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Monetary Policy Statement for April 2018

The inflation data released by the Uganda Bureau of Statistics (UBOS) indicate that inflation remains subdued. Annual headline inflation marginally declined to 2.0 percent in March 2018 from 2.1 percent in February 2018 largely because of a decline in food crops inflation which dropped to ***minus*** 1.7 percent from ***minus*** 0.7 percent in February 2018. Core inflation remained unchanged at 1.7 percent, which could point to a trough of the disinflation cycle in the next two months. Energy Fuel and Utilities (EFU) inflation declined to 10.3 percent in March 2018 from 11.2 percent in February 2018.

The economy continues to recover. The Composite Index of Economic Activity (CIEA), which is Bank of Uganda's high frequency indicator of real economic activity points to a relatively robust economic growth in Financial Year (FY) 2017/18. In the year to February 2018, the CIEA projects growth of about 6.4 percent. In addition, the Quarterly Gross Domestic Product (GDP) for 2017 released by UBOS indicates economic growth of 6.3 percent in 2017 compared to 3.0 percent in 2016. Economic activity improved across all sectors: the agricultural sector grew by 6.1 percent in 2017 from ***minus*** 0.4 percent in 2016; the services sector grew by 8.1 percent from 4.5 percent; while industry grew by 4.4 percent from 4.2 percent in the same period.

The economic growth outlook is more positive than was forecast at the Monetary Policy Committee (MPC) meeting of February 2018 and there are signs of increased business confidence. Economic growth is projected at an average of 6.5 percent in the next three years. At these economic growth rates, the negative output gap, which was estimated at about ***minus*** 2.0 percent in the FY 2016/17, is expected to close in FY 2018/19.

The forecast gradual recovery of GDP growth is premised on a favourable external scenario, strong private and public investments, improved agricultural productivity, and the absence of significant macroeconomic imbalances. There are nonetheless downside risks to this outlook, as indicators of aggregate demand including fiscal absorption and private sector credit growth remain weak.

The inflation forecasts are largely similar to those of the MPC meeting of February 2018. Inflation is expected to rise gradually as the output gap closes in a sustained manner. The planned increase in indirect taxes, especially on fuel pump prices and financial services during FY 2018/19 may also contribute to the rise in inflation. Although the economic growth forecast has improved, demand pressures in the economy are not assessed to pose significant risks to the inflation outlook at the moment. The Bank of Uganda (BoU) estimates that the risks to inflation are currently balanced. Inflation is projected to converge to and stabilise at the medium-term target of 5 percent by the end of 2019. However, the evolution of the exchange rate, food crop and international oil prices could cause inflation to divert from the projected path.

On the basis of the assessment of the current and evolving macroeconomic situation, the BoU will maintain the Central Bank Rate (CBR) at 9.0 percent. This is consistent with supporting economic growth and achieving the inflation target over the medium-term. 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 will remain at 13.0 percent and 14.0 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile
Governor
April 9, 2018