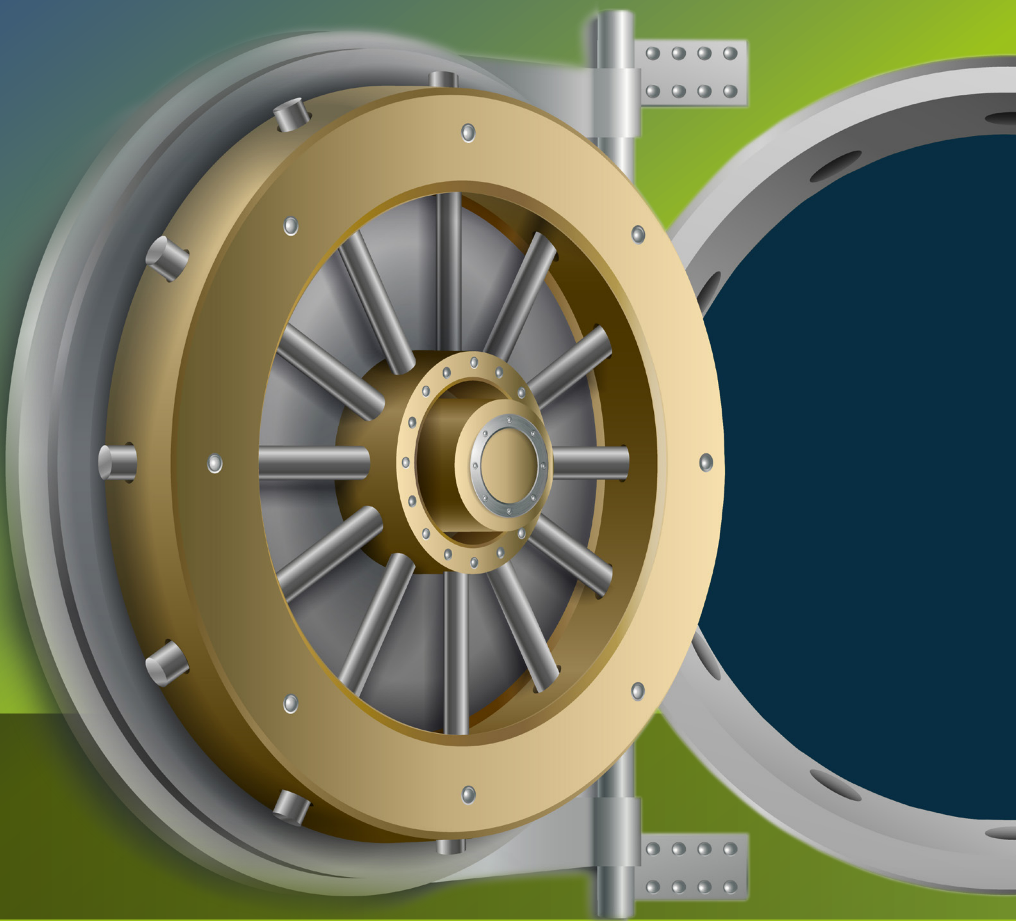
Uganda Bankers' Association

Promoting Partnerships. Transforming Banking.

UGANDA'S BANKING SECTOR REPORT

For the year 2023



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Acronyms

No.	Acronyms	In Full
1.	**ATM**	Automated Teller Machine
2.	**Bn**	Billion
3.	**BOU**	Bank of Uganda
4.	**bps**	Basis points
5.	**CBR**	Central Bank Rate
6.	**Covid-19**	Corona Virus Disease 2019
7.	**CRR**	Cash Reserve Requirement
8.	**EAR**	Equity to Asset Ratio
9.	**EIU**	Economist Intelligence Unit
10.	**FSDU**	Financial Sector Deepening Uganda
11.	**GDP**	Gross Domestic Product
12.	**MoFPED**	Ministry of Finance Planning and Economic Development
13.	**NIM**	Net Interest Margin
14.	**NPL**	Non-Performing Loan
15.	**POS**	Point of Sale
16.	**PSC**	Private Sector Credit
17.	**ROA**	Return on Assets
18.	**ROE**	Return on Equity
19.	**RTGS**	Real Time Gross Settlements
20.	**RWA**	Risk-Weighted Assets
21.	**SFI**	Supervised Financial Institution
22.	**UBoS**	Uganda Bureau of Statistics
23.	**UGX**	Ugandan Shillings
24.	**Tn**	Trillion
25.	**UCC**	Uganda Communications Commission
26.	**USD**	United States Dollar
27.	**YoY**	Year-on-Year

About this Report

The Uganda Bankers' Association Research Centre publishes an annual report reviewing the performance of Uganda's Banking Sector. The objectives of this review are to enhance understanding of the Ugandan banking sector, empower stakeholders to strategically position the industry, and offer policy recommendations for its continued growth. The report uses data from the financial statements of Supervised Financial Institutions, where available, as well as data on macroeconomic variables from sources including the Bank of Uganda and the Uganda Bureau of Statistics. Other data sources include the Agent Banking Company, the 2023 FinScope Survey, Uganda Communications, the Ministry of Finance, Planning and Economic Development, and the Economist.

Foreword by Executive Director Uganda Bankers' Association

We are pleased to present to you this report on Uganda's Banking Sector for the year 2023. This report provides a comprehensive analysis of Uganda's banking sector. It delves into the trends of income statement and balance sheet items for both the industry as a whole and individual Supervised Financial Institutions. Furthermore, it encompasses an examination of the macroeconomic indicators and specific statistics related to financial inclusion.

Understanding the performance and overall health of the banking industry is crucial for various stakeholders including the financial institutions, regulators, investors, policymakers, academia, banking industry clients, and the entire banking and financial institutions ecosystem. This involves gaining insights into historical, current, and future trends and outlook within the industry. The information presented in this report can be leveraged to make informed decisions, strategic planning, and policymaking within the financial sector and the economy.

The banking sector has undergone numerous changes, advancements, and challenges, over the years due to the widespread adoption of new and digital technologies, changes in regulations locally and globally, evolving customer tastes and preferences, evolving and various macroeconomic factors such as policy adjustments and regulations, as well as evolving challenges including fraud. In response to these dynamics, the banking sector is diligently adapting to cater to the diverse needs and demands of its stakeholders, as well as the expectations of various players in the financial services ecosystem.

We are therefore optimistic that this report will provide valuable reference and knowledge to a wide range of stakeholders within the banking sector, including financial institutions, regulators, and customers.

Special thanks to the research team of the Uganda Bankers' Association for their detailed and comprehensive report, as well as to all those who shared their insights.

Executive Director
Wilbrod Humphreys Owor

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Eva Ssewagudde Jjagwe

Eva is the Director Strategy and Innovation and is responsible for the research, finance & administration, and the human resources functions at the Uganda Bankers' Association.

A conscientious and professional banker with in-depth knowledge and experience in banking because of more than 18 years in the banking sector, managing various portfolios including business incubator programmes, strategic projects, personal and business banking finance, shared services including group real estate services, security, procurement, enablement and change, country strategy, organization readiness and change, and learning and development.

Eva holds an MBA (Finance & Accounting) and Bachelor of Commerce (Finance) from Makerere University Business School. She is a member of ACCA and is an ICF Certified Coach.

Ronald Ochen

Mr Ronald Ochen is currently a Senior Research Officer at the Uganda Bankers Association. He has experience conducting macroeconomics and development research, and public policy analysis. His research interests are in Financial Inclusion, Public Finance, Economic Growth, and Financial Economics. As such, he has written peer-reviewed research papers (Working papers and Journal papers) related to his areas of interest. He has also reviewed a journal paper by the Tanzanian Economic Review Journal. Moreover, he has presented his research papers at regional and global conferences. Mr. Ochen and his research associates have been recipients of a research grant from the International Food Policy Research Institute (IFPRI) to conduct analyses and produce monthly policy briefs on the evolution of food prices in East Africa. He is also a consultant for the International Food Policy Research Institute and the International Centre for Tax and Development. Ronald Ochen holds an M.A. in Economic Policy Management from Makerere University (MUK) Uganda and a B.A. in Economics (Hons) from Kyambogo University (KYU) Uganda.

Uganda's Macroeconomic Environment

The overall performance of Uganda's banking sector is shaped by various macroeconomic factors and the regulatory environment. Key influences include the rate of economic growth, inflation rate, exchange rate fluctuations, as well as interest rate policies from the central bank, and political factors. Understanding these factors is vital for assessing the current and future state of Uganda's banking sector.

1.1. Central Bank Rate (BOU, 2023)

Between January 2023 to July 2023, the Monetary Policy Committee (MPC) maintained the CBR at 10 percent. The lower and upper bands on the CBR were also maintained at +/- 2 percentage points, and the rediscount and bank rates remained unchanged at 13 percent and 14 percent, respectively (See Figure 1). The CBR stance is aligned to achieve considering achieving the medium-term inflation target of 5%, considering prevailing economic conditions, prospects, and the balance of associated risks. Additionally, the monetary conditions were assessed to be tight enough and consistent with the disinflation process and recovery of economic growth.

However, in August 2023, the MPC reduced the CBR to 9.5 percent, with the lower and upper bands on the CBR set and maintained at +/-2 percentage points. The rediscount and bank rates were set at 12.5 percent and 13.5 percent, respectively. The intention was to support economic stability and encourage saving, investment, competitiveness, and social economic transformation. In October, November, and December 2023, the CBR remained unchanged at 9.5 percent. This was because inflation had bottomed out and the inflation and economic growth outlook were more favorable. The lower and upper bands on the CBR were maintained at +/-2 percentage points, as well as the rediscount and bank rates at 12.5% and 13.5%, respectively.

1.2. Lending Rates (BOU, 2023)

In the three months to February 2023, the weighted average shilling lending rate increased to 19.2 percent from 18.5 percent in the three months to November 2022. Similarly, prime lending rates increased to 20.5 percent from 20.2 percent over the same period as commercial banks passed their refinancing costs onto borrowers (See Figure 1). The increases in lending rates were pronounced in capital-intensive sectors including transport, communication, water, and electricity, as well as in related trading-related activities, manufacturing, and housing.

In the three months to February 2023, the weighted average shilling lending rate increased to **19.2 percent** from **18.5 percent** in the three months to November 2022

In the three months to April 2023, the weighted average shilling lending rate increased by 60 basis points to 19.4 percent relative to the level in the quarter to January 2023. The lending rate on foreign currency-denominated loans changed slightly to 8.2 percent over the same period while the prime lending rate for commercial banks remained at 20.5 percent. The increased lending rates were largely attributed to the lagged effects of monetary policy tightening. The increases in shilling lending rates were driven by manufacturing, trade, transport, and communications, as well as the mining and quarrying sectors. However, a moderate decline was observed in agriculture, housing, personal and household sectors.

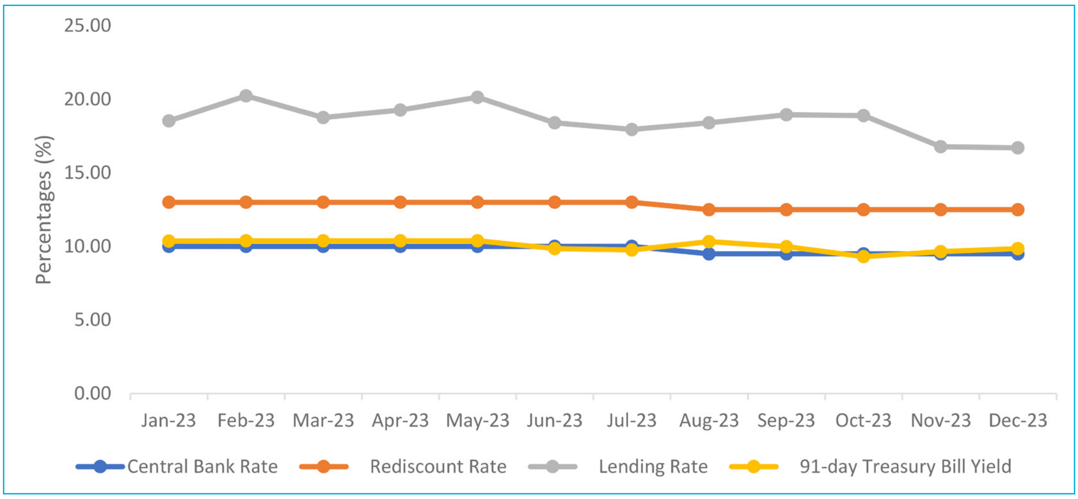
In the three months to June 2023, the weighted average shilling lending rate increased to 19.27 percent from 19.18 percent observed in the three months to March 2023. Similarly, the lending rate on foreign currency-denominated loans increased to 8.84 percent from 7.71 percent over the same period. The average prime lending rate for commercial banks remained unchanged at 20.5 percent in the three months to June 2023. The rise in lending rates was most pronounced in the trade, transport, and communications sectors.

In the three months to August 2023, the shilling lending rate declined to a weighted average of 18.3 percent, a decline of 1.1 percentage points from the previous level in the quarter to May 2023. The lending rate on foreign currency-denominated loans rose by 60 basis points to an average of 9.1 6 percent over the same period while the average prime lending rate for commercial banks remained unchanged at 20.5 percent. Across the major economic sectors, the fall in lending rates was most pronounced in the manufacturing, trade, housing and transport, and communications sectors. A moderate rise was observed in agriculture and personal loans.

In the three months to October 2023, the weighted average shilling lending rate remained high at 18.8%, the weighted average lending rate for foreign exchange-denominated loans remained stable at 9.0% and the prime lending rates remained relatively unchanged at 20.6% over the same period. However, marginal declines in lending rates were noticeable for a few sectors, such as personal loans, transport, and communications, while marginal increases were observed for the agriculture, manufacturing, trade, and housing sectors.

In the three months to December 2023, the weighted average shilling lending rate declined to 17.5 percent from 18.4 percent in the previous quarter as the prior tightening effects dissipated. The lending rate on foreign currency-denominated loans declined to 8.8 percent from 8.9 percent in the previous quarter and the average prime lending rate for commercial banks remained unchanged at 20.6 percent. The rates were due to stability in the central bank rate and improving outcomes in credit risk assessments.

Figure 1: Trends in interest rates between January 2023 and December 2023



Source: Author's construction using data from the Bank of Uganda

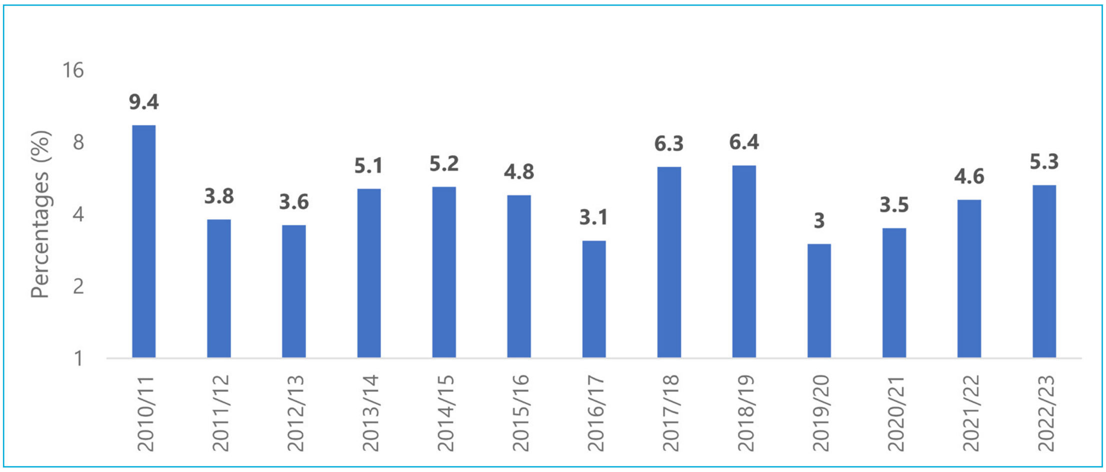
1.3. Gross Domestic Product (MOFPED, 2023; 2024)

In the Financial Year (FY) 2022/23, Uganda's GDP growth was 5.3 percent compared to 4.6 percent in the previous financial year (See Figure 2). This represents a 13.6% increase in the size of the economy, from UGX. 162,750 billion in FY 2021/22 to UGX. 184,895 billion in FY 2022/23. The growth was on account of recovery in the services and agriculture, as well as forestry and fishing sectors, and consistent growth in the industry sector. The services and agriculture, as well as forestry and fishing sectors, grew by 6.2 and 4.8 percent, respectively, and industry expanded by 3.5 percent.

Additionally, continued Government initiatives in boosting private sector activity and increased regional trade contributed to the growth.

During the first half (H1) of the FY 2023/24, economic growth continued to pick up with quarter one (Q1) registering growth of 5.3%, mainly driven by higher production in the industry sector, and steady growth in agriculture, forestry, fishing, and services. The continued economic recovery was also supported by an enabling macroeconomic environment and investments in infrastructure especially in the oil and gas sector and higher export volumes. Similarly, the high-frequency indicators indicate higher output and business activity in the same period with the Composite Index of Economic Activity (CIEA) averaging 161.5 in H1 2023/24, an increase from the 151.5 average in the second half (H2) 2022/23. The Purchasing Managers' Index (PMI) was higher in H1 2023/24 at an average of 60.1 up from 52.9 average in H2 2022/23.

Figure 2: Trends in Uganda's GDP Growth Rates between FY 2010/11 - FY 2022/23

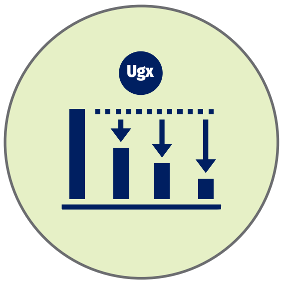


Source: Author's construction using data from the Uganda Bureau of Statistics

1.4. Inflation (UBoS and BOU, 2023)

In January 2023, annual headline and core inflation rose to 10.4 percent and 9.0 percent from 10.2 percent and 8.4 percent, respectively, in December 2022 (See Figure 3). This increase in inflation was mainly due to base effects which mainly affected other goods and services inflation as prices dropped significantly in January 2022 when the economy fully opened. In March 2023, annual headline and core inflation declined to 9.0 percent and 7.6 percent from 9.2 percent and 7.8 percent, respectively, in February 2023 mainly due to retreating international commodities' prices most especially for energy, the relatively stable shilling, and the appropriate tight domestic monetary and fiscal policies.

Annual headline and core inflation continued to decline reaching 6.2 percent and 5.6 percent respectively in May 2023 from 8.0 percent and 6.8 percent in April 2023, mainly driven by a fall in food inflation which contributed over 66.8 percent to the deceleration in overall price levels. In June 2023, inflation declined further to 4.9 percent and 4.8 percent for annual headline and core inflation respectively, which was below the 5 percent BOU inflation target. Several factors contributed to the decline in



In January 2023, annual headline and core inflation rose to 10.4 percent and 9.0 percent from 10.2 percent and 8.4 percent, respectively, in December 2022

inflation including fading of inflationary pressures that had happened in the year to June 2023, easing of supply-side constraints leading to decline of commodities prices including energy and food, and eased supply chain constraints. Furthermore, the impact of tight monetary and fiscal policies and a stronger exchange rate, constrained domestic demand leading to lower consumer prices and input costs as well as global developments like the depreciation of other currencies and the easing of foreign inflation.

In July 2023, annual headline and core inflation further declined to 3.9 percent and 3.8, respectively. The decline in inflation was broad-based across the various categories, with the fall in other goods and services inflation contributing to the decline in core inflation while decreases in food crops, and Energy, Fuel, and Utilities (EFU), drove down non-core inflation. In August 2023, annual headline inflation continued a downward trend to 3.5 percent, mainly due to reductions in core and EFU inflation which also offset a slight increase in food crops inflation. Core inflation also declined to 3.3 percent mainly due to a reduction in the cost of transport services refined oil, laundry bar soap, clothing and footwear, and secondhand vehicles, among others (MOFPED POE AUG).

In September 2023, inflation continued to decline to below the 5 percent target with headline and core inflation reaching 2.7 percent and 2.4 percent, respectively, like levels before the global commodities price shock from the Russia-Ukraine conflict hit the global economy.

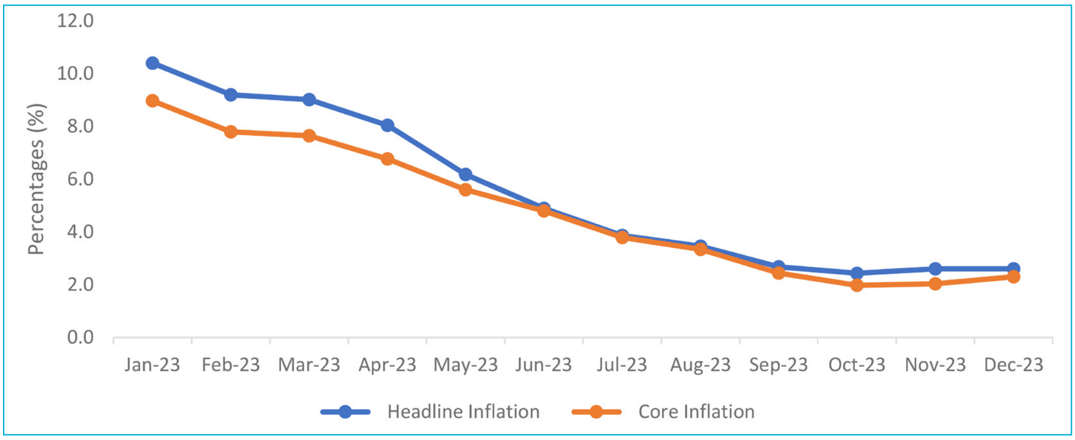
> "
> core inflation reaching **2.7** percent and **2.4** percent, respectively, like levels before the global commodities price shock from the Russia-Ukraine conflict hit the global economy.

The wedge between headline and core inflation completely faded, with supply factors that drove inflation dissipating, leaving demand factors as the forces behind the declining inflation in addition to the favorable base effects. In November 2023, headline and core inflation were relatively stable at 2.6% and 2.0 percent, respectively. The inflation was at the same levels as before the global economy was hit by the adverse global commodities price shock from the Russia-Ukraine conflict, sending economies into decade-long high inflation.

In December 2023, annual headline inflation remained unchanged at 2.6 percent due to opposing movements in the major components of headline inflation where despite an increase in core and EFU inflation, there was a reduction in food crops inflation. Annual core inflation, however, increased to 2.3 percent from 2 percent in November 2023 mainly because of an increase in transport fares for long-distance travel by public transport (buses and taxis) occasioned by the festive season.

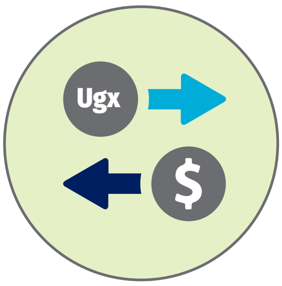
The relative stability of inflation was an indication that the favourable base effects and the deceleration of food and energy prices, which were some of the major forces underlying the disinflation process, had virtually vanished. Additionally, the strong real appreciation of the shilling on account of tight monetary and fiscal policies and declines in global commodity prices and thus imported inflation were becoming less supportive to the disinflation process given the bouts of nominal shilling depreciation, bottoming out of global energy prices and near stabilization of non-energy prices.

Figure 3: Trends in inflation between January 2023 and December 2023



Source: Author's construction data from the Bank of Uganda

1.5. Exchange Rate (BOU, 2023)



In January 2023, the Uganda Shilling trading was relatively stable against the United States (US) dollar with a slight depreciation of 0.1 percent month-on-month to an average mid-rate of 3,693.61 per US dollar (See Figure 4). This marginal depreciation was on account of corporate demand mainly from the oil and manufacturing firms.

In the quarter to March 2023, the shilling was on an appreciating path and gained 1.3 percent, supported by the tight monetary policy stance which lessened the outflow of short-term capital, and an improvement in the terms of trade leading to improvement in export earnings, the trade balance and ultimately the current account of the balance of payments. Furthermore, strong foreign direct investment inflows especially in the oil sector, and an increase in forex receipts from tourists coupled with stable inward remittances from workers also favoured a stronger shilling. In mid-March, the shilling weakened due to a stronger dollar as the Fed tightened monetary policy and spike of volatility in global financial markets due to turbulence in the US and EU banking Sectors. However, the swift resolution of the banking turbulence in the US and EU helped to calm the global financial markets and the shilling stabilized towards the end of March 2023.

The Uganda Shilling suffered episodes of increased volatility from March to April 2023 but remained broadly stable. In the quarter to May 2023, Shilling depreciated by 1.4 percent compared to the previous quarter. However, during May 2023, the shilling regained strength against the US dollar with an appreciation of 0.4 percent month-on-month to an average mid-rate of UGX. 3,729.55 per US dollar. The appreciation was supported by the continued restrictive monetary policy stance, an increase in export revenues, and improving terms of trade.

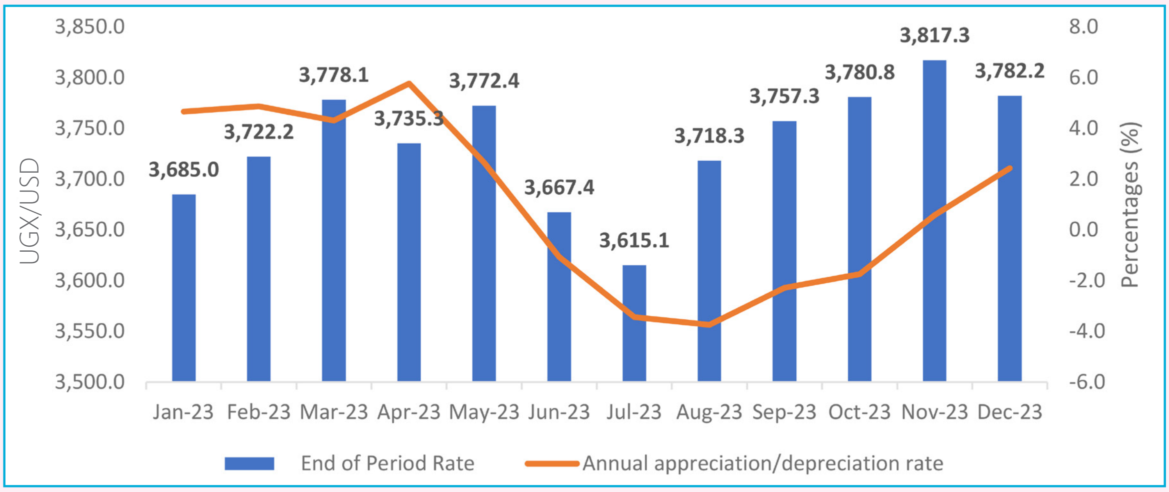
In June 2023, there was a 1.2 percent month-on-month and 5.2 percent year-on-year appreciation. In the three months to July 2023, the Shilling was generally stable, appreciating on average by 0.6 percent compared to an average depreciation of 5 percent in the quarter to April 2023, with the latter due to some depreciation pressures due to sentiments related to the March 2023 banking sector turmoil.

In July 2023, the shilling appreciated against major trading partners with an appreciation of 1.2 percent month-on-month and 6.4 percent year-on-year. This appreciation was further supported by a rebound in offshore portfolio flows, increased inflows to domestic banks from parent companies towards meeting capital requirements, global weakening of the US dollar, and softening demand.

In the three months to September 2023, the Shilling appreciated by 3.2 percent year-on-year and by 0.8 percent quarter-on-quarter. In September 2023, the Shilling depreciated to an average mid-rate of UGX. 3,738.02 per US dollar. The depreciation pressures were mainly due to bearish sentiments following the World Bank's pronouncements on the suspension of new financing to Uganda over AHA. In addition, there was strong domestic demand for foreign currency in the Interbank foreign exchange market at the back of increased import demand amidst the global strengthening of the US dollar, sentiments, and actual behaviours by forex market participants over the 50 basis points cut in Central bank rate and Cash reserve ratio.

In the quarter to November 2023, the shilling remained relatively stable against the US dollar despite the bouts of depreciation pressures, depreciating by 2% in the quarter to a mid-rate of 3,782. This was mainly due to higher corporate demand mainly from the oil, telecommunication, and manufacturing firms amid continued outflow of portfolio capital and bearish sentiments over the expected outflows from proceeds of the Airtel Initial Public Offer (IPO).

Figure 4: Trends in exchange rates between January 2023 and December 2023



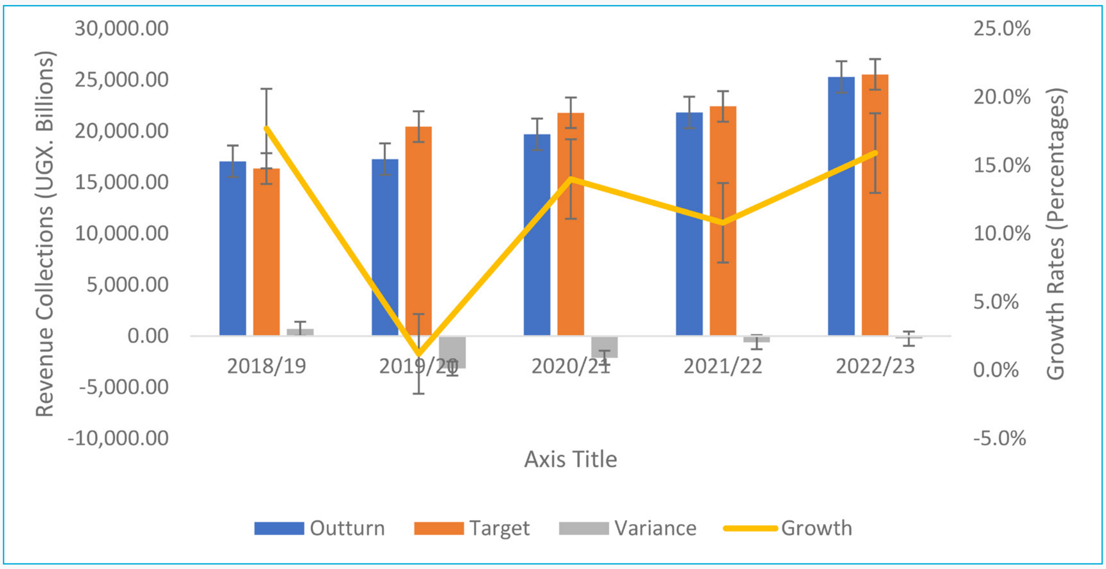
Source: Author's construction using data from the Bank of Uganda

1.6. Fiscal Performance (MoFPED, 2022; 2023)

The fiscal strategy for the fiscal year 2022/23 and the medium term was to pursue growth-friendly fiscal consolidation to preserve fiscal and debt sustainability. Further, in the fiscal year 2022/23, the Government's objective was to increase revenue by 0.8 percent of GDP, which was higher than the 0.5 percent projection of the Domestic Revenue Mobilization Strategy (DRMS) and the National Development Plan (NDP) III. In the fiscal year 2022/23, the total net revenue collections were UGX. 25,302.92 billion, which fell short of the target of UGX. 25,550.69 billion by UGX. 247.78 billion. This represents a growth rate of 15.9% (UGX. 3,471.74 billion) compared to the same period in the fiscal year 2021/22. However, the shortfall in revenue collections in fiscal year 2022/23 is attributed to a combination of tight domestic and global financial conditions with shortfalls in domestic revenue affecting the fiscal operations in FY2022/23. The deep observed in revenue collections in the prior fiscal years 2019/20 and 2020/21 was largely attributed to the adverse effects of the COVID-19 pandemic that muted economic activities in the country.

In the fiscal year 2021/22, the government managed its fiscal spending well on recurring expenses and interest payments, resulting in a surplus expenditure of 2 percent (UGX. 79,4.30 billion). The government budgeted UGX. 34,232.5 billion and spent UGX. 35,026.8 billion. However, in fiscal 2022/23, the government faced a deficit of 2 percent (UGX.827.04 billion) as it budgeted UGX. 37,471.92 billion and spent UGX. 36,644.88 billion. In FY2022/23, fiscal operations were less expansionary than planned in part reflecting fiscal consolidation efforts, revenue shortfalls, lower-than-target external financing, and the need to stem public debt increase (MoFPED, 2023).

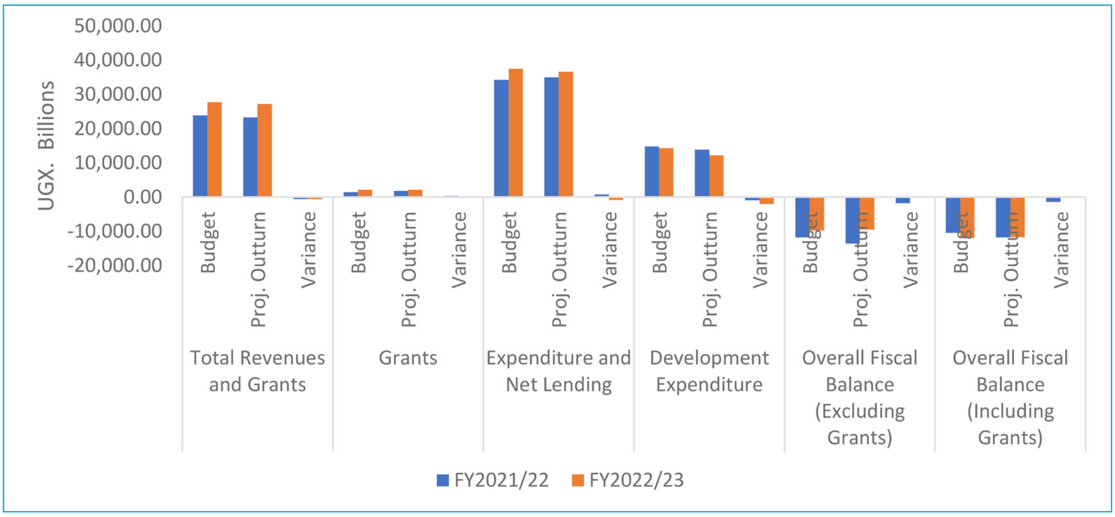
Figure 5: Revenue performance between FY2018/19 and FY2022/23



Source: Author's construction using data from MoFPED

During the implementation of the fiscal year 2022/23 budget, the government planned to spend UGX. 37,471.92 billion, against projected domestic revenue and grants of UGX. 27,719.42 billion. However, there was a shortfall in revenue of UGX. 27,163.50 billion, resulting in a projected fiscal deficit of UGX. 9,481.39 billion (see Figure 6 and Annex 2).

Figure 6: Fiscal Operations between FY2021/22 and FY2022/23



Source: Author's construction using data from MoFPED

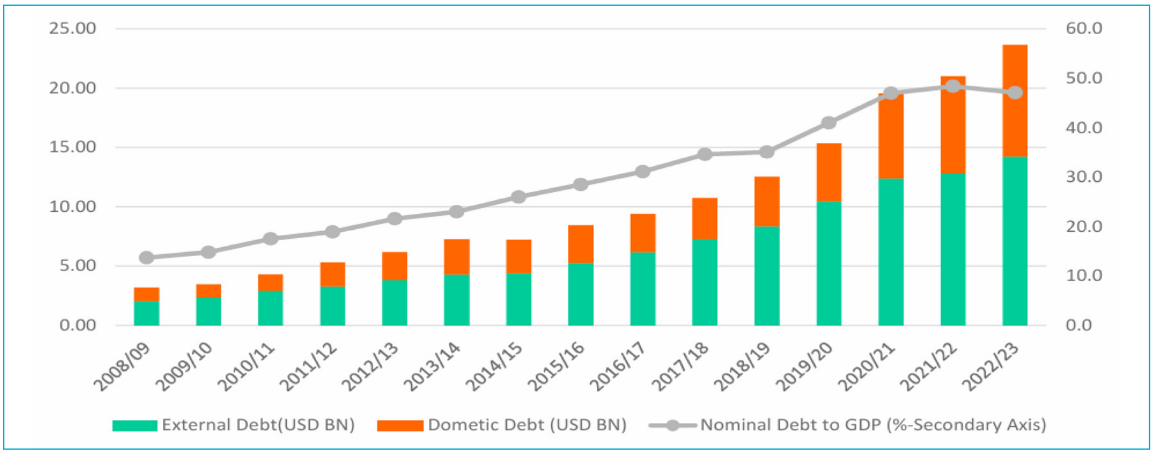
Moreover, budgeted revenue and grants increased by 16 percent from UGX. 23,849.70 billion in FY2021/22 to UGX. 27,719.42 billion in FY2022/23, while the outturn was UGX. 23,263.40 billion and UGX. 27,163.50 billion respectively in the same fiscal year. The shortfall in FY2022/23 was due to more than half of the expected grants, valued at UGX. 1,138.2 billion, not materializing (See Figure 6 and Annex 2). The cost of servicing the debt exceeded the planned amount by 32.7% and was 31.0% higher than the previous fiscal year's outturn due to tight financial conditions. This led to a current expenditure that was 4.3% higher than the target and 9.9% higher than the previous fiscal year. Excluding interest payments, the current expenditure was UGX. 569.2 billion lower than planned, resulting from efforts to consolidate the fiscal situation (see Figure and Annex 2).

1.7. Debt Stock (BOU, 2023; MOFPED 2023; 2024)

debt Increase **from US dollars 20.99 billion to US dollars 23.66 billion in June 2023**

The stock of public debt increased from US dollars 20.99 billion (UGX. 78,833.4 billion) in June 2022 to US dollars 23.66 billion (UGX. 86,779.87 billion) in June 2023 (See Figure 7). As a share of GDP, public debt reduced from 48.4 percent to 46.9 percent over the same period, as GDP growth outweighed the rate of debt accumulation. This was partially supported by the continued recovery from the COVID-19 shock, which had adversely affected economic activity and necessitated higher government borrowings as well as fiscal consolidation efforts leading to a reduction in the primary deficit from 4.3% in FY2021/22 to 2.3% in FY2022/23, accompanied by an appreciation of the end period exchange rate.

Figure 7: Trends in Uganda's Public Debt Stock from FY.2008/09 to FY.2022/23



Source: MoFPED, 2023

1.8. Employment (UBOS, 2021; FSDU, 2024)

working-age population is
23.5 million
people in 2021

According to the UBOS (2021) National Labor Force Survey, the total working-age population in Uganda was approximately 23.5 million people. Of these, about 4.3 million people were between the ages of 14-64, with 9.3 million people aged 18-30 and 9.9 million people aged 31-64. Among them, 11.4 million were males and 12.1 million were females. Additionally, approximately 16 million people reside in rural areas while approximately 7.6 million people reside in urban areas. Moreover, the working population consists of 20.5 million people (87.2%), including 3.5 million people (81.2%) in the 14-17 age group, 8.1 million people (86.3%) in the 18-30 age group, and about 9 million people (90.6%) in the 31-64 age group. Of these, 10.2 million are males (89.7%) and 10.3 million are females (85%), with approximately 14.4 million people (90.3%) in rural areas and 6.1 million people (80.6%) in urban areas. However, the total employed population is about 10 million people (48.8%), comprising 673 thousand people (19.5%) in the 14-17 age group, approximately 4 million people (49.2%) in the 18-30 age group, and approximately 5.4 million people (59.9%) in the 31-64 age group. Of these, approximately 6 million are males (57.7%) and approximately 4.1 million are females (40.0%), with 6.1 million people (42.6%) in rural areas and approximately 4 million people (63.5%) in urban areas (refer to Table 1).

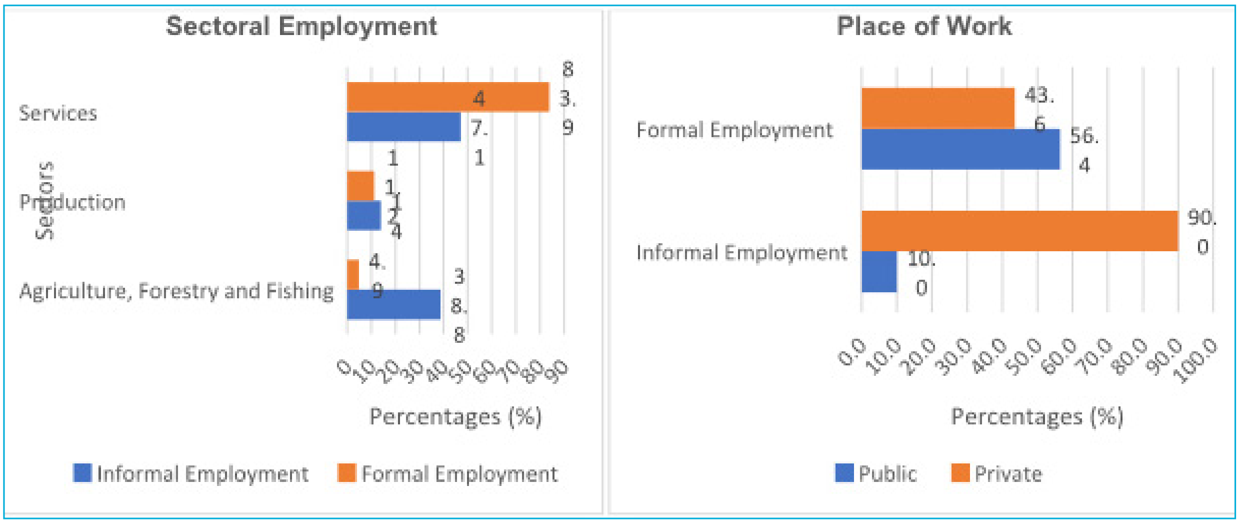
Table 1: Working age population demographics as of 2021

Background Characteristics	Working Age Population	Working Population		Population in Employment	
Sex	**Number (000)**	**Number (000)**	**Proportion (%)**	**Number (000)**	**Proportion (%)**
Male	11,388	10,219	89.7%	5,906	57.7%
Female	12,106	10,265	85%	4,090	40.0%
Residence					
Rural	15,9710	14,370	90.3%	6,113	42.6%
Urban	7,583	6,115	80.6%	3,883	63.5%
Age Groups					
14-17	4,282	3,477	81.2%	673	19.5%
18-30	9,347	8,067	86.3%	3,964	49.2%
31-64	9,865	8,941	90.6%	5,359	59.9%
Total	**23,494**	**20,485**	87.2%	**9,996**	48.8%

Source: Author's construction using data from the 2021 National Labor Force Survey, UBOS

In Figure 8, approximately 84% of the population is formally employed in the services sector, with 47% in informal employment. Additionally, 11.2% are formally employed in the production sector, while 14% are informally employed in the same sector. Furthermore, 4.9% are formally employed in the Agriculture, Forestry and Fishing sectors and 38.8% are informally employed in the same sector. In terms of sector breakdown, 43.6% are formally employed in the public sector, with 56.4% in the private sector. Moreover, 90% are informally employed in the private sector, while 10% are in the public sector. This data suggests that the services sector offers more formal jobs to Ugandans compared to other sectors. Furthermore, agriculture and related sectors provide more informal jobs than formal ones. Additionally, the public sector provides more formal employment compared to the private sector, whereas the informal sector provides more private sector jobs than public ones.

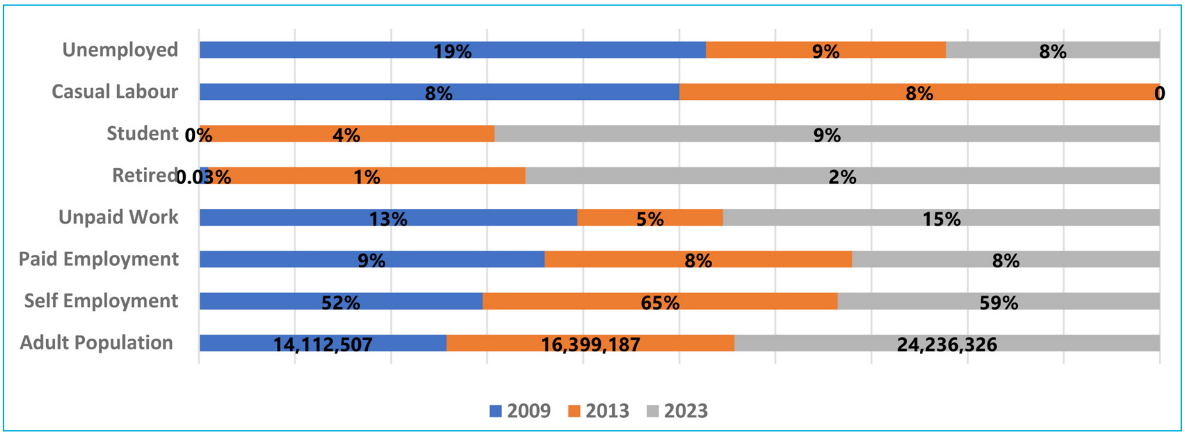
Figure 8: People in informal and formal employment by sector and place of work



Source: Author's construction using data from the 2021 National Labor Force Survey, UBOS

Relatedly, the most recent FinScope survey from 2023 indicated a consistent increase in the number of employed adults. In 2009, there were approximately 14.1 million employed adults, which rose to 16.4 million in 2013 and reached around 24.2 million in 2023. The survey also showed a decrease in the proportion of unemployed adults, falling from 19% in 2009 to 9% in 2013 and further to 8% in 2023. In addition, self-employment decreased to 59% in 2023, down from 65% in 2013. Paid employment among adults remained steady at 8% between 2013 and 2023 (see Figure 9).

Figure 9: Adult Employment Status in Uganda as of 2023



Source: Author's construction using data from the 2023 FinScope survey

1.9. Population (UBOS, 2024)

In Table 2, it is evident that Uganda's total population grew by 33 percent, from around 34.6 million people in the 2014 census to about 45.9 million people in the 2024 census. This means there was an increase of around 11.3 million people, with an average annual growth rate of 2.9 percent. The number of males increased by 32 per cent, from about 17.1 million to around 22.5 million, while the number of females increased by 33 per cent, from about 17.6 million to around 23.4 million during the same period. This data indicates that the number of females exceeded the number of males, with a ratio of 1.04 in the census year 2024.

Table 2: Population size, variation, and Average Annual Growth Rate

Census Year	Population Size			Variation	Census Year Percentage Change	Average Annual Growth Rate
	Males	Females	Total			
1911	1,116,903	1,349,422	2,466,325	-	-	-
1921	1,320,286	1,534,322	2,854,608	388,283	16%	1.5%
1931	1,707,437	1,834,844	3,542,281	687,673	24%	2.2%
1948	2,481,394	2,477,126	4,958,520	1,416,239	40%	2.0%
1959	3,236,902	3,212,656	6,449,558	1,491,038	30%	2.5%
1969	4,812,447	4,722,604	9,535,051	3,085,493	48%	3.9%
1980	6,259,837	6,376,342	12,636,179	3,101,128	33%	2.7%
1991	8,185,747	8,485,558	16,671,705	4,035,526	32%	2.5%
2002	11,824,273	12,403,024	24,227,297	7,555,592	45%	3.2%
2014	17,060,832	17,573,818	34,634,650	10,407,353	43%	3.0%
2024	22,495,030	23,440,016	45,935,046	11,300,396	33%	2.9%

Source: Author's construction using data from UBOS

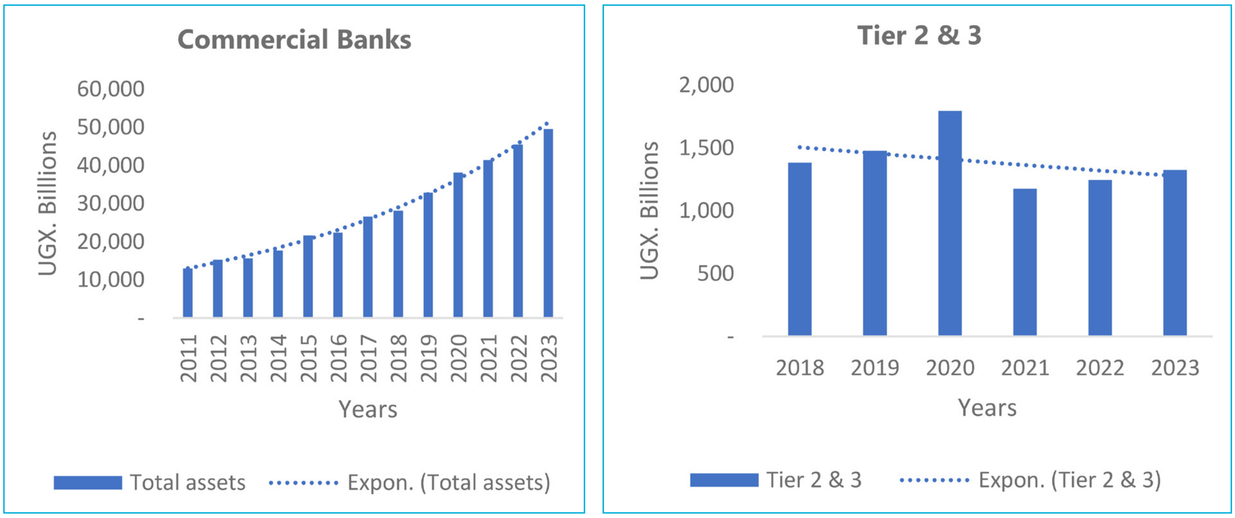
02

Banking Sector Performance

2.1. Total Assets of the Banking Sector

The total assets of commercial banks experienced significant growth, expanding by 8.9% year-on-year and reaching UGX.49.5% trillion by the end of December 2023, an increase of UGX.4 trillion from the previous year (Figure 10). This robust expansion was primarily driven by increases in two key areas: loans and advances to customers, which grew by 7%, and marketable trading securities, which saw 13% growth. The growth in loans and advances indicates increased lending activity and customer demand, reflecting a healthier credit environment. Meanwhile, growth in marketable trading securities suggests an enhanced focus on investment and trading activities, contributing to the overall financial strength and asset diversification of the commercial banking sector.

Figure 10: Trends Banks Total assets (2011 to 2023)



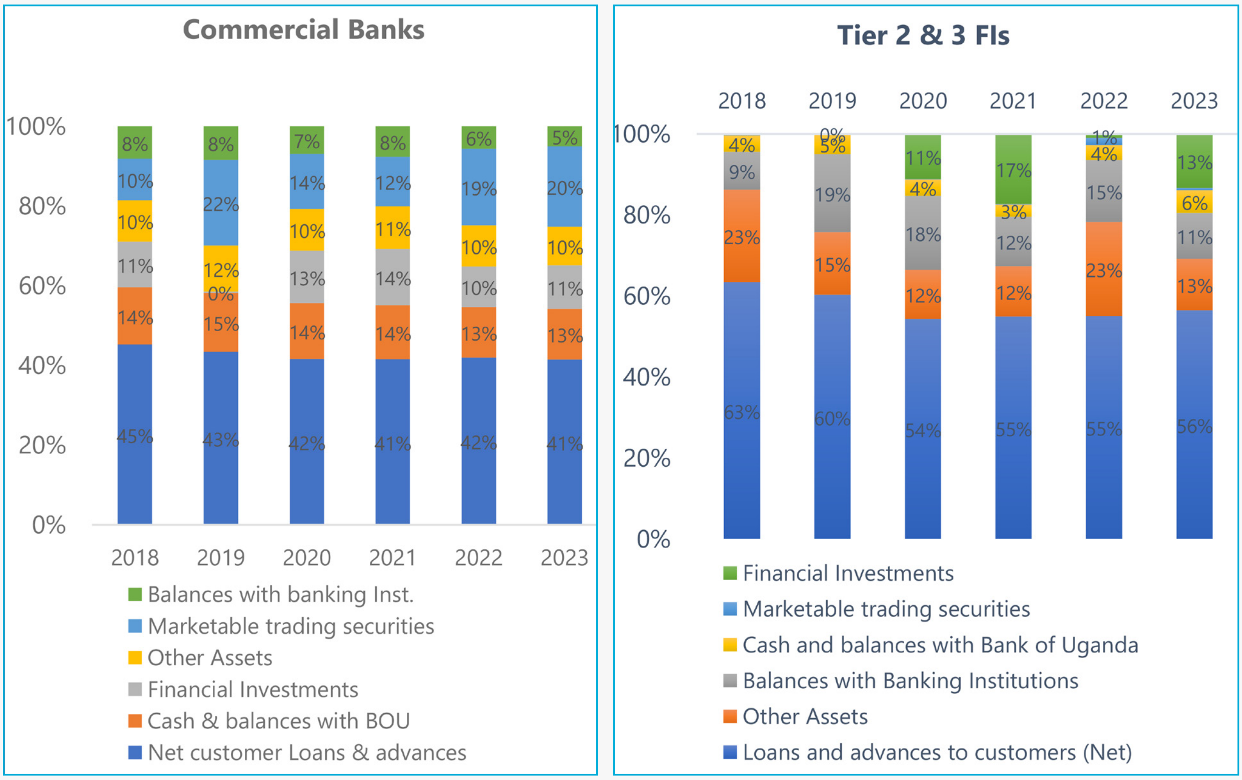
Source: Author's construction using data from the Bank of Uganda

Furthermore, total assets held by Tier 2 and Tier 3 financial institutions increased by 6% year-on-year to UGX.1.3tn, supported by a 9% (Ugandan Shilling 62bn) growth in loans and advances to customers, and a Ugandan Shilling 164bn increase in financial investments (See Figure 10).

To note, EFC Uganda Limited (MDI) ceased operations in January 2024, before the publication of their financial performance. The same is thus not included in the financial performance of tier 2 and 3 financial institutions.

The core purpose of commercial banks and the determinant of financial performance lies in their investment in loans and advances. Both commercial banks as well as Tier 2 and Tier 3 financial institutions predominantly hold customer loans and advances as the largest component of their portfolios. This emphasis on loans and advances is due to their crucial role in generating income through interest and fees, as well as their impact on the overall financial health and stability of the respective financial institutions. Over the past six years, from 2018 to 2023, these loans and advances have averaged 43% of the total assets for commercial banks and 57% for Tier 2 and Tier 3 financial institutions. These substantial proportions highlight the critical importance of lending activities in the financial strategies and performance metrics of these institutions, reflecting a shared focus across different tiers of the banking sector on leveraging loans and advances as key drivers of growth and profitability (see Figure 11).

Figure 11: Disaggregated Asset Structures (2018 – 2023)



Source: Author's construction using data from the Bank of Uganda

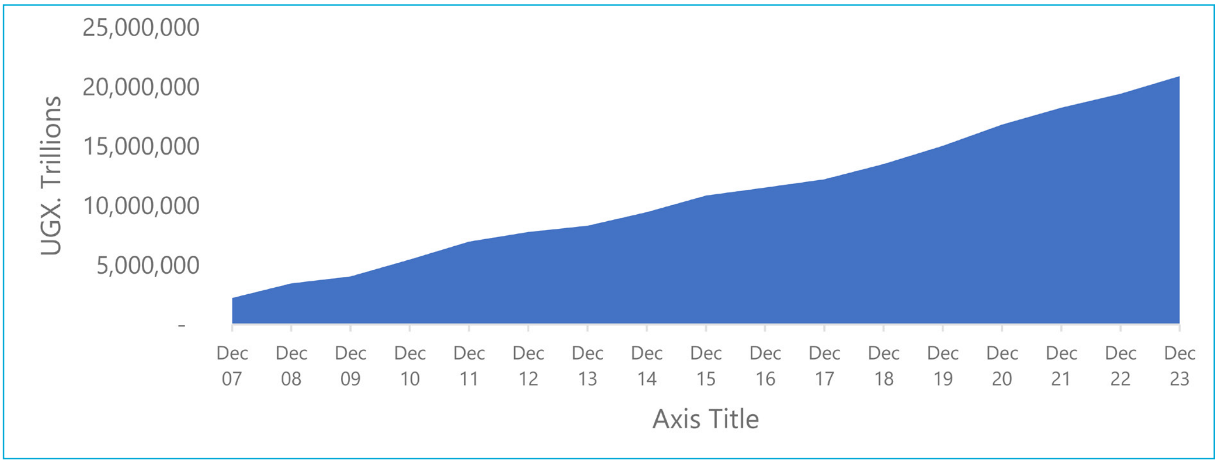
8% (Ugx. 1.4tn) in commercial bank credit growth in 2023

2.2. Banking Sector Credit

2.2.1. Private sector credit

In 2023, commercial bank credit grew by 8% (UGX. 1.4tn) YoY, reflecting a larger YoY than the prior period of 6% (Figure 12). This was mainly driven by growth in key sectors including personal and household loans (36%), building, mortgage, construction, and real estate (13%), agriculture (13%), and trade (9%). The credit growth was undermined by a 5% drop in credit to the electricity and water sector in the year.

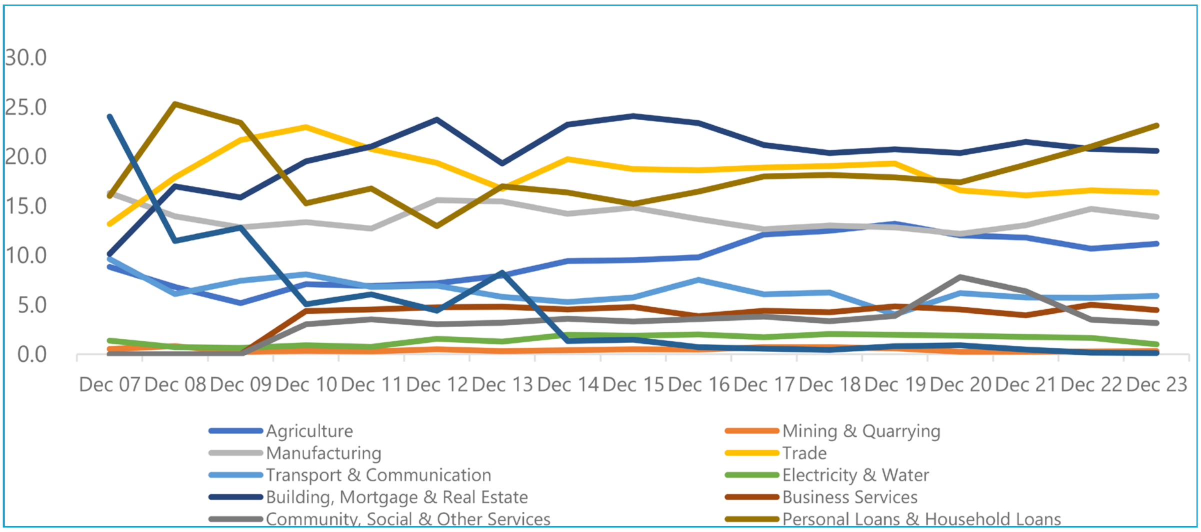
Figure 12: Private Sector Credit Growth (December 2007 - December 2023)



Source: Author's construction using data from the Bank of Uganda

Between December 2018 and December 2023, credit extended to the private sector in Uganda experienced a significant 55% expansion (Figure 13). This growth was particularly driven by several key sectors that saw significant increases in credit uptake. The manufacturing sector, for instance, witnessed an impressive 65% rise in credit, highlighting its role in the economy and increased demand for financial support. Similarly, personal and household loans surged by a remarkable 97%. Furthermore, the building, mortgage, construction, and real estate also showed considerable progress, achieving a 56% growth in credit over the six years.

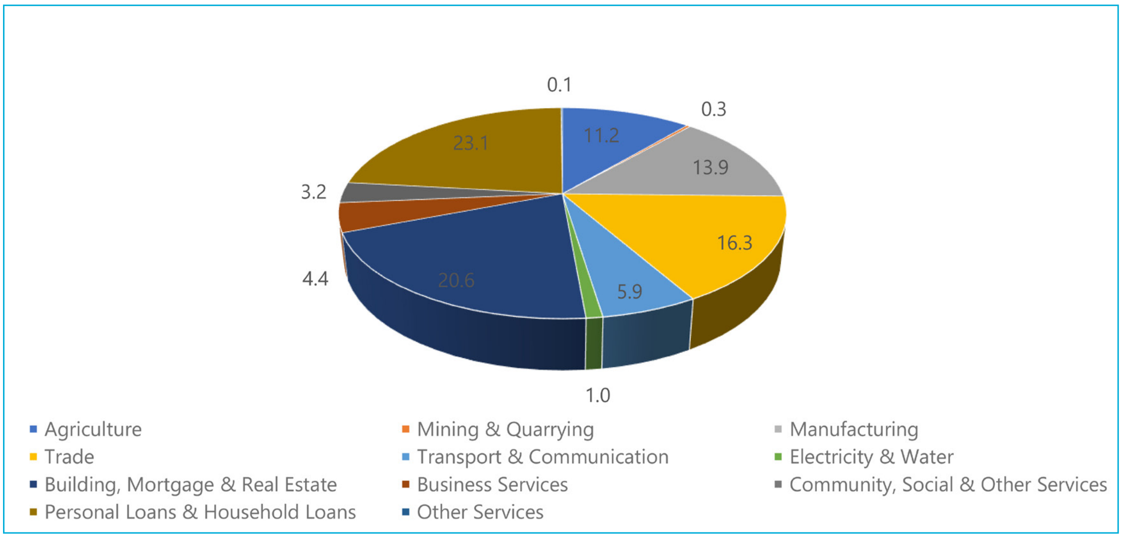
Figure 13: Trends in Private Sector Credit by Sector (Percentages)



Source: Author's construction using data from the Bank of Uganda

The four key sectors totaling 73.9% of total private sector credit as of the end of December 2023 include personal and household loans (23.1%), building, mortgage, construction, and Real Estate (20.6%), trade (16.3) and manufacturing (13.9%). These are the same sectors that have contributed over 70% of private sector credit year on year over the last ten years except 2020 when the four sectors contributed 68% of total private sector credit (See Figure 14).

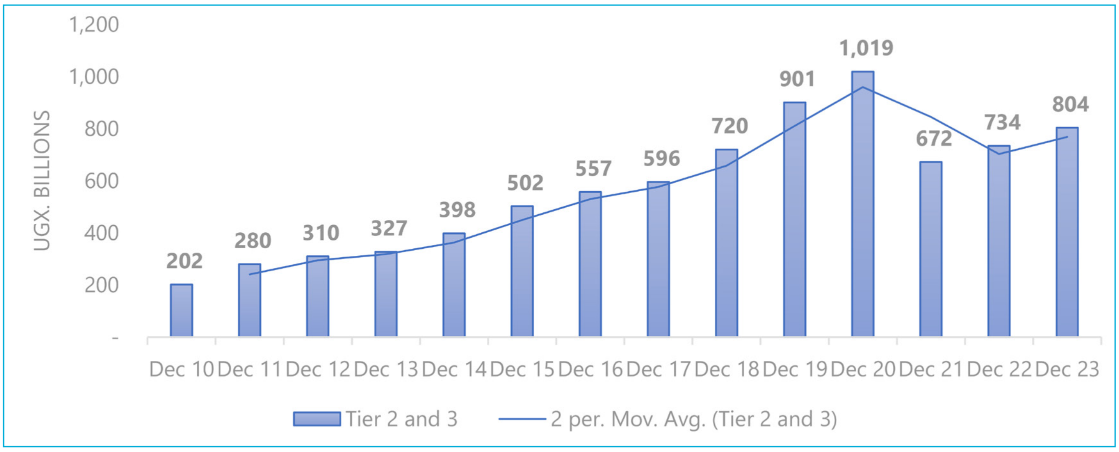
Figure 14: Share of Private Sector Credit in December 2023 (%)



Source: Author's construction using data from the Bank of Uganda

Private sector credit provided by tier 2 and tier 3 financial institutions showed consistent double-digit growth over ten years (between 2010 and 2020), except for 2013 and 2017 with growth rates of 6% and 7%, respectively. However, in 2021, tier 2 and 3 financial institutions experienced a 34% drop in credit with muted growths of 9% in 2022 and 2023 (See Figure 15).

Figure 15: Trends in Tier 2 and 3 Private Sector Credit (2010 to 2023)



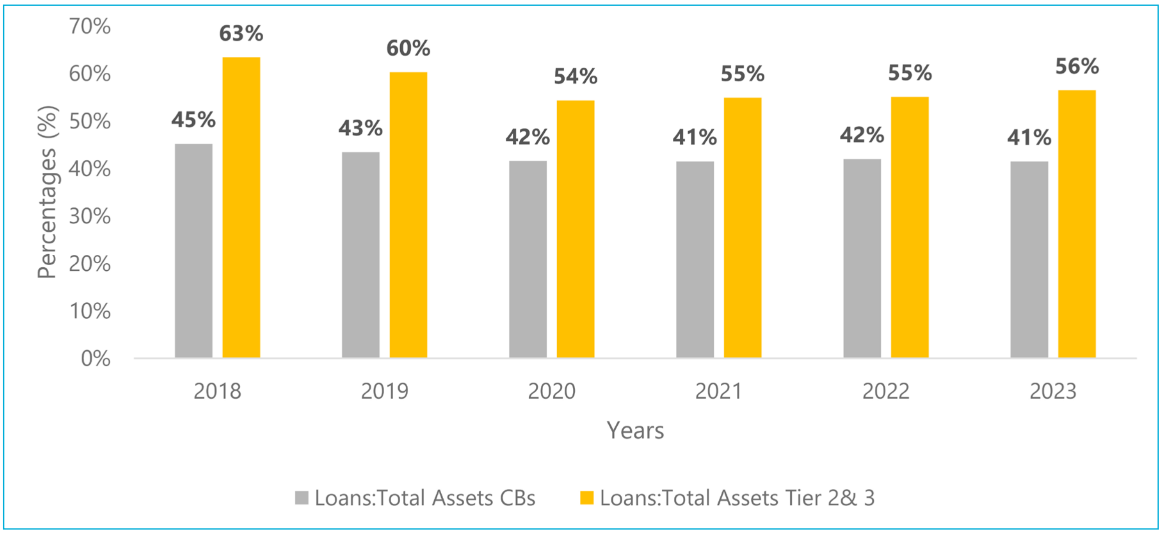
Source: Author's construction using data from the Bank of Uganda

Loan to Asset ratio
41% in 2021 and a high of **45%** in 2018

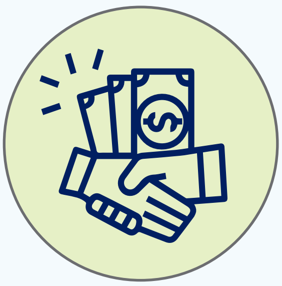
2.3. Loan-to-Asset Ratio

The loan-to-asset ratio is a key metric for financial institutions, to assess the proportion of their loan portfolio relative to their total assets, and it is a critical factor of income generation. Over the past six years, this ratio has remained relatively stable for commercial banks, averaging 43%. It reached a low of 41% in 2021 and 2023 and peaked at 45% in 2018. In contrast, tier 2 and tier 3 financial institutions have shown a more year-on-year variability trending downwards, averaging 57% during the period. It reached a low of 54% in 2020 and peaked at 63% in 2018. While a high loan-to-asset ratio can be risky, a ratio that is too low indicates limited capacity for income generation from the institution`s assets. An industry average of 40% suggests that commercial banks possess both the potential and asset diversity to address unexpected funding needs effectively (Figure 16).

Figure 16: Net Loans to Total Assets Ratio (2018- 2023)



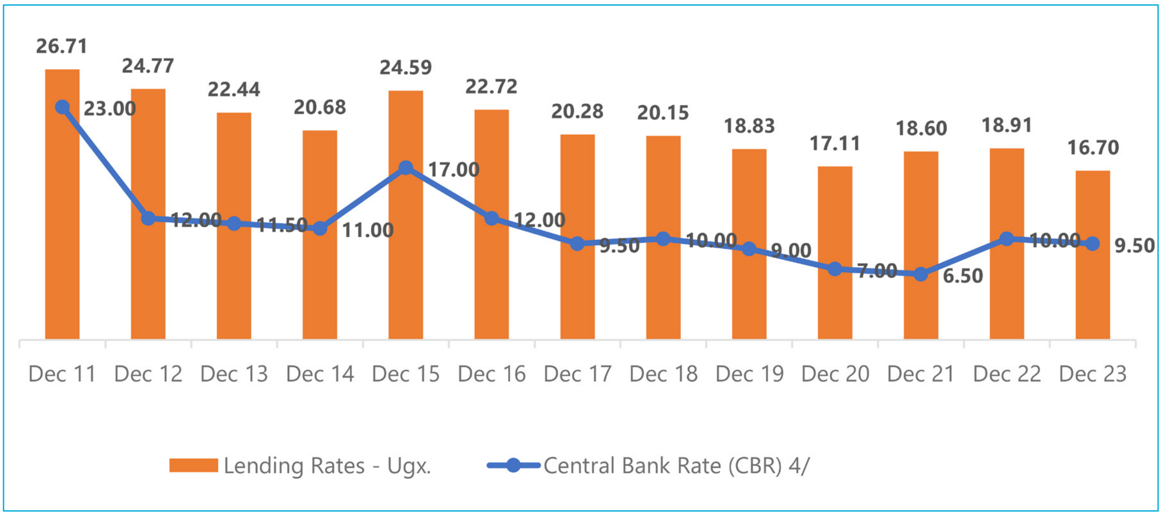
Source: Author's construction using data from the Bank of Uganda



2.4. Banking Sector Lending Rates

Over the past 13 years, lending rates have had a downward trend across various metrics including the Central Bank Rate (CBR) and the average weighted lending rates for both Uganda Shilling and US Dollar. The average rates during this period have been 11.4% for the CBR, 21.1% for the Ugandan Shilling, and 8.4% for the US dollar, mirroring the averages observed over the preceding 12 years (Figure 17).

Figure 17: Trends in Lending Rates and the Central Bank Rates



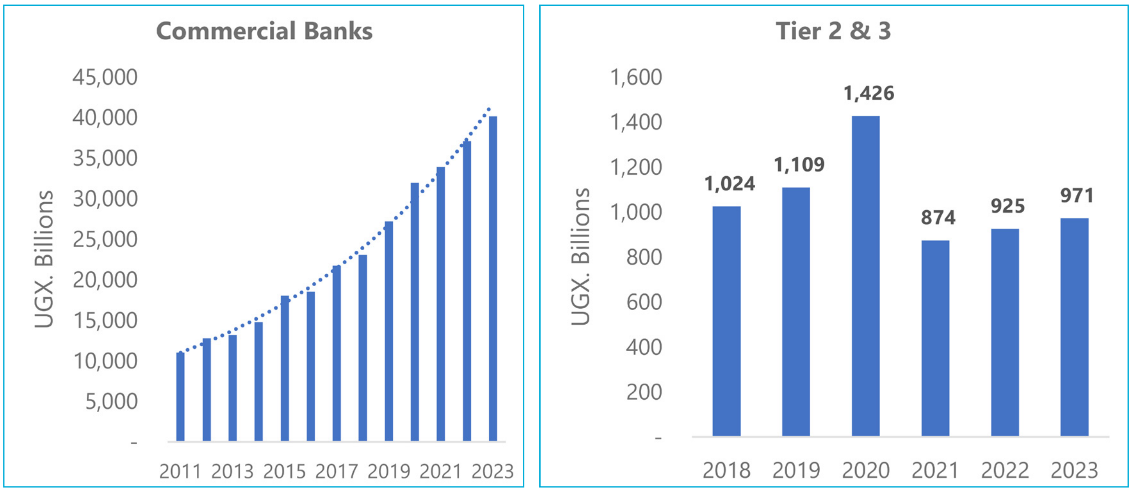
Source: Author's construction using data from the Bank of Uganda

2.5. Total Liabilities of the Banking Sector

Over the past 11 years, commercial bank liabilities have grown at an average annual rate of 11%, reaching UGX.40.1 trillion by the end of December 2023. This represents an annual average increase of 8% (UGX. 2.5tn) year on year (See Figure 18). This expansion was largely driven by customer deposits, which averaged a 12% annual growth rate, consistent with the growth observed over the previous decade (2011 – 2022). However, the growth was subdued to 3% annually from 2012 to 2013, and from 2015 to 2016. In contrast, the periods from 2018 to 2019, and from 2019 and 2020 saw a positive impact with growth rates of 18%.

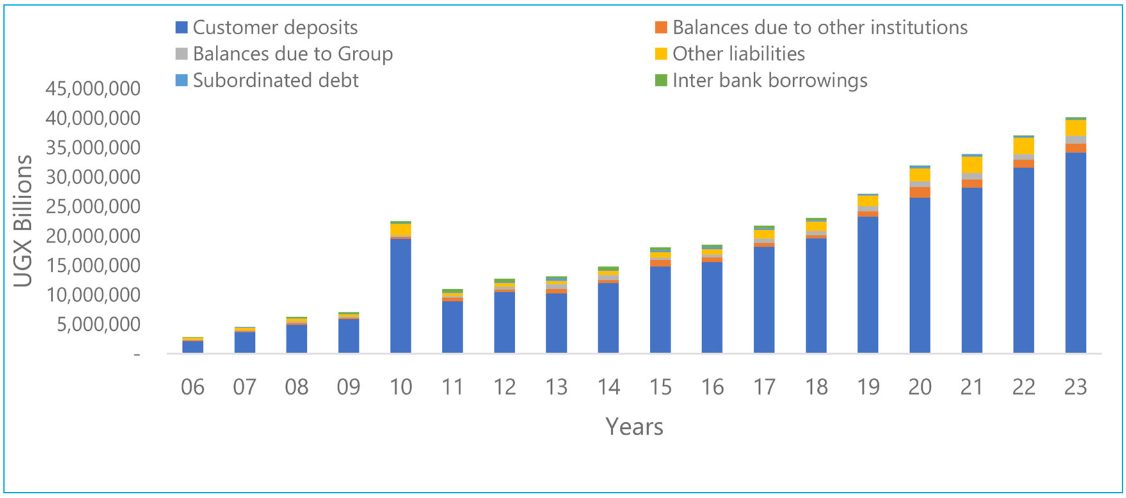
The total liabilities of tier 2 and tier 3 financial institutions grew at an average annual rate of just 2% over the five years from 2018 to 2023 (See Figure 18). This modest growth was primarily due to a sharp 39% decline between the years 2020 and 2021, though it was positively affected by a significant 29% increase from 2019 to 2020.

Figure 18: Trends in Bank's Total Liabilities (20211 to 2023)



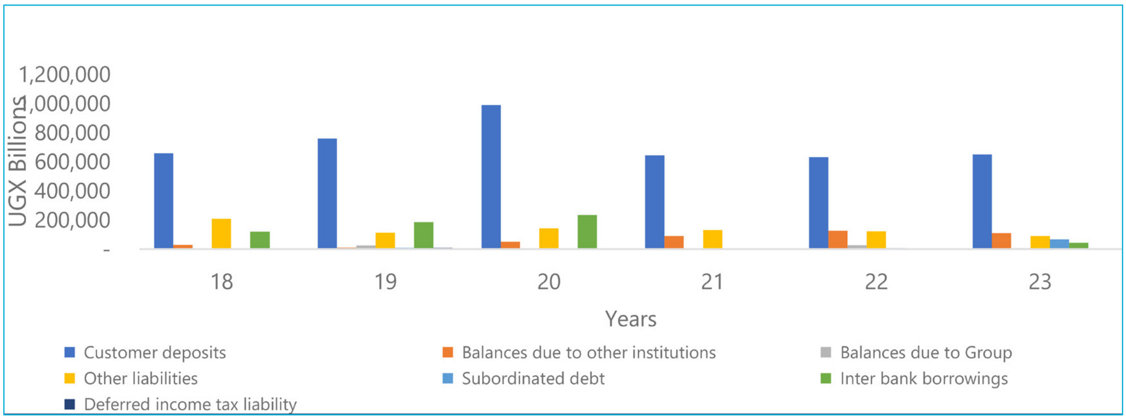
Source: Author's construction using data from the Bank of Uganda

Figure 19: Trend in Commercial Bank's Disaggregated Liabilities

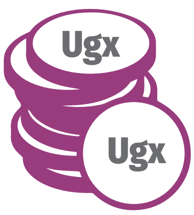


Source: Author's construction using data from the Bank of Uganda

Figure 20: Disaggregated Liabilities Trend - Tier 2 and Tier 3 Financial Institutions



Source: Author's construction using data from the Bank of Uganda



customer deposits accounted for **85%** of the total liabilities in the banking sector

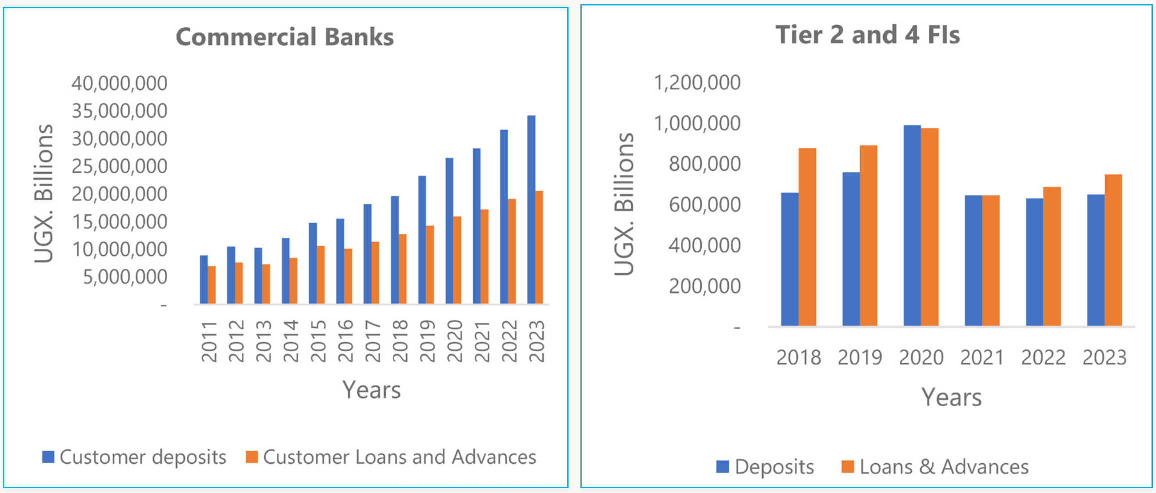
2.6. Customer Deposits.

Bank deposits are the main channel through which financial institutions make investments, forming the predominant source of funding for bank loans across different segments and sectors of the economy. By efficiently gathering deposits, financial institutions can offer sufficient financing for investments of various durations across multiple economic areas. As of the end of December 2023, customer deposits accounted for 85% of the total liabilities in the banking sector, a trend consistent with 2022 and averaging 84% over the past ten years.

At the end of 2023, customer deposits in the banking sector reached UGX. 34.1 trillion, representing an 8% year-on-year increase (UGX. 2.6 trillion), down from the 12% growth observed the previous year. Over the decade, the average growth rate in commercial bank customer deposits has been 12%, peaking at 23% between 2014 and 2015, and dropping to a low of 5% between 2015 and 2016.

On the other hand, Tier 2 and Tier 3 financial institutions saw a muted year-on-year rise of 3% in customer deposits, bringing the total to UGX. 649 billion. This marks an improvement from the previous year, which experienced a net year-on-year decline of 2% (see Figure 21).

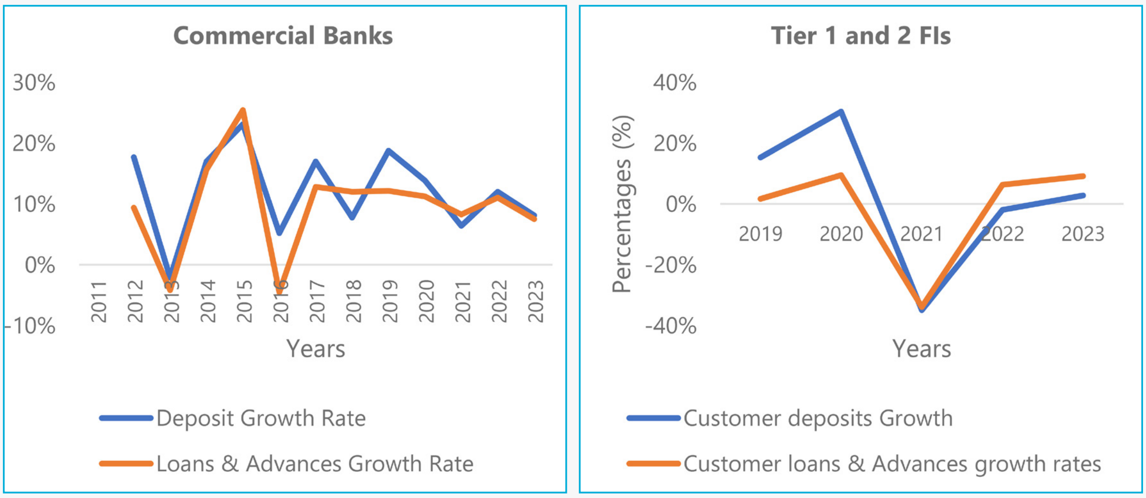
Figure 21: Deposits and Loans and Advances (2011 to 2023)



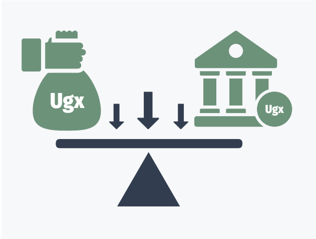
Source: Author's construction using data from the Bank of Uganda

Over the four years from 2019 to 2022, the average growth rate was 2%. Throughout the past decade, customer deposits have shown a steady growth pattern, averaging a 12.4% increase annually, peaking at 35% between 2019 and 2020, and dropping by 35% year-on-year between 2020 and 2021. Notably, the growth in customer deposits has consistently exceeded the growth in customer loans and advances. Over the 12 years, customer loans and advances have grown at an average annual rate of 9.9% while customer deposits have grown at an average annual rate of 12.1 (see Figure 22).

Figure 22: Growth Rates in Loans & Advances



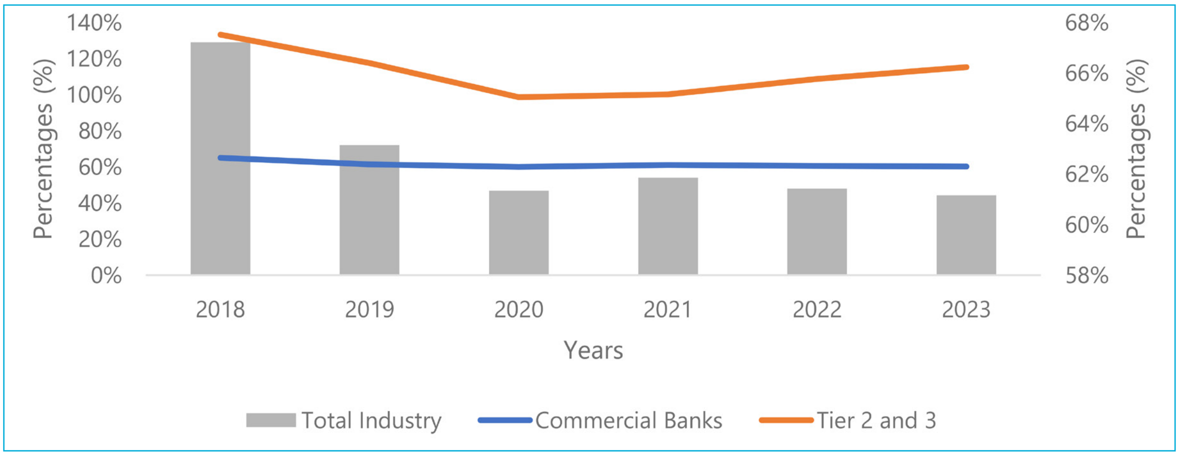
Source: Author's construction using data from the Bank of Uganda



2.7. Loan to Deposit Ratio

In Figure 23, the loan-to-deposit ratio for the commercial banks continued to decline, ending December 2023 at 60%, with a 5-year average of 61%. In contrast, Tier 2 and Tier 3 financial institutions had a five-year average loan-to-deposit ratio of 108%, down from 112% in the previous five-year period, and closed 2023 at 115%.

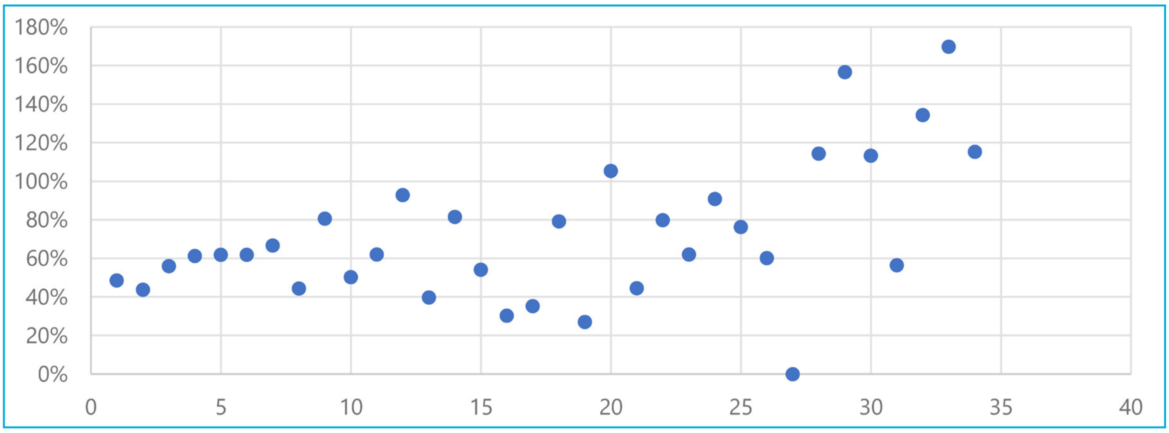
Figure 23: Industry Loan to Deposit Ratio (2018 to 2023)



Source: Author's construction using data from the Bank of Uganda

Following diverse strategies, there was notable diversity in the loan-to-deposit ratios among different financial institutions. The average ratio for commercial banks stood at 61.4% by the end of 2023, showing an increase from 55.9% at the close of 2023, with a high of 105.3% and a low of 27% for individual commercial banks. Meanwhile, tier 2 and tier 3 financial institutions recorded a ratio of 106% in 2023, making a rise from 103% at the end of 2022, with a high of 106% and a low of 0% for individual institutions (Figure 24).

Figure 24: Individual SFI Loan to Deposit Ratio



Source: Author's construction using data from the Bank of Uganda

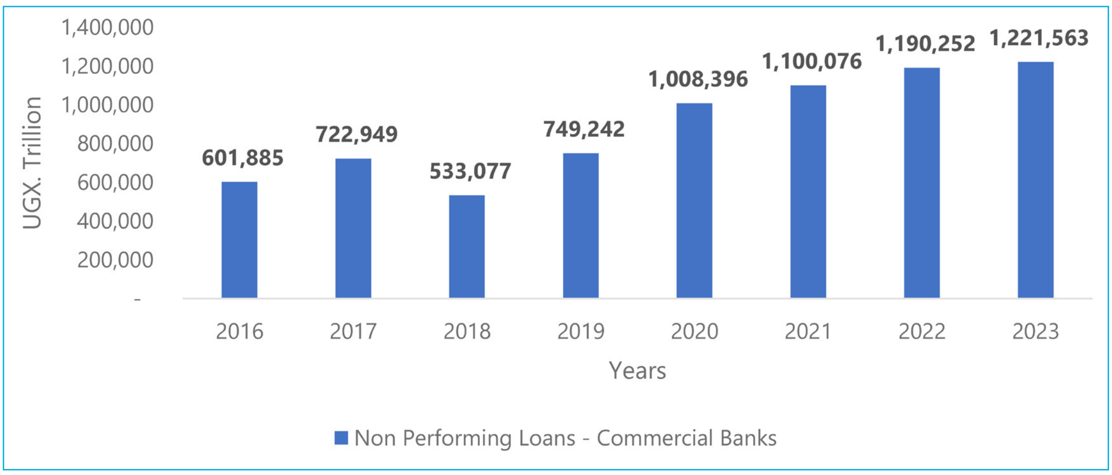
Over the five years from 2018 to 2023, commercial banks maintained an average loan-to-deposit ratio of 61%, indicating a significant portion of liquidity remains unutilized within the banking sector. Despite yearly increases in utilization, there remains a necessity to enhance liquidity deployment for lending. This can be achieved through a review of individual financial institutions' risk appetite, particularly amidst a better but still challenging macroeconomic landscape, to improve industry performance and expand customer outreach.

Asset Quality

3.1. Non-Performing Loans

By the close of December 2023, commercial bank non-performing had grown by minimally by 2% YoY and reached UGX.1.22 trillion, with five of the commercial banks contributing 64% of the total commercial bank non-performing loans. In contrast, the non-performing loans of Tier 2 and Tier 3 financial institutions saw a 9% year-on-year increase, ultimately settling at UGX.37.3 billion, with one financial institution contributing 30% of the total (Figure 25).

Figure 25: Non-Performing Loans - Commercial Banks (2026 to 2023)



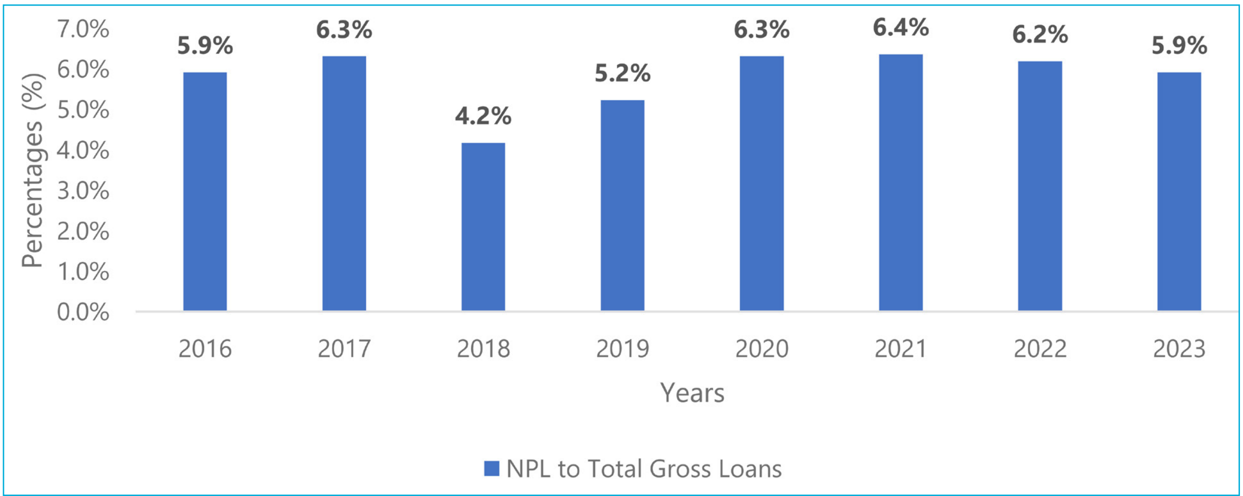
Source: Author's construction using data from the Bank of Uganda

From 2017 to 2023, the average growth rate of non-performing loans across all commercial banks was 13%. The period saw a peak increase of 35% between 2019 and 2020, while the most significant year-on-year decrease occurred between 2017 and 2018, at 26%.

3.2. NPLs to Total Gross Loans and Total Deposits

The ratio of non-performing loans to total gross loans offers crucial insights into a financial institution`s credit quality, risk exposure, risk management practices, and overall financial stability. Typically, an NPL to total gross ratio between 2% and 5% is regarded as indicative of "good" asset quality. The NPL-to-total gross loans for the banking sector averaged 5.9% as of December 2023 (Figure 26).

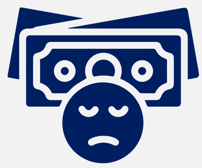
Figure 26: Ratio of Non Performing Loans to Total Gross Loans (2016 to 2023)



Source: Author's construction using data from the Bank of Uganda

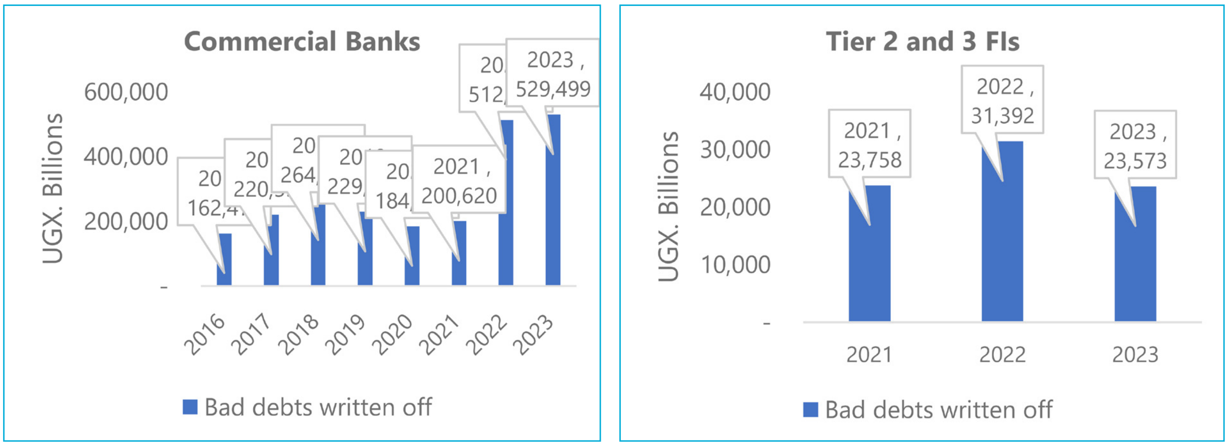
3.3. Bad Debts Written Off

Over the past five years (2019 – 2023), commercial banks have written off a total of UGX. 1.7 trillion, averaging UGX.331 billion annually. Notably, 30% of this total was written off in 2023 alone. Tier 2 and Tier 3 financial institutions wrote off Uganda shilling 24 billion and Uganda shillings 31 billion as bad debts in 2023 and 2022, respectively. The average growth rate of bad debts over this period was 27%, significantly driven by a 155% year-on-year increase in bad debt write-offs from 2021 and 2022, largely attributed to the delayed impact of the COVID-19 pandemic (see Figure 27).



Financial institutions wrote off **Ugx. 24 billion** shilling 24 billion and **Ugx. 31 billion** as bad debts in 2023 and 2022

Figure 27: Bad debts written off (2016 to 2023)



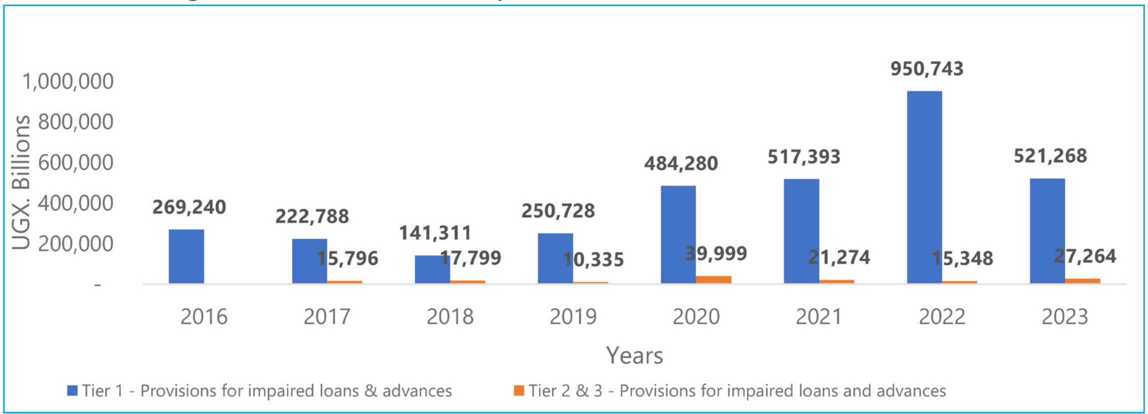
Source: Author's construction using data from the Bank of Uganda

3.4. Provisions for impaired loans and advances

Over the past five years (2019 – 2023), the commercial banks incurred costs amounting to Uganda Shillings 2.7 trillion for provisions related to impaired loans and advances. In the same period, the average provisions for impaired loans and advances were Uganda Shillings 544 billion, mainly attributed to the challenges stemming from the COVID-19 pandemic and the subsequent lagged recovery. The provisions for impaired loans and advances for the year 2023 was UGX.521 billion, with three of the commercial banks accounting for 67% of the total in the year 2023. The average growth rate of provisions for impaired loans for commercial banks during the same period stands at 43%.

On the other hand, the provisions for impaired loans and advances for tier 2 and 3 financial institutions was UGX.27bn, averaging UGX.23 billion over the same five-year period. The average growth rate of provisions for impaired loans for commercial banks during the same period stands at 50%, with one of the financial institutions contributing 29% of the cost for the year (see Figure 28).

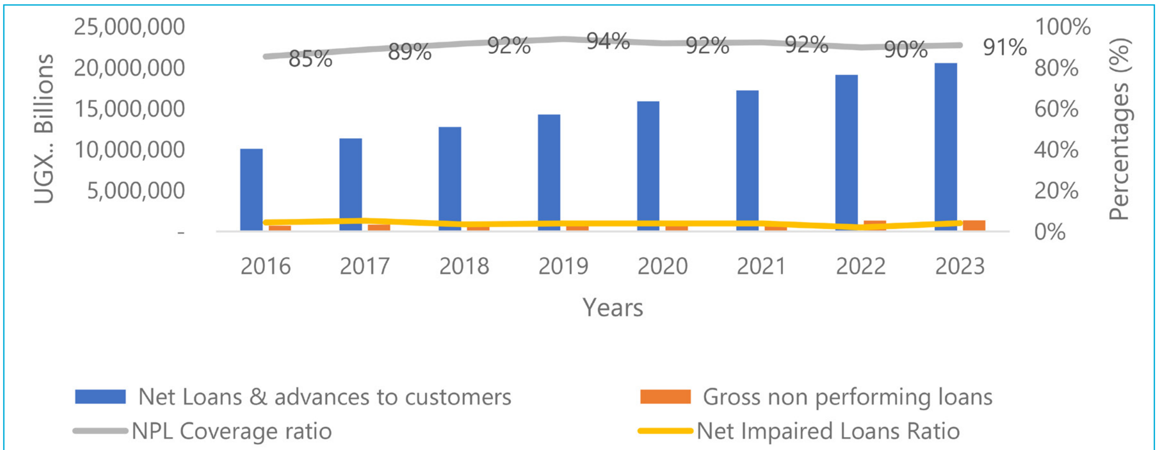
Figure 28: Provisions for Impaired Loans and Advances (2017 – 2023)



Source: Author's construction using data from the Bank of Uganda

Over five years, the average NPL coverage ratio remains at 92%, closing the year at 91% as was the case for the year 2022. This NPL coverage ratio, nearing 100%, signifies that the commercial banks have on average allocated a substantial portion of provisions in comparison to their total gross non-performing loans (Figure 29). This signifies the sector's robust readiness to absorb potential losses arising from NPLs and reflects a cautious and responsible approach to risk management.

Figure 29: Asset Quality for Commercial Banks (2016 to 2023)

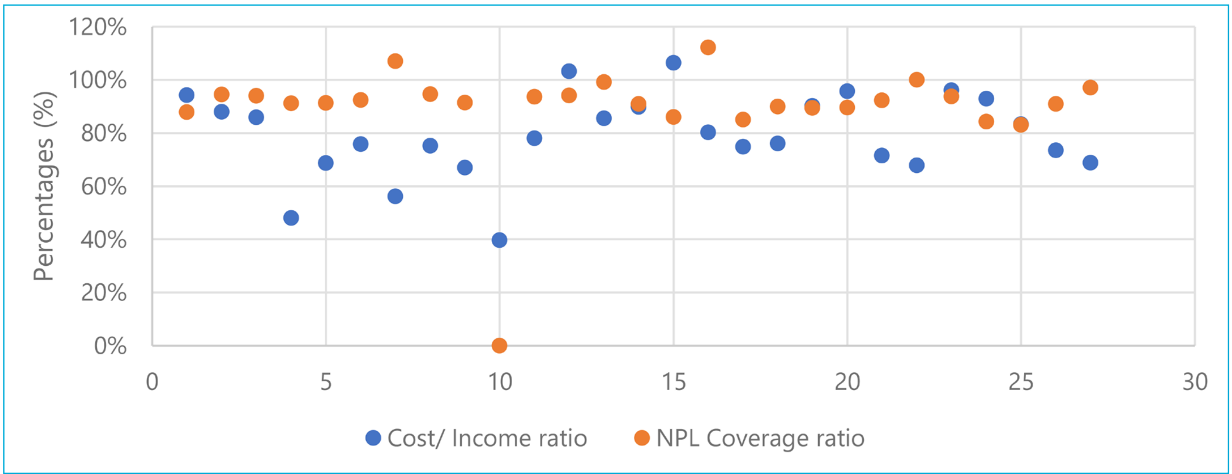


Source: Author's construction using data from the Bank of Uganda

3.5. Cost to Income and Asset Quality

The comparison of the cost-to-income ratio and the asset quality provides valuable insights into the financial health, operational efficiency, and risk management of financial institutions (Figure 30).

Figure 30: Cost to Income and Asset Quality

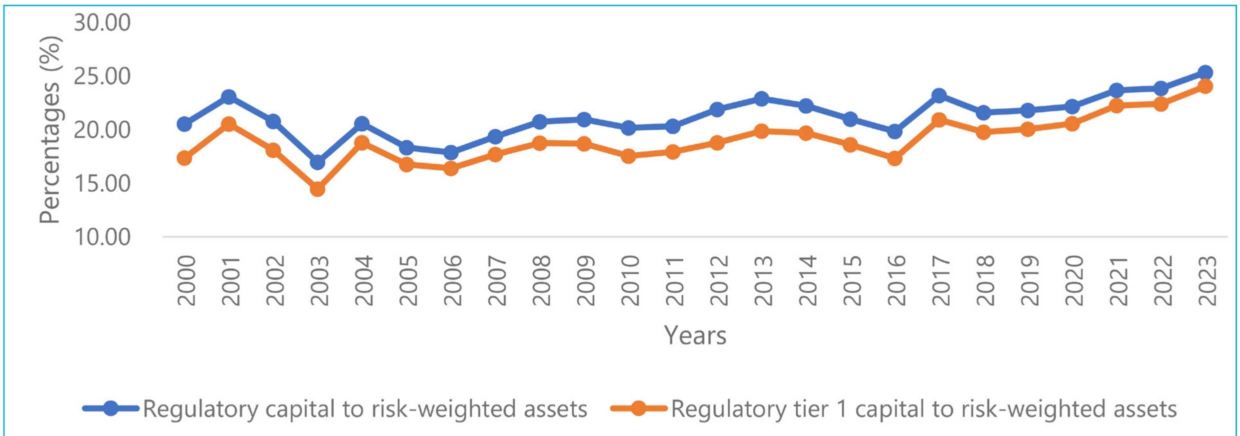


Source: Author's construction using data from the Bank of Uganda

3.6. Capital Adequacy

According to the Bank of Uganda (BOU), the regulatory guideline for capital to risk-weighted assets is 10.50%, while the requirement for tier 1 capital to risk-weighted assets is 14.50%. Over the past five years, commercial banks have consistently exceeded these benchmarks. They have maintained an average regulatory capital-to-risk-weighted assets ratio of 23.6%, closing 2023 at 25.33%. Similarly, they have kept a regulatory tier 1 capital-to-risk weighted assets ratio of 21.86%, ending 2023 at 24.04. These figures reflect a strong adherence to regulatory standards, consistently surpassing the minimum requirements of 10.5% and 14.5%, respectively (see Figure 30). In the current banking environment, insolvency and negative macroeconomic events pose ongoing threats, increasing liquidity and credit risks. In this context, the capital adequacy ratio is essential. By maintaining a robust capital buffer, commercial banks can sustain their operations despite these risks, reducing the likelihood of closures and mergers (see Figure 31).

Figure 31: Capital Adequacy Ratio for the years 2000 to 2023

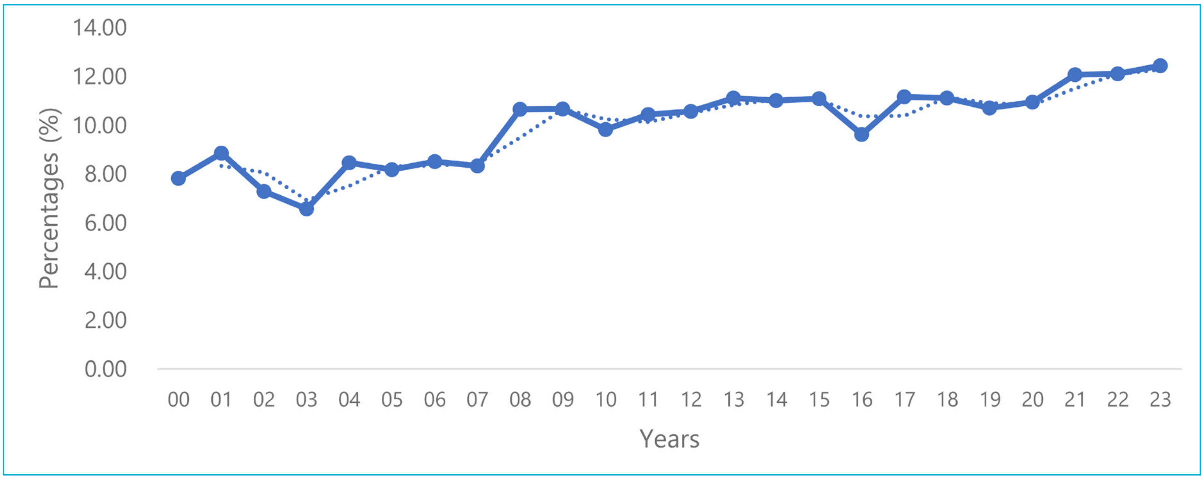


Source: Author's construction using data from the Bank of Uganda

3.7. Leverage

The leverage ratio, an important metric for capital adequacy, is intended to ensure that banks retain a minimum amount of capital concerning their total assets, regardless of the riskiness of those assets. This ratio acts as a safeguard against excessive borrowing and financial instability requiring banks to hold a buffer of capital that is not influenced by the risk profile of their asset portfolios. Over the past 24 years, from 2000 to 2023, the leverage ratio for commercial banks has demonstrated a consistently positive trend. On average, this ratio has been 9.98%, reflecting a prudent approach to capital management. In 2023, the leverage ratio reached 12.44%, marking a year-on-year improvement and indicating that banks have been increasingly reinforcing their capital positions (see Figure 32).

Figure 32: Trends in Commercial Banks Leverage Ratio for the years 2000 – 2023



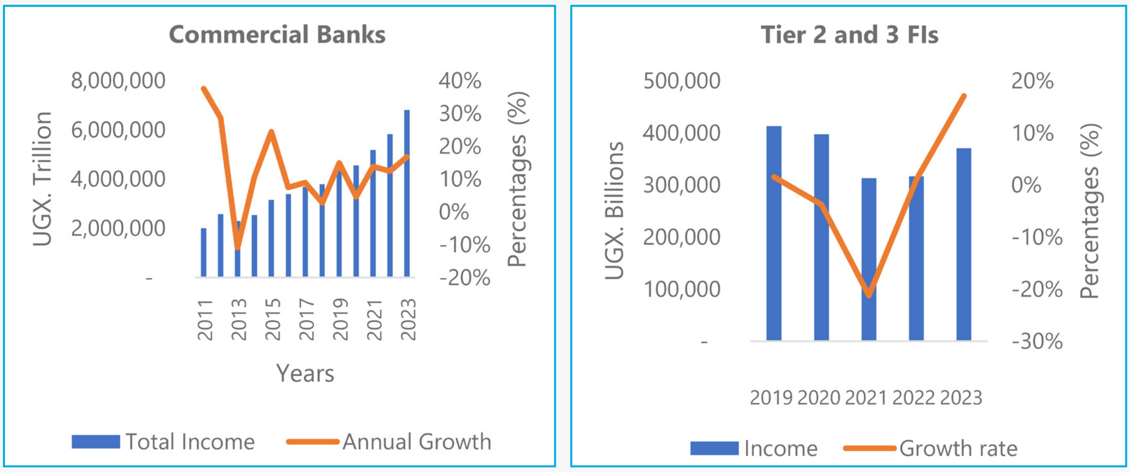
Source: Author's construction using data from the Bank of Uganda

Financial Performance

4.1. Trading Income

Over five years, from 2019 to 2023, the banking sector experienced a steady upward trend in trading income, averaging UGX. 5.3 trillion annually. In 2023, this income peaked at UGX. 6.8 trillion. Also, during the same period, tier 2 and tier 3 financial institutions maintained an average annual income of UGX. 362 billion (Figure 33).

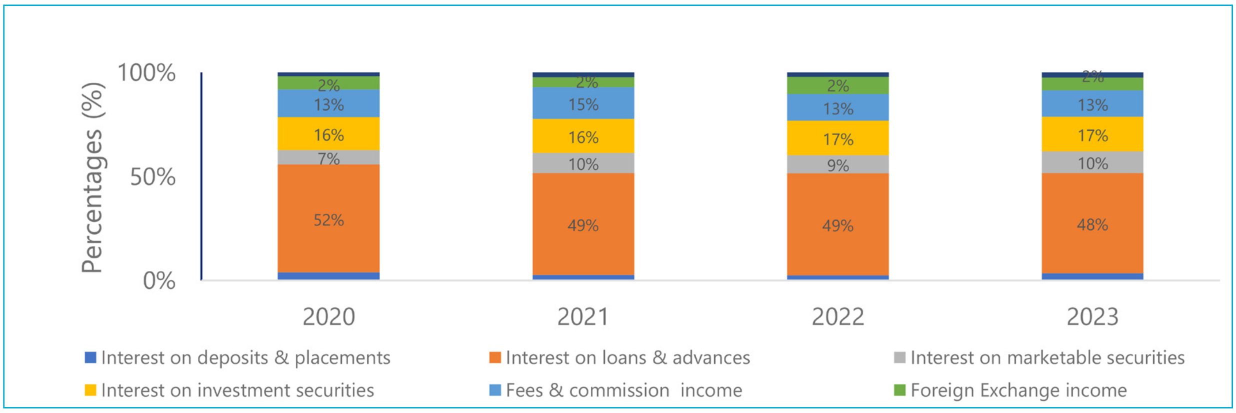
Figure 33: Trading Income and Growth Rates



Source: Author's construction using data from the Bank of Uganda

In 2023, the main revenue source for commercial banks came from interest earned on loans and advances, followed by interest from investment securities. The figure below illustrates the various income categories for commercial banks (Figure 34).

Figure 34: Composition of Commercial Bank Income



Source: Author's construction using data from the Bank of Uganda

In 2023, 79% of the income for commercial banks originated from interest-related sources. Over the past decade (2014 to 2023), an average of 75% of the banking industry's revenue has consistently been derived from interest-based sources. The contribution of interest income to total income for the various commercial banks differed, with the lowest contribution at 68% and the highest at 89%. Similarly, for tier 2 and 3 financial institutions, all except one due to its operating model made most of their income from interest (see Figure 35).

Figure 35: Composition of bank's income

Source: Author's construction using data from the Bank of Uganda

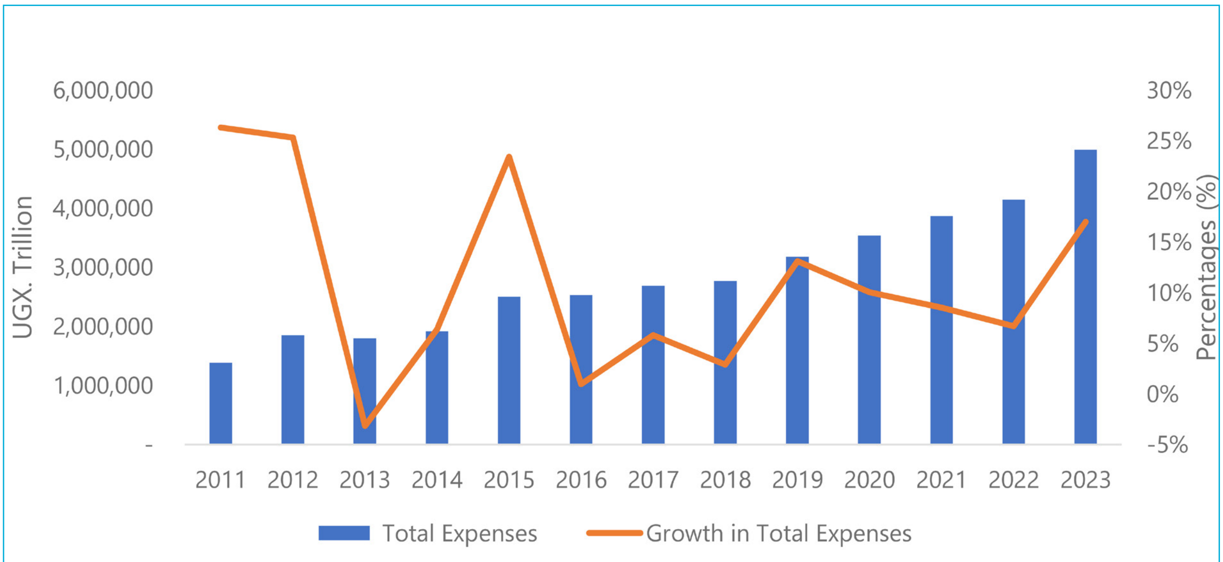
In response to heightened risks associated with lending, potential Non-Performing Loans (NPLs), and increasing market liquidity, the banking sector must strategically prioritize diversification into alternative revenue streams beyond traditional interest income. Relying heavily on interest earnings exposes banks to substantial risks during economic downturns, where loan defaults can severely impact profitability and asset quality. Diversifying income sources not only mitigate these risks but also enhances portfolio stability by reducing dependence on loan performance alone. This strategic expansion into non-interest revenue streams not only enhances the resilience of banking operations but also ensures compliance with evolving regulatory standards, fostering long-term sustainability and growth amidst a dynamic financial landscape.

From **2019-2023** operating expenses accumulated to **Ugx. 19.7 trillion**

4.2. Operating Expenses

Over five years, from 2019 to 2023, the banking sector incurred operating expenses totaling UGX.19.7 trillion, compared to UGX.17.5 trillion over the preceding five-year period from 2018 to 2022. On average, annual operating expenses amounted to UGX. 3.9 trillion during this timeframe. Throughout these years, the total costs of commercial banks have demonstrated an average growth rate of 11%, with a notable peak of 17% year-on-year between 2022 and 2023, and a more moderate increase of 7% from 2021 to 2022 (See Figure 36).

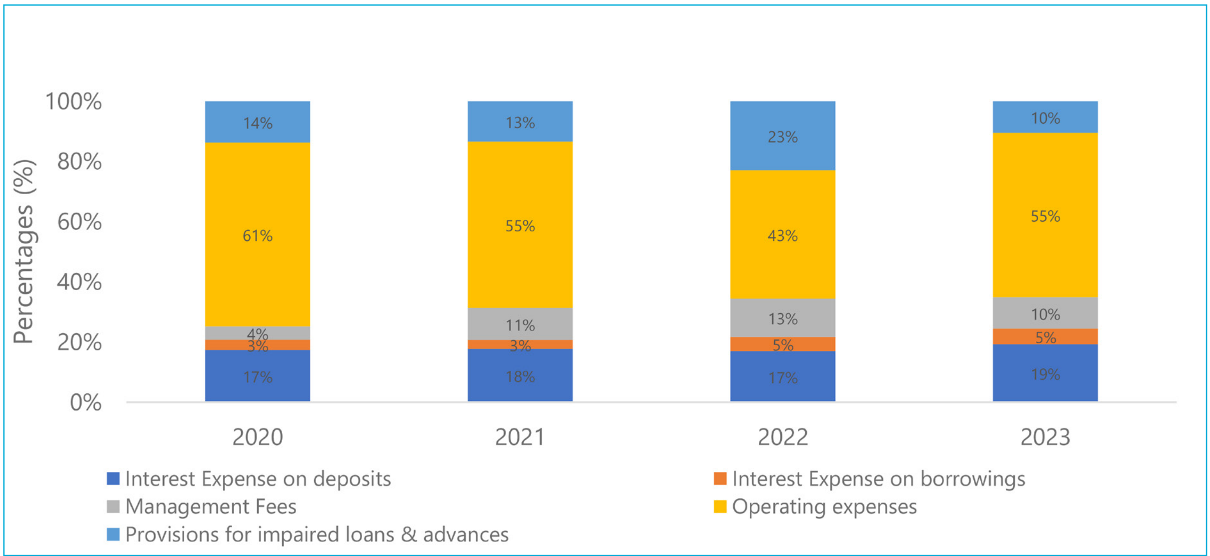
Figure 36: Operating Expenses for the period 2011 to 2023



Source: Author's construction using data from the Bank of Uganda

During 2023, operating expenses constituted 55% of the overall costs incurred by commercial banks, up from 43% in the preceding year. A key drop in proportion is the drop in provisions for impaired loans and advances from 23% in 2022 to 10% in 2023. The breakdown of expenditure composition between 2021 and June 2023 (Figure 37).

Figure 37: Composition of Expenses (2020 to 2023)



Source: Author's construction using data from the Bank of Uganda

4.3. Cost-to-Income Ratio

The cost-to-assets ratio (%) serves as a key efficiency metric that measures a bank's operational expenses relative to its size or asset base. Despite operating within the same macroeconomic environment and adhering to similar regulatory standards, SFIs display varying cost-to-income ratios. Typically, banks specializing in corporate lending tend to have a lower cost-to-assets ratio compared to those focused predominantly on retail lending. Larger banks generally demonstrate a lower cost-to-income ratio, benefiting from economies of scale in their operations. However, these efficiencies are subject to strategic decisions and potential losses that may impact financial performance in any given fiscal year. Over the past decade, from 2014 to 2023, the average cost-to-income ratio stood at 75%, peaking at 85% in 2016 and reaching a low of 72% in both 2019 and 2022. As of the end of 2023, commercial banks in Uganda reported a cost-to-income ratio of 73%, while tier 2 and tier 3 financial institutions recorded a ratio of 90.6%, slightly down from 91.4% in 2022 (See Figures 38 and 39).

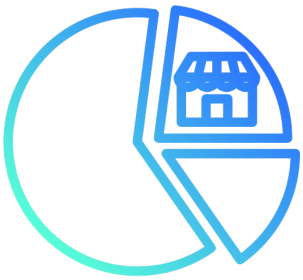
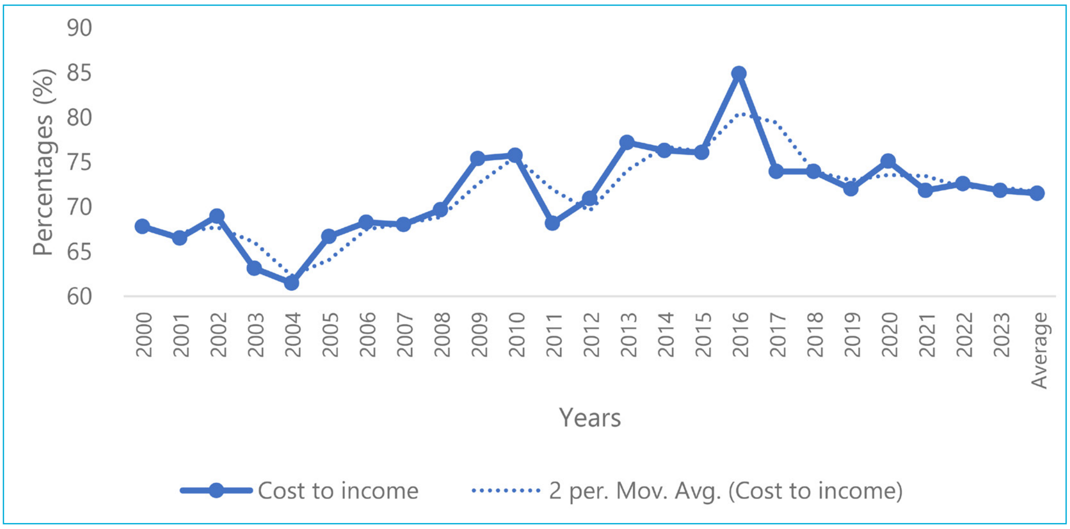
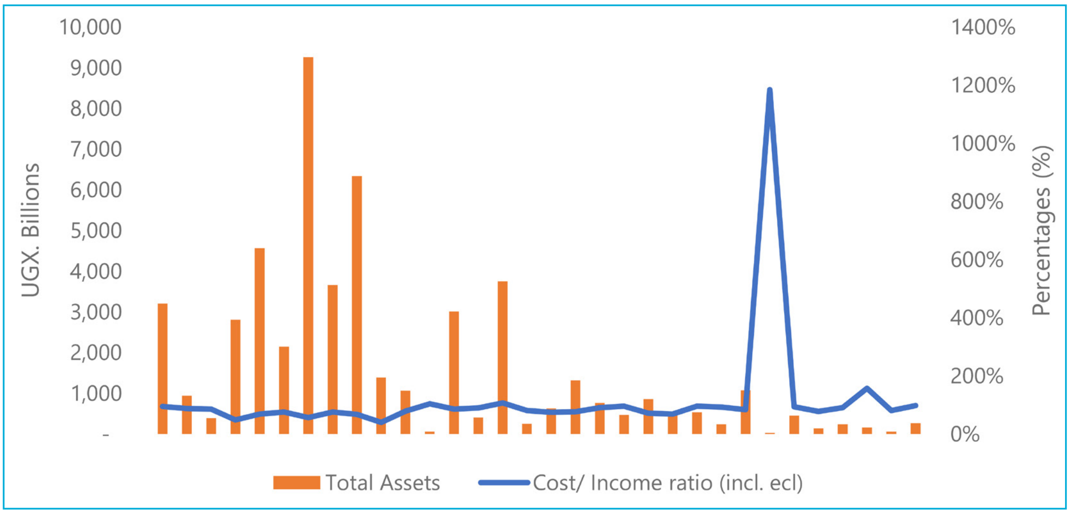


Figure 38: Cost to Income Ratio (2000 to 2023)



Source: Author's construction using data from the Bank of Uganda

Figure 39: Cost to Income and Total Assets

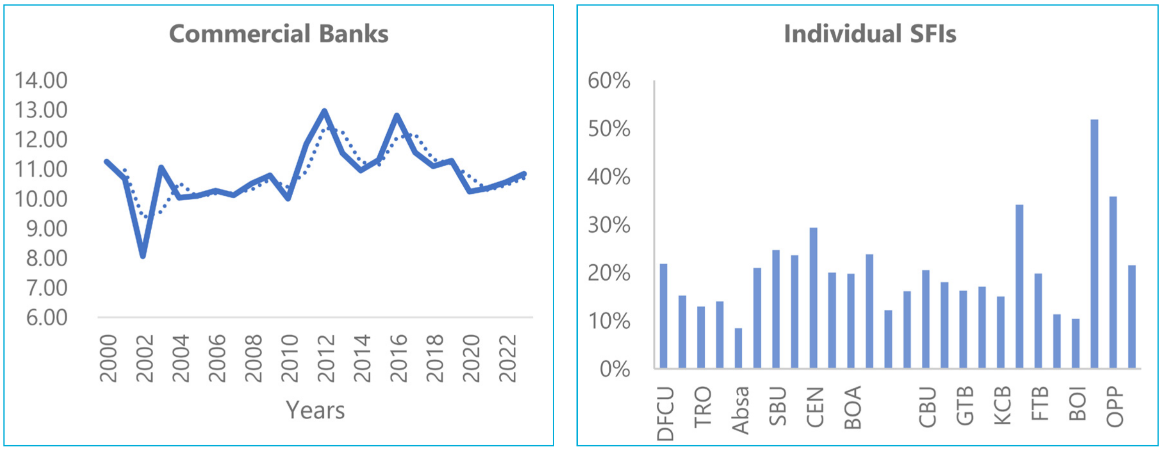


Source: Author's construction using data from the Bank of Uganda

4.4. Net Interest Margin

The net interest margin serves as a critical gauge of financial institution performance, highlighting the net profit derived from lending activities and indicating competitiveness within the market. This metric quantifies the difference between interest income earned by institutions and the interest paid to lenders, relative to their interest-earning assets. A broader margin indicates greater profitability. Over the past 23 years, from 2000 to 2023, the net interest margin for the banking sector has shown a consistent upward trend. The net interest margin for the individual financial institutions differed widely in the year, averaging 21%, with a low of 8% and a high of 34% in the year (See Figure 40).

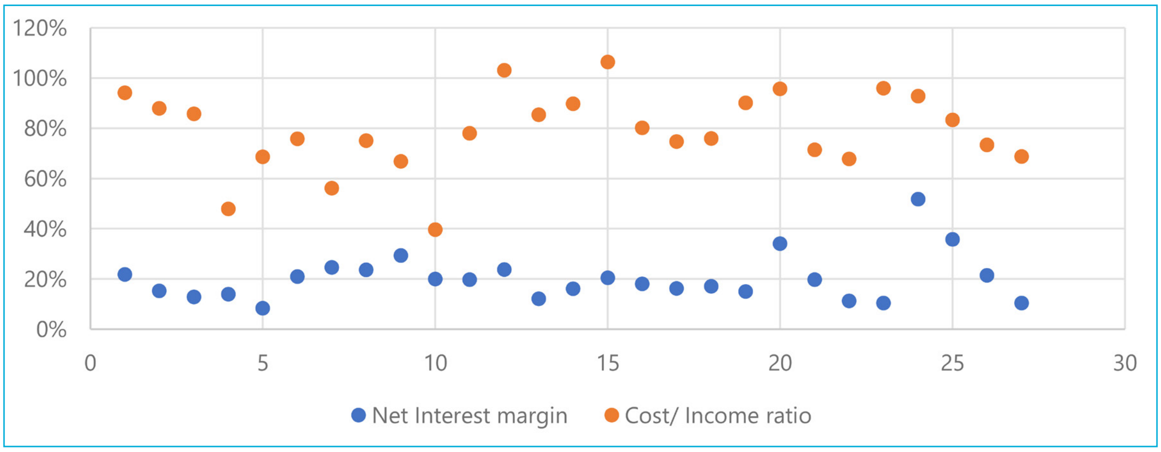
Figure 40: Net Interest Margin for the banking sector (2000 to 2023)



Source: Author's construction using data from the Bank of Uganda

Analyzing the cost-to-income ratio alongside the interest margin provides valuable insights into the financial health and operational effectiveness of financial institutions. This comparison facilitates an assessment of their proficiency in managing costs and generating revenue from core activities (Figure 41).

Figure 41: Cost to Income and Net Interest Margin in 2023

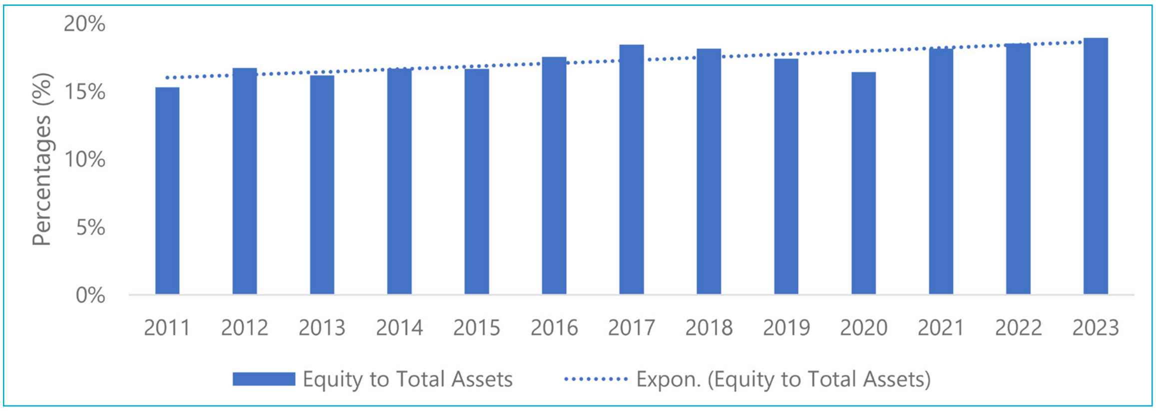


Source: Author's construction using data from the Bank of Uganda

4.5. Equity to asset ratio (EAR)

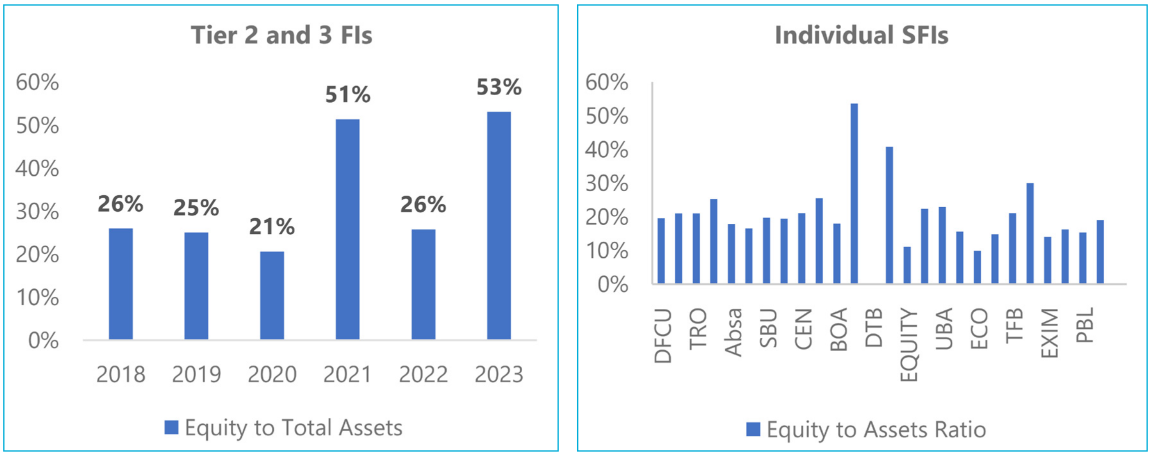
The equity-to-asset ratio illustrates the ownership proportion held by stakeholders within the company and evaluates the overall financial well-being and enduring profitability of the business. Over the past decade from 2014 to 2023, the sector's average equity to assets ratio has remained relatively constant, averaging 17.7%. The individual SFI equity to total assets ratio differed widely in 2023 with a high of 54% and a low of 10% (See Figures 42 and 43).

Figure 42: Commercial Banks Equity to Total Assets Ratio (2014 to 2023)



Source: Author's construction using data from the Bank of Uganda

Figure 43: Equity to Total Assets



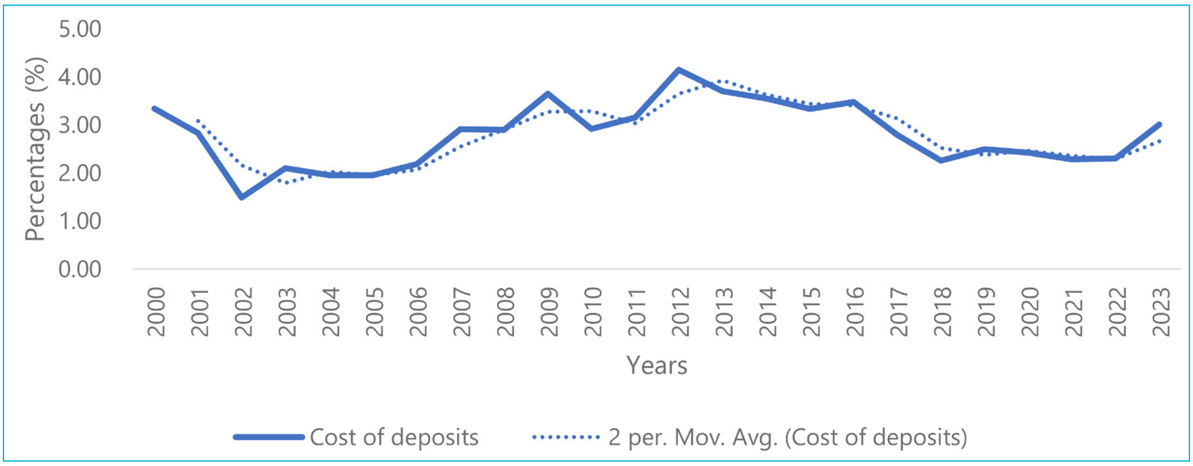
Source: Author's construction using data from the Bank of Uganda

Over the past five years, from **2019** to **2023**, the average increase was **7%**

4.6. Cost of Funding

The cost of deposits in the banking sector rose by 31% year-over-year, climbing from 2.30 in 2022 to 3.01 in the latest period. Over the past five years, from 2019 to 2023, the average increase was 7%. This low cost primarily stems from commercial banks' interest in attracting more retail funds, which are less expensive than wholesale funds, leveraging their extensive network of branches and agents nationwide (See Figure 44).

Figure 44: Cost of Deposits (2000 to 2023)



Source: Author's construction using data from the Bank of Uganda

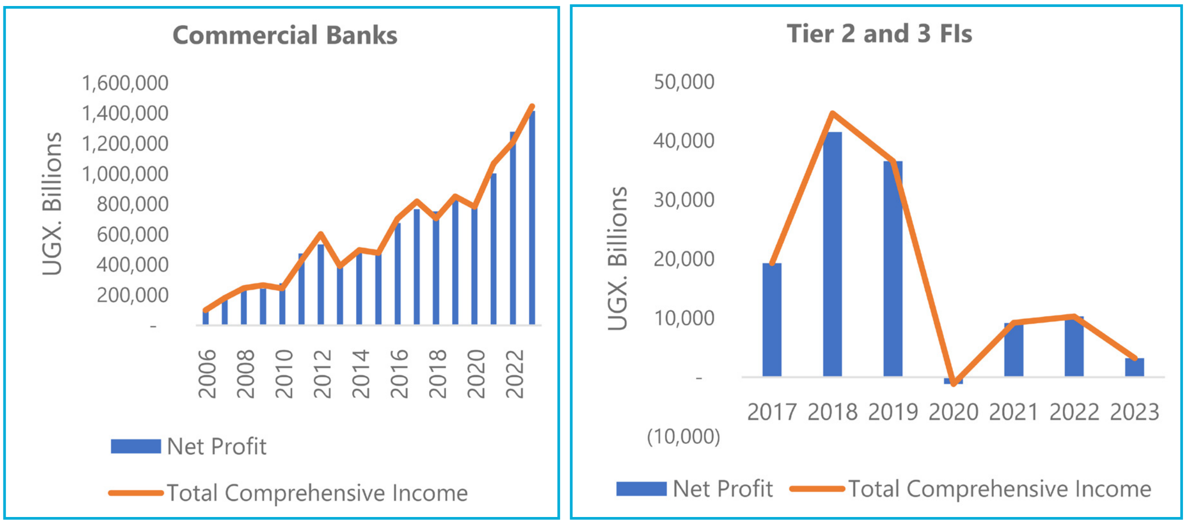
Cumulative profits for 2023 were **Ugx 1.4 trillion**, an increase of 20% **(Ugx. 238 billion)** copmared to the previous year

4.7. Profitability

At the close of 2023, 28 out of the 32 Supervised Financial Institutions (SFIs) reported profits, while 4 institutions (including 2 commercial banks and 2 Tier 2 and Tier 3 SFIs) incurred losses. In 2023, the top 5 most profitable commercial banks collectively contributed 74% of the industry's total profits, an increase from 70% in the previous year, 2022 (see Figure 44).

During the year 2023, commercial banks collectively generated cumulative profits of UGX. 1.4 trillion, marking a 20% increase (UGX. 238 billion) compared to the previous year. This growth was primarily driven by a notable 15% rise (UGX. 430 billion) in interest income from loans and advances, alongside a 41% surge (UGX. 205 billion) in interest earned from marketable and trading securities, among other contributing factors. However, these gains were partially offset by a significant 54% increase in operating expenses, amounting to UGX. 963 billion year-on-year. Key to note is a 45% decrease (UGX. 429 billion) in provisions set aside for impaired loans and advances during the same period. Albeit the profits of commercial banks have been trending positively year on year with an average growth rate of 15% over the last 10 years from 2014 to 2023 (See Figure 45).

Figure 45: Net Profit and Comprehensive Income

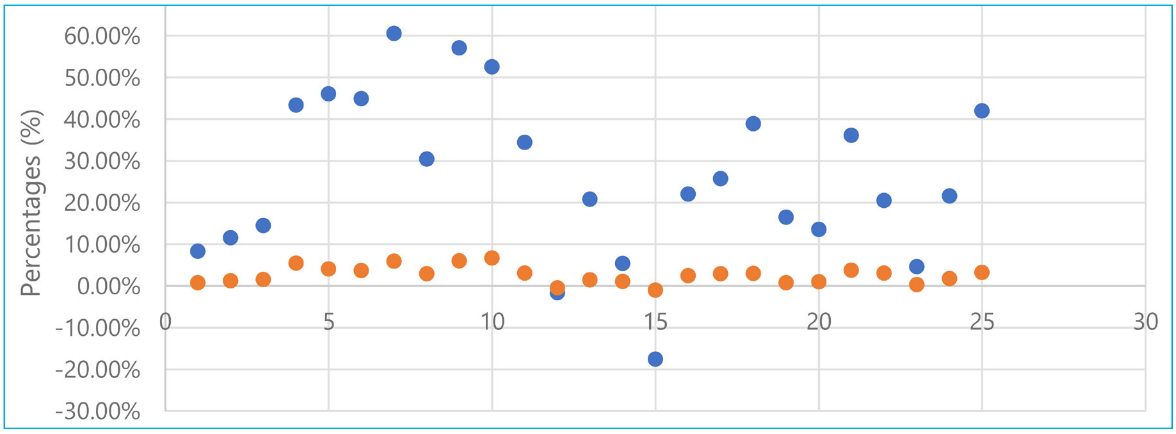


Source: Author's construction using data from the Bank of Uganda

4.8. Return on Equity (ROE) and Return on Assets (ROA).

The Return on Equity (ROE) signifies how effectively a company utilizes its financial resources to generate profit. In 2023, the average ROE for individual SFIs stood at 26%, while the sector-wide ROE concluded at 38.5%. However, there was notable variability, ranging from a high of 60.5% to a low of -18% (Figure 46).

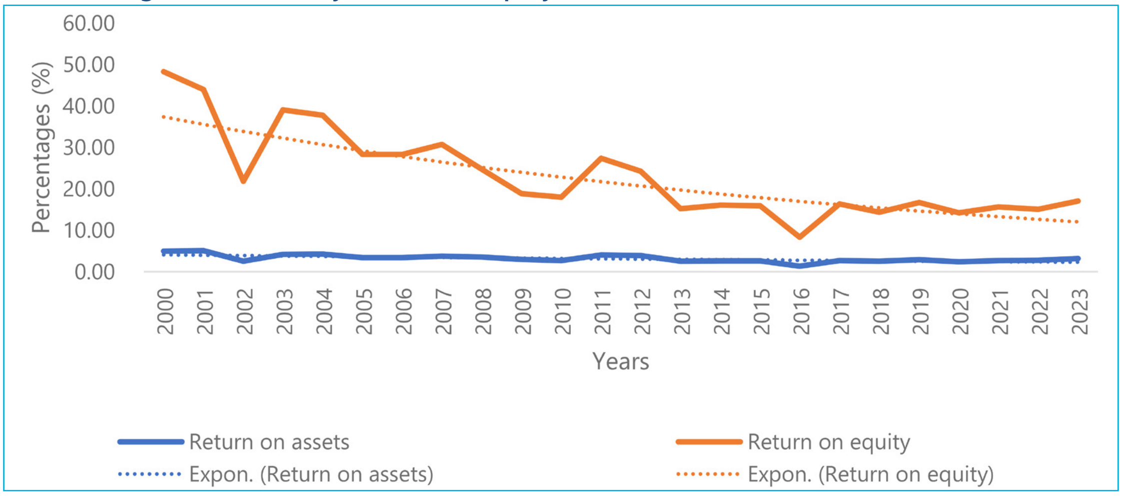
Figure 46: Return on Equity and Return on Assets for Individual SFIs in 2023



Source: Author's construction using data from the Bank of Uganda

The banking sector has experienced a steady decrease in Return on Equity (ROE) over the past 23 years, spanning from 2000 to 2023, averaging 23.2%. This trend saw a peak of 48.3% in 2000 and a low point of 14.3% in 2020. Concurrently, Return on Assets (ROA) has remained relatively stable during this period, averaging 3.2%. In contrast, for tier 2 and tier 3 financial institutions in 2022, the ROE and ROA were recorded at 4.2% and 0.6%, respectively (see Figure 47). More so, the size of a bank directly correlates with its efficiency and performance, as evidenced by the Return on Equity (ROE). Generally, larger banks tend to achieve higher efficiency ratios compared to smaller financial institutions.

Figure 47: Industry Return on Equity and Return on Assets (2000 to 2023)



Source: Author's construction using data from the Bank of Uganda

05

Financial Inclusion (FSDU, 2024)

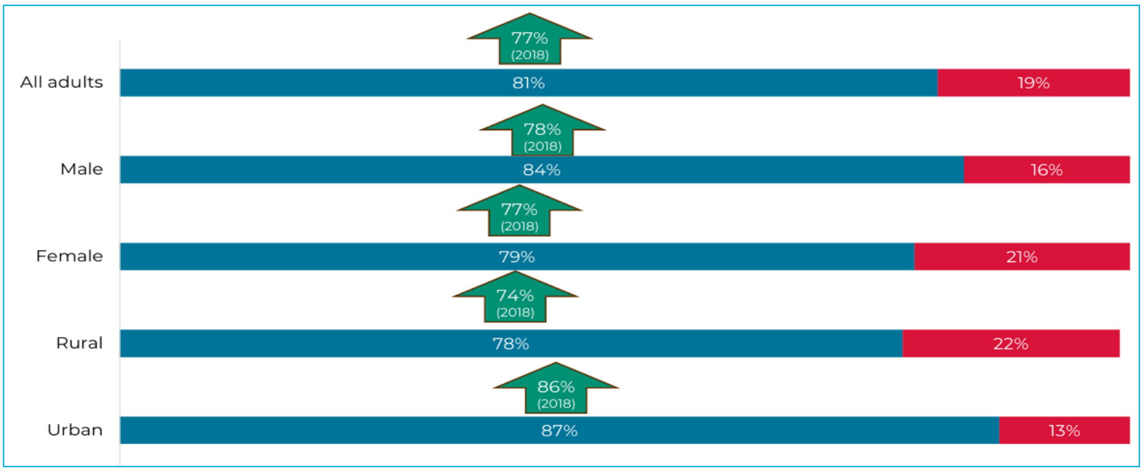
Financial inclusion refers to the provision of accessible, affordable, and relevant financial products and services to both individuals and businesses. This includes essential offerings such as payments, savings accounts, credit facilities, and insurance. These services should be delivered in a manner that is convenient for users, ensuring ease of access and use. Additionally, financial inclusion aims to maintain sustainability, ensuring that these financial products and services remain viable and available over the long term, thereby contributing to the community's overall economic well-being and stability.

5.1. Access to Financial Services

The adult population in Uganda has grown significantly to 24.6 million adults in 2023 from 18.6 million in 2018. In 2023, 70 percent of the adults were in rural areas 30 percent were in urban areas, and 52 percent were women whilst 48 percent were male. Furthermore, 55% (13.6 million) of the adult population are 30 years or younger, a shift from 47% of the adult population who were 30 years or younger in 2018.

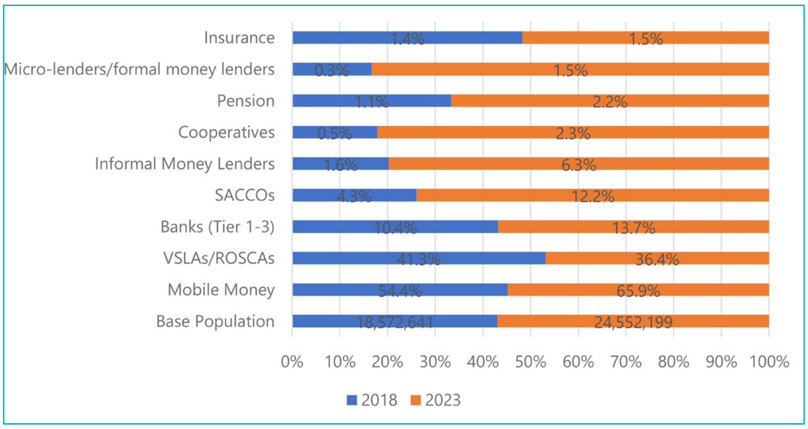
Access to financial services in Uganda has significantly improved in recent years. According to the FinScope 2023 study, 20 million (81%) Ugandan adults are financially served while 4.6 million (19%) are financially excluded. This is an increase from the 78% (14.4 million) of Ugandan adults that were being financially served and the 22% that were financially excluded in the 2018 FinScope study, 70% of Ugandan adults were financially served in the 2013 FinScope study, and 57% of Ugandan adults were financially served according to the 2006 FinScope study (see Figure 48).

Figure 48: Overall access to financial services in Uganda (2018 and 2023)



Source: FinScope 2023

Figure 49: Channels of access to financial services (2018 and 2023)



Source: FinScope 2023

In addition, the use of formal financial services is mainly driven by mobile money, which is utilized for remittances and plays a crucial role in financial inclusion. 64% (15.8 million) of adults are registered for mobile money, followed by SACCOs at 36.4% and Banks at 14%. Other formal services used include pensions (4%), microlenders/ MFIs (3%), insurance (2%), and microlenders/formal money lenders (1.5%). Furthermore, informal channels for accessing financial services were utilized by 6.3% of the population in 2023, up from 1.6% in 2018 (refer to Figure 49).

5.1.1. Formal Financial Inclusion

In Uganda, a significant number of adults totaling 16.7 million, which accounts for 68% of the adult population, are presently utilizing formal financial services. This indicates a notable rise from 58% in 2018. Nevertheless, formal financial inclusion remains relatively low among both young individuals and Ugandans aged over 60 years. Moreover, the gender gap has shown a slight widening, while the disparity between rural and urban areas has decreased compared to the statistics from 2018, as depicted in Figure 49.

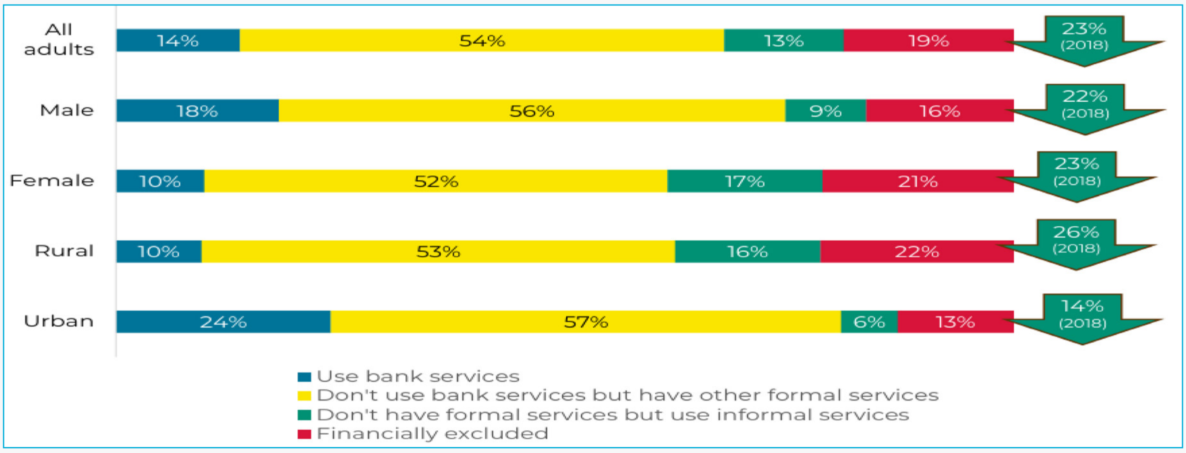
Figure 50: Formal financial inclusion (2018 and 2023)

Source: FinScope 2023 Survey

Financial access by demographics (% of adults)

Out of all adults, 14% use bank services. Of this 18%, 10% are females and 8% are males. In terms of residence, 10% of bank users live in rural areas and 24% in urban areas. 54% of adults do not use any bank or formal services. Among them, 52% are females and 48% are males. In terms of residence, 53% of non-users live in rural areas and 57% in urban areas. 13% of adults have access to formal services but only use informal ones. Among them, 17% are females and 9% are males. In terms of residence, 16% of this group live in rural areas and 6% in urban areas. Finally, 19% of adults are excluded from using any services. Among them, 21% are females and 16% are males. In terms of residence, 22% live in rural areas and 13% in urban areas (Figure 51).

Figure 51: Financial access strands by demographics (2018 and 2023)

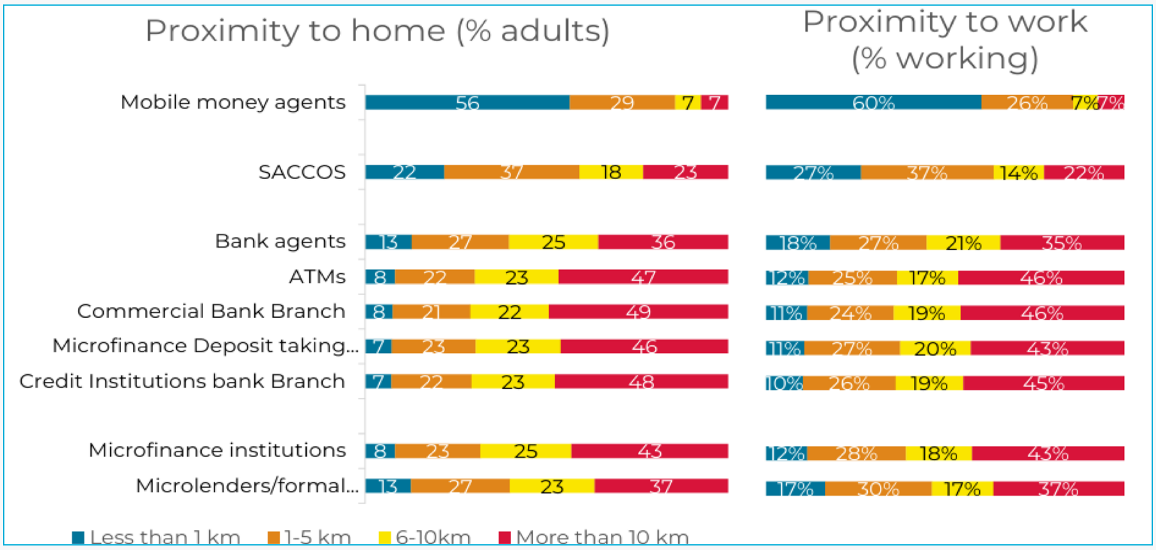


Source: FinScope 2023 Survey

Proximity of Formal Financial Services Providers

Among the formal Financial Services Providers, agent channels are conveniently distributed for larger shares of the population, for example, SFI channels show similar accessibility to ATMs. However, bank agents are more accessible. More Ugandans can conveniently access microlenders easier than Micro Finance Institutions (MFIs). For the working Ugandans, a larger proportion is closer to a formal channel from their workplace compared to their homes. Mobile money agents are by far the most accessible with over half of the adults living within 1km of one, as shown in Figure 52 below.

Figure 52: Proximity to formal financial services providers (2018 and 2023)

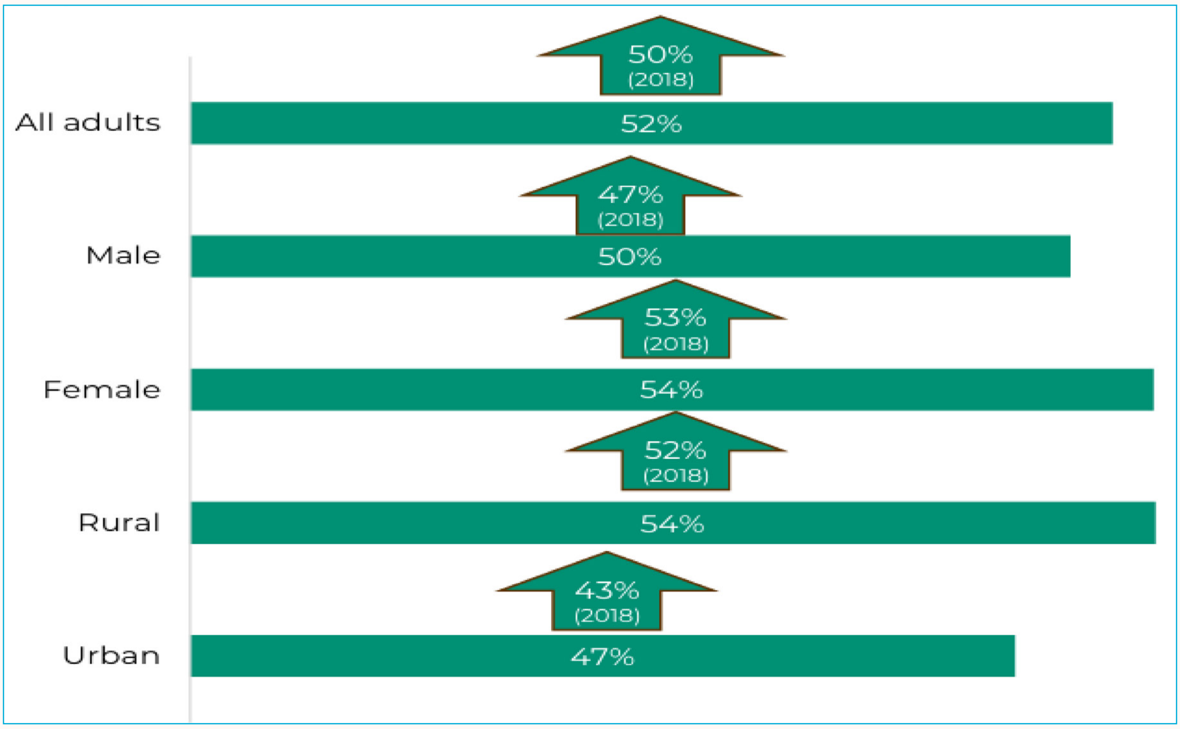


Source: FinScope 2023 Survey

Informal financial inclusion

In Uganda, 12.8 million adults, accounting for 52% of the population, utilize informal financial services, representing a notable increase from the 50% reported in 2018. Notably, informal financial inclusion demonstrates a distinct preference for women and rural residents, with these discrepancies showing signs of narrowing in 2023 compared to 2018, as indicated in Figure 53 below.

Figure 53: Informal financial inclusion

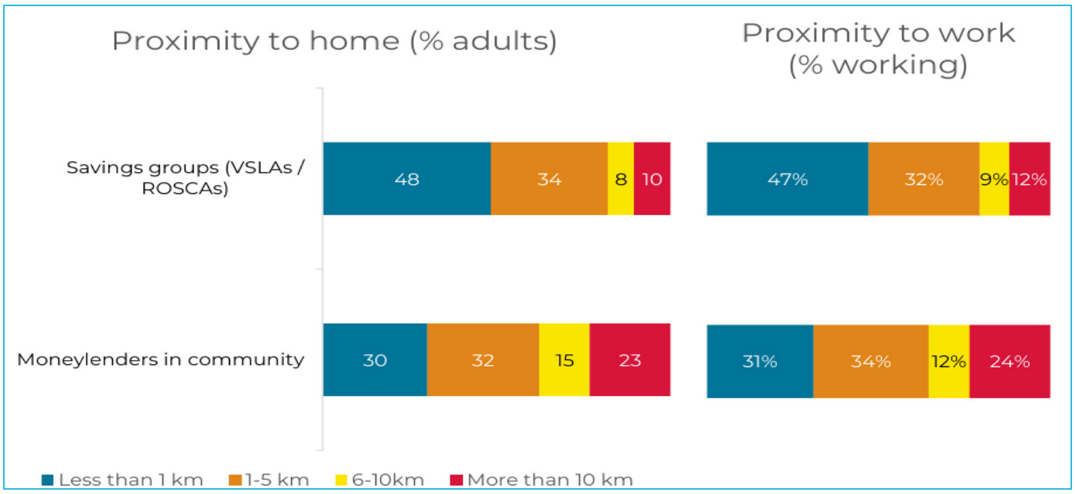


Source: FinScope 2023

Proximity of Informal Financial Services Providers

Almost half of adults can access savings groups within 1 km of where they live or work, and 30% can access community moneylenders within the same distance. In contrast to formal channels, there is almost no difference in the accessibility of savings groups and community moneylenders between home and work (Figure 54).

Figure 54: Proximity to informal financial services providers



Source: FinScope 2023 Survey

5.2. Financial Inclusion Score Card

The main purpose of implementing a financial inclusion scorecard for the banking sector is to evaluate, monitor, and ultimately report on the progress of financial inclusion initiatives within the banking sector. This scorecard acts as a comprehensive tool designed to measure the success of various efforts by financial institutions to provide affordable, accessible, and high-quality financial services to underserved and marginalized populations. By doing so, it provides a clear and structured way to gauge how effectively the banking sector is in extending its reach and improving financial accessibility for those who have traditionally been excluded from the financial system.

Table 3: Financial Inclusion Score Card

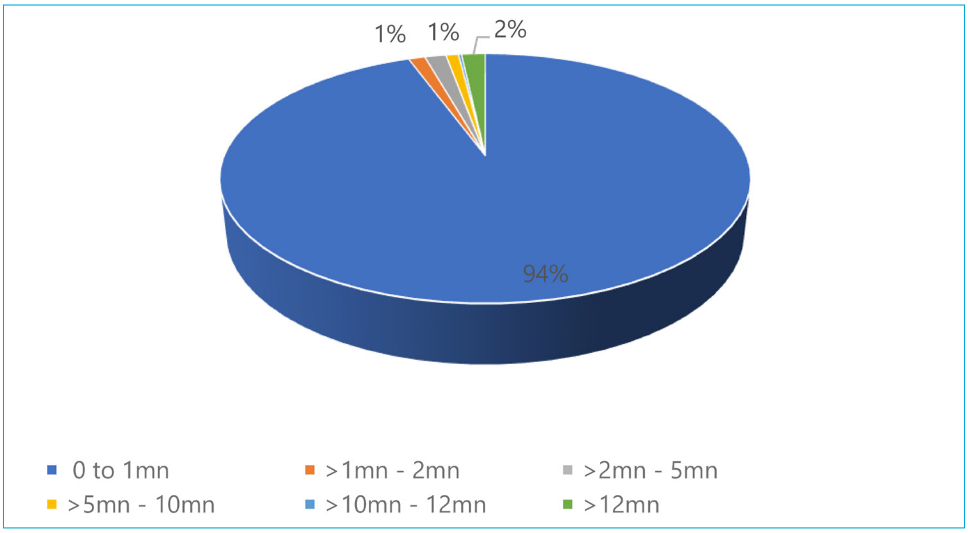
Key Deliverables	Key Metrics and Indicators
Improving Access to Financial Services	(i) Number of digital channels available. (ii) Number and spread of branches. (iii) Number and spread of ATMs. (iv) Number and spread of agent location. (v) Number of accounts (vi) Number of customers. (vii) POS devices in both urban and rural areas.
Increasing Utilization of Financial Services	(i) Total Loans and advances disbursed. (ii) Government bonds and bills issued. (iii) Number, volume, and type of card transactions. (iv) Number, volume, and type of digital transactions. (v) Volume of assets (vi) Volume of liabilities (vii) Average savings account balances (viii) Average transactional account balances

5.3. Financial Inclusion Statistics (BOU, 2023; FSDU, 2024; UCC, 2023)

5.3.1. Number of Accounts.

According to the Bank of Uganda, the total number of accounts at the end of December 2023 was 23,599,055, with 94% of these holding balances below UGX.1,000,000. Moreover, 93% of the total deposit volume was concentrated in accounts with balances exceeding UGX.12 million (Figure 55).

Figure 55: Ratio of the Number of Bank Accounts in 2023

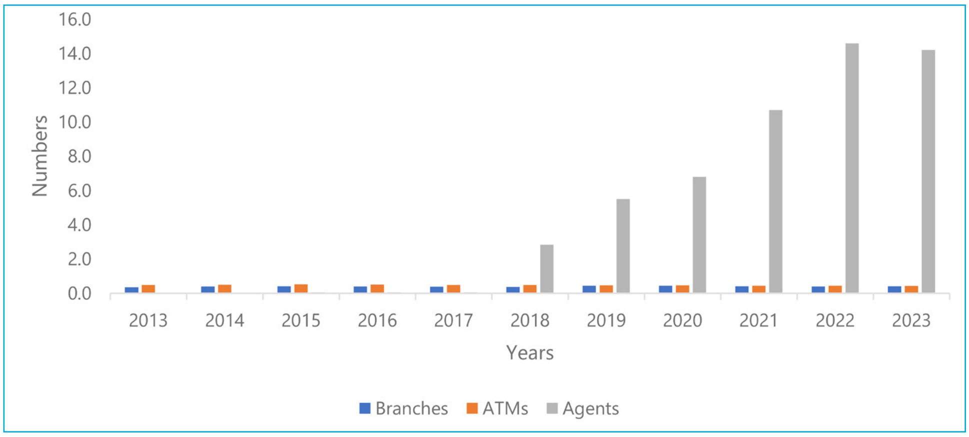


Source: Author's construction using data from the Bank of Uganda

5.3.2. Access Points

Over the past decade, the number of customer access points has evolved significantly, primarily due to advancements in technology, digitization, and increased investments by financial sector participants in various channels and support systems, with regulatory support. Although the number of branches and ATMs has remained relatively stable, experiencing an annual average decline of 1% and 2%, respectively, the number of agents has surged, growing at an annual average rate of 44% (Figure 56).

Figure 56: Number of access points per 10,000 adults



Source: Author's construction using data from the Bank of Uganda

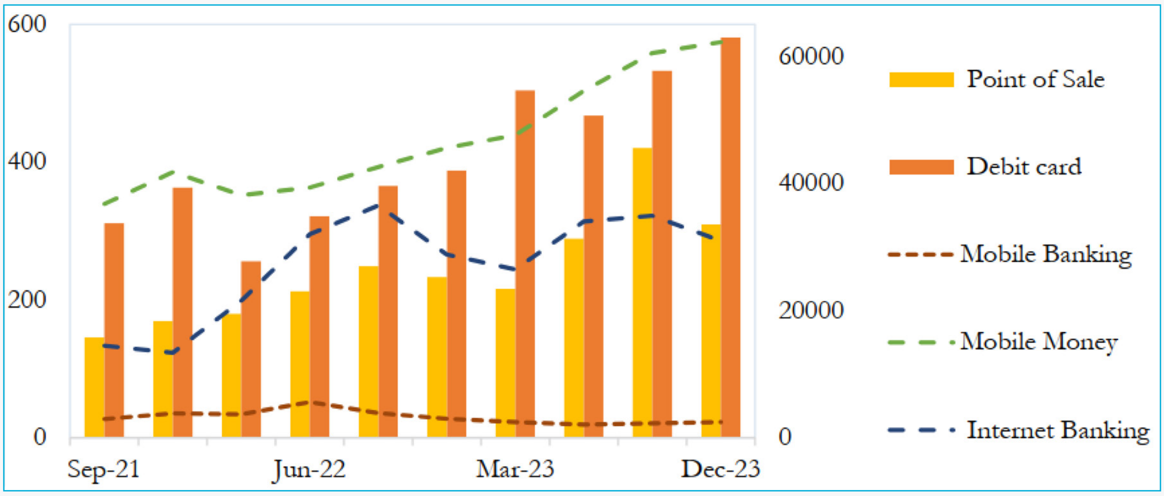
5.3.3. Debit Cards, Points of Sale (POS), Mobile Banking, and Internet Banking

In 2023, the utilization of all digital payment systems including point of sale, debit cards, mobile banking, mobile money, and internet banking showed a positive upward trend (see Figure 57).

The value of debit card payment transactions saw an increase of 9/1% from the third quarter to the fourth quarter of 2023. Specifically, the total transaction value rose from UGX.532.9 billion in the quarter to September 2023 to UGX.581.1 billion in the quarter to December 2023. This growth reflects the rising adoption and use of debit cards for payments among consumers.

Furthermore, the number of active mobile banking users experienced a substantial increase of 24.9% from the third quarter to the fourth quarter of 2023. Specifically, the user base expanded from 1.9 million in the quarter ending September 2023 to 2.4 million in the quarter ending December 2023. This growth highlights the increasing reliance on mobile banking platforms as more consumers turn to digital solutions for their banking needs, driven by the convenience and accessibility these services offer.

Figure 57: Quarterly Value of Transactions of Payment Systems (UGX. Bn)

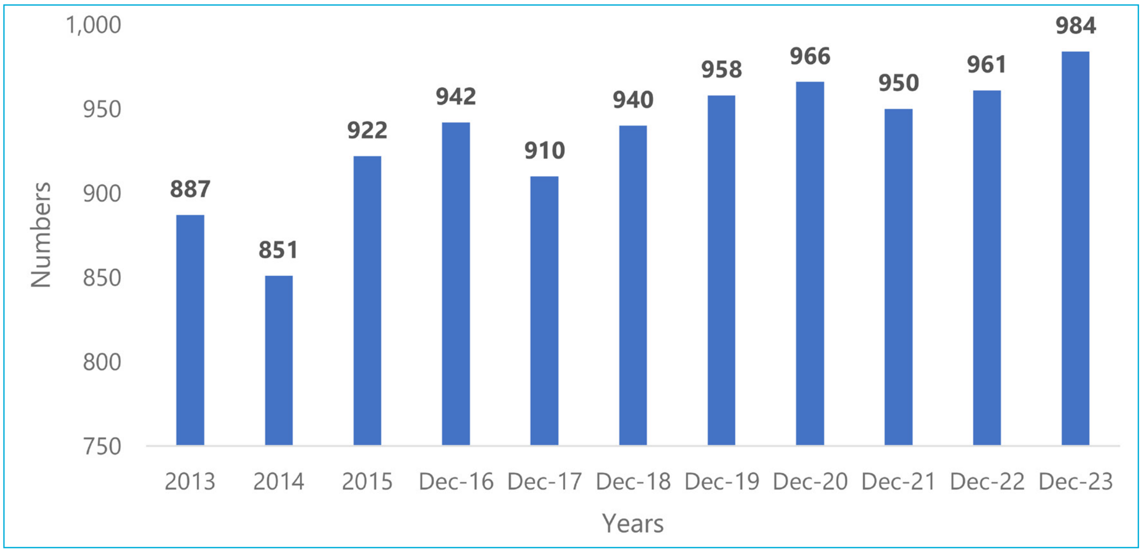


Source: BOU

5.3.4. Total Number of ATMs

According to BOU and the Uganda Bankers Association (UBA), the number of ATMs in the banking sector has remained relatively consistent over the last five years, averaging 964 ATMs. By the end of 2023, this figure had reached 984 ATMs (Figure 58).

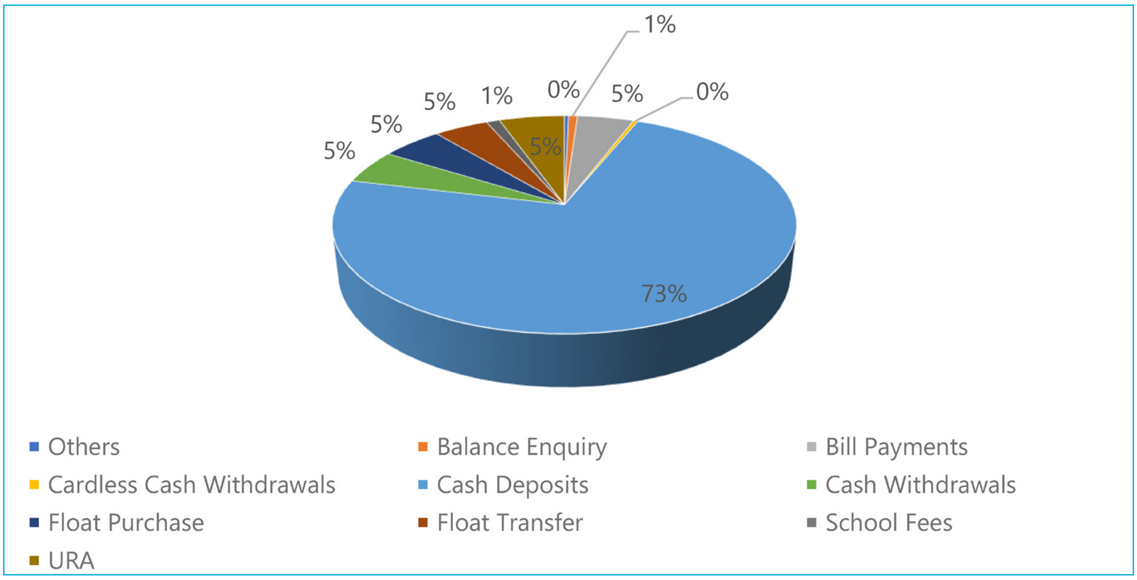
Figure 58: Number of ATMs in the Banking Sector (2013 to 2023)



5.3.5. Agent Banking

The number of bank agents as of the end of December 2023 was 22,217 of which 76% were active, up minimally by 1.7% year on year. A total number of 8,112,345 transactions worth UGX.15.1 trillion were done by agents in 2023. Of all the transactions undertaken, cash transactions including cash withdrawals and cash deposits accounted for the majority (78%) of services offered by agents, with cash deposits accounting for 73% of all the transactions (see Figure 59).

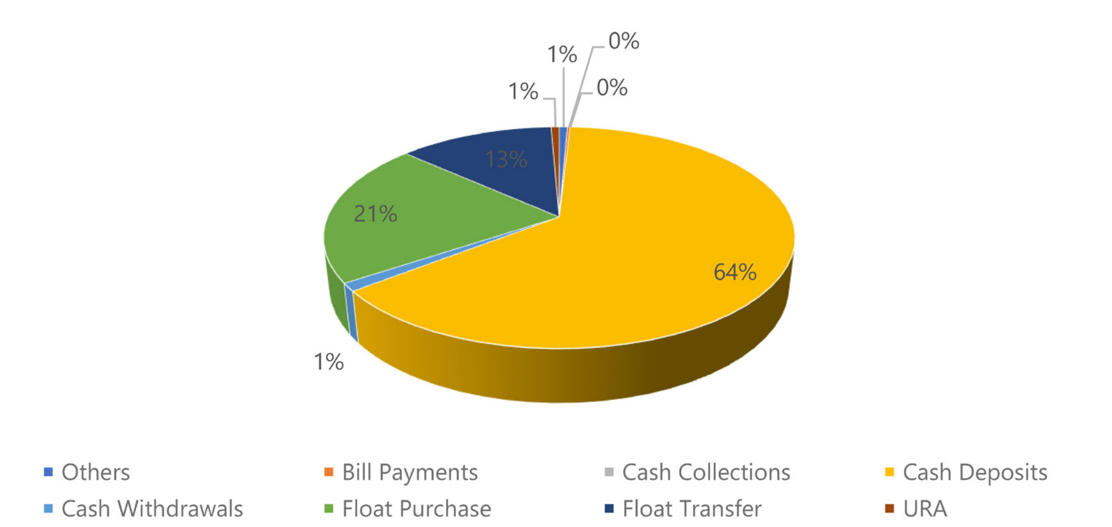
Figure 59: Volume of service type of agent banking transactions in 2023



Others on the pie chart above include airtime top-up, cash collections, float liquidation, interbank transfers, intrabank transfers, mini statements, NSSF, and prepaid card loading.

Similarly, in terms of the value of the transactions, the majority are still cash transactions, with a total of 65% accounted for by cash transactions, including 64% cash deposits (Figure 60).

Figure 60: Value of service type of agent banking transactions in 2023



Others include airtime top-ups, cash collections, float liquidation, interbank transfers, intrabank transfers, mini statements, NSSF, cardless cash withdrawals, school fees, and prepaid card loading.

5.3.6. Digital Payment Services

The banking industry has been experiencing a seismic shift towards digitization over the past several years, bringing the banking experience and operating model closer to that of other industries and consumer expectations are higher than ever before. The banking industry globally has invested heavily in digital banking capabilities, with online and mobile channels. For retail SFIs, online and mobile channels have become as important – if not more important – than branches and ATMs.

Investments in digital technologies benefit customer acquisition and satisfaction. For the SFIs to keep up, they must engineer their digital experience to make emotional connections, which ultimately could translate into sticky interactions and more profitable customers.

The rate of digital adoption is encouraging, though largely informational and transactional. Many customers still prefer traditional channels for complex and advisory services. Banks still require human intermediation and cumbersome non-digital documents to process applications or requests, sometimes as part of a partially digitized process.

According to the FinScope 2023 study findings, 64% of adults used digital transfers in the 12 months of the study, mainly through sending or receiving remittances using mobile money. There is a 13-percentage point urban-rural gap, but this gap has halved since 2018. Although digital remittance use is high, e-payment awareness and usage is very low with only about a third of adults appearing familiar with e-payments mainly due to their safety, security, and convenience. Security is the aspect that the biggest group of non-users of e-payments needs to be convinced about adopting the usage of the same. The main driver of the uptake of digital transfer or payment services is sending money to someone or receiving money from elsewhere in the country (remittances). 10.9 million receive money from someone elsewhere in the country through mobile money services and 9.3 million send money to someone using mobile money.

5.3.7. Connectivity

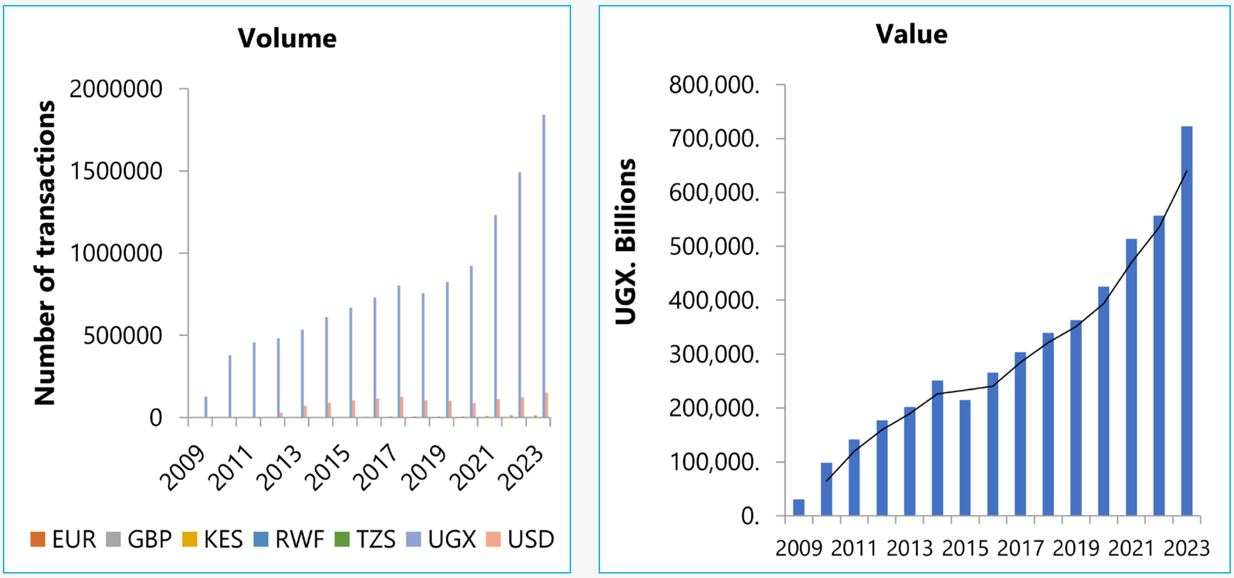
According to FinScope 2023, both phone ownership and internet access expanded significantly. 17.6 million (72%) adults have mobile phones and 6.4 million (26%) have internet access. Of the adults who own phones, 67% are in rural areas and 84% are in urban areas while 80% are male and 64% are female. Of the Ugandan adults who have internet access, 17% are in rural areas 48% are in urban areas while 34% are male and 18% are female. Mobile phone ownership is highest amongst 25–50-year-olds, and internet access is highest amongst 18–40-year-olds.

The 2023 report from the Uganda Communications Commission (UCC) found that 59% of people in Uganda use the internet daily. On average, each internet subscriber in Uganda uses 1.7GB per month, marking a 51% increase from the previous year. In the first quarter of 2023, there was a significant increase in internet subscriptions, with 1.2 million new subscriptions, bringing the total to 27 million. This marks the second consecutive quarter of growth, showing a continued trend of increasing internet adoption. The growth in subscriptions is mainly due to greater access to the internet through mobile phones and other data devices like tablets. As a result, the internet penetration rate is now 59 per 100 Ugandans (UCC, 2023).

5.3.8. Real Time Gross Settlement (RTGS)

In 2023, a total of 2,014,847 RTGS transactions were processed, with 91% of these in volume being in Ugandan Shillings, marking a 23% year-on-year increase. In terms of value, 99.99% of the transactions were conducted in Ugandan Shillings, reflecting a 30% year-on-year growth. Over the past five years (2019 to 2023), the RTGS system has consistently shown positive trends, with an average annual volume increase of 23% and a value increase of 17% (see Figure 61).

Figure 61: Total RTGS Transactions (2009 to 2023)

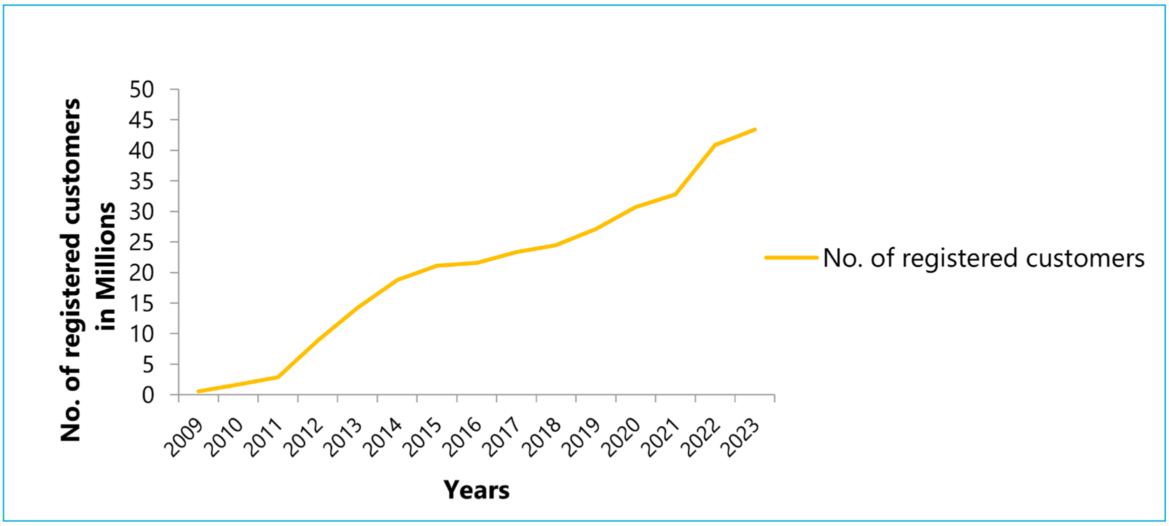


Source: Author's construction using data from the Bank of Uganda

5.3.9. Mobile Money Transactions

According to Bank of Uganda statistics, the number of registered customers listed on mobile money is 43,409,491 showing a growth in customer numbers of 60% over five years (Figure 62).

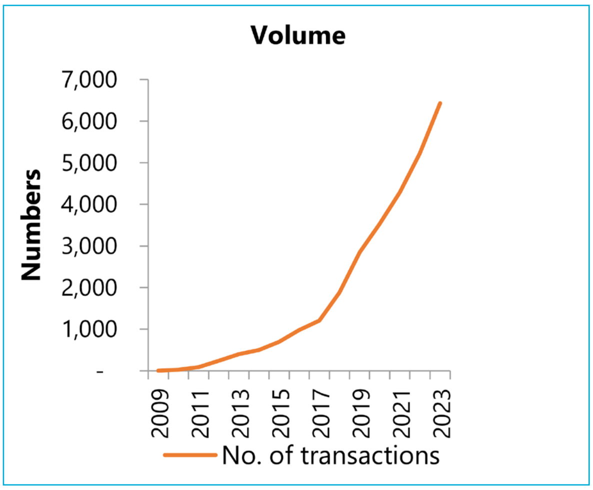
Figure 62: Number of Customers Registered on Mobile Money (2009 to 2023)

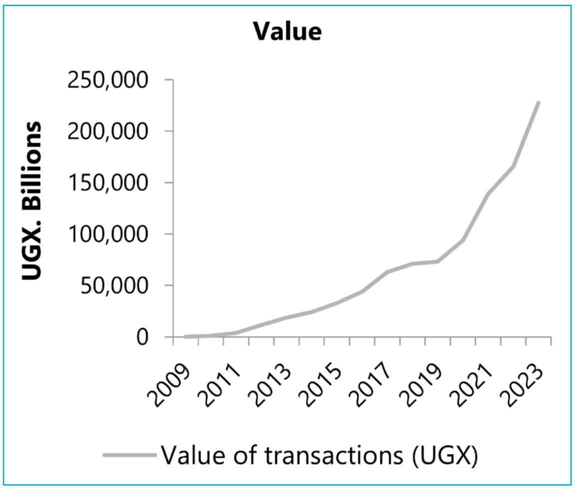


Source: Bank of Uganda

Additionally, there were 6.4 billion mobile money transactions conducted, amounting to UGX.227.5 trillion. This represents a 126% increase in transaction volume and a 211% rise in transaction value over five years (Figure 63).

Figure 63: Mobile Money Transactions (2009 to 2023)





Source: Bank of Uganda

06

Market and Sector Outlook

According to the Economist Intelligence Unit (EIU), Uganda is a medium-sized economy where the services sector, propelled by trade and tourism, stands as the primary contributor to GDP, with agriculture following closely behind. The development of infrastructure and the oil sector are expected to drive industrial growth during the forecast period from 2024 to 2028.

Economic policy will emphasize industrialization and infrastructure development, though progress may be inconsistent. The government will maintain fiscal responsibility and continue governance-strengthening reforms initiated under a $1 billion IMF extended credit facility, which concludes in mid-2024. A new program is expected to follow, projecting robust economic growth from 2024 to 2028, driven by expanding trade and significant advancements in the oil sector, which will enhance investment and industrial growth. However, global economic sluggishness and possible delays in the oil pipeline project present notable risks to the 2024 GDP growth forecast. Uganda's substantial current account deficit, due to its heavy dependence on oil and capital goods imports, is likely to devalue the shilling from 2024 to 2028. These deficits will largely be financed by long-term debt and investment inflows. Tourism is a crucial growth driver, and despite strong competition from Kenya and Tanzania, Uganda's tourism sector is expected to grow steadily from 2024 to 2028.

6.1. International Relations

Uganda's relations with Western partners will continue to be strained due to its poor human rights record and the strict anti-homosexuality laws enacted in 2023. In reaction to these laws, the World Bank has halted new funding, although existing projects will proceed unaffected. This suspension will limit Uganda's access to concessional developmental credit from the World Bank in the medium term. Economic ties with Tanzania will strengthen, driven by planned major cross-border projects such as the East African Crude Oil Pipeline (EACOP), which is expected to begin construction in the second half of 2024 once financing terms are finalized. Relations with China will also improve, given Chinese companies' involvement in Uganda's oil sector development. Uganda's relationships with most East African Community (EAC) members will remain strong but may occasionally experience brief conflicts over trade and security issues, typically resolved through diplomacy. The government's military cooperation with the DRC against the ADF will continue, even after the EAC regional force withdrew from the DRC in December 2023.

6.2. Policy Trends

Over the forecast period 2024 to 2028, Uganda's policy will focus on strengthening economic growth and social development through the National Development Plans (NDPs), with an emphasis on achieving key goals of NDP III in the fiscal year 2024/25 and onwards to NDP IV which commences in the next fiscal year 2025/26. Despite slow progress due to the pandemic, better medium-term outcomes are expected without similar disruptions. The government's fiscal consolidation efforts, supported by a $1 billion IMF extended credit facility until mid-2024, aim to improve fiscal management, revenue growth, and debt sustainability and implement structural reforms to enhance governance. Domestic revenue mobilization, promoting industrialization, cutting wasteful spending, expanding the tax base, addressing macroeconomic imbalances, enhancing the business environment, improving overall efficiency, and infrastructure improvements are key priorities, although limited institutional capacity may hinder progress. Significant economic growth from 2024 to 2027 will be driven by the development of upstream oil sites and the East African Crude Oil Pipeline, with crude oil exports projected to begin in mid-2027, increasing the share of gross fixed investment in GDP.

6.3. Fiscal Policy

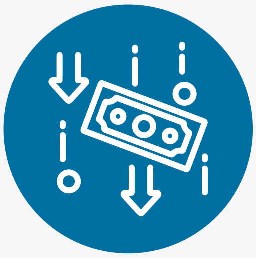
Uganda's fiscal policy, guided by the Fiscal Responsibility Charter from 2021/22 to 2025/26, aims for fiscal consolidation to reduce the deficit, debt sustainability, and enhance revenue generation. Projected reductions in the budget deficit from 4.9% of GDP in 2022/23 to 4.5% in 2023/24 and further to 3.2% by 2026/27 align with expectations of increased oil sector revenues. The government emphasizes fiscal reforms to create space for social spending, strengthen monetary and financial sector frameworks, and ensure manageable debt levels, with public debt peaking at 46.9% of GDP in 2023/24 and declining thereafter. The government has established stringent fiscal rules for debt management, with Uganda's public debt nearing its self-imposed limit of 50% of GDP. Efforts under the Debt Management and Revenue Mobilization Strategy include rationalizing tax exemptions, strengthening tax administration, and broadening the tax base, supplemented by modest tax increases to enhance revenue collection and reduce reliance on borrowing to cover budget shortfalls. Despite these measures, persistent revenue underperformance and high government spending on security and infrastructure including roads, railways, utilities, and the oil and gas sector, remain notable challenges throughout the forecast period.

6.4. Monetary Policy

Amidst high consumer prices and volatile exchange rates between the Ugandan shilling and the US dollar, the BoU has implemented a stringent monetary policy stance to address these challenges. With inflation expected to exceed the BoU's 5% target in late 2024, the BoU convened an unscheduled meeting on March 6th, raising the policy rate by 50 basis points to 10%. Simultaneously, it increased the rediscount rate to 14% and the bank rate to 13%, maintaining liquidity instruments unchanged. Looking ahead, the BoU is likely to keep the policy rate at 10% for the rest of 2024 due to ongoing inflation risks and potential depreciation pressures on the shilling from a widening current account deficit. As inflation begins to ease and the exchange rate stabilizes in early 2025, gradual rate cuts are anticipated, aiming to lower the rate to 8.5% by the end of the year. Despite potential inflationary pressures in 2026-2027, efforts to sustain manageable inflation and stimulate economic growth may drive further rate reductions, potentially bringing the policy rate down to 6.5% by the end of 2027. The policy rate is expected to hold steady in 2028 as inflation trends upward modestly.

6.5. Economic Growth

The forecast for Uganda's economy predicts a rapid acceleration in real GDP growth, starting at an estimated 5.4% in 2023 and rising to 6% in 2024, with an average annual growth of 7.2% expected from 2025 to 2026. This growth trajectory will be propelled by advancements in the oil sector, supported by substantial expansions in gross fixed investment, particularly in construction and manufacturing, aimed at enhancing infrastructure for projects like the EACOP. By 2027, exports are anticipated to become the primary driver of economic expansion, surpassing investment spending, driven by the initiation of significant oil exports. The Kingfisher and Tilenga oil projects are poised to stimulate inward investment and industrial growth, leading to a peak oil production of 230,000 barrels per day by 2029. Despite potential constraints on private consumption growth in 2024 due to inflation, recovery is expected as inflation moderates and monetary policies are adjusted favourably starting in 2025. Government consumption will experience initial moderation due to fiscal constraints but is projected to rise in 2026 due to election-related expenditures. Strong agricultural exports, supported by efforts in agro-industrialization, will further bolster the sector. Real GDP is forecasted to sustain robust growth of 7.1% annually from 2027 to 2028, driven by expanding oil exports, although delays in the EACOP due to funding challenges represent a significant risk to this outlook.



6.6. Inflation

Inflation is projected to ease from an annual average of 5.4% in 2023 to 4.5% in 2024. However, after a low period of averaging just 3.2% from January to April 2024, prices are forecasted to increase from mid-2024 onwards, surpassing the central bank's 5% target in the third quarter of 2024, largely due to higher global fuel prices. Looking forward, inflation is projected to decrease over 2025-2026, averaging approximately 4.3%, influenced partly by stabilizing global commodity prices. Stronger economic growth anticipated in 2027-2028, bolstered by the oil sector, is expected to elevate demand-side inflation pressures during these years, resulting in an average annual inflation rate of 4.9%.

6.7. Exchange Rates

Following a brief strengthening of the Ugandan shilling against the US dollar in April-May due to robust remittance inflows and earnings from commodities like gold, the currency is projected to resume a downward trajectory in the upcoming months. This depreciation will be driven by heightened demand for US dollars to finance substantial capital imports for oil sector development, alongside an expanding current account deficit that will exert continued pressure on the shilling until 2026.

The main risks to the forecast include diplomatic conflicts that disrupt intra-EAC trade and integration, increasing anti-government sentiment that could lead to widespread social unrest, potential terror attacks by the ADF causing significant casualties, economic instability triggered by the ruling party's succession plan, and policy implementation being hampered by cronyism and excessive bureaucratic obstacles.

Budget Outlook – FY 2024/25

On June 13, 2024, the Minister of Finance Planning and Economic Development unveiled an ambitious UGX.72 trillion budget themed, *"Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation and Market Access."*

The budget highlighted the economy is projected to grow 6% by the end of fiscal 2023/24 compared to 5.3% last year. The year's performance is impressive in comparison with the average growth rate for Sub-Saharan Africa estimated at 3.8% and the global average of 2.9% for the calendar year 2024. The size of the economy is estimated at UGX.202 trillion, compared to UGX.184.3 trillion last year. The growth of the economy has been attributed to the manufacturing, construction, and mining sectors. There was also notable growth in the services sector mainly driven by a strong recovery in retail and wholesale trade, tourism as well as communication, and real estate activities.

Other factors that have contributed to the notable economic growth include a relatively stable exchange rate which averaged UGX.3,771. This has allowed good investment planning and supported export competitiveness.

Uganda's low inflation has also contributed to the country's economic growth. The country maintained an inflation average rate of 3.2% in the past 12 months to May 2024. This is one of the lowest rates in the region. Annual headline inflation reduced from 10.7% in October 2022 to 3.6% in May 2024.

Total private sector credit increased from UGX.20.47 trillion in April 2023 to UGX.21.54 trillion in April 2024, a growth of 5.2%. The commercial bank lending rates reduced to 17.7%in April 2024 from 19.3% in April 2023. The average exchange rate against the dollar for the past 12 months starting April 2024 was UGX.3,771. Increased investments in the oil and gas sector-related projects, supported by Foreign Direct Investment as well as higher external demand for Uganda's agricultural products have also been cited to contribute to the economic growth.

Uganda's FY2024/25 budget of UGX.72 trillion is expected to be financed at 44.9% by domestic tax revenue (UGX.32 trillion). This is an increase from the current year FY2023/24 domestic revenue target of UGX.29 trillion. As such, we expect to see a more aggressive revenue authority as they strive to meet the ambitious target. In this regard, the Government has committed to strengthening administrative measures such as the enforcement of the use of digital tools such as EFRIS, the exchange of information with other tax authorities to combat illicit financial flows and under-declarations as well as strengthening enforcement interventions.

The balance of 55.1% of the budget is to be financed through debt financing, of which the Government expects to get UGX.8.9 trillion as part of the debt financing through domestic borrowing. Herein lies an opportunity for financial institutions that will be working with the Government to solicit funds for the Government to borrow- through treasury bills and bonds.

The key priorities of the budget for FY 2024/25 include:

(a) Investing in the people of Uganda through human capital development.

(b) Peace and Security

(c) Construction of standard gauge railway and Meter Gauge Railway

(d) Investing in wealth creation (Emyooga, PDM, agricultural credit facility, etc.)

(e) Maintaining existing infrastructure

The strategy aims to expand the economy from USD 55 billion in FY 2023/24 to USD 550 billion over the next 15 years, leveraging four key sectors including agro-industrialization, tourism, mineral development, and oil and gas, alongside advancements in science, technology, and innovation. The government will maintain its focus on boosting revenue, controlling borrowing, and ensuring efficient and effective use of limited resources.

8.0 Appendices

Annex 1: SFI Abridged Financials 2023

Summary Financial Statements				
Amounts in Shs M	2020	2021	2022	2023
A. Income Statement				
Income				
Interest on deposits and placements	176,709	135,212	148,881	232,064
Interest on loans and advances	2,361,056	2,546,465	2,855,126	3,284,677
Interest on marketable/ trading securities	315,594	494,825	501,765	706,541
Interest on investment securities	721,231	844,484	964,958	1,124,604
Fees and commission income	610,721	797,237	749,413	862,224
Foreign Exchange income	286,776	245,301	478,854	419,519
Other income	82,152	119,922	125,960	169,474
Total Income	**4,554,239**	**5,183,447**	**5,824,958**	**6,799,103**
Expenses				
Interest Expense on deposits	614,243	684,400	702,694	962,078
Interest Expense on borrowings	120,041	111,827	197,787	255,528
Management Fees	154,234	415,333	524,174	521,311
Operating expenses	2,164,342	2,137,559	1,767,770	2,730,614
Provisions for impaired loans and advances	484,280	517,393	950,743	521,268
Total Expenses	**3,537,139**	**3,866,511**	**4,143,168**	**4,990,800**
Net profit after tax	**776,396**	**1,001,571**	**1,276,994**	**1,415,539**
Total comprehensive income	**782,661**	**1,067,776**	**1,207,917**	**1,445,879**
B. Balance Sheet				
Loans and advances to customers (Net)	15,883,363	17,193,450	19,094,885	20,525,674
Total Assets	**38,210,955**	**41,445,891**	**45,493,790**	**49,527,042**
Customer deposits	26,494,703	28,196,061	31,573,450	34,140,355
Total Liabilities	**31,934,683**	**33,918,042**	**37,066,902**	**40,140,488**
Total Equity	**6,276,272**	**7,527,849**	**8,426,887**	**9,386,553**
	0			
C. Selected Performance Ratios				
Cost/ Income ratio (incl. ecl)	77.67%	74.59%	71.13%	73.40%
Cost/ Income ratio (excl. ecl)	67.03%	64.61%	54.81%	65.74%
Cost/ Assets ratio (excl. ecl)	6.07%	6.16%	5.04%	6.57%
Non-interest Income (NII)/ Cost (Incl. ecl)	27.70%	30.06%	32.69%	29.08%
Non-interest Income (NII)/ Income	21.51%	22.43%	23.25%	21.34%
Interest income/ Income	78.49%	77.57%	76.75%	78.66%
Net Interest margin	9.84%	10.29%	10.18%	10.76%
Loan Deposit Ratio	59.95%	60.98%	60.48%	60.12%
Effective Tax Rate	23.67%	23.95%	24.07%	21.72%
Interest burden or Interest Coverage Ratio	6.20	6.51	6.47	5.58
Return on Equity	16.21%	17.49%	19.96%	19.26%
Return on Assets	2.66%	3.18%	3.70%	3.65%
Interest expense/ Interest Income	20.54%	19.80%	20.14%	22.77%
D. Other Disclosures				
Non Performing Loans	1,008,396	1,100,076	1,190,252	1,221,563
Bad debts written off	184,528	200,620	512,538	529,499
Total Qualifying Capital	5,509,619	6,688,099	7,386,446	8,047,404
Total Risk Weighted Assets (RWA)	24,827,828	27,221,073	29,407,606	31,003,120
Core Capital to RWA	20.57%	23.11%	23.79%	24.69%
Total Qualifying Capital to RWA	22.19%	24.57%	25.12%	25.96%

Annex 2: Fiscal Operations between FY2021/22 and FY2022/23 (UGX. Billions)

Description	FY.2021/22				FY.2022/23			
	Budget	Proj. Outturn	Variance	Performance	Budget	Proj. Outturn	Variance	Performance
Total Revenue and Grants	23,849.70	23,263.40	-586.30	97.5%	27,719.42	27,163.50	-555.92	98.0%
Revenues	22,425.40	21,485.80	-939.60	95.8%	25,550.84	24,977.93	-572.91	97.8%
o/w: Tax Revenues	20,836.90	19,941.10	-895.80	95.7%	23,754.95	23,054.51	-700.44	97.1%
o/w: Non-Tax Revenues	1,588.40	1,544.70	-43.70	97.2%	1,795.89	1,923.41	127.52	107.1%
Grants	1,424.40	1,777.60	353.20	124.8%	2,168.58	2,185.57	16.99	100.8%
Budget Support	74.9	74.3	-0.60	99.2%	78.12	76.86	-1.26	98.4%
Project Support	1,349.40	1,703.30	353.90	126.2%	2,090.47	2,108.71	18.24	100.9%
Expenditures and Net Lending	34,232.50	35,026.80	794.30	102.3%	37,471.92	36,644.88	-827.04	97.8%
Recurrent expenditures	18,951.10	20,391.20	1,440.10	107.6%	22,243.64	23,327.17	1,083.53	104.9%
Wages and salaries	5,526.20	5,853.30	327.10	105.9%	6,363.19	6,997.87	634.68	110.0%
Non-wage	-	-	-	-	11,188.55	10,282.91	-905.64	91.9%
Interest payments	4,697.80	5,009.20	311.40	106.6%	4,691.90	6,046.39	1,354.49	128.9%
o/w: domestic	3,467.90	3,801.90	334.00	109.6%	3,551.08	4,886.88	1,335.80	137.6%
o/w: Foreign	1,230.00	1,207.30	-22.70	98.2%	1,140.82	1,159.51	18.69	101.6%
Other Recurrent Expenditures/1	8,727.10	9,528.70	801.60	109.2%	-	-	-	-
Development expenditures	14,760.90	13,855.80	-905.10	93.9%	14,268.31	12,289.22	-1,979.09	86.1%
External	6,757.50	5,712.10	-1,045.40	84.5%	6,418.25	5,786.44	-631.81	90.2%
o/w: concessional	-	-	-	-	5,380.79	4,946.69	-434.10	91.9%
o/w: non-concessional	-	-	-	-	1,037.46	839.75	-197.71	80.9%

Domestic	8,003.30	8,143.70	140.40	101.8%	7,850.06	6,502.78	-1,347.28	82.8%
Net lending and investment	110.7	147	36.30	132.8%	297.92	258.96	-38.96	86.9%
Other spending (Arrears Repayment)	409.8	632.8	223.00	154.4%	662.05	769.54	107.49	116.2%
Overall Fiscal Bal. (excl. Grants)	-11,807.20	-13,541.10	-1,733.90	114.7%	-9,752.50	-9,481.39	271.11	97.2%
Overall Fiscal Bal. (incl. Grants)	-10,382.80	-11,763.50	-1,380.70	113.3%	-11,921.08	-11,666.96	254.12	97.9%

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