

BANK OF UGANDA



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Monetary Policy Statement for April 2014

The inflation outturns in March 2014 were mixed. Annual headline inflation rose to 7.1 percent from 6.8 percent in the previous month, whereas annual core inflation declined to 3.7 percent from a revised 3.9 percent in February 2014. On one hand, low import price inflation and a stronger Shilling have held down core inflation. On the other hand, higher food crop prices were the main reason for the increase in annual headline inflation in March 2014.

Growth of Commercial Bank credit to the private sector picked up slightly in February 2014 but remains sluggish, with year-on-year growth of 6.8 percent which was below the Bank of Uganda projections at the beginning of 2013/14. Average bank lending rates for Shilling denominated loans fell to 20.8 percent in February 2014, the lowest level since mid 2011. Nevertheless, a faster recovery in credit growth may be impeded as banks focus on improving credit quality.

Annual core inflation is forecast to increase gradually over the course of the next twelve months, to a range of 6-7 percent by April 2015, driven mainly by rising prices of traded goods as a result of the strengthening of aggregate demand and the recent nominal exchange rate depreciation. The medium term outlook for annual core inflation is uncertain but projected to remain around the target rate of 5 percent.

Economic growth in 2013/14 is projected at around 6 percent and at 6.5 percent in 2014/15 supported by strong growth in public sector investment activities. There are, however, downside risks to economic growth in the current fiscal year related to the weakness in credit growth and net exports.

Given the outlook for the macroeconomy over the next 12 to 18 months, the Bank of Uganda believes that a neutral monetary policy stance is warranted in April 2014. Therefore, the BoU will maintain the Central Bank Rate (CBR) at 11.5 percent in April 2014. 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 April 2014 will be 14.5 percent and 15.5 percent, respectively.



Emmanuel Tumusiime-Mutebile (Prof.)

Governor

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