BANK OF UGANDA

37/45 KAMPALA ROAD, P.O. BOX 7120, KAMPALA;
Telephone: 256-414-258441/6 or 258061, Telex: 61069/61344; Fax: 256-414-233818
Web site: www.bou.or.ug E-mail address: info@bou.or.ug

Monetary Policy Statement for July 2011

The Bank of Uganda is reforming its monetary policy framework to meet the challenges of macroeconomic management generated by the transformation of the economy over the last 10 years, and in particular the rapid growth and diversification of the financial system. These reforms entail the transition to an inflation targeting lite monetary policy framework. The primary policy objective of monetary policy remains unchanged: the control of core inflation over a medium term horizon. The reforms to the monetary policy framework are intended to strengthen implementation of Uganda's medium term macroeconomic framework.

As part of the process of introducing an inflation targeting lite monetary policy framework, the Bank of Uganda will set an interest rate as the operating target of monetary policy. The interest rate will be called the Central Bank Rate (CBR) and will be used to guide 7 day interbank interest rates. The CBR will be set once a month and will be publicly announced, so that it clearly signals the stance of monetary policy during the month. The CBR will be set at a level which is consistent with moving core inflation towards the BOU's policy target of 5 percent over the medium term.

Annual core inflation stood at 12.2 percent in June, which is well in excess of the BOU's policy target. The main reasons for the currently high rate of core inflation are supply side shocks which have driven up the prices of food and fuel, and the depreciation of the exchange rate, which has raised the domestic price of imports. Higher inflation in Uganda's major trading partners has also contributed to higher prices of imports.

Although the supply side shocks to inflation are likely to dissipate over the medium term, the Bank of Uganda is determined to prevent higher rates of inflation from becoming persistent and allowing expectations of higher inflation to take hold. Consequently the Bank of Uganda intends to maintain a tight monetary policy stance, to curb demand for credit and thus dampen inflationary pressures over the next 6-12 months, so as to ensure that core inflation is pulled back towards the target of 5 percent. To tighten monetary policy, the Central Bank Rate will be set at 13 percent for the month of July 2011. The BOU will use its daily secondary market operations in the money market to steer the 7 day interbank rate as close as possible to the CBR.

A technical presentation on the prospects for inflation and the monetary policy stance of the Bank of Uganda will follow.

Prof. Emmanuel Tumusiime-Mutebile

GOVERNOR