BANK OF UGANDA

QUARTERLY ECONOMIC REPORT

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1. INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the third quarter of 2007/08. Overall, macroeconomic conditions remained broadly stable and improved despite the continued exogenous shocks related to rising international oil and commodity prices.

2. MONETARY AND FINANCIAL DEVELOPMENTS

During the quarter ended March 2008, the Bank of Uganda continued to exercise monetary restraint in an effort to maintain low and stable inflation, a necessary foundation for economic growth. 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 and portfolio inflows targeting domestic securities. During the quarter under review, the authorities continued to operate under the IMF non-borrowing Policy Support arrangement. Overall, the macroeconomic indicators remained broadly stable over the quarter.

In the quarter under review, monetary policy continued to be implemented through a combination of issuance of treasury bills and bonds, in addition to the daily sales of foreign exchange. Bank of Uganda continued to actively use the Repurchase Agreements (REPOs) as a flexible fine-tuning instrument for short-term liquidity management in between the auction periods.

The shilling strengthened within the quarter under review on account of increased inflows of foreign exchange from coffee, tobacco and fish exports, offshore players, development agencies and private transfers coupled with a general weakening of the dollar on the global scene. The central bank resumed sterilization of liquidity through the sale of foreign exchange in February 2008 having suspended the action in November 2007.

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 14.1 percent and 15.1 percent recorded at the start of the quarter to 14.0 percent and 15.0 percent respectively by end-March 2008, Just like in the corresponding quarter ending March 2007 when the rediscount rate and the bank rates both decreased from 16.4 percent and 17.4 percent at end January 2007 to 15.6 percent and 16.6 percent at end-March 2007 respectively

Bank of Uganda also continued to use the Treasury securities as the main liquidity sterilization instrument. Most of the primary auctions for Treasury bills were oversubscribed with demand 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 10.8, 29.1, and 60.1 percent for the 91-days, 182-days, and 364-days securities, respectively.

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, two new bonds were issued to absorb structural liquidity for a longer period. Compared to the rates from the previous issues, the yields-to-maturity took a mixed trend as that of the 2-year bond rose while that of the 3-year bond fell, reflecting the contrasting liquidity conditions at the time of each issue.

The balance of payments registered an overall surplus of US$57.4 million in the quarter ending March 2008, vis-à-vis the overall surplus of US$100.5 million recorded in the same quarter in 2007. This down turn in the external position resulted from a deterioration in the Current Account.. The stock of reserves, in terms of future months of imports of goods and services, stood at 6.94 at the end of the quarter, up from 6.89 at the end of the corresponding quarter in 2007.

During the quarter ended March 2008, the year on year headline inflation edged up to 7.6 percent from 5.6 percent in the previous quarter. Annual core inflation also[1] edged up to 8.1 percent from 6.8 percent in the quarter ended December 2007, higher than 7.7 percent registered over the same quarter a year ago. The rise in inflation was attributable to the increase in prices of food crop and manufactured food items. Prices of food crops rose on account of seasonal factors and high demand from regional countries while manufactured food items particularly soda, and refined oil went up due to higher cost of production. The fuel crisis experienced during the quarter following the Kenya presidential post election violence also led to an increase in the cost of production and difficulties in importation and distribution of products. This was supplemented by the upward surge in the international prices of crude oil.

Base money rose by Shs. 10.8 billion or 0.7 percent to Shs. 1,554.3 billion by the end of March 2008, up from Shs. 1,543.5 billion at the end of the preceding quarter, reflecting a lower growth of the

[1] Excludes food crop items, electricity, metered water and fuel.

monetary base compared to 4.7 percent registered in the quarter ending March 2007. The increase was mainly driven by commercial bank deposits, which increased by Shs. 15.7 billion to Shs. 359.3 billion, up from Shs. 408.6 billion recorded as at end-December 2007. On the other hand, currency outside BoU, declined by Shs.4.9 billion to Shs. 1,195.0 billion by end-March 2008.

2.1 Money supply

During the quarter ending March 2008, Broad Money M3, the sum of all private deposits and currency in circulation, expanded by 8.3 percent or Shs. 365.9 billion to Shs. 4,788.7 billion, reflecting a relatively similar growth of the monetary base compared to 6.8 percent registered in the quarter ending March 2007. On an annual basis, M3 grew by 23.6 percent in the year ending March 2008, compared to a growth of 25.2 percent for the corresponding year ending March 2007. Money supply M2A, composed of currency in circulation and shilling denominated private deposits, grew by 8.45 percent or Shs. 286.2 billion to Shs. 3,674.5 billion at end-March 2008, compared to a rise of 4.53 percent in the quarter ending March 2007.

The increase in money supply in the quarter under review was mainly driven by an increase in shilling time (comprising time, savings deposits and Certificates of deposit), and demand deposits, which grew by Shs. 173.9 billion and Shs. 140.8 billion respectively. Currency in Circulation fell by 2.8 percent or Shs. 28.6 billion to Shs. 993.8 billion and private foreign currency deposits rose by 7.7 percent or Shs.79.76 billion to Shs. 1,114.2 billion.

On the supply side, Net Domestic Assets (NDA) declined by Shs. 369.0 billion during the quarter ended March 2008, mainly on account of a rise in Other Items Net (OIN) of Shs. 165.8 billion and a decline of Shs.56.73 billion in Net Claims on Government (NCG), which outstripped an increase in claims on the private sector (PSC) of Shs. 368.8 billion. During the period, Net Foreign Assets (NFA) rose by 4.41 percent or Shs.218.05 billion to Shs. 5,157.7 billion, compared to a rise of 5.8 percent in the corresponding quarter ending March 2007. Bank of Uganda’s Net Foreign Assets (NFA) expanded by 3.52 percent or Shs. 152.9 billion to Shs. 4,498.4 billion, largely reflecting an increase in foreign reserves of Shs. 155.2 billion to Shs. 4,498.8 billion. NFA of commercial banks grew strongly by 11.0 percent to Shs.659.3 billion, on account of a rise in external assets of Shs. 7.6 billion, coupled with a decline in foreign liabilities of Shs. 57.6 billion.

During the quarter, net claims on government (NCG) by the banking system reduced by 56.7

billion, with government increasing its savings to Shs. 1,150.8 billion. Government savings at the Bank of Uganda improved by Shs. 205.0 billion to Shs. 2,530.8 billion during the quarter. The increase in government savings was mainly due to a decline in government deposits and administered funds of Shs. 208.3 billion, coupled with a decline in advances to government of Shs. 413.3 billion. Net Credit to Government (NCG) by the commercial banks rose by Shs. 148.3 billion to Shs. 1,380.0 billion, due to an increase in commercial banks' investments in Government securities of Shs. 87.3 billion and a decline in government deposits of Shs. 61.0 billion.

During the quarter under review, claims on the private sector (PSC) by the banking system rose by 16.61 percent or Shs.368.77 billion to Shs. 2,588.4 billion, of which Shs. 2,569.2 billion was by commercial banks and Shs. 19.2 billion by Bank of Uganda. The outturn of Private sector credit in the quarter under review was far higher than the growth of 1.3 percent observed in the corresponding quarter ended March 2007. The developments in the above aggregates over the quarter are shown in Table 1 below.

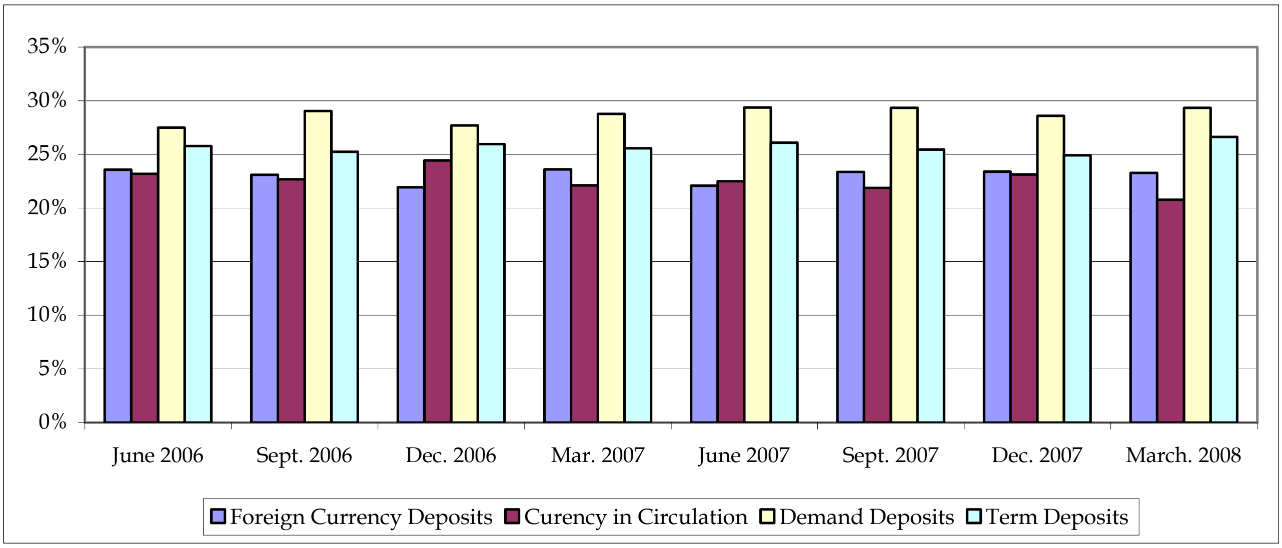
Table 1: Monetary survey, (Shs. billion, at the end of period)

Aggregate	Mar 07	June07	Sept. 07	Dec. 07	Mar. 08	Change Dec. 07 to Mar. 08	
						Absolute	Percent
Net Foreign Assets (NFA)	**4,012.0**	**3,835.4**	**4,264.8**	**4,939.7**	**5,157.7**	**218.1**	**4.4**
o/w Bank of Uganda	3,326.0	3,330.9	3,811.2	4,345.5	4,498.4	152.8	3.5
o/w Commercial Banks	685.9	504.5	453.6	594.1	659.3	65.2	10.9
Net Domestic Assets (NDA) net of Revaluation	**603.0**	**490.3**	**389.1**	**31.3**	**82.85**	**51.5**	**164.4**
Net Domestic Assets (NDA)	**-138.3**	**6.6**	**-79.3**	**-516.9**	**-369.0**	**147.9**	**-28.6**
Net Claims on Government (NCG)	-586.1	-731.6	-914.3	-1,094.1	-1,150.78	-56.7	5.2
Claims on Public Entities	38.2	34.9	41.4	27.1	28.72	1.62	5.7
Claims on the Private Sector	1,739.5	1,812.9	2,037.6	2,219.7	2,588.42	368.8	16.6
Other Items (net)	-1,330.7	-1,109.7	-1,244.0	-1,669.6	-1,835.36	-165.8	9.9
Money Supply (M3)	**3,873.7**	**3,842.0**	**4,185.6**	**4,422.8**	**4,788.71**	**365.9**	**8.3**
Foreign Currency Deposits	913.9	848.1	977.6	1,034.5	1,114.24	79.8	7.7
Money Supply (M2A)	2,959.8	2,993.9	3,207.9	3,388.3	3,674.47	286.2	8.5
Money Supply (M2)	2,959.7	2,993.9	3,207.9	3,388.3	3,674.47	286.2	8.5
Term Deposits	990.0	863.7	1,064.9	1,101.2	1,275.15	173.9	15.8
Demand Deposits	1,114.1	1,127.9	1,228.4	1,264.7	1,405.54	140.9	11.1
Curency in Circulation	855.7	1,002.3	914.6	1,022.3	993.78	-28.6	-2.8

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits fell slightly to 23.3 percent, compared to 23.6 percent at end-March 2007. The share of private demand deposits in M3 rose to 29.4 percent from 28.8 percent; the share of currency in circulation was at 20.8 percent, down from 22.1 percent at end-March 2007. The share of term deposits rose to 26.6 percent from 25.6 percent at end-March 2007. The above 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.10.8 billion to Shs. 1,554.3 billion. This outcome reflects slower growth of base money compared to 4.7 percent registered in the quarter ending March 2007.

Currency outside BOU declined by Shs. 4.9 billion to Shs. 1,195.0 billion, while commercial banks' operating reserves at BOU rose by Shs. 15.7 billion to Shs. 359.3 billion. Base money, which excludes commercial banks' investment in the Bank of Uganda instruments, also grew by 0.70 percent or Shs. 10.8 billion over the quarter.

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

	Mar-07	June 07	Sept. 07	Dec. 07	Mar. 08	Change Dec. 07 to Mar. 08 Absolute	Percent
Net Foreign Assets	**3,326.0**	**3,330.9**	**3,,811.2**	**4,345.5**	**4,498.4**	**152.9**	**3.5**
External Assets	3,344.9	3,347.7	3829.9	4,363.9	4,517.5	153.5	3.5
o/w Foreign Reserves	3,311.3	3,324.7	3,790.3	4,343.6	4,498.8	155.2	3.5
Foreign Liabilities	18.9	16.8	18.7	18.4	19.1	0.6	3.3
Net Domestic Assets	**-2,090.9**	**-2,084.2**	**-2,425.2**	**-2,934.9**	**-3,112.9**	**-178.0**	**6.1**
Claims on Government (net)	-1,472.0	-1,712.7	-1,983.3	-2,325.8	-2,530.8	-205.0	8.8
Claims on Private Sector	18.9	20.5	20.6	20.5	19.2	-1.3	-6.3
Claims on parastatals	4.3	4.2	4.1	4.1	4.1	0.0	0.0
Claims on Commercial Banks	115.1	113.4	110.0	132.9	168.9	35.9	27.0
Other Items, Net	-642.0	-396.3	-441.8	-633.8	-605.5	28.3	-4.5
Base Money + Investments in BOU Instruments	**1,350.3**	**1,360.1**	**1,496.0**	**1,543.5**	**1,554.3**	**10.8**	**0.7**
Base Money	1,230.3	1,242.5	1,419.7	1,543.5	1,554.3	10.8	0.7
Currency Outside BoU	965.6	981.1	1,051.3	1,199.9	1,195.0	-4.9	-0.4
Commercial Bank Deposits	333.5	330.6	434.8	408.6	423.0	14.4	3.5
Commercial Bank's Operational reserves	264.7	261.4	368.4	343.6	359.3	15.7	4.6
Commercial Banks Investment in BoU Instruments	120.0	117.6	76.3	0.0	0.0	0.0	0.0

Source: Bank of Uganda

3.0 THE ACTIVITIES OF COMMERCIAL BANKS

3.1 Overview

During the quarter ended-March 2008, the net foreign assets (NFA) of commercial banks increased by 10.97 percent to Shs.659.33 billion. During the period, Net domestic assets (NDA) rose by 14.97 percent to Shs. 4,175.0 billion, net claims on the central government (NCG) grew by 12.04 percent or Shs. 148.3 billion to Shs. 1,380.0 billion. Net claims on Bank of Uganda grew by 7.2 percent to Shs. 330.6 billion, on account of a rise in commercial banks' deposits at Bank of Uganda. Cash in vaults rose by 23.6 percent from Shs. 177.6 billion to Shs. 201.2 billion over the quarter ending March 2008. 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)

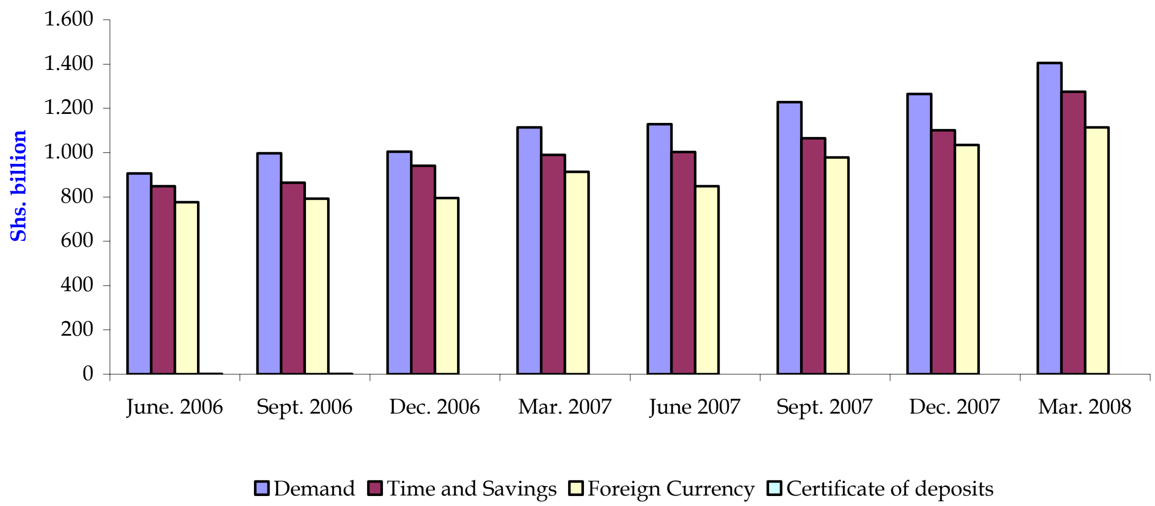
	Mar-07	June 07	Sept. 07	Dec. 07	Mar. 08	Change Dec. 07 to Mar. 08 Absolute	Percent
Net Foreign Assets	**685.9**	**504.5**	**453.6**	**594.1**	**659.3**	**65.2**	**10.9**
External Assets	862.7	711.7	683.4	934.8	942.4	7.6	0.8
Foreign Liabilities	176.8	207.2	229.8	340.7	283.1	-57.6	-16.9
Net Domestic Assets	**2,751.1**	**2,921.8**	**3,284.8**	**3,631.5**	**4,175.1**	**543.6**	**14.9**
Claims on Central Government (net)	885.9	981.1	1,093.8	1,231.7	1,379.9	148.3	12.0
Claims on Private Sector	1,720.7	1,792.5	2,016.9	2,199.1	2,569.2	370.1	16.8
Cash in Vaults	109.9	117.5	136.7	177.7	201.3	23.6	13.3
Net Claims on Bank of Uganda	364.2	376.9	444.4	308.5	330.6	22.2	7.2
Other Items, Net	-783.3	-824.9	-911.9	-1133.6	-1,370.1	-236.4	20.8
Total Deposits	**3,017.9**	**2,978.4**	**3,270.9**	**3,400.5**	**3,794.9**	**394.5**	**11.6**
Demand Deposits	1,114.1	1,127.9	1,228.4	1,264.7	1,405.5	140.9	11.1
Time and Savings Deposits	989.9	1,002.3	1,064.9	1,101.2	1,275.2	173.9	15.8
Foreign Exchange Accounts	913.9	848.1	977.6	1,034.5	1,114.2	79.76	7.7
Certificates of Deposits	0.1	0.05	0.05	0.05	0.0	-0.1	-100

Source: Bank of Uganda

3.2 Deposits

Private deposits at commercial banks recorded a rise of 11.6 percent to Shs. 3,794.9 billion in the quarter ended March 2008. This outturn compares to a rise of 10.13 percent in the quarter ended March 2007 to Shs. 3,017.9 billion. In particular, foreign currency deposits increased by 7.7 percent to Shs. 1,114.2 billion during the quarter. Demand deposits grew by 11.1 percent to Shs. 1,405.5 billion, while term deposits rose by 15.8 percent to Shs. 1,275.1 billion at end-March 2008. 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

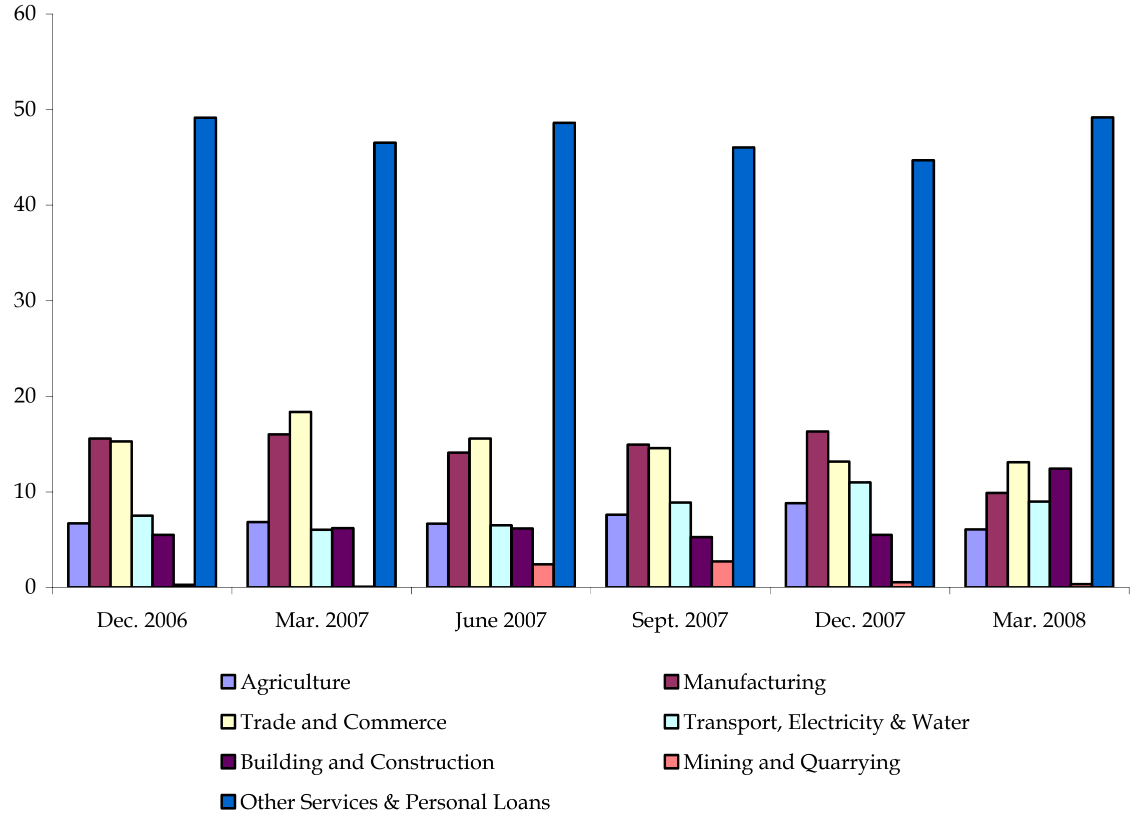
During the quarter under review, the total stock of outstanding credit to the private sector by commercial banks grew by 16.8 percent or Shs. 370.1 billion to Shs. 2,569.2 billion. This represented higher growth compared to the 1.4 percent recorded in the corresponding quarter ending March 2007.

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. 146.1 billion or 8.6 percent to Shs. 1,848.6 billion. The foreign currency denominated loans grew by 45.1 percent or Shs.224.0 billion to Shs. 720.6 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 49.2 percent as at end-March 2008. The stock of outstanding credit to this sector grew by 17.5 percent to Shs. 921.2 billion. Lending to the agricultural sector rose by 20.5 percent to Shs. 113.8 billion at end-March 2008. The share of credit to agriculture in total credit was 6.1 percent, higher than 5.0 percent at end March 2007. Credit to the manufacturing sector fell by 8.1 percent to Shs. 185.3 billion at end-March 2008. The share of the manufacturing sector in total credit was 9.9 percent compared to 15.6 percent for March 2007, respectively. Credit to Trade and Commerce rose by 16.5 percent to Shs. 245.4 billion and its share in total credit reduced to 13.1 percent from 16.1 percent.

The stock of credit to the transport, electricity and water sectors fell by 8.1 percent to Shs. 167.9 billion, and this sector's share in the total credit rose from 6.4 percent to 9.0 percent during the period under review. The building and construction sector outstanding borrowing stood at Shs. 233.0 billion by end-March 2008, marking a growth of 131.8 percent from the previous quarter, while its share as a percentage of total credit doubles to 12.4 percent. The mining and quarrying sector continued to have the least share of outstanding credit at 0.3 percent, or Shs. 6.5 billion, at end-March 2008. 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

4. DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS

4.1 Credit Institutions

4.1.1 Assets

The activities of the Credit Institutions (CIs) declined substantially during the period under review. This development was reflected in a fall of 64.0 percent of the total assets from Shs. 287.3 billion as at end-December 2007 to Shs. 103.3 billion as at end-March 2008. The institutions recorded a slower growth during the quarter under review compared to that of 5.1 percent observed in the corresponding period to March 2007. The fall in assets during this quarter was largely attributed to the decline in total advances by CIs, which decreased by 77.5 percent from Shs. 184.3 billion at end- December 2007 to Shs. 41.5 billion at the end of March 2008, mainly because they excluded mortgage and administered loans which were being collected by HFCU. 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-07	Jun-07	Sep-07	Dec-07	Mar-08	Change Dec 07 to Mar 08	
						Absolute	Percent
Cash in vaults	3.8	3.5	3.9	5.2	3.2	-2.0	-38.5
Balance with Commercial Banks & associated companies	44.6	44.8	49.8	51.2	30.4	-20.8	-40.6
Investments	12.9	14.3	12.8	14.3	8.3	-6.0	-41.9
Total Advances [1]	162.6	170.7	177.8	184.3	41.5	-142.8	-77.5
Premises and other fixed assets	17.1	17.0	19.7	21.7	13.0	-8.7	-40.0
Other Assets [2]	9.7	11.0	10.5	10.6	6.9	-3.7	-34.5
Total	**250.7**	**261.5**	**274.5**	**287.3**	**103.3**	**-183.9**	-64.0

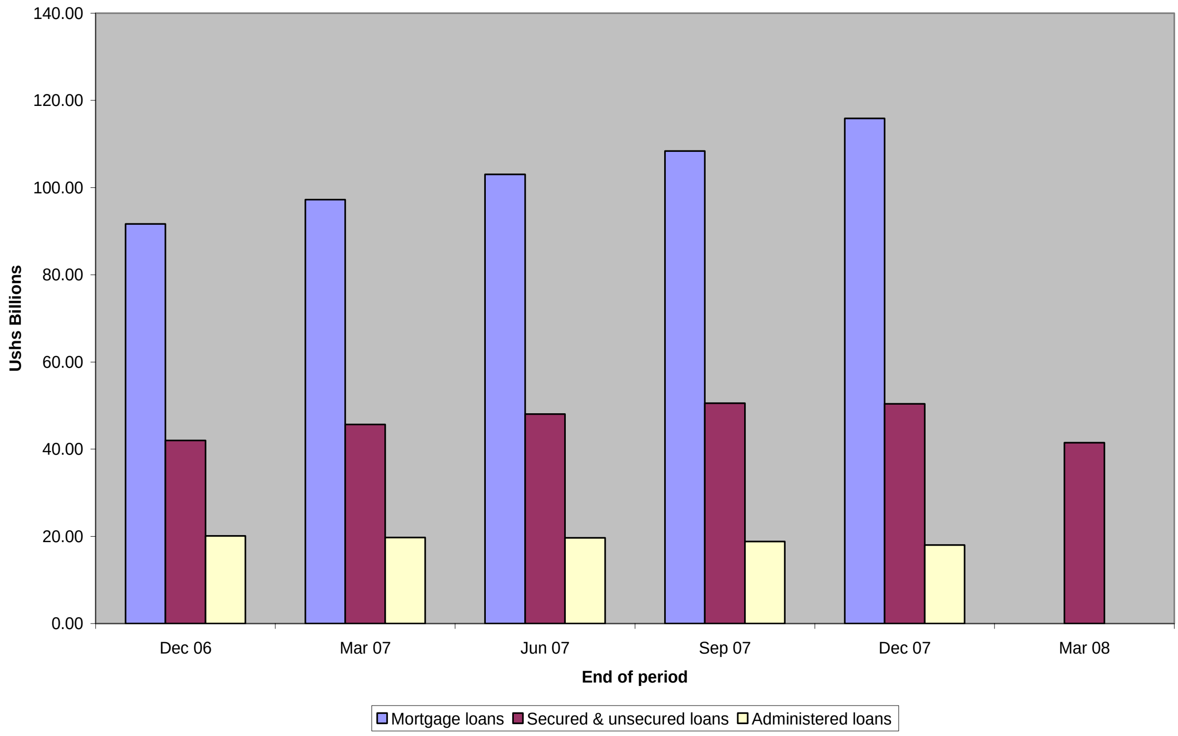
[1] Includes secured and unsecured loans.
[2] Includes net due from own offices in Uganda for items in transit.
Source: Bank of Uganda

During the quarter under review, the CI's balances with commercial banks, inside and outside Uganda decreased by 40.6 percent to Shs. 30.4 billion compared to an increase of 7.8 percent growth in the same period last year. Investments fell by 41.9 percent to Shs. 8.3 billion at end-March 2008. Cash in vaults increased by 38.5 percent from Shs. 5.2 billion to Shs. 3.2 billion.

4.1.2 Credit to the private sector

During the quarter, Secured and Unsecured loans decreased by 0.3 percent from Shs. 50.4 billion to Shs. 41.5 billion. The trade and commerce sector attracted the highest share of CIs credit at 34.0 percent during the quarter under review. In comparison to the previous quarter ended December 2007, the building and construction sector attracted the largest share of CIs credit at 63.6 percent. The ratio of non-performing advances to outstanding advances declined from 3.3 percent to 3.0 percent between December 2007 and March 2008. Figure 4 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

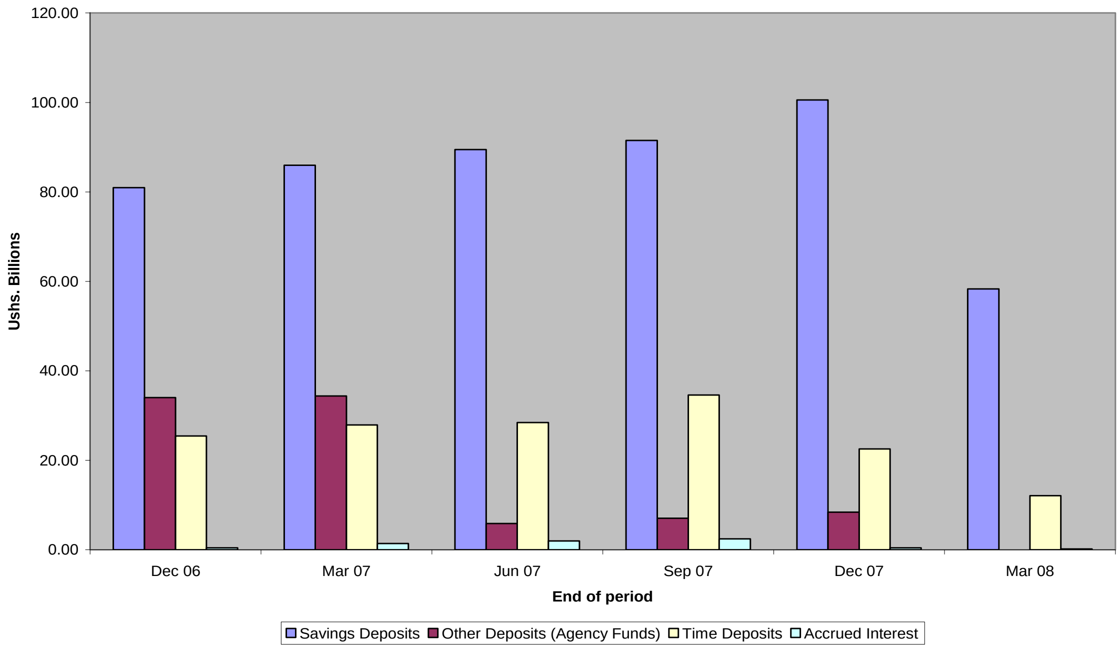
As summarized in Table 7 below, total deposits in the credit institutions fell by 46.5 percent or Shs. 61.4 billion to Shs. 70.6 billion at end-March 2008. The contraction in deposits during the quarter compares with a growth of 6.2 percent in deposits in the corresponding period in 2007. Total private sector held deposits fell by 42.8 percent to Shs. 70.4 billion, compared to an increase of 7.0 percent in the same quarter ended March 2007. In particular, Savings deposits fell by 42.0 percent to Shs. 58.3 billion, while Time deposits fell by 46.4 percent to Shs. 12.1 billion. Table 7 and Figure 5 below illustrate the evolution of the deposits between March 2007 and March 2008.

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Change Dec 07 to Mar 08 Absolute	Change Dec 07 to Mar 08 Percent
Savings deposits	86.0	89.5	91.5	100.6	58.3	-42.3	-42.0
Time Deposits	27.9	28.5	34.6	22.5	12.1	-10.5	-46.4
Total private sector deposits	**113.8**	**117.9**	**126.1**	**123.1**	**70.4**	-52.7	-42.8
Agency funds	34.4	5.9	7.0	8.4	0.0	-8.4	-100.0
Accrued interests	1.4	2.0	2.4	0.5	0.2	-0.2	-53.1
Total deposits [1]	**149.6**	**125.8**	**135.6**	**132.0**	**70.6**	-61.4	-46.5
Administered funds	19.8	19.7	18.8	18.0	0.0	-18.0	-100.0
Capital and profit/loss	40.1	70.6	75.6	96.6	15.0	-81.6	-84.5
Others [2]	41.2	45.5	44.6	44.6	17.7	-26.8	-60.2
Total Liabilities	**250.7**	**261.5**	**274.5**	**291.2**	**103.3**	-187.8	-64.5

[1] Includes funds collected so far from the beneficiaries of the government pool house scheme except March 2008.
[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

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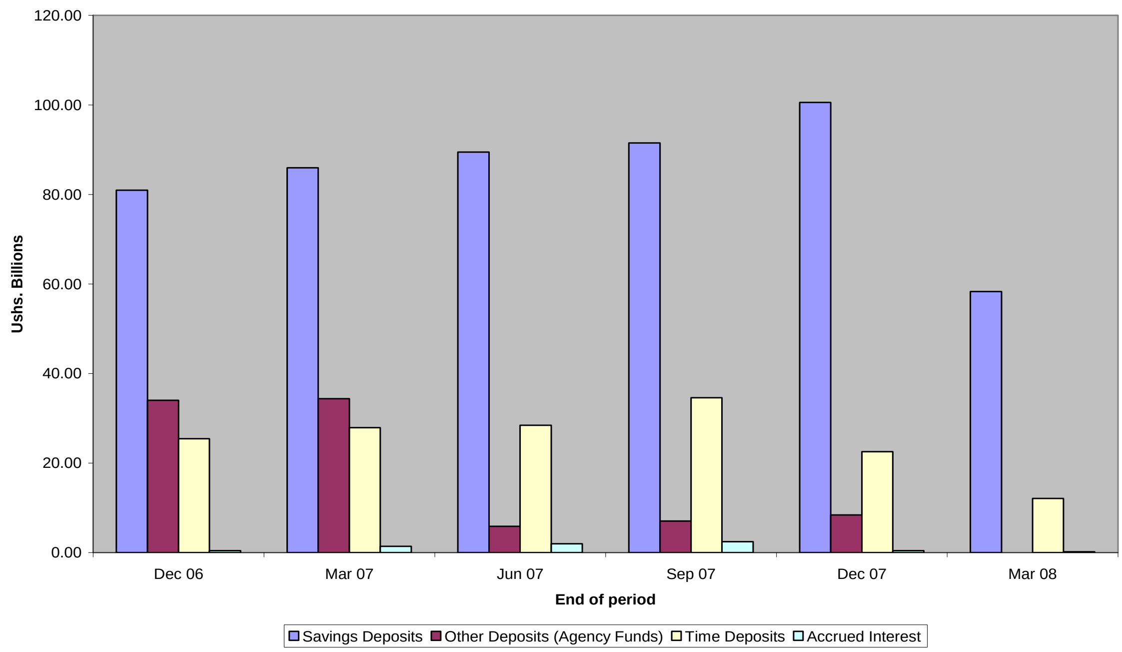
Total deposits [1]	**149.6**	**125.8**	**135.6**	**132.0**	**70.6**	-61.4	-46.5
Administered funds	19.8	19.7	18.8	18.0	0.0	-18.0	-100.0
Capital and profit/loss	40.1	70.6	75.6	96.6	15.0	-81.6	-84.5
Others [2]	41.2	45.5	44.6	44.6	17.7	-26.8	-60.2
Total Liabilities	**250.7**	**261.5**	**274.5**	**291.2**	**103.3**	-187.8	-64.5

[1] Includes funds collected so far from the beneficiaries of the government pool house scheme except March 2008.
[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

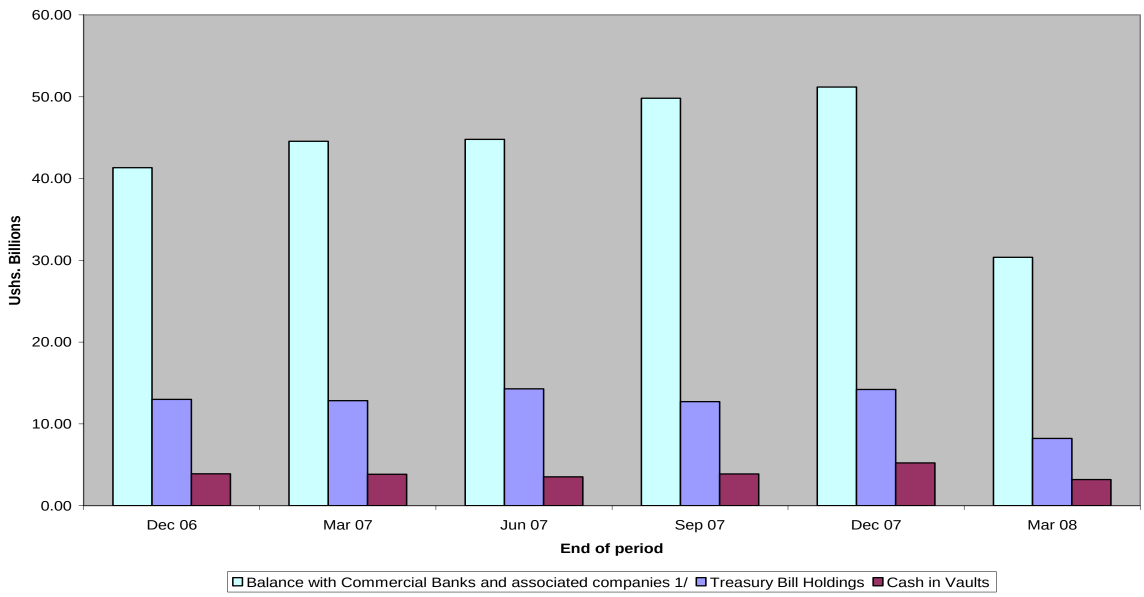
The level of liquid assets of Credit institutions fell by 40.8 percent to Shs. 41.8 billion as at end-March 2008 compared to a growth of 5.1 percent registered at the end of March 2007. The decline in liquid assets was mainly on account of a 40.6 percent decrease in balances with commercial banks, which accounted for the largest share of these assets at 72.7 percent and a 42.2 percent decrease in treasury bill holdings held by CIs. The developments in the liquidity indicators of the credit institutions are summarized in Table 8 and figure 6 below.

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

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Change Dec 07 to Mar 08	
						Absolute	**Percent**
Cash in vaults	3.8	3.5	3.9	5.2	3.2	-2.0	-38.5
Treasury bill holdings	12.8	14.3	12.7	14.2	8.2	-6.0	-42.2
Balance with Commercial Banks & associated companies	44.6	44.8	49.8	51.2	30.4	-20.8	-40.6
Total	**61.2**	**62.6**	**66.4**	**70.6**	**41.8**	-28.8	-40.8

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 March 2008, the total assets held by MDIs stood at Shs. 172.9 billion, up from Shs. 162.4 billion recorded as at end December 2007. The March 2008 asset position of MDIs represented an increase of 6.5 percent or Shs. 10.6 billion in the total assets over this period compared to a 4.2 percent growth in total assets as at end March 2007. The increase in total assets resulted from an increase of Shs. 17.5 percent in investments in government securities and a 4.3 percent increase in net loans outstanding, which accounted for the largest share of total assets at 63.2 percent. Table 9 and Figure 7 below; highlight the developments in assets and advances in the MDIs respectively

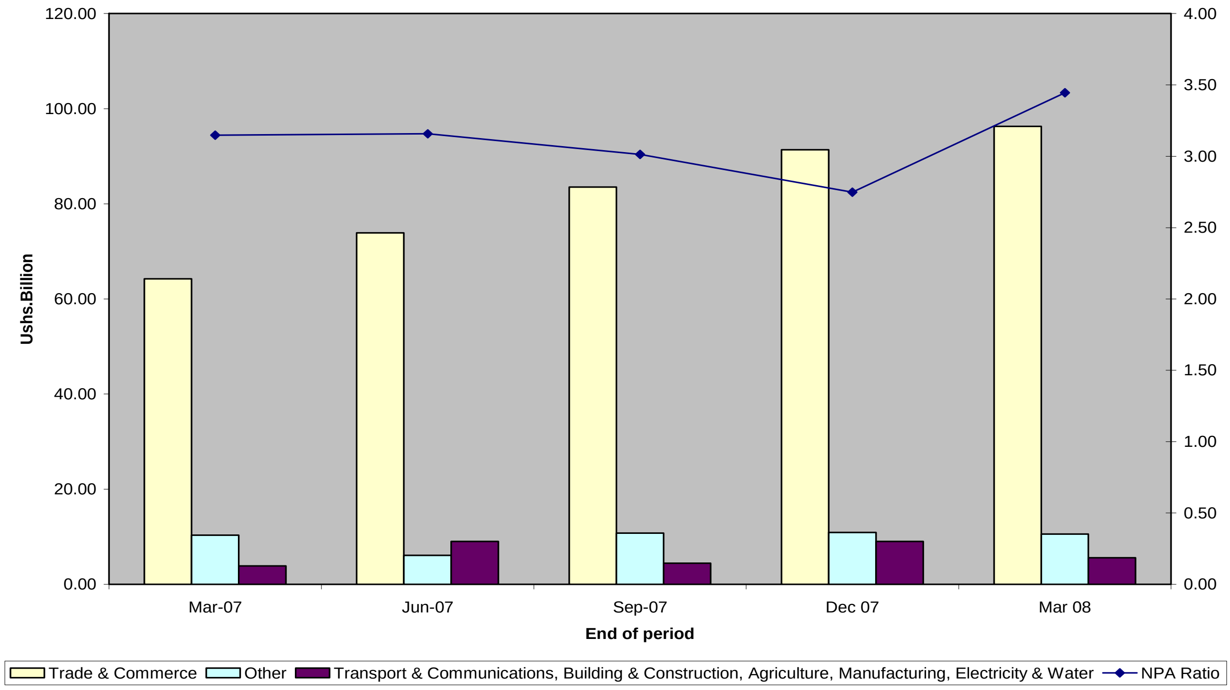
Table 9: Total assets of Microfinance Deposit-Taking Institutions (Shs. billion, at end period)

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Change Dec 07 to Mar 08	
						Absolute	Percent
Notes and Coins	3.0	3.4	3.8	5.0	4.7	-0.2	-4.9
Balances with financial institutions in Uganda	22.9	15.4	18.9	20.1	19.6	-0.5	-2.3
Investments in Treasury bills	11.0	14.3	7.8	21.3	25.0	3.7	17.5
Net loans outstanding	79.2	86.5	96.5	104.8	109.3	4.5	4.3
Inter branch/Due from own offices	0.1	0.4	0.0	0.2	0.0	-0.2	-100.0
Net Fixed Assets	10.0	9.6	9.9	10.3	10.2	0.0	-0.3
Long Term Investment	1.2	1.7	1.8	1.8	2.4	0.5	29.2
Other Assets	6.7	7.4	14.7	8.3	10.6	2.3	27.7
Total Assets	**134.0**	**145.4**	**153.5**	**162.4**	**172.9**	10.6	6.5

Source: Bank of Uganda

The stock of the outstanding loans to the private sector by MDIs increased by 4.4 percent from Shs. 107.7 billion to Shs. 112.4 billion during the quarter ended March 2008 compared to an 3.2 percent growth as at end March 2007. Allowances for loan losses (general and specific) increased by 10.1 percent to Shs. 3.3 billion, hence the net loans by end-March 2008 of Shs. 109.3 billion. In the same period last year, allowances for loan losses increased by 9.3 percent. The trade and commerce sector continued to hold the largest share of MDIs credit at 85.6 percent as at end-March 2008. The ratio of non-performing advances to total outstanding advances went up from 2.8 percent to 3.4 percent between December 2007 and March 2008.

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

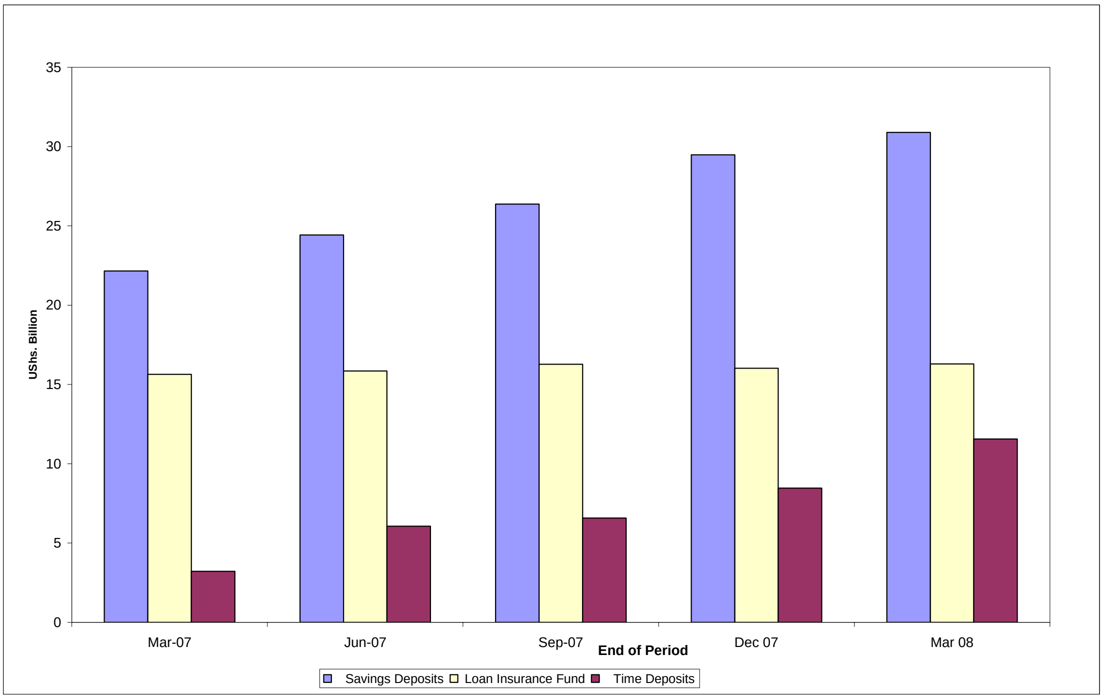


Source: Bank of Uganda

4.2.2 Liabilities

In March 2008, private sector deposits in the MDIs amounted to Shs. 42.5 billion, representing an increase of 11.9 percent in deposits, which was higher growth compared to the 10.2 percent growth recorded during the corresponding quarter ended March 2007. Savings deposits increased by 4.8 percent to Shs. 30.9 billion while time deposits grew by 36.5 percent to Shs 11.6 billion. Total borrowing by the MDIs increased over the period under review by 6.0 percent from Shs. 46.6 billion to Shs. 49.5 billion. In the corresponding period last year, total borrowing fell by 9.8 percent. Short term borrowings valued at market rate increased by 5.5 percent to Shs. 44.2 billion while long-term debt (market rate) increased by 10.4 percent to Shs. 5.2 billion. Table 10 below shows the composition of MDIs' liabilities while Figure 8 shows the evolution of the MDIs' total deposits.

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



Source: Bank of Uganda

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

	Mar-07	Jun-06	Sep-06	Dec-07	Mar-08	Change Dec 07 to Mar-08 Absolute	Percent
Deposit Liabilities	25.9	30.9	33.7	39.1	3.9	10.1	3.9
Savings deposits	22.2	24.4	26.4	29.5	30.9	1.4	4.8
Time deposits	3.2	6.1	6.6	8.5	11.6	3.1	36.5
Total Private Sector Deposits	25.4	30.5	32.9	38.0	42.5	4.5	11.9
Accrued interest	0.5	0.4	0.8	1.2	0.6	-0.6	-47.7
Loan insurance fund	15.6	15.8	16.3	16.0	16.3	0.3	1.8
Total Borrowing	37.2	42.2	43.9	46.6	49.5	2.8	6.0
Short-term borrowing (market rate)	26.7	33.2	39.3	41.9	44.2	2.3	5.5
Long-term borrowing (market rate)	10.5	8.9	4.6	4.7	5.2	0.5	10.4
Other liabilities	9.8	9.5	9.6	8.7	10.9	2.2	24.8
Total liabilities	88.6	98.5	103.4	110.5	119.7	9.2	8.3
Total equity	24.1	27.1	30.0	31.6	32.9	1.3	4.2
Subordinated debt	17.5	16.1	16.3	16.5	16.5	0.0	0.3
Preference shares	3.8	3.8	3.8	3.8	3.8	0.0	0.0
Total liabilities and equity	**134.0**	**145.4**	**153.5**	**162.4**	**172.9**	10.6	6.5

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

Source: Bank of Uganda

4.2.3 Liquidity

The level of liquid assets of MDIs stood at Shs. 49.4 billion by end of March 2008, representing an increase of 6.5 percent or Shs. 3.0 billion. This is lower growth compared to a 7.1 percent growth registered at the end of March 2007. The growth in liquid assets was mainly on account of an increase in MDIs' investments in treasury bills as shown in Table 11 and figure 9 below.

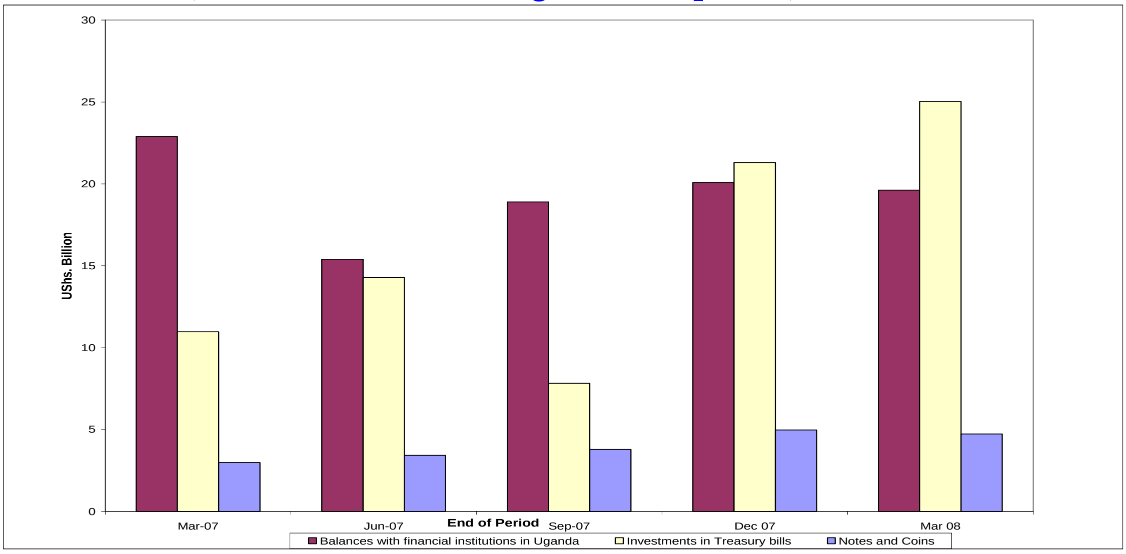
Table 11: Liquidity indicators of Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Change Dec-07 to Mar-08	
						Absolute	Percent
Notes and coins	3.0	3.4	3.8	5.0	4.7	-0.2	-4.9
Balances with financial institutions in Uganda	22.9	15.4	18.9	20.1	19.6	-0.5	-2.3
Investments in treasury bills	11.0	14.3	7.8	21.3	25.0	3.7	17.5
Total Assets	36.9	33.1	30.5	46.4	**49.4**	3.0	6.5
O/w encumbered fixed deposits [1]	3.0	3.4	4.5				

[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

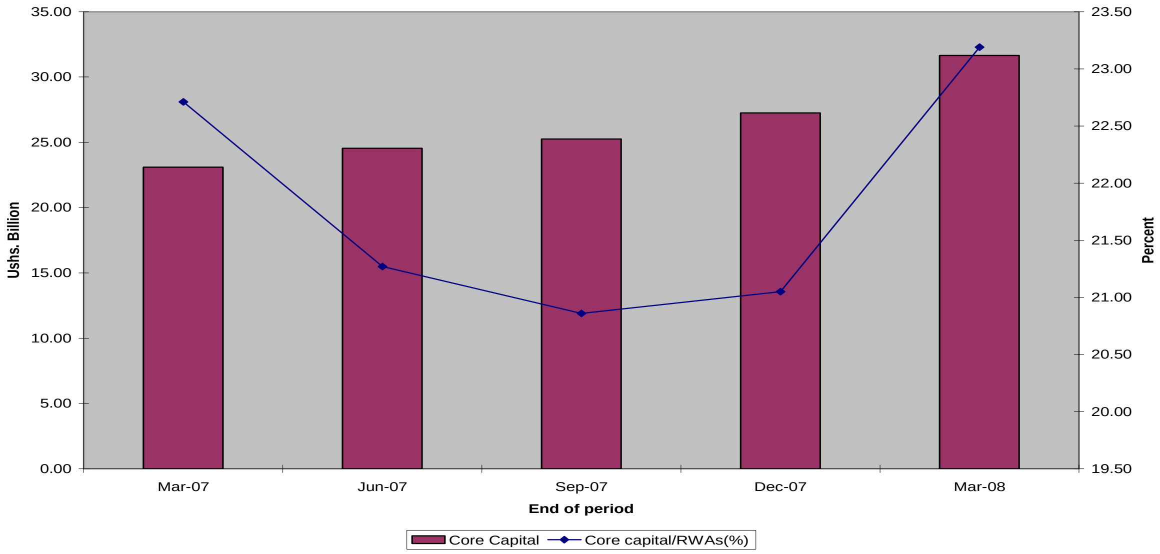
4.2.4. Capital adequacy

All MDIs maintained paid-up capital above the statutory minimum of Shs. 0.5 billion during the quarter ended March 2008. Core capital and total capital to risk weighted assets ratio of all MDIs were maintained above the statutory minimum requirement of 15 and 20 percent respectively.

MDIs' core capital increased by 16.1 percent or Shs. 4.4 billion from Shs. 27.3 billion to Shs. 31.6 billion at the end of the quarter under review. This was mainly due to a general increase in prior years' retained earnings by all the four MDIs during the quarter.

The core capital to risk weighted assets (RWAs) ratio was 23.2 percent while the total capital to risk weighted assets ratio was 33.1 percent during the period under review a slight increase from 21.1 percent and 31.2 percent respectively in December 2007, as a result a growth in Risk Weighted Assets (RWA) of 5.4 percent or Shs. 7.0 billion which was netted by a 16.1 percent or Shs. 4.4 billion and a 11.9 percent or Shs. 4.8 increase in core and total capital respectively. Figure 10 below shows the overall trend in core capital to risk weighted assets indicators.

Figure 10: Capital adequacy indicators (end period)

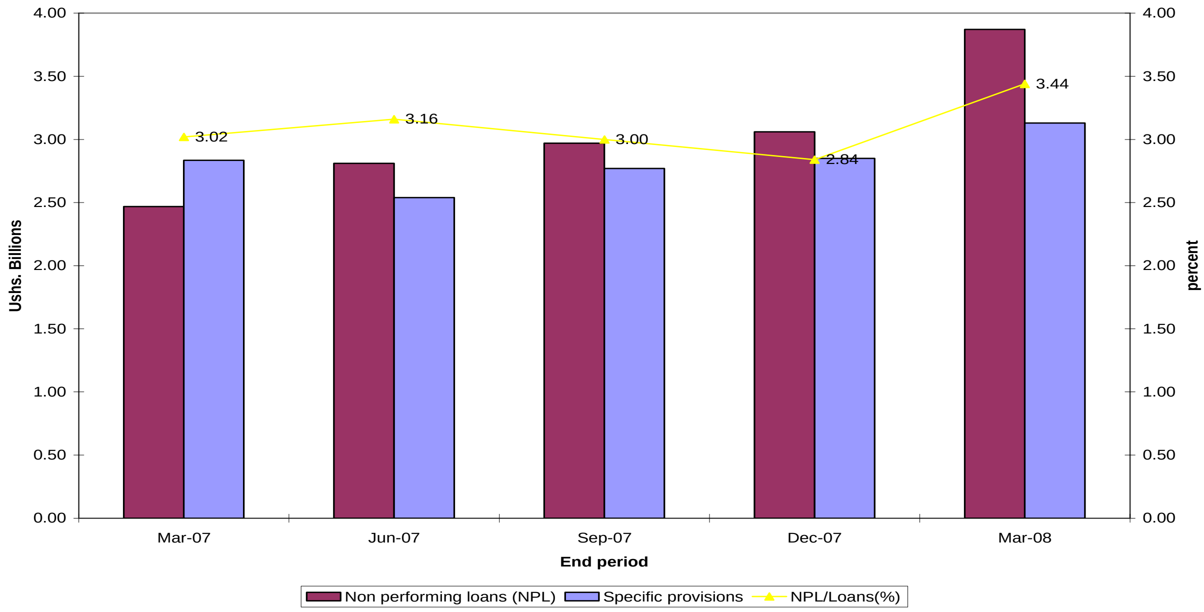


Source: Bank of Uganda

4.2.5 Asset quality

The overall Portfolio at Risk (PAR) stood at 3.4 percent compared to 2.8 percent in December 2007. All MDIs recorded PAR ratios below the recommended of 5 percent. However, Non-Performing Loans (NPL) increased by 25.8 percent or Shs. 0.8 billion from Shs. 3.1 billion to Shs. 3.9 billion during the quarter under review. The increased overall PAR is due to a more than proportionate increase in NPLs compared to increase total loans.

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

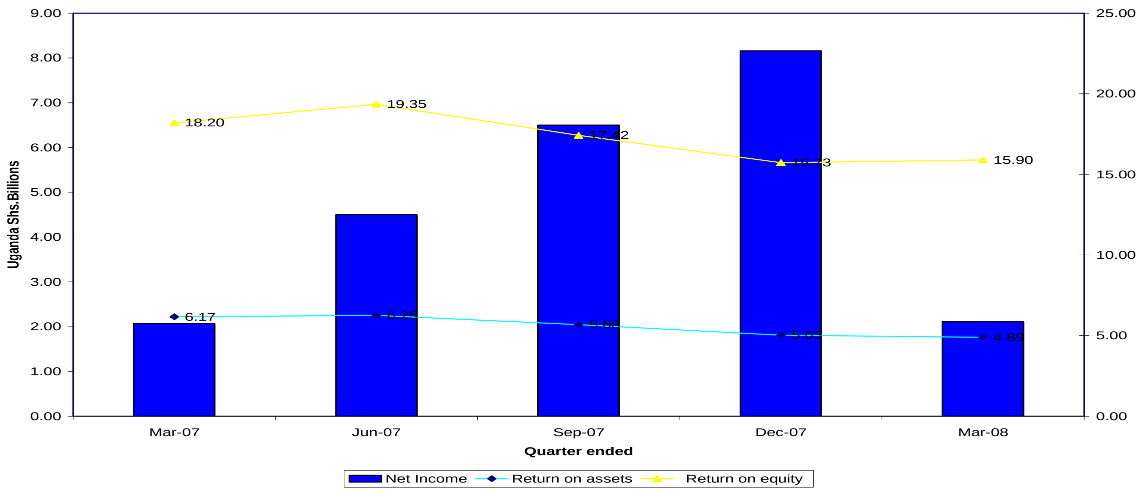


Source: Bank of Uganda

4.2.6 Profitability

Year-to-date Net profit, as at end-March 2007 was Shs. 2.1 billion compared to Shs. 8.1 billion as at the end of December 2007. The annualized return on assets and return on equity ratios were 4.9 percent and 15.9 percent respectively at the end of the quarter under review with the overall interest cover at 2.4 times.

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.

	Mar-06	Jun-07	Sep-07	Dec-07	Mar-08
Capital Adequacy					
Core capital, Shs. billion	23.1	24.5	26.4	27.3	31.7
Total capital, Shs. billion	35.2	37.0	39.3	40.4	45.2
Risk weighted assets (RWA), Shs. billion	101.7	115.4	126.8	129.4	136.4
Core capital/RWA ratio, percent	22.7	21.3	20.9	21.1	23.2
Total core capital/ RWA, percent	34.7	32.1	31.0	31.2	33.1
Asset Quality					
Total loans, Shs. billion	82.0	89.1	99.3	107.7	112.4
Portfolio in arreas (PIA), Shs. billion	2.5	2.8	3.0	3.1	3.9
Portfolio at risk ratio, percent	3.0	3.2	3.0	2.8	3.4
Total provisions, Shs. billion	2.8	2.5	2.8	2.9	3.1
Profitability					
Year to date Profit/Loss, Shs. million	2.1	4.5	6.5	8.2	2.1
Return on assets (YTD, annualized)	6.2	6.3	5.7	5.0	4.9
Return on equity (YTD, annualized)	18.2	19.4	17.4	15.7	15.9
Interest cover	2.9	3.0	2.7	2.6	2.4
Liquidity					
Total deposits, Shs. billion	25.9	30.9	33.7	39.1	43.1
Liquid assets, Shs. billion	28.7	35.05*	26.2	34.1	37.4
Liquid assets/Deposits, percent	110.6	113.5	77.6	87.1	86.8
Loans/Deposits (Lending Ratio), percent	42.0	58.2	66.6	65.8	61.0
Debt:Equity ratio	198.8	196.3	197.9	196.6	195.9

Notes:
1Liquid 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] 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, two new bonds were issued to absorb structural liquidity for a longer period. Compared to the rates from the previous issues, the yields-

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

to-maturity took a mixed trend as that of the 2-year bond rose while that of the 3-year bond fell, reflecting the contrasting liquidity conditions at the time of each issue.

5.1.1. Primary market of Treasury bonds

During the quarter under review, a 2-year bond and a 3-year bond were issued with respective face values of Shs. 20.0 billion, and Shs. 60.0 billion. These bonds were over-subscribed by Shs. 33.6 billion, and Shs. 68.1 billion, respectively. The subsequent bid-to-cover ratios were 2.7, and 2.1. The resultant Weighted Average Prices (WAP) per Shs. 100 and yields-to-maturity were Shs. 93.3, and 92.1; and 13.9, and 13.6 percent, respectively. These auctions, together with 2-year bond maturities of Shs. 60.0 billion, brought the total outstanding stock of bonds to Shs. 1,276.7 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.

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

	Mar 07	Jun 07	Sept 07	Dec 07	Mar 08
Stock of Treasury bonds (Shs. billion)	856.08	953.08	1,123.08	1,256.68	1,276.68
Change in stock (absolute)	-47.09	97.00	170.00	133.60	20.00
Price and interest rates (percent)					
2-year average price (Shs. /100)	96.48	---	95.80	94.69	93.35
3-year average price (Shs. /100)	98.56	96.25	92.49	91.76	92.08
2-year yield-to-maturity rate	13.48	---	12.44	13.11	13.93
3-year yield-to-maturity rate	12.29	13.10	13.37	13.69	13.55
Issues at face value (Shs. billion)					
2-year	60.00	0.00	55.00	100.00	20.00
3-year	30.00	117.00	75.00	118.59	60.00
5-year	0.00	0.00	40.00	60.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at face value	90.00	117.00[1]	170.00[2]	278.59[3]	80.00
Total maturities	137.09	19.84	0.00	145.00	59.66
Total net issues at face value	47.09	97.16	170.00	133.59	20.34
Issues at cost value (Shs. billion)					
2-year	57.89	0.00	52.69	94.43	18.66
3-year	29.57	111.82	69.37	108.93	55.25
5-year	0.00	0.00	36.81	53.02	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at cost value	87.46	111.82	158.87	256.38	73.91

Note:
[1]Includes a special issue made to Stanbic bank
[2]Includes a special issue made to Standard Chartered bank
[3]Includes a special issue made to Bank of Baroda and Stanbic bank

Source: Bank of Uganda

5.1.2 Secondary market of Treasury bonds

For the quarter ended-March 2008, the average indicative bid/offer yields-to-maturity in the secondary market were 13.5/13.3, 14.0/13.7, 14.2/13.9, and 14.6/14.4 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively (see Table 14). Corresponding average rates were 12.7/12.5, 13.5/13.2, 14.0/13.7, and 15.1/14.9 percent for the quarter ended-December 2007, and 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. Comparing the quarters to March 2008, and to December 2007, with exception of that of the 10-year bond, the rates rose despite the mixed rate movement in the primary bond market. In the quarter under review, Shs. 4.4 billion, Shs. 60.0 billion, Shs. 105.2 billion, and Shs. 3.0 billion worth of the 2-year, 3-year, 5-year, and 10-year bonds, respectively, were traded in the secondary market.

Table 14: Summary indicators from the secondary market for Treasury bonds (January-March 2008)

	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	12.45	12.20	13.25	12.00	13.80	13.00	13.40	13.20
Max	14.25	13.85	14.50	14.25	14.50	14.25	15.60	15.35
Average	13.49	13.25	13.95	13.70	14.16	13.92	14.60	14.36

Source: Bank of Uganda

5.2 Treasury bill market

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 on account of the continued active use of the signed Horizontal Repo Agreement (HRA) to secure interbank lending transactions, the ease with which securities can be transferred on the Central Depository System (CDS), and the periodic ranking of primary dealers by Bank of Uganda which motivates 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. 412.0 billion at face value were issued against maturities of Shs. 332.4 billion. The implied net issue of Shs. 79.6 billion compares with the net issue of Shs. 116.1 billion and Shs. 74.5 billion, for the previous quarter to December 2007 and the corresponding quarter ended March 2007, respectively.

During the quarter, most of the primary auctions for Treasury bills were oversubscribed with demand 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 10.8, 29.1, and 60.1 percent for the 91-days, 182-days, and 364-days securities, respectively. On February 04, 2008, Shs. 6.3 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 8.4 percent. Table 15 summarizes these developments.

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

	Mar 07	Jun 07	Sept 07	Dec 07	Mar 08
Stock of Treasury bills (Shs. billion)	1,116.41	1,340.40	1,412.40	1,528.46	1,607.94
Change in stock (absolute)	74.58	223.99	72.00	116.06	79.28
Price and interest rates (percent)					
91-day Average price (Shs. /100)	97.59	97.71	98.15	98.14	97.98
Annualized 91-day discount rate	9.68	9.18	7.42	7.47	8.09
Annual 91-day discount yield	10.30	9.74	7.78	7.84	8.52
Reference rate/[1]	9.76	9.91	8.06	7.98	8.29
Rediscount rate	15.45	15.60	13.76	13.68	13.99
Issues at face value (Shs.billion)					
91 days	74.19	67.64	43.00	51.94	44.57
182 days	109.66	125.07	74.20	104.00	119.68
364 days	206.25	343.35	265.69	283.38	247.78
Total issues at face value	390.10[2]	536.06[2/3]	382.89[2/5]	439.32[2]	412.03[2]
Total maturities	315.58[4]	312.11[4]	310.52[4]	323.23[4/6]	332.39[4]
Total net issues at face value	74.52	223.95	72.37	116.09	79.64
Issues at cost value (Shs.billion)					
91days	72.38	66.10	42.22	50.98	43.68
182 days	103.58	118.08	70.66	98.58	112.92
364 days	183.67	303.73	238.20	253.12	219.26
Total issues at cost value	359.63	487.91	351.08	402.68	375.86

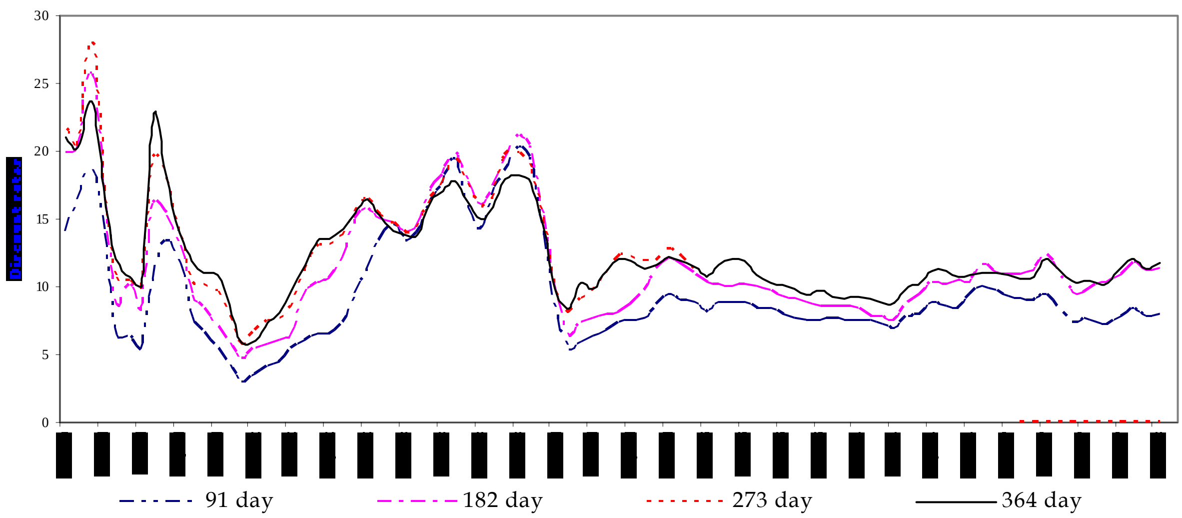
Note:
[1]Reference rate calculated as 3-weeks moving average of the 91-day Treasury bill yield effective November 2004.
[2]Includes issues for the failure-to-settle pool of collateral.
[3]Includes special issues made to Standard Chartered Bank, Stanbic Bank, and Citibank.
[4]Includes maturities of previously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

On an average basis, the Treasury bill rates were generally higher in the quarter to December 2007 when compared to the previous quarter to September 2007, and, apart from the 182-day paper rates, lower when compared to the corresponding quarter in 2006. The government's comprehensive strategy for debt management is expected to ensure an optimal mix of security 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 7.9, 11.4, and 11.6 percent on the 91-days, 182-days, and 364-days treasury bills tenors, respectively. These discount rates were higher than the corresponding rates of 7.5, 10.4, and 10.7 percent, recorded in December 2007. The respective rates were 9.6, 11.2, and 11.0 percent, respectively in March 2007. The upward trend in discount rates is reflected in Figure 13.

The average annualized yields for the entire quarter stood at 8.3, 12.4, and 12.3 percent for the 91-day, 182-day, and 364-day bills, respectively. These rates were higher than the respective rates of 7.8, 11.3, and 12.0 percent for the quarter ended-December 2007. In the corresponding quarter ended-March 2007, these yields were 10.3, 12.2, and 12.3 percent.
The stock of treasury bills increased by 5.2 percent, from Shs. 1,528.5 billion recorded at the end of December 2007 to Shs. 1,528.5 billion as at end-March 2008. Commercial banks held 48.9 percent of the outstanding stock of treasury bills by end-March 2008, compared to 47.7 percent reported in December 2007, while BOU holdings increased to 21.1 percent from a holding of 16.7 percent over the same time-period. As at end March 2007, BOU and Commercial banks took up 9.3, and a *revised* 69.2 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, the indicative yield-to-maturity rates derived from daily '*bid*' and '*offer*' quotations by the primary dealers in the secondary market fell despite the rise in the rates derived in the primary market for these securities.

The respective average bid/offer rates for the quarter ended-March 2008 were 8.5/8.3, 12.4/12.1, and 13.9/13.6 percent for the 91-days, 182-days and 364-days securities. With the exception of that of the 91-day security, these rates rose when compared to the average rates for the respective papers of 9.1/8.8, 12.3/12.0, and 13.1/12.8 percent in the previous quarter. In the corresponding quarter ended March 2007, these rates were 9.8/9.5, 11.3/11.0, and 12.3/12.0 percent. The yield curve derived from average yield-to-maturity quotes in the secondary market was gently upward sloping.

Total trades over this period amounted to Shs. 221.3 billion. This volume of trade was lower than Shs. 225.6 billion executed in the previous quarter ended December 2007, but higher than the Shs. 79.7 billion reported in the quarter to March 2007. A total of Shs. 37.0 billion in horizontal repo transactions took place during the quarter. The rest of the transactions were outright sales. Table 16 summarizes these developments.

Table 16: Summary indicators from the secondary market for treasury bills (January-March 2008)

	91-days		182-days		364-days	
Yield-to-maturity rates quotation (percent)						
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	7.35	7.21	10.81	10.53	11.35	11.06
Maximum	10.41	10.20	13.81	13.55	15.49	15.18
Average (simple)	8.52	8.26	12.37	12.12	13.92	13.60
Total trading activity			**Shs. 221.266 billion**			
Transactions (Shs billion)	125.018		43.347		52.901	
- Horizontal repos	37.000		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	88.018		43.347		52.901	
Average discount rate	9.36%		10.73%		11.31%	
Average yield-to-maturity	9.89%		11.37%		13.82%	

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 used throughout the quarter for short-term flexible liquidity management. Total Repo issuance in the quarter ended-March 2008 was Shs. 232.0 billion against maturities of Shs. 232.2 billion. The total transaction volume of this instrument was therefore much lower than what was recorded in the quarter ended-December 2007 when issues of Shs. 1,162.7 billion were effected against maturities of Shs. 1,240.6 billion. BOU largely stayed out of this market in the first month of the quarter, as the tight liquidity conditions did not necessitate such actions. Despite this reduced activity, the weighted interest rates from this market followed an upward trend throughout the quarter. The respective amounts of issues and maturities for the corresponding quarter-ended March 2007 were Shs. 1,163.8 billion and Shs. 1,098.2 billion. These developments are shown in Table 17.

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

	Mar 07	Jun 07	Sept 07	Dec 07	Mar 08
Issuance of repos	1,163.799	1,747.200	877.499	1,162.699	232.000
Maturity of repos	1,098.188	1,752.620	920.369	1,240.632	232.210
Outstanding Stock of Repos	120.293	117.787	76.591	0.000	0.000

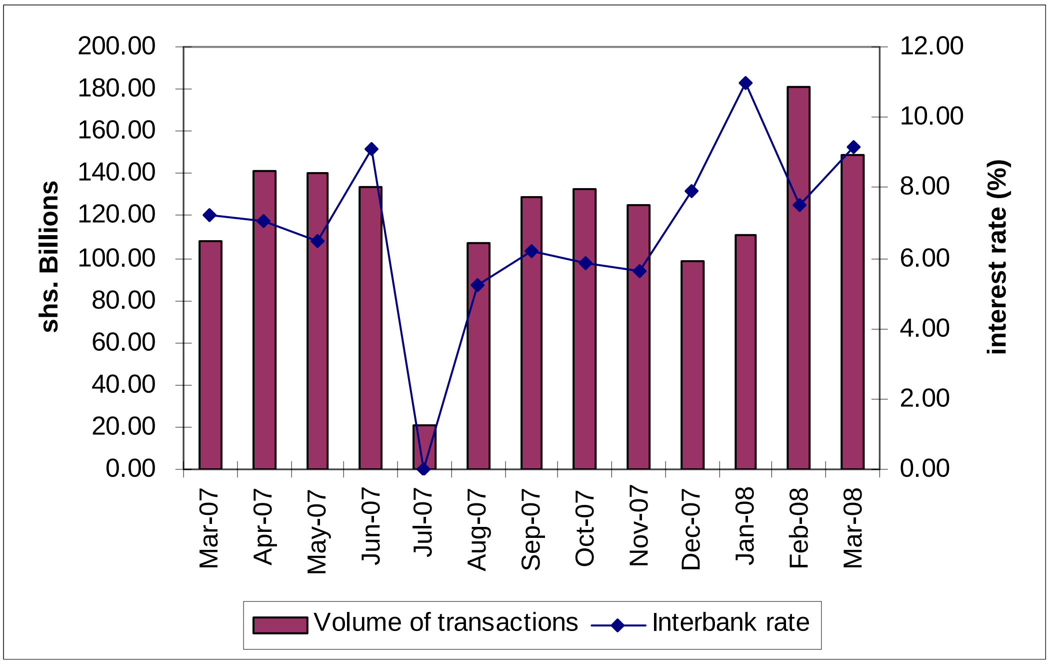
Source: Bank of Uganda

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.

In the quarter under review, the weighted inter-bank money market rates fell from 10.95 percent in the month January 2008 to 7.49 percent in the February 2008 then increasing to 10.38 percent in March 2008. The inter-bank rates observed in the corresponding months in the previous year were 9.93 percent and 7.24 percent in January 2007 and February 2007 respectively and 7.24 percent in March 2007. 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 2.6 percent, higher than 2.1 percent recorded in a corresponding period a year ago. The average weighted time deposit rate in the quarter ending March 2008 was 10.0 percent, an increase from 9.3 percent recorded in the corresponding quarter a year ago. These deposit rates are reminiscent of a relatively stable macroeconomic environment.

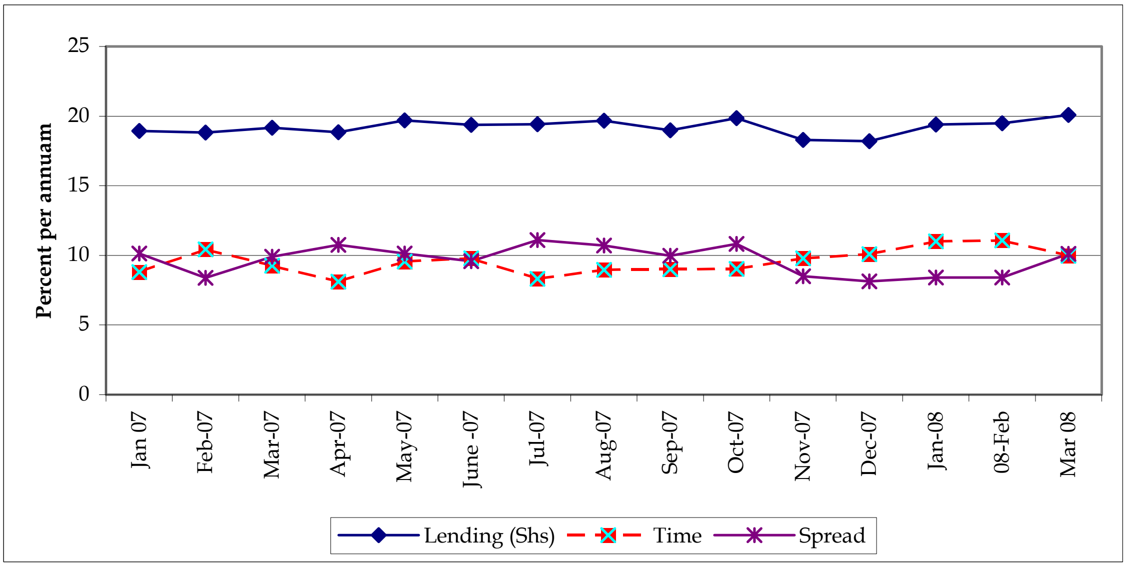
In line with stability in the other rates, the weighted average lending rate on shilling denominated loans rose slightly to 19.7 percent in the quarter under review from the average of 19.0 percent in the quarter ending March 2007. The weighted average lending rates on dollar denominated loans decreased from 10.0 percent in December 2007 to 9.7 percent in March 2008. The average weighted lending rate for the quarter ending December 2007 was 9.7 percent, slightly lower than the 10.0 percent recorded in the corresponding quarter in 2007. The average weighted savings deposit rate on the dollar denominated deposits however remained at the average for the quarter ending December 2007 of 1.4 percent. The time deposit rate averaged 4.4 percent in the quarter under review compared to 5.0 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			
	Mar-07	Oct-07	Dec-07	Mar-08	Mar-07	Oct-07	Dec-07	Mar-08
Lending	19.17	19.86	18.21	20.08	9.72	9.81	10.02	9.68
Demand deposits	1.17	1.24	1.27	1.40	1.21	1.40	1.31	1.14
Savings deposits	2.08	2.67	2.66	2.59	1.50	1.10	0.99	1.49
Time deposits	9.26	9.03	10.08	9.98	4.97	3.89	3.74	3.92

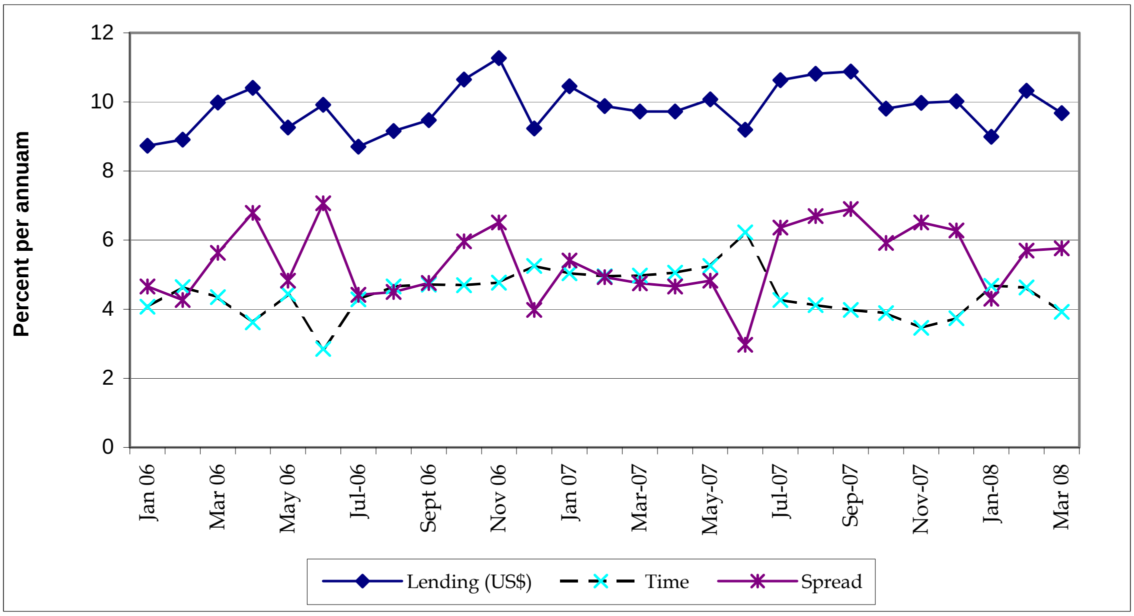
Source: Bank of Uganda

Figure 15: Shilling lending and deposit rates



Source: Bank of Uganda

Figure 16: Foreign exchange lending and deposit rates

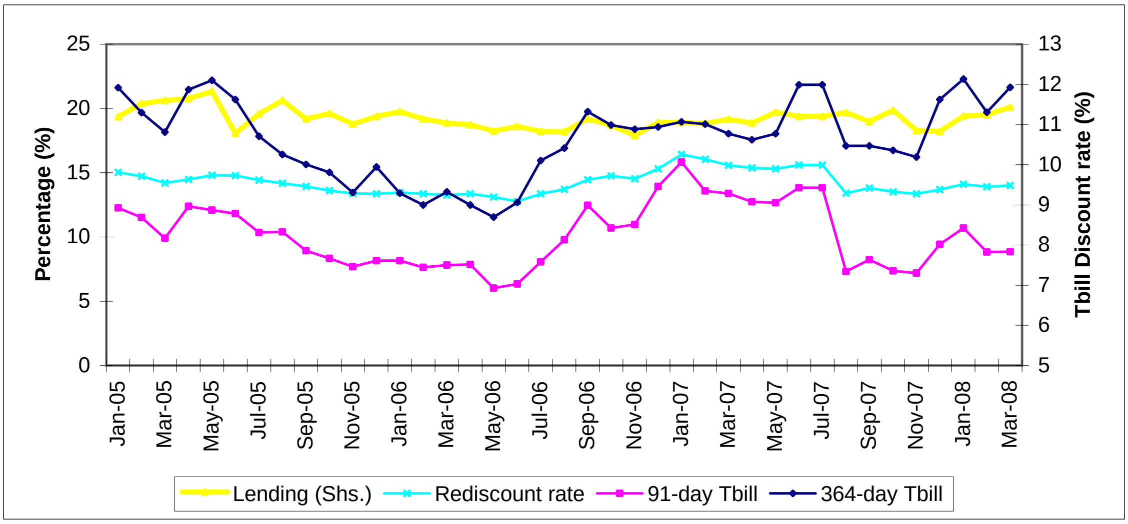


Source: Bank of Uganda

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 14.1 percent and 15.1 percent recorded at the start of the quarter to 14.0 percent and 15.0 percent respectively by end-March 2008, Just like in the corresponding quarter ending March 2007 when the rediscount rate and the bank rates both decreased from 16.4 percent and 17.4 percent at end January 2007 to 15.6 percent and 16.6 percent at end-March 2007 respectively. Figure 17 highlights the trend of policy rates.

Figure 17: Trend of the 91-day, 364-day Treasury bill discounts and rediscount rates



Source: Bank of Uganda

6. DEVELOPMENT IN THE FOREIGN EXCHANGE MARKET

6.1 Foreign exchange rates

During the third quarter of 2007/08, the shilling appreciated 1.2 percent compared to the second quarter of 2007/08 when it depreciated 0.4 percent. In this period the unit strengthened form an average of UgShs 1,722.94 per U.S. dollar in the second quarter of 2007/08 to UgShs 1,701.58 per U.S. dollar. The shilling opened trading at UgShs 1,697.30 U.S. dollar at the start of January 2008, and closed at UgShs 1,693.52 per U.S. dollar at end March 2008. The shilling strengthening within the quarter under review was mainly attributed to increased inflows of foreign exchange from coffee, tobacco and fish exports, offshore players, development agencies and private transfers. The weakening of the dollar on the global scene contributed further to the appreciation of the shilling. The central bank resumed sterilization of liquidity through the sale of foreign exchange in February 2008 having suspended the action in November 2007. In a bid to stem volatility in the IFEM, Bank of Uganda intervened and purchased US$ 20.7 million on a net basis.

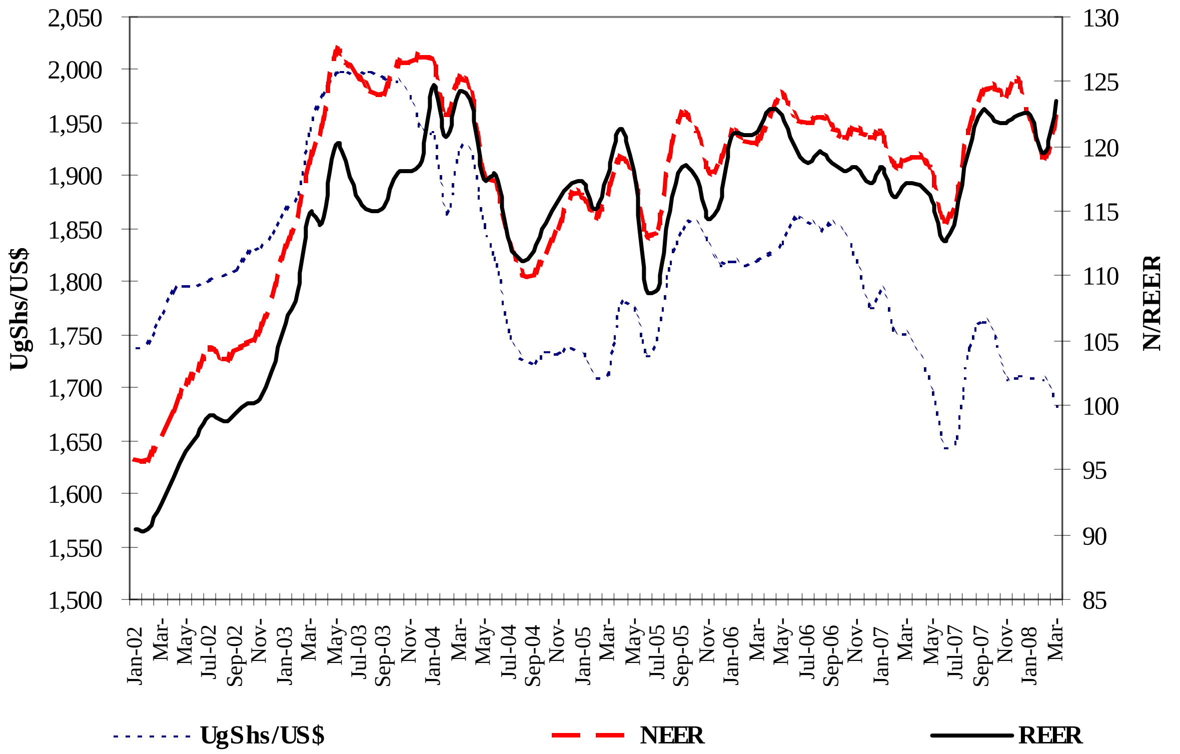
The spread moved between UgShs 8.1 and UgShs 13.3 indicating volatility in the inter-bank foreign exchange market (IFEM). On a quarterly basis, the average spread between the buying and selling rates reduced from UgShs 13.6 in the second quarter of 2007/08 to UgShs 10.6 in the quarter under review.

Volatility in the exchange rate movements during the quarter necessitated central bank intervention in order to foster stability in the market. The Bank sold foreign exchange to the IFEM as a way of sterilizing excess liquidity in the economy. The actions of the Bank in the IFEM amounted to net purchase of US$ 20.7 million contrary to a net sale of US$ 34.2 million during the previous quarter.

The nominal effective exchange rate (NEER) index appreciated 2.8 percent during the third quarter of 2007/08, in contrast to a depreciation of 3.5 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 4.5 percent against the UK pound, 5.0 percent against the Kenyan shilling 2.1 against the Indian Ruppee and 11.4 against the South African Rand and depreciated 2.2 percent against the Euro and 6.2 against the Japanese yen in the quarter under review.

The real effective exchange rate (REER) index appreciated by 0.2 percent in the third quarter of 2007/08, in contrast to a depreciation of 2.0 percent recorded in the second quarter of 2007/08. 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 decreased from US$1,529.5 million recorded in the second quarter of 2007/08 to US$1,285.7 million in the quarter under review, an increase of 15.9 percent. Similarly, gross sales in the inter-bank foreign exchange market recorded a 16.3 percent decrease, from US$1,499.2 million in the first quarter of 2007/08 to US$1,255.3 million in the third quarter of 2007/08. Compared to the same period last financial year, when gross purchases increased by 3.9 per cent from US$897.7 million and gross sales increased by 9.2 percent from US$855.77 million. Cross currency transactions increased by 162.3 percent to US$1,061.4 million in the third quarter of 2007/08 compared to a 71.4 percent increase from US$236.1 million to US$404.7 million in the second quarter of 2007/08.

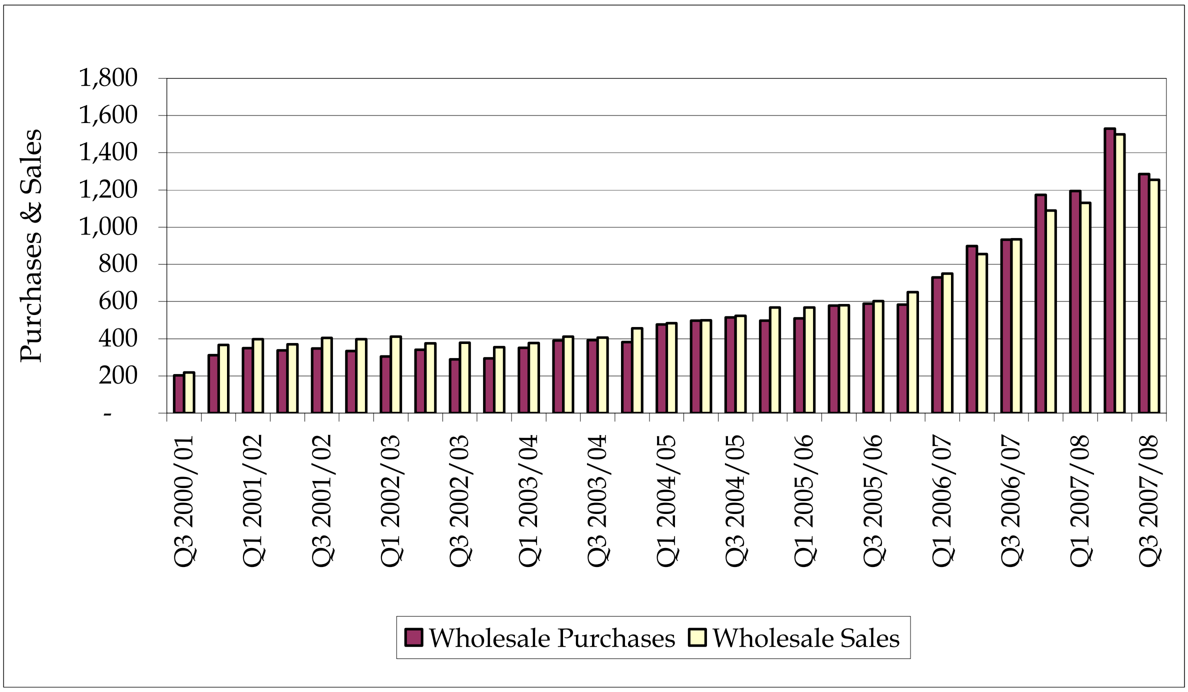
In the foreign exchange bureaux market, the shilling appreciated 1.2 per cent from the average of Shs 1,717.01 per U.S. dollar in the second quarter of 2007/08 to Shs 1,695.06 per US dollar in the third quarter of 2007/08. In the corresponding period in 2006/07 the shilling had appreciated by 3.0 percent when the average bureaux rate moved from Shs. 1,806.9 per U.S. dollar in the first quarter of 2006/07 to Shs. 1,752.9 per U.S. dollar. Table 19 and Figure 19 summarize the above developments.

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

Market	Q3 2006/07	Q4 2006/07	Q1 2007/08	Q2 2007/08	Jan 2008	Feb 2008	Mar 2008	Q3 2007/08
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	119.41	117.12	120.29	124.50	121.89	119.50	122.20	121.08
Real Effective Exchange Rate (REER) 2000=100	115.65	113.02	118.36	120.69	122.43	119.54	123.45	121.81
Nominal Exchange Rate (Period Average)	1,765.09	1,688.02	1,716.63	1,722.95	1,710.59	1,707.83	1,684.26	1,701.58
Total Purchases (Million US$)	932.28	1,174.32	1,194.49	1,529.51	394.59	472.60	463.51	1,285.70
Total Sales (Million US$)	934.53	1,088.69	1,130.66	1,499.22	391.86	439.78	423.65	1,255.29
Cross Currency (Million US$)	181.36	193.76	236.06	404.67	215.39	348.23	497.80	1,061.42
Bureaux Market								
Average Period Exchange Rate	1,752.96	1,682.77	1,711.31	1,717.01	1,704.77	1,701.84	1,680.37	1,695.66
Total Purchases (Million US$)	429.70	430.03	443.94	456.01	168.06	150.21	127.61	475.88
Total Sales (Million US$)	425.77	427.17	451.49	496.31	167.77	161.25	162.97	491.98

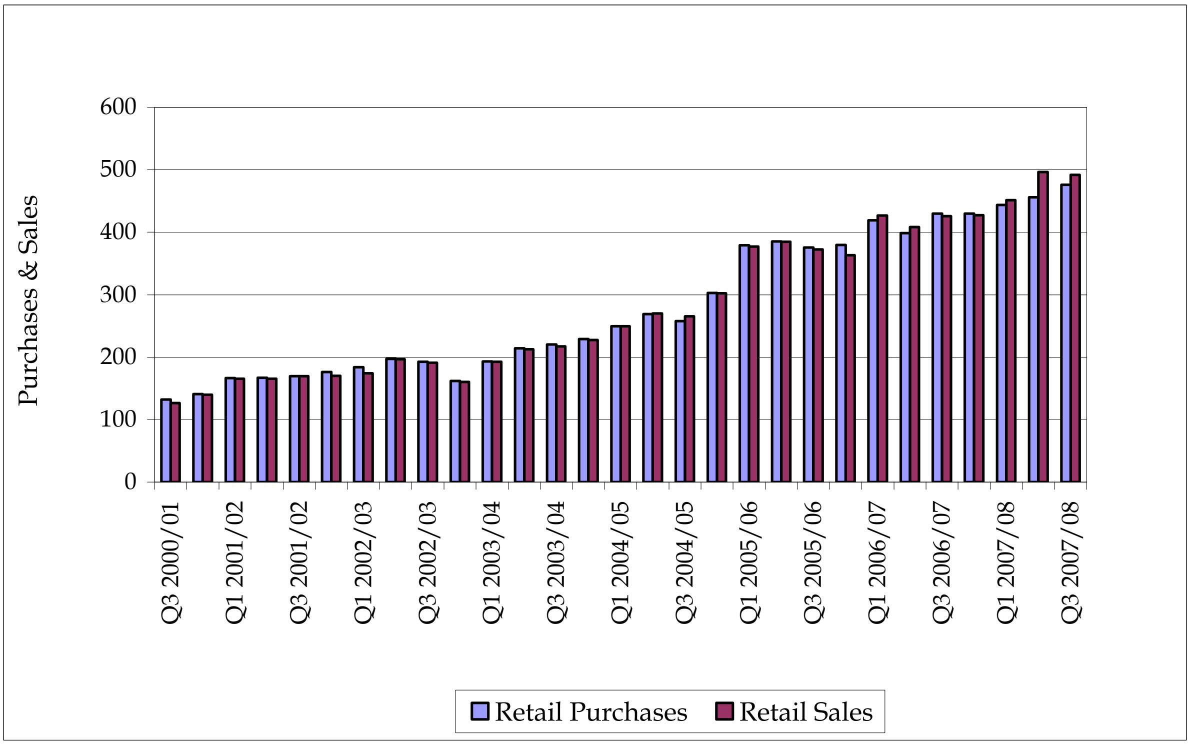
Source: Bank of Uganda.

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



Source: Bank of Uganda

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 March 2008, government revenue and budget support grant disbursements amounted to Shs. 1,060.6 billion, representing an over-performance of 104.2 percent relative to the programmed level of Shs. 1,018.1 billion. Compared with the corresponding quarter ended March 2007, revenue and grant disbursements were higher by Shs. 272.9 billion (34.6 percent). The preliminary outturn for total revenue collections was Shs. 769.2 billion, an increase of Shs. 130.9 billion (20.5 percent) on the level recorded in the quarter ended March 2007 and an over performance of 100.5 percent relative to the programmed level. This performance is attributable to higher URA collections on excise duty and VAT, international trade tax and increased efficiency in revenue collections. Grants from external sources were higher in March 2008 by 95.0 percent than Shs. 149.4 billion disbursed in March 2007. The grants received in the quarter under review were also above the programmed level of Shs.252.5 billion on account of earlier than expected disbursements from some donors.

7.2 Government expenditure

Total government expenditure and net lending amounted to Shs. 1,263.8 billion during the third quarter ending March 2008 compared to Shs. 826.4 billion that was utilized in the corresponding quarter in 2007. This outturn was 1.4 percent above the programmed level of Shs. 1,246.6 billion.

The rise in total expenditure between the quarters was particularly hinged on an increase in development expenditure, which doubled over the period. Current expenditures for the quarter grew by 14.1 percent to Shs. 671.5 billion, which was also above the programmed level of Shs. 643.0 billion. Expenditure on salaries and wages grew by 14.3 percent to Shs. 278.7 billion, which, however, was lower than the programmed level of Shs. 279.7 billion. Interest payments amounted to Shs. 89.5 billion, an increase of 53.9 percent from the payment made in the corresponding quarter in 2007.

7.3 Overall fiscal balance and financing

The developments in government budgetary operations during the quarter under review culminated into a deficit of Shs. 203.1 billion compared to a deficit of Shs. 228.5 billion, which was envisaged in the program. Excluding grants, the surplus worsended to a deficit of Shs. 494.6 billion, compared to a deficit of Shs. 481.0 billion in the program. The above budgetary operations constituted net domestic financing and net external financing of Shs. –30.7 billion and Shs. 120.7 billion, respectively. Table 20 summarizes the government's budgetary operations.

Table 20: Government budgetary operations (Shs. billion)

	2006/07	2006/07 Q3	2007/08 Q1	2007/08 Q2	2007/08 Prog. Q3	2007/08 Q3
Revenue and Grants	**3,988.4**	**787.7**	**870.8**	**1,160.7**	**1,018.1**	**1060.6**
Total Revenue	2,722.5	638.3	686.8	854.2	765.6	769.2
Grants	1,265.9	149.4	184.0	306.5	252.5	291.4
Expenditures and Lending	**4,379.4**	**826.4**	**1,068.1**	**939.5**	**1,246.6**	**1263.8**
Recurrent Expenditure	2,442.3	588.8	680.1	723.5	643.0	671.5
Wages and Salaries	986.5	243.8	254.2	271.8	279.7	278.7
Interest Payments	236.3	58.1	71.8	78.1	81.3	89.5
Other non Wage Recurrent	1,145.95	269.8	334.1	353.5	261.9	283.3
URA Transfers	73.5	17.0	20.0	20.0	20.0	20.0
Development Expenditure	1,685.5	258.8	371.5	263.2	491.2	521.2
External	971.7	105.3	243.6	109.4	322.5	334.0
Domestic counterpart [a/]	713.84	153.5	127.9	153.8	168.7	187.2
Others [b/]	251.6	-21.1	16.5	-47.2	86.2	71.1
Overall Fiscal Balance						
Excluding Grants	**-1,656.9**	**-188.1**	**-381.3**	**-85.3**	**-481.0**	**(494.6)**
Including Grants	**-391.0**	**-38.7**	**-197.3**	**221.2**	**-228.5**	**(203.1)**
Financing	**391.0**	**38.7**	**197.3**	**-221.2**	**228.5**	**203.1**
External Financing (net)	672.3	101.9	280.6	98.7	118.7	120.7
Domestic Financing (net)	-261.7	16.9	-219.0	-177.5	109.8	(30.7)
Bank	-618.8	-65.0	-182.7	-179.8	69.3	(56.7)
Non Bank	357.1	81.9	-36.3	2.3	40.6	26.0
Residual	-19.6	(80.06)	135.8	-142.4	0.0	113.1

[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

In the quarter ending March 2008, the balance of payments registered an overall surplus of US$57.4 million, vis-à-vis the overall surplus of US$100.5 million recorded in the same quarter in 2007. This down turn in the external position resulted from a deterioration in the Current Account.

The Current Account balance was recorded at a deficit of US$203.18 million, up from the deficit of US$157.8 million recorded in the quarter ending March 2007 (i.e. Q3 of 2006/07). This deterioration was on account of increased imports of goods and services.

The Capital and Financial Account balance was recorded at a surplus of US$260.5 million – US$2.2 million more than what was recorded in Q3 of 2006/07.

On the whole, there was an accumulation of foreign reserves worth US$759.4[2] million to US$2.7 billion from US$1.9 billion in the quarter ending March 2007. The stock of reserves, in terms of future months of imports of goods and services, stood at 6.94 at the end of the quarter, up from 6.89 at the end of the corresponding quarter in 2007. Table 21 below presents a summary of the quarterly developments in the balance of payments for the period January 2007 to March 2008. For a more detailed summary, refer to appendices 8, 9 and 10.

[2] Excluding valuation, the stock of reserves is estimated to have increased by US$709.8 million.

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

	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8
A. Current Account Balance	**-157.75**	**-123.92**	**-168.83**	**-116.77**	**-203.11**
A1. Goods Account (Trade Balance)	-181.64	-280.02	-389.13	-445.84	-378.04
a) Total Exports (fob)	440.95	420.20	402.27	422.50	497.23
b) Total Imports (fob)	-622.59	-700.22	-791.40	-868.34	-875.27
A2. Services Account (services net)	-132.56	-125.03	-130.74	-240.22	-327.42
a) Inflows (credit)	117.59	132.50	149.52	121.45	131.58
b) Outflows (debit)	-250.16	-257.53	-280.26	-361.67	-458.99
A3. Income Account (Income net)	-54.08	-55.60	-71.36	-67.67	-56.97
a) Inflows (credit)	21.26	24.25	22.50	30.28	42.54
b) Outflows (debit)	-75.35	-79.85	-93.86	-97.95	-99.50
A4. Current Transfers (net)	210.54	336.74	422.40	636.96	559.31
a) Inflows (credit)	284.09	370.29	431.86	759.94	955.59
b) Outflows (debit)	-73.55	-33.55	-9.46	-122.97	-396.28
B. Capital & Financial Account Balance	**258.25**	**336.20**	**413.46**	**359.82**	**260.47**
B1. Capital Account	0.00	0.00	0.00	0.00	0.00
a) Capital Transfers, inflows (credit)	0.00	0.00	0.00	0.00	0.00
b) Capital Transfers, outflows (debit)	0.00	0.00	0.00	0.00	0.00
c) Nonproduced nonfinancial assets (credit)	0.00	0.00	0.00	0.00	0.00
d) Nonproduced nonfianncial assets (debit)	0.00	0.00	0.00	0.00	0.00
B2. Financial Account; excl financing items	258.25	336.20	413.46	359.82	260.47
a) Direct Investment	108.15	108.15	134.15	134.15	134.15
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	108.15	108.15	134.15	134.15	134.15
b) Portfolio Investment	15.68	51.25	-25.95	-20.76	18.22
Assets	0.00	0.00	0.00	0.00	0.00
Equity Securities	0.00	0.00	0.00	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	15.68	51.25	-25.95	-20.76	18.22
Equity Securities	0.00	3.14	-25.48	-25.48	0.00
Debt Securities	15.68	48.10	-0.47	4.72	18.22
c) Financial Derivatives (Net)	0.82	-0.31	1.31	4.62	-0.12
d) Other Investment	133.60	177.12	303.96	241.81	108.21
Assets	89.13	-122.36	211.61	109.50	45.80
Monetary authorities	0.00	15.41	0.00	0.00	0.00
General government	39.19	-193.64	146.27	91.28	18.92
Banks	-19.36	91.94	14.58	-146.00	-3.56
Other sectors	69.30	-36.06	50.76	164.21	30.44
Liabilities	44.47	299.47	92.35	132.31	62.41
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	28.25	260.98	15.47	3.76	15.64
Banks	-13.29	18.06	14.93	65.15	-34.20
Other sectors	29.51	20.43	61.95	63.40	80.97
C. Overall Balance (A + B)	**100.51**	**212.28**	**244.64**	**243.05**	**57.36**
D. Reserves & Related Items	**-100.51**	**-212.28**	**-244.64**	**-243.05**	**-57.36**
a) Reserve assets	-96.33	-199.21	-212.59	-202.77	-95.22
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.91	0.00	-13.69	0.54	-2.24
d) Errors and Omissions	-5.09	-13.08	-18.35	-40.82	40.10

Source: Bank of Uganda

8.1 The Goods account (Trade Balance)

8.1.1 Exports

During the review quarter, total export earnings were recorded at US$497.2 million, compared to US$422.5 million in the preceding quarter and US$441.0 million in the same quarter of 2006/07.

Coffee exports' earnings were US$113.1 million, 65.9 percent more than the US$72.7 million realized in Q3 of 2006/07. The average realized price of US$1.97/kg was 46 cents higher than that realized in the corresponding quarter of 2006/7. There was an increase in the volume of coffee exports to 958,469 (60-kg) bags compared to 803,626 (60-kg) bags exported in the same quarter of 2006/07.

Earnings from the non-coffee exports were recorded at US$384.2 million during the quarter ending March 2008 – US$16.0 million more than the US$196.7 million recorded in Q3 of 2006/07. Notably, earnings from the exports of base metals amounted to US$23.7 million – US$8.2 million more than earnings realized in the same quarter of 2006/07. Other exports, comprising mostly of cellular phones, beer, simsim, cocoa beans and locally manufactured products such as cement and sugar also recorded high increases.

On the other hand, export earnings from gold, fish & its products (international exports) and oil re-exports declined by a combined total of US$34.8 million 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)

	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8
Total Exports	**440.95**	**420.20**	**402.27**	**422.50**	**497.23**
1. Coffee exports	**72.74**	**55.18**	**70.60**	**68.13**	**113.05**
2. Non-Coffee exports	**368.21**	**365.02**	**331.68**	**354.37**	**384.18**
Electricity	1.68	1.93	2.57	3.19	2.80
Gold	34.87	18.37	8.24	4.31	11.55
Cotton	8.38	8.89	3.38	1.85	5.94
Tea	11.51	12.22	10.82	13.09	10.47
Tobacco	21.89	15.26	7.32	20.84	20.10
Fish & its products (excl. regional)	37.65	31.01	28.42	31.03	30.50
Fish & its products (regional exports)	11.30	9.30	8.53	10.58	10.93
Hides & skins	4.33	6.22	6.12	3.70	4.50
Simsim	1.56	1.42	1.38	1.10	6.36
Maize	7.38	7.80	3.18	5.66	4.06
Beans	1.10	0.83	0.62	1.09	0.92
Flowers	8.99	8.05	10.28	8.00	9.46
Oil re-exports	10.44	9.87	9.05	7.62	6.18
Cobalt	4.67	4.09	5.14	3.43	5.05
Base metals & products	15.50	17.86	19.88	21.10	23.69
Others	186.98	211.91	206.76	217.80	231.69

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ending March 2008 amounted to US$875.3 million, mainly comprising of private sector imports i.e. machinery equipments, vehicles & accessories, chemical & related products and oil imports. In particular, oil imports (US$147.4 million) constituted 17.4 percent of the private sector imports.

During the same quarter Government imports were recorded at US$27.9 million, vis-à-vis US$24.7 million posted in Q3 of 2006/07. Table 23 below provides a summary of developments in imports.

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

	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8
Total Imports	**622.59**	**700.22**	**791.40**	**868.34**	**875.27**
Government Imports	**24.66**	**25.25**	**26.29**	**21.39**	**27.94**
Project	9.20	9.63	8.87	14.16	11.17
Non-Project	15.45	15.62	17.42	7.23	16.77
Private Sector Imports	**597.93**	**674.97**	**765.11**	**846.95**	**847.33**

o/w Oil imports	96.82	110.99	118.77	114.47	147.43

Note: All import figures are reported fob
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$384.4 million – more than double the deficit recorded in the same quarter of 2006/07. Between Q3 of 2006/07 and Q3 of 2007/08, outflows in the Services Account increased by US$208.8 million, with transportation services accounting for about 21.8 percent of this increment. On the other hand, inflows on the Services Account increased by US$14.0 million (or 11.9 percent) vis-à-vis the inflows in Q3 of 2006/07.

Outflows on the Income account were estimated at US$99.5 million in the review period, US$24.2 million more than the income outflows recorded in the quarter ending March 2007. This was mainly attributable to an increase in compensation of employees and estimated outflows of direct investors' income. Income inflows were recorded at US$42.5 million, up from US$21.3 million recorded in Q3 of 2006/07. This was on account of an increase in interest earned on the central bank's deposits abroad.

8.3 Current Transfers

During the period under review net current transfers were estimated at US$559.3 million, US$348.8 million more than the US$210.5 million realized in the corresponding period of 2006/07. This was mainly on account of private sector transfers, in particular transfer from NGOs and other international aid organizations, which increased by US$308.5 million between Q3 of 2006/07 and Q3 of 2007/08. On the other hand, outflows of workers' remittances increased by US$322.7 million over the same period.

8.4 Capital and Financial Account

During the quarter ending March 2008 the Capital and Financial Account balance recorded a surplus of US$260.5 million – the improvement brought about by increased direct and portfolio investment inflows. These increased by a combined total of US$28.5 million between Q3 of 2006/07 and Q3 of 2007/08.

During the review quarter, Government acquired loans to a tune of US$27.3 million, vis-à-vis US$43.0 million borrowed in the corresponding quarter in 2006/07.

8.5 Donor flows

During the review quarter, total disbursements of foreign aid (for budget support and projects) were estimated at US$146.9 million, vis-à-vis US$101.2 million recorded in the corresponding quarter of 2006/07. The increment was mainly on account of budget support grants, which increased from US34.1$ million to US$74.7 million between the two periods. Table 24 below provides a summary of foreign aid inflows to Government.

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

	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8
Total Foreign Aid	**101.19**	**361.46**	**94.82**	**172.38**	**146.88**
Grants	58.20	85.83	54.13	149.34	119.57
Loans	43.00	275.63	40.69	23.04	27.31
Budget Support	**47.79**	**286.56**	**25.18**	**101.44**	**85.61**
Grants	34.12	70.30	25.18	101.44	74.65
Loans	13.67	216.27	-	-	10.96
Project Support	**53.40**	**74.90**	**69.65**	**70.94**	**61.27**
Grants	24.07	15.53	28.96	47.90	44.92
Loans	29.33	59.37	40.69	23.04	16.35

Source: Bank of Uganda

Following these developments in the balance of payments, the international reserves held by the Bank of Uganda were recorded at US$2.7 billion in the quarter under review, representing 6.94 months of future imports of goods and services.

8.6 External Debt

8.6.1 Debt Stock

External debt stock figures are only available upto December 2007. Uganda's stock of outstanding and disbursed debt was estimated at US$ 1,590.3 billion in the quarter ending December 2007; US$ 309.9 million more than the March 2007 level estimated at US$ 1,280.4 billion. 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 December 2007 are shown in Table 25 below.

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

Creditor Category	Mar-07	Jun-07	Sep-07	Dec-07
Multilateral	991.36	1,180.06	1,282.36	1,346.37
Non-Paris Club Bilateral	214.79	213.74	177.40	177.32
Paris Club Bilateral	67.53	66.19	66.88	66.16
Commercial	0.50	0.46	0.46	0.43
Commercial Non Bank	6.24	6.37	0.00	0.00
Grand Total	**1,280.42**	**1,466.83**	**1,527.11**	**1,590.28**

Source: Bank of Uganda

8.6.2 Debt Service

During the quarter ending March 2008, 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$20.7 million. Resources generated under the HIPC initiative covered a sizeable amount of the debt service during this period amounting to US$12.7 million. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 3.3 percent for the quarter under review, compared to 3.5 percent recorded in the corresponding quarter of 2006/07.

9.0 REAL SECTOR AND DOMESTIC PRICE DEVELOPMENTS

9.1 Domestic price developments

9.1.1 Consumer Price Index (CPI)

During the quarter ended March 2008, the year on year headline inflation edged up to 7.6 percent from 5.6 percent in the previous quarter. On the same note, annual core inflation[3] edged up to 8.1 percent from 6.8 percent in the quarter ended December 2007, higher than 7.7 percent registered over the same quarter a year ago.

The development in inflation during the quarter was mainly attributable to the following:

- The increase in prices of food crop and manufactured food items. Prices of food crops rose on account of seasonal factors and high demand from regional countries while manufactured food items particularly soda, and refined oil went up due to higher cost of production.
- The fuel crisis experienced during the quarter following the Kenya presidential post election violence that led to an increase in the cost of production and difficulties in importation and distribution of products. This was supplemented by the upward surge in the international prices of crude oil.

The Energy, Fuel and Utilities (EFU) inflation eased to 10.1 percent in the quarter under review from 10.8 percent in the previous quarter. This was due to slower annual increase in the average price of petroleum products. The average annual food crop inflation rose to 3.1

[3] Excludes food crop items, electricity, metered water and fuel.

percent from -4.4 percent during the quarter ended December 2007 on account of slower decline in most food crops prices particularly matooke.

Further breakdown into contribution by each group, indicates that the inflation contribution by the food group exceeded all the other categories during the quarter ended March 2008. 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)	Core Inflation (Percent)	EFU Inflation (percent)	Food crops Inflation (percent)
Sep 2006	7.4	5.8	22.5	7.3
Dec 2006	9.3	7.3	30.2	12.8
Mar 2007	7.7	7.8	34.1	-2.8
Jun 2007	5.7	6.6	29.4	-2.9
Sep 2007	5.0	5.7	17.5	-4.9
Dec 2007	5.6	6.8	10.8	-4.4
Mar 2008	7.6	8.1	10.1	3.1

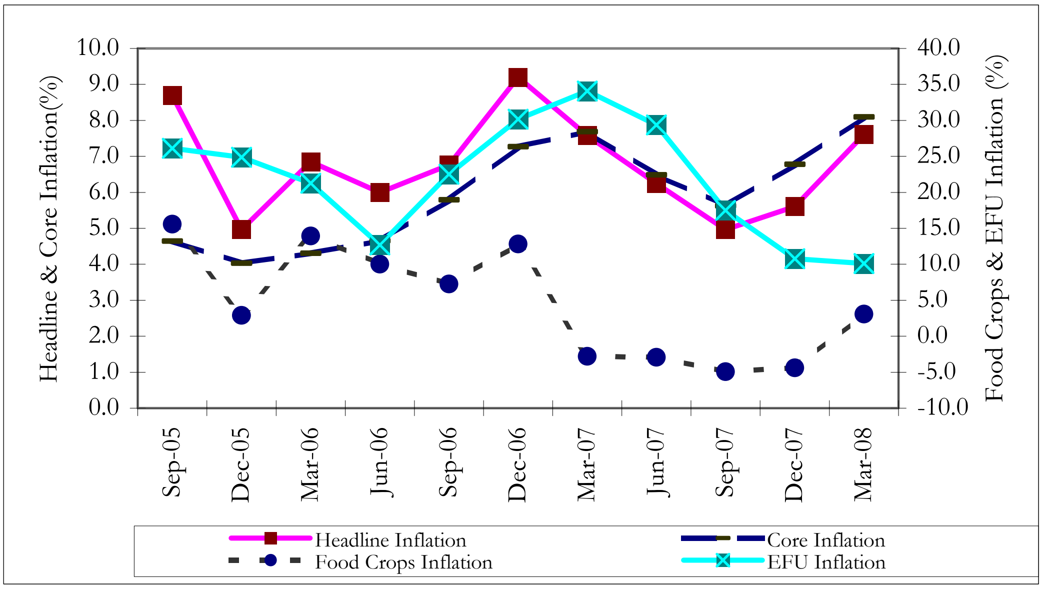
Source: Uganda Bureau of Statistics

Table 27: Quarterly contribution by different groups to Headline Inflation

Groups	Weights	Jan-Mar 2007	Apr-Jun 2007	Jul-Sep 2007	Oct-Dec 2007	Jan-Mar 2008
Total	100	7.7	5.7	5.0	5.6	7.6
Of which:						
Food	27.2	1.7	0.8	0.4	-0.1	1.6
Beverages & Tobacco	4.7	0.1	0.0	0.2	0.3	0.2
Clothing & Footwear	4.4	0.2	0.2	0.2	0.3	0.4
Rent, Fuel & Utilities	14.8	3.1	3.2	1.9	1.9	1.2
Household & Personal goods	4.5	0.2	0.2	0.3	0.3	0.6
Transport & Communication	12.8	1.0	0.7	0.6	1.0	1.6
Education	14.7	0.6	0.6	0.7	1.0	0.9
Health, Entertainment, & Others	16.8	0.9	0.9	0.8	0.8	0.9

Source: Computed from UBOS data

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[4](PPI) rose to 15.0 percent in the quarter ended March 2008 from 9.2 percent recorded in the quarter ended December 2007. This was higher than the rate of 11.2 percent registered in the same quarter a year ago. The increase was due to a general increase in prices for all the entire sub sectors particularly food processing; chemicals, paints, soap, and foam products; bricks and cement; and metals and related products.

The annual prices of goods sold in the local market went up by 13.7 percent in the quarter ended March 2008 compared to an increase of 10.1 percent in the quarter ended December 2007. This was mainly due to increased cost of raw materials supplemented by a rise in transport costs. Notable increases were in: Soap and Chemicals (51%); Structural Metal Products (26.5%); Vegetable and Animal Oils (63.7%); and Bricks & Cement (24.6%).

The prices of goods sold in the exports market rose by 18.6 percent compared to 6.7 percent in the quarter ended December 2007. This is attributed mainly to higher prices of food processing. Fish prices arose due to scarcity of mature fish while tea prices rose following the high demand for it at the auction market. The developments in producer prices are indicated in Table 27 and Figure 22 below:

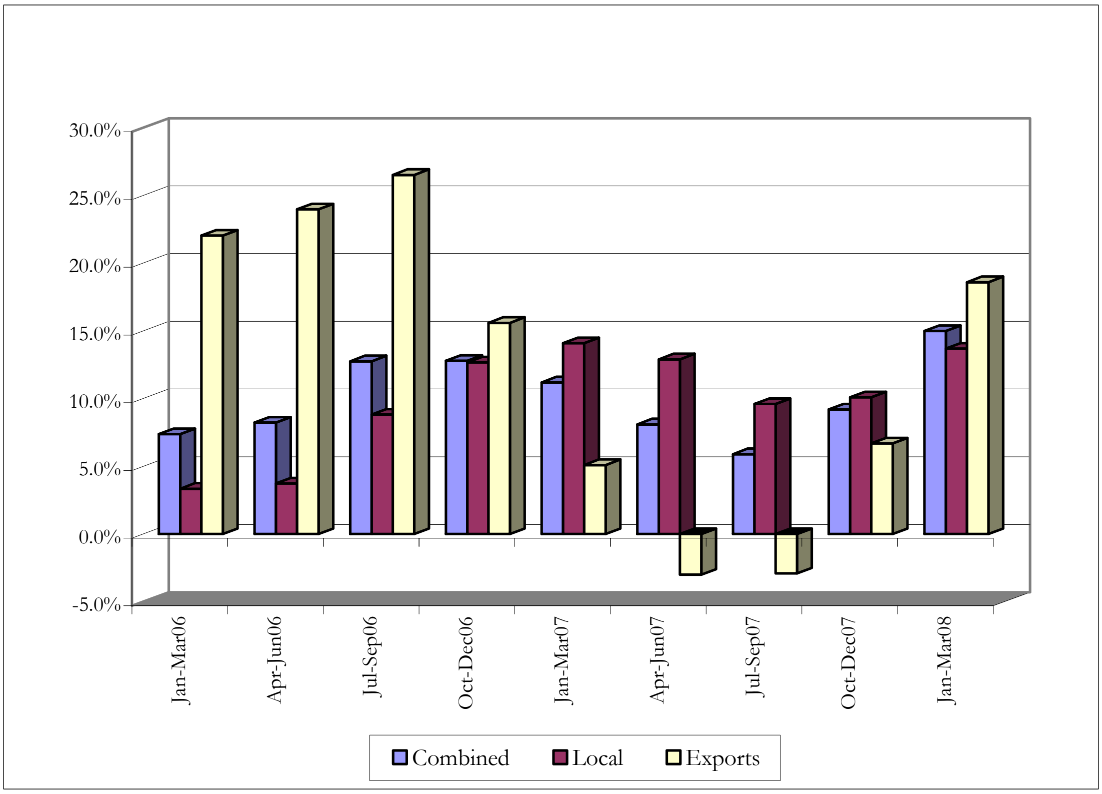
[4] This is a combined index of prices of products produced for the local and exports markets. It measures the relative prices received by domestic producers on their products sold in the local and exports markets.

Table 27: Developments in Producer Prices

Quarter Ending	Combined Annual (%)	Local Annual (%)	Export Annual (%)
March 2006	7.4	3.3	22.1
June 2006	8.2	3.7	24.1
September 2006	12.7	8.8	26.7
December 2006	12.8	12.6	15.6
March 2007	11.2	14.1	5.1
June 2007	8.1	12.9	-3.0
September 2007	5.9	9.6	-2.9
December 2007	9.2	10.1	6.7
March 2008	15.0	13.7	18.6

Source: Uganda Bureau of Statistics

Figure 22: Developments in Producer Prices



Source: Uganda Bureau of Statistics

9.2 Energy Sector

9.2.1 Energy Consumption

The total number of electricity customers further decreased by 0.1 percent to 302,798 live customers in the third quarter of 2007/08. The huge decline in commercial customers is the reason for the decline in the overall number of customers; disconnections of clients with huge unpaid bills can possibly explain this decrease. However, in the same period, electricity consumption increased by 7.80 percent mainly due to the steady UMEME electricity supply. Also, UMEME electricity purchases from UETCL in the third quarter of 2007/08 increased by 0.99 percent largely because of the increased electricity generation by UETCL following the high water levels at the generation dam in the quarter. Table 28 summarizes the electricity consumption

Table 28: Electricity Consumption Parameters by category of consumer

	Q3 2006/07	Q2 2007/08	Q3 2007/08	Annual Change	Quarterly Change
Average number of Live Customers					
Domestic	274,436	276,998	277,111	0.98	0.04
Commercial	24,089	24,677	24,153	0.27	-2.12
Industrial	1,032	1,109	1,167	13.08	5.23
Street Lighting	310	317	366	18.07	15.46
Total	**299,866**	**303,101**	**302,798**	**0.98**	**-0.10**
Total consumption in GWH					
Domestic	77.42	75.13	73.92	-4.52	-1.61
Commercial	38.55	37.23	40.06	3.92	7.60
Industrial	167.39	179.06	192.30	14.88	7.39
Street Lighting	0.08	0.23	0.83	937.5	260.87
Total	**283.44**	**291.68**	**305.54**	**4.75**	**7.80**
Purchases in GWH					
UMEME purchases from UETCL	429.11	464.1	468.70	109.23	0.99

Source: Umeme Limited

9.3 Finance Sector

9.3.1 Activities at the Uganda Securities Exchange (USE)

Equity trading at the Uganda Securities grew in the third quarter of 2007/08 in respect to turnover and Market capitalisation. However, volume of shares and the all shares index declined.

Total turnover and Market capitalization rose by 17.29 percent and 7.65 percent respectively in the third quarter 2007/08. While volume of shares and the all shares index dropped by 51.81 percent and 5.39 percent respectively during the same period. The trend of the all shares index continues to follow a random walk as shown in chart 1.

Notably, the listed banks were dominant accounting for about 84 percent of the turnover in the period. Stanbic Bank Uganda counter accounted for over 69percent of the total number of shares traded, where as, EABL, JHL and KA counters stayed inactive in the same period. Table 2 below provides details on the Uganda securities exchange developments.

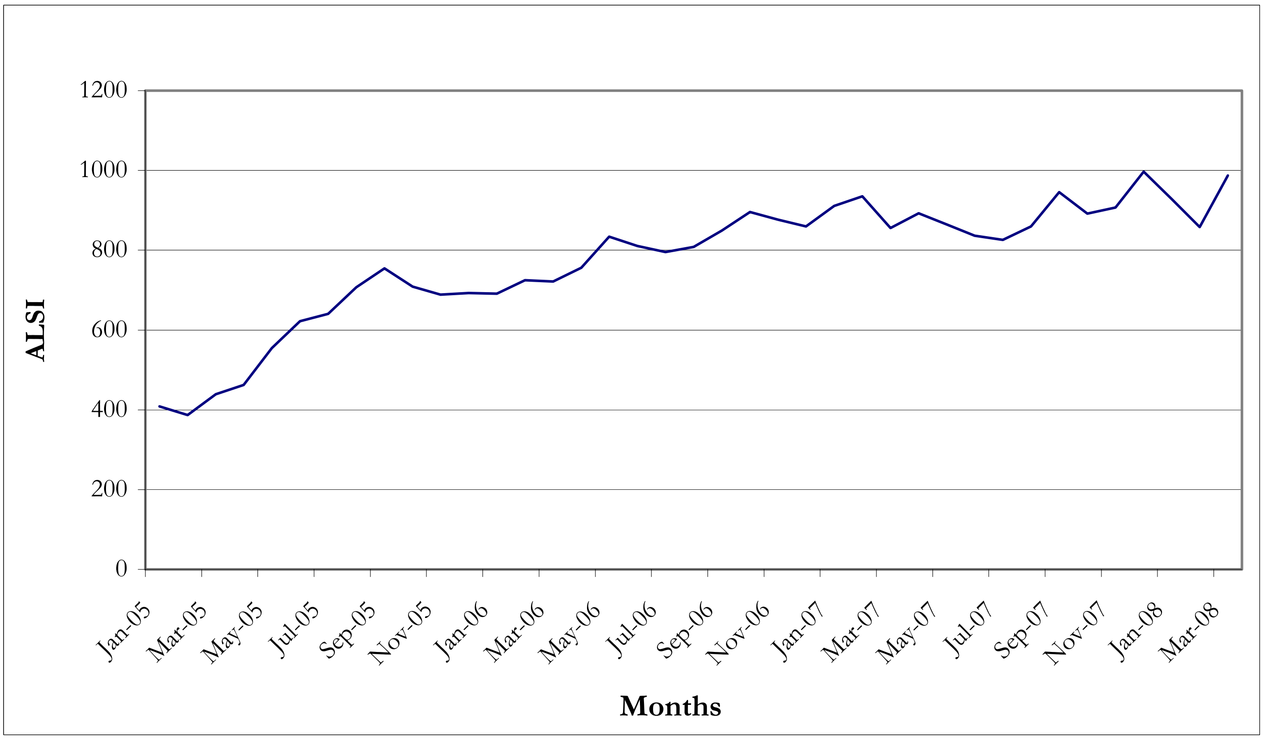
During the quarter January to March 2008, Kenya's leading telecommunication giant Safaricom, issued IPO for the broader East African securities exchange market. All East Africans were treated as 'Domestic Applicants'. Table 29 below provides details on the Uganda securities exchange developments while figure 23 shows the trend of the All share index (ALSI).

Table 29: Trading at Uganda Securities Exchange:

Averages	Q3 2006/07	Q2 2007/08	Q3 2007/08	Annual Change	Quarterly Change
Turnover (Ushs)	25,646,796,295	28,337,797,080	33,237,568,045	29.60	17.29
Number of Shares traded	147,741,119	137,268,901	66,150,647	-55.23	-51.81
Market Capitalisation (Bn Ushs)	4,568.10	5080.56	5,469.23	19.73	7.65
USE-All Share Index	855.26	931.80	881.56	3.07	-5.39

Source: Uganda Securities Exchange

Figure 23: USE ALSI trend map- January 2005 to March 2008



Source: Uganda Securities Exchange

9.3.2 Leasing Activities

The value of assets disbursed in the third quarter of 2007/08 dropped by 55.27 percent. On account of a huge decline in assets leased to the Mining and Construction sector. Leasing to this sector not only suffered from the aftermath of the CHOGM boom but also was greatly hit by the increases in prices of other raw materials used in construction. Other sectoral decreases were registered in manufacturing, transport, communication and other services. While minor increases were registered in commerce and trade, and agriculture. The total value of assets disbursed in the quarter under review was Ushs. 2,447.21 million. Table 30 below depicts developments in the leasing sector from July 2006 to September 2007.

Table 30: Sectoral distribution of disbursements for leased assets (Shs. million)

	Leasing Disbursements (Ushs Mn)			Percentage Changes	
Sector	**Q3 2006/07**	**Q2 2007/08**	**Q3 2007/08**	**Annual**	**Quarterly**
Transport	692.58	563.46	528.77	-23.65	-6.16
Commerce & Trade	215.50	56.02	86.60	-74.01	54.59
Communication	36.75	65.91	60.18	63.76	-8.69
Mining & Construction	270.54	3,734.76	641.13	-136.98	-82.83
Tourism	-	-	-	-	-
Health	6.00	-	-	-100	-
Agriculture	290.61	278.81	919.90	216.54	229.94
Manufacturing	318.29	683.00	164.19	-48.42	-75.96
Education	-	-	-	-	-
Banking	-	-	-	-	-
Real Estate	23.73	-	-	-100	-
Personal	-	-	21.61	100	100
Other Services	-	89.22	24.84	100	-72.16
TOTAL	**1,853.99**	**5,471.20**	**2,447.21**	**32.00**	**-55.27**

Source: DFCU Leasing

9.4 Investment Activity

According to the Uganda Investment Authority (UIA) estimates, in the third quarter of 2007/08, UIA licensed 88 projects. Most of the investments in the quarter were in the manufacturing sector and also in the real estate and development sector. These brought in a total of US$ 379.5 million and created about 8,225 jobs. The high growth rate and macroeconomic stability explains the continued attraction of investors to Uganda. These investments have boosted the investment share in GDP and also tax revenues.

The top ten investment sources in the third quarter were; Uganda, Kenya, Finland, China, India, UAE, Netherlands, Australia, Russia and Armenia in descending order. Finland is the surprise source of investment to Uganda from this list coming third with one big investment in a real estate development project. Table 31 summarises the investment activities during the quarter ended March 2008

Table 31: Uganda Investment Authority (UIA) -performance indicators January –March 2008

SECTOR	No. of Projects	Planned Investment (USD)	Planned Employment.	% of (Investment) total
Agriculture, Forestry & Fishing	5	8,426,000	476	0.0222
Manufacturing	35	167,868,000	3,605	0.4423
Mining & Quarrying	5	11,996,000	904	0.0316
Wholesale & Retail Trade, Catering	6	2,605,000	175	0.0007
Electricity, gas & Water	1	5,700,000	76	0.0150
Transport, Communication & Storage	8	44,848,000	487	0.1182
Finance, Insurance, Real Estate & Business Services	23	118,368,000	1,700	0.3119
Construction	3	3,838,000	262	0.0101
Community, Social and Personal services	2	15,860,000	540	0.0418
Totals	**88**	**379,509,000**	**8,225**	**1.0000**

Source: Uganda Investment Authority

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 energy shortage. In the forthcoming period, the Bank of Uganda will continue pursuing appropriate monetary and exchange rate policies geared towards consolidating macroeconomic stability gains so far achieved while ensuring stability in both the money and foreign exchange markets.