

# BANK OF UGANDA



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## Monetary Policy Statement for May 2014

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Inflation outturn for April 2014 indicates that inflation has continued to decline since the beginning of the year. The annual headline and core inflation declined to 6.7 percent and 3.4 percent from 7.1 percent and 3.7 percent, respectively in March 2014. The continued decline in inflation is mainly attributed to the appreciation of the exchange rate since the beginning of 2013 and the moderation of food prices in April 2014.

Inflationary pressures are expected to remain relatively moderate in the near term. However, annual core inflation is expected to rise gradually but remain within the band of 5 percent plus/minus 2 percentage points. Compared with the previous Monetary Policy Statement, the revision in the inflation forecast is minor and the forecasts for the one-to-two year horizon remain virtually unchanged.

Real GDP growth for 2013/14 is projected at about 5.7 percent and cuts across all sectors, with the exception of the agricultural sector. The industrial sector is expected to register the strongest growth partly due to public expenditure on infrastructure. Growth in real economic activity for FY 2014/15 is forecast to remain relatively strong, in the range of 6.0 – 6.5 percent, supported by public investment in infrastructure, domestic demand, and the recovery in global economic activity. Furthermore, the agricultural sector that has shown somewhat weaker performance compared to other sectors is expected to improve in the remaining part of 2014.

Given that the 12-month forecast for annual core inflation is very close to the BOU's medium-term target of 5 percent, a neutral monetary policy stance is warranted. The Bank of Uganda will keep the Central Bank Rate (CBR) at 11.5 percent in May 2014. The band on the CBR will be maintained at +/-2 percentage points on the CBR and the margin on the rediscount rate at 3 percentage points on the CBR. The Rediscount rate and the Bank rate for May 2014 will therefore remain at 14.5 percent and 15.5 percent, respectively.



Louis A. Kasekende (PhD)

Deputy Governor

May 2, 2014