Uganda Macroeconomic Digest

October 2023

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Introduction

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

Annual Inflation:

Uganda's annual headline inflation dropped from 2.7% in September 2023 to 2.4% in October 2023, driven by a decline in annual core inflation from 2.5% in September to 2.0% in October 2023. This reduction was influenced by a decrease in the annual inflation of other goods, falling from 3.1% to 1.8% over the same period. The main drivers were the Maize flour inflation which plunged from -3.8% to -23%, while Sugar inflation decreased from 34% to 16.3%, Mukene inflation declined from -5.4% to -10.7%, and Rice inflation dipped from 5.2% to 0.2% during the same period. Conversely, Annual Services inflation rose to 2.2% in October 2023 from 1.6% in September 2023, primarily due to the surge in Annual Education Services inflation, climbing to 6.1% in October from 3.8% in September 2023.

Moreover, the decline in Uganda's headline inflation was contributed to by a decrease in the annual inflation of food crops and related items, dropping from 7.9% in September to 6.6% in October 2023. This decline stemmed from decreases in Fresh Cassava inflation (from 6.0% to -6.6%), Round onions inflation (from 130.8% to 115.4%), Green cabbage inflation (from 0.2% to -10.8%), and Irish potatoes inflation (from 4.1% to -0.9%). However, the Annual Energy Fuel and Utilities (EFU) inflation increased from -1.2% in September to 2.2% in October 2023, primarily driven by Petrol inflation rising from -17.6% to -11.1%. Electricity inflation also rose from -10.4% to -1.4%, and Water charges-NWSC inflation increased from 9.7% to 13%, while Diesel inflation climbed from -19.2% to -11.2% during the same period.

The decrease in Uganda's annual headline inflation indicates relief for consumers regarding essential goods. Nevertheless, the escalating costs of education and utilities may pose challenges to household budgets.

The analysis of regional inflation rates revealed that Fort Portal, despite experiencing a decrease from 5.1% in September to 4.7% in October 2023, recorded the highest rate in the country. This was driven by a notable surge in annual 'Education Services' inflation, climbing to 9.1% in October from 3.5% in September 2023. Concurrently, annual 'Transport' inflation rose to -2.6% in October from -5.6% in September 2023. On the other hand, Mbale reported the lowest annual inflation at 1.6% in October, down from 2.4% in September 2023. This decline was primarily due to a decrease in annual 'Food and Non-Alcoholic Beverages' inflation, dropping to 2.7% in October from 4.3% in September 2023. Moreover, annual 'Housing, Water, Electricity, Gas and Other Fuels' inflation decreased to 0.9% in October 2023 compared to 4.1% in September 2023.

2.4%
Headline Inflation dropped from 2.7% in September to 2.4% in October 2023

2.0%
Core Inflation declined from 2.5% in September to 2.0% in October 2023

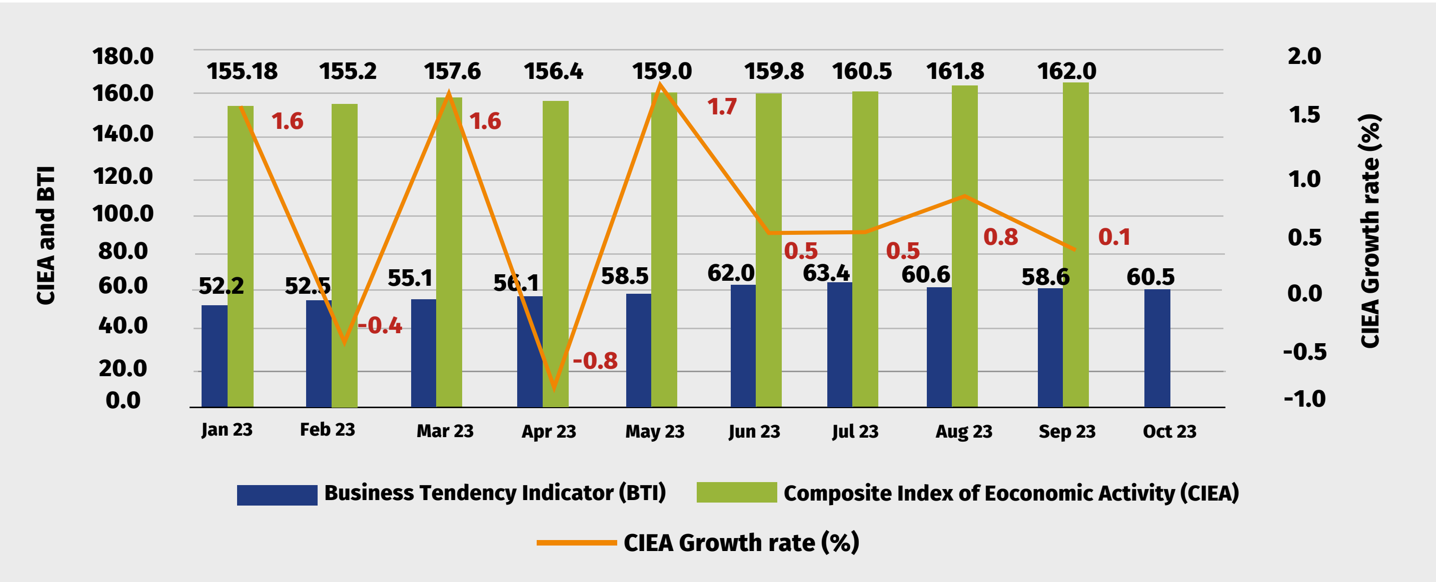
6.6%
Food Crops and Related Items inflation declined from 7.9% in September to 6.6% in October 2023

2.2%
Energy Fuel and Utilities (EFU) inflation rose from -1.2% in September to 2.2% in October 2023

Business Perceptions and Economic Activity:

In October 2023, the Business Tendency Indicator (BTI) showed a partial recovery, reaching 60.5 after a dip in September to 58.6. While positive sentiment resurged, it didn't fully match the August level of 60.6. The Composite Index of Economic Activities (CIEA) displayed marginal growth, increasing by 0.1% from 161.8 in August to 162.0 in September 2023, underscoring enhanced economic activity.

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



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

Exchange Rate Movements:

In October 2023, the Ugandan Shilling depreciated by 0.5% against the US dollar, averaging Shs. 3,755.6/USD, as compared to the previous month's Shs. 3,738.02/USD. This depreciation can be attributed to increased corporate demand for USD and the overall strengthening of the US Dollar on the global stage. 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 manufacturing raw materials and agricultural inputs like fertilizers, and acaricides, potentially impacting Uganda's economy negatively.

Shs 3,755.6/USD
Average exchange rate for October 2023

Interest Rate Movements:

In October 2023, the Central Bank maintained the Central Bank Rate (CBR) at 9.5%. However, Shilling-denominated credit's weighted average lending rates rose slightly from 18.40% in August 2023 to 18.95% in September 2023. This increase is mainly attributed to the Central Bank's stringent monetary policies, including a higher Cash Reserve Requirement (up 2% to 10% since June 2022), and cautious lending practices by commercial banks due to a 5.73% non-performing loans ratio in Q2 2023. Similarly, lending rates for foreign currency-denominated credit increased to 9.00% in September 2023, up from 8.57% the previous month.

9.5%
Central Bank Rate (CBR) for October 2023

18.95%
Lending Rates for UGX Loans for September 2023

9.0%
Lending Rates for foreign currency loans for September 2023

Domestic Credit:

In September 2023, Uganda's domestic credit saw a slight uptick to UGX 38.9 trillion from August's UGX 38.6 trillion, marking a 0.6% increase and indicating a modest overall credit expansion in the domestic economy. Notably, Net Credit to the Government declined from UGX 15.2 trillion in August to UGX 14.9 trillion in September 2023, signaling a -1.6% change and suggesting a reduction in credit extended to the government during this period. Conversely, private sector credit experienced growth, climbing from UGX 22.6 trillion in August 2023 to UGX 22.9 trillion in September 2023, reflecting a positive change of 1.4% and pointing towards an expanded credit availability for the private sector.

Shs. 38.9 trillion
Domestic Credit rose by 0.6% in September 2023

Shs. 14.9trillion
Net credit to the government by 1.6% in September 2023

Shs. 22.9 trillion
Private Sector credit increased by 1.4% in September 2023

Uganda's Trade Balance, and Terms of Trade:

Uganda's trade balance saw a modest improvement, marked by a 15% reduction in the trade deficit, declining from $349.7 million in August 2023 to $296.4 million in September 2023. This positive shift is primarily credited to a 9% decrease in the total imports of goods for the month. Meanwhile, the terms of trade index remained relatively consistent, edging up by 1% from 109.6 in August 2023 to 110.3 in September 2023, indicating potential implications for Uganda's economic competitiveness.

USD 296.4 million
Trade deficit declined by 15% in September 2023

USD 632.1 million
Total Exports of Goods-fob declined by 6% in September 2023

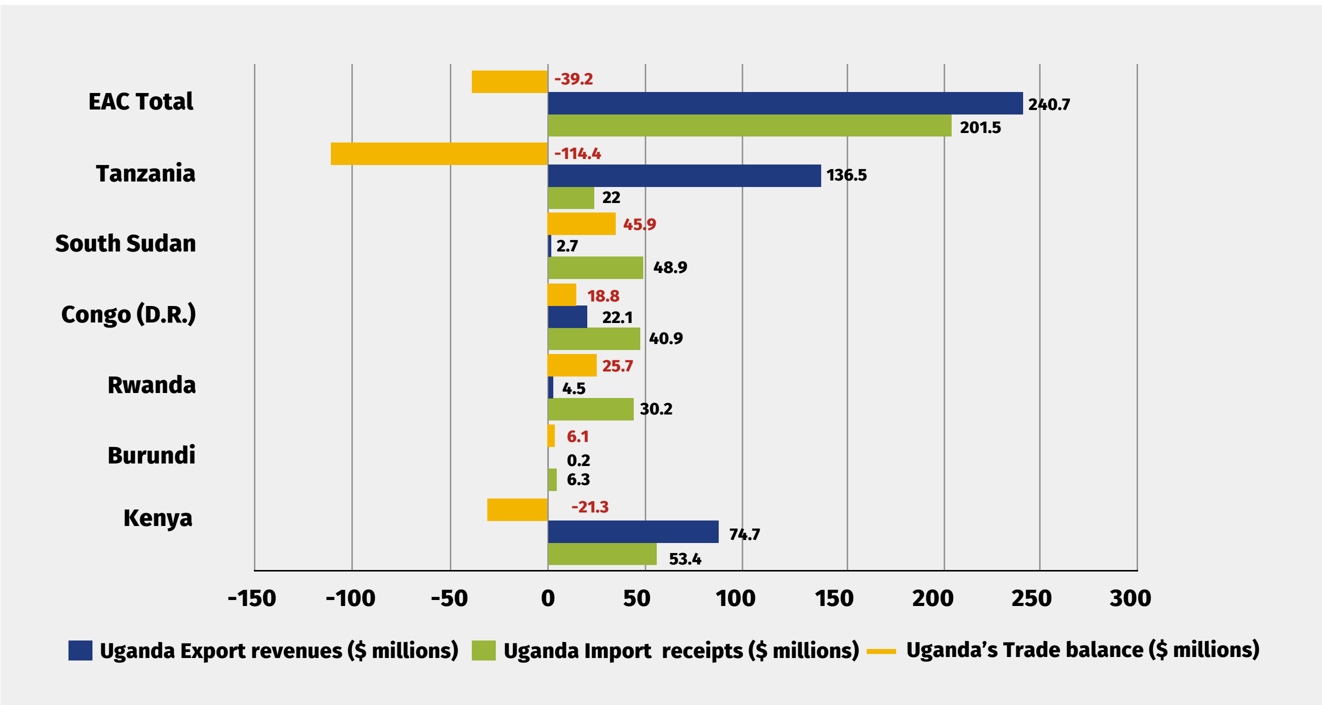
USD 928.4 million
Total Imports of Goods – fob declined by 9% in September 2023.

USD 110.3 million
Terms of Trade Index rose slightly by 1% in September 2023

Uganda's Trade Balance with the East African Community (EAC):

In September 2023, Uganda experienced a trade surplus with Burundi ($6.1 million), Rwanda ($25.7 million), Congo (D.R.) ($18.8 million), and South Sudan ($45.9 million). However, trade imbalances were observed with Kenya, where Uganda's exports of $53.4 million were outweighed by imports totaling $74.7 million, resulting in a deficit of $21.3 million. The most significant trade deficit was with Tanzania, where Uganda's exports of $22.0 million were dwarfed by imports of $136.5 million, leading to a substantial deficit of $114.4 million. Overall, Uganda's trade balance within the EAC stood at a deficit of $39.2 million.

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



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

Uganda's Export Revenues from Key Commodities:

In September 2023, Coffee, a primary export, dropped by 22% to $94.39 million from $121.64 million in August 2023. Gold export revenues declined by 6%, falling to $225.27 million from $239.41 million. Cotton and tea exports also reduced by 15% and 10% respectively. Cocoa beans faced a sharp 42% decline to $6.2 million, while maize and beans exports dropped by 32% and 35% respectively. The decrease in export revenues was primarily due to reduced export volumes. For instance, coffee exports fell by 22%, cotton by 17%, and tea by 11%. However, cocoa beans saw a volume increase of 44%. Maize and beans export volumes declined by 36% and 19% respectively. A standout shift occurred in the sugar sector, witnessing a remarkable 58% surge to $11.84 million, paired with a 55% increase in sugar export volumes. Rice export revenues also rose by 19% to $0.15 million, attributed to an 11% rise in rice export volumes.

Uganda’s Import Receipts for Commodities:

In September 2023, Animal and Animal Products import receipts increased by $0.09 million (2.2% growth) to $4.27 million from $4.18 million in August 2023. Conversely, Vegetable Products, Animal, Beverages, Fats, and oil witnessed a $6.2 million decline (9.3% decrease) from $66.61 million to $60.41 million. Prepared Foodstuff, Beverages, and tobacco decreased by $3.43 million (11.2% reduction) from $30.55 million to $27.12 million. Mineral Products (excluding Petroleum products) experienced a substantial $43.66 million decrease (17.7% drop) from $246.39 million to $202.73 million. Petroleum Products decreased by $21.33 million (12.2% fall) from $175.08 million to $153.75 million.

Economic Outlook:

The Bank of Uganda's latest forecasts indicate robust economic growth ahead, estimating around 6% for FY2023/24 and within the 6% to 7% range in the medium term. This Growth will be driven by investment in the extractive industries financed by foreign direct investment (FDI) and higher export earnings.
However, it's essential to acknowledge several uncertainties that could impact this outlook. Firstly, weaker foreign demand may hinder export growth, potentially leading to a deteriorating current account deficit and increased 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, partly due to the delayed effects of declining real incomes and decreasing prices for commodity exports could present an economic challenge.

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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:

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