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MONETARY POLICY STATEMENT FAQs
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1.Bank of Uganda (BoU) has issued the Monetary Policy Statement (MPS) for February 2024. What is the purpose of the MPS?

• BoU, through its Monetary Policy mandate, aims at ensuring stability of prices in the economy. BoU therefore issues the MPS to communicate its Monetary policy stance signaled by changes to the Central Bank Rate (CBR).

• The CBR is a policy interest rate set to influence pricing of financial assets in the economy such as loans, mortgages, treasury bills and bonds, foreign currency etc. Ultimately, changes in the CBR affect the cost of borrowing.

• The MPS therefore communicates changes in the CBR and the rationale in fulfilment of BoU's commitment to firmly contain core inflation (change in the overall price level, excluding prices of items which change rapidly and are beyond the control of policy like food crops, oil prices and administered prices e.g. water and electricity) around the 5% target as well as account for any deviations.

2.What has led to the developments in Uganda's inflation within the past few months?

Annual headline inflation increased to 2.8% in January 2024 from 2.6% in December 2023 with significant price increases noted in annual services inflation specifically passenger transport (taxi, hired car and domestic flights). Core Inflation rose to 2.4% from 2.3% in the same period.

Inflation has remained low reflecting:

• Tight monetary and fiscal policies intended to curb the previously rising inflation
• Continuing vanishing effect of supply-side shocks.
• Declining global inflation.
• Stability of the Uganda shilling relative to other currencies.
• Improved food supply due to favourable improved weather.

3.What should we expect of inflation going forward?

Core inflation is expected to rise to between 4.5%-5.0% in FY 2024/25 and remain around 5% within the next 2 to 3 years. These projections are however subject to a range of uncertainties.

• On the upside,
-The conflict in the Middle East threatens to disrupt global supply chains further as well as raise oil prices leading to an increase in domestic prices.
-Additionally, volatility in international financial markets and foreign exchange markets could lead to a weaker Uganda shilling as portfolio outflows are triggered further.

• On the downside, softer global inflation as well as lower domestic and global growth could lead to a decline in domestic inflation.

4.What are the most recent developments in Uganda's Economic growth and what lies ahead?

The recently released quarterly GDP by the Uganda Bureau of Statistics for the 3 months to September 2023 indicates growth of 5.3% primarily driven by growth in household expenditure.

Economic growth is projected at 6% in FY 2023/24. This growth will be supported by the recovery in global demand as well as the current low inflationary environment which will support a recovery in household income stimulating consumer spending. Additionally, the strengthening activity in the oil sector will support investment expenditure.

The outlook for the domestic economy is however subject to uncertainties including:

• Slower-than-expected global and regional growth.
• A resurgence of supply chain distortions if the geopolitical tensions broaden.
• Tighter fiscal policy in part due to unfavorable global financial conditions, which could restrict government development expenditure.
• Higher lending interest rates constraining household consumption and private sector investments.

5.What decision has Bank of Uganda taken on the CBR in the February 2024 Monetary Policy Committee (MPC) meeting?

•Bank of Uganda has maintained the Central Bank Rate (CBR) at 9.5% in February 2024.

•Given the considerable uncertainty regarding economic growth and risks to the inflation outlook, keeping the CBR unchanged is necessary to meet the 5% target in the medium term while at the same time supporting socio-economic transformation.

•Further monetary policy action will depend upon the incoming economic and financial data.