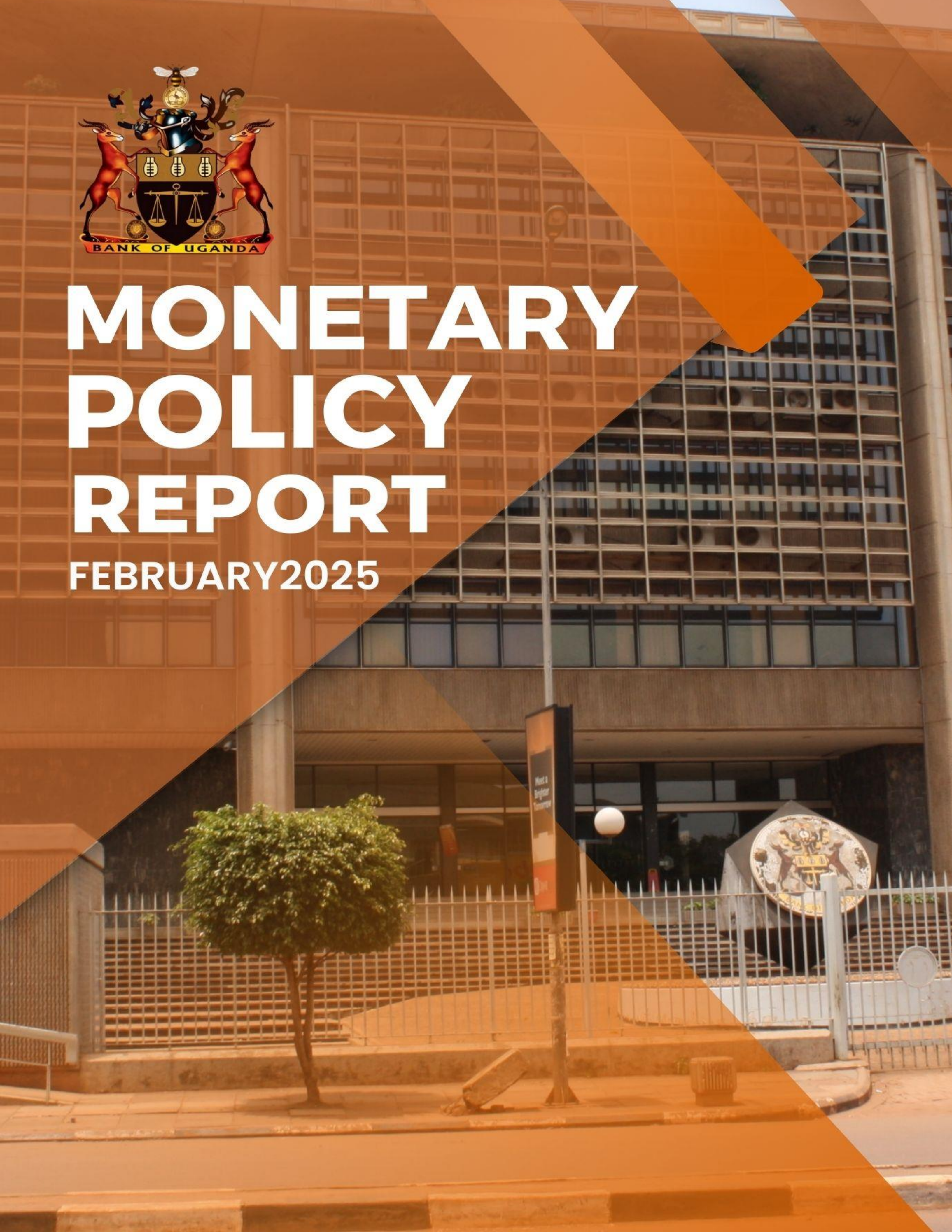

BANK OF UGANDA

MONETARY POLICY REPORT

FEBRUARY2025

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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
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
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
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. Global growth is projected to stabilize at 3.3 percent in 2025 and 2026, slightly up from 3.2 percent in 2024, but still below the historical average. Growth in advanced economies, such as the U.S. and the Euro Area, is expected to moderate due to softer labour markets, fiscal constraints, and geopolitical tensions. While China's growth will slow, India's economy is set to remain resilient, with 6.5 percent growth expected in both 2025 and 2026. For Uganda, the subdued global growth outlook presents challenges in export demand, but offers opportunities for diversifying trade, boosting investment, and focusing on structural reforms to strengthen economic resilience. This is further complicated by the rising trade wars and geopolitical tensions that have the potential to constraint Uganda's exports growth.

2. Global headline inflation remains high but is expected to return to target levels faster in advanced economies than in emerging markets and developing economies (EMDEs), with projections of 4.2 percent in 2025 and 3.5 percent in 2026. The inflation outlook is uncertain, shaped by regional differences, fiscal policies, and rising tariffs, which could increase inflationary risks, disrupt supply chains, and elevate production costs. Additionally, renewed inflationary pressures may prompt central banks to reconsider interest rate hikes, intensifying divergence in monetary policies and affecting global capital flows, potentially straining emerging markets.

3. In December 2024, global food prices showed mixed trends, with energy prices falling overall by 4.4 percent quarterly and 9.6 percent annually, though natural gas prices rose. Non-energy commodity prices increased by 3.4 percent in Q4 2024, driven by higher beverage prices, while metal and precious metal prices also rose, despite slight declines in some precious metals. Looking ahead, oil prices are projected to decline in 2025 and 2026, while nonfuel commodity prices are expected to rise in 2025 before stabilizing in 2026, although uncertainty remains due to geopolitical tensions and shifts in global energy markets.

4. On the domestic scene, money market rates rose in the three months to January 2025 due to tight liquidity conditions, with the overnight rate and the 7-day interbank rate increasing to 11.6 percent and 11.7 percent, respectively. The utilization of the Standing Lending Facility also surged, indicating the strain on liquidity, while no new repurchase agreements or Bank of Uganda Bills were issued during this period. Government borrowing increased, resulting in higher yields on both primary and secondary markets, although oversubscription to new auctions decreased.

5. Meanwhile, the weighted average lending rates for both Shillings and foreign currency loans fell slightly in the three months to December 2024, with lower lending rates observed in sectors like telecommunications. However, rates in the trade, housing, and personal loans sectors rose, reflecting higher risk assessments, and lending rates

are expected to remain elevated in the short run due to tight liquidity and other risks such as exchange rate volatility and increased competition from alternative credit sources.

6. Private sector credit growth in Uganda slowed in the three months to December 2024, with annualized growth averaging 7.8 percent, down from 8.9 percent in the previous quarter. This was primarily due to tight liquidity conditions arising from a combination of factors including government repayment of the borrowing from BoU, rising debt servicing and still restrictive monetary policy which is warranted to stem instability in the exchange rate. Both demand and supply of credit increased during the period, with the credit approval rate rising to 72.9 percent from 61.0 percent, while the ratio of non-performing loans decreased to 3.9 percent. However, credit growth was weak across several sectors, including manufacturing and trade, as these industries faced reduced financing. Going forward, private sector credit growth is expected to recover, supported by stable macroeconomic conditions.

7. Preliminary data for the first half of FY2024/25 shows that government fiscal operations were less expansionary than planned, with recurrent expenditure and capital spending both falling short due to underperformance in expenses and low fund absorption. Total government revenue, including grants, amounted to Shs. 16,375.5 billion, which was below target mainly because of a significant shortfall in grant receipts. However, domestic tax revenue exceeded expectations, partially offsetting the revenue shortfall.

8. Uganda's balance of payments position in the year to December 2024, recorded a deficit of US$521.3 million from a surplus of US$ 83.3 million the previous year. The current account deficit worsened to US$ 4,804.08 million, from US$3,766.4 million in the previous year, driven by increased imports for the oil sector and higher freight costs. The stock of foreign exchange reserves at the end of 2024 stood at US$3,302.8 million (3.0 months of future import cover), a slight increase from US$3,253.8 million in September 2024, but lower than US$3,733.9 million at the end of 2023.

9. In the short term, Uganda's current account deficit is expected to widen due to rising import costs. External factors such as global commodity prices, geopolitical events, and reduced NGO inflows may further affect the account, though increased remittances could offer some support. In the medium term, oil sector developments are anticipated to narrow the current account deficit as oil revenues grow and import expenditures decline.

10. The Uganda Shilling exhibited resilience against the United States dollar despite global uncertainties. The Shilling appreciated by 3.05 percent year-on-year in January 2025 supported by a combination of factors including monetary policy actions, financial market reforms, exports receipts especially from coffee and cocoa revenues, steady inflows from workers remittances, NGOs and capital inflows. However, it depreciated by 0.68 percent

month on month in January 2025 due to strong corporate demand and global factors, such as a strengthened US dollar.

11. Economic activity continues to strengthen, as evidenced by the latest quarterly GDP release from the Uganda Bureau of Statistics (UBOS). Real GDP growth in the first quarter of 2024/25 increased to 6.7 percent from 6.2 percent in the fourth quarter of 2023/24 and 5.6 percent in the first quarter of 2023/24.This growth was primarily driven by a robust recovery in industrial activity. However, there was a slowdown in the Consumer and business confidence in January 2025, pointing to a more cautious outlook for 2025 amid concerns about economic conditions.

12. 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 over the medium term. This positive outlook is supported by increased investment in the extractive industry, strategic government initiatives, and accommodative monetary policies aimed at fostering economic expansion. However, risks to the growth outlook remain tilted to the downside, reflecting both domestic and global challenges.

13. Inflation in Uganda remains relatively controlled, supported by past Central Bank Rate adjustments, a stable exchange rate, and lower global inflationary pressures. However, annual headline and core inflation rose to 3.6 percent and 4.2 percent respectively in January 2025. The Bank of Uganda forecasts core inflation to range between 4.0 percent and 5.0 percent for 2025 and 5 percent in the medium term, with external factors like geopolitical tensions or weather events potentially affecting inflation outcomes.

14. Considering the recent macroeconomic developments and outlook, the MPC observed that although inflation is expected to stay below the target in the near term, global and domestic uncertainties remain that could lead to higher inflation. Therefore, the MPC has decided to maintain the CBR at 9.75 percent. The Bank of Uganda will closely monitor both domestic and global economic trends, along with updated forecasts, to inform future policy decisions.

1 EXTERNAL ECONOMIC ENVIRONMENT

1.1 Global economic activity and outlook

The IMF World Economic Outlook (WEO) Update for January 2025 projects global economic growth to stabilize at 3.3 percent in 2025 and 2026, representing a modest improvement from 3.2 percent in 2024 but still trailing the historical average of 3.7 percent. This forecast is largely unchanged from the October 2024 update, with the positive revision for the United States offsetting the downward adjustments for several Asian economies.

In the near term, global growth is expected to remain subdued due to several persistent challenges. These include geopolitical tensions, constrained fiscal space, and lingering debt vulnerabilities in developing economies, all of which limit the ability of these nations to implement growth-stimulating policies. While disinflationary pressures and a gradual easing of monetary policy may provide some support, structural issues such as weak investment, demographic shifts, and productivity challenges continue to weigh on long-term growth prospects.

The United States, which outperformed expectations in 2024 with a 2.8 percent expansion, is forecast to see a slowdown in growth, with projections of 2.7 percent in 2025 and 2.1 percent in 2026. This moderation is anticipated due to softer labour market conditions, slower income growth, and fiscal constraints stemming from reductions in public sector spending.

In the Euro Area, growth remains lacklustre, primarily driven by Germany's underperformance in manufacturing and goods exports. Despite an anticipated gradual recovery projected at 1.0 percent in 2025 and 1.4 percent in 2026, the region faces structural hurdles that may limit its overall growth potential. Conversely, Japan, which experienced a mild contraction of -0.2 percent in 2024, is expected to rebound with a growth rate of 1.1 percent in 2025 and 0.8 percent in 2026, driven by a recovery in private consumption.

China's economic growth is also experiencing moderation, with a slowdown from 4.8 percent in 2024 to 4.6 percent in 2025, and further to 4.5 percent in 2026. While public sector investment and strong export performance provide some resilience, weak domestic consumption, continued challenges in the property sector, and demographic pressures are expected to hinder growth. In response, Chinese policymakers have introduced a range of stimulus measures aimed at stabilizing the property market, addressing local government debt issues, and bolstering domestic demand.

India’s economic performance, which decelerated sharply in 2024 due to weak industrial activity, is projected to stabilize at a robust 6.5 percent growth rate in both 2025 and 2026, supported by strong domestic demand and targeted policy interventions.

The global outlook remains broadly positive but reflects a marked divergence between advanced and developing economies. Growth prospects for low-income and vulnerable economies have been revised downward, reflecting persistent structural challenges, limited policy flexibility, and ongoing external shocks. These factors are likely to continue hindering their recovery and long-term growth trajectories.

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

	Year over Year					
	Act	Est	Projections		Diff from Oct 2024 WEO Projections	
	2023	2024	2025	2026	2025	2026
World Output	**3.3**	**3.2**	**3.3**	**3.3**	**0.1**	**0.0**
Advanced Economies	**1.7**	**1.7**	**1.9**	**1.8**	**0.1**	**0.0**
United States	2.9	2.8	2.7	2.1	0.5	0.1
Euro Area	0.4	0.8	1.0	1.4	–0.2	–0.1
Japan	1.5	–0.2	1.1	0.8	0.0	0.0
United Kingdom	0.3	0.9	1.6	1.5	0.1	0.0
Canada	1.5	1.3	2.0	2.0	–0.4	0.0
Emerging Market and Developing Economies	**4.4**	**4.2**	**4.2**	**4.3**	**0.0**	**0.1**
China	5.2	4.8	4.6	4.5	0.1	0.4
India 4/	8.2	6.5	6.5	6.5	0.0	0.0
Russia	3.6	3.8	1.4	1.2	0.1	0.0
Brazil	3.2	3.7	2.2	2.2	0.0	–0.1
Mexico	3.3	1.8	1.4	2.0	0.1	0.0
Saudi Arabia	–0.8	1.4	3.3	4.1	–1.3	–0.3
Low-Income Developing Countries	**4.1**	**4.1**	**4.6**	**5.4**	**-0.1**	**-0.2**
Sub-Saharan Africa	**3.6**	**3.8**	**4.2**	**4.2**	**0.0**	**–0.2**
Nigeria	2.9	3.1	3.2	3.0	0.0	0.0
South Africa	0.7	0.8	1.5	1.6	0.0	0.1

Source: IMF World Economic Outlook Update, January 2025

The lingering effects of the pandemic, combined with recent economic shocks, continue to create significant challenges for developing economies, hindering their growth prospects. These countries struggle to secure financing for crucial investments in infrastructure, technology, and human capital, key drivers for long-term resilience and development. In the Low Income Developing Countries (LIC) , economic growth is projected to rise to 4.6 percent in 2025, up from 4.1 percent in 2024, though it remains far below the Sustainable Development Goal (SDG) target of 7.0 percent.

Sub-Saharan Africa's economic outlook remains steady, with the projection remaining unchanged in 2025 and a slight downward revision in 2026 to 4.2 percent. Across Africa, growth is expected to improve from 3.4 percent in 2024 to 3.7 percent in 2025 and 4.0 percent in 2026, with recoveries in major economies such as Egypt, South Africa, and Nigeria. While East Africa continues to experience strong growth, Central Africa faces setbacks, largely due to ongoing political instability. Despite this positive outlook, African economies are grappling with high debt burdens, stubbornly high unemployment, and escalating climate-related disasters. Inflation remains elevated in many countries, and trade performance is subdued, even as regional integration efforts through the African Continental Free Trade Area (AfCFTA) continue.

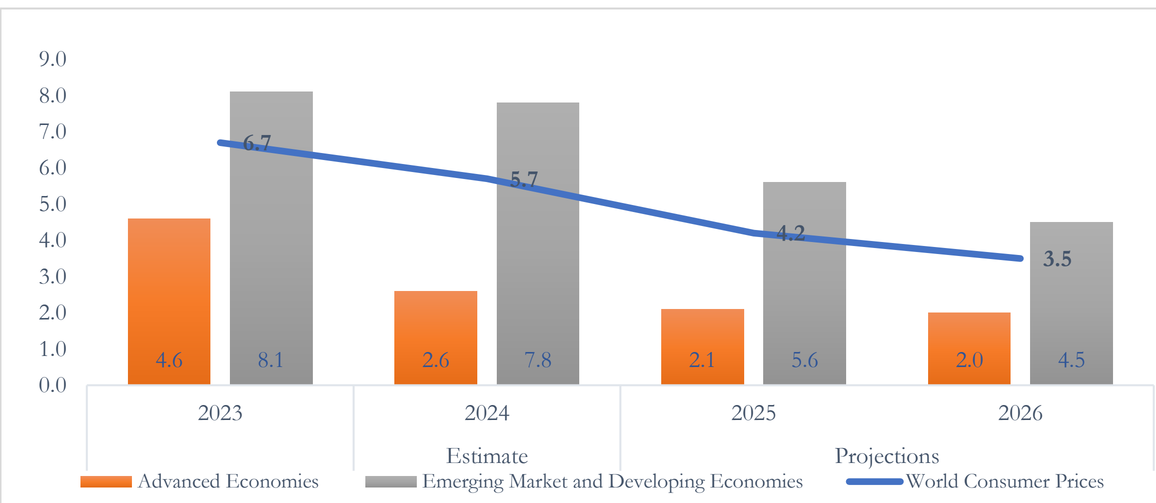
The near-term risks to the global economic outlook are varied, with significant divergence between regions. In the United States, risks are tilted to the upside, driven by strong business confidence and favourable market sentiment, spurred by deregulation and relaxed policies. However, other major economies face downside risks due to policy uncertainties, energy-related challenges in Europe, and ongoing instability in China's real estate sector. The potential intensification of trade tensions, especially with the imposition of tariffs on Canada and Mexico, is raising concerns about rising protectionism, which could disrupt global trade, reduce market efficiency, and dampen investment sentiment. Both China and Europe are on high alert, anticipating retaliatory measures that could further destabilize the global economic landscape. In the medium term, risks to global growth lean more toward the downside. A resurgence of inflationary pressures could undermine fiscal sustainability and financial stability, potentially slowing the pace of monetary easing in major advanced economies. This would likely lead to higher borrowing costs, exacerbating debt sustainability challenges, especially in developing economies that are already vulnerable to debt distress, thereby constraining their capacity to finance growth and development.

For Uganda, the subdued global growth outlook presents both challenges and opportunities. The anticipated moderation in growth across key trading partners, particularly in the U.S. and Europe, may dampen demand for Ugandan exports. However, the recovery in other markets, such as India, presents an opportunity to diversify trade relations and tap into emerging markets. Strengthening domestic investments, improving regional trade under the AfCFTA, and addressing structural issues such as infrastructure gaps will be critical for Uganda's resilience amid global uncertainties.

1.2 Global inflation and outlook

Global headline inflation remains elevated but is expected to return to target levels more quickly in advanced economies than in emerging markets and developing economies (EMDEs), with projections of 4.2 percent in 2025 and 3.5 percent in 2026, despite ongoing inflationary pressures in various regions (**Figure 1**). The inflation outlook is highly uncertain and varies significantly across different regions, influenced by diverse economic dynamics. One of the key factors shaping this trajectory is fiscal policy, with advanced economies (excluding the U.S.) anticipated to tighten fiscal measures during 2025-2026, while EMDEs are likely to maintain looser fiscal policies, potentially increasing inflationary risks. An additional concern is the inflationary impact of rising tariffs, which could worsen price pressures. Retaliatory trade measures, such as restrictions on intermediate goods, may disrupt supply chains, elevate production costs, and prolong global inflationary trends. Furthermore, renewed inflationary pressures could compel central banks to reconsider interest rate hikes, deepening the divergence in monetary policy across countries and strengthening the U.S. dollar. This shift could result in disrupted capital flows, exacerbate global economic imbalances, and cause financial strain in emerging markets.

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



Source: IMF World Economic Outlook Update, January 2025

Geopolitical tensions also pose a significant risk, particularly regarding commodity price spikes that could severely affect commodity-importing nations, especially as trade disruptions and blockages in shipping routes heighten vulnerabilities in global supply chains. Meanwhile, inflation in services continues to exceed pre-pandemic levels, particularly in the U.S. and the Euro Area, driven by sector-specific factors, while inflation in China remains subdued due to weaker domestic demand. Central banks, navigating the easing cycle, are adopting a cautious approach, closely monitoring growth trends, labour market conditions, and exchange rate movements to guide their policy adjustments.

1.3 International commodity prices

In December 2024, global food prices exhibited mixed trends. While energy prices declined both on a quarterly and annual basis, the rise in natural gas prices offset the fall in crude oil prices. Meanwhile, non-energy commodity prices increased, driven by higher beverage prices. Additionally, despite a month-on-month decline in December 2024, the prices of metals and precious metals continued their upward trajectory.

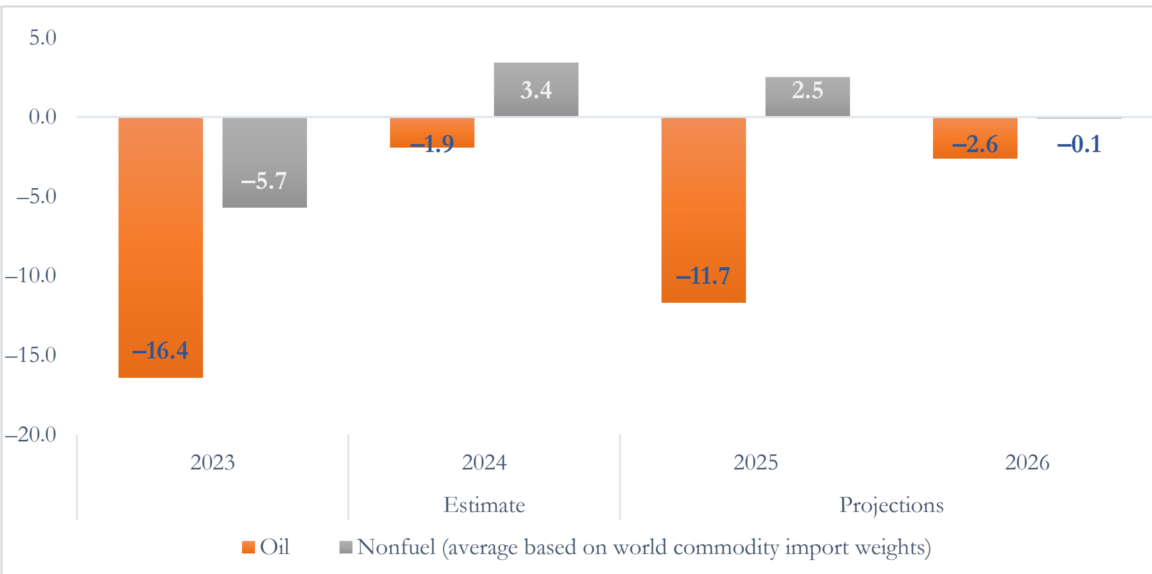
Energy prices fell by 4.4 percent in the quarter ending December 2024 and by 9.6 percent compared to December 2023. The rise in natural gas prices in Europe, which increased by 18 percent in the three months to December 2024 and by 0.4 percent annually, was offset by a 6.5 percent quarterly and 11.2 percent annual drop in crude oil prices. This decline was driven by sluggish demand and relatively high supply from non-OPEC+ countries like the U.S., Canada, and Guyana, despite ongoing geopolitical tensions in the Middle East and disruptions in the Red Sea. Moreover, weaker global economic growth, notably in China, which is shifting towards electric vehicle adoption and expanding the use of liquefied natural gas for trucking, placed downward pressure on crude oil prices.

Non-energy commodity prices rose by 3.4 percent in the quarter ending December 2024 and by 6.1 percent year-on-year. This was primarily due to increases in beverage prices, particularly cocoa, which surged by 21.4 percent on a quarterly basis and by 109.6 percent annually. Coffee arabica also saw significant price increases, rising by 16.2 percent quarterly and 56.4 percent annually. Food prices experienced a decline in the three months leading to December 2024, though they remained higher than their corresponding levels from the previous year. Cereal prices stayed stable, with wheat prices unchanged. Rice prices fell due to reduced demand, while barley prices rose. Meanwhile, dairy, sugar, and vegetable oil prices all saw declines, but meat prices rose due to robust global demand and production constraints, including end-of-year shutdowns in processing plants.

Metal prices increased by 2.6 percent, supported by rising zinc and iron ore prices. Precious metal prices also climbed, rising by 7.2 percent quarter-on-quarter in December 2024. However, precious metal prices decreased by 0.3 percent month-on-month, despite a 34.5 percent annual increase. Gold, platinum, and silver prices fell by 0.1 percent, 2.9 percent, and 1.1 percent, respectively, in December 2024.

Looking ahead, the U.S. Energy Information Administration (EIA) forecasts that Brent crude oil prices, which averaged $81 per barrel in 2024, will decline to $74 per barrel in 2025 and $66 per barrel in 2026 largely driven by slower demand growth. Similarly, the IMF's World Economic Outlook (WEO) update projects a 11.7 percent drop in oil prices in 2025, followed by a 2.6 percent decrease in 2026. However, U.S. sanctions on Russian oil, which will take effect on January 20, 2025, may disrupt global supply chains and introduce significant uncertainty into price forecasts. Additionally, broader shifts in global energy markets could further influence future price movements. Nonfuel commodity prices are expected to rise by 2.5 percent in 2025 before stabilizing in 2026, reflecting changing supply-demand dynamics across key markets (**Figure 2**).

Figure 2: Projection of Commodity Prices



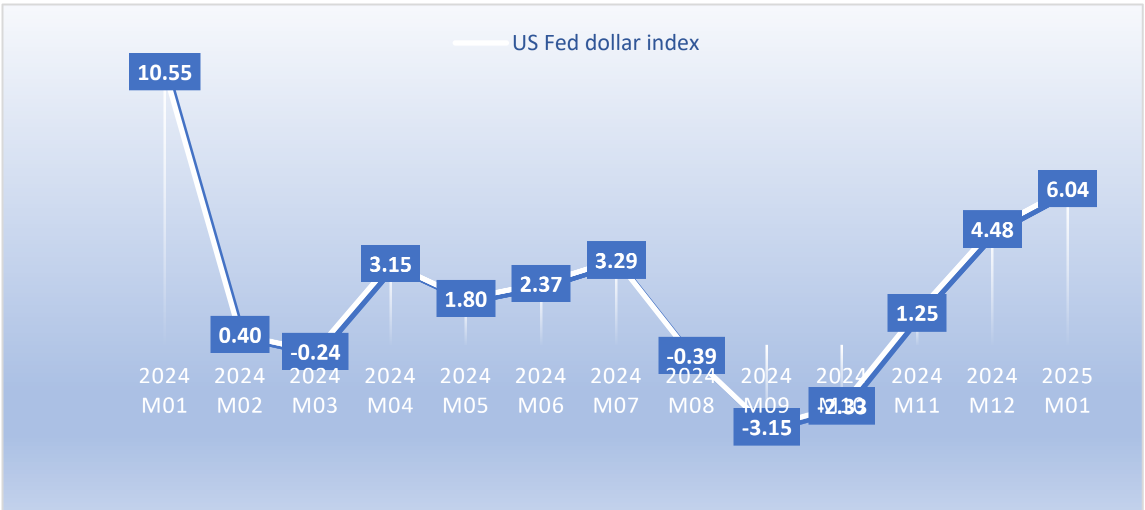
Source: IMF World Economic Outlook Update, January 2025

1.4 Global financial markets

Global financial conditions remain generally accommodative but are increasingly divergent across regions. Advanced economies, particularly the United States, are benefiting from business-friendly policies, with equity markets continuing to rally. In contrast, markets in emerging markets and developing economies (EMDEs) are facing heightened uncertainty, leading to capital outflows and weaker performance.

The U.S. dollar is strengthening globally, driven by anticipated higher tariffs and rising interest rates as financial conditions tighten (**Figure 3**). Meanwhile, in the Euro Area, monetary policy is easing with reduced uncertainty, influenced by the broad-based appreciation of the U.S. dollar and more stable policy expectations.

Figure 3: Strengthening of the US Dollar Index



Source: US FRED, St. Louis Fed

2 DOMESTIC DEVELOPMENTS OUTLOOK

2.1 Domestic financial markets

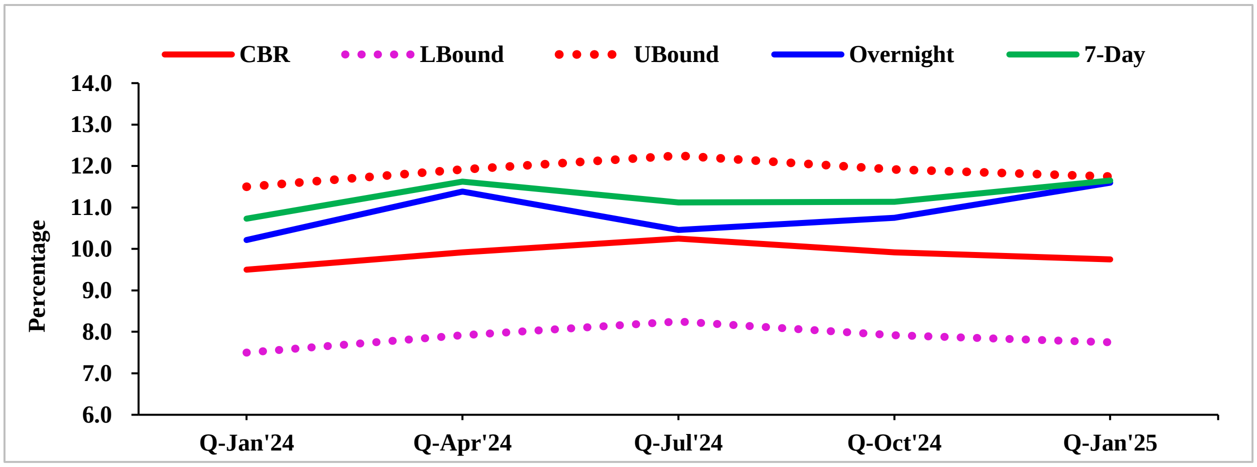
2.1.1 Monetary policy and the interbank money market

In December 2024, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75 percent, citing heightened geopolitical and policy uncertainty, despite domestic inflation being projected to stay below target in the short term. This led to a more cautious stance on monetary policy. Notwithstanding, the economy was expected to remain strong, supported by low inflation and stable exchange rates.

Money market rates rose in the three months to January 2025 compared to the three months to October 2024 as shown in **Figure 4**, due to tight liquidity conditions. However, the money market remained within the upper and lower bounds of the Central Bank Rate. The overnight rate rose to 11.6 percent in the three months to

January 2024 relative to 10.8 percent in the three months to October 2024. Similarly, the 7-day interbank weighted average rate rose to 11.7 percent in the three months to January 2025, from 11.1 percent in the three months to October 2024. Utilization of the Standing lending facility rose to Shillings 55.0 trillion in the three months to January 2025 relative to Shillings 14.2 trillion observed in the three months to October 2024. Due to the tight liquidity conditions, there was no issuance of repurchase agreements and Bank of Uganda Bills in the three months to January 2025

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



Source: Bank of Uganda

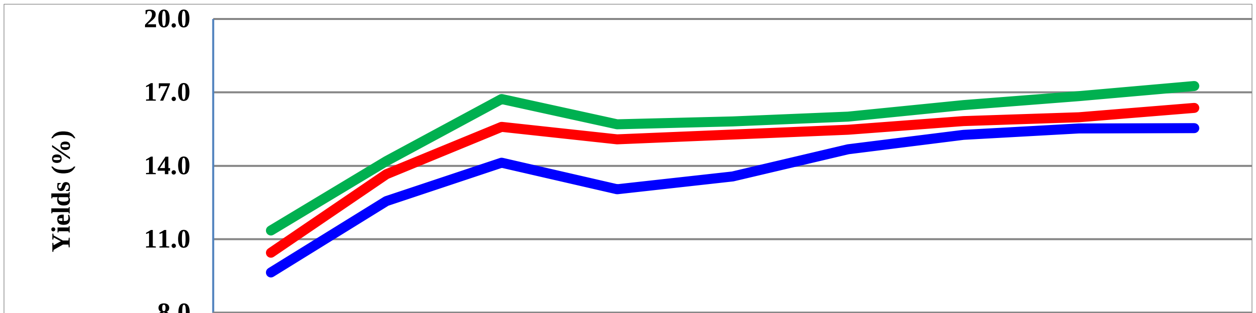
2.1.2 Primary market for treasury securities

Primary market yields rose across all tenors in the three months to January 2025 compared to the three months to October 2024, due to high administrative cutoffs following increased borrowing appetite by government to meet its obligations. However, oversubscription to new auctions fell in the three months to January 2025 compared to the three months October 2024, mirroring the tight liquidity condition.

2.1.3 Secondary market for treasury securities

Similarly, secondary market yields rose across all tenors in line with the tight liquidity conditions as shown in **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-Jan'24	9.6	12.6	14.1	13.0	13.6	14.7	15.3	15.5	15.5
Q-Oct'24	10.5	13.7	15.6	15.1	15.3	15.5	15.8	16.0	16.4
Q-Jan'25	11.4	14.2	16.7	15.7	15.8	16.0	16.5	16.8	17.3

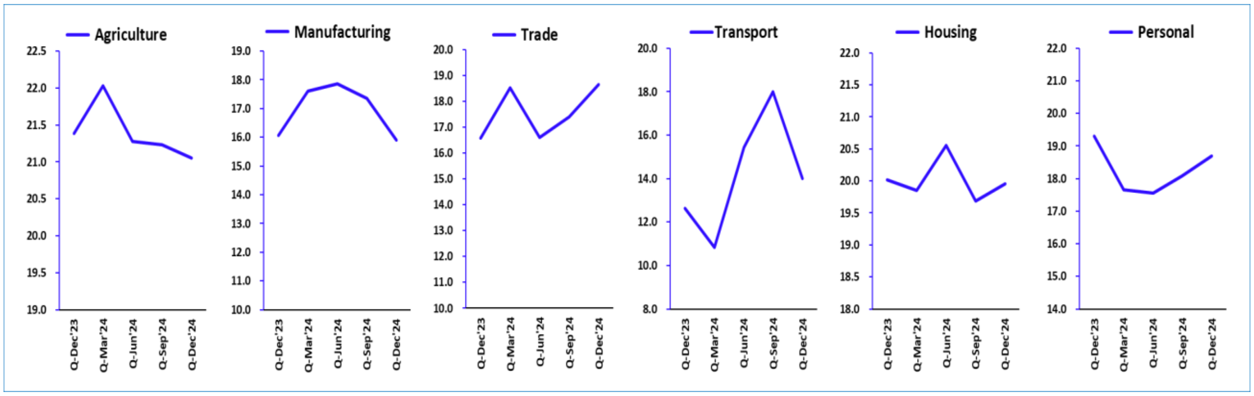
Source: Bank of Uganda

Notably, market players in the securities markets have increased their holdings of government securities. The outstanding stock of government securities held by other depository corporations rose in December 2024 to Shillings 15.6 trillion from 14.9 trillion same period last year.

2.1.4 Lending interest rates

The weighted average Shillings and Foreign currency lending rates declined in the three months to December 2024 relative to the three months to September 2024, on the back of prime borrowing in the telecommunications sector and pass-through of prior loosening monetary policy cycles. The weighted average shilling lending rate fell to 18.3 percent in the three months to December 2024 relative to 18.6 percent in the three months to September 2024. Similarly, the lending rate on foreign currency-denominated loans fell to 8.5 percent down from 9.0 percent over the same period. The average one-year prime lending rate by commercial banks fell to 20.1 percent in the three months to December 2024 down from 20.7 percent in the three months to September 2024. However, a notable rise in rates was observed in the trade, housing and personal loans sectors pointing towards a higher risk assessment by lenders in these sectors (**Figure 6**). The lending rates are expected to remain elevated in the near term. The upside risks to the outlook for lending rates include persistence of tight liquidity and financing conditions. Additionally, the risk of exchange rate volatility as any significant depreciation of the Shilling could increase the cost of servicing foreign-denominated liabilities, potentially leading to higher lending rates to mitigate associated exposure.

Figure 6: Weighted average lending rates for selected sectors



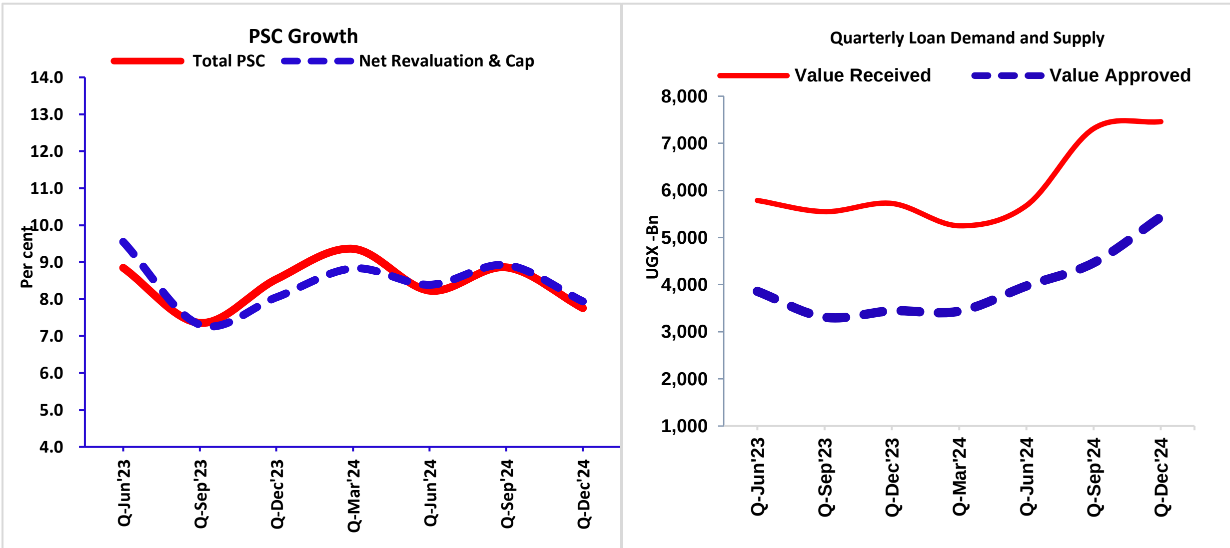
Source: Bank of Uganda

2.1.5 Private sector credit

Growth in Other depository corporations Private sector credit (ODC PSC) slowed down in the three months to December 2024 relative to the three months to September 2024 as liquidity conditions remained tight and government borrowing pressures persisted (**Figure 7, Left**). Annualized average PSC growth averaged to 7.8 percent in the three months to December 2024 which was lower than the 8.9 percent in the three months to September 2024. Net of valuation and capitalized interest, PSC growth averaged 7.9 percent in the three months to December 2024 from 8.9 percent in the three months to September 2024. Growth in Shilling-denominated loans averaged 10.0 percent in the three months to December 2024 down from 10.3 percent observed in the three months to September 2024, while growth in foreign currency-denominated loans contracted by 2.0 percent from 4.9 percent over the same period. Net credit extensions including capitalised interest and revaluation fell by Shillings 56.7 billion in the three months to December 2024 compared to the three months to September 2024.

Demand and Supply of credit rose in the three months to December 2024 relative to the three months to September 2024 largely due to borrowing for the festive season. Demand for and supply of credit rose to Shillings 7.5 trillion and Shillings. 5.4 trillion in the three months to December 2024 from Shillings 7.3 trillion and Shs. 4.5 trillion respectively in the three months to September 2024 (**Figure 7, Right)**. The rate of approval for credit rose to 72.9 percent in the three months to December 2024 from 61.0 percent in the three months to September 2024. The ratio of non-performing loans to gross loans fell to 3.9 percent in December 2024 lower than the 4.9 percent in September 2024. This was on account of improved loan recovery and reclassification of historical bad debts that debtors have resumed servicing.

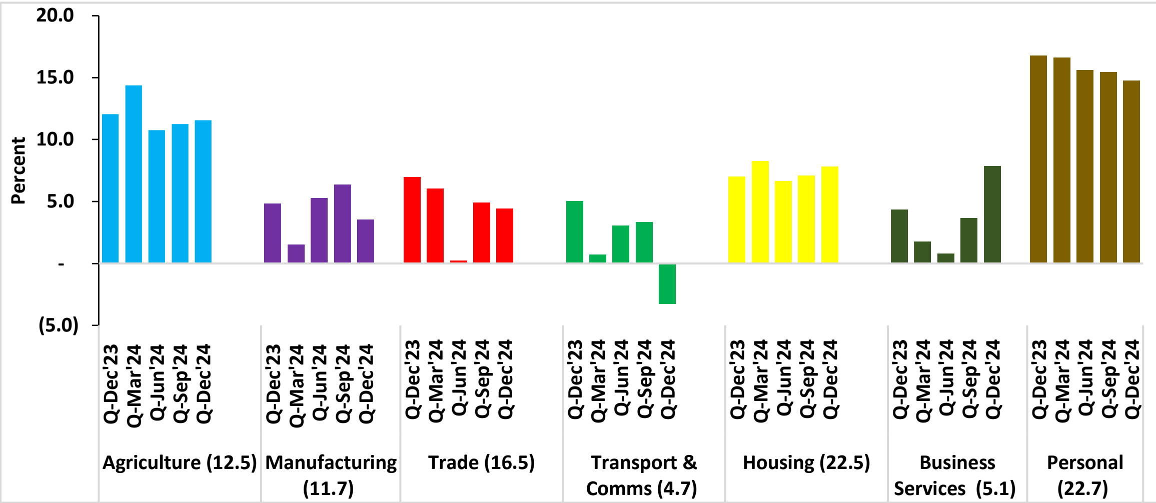
Figure 7: Private Sector Credit Growth (y-o-y, %, Left) and Loans applications (Shs., billion, Right)



Source: Bank of Uganda

Annualised private sector credit growth was lacklustre across most of the major economic sectors in the 3 months to December 2024 (**Figure 8**). The most affected sectors experiencing slow credit growth were manufacturing due to lower financing for factories engaged in the processing of food, beverages and tobacco, as well textiles, apparel and leather. Trade was also affected due to lower financing for retail activities, restaurants and hotels, as well as import credit.

Figure 8: Sectoral PSC Growth-3-month moving-average (y-o-y, %, sectoral shares in brackets)



Source: Bank of Uganda

Private sector credit is expected to recover going forward as demand for credit recovers owing to improving macroeconomic conditions. However, downside risks to this outlook persist notably, higher net domestic financing by government which may crowd out the private sector. Additionally, persistence of Tighter liquidity conditions and a shift in the big lenders' business model towards lower risk corporates and government securities may derail the recovery in private sector credit.

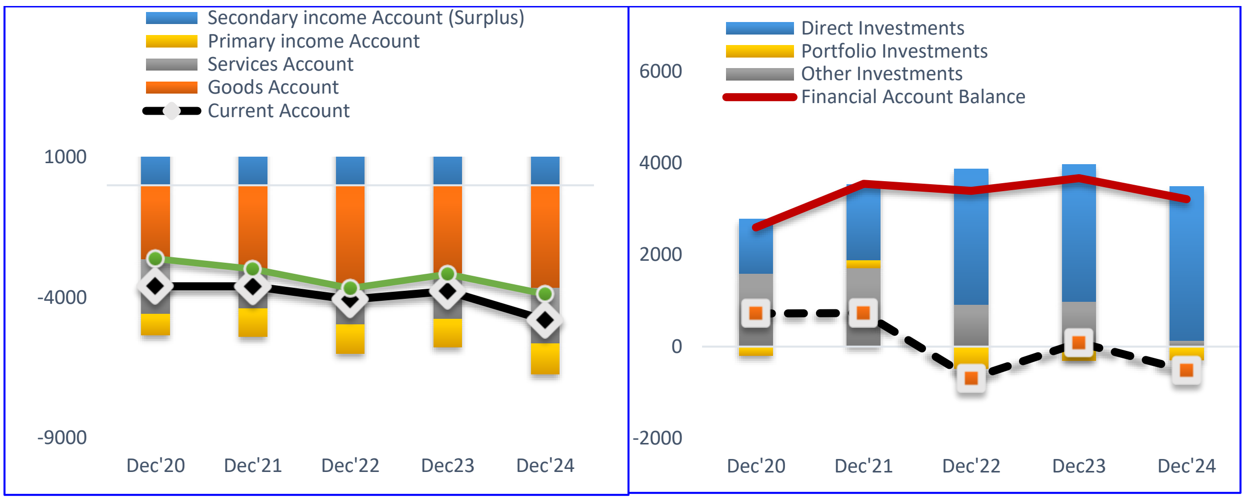
2.2 Balance of payments and exchange rates

2.2.1 Balance of payments

Uganda's balance of payments position in the year to December 2024, recorded a deficit of US$521.3 million from a surplus of US$ 83.3 million the previous year. The current account deficit worsened by 27.6 percent to US$ 4,804.08 million, from US$3,766.4 million in the previous year, driven by deteriorations in all sub-accounts (**Figure 9**). The deterioration in the current account balance was further exacerbated by a widening trade deficit which rose by 16.3 percent to US$3,662.87 million. This was primarily driven by a significant rise in imports, which increased by 20.3 percent to US$12,216.9 million in 2024. This growth was fuelled by private sector investments in machinery, vegetable oils, and base metals. Although imports outpaced exports, which grew by 22.1 percent to US$8,554.03 million, this trend underscores a strong appetite for both consumption and investment within the economy. Despite the expanding trade deficit, exports maintained an upward trajectory with a surge in coffee export earnings, driven by favourable global prices, heightened international demand for coffee as well as favourable weather conditions.

The services account deficit widened by 22.3 percent to US$ 1,979.3 million, primarily driven by increased payments for transport and other business services, which offset the gains from higher travel service receipts. Similarly, the primary income deficit increased by 10.0 percent to US$ 1,087.1 million, largely due to increased interest payments on external debt servicing. The secondary income surplus contracted by 3.3 percent to US$1,925.24 million, marking a reversal from the previous year. This decline was attributed to reduced inflows from personal transfers and NGOs, reflecting changing global labour market conditions, shifting investor sentiment in financial markets, and evolving donor priorities.

Figure 9: Annual BOP developments (US$ Million)



Source: Bank of Uganda

Uganda recorded a capital account surplus of US$155.7 million in 2024, from US$ 120.6 million the previous year, reflecting improved inflows. The financial account surplus declined by 12.5 percent to US$3,213.5 million, mainly due to lower loans to the government, despite robust Foreign Direct Investment (FDI) inflows. FDI remained robust, increasing by 12.5 percent to US$ 3,365.3 million, due to strong inflows to the oil sector. Portfolio investment saw net outflows of US$297.1 million, a slight improvement by 1.5 percent from 2023, while other investments posted net inflows of US$126.4 million, down from US$980.7 million the previous year.

Uganda's overall balance of payments position recorded a deficit of US$521.3 million, reversing the US$83.3 million surplus seen in 2023. The stock of foreign exchange reserves at the end of 2024 stood at US$3,302.8

million (3.0 months of future import cover), a slight increase from US$3,253.8 million in September 2024, but lower than US$3,733.9 million at the end of 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 geopolitical developments worldwide. The current account deficit is expected to widen due to a rising import bill and a projected decline in export revenues from agricultural commodities like coffee, driven by lower available volumes despite favourable prices. However, lower oil prices could reduce import expenditures.

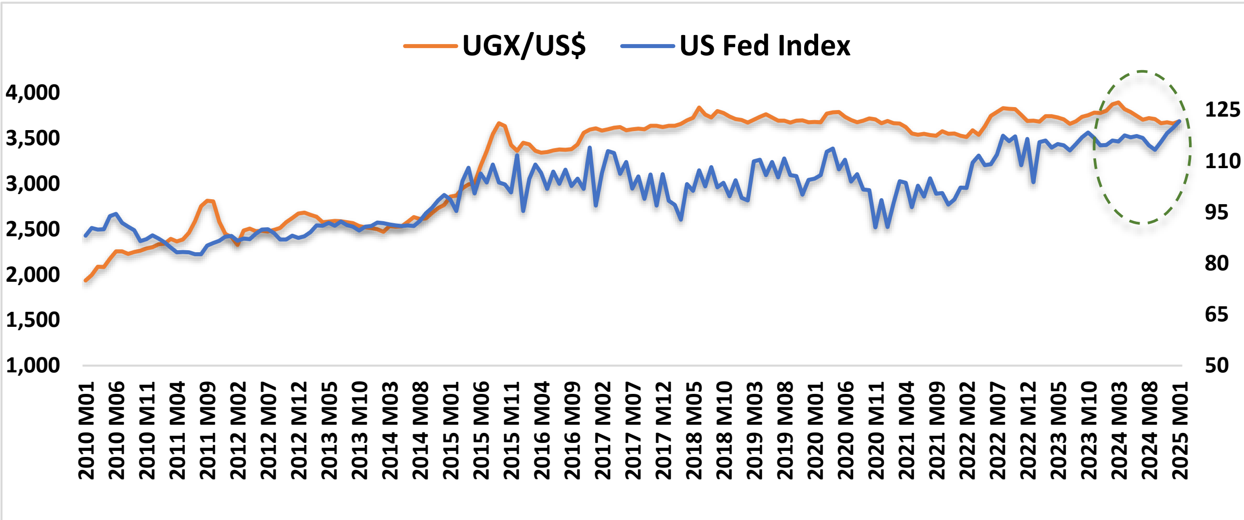
Additionally, increased remittances are anticipated as the first school term approaches, providing some support to the current account. On the other hand, the primary income account is likely to weaken further due to ongoing interest payments on public debt. Adverse weather conditions affecting post-harvest handling of coffee could further constrain export volumes. Moreover, recent US freeze aid for 90 days and deportation of undocumented migrants, may negatively impact NGO inflows and reduce personal transfer inflows.

In the medium term, developments in the oil sector are expected to significantly influence the trajectory of the current and financial accounts. The current account deficit is projected to narrow due to anticipated oil revenue and a decline in the import bill for both goods and services as Uganda nears the oil production phase.

2.2.3 Exchange rates developments

The Uganda Shilling exhibited resilience against the United States dollar despite global uncertainties. Indeed, the Shilling appreciated by 3.05 percent year-on-year in January 2025 supported by a combination of factors including monetary policy actions, financial market reforms, exports receipts especially from coffee and cocoa revenues, steady inflows from workers remittances, NGOs and capital inflows. Additionally, the Shilling appreciated notably by 0.64 percent in the three months to January 2025, compared to the previous quarter. However, month-on-month, the Shilling depreciated by 0.68 percent to an average midrate of Shs. 3,689.16 per US dollar in January 2025. (**Figure 10**). This was largely on account of persistent corporate demand from energy firms, oil, telecom, and manufacturing firms as well as the ultimately led the Shilling on a depreciation path. Additionally, the strengthened performance of the US dollar due to global financial market sentiments, particularly following the US Fed paused policy easing also contributed to depreciation pressures faced by the Ugandan Shilling.

Figure 10: Movement in the Uganda Shilling exchange rate and US Fed Index (m-o-m)

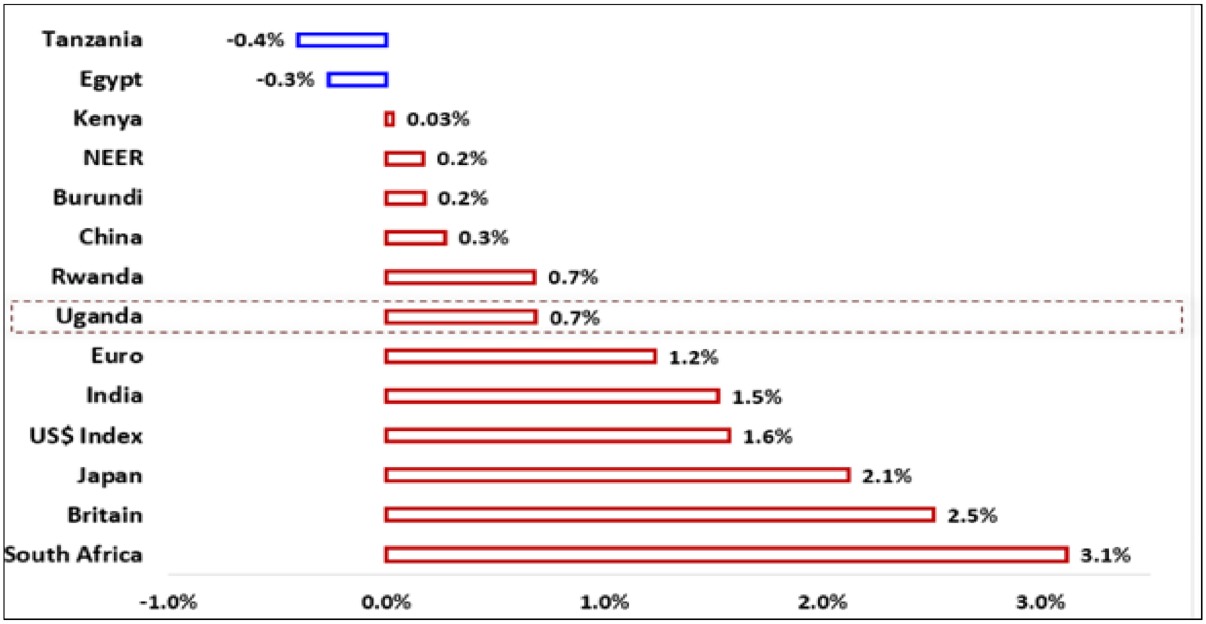


Source: Bank of Uganda

As illustrated in **Figure 11**, the Nominal Effective Exchange Rate (NEER), the trade-weighted index of a basket of currencies appreciated by 0.20 percent month-on-month compared to the 0.46 percent appreciation in December 2024. In the year to January 2025, the NEER appreciated by 2.39 percent relative to an appreciation of the same magnitude in the year ending December 2024, exhibiting sustained gains in the Shilling's value against a basket of other currencies.

In the East African Community (EAC) region, the Tanzanian Shilling posted a 0.4 percent appreciation, the strongest performance against the US Dollar, albeit a deterioration from the previous month's 7.2 percent appreciation. In the period under review, the Rwandan Franc experienced a depreciation of 0.68 percent a slight improvement from the 0.77 percent depreciation registered the previous month. The Kenyan currency faced slight depreciation pressures of 0.03 percent, a reversal from the 0.02 appreciation registered the preceding month.

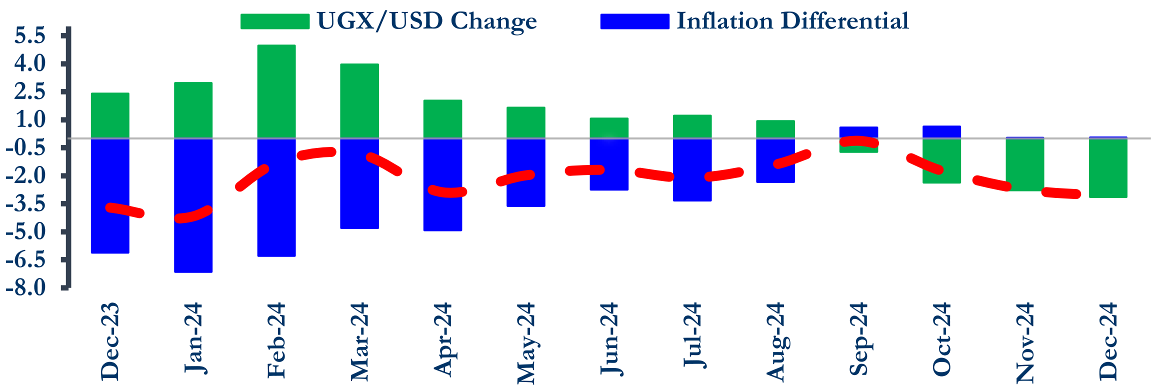
Figure 11: Bilateral currency movements against the US dollar (m-o-m, percent)



Source: Bank of Uganda

In real effective terms, the exchange rate has maintained an appreciation track since October 2022 (**Figure 12**). In December 2024, the Real Effective Exchange Rate (REER) appreciated by 3.08 percent year-on-year as the Shilling registered considerable stability and domestic inflation has remained cool at a faster pace than foreign inflation. The appreciation of the REER, however, implies a decline in Uganda's export competitiveness.

Figure 12: Real Effective Exchange Rate (year-on-year, percent)



Source: Bank of Uganda

2.3Fiscal policy

2.3.1 Government expenditure and revenue

Preliminary data for the first half of FY2024/25 suggests that fiscal operations were less expansive than initially projected **(Table 2)**. Recurrent government expenditure during this period totalled Shs. 17,399.4 billion, falling short of the planned amount by Shs. 1,203.8 billion. This shortfall was primarily due to underperformance in other expenses and compensation of employees. Furthermore, government spending on net acquisition of non-financial assets (capital expenditure) amounted to Shs. 2,107.7 billion, which was Shs. 2,260.6 billion below the plan. This discrepancy was largely driven by low fund absorption by central government units.

Total government revenue (including grants) for the first six months of FY2024/25 reached Shs. 16,375.5 billion, falling short by Shs. 251.2 billion. This shortfall was mainly due to lower-than-expected grant receipts. Grants amounted to Shs. 1,035.5 billion, with a shortfall of Shs. 585.0 billion, likely caused by the insufficient absorption capacity of government projects, leading to delays in disbursements. However, domestic revenue exceeded expectations, driven by higher-than-targeted tax revenue collections. These developments in fiscal operations resulted in a fiscal deficit of Shs. 3,131.5 billion, which was lower than planned by Shs.3,213.2 billion.

Table 2:Fiscal operations (Shs., billions)

	Jul'23-Dec'23	Jul'24-Dec'24	Prog. Jul'24-Dec'24	Variation	Annual change (%)
Revenue (A)	**13,976.90**	**16,375.50**	**16,626.70**	**-251.20**	**17.16**
Taxes	12,328.40	14,339.00	13,993.20	345.80	16.31
Grants (project support)	590.50	1,035.50	1,620.50	-585.00	75.36
Other revenue	**1,058.00**	**1,001.10**	**1,013.00**	**-11.90**	**-5.38**
Expense (B)	**14,541.00**	**17,399.40**	**18,603.20**	**-1,203.80**	**19.66**
Compensation of employees	2,145.20	2,482.20	3,633.70	-1,151.50	15.71
Purchase of goods and services	2,940.70	4,063.90	4,110.70	-46.80	38.19
Consumption of fixed capital	14.50	0.20	0.00	0.20	
Interest payments	3,067.00	3,703.60	4,445.50	-741.90	20.76
Domestic	2,455.10	2,981.60	3,679.10	-697.50	21.45
External (including commitment fees)	611.90	722.00	766.40	-44.40	17.99
Subsidies	2.00	0.00	0.00	0.00	
Grants	5,524.40	6,225.40	4,236.00	1,989.40	12.69
Social benefits	196.40	268.70	283.70	-15.00	36.81
Other expense	650.90	655.40	1,893.60	-1,238.20	0.69
Gross operating balance (A-B)	**-564.10**	**-1,023.90**	**-1,976.50**	**952.60**	
Net operating balance (A-(B-C))	**-549.70**	**-1,023.70**	**-1,976.50**	**952.80**	
Net Acquisition of Nonfinancial Assets (D)	3,515.10	2,107.70	4,368.30	-2,260.60	
Net lending/borrowing (A-B)-D	-4,079.30	-3,131.50	-6,344.70	3,213.20	
Primary balance	-1,012.30	572.10	-1,899.20	2,471.30	
Transactions in financial assets and liabilities Financing (net) (E-F)	**-4,079.30**	**-3,131.50**			
Net Acquisition of financial Assets (E)	**-965.50**	**520.20**			
Domestic	-965.50	520.20			
Foreign	0.00	0.00			
Net Acquisition of financial Liabilities (F)	**2,048.20**	**4,580.60**			
Domestic	1,801.20	4,956.50			
Foreign	247.00	-375.90			
Errors & Omissions	-1,065.50	928.90			

Source: Ministry of Finance Planning and Economic Development

In the first six months of FY24/25, the Uganda Revenue Authority (URA) collected a total of Shs. 15,333.0 billion in net tax and Non-Tax Revenue (NTR), with net tax revenue amounting to Shs. 14,335.9 billion and NTR reaching Shs. 997.2 billion **(Table 3)**. This resulted in an overperformance of Shs. 342.7 billion in net tax revenue, but a shortfall of Shs. 15.9 billion in NTR. The overperformance in net tax revenue was primarily driven by higher-than-targeted direct domestic tax collections, particularly corporate tax. However, international trade tax collections underperformed by Shs. 18.3 billion, mainly due to shortfalls in petroleum duty, VAT, and withholding tax. Indirect taxes also fell short by Shs. 95.2 billion, with lower-than-expected VAT on manufactured goods and excise duty collections from phone talk time and soft drinks. On an annual basis, net tax revenue increased by 16.3% in the first half of FY24/25, compared to a 12.9 percent increase during the same period the previous year. Conversely, NTR declined by 5.8 percent, following a 36.6 percent increase in the previous year.

Domestic revenue is expected to continue its strong performance in the second half of the fiscal year, bolstered by the Uganda Revenue Authority's (URA) tax administration efforts under the Domestic Taxes Compliance Improvement Plan (CIP). However, global geopolitical tensions and trade supply disruptions present a downside risk to this positive revenue outlook. Additionally, while the US Government is not a major source of official aid for Uganda, any potential aid cuts from the US could impact government service delivery, particularly in health and education, and may result in increased borrowing to cover the shortfall.

Table 3:Revenue performance (billion shillings)

	Jul-Dec'22	Jul-Dec'23	Jul-Dec'24	URA Target Jul-Dec'24*	Jul-Dec'24 Variation from Target	Annual change 2022/2023-2023/24 (%)	Annual change 2023/2024-2024/25 (%)
Net Tax and Non-Tax Revenue	**11,694.4**	**13,386.6**	**15,333.0**	**15,006.2**	**326.8**	**14.5**	**14.5**
Net Tax & URA NTR (excl. Refunds)	11,612.9	13,092.4	15,147.9	14,926.8	221.0	12.7	15.7
Net URA tax revenue	10,919.7	12,328.6	1,433.9	13,993.2	342.7	12.9	16.3
Direct Domestic Taxes	3,989.4	4,747.9	5,705.5	5,301.3	404.2	19.0	20.2
o/w PAYE	**1,972.0**	**2,273.8**	**2,501.6**	**2,507.8**	**-6.2**	**15.3**	**10.0**
o/w Corporate tax	860.8	**1,059.0**	**1,567.2**	**1,179.2**	**388.0**	**23.0**	**48.0**
o/w Withholding tax	628.9	769.5	895.1	876.9	18.2	22.3	16.3
o/w Treasury bills &bonds	281.2	333.4	333.0	358.4	-25.4	18.6	-0.1
Indirect Domestic Taxes	2,477.2	3,194.7	3,477.0	3,572.2	-95.2	29.0	8.8
o/w Excise duty	919.6	1,052.7	1,163.0	1,192.2	-29.3	14.5	10.5
o/w VAT	1,784.6	2,142.0	2,314.0	2,379.9	-65.9	20.0	8.0
Taxes on international Trade	4,453.8	4,646.4	5,436.4	5,454.7	-18.3	4.3	17.0
Stamp duty & embossing fees	54.5	58.3	63.0	67.3	-4.0	6.9	8.6
Non-Tax Revenue	774.4	1,058.0	997.2	1,013.0	-15.9	36.6	-5.8
o/w URA Non-Tax Revenue	693.2	763.8	812.0	933.7	-121.7	10.2	6.3
Tax Refunds	-55.2	-318.7	-346.4	-402.4	56.0	477.6	8.7

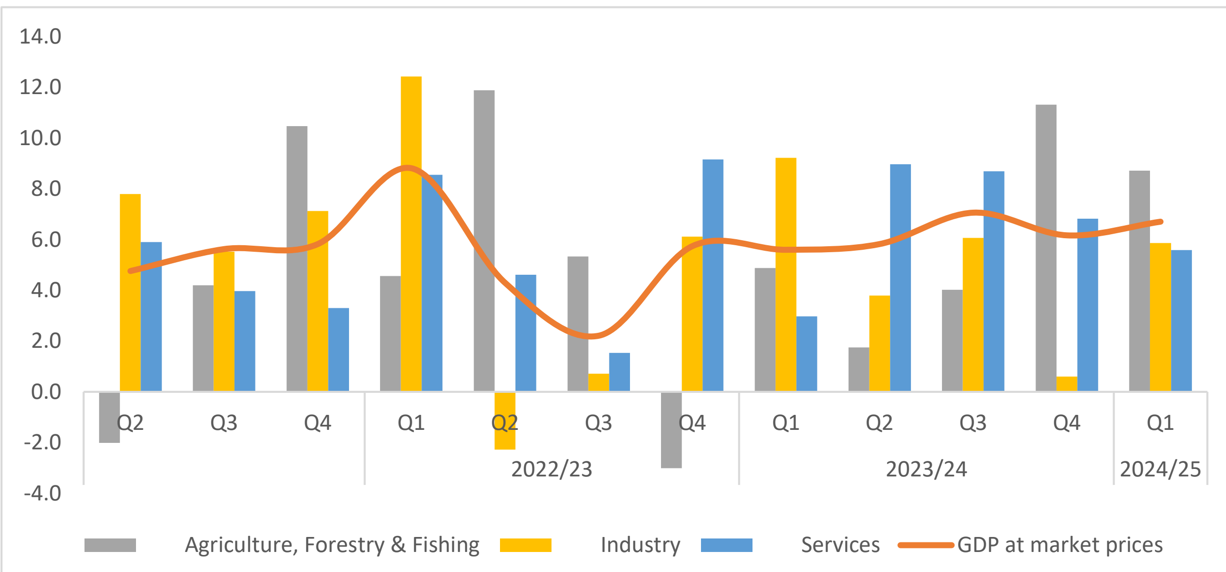
Source: Ministry of Finance Planning and Economic Development

2.4. Domestic economic activity

2.4.1 Economic Growth Developments and outlook.

Economic activity continues to strengthen, as evidenced by the latest quarterly GDP release from the Uganda Bureau of Statistics (UBOS). Real GDP growth in the first quarter of 2024/25 increased to 6.7 percent from 6.2 percent in the fourth quarter of 2023/24 and 5.6 percent in the first quarter of 2023/24 (**Figure 13**). This growth was primarily driven by a robust recovery in industrial activity, which surged to 5.9 percent in Q1 from 0.5 percent in Q4 of 2023/24, particularly in the mining and quarrying sectors. The agriculture sector also demonstrated strong performance, growing by 8.7 percent in Q1 of 2024/25, although this was a slight decline from the 11.3 percent growth observed in the previous quarter. Similarly, the services sector grew by 5.9 percent during the same period, compared to 6.8 percent growth in the previous quarter.

Figure 13: Quarterly GDP and Sectoral Growth rates (%, Y-on-Y)

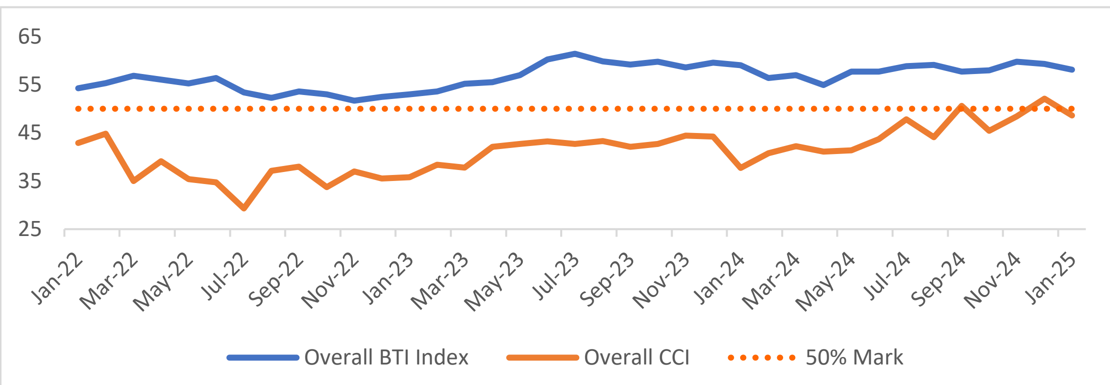


Source: Uganda Bureau of Statistics (UBOS)

Business confidence remains positive despite headwinds from the challenging global environment. The Purchasing Managers' Index (PMI) for January 2025 declined to 49.5, down from 53.1 in December 2024, indicating a contraction in business activity due to weaker demand and a decline in new business orders. Business confidence also weakened in January 2025, as evidenced by a decrease in the Business Tendency Index (BTI), which fell by 1.2 points to 58.1 (**Figure 14**). This drop was mainly due to a more negative outlook from business executives, particularly in the trade and construction sectors. While the near-term business outlook remained relatively stable, with the index falling slightly by 0.2 points to 59.5, it marked a continuation of the downward trend in business sentiment that had been observed since November 2024.

Additionally, the consumer confidence declined in January 2025, as the Consumer Confidence Index (CCI) fell by 3.5 points to 48.6, reflecting more negative perceptions of current economic conditions and future expectations (**Figure 14**). The drop in the CCI was largely driven by declines in both the Current Economic Conditions Index (CECI) and the Consumer Expectations Index, which fell by 3.4 and 3.6 points, respectively. However, the CCI was still higher compared to the same month a year ago, increasing by 10.9 points, suggesting that overall consumer sentiment remains more optimistic than in January 2024.

Figure 14: Business Tendency Index and Consumer Confidence Index



Source: Bank of Uganda

2.4.2 Economic Growth outlook.

Economic activity remains resilient, with growth projections for FY2024/25 maintained between 6.0 percent to 6.5 percent, while medium-term growth is expected to reach 7.0 percent. This outlook is supported by increased investment in the extractive industry, strategic government initiatives, and accommodative monetary policies aimed at fostering economic expansion. However, risks to the growth outlook remain tilted to the downside, reflecting both domestic and global challenges.

On the downside, adverse weather conditions could disrupt food crop production, posing risks to agricultural output and rural incomes. Additionally, tight domestic financing conditions, exacerbated by reduced external funding, particularly the suspension of USAID health sector support, could constrain public and private sector investment. Global conflicts and trade disruptions may further drive-up commodity prices, particularly oil, adding to inflationary pressures and reducing household purchasing power. A further tightening of global financial conditions could also dampen investment flows and economic activity. On the upside, increased investment in the extractive industry, particularly in the oil sector, alongside targeted government interventions and accommodative monetary policies, could accelerate growth beyond expectations. These factors, combined with a recovery in global economic activity, could boost exports, remittances, and foreign direct investment, further supporting domestic output expansion.

2.5 Domestic Inflation and Outlook

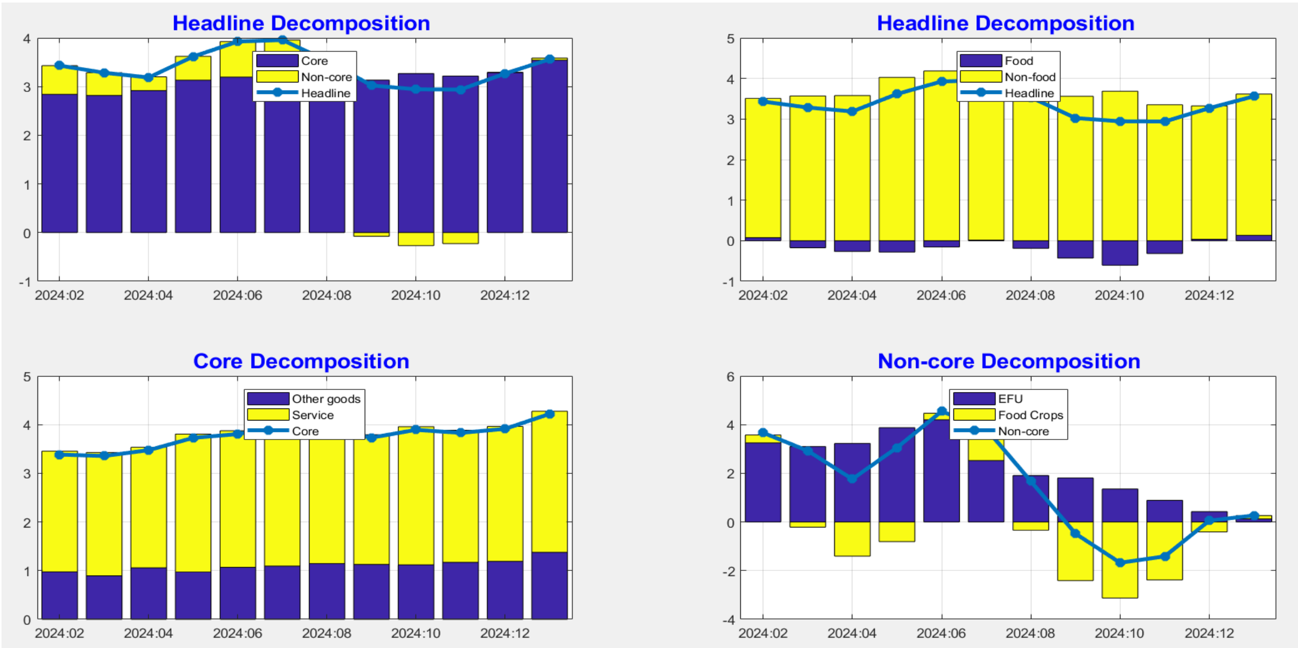
2.5.1 Domestic Inflation

Inflation has continued to remain moderate, consistently staying below the medium-term target. Over the twelve months leading up to January 2025, annual headline and core inflation averaged 3.4% and 3.8%, respectively. Similarly, headline inflation rate rose to 3.6 percent in January 2025 from 3.3 percent in December 2024 (**Figure 15**). This increase was primarily driven by a rise in core inflation, which rose to 4.2 percent in January 2025, compared to 3.9 percent the previous month. This was primarily due to higher other goods inflation, which increased to 2.5 percent from 2.2 percent in December 2024, driven by rising prices for smoked tilapia, new clothing, sugar, and laundry soap. Additionally, inflation in the services sector rose to 6.3 percent in January 2025, up from 6.1 percent in December 2024, largely due to increased costs in passenger transport services and hotel and lodging services.

Annual Energy, Fuel, and Utilities (EFU) inflation decreased to 0.3 percent in January 2025, down from 1.0 percent in December 2024. This decline was mainly attributed to a reduction in solid fuels inflation. Annual food crops and related items inflation saw a slight increase, rising to 0.2 percent in January 2025, from -0.7 percent in December 2024. This was largely due to a significant rise in tomato prices, which increased by 3.5 percent, compared to a decline of -14.4 percent in December 2024, as well as a jump in avocado prices by 11.2 percent, reversing a -5.2 percent drop in December 2024.

While headline inflation remains moderate, pressures from core inflation, particularly in services and other goods, suggest underlying price increases. However, the decline in energy and fuel prices, coupled with subdued recovery in food inflation, indicates stabilizing supply-side conditions.

Figure 15: Domestic Inflation decomposition



Source: UBOS

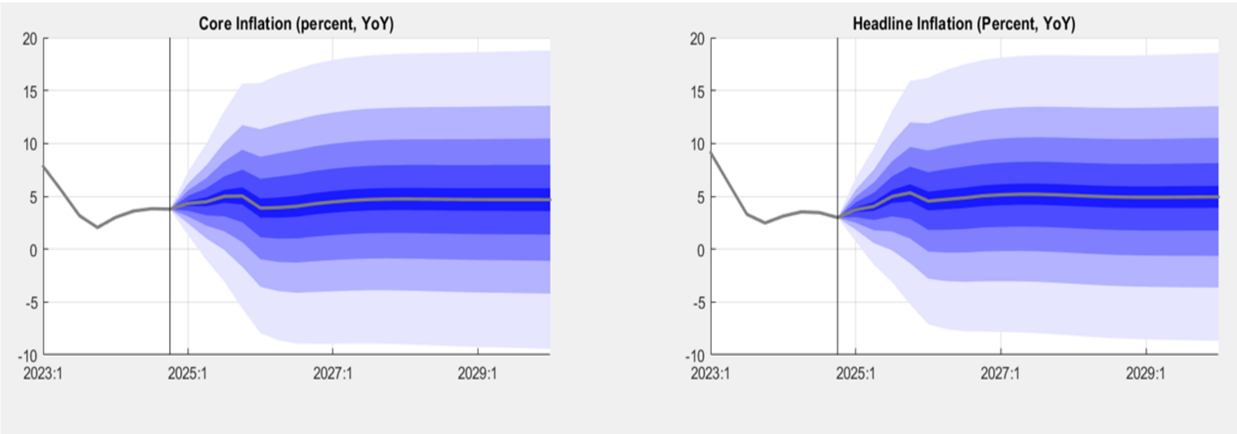
2.5.2 Inflation Outlook

Baseline inflation forecast

Inflation remains well-contained despite the seasonal rise in food prices in the near term. However, the short to medium-term outlook is more uncertain than usual, with significant risks stemming from the external environment. Consequently, the BoU forecasts that average annual core inflation will range between 4.0-5.0 percent in 2025, before stabilizing around the target in the medium term (**Figure 16**).

The inflation outlook remains highly sensitive to a combination of domestic and global risks, with an overall upward bias in price pressures. On the upside, inflation could exceed current projections if domestic economic growth accelerates, driven by increased investment in the extractive industry and effective government program implementation. Additionally, geopolitical conflicts could further disrupt global supply chains, leading to higher import costs and inflationary pressures. Extreme weather events pose a significant risk to agricultural output, potentially driving up food crop inflation. Moreover, exchange rate depreciation due to global uncertainty could exacerbate inflationary pressures. Conversely, downside risks could result in inflation falling below the projection, primarily due to a stronger exchange rate, supported by higher capital inflows from oil sector investments. Additionally, lower global oil prices, stemming from a slowdown in global economic growth, could ease domestic cost pressures. A weaker global economy, particularly amid ongoing trade wars and policy uncertainties, could further dampen inflationary pressures by weakening external demand. Overall, the risks to the inflation outlook remain tilted to the upside. The risks to inflation were further analysed in the alternative scenarios.

Figure 16: Baseline inflation forecast

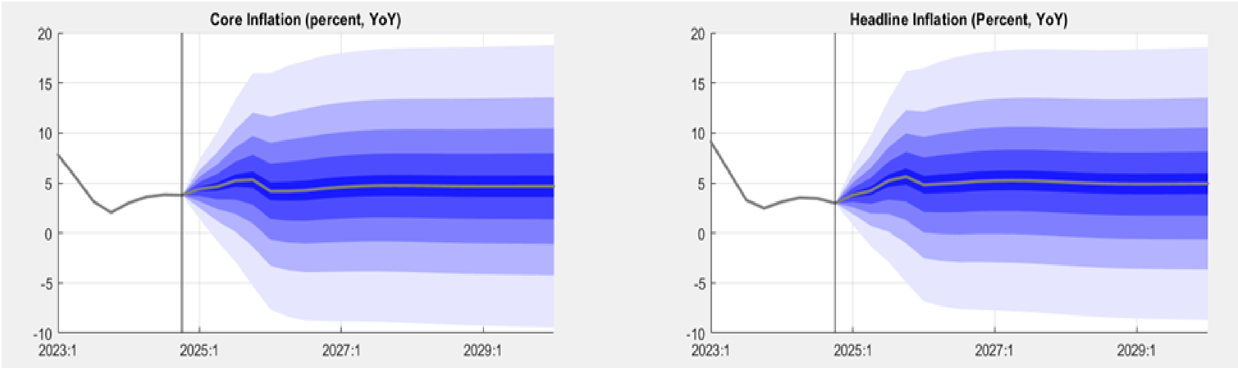


Source: Bank of Uganda

Alternative scenarios

The first alternative scenario assumes gradual easing of monetary policy by reducing the Central Bank Rate (CBR) to 9.5 percent in Q1 2025 and further to 9.0 percent in Q2 2025. Under this scenario, headline and core inflation are projected to be 0.2 percentage points higher than the baseline forecast in 2025, reflecting the impact of a more accommodative monetary policy stance on price levels (**Figure 17**).

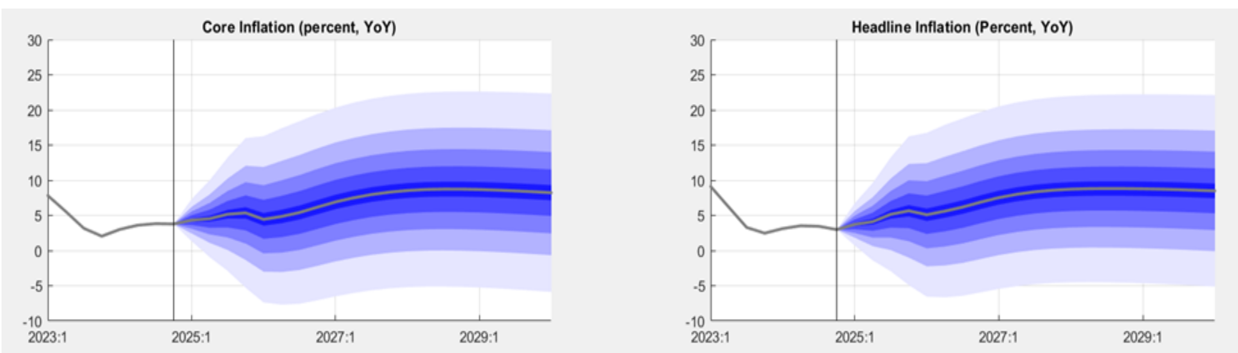
Figure 17: Alternative scenario of Lowering the CBR



Source: Bank of Uganda

The second alternative scenario assumes lower global growth and higher global inflation, driven by global conflicts that result in domestic growth being 1.5pp lower than assumed in the baseline scenario over the next two fiscal years. Under this scenario, headline inflation is projected to be 1 percentage point higher, while core inflation is expected to be 0.7 percentage points above the baseline in 2025. These inflationary pressures reflect the impact of higher imported inflation and supply chain disruptions, which could lead to elevated cost-push inflation over the forecast horizon (**Figure 18**).

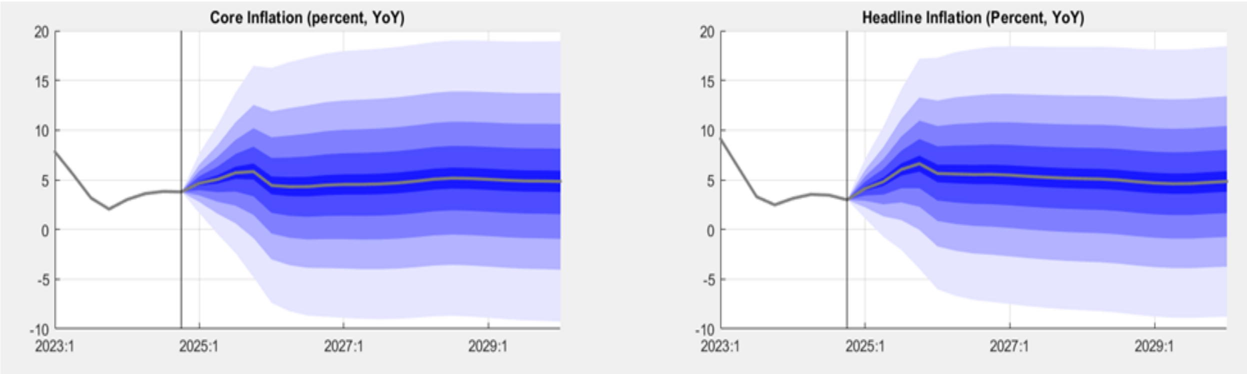
Figure 18: Alternative scenario of Lower growth and higher Inflation



Source: Bank of Uganda

The third alternative scenario assumes that the exchange rate depreciates by 5 percent over the forecast horizon driven by global uncertainties. Under this scenario, headline and core inflation are projected to be 0.2 percentage points higher than the baseline forecast in 2025. The upward revision in inflation reflects the inflationary impact of a weaker exchange rate, which increases the cost of imports and amplifies cost-push inflationary pressures. While the effects of exchange rate depreciation are expected to persist, inflation is projected to gradually align with the baseline in the medium term as monetary policy responds to these pressures (**Figure 19**).

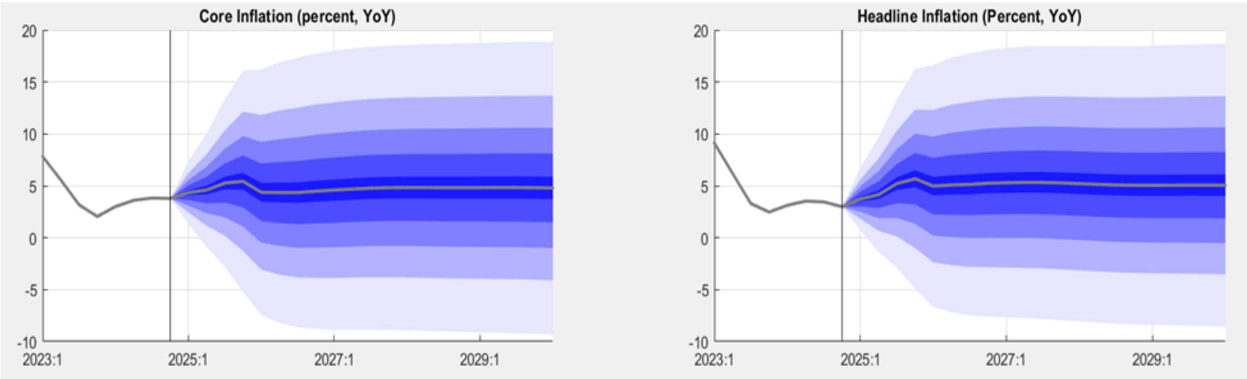
Figure 19: Alternative scenario of a depreciated exchange rate



Source: Bank of Uganda

The fourth alternative scenario assumes that fiscal expenditure is 2 percentage points higher than in the baseline, driven up by the need for government to respond to the recent Ebola outbreak amidst funding cuts by USAID. Under this scenario, headline and core inflation are projected to be 0.2 percentage points higher than the baseline forecast in 2025. The increase in inflation reflects the impact of higher government spending, which could lead to increased aggregate demand and price pressures. Additionally, the depreciation of the exchange rate under this scenario could further contribute to imported inflationary pressures. While inflation is expected to remain moderately elevated in the short term, it is projected to gradually realign with the baseline in the medium term as policy adjustments take effect (**Figure 20**).

Figure 20: Alternative scenario of Higher Fiscal:



Source: Bank of Uganda

3. MONETARY POLICY DECISION

Global growth is projected to stabilize at 3.3 percent in 2025 and 2026, slightly up from 3.2 percent in 2024, though still below historical averages. Advanced economies, including the U.S. and Euro Area, are expected to experience slower growth due to labor market weakness, fiscal constraints, and geopolitical tensions, while China's growth will slow. India's economy is expected to remain resilient with strong growth. Global inflation remains elevated but is expected to return to target levels faster in advanced economies than in emerging markets and developing economies (EMDEs), although rising tariffs and geopolitical factors could heighten inflationary risks, disrupt supply chains, and strain global economic stability. Oil prices are expected to decline, but non-fuel commodity prices are projected to rise in 2025, with uncertainty lingering due to global geopolitical tensions.

Domestically, economic activity continues to strengthen, as evidenced by the latest quarterly GDP release from the Uganda Bureau of Statistics (UBOS). Real GDP growth in the first quarter of 2024/25 increased to 6.7 percent from 6.2 percent in the fourth quarter of 2023/24 and 5.6 percent in the first quarter of 2023/24. This growth was primarily driven by a robust recovery in industrial activity. Looking ahead, Uganda's economy is projected to continue expanding to 6.0-6.5 percent in FY2024/25 and 7.0 percent in the medium term, supported by factors such as increased foreign investment and the oil sector. However, risks to the growth forecasts remain including adverse weather conditions, tight domestic financing, and global conflicts that could constrain growth. Conversely, increased investment in the extractive industry, targeted government interventions, and a global economic recovery could boost growth.

Inflation in Uganda remains relatively contained, although it slightly rose to 3.6 percent in January 2025 from 3.3 percent in December 2024. This increase was primarily driven by higher services inflation, particularly in the transport sector, which reflects broader global and domestic cost pressures. Core inflation also rose to 4.2 percent from 3.9 percent, signaling rising underlying inflationary pressures. Despite this uptick, inflation is expected to remain within range between 4.0 percent and 5.0 percent in the near term and stabilize at 5 percent in the medium term. However, the there are risks to the inflation forecasts. On the upside, higher economic growth, geopolitical conflicts, and extreme weather events could worsen inflation. Conversely, stronger exchange rates, higher capital inflows, and lower global oil prices could ease inflationary pressures, though overall risks remain tilted to the upside.

Considering recent macroeconomic developments and forecasts, the MPC decided to keep the Central Bank Rate (CBR) at 9.75 percent, a level seen as conducive to supporting both price stability and sustainable economic growth. The BOU's decision to maintain the CBR reflects a cautious but balanced approach, aiming to ensure that inflation remains under control while fostering an environment that encourages investment and economic stability. The bands on the CBR remain 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 12.75 percent and 13.75 percent, respectively. The BOU will continue to monitor global and domestic developments closely, adjusting as necessary based on new data and economic forecasts.

In conclusion, while Uganda's economy remains on a growth trajectory, external risks and domestic challenges need to be carefully managed. The recent slight rise in inflation reflects a complex global and local economic environment, with Uganda needing to remain vigilant in its economic policies and actions. The BOU's cautious approach to interest rates is designed to maintain price stability while balancing the need for continued investment and growth.