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Monetary Policy Statement for December 2024

On 5 December 2024, the Bank of Uganda (BoU) Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75%.

Domestic inflation remains subdued. Over the twelve months leading up to November 2024, annual headline and core inflation averaged 3.3% and 3.5%, respectively. This stability is largely due to previous monetary policy actions that have supported the shilling exchange rate, declining food crop prices due to favourable weather, and diminishing global inflationary pressures. Specifically, in November 2024, annual headline inflation remained steady at 2.9%, while core inflation slightly decreased to 3.8% from 3.9% in October 2024, driven by a decline in services inflation, particularly in passenger transport services.

Looking ahead, Uganda's positive economic prospects, strengthened by capital inflows into the mining and oil industries, could continue supporting the shilling exchange rate. Along with favourable food and oil prices and decreasing global inflationary pressures, this is expected to keep inflation low. The BoU projects that average core inflation will remain below the medium-term target of 5%, averaging 3.7% in FY2024/25 and 4.2% in FY2025/26. However, inflation is expected to stabilize around the target of 5% in the medium term.

There are several risks to the inflation forecasts. On the downside, inflation could be lower if:

- The shilling exchange rate appreciates, partly due to stronger capital inflows related to oil development.
- Global growth and inflation remain low.

On the upside, inflation could be higher if:

- Global inflation, which is still above targets in several economies, reverses its declining trend due to heightened geopolitical tensions.
- Severe depreciation pressures arise from tight global financial conditions due to potential policy reversals in advanced economies, leading to capital flight to safer havens.
- Geopolitical tensions intensify, disrupting trade and leading to sustained increases in shipping costs or commodity prices, thereby lowering global growth and further limiting the domestic economy's supply capacity.
- Extreme weather conditions drive food prices higher than projected.

Overall, the risks to the inflation outlook are balanced.

Economic activity remains strong, with output around its potential. High-frequency indicators of economic activity and business sentiment suggest sustained strengthening in economic activity driven by resilient domestic expenditure. The GDP growth outlook remains unchanged since the October 2024 Monetary Policy Statement, with growth expected to be 6.0-6.5% in FY2024/25 and 7.0-7.5% over the medium term. This growth trajectory is supported by strategic government interventions, increased foreign direct investment in the extractive industry, and the commencement of oil production in FY2025/26.

However, this growth outlook remains considerably uncertain. On the downside, growth could be lower if:

- Heightened geopolitical risks and potential changes to global trade and fiscal policies trigger additional economic shocks, disrupting trade and supply chains and resulting in higher commodity prices, especially oil.
- Ongoing tightness in domestic financial conditions persists, leading to higher borrowing costs. Increased domestic borrowing to finance fiscal deficits may crowd out the private sector and worsen the already limited private sector credit.
- The capacity of fiscal policy to respond to emerging global shocks is constrained.

On the upside, growth could be higher if:

- Government interventions result in improvements in productivity growth.
- Investment is stronger in the extractive industries.
- The global economy picks up supporting exports, remittances, tourism, and foreign direct investment.
- Weather conditions are favourable, supporting crop production.

Overall, the risks to the growth outlook are balanced.

The MPC noted that although inflation is projected to remain below target in the near term, geopolitical conditions and policy uncertainty could contribute to increased volatility in economic activity and inflation in the short to medium term. Consequently, the MPC maintained the policy rate at 9.75%. The bands on the CBR remain at +/-2 percentage points, and the margins on the CBR for the rediscount and bank rates at 3 and 4 percentage points, respectively. As a result, the rediscount and bank rates remain at 12.75% and 13.75%, respectively.

At the current CBR level, the monetary policy stance remains conducive to sustainable economic growth amid price stability and supports Uganda's socio-economic transformation. Future adjustments to the policy rate will be guided by incoming data and a continuous evaluation of risks to inform the MPC's decisions.

Michael Atingi-Ego
Deputy Governor
5 December 2024