

BANK OF UGANDA



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Monetary Policy Statement for February 2020

Bank of Uganda (BoU) has in the February 2020 Monetary Policy Committee (MPC) meeting maintained the Central Bank Rate (CBR) at 9 percent.

Economic growth prospects remain positive with the real gross domestic product (GDP) for FY 2019/20 still projected to grow in the range of 5.5 - 6.0 percent and expected to accelerate to average 6.3 percent in the medium term (2-3 years ahead). This economic growth is supported by the accommodative monetary policy stance and the resultant growth in private sector credit, fiscal stimulus and multiplier effects of public infrastructure investments, improved agricultural performance, and a pick-up in global economy. However, GDP growth remains below the BoU estimate of potential output growth of 6.5 percent. At potential, the GDP growth rate neither increases nor decreases inflationary pressure.

The economic growth is weighed down by weak growth in exports. Moreover, domestic public sector financing needs continue to grow, increasing risk premiums and pushing borrowing costs for the broader economy higher despite the accommodative monetary policy stance. Indeed, the GDP data released by Uganda Bureau of Statistics (UBOS) in December 2019 estimates economic growth for the first three quarters of 2019 at 5.2 percent, lower than 5.4 percent over the same period in 2018.

Although GDP growth is projected to rise, downside risks emanating from both the global and domestic environment remain. On the global scene, risks relating to the recent outbreak of the COVID-19 (coronavirus) have lowered the near-term growth outlook. There is considerable uncertainty regarding the duration and severity of the coronavirus outbreak. If it persists for an extended period, the effect on global economic activity is likely to be larger than currently projected. In addition, despite the recent positive developments in US-China negotiations, an escalation in the dispute remains a key downside risk to the global growth outlook. The recent escalation of geopolitical tensions in the Middle East has introduced additional uncertainty into global financial markets.

On the domestic scene, constraints to agricultural production including uncertain weather patterns and the current invasion by desert locusts, could weigh on economic activity. In addition, although we assume that the economic impact due to supply chain disruption resulting from coronavirus will be of a short duration, some sectors could be significantly affected. There is also a risk that the impact could be larger than anticipated and more persistent.

As a result of the appropriate monetary policy stance undertaken by the BoU, the average inflation rate for the last 3 years to January 2020 was 3.7 percent. The Consumer Price Index (CPI) data released by UBOS in January 2020 indicates that inflation remains relatively subdued. Headline inflation declined to 3.4 percent from 3.6 percent in December 2019, while core inflation remained unchanged at 3.0 percent. Energy Fuel and Utilities (EFU) inflation declined to 7.7 percent from 8.8 percent in December 2019, while food crops inflation declined to 2.6 percent from 3.4 percent. The inflation outlook remains relatively unchanged from the December 2019 forecast round, with inflation expected to converge to the medium-term target of 5 percent.

The BoU assesses that risks to the projected path for inflation are fairly balanced. Demand side pressures remain subdued. Global inflation is projected to remain low. Food price inflation remains modest although unpredictable weather patterns and the desert locust invasion create some caution about the trajectory of future food crop prices. While the shilling has remained stable with a bias towards appreciation since January 2019, the risk remains that domestic and external shocks could generate capital flow volatility and put pressure on the exchange rate and inflation.

The evaluation of the macroeconomic developments and outlook based on the available information set, suggests that at the current CBR, monetary policy stance is accommodative, and that inflation will converge to target in the medium term while supporting economic growth. The MPC has therefore decided to maintain the CBR at 9 percent. The band on the CBR will remain at +/-3 percentage points and the margins on the rediscount rate and bank rate will remain at 4 and 5 percentage points on the CBR, respectively. Consequently, the rediscount rate and the bank rate remain at 13 percent and 14 percent, respectively.



Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR

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