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Monetary Policy Statement for December 2017

Annual headline inflation declined to 4.0 percent in November 2017 from 4.8 percent in October 2017, driven by a fall in food crops prices with food crops inflation declining to 2.3 percent from 7.9 percent in October 2017. In addition, annual core inflation declined to 3.3 percent from 3.5 percent in October 2017, supported by the stability of the exchange rate in the last 12 months. Annual Electricity, Fuels and Utilities (EFU) inflation also declined to 13.7 percent in November 2017 from 14.1 percent in October 2017.

Domestic economic activity continues to strengthen as financial conditions ease and agricultural output returns to normal. The revised Gross Domestic Product (GDP) data for FY 2016/17 released by UBOS indicates that the economy grew at 4.0 percent, driven by improved performance of the agricultural and services sectors. Private consumption also improved in FY 2016/17 relative to the previous two years.

GDP growth is projected to rise by 5.0 percent in FY 2017/18. Indeed, the Composite Index of Economic Activity, which is the Bank of Uganda's (BoU) high frequency indicator of economic activity, points to a strengthening of economic activity in the first four months of FY 2017/18. In the medium term, the economy is expected to expand at a solid pace boosted by public investments, growth in consumption and the current stimulatory monetary policy.

There are however, several domestic factors that pose risks to the economic outlook. Growth has not been even across all sectors. In addition, the cost of credit is high and non-performing loans remain relatively high with a possibility that this will constrain credit extension.

The near-term inflation outlook remains subdued but core inflation is projected to pick-up in FY 2018/19 to around 5 percent as spare capacity in the economy is reduced. Nonetheless, there are upside risks to this outlook, including the future direction of food crops prices and the path of the exchange rate, with the latter contingent on the external economic environment.

Based on the outlook for inflation and economic activity, together with an expansionary fiscal policy in FY 2017/18; and the evolution of the risks and uncertainties, the Bank of Uganda (BoU) judges that the current stance of monetary policy remains appropriate. The BoU will therefore maintain the Central Bank Rate (CBR) at 9.5 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 13.5 percent and 14.5 percent, respectively.

Louis Kasekende

Louis Kasekende, PhD
Deputy Governor
December 18, 2017