Economic Overview - 2020

Economic Outlook - 2021

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Section 1: Foreword

Foreword

Greetings from Grant Thornton Uganda!

Uganda's economy experienced a downturn in growth due to the severe impact of the COVID-19 pandemic. This slow growth was precipitated by the impact of lockdown measures implemented by the government to curb the spread of the COVID-19 virus. As such, the economy grew by approximately 3.1% in 2020 compared to 6.8% in 2019. Exports, tourism, remittances, Foreign Direct Investments (FDI) among others, contracted in 2020 due to international trade disruptions and travel embargos. This created both fiscal and trade imbalance as well as a reduction in growth in services, especially in real estate activities as well as trade and commerce.

The government through the Bank of Uganda intervened to mitigate the impact of the pandemic on businesses and households, by implementing prudent monetary policies to ensure that the financial sector remains resilient in the face of vulnerabilities from the economic disruption caused by the pandemic. With the ongoing vaccine roll out around the world, we expect to see an accelerated recovery of the economy. Companies are confident that output as well as demand will increase over the coming years with many businesses reflecting expansion plans. On a macroeconomic level, growth is expected to stem from public investment in infrastructure, higher agricultural output due to improved weather conditions forecast for the year and increased government efforts in improving agriculture.

The country's political and security environment has remained relatively stable, although there is uncertainty surrounding the upcoming presidential elections. In response to this uncertainty, the government of Uganda has assured citizens and the entire business fraternity; peace and stability throughout the election period. It should be noted that if the promise of peace and stability does not materialise, the risk of stressed public finances and macroeconomic instability will be heightened.

Our economic overview/outlook is drafter to enable the reader to have a pronounced understanding of our economy from both a retrospective and forward-looking perspective. We hope that this report can provide useful insight as you prepare to make and implement business decisions and plans this year.

In conclusion, I would like to take this opportunity to encourage you to go forward through this year with increased vigor and optimism despite the tough year that was 2020. As Grant Thornton, we have taken it upon ourselves to uphold our values through these desperate times and provide greater client support and towards building stronger relationships. We wish you luck, prosperity and health this year as we look forward to continuing to serve you to our fullest potential.

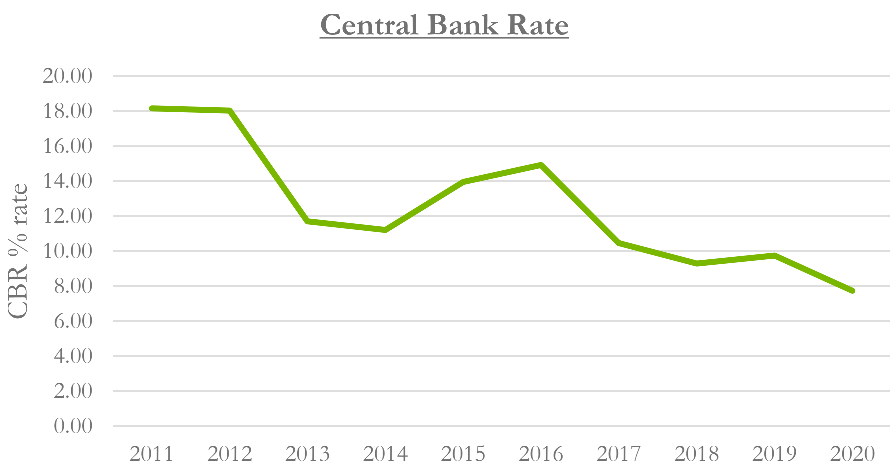
Anil Patel - Managing Partner

Section 2: Macroeconomic Analysis

Macro-economic analysis

Monetary policy

The central bank undertook extensive policy measures that saw it ease its monetary policy stance further in June 2020. The Central Bank Rate (CBR) that ranged between 9%-8% toward the end of Q4 of 2019 and in Q1-Q2 of 2020, was lowered further by 1% point to 7% in June 2020 and has since been maintained at that level. This stance is aimed at providing liquidity support to the economy through supervised financial institutions to soften the negative impact of COVID-19 on private sector credit in the economy.



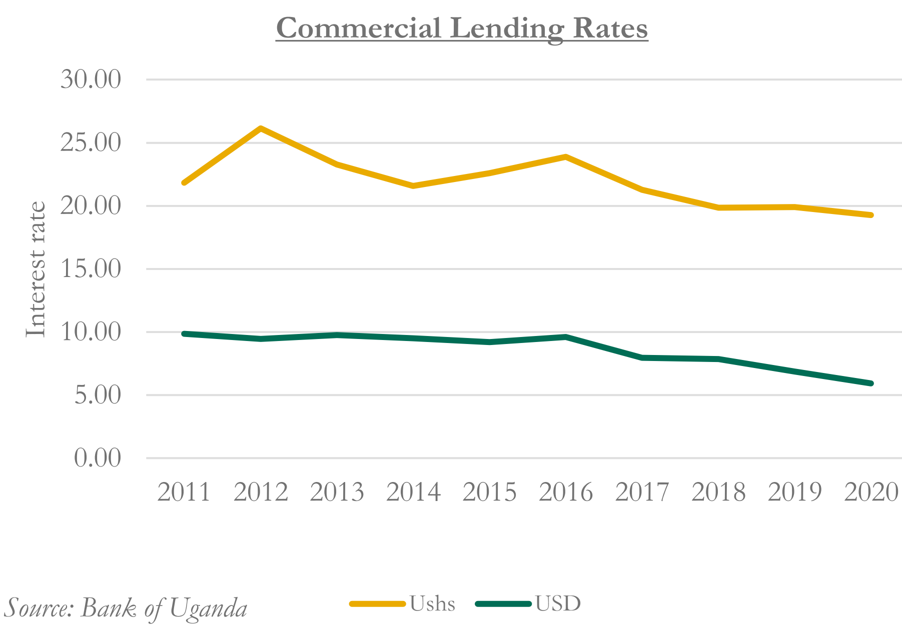
Source: Bank of Uganda

Private sector lending

Commercial bank lending rates remained relatively stable ranging between 17%-20% and rising slightly in the quarter ended July 2020. Despite sustained pressure on commercial banks from Bank of Uganda to lower their prime lending rates in line with the CBR, lending rates on shilling denominated loans dipped shortly to range between 17%-18% in the months of March to April 2020 and returning to 20% in the months to July 2020.

Private sector credit growth remained subdued on account of the slow down in economic activity due to the pandemic, growing non-performing loans and continued deterioration of asset quality held by banks. Year-on-year private sector credit growth declined by 1.3% to 7.6% in the quarter ended October 2020 from 8.9% in the previous quarter. Shilling denominated loans grew by 9.8% while dollar denominated loans grew by 3.4% marking a drop from the 10.9% and 5.1% registered in the previous quarter.

Average annual credit growth to the agriculture, manufacturing, trade, personal, construction and real estate sectors grew/declined by 4.1%, -0.4%, 0.7%, 7.0% and 9.6%, respectively in the quarter ended October 2020 all lower compared to the growth posted in the previous quarters.



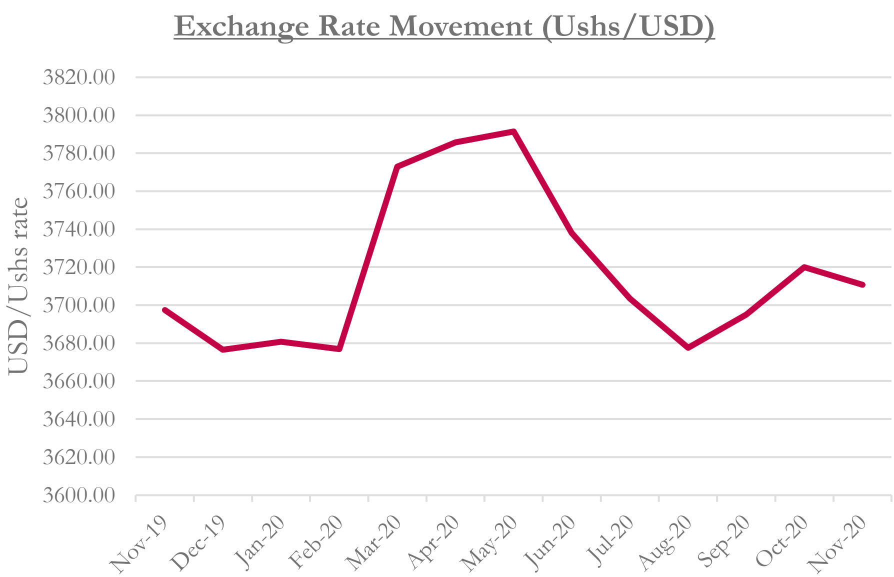
Source: Bank of Uganda

Macro-economic analysis

Exchange rate

The shilling remained stable showing relative trends of appreciation against the dollar with latest data showing an average month on month appreciation of 0.2% against the dollar trading at an average mid-rate of 3,710/USD. This partly reflects subdued demand in the economy because of the pandemic.

The central bank expects the exchange rate to remain stable throughout 2021 on account of matched corporate activity, expected foreign exchange inflows and projected depreciation of the dollar against other international reserve currencies. As the election season progresses however, there may be slight depreciation of the shilling on account of increased government spending and feared political instability.



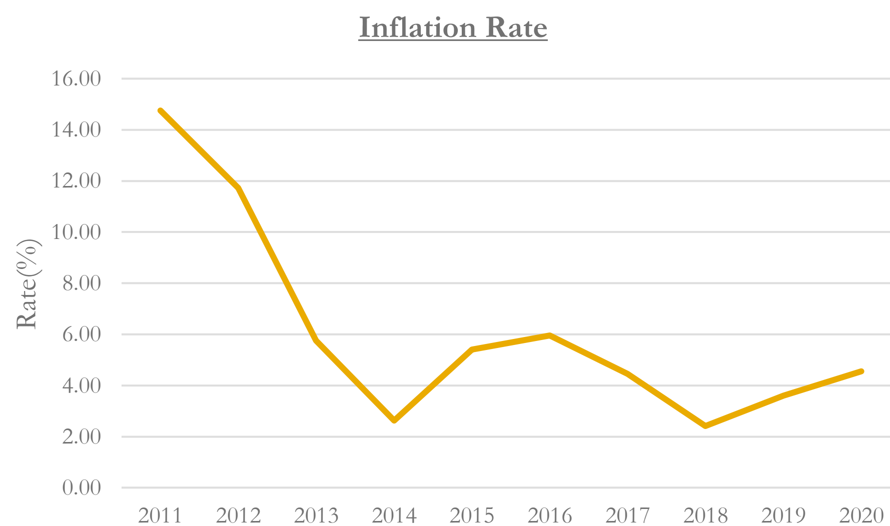
Source: Bank of Uganda

Inflation

Inflation remained mild in the economy ranging between 3%-5% with headline inflation dipping to 3.7% in November 2020 from 4.5% in October. Core inflation declined by 0.5% to 5.8% over the same period largely on account of a decline in services inflation.

Food crops inflation fell to -7.0% in the year ending December 2020 from 3.4% recorded in the same period of 2019 as good weather brought in increased harvests and lower food prices. Energy and utilities inflation declined to -4.6% from 8.8% over the same period on account of lower prices for solid fuels like charcoal and cooking gas.

Inflation is expected to rise as the economy recovers from the slow down and aggregate demand picks up. Increased travel and resurgence of other sectors such as education and hospitality will also contribute to an increase in inflation in 2021.



Source: Bank of Uganda

Section 3: Sector Analysis

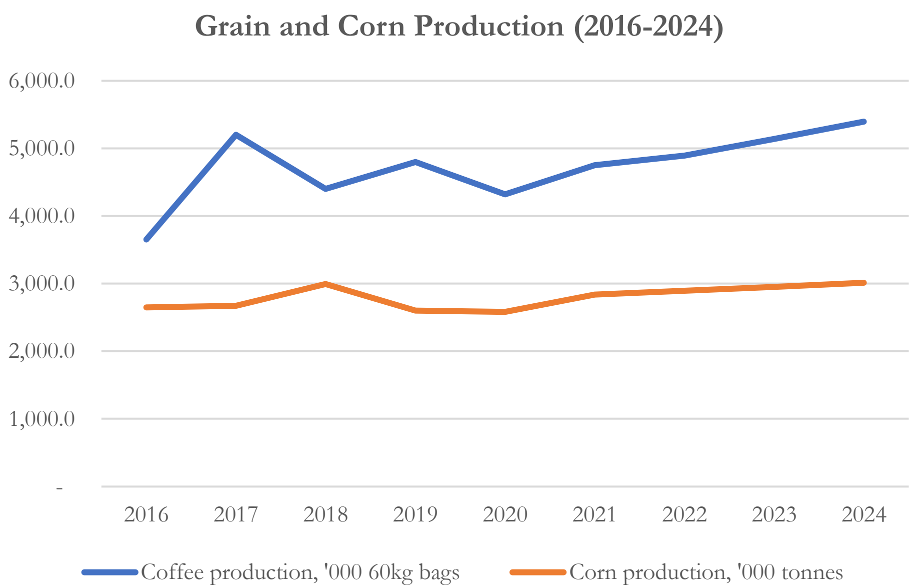
Agriculture

Overview

Agriculture remains a core sector and the largest employer in Uganda's economy The sector accounts for 45% of exports and 24% of the GDP. However, performance declined in 2020 due to the impact of COVID-19 on the sector.

The main crop type in the year 2020 was cereals which consisted of maize, finger millet, and grain sorghum as the top 3 cereal crops. In terms of production volumes, rice, maize, and potatoes recorded the highest growth, mainly because of area expansion and favorable weather conditions. Furthermore, maize and rice production is to further increase after the introduction of drought-resistant seed varieties in the market.

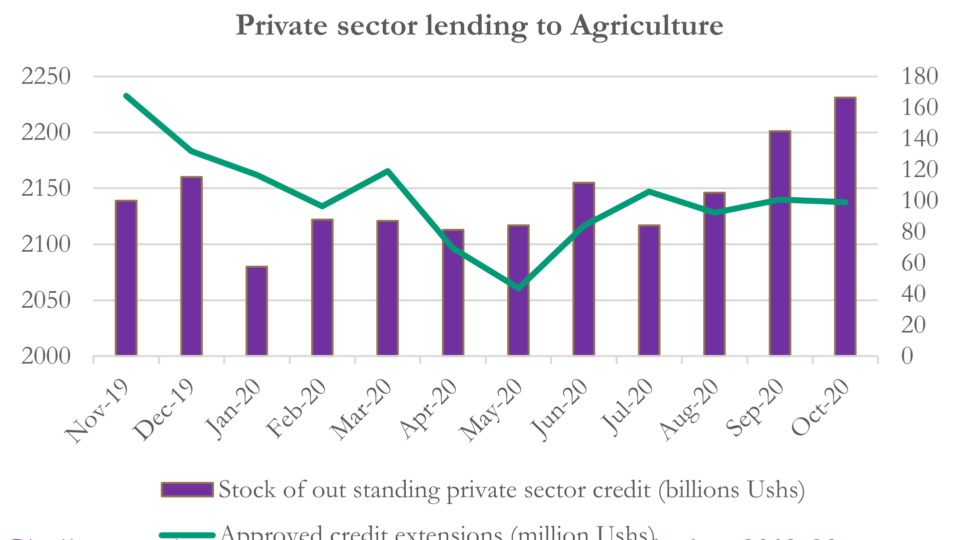
The sector continued to prove its fundamental importance in the economy, as the main source of raw materials for agro-processing industries accounting for approximately 60% of manufacturing.



Private sector lending to the sector

There has been a gradual increase in the stock of outstanding private sector credit to the agricultural industry. There was a 0.6% increase in the stock of outstanding private sector credit in October 2020 to Ush 17,318.60 billion up from Ush 17,221.47 billion in September 2020.

Credit extensions to the agricultural sector declined mainly due to the effect of the pandemic. The largest decline happened in May 2020 however, the credit extensions recovered from June through to October 2020 as illustrated below.



Challenges the agricultural sector encountered during 2019-20

- Desert locust invasion in the North western part of the country that destroyed several crops in the area.
- Flooding of rivers and lakes due to the increase of water levels for example in lake Victoria which caused disruption in production and productivity as well as destroyed several crops.

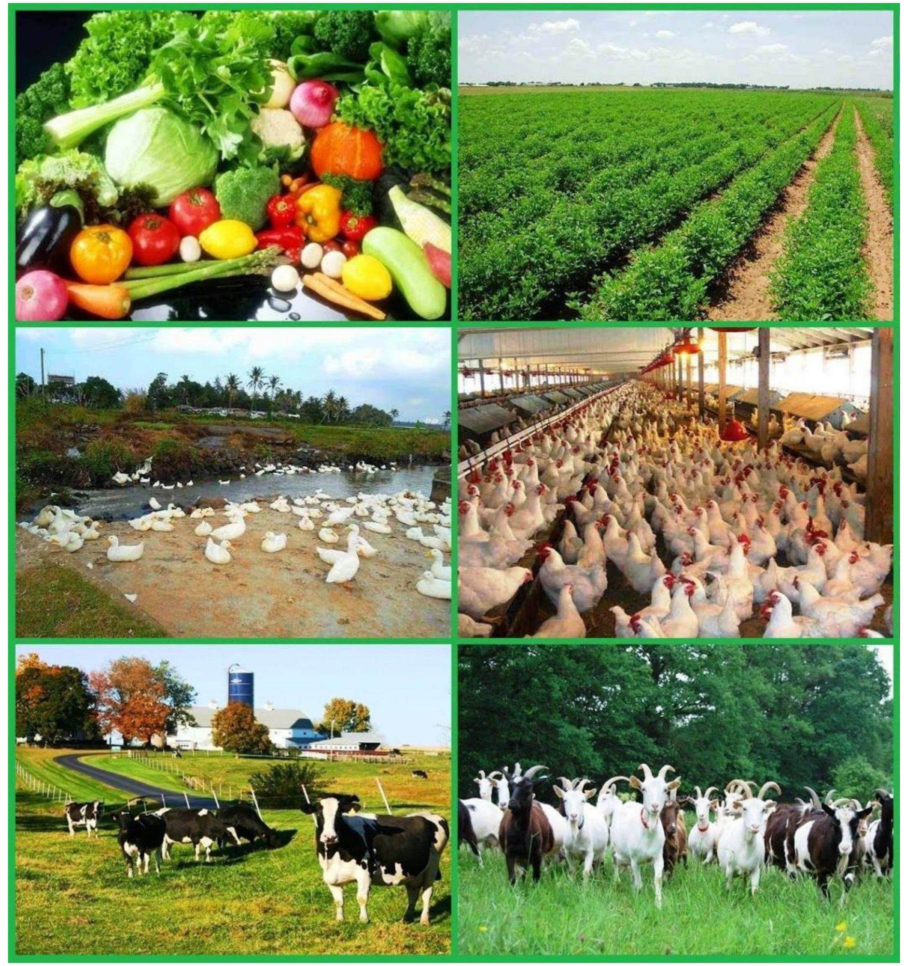
Agriculture

Challenges the agricultural sector encountered during 2019-20 *(continued)*

- COVID-19 pandemic disrupted trade of the agricultural products since farmers could not organize markets to trade their products.
- Lack of proper seed regulation and inspection where some seeds which are not fit to be planted are sold to farmers.
- Lack of information flow to farmers about improved seeds and production techniques brought about by limited research in this sector.
- The industry remains largely dependant on approximately 500,000 small holder farmers of which 90% of the farmers hold farms between 0.5-2.5 hectares.
- Low mechanisation and infrequent use of fertiliser making the sector overly dependent on weather conditions.

The impact of COVID-19 on agricultural markets in 2020

- Quarantine and social distancing, reduced demand and disrupted supply chains forcing many businesses to close.
- Limited connectivity and digital skills amongst small businesses made shifting operations to online platforms very challenging.
- Input dealers reported a reduction in sales by more than 40% while medium to large scale producers and food processing companies were challenged with limited access to labour *(Hon. Vincent Sempijja, Minister of Agriculture)*



Oil and Gas

Overview

Uganda's oil and gas sector faced significant headwinds in 2020 largely driven by global developments and domestic policy related issues. The low price of oil on the global market was exacerbated by the negative impact of the COVID-19 pandemic that saw global oil, West Texas Intermediate (WTI), prices collapse to negative in April 2020, a world first in oil trading history. This was largely driven by the decline in economic activity that saw global transportation grind to a halt earlier in the year as many countries implemented lockdowns.

The knock-on effects of these developments saw the sector face increased policy delays as the Final Investment Decision (FID) was deferred due to rising economic uncertainty.

Oil and gas exploration in the country was directly affected by the above developments which saw activities in this segment decrease. The second licensing round for five new blocks in the Albertine Graben basin received, even after extension of the deadline for submission of interests, very low reception from key sector players who reduced investments in their global operations due to economic uncertainty brought about by the pandemic.

Latest updates and key facts

- In 2020, Uganda saw the execution of its second licencing round of oil and gas exploration that started in September 2019 continue after the discovery of five new blocks in the Albertine Graben basin. The deadline for completion was extended to September 2020 due to the pandemic.
- In May 2020, a tripartite agreement between Tullow, Total and the government was finally reached clearing up tax issues as well as Tullow agreeing to sell its entire Uganda oil block interest to Total for USD 575 million.
- One of the most important steps that was taken towards reaching FID 2020 concerned clearing up of the long running tax dispute and divestment. The tax and fiscal issue was one of the main problems holding the project back, as partners waited for the farm-down deal to kick start the project.

As per targets, crude oil exports are projected to exceed 150,000 barrels per day by the end of 2024. Nonetheless, unless the Hoima refinery comes online and reaches higher utilization rates, Uganda will remain heavily dependent on refined fuel imports to satisfy its domestic consumption.

Key attributes of oil sector in Uganda

The 2.5 billion barrels of crude reserves confirmed will present great opportunities for the country as well as the region. This will ensure the exploration of substantial underexplored acreage which will be used for expansion of the refinery.

The anticipated oil production will be a source of employment as well as government revenue from the sales made. Moreover, opportunities for regional and international crude oil and refined fuels exports will provide a large market for the oil yet to be produced.

Key weakness in the sector include; lack of existing infrastructure, limited local services capacity as well as insufficiently skilled labour to work in the oil fields and refinery.

Construction in Uganda

Overview

By and large, the construction industry was severely affected by the widespread disruption in the economic activity caused by the COVID-19 pandemic. Despite the stimulus packages, sharp cuts in interest rates and other unprecedented policy measures across all major markets, the construction industry's performance was slow in 2020 and is likely to be restrained beyond the immediate period of lockdowns and other containment measures due to the drop in investment, with planned projects being delayed or cancelled. The negative impact of COVID-19 on the country's construction industry brought the construction industry growth for 2020 to 4.4%, down from 6.1% in 2019.

Despite this, Uganda has been relatively stable despite the COVID-19 pandemic compared to many of its regional peers in Sub-Saharan Africa. This has been linked to the construction projects in the energy and hydrocarbon-related infrastructure as well as the transport space. Uganda outperformed in the Industry Rewards profile by the regional average score. The country has improved its regional ranking out of the 18 countries and moved to seventh place, closely trailed by Ethiopia. According to Fitch Solutions Infrastructure Risk/Reward Index(RRI) which ranks a country's attractiveness in the context of the infrastructure based on the balance between the risks and rewards of entering and operating in different countries, Uganda's RRI score is 45.0/100.

Outlook

- Elevated political, economic and operational risks still plague Uganda's business environment. Social tensions remain elevated in the run up to the January 2021 elections. This will stem from the government's heavy-handed approach to dealing with political dissent.
- China continues to play an active role in financing infrastructure projects in Uganda, particularly in the energy and transportation infrastructure. Some of the projects include upgrading roads, Ayago Hydroelectric Power Station on River Nile, solar photovoltaic, among others.
- To recover swiftly from the negative impact of COVID-19, the construction industry is expected to grow by 5.6% in 2021 due to the respective infrastructure developments mentioned in the National Development Plan III 2020-21 to 2024-25 such as agro-industrial plants for fertilizers, tractor assembling and irrigation, establishments of steel and oil industries, tourism projects such as Mt. Rwenzori, Mt. Elgon and wildlife parks as well as construction of industrial parks to cater for manufacturers among others.
- Government oil revenues and increased public spending will elevate the long-term year on year growth rates of the construction industry with a forecasted annual growth rate averaging at approximately 5.1%.

Real Estate

Overview

The COVID-19 pandemic brought the real estate sector to a standstill for 8 weeks in response to the full lockdown measures the country was subjected to. Different real estate sub-sectors were affected in different ways, with the retail sub-sector being affected the most.

Residential Sector

The residential sector performance was not spared from the effects of the lockdown. Leasing and sales activity ceased, as viewings were not possible. The residential sector which was already suffering from weak demand, found it difficult to launch new projects and/or complete the ongoing ones due to construction halts and labour shortages. The transactions which were in the process of being concluded were put on hold, and were later slowly revived. The mass exodus of foreign nationals back to their home countries at the announcement of lockdown in Uganda left the fate of many tenancies for private rented properties in limbo.

The first half of 2020 recorded an 11% increment in the supply of residential apartment units from 2,006 units in H1 of 2019 to 2,230 units. The increase in stock vis-à-vis the low demand forced some landlords to discount their rents so as to be more competitive and reduce voids given the slow economic trend.

Closed airports and restricted air travel globally stifled demand for prime rental property from expatriates. Outlook on future rental appreciation is negative and rents will either remain stagnant or slide under the current uncertain economic conditions. The pandemic impacted investor confidence and cashflows, which deferred real estate purchase decisions. The net cash flows of residential developers declined on account of the COVID-19 pandemic.

Office Sector

The start of 2020 seemed promising with regards to increased inquiries and interest in office space for rent on the back of a tight demand side that had been experienced by the market in this sector throughout 2019.

Most of these inquiries were from local and multi-national corporate organisations headquartered in countries which were affected by the pandemic earlier than most. As a result, many of these inquiries have been put on hold as countries emerge from lock down.

There was liquidity pressure on tenants which led them to request for lease concessions with particular reference to rent payment or reduction of their contractual obligations. There was approximately a 10% to 20% reduction on net annual rent collections for prime office properties this year.

The office sector was affected by Covid-19 as follows;

1. Low density use of buildings as a result of social distancing meant constricting margins and lower profitability for businesses, particularly SMEs.
2. There were falling rents and capital values particularly in sub-prime properties where majority of tenants are from the SME sector and are unable to leverage off the balance sheets or financial support of global parent companies.
3. It is probable that the pandemic will have a long-term impact on real estate debt given that the commercial real estate market is heavily debt dependent.

Retail Space

In the first quarter of 2020, retail in general was buoyant as the sector was anticipating a great year ahead. Then as the world succumbed to the COVID-19 pandemic, with manufacturing closed, supply chains affected, retailers struggled to get products to the shelves, and in early March, stock gaps started to impact sales. The end of March conversely saw sales increase significantly due to panic buying and stock piling by consumers foreseeing the impending lockdowns. The retail industry as a whole was closed down in phases from March 20, 2020, starting with leisure and entertainment operators. On the April 1, 2020, all retail was shut down, save for essential services such as supermarkets, financial institutions, pharmacies and medical facilities.

Real Estate

The reduction in sales for April (total lockdown and curfew) for essential services was attributed to the restriction on all forms of transport, making it very difficult for consumers to get to the malls, and also reflects the state of the economy with consumer incomes under pressure due to layoffs, reduced salaries and redundancies leading to reduced spending.

Both retailers and retail landlords saw the lockdown measures impact their businesses negatively. The outlook after lockdown for retail trading was uncertain, and most landlords undertook to give stimulus solutions to their tenants on a case-by-case basis, so as to allow deferred rentals for up to 6 months. The main purpose to achieve an optimum outcome which balances the consequences of the lockdown on both parties, against the symbiotic and mutual relationship needed for retail business to succeed.

Furthermore, retail rental rates remained stable in the first quarter of 2020 but contracted during and after lockdown.

Industrial Sector

The COVID-19 pandemic led to supply chain disruptions in the Industrial sector which negatively impacted performance. When China shut down business at the beginning of the year in their fight to contain the pandemic, imports into the country stopped, affecting traders, wholesale and retail business which is the biggest source of demand for storage space. Entire logistics and supply chains were affected as trucks from neighbouring East African countries piled up at the border as they went through the testing and tracking process before being allowed to proceed.

Reduced disposable income as a result of diminished economic activity reduced demand for manufactured goods and services. This continued for the rest of the year and had a profound impact on rents and capital values.

Tourism

Overview and Performance

Tourism is one of Uganda's top foreign exchange earners, contributing over 7% to the total National Gross Domestic Product and 6.7% to total National employment. However, with the impact of the COVID-19 pandemic, the sector was negatively affected. With the most lucrative tourist centres being the epicentre of COVID-19, the government announced lockdown measures to contain the spread of the virus to both humans and animals. These included; travel embargos, closure of the airport, among others. These measures affected the sector's performance and as a result there was a 60% decline in the sector's performance.

In October 2020, Uganda reopened the country for international tourism while still maintaining safety measures as an incentive to kickstart the tourism sector amidst the COVID-19 pandemic. These safety precautions resulted in Uganda being awarded the 'Safer Tourism Seal' from Rebuilding Travel.

7%

Tourism's Contribution to GDP

On October 28, 2020, the World Bank and the Swedish government signed a partnership agreement of USD 3.3 million to support nature-based tourism in Uganda. These funds will be disbursed for a period of 2 years and will mainly contribute in the elevation of the industry by increasing jobs, revenue and foreign exchange earnings in the future.

As a measure to stimulate the tourism sector, Uganda provided incentives such as price cuts in national parks, additional gorilla permits to tour operators, free entries to certain areas for tourists and reduced filming fees. Additionally, tour operators encouraged domestic tourism by providing packages at reduced prices.

Industry Forecast

- The industry forecast indicates an increase of arrivals by 32.2% in 2021 which will not be sufficient to compensate for the 60% decline of 2020.
- Uganda will be hosting the International Conference on AIDS and Sexually Transmitted Infections in 2021. The conference is projected to attract approximately 10,000 visitors and will positively impact the Meetings, Incentives, Conferences and Exhibitions (MICE) sector of tourism.

Opportunities for the tourism sector

- Government initiative of supporting private investment and doing several marketing campaigns to boost tourism in the country.
- New air travel links led by the proposed national flag carrier and low-cost airlines as well as a second international airport will open the country to new markets.
- Increasing regional integration with other members of the East African community bloc will see Uganda benefit from a regional tourist visa and a regionally focused marketing strategy.
- Diversification of inbound markets to include more high-value visitors from North America, Asia and the Middle East will boost the tourism sector.

Banking

Overview

The country's economy faced significant challenges early in the year on account of the COVID-19 pandemic making 2020 a challenging year for the banking and financial services sector.

Bank performance

The slump in economic activity negatively affected the asset quality of loans extended by commercial banks to the market. The percentage of Non-Performing Loans (NPLs) to gross loans nearly doubled in FY 2019-20 to 6.01% from 3.79% registered in 2018-19. This was largely due to the slow down in business operations as lockdown restrictions limited operations of many businesses while others came to a stand still and were unable to service their loan obligations. Despite the Central Bank's interventions lowering the CBR to historic lows of 7%, many banks have had to restructure their loans with clients and limit extending new credit to the market given the prevailing risks.

The outlook remains cautious as asset quality may deteriorate on account of maturing moratoriums amidst subdued economic activity especially in the consumer facing service sectors. Nonetheless, NPLs are expected to improve over the medium to long term as the impact of the pandemic gradually diminishes.

Asset quality expected to deteriorate in the short term

Return on assets and return on equity declined for the second straight year in FY 2019-20 to 2.6% and 15.2% respectively from 2.7% and 15.8% registered in the previous year.

Private sector credit

Reduced levels of economic activity as a result of the pandemic have dampened private sector credit growth as banks have become highly risk averse with declining asset quality. Average year-on-year growth in private sector credit averaged at 7.6% in the quarter to October 2020 marking a decline from 8.9% that was registered in the quarter to July 2020.

Shilling denominated loans declined in the quarter to October by 1% from 10.9% in the preceding quarter to 9.8% in the three months to October 2020 while dollar denominated loans fell 1.6% from 5.1% to 3.4% in the same period.

7.6% average y-o-y private sector credit growth

Private sector lending grew from Ushs 16.626 trillion in January 2020 to Ushs 17.623 trillion as of October 2020 marking a 6% rise in private sector credit growth largely on account of the measures taken by the central bank to ease its monetary policy stance throughout the year.

Despite the challenges faced in the economy, private sector lending is expected to rebound with higher growth as the country continues to re-open coupled with prospects of the COVID-19 vaccine across the world.

With the economy set to recover, return of growth trends in the medium to long term, it is expected that banks will regain confidence to take more risk in the market and avail credit to businesses and individuals.

6% increase registered from Jan 2020 to Oct 2020

Insurance

Overview

Uganda's insurance sector remained largely dominated by the non-life insurance segment which contributed the largest share of gross written premiums though the smaller life insurance market continued to show strong growth trends and higher market prospects. The life insurance segment remained largely unsaturated.

Segment performance

Data reported by the Insurance Regulatory Authority (IRA) indicates that Non-life gross written premiums that accounted for 64% of total gross premiums in Q3 2020 were registered at approximately Ushs 524 billion marking a 7% rise in value from the Ushs 490 billion that was recorded in Q3 2019. Motor vehicle cover, property, health and personal accident constituted the largest contributors in premiums to this segment.

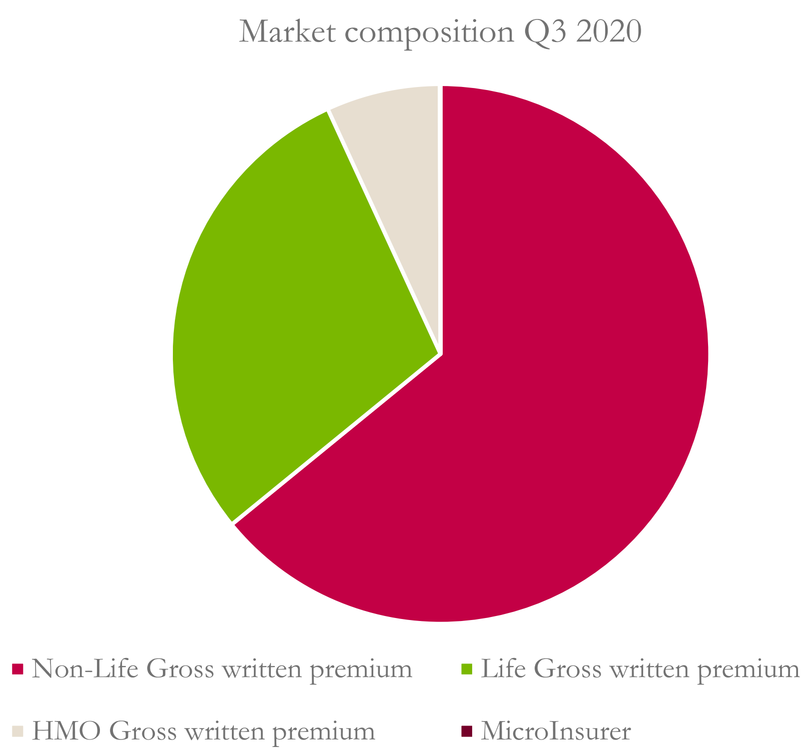
Life gross written premiums on the other hand accounted for 29% of total gross premiums and grew sharply by 19% to Ushs 237 billion from Ushs 199 billion registered over the same period.

Gross written premiums for Health Maintenance Organizations(HMO's), insurance providers of primarily medical coverage, grew slightly by 0.02% to Ushs 55 billion in Q3 2020 accounting for 6.8% of total gross written premiums while micro insurers accounted for only 0.046% of total gross written premiums in Q3 2020.

Impact of Covid-19 Pandemic

The COVID-19 pandemic hit the insurance sector hard although premiums are expected to bounce back as the economy begins to recover, although not at the rapid growth rates experienced in 2018 and 2019.

Initially, insurance providers in the country refused to extend cover to include COVID-19, pointing out that contracts specifically excluded cover during pandemics. However, the IRA engaged with companies on the matter and received unanimous support. By early April 2020, the IRA was able to reassure the public that health insurance policies would provide cover for COVID-19, including testing, treatment and care at government-designated facilities.



Insurance

On May 5, 2020, the IRA released industry guidelines on the conduct of business during the pandemic. Some of these guidelines included:

- Licensed insurance companies were prohibited from terminating insurance contracts due to non-payment of premiums during the pandemic;
- Policyholders were exempted from late payment penalties on overdue premium payments;
- The claim notification period by policyholders was extended for a period of not less than 30 days; and
- Co-payments related to testing and treatment of COVID-19 cases were waived.

Outlook

The country's insurance market remains largely untapped at only 0.7% of GDP with potential for high growth in the long term. The IRA's focus for the coming years is the digitisation of the insurance industry.

Insurance sector makes up only 0.7% of GDP

The IRA challenged insurance players to embrace technology as a way of addressing the slow uptake of insurance in the country, highlighting the potential of insurance in deepening and widening the insurance sector in Uganda.

The IRA, in collaboration with the Uganda Revenue Authority, Ministry of Works and Transport and the Uganda Insurers Association developed a mobile payment platform to streamline motor third-party insurance. This set the pace for insurance companies to invest in offering products digitally. It is also now compulsory for all marine cargo importers to buy their insurance from a Ugandan insurance company. This has improved the prospects for the transport insurance segment in the country.

Gross premiums are forecast to grow by 8% in 2021 reaching Ushs 924.3 billion from the Ushs 855.8 billion estimated by the end of 2020.

Gross insurance premiums expected to grow by 8% in 2021

Non-life premiums are projected to grow by 6.5% to Ushs 642.9 billion in 2021 while life premiums are expected to grow by 11.7% to Ushs 281.4 billion over the same period.

Section 4: Outlook

Economic Forecast - 2021

Global Outlook

Global GDP fell by 10% between Q4 2019 and Q2 2020. US GDP fell by 9.1% in Q2 2020 and 12.1% in the eurozone while China's GDP rose by 3.2%. Spain and India saw the most severe recessions with a GDP contraction of 22.1% and 23.9% respectively. As the pandemic is not yet under control, economic activity is not expected to return to normal before the Q4 2021 in the US and Q4 2022 in the eurozone.

Economic activity experienced a sharp increase in May and June compared to the downturn experienced throughout March and April 2020. The US GDP improved significantly from -14.5% between January and April to -5.5% by June. Canada's GDP also improved from -18% to -8.5% and that of UK similarly improved from -25.6% to -17.4% over the same period.

According to Fitch Solutions, the global GDP contracted by 4.4.%, the US GDP contracted by 4.6% whereas China's GDP rose by 2.7% in 2020 . The eurozone's GDP contracted by 9%, Spain by 13.2%, France by 10.5%, Italy by 10%, the UK by 11.5% and Switzerland by 5.3%.

The unemployment rate in the US fell to 8.4% since April but is still considered high according to Fitch Solutions. In Europe however, travel and workplace restrictions are shrinking the pool of available and willing workers which is artificially keeping the unemployment rates from going up. This is starting to unravel as economies start to open. Furthermore, many jobs have been put on official furlough schemes which could cause a spike in unemployment rates if these schemes ended rapidly.

To combat the effects of the pandemic, the EU announced a stimulus plan of EUR 750 billion which constitutes 5.4% of their GDP to help member states. France and Italy also announced while the UK announced the 'Plan for Jobs' to subsidize jobs, infrastructure and tax cuts amounting to a fiscal easing of 9% of UK GDP. Although central banks are increasing their lending to non-financial firms, there are no predictions of a higher inflation as the opening of large negative output gaps are likely to suppress core inflation in the short term. The US housing market is estimated to start responding to lower long-term interest rates.

China is the only large economy that is projected to have experienced a GDP growth in 2020 which will positively influence the global market and ease other countries' economic burden. China-based companies resumed operations thereby easing the regional supply-chain disruptions benefiting China's trading partners. Countries invested in the auto industry such as Germany will also benefit from China's recovery as they pick up the pace with their car manufacturing. Moreover, the increase in construction in China is stimulating the construction material trade as we see metal prices increasing, especially copper.

Economic recovery started at a slow pace in Q4 2020 with social distancing measures still being upheld and businesses expected to follow health Standard Operating Procedures (SOPs) put in place. With the COVID-19 vaccine rolled out, the US and the eurozone are expected to return to normal GDP levels within 18 and 30 months, respectively.

According to the World Bank, the global economy is expected to recover slowly from the impact of the COVID-19 pandemic, however, the recovery rate is expected to remain below the pre-pandemic projections of approximately 5%.

Emerging Markets

Emerging Markets faced a more difficult challenge with handling the pandemic compared to developed countries due to limited social safety nets, healthcare capacity and the government's inability to enact support policies. Therefore, the GDP in these markets is projected to fall by 5.7%. This is mainly due to a large change in India's GDP forecast (a 10.5% contraction compared to a forecasted 5% previously) which stems from their aggressive lockdown policies. Emerging Markets received relief from developed countries which was facilitated by the flood of liquidity from the United States Federal Reserve as well as the decline in long-term US bond yields which have encouraged foreign investments in emerging markets.

%

5.7%

Projected GDP decline of Emerging Markets

Economic Forecast - 2021

Regional Outlook

According to the International Monetary Fund (IMF), Africa has been struggling with several unprecedented health and economic crises and in just a few months, the pandemic jeopardised years of development gains and overturned the lives and livelihoods of millions. The region suffered its worst contraction resulting from deteriorating demand from key trading partners, steep declines in prices for commodities (like oil, minerals, and metals), and drastic containment measures domestically which have battered economies. There has also been rising public debt burdens and limited space for applicability of fiscal measures.

The Sub-Saharan region is believed to have contracted by approximately 3% in 2020. The greatest impact of the crisis on growth was on countries that depend on tourism as well as export of commodities whose prices were significantly affected. The region is projected to grow at 3.1% in 2021. The growth is relatively smaller as compared to the rest of the world; partly a reflection of sub-Saharan Africa's limited policy space within which to sustain a fiscal expansion.

Inflation within the Sub-Saharan region is projected to remain elevated and fuelled by weaker currencies as well as supply chain disruptions induced by the pandemic. The key economic drivers for 2021 include improvement in exports and commodity prices as the world economy recovers and recovery in both private consumption and investment.

Uganda Outlook

The economy is forecast to rebound from the depression experienced in 2020 and grow within a range of 3.5%-4.5% in FY 2020-21 with growth largely tide to the contained spread of the COVID-19 virus and socio-political stability surrounding the outcome of the general elections.

Election seasons in the past have been characterised by short and frequent bursts of political and social instability affecting the central business district and different towns with the effect of causing short term disruptions to daily trade in the country.

3.5%-4.5% expected growth for FY 2020-21 rising strongly to 5.0%-6.0% in FY 2021-22

A large number of sectors were negatively impacted by the COVID-19 pandemic and the slow down brought about by lockdown measures implemented globally. The Accommodation and Food Service (-24%), Arts, Entertainment and Recreation (-51%), Education (-50%) as well as the construction (10%) sectors were hit hardest with significant declines in activity. Though growth is expected, it is still in doubt whether these sectors will reach their Pre-COVID levels of activity due to continued lockdown measures.

However, a number of sectors remained resilient through the pandemic and have registered significant levels of growth. These include Mining & quarrying (55%), Information & Communication (10%) and Livestock (7%). This was partly due to the fact that these sectors were not significantly impacted by lockdown measures. These sectors will likely continue to witness growth through the year going forward.

Government expenditure pressures related to fighting the COVID-19 pandemic and election related spending has widened the country's fiscal deficit to approximately Ushs 6 trillion and is projected at 10.4% of GDP in FY 2020-21.

The financing gap has been intensified by the fall in domestic revenue as the economy remains sluggish with the industrial and service sectors starting to see slight growth at a slow and uneven rate.

The industry sector grew by only 2.2% in FY 2019-20, largely constrained by low demand, lockdown restrictions with mandated and voluntary social distancing measures.

Economic forecast - 2021

Manufacturing is expected to remain subdued on account of low demand, while the service sector is expected to grow gradually and in line with the easing of restrictions, global economic developments and the adoption and utilization of web-based service delivery technologies.

The banking and hospitality sectors including some education segments have made extensive use of digital channels to continue providing services to clients. Schools have continued to extend learning through the internet while many restaurants have had to embrace fast food delivery channels to stay afloat. This new norm is expected to continue well into 2021 and over the long term as many businesses and clients have realized the cost and reach benefits of increased technology adoption.

Uncertainties and risks

The growth outlook for the country remains highly uncertain with the pandemic as well as other factors expected to have long lasting effects on the economy for years to come. These factors include:

Political and social instability

Negative COVID-19 developments

Rising NPLs and deterioration in asset quality

Growing public debt

In the near term, political and social instability pose significant risk as the election season enters its end and tensions escalate. Though the disruptions from the election activities are short term in nature, government spending patterns during these cycles tend to have long term effects on the value of country's currency. BOU however, expects the shilling to remain stable on account of matched corporate activity, and projected USD depreciation that may give the shilling the appreciate. The negative COVID-19 pandemic developments such as the spread of the new virus strain and increasing number of domestic cases poses a significant health and economic risk to the country's economic recovery.

The rising number of non-performing loans and deterioration in the quality of assets held by banks poses a threat to credit growth in the country at a time when it is most needed. Despite the Central bank's liquidity boosting efforts to supervised financial institutions, such as lowering and maintaining the CBR at 7%, commercial banks remain highly risk averse limiting loan approvals and maintaining relatively high lending rates.

Public debt that shot up 21.7% in FY 2019-20 with external debt rising from USD 8.35 billion to USD 10.45 billion while domestic debt rose by 17% from Ushs 16.2 trillion to Ushs 19.1 trillion. Nominal public debt as a percentage of GDP increased from 35.3% to 41% in June 2020. This poses significant risks particularly with regard to increased interest payments that may consequently take a larger portion of the government budget.

21.7%
Rise in public debt in FY 2019-20

Section 5: About Us

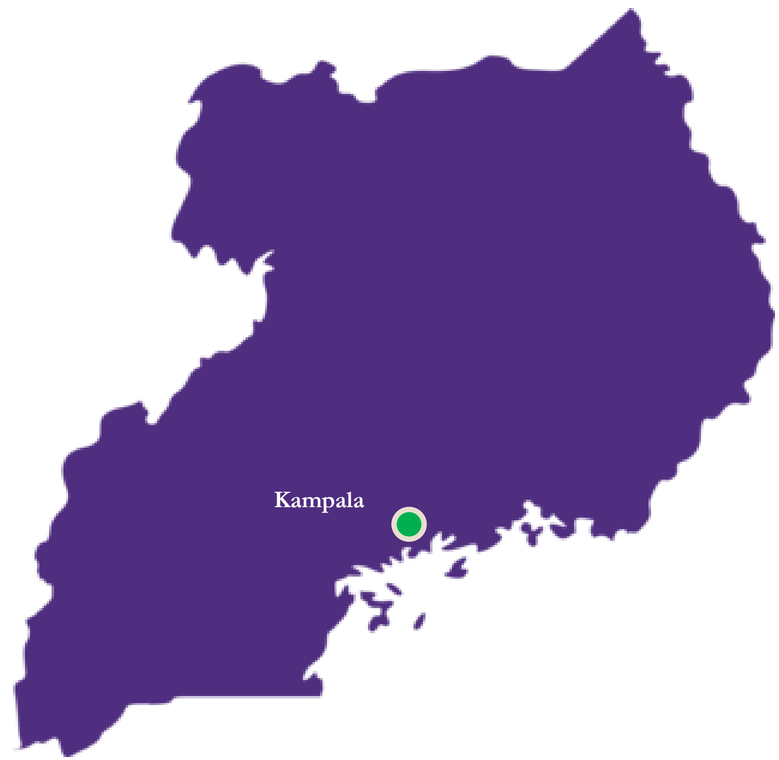
About Grant Thornton

We're a network of independent assurance, tax and advisory firms, made up of over 56,000 people in over 140 countries. And we're here to help dynamic organisations unlock their potential for growth.

A focus on Uganda

Grant Thornton in Uganda is a leading provider of national audit, tax and advisory services. With over two offices in Uganda and above 120 people, we apply strong technical guidance and breadth of experience to ensure that clients receive a truly different experience.

Our teams have more experience built into them because of a tighter leverage model than our competition. Specifically, our operating model ensures that approximately 25% of our assignment engagement time is provided by experienced partners, directors and managers. Clients recognize this difference through our understanding of their business and ability to bring meaningful ideas to address specific needs.



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Partners, Directors and Managers

+250
Dynamic Clients

Office location
Kampala, Uganda

ICPAU
Licensed firm

Large international client base
Our clients include both international and local businesses. We have extensive experience in servicing foreign clients in Uganda.

Services we offer:

Audit and Assurance Services

- Limited reviews
- Statutory and contractual audits
- Voluntary statutory audits
- Public sector audits
- Grant audits
- Project audits
- Stock audits
- Special purpose audits
- Certification and compliance
- IFRS services
- Preparation of IFRS compliant financial statements

Taxation services

Compliance services
- Tax registration and deregistration
- Individual and corporate tax returns
- VAT and PAYE compliance
- Withholding tax(WHT) compliance

Consulting services
- Tax health checks
- Tax audit assurance
- Tax opinion
- Expatriate tax solutions
- International tax consulting
- Tax planning and structuring
- Tax refunds
- Tax exemptions

Advisory services

- Debt advisory
- Business valuations
- Mergers and acquisitions
- Feasibility studies
- Financial due diligence
- Business process reviews
- Enterprise resource planning(ERP) implementation
- Business transformation
- Operations improvement
- Transfer pricing
- Information technology advisory
- ITGC and ITAC audits
- Data privacy compliance audit
- ICT post implementation review

Business process solutions

- Accounting and bookkeeping
- Monthly management accounts
- Business process outsourcing(BPO) where we run all or part of your finance/accounting department
- Payroll processing and global mobility
- Wealth management
- Fund management

Business risk services

- Internal and management audits
- Regulatory services
- Risk modelling services
- Forensic investigations
- Accounting irregularity/misconduct
- Expert dispute resolution and advisory
- Anti-money laundering(AML)/Combating financial terrorism(CFT) compliance audits

Secretarial services

- Company incorporation/entity setup
- Secretarial compliance and consulting
- Liquidations
- Agreements and MOUs
- Business licenses
- Work permit processing

Key Advisory Services Team

Hemal Shah
hemal.shah@ug.gt.com

Andrew Kintu
andrew.kintu@ug.gt.com

Solomon Luzigamanzi
solomon.luzigamanzi@ug.gt.com

John Bosco Mweru
john.bosco@ug.gt.com

Gerald Nyende
gerald.nyende@ug.gt.com

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