Uganda Macroeconomic Digest

December 2024

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Inspiring Development

Introduction

The Uganda Macroeconomic Digest for December 2024 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 3.3 percent in December 2024, up from 2.9 percent in November. This increase was primarily driven by higher core inflation and a recovery in food crop prices. Annual core inflation increased to 3.9 percent in December 2024 from 3.8 percent in November 2024, with services inflation as the main driver. Notable increases were seen in passenger road transport inflation, which rose to 1.6 percent from 1.2 percent, and restaurant and accommodation services inflation surged to 4.8 percent from 3.8 percent.

The inflation of food crops and related items significantly improved, from minus 4.0 percent in November to minus 0.7 percent in December 2024. According to the Uganda Bureau of Statistics (UBOS), seasonal factors and unfavorable weather conditions limited production and supply, leading to higher food crop prices.

In contrast, inflation of energy, fuel, and utilities declined to 1.0 percent in December 2024, down from 2.2 percent in November 2024, reflecting falling fuel prices. Solid fuels inflation dropped to 10.9 percent from 14.5 percent, with charcoal inflation falling sharply to 4.9 percent from 13.9 percent. Liquid energy fuels inflation also eased, with petrol inflation declining to minus 10.6 percent in December 2024 from minus 9.4 percent in November and liquefied gas inflation falling to minus 4.5 percent from minus 4.2 percent.

Uganda's inflation outlook remains favorable, with projections indicating that inflation will stay below 5 percent over the next year. Key factors include prior increases in the Central Bank Rate (CBR), strengthening the shilling, declining food crop prices supported by favorable weather, and easing global inflationary pressures. Additionally, increased capital inflows into Uganda's mining and oil sectors are expected to stabilize the shilling further.

However, risks persist. Geopolitical tensions could disrupt global trade, increasing shipping costs and commodity prices, while tighter global financial conditions may weaken the shilling. Extreme weather events could also drive-up food prices. Conversely, inflation may decline further if foreign investments strengthen the shilling and global inflationary pressures continue to ease. Uganda's inflation is expected to remain manageable, creating a stable economic environment supportive of growth.

3.3%

Headline Inflation increased from 2.9% in November 2024 to 3.3% in December 2024

3.9%

Core Inflation increased from 3.8% in November 2024 to 3.9% in December 2024

-0.7%

Food Crops and Related Items inflation increased from -4.0% in November 2024 to -0.7% in December 2024

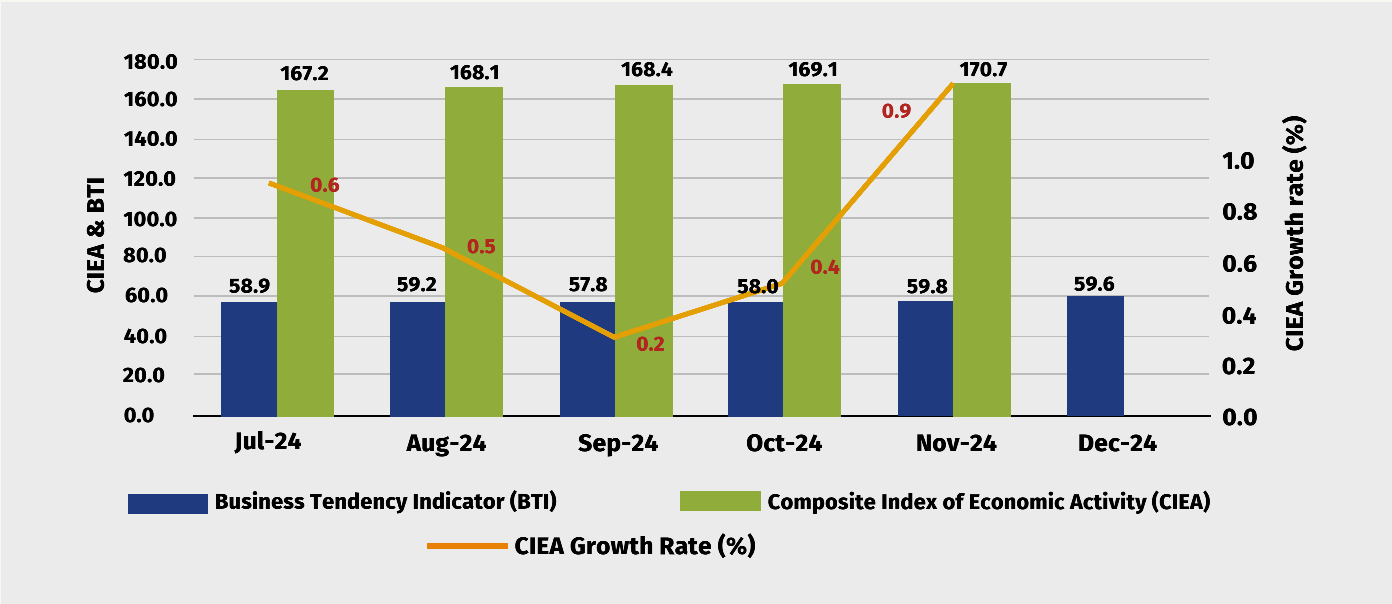
1.0%

Energy Fuel and Utilities (EFU) inflation declined from 2.2% in November 2024 to 1.0% in December 2024

Business Perceptions and Economic Activity:

The Business Tendency Index (BTI) remained above the 50-mark threshold, indicating optimism about business conditions among the private sector players. However, the BTI declined slightly to 59.6 in December 2024 from 59.8 the previous month, signaling reduced confidence in business conditions. Confidence dropped in sectors such as construction (59.84 vs. 61.92), manufacturing (55.90 vs. 56.21), and other services (64.05 vs. 65.81), while it increased in agriculture (56.71 vs. 55.19) due to favorable weather and wholesale trade (57.37 vs. 55.08) due to increased consumer demand during the festive season. On the other hand, the Composite Index of Economic Activity (CIEA) grew by 0.9%, from 169.1 in October 2024 to 170.7 in November 2024, indicating an improvement in economic activity.

Figure 1: Business Tendency Indicator (BTI) and Composite Index of Economic Activity (CIEA), July to December 2024



Source: Computation based on Bank of Uganda data, December 2024

Exchange Rate Movements:

The Ugandan Shilling recorded a marginal appreciation against the US Dollar between November and December 2024, improving from an average exchange rate of UGX3,678.6/USD to UGX3,664.1/USD, reflecting a 0.4% gain. This appreciation was supported by steady inflows from remittances and coffee exports, coupled with reduced corporate demand for the Dollar toward the end of the year. The modest gain highlights continued resilience in the Shilling despite earlier pressures from increased import receipts in November 2024.

Shs 3,664.1/USD

Average exchange rate for December 2024

December 2024

Interest Rate Movements:

The Bank of Uganda maintained the Central Bank Rate (CBR) at 9.75% in November and December 2024. This consistent policy stance highlights the central bank's focus on ensuring price stability and supporting sustainable economic growth. The decision was informed by favorable inflation trends, with inflation expected to remain below the medium-term target of 5% despite ongoing geopolitical and policy uncertainties that could potentially affect economic activity.

The weighted average lending rates for shilling-denominated credit declined significantly from 19.43% in October 2024 to 18.08% in November 2024, signaling a gradual easing of monetary conditions. However, foreign currency-denominated lending rates moved in the opposite direction, increasing from 8.63% in October to 8.94% in November, driven by heightened demand for dollar-denominated loans.

9.75%
Central Bank Rate (CBR) for December 2024

18.08%
Lending Rates for UGX Loans for November 2024

8.94%
Lending Rates for Foreign Currency Loans for November 2024

Domestic Credit[1]:

Uganda's domestic credit expanded by 2.8% between October 2024 and November 2024, rising from UGX47.30 trillion to UGX48.60 trillion. This growth was primarily fueled by a 3.6% increase in Net Credit to Government (NCG), which grew from UGX21.35 trillion to UGX22.12 trillion, reflecting increased government domestic borrowing to address fiscal needs. Additionally, private sector credit increased by 2.3%, from UGX 24.82 trillion to UGX25.39 trillion, signaling improved confidence and lending activity within the private sector.

Shs 48.60 trillion
Domestic Credit increased by 2.8% in November 2024

Shs 25.39 trillion
Private Sector Credit increased by 2.3% in November 2024

Shs 22.12 trillion
Net Credit to the Government (NCG) increased by 3.6% in November 2024

1. Domestic credit comprises the total credit extended by financial institutions to the economy, including net credit to government (NCG), private sector credit (PSC), and credit to public enterprises.

Uganda's Trade Balance and Terms of Trade:

Uganda's trade balance improved in November 2024, narrowing to a deficit of USD419.41 million from USD533.05 million in October 2024, a 21.3% reduction. This improvement was primarily driven by a 14.5% decrease in imports, which fell from USD1.28 billion in October to USD1.09 billion in November 2024. Exports, however, experienced a 9.7% decline during this period, dropping from USD744.86 million in October to USD672.62 million in November 2024. The reduction in export earnings dampened the positive impact of declining imports on the trade balance. The terms of trade index also weakened, falling 5.8% from 141.87 in October to 133.66 in November 2024. This decline indicates that the prices of Uganda's exports became less favorable than those of its imports despite the overall improvement in the trade deficit.

Trade deficit declined by
21.3%
in November 2024

Total Exports of Goods - fob declined by
9.7%
in November 2024

Total Imports of Goods - fob declined by
14.5%
in November 2024

Terms of Trade Index declined by
5.8%
in November 2024

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

In November 2024, Uganda recorded a trade deficit of USD125.13 million within the East African Community (EAC), with exports totaling USD151.52 million and imports amounting to USD276.65 million.

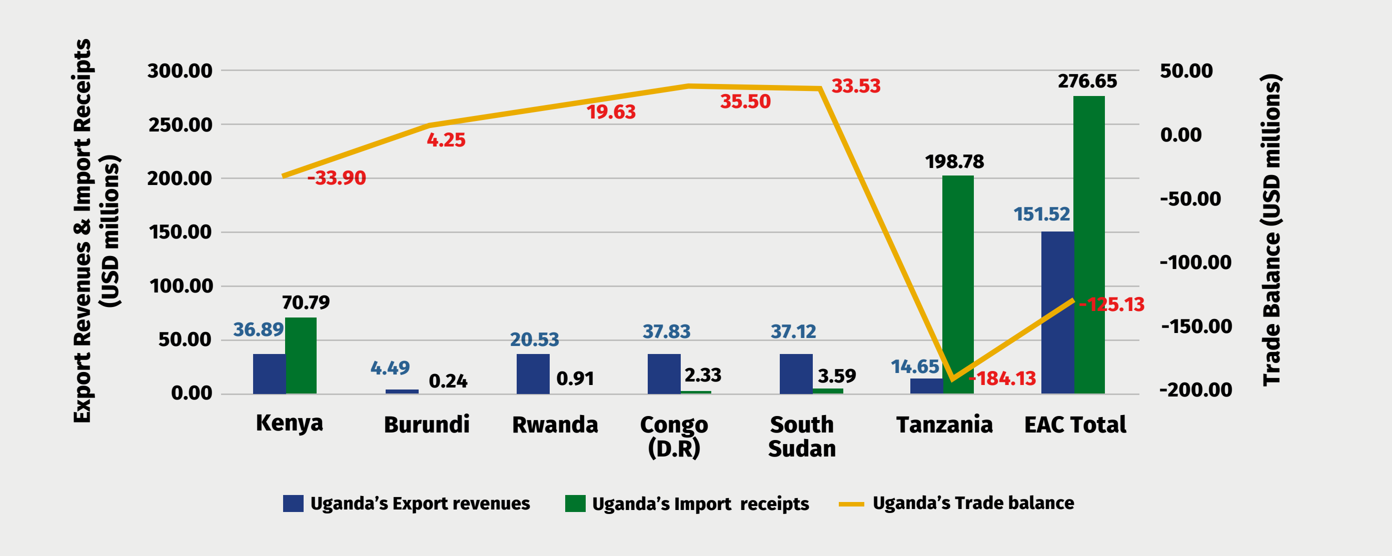
Uganda's most significant trade deficit was with Tanzania, where exports were USD14.65 million, while imports were significantly higher at USD198.78 million, resulting in a trade deficit of USD184.13 million—the most considerable negative trade balance within the EAC during this period.

Similarly, Uganda faced a trade deficit with Kenya, exporting goods worth USD36.89 million and importing goods valued at USD70.79 million, leading to a deficit of USD33.90 million.

On a positive note, Uganda recorded trade surpluses with several EAC member countries. For instance, Uganda enjoyed a surplus of USD4.25 million with Burundi, exporting USD4.49 million worth of goods while importing only USD0.24 million. Uganda's trade with Rwanda resulted in a surplus of USD19.63 million, with exports valued at USD20.53 million and imports at USD0.91 million.

Additionally, Uganda maintained a substantial trade surplus with the Democratic Republic of Congo (D.R.C.), exporting goods worth USD37.83 million and importing only USD2.33 million, leading to a surplus of USD35.50 million. Trade with South Sudan also provided a favorable balance, with Uganda exporting USD37.12 million worth of goods and importing USD3.59 million, resulting in a surplus of USD33.53 million.

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



Source: Authors' construct based on Bank of Uganda data, October 2024

Uganda's Export Revenues from Selected Commodities:

In November 2024, Uganda's coffee export revenues fell sharply by 21.7%, declining from USD139.05 million in October to USD108.91 million. This drop resulted from a 19.4% decrease in export volumes, from 496,820 to 400,536 (60 kg bags), coupled with a reduction in coffee export prices, which fell from USD4.66 per kg in October 2024 to USD4.53 per kg in November 2024.

Conversely, cotton exports experienced growth, with revenues increasing by 19.0%, from USD0.04 million in October to USD0.05 million in November 2024. This improvement was attributed to a 20.9% increase in export volumes, from 130.38 (185 kg bales) to 157.57 (185 kg bales), signaling a recovery in this sector.

Tea exports also performed well, with revenues rising by 24.3%, from USD4.49 million in October to USD5.58 million in November 2024. The increase in export volumes, from 4,663.08 tons to 5,648.31 tons (a 21.1% growth), underscores the sustained demand for Ugandan tea.

The fish and fish products sector (excluding regional markets) recorded a modest revenue growth of 3.1%, from USD13.14 million in October to USD13.54 million in November 2024. This growth corresponded with a 31.4% rise in export volumes, from 1,955.98 tons to 2,570.30 tons, indicating strong international demand.

Simsim (sesame seed) exports showed remarkable growth, with revenues increasing by 52.0%, from USD2.07 million in October to USD3.15 million in November 2024. This was driven by an 83.0% rise in export volumes, from 979.16 tons to 1,792.10 tons, highlighting the growing global demand for sesame seeds.

However, maize exports faced a 19.5% revenue decline, dropping from USD6.03 million in October to USD4.86 million in November 2024. This decline corresponded to a 27.0% reduction in export volumes, from 21,369.72 tons to 15,599.08 tons, highlighting sectoral challenges. Globally, maize prices fell from USD252.66 per metric ton in 2023 to USD190.60 per metric ton in 2024, driven by strong production in the United States and Argentina, according to the World Bank's latest Commodity Market Situation report.

Beans exports demonstrated strong performance, with revenues increasing by 42.0%, from USD2.41 million in October to USD3.42 million in November 2024. This was supported by a 48.3% rise in export volumes, from 9,853.38 tons to 14,608.22 tons, reflecting better market conditions.

Flower exports showed modest growth, with revenues rising by 9.0%, from USD4.56 million in October to USD4.97 million in November 2024. Export volumes of flowers also increased slightly by 3.7%, from 516.08 tons to 535.25 tons.

Cocoa beans exports excelled, with revenues surging by 59.4%, from USD22.55 million in October to USD35.95 million in November 2024. The significant 53.5% growth in export volumes, from 3,506.91 tons to 5,384.44 tons, drove this remarkable performance.

In contrast, rice exports experienced a decline, with revenues falling by 15.2%, from USD0.07 million in October to USD0.06 million in November 2024, alongside a 13.0% decrease in export volumes, from 332.10 tons to 288.96 tons.

The sugar sector faced significant challenges, with export revenues falling by 27.9%, from USD15.04 million in October to USD10.84 million in November 2024. This was due to a 30.3% reduction in export volumes, from 22,930.26 tons to 15,977.06 tons.

Uganda's Import Receipts for Selected Commodities:

In November 2024, Uganda's formal private sector import receipts for selected commodities decreased significantly by 17.3%, declining from USD1,258.6 million in October 2024 to USD1,040.7 million in November 2024. Various categories showed notable trends during this period.

Imports of animals and animal products experienced a sharp decline of 19.9%, with receipts falling from USD6.3 million in October 2024 to USD5.0 million in November 2024. However, vegetable products, animals, beverages, and fats & oils recorded a significant growth of 31.0%, with import receipts increasing from USD98.9 million to USD129.6 million.

Prepared foodstuff, beverages, and tobacco imports saw a notable decrease of 27.1%, dropping from USD46.0 million in October 2024 to USD33.6 million in November 2024. Mineral products (excluding petroleum products) recorded a decline of 8.8%, with receipts decreasing from USD282.7 million to USD257.7 million.

Similarly, petroleum products imports declined by 4.9%, from USD134.5 million in October 2024 to USD127.8 million in November 2024. Chemical and related products imports dropped by 21.4%, falling from USD89.0 million to USD69.9 million.

Plastics, rubber, and related products imports showed a sharp decline of 30.3%, with receipts decreasing from USD84.2 million in October 2024 to USD58.7 million in November 2024. Wood and wood products imports fell by 20.6%, with receipts decreasing from USD24.4 million to USD19.4 million.

Textile and textile products recorded a significant decrease of 37.3%, with receipts falling from USD45.4 million in October 2024 to USD28.5 million in November 2024. Miscellaneous manufactured articles declined by 38.4%, from USD54.6 million in October 2024 to USD33.7 million in November 2024.

Base metals and their products experienced a sharp decline of 34.5%, with import receipts dropping from USD121.0 million to USD79.3 million. Similarly, imports of machinery, vehicles, and accessories fell by 27.3%, from USD271.2 million in October 2024 to USD197.1 million in November 2024. Electricity imports saw a marginal decline of 2.2%, remaining at USD0.3 million.

Uganda's Economic Outlook and Risks:

The Bank of Uganda forecasts economic growth for **FY2024/25** to range between **6.0%** and **6.5%**, with further acceleration to **7.0%–7.5%** over the next three years. This optimistic outlook is attributed to robust domestic spending, strategic government initiatives, and increasing foreign investment in the mining and oil sectors. The anticipated commencement of oil production in **FY2025/26** is also expected to significantly boost economic activity, further supporting Uganda's growth trajectory.

However, several factors could hinder this growth. Geopolitical tensions or changes in global trade policies may disrupt supply chains, leading to higher oil prices and increased production costs. Persistently tight domestic financial conditions could raise borrowing costs, slowing private investment. Additionally, the government's increased domestic borrowing might crowd out the private sector, reducing credit availability and constraining private sector growth. These challenges and limited fiscal capacity to address emerging global shocks pose significant economic risks.

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