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Monetary Policy Statement for August 2026

On 13 August 2026, the Monetary Policy Committee (MPC) of the Bank of Uganda (BoU) maintained the Central Bank Rate (CBR) at 9.75%.

In the 12 months to July 2026, annual headline and core inflation both averaged 3.3 percent supported by prudent monetary and fiscal policies. However, inflation has picked up gradually in recent months, partly due to supply-side pressures. Annual headline inflation rose to 4.0 percent in July 2026, up from 3.7 percent in June, driven mainly by higher Energy, Fuel and Utilities (EFU) inflation and rising food crop prices. EFU inflation increased to 14.9 percent, up from 11.9 percent, largely reflecting higher petroleum product prices combined with a weaker Shilling. Food crop inflation rose to 1.6 percent, up from 0.0 percent in June 2026.

The current inflation data does not show broader price pressures spreading through the economy as a result of the increase in oil prices. Indeed, annual core inflation held steady at 3.4 percent in July 2026, while services inflation eased slightly, from 4.9 percent to 4.8 percent.

The inflation outlook has improved compared to the previous forecast round, mainly due to lower international oil prices relative to their May 2026 peak. However, international oil prices have remained volatile, blurring the near-term outlook. Exchange rate pressures have also eased, with the Uganda Shilling stabilising after depreciating earlier in the year. As a result, the inflation forecast has been revised downward, with core inflation projected to average 4.0–4.5 percent over the next 12 months and headline inflation projected to average 5.5–6.0 percent over the same period.

Risks to this outlook remain tilted to the upside, including:

- A prolonged inflationary surge which would prompt major central banks to raise interest rates, thereby increasing depreciation pressure on the Shilling due to capital flight to safety.
- Escalating geopolitical tensions, which could disrupt global supply chains, push up international oil prices, and raise domestic energy and transport costs.
- Adverse weather conditions that could reduce agricultural output and drive-up food prices.
- A stronger positive output gap, which could generate additional demand-side inflationary pressure.

The downside risks that could ease inflation include:

- Favourable weather conditions that improve agricultural output and food supply.
- Weaker domestic growth, for instance if a prolonged conflict in the Middle East weighs on global growth, thereby dampening domestic demand and inflationary pressures.

The Ugandan economy has remained resilient amid persistent global headwinds. Economic growth in FY2025/26 is estimated at 6.4 percent, supported by strengthening private sector credit that further increased household consumption and investment, as well as government spending. Credit conditions continued to improve, with both demand for and supply of credit increasing, supported by easing lending rates and improved asset quality. The external position also strengthened, with the overall balance of payments recording a surplus of US$2.4 billion in the 12 months to June 2026, resulting in a similar increase in foreign exchange reserves.

Growth is projected to accelerate to between 7.0 and 7.5 percent in FY2026/27 and around 8.0 percent over the medium term. This projected growth is supported by prudent monetary and fiscal policies, remittance inflows, higher investment and exports boosted by oil production. In addition, the continued implementation of the Government's Tenfold Growth Strategy is expected to accelerate growth in strategic sectors and promote exports through value addition and increased agricultural production.

Nonetheless, the balance of risks to the growth outlook remains tilted to the downside. Key downside risks include:

- Energy prices and supply chain pressures remain elevated and uncertain and continue to affect global growth, constraining external demand, and could disrupt trade and investment flows and weigh on economic activity.

- Increase in protectionism and trade disruptions could worsen the supply chains and constrain domestic activity.
- Residual effects of recent health-related travel advisories and Ebola-related restrictions, which could dampen tourism and related services activity.

On the upside, growth could exceed expectations if:

- Investment in the extractive sector is stronger than anticipated.
- There is de-escalation of the geopolitical tensions resulting in a better global growth outlook, thereby lifting external sector demand.
- Robust credit flow and the government's continued thrust on infrastructure stimulate investment activity more than currently projected.

While inflation remains modest, the risk that higher food, fuel and other input prices will translate into a broad-based increase in inflation persists. Therefore, clarity on the inflation outlook, particularly its path and underlying drivers, is needed before considering further policy action. Given the elevated risk of energy-related price shocks feeding through to domestic inflation expectations, a cautious monetary policy stance remains appropriate.

Against this backdrop, the MPC maintained the CBR at 9.75 percent to preserve price stability, while allowing time to assess global developments and their implications for the inflation outlook. 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 12.75 percent and a bank rate of 13.75 percent.

The Bank of Uganda remains committed to promoting price stability in support of socioeconomic transformation. Future monetary policy decisions will remain firmly data-dependent, guided by the evolving outlook and balance of risks.

Michael Atingi-Ego
Governor
13 August 2026