BANK OF UGANDA

THE CURRENT STATE OF THE UGANDAN ECONOMY

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1 EXECUTIVE SUMMARY

This paper provides a synopsis of the financial year 2004/05 macro-economic framework and the performance of the economy over the six months to December 2004. For aggregates where firm information is available, the analysis is extended to end January 2005.

1.1 Macroeconomic objectives for 2004/05

Real GDP was initially projected to grow by 6 percent in 2004/05, average annual headline and underlying inflation rates were expected to turn out at 3.5 and 4.0 percent respectively. However, on account of reduced electric power supply and effects of drought, the GDP growth rate is now revised downwards to 5.5 percent. The effect of drought also led to an upward revision of the average headline inflation rate to 6.0 percent per annum. To attain this inflation objective, BoU will limit growth in broad money (M3) to about 13.4 percent. The overall fiscal deficit, excluding grants, is projected to be maintained at around 10.6 percent of GDP while the external current account deficit is projected to widen to 12 percent of GDP reflecting the continued strong growth in imports. International reserves are expected to cover 6.5 months of imports of goods and non-factor services. Base money remains the operational target of the Bank of Uganda, since the beginning of 2002/2003. It is a critical performance benchmark monitored in the IMF programme.

1.2 Conduct of monetary policy and exchange rate management

For the period to end November 2004, the conduct of monetary policy remained focused on promoting price stability to support the broad macro-economic objectives outlined above. For example,

- A firm monetary policy stance ensured that the rate of headline inflation for the first seven months of 2004/05 of 5.2 percent was lower than the average headline rate of 8.0 percent recorded in the same period in 2003/04 in spite of an increase in food crop prices by 23 percent in December 2004.

- Net-issuance of Treasury bills and Treasury bonds were mainly used to sterilize liquidity, while the repurchase agreement instruments (REPOs) facilitated the short-term intra-auction liquidity management.

- BOU's actions in the foreign exchange market remained consistent with the policy of having a market-determined exchange rate, and intervening only to limit short term exchange rate fluctuations. In line with the fundamentals, the shilling appreciated against the US dollar over the five months to December 2004 on account of increased inflows and the general dollar weakness.

1.3 Prices and market developments

- **Inflation**: Over the first seven months of 2004/05, the headline inflation rate averaged 5.7 percent, compared to an average of 8.0 percent for the seven months to January 2004. The average underlying inflation rate of 3.9 percent was lower than the average of 5.2 percent attained in the seven months period to January 2004. The trend of the inflation rate is in tandem with the target of achieving an annual average rate of 4.0 percent and 6.0 percent for the year 2004/05 for headline and underlying inflation rates, respectively.

- **Domestic money, securities markets and interest rates**: All money markets are increasingly becoming active and integrated. In spite of the robust activity in the domestic instruments market over the first five months of 2004/05, interest rates on Treasury bills were much lower, when compared to a similar period last financial year. The interbank money market rates and the effective commercial banks' deposit and lending rates also decreased moderately over this period.

- **Foreign exchange market and exchange rate**: Appreciation pressures on the exchange rate were evident for most of the six months period to December 2004 The real effective exchange rate (REER) index appreciated by 6.7 percent in the first quarter of 2004/05 from the level attained in the fourth quarter of 2003/04..

1.4 Monetary and financial sector aggregates

- **The operational target, base money,** grew by 3.4 percent over the period from June 2004 to Shs 897.0 billion in October 2004. Base money less Commercial bank investments in BOU instruments, grew by 1.8 percent or Shs 14.6 billion to Shs 824.5 billion. This represents slower expansion compared to the growth of 5.7 percent and 15.6 percent, respectively, which was registered between June-October 2003.

- **Broad money** At the broader level, the preliminary numbers of the monetary survey for December 2004 depict a slight increase in money growth from the level of June 2004. Broad money (M3), which comprises currency in circulation and all deposits of the private sector, grew slightly by 2.2 percent in the period June-December 2004. However, this is higher than 1.4 percent observed in the corresponding period during 2003/04.

- The growth in money was entirely driven by **increased net foreign assets of the banking system**, which grew by 8.5 percent. This compares to an increase of 7.3 percent recorded in June to December 2003. Credit to the private sector by the banking system grew by 9.4 percent. This increase is far lower than the growth of 12.6 percent recorded between June-December 2003. In terms of currency denomination, shilling loans increased by 5.7 percent, while foreign currency denominated loans grew by 23.0 percent.

- **Total deposits** at commercial banks declined marginally by 0.8 percent from Shs 2,058.0 billion as at end-June 2004 to Shs 2,056 billion as at end-December 2004.

This outcome compares to a decline of 2.7 percent observed in the corresponding period a year ago.

- **The Non-bank Financial Institutions (NBFIs):** In the month of October 2004, the total assets of the Non-Bank Financial Institutions went up by 2.6 percent, from Shs 164.1 billion at the end of September 2004 to Shs 168.3 billion. This outturn compares to a growth rate of 1.3 percent observed over the same period a year ago.

1.5 Public sector - fiscal operations

- In the first quarter of 2004/05 government **revenue excluding grants is** estimated at Shs 430.9 billion, this was higher by Shs 60.1 billion or 16.2 percent over what was realized in the corresponding period of 2003/04. Domestic revenue as a percentage of GDP is projected to be 12.5 percent in 2004/05 compared to 12.6 percent in 2003/04.

- Total government **expenditures** are estimated at Shs 651.1 billion in the first quarter of 2004/05 mainly on account of increases in both current and development expenditure. Expenditure as a percentage of GDP is projected to be 23.1 percent in 2004/05 compared to 23.4 percent in 2003/04.

- The **overall fiscal balance** is estimated at a deficit of 2.3 percent of GDP by end 2004/05 compared to 1.3 percent in 2003/04. Excluding grants, the overall balance is forecast at a deficit of 10.6 percent in 2004/05 from a deficit of 10.8 percent in 2003/04..

1.6 External sector - balance of payments developments

- Overall balance of payments is estimated at a surplus of US$ 122.1 million for the first six months to December 2004 on account of an improvement in the capital and financial account associated with higher disbursements of loans to government coupled with a net increase in banks foreign assets compared to the same period in 2003/04. For the financial year 2004/05 the overall balance is projected is at a surplus of US$212.5 million compared to a surplus of US$ 182.6 million recorded in 2003/04.

- The current account: The current account deficit is estimated to have worsened from US$ 70.2 million during the first half of 2003/04 to US$ 100.7 million during the first half of 2004/05. The deterioration of the current account was due to an increase in imports of both goods and services, which more than offset the increase in exports and net current transfers during the period under review relative to the corresponding half of 2003/04.

- Exports of goods were valued at US$ 343.2 million over the first half of 2004/05. For the entire fiscal year 2004/05, US$693.4 million is expected from exports compared to US$647.2 million estimated in 2003/04. In the first half of 2004/05 coffee exports value of US$ 56.6 million were recorded compared to US$ 47.6 million of the corresponding period of 2003/04, non-coffee exports value of 286.7

million was higher by 20.6 percent over the same period. Fish and its products still ranked the biggest export earner fetching US$70.3 million, compared to US$ 54.0 million over the same period last year. By the same comparison, exports of flowers, tobacco and gold recorded some increases over the period, while declines were noted for exports of maize, tea and beans.

- Imports of goods over the first half of 2004/05 increased to US$ 805.7 million, 24.3 percent over the level of the corresponding period of 2003/04 largely on account of private sector imports. Merchandise imports are projected to record US$ 1621.2 million in 2004/05 from a value of US$ 1321.2 million in 2003/04.

- Services and income account: Exports of services in the first half of 2004/05 increased by 33.3 percent to US$ 210.5 million while imports of services rose by 24.2 percent to US$ 335.2 million leading to a deficit of US$ 124.8 million. The income account deteriorated due to a combination of increased interest payments and lower interest receipts. Income receipts are projected to amount to US$ 36.2 million in 2004/05 from a value of US$ 40.0 million in 2003/04.

- Current transfers: The rise in both official and private transfers led to an improvement of the current transfers account to a surplus of US$ 589.2 million in the first half of 2004/05, from the US$ 490.8 million recorded in the corresponding period of 2003/04. Current transfers are projected at US$ 1025.2 million by the end of 2004/05.

- The capital and financial account: Net foreign direct investment during the first half of 2004/05 is estimated to have risen by 8.5 percent to 105.6 million when compared to the corresponding period in 2003/04.

- External debt: In 2004/05 total debt maturities for medium and long term public and publically guaranteed external debt are expected to amount to US$ 173.2 million. Cash debt service is projected at US$ 70.1 million, while HIPC resources through the HIPC initiative debt relief will amount to US$ 72.2 million.

1.7 Real sector

- **The Index of industrial production:** Between January and August 2004, the index although higher generally continued to reflect the monthly seasonal patterns observed in the last calendar year. On average the index is higher by 10.4 percent over the level of 2003. Electricity supply problems appear to have affected production in a number of industrial sectors. The production of metal products decreased by 21.5 percent and that of beer and laundry soap each decreased by 20.8 percent, however, the production of cement increased by 31.4 percent.

- **For indicators for real sector activity,** imports of diesel in 2004 have been higher than that in 2003. Between December 2003 and June 2004, import volumes increased by 15.9 percent however, for the period between July and September there was a decrease in diesel imports of 11.3 percent. Despite this decrease, imports in the quarter to September 2004, were still higher than those for the last two quarters of 2003. Between December 2003 and March 2004, kerosene imports decreased by 5.5 percent but since then changes between the quarters have been marginal. Sales of kerosene during the quarter ended September 2004 were higher than those in the previous quarters mainly on account of the increased load shedding of electricity since July 2004.

- Market capitalisation at the USE increased by 34.7 percent from Shs 1, 461.7 billion to Shs 1,968.5 billion while the all share index increased by 20 percent from 340.6 to 408.7 between October and November 2004.

CURRENT STATE OF THE ECONOMY AS AT END NOVEMBER 2004

This paper provides a synopsis of the 2004/05 macro-economic framework and the performance of the economy over the five months to November 2004. Section I provides an overview of the macro-economic objectives. Section 2 explains the Bank of Uganda policy management strategies and actions undertaken during the period; while Sections 3-7 provide an assessment of performance in light of the developments during the initial part of the year.

1. MACROECONOMIC OBJECTIVES FOR 2004/05

In the key macroeconomic objectives of program for the year 2004/05 real GDP was initially projected to grow by 6 percent, average annual headline and underlying inflation rates were expected to turn out at 3.5 and 4.0 percent respectively. However, on account of reduced electric power supply and effects of drought, the GDP growth rate is now revised downwards to 5.5 percent. The effect of drought also led to an upward revision of the average headline inflation rate to 6.0 percent per annum. Consistent with the attainment of the inflation objective BoU will limit growth in broad money (M3) to about 13.4 percent. The fiscal deficit, excluding grants, should be maintained at around 10.6 percent of GDP, while it is envisaged that the external current account deficit would be 12 percent of GDP. International reserves are expected to cover 6.5 months of imports of goods and non factor services.

These objectives are in line with the GOU/IMF second annual program supported by the three-year Poverty Reduction and Growth facility (PRGF) arrangement initiated in 2002/03 and guided by the Poverty Eradication Action Plan. The macro-economic program for 2004/05 envisaged the following:

- In the **real sector**, the economy performed relatively well in 2003/04. Real GDP grew by 5.9 percent, inflation fell and the external position improved. Construction and communications sectors led the economic expansion, while improved weather conditions assisted the rebound in agriculture. Against this background, real GDP is expected to grow by 5.5 percent in 2004/05.

- **Inflation** is expected to remain moderate in 2004/05. The average Underlying inflation is expected to be 4.0 percent and that for the Headline inflation to be 6.0 percent for the period, a slight increase from the average of 3.1 percent and 0.9 percent recorded by end 2003/04.

- Sound **monetary policy** management and implementation are expected to maintain low and stable inflation to generate a stable environment for financial intermediation and the foreign exchange market. Bank of Uganda will continue to target base money. Broad money, (M2) is projected to expand by 15 percent in 2004/05, while credit to the private sector is expected to increase by 16 percent. The liquidity management framework will continue to be improved and financial market development, including developing and evaluating daily liquidity forecast, reviewing the performance of primary dealers, and facilitating forward foreign exchange transactions will be implemented.

- To improve liquidity management, new project disbursements will be deposited directly to the government account in Bank of Uganda, in addition to a phased transfer of project accounts from commercial banks. These actions should limit the use of treasury bills for mopping-up liquidity and reduce upward pressure on the exchange rate. The Bank of Uganda and Ministry of Finance will assess periodically the effects of these measures.

- In the **fiscal sector**, to achieve fiscal consolidation in 2004/05 government will strengthen policies to monitor and reduce domestic arrears and reinvigorate revenue collection through reform of the Uganda Revenue Authority (URA). Public expenditure management practices will be reinforced by a number of measures including: closure of all deferred accounts at Bank of Uganda, submission to parliament of all expenditures in excess of statutory allocations incurred in 2003/04, amendment of the Public Finance and Accountability Act, cease lending or issuance of guarantees by Government to private individuals or firms, limit supplementary expenditure requests to parliament for public administration and ensuring that there is ex-ante approval for all future expenditures in excess of budget appropriations. All these measures are aimed at fiscal consolidation.

- On the **external sector** front, policies twill aim at strengthening the investment climate and increasing productivity in order to enhance Uganda's international competitiveness, and achieve a more sustainable external position. These policies will be supported by the government's Medium Term Competitiveness Strategy (MTCS) and it's Strategic Exports Program (SEP). Growth in both coffee and non-coffee exports of 5.4 percent and 3.9 percent are projected, while imports are expected to expand by 18.7 percent, and hence the external current account deficit is expected to deteriorate somewhat, while foreign exchange reserves are targeted to be 6.5 months of import cover. Apart from sales of foreign exchange to sterilize excess liquidity emanating from fiscal operations, BOU will maintain a flexible exchange rate and intervention in the market will be done to limit short term exchange rate fluctuations and avoid undue appreciation of the shilling.

- The customs union of the EAC will be effective in January 2005. While the tariff rates agreed for the common external tariff (CET) are higher than Uganda's current tariff structure, all discriminatory excise taxes and other charges imposed on imports will be removed to mitigate the negative impact on competitiveness.

- Uganda's external debt situation remains vulnerable. Government is taking steps to improve exports as well as encourage better debt management. In this regard, the strategy of new borrowing on concessional (equivalent to IDA) terms will be maintained, Government will also establish clear monitoring and operational procedures for the contracting of external debt and debt management by end of 2004/05.

2. CONDUCT OF MONETARY POLICY AND EXCHANGE RATE MANAGEMENT

Bank of Uganda (BOU)'s monetary policy is focused on maintaining macroeconomic stability and containing inflation to low levels, but operations of its instruments are cautious not to exacerbate instability in the markets. Sterilization of excess liquidity is usually effected through a combination of sales of Treasury bonds, net issues of Treasury bills and daily sales of foreign exchange. This notwithstanding, BOU actively uses the Repurchase Agreements (REPOs) as a fine-tuning instrument in order to manage short-term liquidity movements. The liquidity management effort is supplemented by adjustments in the pricing of the liquidity providing windows, the Rediscount Rate and Bank rate, to ensure a consistent monetary policy stance. Monetary policy remains focused on promoting price stability to support the broad macro-economic objectives outlined above. In line with the program objectives for the year, Bank of Uganda maintained a tight monetary policy stance in the first five months of 2004/05. Although the rate of headline inflation in the first five months of 2004/5 reached a pick of 7.3 percent in November 2004, the annual headline inflation average for the first five months of 2004/05 was 4.9 per cent, which was lower when compared to the average of 8.9 per cent recorded over the same period in 2003/04. In the same vein, the annual underlying inflation averaged 3.8 per cent in the first five months of 2004/05, compared to the average of 6.0 per cent in the corresponding period in 2003/04.

In line with its policy of a market-determined exchange rate, BOU only intervenes in the inter-bank foreign exchange markets (IFEM) to minimise instability. Over the first five months of 2004/05, the shilling was remarkably stable, in line with the trend of the fundamentals, 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.

In the outlook, Bank of Uganda is set to maintain a 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.

3 PRICE AND MARKET DEVELOPMENTS

3.1 Domestic prices - inflation

The rate of headline inflation in the first five months of 2004/5 increased to 7.3 percent in November 2004, up from 0.9 percent in June 2004. However, the annual headline inflation for the first five months of 2004/05 averaged 4.9 per cent, was lower when compared to the 8.9 per cent recorded over the same period in 2003/04. The annual food crops inflation averaged 8.9 per cent in the first five months of 2004/05, compared to 21.5 per cent registered in the corresponding period of 2003/04. The increase in the food crops inflation in the first five months of 2004/05 may be attributed to the decrease in the supply of food crops, as a result of relatively poor harvests occasioned by the prolonged drought in the food producing areas during the period under review.

The annual underlying inflation averaged 3.8 per cent in the first five months of 2004/05, compared to 6.0 per cent in the corresponding period in 2003/04. The annual underlying inflation in this period peaked at 4.3 percent in November 2004 after having gradually increased in the previous months from 3.0 per cent in July 2004. The increase in the underlying inflation in this period may be partially attributed to the rise in the trend of the domestic prices of petroleum products and its spill over effects into the prices of other items through increased transportation costs. The pump price for premium, diesel and kerosene, that had registered a monthly average of Shs 1,757.7, Shs 1,417.7, Shs 1,260.0, respectively per litre in July 2004, were recorded at Shs 1,760.0, Shs 1,470.0, Shs 1,330.0, respectively, per litre during the month of October 2004.

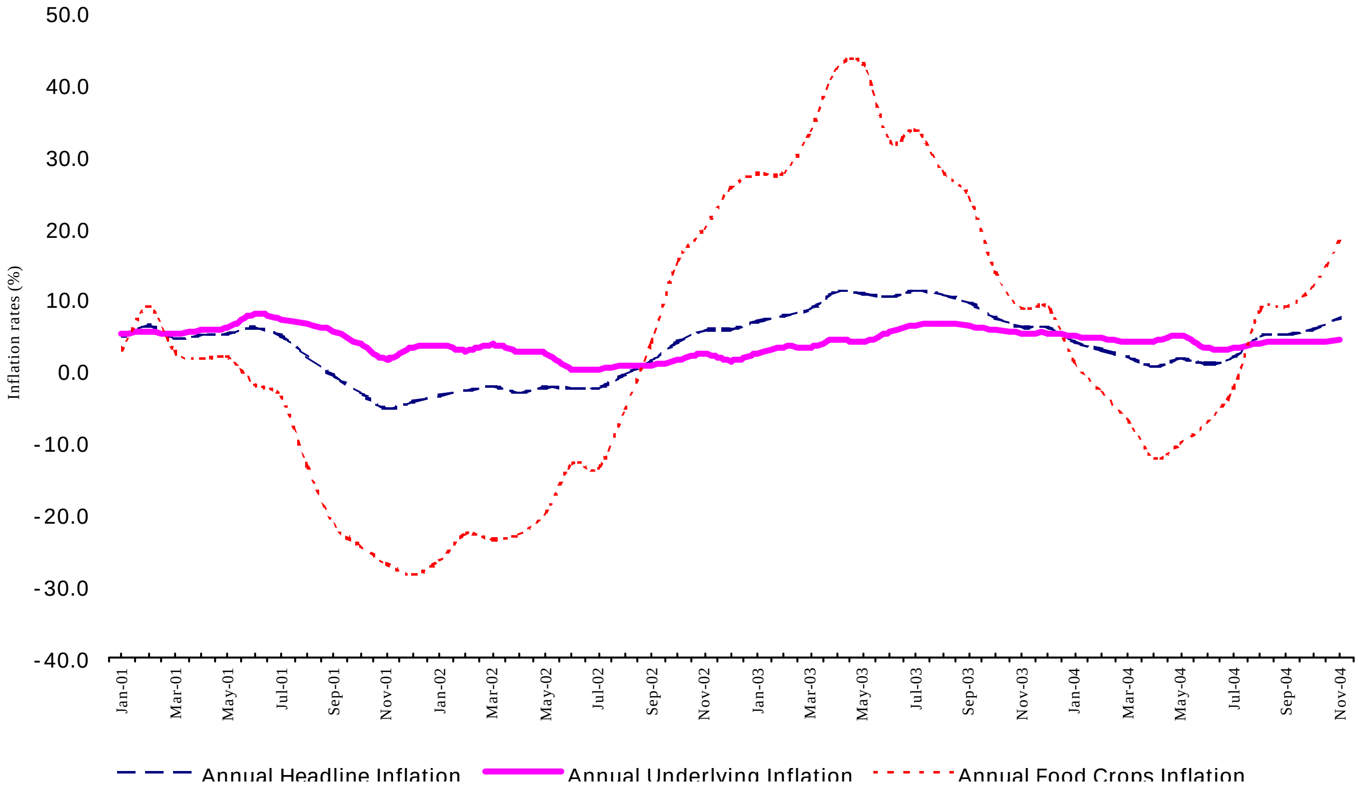
There were also sustained increases in the average prices of alcoholic beverages both traditionally brewed and manufactured lagers and spirits. This resulted from the drought led decline in the production and supply of the ingredients – millet, bananas, sorghum- of the traditionally brewed alcoholic beverages and the increased duties on alcoholic beverages for the period under review. In addition, charcoal prices registered continuous increases in the period under review largely due to tight control of deforestation; and irregular transportation and distribution. Furthermore, there were sustained increases in the average prices of health, education and entertainment – school fees were relatively higher in the period under review. Table 1 provides the annual and monthly rates of inflation while Figure 1 profiles the annual inflation rate developments for headline, underlying and annual food crop inflation.

Table 1: The inflation out-turn as reported by UBOS (percent)

Period	Annual			Monthly		
	Headline	Underlying	Food	Headline	Underlying	Food
Jun 2003	10.2	**5.4**	**31.9**	**-0.5**	**1.6**	**-7.9**
Jul 2003	11.1	**6.3**	**33.5**	**0.3**	**0.9**	**-2.2**
Aug 2003	10.5	**6.5**	**27.7**	**0.1**	**0.0**	**0.7**
Sep 2003	9.5	**6.2**	**24.1**	**0.4**	**-0.2**	**3.1**
Oct 2003	7.3	**5.6**	**13.7**	**0.6**	**0.1**	**2.3**
Nov 2003	6.0	**5.2**	**8.7**	**-0.1**	**-0.2**	**0.7**
Jun 2004	0.9	**3.1**	**-7.3**	**-1.2**	**-0.2**	**-4.8**
Jul 2004	1.8	**3.0**	**-2.5**	**1.3**	**0.8**	**2.8**
Aug 2004	4.7	**3.8**	**8.4**	**2.8**	**0.7**	**12.0**
Sep 2004	5.0	**3.9**	**8.8**	**0.7**	**-0.1**	**3.5**
Oct 2004	5.7	**3.9**	**11.7**	**1.3**	**0.2**	**5.0**
Nov 2004	7.3	**4.3**	**18.0**	**1.5**	**0.1**	**6.4**

Source: Uganda Bureau of statistics

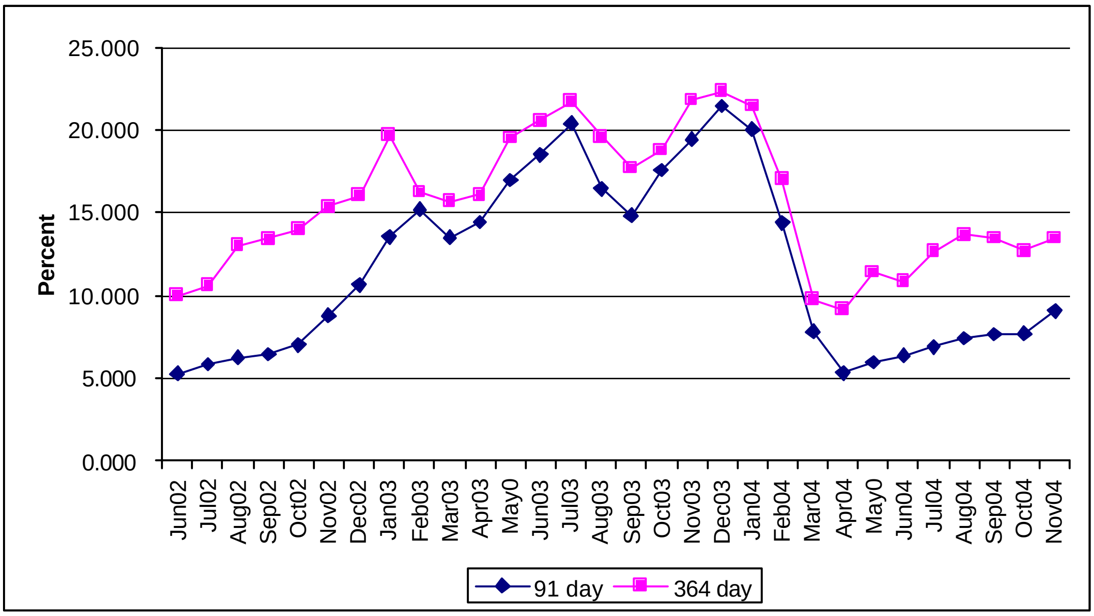
Figure 1: Annual inflation rates developments



3.2 Domestic money and securities markets and interest rates

The primary issuance of Treasury bills remains an important tool for monetary policy management. This is notwithstanding the efforts to promote formal secondary trading to improve the background for active monetary operations in short term instruments for fine-tuning operations. In line with the liquidity developments, the stock of Treasury bills increased by 0.8 percent, from Shs 1.25 billion recorded at the end of June 2004 to Shs 1.26 billion as at end-November 2004. Commercial banks held 65.9 percent of the outstanding stock of Treasury bills by end-November 2004, compared to 72.7 percent reported in November 2003, as the participation of offshore investors declined from 2.4 percent in June 2004 to 1.4 percent as at end November 2004. Figure 2 shows the trend of discount rates on treasury bills.

Figure 2: Trend of discount rates on treasury bills (June 2002 to November 2004)



Interest rates on Treasury bills were on a generally lower over the July to November 2004 period when compared to the rates recorded between October and November 2003. Despite the month-on-month fluctuations, the respective weighted annual discount rates for the 91-day, 182-day, 273-day and 364-day bills gradually fell and stood at 9.1 percent, 12.2 percent, 13.2 percent and 13.5 percent, respectively, as at end November 2004. This compares to levels of 19.4 percent, 21.5 percent, 23.1 percent and 21.8 percent, respectively, recorded for end November 2003.

Over the past five months, the domestic interbank money market continued to be buoyant registering even wider participation and increasingly and comparable rates among participants. The interbank transactions were mainly concentrated in the call money market (i.e. less than 30 days tenure), of which a large portion was overnight. This heightened activity is indicative of improved liquidity management by commercial banks and overall development of the domestic money market. In line with the other money market rates, the average interbank money market rate declined through the period and was recorded at 6.2 percent by end-November 2004, down from 20.3 percent as at end November 2003.

(a) The Treasury Bond[1] Primary Market

In the second half of 2003/04, government Treasury Bonds in the tenors of 2, 3, 5 and 10 years were introduced and issued to support monetary policy implementation by improving liquidity management and promoting market development. In addition, these bonds were also expected to provide additional savings instruments and deepen the capital market.

During the period July - December 01, 2004, several bonds of varying tenors were issued and reopened with the aim of creating more liquid and tradable securities. Government also paid out the first coupon payments on each of the tenors. Two 2-year bonds were issued over the period and all the issues were oversubscribed and the weighted yields-to-maturity were 15.11 percent and 15.01 percent, respectively. On October 06, 2004, the second issue of a 3-year bond with a face value at Shs 30 billion was auctioned. The auction was over subscribed by Shs 13.9 billion, registering a cover ratio of 146.4 percent. At a Weighted Average Price (WAP) of 87.4 per Shs 100, the resultant yield for the 10.3 percent coupon bond was 15.7 percent. Over the same period, three re-openings of the 3-year bond took place at face values of Shs 30.0 billion each. The re-openings were all oversubscribed and the weighted yields-to-maturity were 16.8 percent, 15.9 percent, and 17.6 percent, respectively.

In November 2004, the 5-year bond was also re-opened with a face value of Shs 20.0 billion. The issue was over subscribed by Shs 12.2 billion and hence realized a cover ratio of 161.14 percent. However, bids worth Shs 5.0 billion were rejected on account of out-of-market bid prices, ranging from 65.06 to 71.1 per Shs 100. The resultant gap was covered by a BoU investment on behalf of the BoU Staff Pension Fund. At a Weighted Average Price (WAP) of 85.5 per Shs 100, the resultant yield for the 10.8 percent coupon bond was 16.0 percent compared to 12.8 percent in the first issue that was effected in March 2004. The total outstanding stock of Treasury bonds, which was Shs 165.0 by end-June 2004, at end November 2004 stood at Shs 365.0 billion and all these bonds were listed on the Uganda Securities Exchange. Table 2 summarises the auction results of the most recent primary issues of the bonds.

[1] A bond is a market instrument with a maturity term longer than one year.

Table 2: Treasury Bond volume, cost price and interest rates

Tenor/ Issue date	2003/04	Second issue	Reopened July 2004 - December 01, 2004						
	Total	3 Years Oct 06 2004	2 Years Aug 11 2004	2 Years Sept 09 2004	3 Years Jul 14 2004	3 Years Nov 03 2004	3 Years Dec 01 2004	5 Years Nov 17 2004	Total Stock
Offers/Issues	165.00	30.00	30.00	30.00	30.00	30.00	30.00	20.00	365.00
Total Bids	284.23	43.94	40.00	50.53	32.12	33.43	35.65	32.23	552.13
Amount Sold	151.23	26.19	27.89	28.26	27.14	26.35	25.71	17.09	329.86
Cover Ratio %		146.38	133.34	168.42	107.08	111.44	111.83	161.14	
WAP per Shs. 100		87.35	92.97	94.20	90.48	87.84	85.70	85.46	
Yield to Maturity %		15.70	15.11	15.01	16.80	15.94	17.55	16.04	

Source: Bank of Uganda

(b) The Treasury Bond secondary market

For the period July – November 2004, the average indicative bid/offer yields-to-maturity rates in the secondary market were 14.4/14.2 percent, 15.3/15.1 percent, 15.0/14.8 percent, and 17.6/16.9 percent for the 2-year, 3-year, 5-year and 10-year bonds, respectively. This is compared to the average indicative rates of 19.4/19.1 percent, 15.0/14.8 percent, 13.1/12.9 percent, and 17.6/16.7 percent as at end-June 2004. In the same period, a total of Shs 0.25 billion of the 2-year bond and Shs 0.10 billion of the 3-year bond were traded on the secondary market at the Uganda Securities Exchange. No secondary trades were recorded in the other papers. A summary of indicators of secondary market activity in the Treasury Bond market is provided in Table 3 below.

Table 3: Summary Indicators from the Secondary Market for Treasury bonds
(Jul-Nov 2004)

	Tenure of Bond							
	2-year		3-year		5-year		10-year	
Yield-to-maturity quotation (%)								
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	13.00	12.75	13.00	12.15	12.92	11.85	15.02	12.25
Max	24.28	24.04	17.25	17.25	19.10	18.85	21.50	21.50
Average	14.40	14.17	15.31	15.09	15.02	14.78	17.60	16.94
Trading Activity (Shs billion)								
Transactions (Shs bn)	0.251		0.100		-		-	

Source: Bank of Uganda

(c) The Treasury bill secondary market

The average indicative rates derived from daily 'bid' and 'offer' yield-to-maturity rate quotations by the primary dealers for secondary trading of Treasury bills, remained closely linked to those in the primary market for these securities. The respective average bid/offer yield-to-maturity rates realized over the period July – November 2004 were 7.6/7.3 percent, 9.3/9.0 percent, 12.5/12.2 percent and 12.8/12.5 percent for the 91-days, 182-days, 273-days and 364-days securities. This is compared to the average rates of 6.2/5.9 percent, 7.6/7.4 percent, 9.3/9.1 percent and 10.2/10.1 percent for the respective papers by end-June 2004. The yield curve derived from average yield-to-maturity quotations in the secondary market evolved relatively in line with the developments in the primary market. However, widening margins between the two curves were observed at both the shorter and longer ends of the market. The curve derived from the primary market was inverted at the 273-day paper and between the 3-year and 5-year papers as it dropped below that of the secondary market.

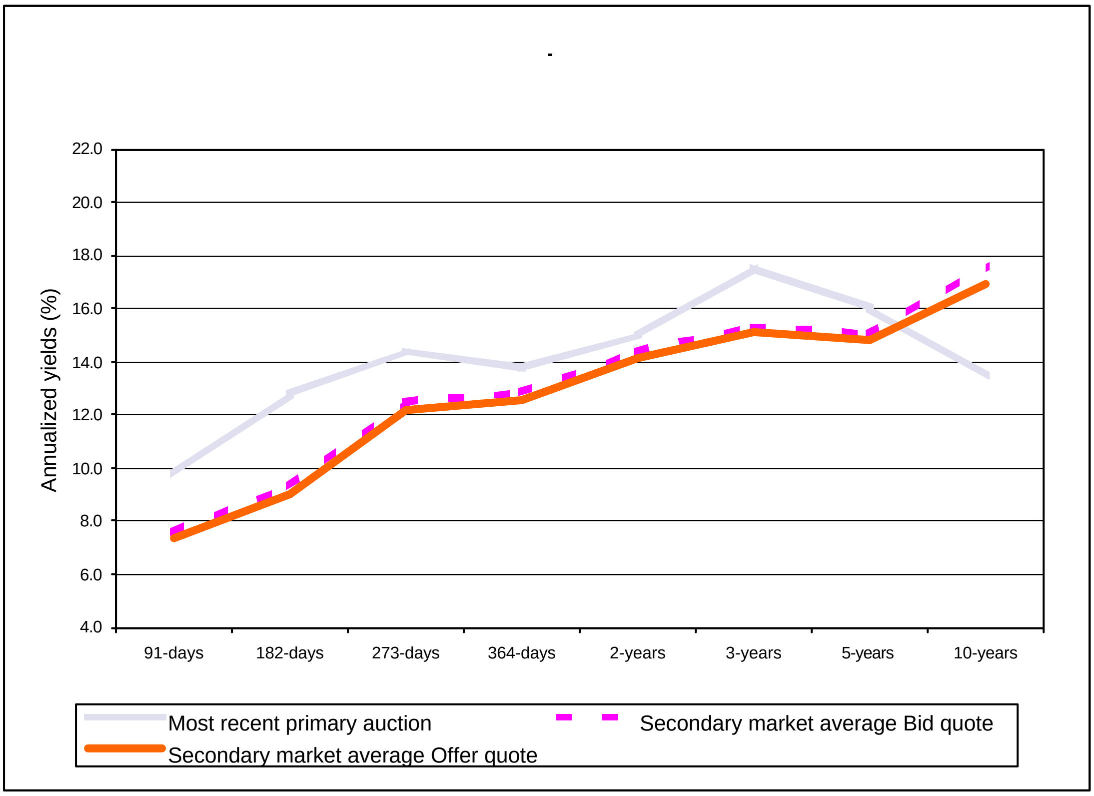
Total trades over this period amounted to Shs 89.5 billion, with 66.5 percent of the trades in the 91-day papers. This volume of trade was lower than the Shs 98.70 billion executed in the period July 2003 to June 2004. A total of Shs 7.5 billion in horizontal repo transactions took place during the period. The rest of the trades were outright sales. Table 4 summarizes the indicators for the secondary market in treasury bills.

Table 4: Summary indicators from the Secondary Market for Treasury bills (Jul-Nov 2004)

	Tenure of security							
	91-days		182-days		273-days		364-days	
Yield-to-maturity quotation (%)								
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	6.06	5.80	7.81	7.54	8.44	8.17	9.04	8.76
Max	9.45	9.18	12.73	12.45	15.29	14.99	16.60	16.29
Average	7.60	7.33	9.30	9.03	12.50	12.20	12.83	12.53
Trading Activity (Shs billion)								
Transactions (Shs bill)	59.512		23.552		6.303		0.140	

Source: Compiled from Domestic Financial Markets Department records

Figure 3: Securities yield curve for the period July 2004 - November 2004



(d) Commercial bank interest rates

Effective lending rates on shilling denominated loans appear to be generally stable and have not therefore, reflected the interest rate developments in the primary auction market. Data available to October 2004 shows that the lending rate for shilling denominated loans stood at 18.7 percent in October 2004 compared to 19.9 percent in July 2004. Similar movements in the interest rates were observed in the lending rates on foreign currency denominated loans that stood at 7.3 percent in October 2004, compared to a level of 9.1 percent in July 2004.

The rates on shilling time deposit marginally increased from 7.1 percent in July 2004 to 7.6 percent in October 2004. The foreign denominated time deposit rate on the other hand declined to levels of 2.3 percent by end-November 2004 from 3.4 percent in July 2004.

Table 5: Commercial bank lending and deposits rates

	Shilling Denominated				Foreign exchange Denominated			
Weighted Average rates	Jul 04	Aug 04	Sept 04	Oct 04	Jul 04	Aug 04	Sept 04	Oct 04
Lending	19.92	20.20	19.55	18.73	9.13	12.38	9.02	7.32
Demand Deposits	1.64	1.56	1.11	1.10	1.08	1.00	0.98	0.98
Savings Deposits	2.20	2.11	1.76	1.79	1.45	1.45	1.45	1.45
Time Deposits	7.07	6.80	8.64	7.60	3.37	3.26	4.93	2.26

Source: Monthly BS100 Returns by commercial banks

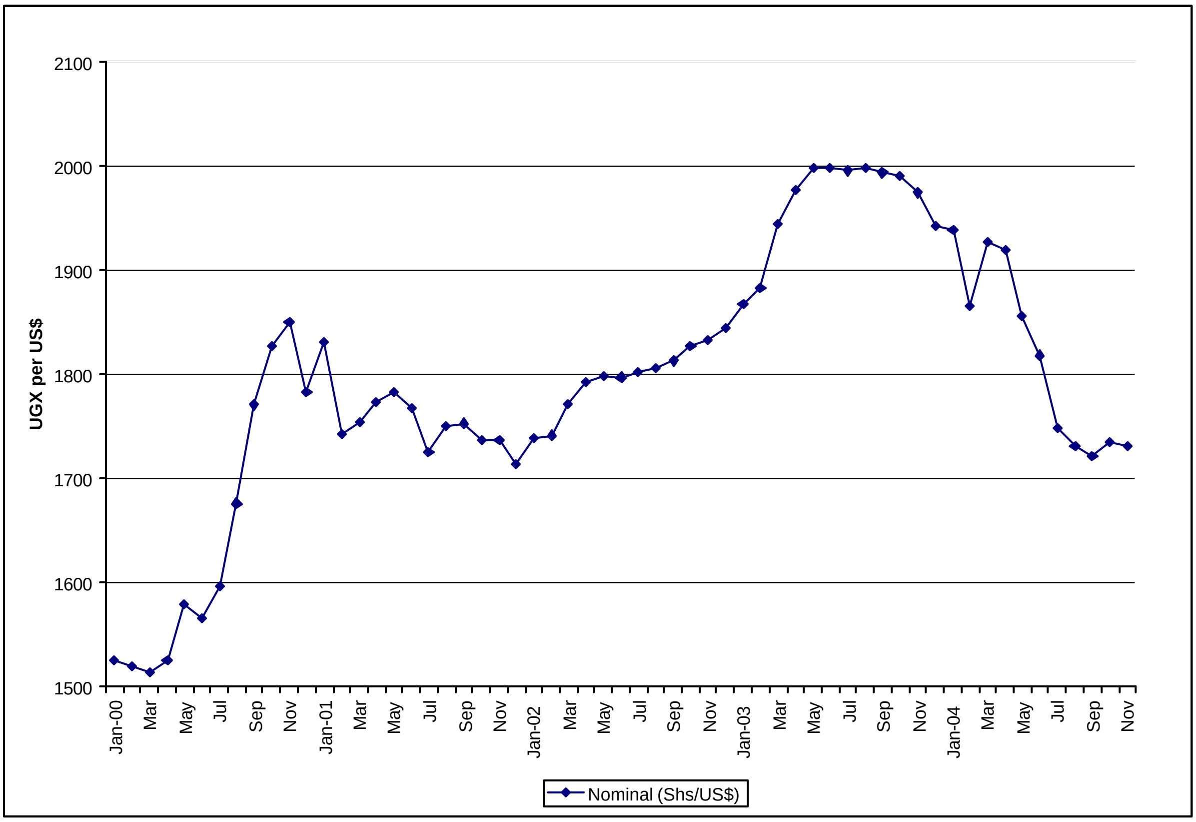
3.3 The foreign exchange market and exchange rate

The Uganda Shilling depreciated against the US Dollar during 2003/04 on average basis. The weighted average mid rate in the inter-bank foreign exchange market depreciated by 2.9 percent from Shs 1,881.1 per US $ in 2002/03 to Shs 1,936.2 per US$ in 2003/04. The depreciation was less marked compared to that of 7.2 per cent posted in the preceding financial year when the average exchange rate moved from Shs 1,754.4 per US $ in 2001/02 to Shs 1,881.1 per US $ in 2002/03. However, using the monthly weighted average exchange rate, the shilling appreciated by about 9 per cent from Shs 1,998.2 per US $ in June 2003 to Shs 1,818.7 per US $ in June 2004.

The Uganda Shilling appreciated by 7 percent in the first quarter of 2004/05 when it gained from a period average rate of Shs1,864.2 per US Dollar in the fourth quarter of 2003/2004 to Shs 1,733.7 per US Dollar in the first quarter of 2004/2005. The spread between the buying and selling rates widened from Shs 13.3 in the fourth quarter 2003/04 to Shs 14.6 in the first quarter of 2004/2005.

The nominal effective exchange rate (NEER) index appreciated by 7.2 percent during the first quarter of 2004/05, compared to the appreciation of 2.96 percent posted in the preceding quarter. The movements in the NEER index mainly reflect the relative movements of the Uganda Shilling against the currencies of Uganda's major trading partners**.** During the first quarter of the financial year 2004/05, the Shilling appreciated against the currencies of our major trading partners**.** The Shilling appreciated by 6.3 percent against the Pound Sterling, 5.6 percent against the Euro, gained by 9.2 per cent against the Kenyan shilling and 3.6 percent against the South African Rand percent. The real effective exchange rate (REER) index appreciated by 6.7 percent in the first quarter of 2004/05 from the level attained in the fourth quarter of 2003/04, compared to an appreciation of 1.8 percent recorded in the fourth quarter of 2003/04 from the level of third quarter of 2003/04. Figure 4 presents the trend of the inter-bank monthly average mid exchange rate from Jan 2000 to September 2004, while Figure 5 shows the trend in real and nominal effective exchange rate indices.

Figure 4: Developments in the foreign exchange market, January 2000-November 2004



Source: Bank of Uganda.

Figure 5: Real and nominal exchange rates, January 2000-November 2004

Source: Bank of Uganda.

The apparent strength of the shilling against the Dollar was on account of an improvement in the current account balance from a deficit of US$ 79.6 in the first quarter of 2003/04 to a deficit of US$ 64.3 in the first quarter of 2004/05 as shown in Table 12. It is important to note that the appreciation of the Uganda Shilling during the first quarter of 2004/05 came at the a time when the US Dollar gained against the major currencies like the Pound Sterling, and the Japanese Yen, despite loosing to the Euro and South African Rand.

Bank of Uganda's presence in the Inter-bank Foreign Exchange Market (IFEM) under the sterilisation strategy to mop up excess liquidity generated by poverty reduction government expenditure reduced during this quarter. This follows the temporary suspension of sterilisation in mid August 2004 as a result of instability this was creating in the market. Net sales of foreign exchange by Bank of Uganda on account of sterilisation and intervention therefore amounted to US$ 0.6 million, much less than the net sales of US$ 91.5 million posted in the preceding quarter

(a) Transaction volumes

Gross purchases in the inter-bank foreign exchange market increased by 26.1 percent from a sum of US$ 477.1 million during fourth quarter of 2003/04 to US$ 378.3 million in the first quarter 2004/05. Gross sales also increased by 6.3 per cent from US$ 457.8 million in the third quarter to US$ 486.8 million in the first quarter 2004/05. The rate of increase in retail sales during the first quarter relative to the growth in retail purchases which indicated a pick up in aggregate demand was not sufficient to trigger an exchange rate depreciation as would have been expected during the period under review. Cross currency transactions reduced by 8.2 percent from US$ 184.8 million in the fourth quarter 2003/04 to US$ 169.7 in the first quarter 2004/05.

4 MONETARY AND FINANCIAL SECTOR AGGREGATES

An over view of developments in base money, the broader money aggregates, which incorporate developments of commercial banks' and the non-bank financial sector is presented below. Base money is the operational target of Bank of Uganda, and beginning in the financial year 2002/2003, it became one of the performance benchmarks outlined in the IMF program mentioned above.

4.1 Base money

According available numbers to October 2004, base money in gross terms (currency issues, commercial bank deposits and their holding of BOU instruments) grew by 3.4 percent or Shs 29.9 billion to Shs 897.0 billion relative to June 2004. Base money less Commercial bank investments in BOU instruments, grew by 1.8 percent or Shs 14.6 billion to Shs 824.5 billion. This represents slower expansion compared to the growth of 5.7 percent and 15.6 percent, respectively, which was registered between June-October 2003. With regard to the components of base money, currency in circulation grew by 3.4 percent, while commercial bank deposits with Bank of Uganda fell by 3.0 percent. On an annual basis, base money grew by 21.9 percent in October 2004.

As we move towards the end of the first half of 2004/05, it is anticipated that higher growth in base money mainly on account of fast growth of currency issues during the festive season, over which monetary policy action has minimal influence. In addition, appreciation pressures will not help in the quick resumption of sterilisation using foreign exchange sales. These developments are summarised in Table 6 below.

Table 6: Monetary authority balance sheet (billion Shs)

Aggregate	June 2001	June 2002	June 2003	June 2004	Oct. 2004
Total liabilities	559.6	661.6	696.1	867.1	897.0
Base money	549.6	630.0	630.6	809.9	824.5
Commercial bank holdings of BoU Instruments	10.0	31.6	65.5	57.2	72.5
Total Assets	571.4	661.6	696.1	867.1	897.0
Net foreign assets	792.3	1090.6	1500.5	1678.3	1961.9
Net claims on government	203.0	12.7	-194.8	-474.4	-487.3
Claims on commercial banks	63.9	72.5	100.5	86.0	89.3
Claims on private sector	0.0	0.0	0.0	23.91	23.9
Claims on parastatals	4.2	4.0	4.0	1.9	1.6
Other items, net	-513.3	-518.1	-714.1	-448.7	-692.5

Source: Bank of Uganda.

[1] From June 2004, staff loans at BOU were reclassified from OIN to PSC.

4.2 Broad money

At the broader level, the preliminary numbers of the monetary survey for October 2004 depict a slight deceleration in the growth in money between June and October 2004. Broad money (M3), which comprises currency in circulation and all deposits of the private sector, grew slightly by 0.8 percent in the period June-October 2004. However, this is higher than the contraction of 2.0 percent observed in the corresponding period during 2003/04. Money Supply (M2) comprising currency in circulation and the local currency denominated deposits of the private sector increased by 2.5 percent, which, in comparison, is higher than –1.5 percent growth rate achieved during the period June-October 2003.

The growth in broad money during the first four months of the financial year to October 2004 is mainly on account of increased net foreign assets and growth in private sector credit.

a) Net foreign assets

The Net Foreign Assets (NFA) of the banking system grew by the equivalent of Shs 210.8 billion, or 8.9 percent during the period June-October 2004. This outturn compares to a decline of 1.6 percent observed during the corresponding period in 2003/04. The external assets of BOU rose by Shs 270.7 billion, of which foreign reserves rose by Shs 254.2 billion, while the foreign liabilities declined by Shs 12.9 billion. At the commercial banks' level, there was a decline in NFA amounting to Shs 72.8 billion, mainly on account of a fall of Shs 102.7 billion in foreign assets.

b) Net domestic assets

Table 7 shows that during the period June-October 2004, Government's borrowing from the banking system increased by 48.7 percent or Shs 40.6 billion. This is lower than Shs 119.3 billion realized in the corresponding period during 2003/04, and was expected in line with the disbursement profile of donor support.

Credit to the private sector by the banking system grew by 4.9 percent. This increase is slightly higher than the growth of 4.3 percent recorded between June-October 2003. In terms of currency denomination, growth was almost even, with shilling loans growing by 4.3 percent and foreign currency denominated loans growing by 7.5 percent. During the period, credit extensions persistently exceeded recoveries. For the four months to October 2004 gross extension of credit totalled Shs 507.6 billion, while recoveries were recorded at Shs 480.3 billion, which are far higher than Shs 483.5 billion and Shs 430.6 billion respectively, for the corresponding period to October 2003.

(c) Net liabilities

On the liabilities side of the banking system, the total deposits of the non-bank public at commercial banks grew modestly by 0.3 percent from Shs 2,058.0 billion from the end-June 2004 position to Shs 2,065.1 billion as at end-October 2004. This outcome compares to a decline of 3.8 percent observed in the corresponding period a year ago. The movements in deposits are a reflection of strong growth in demand and time deposits. On the other hand, foreign currency deposits fell by 4.3 percent during the period. Reflecting the above developments, financial depth as measured by the ratio of financial savings to Broad Money

(M2) increased to 31.6 percent in October 2004 from 30.7 percent in June 2004. Table 7 provides the details.

Table 7: The monetary survey (Shillings, Billion)

Aggregate	June 2001	June 2002	June 2003	June 2004	Oct. 2004
A. Net foreign assets	1211.0	1552.6	2101.3	2368.4	2579.2
Monetary authority (net)	792.3	1090.6	1500.5	1678.3	1961.9
Foreign reserves	1273.5	1568.8	1931.1	2027.2	2281.5
Commercial bank (net)	418.6	462.1	600.8	690.1	617.2
B. Domestic credit					
Central government (net)	460.6	482.0	390.4	83.4	124.1
Parastatals	10.3	6.9	6.6	13.6	9.7
Private sector	634.9	661.7	848.6	1010.0	1059.9
C. Other items (net)	-734.1	-778.6	-974.1	-888.5	-1165.8
D. Broad money – M3	1583.7	1925.4	2373.4	2587.3	2607.7
Foreign exchange accounts	390.2	434.8	624.2	662.4	634.1
E. Broad money – M2A	1193.4	1490.6	1749.2	1924.9	1973.6
Certificates of deposit	7.9	5.8	4.0	2.0	2.0
Currency in circulation	350.2	407.2	461.4	529.3	542.6
Demand deposits	482.9	617.5	725.1	804.0	807.4
Time and savings deposits	352.5	460.1	558.7	589.6	621.5
Memorandum items:					
1. Growth rates relative to previous June (%)					
M3	17.6	21.6	23.3	9.0	0.8
M2A	15.2	24.9	17.3	10.0	2.5
2. Components of M3 (in percent of the total)					
Foreign exchange accounts	24.6	22.6	26.3	25.6	24.3
Certificates of deposit	0.5	0.3	0.2	0.1	0.1
Currency in circulation	22.1	21.1	19.4	20.5	20.8
Demand deposits	30.5	32.1	30.6	31.1	31.0
Time and savings deposits	22.3	23.9	23.5	22.7	23.8
3. Financial depth					
Financial savings (billion Shs) 1/	360.4	465.9	562.7	591.6	623.5
Financial savings / M2 (%)	30.4	31.4	32.24	30.7	31.6

1/ Financial savings are defined as time and savings deposits plus certificates of deposits.
Source: Bank of Uganda.

The sectoral distribution of credit indicates that it is heavily weighted in favour of the trade and other services sector, which accounted for 59.5 percent of the stock of loans in October 2004. Table 8 below, provides the sectoral distribution of loans.

Table 8: Sectoral analysis of commercial bank credit to the private sector (%)

Recipient Sector	June 2001	June 2002	June 2003	June 2004	Oct. 2004
Agriculture	8.5	10.7	9.7	11.2	10.0
Manufacturing	34.9	25.5	23.7	20.7	20.1
Trade & other services/ 2	46.5	55.2	57.0	56.6	59.5
Transport, electricity & Water	5.5	4.5	6.3	8.1	5.8
Building and construction	4.1	3.6	3.0	3.3	4.5
Mining and quarrying	0.4	0.6	0.2	0.1	0.1
Total	100	100	100	100	100

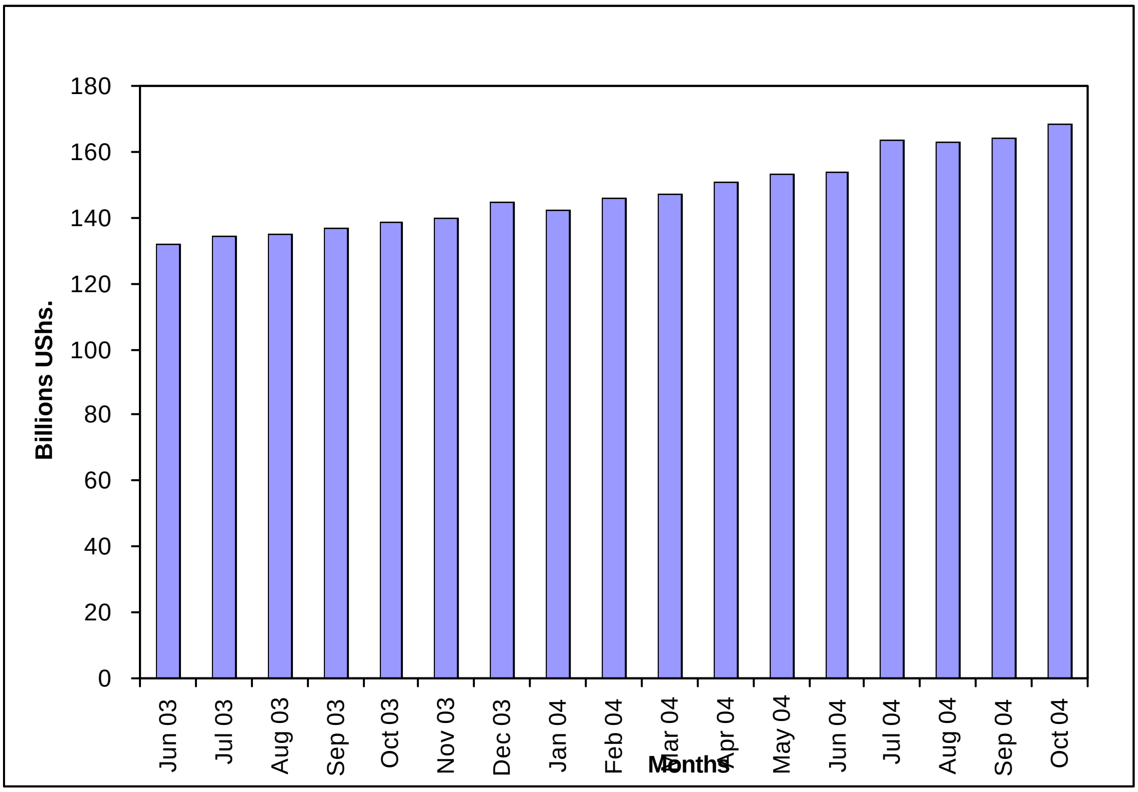
Notes: 1. Includes lending for real estate and to other financial institutions, as well as Bills of exchange discounted.

Source: Research department, Bank of Uganda.

4.4 Non-Bank Financial Institutions

The assets of Non-Bank Financial Institutions (NBFIs) increased through the first half of 2003/04 . The assets grew by Shs 21.6 billion (16.3 percent) to Shs.153.8 billion over the period under review compared to an increase of Shs 16.6 billion (14.4 percent) realized in the corresponding period of 2002/03. The total loans and advances rose by Shs 17.1 billion, from Shs 74.0 billion at end-June 2003 to Shs 91.0 billion at end-June 2004. Lending to the building and construction sector continues to take the largest share of credit from NBFIs, averaging 82.7 percent of the total volume of loans over the period. The balances of NBFIs held with commercial banks, both in Uganda and outside Uganda rose by Shs 5.5 billion to Shs 22.6 billion over the same period while their investments in government securities, stocks, shares and other investments declined by Shs.5.0 billion to Shs 20.2 billion as at end-June 2004 from Shs.25.2 billion at end-June 2003. Figure 6 plots the growth in Assets.

Figure 6: The Trend of NBFIs total assets (June 2003-October 2004)



The total deposits in the NBFIs grew by 25.2 percent to Shs 93.3 billion at end-June 2004, from Shs 73.9 billion at end-June 2003. This increase was largely attributed to growth in the savings deposits, from Shs 44.8 billion at end-June 2003 to Shs 56.3 billion at end-June 2004.

Table 9: Developments in the activities of Non-Bank Financial Institutions (Shs Billion)

Assets and deposit types	Jun 2004	Jul 2004	Aug 2004	Sep 2004	Oct 2004
Total Assets	153.76	163.42	163.08	164.05	168.27
o/w Loans and advances	91.03	93.10	92.95	96.37	98.56
Secured & unsecured	12.73	14.34	13.88	14.90	14.94
Mortgage	54.06	54.82	55.28	57.53	58.50
Administered	24.23	23.95	23.79	23.94	25.11
Total Deposits	93.28	92.89	92.88	93.43	96.52
Savings	56.34	55.39	54.48	53.67	55.28
Time	10.78	11.09	11.69	12.73	13.93
Agency Funds	26.15	26.41	26.71	27.04	27.31

Source: Bank of Uganda

5 PUBLIC SECTOR-FISCAL OPERATIONS

5.1 Revenue and grants

Table 10 shows fiscal operations for 2003/04, projections for 2004/05 and the preliminary outturn for the first quarter of 2004/05. According to provisional information from the Ministry of Finance, Planning and Economic Development (MFPED), the revenue collected during the first quarter of 2004/05 is estimated at Shs 430.9 billion, which is higher than the revenue collected in the first quarter of 2003/04 by Shs 60 billion. For the financial year 2004/05 revenue excluding grants is projected at 12.5 percent of GDP compared to 12.6 percent of GDP realised in 2003/04.

Table 10: Uganda - Fiscal operations; 2003/04 – 2004/05 (Shs billion)

Categories	Q1 2003/04	FY 2003/04	Q1 2004/05	FY 2004/05 Projected
Revenue and grants	**567.0**	**2,936.7**	**667.2**	**3,071.0**
Revenue	370.9	1,669.2	430.9	1,852.2
Grants	196.1	1,267.5	236.3	1,219.7
Total expenditure and net lending	**644.9**	**3,103.8**	**651.1**	**3,418.1**
Recurrent expenditure	**365.4**	**1,864.5**	**382.4**	**1,889.3**
Wages and salaries	157.9	682.9	167.1	768.9
Interest	61.9	261.7	56.1	214.2
Other recurrent 1/	145.6	920.0	159.4	848.5
Development expenditure	**275.5**	**1,186.8**	**257.6**	**1,425.5**
Domestic	275.5	439.1	28.0	496.9
External	211.2	747.7	229.5	928.7
Net lending and investment	-4.9	-27.8	-2.0	-5.5
Overall deficit/surplus	**-78.0**	**-167.1**	**16.1**	**-346.3**
Excl. grants	**-274.0**	**-1,435.5**	**-220.2**	**-1,565.9**
Financing	**78**	**167.1**	**-16.1**	**346.3**
Foreign (net)	83.6	298.9	73.2	336.4
Domestic (net)	54.5	-100.3	-89.3	9.9
Banking system	144.3	-206.2	36.9	-42
Non bank	-89.8	105.9	-157.8	52.6
GDP at factor cost (current prices)		**13,252**		**14,773.0**
Memorandum items (% of GDP)				
Total revenue & grants		22.2		20.8
Domestic revenue		12.6		12.5
Grants		9.6		8.3
Expenditure and net lending		23.4		23.1
Recurrent		14.1		12.8
Development		9.0		9.7
Overall deficit		-1.3		-2.1
Overall deficit (excluding grants)		-10.8		-10.6

Source: Ministry of Finance, Planning and Economic Development.

5.2 Expenditure

Total government expenditures and net lending for the year ending 2004/2005 is projected at Shs 3,418.1 billion, which is higher than Shs 3,103.8 billion for 2003/2004.

The expenditure on wages and salaries during the first quarter of 2004/05 is estimated at Shs 167.1 billion, an increase from Shs 157.9 billion registered under this line item in the corresponding quarter of the last fiscal year. The expenditures on other non-wage recurrent activities amounted to Shs 159.1 billion against a corresponding amount of Shs 145.6 billion. Interest payments amounted to Shs 56.1 billion, a slight decrease from Shs 61.9 billion utilised during the corresponding period last financial year. Development expenditure is expected to increase from Shs 1,189 billion in 2003/04 to an estimated Shs 1,425.5 billion in 2004/05. Total expenditure is projected at 23.1 percent of GDP in 2004/05 from 23.4 percent of GDP realised in 2003/04.

5.3 Overall Budget balance

The overall budget deficit excluding grants as a percentage of GDP, is projected at 10.6 percent in 2004/05 down from 10.8 percent in 2003/04. On a commitment basis, the deficit is projected at 2.3 percent of GDP in 2005/04 from 1.3 percent of GDP in 2003/04.

6 EXTERNAL SECTOR - BALANCE OF PAYMENTS

6.1 Overall balance of payments

According to provisional estimates for the first quarter of fiscal year 2004/05 summarized in Table 11 below, the overall balance of payments recorded a surplus position of US $ 31.1 million, compared to US $ 22.9 million recorded in the corresponding period ended September 2003. This is explained by developments in the current account as well as the financial and capital account. The current account deficit is estimated to have improved from US$ 79.6 million during the first quarter of 2003/04 to US$ 64.3 million during the first quarter of 2004/05. The improvement of the current account is due to the increase in the exports of both goods and services and current transfers during the period under review relative to the corresponding quarter of 2003/04. The capital and financial account recorded a surplus of US$ 95.4 million in the first quarter of 2004/05 compared to US$ 101.6 million recorded in the corresponding period last fiscal year. For the financial year 2004/05, the capital and financial account is projected to record a surplus of US$ 481.5 compared to a surplus of US$ 324.5 million recorded in 2003/04.

6.2 Foreign reserves

Foreign exchange reserves at Bank of Uganda (BOU) are estimated to have increased by US$ 26.7[2] million by end-August 2004, before declining by the same magnitude to US$ 1,133.1 million as at end September 2004. According to preliminary numbers for October 2004, foreign reserves increased to 6.82 future months of goods and services. The increase reflects partly the effect of no-sterilisation sales in the period August to October 2004.

6.3 The current account

(a) Trade balance

Estimates of the trade balance indicate a deterioration from a deficit of US$ 162.0 million in the first quarter of 2003/04 to a deficit of US$ 229.3 million in the first quarter of 2004/05. This trend is mainly due to a substantial increase in imports by 28.3 percent from the level recorded in the same period in the previous year. However, exports also registered an increase of 13.8 percent during the period.

[2] This estimate is based on the mo netary survey and includes valuation changes.

Table 11: Balance of payments statement (millions of US$ summary table)

Description of line items	Q1 2003/04	FY 2003/04	Q1 2004/05	FY 2004/05 Projected
Current account balance	-79.550	-141.804	-64.331	-404.552
Goods account (trade balance)	-161.969	-674.027	-229.259	-894.012
Total exports (fob)	148.056	647.179	168.542	674.446
Total imports (fob)	-310.025	-1321.207	-397.801	-1568.459
Services account (services net)	-38.904	-226.514	-56.743	-257.969
Inflows (credit)	79.762	331.349	102.093	356.623
Outflows (debit)	-118.666	-557.864	-158.836	-614.592
Income account (income net)	-41.462	-175.039	-46.329	-187.334
Inflows (credit)	12.773	40.044	9.785	36.183
Outflows (debit)	-54.235	-215.083	-56.114	-223.518
Current transfers (net)	162.785	933.777	268.001	934.762
Inflows (credit)	200.300	1156.098	313.728	1162.927
Outflows (debit)	-37.515	-222.322	-45.727	-228.165
Capital and financial account balance	101.554	324.459	95.407	481.612
Capital account	0.000	0.000	0.000	0.000
Capital transfers inflows, credit	0.000	0.000	0.000	0.000
Capital transfers outflows, dedit	0.000	0.000	0.000	0.000
Non produced non fin assets, credit	0.000	0.000	0.000	0.000
Non produced non fin assets, dedit	0.000	0.000	0.000	0.000
Financial account exc. Financing items	101.554	324.459	95.407	481.612
Direct investment	48.681	196.513	52.163	210.592
Direct investment abroad	0.000	0.000	0.000	0.000
Direct investment in Uganda	48.681	196.513	52.163	210.592
Portfolio investment	10.370	10.212	-4.261	9.413
Assets	0.000	0.000	0.000	0.000
Liabilities	10.370	10.212	-4.261	9.413
Other investment	42.504	117.733	47.504	261.607
Assets	-17.244	-51.545	39.875	125.768
Liabilities	0.000	0.000	7.630	135.839
Overall balance	22.005	182.655	31.076	77.059
Reserves and related items	-22.005	-182.655	-31.076	-77.059
Reserve assets	-17.297	-143.372	-29.495	-39.466
Use of fund credit and loans	-2.296	-48.854	0.438	-48.090
Exceptional financing	0.463	9.238	-0.322	-3.908
Errors and omissions	-2.876	0.332	-1.697	14.404

Source: Bank of Uganda

(b) **Exports**

Table 12 shows the composition of Uganda's merchandise exports for 2003/04 and 2004/05. It is projected that there will be some improvement in performance of exports. Total export earnings from goods are projected at US$ 674.4 million in 2004/05 compared to US$ 647.5 million realised in 2003/04. This is on account of the improved performance in both coffee and non-coffee exports in terms of both higher prices and increased volumes of shipments. Exports in the first quarter of 2004/05 were US$ 168.5 million compared to US$ 148.1 million in the first quarter of 2003/04.

A total of about 2.67 million (60-kg) bags of coffee worth US$ 120.3 million are expected to be shipped in 2004/05 compared to a total shipment of 2.55 million bags worth US$ 114.1 million shipped last financial year. For the first quarter of 2004/05 coffee exports were valued at US$ 27.6 million compared to US$ 25.9 million in the same period in 2003/04.The slight increase in value was attributed to a rise in the volume of coffee exported and the average unit value during the quarter, which was US$ 0.73 per kg, compared to US$ 0.65 per kg realised during the same period last year.

The value of non-coffee exports in 2004/05 are projected to yield US$ 546.2 million, an increase of about 3.9 percent over the value realised in 2003/04. Fish and its products, are expected to rank as the highest export earner over the period, fetching a total of US$ 125.78 million compared to US$ 118.1 million realised in 2003/04, on account of higher volumes exported. This would make fish the leading foreign exchange earner from merchandise exports. Oil re-exports are expected to decline during the period from US$ 34.3 million in 2004/05 to US$ 18.9 million in 2004/05. Cotton earnings are expected to improve only marginally to US$ 47.3 million from US$ 42.8 million in 2003/04 mainly due to slightly higher volumes.

Exports of maize are expected to yield US$ 20.1 million during 2004/05, a performance which is nearly a similar level of earning recorded in 2003/04 with volumes remaining at around 96.5 thousand metric tonnes. Tobacco exports are expected to decline marginally from US$ 36.2 million in 2003/04 to US$ 34.1 million in 2004/05 on account of lower prices for the period.

Exports of electricity are also expected to decline from US$ 12.6 million during the 2003/04 to an estimated value of US$ 12.2 million this fiscal year. During the year, Kasese Cobalt Company Limited resumed exporting cobalt after a prolonged suspension of cobalt mining due to low world prices. It is expected that an increase in the exports of gold will occur from US$ 45.8 million in 2003/04 to US$ 58.9 million during the 2004/05.

Table 12: Exports of merchandise (in millions of US$)

Description of export items	Q1 2003/04	FY 2003/04	Q1 2004/05	FY 2004/05 Program
Total exports (in US$ millions)	148.06	647.179	168.542	674.447
Coffee	25.998	114.129	27.637	120.335
Gross coffee shipment (vol) 60-kg bags)	0.663	2.552	0.635	2.668
Average unit value	0.654	0.745	0.725	0.752
Non-coffee exports	121.754	525.900	140.571	546.246
Electricity	3.334	12.639	3.157	12.186
Volume (Gigawatts)	52.628	198.596	50.696	194.832
Unit value	0.064	0.064	0.062	0.063
Gold	9.161	58.487	19.392	50.445
Cotton	2.975	42.836	5.481	47.248
Volume ('000 mtons)	2.708	29.565	4.169	33.408
Unit value	1.098	1.449	1.315	1.414
Tea	9.042	39.250	6.021	38.688
Volume ('000 mtons)	7.805	36.179	6.105	36.339
Unit value	1.159	1.085	0.986	1.065
Tobacco	7.457	36.160	9.619	34.129
Volume ('000 mtons)	6.982	24.91	9.093	25.029
Unit value	1.068	1.451	1.058	1.364
Fish & its prod. (excl. regional)	20.401	88.815	23.736	94.587
Volume ('000 mtons)	6.146	29.138	9.316	31.465
Unit value	3.319	3.048	2.548	3.006
Fish & its prod. (regional exports)	6.732	29.309	7.833	31.214
Volume ('000 mtons)	6.761	32.052	10.833	34.611
Unit value	0.996	0.914	10.247	0.902
Hides and Skins	1.865	5.860	0.764	5.984
Volume ('000 mtons)	7.428	22.649	1.343	21.817
Unit value	0.251	0.259	4.526	0.274
Simsim	0.677	3.382	0.229	3.461
Volume ('000 mtons)	1.221	5.384	0.397	5.240
Unit value	0.555	0.628	0.577	0.661
Maize	4.765	18.759	4.016	20.108
Volume ('000 mtons)	19.899	97.636	17.397	96.804
Unit value	0.239	0.192	0.231	0.208
Beans	0.768	4.866	1.140	5.543
Volume ('000 mtons)	3.913	17.259	3.586	19.264
Unit value	0.196	0.281	0.318	0.288
Flowers	6.307	27.157	7.368	24.923
Volume ('000 mtons)	1.354	6.054	1.616	6.644
Unit value	4.659	4.486	4.559	3.751
Oil re-exports	11.221	34.317	7.350	18.917
Cobalt		2.686	3.951	19.357
Volume ('000 mtons)		101.540	149.670	710.560
Unit value		26.453	26.398	27.242
Others	37.352	128.527	40.270	147.323

Source: Bank of Uganda

(c) Imports

Total imports are projected to increase by 18.7 percent from US$ 1,321.2 million last fiscal year to US$ 1,568.2 million this year. Government imports are projected to decline to an estimated value of US$ 156.4 million from a level of US$ 160.8 million in 2003/04. The reason for the growth in imports is on account of expected continued growth in private sector imports of merchandise which are estimated to have grown by 21.8 percent from US$ 1,088.2 million in 2003/04 to US$ 1,325.8 million in 2004/05.

(d) Services account

Exports of services in 2004/05 are projected at US$ 356.6 million, an increase of 7.6 percent over last fiscal years value of US$ 331.4 million while imports of services are expected to increased by 10.2 percent to US$ 614.6 million resulting in an estimated deficit of US$ 272.8 million on the services account.

(e) Income account

The income account is projected to worsen to a deficit of US$ 187.3 million in 2004/05 from a deficit of US$ 175.0 million during 2003/04, due to reduced income earnings on investment but increased income repayments.

f) Current transfers

Current transfers (net) are projected at US$ 935.8 million in 2004/05. Current transfers are largely driven by the size of grant disbursements for both project aid and budget support during the year as well as the level of private transfer inflows.

6.4 The capital and financial account

Net inflows of foreign direct investment are projected to rise by 7.2 percent from US$ 196.5 million to US$ 210.6 million during 2004/05. Total loans are estimated to result into net inflows of US$ 481.1 million, 48.4 percent higher than net inflows in 2003/04. This is largely on account of higher disbursements on public debt.

6.5 External debt

During 2004/05, maturities falling due on medium and long-term public and publicly guaranteed debt are estimated at US$ 179.1 million, of which US$ 54.8 million are maturities due to the International Monetary Fund (IMF). Principal maturities are estimated at US$137.1 million while the balance of US$ 42.0 million is made up of interest payments and other charges.

Total cash payments of medium and long-term public and publicly guaranteed debt (excluding IMF) during 2004/05 are expected to amount to US$ 73.4 million compared to US$ 66.4 million in 2003/04. Of the total debt service payments, US$ 74.5 million is expected from the HIPC debt relief initiative of which, US$ 23.6 million is expected to be used to repay part of the IMF maturities falling due while the rest will accrue to other multi-lateral and Paris Club donors. Provisional external debt indicators up to end June 2004/05, indicate that the total debt stock will increase to approximately US $ 4,834.2 billion, which is estimated at 54.3 percent of GDP.

Table 13: Key debt indicators (% of GDP unless otherwise stated)

Ratios and aggregates	FY 2003/04	FY 2004/05 Projected
Debt stock/GDP	66.91	54.32
Debt stock/exports of goods and services	689.90	672.40
Debt service/exports of goods and services	16.55	15.70
Memorandum items (US$ millions)		
Exports of goods and services	978.53	1033.90
Debt stock	4464.92	4834.22

Source: Bank of Uganda

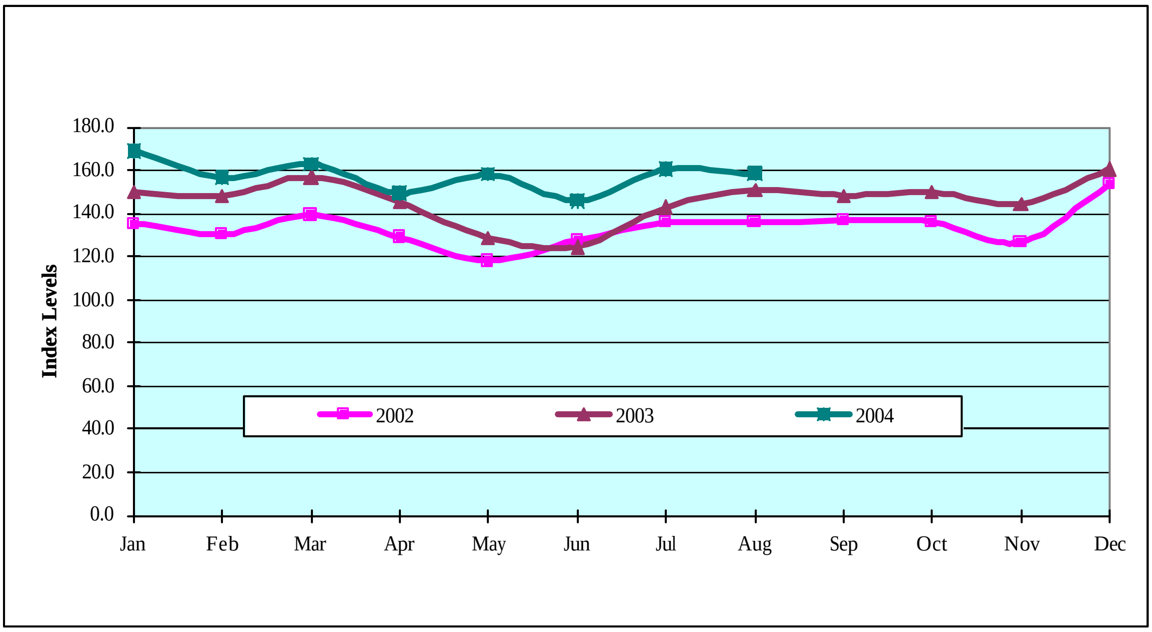
7. REAL SECTOR

Efforts to obtain more frequent data and information on the Real Sector are still underway. In this report, the Index of Industrial Production compiled by Uganda Bureau of Statistics is supplemented with an analysis of trends of electricity distribution and Diesel consumption to provide additional indicators of real sector activity. In addition, indicators of investment licensing from Uganda Investment Authority and activity at the Uganda Securities Exchange are also incorporated.

7.1 Index of industrial production

The Index of Industrial Production that is compiled by the Uganda Bureau of Statistics is available up to August 2004. As shown in the Figure 7 below, performance of the manufacturing sector has been improving since 2002 and performance so far this year is higher than that of the previous two years. Industrial production this year followed seasonal trends similar to those in the previous two years. Between January and August 2004, the index decreased from 169.0 to 158.5. The drop in the overall index during this year is mainly attributed to decreases in the production of metal products, beer and laundry soap. The production of metal products dropped by 21.5 percent and that of beer and laundry soap each fell by 20.8 percent. However, during the same period, production of cement increased by 31.4 percent. Concerns about load shedding could affect the performance of the index.

Figure 7: Trend of the major index of industrial production



7.3 Diesel and Electricity consumption for the industrial sector

The Ministry of Energy and Mineral Resources compiles data on fuel imports and sales. The volume of fuel imports usually exceeds the volume of domestic fuel sales because some of these items are re-exports. Import volumes of premium that had decreased between the quarters ending September 2003 and December 2003, increased by 21.6 percent during the quarter ended March 2004. However, this increase was a one off occurance and import volumes during the following quarters to September 2004, returned to levels similar to those in the previous quarters. Sales of premium decreased by 7.6 percent between the first two quarters of 2004 and increased slightly by 2.1 percent during the third quarter.

Imports of diesel in 2004 have been higher than that in 2003. Between December 2003 and June 2004, import volumes increased by 15.9 percent but the period between July and September saw a decrease in diesel imports of 11.3 percent. Despite this decrease, imports in the quarter to September 2004, were still higher than those for the last two quarters of 2003. Sales of diesel that were relatively flat during the first two quarters of 2004, decreased by 10.8 percent during the third quarter.

Imports of kerosene during the first three quarters of 2004, although fairly flat, were lower than that in last quarter of 2003. Between December 2003 and March 2004, kerosene imports decreased by 5.5 percent but since then changes between the quarters have been ma rginal. Sales of kerosene during the quarter ended September 2004 were higher than those in the previous quarters mainly on account of the increased load shedding of electricity since July 2004.

Table 14: Import and sales volumes of major Fuel products ('000 Litres)

Fuel type		Jul- Sep '03	Oct-Dec'03	Jan-Mar'04	Apr - Jun '04	Jul - Sep'04	%age Change Jun-Sep'04
Premium (PMS)	Imports	55,075.8	51,285.6	62,342.1	53,974.9	54,756.6	1.4
Diesel (AGO)		63,099.7	65,255.9	70.835.0	75,649.1	67,077.6	-11.3
Kerosene (BIK)		11,821.7	14,119.8	13,344.4	13,351.2	13,080.0	-2.0
Premium (PMS)	Sales	49,625.8	47,801.0	47,602.5	43,961.4	44,905.2	2.1
Diesel (AGO)		60,684.3	59,191.9	64,298.2	64,639.5	57,625.5	-10.9
Kerosene (BIK)		12,015.2	10,068.3	11,921.2	6,207.7	17,998.4	189.9

Source: Energy Department, Ministry of Energy & Natural Resources

Data on electricity statistics is available up to August 2004. Since the beginning of the year, on average, customers connected to grid have been on the increase. This is mainly on account of the traditional domestic and commercial consumers, street lighting and new extensions from the rural electrification program. However, average sales have been fluctuating. They decreased between December and March; increased between April and June; and decreased again in July and August. Table 15 provides the details.

Table 15: Electricity Sold by UEDCL by Category of Consumer: (Oct 2003 - Aug 2004)

Item	Oct-Dec '03	Jan –Mar '04	Apr-Jun '04	Jul –Aug '04
Monthly average customers connected				
Domestic	219,724	224,007	227,170	233,369
Commercial	22,350	22,490	22,764	23,170
Industrial	99	93	95	99
General	675	752	721	666
Street lighting	341	312	328	345
Contract re Electrogaz and KCCL	2	2	2	2
Total	243,192	247,656	251,080	257,650
Monthly Average Sales (GWh)				
Domestic	35.27	32.66	36.44	29.38
Commercial	11.76	10.32	13.24	14.21
Industrial	48.31	49.62	51.21	54.24
Street lighting	0.39	0.08	0.37	0.17
Contract re Electrogaz and KCCL	0.25	0.29	0.30	0.30
Total	**95.97**	**92.97**	**101.55**	**98.30**

Source: Energy Department, Ministry of Energy & Natural Resources

7.4 Investment

Information pertaining to actual investment activity is not available and as a result this analysis is limited to intentions based on licenses issued by Uganda Investment Authority (UIA). During the period January – June 2003, UIA licensed a total of 70 projects followed by 88 projects over July – December 2003 compared to 85 projects licensed in the first half of 2002/03. The value of planned investment dropped by 81.7 percent in January – June 2003 and by 68.5 percent in July –December 2003 compared to the period July – December 2002. Over the second half of 2003, the agricultural sector had a share of 61.9 percent of the total planned investment up from its 16.7 percent share in the previous January – June 2003 total planned investment. As shown by the Table 16 below, the number of planned employment fell by 11 percent in January – June 2003 but rose by 31.9 percent in the period July – December 2003 compared to July – December 2002.

Table 16: Uganda Investment Authority (UIA) Performance Indicators and Targets.
(July – September 2003; July – September 2004)

	Jul-Sep '03				Jul-Sep '04			
Sector	Number of Projects Licensed	Planned Invest't (Million US$)	Planned Employ't	%age Share of Invest't	Number of Projects Licensed	Planned Invest't (Million US$)	Planned Employ't	%age Share of Invest't
Agriculture, Forestry & Fishing	10	125.82	5,439	70.4	13	15.51	1,371	24.5
Manufacturing	13	16.47	1,104	9.2	2	15.52	288	24.5
Construction	2	1.58	67	0.9	21	14.44	1,354	22.8
Mining & Quarrying	5	4.09	258	2.3	2	6.15	50	9.7
Finance Services	1	1.50	16	0.8	0	0	0	0.0
Tourism	5	1.14	517	0.6	3	0.95	59	1.5
Professional Services	3	13.17	582	7.4	4	4.97	155	7.9
Social Services	1	2.27	175	1.3	4	1.82	179	2.9
Water & Energy	3	9.65	223	5.4	1	0.75	27	1.2
Transport, Communication & Storage	3	2.02	59	1.1	2	0.83	160	1.3
Real Estate	0	0	0	0	5	2.05	111	3.2
Other business services	3	0.94	3	0.5	1	0.24	120	0.4
Total	**49**	**178.65**	**8,443**	**100.0**	***58***	***63.24***	***3,874***	***100.0***

Source: Uganda Investment Authority

During the period under review, 58 projects worth US$ 63.2 million were licensed between July and September 2004 compared to 49 projects worth US$ 178.7 million in the corresponding period in the previous year. The total number of projects licensed during the quarter under review was more than that in the corresponding period in the previous year by 9 although the value of projects represented only 35 percent of that in recorded in the previous year. During both periods, most investments were directed towards the agriculture, forestry and fishing sector, and the manufacturing sector.

7.5 Activity at Uganda Securities Exchange

During November 2004 trading was vibrant at the Uganda Securities Exchange mainly on account of trading at the DFCU counter. There were only 2 days out of the 9 trading days during the month, that there was no activity at the DFCU counter. Total turnover for the month amounted to Shs 48.8 million, of which 96 percent was attributable to DFCU share trading. Other active counters during this month were the British American Tobacco (Uganda) and Uganda Clays Limited. This month's turnover was 95.2 percent more than the previous month's performance. A total of 153,493 shares were traded.

In the East African Breweries counter a stock-split of five-to-one was conducted. As a result of the split the share price increased from Shs 2,202.2 on 29th November 2004 to Shs 2, 486 on 30th November[3]. The shares for British American Tobacco, Bank of Baroda and Uganda Clays remained unchanged at Shs 1, 145, Shs 800 and Shs 8, 000, respectively. On two of the trading days, DFCU share prices increased to Shs 310, otherwise, they were stable at Shs305. Kenya Airways share prices decreased by 3.08 percent from Shs390 at the end of October 2004 to Shs 378 at the end of November 2004.

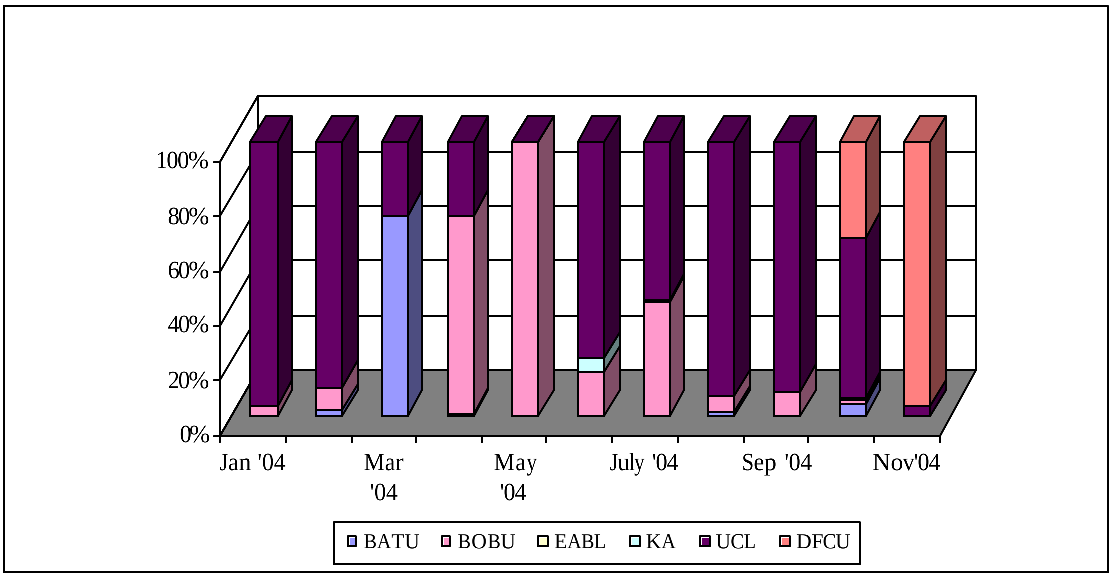
Market capitalisation at the USE increased by 34.7 percent from Shs1, 461.7 billion to Shs 1,968.5 billion while the all share index increased by 20 percent from 340.6 to 408.7 between October and November 2004.

Table 3: Trading at the Uganda Securities Exchange (July – November 2004)

	Jul '04	Aug '04	Sep '04	Oct '04	Nov '04
Trading Days	8	9	9	8	9
Total Turnover	6,387,725	50,790,405	19,980,500	24,977,960	48,763,695
No. Deals	10	31	23	NA	NA
No. Shares	2,931	31,174	4,064	32,520	153,493
Market Capitalization (Billion Ushs)	1,342.2	1,325.80	1,414.7	1,461.7	1,968.5
All Share Index	331.51	353.71	365.46	340.56	408.70

Source: Uganda Securities Exchange

Figure 8: Shares of Monthly turnover of listed companies, January to November 2004



[3] The split effectively caused a discretionary change in the share price to the equivalent of (Shs 11, 011 / 5) on 30th November 2004.

Figure 9: Trend of all share index over January to November 2004