

## Introduction

The May 2023 edition of the Uganda Macroeconomic Digest provides insights into the current state of Uganda's economy. With a slowdown in inflation and increased business confidence, the country's economic outlook shows signs of optimism. This digest highlights key indicators such as annual inflation rates, business perceptions, exchange rate movements, interest rate trends, domestic credit, trade balance, and the economic outlook. These factors collectively contribute to understanding the resilience of Uganda's economy and the opportunities and challenges it faces in navigating the path to sustainable growth.

## Annual Inflation:

Uganda's annual inflation, measured by the Consumer Price Index, dropped to 6.2% in May 2023 from 8.0% in April 2023. The decrease was primarily due to lower core inflation of 5.6% in May compared to 6.8% in April. Various goods such as maize flour, rice, cassava flour, and laundry soap bars experienced lower inflation rates. Services inflation decreased to 3.4%, mainly driven by negative transport inflation. Inflation in food crops and related items decreased to 15.7%, with negative inflation in tomatoes.

Energy fuel and utilities inflation also slowed down to 0.9%, primarily due to negative inflation in liquid energy fuels like diesel and petrol. Geographically, the highest inflation rate was observed in Arua, with a rate of 11.9% in April 2023, which decreased slightly to 11.6% in May 2023. This inflation was mainly driven by the annual inflation in 'Housing, Water, Electricity, Gas, and Other Fuels' as well as 'Alcoholic Beverages, Tobacco, and Narcotics'. Gulu had the second-highest inflation rate, recorded at 10.1% in April 2023, which decreased to 7.8% in May 2023. The primary drivers of inflation in Gulu were 'Housing, Water, Electricity, Gas, and Other Fuels' and 'Clothing and Footwear'. Mbarara had the least annual inflation rate, starting at 7.7% in April 2023 and declining to 4.0% in May 2023.

The lower inflation in Mbarara was attributed to the annual inflation in 'Food and Non-Alcoholic Beverages' and 'Transport'.

**6.2%**

Headline Inflation dropped from 8.0% in April to 6.2% in May 2023

**11.6%**

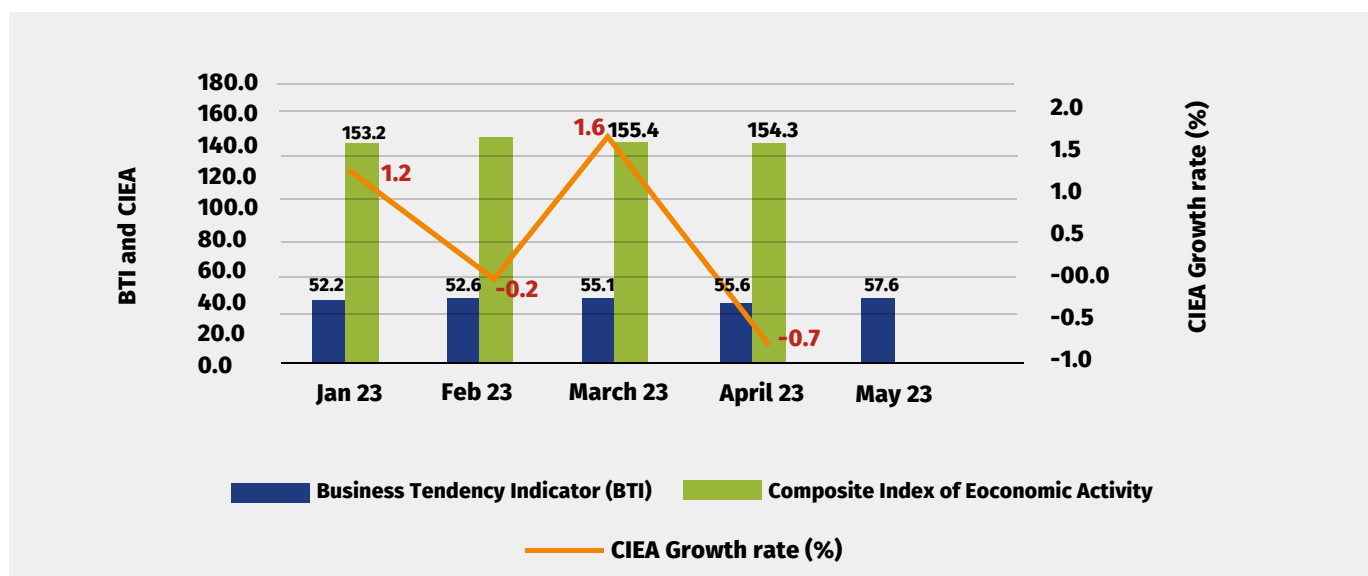
Arua recorded the highest inflation rate in May 2023



## Business Perceptions and Economic Activity:

The Business Tendency Index (BTI) for May 2023 indicates increased optimism among investors, particularly in the construction, manufacturing, wholesale trade, and agricultural sectors. The BTI rose to 57.6 from the previous month's 55.6. Key indicators within the index reflect positive expectations for business conditions and increased order volumes from suppliers, highlighting a favorable outlook for the economy. However, the Composite Index of Economic Activity (CIEA) experienced a slight decline of 0.7% in April 2023, indicating a temporary contraction in economic activity (See Figure 1). Despite occasional negative growth rates in the CIEA, the overall trend suggests a cautiously optimistic outlook as businesses gradually gain confidence.

**Figure 1: Business Tendency Indicator (BTI) and CIEA, January-May 2023**



Source: Author's Construct based on BOU data (2023)

## Exchange Rate Movements:

In May 2023, the shilling demonstrated relative stability against the US dollar, with an average exchange rate of Shs 3,729.6/USD, compared to the previous month's rate of Shs 3,745.8/USD. This marginal appreciation of 0.4% is largely attributed to the implementation of the tight monetary policy, which resulted in decreased demand for the dollar and a simultaneous rise in dollar inflows from offshore investors.

**Shs 3,729.6/USD**  
Average exchange rate  
for May 2023

## Interest rate Movements:

In May 2023, the Bank of Uganda maintained the policy rate at 10.0% for the eighth consecutive month, citing significant risks and uncertainties despite decreasing inflation. Ugandan Shilling lending rates rose to a weighted average of 19.27% in April 2023, up from 18.76% in the previous month. This increase can be attributed to the tight monetary policy stance, with the Central Bank Rate (CBR) remaining high at 10% and increased government participation in the domestic credit market (Net Credit to Government rose by 3.5%). Foreign currency lending rates also increased to 8.11% in April 2023 compared to 7.91% in March 2023, driven by demand for dollar-denominated loans. These higher lending rates indicate increased borrowing costs, which may impact businesses and individuals seeking credit. It is important for borrowers to carefully assess the impact of these interest rates on their financial decisions.

**10%**

Central Bank Rate (CBR)  
for May 2023

**19.27%**

Lending Rates ush Loans  
for April 2023

**8.11%**

Lending Rates Forex  
Loans for April 2023

## Domestic Credit:

In April 2023, the total domestic credit in Uganda increased by 1.9% to Ush. 38.440 trillion compared to Ush. 37.712 trillion in March. The net credit to the government rose by 3.5% from Ush. 14.598 trillion to Ush. 15.109 trillion, indicating increased borrowing or public expenditure. Private Sector Credit saw a slight increase of 0.3% from Ush. 22.094 trillion to Ush. 22.168 trillion, reflecting ongoing borrowing by businesses for investments or operational needs. This growth in domestic credit suggests ongoing economic activity and access to credit for government initiatives and private-sector investments. The allocation of credit was highest for personal and household loans at 21.4%, followed by real estate at 20.0%, trade at 18.0%, and manufacturing at 14.0%. Other sectors had smaller shares of credit, possibly due to lower demand or alternative financing sources.

**Ush. 38.440 trillion**

Domestic Credit rose by  
1.9% in April 2023

**Ush. 15.109 trillion**

Net credit to the government  
rose by 3.5% in April 2023

**Ush. 22.168 trillion**

Private Sector credit rose by  
0.3% in April 2023

## Trade Balance, and Terms of Trade:

In April 2023, the trade balance of Uganda experienced a slight deterioration, as the trade deficit increased by 1.3% from USD 237.66 million to USD 240.79 million. This was primarily due to a significant decline in export revenues from the trade of goods. Total exports of goods, measured at the free on board (FOB) value, decreased by 20.9% to USD538.87 in April 2023 million compared to USD681.08 million in March, indicating a decline in the value of goods sold to foreign markets. Similarly, total imports of goods also saw a notable decline of 15.1% to USD779.66 million in April from USD918.74 million in March, suggesting a decrease in the value of goods brought into the country. Regarding services, total exports showed a slight increase of 3.3% in April compared to March, indicating modest growth in the export of services. Conversely, total imports of services decreased by 15.5% during the same period, reflecting reduced demand for foreign services.



The terms of trade index (TOT) declined by 2.6% to 103.23 in April 2023 compared to 106.03 in March 2023, indicating a relative decrease in the value of exports compared to imports. Nonetheless, the price of Uganda's coffee exports saw a notable 10% increase, rising from USD 2.44 per kg in March to USD 2.66 per kg in April 2023. This price surge is largely attributed to the growing demand for Robusta coffee, driven by the impact of drought in Vietnam, a significant producer of Robusta coffee.

**USD 240.79  
million**

Trade deficit rose by  
1.3% in April 2023

**USD 538.87  
million**

Total Exports of  
Goods-fob dropped by  
20.9% in April 2023

**USD 779.66  
million**

Total Imports of  
Goods - fob declined  
by 15.1% in April 2023.

**103.23**

Terms of Trade Index  
declined by 2.6% in  
April 2023



## Uganda's Export and Import Commodities:

In April 2023, Uganda's trade landscape witnessed notable shifts in export revenues and import receipts. Sugar exports surged by an impressive 94.4%, soaring from USD 5.24 million in March to USD 10.19 million, signaling positive prospects for the sugar industry. Fruits and vegetables also experienced a substantial increase of 35.9%, indicating potential growth in the agricultural sector. The surge in export revenues is primarily attributed to notable increases in export volumes for specific commodities. For instance, the volume of sugar exports witnessed a remarkable 113% rise, soaring from 6,228 tons in March to 13,326.9 tons in April 2023. Similarly, the volume of Fruits & Vegetables experienced a substantial 102% increase, climbing from 6,963 tons to 14,111.3 tons during the same period.

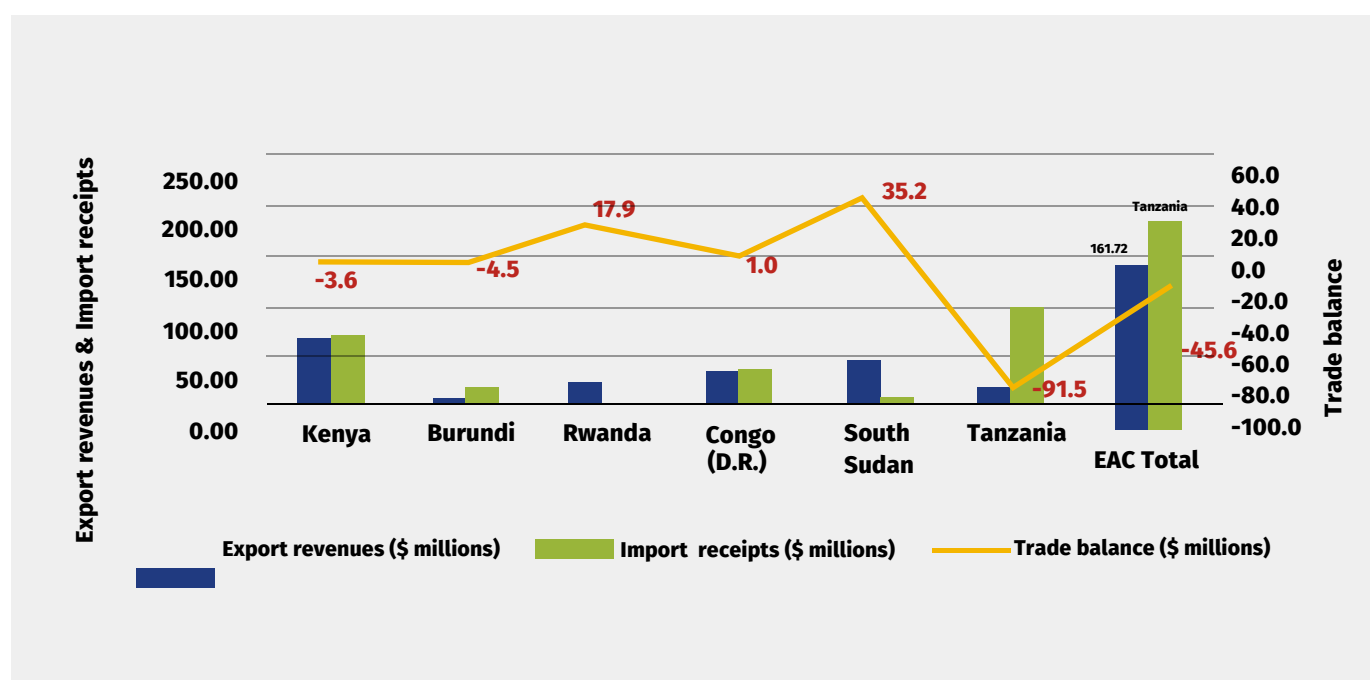
Conversely, cotton exports faced a significant decline of 69.1%, raising concerns for the cotton industry. Likewise, beans and maize exports plummeted by -55.0% and -42.9% respectively. The decrease in export revenues from these commodities is largely attributed to a decline in their export volumes. Notably, the export volumes of cotton witnessed a significant 64% decrease, dropping from 16,881 (185 kg Bales) in March to 6,056.46 (185 kg Bales) in April 2023. Similarly, bean exports experienced a decline of 52%, falling from 4,780 tons in March to 2,258 tons in April 2023. Additionally, the export volumes of maize decreased by 39%, declining from 69,375 tons to 42,041.65 tons during the same period. In April 2023, coffee export revenues witnessed a decrease of 16.1%, amounting to USD 59.99 million from USD 71.54 million the previous month, primarily driven by a substantial 23% drop in export volumes from 487,797 (60 kg bags) in March to 373,610 (60 kg bags) in April 2023.

Notably, textile and textile product imports witnessed a significant surge of 35.0%, soaring from USD 19.45 million in March to USD 26.25 million. This upswing is attributed to the mounting demand for textiles and textile products in Uganda, driven by factors such as rising incomes, urbanization, and an increasing sense of fashion consciousness. However, in April 2023, there was a notable decline in import receipts for mineral products (excluding petroleum) and machinery equipment, vehicles, and accessories, plummeting by 23.2% and 25.2% to USD 190.33 million and USD 120.33 million, respectively. This decline is primarily influenced by the global economic slowdown, resulting in reduced demand for mineral products.

## Trade Balance with the East African Community (EAC):

In April 2023, Uganda experienced varying trade dynamics within the East African Community (EAC). It encountered a trade deficit of \$3.6 million with Kenya, \$91.5 million with Tanzania, and \$4.5 million with Burundi. Conversely, Uganda enjoyed a trade surplus of \$17.9 million with Rwanda, \$1.0 million with Congo (D.R.), and \$35.2 million with South Sudan. When considering the trade balance within the entire EAC, Uganda faced an overall trade deficit of \$45.6 million. These figures underscore the importance of addressing imbalances and strengthening export competitiveness in Uganda's trading relationships within the EAC (See Figure 2).

**Figure 2: Uganda's Trade Balance with the EAC in April 2023 (Million, USD): Exports Vs Imports**



**Source: Authors' construct based on BOU data (April 2023)**

## Economic Outlook:

Uganda's economy is expected to experience a significant growth rate of 5.5% this year, surpassing the 4.7% recorded in the previous financial year 2021/22. The Ministry of Finance, Planning, and Economic Development (MOPED) projects a promising outlook for the next five years, with an average annual growth rate of 6.5-7.0%. These forecasts indicate a positive trajectory for Uganda's economic growth, reflecting the government's efforts in fostering sustainable growth and development in the country.



This report draws information from reliable sources such as the IMF, World Bank, U.S. Department of Agriculture, MOFPED, BOU, and UBOS, etc. Please note that it is for informational purposes only, and feedback and comments can be sent to:

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