

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



SEPTEMBER 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

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

II GLOBAL ECONOMIC DEVELOPMENTS

The recovery of the global economy continued during the month of September 2010, but the pace moderated. This development is reflected in the global trade growth which has started slowing down from the high rates recorded in the first quarter of 2010 as trade volumes have now returned to pre-crisis levels.

Global price pressures remained subdued during the period on account of prevailing spare capacity mainly in advanced economies. In the emerging markets, however, inflationary pressures were more pronounced, reflecting a rise in food prices.

In the currency markets, weaker US economic data and a second phase of quantitative easing carried out by the Federal Reserve Bank weakened the dollar during the month under review. In Japan, the central bank intervened in the foreign exchange market for the first time since 2004 with the aim of weakening the yen. While this action was successful initially, the yen is now stronger versus the dollar than it was before the intervention, reflecting the safe haven status of the yen. Central banks in a number of emerging Asian countries have also stepped up their level of

intervention in order to stem the rapid appreciation of their currencies against a weak dollar.

During the month, the oversight body of the Basel Committee on Banking Supervision announced a substantial strengthening of existing capital requirements. The Committee agreed to increase the minimum common equity requirement from 2.0 to 4.5 percent and in addition, banks will be required to hold a capital conservation buffer of 2.5 percent in order to withstand future periods of economic and financial stress. This brings the total common equity requirements to 7percent. In line with this announcement, Bank of Uganda is also proposing changes to the minimum impaired capital of commercial banks.

In the commodity markets, crude oil prices rose by 0.4 percent in September 2010 to an average of US\$ 76.1 per barrel from US\$ 75.6 in the previous month, supported by strong demand and OPEC production restraint. Prices of agricultural products also rose during the same period with wheat, sorghum, maize, sugar and cotton registering the highest increases.

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 during the month of September 2010. The Bank of Uganda (BOU) continued to manage liquidity with a view of supporting aggregate demand while at the same time mindful of the price stability objective.

The sterilization of structural (long-term) liquidity was effected through sales of government securities while repurchase agreements (REPOs) were used to fine tune short-term liquidity conditions.

IV INFLATION

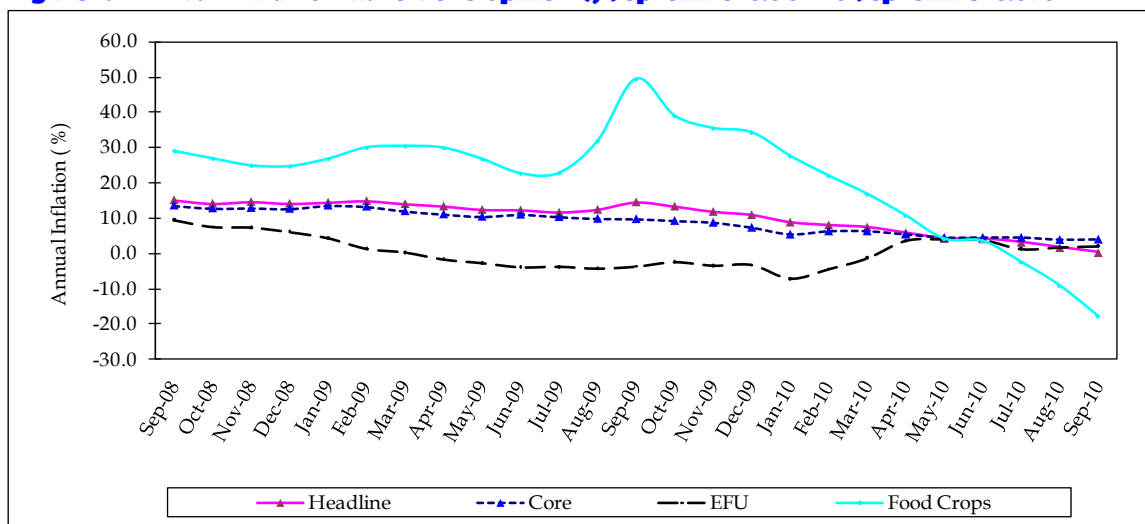
In September 2010, the annual headline inflation rate dropped to its lowest level since July 2004, falling to 0.3 percent from 1.7 percent in August 2010 mainly driven by a fall in food crop prices. The annual food crop inflation declined to *minus* 17.6 percent in the month under review from *minus* 9.2 percent in August 2010.

The annual Core inflation, however, rose marginally to 4.1 percent in September 2010 from 4.0 percent in the previous month. Similarly, the annual Energy, Fuel, and Utilities (EFU) inflation increased to 2.1 percent from 1.8 percent in the previous month reflecting a rise in petroleum prices.

The monthly headline and core inflation rose to 1.0 percent and 0.4 percent, respectively in September 2010 from rates of 0.5 percent and 0.0 percent. Similarly, the monthly food crop inflation rate increased to 4.6 percent from 3.7 percent in the previous month mainly driven by increases in prices of matooke, Irish potatoes and beans.

Conversely, the monthly EFU inflation declined to 0.4 percent in September 2010 from 0.5 percent the previous month. Figure 1 shows the movements in the annual inflation rates for the period August 2008 to August 2010.

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



Source: Uganda Bureau of Statistics

V FOREIGN EXCHANGE MARKET

i) Exchange rates

On a period average basis, the Shilling depreciated by 0.9 percent from Shs. 2,230.9 per US dollar in August 2010 to Shs. 2,251.3 per U.S. dollar in September 2010. This depreciation was largely driven by some banks covering their short dollar positions. Although the shilling depreciated on an average basis, it appreciated against the dollar for most of the days in

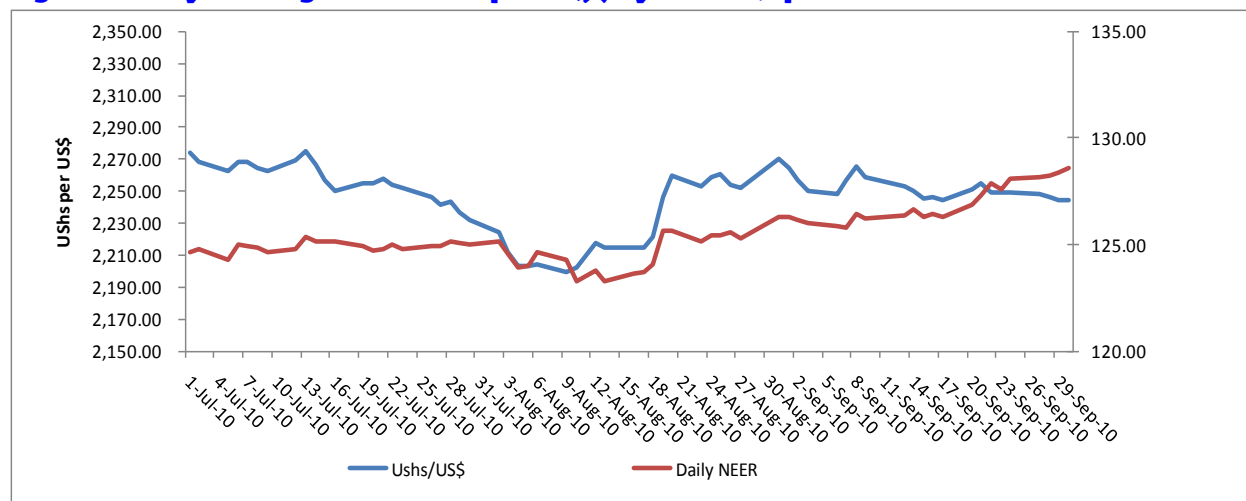
September 2010, owing to a weaker greenback against a basket of major currencies.

During the month under review, BOU did not intervene in the IFEM; however, it continued purchasing US\$ 0.5 million daily in order to build its foreign exchange reserves. The Nominal Effective Exchange

Rate (NEER) also depreciated by 1.7 percent in September 2010. Figure II shows the trends of the nominal exchange rate

and the movement of the NEER indices for the period September 2009 to September 2010.

Figure II: Daily Exchange Rate Developments, July 2010 to September 2010



Source: Bank of Uganda

VI MONETARY AGGREGATES

i) Money supply

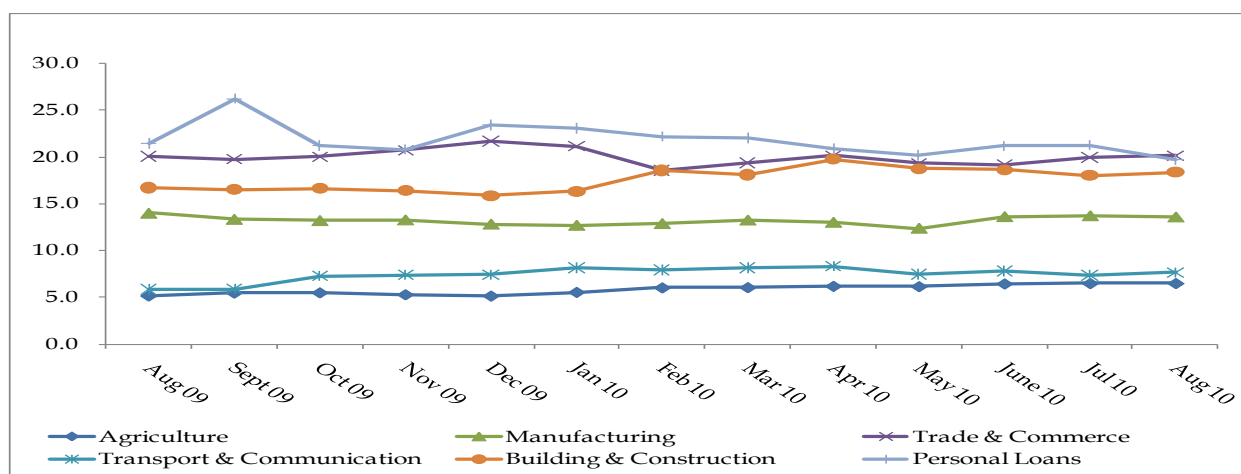
During the year ended August 2010, **M1**, **M2** and **M3** grew by 27.5 percent, 32.0 percent and 34.3 percent, compared to growth rates of 23.0 percent, 28.4 percent and 29.9 percent, respectively in July 2010. Due to the prudent macroeconomic policies pursued by BOU, this growth in money supply was not inflationary.

On an annual basis, the outstanding stock of credit to the private sector (PSC) grew by 28.3 percent in August 2010, compared to 26.3 percent in July 2010. On a monthly basis, private sector credit grew by 1.7 percent in

August 2010 compared to 2.4 percent in July 2010.

Personal loans continued to account for the largest share of credit, absorbing 19.7 percent of all outstanding loans. The trade and commerce, and building and construction sectors followed with shares of 20.1 percent and 18.4 percent, respectively. The manufacturing, transport and agriculture sectors accounted for 13.6 percent, 7.7 percent and 6.5 percent, respectively. Figure III shows the sectoral distribution of credit to the private sector.

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



Source: Bank of Uganda

VII MARKET\$ AND OPERATIONS

i) Treasury bill Market

During the month of September 2010, two scheduled Treasury bill auctions with a combined offer of Shs. 190.0 billion and one unscheduled auction with an offer of Shs. 14.0 were held. The scheduled auctions were oversubscribed to the tune of Shs. 182.3 billion while the unscheduled issue was undersubscribed.

The end period weighted average discount rate on the 91-day, 182-day and 364-day papers rose to respective rates of 5.1, 5.6 and 6.3 percent from 4.8, 5.2 and 5.9 percent in August 2010. Reflecting these developments, the rediscount and Bank rate rose to 8.1 percent and 9.1 percent from their respective end August 2010 levels of 7.6 percent and 8.6 percent.

ii) Treasury bond Market

In line with monetary policy and financial markets development objectives, Bank of Uganda issued a scheduled 2-year bond worth Shs. 100.0 billion on September 15, 2010 and an unscheduled 3-year bond worth the same amount on September 29, 2010. The Yield to Maturity (YTM) for the 2-year bond was 8.4 percent, compared to 8.3 percent recorded for the previous 2-year bond that was issued on June 23, 2010 while the (YTM) for the 3-year bond was 9.6 percent, compared to 9.1 percent recorded for the previous bond of a similar tenure that was issued on April 23, 2010.

iii) Repo and inter-bank money market

BOU used both the repo and the reverse repo instrument to manage short term liquidity conditions during the month of September 2010. The net effect of these actions was a withdrawal of Shs. 19.9 billion.

The domestic inter-bank money market remained active during the month under review with the total amount traded for tenors of not more than 30 days increasing to Shs. 1,074.1 billion from Shs. 894.3 billion in the previous month. The overnight and 7-day tenor dominated the market, accounting for 43.3 percent and 44.8 percent, respectively of the total value traded during the month. The weighted average interbank money market remained stable at 3.0 percent. Figure IV shows the pattern of selected categories of interest rates.

iv) Interest rates

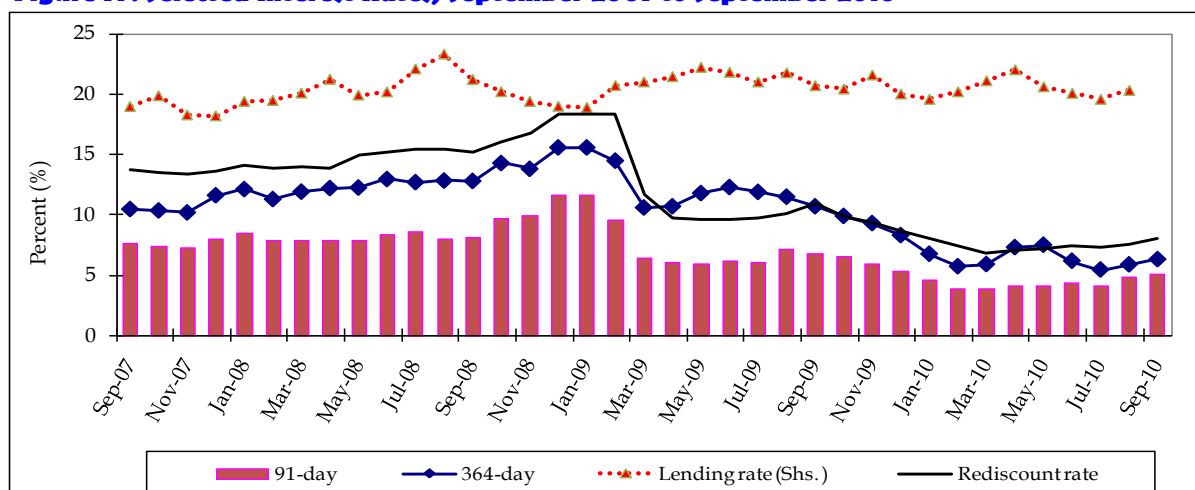
The interest rates on loans to the private sector remained relatively high during the month under review. The monthly weighted average lending rates on shilling denominated loans increased to 20.3 percent in August 2010 from 19.6 percent in the previous month. The interest rate on shilling denominated demand deposits remained stable at 1.3 percent while the rate on saving and time deposits rose to 2.6 and 6.8 percent

from respective rates of 2.5 and 7.1 percent in July 2010.

The monthly weighted average lending rates on foreign currency denominated loans declined to 10.2 percent from 10.6 percent in July 2010. On the other hand, the interest

rates on foreign currency denominated time and savings deposits increased to 1.7 and 4.0 percent from respective rates of 1.5 and 3.7 percent in July 2010. The rate on foreign currency denominated demand deposits remained stable at 1.0 percent.

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



Source: Bank of Uganda

VIII EXTERNAL SECTOR DEVELOPMENTS

Formal exports

According to preliminary data, total formal export proceeds for the month of August 2010 were estimated at US\$ 141.5 million, 9.3 percent and 14.9 percent higher than the proceeds realised in August 2009 and July 2010, respectively.

Non-coffee exports increased whereas coffee exports declined during the period under review. Coffee exports for the month of August 2010 amounted to 217,284 (60Kg) bags worth US\$ 23.7 million, lower than 260,236 (60Kg) worth US\$ 23.6 million

registered in August 2009. These exports were also lower than those realised in the previous month of July 2010.

The total value of formal non-coffee exports for August 2010 was US\$ 117.9 million compared to US\$ 95.6 million and US\$ 105.9 million recorded in July 2010 and August 2009, respectively. These proceeds were 11.3 percent higher than those realized in August 2009 mainly due a rise in proceeds from fish and its products and base metals. Table I below shows the detailed performance of Uganda's formal exports up to August 2010.

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

	Aug-09	Mar-10	Apr-10	May-10	June-10	July-10	Aug-10
a) Formal Exports: (1 + 2)	129.49	151.25	136.24	138.54	135.74	123.16	141.53
1. Coffee	23.58	21.79	15.55	18.23	23.03	27.53	23.66
Volume (millions of 60-Kg bags)	0.26	0.22	0.15	0.18	0.23	0.27	0.22
Av. Unit value	1.51	1.67	1.70	1.71	1.63	1.72	1.81
2. Non-Coffee exports:	105.92	129.46	120.69	120.31	112.71	95.63	117.87
Electricity	1.60	1.05	1.04	0.95	1.08	1.12	1.17
Gold	2.81	5.14	4.72	3.72	6.28	0.82	1.68
Cotton	0.59	3.16	4.05	3.61	1.03	0.15	0.00
Tea	2.71	6.39	7.01	6.70	5.91	5.23	4.01
Tobacco	7.02	5.09	8.38	6.94	2.63	4.55	3.36
Fish & its products	9.02	12.66	11.54	9.91	9.02	8.44	11.36
Hides & skins	0.37	1.34	1.51	1.57	1.65	0.99	0.95
Simsim	0.14	2.89	2.00	0.36	0.41	0.76	1.51
Maize	0.70	3.44	2.46	4.85	3.97	3.22	1.94
Beans	0.54	0.31	0.49	1.28	1.02	0.23	0.09
Flowers	4.47	4.45	2.87	4.31	5.49	4.14	4.32
Oil re-exports	8.01	9.83	10.82	8.90	7.49	11.16	8.16
Cobalt	2.07	1.06	1.06	1.39	2.12	1.59	1.06
Base metals & their products	7.35	6.47	7.52	6.79	8.66	5.97	10.06
Others	65.87	66.17	55.24	59.04	55.95	47.26	68.22

Source: Bank of Uganda

Imports

The total import bill for August 2010 was estimated to have increased to US\$ 317.5 million from US\$ 308.9 million mainly on account of a fall in government imports. Major private sector import items in August 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\$ 44.8 million, higher than the US\$ 38.7 million reported in the previous month reflecting an increase in oil prices. Table II summarizes developments in imports of goods.

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

	Aug-09	Mar-09	Apr-10	May-10	Jun-10	July-10	Aug-10
Total Imports:	306.02	368.65	316.76	437.39	354.55	308.87	317.53
Government Imports:	20.73	57.55	11.14	111.23	53.13	26.29	11.77
Project	14.96	10.52	9.45	4.63	16.10	10.22	8.02
Non-Project	5.77	47.03	1.66	106.60	37.03	16.06	3.74
Private Sector Imports:	285.29	302.70	297.31	317.94	293.10	282.58	305.76
Oil imports	36.56	41.01	46.44	47.20	45.18	38.73	44.81
Non-oil imports	248.72	261.68	250.87	270.73	247.92	243.85	260.95

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

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$ 52.3 million while official cash debt service (excluding IMF

obligations) stood at US\$ 2.0 million in August 2010.

The level of gross foreign reserves stood at US\$ 2,542.2 million; US\$ 11.0 million lower than the preceding month's level. This level of reserves was still sufficient to cover 4.9 months of future imports of goods and non-factor services. In a bid to build up these reserves,

BOU discontinued the daily sales of foreign exchange for sterilization purposes and begun purchasing US\$ 0.5 million daily from the IFEM.

IX CONCLUDING REMARKS

The macroeconomic indicators presented in this report reveal continued macroeconomic stability during the month under review. Bank of Uganda's monetary policy aimed at maintaining low and stable inflation, without compromising the stability of domestic and

foreign exchange markets. The Bank of Uganda will continue to monitor the macroeconomic and financial developments and will undertake necessary policy measures to maintain price stability and promote economic growth.

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billion 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	Aug-10	Sep-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	804.4	640.9
Inter-Bank Sales (US\$M)	629.3	577.7	578.2	778.0	630.0	813.4	899.5	701.4	827.3	633.3
Cross currency trading (US\$ million)	394.2	267.1	219.4	129.2	271.9	277.1	152.5	426.7	174.4	165.3
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	2,230.9	2,251.3
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	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	2,553.2	2,542.2	
Monetary and Credit Aggregates (2)										
Broad Money supply M0	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	
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	1,850.9	1,976.0	
Money supply M2	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	
Certificate of Deposit	0.0	0.0	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	1,464.2	1,472.9	
Demand deposits	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	
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	2,589.5	2,650.5	
Private Sector Credit	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	
Weighted Average Interest Rates on Shilling Transactions:										
Savings Deposit Rate	2.3%	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.6%	
Time Deposit Rate	9.2%	9.3%	8.3%	7.7%	7.8%	7.5%	7.3%	7.1%	6.8%	
Lending Rate	20.0%	19.6%	20.2%	21.1%	22.0%	20.6%	20.1%	19.6%	2.0%	
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%	4.8%	5.1%
182 Days (End period Weighted Discount Rate)	7.2%	5.7%	4.6%	4.5%	5.5%	5.5%	5.3%	4.8%	5.2%	5.6%
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%	5.9%	6.3%
Average Interest Rates on Foreign Exchange Transactions:										
Demand Deposit Rate	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%	1.6%	1.7%	1.6%	1.5%	1.7%	1.5%	1.7%	
Time Deposit Rate	5.1%	3.5%	4.4%	3.2%	3.9%	1.8%	3.2%	3.7%	4.0%	
Average Lending Rate	10.1%	11.4%	11.2%	9.9%	10.0%	9.0%	10.8%	10.6%	10.2%	
Bank of Uganda Rates:										
Rediscount Rate	8.7%	8.1%	7.4%	6.8%	7.1%	7.2%	7.4%	7.3%	7.6%	8.1%
Bank Rate	9.7%	9.1%	8.4%	7.8%	8.1%	8.2%	8.4%	8.3%	8.6%	9.1%
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	1.7	0.3
Core CPI, Annual percentage change	7.4	5.5	6.4	6.4	5.5	4.6	4.6	4.6	4.0	4.1
Food crops CPI, Annual percentage change	34.3	27.6	22.0	16.8	10.7	4.1	3.5	-2.5	-9.2	-17.6
Elec, Fuel & Utilities (EFU) CPI, Annual percentage	-3.2	-7.1	-4.4	-1.3	3.7	4.1	3.9	1.3	1.8	2.1
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	2,928.0	2,986.0
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	2,343.0	2,366.0
Kerosene (BIK)	1,704.6	1,711.0	1,750.8	1,819.3	1,879.0	1,919.0	1,956.0	1,960.0	1,980.0	2,001.0
Source: Research Department, Bank of Uganda										