

Introduction

The August 2023 edition of the Uganda Macroeconomic Digest provides insights into critical economic factors shaping the country's performance. We delve into key aspects including inflation trends, business sentiment and economic activity, exchange rates, interest rates, domestic credit, trade balances, export revenues, import receipts, and the overall economic outlook.

Annual Inflation:

In August 2023, the annual headline inflation rate in the country experienced a notable decline, dropping from 3.9% in July to 3.5%. This decrease can primarily be attributed to a significant reduction in core inflation, which fell from 3.8% in July to 3.3% in August 2023. The main driver of this decline in core inflation was the performance of other goods, which posted a 4.4% inflation rate in August compared to 4.8% in July 2023. Several key commodities contributed to this shift, including rice, whose inflation rate was 17.8% in August 2023, less than 24.6% experienced in July 2023. Similarly, maize flour dropped from 6.9% to 1.0%, dried kapenta (Mukene) decreased from 37.3% to 22.3%, and groundnuts (pounded) reduced from 16.2% to 4.4%.

Moreover, Annual Services inflation also saw a decline, decreasing to 2.0% in August 2023 from 2.5% in July 2023. This decrease is attributed to Annual Passenger Transport Services inflation that decelerated to negative 8.8 percent in the year ending August 2023 compared to negative 7.0 percent registered in July 2023. Another contributing factor to the overall deceleration of annual inflation was the Annual Energy, Fuel, and Utilities (EFU) inflation, which dropped to minus 2.7% in August 2023, down from minus 1.6% in July 2023. This decrease in EFU annual inflation was largely influenced by liquid energy fuels annual inflation, which fell from minus 17.5% in July 2023 to minus 20.1% in August 2023. Specifically, petrol annual inflation declined to minus 24.5% in August 2023 from minus 21.1% in July 2023, and diesel inflation decreased to minus 22.7% in August 2023 from minus 21.0% in July 2023.

However, it's important to note that annual food crops and related items inflation increased to 9.8% in August 2023, up from 9.3% in July 2023. This rise can be attributed to significant increases in round onions inflation (129.8% in August 2023, up from 31.4% in July 2023), mangoes inflation (26.1% in August 2023, up from 1.0%), papaya inflation (18.8% in August 2023, up from minus 3.6%), and oranges inflation (5.7% in August 2023, up from minus 9.1% in July 2023).

In terms of regional variations, Arua had the highest national annual inflation in August 2023, despite a slight decrease from 6.7% in July to 6.4% in August. This was primarily driven by a surge in 'Alcoholic Beverages, Tobacco, and Narcotics' inflation (6.2% in August, up from 0.8% in July) and 'Furnishings, Household Equipment, and Routine Household' inflation (7.2% in August, up from 5.7% in July). In contrast, Mbarara had the lowest annual inflation at 2.5% in August, down from 3.4% in July 2023. This decline resulted from decreased inflation in 'Food and Non-Alcoholic Beverages' (5.8% in August, down from 9.1% in July) and 'Housing, Water, Electricity, Gas, and Other Fuels' (4.3% in August, down from 7.1% in July).

The decline in both headline and core inflation rates indicates improved price stability, potentially bolstering consumer purchasing power and fostering economic growth. Nevertheless, the rising concerns surrounding food prices could strain consumers' budgets and require careful monitoring in the coming months.

3.5%

Headline Inflation
dropped from 3.9%
in July to 3.5% in
August 2023

3.3%

Core Inflation
declined from
3.8% in July to 3.3%
in August 2023

9.8%

Food Crops and
Related Items
inflation increased
from 9.3% in July to
9.8% in August 2023

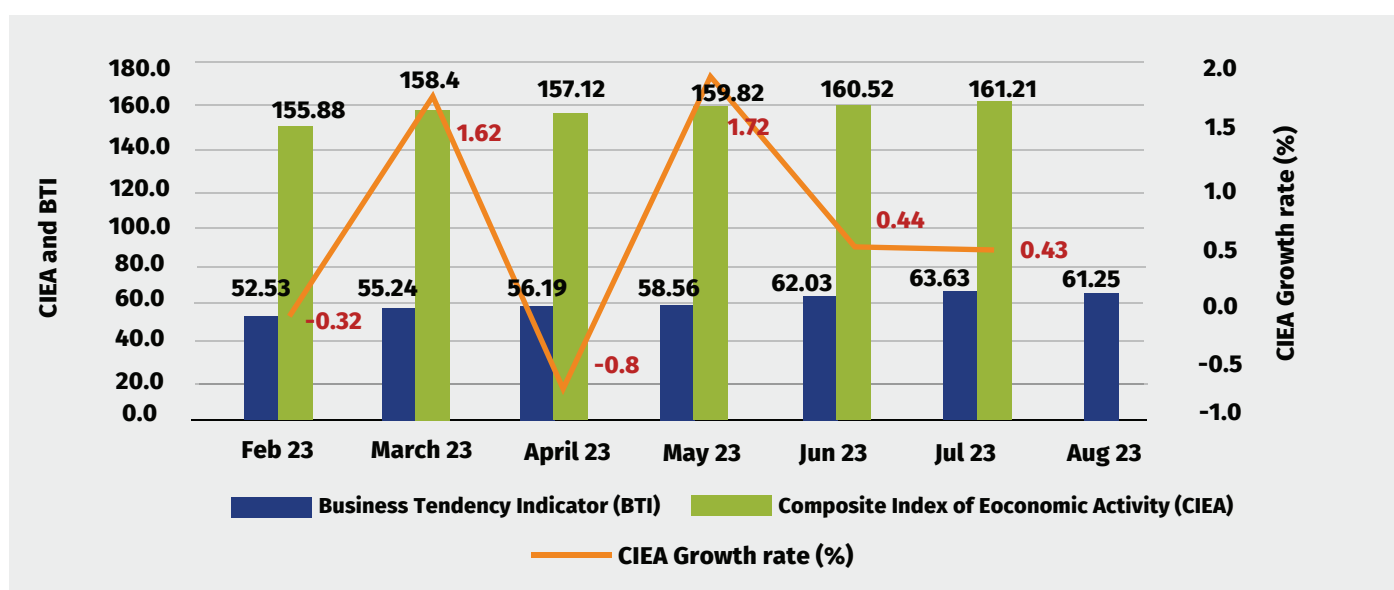
-2.7%

Energy Fuel and
Utilities (EFU) inflation
dropped from -1.6%
in July to -2.7% in
August 2023

Business Perceptions and Economic Activity:

In August 2023, the business outlook in Uganda remained positive but slightly less optimistic compared to July, with a Business Tendency Index (BTI)¹ of 61.25, down from 63.63. This dip was due to reduced optimism about the present and upcoming business situations. In August 2023, less optimism about business situations was experienced in manufacturing, agriculture, wholesale trade, and other services sectors. However, the BTI remained above the 50 threshold, indicating favorable business sentiments. Meanwhile, the Composite Index of Economic Activity (CIEA)² showed a 0.43 percent improvement in July 2023, reaching 161.21, signaling increased economic activity. However, the suspension of World Bank funding for Ugandan projects due to human rights concerns related to the anti-homosexuality law is a notable development that could impact the country's economic stability, business sentiment, and overall economic vitality.

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



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

Exchange Rate Movements:

In August 2023, the Ugandan Shilling depreciated by 0.8% against the US dollar, averaging Shs. 3,689.12/USD compared to the previous month's Shs. 3,661.23/USD. This depreciation is linked to Uganda's Anti-Homosexuality Act, which sparked both domestic debates and international consequences, notably from the World Bank, which suspended funding for Ugandan projects due to the passing of the anti-homosexuality act. While the Shilling's depreciation enhances export competitiveness and attracts foreign tourists due to cost-effectiveness, it also raises concerns about increased import costs, particularly for crucial items like raw materials and agricultural inputs, potentially impacting Uganda's economy negatively.

Shs 3,689.12/USD
Average exchange rate
for August 2023

¹ In Uganda, the Business Tendency Index (BTI) measures the level of optimism that executives have about current and expected outlook for production, order levels, employment, prices and access to credit. The Index covers the major sectors of the economy, namely construction, manufacturing, wholesale trade, agriculture and other services. The Overall Business Tendency Index above 50 indicates an improving outlook and below 50 a deteriorating outlook.

² The Composite Index of Economic Activities (CIEA) reflects economic activity as of July 2023, not August 2023, indicating a lag in its reporting.

Interest Rate Movements:

In August 2023, the Bank of Uganda reduced the Central Bank Rate (CBR) to 9.5% from July's 10%, seeking to stimulate economic activity while maintaining inflation within the target range. Shilling-denominated credit saw its weighted average lending rates drop from 18.41% in June 2023 to 17.95% in July 2023. This decline was influenced by prime borrowers accessing credit at lower rates due to their strong credit histories. Conversely, lending rates for foreign currency-denominated credit rose to 9.18% in July 2023, up from 8.83% the previous month, partly driven by the high demand for dollar-denominated loans. This rate cut aims to spur economic growth, but rising foreign currency lending rates may impact borrowing costs.

9.5%

Central Bank Rate (CBR)
for August 2023

17.95%

Lending Rates UGX Loans
for July 2023

9.18%

Lending Rates for foreign
currency loans for July 2023

Domestic Credit:

In July 2023, Uganda's Domestic Credit experienced a modest decline, falling from UGX 38.999 trillion in June to UGX 38.582 trillion, marking a 1.1% contraction. This decrease is mainly attributed to reduced government domestic borrowing during this period. Notably, the Net Credit to Government (NCG) saw a significant drop of 4.0%, declining from UGX 15.881 trillion in June to UGX 15.239 trillion in July 2023. This decline signifies a deliberate reduction in government borrowing from the banking sector, reflecting improved fiscal management and decreased reliance on loans to finance government operations, which is a positive development for financial stability.

On a more positive note, Private Sector Credit increased by 0.6%, rising from UGX 22.158 trillion in June to UGX 22.283 trillion in July 2023. This uptick suggests increased lending to the private sector, indicative of growing business confidence, heightened investment activities, and efforts by the central bank to promote economic expansion. A consistent rise in private sector credit has the potential to boost investment, thus positively influencing Uganda's economic growth path.

In July 2023, Uganda's credit distribution among economic sectors underwent notable changes. Agriculture, a vital sector, maintained its share at 11.2% of total lending, up 0.8% from June, highlighting its role in supporting livelihoods and the economy. Conversely, Mining and Quarrying dropped from 3.7% to 0.3%, and Manufacturing slightly dipped from 13.3% to 13.2%, signaling shifts in lending focus. Trade, Transport, and Communication, as well as Community, Social, and Other Services sectors, also saw declines. Electricity and Water, however, rose by 16.2% to 0.9% share of credit, while the Building, Mortgage, Construction, and Real Estate sector grew by 2.0%. Personal Loans and Household Loans increased by 2.1%, indicating sustained consumer credit demand.

Shs. 38.58 trillion

Domestic Credit declined
by 1.1% in July 2023

Shs. 15.24 trillion

Net credit to the government
declined by 4.0% in July 2023

Shs. 22.28 trillion

Private Sector credit
increased by 0.6%
in July 2023



Trade Balance, and Terms of Trade:

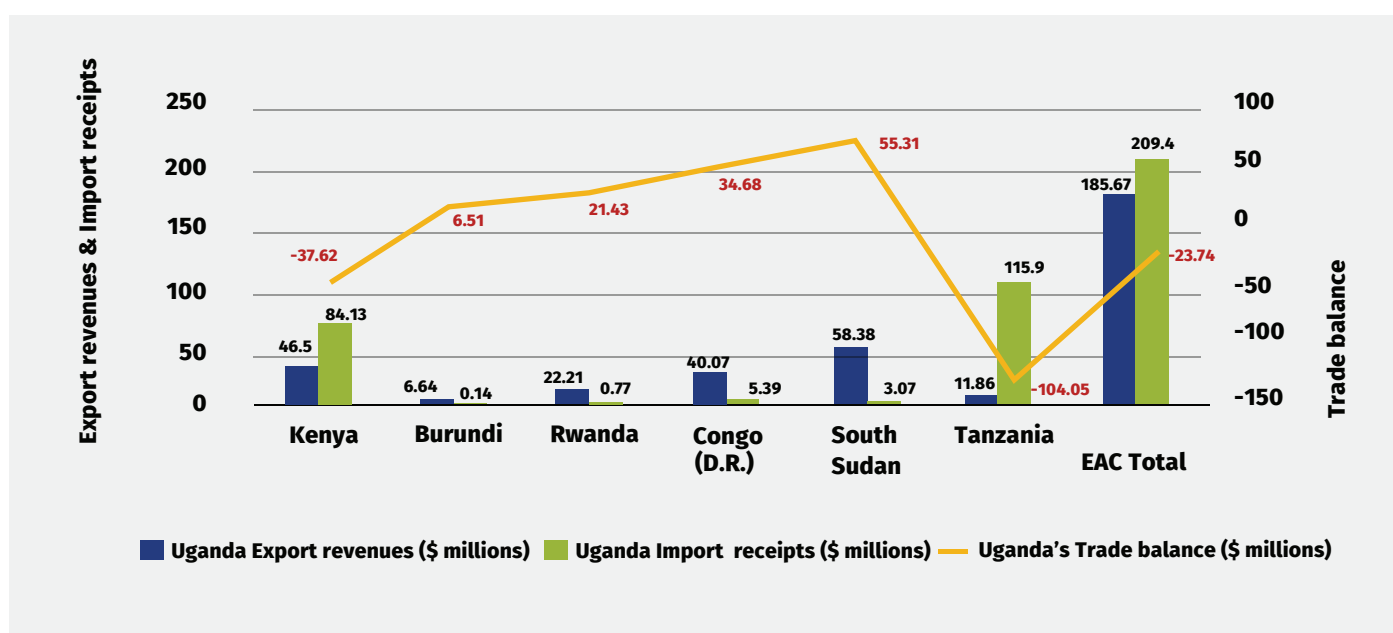
In July 2023, Uganda's trade situation took a concerning turn as it grappled with a trade deficit of \$278.52 million, signifying a 12% deterioration from the previous month's deficit of \$247.74 million. This negative trade balance indicates that Uganda's imports got increasingly higher than its exports, raising concerns about the impact on foreign exchange reserves and overall economic stability. The decline in total goods exports was pronounced, falling by 12% from \$650.57 million in June to \$569.78 million in July 2023. Simultaneously, goods imports saw a slight dip, down 6% from \$898.31 million in June to \$848.30 million in July 2023. Services exports faced an 11% decline, dropping from \$175.33 million in June to \$155.93 million in July 2023. Similarly, service imports fell by 14%, sliding from \$344.14 million in June to \$296.20 million in July 2023. The terms of trade index declined by 3%, from 113.54 in June to 110.64 in July 2023, suggesting a relative decrease in export prices compared to import prices, impacting overall economic welfare.



Trade Balance with the East African Community (EAC):

In July 2023, Uganda's trade with its East African Community (EAC) neighbours showed a mixed picture. Uganda exported \$185.67 million worth of goods but imported \$209.40 million, resulting in a negative trade balance of -\$23.74 million. Kenya was the largest export partner with \$46.50 million in exports but also the largest source of imports, creating a -\$37.62 million trade deficit. Uganda had trade surpluses with Burundi (\$6.51 million), Rwanda (\$21.43 million), Congo (D.R.) (\$34.68 million), and South Sudan (\$55.31 million). However, the trade deficit with Tanzania was significant at -\$104.05 million, driven by high-quality Tanzanian cereals, constituting 53% of Uganda's global cereal imports. To address these imbalances, Uganda should focus on export promotion, diversification, and import replacement to substitute for imports.

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



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



Uganda's Export Revenues from Key Commodities:

In July 2023, Uganda's export sector witnessed a mix of ups and downs. Coffee exports saw substantial growth, with revenues increasing by 16% from \$90.56 million in June to \$104.99 million in July, driven by a 15% rise in export volumes. Conversely, gold exports experienced a significant decline of -42%, dropping from \$253.29 million to \$146.62 million. Cotton exports saw a drastic -72% decrease, mainly due to a 75% drop in export volumes. Tea exports declined by -15%, linked to a 13% decrease in export volumes. Simsim exports also dropped by -40%, aligned with a 40% decrease in export volumes. Maize exports, on the other hand, surged impressively by 95%, accompanied by a 57% increase in export volumes. Bean exports declined by -31%, tied to a 24% decrease in export volumes. Cocoa bean exports increased by 8% in revenue, despite a 6% drop in export volumes. Rice exports experienced an exceptional 1,060% growth, driven by an 887% increase in volumes. Lastly, sugar exports declined by -39%, attributed to a 33% drop in export volumes.

Uganda's Import Receipts for Commodities:

In July 2023, Uganda's import receipts exhibited diverse trends across sectors. Import categories like Animal & Animal Products decreased by 5%, while Vegetable Products, Animal, Beverages, Fats & Oil saw an 8% decline. Prepared Foodstuff, Beverages & Tobacco dropped by 12%, and Mineral Products (excluding Petroleum products) experienced a significant 23% decrease. Conversely, Petroleum Products increased by 14%, Chemical and related Products decreased by 17%, and Plastics, Rubber, and related Products saw a 4% rise. Wood & Wood Products declined by 10%, Textile & Textile Products by 4%, while Miscellaneous Manufactured Articles increased by 4%. Base Metals & their Products and Machinery Equipment, Vehicles, and accessories both rose by 2%. The Electricity sector also recorded a 26% increase. These shifts resulted in a total 5% decrease in import receipts, totaling \$821.74 million in July 2023, compared to \$867.89 million in June 2023.

Economic Outlook:

The Bank of Uganda's latest forecasts for the 2023/24 fiscal year project a gradual economic recovery in Uganda, with growth expected to fall within the 5% to 6% range. This recovery is likely to be driven by several factors, including increased private sector consumption, investments in extractive industries, and improved exports.

However, it's important to acknowledge a set of uncertainties that could impact this outlook. Firstly, weaker foreign demand may hinder export growth, potentially leading to a deteriorating current account deficit and higher external financing needs. Secondly, the resurgence of supply chain disruptions due to geopolitical factors remains a concern. Thirdly, a tight fiscal policy, partly influenced by unfavorable global financial markets, could constrain government development expenditure. Lastly, a significant moderation in household expenditure is expected, partly due to the delayed effects of declining real incomes, declining prices for commodity exports, and reduced agricultural output resulting from weather-related shocks. Furthermore, the suspension of World Bank funding for Ugandan projects, stemming from human rights concerns linked to anti-homosexuality legislation, adds to the uncertainties surrounding Uganda's economic growth forecasts.



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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:

Bob Twinomugisha
Senior Economist-Macroeconomics,
and Trade.
Email: btwinomugisha@udbl.co.ug

Dr. Francis Mwesigye
Chief Economist.
Email: fmwesigye@udbl.co.ug

Address:

Plot 6 Nakasero Road, Rwenzori Towers, First Floor, Wing B
Tel: +256 312 355 500, +256 414 355 500,
Email: clientrelations@udbl.co.ug

www.udbl.co.ug

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