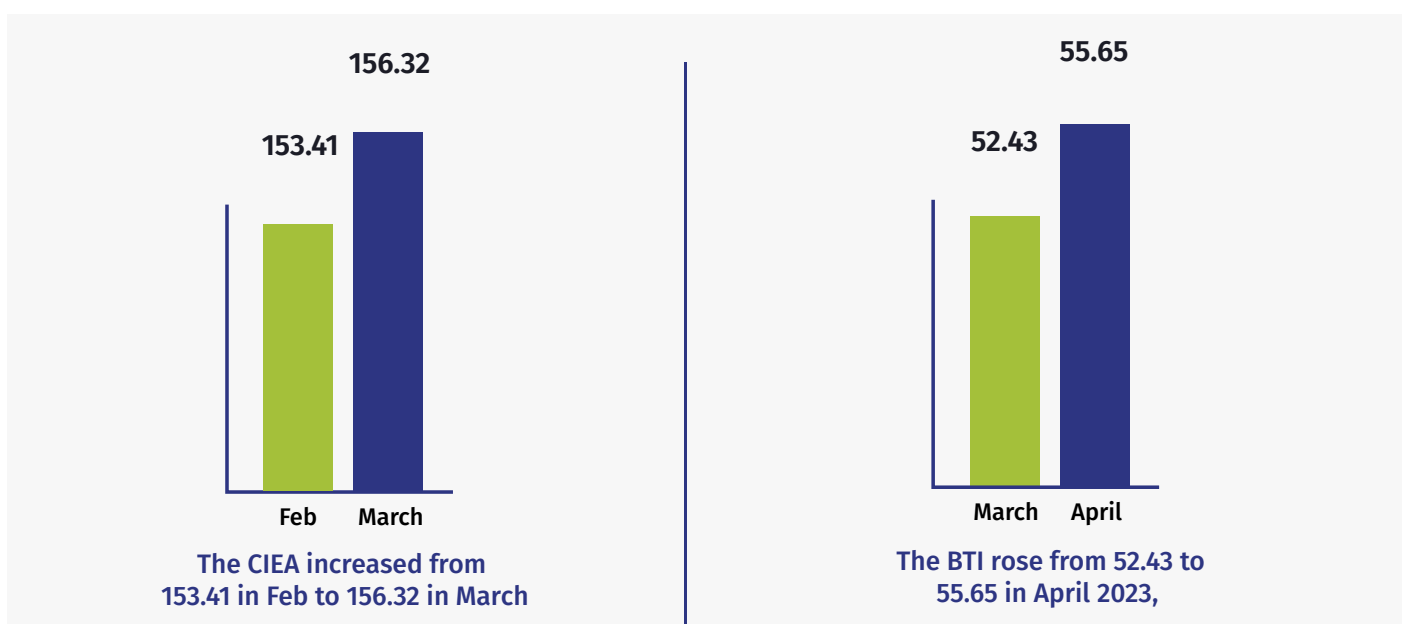


## Introduction

The Uganda Macroeconomic Digest explores Uganda's economic performance amidst global economic uncertainty. The world is witnessing a looming economic slowdown driven by multiple factors, including COVID-19, the Russia-Ukraine geopolitical tension, and climate change effects. These have culminated in supply chain disruptions and high inflation, leading to financial stress and stability concerns as central banks tighten monetary policies.

Recent banking failures of two US regional banks; Silicon Valley Bank and Signature Bank, and Credit Suisse have raised doubts about holdings' safety and affected markets, potentially leading to reduced lending and activity. Despite projections for a gradual recovery from the pandemic and Ukraine crisis, led by China, global growth is expected to bottom out at 2.8% in 2023 before rising to 3.0% in 2024, with banking instability highlighting fragility.

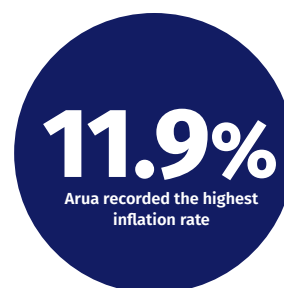
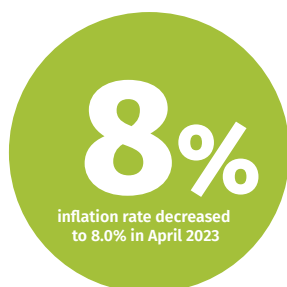
## Business Perceptions and Economic Activity:



Uganda's economic outlook has been positive, with the Business Tendency Index (BTI) and Composite Index of Economic Activities (CIEA) showing steady improvement since February 2023. The BTI rose from 52.43 to 55.65 in April 2023, reflecting optimistic business perceptions, particularly in Wholesale Trade and Agriculture.

The CIEA increased from 153.41 in February to 156.32 in March, with a growth rate of 1.89%. Although there was a slight contraction in economic activity in February 2023, ongoing monitoring of these indicators is necessary to maintain the positive trend and identify potential risks.

## Annual Inflation and Outlook:

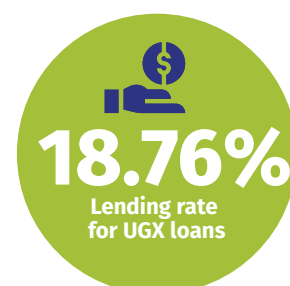


Uganda's annual inflation rate decreased to 8.0% in April 2023, down from 9.0% in March, due to lower food and energy prices and core inflation. This decrease may have a positive impact on the economy, including increased price stability, lower costs, improved consumer confidence, and increased investment. However, inflation rates varied across regions, with Arua having the highest rate at 11.9% and Kampala's High Income the lowest at 6.5%, which may negatively affect purchasing power and living standards.

The government's fiscal restraint and other factors such as improved supply chains and lower food prices are expected to continue to decelerate inflation to the 5% target by the end of 2023.

Nonetheless, upside risks such as high domestic food prices, tighter global financial conditions, and higher oil prices, as well as downside risks such as a global economic slowdown and a stronger shilling, mean the balance of risks remains biased to the upside.

## Interest Rate Movements:



The Bank of Uganda has maintained its policy rate at 10.0% for the seventh consecutive month in April 2023, responding to declining inflationary pressures. Monthly inflation decreased from 10.4% in January 2023 to 8.0% in April 2023, with a consistent downward trend since October 2022. The weighted average commercial bank lending rates declined to 18.76% in March 2023 from 20.24% in February 2023, reflecting the monetary policy stance of the Central Bank.



However, lending rates for foreign currency-denominated credit increased from 7.50% in February 2023 to 7.91% in March 2023 due to the rise in demand for dollar-denominated loans. The Central Bank's decision to maintain a stable policy rate and the decline in commercial bank lending rates are positive developments that could spur economic growth, but the increase in forex lending rates could present challenges for some businesses.

## Domestic Credit:

In March 2023, domestic credit in Uganda increased by 2.8% to Ush. 37.652 trillion, largely due to a decrease in lending rates from 20.24% in February to 18.76% in March 2023. The increase in government and private sector credit of 4.1% and 1.3%, respectively, contributed to this overall increase. The building, mortgage, construction, and real estate sector remained the largest recipient of credit at 20.0%, followed by personal and household loans at 21.4%.

There was a slight shift in credit allocation towards the trade, transport, and agriculture sectors indicating a potential increase in economic activity in these sectors. However, the decrease in credit to the real estate sector may affect the construction and related industries. The increase in credit can drive economic growth but can also lead to higher debt levels and inflation if not managed effectively.

## Trade Balance and Terms of Trade:



In March 2023, Uganda's trade deficit decreased by 15.4% to US\$251.95 million, as the total value of exports of goods significantly increased by 93% to US\$674.54 million, and the total value of imported goods increased by 43.2% to US\$926.48 million. The total value of exports of services increased by 9.4% to US\$171.50 million, and the total value of imports of services increased by 28.1% to US\$332.84 million. The terms of trade index also improved by 8.9% to 103.22.

However, in March, Uganda had a trade deficit of USD 25.68 million with the East Africa Community, except for Burundi, Rwanda, and South Sudan, resulting in a challenge to Uganda's balance of payments and foreign exchange reserves. Diversifying exports, increasing local production, and strengthening regional trade relationships with non-EAC African countries could help improve the trade balance.

# Uganda's Export and Import Commodities:

**284%** ↑  
volume of rice exports

**43%**  
increase in total import receipts

In March 2023, Uganda's export revenues from the trade of goods increased, except for tea, fish, beans, flowers, cocoa beans, and fruits & vegetables, due to a rise in export volumes and values, with the volume of rice exports surging by 284%. The rise in export revenues may boost foreign exchange earnings and improve the balance of payments, but reliance on a limited number of export products and fluctuations in global market demand pose risks.

Import receipts for most commodities increased, with the biggest increase for Mineral Products (excluding Petroleum products) at 835%, and Arms & Ammunition & Accessories having the biggest decrease by 99%. Overall, there was a 43% increase in total import receipts in March 2023 compared to February 2023, indicating a growing economy but also potentially impacting Uganda's exchange rate and balance of payments.

## Exchange Rate Movements:

**Shs 3,745.82/USD**  
Average exchange rate for April

In April 2023, the Ugandan Shilling depreciated by 0.03% against the US Dollar, with a period average exchange rate of Shs 3,745.82/USD compared to Shs 3,744.52/USD in March 2023. This depreciation was influenced by increased corporate demand for the Dollar, primarily for dividend payments to foreign investors. However, the end-period Shilling appreciated by 1.13% from Shs 3,778.13 /USD to Shs 3,735.25 /USD. This appreciation was driven by healthy inflows from NGOs and commodity exporters, potentially indicating a strengthening economy. Nonetheless, the temporary weakening in April could impact inflation and import costs in Uganda, highlighting the need for careful monitoring of global trends and currency demands.

## Uganda's Economic Outlook and Risks:

According to the Bank of Uganda, Uganda's economic growth rate is projected to be 5.5-6.0% in FY 2022/23. Inflation is expected to decline and stabilize at 5% by the end of 2023 due to lower food prices and weak demand. The banking system is resilient, and the Ugandan Shilling is expected to remain stable.

However, lower-than-expected global growth, financial instability, and uncertainty may affect investment decisions. Downside risks include tightening financial conditions, lower commodity prices, unfavorable weather, and supply chain distortions. The upside factor is the global economic recovery driven by China's reopening, but the balance of risks to growth is tilted to the downside.

**5.5-6.0%**  
Uganda's projected  
economic growth rate  
FY 2022/23



# UDB

Inspiring Development

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

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