

## Introduction

The June 2023 edition of the Uganda Macroeconomic Digest provides a comprehensive overview of the country's economic performance and outlook. This report covers key areas such as annual inflation and outlook, business perceptions and economic activity, exchange rate and interest rate movements, domestic credit, trade balance and terms of trade, and the overall economic outlook for FY2023/24. It presents both positive trends and challenges that shape Uganda's economic landscape, offering valuable insights for policymakers, businesses, and investors.

## Annual Inflation and Outlook:

The annual inflation rate in Uganda, measured by the Consumer Price Index, decreased to 4.9 percent for the 12 months leading up to June 2023, down from 6.2 percent in the previous year ending May 2023. This decline can be attributed to the slowdown in annual core inflation, which decreased to 4.8 percent in the year ending June 2023, compared to 5.6 percent in the previous year. The main contributors to this decrease were lower inflation rates for local gin, maize flour, rice, and cassava flour. Additionally, annual services inflation declined to 3.3 percent, mainly due to a decrease in transportation costs.

The annual inflation for food crops and related items also decreased from 15.7 percent in May 2023 to 12.3 percent in June 2023, driven by lower inflation rates for beans, Matooke, sweet potatoes, and tomatoes. Furthermore, the annual inflation for energy, fuel, and utilities turned negative at -3.1 percent in June 2023, primarily due to lower inflation rates for liquid energy fuels, petrol, and diesel.

In terms of annual headline inflation for different income groups and geographical areas, Arua recorded the highest inflation rates in May and June 2023, reaching 11.6% and 7.3% respectively. This was primarily driven by inflation in insurance and financial services, as well as personal care, social protection, and miscellaneous goods. Fort Portal followed closely with the second-highest inflation rates of 7.2% in May and 6.3% in June 2023, influenced by inflation in restaurants and accommodation services, along with personal care, social protection, and miscellaneous goods. On the other hand, Jinja experienced the lowest annual inflation, with rates of 6.6% in May and 3.4% in June 2023. This low inflation rate was mainly attributed to declining inflation in food and non-alcoholic beverages, as well as alcoholic beverages, tobacco, and narcotics.

Bank of Uganda's June 2023 forecasts indicate that inflation is set to decrease and reach the target by Q3 2023, surpassing earlier expectations. This positive trend is attributed to factors like a strict monetary policy, exchange rate appreciation, base effects, and reduced global prices of fuel and food crops.

**4.9%**

Headline Inflation dropped  
from 6.2% in May to 4.9%  
in June 2023

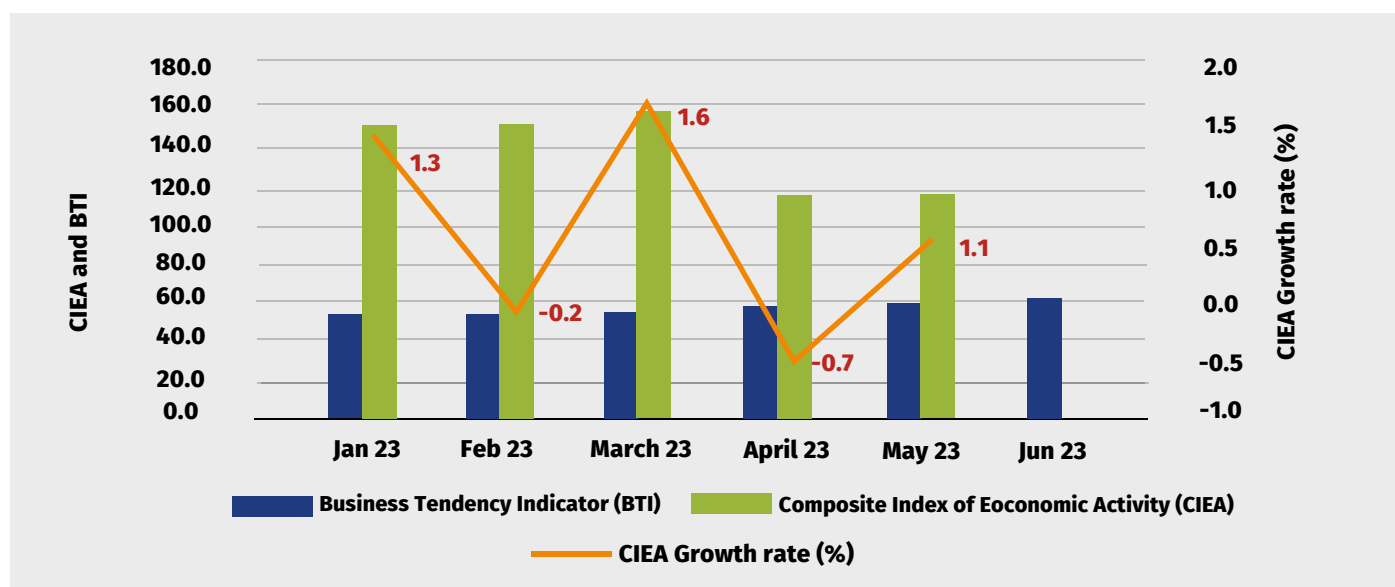
**7.3%**

Arua recorded the highest  
inflation rate in June 2023

## Business Perceptions and Economic Activity:

Business sentiment in Uganda experienced a notable upswing, highlighted by the Business Tendency Index (BTI). June 2023 recorded a remarkable BTI of 61.98, surpassing the two-year high and exceeding the 50 threshold. Optimism prevailed across all monitored sectors, including Agriculture, Construction, Manufacturing, Services, Wholesale, and Retail Trade, with positive indicators in the assessment of the current business situation, order volumes, employee numbers, and competition. Additionally, economic activity showcased significant improvement, with the Composite Index of Economic Activity (CIEA) rising from 154.62 in April to 156.36 in June 2023. Though the CIEA experienced a slight decline of 0.7% in April, its overall upward trajectory signifies growing economic activity across sectors, demonstrating positive developments in the business landscape. This trend suggests that businesses are increasingly gaining confidence in Uganda's economic future, although the slower growth rate of CIEA raises concerns for future economic activity.

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



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

## Exchange Rate Movements:

In June 2023, the exchange rate for the Ugandan Shilling (UGX) against the US Dollar (USD) remained relatively stable, with an average rate of Shs3,707.79/USD. This indicated a slight appreciation of 0.58% compared to the previous month registered at Shs3,729.56/USD. The stability can be attributed to the central bank's implementation of a tight monetary policy, which effectively reduced the demand for the US Dollar. Additionally, increased dollar inflows from the offshore investors played a role in strengthening the Ugandan Shilling. Overall, these factors ensured relative stability in the exchange rate during the month.

**Shs 3,707.79/USD**  
Average exchange rate  
for June 2023

## Interest Rate Movements:

In June 2023, the Central Bank Rate (CBR) in Uganda remained unchanged at 10%, marking the ninth consecutive month without any adjustments. This rate is deemed appropriate for striking a balance between controlling inflation and supporting economic recovery. In terms of Ush-denominated loans, the lending rate experienced a slight rise from 19.3% in April to 20.1% in May 2023. Consequently, it became more costly for both businesses and individuals to obtain loans in Uganda Shillings during this period. For Forex loans, the lending rate for May 2023 reached 8.5%, compared to 8.1% in April 2023. Although the increase was marginal, it signifies an uptick in borrowing costs for loans denominated in foreign currencies. The upward trend in lending rates reflects a tight monetary policy environment designed to manage inflation and facilitate economic recovery. However, the higher borrowing costs may pose challenges for businesses and individuals, as it becomes more expensive to access credit. Consequently, this could potentially hinder investment opportunities and impede business expansion within Uganda. Overall, the stable Central Bank Rate highlights the central bank's dedication to inflation management and economic growth promotion. Nevertheless, the increasing lending rates for Ush loans imply potential obstacles for borrowers seeking affordable credit, which may have adverse effects on the business and investment climate in Uganda.

**10%**

Central Bank Rate (CBR)  
for June 2023

**20.1%**

Lending Rates Ush Loans  
for May 2023

**8.5%**

Lending Rates Forex  
Loans for May 2023

## Domestic Credit:

Uganda's domestic credit experienced a modest increase from Shs38.44 trillion in April to Shs38.76 trillion in May 2023, with Net Credit to the Government (NCG) growing by 2.8% and private sector credit by 0.3%. The NCG rose from Shs15.11 trillion in April to Shs15.54 trillion in May 2023, indicating increased government borrowing and spending to address budgetary requirements and finance projects. Private sector credit increased from Shs22.17 trillion to Shs22.24 trillion during the same period, providing stable lending support to businesses and individuals. The distribution of credit by economic sector remained relatively stable, with Personal Loans and Household Loans having the largest share (21.9%) followed by Building, Mortgage, Construction, and Real Estate (20.2%) and Trade (18.3%). The increase in credit availability is positive for the economy, fostering investment and growth. However, the modest nature of the increase and its sustainability in the future remains to be seen.

**Shs. 38.76 trillion**

Domestic Credit rose by  
0.8% in May 2023

**Shs. 15.54 trillion**

Net credit to the government  
rose by 2.8% in May 2023

**Shs. 22.24 trillion**

Private Sector credit rose by  
0.3% in May 2023

## Trade Balance, and Terms of Trade:

Uganda experienced a significant increase in its trade deficit, with the trade balance expanding to USD282.1 million in May 2023, a 28.6% change from April. The value of goods exported grew by 8.7% during this period, reaching 585.8 million US dollars, while the value of goods imported surged by 14.5% to 867.9 million US dollars. Although total exports of services declined by 5.5%, imports of services increased by

7.2%. The terms of trade index slightly improved from 103.2 to 105.5, indicating a marginal enhancement in Uganda's terms of trade. The widening trade deficit suggests increased imports and potential currency depreciation, emphasizing the need for export diversification, domestic production promotion, and balanced external sector management for sustainable economic growth.

**USD 282.1  
million**

Trade deficit rose by  
28.6% in May 2023

**USD 585.8  
million**

Total Exports of  
Goods - fob rose by  
8.7% in May 2023

**USD 867.9  
million**

Total Imports of  
Goods - fob rose by  
14.5% in May 2023.

**105.5**

Terms of Trade Index  
rose by 2.2% in  
May 2023



## Uganda's Export and Import Commodities:

Uganda experienced a diverse range of trends in export revenues for various commodities during April-May 2023. Coffee, the country's leading export, witnessed a substantial increase of 22.1% from USD 59.99 million in April to USD 73.26 million in May 2023, making a significant contribution to the overall growth of the export sector. Gold exports remained stable with a negligible change of -0.1%. On the other hand, cotton, and tea experienced significant growth rates of 41.0% and 36.7% respectively, indicating favorable market conditions. However, fish and its products saw a decline of -4.1%, while hides & skins and sim sim faced significant decreases of -27.8% and -37.9% respectively.

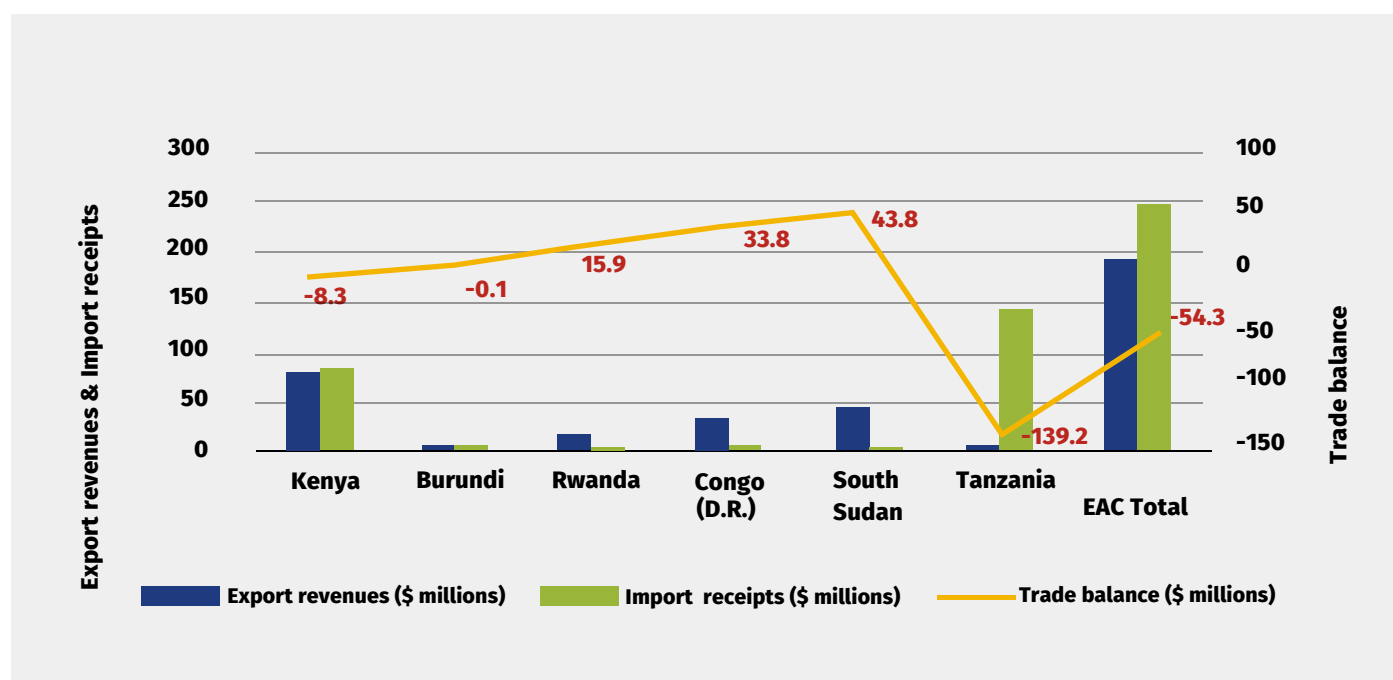
The decline in maize exports was particularly sharp at -40.2%, whereas beans and flowers showed growth. Notably, sugar exports exhibited substantial growth of 56.4%. The increases in export revenues can be primarily attributed to the rise in export values and volumes. For example, Uganda's overall export volume of coffee increased by 21.3% from 373,610 (60 kg bags) in April to 453,169 (60 kg bags) in May 2023. Similarly, the volume of cotton exports increased by 9% from 6,056 (185 kg bales) in April to 6,600 (185 kg bales) in May 2023. Tea exports also experienced a significant increase of 47%, rising from 6,006 tons in April to 8,835 tonnes in May 2023. Conversely, the decline in export revenues for certain commodities can be attributed to a reduction in export volumes. For instance, the volume of sim sim exports decreased by 34% from 1,007 tons in April to 660 tons in May 2023. Similarly, the volume of maize exports declined by 12% from 42,042 tons in April to 37,029 tons in May 2023.

In terms of imports, Uganda witnessed changes in import receipts for various commodities from April to May 2023. Animal and animal products, as well as vegetable products, saw a 13.0% increase. Prepared foodstuff, beverages, and tobacco experienced significant growth of 23.0%. However, mineral products and petroleum products exhibited slight declines. Chemical and related products, plastics, rubber, wood products, base metals, machinery equipment, and vehicles all showed growth. On the other hand, arms and ammunition, and electricity imports decreased. Overall, Uganda's total import receipts increased by 14.3% during this period, reaching a total of \$841.56 million.

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

Uganda's trade balance with the East African Community (EAC) countries in May 2023 reveals a trade deficit with Kenya (-\$8.3 million), Burundi (-\$0.1 million), and Tanzania (-\$139.2 million), indicating higher import receipts than export revenues. Notably, the imports from Tanzania include pearls, cereals, glassware, vegetables, and paper products. Tanzanian cereals constitute around 53% of Uganda's total cereal imports worldwide. Factors contributing to this substantial import volume include Tanzania's comparative advantage in cereal production, Uganda's domestic demand, and the recognized quality of Tanzanian cereal crops. Conversely, Uganda enjoyed a trade surplus with Rwanda (\$15.7 million), Congo (D.R.) (\$33.8 million), and South Sudan (\$43.8 million), indicating higher export revenues. Overall, Uganda's trade deficit with the EAC amounted to -\$54.3 million in May 2023. These trade imbalances underscore the need to enhance export competitiveness and reduce import dependency to improve Uganda's trade balance and support its economy.

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



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

## Economic Outlook:

Uganda's economic growth for FY2023/24 is expected to rebound between 6.0-6.5%. However, a set of downside risks remains a concern, including constrained financing of fiscal deficit due to global financial tightness, a downgrade by rating agencies that could impact foreign direct investment (FDI), challenges in managing government expenditures, regional conflicts, and the possibility of a global economic slowdown. Conversely, there are also positive factors at play, such as promising investments in the oil and minerals sectors, as well as favorable weather conditions that could contribute to a boost in overall output.



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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