

## COUNTRY RISK REVIEW

### Demographic Overview

Uganda is a country situated in eastern Africa, bordered by Kenya to the north, Tanzania to the south, Rwanda to the south-west, the Democratic Republic of the Congo (DRC) to the west, and South Sudan to the north. Uganda's population is estimated at 45 million (WB 2022). The capital and largest city of Uganda is Kampala. It is large in terms of population, the busiest urban centre, commercial activities, educational facilities, and home to key government offices, including the Parliament of Uganda, various ministries, diplomatic missions, and international organizations.

### Political Landscape

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

The next general election in Uganda is scheduled to be held in 2026. General elections in Uganda typically occur every five years, as per the country's electoral cycle. The most recent general election was held in January 2021, which saw incumbent President Yoweri Museveni re-elected for a sixth

term. Ugandan politics will depend on factors such as leadership transitions, democratic reforms, and the ability of civil society to mobilize for change. With more than 30% of the population still below the poverty line, Uganda relies heavily on agriculture products as its main export.

## Removal from FATF Grey List and Its Implications

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

## Economic Outlook

According to the World Bank's Uganda economic update for December 2023, the country experienced a rise in its real GDP growth from 4.6% in 2022 to an estimated 5.2% in 2023, supported by an oil-related construction boom and the growth of agriculture exports. This growth was accompanied by an increase in inflation, which surged from 3.7% in 2022 to 8.8% in 2023, primarily attributed to rising prices for nonfood goods. The budget deficit in the country contracted from 7.4% of GDP in 2022 to 5.6% in 2023, driven by increased revenue resulting from improved tax collection. Additionally, the country's debt decreased slightly, declining from 50.7% of GDP in 2022 to 50.6% in 2023, although the country relies more on expensive domestic finance. According to the Bank of Uganda (state of economy, March 2024), reserves have declined from US\$4.1 billion at the end of June 2023 to about US\$3.5 billion in February 2024, largely due to external debt payments and the inability of the Bank of Uganda (BOU) to purchase foreign currency from the market given the exchange rate depreciation.

According to the World Bank, the projection for Ugandan GDP growth anticipates an increase to 6% in 2024, driven by export performance and investments in the oil sector. The inflation rate is forecast

to be 5.2% in 2024, driven by softening international commodity prices and tightened monetary policy. Projections also indicate a current account deficit of 9.4% in 2024, driven by slowing global economic activity that could have an impact on the growth of commodity exports, including coffee and tea, which have recently gained momentum. Global rating agency Moody's in May 2024 downgraded Uganda's credit rating to B3 from B2. The downgrade was driven by diminished debt affordability and limited financing options, particularly after a suspension of funding from the World Bank last year.

## Trade Dynamics

Uganda mainly exports coffee (24%), fish and fish products (4.1%), beans and other legumes (3.8%), sugar and sugar confectionery (3.8%), iron and steel (3.4%), animal and vegetable fats and oils (3.3%), whereas imports are led by petroleum (17.9%), medicaments (7.3%), road vehicles (7.2%), iron and steel (6.6%), cereals (5.2%), and plastics (5.2%, according to the Uganda Bureau of Statistics).

According to the latest figures available by the Uganda Bureau of Statistics, in 2022, China (19.4%), India (13.2%), the United Arab Emirates (11.8%), Kenya (8.7%), Saudi Arabia (4.9%), Japan (4.6%), and Tanzania (4.2%) were the main import partners, whereas exports were mostly directed towards Kenya (16.9%), South Sudan (16.6%), D.R. Congo (15.7%), Italy (6.6%), Tanzania (4.3%), and Germany (4.3%). The country's trade policy aims to encourage cooperation and integration in East Africa to stimulate production and increase export earnings. Tariffs are not very high, and the country has few non-tariff barriers to trade. However, corruption and underdeveloped infrastructure remain major obstacles to trade. The political situation in South Sudan, one of the country's main trading partners with Kenya, continues to affect trade flows.

## Drivers and Challenges of Uganda's Economic Growth

On the positive side, factors contributing to growth include investments in the oil sector (a project named East Africa crude oil pipeline (EACOP) worth US\$ 20 billion that will transport crude oil from

Kabaale, HOIMA-Uganda to Tanga port-Tanga Tanzania, managed by Uganda national oil company (UNOC) and their counterpart, the Tanzania Petroleum Development Corporation (TPDC). With the progressing preparation of the drilling fields and supportive infrastructure, oil exports are expected to commence by the end of 2025. Despite the country's growth being primarily fuelled by agriculture exports and oil discovery, Uganda has not generated an adequate number of job opportunities at the necessary pace for rapid poverty reduction. Several challenges, including limited access to infrastructure services and weak institutions, have impeded the required structural transformation of the economy.

## Financing Constraints and Export Dependence

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

## Charting a Path Forward

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