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Monetary Policy Statement for July 2012

Both annual headline and core inflation continued their downward trend in June 2012, further consolidating the disinflationary progress that has been achieved since the final quarter of 2011. Annual headline and core inflation fell to 18.0 percent and 19.5 percent respectively in June. Since the start of 2012, the monthly headline and core inflation rates have averaged only 0.6 percent and 0.3 percent respectively; inflation rates which when annualised are clearly well below 10 percent.

The BOU's forecasts for inflation take account of both domestic and external factors. On the external front, the weakness of global GDP growth together with lower commodity prices, including fuel prices, has alleviated some of the upside risks to inflation in Uganda. On the domestic front, food crop prices have fallen in the last two months with the onset of the rainy season and will probably decline further in the short term. Although real GDP in quarter 3 of 2011/12 picked up after the poor performance in the previous quarter, real output was still below potential output. The aggregate demand that is below the potential output will also dampen inflationary pressures. Growth in Shilling denominated bank loans has remained very weak since September 2011, partly because of the increase in bank lending rates. In contrast, growth in foreign exchange denominated loans has been robust.

In line with the factors discussed above, the Bank of Uganda is confident that core inflation will fall to single digits by the end of this year and that it will fall further