



MANAGING UGANDA'S ECONOMY IN 2024 AND BEYOND



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In a year marked by global uncertainties and domestic challenges, Uganda's economy has demonstrated remarkable resilience and progress. A key contributor in this resilience has been the Bank of Uganda (BoU), whose proactive and adaptive monetary policy and financial sector regulatory actions have played a crucial role in stabilising the economy.

From managing inflationary pressures to ensuring financial sector stability, the BoU's responsive actions have provided a steady anchor amidst external shocks and internal risks. Let us reflect on the economic progress of 2024, analysing how the central bank's proactive and timely actions have contributed to financial stability, sustainable growth, and socio-economic transformation, thereby positioning Uganda for future challenges and opportunities.



Navigating Inflationary Waters

The story of Uganda's monetary policy in 2024 is one of cautious optimism and strategic actions, which helped keep core inflation (excluding volatile items like food crops and energy) stable. The BoU began the year with a Central Bank Rate (CBR) of 9.5%, gradually increasing it to 10.25% by April, before cautiously easing it to 9.75% by November. This signalled a balanced approach to maintaining monetary stability amidst external and domestic challenges.

Concerns about exchange rate volatility, driven by the repositioning of yield-seeking offshore investors towards higher-earning assets in other regional economies, prompted an extraordinary BoU Monetary Policy Committee meeting in March 2024, where the CBR was raised back to 10%. This strategic action paid off, stabilising the exchange rate and containing upward pressures on the inflation outlook. By October 2024, with inflation under control and exchange rate pressures easing, the BoU lowered the CBR to 9.75%, signalling confidence in future economic stability.

As of November 2024, annual headline inflation stood at 2.9%, the lowest in the past ten months, supported by strong food crop production, with core inflation at 3.8%. This achievement is particularly noteworthy given the challenging global economic environment and highlights BoU's effective inflation management compared to many African peers.

The inflation developments in 2024 further reinforce Uganda's consistency in maintaining one of Africa's lowest and most stable inflation levels, averaging only 4.0% over the past decade and well below the 5% target. The complementary role of fiscal policy, well-coordinated with monetary policy, played a critical part in navigating the inflationary waters. This achievement ranks Uganda second lowest on the continent after Mauritius and the lowest within the East African region.

Keeping the Shilling Exchange Rate Stable

The Uganda shilling has demonstrated exceptional performance relative to other African currencies, characterised by a low depreciation rate of only 32.9% against the U.S. dollar over the past decade, the lowest among peer African currencies, with some countries experiencing depreciation rates exceeding 50% or more. This resilience is approximately 10 percentage points better than the second-placed country.

The BoU has taken several necessary steps to maintain the value of its currency, the Shilling, against other world currencies, particularly the U.S. dollar. These efforts have proven largely successful, with the shilling remaining relatively stable through late 2024.

The central bank used traditional monetary policy tools effectively. By raising its main interest rate, the CBR, and requiring banks to hold more cash in reserve, the BoU made the shilling more attractive to foreign investors. These investors brought their money into Uganda to buy government bonds, which helped support the shilling's value. At the same time, Uganda benefited from stronger coffee exports and better global coffee prices starting in May 2023.

The BoU also modernised its financial system through several technical improvements. The central bank partnered with an organisation called Frontclear to strengthen its financial infrastructure and make it easier for banks to access money when needed. Uganda adopted new international standards for lending and borrowing (the Global Master Repurchase Agree-

ment), which helped banks operate more efficiently.

The banking law was updated through the Financial Institutions (Preference and Appraised Book Value) Regulations 2023 to ensure preferred creditor status (priority repayment) for government securities used as collateral in money market transactions in the event of management takeover or insolvency. For example, the law now ensures that agreements to exchange currencies (called "forex swaps") continue without interruption during these transitions. This move significantly supports trading activity and market confidence.

Uganda's financial market has significantly improved, climbing from tenth place in 2020 to fourth in 2024, as shown by the Absa Africa Financial Markets Index. This progress means more people and businesses now buy and sell foreign currencies in Uganda. The increased activity makes it easier to buy and sell these currencies, which helps keep the value of the shilling more stable.

These efforts have paid off. As of November 2024, the shilling showed remarkable stability, with a slight monthly decline of only 0.3% against the U.S. dollar, reaching an average rate of UGX 3,677.55 per dollar. This stability has been maintained thanks to a steady flow of foreign currency into Uganda from coffee exports, money sent home by Ugandans working abroad (remittances), foreign companies investing in the country, the effectiveness of the BoU's monetary and financial policies, and market reforms. Compared to other African nations, Uganda's currency has performed remarkably well.

In an innovative move, Uganda announced that going forward, it would buy gold from domestic artisanal miners and bona fide medium to large mining entities to build up its foreign exchange reserves. This decision sends a positive signal to financial markets, showing that Uganda is actively working to reduce its reliance on U.S. dollars for foreign reserve holdings.

Strengthening the Financial Sector

Uganda's banks remained strong and healthy in 2024 despite economic challenges at home and worldwide. Banks have plenty of cash on hand to meet their daily needs. While they are required to keep enough cash and other liquid assets to cover at least 100% of their potential short-term needs, the banks are far exceeding this – keeping enough to cover nearly 350% of those needs. This extra cushion means they are well-prepared for any unexpected demands.

The quality of bank loans has improved. When we look at problematic loans – those where borrowers struggle to make payments – these have decreased from 5.4% of all loans in 2023 to 4.9% by September 2024. To put this in perspective, it means that for every 1,000 shillings loaned out, only 49 shillings are at risk of not being repaid, down from 54 shillings the year before. This improvement suggests that banks and borrowers have managed their money more responsibly.

The BoU raised the minimum amount of money that financial institutions must have on hand to operate. Commercial banks now need to keep UGX 150 billion in reserve (like a security deposit), while smaller lending institutions (credit institutions) need UGX 25 billion. This is like having a bigger financial cushion to protect against unexpected problems.

Also, Uganda has made significant progress in making its banking system more trustworthy internationally. The country was previously on the Financial Action Task Force (FATF) "grey

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list" – a watchlist for countries that need to improve their financial security systems. Uganda has now been removed from this list by showing it has strong protections against financial crimes like money laundering and terrorism financing. This is a major achievement that tells the world Uganda's financial institutions are safe and reliable partners.

The BoU demonstrated strong regulatory oversight in 2024 through its decisive handling of financial institution challenges. Faced with severe undercapitalisation and governance issues at two supervised financial institutions, the central bank managed their orderly exit through license revocations and liquidation processes. This swift action protected depositors' interests and reinforced public confidence in the banking system's oversight, underscoring the effectiveness of BoU's supervisory framework in maintaining sector stability.

The central bank is also looking ahead to new challenges. In December 2024, the BoU released guidelines for banks on protecting against cyber threats and technology risks. This is particularly important in this digital age, where more people are using online and mobile banking services.

These changes mean that Ugandan banks will be better equipped to protect their customers' money, prevent financial crimes, and handle digital security challenges. For everyday Ugandans, this translates to a safer and more reliable banking system that is also more respected internationally.

Enhancing Payment Systems

Uganda's payment systems have seen significant improvements, contributing to the overall stability and efficiency of the financial sector. The Uganda National Interbank Settlement System (Real-Time Gross Settlement (RTGS)) saw a substantial increase in activity, processing UGX 808.7 trillion in the year ending June 2024, reflecting its critical role in large-value and time-sensitive interbank transfers across seven currencies (Uganda Shillings, Kenya Shillings, Tanzania Shillings, Rwandese Francs, United States Dollars, Euros and Pounds). Similarly, the Electronic Funds Transfers (EFTs) system facilitated transactions worth UGX 59.4 trillion during the same period, underscoring the growing adoption of digital banking and seamless fund transfers within Uganda's financial sector.

On the regional and international front, the Common Market for Eastern and Southern Africa Regional Payment and Settlement System (REPSS) recorded a 42.3% increase in transaction values from USD 33.6 million to USD 47.8 million, highlighting the growing integration of Uganda's financial system with its regional counterparts. The East African Payment System (EAPS) also facilitated significant cross-border payments with inbound and outbound transactions totalling UGX 1.1 trillion and UGX 1.12 trillion. These figures underscore the increasing integration of Uganda's financial sector within regional and international payment networks.

Telegraphic transfers (TTs) using the SWIFT network remained the primary method for cross-border large-value payments, with commercial banks processing approximately UGX 53 trillion in outward transactions in the year ending June 2024. Additionally, money remittance inflows into Uganda reached USD 914.47 million, demonstrating strong growth driven by robust international transfers. The increasing use of alternative platforms, such as mobile money, has further facilitated small-value transfers, providing essential financial support to families and communities nationwide.

These advancements in payment systems have enhanced financial inclusion and improved the efficiency and reliability of financial transactions, positioning Uganda as a leader in payment system innovation in the region.

Contributing to Socio-Economic Transformation

The BoU's role extends beyond traditional monetary policy and financial regulation; it is also a key player in Uganda's socio-economic transformation. The third National Development Plan (NDP III) and the upcoming NDP IV emphasise sustainable industrialisation, inclusive growth, and employment opportunities. The BoU aligns its mission with these national objectives, promoting price stability and maintaining a sound financial system to support the country's socio-economic transformation. To realise these objectives, the BoU implements targeted initiatives that directly address critical areas such as digital transformation, sustainability, financial inclusion, and sector-specific interventions, as highlighted below:

The BoU has been driving financial inclusion through digital transformation, playing a pivotal role in expanding digital financial services, particularly for Uganda's unbanked and underbanked populations. Mobile money services have revolutionised financial access, with over 21.8 million active users and 30.9 million active accounts as of June 2024. The value of mobile money transactions surged by 32% to UGX 253 trillion in 2023/24, underscoring the growing adoption of digital payments across Uganda. These advancements have increased access to banking services from 58% of the adult population in 2022 to 65% in 2024, reflecting the success of BoU's efforts to promote digital financial transactions.

Mobile money transactions grew by 32% year-on-year from UGX 191 trillion in June 2023 to UGX 253 trillion in June 2024, highlighting the rapid expansion and increasing reliance on digital financial services like micro-deposits, micro-loans and micro-insurance.

The BoU is advancing sustainability through Environmental, Social, and Governance (ESG) integration, prioritising it as a cornerstone of Uganda's socio-economic transformation. By integrating ESG principles into its policies and operations, the BoU aims to foster long-term economic resilience, enhance financial inclusion, and align Uganda's banking sector with global best practices. The 2024 launch of the ESG Framework for Uganda's Banking Sector underscores this commitment, guiding banks to balance profitability with sustainability, promote green finance, and address local challenges, including climate-related risks.

The BoU supports government initiatives by collaborating with the Government of Uganda to implement critical development programs aligned with the goals of the NDP III. Initiatives like the Agricultural Credit Facility (ACF) and the Small Business Recovery Fund (SBRF) are designed to promote value addition in agriculture and support businesses affected by economic shocks.

The ACF has provided UGX 1.01 trillion in financing to over 5,000 beneficiaries as of September 2024. The facility has been particularly impactful in supporting micro, small, and medium-sized enterprises (MSMEs), with 73% of loans directed to these groups. The introduction of the block allocation model has revolutionised access to credit for smallholders and MSMEs, enabling loans of up to UGX 20 million without traditional collateral. This model has benefitted 3,531 smallholders, including 944 women-led projects, demonstrating the potential of tailored financing to drive economic inclusion and empower marginalised groups.

The SBRF has received 3,242 applications amounting to

UGX 65.92 billion, with disbursements totalling UGX 39.71 billion, including a Government of Uganda contribution of UGX 19.85 billion. During the quarter ending September 2024, 543 loans were disbursed, amounting to UGX 12.22 billion, reflecting a 73% increase in disbursement value compared to the previous quarter. The fund has been instrumental in supporting micro-enterprises, which utilised 84% of funded projects, and the trade and commerce sector, which comprised 65% of beneficiaries. The amendments to the Memorandum of Agreement have contributed to a notable increase in SBRF uptake in 2024.

The BoU, in collaboration with the Ministry of Energy and Mineral Development, is advancing the Domestic Gold Purchase Program to enhance miners' access to finance, boost productivity, and promote job creation and value addition within Uganda's mining sector.

Uganda's Financial Market Triumph in 2024

Uganda is emerging as a financial powerhouse in Africa, consolidating fourth place in the prestigious 2024 Absa Africa Financial Markets Index- after South Africa, Mauritius, and Nigeria – outperforming larger regional economies like Kenya and Tanzania. This achievement rests partly on impressive economic fundamentals, such as strong economic growth, price and financial stability, and BoU's strategic reforms and initiatives.

This fourth place ranking in the index carries significant weight internationally. It tells global investors that Uganda offers a well-regulated, maturing financial market environment. This translates to potentially better borrowing terms, increased foreign investment attraction, and accelerated economic development – positioning the country for sustained financial market leadership in East Africa.

The central bank is modernising payment systems for greater inclusivity, introducing robust ESG frameworks for sustainable banking, and pursuing international certification for sustainability standards. More Ugandans can now easily send, receive, and manage their money through various digital channels. Central bank-led sustainability guidelines are encouraging banks to consider not just profits, but also their environmental and societal impact. The BoU is also seeking an international seal of approval for sustainable central banking practices, showing Uganda's commitment to building a banking system that will serve future generations well. These moves signal Uganda's evolution into a sophisticated financial market.

A Positive Outlook

The strategic delivery of BoU's policy mandate in 2024 has strengthened the economy's foundations, from maintaining one of Africa's lowest inflation rates to achieving fourth place in the Absa Africa Financial Markets Index. Our banking sector's improved health, expanding digital financial services reaching 65% of adults, promoting ESG sustainability, and successful credit facilities supporting thousands of entrepreneurs and farmers demonstrate how sound economic policy translates into real progress for Ugandans.

Looking ahead to 2025, our robust monetary framework and modernising financial systems position Uganda well to face global challenges while advancing domestic prosperity. As the financial sector and stakeholders prepare to support the Government's tenfold growth agenda, the BoU remains committed to policies that balance stability with inclusive growth, ensuring our economic achievements continue to benefit all Ugandans – from rural farmers to urban entrepreneurs.