ISSN 1991-766X

BANK OF UGANDA

QUARTERLY ECONOMIC REPORT

June 2010
Volume 02/2010

Website : www.bou.or.ug

CONTENTS

1 INTRODUCTION 4
2 OVERVIEW OF DEVELOPMENTS DURING THE QUARTER 4
2.1 International Developments 4
2.2 Summary of Uganda's Performance 6
3 MONETARY DEVELOPMENTS 8
3.1 Money Supply 8
3.2 Base Money 10
3.3 Activities of Commercial Banks 11
3.3.1 Overview 11
3.3.2 Deposits 12
3.3.3 Credit to the Private Sector by Commercial Banks 13
4 DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS 15
4.1 Credit Institutions (CIs) 15
4.1.1 Overview 15
4.1.2 Credit to the private sector 16
4.1.3 Deposits 16
4.1.4 Liquidity 18
4.2 Microfinance Deposit Taking Institutions (MDIs) 18
4.2.1 Overview 18
4.2.2 Credit to the Private Sector 19
4.2.3 Deposits 20
5 DOMESTIC FINANCIAL MARKETS AND INTEREST RATES 22
5.1 Treasury Bond Market 22
5.1.1 Primary Market of Treasury bonds 22
5.1.2 Secondary Market of Treasury bonds 23
5.2 Treasury bill market 24
5.2.1 Primary Market of Treasury Bills 24
5.2.2 Secondary Market of Treasury bills 26
5.3 The Vertical Repo Market 27
5.4 The Interbank Money Market 28
5.4.1 Commercial bank's lending and deposit rates 29
5.4.2 Bank of Uganda Rates 30
6 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET 32
6.1 Foreign Exchange Rates 32
6.2 Transaction Volumes 33
7 PUBLIC FINANCE 35
7.1 Revenue 35
7.2 Government expenditure 35
7.3 Overall fiscal balance and financing 36
8 EXTERNAL SECTOR DEVELOPMENTS 37
8.1 The Goods account (Trade Balance) 39
8.1.1 Exports 39
8.1.2 Imports 40
8.2 Services and Income Accounts 42

8.3 Current Transfers 42
8.4 Capital and Financial Account 42
8.5 Donor flows 43
8.6 External Debt 43
8.6.1 Debt Stock 43
8.6.2 Debt Service 44
9 DOMESTIC PRICE DEVELOPMENTS 45
9.1 CPI Inflation 45
9.2 Producer Price Inflation (PPI) 47
9.3 Other Real Sector Indicators 48
9.3.1 Uganda Equity market 48
9.3.2 Energy Sector 49
10 CONCLUSION 51

1 INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the third quarter of 2009/10. Developments in the domestic economy are put in perspective with a subsection summarising developments in the global economy. Overall, stability was observed in most macroeconomic indicators. Bank of Uganda (BOU) continued with the flexible implementation of the reserve money program in a bid to foster stability in the domestic money markets and also provide more room to respond proactively to future exogenous shocks. The global economy continued to grow although growth rates varied across countries. A reversal of the global economic recovery is unlikely but a slow down is possible as rich economies shift towards private sector driven growth during the withdrawal of government stimulus measures.

2 OVERVIEW OF DEVELOPMENTS DURING THE QUARTER

2.1 International Developments

The global economy showed further signs of improvement in the third quarter of 2009/10 as confidence picked up among consumers and businesses as well as financial markets. However, this recovery was at different speeds, slowly in many of the advanced economies but strongly in most emerging and developing economies. The multispeed recovery is expected to continue.

The US economy appeared to recover at a better pace than Europe and Japan reflecting a larger fiscal stimulus package; bond market revival; stronger nonfinancial corporate balance sheets and stronger restructuring; and the accommodative monetary policies implemented.

The ongoing recovery was less dynamic in the Euro area than in other regions. The Euro area's real GDP increased by 0.2 percent in the quarter ended March 2010, compared to a growth rate of 0.1 percent recorded in the preceding quarter.

Activity is in the emerging and developed economies led the way. In emerging Asian economies, output exceeded pre-crisis levels by a big margin. There was a surge in regional output in emerging Asia during the review period, supported by high export performance along with the strengthening domestic demand. In China, the annualised real GDP expanded by 11.9 percent which was the strongest performance registered since the quarter ended December 2007.

In the Latin American economies, growth had began to exceed estimates of potential output by quarter ended March 2009 though production had barely reached pre-crisis levels while Middle Eastern economies began benefiting from increasing oil demand and oil prices.

Experience in sub-Saharan Africa was mixed. Most middle income and oil exporting economies that had experienced sharp declines in output started recovering supported by the rebound in global demand and recovery of commodity prices. The South African economy continued to register growth during the quarter ended March 2010, growing by an annualised 4.6 percent following a 3.2 percent growth in the previous quarter. Output growth in most low incomes improved close to trend levels. East African economies continued on their path to recovery, boosted by the improving global economic environment.

On the inflation front, global inflationary pressures generally remained low indicating slow recovery in demand although commodity prices particularly energy prices rose during the period under review.

As regards price developments in the USA, annual headline inflation declined from 2.7 percent in December 2009 to 2.3 percent in March 2010. Similarly, annual core inflation decreased to 1.1 percent in March 2010 from 1.8 percent in December 2009.

In the Euro area inflation rose sharply to 1.4 percent in March 2010 from 0.9 percent in December 2009 driven by rising energy and food prices. In the UK, in particular, inflation continued to increase, from 2.5 percent in December 2009 to 3.4 percent in March 2010. This rise in inflation was due to the expiration of the temporary VAT rate reduction and increases in energy prices during the period. The annual headline inflation in Emerging Asia was slightly lower than in February, standing at 3.4 percent in March 2010 from 3.7 percent in February 2010.

Inflation slowed in most East African countries in the past few months, in spite of the rising oil prices, after good rains and government investments in agriculture boosted food production. The year on year headline inflation rates in Tanzania, Kenya, Uganda and Rwanda dropped to 9.0 percent, 4.0 percent, 7.5 percent and 2.1 percent in March 2010 from respective rates of 12.2 percent, 5.3 percent, 11.0 percent and 5.7 percent in December 2009. On the other hand, the annual inflation rate in Burundi rose to 6.6 percent in March 2010 from 4.6 percent in December 2009 reflecting high energy and commodity prices. Inflation rates in the region are expected to remain in single digit levels.

2.2 Summary of Uganda's Performance

Macroeconomic stability anchored by prudent monetary and fiscal policies continued to be observed during the quarter ended March 2010 with annual core inflation declining to 6.4 percent in March. Bank of Uganda continued pursuing an accommodative monetary policy stance adopted for the financial year 2009/10 in attempt to stimulate aggregate demand. As a result, interest rates on Government securities fell during the quarter. The annualised discount rate on the 91-day Treasury bill paper declined to 4.3 percent in March 2010 from 6.0 percent in December 2009 and 9.3 percent in March 2009. This development was expected to encourage banks to substitute Treasury bills for loans in their investment portfolio and lower lending interest rates. However, there was no significant increment in the level of credit extended to the private sector by the commercial banks. Outstanding stock of credit to the private sector grew by only 6.1 percent in the quarter to March 2010 compared to an increase of 8.1 percent in the quarter to December 2009. Furthermore, lending rates remained high relative to those of the other countries in the region, increasing to 21.1 percent in March 2010 from 20.0 percent in December 2009.

Three new Treasury bonds of 3-, 5- and 10- year tenors were issued and an earlier issued 10-year bond re-opened to absorb structural liquidity for a longer period. Yields-to-maturity for the different tenors of the Treasury bonds declined reflecting increasing demand for these longer dated government securities. In addition, the Treasury bill instrument was also actively used to sterilize liquidity in the quarter under review with all primary auctions oversubscribed and issues largely concentrated at the longer end of the market.

Resulting from the developments in the domestic money market, the rediscount and bank rates dropped to 6.8 and 7.8 percent by end of the quarter to March 2010 from the respective levels of 8.3 and 9.3 percent as at the end of the previous quarter.

As for inflation, subdued demand pressures and easing food prices resulting from increased food supply led to a decline in both headline and core inflation during the quarter ended March 2009. Annual core inflation averaged 6.2 percent in the quarter to March 2010 compared to averages of 8.4 percent and 12.9 percent in the preceding quarter and the quarter ended March 2009, respectively.

In the foreign exchange market, the shilling depreciated by 6.2 percent on an average basis to Shs. 2,006.18 per US dollar in the quarter ended March 2010, from Shs. 1,889.57 per US dollar in the preceding quarter. The shilling's weakening against the green back was due to increased demand by the manufacturing and energy sectors.

In the external sector, the balance of payments registered an overall surplus of US$ 7.9 million compared to a surplus of US$ 294.8 million *(revised)* in the corresponding quarter of 2009. The deterioration in the external position was mainly driven by the worsening of the current account.

3 MONETARY DEVELOPMENTS

3.1 Money Supply

Broad money, M3 (the sum of all private sector deposits and currency in circulation) increased by Shs. 523.5 billion or 7.8 percent in the quarter ended March 2010, compared to an increase of Shs. 444.5 billion or 7.9 percent registered in the previous quarter. On an annual basis, M3 grew by 21.5 percent in March 2010, compared to a growth of 16.6 percent registered in December 2009. This increase in M3 was however lower than the growth of 24.9 percent observed in March 2009.

Broad money M2, which comprises currency in circulation and shilling denominated private sector deposits grew by 8.3 percent to Shs. 5,773.2 billion during the quarter under review, compared to increases of 7.9 percent and 2.0 percent in the quarters ended December 2009 and March 2009, respectively.

The rise in money supply was mainly attributed to improvements in the net foreign assets (NFA) of both the BOU and commercial banks. The net foreign assets (NFA) of the banking system increased by Shs. 433.8 billion to Shs. 6,139.1 billion in March 2010, in contrast to a decrease of Shs. 253.3 billion recorded in the preceding quarter. The NFA of commercial banks grew by Shs. 115.8 billion to Shs. 495.7 billion, on account of an increase in external assets amounting to Shs. 276.8 billion. Likewise, the NFA of Bank of Uganda grew by Shs. 318.0 billion to Shs. 5,643.4 billion, largely reflecting an increase in foreign reserves equivalent to Shs. 310.7 billion.

The net domestic assets (NDA) of the banking system expanded at a slower pace than in the previous quarter, growing by only Shs. 89.8 billion compared to an increase of Shs. 750.4 billion recorded in the previous quarter. This increase in NDA was due to the deterioration of the government's net position with the banking system and the expansion in private sector credit. In particular, the government's savings with the banking system declined by Shs. 143.7 billion to a savings position of Shs. 562.2 billion at end March 2010, down from a saving of Shs. 652.8 billion at end December 2009. Government's net position with the BOU improved by Shs. 71.1 billion as at end March 2010. However, this was off set by an increase in commercial banks' net credit to government amounting to Shs. 161.7 billion due to a rise in commercial banks' investments in Government securities.

Credit to the private sector (PSC) by the banking system rose by only 6.4 percent to Shs. 4,247.5 billion, of which Shs. 4,214.7 billion was on account of credit advanced to the private sector by commercial banks. Growth in private sector credit in the quarter under review was slightly higher than the growth of 4.3 percent observed in the quarter ended March 2009. Developments in the above aggregates are shown in Tables 1, 2 and 3 below.

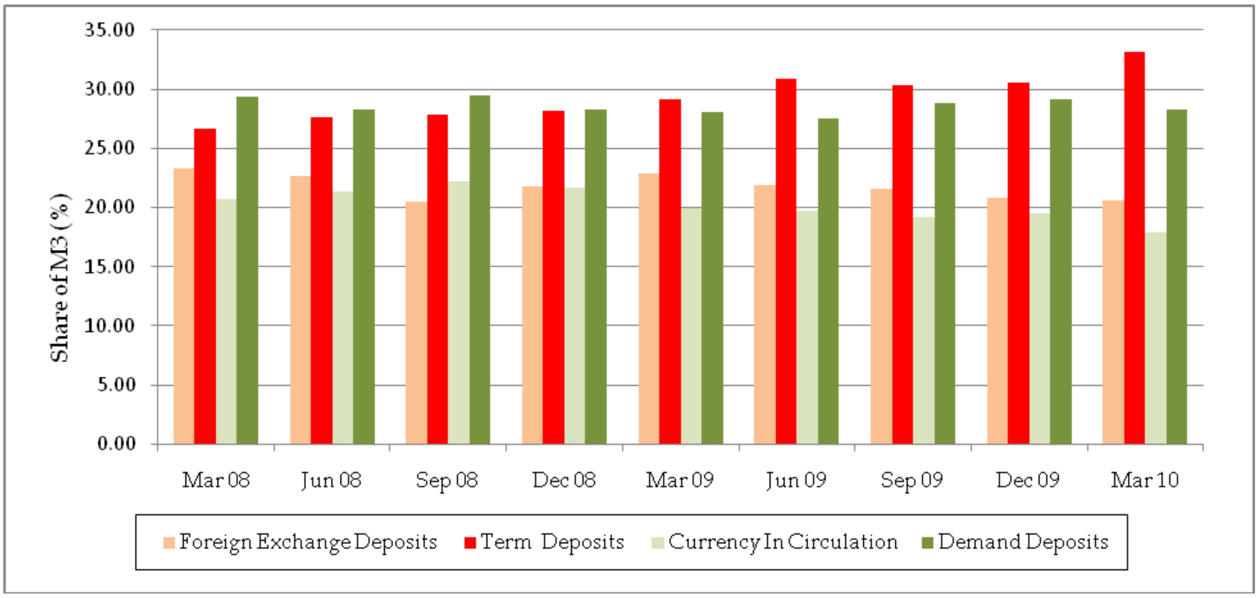
Table 1: Monetary survey, (in Shs. billion, at the end of period)

Aggregate	Dec. 08	Mar. 09	Jun.09	Sept. 09	Dec. 09	Mar. 10	Change Dec. 09 - Mar.10	
							Absolute	Percent
Net Foreign Assets (NFA)	**5,023.5**	**5,691.8**	**5,711.5**	**5,958.6**	**5,705.3**	**6,139.1**	**433.8**	**7.6**
o/w Bank of Uganda	4,519.9	5,129.0	5,119.5	5,421.5	5,325.4	5,643.4	318.0	6.0
o/w Commercial Banks	503.5	562.9	592.0	537.0	379.9	495.7	115.8	30.5
Net Domestic Assets (NDA)	**762.3**	**289.5**	**586.1**	**341.9**	**1,039.8**	**1,129.5**	**89.8**	**8.6**
Net Claims on Government (NCG)	-665.2	-932.4	-644.4	-833.4	-705.9	-562.2	143.7	-20.4
Claims on Public Entities	23.8	58.4	35.4	57.7	53.3	29.3	-23.9	-44.9
Claims on the Private Sector	3,397.2	3,544.3	3,599.5	3,691.6	3,994.0	4,247.5	253.6	6.4
Other Items (net)	-1,993.9	-2,381.1	-2,404.4	-2,574.2	-2,302.1	-2,585.3	-283.2	12.3
Money Supply (M3)	**5,785.7**	**5,981.3**	**6,297.6**	**6,300.5**	**6,745.1**	**7,268.6**	**523.5**	**7.8**
Foreign Currency Deposits	1,263.6	1,366.2	1,376.9	1,360.2	1,412.6	1,495.4	82.8	7.8
Money Supply (M2A)	4,522.5	4,615.1	4,920.7	4,940.3	5,332.4	5,773.2	440.8	8.3
Money Supply (M2)	4,522.5	4,615.1	4,920.7	4,940.3	5,332.4	5,773.2	440.8	8.3
Term Deposits	1,631.0	1,745.3	1,942.5	1,915.0	2,077.1	2,412.1	335.0	16.1
Demand Deposits	1,637.0	1,677.2	1,732.7	1,816.9	1,925.6	2,057.1	131.5	6.8
Currency in Circulation	1,254.5	1,192.7	1,245.4	1,208.3	1,329.8	1,304.1	-25.7	-1.9

Source: Bank of Uganda

The share of foreign currency deposits in M3 fell slightly to 20.6 percent as at end March 2010, from 20.8 percent at end-December 2009. The ratio of private demand deposits to M3 decreased to 28.3 percent from 29.1 percent while currency in circulation was 17.9 percent of M3 as at end March 2010, down from 19.6 percent at end-December 2009. The share of term deposits in M3 increased to 33.2 percent as at end March 2010 from 30.6 percent as at end December 2009.

Figure 1: Components of broad money supply M3 (in percent of M3)



Source: Bank of Uganda

3.2 Base Money

Base money (currency outside BOU and commercial bank reserves at BOU) declined by 2.1 percent in the quarter ended March 2010, in contrast to a growth of 12.6 percent in the previous quarter. Both currency and commercial bank reserves held at the BOU decreased by 2.6 percent and 0.9 percent, respectively.

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

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10	Change Dec.09 to Mar. 09	
						Absolute	Percent
Net Foreign Assets	**5,129.0**	**5,119.5**	**5,421.5**	**5,325.4**	**5,643.4**	**318.0**	**6.0**
External Assets	5,150.3	5,142.1	5,442.2	5,346.4	5,664.0	317.6	5.9
o/w Foreign Reserves	5,130.4	5,040.5	5,356.2	5,260.8	5,571.5	310.7	5.9
Foreign Liabilities	21.4	22.6	20.6	20.9	20.6	-0.3	-1.6
Net Domestic Assets	**-3,027.2**	**-3,169.1**	**-3,467.7**	**-3,125.9**	**-3470.3**	**-344.4**	**11.0**
Claims on Government (net)	-2,206.0	-2,209.5	-2,484.8	-2,331.3	2,402.0	71.1	3.1
Claims on Private Sector	15.5	11.8	14.9	16.1	16.9	0.8	4.7
Claims on Parastatals	2.2	0.4	0.4	0.4	0.4	0.0	0.0
Claims on Commercial Banks	69.7	87.0	76.0	33.6	35.4	1.7	5.2
Other Items, Net	-908.5	-1,058.8	-1,074.2	-845.2	-1,120.9	275.7	32.6
Base Money + Investments in BOU Instruments	**2,101.8**	**1,950.4**	**1,953.8**	**2,199.5**	**2,173.1**	**-26.4**	**-1.2**
Base Money	1,933.3	1,950.4	1,953.8	2,179.5	2,133.1	-46.4	-2.1
Currency Outside BoU	1,412.3	1,468.7	1,442.2	1,595.3	1,553.8	-41.4	-2.6
Commercial Bank's Operational reserves	521.0	481.6	511.6	584.3	579.3	-5.0	-0.9
Commercial Banks Investment in BoU Instruments	168.5	0.0	0.0	20.0	40.0	20.0	100

Source: Bank of Uganda

3.3 Activities of Commercial Banks

3.3.1 Overview

The net foreign assets (NFA) of commercial banks grew by 30.5 percent to Shs. 495.7 billion on account of an increase in external assets. The external assets of commercial banks increased by Shs. 276.8 billion percent in the period under review to Shs. 1,221.0 billion however, this increase was partly offset by an increase in foreign liabilities totalling Shs. 161.0 billion. Similarly, commercial banks' net domestic assets (NDA) rose by 8.6 percent to Shs. 5468.9 billion in March 2010 as a result of increases in both claims on private sector and net claims on government. Details of the key items of the balance sheet of commercial banks are shown in Table 3 below.

Table 3: Key balance sheet items of commercial banks (in Shs. billion at end of period)

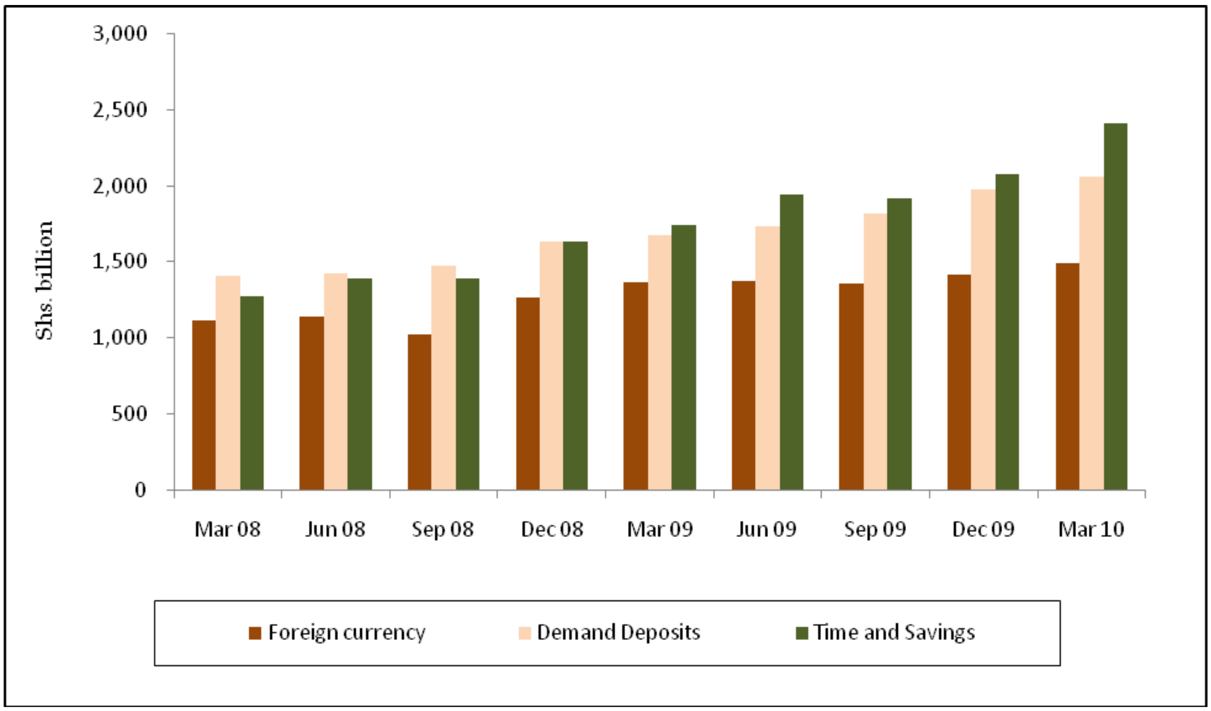
	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Mar. 10	Change Dec. 09 to Mar. 09	
						Absolute	Percent
Net Foreign Assets	**562.9**	**592.0**	**537.0**	**379.9**	**495.7**	**115.8**	**30.5**
External Assets	1,038.1	1,141.6	1,064.2	944.2	1,221.0	276.8	29.3
Foreign Liabilities	475.2	549.7	527.1	564.4	725.3	161.0	28.5
Net Domestic Assets	**4,225.8**	**4,460.2**	**4,555.2**	**5,035.4**	**5468.9**	**433.5**	**8.6**
Claims on Central Government (net)	1,273.7	1,565.1	1,651.4	1,625.5	1,839.8	214.3	13.2
Claims on Private Sector	3,528.8	3,587.7	3,676.7	3,977.8	4,230.7	252.8	6.4
Cash in Vaults	219.7	223.3	233.8	265.5	249.7	-15.8	-5.9
Net Claims on Bank of Uganda	549.9	450.6	473.0	600.70	539.1	-61.6	-10.3
Other Items, Net	-1,402.7	-1,401.6	-1,537.4	-1,487.0	-1,419.6	67.4	4.5
Total Deposits	**4,788.7**	**5,052.2**	**5,092.2**	**5,415.3**	**5,964.6**	**549.2**	**10.1**
Demand Deposits	1,677.2	1,732.7	1,816.9	1,925.6	2,057.1	131.5	6.8
Time and Savings Deposits	1,745.3	1,942.5	1,915.0	2,077.1	2,412.1	335.0	16.1
Foreign Exchange Accounts	1,366.2	1,376.9	1,360.2	1,412.6	1,495.4	82.8	5.9
Certificates of Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Uganda

3.3.2 Deposits

Total deposits of the private sector held at commercial banks increased by 10.1 percent to Shs. 5,964.6 billion in the quarter ended March 2010, compared to growths of 6.3 percent and 5.7 percent recorded in the quarters ended December 2009 and March 2009, respectively. In particular, foreign currency deposits increased by 5.9 percent to Shs. 1,495.4 billion during the quarter under review. Term and demand deposits also followed the same trend, growing by 16.1 percent and 6.8 percent to Shs. 2,412.1 billion and Shs. 2,057.1 billion, respectively. Figure 2 below provides the details of the evolution of private sector deposits.

Figure 2: Evolution of the stock of private sector deposits (Shs. billion, at end of period)



Source: Bank of Uganda

3.3.3 Credit to the Private Sector by Commercial Banks

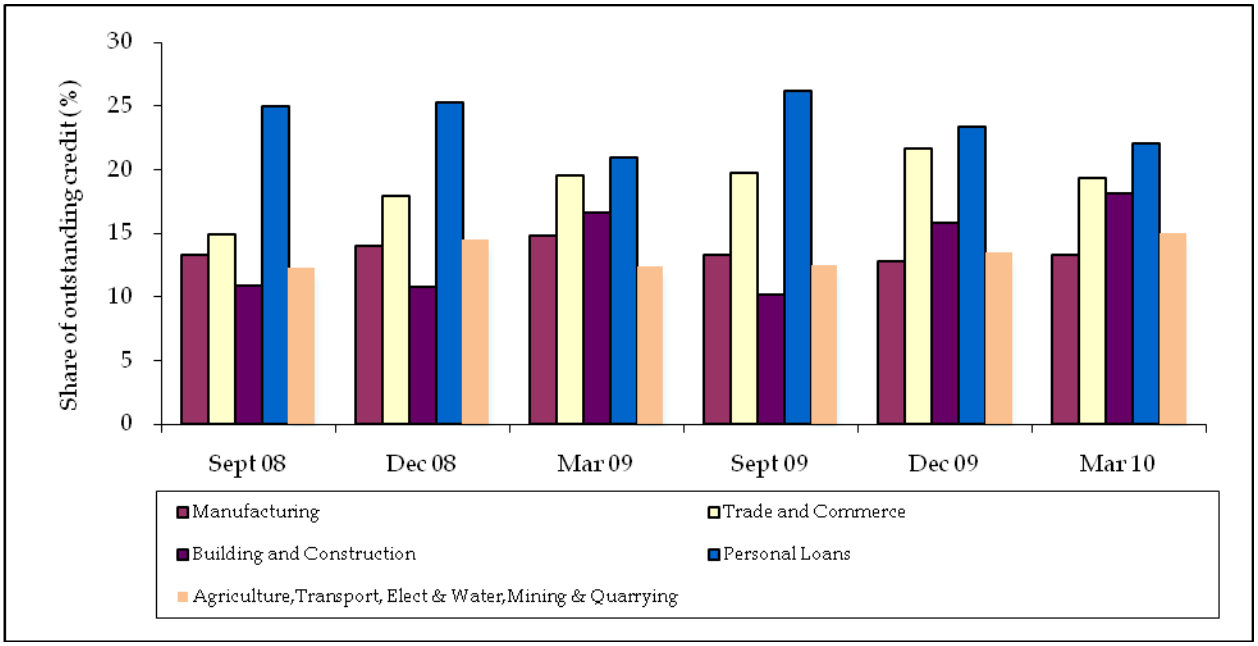
The stock of outstanding credit owed by the private sector to commercial banks grew by 6.4 percent to Shs. 4,230.7 billion. This growth was mainly attributed to increased activity in the agriculture, building and construction, manufacturing, and transport sectors. The growth in private sector credit during this quarter was slightly higher than the 5.4 percent increase recorded in the corresponding quarter of 2009.

The shilling denominated loans to the private sector grew by 3.5 percent to Shs. 3,282.8 billion, while the foreign currency denominated loans increased by 15.2 percent to Shs. 978.1 billion during the quarter ended March 2010

Personal loans continued to account for the bulk of credit extended to the private sector, accounting for 22.0 percent of total outstanding credit as at end-March 2010. The stock of outstanding credit to this sector, however, declined by 0.7 percent to Shs. 938.3 billion during the review period. Credit to the trade and commerce sector decreased by 5.6 percent to Shs. 825.3 billion thus accounting for 19.4 percent of total credit. Total loans to the agricultural sector increased by 23.8 percent to Shs. 258.1 billion, accounting for 6.1 percent of total credit while amount due from the manufacturing sector grew by 9.2 percent to Shs. 564.8 billion, representing 13.3 percent of total credit.

The stock of credit to the building and construction sector increased by 20.6 percent to Shs. 771.0 billion accounting for 18.1 percent of total credit while the stock of credit to the transport and electricity and water sectors increased by 15.8 percent and 11.6 percent to Shs. 346.8 billion and Shs. 29.1 billion, representing 8.1 percent and 0.7 percent of total credit, respectively. The mining and quarrying sector had the least share of outstanding credit amounting to 0.2 percent of the total outstanding loan amount. Figure 3 below shows the sectoral distribution of commercial bank credit to the private sector for the period September 2008 to March 2010.

Figure 3: Sectoral shares of commercial banks' credit to the private sector



Source: Bank of Uganda

4 DEVELOPMENTS IN THE NON-BANK FINANCIAL INSTITUTIONS

4.1 Credit Institutions (CIs)

4.1.1 Overview

In the quarter to March 2010, one of the credit institutions, Capital Finance Corporation, started operating as a commercial bank. However, despite this shift, total assets of credit institutions remained stable at Shs. 123.8 billion at end March 2010 compared to Shs. 123.9 billion at end December 2009.

CIs investments in government securities decreased by 27.4 percent to Shs. 7.7 billion at end-March 2010 in contrast to increases of 10.6 percent and 14.8 percent observed in the quarters ended December 2009 and March 2009, respectively. Table 4 below shows the quarterly evolution of the assets of credit institutions.

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

	Mar-09	Jun 09	Sep 09	Dec 09	Mar 10	Change Dec 09 to Mar 10	
						Absolute	Percent
Cash in vaults	4.3	4.1	4.8	5.4	4.4	-1.0	-18.5
Balances with Commercial Banks & associated companies	20.9	27.6	26.6	23.1	25.5	2.4	10.4
Investments	14.7	8.6	7.4	10.6	7.7	-2.9	-27.4
Total Advances [1]	57.0	52.6	58.2	63.5	63.4	-0.1	-0.2
Premises and other fixed assets	12.3	13.4	14.5	15.3	14.8	-0.5	-3.3
Other Assets [2]	4.7	4.5	5.8	6.0	8.0	2.0	33.3
Total	**114.0**	**110.7**	**117.3**	**123.9**	**123.8**	-0.1	-0.1

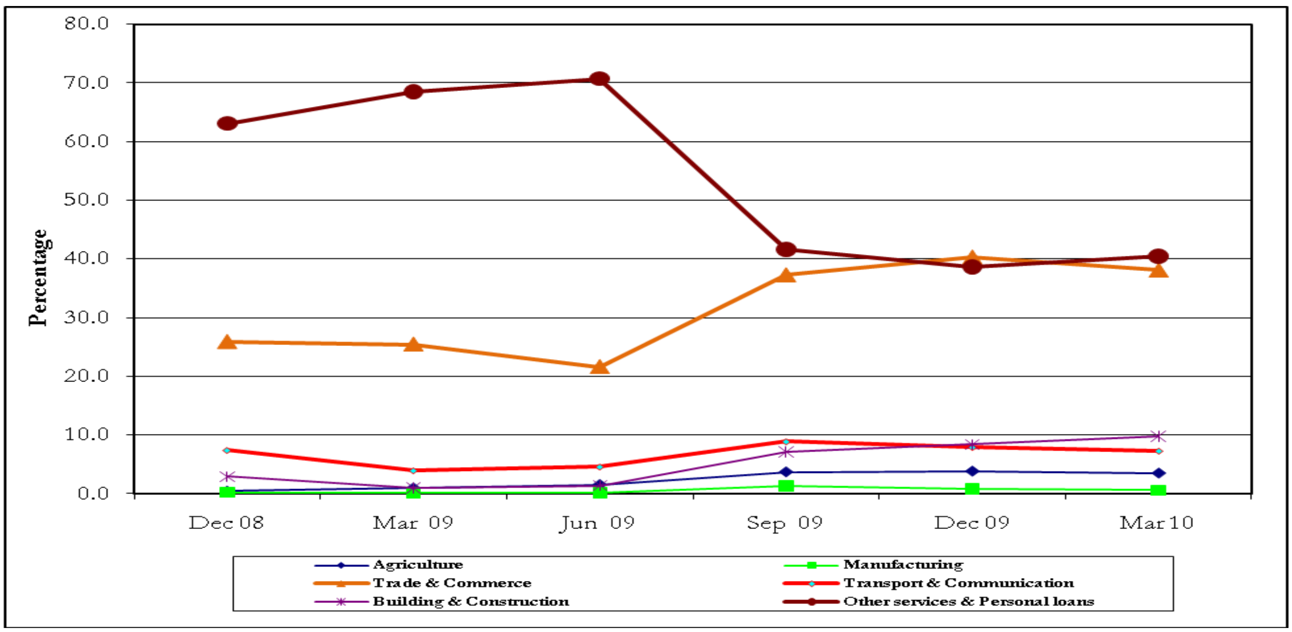
[1]Includes secured and unsecured loans
[2]Includes net due from own offices in Uganda for items in transit.
Source: Bank of Uganda

Note: Data for the month of March 2010 excludes Capital Finance Corporation which begun operating as a commercial bank (ABC Capital) in March 2010. At the end of the previous quarter, it accounted for 8.3percent of the industry's total assets.

4.1.2 Credit to the private sector

Total loans advanced by credit institutions to the private sector declined marginally by 0.1 percent from Shs. 63.5 billion at end December 2009 to Shs. 63.4 billion at end March 2010. The share of credit to the trade and commerce sector decreased to 38.1 percent during the quarter under review from a share of 40.3 percent recorded in the quarter ended December 2009. On the other hand, shares of credit to other services and personal loans, and building and construction sectors increased to 40.5 percent and 9.8 percent from 38.6 percent and 8.4 percent, respectively. The ratio of non-performing advances to total outstanding advances declined from 3.3 percent to 3.0 percent as at end March 2010. Figure 4 shows the sectoral distribution of loans extended by credit institutions.

Figure 4: Sectoral distribution of loans extended by CI's (percent of total, at end period)



Source: Bank of Uganda

4.1.3 Deposits

Total deposit liabilities of credit institutions grew from Shs. 78.4 billion to Shs. 83.8 billion reflecting a 6.9 percent increase at end-March 2010, compared to an increase of 4.4 percent in the quarter to December and in contrast to a decline of 13.1 percent in the quarter ended March 2009. Total private sector deposits increased by 7.7 percent to Shs. 80.0 billion compared to an increase of 5.5 percent and a decline of 18.4 percent observed in the previous quarter and in the corresponding quarter of 2009, respectively. In particular, savings deposits increased by 10.1 percent while time deposits declined by 15.5 percent during the period under review. Table 5 and Figure 5 illustrate the evolution of the deposits between March 2009 and March 2010.

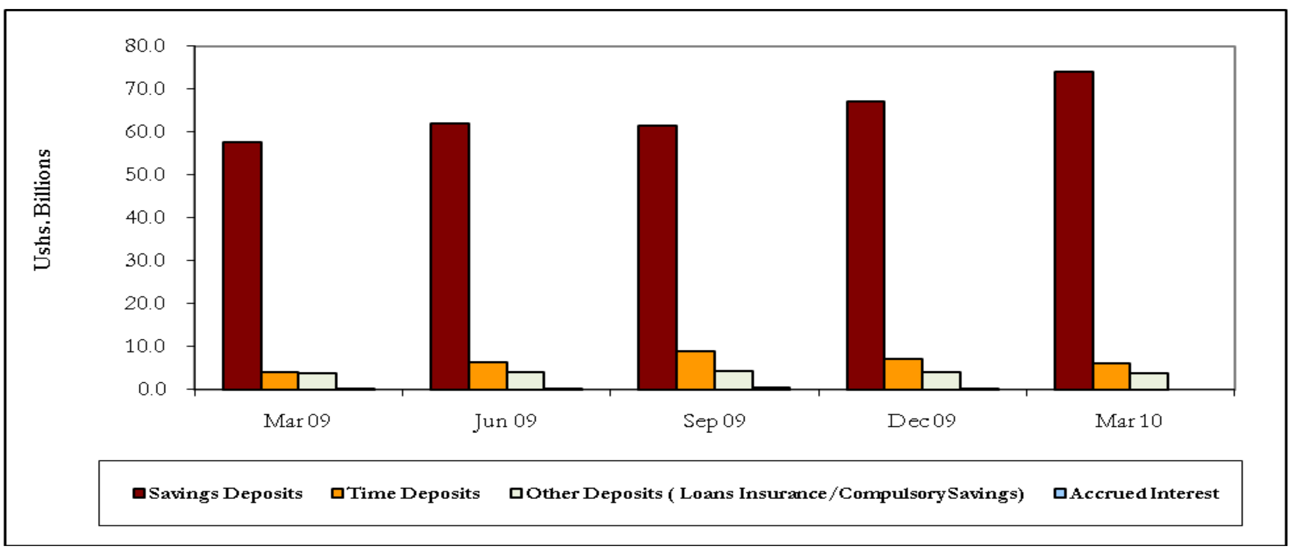
Table 5: Composition of the total liabilities of the CIs (Shs. billion, at end period)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Change Dec 09 to Mar 10 Absolute	Percent
Savings deposits	57.5	62.0	61.4	67.2	74.0	6.8	10.1
Time Deposits	4.1	6.4	9.0	7.1	6.0	-1.1	-15.5
Total private sector deposits	**61.6**	**68.4**	**70.4**	**74.3**	**80.0**	5.7	7.7
Loan Insurance/Compulsory Savings	3.8	3.5	4.3	4.0	3.8	-0.2	-5.0
Accrued interests	0.2	0.2	0.4	0.1	0.0	0.0	0.0
Total deposits	**65.7**	**72.1**	**75.1**	**78.4**	**83.8**	5.4	6.9
Administered funds	9.4	0.0	0.0	0.0	0.0	0.0	0.0
Capital and profit/loss	23.4	23.1	23.4	28.2	22.8	5.4	19.1
Others [1]	14.6	15.2	17.4	16.5	17.2	0.7	4.2
Total Liabilities	**114.0**	**110.7**	**117.3**	**123.9**	**123.8**	-0.1	-0.1

[1] Includes provisions, other liabilities and balance due to commercial banks.

Source: Bank of Uganda

Figure 5: Evolution of the total deposits in the credit institutions (Shs. billion, at end period)

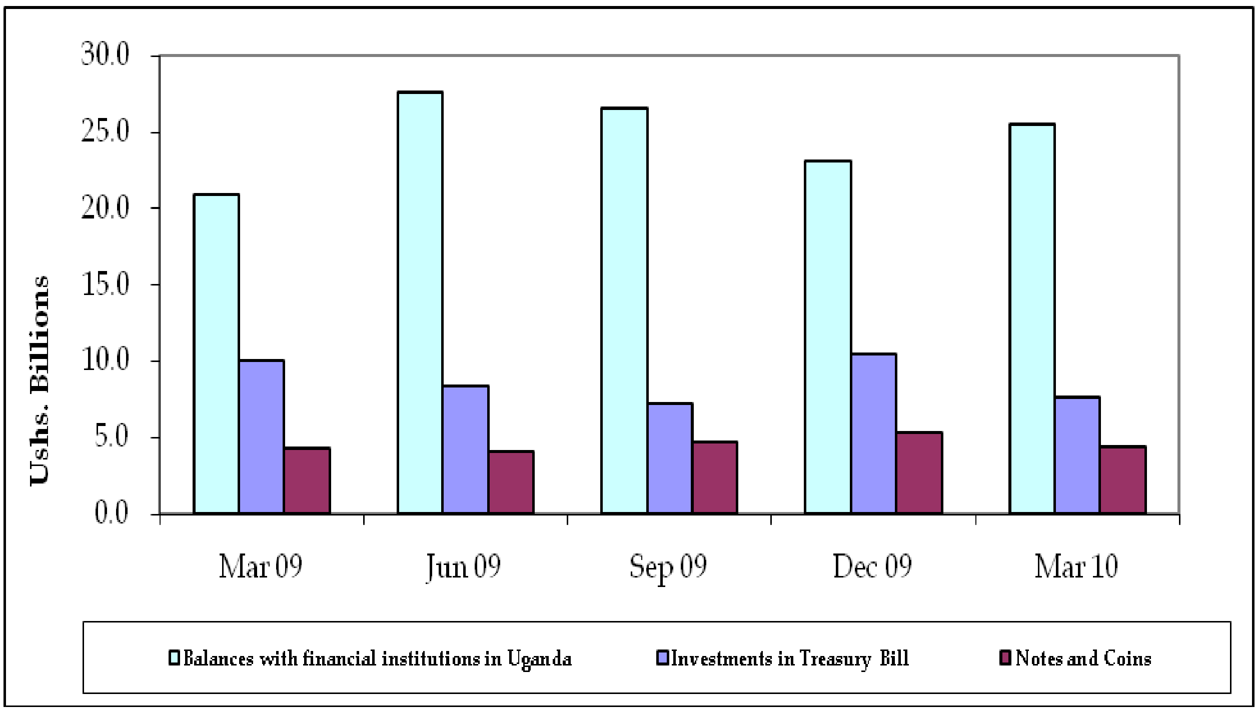


Source: Bank of Uganda

4.1.4 Liquidity

The level of liquid assets held by credit institutions decreased by 3.8 percent to Shs. 37.6 billion at end-March 2010, compared to an increase of 0.8 percent and a decline of 6.8 percent registered at the end of December 2009 and end of March 2009, respectively. The decline in liquid assets was mainly on account of a reduction in investments in Treasury securities. Balances of these institutions with commercial banks grew by Shs. 2.2 billion from Shs. 23.1 billion at end December 2009 to Shs. 25.5 billion at end March 2010. The developments in the liquidity indicators of credit institutions are summarized in Figure 6 below.

Figure 6: Liquidity indicators of CI's (Shs. billion, at end period)



Source: Bank of Uganda

4.2 Microfinance Deposit Taking Institutions (MDIs)

4.2.1 Overview

Total assets of MDIs increased by 3.2 percent from Shs. 135.8 billion to Shs. 140.1 billion in the quarter ended March 2010 largely driven by increased investments in Treasury bills. Investment in these securities increased from Shs. 4.5 billion to Shs. 11.1

billion. This growth in total assets was slightly lower than a rise of 3.4 percent recorded in the previous quarter but higher than the growth rate of 1.6 percent reported in the corresponding quarter of 2009. Table 6 highlights the developments in the assets of the MDIs.

Table 6: Total assets of MDIs (Shs. billion, at end period)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Change Dec 09 to Mar 10	
						Absolute	Percent
Notes and Coins	3.5	3.6	3.9	4.0	4.1	0.1	2.5
Balances with financial institutions in Uganda	11.4	9.1	7.7	11.0	13.7	2.7	24.5
Investments in Treasury bills	13.9	12.3	6.9	4.5	11.1	6.7	146.7
Net loans outstanding	79.4	82.7	88.8	94.8	91.1	-3.7	-3.9
Inter branch/Due from own offices	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Fixed Assets	8.4	8.8	9.5	9.9	9.7	-0.2	-2.0
Long Term Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	8.9	9.4	10.4	8.2	10.3	2.2	25.6
Total Assets	**125.6**	**125.9**	**131.3**	**135.8**	**140.1**	4.2	3.2
NPA %	**2.9**	**2.9**	**2.5**	**2.4**	**3.0**		

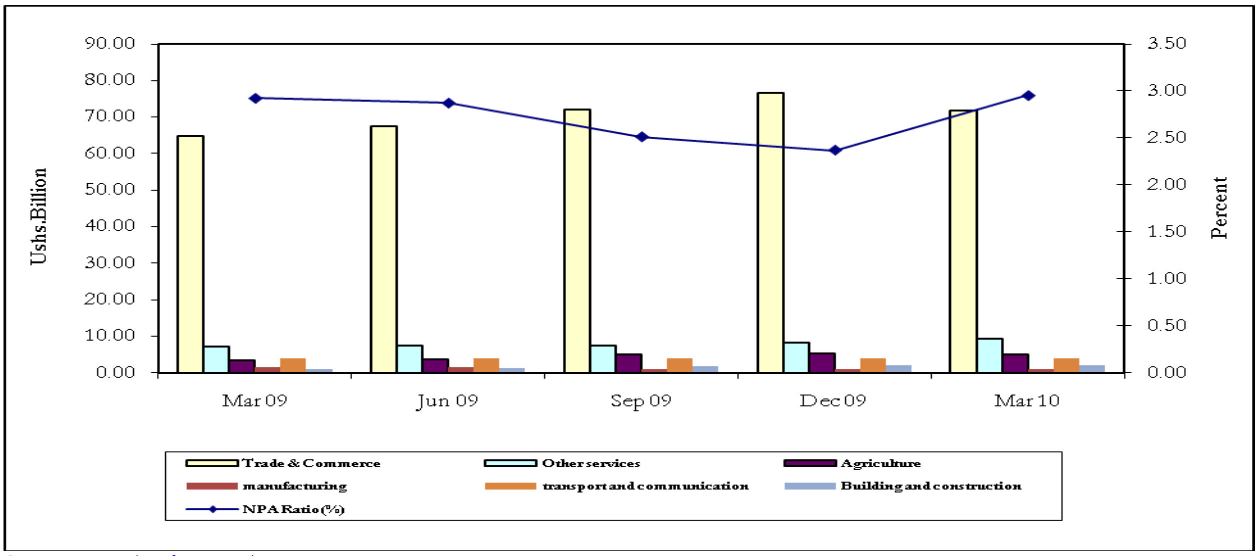
Source: Bank of Uganda

4.2.2 Credit to the Private Sector

Net outstanding loans to the private sector declined by 4.0 percent from Shs. 94.8 billion to Shs. 91.1 billion during the quarter ended March 2010 in contrast to an increase of 6.8 percent observed in the previous quarter and compared to a fall of 2.2 percent in the same period in 2009.

The trade and commerce sector continued to absorb the largest share of credit extended by MDIs, accounting for 77.2 percent of the total stock of outstanding loans as at end March 2010. Figure 7 shows the distribution of outstanding loans and advances among the various setors.

Figure 7: Outstanding Loans and Advances of MDIs (Shs. billion, at end of period)

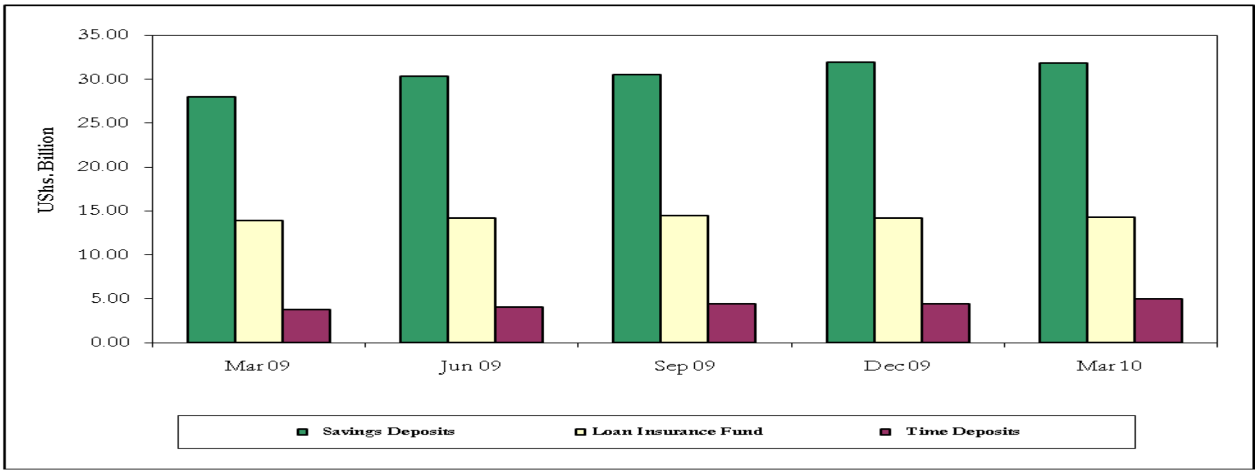


Source: Bank of Uganda

4.2.3 Deposits

Private sector deposits in the MDIs grew by 1.1 percent to Shs. 36.8 billion, compared to growth rates of 4.1 percent and 1.6 percent observed in the previous quarter and in the quarter ended March 2009. Savings deposits declined by 0.6 percent to Shs. 31.8 billion while time deposits grew by 19.0 percent to Shs 5.0 billion. MDIs total borrowing, decreased by 5.8 percent from Shs. 29.2 billion to Shs. 27.5 billion. 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 MDIs (Shs. billion, at end of period)



Source: Bank of Uganda

Table 7: The Composition of the total liabilities held by the MDIs

	Mar-09	Jun-09	Sep-09	Dec-09	Mar 09	Change Dec 09 to Mar 10	
						Absolute	Percent
Deposit Liabilities	**32.0**	**34.5**	**35.2**	**36.6**	**36.8**	0.2	0.5
Savings deposits	28.0	30.3	30.5	32.0	31.8	-0.2	-0.6
Time deposits	3.8	4.1	4.4	4.2	5.0	0.8	19.0
Total Private Sector Deposits	**31.9**	**34.4**	**35.0**	**36.4**	**36.8**	0.4	1.1
Accrued interest	0.2	0.1	0.2	0.2	0.0	0.2	-100.0
Loan insurance fund	13.9	14.2	14.5	14.2	14.3	0.1	0.7
Total Borrowing	**26.4**	**24.9**	**27.0**	**29.2**	**27.5**	-1.7	-5.8
Other liabilities	10.6	9.8	12.4	10.9	12.4	1.5	13.8
Total liabilities	**83.0**	**83.4**	**89.0**	**90.9**	**90.9**	0.0	0.0
Total equity	26.1	26.0	25.8	28.4	30.9	2.5	8.8
Subordinated debt	16.5	16.5	16.5	16.5	18.2	1.7	10.3
Preference shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**125.6**	**125.9**	**131.3**	**135.8**	**140.1**	4.3	3.2

[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

Bank of Uganda continued with the issuance of Government Treasury bonds to manage structural liquidity. Three new Treasury bonds were issued and an earlier issued bond re-opened to absorb liquidity for a longer period. Oversubscriptions were registered at each of these bond auctions and the yields-to-maturity for the different tenors declined when compared to the rates from previous issues.

5.1.1 Primary Market of Treasury bonds

Three Treasury Bonds with tenors of 3-years, 5-years and 10-years were issued with respective face values of Shs. 60.0 billion, Shs. 50.0 billion and Shs. 50.0 billion. The new issues registered over-subscriptions of Shs. 192.0 billion, Shs. 82.4 billion and Shs. 164.5 billion, respectively. In addition, a 10-year bond worth Shs. 50.0 billion was reopened towards the close of the quarter and this bond auction was oversubscribed by Shs. 81.8 billion.

Total bids for each auction translated into cover ratios of 4.2, 2.6, 4.3 and 2.6; Weighted Average Prices (WAP) per Shs. 100 of Shs. 96.7, Shs. 91.9, Shs. 107.7 and Shs. 97.4; and yields-to-maturity of 11.6, 12.4, 8.8, and 11.7 percent, respectively. These auctions, together with the 3-year bond maturities totalling Shs. 59.8 billion, resulted in a total outstanding Treasury bond stock of Shs. 1,506.6 billion by the close of the quarter. All bonds were listed on the Uganda Securities Exchange. Table 8 shows the developments in the primary market of Treasury bonds.

[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

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Stock of Treasury bonds (Shs. billion)	1,231.23	1,361.59	1,406.59	1,406.56	1,506.59
Change in stock (absolute)	-134.01	130.36	45.00	0.00	100.00
Price and interest rates (percent)					
2-year average price (Shs. /100)	86.23	0.00	92.71	96.10	0.00
3-year average price (Shs. /100)	0.00	91.35	91.12	0.00	96.72
5-year average price (Shs. /100)	0.00	0.00	88.16	95.73	107.75
10-year average price (Shs. /100)	0.00	0.00	0.00	80.92	94.66
2-year yield-to-maturity rate	18.55	0.00	14.31	12.26	0.00
3-year yield-to-maturity rate	0.00	13.98	13.98	0.00	11.58
5-year yield-to-maturity rate	0.00	0.00	14.13	12.67	8.80
10-year yield-to-maturity rate	0.00	0.00	0.00	14.70	12.09
Issues at face value (Shs. billion)					
2-year	35.86	0.00	50.00	60.00	0.00
3-year	0.00	178.68	50.00	0.00	60.00
5-year	0.00	0.00	50.00	40.00	50.00
10-year	0.00	0.00	0.00	60.00	100.00
Total issues at face value	35.86	178.68	150.00	160.00	210.00
Total maturities	170.00	48.32	105.00	160.00	59.77
Total net issues at face value	-134.42	130.36	45.00	0.00	150.23
Issues at cost value (Shs. billion)					
2-year	30.92	0.00	46.36	57.66	0.00
3-year	0.00	163.86	45.56	0.00	58.03
5-year	0.00	0.00	44.08	38.29	53.85
10-year	0.00	0.00	0.00	48.55	47.33
Total issues at cost value	30.92	163.86	136.00	144.505	206.54

Source: Bank of Uganda

5.1.2 Secondary Market of Treasury bonds

As shown in Table 9, the average indicative bid/offer yields-to-maturity in the secondary market were 9.3/9.2, 10.0/9.8, 11.1/11.0, and 13.6/13.4 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively. Corresponding average rates for the quarter-ended December 2009 were 11.9/11.7, 12.3/12.1, 13.0/12.8, and 13.6/13.4 percent and 15.2/15.0, 15.3/15.1, 14.8/14.5, and 14.0/13.8 percent for the quarter ended March 2009. In the quarter under review, 2-year, 3-year, 5-year and 10-year bonds worth Shs. 115.7 billion, were traded in the secondary market. The total value of trades was lower than the value of Shs. 186.9 billion recorded in the quarter to December 2009.

Table 9: Summary indicators from the secondary market for Treasury bonds

	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	7.20	6.95	8.20	7.95	9.60	9.45	12.85	12.60
Max	11.50	11.25	11.75	11.50	12.60	12.45	14.55	14.35
Average	9.32	9.16	9.96	9.79	11.14	10.98	13.63	13.40

Source: Bank of Uganda

5.2 Treasury bill market

5.2.1 Primary Market of Treasury bills

The Treasury bill instrument was actively used during the quarter under review. Securities worth Shs. 316.1 billion at face value were issued against maturities of Shs. 300.8 billion resulting into a net issuance of Shs. 15.3 billion compared to net redemptions of Shs. 74.1 billion and Shs. 219.0 billion, for the quarters ended December 2009 and March 2009, respectively.

During the quarter to March 2010, almost all primary auctions for Treasury bills registered over subscriptions, with issues largely concentrated at the longer end of the market. This bias was reflected in the respective shares of the Treasury bill issues at face value during the quarter, which on average stood at 19.0, 31.7, and 49.3 percent for the 91-days, 182-days, and 364-days securities, respectively.

Further more, on February 01, 2010, Treasury bills worth Shs 19.1 billion to be used as failure-to-settle collateral were bought by the commercial banks at the then most recent 91-day weighted average discount rate of 4.6 percent. Table 10 summarizes these developments.

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

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10
Stock of Treasury bills (Shs. billion)	1,157.42	1,444.44	1,469.24	1,386.00	1,397.96
Change in stock (absolute)	-210.53	287.02	24.80	-83.24	11.96
Price and interest rates (percent)					
91-day Average price (Shs. /100)	97.93	98.51	98.29	98.50	98.94
Annualized 91-day discount rate	8.32	5.98	6.85	6.03	4.25
Annual 91-day discount yield	8.78	6.21	7.16	6.26	4.37
Reference rate/[1]	8.31	6.19	7.92	5.65	4.17
Rediscount rate	11.71	9.59	10.92	8.65	7.17
Issues at face value (Shs. Billion)					
91 days	37.00	49.15	36.75	86.15	86.10
182 days	45.00	137.13	112.10	109.00	88.00
364 days	126.00	385.90	216.00	161.00	142.00
Total issues at face value	208.00[2]	572.18[2/4]	364.84[2]	356.15[2]	316.10[2]
Total maturities	426.95[3]	353.67[3]	340.00[3]	430.22[3]	300.77[3]
Total net issues at face value	-218.95	218.51	24.84	-74.07	15.33[5]
Issues at cost value (Shs. Billion)					
91days	36.11	48.41	36.12	84.86	85.19
182 days	42.37	130.72	106.23	104.28	85.83
364 days	111.20	345.61	190.81	146.37	133.40
Total issues at cost value	189.68	524.74	333.16	335.51	304.42

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 maturities of previously issued failure-to-settle collateral.
[4]Includes maturities of special issues made to Bank of Baroda, DFCU, Diamond Trust, Orient, Stanbic, Bank of Africa, Barclays and United Bank of Africa.
[5]Numbers subject to change with the upgrade of the Central Depository System (CDS)

Source: Bank of Uganda

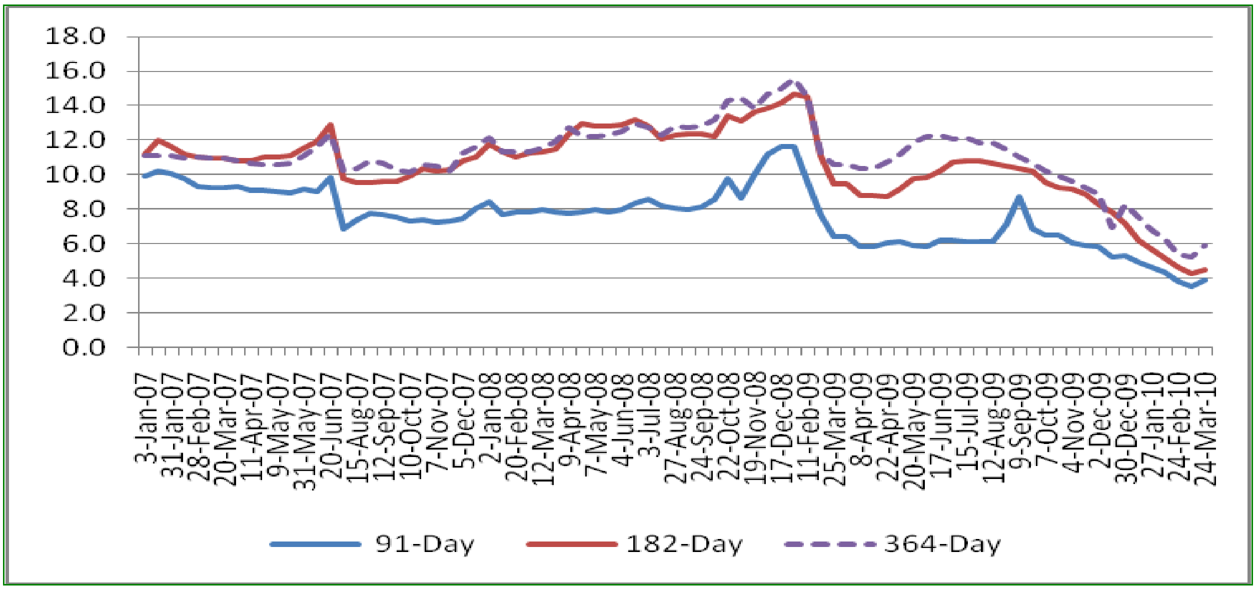
The weighted average discount rates on Treasury bills for the quarter under review were recorded at 4.2, 5.1 and 6.2 percent for the 91-day, 182-day, and 364-day tenors, respectively. These discount rates were lower than the corresponding rates of 6.0, 8.7 and 9.2 percent, recorded in December 2009. Figure 9 illustrates recent developments in these rates.

The average annualized yields for the entire quarter stood at 4.4, 5.3 and 6.7 percent for the 91-day, 182-day, and 364-day bills, respectively. These rates were lower than the respective rates of 6.3, 9.3 and 10.1 percent and 9.4, 12.9, and 13.8 percent recorded in the corresponding quarters to December 2009 and March 2009.

Commercial banks' holdings of Treasury bills continued to increase, amounting to 72.5 percent of the outstanding stock by end March 2010, higher than 71.4 percent and 61.8 percent as at end December 2009 and March 2009, respectively. On the other hand, the proportion of Treasury bills held by Bank of Uganda declined to

16.8 percent in March 2010, from 17.0 percent in the previous quarter and 19.2 percent at end March 2009.

Figure 9: Treasury Bills Discount rates



Source: Bank of Uganda

5.2.2 Secondary Market of Treasury bills

Secondary market trading in Treasury bills was attributed to 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 key areas of primary and secondary market development.

In line with the fall in rates in the primary market, 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 came down. The average bid/offer rates for the quarter ended March 2010 were 4.7/4.5, 6.3/6.1 and 7.1/7.0 percent for the 91-day, 182-day and 364-day securities compared to the average bid/offer rates for the respective papers of 6.5/6.3, 9.5/9.3 and 10.4/10.2 percent in the previous quarter and 9.8/9.5, 13.7/13.4 and 14.7/14.4 percent in the corresponding quarter of 2009. The yield curve derived from average yield-to-maturity quotes in the secondary market was gently upward sloping.

Total trades of Treasury bills in the secondary market over the quarter ended March 2010, amounted to Shs. 241.3 billion. This value of trades was higher than the value of trades worth Shs. 176.2 billion and Shs. 219.8 billion executed in the quarter ended December 2009 and the corresponding quarter in 2009 , respectively. A total of Shs. 47.8 billion in horizontal repo transactions took place during the quarter. The rest of the transactions were outright sales. Table 11 summarizes these developments.

Table 11: Summary of indicators from the secondary market of Treasury bills (October-December 2009)

	91-days		182-days		364-days	
	Yield-to-maturity rates quotation (percent)					
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	3.43	3.33	4.39	3.95	5.00	4.90
Maximum	6.02	5.86	8.74	8.58	9.46	9.34
Average (simple)	4.67	4.52	6.30	6.11	7.14	6.97
Total trading activity			**Shs. 241.31 billion**			
Transactions (Shs billion)	73.204		88.752		79.354	
- Horizontal repos	47.750		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	25.455		88.752		79.354	
Average discount rate	4.72%		5.10%		5.86%	
Average yield-to-maturity	4.79%		5.21%		6.07%	

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 during the quarter for short-term flexible liquidity management. The Bank was on both sides of the market depending on the prevailing liquidity conditions. The liquidity conditions in the money market were tight at the beginning of the quarter necessitating the Bank to issue reverse REPOs, however, liquidity conditions eased considerably towards the end of the quarter. As a result the average interest rate of the most issued 7-day tenor REPO declined throughout the quarter.

Overall, the instrument withdrew Shs. 19.8 billion from the market in the quarter under review compared to net withdrawals of Shs. 76.0 billion and Shs. 138.3 billion in the quarters ended December 2009 and March 2009, respectively. These developments are shown in Table 12.

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

	Mar 09	Jun 09	Sept 09	Dec 09	Mar 10
Issuance of repos/(Reverse Repos)	416.500	368.500	(1,631.000)	757.0/(396.0)	700.000
Maturity of repos/(Reverse Repos)	278.250	507.488	(1,577.578)	737.4/(452.5)	680.214
Outstanding Stock of Repos	138.249	0.000	(53.421)	20.011	40.014

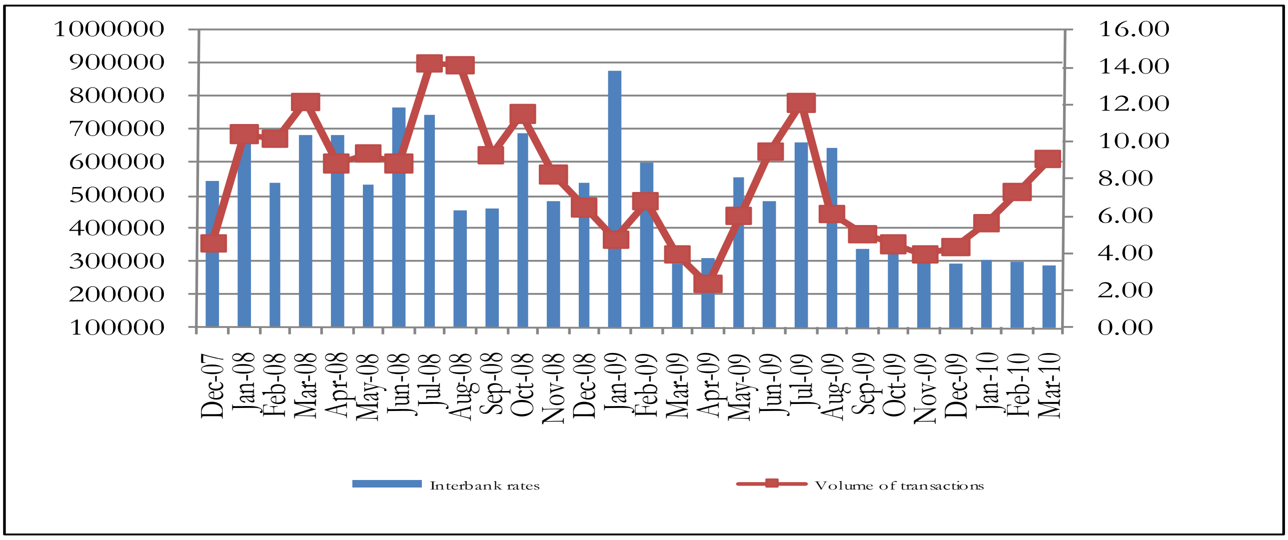
Source: Bank of Uganda

5.4 The Interbank Money Market

Domestic inter-bank money market transactions were of durations of 1 to 30 days. Commercial banks continued to participate in the market in order to stabilize daily liquidity fluctuations, and to cover daily liquidity needs.

The weighted average inter-bank money market rate fell from 3.7 percent in January 2010 to 3.6 percent in February 2010 and further to 3.4 percent in March 2010. These inter-bank rates were much lower than respective rates of 13.8 percent, 8.9 percent and 3.4 percent observed in January, February and March in the corresponding quarter of 2009, reflecting the underlying liquidity conditions in the domestic money markets. Figure 10 shows the respective movements in interest rates and values of transactions in the inter-bank shilling market.

Figure 10: Trends in the inter-bank rates and volume of transactions in millions of shillings



Source: Bank of Uganda

5.4.1 Commercial bank's lending and deposit rates

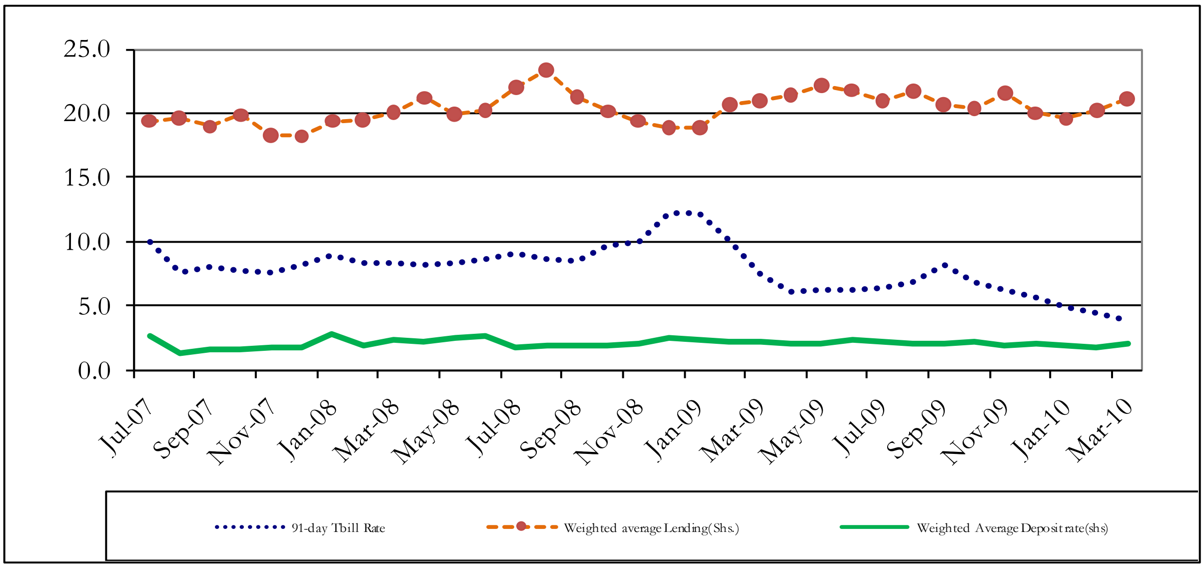
The weighted average lending rate on the shilling denominated loans rose to 21.1 percent in the quarter under review from 20.0 percent in the quarter ended December 2009 but was relatively similar to the 21.0 percent for the corresponding period in 2009. The weighted average demand deposit and savings deposit rates remained stable at 1.3 percent and 2.3 percent, respectively while the weighted average time deposit rate declined to 7.7 percent from respective rates of 9.2 percent and 9.0 percent in December and March 2009.

The weighted average lending rate on foreign currency denominated loans was recorded at 9.9 percent, lower than the rates 10.7 percent and 10.1 percent observed in the quarters to March and December 2009, respectively. The rate on demand deposits remained unchanged at 1.0 percent as recorded in December 2009 but was slightly lower than the rate of 1.1 percent recorded in March 2009. The weighted average savings rate rose to 1.7 percent relative to rates of 1.6 percent and 1.5 percent recorded in March and December 2009, respectively while the time deposit rate was reported at 3.2 percent, lower than the rate of 5.1 percent reported in December 2009 but higher than the rate of 2.1 percent recorded in the corresponding quarter in the previous year. The developments in commercial banks' interest rates are shown in Table 13 and Figures 11 and 12.

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

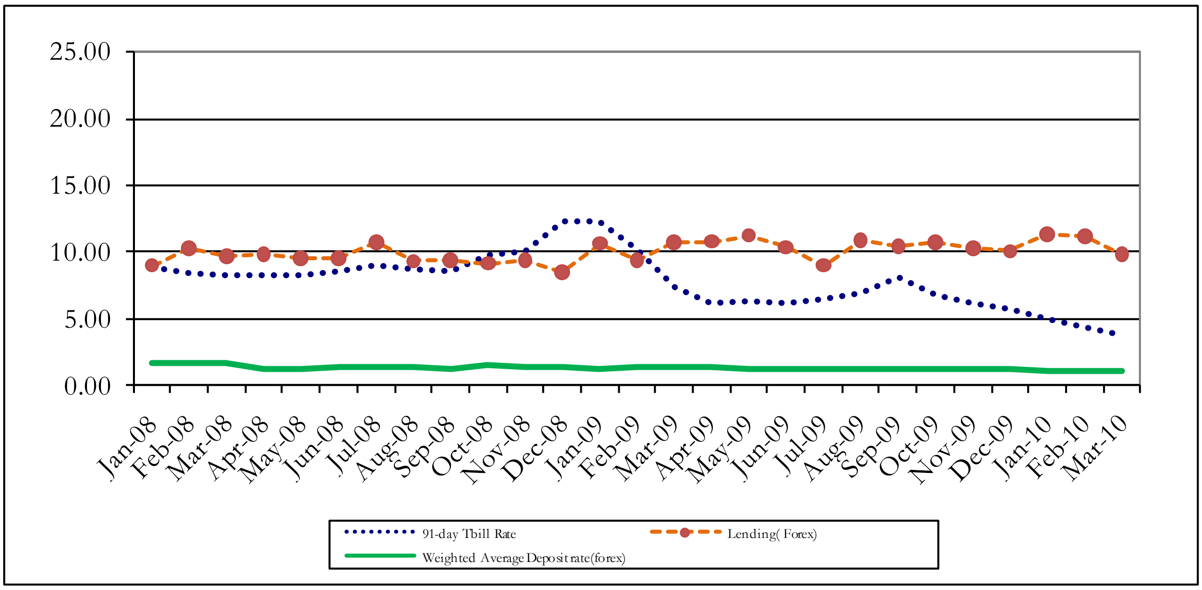
Weighted Average rates	Shilling denominated					Foreign currency denominated				
	Mar-09	June-09	Sept-09	Dec-09	Mar-10	Mar-09	Jun-09	Sept-09	Dec-09	Mar-10
Lending	20.97	21.80	20.69	20.01	21.13	10.69	10.37	10.41	10.07	9.88
Demand deposits	1.30	1.26	1.23	1.28	1.26	1.05	1.01	1.00	1.04	0.98
Savings deposits	2.39	2.36	2.36	2.25	2.31	1.59	1.51	1.50	1.48	1.69
Time deposits	8.97	10.72	8.49	9.23	7.70	2.10	3.93	4.79	5.09	

Figure 11: Shilling denominated lending and deposit rates



Source: Bank of Uganda

Figure 12: Foreign exchange lending and deposit rates

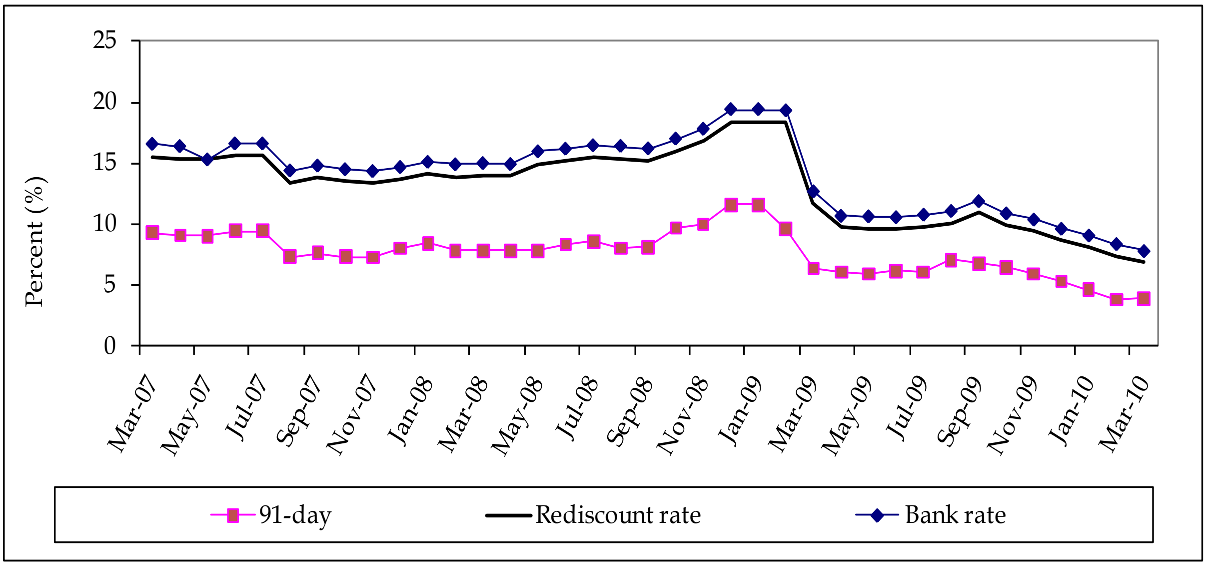


Source: Bank of Uganda

5.4.2 Bank of Uganda Rates

The margin within the rediscount rate remained unchanged at 3.0 percentage points as market conditions did not necessitate a revision. Therefore, due to developments in the domestic money markets, the Rediscount rate and Bank rate fell from the respective rates of 8.33 percent and 9.33 percent recorded at the beginning of the quarter (January 2010) to 6.83 percent and 7.83 percent, respectively by end March 2010. Figure 13 highlights the trends in the 91-day and, the 364-day Treasury bill rates, lending rates and the Bank rates.

Figure 13: Trend of selected interest rates.



Source: Bank of Uganda

6 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

6.1 Foreign Exchange Rates

After exhibiting an appreciating trend in quarter ended December 2009, the shilling depreciated in the quarter to March 2010. The shilling opened trading at Shs. 1,910.19 per U.S. dollar and closed at Shs. 2,084.35 per U.S. dollar at end March 2010. The shilling depreciated by 6.2 percent from an average rate of Shs. 1,889.57 per US dollar in the quarter ended December 2009 to Shs. 2,006.18 per US dollar in the period under review, compared to an appreciation of 7.7 percent registered in the quarter to December 2009. The shilling depreciation was mainly due to excessive dollar demand by the manufacturing and energy sectors and developments in the global market. The average spread between the buying and selling widened from an average of Shs 10.0 in the previous quarter to Shs. 10.6 in the quarter under review. In a bid to restore stability, Bank of Uganda intervened on both sides of the inter-bank foreign exchange market (IFEM).

Furthermore, the Bank maintained daily sales of US $ 0.1 million to the IFEM for liquidity sterilisation purposes. The actions of the BOU in the IFEM amounted to a net sale of US$ 31.0 million in the quarter ended March 2010 on account of both sterilization and intervention compared to a net purchase of US$ 39.0 million during the quarter ended December 2009.

In the foreign exchange bureau market, the shilling depreciated by 4.8 per cent from an average of Shs. 1,884.9 per U.S. dollar for the quarter ended December 2009 to Shs. 1,975.8 per US dollar in the quarter under review. In the previous period, the shilling had appreciated by 7.9 percent when the average bureau rate moved from Shs. 2,046.7 per U.S. dollar in the quarter to September 2009 to Shs. 1,884.9 per US dollar in the quarter to December of 2009. Table 14, summarizes the above developments.

The nominal effective exchange rate (NEER) index depreciated by 3.9 percent during the quarter to March, compared to an appreciation of 5.7 percent observed in the previous quarter. During the quarter under review, the shilling depreciated against most of the currencies of its trading partners. The shilling depreciated by 5.0, 4.3, 7.8, 4.9, 6.1, 6.0 and 1.3 percent against the Japanese Yen, Kenyan Shilling, Indian Rupee, Pakistan Rupee, Chinese Yuan, South African Rand and the UK

Pound Sterling, respectively. However, the shilling appreciated by 0.5 percent against the Euro.

Arising from the developments in NEER and inflation differentials between Uganda and her trading partners, the real effective exchange rate (REER) index depreciated by 4.2 percent in quarter to March 2010, compared to an appreciation of 5.6 percent recorded in the preceding quarter. Figure 14 shows the developments in the exchange rate.

Table 14: Transactions and exchange rate developments in the foreign exchange market

Market	Q3 2008/09	Q4 2008/09	Q1 2009/10	Q2 2009/10	January 2010	February 2010	March 2010	Q3 2009/10
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	122.29	138.98	134.93	127.30	129.19	130.92	136.81	132.31
Real Effective Exchange Rate (REER) 2000=100	92.30	103.20	99.37	93.78	96.21	96.22	100.66	97.69
Nominal Exchange Rate (Period Average)	1,975.97	1,964.83	2,048.11	1,889.57	1,935.63	1,996.54	2,086.37	2,006.18
Total Purchases (Million US$)	420.36	369.90	1,232.67	1,305.02	412.98	470.37	524.54	1,434.06
Total Sales (Million US$)	409.75	380.11	1,262.29	1,261.44	412.53	460.82	560.71	1,434.06
Cross Currency (Million US$)	190.20	180.51	2,114.37	1,409.90	267.06	219.39	129.20	615.64
Bureaux Market								
Average Period Exchange Rate	1,966.05	1,961.03	2,046.71	1,884.92	1,937.26	1,988.74	2,001.51	1,975.83
Total Purchases (Million US$)	185.90	185.60	619.93	621.81	202.26	210.25	213.81	626.31
Total Sales (Million US$)	183.43	186.28	621.69	621.90	200.17	214.97	210.58	625.72

Source: Bank of Uganda

6.2 Transaction Volumes

Gross purchases and sales of foreign exchange in the IFEM rose by 7.9 and 13.7 percent to US$ 1,407.9 million and US$ 1,434.1 million, respectively in the quarter under review compared to the preceding quarter. The growth in activity in the IFEM during the quarter ended March 2010 was much higher than that in corresponding quarter of 2009, when gross purchases grew by 0.4 percent while sales declined by 0.8 percent. Cross currency transactions declined by 56.3 percent to US$ 615.6 million in the quarter to March 2010 compared to a 33.3 percent decline in the previous quarter to US$ 1,409.9 million.

Figure 14: Exchange rate developments 2000-2010

Source: Bank of Uganda

7 PUBLIC FINANCE

7.1 Revenue

Total receipts from tax and non-tax government revenue and grant disbursements were estimated at Shs. 1,193.7 billion, Shs. 11.5 billion higher than what was received in the quarter ended March 2009 and Shs. 108.9 billion less than the total amount received in the quarter ended December 2009.

Total revenue collections amounted to Shs. 1,018.7 billion, Shs. 76.7 billion more than revenue collections recorded in the quarter ended March 2009. Net tax collections by Uganda Revenue Authority (URA) amounted to Shs. 997.9 billion, representing an under performance of 6.0 percent against the target collections of Shs. 1,061.4 billion for the quarter. This outturn was due to poor performance of pay as you earn (PAYE) and international trade taxes as witnessed in the first two quarters of the financial year 2009/10.

Total budget support and project grants from external sources were estimated at Shs. 174.4 billion; Shs. 13.7 billion less than the total amount disbursed in the quarter ended December 2009.

7.2 Government expenditure

Total government expenditure and net lending was estimated at Shs. 1,429.8 billion during the quarter ended March 2010 compared to Shs. 1,393.7 billion utilized in the corresponding quarter in 2009. This outturn was 17.4 percent below the programmed level of Shs. 1,730.6 billion. This underperformance was on account of low absorption by some spending agencies.

Current expenditure amounted to Shs. 922.7 billion, 14.0 percent more than what was spent in quarter ended March 2009. Development expenditure came up to Shs. 492.2 billion which was Shs. 109.0 billion less than the amount spent in the corresponding period of 2009. Expenditure on salaries and wages amounted to Shs. 318.6 billion while interest payments totalled Shs. 82.8 billion. These compare with respective payments of Shs. 283.7 billion and Shs. 88.6 billion made in the quarter ended March 2009. Payments of domestic arrears amounted to Shs. 24.9 billion, Shs. 36.9 billion less than the amount paid in the corresponding period in 2009. Both current and development expenditures were below programmed levels by Shs.

40.4 billion and Shs. 326.5 billion, respectively.

7.3 Overall fiscal balance and financing

Developments in government budgetary operations during the quarter under review resulted in an estimated fiscal deficit of Shs. 236.7 billion compared to a deficit of Shs. 212.1 billion, which was recorded in the quarter ended March 2009. Excluding grants, the fiscal balance was estimated at a deficit of Shs. 411.1 billion, compared to a deficit of Shs. 451.8 billion recorded in the quarter ended March 2009. Table 15 below shows a summary of the government budgetary operations.

Table 15: Government budgetary operations (Shs. billion)

	2007/08 FY	2008/09 FY	2008/09 Q3	2009/10 Q1	2009/10 Q2	2009/10 Q3 (Prog)	2009/10 Q3
Revenue and Grants	**3,909.5**	**4,574.9**	**1181.6**	**1,189.8**	**1,301.4**	**1,430.0**	**1,193.1**
Total Revenue	3,246.8	3,786.6	942.0	995.3	1,113.3	1,080.6	1,018.7
Grants	662.7	788.3	239.6	194.5	188.1	349.4	174.4
Expenditures and Lending	**4,382.8**	**5,159.0**	**1393.7**	**1,355.1**	**1,442.2**	**1,730.6**	**1,429.8**
Recurrent Expenditure	2,881.2	3,291.9	809.6	739.0	969.7	882.3	922.7
Wages and Salaries	1,106.1	1,183.6	285.3	283.7	330.7	323.2	318.6
Interest Payments	309.4	357.9	88.6	88.3	91.9	88.9	82.8
Other non Wage Recurrent	1,385.7	1,664.9	414.4	341.9	522.2	445.2	489.4
URA Transfers	80.0	85.5	21.4	25.0	25.0	25.0	25.0
Development Expenditure	1,360.6	1,641.0	543.5	601.2	460.0	818.7	492.2
External	642.7	434.0	138.3	283.2	171.3	425.1	140.2
Domestic counterpart	717.9	1,207.0	405.3	318.0	288.7	393.7	352.0
Others a/	121.2	226.1	40.6	14.9	12.5	9.4	13.3
Overall Fiscal Balance							
Excluding Grants	**-1,136.0**	**-1,372.4**	**-451.8**	**-359.8**	**-329.0**	**-650.0**	**-411.1**
Including Grants	**-473.3**	**-584.1**	**-212.1**	**-165.3**	**-140.8**	**-300.6**	**-236.7**
Financing	**473.3**	**584.1**	**212.1**	**165.3**	**140.8**	**300.6**	**236.7**
External Financing (net)	588.2	548.6	285.8	315.3	104.0	382.2	266.5
Domestic Financing (net)	-234.6	-94.0	-328.1	-247.4	143.5	-81.6	251.9
Residual	119.6	129.6	254.5	97.5	-106.7	0.0	-291.0

a/ Includes Net Lending/Repayments, Arrears Repayments and contingency.

Source: Ministry of Finance, Planning and Economic Development

8 EXTERNAL SECTOR DEVELOPMENTS

In the quarter ended March 2010, the balance of payments registered an overall surplus of US$ 7.9 million, in comparison with a surplus of US$ 294.8 million *(revised)* recorded in the same quarter in 2009. This movement in the external position resulted from a deterioration in the current account.

The current account balance was a deficit of US$ 407.6 million, compared to the deficit of US$ 55.8 million *(revised)* recorded in the quarter ended March 2009. This deterioration was on account of a reduction in the export earnings alongside an increase in the import value during the review quarter.

The capital and financial account recorded a surplus of US$ 415.5 million, compared to a surplus of US$ 350.5 million that was recorded in the corresponding quarter of 2009. This was mostly on account of an increase in loan disbursements to government.

The stock of external reserves stood at US$ 2.67 billion as at the end of March 2010 compared to US$ 2.42 billion recorded at the end of March 2009. This stock of reserves was equivalent to 5.3 future months of imports of goods and services.

Table 16[1] below presents a summary of the quarterly developments in the balance of payments.

[1] *The data was revised to reflect most recent outturns and new assumptions. Changes are mainly due to revisions on export data on account of new information on informal cross border trade (ICBT) and non-coffee exports.*

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

	Jan - Mar 2008/9	Apr-Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10
A. Current Account Balance	**-55.77**	**-126.55**	**-186.09**	**-139.15**	**-407.62**
A1. Goods Account (Trade Balance)	-149.34	-182.94	-261.30	-198.12	-388.26
a) Total Exports (fob)	818.29	725.46	670.28	781.60	630.18
b) Total Imports (fob)	-967.64	-908.40	-931.58	-979.72	-1,018.44
A2. Services Account (services net)	-135.82	-114.53	-119.62	-153.65	-163.37
a) Inflows (credit)	190.20	201.68	265.48	245.77	218.89
b) Outflows (debit)	-326.02	-316.22	-385.10	-399.42	-382.27
A3. Income Account (Income net)	-66.55	-83.77	-99.08	-79.20	-84.08
a) Inflows (credit)	10.68	16.18	6.28	8.75	7.44
b) Outflows (debit)	-77.23	-99.95	-105.36	-87.95	-91.52
A4. Current Transfers (net)	295.94	254.70	293.91	291.83	228.09
a) Inflows (credit)	360.62	306.97	410.27	412.42	286.50
b) Outflows (debit)	-64.68	-52.28	-116.36	-120.59	-58.41
B. Capital & Financial Account Balance	**350.52**	**203.42**	**617.17**	**360.11**	**415.52**
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	350.52	203.42	617.17	360.11	415.52
a) Direct Investment	150.94	150.94	150.94	150.94	176.26
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	150.94	150.94	150.94	150.94	176.26
b) Portfolio Investment	34.78	-10.76	-1.83	-2.21	-27.46
Assets	0.00	-0.01	0.00	0.00	0.00
Equity Securities	0.00	-0.01	0.00	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	34.78	-10.74	-1.83	-2.21	-27.46
Equity Securities	122.87	-0.93	-0.14	0.54	-9.19
Debt Securities	-88.09	-9.81	-1.68	-2.75	-18.27
c) Financial Derivatives (Net)	1.87	-3.37	-2.35	-2.33	-0.37
d) Other Investment	162.94	66.61	470.41	213.72	267.09
Assets	-12.58	-33.13	51.37	110.76	-3.41
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	10.64	10.20	20.42	31.52	129.55
Banks	-23.22	-43.32	38.94	64.23	-132.97
Other sectors	0.00	0.00	-8.00	15.00	0.00
Liabilities	175.51	99.74	419.04	102.96	270.50
Monetary authorities	0.00	0.00	224.00	0.00	0.00
General government	142.28	45.79	147.31	22.61	114.30
Banks	-1.47	30.25	-11.00	19.79	73.50
Other sectors	34.71	23.70	58.73	60.56	82.70
C. Overall Balance (A + B)	**294.75**	**76.87**	**431.08**	**220.97**	**7.89**
D. Reserves & Related Items	**-294.75**	**-76.87**	**-431.08**	**-220.97**	**-7.89**
a) Reserve assets	-137.12	110.20	-283.65	-32.81	7.47
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	-1.13	0.54	-11.94	1.05	0.73
d) Errors and Omissions	-156.49	-187.61	-135.49	-189.21	-16.09

Source: Bank of Uganda

8.1 The Goods account (Trade Balance)

8.1.1 Exports

Total export earnings amounted to US$ 630.2 million in the quarter ended March 2010, compared to US$ 781.6 million *(revised)* in the preceding quarter and US$ 818.3 million *(revised)* in the corresponding quarter of 2009.

Coffee export earnings totalled US$ 73.5 million, a drop of 14.4 percent when compared to US$ 85.9 million realized in the corresponding period of 2009. The average realized price of US$ 1.64 per Kg, was 7 cents lower than that realized in the corresponding quarter of 2009. There was also a reduction in the volume of coffee exports to 746,496 (60-kg) bags compared to the 910,145 (60-kg) bags exported in the same period in 2009. This drop in volume was generally due to the dry spell that hit the robusta coffee growing areas in the country.

Non-coffee formal exports amounted to US$ 321.9 million during the quarter ended March 2010, US$ 44.8 million more than the amount recorded in the same period of 2009. In particular, export earnings from gold, tea, tobacco, and fish and its products increased by a combined total of US$ 29.9 million vis-à-vis the same quarter in the previous year.

Earnings from Informal Cross Border Trade (ICBT) exports were estimated at US$ 234.7 million in the quarter ended March 2010. Tables 17 and 18 below provide a summary of developments in exports.

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

	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10
Total Exports	**818.29**	**725.46**	**670.28**	**781.60**	**630.18**
1. Coffee exports	**85.87**	**62.56**	**65.27**	**66.51**	**73.54**
2. Non-Coffee exports	**277.15**	**265.19**	**294.61**	**314.89**	**321.92**
Electricity	2.03	2.85	4.28	3.97	3.07
Gold	5.04	4.83	8.96	4.24	10.55
Cotton	11.68	5.58	1.34	1.03	5.98
Tea	12.19	13.48	11.23	21.72	18.38
Tobacco	16.08	10.17	17.21	18.24	23.22
Fish & its products (excl. regional)	23.49	23.97	28.36	37.21	34.53
Hides & skins	1.73	1.37	1.19	1.89	3.49
Simsim	5.07	5.41	0.73	0.29	5.85
Maize	10.66	7.85	2.39	5.64	8.52
Beans	1.96	3.03	2.44	3.43	0.93
Flowers	11.03	11.73	13.13	11.01	12.36
Oil re-exports	0.96	0.75	8.99	1.12	0.85
Cobalt	2.86	4.32	3.51	4.75	3.72
Base metals & products	23.06	24.39	23.69	25.25	19.69
Others	149.32	145.47	167.18	175.12	170.79
3. Informal Cross Border Trade exports estimates	**455.27**	**397.71**	**310.40**	**400.20**	**234.72**

Source: Bank of Uganda

Table 18: Exports of merchandise - by category (US$ millions)

	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10
Total Exports	**818.29**	**725.46**	**670.28**	**781.60**	**630.18**
o/w Formal	363.02	327.75	359.89	381.40	395.46
o/w Informal (i.e. ICBT)	455.27	397.71	310.40	400.20	234.72

Source: Bank of Uganda

8.1.2 Imports

The total import bill for the quarter ended March 2010 amounted to US$ 1,018.4 million, and mainly comprised private sector imports of machinery equipment, vehicles & accessories, petroleum products, mineral products (such as plastering materials, lime & cement, bituminous substances, etc.), vegetable products, beverages & animal fats. The oil import bill amounted to US$ 121.4 million, which was 13.3 percent of the total private sector imports.

During the same quarter Government imports amounted to US$107.5 million, compared to a bill of US$72.3 million spent on Government imports in the corresponding quarter of 2008/09. Table 19 below provides a summary of developments in imports[2].

[2] *Some import values have been revised*

Table 19: Summary of developments in imports (US$ million)

	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10
Total Imports	**967.64**	**908.40**	**931.58**	**979.72**	**1,018.44**
Government Imports	**72.32**	**84.34**	**75.68**	**61.36**	**107.53**
Project	42.34	59.70	53.77	40.28	46.33
Non-Project	29.98	24.64	21.91	21.08	61.20
Formal Private Sector Imports	**879.51**	**810.93**	**833.93**	**892.98**	**878.29**
o/w Oil imports	109.01	96.78	112.97	112.85	121.38
Estimated Imports	**15.81**	**13.14**	**21.97**	**25.38**	**32.62**

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$ 247.5 million compared to a deficit of US$ 202.4 million recorded in the same period last year. Services inflows amounted to US$ 218.9 million, compared to US$ 190.2 million registered in the quarter to March 2009. However, this improvement was more than offset by an increase of US$ 56.2 million in service outflows, mainly through increased outflows of transportation services.

The income account recorded a deficit of US$ 84.1 million in the review period, compared to a deficit of US$ 66.6 million in the quarter ended March 2009. This was attributable to decreased estimated inflows of income on account of reduced investment income earnings following falling interest rates.

8.3 Current Transfers

Net current transfers were estimated at US$ 228.1 million, US$ 67.9 million less than US$ 295.9 million realized in the corresponding period of 2009. This was mainly on account of a decrease in budget support grant disbursements to government as well as reduced NGO inflows. However, inflows of workers' remittances were US$ 23.7 million more than the remittance inflows recorded in the quarter ended March 2009.

8.4 Capital and Financial Account

The capital and financial account balance recorded a surplus of US$ 415.5 million compared to a surplus of US$ 350.5 million recorded in the quarter ended March 2009. This was on account of increased loan disbursements to government.

8.5 Donor flows

Total disbursements of foreign aid (for budget support and projects) were estimated at US$218.1 million, vis-à-vis US$274.8 million recorded in the corresponding quarter of 2009. This was mainly on account of lower disbursements of budget support grants. Budget support inflows amounted to US$36.0 million compared to inflows of US$189.6 million received in the corresponding period in 2009. Table 20 below provides a summary of foreign aid inflows to Government.

Table 20: Summary of Donor inflows to Government (US$ million)

	Jan - Mar 2008/9	Apr-Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10
Total Foreign Aid	**274.83**	**147.53**	**265.59**	**141.39**	**218.13**
Grants	116.77	86.09	92.90	95.44	88.37
Loans	158.07	61.45	172.69	45.95	129.76
Budget Support	**189.64**	**74.84**	**159.90**	**66.22**	**36.02**
Grants	94.53	62.79	49.04	60.79	32.61
Loans	95.10	12.05	110.86	5.42	3.41
Project Support	**85.20**	**72.69**	**105.69**	**75.17**	**182.11**
Grants	22.23	23.29	43.86	34.65	55.75
Loans	62.96	49.40	61.83	40.52	126.36

Source: Bank of Uganda

Following these developments in the balance of payments, the international reserves held by the Bank of Uganda decreased by US$ 96.2 million in the quarter ended March 2010.

8.6 External Debt

8.6.1 Debt Stock

Uganda's stock of outstanding and disbursed debt was estimated at US$2.4 billion in the quarter ended March 2010; US$453.0 million higher than the March 2009 level estimated at US$1.9 billion. The greater part of the external debt equivalent to 89.1 percent was owed to multilateral institutions, while 8.2 percent was owed to non-Paris Club bilateral creditors.

Quarterly developments regarding Uganda's debt stock profile up till March 2010 are shown in Table 21 below.

Table 21: Uganda's outstanding public debt by creditor category (US$ million)

Creditor Category	Mar-09	Jun-09	Sep-09	Dec -09	Mar -10
Multilateral	1,654.1	1,771.8	1,985.7	2,015.5	2,100.2
Non-Paris Club Bilateral	189.4	213.9	195.4	195.8	194.5
Paris Club Bilateral	60.9	60.4	63.4	62.6	62.9
Commercial	0.35	0.32	0.32	0.28	0.28
Grand Total	**1,904.80**	**2,046.37**	**2,244.88**	**2,274.25**	**2,357.80**

Source: Bank of Uganda

8.6.2 Debt Service

Maturities of principal and interest falling due on medium and long-term public and publicly guaranteed debt amounted to US$21.6 million. There were no obligations due to the IMF in the quarter under review. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 2.5 percent for the quarter under review, compared to 2.0 percent recorded in the corresponding quarter of 2008/09. This was a result of increased debt service as well as reduced export earnings in the review period.

9 DOMESTIC PRICE DEVELOPMENTS

9.1 CPI Inflation

On an average basis, annual headline inflation decreased to 8.3 percent in the quarter ended March 2010 compared to 12.1 percent for the previous quarter. Annual headline inflation continued to decelerate in the quarter under review from 9.0 percent in January to 8.2 percent in February and 7.5 percent in March 2010. The decrease in the annual headline inflation was attributed to reduced food prices as a result of increased supply of food crops on the market compared to the corresponding period in 2009.

Annual food crop inflation on an average basis dropped to 22.1 percent in the quarter ended March 2010 from 36.3 percent in the quarter ended December 2009 and 29.1 percent in the quarter ended March 2009. Year on year food crop inflation steadily declined in the quarter under review from 27.6 percent in January to 22.0 percent in February and 16.8 percent in March. The drop in food crop inflation was largely on account of the increased rains experienced during the period under review that resulted into a bumper harvest.

Similarly, annual core inflation, on an average basis, fell to 6.2 percent compared to average rates of 8.4 percent and 12.9 percent in the quarters ended December 2009 and March 2009, respectively. However, year on year core inflation increased from 5.6 percent in January to 6.5 percent in February before declining marginally to 6.4 percent in March 2010.

Furthermore, annual energy, fuel and utilities (EFU) inflation, on an average basis dropped significantly to -4.3 percent in the quarter under review from -2.9 percent in the quarter ended December 2009 and 2.1 percent in the quarter ended March 2009. Nevertheless, year on year basis, EFU inflation rose significantly during the quarter from -7.1 percent in January 2010 to -4.4 percent and -1.3 percent in February and March 2010, respectively. This increase in EFU inflation was largely driven by increased petroleum prices reflecting a rise in international oil prices driven by optimism about the recovery of the global economy. The above inflation developments are depicted in Tables 22, 23 and Figure 15 below.

Table 22: Annual inflation rates (averaged over quarters)

Quarter ending	Headline Inflation (percent)	Core Inflation (percent)	EFU Inflation (percent)	Food crops Inflation (percent)
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
Mar 2009	14.4	12.9	2.1	29.1
June 2009	12.7	10.9	-2.7	26.5
Sept 2009	12.8	10.0	-3.9	34.7
Dec 2009	12.1	8.4	-2.9	36.3
Mar 2010	8.3	6.2	-4.3	22.1

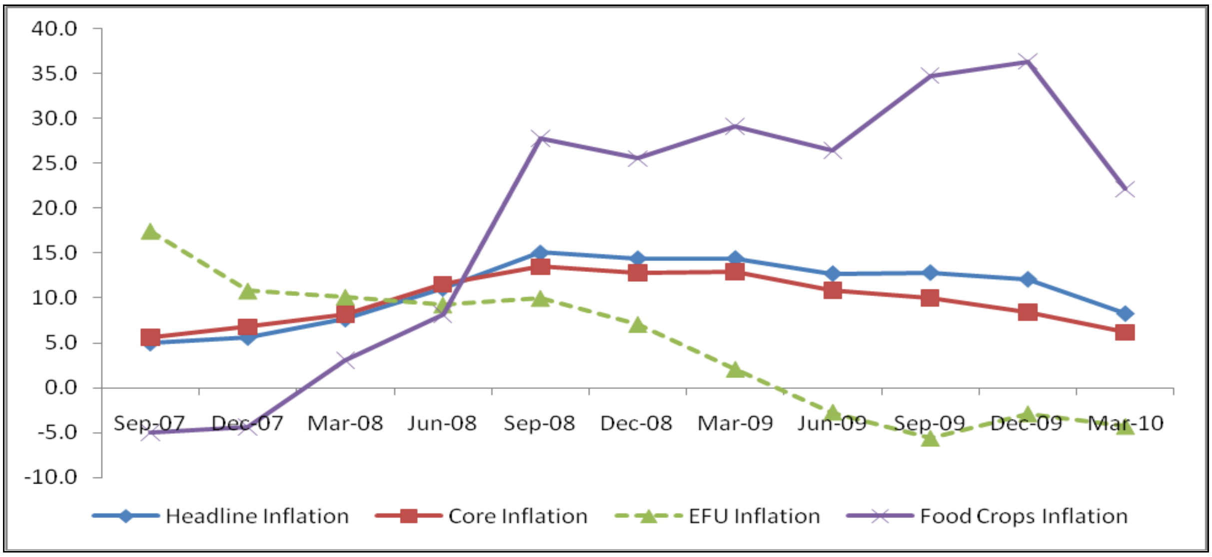
Source: Uganda Bureau of Statistics

Table 23: Contribution by different groups to annual headline inflation (averaged over quarters)

Groups	Weights	Jan-Mar 2009	Apr-Jun 2008	Jul-Sep 2009	Oct-Dec 2009	Jan-Mar 2010
Total	100	14.5	12.7	12.8	12.1	8.2
Of which:						
Food	27.2	8.0	6.5	6.5	6.5	4.00
Beverages & Tobacco	4.7	0.7	0.5	0.5	0.3	0.20
Clothing & Footwear	4.4	0.4	0.4	0.4	0.3	0.14
Rent, Fuel & Utilities	14.8	1.6	1.0	0.9	0.6	0.39
Household & Personal goods	4.5	0.5	0.3	0.5	0.4	0.34
Transport & Communication	12.8	0.5	0.3	0.2	0.2	-0.04
Education	14.7	1.2	1.2	1.4	1.0	1.12
Health, Entertainment, & Others	16.8	1.7	2.3	2.3	2.3	1.99

Source: Uganda Bureau of Statistics

Figure 15: Annual inflation rates (averaged over quarters)



Source: Uganda Bureau of Statistics (UBOS)

9.2 Producer Price Index (PPI)

The Producer Price Index for the manufacturing sector [3](PPI-M), increased by 5.5 percent in the year ended March 2010 compared to a rise of 4.1 percent in the twelve months to December 2009. The increase was mainly on account of the rise in prices of processed food; drinks and tobacco; and textile, clothing and footwear which increased by 9.3 percent, 7.4 percent and 4.8 percent, respectively. However, during the same period, prices of chemicals, bricks and cement fell by 8.2 percent and 1.3 percent, respectively.

Producer prices increased by 2.0 percent during the quarter ended March 2010 compared to a 0.9 percent fall registered in the previous quarter. Price increases were registered in all sectors except chemical products, bricks and cement which registered price declines of 2.4 percent and 2.1 percent, respectively. The fall in prices of chemical products was attributed to the decline in prices of soap and chemical products while that of the brick and cement sector was a result of a reduction in prices of cement and lime.

Prices of manufactured goods produced for export increased by 8.8 percent as compared to a fall of 2.5 percent registered in the previous quarter. This rise in prices was mainly driven by the shilling depreciation that was observed during the period. The shilling depreciated by 6.2 percent from an average rate of Shs. 1,889.6 per US dollar for the quarter ended December 2009 to Shs. 2,006.2 per US dollar for the quarter ended March 2010.

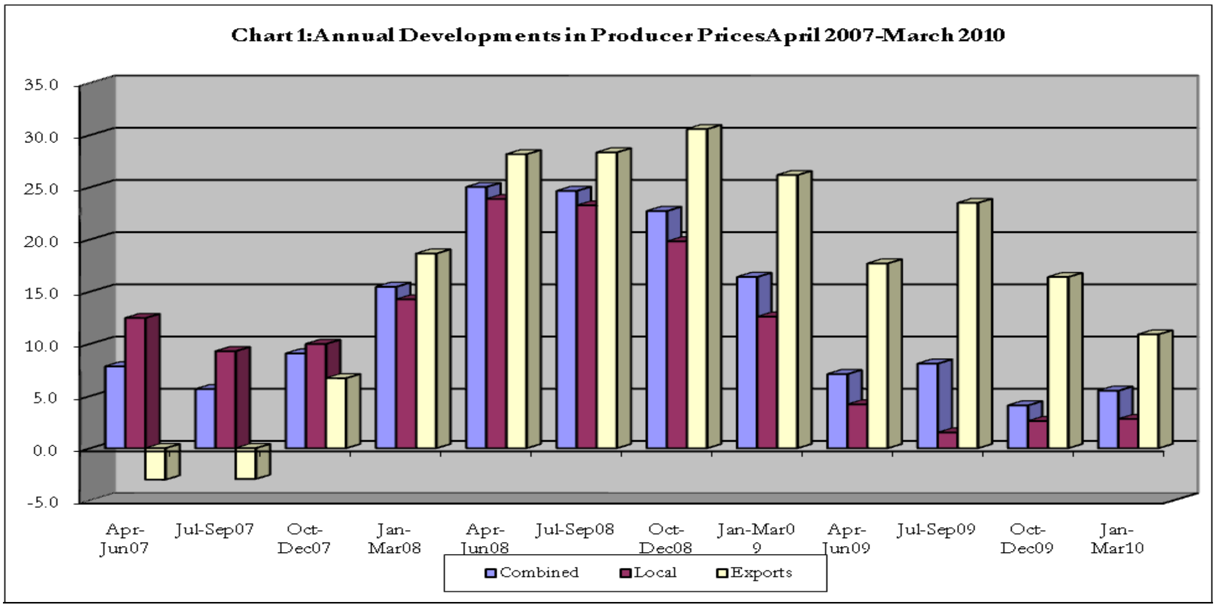
On the other hand, the prices of goods produced for local consumption reduced marginally by 0.7 percent in the quarter ended March 2010 following a reduction of similar magnitude in the previous quarter. Figure 16 shows the developments in the annual producer index.

On a monthly basis, producer index for goods manufactured for local market consumption rose by 0.4 percent in March 2010 compared to a decrease of 1.8 percent in December 2009 and an increase of 0.8 percent in November 2009. This was as a result of the rise in prices in most of the sub categories in the manufacturing sector.

[3] 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.

On the other hand, monthly producer index for goods manufactured for export rose by 4.5 percent in December 2009 compared to an increase of 3.0 percent in November 2009.

Figure 16: Trend of Annual Producer Price Inflation; April 2007-March 2010



Source: BOU based on UBOS data

9.3 Other Real Sector Indicators

This section highlights developments in the finance and energy sectors, using the latest available data on activity at the Uganda Securities Exchange (USE) and UMEME.

9.3.1 Uganda's Equity market

Trading at the Uganda Securities Exchange (USE) was buoyant for the quarter ended March 2010 compared to the previous quarter. Total turnover increased by 70.2 percent from Shs. 6.6 billion to Shs. 11.8 billion in the period under review. Market capitalization increased by 16.8 percent during the same period. Similarly, the number of shares traded increased by 73.1 percent and the share index increased 19.8 percent.

Of the total turnover in the quarter ended March 2010, East African Breweries Ltd (EABL) contributed the largest share accounting for 39.2 percent of total turnover while Development Finance Company Uganda (DFCU) contributed the second largest share of 20.9 percent of the total turnover. Stanbic Bank Uganda (SBU), National Insurance Corporation (NIC), Uganda Clays (UCL) and Bank of

Baroda Uganda (BOBU) each contributed 18.6, 12.6, 5.1 and 2.6 percent, respectively, of the total turnover. Counters of British American Tobacco Uganda (BATU), Equity Bank Limited (EBL) and New Vision Limited (NVL) contributed 0.5, 0.3 and 0.2 percent, respectively while counters of Jubilee Holdings Limited (JHL), Kenya Airways (KA) and KCB group remained relatively inactive over the quarter under review.

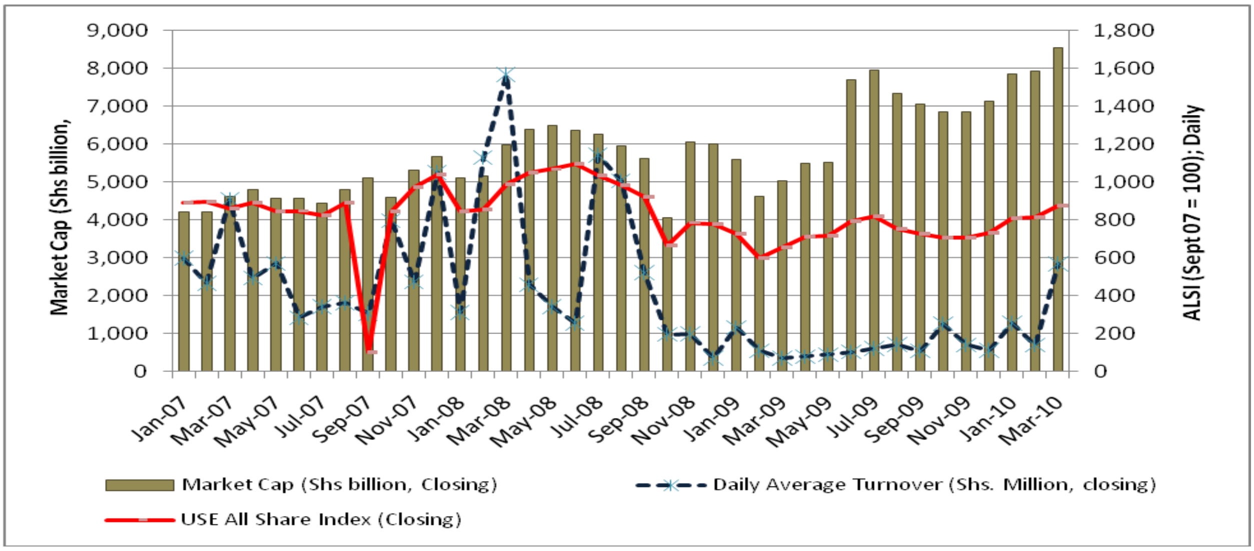
Table 24 shows the developments in the Uganda equity market while Figure 17 provides a trend of the all share index at the Uganda securities Exchange.

Table: 24 Trading at Uganda Securities Exchange

	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
Number of Shares Traded	14,004,108	10,106,763	9,204,168	11,570,269	13,962,217	32,224,305
Turnover (Shs. billion)	3.26	1.80	1.53	2.79	1.65	7.41
Market Cap (Shs. billion, Closing)	6,845	6,852	7,134	7,859	7,922	8,718
USE All Share Index (Closing)	703.72	703.59	732.53	806.94	813.45	886.00

Source: Uganda Securities Exchange

Figure 17: Trading at Uganda Securities Exchange



Source: Uganda Securities Exchange

9.3.2 Energy Sector

Electricity consumption in Giga Watt Hours (GWH) during the quarter ended March 2010 decreased by 27.6 percent, mainly driven by a reduction in street lighting of 14.8 percent. This was a sharp contrast to the 0.5 percent increase in consumption registered in the quarter ended December 2009. Total purchases by the distribution company in GWH increased by 0.8 percent in the quarter ended March 2010, compared to a 0.3 percent decline in total purchases experienced in the quarter ended December 2009.

10 CONCLUSION

The conduct of monetary policy will continue to aim at maintaining price stability in order to achieve the agreed macroeconomic objectives for the year 2009/10, while at the same time mindful of providing the banking system with adequate liquidity.

Maintaining price stability and a sound financial system, in support of sustained economic growth, shall remain the focus of monetary, financial, exchange rate and external sector policies going forward.

APPENDIX TABLES

Appendix 1. Macroeconomic indicators.

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

Appendix 3. Gross domestic product at factor cost, at constant 2002 prices, calendar year.

Appendix 4. Gross domestic product at factor cost, at current prices, fiscal year.

Appendix 5. Gross domestic product at factor cost, at constant 2002 prices, fiscal year.

Appendix 6. Balance of payments, quarterly.

Appendix 7. Balance of payments, calendar year .

Appendix 8. Balance of payments, fiscal year.

Appendix 9. Composition of exports (volumes).

Appendix 10. Composition of exports (value in US$ million).

Appendix 11. Composition of imports (value in US$ million).

Appendix 12. Direction of trade for exports).

Appendix 13. Direction of trade for imports).

Appendix 14. Government recurrent revenue.

Appendix 15. Economic classification of government recurrent expenditure.

Appendix 16. Functional classification of government recurrent expenditure.

Appendix 17. Economic and functional classification of government development expenditure

Appendix 18. Central Government Budgetary operations

Appendix 19. Domestic public debt.

Appendix 20. Government securities outstanding by holders.

Appendix 21 Monetary survey.

Appendix 22. Monetary authority balance sheet.

Appendix 23. Commercial banks' balance sheet.

Appendix 24. Foreign assets and liabilities (US Dollars, million).

Appendix 25. Commercial banks' outstanding loans and advances to the private sector by economic activity (shilling denominated).

Appendix 26. Commercial banks' outstanding loans and advances to the private sector by economic activity (forex denominated).

Appendix 27. Commercial banks' activities.

Appendix 28. Structure of interest rates.

Appendix 29. Foreign exchange rates.

Appendix 30. Volumes of interbank and bureaux transactions.

Appendix 31. Composite consumer price index, Uganda.

Appendix 32. Composite CPI for Uganda breakdown by major groups..

Appendix 33. Consumer price index, Kampala High Income.

Appendix 34. Consumer price index, Kampala Middle and Low Income.

Appendix 35. Consumer price index, Jinja.

Appendix 36. Consumer price index, Mbale.

Appendix 37. Consumer price index, Masaka.

Appendix 38. Consumer price index, Mbarara.

Appendix 39. Consumer price index, Gulu

Appendix 40. Consumer price index, Arua

Appendix 41. Index of Industrial Production, annual summary .

Appendix 42. Pump prices for petroleum products in Uganda.

Appendix 43. Electricity, capacity, generation and sales.

Appendix 44. Coffee procurement.

Appendix 45. Coffee exports.

Appendix 46. Projected mid-year population by region and district.