

Uganda Macroeconomic Digest

November 2023

Introduction

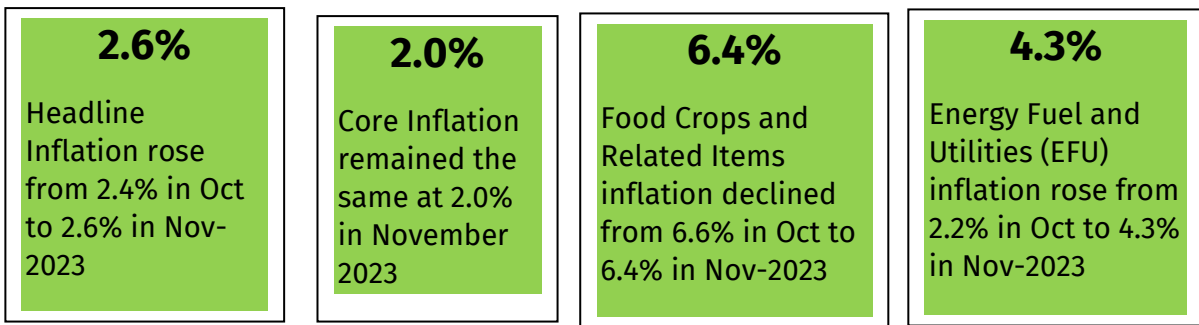
The Uganda Macroeconomic Digest for November 2023 provides insights into the country's economic performance. The report covers Uganda's key macroeconomic indicators, including inflation, exchange rates, interest rates, outstanding credit, trade, and economic outlook.

Annual Inflation: Uganda's annual headline inflation for the 12 months ending November 2023 rose to 2.6%, up from 2.4% in October 2023. This increase was primarily driven by the Annual Energy Fuel and Utilities (EFU) inflation, which surged to 4.3% from 2.2% in October 2023. Notably, the Liquid Energy Fuels Inflation saw a shift from -9.2% to -4.5%, with petrol at -3.9% (previously -11.1%), diesel at -9.3% (formerly -11.2%), and kerosene rising to 0.4% from -0.5%. Moreover, charcoal inflation climbed to 16.7% in November 2023 from 14.3% in October 2023.

In November, the Annual Core inflation remained steady at 2.0%, largely influenced by the Annual Services inflation, which increased to 2.8% from 2.2% in October 2023. Factors contributing to this rise included a significant surge in Annual Child Deliveries Services inflation to 19.7% from 3.9% in October 2023. Conversely, Annual International Flights inflation increased to -8.7% from -10.1%, and Annual Passenger transport by taxi and hired car with driver inflation rose to -4.6% from -10.9% in October 2023.

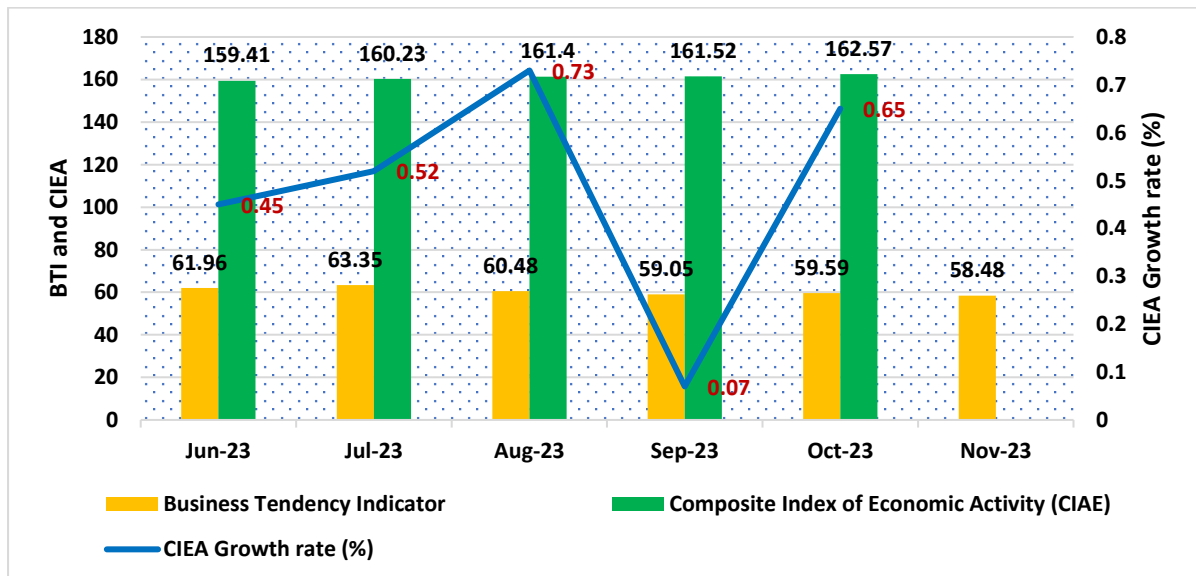
The Annual Food Crops and Related Items Inflation showed a slight slowdown to 6.4% in the year ending November 2023 from 6.6% in the year ended October 2023. This was predominantly due to the moderation in Annual Vegetables, tubers, plantains, cooking bananas, and pulses inflation, which registered 7.2% in November 2023 compared to 7.5% in October 2023. Notably, Round onions inflation decreased to 91.5% in November 2023 from 115.4% in October 2023, while Irish potatoes inflation declined to minus 7.6% in November 2023 from minus 0.9% in October 2023, and Fresh Cassava inflation dropped to minus 11.7% in November 2023 from minus 6.6% in October 2023.

Geographically, Fort Portal experienced the highest inflation at 5.9%, primarily driven by increased inflation in 'Food and non-alcoholic beverages' (11.2% from 8.3%) and 'Transport' (1.0% from -2.6%) in November 2023 compared to October 2023. Conversely, Kampala Middle-Income areas reported the lowest annual inflation at 1.3%, attributed to lower inflation in 'Food and Non-Alcoholic Beverages' (0.5% from 1.2%) and 'Personal Care, Social Protection and Miscellaneous Goods' (7.7% from 9.2%) in November 2023 versus October 2023.



Business Perceptions and Economic Activity: In November 2023, the Business Tendency Indicator (BTI) fell to 58.48 from October's 59.29, signaling a drop in business sentiment overall. Except for agriculture, all sectors experienced declining sentiments about doing business. Agriculture saw an upturn partly due to favorable weather. Additionally, the Composite Index of Economic Activities (CIEA) showed a slight increase from 161.52 in September to 162.57 in October 2023, marking a 0.65% growth during that period, signaling an improvement in economic activity.

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



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

Exchange Rate Movements: In November 2023, the Ugandan Shilling depreciated by 0.7% against the US dollar, averaging Shs. 3,782.03/USD, as compared to the previous month's Shs. 3,755.63/USD. This was attributed to higher portfolio outflows due to better rates in advanced economies, increased debt service obligations, and global strengthening of the US Dollar.

The Ugandan Shilling's depreciation has economic consequences. It boosts export competitiveness and makes Uganda an attractive and cost-effective destination for

foreign tourists. However, it can also lead to higher import costs, especially for critical items like raw materials and agricultural inputs like fertilizers, and acaricides, potentially impacting Uganda's economy negatively.

Shs 3,782.03/USD
Average exchange rate for November 2023

Interest rate Movements: In November 2023, the Central Bank sustained the Central Bank Rate (CBR) at 9.5% for the fourth straight month. This measure aims to stabilize inflation near the target over the medium term and facilitate private-sector investment and socioeconomic development. Notably, the weighted average commercial bank lending rate slightly dropped to 18.90% in October 2023 from the previous month's 18.95%. Simultaneously, the lending rate for foreign currency-denominated credit decreased from 9.0% to 8.7% during the same period.

9.5%
Central Bank Rate (CBR) for November 2023

18.90%
Lending Rates for UGX Loans for Oct-2023

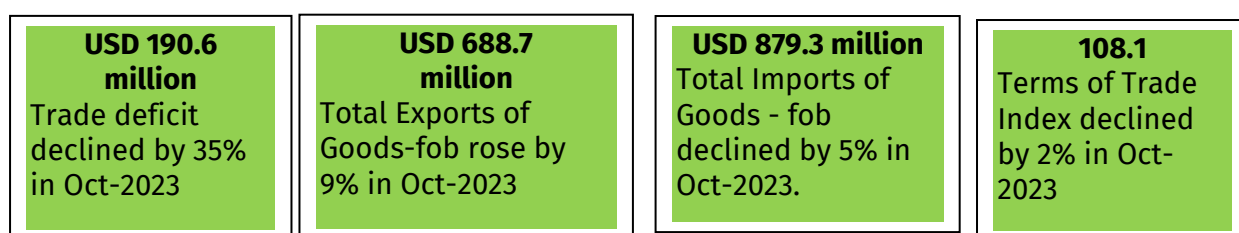
8.7%
Lending Rates for foreign currency loans for Oct-2023

Outstanding Credit: In October 2023, Other Depository Corporations' Credit¹ dipped by 0.4% to Ush. 21.1 trillion from Ush. 21.2 trillion in September 2023. Most sectors saw declines except for agriculture, trade, Personal Loans, and Household Loans. Notably, Agricultural credit rose by 1.8% to Ush. 2.4 trillion from Ush. 2.1 trillion in September, supported by favorable weather in Uganda. Trade sector credit increased by 0.4% to Ush. 3.8 trillion from Ush. 3.7 trillion, while Personal Loans and Household Loans grew by 1.2% to Ush. 4.78 trillion from Ush. 4.73 trillion, as per Bank of Uganda data.

Ush. 21.1 trillion
Other Depository Corporations' Credit declined by 0.4% in Oct-2023

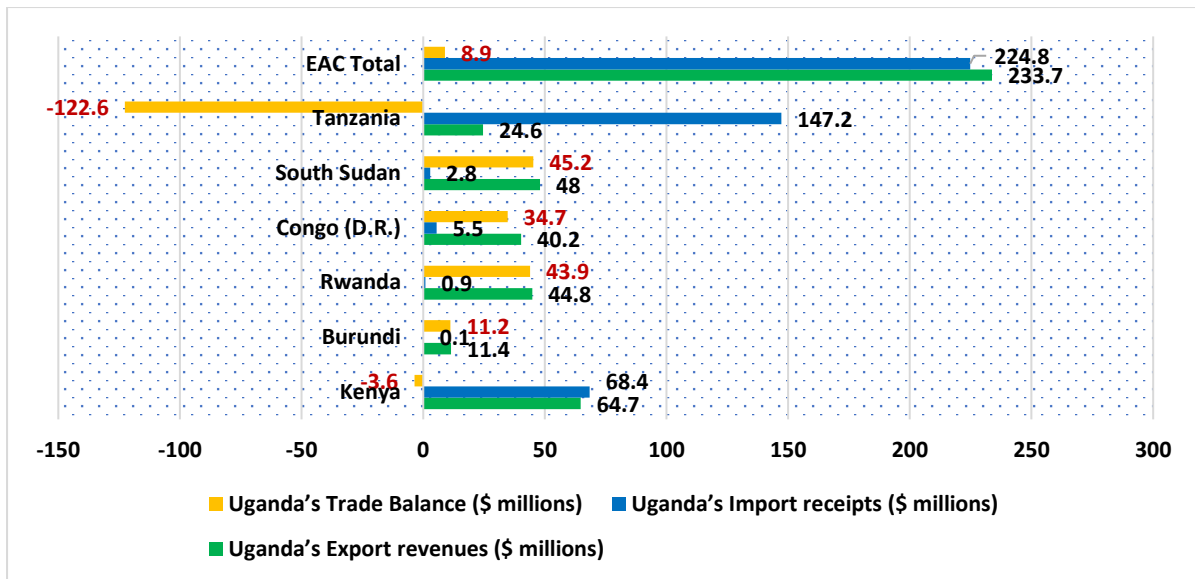
¹ Other Depository Corporations' (ODC) Credit includes commercial Banks, Credit Institutions, and Microfinance Deposit Taking Institutions (MDIs).

Uganda’s Trade Balance, and Terms of Trade: In October 2023, Uganda's trade balance saw a significant improvement as the trade deficit decreased by 35% from \$293.5 million in September 2023 to \$190.6 million. This decline was driven by a 9% increase in export revenues from the trade of goods, rising from \$632.1 million in September to \$688.7 million in October, coupled with a 5% decrease in import receipts from \$925.6 million to \$879.3 million during the same period. However, there was a slight deterioration in Uganda's economic competitiveness as indicated by a 2% decline in the terms of trade index from 110.3 in September 2023 to 108.1 in October 2023.



Uganda’s Trade Balance with the East African Community (EAC): In the past 5 months, Uganda trade at a deficit with East African Community (EAC), but October 2023 saw a notable improvement. The country shifted gears, achieving a surplus of \$8.9 million compared to a trade deficit of \$39.2 million the previous month. Uganda experienced a trade surplus with all EAC countries except Kenya and Tanzania. Notably, Uganda faced a trade deficit of \$3.6 million with Kenya, exporting goods worth \$64.7 million but importing goods worth \$68.4 million. Similarly, Uganda traded at a significant deficit of \$122.6 million with Tanzania, exporting goods valued at \$24.6 million while importing goods worth \$147.2 million. Contrastingly, Uganda enjoyed surpluses in its trade with Burundi (\$11.2 million), Rwanda (\$43.9 million), DR Congo (\$34.7 million), and South Sudan (\$45.2 million).

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



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

Uganda's Export Revenues from Key Commodities: In October 2023, export revenues surged for several commodities: tea (up 22%), fish (up 13.5%), sim sim (up 68.6%), maize (up 41.4%), cocoa beans (up 35.7%), and rice (up 45.8%), driven by increased export volumes. Conversely, coffee (down 16.3%), cotton (down 78.1%), and sugar (down 80%) experienced declines in export values due to decreased export volumes. Specifically, coffee's export value dropped by 16.3% from \$94.39 million in September 2023 to \$78.96 million in October 2023, attributed to a fall in coffee export volumes by 18.5% from 577,073 (60 kg bags) to 470,080 (60 kg bags) during the same period.

Uganda's Import Receipts for Commodities: In October 2023, import receipts showed declines in several categories: Prepared Foodstuff, Beverages & Tobacco dropped from \$27.1 million in September to \$26.2 million; Mineral Products (excluding Petroleum products) decreased from \$202.7 million in September to \$197.4 million; Petroleum Products declined from \$153.8 million to \$139.5 million; Textile & Textile Products fell from \$29.3 million to \$27.4 million; Miscellaneous Manufactured Articles decreased from \$37.9 million to \$32.7 million; Base Metals & their Products dropped from \$69.9 million to \$61.8 million; and Machinery Equipment, Vehicles & Accessories decreased from \$186.3 million to \$166.2 million. Conversely, import receipts surged for Animal and Animal Products, rising from \$4.3 million in September to \$4.4 million; Vegetable Products, Animal Beverages, Fats, and Oil increased from \$60.4 million to \$62.9 million; Chemical and Related Products rose from \$66.3 million to \$68.1 million; Plastics, Rubber & Related Products rose from \$45.5 million to \$47.2 million; and Wood & Wood Products grew from \$14.7 million to \$15.1 million.

Economic Outlook: According to the Bank of Uganda's latest forecasts (2023), Uganda's economic growth is anticipated to reach 6% in FY 2023/24. This growth trajectory will find support in ongoing investments within the oil and gas sector, heightened demand for exports due to anticipated growth in many Sub-Saharan

African countries, and robust inflows from personal remittances and tourism. Moreover, the current low inflationary climate is poised to bolster household income, driving increased consumer spending.

However, the domestic economic outlook is shadowed by certain uncertainties. These include the risk of slower global growth, and potentially dampening demand for Uganda's exports. Geopolitical tensions escalating could revive supply chain disruptions, posing challenges to the economy. Additionally, a further weakening of the Uganda Shilling might adversely impact imports for investment. Tighter borrowing conditions could constrain both household consumption and private sector investments, potentially affecting overall economic growth.

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

1. Bob Twinomugisha, Senior Economist-Macroeconomics, and Trade. Email:

btwinomugisha@udbl.co.ug

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