BANK OF UGANDA

Communications Department

QUESTION & ANSWER TRANSCRIPT

FROM JULY 2022

MONETARY POLICY STATEMENT (MPS) READING

Bank of Uganda-Board room

(Held on July 05, 2022)

Questions from Mr. Samuel Ssettumba (Business News reporter at NTV Uganda)

a) If the US economy suffered a recession as is being predicted, what would that mean for the Ugandan economy?

b) There are assumptions that the oil prices might be forced downwards when there's a recession. What is your take on this assertion?

Response by Mr. Michael Atingi-Ego (Deputy Governor)

- Right now, the US economy is struggling to bring inflation back to its medium-term objective. This therefore, implies that the US is going to continue tightening its monetary policy. There are indications that they are likely to raise their Federal Reserve Interest Rate to about 3.5 percent by the end of the year, and possibly to around 4 percent next year.

- However, as the Federal Reserve Interest Rate rises, it makes it more attractive to hold US dollar-denominated financial assets. Therefore, if we have some portfolio players in Uganda and they would like to make profits, then they are likely to reposition themselves by preferring to hold the US financial assets.

- Accordingly, unless we fix the interest rate differentials, to keep these portfolio players here, we could see a portfolio flows reversal back into the advanced economies, hence putting pressure on the exchange rate and likely leading to a depreciation. This depreciation and related pass-through could impact our domestic prices as well. This means that the cost of doing business is certainly going to rise and it might affect the growth of the economy.

- Therefore, a recession in the US implies that the demand for exports from the rest of the world might decrease in the US. Consequently, countries whose trade is tilted towards the US might be affected by the weakened demand as a result of the recession in the US.

- To what extent therefore would that recession affect the oil prices? If the demand for oil reduces as a result of the recession, economics declares that prices might also reduce. We have witnessed it in the case of China where the lockdown has affected the demand. The impact of the lockdown and the impact of the recession are quite similar. So, a recession could have a downward impact on oil prices globally.

Question from Mr. Samuel Ssettumba (Business News report at NTV Uganda)

What did the statement mean by "confidence is tepid"?

Response from Dr. Adam Mugume (Executive Director Research & Policy Directorate)

- Bank of Uganda conducts a monthly survey on both household perception and the outlook, as well as businesses. Based on that, we assess whether the confidence of these economic agents (households & businesses) is increasing or decreasing.

- When we state that confidence is tepid, we are essentially saying that consumers or households, as well as businesses, have a negative perception and outlook of the economy. In other words, confidence is declining.

- We also know that it is this perception or the confidence that impacts demand. Therefore, the demand outlook and investment behavior are occasionally influenced by households' and businesses' perceptions of the economy at any given time.

Question from Mr. Ali Twaha (New Vision)

What does the projected increase in inflation mean for Government operations in the primary market going forward?

Response by Mr. Michael Atingi-Ego (Deputy Governor)

- Based on previous experiences, when the Bank of Uganda raises the Central Bank Rate (CBR), the likely outcome is that the pricing of government securities in the primary market follows suit.

- Indeed, you will notice that the 91-day treasury bill rate for example, closely tracks what happens to the CBR. Again, this is based on historical observation.

- However, depending on how much Government is willing to take in the market, or how much the market is offering, we are likely to see the yields shifting further upwards going forward.