

BANK OF UGANDA

QUARTERLY ECONOMIC REPORT

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1 MONETARY AND FINANCIAL DEVELOPMENTS

Monetary Policy

The macro-economic policy objectives for the year 2003/04 are to achieve growth in real GDP of 6.0 percent; higher than the 5.0 percent realised in 2002/03. This is mainly on account of anticipated return to normal weather conditions and consequent recovery in agricultural production. Both the headline and underlying inflation rates are expected to fall to about 3.0 percent, from their respective rates of 10.2 percent and 5.4 percent realised by end-June 2003. On average basis, these rates are expected to be 5.9 percent and 5.6 percent respectively in 2003/04, compared to the average of 5.7 percent and 2.4 percent realised in the financial year 2002/03.

The monetary policy during the quarter was directed at ensuring that inflation was contained at low and stable levels. This notwithstanding, excess liquidity arising from donor funded government expenditure to support poverty reduction was managed in a manner that did not exacerbate instability in the domestic money and foreign exchange markets.

As a strategy for sterilization of structural liquidity, BOU continued to use net issuance of the Treasury bill in the bi-monthly primary auctions and the daily sales of foreign exchange. However, for the management of the intra-auction short-term liquidity variations in the market, Repo and Reverse Repos were used.

In line with developments in liquidity within the banking system, there was a net issuance of treasury bills amounting to Shs 108.43 billion during the quarter to December 2003 compared to net issues of Shs 82.99 billion in the preceding quarter ended-September 2003. The Repo instrument was also actively used to fine-tune liquidity developments in the intra-auction periods. Gross Repo issues amounted to Shs 294.90 billion against maturities of Shs 328.81 billion. This compares with the quarter ended-September 2003 when issues of Shs 294.10 billion were effected against maturities of Shs 297.58 billion.

Bank of Uganda also varied the policy rates to supplement the quantity-based instruments of monetary policy. Consequently, the Rediscount rate and the Bank rate that were 20.58 percent and 21.58 percent, respectively at the beginning of October 2003 increased to 24.62 percent and 25.62 percent, respectively by end-December 2003. Bank of Uganda occasionally intervened in the foreign exchange market to stem volatility in the market and to smoothen the exchange rate trend.

During the quarter under review, inflation maintained a downward trend with the annual headline inflation rate being recorded at 5.9 percent in December 2003, from 9.5 percent in September 2003. This development was in contrast to the trend in the corresponding period in 2002 in which the inflation rate rose from 1.3 percent in September 2002 to 5.7 percent in December 2002. The annual food crops inflation which largely accounts for the trend in headline inflation reduced on average from 28.2 percent in the quarter ended-September 2003 to 10.4 percent in the quarter

ended-December 2003, as a result of improved food supply attributed to favourable weather conditions. The annual underlying inflation rate, that excludes food crop sub-group declined from the average of 6.3 percent registered in the quarter ended-September 2003 to 5.3 percent in the quarter ended-December 2003 largely on account of the fall in prices of petroleum products.

During the quarter, the shilling remained relatively stable with the mid-rate derived from the inter-bank foreign exchange market appreciating by 1.3 percent in contrast to a depreciation of 1.5 percent recorded in the same period in 2002/03. The spreads between the buying and selling rates however, widened from Shs 8.84 as at end-September 2003 to Shs 11.08 by the end of December 2003. Bank of Uganda's presence in the market under the sterilization strategy and intervention in the market to curb instability, amounted to a net sales of US\$6.85 million compared to US\$25.2 million sold during the preceding quarter.

The decline in the discount rates on Treasury bills witnessed in the previous quarter was reversed in the quarter under review, as rates on all maturities moved upwards. At the short end of the market, the average rate on the 91-day Treasury bill rose from 14.32 percent in September 2003 to 20.35 percent in December 2003. There were similar increases in the rates on other maturities resulting into a positively sloped yield curve with the yield curve. Other money market rates also increased during the quarter under review. The average Repo rate rose from 8.55 percent by end-September 2003 to 21.91 percent by end-December 2003. Indicative quotes of bid/offer rates by primary dealers closely followed developments in the primary market for Treasury bills. Movements in commercial banks' effective rates was mixed. The weighted average lending rate on the shilling denominated loans declined from 18.42 percent by end-September 2003 to 16.89 percent in October 2003 but gradually rose to 21.61 percent by end-December 2003. This was higher than 18.47 percent recorded in December 2002. Time deposit rates fell sharply from 13.27 percent recorded by the start of the quarter to 8.21 percent by end-October then rose to 12.11 percent by end-December 2003.

During the quarter under review, base money growth was 2.0 percent compared to the growth of 13.4 percent in the previous quarter. At the broader monetary aggregates level, M3 grew by 1.8 percent in contrast to a decline of 0.3 percent recorded in the previous quarter. M2 grew by 1.9 percent compared to 2.1 percent growth recorded in the preceding quarter. Net foreign assets (NFA) of the banking system increased by 8.5 percent, compared to a decline of 1.1 percent registered in the previous quarter. Private sector credit growth from the banking system was robust at 8.3 percent, up from 4.7 percent recorded in the previous quarter. However, the banking system's net claims on government decreased by 40.1 percent. The growth in broad money was therefore on account of increases in private sector credit and net foreign assets.

Money Supply

Broad Money M3, which is the sum of all private deposits plus currency in circulation, expanded by 1.8 percent from Shs 2365.2 billion at the end of September 2003 to Shs 2407.0 percent at the end of December 2003. This compares to a contraction of 0.3 percent recorded in the preceding quarter. On an annual basis,

broad money M3 grew by 17.1 percent in the year ending December 2003, compared to 24.4 percent for the corresponding period in 2002.

Money supply M2A, which is composed of currency in circulation plus shilling private deposits, grew by 1.9 percent or Shs34.5 billion to Shs1819.7 billion at end-December 2003, compared to growth of 2.1 percent observed in the preceding quarter. During the period under review, foreign currency deposits registered an increase of 1.2 percent to Shs587.3 billion. Private demand deposits fell by 6.6 percent to Shs692.2 billion, private time and savings deposits increased by 1.9 percent to Shs577.4 billion, while currency in circulation (CIC) increased by 15.4 percent or Shs72.8 billion to Shs546.2 billion.

On the supply side, Net Domestic Assets (NDA) declined by 20 percent or Shs 124.4 billion to Shs 498.4 billion during the quarter ended December 2003. The change in NDA was mainly on account of a decline in government borrowing, coupled with a rise in private sector credit. Net Foreign Assets (NFA) grew by 8.5 percent or Shs177.0 billion to Shs2255.3 billion by end December 2003. Most of this growth was at BOU, where NFA grew by 11.1 percent or Shs167.8 billion to Shs1679.8 billion, mainly due to a build up in reserves. At commercial banks, NFA grew by 1.6 percent or Shs9.2 billion during the quarter from Shs 566.3 billion at end September 2003 to Shs 575.5 billion at end December 2003. Table 1 below shows trends of the broad monetary aggregates.

During the quarter, borrowing by Government declined by Sh 214.4 billion to Shs 320.5 billion as at end-December 2003. At BOU, its savings increased by Shs 136.7 billion, due to a sharp increase in its (Government) deposits of Shs 339.8 billion, which offset a rise in advances to Government of Shs203.0 billion. At the commercial bank level, advances to government, which includes investment in Government securities, increased by Shs29.6 billion, while Government deposits increased by Shs107.2 billion, resulting in a net decline in claims on the central Government amounting to Shs77.7 billion during the period.

Claims on the private sector grew by 8.3 percent or Shs73.8 billion to Shs962.0 billion as at end December 2003, of which Shs955.9 billion was by commercial banks, and Shs6.1 billion by BOU. This marks an acceleration from the 4.7 percent growth recorded in the preceding quarter. The changes in the monetary survey items relative to September 2003 and December 2003 monetary aggregates are shown in Table 2 below.

Table 1: Monetary Survey, Dec. 2002 to Dec. 2003 (Shs billion, end of period)

Aggregate	Dec. 2002	June 2003	Sept. 2003	Dec. 2003	Change Sept. 2003 to Dec. 2003	
					Absolute	Percentage
Net Foreign Assets (NFA)	1594.2	2101.3	2078.3	2255.3	177.0	8.5
O/w Bank of Uganda	1261.9	1500.5	1512.0	1679.8	167.8	11.1
O/w Commercial Banks	332.3	600.8	566.3	575.5	9.2	1.6
Net Domestic Assets (NDA) net of Revaluation	697.7	606.0	622.8	498.4	-124.4	-20.0
Net Domestic Assets (NDA)	460.9	272.1	286.1	151.7	-134.4	-47.0
Net Claims on Government (NCG)	587.8	389.2	534.9	320.5	-214.4	-40.1
Claims on Public Entities	6.7	7.2	8.1	9.2	1.1	13.6
Claims on the Private Sector	772.1	848.6	888.2	962.0	73.8	8.3
Other Items (net)	-905.7	-972.9	-1145.1	-1140.0	5.1	-0.4
Money Supply (M3)	2055.0	2373.4	2365.2	2407.0	41.8	1.8
Foreign Currency Deposits	424.9	624.2	580.0	587.3	7.2	1.2
Money Supply (M2)	1630.2	1749.2	1785.2	1819.7	34.5	1.9
Term Deposits	523.5	562.7	570.4	581.2	10.8	1.9
Demand Deposits	640.0	725.1	741.3	692.2	-49.1	-6.6
Currency in Circulation	466.6	461.4	473.5	546.2	72.8	15.4

Source: Bank of Uganda**Table 2: Quarterly Growth of Monetary Aggregates Dec. 2002 to Dec. 2003
(Percent relative to the Previous Quarter)**

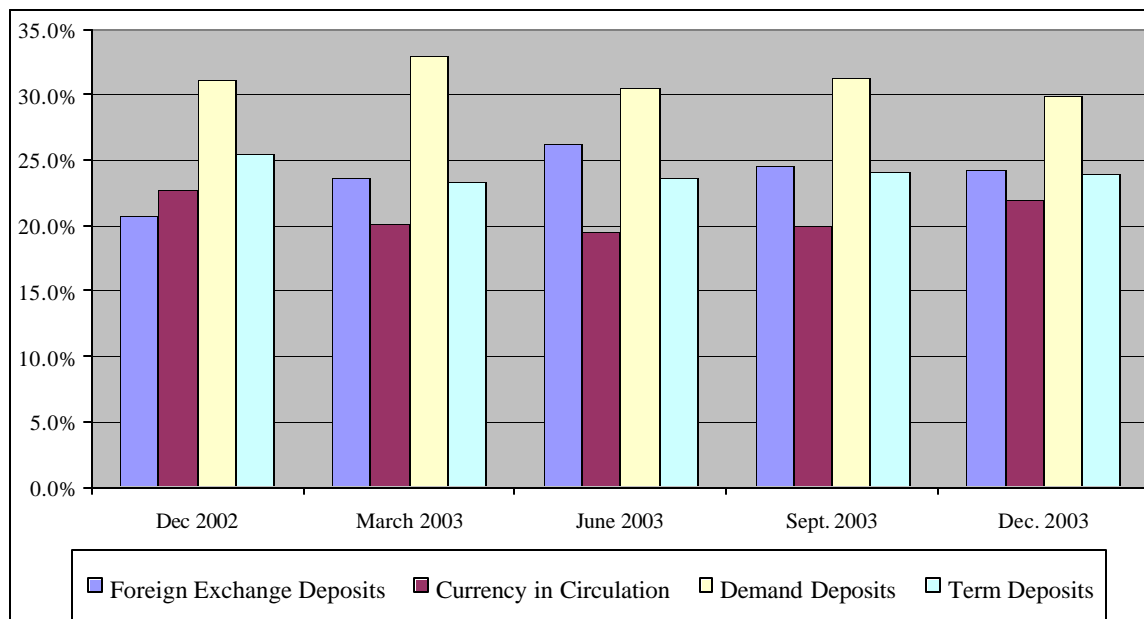
Period	Dec. 2002	June 2003	Sept. 2003	Dec. 2003
Money Supply (M3)	5.5	7.7	-0.3	1.8
Money Supply (M2)	7.1	4.0	2.1	1.9
Net Foreign Assets, (NFA)	2.0	30.1	-1.1	8.5
Domestic Credit	12.6	-19.8	14.9	-9.8
Government	10.9	-45.2	37.0	-40.1
Private	14.2	2.1	4.7	8.3
Other Items Net	9.3	-1.1	17.6	-0.4

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits fell to 24.4 percent at end-December 2003, compared to 24.5 percent as at end-September 2003, partly reflecting a slight shift to local currency deposits due to the relative stability of the exchange rate. The share of private demand deposits in M3 was largest, although it declined from 31.3 percent as at end September 2003 to 28.8 percent at end-December 2003. The share of currency in circulation rose to 22.7 percent, up from 20.0 percent in the preceding quarter.

The share of term deposits remained unchanged at 24.1 percent. These trends are depicted in Chart 1.

Chart 1: Components of M3 (Dec. 2002 to Dec. 2003)



Source: Bank of Uganda

Base money

The monetary base, which includes commercial bank's investments in BOU securities grew by 2.0 percent equivalent to Shs15.6 billion to a level of Shs 805.3 billion by end- December 2003. This growth compares to a rise of 13.4 percent registered in the previous quarter. BOU undertook liquidity management through higher net issuance of Treasury bills, and the active role of the BOU in the Inter-bank Foreign Exchange Market (IFEM) on account of both sterilization and intervention during the period under review.

Table 3 below shows that during the quarter, net foreign assets (NFA), was the biggest factor in the growth of base money. NFA increased by Shs167.8 billion, thereby increasing base money by 21.2 percent during the quarter. Net domestic assets declined by Shs145.9 billion, contracting base money by 18.5 percent. Movements in BOU's net claims on government accounted for a 17.3 percent contraction in base money, indicating a build up of savings by the government. Currency issues increased by 15.6 percent reflecting increased demand during the festive period, while commercial banks reserves fell by 24.6 percent, and investment in BOU securities decreased by 36.3 percent or Shs21.8 billion.

Table 3: Monetary Authorities Balance Sheet

	FY '01/02	FY '02/03	Mar. 03- June-03	June 03- Sept. 03	Sept. 03- Dec. 03
Shs Billion (End of period)					
Net Foreign Assets	1090.6	1500.5	1500.5	1512.0	1679.8
Net Domestic Assets	-475.3	-904.9	-906.0	-833.4	-979.3
Net Claims on Government	12.6	-194.8	-196.0	-80.9	-217.7
Net Claims on Private Sector	....	.....	...	6.0	6.1
Net Claims on Parastatals	4.0	4.0	4.0	4.2	4.2
Net Claims on Banks	46.3	100.5	101.6	111.1	104.7
Base money +Investments in BOU instruments	661.6	696.1	696.1	789.7	805.3
Base money	630.0	630.6	630.6	729.7	767.1
Currency outside BOU	447.9	520.3	520.3	539.7	623.8
Commercial Banks' Operational Reserves	182.1	110.4	110.4	190.1	143.3
Commercial Banks' investments in BOU instruments	31.6	65.5	65.5	60.0	38.2
Percentage contribution to changes in Base Money +Investments in Bou Instruments					
Net Foreign Assets	53.3	61.9	55.5	1.7	21.2
Net Domestic Assets	-36.6	-61.1	-48.6	10.3	-18.5
Net Claims on Government	-121.2	-31.2	-36.8	16.4	-17.3
Net Claims on Private Sector	...	....	...	0.9	0.0
Net Claims on Parastatals	-0.1	0.0	0.0	0.0	0.0
Net Claims on Banks	1.5	4.4	0.3	1.5	-0.8
Base money + Investments in BOU Instruments	18.2	7.7	7.2	13.4	2.0
Base money	14.6	0.3	-0.9	14.2	4.1
Currency outside BOU	10.9	10.9	3.9	2.8	10.6
Commercial Banks' Operational Reserves	3.4	-10.8	-4.7	11.4	-5.9
Commercial Banks' Investments in BOU instruments	3.9	5.1	8.1	-0.8	-2.8

Source: Bank of Uganda

2 COMMERCIAL BANKS' ACTIVITIES

Overview

During the quarter ended December 2003, the net foreign assets of commercial banks grew by 1.6 percent to Shs575.5 billion, from Shs566.3 billion as at end-September 2003. Net domestic assets grew by a modest 0.5 percent to Shs1576.5 billion at end-December 2003. Net claims on the central government declined by 12.6 percent or Shs77.7 billion to Shs538.1 billion compared to a 5.2 percent rise registered in the previous quarter. Net claims on Bank of Uganda declined by 27.9 per cent to Shs147.7 billion as at end-December 2003, reflecting a fall in commercial bank reserves over the quarter. Cash in vaults increased by 17.1 per cent, from Shs66.2 billion to Shs77.5 billion over the period. The details of the key items of the balance sheet are shown in Table 4 below.

**Table 4: Commercial Banks' Key Balance Sheet Items
(Shillings, billion)**

Aggregate	Dec. 2002	June 2003	Sept. 2003	Dec. 2003	Change Sept. 2003 to Dec. 2003	
					Absolute	Percentage
Net Foreign Assets	433.6	600.8	566.3	575.5	9.2	1.6
Net Domestic Assets	1281.2	1495.8	1568.8	1576.5	7.7	0.5
Claims on Government (net)	551.7	585.2	615.8	538.1	-77.7	-12.6
Claims on Private Sector	676.4	848.6	882.2	955.9	73.7	8.4
Cash in Vaults	49.6	58.9	66.2	77.5	11.3	17.1
Claims on Bank of Uganda (net)	159.7	227.2	204.8	147.7	-57.2	-27.9
Other Items Net	-339.2	-411.8	-448.2	-438.9	9.3	-2.1

Source: Bank of Uganda

Deposits

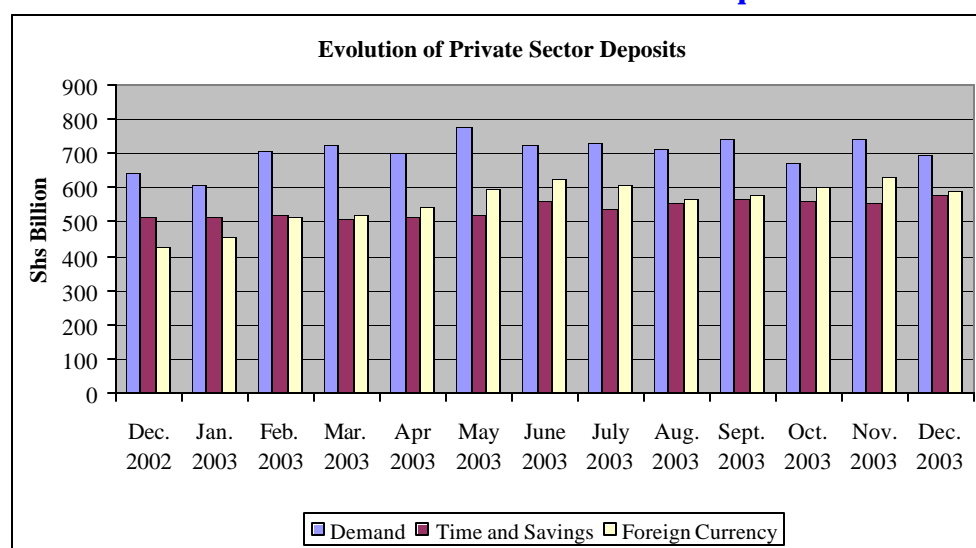
Private sector deposits recorded a decline of 1.6 percent to Shs1860.7 billion by end-December 2003. This was a continuation of the declining trend recorded in the previous quarter, when deposits declined by 1.1 percent. Demand deposits decreased by 6.6 percent, from Shs Shs741.3 billion as at end-September 2003 to Shs692.2 billion by end-December 2003. Foreign currency deposits increased by 1.2 percent or Shs7.2 billion to Shs587.3 billion during the quarter, thereby slightly reversing the decline observed in the previous quarter of 7.1 percent. Time and savings deposits increased by 1.9 per cent to Shs577.4 billion over the same period. Certificates of deposits declined slightly to Shs3.8 billion from Shs4.0 billion in the previous quarter. Table 5 and Chart II below provide the details.

**Table 5: Private Sector Deposits with Commercial Banks
(Shs billion, end of period)**

Deposits	Dec. 2002	June 2003	Sept. 2003	Dec. 2003	Change Sept. 2003 to Dec. 2003	
					Absolute	Percentage
Demand	630.0	725.1	741.3	692.2	-49.1	-6.6
Time and Savings	474.2	558.7	566.4	577.4	11.0	1.9
Foreign Currency	425.3	624.2	580.0	587.3	7.2	1.2
Certificate of deposits	5.8	4.0	4.0	3.8	-0.2	-3.8
Grand Total	1535.3	1912.1	1891.7	1860.7	-31.0	-1.6

Source: Bank of Uganda

CHART II: Evolution of Private Sector Deposits



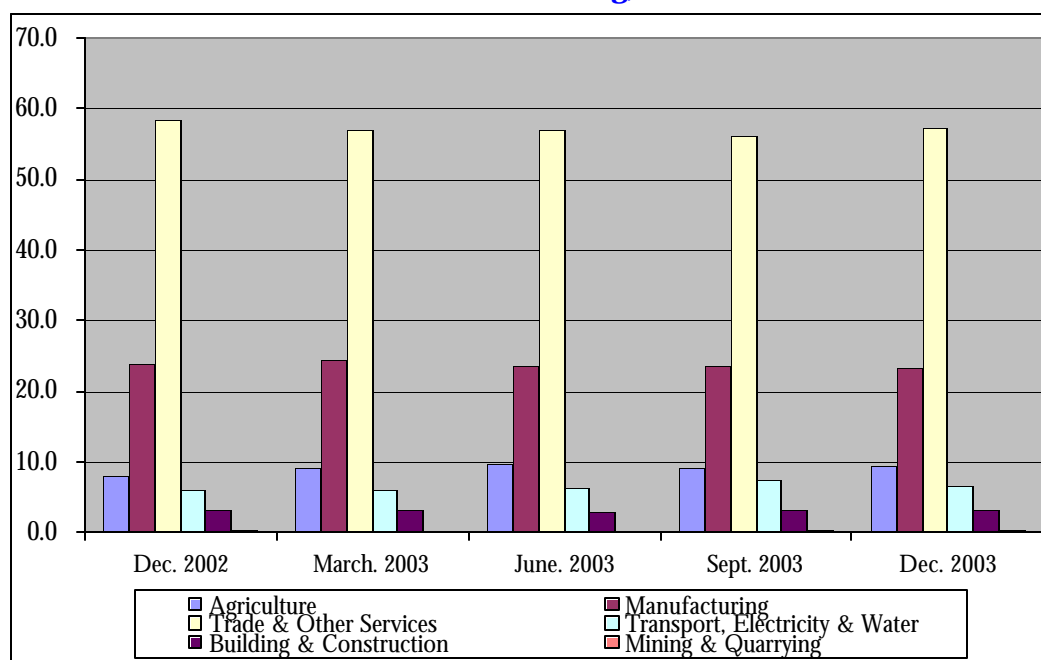
Credit to the Private Sector

During the quarter under review, the total stock of credit by outstanding to the private sector increased by 8.3 percent or Shs 73.8 billion to Shs 962.0 billion at end-December 2003. This marks a further acceleration in credit expansion relative to the 4.7 percent growth recorded in the previous quarter. The increase in credit was largely driven by shilling denominated loans to the private sector, which increased by 9.6 percent or Shs65.5 billion to Shs 751.1 billion during the quarter. Foreign currency denominated loans, on the other hand, grew by 4.1 percent or Shs8.2 billion to Shs210.9 billion by end-December 2003.

Credit to the Trade and Other Services sector continued to account for the bulk of the credit advanced to the private sector with a percentage share of 57.1 percent as at end-December 2003, up from 56.0 percent at end-September 2003. The stock of outstanding credit to this sector increased slightly by 10.5 percent to Shs549.2 billion at end-December 2003 from Shs496.9 billion as at end-September 2003. Outstanding credit to the agriculture sector rose by 8.9 percent to Shs90.0 billion at end-December 2003. The share of credit to agriculture in proportion to total credit rose slightly from 9.3 percent to 9.4 percent. The manufacturing sector recorded a growth in credit of 7.5 percent, from Shs208.6 billion at end-September 2003 to Shs224.3 billion by end-December 2003. However, its share of the total outstanding credit fell slightly to 23.3 percent from 23.5 percent during the quarter.

The stock of credit to the transport, electricity and water sectors recorded a decline of 4.4 percent from Shs66.1 billion at end-September 2003 to Shs63.3 billion by end-December 2003. Correspondingly, the sectors' share of credit fell from 7.5 percent to 6.6 percent during the period. The building and construction sectors' outstanding borrowing stood at Shs32.1 billion by end-December 2003, representing a growth of 5.8 percent from the Shs29.6 billion recorded at the end of September 2003, and its share of total credit was unchanged at 3.3 percent. The mining and quarrying sector had the least amount of outstanding credit with a percentage share of 0.3 percent at end-December 2003, down from 0.4 percent at end-September 2003. Chart III below indicates the sector specific credit ratios.

Chart III: Sectoral Shares of Commercial Banks' Credit to the Private Sector (in percent of total lending)



Source: Bank of Uganda

Table 7: Commercial Banks' Credit to the Private Sector (Shs billion)

Sector	Dec 2002	Mar. 2003	Jun 2003	Sept 2003	Dec 2003	Change Sept. 2003 to Dec. 2003	
						Absolute	Percentage
Agriculture	62.34	77.23	82.61	82.68	90.02	7.34	8.9
Manufacturing	185.27	203.62	201.84	208.58	224.29	15.71	7.5
Trade & other services	451.97	477.18	485.87	496.89	549.16	52.27	10.5
Transport, Electric ity & Water	47.62	49.67	54.00	66.17	63.23	-2.94	1.4
Building & Construction	23.88	26.92	25.88	29.61	31.33	1.72	5.8
Mining & quarrying	2.96	2.03	1.93	3.12	2.91	-0.21	-6.7
Grand Total	774.04	836.64	852.15	887.05	960.94	73.89	8.3

Source: Bank of Uganda

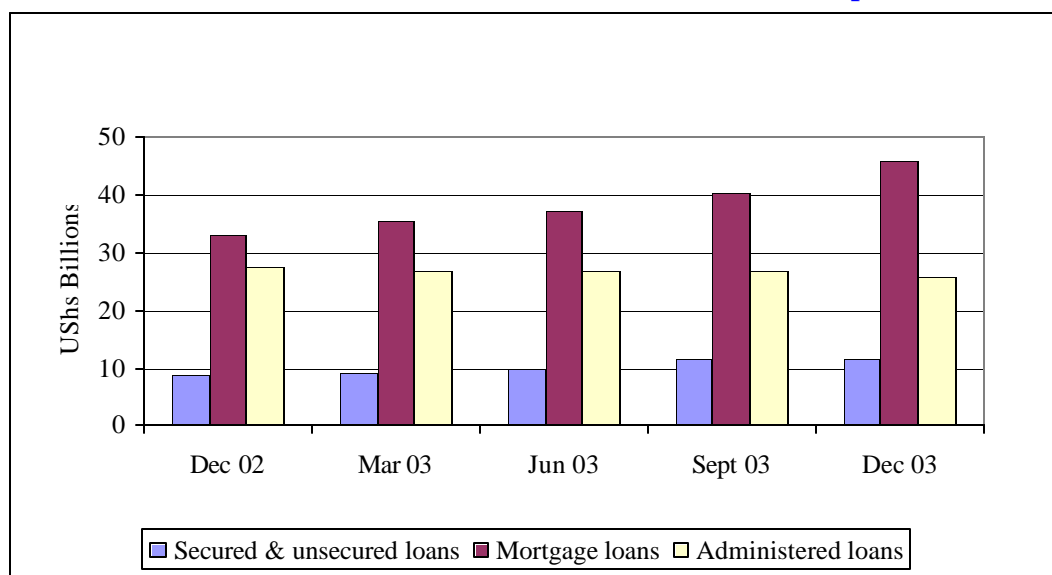
3 NON-BANK FINANCIAL INSTITUTIONS

Assets

In the quarter ended December 2003, the activities of the Non-Bank Financial Institutions (NBFIs) continued to grow. Reflecting this development, total assets rose from Shs 136.72 billion as at end-September 2003 to Shs 144.46 billion at the end of December 2003. This was an increase of 5.7 percent compared to a growth rate of 3.4 percent in the previous quarter and a rise of 4.4 percent during the corresponding period in 2002. The relatively strong growth during this period was mainly attributed to the growth in loans and advances to the private sector and other investments.

Total loans and advances rose by Shs 4.58 billion from Shs 78.34 billion at the end-September 2003 to Shs 82.93 billion at the end of December 2003. This growth was mainly on account of an increase in mortgage loans, which more than offset the decline in administered advances as well as secured and unsecured loans. Mortgage loans grew by Shs 5.63 billion to Shs 45.78 billion up from Shs 40.15 billion, an increase of 14.0 percent. Secured and unsecured loans fell by 0.5 percent from Shs 11.53 billion to Shs 11.48 billion, while administered loans reduced by 3.7 percent to Shs 25.67 billion (Chart IV below). The building and construction sector continued to hold the largest share of NBFIs credit at 84.0 percent of the total loans and advances as at end-December 2003.

Chart IV: Outstanding Loans and Advances of the Non-Bank Financial Institutions, December 2002 - December 2003 (Billion Shs at end period)



In the quarter under review, NBFIs' balances with commercial banks, inside and outside Uganda stood at Shs 18.50 billion, down from Shs 19.83 billion in the preceding quarter, representing a decline of 6.7 percent (see Table 6 below). In particular, balances with commercial banks in Uganda fell by 2.4 percent to Shs 16.47 billion, while balances with commercial banks outside Uganda dropped by 12.8 percent to Shs 2.03 billion. Other investments grew by Shs 1.46 billion to Shs 22.46 billion at end-December 2003 largely on

account of a rise in holding of government securities of 25.4 percent to Shs 11.57 billion. Investment in premises and fixed assets went up by Shs 1.37 billion or 12.6 percent to Shs 12.25 billion, up from Shs 10.88 billion recorded in the previous quarter. Cash in vaults also rose slightly from Shs 2.56 billion to Shs 2.90 billion during the quarter under review.

**Table 6: Total Assets of Non-Bank Financial Institutions
(Billion Shs at end period)**

	Dec 2002	Mar 2003	Jun 2003	Sept 2003	Dec 2003	Change Sept 2003 - Dec 2003	
						Absolute	Percentage
Cash in Vaults	2.67	2.84	2.08	2.56	2.90	0.34	13.28
Balance with Commercial Banks and Associated Companies	19.25	17.89	17.11	19.83	18.50	(1.33)	(6.72)
Investments	20.22	19.52	25.23	21.00	22.46	1.46	6.97
Total Advances 1/	69.54	71.70	73.95	78.34	82.93	4.58	5.85
Premises and other Fixed Assets	8.81	9.29	9.19	10.88	12.25	1.37	12.60
Other Assets 2/	4.99	3.73	4.62	4.10	5.52	1.42	34.68
Total Assets	125.48	124.98	132.17	136.72	144.46	7.74	5.66

Source: Research Department, Bank of Uganda

1/ Includes secured, unsecured, mortgage and administered loans.

2/ Includes net due from own offices in Uganda for items in transit

Liabilities

In the quarter under review, total deposits in the credit institutions grew by Shs 6.29 billion to Shs 82.78 billion at end-December 2003, marking an increase of 8.22 percent. Total private sector deposits expanded by 9.3 percent to Shs 58.65 billion, relative to a growth rate of 3.0 percent in the preceding quarter and 13.0 percent during the same period in 2002. In particular, savings deposits increased by Shs 4.47 billion to Shs 49.99 billion at the end of December 2003, while time deposits went up by Shs 0.53 billion to Shs 8.67 billion. Other deposits, which mainly constitute agency funds¹, rose by 5.6 percent to Shs 24.13 billion over the same period. On year-on-year basis, total deposits in the NBFIs grew by Shs 10.19 billion (14.0 percent) from Shs 72.59 billion at end-December 2002 to Shs 82.78 billion by end-December 2003. Table 7 and Chart V below illustrate the evolution of the deposits between December 2002 and December 2003.

¹ Funds collected so far from the beneficiaries of the government pool house sale scheme.

**Table 7: The Composition of the Total Deposits held in the Credit Institutions
(Billion Shs at end of period)**

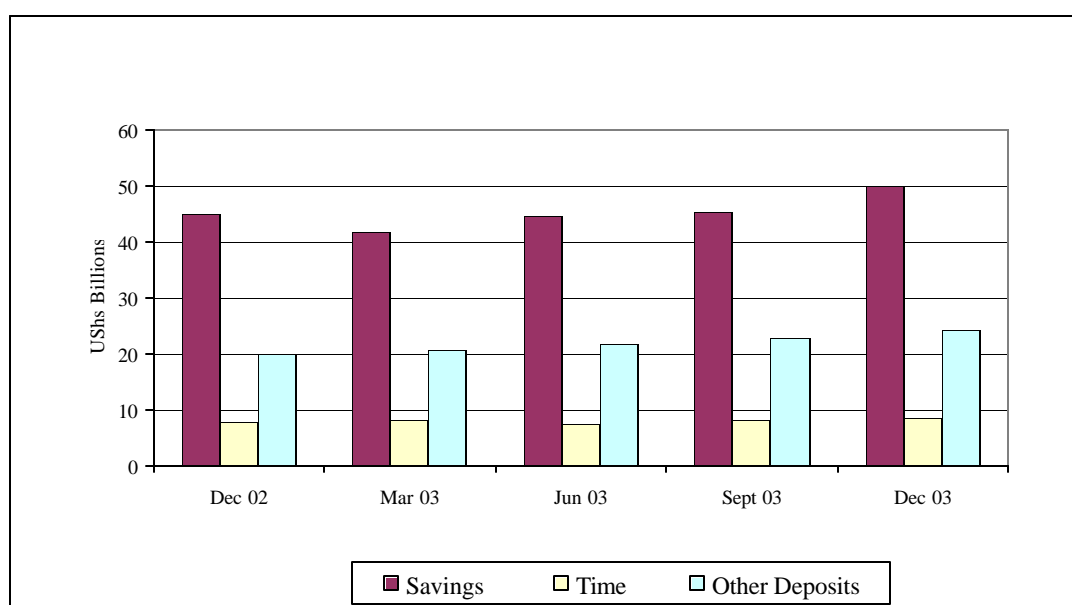
	Dec 2002	Mar 2003	Jun 2003	Sept 2003	Dec 2003	Change Sept 2003 - Dec 2003	
						Absolute	Percentage
Deposits payable after notice 1/	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Savings Deposits	45.02	41.70	44.83	45.52	49.99	4.47	9.81
Time Deposits	7.66	8.07	7.27	8.14	8.67	0.53	6.53
Total Private sector deposits	52.68	49.77	52.10	53.66	58.65	5.00	9.30
Other Deposits	19.91	20.78	21.84	22.84	24.13	1.29	5.64
Total Deposits 2/	72.59	70.55	73.94	76.49	82.78	6.29	8.22

Source: Research Department, Bank of Uganda

1/ Deposits payable after notice have disappeared due to the removal of Interstate Finance Company from the database with effect from December 2002.

2/ Includes funds collected so far from the beneficiaries of the government pool house scheme.

**Chart V: The Evolution of the Total Deposits in the Credit Institutions
(Outstanding at end of period)**



Liquidity

The liquidity position of NBFIs as measured by the level of liquid assets improved further by Shs 0.38 billion to Shs 40.09 billion as at end-December 2003 from Shs 39.71 billion registered at the end of September 2003. The improvement was mainly on account of treasury bills holdings and vault cash, which rose by 25.4 percent and 13.3 percent, respectively. However, balances of NBFIs in commercial banks and investment in stock and shares dropped by 3.7 percent and 18.3 percent, respectively. The developments in the liquidity indicators of the NBFIs are summarised in Table 8 below.

Table 8: Liquidity Indicators of Non-Bank Financial Institutions
(Billion Shs at end of period)

	Dec 2002	Mar 2003	Jun 2003	Sept 2003	Dec 2003	Change Sept 2003 - Dec 2003	
						Absolute	Percentage
Cash in Vaults	2.67	2.84	2.08	2.56	2.90	0.34	13.28
Treasury Bill Holdings	9.05	7.79	11.62	9.23	11.57	2.34	25.35
Balance with Commercial Banks	18.50	17.07	16.30	19.21	18.50	(0.71)	(3.67)
Investments in other Stocks & Shares	7.16	7.66	9.49	8.71	7.12	(1.59)	(18.28)
Total	37.37	35.37	39.49	39.71	40.09	0.38	0.96

Source: Research Department, Bank of Uganda

4 THE DOMESTIC MONEY MARKETS AND INTEREST RATES

The Treasury bills Market

This quarter has continued to see a marked increase of activity in the secondary market for government securities (see Table 10). This was largely on account of the primary dealership program and the signing of a Horizontal Repo Agreement (HRA) to facilitate interbank Repo transactions. This, and the ease of transferability of the securities on the Central Depository System (CDS) have boosted the money markets through increased secondary trades. Efforts to promote formal secondary trading of Treasury bills notwithstanding, the primary market remained an important tool for monetary policy management, while the secondary market is improving the background for active monetary operations in short term instruments for fine-tuning liquidity.

The Primary Market Auctions

Under the bi-monthly auctioning system, which commenced February 2003, primary issuance of Treasury bills continued to be actively used in liquidity management as a sterilization instrument. Under the phased approach towards a fully-fledged primary dealership program, competitive bids from non-primary dealers are accepted at the primary auction, so long as they are submitted through the primary dealers.

Table 9: Treasury Bill Volume, Price and Interest Rates

	Q2 2002/2003	Q3 2002/2003	Q4 2002/2003	Q1 2003/2004	Q2 2003/2004
Stock of Treasury Bills (in Shs Billions)	1200.70	1138.49	1202.60	1231.73	1340.01
Change in Stock	149.23	(62.21)	64.11	29.13	108.28
Price and Interest rates					
Average Price 91-day securities (Shs /100)	97.80	96.48	96.02	95.88	95.37
Annualized 91-day Discount Rate (%)	8.82	13.62	15.97	16.51	18.58
Annual 91-day Discount Yield (%)	9.03	14.10	16.64	17.24	19.49
Reference Rate (%) ³	9.04	14.36	15.59	17.62	20.44
Rediscount Rate (%)	10.16	13.83	17.00	20.58	24.62
Issues at Face Value (in Shs Billions)					
91 Days	52.92	35.15	52.29	54.00	62.00
182 Days	73.03/ ¹	40.13	69.70	85.00	84.00
273 Days	109.12/ ¹	50.50	102.00	128.00	108.00
364 Days	191.16/ ¹	84.00	146.55	188.00	201.00
Total Issues at Face Value	426.23/¹	209.78	370.54	455.00	455.00
Total Maturities	263.34	256.92	309.96	425.59/²	346.57
Total Net Issues at Face Value	162.89	(47.13)	60.58	29.16	108.43
Issues at Cost Value (in Shs Billions)					
91 Days	51.76	33.98	50.21	51.81	59.21
182 Days	68.18/ ¹	37.13	63.88	77.23	79.96
273 Days	97.12/ ¹	44.79	89.57	111.08	93.35
364 Days	162.71/ ¹	71.26	123.44	157.36	166.76
Total Issues at cost value	379.77/¹	187.16	327.10	397.48	399.28

Source: Bank of Uganda

Note: Figures are for the end of the period.

1/ Includes various special issues to mop-up liquidity from maturing UCB recapitalization bonds.

2/ Includes maturities pertaining to special issues to mop-up liquidity maturing UCB recapitalization bonds.

3/ Reference rate calculated as 4-weeks moving average of the 91-day Treasury bill yield.

The stock of Treasury bills increased by 8.79 percent, from Shs 1,231.73 billion recorded at the end of September 2003 to Shs 1,340.01 billion as at end-December 2003 (see Table 9). Commercial banks held 72.31 percent of the outstanding stock of Treasury bills by end-December 2003, compared to 75.00 percent reported in September 2003, while BOU's holdings decreased marginally to 9.49 percent from 9.70 percent over the same period.

Most of the auctions for this instrument were over-subscribed during the quarter, though demand continued to remain concentrated at the longer end of the market. This bias is reflected in the respective shares of the different maturity papers during the period, which stood at 16.58 percent, 15.33 percent, 19.96 percent and 48.13 percent for the 91-days, 182-days, 273-days, and 364-days securities, respectively.

The face value of the Treasury bills issued during the quarter of Shs 455.00 billion was against maturities worth Shs 346.57 billion. The implied net issuance of Shs 108.43 billion during the quarter was higher than net issues of Shs 29.16 billion and lower than Shs 162.89 billion for the previous quarter and the corresponding quarter ended December 2002, respectively.

The discount rates on Treasury bills that had declined in the quarter before, rose from October 2003 such that the average rates for December 2003 were recorded at 20.35 percent, 21.16 percent, 19.83 percent and 18.26 percent on the respective 91-days, 182-days, 273-days and 364-days Treasury bill. These discount rates were higher than 14.32 percent, 16.09 percent, 15.89 percent and 16.06 percent respectively in September 2003 and than 10.66 percent, 15.40 percent, 15.82 percent and 16.06 percent, respectively in December 2002.

The average annualized yield for the entire quarter stood at 19.49 percent, 21.43 percent, 21.77 percent and 20.98 percent for the 91-day, 182-day, 273-day and 364-day bills respectively, which is higher than the respective 17.24 percent, 19.70 percent, 20.36 percent and 19.67 percent for the quarter ended-September 2003. In the corresponding quarter ended-December 2002, these respective yields were 9.03 percent, 14.77 percent, 16.76 percent and 17.83 percent.

As depicted by Chart VI below and Appendix Table 27, most of the auctions during this period of review resulted into an upward sloping yield curve.

The Treasury bills Secondary Market

The discount rates derived from daily '*bid*' and '*offer*' discount rate quotations by the primary dealers for secondary trading of Treasury bills, remained closely linked to those in the primary market for these securities. As summarized in Table 10 below, the respective average bid/offer rates for the quarter ended-September 2003 were 17.61/17.35 percent, 18.06/17.81 percent, 17.66/17.40 percent and 16.92/16.66 percent for the 91-days, 182-days, 273-days and 364-days securities. Like was the case for the primary market, the yield curve derived from average discount quotes in the secondary market was upward sloping, but with less steepness at the long-end of the market. Total trades over this period amounted to Shs 27.31 billion at an average discount rate of 17.82 percent, and an average yield of 21.04 percent. This volume of trade is higher than Shs 19.12 billion executed in the previous quarter ended September 2003, with an average discount rate of 14.86 percent registered then.

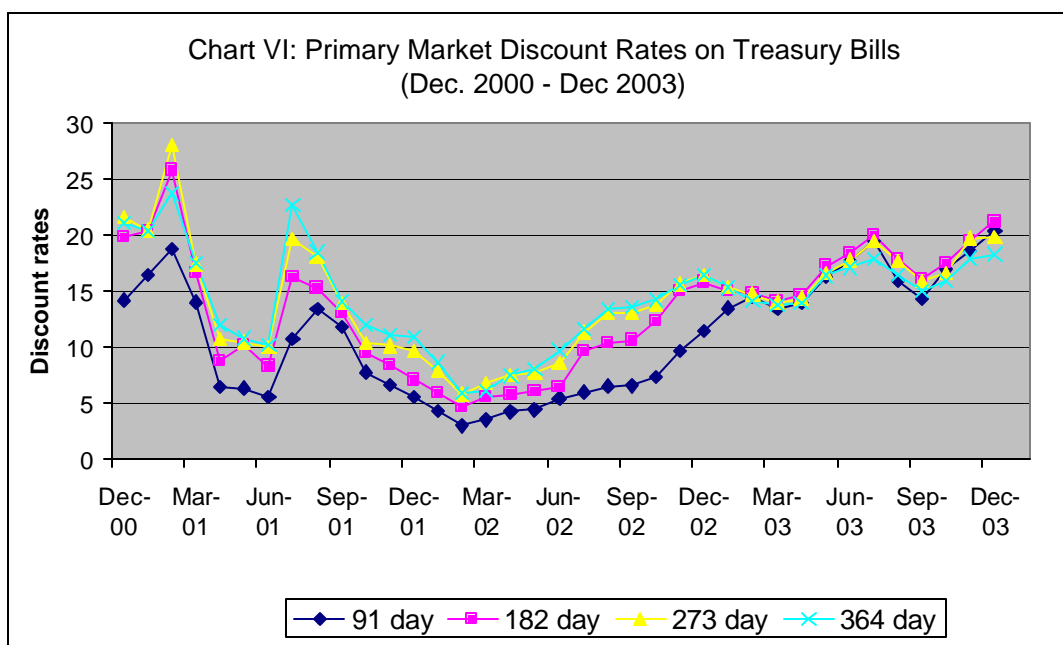


Table 10. Summary Indicators from the Secondary Market for Treasury bills (Oct-Dec 2003)

Table 10: Summary indicators from the Secondary Market for Treasury bills (Oct-Dec 2008)								
	91-days		182-days		273-days		364-days	
Discount rates quotation(%)								
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	13.95	13.70	14.78	14.53	14.60	14.35	14.25	14.00
Max	21.21	20.96	21.25	21.00	21.66	21.40	21.50	21.25
Average(simple)	17.61	17.35	18.06	17.81	17.66	17.40	16.92	16.66
Trading Activity								
Transactions(Shs bill)	27.310		...		...		...
- Horizontal repos	0		...		...		...
- Outright sales	27.310		...		...		...
Average discount rate	17.82%		...		...		...
Average effective yield	21.04%		...		...		...

Source: Bank of Uganda

The Vertical Repo Market

The vertical Repo market (i.e. Repo transactions between commercial banks and Bank of Uganda) was actively used throughout the quarter both for short-term liquidity management as a fine-tuning instrument during intra-Treasury bill auction periods. Total Repo issuance in the quarter ended-December 2003 was Shs 294.90 billion, against maturities of Shs 328.81 billion. In the quarter ended-September 2003, issues of Shs 294.10 billion, were effected against maturities of Shs 297.58 billion. The respective amounts of issues and maturities for the quarter-ended December 2002 were Shs 110.65 billion and Shs 98.89 billion.

The weighted interest rate from this market, also followed an upward trend throughout the quarter. As depicted in Table 11 below, the weighted average Repo rate that was 8.55 percent by end-September 2003 had risen to 21.91 percent by end-December 2003. The average for the quarter also increased from 11.41 percent to 17.60 percent over this period. Commercial banks maintained active participation during the quarter.

Table 11: Volume and Interest rate Developments in the Repo Market

	Q4 '02/03	Q1'03/04	Q2'03/04
Issuance of Repos (Shs Billions)	179.65	294.10	294.90
Maturity of Repos (Shs Billions)	76.66	297.58	328.81
Repo rate (average) (%)	15.29	11.41	17.60
Repo rate (end period) (%)	20.58	8.55	21.91

Source: Bank of Uganda

The Interbank Money Market

The quarter realized heightened levels of activity in the interbank money market, confirming improved liquidity management by commercial banks. The weekly average transaction volumes in the interbank market increased from Shs 27.82 billion in the quarter-ended September 2003, to Shs 34.37 billion in the quarter under review. With the exception of one, all banks remained active in the interbank money market. Charts VIII and IX show the respective movements in the interest rates and volumes of transactions in the interbank shilling market

Commercial banks' lending rate and deposits rates

Movements in the commercial banks' retail market continued to be mixed. The weighted average lending rate on shilling denominated loans registered a decline during the quarter from 18.42 percent by end-September 2003 to 16.89 percent in October 2003, but gradually rose to 21.61 by end-December 2003. This is higher than 18.47 recorded in December 2002.

The savings rate on shilling denominated deposits declined gradually from 2.65 percent recorded at end-September 2003 to 2.49 percent in December 2003. The time deposit rate registered a sharp fall at the start of the quarter from 13.27 percent to 8.21 percent by end-October but by the end of the quarter it had risen to 12.11 percent. The corresponding rate in December 2002 was lower at 8.97 percent.

The lending rates for dollar denominated loans increased from 8.297 percent by end-September to 10.16 percent by the end of December 2003, lower than 11.08 recorded in December 2002. The savings deposit rate on the dollar denominated loans increased from 1.55 percent by end-September 2003 to 1.71 percent by end-December 2003 while that of the time deposit rates decreased from 1.85 percent to 1.66 percent over the same period. This is lower than the respective 1.95 percent and 2.60 percent offered in December 2002. The developments in commercial bank interest rates are shown in Table 12.

Table 12: Weighted Average Interest Rates of Commercial Banks
(Percent, per annum)

	Dec 2002	July 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003
Loans and Deposits Denominated in Shillings							
Lending rate	18.47	19.52	22.43	18.42	16.89	20.55	21.61
Savings Deposit rate	2.00	2.46	2.66	2.65	2.63	2.59	2.49
Time Deposit rate	8.97	10.43	8.33	9.23	8.21	11.11	12.11
Loans and Deposits Denominated in Dollars							
Lending rate	11.08	8.92	8.98	8.29	8.06	10.49	10.16
Savings Deposit rate	1.95	1.50	1.57	1.55	1.71	1.64	1.71
Time Deposit rate	2.60	1.47	1.47	1.85	1.47	3.08	1.66

Source: Bank of Uganda

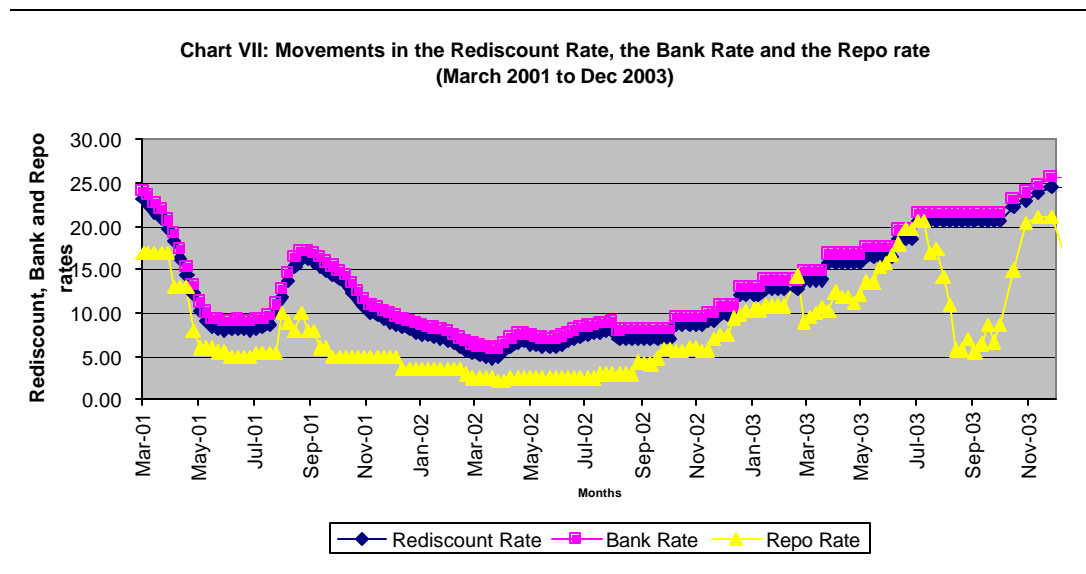


Chart VIII: Trends in the inter- bank rates

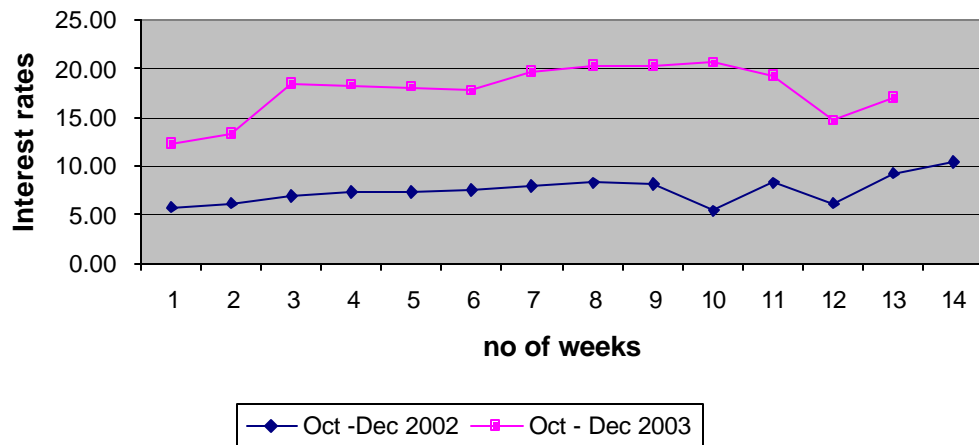
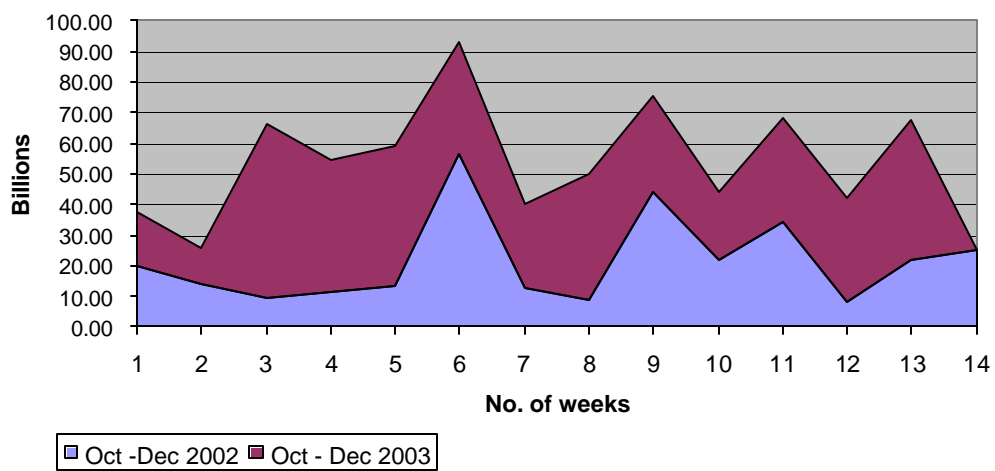


Chart IX: Volumes of transactions in the inter bank market



5 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

Foreign Exchange Rates

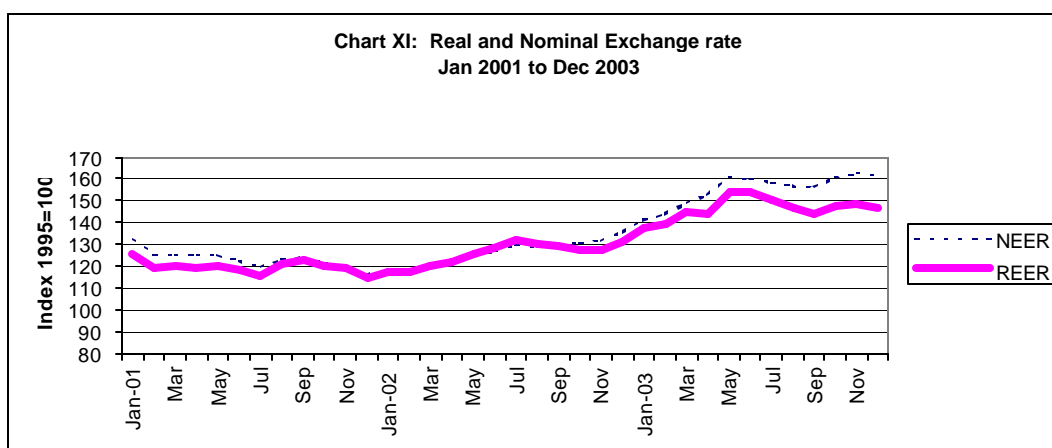
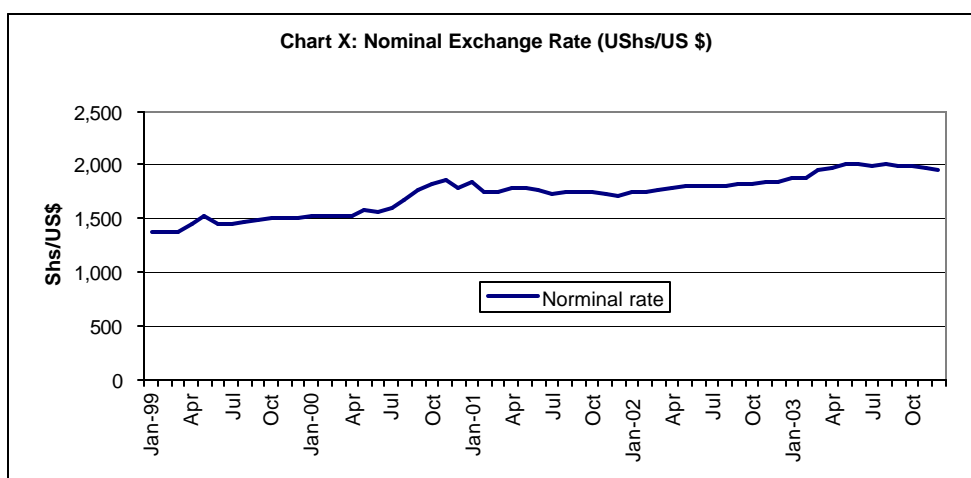
The appreciation of the Uganda Shilling recorded during the quarter ended September 2003 continued during the quarter under review, largely on account of improved foreign exchange inflows and reduced corporate demand. On an end-period basis, the average mid-rate in the inter-bank foreign exchange market appreciated by 2.49 percent from Shs. 1984.68 per US dollar as at September 31, 2003 to Shs 1935.32 per US dollar as at December 31, 2003, compared to the appreciation of 0.23 percent posted in the preceding quarter that ended in September 2003. On an average period basis, the Shilling appreciated by 1.33 percent from an average rate of Shs 1995.72 per US dollar in the quarter ended September 2003 to an average rate of Shs 1969.11 per US dollar in the quarter ended December 2003. This is in contrast to the depreciation of 1.52 percent recorded in the same period in 2002. The spreads, however, widened from Shs 8.84 as at the end of September 2003 to Shs 11.08 by the end of December 2003.

Bank of Uganda maintained its presence in the Inter-bank Foreign Exchange Market (IFEM) under the sterilisation strategy to mop up excess liquidity generated by poverty reduction government expenditure. In addition, the BOU intervened in the IFEM during the quarter to smoothen out volatilities in the exchange rate. Sales of foreign exchange by Bank of Uganda on account of sterilisation amounted to US\$ 21.20 million, while purchases totalled US\$14.35 million, making net sales of US\$ 6.85 million. This amount, however, was far less than the net sales of US\$ 25.2million posted in the preceding quarter.

The nominal effective exchange rate (NEER) index depreciated by 2.59 percent during the quarter under review, compared to a depreciation of 0.10 percent recorded during the previous quarter. The movements in the NEER index mainly reflect the relative movements of the Uganda Shilling against the US Dollar, Kenya Shilling, the UK Pound Sterling and the EURO. It is important to note that the Shilling depreciated sharply against these three major currencies. During the quarter ended December 2003, the Uganda Shilling depreciated by 5.61 percent against the Euro compared to the depreciation of 4.42 percent posted in the previous quarter. It depreciated slightly by 0.35 percent against the Kenyan Shilling, compared to the sharp depreciation of 4.42 percent registered in the previous quarter. The Shilling, lost against the Pound Sterling by 3.9 percent compared to a gain of 0.59 percent earlier on posted in the preceding quarter. Consequently, the real effective exchange rate (REER) index depreciated marginally by 0.14 percent in the quarter under review, compared to the depreciation of 3.07 percent recorded in the previous quarter.

The continued depreciation of the REER index during this period is largely attributed to the nominal depreciation of the Shilling vis-à-vis the currencies of our major trading partners like Kenya, United Kingdom, and the Euro zone countries

In the forex bureaux market, the period average exchange rate appreciated by 1.34 per cent from a quarterly average of Shs1995.86 per US dollar in the quarter ended September 2003 to Shs 1968.99 per US dollar in the quarter under review. However, on an end period basis, the average mid-rate in the bureaux foreign exchange market appreciated by 2.47 per cent in the quarter , from an average of Shs per US dollar 1993.53 in September 2003 to Shs 1944.56 per US dollar in December 2003. (see Table 13). Chart X presents the trend of the inter-bank mid exchange rate from January 1999 to September 2003, while Chart XI shows the trend in real and nominal effective exchange rate indices.



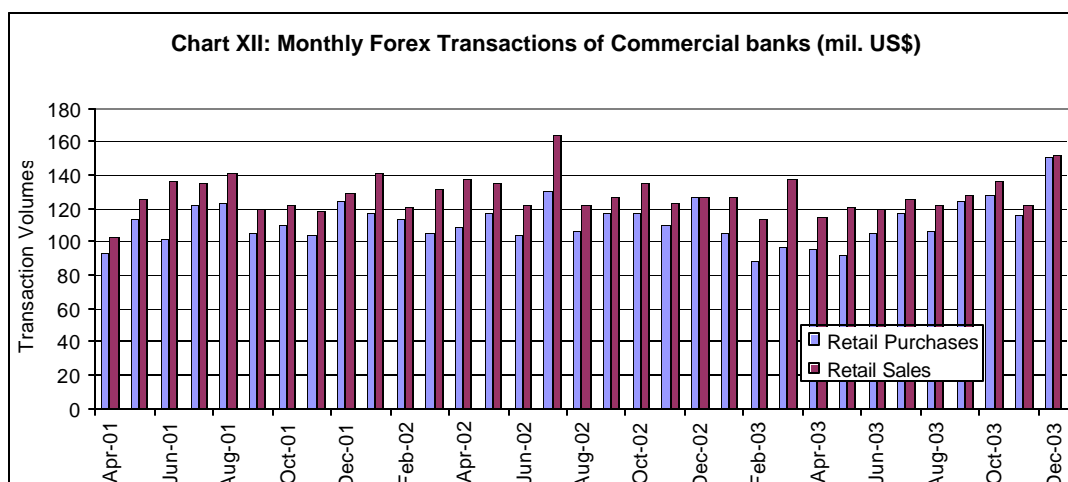
Transaction Volumes

Gross purchases in the inter-bank foreign exchange market increased significantly by 13.5 percent from US\$ 347.23 million in the previous quarter to US\$ 394.25 million in the quarter ended December 2003. Gross sales showed similar trend, increasing by 9.56 per cent from US\$374.65 million to US\$ 410.44 million over the same period. The increase in retail sales during the preceding quarter relative to the change in retail purchases is a sign that aggregate demand was strong during the period under review. Cross currency transactions on the other hand, fell by 3.8 percent from US\$92.34 million in the previous quarter to US\$88.83 in the quarter ending December 2003. In the bureaux market, gross purchases increased remarkably from US\$ 193.18 million in the previous quarter to US\$ 214.13 million in the quarter ended December 2003, while gross sales jumped from US\$ 192.57 million to US\$ 212.42 million over the same period.

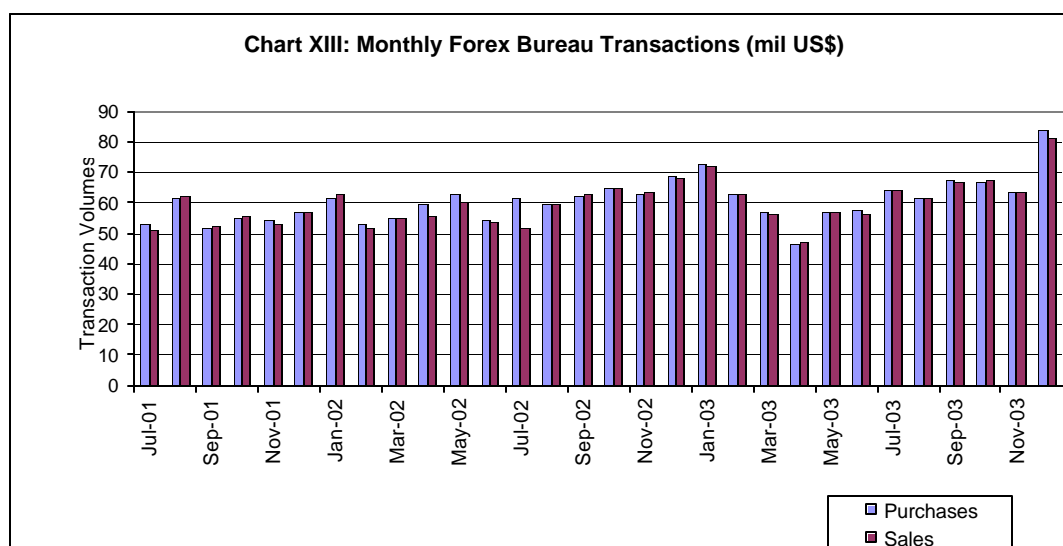
Table 13: Transactions in the Retail and Wholesale Market
(Shs per US\$ for the Exchange Rate, and Volumes in million of US\$).

Market	Q2	Q3	Q4	Oct	November	December	Q1	Q2
	2002/03	2002/03	2002/03	2003	2003	2003	2003/04	2003/04
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange rate (NEER) 1995=100	132.66	144.70	157.86	160.50	162.49	161.82	157.09	161.60
Real Effective Exchange Rate (REER) 1995=100	128.76	140.36	150.78	147.32	148.37	147.05	146.94	147.58
Nominal Exchange Rate (period average)	1,834.84	1,898.64	1,990.87	1,990.46	1,974.49	1,942.38	1,995.72	1969.11
Total Purchases (Million US\$)	354.22	290.56	293.36	127.62	116.07	150.56	347.23	394.25
Total Sales (Million US\$)	384.74	377.88	355.55	136.11	122.19	152.14	374.65	410.44
Bureaux Market								
Average Period Exchange Rate	1835.06	1897.66	1,990.17	1,989.73	1,972.69	1,944.56	1,995.87	1968.99
Total Purchases	197.07	192.43	161.80	66.864	63.535	83.73	193.18	214.13
Total Sales	196.52	191.18	160.17	67.585	63.445	81.387	192.57	212.42

Source: Bank of Uganda.



Source: Bank of Uganda.



Source: Bank of Uganda.

6 PUBLIC FINANCE

Revenue

During the quarter ended December 2003, estimates for government revenue and budget support grant disbursements amounted to Shs 706.73 billion; Shs 62.33 billion (9.7 percent) higher than the programmed level of Shs 644.40 billion (see Table 14). The outturn was mainly on account of disbursements of higher than programmed grants, and receipt of other revenues over and above the programme level. This performance also represented an increase of Shs 259.69 billion or 58.1 percent over the estimates for the quarter ended September 2003. The preliminary outturn for total revenue collections was Shs 435.70 billion, marking an increase of Shs 64.87 billion (17.5 percent) compared to the outturn for the previous quarter and Shs 377.74 billion above the programmed level. URA revenue collections amounted to Shs 417.21 billion, representing an increase of 18.2 percent in revenue collection over the preceding quarter. The increase in revenue collections was mainly attributed to higher than targeted revenue realised from direct taxes and international trade. In particular, revenue from direct taxes amounted to Shs 120.70 billion, marking an increase of Shs 47.47 billion over the quarter ended September 2003, while revenue from taxes on international trade improved by 7.2 percent from Shs 207.38 billion in the previous quarter to Shs 222.32 billion in the quarter under review. Similarly, the indirect domestic taxes (VAT and local excise duties) rose from Shs 83.44 billion to Shs 85.54 billion over the same period.

Non-URA revenue collections for the quarter under review are estimated at Shs 5.95 billion, which was below the programmed level for the period by Shs 1.15 billion, and higher than Shs 5.54 billion realised in the previous quarter. This achievement was attributed to higher revenue returns from the sale of goods and services, fees and charges, fines by government ministries and departments.

Budget support grants disbursed by external donors were equivalent to Shs 271.03 billion, which is Shs 55.43 higher than the amount programmed. This was mainly due to full disbursements of some commitments initially discounted and changes in the timing of some donor inflows.

Government Expenditure

During the quarter under review, total government expenditure and net lending amounted to Shs 495.07 billion, Shs 21.93 billion below the programmed amount and higher than Shs 419.27 billion utilised in the preceding quarter. Current expenditures for the quarter totalled to Shs 468.78 billion compared to the projected level of Shs 451.95 billion. Expenditure on salaries and wages performed at Shs 175.04 billion, equivalent to 37.3 percent of the total current expenditure compared to Shs 158.10 billion recorded in the preceding quarter and Shs 151.58 billion during the corresponding period in 2002. Interest payments are estimated at Shs 63.03 billion or 13.4 percent of the total recurrent expenditure, representing an increase from the Shs 58.95 billion spent in the earlier quarter. Expenditures on other non-wage activities rose from Shs 129.91 billion to Shs 216.29 billion during the period under review, while expenditure on development projects financed by domestically mobilised resources

totalled to Shs 119.57 billion, relative to Shs 61.49 billion utilised in the quarter ended September 2003.

Table 14 -: Government Budgetary Operations (Shs Billion)

	Jul- Sept 2002	Oct- Dec 2002	Jan- Mar 2003	Apr- Jun 2003	Jul- Sept 2003	Oct- Dec 2003
Revenue and Grants	434.46	537.87	416.80	497.73	447.04	706.73
Total Revenue	317.24	371.53	348.83	396.33	370.83	435.70
Tax Revenue	311.70	366.38	341.62	389.56	352.89	417.21
Other Revenues	5.54	5.15	7.21	6.77	17.94	18.49
Grants	117.22	166.34	67.97	101.40	76.20	271.03
Expenditures and Lending	525.36	512.02	515.99	571.10	419.27	495.07
Recurrent Expenditure	342.29	382.39	391.09	470.58	361.39	468.78
Statutory 1/	21.60	26.38	23.94	29.71	--	--
Wages and Salaries	146.41	151.58	153.87	160.37	158.10	175.04
Interest Payments	37.50	38.67	48.04	49.91	58.95	63.03
Other non Wage Recurrent	117.73	151.57	150.77	215.56	129.91	216.29
URA Transfers	19.05	14.19	14.47	15.03	14.43	14.43
Development Expenditure	70.71	109.16	85.95	193.97	61.49	119.57
External	-	-	-	-	-	-
Domestic counterpart	70.71	109.87	85.95	193.97	61.49	119.57
Others 2/	112.36	20.47	38.95	- 93.45	-3.61	6.72
Overall Fiscal Balance	- 90.91	25.86	-99.20	- 73.37	27.76	111.65
Financing	90.91	-25.86	99.20	73.37	-27.76	- 111.65
External Financing (net)	16.42	- 16.27	-24.66	309.52	-44.79	- 24.34
Domestic Financing	84.93	96.24	118.66	- 291.18	27.06	- 192.64
Bank	47.67	58.16	122.08	- 317.95	144.20	- 214.30
Non Bank	37.27	38.08	3.42	26.77	- 117.14	21.66
Residual	-10.45	- 105.82	5.19	55.03	- 10.04	105.33

Source: Ministry of Finance, Planning and Economic Development

1/ Beginning July 2003, statutory expenditure is itemized under each expenditure head.

2/ Includes Net Lending/Repayments, Arrears Repayments and contingency.

Overall Fiscal Balance and Financing

During the quarter under review, the overall fiscal balance was a surplus of Shs 111.65 billion compared to a surplus level of Shs 27.04 billion, which was envisaged in the programme. This outturn was mainly due to higher than programmed disbursements of budget support grants during this period. However, excluding grants, the overall fiscal balance is a deficit of Shs 159.4 billion. Accordingly, the government made a net repayment of Shs 24.34 billion to the external creditors and made a saving of Shs 192.64 billion with the domestic banking system.

7 EXTERNAL SECTOR DEVELOPMENTS

During the quarter ending December 2003, the balance of payments registered an overall surplus of US\$71.03 million, an increase compared to the surplus of US\$19.60 million recorded in the previous quarter. The increase in the overall surplus was mainly due to an increase in the capital and financial account surplus to US\$91.64 million from US\$63.21 million in the previous quarter. In particular there were no official disbursements in the period under review. However, the current account improved from a deficit of US\$43.61 million in the quarter ending September 2003 to a deficit of US\$20.62 million during the quarter under review. Table 15 below summarises the developments in the balance of payments from the quarter ending September 2002 to the quarter ending December 2003.

Table 15: Summary of Balance of Payments Developments (US\$ million)

Aggregate	Jul-Sep 2002/03	Oct-Dec 2002/03	Jan-Mar 2002/03	Apr-Jun 2002/03	Jul-Sep 2003/04	Oct-Dec 2003/04
A. Current Account Balance	-96.13	-21.38	-150.09	-101.09	-43.61	-20.62
Goods Account(Trade Balance)	-158.40	-180.73	-158.49	-170.97	-177.75	-227.17
Exports (fob)	113.34	116.75	147.69	130.13	148.06	137.14
Imports (fob)	-271.74	-297.49	-306.18	-301.11	-325.81	-364.32
Services and Income (net)	-130.94	-73.44	-69.83	-48.01	-59.60	-69.22
Services Account	-78.45	-46.31	-37.17	-26.30	-10.00	-38.74
Inflows	71.02	72.69	86.61	87.81	104.23	111.90
Outflows	-149.47	-119.00	-123.78	-114.10	-114.24	-150.65
Income Account	-52.49	-27.13	-32.66	-21.71	-49.60	-30.47
Inflows	5.15	8.15	1.06	5.89	12.77	7.84
Outflows	-57.65	-35.28	-33.72	-27.60	-62.37	-38.31
Current Transfers(net)	193.22	232.79	78.23	117.89	193.74	275.77
General Government	113.55	141.16	84.31	99.70	91.79	192.89
Private Transfers	81.29	91.82	-6.05	18.20	102.07	85.12
B. Capital & Financial Account	82.71	72.22	42.11	224.64	63.21	91.64
Foreign Direct Investment	38.50	38.50	38.50	38.50	40.72	40.72
Inflows	60.95	60.95	60.95	60.95	64.47	64.47
Outflows	-22.46	-22.46	-22.46	-22.46	-23.75	-23.75
Other Investments	44.21	33.72	3.23	185.78	12.25	41.62
Medium and Long-term	43.00	29.80	32.65	205.18	21.39	39.29
Inflows	74.56	53.13	53.47	222.61	55.41	55.41
o/w Official loans	21.43	0.00	0.34	169.48	0.00	0.00
Outflows	-31.56	-23.33	-20.81	-17.43	-34.01	-16.12
Short-term (net)	1.21	3.92	-29.42	-19.40	-9.14	2.33
Inflows	30.16	31.07	39.28	34.53	33.72	36.54
Outflows	-28.95	-27.14	-68.70	-53.93	-42.86	-34.22
C. Overall Balance	-13.42	50.83	-107.98	123.55	19.60	71.03
Foreign Reserves (end of period)	881.22	931.06	825.78	964.16	981.04	1075.467

Exports

During the quarter under review total export earnings decreased by 7.4 percent to US\$137.14 million down from US\$148.06 million in the previous quarter. Table 16 provides a summary of export developments.

Coffee export earnings amounted to US\$21.55 million in the quarter under review. This was a decrease of 17.1 percent from US\$26.00 million realised in the quarter ending September 2003 and a 22.8 per cent decrease in the value realised in the corresponding quarter in year 2002. The realised average unit price for the quarter increased to US\$0.72 per kilogram from an average of US\$0.65 per kilogram registered in the previous quarter and was higher than the average unit price of US\$0.59 per kilogram in the corresponding quarter of 2002. In volume terms, coffee exports decreased by 24.5 percent to 500,000 (60-kg) bags from 662,873 (60-kg) bags in the preceding quarter.

The non-coffee export earnings decreased from US\$122.06 million in the quarter ending September 2003 to US\$115.60 million, a decrease of about 5.3 percent. This decrease in the value of non-coffee exports was brought about by the decreases in the export earnings from electricity, cotton, tobacco, fish, hides and skin, simsim, maize, flowers and oil re-exports by 3.8 per cent, 47.2 per cent, 19.3 per cent, 1 per cent, 34.3 per cent, 74.9 per cent, 13.8 per cent, 16.2 per cent and 5.4 per cent respectively as compared to the export values in the previous quarter.

However, there were increases in the export earnings from gold, tea, and beans during the review period. Gold registered an increase of 67.5 percent from earnings of US\$9.16 million in the quarter ending September 2003 to US\$15.35 million. Tea exports earnings rose by 25.5 percent from US\$9.04 million in the quarter ending September 2003 to US\$11.35 million. Export earnings from beans also increased from US\$0.77 million the previous quarter to US\$1.17 million an increase of about 52.2 percent.

Table 16: Summary of Developments in Exports by Commodity (US\$ million)

	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
	2002/03	2002/03	2002/03	2002/03	2003/04	2003/04
Total Exports	113.34	116.75	147.69	130.13	148.06	137.14
Coffee	25.98	27.93	29.86	21.71	26.00	21.55
Non-Coffee	87.35	88.83	117.83	108.43	122.06	115.60
Electricity	4.01	4.24	3.88	3.34	3.33	3.21
Gold	15.27	11.66	10.32	10.93	9.16	15.35
Cotton	1.48	0.20	11.35	3.86	2.98	1.57
Tea	5.49	8.08	7.33	8.55	9.04	11.35
Tobacco	4.11	10.85	17.82	7.11	7.46	6.02
Fish & its prod.	19.78	20.09	22.41	21.50	20.40	20.19
Fish & its products (regional fish exports)	6.53	6.63	7.39	7.09	6.73	6.66
Hides & skins	0.93	1.35	0.86	1.04	1.87	1.23
Simsim	0.16	0.05	0.38	0.96	0.68	0.17
Maize	1.96	2.10	1.97	2.14	4.77	4.11
Beans	0.72	1.05	0.84	2.88	0.77	1.17
Flowers	4.10	2.88	4.12	5.95	6.31	5.29
Oil re-exports	0.84	2.25	2.71	5.89	11.22	10.61
Cobalt	1.92	0.00	0.00	0.00	0.00	0.00
Others	20.05	17.40	26.46	27.19	37.35	28.69

Source: Bank of Uganda

Imports

Table 17 below provides a summary of developments in imports. The total import bill for the quarter ending December 2003 amounted to US\$364.32 million. This was an increase of 11.8 percent from a bill of US\$325.81 million in the preceding quarter. Private sector imports increased from US\$275.69 million in quarter ending September 2003 to US\$276.95 million in the quarter under review. The oil bill amounted to US\$33.66 million, about US\$0.38 million higher than that of the preceding quarter. Government imports are estimated at US\$62.49 million, which is US\$27.25 million higher than in the previous quarter.

Table 17: Summary of Developments in Imports (US\$ million)

	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
	2002/03	2002/03	2002/03	2002/03	2003/04	2003/04
Total Imports	271.74	297.49	306.18	301.11	325.81	364.32
Government Imports	29.12	35.36	38.72	36.79	35.24	62.49
Private Imports	209.41	238.54	243.24	248.10	275.69	276.95
o/w Oil	32.91	31.69	34.94	34.87	33.27	33.66
Estimated Imports	33.22	23.59	24.23	16.22	14.88	24.88

Source: Bank of Uganda

The Services and Income Account

Over the review period, the services and income account dropped, from a deficit of US\$59.60 million in the previous quarter to a deficit of US\$69.22 million during the quarter ended December 2003. This decrease was mainly attributed to outflows from services. The outflows from services decreased by 31.9 percent or US\$36.41 to US\$150.65 million but there was an increase in the inflows of US\$7.67 million. Thus the services account dropped from a deficit of US\$10.00 million in the previous quarter to a deficit of US\$38.74 million in the quarter ending December 2003.

The income account improved with a registered deficit of US\$30.47 million, US\$19.12 million (or 38.6 percent) higher than the previous quarter. Net current transfers increased by about 42.3 percent, from US\$193.74 million in the quarter ending September 2003 to US\$275.77 million. This was mainly attributed to net government transfers, which more than doubled from US\$91.79 million in the previous quarter to US\$192.89 million. Official transfers (including project support grants) amounted to US\$ 176.16 million, US\$ 98.42 million more than the total disbursements in the preceding quarter. Debt relief from the HIPC initiative also increased slightly, from US\$ 14.04 million in the previous quarter to US\$ 16.73 million.

Capital and Financial Account

The Capital and Financial Account balance amounted to a surplus of US\$91.64 million in the quarter under review. This is 45 percent higher than the balance registered in previous quarter. In particular, there was an increase in other Investments net (including long, medium and short-term borrowings) from a net position of US\$12.25 million in the quarter ending September 2003 to US\$41.62 million. There were no official disbursements in the period under review.

As a result of the above developments the overall balance of payments was a surplus amounting to US\$71.03 million. The international reserves (excluding valuation changes) held at the BOU increased by US\$94.42 million to US\$1075.47 million in the quarter under review.

External Debt Stock

Uganda's stock of outstanding and disbursed debt amounted to US\$ 4,485.59 million in the quarter ending December 2003 exceeding that of September 2003 valued at US\$ 4,293.4 million. About 89 percent of the external debt was owed to multilateral institutions, 8 percent to non-Paris Club bilateral and 3.0 percent to Paris Club creditors. The quarterly developments regarding Uganda's debt profile from December 2002 are shown in Table 18 below.

Table 18: Uganda: Outstanding Public Debt by Creditor (US\$ million)

Creditor Category	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
Multilateral	3446.9	3451.8	3715.4	3790.1	3974.61
Non-Paris Club Bilateral	365.9	366.4	367.3	367.7	371.44
Paris Club Bilateral	111.9	59.9	125.5	128.1	131.95
Commercial	3.4	3.6	3.6	3.6	3.64
Commercial Non Bank	33.3	8.3	3.8	3.8	3.95
Grand Total	3961.4	3889.8	4215.5	4293.4	4485.59

Source: Bank of Uganda

External Debt Service

During the quarter ended December 2003, maturities of principal and interest falling due on medium and long-term public and publicly guaranteed debt, including obligations to the International Monetary Fund (IMF), amounted to US\$ 41.3 million. The obligations due to the IMF in this quarter stood at US\$ 21.57 million. Resources generated under the HIPC initiative arrangements covered a sizeable amount of the debt service payments during this period amounting to US\$ 22.64 million. The ratio of public debt service (including IMF payments) to exports of goods and services stood at 18.68 percent for quarter under review. This ratio was higher than 15.93 percent recorded for the previous quarter. Payments towards private sector debt in the second quarter are estimated to have amounted to US\$ 11.49 million.

8 REAL SECTOR AND PRICE DEVELOPMENTS

Index of Industrial Production

The performance of the manufacturing sector as measured by the index of industrial production, based on 15 major establishments and compiled by Uganda Bureau of Statistics registered a 3.12 percent growth in the all items index. The quarterly average all items index rose to the level of 151.9 in the quarter under review from the level of 147.39 registered in the previous quarter (see Table 19 below). Apart from sugar production, which registered a decline of 23.4 percent to an index level of 154.63 in the quarter under review from the level of 201.9 registered in the previous quarter, all the other items registered growth in the same period. In the quarter on a month to month basis, textiles and laundry soap productions were on the decline while edible oil production was on the increase. Soft drinks production registered the highest growth in the quarter of 35.6 percent to a quarterly average level of 174.6 from the level of 128.73 recorded in the previous quarter.

Table 19: Index of Industrial Production levels of Major Manufacturing: July 2003-December 2003

	July '03	Aug '03	Sep '03	Quarterly Averages	Oct '03	Nov '03	Dec '03	Quarterly Averages
Sugar	204.4	199.6	201.7	201.9	149.4	147.4	167.1	154.63
Beer	90.0	127.7	99.6	105.77	115.6	114.3	140.6	123.5
Soft drinks	107.6	123.3	155.3	128.73	142.3	136.7	244.8	174.6
Cigarettes	76.4	66.3	58.2	66.97	84.9	80.1	56.1	73.7
Textiles	117.2	81.4	62.7	87.1	104.4	95.0	87.6	95.67
Cement	170.4	175.3	170.1	171.93	181.2	181.0	185.1	182.43
Laundry Soap	162.6	155.5	161.4	159.83	185.0	150.6	144.6	160.07
Edible Oil	128.3	157.2	183.8	156.43	149.5	171.1	179.7	166.77
Metal Products	200.9	201.0	192.0	197.97	225.8	216.4	189.9	210.7
All items	142.9	150.6	148.4	147.3	150.1	145.2	160.4	151.9

Source: Uganda Bureau of Statistics

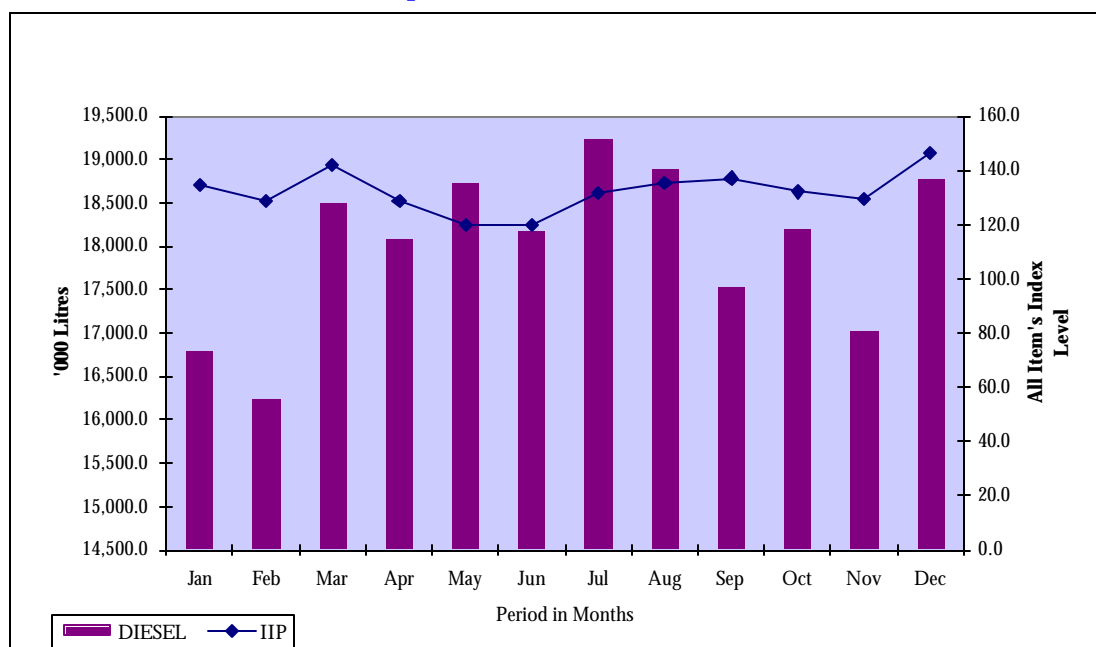
Petroleum consumption

The consumption of major fuel products, i.e. premium, diesel and kerosene fell by 10.48 percent from a total consumption of 171,095.6 litres during the quarter ended September 2003 to 153,164 litres in the quarter ending December 2003. Apart from lubricants, the consumption of all the other products fell during the quarter. Table 20 shows the sales of petroleum products for the year 2003 on quarterly basis.

Table 20: Sales of Petroleum products ('000 Litres)

Product/Quarter	Jan-Mar '03	Apr-Jun '03	Jul-Sep '03	Oct-Dec '03
Premium	51,533.4	49,625.8	50,054.3	47,801
Kerosene	12,604.4	12,015.2	11,486.5	10,068.3
Gas Oil	61,434.3	60,684.3	62,763.9	59,191.9
Aviation Fuels	8,690	19,406.9	30,860.8	21,051.9
Fuel Oil	10,528	11,987.9	12,696.7	12,281.2
LPG	864.4	876.1	901.2	819.5
Bitumen	627.8	720.8	994.6	426.7
Lubricants/Gr.	1,559.2	1,493.7	1,303.4	1,513
IDO	312.2	0.0	0.0	0.0
Others (Chms etc)	29.3	43.9	34.2	10.5
Total	148,183	156,854.6	171,095.6	153,164
Quarterly % Change for all products	1.89	5.85	9.08	-10.48

Chart XIV. Petroleum Consumption and Index of Industrial Production



Source: Ministry of Energy & Mineral Resources

Power / Electricity consumption

Electricity consumption statistics for the quarter ending December 2003 registered an increase in the number of customers. The total number of connected customers increased by 1.9 percentage points to a level of 729,653 from 715,456 recorded in the quarter ending September 2003. Apart from medium industrial and street lighting customers category that registered declines in the quarter under review, all other

customer categories increased. Table 21 below shows the distribution of customers by tariff category.

Table 21: Number of Live Customers by Tariff Category

	Jan-Mar 03	Apr-Jun 03	Jul-Sep 03	Oct-Dec 03
Domestic (small General 10.1)	620,085	632,469	646,414	659,173
Commercial (Small General Service 10.2)	65,158	65,688	65,999	67,051
Industrial (Large Industrial 30&32)	259	259	253	297
General (Medium Industrial 20&22)	2,041	2,042	2,718	2,024
Street Lighting (50)	964	995	1,026	1,024
Contracts	6	6	6	6
Total	688,513	701,456	715,737	729,653

Source: Uganda Electricity Distribution Company Limited

Trading Volumes at the Uganda Securities Exchange

As indicated in Table 22 below, trading activity at the Uganda Securities Exchange declined in the quarter ending December 2003. The total turnover declined to US\$ 42.7 million from US\$ 185.0 million recorded in the previous quarter, similarly the number of shares traded also declined by 94.7 percent to 9,794 from 186,507 registered in the previous quarter. The number of deals recorded further decline to 33 from 86 reported in the previous quarter. During the quarter, the Uganda Clays Limited (UCL) counter dominated activity. Notably in the month of December, trading activity was only observed at the UCL counter. The slow activity at the securities exchange was largely attributed to the fewer trading days especially in the month of December as a result of the festive season.

Table 22: Trading Volumes, Turnover and Market Capitalisation of the Uganda Securities Exchange on a Quarterly basis (July 2001 – Dec 2003)

Fiscal Yr.	2001/02				2002/03				2003/04	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
No. Of Shares (Volume)	65,185	3,500	220,072	1,111,866	410,934	125,589	7,358	40,603	186,507	9,794
Turnover (Million US\$)	80.6	6.5	305.1	550.1	915.6	89.4	24.4	78.6	185.0	42.7
No. Of Deals	54	28	75	144	137	67	69	164	86	33
Market Capitalisation:	End of FY: US\$ 371Bn				End Of FY: US\$ 848.4 Bn					

Source: Uganda Securities Exchange Limited

Note: The number of deals quoted here is the number of consolidated deals.

Leasing Activity

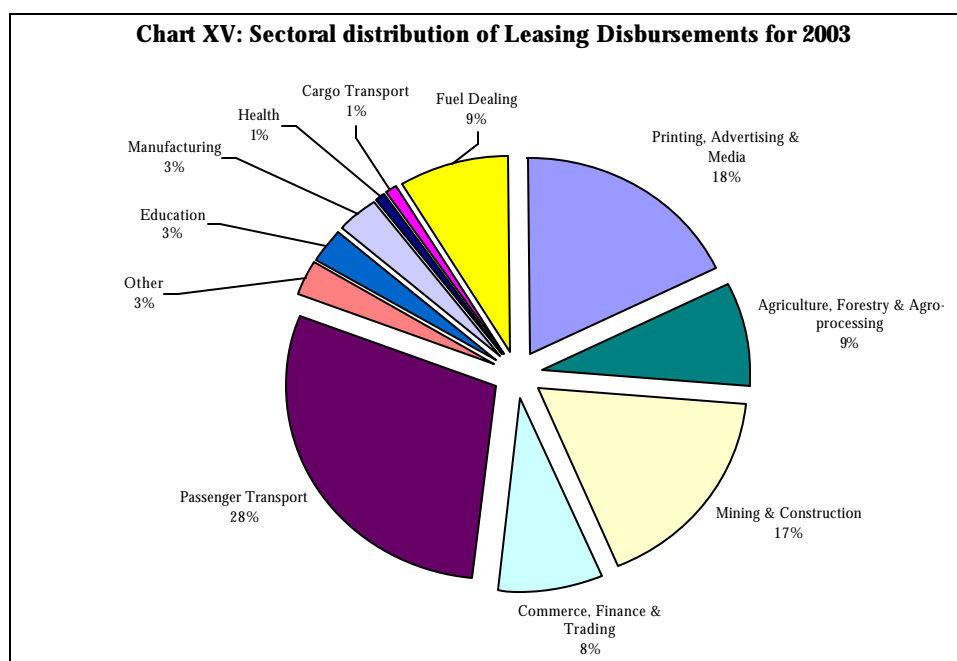
The value of assets leased during the quarter ending December 2003 increased by 35.9 percent to US\$ 6.13 billion from US\$ 4.51 billion registered in the quarter ending September 2003. The month of October 2003 registered the highest value of assets leased of US\$ 2.55 billion, this was up from the September value of US\$ 1.39 billion (see Table 24 below). This surpassed the monthly projected target of US\$ 2.0 billion. However, the last two months of November and December 2003 fell short of this projection because of the festive season that reduced the number of trading days.

Table 24: Value of assets Disbursed in Billion Ushs: Jan 2001-Dec 2003

	2001	2002	2003
Jan	0.64	1.80	1.30
Feb	1.13	1.29	0.94
Mar	0.86	1.37	1.02
Apr	1.50	1.20	0.90
May	0.91	1.56	1.27
Jun	0.57	1.65	1.04
Jul	0.76	1.95	1.50
Aug	0.18	2.30	1.62
Sep	1.11	1.10	1.39
Oct	1.48	1.93	2.55
Nov	1.24	1.00	1.75
Dec	2.20	1.90	1.83

Compiled by Bank of Uganda

The sectoral distribution of leasing disbursements from Chart XV below indicate that the passenger transport dominates leasing followed by printing, advertising and media while health and cargo transport are still low players in the leasing industry.



Source: Bank of Uganda

Price Developments

The annual headline inflation outturn for the quarter ended December 2003 declined to 6.4 per cent on average from the 10.3 per cent registered in the preceding quarter. However, this inflation rate was still higher than the 5.1 per cent averaged in the

corresponding quarter in 2002. This was because prices of goods and services over the period under review were higher than those recorded in the same period in 2002. At the opening of the quarter, the annual headline inflation reduced to 7.3 per cent in October from the 9.5 per cent in September, and further reduced to 5.9 per cent in December 2003.

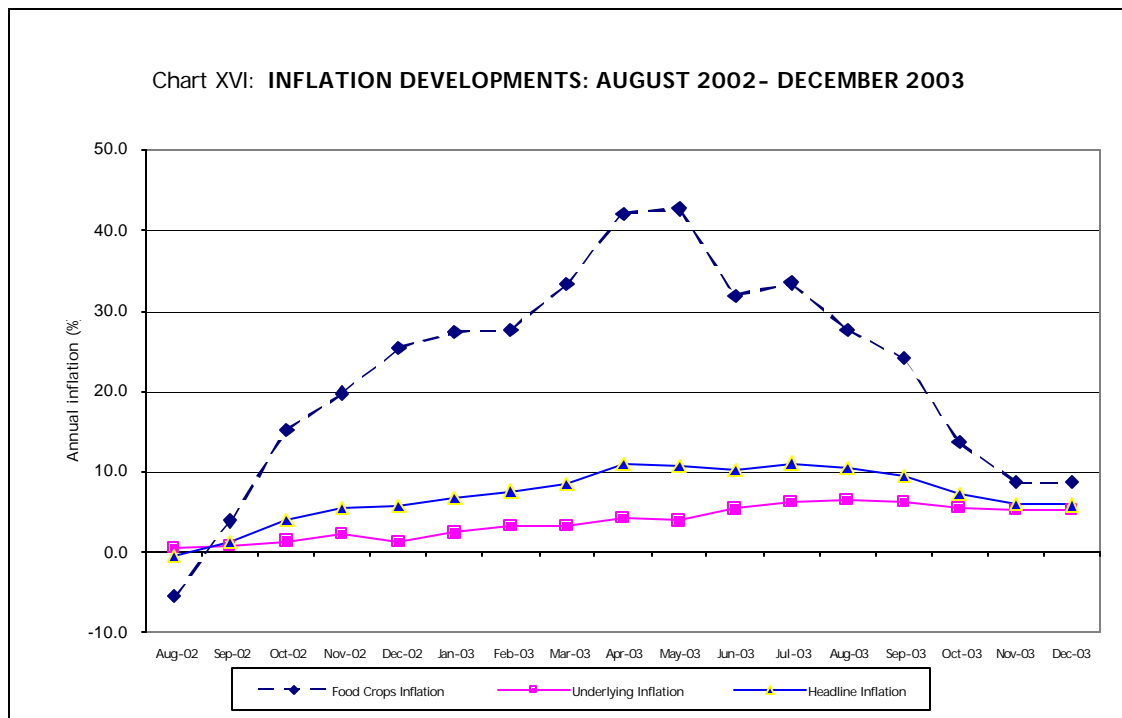
The month on month headline inflation depicted a mixed outturn, increasing to 0.6 per cent in October from the 0.4 per cent in September, declining to 0.0 per cent in November, before once more increasing to 0.2 per cent at the close of the second quarter in December 2003.

Correspondingly, the annual underlying inflation for the quarter under review reduced to 5.3 per cent on average from the 6.3 per cent registered in the previous quarter. However, this underlying inflation is significantly higher than the 1.7 per cent recorded in the same period in 2002. The annual underlying inflation declined to 5.6 per cent at the opening of the quarter and remained steady at 5.2 per cent in November and December 2003. This decline in the headline inflation was mainly attributed to decreases in the prices of fuel and petroleum products over the period.

The monthly underlying inflation depicted a mixed outturn, increasing to 0.1 per cent in October from the -0.1 per cent in September, declining to -0.2 per cent in November, before once again increasing to 0.1 per cent at the close of the quarter in December 2003.

The annual food crops inflation for the quarter under review, reduced to 10.4 per cent on average from the 28.2 per cent registered in the preceding quarter. At the start of the quarter, the annual food crops inflation reduced to 13.7 per cent in October from the 24.1 per cent in September and further reduced but remained steady at 8.7 per cent in November and December 2003. The decline in the food crops inflation was attributed to increased supply of food crops, particularly staple foods and cereals due to good harvests.

The month on month food crops inflation rapidly declined to 0.7 per cent in November from the 2.3 per cent registered in October, but increased to 1.2 per cent in December 2003. This mix outturn was attributed to seasonal supply variations of food crops and redistribution constraints. The above inflationary developments are shown in Chart XVI below:



Source: Uganda Bureau of Statistics