BANK OF UGANDA

THE CURRENT STATE OF THE UGANDAN ECONOMY

Research Department

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CURRENT STATE OF THE ECONOMY

<u>As at January 15, 2003</u>

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CURRENT STATE OF THE ECONOMY
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EXECUTIVE SUMMARY

This paper provides a synopsis of the financial year 2002/03 macro-economic framework and the performance of the economy over the six months to December 2002.

I. Macroeconomic Objectives for Year 2002/03: The key objectives for this year are to attain real GDP growth of 5.7 percent, low and stable inflation of 1.0 percent for average headline inflation and 3.5 percent for average underlying inflation, a reduction in the fiscal deficit to 10.4 percent of GDP, and external current account deficit of 10.76 percent.

II. Conduct of monetary policy and exchange rate management: Monetary policy remained focused on promoting price stability to support the broad macro-economic objectives outlined above.

- The rebound in prices of food crops and the effects of the rise in oil prices on the international market kept upward pressure on domestic prices, but the main challenge of monetary policy remained managing excess liquidity, arising from donor-funded government expenditure in a manner that would not cause instability in the markets. Net issuance of securities, sales of foreign exchange under the *Sterilization* profile and pricing of the liquidity providing windows were used actively in managing liquidity.

- The foreign exchange market remained calm and shilling was allowed to gradually depreciate in line with the trend of fundamentals. Few incidences of instability required BOU's intervention in the market.

- Reigning in excess liquidity put upward pressure on the interest rates. The advent of longer dated instruments will ease pressure on the short-term money market instruments like the Treasury bills.

III. Prices and market developments

- **Inflation**: Over the first half of 2002/03, upward pressures on prices saw headline inflation rise from –2.5 percent of end-June 2002 to 5.8 percent in December 2002, while underlying inflation rose from 0.1 percent to 1.4 percent over the same period. The average headline and underlying inflation for the six months stands at 2.3 percent and 1.1 percent respectively.

- **Domestic money and securities markets and interest rates**: Buoyancy reigned in both the securities market and the inter-bank money market. In spite of strong demand for domestic instruments over the first half of 2002/03, interest rates on Treasury bills gradually rose over the period. The inter-bank money market rates and the effective commercial bank deposit and lending rates also increased moderately over this period.

- **Foreign Exchange market and exchange rate**: Both the lower margins (between buy and sell rates), averaging Shs 4.90 and the average depreciation of 2.66 percent are testimony to the relative stability in the market over the six months to December 2002. The nominal effective exchange rate (NEER) and real effective exchange rates (REER) depreciated by 2.21 percent and 2.29 percent respectively.

IV. Monetary and Financial Sector Aggregates

- **The Operational target, Base money,** grew by 1.8 percent from June 2002 to November 2002. Provisional estimates to December 2002 indicate a growth of Shs 59.55 billion above the program benchmark of Shs 49.3 billion. The faster growth is on account of the higher than anticipated demand for currency issues over the holiday season, over which monetary policy has no control.

- **Broad Money** accelerated especially is the latter part of six months. To November 2002, the growth in broad money M3 and M2 is 3.3 percent and 3.2 percent respectively. The program envisaged broad money M3 and M2 to grow by 7.9 percent and 8.2 percent respectively by end December 2002.

- The growth in money was driven by **net domestic credit to the private sector**, which rose by 12.1 percent between June and November 2002, compared to 4.4 percent anticipated in the program. Net credit to government amounted to Shs 58.1 billion, compared to a saving of 94.2 billion programmed in anticipation of timely donor disbursements of budget support.

- **Private sector deposits** with the banking system increased by 2.8 percent, thereby raising the contribution of financial savings to broad money from 23.8 percent to 24.4 percent between June and December 2002.

- **Leasing Activity** maintained an upward trend through the six months period and was allocated across to agriculture, transport, construction, manufacturing, education and health sectors, among others.

- **The Non-Bank Financial Institutions (NBFIs):** In line with the growth in deposits in these institutions, the total asset base has also been increasing, mainly on account credit extension. Over the six months to December 2002, loans and advances by NBFIs grew by Shs 4.86 billions, with the bulk of loans (i.e. 85.6 percent) extended to the building and construction sector.

V. Public Sector (Fiscal Operations):

- Government revenue estimated Shs 679.9 billion, is below the program target by 2.4 percent, but was higher than what was realized in the corresponding period of 2001/02 by 13.5 percent.

- Total government expenditure estimated at Shs 897.1 billion is also below the program target by 5.3 percent, on account of underperformance in both the current and development expenditure.

- The overall deficit is estimated at Shs 136.0 billion, after adjusting for cheque float and payment of arrears.

VI. External Sector (Balance of payments developments):

- **The overall balance** is estimated at a deficit of US $ 17.17 million for the six months to December 2002 on account of deterioration in both the current and the capital accounts.

- **The Current Account** In spite of the modest improvement in the terms of trade (in response to the rise in coffee prices towards the end of the year), the continued increase in imports of goods and services and the decline in current transfers due to lower official grants drove the current account balance into a deeper deficit of US $ 163.49 million, down from US $ 135.97 million of the corresponding period of 2001/02.

- **Exports of Goods** are valued at US $ 249.90 million, compared to US $ 223.43 million of the corresponding period of 2001/02. The increase in coffee export value to US $ 53.90 million, from US $ 42.53 million in the corresponding period of 2001/02, was on account of both volume and value, partly on account of the rise in average unit price from US $ 0.45 per Kg to US $ 0.51 per Kg. Non-coffee exports rose by 6.0 percent to US $ 189.58 million, with fish and products, now ranked the biggest export earner fetching US $ 60.14 million, compared to the level of US $ 54.37 million over the same period last year. By the same comparison, exports of tobacco, gold, electricity and flowers recorded major increases over the period, while major declines were witnessed in hides and skins, maize, oil re-exports and cobalt.

- **Imports of Goods** increased by 7.4 percent to US $ 528.40 million over level in the corresponding period of 2001/02, largely on account private sector imports, now estimated at US $ 505.43 million.

- **Services and Income Account** Services of exports increased by 7.0 percent to US $ 123.85 million, while imports rose by 4.0 percent to US $ 288.29 million, leading to a deficit of US $ 164.45 million. The income account deteriorated due to reduced investment income in the midst of increasing income payments.

- **Current Transfers**: The declines in both official and private transfers led to a deterioration of the current transfers account to US $ 407.92 million.

- **The Capital Account** Net foreign direct investment rose by 5.7 percent to US $ 72.85 million, but slower disbursements of medium and long-term borrowings resulted into lower net inflows of US $ 63.06 million.

- **External Debt**: Total debt maturities for medium and long-term public and publicly guaranteed external debt amounted to US $ 84.55 million over the six months to December 2002. Cash debt service was US $ 27.59 million, while cancellation through the HIPC Initiative debt relief amounted to US $ 41.45 million.

VII. Real Sector

- **Index of Industrial Production** for the three months to September 2002, grew modestly by 8.07 percent, but remained at higher levels that those of the corresponding period of 2001/02.

- **Investment Indicators**: Over the first half of 2002/03, investment licenses issued by Uganda investment authority was worth US $ 709.6 million, compared to US $ 104.8 million in the corresponding period of 2001/02.

- **Uganda Securities Exchange**: Turnover over the first half of 2002/03 was Shs 0.92 billion, a 7.8 percent increase over Shs 0.86 billion of the previous six months.

CURRENT STATE OF THE ECONOMY
<u>As at January 15, 2003</u>

This paper provides a synopsis of the financial year 2002/03 macro-economic framework and the performance of the economy over the six months to December 2002. Section I provides an overview of the macro-economic objectives. Section II are the Bank of Uganda policy management strategies and actions undertaken during the period; while Sections III-VII provide an assessment of performance in light of the developments during the first half of the year.

I. Macro-economic Objectives for Fiscal Year 2002/03

The key objectives of macroeconomic program for the year 2002/03 include attaining growth in real GDP of 5.7 percent, and low and stable inflation averaging about 1.0 percent and 3.5 percent for annual headline and underlying inflation, respectively. Consistent with this, the fiscal deficit should be reduced to 10.4 percent of GDP, while it is envisaged that the external current account deficit would be 10.76 percent of GDP.

These objectives are in line with the GOU/IMF first annual program supported by the new three-year Poverty Reduction and Growth facility (PRGF) arrangement. This program envisaged the following:

- In the real sector, while the agricultural sector remains the engine of growth, manufacturing activity was expected to pick up, as near term electricity constraints are eased with the coming on-line of an additional turbine at the Kiira hydro electricity plant. In addition, continued robust growth in the communications and education sector; and robust growth in cash crops on expectations of normal weather and as ongoing planting programs yield higher output, would spur growth.

- Underlying inflation to be held steady within an average rate of 3.5 percent for the period. On an end-period basis for June 2003, annual headline and underlying inflation rates is targeted at 6.1 percent and 4.5 percent, respectively, on account of the rebound in food crops inflation anticipated in the year.

- Revenue enhancing and expenditure restructuring measures aimed at fiscal consolidation would induce a rise in the revenue-to-GDP ratio to 12.3 percent, and a decline in the fiscal deficit to 10.4 percent to be fully offset by expected net inflows of donor budget support.

- Sound monetary policy management to be pursued to achieve the average underlying inflation target of 3.5 percent and exercise control over monetary policy. The latter required BOU to mop up existing stocks of excess reserves held by commercial banks and sterilization of liquidity arising from donor supported government expenditures to ensure that liquidity is maintained within manageable levels.

- BOU was to use a broad spectrum of monetary indicators to respond to incipient inflationary pressures and to conduct regular and measured sterilization with Treasury bills and sales of foreign exchange. This was envisaged to be distinct from the short-term liquidity management.

- On assumption of a modest decline in velocity, the broad money aggregates M2 and M3 were projected to grow at 11.0 percent and 11.4 percent respectively as agents shifted into foreign denominated deposits. Private sector credit was envisaged to pick to 10.0 percent, partly reflecting large credit lines established by some corporate clients within the banking system and ongoing financial deepening.

- On the external sector front, the government export promotion strategy to reduce external vulnerability is expected to support strong recovery in the export sector that was declining in previous years. The growth in both coffee and non-coffee exports of 27.8 percent and 8.2 percent respectively, would reduce the external current account deficit to 10.76 percent, while foreign exchange reserves would be targeted at 6 months of import cover. Apart from sales of foreign exchange to sterilize excess liquidity emanating from fiscal operations, BOU would intervene in the market only to smooth out erratic fluctuations in the exchange rate.

- Pursuit of sound debt management principles through restriction of new borrowing to concessional loans, while exploring possibilities of increasing the grant element of new development assistance and trimming external borrowing over the medium term, to improve the debt sustainability position.

The corresponding quarterly benchmarks underlying the financial program are highlighted, where applicable, as we assess the macro-economic developments during the first half of the year to December 2002.

II. Conduct of Monetary Policy and Exchange Rate Management

Monetary policy remained focused on promoting price stability to support the broad macro-economic objectives outlined above. In particular, Bank of Uganda (BOU)'s monetary policy stance within the first half of 2002/03 continued to aim at containing average underlying inflation at 3.5 percent, while abating instability in the money and foreign exchange markets.

In the six months to December 2002, no major shocks hit the system, but inflation increased as both the rebound in prices of food crops and the effects of the rise in oil prices on the international market kept upward pressure on domestic prices. However, the challenge facing monetary authorities remained managing excess liquidity, arising from donor-funded government expenditure to support poverty reduction, in a manner that would not cause instability in the markets.

BOU continued using net issues of Treasury bills, sales of foreign exchange under the new methodology of sterilization of excess liquidity introduced in April 2002, and Repurchase Agreements (REPOs) as the main instruments of managing liquidity. Under the open market operations in domestic securities, primary issuance of Treasury bills was biased towards sterilization of excess liquidity, while the Repo was actively used to fine-tune liquidity developments during intra-auction periods. Effective August 26, 2002, BOU changed the modalities of its operations in the Repo market from an announced (administratively fixed) rate auction to a market-determined-rate auction, where BOU announces the tenor/maturity desired to transact and the market bids the price and volume.

In addition to these quantity-based instruments, the pricing of the liquidity providing windows at BOU was also actively reviewed to ensure that accessibility to both the Rediscount and Discount windows (commercial banks' borrowing at Bank of Uganda) were in line with the desired monetary policy stance. BOU also changed the modalities for determining the Rediscount rate, by discarding the policy margin within the Rediscount Rate and hence allowing the Rediscount rate to be directly determined by BOU in line with the desired monetary policy stance.

While the shilling has been allowed to gradually depreciate in line with the trend of the fundamentals, the foreign exchange market was relatively calm throughout the first half of 2002/03 with only few incidences of excessive pressures requiring Bank of Uganda's intervention in the market to restore calm. This was partially on account of enhanced control on liquidity in the system and a more efficient methodology of sterilizing excess liquidity. The nominal depreciation of 2.66 percent against the US dollar registered within the six months has been well within anticipated movements in the exchange rate within the macro-economic framework for the year 2002/03. The new methodology for selling of foreign exchange for sterilization has also resulted into lower spreads between the buying and selling rate, recorded at an average of Shs 4.77 in December 2002, compared to Shs 6.06 and Shs 10.85 of June 2002 and December 2001, respectively.

As expected, reigning in of excess liquidity in banking system has led to a gradual edging up of money market interest rates, which in turn has filtered into the commercial banks' retail interest rates. This, however, was inevitable given the government expenditure profile and the upward pressure on prices, which has required BOU to maintain a tight monetary policy stance.

BOU still awaits the introduction of longer-dated securities – 2-year, 3-year and 5-year government bonds to sterilize liquidity over a longer period and ease the pressure on the short-term money market instruments like the Treasury bill.

In the outlook, Bank of Uganda is set to maintain the cautious monetary policy stance to ensure that inflation remains low and stable. It is also committed to managing liquidity in a manner that does not cause instability in both the domestic and foreign exchange markets.

III. Price and Market Developments

i) Inflation

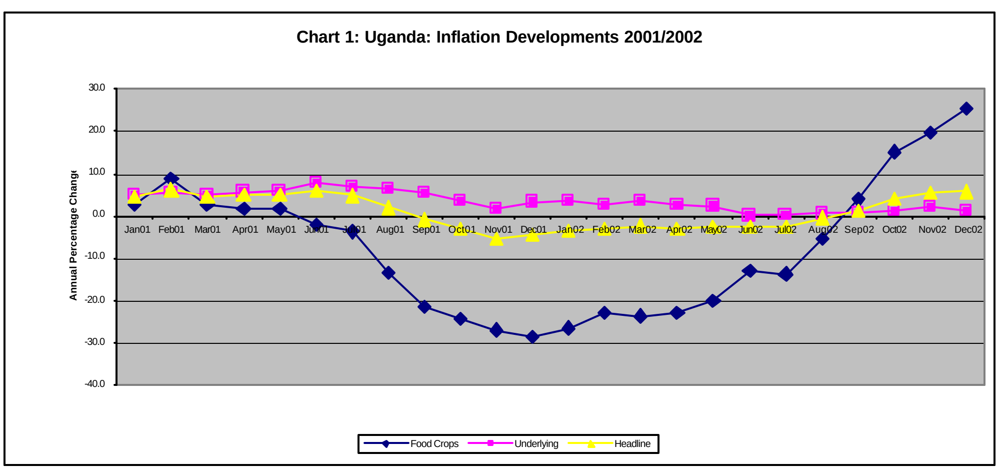
There was a fast build-up of inflationary pressures during the first half of 2002/03. The annual headline inflation rate averaged 2.3 percent during this period, compared to the average of –2.8 percent posted in the corresponding period of 2001/02, but is higher than the program average of 1.0 percent for the year 2002/03. The annual inflation rates steadily increased from –2.5 percent in June 2002, accelerating in the subsequent months to reach a level of 5.8 percent in December 2002, just below 6.0 percent envisaged for end-June 2003 in the macro-economic framework.

The annual underlying inflation rates registered lower increases moving from 0.1 percent in June 2002 to 2.3 percent in November 2002, before dropping to 1.4 percent in December 2002. The annual underlying inflation rate averaged at 1.1 percent during the first half of 2002/03 compared to 2.5 percent recorded in the corresponding period of 2001/02. The rise in this non-food consumer price index is mainly due to the increase in domestic price of fuel and energy in response to changes in international prices of petroleum by-products. The out-turn on underlying inflation for December 2002 is still within the program target of 3.5 percent and 4.5 percent on an average and end-period basis for the year 2002/03.
Most of the upward pressure on the headline inflation arose out of an increase in the average prices of food crops. The annual food crops inflation increased from –13.0% in June 2002 to 25.4% in December 2002. Food crops inflation rates were highest in the centers of Mbarara and Masaka where most fresh food crops originate. This problem has been translated into the current increases in fresh food crops prices in Kampala. The developments in inflation are shown in Table I and Chart 1 below.

Table I. The inflation out-turn as reported by UBOS (percent)

	Annual		Monthly	
	Headline	Underlying	Headline	Underlying
Jun 2002	-2.5	0.1	-0.1	0.0
Jul 2002	-2.5	0.2	-0.6	0.1
Aug 2002	-0.5	0.6	0.8	-0.3
Sep 2002	1.3	0.8	1.2	0.2
Oct 2002	4.0	1.4	2.7	0.7
Nov 2002	5.6	2.3	1.1	0.1
Dec 2002	5.8	1.4	0.4	0.2

Source: Uganda Bureau of Statistics

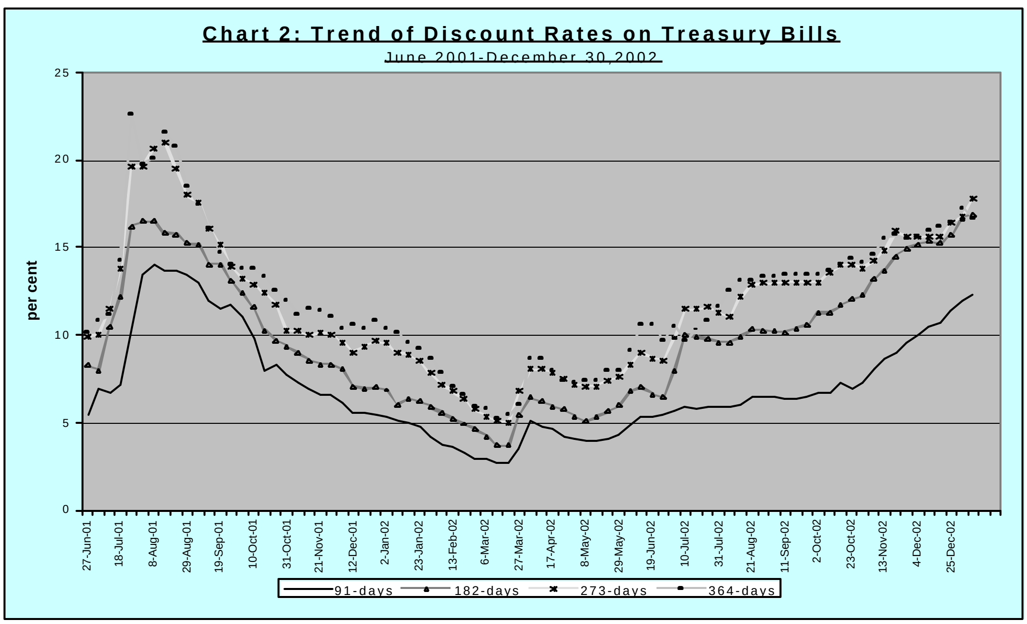


ii) Domestic Money and Securities Markets and Interest Rates

Interest rates in the money markets maintained a gradual upward trend through the six months to December 2002. This is in line with the gradual reduction in excess liquidity in the banking system, incorporated in the financial program for the year 2002/03.

The Treasury bill market remained very active through the period with the increased net issuances almost always over-subscribed. This notwithstanding, the respective weighted annual discount rates for the 91-day, 182-day, 273-day and 364-day bills gradually rose and stood at 11.35 percent, 15.76 percent, 16.44 percent and 16.43 percent, respectively, as at end December 2002. This compares to levels of 5.42 percent, 6.46 percent, 8.56 percent and 9.72 percent, respectively, recorded for end June 2002 (see trends in Chart 2 below). The yield curve remained positively sloped in most of the auctions during this period, albeit with a steeper slope at the shorter end on account of the market's preferences for the longer dated instruments.

The domestic inter-bank market was more buoyant registering wider participation and increasingly comparable rates among participants. The inter-bank transactions were mainly concentrated in the call money market (i.e. less than 30 days tenor) over the past six months. While the higher activity is partly related to the enhanced efforts to reduce excess liquidity, these trends are also indicative of an increasing level of development. In line with the other money market rates, the average inter-bank money market rate gradually increased through the period and was recorded at 8.18 percent by end-December 2002.



In the commercial banks' retail market, there was a modest upward shift in all the rates in response to the trend in the money markets. The upward revision in the period resulted into a reduction in the number of banks reporting prime lending rates of less than 14.0 percent from 7 banks to 3 banks between June 2002 and December 2002. (see Table II).

Table II: Weekly Movements in the Prime Lending Rates (figures are end-period)

Prime Lending Rate (%)	Dec 2001	Mar 2002	June 2002	Sept 2002	Dec 2002
	No. of Banks Charging Rate				
0.0 – 10.9	0	0	0	0	0
11.0 – 13.9	0	0	7	6	3
14.0 – 15.9	0	5	3	3	3
16.0 – 18.0	11	8	7	7	9
18.1 - 20.0	3	1	0	0	0
20.1 - 22.0	3	3	0	0	0
22.1 - >>	0	0	0	0	0
Range (Min – Max)	14% - 22%	14% - 22%	13% - 18%	12% - 18%	11% – 18%

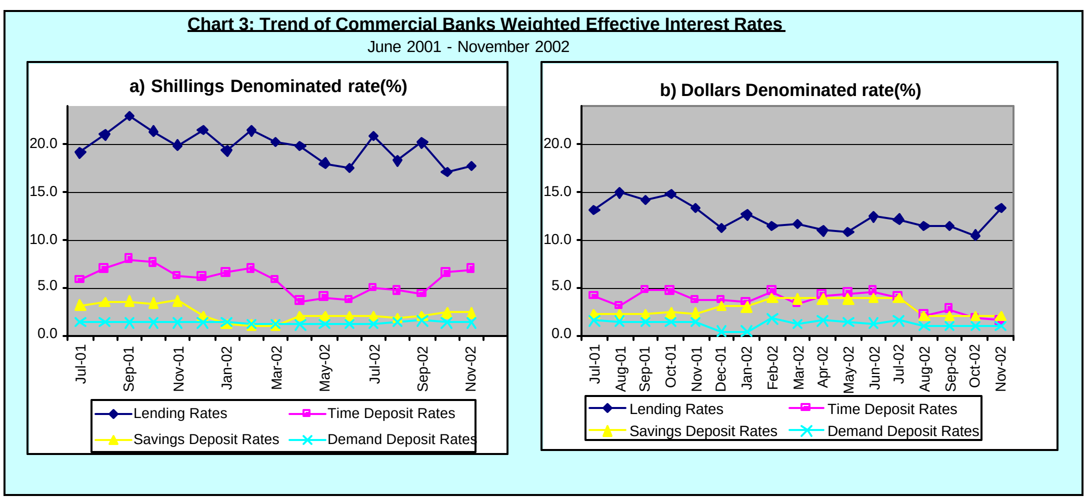
Source: Weekly Report of Interest rates by Commercial Banks

In a similar manner, both the average effective deposit and lending rates on shilling denominated deposits and loans have increased. The movements in foreign currency denominated transactions are however affected by the expectations on the exchange rate movements and foreign interest rates. However, the response of the banking system over this period seems, in general, to indicate increased competition following the resolution of UCBL. Table III and Chart 3 below summarizes the developments in commercial banks rates.

Table III: Commercial Bank Lending and Deposits Rates

	Shilling Denominated				Forex Denominated			
Weighted Average Rates (%)	**June02**	**Sept 02**	**Oct 02**	**Nov 02**	**June02**	**Sept 02**	**Oct 02**	**Nov 02**
Lending	17.57	20.16	17.14	17.76	12.42	11.40	10.48	13.28
Demand Deposits	1.12	1.50	1.31	1.31	1.26	0.95	0.95	0.95
Savings Deposits	2.02	1.98	2.34	2.34	3.86	1.95	1.95	1.95
Time Deposits	3.64	4.32	6.53	6.94	4.59	2.68	1.76	1.47

Source: Monthly Report, BS100 Returns by Commercial Banks



iii) The Foreign Exchange Market and Exchange Rate

There was a gradual depreciation in the shilling against the dollar over the first half of 2002/03(see Chart 4 below). The monthly average mid-rate depreciated by 2.66 percent, which was lower than the 4.89 percent in the previous six months to June 2002, but is in contrast to the appreciation of 3.07 percent in the corresponding period of 2001/02.

This downward trend of the shilling is in line with the developments in the fundamentals, in particular the rise in the oil prices at the international scene, while coffee prices were on the decline for the larger part of the period. On a few occasions, the foreign exchange market was faced with instability that led to excessive depreciative pressures on the shilling, probably beyond what had been dictated by the fundamentals. As liquidity conditions were kept tighter during the period, other factors, including seasonality, spill-over of effects of developments in neighboring Kenya around November and early December 2002 and speculation could have been the cause of pressures in the market. Bank of Uganda ably contained these pressures and the shilling was allowed to gradually depreciate. As seen in Chart 4 and Table IV below, not only have the average exchange rate movements been very smooth, the margins are also much lower being recorded at an average of Shs 4.90 for the first half of 2002/03, compared to Shs 13.13 in the corresponding period of 2001/02.

Greater stability in the market is partly attributed to the new methodology of selling foreign exchange in the market by BOU, which distinguishes between sterilization and intervention. Sterilization sales are effected in a frequent, consistent, stable, but stealth manner to mop up excess liquidity arising from donor supported government expenditure, while minimizing the adverse effects on the competitiveness of the export sector that may arise from appreciation of the shilling. Intervention, on the other hand, is occasional and announced to maximize its impact on the market and hence curb instability.

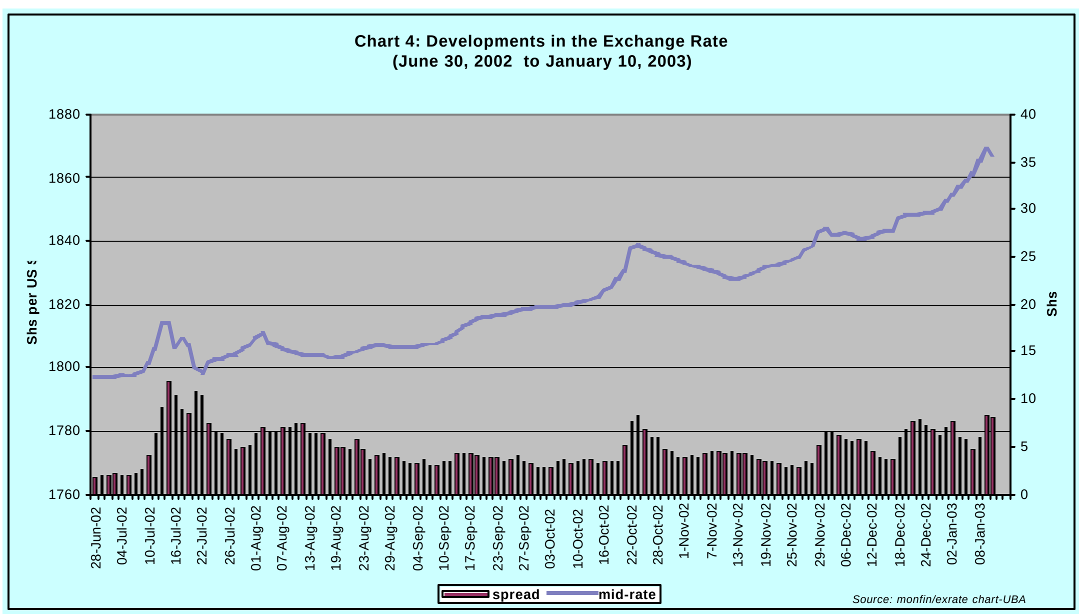
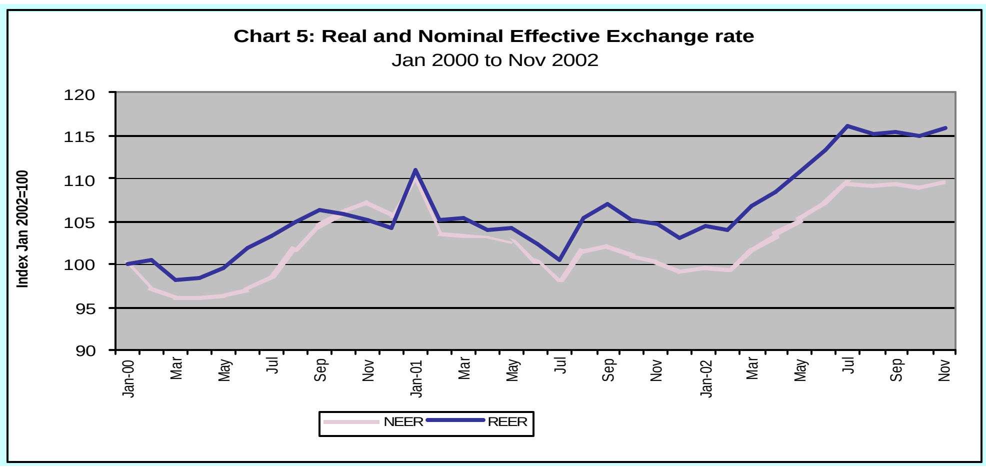


Table IV: BOU Intervention in IFEM and exchange rate movements

	BOU Intervention (US $ million)	Monthly depreciation (%)and average margins(Shs)	BOU Sterilization and Intervention sales (US $ million)	Monthly depreciation (and average margins)
	2001		**2002**	
July	9.95	-2.37% (19.66)	31.55	+0.31% (5.97)
August	19.35	+1.44% (19.22)	18.90	+0.17% (5.68)
September	18.75	+0.13% (13.91)	10.00	+0.38% (3.41)
October	4.75	-0.87% (12.84)	16.05	+0.80% (4.42)
November	17.25	-0.08% (8.31)	13.45	+0.28% (3.91)
December	0.82	-1.31% (11.39)	-11.92	+0.69% (5.99)
Total H1 (Jul-Dec)	**70.87**	**-3.07% (13.13)**	**78.03**	**+2.66% (4.90)**

The trend of the shilling has also been consistent with those of our trading partners, most of whom have not recorded significant depreciation over the last six months. Indeed, the nominal effective exchange rate depreciation of 2.21 percent is not significantly different from 2.66 percent of the shilling versus the US $. In real terms, the shilling depreciated by 2.29 percent between June and December 2002. The trends of both the nominal effective and real effective exchange rates (NEER and REER) are depicted in Chart 5 below.



IV. Monetary and Financial Sector Aggregates

An over view of developments in base money, the broader money aggregates, which incorporate commercial banks activities developments and activities of the non-bank financial sector is presented below. Base money is the operational target of Bank of Uganda, and beginning this financial year, it became one of the performance benchmarks outlined in the IMF program mentioned above.

(i) Base money

According to the BOU balance sheet available to November 2002, summarized in Table V below, base money in gross terms (currency issues, commercial bank deposits and their holding of BOU instruments) fell by 2.6 percent. However, base money less Commercial bank investments in BOU instruments, grew by 1.8 percent to Shs 641.2 billion. This is a slow down compared to the growth of 5.7 percent and 7.6 percent, respectively, which was registered between June-November 2001. Growth in the components of base money was varied with currency in circulation growing by 6.3 percent, while commercial bank deposits with Bank of Uganda fell by 5.2 percent. On an annual basis, base money grew by 8.4 percent in November 2002.

Provisional estimates depict base money to have increased to Shs 689.55 billion by the end-December 2002. While the program benchmark on base money allows it to have grown by Shs 49.3 billion over the six months to December 2002, the provisional growth of Shs 59.55 billion is above the benchmark target. This is mainly on account of the faster than anticipated growth of currency issues during the holiday season, over which monetary policy action has minimal influence. Indeed, the instrument mix adopted by BOU managed to reduce the excess reserves of the banking system, which are in line with the program objective of maintaining excess reserves within 15.0 percent of the required reserves to reign in liquidity in the system.

Table V: Monetary Authority Balance Sheet (billion Shs)

Aggregate	Jun 99	June 2000	June 2001	June 2002	Nov. 2002
Total Liabilities	447.3	522.3	571.4	661.6	644.2
Base Money	432.5	441.2	561.4	630.0	641.2
Commercial Bank Holdings of BoU Instruments	14.9	32.2	10.0	31.6	3.0
Total Assets	447.3	522.3	571.4	661.6	644.2
Net Foreign Assets	585.0	620.7	842.9	1090.6	1162.3
Net Claims on Government	-225.0	231.3	199.4	12.6	-52.4
Claims on Commercial Banks	57.6	63.7	38.2	46.3	56.1
Claims on Private Sector	0.0	0.0	0.0	0.0	0.0
Claims on Parastatals	28.0	4.0	4.2	4.0	3.9
Other Items, Net	1.6	-397.3	-513.3	-491.9	-525.7

Source: Research Department, Bank of Uganda.

(ii) Broad Money

At the broader level, the monetary survey data available to November 2002 depicts an acceleration of growth in money, especially in the latter part of the second quarter of the year. Broad money (M3), which comprises currency in circulation and all deposits of the private sector, grew by 3.3 percent in the period June-November 2002. This is higher than 0.7 percent observed in the corresponding period during 2001/02. On the other hand, Money Supply (M2) comprising currency in circulation and the local currency denominated deposits of the private sector increased by 3.2 percent. By comparison, this is slightly less than 4.6 percent growth rate achieved during the period June-November 2001. These growth rates are still within the monetary program, where broad money M3 and M2 are envisaged to grow by 7.9 percent and 8.2 percent, respectively, over the first half of 2002/03.

As is shown below in the analysis of the driving factors of money, much of the growth in broad money during the five months to November 2002 was driven by net extension of credit to the private sector. This is in contrast to earlier periods, where growth was driven by changes in net foreign assets of the banking system.

a) Net Foreign Assets (NFA)

The Net Foreign Assets (NFA) of the banking system grew by the equivalent of Shs 9.0 billion, or 0.6 percent during the period July-November 2002. This outturn compares to a decline of 2.4 percent observed during the corresponding period in 2001/02. The external assets of BOU rose by Shs 62.6 billion, of which foreign reserves rose by Shs 106.2 billion, while the foreign liabilities declined by Shs 9.0 billion. Consequently, the NFA of BOU rose by Shs 71.6 billion. Comparatively, during June-November 2001, the NFA of BOU had risen by Shs 2.4 billion. At the commercial banks level, there was a decline in NFA amounting to Shs 62.6 billion. This is a result of a decline of Shs 71.7 billion in foreign assets, which offset a decline of Shs 9.1 billion in foreign liabilities. In the corresponding period last year, the NFA of commercial banks fell by Shs 31.8 billion.

b) Net Domestic Assets (NDA)

During the period June-November, 2002, Government's borrowing from the banking system increased by Shs 58.1 billion (Table VI). The monetary program envisaged a fall of Shs 94.2 billion over the six months to December 2002 in anticipation of timely disbursement of donor support.

Credit to the private sector by the banking system grew by 12.1 percent. This is a significant rise compared to a decline of 0.6 percent recorded between June-November 2001. This growth is also above the growth of 4.4 percent over the first half of 2002/03 envisaged within the monetary program. In terms of currency denomination, growth was almost even, with foreign currency denominated loans growing by 15.1 percent, and shilling loans by 11.2 percent. The total credit growth is amidst persistently higher extension, that eventually over shot the recoveries in the second quarter of the year. Gross extensions of credit totaling Shs 481.91 billion for the five months to November 2002 are far higher than Shs 423.68 billion for the corresponding period of 2001.

The sectoral distribution of credit indicates that it is heavily weighted in favour of the trade and other services sector, which accounted for 58.3 percent of the stock of loans in November 2002 (Table VII).

Table VI: The Monetary Survey (billion Shillings)

Aggregate	June 99	June 2000	June 2001	June 2002	Nov. 2002
A. Net Foreign Assets	782.2	912.2	1261.5	1552.6	1561.6
Monetary Authority (net)	585.0	620.7	842.9	1090.6	1162.3
Foreign Reserves	1086.6	1136.6	1332.2	1557.1	1663.3
Commercial Bank (net)	197.2	291.5	418.6	462.1	399.4
Domestic Credit					
Central Government (net)	-127.9	400.6	457.1	482.0	540.0
Parastatals	48.2	16.4	10.2	6.9	5.7
Private Sector	546.3	580.4	634.9	661.7	741.6
Other Items (net)	-89.5	-566.2	-781.0	-778.6	-859.8
Broad Money – M3	1160.5	1344.4	1583.7	1925.4	1989.6
Foreign Exchange Accounts	207.8	310.8	390.2	434.8	450.7
Broad Money – M2	952.7	1033.6	1193.4	1490.6	1538.9
Certificates of Deposit	11.1	10.8	7.9	5.8	5.8
Currency In Circulation	284.7	303.9	350.2	407.2	429.3
Demand Deposits	360.1	413.1	482.9	617.5	614.2
Time and Savings Deposits	296.9	305.8	352.5	460.1	489.6
Memorandum Items:					
1. Growth Rates Relative to Previous June (%)					
M 3	13.8	15.8	17.6	21.6	3.3
M 2	9.1	8.5	15.2	24.9	3.2
2. Components of M3 (in percent of the total)					
Foreign Exchange Accounts	17.9	23.1	24.6	22.6	22.7
Certificates of Deposit	1.0	0.8	0.5	0.3	0.3
Currency In Circulation	24.5	22.6	22.1	21.1	21.6
Demand Deposits	31.0	30.7	30.5	32.1	30.9
Time and Savings Deposits	25.6	22.7	22.3	23.9	24.6
3. Financial Depth					
Financial Savings (billion Shs) 1/	308.0	316.6	360.4	465.9	495.4
Financial Savings/M2 (%)	32.3	30.6	30.2	31.3	32.2

1/ Financial savings are defined as time and savings deposits plus Certificates of Deposits (CDs).

Source: Research Department, Bank of Uganda.

On the liabilities side of the banking system, the total deposits of the non-bank public at commercial banks increased by 2.8 percent from Shs 1518.2 billion as at end-June 2002 to Shs 1560.3 billion as at end-November 2002. This growth is higher than the deceleration in growth of 0.5 percent observed in the corresponding period a year ago. The growth in deposits is mainly accounted for by strong growth in foreign currency deposits and Time and Savings deposits, which reflected an increase in savings and foreign exchange inflows. On account of these developments, financial depth as measured by the ratio of financial savings to Broad Money (M2) grew to 24.4 percent in November 2002, from 23.8 percent in June 2002 (Table VI).

Table VII: Sectoral Analysis of Commercial Bank Credit to the Private Sector (%)

Recipient Sector	June 99	June 2000	June 2001	June 2002	Nov. 2002
Agriculture	14.1	10.3	8.5	10.7	10.3
Manufacturing	30.2	31.2	34.9	25.5	22.3
Trade & Other Services/ 2	45.0	47.1	46.5	55.2	58.3
Transport, Electricity & Water	5.2	6.3	5.5	4.5	5.7
Building and Construction	5.2	4.8	4.1	3.6	3.0
Mining and Quarrying	0.3	0.4	0.4	0.6	0.5
Total	100	100	100	100	100

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.

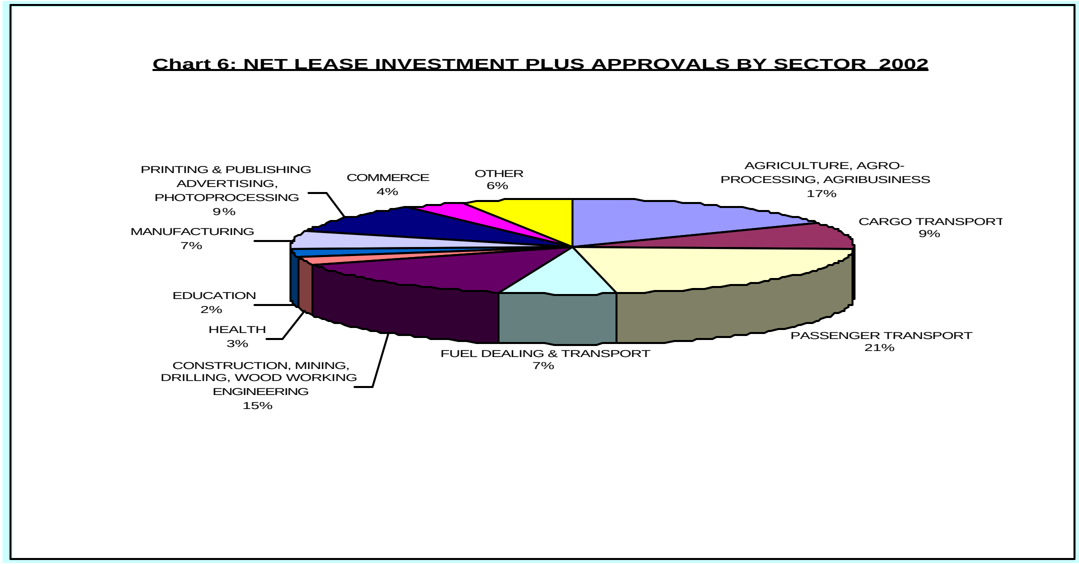
(iii) Leasing Activity

Leasing is continuously elevating its role and significance in boosting economic activity in the country. Compared to 2001, there has been an upward trend in the value of assets leased in almost every successive month of 2002. In the six months to December 2002, the value of assets leased is estimated at Shs 11.88 billion, compared to Shs 8.87 billion in the previous six months to June 2002 and Shs 6.40 billion in the corresponding period to December 2001 (see Table VIII). Also impressive is the fact that leasing business has cut across several sectors of the economy including agriculture, transport, construction, manufacturing, education, health and other (see Chart 6 below). The biggest beneficiary of leasing in 2002 was passenger transport sector, with an allocation of 21 percent of total investments and approvals. That agriculture, agro-processing and agri-business followed closely at 17 percent, is promising for financing of this critical sector for the Ugandan economy.

Table VIII: Leasing Activity (Amounts disbursements in Shs billions)

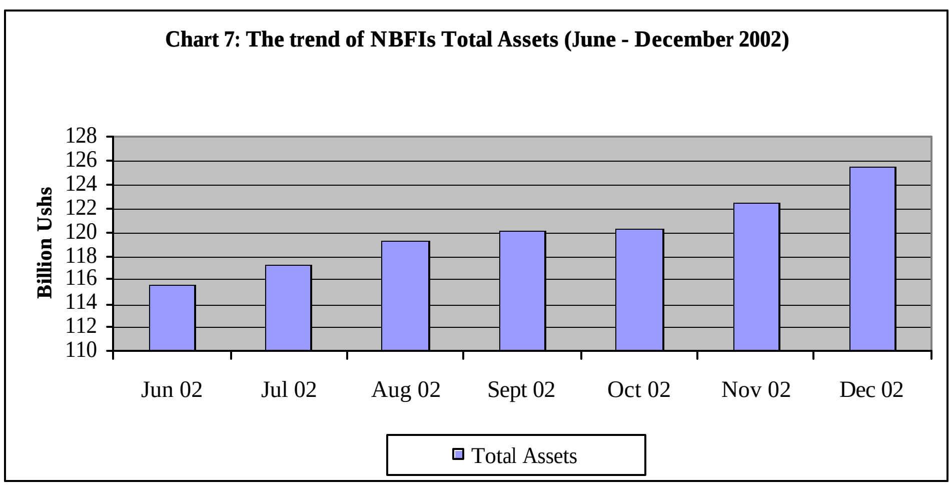
	2001	Cumulative	2002	Cumulative
January	0.64		1.80	
February	1.13		1.29	
March	0.86		1.37	
April	1.50		1.20	
May	0.91		1.56	
June	0.57	**5.61**	1.65	**8.87**
July	0.76		1.20*	
August	0.81		2.70*	
September	1.11		1.20*	
October	1.48		2.73*	
November	1.24		1.85*	
December	1.00	**12.01**	2.20*	**20.75**

provisional



iv) Non-Bank Financial Institutions

The Non-Bank Financial Institutions' (NBFIs) total assets increased through the first half of 2002/03(see Chart 7). The growth of Shs 9.90 billion (or 8.6 per cent) to Shs 125.5 billion over the period was mainly on account of loans and advances and is higher than 2.6 per cent realized in the corresponding period of 2001/2002. The total loans and advances rose by Shs 4.86 billion, from Shs 64.68 billion at end-June 2002 to Shs 69.54 billion at end-December 2002. Lending to building and construction sector continues to take the largest share of credit from NBFIs'. NBFIs' balances with commercial banks, both in Uganda and outside Uganda rose by Shs 2.72 billion to Shs 19.25 billion over the same period while their investments in government securities, stocks, shares and other investments remained relatively stable at Shs 20.22 billion.



The private sector deposits in the NBFIs grew by 13.3 per cent to Shs 72.59 billion at end-December 2002, from Shs 64.04 billion at end-June 2002. This increase was largely attributed to growth in the savings deposits, which rose by Shs 6.70 billion.

V. Public Sector (Fiscal Operations)

The fiscal developments below highlight revenue performance and expenditure outturn and the assessment in view of the program targets for the period to December 2002.

i) Revenue and Grants

According to provisional information from the Ministry of Finance, Planning and Economic Development (MFPED), the revenue collected during the first half of 2002/2003 is estimated at Shs 679.9 billion, which is less than the programmed amount by Shs 16.7 billion (or 2.4 percent). Part of the shortfall occurred in URA revenues, which at Shs 669.2 billion was Shs 6.5 billion (or 0.9 percent) below the programmed level of Shs 675.6 billion. The shortfall in revenue collections could be partly explained by the removal of VAT chargeable on hotel accommodation. Details of the revenue performance are shown in Table IX below.

Table IX: Revenue and Expenditure Performance in the first half of 2002/2003

	Provisional Out-turn		**Programmed**
	(Shs billions)	% of program	(Shs billions)
Total Revenue	**679.9**	**97.6**	**696.6**
URA Revenue	669.2	99.1	675.6
Non-URA Revenue*	10.7	51.0	21.0
Total Expenditure	**897.1**	**94.7**	**946.9**
O/w Wages & Salaries	297.9	95.8	310.9

*Non-tax revenues collected by Government Ministries/Departments, other than URA, and transferred by Treasury Office of Accounts to the Consolidated Fund.

Source: Government of Uganda Budget Cashflow, MFPED

Despite the shortfall in the collections, the URA revenues for the first half of 2002/2003 improved by Shs 79.5 billion or 13.5 percent compared to the corresponding period in 2001/2002. This improvement could be partly attributed to the expansion of economic activities, increased taxes on international trade, and improvements in tax administration.

The Non-URA revenues also registered a shortfall over the same period. The outturn of Shs 10.7 billion is 51.0 percent of the programmed amount. This under-performance of the Non-URA revenue in the magnitude of Shs 10.3 billion is attributed to the lower than anticipated collections from ministries and other government departments.

ii) Expenditure

Total government expenditures and net lending are estimated at Shs 897.1 billion, which was Shs 49.8 billion (5.3%) below the programmed amount for the first half of 2002/2003. The under-performance was mostly realized in the current and development expenditures, principally due to the lag in the processing of expenditures, but was also in line with the shortfall in revenue collections. Government expenditure and lending is however higher than Shs 831.5 billion of the corresponding period of 2001/2002.

The expenditure on wages and salaries during this period is estimated at Shs 297.9 billion against the programmed level of Shs 310.9 billion, representing a shortfall of Shs 13.0 billion or 4.2% from the target. The expenditures on non-wage recurrent activities amounted to Shs 268.3 billion against the programmed amount of Shs 270.6 billion. Interest payments accounted for Shs 77.5 billion, an increase from Shs 50.5 billion during the corresponding period the last financial year. Statutory expenditures were recorded at Shs 51.0 billion, almost equal to the anticipated level of Shs 51.4 billion.

The expenditure on domestically mobilized resources on development projects was estimated at Shs 184.9 billion compared to the programmed level of Shs 203.1 billion, representing a shortfall of Shs 11.3 billion. This shortfall is largely attributed to the lag in processing expenditures.

iii) Overall Budget Balance

The above budgetary operations resulted into an overall cash deficit of approximately Shs 136.0 billion after adjusting for the net cheque float and payment of arrears. Of this, net disbursements of external loans financed Shs 25.8 billion, the balance was met by domestic bank and non-bank financing.

VI. External Sector (Balance of Payments)

i) Overall Balance of Payments

According to highly provisional estimates, summarized in Table X below, the overall balance of payments position was mainly influenced by the developments on the current account. The current account is estimated to have deteriorated from a deficit of US$ 135.97 million during the first half of 2001/02 to a deficit of US$163.49 million during the first half of 2002/3. The deterioration of the current account is due to the continued increase in the imports of goods and services during the first half of 2002/03 relative to the corresponding period of 2001/02. The terms of trade improved slightly during the period under review compared to that of the corresponding period of 2001/02 due to a recovery in coffee prices that started in September 2002 and continued up to December 2002. However, there was a decline in current transfers due to lower grant disbursements to government during the first half of 2002/3. The capital and financial account also deteriorated from a level of US$323.53 million registered in the first half of 2001/02 to US$146.32 million in first half 2002/3. The deterioration of both the current and capital and financial accounts explain the overall balance of payments deficit of US$17.17 million.

ii) Foreign Reserves

Foreign exchange reserves at Bank of Uganda (BOU) are estimated to have increased by US$40.53 million by end-December 2002, compared to an increase of US$229.19 million recorded at end-December 2001. The lower growth is mainly attributed to lower inflows of budget support estimated at US$187.52 million accounting for about 14.7 percent of total inflows estimated at US$1274.01 million.

iii) The Current Account

a) Trade Balance

Estimates of the trade balance indicate deterioration from a deficit of US$304.97 million in the first half of 2001/02 to a deficit of US$317.53 million in the corresponding period of 2002/3. This trend is mainly due to a substantial increase in imports estimated at 7.4 percent compared to the levels registered in the first half of 2001/2. However, exports also registered an increase of 11.8 percent during the period.

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

	H1 01/02	Est.H1 '02/03
CURRENT ACCOUNT BALANCE	**-135.97**	**-163.49**
Goods Account(Trade Balance)	-304.97	-317.53
Total Exports (fob)	223.43	249.90
o/w Coffee	42.53	53.90
Total Imports (fob)	-528.40	-567.43
o/w Project imports	-54.61	-47.17
Services Account(net)	-161.44	-164.45
Inflows(credit)	115.74	123.85
Outflows(debit)	-277.19	-288.29
Income Account(net)	-79.93	-89.44
Inflows(credit)	18.62	14.19
Outflows(debit)	-98.55	-103.63
o/w Interest on public debt	-18.55	-19.12
Current Transfers	410.37	407.92
General Government	232.16	227.54
BOP Support	118.31	124.64
Project Aid	113.85	102.90
Other sectors (Private Transfers)	178.21	180.38
Inflows(credit)	356.41	352.04
o/w Non-Government organisations	92.54	93.87
Outflows(debit)	-178.19	-171.66
CAPITAL AND FINANCIAL ACCOUNT BALANCE	**323.53**	**146.32**
Capital Account	0.00	0.00
Capital Transfers	0.00	0.00
o/w Grants for Debt Service	0.00	0.00
Financial Account; excluding financing items	323.53	146.32
Direct Investment	72.85	77.00
o/w inflows	115.35	121.91
Portfolio Investment	0.00	0.00
Other Liabilities	250.68	69.32
Medium and Long-term (net)	250.83	63.06
Loan disbursements	309.79	126.97
BOP Support	198.71	21.43
Project	75.90	68.60
Other(private debt)	35.18	36.94
Ouflows(debit)	-58.95	-63.91
o/w Official Debt Amortisation	-45.68	-48.60
Short-term(net)	-0.15	6.26
o/w Trade Credit	61.46	57.60
Private Sector forex holdings		
OVERALL BALANCE	**187.56**	**-17.17**
FINANCING ITEMS	**-187.56**	**17.17**
Monetary Authorities		
Use of IMF Credit(Net)	-19.43	-14.85
Change In Gross Reserves	-229.19	-40.53
Exceptional Financing	58.40	53.71
Rescheduling	0.00	0.00
Cancellation	39.19	41.45
other	19.21	12.27
Errors and Omissions	2.66	18.83

Source: Bank of Uganda

b) Exports

As shown in Table XI relating to the composition of Uganda's merchandise exports for the period the first half of fiscal years 2001/02 and 2002/03, there is a significant improvement in performance of exports. Total export earnings from goods are estimated at US$249.90 million compared to US$223.43 million realised in 2001/02. This is on account of both the recovery in coffee prices and increased volumes of shipments.

A total of about 1.762 million (60-kg) bags of coffee worth US$ 53.90 million were shipped in the first half of 2002/3 compared to a total shipment of 1.558 million bags worth US$42.53 million shipped in the corresponding period of year 2001/2. The improvement in the value of shipped was also attributed to the increase in the price of coffee. The average unit value during the first half of the year was US$0.51 per kg, compared to US$0.45 per kg realised in the corresponding period last year.

Despite the reduction in international prices of some exports, the value of non-coffee exports for the first half of year 2002/3 is estimated at US$189.58 million, an increase of about 6.0 percent over the value realised in the corresponding period last year. Fish and its products, the ranked the largest export earner over this period, fetched a total of US60.14 million compared to US$54.37 million realised in the first half of 2001/02, mainly on account of higher unit values. The prices went up by more than 21 percent in both regional and non-regional markets. The total volumes shipped to both markets, however declined by 12 percent from 30.72 thousand metric tones to 27.97 thousand metric tonnes. Tobacco exports showed a remarkable growth during the period with export volumes growing by 54.6 percent over the corresponding half in 2001/02 although prices dropped by 5.7 percent. Flower exports grew by 15.3 percent in value terms with export volumes increasing by 26.4 percent while the prices declined by 8.9 percent.

Exports of beans also grew tremendously during the first half of 2002/03 bringing in a total of US$1.46 million compared to US$0.70 million in the first half of 2001/02 with volumes almost tripling from 1.98 thousand metric tonnes to 5.79 thousand metric tonnes. Electricity exports generated US$7.46 million, up from US$5.76 million in the corresponding half of 2001/02 largely on account of more power exported that almost doubled the amount recorded in the first half of 2001/02. Tea exports of US$14.05 million were more or less the same as in the first half of 2001/02.

Exports of hides and skins declined considerably from US$ 11.97 million during the first half of 2001/02 to an estimated value of US$3.88 million. The decline is mainly on account of a 61.6 percent decline in the average realized price during the first half of 2002/03. During the first half, cobalt exports declined significantly from US$5.83 million registered in the first half of the previous fiscal year to US$1.92 million. This was mainly due to a suspension in mining effected at the end of September 2002 on account of persistent fall in world prices.

Uganda's trade policy is attuned to promoting economic growth through export sector diversification, attracting investment, and improving productivity and efficiency in international trade that will also improve the balance of payments position. A detailed section on the status of Uganda's trade relations and regional co-operation efforts is attached as Annex I.

Table XI: EXPORTS OF MERCHANDISE (Millions Of Us$)

	H1 01/02	Est.H1 '02/03
Total Exports (in US$ million)	**223.43**	**249.90**
Coffee	**42.53**	**53.90**
Gross coffee shpmt (vol) (60-Kg bags)	1.56	1.76
Av. unit value	0.45	0.51
Non-Coffee exports(Value in US $ million)	**178.80**	**189.58**
Electricity	5.76	7.46
Volume(Gigawatts)	66.48	121.66
Unit value	0.09	0.06
Gold	23.71	29.48
Cotton	1.57	1.65
Volume ('000 mtons)	1.97	1.88
Unit value (US $/kg)	0.80	0.88
Tea	14.58	14.05
Volume ('000 mtons)	15.44	15.00
Unit value (US $/kg)	0.94	0.94
Tobacco	11.06	16.13
Volume ('000 mtons)	6.18	9.55
Unit value (US $/kg)	1.79	1.69
Fish & its prod.(excl. regional)	40.88	45.22
Volume ('000 mtons)	14.63	13.32
Unit value (US $/kg)	2.79	3.39
Fish & its prod.(regional exports)	13.49	14.92
Volume ('000 mtons)	16.09	14.65
Unit value (US $/kg)	0.84	1.02
Hides & skins	11.97	3.88
Volume ('000 mtons)	10.51	8.87
Unit value (US $/kg)	1.14	0.44
Simsim	0.17	0.20
Volume ('000 mtons)	0.44	0.49
Unit value (US $/kg)	0.39	0.40
Maize	5.56	5.66
Volume ('000 mtons)	32.44	27.22
Unit value (US $/kg)	0.17	0.21
Beans	0.70	1.46
Volume ('000 mtons)	1.98	5.79
Unit value (US $/kg)	0.36	0.25
Flowers	7.31	8.43
Volume ('000 mtons)	1.97	2.49
Unit value (US $/kg)	3.71	3.38
Oil re-exports	4.85	2.77
Cobalt	5.83	1.92
Volume ('000 kg)	337.53	139.32
Unit Value (US$/kg)	17.28	13.75
Others	33.45	42.78

Source: Bank of Uganda

c) Imports

Total imports are estimated to have increased by 7.4 percent from US$528.40 million in the first half of 2001/02 to US$567.43 million in the period under review. Despite government imports remaining fairly stable at an estimated value of US$62.00 million compared to US$62.94 million in the corresponding half of 2001/02, the growth in imports was largely attributed to private sector imports, which are estimated to have grown by eight percent from US$465.46 million to US$505.43 million

d) Services Account

Exports of services are estimated at US$123.85 million, an increase of 7.0 percent over the corresponding half of the previous fiscal year, while imports of services increased by 4.0 percent to US$288.29 million resulting in an estimated deficit of US$164.45 million on the services account.

e) Income Account

The income account deteriorated significantly to a deficit of US$89.44 million from a deficit of US$79.93 million during the first half of 2001/02, due to decreased earnings on investment income coupled with increased payments made.

f) Current Transfers

Current transfers are estimated to have declined slightly to US$407.92 million from US$410.37 million in the corresponding half of fiscal year 2001/02. The decline is due to lower grant disbursements for project aid during the half, which partially offset the increase in balance of payment support funds. Private transfer inflows declined slightly by 1.2 percent over the level realized in the first half of 2001/02.

iv) The Capital and Financial Account

Net inflows of foreign direct investment are estimated to have risen by 5.7 percent from US$72.85 million to US$77.00 million during the first half of 2002/03 of which total inflows are estimated at US$121.91 million. Medium and long-term borrowings are estimated to result into net inflows of US$63.06 million, almost 75 percent lower than the corresponding half of the previous year. This is largely on account of the delayed disbursements of budget support loans, principally the Poverty Reduction Support Credit (PRSC) worth US$150 million from the World Bank, now expected in the third quarter of 2002/03. Short-term borrowings are estimated to have created net inflows amounting to US$6.26 million during the first half of 2002/03.

v) External Debt

During the half under review, maturities falling due on medium and long-term public and publicly guaranteed debt are estimated at US$84.55 million of which US$17.43 million are maturities due to the International Monetary Fund (IMF). Principal maturities are estimated at US$65.43 million while the balance of US$19.12 million is made up of interest payments and other charges.

Total cash payments of medium and long-term public and publicly guaranteed debt during the first half of 2002/03 amounted to US$27.59 million compared to US$25.27 million in the corresponding half last fiscal year. Of the total debt service payments, US$41.45 million was cancelled through the HIPC initiative. US$9.51 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 XII: Key Debt Indicators (expressed as percentages, unless stated otherwise)

	H1 01/02	Est.H1 '02/03
Debt stock/GDP	60.04	64.27
Debt stock/Exports of goods and services	1077.3	1012.8
Debt service/Exports of goods and services	21.27	22.62
Memorandum items (US$ millions)		
Exports of goods and services	339.17	373.75
Debt stock	3654.08	3785.32
Debt service	72.15	84.55

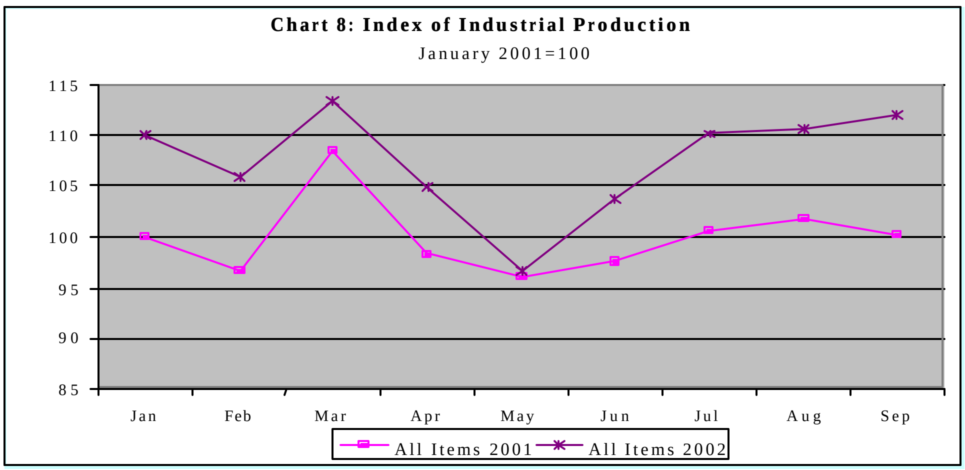
Source: Bank of Uganda

VII. Real Sector

Due to the paucity of information on the real sector performance, our analysis is limited to the trends in the industrial sector as surveyed by Uganda Bureau of Statistics, the indicators of investment licences from Uganda Investment Authority and the activity at the Uganda Securities Exchange.

i) Index of Industrial Production

Information pertaining to the performance of the industrial sector is only available for the first quarter of 2002/03. As is summarized in Chart 8 below, the Index of Industrial Production has been relatively stable throughout the first three months of 2002/2003. This follows a larger increase in production in the months of June and July largely on account of increased production to cater for increased demand towards the end of the financial year.



The index remained above levels registered in the corresponding periods of 2001/02, which is an indication of growth in the sector. Indeed, the growth of 8.07 percent between June 2002 and September 2002 is higher than 2.74 percent registered over the same period in 2001/2002. Growth in the index has continued to be largely driven by production of cement, soft drinks and beer. The increased production of cement is a reflection of the buoyancy in the construction industry.

ii) Investment

Actual investment activity during the period under review is not yet available, and hence this analysis is limited to intentions, based on licenses issued by Uganda Investment Authority (UIA). During July – December 2002, UIA licensed a total of 85 projects with a planned investment of approximately US$ 709.60 million. Planned employment was 8,079 people. As seen in Table XIII below, the performance during this period is higher than the 68 projects licensed worth US $ 104.8 million during the first half of 2001/2002.

Table XIII: UIA Performance Indicators and Targets for the period July – December 2002

	No. of Projects Licensed	Planned Investment (US$ millions)	Planned Employment
Total for H1 2001/02	68	104.8	--
Total for H1 2002/03	85	709.6	8,079

Source: Uganda Investment Authority

iii) Activity at Uganda Securities Exchange

To date, only five companies have been listed on the Uganda Securities Exchange. These are Uganda Clays Ltd, British American Tobacco (U) Ltd, and East African Breweries Ltd, Kenya Airways and Bank of Baroda Uganda. Trading activity gradually picked up especially after the listing of two new companies, Kenya Airways and Bank of Baroda Uganda in the first half of 2002/2003 and indicates improved awareness resulting from the continued efforts of USE and its partners to educate the public on the benefits of investing in the stock market. During the first half of 2002/2003, total turnover was recorded at Shs 0.92 billion representing a 7.8 percent increase from Shs 0.86 billion of the previous six months to June 2002. Trading activity is summarized in the Table XIV below.

Table XIV: Trading at Uganda Securities Exchange

	Jan-Mar '02	Apr-Jun '02	Jul-Sep '02	Oct-Dec '02
Total Turnover (Shs millions)	305.10	550.14	915.63	6.48
No. of Deals	75	144	137	67
No. of shares traded	220,072	1,111,866	410,934	3,500

Source: Uganda Securities Exchange Limited

During the latter part of the first half of 2002/03, the Bank of Baroda Uganda counter dominated trading following it's listing in mid-November 2002, recording a turnover of Shs 0.057 billion representing 69.3 per cent of the total turnover. The counters for Uganda Clays Ltd and British American Tobacco Uganda Ltd contributed 22.5 per cent and 6.9 percent respectively of the increase in turnover over the period. The prices on all the five counters remained relatively stable in first half of 2002/2003.

Despite the improved turnover in the stock market during the period under review, there is still need for more products on the Exchange to provide investors with a broader range of investment options. Furthermore, there is need to continue educating the general public on the benefits of investing through a stock market.

The capital market is still under developed in Uganda and therefore there is need to encourage medium and long-term capital and the role of capital markets in the development process. It is also critical to promote the listings of securities in an efficient and well-regulated market in order to achieve sustainable development.

ANNEX 1

UGANDA'S TRADE RELATIONS

a) The Current Trade Regime

Uganda's trade policy is now broadly attuned to a national strategy of promoting economic growth, diversifying the export sector, attracting investment, and improving productivity and efficiency in international and domestic trade activities. This strategy is intended to meet the country's poverty alleviation objectives and its effective integration into the evolving multilateral trading system. The formulation of trade policies is undertaken through a consultative process between relevant ministries, major stakeholders and the private sector through the Inter-institutional Trade Committee (the IITC) led by the relevant ministry- the Ministry of Tourism, Trade and Industry.

The status of Uganda's current trade regime is mainly underpinned by the continued effort to liberalize trade activities and the economy within the framework of macroeconomic stabilization policies and measures designed to spur growth and economic performance. Such measures supportive of trade activities include those intended to remove uncertainties within the overall trade environment and to instill price and economic stability necessary for efficient allocation of resources, while helping to boost confidence in the role of international trade in Uganda. Since the Trade Policy Reviews of Uganda in 1995 and subsequently in 2001, the Government of Uganda has continued to implement policies consistent with free trade including through the liberalization of the exchange system and marketing of inputs and products, elimination of trade-distorting biases, and reduction of undesirable trade barriers.

Apart from addressing fundamental domestic impediments to trade, Uganda has also been active in participating and building market coalitions and economic partnerships intended to expand trade within respective trading partners, particularly within COMESA and the East African Community (EAC).

b) Uganda's Commitments in the Evolving Multilateral Trading System (MTS)

Following the Uruguay Round, trade in goods and services, was effectively brought under the disciplines of international trade rules. By this undertaking, all member countries of the WTO including Uganda are obliged to negotiate multilateral trade agreements with the aim of achieving progressively high levels of liberalization, while promoting the interests of all members on mutually advantageous and a secure balance of rights and obligations.

Beyond domestic measures that have already been undertaken to streamline trade practices, Uganda has also been playing an active role in the process of shaping the new multilateral trading system (MTS). The overall momentum for strengthening the new MTS was underpinned by the success of the Doha Ministerial Conference of WTO members in 2001. The conference marked the first in a series of attempts to constitute a real global trade regime. Under the framework of the "Doha Development Agenda" and its "Work Program", key areas of contention in world trade were discussed and negotiated. The negotiations were, in part, aimed at assessing the impacts of respective WTO agreements on the prospects for development and export growth of developing countries. The spirit of the Doha conference also provided for poor countries' needs for uninhibited market access without having to face undue barriers to trade particularly from developed countries.

In keeping with these ideals of the new MTS therefore, Uganda has effectively undertaken to reform its trade policies and trade-related institutions in order to unwind previous rigidities that often impeded trade. Other auxiliary measures are indeed also being implemented to mainstream trade within the national plans and priorities, and perhaps more importantly, to reform trade related laws to conform to WTO principles and guidelines. In the meantime, the pursuit of liberalization has promoted competition and virtual improvements in productivity and the quality of goods and services. Capacities of institutions that handle trade issues are also being built to prepare the country to meet the challenges of the evolving MTS. In this regard, Uganda, through the Ministry of Tourism, Trade and Industry constituted the Inter-institutional Trade Committee (the IITC) to advise on trade policy issues. The country also continues to work very closely and to benefit from assistance offered by international institutions and donors within the framework of the "Multilateral Integrated Framework".

c) Major External Market Opportunities for Uganda

Opportunities for market access to wider global markets for Uganda's products continues to open up mainly on account of increased market transparency, the tariffication of non-tariff barriers, and to a lesser extent as yet, certain reductions in trade-distorting measures still prevalent in the major economies and markets of the world.

The potential sources of market access for Ugandan products have emerged in past, but remain mainly the traditional ones. These are broadly as follows:

- **The EU/ACP Corporation under Successive Lome Conventions and the Cotonou Agreement**

Uganda was covered by successive Lome Conventions in the past, and is indeed now covered by the successor Cotonou Agreement. This agreement grants preferential market access to a major export market- the European Union Area. The EU market actually accounts for more than half of Uganda's exports. Under the terms of the agreement and its associated economic partnership initiatives like Everything-But-Arms (EBA), which are due for negotiations, a few constraints to unfettered market access to EU markets under the terms of these preferences still remain. One of the constraints relates to the continued existence of high tariff escalations within the EU and other OECD markets, as well as high EU domestic support offered to EU farmers under the EU's Common Agricultural Policy. These impediments to trade will continue to undermine the competitiveness of Uganda's exports to those markets.

- **Regional Markets - COMESA, EAC, SADCC etc**

A number of regional markets most notably COMESA, the East African Community (EAC) and possibly SADCC continue to offer market access prospects for Ugandan goods and services. Under COMESA's customs union, all tariff and non-tariff barriers are supposed to be eliminated in line with the establishment of a free trade area, which requires the emergence of uniform customs legislation and procedures. On the other hand, the East African Community (EAC) envisages increased harmonization of monetary and fiscal policies that should aid trade, industrial growth and investment among members.

However, some fundamental problems relating to the modalities for conducting effective trade within the membership of these regional groupings still remain. For instance, COMESA still faces problems of implementation mainly on account of weaknesses in customs procedures and regulatory control. Perhaps, a bigger challenge currently facing Ugandan trade policymakers is how to reconcile the various commitments to free trade under both COMESA and EAC. A consultative mechanism through which various stakeholders can weigh-in on these and other policy challenges is currently under review.

- **The African Growth Opportunity Act (AGOA)**

The African Growth Opportunity Act (AGOA) of the United States of America provides duty-free and quota-free access to US markets for finished textiles; duty-free access for clothing made from African fabric; and offers a four year window of quota-free market access for apparel made from third country fabric in countries with a GNP per capita of less than US$ 1,500=. It is estimated that the provisions under AGOA are expected to boost African export revenues from the current US$ 250 million to US$ 4.2 billion, but African countries have only four years to take advantage of the legislation. Uganda is a beneficiary of AGOA and there is now information to suggest that export shipments to the United States from Uganda have began.