

FUNDAMENTALS

UGANDA MPC UPDATE: REDUCED RESTRICTIVE POLICY STANCE

The bottom half of the cover features a large, semi-circular orange shape on the left and two smaller orange circles on the right, all set against a background of blue, wavy, geometric patterns. The date '09 AUGUST 2024' is printed in white at the bottom right.

09 AUGUST 2024



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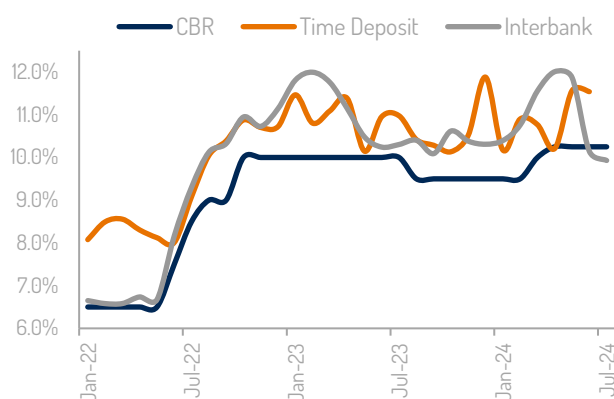
IN BRIEF

- The Bank of Uganda (BoU) reduced the Central Bank Rate (CBR) by 25bps to 10.0%, the first cut since the 50bps cut effected in the August 2023 MPC meeting. The BoU expects that inflation will remain below the medium-term target of 5.0%, despite the hiccup in the recent inflation outturn.
- Whereas the BOU expects inflation to rise moderately in the next four months before stabilizing around the 5.0% target, the continued unwinding of past shocks to energy and other imported goods inflation may have a cooling effect on inflation outturn. Given the broadly balanced risk assessment, the policymakers reduced the level of policy restrictiveness with the latest policy rate decision.
- The July 2024 inflation print with both the headline and core printing 4.0%, although showing slight reversal in the disinflation trend, entrenched this low inflation environment. Nevertheless, the MPC were concerned with the uptick in services inflation.
- The Purchasing Managers Index (PMI) for Uganda has been the top performer amongst the eight African economies surveyed, entrenching the positive sentiment for the investment and consumption economic drivers. Credit to the private sector has remained robust and grew by 7.9% in June 2024 compared to 4.7% in the comparable period of last year, despite the restrictive monetary policy stance.
- The Bank of Uganda announced the Domestic Gold Purchase Programme from artisanal and small-scale miners, mirroring Ghana in 2021 and Tanzania in 2023. With net non-monetary gold proceeds at USD 119.8mn in 1Q2024, the authorities seek to build up its monetary gold as an alternative route of accumulating FX reserves.

Broadly balanced risk assessment paves way for lowering policy restrictiveness

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KEY RATES



SOURCE: BANK OF UGANDA

The progress with moderating inflation persists despite near-term bumps

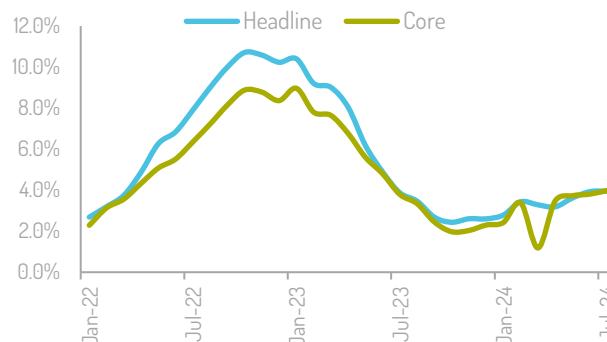
The authorities project inflation to stabilize at 5.0% in 1Q2025. Uganda's inflation has been one of the lowest, at 4.0% levels, compared to other countries in our coverage. The July 2024 inflation print with both the headline and core printing 4.0%, although showing slight reversal in the disinflation trend, entrenched this low inflation environment. Nevertheless, the MPC were concerned with the uptick in services inflation in the core segment, that ticked up 40bps to 6.5% y/y in July 2024 compared to the previous month's level. Increase in passenger transport, accommodation, recreation, sports and culture items pushed the slight uptick in the Services inflation.

Rebound in consumption activities albeit the prior tighter monetary stance

Real GDP grew by 6.6% in the first quarter of this year and was broad-based across all sectors. The Purchasing Managers Index (PMI) for Uganda has been the top performer amongst the eight African economies surveyed, entrenching the positive sentiment for the investment and consumption economic drivers. Credit to the private sector has remained robust and grew by 7.9% in June

2024 compared to 4.7% in the comparable period of last year, despite the restrictive monetary policy stance. As such, we are of the view that Uganda will attain the authorities' projected 6.0% real GDP growth in FY25.

INFLATION TREND



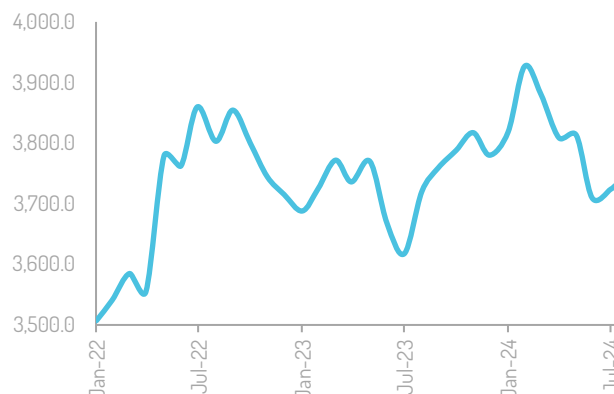
SOURCE: UGANDA BUREAU OF STATISTICS, BANK OF UGANDA

UGX depreciation pressure has abated

The cumulative 75bps hike in the March and April MPC meetings helped to reverse the UGX depreciation bias. To be exact, UGX has appreciated 5.3% from its February 2024 lows and has resulted in a modest 1.3% YTD appreciation. Given this appreciation bias, the risk of imported inflation has been minimized. Higher coffee prices have boosted external balance outlook, giving UGX a shot in the arm at least in the near-term.

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USDUGX SPOT EXCHANGE RATE



SOURCE: BLOOMBERG



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