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Monetary Policy Statement for December 2015

Annual inflation continued to rise, with headline inflation increasing to 9.1 percent in November 2015 from 8.8 percent in October 2015, while core inflation increased to 6.7 percent from 6.3 percent. The increase in inflation is attributable to higher food crop prices, the increase in electricity tariffs, and the effects of exchange rate depreciation.

Nonetheless, monthly core inflation has stabilised in the last three months, after accelerating earlier in the year. The upward impact of the exchange rate depreciation on monthly core inflation has been partly offset by much lower services inflation. This indicates that the tightening of monetary policy since April 2015 has begun to curb inflationary pressures.

The projection for real economic growth for the 2015/16 financial year remains 5 percent. However, there are downside risks to the projected growth, including those emanating from the external economic environment, which remains challenging for the economy and could deteriorate further over the next 12 months.

The major risk factors may include: slower growth in major emerging market economies; further decline in global commodity prices; as well as reduced access to external finance for developing countries due to heightened perceptions of risk, and possible monetary policy tightening in the US. Consequently, our balance of payments in the short to medium term will remain vulnerable to external shocks.

The Bank of Uganda's current inflation forecast over a twelve-month horizon is lower than the estimate that we communicated in October 2015. We forecast that annual core inflation will peak at around 10 percent in the third quarter of 2016, and then gradually decline towards the 5 percent target over the medium term.

As with all forecasts, there are risks associated with this inflation outlook. Future inflation could deviate from the forecast as a result of external shocks and/or shocks to domestic food prices due to the current *El Nino* weather conditions.

Given our macroeconomic forecasts, the Bank of Uganda will hold the Central Bank Rate (CBR) at 17 percent. We believe that this is consistent with stabilising core inflation and returning it to the target of 5 percent over the medium term. The band on the CBR will be maintained at +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. The rediscount rate and the bank rate will be maintained at 21 per cent and 22 per cent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

December 16, 2015