BANK OF UGANDA

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1. INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the second quarter of 2007/08. Overall, conditions in the economy remained broadly stable and improved despite the continued shortage of power and the relatively high international oil prices..

2. MONETARY AND FINANCIAL DEVELOPMENTS

During the quarter ended December 2007, 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 and Common Wealth Heads of Governments Meeting (CHOGM) related activities. 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 appreciation pressures in the foreign exchange market in November 2007 provided limited opportunities for sterilization of liquidity through the sales of foreign exchange in the Inter-bank Foreign Exchange Market (IFEM). Consequently, the Bank intervened on the purchase side and also suspended the daily sales of foreign exchange in the IFEM up to the end of the quarter. Although the margin within the Rediscount and Bank rates remained unchanged at 5.7 percentage points, the Rediscount rate and the Bank rate decreased slightly from 13.8 percent and 14.8 percent as at end-September 2007 to 13.7 percent and 14.7 percent, respectively, by the end of December 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.

Bank of Uganda also continued to use the Treasury securities as the main liquidity sterilization instrument. In line with the bi-monthly auction system with a predetermined range for the auction volumes, Treasury bills worth Shs. 439.3 billion at face value were issued over the quarter against maturities of Shs. 323.2 billion, resulting into net issues of Shs. 116.1 billion compared with net issues of Shs. 72.4 billion in the quarter ended September 2007 and net redemptions of Shs. 28.6 billion in the corresponding period a year ago. In addition to the scheduled treasury bill auctions, treasury bills worth Shs. 9.5 billion were sold to the commercial banks to use as collateral against failure to settle in the clearinghouse.

During the quarter under review, two 2-year bonds, a 5-year and a 3-year bond were issued with respective face values of Shs. 40.0 billion, Shs. 60.0 billion and Shs. 60.0 billion to support monetary policy implementation and financial market development. Furthermore, treasury bonds worth Shs. 67.0 billion were issued and sold in an unscheduled auction specifically targeting agents with excess liquidity. Thus, following maturities of Shs. 145.0 billion, the net effect of the treasury bond instrument in this quarter was a net withdrawal of liquidity amounting to Shs. 133.6 billion at cost, with the total outstanding stock of bonds amounting to Shs. 1,256.7 billion by the end of the quarter.

The Bank of Uganda maintained its presence in the IFEM under the sterilization and intervention strategy to mop up excess liquidity and to restore stability in the foreign exchange market. However, appreciation pressures towards the end of October 2007 prompted the authorities to temporarily halt the daily sterilization operations. Consequently, Bank of Uganda's actions in the IFEM amounted to a net sale of US$ 34.2 million over the quarter under review compared to a net sale of US$55.9 million registered in the preceding quarter, and a net purchase of US$42.5 million in the corresponding quarter a year ago.

In the second quarter of 2007/08, the shilling depreciated by 0.4 percent against the US dollar from an average of Shs. 1,716.6 in the first quarter to Shs. 1,722.9, compared to a depreciation of 1.7 percent in the first quarter of 2007/08. The slight weakening of the shilling over the quarter under review was mainly due to base effects since the shilling registered an appreciation trend for most of the quarter. Both he Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices depreciated by 3.5 percent and 2.0 percent during the quarter under review compared to a depreciation of 2.7 percent and 4.7 percent registered in the quarter ended September 2007.

The balance of payments registered an overall surplus of US$205.3 million in the quarter ended December 2007 compared to a surplus of US$193.6 million recorded in the corresponding quarter in the year 2006 on account of improvements in the capital and financial account.

The annual core inflation rose to an average of 6.8 percent in the quarter under review, up from 5.7 percent registered in the earlier quarter, but lower than 7.3 percent registered over the same period a year ago. The rise in the average annual core inflation rate for the quarter ended December 2007 was partly due to higher transportation costs. Similarly, the annual headline inflation edged up to an average of 5.6 percent in the quarter under review from 5.0 percent, recorded in the quarter ended September 2007. This was however lower than the average of 9.3 percent registered in the quarter ended December 2006. The upward inflationary pressures were attributed to the increases in the prices of some food items; and meat and milk as a result of the outbreak of the foot and mouth disease in most cattle rearing areas.

Base money, which includes currency outside Bank of Uganda and the transaction balances of the operating commercial banks rose by Shs. 123.8 billion or 8.7 percent to Shs. 1,543.5 billion by the end-December 2007, up from Shs. 1,419.7 billion observed at the end of the preceding quarter, reflecting a relatively faster growth of reserve money compared to an increase of 5.8 percent registered in the quarter ended December 2006. The increase was mainly driven by currency outside the Central Bank, which increased by Shs. 148.7 billion to Shs. 1,182.9 billion, up from Shs. 1,051.3 billion recorded as at end-September 2007. However, the transaction balances of the operating banks at the Bank of Uganda reduced by Shs. 24.9 billion to Shs. 343.6 billion by end-December 2007.

2.1 Money supply

During the quarter ending December 2007, Broad Money M3, the sum of all private deposits and currency in circulation, expanded by 5.7 percent or Shs. 237.2 billion to Shs. 4,422.8 billion, reflecting a relatively similar growth of the monetary base compared to 5.6 percent registered in the quarter ending December 2006. On an annual basis, M3 grew by 21.97 percent in the year ending December 2007, compared to a growth of 16.9 percent for the corresponding year ending December 2006. Money supply M2A, composed of currency in circulation and shilling denominated private deposits, grew by 5.6 percent to Shs. 3,388.3 billion at end-December 2007, compared to a rise of 7.3 percent in the quarter ending December 2006.

The increase in money supply in the quarter under review was mainly driven by an increase in Currency in Circulation, which rose by 11.8 percent or Shs. 107.8 billion to Shs. 1,022.3 billion, and private foreign currency deposits, which rose by 5.8 percent or Shs. 56.8 billion to Shs. 1,034.5 billion. Over the same period, shilling time (comprising time, savings deposits and Certificates of deposit), and demand deposits grew by Shs. 36.3 billion and Shs. 36.3 billion respectively.

On the supply side, Net Domestic Assets (NDA) declined by Shs. 437.7 billion during the quarter ended December 2007, mainly on account of a rise in Other Items Net (OIN) of Shs. 425.6 billion and a decline of Shs 179.8 billion in Net Claims on Government (NCG), which outstripped an increase in claims on the private sector (PSC) of Shs 249.3 billion. During the period, Net Foreign Assets (NFA) rose by 15.8 percent or Shs. 674.9 billion to Shs. 4,939.7 billion, higher compared to a rise of 10.9 percent in the corresponding quarter ending December 2006. Bank of Uganda's Net Foreign Assets (NFA) expanded strongly by 14.0 percent or Shs. 534.4 billion to Shs. 4,345.5 billion, largely reflecting an increase in foreign reserves of Shs. 554.3 billion to Shs. 4,343.6 billion. NFA of commercial banks grew strongly by 30.9 percent to Shs. 594.1 billion, on account of a rise in external assets of Shs. 251.4 billion, which offset an increase in foreign liabilities of Shs. 110.8 billion.

During the quarter, net claims on government (NCG) by the banking system reduced by 179.8 billion, with government increasing its savings to Shs. 1,094.1 billion. Government savings at the Bank of Uganda improved by Shs. 317.7 billion to Shs. 2,325.8 billion during the quarter. The increase in government savings was mainly due to a rise in government deposits and administered funds of Shs. 747.5 billion, which more than offset a rise in advances to government of Shs. 429.8 billion. Net Credit to Government (NCG) by the commercial banks rose by Shs. 137.9 billion to Shs. 1,231.7 billion, due to an increase in commercial banks' investments in Government securities of Shs. 199.9 billion, which offset a rise in government deposits of Shs. 61.9 billion.

During the quarter under review, claims on the private sector (PSC) by the banking system rose by 8.9 percent or Shs. 182.1 billion to Shs. 2,219.7 billion, of which Shs. 2,199.3 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 similar to the growth of 9.0 percent observed in the corresponding quarter ended December 2006. The developments in the above aggregates over the quarter are shown in Table 1 below.

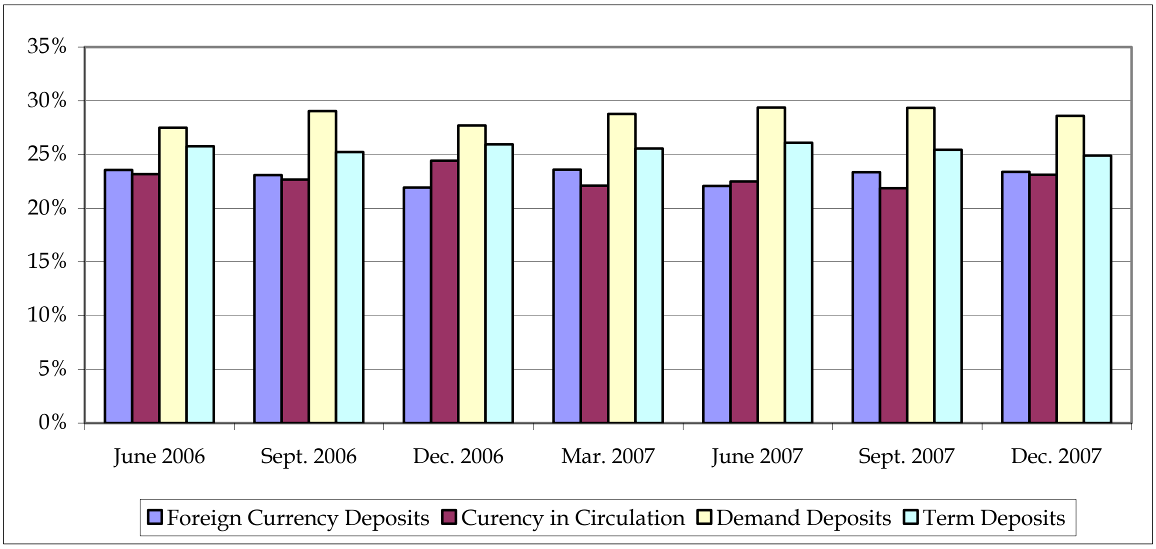
Table 1: Monetary survey, (Shs. billion, at the end of period)

Aggregate	Dec 06	Mar 07	June07	Sept. 07	Dec. 07	Change Sept. 07 to Dec. 07 Absolute	Percent
Net Foreign Assets (NFA)	**3,792.7**	**4,012.0**	**3,835.4**	**4,264.8**	**4,939.7**	**674.9**	**15.8**
o/w Bank of Uganda	3,164.1	3,326.0	3,330.9	3,811.2	4,345.5	534.4	14.0
o/w Commercial Banks	628.6	685.9	504.5	453.6	594.1	140.5	30.9
Net Domestic Assets (NDA) net of Revaluation	**586.4**	**603.0**	**490.3**	**389.1**	**31.3**	**-357.7**	**-91.9**
Net Domestic Assets (NDA)	**-166.5**	**-138.3**	**6.6**	**-79.3**	**-516.9**	**-437.7**	**28.2**
Net Claims on Government (NCG)	-521.1	-586.1	-731.6	-914.3	-1,094.1	-179.8	19.7
Claims on Public Entities	33.6	38.2	34.9	41.4	27.1	-14.4	-34.6
Claims on the Private Sector	1,716.7	1,739.5	1,812.9	2,037.6	2,219.7	182.1	8.9
Other Items (net)	-1,396.9	-1,330.7	-1,109.7	-1,244.0	-1,669.6	-425.6	34.2
Money Supply (M3)	**3,626.2**	**3,873.7**	**3,842.0**	**4,185.6**	**4,422.8**	**237.2**	**5.7**
Foreign Currency Deposits	794.8	913.9	848.1	977.6	1,034.5	56.8	5.8
Money Supply (M2A)	2,831.4	2,959.8	2,993.9	3,207.9	3,388.3	180.4	5.6
Money Supply (M2)	2,831.4	2,959.7	2,993.9	3,207.9	3,388.3	180.4	5.6
Term Deposits	941.2	990.0	863.7	1,064.9	1,101.2	36.3	3.4
Demand Deposits	1,004.4	1,114.1	1,127.9	1,228.4	1,264.7	36.3	2.9
Curency in Circulation	885.9	855.7	1,002.3	914.6	1,022.3	107.8	11.8

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits rose to 23.4 percent, compared to 21.9 percent at end-December 2006. The share of private demand deposits in M3 rose to 28.6 percent from 27.7 percent; the share of currency in circulation was at 23.1 percent, down from 24.4 percent at end-December 2006. The share of term deposits fell to 24.9 percent from 26.0 percent at end-December 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 3.2 percent or Shs. 47.5 billion to Shs. 1,543.5 billion. This outcome reflects slower growth of base money compared to 11.2 percent registered in the quarter ending December 2006.

Currency outside BOU increased by Shs. 148.7 billion to Shs. 1,199.9 billion, reflecting higher demand for notes and coins among the public, while commercial banks' operating reserves at BOU declined by Shs. 24.9 billion to Shs. 343.6 billion. Base money, which excludes commercial banks' investment in the Bank of Uganda instruments, grew by 8.7 percent or Shs. 123.8 billion over the quarter.

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

	Dec-06	Mar-07	June 07	Sept. 07	Dec. 07	Change Sept. 07 to Dec. 07	
						Absolute	Percent
Net Foreign Assets	**3,164.1**	**3,326.0**	**3,330.9**	**3,,811.2**	**4,345.5**	**534.3**	**14.0**
External Assets	3,182.9	3,344.9	3,347.7	3829.9	4,363.9	534.1	13.9
o/w Foreign Reserves	3,153.4	3,311.3	3,324.7	3,790.3	4,343.6	554.3	14.6
Foreign Liabilities	18.8	18.9	16.8	18.7	18.4	-0.3	-1.7
Net Domestic Assets	**-1,985.8**	**-2,090.9**	**-2,084.2**	**-2,425.2**	**-2,934.9**	**-509.8**	**21.0**
Claims on Government (net)	-1,346.1	-1,472.0	-1,712.7	-1,983.3	-2,325.8	-317.7	15.8
Claims on Private Sector	19.0	18.9	20.5	20.6	20.5	-0.1	-0.5
Claims on parastatals	4.4	4.3	4.2	4.1	4.1	0.0	0.0
Claims on Commercial Banks	111.0	115.1	113.4	110.0	132.9	22.9	20.8
Other Items, Net	-663.2	-642.0	-396.3	-441.8	-633.8	-191.9	43.4
Base Money + Investments in BOU Instruments	**1,289.3**	**1,350.3**	**1,360.1**	**1,496.0**	**1,543.5**	**47.5**	**3.2**
Base Money	1,226.6	1,230.3	1,242.5	1,419.7	1,543.5	123.8	8.7
Currency Outside BoU	1,026.3	965.6	981.1	1,051.3	1,199.9	148.7	14.1
Commercial Bank Deposits	270.9	333.5	330.6	434.8	408.6	-26.1	-6.0
Commercial Bank's Operational reserves	200.3	264.7	261.4	368.4	343.6	-24.9	-6.8
Commercial Banks Investment in BoU Instruments	62.8	120.0	117.6	76.3	0.0	-76.3	-100

Source: Bank of Uganda

3.0 THE ACTIVITIES OF COMMERCIAL BANKS

3.1 Overview

During the quarter ended-December 2007, the net foreign assets (NFA) of commercial banks increased by 30.9 percent to Shs. 594.1 billion. During the period, Net domestic assets (NDA) rose by 10.6 percent to Shs. 3,631.5 billion, net claims on the central government (NCG) grew by 12.6 percent or Shs. 137.9 billion to Shs. 1,231.7 billion. Net claims on Bank of Uganda fell by 30.6

percent to Shs. 308.5 billion, on account of a decline in commercial banks' deposits at Bank of Uganda. Cash in vaults rose by 29.9 percent from Shs. 136.7 billion to Shs. 177.7 billion over the quarter ending December 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)

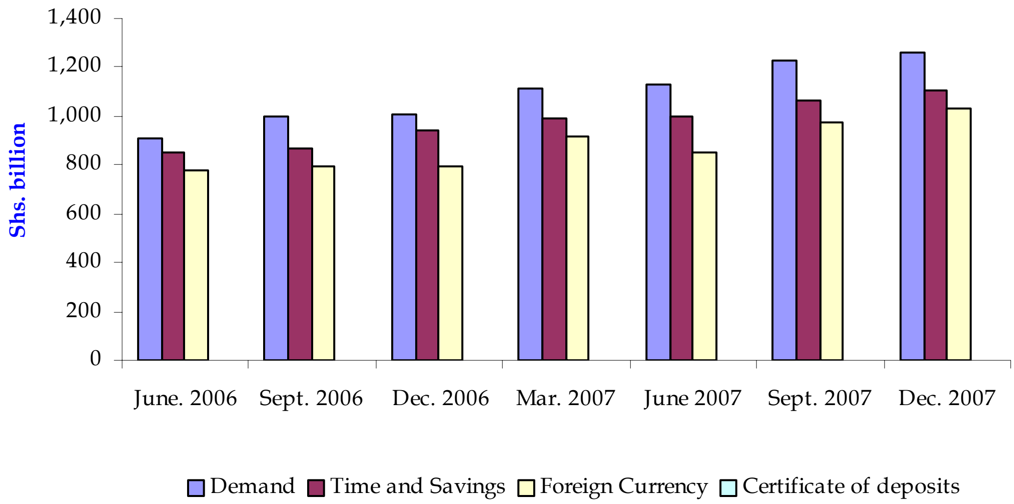
	Dec-06	Mar-07	June 07	Sept. 07	Dec. 07	Change Sept. 07 to Dec. 07 Absolute	Percent
Net Foreign Assets	**628.6**	**685.9**	**504.5**	**453.6**	**594.1**	**140.5**	**30.9**
External Assets	829.0	862.7	711.7	683.4	934.8	251.4	36.8
Foreign Liabilities	200.4	176.8	207.2	229.8	340.7	110.9	48.3
Net Domestic Assets	**2,693.6**	**2,751.1**	**2,921.8**	**3,284.8**	**3,631.5**	**346.6**	**10.6**
Claims on Central Government (net)	825.0	885.9	981.1	1,093.8	1,231.7	137.9	12.6
Claims on Private Sector	1,697.6	1,720.7	1,792.5	2,016.9	2,199.1	182.2	9.0
Cash in Vaults	140.5	109.9	117.5	136.7	177.7	40.9	29.9
Net Claims on Bank of Uganda	245.6	364.2	376.9	444.4	308.5	-135.9	-30.6
Other Items, Net	-827.3	-783.3	-824.9	-911.9	-1133.6	-221.8	24.3
Total Deposits	**2,740.4**	**3,017.9**	**2,978.4**	**3,270.9**	**3,400.5**	**129.5**	**3.9**
Demand Deposits	1,004.4	1,114.1	1,127.9	1,228.4	1,264.7	36.3	2.9
Time and Savings Deposits	941.1	989.9	1,002.3	1,064.9	1,101.2	36.3	3.4
Foreign Exchange Accounts	794.8	913.9	848.1	977.6	1,034.5	56.9	5.8
Certificates of Deposits	1.2	0.1	0.05	0.05	0.05	0.0	0.0

Source: Bank of Uganda

3.2 Deposits

Private deposits at commercial banks recorded a rise of 4 percent to Shs. 3,400.5 billion in the quarter ended December 2007. This outturn compares to a rise of 3.2 percent in the quarter ended December 2006 to Shs. 2,740.4 billion. In particular, foreign currency deposits increased by 5.8 percent to Shs. 1,034.5 billion during the quarter. Demand deposits grew by 2.9 percent to Shs. 1,264.7 billion, while term deposits rose by 3.4 percent to Shs. 1,101.2 billion at end-December 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

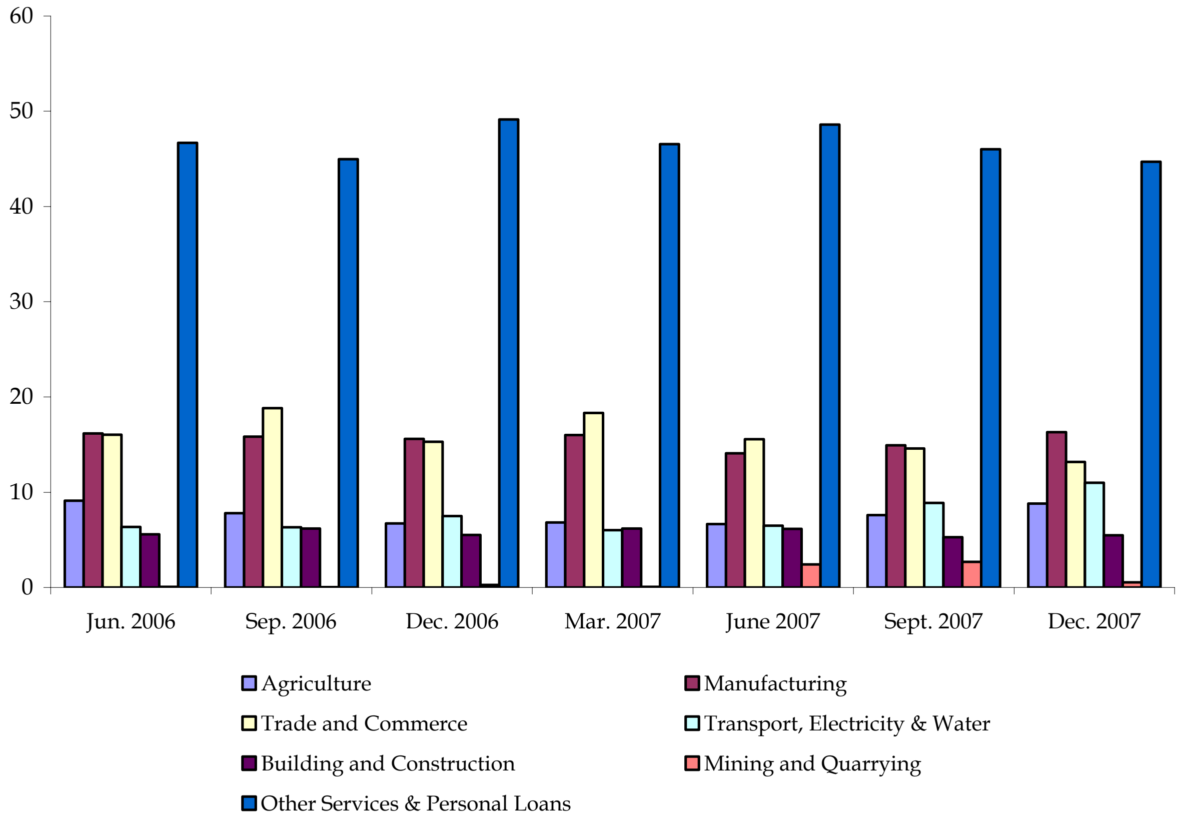
During the quarter under review, the total stock of outstanding credit to the private sector by commercial banks grew by 9 percent or Shs. 182.2 billion to Shs. 2,199.1 billion. This represented similar growth to the 9.3 percent recorded in the corresponding quarter ending December 2006.

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. 249.4 billion or 17.2 percent to Shs. 1,702.5 billion. The foreign currency denominated loans declined by 11.9 percent or Shs. 67.2 billion to Shs. 496.6 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 44.7 percent as at end-December 2007. The stock of outstanding credit to this sector grew by 5.2 percent to Shs. 998.1 billion. Lending to the agricultural sector rose by 25.5 percent to Shs. 197.1 billion at end-December 2007. The share of credit to agriculture in total credit was 8.8 percent, higher than 6.7 percent at end December 2006. Credit to the manufacturing sector rose strongly by 18.2 percent to Shs. 364.1 billion at end-December 2007. The share of the manufacturing sector in total credit was 16.3 percent compared to 15.6 percent for December 2006, respectively. Credit to Trade and Commerce fell by 2.2 percent to Shs. 294.1 billion and its share in total credit reduced to 13.2 percent from 15.3 percent.

The stock of credit to the transport, electricity and water sectors rose by 34.2 percent to Shs. 245.3 billion, and this sector's share in the total credit rose from 7.5 percent to 11 percent during the period under review. The building and construction sector outstanding borrowing stood at Shs. 122.4 billion by end-December 2007, marking a growth of 12.6 percent from the previous quarter, while its share as a percentage of total credit was unchanged at 5.5 percent. The mining and quarrying sector continued to have the least share of outstanding credit at 0.5 percent, or Shs. 12.0 billion, at end-December 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 second quarter of 2007/2008 amounted to Shs. 25.0 billion. By end December 2007, the total amount of transfers since 2004 amounted to approximately Shs. 325.1 billion. This represents an increase of 13.7 percent or 3.4 billion when compared with the position at end of second quarter 2006/07.

In addition, Shs. 78.2 billion was received over the counter bringing the cumulative position of funds collected over the counter to Shs. 346.0 billion. The bulk of these deposits were made in November, which accounts for 55.5 percent of all transactions or Shs. 43.4 billion.

Shs. 313.0 billion was disbursed on account of projects from BOU by the end of the quarter, with the month of November accounting for 53.1 percent of the total disbursements for the quarter. This translated into a net liquidity injection of Shs. 209.8 billion on account of government projects. This brings the cumulative position to a net injection of Shs. 1,141.5 billion.

Table 4: Net movement of Shilling balances on project funds

Values in Billions	Quarter 2 2006-2007	Quarter 3, 2006-07	Quarter 4, 2006-07	Quarter 1 2007-2008	Quarter 2 2007-2008	Period since Nov-04
From Commercial Banks to BOU	21.535	29.538	32.872	21.199	24.952	325.134
Government Transfers[1]	67.834	65.499	192.724	162.437	139.132	693.658
Cash deposits Over the Counter	13.166	17.956	114.102	60.678	78.226	346.016
Funds Utilised by Projects	125.569	152.385	409.192	274.199	312.995	1812.654
Net effect (+) = Injection (-) = Withdrawal	90.868	104.891	262.218	192.322	209.817	1141.504

Source: Bank of Uganda

3.5 Project dollar inflows

During the quarter, US$ 79.8 million was received from donors on account of projects, bringing the cumulative total of funds received on account of projects to US$566.8 million since November 2004. Of this amount, US $22.1 million was utilised by projects to pay for services in foreign exchange for Q2. This brings the total amount of funds spent by projects in foreign exchange to US$ 220.2 million.

Since the beginning of the Quarter, US$ 31.3 million has been sold to BoU and the shillings equivalent credited to the project's shilling accounts. This brings the cumulative total of dollars sold to BoU since the projects began to US$ 346.6 million. The balance on accounts is 113.7 million.

[1] This figure is the adjustment to government's expenditure on account of projects. This figure is subtracted from government's expenditure, since it is a transfer of funds with in BOU and does not impact on base money.

Table 5: Net Movement of Project Foreign Exchange Funds

Values in Millions	Quarter 1, 2006-07	Quarter 2, 2006-07	Quarter 3, 2006-07	Quarter 4, 2006-07	Quarter 1, 2007-08	Quarter 2, 2007-08	Period since Nov 2004
Receipts from Donors	82.382	43.960	76.347	107.214	65.804	79.826	673.818
Draw downs	66.582	57.512	47.743	86.572	76.752	53.388	566.779
Utilization FX	26.315	26.281	17.734	25.883	19.937	22.061	220.179
Conversion to Shs. (Sales to BOU)	40.267	31.231	30.009	60.689	56.815	31.327	346.600

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 December 2007, reflected by a rise of 4.6 percent of the total assets from Shs. 274.5 billion as at end-September 2007 to Shs. 287.3 billion as at end-December 2007. The institutions recorded a slightly slower growth during the quarter under review compared to that of 2.8 percent observed in the corresponding period to December 2006. The growth in assets during this quarter was largely attributed to the growth in total advances by CIs, which rose by 3.7 percent from Shs. 177.8 billion at end- September 2007 to Shs. 184.3 billion at the end of December 2007, mainly on account of an increase in mortgage loans which grew by 3.1 percent over the period. Table 6 below shows the quarterly evolution of assets of credit institutions.

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

	Dec-06	Mar-06	Jun-07	Sep-07	Dec-07	Change Sep 07 to Dec 07 Absolute	Percent
Cash in vaults	3.9	3.8	3.5	3.9	5.2	1.3	34.1
Balance with Commercial Banks & associated companies	41.3	44.6	44.8	49.8	51.2	1.4	2.7
Investments	13.1	12.9	14.3	12.8	14.3	1.5	11.6
Total Advances [1]	153.8	162.6	170.7	177.8	184.3	6.5	3.7
Premises and other fixed assets	16.5	17.1	17.0	19.7	21.7	1.9	9.9
Other Assets [2]	10.0	9.7	11.0	10.5	10.6	0.1	0.8
Total	**238.6**	**250.7**	**261.5**	**274.5**	**287.3**	12.7	4.6

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

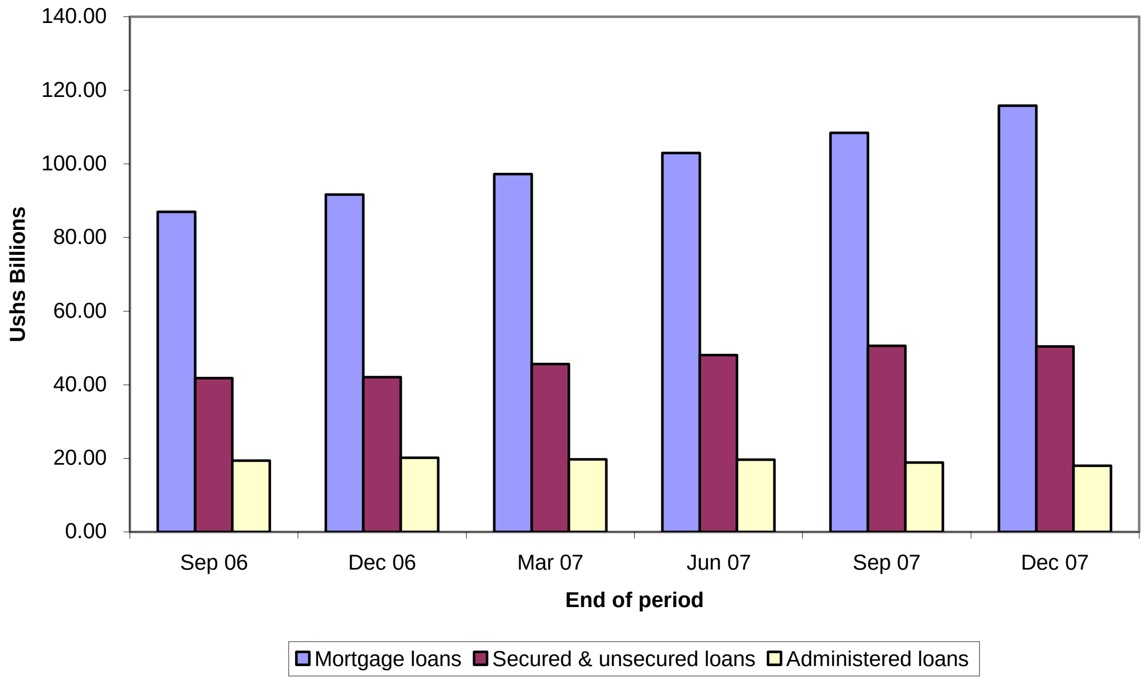
Source: Bank of Uganda

During the quarter under review, the CI's balances with commercial banks, inside and outside Uganda increased by 3.9 percent to Shs. 51.8 billion compared to 0.8 percent growth in the same period last year. Investments grew by 0.5 percent to Shs. 12.9 billion at end-December 2007, mainly on account of an increase in investments in government securities. Cash in vaults increased by 33.2 percent from Shs. 3.9 billion to Shs. 5.2 billion.

4.1.2 Credit to the private sector

During the quarter, mortgage loans increased by 6.9 percent to Shs. 115.9 billion as at end December 2007. Secured and Unsecured loans decreased by 0.3 percent from Shs. 50.6 billion to Shs. 50.4 billion while administered loans came down by 4.2 percent from Shs. 18.8 billion to Shs. 18.0 billion. The building and construction sector continued to attract the largest share of CIs credit at 63.6 percent as at end-December 2007. The ratio of non-performing advances to outstanding advances declined from 3.5 percent to 3.3 percent between September 2007 and December 2007. 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

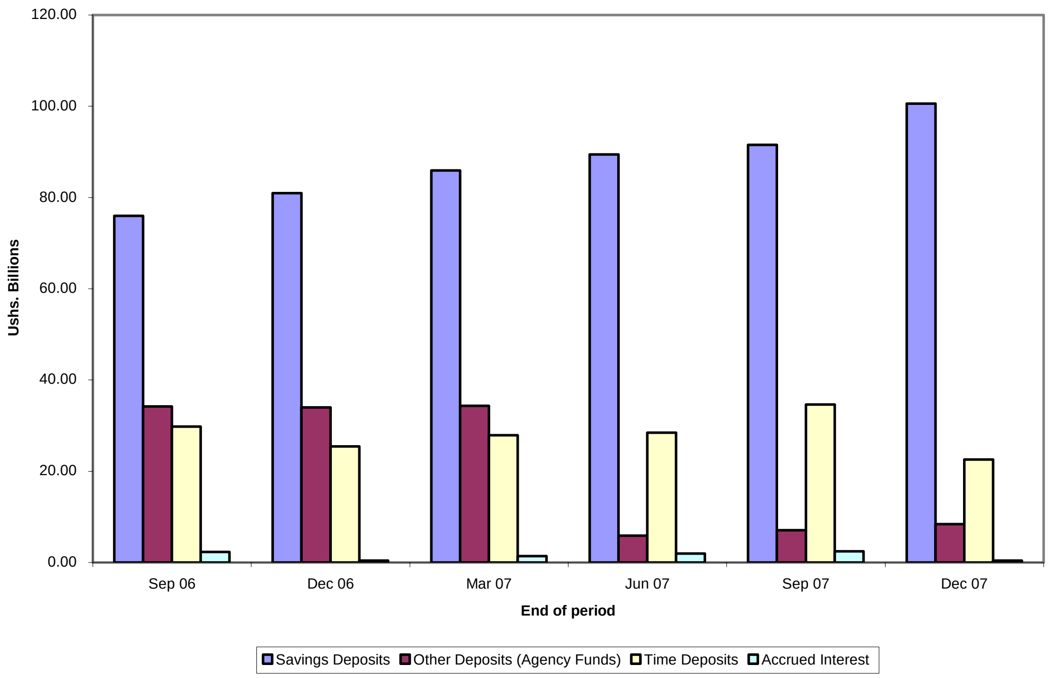
As summarized in Table 7 below, total deposits in the credit institutions fell by 2.7 percent or Shs. 3.6 billion to Shs. 132.0 billion at end-December 2007. The expansion in deposits during the quarter compares with a growth of 6.2 percent in deposits in the corresponding period in 2006. Total private sector held deposits fell by 2.4 percent to Shs. 123.1 billion, compared to an increase of 1.0 percent in the same quarter ended December 2006. In particular, Savings deposits grew by 9.9 percent to Shs. 100.6 billion, while Time deposits fell by 34.8 percent to Shs. 22.6 billion. Over the same period, other deposits, which mainly constitute agency funds, grew by 19.4 percent to Shs. 8.4 billion. Table 7 and Figure 5 below illustrate the evolution of the deposits between December 2006 and December 2007.

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

	Dec-06	Mar-06	Jun-07	Sep-07	Dec-07	Change Sep 07 to Dec 07	
						Absolute	Percent
Savings deposits	81.0	86.0	89.5	91.5	100.6	9.0	9.9
Time Deposits	25.5	27.9	28.5	34.6	22.5	-12.1	-34.8
Total private sector deposits	**106.4**	**113.8**	**117.9**	**126.1**	**123.1**	-3.0	-2.4
Agency funds	34.0	34.4	5.9	7.0	8.4	1.4	19.4
Accrued interests	0.4	1.4	2.0	2.4	0.5	-2.0	-81.5
Total deposits [1]	**140.9**	**149.6**	**125.8**	**135.6**	**132.0**	-3.6	-2.7
Administered funds	20.1	19.8	19.7	18.8	18.0	-0.8	-4.2
Capital and profit/loss	39.0	40.1	70.6	75.6	96.6	21.1	27.9
Others [2]	38.6	41.2	45.5	44.6	44.6	0.0	0.0
Total Liabilities	**238.6**	**250.7**	**261.5**	**274.5**	**291.2**	16.6	6.1

[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

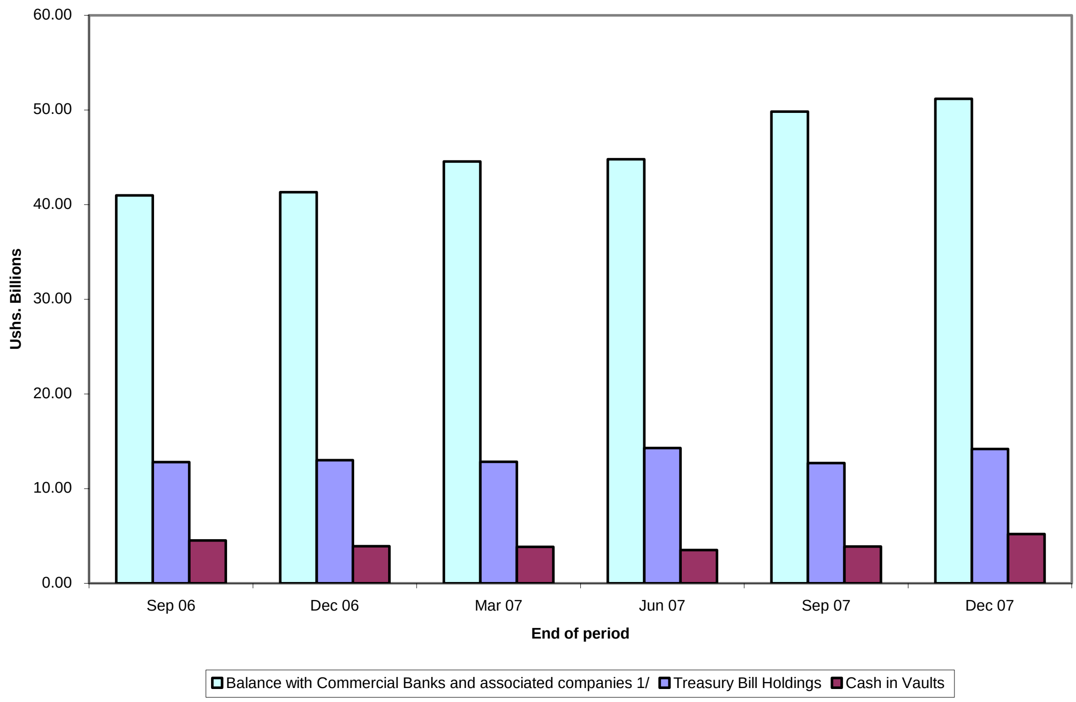
The level of liquid assets of Credit institutions grew by 6.3 percent to Shs. 70.6 billion as at end-December 2007 compared to a decrease of 0.2 percent registered at the end of December 2006. The growth in liquid assets was mainly on account of a 2.7 percent increase in balances with commercial banks, which continued to account for the largest share of these assets at 72.5 percent and an 11.7 percent increase 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)

	Dec-06	Mar-06	Jun-07	Sep-07	Dec-07	Change Sep 07 to Dec 07	
						Absolute	Percent
Cash in vaults	3.9	3.8	3.5	3.9	5.2	1.3	34.1
Treasury bill holdings	13.0	12.8	14.3	12.7	14.2	1.5	11.7
Balance with Commercial Banks & associated companies	41.3	44.6	44.8	49.8	51.2	1.4	2.7
Total	**58.2**	**61.2**	**62.6**	**66.4**	**70.6**	4.2	6.3

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 December 2007, the total assets held by MDIs stood at Shs. 162.4 billion, up from Shs. 153.5 billion recorded as at end September 2007. The September 2007 asset position of MDIs represented an increase of 5.8 percent or Shs. 8.9 billion in the total assets over this period compared to a 5.5 percent growth in total assets as at end December 2007. The increase in total assets resulted from an increase of Shs. 13.5 billion in investments in government securities and Shs. 8.3 billion in net loans outstanding, which accounted for the largest share of total assets at 64.6 percent. Table 9 and Figure 7 below; highlight the developments in assets and advances in the MDIs respectively

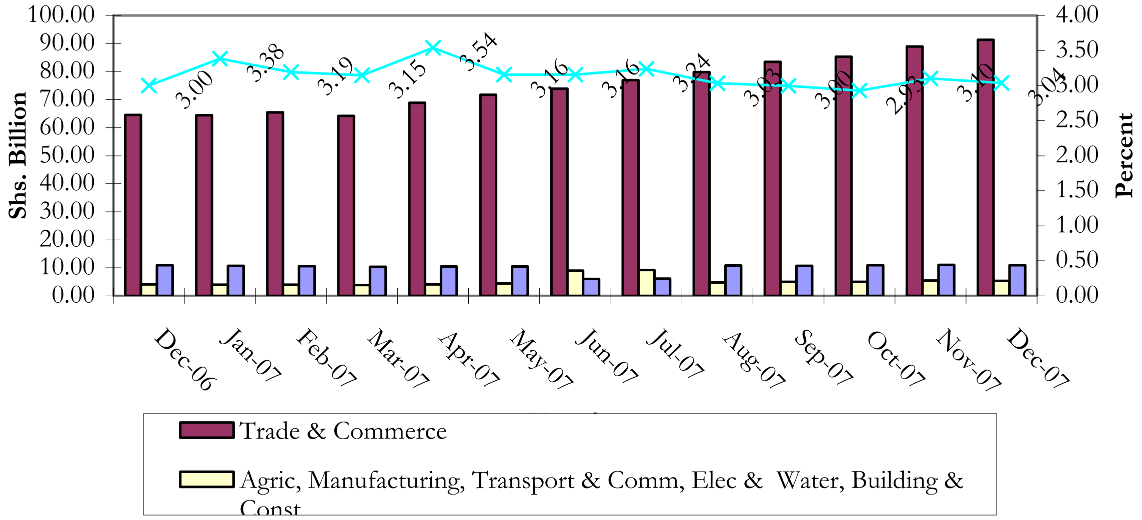
Table 9: Total assets of Microfinance Deposit-Taking Institutions (Shs. billion, at end period)

	Dec-06	Mar-06	Jun-07	Sep-07	Dec-07	Change Sep 07 to Dec 07 Absolute	Change Sep 07 to Dec 07 Percent
Notes and Coins	3.6	3.0	3.4	3.8	5.0	1.2	31.5
Balances with financial institutions in Uganda	14.6	22.9	15.4	18.9	20.1	1.2	6.3
Investents in Treasury bills	16.2	11.0	14.3	7.8	21.3	13.5	172.1
Net loans outstanding	76.9	79.2	86.5	96.5	104.8	8.3	8.6
Inter branch/Due from own offices	0.0	0.1	0.4	0.0	0.2	0.2	0.0
Net Fixed Assets	9.6	10.0	9.6	9.9	10.3	0.4	3.6
Long Term Investment	1.1	1.2	1.7	1.8	1.8	0.0	0.3
Other Assets	6.6	6.7	7.4	14.7	8.3	-6.4	-43.5
Total Assets	**128.6**	**134.0**	**145.4**	**153.5**	**162.4**	8.9	5.8

Source: Bank of Uganda

The stock of the outstanding loans to the private sector by MDIs increased by 8.5 percent from Shs. 99.3 billion to Shs. 107.7 billion during the quarter ended December 2007 compared to an 8.4 percent growth as at end December 2006. Allowances for loan losses (general and specific) increased by 2.7 percent to Shs. 2.8 billion, hence the net loans by end-December 2007 of Shs. 104.8 billion. In the same period last year, allowances for loan losses declined by 0.6 percent. The trade and commerce sector continued to hold the largest share of MDIs credit at 84.8 percent as at end-December 2007. The ratio of non-performing advances to total outstanding advances went down slightly from 3.2 percent to 3.0 percent between September 2007 and December 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 December 2007, private sector deposits in the MDIs amounted to Shs. 38.0 billion, representing an increase of 15.2 percent in deposits, which was lower growth compared to the 20.3 percent growth recorded during the corresponding quarter ended December 2006. Savings deposits increased by 11.8 percent to Shs. 29.5 billion while time deposits grew by 28.8 percent to Shs 8.5 billion. Total borrowing by the MDIs increased over the period under review by 6.3 percent from Shs. 43.9 billion to Shs. 46.6 billion. In the corresponding period last year, total borrowing grew by 7.8 percent. Short term borrowings valued at market rate increased by 6.8 percent to Shs. 41.9 billion while long-term debt (market rate) increased by 2.3 percent to Shs. 4.7 billion. Table 10 below shows the composition of MDIs' liabilities while Figure 8 shows the evolution of the MDIs' total deposits.

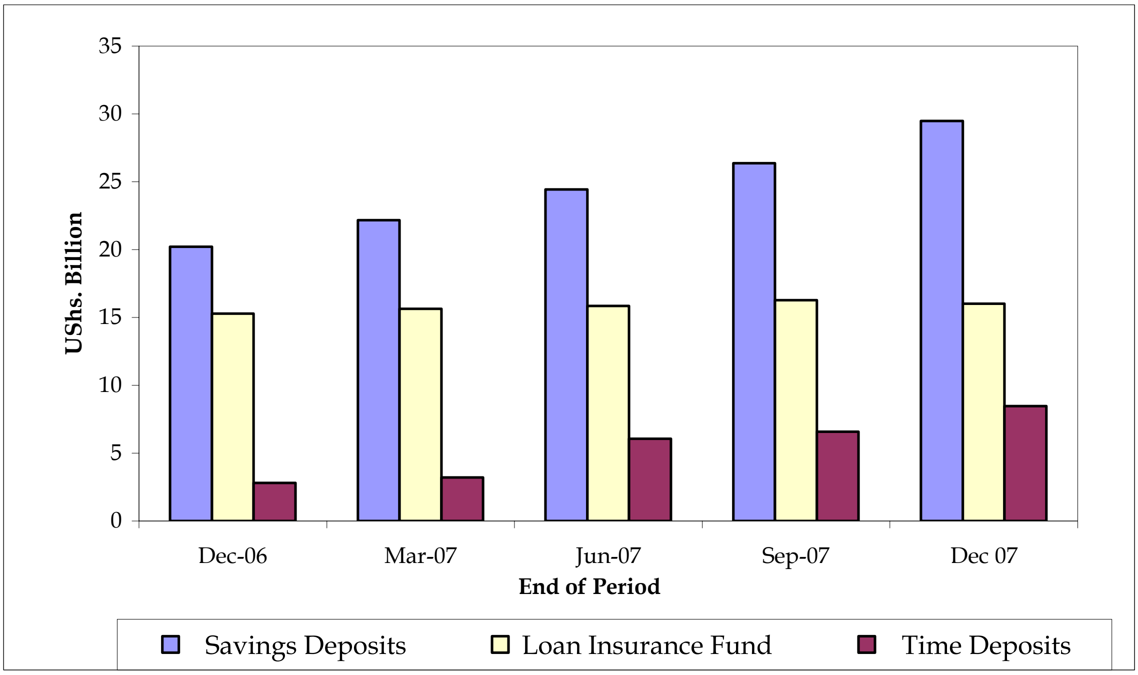
Table 10: The Composition of the Total Liabilities held in the Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Dec-06	Mar-06	Jun-06	Sep-06	Dec-07	Change Sep 06 to Dec 07	
						Absolute	Percent
Deposit Liabilities	**23.2**	**25.9**	**30.9**	**33.7**	**39.1**	5.4	16.1
Savings deposits	20.2	22.2	24.4	26.4	29.5	3.1	11.8
Time deposits	2.8	3.2	6.1	6.6	8.5	1.9	28.8
Total Private Sector Deposits	**23.0**	**25.4**	**30.5**	**32.9**	**38.0**	5.0	15.2
Accrued interest	0.2	0.5	0.4	0.8	1.2	0.4	51.2
Loan insurance fund	15.3	15.6	15.8	16.3	16.0	-0.3	-1.6
Total Borrowing	41.3	37.2	42.2	43.9	46.6	2.8	6.3
Short-term borrowing (market rate)	16.1	26.7	33.2	39.3	41.9	2.7	6.8
Long-term borrowing (market rate)	25.2	10.5	8.9	4.6	4.7	0.1	2.3
Other liabilities	8.4	9.8	9.5	9.6	**8.7**	-0.9	-9.2
Total liabilities	88.2	88.6	98.5	103.4	110.5	7.0	6.8
Total equity	22.7	24.1	27.1	30.0	31.6	1.6	5.5
Subordinated debt	13.9	17.5	16.1	16.3	16.5	0.2	1.1
Preference shares	3.8	3.8	3.8	3.8	3.8	0.0	0.0
Total liabilities and equity	**128.6**	**134.0**	**145.4**	**153.5**	**162.4**	8.9	5.8

[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 level of liquid assets of MDIs stood at Shs. 46.4 billion by end of December 2007, representing an increase of 52.0 percent or Shs. 15.9 billion compared to a 2.5 percent growth registered at the end of December 2006. 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.

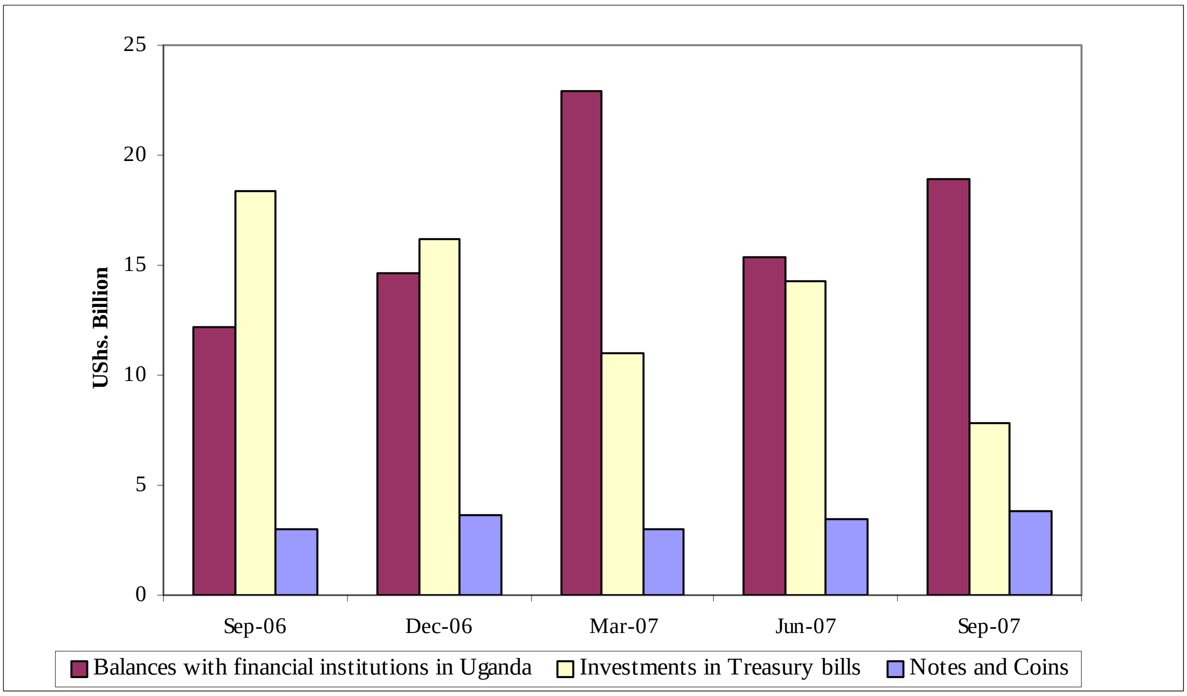
Table 11: Liquidity indicators of Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Change Jun 07 to Sep 07 Absolute	Percent
Notes and coins	3.0	3.6	3.0	3.4	3.8	0.4	10.3
Balances with financial institutions in Uganda	12.2	14.6	22.9	15.4	18.9	3.5	22.7
Investments in treasury bills	18.3	16.2	11.0	14.3	7.8	-6.4	-45.2
Total Assets	33.6	34.4	36.9	33.1	30.5	-2.6	-7.9
O/w encumbered fixed deposits [1]	3.0	3.6	3.0	3.4	4.5	1.1	32.4

[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)



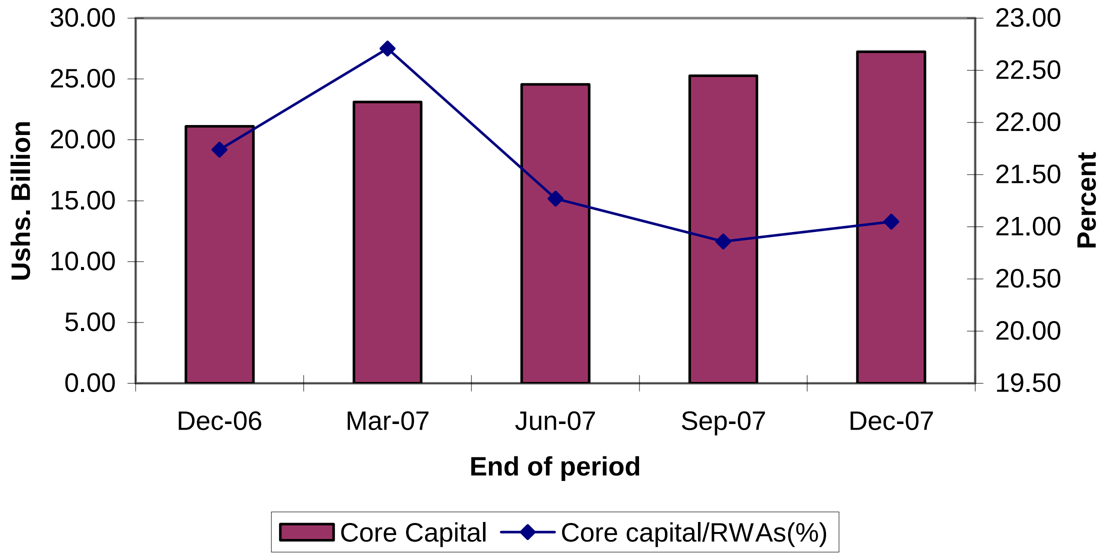
Source: Bank of Uganda

4.2.4. Capital adequacy

During the quarter ended December 2007, all MDIs maintained paid-up capital above the statutory minimum of Shs. 0.5 billion. 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.

Core capital increased by 7.9 percent or Shs. 2.0 billion from Shs. 25.3 billion to Shs. 27.3 billion at the end of the quarter under review. This was mainly due to an additional investor in one of the MDIs taking up 20 percent of equity and thus increasing paid up capital and share capital by Shs. 0.1 billion and Shs. 1.1 billion respectively. The core capital to risk weighted assets (RWAs) ratio was 21.1 percent while the total capital to risk weighted assets ratio was 31.2 percent during the period under review down from 19.9 percent and 31.0 percent respectively in September 2007, as a result of faster growth in Risk Weighted assets (RWA) of 2.1 percent or Shs. 2.7 billion which netted the 7.9 percent or Shs. 2.0 billion increase in core capital. Figure 10 below shows the overall trend in core capital to risk weighted assets indicators.

Figure 10: Capital adequacy indicators (end period)

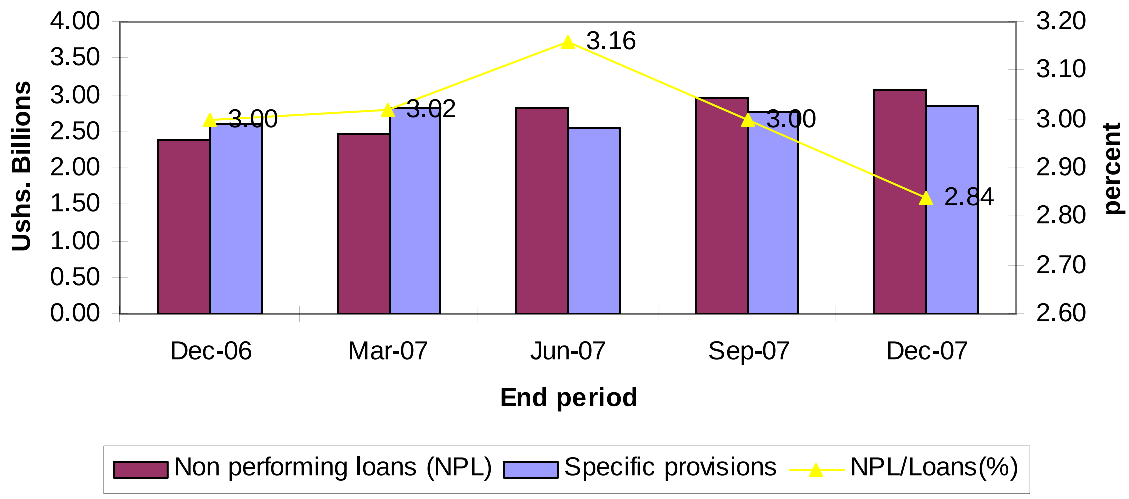


Source: Bank of Uganda

4.2.5 Asset quality

The overall Portfolio at Risk (PAR) was recorded at 2.8 percent compared to 3.0 percent in September 2007 on account of a more than proportionate increase in total loans compared to increase in NPL. All MDIs recorded PAR ratios below the maximum of 5 percent. However, Non-Performing Loans (NPL) however increased by 3.0 percent from Shs. 3.0 billion to Shs. 3.1 billion during the quarter under review.

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

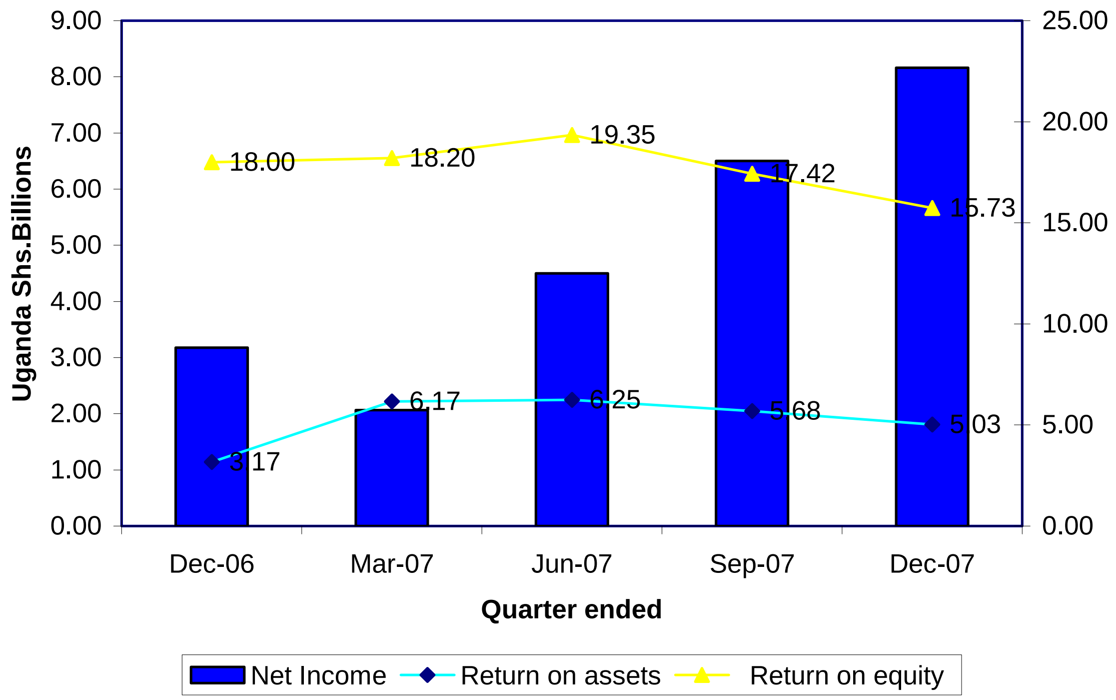


Source: Bank of Uganda

4.2.6 Profitability

Year-to-date Net profit, as at end-December 2007 was Shs. 8.2 billion compared to Shs. 6.5 billion as at the end of September 2007. The annualized return on assets and return on equity ratios were 5.0 percent and 15.7 percent respectively at the end of the quarter under review with the overall interest cover at 2.6 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.

Table 12: Key Financial and Performance Indicators

	Dec-06	Mar-06	Jun-07	Sep-07	Dec-07
Capital Adequacy					
Core capital, Shs. billion	21.1	23.1	24.5	26.4	27.3
Total capital, Shs. billion	32.8	35.2	37.0	39.3	40.4
Risk weighted assets (RWA), Shs. billion	97.1	101.7	115.4	126.8	129.4
Core capital/RWA ratio, percent	21.7	22.7	21.3	20.9	21.1
Total core capital/ RWA, percent	33.8	34.7	32.1	31.0	31.2
Asset Quality					
Total loans, Shs. billion	79.5	82.0	89.1	99.3	107.7
Portfolio in arreas (PIA), Shs. billion	2.4	2.5	2.8	3.0	3.1
Portfolio at risk ratio, percent	3.0	3.0	3.2	3.0	2.8
Total provisions, Shs. billion	2.6	2.8	2.5	2.8	2.9
Profitability					
Year to date Profit/Loss, Shs. million	3.2	2.1	4.5	6.5	8.2
Return on assets (YTD, annualized)	3.2	6.2	6.3	5.7	5.0
Return on equity (YTD, annualized)	18.0	18.2	19.4	17.4	15.7
Interest cover	1.7	2.9	3.0	2.7	2.6
Liquidity					
Total deposits, Shs. billion	23.2	25.9	30.9	33.7	39.1
Liquid assets, Shs. billion	24.5	28.7	35.05*	26.2	34.1
Liquid assets/Deposits, percent	105.5	110.6	113.5	77.6	87.1
Loans/Deposits (Lending Ratio), percent	60.4	42.0	58.2	66.6	65.8
Debt:Equity ratio	148.9	198.8	196.3	197.9	196.6

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, five new bonds were issued to absorb structural liquidity for a longer period. Compared to the rates

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

from the previous issues, the yields-to-maturity for the more frequently issued 2-year, and 3-year bonds rose against commercial banks' increasing demand for liquidity related to the Christmas season, and heavy end-quarter URA tax transfer obligations.

5.1.1. Primary market of Treasury bonds

During the quarter under review, two 2-year bonds, a 5-year bond, and a 3-year bond were issued with respective face values of Shs. 40.0 billion, Shs. 60.0 billion, Shs. 60.0 billion, and Shs. 51.6 billion. These bonds were over-subscribed by Shs. 33.6 billion, Shs. 24.6 billion, Shs. 33.7 billion, and under-subscribed by Shs. 1.1 billion. The subsequent bid-to-cover ratios were 1.8, 1.4, 1.6, and 0.9. The resultant Weighted Average Prices (WAP) per Shs. 100 and yields-to-maturity were Shs. 95.9, 93.4, 88.4, and 91.0; and 12.3, 13.9, 14.1, and 14.0 percent, respectively. These auctions, together with a non-market new 3-year bond issue of Shs. 67.0 billion and 2-year and 3-year bond maturities totaling Shs. 145.0 billion, brought the total outstanding stock of bonds to Shs. 1,256.7 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

	Dec 06	Mar 07	Jun 07	Sept 07	Dec 07
Stock of Treasury bonds (Shs. billion)	903.17	856.08	953.08	1,123.08	1,256.68
Change in stock (absolute)	110.0	-47.09	97.00	170.00	133.60
Price and interest rates (percent)					
2-year average price (Shs. /100)	93.87	96.48	---	95.80	94.69
3-year average price (Shs. /100)	94.21	98.56	96.25	92.49	91.76
2-year yield-to-maturity rate	13.61	13.48	---	12.44	13.11
3-year yield-to-maturity rate	12.63	12.29	13.10	13.37	13.69
Issues at face value (Shs. billion)					
2-year	60.00	60.00	0.00	55.00	100.00
3-year	30.00	30.00	117.00	75.00	118.59
5-year	20.00	0.00	0.00	40.00	60.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at face value	110.00	90.00	117.00[1]	170.00[2]	278.59[3]
Total maturities	0.00	137.09	19.84	0.00	145.00
Total net issues at face value	110.00	47.09	97.16	170.00	133.59
Issues at cost value (Shs. billion)					
2-year	56.32	57.89	0.00	52.69	94.43
3-year	28.26	29.57	111.82	69.37	108.93
5-year	17.99	0.00	0.00	36.81	53.02
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at cost value	102.57	87.46	111.82	158.87	256.38

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-December 2007, the average indicative bid/offer yields-to-maturity in the secondary market were 12.7/12.5, 13.5/13.2, 14.0/13.7, and 15.1/14.9 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively (see Table 14). Corresponding average rates were 12.5/12.3, 13.3/13.0, 13.9/13.7, and 15.2/14.9 percent for the quarter ended-September 2007, and 12.6/12.4, 12.6/12.4, 14.0/13.7, and 15.6/15.3 percent respectively for the quarter ended December 2006. Comparing the quarters to December, and to September 2007, with exception of those of the 5-year and 10-year bonds, these rates went up in line with the increase in rates in the primary bond market. In the quarter under review, Shs. 252.8 billion, Shs. 76.1 billion, and Shs. 42.5 billion worth of the 2-year, 3-year, and 5-year bonds, respectively, were traded in the secondary market. There were no reported trades in the 10-year bond.

Table 14: Summary indicators from the secondary market for Treasury bonds (October-December 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	11.90	11.65	12.80	12.55	13.30	13.10	13.40	13.20
Max	14.10	13.85	14.25	14.80	14.50	14.25	16.00	15.75
Average	12.71	12.47	13.45	13.20	13.98	13.74	15.10	14.86

Source: Bank of Uganda

5.2 Treasury bill market

The primary market is an important tool for monetary policy management. The secondary market plays a complementary role of improving 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 used to prevent the possible precipitation of systemic risk arising out of failure of 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. Trading has also benefited from the ease with which securities can be transferred on the Central Depository System (CDS). In addition, the periodic ranking of primary dealers by Bank of Uganda has motivated traders to improve 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. 439.3 billion at face value were issued against maturities of Shs. 323.2 billion. The implied net issue of Shs. 116.1 billion compares with the net issue of Shs. 72.4 billion and contrasts with the net redemption of Shs. 28.6 billion, for the previous quarter to September 2007 and the corresponding quarter ended December 2006, 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 11.8, 23.7, and 64.5 percent for the 91-days, 182-days, and 364-days securities, respectively. On November 05, 2007, Shs. 9.5 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 7.4 percent. Table 15 summarizes these developments.

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

	Dec 06	Mar 07	Jun 07	Sept 07	Dec 07
Stock of Treasury bills (Shs. billion)	1,041.83	1,116.41	1,340.40	1,412.40	1,528.46
Change in stock (absolute)	-28.63	74.58	223.99	72.00	116.06
Price and interest rates (percent)					
91-day Average price (Shs. /100)	97.82	97.59	97.71	98.15	98.14
Annualized 91-day discount rate	8.75	9.68	9.18	7.42	7.47
Annual 91-day discount yield	9.15	10.30	9.74	7.78	7.84
Reference rate/[1]	9.61	9.76	9.91	8.06	7.98
Rediscount rate	15.30	15.45	15.60	13.76	13.68
Issues at face value (Shs.billion)					
91 days	41.68	74.19	67.64	43.00	51.94
182 days	59.92	109.66	125.07	74.20	104.00
364 days	155.17	206.25	343.35	265.69	283.38
Total issues at face value	257.77[2]	390.10[2]	536.06[2/3]	382.89[2/5]	439.32[2]
Total maturities	286.37[4]	315.58[4]	312.11[4]	310.52[4]	323.23[4/6]
Total net issues at face value	-28.60	74.52	223.95	72.37	116.09
Issues at cost value (Shs.billion)					
91days	41.76	72.38	66.10	42.22	50.98
182 days	56.84	103.58	118.08	70.66	98.58
364 days	138.27	183.67	303.73	238.20	253.12
Total issues at cost value	236.87	359.63	487.91	351.08	402.68

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

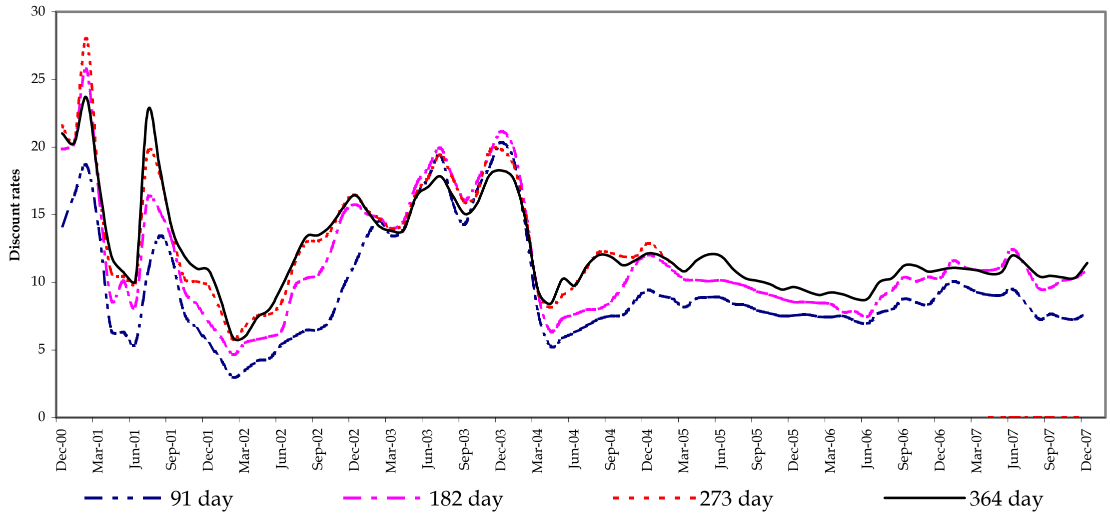
On an average basis, the Treasury bill rates were generally higher in the quarter to December 2007 when compared to the previous quarter to September 2007, and, apart from the 182-day paper rates, lower when compared to the corresponding quarter in 2006. The government's comprehensive strategy for debt management is expected to ensure an optimal mix of 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 7.5, 10.4, and 10.7 percent on the 91-days, 182-days, and 364-days treasury bills tenors, respectively. With exception of that of the 91-day paper, these discount rates were higher than the corresponding rates of 7.5, 9.6, and 10.5 percent respectively, recorded in September 2007. These were 8.7, 10.3, and 11.0 percent, respectively in December 2006. The upward trend in discount rates is reflected in Figure 13.

The average annualized yields for the entire quarter stood at 7.8, 11.3, and 12.0 percent for the 91-day, 182-day, and 364-day bills, respectively. With exception of that of the 91-day paper, these rates were higher than the respective rates of 7.8, 10.3, and 11.7 percent for the quarter ended-September 2007. In the corresponding quarter ended-December 2006, these yields were 9.1, 11.0, and 12.3 percent.

The stock of treasury bills increased by 8.2 percent, from Shs. 1,412.4 billion recorded at the end of September 2007 to Shs. 1,528.5 billion as at end-December 2007. Commercial banks held 47.7 percent of the outstanding stock of treasury bills by end-December 2007, compared to 55.1 percent reported in September 2007, while BOU holdings increased to 16.7 percent from a holding of 13.0 percent over the same time-period. As at end December 2006, Commercial banks and BOU took up a *revised* 64.5, and 16.2 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-September 2007 were 9.1/8.8, 12.3/12.1, and 13.1/12.8 percent for the 91-days, 182-days and 364-days securities. These rates declined compared to the average rates for the respective papers of 9.8/9.5, 12.7/12.5, and 13.3/13.0 percent in the previous quarter, but were higher than the respective 9.0/8.7, 10.8/10.4, and 12.1/11.8 percent reported in the corresponding quarter ended December 2006. 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. 225.6 billion. This volume of trade was higher than Shs. 218.6 billion executed in the previous quarter ended September 2007, and the Shs. 60.0 billion in December 2006. A total of Shs. 36.2 billion in horizontal repo transactions took place during the quarter. The rest of the transactions were transfers and outright sales. Table 16 summarizes these developments.

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

	91-days		182-days		364-days	
Yield-to-maturity rates quotation (percent)						
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	7.47	7.21	10.15	9.87	11.06	10.77
Maximum	10.51	10.20	13.86	13.58	14.38	14.07
Average (simple)	9.14	8.87	12.30	12.05	13.34	13.04
Total trading activity			**Shs. 225.642 billion**			
Transactions (Shs billion)	75.577		24.053		126.012	
- Horizontal repos	36.200		0		0	
- Transfers	0.000		0		34.000	
- Outright sales	39.377		24.053		92.012	
Average discount rate	15.71%		9.62%		9.73%	
Average yield-to-maturity	18.89%		10.01%		10.96%	

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. The Repo was increasingly used as a holding ground for liquidity against the backdrop of rising rates in the securities market and lumpy government expenditure. Total Repo issuance in the quarter ended-December 2007 was Shs. 1,162.7 billion against maturities of Shs. 1,240.6 billion. The total transaction volume of this instrument was therefore higher than what was recorded in the quarter ended-September 2007 when issues of Shs. 877.5 billion were effected against maturities of Shs. 920.4 billion. Despite this increased activity, the weighted interest rates from this market were relatively stable throughout the quarter. The respective amounts of issues and maturities for the corresponding quarter-ended December 2006 were Shs. 1,026.5 billion and Shs. 965.0 billion. These developments are shown in Table 17.

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

	Dec 06	Mar 07	Jun 07	Sept 07	Dec 07
Issuance of repos	1,026.549	1,163.799	1,747.200	877.499	1,162.699
Maturity of repos	965.031	1,098.188	1,752.620	920.369	1,240.632
Outstanding Stock of Repos	59.810	120.293	117.787	76.591	0.000

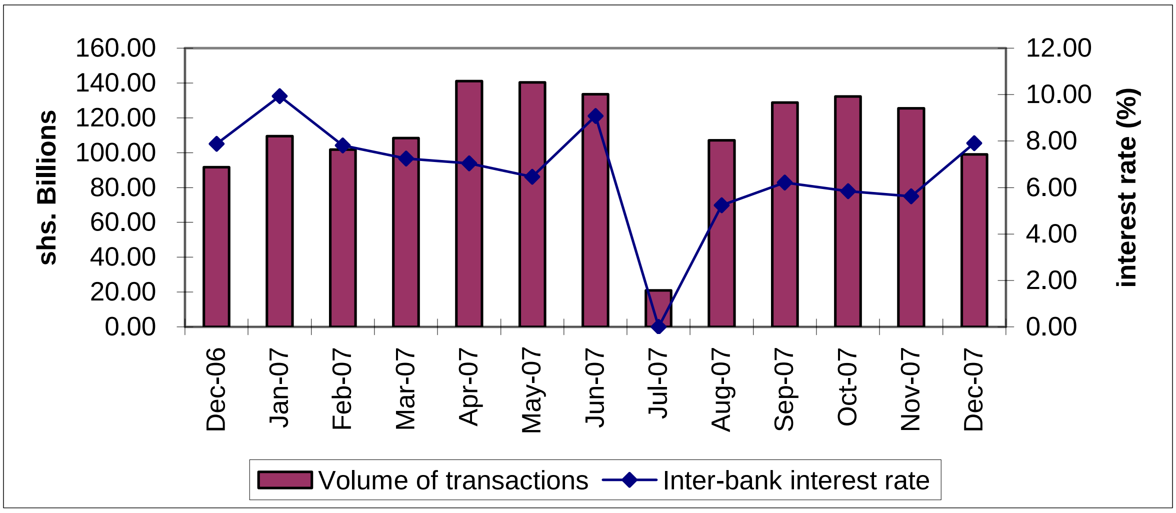
Source: Bank of Uganda

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 remained relatively stable with the months of September and October recording rates of 5.84 percent and 5.6 percent respectively and an increase to 7.91 percent in December 2007. The inter-bank rates observed demonstrated a similar pattern to those recorded a year ago, with rates at 6.47 percent and 6.62 respectively in October and November 2006 respectively, before increasing to 7.88 percent in December 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 2.7 percent, higher than 2.04 percent recorded in a corresponding period a year ago. The average weighted time deposit rate in the quarter ending December 2007 was 9.7 percent, an increase from 9.0 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 declined slightly to 18.8 percent in the quarter under review from the average of 19.4 percent in the quarter ending March 2007. The weighted average lending rates were also stable remaining at an average of 18.5 percent during both the quarter ended December 2007 as it was in quarter ended September 2007.

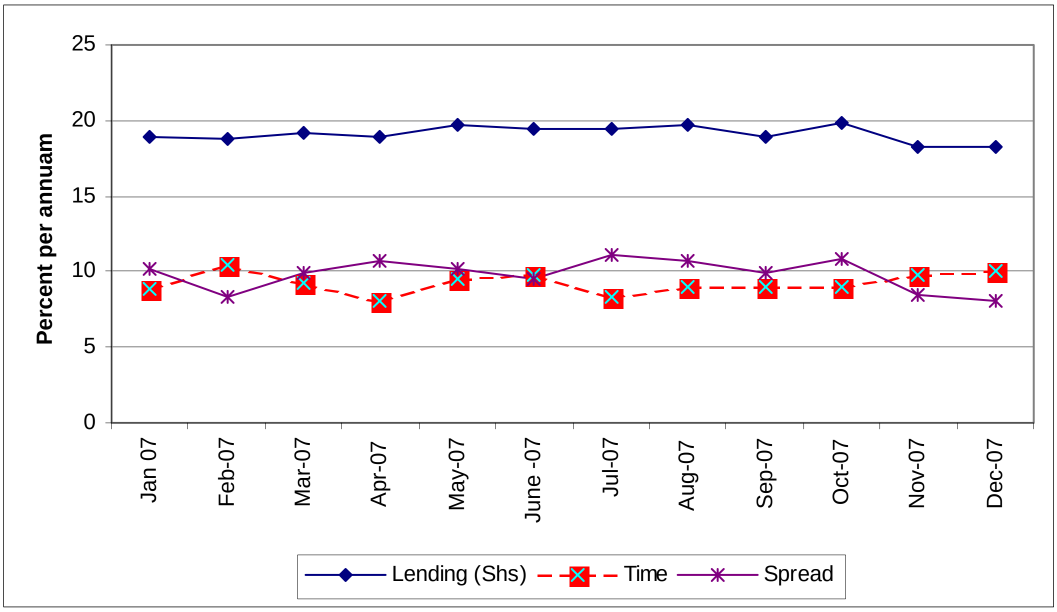
The weighted average lending rates on dollar denominated loans decreased from 10.9 percent in September 2007 to 10.0 percent in December 2007. The average weighted lending rate for the quarter ending December 2007 was 10.0 percent, slightly lower than the 10.4 percent recorded in the corresponding quarter in 2006. The average weighted savings deposit rate on the dollar denominated deposits increased to 1.4 percent in the quarter under review from an average of 1.2 percent recorded in the corresponding quarter a year ago. The time deposit rate averaged 3.7 percent in the quarter under review compared to 4.9 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			
	Sepe-07	Oct-07	Nov-07	Dec-07	Sep-07	Oct-07	Nov-07	Dec-07
Lending	18.98	19.86	18.29	18.21	10.88	9.81	9.97	10.02
Demand deposits	1.29	1.24	1.31	1.27	1.42	1.40	1.33	1.31
Savings deposits	2.60	2.67	2.70	2.66	0.98	1.10	1.17	0.99
Time deposits	9.00	9.03	9.79	10.08	3.98	3.89	3.46	3.74

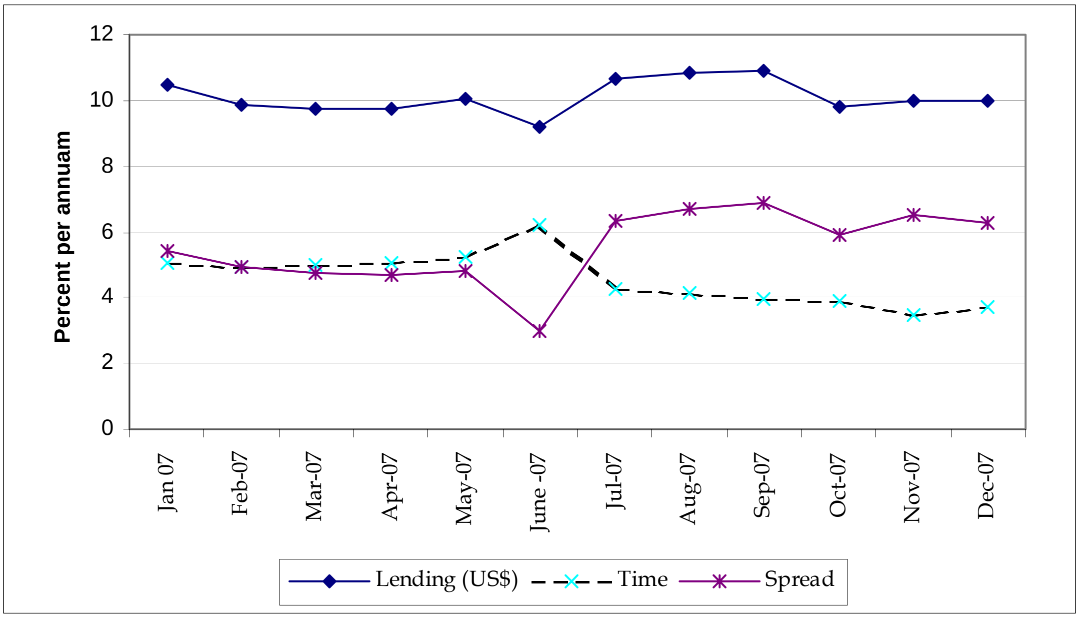
Source: Bank of Uganda

Figure 15: Shilling lending and deposit rates



Source: Bank of Uganda

Figure 16: Foreign exchange lending and deposit rates

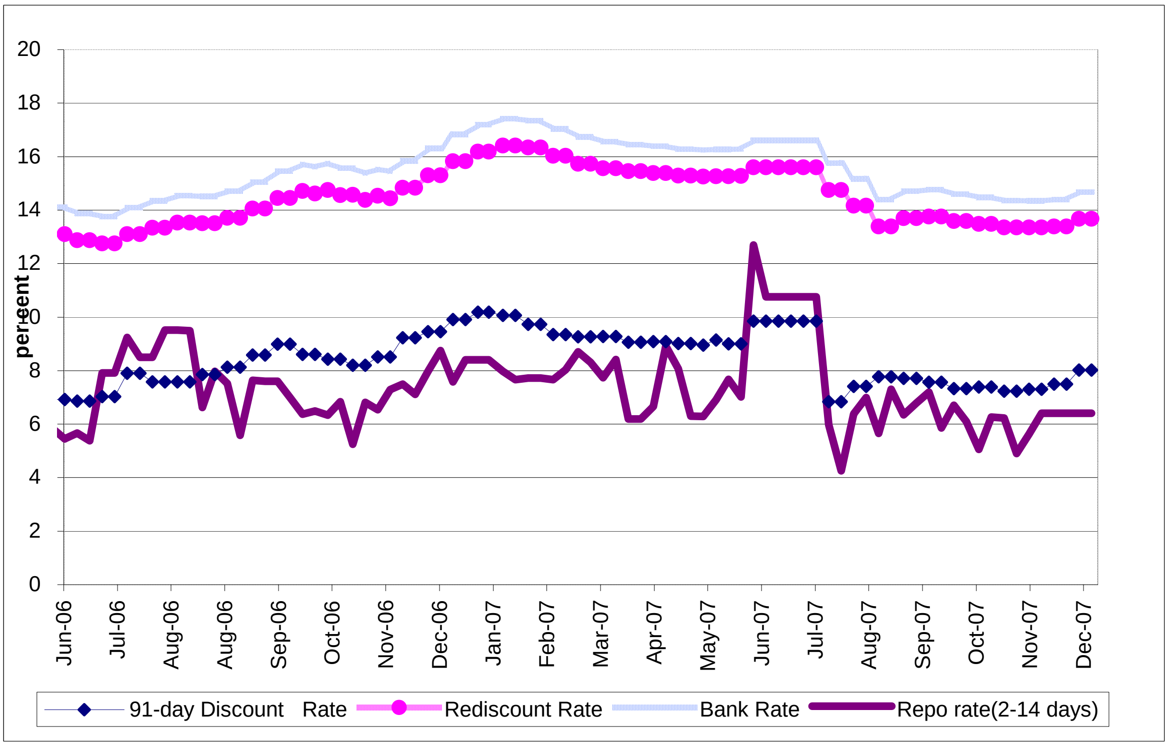


Source: Bank of Uganda

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 13.8 percent and 14.8 percent recorded at the start of the quarter to 13.7 percent and 14.7 percent respectively by end-December 2007, compared to the quarter ending December 2006 when the rediscount rate and the bank rates both increased from 14.7 percent and 15.5 percent at end September 2006 to 15.3 percent and 16.3 percent at end-December 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

During the second quarter of 2007/08, the shilling depreciated 0.4 percent compared to the first quarter of 2007/08 when it depreciated 1.7 percent. In this period the unit weakened form an average of Shs. 1,716.6 per U.S. dollar in the first quarter of 2007/08 to Shs. 1,722.9 per U.S. dollar. Relative to the previous quarter, the unit could have weakened due to base effects. The shilling opened trading at Shs. 1,770.5 per U.S. dollar at the start of October 2007, and closed at Shs. 1,696.3 per US dollar at end December 2007. On average the shilling appreciated 0.9 percent daily during the quarter. The he shilling strengthening within the quarter under review was mainly attributed to strong foreign exchange inflows from coffee and fish exports, offshore players, development agencies and private transfers. Low demand for the dollar further contributed to the appreciation of the shilling. The central bank suspended sterilization of liquidity through the sale of foreign exchange in November 2007 citing appreciation pressures on the local currency. Bank of Uganda's strong intervention in the inter-bank foreign exchange market (IFEM) in November and December 2007 was aimed at exchange rate stability.

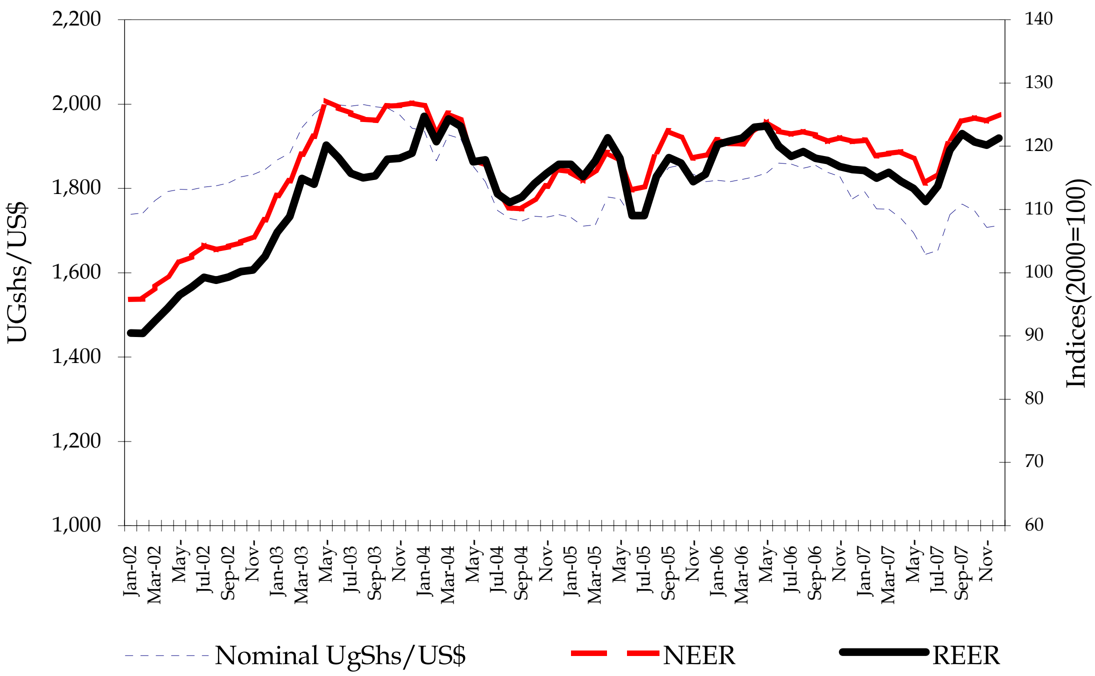
The spread moved between Shs. 5.6 and Shs. 18.8 indicating volatility in the inter-bank foreign exchange market (IFEM). On a quarterly basis, the average spread between the buying and selling rates increased from Shs. 16.3 in the first quarter of 2007/08 to Shs. 13.6 in the quarter under review.

Appreciation pressures during the quarter, especially in November and December 2004 necessitated central bank intervention and suspension of the sterilization through sale of foreign exchange in the IFEM. This was in a bid to ensure stability in the market. The actions of the Bank in the IFEM amounted to net sale of US$ 34.2 million compared to a net sale of US$ 55.9 million during the previous quarter.

The nominal effective exchange rate (NEER) index depreciated 3.5 percent during the second quarter of 2007/08, compared to 2.7 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 depreciated by 1.6 percent against the UK pound, 4.3 percent against the Japanese yen, 5.7 percent against the Euro, 5.5 percent against the South African rand, and 3.1 against the Kenyan shilling and appreciated 0.5 percent against the Pakistan rupee in the quarter under review.

The real effective exchange rate (REER) index also depreciated by 2.0 percent in the second quarter of 2007/08, compared to a depreciation of 4.7 percent recorded in the first 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 increased from US$1,194.5 million recorded in the first quarter of 2007/08 to US$1,529.5 million in the quarter under review, an increase of 28.1 percent. Similarly, gross sales in the inter-bank foreign exchange market recorded a 32.6 percent increase, from US$1,130.7 million in the first quarter of 2007/08 to US$1,499.2 million in the second quarter of 2007/08. Compared to the same period last financial year, when gross purchases increased by 23 per cent from US$729.6 million and gross sales increased by 24.2 percent from US$749.3 million. Cross currency transactions increased by 71.4 percent to US$404.7 million in the second quarter of 2007/08 compared to a 21.8 percent increase from US$193.8 million to US$263.1 million in the first quarter of 2007/08.

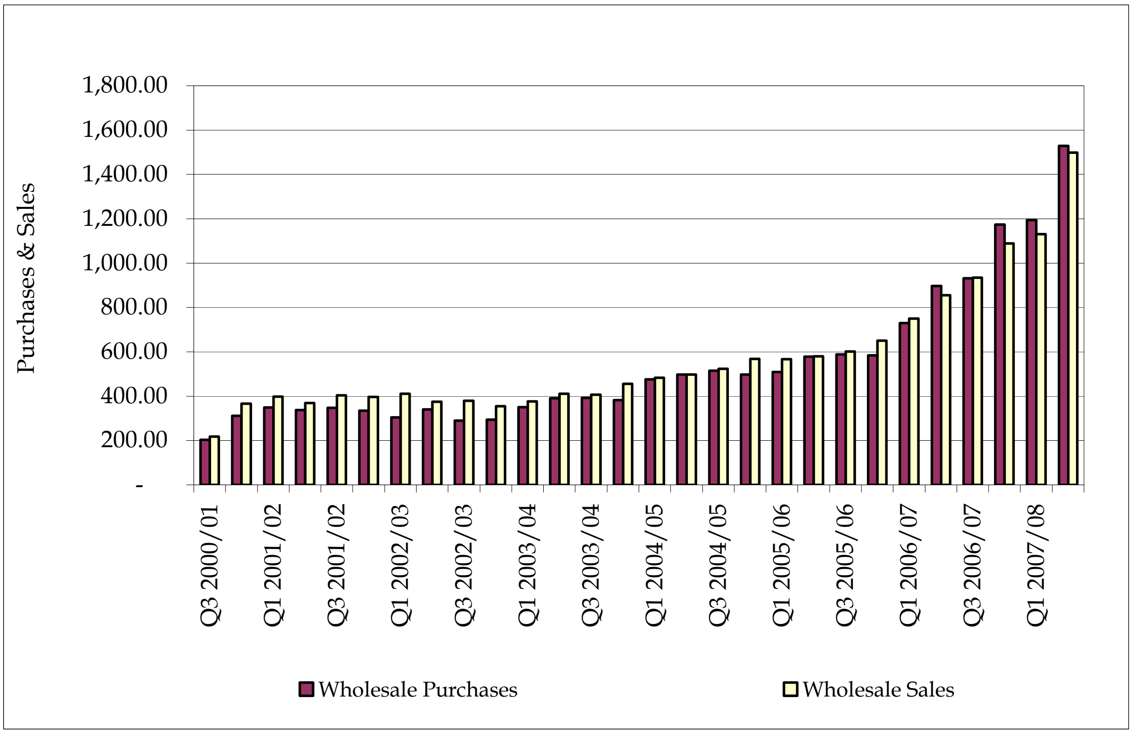
In the foreign exchange bureaux market, the shilling depreciated 0.3 per cent from the average of Shs. 1,711.31 per U.S. dollar in the first quarter of 2007/08 to Shs. 1,717.01 per US dollar in the second quarter of 2007/08. In the corresponding period in 2006/07 however, the shilling had appreciated by 2.3 percent when the average bureaux rate moved from Shs. 1,848.4 per U.S. dollar in the first quarter of 2007/08 to Shs. 1,806.9 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	Q2 2006/07	Q3 2006/07	Q4 2006/07	Q1 2007/08	Oct 2007	Nov 2007	Dec 2007	Q2 2007/08
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	120.93	119.41	117.12	120.29	124.52	123.97	125.01	124.50
Real Effective Exchange Rate (REER) 2000=100	115.43	115.65	113.02	118.36	120.65	120.17	121.25	120.69
Nominal Exchange Rate (Period Average)	1,813.35	1,765.09	1,688.02	1,716.63	1,747.17	1,707.73	1,711.61	1,722.95
Total Purchases (Million US$)	897.67	932.28	1,174.32	1194.494	586.27	492.30	450.94	1,529.51
Total Sales (Million US$)	855.77	934.53	1,088.69	1130.657	586.81	499.62	412.79	1,499.22
Cross Currency (Million US$)	110.09	181.36	193.76	236.06	134.52	121.24	148.91	404.67
Bureaux Market								
Average Period Exchange Rate	1,806.86	1,752.96	1,682.77	1,711.31	1,742.16	1,703.35	1,705.52	1,717.01
Total Purchases (Million US$)	398.57	429.70	430.03	443.94	157.30	146.48	152.23	456.01
Total Sales (Million US$)	408.26	425.77	427.17	451.49	161.16	160.44	174.72	496.31

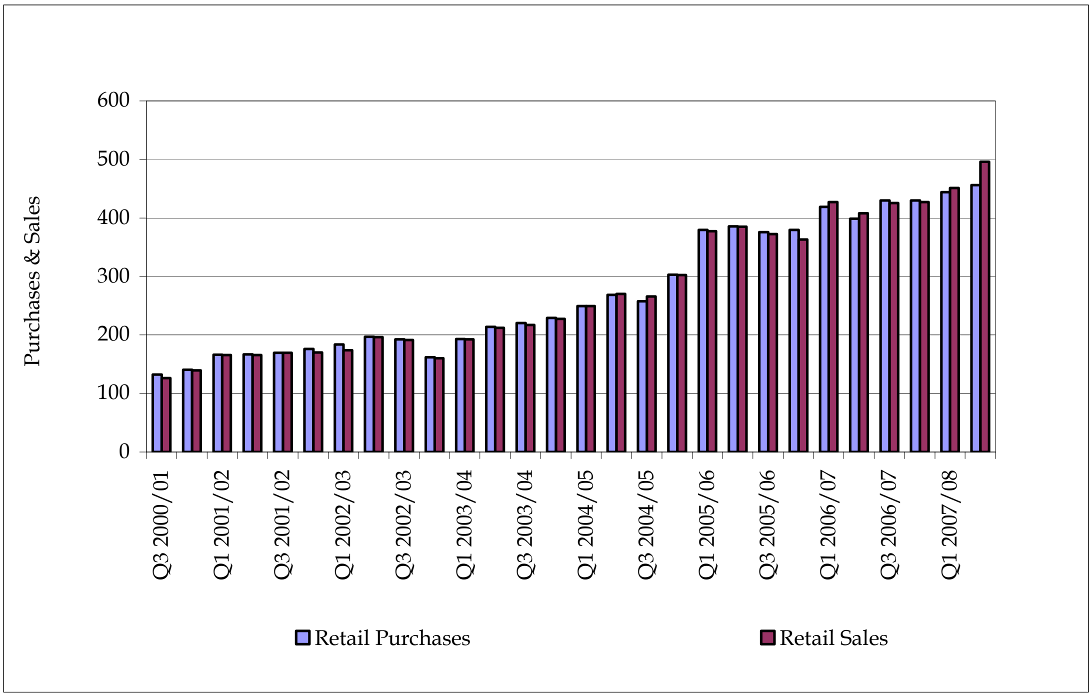
Source: Bank of Uganda.

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 December 2007, government revenue and budget support grant disbursements amounted to Shs. 1,154.5 billion, representing an over-performance of 103.6 percent relative to the programmed level of Shs. 1,114.9 billion. Compared with the corresponding quarter ended December 2006, revenue and grant disbursements were lower by Shs. 4.7 billion (0.4 percent). The preliminary outturn for total revenue collections was Shs. 854.2 billion, an increase of Shs. 149.3 billion (21.2 percent) on the level recorded in the quarter ended December 2006 and an over performance of Shs. 31.7 billion (103.9 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 lower in December 2007 by Shs. 153.9 billion (33.9 percent) than Shs. 454.2 billion disbursed in December 2006. The grants received in the quarter under review, however, were above the programmed level of Shs.292.5 billion on account of earlier than expected disbursements from some donors.

7.2 Government expenditure

Total government expenditure and net lending amounted to Shs. 931.9 billion during the second quarter ending December 2007 compared to Shs. 1,072.1 billion that was utilized in the corresponding quarter in 2006. This outturn was 26.2 percent below the programmed level of Shs. 1,262.8 billion. This was on account of the lower than expected absorption of donor funded projects and absorption constraints.

The rise in total expenditure between the quarters was particularly hinged on a 34.7 percent decrease in development expenditure. Current expenditures for the quarter grew by 16.8 percent to Shs. 716.9 billion, which was also above the programmed level of Shs. 685.6 billion. Expenditure on salaries and wages grew by 7.1 percent to Shs. 266.0 billion, which, however, was lower than the programmed level of Shs. 279.0 billion. Interest payments amounted to Shs.78.1 billion, a decline from the payment of Shs. 60.5 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 surplus of Shs. 222.6 billion compared to a deficit of Shs. 147.8 billion, which was envisaged in the program. Excluding grants, the surplus deteriorated to a deficit of Shs. 77.7 billion, compared to a deficit of Shs. 440.3 billion in the program. The above budgetary operations constituted net domestic financing and net external financing of Shs. –202.7 billion and Shs. 98.7 billion, respectively. Table 20 summarizes the government's budgetary operations.

Table 20: Government budgetary operations (Shs. billion)

	2006/07	2006/07 Q1	2006/07 Q2	2007/08 Q1	2007/08 Prog. Q2	2007/08 Q2
Revenue and Grants	**3,988.4**	**1,038.3**	**1,159.2**	**872.9**	**1,114.9**	**1,154.5**
Total Revenue	2,722.5	588.5	704.9	686.8	822.5	854.2
Grants [a/]	1,265.9	449.9	454.2	186.1	292.5	300.3
Expenditures and Lending	**4,379.4**	**820.2**	**1,072.1**	**1,067.6**	**1,262.8**	**931.9**
Recurrent Expenditure	2,442.3	503.3	614.0	679.6	685.6	716.9
Wages and Salaries	986.5	218.2	248.4	253.5	279.0	266.0
Interest Payments	236.3	56.0	60.5	71.8	75.3	78.1
Other non Wage Recurrent	1,145.9 5	212.0	288.1	334.3	311.2	352.7
URA Transfers	73.5	17.0	17.0	20.0	20.0	20.0
Development Expenditure	1,685.5	313.1	398.9	371.5	442.6	260.7
External	971.7	208.8	211.5	243.6	260.6	109.4
Domestic counterpart	713.84	104.3	187.4	127.9	182.0	151.2
Others [b/]	251.6	3.8	59.2	16.5	72.3	-45.6
Overall Fiscal Balance						
Excluding Grants	**-1,656.9**	**-231.7**	**-367.2**	**-380.8**	**-440.3**	**-77.7**
Including Grants	**-391.0**	**218.1**	**87.1**	**-194.8**	**-147.8**	**222.6**
Financing	**391.0**	**-218.1**	**-87.1**	**194.8**	**147.8**	**-222.6**
External Financing (net)	672.3	64.8	64.4	280.6	96.0	98.7
Domestic Financing (net)	-261.7	-199.6	-182.3	-219.0	51.8	-202.7
Bank	-618.8	-182.6	-225.7	-182.7	-15.7	-179.4
Non Bank	357.1	-16.9	43.4	-36.3	67.6	-23.3
Residual	-19.6	-83.4	30.9	133.2	0.0	-118.6

[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$205.3 million in the quarter ending December 2007 vis-à-vis the US$193.6 million surplus recorded in the quarter ending December 2006. This up turn in the external position resulted from an improvement in the capital and financial account.

The current account balance deteriorated to a deficit of US$153.3 million from a deficit of US$12.2 million recorded in the quarter ending December 2006, largely on account of increased imports of goods and services. During the same quarter the capital and financial account balance was recorded at a surplus of US$358.6 million – US$152.9 million more than what was recorded in the same quarter of 2006/07.

Overall, there was an accumulation of foreign reserves worth US$198.7[2] million to US$2,559.5 million in the quarter ending December 2007. The stock of reserves in terms of future months of imports of goods and services stood at 6.9 at the end of the quarter, up from 5.4 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 October 2006 to December 2007.

[2] Excluding valuation, the stock of reserves is estimated to have increased by US$192.4 million.

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

	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct - Dec 2007/8
A. Current Account Balance	**-12.18**	**-175.48**	**-144.29**	**-209.88**	**-153.32**
A1. Goods Account (Trade Balance)	-267.68	-181.64	-280.02	-389.13	-445.59
a) Total Exports (fob)	351.91	440.95	420.20	402.27	422.75
b) Total Imports (fob)	-619.59	-622.59	-700.22	-791.40	-868.34
A2. Services Account (services net)	-148.41	-138.94	-132.07	-162.33	-244.73
a) Inflows (credit)	112.63	117.52	132.43	125.44	123.93
b) Outflows (debit)	-261.04	-256.46	-264.49	-287.77	-368.66
A3. Income Account (Income net)	-56.01	-53.41	-54.93	-89.38	-84.36
a) Inflows (credit)	20.25	21.26	24.25	22.50	29.04
b) Outflows (debit)	-76.26	-74.67	-79.18	-111.88	-113.40
A4. Current Transfers (net)	459.92	198.51	322.72	430.96	621.36
a) Inflows (credit)	550.52	287.02	372.96	458.32	760.90
b) Outflows (debit)	-90.60	-88.51	-50.24	-27.37	-139.54
B. Capital & Financial Account Balance	**205.79**	**256.85**	**335.01**	**412.29**	**358.64**
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	205.79	256.85	335.01	412.29	358.64
a) Direct Investment	107.08	107.08	107.08	134.94	134.94
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	107.08	107.08	107.08	134.94	134.94
b) Portfolio Investment	18.46	15.68	51.25	-25.95	-20.76
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	18.46	15.68	51.25	-25.95	-20.76
Equity Securities	19.13	0.00	3.14	-25.48	-25.48
Debt Securities	-0.67	15.68	48.10	-0.47	4.72
c) Financial Derivatives (Net)	0.00	0.82	-0.31	1.31	4.62
d) Other Investment	80.24	133.26	177.00	301.99	239.83
Assets	47.81	89.13	-122.36	208.78	106.68
Monetary authorities	0.00	0.00	15.41	0.00	0.00
General government	1.40	39.19	-193.64	146.27	91.28
Banks	-99.69	-19.36	91.94	14.58	-146.00
Other sectors	146.10	69.30	-36.06	47.93	161.39
Liabilities	32.43	44.13	299.35	93.20	133.16
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	9.00	28.25	260.98	15.47	3.76
Banks	9.53	-13.29	18.06	14.93	65.15
Other sectors	13.90	29.17	20.31	62.80	64.25
C. Overall Balance (A + B)	**193.61**	**81.38**	**190.72**	**202.40**	**205.31**
D. Reserves & Related Items	**-193.61**	**-81.38**	**-190.72**	**-202.40**	**-205.31**
a) Reserve assets	-206.35	-96.33	-199.21	-212.59	-192.37
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.85	0.91	0.00	-13.69	0.54
d) Errors and Omissions	11.90	14.04	8.48	23.88	-13.48

Source: Bank of Uganda

8.1 The Goods account (trade balance)

8.1.1 Exports

During the quarter ending December 2007, total export earnings were recorded at US$422.8 million, vis-à-vis US$402.3 million in the preceding quarter and US$351.9 million in the same quarter of 2006/07.

Coffee export earnings were US$68.1 million, 3.5 percent less than, and 16.4 percent more than the US$70.6 million and US$58.5 million realized in the preceding quarter and corresponding quarter of 2006/07 respectively. The average price of US$1.76 /kg realized in the quarter under review was 27 cents higher than the US$1.49/kg realized in the corresponding quarter of 2006/07. The volume of coffee exports dropped to 643,959 (60-kg) bags compared to 655,008 (60-kg) bags exported in the corresponding quarter of 2006/07.

Earnings from the non-coffee exports were recorded at US$354.6 million during the quarter ending December 2007. This was US$61.2 million more than the US$293.4 million recorded in the same quarter of 2006/07. The increase in the value of non-coffee exports was mainly due to improvements in earnings from tobacco and base metals & products. Notably, export earnings from tobacco in the review quarter amounted to US$20.8 million, vis-à-vis the US$3.4 million realized in the same quarter of 2006/07. Other exports comprising mainly of electricity, hides & skins, maize, flowers and soap also recorded significant increases.

On the other hand, there was a decline in export earnings from gold, fish & its products (both regional and international) and oil re-exports 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)

	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct - Dec 2007/8
Total Exports	**351.91**	**440.95**	**420.20**	**402.27**	**422.75**
1. Coffee exports	**58.52**	**72.74**	**55.18**	**70.60**	**68.13**
2. Non-Coffee exports	**293.39**	**368.21**	**365.02**	**331.68**	**354.61**
Electricity	1.46	1.68	1.93	2.57	3.19
Gold	31.62	34.87	18.37	8.24	4.31
Cotton	1.32	8.38	8.89	3.38	1.85
Tea	12.86	11.51	12.22	10.82	13.09
Tobacco	3.36	21.89	15.26	7.32	20.84
Fish & its products (excl. regional)	37.26	37.65	31.01	28.42	31.03
Fish & its products (regional exports)	11.18	11.30	9.30	8.53	10.78
Hides & skins	2.19	4.33	6.22	6.12	3.70
Simsim	0.11	1.56	1.42	1.38	1.10
Maize	3.91	7.38	7.80	3.18	5.66
Beans	1.19	1.10	0.83	0.62	1.09
Flowers	6.82	8.99	8.05	10.28	8.00
Oil re-exports	10.88	10.44	9.87	9.05	7.62
Cobalt	3.63	4.67	4.09	5.14	3.43
Base metals & products	13.95	15.50	17.86	19.88	21.10
Others	151.65	186.98	211.91	206.76	217.85

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ending December 2007 amounted to US$868.3 million, 40.1 percent more than the import value in December 2006. Private sector imports were estimated at US$847.0 million, 42.1 percent more than the quarter ending December 2006. During the review quarter, oil imports amounted to US$114.5 million – and accounted for 13.5 percent of the private sector imports. This represents an increase of 22.1 percent over the import level in Q2 of 2006/07.

During the review quarter, government imports decreased by 9.0 percent or US$2.1 million from US$23.5 million in the second quarter of 2006/07 to US$21.4 million. Table 23 below provides a summary of developments in imports.

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

	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct - Dec 2007/8
Total Imports	619.59	622.59	700.22	791.40	868.34
Government Imports	23.51	24.66	25.25	26.29	21.39
Project	9.46	9.20	9.63	8.87	14.16
Non-Project	14.05	15.45	15.62	17.42	7.23
Private Sector Imports	596.08	597.93	674.97	765.11	846.95
o/w Oil imports	93.77	96.82	110.99	118.77	114.47

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$329.1 million. This was 61.0 percent worse than the US$204.4 million deficit recorded in the quarter ending December 2006. During Q2 of 2007/08, outflows in the Services account increased by US$107.6 million from US$261.0 million recorded in the same quarter of 2006/07. This was mainly on account of an increase in transportation services – freight services in particular, associated with increased imports of goods – and other business services. On the other hand, inflows on the services account increased to US$123.9 million, an increase of US$11.3 million vis-à-vis the inflows in the Q2 2006/07.

Outflows on the Income account were estimated at US$113.4 million in the review period, US$37.2 million more than what was recorded in the quarter ending December 2006. This was mainly attributable to an increase in estimated outflows on account of compensation of employees. Income inflows were recorded at US$29.0 million, up from US$20.3 million recorded in Q2 of 2006/07,laregly on account of an increase in interest earned on the BOU's deposits.

8.3 Current Transfers

Net current transfers during the period under review were estimated at US$621.4 million, US$161.4 million more than what was realized in the corresponding period of 2006/07. This was mainly due to an increase in inflows of private sector transfers – in particular inflows from workers' remittances, which were recorded at US$337.6 million, US$147.1 million more than the inflows in the quarter ending December 2006.

8.4 Capital and Financial Account

The capital and financial account balance recorded a surplus of US$385.6 million in the quarter under review, US$152.9 million more than the surplus recorded in the quarter ending December 2006. This was mainly on account of the repayment of a government loan for bridging the financing of the Bujagli Dam construction.

Disbursement of government loans amounted to US$23.0 million during Q2 2007/08, US$6.5 million less than the US$29.5 million in the corresponding quarter in 2006/07. Whilst equity securities' liabilities decreased by US$20.8 million during the review quarter, direct investment inflows increased by US$134.9 million. Table 24 below provides a summary of foreign aid inflows to Government.

8.5 Donor flows

Total disbursements of foreign aid for budget support and projects were estimated at US$172.4 million in the review quarter, compared to US$234.8 million recorded in the corresponding quarter of 2006/07. This was mainly on account of a decrease in budget support grants. Table 24 below provides a summary of foreign aid inflows to Government.

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

	Oct - Dec 2006/7	Jan - Mar 2006/7	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct - Dec 2007/8
Total Foreign Aid	**234.83**	**101.19**	**361.46**	**94.82**	**172.38**
Grants	**205.36**	**58.20**	**85.83**	**54.13**	**149.34**
Loans	**29.47**	**43.00**	**275.63**	**40.69**	**23.04**
Budget Support	**179.49**	**47.79**	**286.56**	**25.18**	**101.44**
Grants	173.89	34.12	70.30	25.18	101.44
Loans	5.60	13.67	216.27	0.00	0.00
Project Support	**55.35**	**53.40**	**74.90**	**69.65**	**70.94**
Grants	31.48	24.07	15.53	28.96	47.90
Loans	23.87	29.33	59.37	40.69	23.04

Source: Bank of Uganda

Following the developments in the balance of payments, the international reserves held by the Bank of Uganda rose to US$2,559.5 million in the quarter under review representing 8.2 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$1,590.3 million in the quarter ending December 2007; US$27.1 million less than the December 2006 level. The greater part of the external debt amounting to 84.7 percent was owed to multilateral institutions, while 11.2 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	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
Multilateral	1,330.11	991.36	1,180.06	1,282.36	1,346.37
Non-Paris Club Bilateral	214.64	214.79	213.74	177.40	177.32
Paris Club Bilateral	68.07	67.53	66.19	66.88	66.16
Commercial	0.50	0.50	0.46	0.46	0.43
Commercial Non Bank	4.04	6.24	6.37	0.00	0.00
Grand Total	**1,617.36**	**1,280.42**	**1,466.83**	**1,527.11**	**1,590.28**

Source: Bank of Uganda

8.5.2 Debt Service

During the quarter ending December 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$25.3 million. Resources generated under the HIPC initiative covered US$11.4 million of the debt service during this period. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 4.6 percent for the quarter under review, vis-à-vis 5.9 percent recorded in the corresponding quarter of 2006/07. The improvement in the ratio was a result of an increase in exports of goods and services during the review quarter.

9.0 REAL SECTOR AND DOMESTIC PRICE DEVELOPMENTS

9.1 Domestic price developments

9.1.1 Consumer Price Index (CPI)

During the quarter ended December 2007, the year on year headline inflation edged up to 5.6 percent from 5.0 percent in the quarter ended September 2007. This is however lower than the average of 9.3 percent recorded in the quarter ended December 2006.
On the same note, annual core inflation[3] rose to 6.8 percent from 5.7 percent in the quarter ended September 2007, lower than 7.3 percent registered a year ago.

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

- Upward movement in the price of charcoal caused by restriction of the National Forestry Authority on felling trees and high transportation cost
- Increased price of meat and milk following the outbreak of Foot and Mouth Disease (FMD) in the cattle corridor
- The rise in prices of petroleum products and transport cost on account of the upward surge in the international prices of crude oil during the quarter

The Energy, Fuel and Utilities (EFU) inflation eased to 10.8 percent in the quarter under review from 17.5 percent in the previous quarter. This was due to slower increase in electricity tariff.

The average annual food crop inflation rose to –4.4 percent from -4.9 percent during the quarter ended September 2007 on account of higher prices of milk and meat.

Further breakdown into contribution by each group, table 27 below shows that the inflation contribution by the Rent, Fuel and Utilities categories have exceeded all the other categories since the beginning of 2007 while transport and communication group rose during the quarter under review largely on account of increases in transport fares and fuel price during the quarter. The above inflationary developments are depicted in Table 26 and Figure 21 below.

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

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

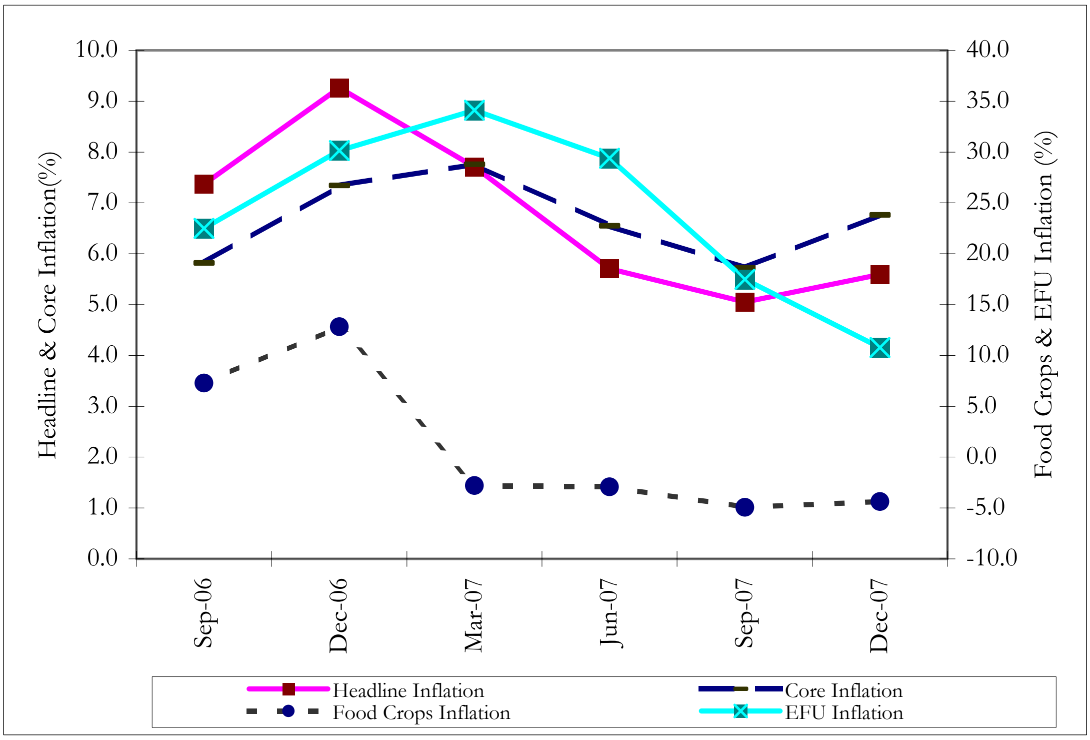
Source: Uganda Bureau of Statistics

Table 27: Quarterly contribution by different groups to Headline Inflation

Groups	Weights	Oct-Dec 2006	Jan-Mar 2007	Apr-Jun 2007	Jul-Sep 2007	Oct-Dec 2007
Total	100	9.3	7.7	5.7	5.0	5.6
Of which:						
Food	27.2	4.2	1.7	0.8	0.4	-0.1
Beverages & Tobacco	4.7	0.1	0.1	0.0	0.2	0.3
Clothing & Footwear	4.4	0.1	0.2	0.2	0.2	0.3
Rent, Fuel & Utilities	14.8	2.2	3.1	3.2	1.9	1.9
Household & Personal goods	4.5	0.3	0.2	0.2	0.3	0.3
Transport & Communication	12.8	1.1	1.0	0.7	0.6	1.0
Education	14.7	0.6	0.6	0.6	0.7	1.0
Health, Entertainment, & Others	16.8	0.8	0.9	0.9	0.8	0.7

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) edged up to 8.0 percent in the quarter ended December 2007 from 5.9 percent registered in the quarter ended September 2007. This was however lower than the rate of 12.8 percent registered in the same quarter a year ago. The increase was due to increase in prices for the entire sub sectors particularly Drinks and tobacco; textiles, clothing, and footwear; and bricks and cement sub sectors.

The prices of goods sold in the local market went up by 8.4 percent in the quarter ended December 2007, lower than the increase of 9.6 percent in the quarter ended June 2007. This slow increase was due to decline in prices of manufactured sugar. The increased competition and presence of imported sugar in the local market led to the decline in sugar prices.

The prices of goods sold in the exports market rose by 6.9 percent compared to the decline of 2.9 percent in the quarter ended September 2007. This is attributed mainly to higher prices of fish and fish products; tobacco products; and cement, lime and plaster products as a result of fluctuation in the exchange rate during the period. The developments in producer prices are indicated in Table 27 and Figure 22 below:

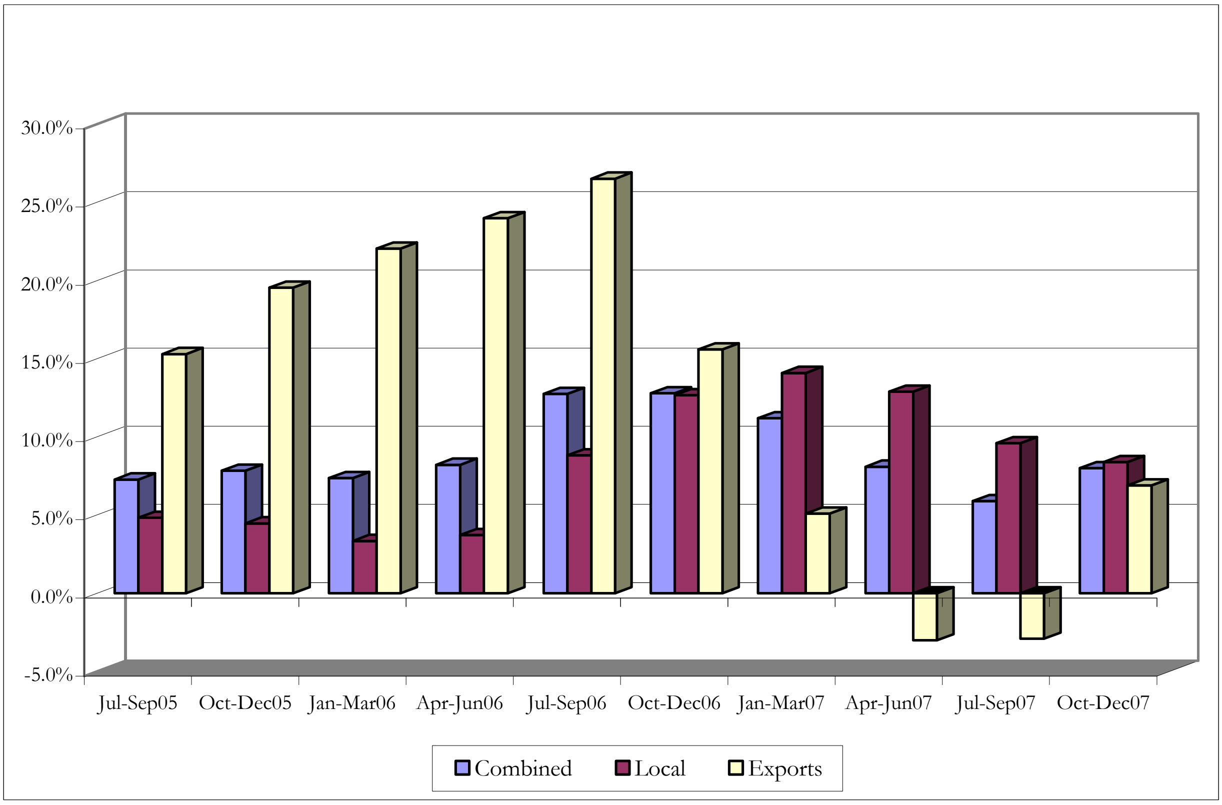
Table 27: Developments in Producer Prices

Quarter Ending	Combined Annual (%)	Local Annual (%)	Export Annual (%)
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	8.0	8.4	6.9

Source: Uganda Bureau of Statistics

[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.

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 decreased by 0.08 percent to 303,101 live customers in the second quarter of 2007/08. Disconnections of clients with huge unpaid bills can possibly explain the decrease in total number of electricity customers. However, in the same period, electricity consumption increased by 4.31 percent mainly due to the decreased loading shedding. Also, UMEME electricity purchases from UETCL in the second quarter of 2007/08 increased by 3.89 percent mainly because of the increased electricity generation by UETCL following the high water levels at the generation dam in the quarter. Although there was a drop in the total number of electricity consumers in the second quarter of 2007/08, there was growth in the industrial and street lighting categories of live customers due to increased number of industries and the CHOGM, respectively. Whereas the stable macroeconomic environment explains the continued attraction of industries, the increase in street lighting was due to the CHOGM preparations that saw increase in the number of streets lit. Table 28 summarizes the electricity consumption

Table 28: Electricity Consumption Parameters by category of consumer

	Q2 2006/07	Q1 2007/08	Q2 2007/08	Annual Change	Quarterly Change
Average number of Live Customers					
Domestic	271,240	277,177	276,998	2.12	-0.07
Commercial	24,818	24,780	24,677	-0.57	-0.42
Industrial	1,004	1,091	1,109	10.46	1.65
Street Lighting	315	312	317	0.64	1.60
Total	**297,377**	**303,360**	**303,101**	**1.93**	**-0.08**
Total consumption in GWH					
Domestic	69.63	70.73	75.13	7.90	6.22
Commercial	36.06	36.25	37.23	3.25	2.70
Industrial	151.23	172.41	179.06	18.40	3.86
Street Lighting	0.10	0.23	0.23	130	0.00
Total	**257.27**	**279.64**	**291.68**	**13.38**	**4.31**
Purchases in GWH					
UMEME purchases from UETCL	404.06	446.70	464.1	14.86	3.89

Source: Umeme Limited

9.3 Finance Sector

9.3.1 Activities at the Uganda Securities Exchange (USE)

Trading at the Uganda Securities expanded the second quarter of 2007/08 relative to the first quarter of 2007/08 as indicated by the positive movement in all the indicators of the capital markets expansion.

Total turnover and the number of shares that changed hands grew by 127.26 percent and 65.27percent respectively in the second quarter 2007/08. While Market Capitalization and all shares index grew by 1.88 percent and 1.45 percent respectively during the same period. The all shares index for the quarter was on an upward trend as it can be seen from chart 1 below. The aggressive marketing campaigns by the Uganda Capital Markets Authority could explain this growth in the securities market.

Notably, Stanbic Bank Uganda counter accounted for over 97 percent of the total number of shares traded in the quarter under review, while like the last quarter, there was no activity in the EABL, JHL and KA counters stayed inactive in the same period. Table 29 below provides details on the Uganda securities exchange developments.

Table 29: Trading at Uganda Securities Exchange:

Averages	Q2 2006/07	Q1 2007/08	Q2 2007/08	Annual Change	Quarterly Change
Turnover (Ushs)	991,514,563	12,626,679,173	9,445,932,360	852.68	127.26
Number of Shares traded	2,270,840	83,405,449	137,268,901	1914.95	65.27
Market Capitalisation (Bn Ushs)	4,374.09	4,736.15	5,080.56	16.15	7.27
USE-All Share Index	877.06	876.91	931.80	6.24	6.26

Source: Uganda Securities Exchange

9.3.2 Leasing Activities

The value of assets disbursed in the second quarter of 2007/08 grew by 79.26 percent. On the account of huge growth recorded in assets leased to the Mining and Construction sector, the Construction sector benefited hugely from the CHOGM were by a number of roads and private properties received face lifts. Sectoral decreases were registered in the transport, communication, banking and personal. The total value of assets disbursed in the quarter under review was Shs. 5,471.20 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 (Shs Million)			Percentage Changes	
Sector	**Q2 2006/07**	**Q1 2007/08**	**Q2 2007/08**	**Annual**	**Quarterly**
Transport	1,275.99	1,882.1	563.46	-55.84	-70.06
Commerce & Trade	786.12	43.96	56.02	-92.87	27.43
Communication		242.56	65.91	0	-72.83
Mining & Construction	824.60	222.74	3,734.76	352.92	1,576.74
Tourism		119.99		-	-
Health	13.8	-			
Agriculture	261.98	199.57	278.81	6.42	39.71
Manufacturing	568.40	122.35	683.00	20.16	458.24
Education		-		-	-
Banking		15.99		-	-100
Real Estate		-			
Personal	406.87	36.6		-100	-100
Other Services	953.47	166.2	89.22	-90.64	-46.32
TOTAL	5,168.04	3,052.05	5,471.20	5.87	79.26

Source: DFCU Leasing

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.