

# BANK OF UGANDA



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## **Monetary Policy Statement for December 2022**

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At the Monetary Policy Committee (MPC) meeting held on 7 December 2022, the Bank of Uganda (BoU) decided to maintain the Central Bank Rate (CBR) at 10 percent.

Annual headline inflation decreased slightly from 10.7 percent in October 2022 to 10.6 percent in November 2022, while the annual core inflation declined from 8.9 percent to 8.8 percent over the same period. The decline is a reflection of the impact of previous monetary policy decisions plus easing annual electricity, fuel and utilities inflation, which has continued to fall after peaking at 19.6 percent in August 2022 and has since declined to 12.2 percent in November 2022. However, food inflation remains elevated, edging up slightly in November 2022 to 24.1 percent from 23.5 percent in October 2022, reflecting the effects of the drought. The rise in food prices is temporary and is expected to fade in the coming months.

The MPC projects that inflation will continue to moderate, average between 6 to 8 percent in 2023 and stabilise around the medium-term target by the end of 2023. This forecast is 2 percentage points lower than what had been earlier projected. The revision in the forecast is due to the dissipating impact of the earlier increases in global commodity prices, subdued domestic demand, effects of the current monetary policy stance, expected decrease in global inflation, and lower exchange rate depreciation. The Uganda shilling has been stronger than expected, appreciating by 1.6 percent in November 2022, supported by the tightening of monetary policy, the recent decline in the global commodity prices such as crude oil, which somewhat eased the pressure on the deteriorating terms of trade, increase in remittances and foreign direct investment in the oil sector. The exchange rate outlook is dependent on global developments, particularly the pace of monetary tightening in the advanced economies which is expected to slow down.

Going forward, the inflation trend remains uncertain due to the ongoing evolution of supply shocks. While the factors that have elevated inflation over the past year are reversing, it will take some time before the effects pass through to prices paid by consumers. The upside risks include:

- Potential increase in international commodity prices beyond current forecasts due to the possible effects of capping the price of Russia's oil, Europe's ban on Russian crude oil imports, and further cuts in global crude oil production and exports,
- Higher shilling depreciation than currently being projected due to simultaneous tightening of monetary policies by major central banks that could slow global economic activity by more than expected with adverse effects on Uganda's exports earnings, tighter global financial conditions, and declining international reserves,
- Persistence of supply and logistical constraints to production,
- The entrenched expectations for higher inflation, which could lead to higher general price adjustments,
- Bad weather in the coming seasons which would damage crops and increase food prices.

The downside risks to the inflation outlook include:

- The materialisation of a global recession will affect Uganda through trade and financial channels, and increased economic uncertainty impacting on confidence, thereby increasing disinflation pressures,
- Lower domestic demand as real incomes decline and as higher interest rates constrain spending decisions,
- Lower commodity and food crop prices.

The domestic economy remains largely resilient to the current external shocks and is projected to grow in the range of 5.0-5.3 percent in FY2022/23 from 4.7 percent in FY2021/22. This is driven by improvement in agricultural productivity as a result of government interventions, investments in the oil sector, and a rebound in industrial activity. However, this is slightly lower than the October 2022 projection of 5.0-5.5 percent. Indeed, the high-frequency indicators of economic activity show that economic activity weakened in the quarter to October 2022 and business sentiments fell in November 2022, reversing the upward trend recorded in the previous two months. The softening of growth is attributed to moderation of external demand due to softening global growth, continued adjustments in US interest rates which have contributed to a persistently strong US dollar, fiscal consolidation, which is imperative to maintain debt sustainability, and tighter financial conditions due to higher interest rates. Indeed, interest rates have edged up while private sector credit extension has moderated in line with the tight monetary policy stance.

Economic growth is projected to strengthen in outer years but remain below its long-run trend until FY2025/26. The growth outlook remains subject to downside risks, including weaker-than-expected global growth, higher risk aversion in global financial markets amid more aggressive monetary policy tightening in major economies and a further escalation of geopolitical conflicts that could constrain trade and disrupt global supply chains.

The MPC noted that high inflationary pressures are beginning to fade, but there are many uncertainties surrounding the outlook that make the path of returning inflation to the target while keeping the domestic economy on an even keel a narrow one. In the circumstances, the MPC decided to maintain the CBR at 10 percent. This will allow time to assess the evolving economic outlook. The band on the CBR remains at +/- 2 percentage points. The margins on the CBR for the rediscount and bank rates will remain at 3 and 4 percentage points. The rediscount and bank rates will remain at 13 percent and 14 percent, respectively.

Any adjustments to the monetary policy stance will continue to be determined by the incoming data and in a measured and gradual manner, ensuring that monetary policy remains supportive of sustainable economic growth in an environment of price stability.

A handwritten signature in black ink, appearing to be 'Michael Atingi-Ego', written over a horizontal line.

Michael Atingi-Ego

**Deputy Governor**

**7 December 2022**