

Introduction

The September 2023 edition of the Uganda Macroeconomic Digest provides insights into critical economic factors shaping the country's performance. We delve into key aspects including inflation trends, business sentiment and economic activity, exchange rates, interest rates, domestic credit, trade balances, export revenues, import receipts, and the overall economic outlook.

Annual Inflation:

In Uganda, the annual inflation rate, as measured by the Consumer Price Index, saw a notable decrease over the 12 months leading up to September 2023. It dropped to 2.7%, a significant decline from the 3.5% recorded in August 2023. This slowdown can be primarily attributed to the annual core inflation, which decreased to 2.4% in September 2023 from 3.3% in August 2023.

A significant driver of this core inflation reduction was the annual inflation in other goods, registering 3.1% in September compared to 4.4% in August 2023. Notably, prices of essential items such as rice, mukene (silverfish), sugar, and maize flour experienced a decrease in their inflation rates. Annual services inflation also contributed to the overall decrease, dropping to 1.6% in September from 2.0% in August 2023. This was largely due to a deceleration in restaurant and accommodation services inflation.

Food crops and related items inflation also saw a decrease, registering 7.9% in September 2023 compared to 9.8% in August 2023. Notably, the prices of dry beans, cassava fresh, bananas (matoke), and mangoes experienced a reduction in their inflation rates. In contrast, the annual inflation rate for energy, fuel, and utilities (EFU) experienced a modest uptick in September 2023, reaching -1.2%, as opposed to the -2.7% recorded in August 2023. This rise can be attributed predominantly to the surge in liquid energy fuel prices, notably petrol and diesel.

The analysis of regional inflation rates reveals that Fort Portal, despite experiencing a decrease from 6.0% in August 2023 to 5.1% in September 2023, recorded the highest inflation rate in the country. This rise in Fort Portal, inflation was primarily driven by the 'Recreation, Sport, and Culture' category, which escalated from -2.6% in August 2023 to 0.6% in September 2023. In contrast, the high-income areas of Kampala reported the lowest inflation rate in September 2023, standing at 2.0%, down from 2.5% in August 2023. This reduction can be attributed to a decline in 'Food and Non-Alcoholic Beverages' inflation, which went from 8.8% in August 2023 to 6.5% in September 2023, as well as a decrease in 'Restaurant and Accommodation Services' inflation, falling from 7.2% in August 2023 to 3.2% in September 2023.

These lowered headline inflation rates augur well for Uganda's economy, promising improved living standards, enhanced economic stability, and potential investment opportunities.

2.7%

Headline Inflation dropped from 3.5% in August to 2.7% in September 2023

2.4%

Core Inflation declined from 3.3% in August to 2.4% in September 2023

7.9%

Food Crops and Related Items inflation declined from 9.8% in August to 7.9% in September 2023

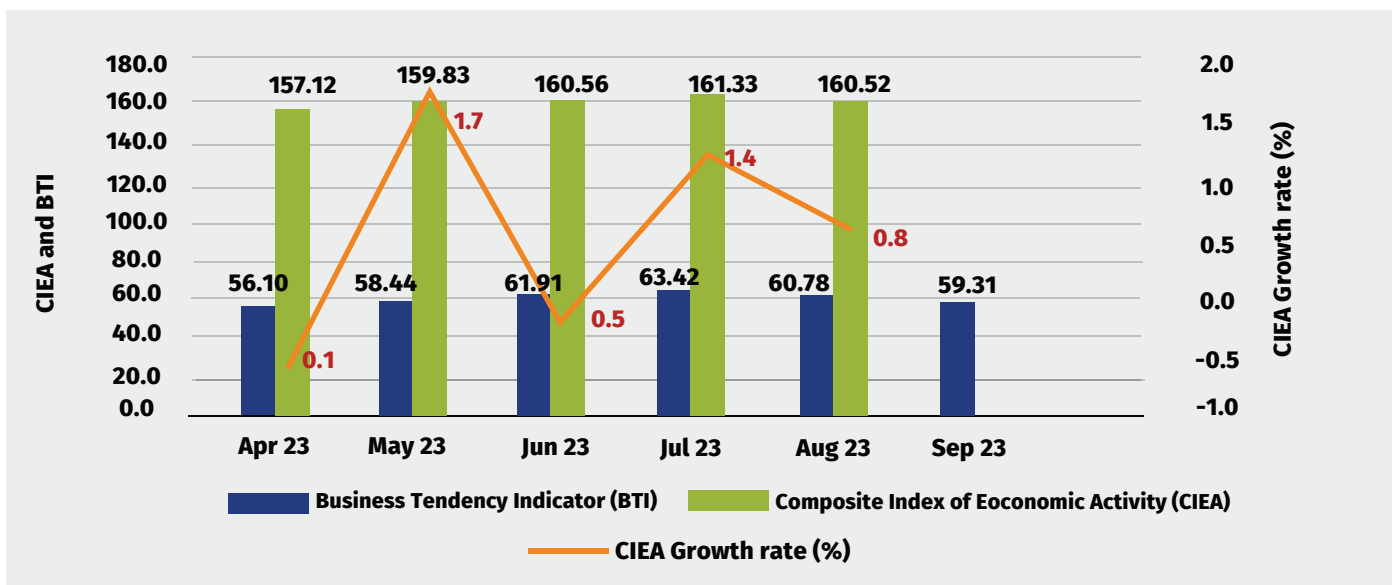
-1.2%

Energy Fuel and Utilities (EFU) inflation rose from -2.7% in August to -1.2% in September 2023

Business Perceptions and Economic Activity:

In September 2023, business sentiment remained positive, with the BTI above 50.0, exceeding the 2022 average of 54.20. However, the BTI saw a slight decline from 60.78 in August 2023 to 59.31 in September 2023 due to business owners' pessimism about the financial situation and access to credit. Bank of Uganda's latest statistics revealed reduced optimism in sectors like construction, manufacturing, Wholesale Trade, and services. In August 2023, the Composite Index of Economic Activities (CIEA) grew by 0.8% to 162.63 from 161.33 in July 2023, indicating improved economic activity (See Figure 1).

Figure 1: Business Tendency Indicator (BTI) and CIEA, April-September 2023



Source: Author's Construct based on BOU data (September 2023)

Exchange Rate Movements:

In September 2023, the Ugandan Shilling depreciated by 1.3% against the US dollar, averaging Shs. 3,738.02/USD compared to the previous month's Shs. 3,689.12/USD. The depreciation was due to rising corporate demand for USD and the ramifications of the World Bank's decision to suspend funding for Ugandan projects following Uganda's Anti-Homosexuality Act, which triggered domestic discussions and international repercussions.

Shs 3,738.02/USD
Average exchange rate for September 2023



Interest Rate Movements:

In September 2023, the Central Bank maintained the Central Bank Rate (CBR) at 9.5% to sustain the 5% medium-term inflation target and promote economic stability. However, the weighted average lending rates for Shilling-denominated credit increased from 17.95% in July 2023 to 18.40% in August 2023. Uganda's lending rates were, in part, influenced by the risk aversion of commercial banks, primarily stemming from a notable non-performing loans ratio of 5.73% as of June 2023. In contrast, lending rates for foreign currency-denominated credit declined to 8.57% in August 2023, down from 9.18% the previous month.

9.5%

Central Bank Rate (CBR)
for September 2023

18.40%

Lending Rates for UGX
Loans for August 2023

8.57%

Lending Rates for foreign
currency loans for August 2023

Domestic Credit:

In August 2023, domestic Credit showed a slight increase of 0.2%, ascending from Shs. 38.58 trillion to Shs. 38.65 trillion. In contrast, Net Credit to Government (NCG) experienced a modest decrease of 0.6%, declining from Shs. 15.24 trillion in July to Shs. 15.16 trillion in August 2023, signaling prudent fiscal management. On a more positive note, Private Sector Credit demonstrated more notable growth at 1.3%, surging from Shs. 22.28 trillion to Shs. 22.57 trillion during the same period. This growth in private sector credit bodes well for stimulating investments, potentially bolstering Uganda's economic growth.

In Uganda, the credit distribution across sectors in August 2023 reflects the diverse economic landscape. Agriculture received 11% of the total credit share, highlighting its importance in the country's economy. Manufacturing was allocated 13% of the credit share, indicating support for industrial development. Trade, a crucial sector, secured 18% of the credit share, promoting commerce and business activities. Building, Mortgage, Construction, and Real Estate claimed the highest credit share at 20%. Personal Loans and Household Loans accounted for 22% of the credit share, reflecting consumer financing. In contrast, sectors like Mining and Quarrying and Electricity and Water had smaller credit shares, underscoring their relatively limited contribution to overall credit allocation.

Shs. 38.65 trillion

Domestic Credit rose by
0.2% in August 2023

Shs. 15.16 trillion

Net credit to the
government declined by
0.6% in August 2023

Shs. 22.57 trillion

Private Sector credit
increased by 1.3% in
August 2023

Uganda's Trade Balance, and Terms of Trade:

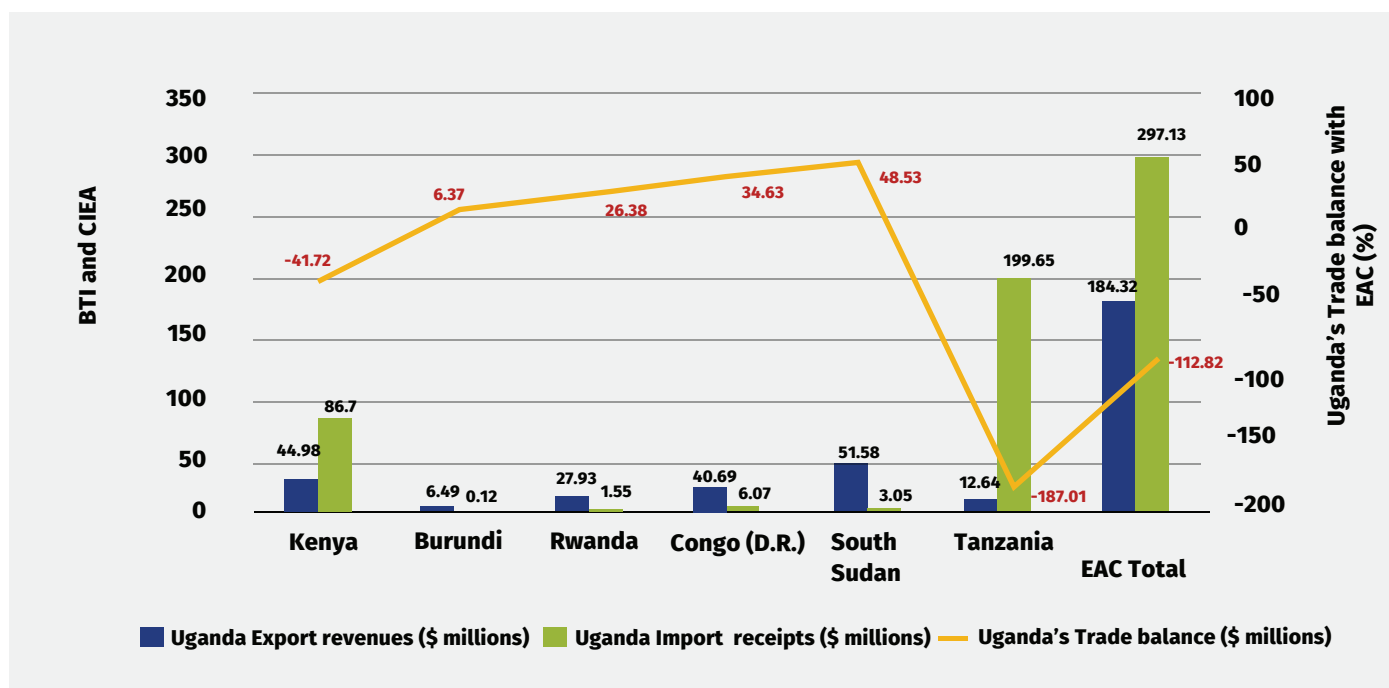
Uganda's trade balance underwent significant changes, with a 42% increase in the deficit, escalating from 283.28 million US dollars to 402.05 million US dollars in August 2023. This shift was primarily driven by a substantial 26% rise in total imports of goods, surging from 853.06 million US dollars to 1,071.93 million US dollars. Conversely, total exports of goods increased by 18%, from 569.78 million US dollars to 669.88 million US dollars. The total exports of services also saw a 4% increase, while imports of services declined by 8%. The terms of trade index (TOT) dropped slightly by 1% from 110.64 in July to 109.60 in August 2023, suggesting a relative decrease in export prices compared to import prices, impacting overall economic welfare.



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

Uganda's top trading partner, Kenya, resulted in a trade deficit of \$41.72 million, with higher imports than exports. Conversely, Uganda had a trade surplus with Burundi, Rwanda, Congo (D.R.), and South Sudan, indicating a favorable export-import balance. However, with Tanzania, Uganda experienced a significant trade deficit of \$187.01 million due to substantial imports compared to exports. Overall, Uganda's trade balance within the EAC was negative, with a total trade deficit of \$112.82 million (See Figure 2).

Figure 2: Uganda's Trade Balance with the EAC in July 2023 (Million, USD): Exports Vs Imports



Source: Authors' construct based on BOU data (August 2023)

Uganda's Export Revenues from Key Commodities:

In August 2023, Uganda's export landscape experienced a series of noteworthy shifts across various key commodities. Coffee exports registered a substantial surge, with export revenue growing by 16% from July, reaching \$121.64 million. This increase was primarily driven by a notable 15% rise in coffee export volumes, escalating from 645,832 (60kg bags) to 743,517 (60 kg bags) during the same period. Also, cotton exports witnessed a staggering growth of 146%, soaring from \$0.86 million in July to \$2.06 million in August 2023. This impressive expansion was accompanied by a substantial 199% surge in cotton export volumes, leaping from 1,951.203 (185 kg bales) to 5,840.83 (185 kg bales) in August 2023.

In contrast, tea export revenues saw a 15% decline, decreasing from \$7.42 million in July to \$6.27 million in August 2023, with a simultaneous 13% reduction in tea export volumes during the same period. Sesame (simsim) exports displayed a remarkable 96% increase, surging from \$1.15 million in July to \$2.25 million in August 2023, primarily attributable to an 83% boost in simsimsim export volumes, rising from 570 tonnes in July 2023 to 1,042 tonnes in August 2023.

On the other hand, maize exports experienced a 7% decline, with export revenue dropping from \$23.79 million in July to \$22.2 million in August 2023. This reduction was fueled by a 2% decrease in maize export volumes, which increased from 40,434.57 tonnes in July 2023 to 57,289.19 tonnes in August 2023. Beans export revenues surged by a remarkable 120%, rising from \$3.32 million in July 2023 to \$7.29 million in August 2023. This increase was primarily driven by an 8% increase in beans export volumes, which rose from 4,733.0 tonnes in July to 5,102.3 tonnes in August 2023.

Cocoa beans export revenues inched up by 1%, rising from \$10.5 million in July to \$10.64 million in August 2023, primarily due to a 2% increase in cocoa beans export volumes, which grew from 3,495 tonnes in July to 3,576 tonnes in August 2023. Sugar exports experienced a substantial 18% increase, ascending from \$6.36 million in July to \$7.49 million in August 2023, as sugar export volumes rose by 7%, reaching 9,030 tonnes in August, up from 8,456 tonnes in July 2023. In contrast, rice export revenues encountered a significant decline of 87%, plummeting from \$0.93 million in July to a mere \$0.12 million in August 2023. This dramatic decrease was propelled by an 84% reduction in rice export volumes, declining from 688 tonnes in July to only 113 tonnes in August 2023.





Uganda's Import Receipts for Commodities:

In August 2023, Uganda experienced diverse trends in import receipts for key commodities. Animal and animal products showed a modest 1% rise, going from \$4.41 million in July to \$4.45 million in August 2023. Meanwhile, vegetable products, animal goods, beverages, fats, and oils experienced a more robust 4% growth, increasing from \$68.02 million in July to \$70.89 million in August 2023. Prepared food items, beverages, and tobacco imports saw a remarkable surge, skyrocketing by 40% from \$23.24 million in July to \$32.51 million in August 2023, reflecting a heightened demand for these products.

Mineral products, excluding petroleum, witnessed a substantial 66% increase, climbing from \$158.35 million in July to \$262.23 million in August 2023. Petroleum product imports grew by 28%, from \$136.30 million to \$175.08 million in August 2023, indicating an increased energy consumption. Imports of chemical and related products, wood and wood products, textile items, and miscellaneous manufactured articles all displayed positive growth.

Economic Outlook:

According to the latest projections from the Bank of Uganda, the Ugandan economy is poised to maintain its robust growth, with an estimated growth rate of approximately 6% for the fiscal year 2023/24 and an anticipated range of 6% to 7% over the medium term. This sustained economic expansion is underpinned by several key factors, including the ongoing recovery in the services and industry sectors, increased investments in the extractive industries, primarily driven by Foreign Direct Investment (FDI), and a rise in export earnings.

Nevertheless, there are notable downside risks that warrant consideration. A slowdown in global economic growth could potentially impede the pace of domestic economic expansion. Additionally, adverse weather conditions leading to a reduction in agricultural output could also pose a significant challenge to the country's economic prospects.



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