

Biden administration poised to impose sanctions on Uganda after polls

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Uganda has experienced growing political unrest over the last few months ahead of the general election scheduled for 14 January. Despite greater opposition cooperation ahead of the 2021 presidential poll, President Yoweri Museveni is highly likely to continue his 34-year rule ahead of the main opposition candidate, Bobi Wine. The incoming Biden administration is poised to impose sanctions on Uganda after the elections.

Although Bobi Wine enjoys support from many younger Ugandans and has gained sympathy in the international media as the target of police brutality, the underlying patronage networks underpinning Uganda's politics have been largely unaltered by this dynamic. President Museveni's handling of the pandemic has not really been a dominant aspect of the election narrative, with perceptions of an effective handling of the pandemic only likely to benefit the president. In some sense, the international media's focus on the crackdowns against Bobi Wine and his supporters has been a distraction. Museveni and the National Resistance Movement (NRM) are highly likely to remain in power by a margin that will crowd out any calls of foul play or electoral irregularities.

With a Museveni victory the most likely outcome, the likelihood of immediate domestic political fallout changing Uganda's stability is limited. In 2016, accusations of electoral irregularities were acknowledged but not acted on by the international community, partly due to dominance of Museveni's victory. However this time, it is rather likely that the incoming Biden administration will impose sanctions on the country. President Museveni's health, at the age of 76, remaining the most important factor in a change to Uganda's future political trajectory.

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Positive economic outlook to be altered if sanctions are imposed

Behind Uganda's political developments, the Ugandan economy has been one of the world's most resilient economies against the Covid-19 pandemic. President Museveni's largely positive response to the pandemic has prevented the economy becoming the centre of the election debate. Despite job losses, muted business activity and a cautiousness within the banking sector, Uganda's economic metrics show a more positive picture.

Against a backdrop of 5.6% economic growth in 2019, the Ugandan economy has been projected to have contracted by -1% in 2020, although some forecasts place Uganda as one of the few economies to have grown in 2020. Fiscal and monetary stimulus have been well received, the value of the Ugandan shilling has remained steady and increases in the export of coffee, gold and maize have helped to counterbalance drops in other sectors, such as tourism. Similarly, investment efforts such as the state's revival of Uganda Airlines and the Uganda-Tanzania Crude Oil Pipeline (UTCOP) deal have created a positive narrative around Uganda's economic future, both at home and abroad.

2021 is likely to see some subdued growth, with the economy likely to grow by up to 4% according to some projections. However, a return to 2019 levels of economic growth remains unlikely until 2022, with the Ugandan recovery still fundamentally linked to the global rate of recovery and vaccination rollouts.

If the Biden administration imposes sanctions on Uganda, the projected economic growth could be curbed as FDI diminishes.

Concerns over Uganda's debt future

In 2021, Uganda has the potential to exceed the debt threshold in the next financial year. As a percentage of GDP, Ugandan public debt is projected to reach 48% by June 2021. Behind the current political ruminations, there is now a real concern that a deterioration in the debt to GDP level could exceed 50% in the next financial year without fiscal adjustments. Countermeasures to the economic impact of Covid-19 have catalysed the growing potential for future debt distress associated with Uganda's increasingly systemic fiscal deficit, although Uganda remains at a more sustainable debt level than many countries in the region. Similarly, Uganda remains outside of concerns over a domino effect of debt distress in Sub-Saharan Africa.

Uganda has borrowed about \$3billion from Chinese banks and has no outstanding Eurobond obligations.

A fundamental issue within the Ugandan economy remains over tax revenue collection. In Uganda, revenue collection is systemically lower than many of its neighbours, with reduced business activity further reducing tax receipts. However, Uganda boasted of meeting its revenue collection targets this year but that was after the collection target was dropped by 9%. With lower revenue incomes, the Ugandan government expenditure has already dropped accordingly, notably in Q2 2020. In 2021, the fiscal deficit is projected to grow once again, from 7.5% to over 10%. Fiscal changes remain a reasonable possibility, while it is also key to monitor Uganda's debt situation, and response, as it approaches the 50% debt to GDP threshold.

Contact DaMina for a more detailed briefing from our risk analysts:

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