COVID-19
MACROECONOMIC POLICY RESPONSES IN AFRICA
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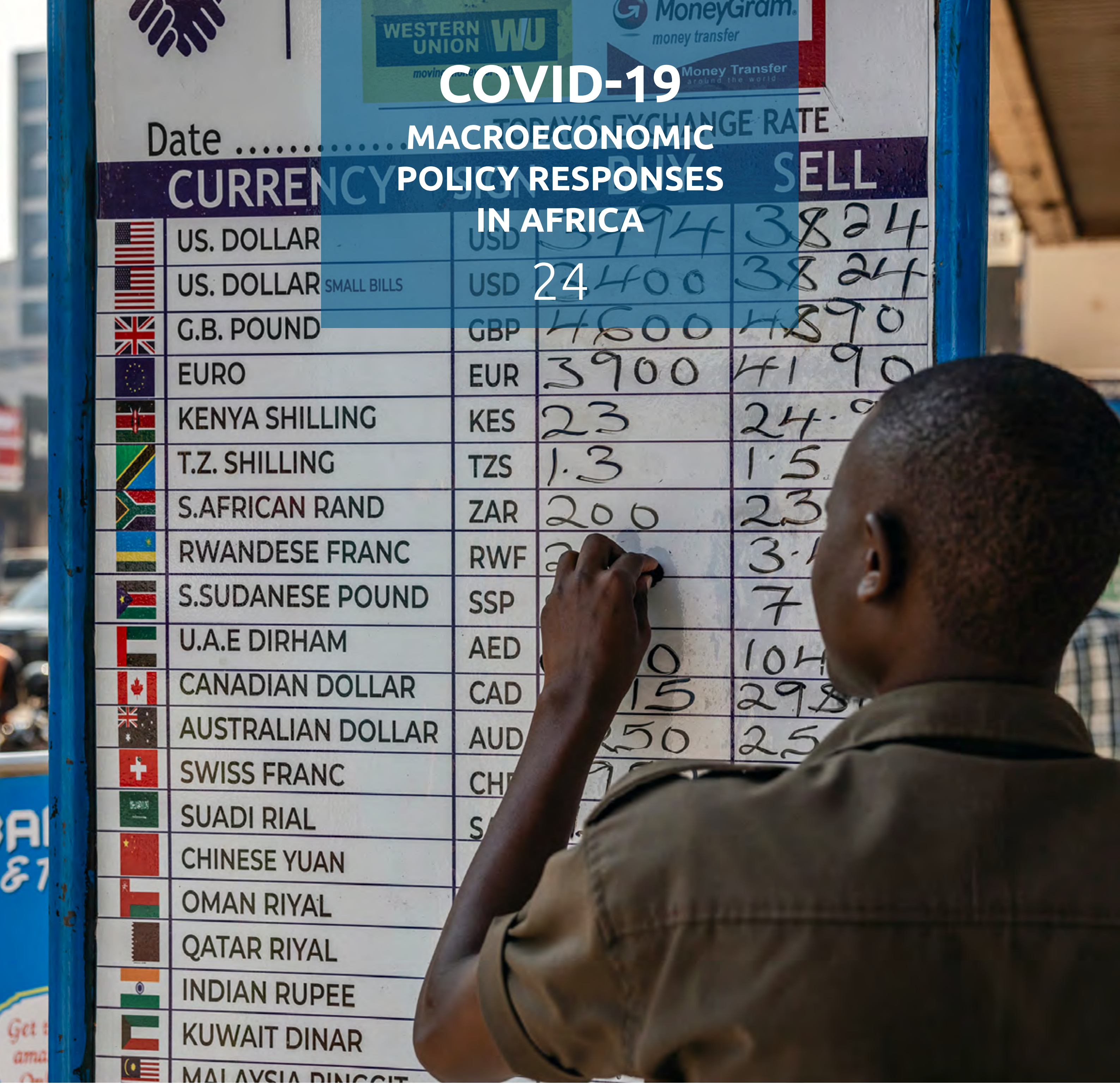

Assessing the Macroeconomic Resilience of Uganda and Rwanda

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About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

Our Donor

This project is supported by the International Development Research Centre (IDRC). The IDRC is a Canadian federal Crown corporation. It is part of Canada's foreign affairs and development efforts and invests in knowledge, innovation, and solutions to improve the lives of people in the developing world.

Executive summary

This paper analyses the macroeconomic resilience of Uganda and Rwanda over the period 2000–2020. The paper sets out to: i) identify economic crisis periods; ii) establish the nature of the crises and the transmission channels through which they affected the two economies; and iii) provide some policy proposals for mitigating or averting future crises. The paper draws on an extensive review of the literature and an analysis of national macroeconomic statistics obtained from the World Development Indicators. The paper identifies five major crisis periods which were similar for the two countries: 2002–03, 2009–10, 2012–13, 2017 and 2020. Major shocks included: drought/a sharp decline in coffee prices, the global financial crisis, aid flow disruptions, the Kenyan elections and the COVID-19 pandemic.

The major transmission channels through which the economic crises affected the economies of Uganda and Rwanda varied according to the types of shock. For instance, climate-related shocks led to more constrained export growth, higher inflation and reduced private consumption. The global financial crisis led to a reduction in FDI, gross capital formation, private-sector credit and public consumption, as well as more constrained export and import growth. The COVID-19 pandemic significantly constrained export growth in both countries and prompted a contraction in gross capital formation in Uganda and a contraction in private consumption in Rwanda.

Among the policy-related steps that Uganda and Rwanda could take to mitigate the effects of and/or avert future economic crises are: i) implement policies that increase capital inflows; ii) use fiscal policy (government expenditure) to boost economic activity, especially in periods of economic crisis; iii) improve the performance of the agricultural sector, iv) adopt mitigation strategies and build resilience to the effects of climate change, especially drought.

Introduction

This policy insights paper analyses the macroeconomic resilience of Uganda and Rwanda to crises (and associated shocks) that were domestically, regionally or globally triggered during the period 2000–2020. It focuses on three key issues: i) the nature of the macroeconomic crises that occurred in the two countries; ii) the transmission channels through which the crises affected the two economies; and iii) policies that could be introduced to avert similar crises in the future or reduce their impact. For the purpose of this paper, a crisis is understood to be a sudden economic downturn, manifesting as a sudden drop in the gross domestic product (GDP)-per-capita growth rate.

The paper draws on the key findings from a working paper that extensively analysed the macroeconomic resilience of Uganda and Rwanda to various shocks in the period 2000–2020. The working paper formed part of a series of studies on Africa's macroeconomic resilience in the 'COVID-19 Macroeconomic Policy Responses in Africa project'[1], of which Uganda was one of the six focus countries. Rwanda is included in this paper as a peer and comparable country to Uganda. This is based on the similarities between the two countries' economies, particularly their shared status as low-income countries and their similar economic structures (Figure 1).

The method of analysis involved an extensive review of relevant literature and an analysis of key indicators in the two countries' national macroeconomic statistics, such as GDP per capita and the financial, monetary, fiscal, trade and production indicators that informed the opinions,

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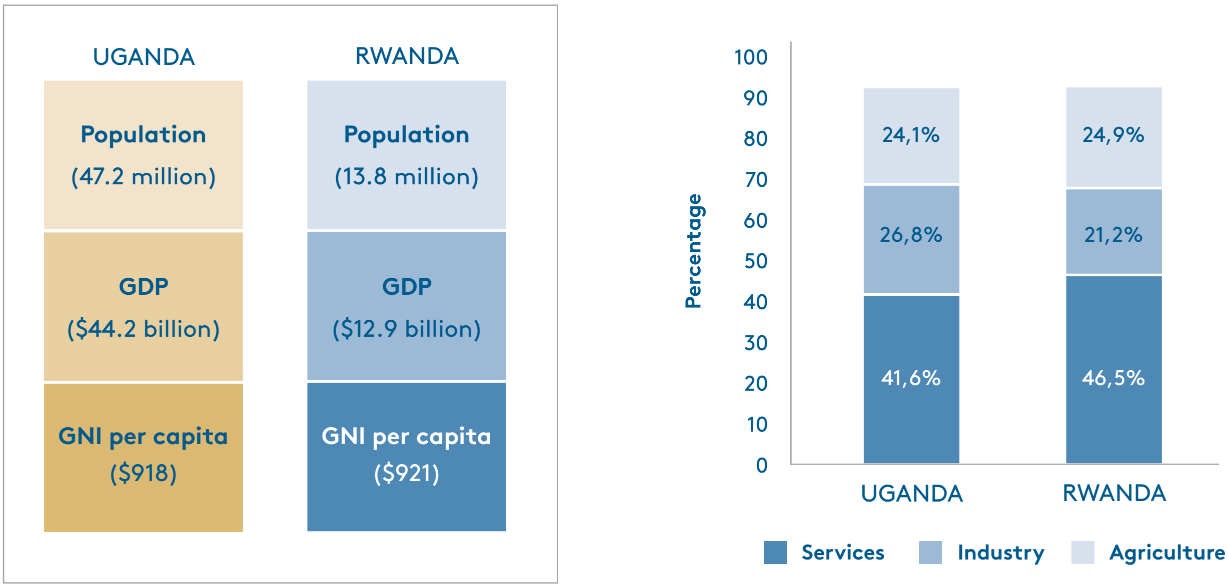
1 CoMPRA, https://saiia.org.za/compra/.

conclusions and recommendations in the working paper. The main source of data was the World Development Indicators (WDI), complemented by national statistics. The analysis focused on crisis periods in the two countries' recent histories, which were triggered by major shocks, such as a sharp decline in international coffee prices, the global financial crisis, climate-related shocks, a reduction in aid flows, geopolitical disturbances and the COVID-19 pandemic.

Figure 1 Characteristics of Uganda and Rwanda's economies



Source: Computations based on World Bank's World Development Indicators, 2023 Series, https://databank.worldbank.org/source/world-development-indicators

Nature of the macroeconomic crises in Uganda and Rwanda

Most of the economic crises that Uganda and Rwanda experienced in the period 2000–2020 were caused by exogenous factors, such as the global financial crisis and the COVID-19 pandemic (Figure 2). Interestingly, the crises in Uganda and Rwanda were mostly triggered by the same shocks, which signals some similarity between the two countries in terms of their level of exposure to shocks and their macroeconomic vulnerability.

"Most of the economic crises that Uganda and Rwanda experienced in the period 2000–2020 were caused by exogenous factors, such as the global financial crisis and the COVID-19 pandemic "

Figure 2 Uganda's annual GDP-per-capita growth rate, 2000-2020

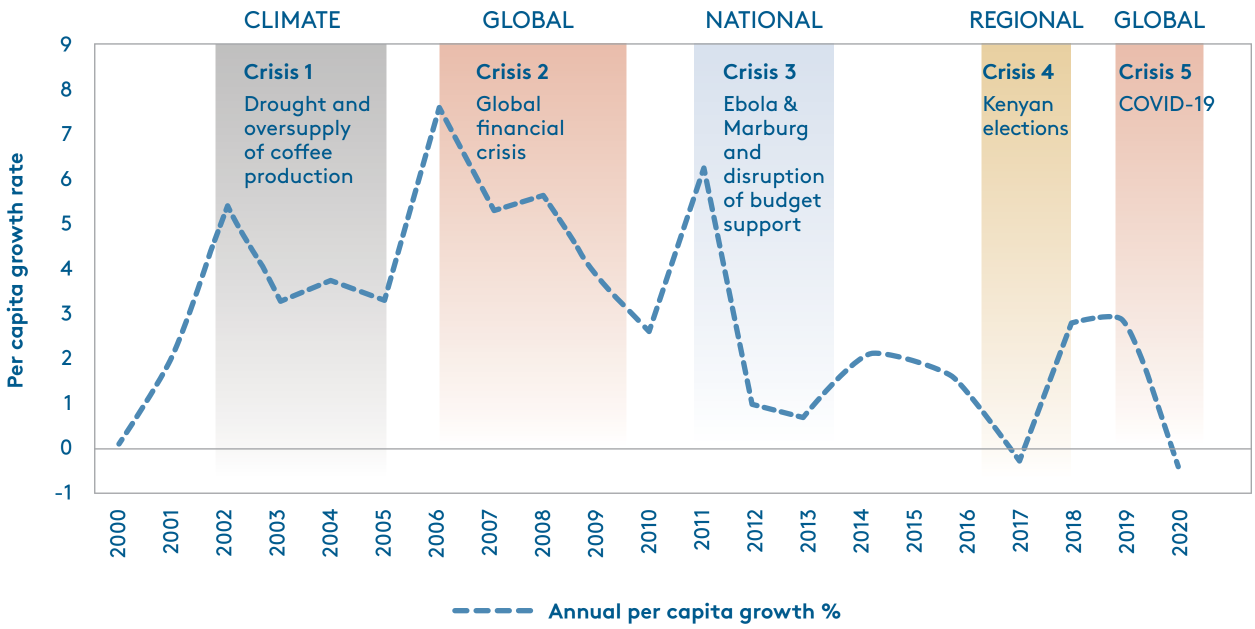
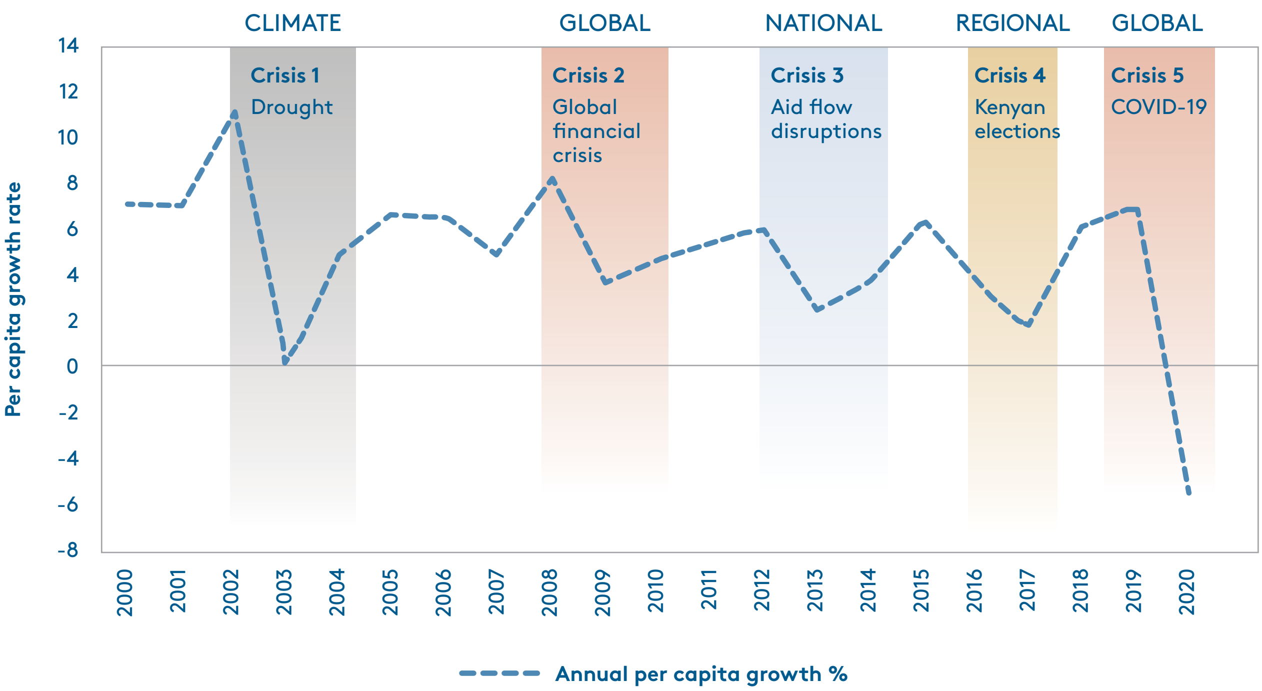


Figure 3 Rwanda's annual GDP-per-capita growth rate, 2000–2020



Source: Computations based on World Bank's World Development Indicators, 2023 Series, https://databank.worldbank.org/source/world-development-indicators

With the global economy becoming increasingly interconnected, contagion of crisis events from developed economies to developing economies is a common occurrence. The world has experienced three major economic crises since the start of the 2000s: the 2008–09 global financial crisis, the COVID-19 pandemic in 2020–21 and the Russia–Ukraine war in 2022–23 (still ongoing) – all of which have affected both Uganda and Rwanda. Additionally, endogenous factors such as unfavourable weather conditions have also negatively affected the two economies, in which many people rely heavily on agriculture for their livelihoods. In addition, the two countries have been affected by regional shocks, such as the spillover impacts of various political crises in Kenya. Kenya is a key import and export gateway for Uganda and Rwanda, which are landlocked. Political crises in Kenya therefore tend to affect the free flow of goods in Uganda and Rwanda, which are both net importers.

In Uganda's case, the greatest crisis occurred in 2012–13 when the country experienced three major shocks – the Ebola epidemic, the abrupt suspension of budget support in 2012 prompted by the discovery that $15 million allocated under the economic recovery programme in northern Uganda had been diverted to the Office of the Prime Minister,[2] and the withdrawal of budget support by Uganda's development partners in response to the anti-gay law passed by the country in 2013. In an earlier, protracted crisis in 2002–03, Uganda experienced multiple shocks associated with drought, which was compounded by a 36% decline in the country's terms of trade. The latter was prompted by a 70% drop in world prices of Robusta coffee in 2001–02 due to oversupply on the part of Brazil and Vietnam.[3] The country also experienced drought and floods in 2004, 2010, 2011 and 2013.[4]

"In Uganda's case, the greatest crisis occurred in 2012–13 when the country experienced three major shocks – the Ebola epidemic, the abrupt suspension of budget support in 2012 and the withdrawal of budget support by Uganda's development partners. In Rwanda's case, the greatest crisis was the COVID-19 pandemic"

In Rwanda's case, the greatest crisis was the COVID-19 pandemic which pushed the economy into a recession in 2020 and whose impact was exacerbated by a reduction in food production in 2019 due to floods in the country. Rwanda is

2 Tim Williamson, Fiona Davies, Imran Aziz and Edward Hedger, 'Budget Support to Uganda 1998–2012: A review' (Briefing, Overseas Development Institute (ODI), March 2016), https://odi.org/en/publications/budget-support-to-uganda-1998-2012-a-review/.

3 International Monetary Fund, 'Uganda: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria – Staff Report' (IMF Country Report No. 03/213, Washington DC, 2003), https://www.imf.org/external/pubs/ft/scr/2003/cr03213.pdf; International Monetary Fund, 'Statement by Ismaila Usman, Executive Director for Uganda' (July 18, 2003), https://www.elibrary.imf.org/view/journals/002/2003/213/article-A003-en.xml.

4 The World Bank Group, 'Climate Risk Country Profile: Uganda' (Washington DC, 2021), https://climateknowledgeportal.worldbank.org/sites/default/files/2021-05/15464-WB_Uganda%20Country%20Profile-WEB%20%281%29.pdf.

prone to climate-related shocks, such as droughts and floods, which were reported in 2002–03, 2016–17 and 2020. As such, the crises that Rwanda faced involved multiple shocks leading to a decline in the GDP-per-capita growth rate.

Transmission channels for the crises

Climate-related shocks: Rwanda

Extreme weather events (periodic floods and droughts) have had major socioeconomic impacts on Rwanda, leading to a fall in the country's economic growth rate. Major drought periods were reported in 2002–03 and 2016–17, which saw significant reductions in exports and private consumption as well as upward pressure on inflation (Figure 3). For instance, export growth fell from 39.87% in 2001 to 20.40% in 2003, and from 31.74% in 2004 to 11.16% and 1.73% in 2005 and 2006, respectively. Export growth also fell from 43.31% in 2017 to 10.31% in 2018. Similarly, private consumption growth showed a significant decline from 13.61% in 2002 to -4.48% in 2003, and from 4.20% in 2016 to -0.63% in 2017. Notably, the inflation rate rose sharply in 2004, 2008 and 2017.

Fall in commodity prices: Uganda

Owing to the fall in the price of Robusta coffee, which is Uganda's leading export commodity, export growth declined from 29.06% in 2001 to 16.68% in 2002 and to 0.51% in 2003 (Figure 4). There was also a noticeable decline in lending rates, from 22.65% in 2001 to 19.10% in 2002. In addition, government consumption growth declined from 12.54% in 2001 to 8.30% in 2002, while inflation declined from 1.86% in 2001 to -0.29% in 2002.

Global financial crisis

The global financial crisis affected both Uganda's and Rwanda's economies. In Uganda, the crisis resulted in a reduction in foreign direct investment (FDI) as a percentage of GDP from 5.05% in 2008 to 3.35% in 2009 and eventually to 2.04% in 2010 (Figure 4). Similarly, there was a reduction in the annual gross capital formation growth rate from 6.01% in 2008 to 2.46% in 2009, before picking up to 9.52% in 2010. Uganda also experienced a huge drop in its export growth rate, from 84.44% in 2008 to -8.56% in 2009 and -8.96% in 2010. Imports were equally affected, with the growth rate declining from 16.84% in 2009 to -2.08% in 2010. Likewise in the monetary sector, credit to the private sector as a percentage of GDP declined from 13.90% in 2008 to 8.24% in 2009, before picking up to 10.10% in 2010. Finally, there was a reduction in the annual private consumption growth rate from 18.74% in 2009 to 4.04% in 2010.

Interestingly, during the global financial crisis, the FDI growth rate in Rwanda increased from 1.97% in 2008 to 2.09% and 3.53% in 2009 and 2010, respectively (Figure 3), while the capital-formation growth rate declined significantly from 33.01% in 2008 to 2.69% in 2009. Similarly, the export growth rate fell sharply from 43.95% in 2007 to -11.42% in 2008, before picking up again thereafter. In contrast, imports were volatile during the global financial crisis period, growing by -2.65% in 2008, 17.21% in 2009 and 2.29% in 2010. Moreover, private-sector credit as a percentage of GDP declined from 13.37% in 2008 to 11.66% in 2009.

Reduction in foreign aid and withdrawal of budget support

In 2012, both Uganda and Rwanda experienced huge reductions in aid flows. In Uganda's case, all budget support was abruptly suspended as a result of the discovery that $15 million of financial support for the economic recovery programme in northern Uganda had been diverted to the Office of the Prime Minister.[5] This caused a sharp reduction in government consumption of -27.07% in 2012, which contributed to the inflation rate falling from 12.70% in 2012 to 4.90% in 2013.

Rwanda experienced a huge reduction in flows of aid in the latter part of 2012 due to the suspension of aid and the delayed disbursement of aid from the country's key development partners. In the period since 2000, official development assistance (ODA) averaged 11% of GDP, funding a large proportion of the country's budget. In 2013, ODA was only 1.5% of GDP. Consequently, the growth in government spending fell from 15.78% in 2012 to -0.17% in 2013, thus contributing to a slowdown in economic growth in the country.[6] The fall in aid flows also triggered a slight increase in the debt stock, with the total debt service–to–gross national income (GNI) ratio increasing from 1.13% in 2012 to 1.42% in 2013.

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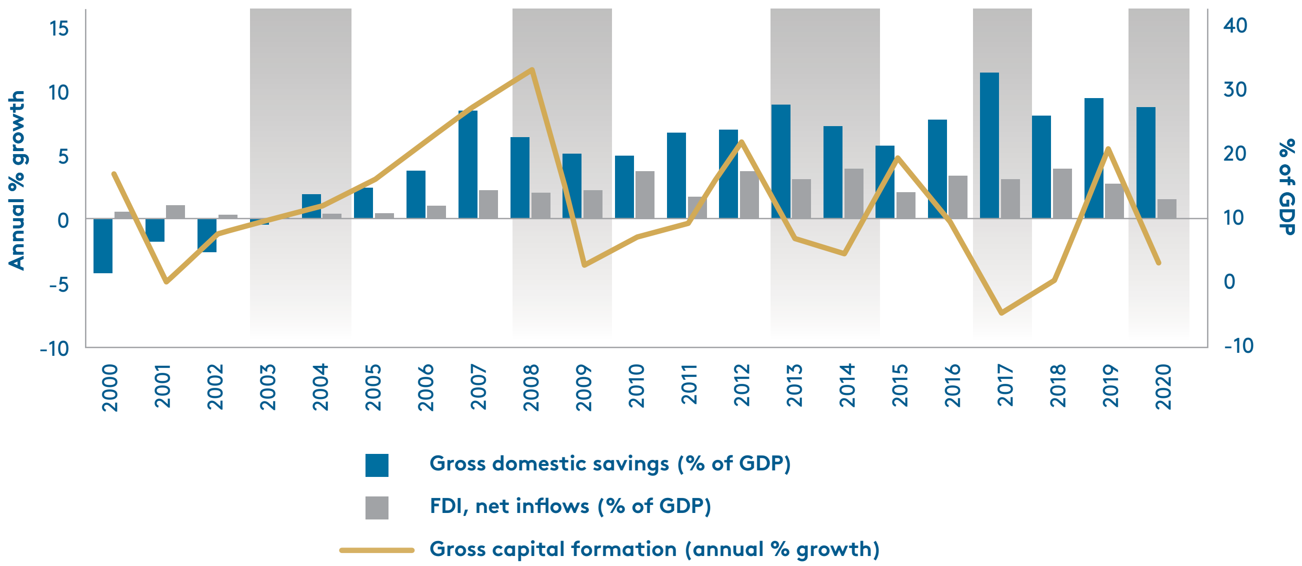
5 Williamson et al., 'Budget Support to Uganda 1998–2012.'

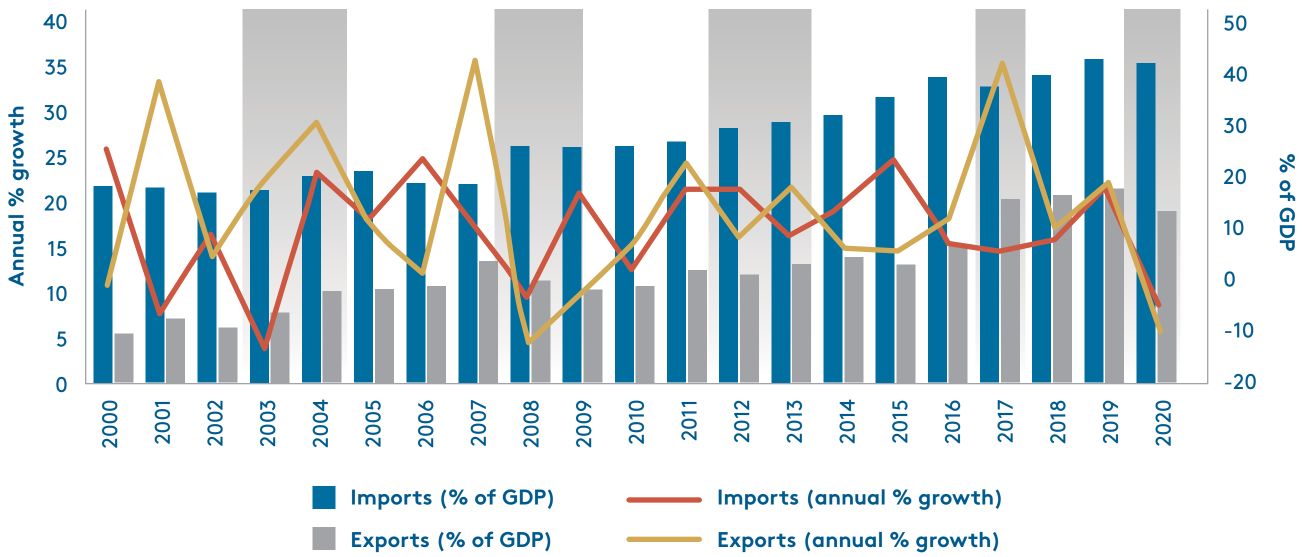
6 International Monetary Fund, 'Rwanda: Seventh Review under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument' (IMF Country Report No. 13/372, Washington DC, December 20, 2013), https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Rwanda-Seventh-Review-Under-the-Policy-Support-Instrument-Request-for-a-Three-Year-Policy-4116.

Figure 4 Rwanda's macroeconomic indicators, 2000-2020

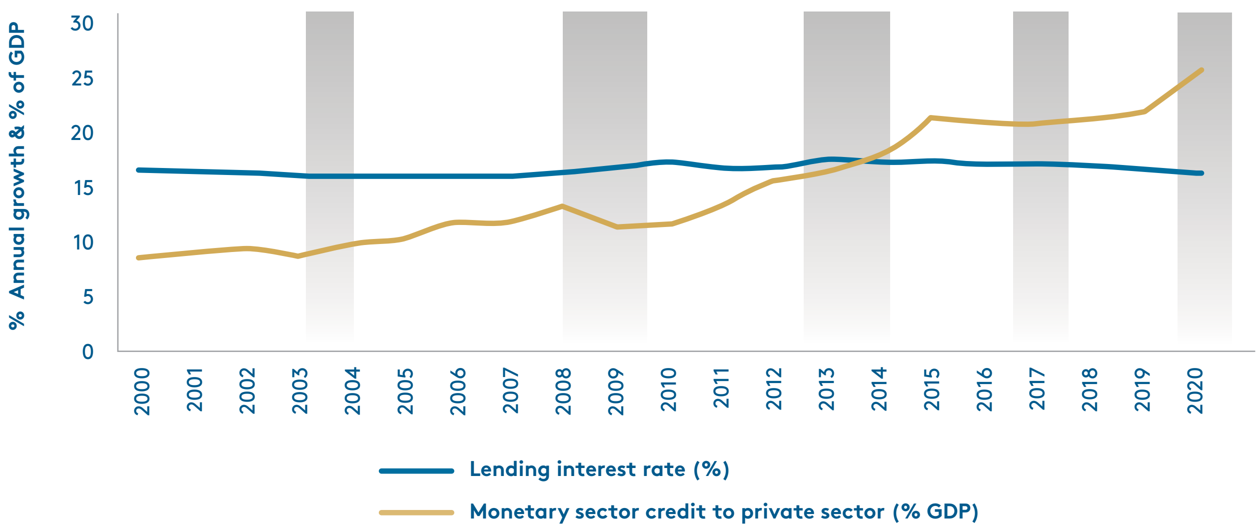
A) FINANCIAL



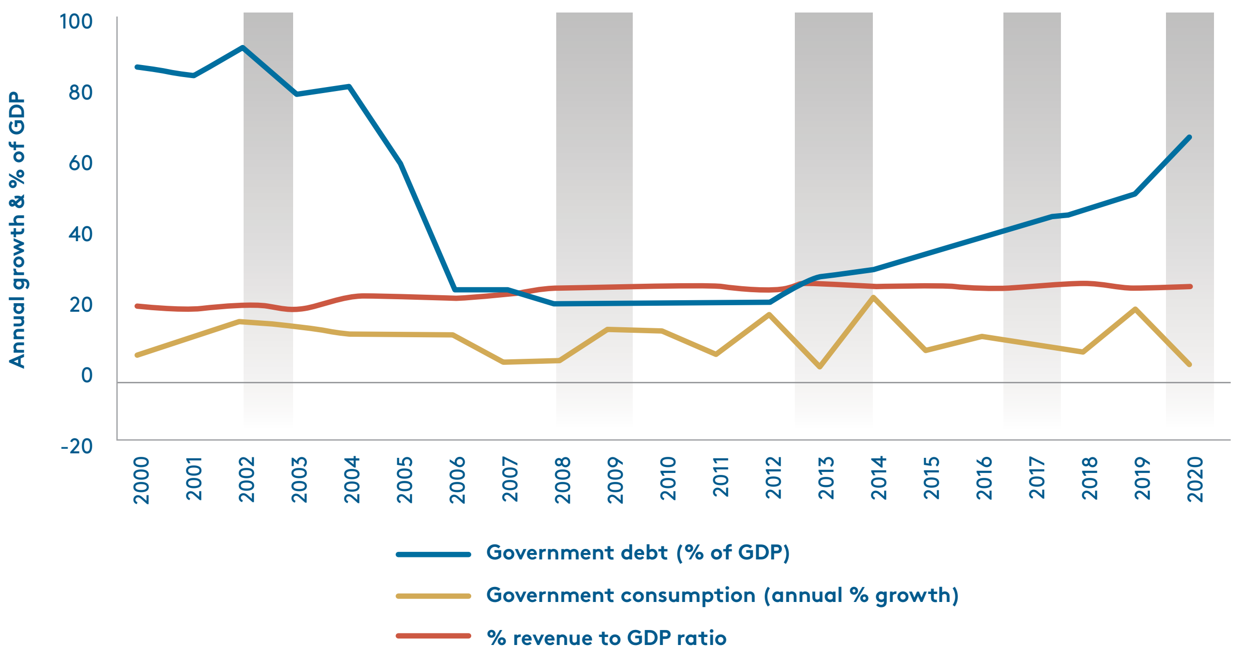
B) TRADE



C) MONETARY



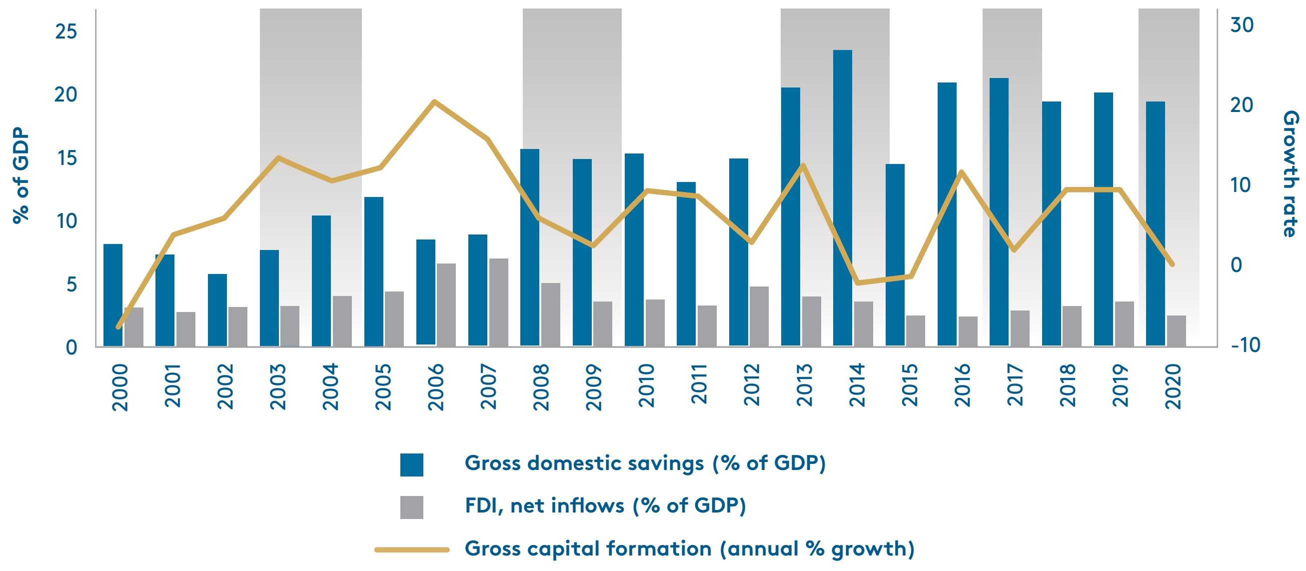
D) FISCAL



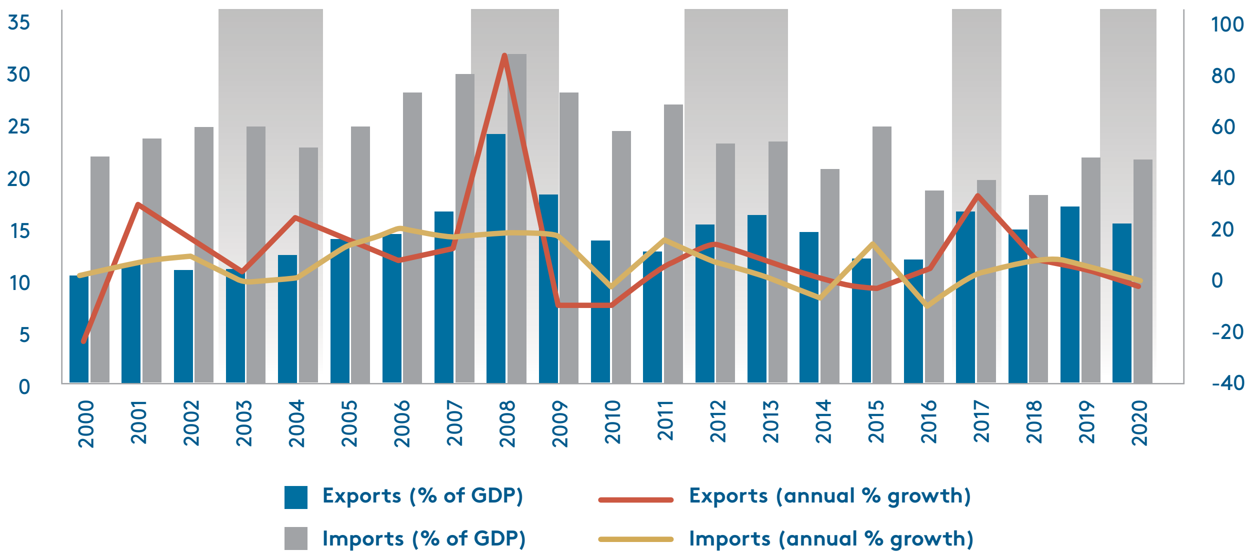
Source: World Bank's World Development Indicators, 2023 Series, https://databank.worldbank.org/source/world-development-indicators

Figure 5 Uganda's macroeconomic indicators, 2000-2020

A) FINANCIAL



B) TRADE



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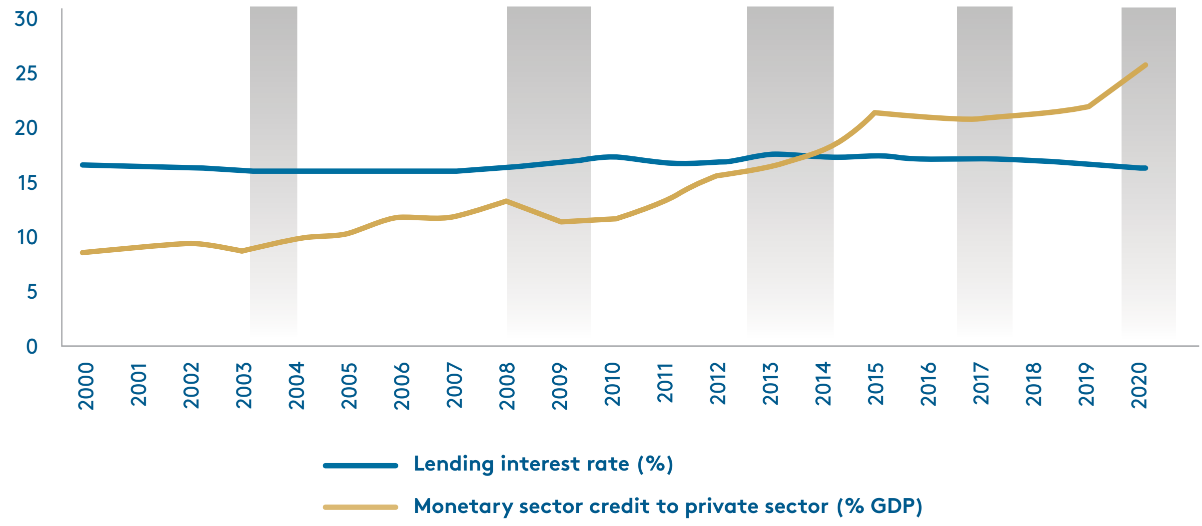
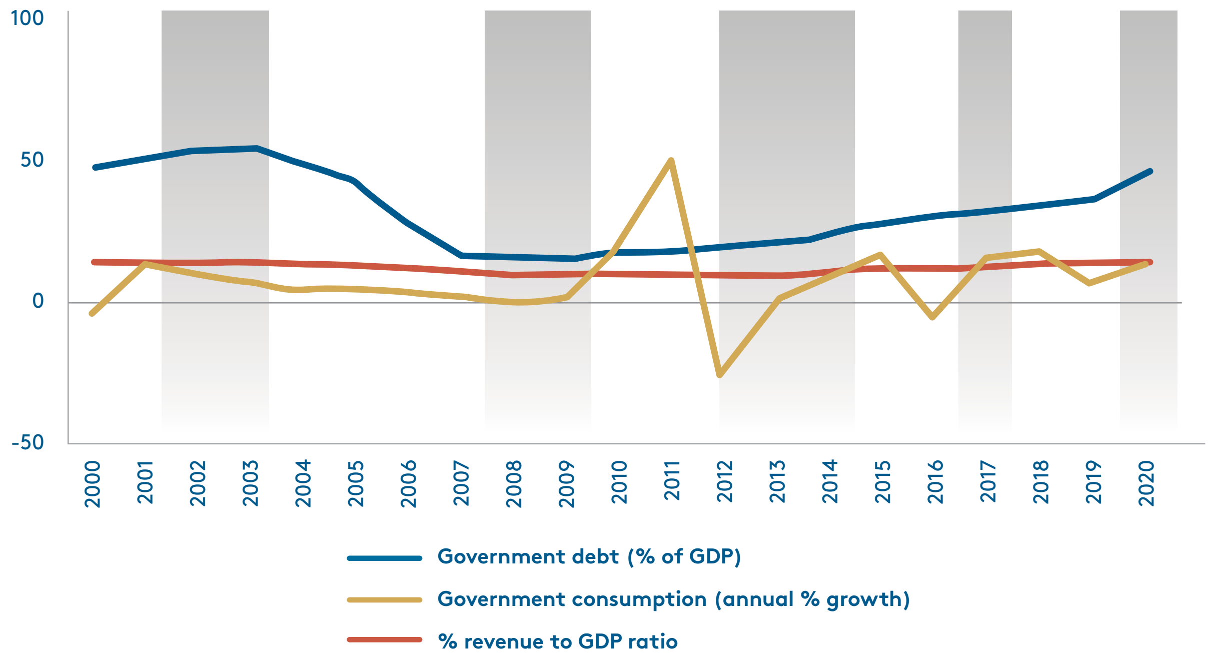


D) FISCAL



Source: World Bank's World Development Indicators, 2023 Series, https://databank.worldbank.org/source/world-development-indicators

COVID-19 pandemic

The COVID-19 pandemic devastated economic activities all over the world, with many countries experiencing recessions. In Uganda, GDP per capita declined by -0.42% at the peak of the pandemic in 2020, while in Rwanda it declined by -5.65% (Figure 2). This shows that Uganda's economy was more resilient to the pandemic than Rwanda's, arguably because Uganda's exposure to earlier epidemics, such as Ebola and Marburg, prepared the country for dealing with similar shocks. However, both countries experienced a worsening of their macroeconomic fundamentals – except for government consumption in Uganda, which could be the reason for its resilience to the pandemic (Table 1). The second outlier was inflation, which rose sharply by 192% in Rwanda compared to a 14.98% increase in Uganda, the latter partly attributable to the strong performance of the agricultural sector in that country.

Table 1 Impact of COVID-19 on the macroeconomy in Uganda and Rwanda

	Uganda		Rwanda	
Indicator	2019	2020	2019	2020
Food production index	128.2	116.2	111.4	111.4
FDI (% of GDP)	3.6	2.3	2.5	1.5
Gross capital formation (annual % growth)	9.7	0.1	20.9	3.3
Exports (annual % growth)	4.3	-1.2	19.9	-9.2
Imports (annual % growth)	7.1	0.4	36.1	-3.4
Government consumption (annual % growth)	7.9	12.7	17.5	1.9
Private consumption (annual % growth)	6.9	2.1	5.5	-4.99
Inflation rate (annual %)	2.9	3.3	3.3	9.8

Source: World Bank's World Development Indicators, 2023 Series, https://databank.worldbank.org/source/world-development-indicators

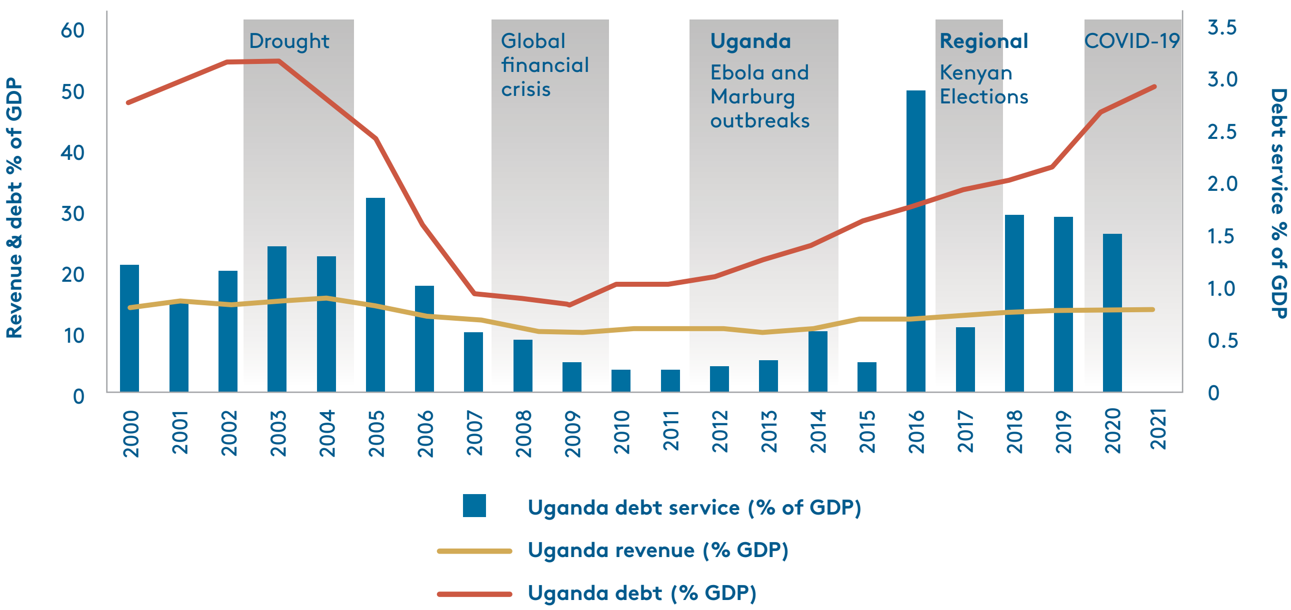
Public debt stock

Since 2000, public debt stock and revenue in the two economies have shown similar trends. Public debt stock as a percentage of GDP declined rapidly over the period 2000–2008 owing mainly to debt relief offered under the Highly Indebted Poor Countries (HIPC) initiative. However, since 2012, debt has steadily grown, approaching pre-HIPC levels, due to very expansive fiscal policies. This accelerated in 2020 as the two economies faced the COVID-19 pandemic. Uganda's debt-to-GDP ratio stood at 50.6% in 2021, while Rwanda's stood at 76.2%. Nonetheless, in the case of both countries, debt will remain sustainable in the medium to long term as most lending takes place on concessional terms, supporting heavy investment in infrastructure development.

In Uganda, concessional loans account for 61.1% of the total public debt stock,[7] while Rwanda's concessional debt accounts for 86.2% of the total public debt stock.[8]

Despite debt currently being deemed sustainable in the two economies, both experience a moderate risk of debt distress as more and more domestic revenue is being committed to debt servicing. This risk is closely associated with the poor domestic revenue performance in both economies. As depicted in Figure 6, domestic revenue as a percentage of GDP has largely stagnated over the years. With revenue standing at 15.8%[9] of GDP, Rwanda's revenue mobilisation is much greater than Uganda's which stands at 13.9%.[10] Uganda has been assessed as underperforming in its revenue collection, with untapped revenue potential of about 8% being lost to unproductive tax holidays and tax administration gaps.[11]

Figure 6 Public debt and revenue trends in Uganda and Rwanda



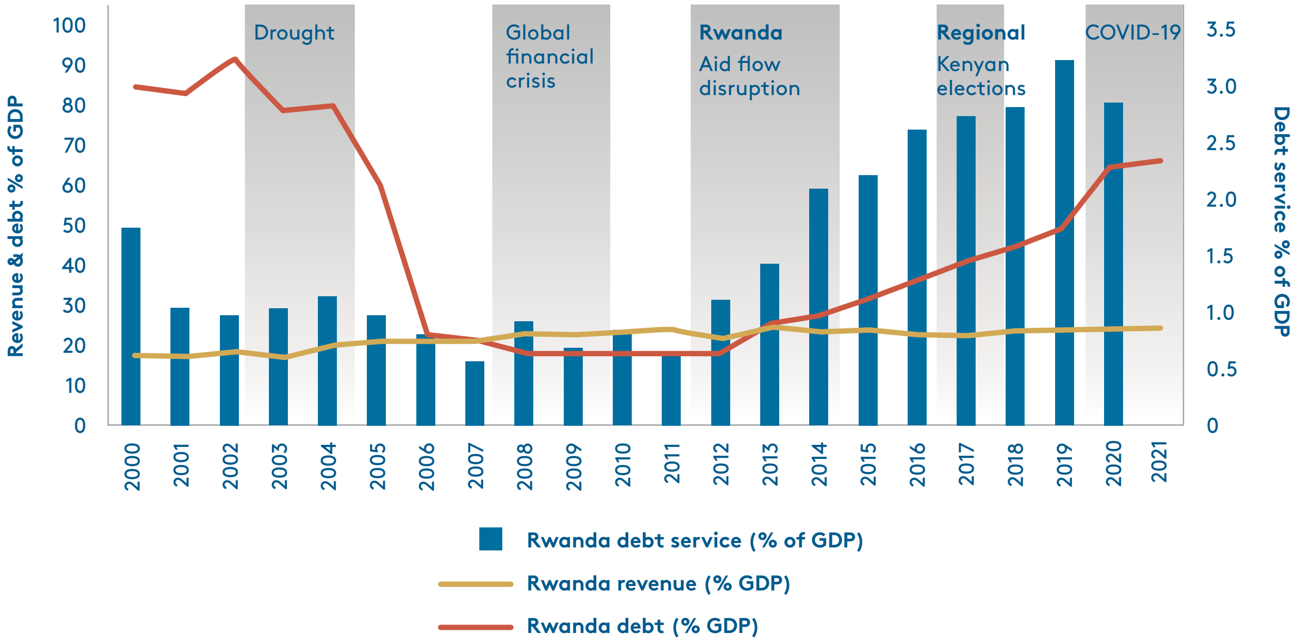
7 Government of Uganda, Ministry of Finance, Planning and Economic Development, 'Debt Sustainability Analysis Report FY 2021/22' (December 2022), https://mepd.finance.go.ug/documents/DSA/DSA-FY202122.pdf.

8 Government of Rwanda, Ministry of Finance and Economic Planning, 'Rwanda Medium-term Debt Sustainability Strategy Fiscal Year 2021/22–2023/24,' https://www.minecofin.gov.rw/index.php?eID=dumpFile&t=f&f=48060&token=7f43eb3cdcb11985bf2bd6750a7237f408436533.

9 Rwanda Revenue Authority, 'Tax Statistics FY 2021/22' (September 2023), https://www.rra.gov.rw/fileadmin/user_upload/RRA_Tax_Statistics_ 2021-2022.pdf.

10 Matia Kasaija, Ugandan Minister of Finance, Planning and Economic Development, 'Budget Speech Financial Year 2023/2024' (June 15, 2023), https://observer.ug/businessnews/78189-2023-2024-fy-budget-speech-verbatim.

11 World Bank Group, 'Uganda Economic Update, 11th Edition, May 2018: Financing Growth and Development – Options for Raising More Domestic Revenues' (May 2018), https://openknowledge.worldbank.org/entities/publication/10f2de80-c28d-515d-a949-292c4fec2178.



Policy proposals

Given the nature of the macroeconomic crises discussed in this policy insights paper and the identified transmission channels through which the crises have affected the economies of Uganda and Rwanda, the following recommendations can be made:

1 **Implement policies that increase capital inflows**, which are needed to finance development. The two countries should implement policies to promote FDI, export growth and personal remittances. This would also help to reduce the overreliance on foreign aid. To attract FDI, the two countries should promote macroeconomic and political stability as well as policy consistency across all markets. For export growth (of both existing and new commodities and goods), they should adopt policies that promote competitive value chains and reduce trade costs to take advantage of the benefits offered by regional trade blocs, such as the African Continental Free Trade Area.[12]

Specifically, Uganda could boost its export growth by producing higher volumes of coffee – traditionally its key export product. Coffee accounts for about 16% of Uganda's export earnings. In addition, Uganda could promote the export of non-traditional exports, such as fish, light manufactured goods (eg, cement and plastics) and services (eg, tourism and

12 Uganda and Rwanda have both ratified the agreement. Rwanda was the first to ratify it in May 2018 before Uganda followed suit in November 2018. Both countries have prepared and submitted tariff offers as members of the East African Community.

labour). Rwanda, in turn, should intensify its efforts to diversify its export base by boosting volumes of non-traditional exports, such as minerals and services (particularly tourism). Meanwhile, Uganda and Rwanda should step up efforts to minimise the share of loans in their ODA receipts and prioritise grants which are a cheaper source of development finance.

2 **Use fiscal policy (government consumption) to boost economic activities**, focusing mainly on domestically mobilised revenue and concessional loans. This would make the two economies more resilient to economic shocks without shoring up fiscal deficits. Specifically, Uganda should aim to increase its tax-to-GDP ratio over the next five years from 13% (2022) to match the 16.5% average of other African countries. Some of the key areas that require priority attention are the many tax holidays and tax administration gaps which reduce tax revenues. Similarly, Rwanda should increase its tax-to-GDP ratio from 15.8% to a target of 21.5% by 2035.[13] Furthermore, in terms of loan financing, both countries should target viable and profitable capital investments to increase returns on investment and minimise debt overhang tendencies.

3 **Improve the productivity of the agricultural sector**, which is the backbone of the two economies. Uganda and Rwanda should encourage capital investments in agriculture by introducing policies that address market imperfections related to price setting, availability and quality of inputs (eg, pesticides, fertilisers and equipment), and provision of infrastructure (eg, transport network services) and support services (eg, advisory and financial services). For instance, Rwanda has invested in medium and small-scale irrigation systems to address the numerous drought shocks it has experienced, from which Uganda can draw lessons.

Uganda and Rwanda should explore value addition in their tradeable agricultural products to increase their export earnings and thereby tap into global wealth. This would help to integrate the two economies into the global economy by growing their shares in markets such as the European Union, the US, China and the Middle East as well as regional markets, such as the EAC and Southern African Development Community.[14]

4 **Adopt strategies to enhance resilience to the effects of climate change**. The two countries need to make their socioeconomic and environmental systems more resilient to the effects of climate shocks, such as drought and floods. In this regard, Uganda has a conducive policy and regulatory framework, reflected in its National Environmental Act (2019), National Climate Change Act (2021) and National Climate Change Policy (NCCP). These polices/laws need to be fully operationalised through the development and actioning

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13 Government of Rwanda, Ministry of Finance and Economic Planning, 'Medium Term Revenue Strategy 2021–2024' (August 2021), https://www.minecofin.gov.rw/index.php?eID=dumpFile&t=f&f=47839&token=8a225ec327ea93e24ca2ad06633abd4e3f5836e8.

14 Data on Uganda's and Rwanda's export destinations reveals that most of their products are traded within the East African region.

of relevant implementation plans. For instance, Uganda's NCCP prioritises strategies that promote sustainable development and a green economy. Similarly, Rwanda should speed up implementation of its climate change adaptation strategies, such as by mainstreaming climate change adaptation in all its development frameworks and developing a national climate change strategy. If the two countries' proposed strategies are to be successful, barriers such as a lack of relevant data and limited financing of climate action initiatives will need to be overcome.

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Acknowledgement

This work was carried out with the aid of a grant from the International Development Research Centre, Ottawa, Canada. The views expressed herein do not necessarily represent those of IDRC or its Board of Governors.

The South African Institute of International Affairs, CSEA and our think tank partners acknowledge the support of the International Development Research Centre for this research paper and the CoMPRA project.

About ACODE

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy think tank based in Uganda, working in the East and Southern Africa sub-regions on a wide range of public policy issues. ACODE's core business is policy research and analysis, policy outreach and capacity building. Since the organisation was formed 19 years ago, ACODE has emerged as one of the leading regional public policy think tanks in Sub-Saharan African. ACODE has been recognised among the Top-100 Think Tanks worldwide by the University of Pennsylvania's 2017 Global-Go-To Think Tank Index Report. Visit their website – https://www.acode-u.org/ – for more information.

About SAIIA

SAIIA is an independent, non-government think tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs, with particular emphasis on African issues and concerns.

Cover image: Forex rates of the day, January 20th 2024, Kampala, Uganda (Luis Tato/AFP via Getty Images)

Please note that all currencies are in US$ unless otherwise indicated.

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