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BANK OF UGANDA

QUARTERLY MACROECONOMIC REPORT

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CONTENTS

ABBREVIATIONS

BAT: British American Tobacco

BOBU: Bank of Baroda Uganda

BOU: Bank of Uganda

CDS: Central Depository System

CIs: Credit Institutions

CPI: Consumer Price Index

EBL: Equity Bank Limited

ECB: European Central Bank

EFU: Energy Fuel and Utilities

EU: European Union

GDP: Gross Domestic Product

HICP: Harmonised Index of Consumer Prices

HRA: Horizontal Repurchase Agreement

ICBT: Informal Cross Border Trade

IFEM: Interbank Foreign Exchange Market

IMF: International Monetary Fund

MDIs: Micro Deposit taking Institutions

NDA: Net Domestic Assets

NFA: Net Foreign Assets

NIC: National Insurance Corporation

NVL: New Vision Limited

OECD: Organisation for Economic Co-operation and Development

PPI: Producer Price Index

PPI-M: Producer Price Index for Manufacturing

PSC: Private Sector Credit

REPO: Repurchase Agreement

RMP: Reserve Money Program

SBU: Stanbic Bank Uganda

UCL: Uganda Clays Limited

USE: Uganda Securities Exchange

WEO: World Economic Outlook

1 INTRODUCTION

This report presents the macroeconomic developments and monetary policy operations in the quarter to June 2010 relative to the quarter ended March 2010. Specifically, the report reviews developments in the global economy in view of the implications for the Ugandan economy. In addition, it discusses the relative performance in the external, monetary and financial sectors and points out the monetary policy stance and actions that the BOU pursued during the quarter. The report also presents the policy outlook for the near-term.

2 THE GLOBAL ECONOMY

2.1 GLOBAL ECONOMIC GROWTH

The global economy continued to recover during the quarter to June 2010 supported by the fiscal and monetary stimuli implemented by advanced economies. Monetary policy was accommodative in many countries despite steps towards more measured policy stances in some emerging market economies to neutralise overheating. Fiscal policy remained expansionary resulting into high fiscal deficits that raised concerns about fiscal sustainability in some countries in the euro-area. However, the pace of recovery remained uneven across economies with most emerging and developing economies reporting strong economic growth, while recovery in advanced economies was largely subdued with high records of spare capacity.

In the euro-area real Gross Domestic Product (GDP) increased by 1.0 percent during the quarter ended June 2010, higher than the growth rate of 0.2 percent recorded in the preceding quarter. Conversely, the pace of recovery of economic activity in the United States of America moderated during the period under review. Real GDP growth declined to 1.6 percent in the quarter to June 2010, relative to a growth of 3.7 percent in the preceding quarter. The positive contribution to growth by inventories as well as government spending was dampened by a large trade deficit due to the marked rebound in imports relative to exports.

Economic activity in emerging Asia remained buoyant during the quarter ended June 2010 driven by exports and domestic private demand. However, the gradual withdrawal of policy support and moderation of external demand led to a slowdown in growth in some countries. China's real GDP growth moderated from 11.9 percent year-on-year in the quarter to March 2010 to 10.3 per cent in the quarter to June 2010 as the government attempted to cool an overheated economy. Japan's economy continued to show signs of recovery with the high growth in Asia continuing to boost its exports, while the fiscal stimulus supported domestic demand.

In the Middle East and North African region, the strength of economic recovery was largely driven by the rebound in oil prices, which boosted oil exports. Furthermore, fiscal stimulus played a substantial role in boosting the non-oil sectors in these economies. Sub-Saharan Africa continued to rebound from the 2009 slowdown in the quarter, on account of the strong macroeconomic fundamentals which put the region in a position to benefit from the global recovery. Southern Africa, which suffered most during the economic crisis of 2009 continued to recover albeit at a slower rate than other regions. South Africa benefited from the strong demand for commodities from emerging Asia and from the recovery in demand for manufactures from its largest export market, the euro-area. Growth in East, West and Central Africa remained strong reflecting the ongoing recovery in the global economic environment.

2.2 GLOBAL FINANCIAL MARKETS

Recovery in financial markets preceded that in economic activity. Equity prices around the world gained strongly between March 2009 and April 2010, although they remained below the pre-crisis levels. Credit spreads narrowed, government bond yields increased and banks became more willing to lend to each other as tension in money markets eased. However, this impressive financial recovery came under threat in the quarter to June 2010 over concerns about the sustainability of fiscal deficits of some countries in the euro-area. The very high government deficits and debt levels in several high-income countries (notably, Greece, Ireland, Italy, Portugal and Spain) provoked a great deal of volatility in international financial and commodity markets—notably oil and metals during the period under review.

Recovery in international capital flows to developing countries is expected to face headwinds from increased competition for global savings, due to the escalated debt of high-income countries. The increase in public sector financing requirements of high-income countries is expected to enhance competition for funds and raise borrowing costs for developing-countries going forward. In addition, the need for banks to rebuild their balance sheets, as well as increased risk aversion on the part of investors could result in less abundant and more expensive capital.

2.3 CONSUMER PRICES

Price developments mirrored the uneven growth episodes of the global economy. Inflation remained subdued in most advanced economies indicating existence of spare capacity, but rose to high levels in the fast growing emerging countries supported by buoyant domestic demand. Core inflation in the euro-zone eased to very low levels, raising the spectre of deflation. This largely reflected weak domestic demand, excess capacity and continued high unemployment, which reduced the pricing power of both producers and labour. In April 2010, core inflation for the euro-area was down to 0.8 percent year-on-year, the lowest core inflation rate since 1991. In Germany, core inflation dropped to 0.3 percent, while in Spain, Portugal, and Ireland, core prices declined for the first time since the euro was introduced.

For the OECD area as a whole, inflation fell to 1.5 percent in June 2010 from 2.1 percent in March 2010 mainly driven by a fall in energy prices. Similarly, annual inflation in the United States of America declined from 2.3 percent in March 2010 to 1.1 percent in June 2010, reflecting a slowdown in annual energy prices. Excluding food and energy, annual inflation was 0.9 percent, the lowest since 1966, reflecting significant slack in product and labour markets.

Although inflation in some countries in emerging Asia declined during the quarter ended June 2010 it remained quite high overall. Inflation in India declined, but remained in double digit levels, falling to 13.7 percent in June 2010 from 14.9 percent in March 2010, while in China, inflation increased to 2.9 percent in June 2010 from 2.4 percent in March 2010.

2.4 COMMODITY MARKETS

Commodity prices that began the quarter on an increase, started to decline in early May 2010 following increased financial markets volatility caused by concerns about the sustainability of fiscal deficits of some countries in the euro-area. Following the outbreak of the euro debt crisis, industrial commodities fell sharply during May 2010 due to concerns about economic growth and weakening commodity demand. Oil prices dropped from a high of $87 per barrel to $68 per barrel during May 2010, and some metals prices fell more than 20 percent from their highs in April 2010. The declines occurred amid recovering global demand, particularly outside of China, which had provided much of the initial demand strength during the recovery. On the contrary, food prices continued declining due to the earlier expansion in production in response to higher prices experienced in the years 2005 to 2008, which contributed to the rise in supply. However, prices of agricultural raw materials rose somewhat driven by increased demand from emerging Asia. Similarly, increases were registered in the prices of gold and silver as demand for these metals as safe haven investments increased.

2.5 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

Overall, the global economy is expected to grow in 2010 after falling by 2.2 percent in 2009, although the recovery is expected to lose some steam in the rest of 2010. The annual growth rates are expected to continue to strengthen, especially among developing countries. The World Economic Outlook for October 2010 indicates that the global output will grow by 4.8 percent in 2010 and 4.2 percent in 2011, mainly driven by growth in emerging and developing economies (IMF, 2010). These countries are responsible for an increasing share of global growth, a trend that is expected to continue in the future. The outlook nevertheless remains fragile and significant challenges stand in the way of a smooth recovery. Risks to global activity remain broadly balanced. On the upside, trade could recover more strongly than anticipated, while on the downside, concerns of emergence of renewed tensions in financial markets and increases in oil and commodity prices remain.

The fiscal challenges facing developing countries are less marked, but if aid flows are compromised, as they have been following past high-income recessions, then the consequences for developing-country investment and long-term growth prospects could be serious. Sustained expansionary monetary policy in high-income countries could also pose challenges for developing countries, especially as they move to tighten their own policy stances. Rising interest rate differentials could induce significant capital inflows that could serve to regenerate some of the asset bubbles that created the conditions of the crisis in the first place. Developing economies are expected to grow by 7.1 percent and 6.4 percent, respectively in 2010 and 2011, while the advanced economies are projected to grow by 2.7 percent in 2010 and 2.2 percent in the following year (IMF, 2010).

Inflation pressures are expected to remain subdued in advanced economies as a result of excess capacity, lower energy prices and well-anchored inflation expectations. Headline inflation is projected at 1.3 percent in 2010 and 1.5 percent in 2011. On the contrary, inflation in emerging and developing economies is expected to rise to 6.3 percent in 2010 before falling to 5.0 percent in 2011 (IMF, 2010). In addition, market nervousness concerning the fiscal positions of several high-income European countries poses a new challenge for the world economy.

2.6 IMPLICATIONS FOR THE DOMESTIC MACROECONOMIC POLICIES

The real-side is projected to have strengthened further in the three months to June 2010 and the Ugandan economy is expected to return to its target growth rate of 7.0 percent in the medium term, supported by both domestic policies and the global economic recovery. The accommodative monetary policy stance pursued in the last few months by BOU is expected to support the rebound in domestic demand, while foreign inflows and remittances are expected to pick-up on account of the recovery in the global economy. However, the global uncertainty continues to pose a cloudy outlook. Going forward, BOU will continue to pursue a cautious monetary policy stance in order to keep inflation within the BOU target of 5.0 percent without compromising real economic activity.

3 MONETARY AND EXCHANGE RATE POLICIES

On the backdrop of subdued aggregate demand, lower than potential output, slow credit growth and the lower than originally expected government expenditure, the BOU pursued an accommodative monetary policy stance in the quarter to June 2010 in order to restore aggregate demand, while being mindful of price stability.

The main instruments of monetary policy in the quarter were Treasury bills and bonds. Daily sales of foreign exchange were also used to sterilize structural liquidity, while the REPO was actively used as a short term liquidity fine tuning instrument. The cash reserve requirements remained unchanged at 9.5 percent of the total deposit liabilities. BOU continued to pursue a flexible exchange rate policy regime with occasional interventions in the foreign exchange market to smooth wide volatility.

4 MONETARY AND FINANCIAL MARKET DEVELOPMENTS

4.1 BASE MONEY

Base money grew by 14.1 percent in the quarter ended June 2010 compared to a decline of 2.2 percent in the previous quarter. The general increase in base money was largely on account of the accommodative monetary policy stance that the BOU pursued in most of 2009/10.

4.2 MONEY SUPPLY

All measures of broad money expanded in the quarter ended June 2010 on account of the accommodative monetary policy stance that the BOU implemented in order to revive aggregate demand. Both M3 and M2 rose by 14.1 percent and 11.3 percent compared to 7.8 percent and 8.3 percent in March 2010, respectively. Although the expansionary monetary policy pursued by BOU was in part intended to encourage lending to the private sector, commercial banks' lending rates remained relatively high reflecting inherent risks in private sector lending. Nonetheless, the high lending rates did not compromise credit growth. Credit to the private sector grew by 6.4 percent in the quarter to June 2010 compared to the expansion of 6.0 percent in the previous quarter.

4.3 MAIN SOURCES OF M3

Despite the slow expansion of credit to the private sector by the commercial banks, the growth in money supply in the quarter was mainly driven by developments in the Net Domestic Assets (NDA) of the banking system. The NDA of the banking system explained about 76.3 percent of the increase in M3. The dramatic contribution of NDA to growth in M3 was on account of a drawdown in government savings with the banking system. Government savings with the banking system declined by about 65.0 percent during the quarter to a saving of Shs. 244.5 billion at end-June 2010 from Shs. 614.3 billion as at end-March 2010. The drawdown in government savings with the banking system has implications for private sector investment as it crowds-out credit to the private sector.

The net foreign assets (NFA) of the banking system increased by 4.0 percent in the quarter ended June 2010 compared to an increase of 7.6 percent in the preceding quarter. NFA accounted for 23.7 percent of the growth in M3. Table 1 shows the developments in monetary aggregates.

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

Aggregate	Mar. 09	Jun.09	Sept. 09	Dec. 09	Mar. 10	Jun. 10	Change Mar. 10 - Jun.10 Absolute	Percent
Net Foreign Assets (NFA)	**5,691.8**	**5,711.5**	**5,958.6**	**5,705.3**	**6,139.1**	**6,382.0**	**242.9**	**4.0**
o/w Bank of Uganda	5,129.0	5,119.5	5,421.5	5,325.4	5,643.4	5,739.0	95.6	1.7
o/w Commercial Banks	562.9	592.0	537.0	379.9	495.7	643.0	147.3	29.7
Net Domestic Assets (NDA)	**289.5**	**586.1**	**341.9**	**1,039.8**	**1,129.5**	**1,911.2**	**781.7**	**69.2**
Net Claims on Government (NCG)	-932.4	-644.4	-833.4	-705.9	-614.3	-244.5	397.8	-64.8
Claims on Public Entities	58.4	35.4	57.7	53.3	45.3	52.6	7.3	16.2
Claims on the Private Sector	3,544.3	3,599.5	3,691.6	3,994.0	4,231.6	4,502.3	270.7	6.4
Other Items (net)	-2,381.1	-2,404.4	-2,574.2	-2,301.9	-2,533.2	-2,428.0	105.2	-4.2
Money Supply (M3)	**5,981.3**	**6,297.6**	**6,300.5**	**6,745.1**	**7,268.6**	**8,293.2**	**1,024.6**	**14.1**
Foreign Currency Deposits	1,366.2	1,376.9	1,360.2	1,412.6	1,495.4	1,881.4	386.0	25.8
Money Supply (M2A)	4,615.1	4,920.7	4,940.3	5,332.4	5,773.2	6,411.7	638.5	11.1
Money Supply (M2)	4,615.1	4,920.7	4,940.3	5,332.4	5,773.2	6,411.7	638.5	11.1
Term Deposits	1,745.3	1,942.5	1,915.0	2,077.1	2,412.1	2,622.8	210.7	8.7
Demand Deposits	1,677.2	1,732.7	1,816.9	1,925.6	2,057.1	2,345.7	288.6	14.0
Currency in Circulation	1,192.7	1,245.4	1,208.3	1,329.7	1,304.1	1,443.3	139.2	10.7

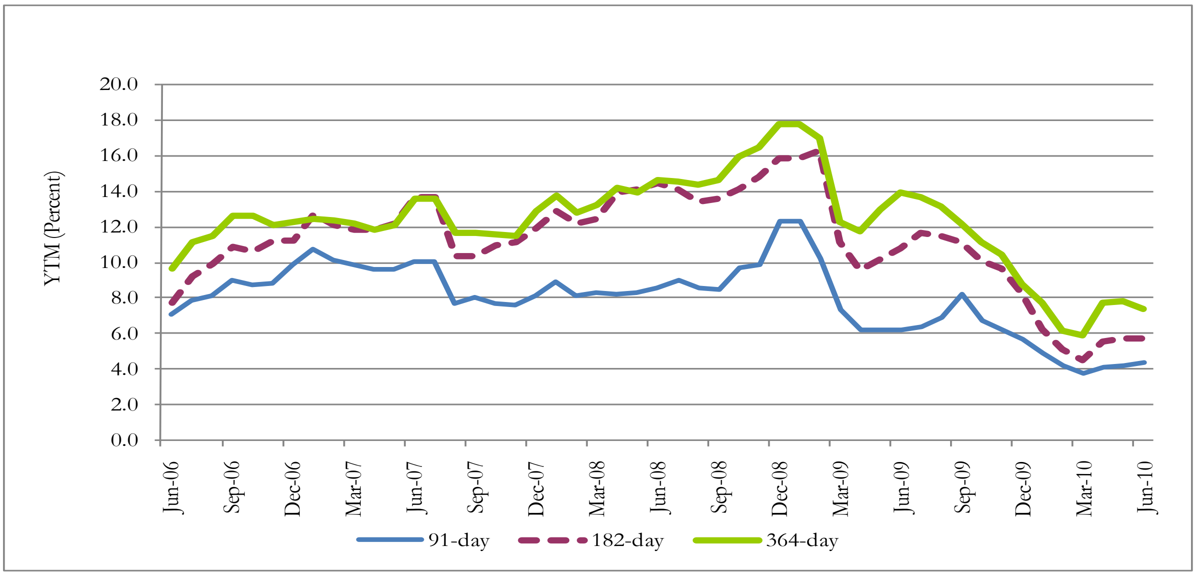
Source: Bank of Uganda

4.4 THE MONEY MARKET

BOU continued to use government securities to sterilise liquidity. Consequently two new bonds and seven Treasury bills were auctioned in the quarter, while one Treasury bond was re-opened to mop-up structural liquidity.

The impact of these auctions on the yields-to-maturity was mixed. The yields-to-maturity for the 2-year and 3-year bonds declined, while that for the 5-year bond increased. Conversely, the average yield-to-maturity for the Treasury bills generally increased in June 2010 on account of an increase in the volumes offered per auction. All auctions of the Treasury bills registered over subscriptions, with issues largely concentrated at the longer end of the market due to the high demand for longer dated securities. Consequently, the 182-day and 364-day Treasury bill rates rose from the respective rates of 5.3 and 6.7 percent in March 2010 to 5.7 and 7.6 percent, respectively in June 2010. However, the 91-day Treasury bills rate dropped from 4.4 percent in March 2010 to 4.3 percent, reflecting the accommodative monetary policy stance that was implemented by the BOU. Figure 1 shows the evolution of the effective yields on Treasury bills, while Table 2 shows the developments in the primary market of Treasury bonds.

Figure 1: Evolution of the Effective Yield on Treasury Bills (June 2006 to June 2010)



Source: Bank of Uganda

Table 2: Treasury Bonds: Volume, Price and Interest Rates

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Stock of Treasury bonds (Shs. billion)	1,361.59	1,406.59	1,406.56	1,506.59	1,563.87
Change in stock (absolute)	130.36	45.00	0.00	100.00	57.28
Price and interest rates (percent)					
2-year average price (Shs. /100)	0.00	92.71	96.10	0.00	103.10
3-year average price (Shs. /100)	91.35	91.12	0.00	96.72	102.89
5-year average price (Shs. /100)	0.00	88.16	95.73	107.75	107.28
10-year average price (Shs. /100)	0.00	0.00	80.92	94.66	0.00
2-year yield-to-maturity rate	0.00	14.31	12.26	0.00	8.28
3-year yield-to-maturity rate	13.98	13.98	0.00	11.58	9.13
5-year yield-to-maturity rate	0.00	14.13	12.67	8.80	8.89
10-year yield-to-maturity rate	0.00	0.00	14.70	12.09	0.00
Issues at face value (Shs. billion)					
2-year	0.00	50.00	60.00	0.00	60.00
3-year	178.68	50.00	0.00	60.00	60.00
5-year	0.00	50.00	40.00	50.00	60.00
10-year	0.00	0.00	60.00	100.00	0.00
Total issues at face value	178.68	150.00	160.00	210.00	180.00
Total maturities	48.32	105.00	160.00	59.77	171.65
Total net issues at face value	130.36	45.00	0.00	150.23	8.35
Issues at cost value (Shs. billion)					
2-year	0.00	46.36	57.66	0.00	61.86
3-year	163.86	45.56	0.00	58.03	61.73
5-year	0.00	44.08	38.29	53.85	64.37
10-year	0.00	0.00	48.55	47.33	0.00
Total issues at cost value	163.86	136.00	144.505	206.54	187.96

Source: Bank of Uganda

Total trades of Treasury bills in the secondary market over the quarter ended June 2010, amounted to Shs. 290.1 billion. This value of trades was higher than the Shs. 241.3 billion and Shs. 87.3 billion realised in March 2010 and the corresponding quarter in 2009, respectively. A total of Shs. 90.5 billion in horizontal repo transactions took place during the quarter while the rest of the transactions were outright sales. The growth in 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 BOU which motivates them in key areas of primary and secondary market development. Despite the general increase in rates in the primary market, the indicative yield-to-maturity rates on all papers as derived from daily 'bid' and 'offer' quotations by the primary dealers in the secondary market fell.

Table 3: Summary of indicators from the secondary market of Treasury bills (April-June 2010)

	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	4.46	4.20	6.01	5.90	7.54	7.90
Average (simple)	4.07	3.93	5.20	5.03	6.73	6.60
Total trading activity			**Shs. 290.08 billion**			
Transactions (Shs billion)	125.815		79.589		84.675	
- Horizontal repos	90.500		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	30.815		79.589		84.675	
Average discount rate	3.74%		4.84%		5.72%	
Average yield-to-maturity	3.77%		4.96%		6.07%	

Source: Bank of Uganda

During the quarter, 2-year, 3-year, 5-year and 10-year bonds worth Shs. 1,196.7 billion were traded in the secondary market. The total value of trades was much higher than the Shs. 115.7 billion realised in March 2010. The average indicative bid/offer yields-to-maturity were as indicated in the Table 4 below.

Table 4: 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	6.65	6.55	7.40	7.25	8.45	8.25	12.50	12.25
Max	8.40	8.20	9.10	8.90	9.90	9.20	13.00	13.80
Average	7.25	7.08	7.71	7.52	8.66	8.44	12.92	12.70

Source: Bank of Uganda

BOU continued to use the vertical repo for short-term liquidity management. In the money market, the average interest rate on the most issued 7-day repo declined throughout the quarter owing to excess liquidity in the money market.

Commercial banks continued to participate in the domestic inter-bank money market in order to smooth their daily liquidity fluctuations. The weighted average inter-bank money market rate fell from 3.3 percent in April 2010 to 2.8 percent in May and to 2.7 percent in June 2010, reflecting the underlying liquidity conditions in the domestic money markets.

4.5 COMMERCIAL BANKS

Commercial banks' NFA continued to expand majorly driven by foreign currency deposits and balances with foreign banks on the one hand, and declines in administered funds and shilling deposits of non-residents on the other hand. Overall, the external assets of commercial banks increased by 9.4 percent whereas foreign liabilities decreased by 4.5 percent in the quarter. Similarly, commercial banks' NDA rose by 13.5 percent mainly driven by an increase in net claims on the central bank. Details of the balance sheet of commercial banks are shown in Table 5.

Table 5: Key balance sheet items of commercial banks (in Shs. billion at end of period)

	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Mar. 10	June. 10	Change Mar. 10 to Jun. 10	
							Absolute	Percent
Net Foreign Assets	**562.9**	**592.0**	**537.0**	**379.9**	**495.7**	**643.0**	**147.3**	**29.7**
External Assets	1,038.1	1,141.6	1,064.2	944.2	1,221.0	1,335.7	114.7	9.4
Foreign Liabilities	475.2	549.7	527.1	564.4	725.3	692.7	-32.6	-4.5
Net Domestic Assets	**4,225.8**	**4,460.2**	**4,555.2**	**5,035.4**	**5468.9**	**6,206.9**	**738.0**	**13.5**
Claims on Central Government (net)	1,273.7	1,565.1	1,651.4	1,625.5	1,839.8	1,902.7	62.9	3.4
Claims on Private Sector	3,528.8	3,587.7	3,676.7	3,977.8	4,214.7	4,484.6	269.9	6.4
Cash in Vaults	219.7	223.3	233.8	265.5	249.7	295.8	46.0	18.4
Net Claims on Bank of Uganda	549.9	450.6	473.0	600.70	539.1	862.2	323.1	59.9
Other Items, Net	-1,402.7	-1,401.6	-1,537.4	-1,487.0	-1,419.6	-1,391.4	28.2	-2.0
Total Deposits	**4,788.7**	**5,052.2**	**5,092.2**	**5,415.3**	**5,964.6**	**6,849.9**	**885.4**	**14.8**
Demand Deposits	1,677.2	1,732.7	1,816.9	1,925.6	2,057.1	2,345.7	288.6	14.0
Time and Savings Deposits	1,745.3	1,942.5	1,915.0	2,077.1	2,412.1	2,622.8	210.7	8.7
Foreign Exchange Accounts	1,366.2	1,376.9	1,360.2	1,412.6	1,495.4	1,881.4	386.0	25.8
Certificates of Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Uganda

4.5.1 COMMERCIAL BANKS CREDIT TO THE PRIVATE SECTOR

In the three months to June 2010, credit to the private sector continued to grow, increasing by 6.4 percent compared to 6.0 percent in the previous quarter and 1.7 percent in the corresponding quarter of 2009. This growth was partly caused by increased activities in manufacturing, building and construction, and trade and commerce sectors of the economy. Both shilling and foreign currency denominated loans increased during the quarter, growing by 4.4 percent and 13.6 percent, respectively. The increase in the shilling equivalent of the foreign currency denominated loans was partly due to the depreciation of the shilling against the dollar during the quarter. Table 6 below shows the distribution of credit by sector.

Table 6: Distribution of Commercial Banks Private Sector Credit by Sector

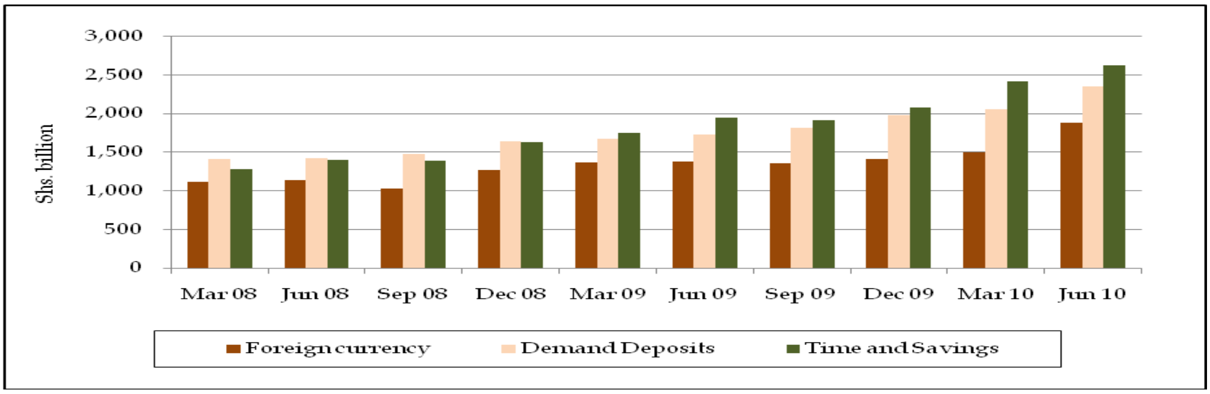
Amounts outstanding as at end period in millions of shillings							Change	
	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Mar. 10	June. 10	Mar. 10 to Jun. 10	
							Absolute	Percent
Agriculture	192,959	163,112	205,113	208,424	258,095	292,597	34,502	13.4
Mining & Quarrying	13,810	10,703	15,055	9,537	6,540	37,533	30,993	473.9
Manufacturing	540,072	549,298	498,475	517,044	564,808	618,457	53,649	9.5
Trade	712,527	746,645	738,643	874,030	825,315	869,957	44,643	5.4
Transport & Communication	220,972	210,496	219,786	299,523	346,824	353,702	6,878	2.0
Electricity & Water	24,376	22,786	28,508	26,065	29,083	52,488	23,405	80.5
Building, Mortgage& Construction	607,458	595,399	617,466	639,332	771,014	845,284	74,269	9.6
Business services					120,554	146,792	26,238	21.8
Community, Social and other services					137,178	121,415	-5,763	-4.2
Personal & Household loans	762,254	794,239	980,316	944,479	922,176	961,878	28,703	3.1
Other services	570,024	529,015	435,562	516,434	268,287	228,865	-39,422	-14.7
Total	3,644,454	3,621,693	3,738,924	4,034,867	4,260,875	4,538,969	278,094	6.5

Source: Bank of Uganda

4.5.2 COMMERCIAL BANKS LIABILITIES

On the liability side, private sector deposits increased by 14.8 percent in the quarter ended June 2010, compared to growth rates of 10.1 percent and 5.5 percent recorded in the quarters ended March 2010 and June 2009, respectively. Particularly, foreign currency deposits in banks increased by 25.8 percent partly due to the depreciation of the shilling against the dollar during the quarter. Similarly, the shilling denominated demand and term deposits, expanded by 14.0 percent and 8.7 percent, respectively as shown in Figure 2 below.

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



Source: Bank of Uganda

4.6 CREDIT INSTITUTIONS (CIs)

4.6.1 ASSETS

In the quarter to June 2010, the total assets of credit institutions increased by 6.5 percent from Shs. 123.8 billion in March 2010 to Shs. 131.8 billion driven by higher deposits with financial institutions. However, CIs investment in government securities declined by 83.1 percent from Shs. 7.7 billion in March 2010 to Shs. 1.3 billion in June 2010 on account of the reduced earnings from securities as a result of the decline in yields, while private sector credit increased by 3.9 percent as indicated in Table 7.

Table 7: Structure of Assets of Credit Institutions (Shs. Billion)

	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Change Mar 10 to Jun 10	
							Absolute	Percent
Cash in vaults	4.3	4.1	4.8	5.4	4.4	4.9	0.5	11.4
Balances with Commercial Banks& associated companies	20.9	27.6	26.6	23.1	25.5	38.3	12.8	50.2
Investments	14.7	8.6	7.4	10.6	7.7	1.3	-6.4	-83.1
Total Advances [1]	57.0	52.6	58.2	63.5	63.4	65.9	2.5	3.9
Premises and other fixed assets	12.3	13.4	14.5	15.3	14.8	14.7	-0.1	-0.7
Other Assets [2]	4.7	4.5	5.8	6.0	8.0	6.7	-1.3	-16.3
Total	**114.0**	**111.8**	**117.3**	**123.9**	**123.8**	**131.8**	8.0	6.5
NPA (%)	**5.8**	**5.3**	**4.2**	**3.3**	**3.0**	**4.2**		

[1]Includes secured and unsecured loans but excludes loan loss reserves. [2]Includes net due from own offices in Uganda for items in transit.

Source: Bank of Uganda

4.6.2 COMPOSITION OF PRIVATE SECTOR CREDIT

Total credit advanced by credit institutions grew by 3.9 percent between March 2010 and June 2010 to Shs. 65.9 billion. The trade and commerce sector continued to account for the largest share of credit (37.5 percent) during the quarter under review, reflecting the profitable nature and low perceived risk of the sector. Table 8 shows the sectoral distribution of credit to the private sector.

Table 8: Composition of Credit Institutions Credit by Sector (Millions of Shillings)

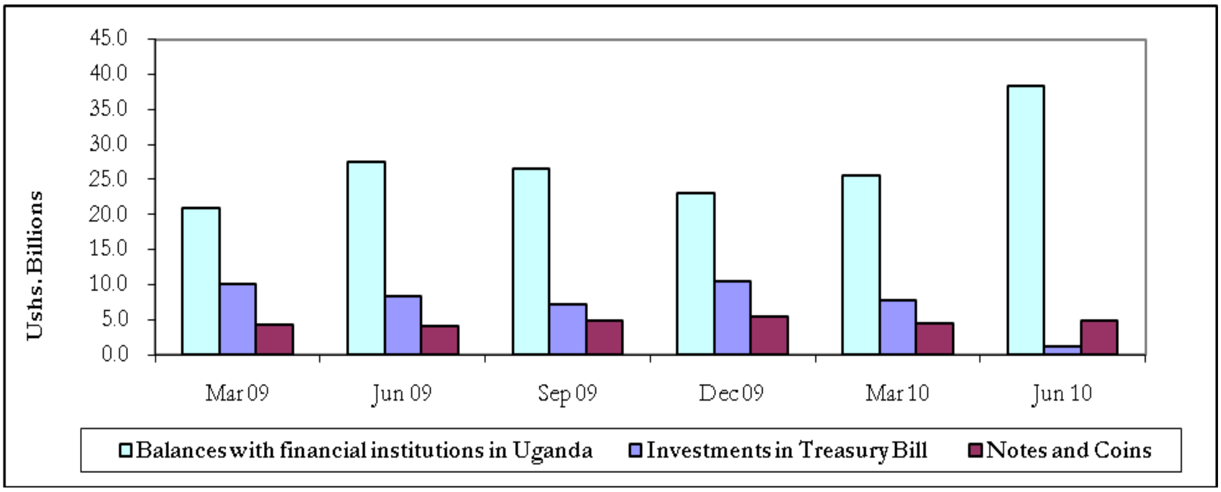
	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Mar. 10	June. 10	Change Mar. 10 to Jun. 10	
							Absolute	Percent
Agriculture	0.5	0.8	2.2	2.4	2.3	2.3	0.0	-
Manufacturing	0.1	0.1	0.8	0.5	0.4	0.2	-0.2	-41.8
Trade & Commerce	13.2	11.4	21.7	25.6	24.8	25.5	0.7	2.7
Transport & Utilities	2.1	2.4	5.2	5.0	4.8	4.3	-0.5	-10.2
Building & Construction	0.5	0.7	4.1	5.3	6.4	7.1	0.7	11.0
Other services & Personal Loans	40.6	37.2	24.2	24.5	26.4	28.4	2.0	7.4
Total	57.0	52.6	58.2	63.5	65.2	68.0	2.8	4.2

Source: Bank of Uganda

4.6.3 COMPOSITION OF THE LIQUID ASSETS OF CIs

The liquid assets of credit institutions increased by 18.2 percent in the quarter to June 2010 following a decline of 3.3 percent registered in the previous quarter. This was higher than an increment of 13.4 percent in liquid assets that was registered in the corresponding quarter of 2009. This growth in liquid assets was mainly on account of a significant increase in CIs' balances with financial institutions in Uganda. Deposits with domestic commercial banks continued to account for the largest share of liquid assets of credit institutions during the quarter. The developments in the liquidity indicators of credit institutions are summarized in Figure 3 below.

Figure 3: Liquidity indicators of CI's (Shs. billion, at end period)



Source: Bank of Uganda

4.6.4 LIABILITIES

Total deposits of credit institutions grew by 9.4 percent in the quarter to June 2010, compared to increases of 6.9 percent and 10.7 percent in the respective quarters of March 2010 and June 2009. Time and savings deposits grew by 9.3 percent and 20.0 percent, respectively as shown in Table 9.

Table 9: Composition of the liabilities of the CIs (Shs. billion)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Change Mar 10 to Jun 10	
							Absolute	Percent
Savings deposits	57.5	62.0	61.4	67.2	74.0	80.9	6.9	9.3
Time Deposits	4.1	6.4	9.0	7.1	6.0	7.2	1.2	20.0
Total private sector deposits	**61.6**	**68.4**	**70.4**	**74.3**	**80.0**	**88.0**	8.0	10.0
Loan Insurance/Compulsory Savings	3.8	3.5	4.3	4.0	3.8	3.7	-0.1	-2.6
Total deposits	**65.7**	**72.1**	**75.1**	**78.4**	**83.8**	**91.7**	7.9	9.4
Administered funds	9.4	0.0	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	24.3	1.5	6.6
Others [1]	15.0	15.2	17.4	16.5	17.2	15.7	-1.5	-8.7
Total Liabilities	**114.0**	**111.8**	**117.3**	**123.9**	**123.8**	**131.8**	8.0	6.5

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

Source: Bank of Uganda

4.7 MICROFINANCE DEPOSIT TAKING INSTITUTIONS (MDIS)

4.7.1 ASSETS

Total assets of MDIs increased by 1.5 percent in the quarter ended June 2010 from Shs. 140.1 billion to Shs. 142.2 billion on account of an increase in loans to the private sector. Investments in government securities declined to Shs. 9.7 billion from Shs. 11.1 billion in the previous quarter on account of the reduced earnings from securities as a result of the decline in yields as shown in Table 10.

Table 10: Composition of Assets of MDIs (Shs. billion)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Change Mar 10 to Jun 10 Absolute	Percent
Notes and Coins	3.5	3.6	3.9	4.0	4.1	4.4	0.3	7.3
Balances with financial institutions in Uganda	11.4	9.1	7.7	11.0	13.7	9.2	-4.5	-32.8
Investments in Treasury bills	13.9	12.3	6.9	4.5	11.1	9.7	-1.4	-12.6
Net loans outstanding[1]	79.4	82.7	88.8	94.8	91.1	97.3	6.2	6.8
Inter branch/Due from own offices	0.1	0.0	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	10.4	0.7	7.2
Other Assets	8.9	9.4	10.4	8.2	10.3	11.0	0.7	6.8
Total Assets	**125.6**	**125.9**	**131.3**	**135.8**	**140.1**	**142.2**	2.1	1.5
NPA %	**2.9**	**2.9**	**2.5**	**2.4**	**3.0**	**2.8**		

[1] **Excludes loan loss reserves**

Source: Bank of Uganda

Credit to the private sector by MDIs continued to expand owing to the profitability of trade and commerce, which accounted for a largest chunk of MDIs credit in the quarter to June 2010. Table 11 shows the structure of outstanding credit extended by MDIs.

Table 11: Distribution of MDIs Credit by Sector (Shs. Million)

	Mar. 09	Jun. 09	Sept. 09	Dec. 09	Mar. 10	June. 10	Change Mar. 10 to Jun. 10 Absolute	Percent
Agriculture	5.07	5.34	4.94	4.93	5.43	6.47	1.5	30.9
Manufacturing	1.04	2.14	0.97	0.93	2.10	2.07	1.1	113.6
Trade & Commerce	74.08	72.42	71.67	70.38	71.42	71.15	-0.5	-0.7
Transport & Utilities	3.90	3.78	3.85	3.91	3.99	4.45	0.6	15.5
Building & Construction	1.87	1.97	2.01	2.07	2.12	3.38	1.4	67.3
Other services	8.22	8.20	9.44	10.45	11.19	11.81	2.4	25.1
Total	**94.19**	**93.85**	**92.90**	**92.68**	**96.26**	**99.33**	**6.4**	**6.9**

Source: Bank of Uganda

4.7.2 LIABILITIES

Private sector deposits in the MDIs grew by 24.7 percent, compared to growth rates of 1.1 percent and 7.6 percent observed in the previous quarter and in the quarter ended June 2009, respectively. Savings and time deposits increased by 28.0 percent and 2.0 percent, respectively during the quarter. Borrowing by MDIs' declined by 11.3 percent over the same period. Table 12 below shows the composition of MDIs' liabilities.

Table 12: The Composition of the liabilities of MDIs (Shs. Million)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar 10	Jun 10	Change Mar 09 to Jun 10	
							Absolute	Percent
Deposit Liabilities	**32.0**	**34.5**	**35.2**	**36.6**	**36.8**	**45.9**	9.1	24.7
Savings deposits	28.0	30.3	30.5	32.0	31.8	40.7	8.9	28.0
Time deposits	3.8	4.1	4.4	4.2	5.0	5.1	0.1	2.0
Total Private Sector Deposits	**31.9**	**34.4**	**35.0**	**36.4**	**36.8**	**45.9**	9.1	24.7
Loan insurance fund	13.9	14.2	14.5	14.2	14.3	10.1	-4.2	-29.4
Total Borrowing	**26.4**	**24.9**	**27.0**	**29.2**	**27.5**	**24.4**	-3.1	-11.3
Other liabilities	10.6	9.8	12.4	10.9	12.4	11.8	-0.6	-4.8
Total liabilities	**83.0**	**83.4**	**89.0**	**90.9**	**90.9**	**110.6**	19.7	21.7
Total equity	26.1	26.0	25.8	28.4	30.9	31.5	0.6	1.9
Subordinated debt	16.5	16.5	16.5	16.5	18.2	18.5	0.3	1.6
Preference shares	0.0	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**	**142.2**	2.1	1.5

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

Source: Bank of Uganda

4.8 UGANDA'S EQUITY MARKET

Trading at the Uganda Securities Exchange (USE) exhibited relative improvement reflecting developments in the global financial markets. The USE All Shares Index rose, reflecting rising equity prices during the quarter to close at Shs. 1,023.8 from Shs. 886.0 in March 2010. The number of deals recorded also increased to 1,448 from 1,219 in the previous quarter.

The total volume of shares traded during the quarter was 65.6 million as compared to 57.8 million shares in March 2010. However, these volumes were very high in April 2010 and low for the other two months. The number of shares traded in April 2010 was boosted by the active trading of National Insurance Corporation shares which were listed on the USE towards the end of March 2010. The levels of trading were low for May 2010 and June 2010 as USE begun using the Securities Central Depository system and traders were unable to participate in the market before immobilising[1] their shares. Consequently, the total turnover for the quarter decreased by 28.5 percent to Shs. 8.5 billion in the quarter ended June 2010 from Shs. 11.8 billion in the previous period.

Stanbic Bank Uganda (SBU) accounted for 35.2 percent of the total turnover for the quarter ended June 2010, while National Insurance Corporation (NIC) and Bank of Baroda Uganda (BOBU) contributed 26.2 percent and 25.0 percent, respectively. Uganda Clays Limited

[1] Immobilization is the process through which securities held in certificate form are deposited into corresponding clients' accounts in the Securities Central Depository.

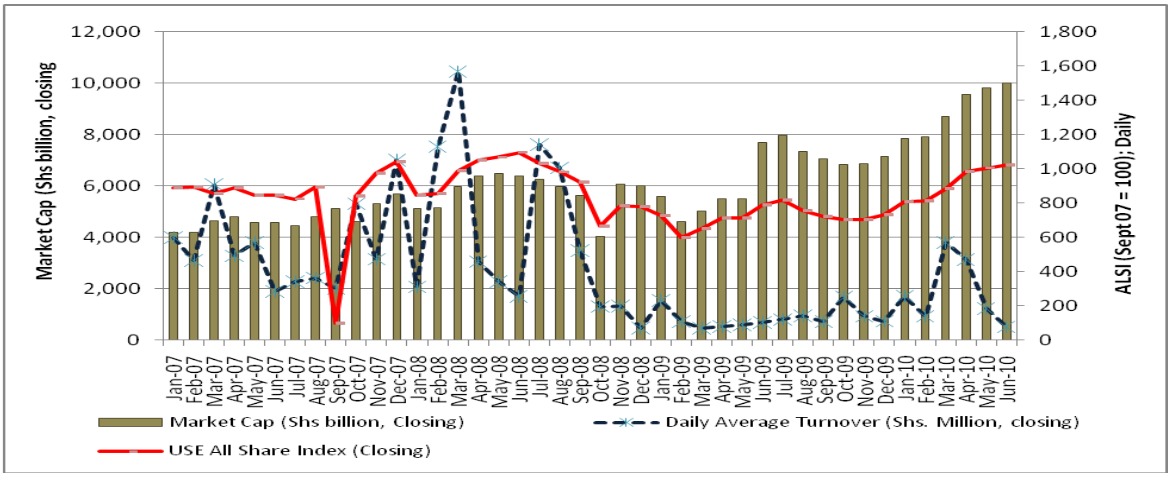
(UCL), Development Finance Company Uganda (DFCU) and New Vision Limited (NVL) each contributed 6.2 percent, 4.9 percent, and 2.4 percent, while Equity Bank Limited (EBL) and British American Tobacco (BAT) accounted for less than 0.5 percent of the total turnover during the quarter. The rest of the counters remained inactive during the quarter. Table 13 shows the developments in the Uganda equity market, while Figure 4 provides a trend of the all share index at the Uganda Securities Exchange.

Table 13: Trading at the Uganda Securities Exchange

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Number of Shares Traded	11,570,269	13,962,217	32,224,305	44,293,519	14,067,002	7,248,654
Turnover (Shs. billion)	2.79	1.65	7.41	5.15	2.41	0.91
Market Cap (Shs. billion, Closing)	7,859	7,922	8,718	9,550	9,812	9,992
USE All Share Index (Closing)	806.94	813.45	886.00	982.10	1,005.43	1,023.82

Source: Uganda Securities Exchange

Figure 4: Trading at the Uganda Securities Exchange



Source: Uganda Securities Exchange

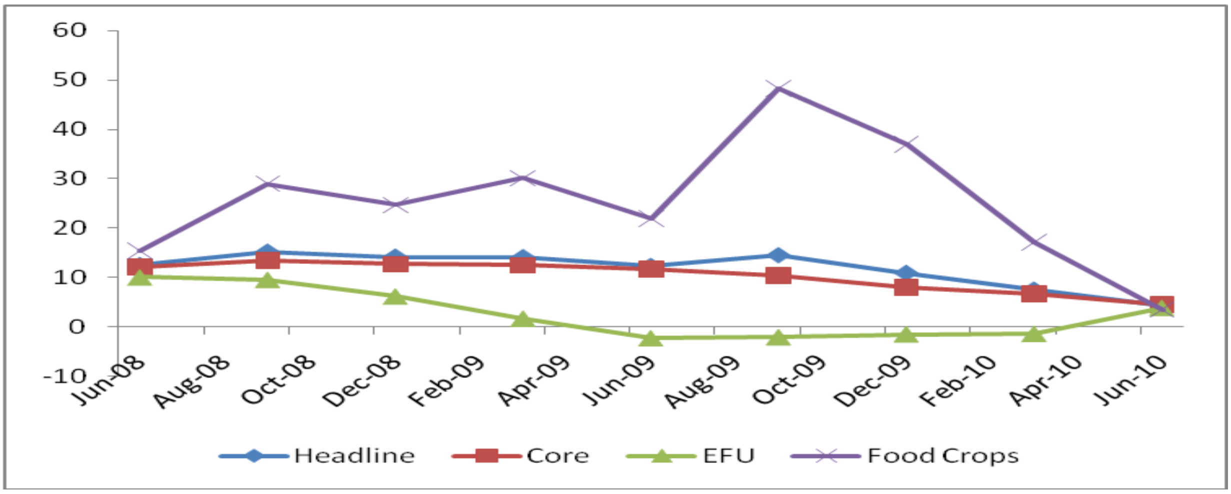
5 DOMESTIC PRICES

5.1 CONSUMER PRICES

BOU continued to employ monetary policy in such a way as to achieve low and stable inflation. In the quarter to June 2010, annual headline inflation declined substantially on the backdrop of good weather conditions which resulted into bumper harvests of major food crops countrywide. Annual food crop inflation dropped to 3.5 percent in June 2010 from 17.2 percent in March 2010. This translated to a decline in annual headline inflation from 7.5 percent in March 2010 to 4.2 percent in June 2010.

Core inflation, which excludes food, energy, fuel and utilities inflation, stood at 4.5 percent in June 2010 down from 6.7 percent in March 2010 mainly as a result of subdued aggregate demand. However, annual EFU inflation increased in June 2010 from -1.4 percent in March 2010 to 3.9 percent following the rapid international price rebound, especially in emerging market economies due to the recovery in the global economy. In May 2010, EFU inflation increased to 4.1 percent before dropping to 3.9 percent in June 2010 due to the turbulence experienced in the global financial markets starting in May 2010 which resulted into the decline of some commodity prices. Developments in the consumer price inflation are as indicated in Figure 5 below.

Figure 5: Developments in Consumer Inflation from June 2008 to June 2010



Source: Bank of Uganda

5.2 PRODUCER PRICE INDEX (PPI)

The annual combined Producer Price Index for the manufacturing sector[2] (PPI-M) increased by 7.1 percent in June 2010 compared to a rise of 7.7 percent in the twelve months to June 2009. The increase was mainly on account of the rise in prices of drinks and tobacco, processed food, metal products and textiles, clothing and footwear which increased by 14.7 percent, 10.4 percent, 7.2 percent and 7.0 percent, respectively.

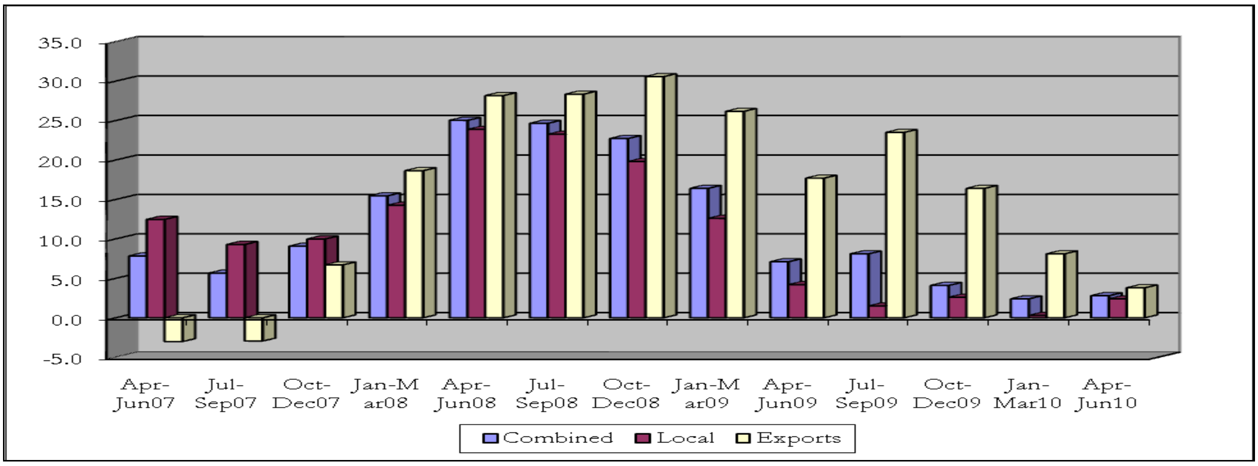
Producer prices increased by 2.8 percent during the quarter ended June 2010 compared to a 2.4 percent rise registered in the previous quarter, a reflection of the exchange rate depreciation. Although price increases were registered in all sectors, the most notable increases were in metal products, drinks and tobacco, and textiles, clothing and footwear which rose by 4.5 percent, 4.4 percent and 3.0 percent, respectively.

Prices of manufactured goods produced for export registered an increase of 3.8 percent in the quarter ended June 2010 compared to a rise of 8.1 percent in the previous quarter. This was mainly due to the persistent rise in the exchange rate. The shilling depreciated by 8.3 percent from a rate of Shs. 2,006.2 per US dollar in March 2010 to Shs. 2,171.7 per US dollar in June 2010.

Similarly, prices of goods produced for local consumption rose by 2.4 percent in the quarter ended June 2010 following a rise of 0.3 percent in the previous quarter. But this increase was only marginally transmitted to the core consumer price inflation due to subdued aggregate demand during the quarter. Figure 6 shows the developments in the annual producer price index.

[2] 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 6: Trend of Annual Producer Price Inflation; April 2007 - June 2010



Source: Uganda Bureau of Statistics

6 EXCHANGE RATES AND BALANCE OF PAYMENTS

6.1 EXCHANGE RATES

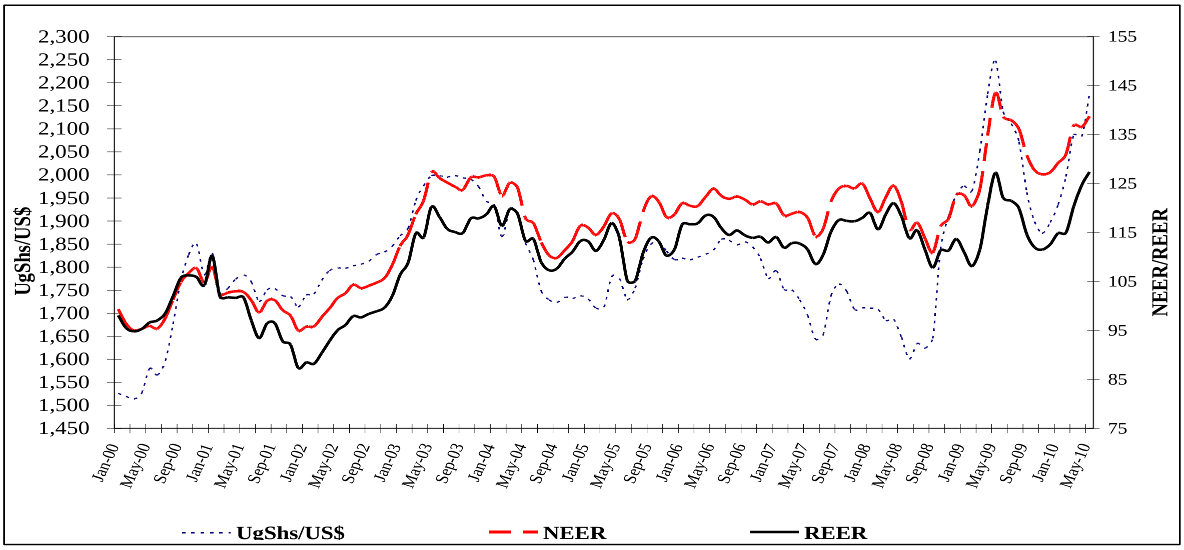
During the quarter ended June 2010, the shilling depreciated. The unit open trading at Shs. 2,073.4 per U.S. dollar in April 2010 and closed at Shs. 2,283.3 per U.S. dollar in June 2010. Global developments had a dominant influence on the exchange rate. The heightened fiscal concern in the euro-area caused the U.S. dollar to gain substantially against other international currencies and this spilled over into the Ugandan market causing the shilling to lose ground against the dollar. Subsequently, the shilling depreciated by 8.3 percent in the quarter from an average rate of Shs. 2,006.2 per U.S. dollar in the quarter ended March 2010 to Shs. 2,171.7 per U.S. dollar. This compares with the depreciation of 6.2 percent registered in the previous quarter.

The depreciation of the shilling was more pronounced in May 2010 with the shilling losing by 4.4 percent against the U.S. dollar mainly on account of the appreciation of the U.S. dollar against major currencies. The shilling depreciation was also aggravated by strong dollar demand from the manufacturing, energy and telecommunication sectors as well as commercial banks to cover their short dollar positions for most of the days in June 2010.

The quarter was also characterised by increased volatility in the exchange rate reflecting uncertainty about the global macroeconomic outlook. This caused BOU to intervene on both sides of the inter-bank foreign exchange market (IFEM). BOU also continued with the daily sales of US$ 0.1 million to the IFEM for liquidity sterilization purposes. Furthermore, whenever there was an opportunity, BOU carried out targeted purchases of foreign exchange for purposes of building reserves. The actions of BOU in the IFEM resulted into a net purchase of US$ 33.9 million in the quarter ended June 2010 in contrast to a net sale of US$ 31.1 million in the previous quarter.

The nominal effective exchange rate (NEER) depreciated by 5.2 percent during the quarter ended June 2010, compared to a depreciation of 4.0 percent observed in the previous quarter. During the quarter under review, the shilling depreciated against most of the currencies of Uganda's trading partners. Consequently, the real effective exchange rate (REER) depreciated by 4.6 percent in the quarter ended June 2010, compared to a depreciation of 3.1 percent recorded in the previous quarter as shown in Figure 7.

Figure 7: Exchange rate developments: January 2000 to June 2010



Source: Bank of Uganda

6.2 BALANCE OF PAYMENTS

The balance of payments (BOP) registered a deficit of US$ 351.8 million in the quarter ended June 2010, compared to a surplus of US$ 67.2 million registered in the same quarter a year ago. This was due to the deterioration of the current account which recorded a deficit of US$ 582.2 million, from a deficit of US$ 63.9 million in the corresponding quarter of 2009. This decline in the current account balance resulted primarily from a higher trade deficit coupled with lower net receipts in current transfers and services.

Imports of goods and services were US$ 200.3 million and US$ 167.7 million higher than those recorded in the quarter ended June 2009. Furthermore, total exports declined on account of a decrease in coffee exports. Coffee production was affected by drought especially in the robusta growing areas at the cherry formation and development stage. On the other hand, non-coffee formal exports totaled US$ 327.5 million during the quarter ended June 2010, which was US$ 38.3 million more than the amount recorded in the same period of the previous year. In particular, export earnings from gold, tea, tobacco, and fish and its products increased by a combined total of US$ 30.3 million compared to the export proceeds from the same commodities in the same quarter last year.

Total official aid (budget support and project aid) inflows in the quarter ended June 2010 were estimated at US$ 177.9 million, US$ 30.3 million higher than the aid inflows received in the quarter that ended June 2009.

The capital and financial account remained robust registering a surplus of US$ 230.4 million compared to a surplus of US$ 131.0 million recorded in the same period of the previous year. This resulted mainly from an increase in foreign direct investment and a reduction in the accumulation of other foreign assets of US$ 25.3 million and US$ 108.1 million, respectively, when compared to the corresponding quarter of 2009.

Following the developments in the balance of payments, the country's stock of external reserves rose to US$ 2.5 billion as of end-June 2010, higher than the US$ 2.4 billion level recorded in end-June 2009. The June 2010 reserve level could cover 4.9 months worth of future imports of goods and services. Table 14[3] summarises of the quarterly developments in the balance of payments.

[3] 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 14: Developments in the Balance of Payments (US$ million)

	Apr-Jun 2008/9	Jul - Sep 2009/10	Oct-Dec 2009/10	Jan - Mar 2009/10	Apr-Jun 2009/10
A. Current Account Balance	**-63.86**	**-178.35**	**-105.03**	**-398.32**	**-582.16**
A1. Goods Account (Trade Balance)	**-158.98**	**-245.25**	**-174.67**	**-380.13**	**-473.89**
a) Total Exports (fob)	749.42	686.33	805.05	630.18	634.82
b) Total Imports (fob)	-908.40	-931.58	-979.72	-1,010.31	-1,108.71
A2. Services Account (services net)	**-96.00**	**-101.93**	**-139.98**	**-229.54**	**-244.61**
a) Inflows (credit)	218.07	283.25	260.67	217.08	237.18
b) Outflows (debit)	-314.07	-385.18	-400.65	-446.62	-481.80
A3. Income Account (Income net)	**-83.77**	**-99.08**	**-79.20**	**-89.20**	**-82.30**
a) Inflows (credit)	16.18	6.28	8.75	4.55	4.30
b) Outflows (debit)	-99.95	-105.36	-87.95	-93.76	-86.60
A4. Current Transfers (net)	**274.90**	**267.91**	**288.83**	**300.56**	**218.64**
a) Inflows (credit)	344.49	355.09	396.06	404.73	363.39
b) Outflows (debit)	-69.59	-87.17	-107.24	-104.17	-144.75
B. Capital & Financial Account Balance	**131.02**	**619.77**	**362.71**	**450.90**	**230.41**
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	**131.02**	**619.77**	**362.71**	**450.90**	**230.41**
a) Direct Investment	150.94	150.94	150.94	176.26	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	176.26	176.26
b) Portfolio Investment	-10.76	-1.83	-2.21	-18.08	-17.86
Assets	-0.01	0.00	0.00	0.00	0.00
Equity Securities	-0.01	0.00	0.00	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	-10.74	-1.83	-2.21	-18.08	-17.86
Equity Securities	-0.93	-0.14	0.54	0.19	-0.04
Debt Securities	-9.81	-1.68	-2.75	-18.27	-17.82
c) Financial Derivatives (Net)	-3.37	-2.35	-2.33	-0.37	-0.30
d) Other Investment	-5.79	473.00	216.31	293.09	72.31
Assets	-108.13	51.37	110.76	22.59	0.08
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	10.20	20.42	31.52	129.55	51.16
Banks	-43.32	38.94	64.23	-132.97	-51.09
Other sectors	-75.00	-8.00	15.00	26.00	0.00
Liabilities	102.33	421.63	105.56	270.50	72.23
Monetary authorities	0.00	224.00	0.00	0.00	0.00
General government	45.79	147.31	22.61	114.30	22.42
Banks	30.25	-11.00	19.79	73.50	-20.03
Other sectors	26.30	61.32	63.16	82.70	69.84
C. Overall Balance (A + B)	**67.16**	**441.42**	**257.67**	**52.57**	**-351.75**
D. Reserves & Related Items	**-67.16**	**-441.42**	**-257.67**	**-52.57**	**351.75**
a) Reserve assets	110.20	-283.65	-42.72	7.47	120.64
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.54	-11.94	1.05	0.73	-5.33
d) Errors and Omissions	-177.89	-145.83	-216.00	-60.77	236.45

Source: Bank of Uganda

7 MONETARY POLICY OUTLOOK

Despite gathering headwinds in the international environment, the Ugandan economy looks poised for recovery from the slowdown associated with the global financial crisis and recession. Forecasts indicate that inflation might increase marginally as aggregate demand strengthens further and in part due to potential exchange rate depreciation, but will remain within the BOU target of 5.0 percent. All measures indicate that aggregate demand is rebounding. The 2010/11 government budget deficit, which will require a substantial level of domestic financing will inevitably push up interest rates during the course of the year. The exchange rate will continue to be influenced by conditions in the global currency markets. Furthermore, the anticipated rise in import demand is likely to lead to the depreciation of the shilling.

BOU will pursue cautious monetary policy in order to contain core inflation within the 5.0 percent target, while at the same time supporting the restoration of aggregate demand. The near term inflation forecast will continue to drive monetary policy decisions going forward. BOU will also closely monitor the growth of monetary aggregates and will take measures to curtail excessive growth, which could have implications for future inflation.