

Introduction

The Uganda Macroeconomic Digest for August 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:

The annual inflation rate in Uganda, as measured by the Consumer Price Index (CPI), stood at 3.5% for the 12 months ending in August 2024, down from 4.0% recorded in July 2024. This decrease was mainly driven by a reduction in Annual Core Inflation which was recorded at 3.9% in August 2024, slightly down from 4.0% in July 2024. One key contributor was the decline in Annual Services Inflation, which dropped to 6.2% in August 2024 from 6.5% in July 2024. In particular, the Passenger Transport Services Inflation decreased to 6.9% in August 2024, down from 8.2% in July 2024. Additionally, inflation in food and beverage services dropped to 2.7% in August 2024, down from 3.8% in July 2024, while inflation in financial services slowed to 4.3% from 5.0% over the same period.

The Annual Energy, Fuel, and Utilities (EFU) Inflation also declined, falling to 4.7% in August 2024 from 6.2% in July 2024. This drop was largely attributed to a reduction in solid fuel inflation, which fell to 9.4% in August 2024 from 13.3% in July 2024, driven by lower charcoal and firewood prices. Additionally, Liquid Energy Fuels Inflation dropped to 3.8% in

August 2024, down from 5.1% in July 2024, driven by Petrol and Diesel prices.

The Annual inflation for food crops and related items fell sharply to -0.6% in August 2024, down from 2.0% in July 2024. This was primarily due to falling prices of round onions, which decreased to -25.5% in August 2024 compared to 29.6% in July 2024, as well as declines in the prices of matooke (-21.1% in August from 3.6% in July), fresh cassava (-27.0% in August from -21.0% in July), and cabbage inflation, which eased to 20.0% in August 2024 from 32.5% in July 2024.

Looking ahead, the Bank of Uganda (BOU) projects inflation to stay below the 5% target for the fiscal year 2024/25, supported by stable demand, reduced imported inflation, and a stable exchange rate. However, there are ongoing uncertainties that could impact this projection. These include the potential escalation of geopolitical tensions in the Middle East, which could lead to energy price hikes and the possibility of a stronger-than-expected increase in domestic demand.

3.5%



Headline Inflation declined from 4.0% in July 2024 to 3.5% in August 2024

3.9%



Core Inflation declined from 4.0% in July 2024 to 3.9% in August 2024

-0.6%



Food Crops and Related Items inflation declined from 2.0% in July 2024 to -0.6% in August 2024

4.7%

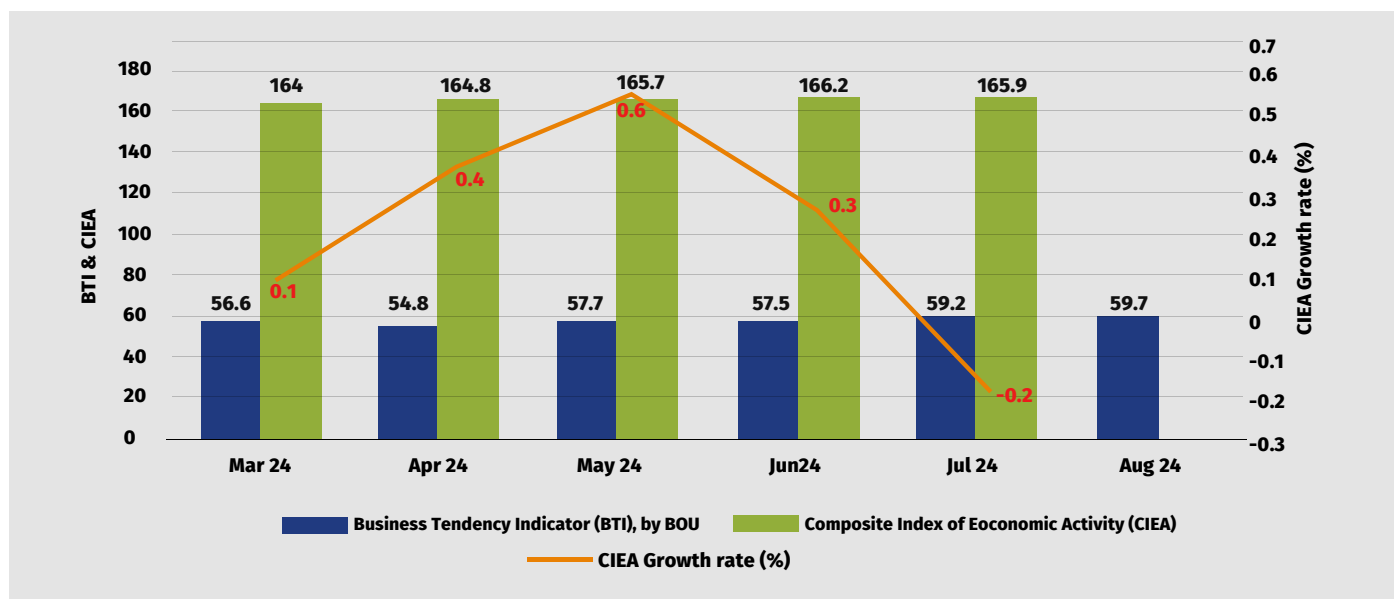


Energy Fuel and Utilities (EFU) inflation declined from 6.2% in July 2024 to 4.7% in August 2024

Economic Activity and Business Perceptions:

Business sentiments in Uganda remained optimistic and improved throughout the month, as reflected by the Bank of Uganda's Business Tendency Index (BTI), which stayed above the 50-point threshold, rising to 59.7 in August 2024 from 59.2 in July 2024. At the sectoral level, businesses in construction, manufacturing, wholesale trade, agriculture, and services were optimistic, with indices above 50. Specifically, Agriculture saw heightened optimism due to favorable weather conditions. However, the level of economic activity declined slightly, with the Composite Index of Economic Activity (CIEA) showing a 0.2% decrease from 166.2 in June to 165.9 in July 2024.

Figure 1: Business Tendency Indicator (BTI) and CIEA, March to August 2024



Source: Author's Computation based on BOU data, August 2024

Exchange Rate Movements:

In August 2024, the Ugandan Shilling depreciated by 0.5% against the US Dollar, with the average mid-rate rising to Shs 3,723.6/USD from Shs 3,705.9/USD in July 2024. The depreciation was partly driven by the deterioration in Uganda's trade balance, due to lower export revenues and a surge in import receipts. On a positive note, coffee export revenues continued to rise, supported by reduced production in Brazil and Vietnam, major producers of Arabica and Robusta coffee, due to adverse weather conditions. If this trend of increasing coffee export prices and volumes persists, Uganda's exchange rate will remain relatively stable.

Shs 3,723.6/USD

Average exchange rate for August 2024



Interest Rate Movements:

In August 2024, the Bank of Uganda's Monetary Policy Committee lowered the Central Bank Rate (CBR) to 10.00% from 10.25% in July 2024. This reduction was based on expectations that inflation would remain below the 5% target for FY 2024/25, supported by stable demand conditions, reduced imported inflation, and exchange rate stability. Meanwhile, the weighted average lending rates for Shilling-denominated credit rose from 17.64% in June 2024 to 17.76% in July 2024, while lending rates for foreign currency-denominated credit increased to 9.62% in July 2024, up from 9.23% in June 2024. The rise in commercial bank lending rates was partly due to increased government borrowing in the domestic market.

10.00%

Central Bank Rate (CBR)
for August 2024

17.76%

Lending Rates for
UGX Loans for July 2024

9.62%

Lending Rates for foreign
currency loans for July 2024

Domestic Credit:

Domestic credit grew by 4.3%, increasing from Shs 45.21 trillion in June 2024 to Shs 47.15 trillion in July 2024. This growth was primarily driven by an 8.4% rise in Net Credit to the Government (NCG), which increased from Shs 20.12 trillion to Shs 21.81 trillion. The surge in NCG is attributed to ongoing fiscal pressures and the need for domestic financing amid reduced external support. In addition, private sector credit experienced an increase of 1.1%, rising from Shs 24.03 trillion in June to Shs 24.29 trillion in July 2024. This reflects a cautious but steady recovery in business lending, showing optimism among financial institutions and borrowers during this period.

Shs 45.15 trillion

Domestic credit increased
by **4.3%** in July 2024

Shs 24.29 trillion

Private Sector Credit
rose by **1.1%** in July 2024

Shs 21.81 trillion

Net Credit to the Government
(NCG) rose by **8.4%** in July 2024

Uganda's Trade Balance, and Terms of Trade:

Uganda's trade balance worsened, with the deficit widening by 8.6%, from US\$247.93 million in June 2024 to US\$269.34 million in July 2024. This increase was driven by higher import receipts. Although export revenues from goods rose by 9.2%, from US\$718.60 million in June 2024 to US\$785.03 million in July 2024, imports continued to outpace exports, resulting in a trade deficit of US\$269.34 million.

Total imports grew by 9.1%, from US\$966.53 million in June 2024 to US\$1,054.36 million in July 2024. The Terms Of Trade (TOT) index, which measures the ratio of export prices to import prices, improved by 1.3%, rising from 140.35 in June 2024 to 142.18 in July 2024. This slight improvement suggests a more favorable pricing for Uganda's exports relative to its imports.

Trade deficit
increased by

8.6%

in June 2024

Total Exports
of Goods - fob
increased by

9.2%

in June 2024

Total Imports
of Goods - fob
increased by

9.1%

in July 2024

Terms of Trade
Index increased by

1.3%

in July 2024

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

In July 2024, Uganda recorded a trade deficit of \$43.38 million within the East African Community (EAC), with exports totaling \$159.24 million and imports amounting to \$202.62 million. This represents a significant deterioration from the previous month when the deficit stood at \$3.96 million.

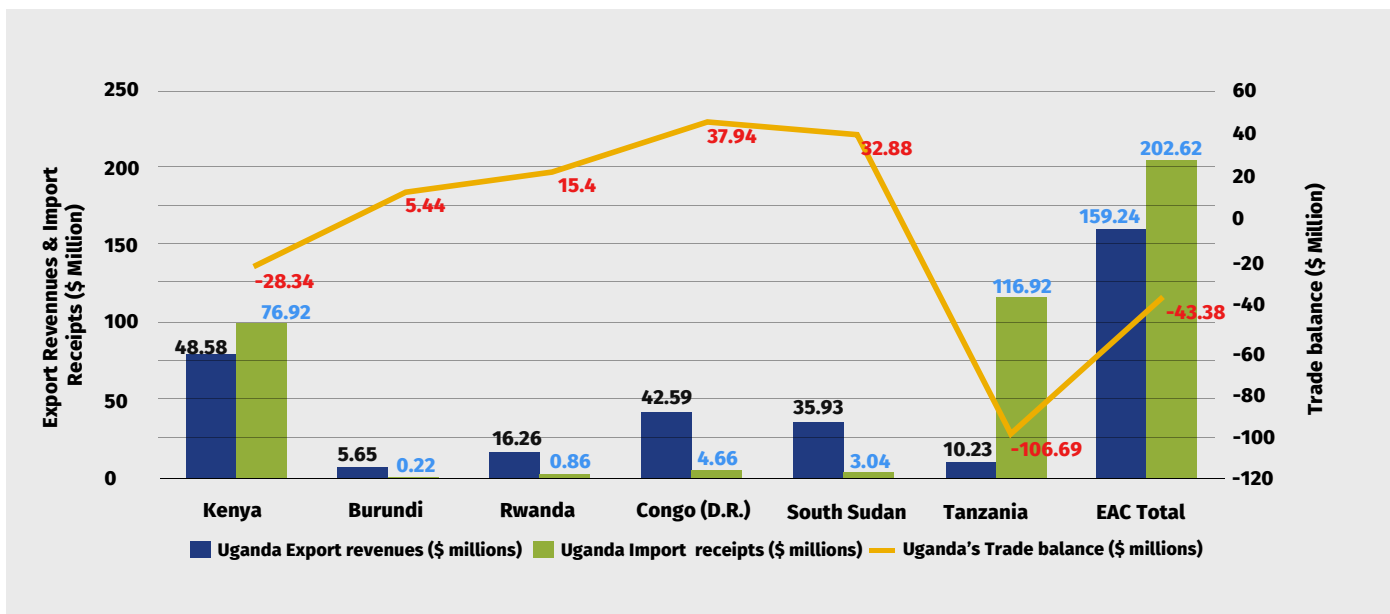
Specifically, Uganda's trade balance with Kenya in July 2024 saw exports totaling \$48.58 million, while imports amounted to \$76.92 million, resulting in a deficit of \$28.34 million. Similarly, with Tanzania, Uganda exported goods worth \$10.23 million but imported goods valued at \$116.92 million, leading to a substantial deficit of \$106.69 million.

On a positive note, Uganda recorded trade surpluses with other EAC member countries. For instance, Uganda exported goods worth \$5.65 million to

Burundi and imported negligible goods valued at \$0.22 million, resulting in a surplus of \$5.44 million. Additionally, Uganda enjoyed a surplus of \$15.40 million with Rwanda, exporting goods worth \$16.26 million and importing goods worth \$0.86 million.

Moreover, Uganda maintained a surplus in trade with the Democratic Republic of Congo (D.R.C.), exporting goods totaling \$42.59 million and importing goods valued at \$4.66 million, resulting in a surplus of \$37.94 million. Similarly, Uganda's trade with South Sudan showed a surplus, with exports amounting to \$35.93 million and imports at \$3.04 million, leading to a surplus of \$32.88 million.



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

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

Uganda's Export Revenues from Selected Commodities:

Coffee export revenues surged by 29.6% in July 2024, rising from \$162.36 million in June to \$210.48 million. This growth was fueled by a 23.1% increase in export volumes, which rose from 667,288 to 821,593 (60 kg bags), along with a 5.3% increase in Uganda's coffee export prices, from \$4.06 per kg in June to \$4.27 per kg in July 2024. Similarly, cotton export revenues experienced a significant increase of 95.2%, jumping from \$0.32 million in June to \$0.62 million in July 2024, driven by an 89.1% rise in export volumes, from 1,024.2 to 1,936.7 (185 kg bales).

In contrast, tea export revenues fell by 12.2%, dropping from \$4.78 million in June to \$4.20 million in July 2024, alongside a 12.3% decline in export volumes, which decreased from 5,262.8 to 4,617.9 tonnes. Similarly, fish export revenues dropped by 7.8%, from \$10.85 million in June to \$10.01 million in July 2024, with export volumes falling by 7.5%, from 1,393.7 to 1,288.8 tonnes.

Maize export revenues experienced a sharp decline of 65.7%, decreasing from \$10.23 million in June to \$3.51

million in July 2024, as export volumes dropped by 25.5%, from 24,932.1 tonnes to 18,565.9 tonnes. Beans export revenues also saw a substantial decrease of 52.5%, falling from \$4.66 million in June to \$2.21 million in July 2024, with export volumes plummeting by 61.0%, from 7,980.2 tonnes to 3,111.3 tonnes.

Cocoa beans export revenues declined by 9.0%, dropping from \$18.39 million in June to \$16.74 million in July 2024, with export volumes also decreasing by 14.2%, from 3,999.6 to 3,432.4 tonnes. On the other hand, rice export revenues saw an increase of 7.1%, rising from \$0.30 million in June to \$0.32 million in July 2024, supported by a 34.7% rise in export volumes, which grew from 341.4 tonnes to 460.0 tonnes.

Sugar export revenues also saw a 5.4% increase, rising from \$15.48 million in June to \$16.31 million in July 2024, with export volumes increasing by 10.1%, from 22,974.3 tonnes to 25,290.6 tonnes.

Uganda's Import Receipts for Commodities:

In July 2024, Uganda's formal private sector import receipts for selected commodities showed a 10.7% increase compared to June 2024, rising from \$933.78 million to \$1,033.61 million. Various categories exhibited mixed trends during this period.

Animal & Animal Products saw a 29.0% increase, with import receipts rising from \$4.59 million in June to \$5.92 million in July 2024. The category of Vegetable Products, Animals, Beverages, Fats & Oil also experienced a 20.3% growth, with import receipts increasing from \$74.20 million in June to \$89.28 million in July 2024. Mineral Products (excluding Petroleum products) saw a significant rise of 34.4%, with receipts climbing from \$237.18 million in June to \$318.69 million in July 2024.

However, Petroleum Products experienced a notable decline of 22.7%, with receipts falling from \$155.19 million in June to \$119.94 million in July 2024. Similarly, Chemical & Related Products recorded a 13.3% decrease, with receipts dropping from \$84.71 million in June to \$73.44 million in July 2024. Prepared Foodstuff, Beverages & Tobacco also declined by 9.6%, from \$29.94 million in June to \$27.06 million in July 2024.

Meanwhile, Plastics, Rubber, & Related Products saw a 6.6% increase, rising from \$49.08 million to \$52.30 million in July 2024. Wood & Wood Products increased by 5.5%, with receipts growing from \$12.23 million in June to \$12.90 million in July 2024. The Textile & Textile Products category experienced a 17.9% increase, rising from \$22.91 million in June to \$27.02 million in July 2024. Miscellaneous Manufactured Articles saw a 14.5% rise, with receipts growing from \$31.64 million in June to \$36.21 million in July 2024.

Base Metals & their Products recorded a substantial increase of 32.6%, with receipts rising from \$57.88 million in June to \$76.73 million in July 2024. Machinery Equipment, Vehicles & Accessories grew by 11.5%, increasing from \$173.85 million in June to \$193.80 million in July 2024. However, Electricity import receipts decreased by 16.0%, falling from \$0.39 million in June to \$0.33 million in July 2024.

Uganda's Economic Outlook:

The Bank of Uganda forecasts economic growth for FY 2024/25 to range between 6.0% and 6.5%, with medium-term growth expected to exceed 7%. This positive outlook is driven by stronger private sector investment, government initiatives, particularly in the agriculture sector, and the recovery of global economic growth.

However, the growth outlook is subject to several risks. Internationally, higher commodity prices and disruptions to global trade, particularly due to geopolitical uncertainties in the Middle East, could weaken global economic activity and elevate inflationary pressures. Additionally, the re-emergence of protectionist policies could harm the international trading system, which may negatively affect Uganda's export performance.

Domestically, a slowdown in private sector credit growth due to rising borrowing costs and increased government borrowing could constrain investment and consumption. A more pronounced depreciation of the Ugandan Shilling could also weigh down on domestic demand, as Uganda relies heavily on imported capital and intermediate goods, which account for around 75% of total imports.

On the upside, more favorable weather conditions, increased investments in the extractive industry, and effective government interventions could drive higher growth. If global economic growth outpaces current expectations, Uganda may benefit from rising net exports, further boosting domestic economic activity. Overall, the Bank of Uganda assesses the risks to the growth outlook, as broadly balanced.



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