MONTHLY ECONOMIC AND FINANCIAL INDICATORS

APRIL 2010

The Bank of Uganda Economic and Financial Indicators beginning with June 1999 Edition are now available on the BOU website at http://www.bou.or.ug

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I INTRODUCTION

This report summarises the major developments in Uganda's economic and financial conditions during the month of April 2010.

The Global Economy continued to recover from the recession with world trade increasing further. In the recent past, the developments in the global economy have been dominated by the crisis in the Euro Area. However, appropriate measures have been put in place to address this crisis.

In the domestic economy, overall macroeconomic and price stability remained the key objectives of monetary policy during the month under review.

The annual headline inflation continued to decline mainly driven by a fall in food crop prices. There was, however, a significant rise in annual energy, fuel and utilities inflation reflecting a rise in fuel prices.

The foreign exchange market remained broadly stable, with the shilling appreciating slightly during the month. Interest rates for all tenors on average rose during April 2010. The average bid/offer yields to maturity in the secondary market also rose in line with the increase in interest rates in the primary market.

II GLOBAL ECONOMIC DEVELOPMENTS

The Global Economy continued to recover from the recession with world trade increasing further. The levels of activity, however, remained well below pre-crisis levels and patterns of recovery were uneven across the globe with the United States and Asia registering higher output growth than the Euro area. However, concern about rising government deficits and debt levels across the globe has created alarm on financial markets.

The global economic crisis and the government-sponsored rescue packages which followed caused public fiscal balances to deteriorate across the globe. Within the Euro zone, this deterioration in fiscal positions was most noticeable in Greece, Portugal, Italy, and Spain (PIGS). As a result of this the ongoing recovery has been less dynamic in Europe than in other regions reflecting the effects of the global financial crisis, and the debt situation in these four countries which created turmoil in financial markets.

However, the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) have put in place a US $ 975 billion rescue package which is meant to address the financial crisis in the Euro area and to calm financial markets. The European Union has also committed to accelerating structural reforms, strengthen fiscal discipline, and establish a permanent crisis resolution framework.

Overall, the global recovery and the measures undertaken to address the crisis in the Euro area are likely to result in the sustained recovery of the global economy. If successful, this will reduce the risk of exogenous shocks to the Ugandan economy.

III MONETARY POLICY STANCE AND ACTIONS

In the domestic economy, overall macroeconomic and price stability remained the key objectives of monetary policy in April 2010. The Bank of Uganda (BOU) continued to manage liquidity with a view of supporting aggregate demand mindful of the price stability objective. The sterilization of structural (long-term) liquidity was effected through a combination of sales of government securities and foreign exchange in the interbank foreign exchange market (IFEM), while repurchase agreements (REPOs) were used to fine tune short-term liquidity conditions.

IV INFLATION

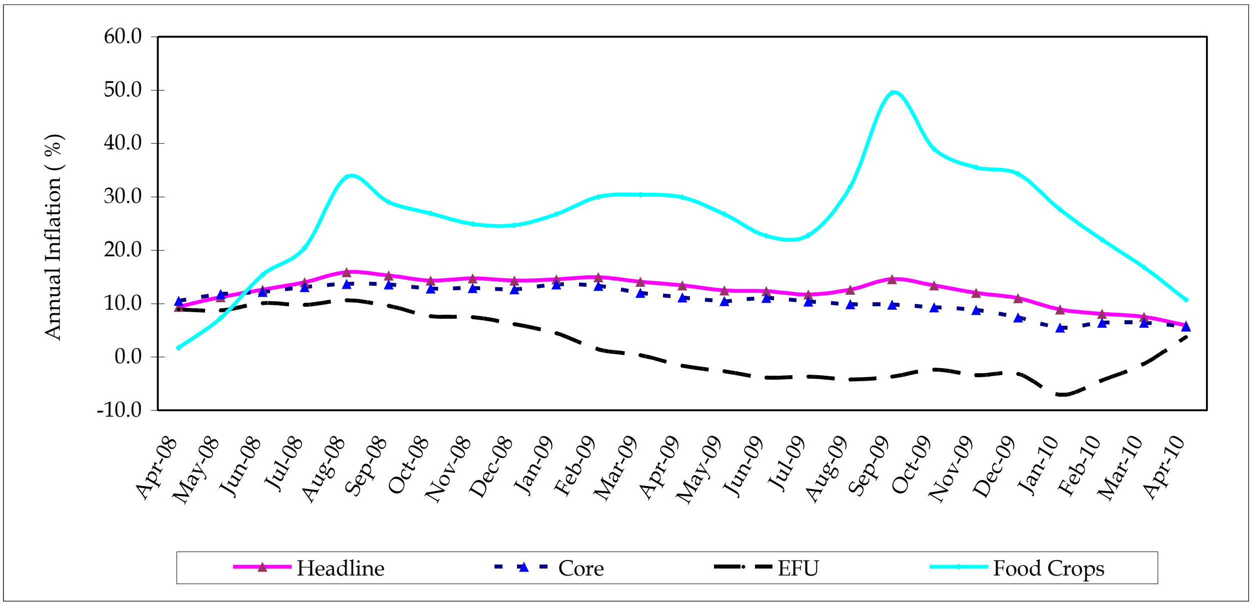
Data from the Uganda Bureau of Statistics shows annual headline inflation declining further to 5.9 percent in April 2010 from 7.5 percent in March 2010. This decline was mainly driven by a fall in food crop inflation, reflecting increased supplies of food to the markets. The monthly headline inflation, however, increased by 0.3 percent in April 2010 in contrast to a decline of 0.3 percent in the previous month.

Annual core inflation which excludes food crops, electricity, fuel and metered water declined to 5.7 percent during the month of April 2010, from 6.4 percent recorded in the previous month. The month-on-month core inflation, however, increased to 0.3 percent from 0.1 percent in March 2010.

Annual Energy, Fuel, and Utilities (EFU) inflation, rose significantly to 3.7 percent from minus 1.3 percent in the previous month. The month-on-month EFU inflation also increased to 2.8 percent in April 2010 from a level of 1.4 percent in March 2010 largely driven by increased petroleum prices reflecting a rise in international oil prices.

The annual food crop inflation declined further to 10.7 percent from 16.8 percent observed in March 2010. This decline was mainly attributed to a fall in prices of some staple foods, milk, cereals and vegetables as a result of increased supplies on the market relative to the corresponding period last year. However, the month-on-month food crop inflation increased to 0.8 percent from minus 3.3 percent in the previous month on account of the planting season which has negatively affected availability of food supplies in the market. Figure 1 shows the movements in the annual inflation rates for the period April 2008 to April 2010.

Figure I: Annual Inflation Rate Developments, April 2008 to April 2010



Source: Uganda Bureau of Statistics

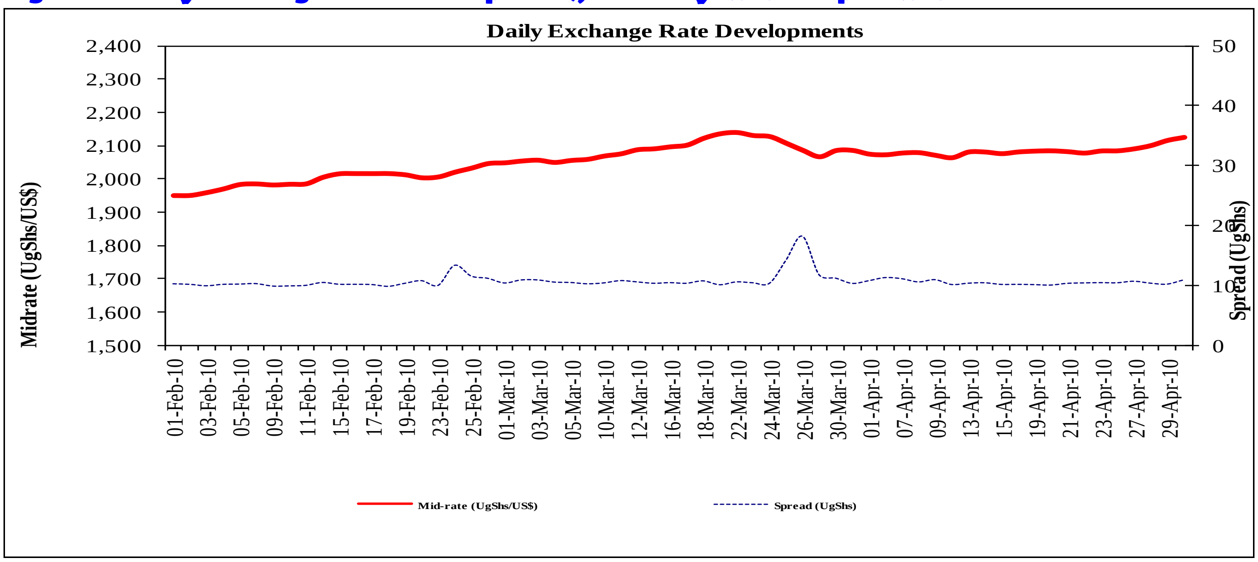
V FOREIGN EXCHANGE MARKET

i) *Exchange rates*

On a period average basis, the shilling appreciated by 0.2 percent from a midrate of Shs. 2,086.4 per U.S. dollar in March 2010 to Shs. 2,082.55 per U.S. dollar in April 2010. The appreciation was attributed to commercial banks unwinding their long dollar positions supported by dollar inflows from NGOs and offshore investors.

BOU bought US$ 45.0 million from the Interbank Foreign Exchange Market (IFEM), in a strategic move to build foreign reserves. On the other hand, the central bank also sold US$ 2.0 million to the IFEM for purposes of liquidity sterilisation. Figure II shows the trends of the nominal exchange rate and the spread between the buying and selling rates.

Figure II: Daily Exchange Rate Developments, February 2010 to April 2010



Source: Bank of Uganda

ii) *Foreign exchange purchases and sales*

Gross foreign exchange purchases and sales by commercial banks decreased by 9.7 percent, and 19.0 percent, to US$ 669.7 million and US$ 630.0 million, respectively in April 2010. Interbank trades amounted to US$ 195.9 million, while commercial banks' purchases and sales of foreign exchange from the non-bank public amounted to US$ 473.8 million and US$ 434.1 million, respectively. Cross currency trade transactions more than doubled, rising to US$ 271.9 million in April 2010 from US $ 129.2 million in the preceding month.

VI DOMESTIC MONEY MARKETS AND INTEREST RATES

i) Interest rates

The interest rates on government bills edged up, continuing the trend that started in late March 2010. The monthly weighted average lending rate on commercial banks' shilling denominated loans rose to 21.1 percent in March 2010, from 20.2 percent in February 2010. On the other hand, the weighted average lending rate on foreign currency denominated loans declined to 9.9 percent during March 2010 from 11.2 percent in the previous month. The deposit rates, however, remained virtually unchanged save for rates on shilling time deposits, which declined from 8.4 percent in February 2010 to 7.7 percent in the review period.

ii) Treasury bill Market

During the month of April 2010, two calendar Treasury bill auctions with a combined total offer of Shs. 165.0 billion were held. These auctions were oversubscribed to the tune of Shs. 230.5 billion reflecting high demand for Treasury bills. The end period weighted average discount rate on 91-day, 182-day and 364-day Treasury bill papers rose from 3.9 percent, 4.5 percent and 5.9 percent in March 2010 4.1 percent, 5.5 percent and 7.3 percent in April 2010, respectively.

The margin within the rediscount rate remained unchanged at 3.0 percentage points. However, due to market developments, the rediscount rate and Bank rate rose to 7.1 percent and 8.1 percent from their respective end March 2010 levels of 6.8 percent and 7.8 percent, reflecting a rising yield for the 91-day Treasury bill.

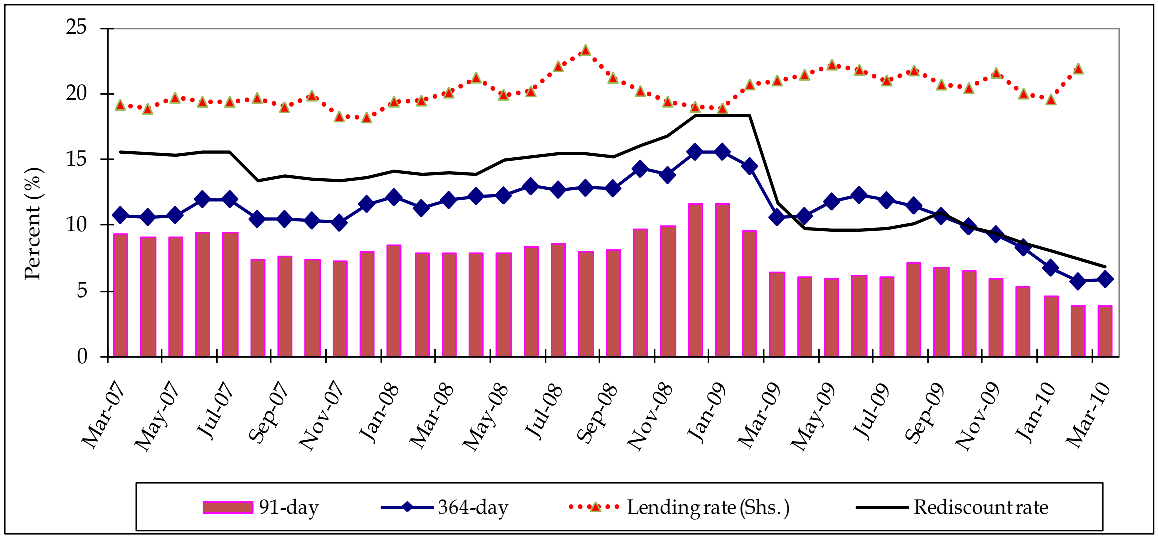
iii) Treasury bond Market

In line with the monetary policy and financial markets development objectives, Bank of Uganda issued a new 3-year bond worth Shs. 60 billion on April 28, 2010. The Yield to Maturity (YTM) for this bond was 9.1 percent, compared to 11.6 percent recorded for the 3-year bond issued on January 6, 2010.

iv) Repo and inter-bank money market

BOU maintained the use of the repo instrument during the month of April 2010, to manage short term liquidity conditions. Repos with tenures ranging from 1 to 7 days were offered and the net effect of this instrument was a withdrawal of Shs. 150.8 billion, as repo issues exceeded maturities.
The domestic inter-bank money market remained active during the month of April 2010. The total amount traded for tenors which ranged from 1 to 14 days, rose to Shs. 626.7 billion from Shs. 610.4 billion in March 2010. The 7-day tenor transactions dominated the market, accounting for 56.0 percent of the total volume traded during the month under review. The weighted average interbank money market rates fell marginally to 3.3 percent in April 2010 from 3.4 percent in March 2010. Figure III shows the pattern of selected categories of interest rates.

Figure III: Selected interest rates, March 2007 to March 2010



Source: Bank of Uganda

VII MONETARY AGGREGATES

i) Money supply

Provisional estimates point towards a decline in narrow money supply between February 2010 and March 2010. Nevertheless, other measures of money supply increased during the same period. Narrow money **M1** decreased by Shs. 19.0 billion or 0.6 percent from Shs. 3,380.2 billion at end of February 2010 to Shs. 3,361.1 billion at end-March 2010. This decline in **M1** was driven by a fall in private sector's demand deposits of Shs. 38.4 billion to Shs. 2,057.1 billion. Currency in circulation increased by Shs. 19.4 billion to Shs. 1,304.1 billion at end March 2010.

The private sector's time and savings deposits increased by Shs. 170.7 billion to Shs. 2,412.1 billion and no certificates of deposits were registered during the month under review. These factors led to an expansion in money supply **M2** of Shs. 151.7 billion from Shs. 5,621.6 billion to Shs. 5,773.2 billion.

The Private sector's foreign exchange deposits rose by Shs. 9.8 billion from Shs 1,485.5 billion to Shs. 1,495.4 billion. Broad money supply **M3** therefore increased by Shs. 161.5 billion to Shs. 7,268.6 billion on account of an increase in the time, savings and foreign exchange deposits.

On a monthly basis, the net foreign assets (NFA) of the banking system decreased by Shs. 24.0 billion or 0.4 percent. This decline was driven by a fall in the net foreign assets of both the central bank and commercial banks which declined by 0.4 percent and 0.5 percent, respectively.

The net domestic assets of the banking system[1] grew by 19.7 percent from Shs. 944.0 billion to Shs. 1,129.5 billion during March 2010. Government's net position with the banking system was a saving of Shs. 562.21 billion as at end-March 2010, a deterioration of 14.2 percent when compared to the level of savings registered at end-February 2010. The banking system's claims on the private sector increased by 2.2 percent, from Shs. 4,156.9 billion at end February 2010 to Shs. 4,247.5 billion at end March 2010.

[1] This excludes revaluation and other items net

On an annual basis, private sector credit grew by 19.8 percent in March 2010 as compared to 17.3 percent in February 2010. Personal loans continue to account for the largest share of private sector credit. In March 2010, they accounted for 21.9 percent of total private sector credit loans. The trade and commerce and building and construction sectors followed with shares of 19.4 percent and 18.1 percent, respectively. The manufacturing, transport and agriculture sectors accounted for 13.3 percent, 8.1 percent and 6.1 percent, respectively.

ii) Base money

Preliminary estimates indicate that base money declined from Shs. 2,071.1 billion as at end March 2010 to Shs. 2,064.1 billion at end April 2010. Commercial banks' total reserves declined by Shs. 25.5 billion to Shs. 524.8 billion while currency issued increased by Shs. 18.5 billion to Shs. 1,539.2 billion over the review period.

VIII SELECTED DEVELOPMENTS IN BALANCE OF PAYMENTS

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US$ 14.2 million while net private transfers were estimated at US$ 86.7 million in March 2010.

Official cash debt service (excluding IMF obligations) stood at US$ 4.5 million. Trade credit amounted to net inflows of US$ 6.5 million, consisting of inflows (buyers' credit and suppliers' credit) estimated at US$ 37.5 million and outflows (pre-finance shipments and suppliers' credit repayments) estimated at US$ 31.0 million. The level of gross foreign reserves stood at US$ 2,673.02 million; which was equivalent to 5.2 months of future imports of goods and services.

Formal exports

Total formal export proceeds for March 2010 were estimated at US$ 141.8 million, an increase of 9.3 percent compared to US$ 129.7 million realised in February 2010. These proceeds were also 7.5 percent higher than the earnings reported in March 2009. Formal export proceeds rose in March 2010 owing to an increase in non-coffee export receipts.

i) Coffee exports

Data from the Uganda Coffee Development Authority (UCDA) reveals a 25.8 percent drop in the volume of total coffee exports in April 2010 relative to the same month last year. This decline in exports was as a result of low yield realised during the month as the harvesting season in eastern and central parts of Uganda drew to an end. Harvesting in the south western region was also delayed due to the ongoing rains.

Coffee exports for the month of April 2010 amounted to 152,640 (60Kg) bags worth US$ 15.5 million, down from 205,725 (60Kg) worth US$ 19.1 million registered in April 2009. These exports were 30.6 percent and 29.4 percent lower in volume and value terms, respectively, than those realised in the month of March 2010.

The average realised export price rose to US$ 1.70 per Kilogram in April 2010 from US$ 1.67 per Kilogram in the previous month. The farm-gate price for Kiboko (dry cherries of Robusta), Fairly Average Quality (FAQ) and Arabica parchment coffee averaged Shs. 900, Shs. 2,100 and Shs. 3,250 per kilogram, respectively.

ii) Non–coffee exports

The total value of formal non-coffee exports for March 2010 was US$ 120.0 million compared to US$ 103.3 million and US$ 108.0 million recorded in February 2010 and March 2009, respectively. These export proceeds were 16.2 percent higher than the amounts realised in February 2010 mainly driven by a rise in cotton, tea, maize and fish exports. Table I below shows the detailed performance of Uganda's formal exports up to March 2010.

Table I: Exports of merchandise (US$ Million)

	Mar-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
a) Formal Exports (1 + 2)	**131.89**	**134.89**	**135.55**	**142.03**	**124.03**	**129.65**	**141.77**
1. Coffee	**23.94**	**18.64**	**22.10**	**25.77**	**25.35**	**26.40**	**21.79**
Volume (millions of 60-Kg bags)	0.26	0.20	0.24	0.27	0.26	0.26	0.22
Av. Unit value	1.55	1.56	1.57	1.57	1.60	1.66	1.67
2. Non-Coffee exports	**107.96**	**116.24**	**113.45**	**116.26**	**98.68**	**103.26**	**119.98**
Electricity	0.93	0.00	1.29	1.34	1.04	0.98	1.05
Gold	2.17	1.16	0.47	2.61	1.58	3.83	5.14
Cotton	4.87	0.28	0.50	0.26	1.16	1.67	3.16
Tea	5.05	6.58	8.70	6.45	6.70	5.29	6.39
Tobacco	5.72	3.72	14.20	7.41	8.37	9.76	5.09
Fish & its products	9.59	11.81	14.03	11.37	11.93	9.94	12.66
Hides & skins	0.79	0.58	0.54	0.77	1.03	1.11	1.34
Simsim	1.98	0.42	0.17	0.12	1.31	1.64	2.89
Maize	3.50	1.12	1.36	3.16	2.98	2.09	3.44
Beans	0.61	1.21	0.82	1.40	0.41	0.21	0.31
Flowers	3.53	3.45	4.12	3.44	3.58	4.34	4.45
Oil re-exports	11.62	0.28	0.42	8.13	0.31	0.19	0.35
Cobalt	0.95	1.43	0.48	2.85	1.04	1.63	1.06
Base metals & their products	8.71	10.74	7.66	8.27	6.57	6.65	6.47
Others	47.93	63.94	52.47	58.71	50.69	53.93	66.17

Source: Bank of Uganda

iii) Imports

The total import bill for March 2010 was estimated to have increased to US$ 376.8 million from US$ 328.3 million recorded in February 2010. Private sector imports increased to US$ 319.2 million compared to US$ 311.6 million recorded in February 2010, while government imports increased to US$ 57.6 million from US$ 16.7 million recorded in February 2010, on account of a rise in non-project imports.

The major import items in March 2010 included oil and oil products, machinery and equipment, vehicles & accessories, base metals & their products, chemicals &related products, mineral products, and vegetable products, beverages, animal fats & oils. The oil import bill amounted to US$ 41.0 million in March 2010, US$ 2.8 million higher than the oil import bill for February 2010. Table II summarizes developments in imports of goods.

Table II: Imports of goods (US$ Million)

	Mar-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-09
Total Imports	**328.6**	**325.84**	**328.00**	**314.04**	**343.89**	**313.33**	**328.33**	**376.78**
Government Imports	**27.49**	**24.27**	**22.04**	**16.30**	**23.02**	**33.26**	**16.71**	**57.55**
Project	16.97	20.20	9.48	12.03	18.77	29.28	6.54	10.52
Non-Project	10.52	4.07	12.56	4.27	4.25	3.98	10.18	47.03
Private Sector Imports	**301.15**	**301.57**	**305.96**	**297.74**	**320.87**	**280.07**	**311.61**	**319.2**
Oil imports	36.79	39.24	37.04	34.83	40.98	42.10	38.27	41.01
Non-oil imports	264.36	262.33	268.93	262.91	279.89	237.97	273.35	278.21

Note:

1. *All import figures are reported at f.o.b value*
2. *New freight and insurance estimates were used with effect from July 2009*

Source: Bank of Uganda

IX CONCLUDING REMARKS

The Bank of Uganda pursued an accommodative monetary policy stance during the month of April 2010 in order to support aggregate demand while at the same time mindful of the need to maintain price stability in order to achieve the agreed macroeconomic objectives for the year 2009/10.

Going forward, the Bank of Uganda will continue to pursue a monetary policy stance that will maintain price stability and overall macroeconomic stability, in support of sustained economic growth.