

BANK OF UGANDA



37/45 Kampala Road. P.O. Box 7120, Kampala
Tel.: 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 August 2019

In the Monetary Policy Committee (MPC) meeting of August 2019, Bank of Uganda (BoU) has decided to maintain the Central Bank Rate (CBR) at 10 percent.

The BoU's high frequency indicators of real economic activity suggest that economic growth could have slackened in the first two quarters of 2019 compared to 2018 but still indicate strong economic prospects.

Indeed, economic growth in Financial Year (FY) 2019/20 is projected at 6 - 6.3 percent, supported by the accommodative monetary policy stance that has resulted in stronger growth in private sector credit, expansionary fiscal policy and multiplier effects of public infrastructure investments, ensuing strong domestic demand conditions and improved agricultural performance. Over a 2 - 5 year horizon, growth is projected to remain robust, averaging 6.2 percent per annum.

However, there are downside risks to this outlook. On the external scene, lower external demand due to a depressed global economy could weigh on Balance of Payments developments, particularly financial flows and services such as tourism and lead to volatility in the domestic foreign exchange market. On the domestic scene, weather-related constraints to agricultural production and delays in the implementation of public investment programmes could dampen economic activity.

Inflation remains subdued, with annual headline and core inflation averaging 3.1 percent and 4.3 percent, respectively in the quarter to July 2019. The Consumer Price Index (CPI) data for July 2019, released by Uganda Bureau of Statistics, indicates that inflation declined compared to June 2019.

Both annual headline and core inflation declined to 2.6 percent and 3.5 percent from 3.4 percent and 4.9 percent, respectively in June 2019. The decline in core inflation was in part driven by a relatively stronger shilling. Energy Fuel and Utilities (EFU) inflation declined from *minus* 0.5 percent to *minus* 1.9 percent over the same period. However, food crops inflation rose to *minus* 0.8 percent in July 2019 from *minus* 3.6 percent in June 2019.

The inflation outlook remains relatively unchanged from the previous forecast, with inflation forecast to converge to the BoU's target of 5 percent over the medium-term (2-3 years). The near-term (12 months ahead) inflation forecasts are however higher compared to the June 2019 inflation forecast round. Annual core inflation is now projected to edge-up slightly and peak at 6.4 percent in the fourth quarter of 2020 in part due to stronger domestic demand conditions. There are nonetheless upside risks to the outlook including the future direction of food crops prices; the path of the exchange rate, which in part is contingent on external economic environment; and the ensuing demand pressures.

The evaluation of the macroeconomic developments based on the current information set and outlook, suggests that at the current CBR, monetary policy stance is accommodative and that inflation will converge to the target in the medium term while supporting growth. Against this backdrop, the MPC has decided to maintain the CBR at 10 percent. The band on the CBR will remain 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 set at 14 percent and 15 percent, respectively.



Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR

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