BANK OF UGANDA

37/45 KAMPALA ROAD, P.O. BOX 7120, KAMPALA;
Telephone: 256-414-258441/6, 258061, 0312-392000, 0417-302000. Telex: 61069/61344; Fax: 256-414-233818
Web site: www.bou.or.ug E-mail address: info@bou.or.ug

Monetary Policy Statement for April 2012

Inflation has continued to decline for the fifth consecutive month. The annual headline inflation rate peaked in October 2011 and has since dropped by 9.3 percentage points, demonstrating that the Bank of Uganda's monetary policy stance is working. Annual headline and core inflation declined to 21.2 percent and 23.6 percent, respectively in March 2012, from 25.7 percent and 26.7 percent in February 2012. However, annual non-food inflation remained high at 23.8 percent in March 2012, having only fallen by 0.5 percent during the month, and hence is a concern for monetary policy.

The latest macroeconomic indicators point to a rather uncertain outlook. GDP growth in the first half of 2011/12 decelerated. Credit growth has stagnated, although monetary aggregates have begun to pick up. The exchange rate came under strong pressure in March, depreciating by 6.8 percent against the US dollar, which was a larger depreciation than those of our partners in East Africa. The weaknesses in the global economy are adversely affecting Uganda's exports. Global commodity prices, especially oil, rose during March and this threatens to increase pressure on domestic inflation. In addition, domestic food crop prices rose in both February and March because of drought and may increase further in April.

The Bank of Uganda still aims to reduce annual inflation to single digits by the end of this calendar year and to around 5 percent by mid 2013 and it will set its monetary policy to achieve this objective. Although inflation is on a downward path, the risks to the inflation objective have risen, in particular because of the developments in the oil price, the exchange rate and food crop prices that I have just mentioned. Because of these risks, the Bank of Uganda will pause its easing of monetary policy and hold the CBR at 21 percent in April. The band on the CBR remains at plus/minus 3 percentage points and the margin on the rediscount rate remains at 4 percentage points on the CBR. The rediscount rate and the Bank Rate therefore will remain at 25 percent and 26 percent respectively. Once we see the risks to the inflation outlook receding, we will resume easing monetary policy.

Emmanuel Tumusiime-Mutebile
GOVERNOR
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