

# BANK OF UGANDA



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## Monetary Policy Statement for January 2013

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Inflationary pressures remain under control despite the moderate rise in both headline and core inflation in December 2012. Annual headline and core inflation rose to 5.5 percent and 4.6 percent, respectively in December 2012 from 4.9 percent and 3.9 percent in November 2012. Core inflation nonetheless remains within BOU's medium-term target of 5.0 percent. The rise in inflation in December 2012 is largely attributed to seasonal factors and demand pressures associated with the festive season. Looking ahead, inflation will remain moderate for most of 2013 and stabilise around the BOU medium-term policy target of 5.0 percent. Upside risks to inflation could however emerge in the event of higher global commodity prices, shocks to domestic food production and external shocks to the domestic economy.

The available real economy indicators show that economic activity has started to pick-up, with quarterly GDP expanding by 2.0 percent in the first quarter of 2012/13. The annualized GDP growth of the last three quarters of 2012 which was 5.2 percent was much higher than previously projected. Growth in monetary aggregates is also picking-up although private sector credit growth remains subdued partly on account of the high lending rates on shilling denominated loans. Given the lag in the monetary policy transmission mechanism, I expect a further reduction in lending rates. A stronger economic growth recovery should start in the later part of 2013 as the accommodative monetary policy stance pursued in 2012 and improvement in credit extensions feed through to private domestic expenditure. Furthermore, the improving global economic outlook may strengthen domestic economic activity in the near term.

The BOU's monetary policy will continue to focus on maintaining low and stable inflation without compromising economic growth. The Bank considers the current stance of monetary policy to be accommodative and supportive of the economic growth as well as anchoring inflation expectations around the medium-term target. Therefore, BoU will maintain the Central Bank Rate (CBR) at 12.0 percent. The band on the CBR will be maintained at +/- 3 percentage points on the CBR and the margin on the rediscount rate at 4 percentage points on the CBR. The Rediscount Rate and the Bank Rate will thus remain at 16.0 percent and 17.0 percent, respectively in January 2013.

**Prof. E. Tumusiime-Mutebile**

**GOVERNOR**

**January 03, 2013**