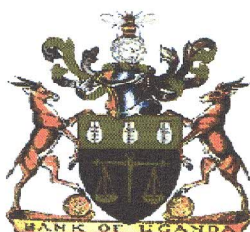


# BANK OF UGANDA



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## Monetary Policy Statement for April 2013

The annual rates of both headline and core inflation rose in March 2013. Annual headline inflation rose to 4.0 percent from 3.5 percent in February 2013, mainly because of a rebound in monthly food crop prices. Food crop prices rose in March 2013 for the first time since November 2012. Most of the increase in annual core inflation (which excludes food crops, energy, fuel and utilities), from 5.6 percent in February 2013 to 6.8 percent in March 2013, is explained by the base effect arising from the fall in core prices in March 2012, the month from which the annual inflation rate is measured. Monthly core inflation fell in March 2013, to 0.4 percent from 0.9 percent in February 2013.

There are signs of increased buoyancy in the economy. Preliminary quarterly GDP data from the Uganda Bureau of Statistics for the first half of 2012/13 indicate that real growth accelerated in that period, driven by strong growth in the services, construction and manufacturing sectors. The recent trends in the index measuring economic activity also indicate that the recovery continued in the third quarter of 2012/13. As such, it is possible that the negative output gap, that characterised the economy in 2011/12, has narrowed significantly. Total private sector credit grew in line with the pickup in GDP, although Shilling denominated loans remain subdued.

Compared to the macroeconomic outlook in recent months, we believe that the short term prospects for economic growth have now improved, and that the constraints to economic growth from deficient

aggregate demand are now receding. Although inflationary pressures are relatively subdued for the most part, we expect that annual core inflation is likely to remain at about 1-2 percentage points above the BOU's target of 5 percent for the next few months, given the base effects mentioned earlier and the short term macroeconomic forecasts. Nevertheless, we expect core inflation to fall back towards 5 percent later in 2013.

Given that the medium term forecast for inflation is still in line with BOU's target of 5 percent, and that a recovery of real output is gaining momentum, the BoU will maintain a neutral monetary policy stance and hold the Central Bank Rate (CBR) at 12 percent in April 2013. The band on the CBR will be maintained at +/-2 percentage points and the margin on the rediscount rate will be maintained at 3 percentage points on the CBR. Consequently, the Rediscount rate and Bank rate will be maintained at 15 percent and 16 percent, respectively.



**Prof. Emmanuel Tumusiime-Mutebile**

**Governor**

**April 03, 2013**