

BANK OF UGANDA



37/45 Kampala Road. P.O. Box 7120, Kampala; Telephone: 256-414-258441/6, 258061, 0312-392000, 0417-302000
Telex: 61069/61344; Fax: 256-414-233818 www.bou.or.ug info@bou.or.ug

Monetary Policy Statement for October 2019

Bank of Uganda (BoU) has in the October 2019 Monetary Policy Committee (MPC) meeting decided to reduce the Central Bank Rate (CBR) by 1 percentage point to 9 percent in response to the expected path of macroeconomic indicators and the international economic environment.

The economy continues to grow but at a slowing rate. Economic activity seems to have slackened in the first half of 2019 compared to the second half of 2018. Indeed, the recently released quarterly GDP estimates by Uganda Bureau of statistics (UBOS) indicate that GDP growth slowed in the second half of Financial Year (FY) 2018/19. In addition, the BoU's high frequency indicator of economic activity, the Composite Index of Economic activity (CIEA), points to a moderation of economic activity in the first quarter of FY 2019/20. The outlook is uncertain, particularly as a result of the unfavourable global economy. Moreover, a combination of widening fiscal and current account deficits, coupled with public sector domestic financing needs, could exert pressure on the lending interest rates leading to further moderation of economic growth.

The Consumer Price Index (CPI) data for September 2019, released by UBOS, indicates that inflation remained subdued. Annual headline and core inflation declined to 1.9 percent and 2.5 percent, respectively from 2.1 percent and 2.7 percent in August 2019. The decline in inflation was in part driven by a relatively stronger shilling, moderation of domestic demand and lower food prices. Food crops inflation declined from minus 1.4 percent in August 2019 to minus 3.0 percent in September 2019. However, Energy Fuel and Utilities (EFU) inflation rose to 2.5 percent in September 2019 from 1.0 percent in August 2019.

The inflation outlook has been revised downwards compared to the August 2019 round of forecast. Annual core inflation is now projected to remain below the 5 percent target until the fourth quarter of 2020. The risks to the inflation outlook in the near term (12 months ahead) are assessed to be largely on the downside and inflation is forecast to converge to the target of 5 percent in the medium-term (2-3 years). Demand side pressures remain subdued. In the absence of shocks, the relative stability of the exchange rate is expected to continue.

The BoU believes that the benign inflation outlook provides room for a reduction in the policy rate to support economic growth. The economy still has spare capacity and lower interest rates will help reduce the output gap. Against this backdrop, the BoU has decided to reduce the CBR by 100 basis points to 9 percent. The band on the CBR will remain at +/-3 percentage points and the margin on the rediscount rate and bank rate will remain at 4 and 5 percentage points on the CBR, respectively. Consequently, the rediscount rate and the bank rate have been set at 13 percent and 14 percent, respectively.

Going forward, the BoU will continue to monitor emerging price and output developments to ensure that monetary policy decisions remain consistent with price stability while being supportive of sustained non-inflationary economic growth over the medium term.



Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR

October 7, 2019