

BANK OF UGANDA



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Monetary Policy Statement for March 2013

The outturn for inflation portrays a mixed picture. Annual headline inflation declined to 3.4 percent in February 2013 from 4.9 percent in January 2013, due to a fall in food crops prices. Annual core inflation remained nearly flat; declining marginally to 5.5 percent from 5.6 percent in January 2013. The monthly core inflation, however, accelerated, pointing to a buildup of core inflationary pressures that may need to be checked, if sustained.

The annual growth in monetary aggregates continues to recover, albeit at a modest rate. Shilling denominated loans to the private sector, however, remained stagnant on account of the high lending rates, and the difficulties facing real sector companies. Although real output is still below potential, real GDP growth is projected to gradually recover in 2013 and 2014; a projection which is supported by recent trends in the Composite Index of Economic Activity, that point to signs of increased buoyancy in the economy.

The primary objective of monetary policy remains holding the medium term annual inflation to around the 5 percent target without compromising further recovery of the economy.

The Bank of Uganda's forecast for annual core inflation over the next 12-18 months remains largely unchanged at around 5 percent, though the upside risks have increased somewhat. The recent rise in monthly core inflation and the impact of base effects in the index in the corresponding months of 2012, point to a rise in annual core inflation. On the other hand, the continued weaknesses in growth of

Shilling denominated credit, the current below potential rate of economic growth and the recent buoyancy of foreign exchange inflows which have strengthened the exchange rate, all militate against inflationary pressures.

In view of the above, the Bank of Uganda will maintain the Central Bank Rate (CBR) at 12 percent in March 2013. The band on the CBR will remain at +/-2 percentage points on the CBR and the margin on the Rediscount rate will be maintained at 3 percentage points on the CBR. Consequently, the Rediscount rate and Bank rate will be maintained at 15 percent and 16 percent, respectively.

A handwritten signature in black ink that reads "Louis Kasekende". The signature is written in a cursive style with a large initial "L".

Louis Kasekende (PhD)

DEPUTY GOVERNOR

March 05, 2013