Uganda Macroeconomic Digest

September 2024

Introduction

The Uganda Macroeconomic Digest for September 2024 provides insights into the country's economic performance. The report covers Uganda's key macroeconomic indicators, including inflation, business confidence, exchange rates, interest rates, domestic credit, trade (exports and imports), and economic outlook.

Annual Inflation:

Uganda's annual inflation rate, as measured by the Consumer Price Index (CPI), stood at 3.0% for the 12 months ending in September 2024, down from 3.5% in August 2024. This decrease was largely driven by a reduction in Annual Core Inflation, which eased to 3.7% in September 2024 from 3.9% in August 2024. A significant factor was the drop in Annual Services Inflation, which fell to 5.8% in September 2024 from 6.2% in August 2024, primarily due to a sharp decline in Passenger Transport Services Inflation, down to 4.1% from 6.9% over the same period.

Annual Food Crops and Related Items Inflation saw a sharp decline, recorded at -4.1% in September 2024, compared to -0.6% in August 2024. This was mainly driven by a drop in Tomato inflation, which fell to -4.1% in September 2024 from 12.4% in August 2024. Similarly, inflation for Round Onions plummeted to -38.8% from -25.5%, Cabbage inflation dropped to -5.2% from 20.0%, and Sweet Potatoes inflation fell to -4.5% from 7.3% during the same period.

Annual Energy, Fuel, and Utilities (EFU) Inflation slightly decreased to 4.5% in September 2024 from 4.7% in August 2024, driven by a drop in Liquid Energy Fuels Inflation, which fell to -2.0% in September 2024 from 3.8% in August 2024. Specifically, Petrol inflation dropped to -2.2% in September 2024 from 6.7% in August 2024, and Diesel inflation declined to -2.6% from 0.8% during the same period.

The Bank of Uganda projects that average core inflation will remain below the medium-term target of 5% over the next 12 months, supported by a stable shilling and favorable food and oil prices. However, inflation is expected to stabilize around the 5% target in the medium term. Several factors pose risks to this outlook. On the downside, inflation may be lower than expected if the previous policy actions dampen demand more than anticipated, the global economy weakens, favorable harvests reduce food prices, or the shilling appreciates due to stronger capital inflows and lower global inflation. On the upside, heightened geopolitical tensions could raise energy prices and disrupt trade, faster shilling depreciation could spur inflation, and stronger economic growth driven by investments in extractive industries could boost demand, leading to higher inflation. Overall, the risks to the inflation outlook are balanced.

3.0%

Headline Inflation declined from 3.5% in August 2024 to 3.0% in September 2024

3.7%

Core Inflation declined from 3.9% in August 2024 to 3.7% in September 2024

-4.1%

Food Crops and Related Items inflation declined from -0.6% in August 2024 to -4.1% in September 2024

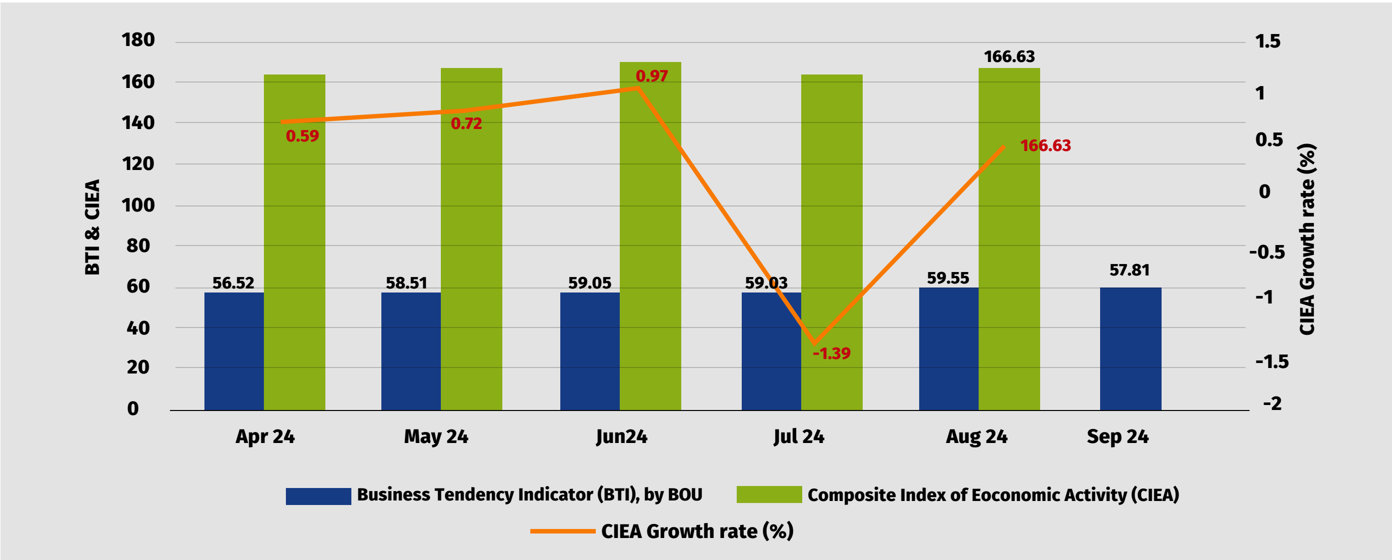
4.5%

Energy Fuel and Utilities (EFU) inflation declined from 4.7% in August 2024 to 4.5% in September 2024

Economic Activity and Business Perceptions:

Private sector sentiment remained optimistic in September 2024, as indicated by the Business Tendency Index (BTI), which stayed above the 50-mark threshold. However, the BTI declined from 59.55 in August 2024 to 57.81 in September 2024, signaling reduced confidence in business conditions. According to the Bank of Uganda's latest statistics (2024), Confidence dropped in sectors such as manufacturing (55.3 vs 55.69), agriculture (54.54 vs 57.99), and other services (60.58 vs 63.75), while it increased in construction (61.52 vs 56.7) and wholesale trade (58.1 vs 56.54). The Composite Index of Economic Activity (CIEA) grew by 0.45%, from 165.89 in July 2024 to 166.63 in August 2024, driven by growth in coffee exports and higher Private Sector Credit, which supported economic activity during the month (See Figure 1). Similarly, Uganda Development Bank's Business Health Index (BHI) increased from 56.78 in Q1 to 62.84 in Q2 2024, reflecting growth in sales, profitability, and job creation, supported by improved raw material availability and cost management.

Figure 1: Business Tendency Indicator (BTI) and Composite Index of Economic Activity (CIEA), April to September 2024



Source: Author's Computation based on Bank of Uganda data, September 2024

Exchange Rate Movements:

The Shilling appreciated by 0.3% in September 2024, averaging Shs 3,711.3/US$, compared to Shs 3,723.6/US$ in August 2024. This appreciation was driven by a tight monetary policy, increased inflows from coffee exports due to favorable international prices, a rise in Foreign Direct Investments (FDIs) in the oil and gas sector, and more tourism receipts.

Shs 3,711.3/USD

Average exchange rate for September 2024

September 2024

Interest rate Movements:

In September 2024, the Central Bank Rate (CBR) was held steady at 10.00%, reflecting inflation falling below the medium-term target of 5%. This decline in inflation is attributed to the fading effects of global shocks, such as the war in Ukraine and the COVID-19 pandemic, along with the relative stability of the Ugandan Shilling against the US dollar. Shilling-denominated lending rates rose significantly from 17.76% in July 2024 to 19.06% in August 2024, driven by the lagged effects of the central bank's tight monetary policy. Conversely, lending rates for foreign currency-denominated loans fell from 9.62% in July 2024 to 8.66% in August 2024, partly due to reduced demand for dollar-denominated credit.

10.00%
Central Bank Rate (CBR) for September 2024

19.06%
Lending Rates for UGX Loans for August 2024

8.66%
Lending Rates for foreign currency loans for July 2024

Domestic Credit:

In August 2024, Uganda's Domestic Credit increased by 2.0% to UGX48.09 trillion, up from UGX47.15 trillion in July 2024. This growth was primarily driven by a 3.6% rise in Net Credit to Government (NCG), which surged from UGX21.81 trillion in July 2024 to UGX22.59 trillion in August 2024. The surge in NCG is attributed to ongoing fiscal pressures and the need for domestic financing amid reduced external support. The private Sector Credit recorded an increase of 0.3%, growing from UGX24.29 trillion in July 2024 to UGX24.37 trillion in August 2024. This reflects a cautious but steady recovery in business lending, showing optimism among financial institutions and borrowers during this period.

Shs 48.09 trillion
Domestic credit increased by 2.0% in August 2024

Shs 24.37 trillion
Private Sector Credit rose by 0.3% in August 2024

Shs 22.59 trillion
Net Credit to the Government (NCG) rose by 3.6% in August 2024

Uganda’s Trade Balance, and Terms of Trade:

Uganda's trade balance worsened in August 2024, with the deficit widening by 16.6% from US$269.34 million in July 2024 to US$314.10 million in August 2024. This increase was mainly due to a rise in import receipts. While export revenues grew slightly by 0.6%, from US$785.03 million in July to US$789.58 million in August 2024, imports outpaced exports, resulting in a trade deficit. Total imports of goods rose by 4.7%, from US$1,054.36 million in July 2024 to US$1,103.68 million in August 2024.

The terms of trade (TOT) index, which reflects the ratio of export prices to import prices, improved by 4.3%, rising from 142.18 in July 2024 to 148.22 in August 2024, indicating more favorable pricing for Uganda's exports relative to its imports.

Trade deficit increased by
16.6%
in August 2024

Total Exports of Goods - fob increased by
0.6%
in August 2024

Total Imports of Goods - fob increased by
4.7%
in August 2024

Terms of Trade Index increased by
4.3%
in August 2024

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

In August 2024, Uganda recorded a trade deficit of $178.85 million within the East African Community (EAC), with exports totaling $147.39 million and imports amounting to $326.24 million. This represents a significant deterioration from the previous month when the deficit stood at $43.38 million.

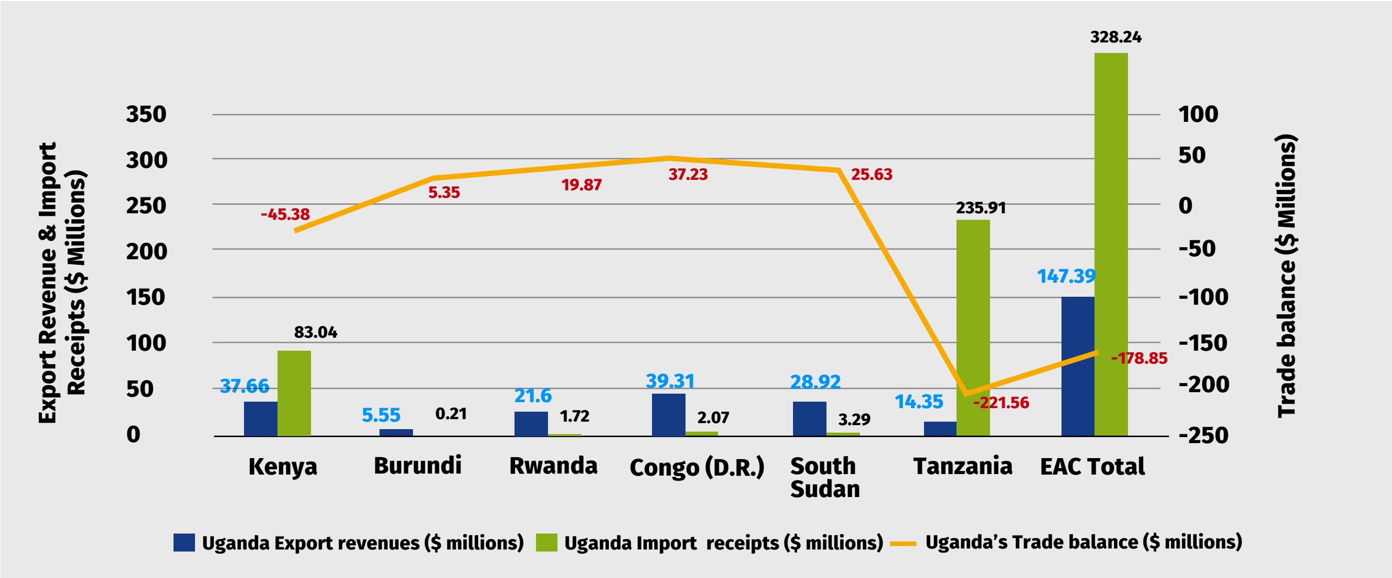
Uganda’s largest trade deficit was with Tanzania, where exports amounted to $14.35 million, while imports were significantly higher at $235.91 million, resulting in a trade deficit of $221.56 million. This represents Uganda’s most considerable negative trade balance within the EAC in August 2024.

Similarly, Uganda faced a trade deficit with Kenya, exporting goods worth $37.66 million and importing goods valued at $83.04 million, leading to a deficit of $45.38 million.

Notably, Uganda recorded trade surpluses with several EAC member countries. For example, Uganda enjoyed a surplus of $5.35 million with Burundi, exporting $5.55 million worth of goods while importing only $0.21 million. Additionally, Uganda’s trade with Rwanda resulted in a surplus of $19.87 million, with exports valued at $21.60 million and imports at $1.72 million.

Uganda also maintained a strong trade surplus with the Democratic Republic of Congo (D.R.C.), exporting goods worth $39.31 million and importing only $2.07 million, resulting in a surplus of $37.23 million. South Sudan similarly provided a favorable trade balance, with Uganda exporting $28.92 million worth of goods and importing $3.29 million, leading to a surplus of $25.63 million.

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



Source: Authors' construct based on BOU data, August 2024

Uganda's Export Revenues from Selected Commodities:

In August 2024, Uganda's coffee export revenues experienced a notable increase of 5.3%, rising from $210.48 million in July to $221.63 million in August 2024. This growth was driven by a 2.0% increase in export volumes, from 821,593 (60 kg bags) to 837,915 (60 kg bags), reflecting the sustained global demand for Ugandan coffee.), along with a 3.2% increase in Uganda's coffee export prices, from $4.27 per kg in July to $4.41 per kg in August 2024.

On the other hand, cotton exports faced a sharp decline, with revenues dropping by 23.1%, from $0.62 million in July to $0.48 million in August 2024. This drop was due to a 26.4% reduction in export volumes, from 1,936.68 (185 kg Bales) to 1,425.00 (185 kg Bales), indicating a challenging period for cotton producers.
Uganda's tea exports also saw a significant contraction, with revenues falling by 27.8%, from $4.20 million in July to $3.03 million in August 2024. The decline in export volumes, from 4,617.95 tons to 3,381.20 tons (a 26.8% decrease), mirrored this downturn in the tea sector.

In contrast, fish and fish products (excluding regional markets) performed well, with export revenues growing by 3.7%, from $10.01 million in July to $10.37 million in August 2024. This was supported by a robust 61.4% increase in export volumes, from 3,111.28 tons to 5,020.74 tons, indicating strong demand in international markets.

Uganda's simsim (sesame seed) exports saw a remarkable surge, with export revenues jumping by 95.7%, from $1.20 million in July to $2.35 million in August 2024. This impressive performance was driven by a 71.5% rise in export volumes, from 578.27 tons to 991.62 tons, highlighting the growing global demand for this commodity.
The maize sector recorded an improvement, with export revenues increasing by 4.8%, from $3.51 million in July to $3.68 million in August 2024, bolstered by a 14.2% growth in export volumes, from 18,565.88 tons to 21,194.40 tons.

However, the beans exports experienced a decline in revenues by 12.7%, dropping from $2.21 million in July to $1.93 million in August 2024, despite a substantial 61.4% increase in export volumes, from 3,111.28 tons to 5,020.74 tons. The fall in revenue suggests weaker pricing in the international markets.

The cocoa beans sector faced a downturn, with revenues falling by 24.1%, from $16.74 million in July to $12.70 million in August 2024, mainly due to a 39.8% drop in export volumes, from 3,432.39 tons to 2,064.98 tons.

Similarly, rice export revenues saw a dramatic fall of 78.3%, from $0.32 million in July to $0.07 million in August 2024, even though export volumes increased by 19.8%, from 459.98 tons to 550.88 tons, reflecting lower prices in global markets.

The sugar exports registered a 6.3% decline in export revenues, decreasing from $16.31 million in July to $15.28 million in August 2024 attributed to the fall in export volumes by 7.9%, from 25,290.62 tons in July to 23,295.76 tons in August 2024.

Uganda’s Import Receipts for Commodities:

In August 2024, Uganda's formal private sector import receipts for selected commodities experienced a marginal increase of 0.4%, rising from $1,033.61 million in July 2024 to $1,038.06 million in August 2024. Various categories showed mixed trends during this period.
Animal & Animal Products imports declined by 10.3%, with receipts falling from $5.92 million in July 2024 to $5.31 million in August 2024. In contrast, Vegetable Products, Animals, Beverages, Fats & Oil saw a significant rise of 34.5%, with import receipts increasing from $89.28 million in July 2024 to $120.12 million in August 2024.

Imports of Prepared Foodstuffs, Beverages, and Tobacco grew by 4.9%, rising from US$27.06 million in July 2024 to US$28.37 million in August 2024. In contrast, Mineral Products (excluding petroleum) saw an 11.0% decline, with import receipts falling from US$318.69 million in July to US$283.54 million in August 2024

Petroleum product imports grew by 12.4%, increasing from US$119.94 million in July 2024 to US$134.78 million in August 2024. Similarly, Chemical and Related Products saw a 4.5% rise, with import receipts climbing from US$73.44 million to US$76.73 million over the same period.

Plastics, Rubber, & Related Products imports grew by 3.9%, increasing from $52.30 million in July 2024 to $54.34 million in August 2024. Wood & Wood Products recorded a significant rise of 29.2%, with receipts growing from $12.90 million to $16.67 million in the same period.

Textile & Textile Products imports also increased by 2.8%, from $27.02 million in July 2024 to $27.78 million in August 2024. In contrast, Miscellaneous Manufactured Articles saw a 9.3% decline, with receipts falling from $36.21 million to $32.84 million during the same period.

Base Metals & their Products recorded a slight decline of 1.9%, with receipts decreasing from $76.73 million in July 2024 to $75.26 million in August 2024. Machinery Equipment, Vehicles & Accessories imports dropped by 6.1%, from $193.80 million in July 2024 to $182.00 million in August 2024.

Notably, imports of Arms, Ammunition, and Accessories surged by 2851.2%, rising from US$0.001 million in July 2024 to US$0.03 million in August 2024. In contrast, electricity import receipts decreased by 10.6%, from US$0.33 million in July to US$0.29 million in August 2024

Uganda’s Economic Outlook:

According to the Bank of Uganda’s latest macroeconomic forecasts report (2024), Uganda's economic growth is projected to remain strong, at 6.0-6.5% in FY 2024/25 and 7.0% in subsequent years, driven by strategic government interventions, increased foreign direct investment in the extractive industries, and the commencement of oil production in FY 2025/26. However, this growth outlook is subject to several risks.

On the downside, intensified geopolitical tensions could disrupt trade and supply chains, leading to higher oil prices, while global trade restrictions and elevated debt levels in many countries could create inflationary pressures, tightening financial conditions for Uganda.

Additionally, tighter domestic financial conditions may increase borrowing costs, sluggish private sector credit growth, and higher government borrowing to finance fiscal deficits could crowd out private sector investments.

On the upside side, Uganda's growth could surpass expectations if inflation falls significantly, leading to increased demand and higher real incomes. A stronger global economy or greater-than-expected investment in the mineral sector, along with favorable weather driving higher agricultural output, could also boost growth. Overall, the risks to Uganda's growth outlook are balanced.

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

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