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Monetary Policy Statement for February 2015

Inflation remained subdued in January 2015, with annual headline inflation declining to 1.3 percent from 1.8 percent in December 2014. Annual core inflation remained stable at 2.7 percent, the same level as in the previous month. The current low levels of inflation are largely driven by the decline in food prices in 2014 due to a good domestic harvest, lower global inflation and the decline in crude oil prices.

The Bank of Uganda (BoU) high frequency indicators of economic activity point to a pick-up in real economic activity over the last 6 months of 2014. This lends support to the projection of 5-6 percent for real growth in 2014/15, which is in line with the economy's estimated medium-term potential output growth. Growth in 2014/15 is supported by increased public investment and the recovery of private sector credit, which in turn boosts private investment and consumption.

Since the previous meeting of the Monetary Policy Committee in December 2014, several developments have affected the medium term inflation outlook. The sharp depreciation of the exchange rate, which occurred in January 2015, will raise the domestic prices of traded goods. However, lower global oil prices and domestic food crop prices, to the extent that they persist during 2015, will dampen inflationary pressures. Taking account of these developments and the projected strength of economic activity in 2015, the BoU forecasts indicate that core inflation will gradually rise to a range of 4-6 percent over the next twelve months.

The inflation and growth outlook is subject to several risks, both domestic and external. Key risks for the economy include a widening trade deficit, the possibility that investments in the oil sector will be delayed given the fall in global oil prices, possible volatility in global financial markets and an acceleration of domestic demand growth beyond what is currently projected.

Given the medium term macroeconomic forecasts and the balance of risks, the BoU believes that the current monetary policy stance is appropriately configured to deliver its medium term objective for core inflation of 5 percent and to support sustainable real economic growth. Therefore, the BoU will maintain the Central Bank Rate (CBR) at 11.0 percent until the next MPC which is scheduled for April 2015. 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 February/March 2015 will remain at 14.0 percent and 15.0 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

February 12, 2015