Uganda Macroeconomic Digest

March 2025

Introduction

The Uganda Macroeconomic Digest for March 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 eased to 3.4% in March 2025, down from 3.7% in February 2025. The decline was largely driven by lower core inflation and a slowdown in price increases for food crops and related items. Annual core inflation declined to 3.6% in March 2025 from 3.9% in February 2025. The main contributor to this decline was a slowdown in annual services inflation, which dropped to 4.9% in March 2025 from 5.4% in February 2025. This was largely due to a deeper decline in passenger transport by road, which recorded a -1.2% increase in March 2025 compared to a -1.0% increase in February 2025. Additionally, hotel and lodging service inflation decreased to 3.2% in March 2025, from 4.4% in February 2025.

Annual inflation for food crops and related items slowed to 3.1% in the year ending March 2025, down from 4.3% in February 2025. Onion inflation dropped further to -28.6% in March 2025 from -14.9% in February 2025, Matoke inflation fell significantly to -0.5% from 7.6%, Fresh Cassava inflation declined to -14.5% from -1.4%, and Mango inflation decreased to -0.3% in March 2025 from 21.2% in February 2025.

On the other hand, annual energy, fuel, and utilities (EFU) inflation rose slightly to 0.4% in March 2025 from 0.2% in February 2025. The increase was primarily driven by a rise in inflation for solid fuels, which increased to 7.3% from 6.5%. Specifically, charcoal prices rose by 6.4% in March 2025 compared to 5.2% in February 2025, while firewood prices remained unchanged at 9.6% in both months.

The Bank of Uganda projects inflation to range between 4.0–5.0% over the next year, stabilizing around the target within two to three years. However, risks could push inflation higher, including geopolitical tensions disrupting supply chains, extreme weather affecting agriculture, and a stronger US dollar weakening the shilling. Conversely, inflation may be lower if capital inflows strengthen the exchange rate or if global growth slows due to trade wars, leading to reduced oil prices and easing inflationary pressure.

3.4%
Headline Inflation declined from 3.7% in February 2025 to 3.4% in March 2025

3.6%
Core Inflation declined from 3.9% in February 2025 to 3.6% in March 2025

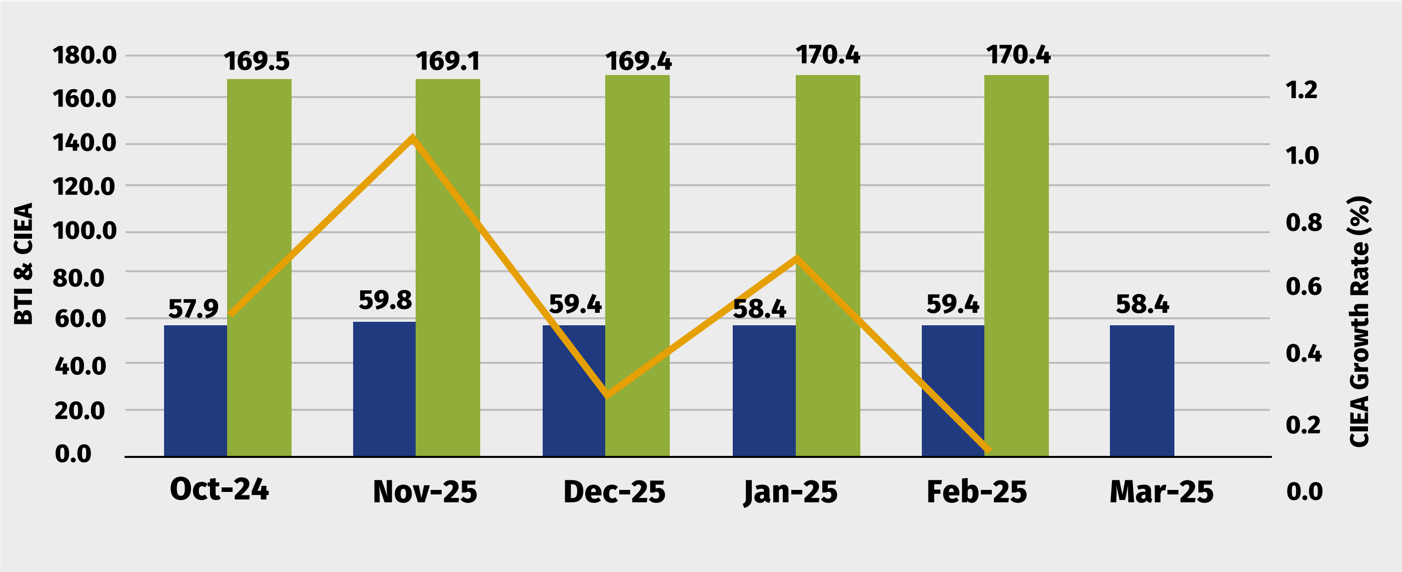
3.1%
Food Crops and Related Items inflation declined from 4.3% in February 2025 to 3.1% in March 2025

0.4%
Energy Fuel and Utilities (EFU) inflation increased from 0.2% in February 2025 to 0.4% in March 2025

Business Perceptions and Economic Activity:

The Business Tendency Indicator (BTI) declined from 59.4 in February 2025 to 58.4 in March 2025, reflecting a slight weakening in business sentiment. Nevertheless, the BTI remains above the 50-point threshold, indicating that firms maintain a positive economic outlook, though with reduced confidence. The Composite Index of Economic Activity (CIEA) remained steady at 170.4 between January and February 2025, signaling a stall in short-term economic momentum.

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



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

Exchange Rate Movements:

The Ugandan Shilling appreciated by 0.3 percent on average against the US Dollar in March 2025. The US Dollar traded at an average mid-rate of UGX 3,667.9 in March 2025, compared to UGX 3,677.7 in February 2025. The Shilling's strength was supported by sustained foreign exchange inflows, especially from exports and offshore investments, which continued to outweigh corporate demand for the Dollar during the month. Notably, a stronger Shilling helps reduce import costs, easing inflationary pressure but may lower export competitiveness in the short term.

Interest Rate Movements:

The Central Bank maintained the monetary policy rate at 9.75% in February and March 2025, aiming to anchor inflation around the medium-term target of 5% while supporting economic growth and socioeconomic transformation. The weighted average lending rate on Shilling-denominated credit stood at 16.50% in January 2025, rising sharply to 18.76% in February 2025, reflecting tighter credit conditions and increased demand for domestic loans across key sectors. On the other hand, the average lending rate for foreign currency-denominated credit declined marginally from 8.39% in January to 8.30% in February 2025. This decrease was partly driven by a reduction in demand for dollar-denominated loans.

9.75%
Central Bank Rate (CBR) for March 2025

18.76%
Lending Rates for UGX Loans for February 2025

8.30%
Lending Rates for foreign currency loans for February 2025

Domestic Credit:

Domestic credit increased by 1.1%, rising from UGX 48.63 trillion in January 2025 to UGX 49.16 trillion in February 2025. The growth was primarily driven by a 1.2% increase in net credit to the government (NCG), which rose from UGX 22.07 trillion to UGX 22.34 trillion during the same period. Additionally, private sector credit registered a moderate rise of 0.9%, increasing from UGX 25.61 trillion to UGX 25.85 trillion. This reflects a continued gradual improvement in lending to the private sector, supported by a relatively stable credit environment and improved borrower confidence.

Shs 49.16 trillion
Domestic credit Inceased by 1.1.% in February 2025

Shs 25.85 trillion
Private Sector Credit increased by 0.9% in February 2025

Shs 22.34 trillion
Net Credit to the Government (NCG) inceased by 1.2% in February 2025

Merchandise Trade Balance and Terms of Trade:

Uganda's trade deficit declined sharply to USD 44.3 million in February 2025 from USD 195.0 million in January 2025, reflecting a 77.3% improvement. This positive shift was largely attributed to a notable reduction in import spending, which dropped by 15.8% from USD 1,054.2 million to USD 887.3 million. Export earnings, however, recorded a slight decline of 1.9%, from USD 859.2 million in January 2025 to USD 843.1 million in February 2025. Despite the decrease in export values, the terms of trade index strengthened by 11.8%, increasing from 135.5 in January 2025 to 151.5 in February 2025. This indicates an improvement in the relative prices of Uganda's exports compared to its monthly imports.

Trade deficit declined by
77.3%
in February 2025

Total Exports of Goods - fob declined by
1.9%
in February 2025

Total Imports of Goods - fob declined by
15.8%
in February 2025

Terms of Trade Index increased by
11.8%
in February 2025

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

In February 2025, Uganda recorded a trade deficit of 78.4 million US dollars within the East African Community (EAC). Total exports to EAC partner states amounted to 149.5 million US dollars, while imports reached 227.9 million US dollars.

The largest trade deficit was registered with Tanzania. Uganda exported goods worth 13.9 million US dollars to Tanzania, while imports totaled 153.0 million US dollars. This resulted in a trade deficit of 139.0 million US dollars, the highest among all EAC member states during the month.

Uganda also recorded a notable trade deficit with Kenya. Exports to Kenya were valued at 41.1 million US dollars, whereas imports stood at 65.9 million US dollars, leading to a trade deficit of 24.8 million US dollars.

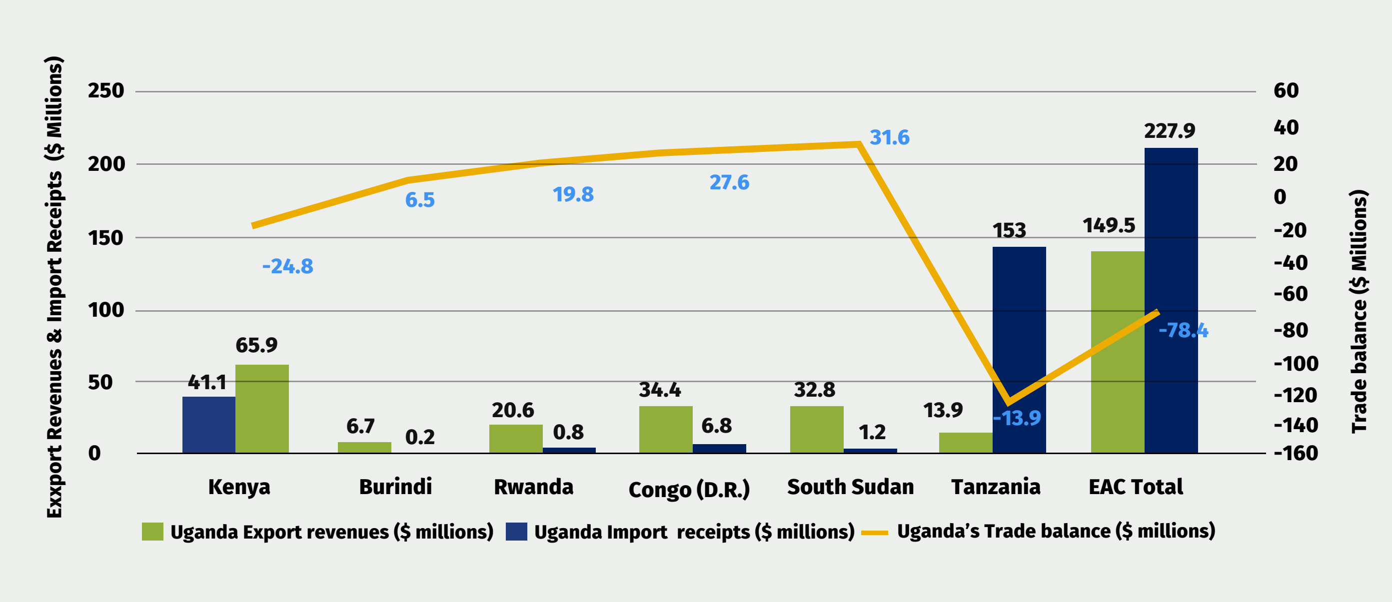
On the other hand, Uganda achieved trade surpluses with several EAC countries. The highest surplus was recorded in trade with South Sudan, where exports reached 32.8 million US dollars compared to imports of 1.2 million US dollars, resulting in a surplus of 31.6 million US dollars.

Trade with the Democratic Republic of Congo (D.R.C.) also yielded a significant surplus. Uganda exported goods worth 34.4 million US dollars to the D.R.C., while imports were valued at 6.8 million US dollars, resulting in a surplus of 27.6 million US dollars.

A surplus of 19.8 million US dollars was recorded in trade with Rwanda. Uganda's exports to Rwanda amounted to 20.6 million US dollars, while imports were limited to 0.8 million US dollars. Similarly, trade with Burundi resulted in a surplus of 6.5 million US dollars, based on exports worth 6.7 million US dollars and imports valued at 0.2 million US dollars.

Uganda's trade deficit with the EAC highlights its dependency on imports, especially from Tanzania and Kenya. Enhancing export competitiveness, value addition, and regional trade diversification are necessary to mitigate imbalances and foster economic resilience.

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



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

Uganda's Export Revenues from Selected Commodities:

Coffee maintained its position as Uganda's leading agricultural export from January to February 2025, with earnings rising by 7.1% from USD 156.5 million to USD 167.7 million. This growth was supported by a modest increase in export volumes, from 550,341 to 555,756 sixty-kilogram bags. More importantly, the performance was driven by higher average export prices, which improved from USD 4.74 to USD 5.03 per kilogram. The increase in prices was attributed to global supply shortages caused by adverse weather in key producing countries such as Brazil and Vietnam, reinforcing Uganda's competitiveness in international markets.

Cotton emerged as the fastest-growing export during the period. Revenues doubled from USD 1.3 million in January to USD 2.6 million in February 2025, reflecting a 97.9% increase in value. This strong performance was underpinned by a 100.7% rise in volumes, from 6,514 to 13,076 bales, weighing 185 kilograms.

Tea exports, in contrast, experienced a sharp decline. Earnings fell by 29.3%, from USD 5.8 million to USD 4.1 million, following a 31.4% drop in volumes from 5,668.6 to 3,889.2 tons. The decline was largely driven by weaker demand from regional markets.

Exports of fish and fish products (excluding regional markets) also declined. Revenues decreased from USD 13.6 million in January to USD 11.9 million in February 2025, representing a 12.4% fall. This was accompanied by a significant volume reduction, which dropped from 2,589.3 to 1,399.5 tons.

Simsim (sesame seed) exports showed positive momentum. Export earnings increased from USD 6.0 million to USD 6.6 million, reflecting a 10% growth despite a slight decrease in volumes from 3,800.4 to 3,609.9 tons. The value increase indicates stronger international demand and improved prices in key markets across Asia and the Middle East.

The performance of maize exports weakened substantially over the period. Export volumes fell sharply by 63.3%, from 42,346.8 to 15,537.3 tons, leading to a drop in revenues from USD 9.0 million to USD 4.5 million. The decline was mainly due to seasonal supply constraints and softening demand within the region.

Despite a significant volume reduction, bean exports recorded strong growth in export earnings. Revenues rose from USD 2.6 million to USD 3.9 million, a 48.4% increase, even though volumes fell from 11,548.9 to 6,583.9 tons. This outcome reflects favorable pricing, likely driven by supply shortages in destination markets.

Cocoa bean exports remained stable, with earnings increasing slightly from USD 67.4 million to USD 68.7 million, representing a 2% gain. This was supported by a modest 3.6% rise in volumes from 7,652.4 to 7,929.6 tons, pointing to steady global demand and sustained market presence.

Rice exports dropped considerably. Export volumes declined by 84% from 334.0 to 53.3 tons, resulting in a fall in revenues from USD 0.18 million to USD 0.04 million. The decline reflects the limited availability of exportable stock during the period.

Sugar exports also registered a notable reduction in both volume and value. Export earnings declined from USD 23.1 million in January to USD 12.5 million in February 2025, representing a fall of 45.6%. This was consistent with a drop in export volumes from 29,600.9 to 16,115.4 tons.

Uganda's Import Receipts for Selected Commodities:

Uganda's formal private sector import receipts for selected commodities declined significantly by 15.9%, from USD 1,031.76 million in January 2025 to USD 867.76 million in February 2025. This sharp contraction reflects reduced import demand across most product categories, signaling a slowdown in business activity.

Notably, imports of vegetable products, animals, beverages, fats, and oils dropped by 48.6%, from USD 128.87 million in January to USD 66.27 million in February 2025. Imports of animals and animal products also fell by 35.0%, declining from USD 5.99 million to USD 3.89 million. Similarly, prepared foodstuffs, beverages, and tobacco decreased by 31.1%, from USD 29.34 million to USD 20.20 million over the same period.

Other categories also posted substantial reductions. Imports of chemicals and related products dropped by 40.2%, from USD 82.17 million in January to USD 49.17 million in February 2025. Plastics, rubber, and related items fell sharply by 46.4%, from USD 65.34 million to USD 35.03 million. Wood and wood products declined by 38.8%, while miscellaneous manufactured articles decreased by 38.1%, falling from USD 37.31 million to USD 23.09 million. Base metals and their products recorded a 13.5% drop, from USD 66.18 million to USD 57.22 million.

One of the steepest declines was registered in arms, ammunition, and accessories, which fell by 95.7%, from USD 0.02 million in January to nearly zero in February 2025. Petroleum imports declined, dropping 7.2% from USD 141.09 million to USD 130.91 million.

Despite the overall decline, a few categories recorded modest increases. Imports of mineral products (excluding petroleum) rose slightly by 1.5%, from USD 251.88 million in January 2025 to USD 255.72 million in February 2025. Textile and textile product imports increased by 4.8%, reaching USD 29.51 million from USD 28.16 million. Machinery, equipment, vehicles, and accessories also posted a 4.6% rise, increasing from USD 177.38 million to USD 185.53 million. Electricity imports, though minimally in absolute value, rose by 8.6%, from USD 0.40 million to USD 0.43 million during the same period.

Uganda's Economic Outlook and Risks:

Economic growth is projected at 6.0–6.5% in FY 2024/25 and 7.0% in the outer years, based on estimates by the Bank of Uganda. However, with the first oil production postponed to 2026, the delays are expected to affect economic performance in 2025. Fitch Solutions forecasts that once oil production begins in the second half of 2026, growth will accelerate sharply to 7.2%, driven by improved trade balances and increased foreign exchange inflows. On the upside, the medium-term outlook remains positive, supported by strategic public investment, and growing foreign direct investment, particularly in the oil and mining sectors. Notably, the projected surge in oil-related revenues could enhance fiscal space and support macroeconomic stability.

However, downside risks to the outlook persist. Continued delays in oil production pose the most immediate challenges to growth momentum. In addition, tight domestic financial conditions may keep borrowing costs elevated, dampening private investment. The rising public debt and increased domestic borrowing could crowd out credit to the private sector, slowing private sector-led growth. On the external front, geopolitical tensions and shifts in global trade policies may disrupt supply chains, elevate oil prices, and increase production costs. These pressures, coupled with limited fiscal buffers, could reduce the government's ability to respond effectively to global economic shocks.

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