Uganda Macroeconomic Digest

January 2025

UDB
Inspiring Development

Introduction

The Uganda Macroeconomic Digest for January 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 annual headline inflation rose to 3.6 percent in January 2025, up from 3.3 percent in December 2024. This increase was primarily driven by higher Annual Core Inflation, which climbed to 4.2 percent from 3.9 percent over the same period. The rise in core inflation was mainly attributed to Annual Services Inflation, which increased to 6.3 percent in January 2025 from 6.1 percent in December 2024. This was influenced primarily by Passenger Transport Services Inflation, which increased to 2.1 percent from 2.0 percent, and Hotel and Lodging Service charges, which rose to 8.0 percent from 7.3 percent.

Inflation for Food Crops and Related Items increased to 0.2 percent in January 2025, recovering from -0.7 percent in December 2024. This rebound was primarily due to a sharp rise in tomato inflation, which surged from -14.4 percent in December 2024 to 3.5 percent in January 2025. Similarly, avocado inflation rose from -5.2 percent to 11.2 percent. Inflation for fresh leaf vegetables (Nakati, Dodo, Bbugga) improved to -1.9 percent from -11.6 percent, while round onions inflation increased to -11.0 percent from -16.5 percent.

Annual Energy, Fuel, and Utilities (EFU) Inflation declined to 0.3 percent in January 2025, down from 1.0 percent in December 2024. This drop was mainly driven by a decline in solid fuel inflation, which fell to 7.6 percent from 10.9 percent. Notably, firewood inflation dropped from 26.9 percent in December 2024 to 18.8 percent in January 2025, while charcoal inflation decreased to 3.1 percent in January 2025 from 4.9 percent in December 2024. Additionally, electricity charges continued downward, recording -1.9 percent in January 2025 compared to -0.7 percent in December 2024.

Despite seasonal food price increases, near-term inflation remains under control. However, external risks create uncertainty in the medium term. The Bank of Uganda (BoU) projects core inflation to range between 4.0 percent and 5.0 percent in 2025, stabilizing over time. Inflationary pressures could rise due to strong domestic growth, geopolitical conflicts, extreme weather, and exchange rate depreciation. Conversely, lower inflation could result from strong capital inflows or declining global oil prices. However, given prevailing uncertainties, inflation risks remain skewed to the upside.

3.6%

Headline Inflation increased from 3.3% in December 2024 to 3.6% in January 2025

4.2%

Core Inflation increased from 3.9% in December 2024 to 4.2% in January 2025

0.2%

Food Crops and Related Items inflation increased from -0.7% in December 2024 to 0.2% in January 2025

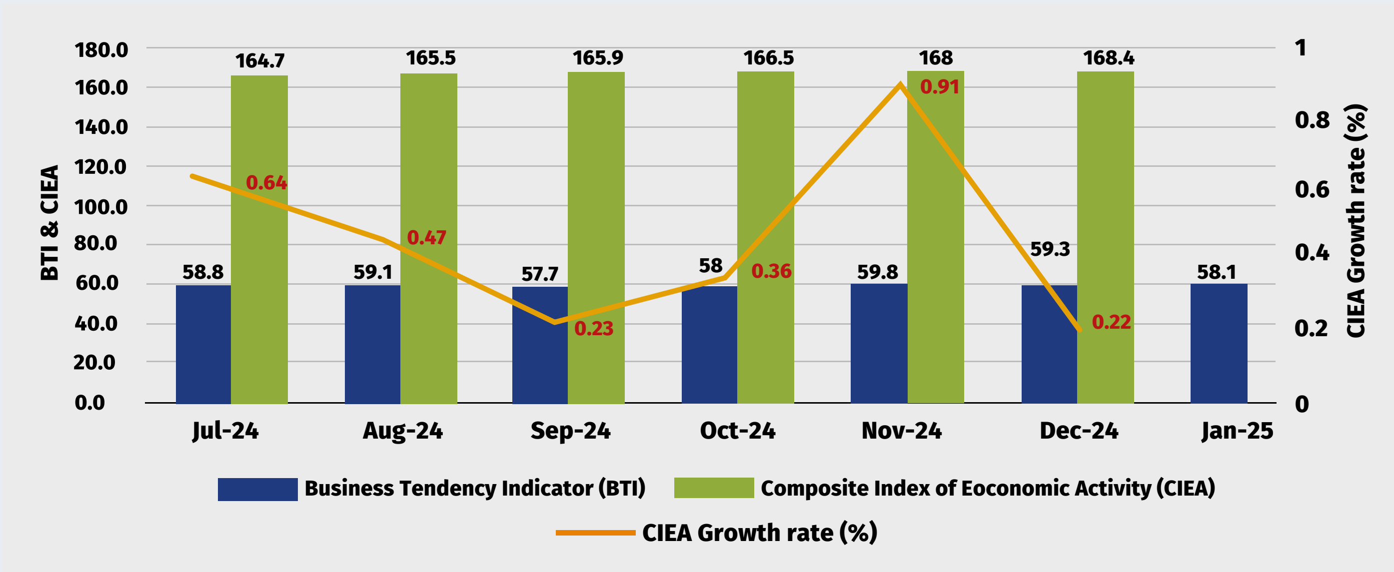
0.3%

Energy Fuel and Utilities (EFU) inflation decreased from 1.0% in December 2024 to 0.3% in January 2025

Business Perceptions and Economic Activity:

The Business Tendency Indicator (BTI) declined from 59.3 in December 2024 to 58.1 in January 2025, signaling a slight weakening in business sentiment. However, since the BTI remains above the 50-mark threshold, it still reflects overall optimism about business conditions, albeit with reduced confidence. The Composite Index of Economic Activity (CIEA) increased from 168.0 in November 2024 to 168.4 in December 2024, indicating sustained economic activity. However, the CIEA's growth rate slowed from 0.91% in November to 0.22% in December 2024, suggesting a deceleration in economic momentum as the year closed.

Figure 1: Business Tendency Indicator (BTI) and Composite Index of Economic Activity (CIEA), July to January 2025



Source: Author's Computation based on Bank of Uganda data, January 2024

Exchange Rate Movements:

In January 2025, the Ugandan Shilling depreciated by 0.7 percent against the United States Dollar, trading at an average mid-rate of Shs 3,689.0 per Dollar, up from Shs 3,664.1 in December 2024. The depreciation was driven by increased dollar demand from the energy and manufacturing sectors and weaker diaspora remittances. This decline in the shilling's value raises import costs, particularly for fuel, increasing transport expenses and overall consumer prices.

Interest Rate Movements:

The Central Bank Rate (CBR) remained at 9.75 percent in December 2024, deemed adequate to support price stability and ongoing efforts toward sustainable economic growth. Shilling-denominated credit's weighted average lending rate declined to 17.35 percent in December 2024 from 18.08 percent in November 2024, indicating improved borrowing costs. Similarly, the weighted average lending rate for foreign exchange-denominated credit edged down to 7.86 percent from 8.94 percent over the same period. The decline in lending rates was partly attributed to the gradual monetary policy easing by the Central Bank, alongside strong economic performance in recent months.

9.75%
Central Bank Rate (CBR) for January 2025

17.35%
Lending Rates for UGX Loans for December 2024

7.86%
Lending Rates for foreign currency loans for December 2024

Domestic Credit:

Domestic credit declined by 1.4%, from UGX 48.62 trillion in November 2024 to UGX 47.96 trillion in December 2024. This was mainly driven by a 2.5% reduction in net credit to the government (NCG), which fell from UGX 22.14 trillion to UGX 21.58 trillion during the same period. Additionally, private sector credit registered a marginal decline of 0.1%, from UGX 25.39 trillion in November 2024 to UGX 25.38 trillion in December 2024. This suggests subdued lending activity to the private sector, potentially influenced by cautious credit conditions and prevailing economic uncertainties.

Shs 47.96 trillion
Domestic credit declined by **1.4%** in December 2024

Shs 25.38 trillion
Private Sector Credit declined by **0.1%** in December 2024

Shs 21.58 trillion
Net Credit to the Government (NCG) declined by **2.5%** in December 2024

Uganda’s Trade Balance and Terms of Trade:

In December 2024, Uganda's trade deficit narrowed to USD 330.14 million from USD 419.41 million in the previous month, representing a 21.3 percent decline. This improvement was driven by a 7.3 percent increase in export revenues, which rose from USD 672.62 million in November 2024 to USD 721.93 million in December 2024. Meanwhile, total imports declined by 3.7 percent, decreasing from USD 1.09 billion to USD 1.05 billion over the same period. Additionally, the terms of trade index improved by 2.5 percent, rising from 133.66 in November 2024 to 137.03 in December 2024, indicating relatively better pricing for Uganda’s exports than imports.

Trade deficit declined by
21.3%
in December 2024

Total Exports of Goods - fob increased by
7.3%
in December 2024

Total Imports of Goods - fob declined by
3.7%
in December 2024

Terms of Trade Index increased by
2.5%
in December 2024

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

Uganda recorded a trade deficit of $93.89 million within the East African Community (EAC), with total exports amounting to $144.01 million and imports reaching $237.90 million.

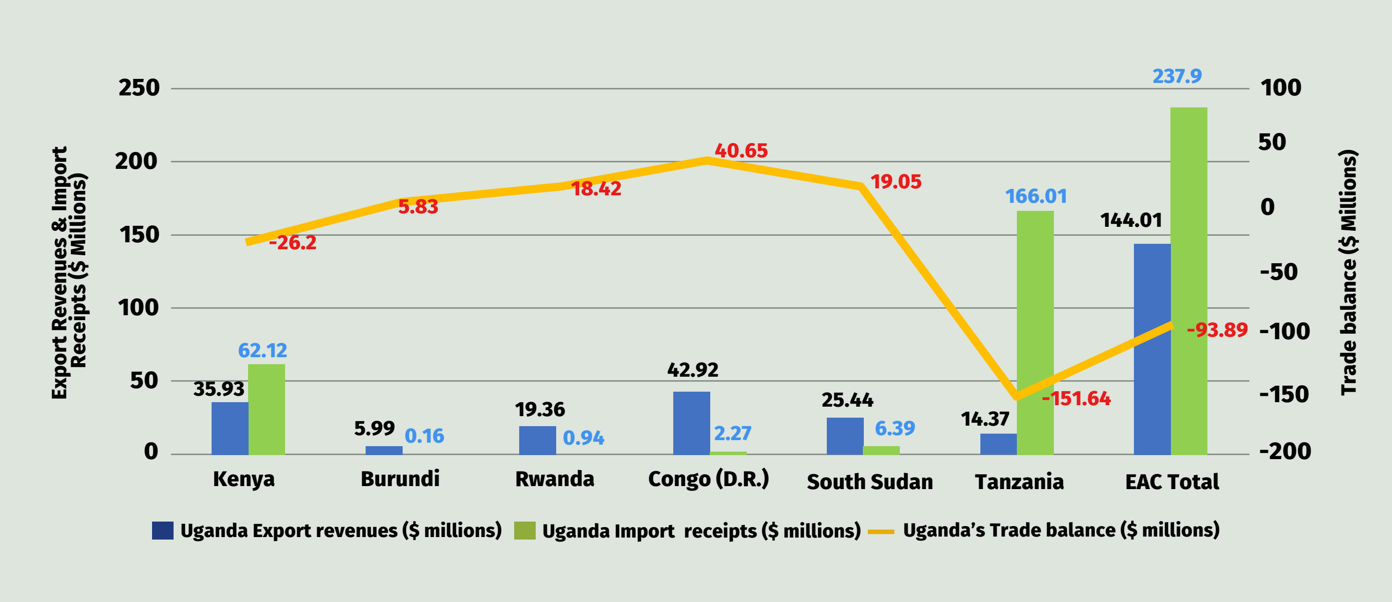
Uganda's most significant trade deficit was with Tanzania, where exports stood at $14.37 million, while imports were significantly higher at $166.01 million, leading to a trade deficit of $151.64 million—the largest negative trade balance within the EAC during this period.

Similarly, Uganda faced a trade deficit with Kenya, exporting $35.93 million worth of goods while importing $62.12 million, resulting in a $26.20 million deficit.

On the positive side, Uganda recorded trade surpluses with several EAC member states. Notably, trade with the Democratic Republic of Congo (D.R.C.) resulted in a $40.65 million surplus, with exports totaling $42.92 million and imports at just $2.27 million. Similarly, Uganda registered a $19.05 million surplus in trade with South Sudan, exporting $25.44 million worth of goods while importing $6.39 million.

Additionally, Uganda maintained a $18.42 million trade surplus with Rwanda, exporting $19.36 million worth of goods against imports of only $0.94 million. A trade surplus of $5.83 million was also recorded with Burundi, where Uganda’s exports amounted to $5.99 million, while imports were minimal at $0.16 million.

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



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

Uganda's Export Revenues from Selected Commodities:

Uganda's coffee export revenues increased by 5.6%, from USD 108.91 million in November to USD 115.03 million. This growth was supported by a 3.1% rise in export volumes, from 400,536 60-kg bags to 413,079 60-kg bags, alongside improved global coffee prices. Uganda's average coffee export price per kilogram increased from USD 4.53 in November 2024 to USD 4.64 in December 2024.

Cotton exports surged significantly, with revenues rising by 1,155.8%, from USD 0.05 million in November 2024 to USD 0.59 million in December 2024. This remarkable increase was driven by a 1,139.9% rise in export volumes, from 157.57 bales (185 kg each) to 1,953.73 bales, reflecting higher demand and improved market conditions.

Conversely, tea exports declined, with revenues falling by 13.7% from USD 5.58 million in November 2024 to USD 4.81 million in December 2024. This decline was linked to a 17.3% drop in export volumes, from 5,648.31 tons to 4,671.60 tons, signaling weaker international demand for Ugandan tea.

Fish and fish product exports (excluding regional markets) registered a 5.4% increase in revenue, rising from USD 13.54 million in November 2024 to USD 14.27 million in December 2024. Despite this improvement, export volumes declined by 7.2%, from 2,570.30 tons to 2,386.04 tons, implying higher export prices per unit.

Sesame seed (sim sim) exports recorded an impressive 120.1% rise in revenue, increasing from USD 3.15 million in November 2024 to USD 6.93 million in December 2024. This growth was fueled by a 153.6% rise in export volumes, from 1,792.10 tons to 4,544.43 tons, reflecting strong global demand.

Maize exports performed well, with revenues increasing by 21.7%, from USD 4.86 million in November 2024 to USD 5.91 million in December 2024. This growth coincided with a 42.1% rise in export volumes, from 15,599.08 tons to 22,170.12 tons, indicating a positive trend in regional and international maize demand. Beans exports, however, declined, with revenues falling by 16.1%, from USD 3.42 million in November 2024 to USD 2.87 million in December 2024. This drop was consistent with a 15.1% decline in export volumes, from 14,608.22 tons to 12,404.37 tons, signaling weaker demand.

Cocoa bean exports exhibited strong growth, with revenues surging by 23.1%, from USD 35.95 million in November 2024 to USD 44.27 million in December 2024. This revenue increase came despite a 9.8% decline in export volumes, from 5,384.44 tons to 4,855.61 tons, suggesting improved global cocoa prices.

Rice exports saw a substantial 103.8% growth in revenues, rising from USD 0.06 million in November 2024 to USD 0.12 million in December 2024. This was driven by a 45.5% increase in export volumes from 288.96 tons to 420.50 tons, reflecting expanded market access and rising demand.

Uganda's Import Receipts for Selected Commodities:

Uganda's formal private sector import receipts for selected commodities declined by 1.8%, from USD 1,040.71 million in November 2024 to USD 1,021.69 million in December 2024. Several import categories exhibited notable trends during this period.

Imports of animal products declined by 6.3%, with receipts decreasing from USD 5.03 million in November 2024 to USD 4.71 million in December 2024. Similarly, vegetable products, animals, beverages, fats, and oils registered a significant 24.5% decline, dropping from USD 129.57 million to USD 97.86 million, reflecting a reduction in agricultural imports.

Prepared foodstuff, beverages, and tobacco imports fell by 11.1%, decreasing from USD 33.56 million in November 2024 to USD 29.85 million in December 2024, likely due to lower demand and supply chain adjustments.

Conversely, mineral products (excluding petroleum) saw a 6.3% increase, rising from USD 257.72 million in November 2024 to USD 273.89 million in December 2024, driven by increased demand for industrial and raw mineral resources.

Petroleum product imports declined by 5.8%, falling from USD 127.84 million to USD 120.36 million, indicating lower fuel demand. However, chemical and related product imports increased by 5.3%, growing from USD 69.95 million to USD 73.63 million, suggesting increased industrial activity.

Imports of plastics, rubber, and related products grew by 4.4%, rising from USD 58.70 million in November 2024 to USD 61.27 million in December 2024. In contrast, imports of wood and wood products decreased by 6.4%, falling from USD 19.39 million to USD 18.15 million.

Textiles and textile products recorded a 7.2% increase, with import receipts rising from USD 28.48 million in November 2024 to USD 30.54 million in December 2024. This reflects higher demand for clothing and fabric materials during the festive season.

Miscellaneous manufactured articles saw a strong 19.4% increase, growing from USD 33.68 million to USD 40.19 million, highlighting a rebound in consumer and industrial imports. However, base metals and their products declined by 3.9%, with receipts falling from USD 79.34 million in November 2024 to USD 76.23 million in December 2024, while machinery, equipment, vehicles, and accessories saw a marginal 1.2% decline, reducing from USD 197.15 million to USD 194.69 million.

Electricity imports remained stable, declining slightly by 1.5%, from USD 0.31 million to USD 0.30 million, while arms and ammunition imports remained negligible.

Uganda's Economic Outlook and Risks:

According to the Bank of Uganda, economic growth is projected at 6.0-6.5% in FY 2024/25 and 7.0% in the outer years, driven by a stable macroeconomic environment, increased foreign direct investment in the extractive sector, strategic government interventions aimed at wealth creation, higher agricultural production, and anticipated oil revenue. However, the growth outlook remains uncertain. Uganda's economy could grow slower if adverse weather conditions impact food crop harvests, tight financing conditions constrain domestic budget financing due to reduced external project funding or global trade disruptions, and tighter financial conditions slow economic activity.

Conversely, growth could exceed projections if investments in the extractive industry expand and government interventions, alongside accommodative monetary policies, stimulate economic activity. Overall, risks to the growth outlook are tilted to the downside.

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

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