Uganda Macroeconomic Digest

February 2025

Introduction

The Uganda Macroeconomic Digest for February 2025 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 headline inflation rose to 3.7 percent in February 2025, up slightly from 3.6 percent in January 2025. This marginal increase was primarily driven by the rise in food prices, particularly under the Annual Food Crops and Related Items Inflation category, which surged to 4.3 percent from 0.2 percent the previous month.

Key food items contributing to this rise included Cooking Bananas (Matoke), whose prices increased by 7.6 percent in February 2025 compared to a decline of 1.4 percent in January 2025. Similarly, Tomato prices rose 13.1 percent from 3.5 percent, while Dry Beans registered a 4.5 percent increase compared to 0.9 percent the previous month.

On the other hand, Annual Core Inflation, which excludes food and energy items, declined to 3.9 percent in February 2025 from 4.2 percent in January 2025. The drop was primarily driven by a decline in Annual Services Inflation, which fell to 5.4 percent from 6.3 percent.

A significant reduction influenced this in Education Services Inflation, which dropped to 6.6 percent from 10.3 percent, alongside declines in Passenger Transport by Road inflation (from 0.2 percent to -1.0 percent) and Hotel and Lodging Services Inflation (from 8.0 percent to 4.4 percent).

Energy, Fuel, and Utilities (EFU) Inflation declined slightly, falling to 0.2 percent in February 2025 from 0.3 percent in January 2025. This was due to a reduction in Solid Fuels Inflation, which dropped to 6.5 percent from 7.6 percent. Specifically, firewood inflation fell to 9.6 percent in February 2025 from 18.8 percent in January 2025.

Looking ahead, the Bank of Uganda projects Inflation to remain within the 4.0 to 5.0 percent range over the next 12 months, stabilizing around the medium-term target within two to three years.

However, the upside risks remain. These include stronger-than-expected domestic growth, particularly from investments in the extractive sector, and the effective execution of government programs. Rising geopolitical tensions, adverse weather conditions, and global supply chain disruptions could also increase inflation. On the downside, favorable capital inflows and weaker global oil prices due to slowing global growth could ease inflationary pressures.

3.7%

Headline Inflation increased from 3.6% in January 2025 to 3.7% in February 2025

3.9%

Core Inflation decreased from 4.2% in January 2025 to 3.9% in February 2025

4.3%

Food Crops and Related Items Inflation increased from 0.2% in January 2025 to 4.3% in February 2025

0.2%

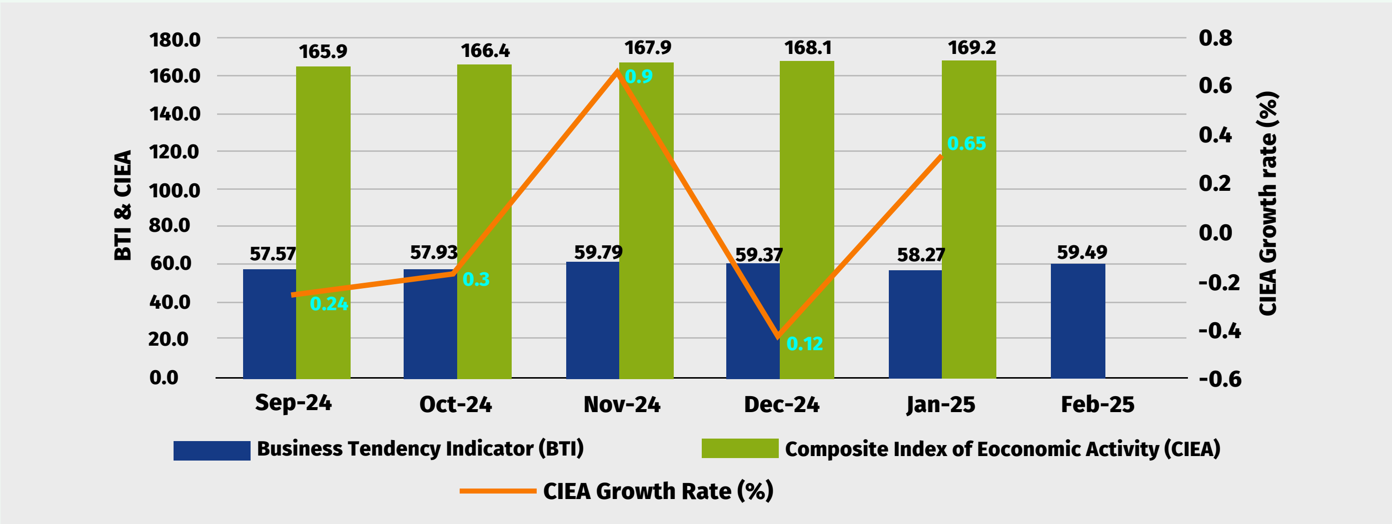
Energy Fuel and Utilities (EFU) Inflation decreased from 0.3% in January 2025 to 0.2% in February 2025

Business Perceptions and Economic Activity:

The Business Tendency Index (BTI) remained above the 50-point threshold, indicating optimism about business conditions among private sector players. The BTI increased to 59.49 in February 2025 from 58.27 recorded in January 2025, showing rising confidence among private sector players about the business climate. Optimism was observed across all monitored sectors, including construction, manufacturing, wholesale trade, agriculture, and other services, following a rebound in consumer demand.

Despite a slight drop in consumer demand in January 2025, overall economic activity increased in February 2025 due to a rebound in consumer demand during the month. As a result, private sector players remained optimistic about the outlook for business conditions. The Composite Index of Economic Activity (CIEA) maintained its upward trend, signaling increased economic momentum. The CIEA rose by 0.65 percent to 169.20 in January 2025 from 168.10 in December 2024.

Figure 1: Business Tendency Indicator (BTI) and Composite Index of Economic Activity (CIEA), September 2024 to February 2025



Source: Computation based on Bank of Uganda data, January 2025

Exchange Rate Movements:

The Ugandan Shilling appreciated by 0.3 percent on average against the US Dollar in February 2025. The US Dollar traded at an average mid-rate of Shs. 3,677.7 in February 2025, compared to Shs. 3,689.0 in the previous month. Shilling's strength was supported by higher dollar inflows, particularly from offshore portfolio investors, which outweighed corporate demand during the month. Notably, a stronger Shilling helps reduce import costs and ease inflationary pressure, but it may lower export competitiveness in the short term.

Shs 3,677.7/USD

Average exchange rate for February 2025

Interest Rate Movements:

The Central Bank maintained the monetary policy rate at 9.75 percent, aiming to anchor inflation around the medium-term target of 5 percent while supporting economic growth and socioeconomic transformation. This decision was taken even as risks to the inflation outlook remained tilted to the upside. The weighted average lending rate on Shilling-denominated credit declined from 17.37 percent in December 2024 to 16.50 percent in January 2025, mainly due to significant discounts on new loans for oil-related activities, particularly in the mining, quarrying, and services sectors. In contrast, the average lending rate for foreign currency-denominated credit rose to 8.39 percent in January 2025, up from 7.86 percent in December 2024, partly reflecting increased demand for dollar-denominated loans. Lower domestic lending rates may stimulate investment in key sectors, but higher foreign currency loan rates could raise borrowing costs for importers.

9.75%
Central Bank Rate (CBR) for February 2025

16.5%
Lending Rates for UGX Loans for January 2025

8.39%
Lending Rates for foreign currency loans for January 2025

Domestic Credit:

Domestic credit increased by 1.0 percent, rising from UGX 48.12 trillion in December 2024 to UGX 48.60 trillion in January 2025. The growth was primarily driven by a 2.1 percent increase in Net Credit to the Government (NCG), which rose from UGX 21.59 trillion to UGX 22.05 trillion over the same period. At the same time, private sector credit registered a slight increase of 0.3 percent, from UGX 25.53 trillion in December 2024 to UGX 25.60 trillion in January 2025. The modest growth in private sector lending points to a cautiously improving credit environment, partly supported by better economic sentiment. Rising government credit may crowd out private sector borrowing, but improved credit to businesses signals gradual recovery in economic activity.

Shs 48.60 trillion
Domestic Credit increased by 1.0% in January 2025

Shs 25.60 trillion
Private Sector Credit increased by 0.3% in January 2025

Shs 22.05 trillion
Net Credit to the Government (NCG) increased by 2.1% in January 2025

Merchandise Trade Balance and Terms of Trade:

Uganda's trade deficit declined to USD 241.2 million in January 2025 from USD 318.9 million in December 2024, reflecting a 24.4 percent improvement. This was driven by a significant rise in export earnings, which increased by 16.6 percent from USD 736.8 million to USD 859.2 million. Imports rose, albeit at a slower pace of 4.2 percent, from USD 1.06 billion to USD 1.10 billion. Despite the improvement in the trade balance, the terms of trade index fell by 4.4 percent, dropping from 141.8 in December 2024 to 135.5 in January 2025, indicating a deterioration in the relative prices of Uganda's exports compared to its imports.

Trade Deficit declined by **24.4%** in January 2025

Total Exports of Goods - fob increased by **16.6%** in January 2025

Total Imports of Goods - fob increased by **4.2%** in January 2025

Terms of Trade Index decreased by **4.4%** in January 2025

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

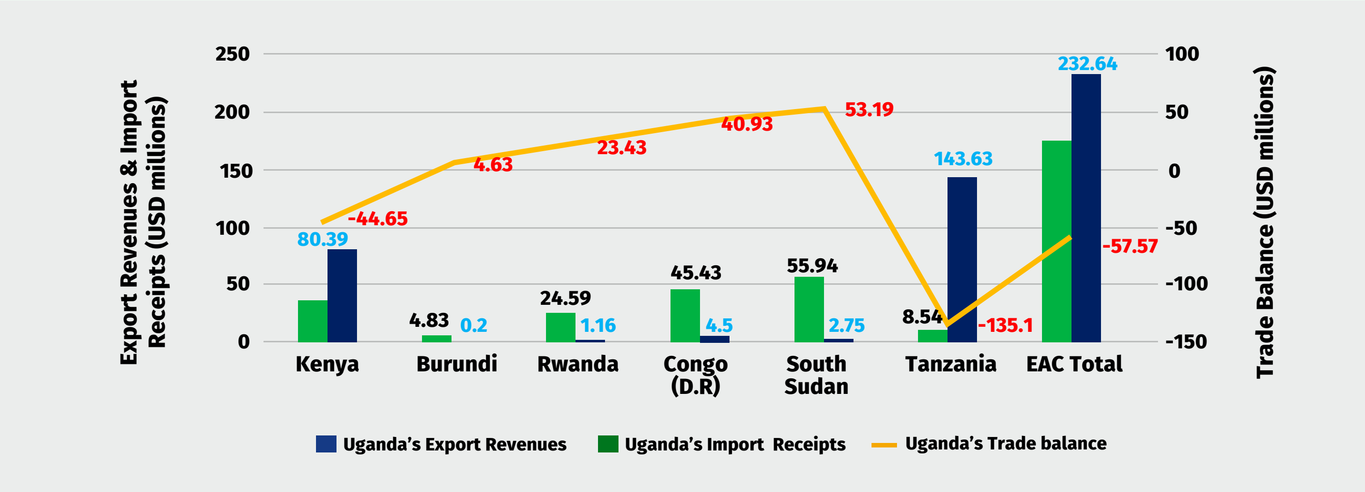
In January 2025, Uganda recorded a trade deficit of 57.57 million US dollars within the East African Community (EAC), with total exports amounting to 175.06 million US dollars and imports reaching 232.64 million US dollars.

Uganda's most significant trade deficit was with Tanzania, where exports were valued at 8.54 million US dollars. In comparison, imports stood at 143.63 million US dollars, resulting in a trade deficit of 135.10 million US dollars, the highest among EAC member states during this period. A similar trade deficit was recorded with Kenya, where Uganda exported goods worth 35.74 million US dollars and imported 80.39 million US dollars, leading to a 44.65 million US dollars deficit.

On the other hand, Uganda recorded trade surpluses with several EAC countries. The highest surplus was with South Sudan, with exports reaching 55.94 million US dollars and imports at 2.75 million US dollars, resulting in a surplus of 53.19 million US dollars. Trade with the Democratic Republic of Congo (D.R.C.) resulted in a surplus of 40.93 million US dollars, based on exports of 45.43 million US dollars and imports of 4.50 million US dollars.

A trade surplus of 23.43 million US dollars was registered with Rwanda, where exports stood at 24.59 million US dollars and imports at 1.16 million US dollars. Similarly, trade with Burundi resulted in a surplus of 4.63 million US dollars, with exports amounting to 4.83 million US dollars and imports at 0.20 million US dollars.

Figure 2: Uganda's Trade Balance with the EAC in January 2025 (Million, USD): Exports Vs. Imports



Source: Authors' construct based on Bank of Uganda data, January 2025

Uganda's Export Revenues from Selected Commodities:

Coffee remained one of Uganda's leading export earners, with export revenues increasing by 36.1 percent, from USD 115.0 million to USD 156.5 million. This growth was primarily driven by a 33.2 percent rise in export volumes, which increased from 413,079 to 550,341 sixty-kilogram bags, reflecting more substantial harvests and improved market access. The average unit price per kilogram rose slightly, supported by tight global supply conditions caused by weather-related disruptions in Brazil and Vietnam. As a result, Uganda's coffee export prices rose by 2.1 percent, from USD 4.64 per kilogram in December 2024 to USD 4.74 per kilogram in January 2025.

Cotton exports registered the most vigorous relative growth. Export volumes increased by 233.4 percent, rising to 6,514 bales (185 kilograms each) in January 2025 from 1,954 bales in December 2024. Export earnings more than doubled, increasing to USD 1.3 million in January 2025 from USD 0.59 million in December 2024, representing a 124.1 percent rise. This strong performance is attributed to seasonal factors and renewed global demand.

Tea exports also performed strongly. Export volumes rose by 21.3 percent to 5,668.6 tons in January 2025, up from 4,672.6 tons in December 2024. Export earnings increased by 19.5 percent, reaching USD 5.8 million in January 2025 compared to USD 4.81 million in December 2024. The growth was supported by improved regional demand.

Fish and fish product exports, excluding regional markets, recorded mixed performance. Export volumes increased by 8.5 percent, rising to 2,589.3 tons in January 2025 from 2,386 tons in December 2024. However, export earnings declined by 4.4 percent to USD 13.6 million in January 2025, down from USD 14.27 million in December. The revenue drop was mainly attributed to a decline in international prices, partly driven by improved global supply.

Simsim (sesame seed) exports declined in volume and value in January 2025. Export volumes dropped by 16.4 percent to 3,800.4 tons from 4,544 tons in December 2024, leading to a 13.8 percent fall in export earnings to USD 6.0 million from USD 6.93 million. The reduced export volumes primarily drove the drop in revenues.

Maize exports demonstrated strong growth. Export volumes nearly doubled, rising by 91.0 percent to 42,346.8 tons in January 2025 from 22,170 tons in December 2024. Export earnings also increased by 52.4 percent, reaching USD 9.0 million in January 2025 compared to USD 5.91 million in December 2024. This growth reflects Uganda's competitive pricing in regional markets and its strengthening reputation as a reliable maize supplier within East Africa, the primary export destination for its maize.

Bean exports continued to decline. Export volumes fell by 6.9 percent to 11,548.9 tons in January 2025 from 12,404 tons in December 2024. Similarly, export earnings decreased by 8.9 percent, dropping to USD 2.6 million in January 2025 from USD 2.87 million in December 2024.

Cocoa beans remained a high-performing commodity. Export volumes rose by 57.6 percent to 7,652.4 tons in January 2025 from 4,856 tons in December 2024. Export earnings increased by 52.1 percent, reaching USD 67.4 million in January 2025, up from USD 44.27 million in December 2024. This strong performance was driven by sustained global demand, pushing prices upward. Notably, global cocoa prices rose 8.3 percent, from USD 7.81 per kilogram in December 2024 to USD 9.05 per kilogram in January 2025.

Rice exports declined in volume by 20.6 percent, falling to 334.0 tons in January 2025 from 421 tons in December 2024. However, export earnings rose significantly by 58.9 percent, increasing to USD 0.2 million in January 2025 from USD 0.12 million in December 2024. The sharp rise in earnings despite lower export volumes indicates much higher unit prices, driven by exports to niche markets and elevated regional prices resulting from supply shortages.

Sugar exports experienced substantial growth in both volume and value. Export volumes increased by 96.3 percent, reaching 29,600.9 tons in January 2025 from 15,075 tons in December 2024. Export earnings rose 114.0 percent to USD 23.1 million in January 2025, up from USD 10.77 million in December. This growth reflects strong regional demand and improved export volumes.

Uganda's Import Receipts for Selected Commodities:

Uganda's formal private sector import receipts for selected commodities slightly increased 1.0 percent, rising from USD 1,021.69 million in December 2024 to USD 1,031.76 million in January 2025. The overall growth reflects mixed trends across different product categories.

Notable increases were observed in imports of animal and animal products, which rose by 27.0 percent to USD 5.99 million in January 2025 from USD 4.71 million in December 2024. Similarly, imports of vegetable products, animals, beverages, fats, and oils grew by 31.7 percent to USD 128.87 million from USD 97.86 million over the same period.

Chemical and related products recorded an 11.6 percent increase, reaching USD 82.17 million in January, while imports of plastics, rubber, and related products rose by 6.7 percent to USD 65.34 million. Petroleum imports grew by 17.2 percent, from USD 120.36 million to USD 141.09 million, and electricity imports saw the highest relative increase of 32.1 percent, rising from USD 0.30 million to USD 0.40 million.

On the other hand, several import categories registered declines. Prepared foodstuff, beverages, and tobacco dropped slightly by 1.7 percent, from USD 29.85 million in December 2024 to USD 29.34 million in January 2025. Imports of mineral products, excluding petroleum, decreased by 8.0 percent to USD 251.88 million from USD 273.89 million.

Wood and wood products declined by 2.9 percent, from USD 18.15 million to USD 17.63 million. Imports of textiles and textile products fell by 7.8 percent to USD 28.16 million from USD 30.54 million, while miscellaneous manufactured articles declined by 7.2 percent to USD 37.31 million from USD 40.19 million.

Base metals and their products experienced a sharp decline of 13.2 percent, dropping from USD 76.23 million to USD 66.18 million. Similarly, machinery, equipment, vehicles, and accessories declined by 8.9 percent to USD 177.38 million from USD 194.69 million.

Uganda's Economic Outlook and Risks:

According to the Bank of Uganda, economic growth is projected at **6.0-6.5%** in **FY 2024/25** and **7.0%** in the outer years, driven by increased foreign direct investment in the extractive sector, strategic government interventions aimed at wealth creation, higher agricultural production, and anticipated oil revenue. However, the growth outlook remains uncertain. Uganda's economy could grow slower if adverse weather conditions impact food crop harvests, tight financing conditions constrain domestic budget financing due to reduced external project funding or global trade disruptions, and tighter financial conditions slow economic activity.

Conversely, growth could exceed projections if investments in the extractive industry expand and government interventions, alongside accommodative monetary policies, stimulate economic activity. Overall, risks to the growth outlook are tilted to the downside.

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

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