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CONTENTS

1 INTRODUCTION

The report reviews monetary, financial and general macroeconomic conditions during the second 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. More positive indicators were received as regards the recovery of the global economy from recession. The stronger recovery of the global economy presents hope for even higher growth prospects for the Ugandan economy.

2 OVERVIEW OF DEVELOPMENTS DURING THE QUARTER

2.1 International Developments

Global economic activity continued to expand during the quarter ended December 2009, following the return to positive growth rates in the preceding quarter and the quarter ended June 2009. The rise in international trade coupled with the vast stimulus policies spurred the strong growth of the world economy improving consumer confidence.

The United States of America registered an annualised GDP growth rate of 5.9 percent in the quarter ended December 2009, higher than the 2.2 percent growth rate recorded in the preceding quarter. The United Kingdom (UK) economy also returned to positive growth rates in the last quarter of 2009, registering real GDP growth of 0.3 percent, compared to a decrease of 0.3 percent in the third quarter of 2009. Real GDP growth for China accelerated to 10.7 percent in the quarter ended December 2009, while India registered an annualised growth rate of 5.9 percent in the same quarter. The Euro area's real GDP increased by 0.1 percent in the quarter ended December 2009, compared to a growth rate of 0.4 percent recorded in the preceding quarter.

The South African economy grew by 3.2 percent on a quarterly basis compared to 0.9 percent growth in the preceding quarter and a contraction of 2.8 percent in the 3 months to June 2009. Latest information estimates economic growth for Kenya to have stagnated in the third quarter of 2009, with the output of goods and services remaining the same as in the third quarter of 2008. This was attributed to persistent drought that adversely affected agricultural production, increase in cost of electricity which impacted negatively on the manufacturing sector coupled with the effects of the global economic recession.

Financial markets also recorded strong recoveries from their historical lows in 2008. Equity and capital markets were resurgent while prices for most assets including oil rose during the last quarter of 2009. These were buoyed by the increased confidence about the recovery of the global economy.

Global inflation remained largely subdued though with increases registered in some advanced and emerging market economies, largely driven by increased oil and commodity prices relative to their low bases in early 2009. Notably, annual headline inflation for the UK and the USA picked up towards the end of 2009, standing at 2.5 percent and 2.7 percent, respectively in December 2009. Annual consumer price inflation for China also returned to positive territory in November 2009 and reached 1.9 percent in December 2009. Euro area inflation also turned positive in the fourth quarter of 2009, to stand at 0.9 percent in December 2009, compared to minus 0.3 percent recorded in September 2009. Inflation in South Africa also rose from 5.9 percent in October 2009 to 6.3 percent in December 2009.

Inflation in most East African economies declined in the last quarter of 2009, driven by easing food prices attributed to increased food supply. Annual overall inflation for Tanzania and Kenya reduced from 12.7 percent and 11.4 percent in October 2009 to 12.2 percent and 9.3 percent, respectively in December 2009. Rwanda and Burundi's annual headline inflation also slowed to 4.6 percent and 5.7 percent in December 2009 from respective rates of 11.0 percent and 5.9 percent, in September 2009.

2.2 Summary of Uganda's Performance

Macroeconomic stability anchored by prudent monetary and fiscal policies continued to be observed during the quarter ended December 2009 with annual core inflation declining to 8.4 percent. Bank of Uganda continued with an easing monetary policy stance adopted for the financial year 2009/10 in a bid to stimulate economic activity. As a consequence, interest rates on Government securities fell during the quarter. The annualised discount rate on the 91-day Treasury bill paper declined to 6.0 percent in December 2009 from 6.9 percent in September 2009 and 9.9 percent in December 2008. This development was expected to encourage the commercial banks to expand their lending to the private sector and also lower lending rates to stimulate economic activity. Indeed, as compared to the period June to September 2009, the monthly growth rates of private sector credit picked up to some extent in the period under review. The lending rates on shilling denominated loans, though still high relative to other regional countries, also declined to 20.1 percent in December 2009, from 20.7 percent in September 2009 and 21.8 percent in June 2009.

In the quarter under review, two new Treasury bonds of 2- and 10- year tenors were issued and a 5-year bond re-opened to absorb structural liquidity for a longer period. Apart from the 10-year bond, yields-to-maturity for the different tenors of the Treasury bonds declined reflecting increasing demand for these longer dated government securities, as evidenced by the consistent over-subscriptions at each bond auction.

Furthermore, the Treasury bill 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 developments in the domestic money market, the rediscount and bank rates declined to 8.7 and 9.7 percent by end of the quarter from the respective levels of 10.7 and 11.7 percent at the beginning of the quarter.

Subdued demand pressures on inflation and easing food prices resulting from increased food supply led to a decline in both headline and core inflation during the quarter ended December 2009. Annual core inflation averaged 8.4 percent in the last quarter of 2009 compared to averages of 10.0 percent and 12.8 percent in the preceding quarter and the quarter ended December 2008, respectively.

In line with the easing monetary policy stance and due to the strong demand for currency during the Christmas season, base money expanded by 12.6 percent in the quarter ended December 2009, relative to a marginal rise of 0.2 percent in the preceding quarter.

On a period average basis, the shilling appreciated by 7.7 percent to Shs. 1,889.6 per US dollar in the quarter ended December 2009, from Shs. 2048.1 per US dollar in the preceding quarter. The shilling's strengthening against the green back was due to increased foreign exchange inflows and commercial banks' unwinding of their long dollar positions.

In the external sector, the balance of payments registered an overall surplus of US$ 155.4 million compared to a deficit of US$ 138.5 million in the corresponding quarter of 2008, mainly driven by improvements in the current account in particular, the trade 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. 444.5 billion or 7.9 percent in the quarter ended December 2009, compared to a negligible increase of Shs. 2.9 billion or about 0.1 percent registered in the previous quarter. On an annual basis, M3 grew by 16.6 percent in December 2009, compared to a growth of 40.2 percent registered in December 2008.

Money supply M2A which comprises currency in circulation and shilling denominated private sector deposits grew by 7.9 percent to Shs. 5,332.4 billion during the quarter under review, compared to increases of 0.4 percent and 13.8 percent in the quarters ended September 2009 and December 2008, respectively. The growth in M2 mainly reflected an expansion of currency in circulation during the period under review, which resulted from increased demand during the festive season.

The rise in money supply was attributed to an increase in net domestic assets (NDA) of the banking system which rose by Shs. 697.8 billion to Shs. 1,039.8 billion as at end December 2009 compared to a decline of Shs. 244.2 billion recorded in the previous quarter. The rise in net domestic assets reflected an increase in credit to the private sector coupled with deterioration in government's net position with the banking system.

The government's net position with the banking system was a saving of Shs. 653.1 billion at end December 2009, down from a saving of Shs. 833.4 billion at end September 2009. Government's position with the Bank of Uganda, declined by Shs. 153.5 billion to a savings position of Shs. 2,331.3 billion as at end December 2009. The fall in government savings at BOU was mainly due to a decrease in government deposits of Shs. 227.0 billion which more than offset a decline in advances to the government of Shs. 41.0 billion. Furthermore, net credit to government by commercial banks increased by Shs. 26.8 billion to Shs. 1,679.2 billion, attributed to a rise in commercial banks' investments in Government securities.

Credit to the private sector (PSC) by the banking system rose by 8.2 percent to Shs. 3,994.0 billion, of which Shs. 3,977.8 billion was on account of credit advanced to the private sector by commercial banks. This growth in private sector credit in the quarter under review was slower than the growth of 11.2 percent observed in the quarter ended December 2008 due to the tight credit conditions set by commercial banks.

The net foreign assets (NFA) of the banking system decreased by Shs. 253.3 billion to Shs. 5,705.3 billion in December 2009, compared to an increase of Shs. 247.1 billion recorded in the preceding quarter. The NFA of commercial banks declined by Shs. 157.2 billion to Shs. 379.9 billion, mainly on account of a fall in external assets amounting to Shs. 119.9 billion. Similarly, the NFA of Bank of Uganda declined by Shs. 96.1 billion to Shs. 5,325.4 billion, largely reflecting a decline in foreign reserves equivalent to Shs. 95.4 billion. The developments in the above aggregates are shown in Tables 1, 2 and 3 below.

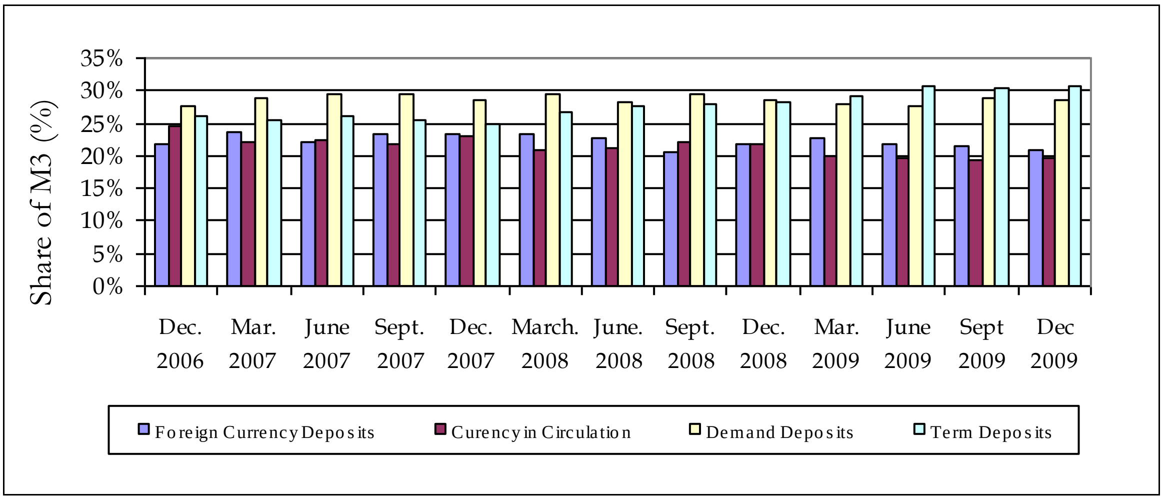
Table 1: Monetary survey, (in Shs. billion, at the end of period)

Aggregate	Sep. 08	Dec. 08	Mar. 09	Jun.09	Sept. 09	Dec. 09	Change Sept. 09 - Dec. 09	
							Absolute	Percent
Net Foreign Assets (NFA)	**4,522.6**	**5,023.5**	**5,691.8**	**5,711.5**	**5,958.6**	**5,705.3**	**-253.3**	**-4.3**
o/w Bank of Uganda	4,243.9	4,520.0	5,129.0	5,119.5	5,421.5	5,325.4	-96.1	-1.8
o/w Commercial Banks	278.7	503.5	562.9	592.0	537.0	379.9	-157.2	-29.3
Net Domestic Assets (NDA)	**474.2**	**762.3**	**289.5**	**586.1**	**341.9**	**1,039.8**	**697.8**	**204.1**
Net Claims on Government (NCG)	-883.2	-665.2	-932.4	-644.4	-833.4	-653.1	180.3	21.6
Claims on Public Entities	25.9	23.7	58.4	35.4	57.7	53.3	-4.4	-7.7
Claims on the Private Sector	3,055.0	3,397.2	3,544.3	3,599.5	3,691.6	3,994.0	302.3	8.2
Other Items (net)	-1,723.8	-1,993.9	-2,381.1	-2,404.4	-2,574.2	-2,354.4	219.8	8.5
Money Supply (M3)	**4,996.8**	**5,785.7**	**5,981.3**	**6,297.6**	**6,300.5**	**6,745.1**	**444.5**	**7.1**
Foreign Currency Deposits	1,023.5	1,263.6	1,366.2	1,376.9	1,360.2	1,412.6	52.4	3.9
Money Supply (M2A)	3,973.3	4,522.5	4,615.1	4,920.7	4,940.3	5,332.4	392.2	7.9
Money Supply (M2)	3,973.3	4,522.5	4,615.1	4,920.7	4,940.3	5,332.4	392.2	7.9
Term Deposits	1,390.8	1,631.0	1,745.3	1,942.5	1,915.0	2,077.1	162.1	8.5
Demand Deposits	1,474.8	1,637.0	1,677.2	1,732.7	1,816.9	1,925.6	108.7	6.0
Currency in Circulation	1,107.9	1,254.5	1,192.7	1,245.4	1,208.3	1,329.8	121.4	10.0

Source: Bank of Uganda

During the quarter ended December 2009, the share of foreign currency deposits in M3 fell to 20.9 percent, from a share of 21.6 percent at end-September 2009. The proportion of private demand deposits in M3 decreased to 28.5 percent from 28.8 percent while currency in circulation was 19.7 percent of M3 as at end December 2009, up from 19.2 percent at end-September 2009. The share of term deposits increased to 30.8 percent by the end of the quarter to December 2009 from 30.4 percent at end-September 2009.

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



Source: Bank of Uganda

3.2 Base Money

Base money registered a growth of 12.6 percent in the quarter ended December 2009, compared to a growth of 0.2 percent in the previous quarter. Both currency and commercial bank reserves held at the BOU increased by 10.6 percent and 14.2 percent, respectively.

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

	Dec 08	Mar 09	Jun 09	Sept 09	Dec 09	Change Sept.09 to Dec. 09	
						Absolute	Percent
Net Foreign Assets	**4,520.0**	**5,129.0**	**5,119.5**	**5,421.5**	**5,325.4**	**-96.1**	**-1.8**
External Assets	4,540.4	5,150.3	5,142.1	5,442.2	5,346.4	-95.8	-1.8
o/w Foreign Reserves	4,483.8	5,130.4	5,040.5	5,356.2	5,260.8	-95.4	-1.8
Foreign Liabilities	20.4	21.4	22.6	20.6	20.9	0.3	1.5
Net Domestic Assets	**-2,593.0**	**-3,027.1**	**-3,169.1**	**-3,467.7**	**-3,125.8**	**341.9**	**9.9**
Claims on Government (net)	-2,043.7	-2,206.0	-2,209.5	-2,484.8	-2,331.3	153.5	6.2
Claims on Private Sector	20.0	15.5	11.8	14.9	16.13	1.2	8.0
Claims on Parastatals	4.1	2.2	0.4	0.4	0.4	0.0	0.0
Claims on Commercial Banks	104.0	69.7	87.0	76.0	33.64	-42.4	-55.8
Other Items, Net	-677.3	-908.5	-1,058.8	-1,074.2	-844.7	229.5	21.4
Base Money + Investments in BOU Instruments	**1,927.0**	**2,101.8**	**1,950.4**	**1,953.8**	**2,199.5**	**245.7**	**12.6**
Base Money	1,927.0	1,933.3	1,950.4	1,953.8	2,179.53	225.7	11.6
Currency Outside BoU	1,487.7	1,412.3	1,468.7	1,442.2	1,595.3	153.1	10.6
Commercial Bank's Operational reserves	439.3	521.0	481.6	511.6	584.3	72.6	14.2
Commercial Banks Investment in BoU Instruments	0.0	168.5	0.0	0.0	20.0	20.0	-

Source: Bank of Uganda

3.3 Activities of Commercial Banks

3.3.1 Overview

The net foreign assets (NFA) of commercial banks declined by 29.3 percent to Shs. 379.9 billion, largely on account of an 11.3 percent drop in external assets. On the other hand, commercial banks' net domestic assets (NDA) rose by 10.5 percent to Shs. 5,035.4 billion mainly as a result of increased credit to the private sector and net claims on BOU. 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 (Shs. billion)

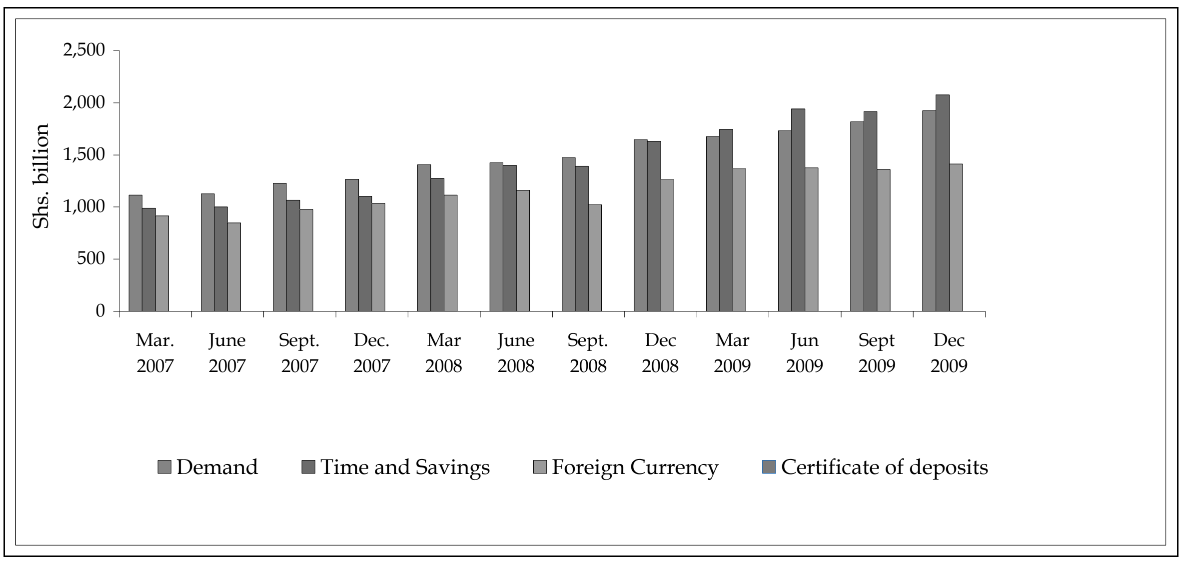
	Dec.08	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Change Sept. 09 to Dec. 09	
						Absolute	Percent
Net Foreign Assets	**503.5**	**562.9**	**592.0**	**537.0**	**379.9**	**-157.2**	**-29.3**
External Assets	983.6	1,038.1	1,141.6	1,064.2	944.2	-119.9	-11.3
Foreign Liabilities	480.1	475.2	549.7	527.1	564.4	37.2	7.1
Net Domestic Assets	**4,027.7**	**4,225.8**	**4,460.2**	**4,555.2**	**5,035.4**	**480.4**	**10.5**
Claims on Central Government (net)	1,378.5	1,273.7	1,565.1	1,651.4	1,678.2	26.8	1.6
Claims on Private Sector	3,377.2	3,528.8	3,587.7	3,676.7	3,977.8	301.1	8.2
Cash in Vaults	233.2	219.7	223.3	233.8	265.5	31.7	13.6
Net Claims on Bank of Uganda	419.9	549.9	398.0	473.0	600.70	127.7	27.0
Other Items, Net	-1,401.2	-1,402.7	-1,405.7	-1,537.4	-1,539.7	-2.4	0.2
Total Deposits	**4,531.2**	**4,788.7**	**5,052.2**	**5,092.2**	**5,415.3**	**323.1**	**6.4**
Demand Deposits	1637.0	1,677.2	1,732.7	1,816.9	1,925.6	108.7	6.0
Time and Savings Deposits	1,631.0	1,745.3	1,942.5	1,915.0	2,077.1	162.1	8.5
Foreign Exchange Accounts	1,263.2	1,366.2	1,376.9	1,360.2	1,412.6	52.4	3.9
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

Deposits of the private sector held at commercial banks increased by 6.4 percent to Shs. 5,415.3 billion in the quarter ended December 2009, as compared to growths of 0.8 percent and 16.5 percent recorded in the quarter ended September 2009 and December 2008, respectively. In particular, foreign currency deposits increased by 3.9 percent to Shs. 1,412.6 billion during the quarter under review. Demand and term deposits also followed the same trend, growing by 6.0 percent and 8.5 percent to Shs. 1,925.6 billion and Shs. 2,077.1 billion, respectively. There were no certificates of deposit issued by commercial banks in the quarter under review. 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

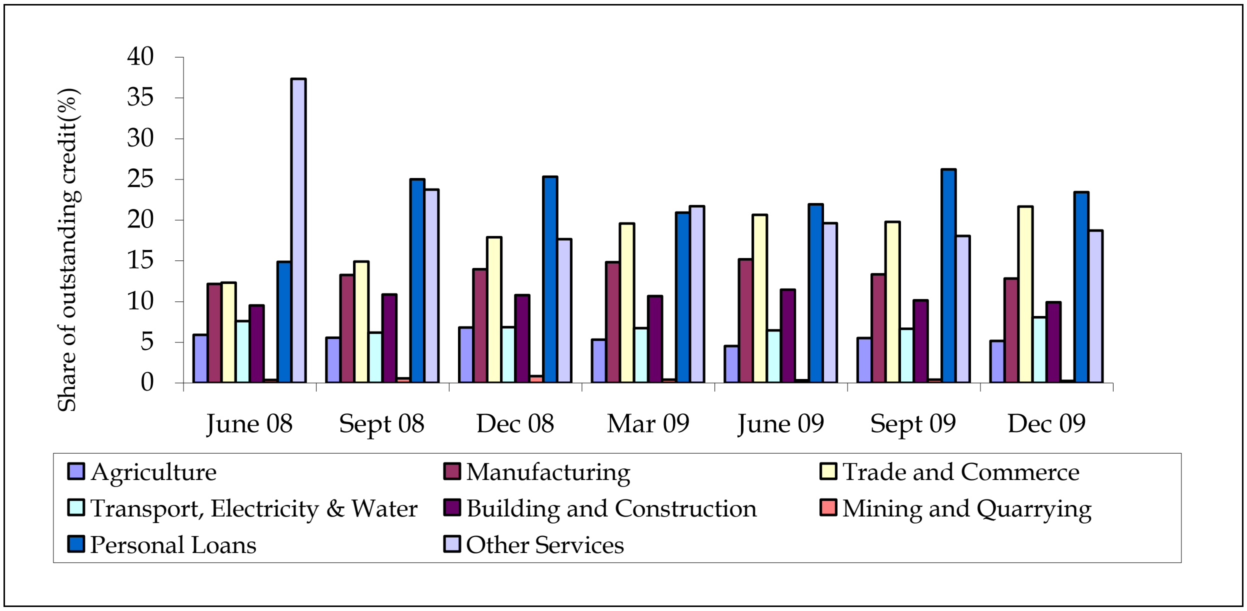
During the quarter under review, the stock of outstanding credit owed by the private sector to commercial banks grew by 8.2 percent or Shs. 301.1 billion to Shs. 3,977.8 billion. This growth was mainly attributed to increased activity in the trade, building and construction, manufacturing, transport, electricity and water sectors. However, the growth in private sector credit during this quarter was lower than the 11.2 percent increase recorded in the corresponding quarter of 2008, partly as a result of tight credit conditions set by the commercial banks in view of their pessimism about the performance of the global economy in general.

The shilling denominated loans to the private sector grew by 7.3 percent to Shs. 3,159.5 billion, while the foreign currency denominated loans increased by 11.9 percent to Shs. 834.5 billion during the quarter ended December 2009.

Personal loans continued to account for the bulk of credit extended to the private sector, accounting for 23.4 percent of total outstanding credit as at end-December 2009. The stock of outstanding credit to this sector, however, declined by 3.7 percent to Shs. 944.5 billion during the review period. Credit to the trade and commerce sector increased by 31.0 percent to Shs. 874.0 billion thus accounting for 21.7 percent of total credit. Total loans to the agricultural sector increased by 1.6 percent to Shs. 208.4 billion, accounting for 5.2 percent of total credit while amount due from the manufacturing sector grew by 3.7 percent to Shs. 517.0 billion, representing 12.8 percent of total credit.

The stock of credit to the transport, electricity and water; and building and construction sectors increased by 6.4 percent, and 5.6 percent to Shs. 248.3 billion and Shs. 400.3 billion, representing 6.6 and 9.9 percent of total credit, respectively. The mining and quarrying sector had the least share of outstanding credit amounting to 0.2 percent of total outstanding loan amount. Figure 3 below shows the sectoral distribution of commercial bank credit to the private sector over the period from June 2008 to December 2009.

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

There was an increase in the activities of CIs during the quarter ended December 2009. Total assets increased to Shs. 123.9 billion at end-December 2009 from Shs. 117.3 billion as at end-September 2009, an increase of 5.6 percent compared to the growth rates of 6.0 percent and 1.8 percent observed in the quarters ended September 2009 and December 2008, respectively. Total assets increased during the quarter mainly due to a rise in loans extended to the private sector and increased investment by these institutions.

CIs increased their investments in government securities by 43.2 percent to Shs. 10.6 billion at end-December 2009 in contrast to decreases of 13.4 percent and 20.7 percent observed in the quarters ended September 2009 and December 2008, respectively. Cash in vaults increased by 12.5 percent from Shs. 4.8 billion to Shs. 5.4 billion. 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)

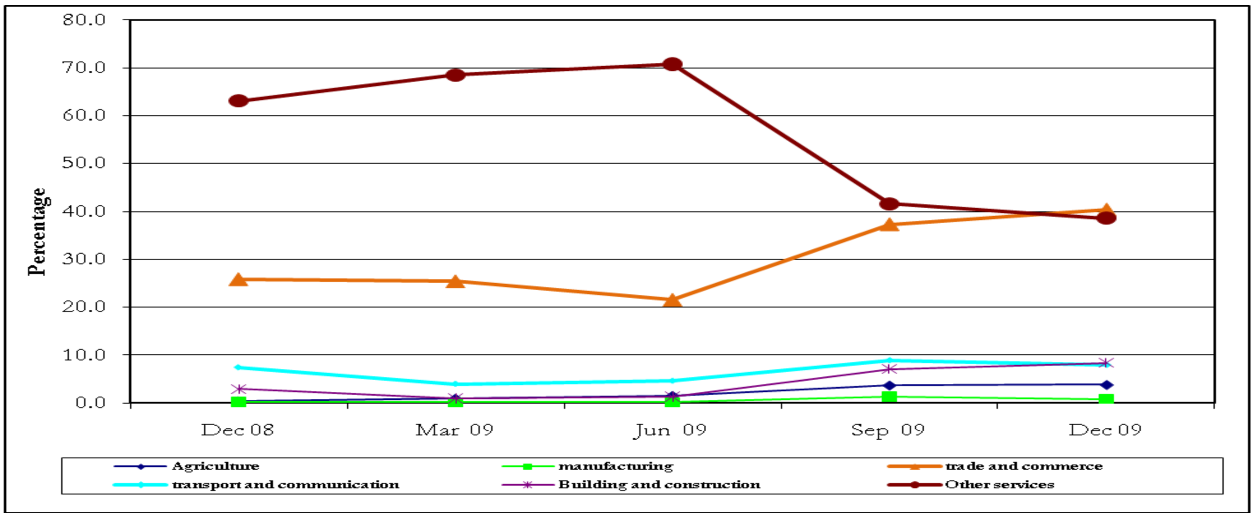
	Dec-08	Mar-09	Jun 09	Sep 09	Dec 09	Change Sep 09 to Dec 09	
						Absolute	Percent
Cash in vaults	5.4	4.3	4.1	4.8	5.4	0.6	12.5
Balances with Commercial Banks & associated companies	24.6	20.9	27.6	26.6	23.1	-3.5	-13.2
Investments	12.8	14.7	8.6	7.4	10.6	3.2	43.2
Total Advances [1]	38.7	57.0	52.6	58.2	63.5	5.3	9.1
Premises and other fixed assets	14.6	12.3	13.4	14.5	15.3	0.8	5.5
Other Assets [2]	10.6	4.7	4.5	5.8	6.0	0.2	3.4
Total	**106.6**	**114.0**	**110.7**	**117.3**	**123.9**	6.6	5.6

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

4.1.2 Credit to the private sector

During the quarter ended December 2009, total loans advanced by Credit Institutions grew by 9.1 percent from Shs. 58.2 billion at end September 2009 to Shs. 63.5 billion, largely due to an increase in credit extended to the trade and commerce sector. The share of credit to this sector increased to 40.3 percent during the quarter under review from a share of 37.3 percent recorded in the quarter ended September 2009. The ratio of non-performing advances to outstanding advances decreased from 4.2 percent to 3.3 percent as at end December 2009. Figure 4 shows the sectoral distribution of loans 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 deposits held in credit institutions grew by 4.4 percent or Shs. 3.3 billion to Shs. 78.4 billion at end-December 2009, compared to increases of 3.3 percent and 6.5 percent registered in the quarters to September 2009 and December 2008, respectively.

Total private sector deposits increased by 5.5 percent to Shs. 74.3 billion compared to growth rates of 2.8 percent and 6.7 percent observed in the previous quarter and in the corresponding quarter of 2008, respectively.

In particular, savings deposits increased by 9.4 percent whereas time deposits declined by 21.1 percent during the period under review. Table 5 and Figure 5 illustrate the evolution of the deposits between December 2008 and December 2009.

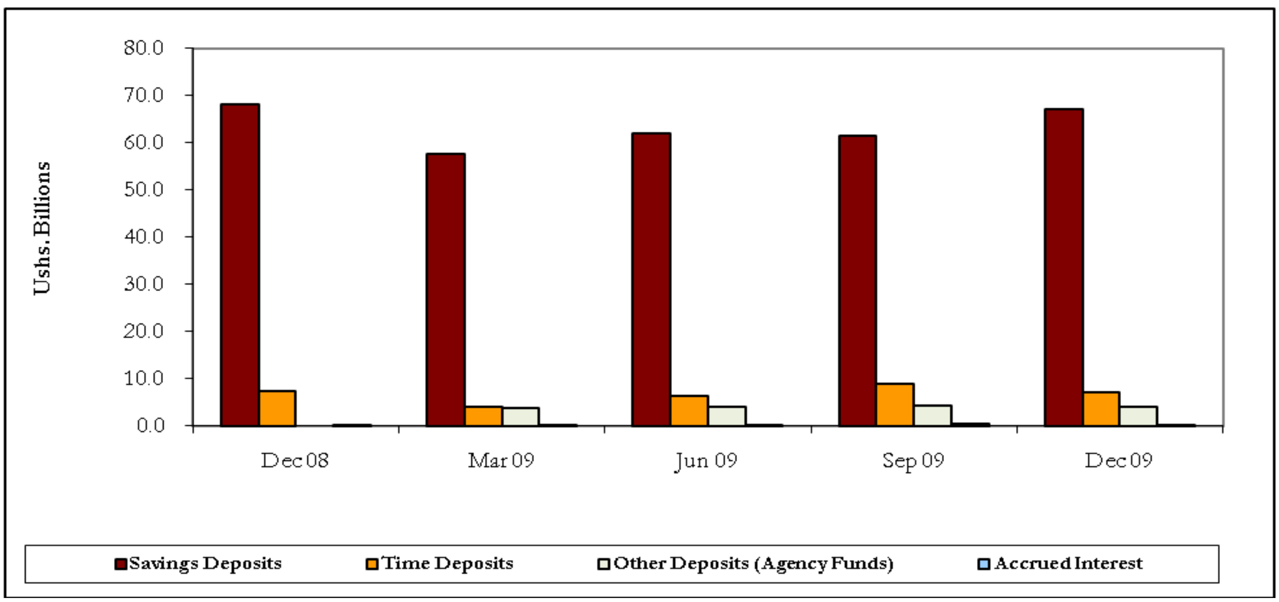
Table 5: Composition of the total liabilities of the CIs (Shs. Billion, at end period)

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Change Sep 09 to Dec 09 Absolute	Percent
Savings deposits	68.1	57.5	62.0	61.4	67.2	5.8	9.4
Time Deposits	7.3	4.1	6.4	9.0	7.1	-1.9	-21.1
Total private sector deposits	**75.4**	**61.6**	**68.4**	**70.4**	**74.3**	3.9	5.5
Agency funds	0.0	3.8	3.5	4.3	4.0	-0.3	-7.0
Accrued interests	0.1	0.2	0.2	0.4	0.1	-0.3	-75.0
Total deposits	**75.6**	**65.7**	**72.1**	**75.1**	**78.4**	3.3	4.4
Administered funds	0.0	9.4	0.0	0.0	0.0	0.0	0.0
Capital and profit/loss	18.5	23.4	23.1	23.4	28.2	4.8	20.5
Others [1]	12.6	14.6	15.2	17.4	16.5	-0.9	-2.5
Total Liabilities	**106.6**	**114.0**	**110.7**	**117.3**	**123.9**	6.6	5.6

[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)

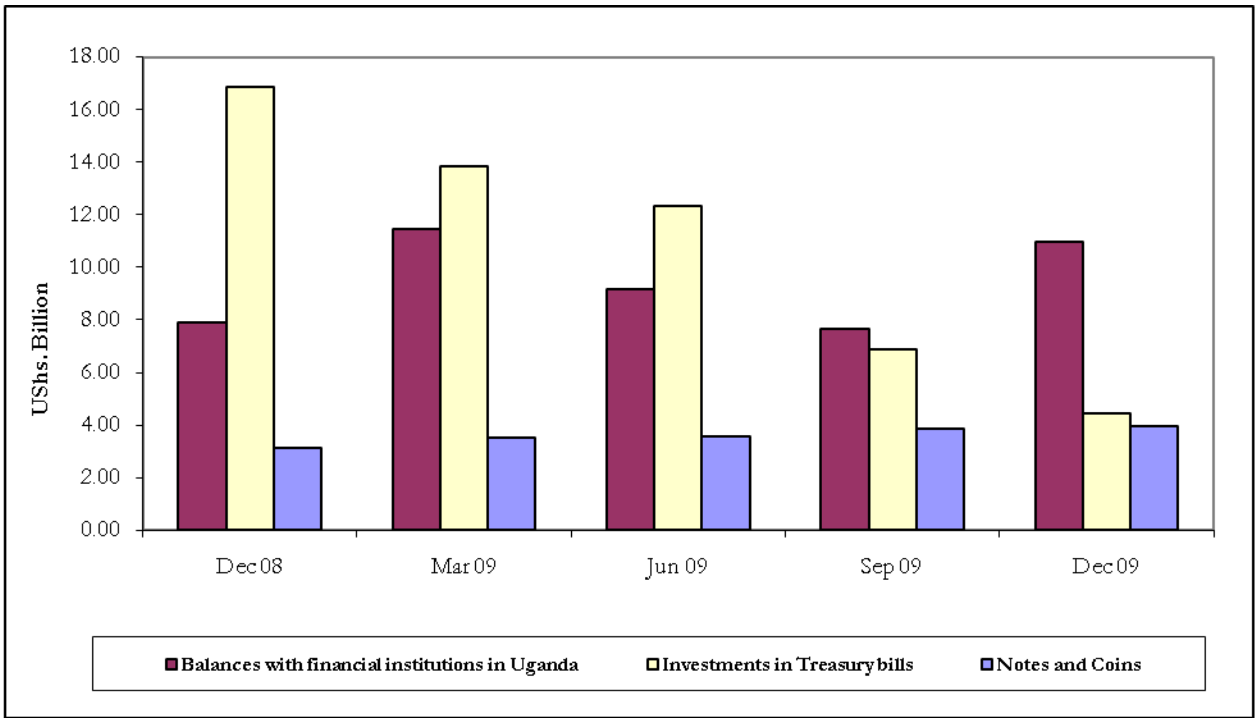


Source: Bank of Uganda

4.1.4 Liquidity

The level of liquid assets held by credit institutions increased by 0.8 percent to Shs. 39.1 billion at end-December 2009, compared to a decline of 3.7 percent and a growth of 8.6 percent registered at the end of September 2009 and December 2008, respectively. The rise in liquid assets was mainly on account of increased investment in Treasury securities by CIs. Balances of these institutions with commercial banks fell by 13.2 percent or Shs. 3.5 billion from Shs. 26.6 billion to Shs. 23.1 billion. 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 held by MDIs increased by 3.4 percent to Shs. 135.8 billion in the quarter ended December 2009 as a result of increased lending to the private sector. This growth was lower than a rise of 4.3 percent recorded in the previous quarter but much higher than a decline of 44.3 percent reported in the corresponding quarter of 2008, reflecting increased lending to the private sector. The large decline in the quarter ended December 2008 was because of the merger between Uganda Microfinance Limited and Equity Bank which then started operating as a commercial bank. Table 6 and Figure 7 highlight the developments in the assets of the MDIs.

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

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Change Sept 09 to Dec 09	
						Absolute	Percent
Notes and Coins	3.1	3.5	3.6	3.9	4.0	0.1	2.6
Balances with financial institutions in Uganda	7.9	11.4	9.1	7.7	11.0	3.3	42.9
Investments in Treasury bills	27.8	18.3	18.9	8.6	8.9	0.3	3.5
Net loans outstanding	81.1	79.4	82.7	88.8	94.8	6.0	6.8
Inter branch/Due from own offices	0.0	0.1	0.0	0.0	0.0	0.0	-
Net Fixed Assets	8.3	8.4	8.8	9.5	9.9	0.4	4.2
Long Term Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	6.3	8.9	9.4	10.4	8.2	-2.2	-21.2
Total Assets	**123.6**	**125.6**	**125.9**	**131.3**	**135.8**	4.5	3.4
NPA %	**2.7**	**2.9**	**2.9**	**2.5**	**2.4**		

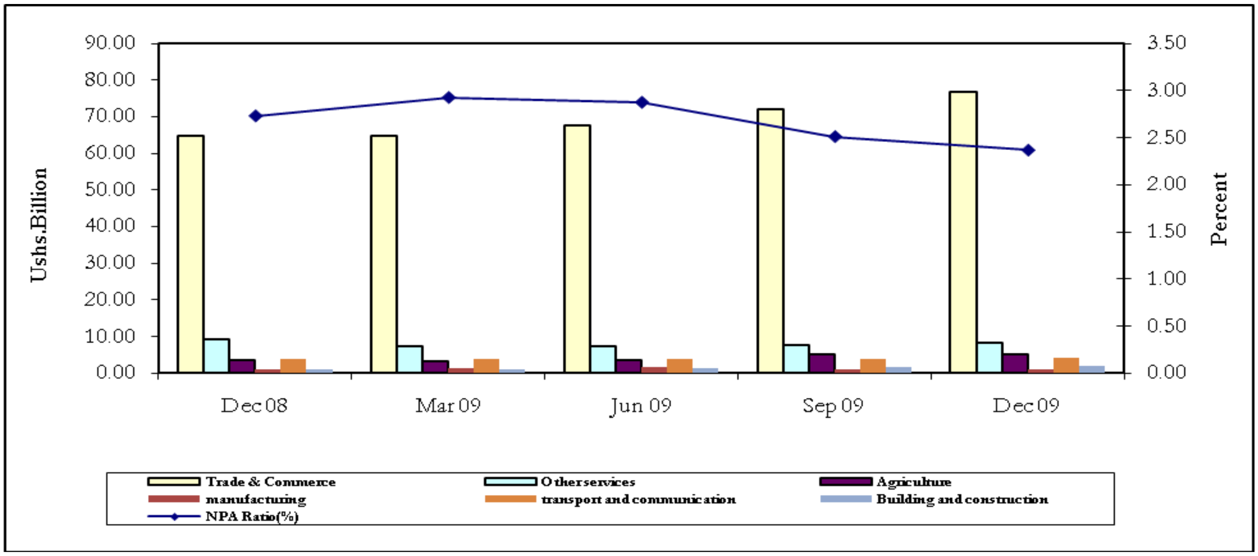
Source: Bank of Uganda

4.2.2 Credit to the Private Sector

Net outstanding loans to the private sector increased by 6.8 percent from Shs. 88.8 billion to Shs. 94.8 billion during the quarter ended December 2009 compared to an increase of 7.4 percent observed in the previous quarter and a decrease of 40.4 percent in the same period in 2008.

The trade and commerce sector continued to absorb the largest share of credit extended by MDIs, accounting for 61.7 percent of the total stock of outstanding loans as at end-December 2009.

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



Source: Bank of Uganda

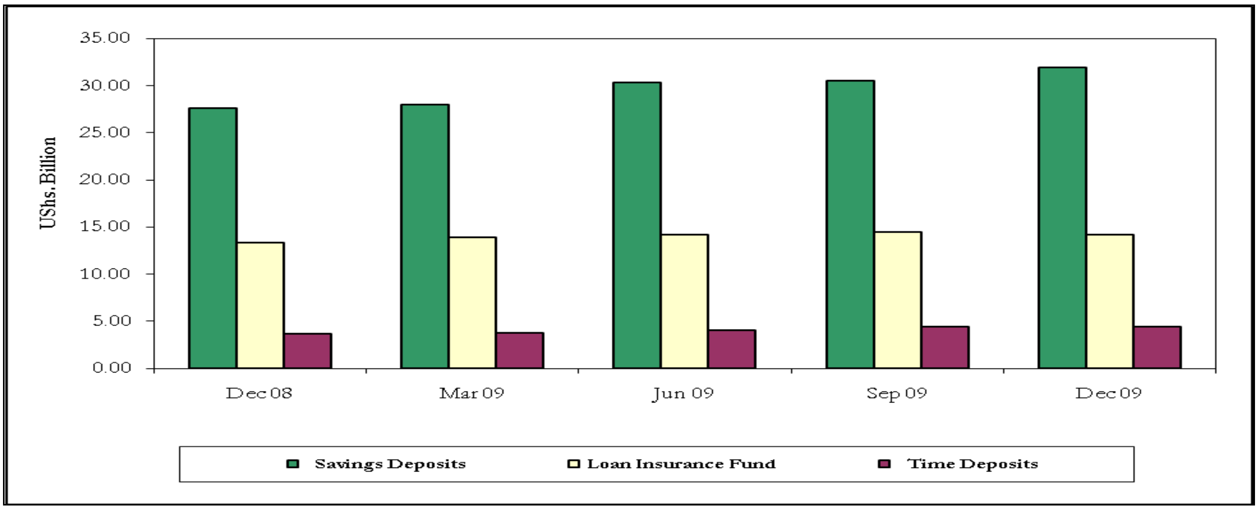
4.2.3 Deposits

Private sector deposits in the MDIs grew by Shs. 4.0 billion to Shs. 36.4 billion, an increase of 4.0 percent compared to a growth rate of 1.7 percent observed in the previous quarter and a decline of 37.3[1] percent in the corresponding quarter of the previous year. Savings deposits increased by 4.9 percent while time deposits declined by 0.3 percent to Shs. 32.0 billion and Shs 4.5 billion, respectively.

MDIs total borrowing, increased by 8.1 percent from Shs. 27.0 billion to Shs. 29.2 billion. Long-term borrowings at market price increased by Shs. 0.7 billion to Shs. 25.7 billion while short-term borrowings stood at Shs. 1.5 billion. Table 7 below shows the composition of MDIs' liabilities while figure 8 shows the evolution of the MDIs' total deposits.

[1] Deposits of MDIs declined in December 2008 when Uganda Microfinance Limited merged with Equity Bank to start operating as a commercial bank.

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

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Change Sep 09 to Dec 09	
						Absolute	Percent
Deposit Liabilities	**31.5**	**32.0**	**34.5**	**35.2**	**36.6**	1.4	4.0
Savings deposits	27.7	28.0	30.3	30.5	32.0	1.5	4.9
Time deposits	3.7	3.8	4.1	4.4	4.2	-0.2	-4.5
Total Private Sector Deposits	**31.3**	**31.9**	**34.4**	**35.0**	**36.4**	1.4	4.0
Accrued interest	0.1	0.2	0.1	0.2	0.2	0.0	0.0
Loan insurance fund	13.4	13.9	14.2	14.5	14.2	-0.3	-2.1
Total Borrowing	**28.5**	**26.4**	**24.9**	**27.0**	**29.2**	2.2	8.1
Long-term borrowing (market rate)	27.7	17.9	16.8	25.0	25.7	0.7	3.0
Short-term borrowing (market rate)	0.8	6.4	6.2	0.0	1.5	1.5	0.0
Other liabilities	**9.0**	**10.6**	**9.8**	**12.4**	**10.9**	-1.5	-12.1
Total liabilities	**82.3**	**83.0**	**83.4**	**89.0**	**90.9**	1.9	2.1
Total equity	24.8	26.1	26.0	25.8	28.4	2.6	10.0
Subordinated debt	16.5	16.5	16.5	16.5	16.5	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	**123.6**	**125.6**	**125.9**	**131.3**	**135.8**	4.5	3.4

[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 to support monetary policy implementation through improved liquidity management and to promote market development by extending both the maturity of the instruments traded and the yield curve.

During the quarter ended December 2009, two new Treasury bonds were issued and an earlier issued Treasury bond re-opened to absorb structural liquidity for a longer period. These bond auctions were oversubscribed and, with the exception of the 10-year bond, yields-to-maturity for the different tenors declined, reflecting increasing demand for these longer dated government securities.

5.1.1 Primary Market of Treasury bonds

A 2-year, and a 10-year Treasury bonds with respective face values of Shs. 60.0 billion and Shs. 40.0 billion were issued, and a 5-year bond worth Shs. 60.0 billion at face value re-opened in the quarter under review. These auctions were over-subscribed by Shs. 101.1 billion, Shs. 102.1 billion and Shs. 148.6 billion, respectively. Total bids for each auction translated into cover ratios of 2.7, 2.7 and 4.7; Weighted Average Prices (WAP) per Shs. 100 of Shs. 96.1, Shs. 80.9 and Shs. 95.7; and yields-to-maturity of 12.3, 14.7 and 12.7 percent, respectively. These bond issues, together with the 2-year and 3-year bond maturities totalling Shs. 160.0 billion, kept the total outstanding stock of Treasury bonds at Shs. 1,406.6 billion as at end of quarter under review.

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

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Stock of Treasury bonds (Shs. billion)	1,365.24	1,231.23	1,361.59	1,406.59	1,406.56
Change in stock (absolute)	-104.94	-134.01	130.36	45.00	0.00
Price and interest rates (percent)					
2-year average price (Shs. /100)	0.00	86.23	0.00	92.71	96.10
3-year average price (Shs. /100)	83.89	0.00	91.35	91.12	0.00
5-year average price (Shs. /100)	0.00	0.00	0.00	88.16	95.73
10-year average price (Shs. /100)	0.00	0.00	0.00	0.00	80.92
2-year yield-to-maturity rate	0.00	18.55	0.00	14.31	12.26
3-year yield-to-maturity rate	17.37	0.00	13.98	13.98	0.00
5-year yield-to-maturity rate	0.00	0.00	0.00	14.13	12.67
10-year yield-to-maturity rate	0.00	0.00	0.00	0.00	14.70
Issues at face value (Shs. billion)					
2-year	0.00	35.86	0.00	50.00	60.00
3-year	15.05	0.00	178.68	50.00	0.00
5-year	0.00	0.00	0.00	50.00	40.00
10-year	0.00	0.00	0.00	0.00	60.00
Total issues at face value	15.05	35.86	178.68	150.00	160.00
Total maturities	119.22	170.00	48.32	105.00	160.00
Total net issues at face value	-104.17	-134.42	130.36	45.00	0.00
Issues at cost value (Shs. billion)					
2-year	0.00	30.92	0.00	46.36	57.66
3-year	12.63	0.00	163.86	45.56	0.00
5-year	0.00	0.00	0.00	44.08	38.29
10-year	0.00	0.00	0.00	0.00	48.55
Total issues at cost value	12.63	30.92	163.86	136.00	144.505

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 11.9/11.7, 12.3/12.1, 13.0/12.8, and 13.6/13.4 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively. Corresponding average rates for quarters ended September 2009 and December 2008 were 13.4/13.2, 13.6/13.5, 14.0/13.8, and 14.1/13.8 percent and 16.2/16.0, 15.9/15.7, 14.9/14.7, and 14.1/13.9 percent.

In the quarter ended December 2009, 2-year, 3-year and 5-year bonds worth Shs. Shs. 186.9 billion were traded. This value of trades was lower than the value of Shs. 292.2 billion recorded in the previous quarter.

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	11.25	11.10	11.45	11.20	12.05	12.30	13.00	12.80
Max	13.10	12.85	13.15	12.90	13.70	13.45	14.55	14.35
Average	11.85	11.67	12.25	12.08	13.03	12.82	13.62	13.41

Source: Bank of Uganda

5.2 Treasury bill market

5.2.1 Primary Market of Treasury Bills

The Treasury bill which is the main liquidity sterilization instrument was actively used during the quarter under review. Securities worth Shs. 356.1 billion at face value were issued against maturities of Shs. 430.2 billion resulting into a net redemption of Shs. 74.1 billion compared to a net issuance of Shs. 24.8 billion and a net redemption of Shs. 54.8 billion, for the previous quarter to September 2009 and the corresponding quarter ended December 2008, respectively.

During the quarter under review, 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 20.0, 31.1, and 46.0 percent for the 91-day, 182-day, and 364-day securities, respectively.

Further more, on November 02, 2009, Treasury bills worth Shs. 16.1 billion were bought by commercial banks for failure-to-settle collateral purposes at the weighted average discount rate of 6.5 percent. Table 11 summarizes these developments.

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

	Dec 08	Mar09	Jun 09	Sept 09	Dec 09
Price and interest rates (percent)					
91-day Average price (Shs. /100)	97.52	97.93	98.51	98.29	98.50
Annualized 91-day discount rate	9.93	8.32	5.98	6.85	6.03
Annual 91-day discount yield	10.59	8.78	6.21	7.16	6.26
Reference rate/[1]	11.72	8.31	6.19	7.92	5.65
Rediscount rate	18.42	11.71	9.59	10.92	8.65
Issues at face value (Shs. Billion)					
91 days	46.87	37.00	49.15	36.75	86.15
182 days	74.30	45.00	137.13	112.10	109.00
364 days	255.41	126.00	385.90	216.00	161.00
Total issues at face value	376.58[2]	208.00[2]	572.18[2/4]	364.84[2]	356.15[2]
Total maturities	431.40[3]	426.95[3]	353.67[3]	340.00[3]	430.22[3]
Total net issues at face value	-54.82	-218.95	218.51	24.84	-74.07
Issues at cost value (Shs. Billion)					
91days	45.72	36.11	48.41	36.12	84.86
182 days	69.31	42.37	130.72	106.23	104.28
364 days	219.00	111.20	345.61	190.81	146.37
Total issues at cost value	334.03	189.68	524.74	333.16	335.51

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.

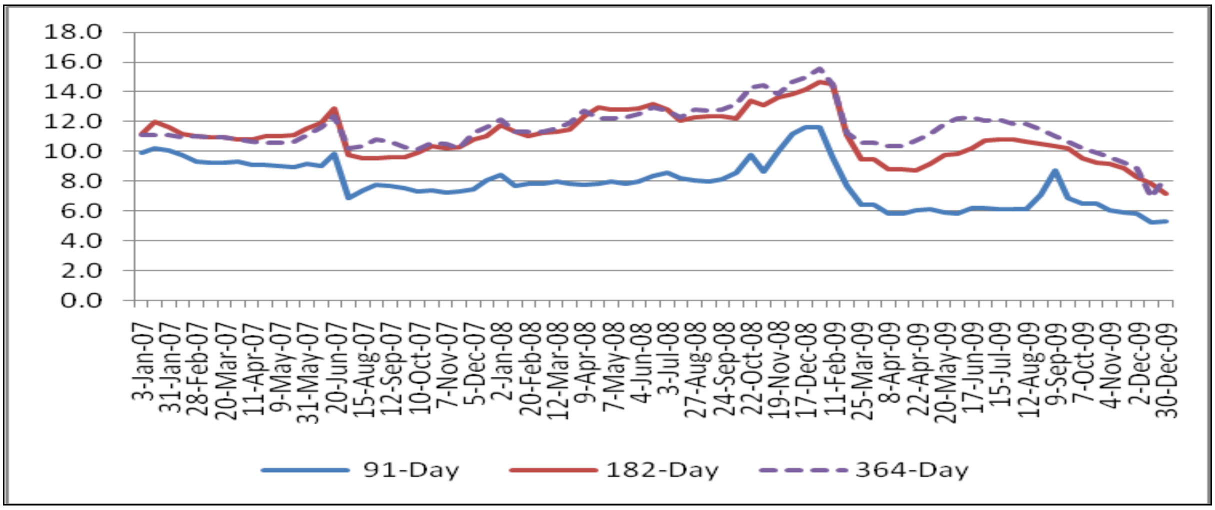
Source: Bank of Uganda

The weighted average discount rates on Treasury bills for the quarter under review were 6.0, 8.7 and 9.2 percent for the 91-day, 182-day, and 364-day tenors, respectively. These discount rates were lower than the corresponding rates of 6.7, 10.6 and 11.6 percent, recorded in September 2009. Figure 9 illustrates developments in these rates.

The average annualized yields for the entire quarter stood at 6.3, 9.3 and 10.1 percent for the 91-day, 182-day, and 364-day bills, respectively. These rates were lower than the respective rates of 7.0, 11.5 and 13.1 percent and 10.6, 15.1, and 16.9 percent recorded in the quarters to September 2009 and December 2008.

Commercial banks' holdings of Treasury bills continued to increase and amounted to 72.4 percent of the outstanding stock by end December 2009, higher than 62.8 percent and 55.3 percent as at end September 2009 and December 2008, respectively. On the other hand, the proportion of Treasury bills held by Bank of Uganda declined to 15.8 percent in December 2009, from 20.4 percent in the previous quarter and 20.8 percent at end December 2008.

Figure 9: Treasury bill average discount rates



Source: Bank of Uganda

5.2.2 Secondary Market of Treasury bills

Secondary market trading in Treasury bills was as a result 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.

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, also declined.

The average bid/offer rates for the quarter ended December 2009 were 6.5/6.3, 9.5/9.3 and 10.4/10.2 percent for the 91-day, 182-day and 364-day securities, respectively compared to the average rates for the respective papers of 7.2/7.0, 11.0/10.8 and 12.9/12.6 percent in the previous quarter and 9.2/9.0, 14.1/13.8 and 13.8/13.5 percent in the corresponding quarter of 2008. The yield curve derived from average yield-to-maturity quotes in the secondary market was gently upward sloping.

Total trades over the quarter ended December 2009, amounted to Shs. 176.2 billion. This value of trade was lower than values of trade worth Shs. 298.7 billion and Shs. 313.2 billion realised in the quarter ended September 2009 and the corresponding quarter in 2008, respectively. Horizontal repo transactions amounted to Shs. 12.0 billion. 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 2009)

	91-days		182-days		364-days	
	Yield-to-maturity rates quotation (percent)					
	Bid	Offer	Bid	Offer	Bid	Offer
Minimum	5.91	5.70	8.58	8.36	9.28	9.11
Maximum	7.17	6.96	10.77	10.49	11.60	11.31
Average (simple)	6.50	6.34	9.54	9.33	10.42	10.20
Total trading activity			**Shs. 176.242 billion**			
Transactions (Shs billion)	70.360		43.037		62.845	
- Horizontal repos	12.000		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	58.360		43.037		62.845	
Average discount rate	6.42%		8.39%		9.27%	
Average yield-to-maturity	6.58%		8.72%		9.84%	

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 in the market. At the beginning of the quarter, this instrument was used to ease the tight liquidity conditions which eased considerably towards the end of the quarter. As a result the average interest rate of the 7-day tenor REPO declined throughout the quarter. Overall, the instrument withdrew Shs. 76.0 billion from the market in the quarter under review compared to net injections of Shs. 3.6 billion and Shs. 0.2 billion in the quarters ended September 2009 and December 2008, respectively. These developments are shown in Table 12.

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

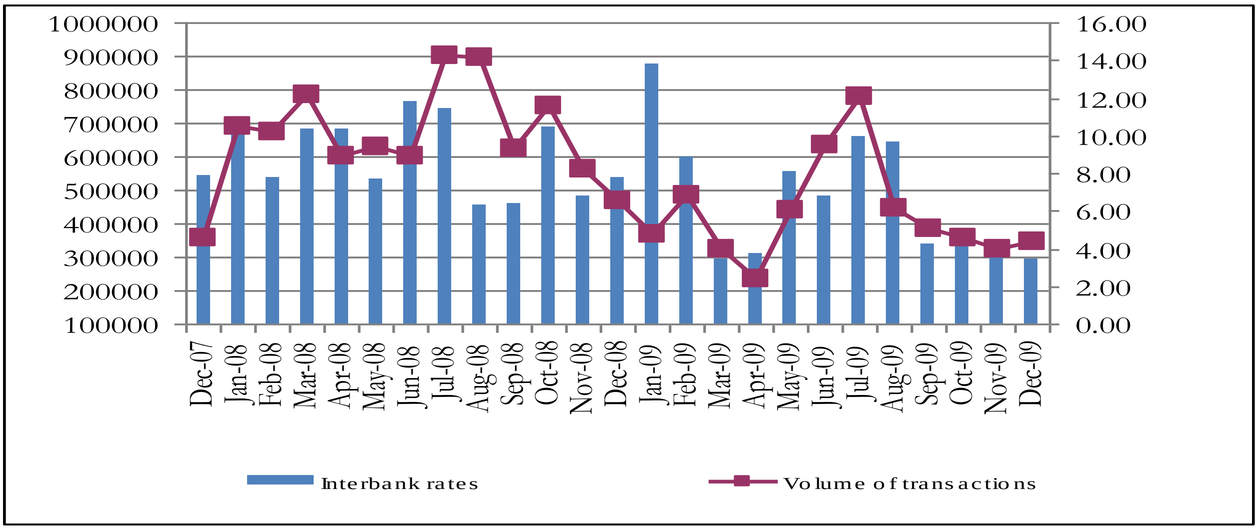
	Dec 08	Mar 09	Jun 09	Sept 09	Dec 09
Issuance of repos/(Reverse Repos)	339.000	416.500	368.500	(1,631.000)	757.0/(396.0)
Maturity of repos/(Reverse Repos)	339.247	278.250	507.488	(1,577.578)	737.4/(452.4)
Outstanding Stock of Repos	0.000	138.249	0.000	(53.421)	20.011

Source: Bank of Uganda

5.4 The Interbank Money Market

The domestic inter-bank money market was active in the period under review with transactions of durations of 1 to 30 days. Commercial banks continued to participate in the market in order to stabilize liquidity fluctuations, and cover their liquidity needs. In the quarter under review, the weighted inter-bank money market rate fell from 4.1 percent in October 2009 to 3.7 percent in November 2009 and further to 3.5 percent in December 2009. Inter-bank rates observed reflected the underlying liquidity conditions in the domestic money markets. Figure 10 shows the respective movements in the interest rates and values of transactions in the inter-bank shilling market.

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



Source: Bank of Uganda

5.4.1 Commercial bank's lending and deposit rates

Weighted average interest rates for commercial banks were relatively stable in the quarter under review, due to sound macroeconomic policies and the prudent management pursued by both Bank of Uganda, and the commercial banks over the period under review.

The weighted average lending rate on the shilling denominated loans was 20.0 percent compared to 20.7 percent and 19.0 percent in the quarter ended September 2009, and the corresponding quarter in 2008, respectively. The demand deposits rate rose marginally to 1.3 percent, from 1.2 percent recorded in the quarter ended September 2009 but was lower than the rate of 1.5 percent recorded in December 2008 while the weighted average savings rate dropped marginally to 2.3 percent from 2.4 percent in the quarter ended September 2009, but was higher than the rate of 2.2 percent for the quarter ended December

2008. The weighted average time deposits rate in the quarter ended December 2009 was 9.2 percent, higher than the rate of 8.5 percent for the previous quarter but lower than the rate of 11.6 percent for the quarter ended December 2008.

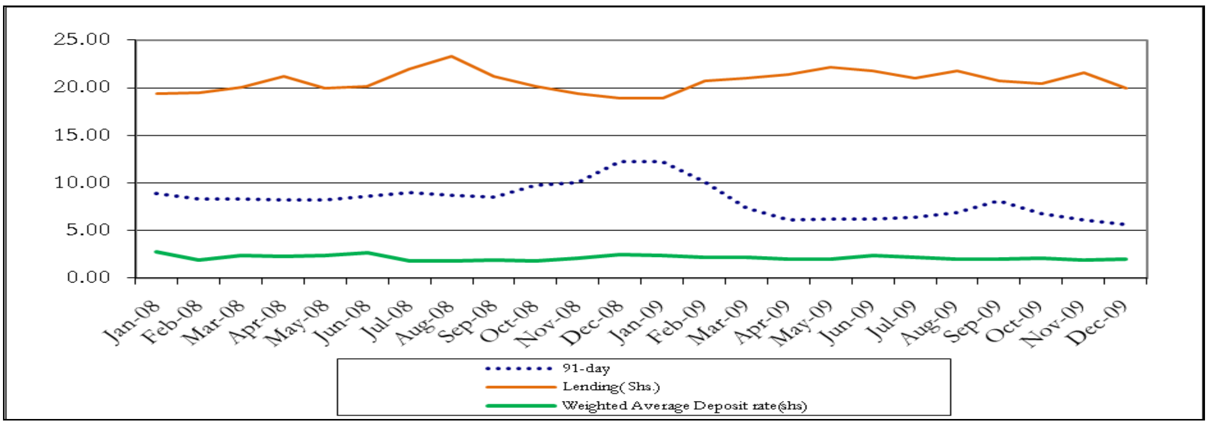
The weighted average lending rate on the foreign currency denominated loans was 10.0 percent, lower than the rate of 10.4 percent in the quarter ended September 2009 but still higher than the rate of 8.5 percent recorded in the quarter ended December 2008. The weighted average demand, savings and time deposits rates were 1.0 percent, 1.5 percent and 5.1 percent compared respective rates of 1.0, 1.5 and 4.8 percent for the quarter ended September 2009 and 1.1, 1.5 and 3.7 percent for the corresponding quarter in 2008. 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				
	Dec-08	Mar-09	June-09	Sept-09	Dec-09	Dec-08	Mar-09	Jun-09	Sept-09	Dec-09
Lending	19	20.97	21.80	20.69	20.01	8.49	10.69	10.37	10.41	10.07
Demand deposits	1.45	1.30	1.26	1.23	1.28	1.05	1.05	1.01	1.00	1.04
Savings deposits	2.19	2.39	2.36	2.36	2.25	1.38	1.59	1.51	1.50	1.48
Time deposits	11.62	8.97	10.72	8.49	9.23	3.72	2.10	3.93	4.79	5.09

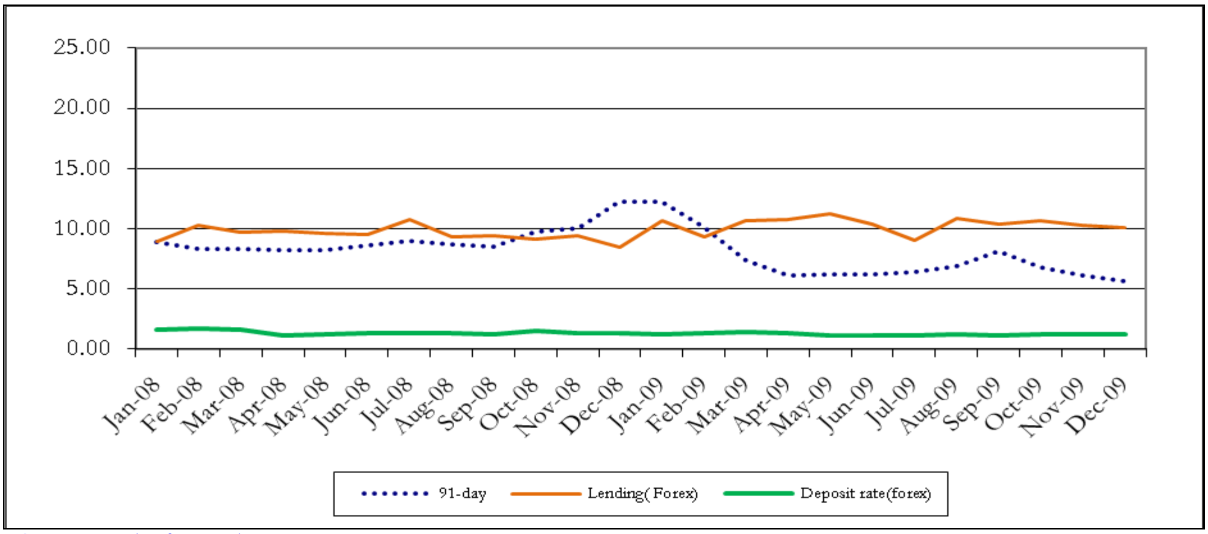
Source: Bank of Uganda

Figure 11: Shilling lending and deposit rates



Source: Bank of Uganda

Figure 12: Foreign exchange lending and deposit rates

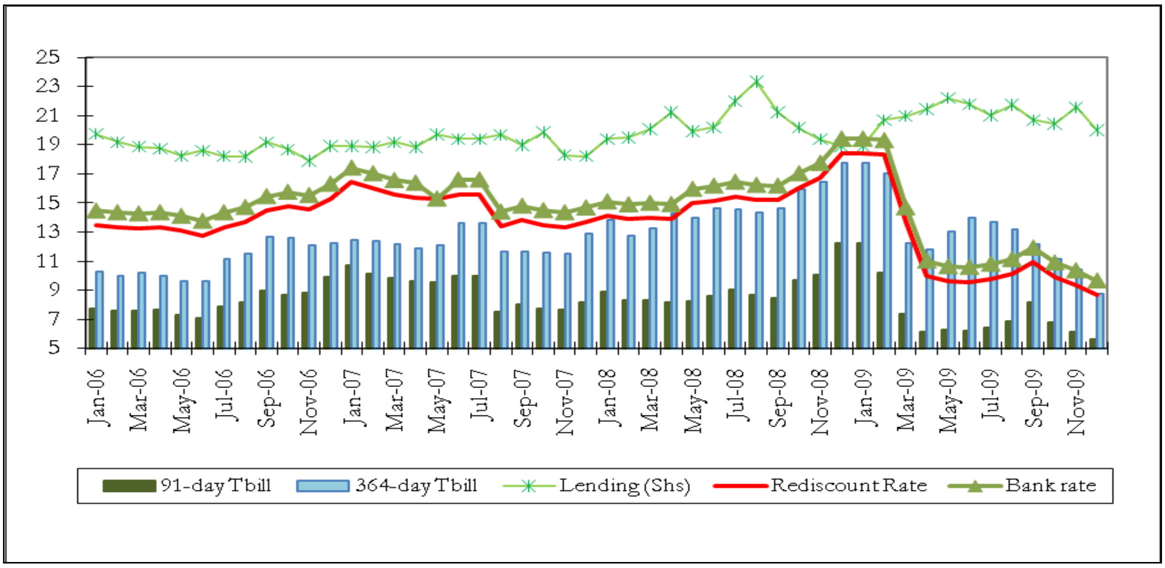


Source: Bank of Uganda

5.5 Bank of Uganda Rates

The margin within the rediscount rate remained unchanged at 3.0 percentage points as market conditions did not warrant a revision. However, due to developments in the domestic money markets of the 91-day Treasury bill, the Rediscount rate and Bank rate fell from respective rates of 10.72 percent and 11.72 percent recorded at the beginning of the quarter (October 2009) to 8.65 percent and 9.65 percent, by end December 2009. Figure 13 highlights the trends in the 91-day T-Bill rate, the 364-days T-bill rate, lending rates the rediscount and 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

The shilling opened trading at Shs. 1,925.4 per U.S. dollar and closed at Shs. 1,899.7 per U.S. dollar as at end December 2009. On a period average basis, the shilling appreciated by 7.7 percent from Shs. 2,048.1 per US dollar for the quarter ended September 2009 to Shs. 1,889.6 per US dollar for the quarter ended December 2009 in comparison to an appreciation of 6.8 percent in the first quarter to September 2009. The shilling appreciation was mainly due to banks unwinding their long dollar positions amidst dollar inflows from agricultural export proceeds, offshore players and NGOs among others.

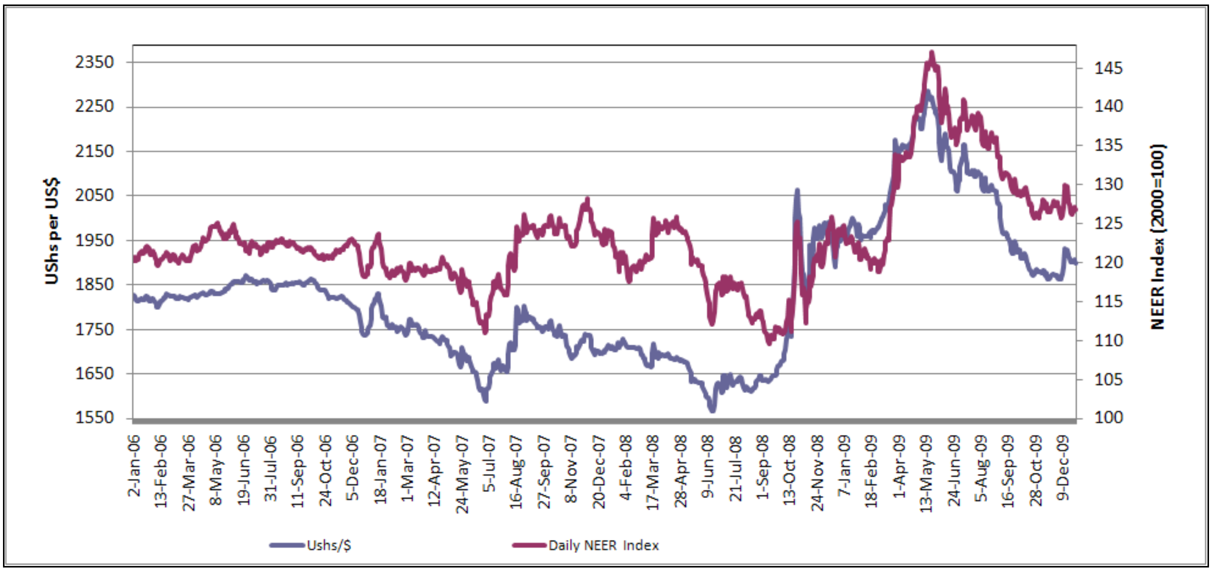
Bank of Uganda occasionally intervened in the inter-bank foreign exchange (IFEM) market on the purchase side, to smoothen out volatility. The average spread between the buying and selling rates narrowed from of Shs. 18.8 in the quarter to September 2009 to Shs. 10.0 in the quarter under review, reflecting increased certainty in the foreign exchange market.

The Bank also continued using the daily sales of US$ 0.1 million for purely liquidity management purposes. The actions of the Bank in the IFEM amounted to a net purchase of US$ 39.0 million in the second quarter of 2009/10 on account of both sterilization and intervention in contrast to a *revised* net sale of US$ 4.2 million during the previous quarter.

The nominal effective exchange rate (NEER) index appreciated by 5.6 percent in the quarter to December 2009 relative to an appreciation of 3.1 percent observed in the previous quarter. During the period under review, the shilling appreciated against most of the currencies of its trading partners. The shilling appreciated by 3.6, 4.7, 6.4, 4.2, 8.8, 7.7, 3.9 and 7.4 percent against the Japanese Yen, the Euro, Kenyan Shilling, Indian Rupee, Pakistan Rupee, Chinese Yuan, South African Rand and the UK Pound Sterling, respectively.

Arising from the developments in NEER and inflation differentials between Uganda and her trading partners, the real effective exchange rate (REER) index appreciated by 4.8 percent in the second quarter of 2009/10, compared to an appreciation of 4.9 percent recorded in the preceding quarter. Figure 14 shows the developments in the exchange rate.

Figure 14: Quarterly Exchange rate developments: January 2006 to December 2009



Source: Bank of Uganda

In the foreign exchange bureau market, the shilling appreciated by 7.9 percent from an average of Shs. 2,046.7 per U.S. dollar for the quarter ended September 2010 to Shs. 1,884.9 per US dollar in the quarter under review. In the previous period, the shilling had appreciated by 6.2 percent when the average bureau rate moved from Shs. 2,182.8 per U.S. dollar in the fourth quarter of 2008/09 to Shs. 2,046.7 per US dollar in the first quarter of 2009/10. Table 14, Figures 15 and 16 summarize the above developments.

6.2 Transaction Volumes

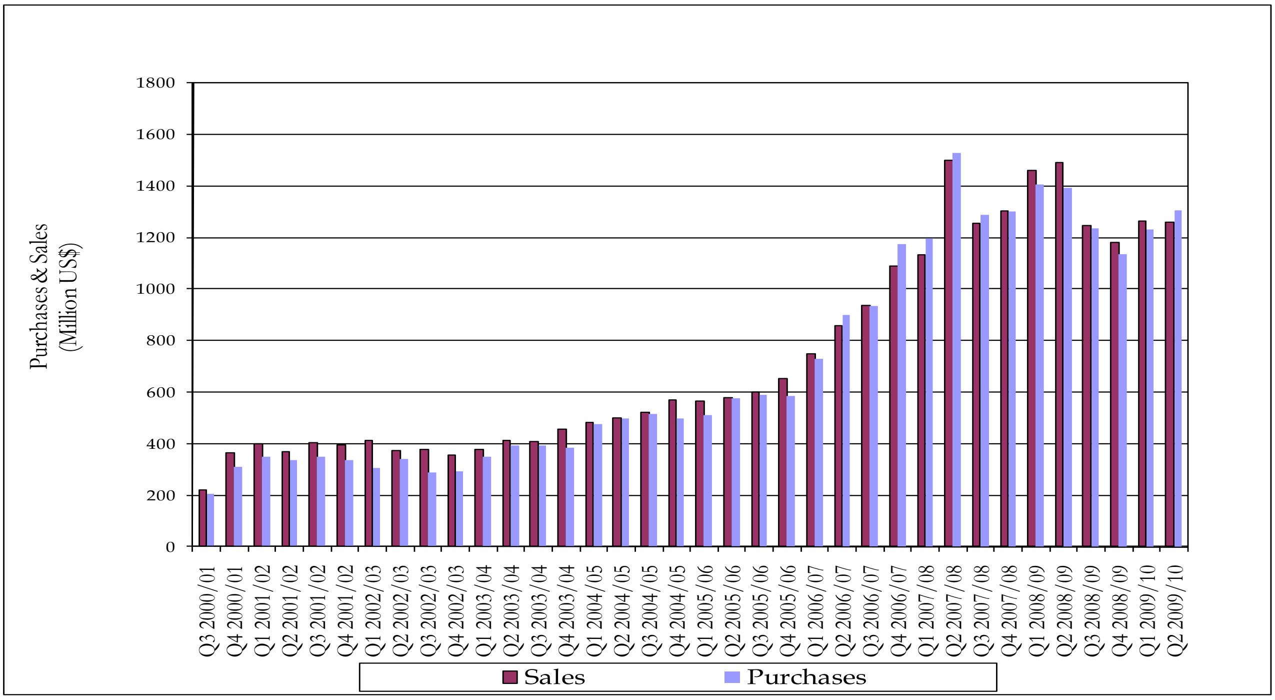
Gross purchases of foreign exchange in the IFEM rose by 5.6 percent to US$ 1,305.0 million while gross sales fell by 0.1 percent to US$ 1,261.4 million, respectively in the quarter under review compared to the preceding quarter. Cross currency transactions declined by 33.3 percent to US$ 1,409.9 million in the quarter to December 2009 in contrast to an increase of 48.4 percent in the previous quarter.

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

Market	Q2	Q3	Q4	Q1	October	November	December	Q2
	2008/09	2008/09	2008/09	2009/10	2009	2009	2009	2009/10
Inter-Bank Foreign Exchange Market								
Nominal Effective Exchange Rate (NEER) 2000=100	118.90	122.62	120.35	134.74	127.94	126.81	127.28	127.34
Real Effective Exchange Rate (REER) 2000=100	115.95	116.83	115.37	121.70	115.86	115.43	116.61	115.97
Nominal Exchange Rate (Period Average)	1,901.66	1,975.97	1,964.83	2,048.11	1,898.28	1,873.78	1,896.64	1,889.57
Total Purchases (Million US$)	1,392.72	1,236.23	1,135.00	1,232.67	433.50	389.91	481.61	1,305.02
Total Sales (Million US$)	1,491.52	1,245.13	1,178.96	1,262.29	430.54	379.66	451.24	1,261.44
Cross Currency (Million US$)	714.33	699.31	1,424.43	2,114.37	674.77	340.98	394.16	1,409.90
Bureaux Market								
Average Period Exchange Rate	1,880.78	1,991.93	2,182.79	2,046.71	1,899.34	1,860.72	1,894.69	1,884.92
Total Purchases (Million US$)	579.28	562.55	552.59	619.93	202.04	201.28	218.50	621.81
Total Sales (Million US$)	545.36	568.77	544.81	625.69	203.56	195.38	222.96	621.90

Source: Bank of Uganda

Figure 15: Foreign exchange transactions of commercial banks in millions of U.S. dollars



Source: Bank of Uganda

Figure 16: Foreign exchange bureau transactions in millions of U.S. dollars

Source: Bank of Uganda

7 PUBLIC FINANCE

7.1 Revenue

According to the available information, total receipts from tax and non-tax revenue and grant disbursements were estimated at Shs. 1,315.1 billion, Shs. 26.3 billion (or 2.0 percent) higher than in the corresponding quarter ended December 2008 and Shs. 134.2 billion (or 11.4 percent) higher than in the quarter ended September 2009.

Total revenue collections amounted to Shs. 1,138.0 billion, Shs. 121.4 billion (11.9 percent) more than the level recorded in the quarter ended December 2008. Net tax collections by Uganda Revenue Authority amounted to Shs. 1,096.9 billion, representing an under performance of 7.2 percent against the target collections of Shs. 1,181.6 billion for the quarter. This outturn is attributable to poor performance of pay as you earn (PAYE) and international trade taxes.

Total budget support and project grants from external sources were estimated at Shs. 177.2 billion; Shs. 95.1 billion less than Shs. 272.3 billion disbursed in the quarter ended December 2008.

7.2 Government expenditure

Total government expenditure and net lending was estimated at Shs. 1569.5 billion during the quarter ended December 2009 compared to Shs. 1,276.1 billion that was utilized in the corresponding quarter in 2008. This outturn was 19.4 percent below the programmed level of Shs. 1,946.1 billion. This underperformance was on account of low absorption by spending agencies especially in the road sector.

Current expenditure at Shs. 931.3 billion was 12.4 percent more than what was spent in quarter ended December 2008. Similarly, development expenditure at Shs. 589.1 billion was Shs.221.3 billion or 60.2 percent higher than the amount spent in the corresponding period of 2008. Expenditure on salaries and wages amounted to Shs. 329.9 billion while interest payments totalled Shs. 91.9 billion. These compare with respective payments of Shs. 307.0 billion and Shs. 91.1 billion made in the quarter ended December 2008. On the other hand, payments of domestic arrears amounted to 56.7 billion, 29.0 percent less than the amount paid in the corresponding period in 2008. However, the current and development expenditures recorded in the quarter to December 2009 were Shs. 24.9 billion and Shs. 336.1 billion below the respective programmed levels.

7.3 Overall fiscal balance and financing

The developments in central government's budgetary operations during the quarter under review resulted in an estimated deficit of Shs. 254.4 billion compared to a surplus of Shs. 12.7 billion, which was realized in the quarter ended December 2008. Excluding grants, the fiscal balance was estimated at a deficit of Shs. 431.5 billion, compared to a deficit of Shs. 259.6 billion recorded in the quarter ended December 2008.

The deficit was largely financed by drawing down government's savings with the banking system.

Table 15: Government budgetary operations (Shs. billion)

	2007/08 FY	2008/09 FY	2008/09 Q2	2009/10 Q1	2009/10 Q2 (Prog)	2009/10 Q2 (Preliminary)
Revenue and Grants	**3,909.5**	**4,574.9**	**1,288.8**	**1,180.9**	**1,663.0**	**1,315.1**
Total Revenue	3,246.8	3,786.6	1,016.5	988.6	1,199.0	1,138.0
Grants	662.7	788.3	272.3	192.4	463.9	177.2
Expenditures and Lending	**4,382.8**	**5,159.0**	**1,276.1**	**1144.8**	**1,946.1**	**1569.5**
Recurrent Expenditure	2,881.2	3,291.9	828.4	746.3	956.2	931.3
Wages and Salaries	1,106.1	1,183.6	307.0	282.9	325.7	329.9
Interest Payments	309.4	357.9	91.1	88.3	87.7	91.9
Other non Wage Recurrent	1,385.7	1,664.9	409.0	350.0	517.8	484.5
URA Transfers	80.0	85.5	21.4	25.0	25.0	25.0
Development Expenditure	1,360.6	1,641.0	367.8	383.2	925.3	589.1
External	642.7	434.0	147.3	65.3	403.0	300.7
Domestic counterpart	717.9	1,207.0	220.5	317.9	522.3	288.5
Others [a/]	121.2	226.1	79.9	15.3	11.5	49.0
Overall Fiscal Balance						
Excluding Grants	**-1,136.0**	**-1,372.4**	**-259.6**	**156.2**	**-747.1**	**- 431.5**
Including Grants	**-473.3**	**-584.1**	**12.7**	**36.1**	**-283.2**	**-254.4**
Financing	**473.3**	**584.1**	**-12.7**	**-36.1**	**283.2**	**254.4**
External Financing (net)	588.2	548.6	122.3	305.2	150.2	42.7
Domestic Financing (net)	-234.6	-94.0	-107.9	240.1	133.0	172.6
Residual	119.6	129.6	-27.1	101.3	0.0	39.1

[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 December 2009, the balance of payments registered an overall surplus of US$ 155.4 million, vis-à-vis a deficit of US$ 138.5 million recorded in the same quarter in 2008. This movement in the external position resulted from an improvement in both the current and capital and financial accounts.

The current account balance was a deficit of US$ 204.8 million, from a deficit of US$ 261.9 million recorded in the quarter ended December 2008. This improvement was on account of increased exports of goods and a decline in the value of imported goods during the review quarter.

The capital and financial account recorded a surplus of US$ 360.1 million, US$ 236.7 million more than what was recorded in the corresponding quarter of 2008. This was mostly on account of an improvement in portfolio flows.

On the whole, there was an increase in the central bank's foreign reserves of US$32.8 million (excluding valuation changes) during the quarter to December 2009 compared to a draw down of US$41.7 million in the quarter ended December 2008. The stock of reserves, in terms of future months of imports of goods and services, stood at 5.5 at the end of the quarter. Table 16[2] below presents a summary of the quarterly developments in the balance of payments.

[2] The data was revised to reflect most recent outturns and new assumptions

Table16: Developments in the Balance of Payments (US$ million)

	Oct-Dec 2008/9	Jan - Mar 2008/9	Apr-Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10
A. Current Account Balance	**-261.93**	**-182.17**	**-196.87**	**-247.80**	**-204.76**
A1. Goods Account (Trade Balance)	-428.60	-273.32	-277.50	-337.90	-254.90
a) Total Exports (fob)	634.01	708.20	650.72	610.41	731.03
b) Total Imports (fob)	-1,062.61	-981.52	-928.22	-948.32	-985.93
A2. Services Account (services net)	-147.85	-138.56	-118.45	-124.98	-155.76
a) Inflows (credit)	182.33	190.20	201.68	265.48	245.77
b) Outflows (debit)	-330.18	-328.77	-320.13	-390.46	-401.53
A3. Income Account (Income net)	-79.22	-66.55	-55.61	-78.82	-85.94
a) Inflows (credit)	27.63	10.68	16.18	6.28	8.75
b) Outflows (debit)	-106.85	-77.23	-71.79	-85.10	-94.68
A4. Current Transfers (net)	393.74	295.94	254.70	293.91	291.83
a) Inflows (credit)	495.46	360.62	306.97	410.27	412.42
b) Outflows (debit)	-101.72	-64.68	-52.28	-116.36	-120.59
B. Capital & Financial Account Balance	**123.42**	**350.52**	**203.42**	**617.17**	**360.11**
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	123.42	350.52	203.42	617.17	360.11
a) Direct Investment	202.23	150.94	150.94	150.94	150.94
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	202.23	150.94	150.94	150.94	150.94
b) Portfolio Investment	-74.34	34.78	-10.76	-1.83	-2.21
Assets	0.00	0.00	-0.01	0.00	0.00
Equity Securities	0.00	0.00	-0.01	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	-74.34	34.78	-10.74	-1.83	-2.21
Equity Securities	-0.63	122.87	-0.93	-0.14	0.54
Debt Securities	-73.71	-88.09	-9.81	-1.68	-2.75
c) Financial Derivatives (Net)	7.70	1.87	-3.37	-2.35	-2.33
d) Other Investment	-12.18	162.94	66.61	470.41	213.72
Assets	-74.53	-12.58	-33.13	51.37	110.76
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	22.85	10.64	10.20	-11.78	15.66
Banks	-107.38	-23.22	-43.32	38.94	64.23
Other sectors	10.00	0.00	0.00	-153.28	-184.56
Liabilities	62.35	175.51	99.74	419.04	102.96
Monetary authorities	0.00	0.00	0.00	224.00	0.00
General government	57.97	142.28	45.79	147.01	25.48
Banks	-11.38	-1.47	30.25	-11.00	19.79
Other sectors	15.76	34.71	23.70	16.97	18.82
C. Overall Balance (A + B)	**-138.51**	**168.03**	**6.56**	**369.37**	**155.35**
D. Reserves & Related Items	**138.51**	**-168.03**	**-6.56**	**-369.37**	**-155.35**
a) Reserve assets	41.68	-137.12	110.20	-283.53	-32.81
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.17	-1.13	0.54	-11.94	1.05
d) Errors and Omissions	96.67	-29.77	-117.29	-73.78	-123.59

Source: Bank of Uganda

8.1 The Goods Account

8.1.1 Exports

Total export earnings were recorded at US$ 731.0 million in the quarter ended December 2009, compared to US$ 610.4 million in the preceding quarter and US$ 634.0 million in the corresponding quarter of 2008/09.

Coffee export earnings amounted to US$ 66.5 million, 14.6 percent less than the earnings realized in the corresponding period of 2008. The average realized price of US$ 1.57/kg was 17 cents lower than that in the corresponding quarter of 2008. There was also a reduction in the volume of coffee exports to 706,961 (60-kg) bags from 745,264 (60-kg) bags exported in the same quarter of 2008/09. Formal non-coffee export earnings totalled US$ 346.0 million during the quarter ended December 2009, US$ 58.1 million more than the amount recorded in same period in 2008 while Informal Cross Border Trade (ICBT) exports were estimated at US$ 318.57 million compared to US$ 268.4 million recorded in the quarter ended December 2008.

Formal export earnings from gold, electricity, simsim, beans, flowers, and base metals & products decreased by a combined total of US$ 8.7 million vis-à-vis the same quarter in the previous year. Tables 17(a) and 17(b) below provide a summary of developments in exports.

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

	Oct-Dec 2008/9	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10
Total Exports	**634.01**	**708.20**	**650.72**	**610.41**	**731.03**
1. Coffee exports	**77.84**	**85.61**	**62.56**	**65.27**	**66.51**
2. Non-Coffee exports	**287.81**	**303.55**	**286.47**	**313.07**	**345.96**
Electricity	2.82	2.42	3.13	4.48	2.63
Gold	6.02	5.04	4.83	8.96	4.24
Cotton	0.88	11.68	5.58	1.34	1.03
Tea	13.47	12.19	13.48	11.23	21.72
Tobacco	23.08	16.08	10.17	17.21	25.34
Fish & its products (excl. regional)	32.80	23.49	23.97	28.36	37.21
Hides & skins	1.70	1.73	1.37	1.19	1.89
Simsim	1.66	5.07	5.41	0.73	0.71
Maize	3.40	10.66	7.85	2.39	5.64
Beans	5.01	1.96	3.03	2.44	3.43
Flowers	13.28	11.03	11.73	13.13	11.01
Oil re-exports	0.81	0.96	0.75	1.03	8.83
Cobalt	4.29	2.86	3.36	3.33	4.75
Base metals & products	28.56	23.06	24.39	26.08	26.67
Others	178.59	170.88	167.86	193.26	201.79
3. Informal Cross Border Trade exports	**268.36**	**319.04**	**301.69**	**232.07**	**318.57**

Source: Bank of Uganda

Table 17 (b): Exports of merchandise - by category (US$ millions)

	Oct-Dec 2008/9	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10
Total Exports	**634.01**	**708.2**	**650.72**	**610.41**	**731.03**
o/w Formal	365.66	389.16	349.03	378.34	412.46
o/w Informal (i.e. ICBT)	268.36	319.04	301.69	232.07	318.57

Source: Bank of Uganda

8.1.2 Imports

Total imports for the quarter ended December 2009 amounted to US$ 985.9 million, and mainly comprised private sector imports of machinery equipment, vehicles and accessories, petroleum products, mineral products (such as plastering materials, lime and cement, bituminous substances, and so on), vegetable products, beverages and animal fats. The oil import bill amounted to US$ 112.9 million, which was 11.4 percent of the total private sector imports.

During the same quarter, Government imports added up to US$ 61.4 million, vis-à-vis US$ 84.6 million recorded in the corresponding quarter of 2008/09. Table 18 below provides a summary of developments in imports.

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

	Oct-Dec 2008/9	Jan - Mar 2008/9	Apr - Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10
Total Imports	**1,062.61**	**981.52**	**928.22**	**982.99**	**985.93**
Government Imports	**84.62**	**72.32**	**84.34**	**82.06**	**61.36**
Project	46.35	42.34	59.70	58.31	40.28
Non-Project	38.27	29.98	24.64	23.76	21.08
Private Sector Imports	**978.00**	**909.20**	**843.88**	**882.57**	**924.57**
o/w Oil imports	135.59	109.01	96.78	112.97	112.85
Estimated Imports	14.81	15.81	13.14	18.35	25.38

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$ 241.70 million compared to a deficit of US$ 227.1 million recorded in the same period last year. Services inflows increased by US$ 63.45 million, mainly on account of travel services however, this improvement was more than offset by an increase of US$ 71.36 million in service outflows (professional and technical services).

The income account recorded a deficit of US$ 85.9 million in the review period, US$ 6.7 million more than the deficit recorded in the quarter ended December 2008. This was attributed to a decrease in estimated inflows of income on account of reduced investment income earnings.

8.3 Current Transfers

Net current transfers were estimated at US$ 291.6 million, US$ 101.9 million less than US$ 393.7 million realized in the corresponding period of 2008/09. This was mainly on account of a decrease in disbursements of project aid and budget support to government. Workers' remittances and NGO inflows also declined by US$ 17.5 million and US$ 14.3 million, respectively during the quarter ended December 2009 compared to the quarter ended 2008.

8.4 Capital and Financial Account

The capital and financial account balance recorded a surplus of US$ 360.1 million vis-à-vis a surplus of US$ 123.4 recorded in the quarter ended December 2008. This was on account of an improvement in net portfolio flows of US$ 72.1 million.

8.5 Donor flows

During the review quarter, total disbursements of foreign aid (for budget support and projects) were estimated at US$ 141.1 million, vis-à-vis US$ 222.7 million recorded in the corresponding quarter of 2008/09. This was mainly on account of decreased inflows of project aid. Project aid inflows amounted to US$ 75.2 million compared to inflows of US$ 139.8 million received in the corresponding period in 2008/09. Budget support inflows also recorded a decline compared to levels of the previous quarter to September 2009 and the corresponding quarter a year ago. Table 19 below provides a summary of foreign aid inflows to Government.

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

	Oct-Dec 2008/9	Jan - Mar 2008/9	Apr-Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10
Total Foreign Aid	**222.73**	**274.83**	**147.53**	**265.59**	**141.39**
Grants	146.72	116.77	86.09	92.90	95.44
Loans	76.00	158.07	61.45	172.69	45.95
Budget Support	**82.89**	**189.64**	**74.84**	**160.00**	**66.22**
Grants	80.73	94.53	62.79	49.04	60.79
Loans	2.16	95.10	12.05	110.86	5.42
Project Support	**139.83**	**85.20**	**72.69**	**105.69**	**75.17**
Grants	65.99	22.23	23.29	43.86	34.65
Loans	73.84	62.96	49.40	61.83	40.52

Source: Bank of Uganda

Following these developments in the balance of payments, the international reserves held by the Bank of Uganda were recorded at US$ 2.8 billion in the quarter under review, representing 5.5 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$ 2.27 billion in the quarter ended December 2009; US$ 455.6 million more than the December 2008 level estimated at US$ 1.82 billion. The greater part of the external debt equivalent to 88.6 percent was owed to multilateral institutions, while 8.6 percent was owed to non-Paris Club bilateral creditors. Quarterly developments regarding Uganda's debt stock profile up till December 2009 are shown in Table 20 below.

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

Creditor Category	Dec-08	Mar-09	Jun-09	Sep-09	Dec -09
Multilateral	1,563.0	1,654.1	1,771.8	1,985.7	2,015.5
Non-Paris Club Bilateral	193.2	189.4	213.9	195.4	195.8
Paris Club Bilateral	62.1	60.9	60.4	63.4	62.6
Commercial	0.35	0.35	0.32	0.32	0.28
Commercial Non Bank	0.00	0.00	0.00	0.00	0.00
Grand Total	**1,818.64**	**1,904.80**	**2,046.37**	**2,244.88**	**2,274.25**

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, including obligations to the International Monetary Fund (IMF), amounted to US$ 32.7 million. The ratio of public debt service (excluding IMF payments) to exports of goods and services was 2.6 percent for the quarter under review, compared to 3.1 percent recorded in the corresponding quarter of 2008/09. The drop in the ratio was attributed to increased exports during the review period.

9 DOMESTIC PRICE DEVELOPMENTS

9.1 CPI Inflation

On an average basis, annual headline inflation decreased to 12.1 percent in the quarter ended December 2009 compared to 12.8 percent for the previous quarter. Annual headline inflation decelerated throughout the quarter from 14.6 percent in September 2009 to 13.3 percent in the October 2009. It further declined to 12.0 percent in November 2009 and then to 10.9 percent in the month of December 2009. The decrease in the annual headline inflation in the quarter under review was attributed to reduced food prices as result of increased harvests in the quarter under review.

Similarly, annual core inflation, on an average basis, dropped to 8.4 percent compared to average rates of 10.0 percent and 12.8 percent recorded in the quarters ended September 2009 and December 2008, respectively. The year on year core inflation also declined steadily in the quarter under review from 9.1 percent in October 2009 to 8.8 percent and 7.4 percent in the months of November and December 2009, respectively. The decline in core inflation was attributed to reductions in transport fares, prices of charcoal and non food crop items, specifically, rice and sugar.

On the other hand, annual energy, fuel and utilities (EFU) inflation increased significantly to -2.9 percent, on an average basis in the quarter ended December 2009 from -3.9 percent for the previous quarter. The increase in oil pump prices on the domestic market was attributed to a rise in international fuel prices. The price of crude oil in the USA increased to US$ 74.7 per barrel in December 2009 from US$ 68.7 per barrel in September 2009, driven largely by optimism about the recovery of the US economy.

The annual food crop inflation, on average also rose, to 36.3 percent in the quarter ended December 2009 from 34.7 percent during the quarter ended September 2009 and 25.5 percent in the quarter ended December 2008. Conversely, year to year food crop inflation steadily decreased from 49.5 percent in September to 38.9, 35.5 and 34.5 percent in October, November and December, respectively as a result of increased supply of seasonal fruits and vegetables. The above inflation developments are depicted in Tables 21, 22 and Figure 17 below.

Table 21: 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

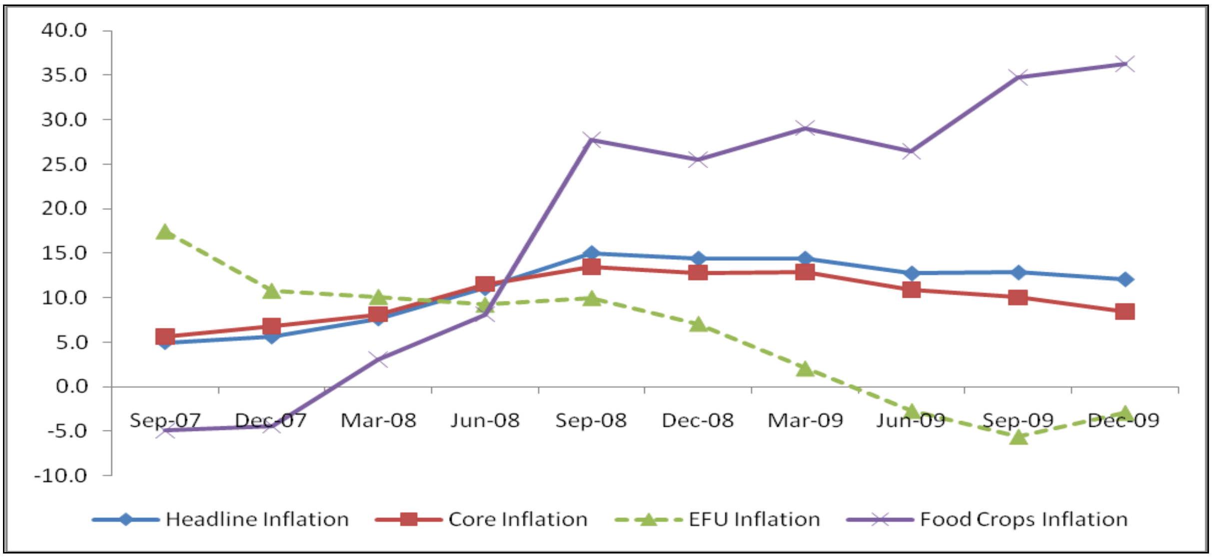
Source: Uganda Bureau of Statistics

Table 22: Contribution by different groups to annual headline inflation (averaged over quarters)

Groups	Weights	Oct-Dec 2008	Jan-Mar 2009	Apr-Jun 2008	Jul-Sep 2009	Oct-Dec 2009
Total	100	14.4	14.5	12.7	12.8	12.1
Of which:						
Food	27.2	8.0	8.0	6.5	6.5	6.5
Beverages & Tobacco	4.7	0.6	0.7	0.5	0.5	0.3
Clothing & Footwear	4.4	0.4	0.4	0.4	0.4	0.3
Rent, Fuel & Utilities	14.8	1.3	1.6	1.0	0.9	0.6
Household & Personal goods	4.5	0.7	0.5	0.3	0.5	0.4
Transport & Communication	12.8	0.9	0.5	0.3	0.2	0.2
Education	14.7	1.0	1.2	1.2	1.4	1.0
Health, Entertainment, & Others	16.8	1.6	1.7	2.3	2.3	2.3

Source: Uganda Bureau of Statistics

Figure 17: Annual inflation rates (averaged over quarters)



Source: Uganda Bureau of Statistics (UBOS)

9.2 Producer Price Index (PPI)

The annual producer inflation, as measured by the Producer Price Index for the manufacturing sector [3](PPI-M), increased by 4.1 percent in the year ended December 2009 compared to a rise of 22.0 percent in the corresponding period in the previous year. The increase was mainly on account of the rise in prices of drinks and tobacco, food products and bricks and cement which increased by 33.3 percent, 7.0 percent and 3.5 percent, respectively. However, in the same period, the respective prices of metals, chemicals and textiles fell by 10.5, 8.8 and 24.3 percent.

The slowdown in the annual producer inflation was mainly driven by a 4.5 percent decline in producer prices of goods produced for export due to the shilling appreciation that was observed during the period under review. The shilling appreciated by 7.7 percent from an average rate of Shs. 2,048.1 per US dollar for the quarter ended September 2009 to Shs. 1,889.6 per US dollar for the quarter ended December 2009.

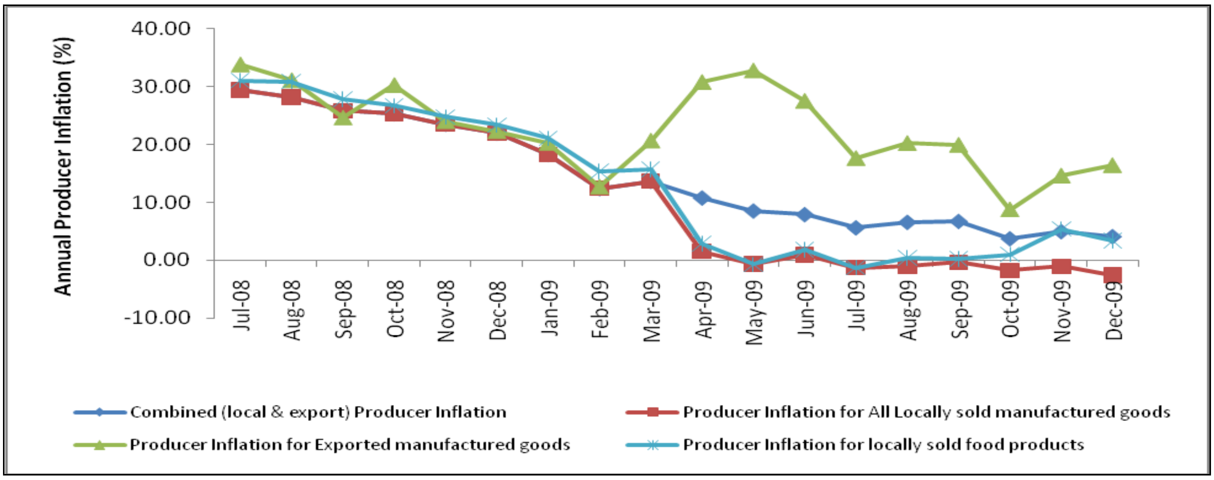
Furthermore, the prices of goods produced for local consumption reduced marginally in the quarter ended December 2009 compared to a 7.6 percent fall recorded in the quarter ended September 2009. Figure 18 shows the developments in the annual producer inflation.

On a monthly basis, producer index for goods manufactured for local market consumption fell by 1.8 percent in December 2009 compared to the 0.8 percent rise in November 2009. This was as a result of the drop in prices in most of the sub categories in the manufacturing sector.

On the other hand, monthly producer index for goods manufactured for export rose by 1.3 percent in December 2009 compared to an increase of 3.0 percent in November 2009.

[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.

Figure 18: Trend of Annual Producer Price Inflation; July 2008-September 2009



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 Electricity consumption.

9.3.1 Uganda Equity market

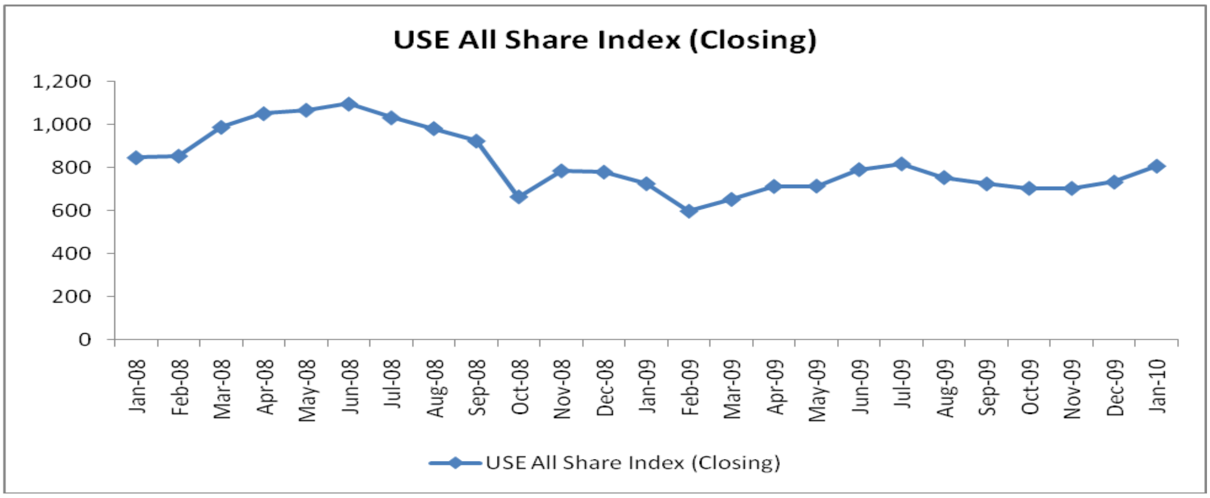
Trading at the Uganda Securities Exchange (USE) returned good results for the quarter ended December 2009 compared to the previous quarter. Total turnover increased by 34.8 percent in the period under review. Similarly, the number of shares traded in the market increased by 10.4 percent to 33.4 million in the quarter ended December 2009 from 30.2 million in the previous quarter. The market capitalisation increased through the quarter under review from Shs. 6.8 billion as at end October 2009 to Shs. 7.1 billion at end of December 2009. The all share index was relatively stable in the months of October and November before increasing by 4.1 percent in the month of December 2009. Table 23 below shows the developments in the equity market.

Stanbic Bank Uganda (SBU) continued to contribute the largest share to the total turnover, accounting for 58.9 percent in the quarter. Uganda Clay's share of the total turnover dropped to 2.9 percent while Bank of Baroda Uganda (BOBU) and Development Finance Company Uganda (DFCU) contributed 2.8 and 24.0 percent, respectively during the period under review. Corresponding shares of Equity Bank Limited (EBL), New Vision Limited (NVL), and British American Tobacco Uganda (BATU) were 1.1 percent, 10.2 percent, and 0.1 percent. East African Breweries Ltd (EABL), Jubilee Holdings Limited (JHL), Kenya Airways (KA) and KCB group remained relatively inactive over the quarter under review. Table 22 shows the developments in the Uganda equity market while Figure 19 provides a trend of the all share index at the Uganda securities Exchange.

Table 23: Trading at Uganda Securities Exchange

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Number of Shares Traded	9,681,214	11,336,338.	9,204,168	14,004,108	10,106,763	9,254,561
Turnover (Shs. billion)	1.56	1.84	1.49	3.26	1.80	1.53
Market Cap (Shs. billion, Closing)	7,962.00	7,343.80	7,051.50	6,845.00	6,852.40	7,134.20
USE All Share Index (Closing)	817.53	754.05	724.30	703.72	703.59	732.53

Figure 19: 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 December 2009 increased by 0.5 percent, mainly driven by an increase in domestic consumption of 4.0 percent. This was less than the 16.7 percent increase registered in the quarter ended September 2009.

Total purchases by the distribution company decreased by 1.0 percent in the quarter ended December 2009, compared to a 4.0 percent increase observed in the quarter ended September 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