

BANK OF UGANDA



FAQs: Monetary Policy Statement for June, 2024

1. Bank of Uganda (BoU) issued the Monetary Policy Statement (MPS) for June 2024. What is the purpose of the MPS?

- BoU, through its Monetary Policy mandate, aims at ensuring stability of prices in the economy. BoU therefore issues the MPS to communicate its Monetary policy decision signaled by changes to the Central Bank Rate (CBR).
- The CBR is a policy interest rate set to influence pricing of financial assets in the economy such as loans, mortgages, treasury bills & bonds, foreign currency etc. Ultimately, changes in the CBR affect the cost of borrowing.
- The MPS therefore communicates changes in the CBR and the rationale in fulfillment of BoU's commitment to firmly contain core inflation (change in the overall price level, excluding prices of items which change rapidly and are beyond the control of policy like food crops, oil prices and administered prices—e.g. water & electricity) around the 5% target as well as account for any deviations.

2. What has led to the developments in Uganda's inflation within the past few months?

- Uganda's inflation remains among the region's lowest with an average of 3.2% in the twelve months to May 2024.
- Domestic inflation has risen moderately, lower than previously projected, largely due to the exchange rate stabilizing with a bias towards appreciation since March 2024.
- Annual headline inflation rose to 3.6% while core inflation increased to 3.7% in May 2024. This was primarily driven by rising healthcare, education, and transportation service costs, coupled with higher prices for solid and liquid fuels.
- Similarly, electricity, fuel and utilities (EFU) inflation rose, reflecting recent increases in international energy prices and lagged effects of the shilling's past depreciation.

3. What should we expect of inflation going forward?

- Inflation is projected to remain moderate, averaging between 5.0% and 5.4% within 12 months ahead, with a return to the medium-term target of 5% anticipated in the second half of 2025.

However, uncertainties persist around the inflation outlook including;

- the potential impacts of an escalation in the ongoing geopolitical tensions in the Middle East, possible energy price hikes,
- unfavourable weather patterns affecting food supply and production capacity pressures,
- persistent global inflation and higher interest rates which could cause heightened volatility in capital flows & the exchange rate, resulting in higher domestic inflation than currently assumed.

Conversely, inflation may fall short of projections if monetary policy reduces demand more than anticipated or global demand weakens further, resulting in lower imported inflation.

4. In the Monetary Policy Committee (MPC) meeting of April 2024, BoU increased the CBR to 10.25% from 10%. Has this had any impact on inflation?

- The recent CBR increase has had a spillover effect of stabilizing the Ugandan shilling against the US dollar, with a bias towards appreciation.
- Tight monetary conditions (coupled with declining global inflation, and a favorable domestic food supply) have partially offset inflationary pressures.

5. What lies ahead for Uganda's economic growth?

Uganda's economy remains resilient and economic growth for FY2024/25 is projected between 6.0% and 6.5%, rising above 7% in subsequent years. However, risks to the growth outlook remain including;

- Uncertainty about the global economic situation and a stronger shilling depreciation could weigh on domestic demand,
- Private sector credit growth could weaken further due to tighter domestic financing conditions, resulting in lower demand,
- External factors such as a weaker global economy and escalating geopolitical conflicts could further slowdown growth through supply chain disruptions, higher freight costs, and reduced export demand,
- decreased capital inflows.

On a positive note, more favorable weather conditions leading to good food crop harvests, higher government and private sector investment in the extractive industry, and government intervention programs could boost economic activity.

6. What decision has Bank of Uganda taken in the June 2024 Monetary Policy Committee (MPC) meeting?

- Bank of Uganda has maintained the CBR at 10.25% in June 2024.
- The MPC assessed that while risks around inflation remain, the current monetary policy conditions are adequate to contain inflation around the medium-term target of 5%.
- This decision to maintain the CBR at 10.25% in June 2024 supports the objectives of bringing inflation to its medium-term target while supporting economic growth, consistent with socio-economic transformation.
- The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.