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Monetary Policy Statement for August 2017

Annual headline inflation, as measured by the change in the Consumer Price Index (CPI), continued to ease declining to 5.7 percent in July 2017 from 6.4 percent in June 2017, largely reflecting the fall in food crop inflation since May 2017. Food crops inflation declined from 23.1 percent in May 2017 to 12.9 percent in July 2017, following improved crop harvests. Headline inflation is likely to decline further in the coming months as the effects of higher food prices continue to dissipate. Annual core inflation declined to 4.5 percent from 4.9 percent in June 2017, and averaged 5 percent in the twelve months to July 2017, which is the BoU's medium-term inflation target. Energy Fuel and Utilities (EFU) inflation however increased to 7.8 percent from 5.7 percent.

The latest data from the Uganda Bureau of Statistics and the Bank of Uganda's high frequency indicator of economic activity indicate that the economy gathered momentum in the first half of 2017. The revised GDP growth forecasts suggest that it will improve further going forward, supported by the current accommodative monetary policy, recovery in external demand and Foreign Direct Investment (FDI), increased activity in the agricultural sector due to improved weather conditions, and the fiscal stimulus outlined in the National Budget for the Financial Year 2017/18. The economy is now projected to grow at about 5.0 - 5.5 percent, which is consistent with the closing of output gap by the end of the Financial Year.

The Current Account Balance continued to improve in FY 2016/17, with the Current Account Deficit as a percentage of GDP declining to 2.8 per cent, down from 5 percent in FY 2015/16. The improvement in the current account position was largely driven by robust export earnings, which rose by 18 percent to US$ 3.17 billion, after being subdued at an annual average of US$ 2.7 billion over the last 5 years. Continued net export growth is projected to have a positive impact on economic activity in FY 2017/18.

The BoU medium-term inflation forecasts remain largely unchanged from those of the June 2017 Monetary Policy Committee meeting. Both annual headline and core inflation are forecast to remain in the 5±2 percentage range, which is consistent with the BoU's medium-term target of 5 percent for core inflation. Nonetheless, there are upside risks to this outlook, including the future direction of food crops prices and the path of the exchange rate, which in part is contingent on external economic environment.

Given the fact that inflation is expected to remain around the medium-term target and that economic activity is picking-up, with output approaching potential, a neutral monetary policy stance is warranted. The BoU will therefore leave the CBR unchanged at 10 percent. The band on the CBR will be maintained 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 will remain at 14.0 percent and 15.0 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

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