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TABLE OF CONTENTS

1. INTRODUCTION 3

2. MONETARY AND FINANCIAL DEVELOPMENTS....3
2.1 Money supply 5
2.2 Base money 8

3.0 THE ACTIVITIES OF COMMERCIAL BANKS....9
3.1 Overview 9
3.2 Deposits 9
3.3 Credit to the private sector 10
3.4 Developments in project transfers from commercial banks 11
3.5 Project donor inflows....12

4. DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS 13
4.1 Credit Institutions 13
4.1.1 Assets 13
4.1.2 Credit to the private sector 14
4.1.3 Liabilities 14
4.1.4 Liquidity 16
4.2 Microfinance Deposit –Taking Institutions (MDIs) 17
4 .2.1 Assets 17
4.2.2 Liabilities 18
4.2.3 Liquidity 20
4.2.4. Capital adequacy....21
4.2.5 Asset quality 22
4.2.6 Profitability....22
4.2.7. Key Financial Indicators for Micro Finance Deposit Taking Institutions....23

5. THE DOMESTIC FINANCIAL MARKETS AND INTEREST RATES....25
5.1 Treasury bond market 25
5.1.2 Secondary market of Treasury bonds....26
5.2 Treasury bill market....27
5.2.1 Primary market of Treasury bills....27
5.2.2 Secondary market of treasury bills....30
5.3 The Vertical Repo Market 31
5.4 The Interbank Money Market....32
5.4.1 Commercial bank's lending and deposit rates 33
5.4.2 Policy rates 34

6. DEVELOPMENT IN THE FOREIGN EXCHANGE MARKET 36
6.1 Foreign exchange rates 36
6.2 Transaction volumes....37

7 PUBLIC FINANCE....40
7.1 Revenue 40

7.2 Government expenditure 40
7.3 Overall fiscal balance and financing...41

8 EXTERNAL SECTOR DEVELOPMENTS...42

8.1 The Goods account (trade balance) 44
8.1.1 Exports 44
8.1.2 Imports...45
8.2 Services and Income Accounts 46
8.3 Current Transfers 47
8.4 Capital and Financial Account 47
8.5 External Debt 48
8.5.1 Debt Stock...48
8.5.2 Debt Service 48

9.0 REAL SECTOR AND DOMESTIC PRICE DEVELOPMENTS.......................................49
9.1 Domestic price developments 49
9.1.1 Consumer Price Index (CPI) 49
9.1.2 Producer Price Index (PPI)...51
9.2 Manufacturing Sector 52
9.2.1 Index of Industrial Production (IIP) 52
9.3 Energy Sector 54
9.3 Finance Sector 55

10. CONCLUSION 57

11. APPENDIX TABLES..58

1. INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the third quarter of 2006/07. Overall, conditions in the economy remained broadly stable. Though inflationary pressures were registered, the exchange rate was generally stable. Inspite of the continued shortage of power and the relatively high international oil prices, economic performance generally improved.

2. MONETARY AND FINANCIAL DEVELOPMENTS

During the quarter ended June 2007, the conduct of monetary policy continued to aim at maintaining low and stable inflation. The main challenges to the conduct of monetary policy over the period included among others managing liquidity injections arising from government's donor funded expenditure programmes, inflationary pressures and the strong appreciation of the currency. The authorities continued to pursue a tight but cautious policy stance to achieve the desired macroeconomic objectives, while minimizing instabilities in the domestic financial markets.

In the quarter under review, monetary policy was implemented through a combination of issuance of treasury bills and bonds, in addition to the daily sales of foreign exchange. Bank of Uganda also actively used the Repurchase Agreements (REPOs) as a flexible fine-tuning instrument for short-term liquidity management in between the auction periods. The strong appreciation pressures in the foreign exchange market provided limited opportunities for sterilization of liquidity through the sales of foreign exchange in the inter-bank market. Consequently, the Bank intervened on the purchase side to restore stability in the market. The margin of the Rediscount and Bank rates remained unchanged at 5.7 percentage points. However, the Rediscount rate and the Bank rate rose marginally from 15.5 percent and 16.5 percent as at end-March 2007 to 15.6 percent and 16.6 percent, respectively, by the end of June 2007, in line with the developments in the Treasury bills market. During the quarter, the statutory reserve requirement ratio on the total deposit liabilities of the commercial banks remained unchanged at 9.5 percent.

During the quarter ended June 2007, Bank of Uganda continued to use the Treasury bill as the main sterilization instrument through a bi-monthly auction system with a predetermined range for the intended auction volumes at the beginning of the quarter. During the quarter, treasury bills worth Shs. 536.1 billion at face value were issued against maturities of Shs. 312.1 billion, resulting into a net issuance of Shs. 224.0 billion compared with net issues of Shs. 74.5 billion and Shs. 36.8 billion in the quarter ended March 2007 and the corresponding quarter ended June 2006. In addition to the scheduled treasury bill auctions, treasury bills worth Shs. 22.98 billion were sold to the commercial banks to form a pool of collateral against failure by one or more of the banks to settle their obligations in the clearinghouse under the Failure to Settle Arrangements of the electronic clearinghouse rules.

During the quarter under review, a new 3-year was issued at with face value of Shs. 30.0 billion and three 3-year bonds were re-opened, with respective face values of Shs. 30.0 billion, Shs. 30.0 billion, and Shs. 20.0 billion to support monetary policy implementation and financial market development. Furthermore, treasury bonds worth Shs. 7.0 billion were re-opened and sold in a non-regular auction. The net effect of the treasury bond instrument in this quarter was a withdrawal of liquidity amounting to Shs. 97.2 billion following maturities of Shs. 19.8 billion of the 2-year bonds during the quarter. Consequently, the total outstanding stock of bonds was Shs. 953.1 billion by the end of the quarter.

The Central Bank maintained its presence in the Inter-bank Foreign Exchange Market (IFEM) under the sterilization and intervention strategy to mop up excess liquidity and to restore stability in the foreign exchange market. In the month of June 2007, the shilling faced sharp appreciation pressures, which prompted Bank of Uganda to intervene in the market on the purchase side to restore stability. Consequently, the burden of liquidity management was mainly borne by government securities and the REPO instrument, as there were no opportunities to sterilize the excess liquidity through foreign exchange sales. The Bank of Uganda's actions in the IFEM resulted into a net purchase of US$94.6 million compared a net sale of US$7.8 million posted in the preceding quarter a net sale of US$66.0 million in the quarter ended June 2006.

The shilling appreciated by 4.4 percent in the fourth quarter ended June 2007 to Ushs. 1,688.02, compared to an appreciation of 2.7 in the third quarter of 2006/07. The strengthening of the shilling during the quarter under review was partly due to the strong presence of the offshore players in the domestic securities, as well as inflows for preparations for the Common Wealth Heads of Government Meeting due in Kampala in November 2007. The Nominal Effective Exchange Rate (NEER) index appreciated by 1.9 percent during the quarter under review compared to an appreciation of 1.3 percent registered in the preceding quarter. Similarly, the Real Effective Exchange Rate (REER) index appreciated by 2.3 percent in the third quarter of 2006/07 compared to an appreciation of 0.3 percent registered in the quarter ended March 2007. The balance of payments registered an overall surplus of US$195.4 million in the quarter ending June 2007 compared with a deficit of US$59.2 million recorded in the quarter ending June 2006. The improvement in the country's external position was mainly driven by improvements in the current account.

The annual underlying inflation fell to an average of 8.0 percent in the quarter under review, down from 8.7 percent registered in the preceding quarter. This was markedly higher than the rate of 4.8 percent recorded during the same period a year ago. The decline in the average annual underlying inflation rate for the quarter was attributed to the slower pace of the increases of the prices of goods. Similarly, the annual headline inflation decreased to an average of 4.8 percent in the quarter ended June 2007 from 6.8 percent, recorded in the quarter ended March 2007. This was also higher than the 6.6 percent registered over the same quarter in 2006. The downward inflationary pressures were attributed to the decreases in the prices of staple foods; and petroleum products.

Base money rose by Shs. 9.9 billion or 0.7 percent to Shs. 1,360.1 billion by the end of June 2007, up from Shs. 1,350.3 billion at the end of the preceding quarter, reflecting a relatively faster growth of the monetary base compared to the decline of 5.7 percent registered in the quarter ending June 2006. The increase was mainly driven by currency outside the Central Bank, which increased by Shs. 15.5 billion to Shs. 981.1 billion, up from Shs. 965.5 billion recorded as at end-March 2007. On the other hand, commercial banks' reserves at Bank of Uganda, reduced by Shs. 3.0 billion to Shs. 330.6 billion by end-June 2007.

2.1 Money supply

During the quarter ending June 2007, Broad Money M3, the sum of all private deposits and currency in circulation, contracted by 0.8 percent or Shs. 31.6 billion to Shs. 3,842.0 billion, compared to a rise of 5.7 percent recorded in the corresponding quarter ending June 2006. On an annual basis, M3 grew by 17.4 percent in the year ending June 2007, compared to a growth of 16.4 percent for the corresponding year ending June 2006.

Money supply M2A, composed of currency in circulation and shilling denominated private deposits, grew by 1.2 percent or Shs. 34.2 billion to Shs. 2,993.9 billion at end-June 2007, compared to a rise of 6.2 percent in the quarter ending June 2006. The increase in money supply in the quarter under review was mainly driven by private shilling time (comprising time, savings deposits and Certificates of deposit), and demand deposits, which grew by Shs. 12.4 billion and Shs. 13.9 billion respectively. Over the same period, private foreign currency deposits declined by 7.2 percent to Shs. 848.1 billion, while Currency in Circulation rose by 0.92 percent or Shs. 8 billion to Shs. 863.6 billion.

On the supply side, Net Domestic Assets (NDA) rose by Shs. 144.9 billion during the quarter ended June 2007, mainly on account of a rise in Other Items Net (OIN) of Shs. 220.9 billion, which outstripped the decline in domestic credit of Shs. 76.0 billion. During the period, Net Foreign Assets (NFA) declined by 4.4 percent or Shs. 176.6 billion to Shs. 3,835.4 billion, compared to a rise of 0.3 percent in the corresponding quarter ending June 2006. Bank of Uganda's Net Foreign Assets (NFA) expanded slightly by 0.2 percent or Shs. 5 billion to Shs. 3,330.9 billion, largely reflecting an increase in foreign reserves of Shs. 13.4 billion to Shs. 3,324.7 billion. NFA of commercial banks, declined by 26.5 percent to Shs. 504.5 billion, on account of a fall in external assets of Shs. 151.1 billion, coupled with an increase in foreign liabilities of Shs. 30.4 billion.

During the quarter, net claims on government (NCG) by the banking system reduced by 145.5 billion, with government increasing its savings to Shs. 731.6 billion. Government savings at the Bank of Uganda improved by Shs. 240.6 billion to Shs. 1,712.6 billion during the quarter. The increase in government savings was mainly due to a rise in government deposits and administered funds of Shs. 515.8 billion, which more than offset a rise in advances to government of Shs. 275.1 billion. Net Credit to Government (NCG) by the commercial banks rose by Shs. 95.2 billion to Shs. 981.1 billion, due to a fall in government deposits of Shs. 15.6 billion, coupled with an increase in commercial banks' investments in Government securities of Shs. 79.5 billion.

During the quarter under review, claims on the private sector (PSC) by the banking system rose by 4.2 percent or Shs. 73.4 billion to Shs. 1,812.9 billion, of which Shs. 1,792.5 billion was by commercial banks and Shs. 20.5 billion by Bank of Uganda. The outturn of Private sector credit in the quarter under review was lower compared to the growth of 12.5 percent observed in the corresponding quarter ended June 2006. The developments in the above aggregates over the quarter are shown in Table 1 below.

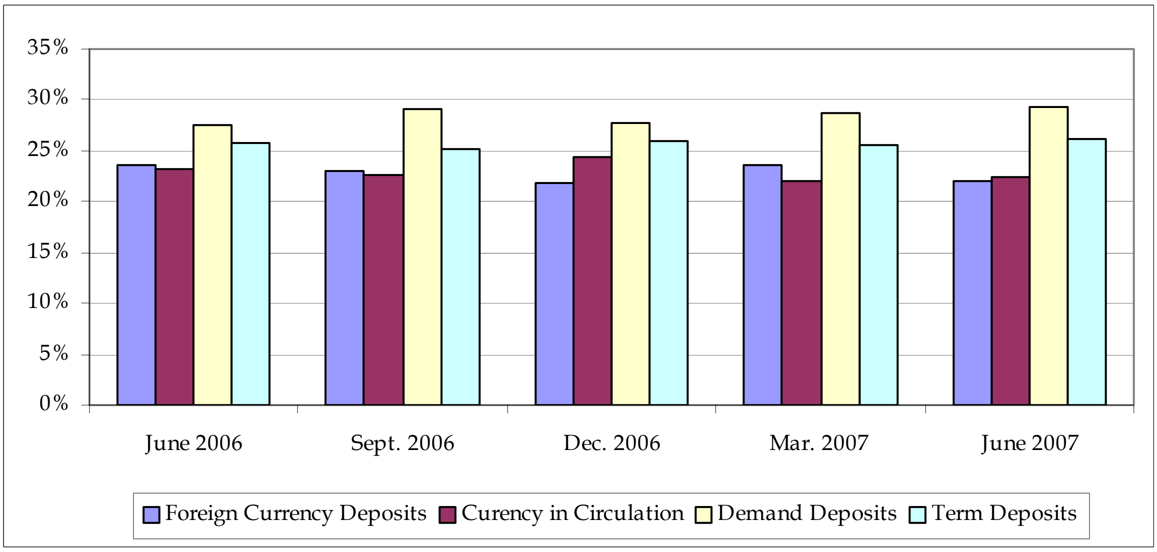
Table 1: Monetary survey, (Shs. billion, at the end of period)

Aggregate	Jun 06	Sep 06	Dec 06	Mar 07	June07	Change Mar 07 to June 07	
						Absolute	Percent
Net Foreign Assets (NFA)	**3,073.6**	**3,418.3**	**3,792.7**	**4,012.0**	**3,835.4**	**-176.6**	**-4.4**
o/w Bank of Uganda	2,614.0	2,951.6	3,164.1	3,326.0	3,330.9	4.9	0.2
o/w Commercial Banks	459.6	466.7	628.6	685.9	504.5	-181.5	26.5
Net Domestic Assets (NDA) net of Revaluation	**831.4**	**679.5**	**586.4**	**603.0**	**490.3**	**70.6**	**16.8**
Net Domestic Assets (NDA)	**198.0**	**13.1**	**-166.5**	**-138.3**	**6.6**	**144.9**	**-104.8**
Net Claims on Government (NCG)	-112.7	-295.4	-521.1	-586.1	-731.6	-145.5	24.8
Claims on Public Entities	19.5	21.6	33.6	38.2	34.9	-3.9	-10.1
Claims on the Private Sector	1,475.5	1,574.4	1,716.7	1,739.5	1,812.9	73.4	4.2
Other Items (net)	-1,184.3	-1,289.1	-1,396.9	-1,330.7	-1,109.7	220.9	-16.6
Money Supply (M3)	**3,271.6**	**3,431.4**	**3,626.2**	**3,873.7**	**3,842.0**	**-31.6**	**-0.8**
Foreign Currency Deposits	706.6	791.8	794.8	913.9	848.1	-65.8	-7.2
Money Supply (M2A)	2,565.0	2,639.6	2,831.4	2,959.8	2,993.9	34.2	1.2
Money Supply (M2)	2,563.7	2,638.4	2,831.4	2,959.7	2,993.9	34.2	1.2
Term Deposits	858.5	865.2	941.2	990.0	863.7	12.4	1.3
Demand Deposits	961.5	996.6	1,004.4	1,114.1	1,127.9	13.9	1.3
Curency in Circulation	744.9	777.8	885.9	855.7	1,002.3	7.9	0.9

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits rose to 22.1 percent, compared to 21.6 percent at end-June 2006. The share of private demand deposits in M3 was unchanged at 29.4 percent, the share of currency in circulation was at 22.5 percent, down from 22.8 percent at end-June 2006. The share of term deposits declined slightly to 26.1 percent from 26.2 percent at end-June 2006. These trends are depicted in Figure 1 below.

Figure 1: Components of M3 (in percent of M3)



Source: Bank of Uganda

2.2 Base money

During the quarter under review, the monetary base, which includes commercial banks' investments in BOU instruments, grew by 0.7 percent or Shs. 10 billion to Shs. 1,360.1 billion. This outcome reflects a slightly faster growth of base money compared to the decline of 5.7 percent registered in the quarter ending June 2006.

Currency outside BOU increased by Shs. 15.5 billion to Shs. 981.1 billion, while commercial banks' operating reserves at BOU fell by Shs. 3.3 billion to Shs. 330.6 billion. Base money, which excludes commercial banks' investment in the Bank of Uganda instruments, grew by 1 percent or Shs. 12.3 billion over the quarter.

Table 2: Monetary Authorities balance sheet (Shs. billion, at the end of period)

	Jun-06	Sep-06	Dec-06	Mar-07	June 07	Change Mar 07 to June 07	
						Absolute	Percent
Net Foreign Assets	**2,614.0**	**2,951.6**	**3,164.1**	**3,326.0**	**3,330.9**	**4.9**	**0.2**
External Assets	2,633.6	2,971.2	3,182.9	3,344.9	3,347.7	2.8	0.1
o/w Foreign Reserves	2,594.7	2,937.6	3,153.4	3,311.3	3,324.7	13.4	0.4
Foreign Liabilities	19.6	19.6	18.8	18.9	16.8	-2.1	-11.1
Net Domestic Assets	**-1,648.4**	**-1,875.2**	**-1,985.8**	**-2,090.9**	**-2,084.2**	**6.6**	**-0.3**
Claims on Government (net)	-991.2	-1,176.3	-1,346.1	-1,472.0	-1,712.7	-240.6	16.4
Claims on Private Sector	20.8	20.8	19.0	18.9	20.5	1.6	8.4
Claims on parastatals	0.9	0.8	4.4	4.3	4.2	-0.1	-2.5
Claims on Commercial Banks	95.5	83.5	111.0	115.1	113.4	-1.6	-1.4
Other Items, Net	-678.8	-720.4	-663.2	-642.0	-396.3	245.8	-38.3
Base Money + Investments in BOU Instruments	**1,061.1**	**1,159.9**	**1,289.3**	**1,350.3**	**1,360.1**	**9.9**	**0.7**
Base Money	1,046.1	1,159.9	1,226.6	1,230.3	1,242.5	12.3	1.0
Currency Outside BoU	837.7	891.6	1,026.3	965.6	981.1	15.5	1.6
Commercial Bank Deposits	278.2	338.4	270.9	333.5	330.6	-2.9	-0.9
Commercial Bank's Operational reserves	208.4	268.3	200.3	264.7	261.4	-3.3	-1.2
Commercial Banks Investment in BoU Instruments	15.0	0.0	62.8	120.0	117.6	-2.4	-2.0

Source: Bank of Uganda

3.0 THE ACTIVITIES OF COMMERCIAL BANKS

3.1 Overview

During the quarter ended-June 2007, the net foreign assets (NFA) of commercial banks declined by 26.5 percent to Shs. 504.5 billion. During the period, Net domestic assets (NDA) rose by 6.2 percent to Shs. 2,921.8 billion, net claims on the central government (NCG) grew by 10.7 percent or shs. 95.2 billion to Shs. 981.1 billion. Net claims on Bank of Uganda rose by 3.5 percent to Shs. 376.9 billion, on account of strong growth in commercial banks' deposits at Bank of Uganda. Cash in vaults rose by 7 percent from Shs. 110 billion to Shs. 117.5 billion over the quarter ending June 2007. The details of the key items of the balance sheet are shown in Table 3 below.

Table 3: Key balance sheet items of commercial banks (Shs. billion)

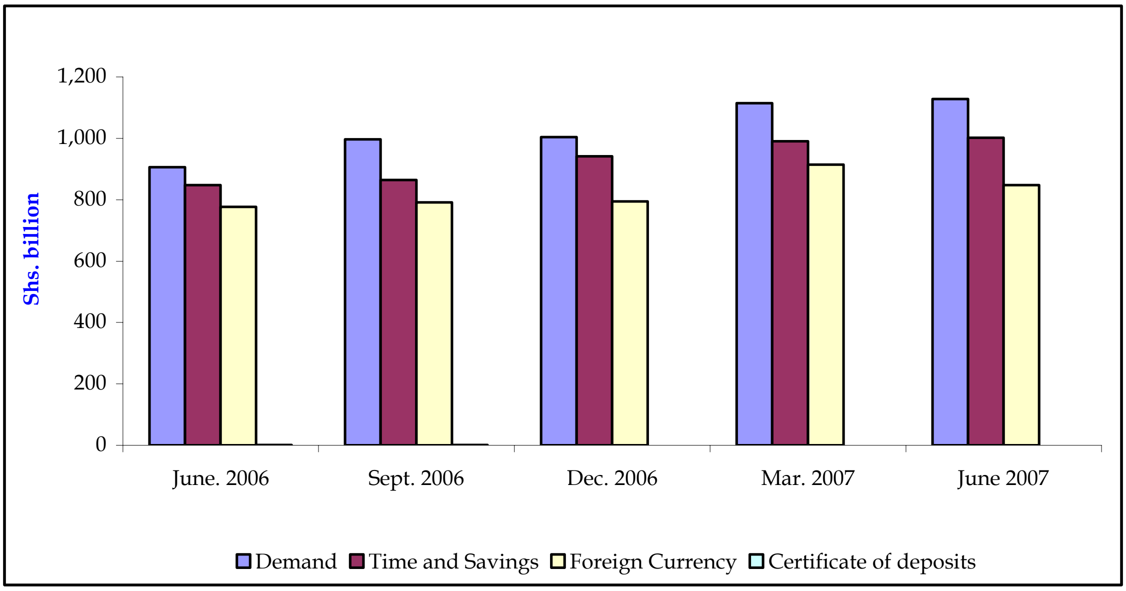
	Jun-06	Sep-06	Dec-06	Mar-07	June 07	Change Mar 07 to June 07	
						Absolute	Percent
Net Foreign Assets	459.6	466.7	628.6	685.9	504.5	-181.5	-26.5
External Assets	632.3	649.0	829.0	862.7	711.7	-151.1	-17.5
Foreign Liabilities	172.7	182.3	200.4	176.8	207.2	30.4	17.2
Net Domestic Assets	2,444.7	2,570.8	2,693.6	2,751.1	2,921.8	170.8	6.2
Claims on Central Government (net)	878.5	880.9	825.0	885.9	981.1	95.2	10.7
Claims on Private Sector	1,454.7	1,553.6	1,697.6	1,720.7	1,792.5	71.8	4.2
Cash in Vaults	92.8	113.9	140.5	109.9	117.5	7.6	7.0
Net Claims on Bank of Uganda	219.4	254.3	245.6	364.2	376.9	12.7	3.5
Other Items, Net	-597.0	-638.2	-827.3	-783.3	-824.9	41.6	5.3
Total Deposits	2,526.7	2,653.6	2,740.4	3,017.9	2,978.4	-39.5	-1.3
Demand Deposits	961.5	996.6	1,004.4	1,114.1	1,127.9	13.9	1.3
Time and Savings Deposits	857.3	864.0	941.1	989.9	1,002.3	12.4	1.3
Foreign Exchange Accounts	706.6	791.8	794.8	913.9	848.1	-65.8	-7.2
Certificates of Deposits	1.2	1.2	1.2	0.1	0.05	0.0	0.0

Source: Bank of Uganda

3.2 Deposits

Private deposits at commercial banks recorded a decline of 1.3 percent to Shs. 2,978.4 billion in the quarter ended June 2007. This outturn compares to a rise of 6 percent in the quarter ended June 2006 to Shs. 3,017.9 billion. In particular, foreign currency deposits fell by 7.2 percent to Shs. 848.1 billion during the quarter. Demand deposits grew by 1.3 percent to Shs. 1,127.9 billion, while term deposits rose by 1.3 percent to Shs. 1002.3 billion at end-June 2007. Figure 2 below provides the details.

Figure 2: Evolution of the stock of private sector deposits



Source: Bank of Uganda

3.3 Credit to the private sector

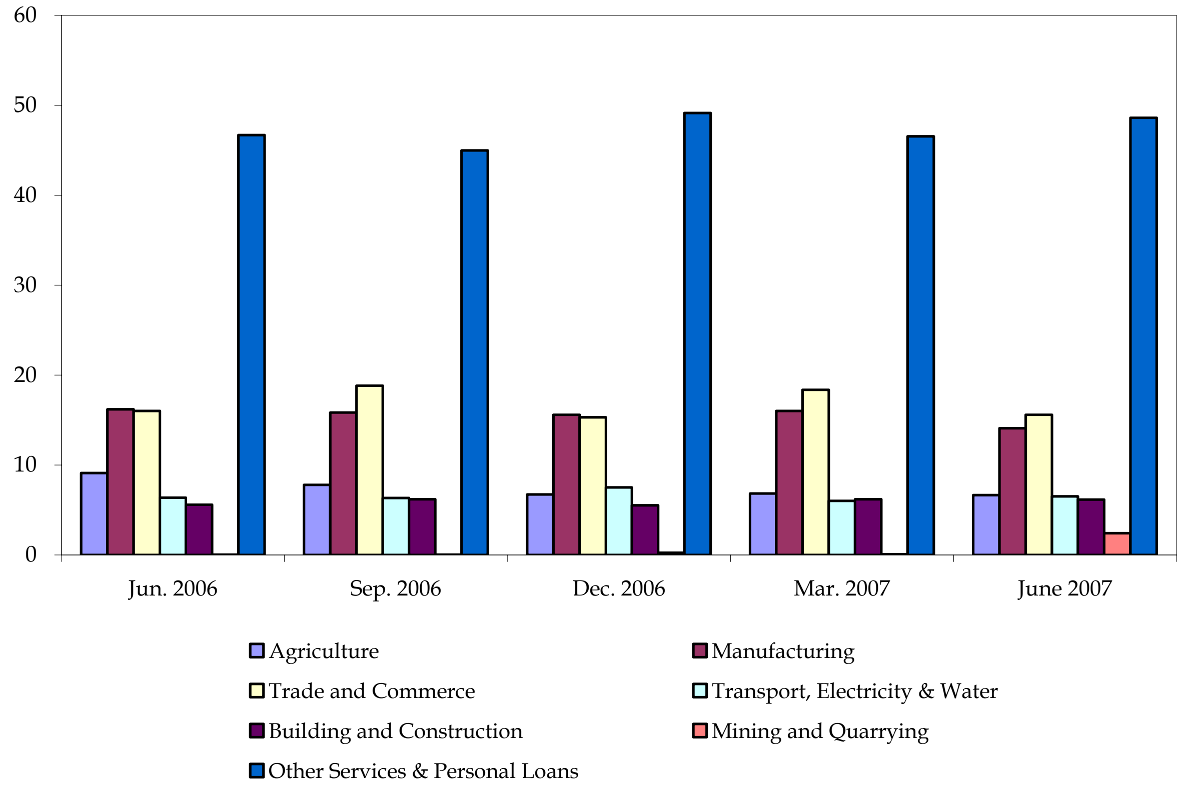
During the quarter under review, the total stock of outstanding credit to the private sector grew by 4.2 percent or Shs. 71.8 billion to Shs. 1,792.5 billion. However, this represented a lower growth than the 12.6 percent recorded in the corresponding quarter ending June 2006.

The growth in total stock of outstanding credit was mainly on account of an increase in shilling denominated loans to the private sector, which grew by the equivalent of Shs. 81.9 billion or 6.5 percent to Shs. 1,335.9 billion. The foreign currency denominated loans declined by 2.2 percent or Shs. 10.1 billion to Shs. 456.6 billion during the quarter.

Credit to the Other services and personal loans continued to account for the bulk of the credit advanced to the private sector with a share of 48.6 percent as at end-June 2007. The stock of outstanding credit to this sector grew by 8.1 percent to Shs. 888.1 billion. Lending to the agricultural sector rose by 1.1 percent to Shs. 121.8 billion at end-June 2007. The share of credit to agriculture in total credit was 6.7 percent, slightly lower from 6.8 percent at end March 2006. Credit to the manufacturing sector fell by 8.8 percent to Shs. 257.4 billion at end-June 2007. The share of the manufacturing sector in total credit was 14.1 percent compared to 16.2 and 16.0 percent for December and June 2006, respectively. Credit to Trade and Commerce fell by 12.1 percent to Shs. 284.5 billion and its share in total credit reduced to 15.6 percent from 18.3 percent.

The stock of credit to the transport, electricity and water sectors rose by 11.7 percent to Shs. 118.7 billion, and this sector's share in the total credit rose from 6.0 percent to 6.5 percent during the period under review. The building and construction sector outstanding borrowing stood at Shs. 112.6 billion by end-June 2007, marking a rise of 3.2 percent from the previous quarter, while its share as a percentage of total credit was unchanged at 6.2 percent. The mining and quarrying sector continued with the least share of outstanding credit at 2.4 percent, or Shs. 44 billion, at end-June 2007. Figure 3 below indicates the sector specific credit ratios.

Figure 3: Sectoral shares of commercial banks' credit to the private sector (in percent of total lending)



Source: Bank of Uganda

3.4 Developments in project transfers from commercial banks

The total amount of transfers from commercial banks to Bank of Uganda for the fourth quarter of 2006/2007 amounted to Shs 32.9 billion which brings the total amount of transfers since 2004 to approximately Shs 243.3 billion. This is an increase of 36.7 percent or 12.1 billion when compared to the position recorded during the corresponding quarter of 2005/06.

In addition, Shs 114.1.0 billion was received over the counter bringing the cumulative position of funds collected over the counter to Shs 207.1 billion. The bulk of these deposits were made in June, which accounts for 85.9 percent of all transactions or Shs 98.1 billion.

Shs 409.2 billion was disbursed on account of projects from Bank of Uganda by the end of the quarter, with the month of June accounting for 756.9 percent of the total disbursements during the quarter. This translated into a net liquidity injection of Shs 262.2 billion on account of government projects, resulting into a cumulative net injection of Shs 763.8 billion.

Table 4: Net movement of Shilling balances on project funds

Value, shs. billion	Q3 2005/06	Q4 2005/06	Q1 2006/07	Q2 2006/07	Q3 2006/07	Q4 2006/07	Cumulative total since November 2004
Transfers from commercial banks to BOU	22.782	20.809	37.954	21.535	29.538	32.872	243.267
Cash deposits over the counter	10.457	21.735	8.944	13.166	17.956	114.102	207.085
Funds utilised by projects	95.147	128.555	128.915	125.569	152.385	409.192	1,214.107
Net effect 1/	61.908	86.011	82.017	90.868	104.891	262.218	763.755

Source: Bank of Uganda

3.5 Project donor inflows

During the quarter, US$ 107.2 was received from donors on account of projects, bringing the cumulative total of funds received on account of projects to US$528.2 since November 2004. Of this amount, US $25.9 million was utilised by projects to pay for services in foreign exchange during the quarter under review. This brings the total amount of funds spent by projects in foreign exchange to US$ 178.2 million.

Since the beginning of the quarter, US$ 60.7 million has been sold to Bank of Uganda and the shillings equivalent credited to the project's shilling accounts. This brings the cumulative total of dollars sold to Bank of Uganda since the projects began to US$ 258.5 million.

Table 5: Net Movement of Project Foreign Exchange Funds

Value, US$ million	Q3 2005/06	Q4 2005/06	Q1 2006/07	Q2 2006/07	Q3 2006/07	Q4 2006/07	Cumulative total Since November 2004
Receipts from donors	54.001	32.418	82.382	43.960	76.347	107.214	528.188
Draw downs	57.801	46.248	66.582	57.512	47.743	86.572	436.638
Utilisation in foreign exchange	32.626	20.711	26.315	26.281	17.734	25.883	178.180
Conversion to shs. (Sales to BOU)	25.175	25.537	40.267	31.231	30.009	60.689	258.459

Source: Bank of Uganda

4. DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS

4.1 Credit Institutions

4.1.1 Assets

The activities of the Credit Institutions (CIs) continued to grow during the quarter ended June 2007. This development was reflected in a rise of 4.3 percent in the total assets from Shs. 250.7 billion as at end-March 2007 to Shs. 261.5 billion as at end-June 2007. This was faster growth compared to that of 3.1 percent observed in the corresponding period to June 2006. The growth in assets during this quarter was largely attributed to the growth in total advances by CIs, which rose by 5.0 percent from Shs. 162.6 billion at end- March 2007 to Shs. 170.7 billion at the end of June 2007 and a growth in Credit Institutions' investments in Government securities of 11.2 percent from Shs. 12.9 billion at end- March 2007 to Shs. 14.4 billion for the quarter ended June 2007. Table 6 below shows the quarterly evolution of assets of credit institutions.

Table 6: Total Assets of Credit Institutions (Shs. billion, at end period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-07 to Jun-07	
							Absolute	Percent
Cash in vaults	4.1	3.6	4.5	3.9	3.8	3.5	-0.3	-8.2
Balance with Commercial Banks & associated companies	36.4	37.3	41.0	41.3	44.6	44.8	0.2	0.5
Investments	17.4	18.1	14.0	13.1	12.9	14.4	1.4	11.2
Total Advances [1]	135.0	138.9	148.2	153.9	162.6	170.7	8.1	5.0
Premises and other fixed assets	15.2	16.0	16.6	16.5	17.1	17.0	0.0	0.2
Other Assets [2]	7.5	8.3	7.8	10.0	9.7	11.0	1.3	13.5
Total	**215.6**	**222.2**	**232.1**	**238.6**	**250.7**	**261.5**	**10.7**	**4.3**

[1] Includes secured, unsecured, mortgage and administered loans.
[2] Includes net due from own offices in Uganda for items in transit.

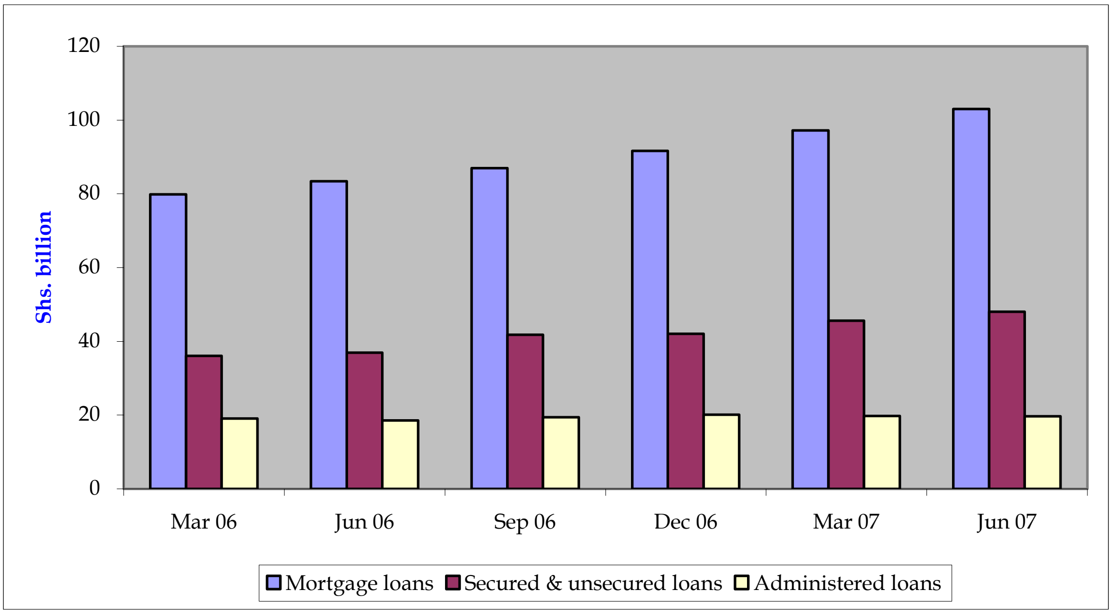
Source: Bank of Uganda

During the quarter under review, the CI's balances with commercial banks, inside and outside Uganda increased by 0.5 percent to Shs.44.8 billion compared to 2.5 percent growth in the same period last year. Investments increased by 11.2 percent to Shs. 14.4 billion at end-June 2007, mainly on account of an increase in investments in government securities. Cash in vaults declined by 8.2 percent from Shs. 3.8 billion to Shs. 3.5 billion.

4.1.2 Credit to the private sector

During the quarter, mortgage loans increased by 6 percent or Shs. 5.8 billion to Shs. 103.0 billion as at end June 2007. Secured and Unsecured loans increased by 5.3 percent from Shs. 45.6 billion to Shs. 48.0 billion while administered loans marginally increased by 0.5 percent to Shs. 19.7 billion. The building and construction sector continued to attract the largest share of CIs credit at 60.9 percent as at end-June 2007. The ratio of non-performing advances to outstanding advances declined from 4.1percent to 3.9 percent between March 2007 and June 2007. Figure 4 below shows the outstanding loans and advances of credit institutions.

Figure 4: Outstanding loans and advances of the Credit Institutions (Shs. billion, at end period)



Source: Bank of Uganda

4.1.3 Liabilities

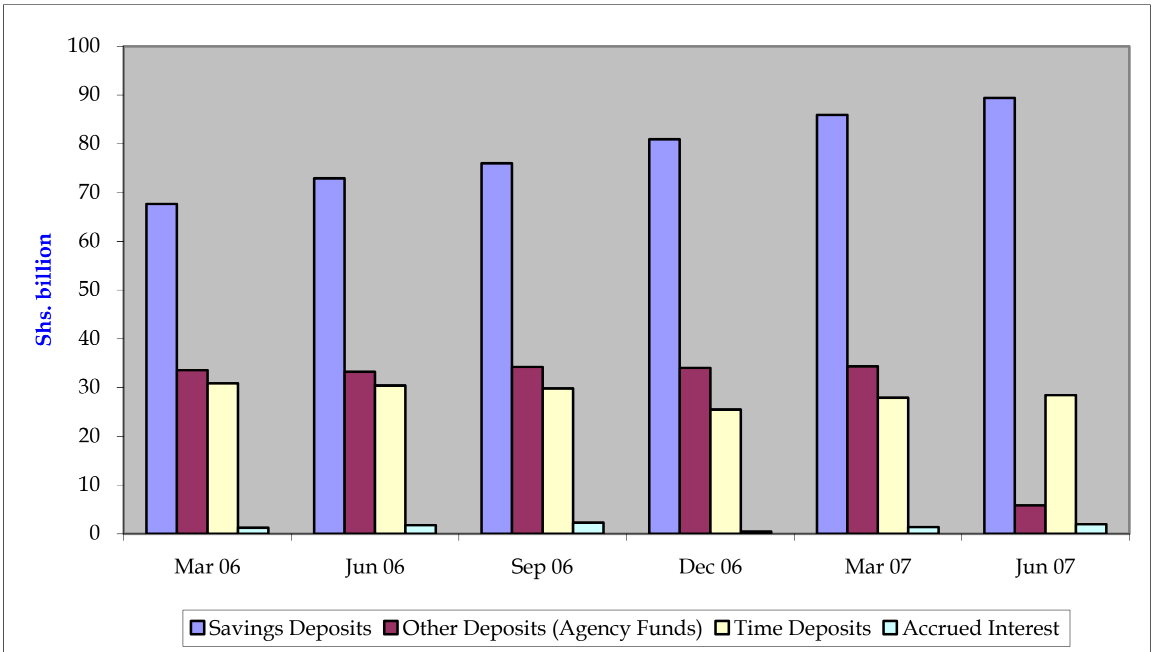
As summarized in Table 7 below, total deposits in the credit institutions decreased by 15.9 percent or Shs. 23.8 billion to Shs. 125.8 billion at end-June 2007. This compares with growth of 3.7 percent in deposits in the corresponding period in 2006. The decline in deposits was a result of government converting its funds collected from pool houses to share capital. Total private sector held deposits increased by 3.6 percent to Shs. 117.9 billion, compared to an increase of 4.9 percent in the same quarter ended June 2006. In particular, Savings deposits grew by 4.1 percent to Shs. 89.5 billion, while Time deposits grew by 2.1 percent to Shs. 28.5 billion. Over the same period, other deposits, which mainly constitute agency funds, decreased by 82.9 percent or Shs. 28.5 billion to Shs. 5.9 billion. Table 7 and Figure 5 below illustrate the evolution of the deposits between June 2006 and June 2007.

Table 7: The Composition of the total deposits held in the Credit Institutions (Shs. billion, at end of period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-07 to Jun-07 Absolute	Change Mar-07 to Jun-07 Percent
Savings deposits	67.7	72.9	76.0	81.0	86.0	89.5	3.5	4.1
Time Deposits	30.9	30.4	29.8	25.5	27.9	28.5	0.6	2.1
Total private sector deposits	**98.6**	**103.4**	**105.8**	**106.4**	**113.9**	**117.9**	**4.1**	**3.6**
Agency funds	33.6	33.2	34.2	34.0	34.4	5.9	-28.5	-82.9
Accrued interests	1.2	1.8	2.3	0.7	1.4	2.0	0.6	41.6
Total deposits [1]	**133.4**	**138.4**	**142.4**	**141.1**	**149.6**	**149.6**	**-23.8**	**-15.9**
Administered funds	19.1	18.6	19.4	20.1	19.8	19.7	-0.1	-0.5
Capital and profit/loss	38.5	39.8	40.7	39.0	40.1	70.6	30.4	75.8
Others [2]	24.7	25.5	26.5	38.4	41.2	45.5	4.2	10.3
Total Liabilities	**215.6**	**222.2**	**228.9**	**238.6**	**250.7**	**261.5**	**10.7**	**4.3**

[1] Includes funds collected so far from the beneficiaries of the government pool house scheme.
[2] Includes provisions, other liabilities and balances due to commercial banks.
Source: Bank of Uganda

Figure 5: The evolution of the total deposits in the Credit Institutions, (Shs. billion, at end of period)



Source: Bank of Uganda

4.1.4 Liquidity

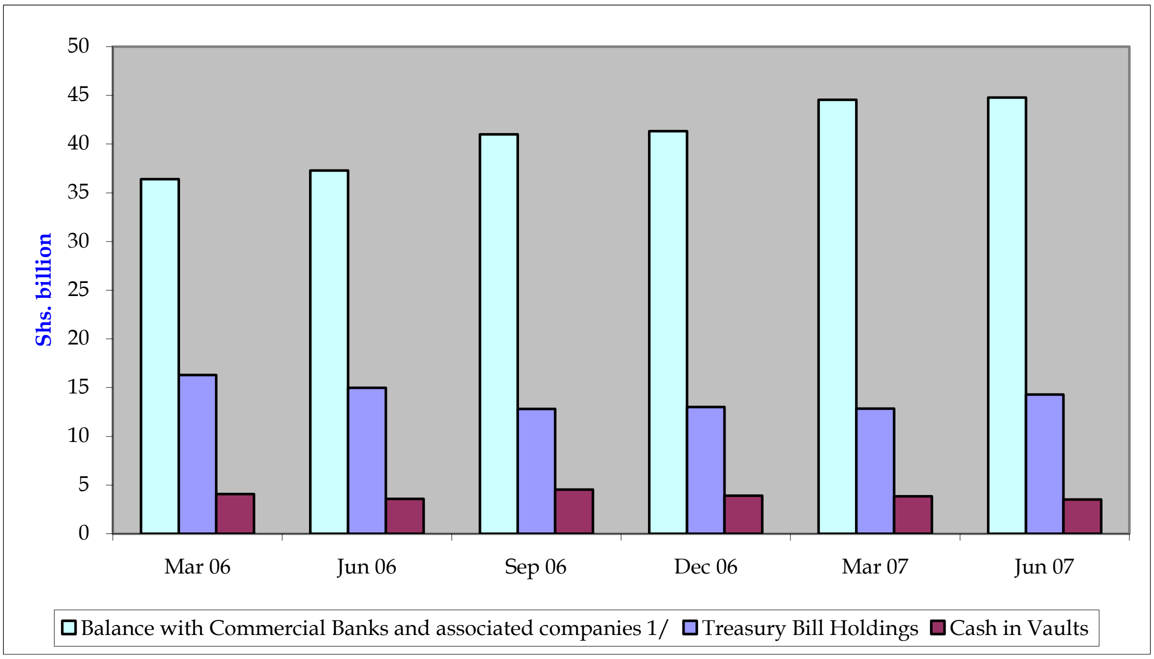
Liquidity holdings in CIs as measured by the level of liquid assets grew by 2.2 percent to Shs. 62.7 billion as at end-Jun 2007 compared to a growth of 1.9 percent registered at the end of June 2006. The growth in liquid assets was mainly on account of a 11.2 percent increase in CIs' holdings of treasury bills with Bank of Uganda, an increase of 0.5 percent in balances with commercial banks in and out of Uganda and a fall of 8.2 percent in cash in vaults. The developments in the liquidity indicators of the NBFIs are summarized in Table 8 below Figure 6 below.

Table 8: Liquidity Indicators of Credit Institutions (Shs. billion, at end of period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-06 to Jun-07	
							Absolute	Percent
Cash in vaults	4.1	3.6	4.5	3.9	3.8	3.5	-0.3	-8.2
Treasury bill holdings	16.3	15.0	12.8	13.0	12.8	14.4	1.4	11.2
Balance with Commercial Banks & Associated companies	36.4	37.3	41.0	41.3	44.6	44.8	0.2	0.5
Total	**56.8**	**55.9**	**58.3**	**58.2**	**61.6**	**62.2**	**1.4**	**2.2**

Source: Bank of Uganda

Figure 6: Developments in the Liquidity Indicators of Credit Institutions (Shs. billion, outstanding at end of period)



Source: Bank of Uganda

4.2 Microfinance Deposit –Taking Institutions (MDIs)

4 .2.1 Assets

By end-June 2007, the total assets held by MDIs stood at Shs. 145.44 billion, up from Shs. 134.0 billion recorded as at end March 2007. This represented an increase of 8.6 percent or Shs. 11.5 billion in the total assets over this period compared to a 5.3 percent increase in total assets as at end June 2006. The increase in total assets resulted from an increase of 9.3 percent or Shs. 7.3 billion in net loans outstanding and 30.1 percent or Shs. 3.3 billion in investments in treasury bills. Net loans outstanding accounted for the largest share of total assets at 59.5 percent. Table 9 and Figure 7 below; highlight the developments in asset portfolios and advances in the MDIs.

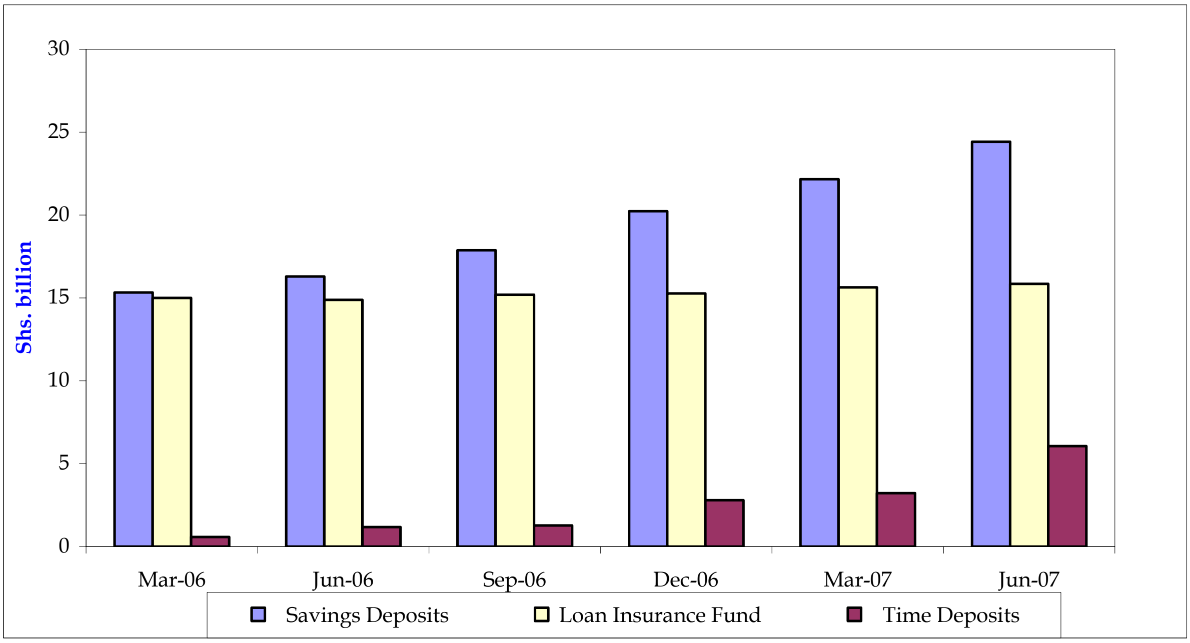
Table 9: Total assets of Microfinance Deposit-Taking Institutions
(Shs. billion, at end period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-07 to Jun-07	
							Absolute	Percent
Notes and Coins	2.5	2.6	3.0	3.6	3.0	3.4	0.5	15.0
Balances with financial institutions in Uganda	11.5	12.2	12.2	14.6	22.9	15.4	-7.5	-32.7
Investents in Treasury bills	13.5	13.8	18.3	16.2	11.0	14.3	3.3	30.1
Net loans outstanding	59.9	62.9	70.7	76.9	79.2	86.5	7.3	9.3
Inter branch/Due from own offices	0.1	0.3	0.1	0.1	0.1	0.4	0.3	502.8
Net Fixed Assets	8.4	9.3	9.4	9.6	10.0	9.6	-0.4	-3.8
Long Term Investment	0.5	0.6	0.9	1.1	1.2	1.7	0.5	43.3
Other Assets	5.7	5.9	7.2	6.6	6.7	7.4	0.6	9.3
Total Assets	**102.2**	**107.6**	**121.9**	**128.6**	**134.0**	**145.4**	**11.5**	**8.6**

Source: Bank of Uganda

The stock of the outstanding loans to the private sector by MDIs increased by 8.6 percent from Shs. 82.0 billion to Shs. 89.1 billion as at end-June 2007 compared to a 4.5 percent increase as at end June 2006. Allowances for loan losses (general and specific) decreased by 10.3 percent to Shs. 2.5 billion, hence the net loans by end-June 2007 of Shs. 86.5 billion. In the same period last year, allowances for loan losses fell by 4.5 percent to Shs. 2.5 billion. The trade and commerce sector continued to hold the largest share of MDIs credit at 83.0 percent as at end-June 2007. The ratio of non-performing advances to outstanding advances remained stable at 3.2 percent at the end of June 2007.

Figure 7: Outstanding Loans and Advances of the Microfinance Deposit-Taking Institutions (Shs. billion, at end period)



Source: Bank of Uganda

4.2.2 Liabilities

In June 2007, private sector deposits in the MDIs amounted to Shs. 30.5 billion, representing an increase of 19.3 percent in deposits, which was faster growth compared to the 9.6 percent growth recorded as at end June 2006. Savings deposits increased by 10.2 percent to Shs. 24.4 billion while time deposits went up from Shs. 3.2 billion to Shs. 6.1 billion. Total borrowing by the MDIs increased over the period under review by 13.3 percent or Shs. 5.0 billion from Shs. 37.2 billion to Shs. 42.2 billion, while in the corresponding period last year, total borrowing declined by 4.5 percent or Shs. 1.4 billion to Shs. 29.5 billion. Short term borrowings (market rate) decreased by 15.5 percent to Shs. 8.9 billion while long-term debt (market rate) increased by 24.7 percent to Shs. 33.3 billion. Table 10 below shows the composition of MDIs liabilities while Figure 8 shows the evolution of the MDIs total deposits.

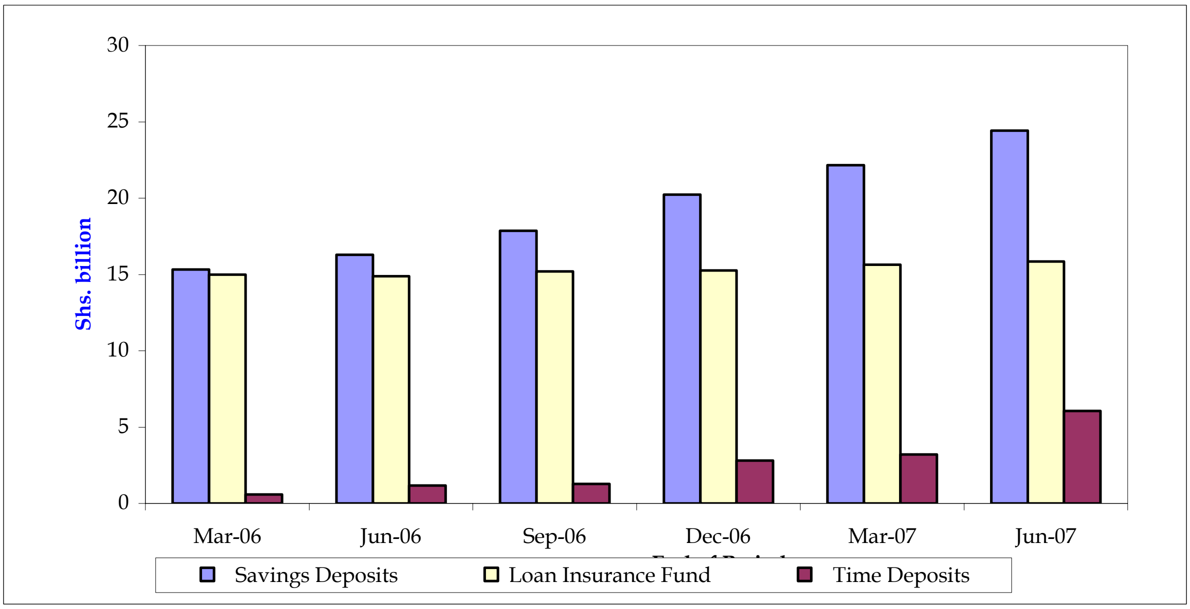
Table 10: The Composition of the Total Liabilities held in the Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-06 to Jun-07	
							Absolute	Percent
Deposit Liabilities	**16.3**	**17.7**	**19.7**	**23.2**	**25.9**	**30.9**	**5.0**	**19.3**
Savings deposits	15.3	16.3	17.9	20.2	22.2	24.4	2.3	10.2
Total deposits	0.6	1.2	1.3	2.8	3.2	6.1	2.8	88.2
Total Private Sector Deposits	**15.9**	**17.5**	**19.2**	**23.0**	**25.4**	**30.5**	**5.1**	**20.1**
Accrued interest	0.4	0.2	0.5	0.2	0.5	0.4	-0.1	-22.6
Loan insurance fund	15.0	14.9	15.2	15.3	15.6	15.9	-0.2	1.3
Total Borrowing (market rate)	**30.9**	**29.5**	**38.3**	**41.3**	**37.2**	**42.2**	**5.0**	**13.3**
Short-term borrowing	15.9	14.1	20.6	25.2	10.5	8.9	-1.6	-15.5
Long-term borrowing	15.0	15.4	17.7	16.1	26.7	33.3	6.6	24.7
Other liabilities[1]	**8.8**	**8.3**	**9.5**	**8.4**	**9.8**	**10.1**	**0.3**	**2.7**
Total liabilities	**71.0**	**70.4**	**82.7**	**88.2**	**88.6**	**98.5**	**9.9**	**11.1**
Total equity	18.5	19.8	20.5	22.7	24.1	27.1	3.0	12.3
Subordinated debt	9.8	13.7	14.9	13.9	17.5	16.1	-1.4	-7.8
Preference shares	2.9	3.8	3.8	3.8	3.8	3.8	0.0	0.0
Total liabilities and equity	**102.2**	**107.6**	**121.9**	**128.6**	**134.0**	**145.4**	**11.5**	**8.6**

[1]Other liabilities constitute grants/deferred income, inter-branch due to own offices and other long term

Source: Bank of Uganda

Figure 8: The Evolution of the total deposits in the Microfinance Deposit-Taking Institutions (Shs. billion at end period)



Source: Bank of Uganda

4.2.3 Liquidity

The liquidity position of the MDIs, as measured by the level of liquid assets stood at Shs. 33.1 billion by end of June 2007, representing a decrease of Shs. 3.7 billion (10.1 percent) compared to 3.9 percent growth registered at the end of June 2006. The fall in liquid assets was mainly on account of a decrease balances held by MDIs with financial institutions as shown in Table 11 and figure 9 below.

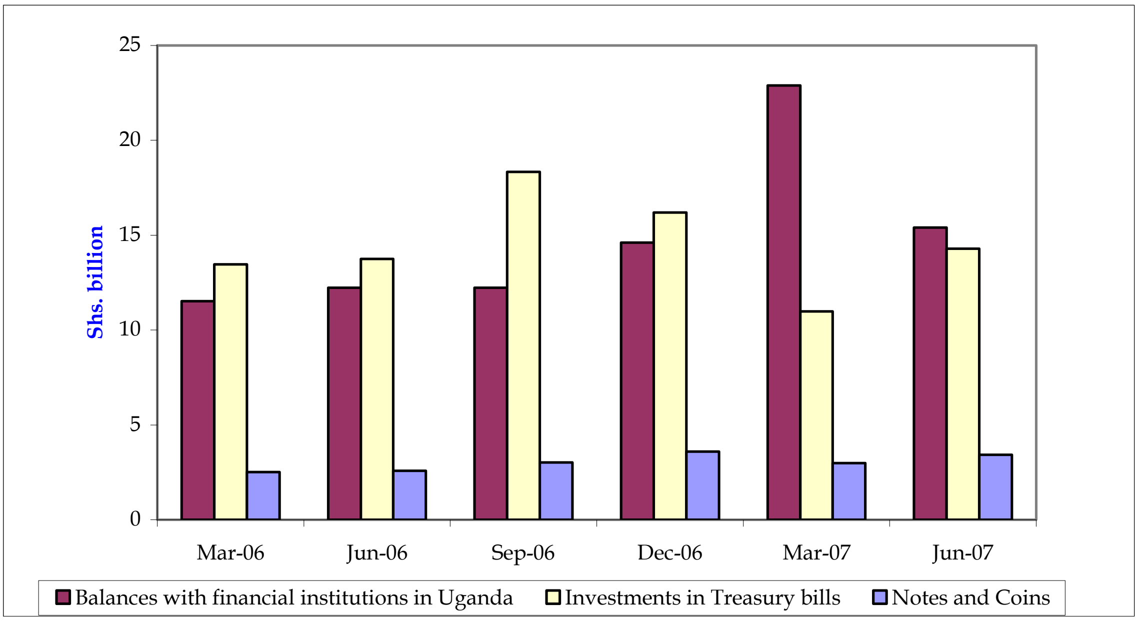
Table 11: Liquidity indicators of Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Change Mar-07 to Jun-07	
							Absolute	Percent
Notes and coins	2.5	2.6	3.0	3.6	3.0	3.4	0.5	15.0
Balances with financial institutions in Uganda	11.5	12.2	12.2	14.6	22.9	15.4	-7.5	-32.7
Investments in treasury bills	13.5	13.8	18.3	16.2	11.0	14.3	3.3	30.1
Total Assets	**27.5**	**28.6**	**33.6**	**34.4**	**36.9**	**33.1**	**-3.7**	**10.1**
O/w encumbered fixed deposits [1]	11.3	10.7	10.0	9.9	8.2	8.2	-1.7	-17.3

[1] Deposits pledged as security to secure overdraft facilities

Source: Bank of Uganda

Figure 9: Developments in the liquidity indicators of Microfinance Deposit-Taking Institutions (Shs. billion outstanding at end of period)



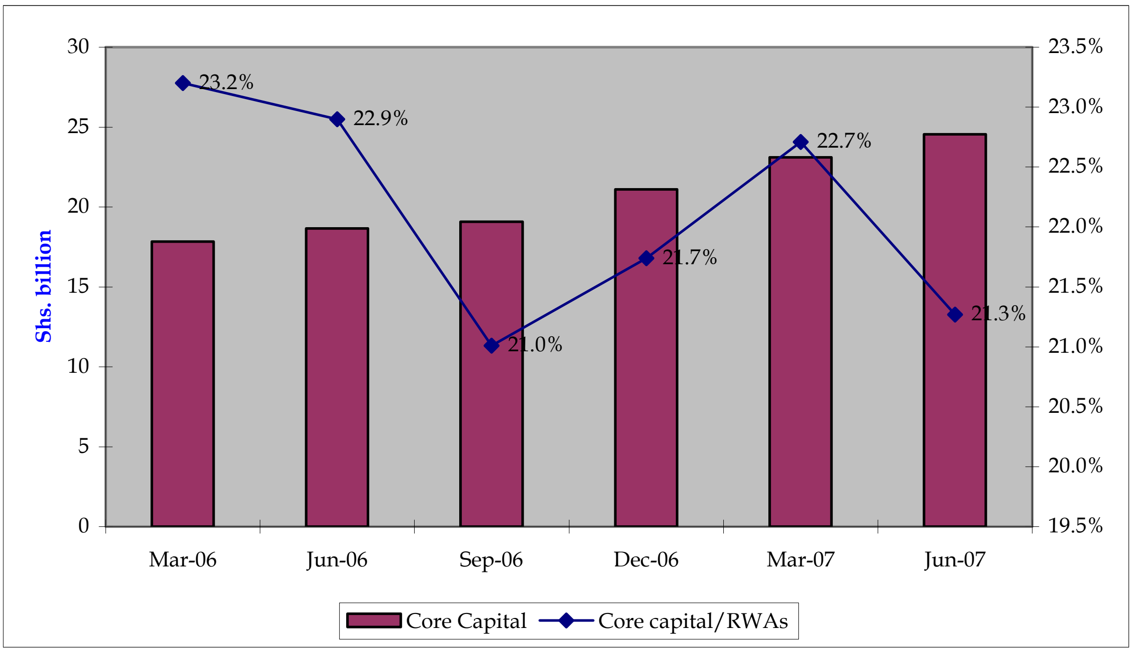
Source: Bank of Uganda

4.2.4. Capital adequacy

During the quarter ending June 2007, all MDIs maintained paid-up capital above the statutory minimum of Shs. 500 million. The core capital and total capital to risk weighted asset ratios of all MDIs were maintained above the statutory minimum requirement of 15 and 20 percent respectively.

Core capital increased by Shs. 1.4 billion or 6.3 percent from Shs. 23.1 billion to Shs. 24.5 billion at the end of the quarter under review. This was mainly due to increase of Shs. 1.2 billion in YTD net profit after tax from Shs. 1.0 billion in the previous quarter to Shs. 2.3 billion in the current quarter. The core capital to risk weighted assets ratio was 21.3 percent while the total capital to risk weighted assets ratio was 32.1 percent during the period under review compared to 22.7 percent and 34.7 percent respectively in March 2007. Figure 10 below shows the overall trend in core capital to risk weighted assets indicators.

Figure 10: Capital adequacy indicators (end period)

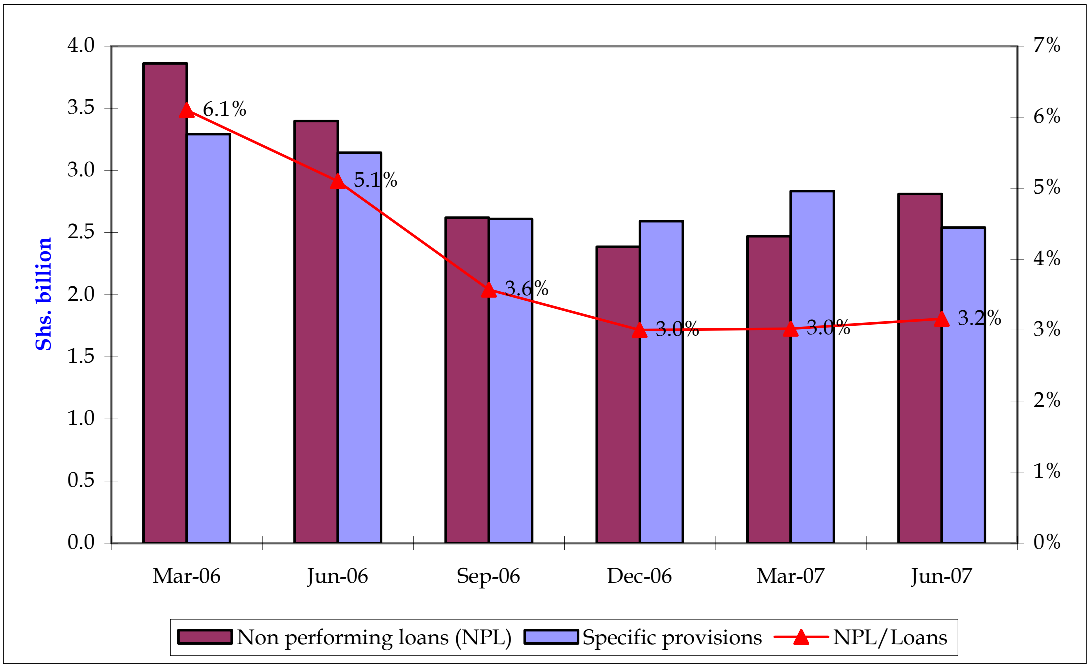


Source: Bank of Uganda

4.2.5 Asset quality

The overall Portfolio at Risk ratio (PAR) stood at 3.2 percent as at end- June 2007 compared to 3.0 percent in March 2006. Three(3) out of four(4) MDIs reported satisfactory PAR ratios below the maximum of 5 percent. Non-Performing Loans (NPL) increased by Shs. 0.3 billion from Shs. 2.5 billion to Shs. 2.8 billion during the quarter under review. Figure 11 below shows the overall trend in asset quality indicators.

Figure 11: Trend in asset quality indicators (end period)



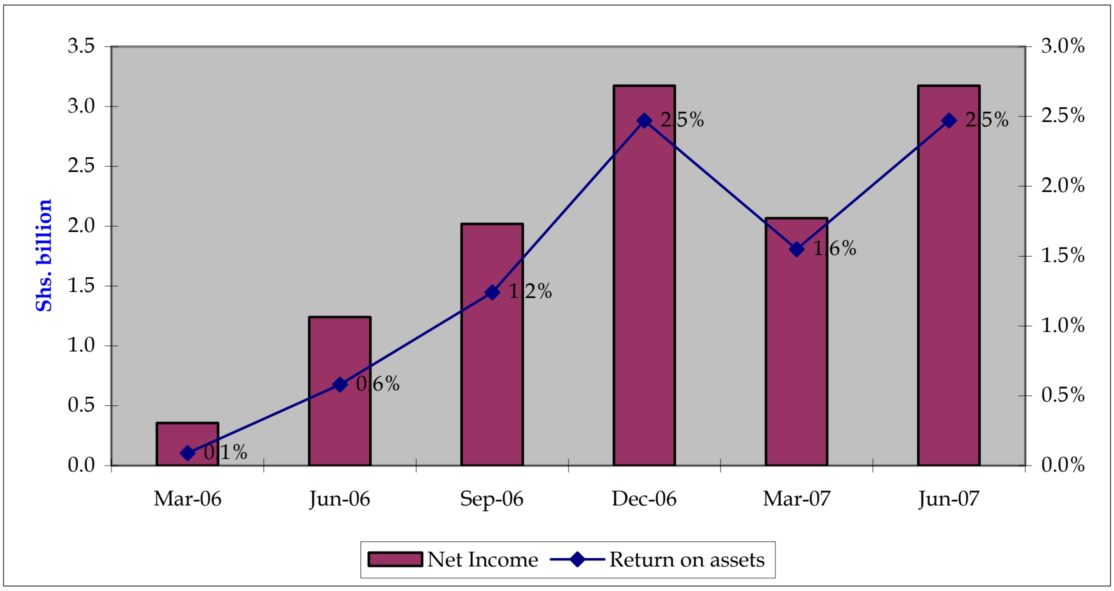
Source: Bank of Uganda

4.2.6 Profitability

Net profit during the quarter ending June 2007 was Shs. 4.6 billion compared to Shs. 2.1 billion as at the end of March 2007. The annualized return on assets and return on equity ratios were 3.2 percent and 18 percent respectively at the end of the quarter under review compared to 1.6 percent and 8.8 percent at end-March 2007.

These ratios are indicative of high vulnerability of earnings relative to increases in interest expense on borrowings. Figure 12 below shows the overall trend of return on assets and net profit.

Figure 12: Trend of return on assets and net income based on annualized ratios



Source: Bank of Uganda

4.2.7. Key Financial Indicators for Micro Finance Deposit Taking Institutions

The table 12 below gives trends in key financial ratios on capital adequacy, asset quality, profitability and liquidity as at end of period.

Table 12: Key Financial and Performance Indicators

	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Capital Adequacy							
Core capital, Shs. billion	17.30	17.83	18.66	19.07	21.11	23.10	21.1
Total capital, Shs. billion	23.99	24.87	25.79	26.47	32.83	35.25	32.8
Risk weighted assets (RWA), Shs. billion	79.61	76.96	81.49	90.77	97.09	101.71	97.1
Core capital/RWA ratio, percent	21.70	23.20	22.90	21.01	21.74	22.71	21.74
Total core capital/ RWA, percent	30.1	32.3	31.7	29.16	33.82	34.66	33.82
Asset Quality							
Total loans, Shs. billion	65.74	63.22	66.06	73.31	79.46	82.00	79.5
Portfolio in arreas (PIA), Shs. billion	3.62	3.86	3.40	2.62	2.38	2.47	2.38
Portfolio at risk ratio	5.55%	6.10%	5.10%	3.57%	3.00%	3.02%	3.00
Total provisions, Shs. billion	2.58	3.29	3.14	2.61	2.59	2.83	2.59
Profitability							
Year to date Profit/Loss, Shs. billion	1.12	0.36	1.24	2.02	3.17	2.07	3.17
Net Profits (month)	1.08%	0.09%	0.58%	1.24%	2.47%	1.55%	2.47
Return on assets (YTD, annualized)	6.05%	0.48%	3.14%	7.37%	13.99%	8.81%	13.99
Return on equity (YTD, annualized)			1.6	1.66	1.68	2.92	1.68
Interest cover	1.12	0.3563	1.24	2.02	3.17	2.07	
Liquidity							
Total deposits, Shs. billion	15.48	16.27	17.72	19.65	23.23	25.91	23.23
Liquid assets, Shs. billion[1]	13.76	16.23	17.91	23.55	24.50	28.66	24.5
Liquid assets/Deposits, percent	88.88	99.74	101.08	119.89	105.45	110.64	105.5
Loans/Deposits (Lending Ratio), percent[2]	76.19	73.92	74.9	62.74	60.37	42.02	60.4
Debt:Equity ratio				177.12	148.92	198.79	148.9

Notes:
[1]Liquid assets exclude encumbered fixed deposits as at the end of that period
[2]In calculating the lending ratio, total advances exclude advances not funded by deposits.
Source: Bank of Uganda

5. THE DOMESTIC FINANCIAL MARKETS AND INTEREST RATES

5.1 Treasury bond[5]T market

Government treasury bonds are issued to support monetary policy implementation by improving liquidity management and promoting market development by extending both the maturity of the instruments traded and the yield curve. During this quarter, one new bond was issued to absorb structural liquidity for a longer period. In addition, three bonds were reopened with the aim of creating more liquid and tradable securities. The yields-to maturity for the only issued tenor (the 3-year bond) this quarter rose gradually as Bank of Uganda maintained its efforts to keep the growth of base money within desired levels to contain inflationary pressures. This was against the commercial banks' increasing demand for liquidity towards the end of the financial year.

5.1.1. Primary market of Treasury bonds

During the quarter under review, a 3-year bond was issued with a face value of Shs. 30.0 billion, and three 3-year bonds were re-opened, with respective face values of Shs. 30.0 billion, Shs. 30.0 billion, and Shs. 20.0 billion. The 3-year new issue was over-subscribed by Shs. 8.9 billion; while the 3-year re-opened bonds were over-subscribed by Shs. 26.7 billion, Shs. 1.2 billion, and Shs. 101.8 billion respectively. The total bids translated into cover ratios of 1.3, 1.7, 1.0, and 6.1; Weighted Average Prices (WAP) per Shs. 100 of Shs. 93.7, 96.2, 93.4, and 99.3; and yields-to-maturity of 12.8, 12.7, 13.4, and 13.5 percent, respectively. These auctions, together with a further non-market reopening of the last bond of the quarter by Shs. 7.0 billion and a 2-year bond maturity of Shs. 19.8 billion, brought the total outstanding stock of bonds to Shs. 953.1 billion by the close of the quarter. All bonds are listed on the Uganda Securities Exchange. Table 13 below shows the developments in the Treasury bond primary market.

[5] A bond is a market instrument with a maturity term longer than one year.

Table 13: Treasury bonds: volume, price and interest rates

	Jun 06	Sept 06	Dec 06	Mar 07	Jun 07
Stock of Treasury bonds (Shs. billion)	734.85	793.17	903.17	856.08	953.08
Change in stock (absolute)	50.00	58.32	110.0	-47.09	97.00
Price and interest rates (percent)					
2-year average price (Shs. /100)	95.87	94.21	93.87	96.48	0.00
3-year average price (Shs. /100)	94.59	93.07	94.21	98.56	96.25
2-year yield-to-maturity rate	12.40	13.40	13.61	13.48	0.00
3-year yield-to-maturity rate	12.85	13.33	12.63	12.29	13.10
Issues at face value (Shs. billion)					
2-year	30.00	20.00	60.00	60.00	0.00
3-year	50.00	38.32	30.00	30.00	117.00
5-year	20.00	0.00	20.00	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at face value	100.00	58.32	110.00	90.00	117.00[1]
Total maturities	50.00	0.00	0.00	137.09	19.84
Total net issues at face value	50.00	58.32	110.00	47.09	97.16
Issues at cost value (Shs. billion)					
2-year	28.76	18.84	56.32	57.89	0.00
3-year	47.21	35.68	28.26	29.57	111.82
5-year	17.54	0.00	17.99	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at cost value	75.97	54.52	102.57	87.46	111.82

Note:
[1]Includes a special issue made to Stanbic bank

Source: Bank of Uganda

5.1.2 Secondary market of Treasury bonds

For the quarter ended-June 2007, the average indicative bid/offer yields-to-maturity in the secondary market were 12.7/12.4, 12.9/12.7, 14.0/13.8, and 15.6/15.3 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively (see Table 12). Corresponding average rates were 12.7/12.4, 12.7/12.4, 14.0/13.7, and 15.6/15.3 percent respectively for the quarter ended-March 2007, and 12.7/12.4, 13.8/13.5, 14.8/14.6, and 15.6/15.3 percent respectively for the quarter ended June 2006. Comparing the quarters to June, and to March 2007, the 3-year bond rates went up in line with the rise in rates in the primary bond market. The rest of the tenors had fairly stable rates. In the quarter under review, Shs. 70.1 billion, Shs. 4.9 billion, and Shs. 1.3 billion worth of the 2-year, 3-year, and 5-year bonds, respectively, were traded in the secondary market. There were no reported secondary market trades in the 10-year security.

Table 14: Summary indicators from the secondary market for Treasury bonds (April-June 2007)

	Tenor of Bond							
	2-year		3-year		5-year		10-year	
	Yield-to-maturity quotation (percent)							
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	11.75	11.50	12.60	12.35	13.25	13.00	14.90	14.65
Max	14.00	13.75	13.75	13.50	14.50	14.25	16.50	16.25
Average	12.65	12.40	12.94	12.69	14.04	13.79	15.55	15.30

Source: Bank of Uganda

5.2 Treasury bill market

The primary market is an important tool for monetary policy management, while the secondary market improves the background for active monetary operations in short-term instruments for fine-tuning liquidity.

Effective August 2006 and in line with the Failure to Settle Arrangements in the Clearing House rules, a stock of treasury bills are to be bought by commercial banks every three months at the most recent 91-day weighted average rate. This pool of collateral is to prevent or limit the possible precipitation of systemic risk arising out of failure by one or more of the banks to settle their obligations in the clearinghouse. On maturity, these bills may be rolled over partially or fully, depending on the previous period's volume of clearing activities.

Secondary market trading in treasury bills was mainly on account of the continued active use of the signed Horizontal Repo Agreement (HRA) to secure interbank lending transactions. The other reasons that support the growth of the secondary market include the ease with which securities can be transferred on the Central Depository System (CDS), and Bank of Uganda's "Guidelines for Dealers in Government Securities". It is against these guidelines that Bank of Uganda periodically ranks primary dealers, motivating them in the key areas of primary and secondary market development.

5.2.1 Primary market of Treasury bills

The primary issuance of treasury bills, which is the main sterilization instrument, was actively used in liquidity management during the quarter under review. Treasury bills worth Shs. 536.1 billion at face value were issued against maturities of Shs. 312.1 billion. The implied net issue of Shs. 224.0 billion compares with the net issues of Shs. 74.5 billion, and

Shs. 36.8 billion for the previous quarter to March 2007 and the corresponding quarter ended June 2006, respectively.

During the quarter, several primary auctions for treasury bills had pockets of under subscriptions, with issues largely concentrated at the longer end of the market. This bias was reflected in the respective shares of the Treasury bill issues at face value during the quarter, which stood at 16.3, 25.3, and 58.5 percent for the 91-days, 182-days, and 364-days securities, respectively. On May 08, 2007, Shs. 22.9 billion worth of treasury bills were bought by the commercial banks for failure-to-settle collateral purposes at then most recent 91-day weighted average discount rate of 9.1 percent. Table 15 summarizes these developments.

Table 15: Treasury bills: volume, price and interest rates

	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07
Stock of Treasury bills (Shs. billion)	1,161.08	1,070.46	1,041.83	1,116.41	1,340.40
Change in stock (absolute)	36.77	-90.62	-28.63	74.58	223.99
Price and interest rates (percent)					
91-day Average price (Shs. /100)	98.20	97.96	97.82	97.59	97.71
Annualized 91-day discount rate	7.20	8.17	8.75	9.68	9.18
Annual 91-day discount yield	7.34	8.34	9.15	10.30	9.74
Reference rate/[1]	7.06	8.76	9.61	9.76	9.91
Rediscount rate	12.76	14.45	15.30	15.45	15.60
Issues at face value (Shs.billion)					
91 days	30.95	39.37	41.68	74.19	67.64
182 days	68.00	44.44	59.92	109.66	125.07
364 days	178.00	133.22	155.17	206.25	343.35
Total issues at face value	276.95	217.04[2]	257.77[2]	390.10[2]	536.06[2/3]
Total maturities	240.16	308.23	286.37[4]	315.58[4]	312.11[4]
Total net issues at face value	36.79	-91.19	-28.60	74.52	223.95
Issues at cost value (Shs.billion)					
91days	30.39	38.60	41.76	72.38	66.10
182 days	65.37	42.35	56.84	103.58	118.08
364 days	162.21	119.00	138.27	183.67	303.73
Total issues at cost value	257.97	199.95	236.87	359.63	487.91

Note:
[1]Reference rate calculated as 3-weeks moving average of the 91-day Treasury bill yield effective November 2004.
[2]Includes issues for the failure-to-settle pool of collateral.
[3]Includes special issues made to Standard Chartered Bank, Stanbic Bank, and Citibank.
[4]Includes maturities of previously issued failure-to-settle collateral.

Source: Bank of Uganda

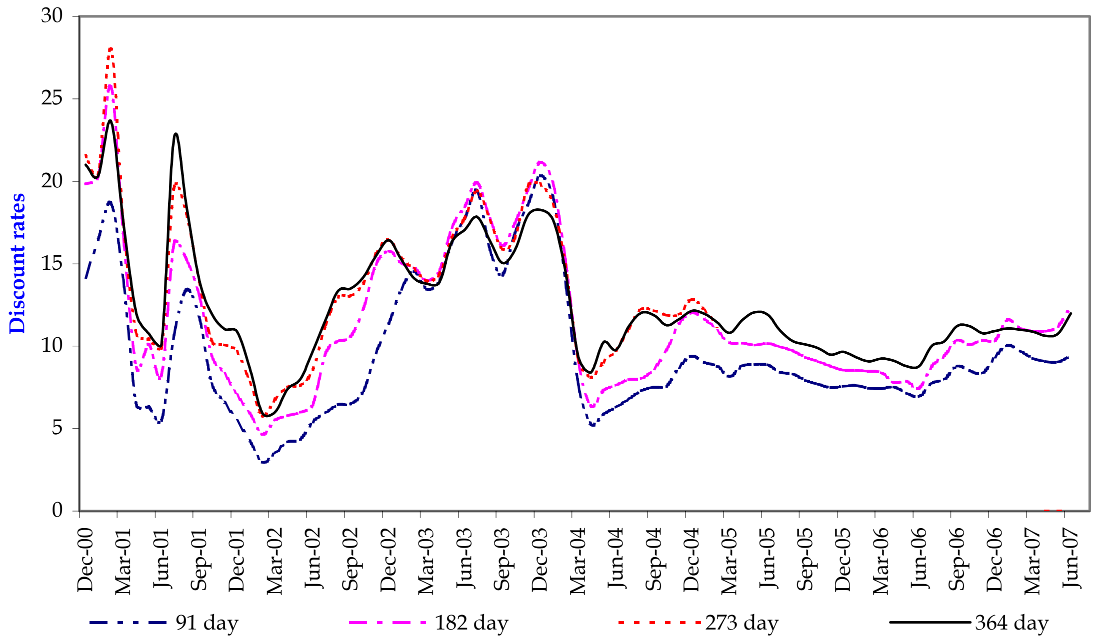
On an average basis, the rates (with exception of that of the 91-day paper) on the Treasury bill tenors were higher in the quarter to June 2007 when compared to the previous quarter to March 2007 and the corresponding quarter in 2006. The government's comprehensive strategy for debt management is expected to ensure an optimal mix of securities issuance, and enable the reduction of the relative cost of interest on these government securities.

The weighted average discount rates on treasury bills for the quarter under review were recorded at 9.2, 11.5, and 11.1 percent on the 91-days, 182-days, and 364-days treasury bills tenors, respectively. These discount rates were higher, apart from that of the 91-day paper, than the corresponding rates of 9.7, 11.2, and 11.0 percent respectively, recorded in March 2007, and higher than the respective 7.2, 7.7, and 8.9 percent recorded in June 2006. The upward trend in discount rates is reflected in Figure 13.

The average annualized yields for the entire quarter stood at 9.7, 12.5, and 12.5 percent for the 91-day, 182-day, and 364-day bills, respectively. With the exception of the 91-day paper's rates, these rates were higher than the respective rates of 10.3, 12.2, and 12.3 percent for the quarter ended-March 2007. In the corresponding quarter ended-June 2006, the yields were 7.3, 8.0, and 9.8 percent.

The stock of treasury bills increased by 20.1 percent, from Shs. 1,116.4 billion recorded at the end of March 2007 to Shs. 1,340.4 billion as at end-June 2007. Commercial banks held 59.0 percent of the outstanding stock of treasury bills by end-June 2007, compared to a *revised* 69.7 percent reported in March 2007, while BOU holdings increased to 11.1 percent from a holding of 9.3 percent over the same time-period. As at end June 2006, Commercial banks and BOU took up 53.7, and 28.8 percent, respectively, of total stock of treasury bills.

Figure 13: Primary market discount rates on treasury bills



Source: Bank of Uganda

5.2.2 Secondary market of treasury bills

In the quarter under review, one commercial bank accessed the standing facilities at BOU and borrowed a total of Shs. 50.0 billion. The indicative yield-to-maturity rates derived from daily *'bid'* and *'offer'* quotations by the primary dealers in the secondary market of treasury bills were linked with the rates derived in the primary market for these securities.

The respective average bid/offer rates for the quarter ended-March 2007 were 9.6/9.3, 12.0/11.7, and 12.4/12.1 percent for the 91-days, 182-days and 364-days securities. Expect for that of the 91-day paper, these rates rose compared to the average rates for the respective papers of 9.8/9.5, 11.3/11.0, and 12.3/12.0 percent in the previous quarter, and were higher than 7.6/7.3, 8.5/8.2, and 9.7/9.5 percent reported in the corresponding quarter ended June 2006. The yield curve derived from average yield-to-maturity quotes in the secondary market remained gently upward sloping throughout the maturity profile.

Total trades over this period amounted to Shs. 99.7 billion. This volume of trade was higher than Shs. 79.7 billion executed in the previous quarter ended March 2007, but lower than Shs. 139.9 billion in June 2006. A total of Shs. 12.0 billion in horizontal repo transactions took place during the quarter. The rest of the transactions were transfers and outright sales. Table 16 summarizes the developments in the Treasury bill secondary market.

Table 16: Summary indicators from the secondary market for treasury bills (April-June 2007)

	91-days		182-days		364-days	
	Yield-to-maturity rates quotation (percent)					
	Bid	Offer	Bid	Offer	Bid	Offer
Minimum	9.00	8.74	10.59	10.31	11.29	11.00
Maximum	10.41	10.19	13.85	13.57	14.38	14.07
Average (simple)	9.58	9.32	12.01	11.73	12.37	12.10
Total trading activity			**Shs. 99.691 billion**			
Transactions (Shs billion)	25.766		27.828		46.097	
- Horizontal repos	12.000		0		0	
- Transfers	0.504		0.510		18.300	
- Outright sales	13.262		27.318		27.797	
Average discount rate	13.18%		10.44%		10.86%	
Average yield-to-maturity	14.82%		10.94%		11.67%	

Source: Bank of Uganda

5.3 The Vertical Repo Market

The vertical Repo market, which entails Repo transactions between commercial banks and Bank of Uganda, was actively used throughout the quarter for short-term flexible liquidity management. Total Repo issuance in the quarter ended-June 2007 was Shs. 1,747.2 billion against maturities of Shs. 1,752.6 billion. The total transaction volume of this instrument was higher than what was recorded in the quarter ended-March 2007 when issues of Shs. 1,163.8 billion (net of reverse Repos of Shs. 40.0 billion) were effected against maturities of Shs. 1,098.2 billion (net of maturing reverse Repos of Shs. 40.0 billion). The respective amounts of issues and maturities for the corresponding quarter-ended June 2006 were Shs. 397.6 billion and Shs. 459.8 billion. The weighted interest rates from this market followed an upward trend in the last month of the quarter. These developments are shown in Table 17.

Table 17: Volume developments in the repo market (Shs. billion)

	Jun 06	Sept 06	Dec 06	Mar 07	Jun 07
Issuance of repos	397.599	367.999	1,026.549	1,163.799	1,747.200
Maturity of repos	459.844	383.511	965.031	1,098.188	1,752.620
Outstanding Stock of Repos	15.040	0.000	59.810	120.293	117.787

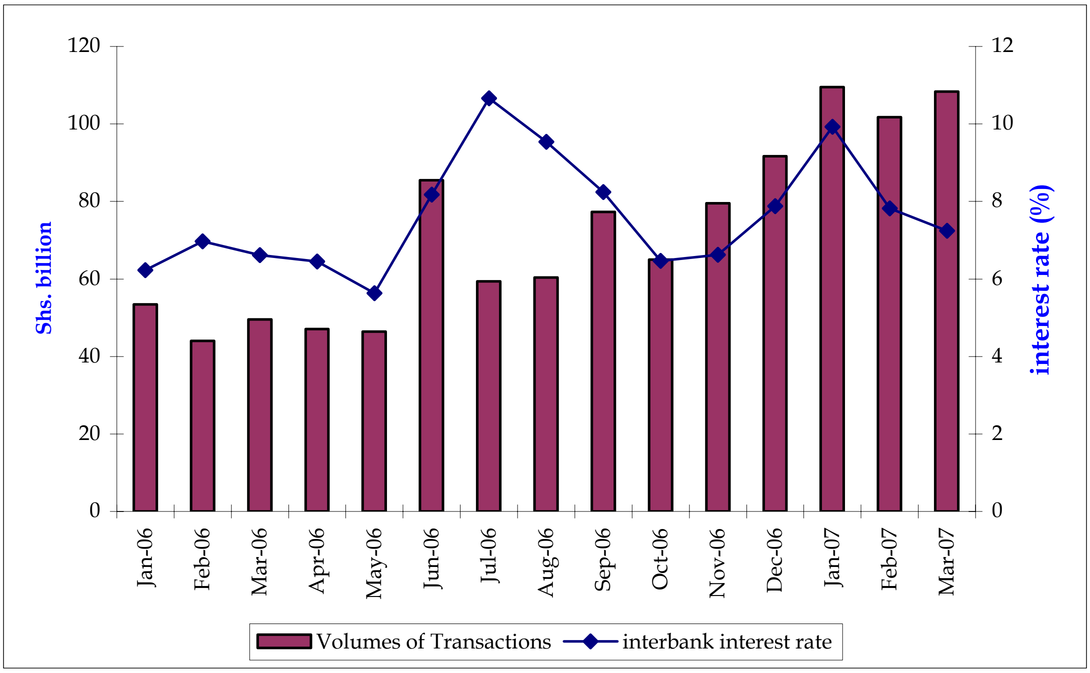
Source: Bank of Uganda

5.4 The Interbank Money Market

The inter-bank money market transactions were of durations of 1 to 30 days and they showed sustained activity and continued participation in the quarter under review. Commercial banks continued to participate in order to balance their daily liquidity fluctuations, and to cover their daily liquidity needs.

The weighted inter-bank money market rates declined during the quarter under review recording 9.9 per cent, 7.8 percent and 7.2 percent in the months of January, February and March 2007 respectively. The inter-bank rates observed were stable compared to those recorded a year ago that rose from 6.2 per cent to 7.0 percent between the months of January and February 2006 respectively but reduced later to 6.6 per cent in the corresponding month of March 2006. The inter bank rates also reflected the underlying liquidity conditions in the domestic money markets. Figures 14 below shows the respective movements in the interest rates and volumes of transactions in the inter-bank shilling market.

Figure 14: Trends in the inter-bank rates



Source: Bank of Uganda

5.4.1 Commercial bank's lending and deposit rates

The weighted average interest rates for commercial banks continued to be stable during the quarter under review, due to increased competition for deposits and continued sound macroeconomic and prudential management policies that were recorded over the quarter. The average weighted savings rate on shilling denominated deposits was 2.1 percent, slightly higher than 2.0 percent recorded in a corresponding period a year ago. The average weighted time deposit rate remained stable at 9.0 percent in the quarter ending March 2007, slightly up from 98.8 percent recorded in the corresponding quarter a year ago. These deposit rates are reminiscent of a relatively stable macroeconomic environment and the growing competition for deposits in the banking system at large.

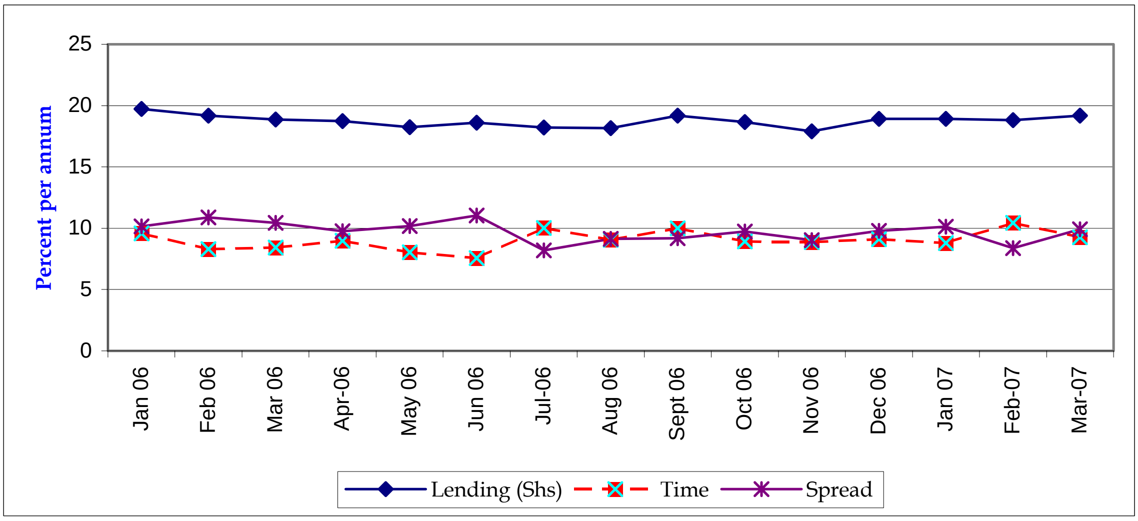
In line with stability and competition in the other rates, the weighted average lending rate on shilling denominated loans slightly rose to 19.2 percent in the quarter under review from 18.9 in January 2007. In contrast, during the corresponding quarter in 2006, the weighted average lending rates declined slightly from 19.7 percent in the beginning of the quarter to 18.9 percent in March 2006. However, the weighted average lending rates on dollar denominated loans declined from 10.4 percent in January 2007 to 9.7 percent in March 2007. The average weighted lending rate for the quarter ending March 2007 was 10 percent, higher than the 9.2 percent recorded in the corresponding quarter in 2006. The average weighted savings deposit rate on the dollar denominated deposits was relatively stable at 1.5 percent in the quarter under review, a trend that was similar in the corresponding quarter a year ago. The time deposit rate averaged 5.0 percent in the quarter under review compared to 4.4 percent that was recorded in the corresponding quarter a year ago. The developments in commercial bank's interest rates are shown in Table 18 below and figures 15 and 16 below.

Table 18: Weighted average interest rates of commercial banks (Percent, per annum)

Weighted average rates	Shilling denominated				Foreign currency denominated			
	Dec-06	Jan-07	Feb-07	Mar-07	Dec-06	Jan-07	Feb-07	Mar-07
Lending	18.91	18.92	18.83	19.17	9.23	10.45	9.88	9.72
Demand deposits	1.14	1.26	1.16	1.17	1.16	1.21	1.19	1.21
Savings deposits	2.02	2.17	2.23	2.08	1.53	1.54	1.45	1.49
Time deposits	9.12	8.80	10.44	9.26	5.25	5.04	4.95	4.97

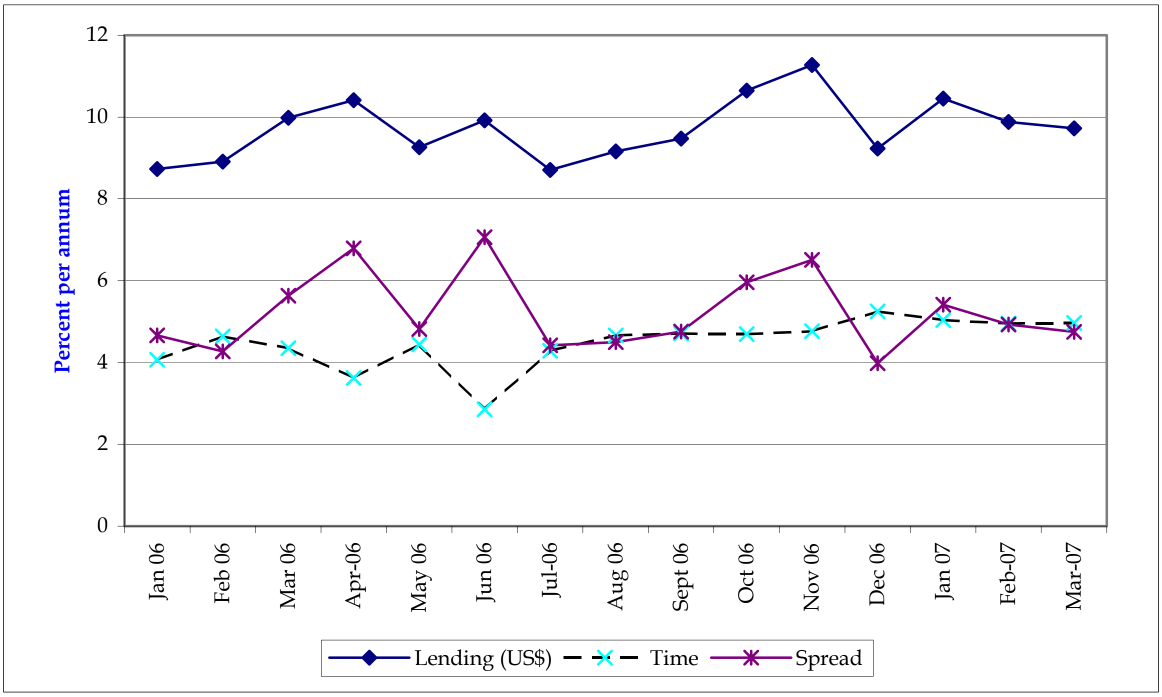
Source: Bank of Uganda

Figure 15: Shilling lending and deposit rates



Source: Bank of Uganda

Figure 16: Foreign exchange lending and deposit rates

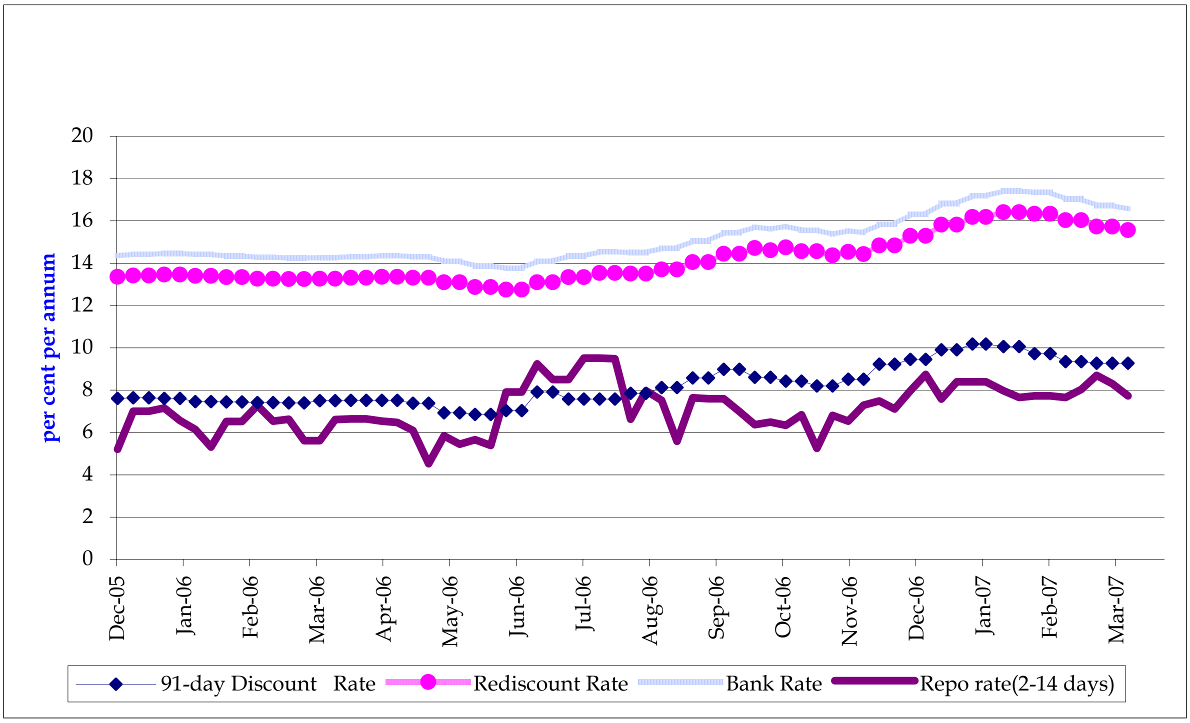


Source: Bank of Uganda

5.4.2 Policy rates

The policy margin of 5 percentage points was not changed by BOU for the quarter under review. Accordingly, following the inflation outturn and developments in the domestic money markets, the policy rates were stable though they declined in line with the developments in the market 91-day Treasury bill rate. The rediscount rate and the bank rate gradually decreased from 16.4 percent and 17.4 percent recorded at the start of the quarter to 15.6 percent and 16.6 percent respectively by end-March 2007. The developments in the policy rates during the quarter were similar to what was recorded in the corresponding quarter ending March 2006 when the rediscount rate and the bank rates recorded a decline from 13.5 percent and 14.5 percent at end January 2006 to 13.3 percent and 14.3 percent at end-March 2006 respectively. Figure 17 highlights the trend of policy rates.

Figure 17: Trend of the 91-day treasury bill discount, rediscount, bank and REPO rates



Source: Bank of Uganda

6. DEVELOPMENT IN THE FOREIGN EXCHANGE MARKET

6.1 Foreign exchange rates

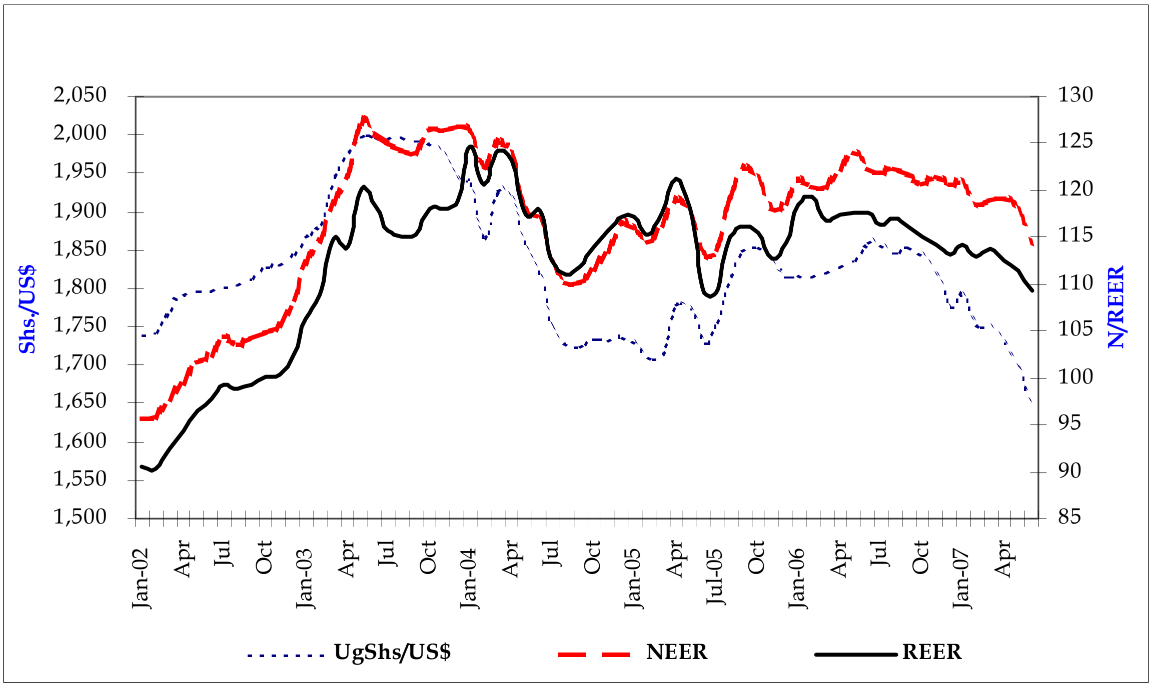
The shilling appreciated by 4.4 percent in the fourth quarter of 2006/07 to Shs. 1,688.02 per US dollar compared to an appreciation of 2.6 percent in the third quarter of 2006/07. The shilling appreciated from a period average rate of Shs. 1,765.09 per US dollar posted in the first quarter of 2006/07 to Shs. 1,688.02 per US Dollar in the second quarter. The shilling remained strong against the dollar through out the quarter. It opened trading at Shs. 1,737.2 per US dollar at the start of April 2007, strengthening to Shs. 1,590.13 per US dollar at end June 2007. The shilling strengthening in June 2007 was driven by offshore interest in the Ugandan securities market, trade inflows from the now peaceful Southern Sudan and Eastern Congo as well as inflows for preparations for the Common Wealth Heads Of Government Meeting (CHOGM) due in Kampala in November 2007. The spread moved from Shs. 13.8 at the start of April 2007 to Shs. 22.5 at the end of June 2007, which indicated volatility in the inter-bank foreign exchange market (IFEM). On a quarterly basis, the average spread between the buying and selling rates increased from Shs. 14.8 in the third quarter of 2006/07 to Shs. 15.7 in the quarter under review.

The sharp appreciation pressures during the quarter, especially in June 2007, necessitated occasional central bank intervention in the IFEM to ensure stability. The Bank also maintained presence in the IFEM under the sterilization strategy to mop excess liquidity generated by government expenditure. The actions of the Bank in the IFEM amounted to net purchase of US$ 94.6 million compared to a net sale of US$ 8.3 million during the previous quarter.

The nominal effective exchange rate (NEER) index appreciated by 1.9 percent during the fourth quarter of 2006/07, compared to an appreciation of 1.3 percent posted in the previous quarter. The movement in the NEER index mainly reflects the relative movements of the Uganda shilling against the currencies of our major trading partners. The shilling appreciated by 2.7 percent against the UK pound, 5.3 percent against the Japanese yen, 1.5 percent against the Euro, 2.4 percent against the South African rand, 4.1 percent against the Pakistan rupee and 1.2 against the Kenyan shilling in the quarter under review. However, the shilling depreciated by 2.5 percent against the Indian rupee.

The real effective exchange rate (REER) index appreciated by 2.3 percent in the fourth quarter of 2006/07, compared to an appreciation of 0.3 percent recorded in the third quarter of 2006/07. Figure 18 shows the developments in the exchange rate.

Figure 18: Exchange rate developments:



Source: Bank of Uganda

6.2 Transaction volumes

Gross purchases in the IFEM increased from US$932.3 million recorded in quarter three of 2006/07 to US$1,174.33 million in the quarter under review, an increase of 26 percent. Similarly, gross sales in the inter-bank foreign exchange market recorded an increase of 16.5 percent, from US$934.5 million in the third quarter of 2006/07 to US$1,088.7 million in the fourth quarter of 2006/07. Compared to the same period last financial year, when gross purchases fell by 0.7 per cent from US$587.9 million and gross sales increased by 8.1 percent from US$602.1 million. Cross currency transactions rose by 6.8 percent from US$181.4 million in the third quarter of 2006/07 and by 3.01 percent from US$75.5 million recorded in the corresponding period last year to US$77.8 million in the quarter under review.

In the foreign exchange bureaux market, the shilling appreciated by 4.0 per cent from the average of Shs. 1,752.96 per US dollar in the third quarter of 2006/07 to Shs. 1,682.77 per US dollar in the fourth quarter of 2006/07. However, during the corresponding period in 2005/06, the shilling depreciated by 1.1 percent when the average bureaux rate moved from Shs. 1,1814.95per US dollar in the third quarter to Shs. 1,834.06 per US dollar in the fourth quarter. Table 19 and Figure 19 summarize the above developments.

Table 19: Transactions and exchange rate developments, retail and wholesale market:

Market	**Q4 2005/06**	**Q1 2006/07**	**Q2 2006/07**	**Q3 2006/07**	**Apr 2007**	**May2007**	**Jun 2007**	**Q4 2006/07**
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	122.88	121.98	120.93	119.41	119.17	118.01	114.19	117.12
Real Effective Exchange Rate (REER) 2000=100	18.21	116.52	114.06	113.71	112.52	111.45	109.34	111.10
Nominal Exchange Rate (Period Average)	1,841.95	1,853.20	1,813.35	1,765.09	1,728.89	1,695.15	1,643.57	1,688.02
Total Purchases (Million US$)	583.74	729.60	897.67	932.28	277.37	393.73	503.22	1,174.32
Total Sales (Million US$)	650.89	749.68	855.77	934.53	310.15	361.46	417.08	1,088.69
Cross Currency (Million US$)	77.80	66.85	110.09	181.36	45.66	69.50	78.60	193.76
Bureaux Market								
Nominal Exchange Rate (Period Average	1,834.06	1,848.36	1,806.86	1,745.39	1,720.63	1,688.86	1,638.82	1,682.77
Total Purchases (Million US$)	379.5	419.03	398.57	429.7	131.87	153.81	144.36	430.03
Total Sales (Million US$)	363.42	427.06	408.26	425.77	130.99	149.03	147.15	427.17

Source: Bank of Uganda.

Figure 19: Foreign exchange transactions of commercial banks in US$, million

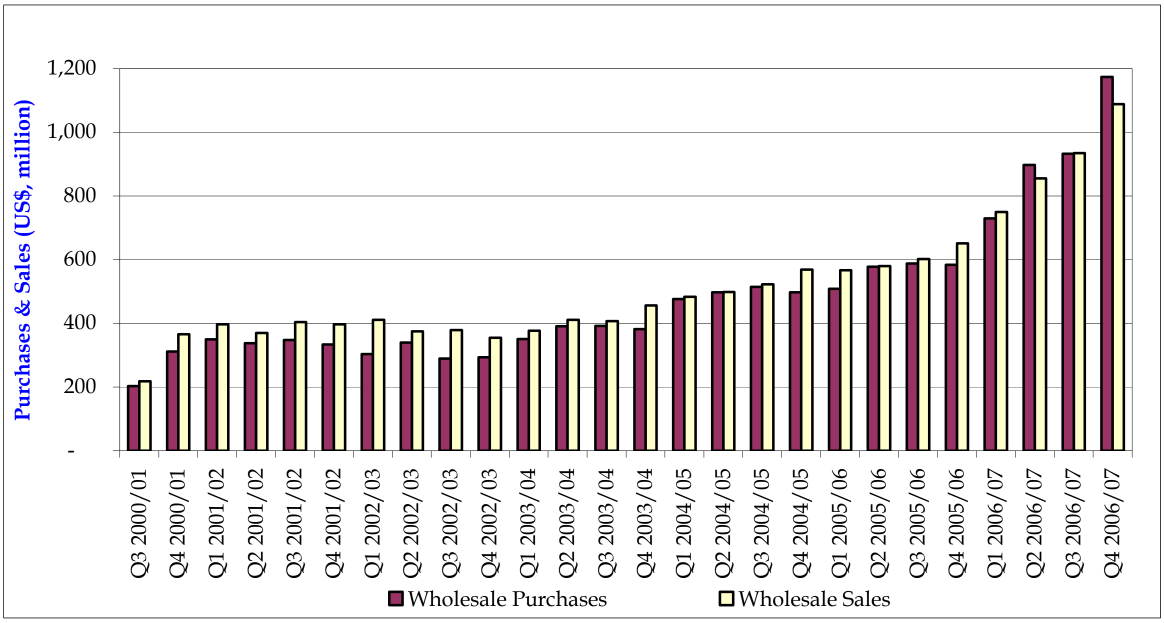


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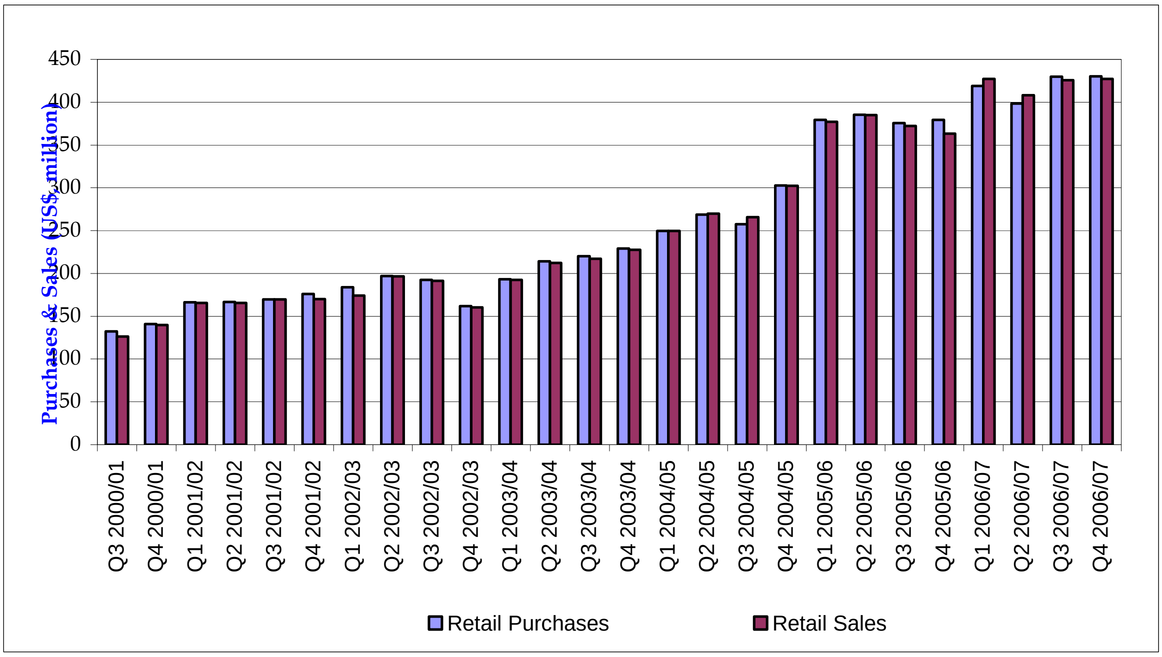
Figure 20: Quarterly foreign exchange bureau transactions in millions of US$



Source: Bank of Uganda

7 PUBLIC FINANCE

7.1 Revenue

During the quarter ended June 2007, government revenue and budget support grant disbursements amounted to Shs. 983.0 billion, representing an over-performance of 7.6 percent relative to the programmed level of Shs. 913.9 billion. Compared with the corresponding quarter ended June 2006, revenue and budget support disbursements was higher by Shs. 220.4 billion (28.9 percent). The preliminary outturn for total revenue collections was Shs. 781.8 billion, an increase of Shs. 130.6 billion (20.1 percent) on the level recorded in the quarter ended June 2006 and an over performance of Shs. 3.5 billion above the programmed level. This performance is largely attributable to improved URA collections through increased taxpayer compliance and efficiency in revenue collections. Budget support grants from external sources were higher in June 2007 by Shs. 89.7 billion (80.5 percent) than Shs. 111.4 billion disbursed in June 2006. The grants received in the quarter under review were also above the programmed level of Shs.158.7 billion.

7.2 Government expenditure

Total government expenditure and net lending amounted to Shs. 1,638.9 billion during the fourth quarter ending June 2007 compared to Shs. 857.0 billion that was utilized in the corresponding quarter in 2006. This outturn was 30.8 percent above the programmed level of Shs. 1,253.1 billion.

The rise in total expenditure between the quarters was particularly hinged on a 160.1 percent increase in development expenditure. Current expenditures for the quarter grew by 17.3 percent to Shs. 703.7 billion, which was also above the programmed level of Shs. 655.5 billion. Expenditure on salaries and wages grew by 24.3 percent to Shs. 279.4 billion, higher than the programmed level of Shs. 255.7 billion. Interest payments amounted to Shs.37.4 billion, a decline from the payment of Shs. 62.4 billion made in the corresponding quarter in 2006.

7.3 Overall fiscal balance and financing

The developments in government budgetary operations during the quarter under review culminated into a deficit of Shs. 656.0 billion compared to a deficit of Shs. 339.2 billion, which was envisaged in the program. Excluding grants, the deficit worsened to Shs. 857.1 billion, compared to a deficit of Shs. 497.9 billion in the program. The above budgetary operations constituted net domestic financing and net external financing of Shs. 179.1 billion and Shs. 476.9 billion, respectively. Table 20 summarizes the government's budgetary operations.

Table 20: Government budgetary operations (Shs. billion)

	Q4 2005/06	Q1 2006/07	Prel. Q2 2006/07	Prel. Q3 2006/07	Prog. Q4 2006/07	Prel. Q4 2006/07
Revenue and Grants	**762.6**	**1,027.4**	**1,110.2**	**783.8**	**913.9**	**983.0**
Total Revenue	651.2	588.5	704.9	635.4	755.2	781.8
Grants [a/]	111.4	438.9	405.3	148.5	158.7	201.1
Expenditures and Lending	**857.0**	**816.4**	**1,060.8**	**822.6**	**1,253.1**	**1,638.9**
Recurrent Expenditure	599.8	501.3	612.3	586.9	655.5	703.7
Wages and Salaries	224.7	217.6	247.5	241.6	255.7	279.4
Interest Payments	62.4	56.0	60.5	58.2	67.1	37.4
Other non Wage Recurrent	295.7	210.7	287.2	270.1	315.7	369.9
URA Transfers	17.0	17.0	17.0	17.0	17.0	17.0
Development Expenditure	250.8	307.0	400.1	255.6	427.5	652.4
External	55.9	203.4	215.2	103.1	239.1	359.7
Domestic counterpart	194.9	103.6	184.9	152.5	188.4	292.8
Others [b/]	6.4	8.0	48.4	-19.9	129.2	158.2
Overall Fiscal Balance						
Excluding Grants	**-205.8**	**-227.9**	**-355.8**	**-187.2**	**-497.9**	**-857.1**
Including Grants	**-94.4**	**211.0**	**49.4**	**-38.7**	**-339.2**	**-656.0**
Financing	**94.4**	**-211.0**	**-49.4**	**38.7**	**339.2**	**656.0**
External Financing (net)	30.5	64.1	63.0	101.2	419.1	476.9
Domestic Financing (net)	82.6	-199.8	-228.7	-21.8	-79.9	179.1
Bank	-13.6	-182.6	-225.7	-65.0	-192.0	132.1
Non Bank	96.2	-17.2	-3.0	43.2	112.1	46.9
Residual	-18.8	-75.3	116.2	-40.8	0.0	-0.1

[a/] Grants for Q3 2006/07 do not include project grants
[b/] Includes Net Lending/Repayments, Arrears Repayments and contingency.
Source: Ministry of Finance, Planning and Economic Development

8 EXTERNAL SECTOR DEVELOPMENTS

The balance of payments registered an overall surplus of US$195.4million in the quarter ending June 2007 vis-à-vis the deficit of US$59.2 million recorded in the quarter ending June 2006. This up turn in the external position resulted from an improvement in the current account together with the capital and financial account.

During the review quarter, the current account balance was recorded at a deficit of US$113.8 million, down from the deficit of US$123.0 million recorded in the quarter ending June 2006. This enhancement was on account of increased transfers.

During the same quarter the capital and financial account balance was recorded at a surplus of US$309.1 million, US$245.3 million more than what was recorded in the same quarter of 2005/06.

Overall, there was an accumulation of foreign reserves worth US$753.4[1] million to US$2,159.9 million from US$1,406.5 million in the quarter ending June 2006. The stock of reserves in terms of future months of imports of goods and services stood at 6.4 at the end of the quarter, down from 5.7 at the end of the corresponding quarter in 2006. Table 21 below presents a summary of the quarterly developments in the balance of payments for the period April 2006 to June 2007. For a more detailed summary, refer to appendices 8, 9 and 10.

[1] Excluding valuation, the stock of reserves is estimated to have increased by US$384.5 million.

Table 21: Developments in the Balance of Payments (US$ million)

	Apr - Jun 2005/6	Jul - Sep 2006/7	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7
A. CURRENT ACCOUNT BALANCE	**-123.01**	**-37.70**	**11.68**	**-91.06**	**-113.76**
A1. Goods Account (Trade Balance)	**-294.52**	**-336.19**	**-334.63**	**-254.73**	**-346.56**
a) Total Exports (fob)	232.93	250.31	288.90	369.73	349.39
b) Total Imports (fob)	-527.45	-586.50	-623.54	-624.46	-695.95
A2. Services Account (services net)	**-104.35**	**-146.95**	**-157.27**	**-124.07**	**-139.06**
a) Inflows (credit)	118.77	123.54	119.31	134.77	120.76
b) Outflows (debit)	-223.12	-270.49	-276.58	-258.84	-259.81
A3. Income Account (Income net)	**-53.88**	**-55.58**	**-55.51**	**-52.33**	**-53.15**
a) Inflows (credit)	16.33	22.16	20.25	21.26	24.25
b) Outflows (debit)	-70.21	-77.75	-75.76	-73.60	-77.40
A4. Current Transfers (net)	**329.74**	**501.02**	**559.09**	**340.07**	**425.01**
a) Inflows (credit)	386.45	600.45	656.50	410.09	481.08
b) Outflows (debit)	-56.72	-99.43	-97.41	-70.02	-56.08
B. CAPITAL & FINANCIAL ACCOUNT BALANCE	**63.84**	**223.50**	**171.89**	**186.88**	**309.12**
B1. Capital Account	**0.00**	**3,053.00**	**0.00**	**0.00**	**0.00**
a) Capital Transfers inflows (credit)	0.00	3053.00	0.00	0.00	0.00
b) Capital Transfers, outflows (debit)	0.00	0.00	0.00	0.00	0.00
c) Non-produced non-financial assets (credit)	0.00	0.00	0.00	0.00	0.00
d) Non-produced non-financial assets (debit)	0.00	0.00	0.00	0.00	0.00
B2. Financial Account; excl financing items	**63.84**	**-2,829.50**	**171.89**	**186.88**	**309.12**
a) Direct Investment	**89.51**	**106.28**	**106.28**	**106.28**	**106.28**
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	89.51	106.28	106.28	106.28	106.28
b) Portfolio Investment	**1.51**	**-0.18**	**18.46**	**15.68**	**51.25**
Assets	0.00	0.00	0.00	0.00	0.00
Liabilities	**1.51**	**-0.18**	**18.46**	**15.68**	**51.25**
c) Other Investment	**-27.18**	**-2,935.60**	**47.15**	**64.92**	**151.59**
Assets	-49.14	46.85	12.96	19.35	-142.86
Liabilities	21.97	-2,982.46	34.19	45.57	294.46
C. OVERALL BALANCE (A+B)	**-59.17**	**185.80**	**183.57**	**95.82**	**195.36**
D. RESERVES AND RELATED ITEMS	**59.17**	**-185.80**	**-183.57**	**-95.82**	**-195.36**
a) Reserve assets	43.09	-168.54	-198.70	-97.73	-194.28
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	-0.40	-23.50	0.85	-8.53	2.85
d) Errors and Omissions	16.48	6.25	14.28	10.45	-3.93

Source: Bank of Uganda

8.1 The Goods account (trade balance)

8.1.1 Exports

During the quarter ending June 2007, total export earnings were recorded at US$349.4 million, vis-à-vis US$369.7 million in the preceding quarter and US$232.9 million in the quarter ending June 2005/06.

Coffee export earnings were US$55.2 million, 24.1 percent less than, and 40.5 percent more than the US$72.7 million and US$39.3 million realized in the preceding quarter and corresponding quarter of 2005/06 respectively. The average price of US$1.62 /kg realized in the quarter under review was 19 cents higher than the US$1.43/kg realized in the corresponding quarter of 2005/6. There was an increase in the volume of coffee exports to 566,505 (60-kg) bags compared to 457,061 (60-kg) bags exported in the corresponding quarter of 2005/06.

Earnings from the non-coffee exports were recorded at US$294.2 million during the quarter ending June 2007. This was US$100.6 million more than the US$196.7 million recorded in the same quarter of 2005/06. The increase in the value of non-coffee exports was mainly due to improvements in earnings from tea, tobacco, base metals and products, cotton, hides and skins, cocoa beans, plastic products, soap and oil re-exports. Notably, export earnings from base metals in the review quarter amounted to US$17.9 million, vis-à-vis the US$3.7 million realized in the same quarter of 2005/06. Other exports comprised of mainly fruits and vegetables and locally manufactured products such as beverages, sugar, cement etc also recorded high increases.

On the other hand, there was a decline in export earnings from simsim, fish and its products (both regional and international), beans, flowers and cobalt vis-à-vis the same quarter in the previous year. Table 22 below provides a summary of developments in exports.

Table 22: Summary of developments in exports (US$ million)

	Apr - Jun 2005/6	Jul - Sep 2006/7	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7
Total Exports	**232.93**	**250.31**	**288.90**	**369.73**	**349.39**
1. Coffee exports	**39.26**	**42.08**	**58.52**	**72.74**	**55.18**
2. Non-Coffee exports	**193.66**	**208.23**	**230.38**	**297.00**	**294.21**
Electricity	1.46	1.25	1.46	1.68	1.93
Gold	32.33	31.29	31.62	34.87	18.37
Cotton	4.73	1.08	1.32	8.38	8.89
Tea	4.20	9.36	12.86	11.51	12.22
Tobacco	12.51	6.23	3.36	21.89	15.26
Fish & its products (excl. regional)	40.75	34.75	37.26	37.65	31.01
Fish & its products (regional exports)	12.69	10.43	11.18	11.30	9.30
Hides & skins	2.12	1.96	2.19	4.33	6.22
Simsim	1.09	0.86	0.11	1.56	1.42
Maize	4.94	8.86	3.91	7.38	7.80
Beans	2.22	2.65	1.19	1.10	0.83
Flowers	8.28	8.74	6.82	8.99	8.05
Oil re-exports	7.71	9.77	10.88	10.44	9.87
Cobalt	4.53	4.19	3.63	4.67	4.09
Others	54.10	76.82	102.60	131.26	158.95

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ending June 2007 amounted to US$696.0 million, 11.4 percent and 31.9 percent more than the values for the quarters ending March 2006 and June 2006. Private sector imports were estimated at US$671.6 million, 33.5 percent more than the quarter ending June 2006. During the review quarter, oil imports amounted to US$111.0 million – and accounted for 16.5 percent of the private sector imports. This represents an increase of 27.2 percent over the import level in fourth quarter of 2005/2006.

During the review quarter, government imports increased by 0.4 percent (or US$0.1 million) from US $23.4 million in the fourth quarter of 2005/06 to US $24.4 million. Table 23 below provides a summary of developments in imports.

Table 23: Summary of developments in imports (fob, US$ million)

	Apr - Jun 2005/6	Jul - Sep 2006/7	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7
Total Imports	**527.4**	**586.5**	**623.5**	**624.5**	**696.0**
Government Imports	**24.3**	**20.5**	**23.5**	**23.4**	**24.4**
Project	14.1	14.0	9.5	8.0	8.8
Non-Project	10.2	6.5	14.1	15.5	15.6
Private Sector Imports	**503.1**	**566.0**	**600.0**	**601.0**	**671.6**
o/w Oil imports	87.3	101.5	93.8	96.8	111.0

Source: Bank of Uganda

8.2 Services and Income Accounts

During the period under review, the Services and Income accounts recorded a total deficit of US$192.2 million. This was 21.5 percent worse than the US$158.2 million deficit recorded in the quarter ending June 2006. During fourth quarter of 2006/07, outflows in the Services account increased by US$36.7 million to US$259.8 million from US$223.1 million recorded in the same quarter of 2005/06. This was mainly on account of an increase in transportation services – freight services in particular, associated with increased imports of goods. On the other hand, inflows on the services account increased to US$120.8 million, an increase of US$2.0 million vis-à-vis the inflows in the fourth quarter 2005/06.

Outflows on the Income account were estimated at US$77.4 million in the review period, US$7.2 million more than what was recorded in the quarter ending June 2006. This was mainly attributable to an increase in estimated outflows of direct investors' income. Income inflows were recorded at US$24.3 million, up from US$16.3 million recorded in fourth quarter of 2005/06. This was on account of an increase in other investment income comprised of interest earned on assets of the banking system.

8.3 Current Transfers

Net current transfers during the period under review were estimated at US$425.0 million, US$95.3 million less than the US$329.7 million realized in the corresponding period of 2005/06. This was mainly due to an increase in inflows of private sector transfers in particular inflows from workers' remittances, which were recorded at US$217.9 million, US$51.1 million more than the inflows in the quarter ending June 2006.

8.4 Capital and Financial Account

The capital and financial account balance recorded a surplus of US$309.1 million in the quarter under review, US$245.3 million more than US$63.8 million recorded in the quarter ending June 2006 mainly on account of loans acquired by government. Increased direct and portfolio investment inflows also contributed to the improvement in the capital and financial account.

Government acquired loans to a tune of US$251.9 million during fourth quarter 2006/07, US$247 million more than the US$4.7 borrowed in the corresponding quarter in 2005/2006. During the review quarter, there was an increase of US$66.5 million in the direct and portfolio investment flows from US$ 91.0 million in the quarter ending June 2006.

Total disbursements of foreign aid for budget support and projects were estimated at US$361.9 million in the review quarter, compared to US$107.9 million recorded in the corresponding quarter of 2005/06. This augment was mainly on account of an increase in budget support loans. Table 24 below provides a summary of foreign aid inflows to Government.

Table 24: Summary of Donor inflows to Government (US$ million)

	Apr - Jun 2005/6	Jul - Sep 2006/7	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7
Total Foreign Aid	**107.92**	**247.09**	**229.80**	**114.53**	**361.92**
Grants	84.30	178.63	200.18	71.53	86.28
Loans	23.62	68.46	29.62	43.00	275.63
Budget Support	**54.52**	**174.84**	**174.45**	**61.13**	**287.01**
Grants	53.06	146.36	168.70	47.46	70.75
Loans	1.46	28.48	5.74	13.68	216.27
Project Support	**53.39**	**72.25**	**55.35**	**53.40**	**74.90**
Grants	31.24	32.27	31.48	24.07	15.53
Loans	22.16	39.98	23.87	29.33	59.37

Source: Bank of Uganda

Following these developments in the balance of payments, the international reserves held at the Bank of Uganda rose to US$2,159.9 million in the quarter under review representing 6.4 months of future imports of goods and services.

8.5 External Debt

8.5.1 Debt Stock

Uganda's stock of outstanding and disbursed debt was estimated at US$1,466.8 million in the quarter ending June 2007; US$186.4 million less than the March 2006 level estimated at US$1,280.4 million. The greater part of the external debt amounting to 80.4 percent was owed to multilateral institutions, while 14.6 percent was owed to non-Paris Club bilateral creditors. The quarterly developments regarding Uganda's debt stock profile up till June 2007 are shown in Table 25 below.

Table 25: Uganda's outstanding public debt by creditor category (US$ million)

Creditor Category	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Multilateral	3,997.56	4,147.06	1,267.95	1,330.11	991.36	1,180.06
Non-Paris Club Bilateral	241.44	241.76	214.62	214.64	214.79	213.74
Paris Club Bilateral	70.09	69.62	69.27	68.07	67.53	66.19
Commercial	0.58	0.54	0.54	0.50	0.50	0.46
Commercial Non Bank	3.92	5.40	3.99	4.04	6.24	6.37
Grand Total	**4,313.58**	**4,464.38**	**1,556.37**	**1,617.36**	**1,280.42**	**1,466.83**

Source: Bank of Uganda

8.5.2 Debt Service

During the quarter ending June 2007, 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$27.7 million. Resources generated under the HIPC initiative covered a sizeable amount of the debt service during this period amounting to US$31.5 million The ratio of public debt service (excluding IMF payments) to exports of goods and services was 5.9 percent for the quarter under review, compared to 9.2 percent recorded in the corresponding quarter of 2005/06. The ratio fell as a result of both a fall in the debt service payments following the earlier debt cancellation under the Multilateral Debt Relief Initiative in addition to an increase in exports of goods and services during the quarter.

9.0 REAL SECTOR AND DOMESTIC PRICE DEVELOPMENTS

9.1 Domestic price developments

9.1.1 Consumer Price Index (CPI)

Overall inflationary pressures eased for the second consecutive quarter during the quarter ended June 2007, on account of lower prices of staples and petroleum products. Annual quarterly headline inflation fell to 4.8 percent from 6.8 percent in the quarter ended March 2007; lower than 6.6 percent recorded over the quarter ended June 2006.

By category, inflation increased in all the groups except the food, and household, and personal goods groups, perhaps indicating the impact of food on overall Consumer Price Index (CPI). The annual inflation in the Food group, which accounts for 45.2 percent of overall CPI, declined to 2.8 percent from 7.5 percent in the previous quarter driven by lower prices of most fresh food items particularly matooke, sweet potatoes, maize flour, and onions. The improved weather conditions experienced since the beginning of this Financial Year have led to led to increased supply of food items. The Household and Personal goods inflation dropped to 5.5 percent in the quarter under review from 6.8 percent in the quarter ended March 2007 following decreases in average prices of detergent powder, blankets, slower increase in prices of dry cells.

Conversely, upward inflationary pressures from the Beverages and Tobacco; Clothing and Footwear; Rent, Fuel, and Utilities; Transport and Communication; and Health, Education, and Entertainment, partly mitigated the above decreases.

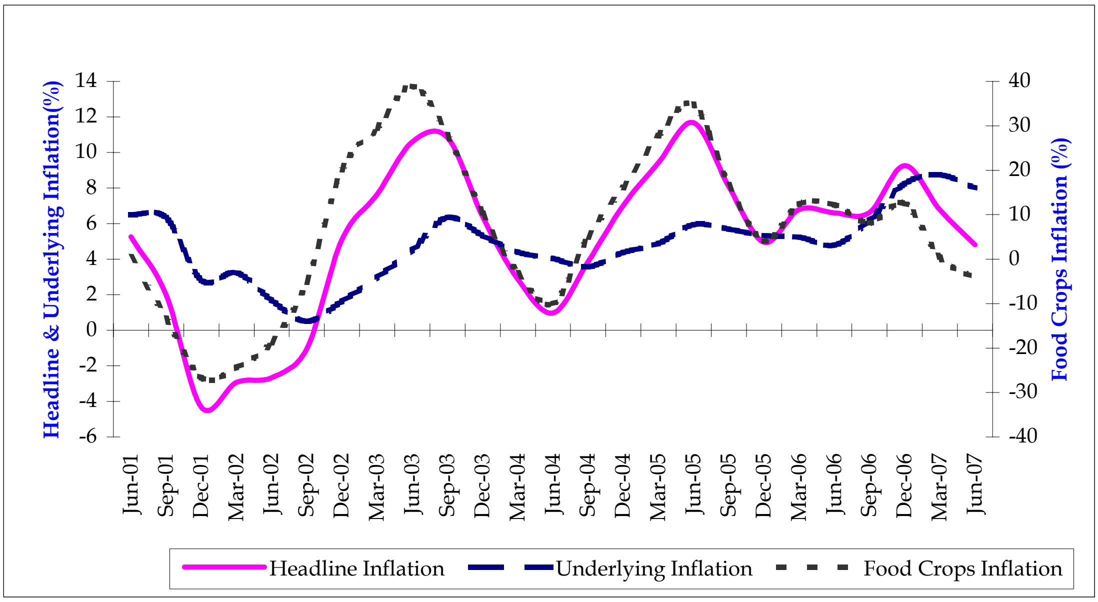
Similarly, annual underlying inflation, which excludes food crops and related items, fell to 8.0 percent in the quarter ended June 2007, down from 8.7 percent during the quarter ended March 2007. The decline was attributed to the slower pace of increase in goods prices that overwhelmed the higher rise in that of services. Goods inflation fell to 8.1 percent from 9.3 percent in the previous quarter caused by decreases in prices of petroleum products, footwear, and some drugs. Services inflation however went up to 7.8 percent from 7.6 percent in the quarter ended March 2007, particularly on account of higher prices of electricity, water, and transport fare (low distance). The average annual food crop inflation dropped to -4.2 percent from 0.4 percent during the quarter ended March 2007. Improved supply of staples led to the decline in annual food crop inflation. The above inflationary developments are depicted in Table 26 and Figure 21 below.

Table 26. Quarterly inflation rates (Annual Percentages)

Quarter ending	Headline Inflation (percent)	Underlying Inflation (percent)	Food crops Inflation (percent)
Sep 2003	10.8	6.4	28.0
Dec 2003	6.4	5.3	10.3
Mar 2004	2.9	4.4	-3.1
Jun 2004	1.0	4.1	-10.0
Sep 2004	3.9	3.6	5.0
Dec 2004	7.0	4.4	16.0
Mar 2005	9.4	4.9	27.8
Jun 2005	11.7	5.9	34.8
Sep 2005	8.1	5.6	16.8
Dec 2005	4.9	5.3	4.1
Mar 2006	6.8	5.2	12.5
Jun 2006	6.6	4.8	12.2
Sep 2006	6.6	6.2	8.1
Dec 2006	9.3	8.2	12.5
Mar 2007	6.8	8.7	0.4
Jun 2007	4.8	8.0	-4.2

Source: Uganda Bureau of Statistics

Figure 21. Quarterly inflation Developments



Source: Uganda Bureau of Statistics

9.1.2 Producer Price Index (PPI)

The annual producer inflation as measured by the change in Producer Price Index[2] (PPI) fell to 7.9 percent in the quarter ended June 2007, down from 11.0 percent registered in the previous quarter. This is lower than the rate of 8.2 percent registered in the same quarter a year ago. The decline was attributed to slower annual increases in prices of goods particularly in food processing, and the decline in prices of drinks and tobacco sectors.

The prices of goods sold in the local market went up by 12.8 percent in the quarter ended June 2007 compared to 14.0 percent in the quarter ended March 2007. This slow increase was due to decline in prices of product in the metals and related products, and miscellaneous sectors.

The prices of goods sold in the export market, however dropped by 3.4 percent in the quarter ended June 2007 compared to an increase of 4.6 percent in the quarter ended March 2007. The appreciation of the shilling against the dollar witnessed during the quarter under review compared to the same quarter a year ago contributed to the decline in exports prices. The developments in producer prices are indicated in Table 27 and Figure 22 below:

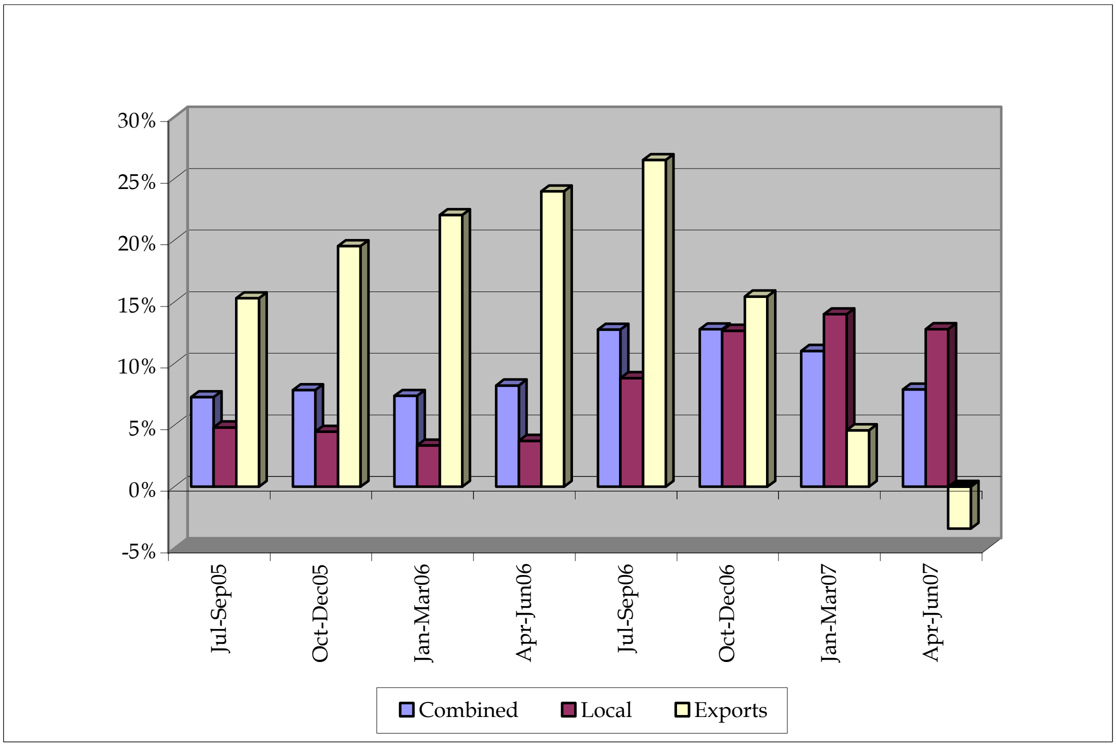
Table 27: Developments in Producer Prices

Quarter Ending	Combined Annual (%)	Local Annual (%)	Export Annual (%)
Dec 2005	7.6	4.5	19.5
Mar 2006	7.4	3.3	22.1
Jun 2006	8.2	3.7	24.1
Sep 2006	12.8	8.8	26.7
Dec 2006	12.8	12.6	15.6
Mar 2007	11.0	14.0	4.6
Jun 2007	7.9	12.8	-3.4

Source: Uganda Bureau of Statistics

[2] This is a combined index of prices of products produced for the local and exports markets. It measures the relative prices received by domestic producers on their products sold in the local and exports markets.

Figure 22: Developments in Producer Prices



Source: Uganda Bureau of Statistics

9.2 Manufacturing Sector

9.2.1 Index of Industrial Production (IIP)

The index of industrial production compiled by the Uganda Bureau of Statistics is based on 17 major manufacturing establishments. In the fourth quarter of 2006/07, the all item index of industrial production dropped by 5.3 percent to 171.4 from 181.0.

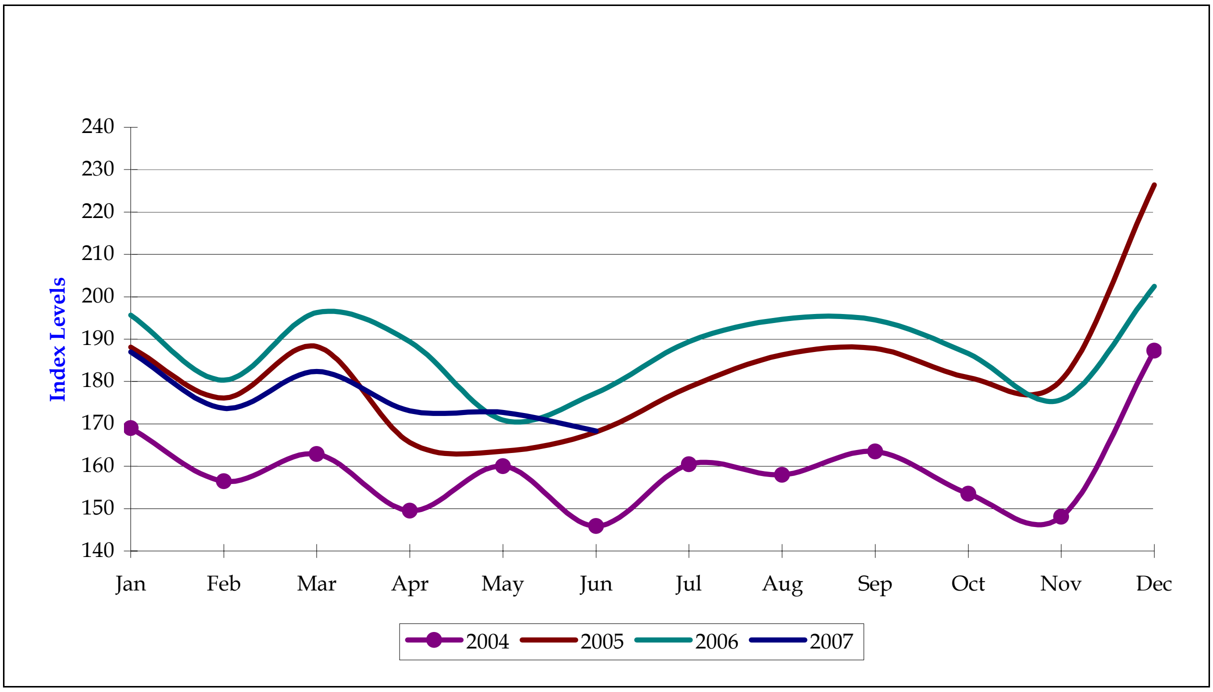
The drop was on account of huge declines recorded in the sugar, textiles, laundry soap and metal products production as can be seen from Table 28 below:

Table 28: Index of Industrial Production of Major Manufactured Commodities:

	Q1 2005/06	Q2 2005/06	Q3 2005/06	Q4 2005/06	Q1 2006/07	Q2 2006/07	Q3 2006/07	Q4 2006/07	Percent change Q4, 06/07 on Q4, 05/06
Sugar	209.2	200.3	229.3	174.7	226.7	158.7	200.3	175.1	-12.6
Beer	140.8	161.1	159.8	156.1	156.6	177.3	168.7	167.7	-0.6
Soft drinks	216.2	308.1	225.7	212.7	251.1	269.4	273.9	262.2	-4.3
Ciggarettes	58.4	90.9	68.7	0.0	0.0	0.0	0.0	0.0	0.0
Textiles	123.7	112.5	75.5	123.3	89.4	96.2	111.0	97.1	-12.5
Cement	235.2	238.9	271.9	267.4	296.1	305.4	322.1	315.5	-2.1
Laundry Soap	205.6	206.0	225.1	165.6	178.2	184.9	209.0	183.4	-12.3
Edible oil	160.7	168.2	164.5	184.6	193.7	214.5	181.8	183.1	0.7
Metal Products	260.6	230.5	216.2	304.0	262.6	237.4	282.5	260.4	-7.8
All Items Index	**184.3**	**195.9**	**190.8**	**179.1**	**193.4**	**188.3**	**181.0**	**171.4**	**-5.3**

Source: Uganda Bureau of Statistics

Figure 23: Developments in the Index of Industrial Production



Source: Uganda Bureau of Statistics

9.3 Energy Sector

9.3.1 Energy Consumption

The total number of electricity customers increased by 1.5 percent in the fourth quarter of 2006/07. However, in the same quarter, electricity consumption decreased by 0.1 percent. Also, UMEME electricity purchases from UETCL decreased by 2.3 percent. The decrease in electricity consumption and the thereafter electricity purchases from UETCL can be attributed to the increased campaign on the use of energy saving techniques which has seen many consumers substitute ordinary bulbs with energy saving bulbs.

The increase in street lighting component during the fourth quarter may be attributed to the CHOGM preparations, which has seen many streetlights installed and old ones repaired.

Table 29: Electricity Consumption Parameters by category of consumer

	Q2 2005/06	Q3 2005/06	Q4 2005/06	Q1 2006/07	Q2 2006/07	Q3 2006/07	Q4 2006/07	Percent change Q4, 06/07 on Q4, 05/06
Number of Live Customers								
Domestic	258,691	267,331	266,747	270,548	271,984	274,436	279,439	4.8
Commercial	27,717	24,322	24,012	24,870	24,718	23,980	24,922	3.8
Industrial	866	930	953	993	1,009	1,042	1,081	13.4
Street Lighting	321	334	316	314	315	299	314	-0.6
Total	**287,595**	**292,917**	**292,028**	**296,725**	**298,026**	**301,268**	**305,756**	**4.7**
Consumption in GWH								
Domestic	112	78.15	74.73	68.28	69.64	77.42	70.20	-6.1
Commercial	44	29.46	30.09	39.26	36.3	38.55	38.58	28.3
Industrial	212	130.29	138.96	142.65	151.23	167.39	174.35	25.5
Street Lighting	0.40	0.3	0.12	0.32	0.1	0.08	0.13	8.3
Total	**368.4**	**238.2**	**243.9**	**250.51**	**257.27**	**283.44**	**283.26**	**16.1**
Umeme purchases from UETCL (GWH)	**447.0**	**370.6**	**359.3**	**372.7**	**403.5**	**429.11**	**419.35**	**16.7**

Source: Umeme Limited

9.3 Finance Sector

9.3.1 Activities at the Uganda Securities Exchange (USE)

Trading at the Uganda Securities declined in the fourth quarter of 2006/07 relative to the third quarter of 2006/07.

Total turn over and the number of shares traded declined by 33.91 percent and 27.44 percent respectively in the fourth quarter 2006/07. However increases of 2.11 percent and 1.07 percent were recorded in market capitalisation and all shares index respectively during the same period.

Stanbic bank Uganda Limited counter was the most busiest in the fourth quarter, however, the EABL, JHL and KA counters did not record any activity during the same quarter. Table 30 below provides details on the Uganda securities exchange developments.

Table 30: Trading at Uganda Securities Exchange:

	Q3 2005/06	Q4 2005/06	Q1 2006/07	Q2 2006/07	Q3 2006/07	Q3 2006/07	Percent change Q4, 06/07 on Q4, 05/06
Turnover (Shs. million)	1,422.9	357.8	650.0	2,974.5	25,646.8	16,948.9	1,479.2
Number of Shares traded	1,028,293	2,043,876	1,260,195	6,812,520	147,741,119	107,202,722	145.1
Market capitalisation (Shs. billion)	3,577.0	4,057.6	4,082.3	4,281.0	4,568.1	4,664.7	15.0
USE-All Share Index	**712.4**	**800.4**	**817.7**	**859.5**	**855.3**	**864.4**	**8.0**

Source: Uganda Securities Exchange

9.3.2 Leasing Activities

The value of assets disbursed in the fourth quarter of 2006/07 increased by 11.21 percent. Sectoral decreases were registered in commerce and trade, education and other services categories. However, the mining and construction sub-sector posted a huge growth in leasing. The banking sub sector registered some disbursement in the fourth quarter of 2006/07.

The total value of assets disbursed in the quarter under review was Ushs. 2,197.48 million. The table 31 below, depicts developments in the leasing sector from April 2006 to June 2007.

Table 31: Sectoral distribution of disbursements for leased assets (Shs. million)

	Leasing Disbursements (Shs. million)						Percent change
	Q3	Q4	Q1	Q2	Q3	Q4	Q4, 06/07
Sector	2005/06	2005/06	2006/07	2006/07	2006/07	2006/07	on Q4, 05/06
Transport	480.3	473.5	1,010.1	1,276.0	425.1	470.4	-35.4
Commerce and Trade	1,025.6	673.4	1,359.9	786.2	482.4	123.8	-17.6
Mining & Construction	-	1,060.4	525.3	824.7	50.5	243.0	1,817.8
Tourism	-	102.3	18.0	-	-	69.1	-
Health	59.0	72.8	-	13.8	34.3	-	-90.1
Agriculture	102.3	191.7	1,662.2	262.0	143.6	219.9	624.4
Manufacturing	1,008.7	606.8	1,423.7	568.4	523.8	600.1	329.4
Education	383.1	59.9	89.5	-	208.0	15.0	-
Banking	5.3	-	47.0	76.8	-	427.7	-84.3
Real Estate	-	58.6	-	-	23.7	-	-
Other services	259.8	83.9	193.0	953.5	84.6	37.6	206.6
Total	**3,324.1**	**3,383.3**	**6,328.8**	**4,761.4**	**1,976.0**	**2,197.5**	**15.5**

Source: DFCU Leasing

9.4 Investment Activity

Information on actual investment activity is based on licenses issued by the Uganda Investment Authority (UIA). In the fourth quarter 2006/07, the number of projects licensed grew by 30.59 percent to 111 from 85 recorded in the third quarter 2006/07. However, planned employment declined by 4.99 percent to 11,311 from 11,906 registered in the third quarter 2006/07. Total estimated investment also declined by 13.03 percent from US$525million to US$457 million over the same period.

Most licenses were issued to the Transport, Communication and Storage sector, accounting for 42.6 percent of the total planned investment. Other notable investment sector destinations were the Manufacturing, Wholesale and Retail Trade, Catering and Accommodation services, and the Finance, Insurance, Real Estates and Business Services. These sectors accounted for 18.9 percent, 18.3 percent and 8.6 percent of the total planned investment respectively. The Construction sector registered a major decline in total planned investment dropping to 0.9 percent from 26.4 percent recorded in the previous quarter. Table 32 below summarizes investment activity by sector for the period April – June 2007 with corresponding quarterly performance for the period fourth quarter 2004/05 to fourth quarter 2006/07.

Table 32: Investment activity and performance Indicators (April – June, 2007)

Sector	No. of Projects	Planned investment (US$)	Planned Employment	Percent of total investment
Agriculture,Forestry & Fishing	3	11,907,000	526	2.6
Manufacturing	51	86,553,000	4,406	18.9
Mining & Quarrying	1	3,230,000	37	0.5
Wholesale & Retail Trade,Catering	16	83,779,000	950	18.3
Water & Energy	1	4,300,000	150	1.3
Transport, Communication & Storage	12	194,753,000	2,580	42.6
Finance, Insurance, Real Estate & Business Services	17	39,479,000	1,267	8.61
Construction	5	4,159,000	280	0.9
Community,Social and Personal Services	1	14,600,000	800	3.2
Totals	**111**	**456,874,000**	**11,311**	**100.0**
Q4, 2004/05	61	136,623,848	6,383	
Q1, 2005/06	67	126,192,000	6,195	
Q2, 2005/06	98	176,500,000	9,523	
Q3, 2005/06	69	162,083,000	5,502	
Q4, 2005/06	115	300,442,148	12,313	
Q1, 2006/07	135	584,037,465	16,738	
Q2, 2006/07	105	628,941,000	13,545	
Q3, 2006/07	85	525,300,500	11,906	
Q4, 2006/07	111	456,874,000	11,311	

Source: Uganda Investment Authority (UIA)

10. CONCLUSION

The developments during the quarter under review reveal continued strong economic activity despite exogenous shocks compounded by shortages in the energy sector that have led to continued power load shedding. In the forthcoming period, the Bank of Uganda intends to continue pursuing monetary and exchange rate policies geared towards consolidating macroeconomic stability gains so far achieved while ensuring stability in the foreign exchange market.

11. APPENDIX TABLES

Appendix 1. Macroeconomic indicators.

Appendix 2. Gross domestic product at factor cost, at current prices.

Appendix 3. Gross domestic product at factor cost, at constant 1997/98 prices.

Appendix 4. Gross domestic product at factor cost, percent of total.

Appendix 5. Gross domestic product at factor cost, annual growth rates.

Appendix 6. Expenditure on GDP at current market prices.

Appendix 7. Expenditure on GDP at constant market prices.

Appendix 8. Balance of payments, quarterly.

Appendix 9. Balance of payments, annual.

Appendix 10. Balance of payments, fiscal.

Appendix 11. Composition of exports (volumes).

Appendix 12. Composition of exports (value in US$).

Appendix 13. Composition of imports (value in US$).

Appendix 14. Direction of trade for exports).

Appendix 15. Direction of trade for imports).

Appendix 16. Government recurrent revenue.

Appendix 17. Economic classification of government recurrent expenditure.

Appendix 18. Functional classification of government recurrent expenditure.

Appendix 19. Economic and functional classification of government development expenditure

Appendix 20. Central Government Budgetary operations

Appendix 21. Domestic public debt.

Appendix 22. Government securities outstanding by holders.

Appendix 23. Monetary survey.

Appendix 24. Monetary authority balance sheet.

Appendix 25. Commercial banks' balance sheet.

Appendix 26. Foreign assets and liabilities (US Dollars, million).

Appendix 27. Commercial banks' outstanding loans and advances to the private sector by economic activity (shilling denominated).

Appendix 28. Commercial banks' outstanding loans and advances to the private sector by economic activity (forex denominated).

Appendix 29. Commercial banks' activities.

Appendix 30. Structure of interest rates.

Appendix 31. Foreign exchange rates.

Appendix 32. Volumes of interbank and bureaux transactions.

Appendix 33. Composite consumer price index, Uganda.

Appendix 34. Composite CPI for Uganda breakdown by major groups..

Appendix 35. Consumer price index, Kampala/Entebbe.

Appendix 36. Consumer price index, Jinja.

Appendix 37. Consumer price index, Mbale.

Appendix 38. Consumer price index, Masaka.

Appendix 39. Consumer price index, Mbarara.

Appendix 40. Consumer price index, Gulu

Appendix 41. Index of Industrial Production, annual summary of groups and subgroups.

Appendix 42. Index of Industrial Production, monthly summary for index groups.

Appendix 43. Pump prices for petroleum products in Uganda.

Appendix 44. Summary sales of petroleum products (cubic meters).

Appendix 45. Electricity, capacity, generation and sales.

Appendix 46. Production of selected manufacture commodities.

Appendix 47. Indicative commodity prices.

Appendix 48. Production of major cash crops.

Appendix 49. Coffee procurement.

Appendix 50. Coffee exports.

Appendix 51. Coffee export by destination.

Appendix 52. The 2002 population census results.

Appendix 53. Projected mid-year population results.

Appendix 54. Growth rates and sex ratios by region and district.

Appendix 55. Estimated number of vehicles on the road.