IMPACT OF THE COVID-19 PANDEMIC ON THE PERFORMANCE OF CURRENT AND CAPITAL ACCOUNTS IN UGANDA

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J21B34/017

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE IN ECONOMICS AND STATISTICS DEGREE OF UGANDA CHRISTIAN UNIVERSITY

September, 2023

UGANDA CHRISTIAN UNIVERSITY

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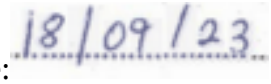
Abstract

The COVID-19 pandemic has caused one of the greatest economic decays in the history of humankind. Its effects are far-reaching, and even to date, we have yet to fully recognise/realise how bad the situation was or how best we can evolve to deal with the mayhem it caused. Hence, this study aimed to identify how the COVID-19 pandemic affected the performance of Uganda's current and capital accounts. Several indicators were considered for this study, including imports and exports, Foreign Direct Investments (FDI), Capital flows, trade patterns and restrictions, and the new policy changes implemented.

In order to analyse these time series data sets gathered from secondary data sources such as the World Bank, Bank of Uganda, Uganda Bureau of Statistics, as well as other key players for the period before, during and after the pandemic, a quantitative research approach was applied where econometric analysis and linear regression where used. The study's conclusions showed a significant relationship between COVID-19 and Uganda's economic disruptions and recommended possible measures for dealing with such divergences should they rise again.

Declaration

I, Namatende Rachel Rovincer, do hereby declare that this dissertation titled: "The Impact of COVID-19 on the Performance of Uganda's Capital and Current Accounts" is my original work; and to the best of my knowledge, it has not been submitted to any other higher education institution or university for any academic award whatsoever.

Signed:  Date: 

Approval

This Dissertation titled: "The Impact ofCOVID-19 on the Performance of Uganda's Capital and Current Accounts" has been submitted for examination with the approval of my supervisor.

Signed:  Date: Mon: September 18, 2023

Mukisa Simon Peter

Acknowledgement

I thank the Lord Almighty, who has enabled me to complete my studies and this piece of writing. I indeed could not have done it without the knowledge, wisdom, and courage He has imparted unto me.

I would also like to acknowledge the efforts of my academic supervisor, Mukisa Simon Peter (Mr.), who tirelessly held and conducted weekly meetings to ensure we were on track with our dissertations. We are eternally grateful for the time, guidance and effort you have put in. You are an excellent supervisor, indeed.

My sincere thanks go out to Rev and Mrs. Mutabule. Without their constant support and words of encouragement, I would not have been able to make it this far.

I would also like to thank the staff of Uganda Christian University, specifically my lecturers, who patiently guided us on report writing.

Lastly, I express my sincere gratitude to my parents. You have strongly supported and stood by me every step of the way, and I cannot thank you enough for all you do, but I do pray that the good Lord richly reward you.

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Chapter One
Introduction and Background

1.0 Introduction

Since WHO announced COVID-19 on 31 December 2019 after receiving news from China, a month later, it was declared the world of emergence and upgraded to the pandemic in March 2020 (Nabukeera, 2022). The COVID-19 pandemic took a heavy toll on lives and livelihoods. The global reaction, as seen in significant shifts in travel, consumption, and trade, also made the world more economically imbalanced, as reflected in current and capital account balances. Due to the COVID-19 pandemic, Uganda immediately registered a decline in both exports and imports. The government could only collect too little from taxes and did not earn Income from exporters (Independent, 2020). A shortage of consumer inputs and goods supply could increase commodity prices and affect small businesses, which would distress government revenue and result in a financing gap (Focus, 2020; U.N., 2020a). These measures would affect the increase in exports and imports and decrease the number of tourism visitors who contribute significantly to the GDP of Uganda.

This study concentrates on the impact of COVID-19 on Uganda's current and capital accounts. This chapter will briefly introduce the topic of study, background, statement of the problem, purpose of the study, objectives, research questions, and scope of the study, as well as its significance.

1.1 Background to the Study

According to Tang & Fausten (2012), the current and capital accounts are the haves of Balance of Payments (BoP). This concept of the Balance of payments was discussed in the 1960s and 1970s by Mundell (1961), Fleming (1962) and Johnson (1972). It was an improvement on the Keynesian model of income determination in an open economy. Current account balances are subdivided into trade, Income, and transfer. Trade balances record the value of exports and imports of both goods and services. Examples are final consumer goods, raw materials and intermediate capital goods. At the same time, services include transportation, construction services, communication services, banking, insurance, tourism, travel services, financial services, computer and information services, royalties and license fees, personal, cultural and recreational services, government services and expenses on education (Tang & Fausten, 2012). Income balances are comprised of items such as compensation of employees, interest, rent, profits, dividends and royalties received from foreign countries and paid out

to foreign countries. Items that makeup transfer account balances are gifts, grants, reparation receipts and payments to foreign countries. Transfers can be government transfers or private transfers. Government transfers are typically given for economic, political or humanitarian reasons (Mannur, 2012).

On the other hand, Osisanwo, Maku, Ajike, and Egwuonwu (2015) argued that the capital account is the BoP account that records the movement of capital in the economy due to capital receipts and expenditure. It recognizes foreign investment in domestic assets and domestic investment in foreign assets. The details can be recorded by analyzing the inflow and outflow of funds from the nation's economy. The funds can be in the form of loans or investments. Under capital accounts, investments made by the public and private sectors are taken together. The capital flow may either be debt-creating or non-debt-creating. The components of a capital account include the following: Foreign Direct Investment, Portfolio Investment, and Government loans to the Governments of other countries of the world.

According to Meng, Hua, and Bian (2020), Coronavirus, officially named "Coronavirus Disease 2019, COVID-19" by the World Health Organization (WHO) on 11 February 2020, is a novel, zoonotic virus that occurred in the city of Wuhan, China in December of 2019. This virus has made the world panic, especially when it was declared a "global health emergency" in January 2020. As of 3 July 2020, the globe had recorded 10,874,146 confirmed infections and 521,355 deaths. The COVID-19 pandemic is disrupting business and most sectors of the economy. International Food Policy Research Institute (IFPRI) analysis projected the possible effect of the COVID-19 pandemic on the economy. The analysis indicates that for each month the COVID-19 crisis persists, the national GDP could fall between 0.7% and 0.8% (Meng et al., 2020).

According to the International Monetary Fund in its World Economic Outlook (WEO) for April 2022, COVID-19 made the world more economically imbalanced, as reflected in current and capital account balances. The COVID-19 pandemic widened global current account balances- the sum of absolute deficits and surpluses among all countries from 2.8% of world GDP in 2019 to 3.2% in 2020. Those balances would widen further as the pandemic continues to rage in much of the world. The COVID pandemic has caused significant disruption to global trade. In 2020, global trade fell by 8.9%, the steepest drop since the global financial crisis. Specifically, the pandemic affected services trade more than goods trade. Services trade fell by more than 20% in 2020, almost four times the

decline in goods trade. The COVID-19 pandemic has caused the most significant blow to the U.S. economy since the Great Depression. GDP fell at a 32.9% annualized rate, the most profound decline since records began in 1947. About 37.6 million Americans received unemployment checks in the week ending 11 July. 2022.

In Africa, the COVID-19 pandemic did not spare effective economic growth, particularly the current and capital accounts. Africa's first case of COVID-19 was recorded in Egypt on 14 February 2020, followed by Nigeria on 27 February 2020. Early in March 2020, Algeria, Cameroon, Morocco, Senegal, South Africa, Togo and Tunisia reported positive cases. The virus spread to Africa as in other parts of the globe.

Africa has been hard hit by the COVID-19 pandemic, with the African Development Bank (2021) estimating that economic growth in the continent shrank by 2.1% in 2020 and by 1.9 % in early 2021. Among Africa's sub-regions, the most brutal economic growth hit is Southern Africa, whose growth is estimated to have fallen by 7.0% in 2020. It is followed by Central Africa (−2.7%), West Africa (−1.5%), and North Africa (−1.1%). East Africa, which is least dependent on natural resources, managed an estimated 0.7% growth in 2020. According to the African Development Bank (2021), international remittances to Africa fell from U$85.8 billion in 2019 to U$78.3 billion in 2020 and U$74.7 billion in 2021, with Lesotho, Mozambique, and Seychelles having the most significant fall. According to the World Bank (2021), remittances to sub-Saharan Africa (SSA) decreased significantly by around 7.8% between 2020 and 2021, from U$41 billion to U$39 billion due to the COVID-19 pandemic, restrictions in movement, and their devastating impacts on the global economy.

In East Africa, the current and capital accounts were estimated at -7.1% of the region's Gross Domestic Product (GDP) in 2020. It worsens at -5.4% of GDP in 2021 (Kassegn & Endris, 2021). This deterioration was partly related to increased imports as trade corridors reopened after the coronavirus (COVID-19) crisis. Furthermore, the pandemic has amplified the debt vulnerabilities greatly. Before the crisis, there were five countries (Burundi, Eritrea, Ethiopia, Kenya and Seychelles with debt-to-GDP ratios exceeding 50 per cent in 2019. However, the pandemic has increased the proportion of countries with debt-to-GDP ratios exceeding 50% in the region. This higher debt has increased debt servicing payments. Recent data shows that for six countries in the region, over 10%

of export revenue and primary Income was spent on such payments. (United Nations Economic Commission for Africa, 2020)

The WHO announced COVID-19 on 31 December 2019 after receiving news from China. A month later, it was declared the world of emergence and upgraded to the pandemic in March 2020 (Spina et al., 2020; WHO, 2020). When Uganda recorded its first COVID-19 case in March 2020, several measures were set by the government to limit the exponential growth of the virus in the country. Among the measures set by the government included a ban on international travel, a ban on public transport, closure of borders and airports, closure of several businesses, closure of schools, closure of hotels and restaurants, and stay home. These measures affected the increase in exports and imports and decreased the number of tourism visitors who contribute significantly to the GDP of Uganda (Lakuma et al., 2020).

However, no study examined the impact of COVID-19 on Uganda's Balance of payments in terms of current and capital accounts. Hence, it is against this background that this study will examine the impact of COVID-19 on Uganda's current and capital accounts.

1.2 Statement of the Problem

Over the past 20 years, remittance inflows in Uganda have steadily been increasing while outflows have remained relatively stable. For instance, between 2015 and 2017, the inflows rose sharply, with an average increase of 13% yearly. (World Bank, 2017). However, after the pandemic hit, the personal remittances received as a percentage of GDP decreased from 2.8% in 2020 to 2.7% in 2021 and finally to 2.5% in 2022; the export rate of goods and services from US$ 87 million in 2019 to US$ 147 million in 2020 and at US$ 152 million in 2021 which was just a slight increase between 2019 to 2020 unlike in the years between 2019 to 2020. Uganda's tightly- controlled response to the COVID-19 pandemic looks to have had more helpful results than its neighbors. Nevertheless, while the strategies have thrived in containing the pandemic so far, they have also triggered numerous economic damages. Nabukeera (2021) conducted a study on the impact of the COVID-19 pandemic on Uganda's economy; Kemitare & Kibekityo (2021) analyzed the short-term effects of COVID-19 on Industries in Uganda. However, there has yet to be a study examining the impact of COVID-19 on Uganda's current and capital accounts. Hence, there is a need to conduct this study in Uganda.

1.3 Purpose of the Study

The purpose of this study is to examine the impact of COVID-19 on the performance of the current and capital accounts in Uganda

1.4 Objectives of the Study

1. The purpose of the study will be to examine the changes in the current account due to the outbreak of the COVID-19 pandemic in Uganda
2. To assess the impact of COVID-19 on Uganda's capital accounts
3. The effectiveness of policies in mitigating the economic disruptions in Uganda

1.4.1 Research Questions

1. What are the changes in the current account due to the outbreak of the COVID-19 pandemic in Uganda?
2. What is the impact of COVID-19 on Uganda's capital accounts?
3. What are the effectiveness of policies in mitigating the economic disruptions in Uganda?

1.5 Significance of the Study

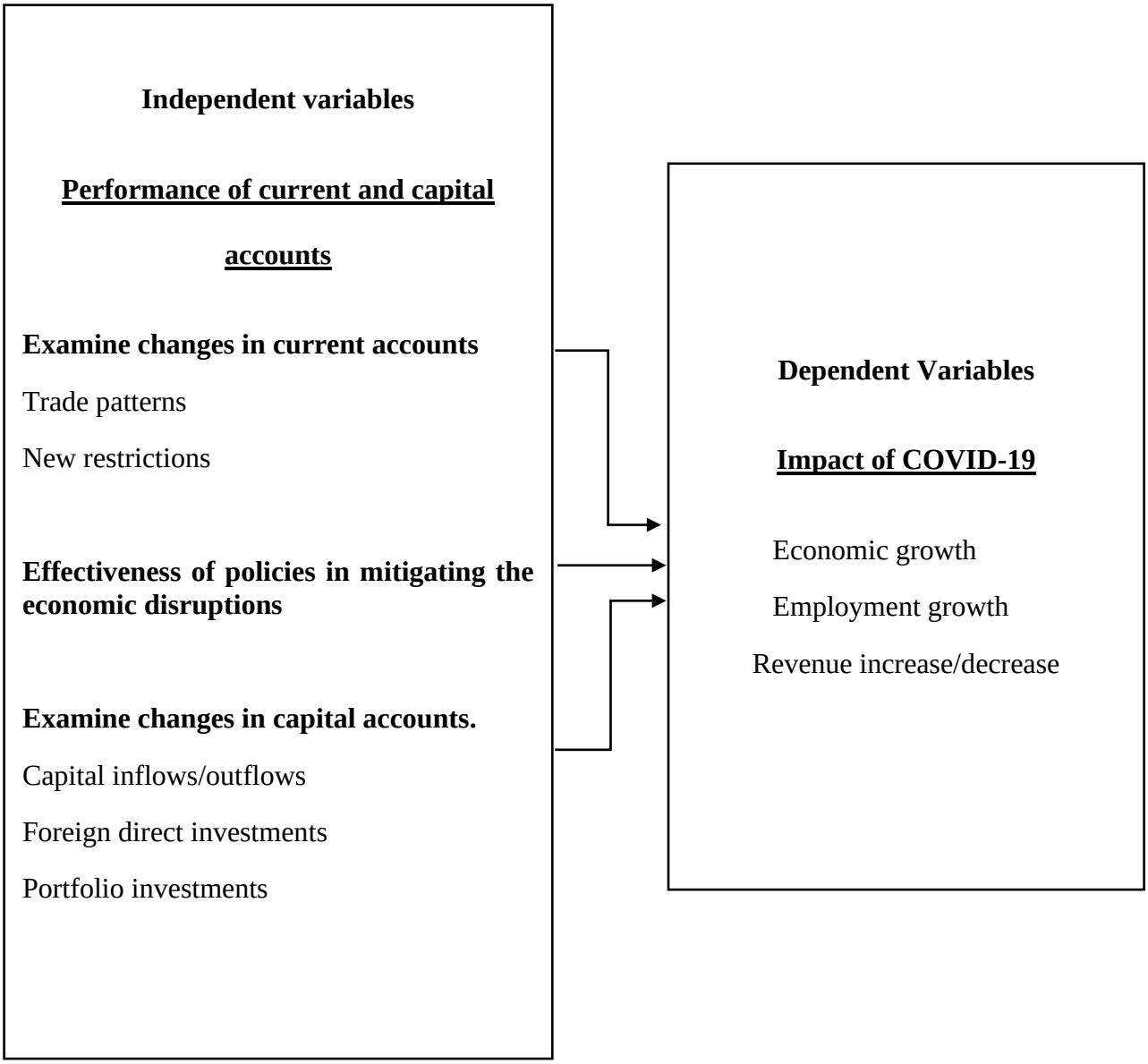
By comparing the before and after pandemic economic situation of Uganda presented by this research, there will be an expansion on the current understanding of the growth/decline of our economy in terms of monetary movements, capital transfers and Balance of trade balances. The study is significant as it will help to address a pressing economic issue of the negative impact of the COVID-19 pandemic on the economic health of Uganda's economy, growth and development. It also presents data on a few policies implemented during the pandemic, giving the reader insight into which policy was most successful and effective in achieving the desired results.

Specifically, this research will benefit policymakers and students alike in deciphering which school of thought or policy strategy they should employ in a given situation. Long-time policymakers may also consider the result of this research to review their current policy strategy.

Furthermore, a detailed presentation comparing the policy strategies used in this research may serve as a tool for further studies to innovate the current method employed in today's economy.

The results of this study will also be invaluable to researchers and scholars, as it forms a basis for further research. The study will also be a reference material for future researchers on related topics.

1.6 Conceptual Framework



Chapter Two
Literature Review

2.0 Introduction

This chapter reviewed the existing literature on the concepts (COVID-19, current accounts and capital accounts), which will be followed by the study's theoretical framework and discussions on each of the study's objectives. The researcher uses secondary data sources, which include textbooks, journals, newspapers, books, and the Internet.

2.1 Concepts

2.1.1 Corona Virus (Covid-19).

COVID-19 (coronavirus disease 2019) is a disease caused by a virus named SARS-CoV-2. It can be very contagious and spreads quickly. Over one million people have died from COVID-19 in the United States. COVID-19 most often causes respiratory symptoms that can feel much like a cold, the flu, or pneumonia. COVID-19 may attack more than a person’s lungs and respiratory system, but the disease may also affect other body parts.

According to Jung et al. (2020), COVID-19, first reported to the World Health Organization in China on 31 December, became a global threat. The origin of this catastrophic epidemic is attributed to a novel five viruses belonging to the coronavirus (CoV) family. This has caused significant mortality and death in many countries across the globe since this virus is very contagious. Other scholars like Yee et al. (2020) believe that the virus emerged from animal reservoirs and has high mutations that enable it to adapt to varied hosts, increasing its chances of human-to-human spread once a person is infected, having been the seventh human Coronavirus identified with notable similarities to two other vastly pathogenic respiratory coronaviruses, the severe acute respiratory syndrome coronavirus (SARS-CoV) and Middle East Respiratory Syndrome coronavirus (MERS-CoV), both of which have had enormous effects in the last decade. The government of Uganda instigated different measures, which included the closing of Entebbe International Airport to passenger traffic, which prohibited the "entry into Uganda by any person and the introduction into Uganda of any animal, article or thing at or through any of the border posts of Uganda”. Cargo transport by train, plane, lorry, pick-up, tuk-tuks, boda boda’s and bicycle within Uganda and between Uganda and the outside would continue only with minimum numbers.

2.1.2 Current Accounts

The current account is part of the country's Balance of Payments. Therefore, a current account is in Balance when the country's residents have enough to fund all purchases in the country. Residents include the people, businesses, and government. Funds include Income and savings. Purchases include all consumer spending, business growth, and government infrastructure spending. Most countries aim to accumulate money by exporting more goods and services than imports. That is called a trade surplus. It means a country will take in more earnings than it spends. A deficit occurs when a country’s government, businesses, and individuals export fewer goods and services than imports. They take in less capital from foreigners than they send out.

A current account is an economic term that helps indicate how well a country can trade with foreign markets. Considering the Balance of trade it looks at the number of products a country exports versus how much it imports. The current account represents the net effect of this transaction on the given country.

The current account can be subdivided into four components: trade, net Income, direct transfers of capital, and asset income. Trade in goods and services is the most significant component of the current account. Trade deficit alone can be enough to create a current account deficit. A deficit in goods and services is often large enough to offset any surplus in net Income, direct transfers, and asset income. Net Income is the Income received by the country's residents minus Income paid to foreigners. The country's residents receive Income from two sources. The first source is foreign assets owned by a nation's residents and businesses. That includes interest and dividends earned on investments held overseas. The second source is Income earned by a country's residents who work overseas. Direct Transfers include remittances from workers to their home country. For example, Mexico received $36 billion from abroad in 2019. Direct transfers also include a government's foreign aid and foreign direct investments.

Asset income is composed of increases or decreases in assets like bank deposits, the central bank, government reserves, securities, and real estate.

2.1.3 Capital Accounts

Capital Accounts are the transactions made between nations that specifically record capital and financial transactions. It involves transactions made between people and entities of different nations. The world is more connected than ever due to trade and transactions made by international parties. Every nation is, in one way or another, tied and connected to another under trade and finance. The following are examples of transactions that are recorded in this account: gifts to individuals, institutions, or nations; grants that are recorded to or from an economy; national aid can be emergency relief or any other aid; and lastly, the bonds that are the debt obligations by a company to investors but this type of debt is different from one from a commercial bank.

The capital account includes international transfers of ownership. An example is the purchase of a foreign trademark by a U.S. company. A similar example is a U.S. oil company acquiring drilling rights to an overseas location. International debt forgiveness is another. A cross-border insurance payment could be substantial, but it rarely occurs. When it does, it goes into the capital account.

2.4 Theory

This study is based on the Heckscher-Ohlin model. In the early 1900s, two Swedish economists, Eli Heckscher and Bertil Ohlin, developed an international trade theory. This theory has become known as the Heckscher-Ohlin model (H-O model). The H-O model results are that differences in factor endowments determine the pattern of international trade. It predicts that countries will export goods that make intensive use of locally abundant factors and import goods that use locally scarce factors. The H-O model makes the following core assumptions: Labor and capital flow freely between sectors, equalizing factor prices across sectors within a country, the amount of labor and capital in two countries differ (difference in endowments), technology is the same among countries (a long-term assumption), tastes are the same upon countries. However, this study ignores periods of economic recession, like the period of the COVID-19 pandemic. In this current study, the researcher will use this study to determine the monetary level of labor and capital flow, especially during the COVID-19 lockdown in Uganda (between 2020 and 2021).

2.5 Empirical Literature Review

Jumaeva (2020) investigated the impact of the COVID-19 Pandemic on the Balance of Payments from Developed and Developing Countries. The finding revealed that the trade balance deficit in the USA has expanded due to the global pandemic, while exports have reached the lowest indicator during the ten years. In the first quarter of 2020, the current account deficit constituted 104.2 billion USD or 1.9% of the national GDP. The COVID-19 pandemic has contributed to the deficit emergence. In particular, business representatives had to operate in limited conditions, and tourists needed help to cross the border.

Zhao, Zhang, Ding, and Tang (2021) examined the implications of the COVID-19 pandemic on China's exports. This study empirically analyses various implications of the COVID-19 pandemic in China and trading partner countries on China's exports by constructing an econometric model using COVID-19 pandemic data from China and its 21 trading partner countries (regions) from January 2019 to August 2020. The results show that (1) the COVID-19 pandemic in China has a significant negative effect on its export trade, (2) the COVID-19 pandemic situations in trading partner countries and regions generate significant positive effects on China's total exports, and (3) the COVID-19 pandemic situation has a heterogeneous impact on China's exports to different trading partners.

Che, Liu, Zhang, and Zhao (2020) analyzed China's Exports during the Global COVID-19 Pandemic using a difference-in-differences model. The study examined the impact of the COVID-19 pandemic on China's monthly exports from January 2019 to May 2020. The findings revealed solid and robust evidence that China's exports to countries at high risk from the pandemic experienced a more significant decline than exports to low-risk countries after the onset of the pandemic, with the prices of exports increasing significantly. Furthermore, the results of a triple differences model show heterogeneous effects across different industries and goods. Chinese industries located upstream in the global value chain are more vulnerable than those located downstream. Industries with high labor and contract intensity (proxies for processing trade) experienced more significant declines than other industries. Exports of goods with high import elasticity of substitution experienced higher prices and moderate volume losses due to the pandemic.

Wei, Jin, and Xu (2021) examined the influence of the COVID-19 pandemic on the imports and exports in China, Japan, and South Korea. In the study, a time series and cross-country data spanning

from January 2020 to December 2020 are used to empirically investigate the impact of the COVID-19 pandemic on exports and imports in China, Japan, and South Korea. The models control industrial production, trade openness, government response (including monetary and fiscal intervention), and major trade partners' pandemic impact. In addition, the three countries, China, Japan, and South Korea, are also estimated separately in consideration of the cross-country disparity. The results show that domestic epidemics in China, Japan, and South Korea have a non-significant (statistically significant) effect on imports but are negatively correlated with exports in Japan; epidemics in major trading partners are negatively correlated with imports in Japan and positively correlated with exports in China and South Korea; and government intervention is positively correlated with imports in China and positively correlated with exports in China, Japan, and South Korea.

A study by Petrylė (2022) on the influence of the COVID-19 pandemic on exports from Lithuania applies the gravity model to analyze structural changes in Lithuania's exports during the first pandemic year. Lithuania was selected as a case of a small open economy with relatively high COVID-19 cases, on the one hand, and a relatively small decrease in its GDP growth in 2020

, on the other. The research aims to fill the gap in the current literature by investigating heterogeneity in the export of goods in terms of both product groups and export destinations. The study analyzed whether the importance of distance and other export-determining factors changed during the pandemic year. Results suggest that Lithuania's export is resilient to economic shocks. Although the effects of COVID-19 were heterogeneous, the pandemic year had a negligible impact on Lithuania’s export structure. The influence of distance or other export determinants on Lithuania’s export structure did not change during 2020.

Liu, Ornelas, and Shi (2022) analyzed the global trade impact of the COVID-19 pandemic, and their study analyzed how COVID-19 deaths and lockdown policies affected countries’ imports from China during 2020. The study found that a country’s COVID-19 deaths and lockdowns significantly reduced its imports from China, suggesting that the adverse demand effects prevailed over the negative supply effects of the pandemic. On the contrary, COVID-19 deaths in the main trading partners of a country (excluding China) induce more imports from China, partially offsetting countries' effects. The net effect of moving from the pre-pandemic situation to another where the main variables are evaluated at their 2020 mean is, on average, a reduction of nearly 10% in imports from China. There is also significant heterogeneity. For example, the adverse effects of the pandemic

vanish when we restrict the sample to medical goods and are significantly mitigated for products with a high 'work-from-home' share or a high contract intensity for products exported under processing trade and for capital goods. We also find that deaths and lockdowns in previous months tend to increase current imports from China, partially offsetting the contemporaneous trade loss. This suggests that trade is not simply ‘destroyed' but partially 'postponed'.

Masdjojo, Suwarti, Pancawati, and Sudiyatno (2022) used a monetary approach with an error correction model in analyzing the Balance of Payments (BOP) from 1990 until the COVID-19 pandemic in Indonesia. From the results of the data analysis, it is known that all variables of the monetary approach have a substantial effect on the change of BOP in Indonesia, except interest rates and price levels. During COVID-19, Indonesian foreign exchange reserves tended to increase at the end of 2020. Its value was above international adequacy standards.

A Study by Bortz, Michelena, and Toledo (2020) tracked the impact of the COVID-19 pandemic crisis on Emerging Markets and Developing Economies (EMDEs), focusing on the performance of their Balance of Payments (BOPs). This study stems from the fact that EMDEs face simultaneous hits in their BOPs as they try to cope with the domestic impact of the COVID-19 pandemic. Those impacts call for rethinking some aspects of the Keynesian Approach to BOPs while strengthening the view of international financial markets as hierarchical and volatile institutions. The external impacts can be summarized in four channels: (i) The unprecedented capital flight which has led to depreciation, scarcity of hard currency, debt problems and rising spreads in domestic currency; (ii) the fall in commodity prices, a significant component of the export basket in most EMDEs; (iii) the contraction in global aggregate demand and supply, which together with lower commodity prices lead to reduced export earnings; and (iv) the decrease in remittances, a significant supply of hard currency in several EMDEs and Low-Income Countries (LICs). The concomitant impact of these “storms” has limited the capabilities and efficiency of governments to adopt fiscal and monetary stimulus packages and to respond to sanitary requirements. Government reactions are also clogged by the considerable weight of the informal sector in EMDEs.

Chapter Three
Research Methodology

3.0 Introduction

This chapter outlines the methodology that will be adapted and used in this study.

3.1 Research Design

The study will employ a descriptive survey design with only quantitative approaches to determine the impact of the COVID-19 pandemic on Uganda's current and capital accounts.

The study used Classical Linear Regression (CLR) model to get answers to the study

3.2 Scope of the Study

This study will use monthly data covering March 2020-2021; hence, time series data will be available for this period.

3.3 Data Type and Sources

The data obtained on current and capital accounts will be obtained from the World Bank, Trading Economics and Uganda Bureau of Statistics (UBOS, 2020-2021), while data on COVID-19 cases will be acquired from the Worldometer website (Worldometer, 2020 – 2021).

This study will consider collecting and analysing data like Exports (E), Imports (I.P.), Loans (L), investment level (I), and asset income (A.I.). Hence, the study will involve the use of secondary data.

3.4 Research Hypotheses

$H0_1$: COVID-19 may have a significant impact on the current accounts in Uganda

$H0_2$: COVID-19 may have a significant impact on the capital accounts in Uganda

3.5 Econometric Model

The econometric model will be derived from the current and capital accounts/balance of payment approach by considering the Exports (E), Imports (I.P.), Loans (L), Investments level (I), and asset income (A.I.) as Balance of Payments (BoP).

Y = E +IP+ L+I+AI + e

$Y = \beta_1(E)+\beta_2(IP)+ \beta_3(L)+\beta_2(I)+ \beta_3(AI)+ U(5)$

The formula will then later be modified as follows

$Log(Y) = \beta_1 log(E) + \beta_2 log\ (IP)+\beta_3 log(L) + \beta_2 log\ (I)+\beta_3 log(AL)\ U$

3.7 Data Presentation and Analysis

This section is divided into five subsections. The unit root test will be presented first, followed by co-integration tests. This leads to the presentation of the vector error correction model (VECM), a result which is followed by diagnostic checks, impulsive response and variance decomposition.

3.8 Statistics Tests

The statistical tests that will be conducted are the tests of significance of parameters and presence of heteroscedasticity, the Durbin–Watson test for serial correlation, the test for the goodness of fit and the test to test for the significance of the joint effect of explanatory (independent) variables on the respective dependent variable.

3.8.1 Heteroscedasticity Test

Heteroscedasticity occurs when the variance of the error term is not constant. The study will employ White's General Heteroscedasticity Test. Gujarati (2004) asserts that the general test of heteroscedasticity proposed by White does not rely on the normality assumption and is easy to implement.

3.8.2 The Student T-Test

The t-test, also known as the student t-test, is one type of inferential statistics. It determines whether a significant difference exists between the means of two or more groups.

3.8.3 The Serial Correlation Test

When error terms from different (usually adjacent) periods (or cross-section observations) are correlated, we say that the error term is serially correlated. Serial correlation occurs in time-series studies when the errors associated with a given period carry over into future periods.

3.9 Ethical Considerations

The researcher will credit and precisely recognize the sources of information to celebrate the works of previous intellectuals or researchers. The researcher will labor to work in line with generally acceptable standards of research and will attain time series data that will not be manipulated. Instead, it will be used as attained.

Chapter Four:
Data Presentation Discussion and Interpretation of Findings

4.1 Introduction

This chapter presents data analysis, interpretation of the study and the empirical findings in line with the set objectives of this study listed in chapter one. The primary objectives of this study were to examine the changes in Uganda's current and capital accounts due to COVID-19 and to assess the effectiveness of government policies in mitigating the economic disruptions caused by the pandemic. Using time series econometric models, the study estimates the changes (growth/decline) in Uganda's capital and current accounts. The findings were obtained from secondary data sources, and a simple linear regression model was used.

4.1 Simple Linear Regression

The simple linear regression coefficients describe the mathematical relationship between independent and dependent variables. It is used to determine how strong the relationship is between the two variables and determine the dependent variable's value at a particular value of the independent variable (e.g., our capital account balance at a certain number of COVID cases reported).

4.2 Changes in Uganda's Current Account Due to the COVID-19 Pandemic.

In this section, we analyzed the changes in Uganda's current account due to the COVID-19 pandemic, drawing insights from the literature reviewed in Chapter Two.

Table 1: Percentage Change (%) in the Current Account in 2020 and 2021 Compared With 2019 in Uganda

	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Current account	-605,90	-410,70	-799,48	-696,44	-924,42	-1,131,	-625,83	-1,155,	-874,39	-898,07
% change	-32%	95%	-13%	33%	22%	-45%	85%	-24%	3%	-100%

Source: TradingEconomics (2022) and UBOS (2021)

The findings revealed that the outbreak of COVID-19 in the first quarter of 2020 had a significant impact on Uganda's current account balance. They exhibited a substantial decline during this period, with a reduction of 33%, 22%, and -45% in the first, second, and third quarters of 2020, respectively, compared to the previous year. The decline is also consistent with the literature, which suggests that COVID-19 led to disruptions in trade, reduced exports, and decreased remittances (Jumaeva, 2020;

Zhao et al., 2021; Che et al., 2020). However, it is observed that Uganda started regaining its current account slowly in the first Quarter of 2021 due to the easing of lockdown measures. The current account balance in the first Quarter of 2021 increased to 85% compared to 33% in 2020. (Komuhendo, 2020).

Table 2: Comment on the Import Expenditure during Outbreak of COVID in 2020 Compared to 2019

	Total Import Expenditure (USD Millions)			
	2019	**2020**	**% of Increase/Decreasein Import Expenditure**	**Comment**
Jan	627.3	712.3	13.6	Increased
Feb	632.7	661.6	4.6	Increased
Mar	916.6	595	-35.1	Decreased
Apr	796.1	409	-48.6	Decreased
May	682.6	479.7	-29.7	Decreased

Source: Trading Economics (2022) and UBOS (2020)

From the table above, the findings show that in January and February 2020, the import expenditure had increased by 13.6% and 4.6%, respectively, while there was a decline in import expenditure in March, April, and May by 35.1%, 48.6%, and 29.7% respectively. It is important to note that the decline in import expenditure from March to May 2020 was due to the fall in domestic demand and the COVID-19 measures that restricted the inflow of goods (Musinguzi, 2020). These findings align with the literature's emphasis on the negative impact of COVID-19 on trade and imports (Liu et al., 2022; Wei et al., 2021).

Table 3: Model Findings on the Effect of the Growth in the Number of COVID-19 Cases on the Import Expenditure in Uganda (March-May 2020)

Model Coefficients						
Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	513.844	109.698		4.684	.134
	Number of COVID Cases per month	-.107	.445	-.233	-.240	.850
a. Dependent Variable: Import expenditure (Million USD per month)						

Source: TradingEconomics (2022) and UBOS (2020)

The findings in Table 3 indicate a negative but insignificant effect of the growth in the number of

COVID-19 cases on import expenditure in Uganda from March to May 2020 (P-value>0.05, B=-0.107). These findings imply that the number of COVID-19 cases accumulated between March and May 2020 did not significantly influence Uganda's import expenditure. The decline might have resulted from the closure of airports and borders and a decline in the public demand for goods and services but not growth in the number of COVID-19 cases in Uganda (W.B.,2020).

Table 4: Model Findings on the Effect of the Growth in the Number of COVID-19 Cases on the Export Earnings in Uganda (March-May 2020)

Model Coefficients						
Model		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	260.883	66.746		3.909	.159
	Number of COVID Cases per month	.057	.271	.206	.211	.868
a. Dependent Variable: Export earnings (Million USD Per month)						

Source: TradingEconomics (2022) and UBOS (2020)

The findings revealed that the increase in COVID-19 cases had no significant effect on the export earnings between March and May at a 5% level (P-value>0.868). The findings may imply that the change (slight decrease) in export earnings during COVID-19 was not dependent on the growth in the number of COVID-19 cases every month but the strict measures imposed by the government to limit the spread of the Virus (Lakuma et al., 2020; Reliefweb, 2020).

4.3 The Impact of the COVID-19 and Total Export Earnings in Uganda

A reduction in a country's level of exports is known to negatively interfere with the nation's Balance of Payment (BoP), which also means that the nation will have to import more goods and services, ultimately weakening the value of the local currency against other hard currencies. It should also be noted that before the pandemic hit, Uganda earned a considerable amount from its exports. The fall in export earnings resulted from closing airports and borders and a reduction in the performance of key sectors such as agriculture and manufacturing. These actions consequently affected the supply chain. The findings in this study indicate that after the COVID-19 outbreak in March 2020, there was a considerable decline in export earnings from 603.9 Million USD in March 2019 to 315.5 Million USD in March 2020, which is in line with the

literature in chapters one and two (GoU, 2020a; UBA, 2020)

Percentage Change (%) in Export Earnings in 2020 Compared With 2019 in Uganda

The results also revealed that after the outbreak of COVID-19 in March 2020, export earnings reduced exponentially. The export earnings in March, April, and May 2020 declined by 47.8%, 33.8%, and 16.8%, respectively, compared with 2019. However, it was observed that Uganda started regaining its export earnings slowly in May due to the easing of the lockdown measures. Export earnings in May declined by 16% compared to the 47.8% when COVID-19 emerged (Komuhendo, 2020). This recovery corresponds to the literature's emphasis on the importance of government interventions and policy measures to mitigate the impact of the pandemic on trade and exports (Petrylė, 2022; Bortz et al., 2020).

COVID-19 Pandemic on Uganda's Capital Accounts.

In this section, we analyzed the changes in Uganda's capital account due to the COVID-19 pandemic, drawing insights from the literature reviewed in Chapter Two. The analysis confirmed that the pandemic substantially affected the country's export performance.

Table 5: Impact of COVID-19 on Capital Account in 2020 and 2021 Compared With 2019 in Uganda

	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Capital Account	79,371	87,175	147,20	131,29	86,110	147,20	103,10	190,61	170,16	152,46

Months/year

Source: TradingEconomics (2022) and UBOS (2021)

The results in Table 5 above revealed that after the outbreak of COVID-19 in the first quarter of 2020, the capital account reduced significantly. It is evident that in Q2 and Q3, which were the middle of the COVID-19 pandemic, the capital account declined to 131.29 and 86.110, respectively, from 147.29 in 2020 Q1 and 187.175 in 2019 Q4. This decline, coupled with the decline in foreign direct investment, portfolio investment and capital flows, including loans. This finding aligns with the literature, emphasising the role of government interventions and policies, such as reducing interest rates and promoting digital financial services, in influencing foreign exchange rates and capital flows during the pandemic (GoU, 2020a; Reliefweb, 2020).

Table 6: Regression Findings Showing the Effect of the Growth in the Number of COVID-19 Cases on the Foreign Exchange Rate (USD-UGS) in Uganda (March-July 2020)

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
	1	.946	.896	.861	15.93972	
a. Predictors: (Constant), Number of COVID Cases per month						
ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6534.140	1	6534.140	25.717	.015
	Residual	762.224	3	254.075		
	Total	7296.364	4			
a. Dependent Variable: Foreign exchange rate (USD-UG's)						
b. Predictors: (Constant), Number of COVID Cases per month						

Model Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3793.586	11.071		342.647	.000
2	(Constant)	513.844	109.698		4.684	.134
3	(Constant)	260.883	66.746		3.909	.159
a. Dependent Variable: Export earnings (Million USD Per month)						

The study revealed that the monthly growth in the number of COVID-19 cases had a significantly negative effect on the foreign exchange rate in Uganda (B=-0.084, P-value<0.05). The model findings show that the additional cases of COVID-19 every month reduced the exchange rate by 0.084 shillings, which implies that as Uganda registered additional cases of COVID-19 every month, the Ugandan shilling appreciated against the Dollar. This means that increased cases of COVID resulted in a decline in domestic demand, which deterred the importation of goods from outside countries, such as motorcycles, construction materials, motor vehicles, alcohol and clothes, among others. The coefficient of determination (Adjusted R-square) indicates that the model is a good fit since 86.1% of

the total variations/changes in foreign exchange rate are explained by the growth in the number of COVID-19 Cases in Uganda.

4.4 The Effectiveness of Policies in Mitigating Economic Disruptions

This section examined the effectiveness of policies in mitigating the economic disruptions of COVID-19 in Uganda. This formulated the third and last specific objective of this study.

The analysis of policy effectiveness in mitigating economic disruptions caused by COVID-19 in Uganda highlighted the significance of monetary and fiscal policies. Monetary policy measures, including reducing the central bank rate (CBR), compelling commercial banks to lower their rates (17.7% in April 2020) and promoting digital financial services, played a crucial role in providing liquidity and facilitating access to credit for businesses. These findings are consistent with the literature's emphasis on the role of central banks in lowering interest rates and supporting the financial sector during the pandemic (GoU, 2020a; Reliefweb, 2020).

Financial sector policy responses: Concerning minimizing credit default risk, the Bank of Uganda adopted the following credit relief measures: repayment holidays for a maximum of 12 months, loan tenor extensions and other forms of debt restructuring covered in existing regulations and the prepayment of arrears as a condition for restructuring a credit facility suspended for 12 months with effect from 1 April 2020. The number of restructured loans to mitigate the impact of COVID-19 on borrowers was 500,000 in Q4 of FY2020 compared to 0 in FY2018/19. The Bank of Uganda also adopted digital responses within the financial sector to abate the spread of COVID-19 through in-person financial transactions. As such, effective 25 March 2020, the bank spearheaded the zero rate charges for peer-to-peer, wallet, and bank-to-wallet transactions. Consequently, the financial sector witnessed an upsurge in digital financial services uptake from December 2020. For example, the value of mobile and Internet banking transactions rose by 135.2% and 30.2%, respectively. Furthermore, the value of mobile money transactions grew by 28.2% to UGX 93.7 trillion ($26.7 billion), compared to 2.9% in 2019. Finally, over the quarter ending December 2020, the mobile money escrow account balances increased by 42.9% to UGX 1 083.4 billion ($296.8 million).

In addition, fiscal policy responses were implemented, such as tax relief measures such as deferred payment of corporate tax income or presumptive tax for corporations and businesses, deferred Pay-As-You-Earn (PAYE) until September 2020 by sectors most severely affected by the COVID-19

pandemic such as manufacturing, tourism and floriculture; and waived interest on tax arrears, provided for tax deductibility of donations for the COVID-19 response and committed to expediting payment of outstanding VAT refunds. Indeed, the liquidity provided to taxpayers on account of listed deferments on corporate tax, PAYE, and presumptive tax payments for firms in the manufacturing, tourism, horticulture and floriculture sectors with a turnover below UGX 500 million amounted to UGX 125 billion in both Q4 of FY2019/20 and Q1 of FY2020/21 compared to 0 in FY2018/19.

The Ministry of Agriculture, Animal Industry and Fisheries introduced and adopted an E-voucher system as a policy measure to reduce the chances of contact with the virus when physical money is used. The government rolled out the e-voucher system to 10 additional districts to enhance the distribution of agricultural inputs. Consequently, 288,900 farmers were registered for e-vouchers in FY2020/21 compared to 268,991 in FY2019/20 (7.4% increase). In order to deal with the vulnerable but non-disabled persons affected by COVID-19, 637,000 persons got jobs due to the labor-intensive public works in FY2020/21 compared to 136,571 in FY2018/19, a 366.4% increase.

Lastly, the government launched the Emyooga fund in August 2019 - a poverty eradication scheme worth UGX 165 billion ($45.2 million). Emyooga targets the informal sector and specifically savings and credit cooperative societies (SACCOs) formed in 18 specialized fields, including bodabodas, 39 women entrepreneurs, carpenters, salon operators, taxi operators, restaurant owners, welders, market vendors, youth leaders, persons with disabilities, produce dealers, mechanics, tailors, journalists, performing artists, veterans, fishermen and elected leaders. SACCOs for the aforementioned specialized fields were formed at the constituency level but with operations at the parish level through established parish associations. These policies increased job creation and financial support for affected individuals and businesses. These findings align with the literature, emphasizing the importance of fiscal stimulus packages in mitigating the economic impact of the pandemic (GoU, 2020a; Reliefweb, 2020).

In summary, the findings in Chapter Four corroborate the literature reviewed in Chapter Two, highlighting the significant impact of COVID-19 on Uganda's current and capital accounts, trade, exports, and imports. Furthermore, the effectiveness of monetary and fiscal policies in mitigating economic disruptions during the pandemic is consistent with the literature's emphasis on government interventions to support the economy.

Chapter Five.
Summary, Conclusions and Recommendations

5.1 Introduction

This chapter presents the summary, conclusion and recommendations based on specific objectives such as changes in Uganda's current account due to the COVID-19 Pandemic, the effects of COVID-19 on the capital account and the effectiveness of policies in mitigating the economic disruptions.

5.2 Summary

This study examined the impact of COVID-19 on the performance of Uganda's Capital and current accounts, as well as the possible policy measures used to deal with the economic disruption. The study used the simple linear regression method to analyze the data and interpret the findings. The summary of the findings for each of the specific objectives set for this study is listed below;

i. Changes in Uganda's current account due to the COVID-19 Pandemic

One of the specific objectives was to examine the changes in Uganda's current account due to the COVID-19 Pandemic. The study reveals that the current account has exponentially reduced after the outbreak of COVID-19. The exports, remittances, imports, tourism and travel have also declined. However, Uganda began to regain its current account in 2021 due to the easing of some lockdown measures.

ii. Effects of COVID-19 on the capital account

Before COVID-19, only three African countries had a Debt ratio above 50%, with Uganda having 38.48%. However, after the pandemic, Uganda's debt-to-GDP ratio increased to 51.30% in 2021 and 48.4% in 2022 as the economy slowly recovers.

iii. The effectiveness of policies in mitigating economic disruptions

Another of the policies was established to mitigate the economic disruptions brought about by the COVID-19 pandemic in Uganda. It should be noted that several nations worldwide put in place desperate measures, including complete national lockdowns and travel restrictions, to try and contain the virus. This distorted global supply chains and adversely affected global growth. Uganda is no

exception to the pandemic, as the adverse effects have already started to ripple through the trade balance of the domestic economy. (Wemesa et al., 2021)

5.3 Conclusion

The findings discussed in chapter four aligned with the literature provided in chapter two, as shown below for each specific objective.

i. Changes in Uganda's current account due to the COVID-19 Pandemic

The outbreak of COVID-19 generally led to a decline in imports and exports in Uganda. The study noted that the decline in imports and exports started in March 2020 when Ugandarecorded its first COVID-19 case. However, evidence from the model indicated that the growth in the number of COVID-19 cases had no significant effect on export earnings and import expenditure. Thus, it is concluded that the factors that limited import and export growth werethe COVID-19 strict measures, which limited the movement of goods in and out of the country and thus need to be addressed.

ii. Effects of COVID-19 on the capital account

The study concludes that after the outbreak of COVID-19 in the first quarter of 2020, the capital account was reduced. The decline in the capital account was also coupled with the decline in foreign direct investment, portfolio investment and capital flows, including loans.

iii. The effectiveness of policies in mitigating economic disruptions

The government of Uganda registered successes in most of the policies; for example, the monetary policy has been partly successful in bringing down the lending rate to 17.7% in April 2020, the lowest lending rate since June 2018. The Bank of Uganda adopted the following credit relief measures: repayment holidays for a maximum of 12 months, loan tenor extensions and other forms of debt restructuring covered in existing regulations, and the prepayment of arrears as a condition for restructuring a credit facility suspended for 12 months with effect from 1 April 2020. The number of restructured loans to mitigate the impact of COVID-19 on borrowers was 500,000 in Q4 of FY2020 compared to 0 in FY2018/19. The government of Uganda adopted a fiscal stimulus package targeting both households and the private sector and, hence, waived interest on tax arrears, provided for tax deductibility of donations for the COVID-19 response and committed to expedite payment of outstanding VAT refunds. The E-voucher system was

another policy the Ministry of Agriculture, Animal Industry and Fisheries adopted. Lastly, the government launched the Emyooga fund in August 2019 - a poverty eradication scheme worth UGX 165 billion ($45.2 million).

5.4 Policy Recommendations

Based on the findings and results of this study, the policymakers might want to take into consideration the specific recommendations for each of the set objectives listed below;

i. Changes in Uganda's current account due to the COVID-19 Pandemic

The government must pay close attention to its rising fiscal deficit and increased public debt towards unsustainable levels. The increase in loans to deal with the implications of the Covid-19 pandemic should be checked. This calls for precise mechanisms for good public debt management and the efficient use of available resources to avoid slipping deeper into debt stress.

ii. Effects of COVID-19 on the capital account

The drawbacks of the restrictive COVID-19 response measures should be documented across sectors and used as lessons for designing responses in future crises. This will prevent the inadvertent loss of many lives from existing and manageable conditions due to poor responses to crises in future.

iii. The effectiveness of policies in mitigating economic disruptions

The urban and formal sector learning measures must be applied transparently and inclusively with a short-, medium-- and long-term plan for mitigation, recovery and resilience building. This is the only way to ensure that the damaging impacts of the severe lockdown and other COVID-19 response measures on the economy, people's livelihoods and welfare are adequately documented and addressed equitably.

5.5 Areas for further study

This study investigated the impact of COVID-19 on the performance of Uganda’s current and capital accounts and found contradicting results on what was causing the decline in the performance of both accounts in the initial stages. Both were contrary to the theory; therefore, future studies should investigate the cause of contradiction in detail.

APPENDIX

Year	Current Account	% Change
2019 Q3	-605,902,776	-32%
2019 Q4	-410,707,500	95%
2020 Q1	-799,481,232	-13%
2020 Q2	-696,446,420	33%
2020 Q3	-924,428,242	22%
2020 Q4	-1,131,588,946	-45%
2021 Q1	-625,838,782	85%
2021 Q2	-1,155,101,430	-24%
2021 Q3	-874,398,945	3%
2021 Q4	-898,078,623	-100%

Year	Capital Account
2019 Q3	79,371,874
2019 Q4	87,175,990
2020 Q1	147,202,128
2020 Q2	131,298,610
2020 Q3	86,110,287
2020 Q4	147,202,128
2021 Q1	103,108,771
2021 Q2	190,610,100
2021 Q3	170,163,191
2021 Q4	152,463,928

Where:

a) P.I. Is the Portfolio investment
b) FDI Foreign Direct Investments
c) L Loans
d) Ex Exports
e) Imp Import
f) R Reserves

NOTE: UNITES= US $ MILLION

Bank of Uganda & UBOS

Historical Economic Data for Uganda: 2019 - 2021

https://tradingeconomics.com/uganda/interest-rate

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