

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
Web site: www.bou.or.ug E-mail address: info@bou.or.ug

Monetary Policy Statement for December 2018

Bank of Uganda (BoU) has decided to maintain the Central Bank Rate (CBR) at 10 percent. The 12-months ahead inflation forecast has improved slightly relative to October 2018 forecasts. However, upside risks to inflation outlook remain elevated.

Domestic economic activity is projected to remain on a steady expansion path in FY2018/19 and over coming years, keeping output slightly above potential. The BoU's Composite Index of Economic Activity (CIEA) indicates stronger economic performance in the first 10 months of 2018, with an annualised growth rate of 7 - 8 percent. This is an indication that economic growth in FY2018/19 could be higher than the previous projection of 6 percent.

The strong growth is in part supported by the accommodative monetary policy stance and the associated rebound in private sector credit extension, ensuing strong domestic demand conditions, multiplier effects of public infrastructure investments and improved agricultural productivity. The positive growth performance is expected to be sustained over the coming years, partly driven by public infrastructure investment. The Medium-Term Fiscal Framework indicates that public investment should remain at a high level, which should, in turn, continue to have positive spill over effects on private sector investment activity and spending.

Nonetheless, there are risks to the projected economic growth momentum including the slow execution of public investment projects; unpredictable weather conditions, which could affect agricultural productivity; and the slowdown in global growth and global financial uncertainty, which could affect the external position.

In addition, growth in Private Sector Credit, though on a recovery path, remains below its historical trend and its contribution to economic growth could be weighed down by increased public borrowing requirements and the associated further increase in lending interest rates.

The Consumer Price Index (CPI) data released by the Uganda Bureau of Statistics (UBOS) indicates that inflation remained subdued; with annual headline inflation remaining stable at 3.0 percent in November 2018. Core inflation on the other hand declined marginally to 3.4 percent from 3.5 percent in October 2018. The low inflation environment continues to be supported by low food inflation.

The near-term (three to six months) inflation forecasts are lower compared to the October 2018 inflation forecast round, largely driven by a less depreciated exchange rate. Core and headline inflation are forecast to peak at 6-6.5 percent and 5.1 percent in the second half of 2019, which are lower than the previous forecasts by 1 and 0.7 percentage points, respectively. However, the medium-term inflation outlook remains relatively unchanged from the previous forecast, with inflation forecast to converge to the BoU's target of 5 percent. There are nonetheless upside risks to the outlook including the future direction of food crops prices; the path of the exchange rate, which in part is contingent on external economic environment; and the ensuing demand pressures on account of the positive output gap.

The BoU's Monetary Policy Committee (MPC) assessed the risks and uncertainties surrounding the inflation and growth outlook. Based on the assessment, the MPC 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

5th December 2018