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Monetary Policy Statement for October 2013

Inflation continued to rise in September 2013. Annual headline inflation rose from 7.3 percent in August 2013 to 8.0 percent in September 2013, while annual core inflation increased from 6.6 percent to 6.9 percent in the same period. The rise in inflation continues to be driven by higher food crop prices because of the recent drought. Annual food crop price inflation increased to 16.2 percent in September 2013 from 12.9 percent in the previous month.

Real economic growth for 2012/13 has been revised upwards by the Uganda Bureau of Statistics to 5.8 percent from the preliminary estimate of 5.1 percent. As such, the negative output gap – the slack in the economy caused by below trend economic growth over the last two years – has diminished. Monthly indicators of economic activity suggest that the buoyancy of economic growth was maintained in the first two months of the current fiscal year. In addition, commercial banks' lending to the private sector is starting to recover. Annual growth in bank credit stood at 9.1 percent in August 2013, compared to 6.4 percent in June 2013. Given these indicators of stronger economic activity, the 6.0 percent economic growth projection for 2013/14 can be achieved.

The increase in food prices is temporary and should start to abate by the end of 2013 or the beginning of 2014. This means that, while headline inflation is likely to edge up in the short term, it should start to fall back in the first half of 2014. Our current forecast for inflation indicates that the pass through of the food price shock to non food prices will be relatively small, partly due to the increase in the policy rate – the Central Bank Rate – announced last month. Annual core inflation