BANK OF UGANDA

37/45 Kampala Road. P.O. Box 7120, Kampala.
Telephone: 256-414-258441/6, 258061, 0312-392000, 0417-302000
Telex: 61069/61344; Fax: 256-414-233818
www.bou.or.ug info@bou.or.ug

Monetary Policy Statement for February 2025

On 6 February 2025, the Bank of Uganda (BoU) Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.75%.

Domestic inflation has evolved as previously projected, supported by monetary policy actions and reforms in the Interbank Foreign Exchange Market, which have contributed to the deepening of the foreign exchange market and the stability of the exchange rate. Additionally, favourable food and energy prices, along with relatively low global inflation, have also helped support domestic inflation. Over the twelve months leading up to January 2025, annual headline and core inflation averaged 3.4% and 3.8%, respectively. However, annual headline and core inflation in the month of January 2025 rose to 3.6% and 4.2%, from 3.3% and 3.9% in December 2024, mainly driven by an increase in services inflation, particularly in passenger transport services.

Despite the seasonal rise in food prices, near-term inflation appears well-contained. However, the short to medium-term outlook is more uncertain than usual, with risks largely stemming from the external environment. Accordingly, the BoU forecasts that average annual core inflation will be between 4.0 and 5.0% in 2025. It is expected to stabilize around the target in the medium term.

Several risks could affect the inflation forecasts. Inflation could be higher than projected if:

- Domestic growth is stronger, driven by increased investment in the extractive industry (mining and drilling) and effective government program implementation.
- Geopolitical conflicts escalate, disrupting global supply chains further.
- Extreme weather events and long-term environmental shifts affect agricultural output, causing price hikes.
- The US dollar appreciates strongly against major currencies, exerting pressure on the shilling, increasing import costs, and posing inflationary risks.

Conversely, inflation could be lower than projected if:

- Stronger capital inflows cause the exchange rate to appreciate.
- World oil prices decline due to a slowdown in global growth as a result of trade wars.

Overall, the risks to the inflation outlook are assessed to the upside.

Economic activity continues to strengthen, and business confidence remains positive despite headwinds from the challenging global environment as well as constrained private sector credit growth. The latest quarterly GDP release from the Uganda Bureau of Statistics (UBOS) indicates that real GDP growth in the first quarter of 2024/25 was 6.7%, up from 6.2% in the fourth quarter of 2023/24 and 5.6% in the first quarter of 2023/24, driven by a significant recovery in industrial activity. Business sentiments suggest that economic activity remains buoyant.

Going forward, economic growth is still projected at 6.0-6.5% in FY 2024/25 and 7.0% in the outer years, supported by a stable macroeconomic environment, foreign direct investment towards the extractive sector, strategic government interventions aimed at wealth creation, increased agricultural production, and anticipated oil revenue.

However, there is considerable uncertainty surrounding this growth outlook. Growth could be lower than projected if:

- Adverse weather conditions hinder food crop harvests.
- Tight financing conditions and the need for more domestic budget financing due to reduced external financing of projects.
- Global developments including heightened risks of trade conflicts as well as disruption of trade and supply chains, result in slower global growth.
- Global financial conditions tighten due to emerging challenges, adversely affecting the Ugandan economy.

Conversely, growth could be higher than projected if:

- There is increased investment in the extractive industry.
- Government interventions and accommodative monetary policies boost growth beyond expectations.

Overall, the risks to the growth outlook are tilted to the downside.

The MPC noted that although inflation is expected to rise in the near term, it will return to target in the medium term. Uncertainties from global developments could cause inflation to rise faster and disrupt economic activity. This situation necessitates a cautious approach to monetary policy.

As a result, the MPC kept the CBR at 9.75%. The CBR bands stayed at +/-2 percentage points, and the rediscount and bank rates remained 3 and 4 percentage points above the CBR, respectively. Therefore, the rediscount rate is 12.75%, and the bank rate is 13.75%.

The MPC believes the current CBR level is adequate to control inflation while fostering Uganda's economic growth and socio-economic transformation. Future adjustments to the CBR will depend on new data and evaluation of risks.

Michael Atingi-Ego
Deputy Governor
6 February 2025