BANK OF UGANDA

37/45 KAMPALA ROAD, P.O. BOX 7120, KAMPALA;
Telephone: 256-414-258441/6, 258061, 0312-392000, 0417-302000. Telex: 61069/61344; Fax: 256-414-233818
Web site: www.bou.or.ug E-mail address: info@bou.or.ug

Monetary Policy Statement for April 2015

Inflation remained relatively subdued in March 2015 with annual core inflation edging up to 3.7 per cent from 3.3 per cent in February 2015. The rise in core inflation was in part driven by the pass-through effects of the exchange rate depreciation on the prices of imported goods. Annual headline inflation also rose in March to 1.9 per cent from 1.6 per cent in February 2015. The low rates of headline inflation are mainly attributable to the negative food crop inflation which is the result of a good harvest in 2014/15.

Indicators of economic activity point to strong real Gross Domestic Product (GDP) growth in the first half of 2014/15, supported by faster growth in private sector borrowing. Although economic growth may have slackened off in the third quarter of the current fiscal year, actual real output is now estimated to be slightly above its potential level. Real output growth may accelerate over the medium term stimulated by higher public investment spending and private consumption, pushing real output even further above potential, which may exert upward pressures on prices for goods and services in the domestic economy.

The balance of payments is a source of weakness for the economy and this has been reflected in the pressures on the exchange rate in the last three months. The current account deficit remains large, and is likely to be in the region of

8.5 per cent of GDP in 2014/15, despite savings on the import bill as a result of lower oil prices, whereas financial account inflows have weakened over the last few months. Over the medium term, the current account will adjust to ensure external balance. The Bank of Uganda (BOU) will intervene in the foreign exchange market to curb disruptive volatility in the exchange rate, as was the case in March 2015, but will not try to impede the real exchange rate from adjusting smoothly where this is needed to maintain external balance.

The depreciation of the exchange rate and faster real GDP growth will exert upward pressure on inflation over the medium term. The BOU forecasts that core inflation will rise to around 5 per cent by the middle of 2015 and, in the absence of any adjustment to the monetary policy stance, will rise to a range of 7-9 per cent by June 2016. Furthermore, the BOU judges that the balance of risks to the inflation forecast are on the upside, especially because of the potential pressures from the exchange rate.

Therefore, to forestall a rise in core inflation over the medium term, above the BOU's policy target of 5 per cent, the BOU will tighten monetary policy, by raising the Central Bank Rate (CBR) by 1 percentage point to 12 per cent. 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. The rediscount rate and the bank rate will therefore be increased to 15 per cent and 16 per cent, respectively.

Prof. Emmanuel Tumusiime-Mutebile
Governor

April 08, 2015