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1. INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the fourth quarter of 2007/08. Overall, the economy remained buoyant and stable despite the unrelenting exogenous shocks related to rising international oil and commodity prices.

2. OVER VIEW OF DEVELOPMENTS DURING THE QUARTER

During the quarter-ended June 2008, Bank of Uganda (BOU) exercised 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. During the quarter under review, the authorities continued to operate under the IMF non-borrowing Policy Support arrangement. Overall, macroeconomic indicators remained broadly stable over the quarter.

In the quarter under review, monetary policy was implemented through a combination of issuance of Treasury bills and bonds, in addition to daily sales of foreign exchange. However, due to the appreciation pressures experienced in the second half of the quarter, BOU suspended the daily sales of foreign exchange for liquidity sterilization purposes. Furthermore, Bank of Uganda actively used the Repurchase Agreements (REPOs) as a flexible fine-tuning instrument for short-term liquidity management in between the auction periods.

The shilling strengthened against the US dollar in the quarter under review, mainly on account of increased inflows of foreign exchange from exports, portfolio flows and private transfers. The sustained weakening of the US dollar on the global scene contributed further to the appreciation of the shilling. In a bid to stem volatility in the Interbank Foreign Exchange Market (IFEM), Bank of Uganda intervened and purchased US$ 5.5 million on a net basis.

In line with a tight monetary policy stance, the policy margin within the Rediscount rate was raised by 1 percentage point to 6.7 percent during the quarter under review. As a result of this and developments in the domestic money markets, the Rediscount rate and Bank rate gradually increased from 13.9 percent and 14.9 percent recorded at the start of the quarter to 15.2 percent and 16.2 percent, respectively by end-June 2008.

BOU continued to use Treasury securities as the main instrument for liquidity sterilization. In line with the bi-monthly auction system, Treasury bills worth Shs. 363.4 billion (at cost value) were issued over the quarter against maturities of Shs. 491.9 billion. Issues were largely concentrated at the longer end of the market. In addition to the scheduled Treasury bill auctions, BOU issued Treasury bills worth Shs. 6.8 billion to the commercial banks for failure-to-settle collateral purposes.

Furthermore, Treasury bonds continued to be issued to support monetary policy implementation and promote market development by extending both the maturity of the instruments traded and the yield curve. Four new (two 2-year and two 3-year) bonds were issued to absorb structural liquidity for a longer period during the quarter. In addition, a 2-year bond was re-opened with the aim of creating more liquid and tradable securities. Treasury bonds worth Shs. 242.8 billion (at cost), were issued over the quarter under review, against maturities of Shs. 75.0 billion resulting into a withdrawal of liquidity totaling Shs. 167.8 billion. Compared to the rates from the previous issues, the yields-to-maturity for the 2-year and 3-year bonds followed an upward trend throughout the quarter against commercial banks' increasing demand for liquidity related to the end-financial year URA tax transfer obligations.

The balance of payments registered an overall deficit of US$ 241.6 million in the quarter ended June 2008, vis-à-vis an overall surplus of US$320.1 million recorded in the corresponding quarter in 2007. The down turn in the external position resulted from the deterioration in the current account.

Annual headline inflation rose to 11.0 percent in the fourth quarter of 2007/08 from 7.6 percent registered in the quarter ended March 2008. Similarly, annual core inflation[1] edged up to 11.4 percent from 8.1 percent in the quarter ended March 2008, higher than 6.5 percent registered over the same quarter a year ago. High inflation during the quarter was mainly attributed to increases in prices of meat (beef), charcoal, maize flour, and rice; global increase in grain and food demand; increases in prices of manufactured products following the rise in input costs; and the rise in transport fares driven by an increase in international oil prices.

Base money, which comprises of currency outside BOU and transaction balances of commercial banks at BOU rose by Shs. 60.2 billion or 3.9 percent to Shs. 1,614.5 billion by the end of June 2008,

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

up from Shs. 1,554.3 billion at the end of the preceding quarter, reflecting a higher growth than a growth of 0.7 percent registered in the quarter ended June 2007. The increase was driven by commercial banks' deposits at the Central Bank, which increased by Shs. 25.2 billion to Shs. 384.5 billion, up from Shs.359.3 billion recorded as at end-March 2008 and currency outside BOU, which grew by Shs. 35.0 billion to Shs. 1,230.0 billion by end-June 2008.

3. MONETARY DEVELOPMENTS

3.1 Money supply

During the quarter ended June 2008, broad money M3, which comprises all private sector's deposits and currency in circulation, expanded by 5.7 percent or Shs. 274.2 billion to Shs. 5,062.9 billion, compared to a marginal decline of 0.8 percent registered in the quarter ended June 2007. On an annual basis, M3 grew by 31.8 percent in the year ended June 2008, compared to a growth of 17.4 percent for the corresponding year. Money supply M2A, composed of currency in circulation and shilling denominated private sector's deposits, grew by 6.2 percent or Shs. 227.2 billion to Shs. 3,901.7 billion at end-June 2008, compared to a rise of 1.2 percent in the quarter ended June 2007.

The increase in money supply in the quarter under review was mainly driven by a rise in shilling term (comprising time, savings deposits and Certificates of deposit), and demand deposits, which grew by Shs. 125.6 billion and Shs. 21.4 billion, respectively. Currency in circulation grew by 8.1 percent or Shs. 80.2 billion to Shs. 1,074.0 billion and foreign currency deposits rose by 4.2 percent or Shs. 47.0 billion to Shs. 1,161.2 billion.

On the supply side, the banking system's Net Domestic Assets (NDA) increased by Shs. 336.4 billion during the quarter ended June 2008, mainly on account of a rise of Shs. 242.1 billion in claims on private sector (PSC), and an increase of Shs. 212.6 billion in Net Claims on Government (NCG). Other Items Net (OIN) declined by Shs. 119.3 billion. During the period under review, Net Foreign Assets (NFA) fell by 1.2 percent or Shs. 62.2 billion to Shs. 5,095.5 billion, compared to a decline of 4.4 percent in the corresponding quarter of 2007. Bank of Uganda's Net Foreign Assets (NFA) contracted by 3.2 percent or Shs. 142.6 billion to Shs. 4,355.8 billion, largely reflecting a decline in foreign reserves of Shs. 151.5 billion to Shs. 4,347.3 billion. NFA of commercial banks grew strongly by 12.2 percent to Shs. 739.7 billion, on account of a rise in external assets of Shs. 46.7 billion, coupled with a decline in foreign liabilities of Shs. 33.7 billion.

During the quarter under review, net claims on government (NCG) by the banking system increased by Shs. 212.6 billion, leading to a fall in government savings to Shs. 951.9 billion. Government savings at the Bank of Uganda fell by Shs. 213.3 billion to Shs. 2,331.2 billion during the quarter. The decline in government savings was mainly due to a reduction in government deposits and administered funds of Shs. 87.5 billion, coupled with a decline in advances to government of Shs. 251.9 billion. Net Credit to Government (NCG) by the commercial banks marginally declined by Shs. 0.7 billion to Shs. 1,379.3 billion.

During the quarter ended June 2008, claims on the private sector (PSC) by the banking system rose by 9.4 percent or Shs. 242.1 billion to Shs. 2,830.5 billion, of which Shs. 2,809.2 billion was by commercial banks and Shs. 21.3 billion by Bank of Uganda. The outturn of private sector credit in the quarter under review was far higher than the growth of 4.2 percent observed in the corresponding quarter in 2007. The developments in the above aggregates over the quarter are shown in Table 1 below.

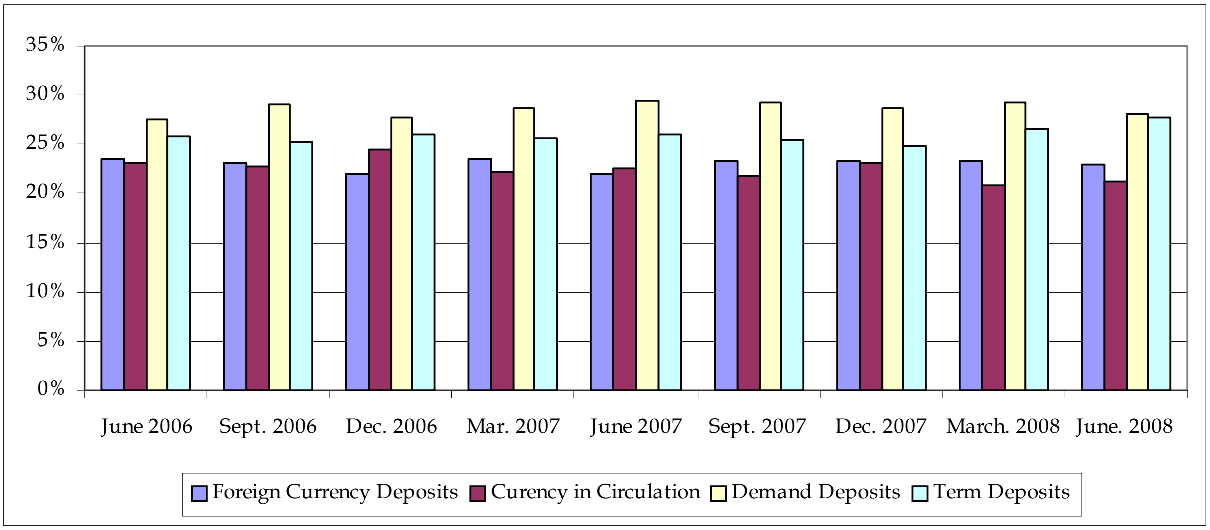
Table 1: Monetary survey, (Shs. billion, at the end of period)

Aggregate	Jun. 07	Sept. 07	Dec. 07	Mar. 08	Jun. 08	Change Mar. 08 to Jun. 08	
						Absolute	Percent
Net Foreign Assets (NFA)	**3,835.4**	**4,264.8**	**4,939.7**	**5,157.7**	**5,095.5**	**-62.2**	**-1.2**
o/w Bank of Uganda	3,330.9	3,811.2	4,345.5	4,498.4	4,355.8	-142.6	-3.2
o/w Commercial Banks	504.5	453.6	594.1	659.3	739.7	80.4	12.2
Net Domestic Assets (NDA) net of Revaluation	**490.3**	**389.1**	**31.3**	**83.9**	**449.0**	**346.8**	**413.2**
Net Domestic Assets (NDA)	**6.6**	**-79.3**	**-516.9**	**-369.0**	**-32.6**	**336.4**	**-91.2**
Net Claims on Government (NCG)	-731.6	-914.3	-1,094.1	-1,164.5	-951.9	212.6	-18.3
Claims on Public Entities	34.9	41.4	27.1	28.5	29.6	1.1	4.0
Claims on the Private Sector	1,812.9	2,037.6	2,219.7	2,588.4	2,830.5	242.1	9.4
Other Items (net)	-1,109.7	-1,244.0	-1,669.6	-1,821.6	-1,940.9	-119.3	6.6
Money Supply (M3)	**3,842.0**	**4,185.6**	**4,422.8**	**4,788.7**	**5,062.9**	**274.2**	**5.7**
Foreign Currency Deposits	848.1	977.6	1,034.5	1,114.2	1,161.2	47.0	4.2
Money Supply (M2A)	2,993.9	3,207.9	3,388.3	3,674.5	3,901.6	227.2	6.2
Money Supply (M2)	2,993.9	3,207.9	3,388.3	3,674.5	3,901.6	227.2	6.2
Term Deposits	863.7	1,064.9	1,101.2	1,275.2	1,400.7	125.6	9.8
Demand Deposits	1,127.9	1,228.4	1,264.7	1,405.5	1,426.9	21.4	1.5
Currency in Circulation	1,002.3	914.6	1,022.3	993.8	1,074.0	80.2	8.1

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits increased to 22.9 percent, compared to 22.1 percent at end-June 2007. The share of private sector's demand deposits in M3 fell from 29.4 percent to 28.2 percent; the share of currency in circulation was 21.2 percent, down from 22.5 percent at end-June 2007 while the share of term deposits rose to 27.7 percent from 26.1 percent at end-June 2007. These trends are depicted in Figure 1 below.

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



Source: Bank of Uganda

3.2 Base money

During the quarter under review, base money, which includes commercial banks' investments in BOU instruments, grew by 3.9 percent or Shs. 60.2 billion to Shs. 1,614.5 billion. This outcome reflected faster growth compared to 0.7 percent registered in the quarter ended June 2007.

Currency outside BOU increased by 2.9 percent to Shs. 1,230.0 billion, while commercial banks' operating reserves at BOU rose by 7.0 percent to Shs. 384.5 billion. Base money, which excludes commercial banks' investment in the Bank of Uganda instruments, also grew by 3.9 percent or Shs. 60.2 billion over the quarter.

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

	Jun 07	Sept 07	Dec. 07	Mar. 08	Jun. 08	Change Mar. 08 to Jun. 08 Absolute	Percent
Net Foreign Assets	**3,330.9**	**3,,811.2**	**4,345.5**	**4,498.4**	**4355.8**	**-142.6**	**-3.2**
External Assets	3,347.7	3829.9	4,363.9	4,517.5	4374.0	-143.4	-3.2
o/w Foreign Reserves	3,324.7	3,790.3	4,343.6	4,498.8	4347.3	-151.5	-3.4
Foreign Liabilities	16.8	18.7	18.4	19.1	18.2	-0.8	-4.4
Net Domestic Assets	**-1970.8**	**-2315.2**	**-2802.0**	**-2944.1**	**-2741.3**	**202.8**	**-6.9**
Claims on Government (net)	-1,712.7	-1,983.3	-2,325.8	-2,530.8	-2331.2	213.3	-8.4
Claims on Private Sector	20.5	20.6	20.5	19.2	21.3	2.1	10.8
Claims on Parastatals	4.2	4.1	4.1	4.1	4.10	0.00	0.00
Claims on Commercial Banks	113.4	110.0	132.9	168.9	100.0	-68.8	-40.8
Other Items, Net	-396.3	-441.8	-633.8	-591.8	-535.5	56.3	-9.5
Base Money + Investments in BOU Instruments	**1,360.1**	**1,496.0**	**1,543.5**	**1,554.3**	**1614.5**	**60.2**	**3.9**
Base Money	1,242.5	1,419.7	1,543.5	1,554.3	1614.5	60.2	3.9
Currency Outside BoU	981.1	1,051.3	1,199.9	1,195.0	1230.0	35.0	2.9
Commercial Bank Deposits	330.6	434.8	408.6	423.0	457.1	34.1	8.1
Commercial Bank's Operational reserves	261.4	368.4	343.6	359.3	384.5	25.2	7.0
Commercial Banks Investment in BoU Instruments	117.6	76.3	0.0	0.0	0.0	0.0	0.0

Source: Bank of Uganda

3.3 The Activities of Commercial Banks

3.3.1 Overview

During the quarter ended-June 2008, the net foreign assets (NFA) of commercial banks increased by 12.2 percent to Shs. 739.7 billion. During the period, Net domestic assets (NDA) rose by 3.6 percent to Shs. 3,249.1 billion, net claims on the central government (NCG) fell by 0.1 percent or Shs. 0.7 billion to Shs. 1,379.3 billion. Net claims on Bank of Uganda grew by 27.9 percent to Shs. 423.0 billion, on account of a rise in commercial banks' deposits at Bank of Uganda and repayments of borrowings from Bank of Uganda. Cash in vaults fell by 22.5 percent from Shs. 201.3 billion to Shs. 156.0 billion over the quarter ending June 2008. The details of the key items of the balance sheet are shown in Table 3 below.

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

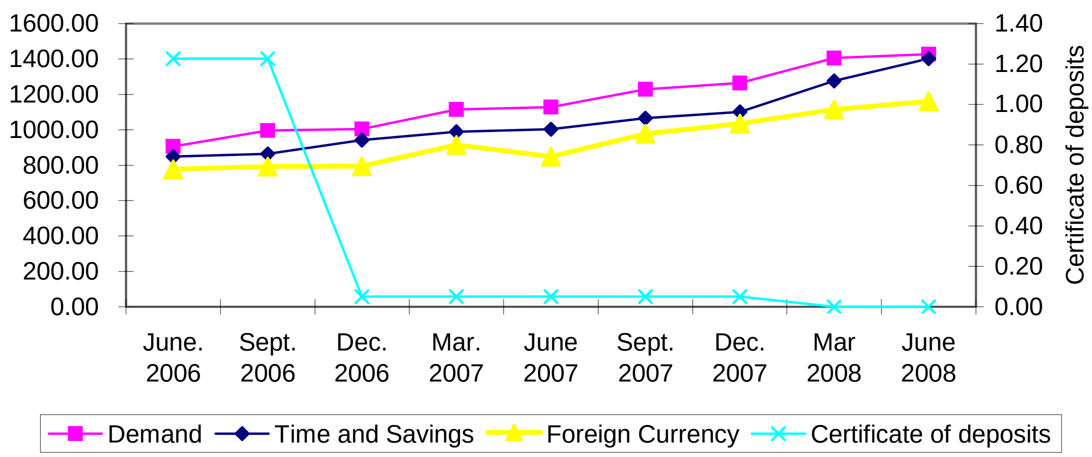
	June. 07	Sept. 07	Dec. 07	Mar. 08	June. 08	Change Mar. 08 to June. 08 Absolute	Change Mar. 08 to June. 08 Percent
Net Foreign Assets	**504.5**	**453.6**	**594.1**	**659.3**	**739.7**	**80.4**	**12.2**
External Assets	711.7	683.4	934.8	942.4	989.1	46.7	5.0
Foreign Liabilities	207.2	229.8	340.7	283.1	249.4	-33.7	-11.9
Net Domestic Assets	**2,473.8**	**2817.3**	**2806.4**	**3135.6**	**3249.1**	**113.5**	**3.6**
Claims on Central Government (net)	981.1	1,093.8	1,231.7	1,380.0	1379.3	-0.7	-0.1
Claims on Private Sector[2]	1,792.5	2,016.9	2,199.1	2,569.2	2809.2	240.0	9.3
Cash in Vaults	117.5	136.7	177.7	201.3	156.0	-45.3	-22.5
Net Claims on Bank of Uganda	376.9	444.4	308.5	330.6	423.0	92.4	27.9
Other Items, Net	-824.9	-911.9	-1133.6	-1,370.1	-1544.0	-173.9	12.7
Total Deposits	**2,978.4**	**3,270.9**	**3,400.5**	**3,794.9**	**3988.9**	**193.9**	**5.1**
Demand Deposits	1,127.9	1,228.4	1,264.7	1,405.5	1426.9	21.4	1.5
Time and Savings Deposits	1,002.3	1,064.9	1,101.2	1,275.2	1400.7	125.6	9.8
Foreign Exchange Accounts	848.1	977.6	1,034.5	1,114.2	1161.2	47.0	4.2
Certificates of Deposits	0.05	0.05	0.05	0.0	0.0	0.0	0.0

Source: Bank of Uganda

3.3.2 Deposits

Private sector's deposits at commercial banks recorded a rise of 5.1 percent to Shs. 3,988.9 billion in the quarter ended June 2008. This outturn compared to a rise of 1.3 percent in the quarter ended June 2007. In particular, foreign currency deposits increased by 4.2 percent to Shs. 1,161.2 billion during the quarter. Demand deposits grew by 1.5 percent to Shs. 1,426.9 billion, while term deposits rose by 9.8 percent to Shs. 1,400.7 billion at end-June 2008. Figure 2 below provides the details.

Figure 2: Evolution of the stock of private sector deposits (Shs. billion)



Source: Bank of Uganda

[2] Refers to credit by both operational banks and outstanding loans by liquidated banks

3.3.3 Credit to the private sector at Commercial Banks

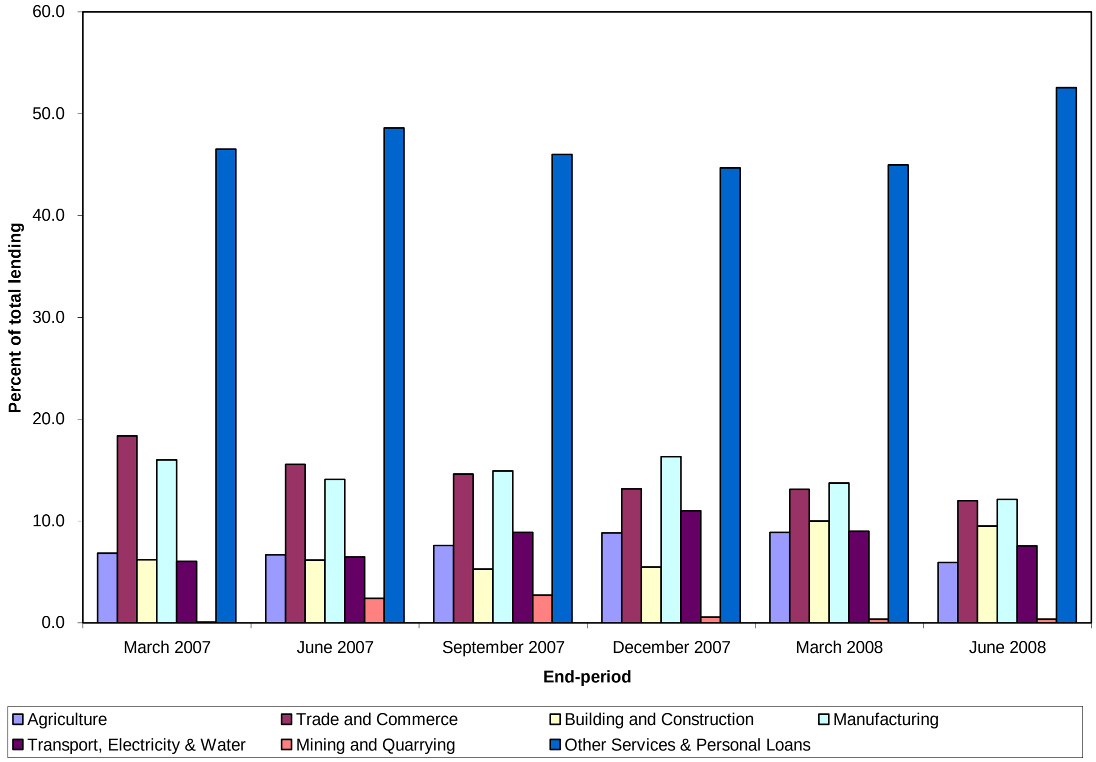
During the quarter under review, the total stock of outstanding credit[3] to the private sector by commercial banks grew by 7.9 percent or Shs. 204.9 billion to Shs. 2,805.8 billion. This represented higher growth than the 3.6 percent recorded in the corresponding quarter ended June 2007. The growth in total stock of outstanding credit was mainly on account of an increase in shilling denominated loans to the private sector, which grew by the equivalent of 12.2 percent or Shs. 227.6 billion to Shs. 2,100.8 billion. The foreign currency denominated loans fell by 3.1 percent or Shs. 22.7 billion to Shs. 705.1 billion during the quarter.

Credit to other services and personal loans continued to account for the bulk of the credit advanced by commercial banks to the private sector with a share of 52.6 percent as at end-June 2008. The stock of outstanding credit to this sector grew by 26.2 percent to Shs. 1,475.2 billion. Lending to the agricultural sector fell by 28.2 percent to Shs. 165.6 billion at end-June 2008. The share of credit to agriculture in total credit was 5.9 percent, lower than 6.7 percent recorded at end June 2007. Credit to the manufacturing sector fell by 4.8 percent to Shs. 339.7 billion at end-June 2008. The share of the manufacturing sector in total credit was 12.1 percent compared to 14.1 percent for June 2007, respectively. Credit to Trade and Commerce fell by 1.4 percent to Shs. 336.2 billion and its share in total credit reduced to 12.0 percent from 13.0 percent.

The stock of credit to the transport, electricity and water sectors fell by 9.0 percent to Shs. 212.6 billion, and this sector's share in the total credit fell from 9.0 percent to 7.6 percent during the period under review. The building and construction sector's outstanding borrowing stood at Shs. 266.8 billion by end-June 2008, marking a growth of 2.4 percent or Shs. 6.3 billion from the previous quarter, while its share as a percentage of total credit reduced from 10.0 percent to 9.5 percent. The mining and quarrying sector continued to have the least share of outstanding credit at 0.3 percent, or Shs.9.7 billion, at end-June 2008. Figure 3 below indicates the sector specific credit ratios.

[3] Refers to credit by only operational commercial banks

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



Source: Bank of Uganda

4. DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS

4.1 Credit Institutions

4.1.1 Assets

Activities of the Credit Institutions (CIs) grew during the period under review. This development was reflected in an increase of 9.3 percent of the total assets from Shs. 103.3 billion as at end-March 2008 to Shs. 113.0 billion as at end-June 2008. The institutions recorded a higher growth during the quarter under review compared to 4.3 percent observed in the corresponding period in 2007. The growth in assets during this quarter was largely attributed to an increase in CIs' investments, which increased by 77.8 percent from Shs. 8.3 billion at end March 2008 to Shs. 14.7 billion at the end of June 2008. Table 4 below shows the quarterly evolution of the assets of credit institutions.

Table 4: Total Assets of Credit Institutions (Shs. billion, at end period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar 08 to Jun 08	
						Absolute	Percent
Cash in vaults	3.5	3.9	5.2	3.2	4.2	0.9	29.5
Balance with Commercial							
Banks & associated companies	44.8	49.8	51.2	30.4	31.5	1.1	3.5
Investments	14.3	12.8	14.3	8.3	14.7	6.5	77.8
Total Advances [1]	170.7	177.8	184.3	41.5	41.5	0.0	0.0
Premises and other fixed assets	17.0	19.7	21.7	13.0	13.1	0.1	1.1
Other Assets [2]	11.0	10.5	10.6	6.9	8.0	1.0	14.9
Total	**261.5**	**274.5**	**287.3**	**103.3**	**113.0**	**9.6**	**9.3**

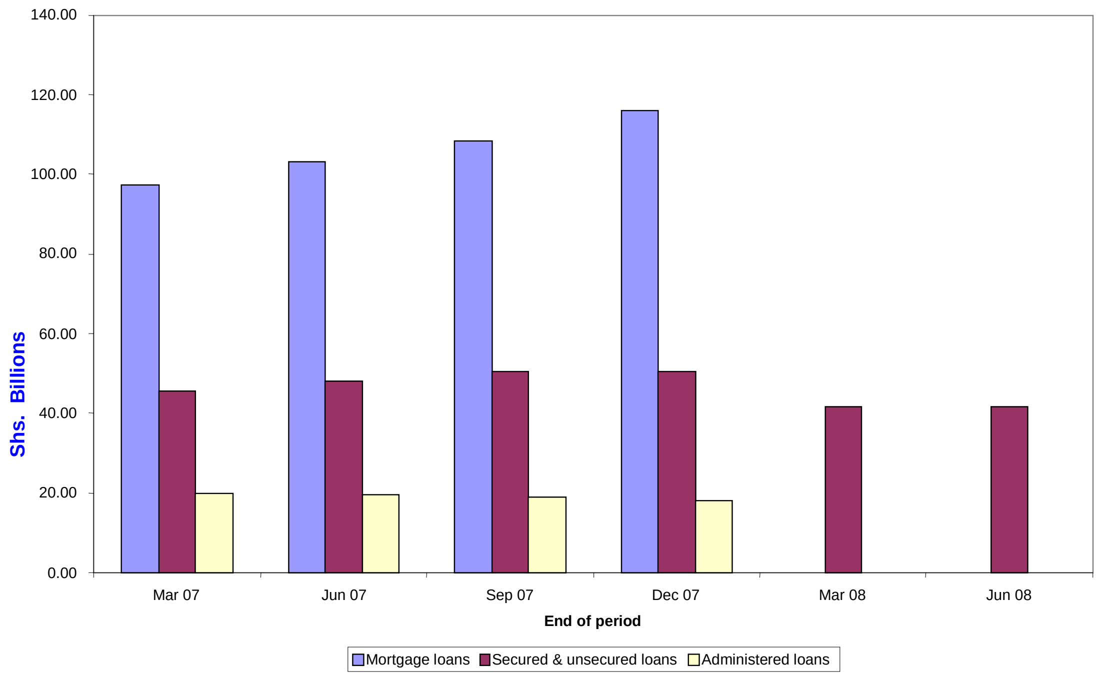
[1] Includes secured and unsecured loans.
[2] Includes net due from own offices in Uganda for items in transit.
Source: Bank of Uganda

During the quarter under review, CI's total advances were stable at Shs. 41.5 billion compared to an increase of 5.0 percent growth in the same period last year. CIs' balances with commercial banks and associated companies grew by 3.5 percent to Shs. 31.5 billion at end-June 2008. Cash in vaults increased by 29.5 percent from Shs. 3.2 billion to Shs. 4.2 billion.

4.1.2 Credit to the private sector

During the quarter to June 2008, secured and unsecured loans remained stable at Shs. 41.5 billion. The trade and commerce sector accounted for the highest share of CI's credit at 31.5 percent during the quarter under review compared to a share of 34.0 percent during the quarter ended March 2008. The ratio of non-performing advances to outstanding advances was stable at 3.0 percent between March 2008 and June 2008. Figure 4 shows the outstanding loans and advances of credit institutions.

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



Mortgage and administered loans were offered by HFCUL, which was turned into a commercial bank in December 2007.
Source: Bank of Uganda

4.1.3 Liabilities

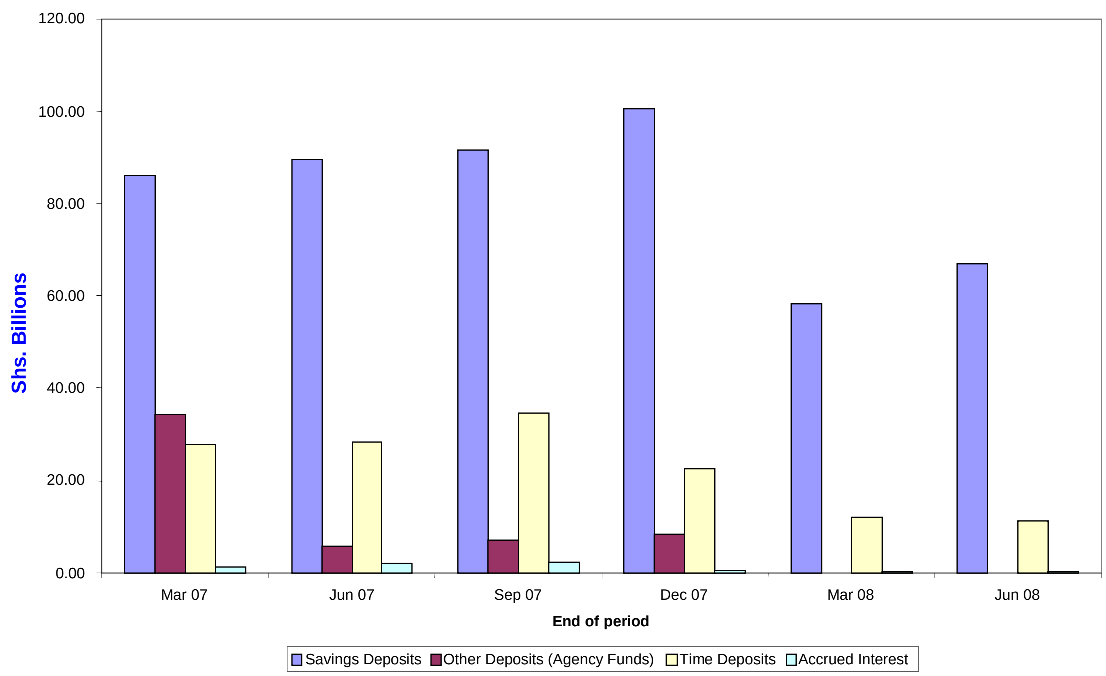
As shown in Table 5, total deposits in the credit institutions grew by 11.4 percent or Shs.8.0 billion to Shs.78.6 billion at end-June 2008. The growth in deposits during the quarter was lower than the growth of 15.9 percent in deposits in the corresponding period in 2007. Total private sector's deposits grew by 11.3 percent to Shs. 78.4 billion, compared to an increase of 3.6 percent in the same period in 2007. In particular, savings deposits grew by 15.0 percent to Shs. 67.0 billion, while time deposits fell by 6.2 percent to Shs. 11.3 billion. Table 5 and Figure 5 below illustrate the evolution of deposits between June 2007 and June 2008.

Table 5: The Composition of the total deposits held in the Credit Institutions (Shs. billion, at end of period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar 08 to Jun 08	
						Absolute	Percent
Savings deposits	89.5	91.5	100.6	58.3	67.0	8.7	15.0
Time Deposits	28.5	34.6	22.5	12.1	11.3	-0.7	-6.2
Total private sector deposits	**117.9**	**126.1**	**123.1**	**70.4**	**78.4**	8.0	11.3
Agency funds	5.9	7.0	8.4	0.0	0.0	0.0	0.0
Accrued interests	2.0	2.4	0.5	0.2	0.3	0.1	29.0
Total deposits [1]	**125.8**	**135.6**	**132.0**	**70.6**	**78.6**	8.0	11.4
Administered funds	19.7	18.8	18.0	0.0	0.0	0.0	0.0
Capital and profit/loss	70.6	75.6	96.6	15.0	18.1	3.0	20.2
Others [2]	45.5	44.6	44.6	17.7	17.7	0.0	0.0
Total Liabilities	**261.5**	**274.5**	**291.2**	**103.3**	**114.4**	11.1	10.7

[1] Includes funds collected so far from the beneficiaries of the government pool house scheme except March 2008.
[2] Includes provisions, other liabilities and balances due to commercial banks.
Source: Bank of Uganda

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



Agency funds were collected by HFCUL, which was turned, into a commercial bank in December 2007.
Source: Bank of Uganda

4.1.4 Liquidity

The level of liquid assets of credit institutions increased by 20.1 percent to Shs. 50.2 billion as at end-June 2008, a much higher growth compared to a growth of 2.2 percent registered at the end of

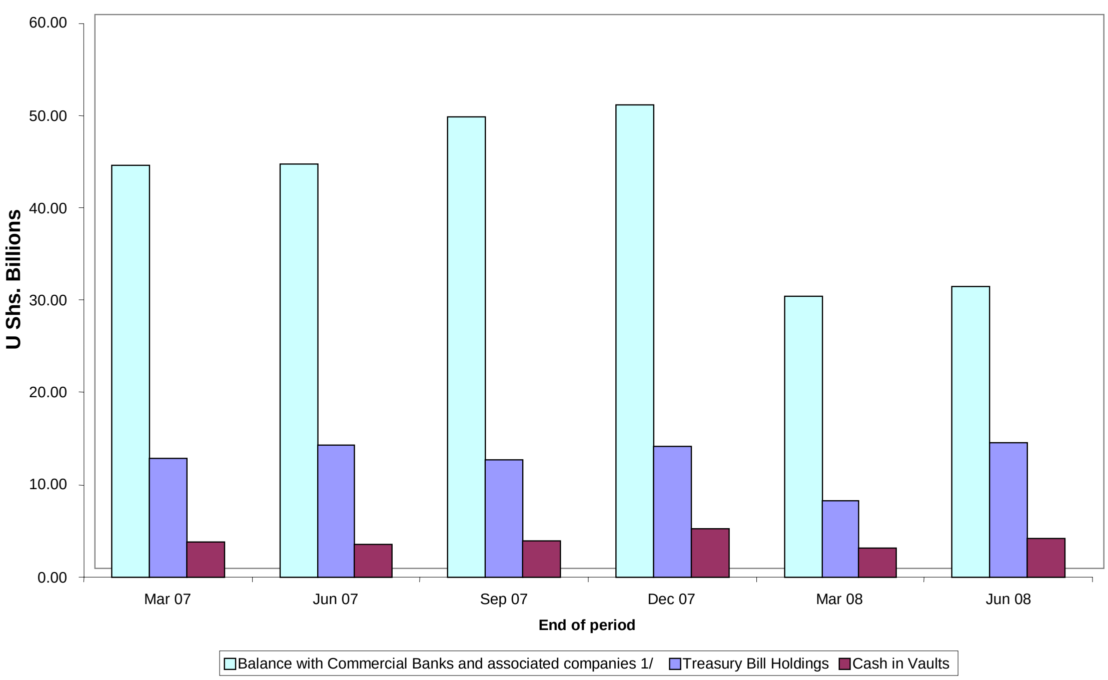
June 2007. The increase in liquid assets was mainly on account of a 77.5 percent increase in Treasury bill holdings of CIs although balances of CIs with commercial banks and associated companies accounted for the largest share of these assets at 62.7 percent. The developments in the liquidity indicators of the credit institutions are summarized in Table 6 and Figure 6 below.

Table 6: Liquidity Indicators of Credit Institutions (Shs. billion, at end of period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar 08 to Jun 08	
						Absolute	Percent
Cash in vaults	3.5	3.9	5.2	3.2	4.2	0.9	29.5
Treasury bill holdings	14.3	12.7	14.2	8.2	14.6	6.4	77.5
Balance with Commercial Banks & associated companies	44.8	49.8	51.2	30.4	31.5	1.1	3.5
Total	**62.6**	**66.4**	**70.6**	**41.8**	**50.2**	8.4	20.1

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 June 2008, total assets held by MDIs stood at Shs.193.6 billion, up from Shs. 172.9 billion recorded at end March 2008. The June 2008 asset position of MDIs represented an increase of 12.0

percent or Shs. 20.7 billion compared to an 8.6 percent growth in total assets registered in the corresponding period in 2007. The increase in total assets mainly resulted from an increase of 31.6 percent in MDIs' balances with financial institutions in Uganda and a 7.1 percent increase in net loans outstanding, which accounted for the largest share of total assets at 60.4 percent. Table 7 and Figure 7 below; highlight the developments in assets and advances of the MDIs respectively.

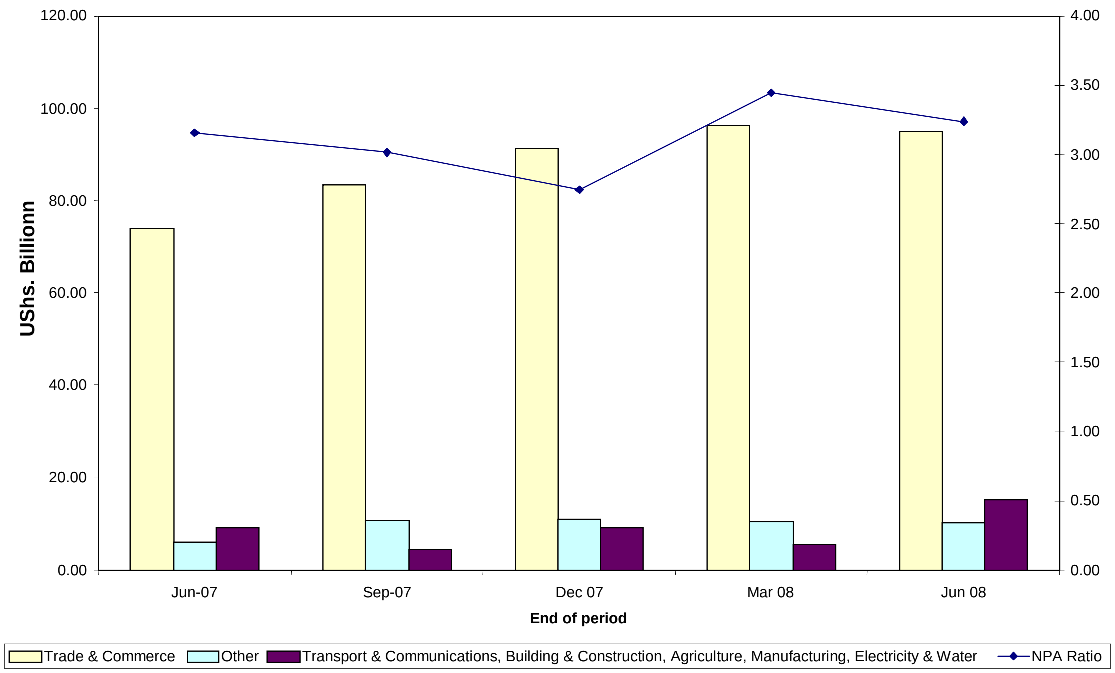
Table7: Total assets of Microfinance Deposit-Taking Institutions (Shs. billion, at end period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar 08 to Jun 08	
						Absolute	Percent
Notes and Coins	3.4	3.8	5.0	4.7	5.5	0.8	16.6
Balances with financial institutions in Uganda	15.4	18.9	20.1	19.6	25.8	6.2	31.6
Investments in Treasury bills	14.3	7.8	21.3	25.0	27.3	2.3	9.1
Net loans outstanding	86.5	96.5	104.8	109.3	117.0	7.7	7.1
Inter branch/Due from own offices	0.4	0.0	0.2	0.0	1.2	1.2	0.0
Net Fixed Assets	9.6	9.9	10.3	10.2	11.2	1.0	9.9
Long Term Investment	1.7	1.8	1.8	2.4	2.5	0.2	7.4
Other Assets	7.4	14.7	8.3	10.6	10.5	-0.1	-1.4
Total Assets	**145.4**	**153.5**	**162.4**	**172.9**	**193.6**	20.7	12.0

Source: Bank of Uganda

The stock of outstanding loans to the private sector by MDIs increased by 7.1 percent from Shs. 112.4 billion to Shs. 120.4 billion during the quarter ended June 2008 compared to an increase of 8.6 percent in the corresponding quarter in the previous year. Allowances for loan losses (general and specific) increased by 6.8 percent to Shs. 3.3 billion; hence the net loans extended by end-June 2008 amounted to Shs. 117.0 billion. In the same period last year, allowances for loan losses decreased by 10.2 percent. The trade and commerce sector continued to hold the largest share of MDIs credit at 78.9 percent as at end-June 2008. The ratio of non-performing advances to total outstanding advances went down from 3.4 percent to 3.2 percent between March 2008 and June 2008.

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

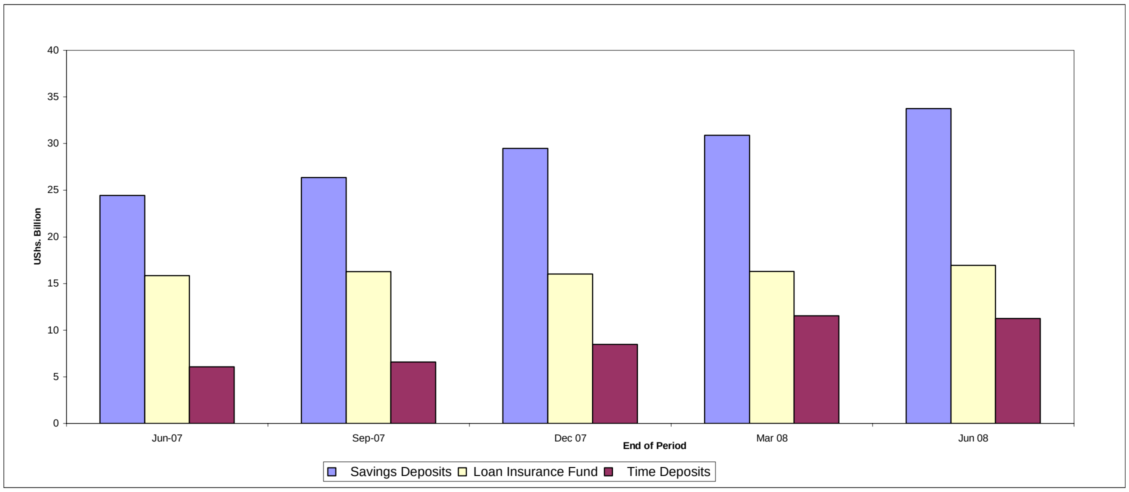


Source: Bank of Uganda

4.2.2 Liabilities

In June 2008, private sector deposits in the MDIs amounted to Shs. 45.0 billion, representing an increase of 6.0 percent. This was compared to the 20.1 percent growth recorded during the corresponding period ended June 2007. Savings deposits increased by 9.3 percent to Shs. 33.8 billion while time deposits fell by 2.7 percent to Shs. 11.3 billion. Total borrowing by the MDIs increased over the period under review by 33.3 percent from Shs. 49.5 billion to Shs. 65.9 billion. In the corresponding period last year, total borrowing grew by 13.3 percent. Short term borrowings increased by Shs. 16.6 billion to Shs. 21.8 billion while long-term debt decreased marginally by 0.3 percent to Shs. 44.1 billion. Table 8 below shows the composition of MDIs' liabilities while Figure 8 shows the evolution of the MDIs' total deposits.

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



Source: Bank of Uganda

Table 8: Composition of the Total Liabilities held in the Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar 08 to Jun-08	
						Absolute	**Percent**
Deposit Liabilities	30.9	33.7	39.1	3.9	45.4	2.3	5.3
Savings deposits	24.4	26.4	29.5	30.9	33.8	2.9	9.3
Time deposits	6.1	6.6	8.5	11.6	11.3	-0.3	-2.7
Total Private Sector Deposits	30.5	32.9	38.0	42.5	45.0	2.6	6.0
Accrued interest	0.4	0.8	1.2	0.6	0.4	-0.3	-42.9
Loan insurance fund	15.8	16.3	16.0	16.3	16.9	0.7	4.0
Total Borrowing	42.2	43.9	46.6	49.5	65.9	16.5	33.3
Long-term borrowing (market rate)	33.2	39.3	41.9	44.2	44.1	-0.1	-0.3
Short-term borrowing (market rate)	8.9	4.6	4.7	5.2	21.8	16.6	318.6
Other liabilities	9.5	9.6	8.7	10.9	10.8	-0.1	-0.5
Total liabilities	98.5	103.4	110.5	119.7	139.0	19.4	16.2
Total equity	27.1	30.0	31.6	32.9	38.1	5.1	15.6
Subordinated debt	16.1	16.3	16.5	16.5	16.5	0.0	0.0
Preference shares	3.8	3.8	3.8	3.8	0.0	-3.8	-100.0
Total liabilities and equity	**145.4**	**153.5**	**162.4**	**172.9**	**193.6**	20.7	12.0

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

Source: Bank of Uganda

4.2.3 Liquidity

The level of liquid assets of MDIs stood at Shs. 58.7 billion by end of June 2008, representing an increase of 18.8 percent or Shs. 9.3 billion. This compares to a decline of 10.1 percent registered at the end of June 2007. The growth in liquid assets was mainly on account of an increase in MDIs' balances with financial institutions in Uganda as shown in Table 9 and Figure 9 below.

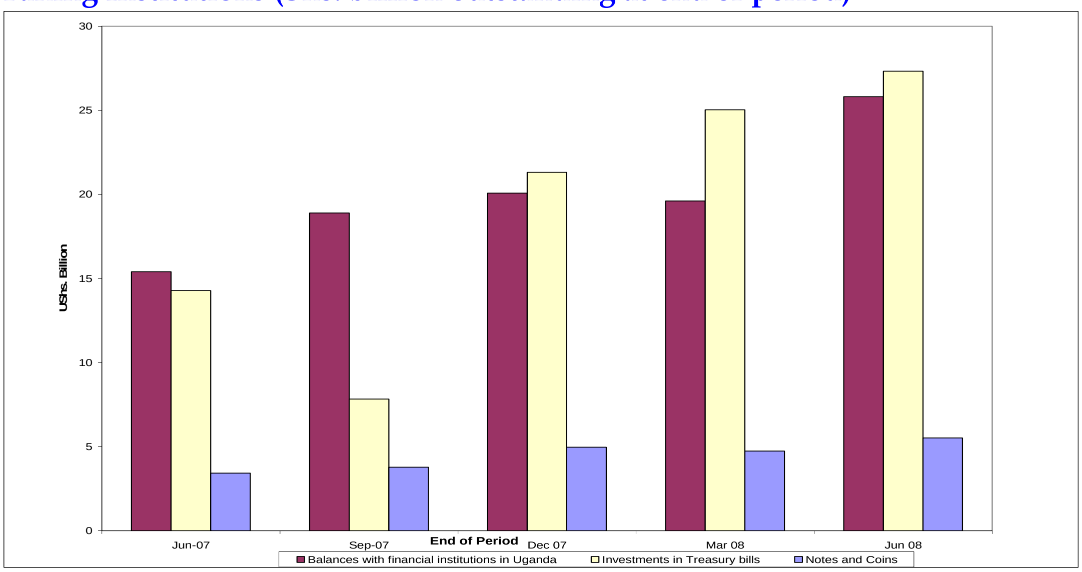
Table 9: Liquidity indicators of Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Change Mar-08 to Jun-08 Absolute	Change Mar-08 to Jun-08 Percent
Notes and coins	3.4	3.8	5.0	4.7	5.5	0.8	16.6
Balances with financial institutions in Uganda	15.4	18.9	20.1	19.6	25.8	6.2	31.6
Investments in treasury bills	14.3	7.8	21.3	25.0	27.3	2.3	9.1
Total Assets	33.1	30.5	46.4	49.4	58.7	9.3	18.8
O/w encumbered fixed deposits [1]	3.4	4.5	2.9	3.0	12.1	9.1	301.1

[1] Deposits pledged as security to secure overdraft facilities

Source: Bank of Uganda

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



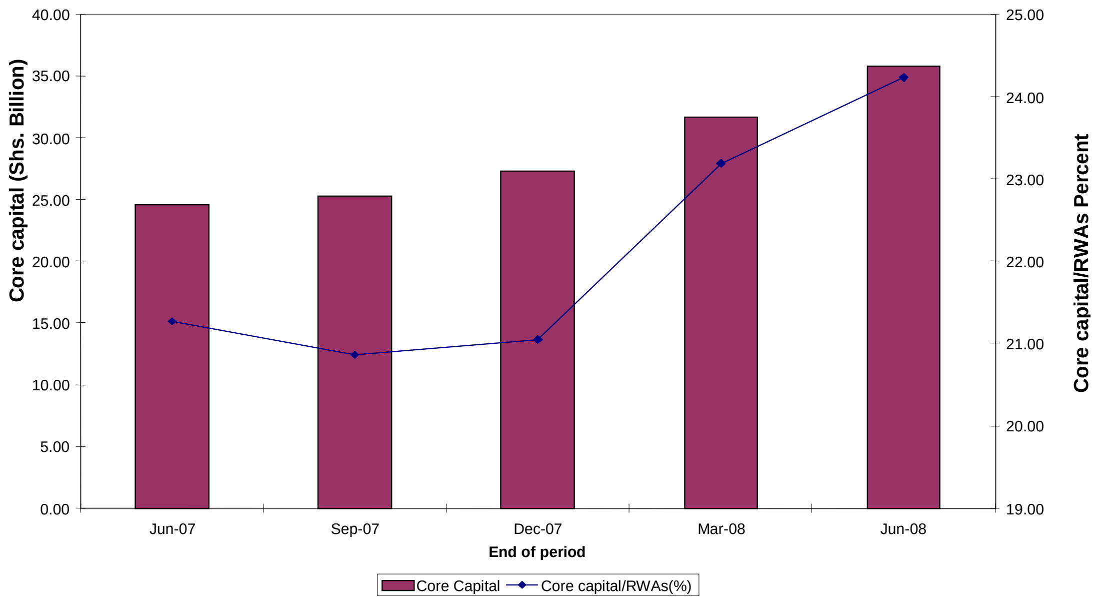
Source: Bank of Uganda

4.2.4. Capital adequacy

All MDIs maintained paid-up capital above the statutory minimum requirement of Shs. 0.5 billion during the quarter ended June 2008. Core capital and total capital to risk weighted assets ratio of all MDIs were maintained above the statutory minimum requirement of 15 and 20 percent respectively. MDIs' core capital increased by 13.0 percent or Shs. 4.1 billion from Shs. 31.7 billion to Shs. 35.8 billion at the end of the quarter under review. This was mainly due to a general increase in the paid up capital of one of the MDIs associated with the conversion of its preference shares into ordinary shares.

The core capital to risk weighted assets (RWAs) ratio was 24.2 percent while the total capital to risk weighted assets ratio was 30.6 percent during the period under review compared to 23.2 percent and 33.1 percent respectively in March 2008. Figure 10 below shows the overall trend in core capital to risk weighted assets indicators.

Figure 10: Capital adequacy indicators (end period)

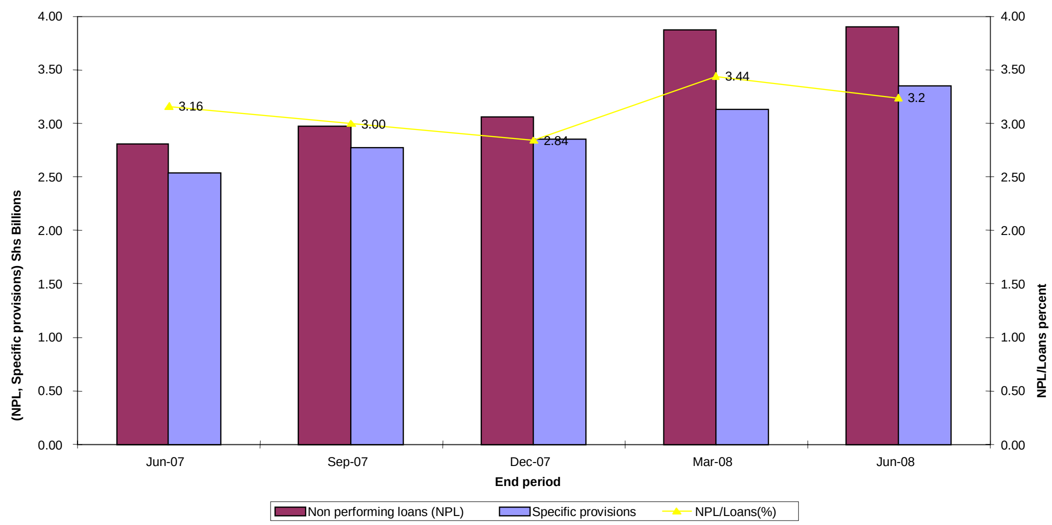


Source: Bank of Uganda

4.2.5 Asset quality

The overall Portfolio at Risk (PAR) decreased to 3.2 percent at end June 2008 compared to 3.4 percent observed at the end March. The decrease in the overall PAR was due to a less than proportionate increase in NPLs compared to the increase in total loans. All MDIs recorded PAR ratios below the recommended level of 5 percent. Non-Performing Loans (NPL) increased marginally by 2.6 percent to Shs. 3.9 billion during the quarter under review.

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

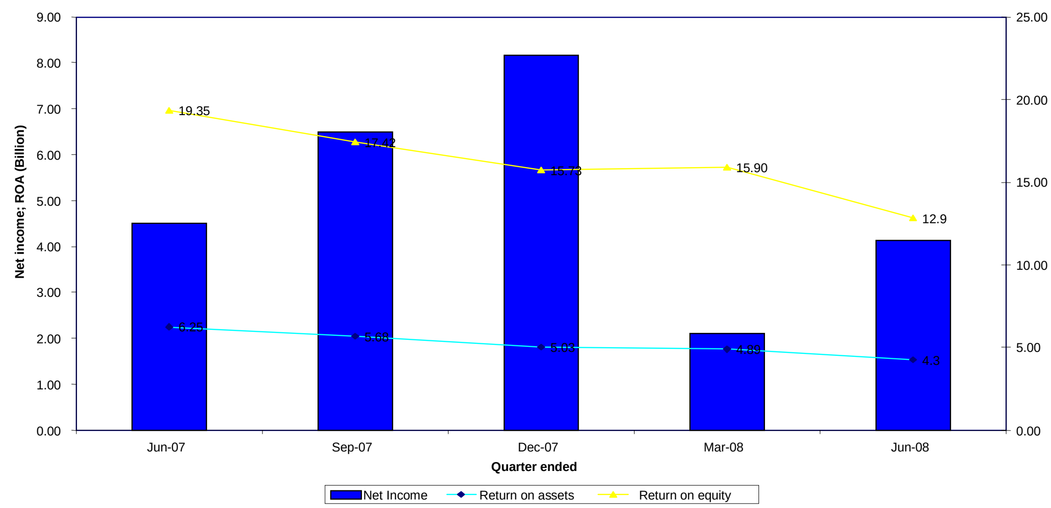


Source: Bank of Uganda

4.2.6 Profitability

As at end-June 2008, annual net profits were Shs. 4.1 billion compared to Shs. 4.5 billion as at the end of June 2007. The annualized return on assets and return on equity ratios were 4.3 percent and 12.9 percent, respectively at the end of the quarter under review with the overall interest cover at 2.3 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

Table 10 below gives Trends in Key Financial Ratios on Capital Adequacy, Asset Quality, Profitability and Liquidity as at end of period.

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Capital Adequacy					
Core capital, Shs. Billion	24.5	26.4	27.3	31.7	35.8
Total capital, Shs. Billion	37.0	39.3	40.4	45.2	45.2
Risk weighted assets (RWA), Shs. billion	115.4	126.8	129.4	136.4	147.6
Core capital/RWA ratio, percent	21.3	20.9	21.1	23.2	24.2
Total core capital/ RWA, percent	32.1	31.0	31.2	33.1	30.6
Asset Quality					
Total loans, Shs. Billion	89.1	99.3	107.7	112.4	120.4
Portfolio in arrears (PIA), Shs. billion	2.8	3.0	3.1	3.8	3.9
Portfolio at risk ratio, percent	3.2	3.0	2.8	3.4	3.2
Total provisions, Shs. Billion	2.5	2.8	2.9	3.1	3.3
Profitability					
Year to date Profit/Loss, Shs. million	4.5	6.5	8.2	2.1	4.1
Return on assets (YTD, annualized)	6.3	5.7	5.0	4.9	4.3
Return on equity (YTD, annualized)	19.4	17.4	15.7	15.9	12.9
Interest cover	3.0	2.7	2.6	2.4	2.3
Liquidity					
Total deposits, Shs. billion	30.9	33.7	39.1	43.1	45.4
Liquid assets, Shs. billion	35.05	26.2	34.1	37.4	48.1
Liquid assets/Deposits, percent	113.5	77.6	87.1	86.8	106.2
Loans/Deposits (Lending Ratio), percent	58.2	66.6	65.8	61.0	63.7
Debt: Equity ratio	196.3	197.9	196.6	195.9	159.0

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

5. DOMESTIC FINANCIAL MARKETS AND INTEREST RATES

5.1 Treasury bond[5] market

Government Treasury bonds are issued to support monetary policy implementation by improving liquidity management and promoting market development by extending both the maturity of the instruments traded and the yield curve. During the quarter under review, four new bonds were issued to absorb structural liquidity for a longer period. In addition, one bond was reopened with the aim of creating more liquid and tradable

[5] A bond is a market instrument issued by government or company with a maturity term longer than one year.

securities. Compared to the rates from the previous issues, the yields-to-maturity for the 2-year and 3-year bonds followed an upward trend throughout the quarter against commercial banks' increasing demand for liquidity related to the end-financial year URA tax transfer obligations.

5.1.1. Primary market of Treasury bonds

During the quarter under review, two 2-year and two 3-year bonds were newly issued with the total face value amounting to Shs. 242.8 billion. Furthermore, a 2-year bond was re-opened with a face value of Shs. 40.0 billion. These auctions, together with 2-year and 3-year bond maturities totaling to Shs. 75.0 billion, brought the total outstanding stock of bonds to Shs.1,484.4 billion by end June 2008. All bonds continued to be listed on the Uganda Securities Exchange. Table 11 shows the developments in the Treasury bond primary market.

Table 11: Treasury bonds: volume, price and interest rates

	Jun 07	Sept 07	Dec 07	Mar 08	Jun 08
Stock of Treasury bonds (Shs. billion)	953.08	1,123.08	1,256.68	1,276.68	1,484.44
Change in stock (absolute)	97.00	170.00	133.60	20.00	207.76
Price and interest rates (percent)					
2-year average price (Shs. /100)	---	95.80	94.69	93.35	94.45
3-year average price (Shs. /100)	96.25	92.49	91.76	92.08	91.06
2-year yield-to-maturity rate	---	12.44	13.11	13.93	14.43
3-year yield-to-maturity rate	13.10	13.37	13.69	13.55	14.01
Issues at face value (Shs. billion)					
2-year	0.00	55.00	100.00	20.00	152.72
3-year	117.00	75.00	118.59	60.00	130.04
5-year	0.00	40.00	60.00	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at face value	117.00[1]	170.00[2]	278.59[3]	80.00	282.76
Total maturities	19.84	0.00	145.00	59.66	75.00
Total net issues at face value	97.16	170.00	133.59	20.34	207.76
Issues at cost value (Shs. billion)					
2-year	0.00	52.69	94.43	18.66	143.68
3-year	111.82	69.37	108.93	55.25	118.62
5-year	0.00	36.81	53.02	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at cost value	111.82	158.87	256.38	73.91	262.30

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-June 2008, the average indicative bid/offer yields-to-maturity in the secondary market for the 2-year, 3-year, 5-year and 10-year treasury bonds were 13.8/13.5, 13.9/13.6, 14.2/13.9, and 14.6/14.3 percent, respectively. The corresponding average rates were 13.5/13.3, 14.0/13.7, 14.2/13.9, and 14.6/14.4 percent for the quarter ended-March 2008, and 12.7/12.4, 12.9/12.7, 14.0/13.8, and 15.6/15.3 percent, respectively for the quarter ended June 2007. Comparing the quarters to June 2007, and to March 2008, the 2-year bond rates went up in line with the rise in rates in the primary bond market. The rest of the tenors had fairly stable rates. In the quarter under review, 2-year, 3-year, and 5-year bonds worth Shs. 62.8 billion, Shs. 4.8 billion, and Shs. 15.0 billion respectively, were traded in the secondary market. There were no reported trades in the 10-year bond.

Table 12: Summary indicators from the secondary market for Treasury bonds (April-June 2008)

	Tenor of Bond							
	2-year		3-year		5-year		10-year	
	Yield-to-maturity quotation (percent)							
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	12.45	12.20	13.25	12.70	13.80	13.50	13.40	13.20
Max	14.85	14.60	14.40	14.05	14.50	14.25	15.60	15.35
Average	13.75	13.49	13.92	13.57	14.15	13.91	14.56	14.32

Source: Bank of Uganda

5.2 Treasury bill market

Effective August 2006 and in line with the Failure to Settle Arrangements in the clearing house rules, BOU started selling special Treasury bills to commercial banks every three months at the most recent 91-day weighted average rate. This pool of collateral is to prevent or limit the possible precipitation of systemic risk arising out of the potential failure by any one of the banks to settle their obligations in the clearinghouse. On maturity, these bills may be rolled over partially or fully, depending on the previous period's volume of clearing activities. In the quarter ended June 2008, Bank of Uganda issued treasury bills of Shs. 6.8 billion to commercial banks for the failure –to- settle collateral

Secondary market trading in Treasury bills was on account of the ease with which securities can be transferred on the Central Depository System (CDS), and the periodic ranking of primary dealers by Bank of Uganda, which motivates them to participate in the key areas of primary, and secondary markets 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. 363.4 billion at cost value were issued against maturities of Shs. 491.9 billion. The implied net redemption of Shs. 128.5 billion thus contrasting with the net issues of Shs. 79.6 billion and Shs. 224.0 billion, for the previous quarter to March 2008 and the corresponding quarter ended June 2007, respectively.

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

	Jun 07	Sept 07	Dec 07	Mar 08	Jun 08
Stock of Treasury bills (Shs. billion)	1,340.40	1,412.40	1,528.46	1,607.94	1,518.31
Change in stock (absolute)	223.99	72.00	116.06	79.28	-89.63
Price and interest rates (percent)					
91-day Average price (Shs. /100)	97.71	98.15	98.14	97.98	97.98
Annualized 91-day discount rate	9.18	7.42	7.47	8.09	8.09
Annual 91-day discount yield	9.74	7.78	7.84	8.52	8.52
Reference rate/[1]	9.91	8.06	7.98	8.29	8.29
Rediscount rate	15.60	13.76	13.68	13.99	13.99
Issues at face value (Shs.billion)					
91 days	67.64	43.00	51.94	44.57	41.21
182 days	125.07	74.20	104.00	119.68	113.56
364 days	343.35	265.69	283.38	247.78	247.51
Total issues at face value	536.06[2/3]	382.89[2/5]	439.32[2]	412.03[2]	402.28[2]
Total maturities	312.11[4]	310.52[4]	323.23[4/6]	332.39[4]	491.92[4/7]
Total net issues at face value	223.95	72.37	116.09	79.64	-89.64
Issues at cost value (Shs.billion)					
91days	66.10	42.22	50.98	43.68	40.40
182 days	118.08	70.66	98.58	112.92	106.30
364 days	303.73	238.20	253.12	219.26	216.69
Total issues at cost value	487.91	351.08	402.68	375.86	363.40

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.
[7]Includes maturities of special issues made to Standard Chartered Bank and Citibank.

Source: Bank of Uganda

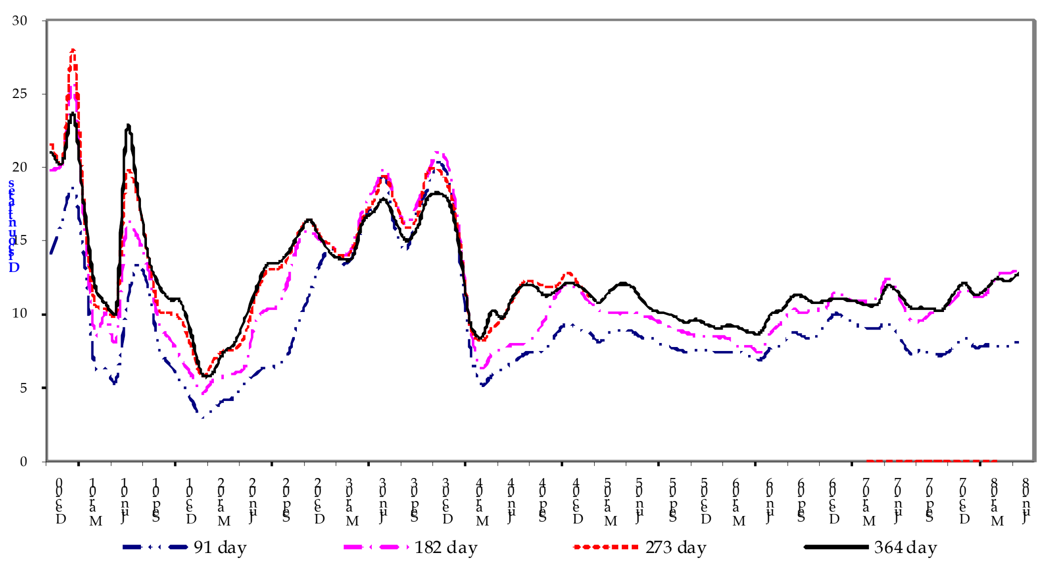
On an average basis, Treasury bill rates were higher in the quarter to June 2008 compared to the previous quarter ended March 2008. The government's comprehensive strategy for debt management is expected to ensure an optimal mix of security issuance, and enable a reduction of the relative cost of interest on these government securities.

The weighted average discount rates on Treasury bills for the quarter under review were recorded at 8.0, 12.8, and 12.5 percent on the 91-days, 182-days, and 364-days Treasury bill tenors, respectively. These discount rates were higher than the corresponding rates of 7.9, 11.4, and 11.6 percent, recorded in March 2008. The respective rates in June 2007 were 9.2, 11.5, and 11.1 percent. The upward trend in discount rates is reflected in Figure 13.

The average annualized yields for the entire quarter stood at 8.4, 14.2, and 14.3 percent for the 91-day, 182-day, and 364-day bills, respectively. These rates were higher than the respective rates of 8.3, 12.4, and 12.3 percent for the quarter ended-March 2008. In the corresponding quarter ended-June 2007, these yields were 9.7, 12.5, and 12.5 percent.

The stock of Treasury bills decreased by 5.6 percent, from Shs. 1,607.9 billion recorded at the end of March 2008 to Shs. 1,518.3 billion as at end-June 2008. Commercial banks held 46.2 percent of the outstanding stock of Treasury bills by end-June 2008, compared to 48.9 percent reported in March 2008, while BOU's holdings fell to 20.5 percent from a holding of 21.1 percent over the same time-period. As at end June 2007, BOU and commercial banks' holdings accounted for 8.2, and 61.8 percent of total stock of Treasury bills respectively.

Figure 13: Primary market discount rates on treasury bills



Source: Bank of Uganda

5.2.2 Secondary market of Treasury bills

With the exception of the 182-day paper, the indicative yield-to-maturity rates of all papers as derived from daily '*bid*' and '*offer*' quotations by the primary dealers in the secondary market fell during the quarter under review. This was in spite of the rise in the rates derived in the primary market for these securities.

The respective average bid/offer rates for the quarter ended-June 2008 were 8.4/8.1, 12.5/12.3, and 13.8/13.4 percent for the 91-days, 182-days and 364-days securities. With the exception of the 182-day paper, these rates fell when compared to the average rates for the respective papers of 8.5/8.3, 12.4/12.1, and 13.9/13.6 percent in the previous quarter. In the corresponding quarter ended June 2007, these rates were 9.6/9.3, 12.0/11.7, and 12.4/12.1 percent, respectively. 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. 160.2 billion. This volume of trade is compared to Shs. 221.3 billion executed in the previous quarter ended March 2008, and Shs. 99.7 billion reported in the quarter to June 2007. All the transactions were outright sales. Table 14 summarizes these developments.

Table 14: Summary indicators from the secondary market for Treasury bills (April-June 2008)

	91-days		182-days		364-days	
	Yield-to-maturity rates quotation (percent)					
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	7.53	7.27	10.98	10.71	12.48	12.19
Maximum	11.43	11.16	14.42	14.13	14.44	14.13
Average (simple)	8.36	8.09	12.52	12.25	13.76	13.44
Total trading activity			**Shs. 160.210 billion**			
Transactions (Shs billion)		36.594		24.281		99.335
- Horizontal repos		0.000		0.000		0.000
- Transfers		0.000		0.000		0.000
- Outright sales		36.594		24.281		99.335
Average discount rate		10.78%		10.83%		12.04%
Average yield-to-maturity		11.09%		11.37%		13.10%

Source: Bank of Uganda

5.3 The Vertical Repo Market

The vertical Repo market, which entails Repo transactions between commercial banks and Bank of Uganda, was used throughout the quarter for short-term flexible liquidity management. Total Repo issuance in the quarter ended-June 2008 was Shs. 141.0 billion against maturities of Shs. 141.1 billion. The total transaction volume of this instrument was therefore lower than what was recorded in the quarter ended-March 2008 when issues of Shs. 232.0 billion were effected against maturities of Shs. 232.2 billion. BOU largely stayed out of this market in the first month of the quarter, as the tight liquidity conditions did not necessitate mopping actions. Despite the reduction in activity, the resultant weighted average interest rates from this market followed an upward trend throughout the quarter. The respective amounts of issues and maturities for the corresponding quarter-ended June 2007 were Shs. 1,747.2 billion and Shs. 1,752.6 billion. These developments are shown in Table 15.

Table 15: Volume developments in the repo market (Shs. billion)

	Jun 07	Sept 07	Dec 07	Mar 08	Jun 08
Issuance of repos	1,747.200	877.499	1,162.699	232.000	141.000
Maturity of repos	1,752.620	920.369	1,240.632	232.210	141.103
Outstanding Stock of Repos	117.787	76.591	0.000	0.000	0.000

Source: Bank of Uganda

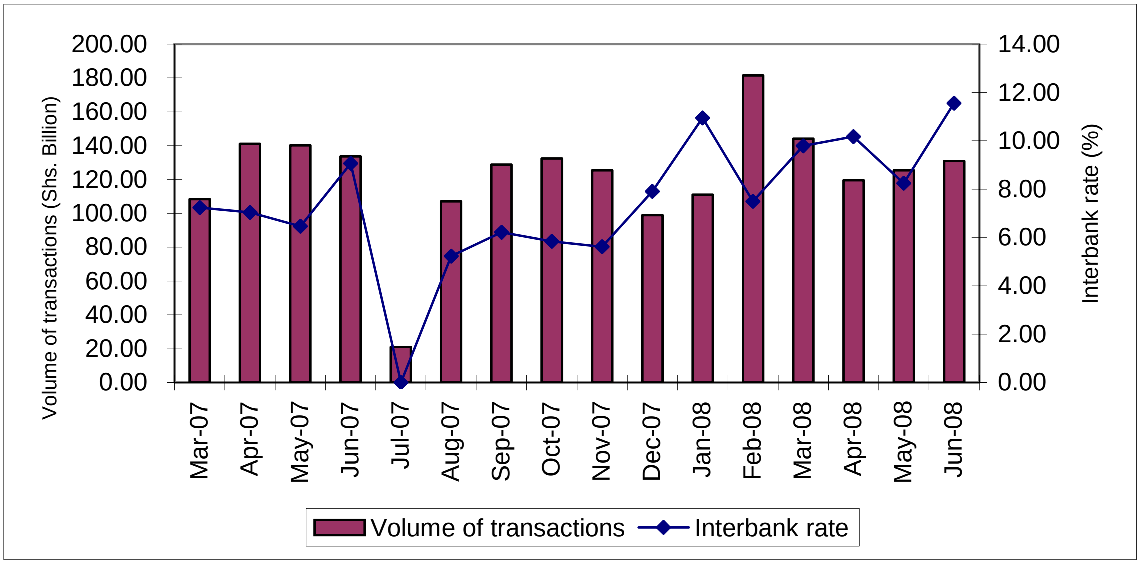
5.4 Interest rates

5.4.1 The Interbank Money Market

The inter-bank money market transactions were of durations of 1 to 30 days and there was sustained activity 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 declined from 10.2 percent in the month of April 2008 to 8.2 percent in May 2008. The average inter-bank rate, however, increased to 11.6 percent in June 2008. The inter-bank rates observed also reflected the underlying liquidity conditions in the domestic money markets. The inter-bank rates observed in the corresponding months in the previous year were 7.0 percent 6.5 percent and 9.1 percent in April 2007, May 2007 and June 2007 respectively. Figure 14 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

5.4.2 Commercial bank's lending and deposit rates

The weighted average interest rates for commercial banks were stable in the quarter under review, due to increased competition for deposits and continued sound macroeconomic and prudent management policies that were recorded over the quarter. The average weighted savings rate on the shilling denominated deposits was 2.4 percent, lower than the rate of 2.6 percent recorded in the quarter ended March 2008. The rate on saving deposits was however the same as in the corresponding period a year ago. The average weighted time deposit rate in the quarter ended June 2008 was 11.1 percent, an increase from an average of 9.2 percent recorded in the corresponding quarter a year ago. These deposit rates are reminiscent of a relatively stable macroeconomic environment.

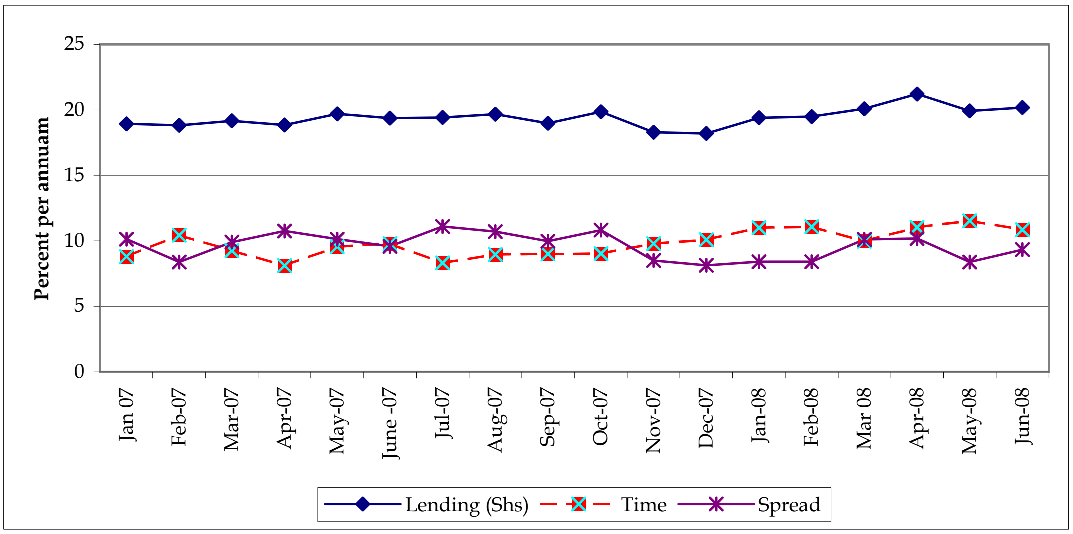
In line with the relative stability in the other rates, the weighted average lending rate on shilling denominated loans rose slightly to 20.4 percent in the quarter under review compared to an average of 19.3 percent in the quarter ended June 2007. The weighted average lending rates on the dollar denominated loans decreased marginally from an average of 9.7 percent in the quarter ended June 2007 to an average of 9.6 percent in the quarter under review. The average weighted savings deposit rate on the dollar denominated deposits, however, remained at the average of 1.5 percent recorded in the quarter ended June 2007. The time deposit rate averaged 4.0 percent in the quarter under review compared to an average rate of 5.5 percent recorded in the corresponding quarter a year ago. The developments in commercial bank's interest rates are shown in Table 16 and Figures 15 and 16 below.

Table 16: Weighted average interest rates of commercial banks (Percent, per annum)

Weighted Average rates	Shilling denominated				Foreign currency denominated			
	Jun-07	Dec-07	Mar-08	Jun-08	Jun-07	Oct-07	Mar-08	Jun-08
Lending	19.31	18.79	19.65	20.44	9.66	9.93	9.66	9.65
Demand deposits	1.23	1.27	1.29	1.26	1.21	1.35	1.24	1.02
Savings deposits	2.35	2.68	2.60	2.40	1.48	1.09	1.51	1.50
Time deposits	9.16	9.63	10.69	11.14	5.51	3.70	4.41	3.96

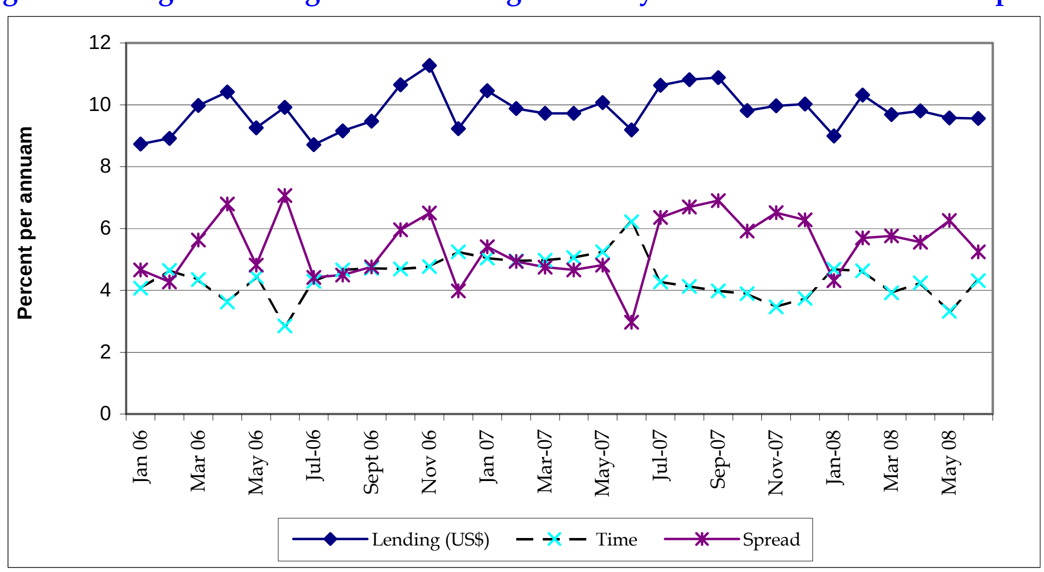
Source: Bank of Uganda

Figure 15: Weighted average rates on shilling denominated loans and deposit



Source: Bank of Uganda

Figure 16: Weighted average rates on foreign currency denominated loans and deposits

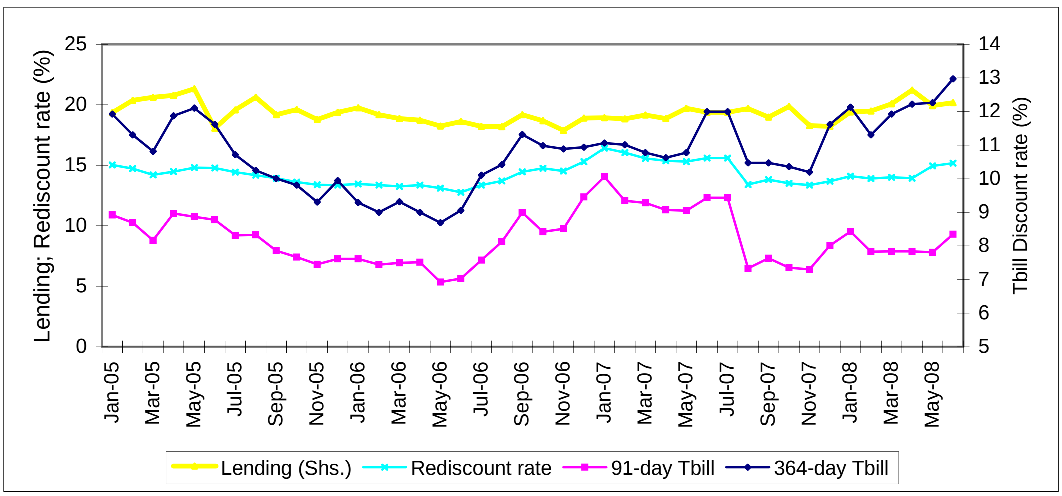


Source: Bank of Uganda

5.4.3 Policy rates

During the quarter under review, the policy margin within the rediscount rate, increased by one percentage point to 6.7 percent. As a result of this and developments in the domestic money markets, the Rediscount rate and Bank rate increased from 13.9 percent and 14.9 percent recorded at the beginning of the quarter to 15.2 percent and 16.2 percent respectively by end June 2008. Figure 17 highlights the trend of rediscount and discount rates on the 91-day and 364-day treasury bills.

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



Source: Bank of Uganda

6. DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

6.1 Foreign exchange rates

During the fourth quarter of 2007/08, the shilling appreciated by 3.1 percent compared to the third quarter of 2007/08 when it appreciated by 1.2 percent. In the period under review, the unit strengthened from an average of Shs. 1,701.6 per U.S. dollar in the third quarter of 2007/08 to Shs. 1,647.1 per U.S. dollar. The shilling opened trading at Shs. 1,692.6 per U.S. dollar at the beginning of April 2008, and closed at Shs. 1,619.5 per U.S. dollar at end June 2008. On a daily basis the shilling appreciated by 0.1 percent. The shilling strengthening within the quarter under review was mainly attributed to increased inflows of foreign exchange from coffee, tobacco and fish exports, offshore players, development agencies and private transfers. The continued weakening of the US dollar on the global scene contributed further to the appreciation of the shilling. The central bank sterilized liquidity using a combination of daily sales of foreign exchange and issuances of government securities in the first half of the period under review. However, daily sales of foreign exchange were suspended in the second half of the quarter. In a bid to stem volatility in the interbank foreign exchange market (IFEM), Bank of Uganda intervened and purchased US$ 5.5 million on a net basis.

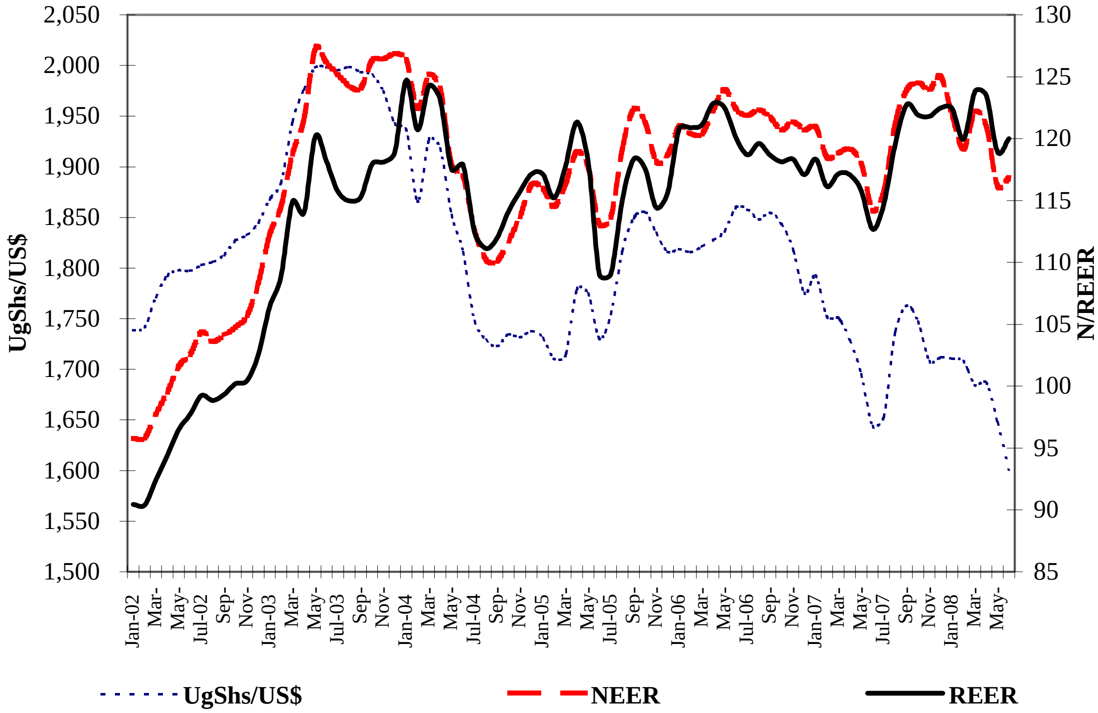
The spread moved between Shs. 9.0 and Shs. 23.1 indicating volatility in the IFEM. On a quarterly basis, the average spread between the buying and selling rates increased marginally from Shs. 10.6 in the third quarter of 2007/08 to Shs. 10.8 in the quarter under review.

The nominal effective exchange rate (NEER) index appreciated by 0.7 percent during the fourth quarter of 2007/08, compared to an appreciation of 2.7 percent posted in the previous quarter. The movement in the NEER index mainly reflected the relative movements of the Uganda shilling against the currencies of major trading partners. The shilling appreciated by 3.7 percent against the UK pound, 2.7 percent against the Japanese Yen, 7.4 percent against the Indian Rupee and 6.4 percent against the South African Rand while it depreciated by 4.7 percent and 0.8 percent against the Kenya shilling and the Euro, respectively.

The real effective exchange rate (REER) index depreciated by 0.4 percent in the fourth quarter of 2007/08, compared to an appreciation of 0.1 percent recorded in the third quarter of 2007/08. Figure 18 shows the developments in the exchange rate.

In the foreign exchange bureaux market, the shilling appreciated by 3.0 per cent from the average of Shs. 1,695.7 per U.S. dollar in the third quarter of 2007/08 to Shs. 1, 644.1 per US dollar in the fourth quarter of 2007/08. In the corresponding period in 2006/07 the shilling appreciated by 4.0 percent when the average bureaux rate moved from Shs. 1,753.0 per U.S. dollar in the third quarter of 2006/07 to Shs. 1,682.8 per U.S. dollar. Table 17 and Figures 19 and 20 summarize the developments in the foreign exchange market.

Figure 18: Exchange rate developments:



Source: Bank of Uganda

6.2 Transaction volumes

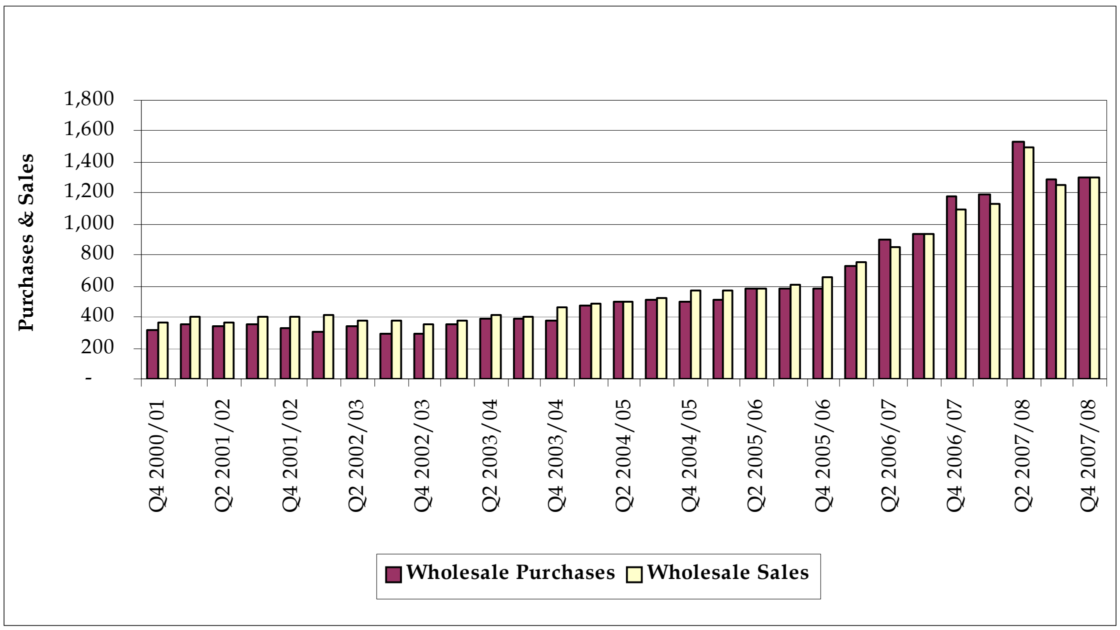
Gross purchases in the IFEM increased from US$1,285.7 million recorded in the third quarter of 2007/08 to US$ 1,299.9 million in the quarter to June 2008. This represented an increase of 1.1 percent, relative to the previous quarter. Similarly, gross sales in the inter-bank foreign exchange market recorded a 3.9 percent increase, from US$ 1,255.3 million in the third quarter of 2007/08 to US$ 1,304.3 million in the fourth quarter of 2007/08. These compared to respective purchases and sales of US$ 932.3 million and US$ 855.77 million in the corresponding period in the previous year. Cross currency transactions increased by 33.7 percent to US$ 1,418.7 million in the fourth quarter of 2007/08 compared to an increase of 162.3 percent from US$ 404.7 million to US$ 1,061.4 million in the third quarter of 2007/08.

Table 17: Transactions and exchange rate developments, retail and wholesale market:

Market	Q4 2006/07	Q1 2007/08	Q2 2007/08	Q3 2007/08	April 2008	May 2008	June 2008	Q4 2007/08
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	117.12	120.29	124.50	121.08	124.58	120.02	116.09	120.23
Real Effective Exchange Rate (REER) 2000=100	113.02	118.79	120.06	122.17	126.35	122.07	119.40	122.61
Nominal Exchange Rate (Period Average)	1,688.02	1,716.63	1,722.95	1,701.58	1,686.68	1,647.68	1,600.74	1,647.14
Total Purchases (Million US$)	1,174.32	1,194.49	1,529.51	1,285.70	402.50	434.71	462.67	1,299.89
Total Sales (Million US$)	1,088.69	1,130.66	1,499.22	1,255.29	408.69	431.10	464.55	1,304.34
Cross Currency (Million US$)	193.76	236.06	404.67	1,061.42	311.52	572.91	534.25	1,418.69
Bureaux Market								
Average Period Exchange Rate	1,682.77	1,711.31	1,717.01	1,695.66	1,682.66	1,649.67	1,599.99	1,644.10
Total Purchases (Million US$)	430.03	443.94	456.01	475.88	176.23	168.88	181.18	526.28
Total Sales (Million US$)	427.17	451.49	496.31	491.98	182.33	177.29	189.76	549.38

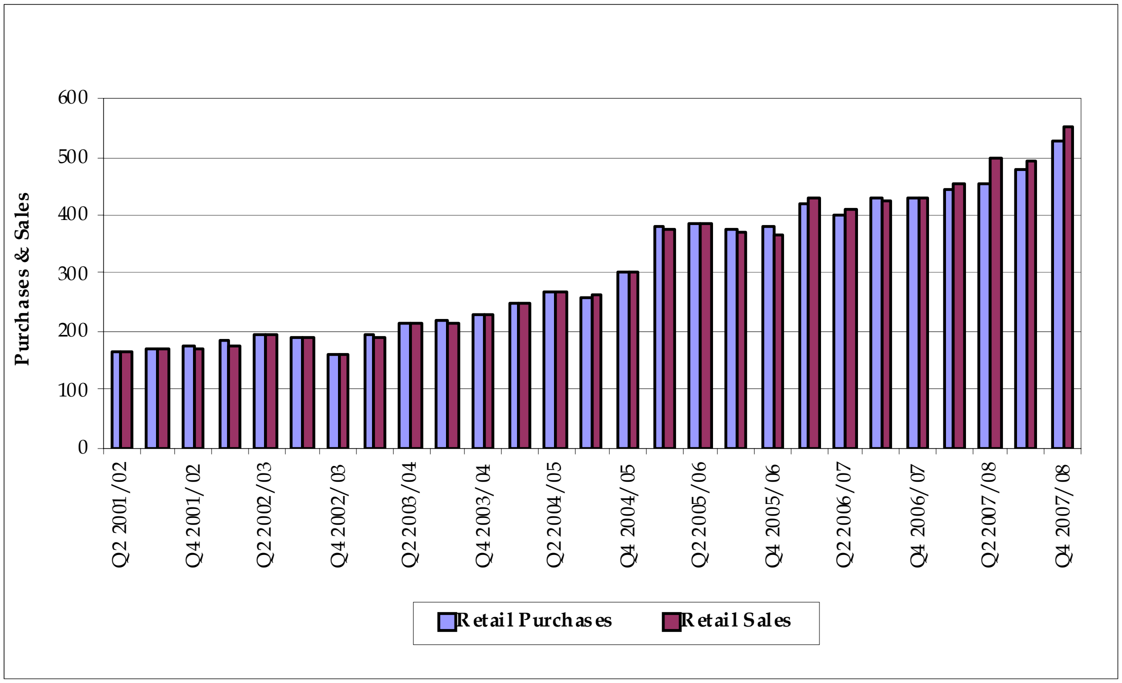
Source: Bank of Uganda.

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 June 2008, government revenue and budget support grant disbursements amounted to Shs. 1,280.1 billion, representing an over-performance of 154.4 percent relative to the programmed level of Shs. 1,108.9 billion. Compared with the corresponding quarter ended June 2007, revenue and grant disbursements were higher by Shs. 277.0 billion or 27.6 percent. The preliminary outturn for total revenue collections was Shs. 936.5 billion, an increase of Shs. 145.7 billion or 18.4 percent on the level recorded in the quarter ended June 2007 and an over performance of 2.9 percent relative to the programmed level. This performance is attributable to higher than envisaged URA collections on direct domestic taxes plus fees and licenses and taxes on international trade. Grants from external sources were higher in June 2008 by 61.8 percent than Shs. 212.4 billion disbursed in June 2007. The grants received in the quarter under review were also above the programmed level of Shs. 198.4 billion[4] .

[4] Based on projected donor disbursements for the quarter

7.2 Government expenditure

Total government expenditure and net lending amounted to Shs. 1,666.4 billion during the fourth quarter ended June 2008 compared to Shs. 1,660.6 billion that was utilized in the corresponding quarter in 2007. This outturn was 50.6 percent above the programmed level of Shs. 1,106.8 billion, on account of both recurrent and development expenditure.

The rise in total expenditure between the quarters was particularly hinged on an increase in current expenditure, which was 11.7 percent more than the expenditure in the corresponding period in 2007. Development expenditures for the quarter amounted to Shs. 750.8 billion, which was above the programmed level of Shs. 499.2 billion by Shs. 251.6 billion or 50.4 percent. Expenditure on salaries and wages grew by 7.7 percent to Shs. 297.3 billion, which was also higher than the programmed level of Shs. 293.5 billion. Interest payments amounted to Shs. 86.8 billion, an increase of 40.6 percent from the payment made in the corresponding quarter in 2007.

7.3 Overall fiscal balance and financing

The developments in government budgetary operations during the quarter under review culminated into a deficit of Shs. 386.3 billion compared to a surplus of Shs. 2.1 billion, which was envisaged in the program. Excluding grants, the deficit worsened to Shs. 729.9 billion, compared to a deficit of Shs. 196.3 billion in the program. The deficit of the above budgetary operations were financed by both domestic and external sources in amounts of Shs. 177.0 billion and Shs. 159.4 billion, respectively, on a net basis. Table 18 summarizes the central government’s budgetary operations.

Table 18: Government budgetary operations (Shs. billion)

	2006/07	2006/07 Q4	2007/08 Q1	2007/08 Q2	2007/08 Q3	2007/08 Prog. Q4	2007/08 Q4
Revenue and Grants	**3,988.4**	**1,003.1**	**895.6**	**1,172.8**	**1075.6**	**1,108.9**	**1,280.1**
Total Revenue	2,722.5	790.8	686.8	854.2	769.3	910.5	936.5
Grants	1,265.9	212.4	208.8	318.6	306.4	198.4	343.6
Expenditures and Lending	**4,379.4**	**1,660.6**	**1,070.3**	**943.7**	**1259.9**	**1,106.8**	**1,666.4**
Recurrent Expenditure	2,442.3	736.3	680.1	725.1	670.8	653.7	822.1
Wages and Salaries	986.5	276.1	254.2	273.4	281.2	293.5	297.3
Interest Payments	236.3	61.7	71.8	78.1	89.5	75.0	86.8
Other non Wage Recurrent	1,145.95	375.97	334.1	353.6	280.1	265.1	418.0
URA Transfers	73.5	22.5	20.0	20.0	20.0	20.0	20.0
Development Expenditure	1,685.5	714.7	372.6	263.4	522.0	499.2	750.8
External	971.7	446.1	243.6	109.4	334.0	315.2	503.8
Domestic counterpart [a/]	713.84	268.6	129.0	153.9	188.0	184.0	246.9
Others [b/]	251.6	209.7	17.6	-44.8	67.1	-46.1	73.8
Overall Fiscal Balance							
Excluding Grants	**-1,656.9**	**-869.9**	**-383.5**	**-89.4**	**-490.6**	**-196.3**	**-729.9**
Including Grants	**-391.0**	**-657.5**	**-174.7**	**229.2**	**-184.3**	**2.1**	**-386.3**
Financing	**391.0**	**657.5**	**174.7**	**-229.2**	**184.3**	**-2.1**	**386.3**
External Financing (net)	672.3	441.2	280.6	98.7	120.8	449.5	159.4
Domestic Financing (net)	-261.7	103.3	-219.0	-175.9	-44.8	-451.7	177.0
Bank	-618.8	-145.5	-182.7	-179.8	-70.5	-454.9	193.4
Non Bank	357.1	248.7	-36.3	3.9	25.7	3.2	-16.4
Residual	-19.6	113.0	113.1	-151.9	108.3	0.0	49.9

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

8 EXTERNAL SECTOR DEVELOPMENTS

In the quarter ended June 2008, the balance of payments registered an overall deficit of US$ 241.6 million, vis-à-vis an overall surplus of US$ 320.1 million recorded in the corresponding quarter in 2007. The down turn in the external position resulted from deterioration in the current account.

The current account balance was a deficit of US$ 595.1 million, up from a deficit of US$ 163.9 million recorded in the quarter ended June 2007. The deterioration in the current account was mainly due to increased imports of goods and services. The capital and financial account balance was a surplus of US$ 353.5 million, US$ 130.5 million less than what was recorded in Q4 of 2006/07.

On the whole, there was an accumulation of foreign reserves worth US$ 524.6[5] million to US$ 2,684.5 million at end June 2008 compared to US$ 2,159.9 million observed at the end of quarter ended June 2007. The stock of reserves, in terms of future months of imports of goods and services, stood at 5.5 at the end of the quarter under review. Table 19 below presents a summary of the quarterly developments in the balance of payments for the period April 2007 to June 2008.

Table 19: Developments in the Balance of Payments (US$ million)

	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8
A. CURRENT ACCOUNT BALANCE	-163.93	-324.80	-347.23	-237.55	-595.10
A1. Goods Account (Trade Balance)	**-280.02**	**-389.13**	**-445.84**	**-378.04**	**-550.59**
a) Total Exports (fob)	420.20	402.27	422.50	497.23	523.69
b) Total Imports (fob)	-700.22	-791.40	-868.34	-875.27	-1,074.27
A2. Services Account (services net)	**-90.99**	**-102.87**	**-167.61**	**-117.37**	**-188.44**
a) Inflows (credit)	133.79	148.88	118.74	151.63	146.55
b) Outflows (debit)	-224.78	-251.74	-286.35	-269.00	-334.99
A3. Income Account (Income net)	**-55.72**	**-71.78**	**-68.16**	**-57.35**	**-94.85**
a) Inflows (credit)	24.25	22.50	30.28	42.54	21.26
b) Outflows (debit)	-79.97	-94.28	-98.44	-99.89	-116.10
A4. Current Transfers (net)	**262.80**	**238.97**	**334.38**	**315.21**	**238.77**
a) Inflows (credit)	312.16	289.26	384.67	368.89	292.45
b) Outflows (debit)	-49.36	-50.28	-50.28	-53.68	-53.68
B. CAPITAL & FINANCIAL ACCOUNT BALANC	483.99	429.99	252.89	398.04	353.50
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	**483.99**	**429.99**	**252.89**	**398.04**	**353.50**
a) Direct Investment	**179.88**	**205.43**	**205.43**	**253.51**	**253.51**
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	179.88	205.43	205.43	253.51	253.51
b) Portfolio Investment	**51.25**	**-25.95**	**-20.76**	**45.33**	**39.87**
Assets	0.00	0.00	0.00	0.00	-12.06
Equity Securities	0.00	0.00	0.00	0.00	-12.06
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	51.25	-25.95	-20.76	45.33	51.93
Equity Securities	3.14	-25.48	-25.48	40.93	1.27
Debt Securities	48.10	-0.47	4.72	4.40	50.66
c) Financial derivatives (net)	**-0.31**	**1.31**	**4.62**	**-1.02**	**0.06**
d) Other Investment	**253.18**	**249.20**	**63.60**	**100.23**	**60.07**
Assets	-46.29	156.85	-68.72	46.36	-10.51
Monetary authorities	15.41	0.00	0.00	0.00	0.00
General government	-193.64	146.27	91.28	18.92	10.49
Banks	91.94	14.58	-146.00	-3.56	-25.33
Other sectors	40.00	-4.00	-14.00	31.00	4.33
Liabilities	299.47	92.35	132.31	53.86	70.58
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	260.98	15.47	3.76	7.09	20.46
Banks	18.06	14.93	65.15	-34.20	-20.65
Other sectors	20.43	61.95	63.40	80.97	70.77
C. OVERALL BALANCE(A+B)	320.06	105.18	-94.33	160.49	-241.60
D. RESERVES AND RELATED ITEMS	-320.06	-105.18	94.33	-160.49	241.60
a) Reserve assets	-199.21	-219.33	-209.72	-94.09	15.07
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.00	-13.69	0.54	-2.24	-5.36
d) Errors and Omissions	-120.86	127.84	303.51	-64.17	231.89

Source: Bank of Uganda

[5] Excluding valuation, the stock of reserves is estimated to have increased by US$545.2 million.

8.1 The Goods account (Trade Balance)

8.1.1 Exports

During the review quarter, total export earnings were recorded at US$ 523.7 million, compared to US$ 497.2 million in the preceding quarter and US$ 420.2 million in the same quarter of 2006/07.

Coffee export earnings were US$ 96.8 million, 75.5 percent more than the US$ 55.2 million realized in Q4 of 2006/07. The average realized price of US$ 2.16/kg was 54 cents higher than that realized in the corresponding quarter of 2006/7. There was also an increase in the volume of coffee exports to 746,775 (60-kg) bags compared to 566,505 (60-kg) bags exported in the same quarter of 2006/07.

Earnings from the non-coffee exports were recorded at US$ 426.8 million during the quarter ended June 2008 – US$ 61.8 million more than the US$ 365.0 million recorded in Q4 of 2006/07. Notably, earnings from the exports of base metals amounted to US$ 29.8 million – US$ 11.9 million more than earnings realized in the same quarter of 2006/07.

Other exports, comprising mostly of cellular phones, beer, simsim, cocoa beans and locally manufactured products such as cement and sugar also recorded high increases. Export earnings from cotton, hides and skins, maize and oil re-exports however declined by a combined total of US$ 14.9 million vis-à-vis the same quarter in the previous year. Table 22 below provides a summary of developments in exports.

Table 20: Summary of developments in exports (US$ million)

	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr-Jun 2007/8
Total Exports	**420.20**	**402.27**	**422.50**	**497.23**	**523.69**
1. Coffee exports	**55.18**	**70.60**	**68.13**	**113.05**	**96.85**
2. Non-Coffee exports	**365.02**	**331.68**	**354.37**	**384.18**	**426.84**
Electricity	1.93	2.57	3.19	2.80	2.63
Gold	18.37	8.24	4.31	11.55	20.76
Cotton	8.89	3.38	1.85	5.94	8.74
Tea	12.22	10.82	13.09	10.47	12.38
Tobacco	15.26	7.32	20.84	20.10	16.24
Fish & its products (excl. regional)	31.01	28.42	31.03	30.50	36.64
Fish & its products (regional exports)	9.30	8.53	10.58	10.93	9.41
Hides & skins	6.22	6.12	3.70	4.50	3.23
Simsim	1.42	1.38	1.10	6.36	5.03
Maize	7.80	3.18	5.66	4.06	5.06
Beans	0.83	0.62	1.09	0.92	3.08
Flowers	8.05	10.28	8.00	9.46	11.24
Oil re-exports	9.87	9.05	7.62	6.18	0.85
Cobalt	4.09	5.14	3.43	5.05	5.33
Base metals & products	17.86	19.88	21.10	23.69	29.77
Others	211.91	206.76	217.80	231.69	256.44

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ended June 2008 amounted to US$ 1,074.3 million, mainly comprising of private sector imports i.e. machinery equipments, vehicles & accessories, chemical & related products and oil imports. In particular, oil imports (US$ 162.4 million) constituted 15.8 percent of the private sector imports. During the same quarter Government imports were recorded at US$ 48.6 million, vis-à-vis US$ 25.3 million recorded in Q4 of 2006/07. Table 21 below provides a summary of developments in imports.

Table 21: Summary of developments in imports (US$ million)

	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8
Total Imports	700.22	791.40	868.34	875.27	1,074.27
Government Imports	25.25	26.29	21.39	27.94	48.55
Project	9.63	8.87	14.16	11.17	45.61
Non-Project	15.62	17.42	7.23	16.77	2.94
Private Sector Imports	674.97	765.11	846.95	847.33	1,025.72
o/w Oil imports	110.99	118.77	114.47	147.43	162.41

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$ 283.3 million, US$ 136.6 million more than the deficit recorded in the same quarter of 2006/07. Comparing the fourth quarter of 2007/08 and its corresponding quarter of 2006/07, outflows in the services account increased by US$ 110.2 million, with transportation services accounting for about 68.4 percent of this increment. Inflows on the services account however registered a slower increase of US$ 12.8 million or 9.5 percent vis-à-vis the inflows recorded in the corresponding quarter of 2006/07.

Outflows on the income account were estimated at US$ 116.1 million in the review period, US$ 36.1 million more than the income outflows recorded in the quarter ended June 2007. The rise in income outflows was mainly attributable to an increase in income paid out in dividends to offshore holders of equity securities. Income inflows were recorded at US$ 21.3 million, down from US$ 24.3 million recorded in corresponding quarter of 2006/07, largely on account of a decrease in interest earned on the central bank's deposits held abroad.

8.3 Current Transfers

Net current transfers were estimated at US$ 238.8 million in the quarter under review, US$ 24.0 million lower than the US$ 262.8 million realized in the corresponding period of 2006/07. The decrease in net current transfers was mainly on account of government transfer inflows, in particular budget support inflows, which were less by US$ 28.8 million when compared to the inflows registered in fourth quarter of 2006/07. Outflows of workers' remittances however were higher by US$ 9.6 million.

8.4 Capital and Financial Account

During the quarter ended June 2008, the Capital and Financial Account balance recorded a surplus of US$ 353.5 million vis-à-vis a surplus of US$ 484.0 million recorded in June 2007. The deterioration was brought about by an increase in portfolio investment assets following the Safaricom IPO and a reduction in loan disbursements to government.

During the review quarter, Government acquired loans to a tune of US$ 31.6 million, vis-à-vis US$ 275.6 million borrowed in the corresponding quarter in 2006/07.

8.5 Donor flows

During the review quarter, total disbursements of foreign aid (for budget support and projects) were estimated at US$ 82.2 million, vis-à-vis US$ 361.5 million recorded in the corresponding quarter of 2006/07. The fall was mainly on account of budget support aid, which decreased from US$ 286.6 million recorded in the quarter ended June 2007 to US$ 26.4 million in the quarter ended June 2008 partly reflecting delays in donor disbursements. Table 22 below provides a summary of foreign aid inflows to Government.

Table 22: Summary of Donor inflows to Government (US$ million)

	Apr - Jun 2006/7	Jul - Sep 2007/8	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8
Total Foreign Aid	361.46	101.56	179.32	145.74	82.17
Grants	85.83	60.87	156.28	126.98	50.54
Loans	275.63	40.69	23.04	18.76	31.63
Budget Support	286.56	31.92	108.38	84.47	26.38
Grants	70.30	31.92	108.38	82.06	25.51
Loans	216.27	-	-	2.41	0.87
Project Support	74.90	69.65	70.94	61.27	55.80
Grants	15.53	28.96	47.90	44.92	25.03
Loans	59.37	40.69	23.04	16.35	30.76

Source: Bank of Uganda

8.6 Total BOU Reserves

Following the above developments in the balance of payments, the international reserves held by the Bank of Uganda were recorded at US$ 2,684.5 million by end quarter under review, representing 5.5 months of future imports of goods and services.

8.7 External Debt

8.7.1 Debt Stock

Uganda's stock of outstanding and disbursed debt was estimated at US$ 1,785.3 million by end June 2008, US$ 62.1 million more than the March 2008 level estimated at US$ 1,723.2 million. The June 2008 debt stock was US$ 318.5 million more than the end June 2007 stock. The greater part of the external debt amounting to 85.1 percent was owed to multilateral institutions, while 11.3 percent was owed to non-Paris Club bilateral creditors. Table 23 summarizes the quarterly developments regarding Uganda's debt stock profile up till June 2008.

Table 23: Uganda's outstanding public debt by creditor category (US$ million)

Creditor Category	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Multilateral	991.36	1,180.06	1,282.36	1,346.37	1459.57	1519.77
Non-Paris Club Bilateral	214.79	213.74	177.40	177.32	197.93	201.61
Paris Club Bilateral	67.53	66.19	66.88	66.16	65.29	63.56
Commercial	0.50	0.46	0.46	0.43	0.43	0.39
Commercial Non Bank	6.24	6.37	0.00	0.00	0.00	0.00
Grand Total	**1,280.42**	**1,466.83**	**1,527.11**	**1,590.28**	**1723.21**	**1785.34**

Source: Bank of Uganda

8.7.2 Debt Service

During the quarter ending June 2008, maturities of principal and interest falling due on medium and long-term public and publicly guaranteed debt, including obligations to the International Monetary Fund (IMF), amounted to US$ 15.3 million. Resources generated under the HIPC initiative covered a sizeable amount of the debt service during this period amounting to US$ 9.8 million. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 2.3 percent for the quarter under review, compared to 3.5 percent recorded in the corresponding quarter of 2006/07.

9 REAL SECTOR AND DOMESTIC PRICE DEVELOPMENTS

9.1 Domestic price developments

9.1.1 Consumer Price Index (CPI)

According to data from UBOS, the annual headline inflation rose to 11.0 percent in the quarter to June 2008 compared to 7.6 percent registered in the quarter ended March 2008. Similarly, annual core inflation[6] edged up to 11.4 percent from 8.1 percent in the quarter ended March 2008, higher than 6.5 percent registered over the same quarter a year ago.

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

- Higher annual increase in prices of meat (beef), charcoal, maize flour and rice. The global increase in grain and food demand led to soaring prices of some food items particularly rice and maize resulting in some of the largest producers curbing exports.

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

- The increase in prices of manufactured products following the rise in input costs.

- And, the rise in transport fares driven by the increase in international oil prices.

The Energy, Fuel and Utilities (EFU) inflation eased to 9.2 percent in the quarter under review from 10.1 percent in the quarter ended March 2008. This was due to slower annual increase in the average price of petroleum products.

The average annual food crop inflation substantially increased to 8.1 percent in the quarter ended June 2008 from 3.1 percent during the quarter ended March 2008. Food crop prices rose during the quarter due to high demand against low supplies as most food items were out of season.

The breakdown into contribution by each group indicates that increased prices of food largely drove inflation during the quarter ended June 2008. The above inflationary developments are depicted in Table 24 and 25, and Figure 21 below.

Table 24: Quarterly inflation rates (Annual Percentages)

Quarter ending	Headline Inflation (percent)	Core Inflation (percent)	EFU Inflation (percent)	Food crops Inflation (percent)
Dec 2006	9.3	7.3	30.2	12.8
Mar 2007	7.7	7.8	34.1	-2.8
Jun 2007	5.7	6.6	29.4	-2.9
Sep 2007	5.0	5.7	17.5	-4.9
Dec 2007	5.6	6.8	10.8	-4.4
Mar 2008	7.6	8.1	10.1	3.1
Jun 2008	11.0	11.4	9.2	8.1

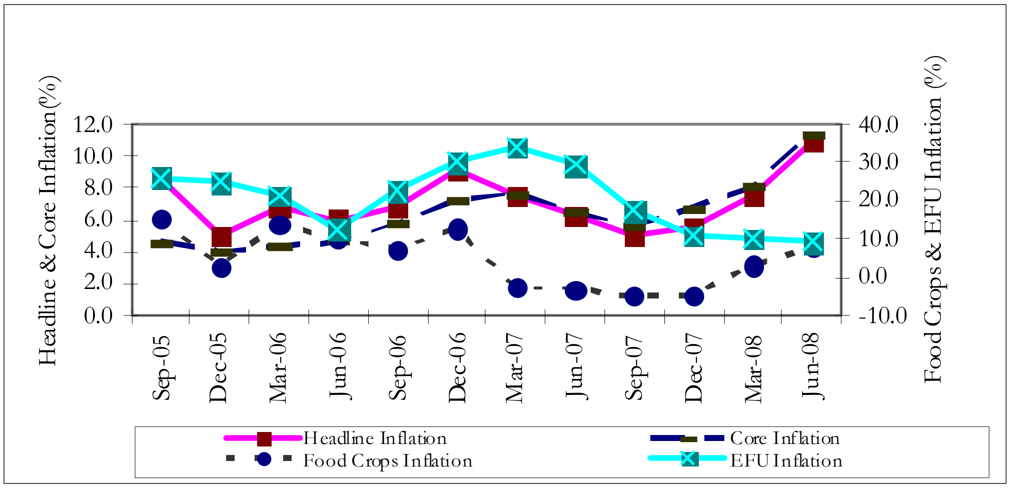
Source: Uganda Bureau of Statistics

Table 25: Quarterly contribution by different groups to Headline Inflation

Groups	Weights	Apr-Jun 2007	Jul-Sep 2007	Oct-Dec 2007	Jan-Mar 2008	Apr-Jun 2008
Total	100	5.7	5.0	5.6	7.6	11.0
Of which:						
Food	27.2	0.8	0.4	-0.1	1.6	3.9
Beverages & Tobacco	4.7	0.0	0.2	0.3	0.2	0.5
Clothing & Footwear	4.4	0.2	0.2	0.3	0.4	0.4
Rent, Fuel & Utilities	14.8	3.2	1.9	1.9	1.2	1.5
Household & Personal goods	4.5	0.2	0.3	0.3	0.6	0.8
Transport & Communication	12.8	0.7	0.6	1.0	1.6	1.4
Education	14.7	0.6	0.7	1.0	0.9	1.0
Health, Entertainment, & Others	16.8	0.9	0.8	0.8	0.9	1.2

Source: Computed from UBOS data

Figure 21: Quarterly inflation Developments



Source: Uganda Bureau of Statistics

9.1.2 Producer Price Index (PPI)

According to data from UBOS, the annual producer inflation as measured by the change in Producer Price Index for manufacturing sector[7](PPI-M) rose to 22.5 percent in the quarter ended June 2008 from 15.0 percent recorded in the quarter ended March 2008. The PPI-M outturn in the quarter under review was much higher than the rate of 8.1 percent registered in the corresponding period a year ago. While all producer prices increased, the largest price-increases were observed in the sub-sectors of metals and related products; chemicals, paints, soap, and foam products; drinks and tobacco; food processing; and bricks and cement which ranged from 21.4 to 38.4 percent.

The annual prices of goods sold in the local market went up by 22.3 percent in the quarter ended June 2008 compared to increases of 13.7 percent in the quarter ended March 2008, and 12.9 percent in the corresponding quarter to June 2007. The rise in prices of locally sold goods was also mainly due to increased cost of raw materials supplemented by a rise in transport costs. Notable increases were observed in: Coffee Processing (61.5%); Animal Feeds (61.0%); Vegetable and Animal Fats (45.2%); Grain Milling (40.9%); Cotton ginning (62.2%); Soap and Chemicals (43.2%); and Basic Iron and Steel (53.7%).

The prices of goods sold in the exports market rose by 24.5 percent compared to 18.6 percent in the quarter ended March 2008, largely attributed to higher prices of soap and detergents

[7] 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.

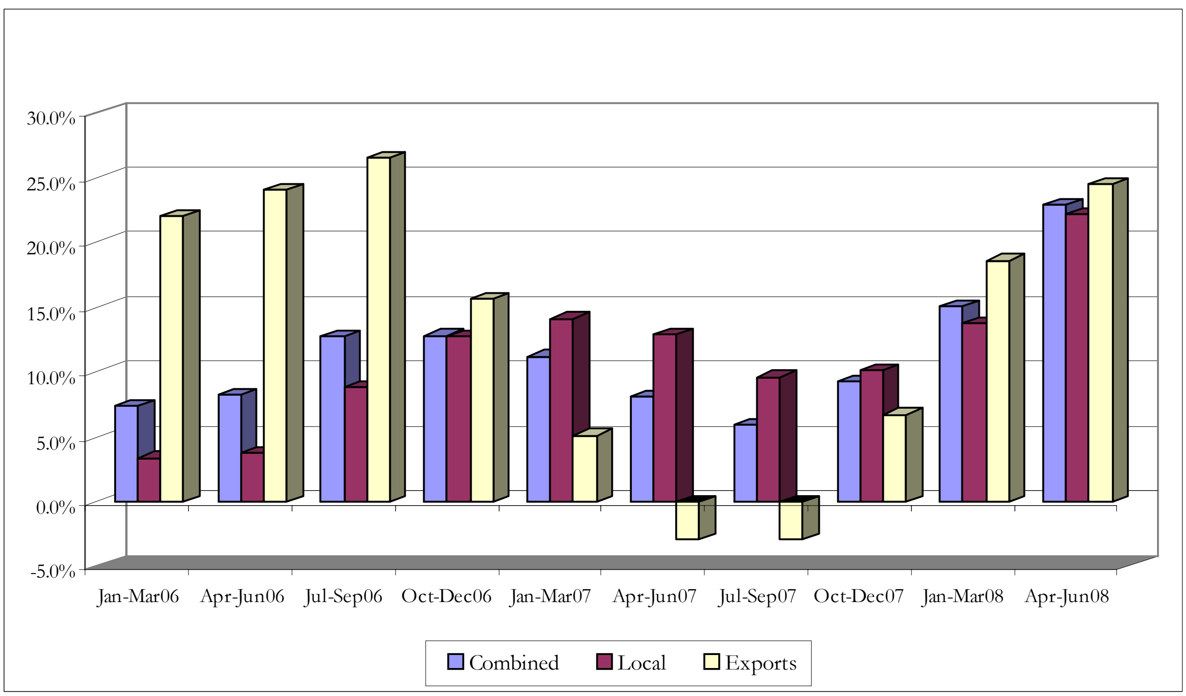
(60.6%) and structured metal products (60.0%). Fish prices were contained by competition. The developments in producer prices are indicated in Table 26 and Figure 22

Table 26: Developments in Producer Prices

Quarter Ending	Combined Annual (%)	Local Annual (%)	Export Annual (%)
June 2006	8.2	3.7	24.1
September 2006	12.7	8.8	26.7
December 2006	12.8	12.6	15.6
March 2007	11.2	14.1	5.1
June 2007	8.1	12.9	-3.0
September 2007	5.9	9.6	-2.9
December 2007	9.2	10.1	6.7
March 2008	15.0	13.7	18.6
June 2008	22.5	22.3	24.5

Source: Uganda Bureau of Statistics

Figure 22: Developments in Producer Prices



Source: Uganda Bureau of Statistics

9.2 Energy Sector

9.2.1 Energy Consumption

The total number of electricity customers decreased further by 0.8 percent to 300,374 live customers in the fourth quarter of 2007/08, partly on account of disconnections of clients with large unpaid bills. However, in the same period, electricity consumption increased by 2.6 percent mainly due to the steady UMEME electricity supply easing load shedding. Also, UMEME electricity purchases from UETCL in the fourth quarter of 2007/08 increased by 2.4 percent largely because of the increased electricity generation by UETCL following the high water levels at the generation dam in the quarter. Table 27 summarizes the electricity consumption

Table 27: Electricity Consumption Parameters by category of consumer

	Q4 2006/07	Q3 2007/08	Q4 2007/08	Annual Change	Quarterly Change
Average number of Live Customers					
Domestic	277,304	277,111	275,244	-0.74%	-0.67%
Commercial	24,842	24,153	23,579	-5.08%	-2.38%
Industrial	1,065	1,167	1,199	12.58%	2.77%
Street Lighting	315	366	351	11.65%	-4.09%
Total	**303,526**	**302,798**	**300,374**	**-1.04%**	**-0.80%**
Total consumption in GWH					
Domestic	70.20	73.92	79.80	13.68%	7.95%
Commercial	38.58	40.06	43.45	12.64%	8.46%
Industrial	174.35	192.30	189.78	8.85%	-1.31%
Street Lighting	0.13	0.83	0.33	150.77%	-60.24%
Total	**283.25**	**305.54**	**313.41**	**10.65%**	**2.58%**
Purchases in GWH					
UMEME purchases from UETCL	283.25	467.40	478.80	68.68%	2.44%

Source: Umeme Limited

9.3 Finance Sector

9.3.1 Activities at the Uganda Securities Exchange (USE)

Equity trading at the Uganda Securities Exchange fell in the fourth quarter of 2007/08 in respect to turnover and volume of shares. However, Market capitalization and the all shares index rose.

Total turnover and volume of shares traded declined by 60.7 percent and 43.1 percent respectively in the fourth quarter of 2007/08 relative to the previous quarter's performance. Market capitalization and the all shares index rose by 18.0 percent and 15.1 percent respectively during the same period. The trend of the all shares index (ALSI) continues to follow a random walk as shown in figure 23.

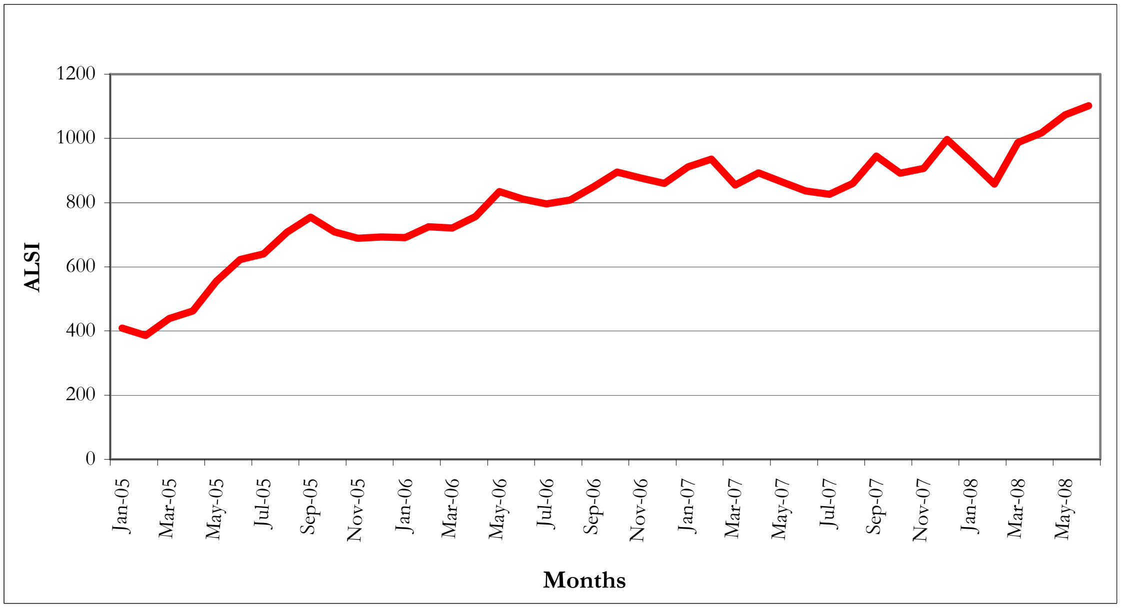
Notably, trading activity at Stanbic Bank's counter was dominant accounting for 66.2 percent of the turnover and 95.0 percent of the total number of shares. Trading of Uganda Clays limited (UCL) shares accounted for 10.8 percent of the turnover and 0.5 percent of the volume in the period. New vision Limited (NVL)'s trading contributed 12.0 percent of the turnover and 1.7 percent of the volume, while those of Bank of Baroda Uganda limited (BOBU) had 4.6 percent of the turnover and 0.5 percent of the volume. Share trading of Development finance company of Uganda (DFCU) and British American Tobacco Uganda (BATU) took 4.1 percent and 2.3 percent of total turnover and 1.8 percent and 0.6 percent of total volume, respectively. During the quarter April 2008 to June 2008, New Vision Limited announced a rights issue to its shareholders and Trading of Uganda Clays' rights issue started on April 24 2008, which saw the additional shares oversubscribed. BOBU, DFCU, UCL, Kenya Airways (KA), and Stanbic Bank Uganda (SBU) announced dividends. Table 28 summarizes the developments at the USE.

Table 28: Trading at Uganda Securities Exchange

	Q4 2006/07	Q3 2007/08	Q4 2007/08	Annual Change	Quarterly Change
Turnover (Ushs)	16,948,936,620	33,237,568,045	13,080,393,755	-22.82%	-60.65%
Number of Shares traded	107,202,722	66,150,647	37,642,187	-64.89%	-43.10%
Market Capitalisation (Bn Ushs)	4,664.67	5,469.23	6,455.22	38.39%	18.03%
USE-All Share Index	864.4	881.56	1064.24	23.12%	15.10%

Source: Uganda Securities Exchange

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



Source: Uganda Securities Exchange

10. CONCLUSION

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