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Monetary Policy Statement for February 2024

On February 6, 2024, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.5%.

The incoming data has broadly confirmed MPC's December 2023 assessment of the inflation outlook. Both headline and core inflation rose in January 2024 to 2.8% and 2.4%, from 2.6% and 2.3% in December 2023, respectively. However, inflationary pressures remain subdued reflecting the continuing vanishing effect of supply-side shocks, declining inflation around the world, and tight monetary and fiscal policies. In addition, improved domestic food supply at the back of favourable weather conditions has driven down food inflation. A favourable balance of payments and tight monetary policy have also helped to stabilize the exchange rate and this has reduced stronger domestic inflationary pressures.

The inflation forecasts have been revised up slightly in the short term (12-month horizon) in light of the relatively stronger exchange rate depreciation in the recent past but are projected to remain below the medium-term target of 5%. Inflation is projected to stay around 3% through the first half of 2024, broadly reflecting stable demand conditions and the easing in global price pressures which are expected to continue to flow through to domestic prices over time. Core inflation is projected to rise to between 4.5%-5.0% in FY 24/25 and to remain around 5% in the medium term.

Risks to the inflation outlook remain highly subject to changes in global commodity prices and global financial market developments. Instability in the Middle East is creating new supply chain disruptions and the threat of higher oil prices. In addition, the risk of heightened volatility in the global financial and foreign exchange markets remains which could reverberate in the domestic foreign exchange market. Indeed, the recent shilling movements against the US dollar are primarily driven by external factors and if sustained could result in higher inflation despite the easing of global inflation. Furthermore, renewed global supply disruptions could reverse global disinflation and delay the easing of monetary policies in advanced economies, leading to persistent portfolio outflows and exerting more depreciation pressures on the Uganda shilling.

Economic growth continues to pick up, in part reflecting the waning drag on growth from past tight monetary and fiscal policies. The recently released quarterly GDP by the Uganda Bureau of Statistics (UBoS) for the first quarter of FY2023/24 indicates a GDP growth of 5.3% primarily driven by growth in household expenditure. The high-frequency indicators of economic activity for December 2023 suggest continued economic growth recovery in FY2023/24, with growth projected at 6%, similar to the December 2023 projection. Economic growth in the outer years is projected in the range of 6.5%-7%. Growth will continue to be supported by the recovery in external demand as well as the low inflationary environment, which has boosted a recovery in household real incomes, stimulating consumer spending. In addition, investment expenditure continues to be supported by the strengthening activity in the oil sector.

Nonetheless, the growth outlook remains subject to downside risks stemming from global uncertainties, including slower-than-expected global and regional growth; a resurgence of supply chain distortions if the geopolitical tensions escalate and broaden, and tighter fiscal policy in part due to unfavourable global financial conditions, which could restrict government development expenditure. Furthermore, increasing government financing from the domestic banking sector could result in higher lending interest rates and crowd out the private sector from the credit market, thereby constraining household consumption and private sector investments.

While the economy is evolving largely as projected in the December 2023 round of forecasts, considerable uncertainty remains. Overall, the risks to the outlook for inflation continue to be tilted to the upside. Therefore, the MPC decided that keeping the CBR unchanged was necessary to anchor inflation around the target in the medium term. Consequently, the CBR was maintained at 9.5%, the bands on the CBR at +/-2 percentage points and the margins on the CBR for rediscount and bank rates at 3 and 4 percentage points, respectively. As a result, the rediscount and bank rates will remain at 12.5% and 13.5%, respectively.

This monetary policy stance is consistent with the current assessment of the inflation and growth prospects and remains supportive of socio-economic transformation. BOU monetary policy decisions will continue to be based on the incoming economic and financial data.

Michael Atingi-Ego
Deputy Governor
February 6, 2024