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Monetary Policy Statement for June 2024

On 4 June 2024, the Bank of Uganda's Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 10.25%.

Domestic inflation has risen moderately, lower than previously projected, largely due to the exchange rate stabilising with a bias towards appreciation since March 2024. The relative stability of the Ugandan shilling against the US dollar has benefited from recent CBR increases and inflows from robust coffee exports owing to favourable international coffee prices.

Uganda's inflation remains among the region's lowest with an average of 3.2% in the twelve months to May 2024. Nonetheless, annual headline inflation rose to 3.6% in May 2024 from 3.2% in April 2024, while core inflation increased to 3.7% from 3.5%. The inflation uptick is primarily driven by rising healthcare, education, and transportation service costs, coupled with higher prices for solid and liquid fuels. Services inflation has climbed to 6.2% from 5.4%. Similarly, electricity, fuel and utilities (EFU) inflation has risen to 9.5% from 7.4%, reflecting recent increases in international energy prices and lagged effects of the shilling's past depreciation. However, tight monetary conditions, declining global inflation, and a favourable domestic food supply have partially offset inflationary pressures.

Looking ahead, inflation in FY2024/25 is projected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. The inflation forecast has been slightly revised downwards relative to the April 2024 round, largely due to a less depreciated shilling exchange rate. Inflation is expected to rise and average between 5.0% and 5.4% in the short term (12 months ahead) before stabilising around the medium-term target of 5% in the second half of 2025.

Uncertainties persist around the inflation outlook, including the potential impacts of an escalation in the ongoing geopolitical tensions in the Middle East, possible energy price hikes, unfavourable weather patterns affecting food supply and production capacity pressures. Materialisation of these risks could imply stronger inflationary pressures. Additionally, persistent global inflation and higher interest rates could cause heightened volatility in capital flows and the exchange rate, resulting in higher domestic inflation than currently assumed. Conversely, inflation may undershoot projections if monetary policy reduces demand more than anticipated or global demand weakens further, resulting in lower imported inflation.

Although the Ugandan economy remains resilient, recent economic indicators have been mixed but consistent with growth which is projected at 6% in FY2023/24. Indeed, the composite index of economic activity (CIEA) suggests a slowdown, with growth at 0.9% quarter-on-quarter and

5.3% year-on-year in the quarter to April 2024. Nevertheless, economic growth for FY2024/25 is projected between 6.0% and 6.5%, rising above 7% in subsequent years.

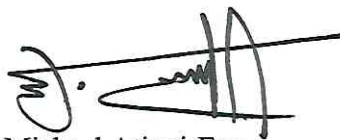
However, risks to the growth outlook remain. Uncertainty about the global economic situation and a stronger shilling depreciation could weigh on domestic demand. Private sector credit growth could weaken further due to tighter domestic financing conditions, resulting in lower demand. External factors such as a weaker global economy and escalating geopolitical conflicts could further impede growth through supply chain disruptions, higher freight costs, and reduced export demand.

Furthermore, like several other countries, Uganda faces decreased capital inflows, headwinds to export growth, and heavy external debt servicing partly due to rising global interest rates. This, combined with declining budget support, has resulted in declining international reserves. Coupled with concerns over debt affordability and constrained financing options, this has led to a downgrade of the country's sovereign credit rating, though with a stable outlook, reaffirming that these challenges are short-term. Going forward, rebuilding international reserves will require increased coordination of monetary and fiscal policies.

On a positive note, more favourable weather conditions leading to good food crop harvests, higher government and private sector investment in the extractive industry, and government intervention programs could boost economic activity.

The MPC assessed that while the near-term balance of risks around inflation remains skewed to the upside, the current monetary conditions are adequate to contain inflation around the medium-term target of 5%. As a result, the MPC maintained the CBR at 10.25%. 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. Consequently, the rediscount and bank rates will remain at 13.25% and 14.25%, respectively.

This decision supports the objectives of bringing inflation to its medium-term target while supporting economic growth, consistent with socio-economic transformation. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.



Michael Atingi-Ego
Deputy Governor

4 June 2024