

BANK OF UGANDA



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Monetary Policy Statement for October 2026

The Monetary Policy Committee (MPC) of the Bank of Uganda (BoU), at its special meeting held on 14 October 2026, raised the Central Bank Rate (CBR) by 225 basis points, from 9.75 percent to 12.0 percent.

The MPC assessed that the global economic environment has changed significantly since its August 2026 meeting, mainly owing to the escalation of the conflict in the Middle East and the resulting global uncertainty. These developments have adversely affected the current account deficit and increased exchange rate volatility, intensified depreciation pressures which could amplify inflation, necessitating a tight monetary policy stance. The current account deficit has deteriorated by US\$1.4 billion to US\$4.6 billion because of lower agricultural commodity prices especially coffee and cocoa, lower tourism receipts due to temporary travel restrictions amidst rising oil prices. Specifically, in the 12 months to August 2026, the goods deficit worsened to US\$2.8 billion from US\$2.4 billion in August 2025. Services deficit deteriorated to US\$3.3 billion from US\$2.2 billion largely due to freight charges and the primary income deficit increased to US\$1.7 billion from US\$1.4 billion. However, the secondary income continued to improve to US\$3.1 billion from US\$2.7 billion on account of higher remittances.

Headline inflation rose to 4.6 percent in September 2026 from 4.1 percent in August 2026, driven by higher food crop prices, and higher fuel prices due to the onset of the pass-through of the weaker Shilling. Core inflation, though still modest, has risen gradually from 3.0 percent in May 2026 to 3.5 percent in August 2026 and 3.7 percent in September 2026. This steady rise indicates that cost pressures are beginning to spread more broadly.

Over the 12 months to September 2026, annual average headline and core inflation remained moderate at 3.4 percent and 3.3 percent, respectively, below the medium-term target of 5 percent for core inflation, reflecting the continued effectiveness of monetary policy. Nevertheless, global economic conditions have become less favourable. Heightened geopolitical tensions in the Middle East have disrupted key shipping routes and energy infrastructure, contributing to higher global oil prices, elevated freight and insurance costs, and increased uncertainty in international

financial markets. These developments have heightened imported inflation risks and added to exchange rate pressures across emerging and frontier markets, including Uganda.

Significant global risk aversion due to heightened uncertainty and rising interest rates in advanced economies have increased attractiveness of investing abroad relative to investing in Ugandan financial assets. This has limited capital inflows there by contributing to the exchange rate depreciation. The resulting depreciation, together with elevated international oil prices, has raised domestic fuel pump prices, further adding to inflationary pressures.

The near-term inflation outlook continues to be characterised by rising international energy prices, exchange rate depreciation pressures and increasing domestic food prices. The inflation outlook has therefore been revised upwards on account of these factors. Core inflation is now projected to average 5.5-6.0 percent and headline inflation 7.0-7.5 percent over the next 12 months.

Risks to the inflation outlook remain tilted to the upside. These include a potential escalation of geopolitical conflicts and related increases in energy, transport and input costs; renewed Shilling depreciation pressures; adverse weather affecting agricultural output and food prices; and stronger domestic demand or sustained pass-through of higher fuel and food costs into core inflation and expectations. On the downside, favourable weather that boosts food supply, weaker global or domestic demand, and a sharper decline in international commodity prices could ease inflation.

Economic activity has remained resilient despite a more challenging external environment, although the pace of growth has moderated. Growth is projected at 6.4 percent in the quarter ending September 2026, down from the 6.8 percent as reported by UBOS for the quarter ending June 2026. Private-sector activity continued to expand, albeit at a slower pace, with business confidence remaining positive despite a moderation in September 2026. Consumer sentiment weakened marginally, reflecting less favourable expectations regarding the economic outlook.

The October 2026 forecast round projects economic growth of 6.0–6.5 percent in FY2026/27, revised down from the previous projection of 7.0–7.5 percent. The downward revision largely reflects tighter global and domestic financial conditions, the recent exchange rate depreciation, and the adverse effects of heightened geopolitical uncertainty and elevated global energy prices on domestic economic activity. As these headwinds, which are predominantly external, are expected to ease over time, growth is projected to strengthen to an average of about 8 percent over the medium term. This will be supported by private investment, stronger exports, anticipated oil-sector developments and continued implementation of the Government's Tenfold Growth Strategy.

Nevertheless, risks to the growth outlook remain tilted to the downside. These include persistent pressures from elevated international energy and transport costs, prolonged geopolitical and trade disruptions, adverse weather conditions, and tighter-than-anticipated domestic and external financial conditions. On the upside, stronger-than-

expected private investment, favourable weather conditions, and an easing of global tensions could support higher growth.

The global economic environment remains highly uncertain, characterised by heightened geopolitical tensions, elevated international crude oil prices, and tighter global financial conditions. These developments have intensified depreciation pressures on the Shilling and increased the risk of exchange rate pass-through to domestic prices. Although core inflation remains below the medium-term target, projections suggest that inflation may rise fairly rapidly in the near term following the sharp exchange rate depreciation. However, considerable uncertainty surrounds this outlook, particularly with respect to developments in the global economy. The fuel shock seems persistent, and this, combined with exchange rate depreciation and effects of El Nino weather could cause inflation to be entrenched if monetary policy does not contain these price pressures now.

In this regard, the BoU raised the Cash Reserve Requirement (CRR) to 13.5 percent from 11 percent, effective 24 September 2026 to prevent excess liquidity from becoming a destabilising factor and to strengthen monetary policy transmission. However, persistent external pressures, continued risks of exchange rate depreciation, and the prospect of higher inflation underscore the need for further monetary policy tightening. Accordingly, the MPC has raised the Central Bank Rate (CBR) by 225 basis points to 12.0 percent in October 2026. This is intended to contain inflationary pressures, limit second-round effects from higher energy prices and exchange rate depreciation, and anchor inflation expectations around the medium-term target. The CBR band is maintained at ± 2 percentage points, while the rediscount rate and the bank rate remain at 3 and 4 percentage points above the CBR, respectively, resulting in a rediscount rate of 15.0 percent and a bank rate of 16.0 percent.

The MPC will continue to assess domestic and global economic developments and stand ready to take additional measures, as warranted, to preserve price and financial stability.



Michael Atingi-Ego

Governor

14 October 2026