

# MONTHLY ECONOMIC AND FINANCIAL INDICATORS



MAY 2007

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## INTRODUCTION

The indicators presented in this report summarise the major developments in the monetary and financial conditions for Uganda during the month of May 2007. Both the annual headline and underlying inflation rates declined relative to the outturn reported in April 2007. The exchange rate remained relatively stable and all measures of money supply registered modest nominal growth. Commercial banks'

stock of credit to the private sector increased between March 2007 and April 2007. The volume and value of coffee exports rose in May 2007 relative to April 2007 and May 2006. However, the value of merchandise exports in April 2007 was lower than the performance registered in March 2007 but higher when compared to April 2006.

## I INFLATION

The annual headline inflation rate dropped to 4.2 percent in the year ended May 2007 from the 6.0 percent reported for the year ended April 2007, mainly attributed to lower prices of staple foods, fruits and vegetables and sugar during the year ended May 2007 compared to the levels recorded for the items a year ago. The monthly headline inflation rate declined to minus 0.2 percent in May 2007 compared to the rate of 2.6 percent reported in the month of April 2007 caused by decreases in prices of staple foods especially matooke and sweet potatoes, maize flour and paraffin.

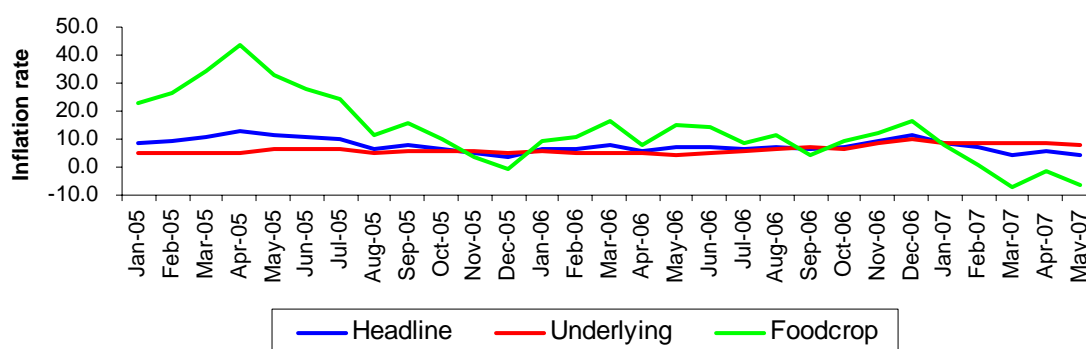
Similarly, the annual underlying inflation rate declined from 8.9 percent in the year ended April 2007 to 8.0 percent in May 2007, driven by slower increases in prices of goods. Goods inflation reduced to 7.7 percent in the year ended May 2007 from the 9.5 percent recorded in April 2007 on account of lower prices of paraffin, petrol, footwear, and drugs. Services inflation rose to 8.4 percent from the 7.8 percent in April 2007 on account of increased prices of

meals in restaurants and higher taxi fares. The month on month underlying inflation rate also declined to 0.6 percent in May 2007 from 0.7 percent in April 2007.

The annual food crops inflation also registered a decline of 6.3 percent in the year ended May 2007 compared to the decline of 1.7 percent for the year ended April 2007, due to lower prices of staples like cassava and fruits and vegetables. Likewise, the month on month food crops inflation reduced substantially to -2.8 percent from the 9.1 percent in April 2007.

Figure 1 shows the movements in the inflation rate for the period January 2005 to May 2007.

Figure I: Annual Inflation rate developments, January 2005 to May 2007



Source: Uganda Bureau of Statistics

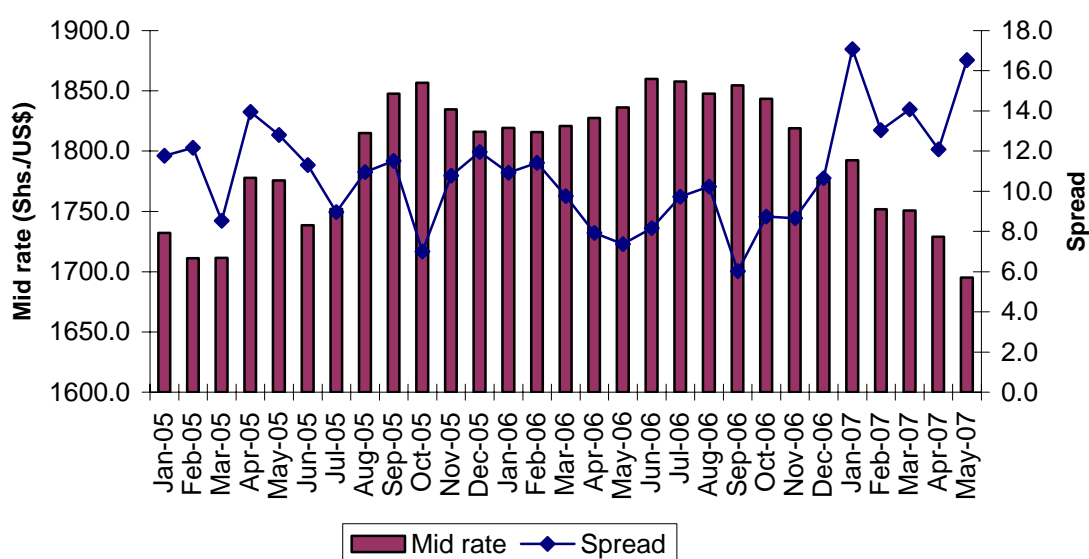
## II FOREIGN EXCHANGE MARKET

### i) Exchange rates

The foreign exchange rate was largely stable during the month of May 2007 registering a marginal appreciation of 2.0 percent from a mid monthly average exchange rate of Shs. 1,728.9 per US\$ in April 2007 to a mid monthly average exchange rate of Shs. 1,695.2 per US\$ in May 2007. **Public supply exceeded demand by US\$ 32.3 million during the month.**

There was intervention in the Inter Bank Foreign Exchange Market (IFEM) by the Bank of Uganda during the month of May 2007 amounting to a net purchase of US\$ 23.8 million. Sterilisation of liquidity amounted to a net sale of US\$ 11.2 million. Figure II shows the trend of the nominal exchange rate and spread.

Figure II: Average mid rate and spread, January 2005 – May 2007



Source: Bank of Uganda

### Foreign exchange purchases and sales

Gross foreign exchange purchases in the Inter-Bank Foreign Exchange Market (IFEM) rose by 47.8 percent from US\$ 383.3 million in April 2007 to US\$ 566.6 million in May 2007. Gross sales also grew by 29.8 percent from US\$ 416.1 million to US\$ 540.0 million over the same period.

Cross currency trade transactions also increased from US\$ 45.7 million in April 2007 to US\$ 65.2 million in May 2007.

### III DOMESTIC MONEY MARKETS AND INTEREST RATES

#### *Interest rates*

The discount rates were generally stable. The end period weighted discount rates on the 182-day and the 364-day treasury bill rose from 11.0 percent and 10.6 percent in April 2007 to 11.5 and 11.1 percent in May 2007 respectively. However, the discount rate for the 91-day Treasury bill remained at the end-April 2007 level of 9.1 percent. The total Treasury bill offers increased to Shs. 212.9 billion in May 2007, up from Shs. 115 billion in April 2007 on account of increased auctions to manage liquidity. Total bids for treasury bills auctioned during the month also grew to Shs. 263.1 billion, up from Shs. 184.3 billion in April 2007.

The monthly average lending rate on commercial banks' shilling denominated loans for April 2007 declined to 18.8 percent from the end March 2007 level of 19.2 percent. The rate on foreign exchange denominated loans however remained at the March 2007 level of 9.7 per cent.

There was no change in Bank of Uganda's policy margin on interest rates. However, taking into account developments in the Treasury bill market, the Rediscount and Bank rates declined marginally from 15.4 and 16.4 percent at end April 2007 to 15.3 percent and 16.3 percent at end May 2007, respectively. Figure III shows the pattern of selected interest rates.

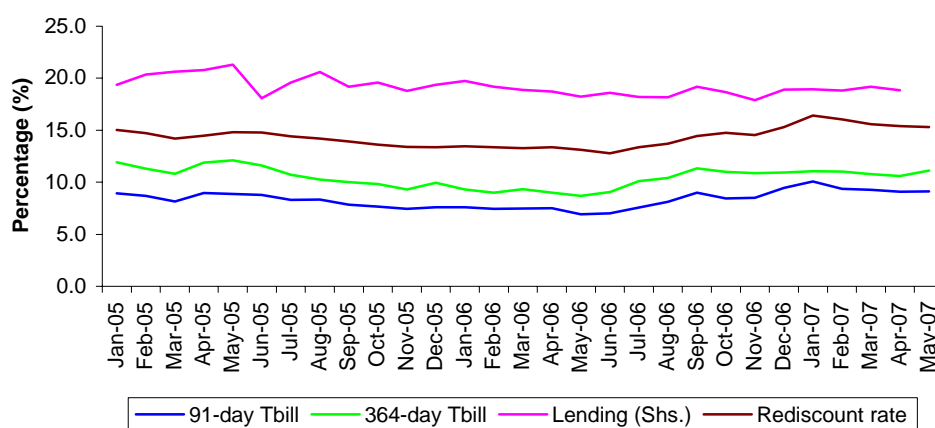
#### *Treasury bill holdings*

The outstanding stock of treasury bills increased from a revised Shs. 1,152.9 billion at end April 2007 to Shs. 1,213.0 billion at end May 2007. Commercial banks' holdings of treasury bills expanded from Shs. 799.6 billion to Shs. 868.6 billion. The insurance companies' holdings of Treasury bills also rose by 40 percent from Shs. 126.3 billion to Shs. 176.7 billion. Similarly, holdings by the 'Others' category increased from Shs. 126.7 billion to Shs. 135.1 billion while the holdings by the Bank of Uganda decreased from Shs. 100.4 billion to Shs. 32.7 billion.

#### *Treasury bonds*

The stock of Treasury bonds increased from Shs. 886.1 billion at end April 2007 to Shs. 946.1 billion at end May 2007. A new 3-year bond worth Shs. 30 billion was opened on May 02, 2007 with a weighted average price of 93.7 per Shs. 100 and a Yield-to-maturity of 12.8 percent and a 3-year bond worth Shs. 30 billion was re-opened on May 30, 2007 with a weighted average price of 93.4 per Shs. 100 and Yield-to-maturity of 13.4 percent.

Figure III: Selected interest and policy rates, January 2005 to May 2007



Source: Bank of Uganda

## IV MONETARY AGGREGATES

### i) Money supply

All measures of money supply grew modestly during March 2007-April 2007 period. Narrow money **M1** expanded by Shs. 2.7 billion from Shs. 1,969.8 billion at end-March 2007 to Shs. 1972.5 billion at end April 2007. Currency in circulation decreased from Shs. 855.7 billion to Shs. 833.6 billion while private sector's demand deposits increased from Shs. 1,114.1 billion to Shs. 1,138.9 billion.

Private sector's time and savings deposits increased from Shs. 989.9 billion to Shs. 1,005.0 billion while certificates of deposit remained at the end March 2007 level of Shs. 0.1 billion. Money supply **M2** therefore grew from Shs. 2,959.8 billion to Shs. 2977.6 billion.

The private sector's foreign exchange deposits however reduced marginally from Shs. 913.9 billion to Shs. 909.7 billion. Broad money supply **M3** therefore expanded by Shs. 13.6 billion or 0.4 percent from Shs. 3,873.7 billion to Shs. 3,887.2 billion of which, Net Foreign Assets (NFA) contributed 1.3 percent to the growth in Broad money between March 2007 and April 2007.

Net foreign assets (NFA) of the banking system expanded by Shs. 52.0 billion from Shs. 4,014.0 billion to Shs. 4,064.0 billion between end March 2007 and end April 2007. Growth was registered in Bank of Uganda's net foreign assets from Shs.

3,326.0 billion to Shs. 3366.2 billion. Commercial banks' NFA also expanded from Shs. 685.9 billion to Shs. 697.8 billion on account of a decrease in commercial banks' foreign liabilities. Commercial banks' foreign liabilities declined by 16.9 percent from Shs. 176.8 billion in March 2007 to Shs. 146.9 billion in April 2007.

Domestic credit improved by Shs. 43.5 billion from Shs. 1,192.4 billion to Shs. 1235.9 billion. The banking system's net claims on Government changed from a saving of Shs. 586.1 billion at end March 2007 to a saving of Shs. 572.3 billion at end April 2007. Government's net position with the central bank declined by Shs. 3.6 billion from a saving of Shs. 1,472.0 billion at end March 2007 to a saving of Shs. 1,468.4 billion at end April 2007, while its net position with the commercial banks changed by Shs. 10.2 billion from a borrowing of Shs. 885.9 billion as at end March 2007 to a borrowing of Shs. 896.1 billion at end April 2007. The banking system's claims on the private sector improved from Shs. 1,739.5 billion to Shs. 1,777.9 billion at end April 2007. The banking system's outstanding lending to the local governments reduced marginally from Shs. 0.7 billion to Shs. 0.6 billion at end April 2007 and the stock of loans to Parastatals also contracted marginally from Shs. 38.2 billion to Shs. 29.5 billion.

### ii) Base money

Base money contracted marginally from Shs. 1,223.5 billion at end April 2007 to Shs. 1,207.9 billion at end May 2007. Currency issued also declined from Shs. 922.6 billion

to Shs. 912.2 billion. Commercial banks' total reserves also reduced from Shs. 300.8 billion to Shs. 295.7 over the review period.

## V COMMODITY SUB-SECTOR

### **i) Total exports**

Overall, export proceeds in the month of April 2007 decreased compared to March 2007 although rose when compared to April 2006. Total exports were estimated at US\$

104.1 million in April 2007 compared to US\$ 133.3 million in March 2007 and US\$ 72.4 million in April 2006.

### **ii) Coffee exports**

As reported by Uganda Coffee Development Authority (UCDA), total coffee exports for the month of May 2007 amounted to 184,560 (60Kg) bags worth US\$ 17.9 million, representing an increase of 49.7 percent and 63.3 percent in volume and value terms, respectively relative to the month of May 2006. On a cumulative basis, coffee exports for the first eight months of the current coffee year amounted to 1,780,350 (60 Kg) bags worth US\$ 162.1 million representing an increase of 36.5 percent and 42.6 percent in volume and value terms, respectively relative to a similar period in 2005/06. The improvement in coffee volume and value in 2006/7 compared to 2005/06 especially Robusta coffee was attributed to good farm-gate prices that prompted farmers to offload their stocks as well favourable weather conditions at the critical time of bean maturation. In addition, new coffee plantings, distributed under the

government's strategic intervention since 2001, have continued to come into production hence the improved volumes. The average realised export price remained at the much-improved April 2007 level of US\$ 1.6 per kilogram in May 2007.

Locally, the ongoing rains delayed the coffee harvesting and drying processes although the main season in Masaka and southwestern regions had finally peaked. Kiboko (dry cherries of Robusta) coffee prices ranged between Shs. 1,100 and Shs. 1,250 per kilogram at the end of the month slightly higher than the April 2007 levels of Shs. 900 to Shs. 1,000 per kilogram. Clean coffee (FAQ) prices ranged between Shs. 2,200 and 2,350 in May 2007 while Arabica parchment prices in Mt. Elgon region averaged Shs. 2,400 per kilogram during the month.

### **iii) Non-coffee exports**

Non-coffee exports proceeds decreased by 16.5 percent from US\$ 109.1 million in March 2007 to US\$ 91.1 million in April 2007 in line with seasonality. There were declines in the value of Gold, tobacco, maize and flower exports from US\$ 11.4 million, US\$ 10.5 million, 3.9 million and US\$ 3.2 million to US\$ 9.8 million, US\$ 4.9 million, US\$ 2.8 million, and US\$ 2.2 million, respectively over the period. Fish and its

products also registered a decline from US\$ 16.0 million to US\$ 12.8 million over the period under review. However, earnings from tea, Hides & skins and cotton, grew from US\$ 2.7 million, US\$ 1.3 million and US\$ 3.6 million in March 2007 to US\$ 3.1 million, US\$ 2.2 million and US\$ 3.7 million, respectively in April 2007. Table 1 shows the detailed performance of Uganda's exports up to April 2007.

**Table I: Exports of merchandise (US\$ Million)**

	<b>Apr-06</b>	<b>Nov-06</b>	<b>Dec-06</b>	<b>Jan-07</b>	<b>Feb-07</b>	<b>Mar-07</b>	<b>Apr-07</b>
<b>Total Exports</b>	<b>72.43</b>	<b>96.22</b>	<b>102.22</b>	<b>118.93</b>	<b>117.49</b>	<b>133.31</b>	<b>104.06</b>
<b>Coffee</b>	<b>13.74</b>	<b>22.96</b>	<b>22.21</b>	<b>28.37</b>	<b>20.15</b>	<b>24.22</b>	<b>12.96</b>
Coffee shipment, million (60-Kg) bags	0.15	0.25	0.25	0.32	0.22	0.27	0.14
Av. unit value	1.56	1.53	1.49	1.50	1.51	1.52	1.57
<b>Non-Coffee exports</b>	<b>58.69</b>	<b>73.26</b>	<b>80.01</b>	<b>90.56</b>	<b>97.35</b>	<b>109.09</b>	<b>91.10</b>
Electricity	0.55	0.46	0.54	0.46	0.45	0.76	0.63
Gold	12.54	8.50	12.81	10.46	12.97	11.44	9.82
Cotton	2.00	0.47	0.39	1.92	2.84	3.62	3.67
Tea	0.22	4.69	4.45	4.73	4.05	2.72	3.07
Tobacco	4.19	0.20	2.35	2.17	9.23	10.49	4.88
Fish & its prod. (excl. regional)	14.58	13.00	11.45	12.53	12.81	12.31	9.87
Fish & its prod. (regional exports)	4.54	3.90	3.44	3.76	3.84	3.69	2.96
Hides & skins	0.76	0.84	0.81	2.34	0.73	1.26	2.21
Simsim	0.44	0.02	0.06	0.16	0.50	0.90	0.48
Maize	1.68	1.09	1.62	1.43	2.03	3.92	2.84
Beans	0.70	0.61	0.48	0.56	0.25	0.30	0.16
Flowers	2.47	1.98	2.17	3.00	2.77	3.22	2.17
Oil re-exports	2.52	3.45	4.22	3.09	3.05	4.30	2.99
Cobalt	0.52	1.56	1.04	1.56	1.56	1.56	1.56
Others	10.98	32.51	34.18	42.40	40.26	48.60	43.80

Source: Bank of Uganda

#### **iv) Imports**

Total imports declined from 225.6 million in March 2007 to US\$ 216.0 million in April 2007. Government imports rose from US\$ 4.7 million to US\$ 5.1 million in April 2007 on account of an increase in Non-project imports by government. Project imports by government however reduced from US\$ 2.2 million in March 2007 to US\$ 1.2 million in April 2007. Private sector imports also

decreased from US\$ 220.9 million to US\$ 211.0 million. Imports of oil by the private sector declined modestly from US\$ 33.0 million to US\$ 30.2 million. Non-oil imports of the private sector also contracted by US\$ 7.1 million to US\$ 180.8 million in April 2007. Table 2 provides information on imports of goods.



Table II: Imports of goods (US\$ Million)

	Apr-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07
Total Imports	<b>149.88</b>	<b>229.90</b>	<b>194.42</b>	<b>223.94</b>	<b>200.42</b>	<b>225.58</b>	<b>216.04</b>
Government Imports	<b>2.00</b>	<b>9.19</b>	<b>3.02</b>	<b>13.09</b>	<b>5.64</b>	<b>4.70</b>	<b>5.09</b>
Project	1.05	2.29	2.78	2.63	3.16	2.18	1.15
Non-Project	0.95	6.90	0.24	10.46	2.48	2.52	3.94
Private Sector Imports	<b>147.88</b>	<b>220.72</b>	<b>191.40</b>	<b>210.85</b>	<b>194.78</b>	<b>220.88</b>	<b>210.95</b>
Oil imports	28.16	31.60	29.97	34.19	29.64	32.99	30.18
Non-oil imports	119.72	189.12	161.43	176.66	165.14	187.89	180.77

Source: Bank of Uganda

### *v) Other key developments in Balance of Payments*

The overall balance of payments was estimated at a surplus of US\$ 0.5 million in April 2007 compared to a deficit of US\$ 11.4 million in April 2006. The Current Account balance recorded a deficit of US\$ 75.6 million; a deterioration from a deficit of US\$ 39.3 million registered in April 2006, largely on account of an increase in imports of goods and services. The Capital and Financial account recorded a surplus of US\$ 76.1 million in April 2007, an improvement

from a surplus of US\$ 27.9 million in the corresponding period last year.

In April 2007, the level of gross foreign reserves amounted to US\$ 1,940.9 million; a build up of US\$ 43.9 million compared to the preceding month. The April 2007 reserve level is estimated to cover 5.9 months of future imports of goods and services.

## VI CONCLUDING REMARKS

The period under review continued to record improvements in real economic activity while macroeconomic conditions remained broadly stable. Bank of Uganda's monetary policy actions remained committed to maintaining price stability and attainment of overall objectives that Government set for

2006/07 fiscal year. In the remainder of the fiscal year, the conduct of monetary policy will continue to focus on sustaining price stability and overall broad macroeconomic stability as envisaged in the program for the fiscal year 2006/07.

