

Evolution of the Exchange Rate and Policies

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BANK OF UGANDA

MISSION To Promote Price Stability and a Sound Financial System in Support of Socio-economic Transformation in Uganda.

Outline

1. Evolution of the exchange rate
2. Outlook for the exchange rate
3. BOP developments and outlook
4. Policy actions

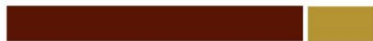


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1. Evolution

- The exchange rate was relatively stable in the quarter ended Dec'23, depreciating by 2.1% q-o-q to average UGX 3,772.53.
- The exchange rate depreciated strongly in Jan and Feb 2024, by 0.6% and 1.8% m-o-m, respectively.
- Relative stability was observed in Mar'24, a depreciation of 0.6% m-o-m driven by **BoU policy action**.



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1. Evolution cont'd...

- Recent estimates from 3 models—the Macroeconomic Balance Approach (MB), External Sustainability Approach (ES), and Quarterly Projection Model (QPM)—suggest that the overvaluation observed in the recent past (till December 2023) has corrected.

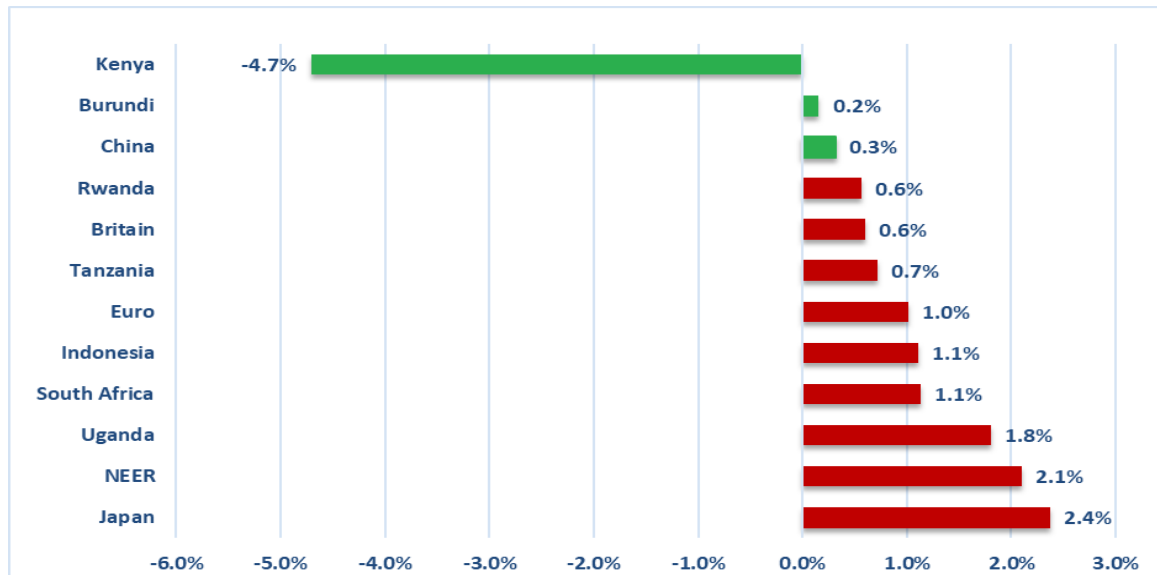


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1. In cross-currency terms...

- In cross-currency terms, the KSH/USD experienced a sharp appreciation relative to other currencies.
 - Infrastructure bonds
 - Budget support (IMF)
 - Successful Eurobond Repayment bolstered investor confidence
 - Central Bank's monetary policy



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2. Outlook for the exchange rates

- The exchange rate will continue to be driven by global financial conditions, domestic absorption and related financing, and monetary and fiscal policies.



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3. BOP development and outlook

- The external sector position will likely remain fragile in FY2023/24.
- Current account deficit is projected to reduce to 7.3% of GDP (\$4.0bn) by end-FY23/24 from 7.7% of GDP in FY22/23.
- The Financial account surplus is projected to be 6.6% of GDP (\$3.6bn) by end-FY23/24.
- A BOP surplus is expected, equivalent to 0.2% of GDP (\$0.3bn) by end-FY23/24.



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3. BOP development and outlook

- The Current account deficit is projected to steadily narrow.
- The financial account surplus is projected to increase mainly driven by projected capital inflows.
- BOP surpluses are projected in FY24/25 and the medium term.

US\$Bns	2024/25		2025/26		2026/27		2027/28	
	Proj	% of GDP	Proj	% of GDP	Proj	% of GDP	Proj	% of GDP
CAD	- 4.0	-6.9%	- 3.5	-5.3%	- 3.1	-4.3%	- 2.7	-3.3%
Trade	- 3.4	-5.8%	- 3.0	-4.6%	- 2.8	-3.8%	- 2.7	-3.2%
Services	- 1.5	-2.6%	- 1.3	-2.0%	- 1.2	-1.7%	- 1.2	-1.4%
Primary income	- 1.4	-2.4%	- 1.6	-2.5%	- 1.8	-2.4%	- 1.9	-2.3%
Secondary income	2.3	3.9%	2.5	3.7%	2.7	3.6%	2.9	3.5%
Capital Account	0.4	0.7%	0.3	0.5%	0.3	0.4%	0.2	0.3%
FA Surplus	- 3.0	-5.2%	- 3.1	-4.7%	- 3.4	-4.7%	- 3.9	-4.7%
FDI	- 3.1	-5.2%	- 2.4	-3.7%	- 2.1	-2.9%	- 1.9	-2.3%
Portfolio investment	0.0	0.0%	0.1	0.1%	0.1	0.1%	0.1	0.2%
Other investment	- 0.0	0.0%	- 0.7	-1.1%	- 1.4	-1.9%	- 2.1	-2.5%
Overall balance	- 0.6	-1.0%	- 0.0	0.0%	0.6	0.8%	1.4	1.7%



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3. Risks to the BOP outlook

- Delayed disbursement of expected budget support loans.
- Higher than projected government expenditure on imports & external debt service.
- Unfavorable market conditions which may disrupt the reserve build-up program.
- Stronger tightening of global financial conditions may impact the availability of external support from development partners.



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4. Policy actions by the government

- BOU will continue to operate the floating exchange rate regime.
 - More reliance on the policy instrument for stabilization.
 - Purchases of FX to accumulate FX reserves.
 - Continued development of the domestic financial markets.

- Strengthening fiscal-monetary policy coordination.

- A credible fiscal consolidation strategy.
 - Revenue-enhancing measures and expenditure rebalancing.
 - Gradual reduction in deficits and consequent reduction in debt accumulation.

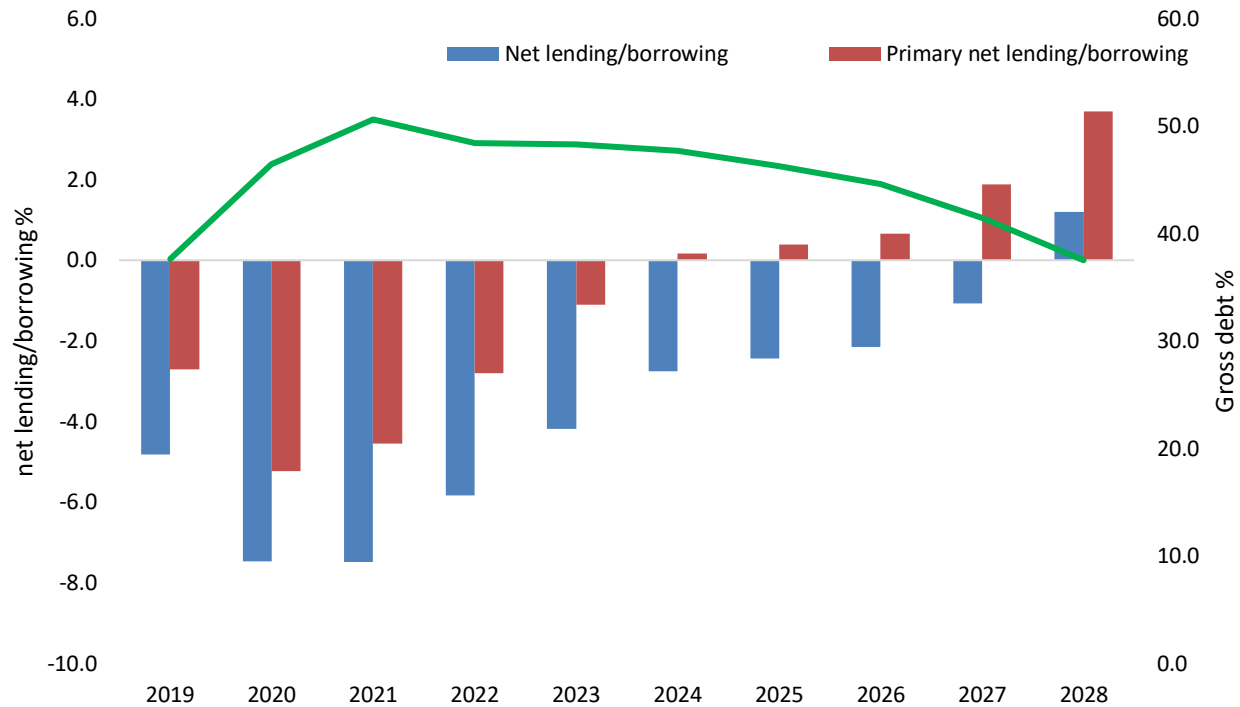
- The IMF-ECF financial program as the anchor.
 - Policy credibility and discipline.
 - Structural reform measures.



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A credible fiscal consolidation path....



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Thank You



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