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# Monetary Policy Statement for April 2024

On 8 April 2024, the Bank of Uganda's Monetary Policy Committee (MPC) increased the Central Bank Rate (CBR) to 10.25%.

Inflation indicators from the Uganda Bureau of Statistics for March 2024 reveal a marginal decline in headline inflation to 3.3% from 3.4% in February 2024. This decrease is primarily attributed to the reduction in food crop inflation, which declined to -0.4% from 0.5%. Conversely, services inflation experienced a slight increase to 5.5% from 5.4%, while core inflation remained steady at 3.4%. The prevailing conditions of reduced aggregate demand and increasing supply are mitigating strong inflationary pressures; however, risks of elevated inflation persist.

The recent CBR increase has had a spillover effect of stabilizing the shilling exchange rate. However, the shilling remains vulnerable due to outflows of short-term foreign investor funds from the domestic market in search of attractive yields in other markets and strong domestic demand by corporates. The weakening of the shilling significantly impacts domestic prices, which could push inflation higher.

The evolution of inflation remains challenging, influenced by factors such as the shilling exchange rate, supply-side shocks, global inflation, and domestic food supply. Forecasts have been adjusted downwards compared to the previous round, largely due to the relative stability of the shilling exchange rate. However, short-term projections indicate inflation may rise to between 5.5% to 6% within 12 months ahead, with a return to the medium-term target of 5% anticipated in the second half of 2025.

Significant upside risks to the inflation outlook persist, including geopolitical tensions in the Middle East, potential energy price hikes, tighter global financial conditions that could lead to a stronger depreciation of the shilling exchange rate, and unfavourable weather patterns. On the contrary, inflation may undershoot expectations if monetary policy reduces demand more than anticipated, and global growth deteriorates sharply, resulting in lower import prices.

While the economy retains resilience, recent high-frequency indicators suggest a slight downturn in near-term growth. Uncertainty surrounding the global economic outlook, shilling depreciation, and tight domestic financial conditions could dampen domestic demand. Nonetheless, economic growth for FY 2023/24 is forecast at approximately 6%, and subsequent years are expected to hover between 5.5% to 6.5%.

A further rise in inflation may dampen household real incomes, leading to reduced consumer spending, while high raw material import costs could constrain investment expenditure. Shortfalls in tax revenue relative to targets may necessitate tax hikes or increased domestic financing, which could potentially crowd out private sector credit growth. External factors such as a weaker global economy or escalated geopolitical conflicts could further impede growth through disruptions to supply chains and reduced export demand.

Considering the persistent upside risks to inflation, the MPC deemed it necessary to tighten monetary policy further to anchor inflation around the medium-term target of 5%. Consequently, the CBR has been raised by 25 basis points to 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. As a result, the rediscount and bank rates will be 13.25% and 14.25%, respectively. The increase in the CBR is a prudent measure to address the heightened inflation risks.

This monetary policy stance balances the need to contain inflation while supporting sustainable economic growth, which is essential for Uganda's socio-economic transformation. The MPC stands prepared to respond to any materialisation of the identified risks.

Michael Atingi-Ego
Deputy Governor
8 April 2024