

BANK OF UGANDA



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Monetary Policy Statement for March 2014

Inflation abated in February 2014, with annual headline and core inflation declining to 6.7 percent and 3.7 percent from 6.9 percent and 4.6 percent respectively in January 2014. Annual non-food inflation also declined to 4.8 percent in February 2014 from 5.2 percent in January 2014, although annual food inflation remains high, having declined only slightly to 10.9 percent. The decline in inflation was largely driven by the strengthening of the exchange rate, which over the 12 months to February 2014, had appreciated by 7.0 percent.

The Bank of Uganda (BoU) forecasts that annual core inflation will be in the range of 4 - 5 percent in the next few months, while increasing to between 5.5 percent and 6.5 percent over the next 12 months. Nonetheless, there are potential risks of stronger inflationary pressures, including those arising from possible further exchange rate depreciation, stronger domestic demand especially from the fiscal sector and an increase in food prices on account of the current drought and regional food supply shortfalls. The magnitude and timing of possible declines in foreign aid are also a source of uncertainty for the Balance of Payments and the economy.

Real GDP growth in 2013/14 is projected to be relatively buoyant, supported by fiscal stimuli, strengthening global environment, strong inflows of Foreign Direct Investment (FDI), and household consumption. However, there are risks to this growth outlook emanating from weak bank credit growth.

Given the current projections of annual core inflation, and real GDP growth, the Bank of Uganda believes that a neutral monetary policy stance is warranted in March 2014. Therefore, the Bank of Uganda will maintain the Central Bank Rate (CBR) at 11.5 percent in March 2014. The band on the CBR will be maintained at +/-2 percentage points and the margin on the Rediscount rate at 3 percentage points on the CBR. Consequently, the Rediscount rate and the Bank rate for March 2014 will be 14.5 percent and 15.5 percent, respectively.



Emmanuel Tumusiime-Mutebile (Prof.)

Governor

March 04, 2014