

BANK OF UGANDA



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Monetary Policy Statement for September 2011

The most important priority for the monetary policy of the Bank of Uganda is to tackle inflation. Annual headline and core inflation stood at 21.4 percent and 20 percent respectively in August. Inflation has risen since the end of 2010, mainly because of food price shocks and exchange rate depreciation. Higher inflation was initially concentrated on food, fuel and imported products, but there are now indications that it is becoming more widespread. Monthly food crop prices declined for the fifth consecutive month in August, an indication that the impact of adverse domestic supply shocks on food production may be waning, but prices of processed food and non food items rose sharply. As such the Bank of Uganda takes the view that a strong monetary policy response is necessary to bring inflation under control.

To tighten monetary policy, the Bank of Uganda will raise the Central Bank Rate (CBR) by two percentage points, to 16 percent, for the month of September. In addition, the BOU will widen the band around the CBR to four percentage points and will endeavour to ensure that 7 day interbank rates remain within this band. For the month of September, the rediscount rate will be set at 21 percent (the CBR

plus a margin of 5 percentage points) and the rate at which banks can borrow from the BOU against eligible collateral will be set at 22 percent.

The BOU is raising interest rates in order to curb the growth in bank credit, which has expanded rapidly over the last 12 months, to encourage higher levels of saving and to provide more support to the exchange rate. If the inflation outlook deteriorates in the next few months, the BOU will implement further increases in the CBR.

Looking ahead, the BOU forecasts that annual inflation will begin to decline towards the end of 2011 and that this fall will continue during 2012, with core inflation falling to a range of 10-14 percent by September of 2012, although any such forecasts are unavoidably characterised by considerable uncertainty. The policy target of the BOU is to reduce core inflation back to 5 percent.

A handwritten signature in dark ink, reading "Louis Kasekende". The signature is written in a cursive style with a large initial "L".

Dr. Louis Kasekende
DEPUTY GOVERNOR
September 06, 2011