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 November 2012

Inflation continued to abate in October 2012. Annual headline and core inflation declined to 4.5 percent and 4.0 percent respectively from 5.5 percent and 4.9 percent in September 2012. These reductions in inflation have re-enforced the BoU's confidence that core inflation will stabilize at around the medium-term target of 5.0 percent through to the middle of next year.

Although real GDP growth is projected to rise to 5.0 percent in 2012/13, from 3.4 percent in the previous fiscal year, it will still be below the economy's potential of 6.5 – 7.0 percent per annum. The main constraints to a faster recovery in the short term are the weak domestic demand and the risks and uncertainties in the global economy.

Uganda's current account of the balance of payments continues to be weak. The BoU will support the gradual adjustment of the real exchange rate which is necessary to reduce the current account deficit to sustainable levels. BoU will, however continue to intervene to curtail disruptive movements in the exchange rate.

Following the reductions in the CBR so far, there are now indications that Commercial Banks' lending to the private sector is beginning to pick-up, although at a slow pace. The lack of a stronger recovery in bank lending is partly explained by the lethargic adjustment of Commercial Banks' lending rates. Whereas interbank rates, wholesale deposit interest rates and securities' yields have all followed the downward trend of the CBR, Commercial Bank's lending rates have been sticky downwards. I note with concern that the interest rate spreads have