



# BANK OF UGANDA

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## Monetary Policy Statement, August 2014

Inflation remains subdued. Annual Headline inflation edged down in the last three months to July 2014 due to food crop inflation that has averaged minus 5.1 percent month-on-month. Core inflation averaged 3.1 percent in the same period, which is below the Bank of Uganda's (BoU) medium-term target of 5 percent. In July 2014, annual Headline inflation declined to 4.3 percent from 5.0 percent in June 2014, largely on account of a decline in food inflation, which fell from 17.2 percent to 12.9 percent during the same period. Monthly core inflation has picked up slightly in the past 3 months mainly as a result of exchange rate depreciation.

The latest economic indicators suggest that the domestic economy continues to register favourable performance and economic growth is projected to be in the range 5.5 – 6.5 percent in FY 2014/15. Over the last twelve months, lending interest rates have declined somewhat and private sector credit has picked up strongly. The expansionary financial conditions continue to have the expected effects on the economy as reflected in the strengthening of private consumption growth. Going forward, I expect economic growth momentum to be sustained, anchored by domestic demand with additional support from the improved external environment.

The key uncertainties for the domestic economy continue to be centred on the timing and extent of the pickup in domestic investment and the prospects for export demand. It is possible that consumption and investment could be stronger than expected. In addition, there are external risks as the global economic outlook remains subject a considerable degree of uncertainty. Prospects for global economic activity in 2014 are weaker than earlier anticipated but are expected to gather momentum in 2015. Financial and commodity markets also remain vulnerable to instability as geopolitical risks remain elevated.

The BoU macroeconomic forecasts remain unchanged since the last Monetary Policy Committee meeting. Core inflation is forecast to remain in the range of 4 - 5 percent in the third quarter of 2014, increasing to 5.5 – 6.5 percent over the next 12 months. Given the assessment, the BOU's judgement is that the current monetary policy stance is appropriately configured to foster sustainable growth in demand and inflation outcomes consistent with the medium term target of 5 percent. Therefore, the BOU will maintain the Central Bank Rate (CBR) at 11.0 percent in August-September 2014. 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. Consequently, the Rediscount rate and the Bank rate for August-September 2014 will remain at 14.0 percent and 15.0 percent, respectively.

The BoU will continue to carefully assess the evolution of risks to the global and domestic economy and the implications of these risks for the overall outlook of domestic inflation and growth. Any future changes in the monetary policy stance will be guided by the implications of domestic and external macroeconomic conditions on the inflation outlook.

**Prof. Emmanuel Tumusiime-Mutebile**  
Governor

August 14, 2014