

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



JULY 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>

TABLE OF CONTENTS

I	INTRODUCTION.....	3
II	GLOBAL ECONOMIC DEVELOPMENTS.....	3
III	MONETARY POLICY STANCE AND ACTIONS	3
IV	INFLATION	4
IV	FOREIGN EXCHANGE MARKET.....	4
V	MONETARY AGGREGATES.....	5
VI	DOMESTIC MONEY MARKETS AND INTEREST RATES.....	6
VII	SELECTED DEVELOPMENTS IN BALANCE OF PAYMENTS	7
VIII	CONCLUDING REMARKS	9

I INTRODUCTION

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

July 2010. It also looks at the global economic developments and draws policy implications.

II GLOBAL ECONOMIC DEVELOPMENTS

In July 2010, the global economy continued to recover albeit at a slower rate than in the previous months and the pattern of recovery remained uneven. Concerns about the sustainability of economic growth in three of the world's largest markets: United States of America, Europe and China came to the forefront during the month. In the USA, slower than expected economic growth and high unemployment levels resulted in the Federal Reserve Bank lowering its growth forecasts for the year 2010 from 3.2-3.7 percent to 3.0-3.5 percent. Concerns about whether enough had been done to address the sovereign debt crisis in Europe persisted during the month. Furthermore, growth in China slowed, although it remained above 10 percent, as monetary policy was tightened to cool the overheated economy.

Global prices mirrored the uneven growth patterns experienced over the period with inflation pressures picking up in developing economies while they remained subdued in more advanced countries. In the commodity markets, crude oil prices which had remained relatively stable for most of July 2010 rose towards the end of the month driven by the threat the tropical storm Bonnie posed to oil production and

processing at the Gulf of Mexico. Overall global developments remain murky and these will continue posing challenges to Uganda.

In the region, the East African Community Common Market Protocol came into force on 1st July 2010. This arrangement which will ensure free movement of people, services and capital across partner states and is an important step in the road towards a Monetary Union. Preparations for the Monetary Union are being spearheaded by the East African Community Monetary Affairs Committee (MAC) that comprises Governors of EAC Central Banks. The MAC has made notable progress in the areas of monetary policy coordination and harmonization, financial markets development, harmonization of financial sector supervision, payments systems development and integration, and statistical harmonization, a valuable foundation on which the monetary union will be built. The MAC, in close cooperation with the Sectoral Council of Ministers responsible of Finance continues to spearhead the process and provide policy guidance on the negotiations of the East African Monetary Union.

III MONETARY POLICY STANCE AND ACTIONS

In the domestic economy, low and stable inflation and overall macroeconomic stability remained the key objectives of monetary policy in July 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 to the interbank foreign exchange market (IFEM), while repurchase agreements (REPOs) were used to fine tune short-term liquidity conditions.

IV INFLATION

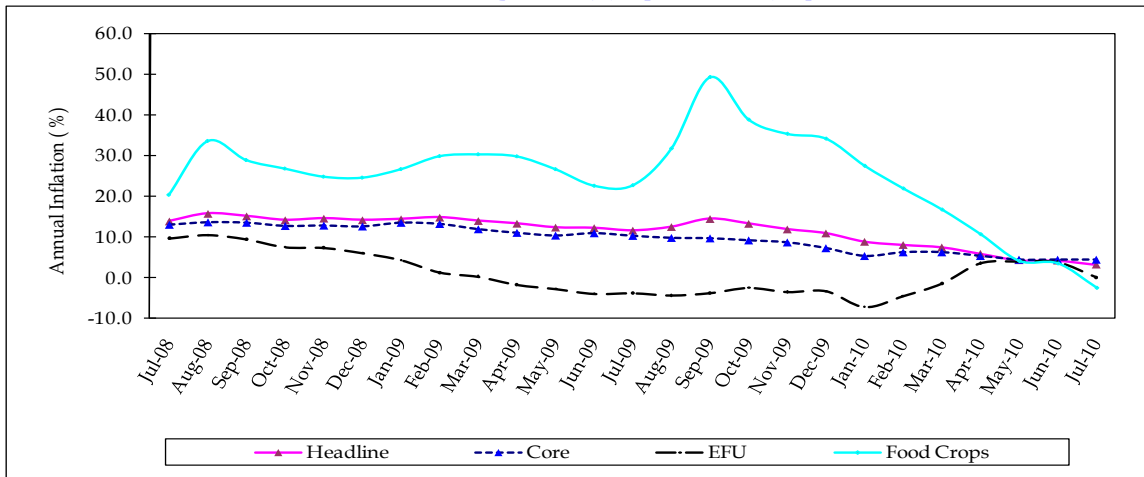
Data from the Uganda Bureau of Statistics revealed a decline in almost all measures of inflation in July as compared to the previous month. Annual headline inflation declined to 3.2 percent in July 2010 from a revised 4.2 percent in June 2010. Annual core inflation remained at its June 2010 level of 4.6 percent during the month of July 2010.

Annual Energy, Fuel, and Utilities (EFU) inflation declined to 0.2 percent from a revised 3.9 percent in the previous month largely due to a fall in petroleum prices.

Monthly headline and core inflation dropped from respective rates of 0.4 percent and 1.2 percent in June 2010 to minus 0.4 percent and 0.3 percent in July 2010.

The annual food crop inflation declined to minus 2.5 percent in July 2010 from 3.5 percent in the previous month. The month-on-month food crop inflation decreased to -4.8 percent from -4.3 percent recorded in June 2010 due to a fall in prices of staple foods, some fresh vegetables, pineapples, beans and bananas as a result of increased supplies on the market. Figure 1 shows the movements in the annual inflation rates for the period July 2008 to July 2010.

Figure 1: Annual Inflation Rate Developments, July 2008 to July 2010



Source: Uganda Bureau of Statistics

V FOREIGN EXCHANGE MARKET

i) Exchange rates

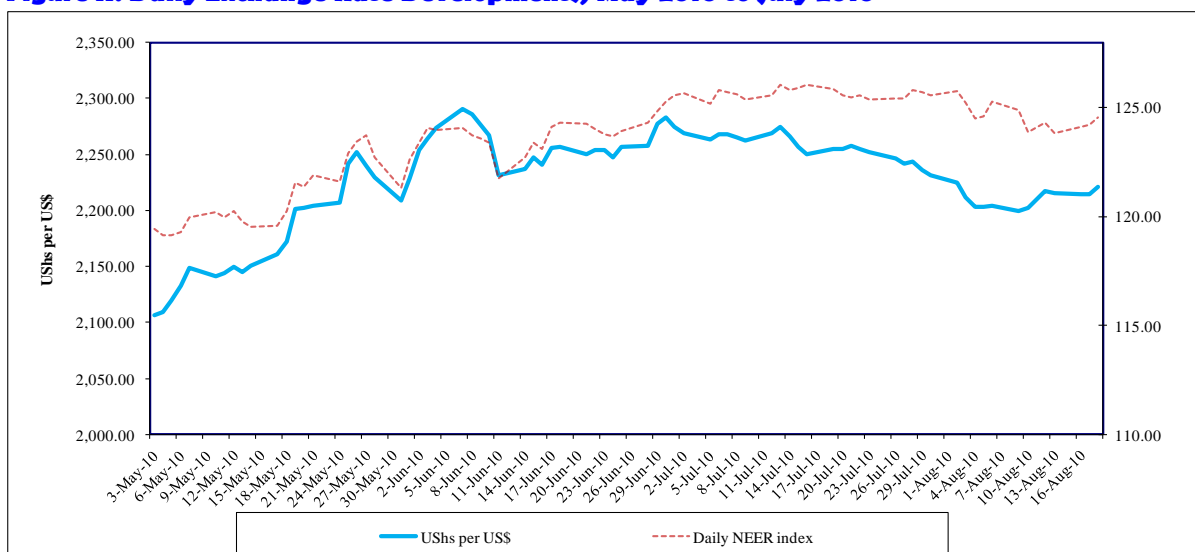
On a period average basis, the Shilling appreciated by 0.01 percent in July 2010 from Shs. 2,257.4 per US dollar recorded in June 2010 to Shs. 2,257.3 per US dollar. This was in contrast to a depreciation of 3.8 percent registered in June 2010.

For most of the days in July, the shilling appreciated as it tracked global developments that saw the dollar weaken against a basket of currencies owing to concerns of a slow down in US economic

recovery which spurred demand for alternative currencies. Most of the currencies of trading partners appreciated against the weakened dollar during the same period, with the euro appreciating gains the dollar by 5.0 percent in July 2010.

The Bank maintained the daily sales of US\$ 0.1 million to the IFEM for liquidity sterilization purposes. 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, May 2010 to July 2010



Source: Bank of Uganda

ii) Foreign exchange purchases and sales

In July 2010, gross foreign exchange purchases and sales by commercial banks decreased by 13.2 percent, and 16.5 percent, to US\$ 729.9 million and US\$ 701.4 million, respectively. Interbank trades amounted to US\$ 191.4 million, while commercial banks' purchases and sales of foreign exchange

from the non-bank public amounted to US\$ 538.5 million and US\$ 509.9 million, respectively. Cross currency trade transactions increased significantly to US \$ 426.7 million in July 2010 from US \$ 152.5 million in the preceding month.

VI MONETARY AGGREGATES

i) Money supply

Provisional data reveals an increase in all measures of money supply between May 2010 and June 2010. Narrow money **M1** increased by 4.8 percent from Shs. 3,612.3 billion at end of May 2010 to Shs. 3,784.3 billion at end-June 2010.

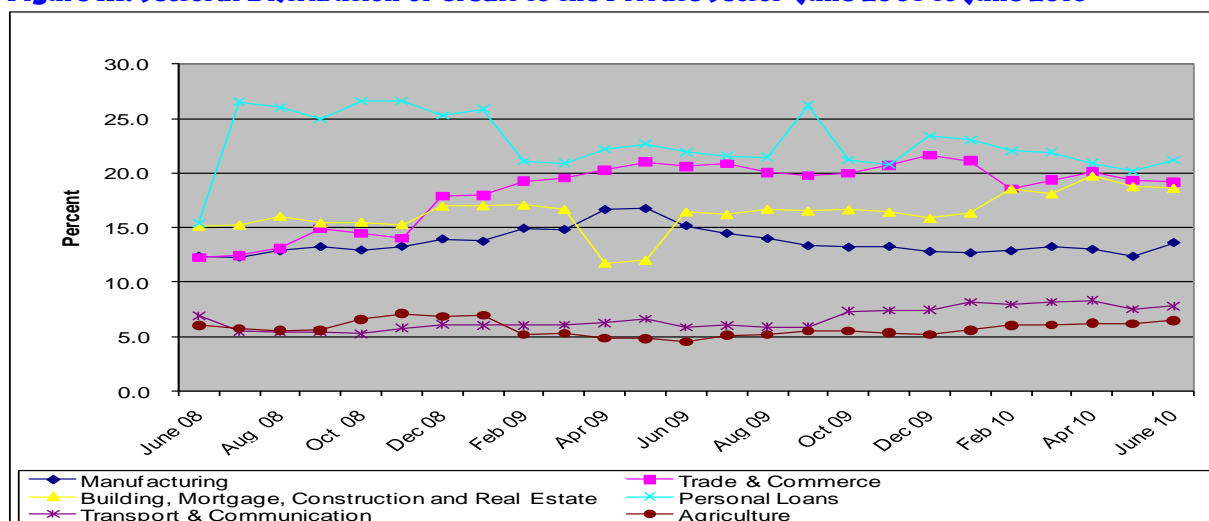
Private sector's time and savings deposits increased from Shs. 2,529.5 billion to Shs. 2,622.8 billion and no certificates of deposits were registered during the month under review. Consequently, money supply **M2** increased from Shs. 6,141.8 billion at end May 2010 to Shs. 6,407.0 billion at end June 2010.

The private sector's foreign exchange deposits in shillings terms rose from Shs. 1,824.3 billion to Shs. 1,881.4 billion. As a

result, broad money supply **M3** increased from Shs. 7,966.1 billion in May 2010 to Shs. 8,288.5 billion in June 2010.

On an annual basis, private sector credit grew by 25.1 percent in June 2010 as compared to 21.0 percent in May 2010. Personal loans continued to account for the largest share of credit, absorbing 21.2 percent of all outstanding loans. The trade and commerce, and building and construction sectors followed with shares of 19.2 percent and 18.6 percent, respectively. The manufacturing, transport and agriculture sectors accounted for 13.6 percent, 7.8 percent and 6.4 percent, respectively. Figure III shows the sectoral distribution of credit to the private sector.

Figure III: Sectoral Distribution of Credit to the Private Sector-June 2008 to June 2010



Source: Bank of Uganda

VII DOMESTIC MONEY MARKET\$ AND INTEREST RATES

i) Interest rates

Lending interest rates remained high ranging between 14.5 percent and 28.1 percent, however, the monthly weighted average lending rate on commercial banks' shilling denominated loans declined to 20.1 percent in June 2010, from 20.6 percent in May 2010. On the other hand, the weighted average lending rate on foreign currency denominated loans increased to 10.8 percent during June 2010 from 9.0 percent in the previous month.

The interest rates on foreign currency denominated savings and time deposits increased from respective rates of 1.5 percent and 1.8 percent in May 2010 to 1.7 percent and 3.2 percent in June 2010 while the rate on foreign currency denominated demand deposits remained stable at 1.0 percent.

On the other hand, the interest rate on shilling denominated demand and time deposits declined to 1.2 percent and 7.3 percent in June 2010 from respective rates of 1.3 percent and 7.5 percent in the previous month while the rate on savings deposits remained at the previous month's level of 2.4 percent.

ii) Treasury bill Market

During the month of July 2010, three calendar Treasury bill auctions with a combined total offer of Shs. 160.0 billion were held. These auctions were oversubscribed to

the tune of Shs. 268.1 billion reflecting high demand for Treasury bills.

The end period weighted average discount rate on the 91-day, 182-day and 364-day papers fell to respective rates of 4.2, 4.8 and 5.4 percent from 4.3, 5.4 and 6.2 percent in June 2010. Subsequently, the rediscount rate and Bank rate slightly declined to 7.3 percent and 8.3 percent from their respective end June 2010 levels of 7.4 percent and 8.4 percent.

iii) Treasury bond Market

In line with monetary policy and financial markets development objectives, Bank of Uganda issued a 10-year bond worth Shs. 80 billion on July 21, 2010. The Yield to Maturity (YTM) for this bond was 10.8 percent, compared to 11.7 percent recorded for the previous 10-year bond reopened on March 31, 2010.

iv) Repo and inter-bank money market

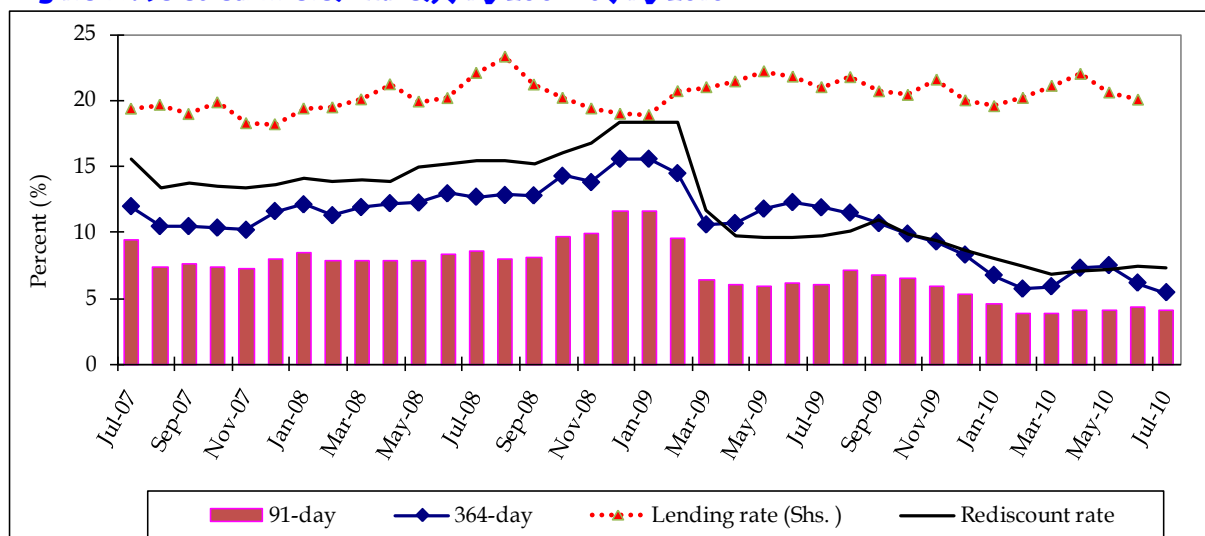
BOU maintained the use of the repo instrument during the month of July 2010, to manage short term liquidity conditions. Repos with tenures ranging from 1 to 7 days were offered and the net effect of this instrument was an injection of Shs. 150.2 billion.

The domestic inter-bank money market remained active during the month of July 2010. The total amount traded for tenors

which ranged from 1 to 30 days, increased to Shs. 864.0 billion in July 2010 from Shs. 563.8 billion in the previous month. The 7-day tenor transactions dominated the market, accounting for 39.6 percent of the total value traded during the period under review. The

weighted average interbank money market rate rose to 2.8 percent in July 2010 from 2.7 percent recorded in the previous month. Figure IV shows the pattern of selected categories of interest rates.

Figure IV: Selected Interest Rates, July 2007 to July 2010



Source: Bank of Uganda

VIII SELECTED DEVELOPMENTS IN BALANCE OF PAYMENTS

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$ 14.3 million in June 2010.

Official cash debt service (excluding IMF obligations) stood at US\$ 4.1 million. In June 2010, the level of gross foreign reserves stood at US\$ 2,489.8 million; US\$ 30.9 million less than the preceding month's level. This reserve level was sufficient to cover 4.9 months of future imports of goods and services.

Formal exports

According to preliminary data, total formal export proceeds for June 2010 were estimated at US\$ 128.5 million, a decrease of 1.1 percent compared to the proceeds realized in May 2010. However, these proceeds were 17.8 percent higher than those realized in June 2009. Non-coffee exports declined whereas coffee exports increased during the period under review.

i) Coffee exports

Coffee exports for the month of June 2010 amounted to 234,956 (60Kg) bags worth US\$ 23.0 million, down from 254,026 (60Kg)

worth US\$ 23.2 million registered in June 2009. Nevertheless, these exports were 32.5 percent higher in volume terms than those realised in the previous month of May 2010 as the harvest in the central and south-western region reached its peak. These exports were higher as the dry season favoured drying and transportation of the crop from the countryside.

Preliminary data shows that coffee exports for the month of July 2010 amounted to 266,245 (60Kg) bags worth US\$ 27.5 million, compared to 254,026 (60Kg) worth US\$ 23.4 million registered in July 2009. These exports were higher than those realised in the previous month of June 2010 as the harvest in the central and south western regions picked up.

The average realised export price increased to US\$ 1.72 per kilogram in July 2010 from US\$ 1.63 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. 1,500, Shs. 2,900 and Shs. 5,000 per kilogram, respectively.

ii) Non-coffee exports

The total value of formal non-coffee exports for June 2010 was US\$105.5 million compared to US\$ 111.7 million and US\$ 85.9 million recorded in May 2010 and June 2009, respectively. These proceeds were 22.8

percent higher than those realized in June 2009 mainly due to an increase in receipts from gold, flowers and base metals and their products. Table I below shows the detailed performance of Uganda's formal exports up to June 2010.

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

	June-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	June-10
a) Formal Exports (1 + 2)	109.11	124.03	129.65	141.77	125.81	129.95	128.50
1. Coffee	23.21	25.35	26.40	21.79	15.55	18.23	23.03
Volume (millions of 60-Kg bags)	0.25	0.26	0.26	0.22	0.15	0.18	0.23
Av. Unit value	1.52	1.60	1.66	1.67	1.70	1.71	1.63
2. Non-Coffee exports	85.90	98.68	103.26	119.98	110.26	111.72	105.47
Electricity	1.07	1.04	0.98	1.05	1.04	0.95	1.08
Gold	1.98	1.58	3.83	5.14	4.72	3.72	6.28
Cotton	0.60	1.16	1.67	3.16	4.05	3.61	1.03
Tea	4.79	6.70	5.29	6.39	7.01	6.70	5.91
Tobacco	3.15	8.37	9.76	5.09	8.38	6.94	2.63
Fish & its products	8.22	11.93	9.94	12.66	11.54	9.91	9.02
Hides & skins	0.36	1.03	1.11	1.34	1.51	1.57	1.65
Simsim	1.36	1.31	1.64	2.89	2.00	0.36	0.41
Maize	2.15	2.98	2.09	3.44	2.46	4.85	3.97
Beans	0.78	0.41	0.21	0.31	0.49	1.28	1.02
Flowers	4.30	3.58	4.34	4.45	2.87	4.31	5.49
Oil re-exports	0.18	0.31	0.19	0.35	0.38	0.32	0.27
Cobalt	1.46	1.04	1.63	1.06	1.06	1.39	2.12
Base metals & their products	7.19	6.57	6.65	6.47	7.52	6.79	8.66
Others	44.82	50.69	53.93	66.17	55.24	59.04	55.95

Source: Bank of Uganda

Imports

The total import bill for June 2010 was estimated to have decreased to US\$ 354.6 million from US\$ 437.4 million recorded in May 2010. This was mainly on account of a decrease in government imports, which were recorded at US\$ 53.1 million compared US\$ 111.2 million recorded in the previous month. Private sector imports also decreased to US\$ 301.4 million from US\$ 326.2 million recorded in May 2010.

Major private sector import items in June 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\$ 45.2 million, lower than US\$ 47.2 million reported in May 2010. Table II summarizes developments in imports of goods.

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

	Jun-09	Jan-10	Feb-10	Mar-09	Apr-10	May-10	Jun-10
Total Imports	216.37	313.33	328.33	376.78	321.05	437.39	354.55
Government Imports	22.42	33.26	16.71	57.55	11.14	111.23	53.13
Project	15.00	29.28	6.54	10.52	9.45	4.63	16.10
Non-Project	7.42	3.98	10.18	47.03	1.66	106.60	37.03
Private Sector Imports	293.95	280.07	311.61	319.2	309.91	326.17	301.42
Oil imports	34.04	42.10	38.27	41.01	46.44	47.20	45.18
Non-oil imports	259.91	237.97	273.35	278.21	263.47	278.96	256.24

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

Indicators of aggregate demand showed an improvement in economic activity after slackening for most of 2009. Government expenditure on domestic goods and services, a key component of aggregate demand grew in May and June 2010 but was lower

than anticipated in July 2010 pending approval of the national budget. Government revenue also grew during the month under review reflecting an increase in aggregate demand.

IX CONCLUDING REMARKS

Overall macroeconomic and price stability remained the key objective of monetary policy in July 2010. The bank employed its monetary policy instruments with a view of maintaining low and stable inflation, without compromising the stability of domestic and foreign exchange markets.

The Bank of Uganda will continue to monitor the economic outlook and financial developments and will make use of monetary policy in such a way as to maintain price stability and promote economic growth.

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs; end of month unless otherwise indicated)								
	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10
Foreign Exchange Market								
Inter-Bank Purchases (US\$M)	659.7	578.2	696.6	741.8	669.7	798.7	894.6	729.9
Inter-Bank Sales (US\$M)	629.3	577.7	578.2	778.0	630.0	813.4	899.5	701.4
Cross currency trading (US\$ million)	394.2	267.1	219.4	129.2	271.9	277.1	152.5	426.7
Inter-Bank Mid-Rate (US\$/US\$)	1,896.6	1,935.6	1,996.5	2,086.4	2,083.0	2,174.6	2,257.4	2,257.3
Foreign Exchange Reserves								
Gross Foreign Reserves in months of imports of goods and S	5.7	5.4	5.3	5.2	5.3	4.9	4.9	
Bank of Uganda Foreign Exchange Reserves (US\$ M)	2,769.3	2,747.9	2,732.5	2,673.0	2,698.8	2,520.7	2,489.8	
Monetary and Credit Aggregates (2)								
Broad Money supply M3	6,797.7	6,732.6	7,107.1	7,268.6	7,610.2	7,966.1	8,288.5	
Foreign Exchange Accounts Deposits	1,412.6	1,437.1	1,485.5	1,495.4	1,757.0	1,824.3	1,881.4	
Money supply M2	5,385.1	5,295.4	5,621.6	5,773.2	5,853.2	6,141.8	6,407.1	
Certificate of Deposit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Currency in circulation	1,329.7	1,299.8	1,284.7	1,304.1	1,336.3	1,344.7	1,438.6	
Demand deposits	1,978.2	1,908.2	2,095.5	2,057.1	2,037.7	2,267.7	2,345.7	
Time and saving deposits	2,077.1	2,087.4	2,241.4	2,412.1	2,479.2	2,529.5	2,622.8	
Claims on Central Government	(652.8)	(643.3)	(648.2)	(562.2)	(759.9)	(716.9)	(255.6)	
o/w Bank of Uganda, net claims on gov't.	(2,330.9)	(2,409.4)	(2,424.9)	(2,402.0)	(2,504.6)	(2,469.9)	(2,158.2)	
Private Sector Credit	3,994.0	4,003.9	4,156.9	4,247.5	4,274.5	4,433.5	4,502.3	
Weighted Average Interest Rates on Shilling Transactions.								
Savings Deposit Rate	2.3%	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%	
Time Deposit Rate	9.2%	9.3%	8.3%	7.7%	7.8%	7.5%	7.3%	
Lending Rate	20.0%	19.6%	20.2%	21.1%	22.0%	20.6%	20.1%	
Treasury Bills								
91 Days (End period Weighted Discount Rate)	5.3%	4.6%	3.8%	3.9%	4.1%	4.1%	4.3%	4.2%
182 Days (End period Weighted Discount Rate)	7.2%	5.7%	4.6%	4.5%	5.5%	5.5%	5.3%	4.8%
273 Days (End period Weighted Discount Rate)								
364 Days (End period Weighted Discount Rate)	8.3%	6.8%	5.7%	5.9%	7.3%	7.5%	6.2%	5.4%
Average Interest Rates on Foreign Exchange Transactions.								
Demand Deposit Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Savings Deposit Rate	1.5%	1.5%	1.6%	1.7%	1.6%	1.5%	1.7%	
Time Deposit Rate	5.1%	3.5%	4.4%	3.2%	3.9%	1.8%	3.2%	
Average Lending Rate	10.1%	11.4%	11.2%	9.9%	10.0%	9.0%	10.8%	
Bank of Uganda Rates								
Rediscount Rate	8.7%	8.1%	7.4%	6.8%	7.1%	7.2%	7.4%	7.3%
Bank Rate	9.7%	9.1%	8.4%	7.8%	8.1%	8.2%	8.4%	8.3%
Reserve Money								
Base Money	2,136.6	2,026.6	1,942.6	2,071.1	2,064.1	2,186.1	2,365.3	2,307.6
Currency Issued	1,560.8	1,486.5	1,478.5	1,520.7	1,539.2	1,586.1	1,704.3	1,714.9
Commercial Banks' Total Reserves	575.9	541.1	464.1	550.4	524.8	600.0	661.0	592.7
Statutory Required Reserves (6)	559.6	570.1	566.9	596.8	615.1	642.2	691.0	696.0
Excess reserves ⁽⁷⁾	160.5	133.6	73.4	116.4	91.7	128.0	162.3	84.7
Consumer Price Index (Base 2005/06)								
Composite CPI, Annual percentage change.	10.9	8.9	8.1	7.5	5.9	4.3	4.2	3.2
Core CPI, Annual percentage change	7.4	5.5	6.4	6.4	5.5	4.6	4.6	4.6
Food crops CPI, Annual percentage change	34.3	27.6	22.0	16.8	10.7	4.1	3.5	-2.5
Elec, Fuel & Utilities (EFU) CPI, Annual percentage	-3.2	-7.1	-4.4	-1.3	3.7	4.1	3.9	0.2
Monthly Average Pump Prices of Petroleum Products								
Motor Spirit Premium (PMS)	2,340.8	2,349.0	2,389.7	2,523.0	2,953.0	2,889.0	2,870.0	2,860.0
Diesel (AGO)	2,028.4	2,024.9	2,032.3	2,159.7	2,271.0	2,290.0	2,334.0	2,346.0
Kerosene (BLK)	1,704.6	1,711.0	1,750.8	1,819.3	1,879.0	1,919.0	1,956.0	1,960.0
Source: Research Department, Bank of Uganda								