MONTHLY ECONOMIC AND FINANCIAL INDICATORS

RESEARCH DEPARTMENT
BANK OF UGANDA

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1 INTRODUCTION

This report summarises the major developments in Uganda's economic and financial conditions during the month of November 2010. It also looks at the global economic developments and draws policy implications.

2 GLOBAL ECONOMIC DEVELOPMENTS

The Uganda's long-term economic outlook hinges on the interplay of a few key factors, of which global recovery is crucial. A faltering global recovery, a burgeoning current account deficit and the associated exchange rate depreciation, and the persistent rise in the global oil prices and commodity prices are downward risks to solid economic growth.

On balance, signs of global economic slowdown abounded but it is unlikely that the global economy is about to tip back into recession. The short-term risks around the outlook remain considerable. It remains possible that the underlying momentum of the recovery in the developed countries could pick up more markedly than thought after the current soft patch, but the risks are deeper on the downside. Such risks are largely associated with the possibility of interactions between particular events and existing fragilities that could prompt a new period of sustained weakness in private-sector activity. Many of the fragilities that remain stem from the continued legacies of the recession and the boom that preceded it.

In particular, the contractionary effects of fiscal consolidation especially in Europe; vulnerabilities related to continued fragile financial markets; ongoing household balance sheet deleveraging in developed economies; sovereign debt problems and tensions in foreign exchange markets, and withdrawal of stimulus policy in emerging economies like China will continue to exert headwinds on global GDP growth in months ahead. That said, economic growth in Asia generally remains very solid. The year-over-year growth rate in China slowed from 11.9 percent in the first quarter of 2010 to 9.6 percent in the third quarter. However, the Chinese industrial output has risen for last two consecutive months, at least in part, driven by domestic consumption in November 2010, and the comparable index in India also rebounded in October 2010.

The apparent acceleration in economic activity in China and India, which are Uganda third largest trading block, in conjunction with high or rising CPI inflation rates have led to tighten monetary policy in the two countries. The central bank in India has hiked rates by 150 basis points since mid-March, and its counterpart in China raised its benchmark lending rate by 25 basis points in October 2010 and also increased cash reserve requirement. Further tighten by these central banks is likely in the months ahead and this will lower their economic growth rates.

In Europe, which plays a dominant role as Uganda's exports destination and also a major source of FDI and workers' remittances to Uganda, growth of economic activity appears to have weakened somewhat recently. The growth rate of index of industrial output in the Euro zone declined in November 2010 and subsequently the GDP growth forecasts for the region as whole have been revised downwards. In the United Kingdom, both inflation and unemployment increased in November 2010 largely in part due to the anticipated impact of the VAT rise from 17.5 percent to 20 percent effective January 4, 2010, and higher energy bills that will hit consumer spending, and the planned fiscal consolidation that is expected to exert significant headwinds on British economic growth.

Global financial markets remained fragile during November 2010 as fears of a new wave of turbulence in Europe arose following concerns about the health of the banking sector in Ireland. In order to stop the jitteriness in the financial markets, the European Union and the IMF offered Ireland rescue package on condition that the country adopts fiscal austerity measures. In addition, specific risks continue to emanate from banks in other euro-zone countries like Spain, Portugal and Greece. These countries have banking sectors that are still highly dependent on liquidity support from the ECB. If these banks cannot regain market confidence in the coming quarters, they may experience funding difficulties when, as expected, the ECB stops its exceptional liquidity facilities because they become inappropriate for the needs of the euro area financial sector as a whole. Another risk coming from the banking sector is the possibility that, instead of adapting gradually to the new capital standards with few adverse effects on economic growth, banks engage in a race to reach the new standards by either compressing balance sheets, and thereby credit, or by issuing shares, pushing up the cost of equity for the broader economy.

Commodity prices continued to rise in November 2010. Crude oil prices rose to US$ 89 per barrel in November 2010 from US$ 84.7 per barrel in the previous month on the back of rising season demand and a decline in crude oil inventories. Similarly, agricultural prices rose during the month as a result of lower supply due to extreme weather conditions experienced in some countries. Cotton registered the highest price increase due to weather problems in the USA and China. Base metal prices especially copper and tin prices also increased due to falling stocks.

3 MONETARY POLICY STANCE AND ACTIONS IN NOVEMBER 2010

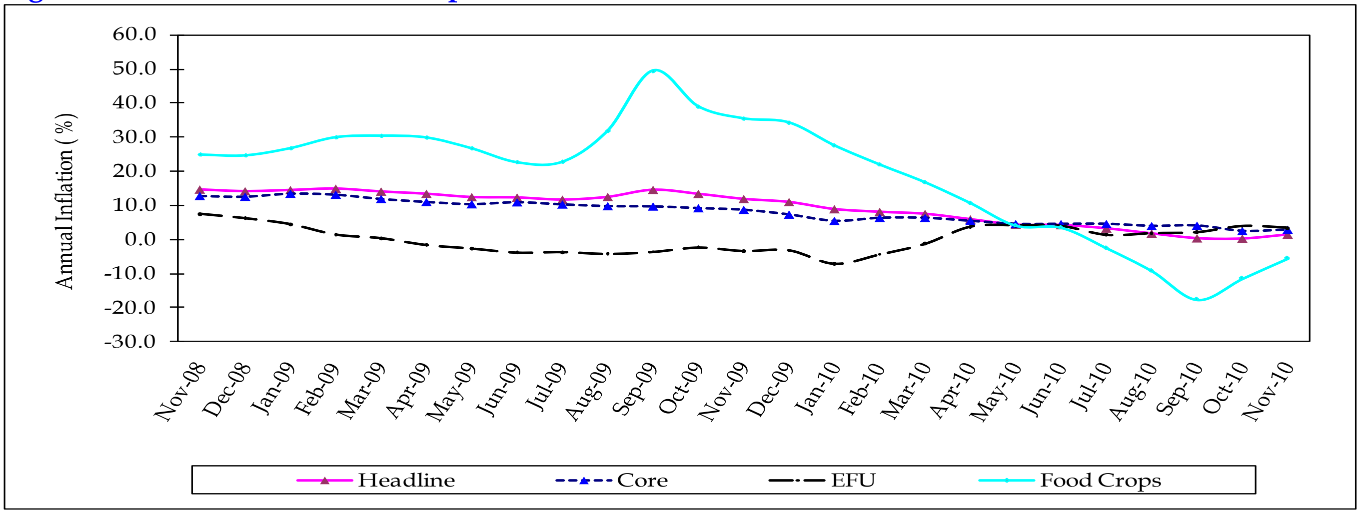
The conduct of monetary policy during November 2010 continued to focus on the need to support recovery of economic activity without compromising the inflation objective. Treasury bills and bonds were offered during the month in line with the structural liquidity management strategy for the month and repurchase agreements (REPOs) were used to fine-tune short-term liquidity conditions. In a bid to ease the depreciation pressures, BOU intervened in the IFEM and sold US$ 60 million in November 2010 but also continued with the daily purchase of US$ 0.5 million in a bid to build its foreign exchange reserves. The choice of instrument mix was guided by the inflation outlook in addition to maintaining stability in domestic and foreign exchange markets.

4 INFLATION

Annual headline inflation rose to 1.4 percent in November 2010 from 0.2 percent in October 2010. Core inflation also increased to 2.9 percent from 2.5 percent in the previous month. The rise in core inflation was mainly caused by increases in prices of new clothing, washing soap and footwear products, which led to an annual increase in the clothing and footwear index of about 5.0 percent. The annual food crops inflation also rose to -5.5 percent compared to -11.4 percent in October 2010. Annual energy, fuel and utilities (EFU) inflation however declined to 3.4 percent in November 2010 from 3.9 percent in October 2010, largely on account of decreases in fuel prices.

In terms of monthly changes, headline inflation increased to 1.3 percent in November 2010 from -0.3 percent in October 2010. This increase is mainly explained by increases in the food, clothing and footwear, household and personal goods, and transport and communications indices. Monthly core inflation rose to 0.6 percent from -1.4 percent in October 2010, while food crops inflation rose to 5.9 percent from 5.1 percent in October 2010. Although annual food crops inflation has continued to be negative, monthly food crops inflation has been positive and rising since August 2010. The monthly EFU inflation declined to -1.1 percent from 2.1 percent in October 2010. Inflation developments are shown in Figure 1 and Table 1.

Figure 1: Annual inflation developments



Source: Bank of Uganda

Table 1: Developments in the different measures of inflation

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Headline inflation (%)						
Monthly	0.4	-0.3	0.5	1.0	-0.3	1.3
Annual	4.2	3.2	1.7	0.3	0.2	1.4
Core Inflation (%)						
Monthly	1.2	0.3	0.0	0.4	-1.4	0.6
Annual	4.6	4.6	4.0	4.1	2.5	2.9
EFU Inflation (%)						
Monthly	0.0	1.0	0.5	0.4	2.1	-1.1
Annual	3.9	1.3	1.8	2.1	3.9	3.4
Food crop Inflation (%)						
Monthly	-4.3	-4.9	3.7	4.6	5.1	5.9
Annual	3.5	-2.5	-9.2	-17.6	-11.4	-5.5

Source: Uganda Bureau of Statistics

Going forward, although inflation is expected to remain within BOU's target, there are several external factors that may pass through to domestic inflation in the near future. First, although the ongoing economic slack is expected to diminish only slowly and is likely to continue to bear down on inflation for some time to come, inflation developments in some of Uganda's major trading partners indicate that inflation is picking up. This may increase prices of imported products and consequently lead to higher domestic inflation. For instance, China's inflation in November rose to 5.1 percent from 4.4 percent in October 2010 and 3.6 percent in September 2010 on a year-on-year basis while India's inflation was estimated at about 9.7 percent in October. The trade weight for these two countries is about 13 percent of Uganda's total trade and is much higher for imports. Ultimately, should these countries' inflation continue spiralling, this will pass through to Uganda's inflation, at least in the short term.

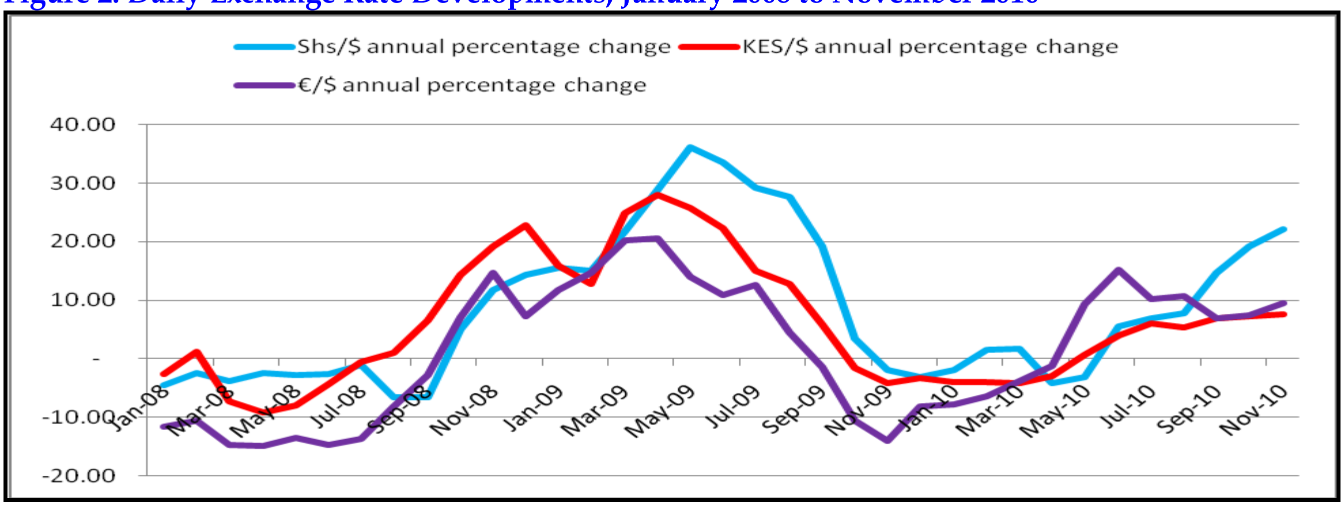
Second, fears of a global food crisis have swept the world's commodity markets as prices for staples such as corn, rice and wheat spiraled due to expected lower supplies. A hot summer in the US, droughts in countries including Russia and Brazil and heavy rain in Canada and Europe, have hit many grain and oilseed crops this year. The situation has deteriorated since September. According to the November edition of the Food Outlook report, released by the UN Food and Agriculture Organization (FAO), world wheat and maize prices have risen 57 percent; rice 45percent and sugar 55percent over the last six months and soybeans are at their highest price for 16 months. Opinions are sharply divided over whether these prices signal a world food crisis like the one in 2008, or simply reflect volatility in global commodity markets as countries claw their way through recession. However, if there are further climatic shocks – such as the recent floods in Pakistan or the heat wave in Russia – or if speculators buy deeper into global food markets, there is a likelihood of a repeat of the 2007-08 food crisis. The governments of Kenya, Nigeria, Indonesia, Brazil and the Philippines, have all warned of possible food shortages in 2011, citing floods and droughts, expected extreme weather, and speculation by traders who are buying up food stocks for release when prices rise. Further increases in global food prices are likely to feed through into Uganda's food inflation.

Third, crude oil prices have steadily risen since August 2010 and are likely to keep rising because of healthy demand growth especially by developing countries yet there is declining spare production capacity within OPEC. As the Ugandan economy closes on to its 'potential', renewed pressures on global commodity prices may be more likely to add to inflation. At these times, firms will find it easier to pass onto consumers increases in production costs. The upside is limited by the euro zone sovereign debt crisis and consolidation of public finances, which are likely to dampen their economic growth in the near term (already forecasts indicate a slower fourth-quarter growth in the euro zone currency area as it faces up to a potential debt crisis), a BBB (bumpy, below-par, brittle) recovery in virtually all of the rich economies, unwinding of stimulus measures by the BRIC countries, especially China and Indian, which could slow economic growth in these countries and therefore reduce demand for oil.

5 FOREIGN EXCHANGE MARKET

On an average basis, the bilateral Shilling depreciated by 1.1 percent against the US dollar in November 2010 to Shs. 2,289 per U.S. dollar from Shs. 2,265 per U.S. dollar in October 2010. On a year-on-year basis, the shilling depreciated by 22 percent against the US dollar. The depreciation pressures were partly driven by global developments, which led to the appreciation of the dollar against major international currencies. The events on the global scene were largely influenced by the Irish debt crisis, which led to the weakening of the Euro and speculation that most of Euro-zone countries' debts are unsustainable. Indeed, Figure 2 shows that the trends for Uganda shilling, Euro, and the Kenyan shilling against the U.S. dollar have largely been similar except in the period after August 2010, which broadly suggests that external factors have driven the Shilling-US dollar trend, except in the recent months. However, part of the shilling depreciation between August and November 2010 was due to domestic factors which included dollar demand by offshore players, the energy and manufacturing sectors, and the decline in formal exports.

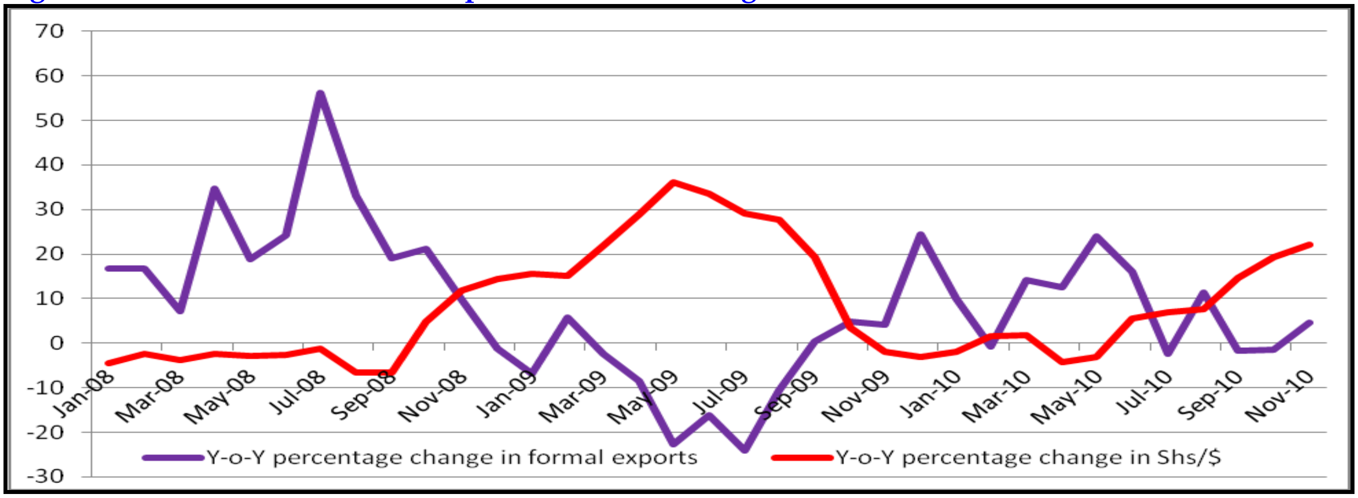
Figure 2: Daily Exchange Rate Developments, January 2008 to November 2010



Source: Bank of Uganda

Domestic factors that attributed to the depreciation between August and November include dollar demand by offshore players, the energy and manufacturing sectors, and the decline in formal exports. The Y-o-Y growth in formal export receipts declined from an average of 16.7 percent between March and June 2010 to about 2 percent between July and November 2010. Figure 3 shows the developments Y-o-Y growth in formal exports and the exchange rate.

Figure 3: Performance of formal exports and the exchange rate



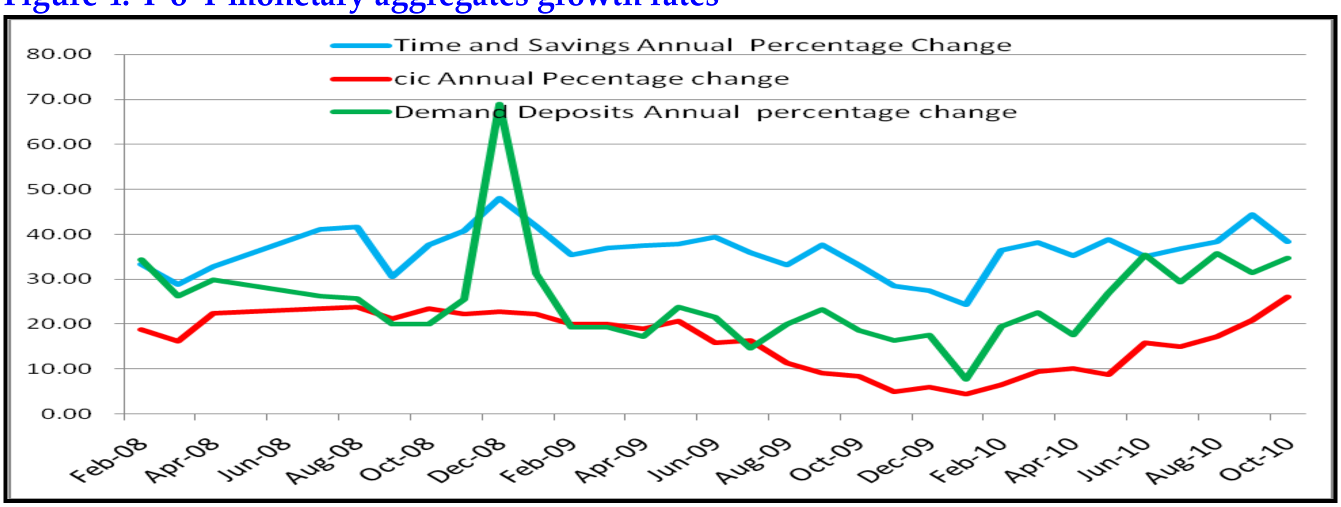
Source: Bank of Uganda

6 DEVELOPMENTS IN MONETARY AGGREGATES AND CREDIT

i) Money supply

During the year ended October 2010, M1, M2 and M3 grew by 31.2 percent, 34.1 percent and 38.5 percent. This compares with the respective annual growth rates of 27.2 percent, 33.8 percent and 36.9 percent, registered in September 2010. The rapid growth in monetary aggregates has not been inflationary as the highest growth rates have been in time and savings deposits held by non-deposit taking financial institutions as shown in Figure 4. On year-to-year basis, currency in circulation rose by 26 percent in October 2010, similarly, demand deposits grew by 35 percent and time and savings grew by 26 percent.

Figure 4: Y-o-Y monetary aggregates growth rates



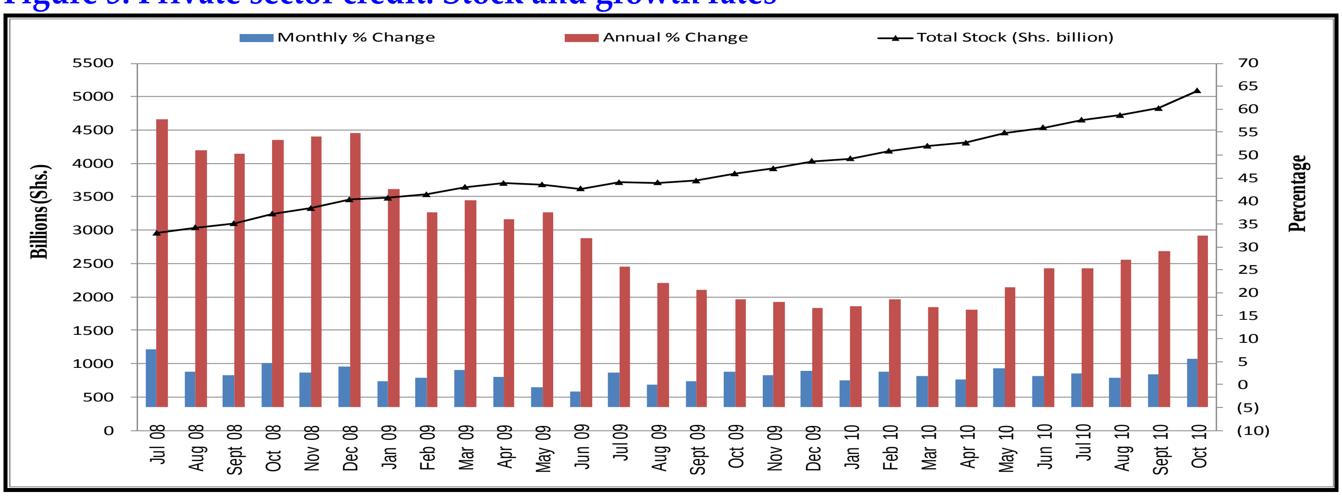
Source: Bank of Uganda

ii) Private sector Credit

Private sector credit remained buoyant in October 2010 as shown in Figure 5. The annual and monthly growth rates continued to rise. This is likely to auger well for economic activity in the near term, given that credit plays an important role in private consumption and investment. On year-to-year basis, private sector credit expanded by 32.4 percent in October 2010, and 5.5 percent on monthly basis. The expansion in credit was largely driven by growth in credit to the manufacturing sector, which on month-to-month basis grew by 12.2 percent in October 2010; credit to agriculture, transport and communication, and building, mortgage, construction and real estate, which on month-to-month basis grew by 6.7 percent, 5 percent and 4 percent, respectively. The stock of personal loans however declined by 2.0 percent in October 2010 compared to a decline of 18.8 percent in September 2010. The decline was largely due to decreases in car loans and loans for non-durable consumer goods and services.

The number of applicants for credit and the value of applications also indicate a high growth rate for demand for credit. For instance, the number of applicants in April 2010 was 10,825 with a value of application of Shs. 578.18 billion, of which Shs. 378.7 billion was approved. By October 2010, the number of applicants had increased to 22,154 applicants with a value of application of Shs. 1.3 trillion, of which Shs. 493.5 was approved.

Figure 5: Private sector credit: Stock and growth rates



Source: Bank of Uganda

In terms of sectoral distribution, in October 2010, the trade and commerce sector accounted for 22.5 percent of total private sector credit, while the building, construction & real estate sector, personal loans, and manufacturing sectors absorbed 19.2 percent, 15.7 percent and 14.1 percent, respectively. The share of credit to agricultural sector was 6.5 percent of the commercial banks' outstanding credit to the private sector and the remaining sectors altogether accounted for 22.1 percent of the stock of commercial banks' outstanding credit to the private sector as shown in Table 2.

Table 2: Sectoral distribution of credit to the private sector

	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Jul 2010	Aug 2010	Sep 2010	Oct 2010
Agriculture	5.1	5.2	5.5	5.5	6.5	6.5	6.4	6.5
Mining & Quarrying	0.3	0.3	0.4	0.2	0.8	0.8	0.9	1.0
Manufacturing	14.5	14.0	13.3	13.2	13.7	13.6	13.3	14.1
Trade & Commerce	20.9	20.1	19.8	20.0	19.9	20.1	23.6	22.5
Transport & Communication	6.0	5.9	5.9	7.3	7.4	7.7	7.7	7.7
Electricity and Water	0.8	0.7	0.8	0.7	1.1	1.1	1.1	1.0
Building, Construction & Real Estate	16.2	16.7	16.5	16.6	18.0	18.4	19.5	19.2
Personal Loans	21.6	21.5	26.2	21.2	21.2	19.7	16.5	15.7
Other Services	14.8	15.7	11.6	15.3	11.3	12.1	11.0	12.4

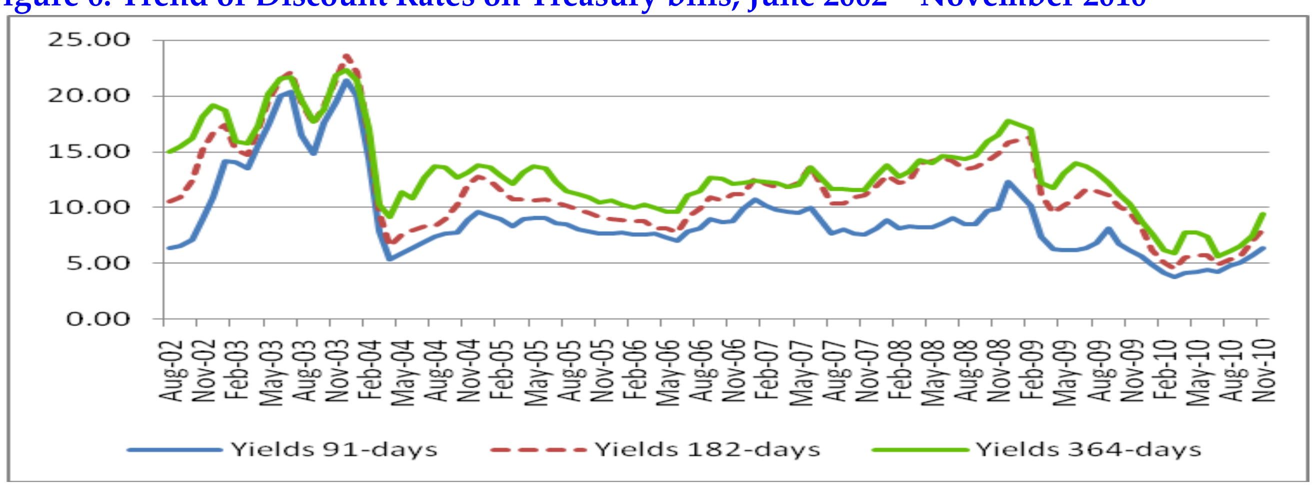
Source: Bank of Uganda

7 DEVELOPMENTS IN THE MARKETS AND CAPITAL MARKETS

i) Treasury bill Market

Two scheduled Treasury bill auctions, with offers of Shs. 70.0 billion and Shs. 85.0 billion each were held in November 2010. However, only Shs. 50.0 billion was awarded for the Shs. 70.0 billion auction in order to minimise the rise in yields to maturity. The interest rate on all tenors rose as shown in Figure 6.

Figure 6: Trend of Discount Rates on Treasury bills, June 2002 – November 2010



Source: Bank of Uganda

ii) Treasury bond Market

The Bank of Uganda re-opened a Shs. 60.0 billion 3-year bond on November 10, 2010. At a weighted average price of 98.2 per Shs. 100, the resultant yield for the 3-year 10.25 percent coupon bond was 11.2 percent, which was higher than 10.6 percent for the 3-year bond that was issued on October 24, 2010.

iii) Repo and inter-bank money market

The domestic inter-bank money market remained active in November 2010, attracting all banks, which undertook 321 transactions compared to 230 transactions in the previous month. The total amount traded for tenors of not more than 30 days increased to Shs. 737.5 billion from Shs. 623.1 billion in October 2010. The 7-day transactions were the most dominant, accounting for 61.4 percent of the total volumes traded during the month. The weighted average money market rates edged up to 4.8 percent in November 2010 from 3.8 percent recorded in the previous month as shown in Table 3.

Table 3: Summary of interbank money market activity

Tenor	October 2010			November 2010		
	No. Of transactions	Amount (Shs bn)	Weighted Rate	No. Of transactions	Amount (Shs bn)	Weighted Rate
Overnight	13	22.50	2.44	51	139.50	2.83
2 days	1	3.00	3.75	6	19.00	4.81
3 days	-	-	-	11	23.00	4.98
4 days	3	4.00	3.81	13	34.50	5.07
5 days	1	2.00	3.50	6	10.00	5.60
6 days	4	16.00	2.69	4	5.00	5.50
1 week	169	476.50	3.87	194	452.50	5.32
> 1 week	39	99.10	3.89	36	54.00	5.89
Total	**230**	**623.10**	**3.79**	**321**	**737.35**	**4.79**

Source: Bank of Uganda

iv) Commercial Banks' Lending and Deposit Rates

The weighted average lending rate for shilling denominated loans rose to 20.0 percent in October 2010 from 18.8 recorded in September 2010 while that of the foreign currency denominated loans fell to 9.3 percent from 10.0 percent in the same period. The weighted average lending rates varied across sectors with the manufacturing sector attracting the lowest weighted rate of 15.72 percent while business services attracted the highest of 24.18 percent. The weighted average lending rate excluding personal loans rose to 19.9 percent in October 2010 compared to 18.6 percent of September 2010.

The weighted average deposit rates for shilling and foreign currency denominated demand deposits remained relatively stable at 1.3 percent and 1.0 percent, respectively in October 2010. The weighted average interest rate for the shilling denominated savings deposits also remained relatively stable at 1.5 percent in October 2010, while that of the foreign currency denominated savings deposits declined slightly to 2.3 percent in October 2010 from 2.4 percent in September 2010. The weighted average interest rate for the shilling and foreign currency denominated time deposits however rose to 7.6 percent and 3.7 percent from 5.4 percent and 3.5 percent, respectively in the same period. Details of commercial Banks' lending and deposit rates are shown in Table 4.

Table 4: Commercial Banks' Lending and Deposit Rates (Percent)

Weighted Average rates	Foreign Currency Denominated				Shilling Denominated			
	July 2010	Aug 2010	Sept 2010	Oct 2010	July 2010	Aug 2010	Sept 2010	Oct 2010
Lending	10.62	10.25	10.00	9.31	19.57	20.32	18.82	20.01
Demand Deposits	0.96	0.96	0.96	0.96	1.28	1.25	1.36	1.34
Savings Deposits	1.52	1.70	1.51	1.50	2.49	2.56	2.39	2.32
Time Deposits	3.68	4.04	3.52	3.70	7.11	6.80	5.43	7.62
Spread	6.94	6.21	6.48	5.61	12.46	13.84	13.39	12.39
WARD	1.06	1.40	1.09	1.15	1.95	2.10	2.09	1.97

Source: Bank of Uganda

8 EXTERNAL SECTOR DEVELOPMENTS

i) Exports

Exports receipts increased in October 2010 after declining by about 19.0 percent in September 2010. The increase in exports receipts in October 2010 was on account of increase in both coffee and non-coffee exports. Formal exports proceeds for October 2010 were estimated at US$ 132.45 million, which is a decrease of 1.4 percent and a 12.7 percent increase compared to the proceeds realized in October 2009 and September 2010 respectively. Coffee exports amounted to 188,012 bags worth US$ 23.3 million, representing an increase of 22.9 percent and 10.8 percent in volume and value, respectively over the previous month. The increase in volume was due to the commencement of the coffee harvest season. However, in contrast to the same month last year, the performance was a decrease in volume of 5.5 percent and an increase in value of 25 percent. The unit price for coffee averaged US$ 2.07 per kg in October 2010, 20 cents more than the average unit price for September 2010. Formal non-coffee exports proceeds decreased by 5.7 percent compared to the proceeds realized in October 2009, but increased by 10.8 percent compared to September 2010.

Similarly, informal cross border trade (ICBT) exports are estimated to have increased in October 2010 to US$54.5 million from US$40.41 million in September 2010. However, this was a decrease of 23.5 percent when compared to the October

2009 estimates of US$71.21 million as shown in Table 5, below.

Notwithstanding this increase in total export receipts, the performance of exports has generally not been promising and as already noted, this has contributed to a weak shilling. The decline in formal exports has been attributed especially to poor coffee output this year as a result of unfavourable weather conditions experienced at the beginning of the coffee season and because of last year's dry spell. Good rains experienced this year could boost coffee output in the 2011 coffee season.

Table 5: Exports of Merchandise (US$ millions)

	Oct-09	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Total Exports	**205.58**	**175.96**	**170.05**	**159.85**	**192.27**	**157.92**	**186.93**
1. Coffee (Value)	**18.64**	**18.23**	**23.03**	**27.53**	**23.66**	**18.96**	**23.30**
Volume ('000 60-Kg bags)	0.20	0.18	0.23	0.27	0.22	0.17	0.19
Av. unit value	1.56	1.71	1.63	1.72	1.81	1.86	2.07
2. Non-Coffee formal exports	**115.73**	**120.74**	**113.06**	**95.63**	**121.14**	**98.55**	**109.15**
Electricity	1.34	0.95	1.08	1.12	1.17	1.05	1.01
Gold	1.16	3.72	6.28	0.82	1.68	0.27	0.79
Cotton	0.28	3.61	1.03	0.15	0.00	0.65	0.77
Tea	6.58	6.70	5.91	5.23	4.01	4.10	5.54
Tobacco	3.72	6.94	2.63	4.55	3.36	3.68	4.37
Fish & its prod. (excl. regional)	11.81	9.91	9.02	8.44	11.36	9.83	11.01
Hides & skins	0.58	1.57	1.65	0.99	0.95	1.23	1.21
Simsim	0.00	0.36	0.41	0.76	1.51	0.84	0.35
Maize	1.12	4.85	3.97	3.22	1.94	2.06	3.02
Beans	1.21	1.28	1.02	0.23	0.09	0.19	0.92
Flowers	3.45	4.31	5.49	4.14	4.32	3.63	3.19
Oil re-exports	9.80	8.90	7.49	11.16	8.16	8.19	7.47
Cobalt	1.43	1.39	2.12	1.59	1.06	1.06	1.59
Others	73.25	65.84	64.61	53.22	78.28	61.07	67.92
3. ICBT Exports	**71.21**	**36.99**	**33.96**	**36.69**	**47.47**	**40.41**	**54.48**

Source: Bank of Uganda

ii) Imports

Imports are estimated to have decreased to US$ 333.74 million in October 2010 from US$ 382.68 million recorded in September 2010. This was mainly on account of a decrease in government imports, which were recorded at US$ 15.1 million compared to US$ 85.9 million recorded in the previous month. Private sector imports increased to US$ 318.65 million compared to US$ 296.82 million recorded in September 2010 and 300.1 million in October 2009. The main items imported include: machinery, vehicles, and equipment; chemicals and related products; petroleum products; vegetables, animal fats and oils; base metals and mineral products. India, China and Kenya remain the main sources of imports. Developments in the import bill are reflected in Table 6.

Table 6: Imports of merchandise (US$ millions)

	Oct-09	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Total Imports	**322.16**	**434.97**	**351.21**	**317.59**	**311.74**	**382.68**	**333.74**
Government Imports	**22.04**	**111.23**	**53.13**	**26.29**	**11.99**	**85.85**	**15.09**
Project	9.48	4.63	16.10	10.22	8.25	10.88	12.40
Non-Project	12.56	106.60	37.03	16.06	3.74	74.97	2.69
Private Sector Imports	**300.12**	**323.74**	**298.08**	**291.30**	**299.75**	**296.82**	**318.65**
Oil imports	37.04	47.20	45.18	43.87	44.81	43.74	49.00
Non-oil imports	263.08	276.53	252.91	247.44	254.93	253.09	269.66

Source: Bank of Uganda

iii) Other flows

Official aid inflows in October 2010 amounted to about US$ 93.14 million, while net private transfers were estimated at US$ 34.7 million. Official cash debt service (excluding IMF obligations) stood at US$ 9.9 million. The level of gross foreign reserves stood at US$ 2,716.8 million as at the end of October 2010, equivalent to 5.1 months of future imports of goods and services.

9 FISCAL OPERATIONS

Government has pursued an expansionary monetary stance throughout the year with increased domestic borrowing but the implementation of expenditure plans has resulted in volatility in the interest rates due to lumpy injections and uncertainty as to when the actual releases will be effected. In the first five months of 2010/11, the government expenditure fell short of the projected by about 12.5 percent. This underperformance of government injections could have a depressing effect on economic activity. However, for November 2010, net fiscal injections by the government operations amounted to Shs. 444 billion. Government expenditure amounted to Shs. 791 billion, which was significantly higher than Shs 397 billion realized in October 2010 but slightly higher than what was projected at the beginning of the month. Tax remittances on the other hand amounted to Shs. 347 billion, which was higher than Shs. 332 billion realised in October 2010. Details of government fiscal operations are shown in Table 7.

Table 7: Fiscal Operations (Shs. Billion)

	Sep 2009	Oct 2009	Nov 2009	Sep 2010	Oct 2010	Nov 2010
Expenditure	344	301	466	456	397	791
Tax Revenue	303	288	271	320	332	347
Net Injection	**41**	**13**	**195**	**136**	**65**	**444**

Source: Bank of Uganda

10 ECONOMIC ACTIVITY DEVELOPMENTS

i) Aggregate demand

Aggregate demand continues to show signs of recovery. The transactions motive for holding money suggests that real consumption and household real money holdings should move together. Growth in real in currency has continued to be robust after rebounding from negative episodes recorded between August 2009 and February 2010. In the 12-month period to October 2010, real growth in currency stood at 25.9 percent, up from 20.5 percent and 15.3 percent in September 2010 and August 2010, respectively. This strong real growth in currency is indicative of strong consumer expenditure, which ultimately could be strongly related to developments in real economic activity.

Private sector credit remained buoyant in October 2010. This is likely to auger well for economic activity in the near term, given that credit plays an important role in private consumption and investment. Another measure to gauge the buoyancy of economic activity is taxes collected on domestic activities. The total tax collections under indirect domestic taxes increased by 13 percent, with value added tax increasing by 12.8 percent, while excise duty increased by 13.5 percent, and direct domestic taxes increased by 41.6 percent in the first four months of 2010/11 compared to the first four months of 2009/10.

On the external side, however, the performance of exports and imports are still lacking buoyancy. Another factor to gauge the vibrancy of the external sector is the evolution of the foreign exchange purchases by commercial banks from the non-bank sector as well as the volume of transactions in the IFEM. Figure 7 depicts the evolution of interbank activities in the forex and other purchases and sales by commercial banks. The trend line shows that the turnover in foreign exchange trading by commercial banks picked-up in November 2010 after declining in September and October 2010. Forex bureaux foreign currency purchases and the volume of remittances received through them shown in Figure 8 have also increased steadily since January 2010 although the pattern is erratic. These seem to be supportive of uptick in the level of economic activity.

Figure 7: Forex purchases and sales in the interbank market.

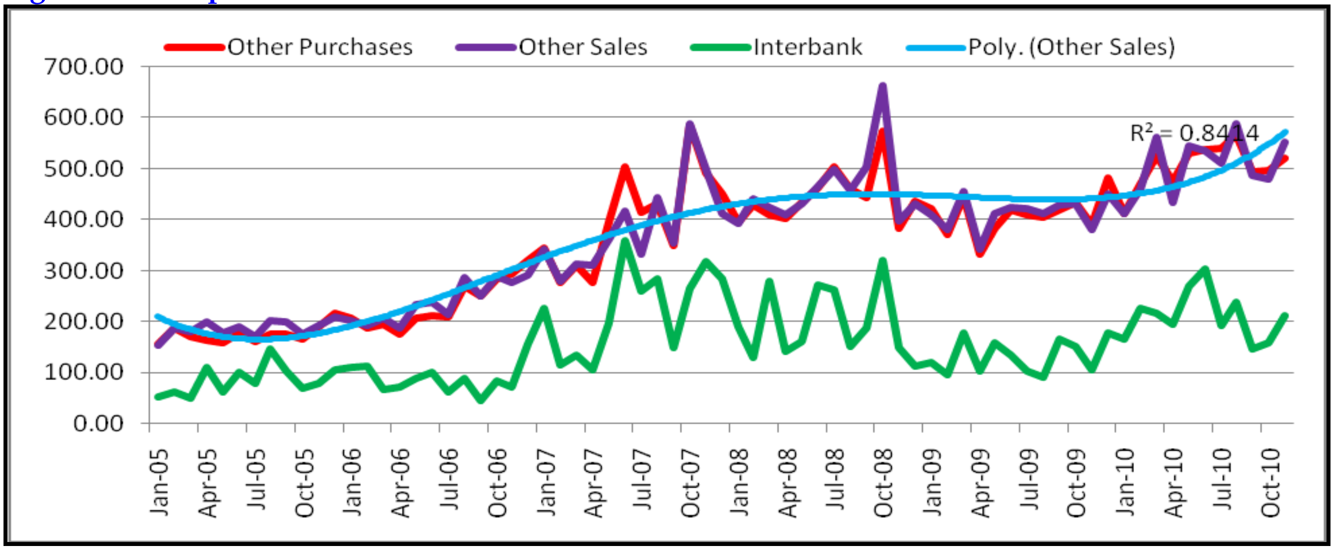
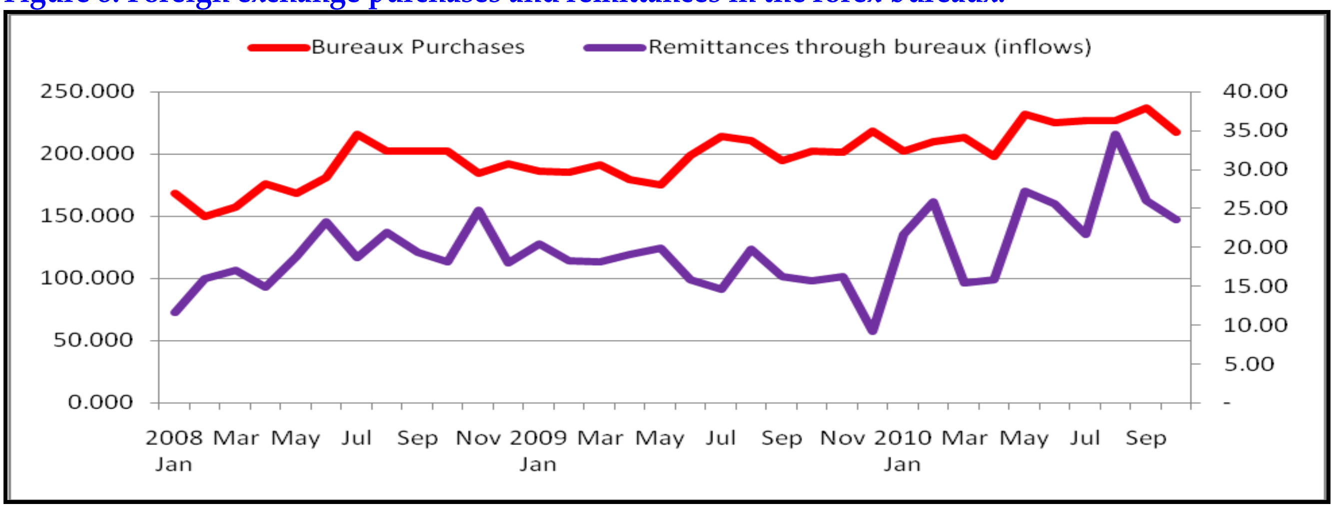
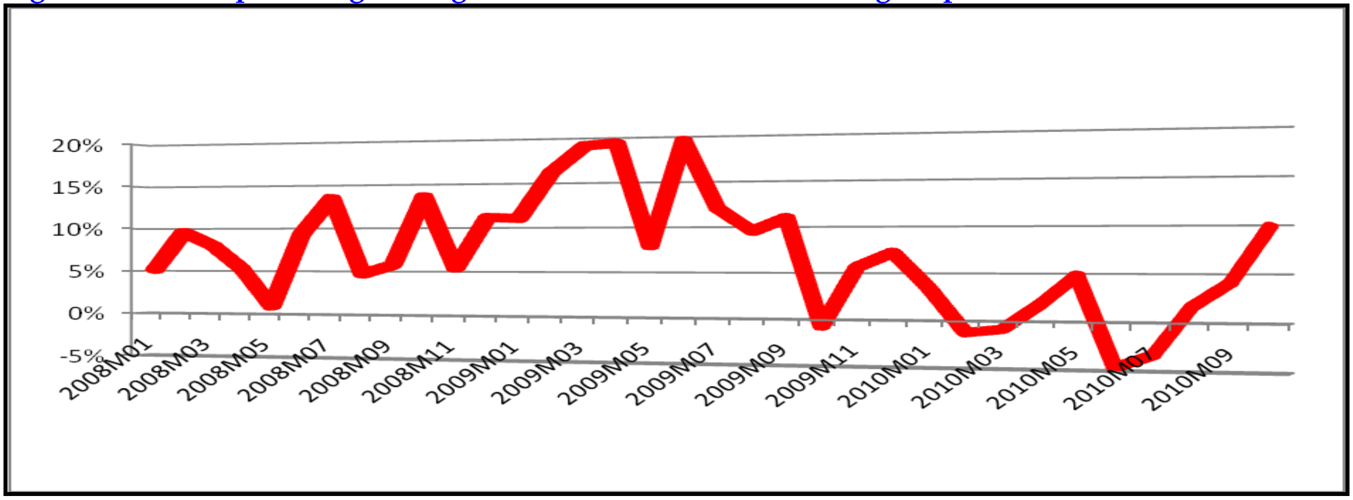


Figure 8: Foreign exchange purchases and remittances in the forex bureaux.



The recently released index of manufacturing output in Figure 9 indicate markedly strong upturn in the manufacturing output growth since July 2010, supporting the view that economic activity has rebounded after declining in the most of 2009/2010. The construction sector has been the most vibrant sector with bricks and cement average Y-o-Y growth of 27 percent between July 2010 and October 2010. This is followed by metal products which grew by 20 percent and drinks and tobacco by 4.8 percent in the same period. Food processing index grew by 8.6 percent in October 2010 on annual basis after a persistent decline since February 2010.

Figure 9: Annual percentage change in the Index of manufacturing output



Source: UBOS

ii) Uganda Securities Exchange

Trading at the Uganda Securities Exchange (USE) increased significantly in November 2010 with total turnover rising by 28.4 percent from Shs. 1.749 billion in October 2010 to Shs. 2.443 billion in November 2010. Market capitalization on the other hand fell by 379.5 percent in November 2010 compared to a 13.4 percent increase in September 2010. However, the all share index increased marginally by 0.3 percent during the same period. The number of shares that exchanged hands also increased by 21.4 percent.

Stanbic Bank Uganda Ltd (SBU) accounted for 38 percent of the total turnover, followed by National Insurance Company (NIC) with 35 percent, Uganda Clays (UCL) with 21 percent, DFCU with 3 percent and Bank of Baroda (BOBU), New Vision Limited (NVL) and Nation Media Group with the remaining 3 percent. The details of developments in the equities market in the months of August 2010 to November 2010 are shown in Table 8.

Table 8: Trading at Uganda Securities Exchange, Aug 2010 – November 2010

	Nov '09	Aug '10	Sep '10	Oct '10	Nov '10
Total Turnover	1,804,097,815	1,179,261,555	1,740,443,185	1,749,346,495	2,443,381,775
No. Of shares Traded	10,106763	9,692,626	8,423,935	10,735,489	13,664,921
Market Cap (Billion Shs. E.O.P)	6,852	10,367	11,328	12,844	2,679
All Share Index	703.59	1,059.93	1,117.9	1,195	1,199

Source: Uganda Securities Exchange

11 POLICY OUTLOOK

The current and future stance of monetary policy reflects the prospects for inflation and economic activity. Going forward, monetary policy decisions will be driven by the monthly near term inflation forecasts. As the economy slowly strengthens, there will be need for gradual monetary tightening, guarding against abrupt tightening, which could result into another economic slowdown. However, if monetary easing continues for too long, there is a risk of high inflation. Therefore, the BOU will ensure that there is no sharp deceleration of economic growth while counter-balancing effects of the risks to inflation. The Bank will also continue to provide sufficient liquidity to the financial system in order not only to reduce the volatility of the money market rates, but also to strengthen confidence in the money market.

The exchange rate will continue to be influenced by the developments in the global currency markets and domestic factors. The performance of Uganda's formal exports is likely to strengthen slightly in the coming months but the global financial markets are likely to remain volatile due to monetary policy tightening in emerging economies, additional quantitative easing by the rich countries and the commitment to close-to-zero policy interest rates for a long period, and the Euro-zone sovereign debt crisis and the associated EU fiscal austerity drive. These will continue causing volatility in the shilling as it adjusts to the global developments. In addition, as economic activity rebounds coupled with the rise in the yields on the treasury bonds and bills, this could attract capital inflows that might contribute to volatility in the exchange rate. The BOU will continue with its intervention policy in the foreign exchange market to ensure stability in the exchange rate mindful of the need to build buffers of foreign exchange reserves that can be used to mitigate vulnerabilities stemming from external shocks.

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs: end of month unless otherwise indicated)													
	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Foreign Exchange Market													
Inter-Bank Purchases (US$M)	496.1	659.7	578.2	696.6	741.8	669.7	798.7	894.6	729.9	804.4	640.9	655.5	731.1
Inter-Bank Sales (US$M)	485.9	629.3	577.7	578.2	778.0	630.0	813.4	899.5	701.4	827.3	633.3	636.9	762.1
Cross currency trading (US$ million)	341.0	394.2	267.1	219.4	129.2	271.9	277.1	152.5	426.7	174.4	165.3	180.0	131.3
Inter-Bank Mid-Rate (UShs/US$)	1,873.8	1,896.6	1,935.6	1,996.5	2,086.4	2,083.0	2,174.6	2,257.4	2,257.3	2,230.9	2,251.3	2,264.8	2,288.9
Balance of Payments (US$ millions)													
Current Account Balance	(134.4)	(66.2)	(144.7)	(108.4)	(177.0)	(134.9)	(286.3)	(193.8)	(58.7)	(95.1)	(147.1)	(114.5)	
Exports	191.0	134.3	124.0	129.7	141.8	125.8	176.0	170.1	159.9	192.3	157.9	186.9	
Imports	314.0	343.5	303.3	328.3	376.8	320.1	435.0	351.2	317.6	311.7	382.7	333.7	
Foreign Exchange Reserves													
Gross Foreign Reserves in months of imports of goods and S	5.6	5.7	5.4	5.3	5.2	5.3	4.9	4.9	4.9	4.9	4.7	5.1	
Bank of Uganda Foreign Exchange Reserves (US$ M)	2,761.7	2,769.3	2,747.9	2,732.5	2,673.0	2,698.8	2,520.7	2,489.8	2,553.2	2,542.2	2,711.7	2,716.8	
Fiscal													
Tax Revenue	270.8	444.6	343.9	299.6	309.8	328.9	297.9	364.4	426.8	352.8	320.2	331.9	347.3
Monetary and Credit Aggregates (2)													
Broad Money supply M3	6,427.7	6,797.7	6,732.6	7,107.1	7,268.6	7,610.2	7,966.1	8,288.5	8,027.2	8,467.3	8,641.0	8,831.5	
Foreign Exchange Accounts Deposits	1,283.0	1,412.6	1,437.1	1,485.5	1,495.4	1,757.0	1,824.3	1,881.4	1,850.9	1,976.0	2,027.4	2,086.1	
Money supply M2	5,144.7	5,385.1	5,295.4	5,621.6	5,773.2	5,853.2	6,141.8	6,407.1	6,176.3	6,491.4	6,613.6	6,745.4	
Currency in circulation	1,250.1	1,329.7	1,299.8	1,284.7	1,304.1	1,336.3	1,344.7	1,438.6	1,464.2	1,472.9	1,460.9	1,531.5	
Demand deposits	1,888.6	1,978.2	1,908.2	2,095.5	2,057.1	2,037.7	2,267.7	2,345.7	2,122.6	2,368.0	2,388.2	2,418.0	
Time and saving deposits	2,006.0	2,077.1	2,087.4	2,241.4	2,412.1	2,479.2	2,529.5	2,622.8	2,589.5	2,650.5	2,764.5	2,795.9	
Private Sector Credit	3,895.3	3,994.0	4,003.9	4,156.9	4,247.5	4,274.5	4,433.5	4,502.3	4,611.1	4,697.4	4,817.4	5,084.5	
Weighted Average Interest Rates on Shilling Transactions.													
Savings Deposit Rate	2.2%	2.3%	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.6%	2.4%	2.3%	
Time Deposit Rate	8.8%	9.2%	9.3%	8.3%	7.7%	7.8%	7.5%	7.3%	7.1%	6.8%	5.4%	7.6%	
Lending Rate	21.6%	20.0%	19.6%	20.2%	21.1%	22.0%	20.6%	20.1%	19.6%	20.3%	18.8%	20.0%	
Treasury Bills													
91 Days (End period Weighted Discount Rate)	5.9%	5.3%	4.6%	3.8%	3.9%	4.1%	4.1%	4.3%	4.2%	4.8%	5.1%	5.7%	6.5%
182 Days (End period Weighted Discount Rate)	8.8%	7.2%	5.7%	4.6%	4.5%	5.5%	5.5%	5.3%	4.8%	5.2%	5.6%	7.1%	7.9%
364 Days (End period Weighted Discount Rate)	9.3%	8.3%	6.8%	5.7%	5.9%	7.3%	7.5%	6.2%	5.4%	5.9%	6.3%	7.3%	8.9%
Average Interest Rates on Foreign Exchange Transactions.													
Demand Deposit Rate	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Savings Deposit Rate	1.5%	1.5%	1.5%	1.6%	1.7%	1.6%	1.5%	1.7%	1.5%	1.7%	1.5%	1.5%	
Time Deposit Rate	4.8%	5.1%	3.5%	4.4%	3.2%	3.9%	1.8%	3.2%	3.7%	4.0%	3.5%	3.7%	
Average Lending Rate	10.3%	10.1%	11.4%	11.2%	9.9%	10.0%	9.0%	10.8%	10.6%	10.2%	10.0%	9.3%	
Overall Interbank Rate	3.7%	3.5%	3.7%	3.6%	3.4%	3.3%	2.7%	2.7%	2.8%	3.0%	3.0%	3.9%	4.8%
Treasury Bond Secondary Market rates													
2-year Bond													
Bid (average)	12.0%	11.4%	11.4%	9.6%	7.3%	7.0%	6.4%	7.7%	6.4%	6.0%	7.2%	8.4%	9.1%
Offer (average)	11.8%	11.3%	11.2%	9.4%	7.2%	6.8%	6.2%	7.5%	6.2%	5.8%	7.0%	8.2%	8.9%
5-year Bond													
Bid (average)	13.0%	12.6%	12.6%	11.4%	9.6%	8.5%	8.1%	8.2%	8.1%	8.3%	9.3%	9.5%	10.5%
Offer (average)	12.8%	12.4%	12.4%	11.3%	9.5%	8.3%	8.0%	8.0%	8.0%	8.1%	9.1%	9.3%	10.3%
10-year Bond													
Bid (average)	13.0%	14.3%	14.5%	13.5%	13.0%	13.0%	12.1%	12.8%	12.1%	11.4%	11.5%	12.0%	12.4%
Offer (average)	12.8%	14.1%	14.3%	13.3%	12.8%	12.8%	11.9%	12.6%	11.9%	11.1%	11.3%	11.8%	12.2%
Bank of Uganda Rates													
Rediscount Rate	9.4%	8.7%	8.1%	7.4%	6.8%	7.1%	7.2%	7.4%	7.3%	7.6%	8.1%	8.9%	9.7%
Bank Rate	10.4%	9.7%	9.1%	8.4%	7.8%	8.1%	8.2%	8.4%	8.3%	8.6%	9.1%	9.9%	10.7%
Consumer Price Index (Base 2005/06)													
Composite CPI, Annual percentage change.	12.0	10.9	8.9	8.1	7.5	5.9	4.3	4.2	3.2	1.7	0.3	0.2	1.4
Core CPI, Annual percentage change	8.8	7.4	5.5	6.4	6.4	5.5	4.6	4.6	4.6	4.0	4.1	2.5	2.9
Food crops CPI, Annual percentage change	35.5	34.3	27.6	22.0	16.8	10.7	4.1	3.5	-2.5	-9.2	-17.6	-11.4	-5.5
Elec, Fuel & Utilities (EFU) CPI, Annual percentage	-3.4	-3.2	-7.1	-4.4	-1.3	3.7	4.1	3.9	1.3	1.8	2.1	3.9	3.4
Index of production (Manufacturing); Base=2002													
Composite	171.72	170.23	169.86	172.58	176.77	168.35	162.71	173.40	176.38	176.09	180.04	179.39	
Source: Research Department, Bank of Uganda													