

BANK OF UGANDA



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Monetary Policy Statement for August 2015

Both annual headline and core inflation rose to 5.4 per cent in July 2015 from 4.9 per cent in the previous month. The increase in consumer goods prices cut across all subcomponents of the consumer price index (CPI) basket, except food-crop prices, which declined by 3.9 percent over the preceding month. The momentum of price increases remained high for services and other goods category reflecting the impact of exchange rate depreciation.

The outlook for domestic economic activities has not greatly changed since the last Monetary Policy Committee (MPC) meeting. Indicators of economic activity point to a relatively strong real Gross Domestic Product (GDP) growth in 2015, supported by public investments, faster growth in private sector borrowing and a recovery in the agricultural sector. However, commodity prices have continued to falter, and this continues to be a source of uncertainty on export growth. In addition, the risks coming from the global economic situation continue to adversely affect macroeconomic developments in Uganda.

There are several risks around the inflation outlook. These include the future path of the exchange rate, which will in part be influenced by external developments, and the speed with which the recent depreciation feeds through to higher inflation.

The Bank of Uganda (BOU) conditional inflation forecast reflects elevated risks to inflation. In light of the risks to higher inflation referred to above, the BOU believes that a tighter monetary policy stance is warranted to forestall risks of higher inflation to ensure that annual core inflation remains in single digits and converges towards the BOU's policy target of 5 per cent in the medium term.

Therefore, the BOU will raise the CBR by 1.5 percentage points to 16 per cent and will also increase the band on the CBR by 1 percentage point to +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. The rediscount rate and the bank rate will therefore be increased to 20 per cent and 21 per cent, respectively.



Prof. Emmanuel Tumusiime-Mutebile

Governor

August 10, 2015