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Monetary Policy Statement for October 2017

The consumer price index (CPI) data indicates that inflation remains subdued. Annual headline and core inflation increased marginally to 5.3 percent and 4.2 percent in September 2017 from the respective rates of 5.2 percent and 4.1 percent in August 2017. The rise in inflation was largely driven by an increase in the cost of fuels, which pushed up the Electricity, Fuels and Utilities (EFU) inflation to 10.6 percent in September 2017 from 7.8 percent in August 2017. Annual food crops inflation however continued to fall, declining to 9.6 percent in September 2017 from 11.7 percent in August 2017, largely on account of improved food supply.

The latest quarterly GDP data released at end September 2017 by UBOS indicates that growth recovered in the second half of 2016/17. Quarterly growth rates of only 0.6 percent and 1.1 percent were recorded in the first two quarters of 2016/17, mainly because of bad weather that affected the agricultural sector. But growth rates accelerated to 1.8 percent and 1.9 percent respectively in the third and fourth quarters of the financial year. The growth in private sector credit however remains sluggish. The economy is projected to grow at an annual rate of 5.0 to 5.5 percent in FY2017/18, which is a bit lower than estimates of potential GDP growth. Economic growth is however projected to accelerate to between 6 and 6.5 percent over the medium-term. The outlook continues to be supported by accommodative monetary policy, improvement in public investment management and an improvement in the global economy.

The Bank of Uganda's (BoU) forecasts indicate that the inflation outlook remains unchanged since the last Monetary Policy Committee meeting in August 2017, with annual core inflation forecast to remain within the target range of 5 percent over the short to medium-term. The upside risks to inflation remain muted, with the exception of the possibility of higher food prices due to crop pests that are affecting agricultural sector and severe rains in some parts of the country. In addition, the forecasts are based on the assumption that the exchange rate will remain around its current level. A stronger exchange rate depreciation, however, would increase the risk of higher inflation.

Given that annual core inflation is forecast to remain around the medium-term target of 5 percent and economic activity is slowly gaining momentum, a cautious easing of monetary policy is warranted to boost private sector credit growth and to strengthen the economic growth momentum. The BoU has therefore decided to reduce the Central Bank Rate (CBR) by 0.5 percentage points to 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 have been reduced to 13.5 percent and 14.5 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

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