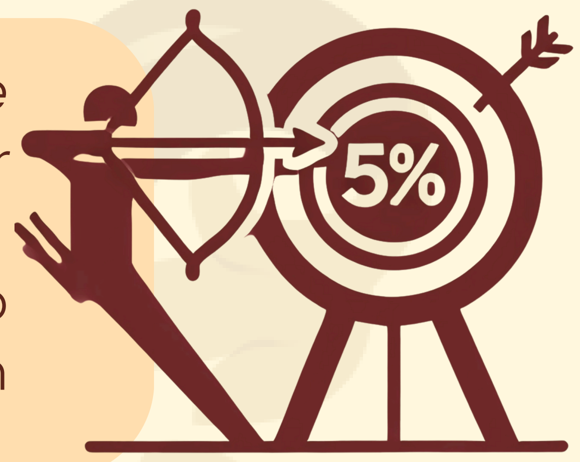
BANK OF UGANDA

MONETARY POLICY STATEMENT - *at a glance*

February, 2025

PRIMARY OBJECTIVES

- Maintain Annual 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 & electricity)* as close as possible to **5%**.
- BoU communicates its decision on the **Central Bank Rate (CBR)**, a policy interest rate intended to influence short-term interbank lending rates & other interest rates in the economy. Ultimately, changes in the CBR affect the cost of borrowing in the economy.



WHAT DECISION HAS BEEN TAKEN AND WHY?

- Bank of Uganda has maintained the Central Bank Rate (CBR) at **9.75%** in **February 2025**.
- The current CBR level supports price stability while fostering sustainable economic growth.

CBR

9.75%

KEY DEVELOPMENTS

INFLATION:

Overall and Core inflation increased to **3.6%** and **4.2%** respectively in January 2025, from 3.3% and 3.9% in December 2024.

3.9% → 4.2%

EXCHANGE RATE:

Previous monetary policy actions and interbank foreign exchange market reforms supported the exchange rate.

ECONOMIC GROWTH:

Growth in the 3 months to September 2024 was **6.7%** up from 6.2% in the 3 months to June 2024.

WHAT DOES THE FUTURE HOLD?

INFLATION PROJECTION

Inflation is projected to be between 4.0% and 5.0% over the next 12 months and to stabilize around the target in the next 2 to 3 years.

Factors that could raise Inflation

- Further disruptions to global trade
- Extreme weather events that could drive up food prices
- Higher import prices
- Increased domestic demand

Factors that could lower Inflation

- Lower world oil prices
- Strengthening of the Uganda shilling

GROWTH PROJECTION

Economic growth for FY2024/25 remains projected between 6.0% and 6.5%; and **7.0%** in the later years.

Factors expected to support Growth

- Stronger investment in oil and minerals
- Effective government interventions

Factors that could constrain Growth

- Unfavorable weather that negatively affects food crop harvests
- Tighter financial conditions
- Slower Global growth

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FAQs: Monetary Policy Statement for February, 2025

1. Bank of Uganda (BoU) issued the Monetary Policy Statement (MPS) for February, 2025. What is the purpose of the MPS?

- The MPS communicates BoU's monetary policy decisions, such as changes to the Central Bank Rate (CBR).
- The CBR is a policy interest rate set to influence pricing of loans, mortgages, treasury bills & bonds, foreign currency etc. Ultimately, changes in the CBR affect the cost of borrowing.
- By controlling the CBR, the BoU aims to ensure price stability by keeping 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 & electricity)* around the 5% target.

2. Why was the CBR maintained at 9.75% in February 2025?

- The BoU's Monetary Policy Committee (MPC) maintained the CBR at 9.75% because this level supports price stability while fostering sustainable economic growth.
- While inflation is expected to stay below the 5% target in the next 12 months, geopolitical tensions and policy uncertainties could trigger fluctuations in economic activity and inflation in the short to medium term.

3. What factors are contributing to the recent trend of low inflation rates in Uganda?

- Inflation remains relatively low, largely due to previous CBR adjustments, stability in the exchange rate driven by reforms in Uganda's interbank foreign exchange market, and declining global inflationary pressures. Additionally, favourable food and energy prices have supported stable inflation.
- In January 2025, annual headline and core inflation rose to 3.6% and 4.2%, respectively, from 3.3% and 3.9% in December 2024, primarily due to an increase in services inflation, particularly in passenger transport services.

4. What should we expect of inflation going forward?

- BoU expects core inflation to range between 4.0% and 5.0% in 2025. While inflation remains well-contained over the next 12 months, external risks could drive fluctuations.
- Inflation should gradually stabilize around the 5% target in the next 2-3 years.

5. What risks could affect inflation in the coming months?

- Inflation could be higher than projected if:
  - Geopolitical conflicts escalate, further disrupting global supply chains.
  - Extreme weather conditions affect agricultural production, leading to higher food prices.
  - Domestic economic growth strengthens due to increased investments in the extractive industry and government projects.
  - The US dollar appreciates strongly, exerting pressure on the Ugandan shilling and increasing import costs.

- On the other hand, inflation could be lower than projected if:
  - The shilling strengthens due to higher foreign investments related to oil development,
  - Global oil prices decline due to economic slowdown due to trade disputes.

6. What is the current economic growth outlook for Uganda?

- Uganda's economy continues to strengthen, with GDP growth in Q1 FY2024/25 at 6.7%, up from 6.2% in the previous quarter. Economic activity is mainly supported by growth in industrial activity.
- Economic growth is projected to remain within the range of 6.0% to 6.5% for FY2024/25 and is expected to reach 7.0% in the next 2-3 years, driven by: a stable macroeconomic environment, foreign direct investment in mining and oil, strategic government interventions, increased agricultural production and expected oil revenues.

7. What factors could impact growth?

- Growth could be higher than projected if:
  - Investments in the extractive industry increase.
  - Government interventions and accommodative monetary policies enhance economic activity beyond expectations.

- On the other hand, growth could be lower if:
  - Unfavourable weather conditions affect agricultural output.
  - Tight financing conditions and reduced external funding constrain domestic budget execution.
  - Global trade conflicts and disruptions slow global economic growth.
  - Global financial conditions tighten due to emerging challenges, negatively affecting the Ugandan economy.

8. How will the Bank of Uganda decide on future changes to the CBR??

Future adjustments to the policy rate will be guided by incoming data and a continuous evaluation of risks.

Scan to read the February 2025 Monetary Policy Statement