MPC Summary Report for the Press

Bank of Uganda

December 05, 2024

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Global Developments

- **The global economy remains resilient and growth is projected at 3.2% in both 2024 and 2025, driven by easing inflation, real income gains and interest rate cuts.**
  - Downside risks to growth could arise from escalating geopolitical tensions and trade restrictions.
  - Upside opportunities arise mainly from interest rate cuts. Overall, risks to global growth are balanced
- **Global headline inflation was projected to fall from 5.9% in 2024 to 3.5% in 2025: declining commodity prices and well-managed monetary policy.**
  - Energy prices eased due to lower oil demand from China and oversupply concerns.
  - Non-energy prices rose due to increases in prices of beverages such as Cocoa and Coffee.
- **Global financial conditions have remained stable. Investor sentiment remains cautious due to uncertainties regarding the US elections and global economic headwinds.**

BOP Developments

- **The Current Account Deficit (CAD) remained elevated reflecting the strong investment demand of the domestic economy.**
- **In the year to October 2024, CAD widened to $4.7bn from $3.7bn in the year to October 2023 driven by deteriorations in all sub-accounts.**
  - Services account deficit-payments for transport and other business services, Goods deficit-higher private sector imports, reduction in secondary income-fall in personal transfers, primary income account deficit-increased interest payments.
- **The Financial Account recorded a surplus balance of US$3.3bn, down from US$3.7bn recorded in October-23**
- **However, there was a decline in net portfolio outflows and FDI inflows remained robust due to developments in the oil sector.**
  - At the end of October 2024, foreign reserves stood at US$3.4bn (3.0 months), down from US$3.9bn (3.8 months) at the end of October 2023.

Private Sector Credits & Interest Rates

- **The monetary policy stance was eased in Oct-24, however, interest rates have edged up.**
- **Yields on government securities rose.**
- Secondary market yields rose across all tenors, in line with tightening liquidity conditions.
- **Interbank money market rates rose during the 3-mths to Nov-24 vs 3-mths to Aug-24 as liquidity conditions tightened.**
  - Overnight rates rose to 11.2% from 9.9%, 7-day to 11.4% from 10.6%. SLF utilisation rose to 25.2tn vs 3.7tn and REPOs fell (0.5bn vs 5.5tn).

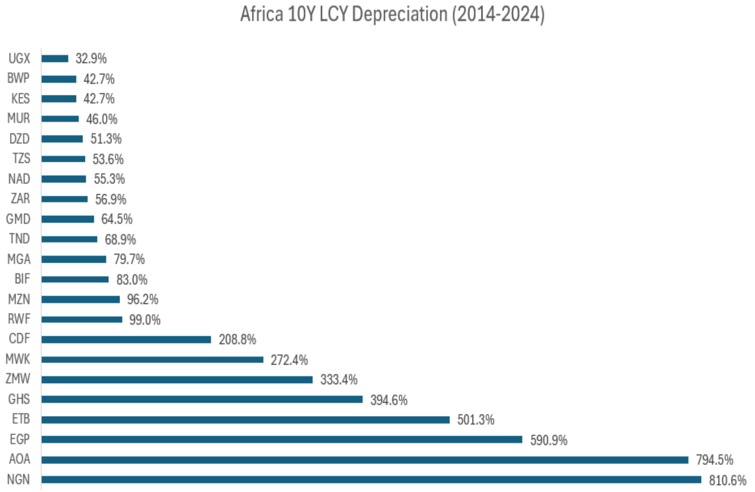
Private Sector Credit & Interest Rates

- ODC PSC growth moderated in the 3-mths to Oct-24 vs the 3-mths to Jul-24: increased government borrowing outweighed monetary policy easing and improved NPLs
- PSC grew by 8.2% down from 9.1% driven by both shilling (10.4% from 11.0%) and foreign exchange denominated loans (2.4% from 4.1%)
- Commercial bank lending interest rates rose in the 3-months to Oct-24, averaging 19.1% relative to 18.1%in the period to Jul-24 reflecting tight liquidity conditions.
- Lending rates are expected to remain under pressure in the near term due to tight financial conditions.

Exchange Rate Developments

- **In Nov-24, the UGX/USD ultimately depreciated by 0.29% m-o-m to an average of Shs. 3,678.65, having experienced a mixed performance during the month**
  - The shilling's performance was attributed to persistent corporate demand from oil, telecom, and manufacturing firms.
  - Strengthened performance of the US dollar due to global financial market sentiments, particularly following the US Fed rate cuts and US election results.
- **In the quarter to Nov-24, the UGX/ USD appreciated by 1.1% q-o-q and by 2.0% compared to the same quarter in the previous year.**
- Year-on-year, the shilling appreciated by 2.7% in Nov-24.
- In real terms, the shilling has sustained an appreciation streak since October 2022, year-on year.
- **In Nov-24, the NEER appreciated by 0.4% (m-o-m) compared to the 1.6% appreciation in Oct-24**
- **In Oct-24, the REER appreciated by 1.7% (y-o-y) compared to Sep-24 where it appreciated by 0.1%, as domestic inflation continues to cool at a faster pace than foreign inflation.**

Exchange Rate Developments



- **Source: Bloomberg.**

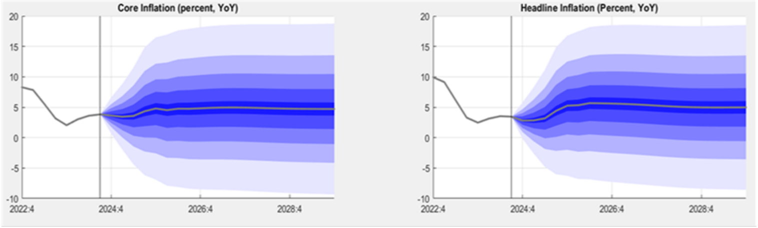
Inflation Developments

Inflation remains below target as projected in the previous forecast round

- **Headline inflation remained the same at 2.9% in Nov -2024 same as in Oct-2024**
- **Non core inflation rose to -1.4% from -1.7% Nov -2024**
  - Food crops inflation rose to -4.0% from -5.3%
  - However, EFU inflation fell to 2.2% from 3.3% - decline in liquid fuels - appreciation in the exchange rate and decline in international crude oil prices
- **Core inflation declined slightly to 3.8% from 3.9% - annual services inflation particularly passenger transport services**
  - Services inflation fell to 5.9% from 6.2%
  - Other goods inflation rose slightly to 2.2% from 2.1%

Inflation Outlook-Baseline

- Inflation forecasts have remained relatively unchanged from the previous forecast round- stable exchange rate with a bias towards an appreciation, lower oil prices
- Core inflation is expected to be 3.2% - 4.2% this FY and 3.7%- 4.7% in the next FY.
- Headline inflation is expected to be 2.6% - 3.6% this FY.
- Growth of about 6.0-6.5% in FY 2024/25 and 6.5 - 7.0% in the next FY.



Risk Assessment-Economic growth

Economic growth is still projected at 6.0-6.5% in FY24/25 and 6.5-7.0% in FY25/26.

- **Downside Risks:**
  - Unfavourable weather conditions that could hamper food crop harvests
  - Higher than programmed domestic financing that could crowd out the private sector credit.
  - Weaker global growth that could arise from increased protectionist trade policies by the Trump administration
  - Disruption of trade and supply chains due to intensified geopolitical tensions leading to higher commodity prices, especially oil.
- **Upside Risks:**
  - Higher investment in the extractive industry.
  - Government interventions and accommodative monetary policy conditions could result in higher than anticipated growth.
- **Overall, risks to growth outlook are balanced.**

Risk Assessment-Inflation

Inflation is expected to remain below 5% in the near term but return to target in the medium term.

- **Upside Risks:**
  - Higher domestic growth due to increased investment in the extractive industries and effective implementation of government's programs
  - Further disruptions to global supply chains resulting from escalation of regional and international geopolitical conflicts.
  - Extreme weather conditions could affect supplies to the market resulting in higher food crops inflation
  - A more depreciated exchange rate.
- **Downside Risks:**
  - Appreciation of the exchange rate due to stronger capital inflow-oil
  - Lower global oil prices
  - Lower global growth due to increased protectionist policies by the new US administration
- **Overall, the risks to inflation are balanced**

Conclusion

- **Economic growth is still projected at 6.0 - 6.5% in FY 2024/25 and 6.5 - 7.0% in FY 2025/26.**
- **Average core inflation is projected to remain below the medium-term target of 5%, averaging 3.7% in FY2024/25 and 4.2% in FY2025/26.**
  - However, inflation is expected to stabilize around the target of 5% in the medium term
  - The inflation projections have remained relatively unchanged due to a stable exchange rate with a bias towards an appreciation, lower food and lower oil prices both in the global and domestic markets
- **Although the near-term inflation outlook is mild, geopolitical conditions and policy uncertainty could contribute to increased economic and inflation volatility in the short to medium term**

Policy decision

- Risks to the inflation outlook remain, arising from both the domestic and global environment. The risks to the inflation outlook are broadly balanced.
- **Given the risks to the inflation outlook, the BoU maintained the CBR at 9.75%.**
  - The bands on the CBR remained at +/- 2 percentage points.
  - The margin on the CBR for the rediscount and bank rates were maintained at 3 and 4 percentage points, respectively.
  - The rediscount and bank rates have been reduced to 12.75% and 13.75%, respectively.