

# BANK OF UGANDA



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## Monetary Policy Statement for May 2013

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Inflation remained relatively subdued in April 2013. Annual headline and core inflation declined to 3.4 percent and 5.8 percent from 4.0 percent and 6.8 percent respectively in March 2013. Annual non-food inflation however remained stable at 6.8 percent. The monthly core inflation rate also decelerated to 0.2 percent from 0.3 percent in March 2013. Monthly headline inflation however rose to 1.4 percent in April, largely on account of food crops inflation, which rose to 8.8 percent from 3.8 percent in March 2013.

The output gap has narrowed, in part boosted by the reduction in the CBR from 23 percent in February 2012 to 12 percent in December 2012. The underlying economic momentum is expected to remain positive over the medium term. Real GDP growth for FY 2012/13 is now projected at 5.3 percent and is projected to rise to between 6 and 7 percent in 2013/14. The annual growth in monetary aggregates also continues to show signs of recovery. Commercial bank lending has been restrained by structural factors including those associated with the closure of the Land Registry. As these constraints are alleviated, we expect growth in lending to accelerate. Lending rates have continued to decline but I believe that there is still room for further reductions.

In the medium-term, core inflation is expected to stabilize around the BoU target of 5 percent. Nonetheless, there are potential risks of stronger inflationary pressures emanating from both domestic and external factors. These include the uncertainty in the global economy, upside risks to global commodity prices, and a stronger stimulus to domestic demand from the public and private sectors. In addition, energy prices are projected to rise in the near-term. This will have a one-off impact on the price level but it may also have more persistent second round effects on inflation.

In light of the above, I believe that a neutral monetary policy stance is warranted. Accordingly, the BoU will maintain the CBR at 12 percent in May 2013. The band on the CBR will be maintained at +/-2 percentage points on the CBR 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**

**May 03, 2013**