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Monetary Policy Statement for April 2017

The consumer price index (CPI) data for March 2017 indicates that inflationary pressures eased slightly. Annual headline and core inflation declined to 6.4 percent and 4.8 percent, respectively in March 2017 from 6.7 percent and 5.7 percent in February 2017. The stability of the shilling exchange rate and subdued domestic demand have contributed to the dampening of inflationary pressures. Annual food crops inflation has however continued to rise; increasing to 20.7 percent in March 2017 from 18.8 percent in February 2017, as a result of the drought that affected food production in many parts of the country.

The latest quarterly Gross Domestic Product (GDP) data released by Uganda Bureau of Statistics (UBOS) at the end of March 2017 indicates that the economy grew by 0.8 percent (quarter-on-quarter) in the quarter to December 2016 compared to a contraction of 0.1 percent in the quarter to September 2016. Given the weak economic performance in the first two quarters of the current financial year (FY), the projected GDP growth of 4.5 percent in 2016/17 is unlikely to be achieved.

The anticipated lower growth in FY 2016/17 is largely driven by supply side factors, notably the impact of adverse weather conditions on agricultural output. The agricultural sector contracted on average by about 2 percent quarter-on-quarter for four consecutive quarters to the second quarter of 2016/17.

Output should revert to trend once the supply shock has dissipated. On the external side, the current account has improved because of stronger export proceeds and workers remittances, coupled with weak import growth.

The Bank of Uganda's forecasts indicate that the near-term inflation outlook has improved since the last Monetary Policy Committee meeting in February, mainly due to a relatively stable exchange rate. This has off-set some of the negative price impact of the supply side shock. The revised forecasts indicate that core inflation will be around 5 percent in 12 months' time.

Given that core inflation is forecast to remain around the medium-term target of 5 percent and in line with efforts to support private sector credit and economic growth momentum, Bank of Uganda (BoU) believes that there is scope to continue easing monetary policy. Accordingly, the BoU will reduce the Central Bank Rate (CBR) by 0.5 percentage points to 11 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 have been reduced to15 percent and 16 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

April 12, 2017