

BANK OF UGANDA



37/45 Kampala Road, P.O. Box 7120, Kampala;
Telephone: 256-414-258441/6, 258061, 0312-392000, 0417-302000
Telex: 61069/61344; Fax: 256-414-233818
www.bou.or.ug info@bou.or.ug

Monetary Policy Statement for June 2019

Bank of Uganda (BoU) has in the June 2019 Monetary Policy Committee (MPC) meeting decided to maintain the Central Bank Rate (CBR) at 10 percent. The inflation outlook over 12-months horizon was largely unchanged compared to the April 2019 forecast round, although risks remain elevated.

Preliminary estimates by Uganda Bureau of Statistics (UBOS) indicate that the economy expanded by 6.1 percent in Financial Year (FY) 2018/19, partly as a result of strong growth in household consumption. Growth was largely supported by the accommodative monetary policy stance and the resultant growth in private sector credit, fiscal impetus and multiplier effects of public infrastructure investments, ensuing strong domestic demand conditions and improved agricultural performance.

The high frequency indicators of real economic activity and business and consumer confidence indicate favourable economic growth prospects in the near-term. Indeed, economic growth is projected at 6.3 percent in FY 2019/20. Over a 2 – 5 year horizon, real economic growth is forecast to be in the range of 6.5-7.0 percent, supported by strengthening private sector activity, foreign direct investment, public infrastructure investment and a pick-up in the extractive sector activities.

Downside risks to economic growth remain as previously stated. On the external scene, the escalating global trade tensions could weaken Uganda's external position and lead to volatility in the domestic foreign exchange market. On the domestic scene, weather-related constraints to agricultural production, delays in the implementation of public investment programmes,

and supply side constraints to growth in the private sector could dampen economic activity.

The May 2019 Consumer Price Index (CPI) data released by UBOS indicates that inflation remains relatively subdued. Both annual headline and core inflation declined to 3.3 percent and 4.6 percent from 3.5 percent and 4.8 percent, respectively in April 2019. Low headline inflation is in part supported by relatively low food crops prices. Nonetheless, food crops inflation rose to *minus* 5.4 percent in May 2019 from *minus* 6.2 percent in April 2019. Energy Fuel and Utilities (EFU) inflation declined from 5.4 percent to 4.6 percent over the same period.

Inflation has evolved in line with the Bank of Uganda projections. The June 2019 inflation forecast round indicates that core inflation will remain close to the 5 percent target in the coming months. Over the medium-term (2-3 years) inflation is forecast to edge up slightly, peaking at 6.4 percent in the third quarter of 2021. Nonetheless, there are risks to the inflation outlook which include the future direction of food crops prices in the wake of uncertain weather conditions; the momentum in domestic demand; and the path of the exchange rate, which is contingent on both domestic and external economic factors.

Overall, the MPC assesses that the risks to the projected inflation path are roughly balanced. Based on this assessment, the MPC has decided to maintain the CBR at 10 percent. The band on the CBR will remain 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 have been set at 14 percent and 15 percent, respectively.



Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR

June 18, 2019