

Introduction

The July 2023 edition of the Uganda Macroeconomic Digest offers insights into key economic indicators such as Inflation trends, business optimism, exchange rates, interest rates, domestic credit, trade balance, and economic outlook. Overall, Uganda's economy exhibits resilience and growth potential despite the multiple shocks experienced during the past three years.

Annual Inflation:

In June 2023, the Headline Inflation rate in Uganda reached 4.9%, showing a modest increase in consumer prices compared to the previous month. However, this rate decreased to 3.9% in July 2023 due to drops in core inflation and inflation related to Food Crops and Related Items. This decline suggests a potential positive trend towards lower overall price increases.

Core Inflation, excluding volatile components like food and energy, mirrored this trajectory, starting at 4.8% in June and then reaching 3.8% in July 2023. This decline in core inflation suggests that the persistent inflationary pressures, not driven by short-term fluctuations, remained relatively contained during this period. The primary driver of Annual Core Inflation was Annual Other Goods Inflation, which registered 4.8% in the year ending July 2023 compared to 6.0% in the year ending June 2023. Notably, Maize Flour inflation dropped from 20.9% in June to 6.9% in July 2023, Cassava flour inflation fell from 34.6% to 13.1%, Rice inflation reduced from 31.7% to 24.6%, and Live chicken inflation dipped from 28.7% to 2.5% over the same period. Additionally, Annual Services inflation declined from 3.3% in June to 2.5% in the year ending July 2023, linked to a deceleration in Annual Passenger Transport Services inflation from -3.9% in June to -7.0%.

Regarding Food Crops and Related Items, the inflation rate decreased from 12.3% in June to 9.3% in July 2023. This shift was attributed to specific factors such as matoke inflation dropping from 34.0% to 12.5%, Irish Potatoes inflation decreasing from 29.6% to 13.1%, Cabbage inflation falling from 37.4% to 4.6%, and Carrots Inflation declining from 36.2% to 1.6%. Notably, Energy Fuel and Utilities (EFU) inflation in Uganda increased from -3.1% in June to -1.6% in July 2023. The decreasing inflation rates, observed in both headline and core categories, imply enhanced price stability, potentially bolstering consumer purchasing power and overall economic growth prospects.

In July 2023, despite a decline in annual headline inflation from 7.3% in June to 6.6%, Arua maintained the highest inflation rate among Ugandan regions. This was influenced by a notable rise in 'Clothing and Footwear' inflation, reaching 3.9% from 2.0% in June, and an escalation in 'Housing, Water, Electricity, Gas, and Other Fuels' inflation to 8.7% from 7.9% in June. Gulu, the second-highest inflation district, saw its annual headline inflation increase from 5.5% to 5.8% in July. This was driven by a significant surge in 'Housing, Water, Electricity, Gas, and Other Fuels' inflation from -0.8% in June to 16.2% in July, alongside a rise in 'Personal Care, Social Protection, and Miscellaneous Goods' inflation to 7.8% from 5.4% in June. Conversely, in the least inflationary region, Kampala, the annual headline inflation rate decreased from 4.3% in June to 2.9% in July 2023. This drop was attributed to reduced inflation in 'Food and Non-Alcoholic Beverages,' falling from 12.6% in June to 8.1% in July, and 'Transport' inflation turning negative at -5.2% in July from -2.5% in June.

3.9%

Headline Inflation dropped
from 4.9% in June to 3.9%
in July 2023

6.6%

Arua recorded the highest
inflation rate in July 2023

Business Perceptions and Economic Activity:

In the months spanning May to July 2023, indicators of Uganda's economic health demonstrated a pattern of increasing optimism and growth. The Business Tendency Indicator (BTI), which gauges business sentiment, indicated a consistent rise in confidence. Starting at 58.78 in May, it progressed to 62.24 in June and further climbed to 64.21 in July 2023, reflecting growing positivity in the business outlook (See Figure 1).

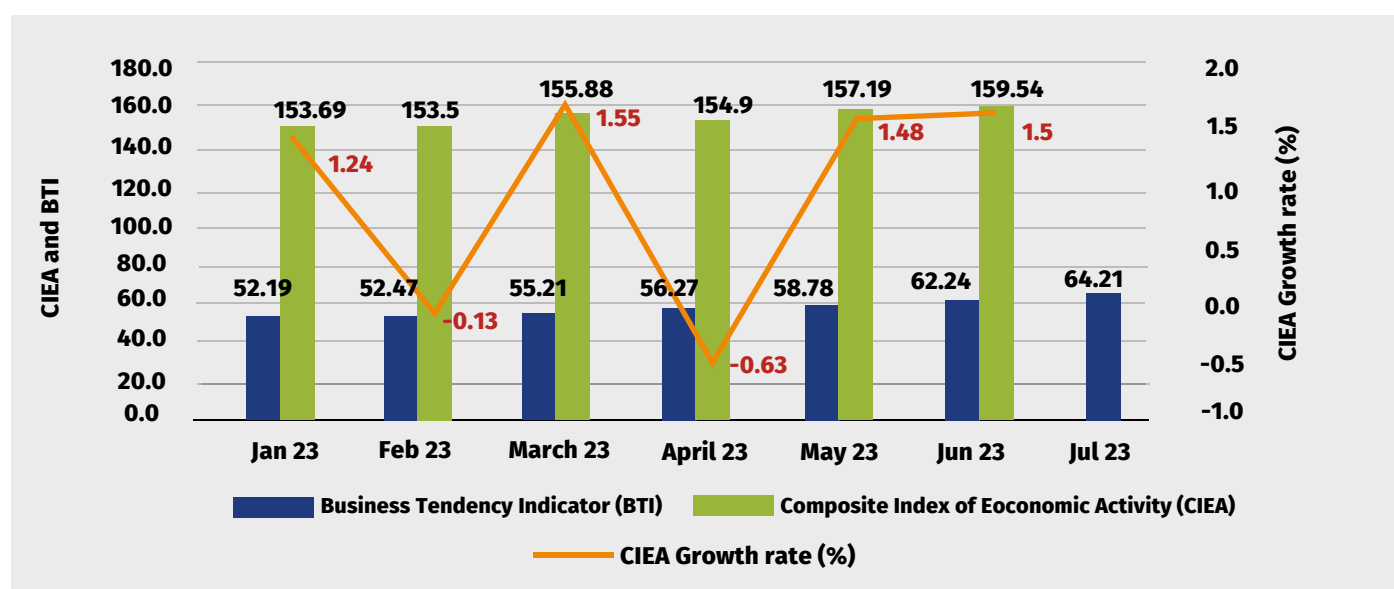
The Stanbic's Purchasing Managers' Index (PMI) for the private sector in Uganda echoed this positive trajectory. Sustaining a score above 50.0 in July, at 53.9, it showcased a strengthening economy. Although slightly lower than the June reading of 56.4, the July PMI, as reported by Stanbic Bank, attributed this growth to factors such as an increased customer base, favorable client recommendations, high-quality products, and effective marketing endeavors. Notably, business activity expanded consistently for twelve consecutive months across diverse sectors like agriculture, construction, industry, services, and wholesale & retail.

A standout trend was the noteworthy upturn in economy-wide output, with new export orders experiencing growth after seven months of decline. Employment levels also rose for the fourth consecutive month due to heightened demand. Despite price pressures in sectors like building materials, electricity, fuel, purchase costs, and staff expenses, businesses remained positive about the next 12 months, with 89% expressing optimism.

Furthermore, the Composite Index of Economic Activity (CIEA) demonstrated an ascending growth rate. Starting at 1.48% in May and rising marginally to 1.50% in June 2023, it indicated a gradual strengthening of the economy and favorable performance over the two-month period. These indicators collectively suggest a promising economic trajectory for Uganda during the given timeframe.

The upward trajectory of both the BTI and CIEA is a promising indicator for Uganda's economy, implying its ongoing expansion in the foreseeable future. This bodes well for businesses and consumers, offering increased prospects for economic growth and job opportunities.

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



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

Exchange Rate Movements:

In July 2023, the Uganda Shilling strengthened against the US Dollar by 1.26% to average Ushs. 3,661.23 per USD, compared to June's Ushs. 3,707.79 per USD. This rise was fueled by sustained budget support and higher export earnings. The appreciation of the Ugandan Shilling in July 2023 boosted investor confidence but may hamper export competitiveness.

Shs 3,661.23/USD
Average exchange rate
for July 2023

Interest Rate Movements:

In July 2023, the Central Bank Rate (CBR) remained steady at 10%, reflecting a consistent approach to monetary policy to influence borrowing expenses and overall economic vitality. This aligns with the goal of solidifying achievements and reestablishing stable prices. Future adjustments to this policy will be guided by fresh insights into inflation and growth trends.

Regarding lending rates, May 2023 saw a lending rate of 20.14% for loans in Ugandan Shillings (UGX), which eased to 18.41% in June 2023, hinting at a potential relaxation of credit conditions in the domestic market. In contrast, lending rates for foreign currency loans experienced a slight uptick, moving from 8.50% in May to 8.83% in June 2023. This nuanced shift in borrowing costs for foreign currency-denominated loans reflects a multifaceted trend. The Central Bank's unwavering rate underscores its dedication to a consistent policy, fostering economic stability. The drop in lending rates for UGX-denominated loans might stimulate borrowing and investment, contributing to overall economic advancement.

10%

Central Bank Rate (CBR)
for July 2023

18.41%

Lending Rates Ush Loans
for June 2023

8.83%

Lending Rates Forex
Loans for June 2023

Domestic Credit:

In May 2023, Domestic Credit totaled Ush. 38.767 trillion, incrementally rising to Ush. 38.943 trillion by June 2023, indicating a slight 0.45% expansion. Governmental borrowing surged, with net credit to the government growing by 2.21% from Ush. 15.535 trillion (May) to Ush. 15.877 trillion (June 2023). This expansion in net credit to the government suggests an elevated level of borrowing and spending by the government, potentially driven by the need to finance various projects or address budgetary requirements.

However, Private Sector Credit (PSC), directed at non-government entities, slightly decreased. In May 2023, it stood at Ush. 22.237 trillion, declining to Ush. 22.103 trillion in June 2023 (-0.60%). This trend might hinder investment, impacting Uganda's economic growth trajectory.

In June 2023, the distribution of private sector credit shifted: sectors such as Mining and Quarrying (0.3% to 0.4%), Trade (18% to 18.2%), Transport and Communication (5.6% to 6.0%), and Personal and Household Loans (21.8% to 22.2%) observed increased shares. Meanwhile, sectors like Agriculture (11.3% to 11.2%), Manufacturing (13.5% to 13.3%), Electricity and Water (1% to 0.8%), Building, Mortgage, Construction, and Real Estate (20.3% to 20.1%), and Community, Social & Other Services (3.4% to 3.3%) experienced slight declines. The share of private sector credit remained constant at 4.5% for Business Services. Personal and Household Loans held the largest share (22.2%), followed by Real Estate (20.1%), Trade (18.2%), and Manufacturing (13.3%) sectors, indicating varying credit demand.



Shs. 38.94 trillion

Domestic Credit rose by
0.45% in June 2023

Shs. 15.88 trillion

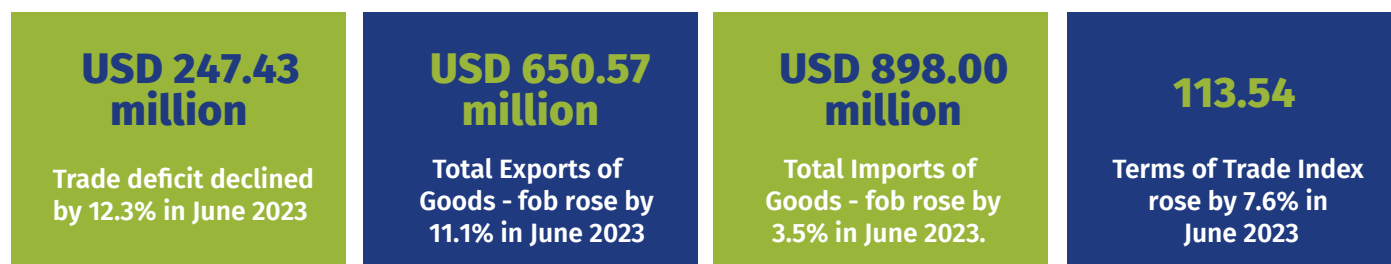
Net credit to the government
rose by 2.21% in June 2023

Shs. 22.10 trillion

Private Sector credit
declined by 0.6%
in June 2023

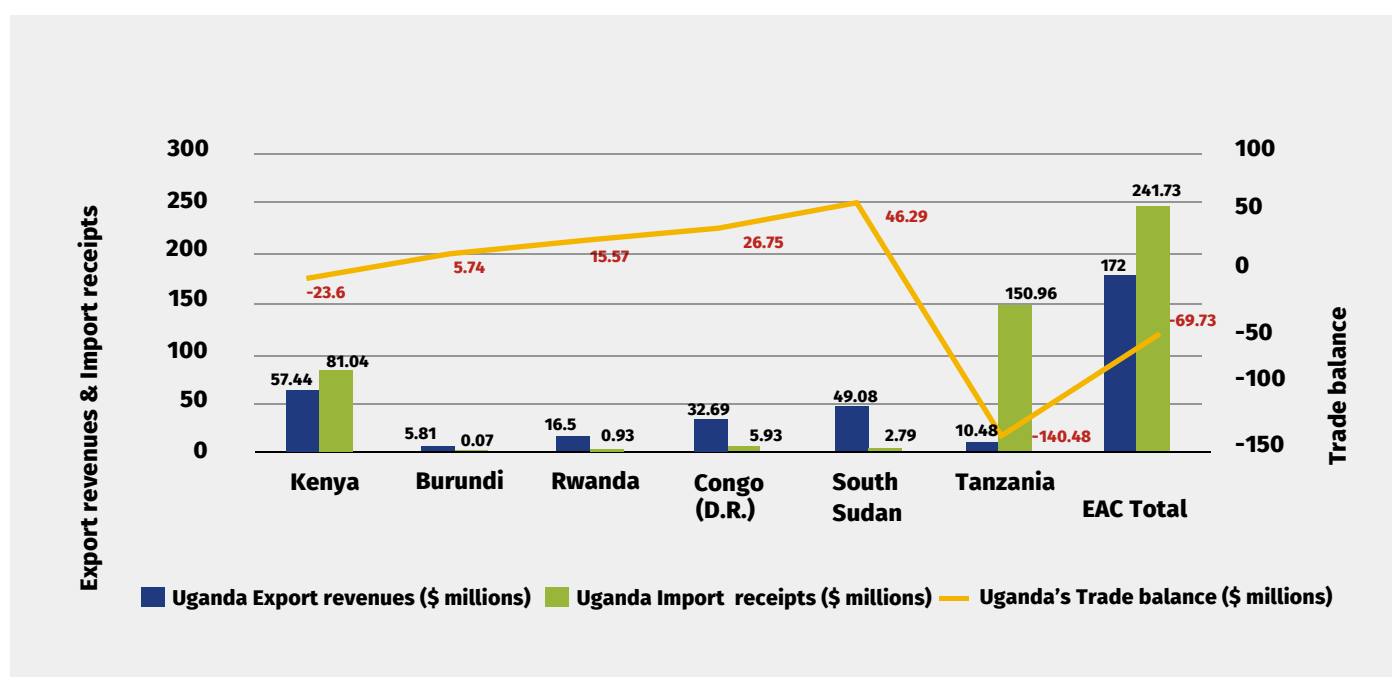
Trade Balance, and Terms of Trade:

In June 2023, Uganda's trade balance demonstrated notable improvement, reducing from a May deficit of \$282.08 million to \$247.43 million, marking a 12.3% decrease. This positive shift was attributed to increased export revenues from the trade of goods. Total goods exports (fob) rose by 11.1% from \$585.81 million to \$650.57 million during the same period, while total goods imports (fob) experienced a 3.5% increase, reaching \$898.00 million from \$867.89 million in May 2023. Exports of services saw a marginal growth of 1.2%, reaching \$175.07 million in June from \$172.96 million in May. Conversely, imports of services surged significantly by 24.7%, rising from \$276.17 million to \$344.38 million in June 2023. The terms of trade index (TOT) rose by 7.6%, shifting from 105.52 in May to 113.54 in June 2023, signaling an enhancement in the value of Uganda's exports.



Examining Uganda's trade balance with East African Community (EAC) nations in June 2023 revealed a varied landscape. While trade surpluses were enjoyed with Burundi, Rwanda, DR Congo, and South Sudan, significant deficits emerged with Kenya and notably with Tanzania (-\$140.48 million). Tanzania's cereals, constituting about 53% of Uganda's global cereals imports, contribute to this significant volume. Factors such as Tanzania's cereal production edge, Uganda's domestic demand for cereals, and the high quality of Tanzanian cereal crops play a role in this scenario. Overall, while surpluses are generated with specific EAC nations, the trade deficit (-\$69.73 million) within the EAC underlines the necessity to address imbalances and enhance export competitiveness, particularly with Kenya and Tanzania, to reduce Uganda's reliance on imports and bolster its economy.

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



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



Uganda's Export and Import Commodities:

In June 2023, Uganda's export revenues demonstrated notable growth across various commodities, except for Tea, cocoa beans, and sugar. Coffee exports surged by an impressive 24%, reaching \$90.56 million, while cotton trade increased to \$2.95 million. Gold earnings rose significantly by 26% to \$253.29 million, and fish products marked growth of 9%, totaling \$10.67 million. Sim sim exports experienced a remarkable surge of 16% to \$12.19 million, while maize and beans each grew by 16%, reaching \$1.92 million and \$4.79 million, respectively. Even rice saw a rise of 16%, reaching \$0.08 million. These gains were attributed to both higher values and increased volumes. For instance, coffee exports surged by 24% to 563,832 (60 kg bags), sim sim witnessed an impressive 53% increase to 1,009 tonnes, and bean exports rose by 43% to 6,257 tonnes in June 2023.

However, Uganda also experienced significant declines in key export revenues during the same period. Tea exports fell by 7% from \$9.43 million to \$8.74 million, cocoa beans decreased by 16% from \$11.57 million to \$9.69 million, and sugar experienced a sharp decline of 34% from \$15.94 million to \$10.47 million. These declines were primarily due to lower export volumes and values, with examples such as tea experiencing a 9% drop to 8,041 tonnes, sugar plummeting by 55% to 12,546 tonnes, and a slight reduction in cocoa bean value by 2.4% to \$2.60 per kilogram.

Furthermore, in June 2023, Uganda's import receipts demonstrated a mixed pattern. Most commodities experienced increased receipts, with notable exceptions including Chemical & Related Products, Plastics, Rubber & Related Products, Wood & Wood Products, Base Metals & their Products, and Arms & Ammunitions & Accessories, which saw declines. The most significant growth occurred in the electricity sector, surging by an impressive 35.2% from \$0.18 million in May to \$0.25 million in June 2023. Additionally, Miscellaneous Manufactured Articles experienced a notable 22.4% upswing in import receipts, rising from \$29.12 million to \$35.66 million over the same period. Conversely, Arms & Ammunitions & Accessories witnessed the most substantial decline in import receipts, plummeting by 53.8% from \$0.006 million in May to \$0.003 million in June 2023. This was followed by Animal & Animal products, experiencing a reduction of 19.9% from \$3.86 million to \$4.63 million during the same timeframe.

Economic Outlook:

The Bank of Uganda predicts a 6.0% to 6.5% economic rebound in the 2023/24 fiscal year, driven by investments in oil infrastructure, energy, transportation, and manufacturing recovery. Expectations of strong external demand and government support could push annual growth beyond 7% in the medium term. Yet, uncertainty prevails due to downside risks, including prolonged global economic weakness, lower commodity prices, geopolitical tensions causing supply chain disruptions, reduced external funding affecting government spending, high public debt impacting the local currency, and climate shocks affecting agriculture. Nevertheless, a less severe global slowdown and accelerated regional trade integration offer positive prospects. Domestic growth might surpass expectations, supported by government spending and private sector investments in extractive industries.



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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