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Monetary Policy Statement for December 2013

Inflation continued to abate in November 2013. The declines in food prices, stabilization of global oil prices and the strengthening of the shilling have been supportive of easing inflationary trends. Annual headline and core inflation declined to 6.8 percent and 7.0 percent from 8.1 percent and 7.2 percent, respectively in October 2013. Annual food and non-food inflation also declined to 8.1 percent and 6.3 percent, respectively from 10.9 percent and 6.8 percent in October 2013. While monthly headline inflation declined to ***minus*** 0.7 percent in November 2013 from 0.0 percent in October 2013, monthly core inflation remained stable at 0.2 percent, indicating that the deceleration in inflation is mainly explained by the moderation in monthly food crops inflation, which declined to ***minus*** 4.3 percent from ***minus*** 1.1percent in October 2013.

The Bank of Uganda (BoU) forecasts suggest that inflation will edge down further in the coming two to three months driven by crop harvests to about 5.5-6.5 percent but rise to about 6-7 percent during the second half of 2014. Nonetheless, there are potential risks of stronger inflationary pressures emanating from a mix of factors pertaining to domestic demand pressures and global economic recovery. However, annual core inflation will stabilize around the BoU policy target of 5 percent in the medium-term.

Real economic activity continues to show signs of recovery, in part boosted by the accommodative monetary policy stance and public investment. Going forward, the growth momentum will benefit from the private consumption, which is projected to rise as consumer and household credit extension gradually gain momentum. Domestic investment activity is also projected to continue rising. Nonetheless, economic growth remains below potential and downside risks pertaining to the uncertain global economic environment exist.

BoU will continue to assess the global and domestic economic and financial developments and their implications on the overall outlook for inflation and growth of the Ugandan economy, and take appropriate actions to maintain future average annual core inflation around the Bank's medium-term target of 5 percent.

Given the current projections of annual core inflation and the need to further support private sector investment, an accommodative monetary policy stance is warranted. Therefore, the Bank of Uganda will reduce the Central Bank Rate (CBR) by 50 basis points to 11.5 percent in December 2013. 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 December 2013 will be 14.5 percent and 15.5 percent, respectively.

Louis Kasekende

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