Uganda Macroeconomic Digest

March 2024

UDB
Inspiring Development

Introduction

The Uganda Macroeconomic Digest for March 2024 provides insights into the country's economic performance. The report covers Uganda's key macroeconomic indicators, including inflation, exchange rates, interest rates, domestic credit, trade (exports and imports), and economic outlook.

Annual Inflation:

Headline inflation experienced a modest decline, edging down from 3.4% in February to 3.3% in March 2024. This shift was primarily propelled by a decrease in annual Food Crops and Related Items Inflation, sliding from 0.5% in February to -0.4% in March 2024. Notable reductions were observed in specific categories: Beans inflation decreased to 3.4% in March 2024 from 6.9% in February, Milk-Fresh un-skimmed inflation dropped to 3.5% in March 2024 from 3.9% in February, and Carrots inflation declined to 10.7% in March 2024 from 16.3% in February.

Likewise, annual Energy Fuel and Utilities (EFU) inflation decreased from 8.0% in January 2024 to 7.6% in February 2024. This decline was influenced by decreases in Charcoal inflation to 17.7% in March 2024 from 19.9% in February 2024, Firewood inflation to 15.9% in March 2024 from 15.1% in February 2024, and Petrol inflation to 5.4% in March 2024 from 5.7% in February 2024.

In contrast, Annual Core inflation remained steady at 3.4% in March 2024. The primary contributor to this stability was the Annual Services inflation, which rose to 5.5% in March 2024 from 5.4% in February 2024. This increase was driven by rises in Passenger Transport Services Inflation to 2.6% in March 2024 from 1.2% in February 2024 and Financial Services Inflation to 13.4% in March 2024 from 0.0% in February 2024.

In March 2024, regional and income-based inflation analysis revealed significant divergences. Despite an overall decrease in inflation from 5.4% in February 2024 to 5.0% in March 2024, Fort Portal recorded the highest inflation rate. This was mainly fueled by the surge in Annual 'Restaurants and Accommodation Services' inflation, climbing to 6.2% in March 2024 compared to 5.4% in February 2024. Additionally, Annual 'Alcoholic Beverages, Tobacco, and Narcotics' inflation rose to 4.4% in March 2024 from 2.4% in February 2024.

Conversely, Mbale witnessed the lowest annual inflation at 1.4% for the year ending March 2024, slightly up from 1.1% recorded in February 2024. This was largely attributed to the annual 'Food and Non-Alcoholic Beverages' inflation, registering -4.1% in March 2024 compared to -3.0% in February 2024. Furthermore, Annual 'Education Services' inflation dipped to 0.8% in March 2024 from 6.2% in February 2024.

The Bank of Uganda foresees inflation surpassing the 5% target in 2024/25 unless monetary policy is tightened, citing exchange rate depreciation. Global tensions and market conditions pose risks, including higher commodity prices due to geopolitical tensions and increased shipping costs stemming from conflicts in the Middle East.

3.3%
Headline Inflation declined from 3.4% in Feb-24 to 3.3% in Marc-2024

3.4%
Core Inflation remained the same at 3.4% Marc-2024

-0.4%
Food Crops and Related Items inflation declined from 0.5% in Feb-24 to -0.4% in Marc- 2024

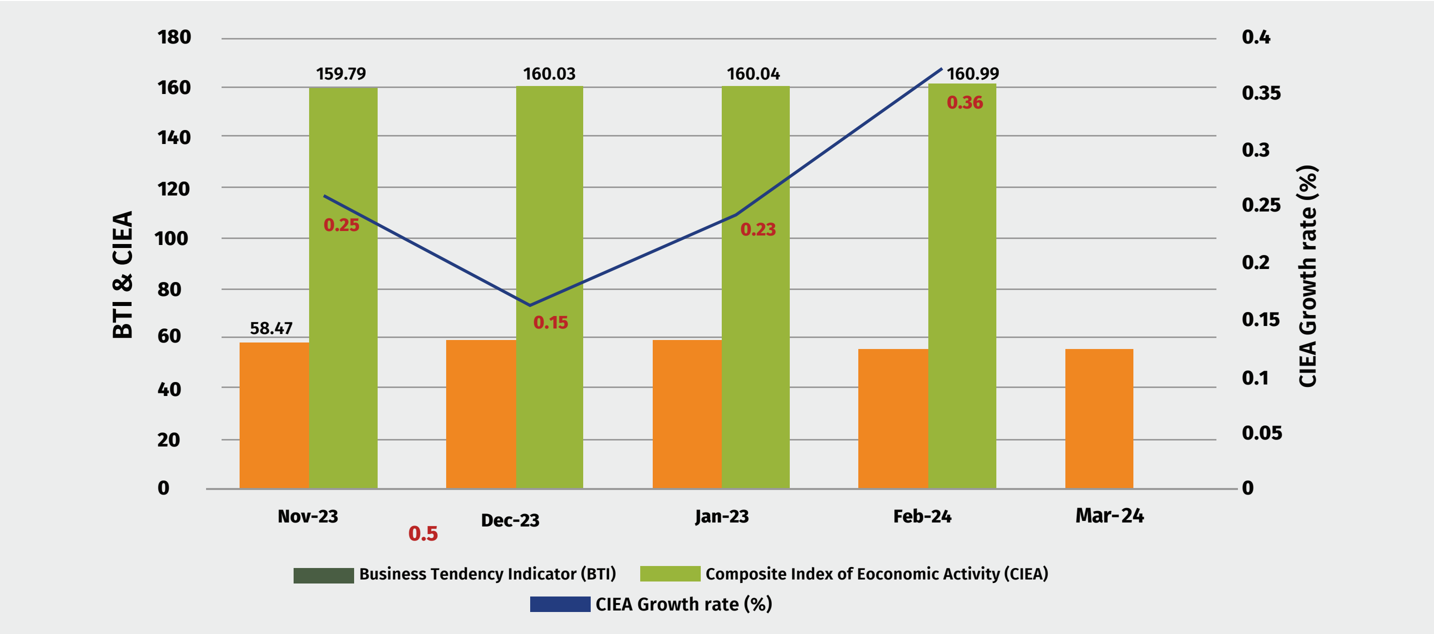
7.6%
Energy Fuel and Utilities (EFU) inflation declined from 8.0% in Feb- 24 to 7.6% in Marc-2024

Business Perceptions and Economic Activity:

Perceptions regarding business in Uganda remained relatively positive, with the Business Tendency Index (BTI) registering at 55.54 in February, above the critical threshold of 50. However, it dipped slightly from 55.87 in February 2024, reflecting decreased optimism primarily attributed to rising fuel, material, and utility costs. Despite sector-specific challenges, optimism prevailed across all sectors with their respective indices staying above the 50 mark. Nonetheless, in sectors like Construction and Agriculture, investors were less buoyant in March 2024 compared to February 2024, primarily due to escalating input prices driven by higher fuel and material costs, likely leading to elevated selling prices.

Despite these challenges, overall economic activity exhibited resilience, evident from the upward trajectory in high-frequency indicators like the Composite Index of Economic Activity (CIEA). Forecasts for business conditions in the forthcoming months also remained optimistic, as indicated by the BTI scoring above the 50 threshold. The CIEA continued its upward climb from 160.40 in January 2024 to 160.99 in February 2024, marking a month-on-month growth of 0.36%, surpassing the 0.23% growth recorded in January 2024, signaling sustained economic expansion.

Figure 1 : Business Tendency Indicator (BTI) and CIEA, November 2023 to March 2024



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

Exchange Rate Movements:

The monthly analysis shows a 0.57% depreciation in the Ugandan Shilling in March 2024, averaging Shs 3,895.78/US$ compared to Shs 3,873.59/US$ in the previous month. Factors contributing to this depreciation include heightened dollar demand from energy and manufacturing sectors, increased external debt repayments in January 2024, and offshore fund outflows seeking higher yields in competing markets, notably triggered by Kenya's USD 1.5 billion Bond issued in February at a yield of 10.375%. Expectations lean towards shilling stabilization in upcoming months due to anticipated forex inflows, supported by the monetary policy stance set by the Bank of Uganda.

Shs 3,895.78/USD
Average exchange rate for March 2024

Interest rate Movements:

In March 2024, the Central Bank raised the Central Bank Rate (CBR) to 10% from 9.5% in February 2024 due to heightened risks to the inflation outlook, necessitating a tighter monetary policy. Shilling-denominated lending rates of commercial banks rose to an average of 18.09% in February 2024 from 17.32% in January 2024. Similarly, foreign currency-denominated lending rates increased from an average of 8.59% to 8.83% during the same period.

10%
Central Bank Rate (CBR) for March 2024

18.09%
Lending Rates for UGX Loans for Feb-24

8.83%
Lending Rates for foreign currency loans for Feb-24

Domestic Credit:

In February 2024, Uganda's Domestic Credit increased by 0.82% to UGX42.22 trillion from UGX41.88 trillion in January 2024. This growth was driven by an uptick in Private Sector Credit, which rose to UGX23.68 trillion in February 2024 from UGX23.49 trillion in January 2024. This reflects the central bank's efforts to stimulate economic expansion and promote private-sector investment. Conversely, Net Credit to Government (NCG) experienced a slight decline of 0.08% from UGX17.41 trillion in January 2024 to UGX17.39 trillion in February 2024.

Ush. 42.22 trillion
Domestic Credit rose by 0.82% in February 2024

Ush. 17.39 trillion
Net credit to the government declined by 0.08% in February 2024

Ush. 23.68 trillion
Private Sector credit rose by 0.81% in February 2024

Uganda's Trade Balance, and Terms of Trade:

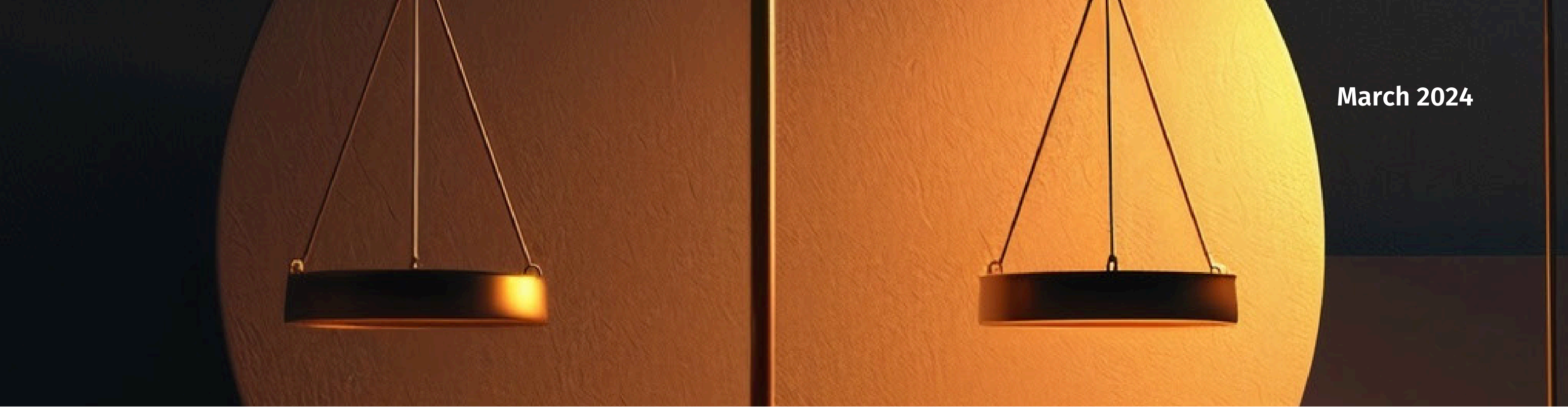
In February 2024, Uganda's trade balance worsened, witnessing a 47% increase in the deficit, soaring to $276 million from $188 million in January 2024. This shift was chiefly propelled by a significant 21% surge in total imports of goods, escalating from $754 million in January to $909 million in February 2024. Conversely, total exports of goods experienced a 12% increase, climbing from $565 million in January 2024 to $633 million in February 2024. However, the terms of trade index (TOT) slightly dropped by 2%, sliding from 115 in January 2024 to 124 in February 2024, signaling some challenges in the country's trade conditions for the month.

Trade deficit increased by 47% in February 2024

Total Exports of Goods-fob increased by 12% in February 2024

Total Imports of Goods - fob increased by 21% in February 2024

Terms of Trade Index declined by 2% in February 2024



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

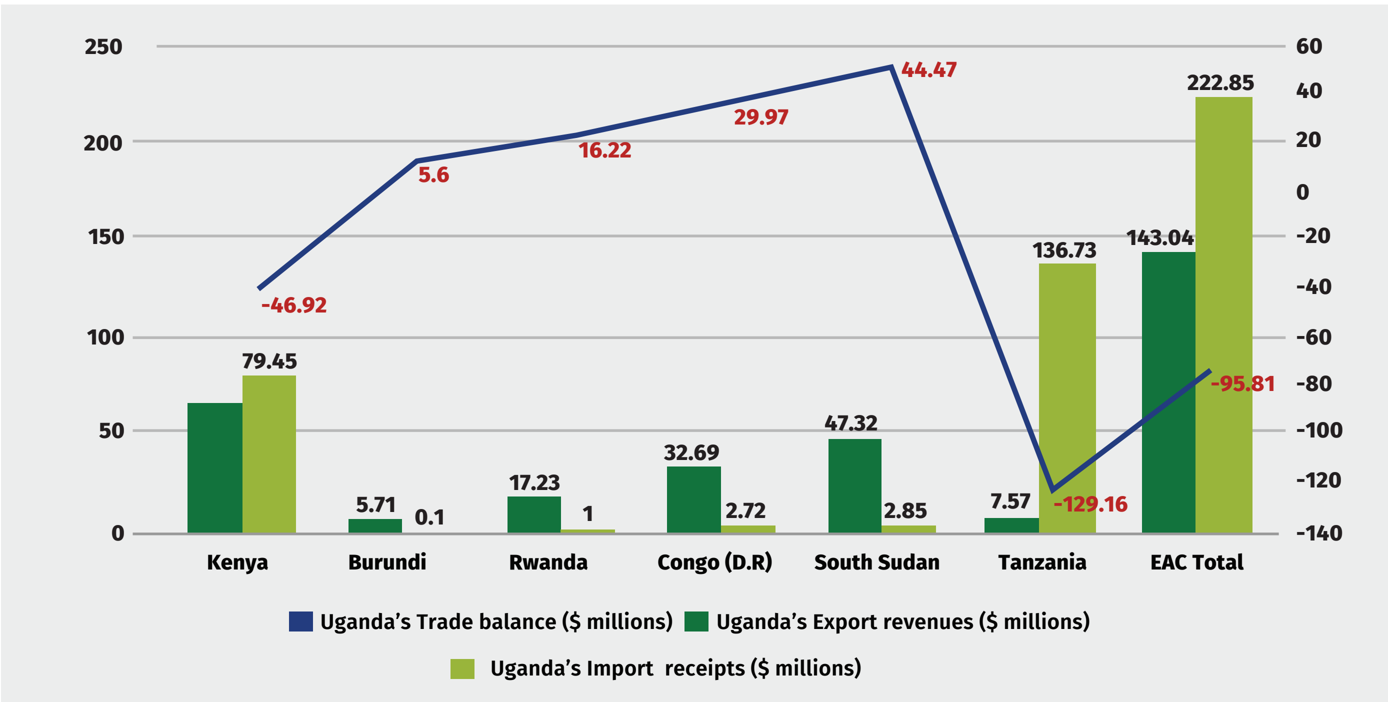
In February 2024, Uganda faced a trade deficit within the East African Community (EAC), exporting goods valued at $143.04 million while importing goods worth $222.85 million from EAC countries. This marked a significant trade deficit of $79.81 million, showing a notable decline from the previous month’s trade surplus of $37.09 million.

Specifically, Uganda’s trade balance with Kenya in February 2024 saw exports totaling $42.53 million, while imports amounted to $79.45 million, resulting in a deficit of $46.92 million. Similarly, with Tanzania, Uganda exported goods worth $7.57 million but imported goods valued at $136.73 million, leading to a substantial deficit of $129.16 million.

On a positive note, Uganda recorded surpluses in trade with other EAC countries. For instance, Uganda exported goods worth $5.71 million to Burundi and imported negligible goods ($0.10 million), resulting in a surplus of $5.60 million. Additionally, Uganda enjoyed a surplus of $16.22 million with Rwanda, exporting goods worth $17.23 million and importing goods worth $1.00 million.

Moreover, Uganda maintained a surplus in trade with the Democratic Republic of Congo, exporting goods totaling $32.69 million and importing goods valued at $2.72 million, resulting in a surplus of $29.97 million. Similarly, Uganda’s trade with South Sudan showed a surplus, with exports amounting to $47.32 million and imports at $2.85 million, leading to a surplus of $44.47 million.

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



Source: Authors’ construct based on BOU data (January 2024)

Uganda's Export Revenues from Selected Commodities:

In February 2024, export revenues across various commodities exhibited diverse trends. Cotton export revenues surged by 194%, leaping from $2.00 million in January 2024 to $5.88 million in February 2024. This remarkable increase was propelled by a 209% rise in cotton export volumes from 6,684.77 (185 kg Bales) to 20,673.77 (185 kg Bales) during the same period.

Sim sim export revenues saw a 16% uptick, climbing from $4.54 million in January 2024 to $5.25 million in February 2024. This growth was fueled by a notable 38% increase in sim sim export volumes, escalating from 1,952.6 tonnes to 2,684.88 tonnes during the same period.

Cocoa beans export revenues experienced an 11% increase, rising from $23.50 million in January 2024 to $25.98 million in February 2024. This rise was primarily attributed to a 24.8% increase in the export prices of cocoa beans from $3.7 per kg in January 2024 to $4.7 per kg in February 2024. However, cocoa beans export volumes declined by 11% from 6,242.24 tonnes in January 2024 to 5,526.96 tonnes in February 2024.

Rice export revenues witnessed a substantial 617% surge, jumping from $0.01 million in January 2024 to $0.08 million in February 2024. This significant increase was driven by a 5% rise in rice export volumes from 156.60 tonnes to 164.4 tonnes during the same period.

Sugar export revenues experienced a staggering 373% increase, soaring from $2.64 million in January 2024 to $12.48 million in February 2024. This remarkable growth was attributed to a 409% rise in sugar export volumes from 2,944.77 tonnes to 14,998.49 tonnes during the same period.

However, coffee export values declined by 4%, dropping from $85.57 million in January 2024 to $82.56 million in February 2024. This decline was attributed to a 10% decrease in coffee export volumes from 481,586 (60 kg bags) to 434,582 (60 kg bags). Nevertheless, the coffee export prices rose by 7% from $2.96 per kg in January 2024 to $3.17 per kg in February 2024.

Tea export revenues also experienced a notable 20% decrease, falling from $51.31 million in January 2024 to $4.26 million in February 2024. This decline was driven by a 10% decrease in tea export volumes from 5,560.18 tonnes to 4,994.81 tonnes during the same period.

The export revenues of Fish & its products also saw a notable 15% decrease, declining from $12.19 million in January 2024 to $10.32 million in February 2024. This decrease was driven by a 30.4% decline in fish export prices from $6.94 per kg in January 2024 to $4.83 per kg in February 2024. However, fish export volumes increased by 22% from 1,756.89 tonnes in January 2024 to 2,137.58 tonnes in February 2024.

Maize export revenues witnessed a substantial 40% decrease, falling from $13.99 million in January 2024 to $8.41 million in February 2024. This decline was linked to a 21% decrease in maize export volumes from 70,440.46 tonnes to 55,660.68 tonnes during the same period.

Beans export revenues contracted by 13%, decreasing from $5.23 million in January 2024 to $4.57 million in February 2024. This decline was attributed to a 20% decrease in beans export volume from 13,225.37 tonnes in January 2024 to 10,623.67 tonnes in February 2024.

Uganda’s Import Receipts for Commodities:

In February 2024, import receipts for commodities showed a mixed trend. While there was an overall increase in import receipts, certain categories witnessed a decline. Import receipts for Vegetable Products, Animals, Beverages, Fats & Oil decreased by 12%, dropping from $79.67 million in January to $69.99 million in February 2024. Similarly, Prepared Foodstuff, Beverages & Tobacco experienced a 10% decline, falling from $25.18 million in January to $22.78 million in February 2024. Additionally, Plastics, Rubber, Related Products saw a 10% decrease, declining from $42.39 million in January to $38.23 million in February 2024.

However, there were notable increases in other categories. Animal & Animal Products witnessed a significant uptick, with import receipts surging by 37% from $3.57 million in January 2024 to $4.89 million in February 2024. Mineral Products (excluding Petroleum products) saw a remarkable 198% increase, rising from $73.71 million in January 2024 to $219.85 million in February 2024. Petroleum Products also experienced a modest rise of 3%, climbing from $147.13 million in January 2024 to $150.99 million in February 2024.

Furthermore, Chemical & Related Products recorded a 5% rise, increasing from $64.02 million in January 2024 to $67.48 million in February 2024. Wood & Wood Products saw a 6% rise, increasing from $12.74 million in January 2024 to $13.53 million in February 2024. Textile & Textile Products experienced a marginal 0.42% increase, rising from $23.41 million in January 2024 to $23.51 million in February 2024. Miscellaneous Manufactured Articles witnessed a 9% rise, increasing from $31.04 million in January 2024 to $33.70 million in February 2024. Base Metals & their Products experienced a 14% rise, increasing from $60.36 million in January 2024 to $68.84 million in February 2024. Arms & Ammunitions & Accessories saw a substantial 114% rise, increasing from $0.02 million in January 2024 to $0.04 million in February 2024. Finally, Electricity experienced a slight 0.29% rise, increasing from $0.331 million in January 2024 to $0.332 million in February 2024.

Economic Outlook:

The latest forecasts from the Bank of Uganda (March 2024) suggest that Uganda&’s economic growth is projected to remain steady at 6.0% for the 2023/24 financial year. However, future outlooks indicate a slight adjustment, with growth expected to range between 5.5% and 6.5%, compared to the previous estimate of 6.5% to 7.0%. This revision downwards in growth forecasts primarily reflects the anticipated impact of tighter monetary policies aimed at stabilizing inflation over the medium term.

The potential rise in inflation poses challenges to household real incomes, potentially curbing consumer spending. Furthermore, heightened import costs of raw materials may hinder investment expenditure. Additionally, if tax revenue falls short of expectations, it could result in increased domestic financing, crowding out private sector credit and dampening economic activity. Moreover, a sluggish recovery in external demand might further hinder Uganda’s export prospects.

However, some factors could help alleviate these negative effects. Improved activity in the oil sector and Uganda’s removal from the Financial Action Task Force’s grey list in February could attract additional foreign direct investment, providing some relief from the challenges above. Nevertheless, overall, the risks to growth remain tilted towards the downside. It is crucial to emphasize that sustainable growth hinges on maintaining low and stable inflation. High inflation rates can significantly hinder economic growth, leading to lasting reductions in per capita income. Therefore, tightening monetary policy under the current circumstances aligns with fostering sustainable growth, which serves as a fundamental prerequisite for socio-economic transformation.

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

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