

MACRO ENVIRONMENTAL ANALYSIS

COUNTRY RISK REVIEW

DEMOGRAPHIC OVERVIEW

Uganda is a country situated in eastern Africa, bordered by Kenya to the north, Tanzania to the south, Rwanda to the southwest, the Democratic Republic of the Congo (DRC) to the west, and South Sudan to the north. Uganda's population is estimated at 46 million (WB 2024). The capital and largest city of Uganda is Kampala. It is large in terms of population, the busiest urban centre, commercial activities, educational facilities, and home to key government offices, including the Parliament of Uganda, various ministries, diplomatic missions, and international organisations.

POLITICAL LANDSCAPE

The National Resistance Movement (NRM) is the ruling political party in Uganda, led by President Museveni. The NRM has dominated Ugandan politics since Museveni took power in 1986, winning multiple elections, making him one of Africa's longest-serving leaders. The opposition political parties play a crucial role in the country's political landscape; this includes the Forum for Democratic Change (FDC), which is one of the leading opposition parties in Uganda and has consistently been a significant player in the country's political landscape since its formation in 2004. Led by figures like Dr Kizza Besigye, the FDC has garnered substantial support and has been vocal in advocating for political reforms, human rights, and democratic governance. The National Unity Platform (NUP) is a relatively new political party in Uganda, founded in 2018 by Robert Kyagulanyi Ssentamu, commonly known as Bobi Wine, a prominent Ugandan musician-turned-politician. Bobi Wine gained significant attention and popularity in recent years, particularly during the 2021 general elections, and emerged as a charismatic and influential figure, especially among young Ugandans, advocating for social justice, political reform, and youth empowerment.

The next general election in Uganda is scheduled to be held in 2026. General elections in Uganda typically occur every five years, as per the country's electoral cycle. The most recent general election was held in January 2021, which saw incumbent President Yoweri Museveni re-elected for a sixth term. The trajectory of Ugandan politics will be shaped by factors such as leadership transitions, potential democratic reforms, and the strength of institutional frameworks in fostering political accountability and citizen engagement. With more than 30% of the population still below the poverty line, Uganda relies heavily on agricultural products as its main export.

REMOVAL FROM THE FATF GREY LIST AND ITS IMPLICATIONS

Uganda achieved a significant milestone as it was removed from the Financial Action Task Force's (FATF) 'Grey List'. Jurisdictions under increased monitoring are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. One significant achievement of being removed from the grey listing is that the country will no longer undergo increased compliance scrutiny from banks for most financial transactions involving international operations, including wire transfers.

ECONOMIC PERFORMANCE AND DEVELOPMENTS

Monetary Policy

The Bank of Uganda has maintained a cautious stance on monetary policy, keeping the Central Bank Rate at 9.75% in December 2024 due to global uncertainties and inflation risks. The Central Bank Rate remains at 9.75% to control inflation and support economic growth.

Interest Rates

Interest rates remain elevated, with the weighted average shilling lending rates at 18.3% in the three months to December 2024 and foreign currency-denominated loans at 8.5%. Lending rates are expected to remain elevated in 2025 due to tight liquidity and financing conditions.

Economic Growth

Uganda's economy is expanding, with real GDP growth increasing to 6.7% in the first quarter of 2024/25. Growth is driven by industrial activity, agriculture, and the services sector. Medium-term growth is expected to reach 7.0%, supported by increased investment in the extractive industry and strategic government initiatives.

Inflation

Inflation remains moderate, averaging 3.4% (headline) and 3.8% (core) in 2024. The Bank of Uganda forecasts core inflation to range between 4% and 5% in 2025, stabilising around the 5% target in the medium term. Risks to inflation are tilted to the upside, driven by domestic and global factors.

Balance of Payments

The balance of payments recorded a deficit of USD 521.3m in 2024 compared to a surplus of USD 83.3m in the previous year. The current account deficit increased by 27.6% to USD 4.8bn, while the trade deficit

increased by 16.3% to USD 3.7bn, mainly due to rising imports, which increased by 20.3% to 12.22bn in 2024. Foreign exchange reserves stood at USD 3.3bn, covering 3.0 months of import cover.

Fiscal Operations

In the first half of 2024, Government revenue fell short of expectations due to lower-than-expected grant receipts. Domestic revenue exceeded expectations, driven by higher-than-targeted tax revenue collections. The fiscal deficit was lower than planned, and domestic revenue is expected to continue its strong performance.

Debt Sustainability

The debt-to-GDP ratio declined to 46.2% in FY23/24, indicating an improvement in debt sustainability. However, national debt remains elevated, exerting pressure on fiscal space and public spending.

Trade Dynamics

Uganda mostly exports agricultural products (80% of total exports). The most important exports are coffee (22% of total exports), followed by tea, cotton, copper, oil and fish. Uganda's main export partners are Sudan (15%), Kenya (10%), DR Congo, the Netherlands, Germany, South Africa and the UAE.

Uganda's main import partners are China, the United Arab Emirates and Tanzania. The top three import commodities were: Mineral fuels, oils, distillation products; Pearls, precious stones, metals, coins and Machinery, nuclear reactors, and boilers.

The country's trade policy aims to encourage cooperation and integration in East Africa to stimulate production and increase export earnings. Tariffs are not very high, and the country has few non-tariff barriers to trade. However, socioeconomic challenges and underdeveloped infrastructure remain major obstacles to trade. The political situation in South Sudan, one of the country's main trading partners with Kenya, continues to affect trade flows.

Drivers and Challenges of Uganda's Economic Growth

On the positive side, factors contributing to growth include investments in the oil sector. With the progressing preparation of the drilling fields and supportive infrastructure, oil exports are expected to commence by the end of 2025. Despite the country's growth being primarily fuelled by agricultural exports and oil discovery, Uganda has not generated an adequate number of job opportunities at the necessary pace for rapid poverty reduction. Several challenges, including limited access to

infrastructure services and weak institutions, have impeded the required structural transformation of the economy.

Financing Constraints and Diversification of Exports

Uganda faces several risk factors that impact its economy and political stability. One significant concern is financing constraints that could constrain credit and investment in the private sector. Increased government borrowing might increase interest rates, making it harder for businesses and individuals to get loans and potentially hindering spending and investment. On the other hand, due to overreliance on agricultural exports, weaker demand in other countries could hurt Ugandan exports, reducing earnings and affecting the balance of payments. These combined factors contribute to a challenging country-risk environment.

CHARTING A PATH FORWARD

In conclusion, Uganda presents a complex landscape of opportunities and challenges for investors and policymakers alike. While investments in sectors like oil hold promise for economic growth, persistent structural barriers, such as limited access to infrastructure and weak institutions, continue to hamper the country's development trajectory. Moreover, risks associated with financing constraints and overreliance on agricultural exports underscore the need for diversified economic strategies and robust risk management frameworks. Navigating these challenges will require concerted efforts from both the government and private sector stakeholders, focusing on enhancing resilience, promoting inclusive growth, and fostering sustainable development pathways for Uganda's future prosperity.