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Monetary Policy Statement for December 2016

The consumer price index (CPI) data for November 2016 indicates a slight pickup of inflation largely due to bad weather conditions that have affected food crop production. With exception of Energy, Fuel and Utilities (EFU) inflation, which declined to *minus* 4.1 percent from *minus* 1.9 percent in October 2016, the rest of the components of inflation edged up in November 2016. Annual headline inflation rose to 4.6 percent from 4.1 percent in October 2016, driven by a sharp rise in food crops and related items inflation. Food crops and related items inflation rose to 7.1 percent from 1.7 percent over the same period. The annual core inflation increased marginally to 5.2 percent in November from 5.1 percent in October 2016.

The domestic economy is continuing to grow moderately driven mainly by public investment. The Bank of Uganda's composite indicator of economic activity improved in August and September, although growth decelerated in October 2016. The outlook for private investment remains subdued, although measures of business sentiment remain above average. The overall economic outlook remains largely unchanged from the one in the Monetary Policy Statement of October 2016. The real GDP growth forecast remains at around 5 percent for 2016/17, 5.5 percent for 2017/18 and 6.0 percent for 2018/19.

There are downside risks to the projected growth path largely emanating from the uncertain global economic developments. The economies of some of our trading partners are expected to grow at a slower rate than previously assessed, which will continue to weigh on Uganda's exports.

In addition, the Uganda shilling has experienced sharp adjustments and significant volatility due to continuing uncertainties in global economic and policy environment. These factors could continue to cause volatility in the exchange rate.

In the short term, we forecast inflation to be slightly higher, mainly as a result of the food price shock and the increase in fuel prices. However, we expect that inflation will be around the target of 5 percent in 12 months.

Given that core inflation is forecast to remain around the medium term target of 5 percent over the next 12 months, and in line with efforts to keep the domestic economic growth momentum, the BoU believes that there is scope to continue easing monetary policy. Accordingly, the BoU will reduce the CBR by 1 percentage point to 12 percent. The band on the CBR will be maintained at +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. Consequently, the rediscount rate and the bank rate are reduced to 16 percent and 17 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

December 14, 2016