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Monetary Policy Statement for April 2019

Bank of Uganda (BoU) has in the April 2019 Monetary Policy Committee (MPC) meeting decided to maintain the Central Bank Rate (CBR) at 10 percent. The current level of the CBR is consistent with the BoU's policy stance of maintaining inflation around the target of 5 percent while supporting economic growth.

The economy is projected to be operating around its potential economic growth of 6-6.5 percent. The upturn in the Ugandan economy since the beginning of 2017 is expected to continue, partly supported by accommodative monetary policy, higher growth in government consumption and investment, strong pick-up in private investment and consumption, and improved agricultural performance. However, economic activity seems to be softening. Indeed, the BoU's Composite Index of Economic Activity (CIEA) and other high frequency indicators of economic activity point to a slight moderation in real economic activity in the first quarter of 2019.

In addition, downward risks to the projected economic growth momentum have increased since the previous round of forecasts. The risks largely revolve around unresolved trade tensions, which are affecting global and domestic trade and investment activities. Elevated political and policy uncertainty in the global economy in an environment of limited policy space could weigh further on global growth and subsequently on Uganda's economic growth. In particular, a combination of lower global growth, weather-related constraints to agricultural production, delays in implementing of public investment programmes and a weaker shilling could dampen Uganda's economic growth.

The March 2019 Consumer Price Index (CPI) data released by the Uganda Bureau of Statistics (UBOS) indicates mixed inflation developments. On the one hand, annual headline inflation remained unchanged at 3.0 percent as in February 2019 while annual core inflation rose from 3.7 percent to 4.6 percent, approaching the BoU's medium term policy target of 5 percent. Low headline inflation continues to be supported by low food crops inflation which declined to minus 9.9 percent in March 2019 from minus 4.4 percent in February 2019. Energy Fuel and Utilities (EFU) inflation also declined from 5.9 percent to 5.3 percent over the same period.

Overall, inflation has developed in line with the forecast and the conditions for inflation to remain close to 5 percent in the medium-term (2-3 years) have not changed to any great extent. The inflation outlook over 12-months horizon is unchanged compared to the February 2019 forecast round, although risks remain elevated. However, in the medium-term inflation is slightly higher compared to the previous forecasts. Annual headline and core inflation are now forecast to peak at 6.3 percent and 6.4 percent in the third quarter of 2021. The risks to the outlook include the future direction of food crops prices in the wake of uncertain weather conditions; the strength of domestic aggregate demand and the path of the exchange rate, the latter being in part contingent on the external economic environment.

Taking account of the available information, the BoU judges that keeping the stance of monetary policy unchanged at this MPC meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time. Therefore, the BoU has decided to maintain the CBR at 10 percent. The band on the CBR will remain at +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. Consequently, the rediscount rate and the bank rate have been set at 14 percent and 15 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR

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