BANK OF UGANDA

Plot 37/45 Kampala Road, P.O. Box 7120 Kampala, Telex: 61069/61244 Fax: (+256-414) 233818
General Lines: (+256-414) 258441/6, 258061/6, 0312-392000 or 0417-302000
Website: www.bou.or.ug, E-mail: info@bou.or.ug

MONETARY POLICY STATEMENT FOR JUNE 2017

The annual headline inflation as measured by the change in Consumer Price Index (CPI) increased to 7.2 percent in May 2017 from 6.8 percent in April 2017. This was largely driven by a sharp increase in food crops and higher energy prices. Food crops inflation rose to 23.1 percent from 21.6 percent in April 2017, largely on account of the impact of adverse weather conditions on food crop production. Energy, Fuel and Utilities (EFU) inflation also rose to 7.0 percent from 5.3 percent, over the same period. Annual core inflation however remained relatively stable, increasing only marginally to 5.1 percent in May 2017 from 4.9 percent in April 2017. The relative stability of the exchange rate and subdued domestic demand have contributed to the dampening of core inflationary pressures over the last 12 months.

The economy has continued to grow at a moderate pace. According to the latest Gross Domestic Product (GDP) estimates released by Uganda Bureau of Statistics (UBOS), the economy is estimated to grow by 3.9 percent in the Financial Year 2016/17 compared to a growth rate of 4.7 percent in the Financial Year 2015/16. The slowdown is mainly due to the drought that affected agricultural production, coupled with slow implementation of public investment projects and weak private sector credit growth. Economic growth is projected to pick up to 5.0 percent in Financial Year 2017/18; supported by improved efficiency and effectiveness in implementation of public investments; higher Foreign Direct Investments, particularly in the oil sector; and recovery in private sector credit growth, as lending interest rates continue declining. Indeed, monetary conditions have been easing with average lending rates declining to 20.5 percent in April 2017 from a peak of 25.2 percent in February 2016, a cumulative decline of 4.7 percentage points. Growth in the agricultural sector is also projected to improve, as normal weather conditions return.

The Bank of Uganda's (BoU) forecasts for inflation have not changed substantively since the previous Monetary Policy Committee meeting. The supply side shock that caused inflation to edge-up in the last six months is temporary and is expected to wane in the first quarter of 2017/18. Moderation of food prices is expected over the near to medium-term. In addition, the favourable inflation outlook is driven by downward revisions to international oil prices and thus lower EFU inflation. In line with the previous forecast, inflation is forecast to stabilise around the target of 5 percent in 12 months.

With domestic inflationary pressures remaining subdued and given the continued weak growth prospects, the BoU judges that continued easing of monetary policy is appropriate. This will be consistent with achieving the core inflation target of 5 percent over the medium-term and will also support the recovery of real output in the economy. Accordingly, the BoU will reduce the CBR by 1 percentage point to 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 have been reduced to14 percent and 15 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile
Governor
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