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covid-19 Brief

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Impact of trade shocks on growth and poverty in Uganda.

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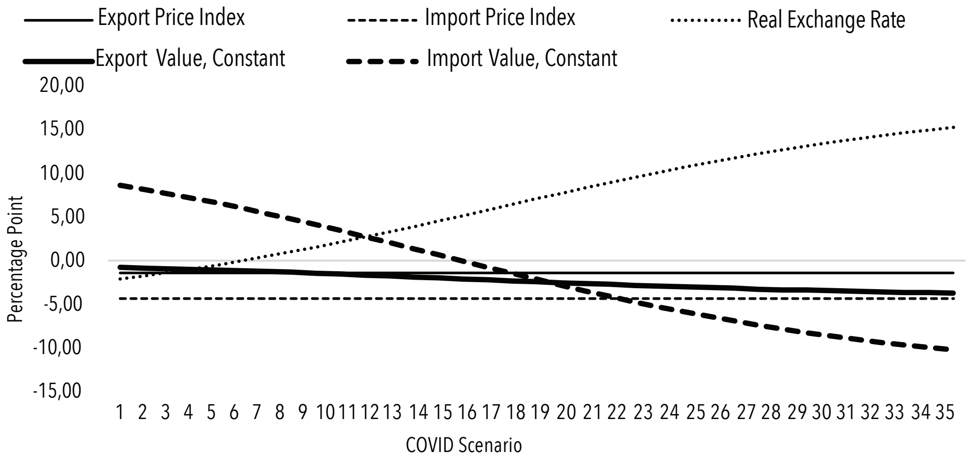
Countries across the globe are experiencing shocks from the COVID-19 pandemic due to the disruptions in economic and social activity. These disruptions are caused by the measures put in place in order to contain the spread of the virus. Global commodity trade through primary commodity markets is one avenue in which the impact on the economy is being experienced. The impacts are transmitted through changes in global prices and market access. In this brief, we assess the impact on growth and poverty. The analysis focuses only on the impact of disruptions in global commodity trade brought about by changes in primary commodity markets. The scenarios are primarily based on changes in predicted 2020 prices of selected primary commodities provided by the World Bank. The baseline and COVID scenarios are therefore based on October 2019 and April 2020 forecasts of primary commodity prices for 2020 respectively. The April 2020 forecast was done after the onset of COVID-19.

The impact on growth and poverty depends on the capacity of Uganda to respond to changes in global trade. Indeed, the final effect will depend on governments efforts to control the pandemic and minimize disruption to economic activity. To simulate various degrees of responsiveness, we use a range of elasticities which combine export supply and import demand by firms and consumers in Uganda and the elasticities of demand for exports originating from Uganda in foreign markets. In the figures below, numbers on the horizontal axis represent decreasing degrees of responsiveness; 1 represents the highest measure of responsiveness and 35 the lowest measure.

As shown in figure 1, the combined variation in prices of primary commodities translate to an average drop in the export and import price indices by -1.4 and -4.3 percentage points respectively. This negative changes in prices, compounded by the reduced access to foreign markets is seen to lead to a depreciation of the exchange rate with a higher measure of responsiveness. This leads to changes in the value of exports ranging from -0.8 to -3.7 percentage points. Changes in import values on the other hand range from 8.6 to -10.2 percentage points.

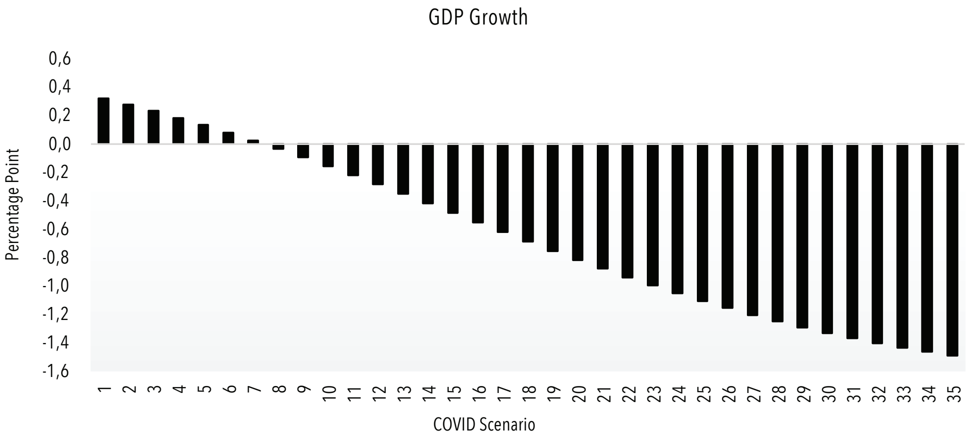
Changes in global market conditions spill over to the economy through changes in GDP growth rates and poverty as shown in figure 2 and table 1 below. Changes in GDP growth rate range from 0.3 to -1.5 percentage points with a higher probability of a decline in the growth rate. The decline in GDP growth is expected to translate to an increase in poverty. Table 1 shows estimates of changes in poverty rates resulting from deteriorating global trade environment and limited adjustment capacity by the Ugandan economy. The figures are based on the lowest responsiveness scenarios. As the country battles to gain control over the pandemic, the measures put in place are likely to slow down economic activities. It is therefore more likely that the actual ability to adjust to changing global trade conditions will be limited, meaning that actual responsiveness is more likely to be closer to the low scenario case. Poverty is estimated to increase by 1.8 percentage points in Uganda. However, the increase will be more felt in rural areas (2 percentage points) compared to urban areas (1 percentage point).

Figure 1: *The effects of global commodity market disruption on trade in Uganda*



Notes: *The COVID scenarios (1 to 35) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Uganda's economy to changing global market conditions. Scenario 1 uses the highest and scenario 35 the lowest elasticity values. The remaining scenarios combine different values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.*

Figure 2: *GDP growth effects of disruptions in global commodity markets*



Source: Authors' computation

Table 1: *Change in headcount poverty ratio resulting from global trade disruptions*

	Uganda	Urban	Rural
Ratio (pp)	1.8	1.0	2.0
Number	641,885	85,647	556,237

Source: *Authors' computation*
Note: *The results are based on COVID scenario 35 which combines the lowest values of trade (import and export) elasticities with the shock in commodity prices. We measure poverty using the headcount ratio, i.e., the proportion of population that is below the country's national poverty line.*

In conclusion, disruption in global primary commodity trade is expected to be a major source of negative effects of the pandemic on Uganda's economy. Nevertheless, and as pointed above, the overall impact on the economy will depend on Uganda's preparedness to respond and adjust effectively to the changes triggered by developments in global markets.

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