BANK OF UGANDA

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Monetary Policy Statement for December 2014

Inflation remained at low levels in November 2014. Annual headline inflation rose slightly to 2.1 percent from 1.8 percent in October 2014, driven by a small rise in food crops inflation, while annual core inflation declined marginally to 2.3 percent in November 2014 from 2.4 percent in October 2014. The current low levels of inflation are partly attributable to a fall in food prices in 2014 due to a good domestic harvest, lower global food prices and subdued traded goods price inflation, partly driven by the decline in crude oil prices.

The Bank of Uganda's (BOU's) medium term macroeconomic forecasts remain unchanged since the last Monetary Policy Committee (MPC) meeting in October, 2014. Over the next three months, annual core inflation is forecast to be in the range of 2-4 percent, before rising to about 5 percent over the next 12 months, which is in line with the BOU's medium term inflation target. Core inflation is expected to rise because of increased domestic demand over the forecast period and the pass-through of the nominal depreciation of the exchange rate to domestic prices, which is not yet complete. However, the BOU recognises that there are upside risks to inflation over the medium term, which include the risk that domestic demand may be stronger than is currently forecast. In addition, there may be further exchange rate depreciation pressures and food prices may rise by more than expected if harvests are poor next year.

Real GDP is projected to grow by 5.0-5.5 percent in 2014/15 compared to an estimate of 4.5 percent in the previous year, as indicated in the rebased GDP series recently released by the Uganda Bureau of Statistics. Growth will be supported by higher public and private investment and a recovery of domestic demand. However, the weaknesses in the global economy could undermine growth prospects in Uganda, in particular through their impact on demand for Uganda's exports and inward flows of Foreign Direct Investment.

The BOU's macroeconomic forecasts indicate that core inflation and real GDP will trend close to their targets over the medium term. As such, the BOU has decided to maintain the Central Bank Rate (CBR) at 11.0 percent, until the next MPC meeting which is scheduled for February 2015. The band on the CBR remains unchanged at plus/minus two percentage points and the margin on the Rediscount rate is unchanged at 3 percentage points on the CBR. Consequently, the Rediscount rate and the Bank rate will remain at 14.0 percent and 15.0 percent, respectively.

Prof. Emmanuel Tumusiime-Mutebile

Governor

December 12, 2014