Impact of the crisis on tax revenue collections**

There is optimism of recovery of the tax revenue as the global recovery takes shape in most of Uganda’s trading partners. However, the pace of the recovery may be much slower than anticipated and can affect the level of economic growth in the country.
4.2.7 Financial Transfers
Uganda is a net receiver of financial transfers (private and ODA). These are reclassified into current and capital inflows as discussed below.

Current transfers
In Uganda Worker’s remittances remains the single most import source of private transfers. In the recent past, the main sources of remittances to Uganda have been: UK, USA, Kenya and South Africa. Fears of a slump in remittances and large-scale return of migrants have proved largely unfounded. Instead net remittance inflow to Uganda grew from US$723.52 million in 2008 to US$749.70 million in 2009 while exhibiting quarterly volatilities as shown in Figure 4.12.

Figure 4.12: Impact of the crisis on official assistance and remittances

On the other hand there was significant reduction in the amount of Official Direct Assistance (ODA) either in the form of Budget Support and Project aid inflows. This has been attributed the problems in the donor economies. In the same period, we have witnessed upsurge of workers’ remittances constitute the main source of current inflows mainly from the UK, US and South African based Ugandans.

Private Capital flows
Although LIC are not a major recipient of private capital flows or Foreign Direct Investment (FDI), compared with middle incomes and advanced economies, the crisis has had significant effects in some cases. In Uganda capital inflows remained strong in both 2008 and 2009 due to increased demands to finance investments in energy generations, oil exploration, banking industry, manufacturing and telecommunications. FDI in Uganda grew from US$ 356 in 2008 to US$456 in 2009. However, with South Africa being the main ultimate source of most of these FDIs, the contraction of its economy presents a serious concern for Uganda, especially in the telecommunications, wholesale and retail distribution, mining, and energy sectors.

**Figure 4.13: Impact of the crisis on FDI and portfolio investments**

Uganda experienced portfolio outflows at the beginning of 2008. The outflows were attributed to withdrawals of portfolio investors who had bought government of Uganda bonds. There was slight build-up of inflows in 2009 however, the net portfolio investments has remained negative.

**4.2.8. Capital markets developments**

The development of the capital markets in Uganda is still at its infancy. The Uganda Securities Exchange (USE) has 13 companies with equity securities, 4 corporate bonds and several government of Uganda dominated bonds. The volume of trading the market is low and it’s not integrated with
the global financial markets. The U.S. all share indexes fell in 2008 at the height of the crisis as shown in Figure 4.14. The market has since remained volatile.

**Figure 4.14: Evolution of the U.S. all share Index**

![Graph showing the evolution of the U.S. all share Index from January 2006 to November 2008.]

As discussed in this section, while Uganda's banking sector was not affected by the crisis, decreases in trade, private investment flows and foreign demand have detrimentally affected GDP growth of the country as a whole. In general, a depressed external demand has lead to a drop in commodity prices - and thus a reduction in trade - and a decline in capital inflows, including private sector investment, remittances, and service sectors such as tourism.

### 4.3 Assessment of the impact of the crisis on Uganda’s economy

The robust economic growth averaging over 8 percent enjoyed over the past 5 years has been reduced to 5.8 percent by the impact of the economic crisis and other natural factors. Although the sharp rise in global energy and food prices during 2008 inflationary pressures and adverse weather conditions within the same period made the situation even worse. In 2009 economic growth moderated, registering an annual GDP growth rate of 5.8 percent; that is 1.2 percent lower than the growth in 2008. This trend is likely to continue if preventive measures are not taken to stimulate the economy.
On a positive note however, unlike the advanced economies, Uganda’s banking sector remained sound albeit vulnerabilities in the global financial system. The commercial banks and credit institutions were well capitalized with no indications of direct exposure to the toxic products U.S. sub-prime housing market. However, the industry players must exercise restrain with concentration of credits in risky sectors and involvement in “off-balance sheet” derivatives trading. The expansion of Uganda’s the banking system and growing share of foreign exchange denominated assets and liabilities on their balance sheets could pose new risks.

The external economy was volatile characterised with reduced foreign exchange inflows that may compromise investment, consumption and export demand. Global uncertainty, reduced trade and exchange rate volatility may complicate private investments and planning. The sudden exit of offshore investors who had invested in government securities sparked-off episodes of exchange rate volatility and heightened uncertainty in 2008Q4 and 2009Q1. This was further driven by the pressures from the Eurozone debt crisis. Fortunately, the increase in the price of food stuff as a result of improved weather and falling petroleum prices has eased inflationary pressures, to less than 4 percent by June 2010.

5. POLICY CHALLENGES AND INITIAL LESSONS

This section highlights some of the policy challenges and initial lessons from the crisis for Uganda that LIC have to consider for both the immediate impact of the crisis and to prepare them for the global recovery.

5.1. Policy Challenges

The global financial crisis may not have had a direct impact on LIC however; the severity of the contraction of the world output has had a major impact on the region. The economic crisis has affected both the financial and real sectors of most low income countries. The policy challenge from the crisis is already immense and is likely to continue for sometimes. It is therefore imperative to identify the challenges to LIC in order to adopt a more prudent approach to maintain stability and growth. Specifically, in the short-to medium-term Uganda must cope with the added burden of macroeconomic instability, deepening the financial systems and ensuring fiscal austerity. Whereas the current depreciated shilling provides some impetus to promote exports, the high domestic prices
and limited external markets have continued to pose challenges to exporter and producers. Stabilizing prices and ensuring robust GDP growth might require boosts in the form of stimulus packages to key sectors. The limited fiscal resource envelop, low cover from net foreign assets (reserves) and the debt hung in Europe among the PIIGS (Portugal, Ireland Italy, Greece and Spain) pauses great challenge to raising fiscal revenue for expenditure in the short-to medium term.

**Growth and Development:** the crisis has lead to slow down of economic growth and progress in rehabilitation enjoyed by Uganda’s economy in the last two decades. The slowdown was mainly attributed to the economic recession experience by advanced economies in 2009. This slowdown might reverse the achievements in poverty eradication and attainment of the millennium development goals by 2015.

**Financial Sector Stability:** achievement of sustained stability in the financial sector in Uganda will depend on the banking industry’s stability. So far the industry has shown strong resilience to the financial crisis mainly because of the licensing and regulatory requirements. However the growth of foreign currencies dominated assets and liabilities coupled with the increased demand for globalization of banking system poses new threats to the stability of the industry.

**Exchange rate management:** The Uganda shilling depreciated by 30% between June 2008 and December 2009 and further by 10% between January 2010 and July 2010. The depreciation of the shillings has huge impact on the import cost for most of the consumer good. While the depreciation should have been beneficial to the exporters, reduced consumer demand and falling commodities prices in the industrialised economies still affected the export volume and values. Going forward, the shillings have struggled to recover and recently have experienced second round shocks from the Euro-zone crisis among the PIGS (Portugal, Iceland, Greece and Spain). Volatility in private capital inflow, remittance to non-governmental organisations, official development assistance trade and worker’s remittances inflows will greatly affect the stability of the shillings in the future.

**Inflation:** the crisis brought to light inflationary pressures mainly arising from exogenous factors related to the depreciation effects of the shillings on imports, international oil prices movement and weather vagaries. The prolonged period of droughts affected agricultural output which was reflected in the food prices – the major driver of headline inflation in 2009. It peaked around 2009Q3
reaching the height of 14 percent per annum. The inflationary pressures generated macroeconomic volatilities that affected domestic consumption, private sector investments and markets. Whereas significant progress has been made to contain inflation to a single digit (below 4 percent) by end June 2010, there are risks reversals as a result of the second round effects.

**Fiscal revenue** the ultimate impact of the recession on the advanced economies affected fiscal revenue from two formats. First the country has experienced reduced disbursements of official development assistance and donor pledges. This is because most donors in advanced economies have been hit hard by the crisis. This change in donor behaviour is likely to significantly affect the ongoing infrastructure developments which are urgently required for access of markets and social services. The second is the reduced international trade earnings and customs revenue. The customs revenue which is that most important source of revenue experience significantly decline both Fiscal Year (FY) 2008/2009 and FY 2009/2010. The performance on domestic tax however, remained robust mainly because most of the companies were not affected by domestic.

**The international petroleum (oil) price** there was an upswing in the international petroleum prices in 2008Q4 which has left the local pump price volatile throughout the crisis period. The local pump prices rose from UGX 1,950 (US$ 1) to UGX 3,800 (US$1.8). This volatility transmitted into transportation cost and thermal electricity generation cost which are critical in determining the cost of production. The result has been the cost push inflation as producers shift the increased cost of production and distribution to the consumers.

In general, the crisis and the subsequent global recessions have begun to have negative impact on Uganda’s economy. In the short-to medium-term, Uganda must cope with the added burden of macroeconomic instability, developing the financial systems and ensuring fiscal austerity. The challenges going forward are to finance the fiscal expenditure, ensure stable prices for commodities in both the domestic markets and for exports. Whereas the current depreciated shilling provides some impetus to promote exports, the high domestic prices and limited external markets have continued to pose challenges to exporter and producers. Stabilizing prices and ensuring robust GDP growth might require boosts in the form of stimulus packages to key sectors in the face of reduced domestic tax collection and donor inflows. The limited fiscal resource envelop, low cover from net foreign assets (reserves) and the continued debt hung among the PIGS countries in the
Euro-zone pauses new challenge to macroeconomic stability in the short-to medium-term and would require prudent approach in order to maintain growth.

5.2. Initial Lessons and Policy Response

The global financial crisis and the subsequent recession have reopened policy debate on the future macroeconomic stability, growth poverty reduction efforts and attainment of the millennium development goals by low income countries. The crisis has provided several challenges from which to draw the initial lessons for medium term policy on financial sector and fiscal management discussed in this section.

Financial surveillance and regulations: the licensing requirements for finance institutions in the Financial Institutions Act (FIA) 2004 requires that all banks be licensed as an independent legal entity from its parent in Uganda. This FIA requirement was instrumental in curtailing the transmission of toxic products and write-offs to the local bank balance sheet from their multilateral partners. The regulatory framework should spell out the treatment of financial derivatives and other money market products held in commercial bank’s balance sheet, address concentration of credits in risky sector and guard against risk from assets price bubbles.

The policy response to financial institutions stability: ensuring critical monitoring of indicators and adopting the BASEL risk based supervision approach to financial institutional surveillance mechanism. The central bank must ensured prudent regulation of the financial sector to account for all systemically important institutions and the entire risk profile of off-balance sheet items. A financial stability department has been set-up in BOU to provide regular review and oversight of the sector. Further stringent requirements for real-time economic data is required from UBOS, BoU, MOFPED, NPA and line ministries to provide early warning signals.

The crisis therefore presents an opportunity for long-term financial sector reforms for emerging market economies and developing countries. It is therefore important that LIC understands the crisis in advanced countries in order to implement their own reforms. LIC need to regulate financial innovations and credit rating agencies which have been at the centre of creation of complex. Globally there is need to evolve a new financial order (through IMF and World Bank) and provision of early warning signals in an event of risk to one sector of the economy.
Macroeconomic Policy lessons
The crisis has shown that macroeconomists and central bankers knew less than what they thought they did. Looking forward, macroeconomic policy framework should be redesigned to implement the lessons from the crisis. These lessons involve the objective of monetary policy, the nexus of monetary and regulatory policy, and fiscal policy.

Monetary policy: the crisis has shown that the central bank should focus on maintaining stability of the monetary systems. This is particularly in respect to exchange and inflation rates which experienced immediate shock at the onset of the crisis. BoU’s conduct of monetary policy should be responsive and able to withstand the shocks from the global financial system and ensure that it does not become a medium of transmission of future crisis.

The policy response to monetary policy was to ensure flexibility in monetary operations to facilitate real sector adjustment to short term shocks, while remaining focused on long term price stability. This requires an appropriate balance between base money & short term liquidity needs of banks to maintain stability. Foreign exchange management through period intervention in the Inter-bank Foreign Exchange Market (IFEM) is required to ensure market stability. However, this implies maintenance of adequate foreign exchange reserves. BoU needs to adopt of inflation targeting framework upon attainment of the preconditions. Inflation targeting will allow for greater flexibility of monetary policy. Finally the bank should engage in regular, proactive and clear communication of framework for monetary policy actions and economic outlook, to reduce the information asymmetry and guide public expectations.

Diversification of trading partners and source of capital: Considering the damage associated with the crisis, some LIC may be tempted to consider protectionism in trade and capital flows. This will present a policy a serious policy mistake. The crisis should be regarded as an opportunity for LIC to stay global but also strengthen domestic market and regional integration. This strategy should be applicable to capital flows as well as foreign trade. Dependence on one or two commodities or markets increases the risk in case of shocks to the key economies. The degree and nature of integration with the global trading system, particularly exports of commodities, has also proved a source of vulnerability. Uganda needs to diversify its exports
away from the EU countries and North America to regional trading bloc within the SSA countries. In the medium-term Uganda can take advantage of the expanded market opportunities created by the coming into operation of the EACCUs and other regional integration initiatives to market its products consumed within the region. This should be coupled with encouraging value addition to export commodities to earn attractive prices as well as for ease of storage.

**Realignment of fiscal policy and management:** Fiscal consolidations inform of increased domestic revenue mobilization and reduced recurrent expenditure coupled with close monitoring is required to ensure growth and stability. There is need to reduce donor dependence both on project and budget support financing while soughing out alternative sources of revenue. The ongoing investments in infrastructure projects particularly in electricity generation and roads infrastructures will provide stimulus for the private sector growth. There is need to reduce recurrent expenditure and focus efforts on development projects particularly those with direct impact on poverty eradication. The long-term stability of Uganda’s economy depends on its ability to generate sufficient fiscal revenue to finance its capital and recurrent budget. The large and growing fiscal deficit is a major source of risk and encouraging borrowings.

**Regional integration and industrial dynamism** the advanced economies coordinated their policy actions as part of their response to the global financial crisis. Low income Countries should also do the same if they are to avoid economic slump but long-term growth and maintain stability. The EAC economies, with broadly similar characteristics, would benefit from policy coordination in times of crisis. Greater policy coordination among these countries in the short term would require economic policy harmonization and united response to international financial crisis.

**Direct state interventions** while direct state intervention has been instrumental in rescuing weak companies in the US, UK and now Greece, LIC cannot afford to raise such funds to support its private sector. The alternative in forms of subsidies and tax cut will only worsen the fiscal revenue positions of these governments. Therefore LIC, “prevention is better than cure”. Against this background Uganda has strengthen the regulation of the financial systems and other sectors that are prone to the risk from the financial crisis.
Communication and continuous monitoring of the impact: in many cases information asymmetry escalates a small crisis into a deep problem. In Uganda cautious communications especially of monetary policy through the monthly monetary policy report has strengthen confidence of the public in the ability of the government to manage the crisis. Communication is considered one of the best responses because it keeps the ground in touch with policy, provide real-time information on the impact of the crisis, and reenergize public confidence on policy direction.

5.3. Outlook for Uganda’s economy
The direct effects of the global financial crisis may have receded in the advanced economies however; the resultant recession and unemployment created in the aftermath still present significant threats to low income countries whose economies are reliant of inflows from the West. Uganda’s economy has experienced negative impact of the crisis which is likely to continue into foreseeable future.

The major risk are likely to arise from the low savings to finance investments often reflected as the current account gaps, dependence on foreign private capital in form of portfolio investment and FDI to finance private sector growth, growing external debts stocks, fall in foreign exchange reserves assets holdings and depreciation pressure on the shillings. However, there is room for optimism following the recovery of most of her trading partners in the last three quarters. From the optimistic point, the economy is likely to expand by approximately 6.5 percent in 2010.
6. CONCLUSIONS AND POLICY IMPLICATIONS

This study has investigated the impact of the global financial crisis, policy challenges and initial lessons from Uganda. The study was motivated by three questions raised by the objectives of and the impact of the financial crisis on low income countries. Our point of departure was that an understanding of the impacts challenges and initial policy lessons will shed light to policymakers and future researchers on the impact of the crisis in low income countries using Uganda as a case study.

To this end the research applied both descriptive analysis and graphical illustration to show the impact of the crisis on Uganda’s economy. It is evident that the financial crisis has brought a number of weaknesses in macroeconomic policy, global financial architectures and regulation and timely datasets into more scrutiny. The results of our analysis can be summarised into six concluding points that may require reforms to adverse future crisis, as follows:

- Economic growth: there was slowdown in the growth of GDP as a result of the crisis. This is expected to recover as the global economy picks up from the recession.

- Banking Sector Stability: the banking sector in Uganda remained stable and robust despite the financial crisis in the industrialised economy. This was mainly because of the limited exposure to the toxic products and the level of integration of Uganda’s banking industry with the global financial systems.

- Exchange rates: was one of the macroeconomic variables to be affected by the shocks to the financial system in Uganda. The shillings witnessed double depreciation pressures between 2008Q3 and 2010Q2 which a slight appreciation in mid 2009.

- Trade flows: the findings in the trade flow revealed that the amount of exports declined as a result of reduced demands for some products in the industrialised economies. Imports on the other hand have experienced increases though that has not translated into increased customs revenue.

- Flows in the forms of current transfers and capital flows have began to declines especially for the ODA. Though the private flows are still growing and high by regional standards there is cause to worry about the impact long-terms impact on deficit financing.

- Interest rates
A proper interpretation of the findings for the purpose of informing national policy requires due cognisance of the possible reforms in the finance sector and other changes in the interaction of Uganda’s economy with the global economy. For example, Uganda’s integration into the world economy characterised by trade and transfers has subjected Uganda’s economy to external shocks. Such shock is the source of the reduced growth the country experienced in 2009. An attempt was made to capture the impact of the shock on the economy through trade, exchange movements and fiscal changes which have all proved to be critical in explaining the long-term implications of the crisis. In addition, the renewed opportunity offered by regional integration was explored. In particular the East African Community and Southern Sudan offered increased alternative markets for exports of produce and manufactured goods at the height of the global economic slowdown.

The policy implications drawn from the study is that, there is need for prudent and flexible macroeconomic management together with smarter financial sector regulation will enable Uganda maintain sound economic fundamentals and adjust to the current economic slowdown and any second round effects of the financial crisis. This should be coupled with proactive macroeconomic policy communications by the central bank and the ministry of finance aimed at aligning market perceptions and expectations with the policymakers’ view of economic developments. This will provide potent policy tool for our small open economy in times of crisis.
REFERENCES


