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Monetary Policy Statement for October 2023

On 5 October 2023, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.5%.

Despite the recent increase in fuel pump prices, annual inflation has continued to moderate, reflecting the implementation of appropriate monetary and fiscal policies, the fading impact of drought on food prices, and the easing of global cost pressures. Annual headline and core inflation dropped to 2.7% and 2.4% in September 2023 from 3.5% and 3.3% in August 2023, respectively.

The inflation outlook has changed from the August 2023 forecast round. The downward trend in inflation is predicted to continue in the coming months due to lower imported inflation, further easing of food crop prices, and subdued aggregate demand but will return to the target in the medium term. Inflation is forecast to be in the range of 3% to 4% in the 4th quarter of 2024 and back within the 4% to 5% range in 2025.

These projections are, however, subject to risks. On the downside, global inflation could fall at a faster pace, potentially affecting domestic inflation. In addition, we could get a bumper harvest, which would push down food prices further leading to lower inflation. On the upside, foreign exchange rate depreciation due to volatility in international financial markets, and escalation of the ongoing geopolitical conflicts could lead to further energy supply cuts and higher domestic fuel prices. Moreover, prolonged higher inflation in advanced economies could lead to higher interest rates, triggering further capital outflows and spilling into further exchange rate depreciation. The MPC assesses the risks to be balanced in the short term, but tilted upwards in the medium term.

Since the last MPC meeting, near-term prospects for the economy are broadly unchanged. The recent quarterly GDP estimates by Uganda Bureau of Statistics (UBoS) indicate that quarter-on-quarter real GDP growth for the second quarter of 2023 stood at 5.2%, a much faster growth compared to 0.4% in quarter one. The faster growth was due to a strong recovery in the services and industry sectors. The high-frequency indicators of economic activity also point to continued growth in the three months to August 2023.

Economic growth is projected to remain strong in the coming months due to continued recovery in services and industry sectors. Economic activity will be boosted by investment in the extractive industries financed by foreign direct investment (FDI) and higher export earnings. Economic growth is projected at around 6% in FY2023/24 and in the range of 6% to 7% in the medium term.

However, the outlook is subject to a range of uncertainties, including:
· slower global growth posing a risk to domestic growth,
· a resurgence of supply chain distortions due to geopolitical factors,
· tighter fiscal policy in part due to unfavourable global financial markets could restrict government development expenditure, and
· stronger moderation of household expenditure in part due to tight monetary policy conditions globally and a reduction in agricultural output due to bad weather.

Based on this assessment, the MPC considers that the current monetary policy stance will contribute to keeping inflation around its medium term target; supporting economic stability to encourage saving, investment, economic growth, competitiveness and socio-economic transformation. Therefore, the MPC decided to maintain the CBR at 9.5%. The bands on the CBR have been maintained at +/-2 percentage points and the margins on the CBR for rediscount and bank rates at 3 and 4 percentage points, respectively. As a result, the rediscount and bank rates will remain at 12.5% and 13.5%, respectively.

The BoU will take necessary policy actions to ensure that inflation stabilises around its medium term target of 5%.

Michael Atingi-Ego
Deputy Governor
05 October 2023