

BoU warns of inflation risks amid escalating Iran conflict

Rising global tensions in the Middle East are beginning to ripple through the economy, weakening the shilling and raising fears of higher inflation and increased cost of living.



The shilling has already weakened against the dollar following rising global tensions in the Middle East. This raises concerns over higher inflation, increased import costs, and potential pressure on economic stability. PHOTO / EDGAR R. BATTE

Inflation. |

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Bank of Uganda (BoU) has projected that inflation could rise to 5 percent in the next financial year, up from the 3.1 percent recorded in February.

The projections are largely based on the global economic pressures linked to the ongoing conflict in the Middle East.

According to the central bank, tensions involving Iran, Israel, and the US could disrupt global trade and financial markets, with potential effects on Uganda's economy.

The projection was revealed by Dr Adam Mugume, the Bank of Uganda executive director for research, while presenting a paper on Uganda's macroeconomic indicators during a partnership event between dfcu Bank and the Netherlands-Uganda Trade and Investment Platform.

Dr Mugume noted that the conflict has already begun affecting the local currency.

"The shilling has depreciated by about Shs100 against the dollar in the last two days since the start of the war, and it is dif-

icult to predict what will happen if the conflict continues for a longer period," he said.

He explained that immediately after the conflict began, foreign exchange markets reacted, signaling the possibility of further depreciation of the shilling if the tensions persist.

Dr Mugume also warned that remittances from Ugandans working abroad, particularly in the Middle East, could be affected. Uganda currently receives about \$1.6b in remittances annually, a significant source of foreign exchange.

In addition, he noted that the country's current account deficit has widened, partly due to increased oil-related imports and disruptions in transportation caused by the conflict.

Despite the projected rise in inflation, the central bank said government will implement mitigation measures to keep inflation within the Bank of Uganda's target of 5 percent.

One of the measures under consideration is adjusting the Central Bank Rate (CBR) to control inflation.

However, Dr Mugume cautioned that raising the rate could reduce money circulating in the economy, which may lower spending.

The International Monetary Fund (IMF) recently warned that increasing the Central Bank Rate could slow economic growth, raise borrowing costs for businesses and households, and increase the risk of financial instability, while at the same time, excessive rate hikes can lead to recessions, worsen debt burdens, and cause currency volatility.

Projections

5%

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