

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



FEBRUARY 2010

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INTRODUCTION

The indicators presented in this report summarise the major developments in the economic and financial conditions in Uganda during the month of February 2010. The key objectives of monetary policy during this month remained overall macroeconomic and price stability.

In February 2010, the annual headline inflation continued on its declining trend mainly driven by a fall in food crop inflation. Annual core inflation, which had fallen

sharply over the last four months, remained stable during the month under review. Although the shilling continued on a depreciating trend, the foreign exchange market remained broadly stable. Interest rates on all Treasury bill papers and the repo instrument dropped further.

I INFLATION

According to data from the Uganda Bureau of Statistics, the annual headline inflation continued on its declining trend, dropping to 7.5 percent in February 2010 from 8.9 percent in January 2010. This decline was mainly attributed to a fall in food inflation reflecting increased supplies to the markets. The monthly headline inflation declined by 0.2 percent compared to a decline of 0.6 percent in January 2010.

Annual core inflation¹ remained relatively stable, standing at 5.6 percent in February 2010 compared to 5.5 percent recorded in the previous month. On the other hand, the month-on-month core inflation increased by 0.8 percent in contrast to a decline of 0.1 percent in January 2010. The monthly increase in the core inflation was on account of three factors: rising costs of charcoal because of heavy rains which complicated the burning process and transportation, increased cost of scholastic materials at the beginning of the school term and higher prices of some manufactured goods.

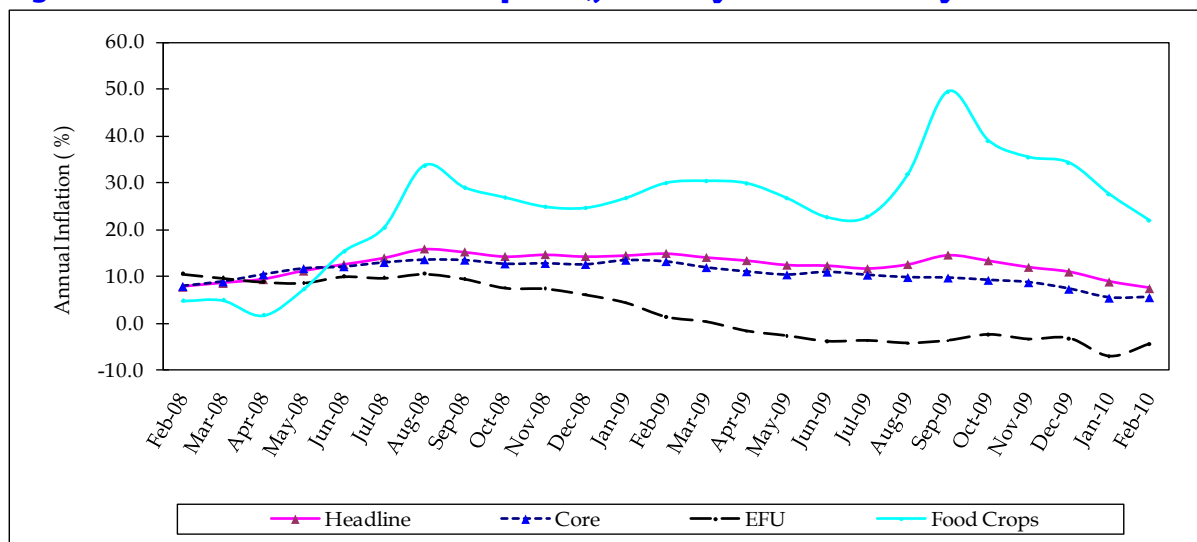
Annual Energy, Fuel, and Utilities (EFU) inflation, increased to minus 4.4 percent from minus 7.1 percent in the previous month. The month-on-month EFU inflation also rose by 0.4 percent during the course of the month compared to a decline of 3.8 percent recorded in January 2010 driven largely by increased petroleum prices.

The annual food crop² inflation declined further to 22.0 percent from 27.6 percent observed in January 2010 as increased supplies of staple foods, some vegetables and beans in the markets led to a drop in prices. The month-on-month food crop inflation declined by 2.8 percent compared to a drop of 3.0 percent in the previous month. Figure 1 shows the movements in the annual inflation rates for the period February 2008 to February 2010.

¹ Excludes food crops, electricity, fuel and metered water

² Food crops include fresh food crop items and related products such as milk and flour

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



Source: Uganda Bureau of Statistics

II FOREIGN EXCHANGE MARKET

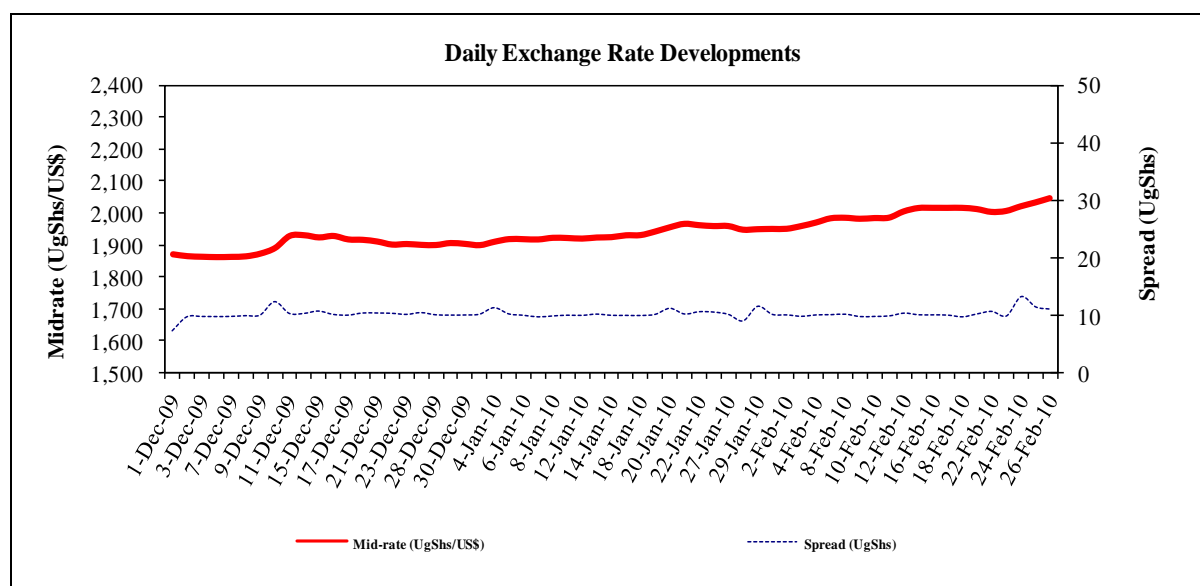
i) Exchange rates

On a period average basis, the shilling depreciated by 3.2 percent to a midrate of Shs. 1996.5 per US dollar in February 2010. The depreciation was largely driven by high demand for dollars by domestic corporations in the energy, manufacturing and telecommunications sectors; and offshore institutional investors.

During the month under review, in an attempt to restore market stability, BOU

intervened in the Interbank Foreign Exchange market (IFEM) thrice resulting in a net purchase of U.S \$ 5.0 million. In addition, BOU sold US\$ 1.9 million to the IFEM for purposes of liquidity sterilisation. The sterilised liquidity through daily sales of foreign exchange to the IFEM amounted to Shs. 3.8 billion, compared to Shs. 3.5 billion in the preceding month. 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, December 2009 to February 2010



Source: Bank of Uganda

ii) Foreign exchange purchases and sales

Gross foreign exchange purchases and sales increased by 20.5 percent and 18.9 percent, to US\$ 696.6 million and US\$ 687.0 million, respectively in February 2010. Interbank trades totalled US\$ 226.2 million, while non-market sales and purchases amounted to US\$

460.8 million and US\$ 470.4 million, respectively. However, cross currency trade transactions declined by 17.9 percent to US\$ 219.4 million in February 2010 compared to the preceding month.

III DOMESTIC MONEY MARKET\$ AND INTEREST RATES

i) Interest rates

Interest rates on government securities continued to decline during the month of February 2010 in line with the BOU easing monetary policy stance. Furthermore, the monthly weighted average lending rate on commercial banks' shilling denominated loans dropped to 19.6 percent in January 2010 from 20.0 percent in the previous month. On the other hand, the weighted average lending rate on foreign currency denominated loans rose to 11.4 percent during January 2010 from 10.1 percent in December 2009.

ii) Treasury bill Market

Two calendar Treasury bill auctions with a combined total offer of Shs. 80.0 billion were held in February 2010. These auctions were oversubscribed to the tune of Shs. 197.0 billion indicating demand for Treasury bills. The monthly weighted average discount rate on 91-day, 182-day and 364-day Treasury bill papers decreased from 4.8 percent, 5.9 percent and 7.2 percent for the month of January 2010 to 4.3 percent, 4.9 percent and 6.0 percent in February 2010, respectively.

Furthermore, BOU offered a Shs. 19.1 billion treasury bill to commercial banks to be used as failure to settle collateral. According to the Central Depository System, the outstanding stock of Treasury bills at the end of February 2010 stood at Shs. 1,223.0 billion.

The margin within the rediscount rate remained at 3.0 percentage points. The Rediscount rate and Bank rate reduced further to 7.4 percent and 8.4 percent from their respective end January 2010 levels of 8.1

percent and 9.1 percent, reflecting the declined yield for the 91-day Treasury bill.

iii) Treasury bond Market

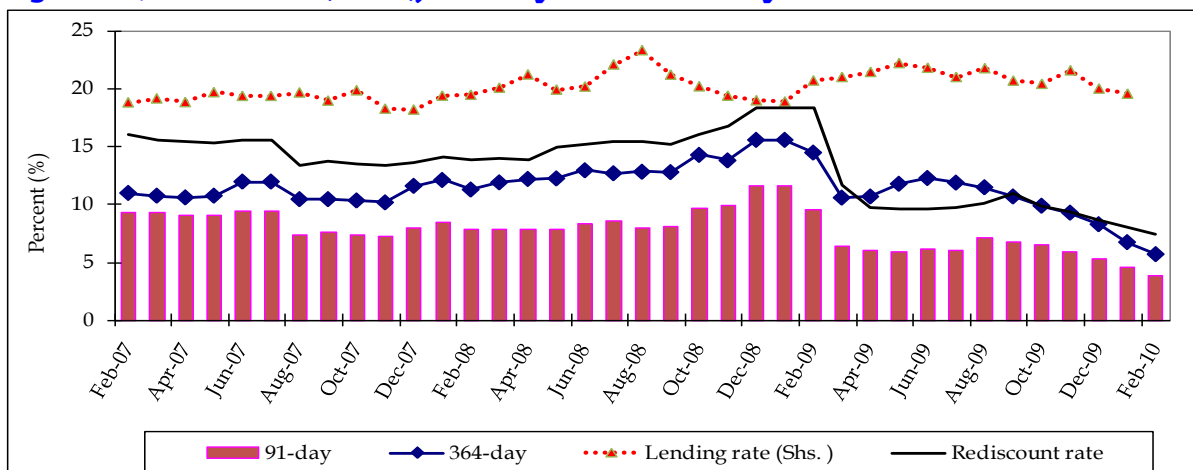
In line with the monetary policy objectives, Bank of Uganda issued a 10-year bond worth Shs. 50 billion on February 3, 2010. The resultant Yield to Maturity (YTM) was 12.4 percent, compared to 14.7 percent recorded for the 10-year bond issued on November 11, 2009. The outstanding stock of Treasury bonds fell by Shs. 65.4 billion during the month of February 2010 to Shs. 1,341.2 billion, as the maturities exceeded the issued amount.

iv) Repo and inter-bank money market

During the month of February 2010, BOU maintained the use of the repo and reverse repo instruments to minimize volatility in the short term money market rates. Repos and reverse repos with tenures ranging between 1 and 7 days were offered and the net effect of these actions was a withdrawal of Shs. 150.0 billion.

In February 2010, interbank money market transactions were of durations of 1 to 30 days. The total amount traded was Shs. 570.9 billion, up from total trades of Shs. 415.4 billion recorded in January 2010. The 7-day transactions dominated the market. The weighted average rate in the interbank money market was 3.6 percent, marginally lower than 3.7 percent recorded in the previous month. Figure III shows the pattern of selected categories of interest rates.

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



Source: Bank of Uganda

IV MONETARY AGGREGATES

i) Money supply

According to provisional information, money supply contracted between December 2009 and January 2010 mainly driven by seasonal factors. Narrow money **M1** decreased by Shs. 100.0 billion from Shs. 3,308.0 billion at the end of December 2009 to Shs. 3,208.0 billion at end-January 2010. The private sector's demand deposits and currency in circulation declined by Shs 70.1 billion and Shs. 29.9 billion to Shs. 1,908.2 billion and Shs. 1,299.8 billion, respectively.

On the other hand, the private sector's time and savings deposits increased by Shs. 10.3 billion to Shs. 2,087.4 billion and no certificates of deposits were registered during the month under review. Therefore, money supply **M2** contracted by Shs. 89.7 billion from Shs. 5,385.1 billion to Shs. 5,295.4 billion.

The private sector's foreign exchange deposits increased by Shs. 24.5 billion from Shs 1,412.6 billion to Shs. 1,437.1 billion mainly driven by the foreign exchange developments. As a result of the above developments, broad money supply **M3** decreased by Shs. 65.2 billion to Shs. 6,732.6 billion.

The net foreign assets (NFA) of the banking system increased by 3.9 percent to Shs. 5,927.2 billion at end January 2010. This rise was driven by an increase in both the Central bank's and commercial banks' net foreign assets, which rose by Shs. 103.3 billion and Shs. 118.6 billion, respectively. Conversely, the net domestic assets of the banking system

declined by 26.3 percent during the period under review.

Government's net position with the banking system was a saving of Shs. 643.3 billion as at end-January 2010, a slight deterioration of 0.01 percent when compared to the level of savings registered at end-December 2009. The government's position with the Central Bank improved by Shs. 78.6 billion from a saving of Shs. 2,330.9 billion at end December 2009 to Shs. 2,409.5 billion at end January 2010. However, this was more than offset by an increase in government's borrowing from commercial banks of Shs. 88.1 billion, owing to a rise in commercial banks' investment in government securities.

The banking system's claims on the private sector increased by 0.2 percent, from Shs. 3,994.0 billion at end December 2009 to Shs. 4,003.9 billion at end January 2010. Annual private sector credit growth increased to 17.0 percent in January 2010 as compared to 16.7 percent in December 2009.

iii) Base money

Preliminary estimates indicate that base money contracted from Shs. 2,026.6 billion at end January 2010 to Shs. 1,942.6 billion at end February 2010, reflecting the fall of excess reserves of commercial banks.

Commercial banks' total reserves and currency issued declined by Shs. 77.0 billion and Shs. 7.0 billion to Shs. 464.1 billion and Shs. 1,478.5 billion, respectively over the review period.

V SELECTED ITEMS IN THE BALANCE OF PAYMENTS

According to the available information, official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$ 21.2 million while net private transfers were estimated at US\$ 83.6 million in January 2010.

Official cash debt service for the month of February 2010 stood at US\$ 0.6 million, and there were no principal payments of IMF

debt. Estimates of trade credit amounted to net inflows of US\$ 10.9 million, consisting of inflows (buyers' credit and suppliers' credit) estimated at US\$ 46.2 million and outflows (pre-finance shipments and suppliers' credit repayments) estimated at US\$ 35.3 million. In January 2010, the level of gross foreign reserves stood at US\$ 2,747.9 million, which was equivalent to 5.3 months of future imports of goods and services.

VI COMMODITY SUB-SECTOR

i) Coffee exports

Data from the Uganda Coffee Development Authority (UCDA) showed that total coffee exports for the month of February 2010 dropped by 17.7 percent over the year, on account of the drought that was experienced in most of the growing areas last year.

Coffee exports for the month under review amounted to 264,373 (60Kg) bags worth US\$ 26.5 million, down from 319,605 (60Kg) worth US\$ 31.0 million registered in February 2009. Despite the decline in shipments, these exports were 3.9 percent higher in value terms than in January 2010.

The average realised export price rose slightly to US\$ 1.7 per Kilogram from US\$ 1.6 per Kilogram in the previous month. The farm-gate price for Kiboko (dry cherries of Robusta) coffee averaged Shs. 1,100 per kilo while the price of Fairly Average Quality (FAQ) coffee remained around Shs. 2,300 per kilogram. The mean price for Arabica parchment was Shs. 3,600 per kilogram in February 2010.

ii) Non-coffee exports

The total value of formal non-coffee exports for January 2010 was US\$ 98.7 million compared to values of US\$ 82.7 million and US\$ 116.3 million realized in January 2009 and December 2009, respectively. These export proceeds reflected an increase of 19.4 percent compared to the amounts realized in January 2009, however a decline of 15.1 percent as compared to the amounts realized

in December 2009. This decline was mainly on account of a decrease in the value of oil re-exports. Table I shows the detailed performance of Uganda's formal exports up to January 2010³.

³ Excludes informal export figures for January 2010 as data is still under review.

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

	Jan-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Total Exports (a+b)	238.51	276.75	280.27	307.39	331.21	405.69	-
a) Formal Exports: (a + b)	113.12	123.72	112.31	125.36	129.33	142.03	124.03
1. Coffee	30.47	23.58	18.30	18.64	22.10	25.77	25.35
Volume (millions of 60-Kg bags)	0.33	0.26	0.20	0.20	0.24	0.27	0.26
Av. Unit value	1.54	1.51	1.53	1.56	1.57	1.57	1.60
2. Non-Coffee exports:	82.66	100.14	94.01	106.72	107.23	116.26	98.68
Electricity	0.90	1.60	1.46	0.00	1.29	1.34	1.04
Gold	1.08	2.81	2.81	1.16	0.47	2.61	1.58
Cotton	1.95	0.59	0.27	0.28	0.50	0.26	1.16
Tea	3.99	2.71	3.87	6.58	8.70	6.45	6.70
Tobacco	2.78	7.02	4.71	3.72	14.20	7.41	8.37
Fish & its products	6.82	9.02	8.74	11.81	14.03	11.37	11.93
Hides & skins	0.46	0.37	0.46	0.58	0.54	0.77	1.03
Simsim	0.91	0.14	0.42	0.42	0.17	0.12	1.31
Maize	3.33	0.70	0.92	1.12	1.36	3.16	2.98
Beans	0.89	0.54	0.86	1.21	0.82	1.40	0.41
Flowers	3.07	4.47	4.45	3.45	4.12	3.44	3.58
Oil re-exports	0.33	0.50	0.26	0.28	0.42	8.13	0.31
Cobalt	0.95	1.91	0.48	1.43	0.48	2.85	1.04
Base metals & their products	6.67	9.25	7.09	10.74	7.66	8.27	6.57
Others	48.53	58.53	57.22	63.94	52.47	58.71	50.69
b) Informal Exports: (ICBT)	125.38	153.03	167.96	182.03	201.88	263.67	-

Source: Bank of Uganda

iv) Imports

The total import bill for January 2010 is estimated to have decreased to US\$ 293.1 million from US\$ 343.9 million that was recorded in December 2009. This was due to a decline in both government and private sector imports, particularly in the machinery, vehicles and accessories category.

Private sector imports which constituted 96.4 percent of the total import bill of January 2010 decreased to US\$ 282.7 million from US\$ 320.9 million that was registered in the previous month.

The oil import bill amounted to US\$ 42.1 million in January 2010, US\$ 1.1 million higher than the amount recorded in the preceding month.

Government imports decreased to US\$ 10.5 million in January 2010, US\$ 12.6 million lower than what was recorded in December 2009. Table II summarizes developments in imports of goods.

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

	Jan-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Total Imports:	313.73	309.58	325.84	328.00	314.04	343.89	293.13
Government Imports:	16.54	20.73	24.27	22.04	16.30	23.02	10.45
Project	11.77	14.96	20.20	9.48	12.03	18.77	6.47
Non-Project	4.77	5.77	4.07	12.56	4.27	4.25	3.98
Private Sector Imports:	297.19	288.85	301.57	305.96	297.74	320.87	282.68
Oil imports	38.49	36.56	39.24	37.04	34.83	40.98	42.10
Non-oil imports	258.70	252.29	262.33	268.93	262.91	279.89	240.58

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

VII CONCLUDING REMARKS

The Bank of Uganda maintained an accommodative monetary policy stance to support aggregate demand during the month of February 2010, mindful of the need to ensure price stability in order to achieve the agreed macroeconomic objectives for the year 2009/10.

Going forward, Bank of Uganda will continue to monitor financial, economic and exchange rate developments and stands ready to take appropriate monetary policy actions that will maintain price stability and foster a sound financial system, in support of sustained economic growth.

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (In billions of U Shs: end of month unless otherwise Indicated)								
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Foreign Exchange Market								
Inter-Bank Purchases (US\$M)	512.5	494.8	586.5	584.5	496.1	659.7	578.2	696.6
Inter-Bank Sales (US\$M)	525.2	503.4	594.8	581.5	485.9	629.3	577.7	578.2
Cross currency trading (US\$ million)	443.1	513.8	1157.5	674.8	341.0	394.2	267.1	219.4
Inter-Bank Mid-Rate (US\$/\$)	2110.8	2071.7	1961.9	1898.3	1,873.8	1,896.6	1,935.6	1,996.5
Foreign Exchange Reserves								
Gross Foreign Reserves in months of imports of goods and Services	5.40	5.20	5.60	5.60	5.6	5.7	5.3	
Bank of Uganda Foreign Exchange Reserves (US\$ M)	2577.0	2652.8	2768.3	2776.1	2,761.7	2,769.3	2,747.9	
Monetary and Credit Aggregates (2)								
Broad Money supply M3	6,165.6	6,303.8	6,300.5	6,355.7	6,427.7	6,797.7	6,732.6	
Foreign Exchange Accounts Deposits	1,363.5	1,384.2	1,360.2	1,343.5	1,283.0	1,412.6	1,437.1	
Money supply M2	4,802.0	4,919.6	4,940.3	5,012.2	5,144.7	5,385.1	5,295.4	
Certificate of Deposit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Currency in circulation	1,270.5	1,257.3	1,208.3	1,214.3	1,250.1	1,329.7	1,299.8	
Demand deposits	1,636.6	1,754.4	1,816.9	1,776.6	1,888.6	1,978.2	1,908.2	
Time and saving deposits	1,894.8	1,907.9	1,915.0	2,021.3	2,006.0	2,077.1	2,087.4	
Claims on Central Government	(845.8)	(555.0)	(833.4)	(820.4)	(571.0)	(652.8)	(643.3)	
o/w Bank of Uganda, net claims on gov't.	(2,520.8)	(2,229)	(2,484.8)	(2,534.9)	(2,251.6)	(2,330.9)	(2,409.4)	
Private Sector Credit	3,656.9	3,662.6	3,691.6	3,800.0	3,895.3	3,994.0	4,003.9	
Weighted Average Interest Rates on Shilling Transactions.								
Savings Deposit Rate	2.2%	2.4%	2.4%	2.2%	2.2%	2.3%	2.2%	
Time Deposit Rate	10.8%	10.1%	8.5%	9.5%	8.8%	9.2%	9.3%	
Lending Rate	21.0%	21.8%	20.7%	20.4%	21.6%	20.0%	19.6%	
Treasury Bills								
91 Days (End period Weighted Discount Rate)	6.1%	7.1%	6.8%	6.5%	5.9%	5.3%	4.6%	3.8%
182 Days (End period Weighted Discount Rate)	10.8%	10.5%	10.2%	9.2%	8.8%	7.2%	5.7%	4.6%
273 Days (End period Weighted Discount Rate)								
364 Days (End period Weighted Discount Rate)	11.9%	11.5%	10.7%	9.9%	9.3%	8.3%	6.8%	5.7%
Average Interest Rates on Foreign Exchange Transactions.								
Demand Deposit Rate	1.0%	1.0%	1.0%	1.0%	1.1%	1.0%	1.0%	
Savings Deposit Rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
Time Deposit Rate	4.4%	4.6%	4.8%	4.1%	4.8%	5.1%	3.5%	
Average Lending Rate	9.0%	10.9%	10.4%	10.7%	10.3%	10.1%	11.4%	
Bank of Uganda Rates								
Rediscount Rate	9.8%	10.1%	10.9%	9.9%	9.4%	8.7%	8.1%	7.4%
Bank Rate	10.8%	11.1%	11.9%	10.9%	10.4%	9.7%	9.1%	8.4%
Reserve Money								
Base Money	1852.6	1933.9	1911.1	2032.2	2,011.5	2,136.6	2,026.6	1,942.6
Currency Issued	1456.0	1458.5	1409.7	1403.3	1,445.6	1,560.8	1,486.5	1,478.5
Commercial Banks' Total Reserves	396.6	475.4	501.4	628.9	565.9	575.9	541.1	464.1
Statutory Required Reserves (6)	529.3	522.3	537.2	527.7	542.1	559.6	570.1	566.9
Excess reserves ⁽⁷⁾	23.5	107.3	123.6	243.8	164.4	160.5	133.6	73.4
Consumer Price Index (Base 2005/06)								
Composite CPI, Annual percentage change.	11.7	12.6	14.6	13.4	12.0	10.9	8.9	7.5
Core CPI, Annual percentage change	10.4	9.9	9.8	9.3	8.8	7.4	5.5	5.6
Composite CPI, Monthly percentage change.	0.6	2.0	2.5	-0.2	0.1	-0.3	-0.6	-0.2
Food crops CPI, Annual percentage change	22.8	31.9	49.5	39.0	35.5	34.3	27.6	22.0
Elec, Fuel & Utilities (EFU) CPI, Annual percentage change	-3.7	-4.2	-3.7	-2.4	(3.4)	-3.2	-7.1	-4.4
Monthly Average Pump Prices of Petroleum Products								
Motor Spirit Premium (PMS)	2394.4	2358.2	2351.1	2419.4	2,347.7	2,340.8	2,349.0	2,389.7
Diesel (AGO)	1967.0	1972.7	2006.7	2028.4	1,996.7	2,028.4	2,024.9	2,032.3
Kerosene (BIK)	1737.3	1760.4	1746.4	1746.0	1,713.8	1,704.6	1,711.0	1,750.8