

BANK OF UGANDA



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Monetary Policy Statement for November 2013

Inflationary pressures abated slightly in October 2013, with annual headline and core inflation declining to 8.1 percent and 7.2 percent respectively from 8.4 percent and 7.4 percent in September 2013. Monthly headline and core inflation stood at 0.0 and 0.1 percent in October 2013, a sharp fall from the revised monthly numbers in September 2013. After two months of steep rises, monthly food crop prices declined by 1.0 percent in October 2013.

First quarter data on the real economy indicates a buoyant level of economic activity which if maintained would be consistent with growth of 6 percent or above for the 2013/14 fiscal year. Commercial banks' shilling denominated credit to the private sector has increased for the fourth successive month indicating that bank lending is gaining momentum. Average bank lending rates for shilling denominated loans declined to 22.5 percent in September 2013 from 23.1 percent in the previous month, a reduction which should support further growth in bank lending.

The outlook for inflation over the medium term is still subject to a degree of uncertainty. On a positive note, food prices, which were one of the main drivers of inflation in August 2013 and September 2013, may have peaked, but it is too early to be definitive. The buoyancy of domestic demand may constrain the rate at which core inflation will fall back in the medium term. Our forecast for annual core inflation is that it will be in the range of 6.5-7.5 percent in 12 months' time and that it will fall back towards 5 percent in 2015. This forecast is largely unchanged from the one given in the October 2013 Monetary Policy Statement. We believe that the balance of upside and down side risks to inflation forecasts are roughly even.

Given that annual core inflation is projected to decline to the Bank of Uganda's target of 5 percent in the medium term and that real economic growth is now close to the economy's long-term potential of 6-7 percent growth, we believe that a neutral monetary policy stance is warranted. Therefore the Central Bank Rate (CBR) will be maintained at 12 percent in November 2013. The band on the CBR will be +/-2 percentage points and the margin on the Rediscount Rate will be 3 percentage points on the CBR. Consequently the Rediscount Rate and Bank Rate will be 15 percent and 16 percent, respectively in November 2013.



Prof. Emmanuel Tumusiime-Mutebile

Governor

November 4, 2013