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BANK OF UGANDA

QUARTERLY MACROECONOMIC REPORT
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CONTENTS

ABBREVIATIONS

ALSI	All Shares Index
BOU	Bank of Uganda
CDS	Central Depository System
CIs	Credit Institutions
CPI	Consumer Price Index
EAC	East African Community
ECB	European Central Bank
EFU	Energy Fuel and Utilities
EU	European Union
FAO	Food and Agricultural Organisation
FFPI	Food and Agricultural Organisation Food Price Index
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
NCG	Net Claims on Government
NDA	Net Domestic Assets
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NSSF	National Social Security Fund
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PPI	Producer Price Index
PPI-M	Producer Price Index for Manufacturing
PSC	Private Sector Credit
REER	Real Effective Exchange Rate
REPO	Repurchase Agreement
RMP	Reserve Money Program
UK	United Kingdom
US	United States
USE	Uganda Securities Exchange
VAT	Value Added Tax
WEO	World Economic Outlook

1 INTRODUCTION

This report presents economic developments and monetary policy operations in the quarter to December 2010 relative to the corresponding period of 2009 and the quarter ended September 2010. Specifically, the report reviews developments in the global economy in view of the implications for Uganda. 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 Bank of Uganda (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 recovery of the global economy continued, albeit at differing speed across regions and became increasingly sustained in the quarter ended December 2010. According to the IMF World Economic Outlook (WEO) of January 2011, quarterly world output was estimated to have increased by 4.7 percent in the last quarter of 2010, largely on account of growth in the emerging Asia region that was estimated at 9.1 percent. The global economy expanded by 5.0 percent in 2010, compared to a contraction of 0.6 percent for the preceding year. The resilience of sub-Saharan Africa to the global financial and economic crisis was manifested through growth of 5.0 percent in 2010, relative to 2.8 percent in 2009, when most developed economies went into recession. The pace of economic performance was higher for emerging Asia in 2010, largely driven by China and India. China and India grew by 10.3 percent and 9.7 percent in 2010, driven by robust domestic demand, and exports demand from other Asia countries. This compares to, respective, growth rates of 9.2 percent and 5.7 percent in 2009.

The United States (US.) economy continued to recover buoyed by increased consumer spending and higher net exports, registering quarterly growth of 0.8 percent in the last quarter of 2010, compared to that of 0.6 percent in the preceding quarter. The GDP in the quarter ended December 2010 exceeded that of the pre-recession peak.

Robust external demand coupled with strong investment supported China's annual growth of 9.8 percent in the fourth quarter of 2010, higher than 9.6 percent recorded in the quarter to September 2010. South Africa also continued recover in the quarter ended December 2010 registering an annual growth rate of 2.8 percent for 2010, compared to a contraction of 1.7 percent in 2009. This turnaround was partly attributed to renewed confidence in the banking system that resulted in higher credit to the private sector, which led to increased activity. Total domestic credit extension rose to an annual rate of 4.3 percent in December 2010, from 2.0 percent recorded in August 2010. Conversely, economic recovery in Japan and the United Kingdom remained sluggish. Weak private spending resulted in annual contraction of 3.3 percent in Japan, while bad weather and a subdued housing market occasioned a decline of 0.5 percent in the UK economy in the fourth quarter of 2010.

2.2 GLOBAL CONSUMER PRICES

Inflationary pressures increased in most emerging and developing economies due to rising input prices combined with strong economic activity. On the other hand, inflationary pressures in advanced economies remained subdued despite the increase in input prices. The increase in input prices was attributed to higher food and commodity prices due to geo-political tensions, bad weather and other related supply shocks supplemented by strong demand from emerging Asia. Consumer prices in emerging and developing countries were estimated to have increased by 1.1 percent to 6.3 percent in 2010. Inflation in the advanced economies was estimated at 1.5 percent in 2010, up from 0.1 percent in 2009.

In the US, prices pressures remained contained in the context of excess capacity. Consumer price inflation picked up to 1.5 percent in December an increase, which was primarily due to the impact of higher energy costs. Otherwise, excluding food and energy, the annual CPI remained unchanged in December standing at 0.8 percent. In the United Kingdom (UK, inflation rose to 3.7 percent in December 2010 compared to 3.3 percent in November 2010. This inflation outturn was well above the 2.0 percent target, partly reflecting the impact of bad weather on commodity prices, and the lagged effects of the depreciation of the pound sterling.

Inflationary pressures in China eased to 4.6 percent in December 2010 from 5.1 percent in the preceding month, reaping the benefit of a 25 basis points rise in lending rates as well as an increase in the reserve requirements for commercial banks introduced during the quarter under review. In South Africa, the bumper domestic crop yields like that for maize somewhat helped insulate the economy from the rising international food and oil prices. Consequently, South Africa's inflation, at 3.5 percent, remained within the target band of 3-6 percent, in December 2010. Conversely, inflation that had been declining in India, reversed trend; increasing to 8.4 percent in December 2010 from 7.5 per cent in November 2010, largely on account of international commodity prices and demand-supply imbalances in some food items. Inflation in Japan also rose in October and November before stabilizing at 0 percent in December 2010.

2.3 GLOBAL FINANCIAL MARKETS

The developments in the global financial markets were influenced; first, by the slow pace of economic recovery in the major advanced economies, which intensified investor expectations that central banks would implement further accommodative measures, and second, by concerns about sovereign risk in several euro area economies.

The U.S. was the main centre of attention especially as a result of a number of public statements by senior officials at the Fed to prepare the markets for a second round of quantitative easing. These statements were followed by the Fed's early November announcement of a second round of purchases of Treasury bonds. As a result the U.S. real and nominal bond yields dropped tremendously while equity prices rose strongly in the initial part of the quarter as investors priced in their expectations. The monetary easing announced in early November 2010 had an impact not only on the U.S. but even beyond. Furthermore, expectations of low growth and further monetary easing accelerated capital flows to higher growth economies. With the low interest rates the U.S. dollar became the funding currency for foreign exchange carry trades. Capital flows to emerging markets increased resulting into higher equity and bond prices in the emerging market economies. Several currencies of emerging economies appreciated against the U.S. dollar. However, currencies of countries that managed their exchange rates fully or partially experienced less pronounced appreciations.

Starting in early November, attention moved to the euro area with market agents becoming more concerned about the exposures to Ireland, whose fiscal situation was deteriorating as a result of government support for troubled banks. There were also concerns about the sovereign debt positions of Portugal, Spain, Belgium and Italy. Sovereign yield spreads between Germany and the affected countries rose during this period. Proposals to institute a crisis resolution mechanism that would impose losses on bond holders in circumstances where governments face financial distress led to a further increase in these spreads. Markets stabilised in December following a decision by the EU and IMF to offer Ireland an €85 billion rescue package with €35 billion intended to support the banking sector.

2.4 GLOBAL COMMODITY MARKETS

Although oil production increased during the quarter under review, increased demand resulted in a substantial reduction in inventories. Prices of non-energy commodities also increased in the fourth quarter of 2010. The increase in food prices was mainly driven by the prices of maize, soya beans, wheat and sugar, amidst concerns related to bad weather and recovery in global demand. Prices of maize and white rice averaged US$ 247.7 and US$ 618 per ton in December 2010, compared to US$ 198 and US$ 499.3 per ton in September 2010, respectively.

Source: World Food Situation, FAO

The FAO Food Price Index (FFPI) rose for six consecutive months, averaging 223 points in December 2010; the highest level in both real and nominal terms since July 2008. Furthermore, metal prices increased especially in September indicating market concerns about global economic recovery.

2.5 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

Restoration of relative stability in the global financial markets is likely to support the sustainability of world economic recovery in 2011, with Asia leading the way. Recovery in consumer spending in the advanced economies on account of stimulus packages coupled with stronger aggregate demand in emerging and some developing economies are expected to spur growth.

According to the IMF WEO for January 2011, global output is forecast to increase by 4.4 percent in 2011, compared to an estimated 5.0 percent growth for 2010. However, there are serious downside risks to the growth prospects. These include the recent rise in international food and oil prices. Continued tightening of global oil markets is anticipated over the next two years as increase of supply from non-OPEC members continues to lag behind world oil consumption. Sustaining of this status could lead to an inflation spiral and sudden shift of macro policies towards curbing the inflationary pressures. This move could hurt liquidity availability in the near term, thereby deterring growth.

Rapidly rising credit growth observed in some emerging countries could also be signalling the advent of overheating economies, which may spur higher inflation. Inflation is, however, expected to remain relatively restrained in the advanced economies due to low levels of capacity utilization. However, the lagged effect of depreciated currencies against the greenback in some countries coupled with sustained high commodity prices may place further upward inflationary pressures.

The sovereign debt worries especially in the euro area also continue to exert some tension in financial markets, which coupled with the required corrective fiscal tightening, pose downward risks to aggregate demand.

Going forward, monetary and fiscal authorities are therefore faced with a policy dilemma regarding when and how much to step back on the expansionary policies that have been implemented to bolster the global economy from degenerating into a recession.

For sub-Saharan Africa, the heightened trade with Asia and intra-regional trade are likely to continue to be major drivers of economic performance, especially through the commodity markets. This will help the region to moderate the impact of any further slowdown in the European economy. The deflation in Japanese may imply that the central bank will not be hurried to roll back its easing stance early in the year, which would be in stark contrast with events in sub-Saharan Africa and emerging Asia where renewed focus is on curbing the rising inflationary pressures. Already China has shifted towards more aggressive monetary policy tightening by raising interest rates and banks' required reserves.

Going forward, the challenge will be to guide the transition from a policy-driven recovery to self-sustained growth. Withdrawal of economic stimuli in advanced economies, policy will have to provide a credible medium-term framework to stabilise expectations and strengthen confidence. Enhanced confidence could result in a faster-than-projected recovery, especially given the much improved position of corporations and the strengthening household income. However, there are significant downside risks, notably those stemming from renewed declines in house prices in the U.S. and the UK, high sovereign debt in euro zone countries, and possible abrupt reversals in government bond yields. If some of them were to materialise and threaten to derail recovery, additional policy responses would be warranted in countries that still have room to manoeuvre.

2.6 IMPLICATIONS FOR THE DOMESTIC ECONOMY

Uganda's economy appears to have firmed further in the quarter to December 2010 relative to the previous quarters of year 2010. Credit to the private sector, foreign inflows from exports of services and workers' remittances improved, especially as the global economy firmed in the final quarter of 2010. However, developments in the exchange rate, oil and other commodity prices (especially food) pose a threat to the country's inflation outlook. Nevertheless, the BOU will continue to pursue a cautious monetary policy stance mindful of continued economic recovery.

3 MONETARY AND EXCHANGE RATE POLICIES IN THE FOURTH QUARTER OF 2010

During the three months to December 2010, the conduct of monetary policy continued to focus on the need to support recovery of economic activity without compromising the inflation objective.

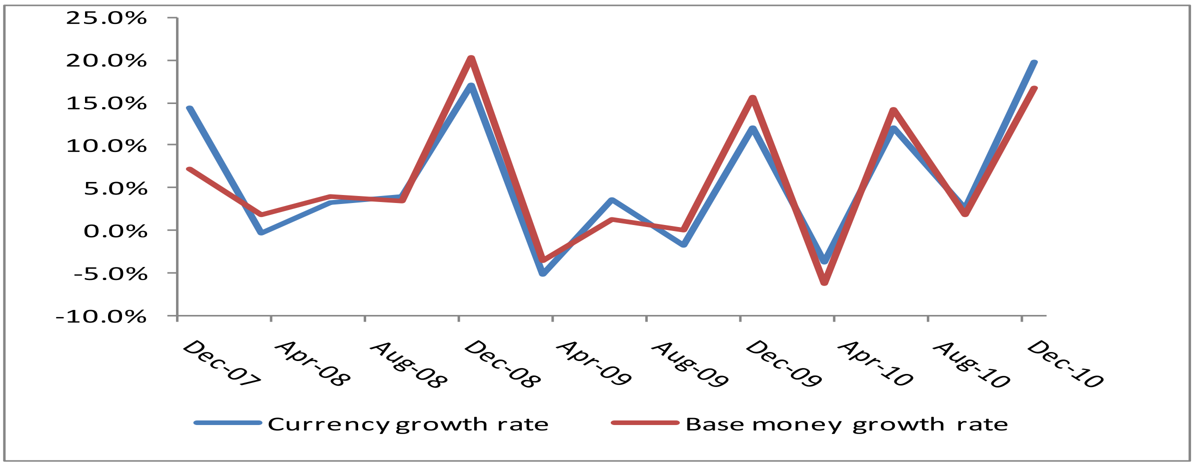
BOU maintained the implementation of a flexible Reserve Money Program (RMP), drawing a distinction between structural and short-term liquidity. The sterilization of structural liquidity was effected through the issuance of Treasury bills and bonds, while repurchase agreements (repos) were used to manage short-term liquidity conditions. The instrument mix was cautiously chosen with a view to maintain low and stable inflation, without compromising the stability of domestic and foreign exchange markets. Furthermore, the Bank maintained a flexible exchange rate regime with occasional interventions in the foreign exchange market to smoothen out wide volatility.

4 MONETARY AND FINANCIAL MARKET DEVELOPMENTS

4.1 BASE MONEY

During the quarter ended December 2010, base money, which comprises commercial banks' deposits at the central bank and currency in circulation, grew by 16.7 percent compared to a growth of 1.8 percent in the previous quarter and 15.6 percent in the quarter to December 2009. Currency in circulation grew by 19.8 percent during the quarter to December 2010 compared to 12.1 percent in the quarter to December 2009 reflecting the seasonal effects of demand for currency. Figure 1 reflects the seasonality pattern and furthermore demonstrates that base money growth is mainly driven by the growth in currency since it accounts for over 75.0 percent of base money.

Figure 1: Quarterly Base Money and Currency Growth Rates (Dec 2007 – Dec 2010)



Source: Bank of Uganda

4.2 MONEY SUPPLY

The expansion of monetary aggregates in 2010 was rather slow reflecting a slump in economic activity as a result of the global recession, financial turmoil and the resulting knock on effects. Broad money, M2 and M3, expanded by 9.6 percent and 8.9 percent compared to rates of 3.1 percent and 4.2 percent in the previous quarter, respectively. The increase in money supply (M3) registered in the quarter was due to increases in both net foreign assets (NFA) and net domestic assets (NDA), which rose by 4.0 percent and 24.2 percent, respectively, from the September 2010 levels.

The NFA of the banking system contributed 48.7 percent of M3 growth as a result of 9.0 percent growth in the central bank's net foreign assets, which were mainly driven by an increase of Shs. 523.5 billion in foreign reserves. The NDA of the banking system, excluding revaluation followed a similar trend increasing by Shs. 501.9 or 24.2 percent attributed to the growth in both credit to the private sector and central government which rose by 13.2 percent and 70.4 percent, respectively compared to respective increases of 6.8 percent and 10.5 percent in the preceding quarter.

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

Aggregate	Sept. 09	Dec. 09	Mar. 10	Jun. 10	Sep.10	Dec.10	Change Sep.10 - Dec.10	
							Absolute	Percent
Net Foreign Assets (NFA)	**5,958.6**	**5,705.3**	**6,139.1**	**6,383.9**	**6,563.7**	**6,827.4**	**263.7**	**4.0**
o/w Bank of Uganda	5,421.5	5,325.4	5,643.4	5,740.9	6,024.5	6,374.8	350.3	5.8
o/w Commercial Banks	537.0	379.9	495.7	643.0	539.2	452.6	-86.6	-16.1
Net Domestic Assets (NDA)	**341.9**	**1,039.8**	**1,129.5**	**1,909.2**	**2,077.3**	**2,579.2**	**501.9**	**24.2**
Net Claims on Government (NCG)	-833.4	-705.9	-614.3	251.7	225.2	383.8	158.6	70.4
Claims on Public Entities	57.7	53.3	45.3	52.6	31.9	29.3	-2.6	-8.1
Claims on the Private Sector (PSC)	3,691.6	3,994.0	4,231.6	4,510.1	4,817.4	5,451.9	634.5	13.2
Other Items (net)	-2,574.2	-2,301.9	-2,533.2	-2,906.0	-2998.3	-3,286.9	-288.6	-9.6
Money Supply (M3)	**6,300.5**	**6,745.1**	**7,268.6**	**8,293.2**	**8,641.0**	**9,406.6**	**765.6**	**8.9**
Foreign Currency Deposits	1,360.2	1,412.6	1,495.4	1,881.4	2,027.4	2,144.3	116.9	5.8
Money Supply (M2)	4,940.3	5,332.4	5,773.2	6,411.7	6,613.6	7,248.4	634.8	9.6
Term Deposits	1,915.0	2,077.1	2,412.1	2,622.8	2,764.5	2,871.7	107.2	3.9
Demand Deposits	1,816.9	1,925.6	2,057.1	2,345.7	2,388.2	2,602.1	213.9	9.0
Currency in Circulation	1,208.3	1,329.7	1,304.1	1,443.3	1,460.9	,1774.6	313.7	21.5

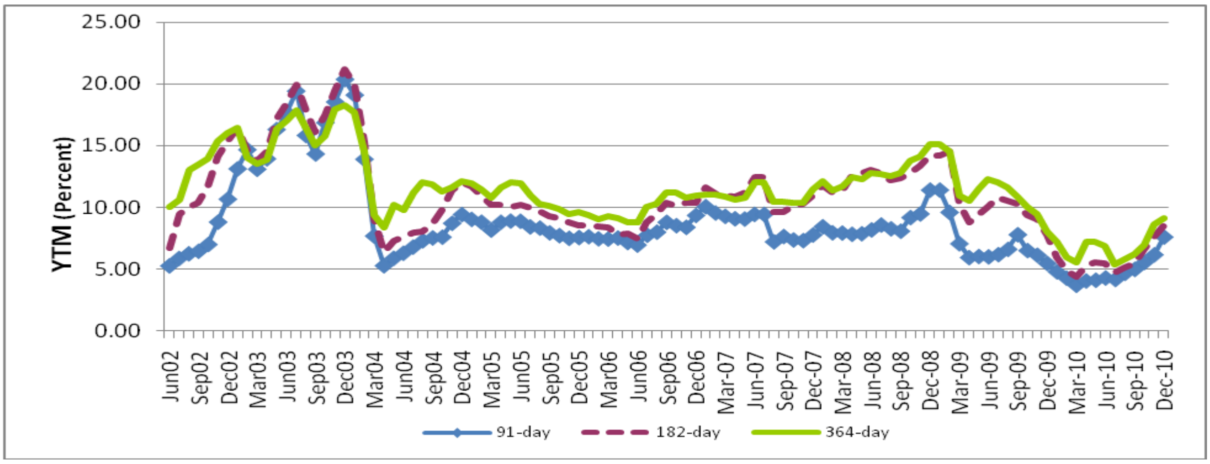
Source: Bank of Uganda

4.3 THE MONEY MARKET

During the quarter under review, the BOU adhered to the instrument mix dictated by the agreed liquidity management strategy. Seven Treasury bill and four Treasury bond auctions were conducted in the quarter ended December 2010. The resultant yields-to-maturity rose across the tenors. On a period average basis, the yields-to-maturity on the 91-day, 182-day and 364-day papers rose to 6.8 percent, 8.2 percent and 9.1 percent in the three months to December 2010 from respective rates of 4.7 percent, 5.3 percent and 6.1 percent observed in the previous quarter.

Similarly, interest rates in the Treasury bond market increased during the quarter ended December 2010. The yields-to-maturity on the 2-year, 3-year and 5-year papers rose to respective rates of 8.9 percent, 10.9 percent and 11.9 percent from 8.5 percent, 9.6 percent and 9.4 percent in the previous quarter. Figure 2 shows the evolution of the effective yields on Treasury bills, while Table 2 shows the developments in the primary market of Treasury bonds.

Figure 2: **Evolution of the Effective Yield on Treasury Bills (Jan 2002 – Dec 2010)**



Source: Bank of Uganda

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

	Dec-09	Mar-10	Jun-10	Sept-10	Dec-10
Stock of Treasury bonds (Shs. billion)	1,406.56	1,506.59	1,563.87	1,791.87	1,960.28
Change in stock (absolute)	0.00	100.00	57.28	228.00	168.41
Price and interest rates (percent)					
2-year average price (Shs. /100)	96.10	0.00	103.10	102.80	102.01
3-year average price (Shs. /100)	0.00	96.72	102.89	101.69	98.59
5-year average price (Shs. /100)	95.73	107.75	107.28	105.27	95.61
10-year average price (Shs. /100)	80.92	94.66	0.00	101.34	0.00
2-year yield-to-maturity rate	12.26	0.00	8.28	8.45	8.88
3-year yield-to-maturity rate	0.00	11.58	9.13	9.59	10.90
5-year yield-to-maturity rate	12.67	8.80	8.89	9.41	11.94
10-year yield-to-maturity rate	14.70	12.09	0.00	10.78	0.00
Issues at face value (Shs. billion)					
2-year	60.00	0.00	60.00	100.00	50.00
3-year	0.00	60.00	60.00	100.00	90.00
5-year	40.00	50.00	60.00	90.00	80.00
10-year	60.00	100.00	0.00	80.00	0.00
Total issues at face value	160.00	210.00	180.00	370.00	220.00
Total maturities	160.00	60.00	172.72	142.00	51.6
Total net issues at face value	0.00	150.00	38.00	228.00	168.4
Issues at cost value (Shs. billion)					
2-year	57.66	0.00	61.86	102.80	51.00
3-year	0.00	58.03	61.73	101.69	88.60
5-year	38.29	53.85	64.37	94.74	76.48
10-year	48.55	47.33	0.00	81.06	0.00
Total issues at cost value	144.505	206.54	187.96	380.29	216.08

Source: Bank of Uganda

In the secondary market for Treasury bills, total trades, amounting to Shs. 432.8 billion were carried out in the quarter ended December 2010 compared to the trades observed in the previous quarter that totalled Shs. 464.9 billion. Horizontal repo transactions accounted for Shs. 267.5 billion, while the rest of the transactions were outright sales.

Secondary market trading in Treasury bills continued to be supported by active use of the 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 the BOU, which motivates primary and secondary market development. The average yields to maturity on 91-day, 182-day and 364-day papers rose to respective rates of 6.2 percent, 7.5 percent and 8.6 percent from 4.3 percent, 4.9 percent and 5.6 percent in the previous quarter. Table 3 provides a summary of indicators from the secondary market of Treasury bills.

Table 3: Summary of indicators from the secondary market of Treasury bills (Sept 2010 to Dec 2010)

	91-days		182-days		364-days	
Yield-to-maturity rates quotation (percent per annum)						
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Minimum	8.33	8.22	9.07	8.96	9.69	9.54
Maximum	4.77	4.51	5.37	5.11	6.37	6.10
Average (simple)	6.32	6.17	7.55	7.36	8.66	8.48
Total trading activity	**Shs. 432.82 billion**					
Transactions (Shs billion)	315.23		73.60		43.99	
- Horizontal repos	267.50		0.000		0.000	
- Transfers	0.000		0.000		0.000	
- Outright sales	47.73		73.60		43.99	
Average discount rate	6.12%		7.20%		8.05%	
Average yield-to-maturity	6.24%		7.45%		8.57%	

Source: Bank of Uganda

In the secondary market of Treasury bonds; 2-year, 3-year, 5-year and 10-year securities worth Shs. 84.7 billion were traded. The total value of trades was much lower than the Shs. 464.3 billion realised in the quarter to September 2010 due to tight liquidity conditions experienced in the banking system towards the end of the quarter. 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

	2-year		3-year		5-year		10-year	
Yield-to-maturity quotation (percent per annum)								
	Bid	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**	**Bid**	**Offer**
Min	9.90	9.75	11.15	11.05	11.90	11.80	12.77	12.55
Max	8.10	7.85	8.15	8.00	9.30	9.20	11.40	11.15
Average	9.14	8.97	10.01	9.86	10.55	10.40	12.31	12.13

Source: Bank of Uganda

As already indicated, liquidity conditions were tight during the quarter to December 2010 due to a number of reasons, which included: the reluctance of large banks to release liquidity in the run up to the end of year, end of the year income tax outflows by corporate clientele, increased demand for currency during the festive season, and light government spending. Consequently, the BOU provided the system with liquidity using reverse repos. The effect of the repo instrument was a net injection of Shs. 160.0 billion during the quarter.

Commercial banks were also active in the swap and interbank money markets in order to balance their daily liquidity fluctuations. The domestic inter-bank money registered 1,271 transactions compared to 772 transactions in the previous quarter. Reflecting the tight liquidity conditions experienced during the period under review, the average interbank money market rate rose to 5.4 in December 2010 from 3.0 in September 2010.

4.4 COMMERCIAL BANKS

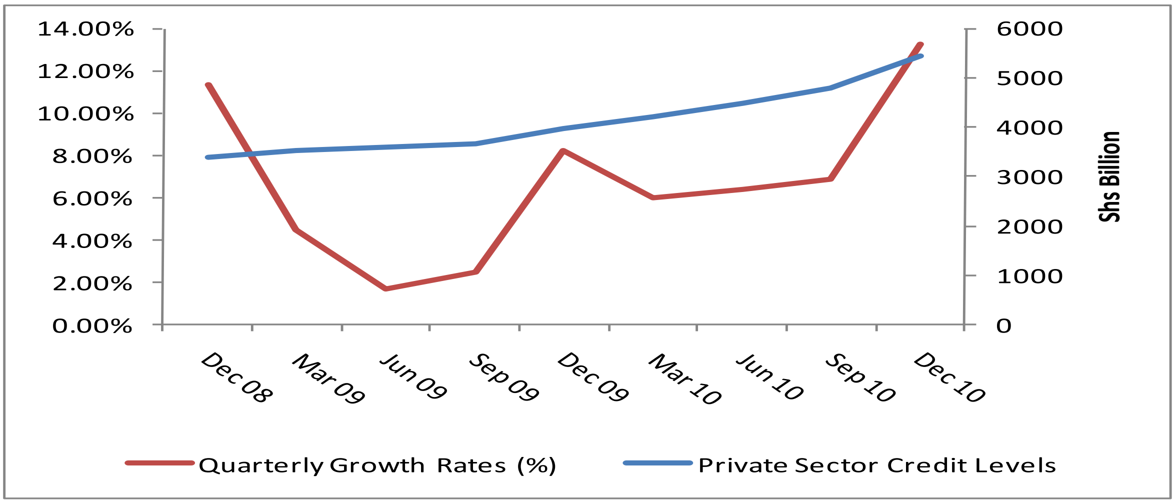
In order to align Uganda's minimum capital requirements with those of the EAC partner states, government gazetted a statutory instrument in October 2010, to raise the minimum paid up capital to Shs. 25.0 billion from Shs. 4.0 billion. New commercial banks are expected to adhere to the new requirements, while existing banks were given a deadline of March 2013 to comply. In addition, amendments to the Financial Institutions Act (FIA 2004) to allow commercial banks broaden their scope of commercial banking activities to include bancassurance and Islamic banking are in the pipeline.

The banking sector remained strong and sound despite developments in the global financial markets. The sector was well capitalised during the quarter to December 2010 and the ratio of non-performing loans to total credit declined to 2.1 percent compared to a ratio of 2.8 percent as at end of September 2010.

Total assets of commercial banks increased by 9.4 percent to Shs. 11,994.4 billion from Shs. 10,966.3 billion at the end of September 2010. Commercial banks' NFA declined by 16.0 percent due to a fall in external assets together with an increase in foreign liabilities. External assets declined to Shs. 1,195.7 billion in December 2010 from Shs. 1,226.3 billion in September 2010 due to lower balances held in foreign banks and lending to non-residents. On the other hand, foreign liabilities increased to Shs. 743.1 billion in December 2010 from Shs. 687.1 billion in September 2010 as a result of a rise in shilling deposits held by non-residents in commercial banks in Uganda.

Conversely, commercial banks' NDA increased by 8.1 percent from Shs. 6,640.9 billion in September 2010 to Shs. 7,177.2 billion in December 2010 mainly driven by increases in credit to the private sector and net claims on the central government (NCG). Loans to the private sector grew by 13.2 percent reflecting recovery in aggregate demand while NCG expanded by 3.1 percent, mainly driven by commercial banks' investments in Treasury securities. Figure 3 shows quarterly growth rates in private sector credit while details of the balance sheet of commercial banks are shown in Table 5.

Figure 3: Private Sector Credit Growth Rates (Dec 2008 to December 2010)



Source: Bank of Uganda

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

	Sept. 09	Dec. 09	Mar. 10	Jun. 10	Sep. 10	Dec. 10	Change Sep. 10 to Dec. 10 Absolute	Change Sep. 10 to Dec. 10 Percent
Net Foreign Assets	**537.0**	**379.9**	**495.7**	**643.0**	**539.2**	**452.7**	**-86.5**	**-16.0**
External Assets	1,064.2	944.2	1,221.0	1,335.7	1,226.3	1,195.7	-30.6	-2.5
Foreign Liabilities	527.1	564.4	725.3	692.7	687.1	743.1	56.0	8.2
Net Domestic Assets	**4,555.2**	**5,035.4**	**5468.9**	**6,206.9**	**6,640.9**	**7,177.2**	**536.3**	**8.1**
Claims on Central Government (net)	1,651.4	1,625.5	1,839.8	1,902.7	2,219.0	2,287.2	68.2	3.1
Claims on Private Sector	3,676.7	3,977.8	4,214.7	4,484.6	4,791.3	5,425.8	634.5	13.2
Cash in Vaults	233.8	265.5	249.7	295.8	323.8	327.1	28.1	9.5
Net Claims on Bank of Uganda	473.0	600.70	539.1	862.2	675.1	615.7	-59.4	-8.8
Other Items, Net	-1,537.4	-1,487.0	-1,419.6	-1,391.4	-1,400.8	-1,508.6	-79.4	-4.9
Total Deposits	**5,092.2**	**5,415.3**	**5,964.6**	**6,849.9**	**7,180.0**	**7,629.9**	**449.9**	**6.3**
Demand Deposits	1,816.9	1,925.6	2,057.1	2,345.7	2,388.2	2,602.1	213.9	9.0
Time and Savings Deposits	1,915.0	2,077.1	2,412.1	2,622.8	2,764.5	2,871.7	107.2	3.9
Foreign Exchange Accounts	1,360.2	1,412.6	1,495.4	1,881.4	2,027.4	2,144.3	116.9	5.8
Certificates of Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Uganda

4.4.1 COMMERCIAL BANKS' OUTSTANDING CREDIT TO THE PRIVATE SECTOR

Commercial bank credit to the private sector continued to increase, growing by 13.1 per cent in the quarter to December 2010, compared to an increase of 6.3 percent recorded in the previous quarter. This growth was mainly due to an increase in lending to the building and construction, and trade sectors as indicated in Table 6 below.

Table 6: Total outstanding loans and advances by sector

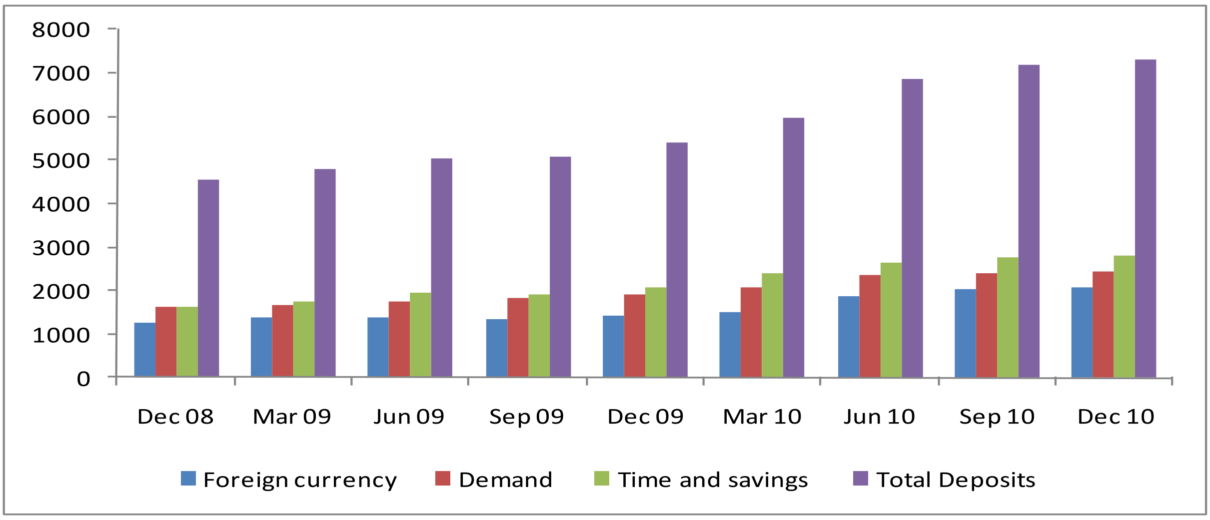
Amounts outstanding as at end of period in millions of shillings							Change	
							Absolute	Percent
	Dec.09	Mar.10	Jun.10	Sep.10	Dec.10	Share (%)	Sep.10 to Dec.10	
Agriculture	208,424	258,095	292,597	308,087	385,755	7.1	77,699	25.2
Mining & Quarrying	9,537	6,540	37,533	45,183	18,306	0.3	-26,877	-59.5
Manufacturing	517,044	564,808	618,457	640,689	729,197	13.4	88,529	13.8
Trade	874,030	825,315	869,957	1,140,937	1,244,805	22.8	103,869	9.1
Transport & Communication	299,523	346,824	353,702	373,717	448,534	8.2	74,817	20.0
Electricity & Water	26,065	29,083	52,488	52,098	49,883	0.9	-2,215	-4.3
Building, Mortgage& Construction	639,332	771,014	845,284	939,671	1,064,966	19.5	125,295	13.3
Business services		120,554	146,792	191,056	239,423	4.4	48,367	25.3
Community, Social and other services		137,178	131415	153,418	165,524	3.0	12,106	7.9
Personal & Household loans	944,479	922,176	961,878	795,775	832,675	15.3	36,900	4.6
Other services	516,434	268,287	228,865	184,343	277,660	5.1	93,317	50.6
Total	4,034,867	4,260,875	4,538,969	4,824,954	5,426,729	100.0	631,775	13.1

Source: Bank of Uganda

4.4.2 COMMERCIAL BANKS' DEPOSIT LIABILITIES

Total deposits grew by 6.3 percent during the quarter to December 2010 to Shs. 7629.9 billion from Shs. 7180.1 billion as at end September 2010. This compares to a growth of 4.8 percent registered in the previous quarter. This growth in deposits was mainly attributed to an expansion in net domestic assets. As for the composition of deposits held by commercial banks, foreign currency deposits increased by 5.8 percent partly due to the depreciation of the shilling that was observed during the quarter. Demand and term deposits also rose by 9.0 percent and 3.9 percent, respectively, as shown in Figure 4 below.

Figure 4: Evolution of the stock of private sector deposits (Shs. billion, at end of period)



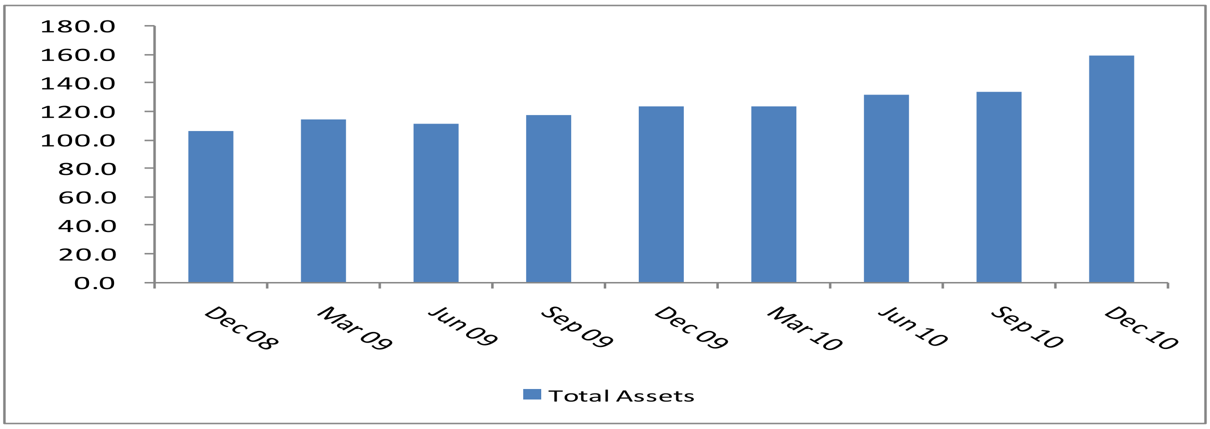
Source: Bank of Uganda

4.5 CREDIT INSTITUTIONS (CIs)

4.5.1 ASSETS

Credit Institutions remained strong and sound during the quarter under review. The ratio of non-performing loans to total credit declined to 4.2 percent in December 2010 from 4.7 percent in the previous quarter. The activities of CIs increased as depicted by their assets and liabilities. Total assets increased by 18.6 percent to Shs. 158.9 billion from Shs. 133.9 billion in September 2010 mainly due to a rise in deposits with other financial institutions as well as outstanding loans and advances. CIs' investments in government securities more than doubled, rising from Shs. 1.8 billion in September 2010 to Shs. 5.8 billion as at end December 2010.

Figure 5: Assets of Credit Institutions (Shs. Billion)



Source: Bank of Uganda

4.5.2 OUTSTANDING CREDIT TO THE PRIVATE SECTOR

The stock of outstanding loans and advances to the private sector grew by 10.5 percent in the quarter ended December 2010 compared to an increase of 8.3 percent in the previous quarter. The trade and commerce sector continued to account for the largest share of credit offered by credit institutions, equivalent to 34.4 percent of total outstanding credit, for the quarter under review. This is a reflection the profitable nature and the low perceived risk of the sector. Personal and household loans accounted for 30.6 percent of total loans in December 2010 as indicated in Table 7.

Table 7: Composition of Credit Institutions Credit by Sector (Billions of Shillings)

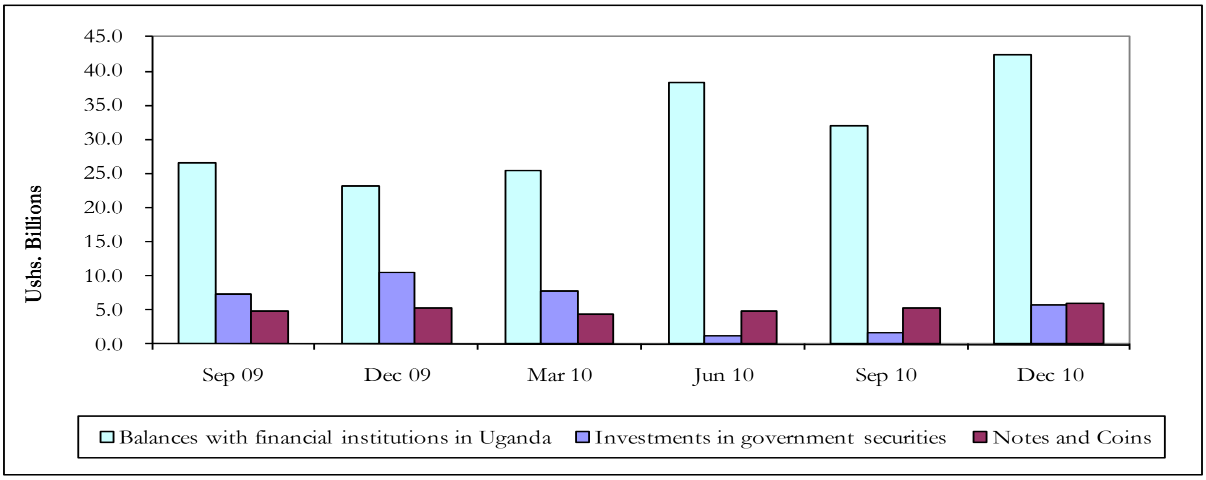
	Sept. 09	Dec. 09	Mar. 10	Jun. 10	Sep. 10	Dec. 10	Change Sep.10 to Dec.10	
							Absolute	Percent
Agriculture	2.2	2.4	2.3	2.3	2.8	3.4	0.6	19.4
Manufacturing	0.8	0.5	0.4	0.2	0.3	0.3	0.0	14.7
Trade & Commerce	21.7	25.6	24.8	25.5	27.0	28.0	1.0	3.7
Transport & Utilities	5.2	5.0	4.8	4.3	4.8	5.0	0.2	4.9
Building & Construction	4.1	5.3	6.4	7.1	8.3	10.5	2.2	26.8
Other services & Personal Loans	24.2	24.5	26.4	28.4	30.1	33.8	3.7	12.1
Total	**58.2**	**63.5**	**65.2**	**68.0**	**73.6**	**81.3**	**7.7**	**10.5**

Source: Bank of Uganda

4.5.3 COMPOSITION OF THE LIQUID ASSETS OF CIs

During the quarter to December 2010, liquid assets of credit institutions increased by 38.8 percent compared to a decline of 11.9 percent recorded in the previous quarter. The rise in liquid assets was mainly due to an increase in CIs' deposits with commercial banks in Uganda as well as increased investments in government securities. The developments in the liquidity indicators of CIs are summarized in Figure 6 below.

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

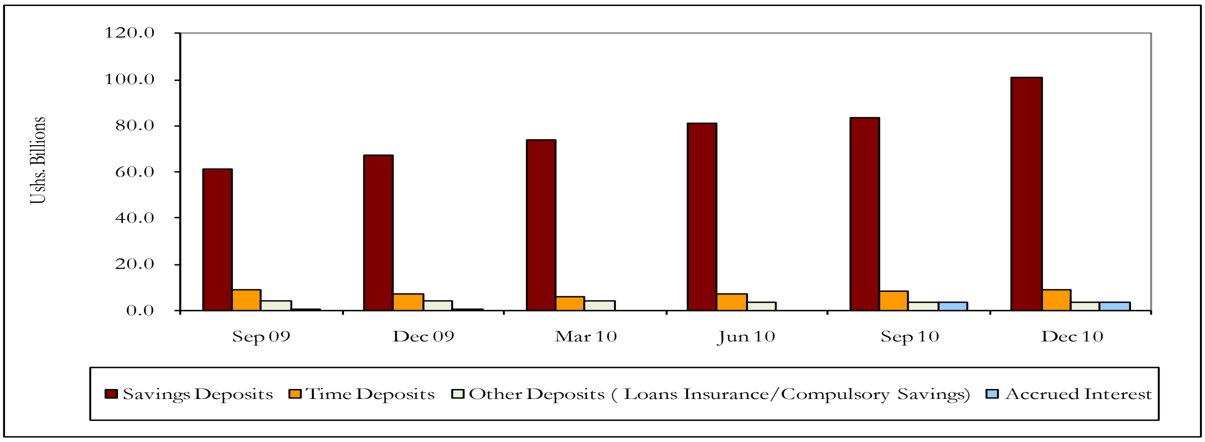


Source: Bank of Uganda

4.5.4 DEPOSIT LIABILITIES

Total deposits grew by 18.8 percent in the quarter to December 2010 compared to a 2.0 percent rise in the previous quarter. Savings deposits continued to account for the largest share of the deposit liabilities equivalent to 92.6 percent of the total deposits. Figure 7 shows the composition of the deposit liabilities of CIs on a quarterly basis.

Figure 7: Deposit Liabilities of Credit Institutions



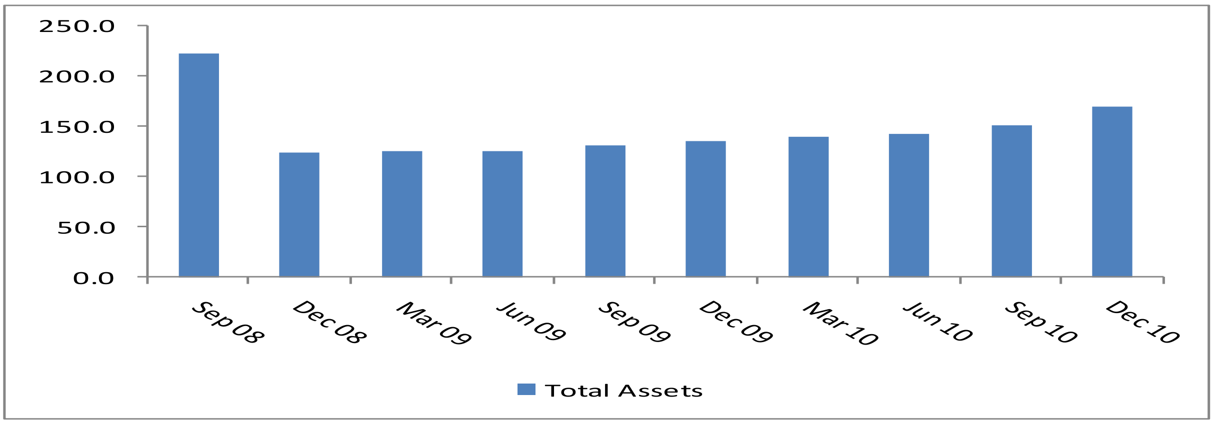
Source: Bank of Uganda

4.6 MICROFINANCE DEPOSIT TAKING INSTITUTIONS (MDIs)

4.6.1 ASSETS

Total assets of MDIs increased by 12.9 percent to Shs.169.9 billion at end-December 2010 from Shs. 150.5 billion in the quarter ended September 2010 mainly driven by an expansion in loans advanced to the private sector and deposits held with financial institutions in Uganda. Furthermore, with increased yields from holding government securities, MDIs' investments in government securities rose to Shs. 2.4 billion from Shs. 1.4 billion in September 2010 as depicted in Figure 8.

Figure 8: Assets of MDIs (Shs. Billion)



Source: Bank of Uganda

Credit to the private sector continued to expand in the quarter to December 2010. Total outstanding credit, increased by 11.3 percent during the quarter following an 8.8 percent growth registered in the previous quarter. This increase was mainly due to the significant rise in loans to the trade and commerce, and agriculture sectors. The trade and commerce sector continued to absorb the bulk of credit extended by MDIs, accounting for 74.0 percent of total outstanding credit in December 2010. During the period under review, the ratio of non-performing loans to total credit declined to 2.0 percent from 2.4 percent as at end-September 2010. Table 8 shows the structure of outstanding credit extended by MDIs.

Table 8: Distribution of MDIs Credit by Sector (Shs. Billions)

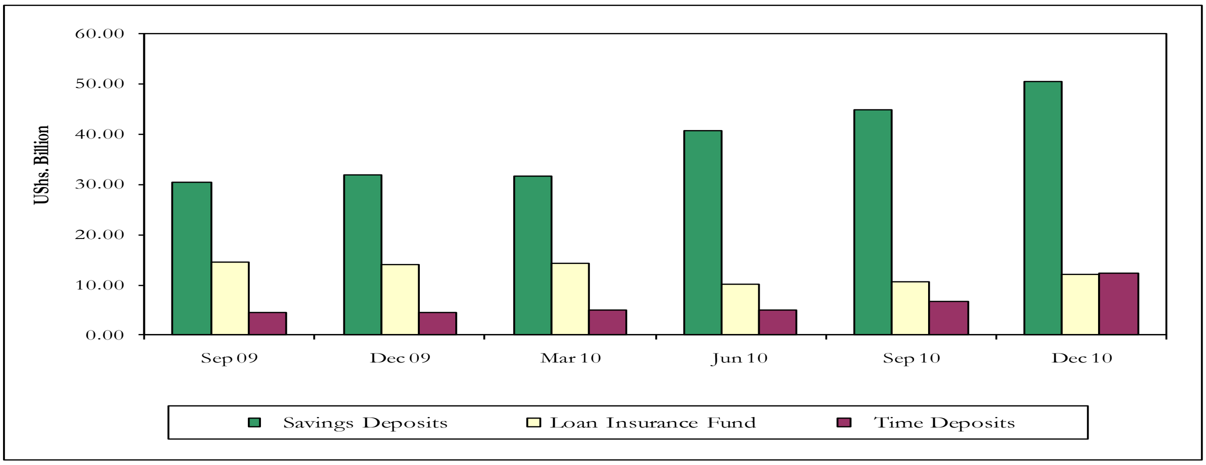
	Sept. 09	Dec. 09	Mar. 10	Jun. 10	Sep.10	Dec. 10	Change Sep.10 toDec.10	
							Absolute	Percent
Agriculture	4.94	4.93	5.43	6.47	6.98	11.12	4.13	59.2
Manufacturing	0.97	0.93	2.10	2.07	2.85	1.32	-1.52	-53.4
Trade & Commerce	71.67	70.38	71.42	71.15	76.90	89.03	12.13	15.8
Transport & Utilities	3.85	3.91	3.99	4.45	6.61	5.52	-1.39	-21.1
Building & Construction	2.01	2.07	2.12	3.38	3.89	2.67	-1.22	-31.3
Other services	9.44	10.45	11.19	11.81	10.85	10.96	0.11	1.1
Total	**92.90**	**92.68**	**96.26**	**99.33**	**108.08**	**120.32**	**12.24**	**11.3**

Source: Bank of Uganda

4.6.2 DEPOSIT LIABILITIES

In the three months to December 2010, total private sector deposits held by the MDIs grew by 22.1 percent, compared to a growth rate of 12.5 percent in the previous quarter. Saving and time deposits increased by 13.0 percent and 82.2 percent, respectively, during the quarter ended December 2010. Time deposits almost doubled during the quarter owing to aggressive deposit mobilization reflected in increased interest rates. Figure 9 shows the deposit liabilities of MDIs.

Figure 9: Deposit liabilities of MDIs (September 2009-December 2010)



Source: Bank of Uganda

4.7 UGANDA'S EQUITY MARKET

According to statistics from the Uganda Securities Exchange (USE), trading improved in the three months to December 2010. The number of deals rose to 1,187 from 1,053 in the previous quarter, reflecting an increase in equity prices. Similarly, the number of shares traded increased to 78.3 million from 23.1 million in the previous quarter. The number of shares traded was unusually high in December 2010 with the USE registering its largest ever single transaction when National Social Security Fund (NSSF) sold Stanbic Bank shares worth Shs. 40.0 million. Consequently, the total turnover increased to Shs. 17.7 billion for the quarter ended December 2010 from Shs. 3.9 billion for the quarter to September 2010.

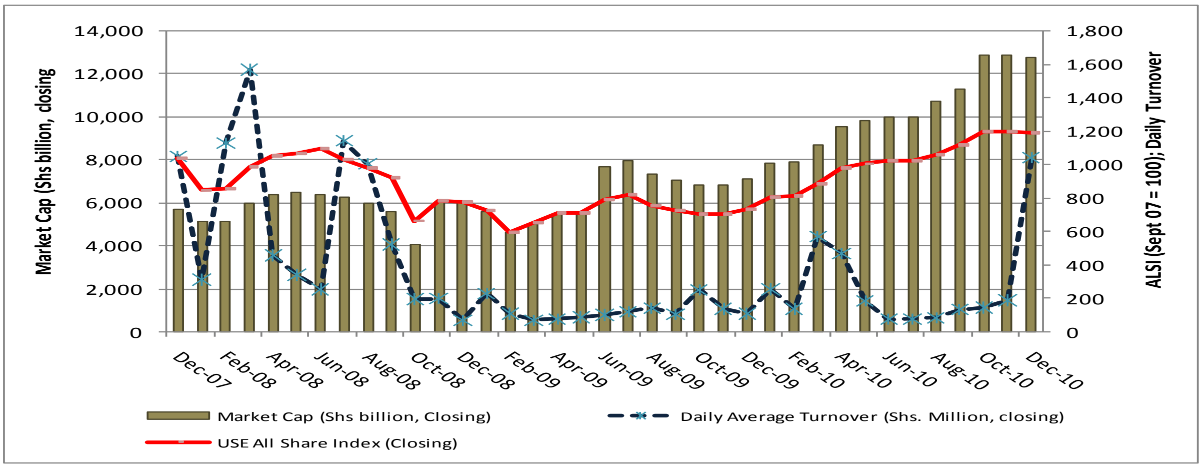
The USE All Shares Index (ALSI) also rose from 1,118 in September 2010 to 1,188 in December 2010, indicating a quarter-on-quarter increase in prices. ALSI rose to 1,195 and 1,199 in October 2010 and November 2010, respectively before dropping to close at 1,188 in December 2010. This was much higher than the ALSI of 732 registered in the December 2009. Table 9 shows the developments in the Uganda equity market, while Figure 10 provides a trend of the ALSI at the Uganda Securities Exchange.

Table 9: Trading at the Uganda Securities Exchange

	Dec -09	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Number of Shares Traded	9,254,561	4,940,202	9,692,626	8,423,935	10,735,489	13,664,921	53,940,802
Turnover (Shs. billion)	1.53	1.02	1.18	1.74	1.75	2.44	13.51
Market Cap (Shs. billion, Closing)	7,134	9,974	10,744	11,312	12,842	12,889	12,769
USE All Share Index (Closing)	732.53	1,022.01	1,060.29	1,117.90	1,194.88	1,199.24	1,188.07

Source: Uganda Securities Exchange

Figure 10: Trading at the Uganda Securities Exchange



Source: Uganda Securities Exchange

5 EXCHANGE RATES AND BALANCE OF PAYMENTS

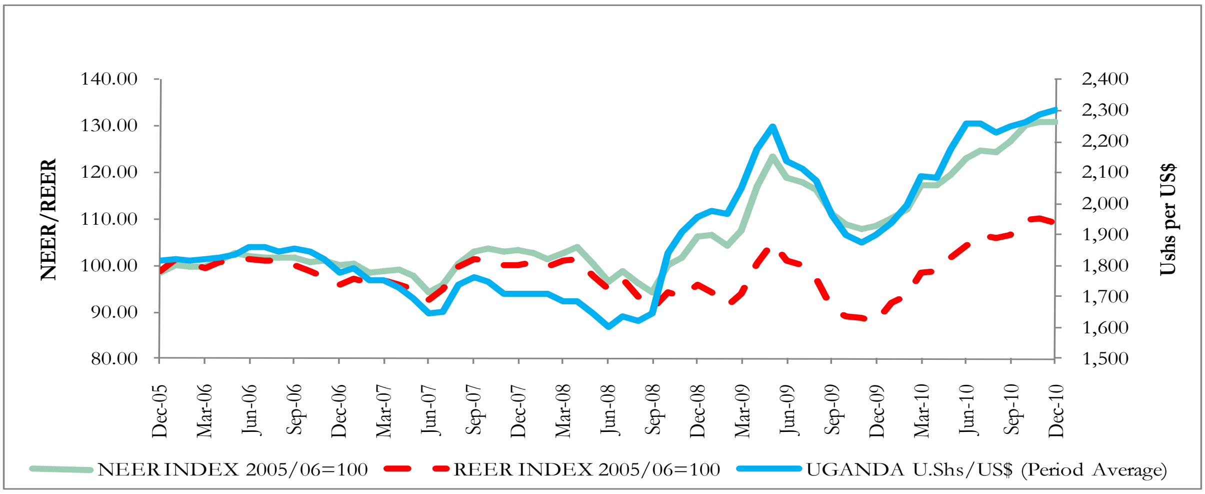
5.1 EXCHANGE RATES

The shilling opened trading at Shs 2,244.0 per US dollar at the beginning of September 2010, and closed at Shs. 2,308.3 per US dollar as at end December 2010; a depreciation of 2.9 percent. The depreciation pressures were partly driven by global developments. The US dollar appreciated against most major international currencies towards the end of the quarter largely due to the liquidity and solvency risks experienced in many euro countries. In addition, the weak performance of Uganda's exports due to subdued demand in the midst of the global recession as well as speculative behaviour by market players contributed to the depreciation of the exchange rate. On a period average basis, the shilling depreciated by 1.8 percent from Shs. 2,246.5 per US dollar in September 2010 to Shs. 2,285.9 per US dollar in December 2010.

During the period under review, the BOU intervened on the sale side of the market to smoothen out volatility during November 2010 and made two targeted purchases in December 2010. In addition, the Bank continued with daily purchases of US$ 0.5 million to build foreign reserves. BOU's actions in the interbank Foreign Exchange Market (IFEM) resulted in a net purchase of US$ 8.0 million in the quarter to December 2010, compared to a net purchase of US$ 32.7 million in the previous quarter.

The nominal effective exchange rate (NEER) depreciated by 4.3 percent during the quarter to December 2010, compared to a depreciation of 4.4 percent observed in the previous quarter. As a result of the developments in the NEER and the inflation differential, the real effective exchange rate (REER) also depreciated by 6.0 percent in the quarter ended December 2010, compared to a depreciation of 3.3 percent recorded in the previous quarter as shown in Figure 11.

Figure 11: Exchange rate developments: December 2005 to December 2010



Source: Bank of Uganda

5.2 BALANCE OF PAYMENTS

The overall balance of payments performance during the quarter ended December 2010 improved to a surplus of US$ 40.7 million compared to a deficit of US$ 105.2 million recorded in the previous quarter. However, the overall balance of payments recorded a slight decline when compared to the surplus of US$ 42.5 million recorded the quarter ended December 2009.

This improvement in the balance of payments, relative to the third quarter of 2010, was on account of developments in the capital account. The capital account recorded a surplus of US$ 463.6 million during the fourth quarter of 2010 compared to a surplus of US$ 125.1 million in the previous quarter. The large increase was mainly due to higher net foreign capital inflows to government in the quarter ended December 2010 amounting to US$ 145.1 million compared to US$ 25.2 million and US$ 21.3 million reported in the previous quarter and the quarter to December 2009. This increase in the foreign capital inflows was mainly due to the budget support disbursement by the World Bank equivalent to US$ 100.9 million.

However, the current account deteriorated to a deficit of US$ 399.0 million compared to the deficits of US$ 331.7 million and US$ 243.8 million recorded in the previous quarter and the corresponding quarter of 2009, respectively. The increase in the current account deficit was partly due to higher import values of goods and services. The total value of imports of goods amounted to US$ 1,142.7 million in the quarter to December 2010 compared to an import bill of US$ 979.7 million in the quarter ended December 2009. The deficit was further increased by the decline in the, export proceeds of goods, which fell from US$ 647.4 million to US$ 570.4 million as export prices and demand remained weak.

The services account improved to a deficit of US$ 67.0 million compared to a deficit of US$ 140.1 recorded in the quarter to December 2009. Current transfer inflows amounted to US$ 485.4 million in the quarter ended December 2010 compared to transfers totalling US$ 405.5 million in the corresponding quarter of 2009. Higher receipts were on account of grant disbursements to government as well as increased in workers' remittances.

As a result of the developments on the current and capital accounts of the balance of payments during the quarter ended December 2010, a foreign reserve build-up (excluding valuation gains or losses) was estimated at US$ 40.8 million. In stock levels, the reserves amounted to US$ 2,831.8 million, which was sufficient to cover 5.2 months of future import demand of goods and services. The summary of the balance of payments statement is provided in Table 10[1] below.

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

Table 10: Developments in the Balance of Payments (US$ million)

	Oct-Dec 2009/10	Jan - Mar 2009/10	Apr-Jun 2009/10	Jul-Sep 2010/11	Oct-Dec 2010/11
A. Current Account Balance	**-243.81**	**-462.73**	**-517.97**	**-331.67**	**-399.00**
A1. Goods Account (Trade Balance)	**-332.29**	**-400.63**	**-578.45**	**-501.96**	**-572.28**
a) Total Exports (fob)	647.44	601.70	522.80	510.05	570.44
b) Total Imports (fob)	-979.72	-1,002.33	-1,101.25	-1,011.83	-1,142.73
A2. Services Account (services net)	**-140.11**	**-222.46**	**-150.05**	**-141.51**	**-67.04**
a) Inflows (credit)	260.96	219.11	340.15	301.46	387.08
b) Outflows (debit)	-401.07	-441.57	-490.20	-442.97	-454.12
A3. Income Account (Income net)	**-65.54**	**-70.01**	**-67.83**	**-78.98**	**-97.35**
a) Inflows (credit)	8.75	4.55	4.29	4.05	7.19
b) Outflows (debit)	-74.29	-74.56	-72.12	-83.03	-104.54
A4. Current Transfers (net)	**294.13**	**230.38**	**278.36**	**390.61**	**337.67**
a) Inflows (credit)	405.46	415.00	369.91	495.48	485.37
b) Outflows (debit)	-111.33	-184.62	-91.55	-104.87	-147.70
B. Capital & Financial Account Balance	**405.05**	**362.67**	**150.88**	**125.10**	**463.62**
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	**405.05**	**362.67**	**150.88**	**125.10**	**463.62**
a) Direct Investment	195.65	188.03	188.03	204.40	204.40
i) Direct investment abroad	0.00	0.00	0.00	0.00	0.00
ii) Direct investment in Uganda	195.65	188.03	188.03	204.40	204.40
b) Portfolio Investment	-0.03	-15.90	-15.68	-81.25	2.30
Assets	0.00	0.00	0.00	0.00	0.00
Equity Securities	0.00	0.00	0.00	0.00	0.00
Debt Securities	0.00	0.00	0.00	0.00	0.00
Liabilities	-0.03	-15.90	-15.68	-81.25	2.30
Equity Securities	2.72	2.38	2.14	-77.19	2.18
Debt Securities	-2.75	-18.27	-17.82	-4.06	0.12
c) Financial Derivatives (Net)	-2.33	-0.37	-0.30	-0.55	-0.20
d) Other Investment	211.76	190.91	-21.16	2.50	257.11
Assets	107.42	-80.12	-91.40	-65.31	50.87
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	28.19	26.84	7.68	-113.65	36.87
Banks	64.23	-132.97	-51.09	48.34	14.01
Other sectors	15.00	26.00	-48.00	0.00	0.00
Liabilities	104.34	271.04	70.24	67.81	206.24
Monetary authorities	0.00	0.00	0.00	0.00	0.00
General government	21.25	115.00	20.43	25.21	145.10
Banks	19.79	73.56	-20.03	-2.86	19.13
Other sectors	63.30	82.47	69.84	45.47	42.01
C. Errors & Omissions	**-118.77**	**94.07**	**245.98**	**101.35**	**-23.95**
C. Overall Balance (A + B +C)	**42.47**	**-5.98**	**-121.10**	**-105.21**	**40.67**
D. Reserves & Related Items	**-42.47**	**5.98**	**121.10**	**105.21**	**-40.67**
a) Reserve assets	-43.04	7.47	120.64	106.73	-40.83
b) Use of Fund credit and loans	0.00	0.00	0.00	0.00	0.00
c) Exceptional Financing	0.58	-1.48	0.47	-1.51	0.16

Source: Bank of Uganda

6 DOMESTIC PRICES

6.1 CONSUMER PRICES

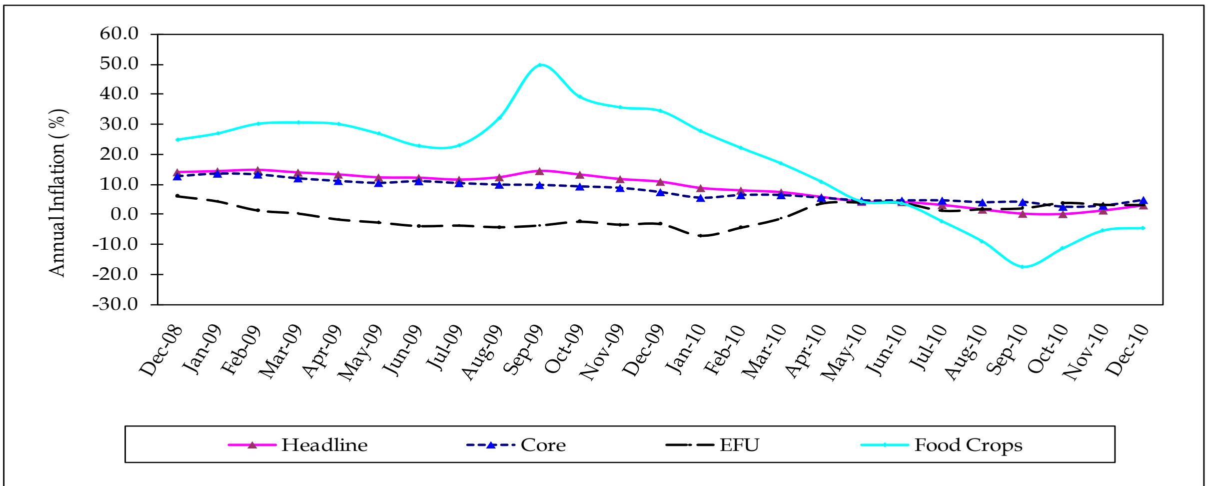
During the quarter to December 2010, the Ugandan economy experienced higher inflationary pressures driven by both domestic and global factors. On the domestic scene, the recovery of aggregate demand, persistent exchange rate depreciation, as well as increased demand for commodities during the festive season were the main drivers of inflation. On the international scene, the surge in commodity prices coupled with increased inflation especially in the economies of Uganda's trading partners fed through to domestic inflation.

Reflecting these developments, annual headline inflation rose to 3.1 percent in December 2010 from 0.3 percent in September 2010. Similarly, annual core inflation which excludes food crop, energy and utilities inflation rose to 4.8 percent in December 2010 from 4.1 percent at the end of the previous quarter.

Food crop inflation rose to minus 4.7 percent in December 2010 from minus 17.6 percent in September 2010 driven by increases in prices of some fruits and vegetables that were attributed to low supplies in the markets and increased demand during the festivities.

Annual electricity, fuel and utilities (EFU) inflation also increased to 3.2 percent in December 2010 from 2.1 percent in September 2010. This rise in EFU inflation was attributed to higher fuel pump prices following increases in world crude oil prices. Developments in the consumer price inflation are as indicated in Figure 12 below.

Figure 12: Developments in Consumer Inflation from December 2008 to December 2010



Source: Bank of Uganda

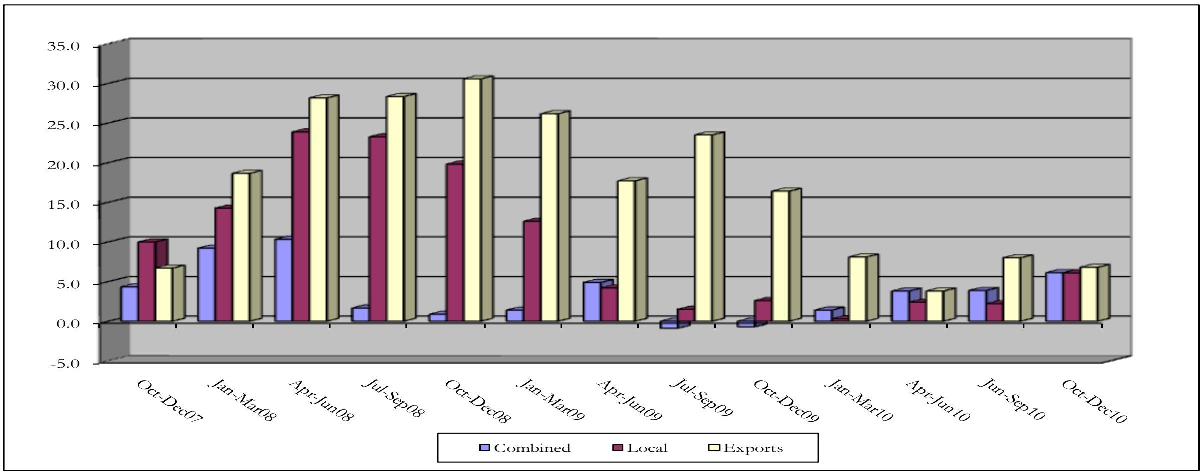
6.2 PRODUCER PRICE INDEX (PPI)

During the twelve months to December 2010, the annual combined Producer Price Index for the manufacturing sector[2] (PPI-M) increased by 18.3 percent due to a general rise in prices in all sectors. Chemical products, food products and drinks and tobacco registered the highest annual increases of 27.4 percent, 24.6 percent and 18.3 percent, respectively. Prices increased reflecting higher consumer demand, higher energy and fuel costs as well as the depreciation of the shilling during the quarter.

Quarterly producer prices rose by 6.1 percent in the quarter to December 2010 following a 3.9 percent rise registered in the previous quarter due to a general rise in prices in all sectors except textiles, clothing and footwear, which dropped by 0.6 percent. Chemicals, paint, soap and foam as well as food products reported the highest price increases of 10.6 percent and 9.4 percent, respectively.

During the quarter ended December 2010, prices of export products rose by 6.8 percent, having increased by 8.0 percent in the previous quarter. This rise in prices was mainly attributed to the depreciation of the shilling. Prices of goods produced for the local market rose by 6.1 percent in the quarter to December 2010, following a 2.2 percent rise in the previous quarter. This was mainly due to a general increase in prices of all subsectors except textiles, clothing and footwear, where prices fell by 0.2 percent. Figure 13 shows the developments in the annual producer price index.

Figure 13: Trend of Annual Producer Price Inflation; December 2007- December 2010



Source: Uganda Bureau of Statistics

[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.

7 CONCLUDING REMARKS AND MONETARY POLICY OUTLOOK

During the quarter to December 2010, the Ugandan economy continued to recover from the effects of the global economic crisis supported by the accommodative monetary policy stance in 2010. The fact that relatively low inflation rates were registered over the same period allowed monetary policy to serve the sole purpose of dampening the impact of the crisis on economic activity. However, inflation is expected to rise in the near future due to rising international food prices, the depreciation of the shilling against the US dollar and adverse weather forecasts, which may call for a shift in the monetary policy stance. Going forward, the BOU is expected to gradually tighten monetary policy.

The exchange rate will continue to be market determined. The Bank remains committed to intervening in the foreign exchange market to ensure stability mindful of the need to build foreign exchange reserves that can be used to mitigate vulnerabilities stemming from external shocks.