

# BANK OF UGANDA



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## Monetary Policy Statement for October 2014

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Annual headline inflation fell to 1.4 percent in September 2014 from 2.8 per cent in August 2014, mainly due to falling food prices. Annual food and food crops inflation decelerated to **minus** 2.8 percent and **minus** 1.9 percent from **minus** 0.2 percent and 1.5 percent in August 2014, respectively. Annual core inflation also declined to 2.0 per cent in September 2014 largely driven by the lagged impact of exchange rate appreciation experienced in 2013.

Bank of Uganda's (BoU) medium term macroeconomic forecasts remain largely unchanged since the last Monetary Policy Committee (MPC) meeting held in August, 2014. Over the next three months, annual core inflation is forecast to be within the range of 2-4 percent and to rise to around 5 percent over the next 12 months, which is consistent with the Bank's target. Core inflation is forecast to rise over the medium-term because of an increase in domestic demand and the impact of the exchange rate depreciation that has taken place since February 2014. Upside risks to the medium term inflation forecast largely emanate from the possibility that domestic demand is likely to be stronger than forecast and both domestic and external factors especially global financial instability might adversely affect the exchange rate.

Real economic growth is projected to strengthen in 2014/15 to about 6 percent, supported by a fiscal stimulus, a rebound in agricultural production, faster private sector credit growth and increased foreign direct investment. The risks to the growth forecast mainly emanate from supply-side factors and weaknesses in the external economic environment.

Given Bank of Uganda's macroeconomic forecasts, which indicate that both real growth and core inflation will be close to their targets over the medium term, the Bank has decided to maintain a neutral monetary policy stance and leave the Central Bank Rate (CBR) unchanged at 11.0 percent in October and November 2014. The band on the CBR will be maintained at plus/minus two 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 October and November 2014 will remain at 14.0 percent and 15.0 percent, respectively.

A handwritten signature in black ink, reading "Louis Kasekende". The signature is written in a cursive style with a large initial "L".

**Louis A. Kasekende (PhD)**

**Deputy Governor**

**October 14, 2014**