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Monetary Policy Statement for May 2012

Inflationary pressures continued to ease in April 2012, declining for the sixth consecutive month. Annual headline and core inflation declined to 20.3 per cent and 22.8 percent, respectively in April 2012, from the peaks of 30.5 per cent and 30.8 percent, respectively in October 2011. Annual food inflation also declined to 15.1 percent in April 2012 from a peak of 50.4 percent in September 2011. The decline in inflation over the last six months vindicates Bank of Uganda's (BoU) monetary policy stanc`e aimed at curbing inflationary pressures. Furthermore, the sharp decline in monetary and credit aggregates which began in Q4-2011 has now flattened out.

The main risk to continued falls in inflation is the upward surge in food prices since February 2012. Furthermore, food prices could rise further between May and July 2012. Month-on-month food crops inflation averaged 7.2 percent in the last three months compared to minus 2.9 percent in the three months to January 2012 and this has spilled over into core inflation. Non-food inflation has also remained sticky, at about 23.0 percent since October 2011, although aggregate demand remains subdued.

The global economic outlook is somewhat brighter than in the previous months, though downside risks and long-term challenges remain. Though oil prices eased in April, concerns of supply shocks which could cause oil prices to surge higher remain elevated. Therefore developments in oil prices remain a big factor in BoU's efforts to curb further inflation pressures. Furthermore, although the exchange rate has been relatively stable in April, the weak current account, in part reflecting a combination of weak external demand, declining international coffee prices and the associated exchange rate depreciation pressures are a source of a major upside risk to inflation.

Bank of Uganda recognises that real economic growth is currently below potential. To help stimulate growth, BoU expects to reduce the Central Bank Rate (CBR) later in 2012 once the risks to the inflation outlook have receded.

In light of the current risks to inflation outlook, particularly from high food prices, BoU will maintain a neutral monetary policy stance and hold the CBR at 21 percent in May 2012. The band on the CBR will remain at plus/minus 3 percentage points and the margin on the rediscount rate will remain at 4 percentage points on the CBR. The rediscount rate and the Bank rate will remain at 25 percent and 26 percent, respectively. The BoU remains committed to bringing down inflation and stabilising it around its medium-term target. The revised inflation forecasts for December 2012 and June 2013 indicate inflation in the ranges of 8 to 12 percent and of 5 to 7 percent, respectively. I am therefore confident that BoU will achieve its medium term inflation target of 5 percent.

Prof. Emmanuel Tumusiime-Mutebile
GOVERNOR
May 02, 2012