MPC Summary Report for the Press

Bank of Uganda

October 7 2024

Table of Contents

Global Developments and Outlook

- Global GDP growth remains resilient, projected to grow by 3.2% in both 2024 and 2025, driven by easing inflation, real income gains and interest rate cuts.
  - Downside risks to growth could arise from escalating geopolitical tensions and trade restrictions.
  - Upside opportunities arise mainly from interest rate cuts.
- Global headline inflation is projected to fall from 5.9% in 2024 to 4.5% in 2025: declining commodity prices and well-managed monetary policy.
  - Energy prices eased due to lower oil demand from China and oversupply concerns
  - Non-energy prices rose due to increases in prices of beverages such as Cocoa, Arabica coffee and Robusta coffee
- Financial markets conditions have remained resilient with hopes of a soft landing. Investor sentiment remains cautious due to uncertainties regarding US elections and global economic headwinds.

BOP Developments

- The Current Account Deficit (CAD) remained elevated reflecting the strong investment demand of the domestic economy.
  - In the year to August 2024, CAD widened by 10.6% from $3.8bn in the year to August 2023 to $4.2bn driven by deteriorations in all sub-accounts, except the goods account.
- The Financial Account recorded a surplus balance, although it declined to US$2.7bn from US$3.7bn recorded in Aug-23, driven by decrease in budget support inflows and high debt service
  - The surplus in the Financial Account was, nonetheless, inadequate to finance the deficit in the current account, leading to a drawdown in foreign reserves.
- At the end of August 2024, foreign reserves stood at US$3.4bn (3.1 months), down from US$4.0bn (3.8 months) at the end of August 2023.

Interest Rates

- Short-term interest market rates fell as liquidity conditions eased with the 7-day rate (10.9% in 3-months to Sep’24 from 11.7% in three months to Jun’24) and remained within the CBR band.

- In the quarter to September 2024, secondary market yields rose across all short tenors while yields on the long end fell, signifying investor expectation of lower inflation going forward.

- The weighted average shilling lending rates averaged 18.15% in the 3-mths to Aug-24 vs 17.98% in the 3-mths to May-24 reflecting eased liquidity conditions.

Private sector credit

- PSC growth recovered in the 3-mths to August 2024 to an annual growth of 8.4% up from 6.9% driven by both shilling (9.5% up from 9.0%) and fx denominated loans (5.7% from 1.5%).
- Private sector credit is expected to continue strengthening in the near term given the favourable macroeconomic environment.
- The outlook is for robust credit demand as firms and households prepare for the end-year activities. Credit supply is expected to improve given the eased financial conditions

Exchange Rate Developments

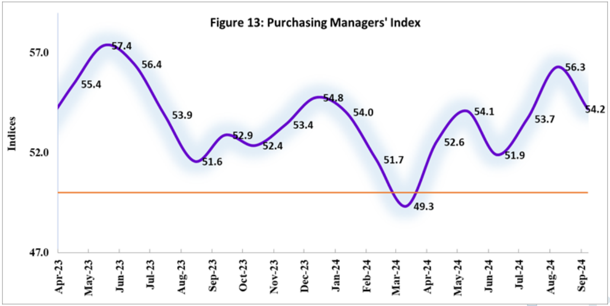
- The exchange rate has remained relatively stable with a bias towards an appreciation. In Sept-24, the UGX/USD appreciated by 0.3% m-o-m compared to a depreciation of 0.5% in Aug-24

- Y-o-Y: Shs. appreciated by 0.7%, the first y-o-y appreciation in 11 months.
  - Continued inflows from coffee export receipts, NGOs and remittances.
  - prudent monetary policy.
  - Sustained investment inflows from offshore players.
  - Weakening of the US dollar on the global market owing to the 50-basis-point Federal Reserve rate cut which coincided with strengthening of foreign currencies in Europe and Asia.

Economic Growth Developments

Growth in economic activity and business sentiments remains buoyant.

- Quarterly GDP from UBOS indicates that real GDP growth in Q2 2024 was 6.6%, up from 5.6% Q2 2023, driven by a significant recovery in agricultural activity
- The PMI stood at 54.2 in Sep'24, down from 56.3 in Aug'24 but higher than 53.7 in Jul'24, signaling a further improvement in economic activity, buoyed by increases in both output and new orders at the end of the Q3

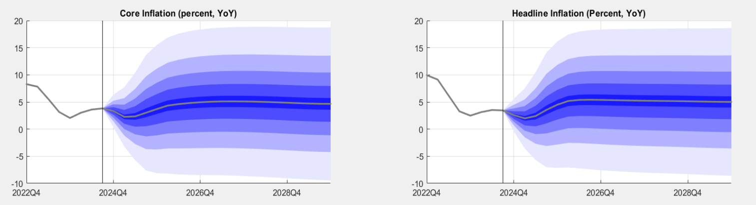


Inflation Developments

- **Inflation has remained subdued with the average annual headline and core inflation averaging 3.2% over the 12-months to September 2024.**
- **Month-on-month inflation declined in September 2024.**
- **Headline inflation dropped to 3.0% in Sept-2024 from 3.5% in Aug-2024 in part due to lower food and energy prices**
- **Core inflation decreased to 3.7% from 3.9% - annual services inflation particularly passenger transport services**
  - Services inflation fell to 5.8% from 6.2%
  - Other goods inflation remained stable at 2.1%
- **Food crop inflation dropped to -4.1% from -0.6%**
- **Similarly, EFU inflation declined to 4.5% from 4.7% - liquid fuels**

Inflation Outlook-Baseline

- Inflation forecasts have been revised slightly downwards relative to the previous forecast round-exchange rate appreciation, lower food and oil prices
- Headline and core inflation are expected to be below the 5% target in the near term
- Inflation is expected return to target in the medium term



Risk Assessment-Economic growth

Economic growth is projected at 6.0-6.5% in FY24/25 and 7.0% in the outer years

- **Downside Risks:**
  - Intensified geopolitical tensions could generate further economic shocks through disruption of trade and supply chains leading to higher commodity prices, especially oil.This combined with a weather shock could adversely affact growth
  - Increased domestic financing could crowd out the private sector credit.
  - Weaker global growth combined with lower coffee prices could negatively affect export proceeds
- **Upside Risks:**
  - Higher investment in the extractive industry.
  - More favourable weather conditions resulting in good food crop harvests
  - Government interventions, accomodative monetary policy conditions and increase in disposable incomes could substantially stimulate demand.
- **Overall, risks to growth outlook are balanced.**

Risk Assessment-Inflation

Inflation is projected to remain below 5% in 12 months ahead but return to target in the medium term.

- **Upside Risks:**
  - Higher domestic growth due to increased investment in the extractive industries and effective implementation of government's programs
  - Further disruptions to global supply chains resulting from escalation of regional and international geopolitical conflicts.
  - Extreme weather conditions could affect supplies to the market resulting in higher food crops inflation
  - A more depreciated exchange rate due to fiscal policy risks and uncertainty associated with the upcoming election cycle
- **Downside Risks:**
  - Appreciation of the exchange rate due to stronger oil related inflows.
  - Softer global inflation and bumper harvest which would result in lower food crop prices
- **Overall, the risks to the inflation outlook are balanced**

Conclusion

- **Economic growth is still projected at 6.0-6.5% in FY 2024/25 and 7.0% in the outer years.Geopolitical risks are heightened and could generate further economic shocks. However, the risks to growth are balanced.**
- **The inflation projections have been revised slightly downwards relative to the previous forecast round.**
    - Inflation is projected to remain below 5% in the near term. However, it is expected to return to target in the medium term
    - The lower inflation projection is due to a stable exchange rate, lower food and oil prices.
    - Stability of the exchange rate is premised on maintaining adequate reserves levels and limited spillover of geopolitical tensions into domestic market.

Policy decision

- There are risks to inflation forecast arising from both the global and domestic environment which requires cautious easing of monetary policy. Overall, the risks to the inflation outlook are balanced.
- **As a result, the BoU reduced the CBR by 25 basis points to 9.75%.**
  - The bands on the CBR remained at +/-2 percentage points
  - The margin on the CBR for the rediscount and bank rates were kept at 3 and 4 percentage points, respectively.
  - The rediscount and bank rates have been reduced to 12.75% and 13.75%, respectively