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 August 2013

Annual inflation picked up in July 2013; Headline and core inflation rose to 5.1 percent and 6.4 percent, from 3.6 percent and 5.8 percent, respectively in June 2013. The increase in annual inflation is attributed to food prices, particularly prices of processed foods, which are likely to be transitory. In contrast, annual and monthly non-food inflation remained virtually unchanged in July 2013. Monthly core inflation edged down to 0.4 percent in July 2013 and remains consistent with achieving an annual rate of core inflation of 5 percent over the medium term.

Real economic growth is forecast to increase to 6 percent in 2013/14. However, the downside risks to growth remain. The decline in private sector imports in the first six months of 2013 coupled with relatively subdued pace of credit extension suggests a softening of aggregate demand. The decline in lending interest rates from 27 percent a year ago to 22.6 percent in June 2013 will contribute to increasing private sector investment and a strengthening of economic growth over time, which is consistent with achieving the inflation objective. Therefore, economic activity is projected to gradually regain some momentum in the later part of 2013/14 and projections of medium to longer-term growth paint a robust growth.

As was indicated in the July 2013 policy statement, risks to the inflation outlook remain on the upside. The growing inflationary pressures originate from domestic supply-side, along with the prospects of increases in oil prices due to geopolitical factors in the Middle East and North Africa (MENA) region. Demand pressures remain moderate and still do not pose a risk to the inflation outlook. The Bank of Uganda (BoU) forecasts suggest that annual headline and core inflation is likely to increase slightly in the next three to six months largely driven by the effect of drought on domestic food production and prices. Nevertheless, the impact of drought is expected to be temporary. Once these effects dissipate, annual inflation is expected to fall back and stabilise around the BoU target of 5 per cent.

On the basis of the current assessment of the global and domestic economic conditions and outlook, and given that the 12 month forecast for core inflation is very close to the BoU's target of 5 per cent, a neutral monetary policy stance is warranted. Therefore, BoU will keep the Central Bank Rate (CBR) at 11 percent in August 2013. The band on the CBR will be maintained at +/-2 percentage points on the CBR and the margin on the rediscount rate at 3 percentage points on the CBR. The rediscount rate and the bank rate for August 2013 will therefore remain at 14 percent and 15 percent respectively.

Monetary policy going forward will continue to be guided by the objective of anchoring inflation expectations around the medium term target of 5 per cent while mindful of the need to support economic growth.

Prof. Emmanuel Tumusiime-Mutebile

Governor

August 5th 2013