STATE OF THE ECONOMY REPORT
JUNE 2024

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ACRONYMS AND ABBREVIATIONS

ADB	Africa Development Bank
ADF	Africa Development Fund
AEs	Advanced Economies
EIA	Energy Information Administration
EIB	European Investment Bank
BOU	Bank of Uganda
CBR	Central Bank Rate
CRM	Credit Relief Measure
CIEA	Composite Index of Economic Activity
CPI	Consumer Price Index
EAC	East African Community
EU	European Union
EFU	Energy, Fuel and Utilities
EMs	Emerging Market Economies
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
Fed	Federal Reserve
FY	Financial Year
GDP	Gross Domestic Product
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LICs	Low-Income Countries
MPC	Monetary Policy Committee
NEER	Nominal Effective Exchange Rate
NPLs	Non-Performing Loans
OPEC	Organization of Petroleum Exporting Countries
OPEC+	OPEC and partners
PSC	Private Sector Credit
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TDB	Trade and Development Bank
UBoS	Uganda Bureau of Statistics
UK	United Kingdom
US	United States
URA	Uganda Revenue Authority
WEO	World Economic Outlook
y/y	Year-on-Year

EXECUTIVE SUMMARY

1. The State of the Economy report presents economic developments up to the three months to May 2024, where data is available, and prospects, specifically focusing on the macro economy and the associated policies. The report is divided into two main parts. Part 1 presents the external environment and its implications for Uganda's economy, and Part 2 presents domestic developments, outlook, and policies.

2. The global economic growth is expected to remain resilient in 2024 and 2025, however, clouded with significant downside risks, a possible escalation in the ongoing geopolitical tensions, further disruption in supply chains, and extreme weather conditions. On the upside, positive boosts to the growth outlook may come from more accommodative monetary and fiscal policies, and declining inflation.

3. Inflation in most countries has come down from its peak as higher policy rates and borrowing costs have helped ease price pressures across the world. However, the descent of inflation towards central banks' targets, which in most advanced economies is 2 percent, has been slow leading to delays in cutting policy rates.

4. Some central banks, particularly in emerging markets, have begun to cut rates. In advanced economies, central banks are expected to cut rates in the last quarter of 2024.

5. In the region, Uganda's inflation is one of the lowest, averaging 3.2 percent in the last twelve months. Except for Nigeria, Ghana, and Zambia, inflation has been broadly contained in most economies.

6. The BOU, in consultation with relevant key stakeholders, has initiated a Domestic Gold Purchase Program with the objectives of building the country's foreign reserves and minimizing risks on reserves investments. The gold purchase program will help in accumulating foreign currency reserves and address the associated risks in the international financial markets. It is also expected that the program will support the government's ongoing value addition to minerals and the Import Substitution Strategy by reducing the imports of raw gold into the country. By purchasing gold directly from the artisanal miners, the BOU will also be supporting the livelihoods of artisanal and small-scale miners, and this has positive spill-over effects on other sectors of the economy in line with the Bank's mission to support socio-economic transformation.

7. The domestic money market has been experiencing tight liquidity conditions as reflected in higher interbank money market rates and increased uptake of the Standing Lending Conditions. Nevertheless, since late May, the liquidity conditions have eased.

8. Yields on treasury securities edged up across all maturities due to increased government issuances and tight domestic monetary conditions.

9. Reflecting the tight domestic monetary conditions, credit to the private sector remained subdued. Gross credit extensions and recoveries all declined but the decline in gross

extensions was faster as banks increasingly cut back on renewing credit lines for borrowers. Nevertheless, the government's intervention programs, including the Parish Development Model (PDM), Emyooga, etc, and other sources of financing such as fintech have complimented the banks' credit to the private sector. The financial inclusion component of the PDM intervention, for example, is projected to have contributed 0.5 percent of GDP in FY23/24.

10. In the first ten months of FY2023/24, the fiscal stance was expansionary and turned out larger than the target driven by the increases in development expenditure. At end-FY2023/2024, the fiscal deficit is projected to decline to 4.5 percent of GDP from 5.5 percent in FY2022/23. However, fiscal operations are projected to expand further with the deficit increasing to 5.7 percent of GDP in FY2024/25, after which, the fiscal stance is expected to be on the consolidation path, converging to 2.2 percent of GDP in the medium term. The Government intends to enhance domestic revenue collections, reduce wasteful expenditure, reduce inefficiencies in the education and health sectors, and reduce external commercial borrowing to achieve its fiscal consolidation plan of reducing the deficit in the medium-term.

11. The external current account deficit remained elevated driven by persistent trade imbalances and a deteriorating primary income deficit. Nevertheless, the current account deficit was sustainably financed by the surpluses in the financial account.

12. Nevertheless, the current account deficit is projected to steadily reduce in the medium term as the trade deficit is expected to narrow supported by oil export revenues starting in FY2025/26 and gradually rising in the outer years. The first oil production is expected in FY2025/26 and to accelerate to 230,000 barrels per day in the outer years.

13. Imports are expected to remain high in the medium term in line with increased public investment in infrastructure. With the BOU plan to purchase gold locally from the artisanal miners to complement existing measures to accumulate international reserves, imports of raw gold are expected to reduce, contributing to the reduction in total imports, in turn leading to a decrease in both trade deficit and current account deficit.

14. Foreign direct investment (FDI) projected above 5 percent of GDP in the next two years is expected to be the main source of financing for the current account deficit. Financing from the external loans to the government is expected to provide minimal financing, particularly in FY2024/25 given the tight global financial conditions. In the outer years, loans to the government are expected to pick up as the global financial conditions normalize.

15. Despite the tight global financial conditions, the shilling has been relatively strong against the US dollar reflecting the tight monetary policy stance supported by relatively improved commodity export revenues. More support for the shilling came from increased inflows from export revenues, particularly coffee, and inflows from Non-Governmental Organizations (NGOs). These inflows more than outweighed the demand from domestic corporations, such as manufacturing, energy, and trade, reflecting strong economic activity.

16. Notably, the share of the manufacturing sector's demand for foreign exchange from the domestic market has been significant relative to other sectors and this is consistent with the

government's industrialization agenda targeted at increasing export earnings through value addition as well as supporting the Import Substitution Strategy by producing hitherto imported products.

17. As reflected in the Absa Africa Financial Markets Index (AFMI), the Uganda foreign exchange market has continued to develop and deepen. As a result, foreign exchange liquidity, is readily available to finance external payments by the private sector. The AFMI index evaluates countries' financial development levels with an overall aim of reducing barriers to investment and boosting sustainable growth. AFMI maintained Uganda's ranking in fourth position out of the 28 African countries measured under the 2023 Absa Africa Financial Market Index (AFMI).

18. The Ugandan economy has started posting strong economic growth rates. The estimates by the UBoS show that the economy expanded by 6 percent in FY2023/24, up from an average of 4.1 percent in FY2019/20-FY2022/23. The economy withered several shocks, including lingering effects of COVID-19, geopolitical conflicts, rising international commodity prices, rising global inflation, and tight global and domestic financial conditions. Improvements in household spending, public investment, and net exports drove the rebound in growth. On the production side, services and industry sectors were the major drivers of the rebound of growth.

19. Economic growth in FY2024/25 is projected between 6.0 percent and 6.5 percent, rising above 7 percent in the subsequent years driven by investment in the extractive industry and government programs targeted at boosting productivity. However, the outlook is clouded with significant downside risks, mainly a weaker global economy should geopolitical conflicts escalate leading to further tightening of supply chain disruptions, higher freight costs, reduced export demand, and unfavorable weather conditions affecting domestic agricultural production.

20. At 3.6 percent in May 2024, inflation is firmly contained thanks to the tight monetary policy actions, favorable domestic food supplies, and negative imported inflation benefiting from lower global commodities prices. Additionally, a relatively stable shilling helped bring down inflation.

21. Inflation is expected to rise and average between 5.0 percent and 5.4 percent in the 12 months ahead. This is a downward revision from the 5.5 percent to 6.0 percent average in the previous forecast round. It is expected that inflation will converge to the medium-term target of 5.0 percent in the second half of 2025.

22. Upside risks to inflation include, escalation of the ongoing geopolitical tensions in the Middle East, possible energy price hikes, unfavorable weather patterns affecting food supply and production capacity pressures. Additionally, persistent global inflation and higher interest rates could cause heightened volatility in capital flows and the exchange rate, resulting in higher domestic inflation than currently assumed. Conversely, inflation may undershoot projections if monetary policy reduces demand more than anticipated or global demand weakens further, resulting in lower imported inflation.

23. The June 2024 MPC meeting assessed that while the near-term balance of risks around inflation remains skewed to the upside, the current monetary conditions are adequately tight to contain inflation around the medium-term target of 5.0 percent. The MPC, therefore, maintained the CBR at 10.25 percent. The bands on the CBR remained at +/-2 percentage points, and the margins on the CBR for the rediscount and bank rates at 3 and 4 percentage points, respectively. Consequently, the rediscount and bank rates will remain at 13.25 percent and 14.25 percent, respectively.

1. EXTERNAL DEVELOPMENTS AND OUTLOOK

1.1 Global economic activity and outlook

Despite the most aggressive monetary tightening in decades, the lingering effects of the Covid-19 pandemic, the effects of the Ukraine-Russian war, and the ongoing conflicts in the Middle East, the global economy remained remarkably resilient. The world economy is expected to grow by 3.2 percent in 2024 and 2025 respectively (**Table 1**). This growth rates were revised upwards by 0.1 percentage points in April 2024 by the IMF in their World Economic Outlook (WEO) update from the January 2024 forecast round, reflecting improved prospects in advanced economies notably the United States. The US economy is projected to grow by 2.7 percent in 2024, before slowing to 1.9 percent in 2025, as gradual fiscal tightening and a softening in labour markets slow aggregate demand.

Growth in the Euro Area is set to recover from its high exposure to the Russia-Ukraine war but is plagued by the downward growth in Germany which continues to face weak consumer sentiments. Growth in the United Kingdom is expected to rise to 0.5 percent in 2024 as the lagged effects of the high energy prices reduce and then to 1.5 percent in 2025, as disinflation allows financial conditions to ease and real incomes to recover.

In emerging markets and developing economies, growth is expected to be stable at 4.2 percent in 2024 and 2025. However, in sub-Saharan Africa, growth is projected to rise from an estimated 3.4 percent in 2023 to 3.8 percent in 2024 and 4.0 percent in 2025, as the negative effects of earlier weather shocks subside, and supply issues gradually improve.

Table 1: Global economic growth projections

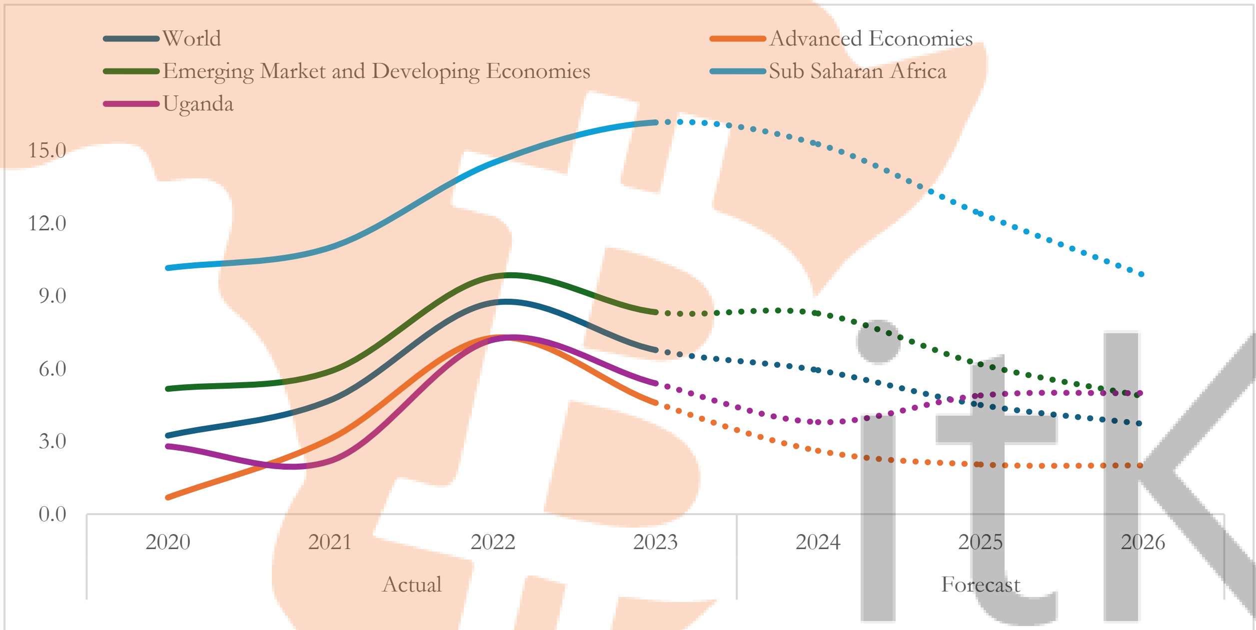
	Estimate	Projections		Percentage point differences from January 2024 projections	
	2023	2024	2025	2024	2025
World	**3.2**	**3.2**	**3.2**	**0.1**	**0.0**
Advanced Economies	**1.6**	**1.7**	**1.8**	**0.2**	**0.0**
United States	2.5	2.7	1.9	0.6	0.2
Euro Area	0.4	0.8	1.5	-0.1	-0.2
Japan	1.9	0.9	1.0	0.0	0.2
United Kingdom	0.1	0.5	1.5	-0.1	-0.1
EMDEs	**4.3**	**4.2**	**4.2**	**0.1**	**0.0**
Russia	3.6	3.2	1.8	0.6	0.7
Brazil	2.9	2.2	2.1	0.5	0.2
Emerging and Developing Asia	5.6	5.2	4.9	0.0	0.1
China	5.2	4.6	4.1	0.0	0.0
India	7.8	6.8	6.5	0.3	0.0
Sub-Saharan Africa	**3.4**	**3.8**	**4.0**	**0.0**	**-0.1**
Nigeria	2.9	3.3	3.0	0.3	-0.1
South Africa	0.6	0.9	1.2	-0.1	-0.1
Uganda	**4.8**	**5.6**	**6.5**	**-0.4**	**-0.1**

Source: IMF WEO, April 2024

1.2Global inflation and outlook

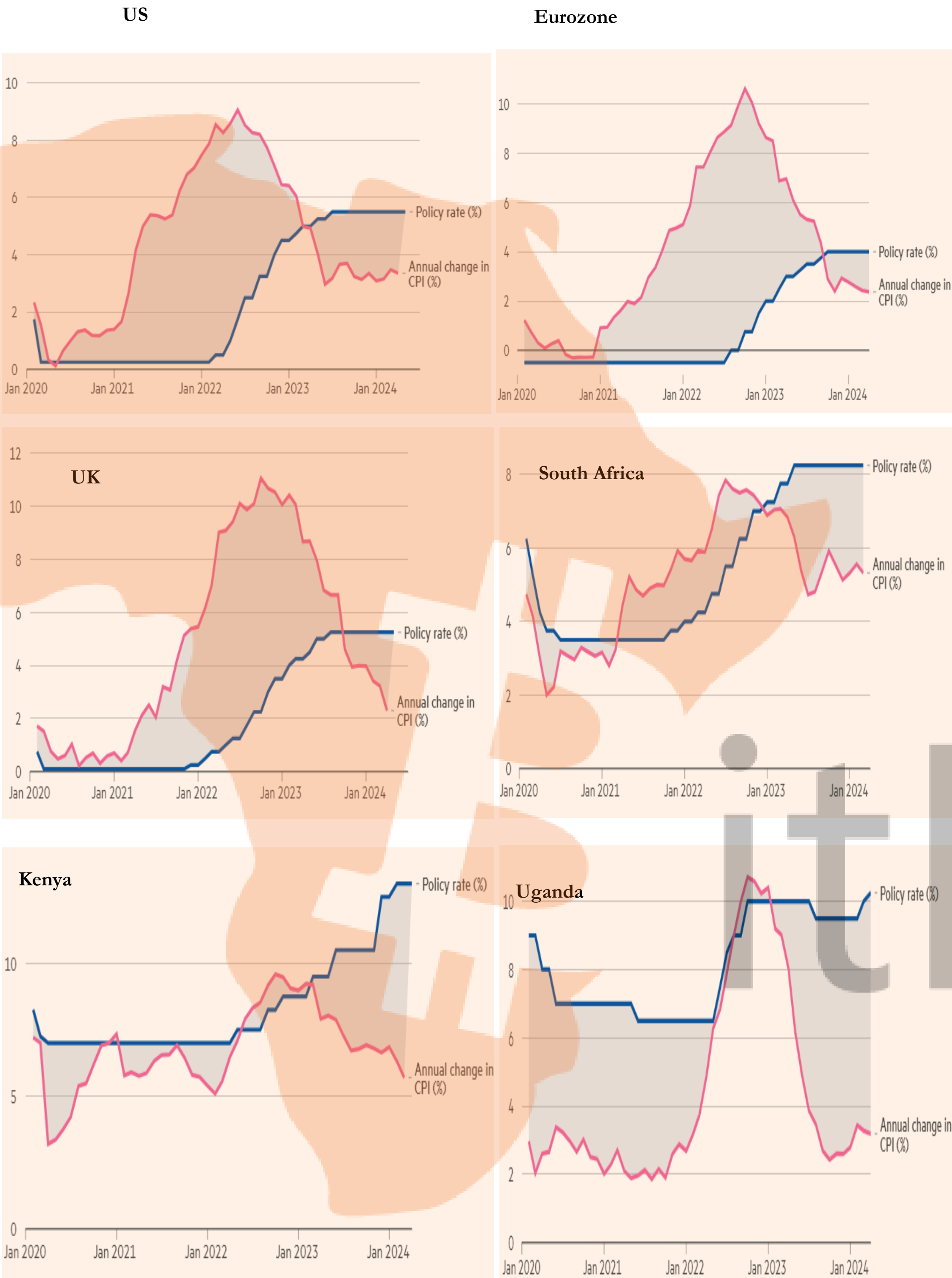
Global headline inflation is expected to fall from an annual average of 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025 (**Figure 1**). The decline in global inflation in 2024 reflects a broad-based decline in global core inflation which contrasts with the slow disinflationary process in 2023 when global core inflation fell marginally on an annual average basis and headline inflation declined mainly on account of lower fuel and food price inflation. In 2024, core inflation is expected to fall by 1.2 percentage points after sliding by just 0.2 percentage points in 2023. The drivers of declining core inflation differ by country but include the effects of aggressive and still-tight monetary policies (**Figure 2)**, a related softening in labor markets, and fading pass-through effects from earlier declines in relative prices, notably in that of energy. As is the case for headline inflation, the fall in core inflation is faster for advanced economies. Inflation in Advanced economies emerging markets and developing economies is expected to return to pre-pandemic (2017–19) averages of 2.0 percent and 5.0 percent in 2025 and 2026 respectively. However, inflation is expected to remain above central bank targets in some sub-Saharan Africa and emerging market economies.

Figure 1: Global inflation (y/y, %)



Source: World Economic Report, April 2024

Figure 2: Inflation and policy rates in selected economies.



Source: Financial Times

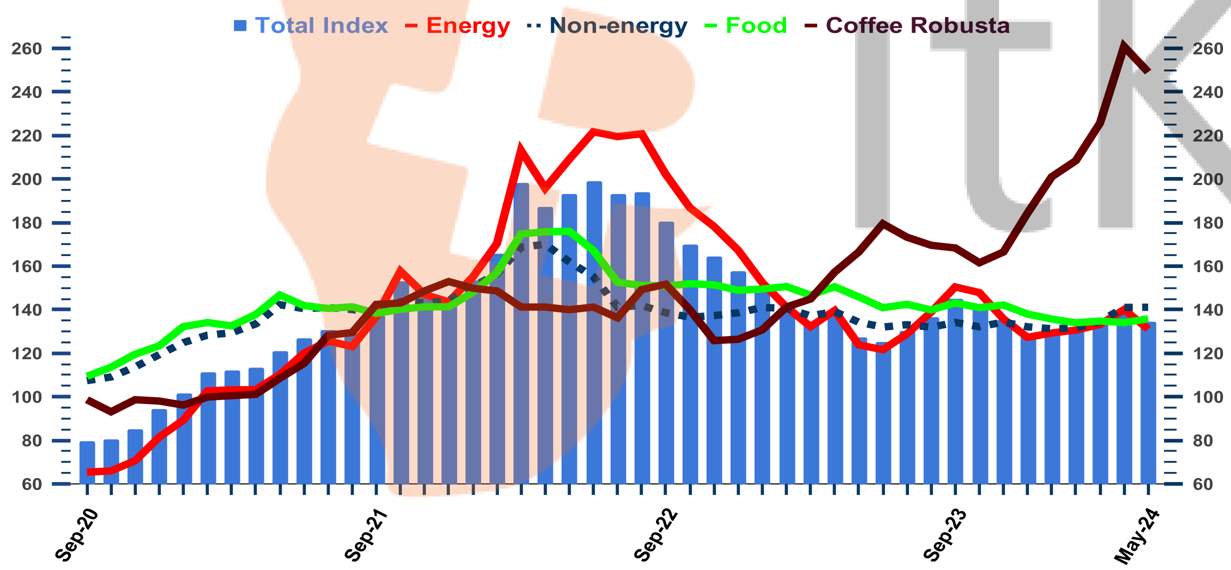
The risks to the inflation outlook are now also broadly balanced. Overall, inflation could fall faster than expected due to stronger-than-expected pass-through from lower fuel prices, leading to central banks easing their policy earlier than expected. However, there are upside risks to the global inflation outlook including a possible escalation in the ongoing geopolitical tensions, disruptions in the supply chains for goods and resources, and climate-related risks leading to higher commodity prices. In addition, the Middle East conflict, and continued attacks in the Red Sea could lead to spikes in commodity prices and jeopardize the disinflation process.

1.3International commodity prices

Heightened geopolitical tensions, tight supply conditions, and China's rising industrial and infrastructure investments have continued to exert substantial upward pressure on the prices of key commodities despite the subdued global growth environment (**Figure 3**). Except for food prices which have stayed on a downward path owing to favourable global supply conditions, including robust exports from the Black Sea region, these forces have checked the downward trend in global commodities prices observed since the recent peak in 2022. Most commodities' prices rallied following the fluctuations in international oil prices in part due to shipping constraints in the Red Sea. However, signs of plateauing in the 2024Q1 are imminent.

The global commodity price index, an estimate by the World Bank, registered a 4.8 percent rise in the three months to May 2024 driven by increases in prices of precious metals and minerals, energy, and beverages. Despite the retreat to an average of 82 per barrel in May 2024, international oil prices have been rising since December 2023 with Brent Crude reaching $91 per barrel in April 2024, reflecting the effect of the ongoing geopolitical tensions and tight supply-demand conditions. Boosted by the fluctuations of the oil prices, the energy price index rose 4.4 percent in the three months to May 2024 reversing the 10 percent drop held in the three months to February 2024.

Figure 3: International prices for selected commodities (Indices, 2009=100)



Source: World Bank pink Sheet, May 2024

Non-energy prices also increased by 5.5 percent supported by a spectacular rise in prices of beverages following a persistent upsurge in prices of cocoa and Robusta coffee. Cocoa prices almost tripled between October 2023 and April 2024 to reach an all-time peak of US$9.74/Kg in April 2024 before retreating to US$7.54 in May 2024. Similarly, Robusta coffee prices almost doubled in the same period to reach a high of US$4.23/kg, a level last seen during the 1970s. These price hikes are largely attributable to lower-than-expected production due to weather factors linked to El Niño constraining supplies from Brazil, Vietnam, and Indonesia amid strong global demand.

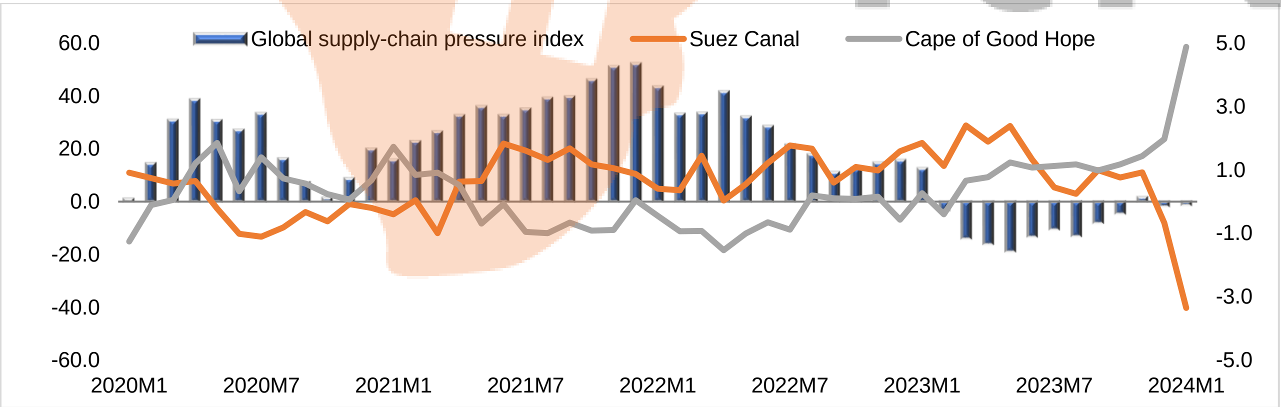
Metal and minerals prices also stayed on an upward trajectory, reflecting significant increases in gold and base metals prices. Gold maintained a three-year rise amid haven flows and central banks buying, registering a 12.4 percent increase in the three months to May 2024 to reach an average of US$2,351.1 per troy ounce in May 2024. Reflecting resilient global economic activity, and strong industrial and infrastructure investment in China, base metals such as copper which reached a two-year high in May 2024 also supported the growth of non-energy prices.

Commodity prices are forecast to decline slightly, on average, in 2024 and 2025, though oil prices are set to increase to an average of US$84 per barrel this year and drop to about US$79 per barrel in 2025. Conflict-driven supply disruptions could push up commodities prices. Brent crude oil prices could rise sharply if the Middle East crisis broaden and escalated in addition to a below-target production scenario of Shale oil in the US.

As the Middle East crisis persists, shipping costs are on the rise as Houthi attacks on vessels plying the Red Sea enroute to Israel persist. Shipping companies are now finding alternative routes through the Cape of Good Hope and the Panama Canal, which has caused a jerk-up in shipping costs as they are longer. The global supply-chain pressure index which had fallen in 2023 due to easing supply chain disruptions began to tighten in early 2024 (**Figure 4**).

On the downside, an earlier-than-expected unwind of OPEC+ supply cuts could see average prices for international oil prices dip below forecasts. Beverage prices are projected to increase by 22 percent in 2024 before declining by 12 percent in 2025. Robusta coffee prices are set to increase by 33 percent in 2024 before to 20 percent in 2025 on anticipated improvement in supplies from Indonesia, Vietnam, and Brazil.

Figure 4: Supply-chain pressure index (Right) and trade volume.



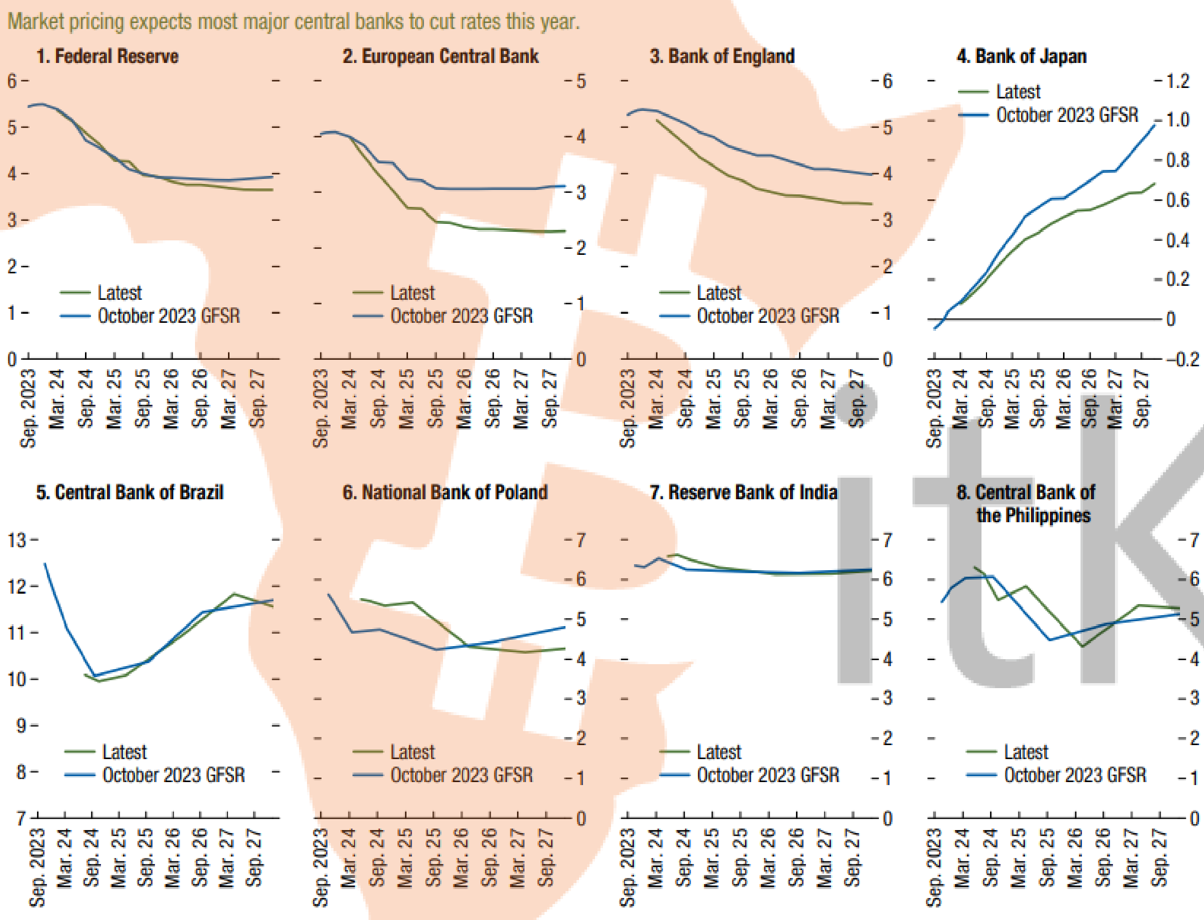
Source: World Economic Report, April 2024

1.4Global financial markets

Although near-term global financial stability risks have receded amid expectations of global disinflation bottoming out, there are several salient risks and build-up of medium-term vulnerabilities. Nevertheless, financial market sentiment has been buoyant on expectations that global disinflation is at its tail end and monetary policy will be easing. As such global financial conditions have eased with interest rates down worldwide, all stocks are up about 20 percent globally, and corporate and sovereign borrowing spreads have narrowed notably.

Although central banks have made notable progress in steering economies to steady disinflation aided by positive supply-side improvements, favourable investor expectations that major advanced economy central banks will pivot for monetary policy easing going ahead, uncertainty about the path of expected policy rates remains elevated as shown in **Figure 5**.

Figure 5: Expectations of policy rates in selected economies (%)



Sources: Bloomberg Finance L.P.; Federal Reserve; national authorities; and IMF staff calculations.
Note: GFSR = *Global Financial Stability Report.*

2 DOMESTIC DEVELOPMENTS AND OUTLOOK

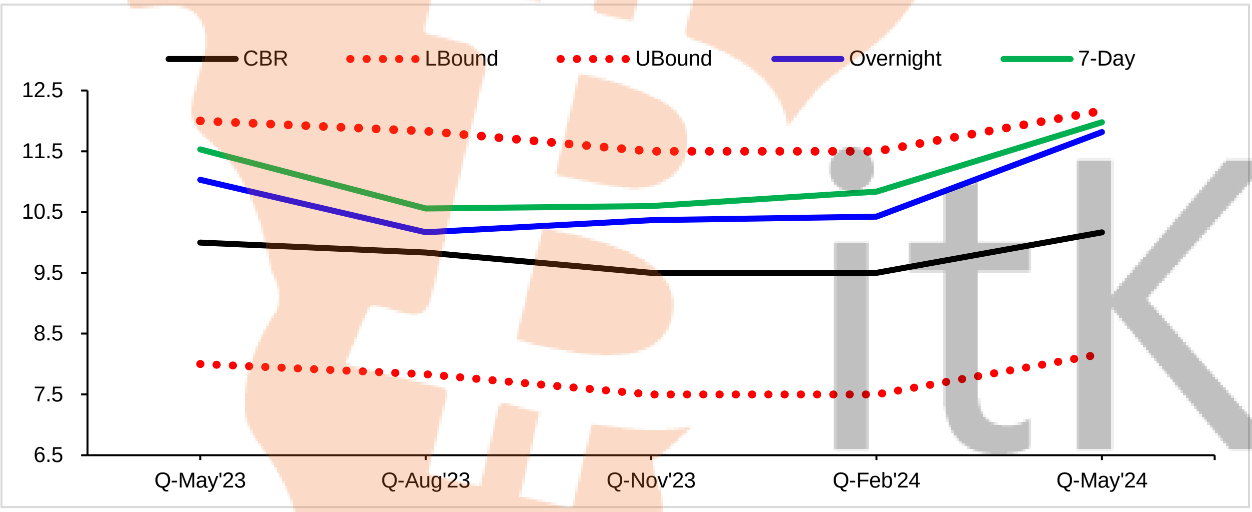
2.1 Domestic financial markets

2.1.1 Monetary policy and the interbank money market

In June 2024, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 10.25 percent following an increase of 25 basis points in April 2024 and 50 basis points in March 2024. The lower and upper bands on the CBR were maintained at +/-2 percentage points, while the rediscount and bank rates were set at 13.25 percent and 14.25 percent, respectively. This was mainly to anchor inflation around the BOU target in the medium term.

Reflecting the monetary policy actions, money market rates continue rose (**Figure 6**) amid a tight liquidity condition. The overnight rate increased to 11.8 percent in the three months to May 2024, up from 10.4 in the three months to February 2024. Similarly, the 7-day interbank weighted average rate climbed to 12.0 percent, up from 10.8 percent in the same period. The uptake of the Standing Lending Facility (SLF) increased to Shs. 26.2 trillion in the three months to May 2024 from Shs. 19.0 trillion in the three months to February 2024.

Figure 6: Central Bank Rate and interbank interest rates (Percent)



Source: Bank of Uganda

2.1.2 Primary market for treasury securities

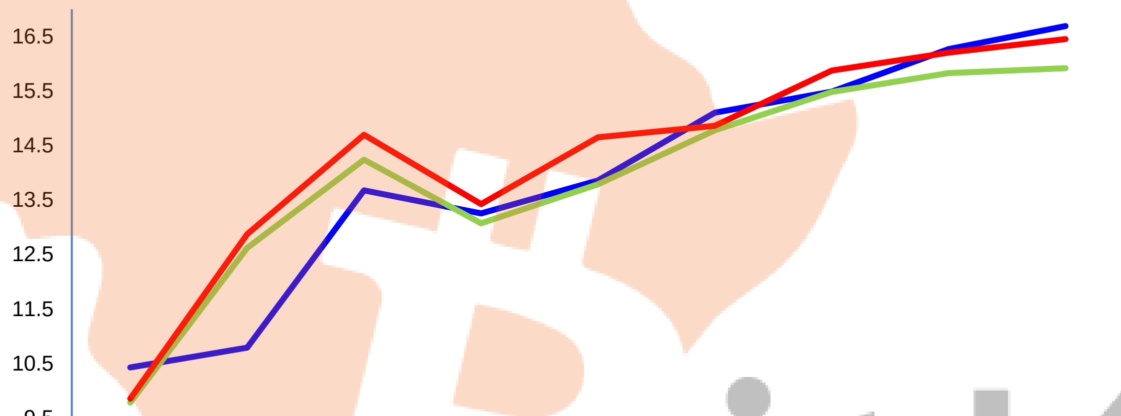
Yields on treasury securities in the primary market marginally rose across all tenors in the three months to May 2024 as issuances of securities increased. The 91-day, 182-day, and 364-day yields averaged 9.7 percent, 12.7 percent, and 13.4 percent, respectively in the three months to May 2024 compared to 9.7 percent, 12.4 percent, and 13.0 percent in the three months to February 2024. Yields on the 2-year, 3-year, 5-year, 10-year, 15-year and 20-year bonds in the three months to February 2024 averaged 13.8 percent, 15.0 percent, 15.5 percent, 16.0 percent, 16.5 percent, and

16.8 percent compared to 13.2 percent, 14.3 percent, 14.8 percent, 15.8 percent, 16.3 percent, 16.8 percent in the three months to February 2024.

2.1.3 Secondary market for treasury securities

Yields on the treasury securities in the secondary market also rose, especially at the short end of the curve (**Figure 7**). Save for the 91-day, Treasury bill yields were over 100 basis points in May 2024 above the level obtained a year ago while Bond yields were little changed in May relative to the level a year ago save for the 3-year Bonds whose yield edged up by 80 basis points. Trading activity in the secondary market softened with the turnover falling to 20.9 trillion in the three months to May 2024 from 23.2 trillion in the three months to February 2024.

Figure 7: Secondary market annualized yields on Government securities (Average for the quarters)



	91-day	182-day	364-day	2-year	3-year	5-year	10-year	15-year	20-year
Q-May'23	10.4	10.8	13.7	13.3	13.9	15.1	15.5	16.3	16.7
Q-Feb'24	9.8	12.6	14.2	13.1	13.8	14.8	15.5	15.8	15.9
Q-May'24	9.9	12.9	14.7	13.4	14.7	14.9	15.9	16.2	16.5

Source: Bank of Uganda

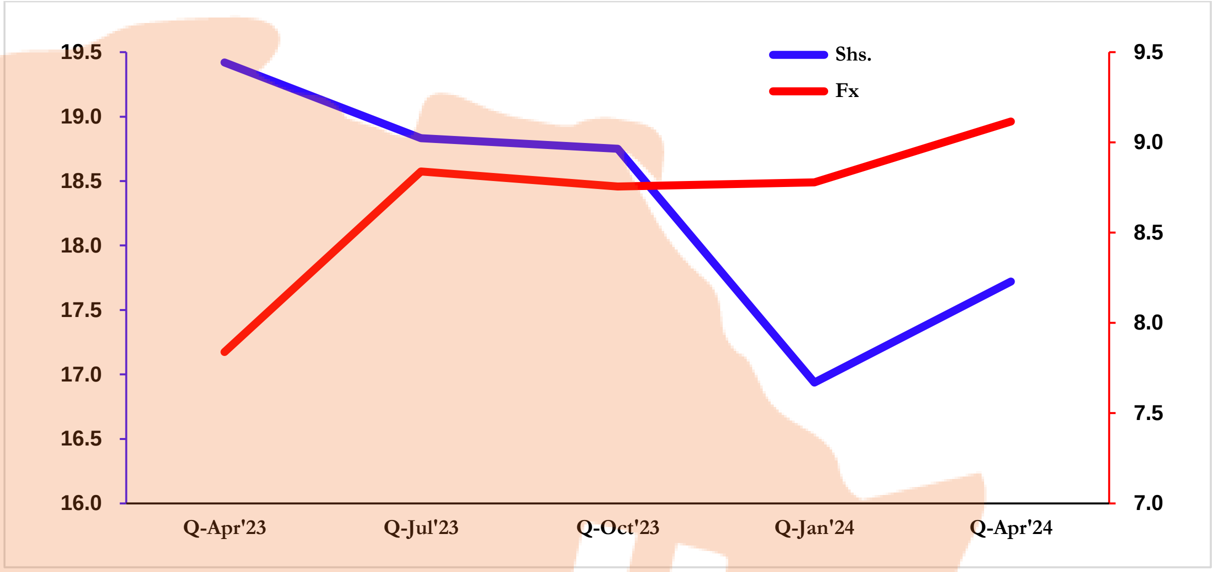
2.1.4 Lending interest rates

The quoted lending rates for commercial banks rose in the three months, averaging 20.8 percent, just 20 basis points above the reading in the three months to January 2024. Similarly, the weighted average shillings and foreign currency lending rates rose in the three months to April 2024, reflecting the increase of the CBR and the associated tight liquidity and financial conditions (**Figure 8).** The weighted average shilling lending rate reversed the downward trend observed since last year, rising to 17.7 percent in the three months to April 2024 but remains below the level for the same period last year. The lending rate on foreign currency-denominated loans continued to rise, reaching an average of 9.1 percent about 130 basis points above the rate charged the same period a year back reflecting the tight domestic and global monetary conditions.

The rise in lending rates was most pronounced in the Agriculture, Manufacturing, Trade, and Housing sectors. A moderate decrease was observed in Personal loans, Transport and Communications

Sectors. Overall, lending rates are expected to rise and remain elevated owing to tightening financial conditions amid the increasing government issuances of securities in the domestic market.

Figure 8: Shilling and Foreign Currency (Right) weighted lending rates (%, per annum)



Source: Bank of Uganda

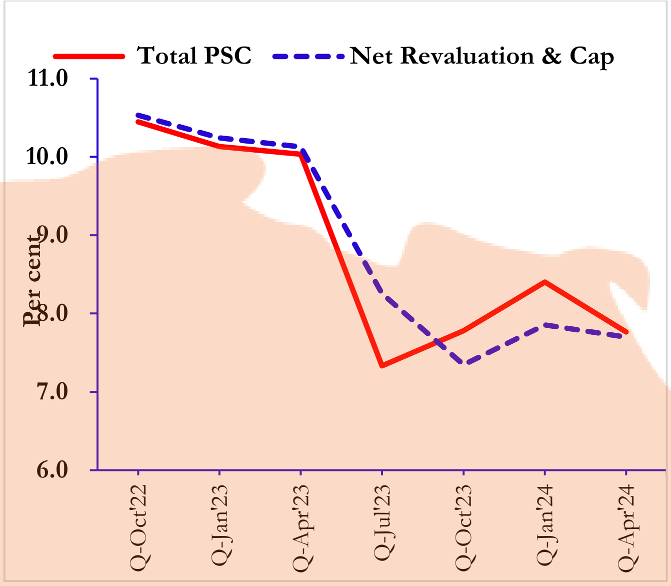
2.1.5 Private sector credit

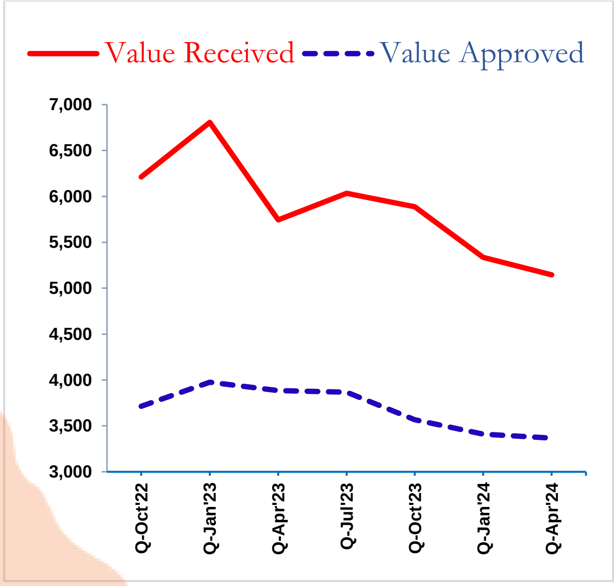
Private sector credit (PSC) remains subdued in part due to the tight monetary conditions and increasing domestic financing needs of the government crowding out the private sector. Annualized average PSC growth moderated to 7.8 percent in the three months to April 2024, down from 8.4 percent in the three months to January 2024. Net of valuation and capitalized interest, PSC growth declined to 7.7 percent down from 7.8 percent (**Figure 9, Left**). Growth in shilling-denominated loans at 9.4 percent remains weak and below historical trends. Similarly, foreign currency-denominated loans growth moderated to 3.8 percent from 6.4 percent over the same period.

Both gross credit extensions and recoveries declined in the three months to April 2024, but the decline in gross extensions was faster than the decline in gross recoveries, as banks increasingly cut back on renewing credit lines for borrowers. Demand and Supply of credit remained on a downward trajectory. Credit Demand eased to Shillings. 5.1 trillion in the three months to April 2024 from Shillings 5.3 trillion in the three months to January 2024 while credit supply remained flat at Shs. 3.4 trillion (**Figure 9, Right**).

Nevertheless, the government's intervention programs, such as the Parish Development Model (PDM), Emyooga, etc, and other sources of financing such as fintech have complimented the banks' credit to the private sector. The financial inclusion component of the PDM intervention, for example, contributes 0.5 percent of GDP in FY 2023/24.

Figure 9: Private sector credit Growth (Left) and Loan applications (UGX, Billion)

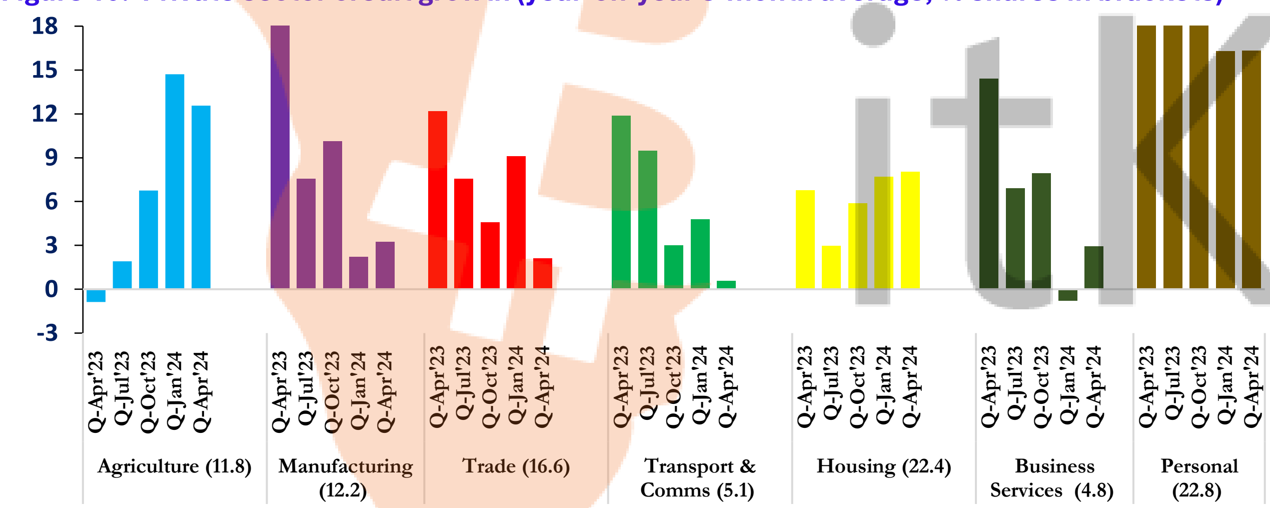




Source: Bank of Uganda

Credit growth is constrained across most of the major economic sectors mostly agriculture, trade, transport, and communications (**Figure 10**). The main contributors to the decline in agriculture were lower advances in fishing and forestry. The slowdown in credit growth to the trade sector was driven by reductions in credit to the wholesale trade, and import.

Figure 10: Private sector credit growth (year-on-year 3-month average, % shares in brackets)



Source: Bank of Uganda

2.2Fiscal policy

2.2.1 Government expenditure and revenue

Data for the first ten months of FY2023/24 indicates that the fiscal stance was expansionary relative to the first ten months of FY 2022/23 and more than the target due to the increase in development spending (**Table 2**).

Total revenue including grants was 12 percent higher relative to the same period last financial year. Grants continued to shrink, however, having registered a 20.4 percent decline in the 10 months to April 2024 compared to the previous period. At end-FY2023/24, the fiscal deficit is projected to decline to 4.5 percent of GDP from 5.5 percent in FY2022/23 against the program FY 2023/24 target of 3.8 percent. The fiscal deficit was financed largely domestically.

The fiscal deficit was financed largely domestically.

Table 2: Fiscal operations (billions shilling)

	Jul-22-Apr-23	Jul-23-Apr-24	Jul-23-Apr-24*	Variation	Y-o-Y (%)
Revenue & Grants	**20,395.9**	**22,579.1**	24,402.1	**-1,823.0**	**10.7**
Revenue	19,461.1	21,834.9	23,090.3	-1,255.4	12.2
Grants	934.8	744.2	1,311.8	-567.6	-20.4
Expenditure & Lending	**28,014.2**	**30,680.3**	31,593.9	**-913.6**	**9.5**
Current Expenditure	19,361.3	21,471.8	22,662.0	-1,190.2	10.9
o/w Interest payments	4,853.8	4,981.1	5,493.0	-511.9	2.6
Domestic	3,788.3	3,879.8	4,394.2	-514.4	2.4
External	1,065.6	1,101.2	1,098.9	2.3	3.3
Development Expenditure	7,813.0	8,792.2	8,372.1	420.1	12.5
Net lending/repayments	137.2	235.4	379.9	-144.5	71.6
Primary Deficit	**-2,764.5**	**-3,120.1**	-1,698.7	**-1,421.4**	**12.9**
Deficit (excluding grants)	**-8,553.1**	**-8,845.4**	-8,503.6	**-341.8**	**3.4**
Deficit (including grants)	**-7,618.3**	**-8,101.2**	-7,191.7	**-909.5**	**6.3**
Financing (net)	**7,618.3**	**8,101.2**	7,191.7	**909.5**	**6.3**
External Financing (net)	1,307.7	968.1	4.7	963.4	-26.0
Domestic Financing (net)	4,967.3	5,326.1	6,554.1	-1,228.0	7.2
Errors & Omissions	1,343.3	1,807.0	632.9		

Source: Ministry of Finance Planning and Economic Development

In the first 10 months of the financial year, relative to the Uganda Revenue Authority (URA) targets, the cumulative outturns for total net tax and Non-Tax Revenue (NTR) collections amounted to Shs. 21,877.6 billion of which net URA tax revenue amounted to Shs. 20,349.2 billion and NTR amounted to Shs. 1,528.4 billion with corresponding shortfalls of Shs. 1,754.5 billion, Shs.1,499.8 billion and Shs. 254.7 billion respectively (**Table 3**).

The underperformance in net URA tax was largely attributed to lower collections in taxes on international trade and indirect domestic taxes which underperformed by Shs. 1,132.3 billion and Shs. 625 billion, respectively. The underperformance in Indirect taxes was largely due to a shortfall of Shs. 410.5 billion in VAT, while the underperformance in international trade taxes was largely because of lower collections of VAT on imports. On the other hand, direct taxes over-performed by Shs. 264.2 billion mainly due to higher than target collections in Pay as You Earn (PAYE).

Table 3: Revenue performance (billion shilling)

	Jul-Apr22	Jul-Apr23	Jul-Apr24	URA Target Jul-Apr24	Jul-Apr24 Variation from Target	Annual change 2021/22-2022/23 (%)	Annual change 2022/23-2023/24 (%)
Total Net Tax & Non-Tax Revenue	**17,388.5**	**19,461.3**	**21,877.6**	**23,632.1**	**-1,754.5**	**11.9**	**12.4**
Net URA tax revenue (excl. Refunds)	**16,249.4**	**18,187.2**	**20,349.2**	**21,849.0**	**-1,499.8**	**11.9**	**11.9**
Direct Domestic Taxes	5,425.8	6,359.1	7,487.7	7,223.5	264.2	17.2	17.7
o/w PAYE	2,856.1	3,441.3	3,919.3	3,574.0	345.3	20.5	13.9
o/w Corporate tax	918.6	1,025.5	1,262.7	1,312.9	-50.2	11.6	23.1
o/w Withholding tax	914.3	1,032.4	1,289.2	1,310.7	-21.5	12.9	24.9
Indirect Domestic Taxes	4,033.3	4,368.7	5,462.4	6,087.4	-625.0	8.3	25.0
o/w Excise duty	1,354.7	1,587.6	1,797.2	2,011.7	-214.5	17.2	13.2
o/w VAT	2,678.6	2,781.1	3,665.2	4,075.7	-410.5	3.8	31.8
Taxes on international Trade	6,984.5	7,444.8	7,832.1	8,964.4	-1,132.3	6.6	5.2
Stamp duty & Embossing Fees	92.8	88.4	98.0	104.6	-6.6	-4.7	10.9
Non Tax Revenue	1,139.1	1,274.1	1,528.4	1,783.1	-254.7	11.8	20.0
Tax refunds	-287.0	-73.8	-531.0	-531.0	-0.1	-74.3	619.5

Source: Ministry of Finance Planning and Economic Development

Domestic revenue is projected to amount to UShs31,981.93 billion in FY2024/25 up from UShs28,518.33 billion estimated for FY2023/24. The increase in domestic revenue is attributed to improvements in private sector activity and economic growth, new revenue measures, and enhanced tax compliance and administration. Government expenditure is projected to amount to UShs47,612.5 billion from UShs37,913.6 billion estimated for FY2023/24. The Government intends to enhance domestic revenue collections, reduce wasteful expenditure, reduce inefficiencies in the education and health sectors, and reduce external commercial borrowing to achieve its fiscal consolidation plan of reducing the deficit to 2.2 percent in the medium-term.

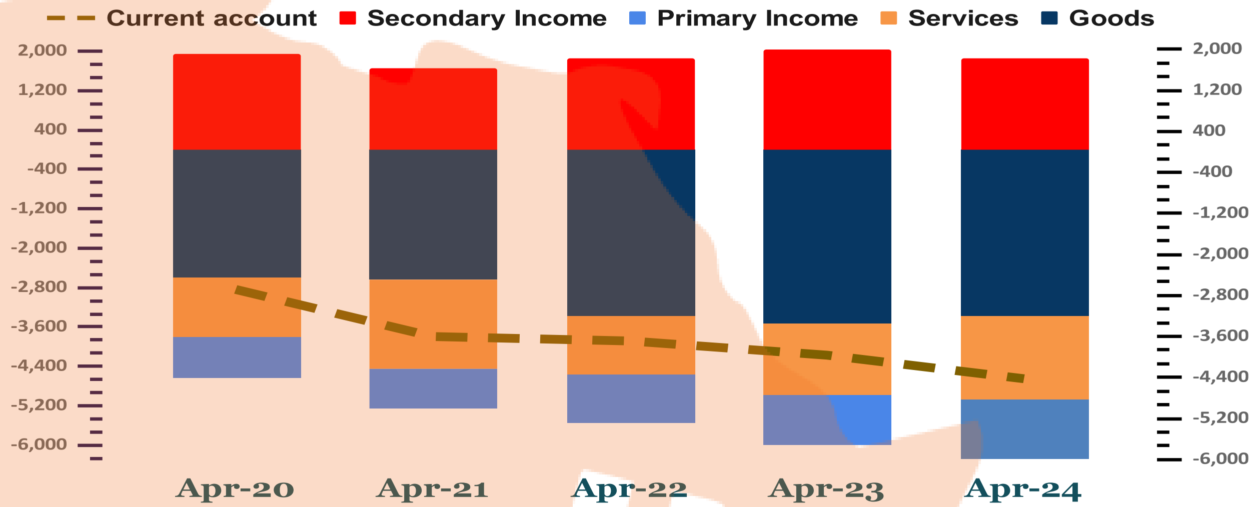
2.3Balance of payments and exchange rates

2.3.1 Balance of payments

Uganda's external current account deficit remains wide and on a deteriorating path since 2020 (**Figure 11**). In the last five years, the current account deficit increased 1.6-fold driven by persistent increases in trade imbalances.

The current account deficit widened by 11.6 percent in the twelve months to April 2024 to reach US$4,424.9 million. The effects of the receding global commodities prices and thus lower import prices have also not helped much, as the deficit on the goods account is almost returning to levels seen at the peak of the global commodities prices that was triggered by the Russia-Ukraine conflict. The deficit arising from trade in goods at US$ 3,368.2 million was 4.8 percent narrower in the twelve months to April 2024 due to support from the resumption of gold trade and better international prices for beverages, especially coffee. Exports of goods grew by 51.3 percent supported by a quadrupling of gold trade and a 21.4 percent growth in coffee export revenues. Gold exports more than quadrupled to US$2,803.14 leading to a net gold export of US$139 million after the tax disputes on gold exports that had led to the halting of gold trade were resolved.

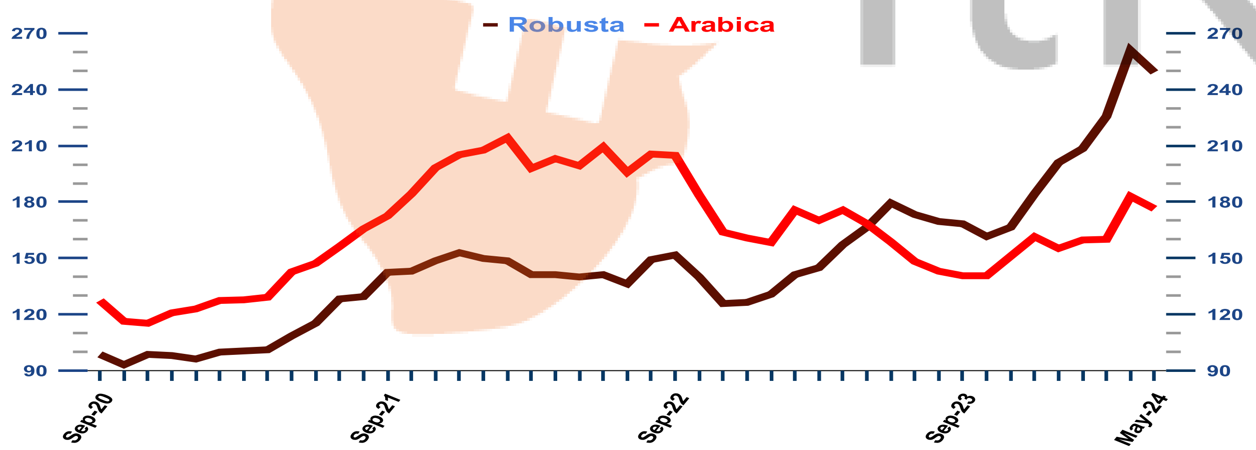
Figure 11: Current Account Balance & Components (US dollar, million)



Source: Bank of Uganda

The international price of coffee has surged since the last quarter of 2023 with Robusta coffee prices reaching an average level that is 41.4 percent higher in the first five months of 2024 compared to the average level obtained in 2023 (**Figure 12**). The US$4.23/Kg average price for Robusta coffee observed in April 2024 was last seen in the 1970s. Given that only a 3 percent increase in coffee export volume was registered, the price effect largely explains the surge in coffee export proceeds. The upsurge in international coffee prices reflect the strong global demand amid low expected supply in major producing countries due to poor yields in Indonesia, Vietnam, and Brazil as weather-related factors affecting production.

Figure 12: International Price for Coffee (Index, 2019=100)

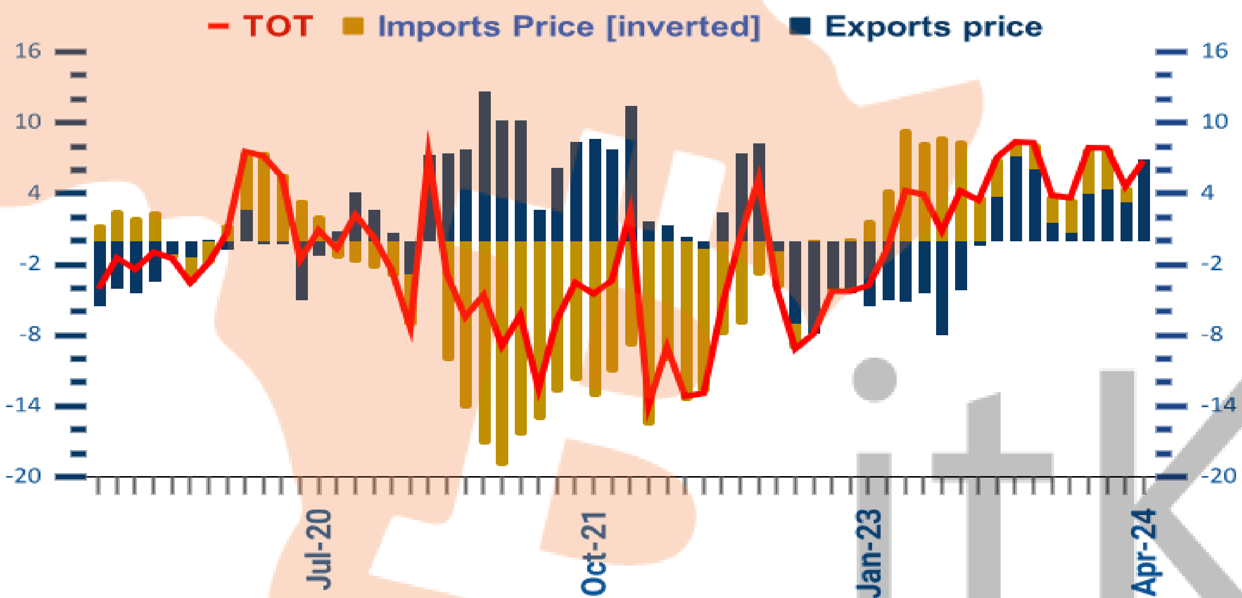


Source: World Bank

However, excluding gold trade, the deficit on the goods account remained high at US$3,368.22 reflecting strong private sector imports, especially non-oil, driven by the importation of machinery. Had it not been for the improvement in the Terms of Trade, which has persisted since 2023 (**Figure 13**), the deficit on the goods account would have been higher than US$3,368.22.

The BOU, in consultation with relevant key stakeholders, is in the process of initiating Domestic Gold Purchase Program with the objectives of building the country's foreign reserves and minimizing the risks on reserves investments. The gold purchase program aims at mitigating the declining foreign currency reserves and address the associated risks in the international financial markets. This initiative is also expected to support the government's ongoing value addition to the minerals and Import Substitution Strategy by reducing the imports of raw gold into the country. By purchasing gold directly from the artisanal miners, the BOU will also be supporting the livelihoods of artisanal and small-scale miners, and this has positive spill-over effects on other sectors of the economy in line with the Bank's mission of supporting the governments socio-economic transformation.

Figure 13: Terms of Trade (Year-on-Year, percent)



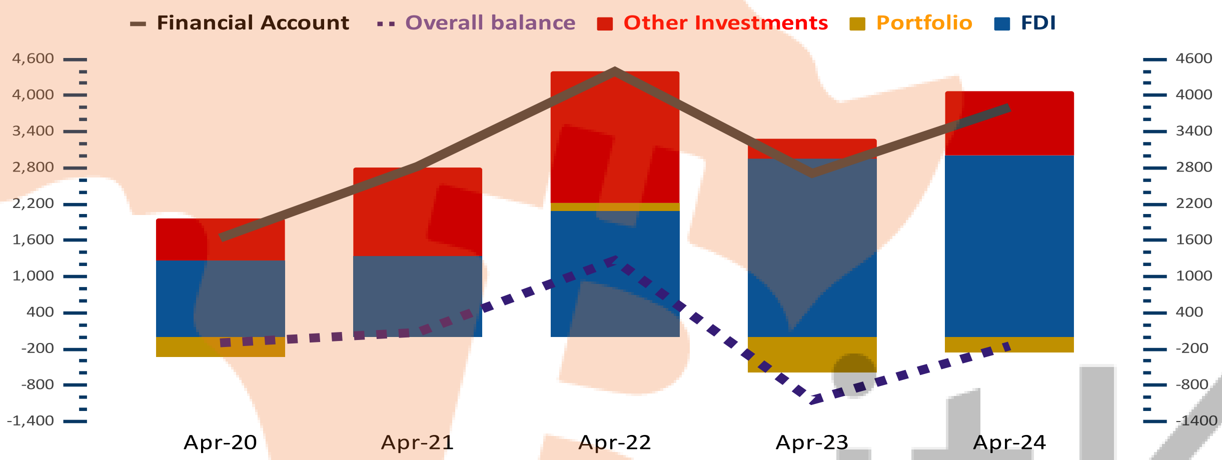
Source: Bank of Uganda

The deficit arising from the trade in services also remains a drag on the current account and bulged by 19 percent in the twelve months to April 2024 to reach US$1,719.4 million. The widening services deficit is largely driven by increasing payments for transportation services that have more than offset the relatively strong inflows from tourism. Payments for transportation services increased in line with the increase in imports.

The primary income account deficit has also continued to increase reaching US$1,202.6 million. Overall, the outflows from the primary income account increased by 23 percent in the year to April 2024 to US$1,314.4 million. The surplus on the secondary income account surplus contracted owing to dwindling grants to the government and negative growth in personal transfers in the last twelve months. For the first time in five years, personal transfers registered a negative growth of 6.7 percent although at US$1,291.74 million, it remained above the recent five-year average level.

The current account deficit was financed largely by foreign direct investments (FDI) and loans to the government (other investments) as shown in **Figure 14**. FDI inflows at US$3,012.8 million in the twelve months to April 2024, remained buoyant, largely reflecting the ongoing activity in the oil-related projects. Loans to the general government net of principal repayments amounted to US$978.3 million. Net loans to the government are below the average for the last fifteen years owing to the tight global financial conditions and the upsurge of principal loan repayments which has since more than tripled. Weighed down by the continued outflow of portfolio capital, the financial account at US$3,803.8 million was inadequate to cover the deficit on the current, and capital account, resulting in a drawdown of reserves to a tune of US$148.7 million. As at 30 April 2024, reserve stock amounted to US$3,467.5 million or 3.2 months of future imports of goods and services. This is slightly lower than the 3.4 months registered in April 2023.

Figure 14: Financial Account flows (US$ Million)



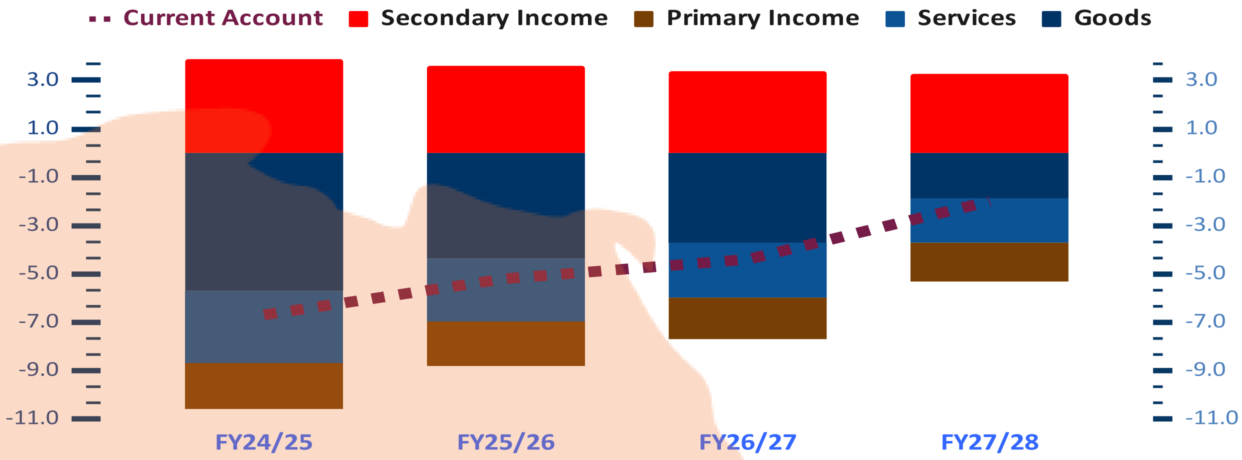
Source: Bank of Uganda

2.3.2 Balance of Payments Outlook

The Current Account Deficit (CAD) is projected to steadily narrow in the medium term, driven by the progressive narrowing of the trade deficit (**Figure 15**), supported by a gradual increase in oil export revenues. The first oil production is expected in FY2025/26 and is expected to accelerate to 230,000 barrels per day in the outer years, boosting exports. In addition, strong demand from the region is expected to boost export growth. Demand from the region is expected to benefit from the resolution of several trade disputes between Uganda and the neighbouring countries. Imports are expected to remain buoyant in line with public infrastructure developments and oil projects-related activities. The narrowing of the Current Account deficit is expected to be supported by remittances & tourism inflows driven by government intervention initiatives to streamline labour export and boost tourism.

FDI, projected at above 5 percent of GDP in the next two financial years, is expected to be the main source of financing of the current account deficit before moderating to around 3.3 percent of GDP in 2027/28. Loans are expected to provide minimal financing, especially in FY 2024/25 given the tight global financing conditions but could pick up later as the conditions normalize.

Figure 15: BOP Projections (percent of GDP)



Source: Bank of Uganda

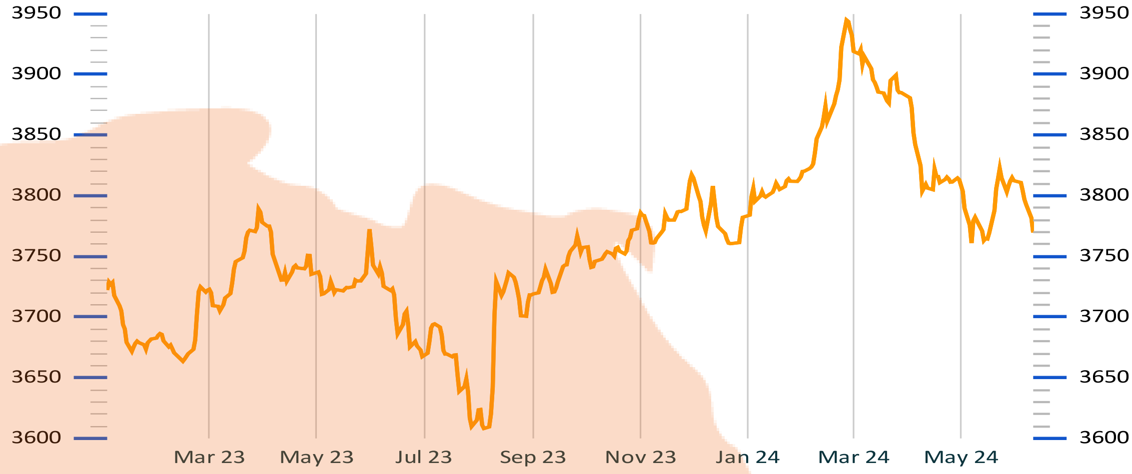
2.3.3 Exchange rates

Despite the lingering uncertainty and tight global financial conditions, the shilling has broadly maintained relative stability with an appreciation bias. The shilling has registered an extended period of appreciation since late March 2023 following the two successive increases in the CBR which lured back offshore investors that were seeking higher returns, especially from the Kenya Euro-bond rollover and the infrastructure bond that offered very high real interest rates and attracted significant inflows of portfolio investment including from Uganda. The shilling has retreated from the recent peak of UGX3942 per USD in August 2023 to now below UGX 3800 with the appreciation momentum peaking up in June 2024 (**Figure 16**). The shilling gained against the US dollar, appreciating by 2.7 percent between March and May 2024, extending the gains in June 2024.

The appreciation of the shilling has also been supported by increased inflows from coffee receipts, and Non-Governmental Organizations (NGOs). Despite the tight global financial conditions, the shilling has been relatively strong against the US dollar reflecting the tight monetary policy stance supported by relatively improved commodity export revenues. More support for the shilling came from increased inflows from export revenues, particularly coffee, and inflows from Non-Governmental Organizations (NGOs). These inflows more than outweighed the strong demand from domestic corporations, notably manufacturing, energy, and trade, reflecting strong economic activity.

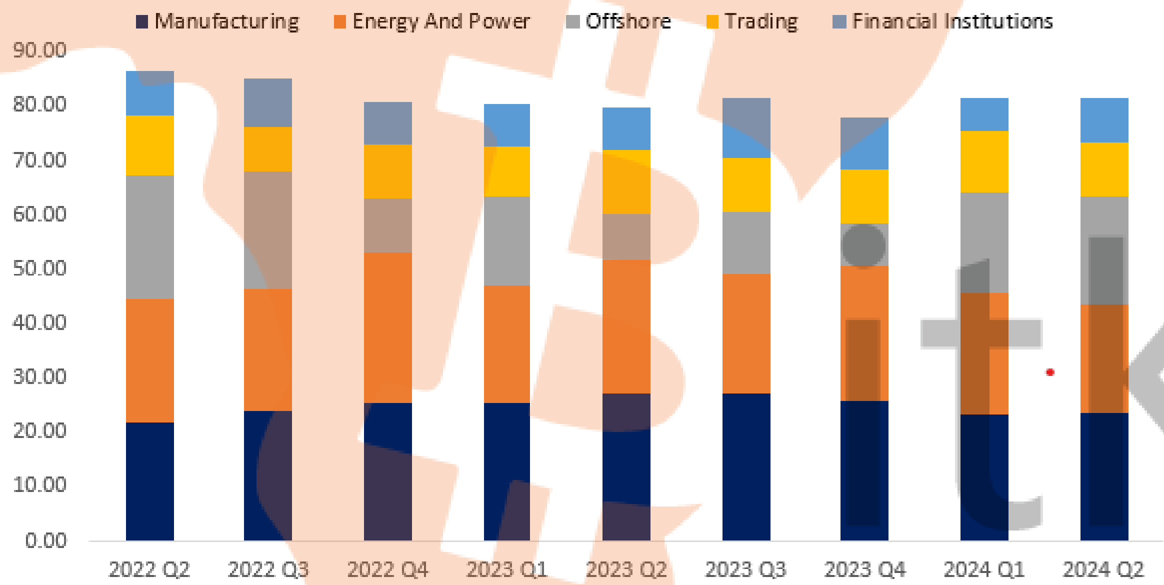
Notably, the share of the manufacturing sector's demand for foreign exchange from the domestic market has been significant (**Figure 17**) relative to other sectors and this is consistent with the government's industrialization agenda targeted at increasing export earnings through value addition as well as supporting the Import Substitution Strategy by producing hitherto imported products.

Figure 16: Trend of Uganda Shilling Exchange rate against the US dollar



Source: Bank of Uganda

Figure 17: Trend of Sectoral Shares in Foreign Exchange Demand

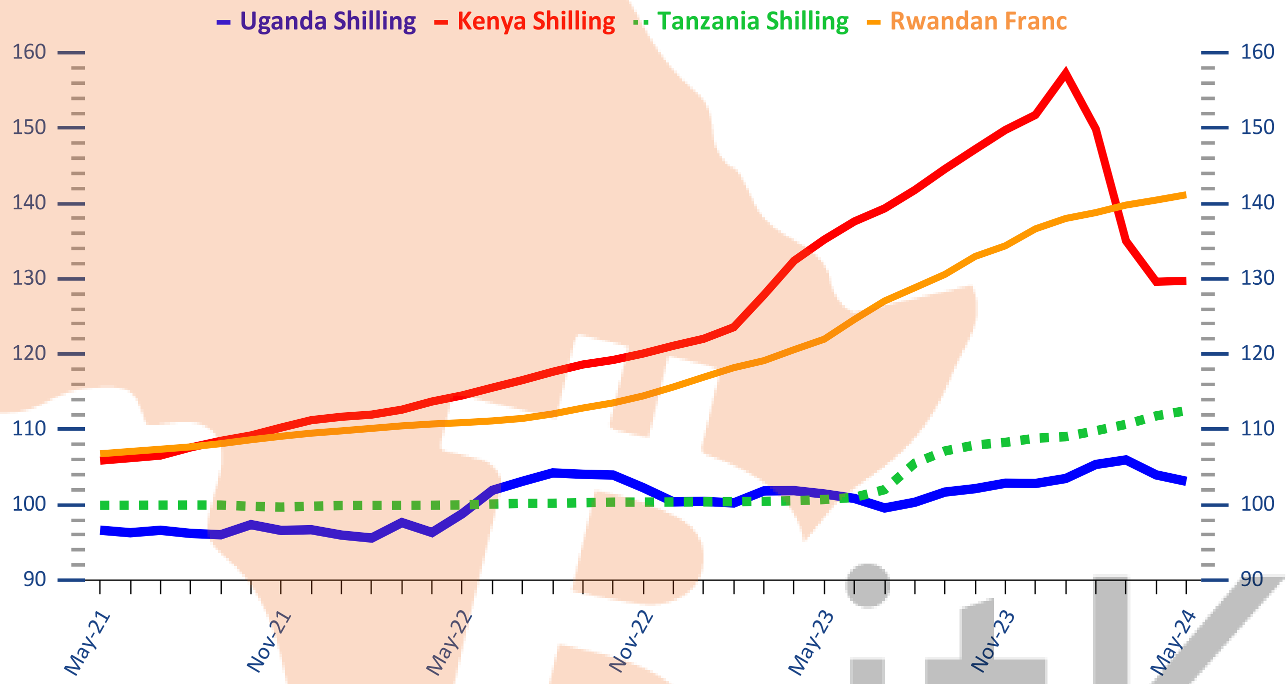


Source: Bank of Uganda

As reflected in the Absa Africa Financial Markets Index (AFMI), the Uganda foreign exchange market has continued to develop and deepen. As a result, foreign exchange liquidity is readily available to finance external payments by the private sector. The AFMI index evaluates countries' financial development levels with an overall aim of reducing barriers to investment and boosting sustainable growth. AFMI maintained Uganda's ranking in fourth position out of the 28 African countries measured under the 2023 Absa Africa Financial Market Index (AFMI).

In the EAC region, the Uganda shilling is the strongest relative to the pre-CoVID-19 level. The Kenya shilling which had undergone the strongest depreciation since Covid-19 times, has strengthened sharply since December 2023, following the easing of uncertainty surrounding the maturing Euro-bond and the inflows into the infrastructure bond recently issued. The unit recouped 17.5 percent of the losses suffered since COVID-19 times from December 2023 to May 2024. The Rwandan Franc has stayed on the depreciation trend and currently the most depreciated since COVID-19 times having lost over 40 percent. The Tanzania shilling which had been broadly stable yielded to pressure in the middle of 2023 and continues to face increased and steady depreciation pressures. **Figure 18** depicts monthly exchange rate developments for selected currencies in the EAC region.

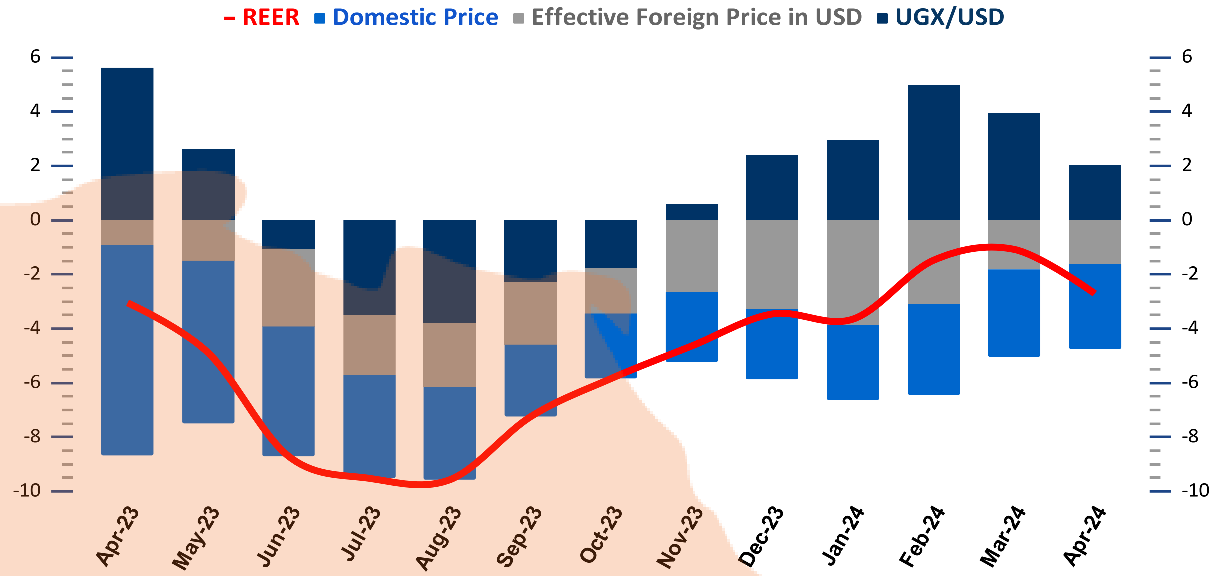
Figure 18: Selected currencies against the US dollar (Index, 2019M12=100)



Source: Bank of Uganda

In real effective terms, the Uganda shilling has appreciated since the beginning of 2024 driven by lower inflation in the main trading partners (**Figure 19**). In April 2024, the Real Effective Exchange Rate (REER) appreciated by 2.7 percent year-on-year. The real effective exchange rate could appreciate by much more magnitude in the near term if the current appreciation of the shilling against the dollar continues.

Figure 19: Real Effective Exchange Rate (y/y, percent)

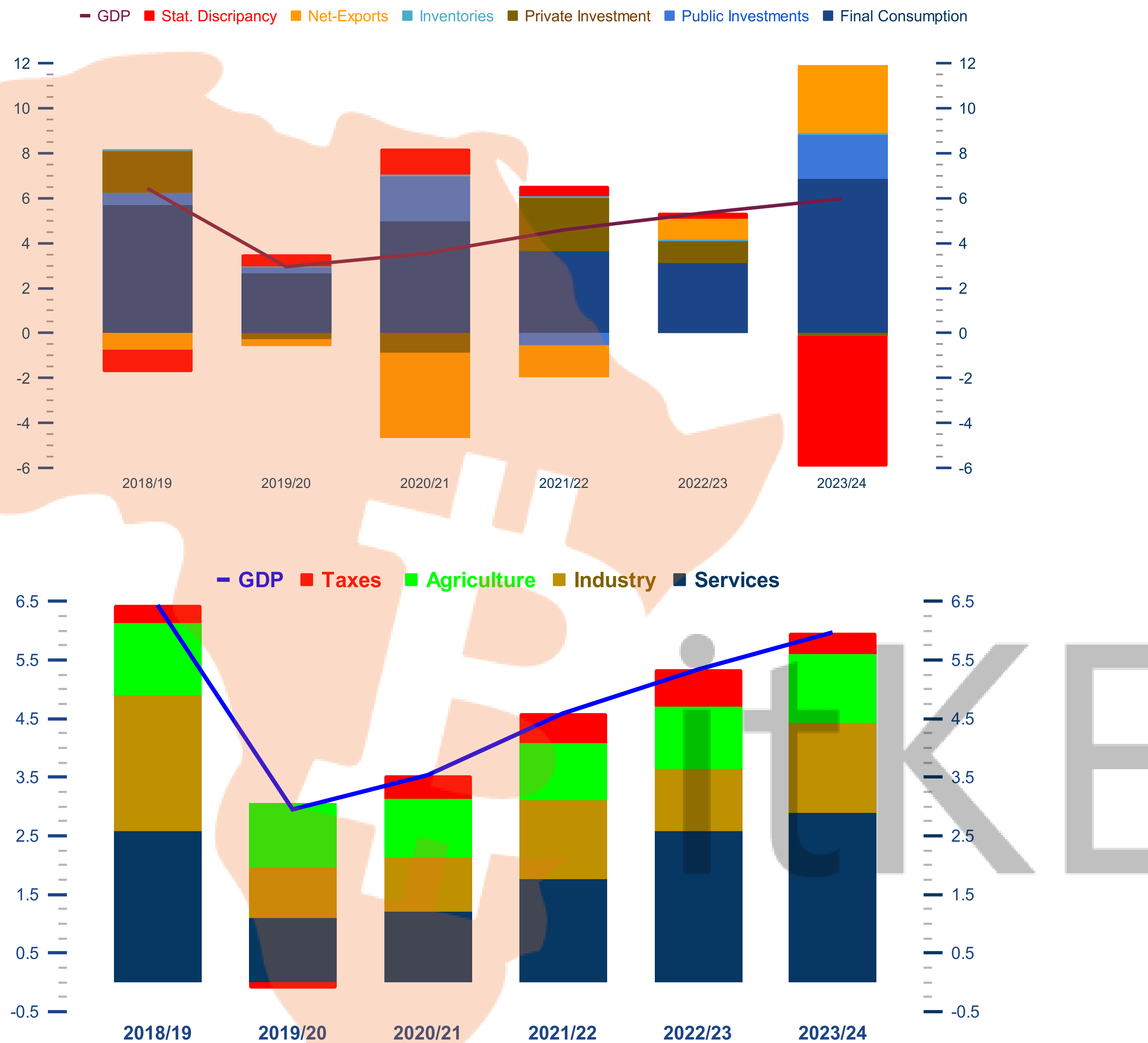


Source: Bank of Uganda

2.4 Domestic economic activity

The Ugandan economy has started posting strong economic growth rates. The estimates by the UBoS show that the economy expanded by 6 percent in FY2023/24, up from an average of 4.1 percent in FY 2019/20-2022/23. The economy withered several shocks, including lingering effects of COVID-19, geopolitical conflicts, rising international commodity prices, rising global inflation, and tight global and domestic financial conditions. The rebound in growth was driven by improvements in household spending, public investment, and net exports (**Figure 20**). On the production side, services, and industry sectors were the major drivers of the rebound of growth (**Figure 20, lower panel**). The industrial and services sector grew by 5.8 and 6.6 percent relative to 4.0 and 5.9 percent, respectively. The industrial sector growth accelerated, thanks to the good performance of the manufacturing and construction subsectors that have held steady on the recovery path. The agriculture sector also posted notable performance, growing at 5.1 percent backed mainly by the cash crop sub-sector.

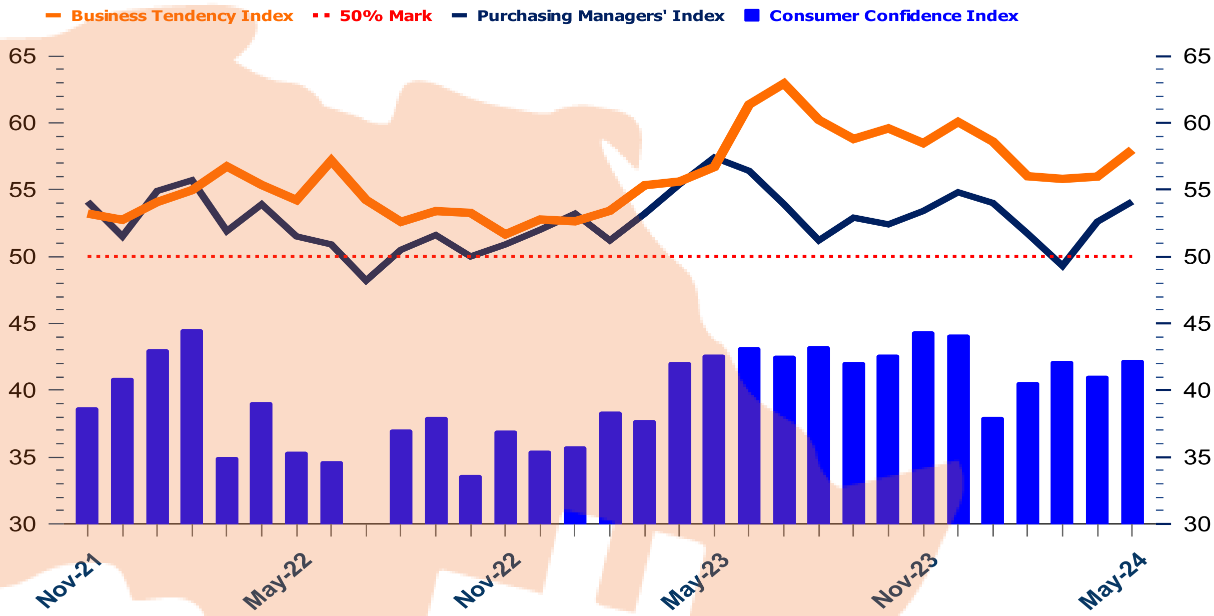
Figure 20: GDP Growth Decomposition from Demand and Production (Lower panel) Side (%)



Source: UBOS

On the demand side of the economy, growth was driven by the acceleration of Household consumption, net exports, and a push from public investments (**Figure 20, upper panel**). Growth in household consumption at 8.2 percent is a significant recovery from the 3.6 percent observed in the inflation stricken FY2022/23. Consumer price inflation significantly eased in FY2023/24 increasing households' real incomes to afford more consumption. Indeed, consumer pessimism reduced during the period with the Consumer Confidence index recovering from an average reading of 37.6 in FY2022/23 to an average of 42.1 in FY2023/24 (**Figure 21**).

Figure 21: Business and Consumer confidence indicators (above 50 is optimistic)



Source: Bank of Uganda and Stanbic Bank (PMI)

Economic growth has also benefitted from the resilience of the global economy to tight financial conditions and geopolitical tensions, keeping external demand for Uganda's goods and services strong. As a result, the contribution to growth from net exports of goods and services substantially edged up in FY2023/24 as a 35.5 percent volume increase in the exports of goods and services was a major rebound and overwhelmed the meagre 7 percent growth of real import of goods and services.

Investment demand from the public sector was also a major contributor to growth in FY2023/24. Public investments mainly in buildings and other structures grew by 30 percent reversing the negative and no growth observed in the previous years. As public spending was largely financed from domestic resources, this could have crowded out the private sector whose investment demand declined 0.6 percent.

Economic growth is projected at 6 to 6.5 percent in FY2024/25 and to rise above 7 percent in subsequent years driven by investment in the extractive industry and government programs targeted at boosting productivity. However, risks to the growth outlook remain and are skewed to the downside. Uncertainty about the global economic situation and a stronger shilling depreciation could weigh on domestic demand. Private sector credit growth could weaken further due to tighter domestic financing conditions, resulting in lower demand. External factors such as a weaker global economy and escalating geopolitical conflicts could further impede growth through supply chain disruptions, higher freight costs, and reduced export demand.

2.5 Domestic Inflation and Outlook

2.5.1 Domestic Inflation

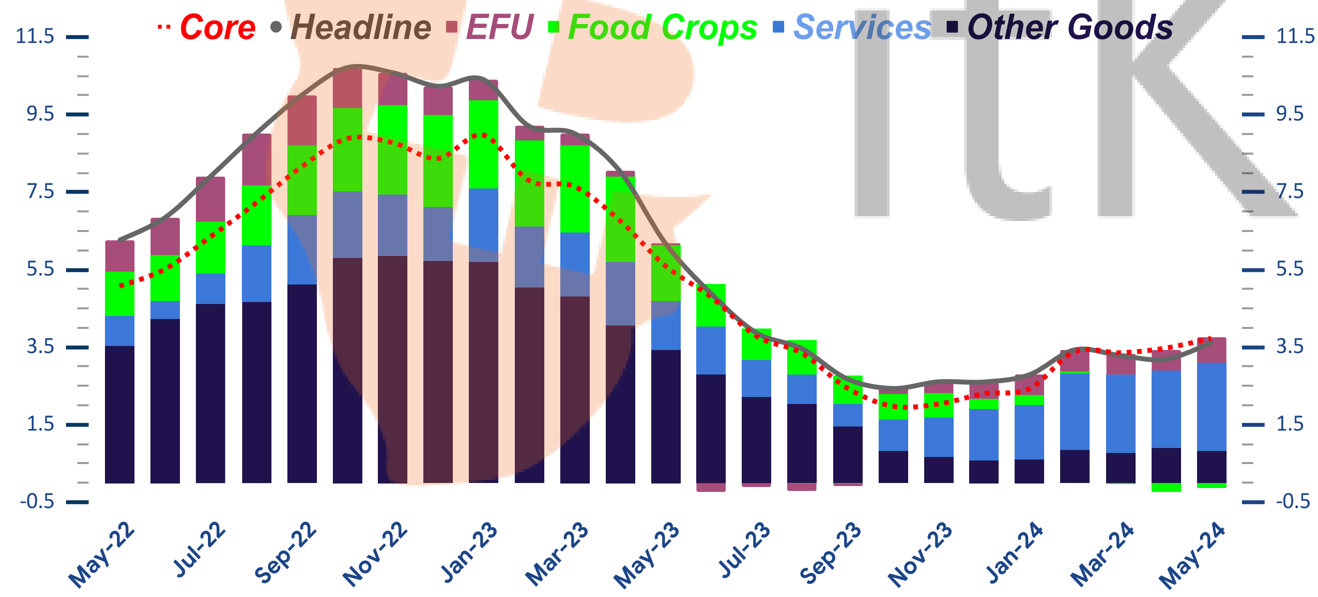
Inflation remains muted and below the 5 percent target since May 2023 reflecting tight monetary conditions, favourable domestic food supplies and declining imported inflation which is benefiting from lower global commodities prices coupled with the relative stability of the shilling (**Figure 22**).

Nonetheless, inflation edged up in the recent month, with the annual headline and core inflation reaching 3.6 percent and 3.7 percent in May 2024, respectively driven by rising costs of healthcare, education, and transportation services as well as higher prices for solid and liquid fuels. The recent increases in inflation may not be protracted, given that most components of the consumer basket save for the food crops and related items' inflation are declining.

Services inflation picked up reaching 6.2 percent in May 2024 from its 1.6 percent bottom in September 2023. Over this period, inflation for health and education services increased 4.1- and 1.7-folds to 7.4 percent and 10.1 percent, respectively in May 2024. Reflecting the recent rise in international oil prices and increases in prices of domestic solid fuels, Electricity, Fuel, and Utilities inflation surged to 9.5 percent in May 2024 from negative readings in the third quarter of last year.

On the other hand, reflecting favourable food supplies annual food inflation has been on average negative in the last six months and was registered at *Minus* 1.1 percent in May 2024 while other goods inflation has stayed relatively stable at about 1.8 percent benefiting from relative stability of the shilling in addition to low food inflation. Indeed, excluding processed food, Core inflation reached 5.0 percent in May 2024, an implication that improved food supplies have kept core inflation below the target.

Figure 22: Domestic Inflation decomposition (y/y, percent)



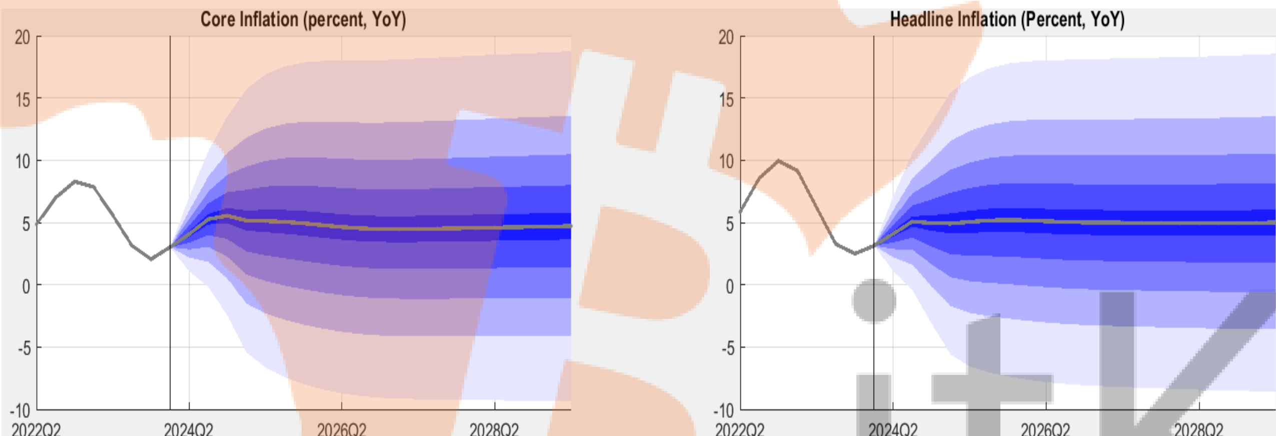
Source: Uganda Bureau of Statistics (UBOS)

2.5.2 Inflation Outlook

The inflation forecasts have been revised downwards compared to the April forecast round (**Figure 23**). Headline and Core inflation are projected to be 0.7 percentage points lower in 2024/25 than the 5.4 percent and 5.7 percent projected in April 2024, respectively mainly due to a less depreciated exchange rate. Inflation is now expected to peak in the fourth quarter of 2024 and return to target in the near term.

There are, however, risks to the outlook; on the upside, inflation could be higher than projected due to; uncertainty in global financial markets heightening, government expenditure increasing beyond anticipation, failure to complete the IMF programme, tighter financing constraints, and a possible further downgrade by rating agencies result in a more depreciated exchange rate. Also, inflation could be higher due to further disruptions to global supply chains resulting from an escalation of geopolitical conflicts and extreme domestic weather conditions. On the downside, inflation could be lower than forecast due to lower domestic and global growth, bumper harvest and its effect on food crop prices, and softer global inflation.

Figure 23: Baseline Inflation forecast



Source: Bank of Uganda

3. CONCLUSION

Global economic growth is expected to remain resilient in 2024 and 2025. Risks to the growth outlook are tilted to the downside, largely due to a possible escalation of the ongoing geopolitical tensions and supply-side disruptions. Nonetheless, positive boosts to the growth outlook may arise from more accommodative monetary and fiscal policies and declining inflation. Global inflation has continued to fall but remains above central bank targets in major central banks. As a result, in some emerging markets and developing economies, central banks have begun to cut policy rates. Major central banks are expected to cut policy rates toward the end of this year.

Domestic economic activity remains resilient, and growth is estimated at 6 percent in FY2023/24 benefiting from improvement in Household spending, public investment, and resilient external demand. Services and industry sectors were the major drivers of economic growth. Economic growth in FY2024/25 is projected between 6.0 percent and 6.5 percent, rising above 7 percent in subsequent years driven by investment in extractive industry and government programs targeted at boosting productivity. Risks to the growth outlook are tilted to the downside coming from mainly possible weaker global economy should geopolitical conflicts escalate leading to further tightening of supply chain disruptions, higher freight costs, and reduced export demand.

Inflation remains muted and below the 5 percent target for a year now reflecting tight monetary conditions, favourable domestic food supplies and negative imported inflation benefiting from lower global commodities prices coupled by the relative stability of the Uganda shilling. Inflation is expected to rise and average between 5.0 percent and 5.4 percent in the 12 months ahead compared to the 5.5 percent and 6 percent in the previous forecast round before stabilizing around the medium-term target of 5 percent in the second half of 2025. Upside risks to inflation include, escalation of the ongoing geopolitical tensions in the Middle East, possible energy price hikes, unfavourable weather patterns affecting food supply and production capacity pressures. Additionally, persistent global inflation and higher interest rates could cause heightened volatility in capital flows and the exchange rate, resulting in higher domestic inflation than currently assumed. Conversely, inflation may undershoot projections if monetary policy reduces demand more than anticipated or global demand weakens further, resulting in lower imported inflation.

Higher global interest rates have affected Uganda's capital inflows amid heavy external debt servicing. In addition, headwinds to export growth and declining budget support inflows have resulted in declining international reserves. Moreover, concerns over debt affordability and constrained financing options, have led to a downgrade of the country's sovereign credit rating, though with a stable outlook, reaffirming that these challenges are short-term. These are, nonetheless, very near-term challenges. While the overall outlook is a stable one, these challenges must be addressed so that they do not spill over to weaken the stable outlook. The BoU and MoFPED top management are currently working to address the challenges.

The MPC at its recent meeting assessed that while the near-term balance of risks around inflation remains skewed to the upside, the current monetary conditions are adequate to contain inflation around the medium-term target of 5 percent. As a result, the MPC maintained the CBR at 10.25 percent.