Uganda Macroeconomic Digest

February 2024

Introduction

The Uganda Macroeconomic Digest for February 2024 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 (exports and imports), and economic outlook.

Annual Inflation:

Headline inflation surged from 2.8% in January to 3.4% in February 2024, primarily driven by an uptick in annual core inflation, which escalated from 2.4% to 3.4% during the same period. The surge in annual core inflation was chiefly propelled by a substantial increase in annual services inflation, soaring from 3.9% in January 2024 to 5.4% in February 2024. Notably, the surge in annual services inflation was led by a surge in annual education services inflation, which skyrocketed from 6.1% to 14.5% in February 2024.

Additionally, annual restaurants and accommodation services inflation rose from 4.9% in January to 6.0% in February. Annual energy fuel and utilities (EFU) inflation saw an uptick from 7.4% to 8.0% in February 2024. This was attributed to a notable increase in firewood prices, by 15.1% in February 2024 compared to 9.4% in January 2024, alongside a 5.7% increase in petrol prices in February 2024 compared to 4.4% in January 2024. On the other hand, annual food crops andrelated items inflation exhibited a slower rate of increase at 0.5% in February 2024 compared to 2.6% in January 2024.

Looking ahead, the inflation trajectory will be shaped by the outlook for the shilling, particularly given the exchange rate depreciation. Inflation is projected to rise above the medium-term target of 5% by the first quarter of the 2024/25 financial year and remain above 5% throughout 2025 unless monetary policy is tightened, according to the Bank of Uganda's latest monetary policy statement. Risks to the inflation outlook remain highly dependent on the global anddomestic environment. Higher global commodity prices due to geopolitical tensions and increased shipping costs resulting from the Middle East conflict, as well as tighter global financial market conditions, could lead to higher domestic inflation.

In February 2024, analysis by geographical areas and income groups revealed that Fort Portal Centre recorded the highest inflation at 5.4% in February 2024, up from 3.7% in January 2024. This surge was primarily driven by a substantial increase in annual 'Education Services' inflation, soaring to 22.8% in February 2024 compared to 9.1% in January 2024. Additionally, annual 'Furnishings, Household Equipment, and Routine Household' inflation rose to 6.4% in February 2024 from 3.1% in January 2024. On the other hand, Mbale reported the lowest annual inflation at 1.1% in February 2024, down from 1.6% in January 2024. This decline was largely 2 attributable to the annual Food and Non-Alcoholic Beverages' inflation, which stood at minus 3.0% in February 2024 compared to minus 2.1% in January 2024.

3.4%

Headline Inflation rose from 2.8% in Jan-24 to 3.4% in Feb-2024

3.4%

Core Inflation rose from 2.4% in Jan-24 to 3.4% in Feb-2024

0.5%

Food Crops and Related Items inflation declined from 2.6% in Jan-24 to 0.5% in Jan-2024

8.0%

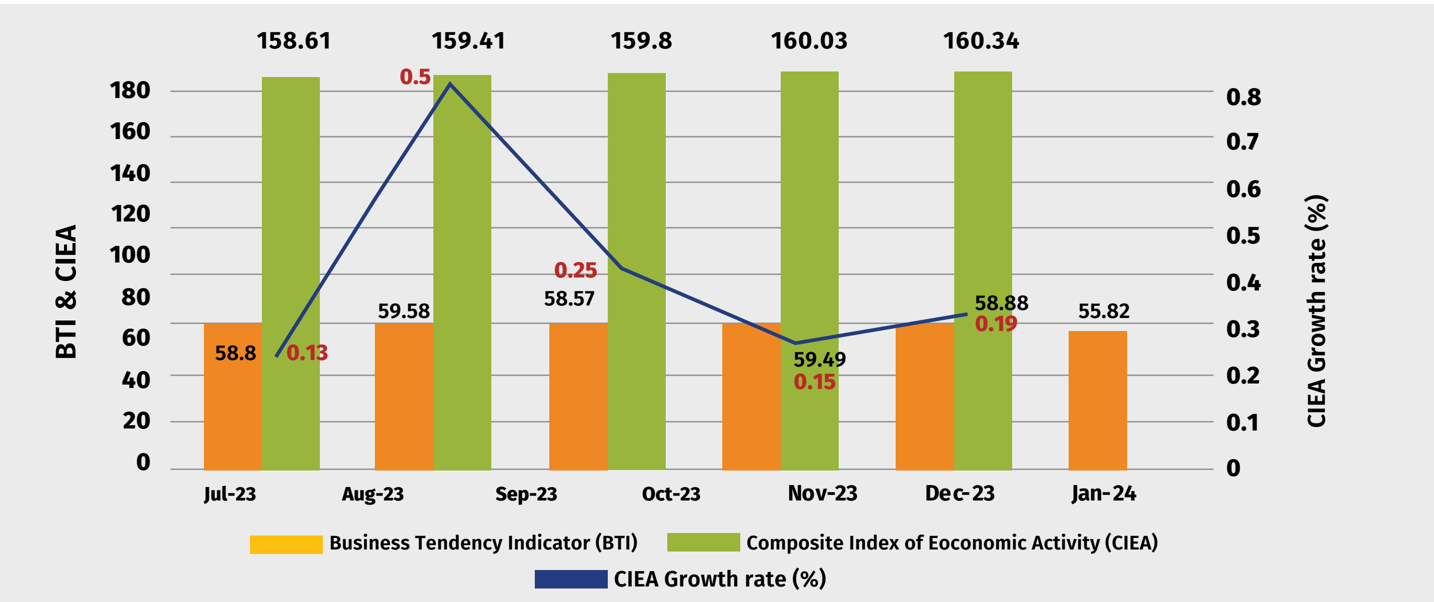
Energy Fuel and Utilities (EFU) inflation rose from 7.4% in Jan-24 to 8.0% in Feb-2024

Business Perceptions and Economic Activity:

Sentiments about business conditions remained positive during the month of February 2024, with the BTI recorded above the 50.0 threshold, although it experienced a marginal dip from 58.88 in January 2023 to 55.82 in February 2024. Across sectors such as construction, manufacturing, wholesale trade, and agriculture, optimism prevailed, with all sectors recording BTIs above 50.

Economic activity and business outlooks continued to strengthen, reflected in the upward trajectory of high-frequency economic indicators, notably the Composite Index of Economic Activity. This index rose from 160.03 in December 2023 to 160.34 in January 2024, marking a month-on-month growth of 0.19%, outpacing the 0.15% growth observed in December 2023. This uptick underscores ongoing enhancements in economic performance.

Figure 1: Business Tendency Indicator (BTI) and CIEA, July-January 2024



Source: Author's Computation based on BOU data (January 2024)

Exchange Rate Movements:

The Ugandan Shilling depreciated by 1.8% against the US dollar, trading at an average midrate of Shs 3,873.59/US$ in February 2024 compared to an average midrate of Shs 3,805.03/US$ the previous month. This depreciation was in part caused by the outflow of some offshore investor funds from the domestic market in search of more attractive yields in other markets. Additionally, strong domestic demand for the dollar from manufacturing, oil, telecom, and energy firms surpassed the increased supply from higher export receipts and project aid inflows.

Shs 3,873.59/USD
Average exchange rate for January 2024

Interest rate Movements:

In February 2024, the Central Bank Rate (CBR) was maintained at 9.5% by the Monetary Policy Committee of the Bank of Uganda. The decision was premised on the fact that the prevailing monetary policy stance was sufficient to keep inflation around its medium-term target of 5% while supporting economic stability to encourage economic growth.

The weighted average for lending rates charged by commercial banks on shilling-denominated credit was 17.32% in January 2024. This marked a slight increase when compared to the weighted average of 16.70% recorded in December 2023. The increase in rates is a sign that the effect of tight monetary policy is permeating from the money market through the securities market to the credit market. Additionally, lending rates on foreign currency-denominated credit decreased from 8.79% in December 2023 to 8.59% in January 2024, partly attributable to a reduced demand for dollar-denominated loans. A continued rise in lending rates by commercial banks could potentially hinder private sector credit growth rates, thereby dampening overall economic activity in the country.

9.5%
Central Bank Rate (CBR) for February 2024

17.32%
Lending Rates for UGX Loans for Jan-24

8.59%
Lending Rates for foreign currency loans for Jan-24

Domestic Credit:

January 2024, Uganda's Domestic Credit decreased by 0.3% to Ush 41.88 trillion from Ush 42.02 trillion in December 2023. This decline is mainly attributed to the reduction in private sector credit from Ush 23.63 trillion in December 2023 to Ush 23.49 trillion in January 2024, partly due to the increase in commercial banks' lending rates from 16.7% to 17.32% during the same period.

Conversely, Net Credit to Government (NCG) saw a 1.6% increase, rising from Ush 17.13 trillion to Ush 17.41 trillion during the same period. A continued decline in private sector credit alongside increasing domestic borrowing by the government may dampen economic activity, as reduced investment levels result from limited access to credit.

Ush. 41.88 trillion
Domestic Credit declined by 0.3% in January 2024

Ush. 17.41 trillion
Net credit to the government rose by 1.6% in January 2024

Ush. 23.49 trillion
Private Sector credit declined by 0.6% in January 2024

Uganda's Trade Balance, and Terms of Trade:

In January 2024, Uganda's trade balance showed improvement with a 30% reduction in the trade deficit, which decreased to $188.14 million from $269.87 million in December 2023. This decline was propelled by a 15% decrease in import receipts, falling from $886.24 million in December 2023 to $753.54 million in January 2024. Concurrently, the terms of trade improved by 2.0%, rising from 109.41 in December 2023 to 111.63 in January 2024, reflecting enhanced economic competitiveness for Uganda.

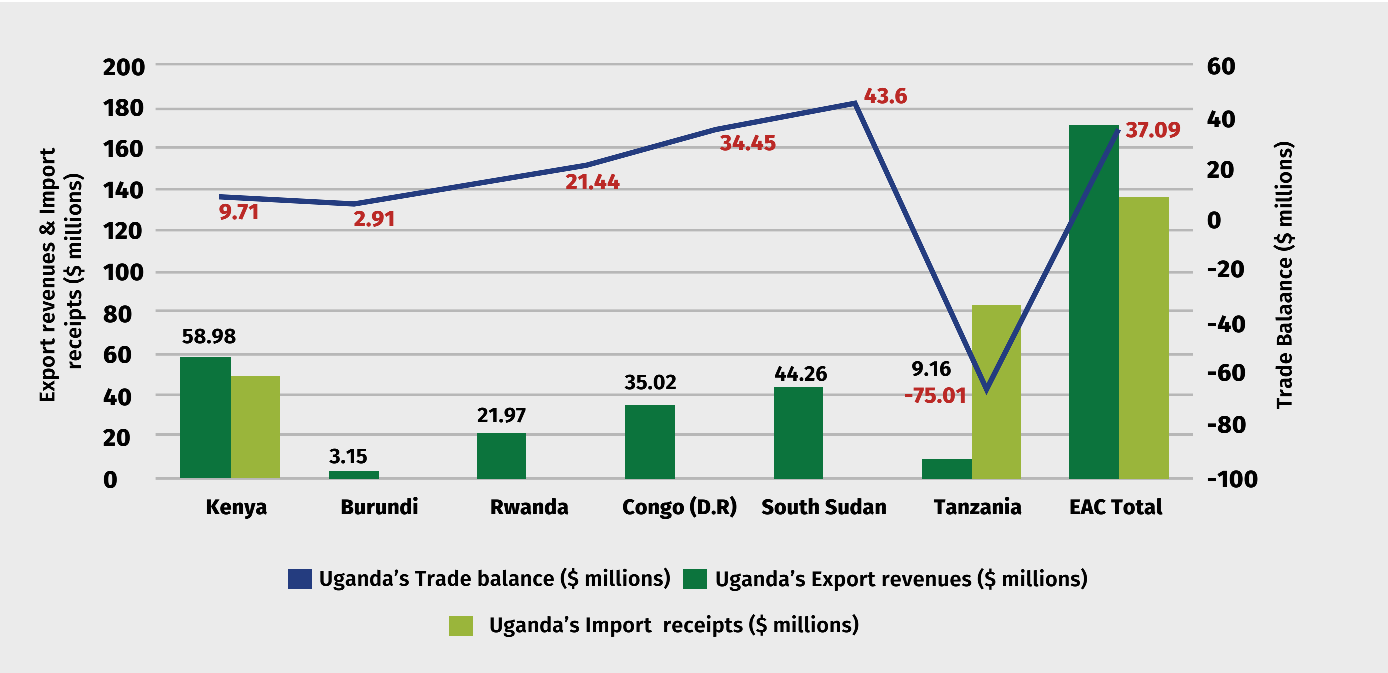
Trade deficit declined by 30% in January 2024	Total Exports of Goods-fob declined by 8.3% in January 2024	Total Imports of Goods - fob declined by 15% in January 2024	Terms of Trade Index improved by 2.0% in January 2024

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

In January 2024, Uganda traded at a surplus with the East African Community (EAC), exporting goods valued at $172.54 million and importing goods worth $135.45 million from EAC countries. This marked a surplus of $37.09 million, a significant turnaround from the previous month's trade deficit of $22.29 million. Uganda maintained a surplus with most EAC countries, except for Tanzania. Specifically, in January 2024, Uganda exported goods worth $9.16 million to Tanzania, while importing goods valued at $84.17 million from Tanzania, resulting in a trade deficit of $75.01 million.

On a brighter note, Uganda enjoyed a surplus with other EAC countries. For instance, it exported goods worth $58.98 million to Kenya and imported goods valued at $49.27 million from Kenya, leading to a surplus of $9.71 million. Uganda exported goods worth $3.15 million to Burundi and imported negligible goods ($0.24 million), resulting in a surplus of $2.91 million. Additionally, Uganda experienced a surplus of $21.44 million with Rwanda, exporting goods worth $21.97 million and importing goods worth $0.54 million. Moreover, Uganda's trade with the Democratic Republic of Congo showed a surplus, with exports totaling $35.02 million and imports at $0.57 million, resulting in a surplus of $34.45 million. Similarly, Uganda exported goods worth $44.26 million to South Sudan and imported goods worth $0.66 million, leading to a surplus of $43.60 million.

Figure 2: Uganda's Trade Balance with the EAC in January 2024 (Million, USD): Exports Vs Imports



Source: Authors' construct based on BOU data (January 2024)

Uganda’s Export Revenues from Selected Commodities:

In January 2024, export revenues showcased diverse trends across commodities, with significant increases observed in coffee, cotton, tea, sim sim, maize, and sugar. Coffee export values surged by 30%, climbing from $65.94 million in December 2023 to $85.57 million in January 2024. This rise was fueled by a 20% increase in coffee export volumes, soaring from 401,336 (60 kg bags) to 481,586 (60 kg bags), accompanied by a rise in coffee export values from $2.74 per kg to $2.96 per kg during the same period.

Similarly, cotton export revenues experienced a remarkable 51% increase, rising from $1.32 million in December 2023 to $2.00 million in January 2024, attributed to a 51% rise in cotton export volumes from 4,436.08 (185 kg Bales) to 6,684.77 (185 kg Bales) during the same period. Tea export revenues also saw a notable 30% increase, climbing from $4.82 million in December 2023 to $51.31 million in January 2024, driven by a 2% rise in tea export volumes from 5,448 tonnes to 5,560.18 tonnes during the same period.

Uganda’s Import Receipts for Commodities:

In January 2024, import receipts for most commodities experienced fluctuations. Notably, Vegetable Products, Animal, Beverages, Fats & Oil saw a notable uptick, with import receipts surging by 47% from $54.16 million in December 2023 to $79.68 million in January 2024. Similarly, Prepared Foodstuff, Beverages & Tobacco witnessed a 17% increase, rising from $21.48 million in December 2023 to $25.18 million in January 2024. Petroleum Products and Chemical & Related Products also saw a rise of 5%, climbing from $60.88 million in December 2023 to $64.02 million in January 2024. Base Metals & their Products experienced a 15% rise, increasing from $52.53 million in December 2023 to $60.36 million in January 2024.

On the other hand, certain categories faced declines in import receipts. Animal & Animal Products saw a decrease of 7%, dropping from $3.84 million in December 2023 to $3.57 million in January 2024. Mineral Products (excluding Petroleum products) witnessed a significant 68% decrease, falling from $230.76 million in December 2023 to $73.71 million in January 2024. Plastics, Rubber, & Related Products experienced a slight decline, falling from $43.47 million in December 2023 to $42.39 million in January 2024. Wood & Wood Products witnessed an 8% decrease, dropping from $13.78 million in December 2023 to $12.74 million in January 2024. Textile & Textile Products saw a 10% decrease, dropping from $26.16 million in December 2023 to $23.41 million in January 2024. Miscellaneous Manufactured Articles experienced a 3% decrease, falling from $32.13 million in December 2023 to $31.04 million in January 2024. Arms & Ammunitions & Accessories saw an 18% decrease, dropping from $0.021 million in December 2023 to $0.017 million in January 2024. Electricity imports receipts witnessed a 15% decrease, falling from $0.39 million in December 2023 to $0.33 million in January 2024.

Economic Outlook:

The Bank of Uganda forecasts Uganda’s economic growth to hold steady at 6.0% for 2023/24. Future projections range between 5.5% and 6.5%, lower than previous estimates, due to tighter monetary policies to stabilize inflation.

The potential increase in inflation poses challenges to household real incomes, potentially dampening consumer spending. Moreover, elevated import costs of raw materials might hinder investment expenditure. Additionally, if tax revenue falls short of expectations, it could lead to greater domestic financing, crowding out private sector credit and suppressing economic activity. Furthermore, sluggish recovery in external demand might further impede Uganda’s export prospects.

However, some factors could mitigate these negative effects. Improved activity in the oil sector and Uganda's removal from the Financial Action Task Force’s grey list in February could attract additional foreign direct investment, offering some relief from the aforementioned challenges. Nevertheless, overall, the risks to growth remain tilted towards the downside.

It’s imperative to note that sustainable growth hinges on maintaining low and stable inflation. High inflation rates can significantly impede economic growth, resulting in lasting reductions in per capita income. Therefore, tightening monetary policy under the current circumstances aligns with the goal of fostering sustainable growth, which serves as a fundamental prerequisite for socio-economic transformation.

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