

# BANK OF UGANDA



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## Monetary Policy Statement for July 2015

Due to recent economic developments, Bank of Uganda (BOU) has held a special Monetary Policy Committee meeting (MPC).

The Uganda shilling has continued to decline against the rising US dollar since the previous MPC meeting. During 2014/15, the shilling depreciated by 24 per cent against the US dollar but by 14.7 per cent on trade weighted basis. BOU believes that the volatility of the exchange rate in the recent past has been driven more by sentiments and volatility in international markets than by economic fundamentals. The pass through of the exchange rate depreciation to domestic inflation is yet to be evident.

Annual headline inflation in June 2015 remained unchanged at 4.9 per cent, in large part due to moderation of food crop inflation that declined by 6.6 per cent on a month on month basis. Annual core inflation increased marginally to 4.9 per cent in June 2015 compared to 4.8 per cent in May 2015.

The latest Real GDP released by Uganda Bureau of Statistics points to continued expansion of the economy, albeit at a more moderate pace. Real GDP is estimated to have grown by 5.0 per cent in 2014/15 compared to 4.6 per cent in 2013/14. Domestic demand continues to support growth despite weaker exports. Access to bank financing has continued with credit growth remaining at healthy levels. Although, economic growth outturn for 2014/15 was less than what had been projected, the prospects are for the Ugandan economy to remain on a steady growth path, with domestic demand being the key driver of economic growth.

The recent exchange rate depreciation has raised the risk of higher inflation. As we stated in the June 2015 Monetary Policy Statement (MPS), we will tighten monetary policy to avert any prospects of higher inflation. Therefore, the BOU will raise the CBR by 1.5 percentage points to 14.5 per cent. 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. The rediscount rate and the bank rate will therefore be increased to 17.5 per cent and 18.5 per cent, respectively. We believe that this will be sufficient to hold annual core inflation in the range of 8 - 10 per cent as in the June MPC.

The BOU recognises that there are heightened risks to inflation, economic growth and financial conditions. The BOU will continue to assess these risks to the outlook and take appropriate actions.



**Prof. Emmanuel Tumusiime-Mutebile**

**Governor**

**July 13, 2015**