KEY HIGHLIGHTS: UGANDA MACROECONOMIC DIGEST FEBRUARY 2025

Inflation Trends: Annual headline inflation rose slightly to 3.7% in February 2025, from 3.6% in January 2025, primarily due to rising food prices. Core inflation eased to 3.9%, and energy inflation remained low at 0.2%.

Business Sentiment and Economic Activity: Business confidence strengthened, with the BTI increasing to 59.49 in February 2024 from 58.27 the previous month. The CIEA rose by 0.65% to 169.2, indicating rising economic momentum supported by a rebound in consumer demand.

Exchange Rate Movements: The Uganda Shilling appreciated by 0.3% to UGX 3,677.7/USD, driven by strong portfolio inflows, which outweighed corporate dollar demand.

Interest Rate Developments: The Central Bank Rate remained at 9.75%. Shilling lending rates declined to 16.50% due to significant discounts on new loans for oil-related activities, while dollar lending rates rose to 8.39%, reflecting increased demand for foreign currency loans.

Domestic Credit Trends: Domestic credit grew by 1.0%, driven by a 2.1% increase in government borrowing and a slight 0.3% rise in private sector credit, indicating cautious optimism in lending.

Uganda's Merchandise Trade Balance: The trade deficit narrowed by 24.4% to USD 241.2 million due to strong export growth (+16.6%). However, terms of trade deteriorated by 4.4%, reflecting weaker export prices relative to imports.

Uganda's Economic Outlook and Risks: Economic growth is projected at 6.0–6.5% in FY2024/25 and 7.0% in subsequent years, driven by increased foreign direct investment in the extractive sector, strategic government interventions aimed at wealth creation, higher agricultural production, and anticipated oil revenue. Risks remain tilted to the downside due to potential weather shocks, external financing constraints, and global economic uncertainty.

Key Message: The economy demonstrated resilience, characterized by stable inflation, improved business confidence, and a stronger export performance. A firmer currency increased economic activity, and supportive government interventions indicate a positive outlook, despite risks from global uncertainties, weather disruptions, and tight financial conditions that could impact growth and budget execution.