THE CURRENT STATE OF THE UGANDAN ECONOMY

Bank of Uganda

04 July 2002

POLICY STANCE AND MONETARY DEVELOPMENTS

Objectives of the Monetary Programme for 2001/2002

Following the recent discussions between the Ugandan Authorities and the IMF, the outlook for 2001/02 indicates the following:

Preliminary estimates indicate that real GDP growth for 2001/02 will be 5.7%, which is slightly lower than the initial projection of 6%. The 5.7% growth in real GDP is largely driven by agriculture on account of above average weather conditions; education services reflecting government's commitment to expand opportunities for building human capital within the context of universal primary education (UPE); telecommunications; and construction activity including the preliminary work on the Bujagali hydro electric project.

On a period average basis, annual headline inflation is likely to be negative 2.3%, largely as a result of declining food prices. Annual headline inflation was –2.4% while annual underlying inflation was 2.4% in May 2002.

M2 growth rate remained unchanged at 15.7% while M3 is projected to be 11.6%, down from 12.5% on account of lower foreign deposits held by domestic residents. The growth in private sector credit was scaled down from the revised projection of 9.3% to 4.7% to reflect the persistent sluggish growth in net lending by commercial banks.

The external sector has continued to be greatly influenced by the decline in coffee prices. The price of coffee fell to a low of US$ 0.46 per Kilogram. Total export receipts are projected to fall by 3.0% compared to 2000/01 as the 23% decline in coffee exports was partially offset by an increase in non-coffee export receipts. However, both coffee and non-coffee exports expanded in volume terms. Gross international reserves are projected to increase by US$110.6 million against the initial projection of about US$220 million due to lower budget support inflows.

In line with these assumptions, base money is to grow by 12 percent during the year, an increase from Ushs 553.7 billion recorded as at end June 2001 to Ushs 622.0 billion.

Monetary Policy Stance and Actions

The monetary and exchange rate policy stance adopted in 2001/2002 was prudent and geared towards maintaining inflation in low and stable single-digit levels. This was to be achieved in a manner that would not cause volatility in interest rates and exchange rates. The choice of instrument mix in liquidity management, therefore, took account of the concerns about high volatility and Bank of Uganda actively utilized a combination of treasury bills, REPOs and stepped up foreign exchange sales to soak up liquidity in a smooth and phased manner. In the year 2001/2002 treasury bills continued to be a key tool of conducting monetary policy with increased prominence of the REPO.

The Challenges in the management of Monetary and Exchange Rate Policy

The Bank of Uganda has increased net sales of dollars to the foreign exchange market in order to mop up liquidity injections arising from Government expenditure of poverty reducing donor resources. It was feared that lumpy and significant poverty reducing donor resources would appreciate the nominal and real exchange rate and hurt the export sector.

The other alternative would have been to actively use open market type operations by significantly stepping up net Treasury Bill issues, resulting into higher and volatile interest rates but this would further squeeze the private sector credit growth which is already much lower than programmed. This would adversely affect the real economy, which has slightly slowed down.

In order to minimize the adverse effects on the competitiveness of the export sector arising from the appreciation in the real exchange rate, with effect from April 2nd 2002, Bank of Uganda has distinguished its actions in the IFEM for intervention and sterilization purposes. When Bank of Uganda intervenes in the IFEM, the Bank only announces its presence in the market on the Uganda Investment Services screen but it does not announce the amounts offered for purchase or sale. On the other hand, if Bank of Uganda goes into the IFEM for sterilization purposes, it does not announce its presence.

As a result of these actions, the exchange rate has been stable and the margins have been reduced to a record low of about three Shillings. Recent Bank of Uganda analysis (Musinguzi and Mutambi, February 2002) based on monthly data and using an Autoregressive Distributed Lag Approach to cointegration, indicates that the real exchange rate (RER) was substantially overvalued during the year 2000 but was modestly undervalued during the period 2001. The misalignment peaked at 13% overvaluation during 2000 while since the beginning of 2001, there was a modest real exchange rate depreciation of the Uganda Shilling against the US Dollar of 3%. This augurs well for both the inflation objective and export sector competitiveness.

Monetary Aggregates.

Broad money (M3)

Broad money (M3), which comprises currency in circulation, and all deposits of the private sector grew by 11.3 percent in the first three quarters of 2001/02. This is slightly lower than 13.6 percent observed in the similar period during 2000/01. On the other hand, M2 comprising currency and the local currency denominated deposits of the private sector increased by 17.3 percent. By comparison, this is far above 12.3 percent; the growth achieved during the period June 2000 to March 2001. There has been accelerated growth in the M2 components but slower foreign currency deposits growth during this year, compared to last financial year.

Table 1: Summary Monetary Survey

Aggregate	June '98	June '99	June '00	June '01	March '02
Net Foreign Assets	639.2	782.2	906.3	1211.0	1551.6
Domestic Credit					
Central Government (net)	-128.5	-127.9	414.6	460.6	380.9
Local Government	1.1	1.0	1.0	1.0	0.6
Private Sector	436.4	566.9	619.0	679.7	698.0
Parastatals	-	48.2	16.4	10.3	7.0
Other Items (net)	72.8	-110.0	-610.1	-778.9	-875.4
Broad money (M3)	1020.0	1160.5	1347.2	1583.7	1762.8
Foreign currency deposits	146.9	207.8	310.8	390.2	363.4
M2	873.1	952.7	1036.3	1193.4	1399.4
Currency in circulation	239.5	284.7	306.7	350.2	398.7
Demand deposits	324.9	360.1	413.1	482.9	588.4
Term deposits	308.6	208.0	316.6	360.4	412.2
Memo:					
1. Growth rates relative to previous June (%)					
M3	26.1	13.8	16.1	17.6	11.3
M2	23.7	9.1	8.8	15.2	17.3
2. Components of M3 (In percent of the total)					
Foreign currency deposits	14.4	17.9	23.1	24.6	20.6
Currency in circulation	23.5	24.5	22.8	22.1	22.6
Demand deposits	31.9	31.0	30.7	30.5	33.4
Term deposits	30.3	26.5	23.5	22.8	23.4

Source: Research department, Bank of Uganda.

The total deposits of the non-bank public at commercial banks increased by almost 10.6 percent, from Shs 1233.5 billion as end-June 2001 to Shs 1364.1 billion as at end-March 2002. This growth is lower than the rate of 13.2 percent observed in the corresponding period a year ago, partly reflecting lower growth of foreign currency deposits as a result of slower exchange rate depreciation.

Base Money

During the first 9 months of 2001/2002, base money in gross terms (currency issues, commercial banks' deposits and their holding of BOU instruments) grew by 13.6 percent. But base money, which excludes the banks' investments in BOU instruments, grew by 14.4 percent. This is a slow down compared to the growth of 26.5 percent which was achieved between June 2000 and March 2001. There was almost equal growth in the components of base money, Shs. 42.8 billion in currency, and Shs 43.4 billion for banks' deposits. On an annual basis, base money grew by 13.2 percent in March 2002.

Table 2: Summary balance sheet of the Monetary Authority.

Aggregate	June 1998	June 1999	June 2000	June 2001	March 2002
Total liabilities	378.6	460.5	558.1	607.1	689.9
Base money	373.1	445.7	477.0	597.1	683.3
Commercial banks' holdings of BOU instruments	5.5	14.9	32.2	10.0	6.6
Total Assets	378.6	460.5	558.1	607.1	689.9
Net Foreign Assets	452.0	585.0	614.8	792.3	1176.8
Net Claims on Government	-249.1	-225.0	245.2	203.0	-23.9
Claims on Banks	7.9	57.6	44.9	37.8	39.3
Claims on Private Sector	15.9	10.7	29.8	35.9	40.4
Claims on Parastatals	n.a	28.0	4.0	4.3	4.2
Other Items Net	151.8	4.2	-380.6	-466.1	-546.8

Source: Research Department, Bank of Uganda.

Financial depth, as measured by the ratio of money supply (M2) to GDP grew slightly to 12.9 percent in 2000/01, following a decline to 12.3 percent in the previous year. In relation to GDP, financial savings recovered to 3.9 percent in 2000/01, from 3.7 percent in 1999/2000, which was a decline from 4.0 percent in 1998/99 (see table below).

Table 3: Financial Depth

Aggregate	1996/97	1997/98	1998/99	1999/00	2000/01
Term deposits 1/	220.8	308.6	308.0	316.6	360.4
Money supply (M2A)	705.6	873.1	952.7	1036.3	1193.4
Financial Savings/M2	31.3	35.3	32.3	30.6	30.2
Financial Savings/GDP	3.7	4.4	4.0	3.7	3.9

Note:

1. Includes time and savings deposits and certificates of deposits (CDs). These are the financial savings.

Source: Research department, Bank of Uganda.

Net Foreign Assets (NFA).

The Net foreign assets of the banking system grew by the equivalent of Shs 340.6bn, an increase of 28 percent during the period July 2001 to March 2002. This outturn compares to a growth rate of 33.6 percent observed during the corresponding period in 2000/2001. The external assets of the central bank rose by Shs 358.7 billion, while the foreign liabilities declined by Shs 25.8 billion. Consequently, the NFA of BOU rose by Shs 384.5 billion. The foreign reserves of the Bank of Uganda rose by Shs 363.4 billion. Between June 2000 and

March 2001, the NFA of the central bank rose by Shs 221.74 billion, due to rising foreign assets and foreign liabilities by Shs 252.6 billion and Shs 30.8 billion respectively.

At the commercial banks level, there has been a general decline in the NFA amounting to Shs 43.8 billion. This is a result of the decline in the foreign assets amounting to Shs 34.5 billion and rising foreign liabilities by Shs 9.3 billion. In the corresponding period last year, the external assets and foreign liabilities rose by Shs 85.1 billion and Shs 2.7 billion respectively.

Net Domestic Assets (NDA)

During the period June 2001 to March 2002, Government increased its savings with the banking system by Shs 80 billion. This partly is attributed to the strong donor inflows and the commitment of Government to maintaining fiscal discipline.

Table 4: Sectoral analysis of commercial banks' credit to the private sector (percentage of total)

Borrowing Sector	June 1999	June 2000	June 2001	Mar 2002
Agriculture	14.1	10.3	8.5	10.0
Production 2/	2.2	1.9	2.6	2.6
Crop Finance	11.9	8.4	6.0	7.4
Manufacturing	30.2	31.2	34.9	29.3
Foods, Beverages, Tobacco	19.3	19.8	21.6	19.2
Leather/Textiles	1.1	0.6	3.0	0.3
Furniture and household	1.5	0.4	0.9	0.6
Chemical, pharmacy and rubber products	2.9	5.0	4.6	3.8
Metal products and machinery	0.7	1.0	0.7	0.7
Building and construction material	2.0	2.3	2.1	2.7
Others	2.8	2.1	2.1	2.1
Trade & Other Services	45.0	47.1	46.5	51.6
Wholesale (imports + exports)	17.2	19.0	17.1	21.2
O/w Imports	16.9	18.5	16.2	14.7
Exports	0.3	0.5	0.9	6.5
Retail	7.4	6.4	4.6	4.4
Others 3/	20.4	21.7	24.8	26.1
Transport, Electricity & Water	5.2	6.3	5.5	4.9
Transport	5.1	6.2	5.5	4.8
Electricity & Water	0.1	0.0	0.0	0.1
Building and Construction	5.2	4.8	4.1	3.6
Mining and Quarrying	0.3	0.4	0.4	0.6
Total	100.0	100.0	100.0	100.0

Notes:
1. Excludes loans by UCB since the bulk was lent in kind.
2. Includes lending for real estate and to other financial institutions, as well as Bills of exchange discounted.

Source: Research department, Bank of Uganda.

Credit to the private sector from the banking system grew by 2.7 percent. This is a slow down compared to 5.7 percent achieved between June 2000 and March 2001. Similar to last year, much of the growth in credit occurred in the foreign currency denominated loans. The shilling loans declined over the period under review.

The sectoral distribution is heavily weighted in favour of the trade and other services sector (see table 4). In March 2002, this sector accounts for 51.6 percent of the stock of outstanding credit, followed by the manufacturing sector with 29 percent. In third place, is Agriculture accounting for 10 percent, with the bulk going to crop finance; processing and marketing.

Inflation Developments

Annual headline inflation rates have generally been negative throughout the financial year. Over the same period, the annual underlying inflation rates have been positive, in single digit levels and well within the 5 percent target. The negative headline inflation rates during this period are largely attributed to the drop in the food sub-group index, and more specifically the food crops sub-group index. The drop in the food crops inflation is attributed to the very good weather conditions during the season compared to the corresponding period of 2000/2001. Annual food crop inflation has been negative since the beginning of the financial year. It steadily declined from –3.7% in July to –28.5% in December 2001, before rising briefly and settling at around –23% in the months of February to April 2002. Developments in annual inflation are shown in table 5.

Table 5: Developments in annual inflation during the first ten months of 2001/02

	Food Crops Inflation		Underlying Inflation		Headline Inflation	
	2000/01	2001/02	2000/01	2001/02	2000/01	2001/02
July	-1.1	-3.7	3.4	7.1	2.5	4.8
August	2.8	-13.5	2.9	6.4	2.9	2.0
September	1.9	-21.5	3.0	5.5	2.9	-0.8
October	2.2	-24.5	4.7	3.6	4.2	-3.1
November	6.5	-27.0	5.9	1.6	6.1	-5.4
December	2.2	-28.5	4.7	3.3	4.2	-4.4
January	2.8	-28.5	5.0	3.3	4.6	-3.6
February	8.9	-22.8	5.4	2.5	6.2	-3.0
March	2.5	-23.6	5.0	3.5	4.5	-2.5
April	1.6	-22.9	5.7	2.4	4.9	-3.2

Source: Uganda Bureau of Statistics

The Domestic Money Market and Interest Rates

As liquidity conditions became relatively tighter through the first quarter, the money market rates increased during the first two months of the financial year, but thereafter these rates gradually declined. The weighted monthly average annual discount rates for the 91-day, 182-day, 273-day and 364-day papers that were 6.0 percent, 9.2 percent, 10.3 percent and 10.5 percent in June 2001 increased to 13.6 percent, 16.0 percent, 19.8 percent and 20.1 percent in August 2001 respectively before declining to 4.7 percent, 6.1 percent, 7.9 percent and 8.2 percent respectively in April 2002. The yield curve has remained normal (positively slopping) for most of the period.

The securities market needs to be deepened, broadened and developed. Two-year, three-year and five-year government bonds will be issued during the financial year 2002/03 in order to develop a meaningful yield curve which serve as a benchmarking mechanism for financial instrument development by the private sector and lock in commercial banks' excess reserves for a long time. These bonds will not be used for financing the Government budget.

The domestic inter-bank money market continued to record fluctuations in activity, although the trend of the weighted inter-bank rate closely followed that of the discount rates in the treasury bills market noted above. Just as the discount rates in the treasury bills market trended downwards, the weighted inter bank money market rates over the year has dropped from the double digits recorded in August 2001 of around 11 percent to single digits rates of around 3 percent recorded in May 2002.

While the treasury bill rate declined significantly during the first nine months of 2001/02, the lending rate by commercial banks declined only marginally from 21.7 percent in June 2001 to 20.2 percent in March 2002. This is a reflection of the low sensitivity between the lending and treasury bill rate. The base lending rates of commercial banks, on the other hand, have continued to decline with the number of banks whose prime lending rate is less than 14 percent increasing from zero in December 2001 to five in May 2002. All commercial banks now have prime lending rates of less than 18 percent. The decline in the prime lending rates is partly attributed to increased competition in the financial sector following the Bank of Uganda's final resolution of its intervention in UCBL in 2002, in addition to the decline in the treasury bill rates.

Table 6: Prime lending rates of commercial banks.

Prime lending rates	Dec 2001	Mar 2002	May 2002
12.0 % - 14.0 %	0	0	5
14.1% - 15.9%	0	5	1
16.0% - 18.0%	11	8	11
18.1% - 20.0%	3	1	0
20.1% - 22.0%	3	3	0
22.1% >>	0	0	0
Range (Min – Max)	16% - 22%	14%-22%	12%-18%

Source: Research Department, Bank of Uganda.

The External Sector

Overall Balance of Payments

According to provisional estimates, the overall balance of payments position is expected to be in surplus by US$ 51.6 million following a deficit of US$58.6 million in the previous financial year. The current account is expected to deteriorate from a deficit of US$452.0 million in 2000/01 to a deficit of US$488.2 million during 2001/02. The decline expected in the current account is due to the continued drop in value of coffee exports and increase in imports. As was the case last financial year, this year has been characterized by a decline in terms of trade. However, the impact of the decline in the current account due to the deterioration in the terms of trade was partially offset by increased private transfers, which remained buoyant in the first nine months of the financial year. The capital and financial account is expected to improve from a level of US$393.4 million registered in the 2000/01 to US$539.8 million in 2001/02 mainly on account of increased loan disbursements and the estimated inflows of foreign direct investment. The modest deterioration of the current account combined with the substantial improvement in the capital account is expected to lead to the overall balance of payments surplus and result in a gross international reserve build-up.

Foreign exchange reserves at Bank of Uganda (BOU) are estimated to increase by US$110.6 million by end-June 2001/02 compared to an increase of US$19.3 million recorded at end-June 2000/01. The increase is mainly attributed to inflows of budget support estimated at US$442.1 million accounting for about 88.5 percent of total inflows estimated at US$499.5 million. Total outflows of foreign exchange from the BOU are estimated at US$388.8 million.

Table 7 gives a summary of the balance of payments accounts for the last four years.

Table 7: BALANCE OF PAYMENTS STATEMENT (Millions Of US$) – SUMMARY TABLE

	98/99	99/00	00/01	Est. 01/02
CURRENT ACCOUNT BALANCE	-441.5	-462.0	-452.0	-488.2
Goods Account(Trade Balance)	-923.3	-1072.6	-1158.5	-1361.9
Total Exports (fob) /1	549.1	453.7	441.8	456.4
o/w Coffee	306.7	186.9	109.6	84.0
Total Imports (fob)	-1472.4	-1526.3	-1600.3	-1818.3
O/w Project imports	-281.1	-196.6	-224.1	-189.8
Services Account(net)	-216.6	-255.7	-207.8	-313.3
Inflows(credit)	185.2	196.5	187.7	175.0
Outflows(debit)	-401.8	-452.2	-395.6	-488.3
Income Account(net)	-19.0	-20.9	-13.5	-27.2
Inflows(credit)	46.8	42.1	46.1	33.5
Outflows(debit)	-65.8	-63.0	-59.7	-60.7
Current Transfers	717.4	887.1	927.9	1214.2
General Government	438.5	366.8	420.8	400.2
Other sectors (Private Transfers)	278.9	520.3	507.0	814.0
CAPITAL AND FINANCIAL ACCOUNT BALANCE	440.2	366.2	393.4	539.8
Capital Account	40.1	0.00	0.00	0.00
Capital Transfers	40.1	0.00	0.00	0.00
o/w Grants for Debt Service	40.1	0.00	0.00	0.00
Financial Account; excluding financing items	400.1	366.2	393.4	539.8
Direct Investment	230.0	247.6	227.6	246.3
Other Liabilities	170.1	118.5	165.8	293.5
Medium and Long-term (net)	181.5	93.9	181.7	283.1
Loan disbursements	294.7	219.9	308.9	396.0
Outflows(debit)	-113.2	-126.0	-127.2	-112.9
Short-term(net)	-11.4	24.6	-15.9	10.3
OVERALL BALANCE	-1.3	-95.9	-58.6	51.6
FINANCING ITEMS	-1.3	95.9	58.6	-51.6
Monetary Authorities				
Use of IMF Credit(Net)	-34.2	-15.5	-20.9	-39.5
Change In Gross Reserves	2.4	28.7	-19.3	-110.6
Exceptional Financing	42.3	77.9	110.4	98.5
Errors and Omissions	-9.2	4.8	-11.7	0.0

Source: Bank of Uganda

Table 8: Exports Of Merchandise (Millions Of Us$)

Total Exports (in US$ million)	98/99	99/00	00/01	01/02 (est)
Total	549.14	453.75	441.76	456.4
Coffee	306.74	186.87	109.64	84.03
Volume (60-Kg bags)	3.75	3.04	2.84	3.03
Unit value (US $/kg)	1.36	1.02	0.64	0.46
Electricity	12.27	13.76	16.67	13.28
Cotton	10.83	22.50	14.08	16.93
Volume ('000 mtons)	8.64	21.44	12.14	21.29
Unit value (US $/kg)	1.25	1.05	1.16	0.80
Tea	22.67	31.88	35.93	27.63
Volume ('000 mtons)	21.64	23.96	28.09	30.86
Unit value (US $/kg)	1.05	1.33	1.28	0.90
Tobacco	22.86	22.43	27.64	35.80
Volume ('000 mtons)	10.59	10.31	9.90	18.87
Unit value (US $/kg)	2.16	2.18	2.79	1.89
Fish & its prod.	47.57	18.64	50.11	87.45
Volume ('000 mtons)	16.29	9.82	22.31	29.54
Unit value (US $/kg)	2.92	1.90	2.25	2.96
Hides & skins	6.61	6.15	22.70	21.07
Volume ('000 mtons)	11.41	8.29	17.85	25.52
Unit value (US $/kg)	0.58	0.74	1.27	0.83
Maize	5.89	4.01	6.13	14.84
Volume ('000 mtons)	26.77	11.74	29.59	113.04
Unit value (US $/kg)	0.23	0.34	0.21	0.13
Flowers	7.20	8.29	13.22	16.36
Volume ('000 mtons)	-	2.18	3.47	4.33
Unit value (US $/kg)		3.46	3.81	3.78
Cobalt		7.34	12.78	10.54
Volume ('000 kg)		248.88	533.10	660.77
Unit Value (US$/kg)		29.48	23.98	15.95
Others	106.50	131.88	132.85	128.51

Source: Bank of Uganda

Current Account Transactions

Trade Balance

According to current projections, the trade balance is envisaged to deteriorate further from a deficit of US$1158.5 million in 2000/01 to a deficit of US$1361.9 million in 2001/02. This deterioration is mainly due to a substantial increase in imports estimated to increase by 13.6 percent in 2000/02.

Exports

Table 8 below shows the composition of Uganda's merchandise exports for the period 1998/99 to 2001/02.

The performance of exports during the year 2001/02 is expected to below the levels earlier envisaged. Total export earnings from goods are estimated at US$456.4 million against the programmed amount of US$467.45 million This is mainly on account of the decline in the international prices of most exports despite increased volumes.

Coffee export receipts are estimated to fall by about 23.4 percent during the year. This reduction is on account of a 28.1 percent fall in prices compared to the previous year despite a 6.7 percent increase in volumes over the period.

Despite the reduction in international prices of most exports, the value of non-coffee exports compared to the previous year is expected to increase by 12.1 percent to an estimated annual total of US$372.4 million. Maize exports have shown a remarkable growth during this year with export volume nearly quadrupling compared to the previous year although the realised unit value fell by 38.1 percent. Despite the large fall in the unit price, the large volumes led to an increase in the value of maize exports amounting to US$14.84 million compared to US$6.13 million in the previous FY 2000/01.

Fish exports are expected to increase from a total value of US$50.11 million realised in 2000/01 to an estimated export value of US$87.45 million in 2001/02. This increase is attributed to an estimated increase in volume of fish exports equivalent to 32.4 percent and an estimated increase in prices equivalent to 31.6 percent.

There is an expected improvement in volume of cotton exports estimated at 75.4 percent this year although the decline in prices of about 31.0 percent is expected to partially offset the value terms to a smaller increase of about 20.2 percent compared to the year 2000/01.

For the first time in the last four financial years, export earnings from tea are expected to decline mainly due to a 30 percent fall in prices. The export value is estimated at US$27.63 million for 2001/02 compared to the previous year's export value of US$35.93 million.

Imports

Total imports are estimated to increase by 13.6 percent from US$1.600 billion in 2000/01 to US$1.818 billion in 2001/02. Despite the decline in government imports estimated at US$49.4 million or 18.8 percent, the growth in imports is largely attributed to increased private sector imports.

Services Account

Exports of non-factor services are expected to decline by 6.8 percent to US$175.0 million over the current year, while imports of non-factor services are expected to increase by 23.4 percent to US$488.3 million resulting in a wide deficit of US$313.3 million in the service account.

Income Account

The income account is expected to deteriorate to a deficit of US$27.2 million from a deficit of US$13.5 million last financial year, due to an estimated decline of 27.3 percent in investment income inflows.

Current Transfers

Current transfers are estimated to rise to US$1214.2 million from US$927.9 million in the previous FY. The increase is due to increased inflows of private transfers by about 60.6 percent compared to the previous year. At US$718.0 million, workers transfers are expected to almost double compared to US$396.1 million in the previous financial year.

Capital and Financial Account Transactions

Inflows of foreign direct investment are estimated to have risen during 2001/02 to an annual total of US$246.3 million compared to US$227.6 million in 2000/01. Medium and long-term borrowing is projected to result in net inflows of US$293.5 million, almost 77.0 percent higher than the previous year. This is largely on account of increased loan disbursements for budget support. Short-term borrowing is estimated to create net inflows amounting to US$10.3 million during the current year.

External Debt

During the year 2001/02, maturities falling due on medium and long-term public and publicly guaranteed debt are estimated at US$158.62 million of which US$40.79 million are maturities due to the International Monetary Fund (IMF). Principal maturities are US$121.52 million while the balance of US$37.1 million is made up of interest and other charges. There were no purchases from the IMF while repurchases are estimated at US$40.79 million. The repurchases are composed of US$39.48 million worth of principal payments and US$1.32 million for interest and charges.

Total payments on medium and long-term public and publicly guaranteed debt during 2001/02 amounted to US$147.3 million compared to US$156.9 million in the previous financial year. Of the total debt service payments, US$70.75 million was from the HIPC initiative. US$19.88 million was a contribution from the IMF used to repay part of the IMF maturities falling due while the rest was from other multi-lateral and Paris Club donors.

Table 9: Key Debt Indicators (expressed as percentages, unless stated otherwise)

Period	98/99	99/00	00/01	Est. ½
Debt stock/GDP	60.4	64.0	63.0	61.7
Debt stock/Exports of Goods & NFS	476.0	549.7	525.8	584.9
Debt service/Exports of Goods & NFS	24.2	27.2	26.6	25.1
Debt service/Domestic Revenue				
Memorandum items				
Exports of Goods & NFS (US$ m)	743.3	650.2	629.5	631.4
Debt Stock (US$ m)	3495.6	3574.2	3310	3606.3
Debt Service (US$ m)	177.43	176.82	167.17	158.62
Domestic Revenue (US$ m)				

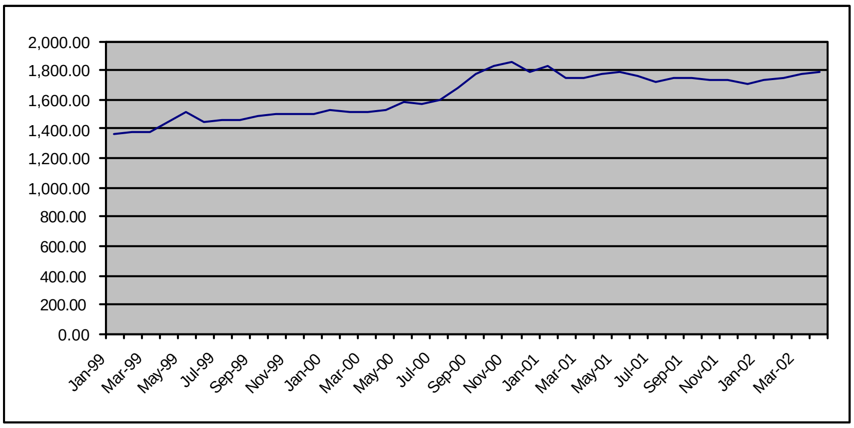
Source: Bank of Uganda

The Foreign Exchange Market

During the year ended April 2002, the shilling depreciated slightly against the US dollar, from the monthly average of Ushs 1,773.82 in April 2001 to Ushs 1,792.19 per US dollar in April 2002. This represents a depreciation of 1.04 percent. The exchange rate has been relatively stable throughout the twelve months to April 2002 with spreads exhibiting a declining trend.

During the first eight months of 2001/02, the nominal effective exchange rate (NEER) appreciated by 1.0 percent while the real effective exchange rate (REER) depreciated by 1.9 percent. The depreciation of the REER during this period was largely on account of the price differentials between Uganda and its major trading patterns, with Uganda's inflation declining much faster than that its major trading patterns.

Chart 1: Exchange Rate Movements (January 1999 – April 2002)



During the first ten months of 2001/02, transactions volumes in the Inter-bank Foreign exchange Market amounted to US$ 2.433 billion. Retail purchases amounted to US$ 1.135 billion while retail sales amounted to US$1.298 billion. Bank of Uganda's net intervention, amounting to US$ 0.159 billion, was mainly to ensure stability and orderliness in the market and to sterilize liquidity injections arising out of increased government expenditure towards poverty reducing sectors.

Table 10: Transaction Volumes and Bank of Uganda's Intervention in IFEM (US$ Million)

Month	**Exchange Rates (Ushs/US$)**		**Transaction Volumes in IFEM**		**Net BOU Intervention (-ve is a net sale; +ve is net purchase)**
	Nominal	REER (1990=100)	Retail Purchases	Retail Sales	
July	1725.74	115.69	122.34	135.87	-9.95
August	1750.61	121.11	123.48	141.21	-19.35
September	1752.90	123.03	105.20	119.94	-18.75
October	1737.69	120.86	109.50	122.65	-4.75
November	1736.22	120.43	103.75	118.81	-17.25
December	1713.41	118.69	124.91	129.53	-0.82
January 02	1738.74	120.82	117.63	141.13	-25
February	1741.44	120.17	114.02	120.62	-5
March	1771.03	122.97 (est)	105.43	131.08	-29.75
April	1792.19	123.46(est)	108.70	137.30	-28.17

Source: Bank of Uganda

In order to improve on the information flow in the inter-bank foreign exchange market, all authorized banks were requested to connect to the Reuters Uganda Investment Services Market Information with effect from July 1, 2001. Commercial banks complied and this has greatly contributed to real time display of quotes in the Inter-bank Foreign Exchange Market.