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Monetary Policy Statement for May 2012

Inflationary pressures continued to ease in April 2012, declining for the sixth consecutive month. Annual headline and core inflation declined to 20.3 per cent and 22.8 percent, respectively in April 2012, from the peaks of 30.5 per cent and 30.8 percent, respectively in October 2011. Annual food inflation also declined to 15.1 percent in April 2012 from a peak of 50.4 percent in September 2011. The decline in inflation over the last six months vindicates Bank of Uganda's (BoU) monetary policy stance aimed at curbing inflationary pressures. Furthermore, the sharp decline in monetary and credit aggregates which began in Q4-2011 has now flattened out.

The main risk to continued falls in inflation is the upward surge in food prices since February 2012. Furthermore, food prices could rise further between May and July 2012. Month-on-month food crops inflation averaged 7.2 percent in the last three months compared to minus 2.9 percent in the three months to January 2012 and this has spilled over into core inflation. Non-food inflation has also remained sticky, at about 23.0 percent since October 2011, although aggregate demand remains subdued.

The global economic outlook is somewhat brighter than in the previous months, though downside risks and long-term challenges remain. Though oil prices eased in April, concerns of supply shocks which could cause oil