BANK OF UGANDA

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TABLE OF CONTENTS

1. INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the second quarter of 2008/09. Overall, Uganda's economy remained buoyant and the fundamentals continued to be sound despite the economic meltdown in the advanced economies.

2. OVERVIEW OF DEVELOPMENTS DURING THE QUARTER

2.1 International Developments

Global economic activity weakened in the quarter ended December 2008 largely on account of the international financial crisis. Given the low levels of confidence and liquidity concerns that inhibited financial intermediation, economic activity was dampened as aggregate demand was affected. Despite the several monetary and fiscal stimuli packages undertaken by the developed economies, weak global demand also led to reduced international oil and commodity prices causing fears of deflation in the advanced nations. As such, real output in most advanced economies is projected to contract in 2009 while real GDP is forecast to moderate significantly for most emerging and developing countries.

At a regional level, most sub Saharan countries could not escape the short term consequences of the international financial crisis and ensuing economic recession in most advanced economies although the domestic financial systems weren't directly exposed to the toxic assets that were at the heart of the credit crunch. For example, South Africa's GDP contracted in the quarter ended December 2008 due to the deteriorated global environment and declined business and consumer confidence. Also several stock markets deteriorated in the quarter under review due to exit of international investors that also culminated in depreciation of local currencies against the US dollar and other major currencies. On a positive note however, the declined international oil and commodity prices finally began to show signs of abating the inflation spiral during the quarter.

2.2 Summary of Uganda's performance

During the quarter-ended December 2008, Bank of Uganda (BOU) exercised monetary restraint in an effort to maintain low and stable inflation, necessary for underpinning sustained economic growth. The main challenges to the conduct of monetary policy over the period included the relative instability associated with the global financial crisis witnessed in the financial markets at the start of the quarter. Nevertheless, 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. Furthermore, Bank of Uganda actively used the Repurchase Agreements (REPOs) as a flexible fine-tuning instrument for short-term liquidity management in periods between auctions of government securities.

The Uganda Shilling depreciated against the US Dollar during the quarter under review on account of increased demand from both corporate, and interbank activities. Demand also came from manufacturing firms and oil companies. A few offshore players were noted on both sides of the market. Bank of Uganda intervened in the Interbank Foreign Exchange Market (IFEM) to reign in on the instability.

The margin within the Rediscount rate remained unchanged at 6.7 percent. However, due to the prevailing market conditions, the Rediscount rate and Bank rate edged up to 18.4 percent and 19.4 percent at end December 2008 from end September 2008 levels of 15.2 and 16.2 percent, respectively.

BOU continued to use Treasury securities as the main instrument for liquidity sterilization. Treasury bill rates were generally higher in the quarter under review compared to the preceding quarter and corresponding quarter of 2007.

In addition, Treasury bonds continued to be issued to support monetary policy implementation and promote financial market development by extending both the maturity of the instruments traded and the yield curve. One new bond was issued to absorb structural liquidity for a longer period during the quarter. Compared to the rates from the previous issues, the yields-to-maturity rates went up during the quarter. The increase in securities' rates was attributed to the tighter liquidity conditions in the market and the deteriorating market sentiments driven by exit of offshore players who had invested in government securities

The balance of payments registered an overall deficit of US$ 329.6 million, compared to a surplus of US$ 396.1 million recorded in the same quarter of 2007. This slow down in the external position resulted from a deterioration in the current account. There was a reserve drawdown of US$ 241.0 million, bringing total foreign reserves at the BOU to US$2.3 billion, sufficient to cover 5.1 months of future imports of goods and services.

The economy continued to register double digit inflation rates on account of exogenous shocks associated with high prices of primary commodities especially food and oil; high inflation in Uganda's major trading partners and continued robust demand for Ugandan products from neighbouring countries. Average annual headline inflation however declined marginally to 14.4 percent from 15.0 percent registered in the preceding quarter. Similarly, annual core inflation[1] reduced to 12.8 percent from 13.4 percent recorded in the quarter ended September 2008.

The monetary base grew by 14.7 percent to Shs. 1,927.0 billion. The outturn represents a higher growth of the monetary base when compared to a rise of 3.2 percent observed in the corresponding quarter of 2007. The increase in base money was driven by a rise in currency outside BOU which fully offset the decline in commercial banks' deposits at the Central Bank in the quarter ended December 2008.

3. MONETARY DEVELOPMENTS

3.1 Money supply

During the quarter ended December 2008, broad money M3, the sum of all private sector's deposits and currency in circulation, expanded by 15.9 percent or Shs. 796.7 billion to Shs. 5,793.7 billion, reflecting a higher growth of money compared to a growth of 5.7 percent registered in the quarter ended December 2007. On an annual basis, M3 grew by 31.0 percent in the year ended December 2008, compared to a growth of 22.0 percent for the corresponding year ended December 2007. Money supply M2A, composed of currency in circulation and shilling denominated private sector's deposits, grew by 14.0 percent or Shs. 557.0 billion to Shs. 4,530.5 billion at end-December 2008, compared to a rise of 5.6 percent in the quarter ended December 2007.

The growth in broad money, M3 was on account of increased net foreign and domestic assets of the banking system. Net Domestic Assets (NDA) increased by Shs. 295.4 billion

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

during the quarter ended December 2008, mainly on account of a rise in government borrowing from the banking sector and an increase in claims of the private sector (PSC), which offset a decline in Other Items Net (OIN). Net Foreign Assets (NFA) rose by 11.1 percent or Shs. 501.3 billion to Shs. 5,020.6 billion, compared to an increase of 15.8 percent in the corresponding quarter ended December 2007. Bank of Uganda's Net Foreign Assets (NFA) expanded by 6.5 percent or Shs. 276.4 billion to Shs. 4,520.0 billion, largely reflecting a growth in foreign reserves of Shs. 239.6 billion to Shs. 4,483.8 billion. NFA of commercial banks, rose by 81.6 percent to Shs. 500.6 billion, on account of a rise in external assets of Shs. 193.6 billion coupled with a fall in foreign liabilities of Shs. 31.3 billion.

During the quarter ended December 2008, Net Claims on Government (NCG) by the banking system increased by Shs. 221.8 billion, representing a fall in government savings to Shs. 654.6 billion. Government savings at the Bank of Uganda fell by Shs. 243.5 billion to Shs. 2,033.1 billion during the quarter. The fall in government savings at BOU was mainly due to an increase in advances to government of Shs. 342.3 billion that outstripped an increase in government deposits of Shs. 150.2 billion. Commercial banks' Net Credit to Government (NCG) declined by Shs. 21.7 billion to Shs. 1,378.5 billion. This was due to a rise in government deposits of Shs. 54.7 billion, which offset an increase in commercial banks' investment in government securities of Shs. 33.1 billion.

In the quarter under review, private sector credit (PSC) by the banking system rose by 11.0 percent or Shs. 342.2 billion to Shs. 3,456.8 billion, of which Shs. 3,436.8 billion was on account of net extensions of credit by commercial banks and Shs. 20.0 billion by Bank of Uganda. The 11.0 percent growth rate of private sector credit was due to an increase in the level of economic activity observed during the quarter ended December 2008.The growth of private sector credit in the quarter under review was comparable to that observed in the corresponding quarter ended December 2007. The developments in the above aggregates over the quarter are shown in Tables 1, 2 and 3 below.

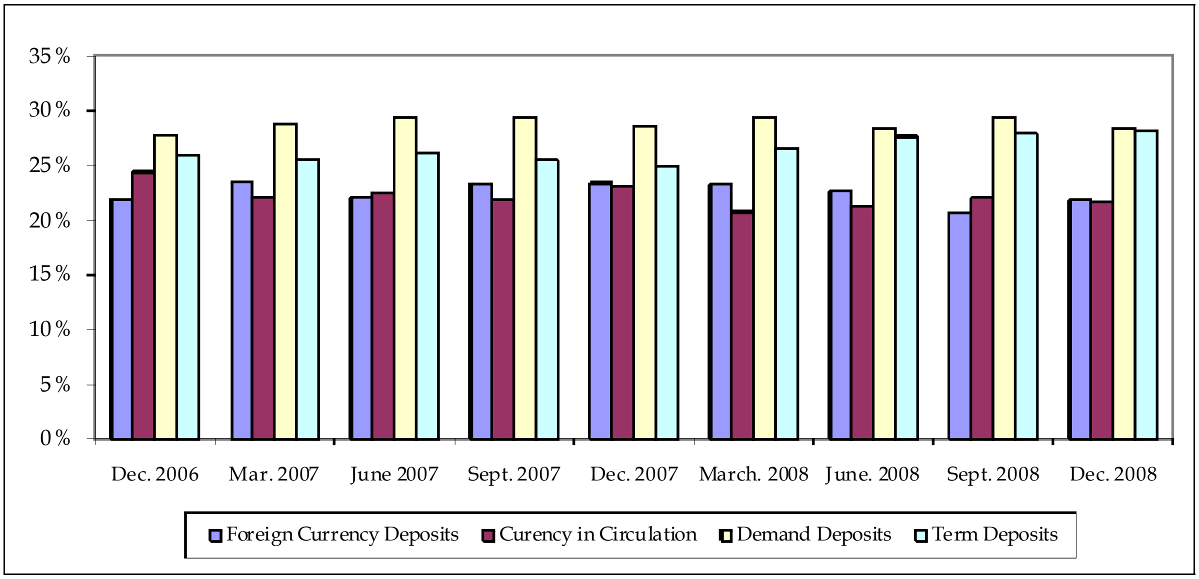
Table 1: Monetary survey, (Shs. billion, at the end of period)

Aggregate	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Change Sep 08 to Dec 08 Absolute	Percent
Net Foreign Assets (NFA)	**4,939.7**	**5,157.7**	**5,090.7**	**4,519.3**	**5,020.6**	**501.3**	**11.1**
o/w Bank of Uganda	4,345.5	4,498.4	4,351.0	4,243.9	4,520.0	276.4	6.5
o/w Commercial Banks	594.1	659.3	739.7	275.7	500.6	224.9	81.6
Net Domestic Assets (NDA)	**-516.9**	**-369.0**	**-28.0**	**477.5**	**773.1**	**295.4**	**61.9**
Net Claims on Government (NCG)	-1,094.1	-1,164.5	-942.3	-876.4	-654.6	221.8	25.3
Claims on Public Entities	27.1	28.5	29.6	25.9	23.7	-2.2	-8.4
Claims on the Private Sector	2,219.7	2,588.4	2,830.5	3,114.6	3,456.8	342.2	11.0
Other Items (net)	-1,965.3	-1,821.6	-1,945.8	-1,786.6	-2,053.3	--266.6	14.9
Money Supply (M3)	**4,422.8**	**4,788.7**	**5,062.9**	**4,997.0**	**5,793.7**	**796.7**	**15.9**
Foreign Currency Deposits	1,034.5	1,114.2	1,161.2	1,023.5	1,263.6	239.7	23.4
Money Supply (M2A)	3,092.6	3,674.5	3,901.7	3,973.5	4,530.5	557.0	14.0
Money Supply (M2)	3,092.5	3,674.5	3,901.7	3,973.5	4,530.5	557.0	14.0
Term Deposits	1,101.2	1,275.2	1,400.7	1,390.8	1,631.0	240.1	17.3
Demand Deposits	968.5	1,405.5	1,426.9	1,474.8	1,645.0	170.2	11.5
Curency in Circulation	1,022.3	993.8	1,074.0	1,107.9	1,254.5	146.6	13.2

Source: Bank of Uganda

On the composition of M3, the share of foreign currency deposits fell to 21.8 percent, compared to 23.4 percent at end-December 2007. The share of private demand deposits in M3 declined marginally from 28.6 percent to 28.4 percent, the share of currency in circulation was 21.7 percent as at December 2008, down from 23.1 percent at end-December 2007. The share of term deposits rose to 28.2 percent up from 24.9 percent at end- December 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

Base money rose by Shs. 65.9 billion to Shs. 1,927.0 billion by the end of December 2008, up from Shs. 1,680.4 billion at the end of the preceding quarter, reflecting a higher growth of the monetary base compared to 3.2 percent registered in the quarter ended December 2007. Currency outside BOU grew by Shs. 208.4 billion to Shs. 1,487.7 billion by end-December 2008, while commercial banks' deposits at Bank of Uganda decreased by Shs. 13.1 billion to Shs. 459.0 billion, reflecting the seasonal demand for currency for the Christmas festivities

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

	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Change Sep 08 to Dec.08 Absolute	Percent
Net Foreign Assets	**4,345.5**	**4,498.4**	**4,351.0**	**4,243.9**	**4,520.0**	**276.4**	**6.5**
External Assets	4,363.9	4,517.5	4,369.2	4,261.8	4,540.4	278.9	6.5
o/w Foreign Reserves	4,343.6	4,498.8	4,347.3	4,244.5	4,483.8	239.6	5.6
Foreign Liabilities	18.4	19.1	18.2	18.0	20.4	2.4	13.3
Net Domestic Assets	**-2,802.0**	**-2,944.1**	**-2,736.5**	**-2,563.2**	**-2,593.0**	**-29.8**	**1.2**
Claims on Government (net)	-2,325.80	-2,530.80	-2,321.5	-2,276.6	-2,033.1	243.5	10.7
Claims on Private Sector	20.5	19.2	21.3	21.4	20.0	-1.4	-6.5
Claims on Parastatals	4.1	4.1	4.1	4.1	4.1	0.0	0.0
Claims on Commercial Banks	132.9	168.9	100.0	98.8	104.0	5.2	5.3
Other Items, Net	-633.8	-605.5	-540.4	-411.2	-688.0	-227.1	67.4
Base Money + Investments in BOU Instruments	**1,543.5**	**1,554.3**	**1,614.5**	**1,680.4**	**1,927.0**	**246.6**	**14.7**
Base Money	1,543.5	1,554.3	1,614.5	1,680.4	1,927.0	246.6	14.7
Currency Outside BoU	1,199.9	1,195.0	1,230.0	1,279.3	1,487.7	208.4	16.3
Commercial Bank Deposits	408.6	423.0	457.1	472.1	459.0	-13.1	-2.8
Commercial Bank's Operational reserves	343.6	359.3	384.5	401.1	439.3	8.2	1.9
Commercial Banks Investment in BoU Instruments	0.0	0.0	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-December 2008, the net foreign assets (NFA) of commercial banks grew by 81.6 percent to Shs. 500.6 billion. Net Domestic Assets (NDA) rose by 11.8 percent to Shs. 4,038.6 billion; commercial banks' net claims on the central government (NCG) declined by Shs. 21.7 billion to Shs. 1,378.5 billion. Cash in vaults grew by 36.0 percent from Shs. 171.4 billion to Shs. 233.2 billion over the quarter ended December 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)

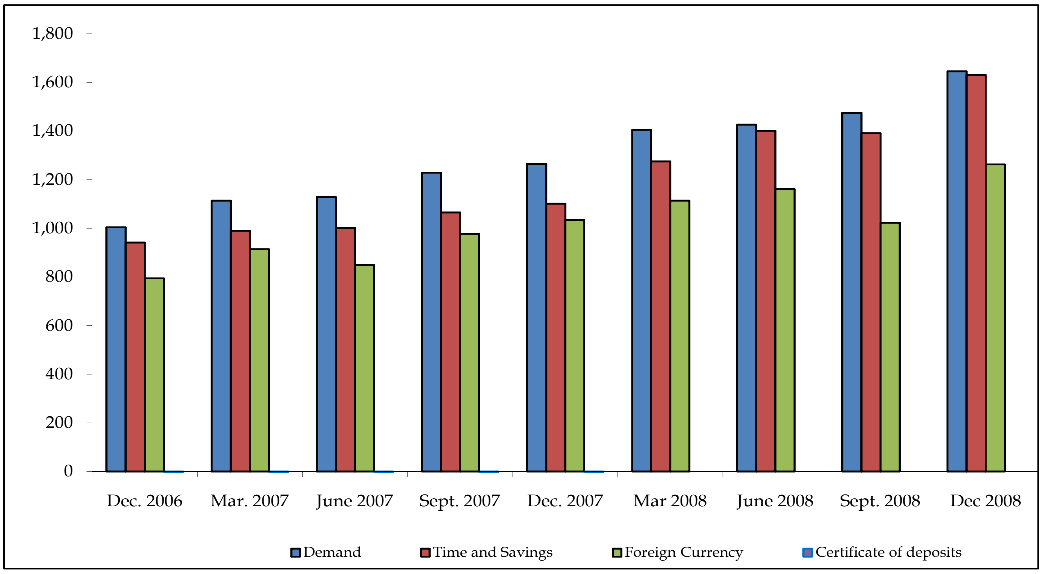
	Dec. 07	Mar. 08	June. 08	Sept. 08	Dec.08	Change Sept. 08 to Dec. 08 Absolute	Change Sept. 08 to Dec. 08 Percent
Net Foreign Assets	**594.1**	**659.3**	**739.7**	**275.7**	**500.6**	224.9	81.6
External Assets	934.8	942.4	989.1	793.6	987.2	193.6	24.4
Foreign Liabilities	340.7	283.1	249.4	517.8	486.6	-31.25	-6.03
Net Domestic Assets	**2,806.4**	**3,135.6**	**3,249.1**	**3,613.4**	**4038.6**	425.7	11.8
Claims on Central Government (net)	1,231.7	1,379.9	1,379.3	1,400.2	1,378.5	-21.7	-1.6
Claims on Private Sector	2,199.1	2,569.2	2,809.2	3,093.2	3,436.8	343.7	11.1
Cash in Vaults	177.7	201.3	156.0	171.4	233.2	61.8	36.05
Net Claims on Bank of Uganda	308.5	330.6	423.0	377.2	462.7	85.5	22.7
Other Items, Net	-1,133.6	-1,370.1	-1,544.0	-1,450.6	-1492.7	-42.1	2.9
Total Deposits	**3,400.5**	**3,794.9**	**3,988.9**	**3,889.1**	**4539.2**	650.1	16.7
Demand Deposits	1,264.7	1,405.5	1,426.9	1,474.8	1,645.0	170.2	11.5
Time and Savings Deposits	1,101.2	1,275.2	1,400.7	1,390.8	1,631.0	240.1	17.3
Foreign Exchange Accounts	1,034.5	1,114.2	1,161.2	1,023.5	1,263.2	239.7	23.4
Certificates of Deposits	0.05	0.0	0.0	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 16.7 percent to Shs. 4,539.2 billion in the quarter ended December 2008. The growth in deposits in the quarter under review was higher when compared to 4.0 percent rise in the corresponding quarter in 2007. In particular, foreign currency deposits increased by 23.4 percent to Shs. 1,263.2 billion during the quarter. Demand deposits grew by 11.5 percent to Shs. 1,645.0 billion, while term deposits rose by 17.3 percent to Shs. 1,631.0 billion at end-December 2008. Figure 2 below provides the details.

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



Source: Bank of Uganda

3.3.3 Credit to the private sector by Commercial Banks

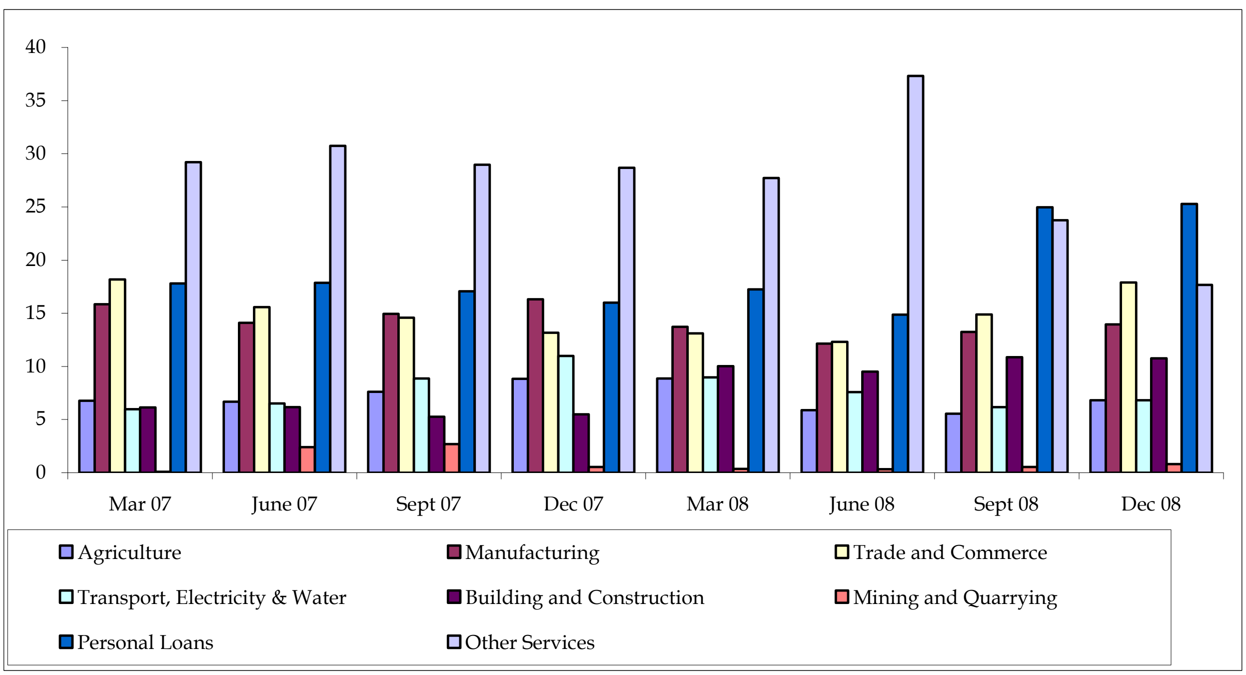
In the quarter under review, the total stock of outstanding credit to the private sector by commercial banks grew by 11.1 percent or Shs. 343.7 billion to Shs. 3,436.84 billion. The 11.1 percent growth rate of private sector credit was higher than 9.0 percent recorded in the corresponding quarter in 2007. Growth in private sector credit was as a result of traders' augmented demand for credit to import goods to meet increased requirements during the festive season in December. The shilling denominated loans to the private sector, grew by 10.4 percent or Shs. 242.1 billion to Shs. 2,565.0 billion, while the foreign currency denominated loans grew by 13.2 percent or Shs. 101.6 billion to Shs. 871.8 billion during the quarter ended December 2008.

Credit to the other services and personal and household loans continued to account for the bulk of credit advanced to the private sector with a share of 25.3 percent as at end-December 2008. The stock of outstanding credit to this sector grew by 11.6 percent to Shs. 874.2 billion. Lending to the agricultural sector grew by 35.8 percent to Shs. 235.6 billion at end-December 2008. The share of credit to agriculture in total credit was 6.8 percent, lower than 8.8 percent registered at end December 2007. Credit to the manufacturing sector grew by 18.0 percent to Shs. 482.2 billion at end- December 2008 accounting for 14.0 percent compared to 16.3 percent for December 2007. Credit to Trade and Commerce grew by 38.3 percent to Shs.

618.3 billion and its share in total credit increased to 17.9 percent from 13.2 percent in December 2007.

The stock of credit to the transport, electricity and water sector rose by 23.2 percent to Shs. 235.9 billion, and its share in the total credit rose to 6.8 percent in December 2008 from 6.2 percent in September 2008. The outstanding borrowing of the building and construction sector stood at Shs. 371.6 billion by end-December 2008, marking a growth of 10.2 percent from the previous quarter, though its share as a percentage of total credit declined from 10.9 percent in September 2008 to 1.3 percent in December 2008. Despite having the least share of outstanding credit (0.8 percent as at end-December 2008), the mining and quarrying sector recorded a 64.4 percent growth in credit between September 2008 and December 2008. Figure 3 below indicates the sector's specific credit shares to the outstanding amounts.

Figure 3: Sectoral shares of commercial banks' credit to the private sector (Percent of total outstanding by end quarter)



Source: Bank of Uganda

4. DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS

4.1 Credit Institutions

4.1.1 Overview

The activities of the Credit Institutions (CIs) marginally increased during the period under review. Total assets increased to Shs. 106.6 billion at end-December 2008 from Shs. 104.7 billion as at end-September 2008. Total assets grew by 1.8 percent compared to the 4.6 percent growth rate observed in the corresponding period to December 2007. The increase in assets during this quarter was largely attributed to the increase in CIs' balances with commercial banks, which grew by 25.4 percent from Shs. 19.6 billion at end- September 2008 to Shs. 24.6 billion at the end of December 2008.

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

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Change Sep 08 to Dec 08	
						Absolute	Percent
Cash in vaults	5.2	3.2	4.2	3.6	5.4	1.7	48.0
Balance with Commercial Banks & associated companies	51.2	30.4	31.5	19.6	24.6	5.0	25.4
Investments	14.3	8.3	14.7	16.1	12.8	-3.3	-20.7
Total Advances [1]	184.3	41.5	41.5	42.2	38.7	-3.5	-8.4
Premises and other fixed assets	21.7	13.0	13.1	13.8	14.6	0.7	5.1
Other Assets [2]	10.6	6.9	8.0	9.3	10.6	1.3	14.1
Total	**287.3**	**103.3**	**113.0**	**104.7**	**106.6**	1.9	1.8

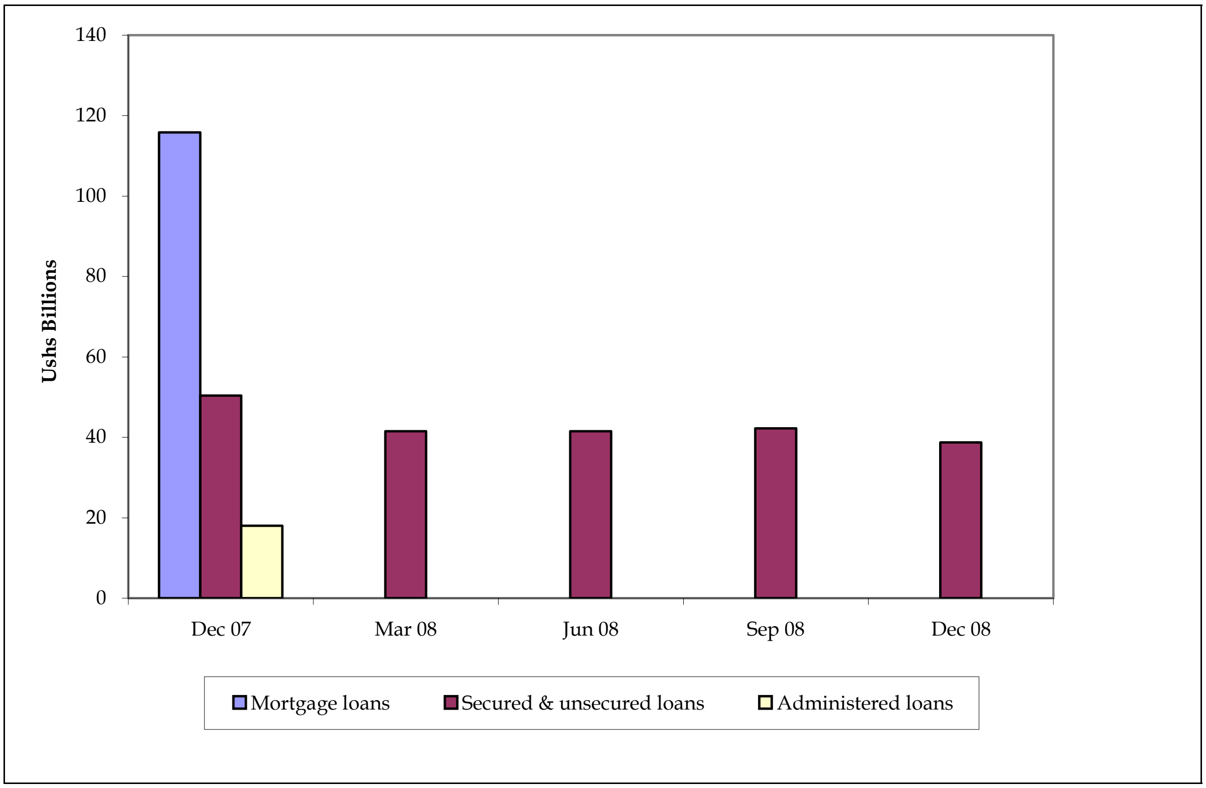
[1] Includes secured and unsecured loans.
[2] Includes net due from own offices in Uganda for items in transit.
Source: Bank of Uganda

The CI's total advances contracted by 8.4 percent or Shs. 3.5 billion to Shs. 38.7 billion, compared to the Shs. 3.7 billion expansion in the corresponding period of 2007. CIs' investments in government securities fell by 20.7 percent to Shs. 12.8 billion at end-December 2008 while cash in vaults increased by 48.0 percent to Shs. 5.4 billion. Table 4 and 5 show the quarterly evolution of the assets and liabilities of credit institutions respectively.

4.1.2 Credit to the private sector

In the quarter ended December 2008, secured and unsecured loans fell by 8.4 percent from Shs. 42.2 billion to Shs. 38.7 billion. The trade and commerce sector attracted the highest share of the CIs' credit amounting to a total of 26.0 percent during the quarter under review compared to 30.3 percent share during the previous quarter. The ratio of non-performing advances to outstanding advances increased slightly from 2.9 percent to 3.1 percent between September 2008 and December 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)



Note: Mortgage and administered loans were offered by Housing Finance Co. Uganda Ltd. (HFCUL), which became a commercial bank in December 2007.

Source: Bank of Uganda

4.1.3 Deposits

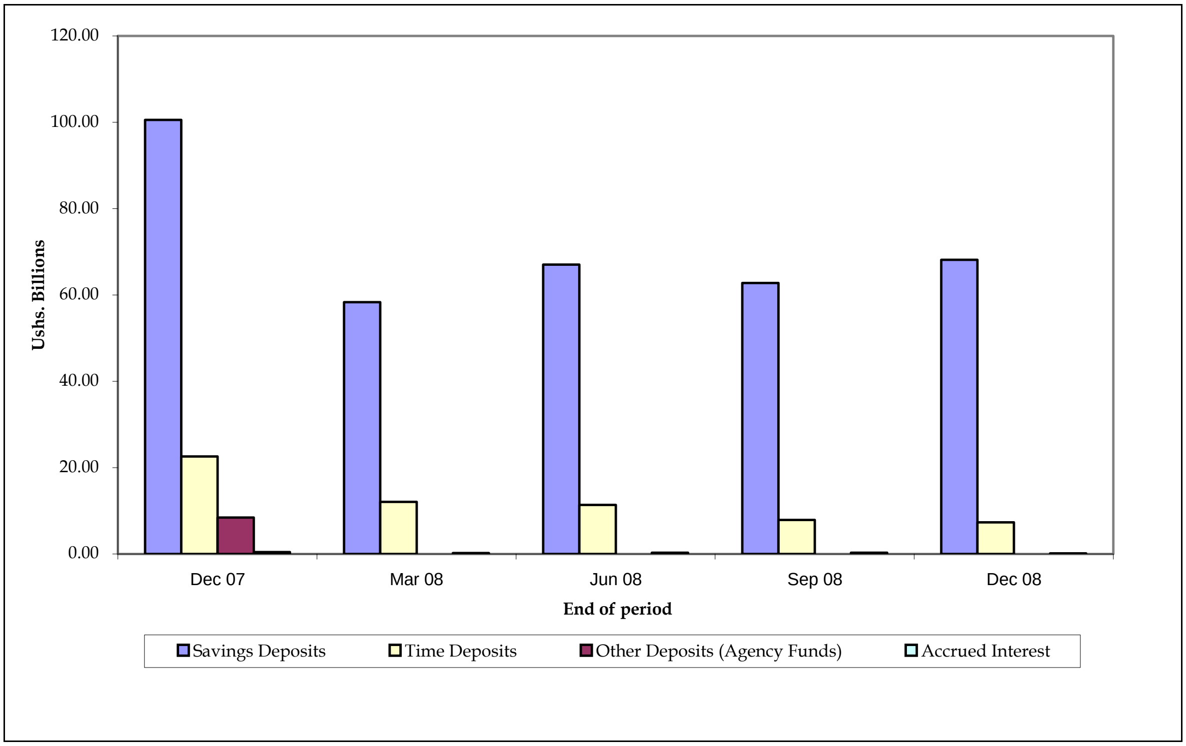
Total deposits of the credit institutions grew by 6.7 percent or Shs. 4.6 billion to Shs. 75.4 billion at end-December 2008. The growth in total deposits and private sector deposits of 6.5 and 6.7 percent during the quarter contrasts with the decline of 2.4 percent registered in the corresponding period in 2007, respectively. In particular, savings deposits expanded by 8.5 percent to Shs. 68.1 billion, while time deposits fell by 7.2 percent to Shs. 7.3 billion during the quarter ended December 2008. Table 5 and Figure 5 below illustrate the evolution of the deposits between December 2007 and December 2008.

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

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Change Sep 08 to Dec 08	
						Absolute	Percent
Savings deposits	100.6	58.3	67.0	62.8	68.1	5.3	8.5
Time Deposits	22.5	12.1	11.3	7.9	7.3	-0.6	-7.2
Total private sector deposits	**123.1**	**70.4**	**78.4**	**70.7**	**75.4**	4.8	6.7
Agency funds[3]	8.4	0.0	0.0	0.0	0.0	0.0	0.0
Accrued interests	0.5	0.2	0.3	0.3	0.1	-0.1	-53.8
Total deposits [1]	**132.0**	**70.6**	**78.6**	**70.9**	**75.6**	4.6	6.5
Administered funds	18.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital and profit/loss	96.6	15.0	18.1	18.8	18.5	-0.4	-2.0
Others [2]	44.6	17.7	17.7	15.0	15.0	0.0	0.0
Total Liabilities	**291.2**	**103.3**	**113.0**	**104.7**	**106.6**	1.9	1.8

[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.
[3]Agency funds were collected by Housing Finance Co. Uganda Ltd. (HFCUL), which became a commercial bank in December 2007.
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

4.2 Microfinance Deposit –Taking Institutions (MDIs)

4 .2.1 Overview

Total assets held by MDIs amounted to Shs. 123.6 billion, down from Shs. 222.0 billion recorded as at end September 2008. The December 2008 position of MDIs represented a decrease of 44.3 percent compared to a 5.8 percent increase registered in the corresponding period of 2007. The decrease in total assets was on account of the departure of Uganda Microfinance Limited (UML) which was taken over by Equity bank and now operates as a commercial bank. Total borrowing by the MDIs decreased by 49.5 percent to Shs. 28.5 billion, compared to a rise of 6.3 percent observed in the corresponding period last year. Both the Short-term borrowings and long term borrowings valued at market rate decreased marginally by Shs. 21.3 billion (96.5 percent) and by Shs. 6.6 billion (19.1 percent) to Shs. 0.8 billion and Shs. 27.7 billion, respectively. Table 6 and Figure 7 highlight the developments in assets of the MDIs respectively.

Table 6: Total assets of Microfinance Deposit-Taking Institutions (Shs. billion, at end period)

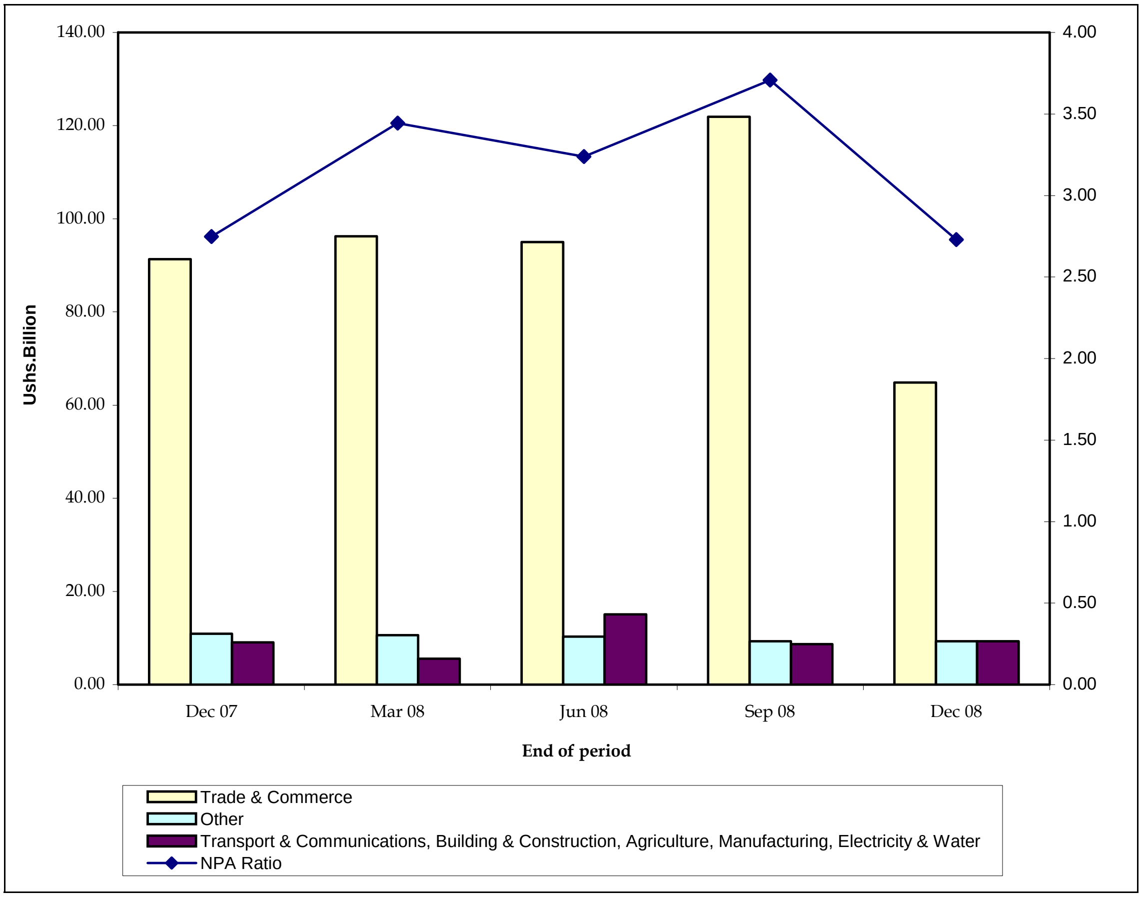
	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Change Sep 08 to Dec 08	
						Absolute	Percent
Notes and Coins	5.0	4.7	5.5	5.9	3.1	-2.7	-46.8
Balances with financial institutions in Uganda	20.1	19.6	25.8	30.6	7.9	-22.7	-74.2
Investments in Treasury bills	21.3	25.0	27.3	30.9	27.8	-3.1	-10.0
Net loans outstanding	104.8	109.3	117.0	135.9	81.1	-54.8	-40.3
Inter branch/Due from own offices	0.2	0.0	1.2	1.4	0.0	-1.4	-100.0
Net Fixed Assets	10.3	10.2	11.2	12.5	8.3	-4.2	-33.7
Long Term Investment	1.8	2.4	2.5	2.6	0.0	-2.6	-100.0
Other Assets	8.3	10.6	10.5	11.5	6.3	-5.2	-45.2
Total Assets	**162.4**	**172.9**	**193.6**	**222.0**	**123.6**	-98.4	-44.3

Source: Bank of Uganda

4 .2.2 Credit to the Private Sector

The stock of the outstanding loans to the private sector by MDIs decreased by 40.4 percent from Shs. 139.9 billion to Shs. 83.4 billion during the quarter ended December 2008 compared to a rise of 8.5 percent in the corresponding period of 2007. Allowances for loan losses (general and specific) decreased by 42.2 percent to Shs. 2.3 billion, hence the net loans by end-December 2008 of Shs. 81.1 billion. In the analogous period last year, allowances for loan losses increased by 2.7 percent. The trade and commerce sector continued to hold the largest share of MDIs credit at 77.7 percent as at end-December 2008. The ratio of non-performing advances to total outstanding advances went down from 3.7 percent to 2.7 percent between September 2008 and December 2008.

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

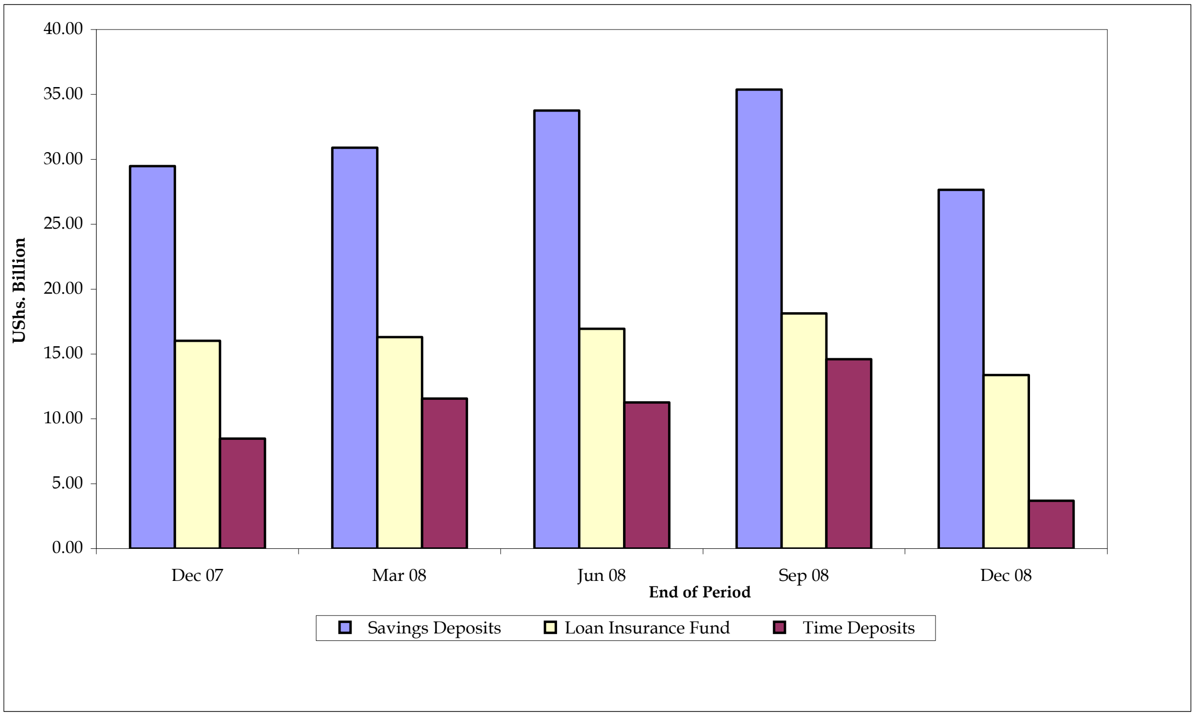


Source: Bank of Uganda

4.2.3 Deposits

Private sector deposits in the MDIs decreased by 37.3 percent to Shs. 31.3 billion compared to an increase of 15.2 percent recorded during the corresponding period of 2007. Savings and time deposits decreased by 21.8 percent and 74.7 percent to Shs. 27.7 billion and Shs 3.7 billion respectively. Total borrowing by the MDIs decreased by 49.5 percent to Shs. 28.5 billion, compared to a rise of 6.3 percent observed in the corresponding period last year. Both the Short-term borrowings and long term borrowings valued at market rate decreased by Shs. 21.3 billion (96.5 percent) and by Shs. 6.6 billion (19.1 percent) to Shs. 0.8 billion and Shs. 27.7 billion, respectively. Table 7 below shows the composition of MDIs' liabilities while Figure 8 shows the evolution of the MDIs' total deposits

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



Source: Bank of Uganda

Table 7: The Composition of the Total Liabilities held in the Microfinance Deposit-Taking Institutions (Shs. billion, at end of period)

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Change Sep 08 to Dec 08 Absolute	Change Sep 08 to Dec 08 Percent
Deposit Liabilities	**39.1**	**3.9**	**45.4**	**50.7**	**31.5**	**-19.2**	**-37.9**
Savings deposits	29.5	30.9	33.8	35.4	27.7	-7.7	-21.8
Time deposits	8.5	11.6	11.3	14.6	3.7	-10.9	-74.7
Total Private Sector Deposits	**38.0**	**42.5**	**45.0**	**50.0**	**31.3**	**-18.6**	**-37.3**
Accrued interest	1.2	0.6	0.4	0.7	0.1	-0.6	-81.3
Loan insurance fund	16.0	16.3	16.9	18.1	13.4	-4.8	-26.2
Total Borrowing	**46.6**	**49.5**	**65.9**	**56.3**	**28.5**	**-27.9**	**-49.5**
Long-term borrowing (market rate)	41.9	44.2	44.1	34.2	27.7	-6.6	-19.1
Short-term borrowing (market rate)	4.7	5.2	21.8	22.1	0.8	-21.3	-96.5
Other liabilities[1]	**8.7**	**10.9**	**10.8**	**11.7**	**9.0**	**-2.8**	**-23.5**
Total liabilities	**110.5**	**119.7**	**139.0**	**136.9**	**82.3**	**-54.6**	**-39.9**
Total equity	31.6	32.9	38.1	68.6	24.8	-43.8	-63.8
Subordinated debt	16.5	16.5	16.5	16.5	16.5	0.0	0.0
Preference shares	3.8	3.8	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**162.4**	**172.9**	**193.6**	**222.0**	**123.6**	**-98.4**	**-44.3**

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

Source: Bank of Uganda

5. DOMESTIC FINANCIAL MARKETS AND INTEREST RATES

5.1 Treasury bond[5] market

Government Treasury bonds continued to be issued in support of monetary policy implementation. During the quarter ended December 2008, one new bond was issued to absorb structural liquidity for a longer period. Compared to the rates from the previous issues, the yields-to-maturity for the 3-year bond went up during the quarter on account of commercial banks' increased demand for currency during the Christmas season. The increase in securities' rates was attributed to the tighter liquidity conditions in the market and the deteriorating market sentiments driven by exit of offshore players who had invested in government securities

5.1.1. Primary market of Treasury bonds

During the quarter under review, one 3-year bond was issued with a face value of Shs. 60.0 billion. The new issue was under-subscribed by Shs. 9.0 billion, had a cover ratio of 0.8, Weighted Average Price (WAP) of Shs. 83.9 per Shs. 100 and a yield-to-maturity of 17.4 percent. This auction, together with 2-year bond maturities of Shs. 119.2 billion, brought the total outstanding stock of bonds to Shs. 1,365.2 billion by the close of the quarter. All bonds were listed on the Uganda Securities Exchange. Table 8 below shows the developments in the Treasury bond primary market.

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

Table 8: Treasury bonds: volume, price and interest rates

	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
Stock of Treasury bonds (Shs. billion)	1,256.68	1,276.68	1,484.44	1,470.18	1,365.24
Change in stock (absolute)	133.60	20.00	207.76	-14.26	-104.94
Price and interest rates (percent)					
2-year average price (Shs. /100)	94.69	93.35	94.45	0.00	0.00
3-year average price (Shs. /100)	91.76	92.08	91.06	88.75	83.89
2-year yield-to-maturity rate	13.11	13.93	14.43	0.00	0.00
3-year yield-to-maturity rate	13.69	13.55	14.01	15.05	17.37
Issues at face value (Shs. billion)					
2-year	100.00	20.00	152.72	0.00	0.00
3-year	118.59	60.00	130.04	95.75	15.05
5-year	60.00	0.00	0.00	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at face value	278.59[1]	80.00	282.76	95.75	15.05
Total maturities	145.00	59.66	75.00	110.00	119.22
Total net issues at face value	133.59	20.34	207.76	-14.25	-104.17
Issues at cost value (Shs. billion)					
2-year	94.43	18.66	143.68	0.00	0.00
3-year	108.93	55.25	118.62	85.01	12.63
5-year	53.02	0.00	0.00	0.00	0.00
10-year	0.00	0.00	0.00	0.00	0.00
Total issues at cost value	256.38	73.91	262.30	85.01	12.63

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

Source: Bank of Uganda

5.1.2 Secondary market of Treasury bonds

During the quarter ended-December 2008, the average indicative bid/offer yields-to-maturity in the secondary market were 16.2/16.0, 15.9/15.7, 14.9/14.7, and 14.1/13.9 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively (see Table 8). Corresponding average rates were 14.3/14.0, 14.4/14.2, 14.3/14.0, and 14.1/13.8 percent for the quarter ended- September 2008, and 12.7/12.5, 13.5/13.2, 14.0/13.7, and 15.1/14.9 percent for the quarter to December 2007. In the quarter under review, 2-year, 3-year, and 5-year bonds worth Shs. 62.4 billion, Shs. 115.4 billion, and Shs. 11.5 billion respectively, were traded in the secondary market. The volumes traded during the quarter increased when compared to the respective trades of Shs. 7.6 billion, Shs. 19.6 billion, and Shs. 0.09 billion recorded in the quarter ended September 2008 as offshore players exited the domestic securities market. There were no reported trades in the 10-year bond.

Table 9: Summary indicators from the secondary market for Treasury bonds (October-December 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	16.15	15.90	15.10	14.85	14.20	13.95	14.00	13.75
Max	16.25	16.00	17.00	16.75	16.00	15.75	15.00	14.75
Average	16.21	15.96	15.90	15.65	14.93	14.65	14.11	13.86

Source: Bank of Uganda

5.2 Treasury bill market

Secondary market trading in Treasury bills was on account of the continued active use of the signed Horizontal Repo Agreement (HRA) to secure interbank loan transactions, the ease with which securities can be transferred on the Central Depository System (CDS), and the periodic ranking of primary dealers by Bank of Uganda which motivates them in the key areas of primary and secondary market development.

5.2.1 Primary market of Treasury bills

Treasury bills, the main sterilization instrument in the economy, were actively used in liquidity management during the quarter under review. Treasury bills worth Shs. 376.6 billion at face value were issued against maturities of Shs. 431.4.0 billion. The implied net redemption of Shs. 54.8 billion compares with the net redemption of Shs. 60.9 billion and contrasts with the net issue of Shs. 116.1 billion, for the previous quarter to September 2008 and the corresponding quarter ended December 2007, respectively.

During the quarter ended December 2008, with the exception of one auction, all the primary auctions for Treasury bills had pockets of under subscription, with issues largely concentrated at the longer end of the market. This bias was reflected in the respective average shares of the Treasury bill issues at face value during the quarter, which stood at 7.5, 26.9, and 65.6 percent for the 91-days, 182-days, and 364-days securities, respectively. On November 03, 2008, Shs. 28.3 billion worth of Treasury bills were bought by the commercial banks for failure-to-settle collateral purposes at the then most recent 91-day weighted average discount rate of 9.7 percent. Table 10 summarizes these developments.

Table 10: Treasury bills: volume, price and interest rates

	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
Stock of Treasury bills (Shs. billion)	1,528.46	1,607.94	1,518.31	1,457.55	1,367.95
Change in stock (absolute)	116.06	79.28	-89.63	-60.76	-89.60
Price and interest rates (percent)					
91-day Average price (Shs. /100)	98.14	97.98	98.02	97.94	97.52
Annualized 91-day discount rate	7.47	8.09	7.94	8.25	9.93
Annual 91-day discount yield	7.84	8.52	8.35	8.69	10.59
Reference rate/[1]	7.98	8.29	8.47	8.48	11.72
Rediscount rate	13.68	13.99	15.17	15.18	18.42
Issues at face value (Shs.billion)					
91 days	51.94	44.57	41.21	34.47	46.87
182 days	104.00	119.68	113.56	90.00	74.30
364 days	283.38	247.78	247.51	240.71	255.41
Total issues at face value	439.32[2]	412.03[2]	402.28[2]	365.17[2]	376.58[2]
Total maturities	323.23[4/6]	332.39[4]	491.92[4/7]	426.083[3/4]	431.40[4]
Total net issues at face value	116.09	79.64	-89.64	-60.91	-54.82
Issues at cost value (Shs.billion)					
91days	50.98	43.68	40.40	33.75	45.72
182 days	98.58	112.92	106.30	84.45	69.31
364 days	253.12	219.26	216.69	210.24	219.00
Total issues at cost value	402.68	375.86	363.40	328.45	334.03

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 Baroda, Barclays, Cerudeb, Citibank, Dfcu, Stanbic, and Standard Chartered.
[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

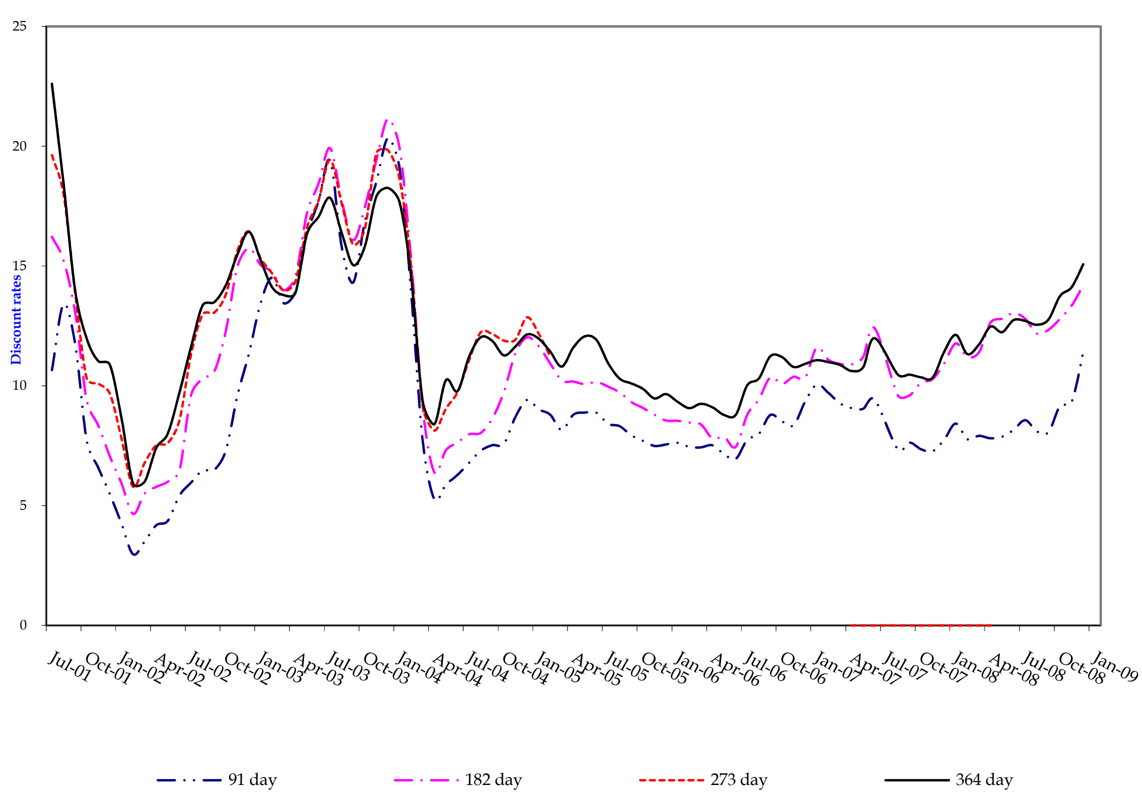
On an average basis, Treasury bill rates were higher in the quarter to December 2008 when compared to the previous quarter to September 2008 and the corresponding quarter in 2007. The government's comprehensive strategy for debt management is expected to ensure an optimal mix of security issuance, and enable the reduction of the relative cost of interest on these government securities.

The weighted average discount rates on Treasury bills for the quarter under review were recorded at 10.0, 13.6, and 14.4 percent for the 91-days, 182-days, and 364-days tenors, respectively. These discount rates were higher than the corresponding rates of 8.2, 12.4, and 12.7 percent, recorded in September 2008 and 7.8, 10.9 and 11.4 percent, recorded in December 2007. The upward trend in discount rates is reflected in Figure 13.

The average annualized yields for the entire quarter stood at 10.6, 15.1, and 16.9 percent for the 91-day, 182-day, and 364-day bills, respectively. These rates were higher than the respective rates of 8.6, 13.6, and 14.5 percent for the quarter ended September 2008 and 8.2, 11.9, and 12.9 percent for corresponding quarter in 2007.

The stock of Treasury bills decreased by 6.1 percent, from Shs. 1,457.6 billion recorded at the end of September 2008 to Shs. 1,368.0 billion as at end-December 2008. Commercial banks' holdings of Treasury bills was 55.3 percent by end December 2008, compared to 50.4 percent reported in September 2008, while BOU holdings increased to 20.8 percent from a holding of 15.8 percent over the same time-period. As at end December 2007, BOU and Commercial banks took up 16.7 percent, and 47.7 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

In the quarter under review, the indicative yield-to-maturity rates for the 364-day paper as derived from daily '*bid*' and '*offer*' quotations by the primary dealers in the secondary market remained relatively stable, while the indicative rates for the 91-day and 182-day papers rose in line with the rise in the rates in the primary market for these securities.

The respective average bid/offer rates for the quarter ended-December 2008 were 9.2/9.0, 14.1/13.8 and 13.8/13.5 percent for the 91-days, 182-days and 364-days securities. These rates with the exception of the 364-day tenor rose when compared to the average rates for the respective papers of 9.0/8.7, 13.3/13.0 and 13.8/13.5 percent in the previous quarter. In the corresponding quarter ended December 2007, these rates were 9.1/8.8, 12.3/12.1, and 13.1/12.8 percent. The yield curve derived from average yield-to-maturity quotes in the secondary market for Treasury bills and bonds was inverted after the 2-year paper.

Total trades over this period amounted to Shs. 313.2 billion. This volume of trade was higher than the Shs. 248.3 billion executed in the previous quarter, and Shs. 225.6 billion reported in the quarter ended December 2007. A total of Shs. 69.6 billion in horizontal repo transactions was registered during the quarter under review. The rest of the transactions were outright sales. Table 11 summarizes these developments.

Table 11: Summary indicators from the secondary market for treasury bills (October-December 2008)

	91-days		182-days		364-days	
Yield-to-maturity rates quotation (percent)						
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	8.27	8.01	13.11	12.83	13.08	12.78
Maximum	11.65	11.38	15.23	14.94	14.50	14.19
Average (simple)	9.22	8.95	14.11	13.82	13.79	13.50
Total trading activity	**Shs. 313.195 billion**					
Transactions (Shs billion)	93.000		61.264		158.930	
- Horizontal repos	69.591		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	23.408		61.264		158.930	
Average discount rate	10.97%		13.49%		14.71%	
Average yield-to-maturity	11.36%		14.32%		16.16%	

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 for short-term flexible liquidity management. Total Repo issues in the quarter ended December 2008 amounted to Shs. 339.0 billion against maturities of Shs. 339.2 billion. The total transaction volume of this instrument was lower than what was recorded in the quarter ended-September 2008 when issues of Shs. 534.8 billion (net of a reverse Repo of Shs. 50.0 billion) were effected against maturities of Shs. 535.3 billion (net of a maturing reverse Repo of Shs. 50.0 billion). BOU stayed out of this market in the first month of the quarter under review, as the liquidity conditions did not necessitate such actions. Despite this reduced activity, the resultant weighted average interest rates from this market remained high throughout the quarter. The respective amounts of issues and maturities for the corresponding quarter-ended December 2007 were Shs. 1,162.7 billion and Shs. 1,240.6 billion. These developments are shown in table 12.

Table 12: Volume developments in the Vertical Repo market (Shs. billion)

	Dec 07	Mar 08	Jun 08	Sept 08	Dec 08
Issuance of repos	1,162.699	232.000	141.000	534.800	339.000
Maturity of repos	1,240.632	232.210	141.103	535.297	339.247
Outstanding Stock of Repos	0.000	0.000	0.000	0.000	0.000

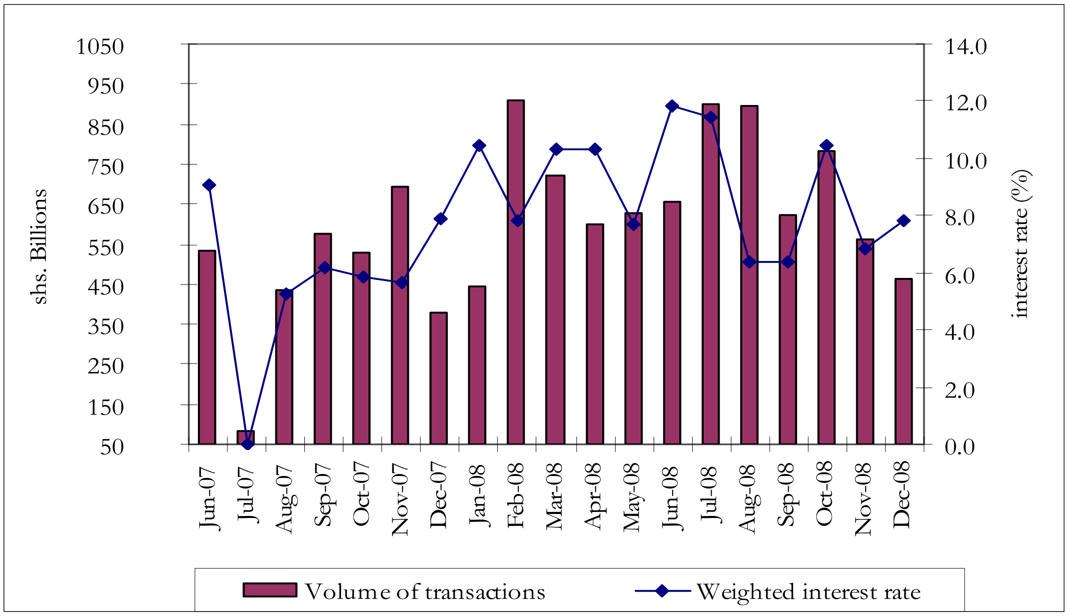
Source: Bank of Uganda

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 rate declined from 10.46 percent in October 2008 to 6.85 percent in November 2008 before increasing to 7.85 percent in December 2008. The inter-bank rates observed reflected the underlying liquidity conditions in the domestic money markets. During the quarter, liquidity conditions were very tight in October as depicted in the high interbank rate compared to November and December 2008. The inter-bank rates observed in the corresponding quarter in 2007/08 were 5.84 percent 5.62 percent and 7.91 percent in October 2007, November 2007 and December 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 relatively stable in the quarter under review, due to increased competition for deposits and continued sound and prudent macroeconomic policies that were recorded over the quarter. The weighted average savings rate on the shilling denominated deposits averaged 2.1 percent, the same as in the quarter ended September 2008. The rate on saving deposits was lower than 2.70 percent recorded in the corresponding quarter in 2007/08. The weighted average time deposit rate in the quarter ended December 2008 averaged 10.6 percent, an increase from 9.6 percent recorded in the corresponding quarter a year ago. The weighted average lending rate on shilling denominated loans rose to 19.5 percent in the quarter under review compared to an average of 18.8 percent in the quarter ended December 2007.

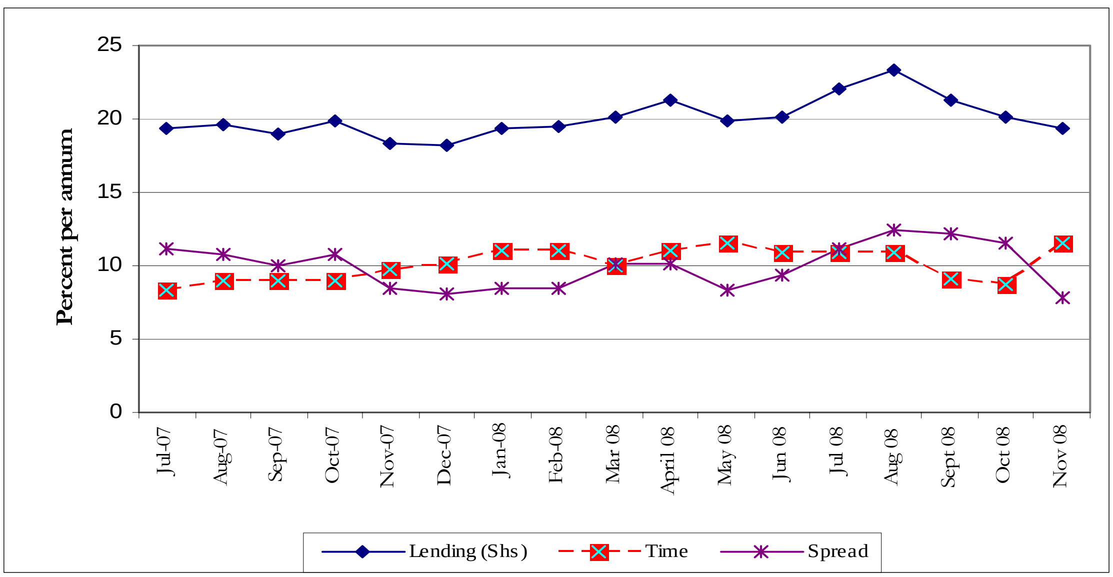
The weighted average lending rates on the foreign currency denominated loans decreased from an average of 9.9 percent in the quarter ended December 2007, to an average of 9.0 percent in the quarter under review. The weighted average savings deposit rate on the foreign exchange denominated deposits, remained unchanged at an average of 1.1 percent during the quarter under review, the same as in the quarter ended December 2007. The time deposit rate averaged 4.7 percent in the quarter under review compared to an average rate of 3.7 percent recorded in the corresponding quarter a year ago. The developments in commercial bank's interest rates are shown in Table 13 and Figures 15 and 16 below.

Table 13: Weighted average interest rates of commercial banks (Percent, per annum)

Average rates for the quarter ended	Shilling denominated				Foreign currency denominated			
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-08	Jun-08	Sep-08	Dec-08
Lending	19.65	20.44	22.19	19.51	9.66	9.65	9.83	9.01
Demand deposits	1.29	1.26	1.28	1.41	1.24	1.02	1.09	1.05
Savings deposits	2.60	2.40	2.08	2.14	1.51	1.50	1.50	1.38
Time deposits	10.69	11.14	10.26	10.59	4.41	3.96	4.15	4.72

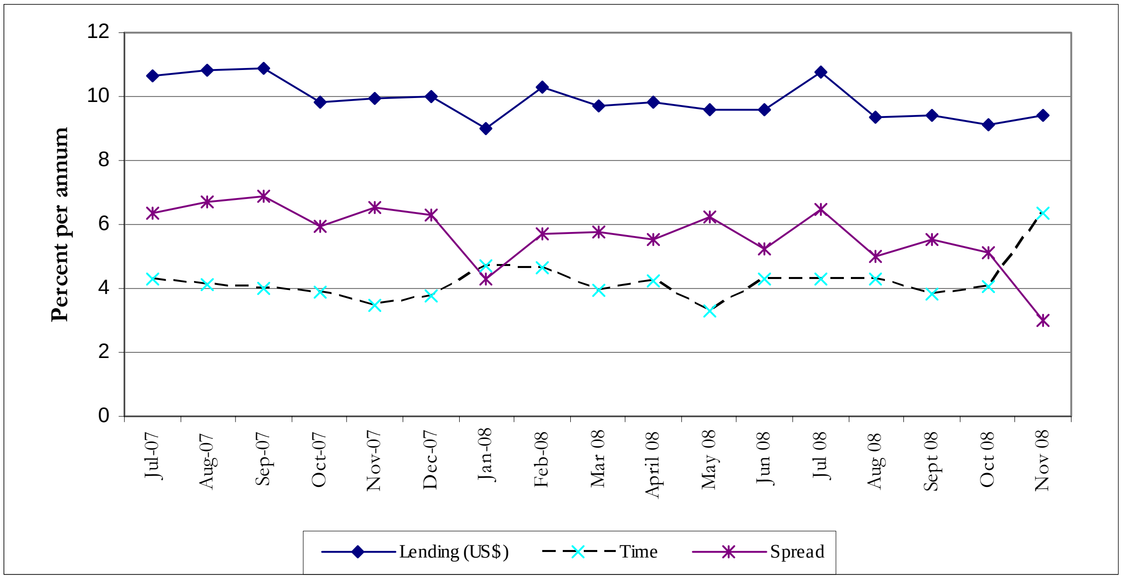
Source: Bank of Uganda

Figure 15: Shilling lending and deposit rates



Source: Bank of Uganda

Figure 16: Foreign exchange lending and deposit rates

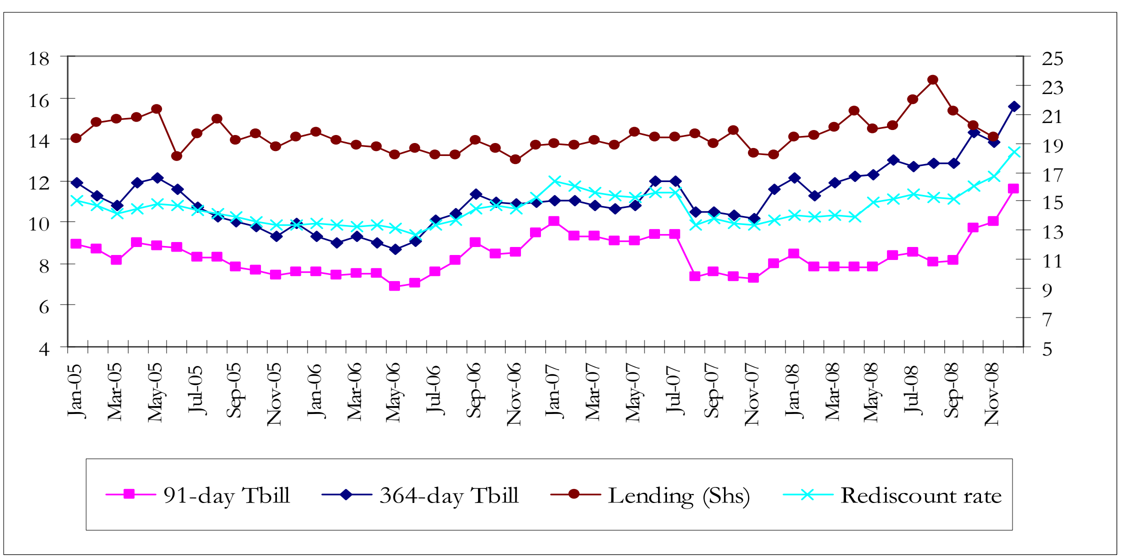


Source: Bank of Uganda

5.4.3 Rediscount and Bank Rates

During the quarter under review, the margin within the rediscount rate remained at 6.7 percent. As a result of the developments in the domestic money markets, the Rediscount rate and Bank rate increased from 17.0 percent and 18.0 percent recorded at the beginning of the quarter to 18.4 percent and 19.4 percent respectively by end December 2008. Figure 17 highlights the trend of selected interest rates.

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

The shilling depreciated by 16.3 percent in the quarter under review compared to an appreciation of 0.7 percent registered in the previous quarter. The local unit weakened from an average of Shs. 1,634.2 per U.S. dollar in the quarter ending September 2008 to an average of Shs. 1,901.7 per U.S. dollar in the quarter ending December 2008. The shilling opened trading at Shs. 1,678.1 per U.S. dollar at the start of October 2008, and closed at Shs. 1,949.2 per U.S. dollar at end December 2008. In the period under review, BOU resumed daily sterilization of US$ 0.3 million. The shilling depreciated in the period under review due to very high demand from corporate, offshore players, and interbank activities. Commercial Banks also reported high demand for foreign currency especially from the oil and manufacturing sectors. During the quarter, the shilling depreciated to a record high of Shs. 2,062.5 per US dollar recorded on October 24, 2008. However, towards the end of the quarter, the shilling began to strengthen mainly on account of the continued weakening of the US Dollar on the global scene.

The spread rose significantly to a record high of Shs. 123.0 recorded on the 31st October 2008 probably on account of the uncertainty in the market as agents in the IFEM broadened the spread to hedge against losses. On a quarterly basis, the average spread between the buying and selling rates rose to Shs. 39.2 from Shs. 10.2 in the first quarter of 2008/09.

Volatility in the exchange rate movements during the quarter necessitated central bank intervention in order to foster stability in the market. The actions of the Bank in the IFEM amounted to a net sale of US$124.8 million compared to a net sale of US53.8 million during the previous quarter.

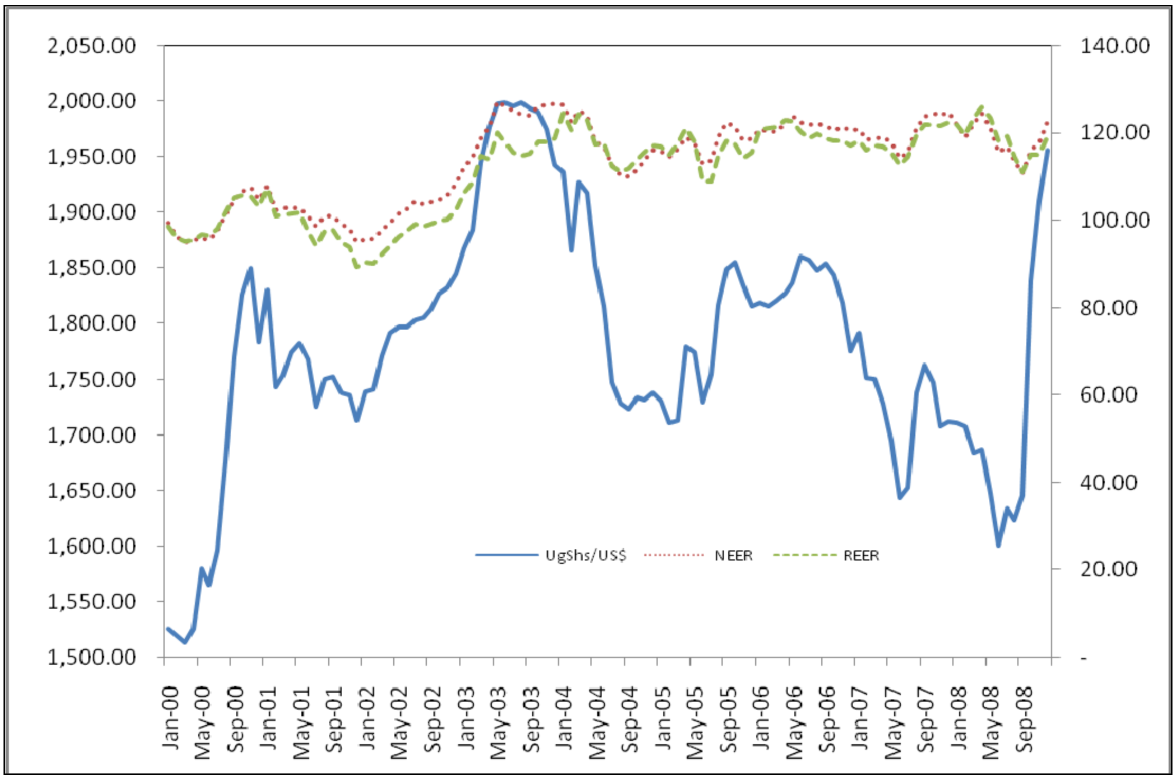
The nominal effective exchange rate (NEER)[2] index depreciated by 4.4 percent during the quarter ending December 2008, compared to an appreciation of 5.4 percent posted in the previous quarter. The movement in the NEER index mainly reflected the relative movements of the Uganda shilling against the currencies of our major trading partners. The shilling depreciated against most of the currencies of its trading partners. The shilling

[2] NEER and REER numbers for the month of November and December are projections.

depreciated by 30.6 percent against the Japanese Yen, 2.3 percent against the Euro, 2.8 percent against the Kenyan shilling, 4.4 against the Indian rupee, 8.2 percent against the Pakistan Rupee and 16.5 against the Chinese Yuan. However, the shilling appreciated by 9.0 percent against the South African Rand and 3.6 percent against the UK Pound in the quarter under review.

The real effective exchange rate (REER) index depreciated by 1.3 percent in the quarter under review, compared to an appreciation of 1.6 percent recorded in the preceding quarter. Figure 18 shows the developments in the exchange rate.

Figure 18: Exchange rate developments: January 2000 to December 2008 (2000 = 100)



Source: Bank of Uganda

6.2 Transaction volumes

Gross purchases in the IFEM declined from US$ 1,406.8 million to US$ 1,392.7 million. However, gross sales in the inter-bank foreign exchange market increased by 2.0 percent from US$1,462.2 million to US$1,491.5 million. In the corresponding period last financial year, gross purchases and sales increased by 28.1 per cent and 32.6 percent. Cross currency transactions declined by 64.1 percent to US$ 714.3 million in the quarter ending December 2008 compared to a rise of 38.6 percent to US$1,965.7 million in the previous quarter.

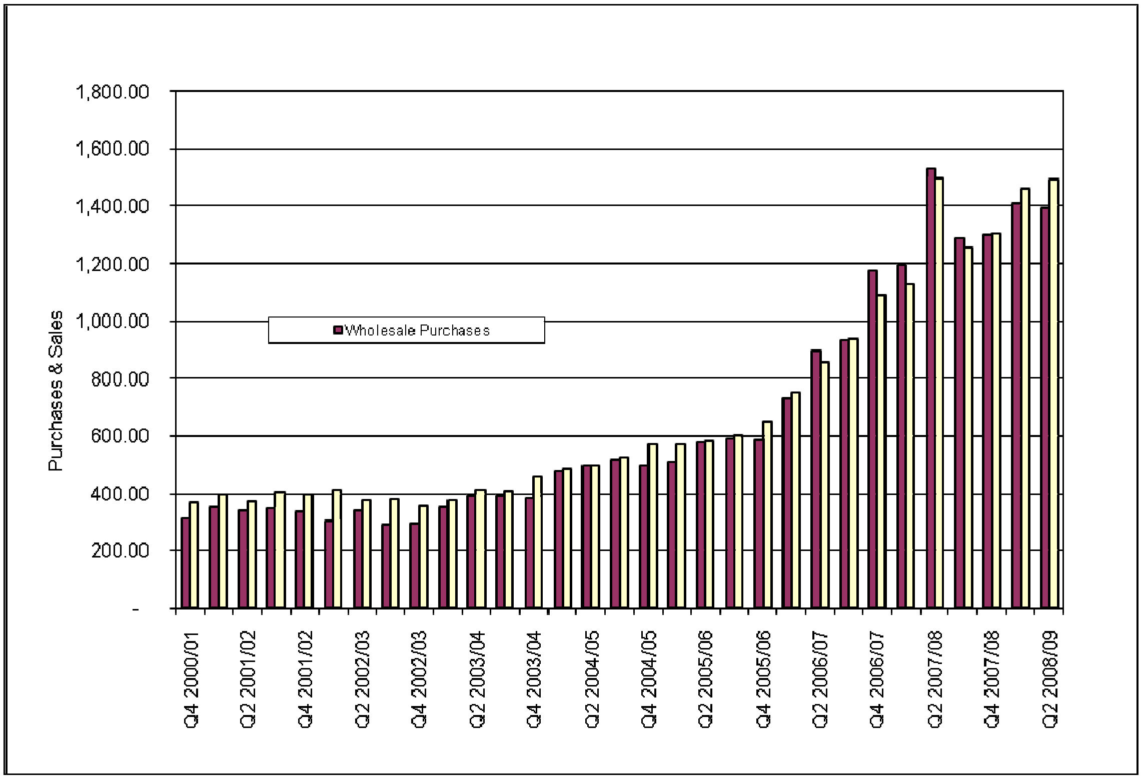
In the foreign exchange bureau market, the shilling depreciated by 15.4 percent from an average of Shs. 1,629.2 per U.S. dollar in the first quarter of 2008/09 to an average of Shs. 1,880.8 per US dollar in the quarter under review. In the corresponding period of 2007, the shilling had appreciated by 0.9 percent. Table 14, Figures 19 and 20 summarize the above developments.

Table 14: Transactions and exchange rate developments in the retail and wholesale market

Market	Q2 2007/08	Q3 2007/08	Q4 2007/08	Q1 2008/09	Oct 2008	Nov 2008	Dec 2008	Q2 2008/09
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	124.50	121.08	120.42	118.65	116.23	117.79	122.68	118.90
Real Effective Exchange Rate (REER) 2000=100	120.69	121.81	122.93	121.01	115.11	115.19	119.27	116.52
Nominal Exchange Rate (Period Average)	1,722.95	1,701.58	1,645.03	1,634.19	1,838.66	1,910.13	1,956.19	1,901.66
Total Purchases (Million US$)	1,529.51	1,285.70	1,299.89	1,406.77	572.89	383.25	436.57	1,392.72
Total Sales (Million US$)	1,499.22	1,255.29	1,304.34	1,462.22	663.67	396.31	431.54	1,491.52
Cross Currency (Million US$)	404.67	1,061.42	1,418.69	1,965.68	441.41	160.10	112.82	714.33
Bureaux Market								
Average Period Exchange Rate	1,717.01	1,695.66	1,639.83	1,626.60	1,803.00	1,893.78	1,945.56	1,880.78
Total Purchases (Million US$)	456.01	475.88	526.28	620.91	202.58	184.37	192.34	579.28
Total Sales (Million US$)	496.31	491.98	549.38	622.60	184.47	169.45	207.44	561.36

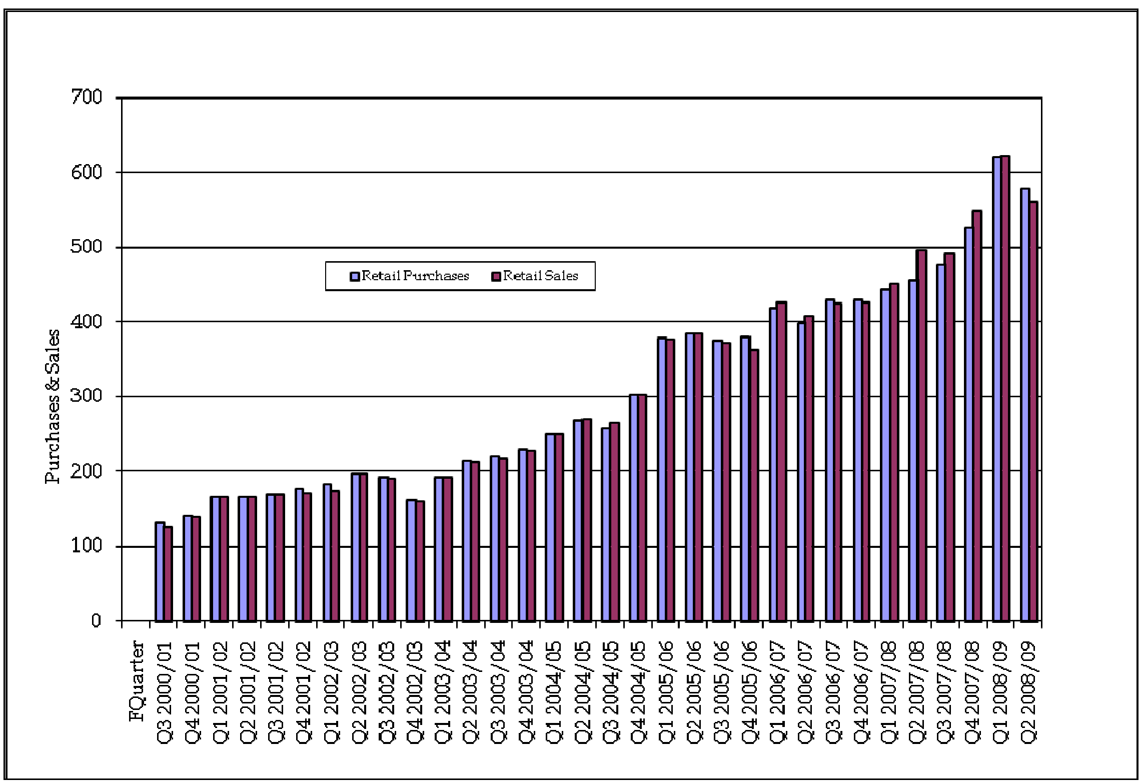
Source: Bank of Uganda

Figure 19: Foreign exchange transactions of commercial banks in millions of U.S. dollars



Source: Bank of Uganda

Figure 20: Foreign exchange bureau transactions in millions of U.S. dollars



Source: Bank of Uganda

7 PUBLIC FINANCE

7.1 Revenue

During the quarter ended December 2008, government revenue and grants amounted to Shs. 1,184.9 billion, representing an underperformance of 24.9 percent relative to the programmed level of Shs. 1,577.5 billion. Revenue and grants disbursements were higher by 6.9 percent when compared to the outturn in the corresponding quarter of 2007. The preliminary outturn for total revenue collections was Shs. 1,016.5 billion, an increase of 19.0 percent when compared to the collection in the quarter ended December 2007 and a performance of 91.7 percent relative to the programmed level. This performance was largely attributed to the under performance in Non-URA collections.

Grants from external sources were lower by 33.9 percent in the quarter ended December 2008 relative to Shs. 254.6 billion disbursed in the quarter ended December 2007. The grants received in the quarter under review were also below the programmed level of Shs. 468.9 billion on account of late disbursements by some of the donors.

7.2 Government expenditure

Total government expenditure and net lending amounted to Shs. 1.231.4 billion during the quarter ended December 2008 compared to Shs. 929.8 billion that was utilized in the corresponding quarter in 2007. This outturn, however, was 32.0 percent below the programmed level of Shs. 1,812.1 billion on account of low absorption by spending entities and delays in posting of expenditures to the Integrated Financial Management Information System (IFMIS).

The increase in total expenditure between the quarters was mainly attributed to the increase in development expenditure of 30.5 percent to Shs. 331.0 billion. Recurrent expenditure grew by 13.6 percent to Shs. 820.0 billion between the quarters. However, relative to the program, development and recurrent expenditures were lower by 60 percent and 4.6 percent respectively. Expenditure on salaries and wages grew by 11.1 percent to Shs. 303.7 billion between the quarters. However, this was lower than the programmed level of Shs. 325.6 billion. Interest payments amounted to Shs. 88.0 billion, an increase of 17.8 percent from the payments made in the corresponding quarter in 2007.

7.3 Overall fiscal balance and financing

A deficit of Shs. 46.5 billion was observed in government budgetary operations in the quarter under review compared to a deficit of Shs. 234.5 which was envisaged in the program. Excluding grants, the deficit worsened to Shs. 214.9 billion, compared to a deficit of Shs. 703.5 billion envisaged in the program. Table 15 summarizes the central government's budgetary operations.

Table 15: Government budgetary operations (Shs. billion)

Categories	FY 2007/08	Oct-Dec 2007/08	Oct-Dec 2008/09	Prog Q2. 2008/09
Revenue and grants	**3,909.5**	**1,108.9**	**1,184.9**	**1,577.5**
Revenue	3,246.8	854.2	1,016.5	1,108.6
Grants	662.7	254.6	168.4	468.9
O/w Budget Support	475.2	216.4	123.4	258.2
Project grants	187.5	38.3	45.0	210.7
Total expenditure and net lending	4,382.8	929.8	1,231.4	1,812.1
Recurrent expenditure	2,881.2	721.6	820.0	859.6
Wages and salaries	1,106.1	273.4	303.7	325.6
Interest	309.4	74.7	88.0	87.7
Other recurrent	1,385.7	353.6	405.8	423.8
Development expenditure	1,360.6	253.6	331.0	828.0
Domestic	717.9	153.9	219.7	473.9
External	642.7	99.6	111.3	328.5
Net lending and investment	-162.9	-130.4	0.1	-13.3
Domestic arrears repayment	284.1	85.0	80.3	97.7
Overall deficit (-)/surplus (+)	**-473.3**	**179.0**	**-46.5**	**-234.5**
Excl. grants	-1,136.0	-75.6	-214.9	-703.5
Financing	473.3	-179.0	46.5	-234.5
Foreign (net)	588.2	74.6	139.4	75.0
Domestic (net)	-234.6	-176.5	-125.8	159.5
Banking system	-210.7	-179.8	221.8	95.3
Non bank	-23.9	3.3	-347.6	64.2

Source: Ministry of Finance, Planning and Economic Development

8 EXTERNAL SECTOR DEVELOPMENTS

In the quarter ended December 2008, the balance of payments registered an overall deficit of US$329.6 million, vis-à-vis the overall surplus of US$396.1 million recorded in the same quarter in 2007. To a large extent, this down turn in the external position resulted from a deterioration in the current account. The current account balance recorded a deficit of US$443.2 million, down from the surplus of US$107.2 million recorded in the quarter ended

December 2007. The deterioration was on account of increased imports of goods and a decline of exports in the review quarter.

The Capital and Financial Account balance recorded a surplus of US$113.7 million, US$175.3 million less than what was recorded in the corresponding period of 2007. The decline was largely on account of the exit by offshore portfolio investors in the debt securities markets during the quarter and a reduction in the currency and deposit liabilities held by non-residents in the domestic banking system.

There was a draw down of foreign reserves worth US$241.0[3] million to US$2.30 billion, compared to a build up of US$198.6 million recorded in the quarter ended December 2007. The stock of reserves, in terms of future months of imports of goods and services, stood at 5.1 at the end of the quarter. Table 16 presents a summary of the quarterly developments in the balance of payments for the period October 2007 to December 2008.

[3] Excluding valuation, the stock of reserves is estimated to have decreased by US$102.0 million.

Table 16: Developments in the Balance of Payments (US$ million)

	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8	Jul - Sep 2008/9	Oct-Dec 2008/9
A. Current Account Balance	**107.19**	**26.34**	**-196.40**	**-453.71**	**-443.22**
A1. Goods Account (Trade Balance)	**-72.61**	**-112.53**	**-198.93**	**-486.49**	**-471.93**
a) Total Exports (fob)	788.34	771.19	867.17	631.96	597.30
b) Total Imports (fob)	-860.95	-883.71	-1,066.10	-1,118.45	-1,069.23
A2. Services Account (services net)	**-164.17**	**-109.78**	**-167.20**	**-162.95**	**-182.19**
a) Inflows (credit)	128.78	155.13	146.52	173.93	138.90
b) Outflows (debit)	-292.95	-264.91	-313.71	-336.88	-321.09
A3. Income Account (Income net)	**-71.17**	**-58.37**	**-106.42**	**-62.28**	**-103.75**
a) Inflows (credit)	29.04	43.67	20.49	37.53	27.57
b) Outflows (debit)	-100.21	-102.04	-126.91	-99.81	-131.33
A4. Current Transfers (net)	**415.14**	**307.01**	**276.15**	**258.01**	**314.65**
a) Inflows (credit)	493.33	350.09	332.87	317.67	375.29
b) Outflows (debit)	-78.19	-43.08	-56.72	-59.66	-60.64
B. Capital & Financial Account Balance	**288.91**	**425.06**	**370.52**	**651.11**	**113.65**
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) Non-produced nonfinancial assets (credit)	0.00	0.00	0.00	0.00	0.00
d) Non-produced nonfinancial assets (debit)	0.00	0.00	0.00	0.00	0.00
B2. Financial Account; excl financing items	**288.91**	**425.06**	**370.52**	**651.11**	**113.65**
a) Direct Investment	**212.66**	**260.14**	**260.14**	**285.99**	**172.97**
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	212.66	260.14	260.14	285.99	172.97
b) Portfolio Investment	**-20.76**	**45.33**	**39.87**	**4.44**	**-73.71**
Assets	0.00	0.00	-12.06	0.00	0.00
Equity Securities	0.00	0.00	-12.06	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	-20.76	45.33	51.93	4.44	-73.71
Equity Securities	-25.48	40.93	1.27	0.00	0.00
Debt Securities	4.72	4.40	50.66	4.44	-73.71
c) Financial Derivatives (Net)	**0.30**	**-1.02**	**0.06**	**0.15**	**7.70**
d) Other Investment	**96.70**	**120.62**	**70.46**	**360.53**	**6.69**
Assets	-67.18	39.01	-47.18	129.49	-84.53
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	91.28	11.51	5.39	8.67	22.85
Banks	-144.46	-3.50	-28.57	119.82	-107.38
Other sectors	-14.00	31.00	-24.00	1.00	0.00
Liabilities	163.88	81.61	117.64	231.04	91.22
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	32.98	31.44	65.27	-16.65	17.56
Banks	64.19	-34.10	-21.70	164.18	-11.38
Other sectors	66.71	84.27	74.07	83.51	85.03
C. Overall Balance (A + B)	**396.10**	**451.40**	**174.12**	**197.39**	**-329.57**
D. Reserves & Related Items	**-396.10**	**-451.40**	**-174.12**	**-197.39**	**329.57**
a) Reserve assets	-225.01	-87.76	1.81	66.52	102.03
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.54	-1.10	-3.43	-9.47	-2.27
d) Errors and Omissions	-171.63	-362.53	-172.50	-254.44	229.82

Source: Bank of Uganda

8.1 The Goods account (Trade Balance)

8.1.1 Exports

During the quarter under review, total export earnings amounted to US$ 597.3 million, compared to US$632.0 million recorded in the preceding quarter and US$788.3 million in the corresponding quarter of 2007.

Coffee exports' earnings were US$77.8 million, 14.3 percent more than the US$68.1 million realized in corresponding quarter of 2007 but 29.5 percent lower than US Dollars 110.4 million of the preceding quarter to September 2008. The average realized price of US$1.74/kg was 2 cents lower than that realized in the corresponding quarter of 2007. There was an increase in the volume of coffee exports to 745,264 (60-kg) bags compared to 643,959 (60-kg) bags exported in the same quarter of 2007, which offset the effect of the decline in the realised prices.

Earnings from the non-coffee exports were recorded at US$ 519.5 million during the quarter ended December 2008, US$ 200.7 million less than the earnings of the corresponding quarter of 2007. Notably, earnings from exports of industrial products under informal cross border trade classified under others declined significantly.

On the other hand, export earnings from gold, tobacco, fish & its products, beans, flowers and base metals & their products increased by a combined total of US$23.0 million vis-à-vis the same quarter in the previous year. Table 17 below provides a summary of developments in exports

Table 17: Summary of developments in exports (US$ million)

	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8	Jul - Sep 2008/9	Oct-Dec 2008/9
Total Exports	**788.34**	**771.19**	**867.17**	**631.96**	**597.30**
1. Coffee exports	**68.13**	**113.05**	**96.85**	**110.38**	**77.84**
2. Non-Coffee exports	**720.20**	**658.14**	**770.33**	**521.57**	**519.46**
Electricity	3.19	2.80	2.63	3.40	2.82
Gold	4.31	11.55	20.76	11.95	6.02
Cotton	1.85	5.94	8.74	1.96	0.88
Tea	13.09	10.47	12.38	11.03	13.47
Tobacco	20.84	20.10	16.24	13.31	23.08
Fish & its products (excl. regional)	31.03	30.50	36.64	31.21	32.80
Fish & its products (regional exports)	10.55	16.86	25.95	15.29	11.14
Hides & skins	3.70	4.50	3.23	3.58	1.70
Simsim	1.10	6.36	5.03	1.10	1.66
Maize	5.66	4.06	5.06	5.60	3.40
Beans	1.09	0.92	3.08	3.77	5.01
Flowers	8.00	9.46	11.24	12.50	13.28
Oil re-exports	7.62	6.18	0.85	0.90	0.81
Cobalt	3.43	5.05	5.33	5.57	4.29
Base metals & products	21.10	23.69	29.77	35.89	28.56
Others	583.67	499.71	583.39	364.52	370.54

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ended December 2008 amounted to US$1.1 billion, which mainly comprised of private sector imports like machinery equipment, vehicles & accessories, base metals & their products, vegetable products, beverages, fats & oil, chemical & related products and oil imports. In particular, oil imports of US$135.6 million constituted 13.5 percent of the private sector imports, down from 13.8 per cent recorded in the corresponding quarter to December 2007, reflecting the declining oil prices on the international market.

During the same quarter, Government imports amounted to US$65.2 million, vis-à-vis US$30.9 million posted in the corresponding quarter of 2007/08, with the increase being on account of non-project related imports. Table 18 provides a summary of developments in imports by two broad categories: government and private sector.

Table 18: Summary of developments in imports (US$ million)

	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8	Jul - Sep 2008/9	Oct-Dec 2008/9
Total Imports	**860.95**	**883.71**	**1,066.10**	**1,118.45**	**1,069.23**
Government Imports	**30.93**	**50.25**	**56.10**	**37.78**	**65.20**
Project	23.70	20.96	28.67	11.62	26.93
Non-Project	7.23	29.29	27.43	26.15	38.27
Private Sector Imports	**830.02**	**833.47**	**1,009.99**	**1,080.67**	**1,004.04**
o/w Oil imports	114.47	147.43	162.41	196.05	135.59

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 deficit of US$285.9 million, 21.5 percent more than the deficit recorded in the corresponding quarter of 2007. Outflows on the Services Account increased by US$ 28.1 million, mainly on account of transportation services (i.e. freight services associated with the growth in imports of goods) while, inflows on the Services Account increased by US$10.2 million.

Outflows from the Income account were estimated at US$131.3 million in the review period, US$31.1 million more than the income outflows recorded in the quarter ended December 2007. This was mainly attributable to an increase in estimated outflows on account of compensation of employees.

8.3 Current Transfers

During the period under review, net current transfers were estimated at US$314.7 million, US$100.5 million less than the US$415.1 million realized in the corresponding period of 2007/08. This was on account of a reduction in grants to Government, inflows to NGO's and workers' remittances. Workers' remittance outflows totalled US$60.6 million during the quarter ended December 2008.

8.4 Capital and Financial Account

In the review period of 2008, the Capital and Financial Account balance recorded a surplus of US$ 113.7 million compared to a surplus of US$288.9 million recorded in the quarter ended December 2007. The deterioration was brought about by a reduction in foreign portfolio investment liabilities as offshore investors exited the domestic securities market. In particular, portfolio investment liabilities declined by about US$73.7 million compared to a reduction of US$20.8 million recorded in the corresponding period of last year.

8.5 Donor flows

During the quarter ended December 2008, total disbursements of foreign aid (for budget support and projects) were estimated at US$181.2 million, compared to US$223.3 million recorded in the corresponding quarter of 2007. The decrease in aid disbursements was mainly on account of a decline in budget support grants, which fell from US$123.7 million realised in the quarter ended December 2007 to US$80.5 million in the quarter ended December 2008 . Table 19 below provides a summary of foreign aid inflows to Government.

Table 19: Summary of Donor inflows to Government (US$ million)

	Oct-Dec 2007/8	Jan - Mar 2007/8	Apr - Jun 2007/8	Jul - Sep 2008/9	Oct-Dec 2008/9
Total Foreign Aid	**223.29**	**176.46**	**129.24**	**73.39**	**181.24**
Grants	171.58	128.03	51.10	**53.48**	**146.52**
Loans	51.72	48.43	78.15	**19.90**	**34.72**
Budget Support	**123.67**	**85.52**	**26.06**	**39.02**	**82.69**
Grants	123.67	83.11	26.06	30.29	80.53
Loans	-	2.41	-	8.73	2.16
Project Aid	**99.62**	**90.94**	**103.18**	**34.37**	**98.55**
Grants	47.90	44.92	25.03	23.19	65.99
Loans	51.72	46.02	78.15	11.18	32.56

Source: Bank of Uganda

Following developments in the balance of payments and money market, the international reserves held by Bank of Uganda stood at US$2.3 billion by end of the quarter under review, representing 5.1 months of future imports of goods and services.

8.6 External Debt

8.6.1 Debt Stock

Uganda's stock of outstanding and disbursed debt was estimated at US$1.8 billion by close of the quarter ended December 2008; US$ 228.4 million more than the December 2007 level. The greater part of the external debt amounting to 85.9 percent was owed to multilateral institutions, while only 10.6 percent was owed to non-Paris Club bilateral creditors.

The quarterly developments regarding Uganda's debt stock profile up till December 2008 are shown in Table 20 below.

Table 20: Uganda's outstanding public debt by creditor (US$ million)

Creditor	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Multilateral	1,346.37	1,459.6	1,519.8	1,515.6	1,563.0
Non-Paris Club Bilateral	177.32	197.9	201.6	194.1	193.2
Paris Club Bilateral	66.16	65.3	63.6	65.0	62.1
Commercial	0.43	0.43	0.39	0.39	0.35
Commercial Non Bank	0.00	0.00	0.00	0.00	0.00
Grand Total	**1,590.28**	**1,723.21**	**1,785.34**	**1,775.10**	**1,818.64**

Source: Bank of Uganda

8.6.2 Debt Service

During the quarter ended December 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$ 26.2 million. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 3.8 percent for the quarter under review, compared to 3.2 percent recorded in the corresponding quarter of 2007.

9 DOMESTIC PRICE DEVELOPMENTS

9.1 Inflation

Annual headline inflation fell to 14.4 percent in the quarter ended December 2008 from 15.0 percent registered in the quarter ended September 2008. Similarly, annual core inflation[4] declined to 12.8 percent from 13.4 percent in the quarter ended September 2008.

The developments in inflation during the quarter were mainly attributable to the following:

- Lower annual increase in prices mainly of charcoal, tomatoes, fresh milk, meat (beef), dried beans, kerosene, rice, and hair-treatment witnessed during the quarter;
- The prices of matooke, meals in restaurants, maize-flour, onions, bottled beer, and newspapers however, showed strong increases partly on account of high transport costs. The sharp depreciation of the shilling also presented negative pressures on prices.

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

The Energy, Fuel and Utilities (EFU) inflation dropped to 7.1 percent in the quarter under review from 10.0 percent in the quarter ended September 2008, due to a slower annual increase in the average price of petroleum products.

The average annual food crop inflation fell to 25.5 percent in the quarter ended December 2008 from 27.7 percent during the quarter ended September 2008. Although food crop prices rose during the quarter due to high demand against low supplies as some food items were out of season, heavy rains in the quarter accounted for the lower inflation. Increased fuel prices, a spill-over from the previous prolonged dry spell and other supply constraints (poor yield in the earlier season, crop and animal diseases, notably foot and mouth disease) and stickiness of prices have maintained high inflation.

A further breakdown into contribution by each group indicates that the inflation contribution by the food group exceeded all the other categories during the quarter ended December 2008. The above inflationary developments are depicted in tables 21, 22 and figure 22 below.

Table 21: Quarterly inflation rates (Annual Percentages

Quarter ended	Headline Inflation (percent)	Core Inflation (percent)	EFU Inflation (percent)	Food crops Inflation (percent)
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
Sep 2008	15.0	13.4	10.0	27.7
Dec 2008	14.4	12.8	7.1	25.5

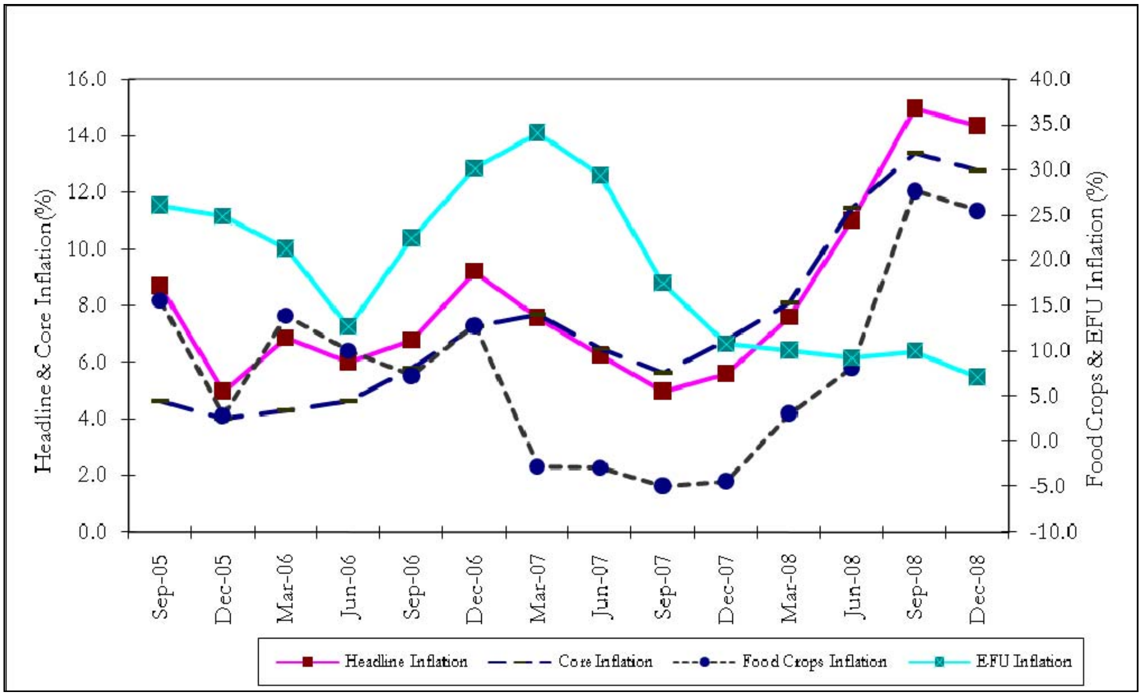
Source: Uganda Bureau of Statistics and Bank of Uganda

Table 22: Quarterly contribution by different groups to Headline Inflation

Groups	Weights	Oct-Dec 2007	Jan-Mar 2008	Apr-Jun 2008	Jul-Sep 2008	Oct-Dec 2008
Total	100	5.6	7.6	11.0	15.0	14.4
Of which:						
Food	27.2	-0.1	1.6	3.9	8.0	8.0
Beverages & Tobacco	4.7	0.3	0.2	0.5	0.4	0.5
Clothing & Footwear	4.4	0.3	0.4	0.4	0.3	0.4
Rent, Fuel & Utilities	14.8	1.9	1.2	1.5	1.8	1.3
Household & Personal goods	4.5	0.3	0.6	0.8	0.7	0.7
Transport & Communication	12.8	1.0	1.6	1.4	1.2	0.9
Education	14.7	1.0	0.9	1.0	1.0	1.0
Health, Entertainment, & Others	16.8	0.8	0.9	1.2	1.5	1.6

Source: Uganda Bureau of Statistics and Bank of Uganda

Figure 22: Quarterly inflation developments



Source: Uganda Bureau of Statistics

10. CONCLUSION

The developments during the quarter under review reveal continued strong economic activity despite exogenous shocks. The Bank of Uganda will remain vigilant and continue pursuing appropriate monetary and exchange rate policies geared towards consolidating macroeconomic stability gains so far achieved and ensuring stability in both the money and foreign exchange markets, coupled with minimising second round price effects associated with exogenous shocks.