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Monetary Policy Statement for May 2026

The Monetary Policy Committee (MPC) of the Bank of Uganda (BoU), at its meeting held on 14 May 2026, maintained the Central Bank Rate (CBR) at 9.75 percent. The Committee assessed that, although risks arising from the conflict in the Middle East could exert upward pressure on inflation, the current monetary policy stance remains appropriate and well aligned with prevailing macroeconomic conditions.

Over the 12 months to April 2026, inflation remained below the medium-term target of 5 percent, reflecting the continued effectiveness of monetary policy. Annual headline and core inflation averaged 3.4 percent and 3.5 percent, respectively. However, the conflict in the Middle East has resulted in significantly higher global oil prices and heightened uncertainty surrounding the economic outlook. In April 2026, inflation edged up slightly as the gradual pass-through of higher energy costs began to materialise. Headline inflation increased to 3.0 percent in April 2026 from 2.8 percent in March 2026, largely driven by energy, fuel, and utilities (EFU) inflation. Core inflation also rose marginally to 3.0 percent from 2.9 percent, while inflation for other goods remained unchanged at 2.0 percent. There is a strong likelihood that the oil price shock will continue to transmit through the economy in the near term, leading to increases in the prices of other goods and services. Indeed, month-on-month core inflation rose to 0.5 percent in April 2026 from zero in March 2026. Although sustained increases in fuel prices could generate broader second-round inflationary pressures across the economy, it remains too early to fully assess the magnitude and persistence of these effects.

Uncertainty surrounding the duration and severity of the conflict, as well as its implications for the Ugandan economy, has clouded the outlook. Based on the assumption that global oil prices have peaked and are expected to gradually decline to pre-conflict levels by 2027, the near-term

inflation outlook has been revised upwards, with core inflation projected to range from 5.0 to 5.3 percent over the next 12 months. Over the medium term, the effects of the oil shock are expected to ease gradually, and inflation is projected to stabilise around the target of 5.0 percent.

Risks to the inflation outlook remain elevated. On the upside, a key risk is that the conflict could become more prolonged and lead to larger and more persistent increases in global oil prices, thereby generating broader inflationary pressures. So far, the conflict has contributed to a depreciation of the Uganda shilling of about 5.4 percent between February and April 2026. Should central banks in advanced economies tighten monetary policy to contain inflation, this could exert additional pressure on the shilling and consequently raise inflation. Adverse weather conditions also remain a major risk to agricultural production and food prices.

On the downside, weaker global growth associated with prolonged geopolitical tensions could dampen domestic demand and moderate inflationary pressures, while favourable weather conditions could improve agricultural output and food supply, thereby easing inflation. Furthermore, if uncertainty intensifies significantly, households and businesses may reduce spending, which could moderate inflationary pressures but also weaken economic growth. Overall, the balance of risks to the inflation outlook remains tilted to the upside.

Although the Ugandan economy continues to face challenges arising from global developments and geopolitical uncertainty, it remains on an upward trajectory. Real economic growth strengthened in the first half of FY2025/26, supported by broad-based improvements across the agriculture, industry, and services sectors. During the first two quarters of FY2025/26, economic activity expanded at a pace consistent with the current potential growth, averaging 6.7 percent. On the expenditure side, growth was driven by strong expansion in both consumption and investment. High-frequency indicators of economic activity continue to point to resilience in private sector activity, signalling sustained economic expansion. Consequently, economic growth is still projected in the range of 6.5–7.0 percent in FY2025/26.

The forecast for GDP growth in FY 2026/27 remains broadly unchanged from the February 2026 projection round. While the conflict in the Middle East could alter the sectoral composition of growth, higher global oil prices, in particular, could increase the value of Uganda's oil exports even as they place pressure on household consumption and business costs. Over the medium term, economic growth is projected to average around 8.0 percent, supported by stronger export growth and increased business investment.

Nonetheless, the balance of risks to the medium-term growth outlook remains tilted to the downside. Elevated geopolitical tensions continue to pose risks through persistently high energy prices, particularly if global conflicts endure. If energy prices remain elevated over the forecast horizon due to a prolonged or more severe conflict, household disposable incomes and consumption growth could weaken, while businesses may scale back investment spending. Additional downside risks stem from geoeconomic fragmentation, heightened global policy uncertainty, and adverse weather conditions that could negatively affect agricultural production, food supply, and rural incomes. On the upside, stronger-than-expected investment in the extractive sector could further boost economic activity. Moreover, a faster-than-anticipated resolution of ongoing geopolitical conflicts, coupled with increased global oil supply and the reopening of key transport routes, could lower global oil prices and support stronger economic growth.

The MPC assessed that inflation could rise moderately during the second half of 2026 before stabilising around the medium-term target. However, uncertainty remains unusually elevated, with a wide range of possible outcomes depending on the duration of the conflict, implying that monetary policy needs to remain agile and responsive. Against this backdrop, the Monetary Policy Committee judged it appropriate to maintain the CBR at 9.75 percent as it continues to assess developments in the global economic environment. 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.

Monetary policy remains focused on mitigating the impact of the current fuel price increase on inflation, while supporting the economy's adjustment to global headwinds. In the context of the increasingly challenging global environment, and to contain liquidity conditions in the banking system while ensuring that inflation expectations remain anchored around the medium-term target, the BoU increased the Cash Reserve Requirement (CRR) to 11 percent from 9.5 percent in March 2026.

Future monetary policy decisions will remain firmly data dependent and guided by the evolving outlook and balance of risks. As the outlook evolves, the BoU stands ready to take appropriate action as necessary.



Michael Atingi-Ego
Governor
14 May 2026