FUNDAMENTALS

UGANDA MPC UPDATE
STAYING THE COURSE

07 FEBRUARY 2025

Economist
Churchill Ogutu
+254 711 796 739
churchill.ogutu@ic.africa

IN BRIEF

- The Monetary Policy Committee (MPC) of the Bank of Uganda (BoU) retained the Central Bank Rate at 9.75% in its February 2025 meeting. This was the second successive HOLD decision with the balance of risks tilted to the downside against a fluid uncertain external sector environment.
- The highly fluid external backdrop was salient in the MPC statement. Although there have been retaliatory measures by the initial target countries of additional import tariffs imposed by the US, the tariffs are increasingly becoming a key policy lever under the Trump administration.
- The balance of risks is less optimistic at the February 2025 meeting compared to the MPC's assessment during the December 2024 MPC meeting. The policymakers expect core inflation to average 4.5% this year, up from an average of 3.6% actualized in 2024.
- There has been a slow transmission of the previous policy easing to the real sector. The Bank of Uganda lowered the policy rate by a cumulative 50bps in the second half of last year, although change in commercial banks' lending rates has been flat.
- Unlike the Central Bank of Kenya's explicit tone on penalties for banks that delay lowering their lending rates, the BoU's benign approach implies a much longer transmission lag. Nevertheless, with the 2025 MPC calendar showing the shift from bi-monthly meetings to quarterly MPC sessions, the longer time frame for policy monitoring from 2months to 3months between MPC meetings should allow for better policy finetuning.

BOU in a holding pattern

The Monetary Policy Committee (MPC) of the Bank of Uganda (BoU) retained the Central Bank Rate (CBR) at 9.75% in its February 2025 meeting. This was the second successive HOLD decision with the balance of risks tilted to the downside against a fluid uncertain external sector environment. The MPC meeting was the first meeting as the apex bank pivots to quarterly MPC meetings from the hitherto bi-monthly frequency. Headline inflation edged higher in January 2025, stoked by services inflation whereas private sector credit growth remains low on elevated lending rates. The authorities' choice for a less frequent annual MPC sessions lends credence to the weak transmission to the real sector. Given the need to enhance forecast accuracy, this probably suggests the authorities will be availing point forecasts in future MPC statements as opposed to the barn door 50bps variance estimates on the real GDP growth.

Highly fluid external environment takes center stage

The highly fluid external backdrop was salient in the MPC statement. Although there have been retaliatory measures by the initial target countries of additional import tariffs imposed by the US, the tariffs are increasingly becoming a key policy lever under the Trump administration. Amidst the highly fragile environment, the US Dollar has advanced 0.7% YTD although the Uganda Shilling has shown some stability with a 0.1% YTD appreciation and shored by USD 3.3bn official reserve assets. Another emerging issue to African Central Banks is penciling in the impact of the Federal Funding Freeze that was enforced and is aimed at scaling back US foreign assistance. The sense we took from the BoU's post-MPC briefing, and an earlier engagement by the Central Bank of Kenya (CBK), is a layer of uncertainty. Furthermore, the direct impact of the funding freeze will be partly cushioned by the fiscal response in plugging the financing shortfall although most of the US-funded beneficiary projects were largely in the non-state sector.

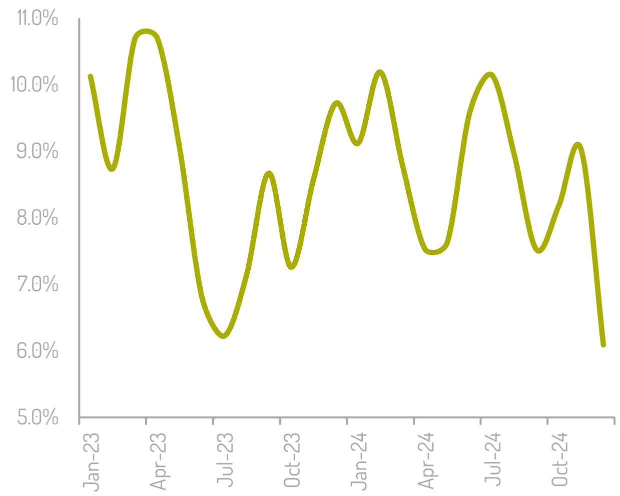
Upside risks to inflation outlook

The balance of risks is less optimistic at the February 2025 meeting compared to the MPC's assessment during the December 2024 MPC meeting. The policymakers expect core inflation to average 4.5% this year, up from an average of 3.6% actualized in 2024. Strong economic demand pressures, more so driven by investments in the extractive sector, escalating geopolitical risks and extreme weather events are likely to lift upside inflation risks in 2025. The authorities flagged services inflation that lifted headline and core inflation in January 2025 to 3.6% and 4.2%, respectively. The UGX could endure depreciation pressure should the trade war-induced external environment deteriorate, heightening the goods and overall inflation outlook.

Rigidity in commercial banks' lending rates amplifies the weak transmission channel

We observed a slow transmission of the previous policy easing to the real sector. The Bank of Uganda lowered the policy rate by a cumulative 50bps in the second half of last year, although change in commercial banks' lending rates has been flat. With stock of UGX-denominated time and savings deposits at c. 40.0% of total deposits, there has been rigidity by banks to respond to the CBR's signaling effect. Notably, we observed an uptick in the operational 7-day interbank market rate despite the previous rate cuts, suggesting a less smooth policy transmission mechanism. As a result of the transmission inefficiency, growth in private sector credit hit an 18-month low. In the Kenyan case, the CBK's MPC statement was explicit on the penalties to be imposed on banks that fail to lower their lending rates as signalled by the cumulative 225bps rate cuts since August 2024. Unlike the CBK's explicit tone, the BoU's benign approach implies a much longer transmission lag. Nevertheless, with the 2025 MPC calendar showing the shift from bi-monthly meetings to quarterly MPC sessions, the longer time frame for policy monitoring from 2months to 3months between MPC meetings should allow for better policy finetuning.

PRIVATE SECTOR CREDIT GROWTH, Y/Y



SOURCE: BANK OF UGANDA, IC INSIGHTS

For more information contact your IC representative

Investment Banking | Business Development & Client Relations

Derrick Mensah
Head, Investment Banking
+233 308 250 051
derrick.mensah@ic.africa

Kelvin Quartey
Analyst, Business Development
+233 308 250 051
kelvin.quartey ic.africa

Dora Youri
Head, Wealth Management
+233 308 250 051
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 308 250 051
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Economist and Head,
Insights
+233 308 250 051
courage.martey@ic.africa

Churchill Ogutu
Economist
churchill.ogutu@ic.africa

Kwabena Obeng
Associate, Equity Research
+233 308 250 051
kwabena.obeng@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
+233 30 825 0051
emmanuel.dadzoe@ic.africa

Investing

Obed Odenteh
Chief Investment Officer
+233 308 250 051
obed.odenteh@ic.africa

Herbert Dankyi
Portfolio Manager
+233 308 250 051
herbert.dankyi@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 308 250 051
timothy.schandorf@ic.africa

Hannah Mate
Analyst, Risk Assets
+233 308 250 051
hannah.mate@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+233 308 250 051
clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 308 250 051
nanaamoa.ofori@ic.africa

Kelly Addai
Fund Accountant
+233 308 250 051
kelly.addai@ic.africa

Trading

Allen Anang
Sales/Trader, Global Markets
+233 308 250 051
allen.anang@ic.africa

Johnson Asiamah
Trader, Equities
+233 308 250 051
johnson.asiamah@ic.africa

Samuel Kwame Ofori
Trader, Fixed Income
+233 308 250 051
samuel.ofori@ic.africa