BANK OF UGANDA

ANNUAL REPORT

2006/2007

Website: http://www.bou.or.ug

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ABBREVIATIONS

AfDB	African Development Bank
AFRACA	African Rural and Agricultural Credit Association
AML	Anti-Money Laundering
ATM	Automated Teller Machine
Bank	The Central Bank of Uganda
BOP	Balance of Payments
BOU	Bank of Uganda
BSA	Bank Supervision Application
CDS	Central Depository System
COMESA	Common Market for Eastern and Southern Africa
CRB	Credit Reference Bureau
DPF	Deposit Protection Fund
ECGS	Export Credit Guarantee Scheme
ECCS	Electronic Cheque Clearing System
EFT	Electronic Funds Transfer
EFTPOS	Electronic Funds Transfer at Point of Sale
EIB	European Investment Bank
EPF	Export Promotion Fund
ERS	Export Refinance Scheme
ERTRF	Energy for Rural Transformation Refinance Scheme
ESAF	Enhanced Structural Adjustment Fund
ExCOM	Executive Committee
FDEI	Foreign Direct Equity Investment
FDI	Foreign Direct Investment
FERMS	Foreign Exchange Reserve Management System
FIS	Financial Institutions Statute
FPC	Foreign Private Capital

FY	Financial Year
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
HIPC	Highly Indebted Poor Countries
IAS	International Accounting Standards
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IFEM	Inter-bank Foreign Exchange Market
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IT	Information Technology
LAN	Local Area Network
MAC	Monetary Affairs Committee
MCP	Management Committee on Projects
MCPC	Monetary Credit and Policy Committee
MDI	Microfinance Deposit Taking Institutions
MFHP	Monetary and Fiscal policy Harmonization Program
MIS	Management Information System
MOFPED	Ministry of Finance, Planning and Economic Development
NEER	Nominal Effective Exchange Rate
NGO's	Non Government Organizations
NPSS	National Payment System Secretariat
NPV	Net Present Value
NSSF	National Social Security Fund
NTE	Non-Traditional Exports
OMO	Open Market Operations
OPEC	Organization of Petroleum Exporting Countries
PSI	Policy Support Instrument

PSIS	Private Sector Investment Survey
PSPC	Payment System Policy Committee
PTA	Preferential Trade Area
RBS	Retirement Benefits Scheme
Repo	Repurchase Agreement
RTGS	Real Time Gross Settlement System
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SPF	Special Provident Fund
SWIFT	Society for Worldwide Inter-bank Financial Telecommunication
UBOS	Uganda Bureau of Statistics
UCBL	Uganda Commercial Bank Ltd. (defunct)
UIA	Uganda Investment Authority
UNIS	Uganda National Inter-bank Settlement System

REGISTERED ADDRESSES

PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE
Plot 37/43
Kampala Road
P O Box 7120
Kampala

SOLICITORS
MMAKS
P O Box 7166
Kampala

BANK SECRETARY (Ag.)
Mr. Rweyamamu Rweikiza
P O Box 7120
Kampala

AUDITORS
The Auditor General
Office of the Auditor General
Finance Building
Apollo Kaggwa Road
P O Box 7083
Kampala

DELEGATED AUDITORS
KPMG
Certified Public Accountants
Ist Floor Rwenzori Courts
P O Box 3509
Kampala

LETTER OF TRANSMITTAL

The Minister of Finance, Planning and Economic Development
Ministry of Finance, Planning and Economic Development
Kampala - UGANDA

Hon. Minister,

Annual Report 2006/07

I am pleased to submit to you the Annual Report of the Bank of Uganda for the year 2006/2007. In accordance with the Bank of Uganda Act, Cap 51, which requires that the Bank shall, not later than three months after the end of each financial year, present to the Minister a report generally on the activities and operations of the Bank during the preceding financial year, I am presenting to you the Bank's Annual Report for the financial year 2006/2007 as well as the audited accounts for the year ended June 2007.

Yours faithfully,

Prof. E. Tumusiime-Mutebile

Governor

GOVERNOR BANK OF UGANDA

Prof. Emmanuel Tumusiime-Mutebile

1 GOVERNOR'S FORWARD

During 2006/07, monetary policy implementation was consistently aimed at the promotion of price stability defined as maintenance of annual inflation averages of 5 percent for both headline and core inflation rates. Price stability was recognized as an important means to support the broad macroeconomic objectives of government of attaining a real GDP growth rate of at least 6.2 percent, and also entrenching the poverty reduction plans being pursued by the government of Uganda. Implementation of both monetary and fiscal policies was coordinated with these broad objectives in mind.

Inflationary pressures driven largely by exogenous shocks associated with rising international oil prices, domestic escalation of sugar prices, upward revision of utility prices particularly electricity which in turn led to increases in prices of manufactured goods and transport fares caused the annual headline and core inflation to rise to an average of 7.5 percent and 6.9 percent respectively for the year 2006/07 compared to an average of 6.6 percent and 5.3 percent respectively in 2005/06. Despite the impact of the above inflationary pressures, Bank of Uganda (BOU) continued to maintain a cautious monetary policy stance to contain inflationary pressures arising from second round effects of the exogenous shocks.

During the year under review, the growth in monetary aggregates was broadly within the programmed targets that supported the price stability objective. The rate of growth of money supply (M2) declined from 18.9 percent in the year ended June 2006 to 16.7% in the year ended June 2007. However, the growth rate of broad money (M3) increased modestly from 16.4 percent to 17.4 percent over the same period. Credit to the private sector by the banking system expanded by 22.9 percent to Shs. 1,812.9 billion at end June 2007 compared to a rise of 28.3 percent between June 2005 and June 2006.

In line with the fundamentals, the shilling appreciated by 2.5 percent against the US dollar from an average mid exchange rate of Shs. 1,825.8 per US$ in July 2006 to Shs. 1,780.7 per US$ in June 2007 on account of increased export earnings, increased portfolio inflows, higher levels of donor support especially project support to NGOs, and the general weakness of the US dollar in the global financial markets. The Bank's actions in the foreign exchange market remained consistent with the policy of a market-determined exchange rate with intervention in the market to limit volatility.

BOU policies continued to promote the development of markets for government securities during the year under review. The Bank maintained its efforts to keep the growth of base money within desired levels to contain inflationary pressures, against the commercial banks' increasing demand for liquidity towards the end of the financial year. The effective end period yields on the 91-day, 182-day, and 364-day Treasury bills were 10.5, 14.2, and 14.1 percent, respectively compared to the corresponding rates of 7.2, 7.7, and 10.0 percent by end-June 2006.

The overall balance of payment (BOP) position is estimated to have recorded a surplus of US$ 646.8 million, higher than US$ 176.3 million recorded in the previous financial year, largely on account of the capital and financial account that improved from a surplus of US$ 555.4 million in 2005/06 to a surplus of US$ 1,057.1 million in 2006/07. The current account is, however, estimated to have marginally deteriorated from a deficit of US$ 379 million to a deficit of US$ 410.3 million due to an increase in the trade deficit over the period. By end June 2007, foreign reserves are estimated to be US$ 2,159.9 million, which is equivalent to about 6.0 months of future imports of goods and services.

The soundness of the financial sector continued to improve during the year under review supported by the strengthened supervision and regulation of the banking system. Public confidence in the financial sector was maintained. A wide range of new financial products were introduced. All supervised financial institutions remained well capitalized in line with the prudential requirements of the Financial Institutions Act 2004 and the MDI Act 2003. In the commercial banking sector, the ratio of non-performing assets to total lending remained remarkably low and well within the 10 percent prudential limit. This was attributable to improved risk management and a strengthened supervision framework.

Uganda's capital markets continued to register strong growth spurred by the Stanbic IPO. The capital value of the companies traded on the Uganda Securities Exchange (USE) grew to over Shs. 4 trillion mainly attributable to the general appreciation of the share prices of listed.

Regarding the outlook for 2007/08, real GDP is projected to grow at about 6.5 percent and the underlying inflation rate is expected to stabilize at or below the 5 percent level. Gross reserves are projected to remain at a level of more than 6 months of future imports of goods and non-factor services while export receipts are projected to increase by about 10 percent.

In accordance with our mission, BOU will continue to pursue monetary policy, exchange rate policy, and financial sector policies aimed at consolidating the achievement of price stability, financial sector stability and soundness leading to overall macroeconomic stability.

Signed:

Prof. Emmanuel Tumusiime-Mutebile
September 2007

2 BOARD OF DIRECTORS

Prof. Emmanuel Tumusiime-Mutebile

Mr. C. Manyindo Kassami

Prof. J. Waswa Balunywa

Prof. Mathew Okai

Dr. G. Sebunya Muwanga

Mr. Blasio Kiiza

Mr. Manzi Tumubweinee

Mrs. Benigna Mukiibi

Prof. Emmanuel Tumusiime-Mutebile
Re-appointed 1 January 2006
Governor, Chairman of the following;

- Board
- Executive Committee
- Payment System Policy Committee
- Finance Committee
- Monetary Credit and Policy Committee
- Chairman of the Board of Trustees of BOU Retirement Benefits Scheme
- Foreign Exchange Reserve Management Policy Committee

Mr. C. Manyindo Kassami*
Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development.
Member of the Finance Committee of the Board

Prof. J. Waswa Balunywa*
Principal, Makerere University Business School
Chairman of the Works Committee of the Board.
Member of :

- Audit Committee
- Finance Committee and
- Staffing Committee of the Board

Prof. Mathew Okai

Vice Chancellor of All Saints University Lango

- Chairman Works Committee
- Member of all the Committees.

Dr. G. Sebunya Muwanga**
Lecturer, Institute of Economics, Makerere University
Member of :

- Works Committee of the Board,
- Audit Committee of the Board,
- Finance Committee and
- Staffing Committee of the Board.

Mr. Blasio Kiiza**
Retired Banker
Chairman of the Audit Committee of the Board.
Member of :

- Works Committee of the Board
- Finance Committee and
- Staffing Committee of the Board

Mrs. Benigna Mukiibi***
Member of :

- Works Committee
- Finance Committee and
- Staffing Committee of the Board

Mr. Manzi Tumubweinee***
Chairman of the Finance Committee of the Board
Member of :

- Works Committee
- Audit Committee and
- Staffing Committee of the Board

3 ACTING APPOINTMENTS

3.1 AG DEPUTY GOVERNOR

Mr. David G. Opiokello

Mr. D.G. Opiokello was appointed by the Governor to be in-charge of office of the Deputy Governor with effect from 1 May 2006 pending appointment of a substantive Deputy Governor in line with article 161 (3) of the Constitution of the Republic of Uganda.

3.2 AG BANK SECRETARY

Mr. Rweikiza Rweyemamu

Mr. Rweikiza Rweyemamu was appointed by the Board to act as Bank Secretary.

4 MANAGEMENT STRUCTURE AND FUNCTIONS

Board of Directors

Prof. E. Tumusiime-Mutebile
Governor

Mr. David G. Opiokello
Ag. Deputy Governor

Dr. P. Musinguzi
Economic Advisor to the Governor

Mr. R Rweikiza

Ag Bank Secretary

Board Affairs
Communications
Corporate Services
Legal Counsel

Mr. J. Kahenano
Executive Director Administration

Human Resources
Medical
Administrative Services
Security

Mr. B Patrick Kagoro
Ag. Executive Director Finance

Accounts
Management Information Systems Development
Payments & Settlements

Mr. Elias B. Kasozi
Executive Director Operations

Banking
Currency
Financial Markets

Dr. M..Atingi-Ego
Executive Director Research

Research
Trade & External Debt

Mrs. Justine Bagyenda
Executive Director Bank Supervision
Commercial Banking & Non Banking Financial Institutions

Mr. P K Byabakama
Chief Internal Auditor
Internal Audit

5 MANAGEMENT OF THE BANK

5.1 EXECUTIVE MANAGEMENT

Governor:	Prof. Emmanuel Tumusiime Mutebile
	Terms of appointment: Serves a 5-year renewable contract. Re-appointed by the President of the Republic of Uganda for another term of five-years with effect from 1st January 2006.
Deputy Governor:	Mr. David Opiokello
	Ag. Deputy Governor since 1st May 2006

Executive Directors:	Function
Mr. Joram F. Kahenano	Administration
Dr. Michael Atingi-Ego	Research and Policy
Dr. Polycarp Musinguzi	Economic Advisor to Governor
Mrs. Justine Bagyenda	Supervision
Mr. Elias B. Kasozi	Operations
Mr. Patrick Kagoro	Finance (Ag.)
Mr. Patrick Byabakama Kaberenge	Chief Internal Auditor
Mr. Rweyemamu Rweikiza	Bank Secretary (Ag.)

5.2 SENIOR MANAGEMENT

Director/Head of Department	Department
Mr. Johnson Mubangizi	Administrative Services
Mr. Stephen Matanda	Banking
Mr. Rweyemamu Rweikiza	Board Affairs
Vacant	Board Affairs
Mr. Stephen Kabugu	Chief Accountant (Ag.)
Mr. Apollo Obbo	Commercial Banking
Mr. Juma Yusuf Walusimbi	Communications
Mr. Emmanuel Kalule	Corporate Services Office
Mrs. Naomi Nasasira	Currency
Dr. Henry Opondo	Financial Markets
Mrs. Eva MweneBirinda	Human Resources
Ms. Deborah Kabahweza	Internal Audit
Mrs. Margaret Kaggwa Kasule	Legal Counsel

Mr. Richard Mayebo	Management Information Systems
Dr. Apollo Kaggwa	Medical
Mr. Elliot Mwebya	National Payments Systems Secretariat
Mr. Anthony Opio	Non-Banking Financial Institutions
Dr. David Asiimwe Kihangire	Research
Dr. Asiimwe Rwekikiga	Security
Mr. Yoweri Wasswa Kajubi	Trade and External Debt

6 STATEMENT OF VISION, MISSION AND VALUES

The Bank as the Central Bank of the Republic of Uganda has a clearly stated vision, mission and values.

6.1 VISION

A monetary institution, which upholds international best practice in fostering price stability and a sound financial system conducive to macro-economic stability and broad-based economic growth.

6.2 MISSION

To foster price stability and a sound financial system

6.3 VALUES

The values of the Bank are:

6.3.1 COMMITMENT TO PUBLIC INTEREST

The Bank is committed to fulfilling the needs of the public.

6.3.2 CUSTOMER SERVICE ORIENTATION

The Bank takes pride in offering the best services to each of its customers.

6.3.3 ETHICS AND INTEGRITY

The Bank is committed to upholding professional ethics and integrity in all its activities.

6.3.4 TRANSPARENCY

The Bank accepts and welcomes public scrutiny of all its actions.

6.3.5 LEADERSHIP BY EXAMPLE

The Bank is committed to practicing what it preaches at both the organizational and individual levels.

6.3.6 TEAMWORK

The Bank is committed to working together within and across organizational divisions.

6.3.7 EQUITY AND FAIRNESS

The Bank is committed to the fair treatment of customers, employees, and other stakeholders.

6.3.8 CONFIDENTIALITY

The Bank is committed to maintaining appropriate confidentiality in all transactions with its customers, employees, and other stakeholders.

7 LEGAL FRAMEWORK

7.1 ESTABLISHMENT

The Constitution of the Republic of Uganda, 1995, Article 161, provides that the Bank of Uganda shall be the Central Bank of Uganda.

Article 162 (1) of the Constitution provides that the Bank shall:

i promote and maintain the stability of the value of the currency of Uganda;

ii regulate the currency system in the interest of the economic progress of Uganda;

iii encourage and promote economic development, and the efficient utilisation of the resources of Uganda through effective and efficient operation of a Banking and credit system; and

iv do all such other things not inconsistent with this article, as may be prescribed by law.

Article 162 (2) provides that in performing its functions; the Bank shall conform to the Constitution but shall not be subject to the direction or control of any person or authority.

The Bank of Uganda was established as the Central Bank of Uganda under the Bank of Uganda Act 1966 as amended by the Bank of Uganda Act

(Cap. 51) Laws of Uganda 2000.

The Bank's principal responsibilities are to:

i formulate and implement Monetary Policy directed to economic objectives of achieving and maintaining economic stability:

ii act as adviser to Government on monetary policy;

iii act as financial adviser to Government and manager of the public debt;

iv where appropriate, act as agent in financial matters for the Government

v supervise, regulate, control and discipline financial institutions, insurance companies and pension funds institutions;

vi issue currency notes and coins;

vii maintain external assets reserve; and

viii be the Banker to Government and Financial Institutions.

7.2 CAPITAL

Under section 14 of the Bank of Uganda Act, the authorised capital of the Bank shall be thirty billion shillings and shall be subscribed by the Government from time to time. The issued and paid up capital of the Bank shall be a minimum of twenty billion shillings. As at 30 June 2007, the paid up capital of the Bank was Shs. 20 billion.

7.3 GENERAL RESERVE FUND

Section 15 of the Bank of Uganda Act provides that there shall be a General Reserve Fund of the Bank, which shall be determined by the Board from time to time. The Bank may, in consultation with the Minister, transfer funds from the General Reserve Fund to the Capital of the Bank.

7.4 DISTRIBUTION OF THE BANK NET PROFITS AND LOSSES

Under section 16 of the Bank of Uganda Act:-

The net surplus or deficit from the Bank's operations shall be shared by the Bank and the Government in the proportions of 25 percent and 75 percent respectively after making good the authorised capital and reserve fund balance; allowing for expenses of operation; making provision for bad and doubtful debts; providing for depreciation of fixed assets and impairment of financial assets; and contributing to any scheme or fund established under the Bank's Act.

The accounts shall clearly distinguish profits or losses arising from normal operations of the Bank and those arising from profits or losses from exchange fluctuations.

The Board may determine that the whole of the net profit of the Bank be paid into the consolidated fund if, at the end of the financial year, the balance in the general reserve fund is twice or more than the paid up capital of the Bank.

The Bank may, after consultation with the minister, retain from Government a proportion of the share of net profits payable into the consolidated fund, any amount of money as the Board may determine, in satisfaction of any amounts due to the Bank by Government.

8 CORPORATE GOVERNANCE STATEMENT

The Bank is committed to the principles of good corporate governance. This requirement is achieved through checks and balances that ensure that the values of transparency, professional and ethical conduct, teamwork, equity and fairness and integrity in all its activities are upheld.

The Bank carries out its work through various Board and management committees. The Bank's compliance with the principles of good corporate governance is reflected through a properly constituted Board of Directors, Board Committees and management sub-committees as provided for under the objectives of Corporate Governance.

8.1 REGULATORY PROVISION

The Bank of Uganda Act sections 7 and 10 states that the governing body of the Bank shall be a Board of Directors whose duties are to:

Oversee the general management of the affairs of the Bank;

Ensure the functioning of the Bank and the implementations of its functions;

Formulate the policies of the Bank;

Do anything required to be done by the Bank under the Act; and do anything that is within, or incidental to the functions of the Bank.

8.2 THE BOARD OF DIRECTORS

The Board of Directors is consists of:

The Governor who is the Chairman;

The Deputy Governor who is the Deputy Chairman;

Not more than five non-executive directors.

The Governor, Deputy Governor, and Board Directors are appointed by the President with the approval of Parliament and hold office for a renewable five-year term. At least 10 meetings of the Board must be held in one financial year.

9 BOARD COMMITTEES

The Board constituted a number of committees for the effective discharge of its duties. The committees are the Staffing, Finance, Audit, and Works committees.

9.1 STAFFING COMMITTEE

The Staffing Committee consists of the Deputy Governor as Chairman and three non-Executive Directors with the Bank Secretary providing secretarial services. The Executive Director Administration attends the meetings while other senior staff may attend by invitation. The committee considers management proposals for recruitment, promotion, training, discipline and all other relevant staff matters affecting the operations of the Bank before they are presented to the main Board for approval. Although meetings are held quarterly, special meetings may be held depending on the need.

9.2 FINANCE COMMITTEE

The Finance Committee consists of the Governor as Chairman, the Deputy Governor as Deputy Chairman, the Secretary to the Treasury, and three non-Executive Directors. The Bank Secretary is the secretary to the committee. The Executive Director Finance may attend meetings on invitation. Meetings are held on a quarterly basis but special meetings may be convened when necessary. The Committee reviews the budget presented by the management and reviews performance reports of the Bank against the approved budget, before presentation to the Board. The Committee supervises the Bank's financial discipline by examining financial plans, commitments and budgets presented by management. The Committee also reviews budget performance reports.

9.3 WORKS COMMITTEE

The Works Committee includes the Deputy Governor, three non-executive Directors (one of whom is Chairman). The Bank Secretary is the secretary to the committee. The Executive Director Administration and any other senior staff or consultant may attend meetings on invitation. Meetings are held on a quarterly basis but special meetings may be convened depending on the committee's work programme for the year or to review on-going projects and reports. The terms of reference of the committee are to oversee and monitor construction and major maintenance work projects and office/residential buildings of the Bank, and to screen all proposals for major capital projects, property acquisition and disposals before they are presented to the main Board.

9.4 AUDIT COMMITTEE

The Audit Committee is made up of four non-executive Directors (one of whom is the Chairman) with the Bank Secretary as the secretary to the committee. The Chief Internal Auditor and a representative of the external auditors attend the Audit Committee meetings. Meetings are held on a quarterly basis but special meetings can be convened whenever necessary. The terms of reference of the committee are to assist the Board to fulfill its fiduciary responsibilities by providing assurances as to the quality and integrity of the financial data and any other data that the Bank provides to the Board, policy makers, regulatory entities, development partners and the public. In addition, the activities are also aimed at providing assurance to the efficiency and effectiveness in utilising Bank resources. The committee also determines the scope of work of the Internal Audit Function. The Internal Audit Charter provides the framework for the operations of the Audit Committee and enhances the independence from management of the internal audit role within the Bank.

9.5 BANK MANAGEMENT COMMITTEES

The Bank management has a number of management committees to ensure coordinated policy developments and their implementation after Board approval. The committees engender teamwork and tap expertise throughout the Bank. In addition, there are various sub committees to supplement the work of the main committees. The management committees are:

9.6 EXECUTIVE COMMITTEE

The Executive Committee (ExCom) of management includes the Governor as Chairman, the Deputy Governor as Deputy Chairman, all Executive Directors and the Bank Secretary as its secretary. Senior staff may attend by invitation. Meetings are held on a weekly basis. The terms of reference of the committee are to initiate and propose Bank policies to the Board and its committees. The committee is also responsible for overseeing the implementation of Bank policies as well as the operations of the Bank.

9.7 MANAGEMENT COMMITTEE

The Management Committee is composed of the Governor as the Chairman, the Deputy Governor as the Deputy Chairman, all the Executive Directors, all the Directors and Director Human Resources as the Secretary.

The terms of reference for the Committee are:-

To review general implementation of work programmes.

To consider implementation of Bank Policies and Management decisions.

To receive and consider reports from Departments to ensure the smooth running of the Bank.

9.8 THE STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee's main objective is to formulate Bank of Uganda's strategic plans by integrating short/medium and long term goals for a more effective and efficient delivery of the Bank's Mission. It formulates required action plans, monitors the implementation of these plans and evaluates results to modify the plans where necessary. Much of its work is executed in relevant Sub-Committees that handle major goals that have been approved for implementation. The current five-year Strategic Plan was implemented with effect from July 2003 and a mid-term review was undertaken during 2005/06. The membership of the Committee consists of the Deputy Governor, as Chairman, all Executive Directors, the Bank Secretary, Legal Counsel and the Director Corporate Services Office as Secretary.

9.9 MONETARY AND CREDIT POLICY COMMITTEE (MCPC)

The Monetary and Credit Policy Committee (MCPC) has the following membership: the Governor (Chairman), the Deputy Governor (Deputy Chairman), all Executive Directors, and the Director Research (secretary). In attendance are the Bank Secretary and the Directors of the following departments; Banking, Commercial Banking, Public Relations, Financial Markets, Trade and External Debt Department, Development Finance and Legal departments. Other senior staff may attend on invitation.

The terms of reference are to:

i Formulate and direct the conduct of monetary policy in order to deliver price stability and support Government objectives for sustainable growth;

ii Direct the conduct of the financial markets operations;

iii Ensure that liquidity conditions in the money market are consistent with the broad objective of price stability;

iv Review developments in the foreign exchange market and formulate policies to promote stability in the market;

v Seek harmonisation and coordination of fiscal policies with monetary policies to support macro economic stability; and to vi Address any other issues that have implications for the stability of the macro-economy, including appraising policy recommendations from the Bank's functions, Government departments and other fora.

The committee meets on a weekly basis to review market developments and to take monetary policy and credit decisions.

9.10 PROCUREMENT AND DISPOSAL COMMITTEE

The Procurement and Disposal Committee comprises the Deputy Governor as Chairman, all the Executive Directors and the Director Administrative Services who acts as secretary. The terms of reference of the committee are to provide standards and procedures for transparent procurement of goods, stores, materials, equipment, construction works and contractors, buildings, capital goods, currency notes and coins, consultants and services and any other matter incidental thereto in pursuance or connected with Bank business in an efficient and cost effective manner. The committee invites tenders publicly through a transparent bid process, evaluates the bids and then awards contracts for the supply of goods and services to successful bidders in line with approved policies, rules and regulations. The committee also disposes of Bank assets in accordance with Bank policy.

9.11 PAYMENT SYSTEM POLICY COMMITTEE

The Payment System Policy Committee (PSPC) consists of the Governor who is Chairman, the Deputy Governor as Alternate Chairman, the Executive Directors of Finance, Research and Operations and the Directors of Management Information Systems (MIS), Research, Banking and Commercial Banking and the Economic Advisor to the Governor. The National Payment System Secretariat (NPSS) acts as secretary to the PSPC. The Bank constituted the PSPC to guide, oversee and direct the payment system development process.

The Bank liaises closely with the members of the Uganda Bankers Association to enable the smooth co-ordination and implementation of new rules, regulations and products in the National Payments system.

9.12 PROJECT MANAGEMENT COMMITTEE

The Management Committee on Projects (MCP) is made up of the Deputy Governor who is the Chairman, Executive Director Administration, Executive Director Finance, Chief Accountant, Director Administrative Services, and Director MIS. The committee promotes the efficient implementation of all Bank projects. It establishes guidelines for approving projects in the budget, scrutinises projects before acceptance, sets the prioritisation and methodology for the management of each project; evaluates on-going projects; and conducts ex-post evaluation of finished projects.

9.13 RISK MANAGEMENT COMMITTEE

The Risk Management Committee membership is composed of the Deputy Governor as Chairman with Executive Directors, Bank Secretary and Business Continuity and Risk Management Officer (BCRMO) (who also doubles as Secretary) as members. The Committee is charged with the task of developing the BOU Risk Management Programme incorporating the identification of risk exposure and prioritizing them, defining strategies for managing and controlling the risks and communicating the risk management plan to staff. The Committee is also responsible for the formulation and rehearsal of business continuity plans at the Bank as well as monitoring and evaluating the Information Security Policy awareness and programme and Risk Management Policy implementation.

9.14 THE MEDICAL BOARD

The Medical Board comprises seven members who are external consultant doctors with one of them as chairman and the Director Medical Department who is its secretary. The committee advises the Governor on medical policy and treatment of staff outside the country.

9.15 THE FOREIGN EXCHANGE RESERVE MANAGEMENT POLICY COMMITTEE

The Foreign Exchange Reserve Management Policy Committee's main role is to oversee the implementation of policies and strategies approved by the Board for Foreign Exchange Reserves Management and review outcome reports. Its membership consists of the Governor as chairman with Deputy Governor serving as alternate chairman; Executive Directors of Research, Operations, Finance and Supervision functions; the economic Advisor to Governor and the Director Financial Markets who also is the Committee's secretary.

9.16 ENVIRONMENT AT WORK AND REPORTING

The Bank's commitment to fairness to its staff is reflected in the provision of safe and secure premises for Bank staff, workmen's compensation insurance and the provision of good medical facilities. The Bank operates an open staff performance appraisal system and listens to ideas presented by staff through a variety of channels. Members of staff are required to observe a code of conduct set out in the personnel rules, regulations and procedures.

The Bank's commitment to transparency to the public and to all stakeholders is reflected in its regular reporting on monetary and credit policy developments in the economy; the financial sector policies, regulations and developments and annual financial audited statements that present the Bank's financial performance and position.

Corporate governance is further underpinned by regular internal and external management reports derived from the robust management information system that has been established by the Bank.

9.17 EFFECTIVE INFORMATION MANAGEMENT COMMITTEE

The Effective Information Management Committee has the following membership; The Deputy Governor (Chairman), all the Executive Directors, Director MIS (Secretary). In attendance are Directors from: Human Resource, Administrative Services, Accounts and BCRMO.

The terms of reference are to:

Commission, review, approve and monitor the execution of the Bank's Information Technology Strategic Plan.

Review and approve proposals for standards, methodologies and frameworks to govern the acquisition, usage and Management of Information Systems at the Bank.

Review and approve major information systems project proposals from user Departments.

Manage the portfolio of approved information systems projects by setting priorities, allocating resources, monitoring progress and ensuring proper project closure.

Commission post implementation reviews of all completed information System Projects.

Review reports on the usage and management of existing information systems.

Provide annual reports to BOU's Executive Committee.

10 RISK MANAGEMENT STATEMENT

The Board of Directors acknowledges its ultimate responsibility for risk management at the Bank. The Board discharges the responsibility by setting up policies, procedures, guidelines and organizational structures to manage risks. The existing risk management policy stipulates that the Bank will systematically and continuously manage risks in its operating environment in order to ensure attainment of its strategic and operational objectives.

The Bank's Risk Management Framework provides the basic domains and organization structure for risk management at the Bank. Specific guidelines are given covering the risk assessment process, control activities, information and communication, and risk monitoring and evaluation.

During the financial year under review, the Bank continued to identify, assess and document all the risks obtaining in its operating environment. A Bank-wide risk profile was reviewed and compiled to document risks existing in all of the key activities of the Bank. The ten key risk types, which the Bank has identified, assessed and managed, are as defined below.

10.1 OPERATIONAL RISK

This is the risk of a loss arising from inadequate or failed internal control processes, people and systems or from external events and/or unforeseen catastrophes.

This is the most prevalent risk and pervades all the Bank departments and operating units with the highest concentration in Banking, Financial Markets, Accounts, Currency, and Medical departments.

The Bank addresses this risk through institution of appropriate internal controls, internal audit processes, and management oversight supported by the current level of information technology at the Bank.

10.2 REPUTATIONAL RISK

This is the risk that the reputation of the Bank may be negatively affected by inappropriate management action, system failure or release of sensitive information to unauthorized persons or the public. The Bank manages the risk by ensuring that there is transparency in handling all its operations and by ensuring all stakeholders are given appropriate information. The Communications department is provided with sufficient information to disseminate to the public.

10.3 CUSTODIAL RISK

This is the risk that the Bank custodians would not deliver when required to do so or when the Bank could incur a loss in discharging its custodial responsibilities.

The risk is managed through Board approved performance benchmarks, management oversight, and provision of performance reports and adherence to standards and best practices.

10.4 LEGAL RISK

This is the risk that losses will accrue from contracts which are not enforceable or which cannot fully protect the Bank from claims. The risk could also arise from penalties for failure to comply with certain laws, statutes and regulations.

The risk is managed by ensuring compliance with statutory and regulatory requirements and by recruitment and retention of qualified legal staff to draft or peruse through contracts and advise the Bank accordingly. External legal consultants are also retained for opinions on a number of issues with high potential for reputational risk.

10.5 CURRENCY RISK

Currency risk (or foreign exchange risk) refers to the loss of the portfolio value or purchasing power due to adverse exchange rate movements.

The risk is managed by setting prudent benchmarks for foreign reserve management with an investment strategy that ensures the portfolio of foreign reserves is hedged against adverse movements in exchange rates.

10.6 LIQUIDITY RISK

This is the risk of being unable to meet financial commitments at the correct time, place and currency without having to liquidate large amounts of assets quickly even when market conditions may not be favorable.

The risk is managed by observing Board approved benchmarks for foreign reserves management with an investment strategy that ensures the portfolio of foreign reserves is sufficiently liquid to meet external debt financing, Government imports and intervention in foreign exchange markets when need arises.

10.7 SETTLEMENT RISK

Settlement risk results from failure of counterparty to settle for any reason other than default due to inability to pay.

The risk is managed by diversification of the investment portfolio and adherence to policy guidelines on counterparty dealing limits.

10.8 INTEREST RATE RISK

This refers to the likelihood that interest rate movements may adversely affect the portfolio return.

The risk is managed by setting and adhering to prudent benchmarks within our investment strategy.

10.9 CREDIT RISK

This is the risk of loss due to the inability or unwillingness of a counter-party to meet its contractual obligations.

The management of credit risk is in accordance with policies and procedures approved by the Board. The policy covers identification, measurement, control, as well as regular monitoring and reporting of credit risk. The credit risk management policy covers among other things sovereign risk, instrument risk, (quality and type), counter-party risk, (concentration and credit rating) and overall exposure limits. Counter-party exposure risk is monitored and reviewed monthly and variations are submitted to the Board for approval as and when it becomes necessary.

10.10 BUSINESS CONTINUITY RISK

This is the risk that the Bank will not continue some or all of its operations.

The risk is recognised in all the Bank operations. A business recovery site has been set up and is operational. A site for business resumption was identified and the process of equipping it is on going.

11 MONETARY POLICY

11.1 MONETARY POLICY, OUTTURN, CHALLENGES AND ACTIONS

11.1.1 Monetary Policy and Macroeconomic Objectives

During 2006/07, monetary policy continued to aim at maintaining low and stable inflation, at an average of 5.0 percent and 6.1 percent for annual headline and annual core inflation rates, respectively. Bank of Uganda maintained base money as its target, and during this period under review it was programmed to increase by 16 percent. This increase took into account the nominal GDP growth rate, as well as the increased use of the Uganda shilling for transaction purposes in the neighbouring countries. Over the same period, private sector credit was envisaged to grow by 22.9 percent.

Consistent with Government's fiscal consolidation strategy aimed at reducing the overall budget deficit, the fiscal deficit excluding grants and energy-crisis-spending was projected at 6.8 percent of GDP, 0.5 basis point lower than the 7.3 percent in 2005/06. The strategy of fiscal consolidation was expected to free up resources for private sector investment, to lower interest rates, to lessen aid dependency and to ensure a sustainable debt level. Furthermore, the debt relief granted to Uganda under the Multilateral Debt Relief Initiative (MDRI) was expected to have a significant impact on the 2006/07 budget. Increased tax collections arising from efficiency gains as well as new revenue-enhancing tax measures were also expected to facilitate the attainment of the anticipated reduction in the fiscal deficit, despite low corporate taxes as a result of the electricity crisis.

The external current account deficit, excluding grants, was projected to deteriorate to 12.7 percent of GDP on account of a strong increase in imports, while the international reserves were anticipated to remain at a level equivalent to 5.3 months of future imports of goods and services. To reduce the country's external vulnerability, the Government continued to support export growth and diversification through export competitiveness measures. The debt sustainability position was expected to improve through the pursuance of efficient debt management policies and utilization of financial resources from donor support.

The first phase of the IMF Policy Support Instrument (PSI), which was embarked upon in January 2006 was successfully completed in December 2006. Uganda requested for a new three-year PSI in December 2006 to further support the implementation of policies aimed at sustaining economic growth and poverty reduction.

11.1.2 Challenges facing monetary policy implementation

During the financial year 2006/07, the economy experienced exogenous shocks, which together with the management of excess liquidity arising from the donor-funded Government spending posed a challenge to the conduct of monetary policy. The exogenous shocks included the prolonged drought and the resultant persistent electricity rationing triggered by inadequate hydroelectric power generation, and rising oil prices, which adversely pushed up domestic prices. Consequently, the annual headline inflation averaged 7.5 percent, while the annual core inflation increased to an average of 6.9 percent during 2006/07. The increase in headline inflation was largely driven by increases in the electricity, fuel and utilities index coupled by increases in prices of household and personal goods and transport fares during the period.

The shocks not withstanding, real GDP grew by 6.2 percent in 2006/07 compared to 4.9 percent growth in 2005/06 against the backdrop of improved productivity. In addition, the positive shocks to the balance of payments during the year increased the demand for the Uganda shilling beyond the programme target. The outturn shows that current account balance (excluding grants) deficit improved to 8.8 percent of GDP in 2006/07 from a deficit of 10.9 percent of GDP in 2005/06, while the foreign exchange reserves in terms of future months of imports of goods and services cover stood at 5.9 months as at end of June 2007, up from 5.2 months in June 2006.

Upward pressures on exchange rate and interest rates were witnessed towards the closure of the financial year as money demand increased on account of the above developments. As a result, base money was allowed to increase above its programmed level of 16.0 percent in 2006/07. Base money increased by 18.8 percent in 2006/07 compared to the increase of 14.3 percent in 2005/06.

During the period under review, private sector credit grew by 22.9 percent, while m3 and m2 grew by 17.44 percent and 16.72 percent respectively. the growth in broad money reflects the increased demand for the uganda shilling already alluded to.

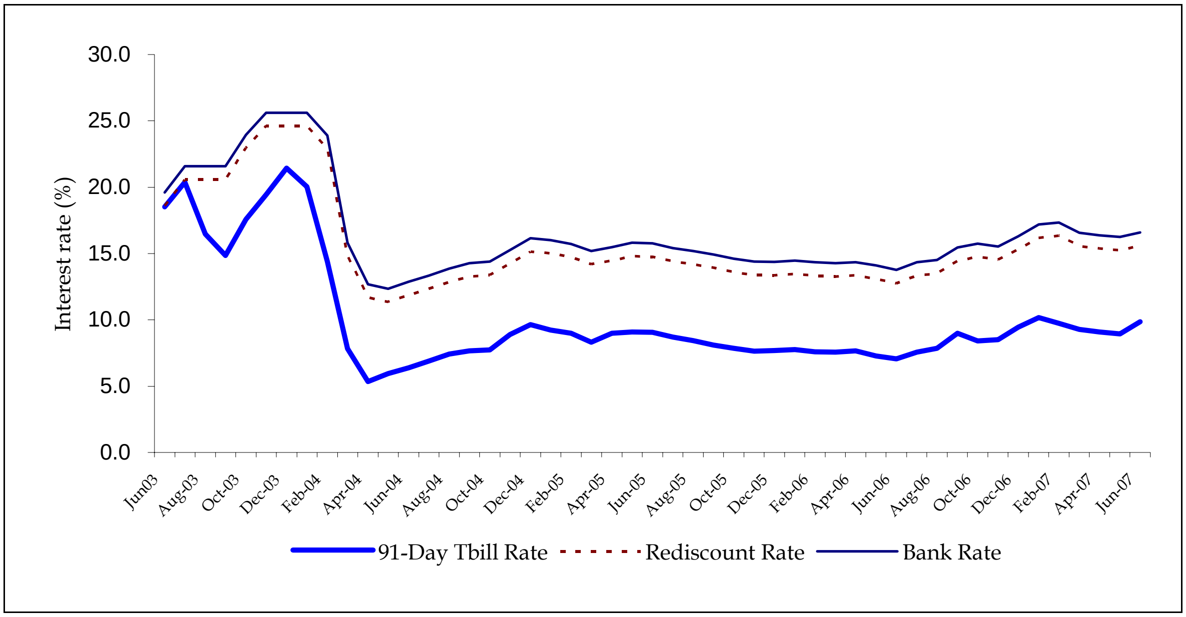
11.1.3 monetary policy Instruments

The Bank of Uganda continued to use Treasury bills and bonds supplemented by the occasional sale of foreign exchange in the inter bank Foreign Exchange Market (IFEM) to sterilize excess liquidity. Repurchase Order Agreements (REPOs) were actively employed as a liquidity fine-tuning instrument in intra-auction periods.

Inline with the trends in the Treasury bills market, the Rediscount and Bank rates registered a gradual upward trend, particularly in the second half of the financial year, rising from 12.8 percent and 13.8 percent, respectively in June 2006 to 15.6 percent and 16.6 percent, respectively in June 2007. During the year, a uniform statutory reserve requirement ratio of 9.5 percent on the total deposit liabilities of commercial banks and a two-week reserve maintenance period was maintained. Figure 1 shows the trend of the indicative policy rates.

The Bank of Uganda maintained a flexible exchange rate policy regime with occasional intervention to smoothen out market volatility. Consequently, on a net basis, a total of US$ 110.8 million was purchased in 2006/07 compared to a net sale of US$ 152.5 million in 2005/06.

FIGURE 1: DEVELOPMENTS IN POLICY RATES & 91-DAY TREASURY BILLS RATES



Source: Bank of Uganda

12 DOMESTIC PRICE

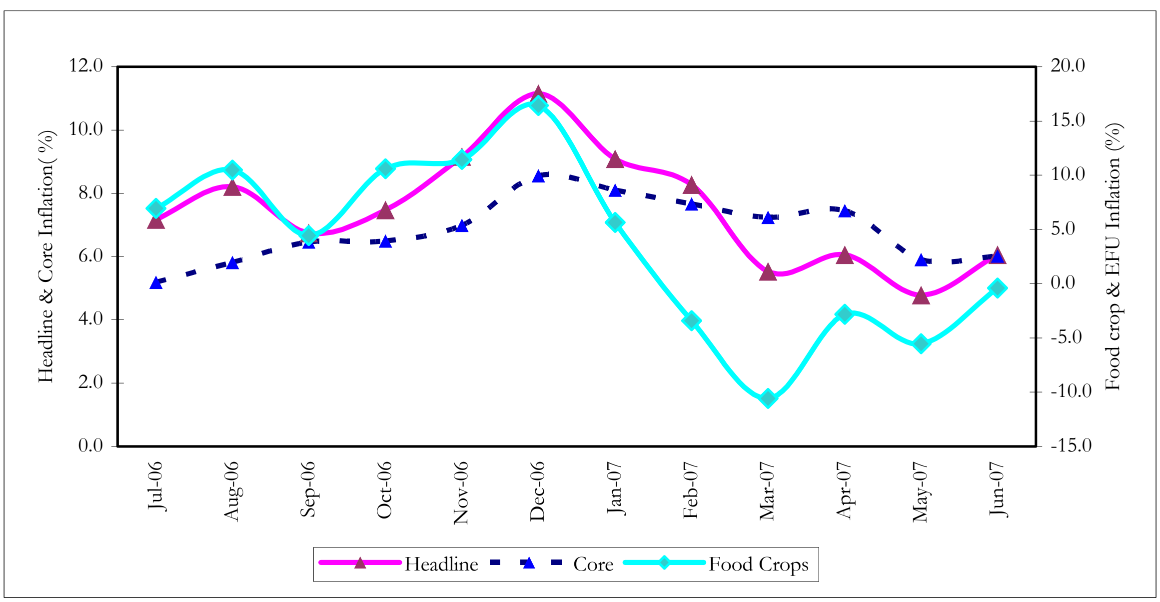
12.1 INFLATION RATES

During 2006/07, the annual headline inflation averaged 7.5 percent driven largely by an increase in the electricity, fuel and utilities index coupled by increases in prices of some household and personal goods items and charcoal, transport fares, and petroleum products.

The annual core inflation averaged 6.9 percent in 2006/07. Although it peaked at 8.5 percent in December 2006, the core inflation dropped by 2.4 percentage points to 6.1 percent in June 2007. The upward pressure on core inflation was largely due to the rapid rise in prices of locally manufactured goods as a result of high-energy costs of production, following a drought induced shortage of hydro-electricity.

The food crops inflation averaged 3.6 percent during 2006/07. Prices of food crops rose significantly at the beginning of the 2006/07 on account of high demand from neighbouring countries and drought, which affected the production of some crops.

FIGURE 2: ANNUAL INFLATION DEVELOPMENTS: JANUARY 2006 – JUNE 2007



Source: Uganda Bureau of Statistics

12.2 DOMESTIC FINANCIAL MARKETS DEVELOPMENTS

During 2006/07, the Bank of Uganda monetary and financial policies supported the development of money and financial markets for Government securities.

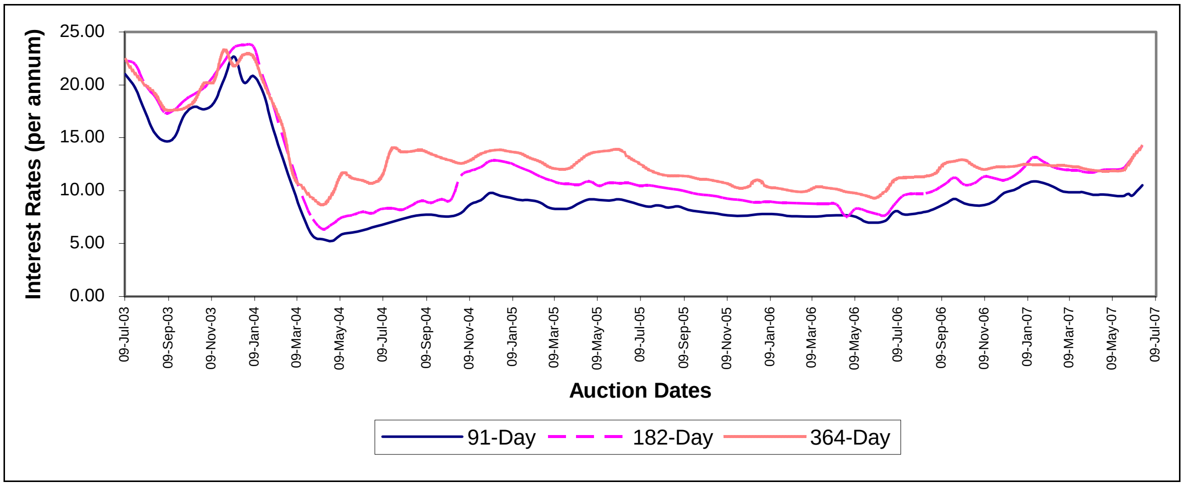
12.2.1 THE TREASURY BONDS AND BILLS RATES

Over the year 2006/07, the Bank of Uganda issued Treasury bonds of various tenors to support monetary policy implementation. The average yields-to-maturity on the 2-year, 3-year, 5-year bonds were 13.0, 13.5, and 13.8 percent with the first two tenors being the most frequently issued. The average yield-to-maturity of the 10-year bond remained at 13.5 percent, as there were no issues of the 10-year bond in the period under review. Most of the bond rates rose compared to the respective corresponding rates of 12.4, 12.8, and 14.3 percent in 2005/06 on account of low demand for Treasury bonds as evidenced by under-subscriptions ate each auction. As at June 2007, the outstanding stock of Treasury bonds amounted to Shs. 953.1 billion.

By end-June 2007, the effective yields on the 91-day, 182-day, and 364-day Treasury bills stood at 10.5 percent, 14.2 percent, and 14.1 percent, respectively compared to the corresponding rates of 7.2 percent, 7.7 percent and 10.0 percent by end-June 2006. Similarly, the discount rates on the 91-day, 182-day, and 364-day Treasury bills rose from 7.0 percent, 7.4 percent and 9.1 percent at end-June 2006 to 9.9 percent, 12.9 percent and 12.4 percent, respectively by end-June 2007. Figure 3 depicts the evolution of the Treasury bills effective yield rates.

Interest rates went up in the primary Treasury bond and Treasury bill markets as the Bank of Uganda maintained its efforts to keep the growth of base money within desired levels. This was against the commercial banks' increased demand for liquidity towards the end of the 2006/07 financial year.

FIGURE 3: TREASURY BILL EFFECTIVE YIELD RATES (JULY 2003 – JUNE 2007)



Source: Bank of Uganda

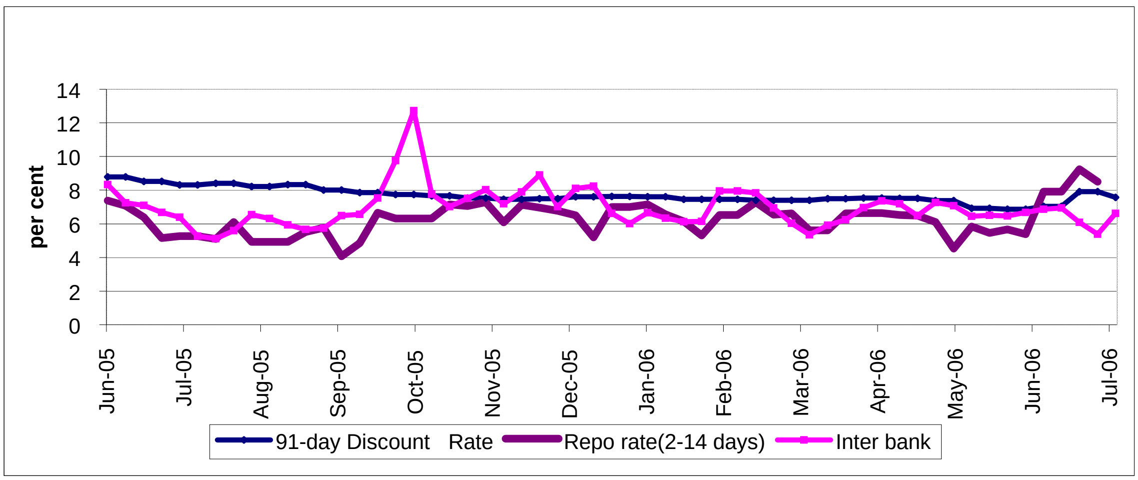
12.2.2 Domestic financial market developments

During the period under review, trading in the secondary market in Treasury bills recorded a decrease of 23.8 percent in value terms from Shs. 417.1 billion as at end-June 2006 to Shs. 317.9 billion as at end-June 2007 on account of sufficient liquidity in the system and the relatively stable secondary market rates, which could not induce resale and reinvestments in securities. In 2006/07, trading in the secondary market in the 2-year, 3-year, and 5-year bonds totaled to Shs. 180.8 billion. No trade in the 10-year bond in the secondary market was however reported.

The vertical Repo market, which is the Repo transactions between commercial banks and Bank of Uganda, was actively used for short-term liquidity management. The transaction volumes of the vertical REPO during 2006/07 were generally higher than the volumes recorded in 2005/06. Total Repo issuance in the year ended-June 2007 was Shs. 4,305.5 billion (net of reverse Repos of Shs. 227.0 billion) against maturities of Shs. 4,312 billion (net of maturing revese Repos of Shs. 227.5 billion) in 2006/07 compared to the Shs. 1,891.0 billion against maturities of Shs. 1,893.9 billion in 2005/06. Consequently, the weighted interest rates in the vertical REPO market trended upwards, especially in the later half of the 2006/07, in line with the upward trend in the interest rates on government securities.

The inter-bank money market transactions were of durations of 1 to 30 days. Commercial banks continued to participate in inter-bank money market in order to smooth their daily liquidity fluctuations and to cover their daily liquidity needs. The weighted inter-bank money market rates increased to 8.1 percent in 2006/08 compared to the 6.7 percent registered in 2005/06, while total volumes traded rose by 40.8 percent to Shs. 5,234.7 billion in 2006/07, up from Shs. 3,718.0 billion in 2005/06, reflecting the underlying liquidity needs in the domestic money markets. Figure 4 below indicates the evolution of the inter-bank, Repo and 91-day rates.

FIGURE 4: INTER BANK, REPO AND 91 DAY DISCOUNT RATES



Source: Bank of Uganda.

12.2.3 COMMERCIAL BANKS' RATES

Commercial banks' weighted average lending rates remained fairly stable over most of 2006/07 due to sustained sound macroeconomic and prudential management policies over the year. However, with increased competition and continued financial deepening efforts, the outlook for lending rates in the outer years point to a declining trend. The developments in the commercial banks' interest rates are shown in the Table 1.

TABLE 1: COMMERCIAL BANKS' WEIGHTED INTEREST RATES (% P.A), JUNE 2004–JUNE 2007

Weighted Average	June 2004	June 2005	June 2006	June 2007
Lending	20.89	18.07	18.60	19.38
Demand	1.14	1.09	1.11	1.20
Saving	2.14	1.77	2.02	2.79
Time	5.29	10.17	7.57	9.80
Spread (lending rate – time rate)	15.60	7.88	11.03	9.58

Source: Bank of Uganda

12.2.4 FOREIGN EXCHANGE MARKET DEVELOPMENTS

The Uganda Shilling appreciated by 2.5 percent in 2006/07 from Shs. 1,825.8 per US Dollar in June 2006 to Shs. 1780.7 per US Dollar in June 2007, compared to the 5.1 percent depreciation observed between June 2005 and June 2006. The appreciation was mainly due to high remittance inflows and a strong presence of offshore players in the money market in addition to the global weakening of the US dollar against other major currencies such as the British pound, the euro and the yen. The Bank of Uganda's intervention to maintain stability in the foreign exchange market resulted in a net purchase of US$110.8 million from the inter-bank foreign exchange market in 2006/07, compared to a net sale of US$ 152.5 million in 2005/06. Table 2 below summarizes developments in the foreign exchange market.

TABLE 2: AVERAGE MID-RATES AND SPREAD, AND TRANSACTIONS VOLUMES IN THE FOREIGN EXCHANGE MARKET (MILLION US$)

	Average Mid-rate	Average Spread	Net BOU	Bank Purchase from non-Bank	Bank's sales to non Bank	Cross currency trade
2003/2004	1,935.29	13.14	-141.00	1,515.97	1,651.24	484.67
2004/2005	1,737.83	12.93	-68.75	1,985.53	2,073.65	533.49
2005/2006	1,825.84	10.02	-152.5	2,258.66	2,399.71	303.96
2006/2007	1,780.66	12.08	110.80	3,733.86	3,628.68	552.06

Source: Bank of Uganda

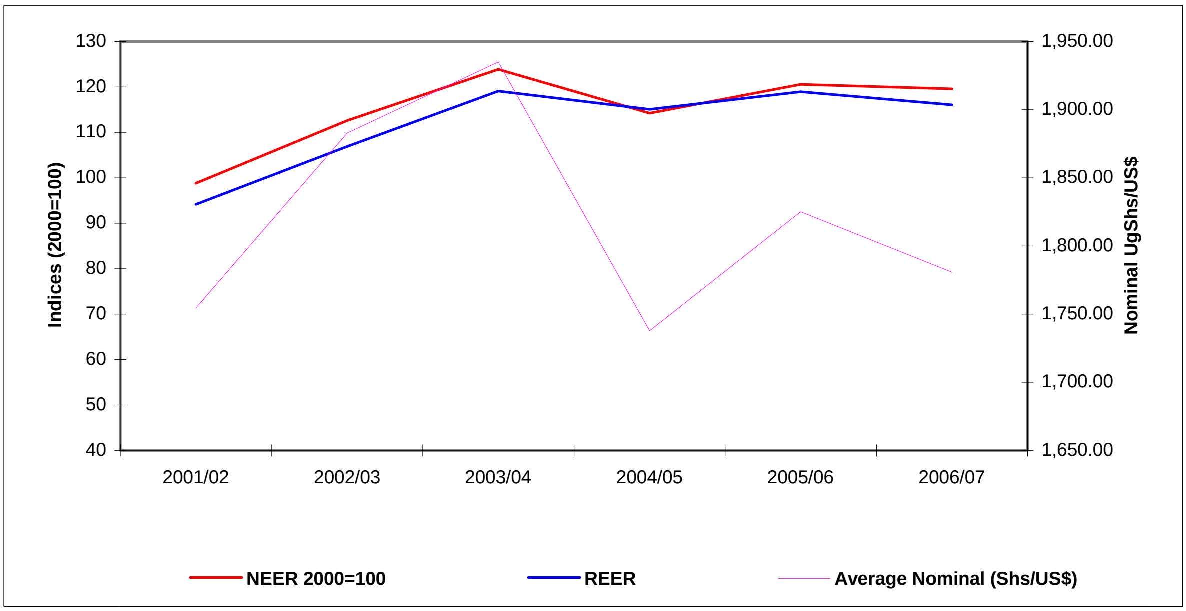
The nominal effective exchange rate, appreciated by 0.6 percent in 2006/07, while the real effective exchange rate appreciated by 2.4 percent over the same period, compared to the depreciation of 5.0 percent and 2.7 percent in 2005/06, respectively. The appreciation of the REER was on account of the Uganda's higher inflation when compared to her trading partners and the appreciation of the average nominal effective exchange rate (NEER). The developments in the exchange rates are shown in Table 3 and Figure 5.

TABLE 3: NOMINAL (NEER) EXCHANGE RATES AND REAL EFFECTIVE EXCHANGE RATE (REER)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Average Nominal (Shs/US$)	1,754.56	1,882.86	1,934.88	1,737.69	1,825.15	1,780.66
NEER 2000=100	98.82	112.61	123.84	114.25	120.53	119.60
REER	94.19	106.93	119.10	115.08	118.91	116.04

Source: Bank of Uganda

FIGURE 5: NOMINAL AND REAL EFFECTIVE EXCHANGE RATES



Source: Bank of Uganda

13 FINANCIAL SECTOR DEVELOPMENTS

13.1 MONEY AND BANKING

13.1.1 Base Money

As at year ended June 2007, base money, which is defined as commercial banks' deposits at the Bank of Uganda plus currency issued and commercial banks' investments in BOU instruments expanded by 28.2 percent. Excluding commercial banks' investments in BOU instruments, base money grew by 18.8 percent to Shs. 1,242.5 billion on account of the monetary authorities increased net foreign assets. On the liability side, the expansion in base money occurred in all its components, with the largest absolute increase in currency issued. The increase in currency issued was on account of increased demand for the Uganda shilling as a result of positive shocks to the balance of payments arising from increased regional trade. As at year ended June 2007, commercial banks' investments in BOU instruments increased to Shs. 117.6 billion from the Shs. 15.0 billion in June 2006 on account of increased liquidity fine-tuning operations by Bank of Uganda at the close of the year June 2007. Commercial banks' deposits at BOU and currency issued rose to Shs. 330.6 billion and Shs. 981.1 billion, respectively from the Shs. 278.2 billion and Shs. 837.7 billion in June 2006. Table 4 presents a summary of developments in base money and other aspects of the monetary authority balance sheet over the period.

TABLE 4: MONETARY AUTHORITY BALANCE SHEET (SHS BILLION, AT END OF PERIOD)

Monetary aggregates	June 2004	June 2005	June 2006	June 2007
Net Foreign Assets	1,680.47	2,050.84	2,613.98	3,330.93
Net Domestic Assets	-899.22	-1,209.24	-1,648.38	-2,084.22
Claims on Government (net)	-489.59	-833.41	-991.25	-1,712.65
Claims on parastatal	1.89	1.32	0.89	4.21
Claims on Private Sector	23.94	20.11	20.78	20.46
Claims on Commercial Banks	85.84	86.73	95.51	113.42
Other Items, Net	-435.47	-397.26	-678.80	-396.25
Base Money + DMB's Investments in BOU Instruments	867.09	928.33	1,061.11	1,360.13
Base Money = CIC+Transactions bal of operating banks	809.94	928.33	1,046.11	1,242.53
Currency Outside BOU	605.29	698.58	837.73	981.10
Commercial Bank Deposits	264.92	295.59	278.16	330.60
Commercial Banks Investment in BOU Instruments	57.15	0.00	15.00	117.60

Source: Bank of Uganda

13.1.2 Money supply

Money supply, M3 expanded by 17.4 percent over the twelve months to June 2007. The expansion in M3 was on account of an increase in Net Foreign Assets of the banking system by 24.8 percent in June 2007 as a result of positive shocks to the balance of payments, which in turn led to an expansion in foreign reserves. Money supply, M2, which comprises of currency in circulation, private sector's demand, time and savings deposits, increased by 16.8 percent from Shs. 2,563.7 billion as at June 2006 to Shs. 2,993.9 billion as at June 2007. Currency in circulation increased by 13.0 percent in 2006/07 compared to 23.1 percent in 2005/06, private demand deposits rose by 24.5 percent in 2006/07 compared to 11.8 percent rise in 2005/06 and while private time and savings deposits remained stable at the 2005/06 level of 24.1 percent.

13.1.3 Net foreign assets

The net foreign assets of the banking system, which were estimated to have increased from Shs. 3,073.6 billion as of end June 2006 to Shs. 3,834.7 billion as at June 2007, contributed to about 23.3 percent of the M3 growth. The growth in M3 was on account of an increase in foreign reserves, which rose by 28.1 percent from Ush. 2,594.7 billion at end-June 2006 to Shs. 3,324.7 billion as at end-June 2007. The Government liabilities to the International Monetary Fund however declined from Shs. 16.5 billion in June 2006 to Shs. 14.5 billion in 2007. Table 5 summarizes developments in the monetary aggregates of banking system over the period.

TABLE 5: MONETARY SURVEY, DEC. 2005 – JUNE 2007 (SHS. BILLION)

	Dec. 2005	June 2006	Dec. 2006	June 2007
Net Foreign Assets	2,723.88	3,073.61	3,792.72	3,834.67
Domestic credit	1,257.79	1,382.28	1,230.44	1,116.40
Claims on Central Government (net)	-47.09	-112.74	-521.07	-731.52
Claims on the Private Sector	1,289.32	1,475.47	1,716.66	1,812.93
Shillings loans to resident private sector	924.17	1,038.62	1,263.80	1,356.34
Forex loans to residents	365.14	436.85	452.86	456.59
Other Items (net)	-880.22	-1,184.29	-1,396.91	-1,109.05
Net domestic assets(excl. revaluation)	926.10	710.22	388.12	490.72
Broad money - M3	3,101.45	3,271.60	3,626.25	3,842.02
Foreign exchange accounts	665.80	706.64	794.82	848.07
Broad money - M2	2,433.67	2,563.74	2,831.37	2,993.95
Currency in circulation	710.22	744.89	885.87	863.62
Private sector demand deposits	896.33	961.53	1,004.40	1,127.96
Private sector time & savings deposits	834.67	857.31	941.11	1,002.33

Source: Bank of Uganda

13.1.4 Net domestic assets

The net domestic assets of the banking system excluding revaluation declined by 40.9 percent to Shs. 490.7 billion in June 2007 from Shs. 710.2 billion in June 2006 on account of increased Government savings. In June 2007, the Government position with the banking system recorded a net saving of Shs. 731.5 billion, compared to Shs. 112.7 billion in June 2006. The banking system's claims on the private sector grew by 28.9 percent to Shs. 1,812.1 billion in June 2007. Developments in the private sector credit from the commercial banks are presented in Section 7.2.

13.1.5 FINANCIAL DEPTH

During 2006/07, indicators of financial depth portrayed mixed outcomes. The ratio of broad money (M3) to GDP and of monetary GDP to total GDP increased to 19.7 percent and 76.5 percent relative to 14.8 percent and 76.0 percent in 2005/06, respectively, indicating increased importance of money as a medium of exchange in financing the economy's output. While the ratio of currency in circulation to broad money (M2A) declined to 28.0 percent in 2006/07 from 29.0 percent in 2005/06, which was indicative of diminishing importance of cash in money supply, financial savings as a ratio of M3 decreased to 30.7 percent in 2006/07 compared to 31.3 percent in 2005/06. The ratio of currency in circulation to GDP marginally declined to 4.2 percent compared to 4.3 in 2005/06. Table 60 presents the developments in the financial sector.

TABLE 6: MEASURES OF FINANCIAL DEPTH AND DEVELOPMENTS OF THE BANKING SECTOR

Financial aggregate	2003/04	2004/05	2005/06	2006/07
Financial aggregate	2003/04	2004/05	2005/06	2006/07
GDP (billion Shs)	13,045.3	15,903.97	17,350.91	19,497.93
Monetary GDP (billion Shs)	9,911.50	11,400.46	13,186.59	14,919.11
Broad Money (M3, billion Shs)	2,587.26	2,811.11	3,271.61	3,842.02
Broad Money (M2A, billion Shs)	1,924.88	2,157.86	2,564.96	2,993.95
Financial savings (billion Shs)*	731.79	819.62	1023.40	1180.25
Currency in circulation (billion Shs)	529.29	605.06	744.89	863.62
Memorandum items:				
Monetary GDP/Total GDP %	75.98	71.68	76.00	76.52
Broad money (M3)/Total GDP %	14.76	13.57	14.78	19.70
Broad money (M2A)/total GDP %	19.83	17.68	18.86	15.36
Financial savings/M3 %	28.28	29.16	31.28	30.72
Financial savings/total GDP %	5.61	5.15	5.90	6.05
Currency in circulation/M2A %	27.50	28.04	29.04	27.97
Currency in circulation/GDP %	4.06	3.80	4.29	4.23

*** Financial savings are defined as total time and saving deposits plus certificates of deposits. It includes both shillings and foreign currency deposits.**

Source: Bank of Uganda and Uganda Bureau of Statistics

13.2 COMMERCIAL BANKS' ACTIVITIES

13.2.1 ASSETS

Between June 2006 and June 2007, the net foreign assets of commercial banks rose by 9.8 percent to Shs. 504.5 billion, on account of growth in external assets, which more than offset total foreign liabilities. Over the same period, commercial banks' net domestic assets increased by 19.5 percent to Shs. 2,921.8 billion, reflecting increases in claims on local Government, parastatals and private sector credit. Commercial banks' claims on local Government more than doubled from Shs. 0.1 billion in June 2006 to Shs. 0.4 billion as at end June 2007, claims on parastatals increased by 64.0 percent to Shs. 30.4 billion in June 2007 and credit to the private sector expanded by 23.2 percent. Similarly, net claims on Central Government rose by 11.7

percent on account of increases in advances and Government securities.

13.2.2 Outstanding loans and advances to the private sector

During the year under review, the commercial banks' total outstanding stock of credit to the private sector increased by 23.2 percent to Shs. 1,792.47 billion as at June 2007. This was lower than the increase of 28.7 percent registered in the previous year. However, there was a mixed picture in the evolution of credit across sectors during the year. The other services and personal loans (comprising of real estates, personal loans and others) continued to account for the largest share of credit from commercial banks at 47.9 percent. The trade and commerce sub sector accounted for 15.8 percent, while manufacturing accounted for 14.3 percent.

Credit to the mining and quarrying registered the fastest growth of over 100 percent (although from a low base), followed by the building and construction sector at 35.6 percent. Credit to the agricultural sector however, declined by 10.2 percent. The growth in credit to mining and quarrying and building and construction sectors was attributed to a rise in hotel construction as a result of the anticipated returns and unusually high demand for hotel rooms that would arise from the Commonwealth Heads of Government Meeting (CHOGM) in Kampala in November 2007. Table 7 shows the outstanding loans and advances, and percentage shares by sectors.

TABLE 7: OUTSTANDING LOANS, ADVANCES & PERCENTAGE SHARES (SHS. BILLION, END PERIOD)

			Percent share		Absolute change
Sector	Jun 06 (Shs. bn)	Jun 07 (Shs. bn)	Jun 06	Jun 07	Jun 06 - Jun 07
Agriculture	135.60	121.81	9.1	6.8	-13.79
Manufacturing	240.32	257.40	16.2	14.3	17.08
Trade	238.18	284.50	16.0	15.8	46.32
Transport, electricity & water	94.44	118.71	6.4	6.6	24.27
Building & construction	83.03	112.58	5.6	6.2	29.55
Mining & quarrying	0.75	44.00	0.1	2.4	43.25
Other services & personal loans	693.50	864.33	46.7	47.9	170.83
Total	1,485.82	1,792.47	100	100	306.65

Source: Bank of Uganda

13.2.3 Liabilities

Total deposit liabilities to the non-bank public grew by 17.9 percent from Shs. 2,526.7 billion in June 2006 to Shs. 2,978.4 billion in June 2007. The private sector's demand deposits increased by 17.3 percent, while time and savings deposits increased by 16.9 percent in June 2007 compared to the increase of 11.8 percent and 23.8 percent in June 2006, respectively. The rise in Demand, and Time and Savings deposits resulted from increased confidence in the financial system and is symptomatic of increased demand for money arising from the positive shocks to the balance of payments. Foreign exchange deposits also grew by 20.0 percent in 2006/07 up from 8.2 percent in 2004/06. However, the level of holding of certificate of deposits declined by 95.3 percent to Shs. 0.05 billion in June 2007. Table 8 presents selected items of the commercial banks' balance sheets for June 2004 to June 2007.

TABLE 8: SELECTED ITEMS OF THE COMMERCIAL BANKS' BALANCE SHEET, JUNE 2004–JUNE 2007

Financial aggregate	June. 2004	June 2005	June 2006	June 2007
Net Foreign Assets	690.07	597.17	459.63	504.46
Net Domestic Assets	1,631.92	1,959.79	2,444.70	2,921.83
Claims on Central Government (net)	557.82	657.10	878.51	981.10
Claims on Private Sector	986.03	1,130.12	1,454.69	1,792.47
Cash in Vaults	76.00	93.52	92.84	117.49
Net Claims on Bank of Uganda	216.48	190.72	297.95	376.97
NDA (net of revaluation)	1,628.47	1,881.32	2,451.59	2,888.03
Deposit Liabilities to the Non-Bank Public	2,057.97	2,206.05	2,526.71	2,978.40
Foreign Exchange Accounts	662.38	653.25	706.64	848.07
Demand Deposits	803.98	860.15	961.53	1,127.96
Time and Savings Deposits	591.61	692.66	857.31	1,002.33

Source: Bank of Uganda

13.2.4 ACTIVITIES OF CREDIT INSTITUTIONS

During 2006/07, credit institutions' balance sheet positions and volume of business grew compared to the previous period, inspite of the exit of two credit institutions. During the financial year, one credit institution voluntarily wound-up, while the assets and liabilities of another institution were taken over by a Commercial Bank. Another credit institution opened a new branch bringing the total branch network to 34. In 2006/07, the overall financial conditions of all the credit institutions continued to be rated satisfactory.

13.2.5 ASSETS OF CREDIT INSTITUTIONS

The year 2006/07 witnessed continued growth in the activities of credit institutions. This was reflected by a 17.6 percent growth in total assets to Shs. 261.5 billion. The growth in assets was mainly on account of increases in total advances by the credit institutions and balances with commercial banks, coupled with the stability in the financial system. Table 9 summarizes these developments.

TABLE 9: DEVELOPMENTS IN THE ACTIVITIES OF CREDIT INSTITUTIONS (SHS. BILLION)

	Jun 2003	Jun 2004	Jun 2005	Jun 2006	Jun 2007
Total Assets	132.17	153.76	194.09	222.24	261.45
O/w Loans and advances	73.95	91.03	117.44	138.91	170.73
Secured & unsecured	9.86	12.73	27.96	36.92	48.05
Mortgage	37.35	54.06	65.01	83.39	103.01
Administered	26.74	24.23	24.47	18.59	19.66
Other*	58.23	62.74	76.65	83.33	90.73
Total Liabilities	132.17	153.76	194.09	222.24	261.45
O/w Deposits Liabilities	75.20	94.46	120.45	138.37	125.77
Savings	44.83	56.34	63.18	72.91	89.45
Time	7.27	10.78	24.91	30.44	28.47
Agency Funds	21.84	26.15	30.90	33.24	5.87
Other**	56.98	59.31	73.64	83.87	135.69

* Includes investments, balances with banks, cash & fixed assets, net due from own offices in Uganda for items in transit & other assets.

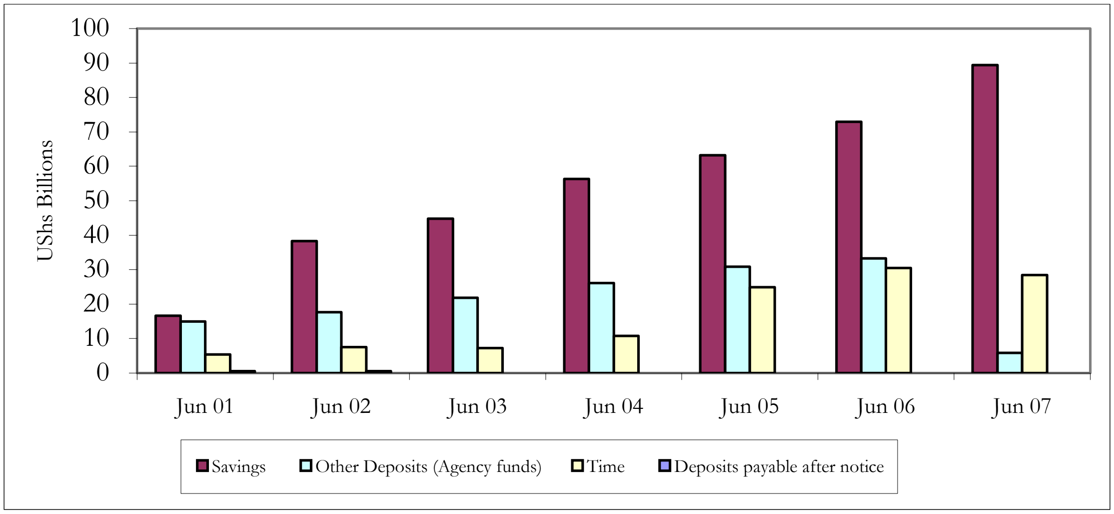
** Includes balances due to commercial banks, administered funds, other liabilities, provisions, capital, & Profit/loss

Source: Bank of Uganda

13.2.6 Liabilities

During 2006/07, total liabilities of credit institutions increased by 17.6 percent in June 2007 from Shs. 222.2 billion in June 2006 to Shs. 261.5 billion. However, deposit liabilities decreased by 9.1 percent to Shs. 125.8 billion on account of a sharp decline in Agency funds, which declined by 82.3 percent to Shs. 5.9 billion from Shs. 33.2 billion in June 2006. The decline in agency funds was attributed to the conversion of pool houses funds that were collected and held by Housing Finance Company Limited into government share capital Private sector time deposits fell to Shs. 28.58 billion, reflecting a decline of 6.5 percent from the preceding year's level of Shs. 30.4 billion. Savings deposits however, increased by Shs. 16.5 billion to Shs. 89.5 billion as at end-June 2007. Figure 6 shows the developments in the deposits of credit institutions.

FIGURE 6: TOTAL DEPOSIT LIABILITIES OF CREDIT INSTITUTIONS.

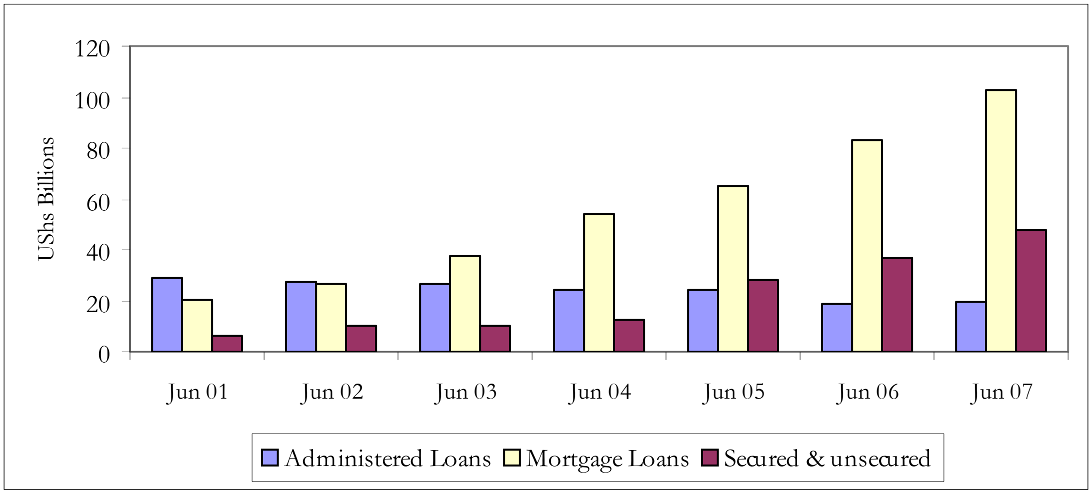


Source: Bank of Uganda

13.2.7 Loans and Advances to the Private Sector

In 2006/07, the stock of outstanding loans and advances to the private sector rose strongly by 22.9 percent to Shs. 170.7 billion from Shs. 138.9 million in 2005/06. The rise in loans and advances was attributed to the growth in secured and unsecured loans, which rose by 30.1 percent to Shs. 48.1 billion, and an increase in mortgage loans of 23.5 percent to Shs. 103.0 billion. Increased borrowing from commercial banks for onward lending bridged the gap between the deposit base of the credit institutions and private sector credit growth. The building and construction sector continued to claim the biggest share of credit from the Credit Institutions, at 60.9 percent. Figure 7 shows the developments in the loans and advances of Credit Institutions.

FIGURE 7: OUTSTANDING LOANS AND ADVANCES OF CREDIT INSTITUTIONS



Source: Bank of Uganda

13.2.8 LIQUIDITY

During 2006/07, total liquidity of credit institutions increased by 11.9 percent to Shs. 62.5 billion on account of an increase in balances with commercial banks, which rose by 20.11 percent to Shs. 44.8 billion in 2006/07 from Shs. 37.3 billion in 2005/06. Cash in vaults however, declined by 5.6 percent to Shs. 3.4 billion from Shs. 3.6 billion in 2005/06 and holdings of Government securities declined by 4.6 percent to Shs. 14.3 billion from Shs. 15.0 billion in 2005/06. Table 10 shows the liquidity positions of credit institutions.

TABLE 10: THE LIQUIDITY OF CREDIT INSTITUTIONS (SHS BILLION)

Aggregate	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Absolute Change	% Change
Cash in Vaults	2.08	2.67	3.14	3.57	3.4	-0.17	-5.55
Treasury Bill Holdings	11.62	11.18	19.34	14.99	14.3	-0.69	-4.60
Balance with commercial Banks	19.85	22.64	34.57	37.3	44.8	7.5	20.11
Total	35.55	36.49	57.05	55.86	62.5	6.64	11.89

Source: Bank of Uganda

13.2.9 MICRO DEPOSIT-TAKING FINANCIAL INSTITUTIONS (MDIS)

During 2006/07 and in line with the micro finance deposit-taking institutions (MDI) Act 2003, which provides for the licensing, regulation and supervision of microfinance operations, the Bank of Uganda continued to sensitize the public on the legal provisions in the MDI Act 2003. During the same period, MDIs registered a strong growth in their assets and activities.

13.2.10 ASSETS

Total assets of the MDIs grew by 35.1 percent during 2006/07 to Shs. 145.4 billion mainly due to growth in notes and coins held by MDIs, net loans to the private sector and MDIs balances with financial institutions in and outside Uganda. Table 11 below shows developments in the MDIs activities.

TABLE 11: DEVELOPMENTS IN THE MDIS' ACTIVITIES (SHS. BILLION) SINCE JUNE 2006

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Total Assets	107.62	121.91	128.57	133.98	145.44
Notes and Coins	2.58	3.02	3.60	2.98	3.43
Balance with financial institutions in Uganda	12.24	12.22	14.61	22.90	15.40
Investments in Treasury bills	13.75	18.34	16.20	10.98	14.28
Net loans outstanding	62.92	70.70	76.87	79.17	86.51
Inter branch/Due from own offices	0.34	0.14	0.05	0.06	0.39
Net fixed assets	9.28	9.41	9.63	9.96	9.59
Long term investments	0.62	0.86	1.07	1.19	1.70
Other assets	5.88	7.22	6.56	6.74	7.37
Total liabilities and equity	107.62	121.91	128.57	133.98	145.44
Deposit liabilities	17.72	19.65	23.23	25.91	30.90
Savings deposits	16.30	17.87	20.22	22.16	24.42
Time deposits	1.18	1.28	2.81	3.22	6.06
Total private sector deposits	17.47	19.15	23.03	25.38	30.48
Accrued interest	0.24	0.50	0.20	0.53	0.41
Loan insurance fund	14.88	15.20	15.27	15.64	15.85
Total borrowing	29.49	38.31	41.28	37.22	42.17
Other liabilities	8.32	9.54	8.42	9.82	9.55
Total liabilities	70.40	82.69	88.19	88.59	98.46
Total equity	19.77	20.54	22.70	24.12	27.08
Subordinated debt	13.66	14.88	13.88	17.47	16.10
Preference shares	3.80	3.80	3.80	3.80	3.80

Source: Bank of Uganda

13.2.11 LIABILITIES

Total deposits of the mdis rose by 74.4 percent to shs. 30.9 billion in 2006/07 of which total private sector deposits grew by 74.5 percent to shs. 30.5 billion. the private sector's time deposits rose to shs. 6.1 billion by june 2007, up from shs. 1.2 billion in june 2006, while savings deposits increased by shs. 8.1 billion to shs. 24.4 billion over the same period. Total borrowings by the mdis increased by 43.0 percent to shs. 42.2 billion.

13.2.12 LOANS AND ADVANCES TO THE PRIVATE SECTOR

In 2006/07, the stock of outstanding loans and advances increased by 34.8 percent to Shs. 89.1 billion. The loans and advances financed by the MDIs exceeds the deposits and the long-term borrowings due to on lending of funds from grants & loan insurance fund (LIF), which were available at the time when they existed as NGOs. As licensed deposit-taking institutions, they also have other sources of funds for on lending, such as capital in excess of the required minimum and subordinated debt. The trade and commerce sector claimed the biggest share of credit from the MDIs, which was at 83.0 percent by end-June 2007.

13.2.13 LIQUIDITY

During 2006/07, the liquidity position of MDIs increased by 15.9 percent from Shs. 28.6 billion in June 2006. The balances of MDIs at commercial banks increased by 25.8 percent to Shs. 15.4 billion while holdings of Government securities increased by 3.8 percent to Shs. 14.3 billion. Table 12 shows the liquidity position of MDIs.

TABLE 12: THE LIQUIDITY OF MDIS (SHS BILLION)

Aggregate	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Absolute Change	% Change
Notes and Coins	2.58	3.02	3.60	2.98	3.43	0.45	15.04
Balances with financial institutions in Uganda	12.24	12.22	14.61	22.90	15.40	-7.49	-32.72
Investments in Treasury bills	13.75	18.34	16.20	10.98	14.28	3.31	30.12
Total	28.58	33.58	34.40	36.86	33.12	-3.74	-10.14
O/w encumbered fixed deposits*	10.67	10.03	9.91	8.19	4.82	-3.37	-41.15

*** Deposits pledged as security to secure overdraft facilities**

Source: Bank of Uganda

14 FISCAL OPERATIONS

14.1 OVERVIEW

In 2006/07, the Government financial position improved, albeit marginally. Excluding grants, the overall budgetary operations resulted in a deficit of 6.8 percent of GDP in 2006/07, 1.6 percent basis point within the programme target of 8.4 percent. The performance in budgetary operations was on account of increased domestic revenues, which more than covered the overruns on expenditures. The evolution in fiscal operations is indicated in Table 13.

14.1.1 REVENUE PERFORMANCE

Total central Government revenue including grants increased by 5.3 percent to Shs. 3,574.0 billion in 2006/07, up from Shs. 3,395.0 billion in 2005/06. As a share of GDP, Government revenue including grants was 17.9 percent in 2006/07 compared to 19.6 percent in 2005/06. Excluding grants, Government revenue increased by 17.6 percent to Shs. 2,667.0 billion in 2006/07, which was equivalent to 13.4 percent of GDP in 2006/07 compared to 13.1 percent in 2005/06. The Uganda Revenue Authority (URA) generated revenue in 2006/07 which amounted to Shs. 2,524.0 billion, was 2.7 percent above the program target and was also higher than the Shs. 2,142.0 billion realised in 2005/06. Consequently, domestic revenue as a percent of GDP in 2006/07 improved marginally by 0.3 basis point from the 13.1 percent in 2005/06. The improvement in URA revenue collection was attributed to improved performance of both domestic and international tax collection measures.

On the other hand, non-URA generated revenue was below the program target of Shs. 150.0 billion by 4.0 percent. Surpluses were realized on PAYE, interest, withholding and trade taxes, excise duties and VAT. Local VAT performance is largely attributed to a wider VAT base on electricity due to increased tariffs and increase in the clientele base for the Phone Talk Time. International trade taxes were boosted by high performance of petroleum duty largely on account of increased fuel needs as a result of energy crisis. Total grants, which were 4.5 percent of GDP, dropped to

Shs. 907.0 billion in 2006/07 from Shs. 1,129.0 billion in 2005/06 and was below the program target by 22.7 percent.

14.1.2 Government expenditure

Government expenditure and net lending amounted to Shs. 4,033.0 billion or 20.2 percent of GDP in 2006/07, representing a decrease of 0.2 basis points of GDP from 20.4 percent in 2005/06. Recurrent expenditure increased by 9.3 percent, while development expenditures dropped by 9.0 percent in 2006/07. While the outturn of recurrent expenditures was higher than the program targets of Shs. 2,392.0 billion by 2.1 percent, the development expenditures were below the program target by 17.9 percent. Total wage bill increased by 13.9 percent to Shs. 986.5 billion in 2006/07, while domestic and external interest payments amounted to Shs. 236.3 billion, representing a decrease of 5.6 percent over the level of 2005/06.

14.1.3 The Budget deficit and its financing

Overall, the budget deficit excluding grants as a percentage of GDP improved to 6.8 percent in 2006/07, compared to a deficit of 7.3 percent in 2005/06. On a commitment basis however, the budget deficit worsened from a deficit of 0.8 percent of GDP in 2005/06 to a deficit of 2.3 percent in 2006/07. Excluding grants and the special programme for additional energy spending, the deficit was 5.8 percent of GDP, a level below the programmed target of 7.4 percent of GDP on account of the lower than programmed total expenditure.

Consistent with the national debt strategy, the deficit was mainly financed by net external inflows, particularly net loans. During the year, the fiscal operations resulted in a net borrowing of Shs. 391.0 billion. External financing amounted to a net borrowing of Shs. 672.3 billion, compared to Shs. 465.9 billion in 2005/06. This was explained by the relatively low levels of amortization due to the debt cancellation that Government received during the 2006/07 financial year. Domestically, the fiscal operations resulted in an improvement in Government net position with the rest of the economy by Shs. 261.7 billion on account of the improvement in the Government's position with the banking system that more than covered net borrowing from the non-bank sector. The improvement in

Government position was attributed to higher than expected disbursement of budget support and an increase in the level of project deposits towards the end of the financial year.

TABLE 13: UGANDA FISCAL OPERATIONS 2004/05 – 2006/07 (SHS. BILLION)

	2004/05 Actual	2005/06 Actual	2006/07 Prog	2006/07 Actual
Revenue and grants	3,169.9	3,395	3,776	3,574
Revenue	1,914.7	2,267	2,602	2,667
URA	1,887.7	2,142	2,457	2,524
Non-URA	27.0	125	150	144
Grants	1,255.2	1,129	1,174	907
Expenditure & net lending	3,277.5	3,532	4,283	4,033
Current Expenditure	2,233	2,233.8	2,392	2,442
Wages & Salaries	867	866.5	976	987
Non Wage	1,117	1,117.2	1,160	1,220
Interest	249	249.9	256	236
Development Expenditure	1,238	1,469.8	1,617	1,339
External	720	818.5	885	625
Domestic	519	951.3	732	714
Net Lending and Investment	-29	-29.3	57	101
Overall deficit Including grants	-137	-575.6	-507	-459
Overall deficit Excl. grants	-1,265	-1,498.3	-1,681	-1,366
Overall def Excl. grants & energy spending	…	…	-1,474	-1,159
Financing	63	502.6	470.4	391.0
External Financing (net)	267	465.9	642.5	672.3
Domestic Financing (net)	-204	-5.7	-172.0	-261.7
Bank	-135	63.6	-242.0	-618.8
GDP at market prices	15,152.9	17,350.9	19,223.0	19,497.9
Total revenue and grants (% of GDP)	20.9	19.6	18.9	17.9
Domestic Revenue (% of GDP)	12.6	13.1	13.1	13.4
Grants (% of GDP)	8.3	6.5	5.9	4.5
Expenditure and net lending (% of GDP)	21.6	20.4	21.5	20.2
Recurrent (% of GDP)	13.1	12.9	12.0	12.2
Development (% of GDP)	8.1	7.1	8.1	6.7
Overall deficit including grants (% of GDP)	-0.7	-0.8	-2.5	-2.3
Overall deficit excluding grants (% of GDP)	-9.0	-7.3	-8.4	-6.8
Overall deficit excl. grants&energy spending	…	…	-7.4	-5.8

Source: Ministry of Finance, Planning and Economic Development

15 EXTERNAL SECTOR

15.1 BALANCE OF PAYMENTS DEVELOPMENTS

During 2006/07, the overall balance of payments recorded a surplus of US$ 646.8 million, higher than the surplus of US$ 176.3 million recorded in the previous year on account of both an improved current account and capital and financial accounts. The surplus on the capital and financial account improved from US$ 555.4 million in 2005/06 to US$ 1,057.1 million in 2006/07, as a result of higher direct and portfolio investment inflows. The rise in investment flows was on account of increased confidence in the domestic economy and more offshore investors in the Treasury securities market. However, the current account balance deficit worsened from US$ 379.1 million in 2005/06 to US$ 410.3 million in 2006/07. In terms of GDP, the current account deficit was estimated at 3.8 percent in 2006/07 compared to 4.9 percent in 2005/06. Excluding grants, the current account deficit was 8.8 percent of GDP in 2006/07, compared to 10.9 percent in 2005/06.

Foreign reserves at the Bank of Uganda increased by US$ 753.4 million to US$ 2,159.9 million in 2006/07. The increase in foreign reserves was mainly due to higher than programmed donor inflows, lower external cash debt services and smaller than programmed sales of foreign exchange in the inter-bank foreign exchange market. Donor inflows amounted to US$ 953.2 million in 2006/07, up from US$ 626.4 million in 2005/06 and external cash debt service stood at US$ 71.1 million in 2006/07, compared to US$ 100.4 million in 2005/06.

TABLE 14: SUMMARY OF BALANCE OF PAYMENTS (US$ MILLIONS)

	2003/04	2004/05	2005/06	2006/07
Current Account Balance	-83.36	-161.63	-379.03	-410.30
Goods Account (Trade Balance)	-672.30	-837.55	-926.5	-993.04
Total Exports (fob)	647.18	786.32	1,042.47	1,520.52
Coffee	114.13	144.53	173.37	228.52
Total Imports (fob)	-1,319.48	-1,623.87	-1,968.97	-2,513.56
Project imports	-121.90	-116.33	-67.31	-42.28
Services Account (net)	-241.08	-320.13	-352.6	-564.82
Income Account (net)	-150.29	-167.67	-236.5	-219.48
Current Transfers	980.31	1,163.72	1,136.49	1,367.05
Inflows	1,186.16	1,432.54	1,431.31	1,716.54
Outflows	-205.85	-268.82	-294.81	-349.49
Capital and Financial Account Balance	272.86	392.57	555.36	1,057.11
Capital Account (Transfers)	0.00	0.00	126.81	3,428.10
Financial Account	272.86	392.57	428.55	-2,370.99
Direct Investment	204.10	245.89	368.92	428.33
Portfolio Investment	7.76	11.46	-5.58	85.20
Other Investments	61.00	135.22	65.22	-2,885.04
Overall Balance	189.50	230.93	176.3	646.81
Financing Items				
Reserve Assets	-143.37	-182.18	-24.14	-657.04
Use of IMF Credit (net)	-48.85	-51.68	-138.80	0.00
Exceptional Financing	9.24	4.44	-35.30	-28.34
Errors and Omissions	-6.52	-1.52	21.90	40.57

Source: Bank of Uganda

15.1.1 Exports of merchandise

Total receipts from exports of goods were estimated at US$ 1,520.52 million, equivalent to 11.7 percent of GDP, representing an increase of 478.1 percent over 2005/06 financial year. Coffee exports increased by 31.8 percent to US$ 228.5 million in 2006/07, on account of increases in both the realized world market price from US$ 1.4 per kg in 2005/06 to US$ 1.5 in 2006/07, and coffee volumes from 2.1 million (60-kg) bags in 2005/06 to 2.5 million bags in 2006/07. Non-coffee exports increased by 43.8 percent to US$

1,029.8 million in 2006/07 mainly due to higher receipts from exports of hides and skins which rose by 100.4 percent to US$ 14.7 million, cotton by 53.0 percent to US$ 19.7 million, Tea by 79.4 percent to US$ 45.9 million, tobacco by 52.6 percent to US$ 46.7 million and other exports whose value more than doubled to US$ 470 million. Arising from increased demand from the regional market, particularly from Southern Sudan, the other exports category increased significantly, rising to US$ 469.7 million, up from US$ 221.4 million in 2005/06. The increase in other exports was on account of fruits and vegetables that increased by 42.2 percent, soap by more than twofold, plastic products by almost threefold, base metals and products by more than twofold, cocoa beans by 52.3 percent and other pulses by 79.0 percent.

However, some exports declined. Exports of beans declined by 30.2 percent to US$ 5.8 million, cobalt by 14.7 percent to US$ 16.6 million and fish and its products by 7.8 percent to US$ 140.7 million. Similarly, simsim exports declined by 28.4 percent to US$ 4.0 million and flower export declined marginally by 0.2 percent to US$ 32.6 million in 2006/07.

TABLE 15: EXPORT OF MERCHANDISE 2002/3 – 2005/06

	2002/3	2003/4	2004/5	2005/6	2006/7
Total Exports (in US$ million)	507.91	647.18	786.32	1,042.47	1,520.52
Coffee	105.47	114.13	144.53	173.37	228.52
Volume ('000 60-Kg bags)	2.993	2.552	2.520	2.102	2.54
Average unit value	0.587	0.7453	0.956	1.380	1.50
Non-Coffee exports (US $ million)	395.63	525.90	633.21	702.60	1,011.42
Electricity	15.47	12.64	8.25	4.68	6.31
Gold	48.18	58.49	71.33	101.55	116.14
Cotton	16.88	42.84	41.34	12.86	19.67
Tea	29.46	39.25	33.13	25.61	45.94
Tobacco	39.89	36.16	36.20	30.63	46.74
Fish & its products (excl. regional)	83.78	88.82	121.22	147.04	140.67
Fish & its prod (regional exports)	27.65	29.31	48.39	45.77	42.20
Hides & skins	4.18	5.86	6.38	7.33	14.69
Simsim	1.55	3.38	3.07	5.52	3.95
Maize	8.16	18.76	13.29	23.73	27.94
Beans	5.49	4.87	4.33	8.28	5.78
Flowers	17.04	27.16	31.71	32.67	32.61
Oil re-exports	11.69	34.32	33.05	29.61	41.59
Cobalt	1.92	2.69	13.70	19.42	16.58
Others	91.09	128.53	176.40	221.35	469.64

Source: Bank of Uganda

15.1.2 Merchandise imports

Total import bill for 2006/07 rose to US$ 2,513.6 million, up from US$ 1,969.0 million in the previous year on account of growth in private sector imports, reflecting growth of the economy coupled with an appreciation of the Uganda shilling against the US$ during the year under review. Private sector imports amounted to US$ 2,436.6 million in 2006/07, up from US$ 1,867.0 million in 2005/06. The oil import bill increased to US$ 403.0 million, up from US$ 290.4 million recorded in the previous year, on account of rising oil prices on the world market and increased local demand for oil arising from hydro-electricity power shortage.

15.1.3 Trade in services

The estimates of services exports declined by 2.1 percent to US$ 498.4 million during the 2006/07, down from US$ 509.2 million in the previous year, while imports of services increased by 24.5 percent to US$ 1,060.8 million from the US$ 852.1 million in 2005/06. The rise in imports of services was on account of higher spending by residents on passenger and cargo air transportation, higher freight charges on air and road transportation, freight insurance and reinsurance. Overall, the service account widened a deficit to US$ 562.2 million, compared to US$ 342.8 million in 2005/06.

15.1.4 Income

The income account deficit improved to US$ 219.5 million, compared to US$ 236.5 million in the previous year, partly due to a 64.4 percent increase in other investment income arising from increases in interest receipts on BOU and commercial banks' foreign deposits. In addition, public debt interest payments decreased by 42.4 percent to US$20.2 million in 2006/07 from US$35.1 million in 2005/06 due to debt forgiveness under the MDRI.

15.1.5 Transfers

Net current transfers were estimated to have increased to US$ 1,367.1 million in 2006/07, up from US$ 1,136.5 million in the previous year. Budget support and HIPC assistance increased to US$ 344.4 million and US$ 88.9 million, respectively from US$ 219.1 million and US$ 58.4 million. However, project aid grants dropped to US$ 103.4 million from US$ 183.0 million in 2005/06.

15.1.6 The Capital and Financial Account

The capital and financial account recorded a surplus of US$ 1,057.1 million in 2006/07 compared to a surplus of US$ 555.4 million recorded in 2005/06 on account of increases in Foreign Direct Investment (FDI) and portfolio investment inflows. FDI estimates rose by 15.2 percent to US$ 428.3 million and portfolio investment expanded to US$ 85.2 million from a net repayment of US$ 5.6 million in 2005/06. Other investments resulted to a net inflow of US$ 2,885.0 million in 2006/07 compared to US$ 65.2 million in 2005/06 on account of general government debt cancellation under the Multilateral Debt Relief Initiative (MDRI).

15.2 INTERNATIONAL RESERVES

Given the developments in the balance of payments, BOU's foreign exchange reserves increased by US$ 753.4 million to US$ 2,159.9 million. Consequently, foreign exchange reserves in terms of future of imports of goods and services cover stood at 5.9 months as at end June 2007, up from 5.2 months at the end of June 2006.

15.3 EXTERNAL DEBT

15.3.1 External debt management

In 2006/07, maturities falling due on medium and long-term public and publicly guaranteed debt were estimated at US$ 104.7 million of which US$ 0.3 million were maturities due to the International Monetary Fund (IMF). Principal maturities were estimated at US$ 84.3 million, while US$ 20.4 million comprised of interest and other charges. Total cash debt payments on medium and long-term debt during 2006/07 were estimated at US$ 69.2 million compared to US$ 100.4 million in the previous year. The ratio of debt service as a percentage of exports of goods and services was estimated at 6.4 percent in 2006/07, down from 9.2 percent recorded in 2005/06 arising from the earlier debt cancellation under the Multilateral Debt Relief Initiative.

Arising from reduced debt service as a result of debt cancellation under the Multilateral Debt Relief Initiative (MDRI) and strong export performance, the debt stock fell to US$ 1,466.8 million in 2006/07 after ADB and IDA cancelled US$ 3,357.5 million on Uganda's outstanding debt obligations.

TABLE 16: KEY DEBT INDICATORS.

	02/03	03/04	04/05	05/06	06/07
Total external Debt Stock (end of period)–US$ million	4,215.52	4,464.92	4,416.30	4,583.00	1,466.83
Total Debt Stock (end of period) % of GDP	67.38	65.45	50.64	59.41	13.63
Debt Service (maturities excl. IMF) % of exports	17.72	16.33	16.30	14.39	8.84
Debt Service (maturities excl. IMF) % of export of Goods & Services	11.99	10.89	10.61	9.18	6.35
Debt Service (maturities excl. IMF) % of GDP	1.44	1.55	1.47	1.66	1.03
Debt Service (maturities incl. IMF) %age of exports	26.60	25.03	23.42	30.74	8.84
Debt Service (maturities incl. IMF) % of export of Goods and Services	17.99	16.70	15.24	19.61	6.35
Debt Service (maturities incl. IMF) % of GDP	2.16	2.37	2.11	3.55	1.03
Debt Stock to Exports ratio (%)	829.97	689.90	561.64	515.04	116.51
Total Aid to GDP (%)	11.92	12.07	10.22	7.14	8.63

Source: Bank of Uganda

15.4 INTERNATIONAL INVESTMENT POSITION

Uganda's net international investment position as at end of 2006 was a deficit of US$ 2,529.2 million compared to US$ 5,309.1 million as at end of 2005. The net change of US$ 2,766.9 million from year-ended 2005 to year ended 2006 was largely due to a substantial net decrease of loans to Uganda of US$ 2,729.8 million to US$ 1,617.4 million in 2006.

Uganda's stock of liabilities as end of 2006 amounted to US$ 5,194.1 million, down from US$ 7,253.3 million as end of 2005. Of the total liabilities, the stock of foreign direct investment in Uganda amounted to US$ 2,812.3 million, accounting for 54.1 percent of total liabilities. Equity and reinvested earnings accounting for 91.7 percent of the total direct foreign investment in Uganda as at year-end 2006, compared to 90.0 percent in 2004.

Portfolio investment liabilities to non-residents amounted to US$ 10.3 million, all of which was in form of debt securities. Compared to the previous year, the stock of portfolio liabilities increased by 13.1 percent from US$ 9.1 million as at year ended 2005. Treasury bonds and Treasury notes accounted for most of the portfolio investment liabilities in 2006 amounting to US$ 5.8 million. Much of the liabilities to non-residents however, were in form of other investments, amounting to US$ 2,371.6 million. The other investments liabilities to non residents comprised of loans, amounting to US$ 2,254.7 million, of which US$ 374.7 million was owed by the monetary authority, US$ 1,617.4 million by Government and US$ 262.7 million by the private sector. Loans owed by the Government declined by 62.8 percent from US$ 4,347.1 million due to the debt cancellations of MDRI relief effected during the second half of 2006.

The stock of assets held by residents amounted to US$ 2,652.0 million up from US$ 1,944.2 million as at year ended 2005. Most of the assets were in form of reserve assets amounting to US$ 2,175.8 million and currencies and deposits at banks amounting to US$ 470.1 million up from US$ 339.6 million as at end year 2005. Table 17 below shows the composition of the international investment position since 2002 to 2006.

TABLE 17: INTERNATIONAL INVESTMENT POSITION (US$ MILLIONS)

	2002	2003	2004	2005	2006
International Investment Position, net	-4,220.7	-4,878.9	-5,584.9	-5,309.1	-2,542.2
Assets	1,171.1	1,464.2	1,715.3	1,944.2	2,652.0
Direct investment abroad	…	…	…	…	…
Equity capital and reinvested earnings	…	…	…	…	…
Other capital	…	…	…	…	…
Financial derivatives, net	…	…	…	…	…
Portfolio investment	…	…	…	…	…
Equity securities	…	…	…	…	…
Debt securities	…	…	…	…	…
Bonds and notes	…	…	…	…	…
Money-market instruments	…	…	…	…	…
Financial derivatives	…	…	…	…	…
Other investment	240.1	388.7	407.9	342.6	476.1
Trade credits	…	…	…	…	…
Loans	0.0	0.5	1.0	10.0	6.0
Currency and deposits	240.1	388.2	406.9	332.6	470.1
Other assets	0.0	0.0	0.0	0.0	0.0
Liabilities	5,391.8	6,343.1	7,300.3	7,253.3	5,194.1
Direct investment in reporting economy	1,257.7	1,637.5	2,029.1	2,387.1	2,812.3
Equity capital and reinvested earnings	1,006.2	1,387.4	1,784.3	2,148.6	2,578.2
Other capital	251.6	250.1	244.8	238.5	234.1
Financial derivatives	…	…	…	…	…
Portfolio investment	0.0	22.1	4.6	9.1	10.3
Debt securities	0.0	22.1	4.6	9.1	10.3
Bonds and notes	0.0	0.0	0.7	2.5	5.8
Money-market instruments	0.0	22.1	3.9	6.6	4.5
Financial derivatives	…	…	…	…	…
Other investment	4,134.1	4,683.4	5,266.6	4,857.1	2,371.6
Trade credits	0.0	0.0	0.0	0.0	0.0
Loans	4,073.4	4,604.5	5,197.2	4,783.9	2,254.7
Currency and deposits	60.7	64.9	65.1	68.5	109.9
Other liabilities	0.0	14.1	4.3	4.8	6.9

Source: Bank of Uganda

16 REAL SECTOR

16.1 ECONOMIC GROWTH

Real gross domestic product in 2006/07 grew by 6.2 percent compared to 4.9 percent recorded in 2005/06. The increase in real GDP was mainly on account of increased performance in the Construction, Transport and Communication, Wholesale and Retail trade, and Services sectors as a result of increased public and private construction, increased activity in the formal sector, and increased import demand.

TABLE 18: REAL GDP ANNUAL PERCENT GROWTH RATES

	2002/03	2003/04	2004/05	2005/06	2006/07
Agriculture	2.27	0.4	0.5	-0.6	1.9
Monetary	3.92	0.3	4.2	-12.6	-1.6
Non Monetary	0.11	0.73	-1.5	-0.1	2.4
Mining and quarrying	1.20	8.56	11.58	8.5	14.2
Manufacturing	4.23	4.54	11.89	-0.1	2.9
Electricity & water	3.4	6.70	3.2	-2.2	3.0
Construction (monetary)	11.60	13.80	11.91	14.1	11.2
Construction (non-monetary)	3.3	3.3	3.3	3.3	3.3
Wholesale & retail trade	4.70	3.0	10.0	6.6	9.7
Hotels & restaurants	7.5	15.3	8.7	7.7	5.4
Transport & communication	16.8	21.3	21.5	19.8	22.3
Owner-occupied dwellings	6.50	6.00	6.00	4.00	3.4
Community services	2.7	6.9	6.1	7.2	3.7
Total Monetary	5.40	6.2	8.2	6.0	7.0
Total Non Monetary	1.3	1.7	0.0	0.8	2.6
GDP at basic prices	4.5	5.3	6.5	5.0	6.2
Net indirect taxes	7.0	6.3	9.0	6.0	9.5
Real MP GDP	4.7	5.4	6.8	4.9	6.2

Source: Uganda Bureau of Statistics

16.1.1 Agriculture

The Agricultural sector's share in GDP continued to decline over the years partly because of structural transformation and on account of its low growth rates. Overall, the growth rate of Agricultural output in 2006/07 was 1.9 percent compared to a decline of 0.6 percent in the previous fiscal year. The improvement in the Agricultural sector in 2006/07 was mainly due to the recovery of the food crops and some cash crops on account of better weather. The monetary component of the Agricultural value added declined by 1.6 percent during 2006/07, mainly driven by declines in the Forestry, Livestock and Fishing sub-sectors. The Non-monetary sub-sector however, expanded mainly on account of Forestry activities.

16.1.2 Services sector

The Services sector, which comprises of Wholesale and Retail, Hotels and Restaurants, Transport and Communication, and Community services continued to remain the dominant sector of the economy, accounting for 47.1 percent of total GDP in 2006/07. The growth in the Services sector was attributed to the expansion in the Transport and Communication sub-sector, which grew by 22 percent in 2006/07. The Rail and Air sub-sectors contracted, whereas Road, and Post and Telecommunications sub-sectors improved.

16.1.3 Manufacturing

The Manufacturing sector grew by 2.9 percent in 2006/07, compared to the decline of 0.1 percent registered in the previous year. The growth in the Manufacturing sector was partly on account of improved generation and supply of Electricity as a result of increased water levels. Usage of generators to generate thermal Electricity also increased subsequent to the tax concession awarded to imports of diesel generators. The informal Manufacturing sub sector grew by 4.1 percent during the year, while the formal Manufacturing sub sector grew by 2.5 percent.

16.1.4 Construction

Monetary Construction grew by 11.8 percent in 2006/07 compared to 14.1 percent growth recorded in 2005/06. Growth in Non-monetary Construction however, remained unchanged at the 3.3 percent level recorded in 2005/06. The performance in the Construction sector was attributed to increased public sector construction, notably

Roads, coupled with private sector Construction, especially Construction of houses and commercial properties.

17 INTERNATIONAL DEVELOPMENTS

The World Economic Outlook (WEO, 2007) indicated that the global economy continued to register satisfactory growth in 2006/07, growing by 5.4 percent, which was 0.25 percentage points stronger than expected despite rising concern about the impact of the crisis in the U.S sub-primes mortgage market.

In the developed world, the U.S. economy slowed somewhat due to a sharp downturn in the housing market and softened corporate investment in plants and equipment. Real GDP growth in the USA was 1.2 percent in 2006/07 compared to 2.3 percent, which was registered in 2005/06. Growth was higher in the Euro Area (2.2 percent compared to 0.9 percent in 2005/06) supported by increased business confidence and improving labor markets that were boosted by domestic demand. Growth in Japan slowed in the middle of the year, but regained toward the end registering a real GDP growth of 2.3 percent, up from 2.2 percent in 2005/06.

Rapid growth in the emerging markets and developing countries was spearheaded by China and India; growth in China reached 10.8 percent driven by investment and export growth, while in India, year-on-year growth rate peaked 9.3 percent.

Economic growth in Sub Saharan Africa was very strong at 5.7 percent in 2006/07, against the backdrop of strong global growth, continued progress in cementing macroeconomic stability, the beneficial impact of debt relief, rising oil production in a number of countries and a strong demand for non-fuel commodities.

17.1 INFLATION

Strong growth and rising international oil prices in the first half of 2006/07 raised concerns about inflation, but these pressures moderated in the second half dampened by monetary policy tightening and the turnaround in the oil markets. As a result, world headline inflation averaged 4.8 percent, emerging markets headline inflation 6.0 percent, while developed countries headline inflation averaged about 4.5 percent.

Similarly, the core inflation rates eased substantially in the developed countries, especially in the USA, Japan and Euro area. In the emerging markets, particularly in China and India, tighter monetary policy stance were taken in the wake of over rapid growth, overheating and external pressures. Consequently, world core inflation averaged 2.5 percent, emerging markets core inflation was 3.6 percent, while developed countries core inflation averaged about 1.8 percent.

In the sub Saharan Africa (Excluding Zimbabwe, which registered hyper inflation in the range of 1000 percent in most part 2006/07), average headline inflation rate rose to 9.5 percent from the 8.4 percent in 2005/06. In oil exporting countries of Africa, further stabilization was expected, particularly in Angola, Cameroon, and Chad, while in non-oil exporting countries, lower fuel prices, improved food situation, and vigilant macroeconomic policies were expected to contain inflation.

17.2 INTEREST RATES

Expectations of solid economic growth and fading inflationary pressures led to buoyant financial global financial conditions over most of the 2006/07. However, the advanced economy equity markets remained close to all-time highs supported by strong earnings. Long-term bond yields receded, while spreads on risky assets narrowed in most market segments and market volatility was very low until towards year-end.

Capital outflows to emerging markets were maintained at high levels in 2006/07, with Asia and emerging Europe continuing to attract a large share of the flows and corporate borrowers replacing sovereign states as the borrowers.

17.3 EXCHANGE RATES

In the foreign exchange market, slower growth in the US coupled with robust growth in Western Europe fed expectations of narrowing interest rate differentials and contributed to a weakening of US$ against major currencies, particularly the Euro and Pound Sterling. The US$ depreciated by about 4 percent in real effective terms, while the Euro and Pound Sterling appreciated by about 7 percent. The Japanese yen also weakened further notwithstanding the rising Japanese current account surplus as low interest rates and low confidence among domestic investors triggered capital outflows.

17.4 WORLD TRADE

The UN World Economic Situation News and Media division (2006) report indicates that world trade grew at almost 10 percent in 2006/07 supporting the view that the robust growth of the world economy was built on a strong performance in trade. Trade among the developing countries was strong; exports from China and India increased by more than 20 percent in terms of volume, while many other countries in Africa and Latin America had very strong export growth in the double-digit range.

Commodity prices remained robust, oil prices reached an unprecedented high of a yearly average of $65 per barrel in 2006, peaking at $80 per barrel towards the end of 2006/07, but slowed to $60 per barrel afterwards. Metal prices increased by some 50 percent in 2006/07, particularly on a strong demand from China and the recovery in Japan and Europe. Prices of agricultural commodities were a bit diverse in terms of performance. Some products had a stronger performance, particularly corn in the United States, as many farmers switched from soybeans to maize given the demand for maize for use as bio-fuel. Other food prices, however, had been on the decline.

In the 2006/07, the terms of trade for the sub-Saharan Africa worsened by 5 percent; with oil producing countries facing a drop of about 10 percent. In contrast, the current account deficit of oil importing countries remained relatively stable, while the terms of trade deteriorated by 1.5 percent.

18 REGIONAL INTEGRATION

18.1 COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

COMESA, which is the largest regional economic grouping in Africa with 19 member states, aspires to be fully integrated as an internationally competitive regional economic community in which there is economic prosperity demonstrated by high living standards of its people, political and social stability and free mobility of goods, services, capital and labor across national boundaries.

COMESA developed a strategic plan for the years 2007 to 2010 in order to complement COMESA's treaty and to provide a road map for the implementation of COMESA's objectives in the long-term. The development of the strategic plan began three years ago with two Strategic Leadership Programs (SLPs) organized in 2002 and 2003. During the two SLPs, the ministers of member countries discussed the challenges and opportunities facing the COMESA region with the aim to realign the priority issues for the region. The ministers then narrowed down priority issues to five strategic areas of highest priority to COMESA: Peace, security, democracy and governance; policy harmonization for the deepening of regional integration; infrastructure development to promote trade and investment; creating investment opportunities in COMESA; and multilateral trade negotiations.

18.1.1 Monetary harmonisation and creation of a single COMESA currency

A total of 13 out of the 19 COMESA member states are currently implementing Poverty Reduction and Growth Strategies (PRGS), though at different stages of implementation. All PRGS are focused on macroeconomic stability and the pursuit of pro-poor policies, which involves increased public spending on basic education and health.

The COMESA Monetary and Fiscal Policies Harmonization program comprises the following stages:

Consolidation of existing instruments of Monetary Cooperation and implementation of policy measures aimed at achieving macroeconomic convergence based on agreed upon convergence criteria during stage one; introduction of limited currency convertibility and informal exchange rate union in the second stage; formal exchange rate union and co-ordination of economic policies by a common monetary institution in the third stage (2001-2024); and full monetary union involving the use of one common currency issued by a common Central Bank in the last stage (2025).

The COMESA Monetary Cooperation program was further revised to incorporate both primary and secondary criteria and institutional aspects leading to COMESA Monetary Union. The COMESA Committee of Central Bank Governors at their 11th Meeting in Madagascar in 2006 approved in principle the creation of an autonomous COMESA Monetary Institute to undertake the groundwork on the technical and institutional framework for the COMESA Monetary Union. The creation of a Monetary Institute will spearhead technical and **institutional preparedness for a COMESA Monetary Union, which should be launched by end 2015.**

18.1.2 Customs union

According to the COMESA Strategic Plan for period 2007-2010, the Free Trade Agreement (FTA) was expected to form a tremendous basis for trade negotiations both at regional and global level, while preparing member states to establish deeper integration through a Customs Union. Significant preparatory work for a custom union has already been done, among which are the common tariff nomenclature, safeguards and trade remedies, a common valuation system and regional competition regulations. It was expected that the COMESA customs union would create a more predictable economic and trading environment across the region thus enabling the COMESA countries to take a common and strengthened response to the challenges of globalization.

Following the strategy adopted in 2004 to consolidate the Free Trade Agreement before moving towards a custom union, the launch of the custom union has been set for 2008. The Common External Tariff (CET) target rates for capital goods and raw materials have been set. However, the CET for intermediate and finished goods, the list of sensitive products and goods of economic importance are still outstanding. The revised road map aims at agreeing on a CET, custom procedures and legislation and legal and administrative structures.

18.2 EAST AFRICAN COMMUNITY (EAC)

The East African Community (EAC) is the regional intergovernmental organization of the Republics of Kenya, Uganda and Tanzania, Rwanda and Burundi. The latter two joined the EAC on June 18, 2007. The EAC aims at widening and deepening co-operation among the partner states in, among others, political, economic and social fields for the mutual benefit of the member states.

18.2.1 EAC-MONETARY AFFAIRS COMMITTEE (MAC)

The Monetary Affairs Committee (MAC), which is an EAC Committee that has been mandated to lay the foundation for a common currency for the region held its 10th meeting in May 2007. The meeting discussed the progress being made towards the Monetary Union. The Governors resolved that the Central Banks of the member states of the EAC should:

i Continue to develop capacity for financial derivatives trading and managing the associated risks.

ii Continue conducting periodic private capital flow surveys, while distinguishing between speculative capital flows and remittances.

iii Identify ways to mitigate the weaknesses of the monetary targeting framework, which is currently being used.

iv Collaborate with their national statistical offices to ensure that CPI data was adequately disaggregated to facilitate the computation of core inflation in line with the definition agreed by Partner States.

v Analyze the data collected on e-money to underpin its implications on monetary policy and take appropriate measures to mitigate any negative effects.

vi Expedite the ongoing process of establishing credit reference systems in their respective countries.

19 OTHER OPERATIONAL DEVELOPMENTS

19.1 REGULATION AND SUPERVISION

19.1.1 FINANCIAL MARKETS INTELLIGENCE REGULATION AND RESOLUTION

During the year, the Bank conducted follow-up examinations of seven commercial banks to ascertain the extent of compliance with the recommendations made during the previous on-site examinations. In addition, vetting of directors and senior managers of banks under the "fit and proper" test continued to be carried out to ensure effective management of banks.

Banks continued expansion with the opening up of new branches. During the year, the Bank approved twenty three applications of new commercial bank branches tobe opened across the country as a means of widening the scope of outreach for banking services. The Bank also continued with the quarterly publication of bank charges.

On the licensing front, an application for a commercial banking license was received from Housing Finance Company of Uganda Ltd., a credit institution, and is under consideration. Barclays Bank (U) Ltd. also acquired Nile Bank Ltd. during the year. The transfer of all assets and liabilities of Nile Bank Ltd. to Barclays Bank (U) Ltd. was completed on August 1, 2007.

The verification of creditors' claims in all the three closed banks was finalized and an interim payment to Cooperative Bank creditors was done. Creditors in the other banks will be paid during next financial year. The consultants were contracted to execute a Bank of Uganda exit strategy on the liquidation of closed banks. A prospective buyer has been identified to purchase the residual assets of the closed banks.

19.1.2 ON-SITE INSPECTION

In its continued effort to foster safety of depositors' funds and soundness and stability of the financial system, the Bank accomplished the on-site examination of all the banks apart from two that were still finalizing a merger plan. In addition, in an enhanced effort to strengthen the supervision methodology, the Bank completed and rolled out a Supervisory Policy Manual, an Enforcement Manual and a Supervisory Risk Assessment Guidance Note. The major purpose of these manuals is to assist examiners to effectively evaluate risk management systems of commercial banks and ensure that prompt remedial measures are taken to correct problems noted in the on-site examination process. The Bank has also continued to oversee commercial banks' efforts geared at deepening the financial sector, such as introduction of new products and services to their clients, and opening more service delivery channels.

19.1.3 OFF-SITE SURVEILLANCE

Offsite surveillance is conducted with the objective of assessing the banking system's soundness and identifying potential and emerging risks facing banks that require close monitoring and mitigation by the respective financial institutions. Through Off-site surveillance, a bank's ongoing financial condition is established using quantitative analysis based on comprehensive statutory data submitted by banks on a periodic basis. The banks data is received electronically into a database, supplemented by information from other sources. The Off-site surveillance reports form a critical part of the preliminary risk assessment prior to the start of the risk-based on-site examination. Off-site surveillance analysts maintain very frequent contact with banks and other stakeholders and ensure that banks comply with all prudential requirements.

The Bank also concluded a series of consultations with commercial banks to foster compliance with the International Financial Reporting Standards, while at the same time maintaining full observance of the statutory requirements of the FIA 2004 and the Implementing Regulations. In addition, Bank of Uganda continues to pursue the path to full compliance with all the 25 Basle Core Principles for Effective Banking Supervision which is the internationally accepted benchmark for supervisory standards, and continues to follow and adhere to other international best practices.

19.2 NON BANKING FINANCIAL INSTITUTIONS

During 2006/07, credit institutions' balance sheet positions and volumes of business continued to grow as in the previous period. The branch network had reduced to 34 by June 2007 from 35 as at June 2006. This was due to exit of one credit institutions with two branches, and opening of one new branch by another. Credit Institutions also reduced from seven as at end 2005/06 to five operating Credit institutions. One institution was acquired by a commercial bank, while, another is in the process of voluntary winding up its business. The overall financial condition of all the operating five institutions was rated satisfactory.

19.2.1 ON-SITE INSPECTION

To establish the financial soundness and compliance of the credit institutions, four out of the five operating institutions were inspected, while three follow up examinations were conducted. In an effort to increase out reach to the grass-root, Mobile Banking was introduced by one of the institutions.

19.2.2 OFF-SITE INSPECTION

Review of statutory and regulatory returns was accomplished on a daily, weekly, monthly, quarterly, and annual basis. The review focuses on analysis of quantitative indicators and ratio analysis, to evaluate the performance to analyze credit institutions.

19.2.3 NATIONAL SOCIAL SECURITY FUND (NSSF)

Bank of Uganda continued its role as an interim supervisor of NSSF. An on site inspection was conducted during the period and received periodic reports on the financial performance of the institution. Total assets of NSSF increased from shs 688.9bn as of 30.6.2006, to shs 837.7bn as of 30.6.2007. Members' funds grew from shs 669.3bn to shs 776.5bn over the same period. The number of registered employers and employees grew to 6,534 and 261,401 from 5507 and 220,456 respectively over the same period.

19.2.4 MICROFINANCE DEPOSIT-TAKING INSTITUTIONS (MDIS)

During 2006/07, on site examinations of all the four licensed MDIs were conducted during the first half of the financial year, while, follow up examinations of the four MDIs were conducted during the second half of the financial year. New and refurbished branch premises of the MDIs were inspected, to certify their suitability for deposit mobilization. The Banks Returns Management System (BRMS 2.0), was extended to include MDIs. MDIs can now submit their statutory returns in electronic format. Tripartite meetings for all the MDIs for the year ended December 31, 2006, were conducted.

Periodic returns were reviewed for all four MDIs as a means of offsite surveillance and early warning system to guide onsite inspection. A survey of selected non-regulated micro finance institutions in the Tier 4 category was conducted and one prospective MDI examined in accordance with the provisions of the MDI Act, 2003.

19.2.5 FOREX BUREAUS AND MONEY REMITTANCE

By the end of the financial 2006/07, there were eighty (88) operational forex bureaus, while, one (1) bureau was closed. Seven (7) new forex bureaus were granted licenses and commenced operations.

By the end of June 2007, cumulative bureau transactions amounted to US$1,999.16m for purchases, and US$1,165.30m for sales, compared to US$ 1,272.3m and US$ 1,264.60m for purchases and sales, respectively for the FY 2005/06.

The Bank also licensed Money transfer businesses under different classes following the gazetting of the Foreign Exchange Regulations Act (FER), 2006. By the end of June 2007, the number of licensed money remittance operators was twenty six (26), out of which, twenty (20) were forex bureaus including their branches, one (01) credit institution and four (04) MDIs. Eight new applications were undergoing the vetting process.

With the assistance of the IMF East AFRITAC short-term consultants, a supervision manual was developed for the supervision of Forex Bureaus and Money Remittances. This manual is now in use by Bank staff in the Forex Bureaus and Money Remittances Division

19.3 FINANCIAL MARKETS AND FOREIGN EXCHANGE RESERVE MANAGEMENT

19.3.1 RESERVES MANAGEMENT

During the year under review, the Bank of Uganda continued to manage foreign exchange reserves in line with the objective of capital preservation, liquidity and reasonable and consistent return. The foreign exchange reserves management policy framework, approved by the Board, guided the operations. The policy, which reflects the institutional risk return preferences, among others, is periodically reviewed to address changes in the economic and financial environment.

The reserves are divided into two portions: the internally managed and externally managed portfolios. The latter is under the discretionary management of external fund managers contracted in April 1997. The performance of the external managers is based on the performance measurement of the portfolios against the customized JP Morgan 1-5 year benchmark and investment guidelines laid down by BOU as well as transfer of knowledge and skills to staff in the Financial Markets Department.

The externally managed portfolio market value rose from US$212.84M at the beginning of July 2006 to US$222.47M at the end of June 2007 registering an annual increase of 4.52 percent.

With respect to the internally managed portfolio, the challenge was to generate return subject to safety and liquidity. Operations focused on appropriate market allocation and interest rate strategies. Opportunities to generate return, however, remained low given the bank's aversion to risk appetite.

The internally managed portfolio market value rose from US$1,136.29M at the beginning of July 2006 to US$1,762.33M at the end of June 2007, registering an annual increase of 55.09percent.

In another development, the new Foreign Exchange Reserve Management System (FERMS) project became operational in November 2006. The system is expected to greatly improve management of foreign exchange reserves, especially the internally managed portfolio.

19.4 DEVELOPMENTS AND TRENDS IN DOMESTIC FINANCIAL MARKETS

Government securities are issued to meet the following objectives:

Primarily to conduct open market operations to meet monetary policy objectives.

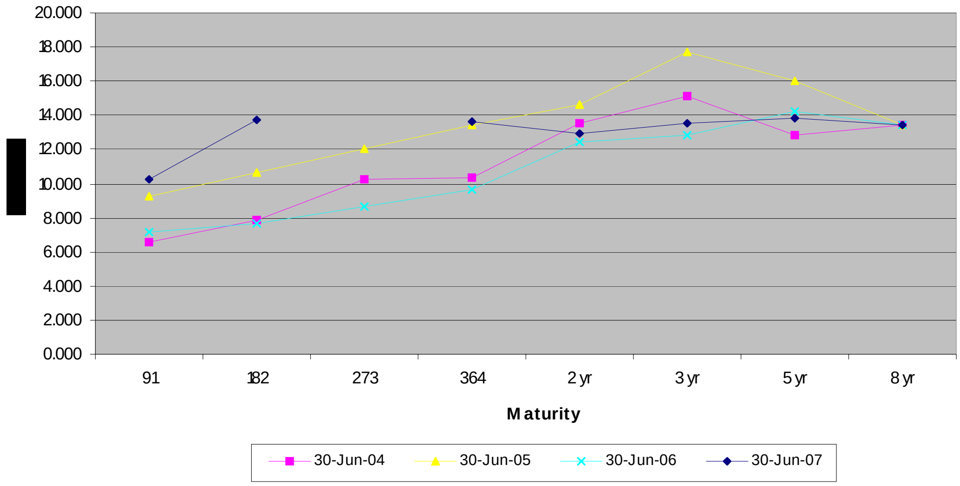
Provide benchmark reference prices from which private sector securities can be priced.

Provide the public with safe instruments to mobilize savings

19.4.1 PRIMARY MARKET FOR TREASURY SECURITIES (TREASURY BILLS AND TREASURY BONDS)

During the FY 2006/07, the outstanding stock of Treasury securities increased by 20.3% to Shs. 2,185 billion from Shs. 1,816 billion in FY 2005/06. The stock of Treasury bonds account for 41.6 per cent while the Treasury bills account for 58.4 per cent. There has been an increase of 29.7 per cent in the stock of treasury bonds.

FIGURE 8: YIELD CURVES AS AT JUNE 30, 2004, JUNE 30, 2005, JUNE 30, 2006, JUNE 30, 2007



The supply of Treasury bond issues has been increased and the maturity of overall debt outstanding in the government securities market has been lengthened to reduce the interest rate risk. This development did not exacerbate volatility of market yields because of maintaining a sustainable government debt issuance policy. The policy is based on issuing long-dated fixed coupon securities, which have stabilised the nominal cost of borrowing since Government treasury bonds issuance was introduced in January 2004. This is depicted in the Yield Curve (Refer to Figure 8).

19.4.2 THE SECONDARY MARKET FOR GOVERNMENT SECURITIES

The Shilling volume of secondary market trading increased by 108.7% in FY 2006/07. The volumes traded increased from Shs. 269.2 billion in FY 2005/06 to Shs. 561.9 billion in FY 2005/07- the upward trend of the previous years thus prevailed.

The number of trades increased by 8.5% from 468 trades in FY 2005/06 to 508 trades in FY 2006/07. The increase in the size of trades may be attributed to a more diversified investor base with increased offshore investors participation that has resulted in a more active secondary market and as liquidity improves other market players are tapping into it to manage their liquidity needs.

19.4.3 THE PRIMARY DEALERS SYSTEM

Barclays Bank (U) LTD emerged as the best performing primary dealer for the period from January 2006 to December 2006.

The primary dealer system has continued to underpin the increase in the depth and access to liquidity in the Government securities market.

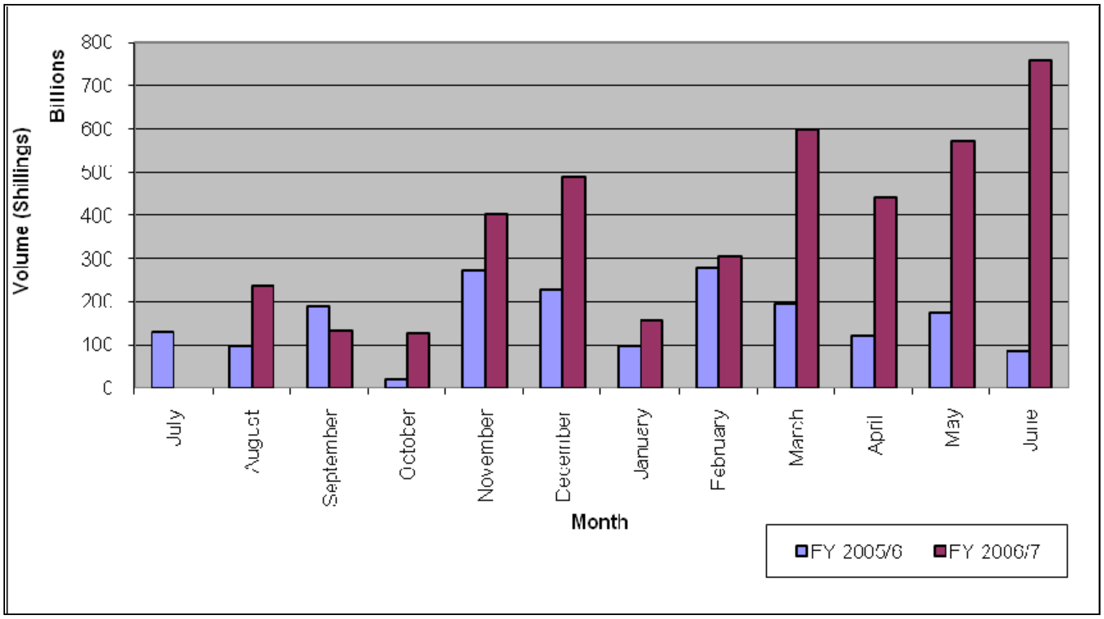
The actual issuance of treasury securities has been dependant on the periodic (daily, weekly) evolution of liquidity versus the forecast within the quarterly liquidity management framework agreed between Research and Financial Markets in addition to the chosen mix of policy instruments. Management of rollover risk has been tied with management of the maturity profile for outstanding treasury bonds stock. The Bank of Uganda has continued the practice of reopening treasury bonds to create benchmark bonds with greater liquidity but re-openings of individual bonds have been capped at Shs. 60 billion to control rollover risk.

19.4.4 THE MARKET FOR REPURCHASE (REPO) AGREEMENTS

The Shilling volumes in the Vertical Repo market increased by 125.1% to Shs. 4.211 trillion in FY 2006/07 as indicated in Figure 13.

In December 2006, March 2007 and June 2007, spikes in the volumes of Repo transactions were observed after appreciation pressures limited sterilization of excess liquidity through the sale of foreign exchange. The burden of sterilisation was borne largely by the domestic instruments, and Repos were utilised to temporarily hold excess liquidity until the next primary auction of Treasury securities. However, from August 2006 through October 2006 and after the high number of Repo transactions during December 2006 there was a decline in use of Repos for managing excess liquidity. After December 2006 the situation was aggravated unanticipated sustained gains in the shilling attributed to stronger portfolio flows into the economy.

FIGURE 9: SHILLING VOLUMES IN THE VERTICAL REPURCHASE AGREEMENT MARKET



19.4.5 THE SHILLING INTER-BANK MARKET

A rise in the level of activity in the inter-bank market was observed towards the end of each quarter during the latter half of FY 2006.07 on account of the increased use of Repo auctions for managing excess liquidity arising from increased government expenditure of donor funds.

The Shilling volume of trades in the inter-bank market increased by 40.2% from Shs. 3.83 trillion in FY 2005/06 to Shs. 5.37 trillion in FY 2006/07 as shown in Figure 10 and Figure 11. The number of trades increased by 32.3% from 2,080 trades to 2751 trades.

FIGURE 10: NUMBER OF TRADES IN THE INTER-BANK MARKET

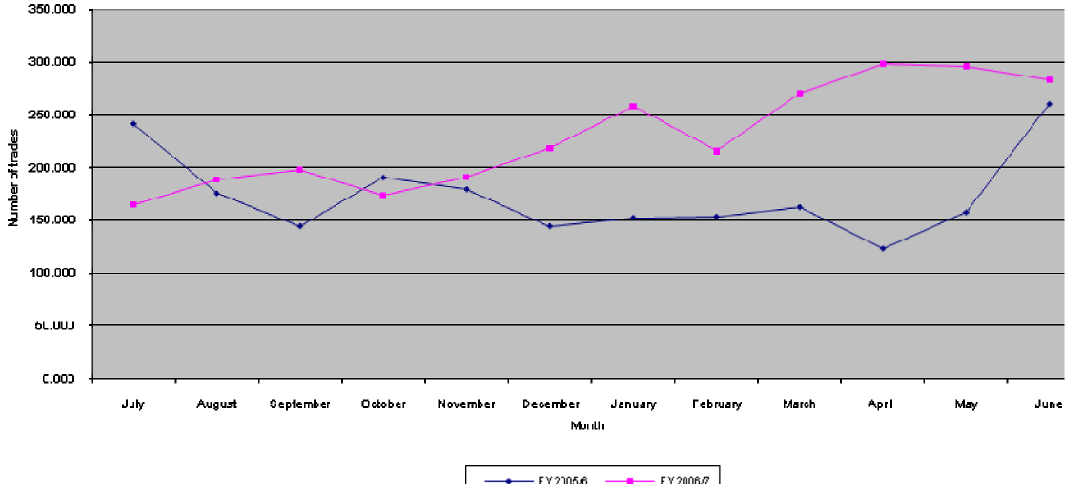
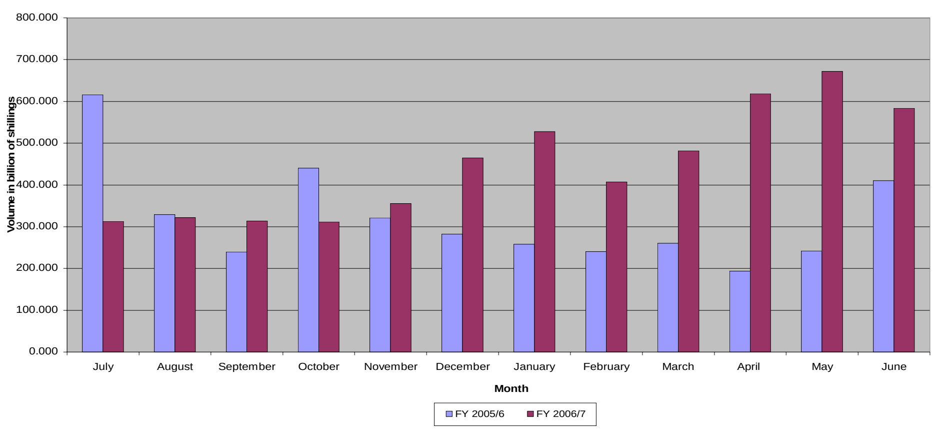


FIGURE 11: VOLUME OF TRADES IN THE INTER-BANK MARKET



19.5 BANKING AND CURRENCY

19.5.1 CURRENCY OPERATIONS

Support of Cash Payment System

The Bank met the legal tender currency needs of the public and ensured that the most convenient and effective denomination mix of good quality notes and coins were available in the economy. The Bank increased issuing of the small denomination currency to enable easy availability of change in the economy.

There was increased demand of currency notes and coins during the financial year 2006/07. Withdrawals by Commercial Banks grew by 11.9% as compared to those of the year 2005/06. In the same period deposits from commercial banks grew by 12.2%. The Bank was able to conveniently meet all cash requirements of the financial sector during the financial year.

Performance of Currency Notes and Coins

The Bank kept a clean currency regime by taking out of circulation mutilated and dirty notes and coins and replacing them with new ones. Counterfeiting was kept to a minimum through public education on genuine currency security features, providing technical support to law enforcement authorities and issuing clean currency with upgraded security features only.

Disposal of Unserviceable Notes

The Bank completed adaptation of its modern currency processing machines at the Headquarters to enable automatic online shredding of unserviceable notes and minimize manual intervention in currency processing and the destruction of unserviceable notes.

Automation of Currency Processing Records

The Bank installed and commissioned an automated report management unit for currency processing. This has provided a secure real time information depository and accounting system for online processing.

Survey of Public Reference for either a Banknote or Coin for the Shs. 1,000 Denomination

The Bank commissioned independent consultants to carry out a survey on public preference for either a bank note or coin for the Shs.1,000 denomination. The survey covered households, financial institutions, business and corporate organizations. It captured public perceptions of coins, counterfeits, the currency structure and awareness/usage of financial institutions. The survey indicated that the public preferred maintaining the note but also expressed preference for a 2,000-shilling note.

19.5.2 BANKING

Working with the Ministry of Finance, Planning and Economic Development, the Bank continued to open project accounts, which stood at 680 by the end of the financial year compared to 467 at the beginning of the year.

The online link between MOFPED and BOU was enhanced enabling a more efficient delivery of statements to Ministries.

BOU put in place a policy of capping cheques at a maximum of Shs 20million with the beginning of the new Financial Year. This was aimed at reducing forgeries and ensuring that a more efficient method of Electronic Funds Transfer (EFTs) was used.

The Bank continued making Government payments using both the RTGS and EFTs in its effort to efficiently deliver services to customers.

The Integrated Banking Application was enhanced by building in more security features and ensuring that capturing of entries was linked to the General Ledger thus speeding up banking processes.

A system called SWIFT File Act was put in place to enable on line delivery of clearing data between commercial banks and Bank of Uganda and thus eliminate use of diskettes.

19.6 INFORMATION TECHNOLOGY

"Effective Information Management" is one of the Bank's strategic priorities in its current Strategic Plan. One of the strategic objectives under this strategic priority is *"To improve the quality and timeliness of information for decision making in the Bank of Uganda, and for policy advice to relevant persons"*.

The Bank classifies the activities that must be carried out to achieve this strategic objective as follows:

Activities required to automate of the business functions of the Bank

Activities required to make the computing network accessible to staff.

Activities required to operate, administer and maintain the Bank's IT investments.

Activities required for information security and business continuity.

The Management Information Systems (MIS) department is a support department, which, through partnership with other departments provides the expertise, architectures, tools and technology transfer to assure success in utilizing Information Technology to meet the business goals of the Bank. The MIS department is the main implementing organization for the strategic priority mentioned above.

19.6.1 AUTOMATION OF BUSINESS FUNCTIONS OF THE BANK

During the year, the Bank concluded the implementation of an off-the-shelf application to manage reserves, supplied by TREMA (Europe) AB (since acquired by Wall Street Systems). The system went live on November 20, 2006. The upgrade of the Bank's web-site, which was contracted to Symphony Ltd., was also concluded during the year. The new web-site was launched on April 30, 2007.

The Bank successfully concluded the project to implement the electronic transmission of bank clearing records between commercial banks and the Clearing House using the SWIFT FileAct service. The Bank also successfully modified its systems to ensure that all Government payments could be made by the faster and more secure Electronic Funds Transfer (EFT) mechanism.

19.6.2 ACCESSIBILITY OF THE BOU COMPUTING NETWORK TO STAFF

The Bank embarked upon the second phase of an upgrade to its computing network with the assistance of the World Bank Treasury Information Systems group, during which the performance, reliability and security of the Bank's network will be further improved. This phase is scheduled for completion in FY2007/08.

The pilot project involving five departments to assess the feasibility of using E-Learning to complement current instructor-led IT training at the Bank of Uganda was successfully concluded. The system based on products from Thompson NetG and Harvard Business School Publishing, and provided by Learning Resources (K) Ltd. shall be rolled out to the rest of the departments in the Bank in FY2007/08.

19.6.3 OPERATIONS, ADMINISTRATION AND MAINTENANCE OF ITS INFRASTRUCTURE AND APPLICATIONS

The Bank continued to operate, administer and maintain its growing IT infrastructure. A decision was also made to adopt the IT Infrastructure Library (ITIL) framework for IT service delivery. Consultancy services in this regard shall be sought in FY2007/08.

19.6.4 INFORMATION SECURITY AND DISASTER RECOVERY

The implementation of measures to improve the Bank's ability to survive a disaster commenced during the financial year, and the construction of modern and secure facilities for its centralised IT equipment was successfully concluded. These facilities shall become fully operational in FY2007/08.

19.7 DEVELOPMENT FINANCE

The Bank of Uganda had since 1986 engaged in development financing through its Development Finance Department (DFD) that managed loan schemes and grants for development purposes through accredited financial institutions. This involved extending short-, medium- and long-term funding to enterprises investing in various productive sectors of the economy. However, during the year 2006/07, the Bank's direct involvement in this role ceased with the winding up of the DFD on 30th April 2007 that had hitherto performed this role. This followed a Government decision taken in the year 2005/06, based on the premise that the role of development financing could be taken over by Uganda Development Bank Limited.

Up to the time of the discontinuation on the development financing activities, the Bank had managed a total of 11 credit programs that supported various investment projects in different sectors of the economy, including agriculture, agro-industry, manufacturing, education, fishing/fish processing, horticulture/floriculture, health, services, tourism/hotels and energy for rural electrification. The credit programmes are as indicated in table.

TABLE 19: CREDIT SCHEMES MANAGED BY BOU/DFD SINCE 1986

Credit Program	Source of Funding	Capital
Rehabilitation of Productive Enterprises (RPE)	USAID (GOU)	US$18.2m
Development Finance Fund (DFF)	BOU & Com Banks	UShs3.8bn
Apex I, II, III & IV	EIB (GOU)	Euro110.0m
Investment Term Credit Refinance Fund (ITCRF)	World Bank (GOU)	US$25.0m
Export Refinance Scheme (ERS)	BOU	UShs16.8bn
Cotton Sub-Sector Development Project (CSDP)	World Bank/IFAD	US$8.8m
Crop Finance Fund (CFF)	Libyan Government	UShs5.0bn
Export Promotion Fund (EPF)	GOU	UShs541m
Export Credit Guarantee Scheme (ECGS)	BOU/USAID (GOU)	UShs6.6bn
Energy for Rural Transformation Refinance Fund (ERTRF)	World Bank (GOU)	US$ 15.27m
Distressed Flower Project Fund (DFPF)	GOU	Ushs7.293bn

Bank of Uganda had also managed and coordinated a number of credit related programs that were aimed at improving credit delivery systems and building viable and sustainable financial systems in the rural areas. These included: -

Linkage Banking Program under the Africa Regional Agricultural Credit Association (AFRACA);

Capacity Building Program (CBP) for micro finance institutions under the Cotton Sub-sector Development Project;

Research and advocacy on government programs, policies and processes from a gender perceptive under the Gender and Economic Reform for Africa (GERA) initiative of the North South Institute of Canada;

Capacity Building for Rural Women Financial Intermediaries Program financed by a grant sourced from IFAD; and

The DANIDA-funded Rural Financial Services Component (RFSC), which was aimed at widening financial services outreach to the rural areas.

While the direct involvement in development financing came to an end, the Bank continued to undertake certain residual activities arising from this former role. These included:

Management of re-flows constituted by loans outstanding with financial institutions under the different credit programmes. During the year 2006/07, a total of Shs. 21,364 million was repaid under the various loan schemes, while the total interest income received was Shs 9,703 million.

19.7.1 CONTINUED MANAGEMENT AND DISBURSEMENT OF THE ENERGY FOR RURAL TRANSFORMATION REFINANCE FUND (ERTRF).

Suspension of implementation of the ERTRF until the envisaged transfer to another implementing Agency was considered unfeasible as it would negatively impact the implementation of funded rural electrification sub-projects. The Bank shall therefore continue to manage the ERTRF until either the funds are disbursed in full, or the Project's closure date of 31st August 2008 whichever is earlier.

The funded sub-projects included a co-generation sub-project that will sell excess power to the main grid, a mini hydro in West Nile region, an area that is yet to get hydro power and the Solar Refinance Facility that provides micro loans acquisition of home solar systems through Micro finance Deposit-taking Institutions (MDIs).

Cumulative disbursements under the sub projects stood at US $ 8,238,879.51.

19.7.2 MONITORING AND EVALUATION

The Bank monitored the funded projects jointly with the participating financial institutions. The aim was to establish the performance of the funded projects. And provide up to date status of the funded projects to various stakeholders.

During the year, a total of 59 funded projects were monitored during the year 2006/07.

19.8 PAYMENTS SYSTEM

There were a number of significant payment system developments that took place in 2006/07. Among others, BoU embarked on a project to streamline the school fees payment process to make it safer and more convenient. Working closely with MOFPED and Uganda Revenue Authority (URA), BoU also started implementing a project, which is expected to improve the efficiency and safety of Government payment and revenue collection processes.

Specifically, the following major projects were undertaken:

19.8.1 ENHANCEMENT OF ELECTRONIC FUND TRANSFER (EFT) SYSTEM

The EFT system has been operational since August 2003. During the year two projects were started to further enhance its utilisation and these are streamlining the payment of school fees, and adjusting the size of the EFT account field to enable banks to expeditiously credit the accounts of payees.

19.8.2 SCHOOL FEES PAYMENT USING EFTS

In this project, the parents sign mandates (*Direct Debit Form*) authorising their schools to directly collect school fees or tuition from their bankers. A copy of the signed mandate is sent to the parent's (guardian's) bank. The banks then use these mandates to honour demand notes from the schools, universities and other tertiary institutions. The queues at banks that characterised the opening of the academic terms for schools and tertiary institutions will be reduced considerably.

19.8.3 ADJUSTMENT OF THE EFT ACCOUNT SIZE

Since the implementation of the EFT system, the expeditious application of funds to payee accounts has always been constrained by an EFT account size that did not fully accommodate the length of all accounts used by banks. During the year, Bank of Uganda and the commercial banks agreed to increase the account size from 10 to 15. All clearing banks, including BoU procured and installed software that would enable them to accommodate the 15-digit account numbers. The increased account size should facilitate *straight-through-processing* (STP), with beneficiary's accounts being credited a lot faster than has been the case.

19.8.4 LEVERAGING ON THE REAL TIME GROSS SETTLEMENT SYSTEM

After the successful implementation of the RTGS in February 2005, several initiatives were started during the year under review to further leverage on the RTGS system capabilities. These included:

Implementation of an *Advanced Statistics Module*, which enables users to extract and analyse management data and information from the RTGS system. Data on any RTGS parameter can be extracted and analysed for value, volume and other trend dynamics.

Implementation of a *G+link Module*, which facilitates straight through processing of the payments through the RTGS system, leading to automated posting of entries to the General Ledger. This project, which is expected to be completed in the first quarter of the next financial year, should resolve some reconciliation problems that are currently being experienced.

Implementation of a *Government Payments & Revenue Collection System*, which will enable Government to make and receive payments on a real time basis. Furthermore, Uganda Revenue Authority will be able to monitor receipts of revenue on a real-time basis.

Government will further improve the management of its funds as the Accountant-General will have online, real-time and secure access to balances of Government accounts. The project, which will also improve capacity to execute and manage both monetary and fiscal policy, is expected to run throughout the next financial year.

19.8.5 PAYMENT TECHNOLOGY TRENDS

Banks continued to invest in various payment technologies. During the year, the Automated Teller Machines (ATMS) numbers shot up from about 200 at the close of the last financial year to over 250. The number of point of sale (POS) terminals that enable customers to pay with a card at the supermarkets, hotels and fuel pump stations increased to over 300.

Internet banking continued to grow with the number of users standing at 700. The Internet facility is mainly being used for account balance inquiry. Telephone banking is slowly taking root in the country, and is largely being used by customers to enquire about their account balances. Some banks have also enabled their customers to access their accounts from their personal computers (PCs). By the close of the financial year, there were about 3,000 bank customers using PC banking.

19.8.6 ELECTRONIC DATA TRANSMISSION

To further improve efficiency and strengthen safety in the national payment system, clearing data will be electronically transmitted to and from the clearinghouse. Bank of Uganda, working with commercial banks completed the purchase and installation of the software required to support electronic data transmission via the SWIFT network, which is a secure electronic messaging service. This is expected to further improve efficiency in retail electronic clearing.

19.9 ADMINISTRATIVE SERVICES

The Bank, through its Administrative Services Department, provides efficient and cost effective institutional support services with regard to the management of civil and other engineering works, maintenance of plant, equipment, machinery and buildings, and the provision of logistical services.

During the financial year, the Bank embarked on carried out roof repairs and cladding maintenance of the New Building with a view of improving the building facade through cleaning and water proofing of the Glass Reinforced Plastic cladding panels and joints against water leakages and the waterproofing of level 10 flat roof to guard against water leakages. Three Main Voltage Stabilizers were installed to stabilize electricity supply and protect the Bank's equipments and plant from damage arising out of voltage fluctuations from the national grid. Server Rooms were constructed at the Headquarters and the Bank Clinic in order to provide physical security and safety and a conducive environment for the IT servers.

The Bank has now embarked on renovation works of its recently acquired property at Plot 45, Kampala Road, with the aim of providing more conducive office space for staff, storage facilities for the archives, better library facilities and a better museum environment. Construction of new offices for the Mbale Currency Centre was also embarked on, again, with the aim of securing storage facilities for Bank Assets and providing conducive office environment for staff.

They have taken advantage of the Electronic Funds Transfer and the Real Time Gross Settlement systems to ensure that suppliers of goods, services and works receive their payments promptly. Through training, the Bank has enhanced capacity in the Procurement Sections and also expanded the scope of term contracting that ensures a constant flow of supplies at more stable prices. The Bank have continued to adequately insure its physical assets and provided 24/7 Electronic Surveillance to its fleet.

19.10 HUMAN RESOURCE MANAGEMENT

The Bank ensures optimal and efficient utilization of human resources through initiation and administration of cost effective policies, which attract, retain and motivate staff in the Bank. In pursuit of this objective, the Bank undertook the following activities during the year.

The Bank recruited eleven (11) Officers in the Management Information System department to implement various information technology related projects.

After conducting training needs analysis, to ensure staff possess requisite knowledge, skills and attitude; various courses were organized, in-house, locally, regionally and overseas. As a result, 99 staff were trained locally and 275 staff attended courses outside the country.

The Bank maintained PEOPDESY Human Resource Management System to provide a wide range of up-to-date information required for management system that provides quality and timeliness of information. The Bank is finalizing the implementation of the Oracle HR system. The End-Users' training was completed.

Aimed at developing a more effective document management and filing system with suitable security features, the Bank approved a policy document for putting into operation a Document Management and Filing System (DMFS) to enhance safe custody and quick retrieval of information.

19.11 SECURITY MEASURES

The Mission of the Security Department is to protect Bank assets, staff and clients from harm at all areas of the Bank operations.

During the year, the Fire Detection component of the Fire Upgrade Project in BoU's new building, was successfully commissioned. The Department carried out sensitisation of staff on emergency procedures, prepared the Bank of Uganda Emergency Procedures Manual and successfully carried out an Evacuation Drill at Headquarters.

A comprehensive Security Policy Document was prepared by the Department and is under active review by Management of the Bank.

19.12 INTERNAL AUDIT OPERATIONS

Internal Audit Function provides independent assurance and consulting services to the Board and Management of the Bank. The function evaluates the functioning of internal controls, governance processes and risk management processes for efficient utilization of resources and attainment of set objectives.

Internal Audit Function operates within the framework of the Bank of Uganda Internal Audit Charter, which sets out its authority, scope and responsibilities. The Function reports to the Audit Committee of the Board. The audit approach is based on International Standards on Auditing and Guidelines issued by professional bodies including; the Institute of Internal Auditors (IIA), the Information System Audit and Control Association (ISACA) and the Institute of Certified Public Accountants of Uganda (ICPAU).

During the financial year ended 2006/07, the Function executed forty-six tasks out of the fifty tasks on the Annual Work plan. This coverage represents ninety -two percent of the work plan. Audit reviews were conducted in Finance, Operations, Administration, Supervision and Research Functions. Risk based Internal auditing continues to be used to ensure that audit resources are directed to the most risky areas of the Bank.

Compliance, financial, system and investigative audits were conducted in Banking, Accounts, and Financial Markets Departments, among others. This included quarterly spot checks on Currency centres and Banking Department, review of financial statements and management accounts. System audits involved documentation and evaluation of databases and application controls of the BCNet, Online destruction of currency, Central Depository System (CDS) and Integrated Financial System (IFS) covering Payments processing and the Oracle payroll.

The Function conducted in-house training and sponsored staff for training in auditing, accounting and finance, in line with the Bank's Strategic goal of capacity building.

Overall, there was adequate assurance that the Bank is operating sound Internal controls designed to meet set objectives and manage risks.

19.13 COMMUNICATIONS OFFICE

The Bank's communications strategy is geared towards influencing the environment in which the Bank operates in fulfilling its cardinal mission of fostering price stability and a sound financial system.

There are established channels for promoting the public transparency of the formulation and conduct of monetary policy. These channels include monthly press briefings, press conferences, press releases, talk shows, publications, reports, Bank seminars and workshops.

During the financial year 2006/07, the Bank organized the 40th anniversary celebration under the theme, "Bank of Uganda: A Pillar of the Economy". The official launching of the celebration was presided over by the President of the Republic of Uganda, His Excellency Yoweri Kaguta Museveni. At this function the President launched a book entitled "The Bank of Uganda (1966 – 2006): A Historical Perspective" by Professor Phares M. Mutibwa. The events included:

Essay Competition for Primary Schools (1 May – 15 July 2006)

Bankers Sports Gala at Mandela Stadium (July 30, 2006) which was won by the Bank of Uganda

A Charity Walk to support Mulago Hospital. The Vice President of the Republic of Uganda, His Excellency Prof. Gilbert Bukenya, was the Chief Walker (5August 2006).

Public Lectures at all Bank of Uganda Currency Centres by senior Bank staff (10 – 11 August 2006)

Exhibition of Artifacts of the Kikonyogo Money Museum, BoU publications and a documentary on the 40 years of service of Bank of Uganda.

Symposium on "Central Banking in a Globalising Environment: Challenges and Way Forward for Bank of Uganda" and a panel discussion by Prof. Ali Mazrui, Prof. John Williamson, Ms. Eva Srebej (Deputy Governor, Riksbank of Sweden). The moderators included: Mr. G. Ntisezerana (Governor, Banque de la Republique du Burundi, Central Bank of Burundi), Dr. Enerst Gove (Governor, Bank of Mozambique), Mr. Juma Relli (Governor, Bank of Tanzania), Mrs. Jacinta Mwatale (Deputy Governor, Central Bank of Kenya) and Mr. Lionel Van Lare (Deputy Governor of Bank of Ghana).

As part of corporate social responsibility, the Bank donated Shs.160,371,750= during the year under review.

19.14 MEDICAL

In its efforts to provide and sustain quality medical services cost effectively, the Medical Department achieved the following during the financial year:

The Physiotherapy Unit was equipped with a traction machine and patients don’t have to be referred to external consultants.

The laboratory was also equipped with a CD4 counter and Haematology analyzer machines that have strengthened efficiency and reduced time spent in investigating and monitoring patients on treatment.

A dietician has been contracted on locum basis to assist counseling staff on life styles. This is intended to cut down on health complications caused by bad life styles.

20 FINANCIAL FRAMEWORK

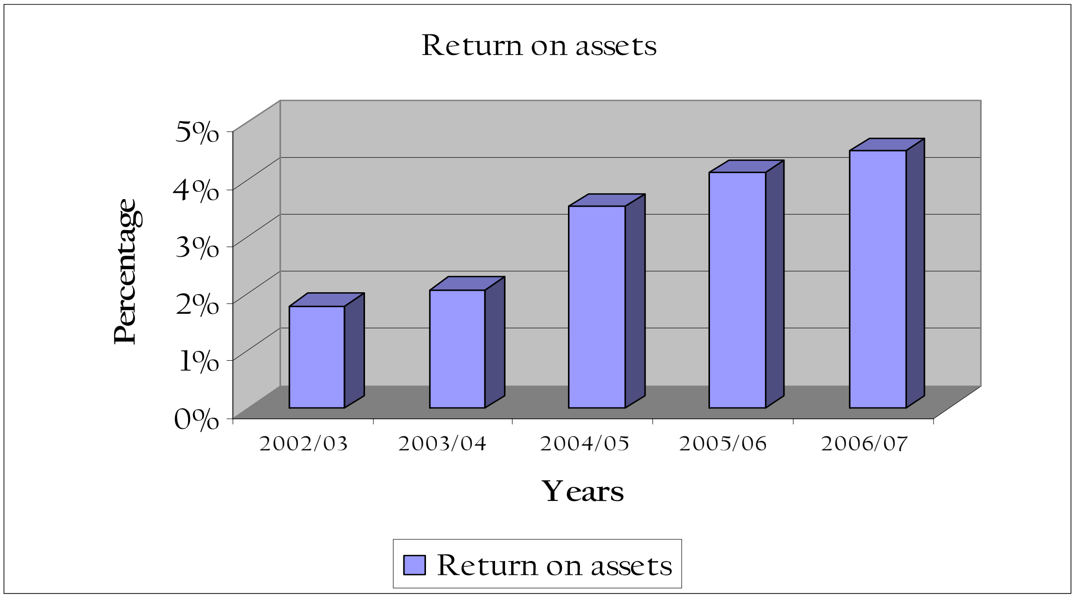
20.1 INCOME & EXPENDITURE

20.1.1 INCOME

During the year, the Bank recorded an interest income of Shs 118,536 million; an increase of 23.6 percent compared to Shs 95,849 million in 2005/06. Out of the total interest income for the year, Shs 100,585 million was earned from short investments and deposits with foreign commercial institutions that are internally managed by the Bank, while Shs 16,384 million was earned from investments managed by the Bank's appointed Fund Managers. Income from local sources such as interest on short money deposits and on staff loans and advances realized Shs 809 million and Shs 758 million respectively. Interest income from foreign investments accounted for 96.7 percent while local income accounted for 3.3 percent.

The favorable performance recorded during the year is mainly attributed to an increase in foreign reserves, which increased from US$ 1,309 million in June 2006 to US$ 1,890 million by June 2007. The increase in reserves is largely attributed to increased inflows from the donors for budget support funds as well as other Government project funds. This is in addition to favorable rates of return on foreign investments of reserves. The effective interest rates for the USD, GBP, and the Euro rose to 4.6 percent, 5.6 percent, and 4 percent during the financial year from 4.3 percent, 4.5 percent, and 2.5 percent respectively. The Bank's return on external assets has steadily grown from 2 percent to 4 percent from 2002/03 to 2006/07 as depicted in Figure 12.

FIGURE 12: RETURN ON EXTERNAL ASSETS



During the year, the Bank earned income from commissions, discounts and other local sources amounting to Shs 23,738 million; an increase of 61 percent compared to Shs 14,715 million in 2005/06. The increase is mainly due to the rise in exchange commission earned on foreign currency trading amounting to Shs 17,624 million compared to Shs 8,730 million realized in 2005/06.

Interest expenses relate to interest paid to International Monetary Fund (IMF) being charges on Special Drawing Rights (SDR) allocations to the Government of Uganda as regularly advised by IMF. The interest decreased from Shs 3,490 million to Shs 3,220 million in 2006/07 due to appreciation of the shilling against the SDR during the year. Commissions and other expenses of Shs 1,786 million comprise of reserve management fees paid to external fund managers and training costs related to reserves management.

The Bank recorded net interest and commission income of Shs 137,268 million in 2006/07 up from Shs 105,595 million realized in 2005/06. However, the Bank registered an operating loss of Shs 129,572 million for the financial year 2006/07 compared to an operating income of Shs 225,830 million in 2005/06. This is attributed to exchange differences arising from translation of the Bank's financial assets and liabilities denominated in foreign currencies. During the year, the shilling experienced appreciation pressures against United States Dollar moving to Shs 1603.35 as at 30th June 2007 up from 1859.95 at the beginning of July 2006. This resulted into a non cash outflow translation loss of Shs 266,840 million as a result of revaluing the foreign denominated assets compared to a translation gain of Shs 120,235 million recorded in 2005/06.

Out of translation loss of Shs 266,840 million, Shs 191,743 million translation loss was recorded on revaluation of balance sheet assets and liabilities compared to a translation gain of Shs 114,938 million in 2005/06 where the shilling had appreciated at the time of reporting. Unrealized translation losses of Shs 66,723 million, Shs 6,525 million and Shs 2,529 million were recorded on USD discount securities (Treasury Bills), Euro and Pound Sterling deposits and Repurchase Agreements (REPOs) respectively in 2006/07 compared to a zero return in 2005/06. During the year, the Foreign Exchange Reserves Management System (FERMS) was fully implemented for effective monitoring and tracking of foreign reserves. Effective November 2006, all transaction of foreign reserves (internally managed funds) were marked to market on a daily basis hence recording translation losses/gains as opposed to the previous period.

20.1.2 EXPENDITURE

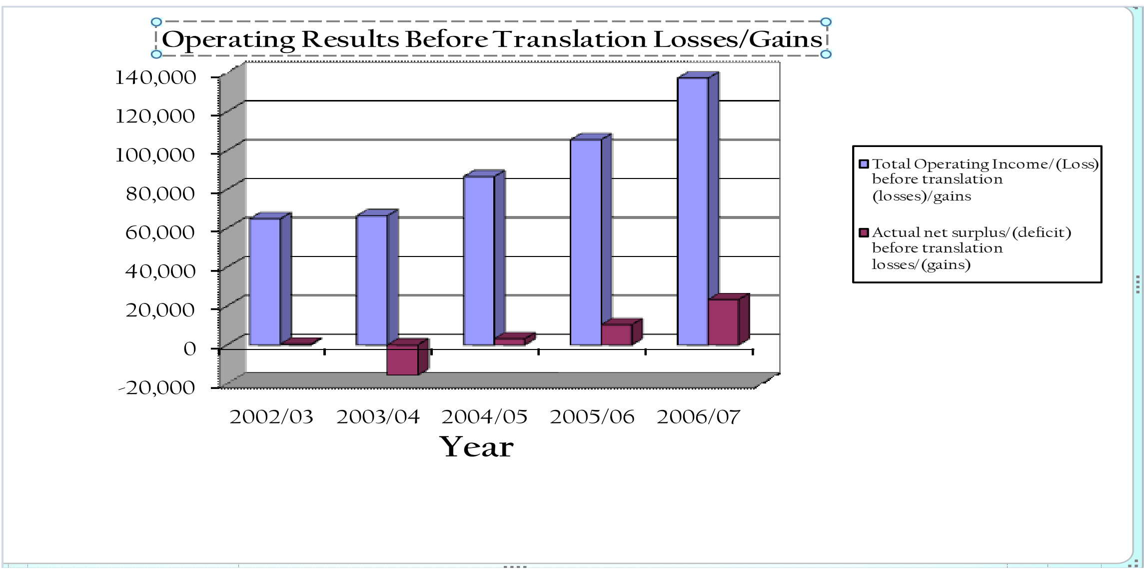
The Bank's total operating expenditure outturn for the year amounted to Shs 113,886 million compared to Shs 95,212 million in 2005/06, an increase of 20 percent. General and administration costs increased by 13 percent from Shs 72,243 million in 2005/06 to Shs 82,224 million in 2006/07. The increase in administration costs was mainly due to 10 percent increase in staff costs, 17 percent increase in note printing and coin minting costs, 17 percent increase in corporate contributions and 43 percent in publicity and awareness costs. Financial and professional charges reduced from Shs 1,712 million in 2005/06 to Shs 1,464 million in 2006/07 mainly due to a reduction in fair valuation of staff loans. Financial and professional charges mainly comprise of amortization of prepaid operating lease rentals, consultancy costs, legal expenses and fair valuation of staff loans. Provision for impairment of loans and advances increased from Shs 7,009 million in 2005/06 to Shs 20,358 million in 2006/07. During the year a provision of Shs 18,156 million relating to long outstanding receivables from MOFPED was made. This amount will be written back in the books as and when MOFPED pays back.

Depreciation and amortization charges reduced by 29 percent from Shs 13,930 million in 2005/06 to Shs 9,840 million in 2006/07. This is mainly due to write down of impaired fixed assets amounting to Shs 6,994 million that were identified during the implementation of the new fixed asset register software. In addition, the depreciation charge on bullion vans and note processing machines has been adjusted from 25 percent (4 years) to 10 percent (10 years) to reflect the actual useful lives of these machines.

20.1.3 OPERATING RESULTS

Overall, the Bank registered an operating deficit of Shs 243,458 million in 2006/07 compared to an operating surplus of Shs 130,618 in 2005/06. If the unrealized translation losses of Shs 266,840 million are excluded, the Bank would realize a surplus of Shs 23,382 million in 2006/07 compared to Shs 10,383 million in 2005/06. This amount defers from Shs 3,883 million by Shs 6,500 million as a result of reclassification of the market unrealized losses which has been reclassified in the current year for comparability. The overall results for the previous year were not affected. Figure 13 below depicts total operating income/loss and actual net surplus before translation losses/gains over the period 2002/03 to 2006/07.

FIGURE 13: OPERATING RESULTS BEFORE EXCHANGE LOSSES/GAINS



The trends in the income and expenditure patterns for the years 2002/03 to 2006/07 are given in the table below:

TABLE 20: INCOME AND EXPENDITURE TRENDS (MILLION OF SHILLINGS)

	Actual 2002/03	Actual 2003/04	Actual 2004/05	Actual 2005/06	Actual 2006/07	Budget 2007/08
Income						
Interest Income	44,439	41,149	72,413	95,849	118,536	141,969
Interest Expense (IMF charges)	-	-	(3,372)	(3,490)	(3,220)	(3,175)
Net Interest Income	44,439	41,149	69,041	92,359	115,316	138,794
Commissions & Discounts	26,905	30,263	18,952	14,715	23,738	18,141
Commissions & other Expenses	(6,438)	(4,985)	(1,388)	(1,479)	(1,786)	(2,493)
Net Commissions & Discounts	20,467	25,278	17,564	6,736	21,952	15,648
Net Interest Income & Commissions	64,906	66,427	86,605	105,595	137,268	154,441
Translation Gains/(Losses)	159,555	(108,707)	(75,047)	120,235	(266,840)	-
Total Operating Income/(Loss)	224,461	(42,280)	11,558	225,830	(129,572)	154,441
Expenditure						
General & Administration Costs	(50,958)	(60,274)	(64,910)	(72,243)	(82,224)	(90,240)
Provision for Impairment Costs	(2,532)	(6,278)	(1,453)	(7,009)	(20,358)	-
Financial & Professional Charges	(1,719)	(1,241)	(2,027)	(2,030)	(1,464)	(1,257)
Depreciation	(9,323)	(14,205)	(15,036)	(13,930)	(9,840)	(12,150)
Total Operating Expenditure	(64,532)	(81,998)	(83,426)	(95,212)	(113,886)	(103,647)
Surplus/ (Deficit) of Income over Expenditu	159,929	(124,278)	(71,868)	130,618	(243,458)	50,794
	159,555	(108,707)	(75,047)	120,235	(266,840)	-
Less: Un realized exchange losses						
Actual net surplus/(deficit) before exchang	374	(15,571)	3,179	10,383	23,382	50,794
Capital Expenditure	26,549	22,489	16,066	12,962	11,384	33,018

The graph below shows trends in the total income, total operating expenditure and the effect of foreign exchange losses/gains over the period from 2002/03 to 2006/07:

FIGURE 14: INCOME AND EXPENDITURE TRENDS

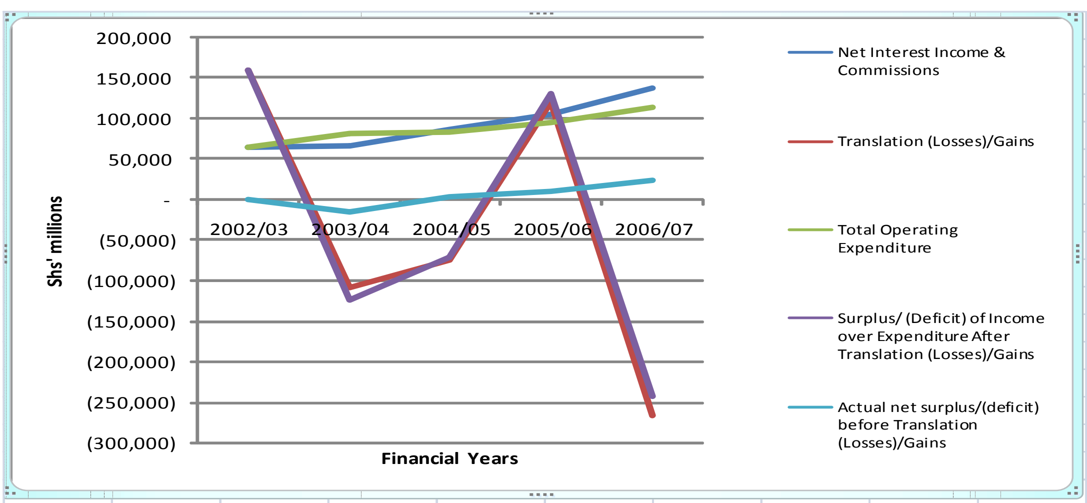
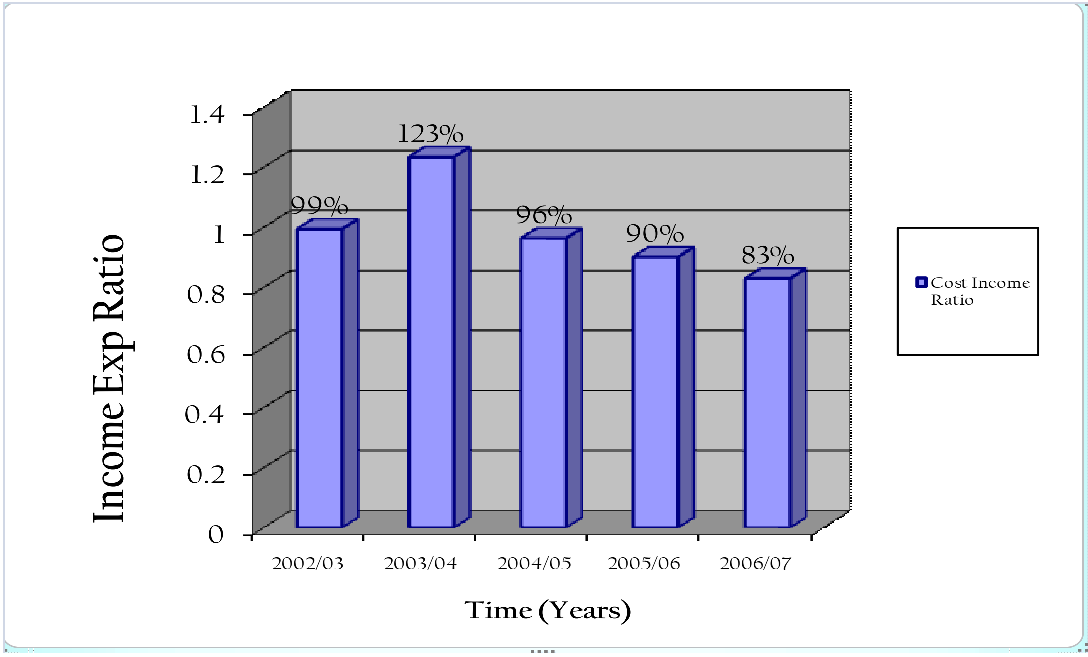


FIGURE 15: TREND OF TOTAL COST TO INCOME RATIO



20.1.4 CAPITAL EXPENDITURE

Capital Expenditure for the year ended 2006/07 totaled to Shs 11,384 million compared to Shs 12,962 million in 2005/06. Shs 3,718 million was spent on IT related projects representing 33 percent of the total capital expenditure. The major IT projects in this category comprise of Oracle Human Resource System, Central Depository System (CDS) upgrade, Integrated Security System, Bank Computing Net work Upgrade (BCNet), the Perago Pay project, the Foreign Exchange Reserve Management System (FERMS), and the Business Resumption Site (BRS).

Building works and renovations contributed to 44 percent of the total capital expenditure. The major expenses under this category were cost of roof repairs and cladding of the Bank's headquarters amounting to Shs 1,268 million and the construction of Mbale Currency Centre at Shs 2,800 million. The Bank also incurred Shs 600 million on fencing and repairs of the building at Plot 45 Kampala Road in addition to purchase of plots of land for Kabale and Masaka Currency Centres.

The trends in capital expenditure patterns are shown in the bar chart in Figure 16 while the distribution of capital for 2006/07 is shown in the pie chart in Figure 17. The downward trend is a result of lack of absorptive capacity to implement the project as approved by the Board, especially in the IT related areas, which has now been addressed.

FIGURE 16: CAPITAL EXPENDITURE TRENDS

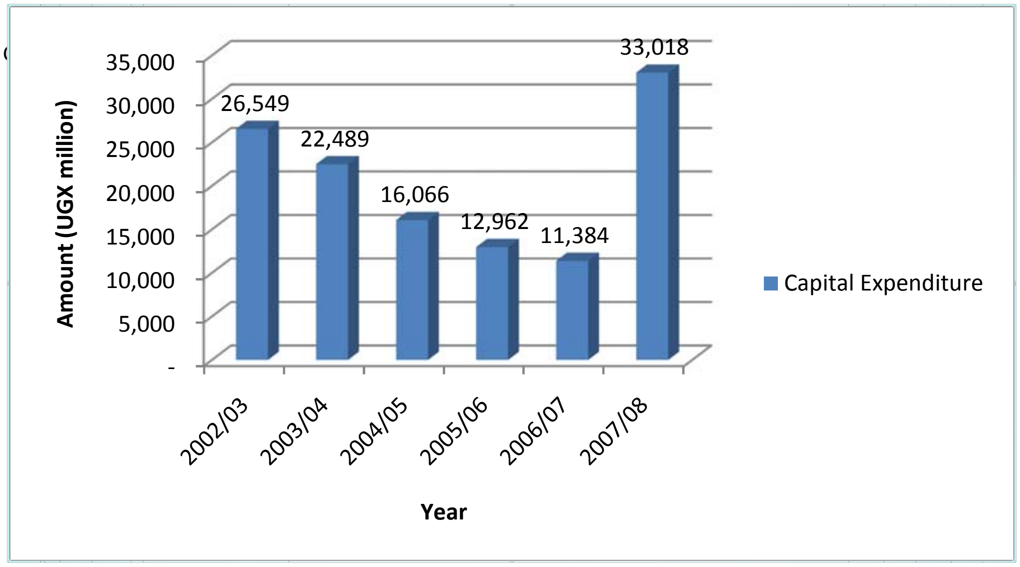
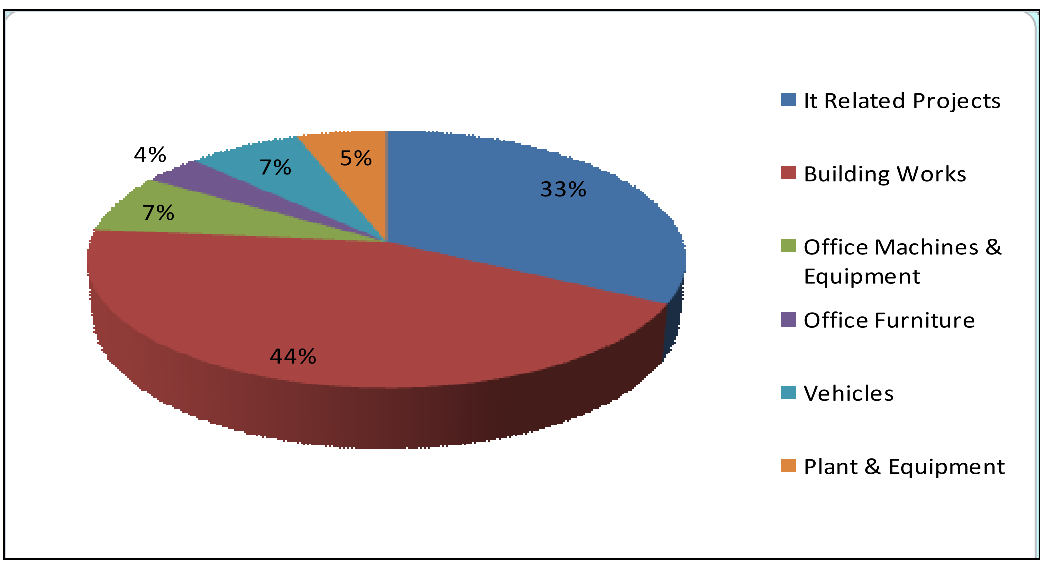


FIGURE 17: ACTUAL CAPITAL EXPENDITURE



20.1.5 2007/08 APPROVED BUDGET

The Bank projects to earn a total income of Shs 160.1 billion during the financial year 2007/08. The recurrent expenditure for the financial year 2007/08 is projected at Shs 90.2 billion before depreciation charge and IMF charges.

The capital budget is projected at Shs 33.0 billion in 2007/08. The bulk of the increase in the proposed capital expenditure is attributable to planned purchase of two highly specialized currency notes processing machines (BS1000) at a cost of Shs 17 billion. The major reason for this acquisition is to improve operational efficiency, detection of counterfeits and to minimize human intervention in currency processing. A number of building works and renovations including construction of Mbale Currency Centre and roof repairs and cladding of the Bank's headquarters will be completed during the financial year 2007/08.

The Bank's approved budget for 2007/08 is illustrated in Figure 18 below while the approved budget for 2006/07 is depicted in Figure 19.

FIGURE 18: APPROVED BUDGET 2007/08

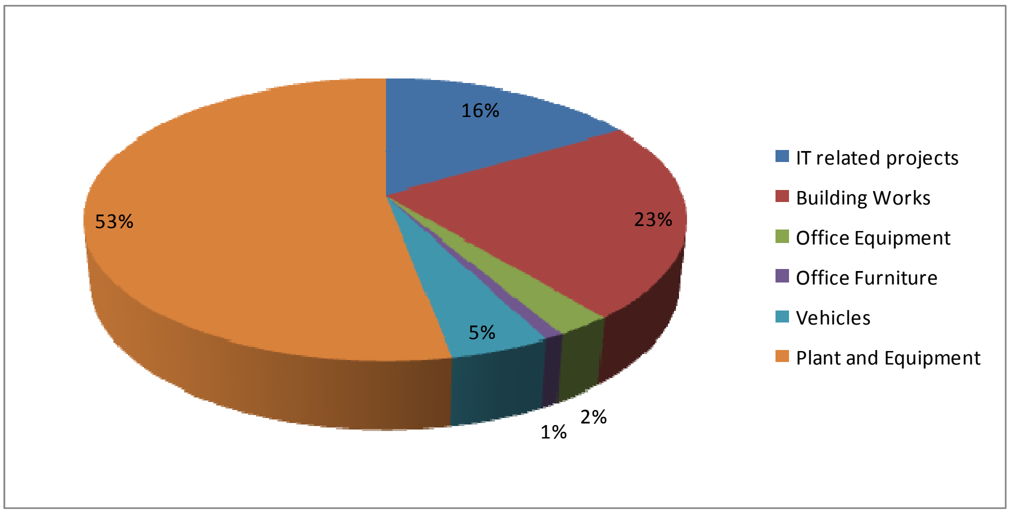
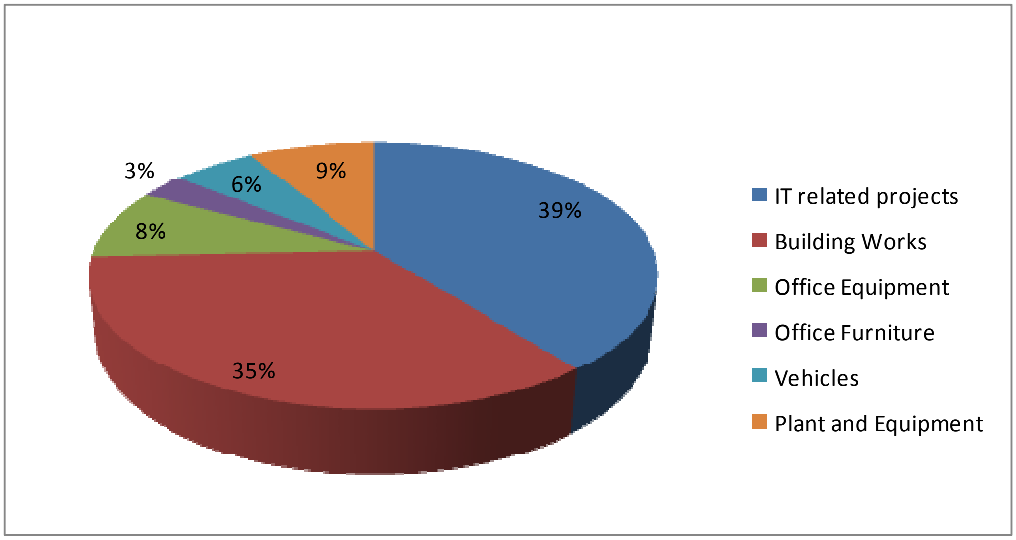


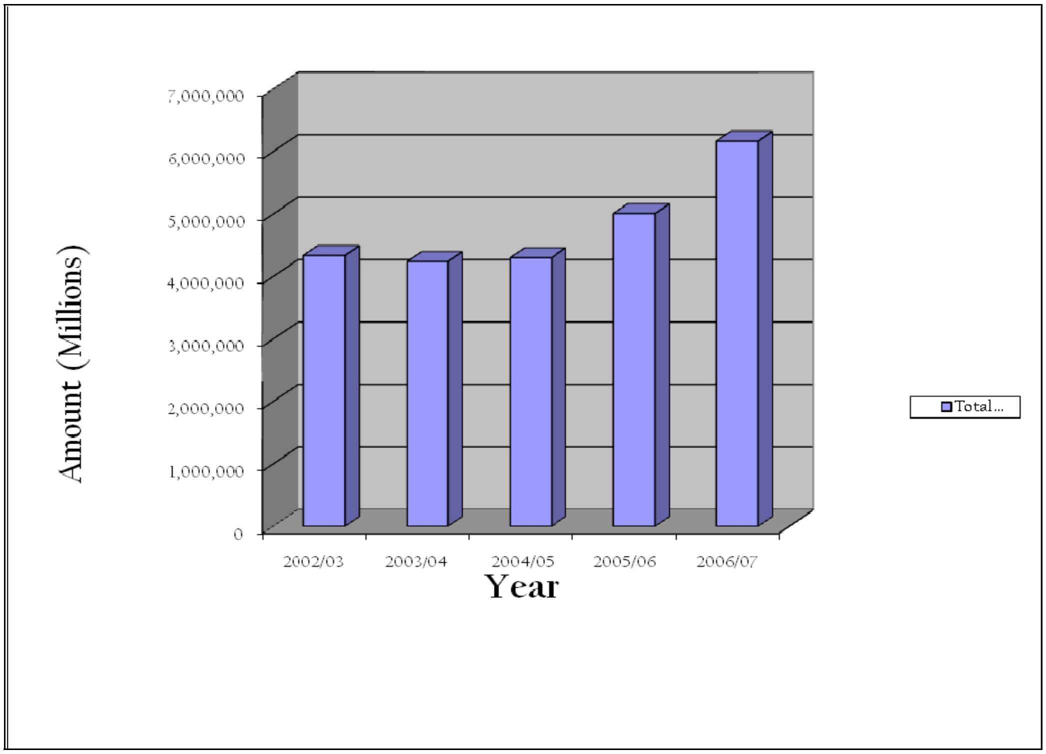
FIGURE 19: APPROVED BUDGET 2006/07



20.2 BALANCE SHEET

The Balance Sheet of the Bank shows the position of the Bank's assets and liabilities, reserves and share capital as at 30th June 2007. In 2006/07, the balance sheet grew by 23.2 percent from Shs 5,008,135 million in 2005/06 to Shs 6,186,685 million as shown in Figure 20 below.

FIGURE 20: TOTAL ASSETS GROWTH

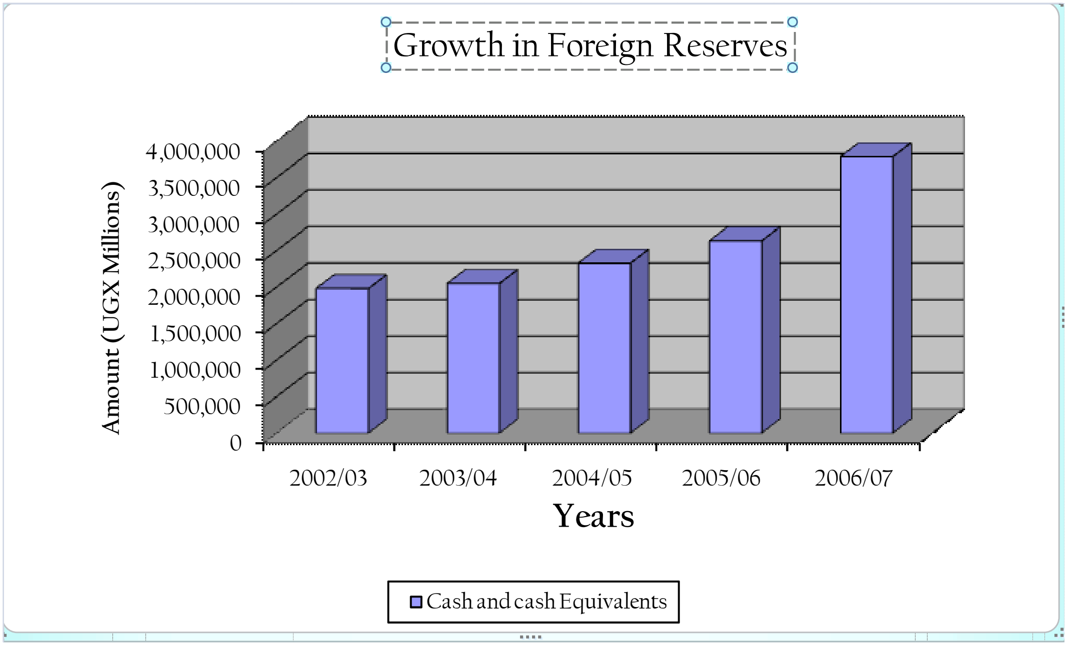


20.2.1 ASSETS

Foreign Assets

During the year, the Bank's reserve holdings increased by 44 percent to USD 1,890 million from USD 1,309 million as at June 2006. The increase in reserves is explained largely by donor inflows for budget support as well a favorable out turn on the return on foreign investments. The trend in reserve patterns from 2002/03 to 2006/07 is shown in the bar chart in Figure 21 below:

FIGURE 21: GROWTH IN RESERVES



Overall, foreign assets increased by 35 percent to Shs 4,225,131 million (June 2006: Shs 3,127,403 million). The major source of increase was noted in the cash and cash equivalents, which increased by 53.2 percent to Shs 3,429,531 million (June 2006: Shs 2,238,664 million). The cash and cash equivalents comprise of term deposits held in external financial institutions, which increased by 18.7 percent to Shs1,493,493 million (June 2006: Shs 1,258,687 million), USD treasury bills investment, which increased by 38 percent to Shs 1,154,950 million (June 2006: Shs 837,233 million) and while Repurchase agreements increased to Shs 220,504 million from Shs 79,936 million in June 2006.

Cash held in external financial institutions increased to Shs 512,479 million (June 2006: Shs 110,047 million). This comprises pending trade settlement proceeds of Shs 421,840 million which were outstanding by the end of the year. These are represented by contra entries on the liability side of the balance sheet in the item other creditors. Other investments include one-year deposit with the World Bank and foreign cash collateral.

Domestic Assets

As the custodian of monetary policy, the Bank uses a number of financial instruments in order to fulfill its mandate as enshrined in the Bank of Uganda Act, Laws of Uganda 2000. As a result, the Bank offers development credit accommodation under agency agreements with development partners to commercial banks. The Bank also maintains a commensurate level of assets to smoothly run its operations. The operations relating to these activities are accounted as domestic assets.

Overall, domestic assets increased by 3.3 percent to Shs 1,943,554 million from Shs 1,880,732 million in June 2006. This movement is largely explained by an increase of 7.5 percent in advances to Government to Shs 1,462,019 million (June 2006: Shs 1,360,589 million). As at close of business, there was outstanding interest on treasury bills and treasury bonds that had not yet been reimbursed following the maturity of treasury bills and bonds, and buy-backs of treasury bonds.

The Bank uses Repos as a fine tuning instruments to conduct monetary policy in between Treasury Bills auction. The Repos are which are collateralized by a stock of Government securities totaling Shs 200,000 million. During the year, this stock of securities was used to create repos to the tune of Shs 117,600 million only, leaving an unutilized balance of Shs 82,400 million at the end of the financial year.

Among the various lines of credit managed by the Bank on behalf of Government are the development finance loans to commercial banks. These loans are channeled through the commercial banks to support various development activities in the sectors of the economy. During the year, development finance loans increased by 12.7 percent to Shs 166,936 million, from Shs 146,515 million in June 2006.

Additionally, loans and advances to commercial banks dropped by 2.5 percent to Shs146,195 million (June 2006: Shs 149,964 million) mainly on account of loan repayments by commercial banks. Other loans and advances reduced by 19.4 percent to Shs 11,931 million, from Shs14,808 million in June 2006.

Property, plant and equipment increased marginally by 0.5 percent to Shs 78,256 million (June 2006: Shs 78,134 million). This increase is explained by acquisition of new assets during the period.

Although there were acquisitions of fixed assets during the year, the volume of acquisitions grew less proportionately than the volume of the disposals.

20.2.2 LIABILITIES

Foreign Liabilities

Foreign liabilities comprise mainly of the International Monetary Fund (IMF) quota, representing the Uganda Government membership capital contribution to the IMF but held with Bank of Uganda as a depository institution. During the year, the IMF quota and Special Drawing Rights allocation in total shrunk by 11 percent to Shs. 509,644 million from Shs. 572,520 million. The reduction is explained by the appreciation of the shilling against the major foreign currencies, which in effect reduced the liabilities payable by the Bank.

Domestic Liabilities

Domestic liabilities increased by 32.2 percent to Shs 5,471,415 million as at 30th June 2007 (June 2006: Shs 3,992,289 million). Deposits on Government accounts increased by 37 percent to Shs 3,408,763 million (June 2006: Shs 2,578,972 million).

Government capital Accounts (Treasury Bills and Treasury Bonds) comprise 65 percent of the total Government deposits. During the period, Government capital accounts grew by 20.4 percent to Shs 2,185,344 million (June 2006: shs.1,815,885 million), following the issuance of more treasury instrument.

On the other hand, deposits by Government ministries increased by 85 percent to Shs 723,506 million (June 2006: Shs 390,785 million), while funds for Projects grew by 98 percent to Shs 282,695 million (June 2006: Shs 142,667 million).

The Bank manages development finance funds under agency agreements with development partners. During the year, development finance funds decreased by 15.7 percent to Shs 167,900 million, from Shs 190,060 million from 30th June 2006. The reduction in the fund is explained by a transfer of Shs 14,170 million to Uganda Development Bank.

Currency in circulation increased by 17.1 percent to Shs 981,030 million (June 2006: Shs 837,703 million). During the year, the Bank enforced a policy on holdings of coins by the commercial banks. As a result, the volume of coins in circulation increased by 67.7 percent to Shs 71,982 million (June 2006: Shs 42,920 million) compared to a 14.4 percent increase of notes to Shs 911,570 million (June 2006: Shs 796,734 million) in circulation during the year. The increase in the circulation is partly due to the high demand for the shillingby the business community.

Commercial bank deposits grew by 53.5 percent to Shs 449,851 million (June 2006: Shs 293,156 million. The growth in commercial bank deposits is largely explained by the increased volume of investments in repos by commercial banks during the year. The volume of repos increased to Shs 117,600 million (June 2006: Shs 15,000 million). Also, current account balances of commercial banks increased by 25 percent to Shs 265,553 million (June 2006: Shs 212,509 million). During the year, the Bank also entered into a swap transaction of USD 1million with Tropical bank, which was outstanding as at the close of the financial year.

20.2.3 SHAREHOLDERS FUNDS

During the year, the cumulative shareholders' funds reduced by 62 percent to Shs 150,383 million. (June 2006: Shs 393,841 million). The decrease in shareholders funds is largely explained by the appreciation of the Uganda Shilling against the Dollar, which caused unrealized foreign exchange translation losses of Shs 266,840 million. The net surplus has been transferred to the general reserve in accordance with section 16, Bank of Uganda Act, Cap.51, Laws of Uganda 2000.

21 DIRECTORS' REPORT

21.1 INTRODUCTION

The Directors are pleased to present their report for the year ended 30th June 2007. This report addresses the performance of the Bank in terms of the Bank of Uganda Act (Cap. 51) Laws of Uganda, which requires the Bank to make a report on its activities and operations during the proceeding year, within three months after the end of each financial year.

21.2 NATURE OF BUSINESS

The Bank of Uganda is the central Bank of Uganda. The principal function of the Bank is to formulate and implement monetary policy directed to economic objectives of achieving and maintaining price stability.

21.3 OPERATING FINANCIAL RESULTS

The Directors present the financial statements for the year ended 30 June 2007 as set out on pages 129 to 162 of this report. The Bank made a deficit of Shs.243,458 million compared to a surplus of Shs.130,618million in 2005/06, a decrease of 287 percent. The deficit is attributed to the strong appreciation of the shilling against the US dollar. Total operating loss for the period totaled Shs 129,572 million (after incorporating a non cashflow translation loss, before taking into account expenditure amounted to shs.266,840 million) compared to an operating income of shs. 225,830 million in 2005/06. The Bank complies with International Financial Reporting Standards in preparing its financial statements, which among other standards requires the Bank to translate its foreign denominated financial assets and liabilities into the reporting currency in accordance with IAS 21. It is common for central banks, which manage foreign currency reserves of the country to register a translation loss or gain, in times of an appreciation or a depreciation of the Uganda shilling respectively. Analysis of the deficit reveals this trend over the years. The actual net surplus for the financial year 2006/07, was shs. 23,382 million after adjusting for a non cash flow translation loss of shs. 266,840 million.

The major source of the Bank's income continues to be interest earned on foreign reserve investments, and foreign exchange trading. The interest rates on the international financial markets remained favourable, and during the year, effective interest rates increased by over 100 basis points on average, when compared to the previous year (2005/06). The growth in the foreign reserves coupled with prudent management of the funds and favourable effective interest rates in the international markets were largely responsible for the sustained growth in earnings. The cost income ratio (before incorporating translation loss) shows a favorable trend with management looking into ways of controlling expenditure in the future.

21.4 KEY DEVELOPMENTS

During the year, the Bank completed and commissioned Foreign Exchange Reserve Management System (FERMS). When FERMS becomes fully operational, the Bank will be able to invest in the bond markets to enhance its income.

The Bank continued to implemented new IT related projects and upgraded those already in use. In this regard, the Bank of Uganda Website was launched. Also, the Bank successfully celebrated the 40 years of its existence with a theme *Bank of Uganda, a Pillar of the Economy*. The Bank also contributed to worthy causes under the corporate social responsibility.

21.5 DIVIDEND

The Directors do (not) recommend the payment of a dividend.

21.6 DIRECTORS

The Directors who held office during the year and to the date of this report were:

E. Tumusiime-Mutebile (Prof.)	**-Chairman**
C. Manyindo Kassami	**-Member**
J. Waswa Balunywa	**-Member (re- appointed on 5 June 2007)**
G. Sebunya Muwanga (Dr)	**-Member (term expired on 30 September 2006)**
B. Kiiza	**-Member (term expired 30 September 2006)**
M. Okai (Prof.)	**-Member**
B.Mukiibi	**-Member (appointed 5 June 2007)**
M. Tumubweinee	**-Member (appointed 5 June 2007)**

Two new directors were appointed after the expiry of the terms of two of the directors. None of the Directors had any financial interests in the Bank at any time during the year.

Mr. D.G. Opiokello was appointed by the Governor to be in-charge of office of the Deputy Governor with effect from 1 May 2006 pending appointment of a substantive Deputy Governor, in line with article 161 (3) of the Constitution of the Republic of Uganda.

21.7 AUDITORS

In accordance with Section 43 of the Bank of Uganda Act (Cap. 51) Laws of Uganda the financial statements shall be audited once every year by the Auditor General or an auditor appointed by him to act on his behalf. For the year ended 30 June 2007, Messrs KPMG Certified Public Accountants were reappointed to act on behalf of the Auditor General.

KPMG Certified Public Auditors have expressed their willingness to continue in office.

By order of the Board

Rweyamamu Rweikiza
Ag. BANK SECRETARY
September 2007

22 STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The Directors, according to the Bank of Uganda Statute, are responsible for general management of the affairs of the Bank, among other duties. They are therefore required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its operating results for that year. Directors should also ensure that the Bank keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the annual financial statements set out on pages 129 to 162, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank as at 30 June 2007 and of its net surplus for the year ended on that date. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

CHAIRMAN
September 2007

DIRECTOR
September 2007

23 REPORT OF THE INDEPENDENT AUDITORS

The Auditor General
Office of the Auditor General
P O Box 7083
Kampala
Uganda

Dear Sir,

REPORT ON THE FINANCIAL STATEMENTS OF BANK OF UGANDA FOR THE YEAR ENDED 30 JUNE 2007

We have audited the financial statements of Bank of Uganda which comprise the balance sheet at 30 June 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set on pages 84 to 162.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As stated on page 126, the bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Bank of Uganda Act (Cap. 51), Laws of Uganda 2000. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of Bank of Uganda at 30 June 2007 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, comply with the Bank of Uganda Act (Cap. 51), Laws of Uganda 2000.

KPMG
Certified Public Accountants
P O Box 3509
Kampala,Uganda
Date: 2007

24 FINANCIAL STATEMENTS

24.1 INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

		2007	2006
		U Shs (m)	U Shs (m)
INCOME	Note		
Interest Income	2	118,536	95,849
Interest Expense	3	(3,220)	(3,490)
Net Interest Income		**115,316**	**92,359**
Commissions & Discounts	4	23,738	14,715
Commissions & Other Expenses	5	(1,786)	(1,479)
Net Commissions & Discounts		**21,952**	**13,236**
Net Interest Income & Commissions		137,268	105,595
Foreign Exchange Revaluation (Loss)/Gain	6	(266,789)	120,235
Total Operating (Loss)/Income		**(129,521)**	**225,830**
EXPENDITURE			
General & Administration Costs	7	(101,613)	(72,702)
Provision for Impairment Losses	9	(19,276)	(6,868)
Financial and Professional Charges	10	(1,464)	(1,712)
Depreciation	20	(9,840)	(13,930)
Total Operating Expenditure		**(132,193)**	**(95,212)**
(Deficit)/Surplus of Income over expenditure	**11**	**(261,714)**	**130,618**
Analysis of (Deficit)/Surplus for the year:			
(Deficit)/Surplus for the year		(261,714)	130,618
Unrealised Foreign Exchange Loss/(Gain)		268,081	(114,938)
Unrealised loss/(gain) from revaluation of Investments		(1,292)	(5,297)
Net Surplus available for distribution		**5,075**	**10,383**

The accounting policies and notes on pages 134 to 162 form an integral part of these financial statements.

24.2 BALANCE SHEET AS AT 30 JUNE 2007

ASSETS		2007	2006
	Note	U Shs (m)	U Shs (m)
Foreign Assets			
Cash and Cash Equivalents	12	3,429,530	2,238,664
Investments Held for Trading	13	356,703	395,669
Available for Sale Investments	14	641	744
International Monetary Fund	15	438,257	492,326
		4,225,131	3,127,403
Domestic Assets			
Loans and Advances to Commercial Banks and Other Institutions	16	146,194	149,964
Domestic Investments	17	200,000	232,595
Other Assets	18	38,856	38,147
Staff Loans and Advances	19	11,931	14,808
Property, Plant and Equipment	20	78,258	78,134
Prepaid Operating Lease Rentals	21	6,296	6,495
Advances to Government	22	1,462,019	1,360,589
		1,943,554	1,880,732
Total Assets		**6,168,685**	**5,008,135**
LIABILITIES			
Foreign Liabilities			
International Monetary Fund Obligations	15	509,644	572,520
Other Foreign Liabilities	23	94	822
		509,738	573,342
Domestic Liabilities			
Currency in Circulation	24	981,030	837,703
UCBL Net Sales Proceeds	25	25,406	25,406
Deposits from Banks & Financial Institutions	26	449,851	293,156
International Bank for Reconstruction & Development		2,249	2,249
Government Deposits	27	3,410,000	2,578,972
Employee Retirement Benefit Obligations	28	2,826	1,283
Other Liabilities	29	618,309	253,520
		5,489,671	3,992,289
Equity			
Share Capital		20,000	20,000
Reserves		132,127	393,841
Earmarked Funds	31	17,149	28,663
		169,276	442,504
Total Liabilities & Equity		**6,168,685**	**5,008,135**

The accounting policies and notes on pages 84 to 111 form an integral part of these financial statements. The financial statements on pages 80 to 111 were approved by the Board of Directors on……..September 2007. They were signed on its behalf on……September 2007 by:

Chairman

Director

Director

25 STATEMENT OF CHANGES IN EQUITY

	Share Capital	Capital/ Revaluation Reserve	Investment Revaluation	Revenue Reserve	General Reserve	Totals
	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)
Re-stated as at 1 July 2005	20,000	26,618	3,429	233,076	100	283,223
Distributable Surplus for the year	-	-	-	10,383	-	10,383
Unrealised Foreign Exchange Gains	-	-	-	114,938	-	114,938
Revaluation surplus release	-	(1,047)	-	1,047	-	-
Unrealised Gain on Revaluation of Investments	-	-	-	5,297	-	5,297
Investment Revaluation surplus release	-	-	(3,429)	3,429	-	-
Transfer of General Reserve	-	-	-	(2,000)	2,000	-
At 30 June 2006	**20,000**	**25,571**	**-**	**366,170**	**2,100**	**413,841**
At 1 July 2006	20,000	25,571	-	366,170	2,100	413,841
Distributable Surplus for the year	-	-	-	5,075	-	5,075
Unrealised Foreign Exchange Loss	-	-	-	(268,081)	-	(268,081)
Revaluation surplus release	-	(1,047)	-	1,047	-	-
Unrealised Gain on Revaluation of Investments	-	-	-	1,292	-	1,292
Transfer of General Reserve	-	-	-	(5,075)	5,075	-
At 30 June 2007	**20,000**	**24,524**	**-**	**100,428**	**7,175**	**152,127**

The net surplus has been transferred to the General reserve in accordance with section 16 of the Bank of Uganda Act (Cap. 51), Laws of Uganda 2000.

25.1 GENERAL RESERVE FUND

According to Section 16(1) of the Bank of Uganda Act (Cap. 51), Laws of Uganda 2000, the Bank is required to maintain a General Reserve Fund and the amount maintained in this account is determined by the Board from time to time.

25.2 CAPITAL RESERVE FUND

The capital reserve fund account represents the balance of property and equipment revaluation surpluses or deficits.

25.3 REVENUE RESERVE

The movement in revenue reserve represents the net Surplus or deficit transferred from the Income and Expenditure statement.

The accounting policies and notes on pages 134 to 162 form an integral part of these financial statements

26 CASH FLOW STATEMENT

For the purpose of this statement, cash refers to foreign currency assets defined as cash and cash equivalents. The accounting policies and notes on pages 84 to 111 form an integral part of the financial statements.

	Note	June 2007 U Shs (m)	June 2006 U Shs (m)
(Deficit) / Surplus		(243,458)	130,618
Adjustments for:			
Depreciation		9,840	13,930
Amortisation of Operating Leasehold		198	318
Write down of impaired assets		759	387
Profit on Sale of Fixed Assets		(234)	(317)
Increase (Decrease) in Earmarked Funds		(11,514)	(139)
		(244,409)	144,797
Foreign Assets			
(Increase)/Decrease in Investments Held for Trading		38,966	(31,903)
(Increase)/Decrease in International Monetary Fund Quota		54,069	(33,988)
(Increase)/Decrease in Available for Sale Investments		103	(48)
		93,138	(65,939)
Domestic items			
(Increase)/Decrease in Advances to Commercial Banks and Other Institutions		3,769	(40,969)
(Increase)/Decrease in Domestic investments		32,595	(32,109)
(Increase)/Decrease in Other Domestic Assets		(710)	321
(Increase)/Decrease in Staff Loans & Advances		2,877	(4,711)
(Increase)/Decrease in Advances to Government		(101,430)	(289,676)
Total Domestic Assets		(62,899)	(367,144)
TOTAL ASSETS		(214,170)	(288,286)
Foreign Liabilities			
(Increase)/Decrease in International Monetary Fund accounts		(62,876)	39,522
(Increase)/Decrease in International Monetary Fund Obligations		-	-
(Increase)/Decrease in Other foreign Liabilities		(729)	-
Total foreign Liabilities		(63,605)	39,522
Domestic Liabilities			
Increase/(Decrease) in Currency in circulation		143,327	139,200
Increase/(Decrease) in UCBL Net Sales Proceeds		-	-
Increase/(Decrease) in Commercial bank deposits		156,695	(3,133)
Increase/(Decrease) in International Bank for Reconstruction and Development		-	-
Increase/(Decrease) in Government Deposits		831,028	215,510
Increase/(Decrease) in Employee Retirement Benefit Obligations		1,543	(185)
Increase/(Decrease) in Other Liabilities		346,537	184,744
Total domestic liabilities		1,479,130	536,136
TOTAL LIABILITIES		1,415,525	575,658
Net Cashflows from Operating Activities		1,201,355	287,372
Investing Activities			
Proceeds from Sale of Fixed assets		234	352
Acquisition of Fixed Assets		(10,723)	(12,552)
Net Cash outflow from Investing Activities		(10,489)	(12,200)
(Increase)/Decrease in Cash and cash Equivalents		1,190,866	275,172
Add: Cash and cash Equivalents at the beginning of the Year		2,238,664	1,963,492
Cash and cash Equivalents at the End of the Year		3,429,530	2,238,664

27 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

27.1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

27.1.1 Basis of accounting

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and in accordance with section 16 of the Bank of Uganda Act. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property and equipment and the carrying value of financial assets at fair value and impaired assets at their recoverable amounts.

The preparation of the financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies, reported values of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experiences, the results of which form the basis of making judgments about the carrying values and liabilities that are not readily apparent from other sources. Actual results ultimately may differ from those estimates.

Management identifies all significant accounting policies and those that involve high judgment as documented in note 1.1.

27.1.2 Revenue recognition

Income is recognized in the period in which it is earned. Interest income and expense are recognized in the income and expenditure account respectively for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned from fixed income investments, trading securities and accrued discount and premium on treasury bills and other discounted securities.

27.2 FINANCIAL INSTRUMENTS

Financial instruments are initially recognized when the Bank becomes a party to contractual provisions of the instrument. Financial instruments are initially measured at cost, which includes transaction costs. The five different types of financial instruments held by the Bank are:

27.2.1 Financial instruments held to maturity

Financial Instruments with fixed or determinable payments and fixed maturity where the Bank has a positive intent and ability to hold to maturity other than loans and receivables which are measured at amortized cost.

27.2.2 Financial Assets at Fair Value through Profit and Loss

Financial Instruments which are classified as held for trading are held principally for purposes of generating a profit from short-term fluctuations in price or dealers margin, and are measured at fair value. Gains and losses resulting from changes in fair values are recognised in the Income and expenditure statement.

27.2.3 Available-For-Sale Financial Instruments

These are equity Financial Instruments which are not loans and receivables originated by the Bank; or those held to maturity; or financial assets held for trading, and are measured at their fair value or at cost less provision for impairment losses where fair value is not easily determinable. Gains are transferred directly to an investment revaluation reserve. Losses that offset previous increases are charged to the revaluation reserve and any excess thereafter is charged to the Income and expenditure statement.

27.2.4 Loans and Receivables

Loans and receivables are advances made by the Bank, including staff loans and advances. Loans and receivables are initially measured at the fair value and subsequently at amortized cost. Amortized cost represents the amounts at which the financial instruments were measured at initial recognition minus principal repayments plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount and minus any write down for impairment or uncollectabillity. Loans and advances offered at concessionary rates of interest (below the market rates) are accordingly adjusted to the market rates using appropriate discount rates. The difference between the market adjusted value and transaction value is charged to the income and expenditure statement.

The Bank provides loan facilities to staff to help them acquire or improve property and purchase motor vehicles. Staff are also eligible to obtain advances for various purposes. Building and property improvement loans given to staff out of the sinking fund are initially recognised at fair value and subsequently measured at amortised cost. The fair value gain or loss on initial recognition accrues to the fund. This fund is reflected as an earmarked fund but the loans are included as receivables of the Bank.

27.2.5 Impairment

At each balance sheet date, the Bank's assets are reviewed to determine whether there is any objective evidence of impairment. Where such evidence exists, the impairment loss is measured and recorded in the Income and expenditure statement as the difference between the carrying value of the asset and the estimated recoverable amount which is measured as the present value of estimated future cash flows.

27.2.6 Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Freehold land and buildings are subsequently shown at their market values, based on valuations by external independent valuers. Increases in the carrying amounts arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against revaluation reserve while all other decreases are charged to the Income and expenditure statement. Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating surplus. All assets are carried at cost less accumulated depreciation and impairment losses.

Freehold land is not depreciated. Depreciation on other assets is calculated on a straight-line basis to write off their cost or revalued amount of such assets to their residual values over the estimated useful lives. Leasehold land is amortised in equal instalments over the period of respective leases. Buildings on leasehold land are depreciated on a straight line basis over the shorter of 50 years or the lease period. Management and directors review the residual value and useful life of an asset at the year end and any change in accounting estimate is recorded through the income statement. Other assets are depreciated over the term of their estimated useful lives at the following principal annual rates:

Buildings on freehold land	**2%**
Computers, vehicles and plant and machinery	**25%**
Bullion Vans	**10%**
Furniture and equipment	**20%**
Notes processing machines	**10%**

Assets in the course of construction (capital work in progress) are not depreciated. Upon completion of a project, the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the policy set out above.

27.2.7 Prepaid operating lease rentals

Leasehold land is classified as prepaid operating lease rentals because the lessor retains substantially all the risks and rewards incidental to the ownership of the lease. Lease premiums are amortised on a straight-line basis over the remaining period of the lease.

27.2.8 Consumable stores stocks

Consumable stores stocks are valued at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Provisions are made for all obsolete stock.

27.2.9 Currency printing costs

Currency note printing and coin minting costs incurred are deferred and only charged to the income and expenditure statement in the year the currency is issued. The deferred amount is recognised in the balance sheet as a prepayment and represents un-issued currency stocks.

27.2.10 Demonetisation of currency

Demonetisation is the process of revoking the legality of a currency. The Bank may demonetise any of its Bank notes and coins on payment of the face value under section 24 (3) of the Bank of Uganda Act provided that a notice of not less than fifteen days is given in the official gazette. The value of demonetised currency notes and coins that is not returned to the Central Bank is recognised as income in the income statement and the liability to the public is extinguished.

27.2.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and reliably measurable.

27.2.12 Cash and cash equivalents

Cash comprises of foreign currency held in Banking Office and demand deposits held with foreign Banks. Cash equivalents comprise of short term highly liquid investments and term deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk in changes in value. The short- term highly liquid investments include balances with maturities of three months or less from the date of acquisition.

27.2.13 Repurchase and sale agreement

A securities repurchase agreement (Repos) is an arrangement involving the sale, for cash, of securities at a specified price with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date or at maturity. The Repos continue to be recognised in the balance sheet and are measured in accordance with the policies for non-trading investments. The liability for amounts received under these agreements is included in amounts due to Banks and other financial institutions. The difference between sales and repurchase price is treated as interest expenditure and is recognised in the Income and expenditure statement using the effective yield method.

27.2.14 Foreign currency translation

Financial Assets and liabilities denominated in foreign currencies are translated into Uganda shillings at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies are translated into Uganda shillings at the exchange rate ruling at the date of each transaction. The resulting differences from conversion and translation are dealt with through the income and expenditure statement in the year in which they arise. The Bank's functional and reporting currency is Uganda Shillings.

27.2.15 Employee benefits

Wages, salaries, employer's National Social Security Fund (NSSF) contributions and gratuity are accrued in the year in which the associated services are rendered by employees and recognised in the income and expenditure statement. Short term compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. The expected costs of the accumulating compensated absences is calculated in accordance with the Bank's leave commutation formula to determine the additional amount the Bank would have to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

27.2.16 Bank of Uganda retirement benefits scheme

The Bank of Uganda Retirement Benefit Scheme which was established under an irrevocable trust in 1995 is governed by the Board's appointed trustees. The scheme is a Defined Benefit Scheme where the employee contributes 2 percent of the total pensionable pay and the Bank (employer) contributes the balance required to reach the level recommended by the Actuaries. Currently the Bank contributes 25.8 percent of the employees' total pensionable pay.

The scheme provides pension benefits to eligible members based on the number of years of service and final pensionable pay. The scheme's assets are held in a separate fund administered by trustees and contributions are charged to the Income and expenditure statement so as to spread the cost of pensions over employees' working lives in the Bank.

The Bank's net obligation in respect to the plan is calculated by estimating the amount of future benefits that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and fair value of the plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a benefit to the Bank, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future refunds from the plan or reduction in future contribution to the plan. Actuarial gains and losses are charged to the income and expenditure statement over the remaining lives of employees participating in the scheme.

27.2.17 OFFSETTING

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts.

27.2.18 TAXATION

According to the Finance Act 2003, the Bank is exempt from payment of income tax in respect of its functions as defined by the Statute.

27.2.19 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular comparatives have been restated to take account of the effect of changes in accounting policy on unrealized exchange differences.

27.2.20 RECENTLY ISSUED ACCOUNTING STANDARDS/ NEW ACCOUNTING PRONOUNCEMENTS

The bank is monitoring recently issued accounting pronouncements and will adopt them as necessary. IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. Management intends to adopt IFRS 7 for the preparation of financial statements for the period beginning 1 July, 2007.

27.3 INTEREST INCOME

	2007	2006
	U Shs (m)	U Shs (m)
Interest on foreign investments	100,585	79,520
Investment income from fund managers	16,384	14,804
Interest on short term money market deposits	758	555
Interest on demand loans & staff advances	809	970
	118,536	95,849

27.4 INTEREST EXPENSES

Interest paid to IMF relates to charges on SDR allocations to Uganda which are regularly advised by the IMF.

	2007	2006
	U Shs (m)	U Shs (m)
Interest Paid to IMF (SDR allocation charges)	3,220	3,490
	3,220	3,490

27.5 COMMISSIONS, DISCOUNTS AND OTHER INCOME

	2007	2006
	U Shs (m)	U Shs (m)
Income from foreign exchange trading	17,624	8,730
Commissions & discounts - domestic	1,275	294
Disposal of vehicles	116	224
Disposal of computers and furniture	17	83
Disposal of bank houses	101	10
Licence and cheque fees	472	172
Sale of receipt books	233	200
Sale of currency	8	33
Rental income	140	535
Bou courier	63	58
Real time gross & national interbank settlement systems	397	234
Fines, penalties & hire of bullion vans	521	(3)
Writeback of provision on government accounts	-	1,669
Demonetised currency	-	711
Witholding tax arrears recovered	-	205
Recoveries of liquidation expenses - closed banks	-	780
Movement in retirement benefit obligation	-	185
Writeback of amounts previously written off	1,330	-
Refund of taxes from URA	77	-
Refund of swift fees	57	-
Other income	1,307	595
	23,738	14,715

27.6 COMMISSIONS & OTHER EXPENSES

	2007	2006
	U Shs (m)	U Shs (m)
Reserve management fees and other charges	1,786	1,479
	1,786	1,479

27.7 FOREIGN EXCHANGE REVALUATION GAIN/(LOSS)

	2007	2006
	U Shs (m)	U Shs (m)
Unrealised foreign exchange (loss)/gain	(268,081)	114,938
Unrealised gain on revaluation of investments	1,292	5,297
	(266,789)	120,235

27.8 GENERAL & ADMINISTRATION COSTS

	2007	2006
	U Shs (m)	U Shs (m)
Staff cost (note 8)	66,217	42,526
Audit fees	83	83
Other professional fees	83	18
Note printing (incl chq. printing) and minting	16,168	13,832
Communication expenses	2,111	1,764
Water and electicity	1,145	883
Ground rates,rent & buildings insurance	206	55
Repairs & maint.- premises, furniture & equip.	2,165	2,324
Motor vehicle expenses	1,696	1,878
Amortization of prepaid operating lease rentals	198	318
Travel costs	2,080	1,908
Corporate contributions	2,861	2,431
Publicity & public awareness costs	2,223	1,552
Directors' fees and emoluments	127	228
Printing & stationery	1,232	1,180
Inspection costs	434	450
Furniture & equip repairs, software support & PAI upgrade	1,351	991
Office expenses-uniforms	151	140
Provision for tax	500	-
Provision for legal expenses	303	-
Other provisions and write offs	279	141
	101,613	72,702

27.9 STAFF COST

	2007	2006
	U Shs (m)	U Shs (m)
Salaries, wages & allowances	30,571	28,487
NSSF- contributions and provisions	18,967	703
Staff Pension Fund Contribution	5,278	4,859
Movement in Retirement benefits scheme	1,543	-
Gratuity	797	1,220
Death in service insurance	638	482
Staff welfare including medical costs	3,414	2,701
Training	5,009	4,074
	66,217	42,526

The average number of persons employed during the year was 941 (2006: 955)

27.10PROVISION FOR IMPAIRMENT LOSSES

	2007	2006
	U Shs (m)	U Shs (m)
Receivables from Government	18,157	1,325
Other receivables from Government	-	3,904
Fixed assets	760	387
Financial markets write off	-	1,222
Obsolete stock	41	30
Interest receivable	318	-
	19,276	6,868

27.11 FINANCIAL AND PROFESSIONAL CHARGES

	2007	2006
	U Shs (m)	U Shs (m)
Consultancy costs	517	436
Litigation fees & legal damages	122	174
Staff loans fair valuation	794	1,032
Real time gross settlement - RTGS/UNIS	-	21
Valuer's fees	6	7
Retainer fees	-	3
Liquidation expenses	-	2
Other	25	37
	1,464	1,712

27.12 NET (DEFICIT)/SURPLUS FOR THE YEAR

The (deficit)/surplus for the year have been stated after charging:

	2007	2006
	U Shs (m)	U Shs (m)
Audit fees	83	83
Directors fees	44	87
Directors emoluments	83	141
Depreciation	9,840	13,930
Amortization of prepaid operating lease rentals	198	318

27.13 CASH & CASH EQUIVALENTS

	2007	2006
	U Shs (m)	U Shs (m)
Foreign currency held in banking	1,096	440
Cash held in external financial institutions	512,479	110,047
Special Drawing Rights holdings	94	897
Term deposits with external institutions	1,493,493	1,148,640
Treasury bills investments	1,154,950	837,233
Repurchase agreements	220,504	79,936
Foreign cash collateral	22,864	33,587
World bank one year deposit	24,050	27,884
	3,429,530	2,238,664

Foreign cash collateral is in respect of irrevocable commitments under import letters of credit or facilities granted to the Bank and Uganda Government. Special Drawing Rights (SDR) holdings are holdings of IMF units of currency. The World Bank one year deposit is recallable at a short notice and has been included as a cash equivalent.

27.14 INVESTMENTS HELD FOR TRADING

Investments held for trading represents foreign denominated assets managed by appointed fund managers, Strategic Fixed Income, and a caretaker fund manager, respectively.

The externally managed fund portfolio of Financial Instruments is classified as "Held for Trading" and is stated at market value.

The Bank's externally managed portfolio of investments is denominated in US dollars as the base currency. These investments are held for trading. Any part of this portfolio invested in a currency other than the US dollar (global funds) is hedged back to the base currency using economic hedging

	2007	2006
	U Shs (m)	U Shs (m)
Externally managed funds - Strategic Fixed Income	356,703	395,669
	356,703	395,669

27.15 AVAILABLE FOR SALE INVESTMENTS

	2007	2006
	U Shs (m)	U Shs (m)
At 1 July 2006 and 2005	744	696
Currency translation	(103)	48
At 30 June	641	744

The investment in African Export Import (Afrexim) Bank is in respect of 100 Class A equity shares at a par value of US $ 400,000. While the investment is classified as available for sale, its fair value is not reliably determinable due to the lack of quoted market prices or other information based on which a fair value estimate can be derived. Accordingly, the investment is stated at cost, adjusted for currency revaluation and there has been no indication of any impairment in line with the accounting policy on impairment in Note 1 (iv). The performance trends in Afrexim's financial statements reflect a profitability position and dividends being declared hence in the opinion of management there is no indication of impairment.

27.16 INTERNATIONAL MONETARY FUND OBLIGATIONS

The International Monetary Fund Quota refers to the Uganda Government total membership capital subscription to the International Monetary Fund. The Quota is stated at its historic cost and reported in Uganda Shillings at the year-end exchange rates. Translation gains/losses are transferred directly to the Income and Expenditure statement.

The liabilities relate to loans obtained from International Monetary Fund by Government and managed on behalf of Government by the Bank.

	2007	2006
	U Shs (m)	U Shs (m)
Assets		
IMFQuota (SDR180.5million)	438,257	492,326
	438,257	492,326
Liabilities		
IMF Quota	438,270	492,340
Special Drawing Rights Allocation	71,374	80,180
	509,644	572,520

27.17 LOANS AND ADVANCES TO COMMERCIAL BANKS AND OTHER INSTITUTIOSNS

	2007		2006
	U Shs (m)		U Shs (m)
Overdrawn current accounts - closed banks	26,126		26,126
Short term loans to commercial banks	-		25,000
Long term loans to commercial banks	135		438
Development Finance Loans to commercial banks	166,962		146,515
Cross currency Swap	1,607		-
Uganda Institute of Bankers	20		20
Loans to Parastatals	2,325		2,781
	197,175	-	200,880
Less: provisions for impairment losses	(50,981)		(50,916)
	146,194		149,964
Provisions for impairment losses			
As at 1 July 2006 and 2005	(50,916)		(48,858)
Additional provision during the year	(65)		(6,198)
Write-offs	-		4,140
At 30 June	(50,981)		(50,916)

27.17.1 LONG TERM LOANS TO COMMERCIAL BANKS

Loans to commercial banks represent both short term and restructuring loans that were extended to some commercial banks which was done within the provisions of the Bank of Uganda Act (Cap. 51), Laws of Uganda 2000.

The long term loans to commercial Banks are measured at amortised cost.

27.17.2 OVERDRAWN CURRENT ACCOUNTS – CLOSED BANKS

The amount of Shs. 26,126 million represents a claim against the proceeds of closed Banks whose accounts were overdrawn at the time of their closure.

27.17.3 DEVELOPMENT FINANCE LOANS TO COMMERCIAL BANKS

The Bank manages various lines of credit on behalf of Government and other donors and international institutions. Provisions represent loans made through closed Banks and development institutions.

27.18 STAFF LOANS AND ADVANCES

	2007	2006
	U Shs (m)	U Shs (m)
Staff loans, advances and imprest to staff	6,328	7,175
Staff building loans	8,300	7,968
Sundry advances	169	4,214
Staff loans and advances at cost	14,797	19,357
Fair value loss on initial recognition	(1,603)	(3,410)
	13,194	15,947
Provision for impairment losses (see below)	(1,263)	(1,139)
	11,931	14,808
Provision for impairment losses:		
At 1 July 2006 and 2005	(1,139)	(1,096)
Additions during the year	(399)	(43)
Recoveries	275	-
At 30 June	(1,263)	(1,139)

27.19 PROPERTY, PLANT & EQUIPMENT

	Freehold Land	Buildings	Plant & Machinery	Furniture & Equipment	Computer Equipment	Motor Vehicles	Capital Work-In-Progress	Totals
	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)	U Shs (m)
Cost or Valuation								
As at 1 July 2005 restated	321	52,588	36,171	8,353	13,910	10,402	7,503	129,248
Additions	-	927	3,023	375	1,695	1,269	4,880	12,169
Reclassifications	1,879	-	-	-	747	-	(747)	1,879
Disposals	-	-	-	-	-	(722)	-	(722)
Impaired assets written down	-	-	-	-	-	-	(342)	(342)
As at 1 July 2006	2,200	53,515	39,194	8,728	16,352	10,949	11,294	142,232
Additions	-	1,669	1,842	389	3,242	809	2,772	10,723
Reclassifications	-	-	9,156	(1,342)	2,068	-	(9,882)	-
Disposals	-	-	-	-	-	(470)	-	(470)
Impaired assets written down	-	-	(179)	(3,261)	(2,271)	(224)	(372)	(6,307)
As at 30 June 2007	2,200	55,184	50,013	4,514	19,391	11,064	3,812	146,178
Depreciation								
As at 1 July 2005 restated	-	2,976	25,141	6,938	10,215	5,587	-	50,857
Charge for the year	-	1,589	7,297	826	2,073	2,145	-	13,930
Disposals	-	-	-	-	-	(689)	-	(689)
As at 1 July 2006	-	4,565	32,438	7,764	12,288	7,043	-	64,098
Charge for the year	-	1,997	3,751	617	2,299	1,176	-	9,840
Reclassifications	-	-	1,218	(1,218)	-	-	-	-
Disposals	-	-	-	-	-	(470)	-	(470)
Impaired assets written down	-	-	(139)	(3,195)	(2,047)	(167)	-	(5,548)
As at 30th June 2007	-	6,562	37,268	3,968	12,540	7,582	-	67,920
Net Book Value								
As at 30th June 2007	2,200	48,622	12,745	546	6,851	3,482	3,812	78,258
As at 30th June 2006	2,200	48,950	6,756	964	4,064	3,906	11,294	78,134

Land and buildings were not revalued during the year. The last valuation was conducted as at 30 April 2004 by independent professional valuers, Bageine & Company on an open market with existing use basis the resulting revaluation surplus was credited to a revaluation reserve.

Capital work-in-progress represents continuing works on the Mbale Currency Centre. Items disposed of were in respect of vehicles and furniture, which had a nil book value. All gains on disposal are credited directly to the income and expenditure account.

27.20 PREPAID OPERATING LEASE RENTALS

	2007	2006
	U Shs (m)	U Shs (m)
Cost		
At 1 July 2006 and 2005	7,265	8,848
Additions	-	338
Re-classification to land & buildings	-	(1,879)
Disposals	(39)	(42)
Write-down of impaired assets	(1)	-
At 30 June	7,225	7,265
Amortisation		
At 1 July 2006 and 2005	770	494
Amortisation for the year	198	318
Disposals	(39)	(42)
At 30 June	929	770
Net book value at 30 June	6,296	6,495

The reclassification to land and buildings relates to cost of freehold land previously reported under prepaid operating lease rentals.

27.21 ADVANCES TO GOVERNMENT

	2007	2006
	U Shs (m)	U Shs (m)
Government ministries	176,551	198,266
Government project accounts	8,557	3,761
Uganda consolidated fund	1,275,329	1,140,509
Deferred government expenditure	21,091	19,405
Provision for impairment losses	(19,509)	(1,352)
	1,462,019	1,360,589
Provision for impairment losses:		
At 1 July 2006 and 2005	(1,352)	(12,173)
Additional provisions	(18,157)	(1,516)
Write-off during the year	-	12,337
At 30 June	(19,509)	(1,352)

During the year, a provision of Shs 18,156 million relating to long outstanding receivables from MOFPED was made. This amount will be written back in the books as and when MOFPED pays back.

27.22 OTHER FOREIGN LIABILITIES

	2007 U Shs (m)	2006 U Shs (m)
Bank of Foreign Trade USSR	-	728
Multi-lateral Investment Guarantee Agency	38	38
International Development Agency subscription	56	56
	94	822

27.23 CURRENCY IN CIRCULATION

Cash held in Banking relates to cashiers' cash on hand as at 30 June 2007 and 30 June 2006.

	2007 U Shs (m)	2006 U Shs (m)
Notes	911,570	796,734
Coins	71,982	42,920
Cash held in banking	(2,446)	(1,824)
De-monetised currency	-	(100)
Office imprest	(76)	(27)
	981,030	837,703

27.24 UCBL SALES PROCEEDS

	2007 U Shs (m)	2006 U Shs (m)
UCBL net sale proceeds due to government	26,818	26,818
Provision for excluded liabilities	(1,412)	(1,412)
	25,406	25,406

The Bank completed the resolution of Uganda Commercial Bank Ltd (UCBL) on 21 February 2003 with the sale of the majority shares (80 percent) to Standard Bank Investment Corporation (Stanbic) through its subsidiary Stanbic (U) Ltd. Under the sale agreement, the Bank, on behalf of the shareholders, undertook to fulfill certain warranties, such as the payment of retrenchment costs for up to five hundred staff. The net proceeds of the sale of the UCBL would be paid to the shareholders on the expiry of all warranty conditions. The provision for the unpaid liabilities of Shs. 1,412 million is the net of excluded assets and excluded liabilities.

27.25 COMMERCIAL BANKS DEPOSITS

	2007	2006
	U Shs (m)	U Shs (m)
Current accounts	265,553	212,509
Physical cash recovered from closed commercial banks	14,407	14,407
Collection from closed banks loans	50,639	51,240
Due to commercial banks	1,652	-
Repos collection account	117,600	15,000
	449,851	293,156

27.26 GOVERNMENT DEPOSITS

	2007	2006
	U Shs (m)	U Shs (m)
Government income accounts	108	245
Government deposit forex accounts	3,471	2,433
Government deposit fo letters of credits accounts	31,157	16,300
Government ministries	723,506	298,366
Government projects	282,695	235,073
Special diversiture revolving fund	18	18
Government of Uganda managed funds through DFD	167,896	194,287
International Monetary Fund accounts	15,805	16,365
Government capital accounts	2,185,344	1,815,885
	3,410,000	2,578,972

Included in the Government Capital Accounts are Treasury bills and Treasury Bonds held at the Bank. The securities are re-discountable at the Bank at a rediscount rate well over the secondary market rate. The book value is therefore greater than the carrying amount.

27.27 RECOGNISED RETIREMENT BENEFITS OBLIGATION

The Bank employees are eligible to retirement benefits under a defined benefit plan provided through a separate fund arrangement. The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognised actuarial gains/losses. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method every 3 years. The last actuarial review and valuation was carried out by Callund Consulting Limited as at 30 June 2006.

The Actuarial certification includes two pension arrangements; the Bank of Uganda Retirement Benefits Scheme (RBS) and the Bank of Uganda Special Provident Fund (SPF) for financing pensions, under court order, in respect of a defined group of 73 VTS (Voluntary Termination of Service) ex-employees, who left service as at 31 December 1994. The certification also includes post-retirement healthcare provisions for which pensioners of the RBS and SPF are eligible. For accounting purposes a consolidated actuarial certification was given.

The amounts recognised in the balance sheet are as follows:

The amounts recognised in the income statement are as follows:

	2007	2006
	U Shs (m)	U Shs (m)
Current Service cost	2,257	1,624
Interest cost	4,523	3,636
Expected return on Plan assets	(3,201)	(2,997)
Net actuarial (Gains) Losses Recognised in the Year	3,360	2,494
Total included in staff Costs	6,939	4,757
Employer Contribution	(5,396)	(4,942)
P & L Charge	1,543	(185)

	2007	2006
	U Shs (m)	U Shs (m)
Present value of defined Benefit Obligations	69,948	64,135
Fair Value of Plan assets	(50,937)	(43,523)
Present value of Unfunded Benefits Obligation	19,011	20,612
Unrecognised Actuarial Gain/ (Loss)	(16,185)	(16,835)
Unrecognised Transitional Loss	-	(2,494)
	2,826	1,283

The principle actuarial assumptions in real terms are as follows:

	2007	2006
	%	%
Discount Rate	2.00	3.00
Expected Return on Plan Assets	2.00	3.00
Future Salary Increase	1.00	1.25
Future Pension Increase (ie, in line with price inflation)	-	-

27.28OTHER LIABILITIES

	2007	2006
	U Shs (m)	U Shs (m)
Deposits from other institutions	2	4,739
Retirement benefits scheme	6,559	12,051
Deposit Protection Fund	2,886	193
Accounts payable	11,157	11,189
Other creditors	436,661	25,330
International Monetary Fund debt relief	141,378	198,607
Provision for UCBL excluded liabilities	1,359	1,411
Provision for NSSF	18,307	-
	618,309	253,520

Included in Other creditors are Foreign Exchange Reserve Management System transactions pending settlement and relating to investments, which had not been delivered as at 30 June 2007.

The Bank manages and controls the Deposit Protection Fund (DPF) in accordance with section 108-111 of the Financial Institutions Act 2004 (FIA). The DPF is a self-accounting fund and is audited separately by an independent firm of Auditors. The balance on the account represents an amount due from the Bank to the DPF.

During the financial year 2005/06, Government benefited from IMF debt relief of SDR87.7million (Shs.231billion) under the Multilateral Debt Relief Initiative (MDRI), the relief is being gradually released to the Uganda Consolidated Fund (UCF) account according to the earlier agreed amortization schedule between government and IMF. The relief is not reflected within government deposits as per agreed monetary programmes between Government of Uganda and IMF.

27.29SHARE CAPITAL

	2007	2006
	U Shs (m)	U Shs (m)
Authorised		
30,000,000,000 Ordinary shares of Ushs 1.00 Each	30,000	30,000
Issued And Fully Paid		
20,000,000,000 Ordinary shares of Ushs 1.00 Each	20,000	20,000

27.30EARMARKED FUNDS

	2007	2006
	U Shs (m)	U Shs (m)
At 1 July 2006 and 2005	26,928	26,803
Repayment/(borrowing) - EFF capital movement	(12,306)	-
Income net of expenses	223	125
	14,845	26,928
Provision on EFF loans	(5,758)	(5,758)
At 30 June	9,087	21,170
Accummmulated staff building loan fund - see (ii)	8,062	7,493
	17,149	28,663

27.30.1 EARMARKED DEVELOPMENT FUNDS

Ear marked funds represent amounts set aside from reserves by the Bank for purposes of financing development projects through accredited financial institutions.

27.30.2 EARMARKED BUILDING LOAN FUND

The Bank set up a staff building revolving fund for the purpose of providing building loans to staff in order to facilitate ownership of homes. This fund although reflected as an earmarked fund, but the loans are included as receivables of the Bank. The Bank set up a revolving fund out of its reserves. The interest on loans accrues to the staff building loan fund and all loan losses and provisions are borne by the fund. The fund is managed internally. The loans are discounted at adjusted market interest rates to account for the concessionary element. The abridged balance sheet of the fund is as given below.

	2007	2006
	U Shs (m)	U Shs (m)
Assets		
Loans to staff at cost	8,300	7,968
Fair value on initial recognition	(2,447)	(2,378)
Loans to staff at fair value/cost	5,853	5,590
Cash with Bank of Uganda	2,209	1,903
	8,062	7,493
Represented by:		
Capital fund	7,493	8,138
Interest income	569	(645)
	8,062	7,493

27.31 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations.

27.31.1 LEGAL PROCEEDINGS

The Bank is a litigant in various cases for breach of contract arising in the normal course of business amounting to Ushs 7.9 billion (2006: Ushs 863 million). The directors are of the view that the bank has a high chance of success against the plaintiffs and none of the cases individually or in aggregate would have a significant impact on the banks operations.

27.31.2 CAPITAL COMMITMENTS

As at 30 June 2007, the Bank's capital commitments in respect of plant and equipment, office machine and equipment and building works amounted to Shs. 7,194 million compared to 3,990 million in 2006. The Bank's management is confident that the net revenues and funding will be sufficient to cover this commitment.

27.32 MATURITY ANALYSIS (LIQUIDITY RISK)

Liquidity Risk is the risk that an entity may not be able to accommodate decreases in liabilities or to fund increases in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, the risk is not relevant to local assets and liabilities because the Bank of Uganda is a central bank. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.(see Table 21)

TABLE 21: LIQUIDITY PROFILE

	Total	0-3 months	4-6 months	7-9 months	Above 9 months
Foreign Assets	Ushs (m)				
Cash and Cash equivalents	3,429,530	3,429,530	-	-	-
Investments Held for trading	356,703	356,703	-	-	-
Available for Sale Investments	641	641	-	-	-
International Monetary Fund	438,257	-	-	-	438,257
	4,225,131	3,786,874	-	-	438,257
Domestic Assets					
Loans and advances to Commercial Banks	146,194	-	-	-	146,194
Domestic Investments	200,000	-	-	-	200,000
Other assets	38,856	38,856	-	-	-
Staff Loans and Advances	11,931	-	-	-	11,931
Property, Plant and Equipment	78,258	-	-	-	78,258
Prepaid Operating Lease Rentals	6,296	-	-	-	6,296
Advances to Government	1,462,019	1,462,019	-	-	-
	1,943,554	1,500,875	-	-	442,679
Total Assets	6,168,685	5,287,749	-	-	880,936
Liabilities					
Foreign liabilities		-	-	-	-
International Monetary Fund Obligations	509,644	-	-	-	509,644
Other foreign liabilities	94	94	-	-	-
	509,738	94	-	-	509,644
Domestic Liabilities		-	-	-	-
Currency in Circulation	981,030	981,030	-	-	-
UCBL Net Sales Proceeds	25,406	25,406	-	-	-
Deposits from Banks & Financial Institutions	449,851	449,851	-	-	-
International Bank for Reconstruction & Development	2,249	2,249	-	-	-
Government Deposits	3,410,000	3,410,000	-	-	-
Employee Retirement Benefit Obligations	2,826	-	-	-	2,826
Other Liabilities	618,309	618,309	-	-	-
	5,489,671	5,486,845	-	-	2,826
Equity					
Share Capital	20,000	-	-	-	20,000
Reserves	132,127	-	-	-	132,127
Earmarked funds	17,149	-	-	-	17,149
Total Equity	169,276	-	-	-	169,276
Total liabilities & Equity	6,168,685	5,486,939	-	-	681,746
Net Liquidity gap	-	(199,190)	-	-	199,190

27.33 MATURITY ANALYSIS (INTEREST RATE RISK)

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with specific financial assets and financial liabilities, whose interest rates are periodically reset to market, as well as the fair value of other instruments on which the interest rates are fixed throughout the period of the contract. The rates of interest are set at or about current market levels. The Bank's international foreign reserves management includes investments in a variety of foreign currency denominated cash, deposits and other securities.

The table below summarizes the Bank's exposure to interest rates risk. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual repricing or maturity dates.

TABLE 22: INTEREST RATES PROFILE

	TOTAL	0-2 months	4-6 months	7-9 months	> 9 months	Non Interest Bearing
	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)
Foreign Assets						
Cash and Cash equivalents	3,429,530	3,429,530	-	-	-	-
Investments Held for trading	356,703	356,703	-	-	-	-
Available for Sale Investments	641	641	-	-	-	-
International Monetary Fund	438,257	-	-	-	438,257	-
	4,225,131	3,786,874	-	-	438,257	-
Domestic Assets						
Domestic Investments	200,000	-	-	-	-	200,000
Advances to Government	1,462,019	-	-	-	-	1,462,019
Loans and advances to Commercial Banks	146,194	146,059	135	-	-	-
Staff Loans and advances	11,931	-	-	-	11,931	-
Property, Plant and Equipment	78,258	-	-	-	-	78,258
Prepaid Operating Lease Rentals	6,296	-	-	-	-	6,296
Other assets	38,856	-	-	-	-	38,856
	1,943,554	146,059	135	-	11,931	1,785,429
Total Assets	6,168,685	3,932,933	135	-	450,188	1,785,429
Liabilities						
Foreign liabilities						
International Monetary Fund Obligations	509,644	-	-	-	-	509,644
Other foreign liabilities	94	94	-	-	-	-
	509,738	94	-	-	-	509,644
Domestic Liabilities		-	-	-	-	-
Currency in Circulation	981,030	-	-	-	-	981,030
UCBL Sales Net Proceeds	25,406	-	-	-	-	25,406
Deposits from Banks & Financial Institutions	449,851	-	-	-	-	449,851
International Bank for Reconstruction & Development	2,249	2,249	-	-	-	-
Government Deposits	3,410,000	3,410,000	-	-	-	-
Employee Retirement Benefit Obligations	2,826	-	-	-	2,826	-
Other Liabilities	618,309	-	-	-	-	618,309
	5,489,671	3,412,249	-	-	2,826	2,074,596
Equity						
Share Capital	20,000	-	-	-	-	20,000
Reserves	132,127	-	-	-	-	132,127
Earmarked funds	17,149	-	-	-	17,149	-
Total Equity	169,276	-	-	-	17,149	152,127
Total liabilities & Equity	6,168,685	3,412,343	-	-	19,975	2,736,367
On Balance Sheet Interest Sensitive Gap	-	520,590	135	-	430,213	(950,938)
		-	-	-	-	-

27.34 CURRENCY RISK

The Bank has monetary Assets and liabilities denominated in foreign currencies which consists mainly of pound sterling, US Dollar, SDRs and Euro. The table below shows the distribution of the currencies.

TABLE 23: CURRENCY RISK PROFILE

	TOTAL	UGX	USD	GBP	EURO	SDR
	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)	Ushs (m)
Foreign Assets						
Cash and Cash equivalents	3,429,530	69,743	1,464,910	1,201,400	693,477	-
Investments Held for trading	356,703	-	356,703	-	-	-
Available for Sale Investments	641	-	641	-	-	-
International Monetary Fund	438,257	-	-	-	-	438,257
	4,225,131	**69,743**	**1,822,254**	**1,201,400**	**693,477**	**438,257**
Domestic Assets						
Loans and advances to Commercial Banks and Other Institutions	146,194	146,194	-	-	-	-
Domestic Investments	200,000	200,000	-	-	-	-
Other Assets	38,856	38,856	-	-	-	-
Staff Loans and Advances	11,931	11,931	-	-	-	-
Property, Plant and Equipment	78,258	78,258	-	-	-	-
Prepaid Operating Lease Rentals	6,296	6,296	-	-	-	-
Advances to Government	1,462,019	1,462,019	-	-	-	-
	1,943,554	**1,943,554**	**-**	**-**	**-**	**-**
Total Assets	**6,168,685**	**2,013,297**	**1,822,254**	**1,201,400**	**693,477**	**438,257**
Liabilities						
Foreign liabilities		-	-	-	-	-
International Monetary Fund Obligations	509,644	-	-	-	-	509,644
Other foreign liabilities	94	-	94	-	-	-
	509,738	**-**	**94**	**-**	**-**	**509,644**
Domestic Liabilities						
Currency in Circulation	981,030	981,030	-	-	-	-
UCBL Net Sales proceeds	25,406	25,406	-	-	-	-
Deposits from Banks & Financial Institutions	449,851	449,851	-	-	-	-
International Bank for Reconstruction & Development	2,249	2,249	-	-	-	-
Government Deposits	3,410,000	3,410,000	-	-	-	-
Employee Retirement Benefit Obligations	2,826	2,826	-	-	-	-
Other Liabilities	618,309	618,309	-	-	-	-
	5,489,671	**5,489,671**	**-**	**-**	**-**	**-**
Equity						
Share Capital	20,000	20,000	-	-	-	-
Reserves	132,127	132,127	-	-	-	-
Earmarked funds	17,149	17,149	-	-	-	-
Total Equity	**169,276**	**169,276**	**-**	**-**	**-**	**-**
Total liabilities & Equity	**6,168,685**	**5,658,947**	**94**	**-**	**-**	**509,644**
Net foreign Currency position	**-**	**(3,645,650)**	**1,822,160**	**1,201,400**	**693,477**	**(71,387)**

27.35 EFFECTIVE INTEREST RATES ON FINANCIAL ASSETS AND LIABILLITIES

The effective interest rates of the principal financial assets and liabilities as at 30 June 2007 and 30 June 2006 were in the following ranges.

27.36 RELATED PARTY TRANSACTIONS

In course of its operations, the Bank enters into transactions with related parties which include the Government of Uganda, the ultimate share holder of the Bank ant the Deposit Protection Fund.

27.37 LOANS TO DIRECTORS

			2007	2006
			U Shs (m)	U Shs (m)
	Senior Management	Board	Total	
At start of the year	390	13	403	287
Advanced during the year	135	-	135	428
Repayments	(166)	(13)	(179)	(312)
At 30 June	359	-	359	403

The Bank extends loan facilities to Staff, Executive Directors, who are members of senior management of the Bank, and also to the Governor and Deputy Governor, who are members of the Board. In accordance with Bank policy, the advances are given at preferred rates determined by the Bank.

27.38 DIRECTORS EMOLUMENTS

	2007	2006
	U Shs (m)	U Shs (m)
Fees	127	228
Remuneration:		
Board	523	458
Senior Management	854	766
	1,504	1,452

27.39 GOVERNMENT OF UGANDA

	2007	2006
	%	%
Assets		
Government Securities	7.00	3.70
Deposits		
USD	4.50	3.70
GBP	5.50	4.50
Euro	4.01	2.80

Transactions entered into with the Government include;

- **Banking Services**
- **Management of issue and redemption of securities at a commission**
- **Foreign currency denominated debt settlement**

		2007	2006
	Note	U Shs (m)	U Shs (m)
Due from government of Uganda	22	1,462,019	1,360,589
IMF funds	15	438,258	492,326
Government of Uganda deposits	27	1,224,672	763,087
Government treasury bills and bonds	27	2,185,344	1,815,885
Deposit Protection Fund		47,435	35,967
Retiremenet Benefits Scheme		50,519	41,708

The Bank manages the Deposit Protection Fund (DPF) in accordance with Sections 108 and 109 of the Finance Institutions Act 2004 and investments are made by a Fund Manager. Cash at hand as at 30 June 2007 amounted to Shs. 2,886 million.

In addition, the Bank manages the Insurance Companies Fund which amounted to Shs. 4,435 million. The Bank also manages an in-house Retirement Benefits Scheme of which cash at hand was Shs. 9,005 million.

27.40USE OF ESTIMATES AND JUDGEMENTS

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The bank regularly reviews its assets and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

27.41 CURRENCY

The financial statements are presented in millions of Uganda shillings.

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