STATE OF THE ECONOMY REPORT

BANK OF UGANDA

DECEMBER 2024

TABLE OF CONTENTS

List of Figures

List of Tables

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
Covid-19	Corona Virus Disease 2019
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
GDP	Gross Domestic Product
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LICs	Low Income Countries
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
UK	United Kingdom
US	United States
USA	United States of America
US$	United States Dollar
URA	Uganda Revenue Authority
y/y	Year-on-Year

EXECUTIVE SUMMARY

1. The State of the Economy report presents economic developments up to the three months to October and November 2024 where data is available, outlook and associated risks as well as policy actions. The report is structured into two 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 world appears to be slowly finding the right balance between a return to growth and controlling spiralling inflation. Global growth is expected to come in at a 3.2% pace in both 2024 and 2025, slightly lower than 2023, and below the pre-pandemic norm of 3.6% from 2000 to 2019, driven by growth in emerging market economies. The major downside risks to this growth include geopolitical conflicts, adverse climatic shocks, trade tensions and policy uncertainty in the US. On the positive side, these could be moderated by monetary policy easing as the inflationary pressures abate.

3. Inflation in most countries is falling supported by the still restrictive stance of monetary policy in most countries, but it's not completely back to target levels. The pace of inflation is forecast to continue cooling between now and mid-2025. The forecast thereafter depends heavily on the pace of tariffs and whether we see a full-blown trade war erupt. With the outcome of the US election, inflationary trade and immigration policies are expected to slow the pace of credit easing. Bond yields have already moved up in response to fears of mounting federal debt and higher inflation. Any major shift in tariffs in the US could trigger retaliatory measures.

4. Interest rates increased reflecting tight liquidity conditions in the banking sector. The overnight rate increased to an average of 11.2 percent, up from 9.9 percent in the previous three months. Similarly, the 7-day weighted average rate climbed to 11.4 percent, compared to 10.6 percent during the same period. In the primary market for government securities, yield on longer-tenure bonds rose while short- to medium-term bonds were mixed. Secondary market yields also rose across all tenors. Commercial bank lending interest rates rose in the 3-months to October 2024, averaging 19.1 percent from the 18.1 percent in the period to July 2024. Lending rates are expected to remain under pressure in the near term due to tight financial conditions.

5. Private sector credit (PSC) growth moderated in the 3 months to October 2024 compared to the 3 months to July 2024 due to increased government borrowing, which outweighed monetary policy easing, and reduction in the non-performing loans (NPLs). The PSC grew by 8.2 percent, which was lower than the 9.1 percent on account of both shilling loans (10.4 percent from 11.0

percent) and foreign currency denominated loans (2.4 percent from 4.1 percent). Despite this deceleration, the underlying conditions remain supportive for a gradual recovery in PSC. The easing of monetary policy during the quarter will provide a favourable environment for borrowing, and the relatively stable foreign exchange market is likely to bolster confidence in foreign currency loans.

6. The total revenue, including grants, amounted to Shs.9,564.9 billion, Shs.747.1 billion below the target, and 13.6 percent higher than for a similar period in FY2023/24 due largely to the underperformance of project support grants. Government expenditure on net acquisition of non-financial assets amounted to Shs.958.9 billion, which was Shs.2,216.3 billion lower than planned due to low absorption of funds by central government.

7. Developments in the balance of payments (BoP) indicate that the Uganda's payments abroad continue to exceed inflows from abroad resulting into a deficit. Over the 12 months to October 2024, the current account deficit widened to US$4.7 billion from US$3.7 billion in the same period in 2023. Foreign direct investment remained robust, amounting to US$3.3 billion in the 12 months to October 2024, compared to about US3.0 billion in the same period in 2023. The bulk of the foreign direct investment is due to inflows into the oil and gas production activities. However, the surplus in the financial account was insufficient to cover the deficit in the current account, leading to a drawdown in foreign reserve assets. By the end of October 2024, the stock of foreign reserves amounted to US$3.4 billion, a decline compared to US$3.9 billion at end of October 2023. The decline was largely due to higher debt service. The Bank of Uganda has continued to purchase US dollars in the domestic market when conditions allow, with a total of US$314.10 million purchased since the beginning of this financial year.

8. In the short term, the current account deficit (CAD) as a percentage of GDP is projected to be 7.3 percent in FY2024/25, with the overall balance of payments anticipated to register a deficit of 0.7 percent of GDP. This marks an improvement from the deficit of 7.8 percent of GDP in FY2023/24. Over the medium term, the CAD is expected to gradually decrease due to improvements in the trade balance, workers' remittances, and tourism inflows. Exports are expected to benefit from a recovery in growth and global demand, increased regional trade, and the commencement of oil exports in FY2025/26. Imports are likely to grow steadily, driven by public infrastructure development.

9. The Uganda shilling has demonstrated remarkable stability over the last 10 years, only depreciating by 32.9% against the U.S. dollar. This represents the lowest level of depreciation among selected African currencies, and particularly within the East African region. Such

performance underscores Uganda's resilience to both domestic and external shocks, bolstered by effective monetary and exchange rate policies. In 2024, the Uganda Shilling remained relatively stable with a bias towards an appreciation largely due to a combination of factors including continued inflows from coffee exports, remittances, portfolio inflows and FDI that have supported demand for foreign currency, preventing undue pressure on the exchange rate, monetary policy actions, and reforms in the interbank foreign exchange market (IFEM). However, the Shilling experienced a mixed performance during November 2024 depreciating marginally by 0.29 percent month-on-month to an average midrate of Shs. 3,677.55 per US dollar. This was partly attributed to the external shocks from the volatile global financial market and the strengthened performance of the US dollar. Additionally, large corporate demand from Oil marketing and distribution, Telecommunication and Manufacturing firms led to the depreciation this depreciation.

10. Over the past decade, Uganda's economy has demonstrated strong resilience and performance, recording an average annual GDP growth rate of 5%. This robust growth is particularly noteworthy given the challenging macroeconomic environment, including the impacts of the COVID-19 pandemic, climate change shocks, and other external and domestic economic disruptions. Compared to other African countries, Uganda's economic growth stands out as one of the most consistent and stable on the continent. The GDP growth projection for FY2024/25 remains unchanged, with growth projected at between 6.0 percent and 6.5 percent this financial year and between 7.0 percent and 7.5 percent over the medium term. This positive outlook is supported by strategic government initiatives, increased foreign direct investment in the extractive industries, and the expected start of oil production in FY2025/26.

11. Over the past decade, Uganda has maintained one of the lowest and most stable inflation rates in Africa, averaging just 4.0%, the second lowest on the continent after Mauritius and lowest in the East African region. Despite facing numerous challenges, including global oil price fluctuations, trade disruptions during the COVID-19 pandemic, and climate change shocks, Uganda has kept inflation with the 5 percent target. This remarkable achievement reflects the effectiveness of prudent monetary policy actions and fiscal policy. Additionally, annual headline inflation decreased from 4.0 percent in July 2024 to 2.9 percent in November 2024 while Core inflation fell from 4.0 percent to 3.8 percent over the same period. Inflation is projected to remain below the medium-term target of 5%, averaging 3.7% in FY2024/25 and 4.2% in FY2025/26 and return to target in the medium term.

12. The Outlook highlights persistent uncertainty. An intensification of the ongoing conflicts in the Middle East could disrupt energy markets and hit confidence and growth. Rising trade tensions

might risk hampering global trade growth and consequently domestic economic growth. Adverse surprises related to global growth prospects, or the path of disinflation could trigger disruptive corrections in financial markets. In view of the recent macroeconomic development and forecasts, the MPC noted that although inflation is projected to remain below target in the near term, geopolitical conditions and policy uncertainty could contribute to increased volatility in economic activity and inflation in the short to medium term. Consequently, the MPC decided to maintain the CBR at 9.75 percent. At the current CBR level, the monetary policy stance remains conducive to sustainable economic growth amid price stability and supports Uganda's socio-economic transformation. The BoU will continue to monitor developments in the global and domestic economy as well as forecasts to guide policy actions.

1. EXTERNAL ECONOMIC ENVIRONMENT

1.1 Global economic activity and outlook

The global economic growth is expected to remain stable at 3.2 percent in both 2024 and 2025 according to the October 2024 IMF World Economic Outlook (WEO) report. The forecast is unchanged from the April 2024 and July 2024 IMF WEO report and update, respectively (**Table 1**). However, within regional groupings there are disparities in growth projections owing to differences in internal macroeconomic adjustments and disinflation paths. The US economy is projected to grow by 2.8 percent in 2024, an upward revision of 0.2 percentage points compared to July 2024 forecasts due unwinding of its monetary policy, which has boosted growth prospects. In contrast, growth in the Euro Area was revised downwards by 0.1 percentage points to 0.8 percent while growth in the UK is much more optimistic with a 0.4 percentage point upward revision to 1.1 percent in 2024. Overall, Advanced economies (AEs) are forecasted to expand by 1.8 percent, a 0.1 percentage point uptick in growth pace compared to that observed in 2023 driven by continued strong growth in the US. Similarly, the level of economic activity in the AEs is expected to remain stable at 1.8 percent in 2025 on the back of anticipated lower US economic growth of 2.2 percent despite improvements in Japan to 1.1 percent, the UK to 1.5 percent, Euro Area to 1.2 percent and Canada 2.4. The outlook for the UK for 2025 remained unchanged when compared to the July 2024 WEO projections as detailed in **Table 1**.

The emerging markets and developing economies (EMDEs) are expected to be the main drivers of global growth, particularly India and China despite the slowdown in growth due to the property sector wars in the latter country. India continues to drive growth in the EMDE with an expansion of 7 percent, while growth in China has been revised downwards by 0.2 percentage points to 4.8 percent for 2024. This 2024 growth projection for China is lower than the 5.2 percent growth outturn for 2023 as the government battles the slowdown through stimuli and tax cuts aimed to revive the economy. Likewise, India's expected growth of 7 percent is a decline from 8.2 percent in 2023 as the country's pent-up demand, built during the COVID-19 pandemic wanes.

Outlook for economic growth in the Sub-Saharan Africa (SSA) economies is generally subdued and uneven at 3.6 percent in 2024 with expectations for modest recovery to 4.2 percent in 2025 as almost two thirds of the countries in this region could experience higher growth **Table 1**. In contrast with the other regions, the growth forecast for SSA has been revised downward by 0.1 percentage points to 3.6 percent in October, due to a weaker-than-expected performance of the Nigerian economy as well as the civil war in Sudan.

Table 1: Global economic growth projections (y-o-y, % change)

Real GDP (Percentage Change from Previous Year)		Projections		Percentage point differences from July 2024 projections		Percentage point differences from April 2024 projections	
	2023	2024	2025	2024	2025	2024	2025
World	**3.3**	**3.2**	**3.2**	**0.0**	**-0.1**	**0.0**	**0.0**
Advanced Economies	**1.7**	**1.8**	**1.8**	**0.1**	**0.0**	**0.1**	**0.0**
United States	2.9	2.8	2.2	0.2	0.3	0.1	0.3
Euro Area	0.4	0.8	1.2	-0.1	-0.3	0.0	-0.3
Japan	1.7	0.3	1.1	-0.4	0.1	-0.6	0.1
United Kingdom	0.3	1.1	1.5	0.4	0.0	0.6	0.0
EMDEs	**4.4**	**4.2**	**4.2**	**0.0**	**-0.1**	**0.1**	**0.0**
Russia	3.6	3.6	1.3	0.4	-0.2	0.4	-0.5
Brazil	2.9	3.0	2.2	0.9	-0.2	0.8	0.1
China	5.2	4.8	4.5	-0.2	0.0	0.2	0.4
India	8.2	7.0	6.5	0.0	0.0	0.2	0.0
Sub-Saharan Africa	**3.6**	**3.6**	**4.2**	**-0.1**	**0.1**	**-0.2**	**0.1**
Nigeria	2.9	2.9	3.2	-0.2	0.2	-0.3	0.2
South Africa	0.7	1.1	1.5	0.2	0.3	-0.4	0.3
ASEAN-5	**4.0**	**4.5**	**4.5**	**0.1**	**-0.1**	**0.1**	**0.0**
Low-income Countries	**4.1**	**4.0**	**4.7**	**-0.2**	**-0.4**	**-0.5**	**-0.4**

Source: IMF World Economic Outlook (WEO), October 2024

1.2 Global inflation and outlook

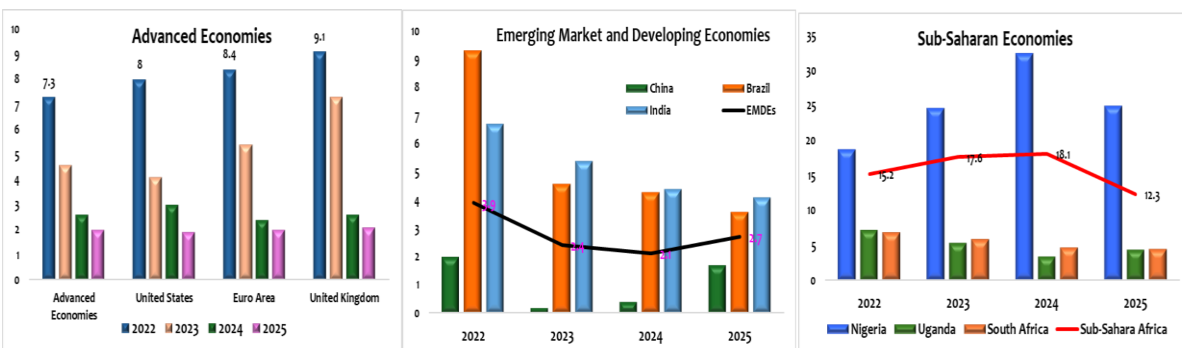
Global headline inflation is expected to ease according to the IMF WEO report of October 2024, reflecting a broader stabilization in prices as economies adjust to post-pandemic conditions and central banks continue to manage interest rates effectively. Core inflation, which remains above target, is driven by services inflation, posting higher nominal wage growth compared to pre-pandemic levels. The disinflation process that begun in 2023 is expected to continue until 2024 but, the pace has started to wane with inflation remaining above central bank targets in many countries. Global average inflation is expected to fall from an annual average of 6.7 percent in 2023 to 5.8 percent in 2024 and further to 4.3 percent in 2025.

The disinflation process is expected to move faster in advanced economies where inflation is projected to decline to 2.6 percent in 2024 down from 4.6 percent in 2023 and remain stable at about 2 percent in 2025 (**Figure 1**). Although in emerging market and developing economies, inflation is projected to decline from 8.1 percent in 2023 to 7.9 percent in 2024 and then fall at a faster pace in 2025 to 5.9 percent, there is a great deal of variation across emerging market economies. In contrast, inflation forecasts for emerging and developing Europe and Sub-Saharan

Africa remain in double-digit territory on account of large outliers amid pass-through of past currency depreciation and administrative price adjustment in Egypt coupled with underperformance of agriculture in Ethiopia. Overall, returning inflation to target is expected to take until 2025 in most economies.

In the AEs, headline inflation is expected to average 2.3 percent, Association of Southeast Asian Nations (ASEAN) at 2.3 percent, EMDEs at 7.7 percent and SSA at 18.1 percent. The persistence of inflation in SSA is partly attributed to increased inflation in oil exporters that are face reduction of oil prices as well as the protracted conflict in the Sahel region. As countries start to sight inflation targets, such as in Euro Area and UK, central banks begun reducing policy rates by on average 25-basis points. The US that initially began with a 0.5 percentage point reduction in policy rates in September 2024 has since reduced the pace of the reduction to 0.25 percentage point cut in November 2024. Despite the progress with the disinflation process there are upside risks to the outlook. These include the possible effects of extreme weather conditions on agricultural production, escalation of the geopolitical tensions, especially in the Middle East leading to a rise in shipping costs, and the possible rise in commodity prices due to supply-chain disruptions arising from transportation disruptions.

Figure 1: Consumer price inflation projections for selected regions (y-o-y, %)



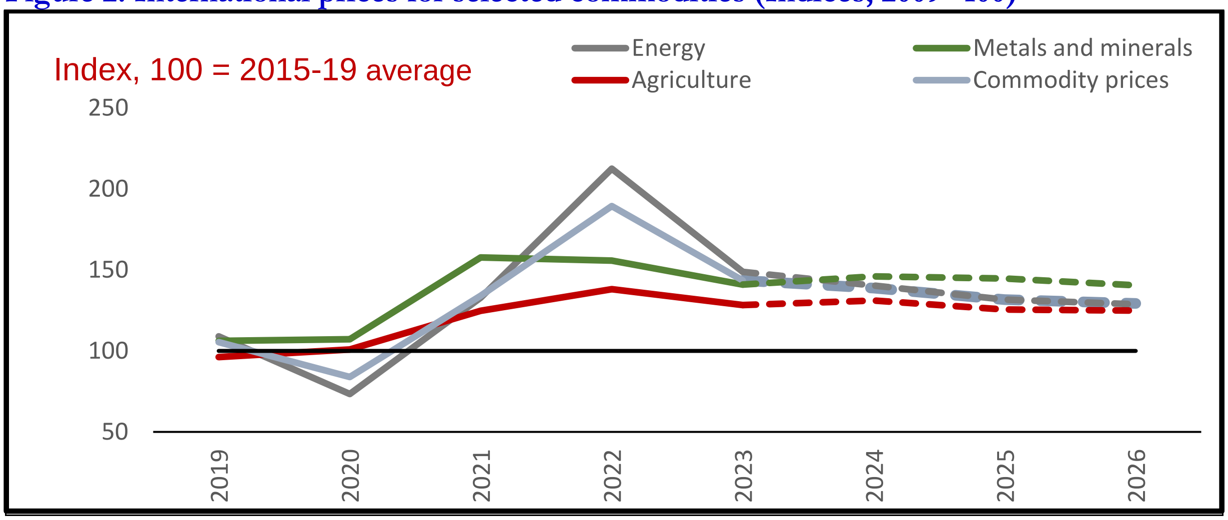
Source: IMF WEO October 2024 report

1.3 International commodity prices

Global commodity prices have eased in October 2024 compared to September 2024 according to the World Bank pink sheet for November 2024. The World Bank's commodity price index is expected to decrease by 5.1 percent in 2025 and 1.7 percent in 2026 having softened by 3.3 percent in 2024 due to increase in inventories and supplies, as illustrated in **Figure 2**. Overall, the energy price index is projected to fall by 5.7 percent in 2024 and 6.2 percent in 2025, due to high inventories of oil and gas of which the latter declined by 7.04 percent in the quarter to October 2024 compared to the previous quarter. The latest projections indicate that Brent crude oil prices are expected to average US$ 80 per barrel in 2024 and US$ 73 per barrel in 2025.

Non-energy prices fell by 1.9 percent in the quarter under review as supplies increased due to favourable weather conditions. Precious metals prices rose by 8.1 percent in the three months to October 2024 compared to the previous quarter and 33.7 percent year on year as US interest rates declined and geopolitical tensions rise such that these metals become a safer investment. Going forward prices of precious metals are expected to continue rising by 6 percent in 2024 but will soften by 3 percent in 2026.

Figure 2: International prices for selected commodities (Indices, 2009=100)

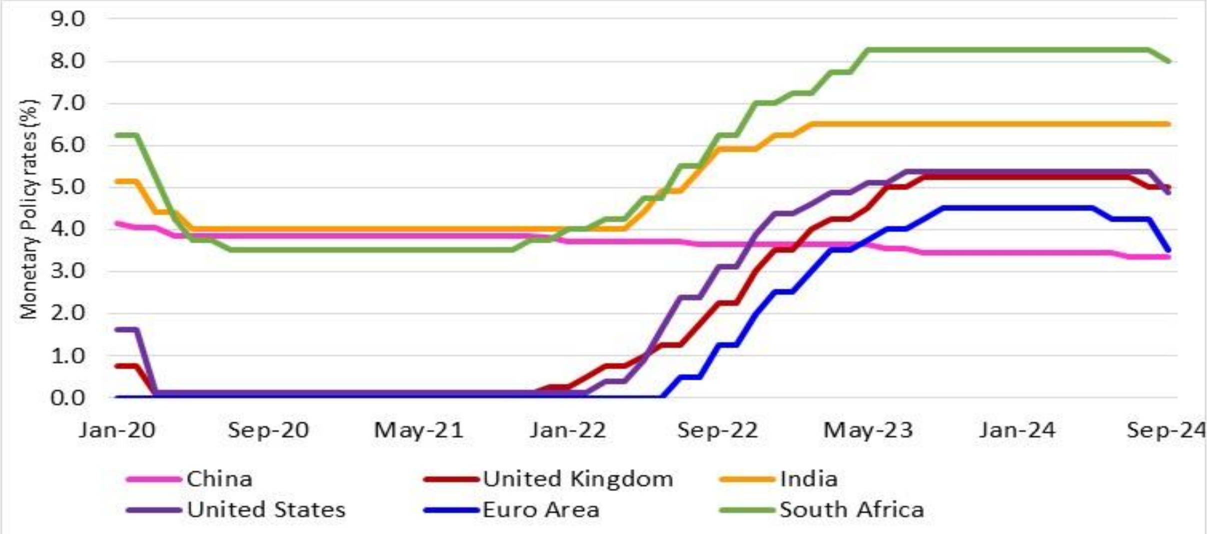


Source: World Bank pink Sheet, October 2024

1.4 Global financial markets

Global financial markets conditions remained tight. The banking sector has remained resilient with ample capital and liquidity buffers. Ten-year bond yields have been rising since October 2024 which has caused depreciation pressures to currencies of several advanced and emerging economies. Several AEs central banks have begun lowering their key policy rates as inflationary pressures abates including in the US where the Federal Reserve Bank has lowered its policy rate at 4.5 percent - 4.75 percent, while the Euro Area is at 3.25 percent, United Kingdom at 4.75 percent, and China at 3.10 percent (**Figure 3**).

Figure 3: Policy rate trends in selected economies (%)



Source: BIS data portal

2 DOMESTIC DEVELOPMENTS OUTLOOK

2.1 Domestic financial markets

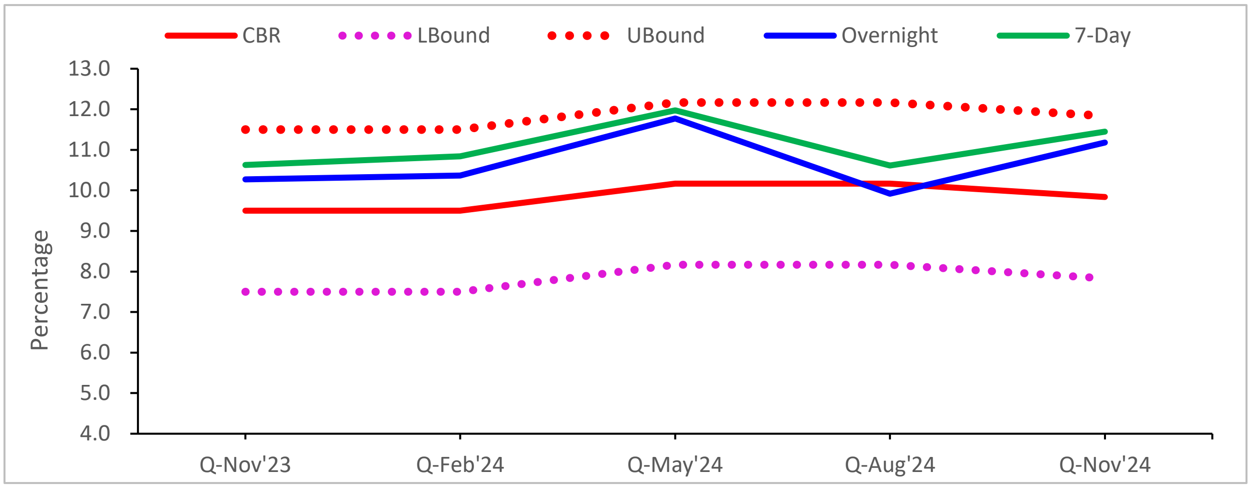
2.1.1 Monetary policy and the interbank money market

In October 2024, the Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 25 basis points to 9.75%, citing an improved inflation outlook. Inflation was projected to stay below the target in the near term and return to target in the medium term, with balanced risks despite the inherent uncertainties. This warranted a cautious approach to monetary policy. Additionally, the economy was expected to remain robust, benefiting from low inflation and stable exchange rates.

Interbank money market rates rose in the three months to November 2024, reflecting tighter liquidity conditions in the banking sector. The overnight rate increased to an average of 11.2 percent, up from 9.9 percent in the previous three months. Similarly, the 7-day weighted average rate climbed to 11.4 percent, compared to 10.6 percent during the same period (**Figure 4**).

The utilization of the Standing Lending Facility (SLF) surged significantly to Shs 25.2 trillion from Shs 3.7 trillion in the three months to August 2024, highlighting increased demand for short-term liquidity by banks. Meanwhile, the use of repurchase agreements (REPOs) fell sharply to Shs 0.5 billion, from Shs 5.5 trillion. No Bank of Uganda Bills were issued during the period under review.

Figure 4: Central Bank Rate and interbank interest rates (Percent)



Source: Bank of Uganda

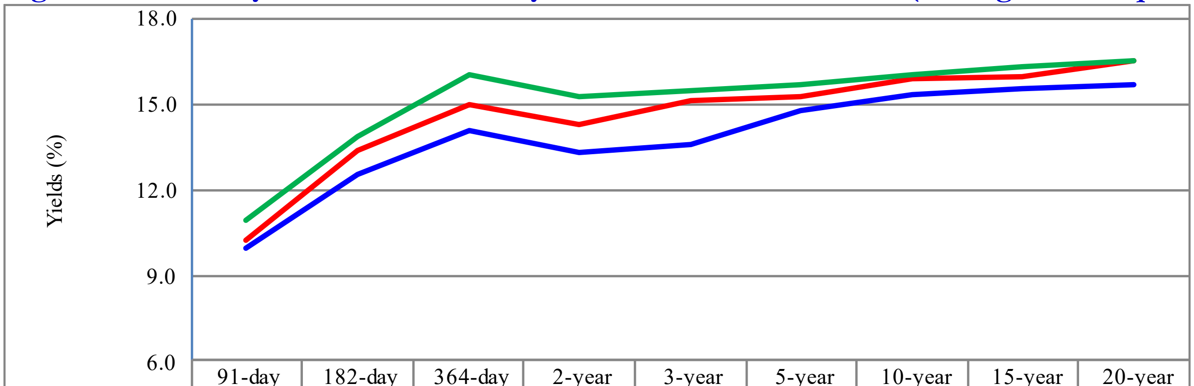
2.1.2 Primary market for treasury securities

In October/November 2024, government securities in the primary market rose across all tenors. For instance, the yield on the 2-year bond rose from 15.25 percent in June/July 2024 to 15.57 percent. Similarly, for the 10-year bond and 15- year bond yields rose to 16 percent and 16.75 percent respectively in October/November 2024 from 15.5 percent and 15.8 percent in June/July 2024.The overall adjustments in yields suggest a nuanced response to prevailing market dynamics, including fiscal and monetary policy developments.

2.1.3 Secondary market for treasury securities

Yields on treasury securities in the secondary market rose across the board in line with tight liquidity conditions in the market. The yields on the long-dated 20-year securities remained relatively the same as those recorded in August 2024 despite policy rate cuts as global financial conditions remained tight (**Figure 5**).

Figure 5: Secondary market annualized yields on t-bills and t-bonds (Average for the quarters)



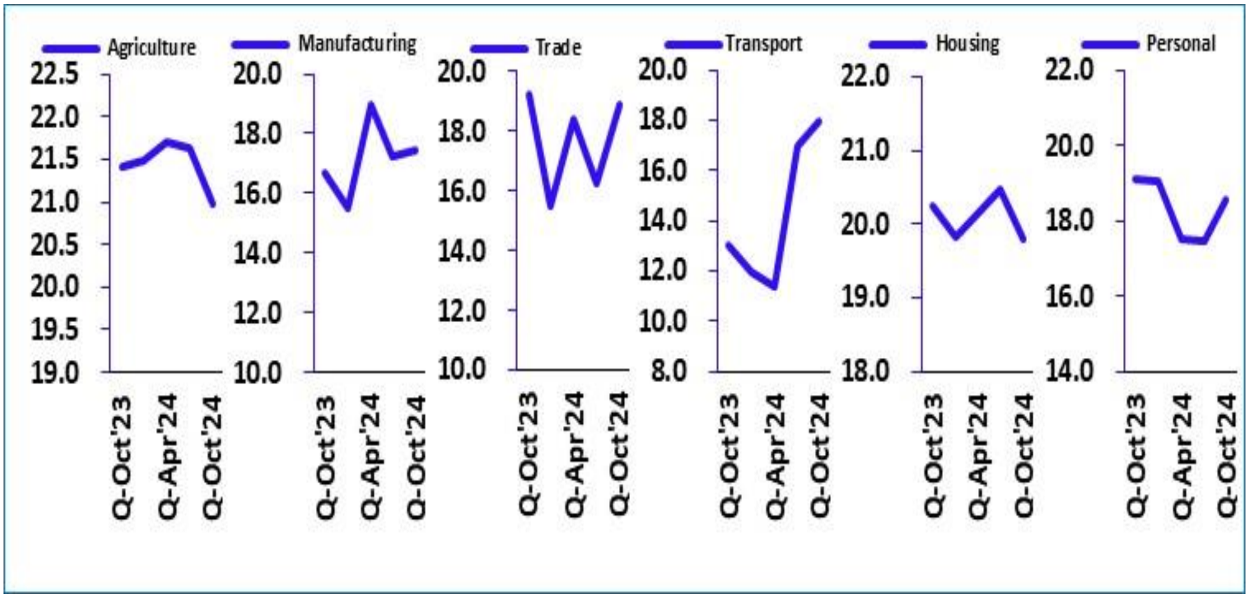
	91-day	182-day	364-day	2-year	3-year	5-year	10-year	15-year	20-year
Q-Nov'23	9.9	12.6	14.1	13.3	13.6	14.7	15.3	15.5	15.7
Q-Aug'24	10.2	13.4	15.0	14.3	15.1	15.3	15.9	16.0	16.5
Q-Nov'24	10.9	13.9	16.0	15.3	15.4	15.7	16.0	16.3	16.5

Source: Bank of Uganda

2.1.4 Lending interest rates

In the three months to October 2024, the prime lending rate for shilling-denominated loans remained unchanged at 20.7 percent. However, the weighted average shilling lending rate edged higher, reaching 19.1 percent compared to 18.1 percent in the previous three months. Conversely, the lending rate for foreign currency-denominated loans eased to 8.7 percent from 9.2 percent, reflecting a modest improvement in foreign currency borrowing costs. A sectoral breakdown revealed an increase in lending rates for Manufacturing, Trade, Transport and Communications, and Personal Loans, suggesting heightened risk perceptions in these sectors (**Figure 6**). Despite the uptick in average shilling lending rates, the unchanged prime lending rate suggests that banks are maintaining a cautious stance in their pricing strategies amid evolving credit dynamics.

Figure 6: Weighted average lending rates for selected sectors

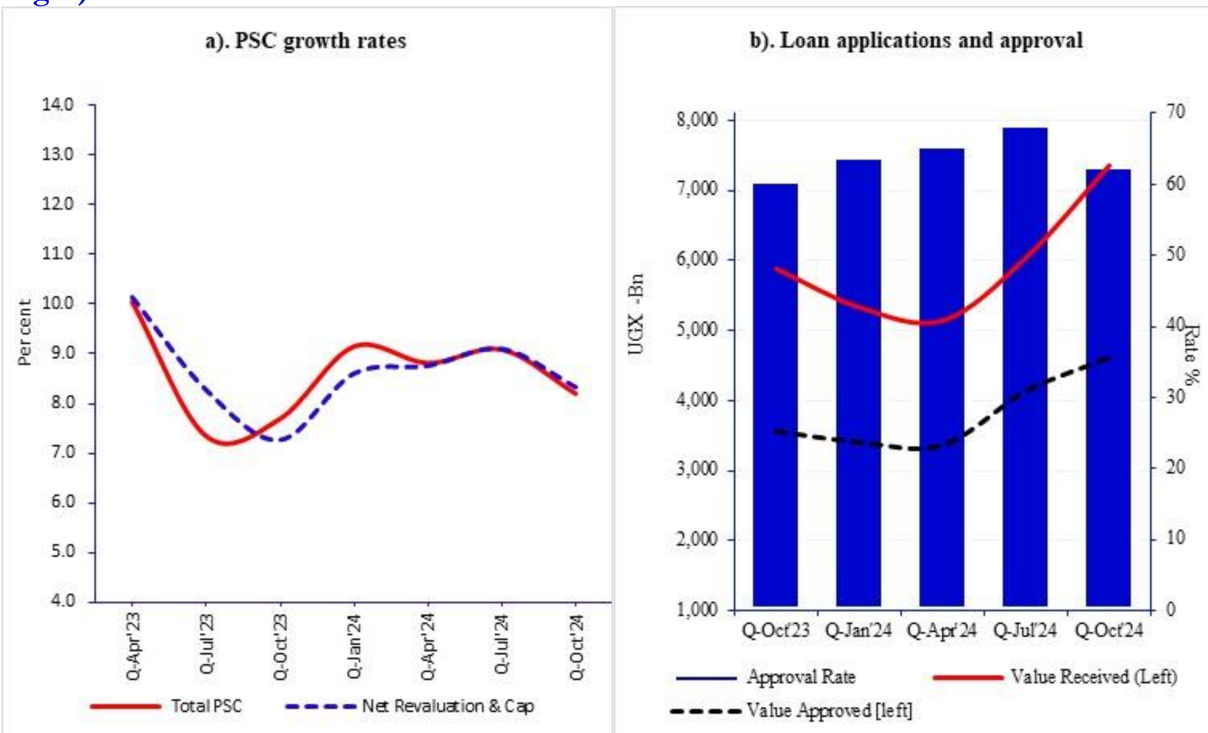


Source: Bank of Uganda

2.1.5 Private sector credit

Other depository corporations private sector credit (PSC) growth has softened recently, reflecting the impact of increased government borrowing, which constrained private sector access to credit (**Figure 7.a)**. In the three months to October 2024, annualized average PSC growth declined to 8.2 percent, from 9.1 percent in the three months to July 2024. Net of valuation and capitalized interest, PSC growth also moderated to 8.3 percent, compared to 9.1 percent previously. Shilling-denominated loans expanded by 10.4 percent, slightly lower than the 11.0 percent growth recorded in the prior period, while foreign currency-denominated loans slowed significantly to 2.4 percent from 4.1 percent. Despite this deceleration, the underlying conditions remain supportive for a gradual recovery in PSC. Going forward, previous monetary policy easing, and strong economic growth could provide a favourable environment for borrowing, and the relatively stable foreign exchange market is likely to bolster confidence in foreign currency loans. Shilling-denominated credit remains a key driver of growth, signalling the resilience of domestic-focused sectors.

Figure 7: Private Sector Credit Growth (y-o-y, %, Left) and Loans applications (Shs., billion, Right)

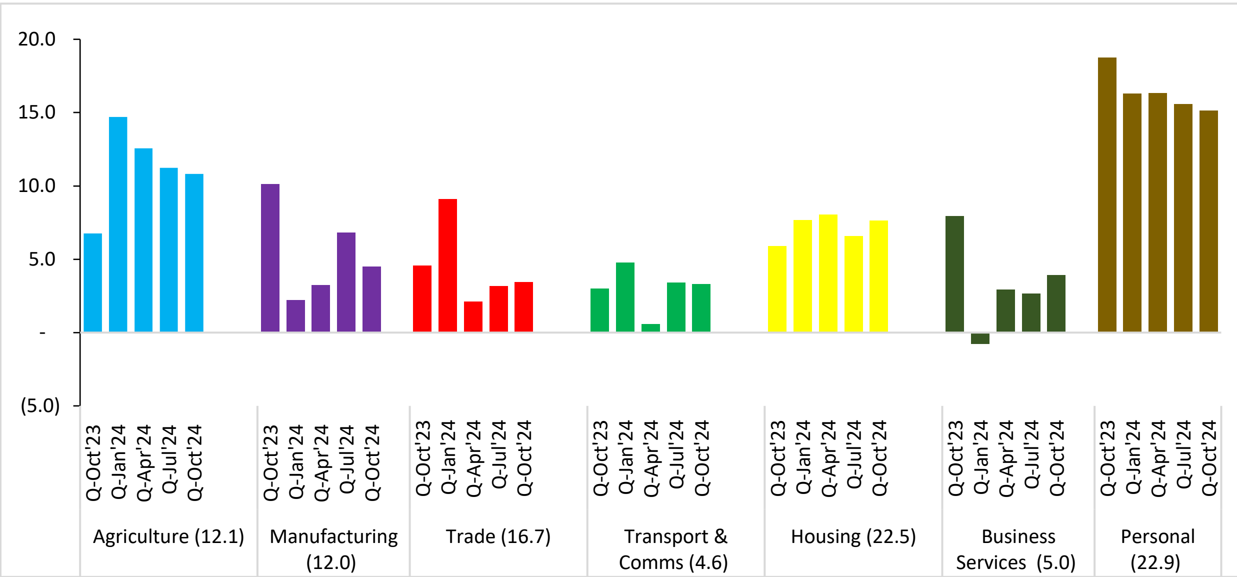


Source: Bank of Uganda

Total net credit extensions contracted in the three months to October 2024, declining to Shs 0.8 trillion from Shs 1.2 trillion in the three months to July 2024. This reduction reflects a cautious stance by supervised financial institutions (SFIs), which scaled back lending to the private sector amidst increased government borrowing and tight liquidity conditions. The demand for credit rose in the three months to October 2024, reaching Shs 7.4 trillion, up from Shs 6.0 trillion in the three months to July 2024. This increase signals sustained economic activity and growing financing needs across various sectors. On the supply side, credit availability also improved, with supply rising to Shs 4.6 trillion from Shs 4.1 trillion over the same period (**Figure 7.b**). Despite this positive trend, the rate of credit approval declined to 62.6 percent from 68.4 percent as banks adopted a more cautious lending approach in response to heightened risks and increased competition for funds. This cautious stance contributed to a marginal decline in non-performing loans (NPLs), which fell to 4.9 percent in September 2024 from 5.0 percent in June 2024, reflecting improved portfolio quality in the banking sector.

Annualized average PSC growth exhibited lacklustre performance across most major economic sectors in the three months to October 2024 (**Figure 8**). However, signs of optimism were observed in specific areas, signalling resilience and targeted demand for financing.

Figure 8: Sectoral PSC Growth (y-o-y, %, sectoral shares in brackets)



Source: Bank of Uganda

The growth in credit to the housing sector was driven by increased financing for residential mortgages, road construction and maintenance projects, and property developers and letting agents. This reflects steady recovery of activity in the real estate and infrastructure development. In the Trade sector, retail financing and export credit emerged as bright spots, supporting businesses engaged in wholesale and retail trade and export-oriented activities. The working capital requirements for business services saw an uptick, indicating active operations in the service industry despite broader sectoral challenges. While these areas demonstrate encouraging trends, the subdued performance in other sectors highlights the continued cautious lending environment and the need for broader recovery across the various sectors.

2.2 Balance of payments and exchange rates

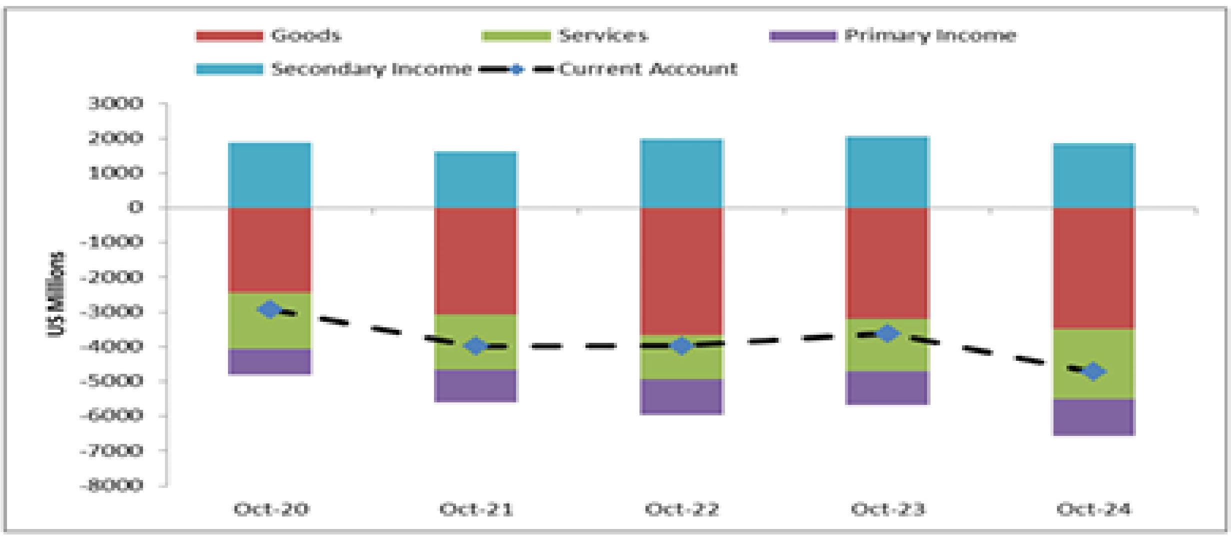
2.2.1 Balance of payments

In the 12 months to October 2024, current account deficit deteriorated to US$4,723.5 million from US$3,618.0 million in the same period in 2023. This performance reflected deteriorations in all sub-accounts. Over the same period, the trade deficit widened, to US$3,473.2 million from US$3193.5, reflecting a rise in imports that exceeded exports. Exports excluding gold rose by 7.9 percent to US$

5,002.6 million largely on account of coffee, cocoa and sugar. However, most of the other exports declined. Imports increased by 10.2 percent to US$ 8,682.4 million. This was largely due to private sector imports for investment, i.e., oil, and other investment goods.

The services deficit widened to US$2,012.8 million from US$1,518.4, mainly because of higher shipping costs. The secondary account had a surplus of US$1,847.6 million which is a decline compared to a surplus of US$2,058.7 million due to lower personal transfers inflows registered in the period under review (**Figure 9**).

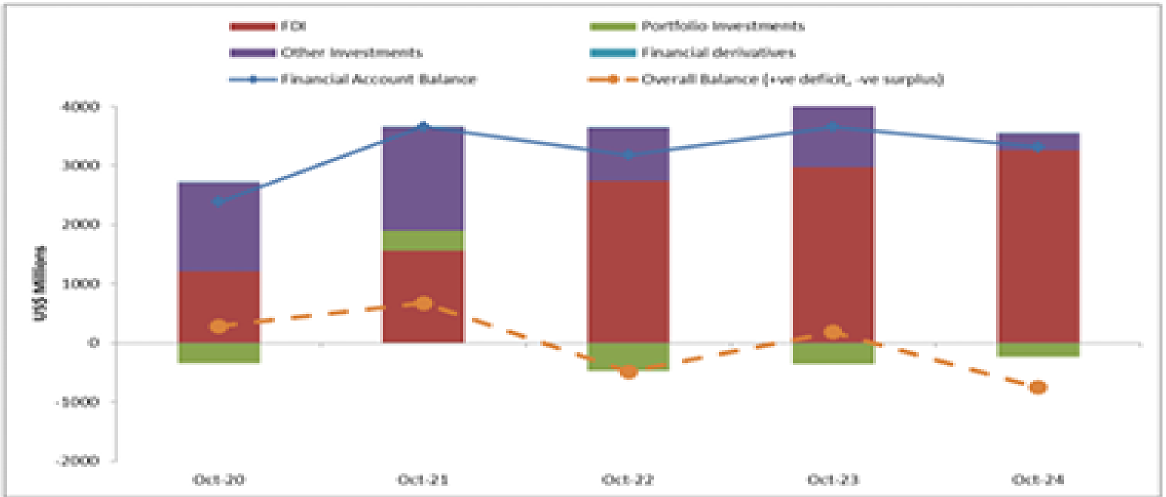
Figure 9: Current account its components(US$ Million)



Source: Bank of Uganda

Year-on-year, the financial account balance contracted, from a surplus of US$3,656.3 million to US$3,314.4 million, primarily driven by lower budget support. However, FDI increased from US$ 2,977.3 million to US$3,254.8 million. (**Figure 10**).

Figure 10: The Financial Account flows and its components (US$ million)



Source: Bank of Uganda

In the year to October 2024, a balance of payments recorded a deficit of US$682.7 million from a surplus of US$186.9 million registered in the year to October 2023. Consequently, the stock of reserves declined to US$3,381.8 million (3.0 months of future import cover excluding oil project-related imports) in October 2024, from US$3,907.5 million (3.8 months of future imports excluding oil project imports) in October 2023.

2.2.2 Balance of payments outlook

In the short term, the current account balance will be influenced by external factors such as global commodity prices, export demand, and international economic trends (**Table 2**). While the current account deficit is expected to widen due to a higher import bill ahead of the festive season, export revenues are projected to rise, driven by increased global demand for agricultural commodities like coffee and favourable prices. Additionally, falling oil prices are expected to lower import costs and increase remittances during the festive period that will further support the current account. However, risks include the potential for declining global coffee prices due to increased supply from Indonesia and Brazil and wet weather conditions negatively affecting post-harvest handling.

In the medium term, developments in the oil sector are expected to significantly shape the path of both current and financial account balances. The current account deficit is projected to narrow due to the anticipated revenue from oil production while the import bill for goods and services are expected to decline with the transition toward oil production. Conversely, the financial account surplus is likely to shrink as foreign investment in the oil sector tapers off as the oil production stage approaches. The medium-term BOP projections are provided in **Table 2**.

Table 2: BOP Medium Term Projections

BOP Accounts	FY2024/25		FY2025/26		FY2026/27		FY2027/28	
	US$bn	%GDP	US$bn	%GDP	US$bn	%GDP	US$bn	%GDP
Current Account	**-4.1**	**-6.9%**	**-3.9**	**-5.9%**	**-2.8**	**-3.8%**	**-2.5**	**-3.1%**
Trade balance	-3.3	-5.9%	-3.2	-4.8%	-1.9	-2.6%	-1.7	-2.2%
Services	-1.7	-2.9%	-1.6	-2.5%	-1.6	-2.2%	-1.6	-2.0%
Primaary income	-1.1	-1.8%	-1.2	-1.7%	-1.3	-1.8%	-1.3	-1.6%
Seconadry income	2.0	3.4%	2.1	3.2%	2.0	2.8%	2.1	2.7%
Capital account	**0.2**	**0.4%**	**0.2**	**0.3%**	**0.2**	**0.3%**	**0.2**	**0.3%**
Current and Capital Account*	**-3.8**	**-6.5%**	**-3.7**	**-5.5%**	**-2.6**	**-3.6%**	**-2.3**	**-2.8%**
Financial Account*	**3.7**	**6.3%**	**2.8**	**4.2%**	**2.2**	**3.0%**	**2.7**	**3.3%**
FDI*	3.1	5.2%	3.2	4.5%	2.6	3.6%	2.5	3.0%
Portfolio investment*	0.1	0.2%	0.1	0.2%	0.1	0.1%	0.0	0.1%
Other investment*	0.5	0.9%	-0.3	-0.4%	-0.5	-0.7%	0.2	0.2%
Overall Balance	**-0.3**	**-0.5%**	**-0.9**	**-1.3%**	**-0.4**	**-0.5%**	**0.4**	**0.5%**

**Sign inverted to reflect direction of flows*

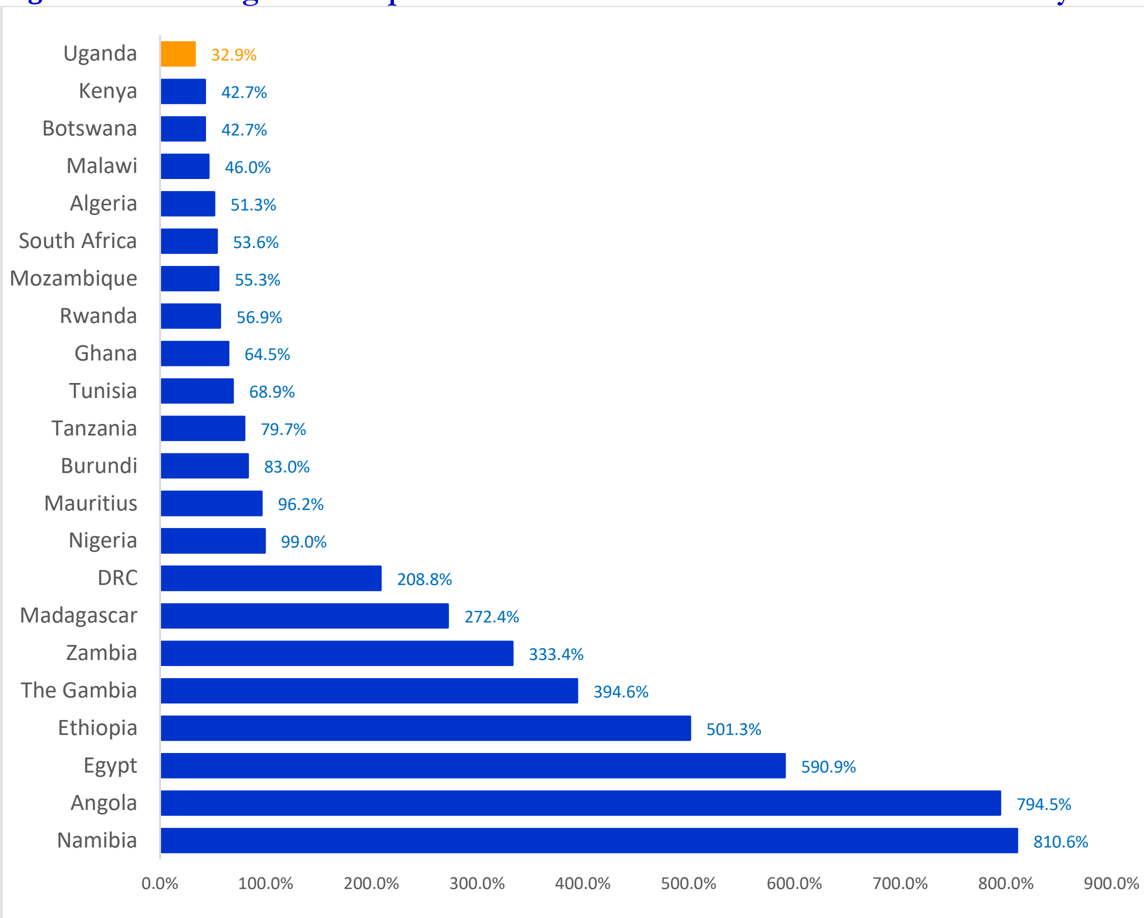
Source: Bank of Uganda

2.2.3 Exchange rates over the last 10 years

Over the past decade, the Uganda Shilling (UGX) has demonstrated remarkable stability, depreciating by only 32.9% against the U.S. dollar. This represents the lowest level of depreciation among selected African currencies, and particularly within the East African region (**Figure 11**). Additionally, Uganda's performance stands out as approximately 10% better than the second and third-ranked countries with floating exchange rate regimes on the African continent. Such performance underscores Uganda's resilience to both domestic and external shocks, bolstered by effective monetary and exchange rate policies.

The low depreciation rate also signals enhanced investor confidence in the Ugandan economy and its ability to manage external pressures such as fluctuations in commodity prices, shifts in global monetary policy, and geopolitical uncertainties. Unlike other currencies in the region that have experienced significant volatility due to structural imbalances and external shocks, the Uganda Shilling has managed to maintain a more predictable trajectory.

Figure 11: Exchange rates depreciation for selected African Currencies over 10 years



Source: IFS and BoU Staff calculation

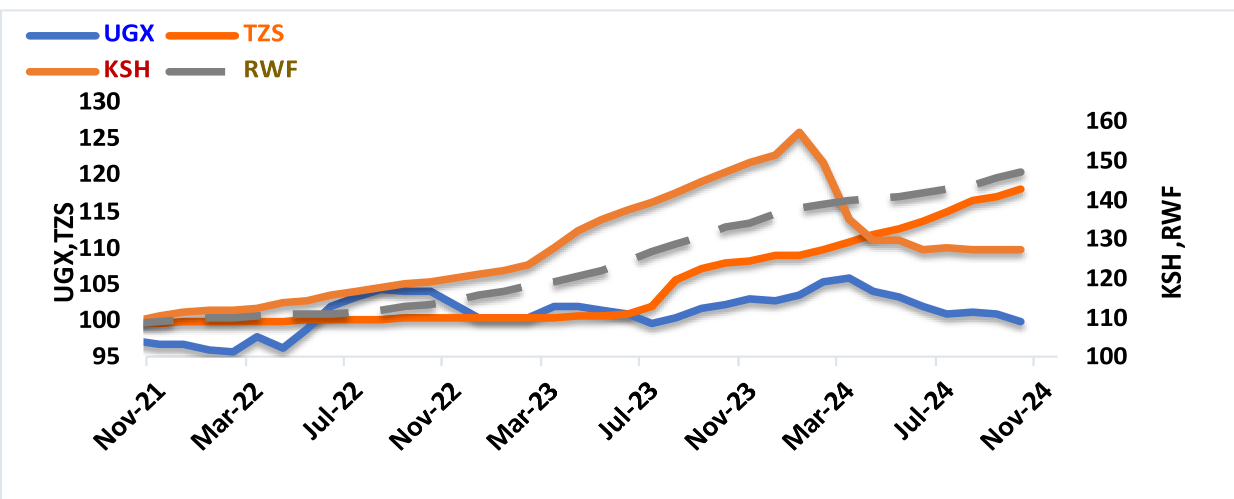
2.2.4 Current Exchange rates developments

The Uganda Shilling remained relatively stable with a bias towards an appreciation in 2024 largely due to a combination of factors including continued inflows from coffee exports, remittances, portfolio inflows and FDI that have supported demand for foreign currency, preventing undue pressure on the exchange rate, monetary policy actions, and reforms in the interbank foreign exchange market (IFEM). However, the Shilling experienced a mixed performance during November 2024 depreciating marginally by 0.29 percent month-on-month to an average midrate of Shs. 3,677.55 per US dollar. This was partly attributed to the external shocks from the volatile global financial market and the strengthened performance of the US dollar. Additionally, large corporate demand from Oil marketing and distribution, Telecommunication and Manufacturing firms led to this depreciation. On a quarterly basis however, the Shilling appreciated by 1.06 percent compared to the previous quarter ended July 2024. On annual basis, the Shillings appreciated by 1.93 percent relative to the quarter to November 2023.

The nominal effective exchange rate (NEER), a trade-weighted index of a basket of currencies, appreciated by 0.4 percent month-on-month in November 2024, compared to the 1.6 percentage appreciation in October 2024. On a year-on-year basis, the NEER appreciated by 2.8 percent, compared to an appreciation of 2.3 percent in the year ending October 2023, exhibiting gains in the Ugandan Shilling's value against a basket of trading-partner currencies.

In the East African Community (EAC) region, the Tanzanian Shilling posted a 2.5 percent appreciation, the strongest performance against the US Dollar, a significant reversal from a depreciation path that had lasted about twenty-eight months. The Tanzanian Shilling improved due to increased foreign exchange inflows from tourism, crop and gold exports, regulatory measures by the Bank of Tanzania, and stable demand driven by lower fertilizer import costs and policies requiring domestic payments in shillings. In the period under review, the Kenyan Shilling experienced a depreciation of 0.15 percent relative to the 0.01 percent appreciation registered the previous month. The Rwandan currency continued on a depreciation trend to a tune of 1.0 percent, the same performance as in October 2024. **Figure 12** depicts monthly exchange rate developments for selected currencies in the EAC region.

Figure 12: Monthly percentage change of selected EAC currencies against the US dollar



Source: Bank of Uganda

2.3 Financial Markets Development.

Over the past few years, the Bank of Uganda has implemented significant reforms to enhance the efficiency, liquidity, and depth of Uganda's interbank money and foreign exchange markets. These efforts have been pivotal in fostering financial stability, improving market transparency, and exchange rate stability.

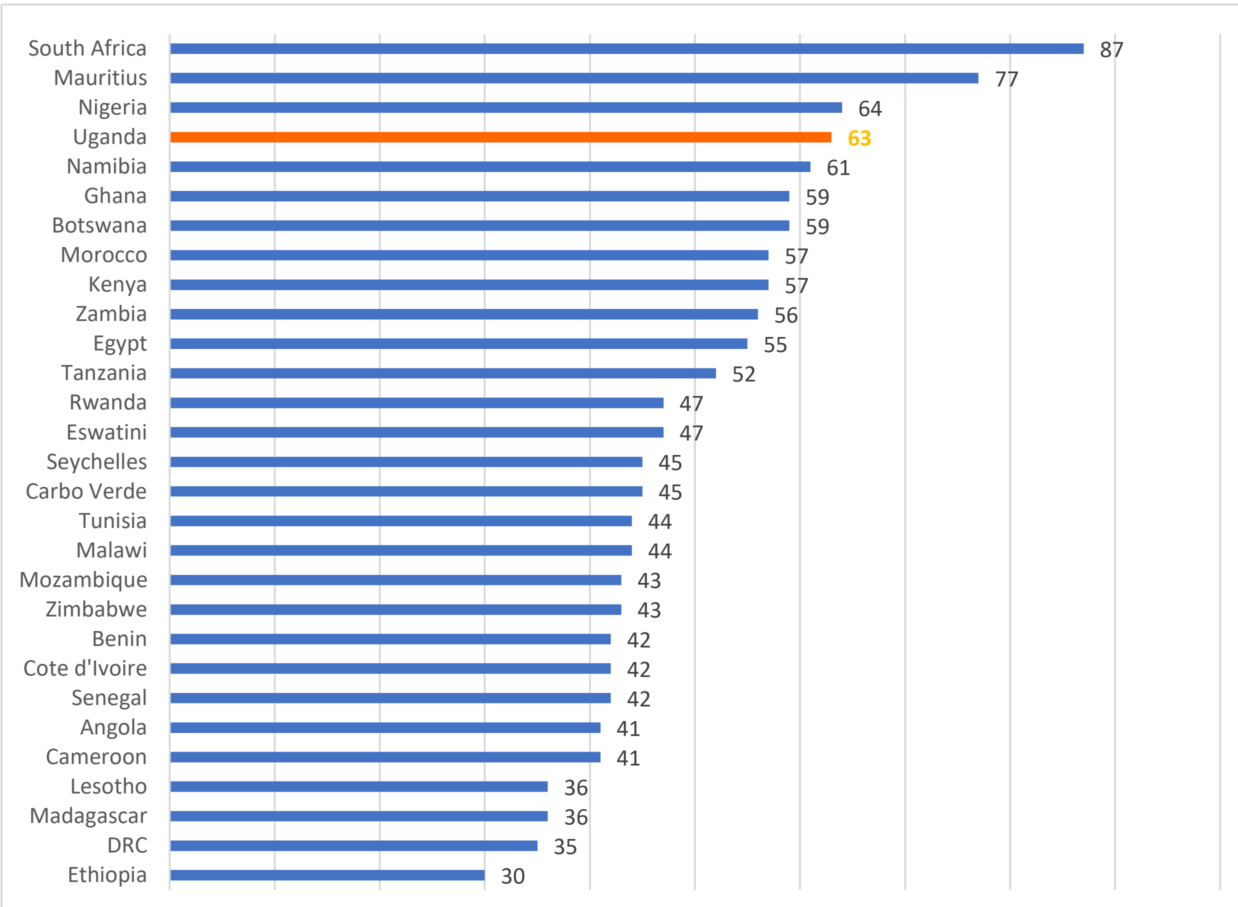
Notably, the collaboration with Frontclear has helped address segmentation in the money markets by strengthening financial infrastructure, advancing collateral management practices, and improving liquidity access across various market segments. Frontclear's umbrella guarantee facility, which mitigates interbank default risks, has integrated the FX and money markets, reduced transaction costs, and enhanced price discovery and market transparency. These developments have supported a more competitive and resilient financial ecosystem. Capacity building has also been a key focus. In collaboration with Frontclear, the Uganda ACI Dealers Association, and ACI Global, the BoU has provided continuous training in technical analysis, derivatives, and best practices to enhance traders' expertise in the foreign exchange market. Professional standards are upheld through mandatory ACI Dealing Certificates for all market traders, with quarterly training sessions ensuring ongoing professional development.

The adoption of the Global Master Repurchase Agreement (GMRA) has modernized and standardized financial market transactions, fostering more efficient collateralized borrowing and lending. By adopting this agreement, the BoU ensured that repo transactions are conducted with greater clarity, consistency, and legal certainty domestically and in the broader international financial system. All collateralized borrowing from the BoU is now conducted through the Sale Buyback mechanism, which has proven instrumental in managing liquidity and stabilizing the financial markets. These transactions allow the BoU to adjust liquidity levels effectively, thereby maintaining the stability of the Uganda Shilling. Technological advancements have further supported market development. The BoU, in partnership with Refinitiv, has invested in improving trading platforms and clearing systems to ensure faster, more reliable transactions.

Revisions to regulatory frameworks have further aligned Uganda's financial markets with international standards. Updates to the Financial Institutions Act ensure that forex swaps remain valid during financial institution management changes, leading to a 38.5% increase in swap activity. Notably, updates to the Code of Conduct for FX market participants in line with the Global FX Code have promoted ethical practices, fostering greater trust and encouraging broader market participation.

These reforms have contributed to the relative stability of the Uganda Shilling, supported by prudent monetary policy and robust inflows from coffee exports, remittances, and foreign investments. Together, these measures have created a resilient and stable financial environment, capable of mitigating external shocks and supporting sustained economic growth.

Figure 13: ABSA Africa Financial Markets Index, 2024



Source: Absa Africa Financial Markets Index 2024

Indeed, Uganda's financial markets continue to showcase resilience and steady growth, as evidenced by its fourth-place ranking in the 2024 ABSA Africa Financial Markets Index (AFMI) among 29 African countries (**Figure 13**). This positions Uganda as a regional leader in East Africa, outperforming Kenya, which ranked eighth, and Tanzania, which ranked twelfth. The ranking highlights Uganda's progress in critical areas such as macroeconomic stability, market depth, and regulatory transparency. Notably, Uganda earned the second-highest score in Africa for macroeconomic environment and transparency, reflecting a robust framework that fosters investor confidence and supports sustainable growth.

2.4Fiscal policy

2.4.1 Government expenditure and revenue

The data for the first four months of FY2024/25 indicates that fiscal operations were less expansionary than planned with expenditures were contained below budget, despite revenue collections underperforming target **(Table 3).**

The total revenue, including grants, amounted to Shs. 9,564.9 billion, Shs. 747.1 billion below the target, and 13.6 percent higher than for a similar period in FY2023/24. This was largely due to the underperformance of project support grants. The total project support grants disbursements were Shs. 816.0 billion below budget estimates but was 70.5 percent higher when compared with the inflows October 2023. Total expenditure in October 2024 amounted to Shs. 11,829.8 billion, Shs. 123.2 billion lower than planned, mainly due to Shs.656.8 billion and Shs.619.3 billion underperformance in compensation of employees and other expenses, respectively. In addition, Government expenditure on net acquisition of non-financial assets (capital expenditure) amounted to Shs. 958.9 billion, which was Shs. 2,216.3 billion lower than planned, attributable to low absorption of funds by central government units (**Table 3**). These developments in fiscal operations resulted in a fiscal deficit of Shs. 3223.8 billion, which was higher than planned, by Shs. 1592.4 billion.

Table 3: Fiscal operations (Shs., billions)

	Jul'23-Oct'23	Jul'24-Oct'24	Prog.Jul'24-Oct'24	Variation	Annual (%)
Revenue	**8,416.6**	**9,564.9**	**10,312.0**	**-747.1**	**13.6**
Taxes	7,487.1	8,480.7	8,445.0	35.7	13.3
Grants -Project Support	233.7	398.4	1214.4	-816.0	70.5
Other revenue	695.8	685.8	652.6	33.2	-1.4
Expenses	**9,261.5**	**11,829.8**	**11,953.00**	**-123.2**	**27.7**
Compensation of employees	1378.3	1747.4	2404.2	-656.8	26.8
Purchase of goods and services	1822.9	2693.4	2618..8	74.6	47.7
Interest Payments	1897.6	2340.1	2381.4	-41.3	23.3
Domestic	1513	1886.9	1919.8	-32.9	24.7
External	384.5	453.2	461.6	-8.4	17.9
Grants	3620.6	4361.6	3222.3	1139.3	20.5
Social benefits	142.6	146.1	165.6	-19.5	2.4
Other expense	384.4	541.2	1160.5	-619.3	40.8
Gross operating balance	**-844.9**	**-2264.9**	**-1641**	**-623.9**	
Net Acquisition of Nonfinancial Assets	2193.6	958.9	3175.2	-2216.3	
Net lending / borrowing	-3038.5	-3223.8	-4816.2	-1592.4	
Transactions in financial Assets and Liabilities (Net)	-3038.5	-3223.8			
Net acquisition of financial assets	-1,652.4	992.8			
Domestic	-1,652.4	992.8			
Foreign	0.0	0.0			
Net incurrence of liabilities	-836.3	4,880.7			
Domestic	-900.8	4,559.5			
Foreign	64.5	321.2			
Errors and Omissions	-2222.4	664.1			

Source: Ministry of Finance Planning and Economic Development

In the first four months of the financial year (FY2024/2025), relative to the Uganda Revenue Authority (URA) targets, the outturns for net tax and non-tax revenue (NTR) collections amounted to Shs. 9,032.4 billion, of which net URA tax revenue amounted to Shs. 8,491.0 billion, and NTR amounted to Shs. 710.2 billion, corresponding to an overperformance of Shs. 46.0 billion and Shs. 57.6 billion, respectively **(Table 4).** The overperformance in net URA tax collection was largely attributed to higher international trade and direct domestic tax collections. Direct taxes overperformed by Shs. 43.2 billion due to an overperformance of Shs. 53.1 billion in corporate tax collections while international trade taxes overperformed by Shs. 11.3 billion. In contrast, indirect tax collections underperformed by Shs. 68.2 billion, largely because of lower collections in value added tax (VAT) on manufactured goods and below target excise duty collections from phone talk time. On an annual basis, total net tax revenue registered a growth of 13.4 percent in the four months of the FY24/25 compared to an increase of 12.1 percent in the previous year.

Table 4:Revenue performance (billion shillings)

	Jul-Oct22	Jul-Oct23	Jul-Oct24	URA Target Oct-24	Jul-Oct24 Variation from Target	Annual change 2022/23-2023/4 (%)	Annual change 2023/24-2024/25 (%)
Total Net Tax & Non-Tax Revenue	**7,211.8**	**8,182.30**	**9,201.20**	**9.97.6**	**103.6**	**13.5**	**12.5**
Net URA tax revenue (excl. Refunds)	**7,146.2**	**7,989.10**	**9,032.40**	**9,037.60**	**-5.2**	**11.8**	**13.1**
Direct Domestic Taxes	2,093.2	2445.7	2830.2	2787.1	43.2	16.8	15.7
o/w PAYE	1,224.1	1450.6	1590.5	1588.3	2.1	18.5	9.6
o/w Corporate tax	138.0	125.7	238.8	185.7	53.1	-8.9	90
o/w Withholding tax	414.2	520.6	578.6	591.4	-12.8	25.7	11.1
Indirect Domestic Taxes	1,634.4	2126.8	2267.7	2336	-68.2	30.1	6.6
o/w Excise duty	604.4	707.7	768	785.5	-17.5	17.1	8.5
o/w VAT	1,030.0	1419.1	1499.8	1550.5	-50.8	37.8	5.7
Taxes on international Trade	2,949.7	3087	3556.1	3544.8	11.3	4.7	15.2
Stamp duty & Embossing Fees	36.4	40.2	42.8	45.4	-2.6	10.5	6.3
Non-Tax Revenue	532.9	695	710.2	652.6	57.6	30.4	2.2
Tax refunds	-34.8	-212.4	-205.8	-268.3	62.4	510.2	-3.1

Source: Ministry of Finance Planning and Economic Development

Domestic revenue is projected to maintain the strong performance registered in the four months of the fiscal year supported by URA's tax administrative efforts through the Domestic taxes Compliance Improvement Plan (CIP) and implementation of the Domestic Revenue Mobilization Strategy (DRMS) coupled with a positive economic outlook for 2024/25. However, downside risks to the revenue outlook include trade supply disruptions arising from global geopolitical tensions.

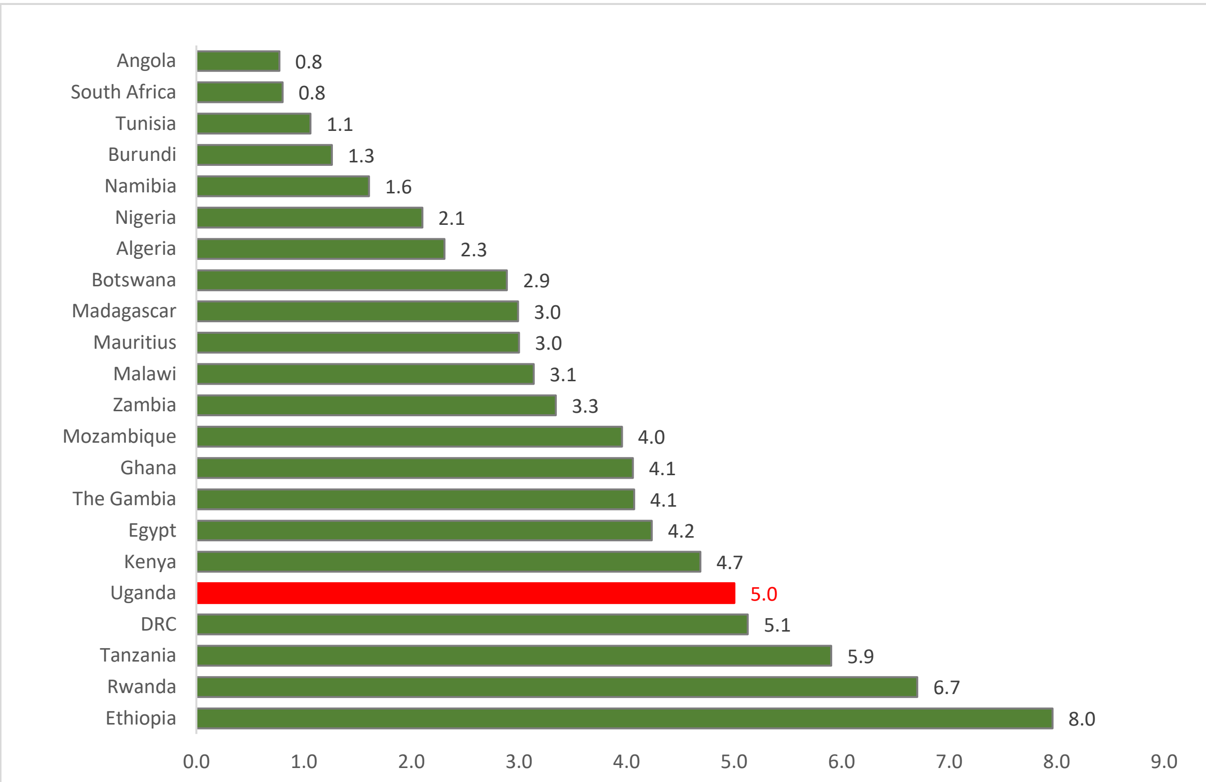
2.5. Domestic economic activity

2.5.1 Economic Growth over the last 10 years

Over the past decade, Uganda's economy has demonstrated strong resilience and performance, recording an average annual GDP growth rate of 5%. This robust growth is particularly noteworthy given the challenging macroeconomic environment, including the impacts of the COVID-19 pandemic, climate change shocks, and other external and domestic economic disruptions (**Figure 14**). Compared to other African countries, Uganda's economic growth stands out as one of the most consistent and stable on the continent.

The country's impressive growth trajectory can be attributed to sound monetary and fiscal policies that have effectively supported economic activity. The BoU's focus on maintaining price stability through prudent monetary policy has created an environment conducive to investment. Coupled with fiscal policies targeting infrastructure development and social spending, these measures have driven both public and private sector growth.

Figure 14: Average GDP growth over the last 10 years in Africa countries



Source: IFS and BoU Staff calculation

2.5.2 Current Economic Growth Developments and outlook.

Economic activity remains strong. Estimates from leading indicators and business sentiments suggest that Uganda's economic growth remain positive and on track. The Purchasing Managers' Index (PMI) rose to 55.7 in November 2024 from 52.9 in October 2024 driven by strong demand and business investments. Additionally, the Business confidence was more positive in November 2024. The Business Tendency Index (BTI) increased to 59.6, reflecting improved confidence about the near-term outlook by firms about the business situation. Despite remaining negative, consumer confidence also improved in November 2024 on account of increases in both the consumers' expectations and the current economic conditions indices.

The high frequency indicators of economic activity point to sustained growth, primarily driven by robust domestic spending. The GDP growth projection for FY2024/25 remains unchanged, with growth projected at between 6.0 percent and 6.5 percent this financial year and between 7.0 percent and 7.5 percent over the medium term. This positive outlook is supported by strategic government initiatives, increased foreign direct investment in the extractive industries, and the expected start of oil production in FY2025/26.

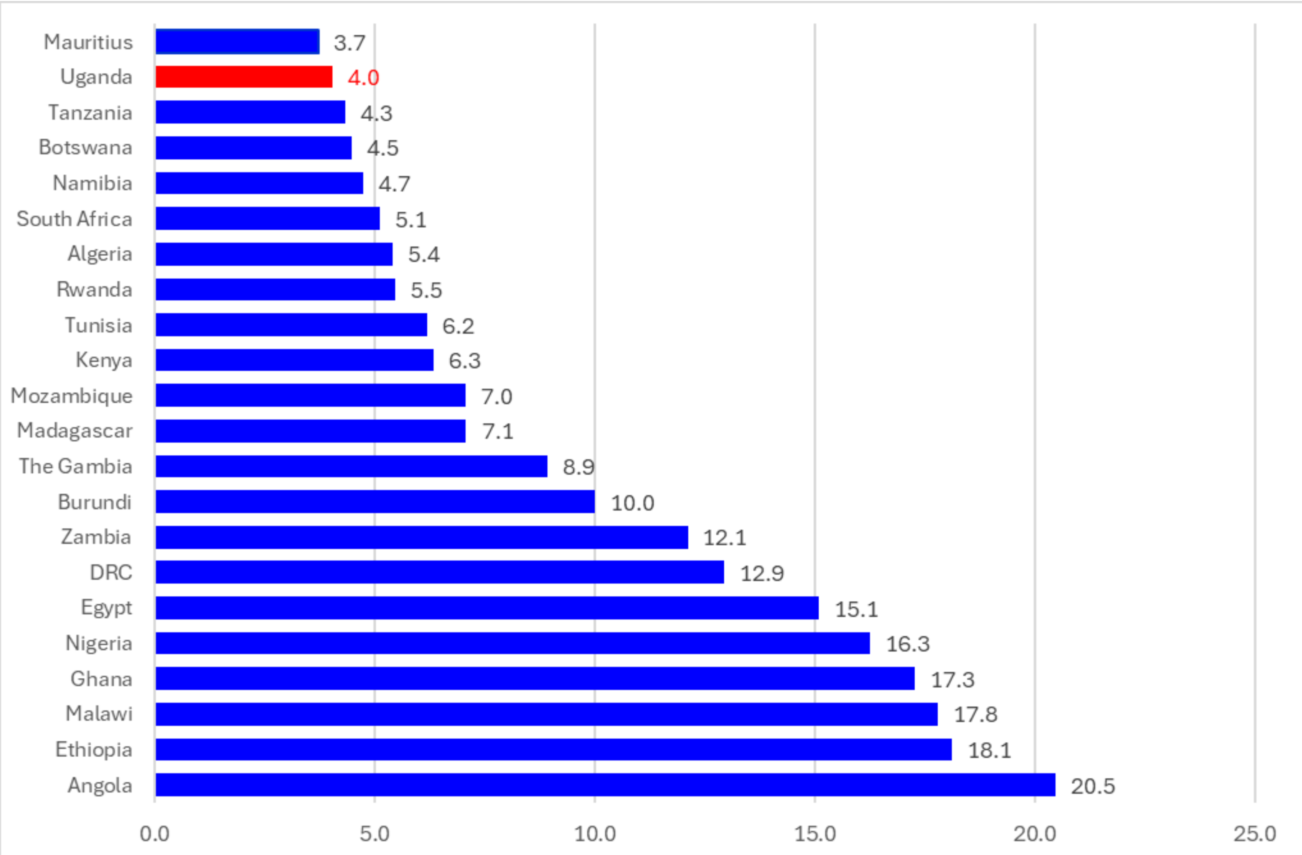
However, significant uncertainty surrounds the growth forecast. On the downside, growth could be slower if escalating geopolitical risks or shifts in global trade and fiscal policies trigger economic shocks. These could disrupt trade and supply chains and result in higher commodity prices, particularly for oil. Furthermore, if domestic financial conditions remain tight, borrowing costs could increase, and higher public-sector borrowing to finance fiscal deficits may crowd out private-sector investment, further restricting access to credit. Additionally, the ability of fiscal policy to respond effectively to emerging global shocks may be constrained. Growth could also surprise on the upside. An early resolution to the ongoing major geopolitical conflicts could improve sentiment, and lower energy prices. Growth could exceed expectations if government interventions lead to improvements in productivity or if investment in the extractive sector increases. A recovery in the global economy could also support exports, remittances, tourism, and foreign direct investment, while favourable weather conditions could boost crop production. Overall, the risks to the growth outlook are balanced.

2.6 Domestic Inflation and Outlook

2.6.1 Domestic Inflation over the last 10 years

Over the past decade, Uganda has maintained one of the lowest and most stable inflation rates in Africa, averaging just 4.0%, the second lowest on the continent after Mauritius and lowest in the East African region (**Figure 15**). Despite facing numerous challenges, including global oil price fluctuations, trade disruptions during the COVID-19 pandemic, and climate change shocks, Uganda has kept inflation with the 5 percent target. This remarkable achievement reflects the effectiveness of prudent monetary policy actions and fiscal policy. Uganda’s consistent inflation performance, supported by institutional credibility and financial sector advancements, has enhanced investor confidence, protected household purchasing power, and fostered a predictable economic environment conducive to sustained growth. This inflation success underscores Uganda's position as a regional leader in macroeconomic management.

Figure 15: African countries Inflation performance in the last 10 years



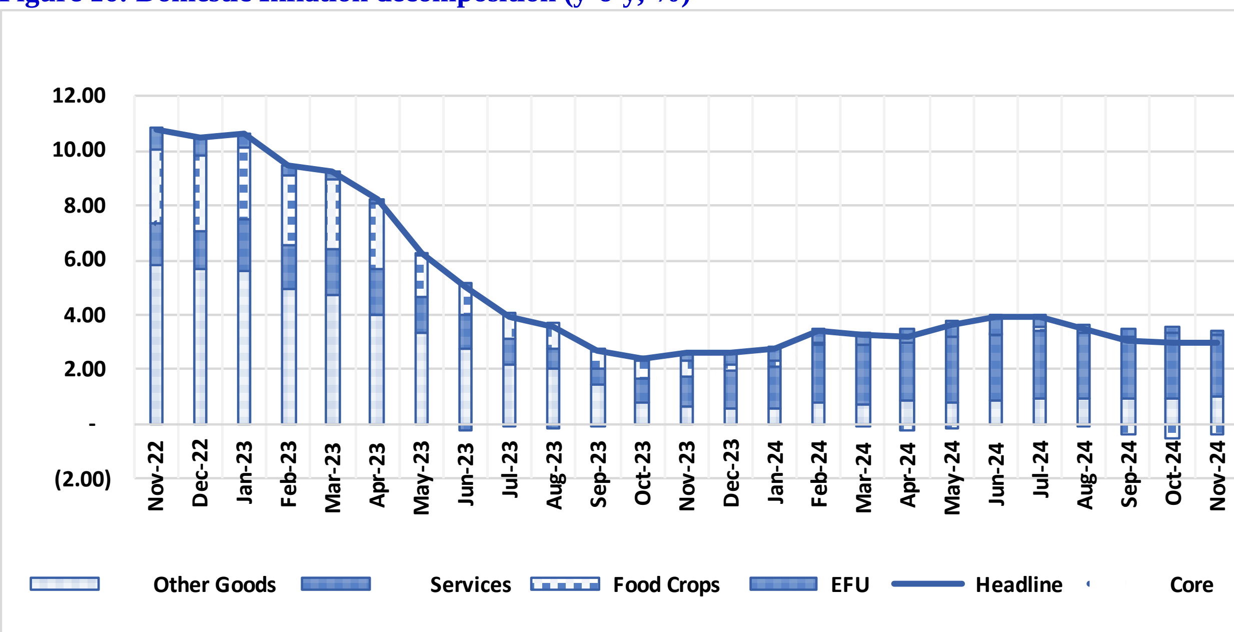
Source: IFS and BoU Staff calculation

2.6.2 Domestic Inflation

Inflation remained subdued, consistently staying below the 5.0 percent target in the current financial year, primarily due to stable economic conditions and effective monetary policy management, which have helped shield the economy from external shocks. Indeed, in the twelve months to November 2024, the average annual headline and core inflation rates were 3.3% and 3.5%, respectively. This stability can be attributed to previous monetary policy measures that have bolstered the shilling exchange rate, favourable weather conditions leading to lower food crop prices, lower oil prices, and a reduction in global inflationary pressures.

Additionally, Annual headline inflation decreased from 4.0 percent in July 2024 to 2.9 percent in November 2024, driven mainly by a reduction in core inflation (**Figure 16**). Core inflation fell from 4.0 percent to 3.8 percent over the same period. This decline in core inflation was primarily attributed to a drop in services inflation, which decreased to 5.9 percent in November 2024 from 6.5 percent in July 2024, mainly due to lower transport, food & beverages, and financial services costs. Meanwhile, inflation for other goods rose slightly to 2.2 percent in November 2024 from 2.0 percent in July 2024.

Figure 16: Domestic Inflation decomposition (y-o-y, %)



Source: UBOS

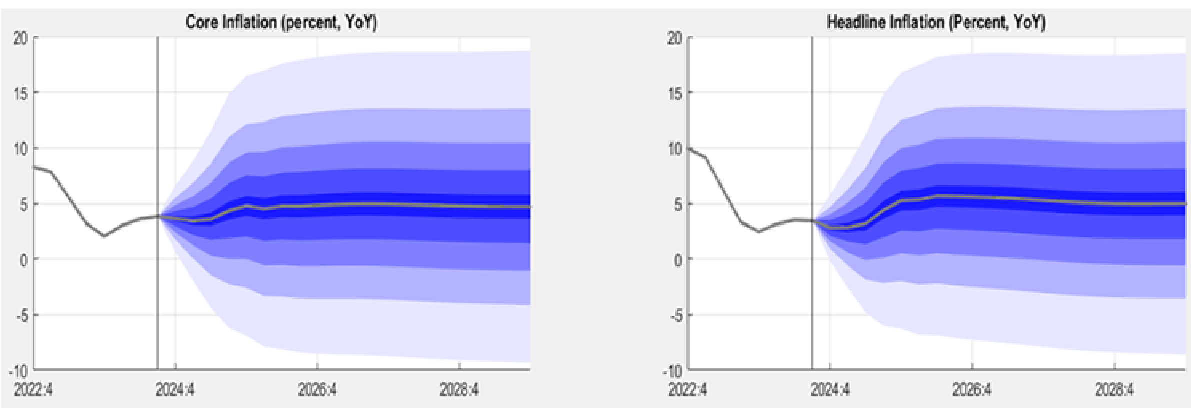
Non-core inflation showed a more significant decline, falling from 3.8 percent to minus 1.4 percent over the same period. This was primarily driven by a sharp decrease in Energy, Fuel, and Utilities (EFU) inflation, which dropped to 2.2 percent from 6.2 percent, mainly due to a reduction in liquid fuel prices. Additionally, inflation for food crops and related items fell substantially, dropping to minus 4 percent in November 2024 from 2 percent in July 2024.

2.6.3 Inflation Outlook

Inflation is projected to remain below the medium-term target of 5%, averaging 3.7% in FY2024/25 and 4.2% in FY2025/26 and return to target in the medium term (**Figure 17**). Comparing BoU forecasts with other forecasters, the forecasts for inflation and growth are closely similar. Inflation is projected to remain below 5% in the near term while growth is in the range of 5.9%-6.8% for all sources forecasts as depicted in **Table 5**.

The forecasts are subject to various domestic and global risks. On the upside, inflation could exceed expectations due to stronger-than-anticipated domestic growth, driven by increased investment in the extractive industries and the successful implementation of government programs. Additionally, disruptions to global supply chains caused by escalating geopolitical conflicts or extreme weather events could impact market supplies and increase prices. A more depreciated exchange rate could intensify inflationary pressures. On the downside, inflation may fall below the projection if factors such as a stronger exchange rate, primarily due to higher capital inflows from the oil sector, come into play. Lower oil prices and slower global economic growth could also help ease inflationary pressures. Overall, the risks to the inflation outlook are balanced.

Figure 17: Baseline inflation forecast.



Source: Bank of Uganda

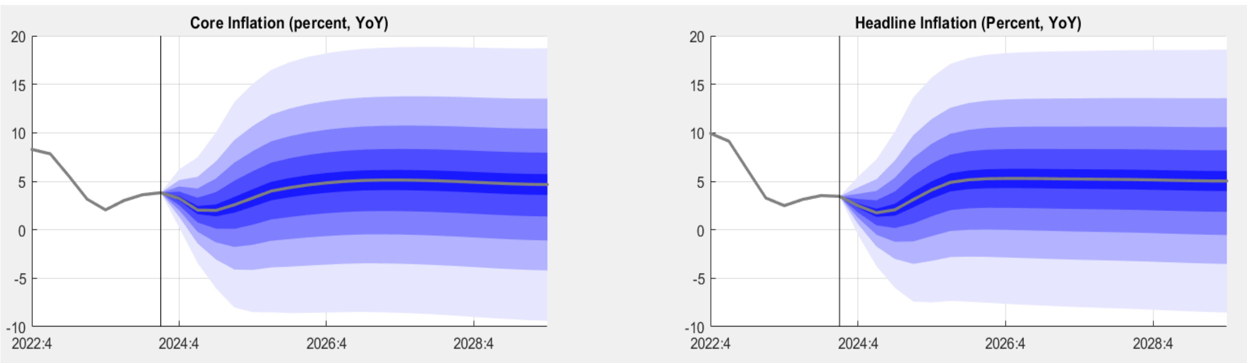
Table 5:Forecast Compararisons

	Inflation		Growth	
	2024/25	2025/26	2024/25	2025/26
BOU	3.7	4.2	6.1	6.8
Local Banks	3.7	4.1	6.2	6.6
External Forecasters	3.9	4.6	5.9	6.4

2.6.4 Alternative scenarios

The first alternative scenario assumes a reduction in the Central Bank Rate (CBR) to 9.5 percent in Q1 2025 and further to 9.0 percent in Q2 2025, with this rate maintained until the end of 2025. Under this scenario, headline and core inflation are projected to be 0.1 percentage points higher than the baseline forecast in 2025 (**Figure 18**).

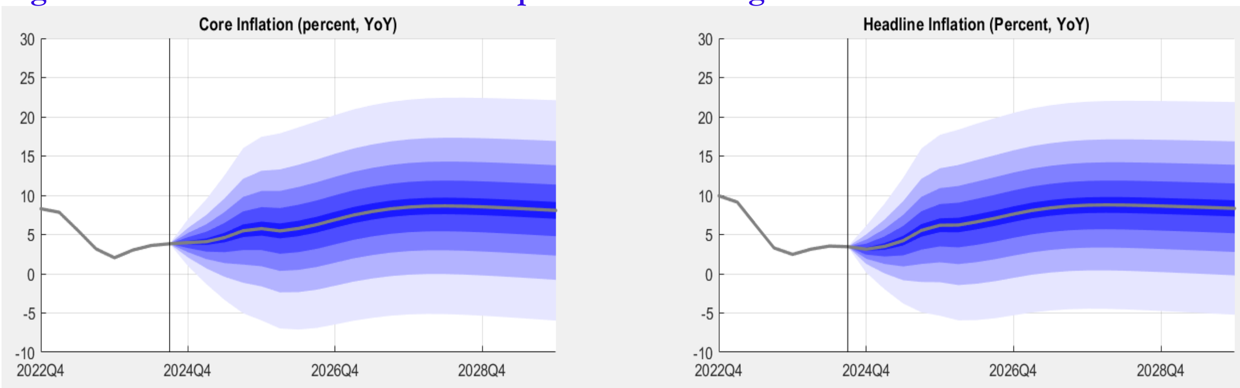
Figure 18: Alternative scenario of Lowering the CBR



Source: *Bank of Uganda*

The second alternative scenario assumes a 5 percent depreciation of the exchange rate compared to the baseline over the forecast horizon. Under this scenario, headline and core inflation are projected to be 0.8 percentage points higher than the baseline over the next four quarters (**Figure 19**).

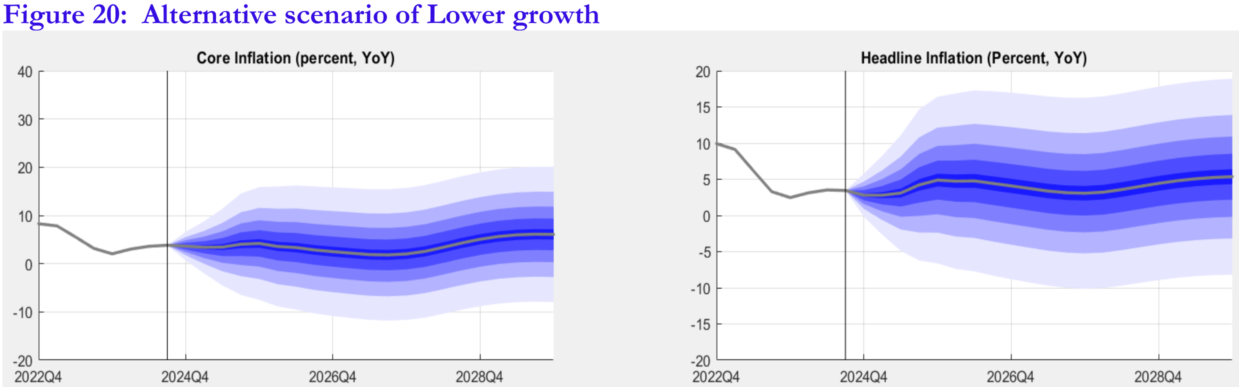
Figure 19: Alternative scenario of a depreciated exchange rate



Source: *Bank of Uganda*

The third scenario assumes lower global growth driven by increased protectionist policies globally. In this scenario, headline inflation is projected to remain unchanged in FY2025/26 but to be 0.5 percentage points lower than the baseline in FY2026/27. Similarly, core inflation is expected to be 0.1 percentage points lower than the baseline in FY2025/26 and 0.8 percentage points lower in FY2026/27 (**Figure 20**).

Figure 20: Alternative scenario of Lower growth



Source: *Bank of Uganda*

3. CONCLUSION

Over the past decade, Uganda's economy has demonstrated strong resilience and performance, recording an average annual GDP growth rate of 5%. This robust growth is particularly noteworthy given the challenging macroeconomic environment, including the impacts of the COVID-19 pandemic, climate change shocks, and other external and domestic economic disruptions. Compared to other African countries, Uganda's economic growth stands out as one of the most consistent and stable on the continent. The high frequency indicators of economic activity point to sustained growth, primarily driven by robust domestic spending. The GDP growth projection for FY2024/25 remains unchanged, with growth projected at between 6.0 percent and 6.5 percent this financial year and between 7.0 percent and 7.5 percent over the medium term. This positive outlook is supported by strategic government initiatives, increased foreign direct investment in the extractive industries, and the expected start of oil production in FY2025/26.

Uganda has maintained one of the lowest and most stable inflation rates in Africa, averaging just 4.0% over the last decade, the second lowest on the continent after Mauritius and lowest in the East African region. Despite facing numerous challenges, including global oil price fluctuations, trade disruptions during the COVID-19 pandemic, and climate change shocks, Uganda has kept inflation with the 5 percent target. This remarkable achievement reflects the effectiveness of prudent monetary policy actions and fiscal policy. Uganda's consistent inflation performance, supported by institutional credibility and financial sector advancements, has enhanced investor confidence, protected household purchasing power, and fostered a predictable economic environment conducive to sustained growth.

Over the twelve months leading up to November 2024, the average annual headline and core inflation rates were 3.3% and 3.5%, respectively. This stability can be attributed to previous monetary policy measures that have bolstered the shilling exchange rate, favourable weather conditions leading to lower food crop prices, lower oil prices, and a reduction in global inflationary pressures. Annual headline inflation decreased from 4.0 percent in July 2024 to 2.9 percent in November 2024 while Core inflation fell from 4.0 percent to 3.8 percent over the same period. Inflation is projected will stay below the medium-term target of 5%, averaging 3.7% in FY2024/25 and 4.2% in FY2025/26. However, these forecasts are subject to various risks. On the upside, inflation could exceed expectations due to stronger-than-anticipated domestic growth, driven by increased investment in the extractive industries and the successful implementation of government programs. Additionally, disruptions to global supply chains caused by escalating geopolitical conflicts or extreme weather events could impact market supplies and increase prices. A more depreciated exchange rate could intensify inflationary pressures. On the downside, inflation may fall below the projection if factors such as a stronger exchange rate, primarily due to higher capital inflows from the oil sector, come into play. Lower oil prices and slower global economic growth could also help ease inflationary pressures. Overall, the risks to the inflation outlook are balanced.

In view of the recent macroeconomic development and forecasts, the MPC noted that although inflation is projected to remain below target in the near term, geopolitical conditions and policy uncertainty could contribute to increased volatility in economic activity and inflation in the short to medium term. Consequently, the MPC decided to maintain the central bank policy rate (CBR) at 9.75 percent. At the current CBR level, the monetary policy stance remains conducive to sustainable economic growth amid price stability and supports Uganda's socio-economic transformation. The Bank will continue to monitor developments in the global and domestic economy as well as forecasts to guide policy actions.