

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



MAY 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 May 2010.

The global economy continued to grow although growth rates varied across countries. Recent developments in the Euro Area, however, worsened the growth prospects for the region creating new challenges for sustainable growth. The continued recovery of the global economy together with the emergency rescue package set in place are likely to result in the sustained recovery of the global economy.

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 significant fall in food crop prices. The annual energy, fuel and utilities inflation, however, rose during the month reflecting a rise in fuel prices.

The foreign exchange market remained broadly stable, although the shilling depreciated slightly during the month. Interest rates for all tenors on average edged up slightly during May 2010.

II GLOBAL ECONOMIC DEVELOPMENTS

Concerns about Greece's fiscal position spilled over into the global economy in early May 2010. So far there is little data to evaluate the impact of the European debt crisis on economic activity. However, available data through end March suggests that recovery remained robust in most developed and developing economies with the exception of high-income Europe where it stagnated.

However, the strong recovery is anticipated to lose steam in the coming months though annual growth rates should continue to strengthen. The outlook remains fragile with challenges, emanating from in the problems

in Greece and other highly indebted high income countries. A widening of the Greek crisis to other much larger high-income economies with serious fiscal difficulties could bring about significant disruption to developing countries' export and GDP growth. If markets lose confidence in the credibility of efforts to put policy on a sustainable path, global growth could be impaired.

Therefore, significant fiscal consolidation is necessary to ensure long-term sustainability of public finances in many high income countries.

III MONETARY POLICY STANCE AND ACTIONS

In the domestic economy, overall macroeconomic and price stability remained the key objectives of monetary policy in May 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 shows that annual headline inflation declined further to 4.4 percent in May 2010 from 5.9 percent in April 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 also decreased to -0.5 percent in May 2010 from 0.3 percent in the previous month.

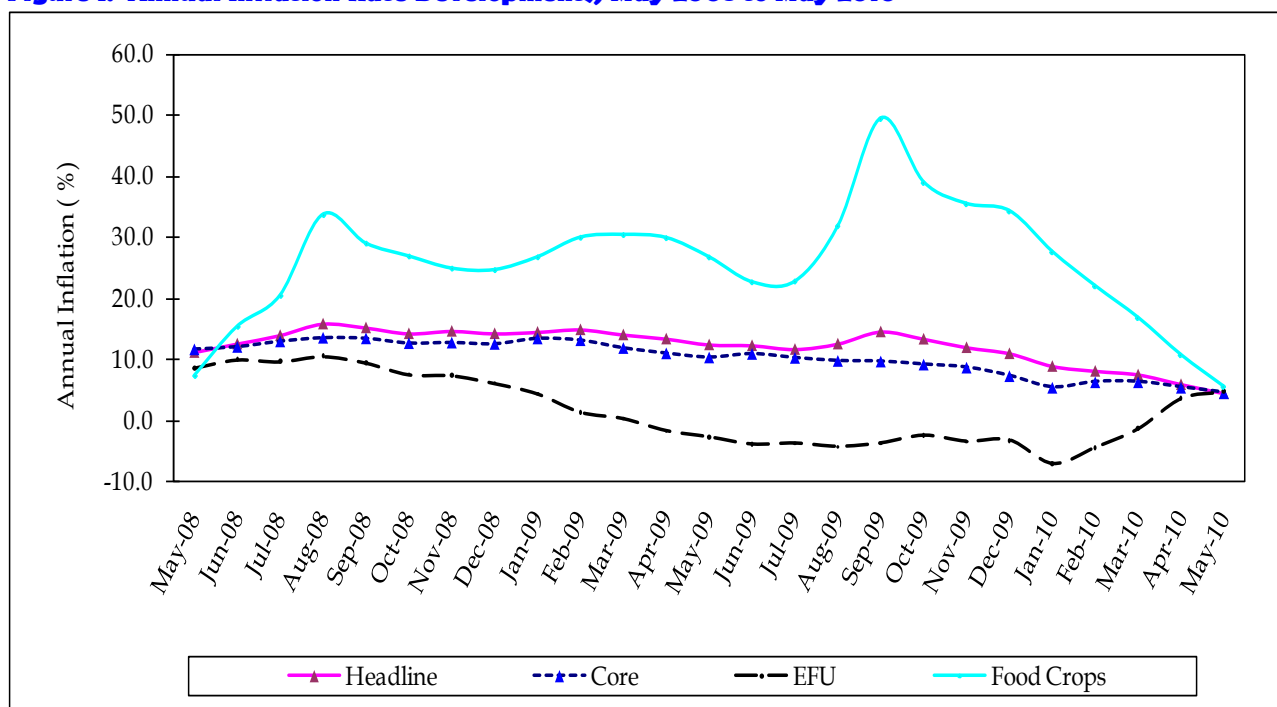
Annual core inflation which excludes food crops, electricity, fuel and metered water declined to 4.6 percent during the month of May 2010, from a *revised* 5.5 percent recorded in the previous month. The month-on-month core inflation, also, decreased to 0.1 percent from 0.2 percent rise in April 2010.

Annual Energy, Fuel, and Utilities (EFU) inflation rose to 4.8 percent from 3.7 percent in the previous month largely due to

increased petroleum prices. However, the month-on-month EFU inflation declined to 0.5 percent in May 2010 from 2.8 percent registered in April 2010, partly reflecting increased supplies of fuel to the market.

The annual food crop inflation declined further to 5.5 percent from 10.7 percent observed in April 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. Similarly, the month-on-month food crop inflation decreased to -2.7 percent from 0.8 percent in the previous month on account of a fall in prices of staple foods, fruits, milk, bread and cereals. Figure 1 shows the movements in the annual inflation rates for the period May 2008 to May 2010.

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



Source: Uganda Bureau of Statistics

V FOREIGN EXCHANGE MARKET

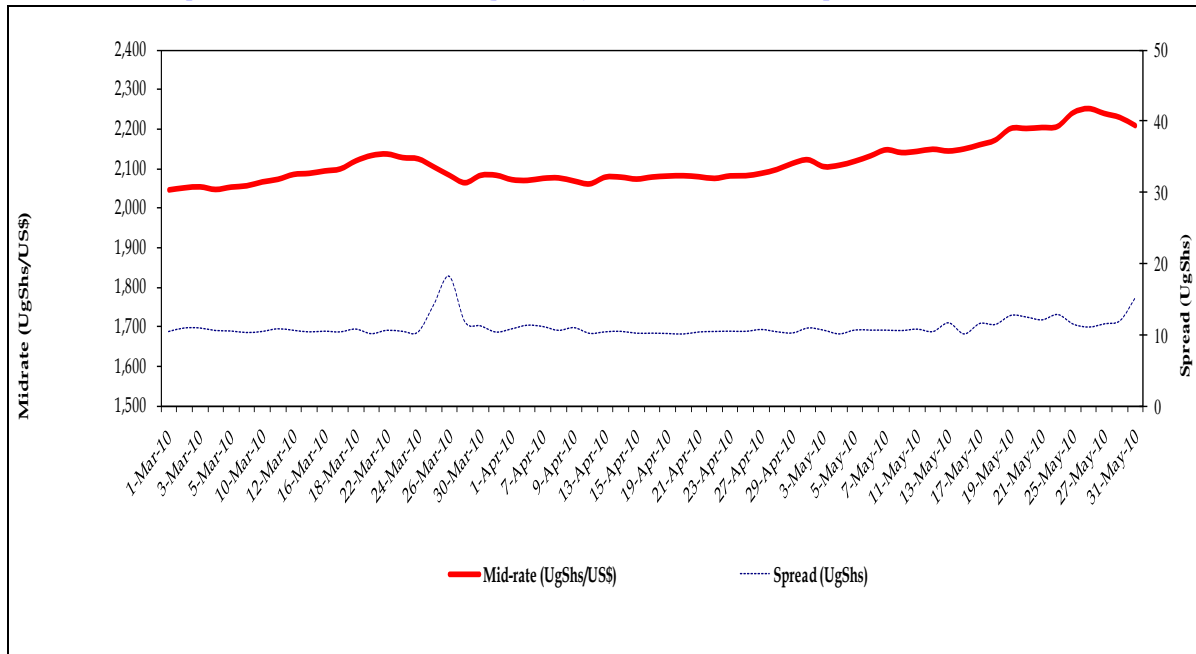
i) Exchange rates

On a period average basis, the Shilling depreciated by 4.4 percent in May 2010 from Shs. 2,083.0 per US dollar recorded in April 2010 to Shs. 2,147.6, per US dollar. This was in contrast to the appreciation of 0.2 percent registered in April 2010. The Shilling depreciated as investors sold their Euro denominated assets owing to the uncertainty which weakened the Euro and strengthened the Dollar in the wake of the Euro Debt crisis. The Shilling also depreciated against other major currencies

resulting in the depreciation of the nominal effective exchange rate.

BOU sold a total of U.S \$ 30.0 million to moderate the depreciation pressures. However, as the month drew to a close, BOU purchased U.S \$ 30.0 million in a strategic move to build foreign exchange reserves. For liquidity sterilization purposes, the Bank maintained the daily sales of US\$ 0.1 million to the IFEM. 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, March 2010 to May 2010



Source: Bank of Uganda

ii) Foreign exchange purchases and sales

Gross foreign exchange purchases and sales by commercial banks increased by 19.3 percent, and 29.1 percent, to US\$ 798.7 million and US\$ 813.4 million, respectively in May 2010. Interbank trades amounted to US\$ 268.6 million, while commercial banks' purchases and sales of foreign exchange

from the non-bank public amounted to US\$ 530.1 million and US\$ 544.8 million, respectively. Cross currency trade transactions rose by 1.9 percent to US \$ 277.1 million in May 2010 from US \$ 271.9 million in the preceding month.

VI DOMESTIC MONEY MARKETS AND INTEREST RATES

i) Interest rates

The interest rates on government bills were relatively stable in the period under review. The monthly weighted average lending rate on commercial banks' shilling denominated loans rose to 22.0 percent in April 2010, from 21.1 percent in March 2010. Similarly, the weighted average lending rate on foreign currency denominated loans rose marginally to 10.0 percent during April 2010 from 9.9 percent in the previous month. The deposit rates, however, remained virtually unchanged save for rates on foreign currency denominated time deposits, which increased from 3.2 percent in March 2010 to 3.9 percent in April 2010.

ii) Treasury bill Market

During the month of May 2010, two calendar Treasury bill auctions with a combined total offer of Shs. 170.0 billion were held. These auctions were oversubscribed to the tune of Shs. 254.9 billion reflecting high demand for Treasury bills.

The end period weighted average discount rate on the 91-day and 182-day Treasury bill papers remained unchanged at 4.1 percent and 5.5 percent while the rate on the 364-day paper rose to 7.5 percent from 7.3 percent in the previous month.

The margin within the rediscount rate remained unchanged at 3.0 percentage points. Due to the relative stability in the Treasury bill market in the month under review, the rediscount rate and Bank rate

rose marginally to 7.2 percent and 8.2 percent from their respective end April 2010 levels of 7.1 percent and 8.1 percent.

iii) Treasury bond Market

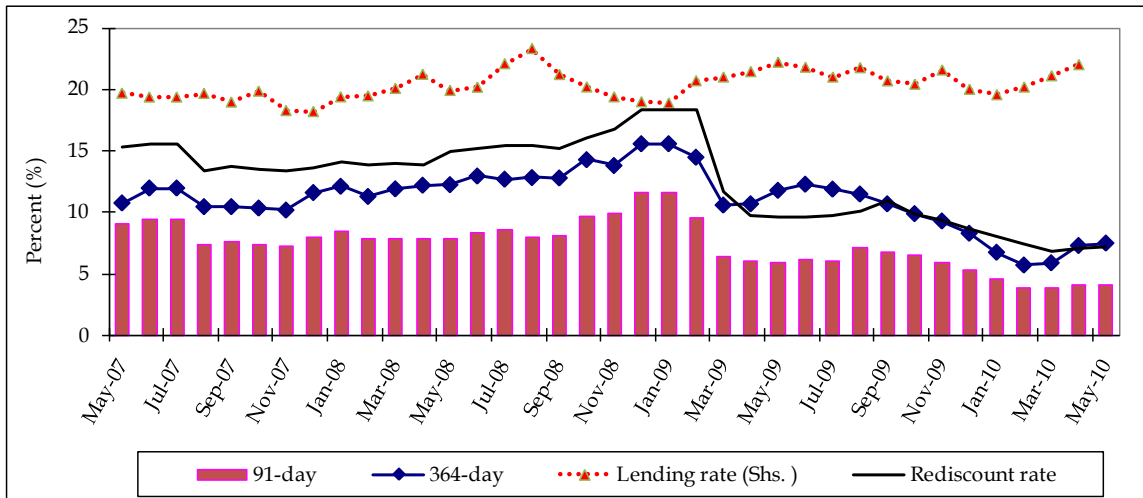
In line with monetary policy and financial markets development objectives, Bank of Uganda reopened a previously issued 5-year bond worth Shs. 60 billion on May 26, 2010. The Yield to Maturity (YTM) for this bond was 8.9 percent, compared to 8.8 percent recorded for the 5-year bond issued on March 3, 2010.

iv) Repo and inter-bank money market

BOU maintained the use of the repo instrument during the month of May 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. 8.7 billion.

The domestic inter-bank money market remained active during the month of May 2010. The total amount traded for tenors which ranged from 1 to 8 days, rose to Shs. 781.5 billion in May 2010 from Shs. 626.7 billion in April 2010. The 7-day tenor transactions dominated the market, accounting for 57.8 percent of the total value traded during the month under review. The weighted average interbank money market rates fell to 2.4 percent in May 2010 from 3.3 percent in April 2010. Figure III shows the pattern of selected categories of interest rates.

Figure III: Selected Interest Rates, May 2007 to May 2010



Source: Bank of Uganda

VII MONETARY AGGREGATES

i) Money supply

Provisional estimates reveal an increase in all measures of money supply between March 2010 and April 2010. Narrow money **M1** increased by Shs. 12.9 billion or 0.4 percent from Shs. 3,361.1 billion at end of March 2010 to Shs. 3,374.0 billion at end-April 2010. Currency in circulation increased to Shs. 1,336.3 billion as at end April 2010 from Shs. 1,304.1 billion in the previous month.

Private sector's time and savings deposits increased by Shs. 67.1 billion to Shs. 2,479.2 billion and no certificates of deposits were registered during the month under review. As a result, money supply M2 increased by Shs. 80.0 billion from Shs. 5,773.2 billion to Shs. 5,853.2 billion.

The private sector's foreign exchange deposits in shillings terms rose by Shs. 261.6 billion from Shs 1,495.4 billion to Shs. 1,757.0 billion partly driven by the depreciation of the shilling during the month under review. Consequently, broad money supply **M3** increased by Shs. 341.6 billion to Shs. 7,610.2 billion. The increase in money supply was mainly due to the growth in net foreign assets.

On a monthly basis, the net foreign assets (NFA) of the banking system increased by Shs. 284.0 billion or 4.6 percent. The increase was on account of both the central bank and commercial banks whose net foreign assets rose by 34.8 percent and 2.0 percent, to Shs. 668.18 billion and Shs. 5,754.9 billion, respectively.

The net domestic assets of the banking system grew by 5.1 percent from Shs. 1,129.5 billion to Shs. 1,187.1 billion during April 2010. Government's net position with the banking system was a saving of Shs. 759.9 billion as at end-April 2010, an improvement of 35.2 percent when compared to the level of savings registered at end-March 2010. The banking system's claims on the private sector increased by 0.6 percent, from Shs. 4,247.5 billion at end March 2010 to Shs. 4,274.5 billion at end April 2010.

On an annual basis, private sector credit grew by 18.2 percent in April 2010 as compared to 19.8 percent in March 2010. Personal loans continued to account for the largest share of private sector credit. In April 2010, they accounted for 20.9 percent of total private sector credit loans. The trade and commerce, and building and construction sectors followed with shares of

20.1 percent and 19.7 percent, respectively. The manufacturing, transport and agriculture sectors accounted for 13.0 percent, 8.3 percent and 6.2 percent, respectively.

VIII SELECTED DEVELOPMENTS IN BALANCE OF PAYMENTS

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$ 54.7 million while net private transfers were estimated at US\$ 32.2 million in April 2010.

Official cash debt service (excluding IMF obligations) stood at US\$ 6.4 million. In April 2010, the level of gross foreign reserves stood at US\$ 2,698.8 million; US\$ 25.8 million more than the preceding month's level. This reserve level was sufficient to cover 5.3 months of future imports of goods and services.

Formal exports

Total formal export proceeds for April 2010 were estimated at US\$ 125.8 million, a decline of 11.3 percent compared to the export proceeds realized in March 2010. Both coffee and non-coffee exports declined during the period under review. On the other hand, these proceeds of April 2010 were 5.7 percent higher than the earnings realized in the corresponding month of the previous year.

i) Coffee exports

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. 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

ii) Base money

Preliminary estimates show an increase in base money from Shs. 2,064.1 billion as at end April 2010 to Shs. 2,186.1 billion at end May 2010. Commercial banks' total reserves and currency issued increased by Shs. 75.2 billion and Shs. 46.9 billion to Shs. 600.0 billion and Shs. 1,586.1 billion, respectively over the review period.

and rains delayed harvesting of the crop grown in the south western region.

Preliminary data from the Uganda Coffee Development Authority (UCDA) reveals a 19.6 percent drop in the total volume of coffee exports in May 2010 relative to the same month last year. This decline was as a result of the prevailing rains which delayed the ripening of the main crop in the south-western region and also caused difficulties in drying and marketing the coffee beans.

Coffee exports for the month of May 2010 amounted to 177,380 (60Kg) bags worth US\$ 18.2 million, down from 220,620 (60Kg) worth US\$ 20.3 million registered in May 2009. Nevertheless, these exports were 16.2 percent higher in volume terms than those realised in the previous month of April 2010.

The average realised export price rose marginally to US\$ 1.71 per kilogram in May 2010 from US\$ 1.70 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. 1,100, Shs. 2,300 and Shs. 3,400 per kilogram, respectively.

ii) Non-coffee exports

The total value of formal non-coffee exports for April 2010 was US\$ 110.3 million compared to US\$ 120.0 million and US\$ 100.0 million recorded in March 2010 and April 2009, respectively. These export proceeds were 8.1 percent lower than the amounts realised in March 2010 mainly due

to the decline in receipts from flower exports. This decline in revenue from flower exports was blamed on the disruption of air transport to Europe as a result of the recent volcanic eruptions in Iceland as well as the

depreciating euro against the US dollar. Table I below shows the detailed performance of Uganda's formal exports up to April 2010.

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

	Apr-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
a) Formal Exports: (1 + 2)	119.08	135.55	142.03	124.03	129.65	141.77	125.81
1. Coffee	19.08	22.10	25.77	25.35	26.40	21.79	15.55
Volume (millions of 60-Kg bags)	0.21	0.24	0.27	0.26	0.26	0.22	0.15
Av. Unit value	1.55	1.57	1.57	1.60	1.66	1.67	1.70
2. Non-Coffee exports:	100.00	113.45	116.26	98.68	103.26	119.98	110.26
Electricity	0.95	1.29	1.34	1.04	0.98	1.05	1.04
Gold	0.78	0.47	2.61	1.58	3.83	5.14	4.72
Cotton	2.80	0.50	0.26	1.16	1.67	3.16	4.05
Tea	4.11	8.70	6.45	6.70	5.29	6.39	7.01
Tobacco	2.61	14.20	7.41	8.37	9.76	5.09	8.38
Fish & its products	8.39	14.03	11.37	11.93	9.94	12.66	11.54
Hides & skins	0.60	0.54	0.77	1.03	1.11	1.34	1.51
Simsim	3.08	0.17	0.12	1.31	1.64	2.89	2.00
Maize	2.57	1.36	3.16	2.98	2.09	3.44	2.46
Beans	1.45	0.82	1.40	0.41	0.21	0.31	0.49
Flowers	3.54	4.12	3.44	3.58	4.34	4.45	2.87
Oil re-exports	8.16	0.42	8.13	0.31	0.19	0.35	0.38
Cobalt	0.95	0.48	2.85	1.04	1.63	1.06	1.06
Base metals & their products	9.64	7.66	8.27	6.57	6.65	6.47	7.52
Others	50.36	52.47	58.71	50.69	53.93	66.17	55.24

Source: Bank of Uganda

iii) Imports

The total import bill¹ for April 2010 was estimated to have decreased to US\$ 321.1 million from US\$ 376.8 million recorded in March 2010. This was mainly on account of the decline in government imports, which were valued at US\$ 11.1 million compared to US\$ 57.6 million recorded in the previous month. Private sector imports also decreased to US\$ 309.9 million from US\$ 319.2 million recorded in March 2010.

Major private sector import items in April 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\$ 46.4 million, higher than US\$ 41.0 million reported in March 2010 on account of the rising oil prices. Table II summarizes developments in imports of goods.

¹ Effective November 2004, import values are reported free on board (f.o.b)

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

	Apr-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-09	Apr-10
Total Imports	283.93	314.04	343.89	313.33	328.33	376.78	321.05
Government Imports	21.93	16.30	23.02	33.26	16.71	57.55	11.14
Project	19.31	12.03	18.77	29.28	6.54	10.52	9.45
Non-Project	2.62	4.27	4.25	3.98	10.18	47.03	1.66
Private Sector Imports	261.99	297.74	320.87	280.07	311.61	319.2	309.91
Oil imports	30.08	34.83	40.98	42.10	38.27	41.01	46.44
Non-oil imports	231.91	262.91	279.89	237.97	273.35	278.21	263.47

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 May 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.

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs; end of month unless otherwise indicated)									
	May-09	Jun-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Foreign Exchange Market									
Inter-Bank Purchases (US\$M)	541.8	548.3	496.1	659.7	578.2	696.6	741.8	669.7	798.7
Inter-Bank Sales (US\$M)	571.6	554.0	485.9	629.3	577.7	578.2	778.0	630.0	813.4
Cross currency trading (US\$ million)	454.3	582.4	341.0	394.2	267.1	219.4	129.2	271.9	277.1
Inter-Bank Mid-Rate (UShs/US\$)	2247.7	2137.2	1873.8	1896.6	1935.6	1,996.5	2,086.4	2,083.0	2,174.6
Foreign Exchange Reserves									
Gross Foreign Reserves in months of imports of goods and S	5.20	5.12	5.6	5.7	5.4	5.3	5.2	5.3	
Bank of Uganda Foreign Exchange Reserves (US\$ M)	2477.4	2442.1	2,761.7	2,769.3	2,747.9	2,732.5	2,673.0	2,698.8	
Monetary and Credit Aggregates (2)									
Broad Money supply M3	6,273.1	6,297.6	6,427.7	6,797.7	6,732.6	7,107.1	7,268.6	7,610.2	
Foreign Exchange Accounts Deposits	1,427.7	1,376.9	1,283.0	1,412.6	1,437.1	1,485.5	1,495.4	1,757.0	
Money supply M2	4,845.4	4,920.7	5,144.7	5,385.1	5,295.4	5,621.6	5,773.2	5,853.2	
Certificate of Deposit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Currency in circulation	1,237.1	1,245.4	1,250.1	1,329.7	1,299.8	1,284.7	1,304.1	1,336.3	
Demand deposits	1,785.9	1,732.7	1,888.6	1,978.2	1,908.2	2,095.5	2,057.1	2,037.7	
Time and saving deposits	1,822.5	1,942.5	2,006.0	2,077.1	2,087.4	2,241.4	2,412.1	2,479.2	
Claims on Central Government	(729.5)	(644.4)	(571.0)	(652.8)	(643.3)	(648.2)	(562.2)	(759.9)	
o/w Bank of Uganda, net claims on gov't.	(2,239.1)	(2,209.5)	(2,251.6)	(2,330.9)	(2,409.4)	(2,424.9)	(2,402.0)	(2,504.6)	
Private Sector Credit	3,725.1	3,599.5	3,895.3	3,994.0	4,003.9	4,156.9	4,247.5	4,274.5	
Weighted Average Interest Rates on Shilling Transactions									
Savings Deposit Rate	2.2%	2.4%	2.2%	2.3%	2.2%	2.3%	2.3%	2.4%	
Time Deposit Rate	8.7%	10.7%	8.8%	9.2%	9.3%	8.3%	7.7%	7.8%	
Lending Rate	22.2%	21.8%	21.6%	20.0%	19.6%	20.2%	21.1%	22.0%	
Treasury Bills									
91 Days (End period Weighted Discount Rate)	5.9%	6.2%	5.9%	5.3%	4.6%	3.8%	3.9%	4.1%	4.1%
182 Days (End period Weighted Discount Rate)	9.8%	10.2%	8.8%	7.2%	5.7%	4.6%	4.5%	5.5%	5.5%
273 Days (End period Weighted Discount Rate)									
364 Days (End period Weighted Discount Rate)	11.8%	12.3%	9.3%	8.3%	6.8%	5.7%	5.9%	7.3%	7.5%
Average Interest Rates on Foreign Exchange Transactions									
Demand Deposit Rate	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	
Savings Deposit Rate	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%	1.7%	1.6%	
Time Deposit Rate	3.9%	3.9%	4.8%	5.1%	3.5%	4.4%	3.2%	3.9%	
Average Lending Rate	11.2%	10.4%	10.3%	10.1%	11.4%	11.2%	9.9%	10.0%	
Bank of Uganda Rates									
Rediscount Rate	9.7%	9.6%	9.4%	8.7%	8.1%	7.4%	6.8%	7.1%	7.2%
Bank Rate	10.7%	10.6%	10.4%	9.7%	9.1%	8.4%	7.8%	8.1%	8.2%
Reserve Money									
Base Money	1925.0	1909.9	2,011.5	2,136.6	2,026.6	1,942.6	2,071.1	2,064.1	2,186.1
Currency Issued	1403.2	1434.6	1,445.6	1,560.8	1,486.5	1,478.5	1,520.7	1,539.2	1,586.1
Commercial Banks' Total Reserves	521.8	475.3	565.9	575.9	541.1	464.1	550.4	524.8	600.0
Statutory Required Reserves (6)	509.9	521.0	542.1	559.6	570.1	566.9	596.8	615.1	642.2
Excess reserves ⁽⁷⁾	156.0	103.0	164.4	160.5	133.6	73.4	116.4	91.7	128.0
Consumer Price Index (Base 2005/06)									
Composite CPI, Annual percentage change.	12.5	12.3	12.0	10.9	8.9	8.1	7.5	5.9	4.4
Core CPI, Annual percentage change	10.5	11.0	8.8	7.4	5.5	6.4	6.4	5.5	4.6
Food crops CPI, Annual percentage change	26.8	22.7	35.5	34.3	27.6	22.0	16.8	10.7	5.5
Elec, Fuel & Utilities (EFU) CPI, Annual percentage	-2.7	-3.9	-3.4	-3.2	-7.1	-4.4	-1.3	3.7	4.8
Monthly Average Pump Prices of Petroleum Products									
Motor Spirit Premium (PMS)	2235.0	2285.0	2,347.7	2,340.8	2,349.0	2,389.7	2,523.0	2,953.0	2,889.0
Diesel (AGO)	1831.0	1938.0	1,996.7	2,028.4	2,024.9	2,032.3	2,159.7	2,271.0	2,290.0
Kerosene (BIK)	1687.0	1730.0	1,713.8	1,704.6	1,711.0	1,750.8	1,819.3	1,879.0	1,919.0
Source: Research Department, Bank of Uganda									