

CSBAG BUDGET NEWS



Weakening Uganda Shilling raises economic concerns



Economists warn that the demand for the US Dollar is expected to outstrip its supply further impacting the exchange rate. Photo © Daily Monitor

The Uganda Shilling recouped some of its losses during the week to trade at highs of 3907/3917 on Friday morning having touched lows of 3945/3955 during the course of last week. Since the beginning of the year, Uganda Shilling has experienced a period of depreciation against major currencies in recent months, raising concerns about its stability and its impact on the economy.

Data from the Ministry of Finance performance of Economy for January 2024 indicates that the Uganda Shilling depreciated by 0.64%, trading at an average mid-rate of Shs 3,805.03/US\$ from Shs 3,780.66/US\$. This was due to the high demand for the dollar from manufacturing, oil, telecom, and energy firms. There was a reduction in the lending rates for both Shilling and foreign currency-denominated credit from 16.79% and 8.96% in November 2023 to 16.70% and 8.79%, respectively in December 2023.

Julius Mukunda, a Senior Economist and Executive Director of Civil Society Budget Advocacy Group (CSBAG), there has been a withdrawal of dollars in the economy exacerbated by the closure of the Democratic Governance Facility (DGF), the passing of the Anti Homosexuality Act 2023, and US decision to scrap Uganda from AGOA beneficiaries.

"The other fact is debt servicing; it is putting pressure on the Uganda Shilling to the US Dollar. We have a trade imbalance hence need more dollars to produce goods," he states

On what can be done to address the challenge of weakening the Uganda Shilling, Mukunda says Gov't should ensure fiscal discipline and stop wasting so much money on foreign items such as foreign travel, and luxury imports that put pressure on the Uganda Shilling.

"We need to also improve on the project performance; we are incurring a cost on these delays; we also need to add value on our exports instead of exporting raw materials; also, increase the quality," he explained.

Ronald Ochen, an Economist at CSBAG says that if the current rate depreciation of the Ugandan shilling against the US dollar is sustained, it will exacerbate/worsen the country's debt situation by increasing the real cost of servicing external debt denominated in dollars.

This, according to him will potentially lead to a higher debt burden as more funds are required from the budget to service the same amount of debt, further straining fiscal resources already challenged by increased government expenditure compared to domestic revenue.

"... as evidenced by the significant 107% increase in total debt from UGX 46 trillion in 2018/19 to UGX 96.168 trillion as of June 2023, outpacing the growth rate of GDP, which rose by 39.98% over the same period, thus highlighting the growing challenge of sustaining debt levels amidst currency depreciation and fiscal imbalances."

Prof Augustus Nuwagaba, an International Consultant on Economic Transformation says that weakening of a domestic currency is usually a double-edged sword for the economy. He says if the economy is a net exporter, it will boost inflows by making exports more competitive in foreign markets.

"However, for the Ugandan economy which is a net importer, the weakening Uganda Shilling deepens the negative trade balance which is already estimated at US \$ - 4.1Bn. This is because the depreciation of the Uganda Shilling increases the cost of imports, leading to higher inflation.

This will strain consumers' purchasing power and business operations, impacting negatively on economic performance," he states.

Prof Nuwagaba says the only robust solution is enhancing export sector performance

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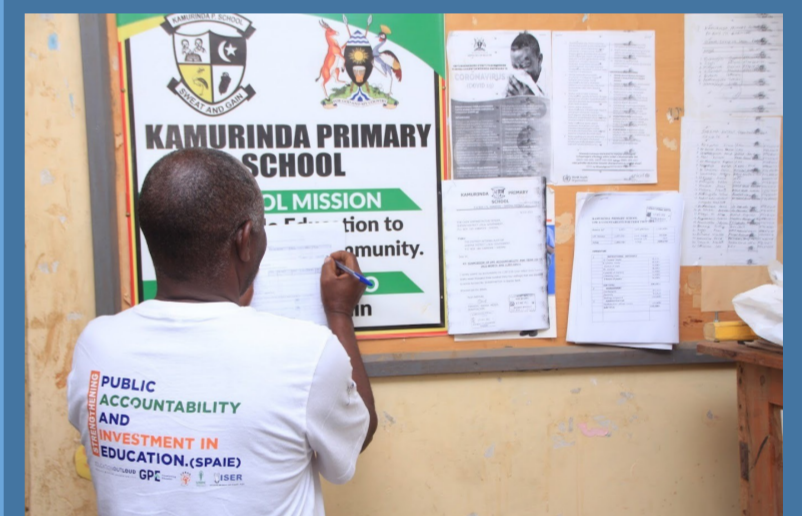
Media House: Daily Monitor

Link: <https://www.monitor.co.ug/uganda/oped/letters/why-the-ugandan-shilling-is-rapidly-depreciating--4541732>

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Link: <https://www.youtube.com/watch?v=DVdWgKxtwh8>



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CSBAG Participatory Budget Club member undergoing training in budgeting process and service delivery in Sheema Town Council on 29th February 2024

"All currencies within the EAC region registered depreciations against the US Dollar. Kenya had the highest depreciation rate at 3.6% followed by Rwanda and Uganda at 1.0% and 0.6%, respectively, while the Tanzanian Shilling and Burundian Franc both depreciated at 0.2%. ."

Source: Performance of the Economy Monthly Report, January 2024 by Ministry of Finance