Bank of Uganda

Monetary Policy Report

July 2012

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Overview

This report analyses the past and present economic and monetary aspects of both the Global and Domestic economy. It assesses the external and domestic risks to price stability as of end June 2012. The report also assesses the future prospects for inflation and economic activity based on the outlook of both domestic and external factors. It is upon this analysis that Bank of Uganda decides on the level of the Central Bank Rate (CBR) that will serve to ensure price stability during the month.

In June 2012, BOU reduced the Central Bank Rate (CBR) by 1 percentage point to 20 per cent. This policy decision was supported by the following: The inflation outturn for the month of May 2012 indicated that the disinflationary momentum in the economy had solidified; the short to medium term prospects for inflation had improved significantly as the May 2012 one-year ahead forecasts were lower than the previous forecasts; and on the downside, real economic activity had stagnated, mainly because of subdued domestic and external demand rather than supply-side factors, leading to a large output gap.

In line with the monetary policy stance, liquidity conditions in the banking system were relatively eased, keeping the money market rates within the CBR band throughout the month. The drivers of liquidity conditions in the interbank money market were both policy and autonomous. The autonomous factors included fiscal policy stance, which remained tight in June 2012 as government expenditure underperformed, whereas taxes outperformed the forecasts for the month. The BOU remained active in the money market in June 2012 fine-tuning short-term liquidity using REPOS and reverse REPOS.

The recovery of the world economy remains fragile. However, there has been evidence of a modest expansion in most major non-euro area advanced economies. In emerging economies, growth has recently moderated. Consistent with global activity, world trade picked up modestly in the first quarter of 2012. On the other hand, global commodity prices, especially energy prices continued to fall with Brent crude tumbling to its lowest levels in 18 months. In most countries, inflation has continued to ease in the last few months, mainly reflecting developments in energy prices.

In the domestic economy, annual inflation decelerated at a low pace in June, driven by increase in school fees. Inflation is expected to continue decelerating in the coming months, aided by easing international commodity prices. However, increases in water tariffs and excise duty on alcohol and tobacco announced in the 2012/13 budget are expected to give an upward push to CPI inflation. Furthermore, in June 2012, the growth in money supply was still weak, while bank lending to the private sector had been procyclical and remained subdued. Yields on government securities and commercial banks' lending rates remained high, attracting portfolio flows, which in turn helped to stabilize the exchange rate. In June 2012, the challenge of stemming upside risks to inflation while at the same time ensuring that monetary policy does not harm economic activity was still prominent.

The remainder of this issue of the Monthly Monetary Policy Report is organised into four sections. The first Section reviews recent global developments and prospects and the implications to the Ugandan economy. The second Section reviews domestic developments in relation to aggregate demand, monetary aggregates and the financial sector. The third Section analyses inflation developments and outlook, while the fourth Section sets the policy implications and framework for the month.

1. Global Economic Developments and Prospects

1.1. Real Economic Activity

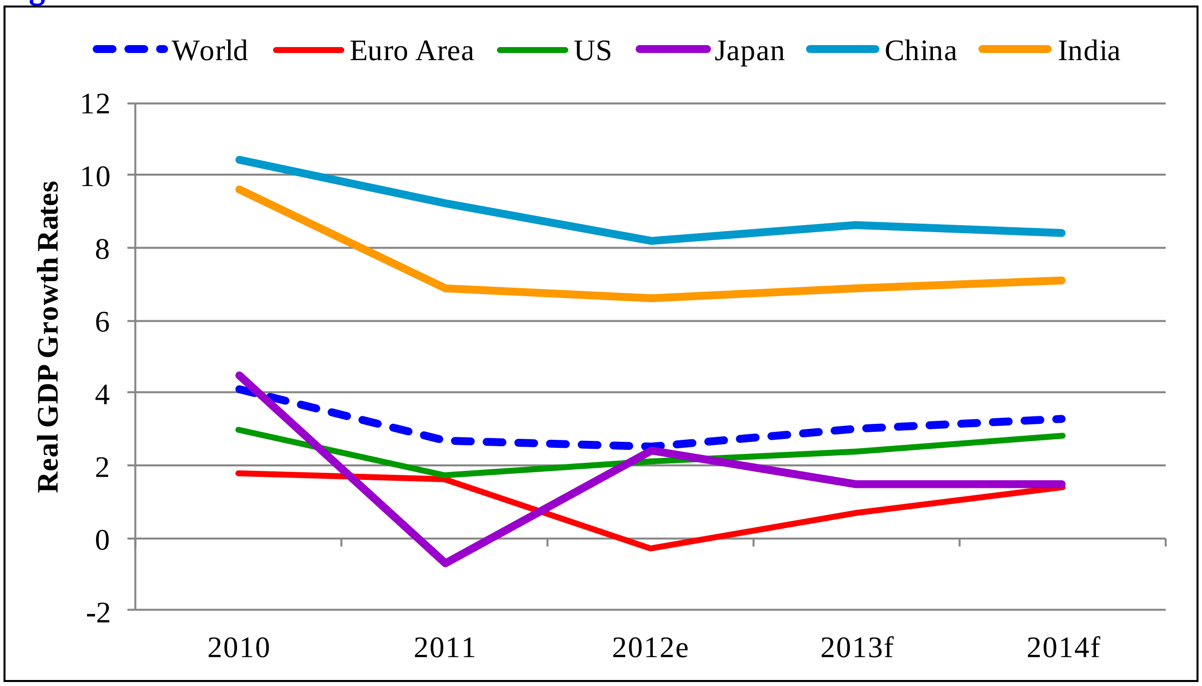
The financial market uncertainty, economic slowdown in the Euro zone and declining exports and foreign direct investment in China and limited policy options in India pose a serious challenge to the global economic recovery. Consequently, global growth prospects are lower in 2012 with improvements expected in 2013. The World Bank projects world GDP to grow at 2.5 per cent in 2012 and at 3.0 per cent in 2013, from 2.7 per cent in 2011. The positive world growth is mainly supported by robust economic performance of the emerging market economies, which are expected to grow at 5.3 per cent in 2012 and 5.9 per cent in 2013, from 6.1 per cent in 2011. Conversely, high income countries are projected to grow at 1.4 per cent in 2012 and 1.9 per cent in 2013, from 1.6 per cent registered in 2011. The economic growth outlook for selected countries is summarized in ***figure 1***.

Annual real GDP growth in the Euro zone is projected to contract by 0.3 per cent in 2012 from the positive growth of 1.6 per cent recorded in 2011. The negative growth in 2012 is mainly on account of the deteriorating banking crisis in Spain, for which the country has sought an ECB bailout amounting to US$ 125 billion. In addition, while the March 2012 restructuring of Greece debt and a second ECB bailout allayed fears of Greece's exit from the Euro Zone, its debt level, which currently stands at 164 per cent of GDP, is unsustainable as indicated by declining yields on AAA-rated long term government bonds. However, experts are optimistic that the crisis in the Euro zone will be contained and, as such, forecast the Euro Area to grow at 0.7 per cent in 2013.

In the USA, growth in real GDP is expected to improve to 2.1 per cent in 2012 and then to a further 2.4 per cent in 2013 from 1.7 per cent in 2011. However, the down side risks to this forecast is the continued slowdown of growth in jobs and the slight rise in the unemployment rate as observed in the second quarter of 2012.

In China, annual real GDP growth is projected to slowdown to 8.2 per cent in 2012 from 9.2 per cent recorded in 2011. The slowdown in growth in 2012 is mainly a result of low export demand arising from weak global economic activity. The HSBC flash China Manufacturing Purchasing Managers' Index (PMI) declined further below the 50 point mark to 48.1 in June 2012, down from 48.4 recorded in May 2012 indicating a continued slowdown in China's manufacturing as a result of strong negative external headwinds. Consequently the central bank of China lowered the commercial banks' required reserves and also eased monetary policy in order to boost domestic demand and offset the decline in exports. However, the recent easing of monetary policy has not offset the degree of monetary policy tightening pursued over the recent past with the aim of fighting inflation. Going forward China GDP is forecast to grow at 8.6 per cent in 2013.

Figure 1: Annual Global Real GDP Growth



Source: World Bank Global Economic Prospects June 2012

1.2. Global Inflation

Global inflation has continued to ease in most of the advanced and emerging economies with the exception of India (***figure 2***).

In the euro zone, annual inflation declined to 2.4 per cent in May 2012 from 2.6 per cent in April 2012 although it remained above the ECB target of 2.0 per cent. The decline in inflation was largely on account of a fall in prices of alcohol and tobacco, housing and transport. Within the Euro area, Greece recorded the lowest level of inflation of 0.9 per cent in May 2012 from 1.5 per cent recorded in April 2012.

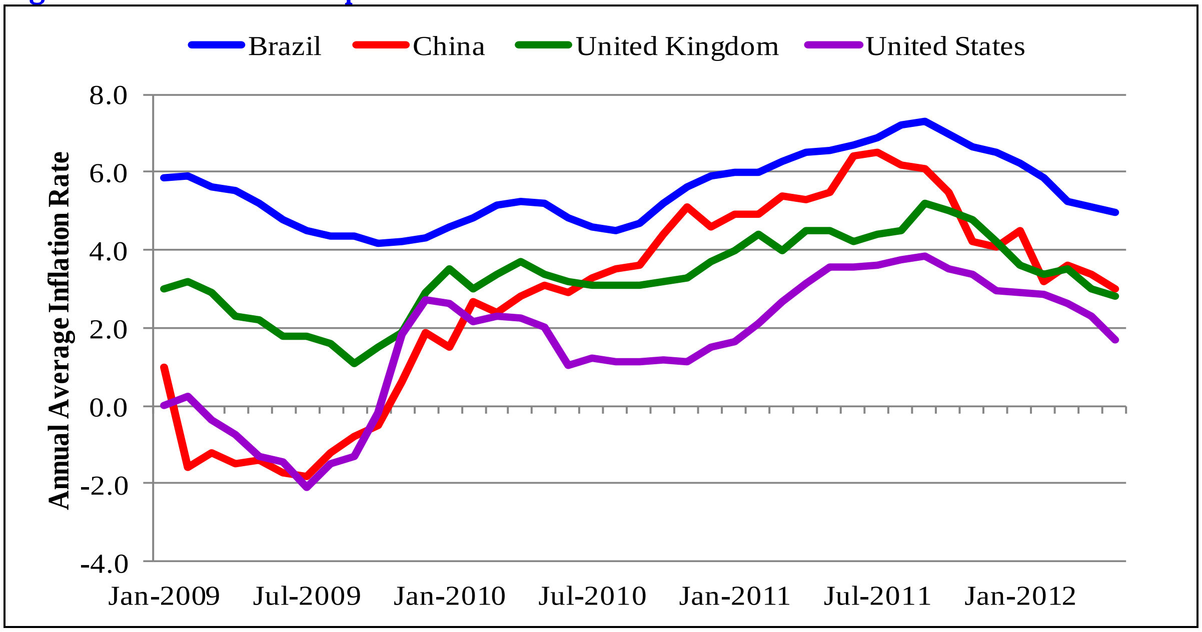
Annual headline inflation in the US declined further to 1.7 per cent in May 2012 from 2.3 per cent in April 2012. Annual headline inflation has steadily declined, since it peaked at 3.9 per cent in September 2011, mainly on account of the decline in the energy index. In May 2012, the decline in the energy index was mainly on account of a 4.0 per cent annual decline in the gasoline index. The food index remained unchanged during the month.

Annual inflation in the U.K declined to 2.8 per cent in May 2012 from 3.0 per cent recorded in April 2012. The largest downward pressure to the inflation outturn in May 2012 arose from the fall in prices of motor fuels, food and non-alcoholic beverages. Air and sea transport accounted for the upward inflationary pressures during the month.

Annual CPI inflation fell to 3.4 per cent in May 2012 from 3.6 per cent in the previous month. The fall in inflation amid increasing downward risks stemming from worsening external demand conditions, created room for easing of monetary policy further in China. The People's Bank of China cut its reserve requirement ratio twice, lowering it to 20 per cent for large banks and to 18 per cent for smaller banks. In India, the annual wholesale price inflation stood at 7.2 per cent in May 2012, down from 9.5 per cent in 2011. Consequently, the Reserve Bank of India cut its key policy rate by 50 basis points to 8 per cent in May.

On the other hand, Brazil's annual CPI inflation declined further to 4.99 per cent in May 2012 from 5.1 per cent in April 2012. While inflation in Brazil declined, it is still above the central bank's target of 4.5 per cent. This implies that Brazil still needs to tighten monetary policy to bring inflation down to its target.

Figure 2: Inflation Developments

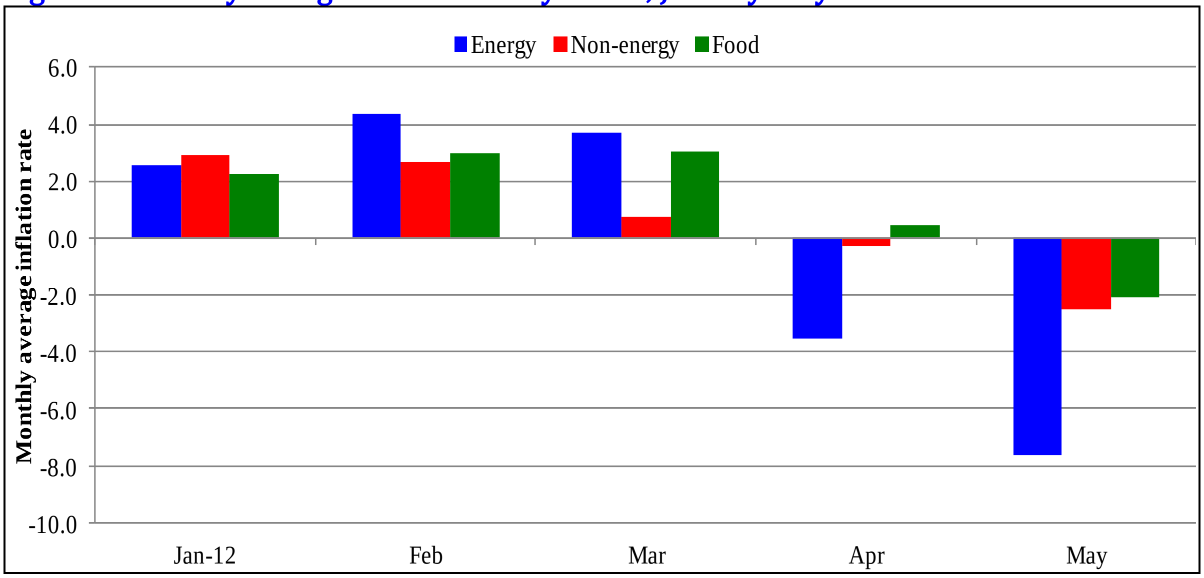


Source: OECD Statistics

1.3. Global Financial and Commodities Markets

Commodity prices declined further in May 2012 in response to renewed concerns over developments in the Euro Area and rising supply amidst weak global consumption. The energy index declined by 7.6 per cent in May 2012 following the decline of 3.5 per cent recorded in April 2012. The average crude oil spot price declined by 8.4 per cent to US$ 104.1 per barrel in May 2012, continuing the decline of 3.5 per cent recorded in April 2012. The decline in crude oil price was on account of sovereign debt fears surrounding the Euro Area, slowing global demand, continued rise in production by both OPEC and Non-OPEC suppliers and an easing of the political tensions surrounding Iran's nuclear program. Coal prices also declined by 6.8 per cent in May 2012, largely on account of weak demand and rising supply. However, natural gas prices surged by 25 per cent in May 2012 on account of increasing demand in the US power sector. The non-energy index also declined by 2.5 per cent in May 2012, largely due to decreases in metals and minerals and base metals of 4.7 per cent and 3.8 per cent, respectively, in May 2012.

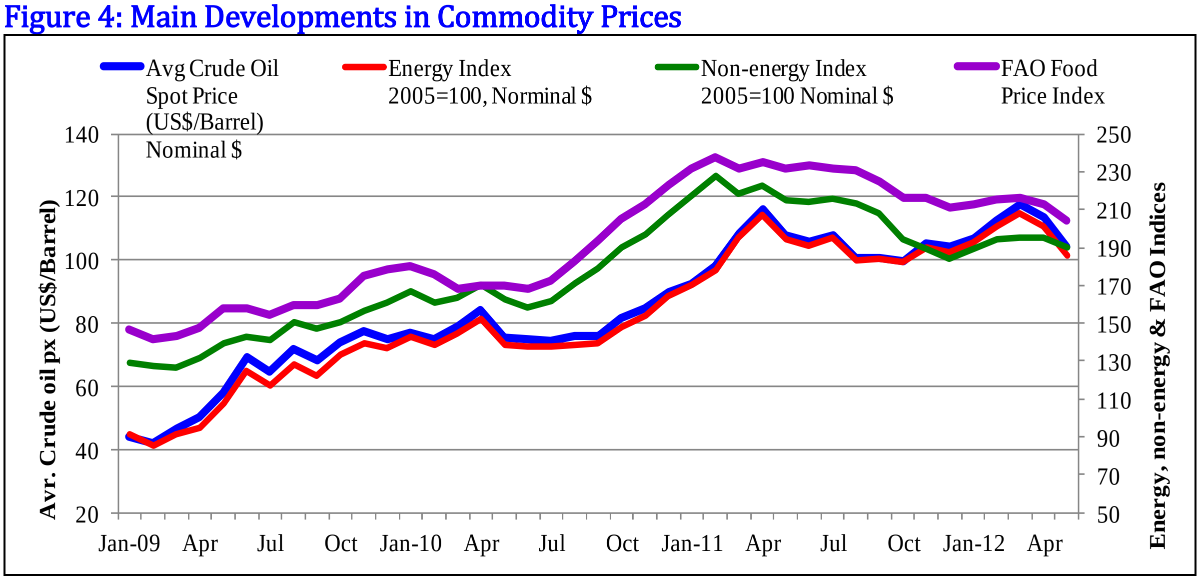
Figure 3: Monthly Changes in Commodity Prices, January-May 2012



Source: World Bank Database & FAO Statistics 2012

The Food and Agricultural Organisation (FAO) food index, a measure of monthly changes in international prices of a basket of food commodities, declined further by 4.2 per cent in May 2012, from the decline of 1.4 per cent recorded in April 2012. The fall in the index was attributed to falling prices of coconut and palm kennel oils due to increased exports from the Philippines. Cotton prices fell by 11 per cent in May 2012, on account of weak demand and high stocks. Sugar prices also fell by 9 per cent in May 2012 following India's decision to allow exports of raw sugar. These developments are shown in ***figures 3*** and ***4***.

Figure 4: Main Developments in Commodity Prices



Source: World Bank Database & FAO Statistics 2012

In May and early June 2012, equity prices both in the Euro Area and the US declined by close to 10 per cent on account of perceived signs of deceleration in global economic activity, loss in market confidence and fears of sovereign and corporate defaults in the Euro Area. Similarly, yields on AAA-rated long term bonds both in the Euro Area and in the US declined by 60 and 40 basis points, respectively, in May and early June 2012, largely on account of renewed tensions surrounding developments in the Euro Area and weak economic data relating to the strength of the US economy.

In the currency market, the U.S dollar strengthened notably against most emerging and developing market economy currencies mainly due to renewed tensions surrounding the Euro Area. According to the Economist Intelligence Unit (EIU), the US dollar is expected to remain stronger at average of US$ 1.28 per Euro in 2012, compared to the average of US$ 1.39 per Euro recorded in 2011.

1.4. Global Economic Outlook

The outlook remains for weak global economic performance in 2012. Resolving the Euro Area crisis remains key to full and sustainable global economic recovery. While the high income economies are expected to slow down, the emerging market and developing economies are expected to provide the main support to world economic growth. On the upside, global growth is mainly supported by declining commodity prices specifically oil and food, resulting in lower inflation in most economies, which may give room for accommodative macroeconomic policies needed to facilitate economic growth and recovery.

In China, efforts to ease monetary policy in order to boost aggregate demand and offset the decline in export demand are already underway. Loose monetary policies will also allow countries such as Brazil to address the issue of the boom cycle of portfolio inflows occasioned by a low interest rate environment in international financial markets.

There are countries however, such as India, whose inflation is still rising even with significantly tightened monetary policies and relatively large fiscal deficits, leaving fewer policy options to address contracting economic growth on account of negative external headwinds.

The World Bank forecasts that commodity prices will decline in 2012 compared to levels seen in 2011, largely on account of low demand due to a weaker economic outlook coupled with increased supply. The FAO food price index indicates a 6.7 per cent decline in the level of food prices in 2012 compared to the levels observed in 2011. Similarly, the EIU forecasts that oil prices will close 2012 US$ 11 per barrel lower than its earlier forecast of US$ 106 per barrel. The projected decline in commodity prices is expected to lead to a continued decline in inflation.

The World Bank projects that global inflationary pressures may ensue in future, which may reduce further scope for accommodative monetary policy. On the upside, faster growth in the US, instability in oil markets and flight to quality once the intensity of the global crisis alleviates are real risks for higher inflation. On the down side however, weak demand would mitigate chances of a rise in inflation.

1.5. Regional Economic Outlook

The monetary policy measures pursued supported by appropriate fiscal policies have continued to deliver a decline in inflation in most of the countries of the East African Community. In May 2012, annual inflation in Kenya and Tanzania declined to 12.2 per cent and 18.2 per cent from respective rates of 13.1 per cent and 18.7 per cent in the previous month, mainly driven by a decline in food and fuel prices. Kenya's inflation continued to decline to 10.0 per cent in June 2012. Similarly, annual inflation in Burundi declined to 22.5 per cent in May 2012 from 25.2 per cent in the previous month, reflecting a decline in food prices following the lifting of taxes on imported basic foods by the government. On the other hand, inflation in Rwanda increased in May 2012 to 8.3 per cent from 7.0 per cent in April 2012 mainly driven by a rise in food and utility prices.

All the East African Central Banks maintained a tight monetary policy stance during June 2012 in a bid to rein in effects of inflation and maintain stability in the exchange rate markets. The Central Bank of Kenya kept its policy rate unchanged at 18 per cent despite a moderation in inflation, citing the need to stabilize exchange rate markets and excess liquidity in the market as the reasons for the unchanged position. Similarly, in June 2012, the National Bank of Rwanda maintained its key repo rate at 7.5 per cent. The Central Banks of Tanzania and Burundi also maintained tight monetary policy stances during the same period, as part of East Africa Community coordinated monetary policy actions.

All countries within the region experienced high demand for government securities with most of the auctions held in June 2012 being oversubscribed. This high demand for government papers coupled with lower inflation expectations going forward resulted in a fall in the weighted average annualised yields on all tenors. The monthly weighted average annualized yields for the 91-day, 182-day, and 364-day papers in Tanzania declined to 13.4, 13.5, and 14.4 per cent respectively in June 2012, from 13.8, 14.0, and 14.9 per cent in the previous month. Similarly in Kenya, rates on the 91-day and 182-day papers declined to 10.5 per cent and 10.9 per cent from 11.2 per cent and 12.7 per cent respectively. The monthly weighted average annualized yields for the 91-day and 182-day papers in Rwanda fell marginally to 8.1 per cent and 8.3 per cent respectively in June 2012 from 8.2 per cent and 8.4 per cent in May 2012. The average yields on the 364-day paper remained relatively stable at 12.4 per cent and 8.9 per cent in Kenya and Rwanda respectively in June 2012.

On a month-on-month basis, all the East African currencies remained relatively stable in June 2012. On a monthly basis, the Kenya Shilling and Rwanda Franc depreciated by 0.8 per cent and 0.3 per cent, respectively to average midrates of KES 84.89/US$ and RWF 609.9/US$. On the other hand, the Tanzania Shilling remained stable during the month, at an average midrate of TZS 1,580.8/US. On an annual basis, in June 2012 the Tanzania Shilling and Rwanda Franc recorded annual depreciations of 1.1 per cent and 1.6 per cent, respectively while the Kenya shilling appreciated by 4.7 per cent over the same period.

The major downside risks to the macroeconomic outlook for the region remains the uncertainty surrounding the sovereign euro debt crisis and the slowdown in the global economy in both advanced and emerging markets. An extended fall in commodity prices because of a global economic slowdown could also affect prices of some of the region's main exports thereby depriving the EAC countries of export revenue.

1.6. Implications for the Ugandan economy

The World Bank forecasts Sub Saharan Africa to grow by 5.0 percent in 2012, up from 4.7 per cent registered in 2011. This positive growth also implies strong aggregate demand in the region thus providing Uganda a ready export market away from crisis-ridden Europe. It is therefore imperative that Uganda refocuses its export trade strategy towards the EAC, COMESA and SADC markets, which will guarantee foreign currency inflows, a stronger balance of payments position and support for the exchange rate.

In 2011/12 FY, the expected real GDP growth is estimated to be 3.2 per cent down from 6.3 per cent achieved in 2010/11. This low growth was mainly a result of the knock-on effect of the tight monetary policy pursued to bring down the notably high inflation recorded during the year. The monetary policy stance has recorded success with inflation starting its decline in January 2012. While the BOU has been cautious not to quickly loosen monetary policy on account of relatively high inflation expectations, the declining international commodity prices, especially oil prices, and their impact on global inflation provide great relief and the basis for a looser monetary policy stance required to stimulate the much subdued growth.

The US dollar has strengthened significantly against most currencies as the crisis in the Euro Area has continued to deepen. Going forward, the US dollar is expected to continue its strength, although periodic bouts of Euro strength may also be expected. This implies that the Uganda Shilling can be expected to depreciate for the remainder of 2012, on account of international factors. However, in recent months developments in the interbank foreign exchange market have led to an appreciation of the Uganda Shilling even with a globally strengthening US dollar, mainly due to increased coffee export proceeds and portfolio inflows. This implies that Uganda's exchange rate is equally vulnerable to domestic and international factors. Consequently, BOU's actions in the exchange rate market have to take into consideration the market's vulnerabilities to both domestic and international factors.

2. Domestic Economy

2.1. Monetary Policy Actions in June 2012

Given the global and domestic economic outlook, BOU reduced the CBR by 1 percentage point to 20 per cent in June 2012. The band on the CBR remained at plus/minus 3 percentage points and the margin on the rediscount rate was maintained at 4 percentage points on the CBR. Consequently, the rediscount rate and the Bank rate stood at 24 per cent and 25 per cent, respectively. In a bid to align structural liquidity with levels consistent with the monetary policy stance for the month, BOU issued treasury securities. The average yields on the government bills and bonds rose with the exception of the 91-day Treasury bill and the 3-year Treasury bond whose rates remained relatively stable.

BOU also issued REPOs and reverse REPOs to fine tune short term liquidity conditions. The impact of the REPO/ reverse REPO instrument was a net injection of Shs. 71 billion and by the close of the month the outstanding stock of REPOs stood at Shs. 30 billion.

BOU continued with the daily purchase of foreign exchange to build-up reserves of varying amounts tailored to the IFEM conditions which totalled up to US$ 78 million by the end of the month. In addition, BOU carried out targeted sales amounting to US$ 28 million. Consequently, BOU's actions in the IFEM during the month were a net purchase of US$ 53 million. BOU's reserve assets as at end June 2012 stood at US$ 2.6 billion with a reserve cover of about 4 months of imports.

In June 2012, liquidity conditions in the banking system were generally consistent with the cautious monetary policy. Overall, there was a net withdrawal of liquidity from the banking system in June 2012 of Shs. 110 billion, contrary to a net injection of Shs. 6 billion in May 2012. BOU's actions in the foreign exchange market and net fiscal operations each injected Shs. 67 billion, totalling Shs. 134 billion Although the net fiscal injection was in line with the previous month's amount of Shs. 62 billion, it was much lower than the government's projection of Shs. 93 billion. On the other hand, open market operations withdrew Shs. 149 billion overall in June 2012, compared with Shs. 267 billion in May 2012. Consequently, commercial bank's daily excess reserves averaged Shs. 44 billion in June, relative to Shs. 39 billion in May 2012. ***Table 1*** shows the main liquidity drivers during the month.

Table 1: Summary of Liquidity Drivers in Billions of Shillings

	Net OMO (T-bills, T-bonds, Repo & Reverse Repo)	Forex Operations	Net Fiscal Actions (Govt Expenditure - Taxes)
Jul-11	315.5	-24.4	-213.2
Aug-11	-52.1	-172.6	340.1
Sep-11	66.8	13.3	93.0
Oct-11	-280.2	142.1	146.1
Nov-11	-47.7	40.4	64.0
Dec-11	-87.7	109.5	90.9
Jan-12	-184.9	283.2	50.3
Feb-12	-526.1	161.0	186.6
Mar-12	106.1	-22.2	81.5
Apr-12	-86.6	35.4	102.6
May-12	-267.1	205.5	61.8
Jun-12	-149.3	67.2	67.2
Total	**-1193.4**	**838.6**	**807.2**

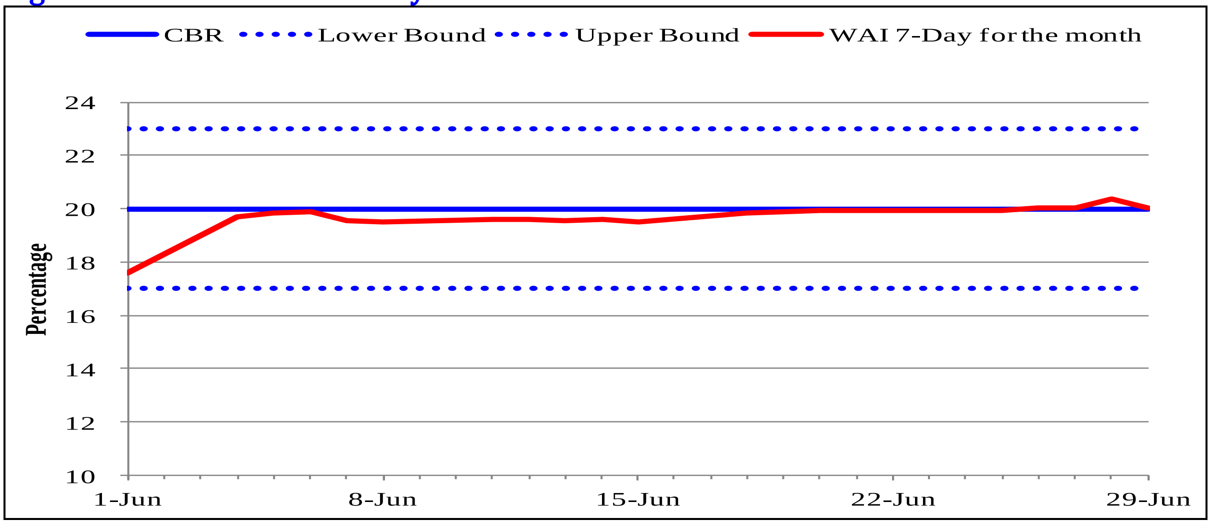
Source: Bank of Uganda

2.2. Financial Sector Developments

2.2.1. Interbank Money Market rates

Money market rates in June fell comfortably within the band set by the CBR, indeed for the most part the money market rate was within 1 per cent of the CBR. The weighted average 7-day rate averaged at 20.1 per cent, lower than the previous month's average of 22.7 per cent. Although the overall and overnight weighted average interbank rates rose to 20.4 and 18.8 per cent respectively, from 18.7 and 16.2 per cent in the previous month, they still remained within the CBR band. The developments in the interbank money market rates are as shown in ***figure 5*** and ***table 2*** respectively.

Figure 5: Evolution of the 7-day interbank rate



Source: Bank of Uganda

Table 2: Structure of interest Rates

	CBR	Weighted Average 7-day Interbank Money Market Rate	Average Yield on 91-day TBs	Average Yield on 364-day TBs
Jul 11	13.0	15.3	14.2	15.3
Aug 11	14.0	16.5	16.0	16.9
Sept 11	16.0	20.1	17.2	20.1
Oct 11	20.0	20.1	21.2	23.7
Nov 11	23.0	25.3	22.2	23.9
Dec 11	23.0	27.4	22.9	22.4
Jan 12	23.0	28.6	23.1	24.5
Feb 12	22.0	23.5	19.7	19.0
Mar 12	21.0	25.0	17.3	19.4
Apr 12	21.0	22.7	18.1	20.3
May 12	21.0	20.7	18.2	20.2
June 13	20.0	20.1	18.6	19.2

Source: Bank of Uganda

2.2.2. Treasury Securities Market

In order to align structural liquidity with the monetary policy stance for the month, BOU conducted two Treasury bill auctions each worth Shs. 120 billion at face value. All the Treasury bills were oversubscribed, in total by Shs. 337 billion, and owing to high demand the 182-day and 364-day tenor offers were increased by Shs. 8 billion and Shs. 60 billion, respectively in the second auction. The high demand for the government papers resulted into a fall in the weighted average annualised yields by 0.5 percentage points to 19.6 per cent for the 182-day paper and by 1.0 percentage points to 19.2 per cent for the

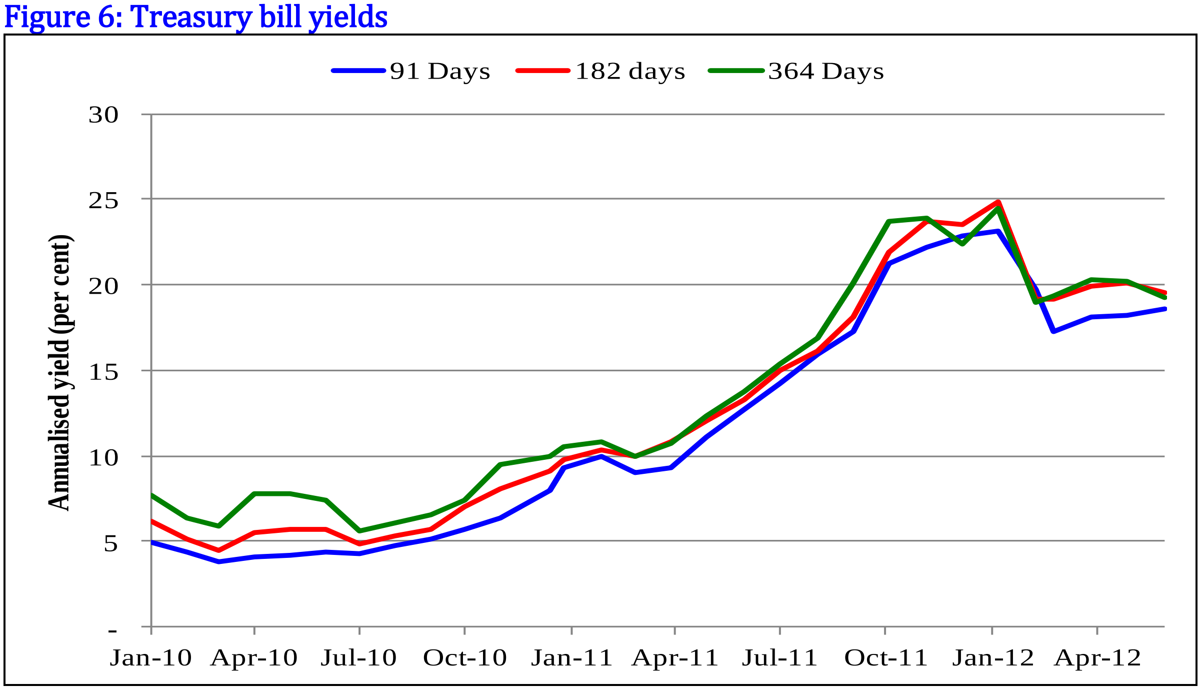
364-day paper, compared to the rates registered in the previous month. The fall in yields is possibly a reflection of lower inflation expectations and is consistent with the next six months and one year inflation forecasts by BoU. On the other hand, rates on the 91-day increased by 0.4 percentage points to 18.6 per cent during the same period. ***figure 6*** shows developments in Treasury bill yields.

There was greater activity in the secondary Treasury bill market in June 2012, compared to May 2012. Total trades of Treasury bills in the secondary market amounted to Shs. 142 billion, much higher than Shs. 94 billion registered in May 2012. Annualised rates for securities of less than 91- days rose by 2.0 per cent to 22.0 per cent in June 2012. On the other hand, the 182-day and 364-day rates fell by 11pp and 12pp to 18.1 per cent and 18.4 per cent respectively over the month.

BOU also issued and sold two new 3-year and 10-year Treasury bonds each worth Shs. 100 billion, at a total cost of Shs. 167 billion. The auctions were oversubscribed by Shs. 153 billion in total, and the average yield for the 3-year bond fell slightly to 15.3 per cent. In the last auction of the same tenor, held on April 25, 2012, the average yield for the 3-year bond was 15.4 per cent. However, the average yield for the 10-year bond increased to 15.2 per cent, compared with 13.2 per cent in the last auction of the same tenor, held on February 02, 2011.

The secondary bond market remained active in June 2012, with trades worth Shs. 119 billion, compared to Shs. 59 billion in May 2012. The average yields for bonds of less than 2-years and 5-years in the secondary market rose to 18.8 per cent and 15.4 per cent, respectively, while the yield on bonds of less than 3-years declined to 15.3 per cent during the month.

Figure 6: Treasury bill yields



Source: Bank of Uganda

2.2.3. Commercial Banks' interest rates

Commercial banks' lending rates continue to respond to monetary policy stance but with a lag, in part because of the weak monetary policy transmission mechanism. However, in May 2012, the cost of borrowing shilling-denominated loans increased by 52 basis points to a weighted average lending rate of 26.7 per cent despite a relaxed monetary policy stance between November 2011 and April 2012. The increase in lending rates was manifested across most sectors of the economy. In particular, notable increases occurred to the electricity and water sector of 435 basis points, community, social and other services sector of 228 basis points, and the manufacturing and trade sector of 226 basis points and 170 basis points, respectively. The weighted average lending rate to the household and personal loans sector also rose by 61 basis points, while the agriculture and transport & communications sectors experienced respective declines of 334 basis points and 195 basis points. The details of lending rates for various sectors are presented in *table 3*.

The weighted average rate on time deposits has been declining since January 2012. In addition, the weighted rates on saving and demand deposits have been relatively stable averaging 3.3 per cent and 1.4 per cent respectively for the period January-May 2012.

Table 3: Weighted Average Lending Rates per Sector

	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12
Agriculture: Crops, Livestock Poultry and Fisheries	25.01	28.15	28.29	28.75	28.65	27.67	24.32
Mining and Quarrying	22.99	26.43	18.08	20.59	25.06	23.31	22.25
Manufacturing	23.80	26.42	25.01	28.10	27.23	24.62	26.88
Trade	26.71	25.28	28.36	26.64	27.67	25.21	26.91
Transport and Communication.	26.01	23.25	26.85	27.69	28.28	28.01	26.06
Electricity and Water	23.95	30.00	30.00	29.18	27.97	24.27	28.62
Residential Mortgage	26.76	23.75	29.51	29.23	27.56	27.71	28.22
Commercial Mortgage	24.91	27.60	28.48	27.82	27.67	27.40	27.92
Land Purchase	28.62	28.79	29.86	28.98	29.04	26.77	28.53
Other (Building , Construction and real estate)	27.03	27.95	27.91	27.47	28.10	27.68	26.79
Business Services	28.17	27.93	28.28	27.71	28.55	27.86	27.76
Community, Social and Other Services	25.32	26.98	28.04	25.47	27.66	23.33	25.61
Personal and Household Loans	20.90	27.45	24.30	29.98	28.95	29.66	29.05
Other personal and household loans	25.74	26.78	25.86	25.57	25.07	25.69	26.39
Other Activities (not anywhere above)	24.05	26.81	26.43	25.99	28.85	28.20	27.30

Source: Bank of Uganda

With regard to foreign currency lending, the weighted average rates on foreign denominated loans also rose by 109 basis points to 9.3 per cent. This fall in lending rates is consistent with the increased volumes of foreign currency denominated loans and the appreciation pressures in May.

The foreign currency time deposit rate also increased by 276 basis points to 7.4 per cent, while the savings deposit rate fell by 33 basis points to 1.5 percent and the rate on demand deposits remained stable at 1.0 per cent. Developments in commercial banks' lending and deposit rates are shown in ***table 4***.

Table 4: Commercial bank lending and deposit rates

	Jan 12	Feb	Mar	Apr	May	Jan 12	Feb	Mar	Apr	May
Lending (Shs)	27.25	26.83	27.58	26.14	26.66	10.34	10.24	9.99	8.23	9.32
Deposit (WARD)	3.39	3.31	3.37	3.66	3.44	1.33	1.26	1.26	1.24	1.39
Demand	1.31	1.32	1.38	1.65	1.42	0.95	0.95	0.95	0.95	1.01
Saving	3.23	3.18	3.25	3.29	3.30	1.88	1.76	1.75	1.79	1.46
Time	21.23	19.78	19.96	18.67	17.36	5.86	5.09	4.47	4.60	7.36
Spread	6.02	7.04	7.62	7.42	9.30	4.49	5.15	5.52	3.63	1.95

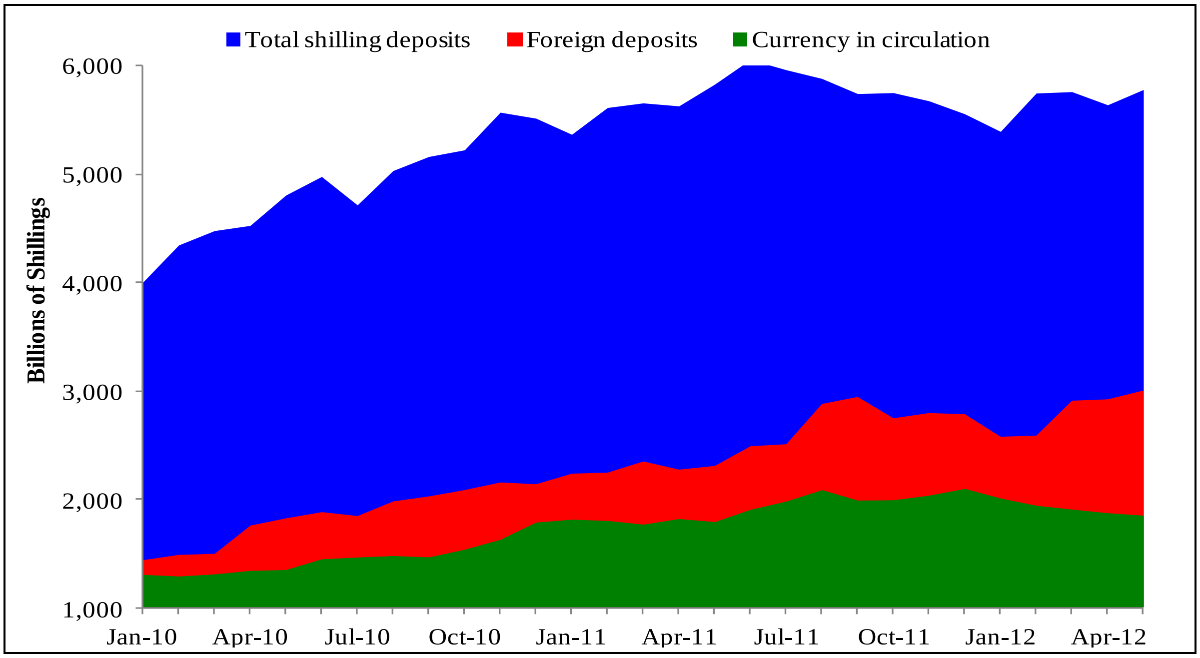
Source: Bank of Uganda

2.2.4. Developments in monetary aggregates

Growth in monetary aggregates is a good indicator of the state of aggregate demand and inflation in the economy. A number of empirical studies have confirmed the relationship between money growth and inflation, especially in the long-term. It is therefore imperative to analyse the evolution of monetary aggregates so as to gauge the risks they pose to price stability and potential contribution to aggregate demand.

Despite a modest improvement in growth in May 2012, monetary aggregates have generally remained weak. On a monthly basis M1 was stable at Shs. 4,508 billion, while M2 and M3 registered increments of 1.6 and 1.9 per cent, compared to respective declines of 1.9, 2.0 and 1.3 percent in April 2012. The stability of M1 was a result of an increment in demand deposits of Shs. 24 billion, that more or less offset the decline in currency in circulation (CIC) of Shs. 23 billion. The monthly growth in M2 and M3 was due to an increase in time & saving deposits of Shs. 117 billion and in foreign currency deposits of Shs. 82 billion (***figure 7***). Despite the monthly pick up, growth in monetary aggregates in 2012 is still weak: M1 and M2 have on average declined by 0.2 and 0.1 per cent respectively, while M3 has grown by 0.4 per cent.

Figure 7: Evolution of CIC and Private Sector Deposits



Source: Bank of Uganda

On an annualised basis, M1 has declined by 1.7 per cent, while M2 and M3 have grown by 0.1 and 7.1 per cent respectively, compared to respective growth rates of 1.7, 0.9 and 7.4 per cent in March 2012. Developments in monetary aggregates are shown in ***table 5***.

Table 5: Growth rates in monetary aggregates

	Jul 11	Aug	Sept	Oct	Nov	Dec	Jan 12	Feb	Mar	Apr	May
Monthly											
M1	(4.1)	5.3	(4.3)	1.8	(1.2)	(0.6)	(2.0)	4.2	(1.5)	(1.9)	0.0
M2	(0.2)	0.3	(3.0)	0.1	(0.4)	(0.8)	(3.3)	3.9	(0.3)	(2.0)	1.6
M3	0.0	3.8	(1.6)	(1.7)	0.1	(0.7)	(4.4)	3.0	2.9	(1.3)	1.9
Annual											
M1	26.7	23.7	18.6	17.7	5.5	3.8	4.2	2.7	3.9	1.7	(1.7)
M2	28.6	22.4	16.7	14.6	7.1	4.8	3.1	3.7	3.3	0.9	0.1
M3	30.3	27.8	23.4	18.7	12.4	10.6	6.0	6.4	8.3	7.4	7.1

Source: Bank of Uganda

2.2.5. Private Sector Credit

In most emerging and developing economies private sector credit is a leading economic indicator, as it shows the extent of the financial sector's contribution to economic activity. An analysis of private sector credit in May 2012 shows that private sector credit remains weak: averaging 0.5 per cent during the first five months of 2012. On a monthly basis, private sector credit grew marginally by 0.3 per cent in May compared to 0.4 per cent in the previous month. On an annualised basis, private sector credit grew by 16.5 per cent in May, compared with 20.7 per cent in the previous month. A large proportion of the annual credit growth is attributable to a 44.9 per cent increase in foreign-exchange-denominated loans, which was driven by the lower cost of foreign borrowing versus that for shilling-denominated loans. Annual shilling-denominated lending also grew by 5.4 per cent in May, although this is lower than the 9.1 per cent increase registered in the previous month.

May's weakness in total private sector lending is evident throughout all sectors, except trade, which grew by 10.8 per cent (y-o-y) compared with 4.3 per cent in the previous month. In particular, the agriculture, transport and communication, and household and personal loans sectors grew at notably lower annual rates in May of 1.0, 4.3 and 15.1 per cent respectively, compared to 17.0, 15.6 and 23.9 per cent in the previous month. In addition, the annual growth of credit to manufacturing and building, and construction and real estate sectors was lower at 13.8 and 31.2 per cent respectively in May, compared to 17.9 and 32.3 per cent in April. The sectoral growth rates of private sector credit are shown in ***table 6a***.

Table 6a: Annual growth rates of banks' total credit to the private sector

	Agriculture	Manufacturing	Trade	Transport and Communication	Building, Mortgage and Construction	Personal Loans and Household Loans
Jul 11	29.8	33.1	53.4	49.7	58.7	15.0
Aug	37.2	41.8	55.0	45.3	60.5	22.0
Sept	53.4	43.1	36.2	34.1	53.1	46.9
Oct	41.9	19.5	31.5	24.3	48.9	47.1
Nov	32.3	19.6	29.6	27.7	40.6	48.2
Dec	24.7	21.6	16.4	5.8	37.6	40.4
Jan 12	37.3	6.2	19.2	7.9	27.4	38.4
Feb	24.2	4.5	17.2	8.1	23.6	35.4
Mar	21.2	9.9	16.1	10.4	32.1	28.5
Apr	17.0	17.9	4.3	15.6	32.3	23.9
May	1.0	13.8	10.8	4.3	31.2	15.1

Source: Bank of Uganda

Although total credit growth remains weak, foreign-denominated lending continues to strengthen, averaging 42.7 per cent (y-o-y) in the first five months of 2012. Similarly to total lending, all sectors registered lower growth rates except trade, as shown in ***table 6b***.

Table 6b: Annual growth of banks' foreign currency credit to the private sector

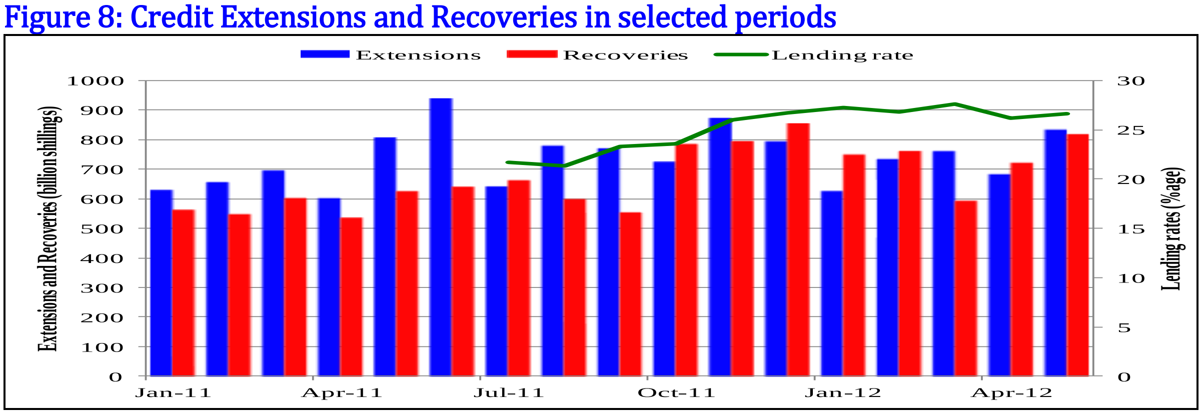
	Agriculture	Manufacturing	Trade	Transport and Communication	Building, Mortgage and Construction	Personal Loans and Household Loans
Jul 11	22.3	71.3	103.6	157.0	91.0	-42.0
Aug	37.3	57.9	96.6	158.0	107.3	-17.9
Sept	48.0	49.0	69.3	135.7	78.2	142.4
Oct	34.6	26.9	59.9	73.7	71.3	93.5
Nov	14.7	23.6	66.4	120.8	58.6	111.7
Dec	-0.9	31.9	39.3	24.9	58.9	46.6
Jan 12	10.4	24.6	40.4	40.4	52.9	48.6
Feb	7.3	23.1	41.2	32.5	55.3	49.8
Mar	18.5	36.2	45.4	47.3	104.3	87.1
Apr	7.2	57.6	17.2	69.8	112.1	122.4
May	-6.4	51.8	28.6	41.7	101.1	102.6

Source: Bank of Uganda

In terms of sectoral distribution, the manufacturing, building, mortgage, construction & real estate, and trade sectors dominated, holding more than 20 per cent of total private sector credit in local and foreign currency lending by the end of May 2012. The Personal loans & households sectors held 15.6 and 2.3 per cent of total credit and foreign currency lending respectively.

On the upside, net credit extensions increased to Shs. 15 billion in May 2012, compared with a decline of Shs. 39 billion the previous month. This was due to an increase in loan extensions and recoveries. In May 2012, new loan disbursements rose by Shs. 150 billion while loan recoveries increased by Shs. 96 billion. If the rise in credit extensions is sustained over the subsequent months, then credit growth may be picking up, possibly arising from relaxed monetary policy in previous months. Developments in new loan extensions and recoveries are shown in ***figure 8***.

Figure 8: Credit Extensions and Recoveries in selected periods



Source: Bank of Uganda

An analysis of credit demand and supply indicates that though credit is still weak, it is beginning to pick up. In May, loan applications increased by 2,678 applications, compared to increases of only 443 and 282 applications in April and March respectively. Similarly, loan approvals were also much higher, increasing by 2,835 applications, relative to 86 and 105 applications in April and March respectively. Although the value of loan applications was Shs. 35 billion lower in May relative to April, the value of loan approvals improved significantly by Shs. 66 billion in May relative to April. The trade, building, construction & real estate and manufacturing sectors registered the highest amount of loan approvals. The agriculture, trade and construction and real estate sectors registered the highest proportion of loan approvals. Interestingly, although manufacturing received one of the highest amounts of credit, the total amount was a relatively low proportion of that applied for: 47 per cent. If increased credit supply is sustained in the coming months, then it is likely to feed into economic recovery. ***Tables 7a and 7b*** show credit demand and supply.

Table 7a: Number and Value of Loan Extensions and Approvals

	Loan Applications received	Amounts applied for (Shs. bns)	Loan Applications approved	Amounts approved (Shs. bns)
Jul 11	20609	737	20421	460
Aug	22656	802	18987	444
Sept	19161	1105	17417	809
Oct	18486	650	16806	510
Nov	17558	682	16542	423
Dec	13665	438	13996	391
Jan 12	12662	620	12092	286
Feb	10382	491	10332	439
Mar	10664	596	10718	415
Apr	11107	597	10804	345
May	13785	562	13639	411

Table 7b: Number and Value of Loan Extensions and Approvals by sector

	Value of Applications Received (Shs. Billions)										
SECTOR	**Jul 11**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan 12**	**Feb**	**Mar**	**Apr**	**May**
Agriculture	34	44	127	32	24	24	45	21	27	32	34
Manufacturing	136	147	315	90	67	79	21	98	36	27	169
Trade	188	213	224	104	138	88	361	192	219	180	127
Transport, Communication &Utilities	20	35	114	108	114	94	41	53	110	176	29
Building, Construction and Real Estate	110	113	65	62	49	59	55	40	90	83	87
Personal Loan and Household Loans	100	103	82	70	54	56	42	38	36	38	46
Services and Other Activities	150	147	178	184	234	37	56	50	78	60	70
	Value of Applications Approved (Shs. Billions)										
SECTOR	**Jul 11**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan 12**	**Feb**	**Mar**	**Apr**	**May**
Agriculture	16	43	115	18	17	14	30	27	11	24	38
Manufacturing	132	74	255	98	75	78	19	91	12	32	80
Trade	74	92	162	86	101	72	117	181	128	85	115
Transport, Communication &Utilities	22	33	96	104	98	92	13	47	96	81	20
Building, Construction and Real Estate	50	64	53	26	33	57	43	35	69	53	80
Personal Loan and Household Loans	87	75	68	56	47	46	33	30	27	30	36
Services and Other Activities	79	63	61	123	51	32	32	29	72	40	42
	Proportion of Application Approved (per cent)										
SECTOR	**Jul 11**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan 12**	**Feb**	**Mar**	**Apr**	**May**
Agriculture	49	96	90	56	71	60	67	129	42	74	112
Manufacturing	98	51	81	109	112	99	89	93	33	117	47
Trade	39	43	72	83	73	82	32	94	59	47	91
Transport, Communication &Utilities	108	94	84	96	86	97	33	88	88	46	69
Building, Construction and Real Estate	46	57	81	41	67	97	78	87	77	64	92
Personal Loan and Household Loans	87	72	82	80	87	82	80	79	73	80	78
Services and Other Activities	53	43	34	67	22	86	56	58	92	67	60

Source: Bank of Uganda

2.3. Growth, Output and Aggregate Demand

2.3.1. GDP

Output is estimated to have expanded by 1.9 per cent in 2012 Q1 following a fall of 2.1 per cent in 2011 Q4. However, the output growth observed in 2012 Q1 falls short of the long run potential output level. In 2012 Q1, with exception of the industrial sector, the main sectors of the economy are estimated to have remained rather weak. The estimates of GDP suggest that the growth rate of agricultural output, which accounts for about 14 per cent of economic activity in Uganda, fell sharply in Q1. Whilst agricultural growth remained positive, it was only 0.4 per cent, compared to 2.7 per cent in 2011 Q4. The relatively weak agriculture growth was attributed to significant declines in output of both cash crops and food crops, despite an expansion in fishing. However industrial output, which accounts for about 24 per cent of activity in Uganda, expanded significantly in the same period. Industrial output grew by 7.3 per cent in 2012 Q1, having fallen by 8.6 per cent in the previous quarter. Industrial expansion was mainly attributable to recovery within the construction sector, which expanded by 12.4 per cent in of 2012 Q1, following a contraction of 14.5 per cent in the previous quarter. Activity in the services sector remained broadly flat in 2012 Q1; it contracted by 0.5 per cent, unchanged from that reported in the previous quarter.

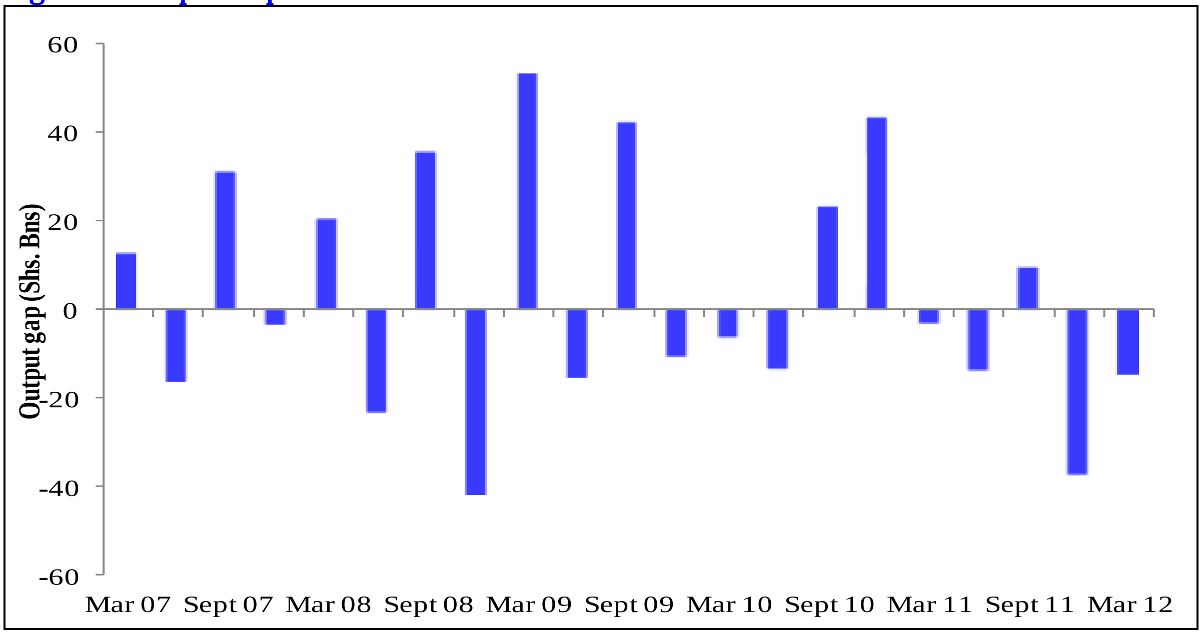
Table 8: GDP by economic activity at constant prices

Year	2011				2012	2011				2012
Quarter	Q1	Q2	Q3	Q4	Q4	Q1	Q2	Q3	Q4	Q4
	Values (Shs. bns)					Values (Shs. bns)				
GDP at market prices	**5,404**	**5,591**	**5,630**	**5,509**	**5,614**	**-2.9**	**3.5**	**0.7**	**-2.1**	**1.9**
GDP at basic prices	**4,840**	**5,028**	**5,094**	**4,992**	**5,074**	**-2.5**	**3.9**	**1.3**	**-2.0**	**1.6**
Agric., forestry and fishing	**771**	**761**	**784**	**806**	**809**	**-0.8**	**-1.3**	**3.0**	**2.7**	**0.4**
Cash crops	64	66	70	73	73	-0.5	3.2	6.6	3.2	0.2
Food crops	426	411	427	442	442	-2.0	-3.6	3.8	3.7	-0.1
Livestock	69	70	70	71	72	0.8	1.0	0.9	1.0	1.0
Forestry	139	140	142	143	145	0.9	1.0	1.1	1.1	1.0
Fishing	73	74	75	76	78	1.8	1.9	1.1	1.4	2.0
Industry	**1,260**	**1,439**	**1,348**	**1,232**	**1,322**	**-12.0**	**14.2**	**-6.4**	**-8.6**	**7.3**
Mining and quarrying	24	26	27	27	27	17.1	5.3	7.4	-0.6	-1.0
Manufacturing	393	397	390	388	393	5.2	1.2	-1.8	-0.6	1.4
Formal	294	293	284	279	280	3.5	-0.1	-3.2	-2.0	0.5
Informal	99	104	106	109	113	10.6	5.2	2.0	3.0	3.7
Electricity supply	60	61	59	58	59	1.0	0.9	-3.4	-0.9	1.9
Water supply	96	98	99	99	100	1.4	2.2	0.5	-0.3	1.5
Construction	687	857	773	661	742	-22.2	24.8	-9.9	-14.5	12.4
Services	**2,929**	**2,949**	**3,075**	**3,061**	**3,045**	**1.6**	**0.7**	**4.3**	**-0.5**	**-0.5**
Wholesale and retail trade	738	736	759	760	739	1.4	-0.2	3.0	0.2	-2.7
Hotels and restaurants	242	247	255	263	271	0.6	2.1	3.1	3.3	3.0
Transport & communications	509	535	594	600	625	11.3	5.1	11.0	1.0	4.2
Road, rail & water transport	247	225	261	251	268	59.6	-8.9	15.7	-3.8	7.0
Air transport & support svcs	31	32	33	34	36	-0.9	1.1	3.2	4.7	5.4
Posts & telecommunication	231	278	301	315	321	-14.9	20.7	8.0	4.8	1.8
Financial services	198	197	195	184	176	-2.8	-0.2	-1.5	-5.4	-4.5
Real estate activities	386	386	385	381	375	0.2	0.0	-0.4	-1.0	-1.5
Other business services	100	97	105	107	103	-3.5	-2.8	8.3	1.0	-3.7
Public administration	219	213	232	234	224	-3.2	-2.6	8.8	0.9	-4.2
Education	322	316	330	317	322	-1.2	-1.9	4.3	-3.8	1.7
Health and social work	67	65	66	65	64	-3.4	-2.6	0.7	-2.0	-1.5
Other personal & comm. svcs	148	155	156	151	147	4.2	4.3	0.8	-3.0	-3.1
FISIM	**-121**	**-121**	**-113**	**-107**	**-102**	**-3.2**	**0.0**	**-6.5**	**-5.6**	**-4.6**
Net taxes on products & imports	**565**	**563**	**536**	**517**	**540**	**-6.2**	**-0.3**	**-4.7**	**-3.6**	**4.4**

Source: UBOS

Analysis of the output gap (the difference between the actual output and the potential output) reveals that the negative output gap that emerged in 2011 Q4 continued into 2012 Q1. The negative output gap is consistent with the decelerating inflationary pressures, as illustrated through declining annual inflation growth rates over the previous months. It is likely that the negative output gap may be reversed in the coming quarters, as the onset of the rainy season boosts agricultural output. Meanwhile, monetary easing, due to disinflationary pressures, should help to improve private sector credit.

Figure 9: Output Gap

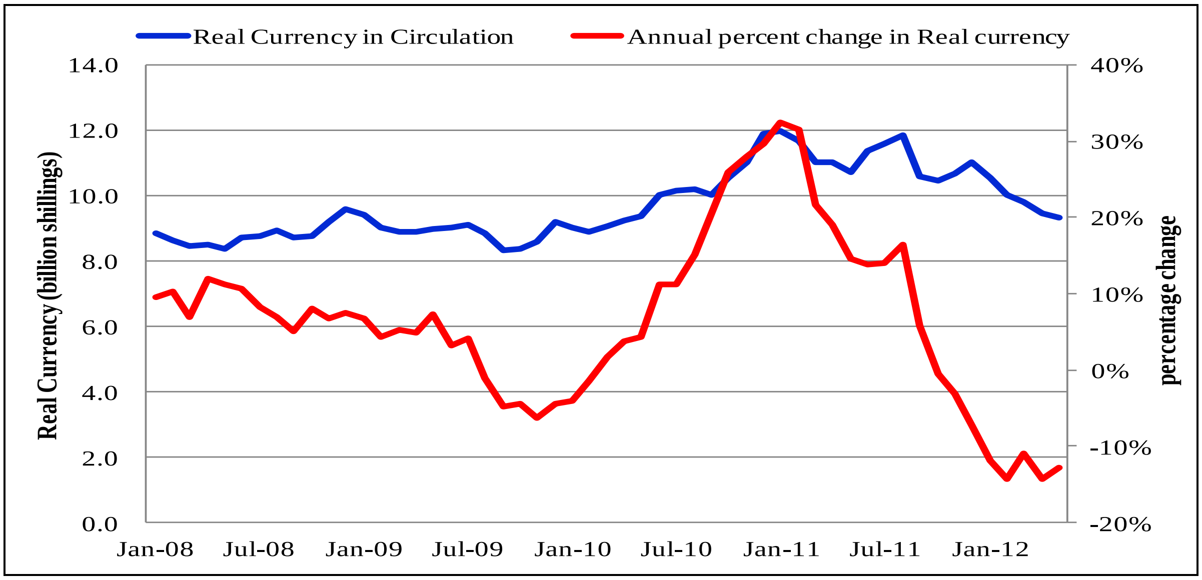


Source: Bank of Uganda

2.3.2. Aggregate demand

The annual growth rate in real currency in circulation (CIC) has remained negative since October 2011, as shown in ***figure 10***, largely reflecting tight monetary policy. The negative growth rate in real CIC implies a reduced level of consumer spending throughout the Ugandan economy. In May 2012, the annual level of real CIC declined by 13 per cent, compared to a decline of 14 per cent the previous month. Similarly, monthly real CIC declined by 1.1 per cent in May, compared to a decline of 3.7 per cent in April 2012. The implication of the deceleration trend in real CIC is subdued real household spending, which will be accompanied by reduced upside inflationary risk. Since inflation forecasts indicate that inflation is expected to remain above BOU's target in the medium term, the BOU's relatively tight monetary policy stance in the past is likely to dampen private consumption looking forward.

Figure 10: Real currency in circulation



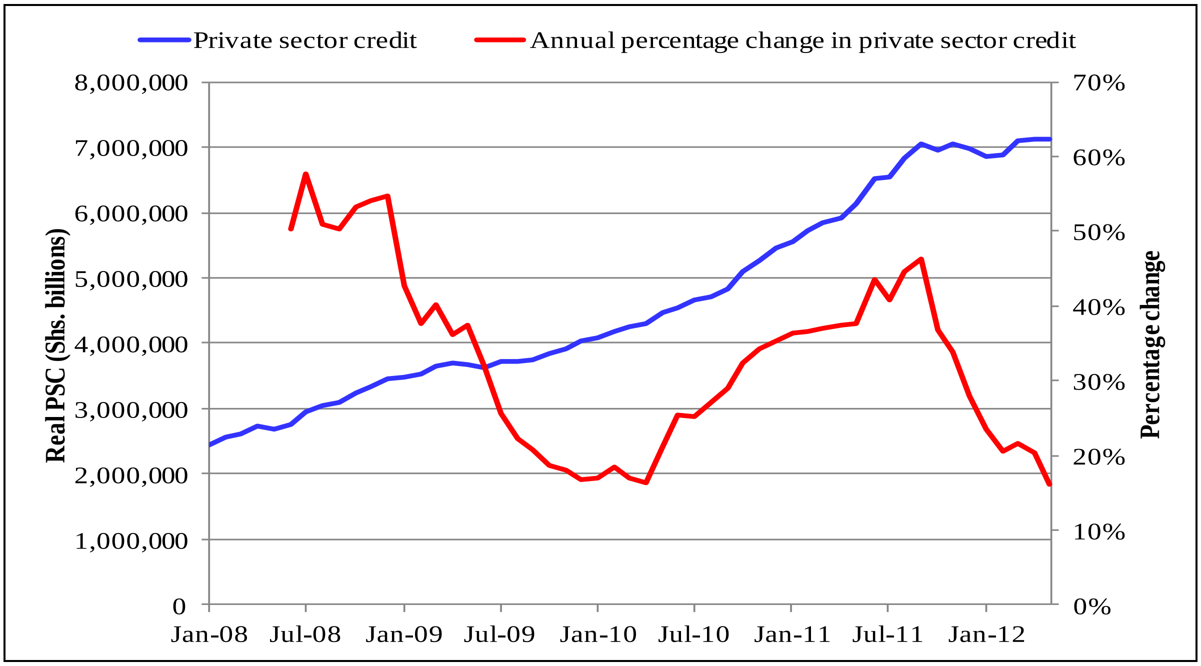
Source: Bank of Uganda

Another indicator of reduced consumer demand is the persistently weak growth in monetary aggregates, which have fallen markedly in 2011/12. For instance, between July 2011 and May 2012, monthly growth rates in M2 and M3 both averaged minus 0.3 per cent, compared to average growth rates of 1.6 and 1.7 per cent respectively in the corresponding period of the previous year. However, all three monetary aggregates were greater in May when compared to the slump posted in the two previous months. On an annual basis, the growth in monetary aggregates was mixed; M1 fell by 0.2 per cent in May 2012, following an expansion of 1.7 per cent in April 2012. However, M2 and M3 grew faster in May 2012: by 1.0 and 8.0 per cent respectively, compared to 0.1 and 7.4 per cent respectively in April 2012. The expansion in broad money may be attributed to a significant expansion in foreign currency denominated deposits, owing to favourable exchange rates.

Annual private sector credit, which largely mirrors the level of private investment expenditure in the economy, decelerated in May 2012 growing by 16.1 per cent, compared to 20.2 per cent in April 2012 (***figure 11***). However, on a monthly basis this equates to 0.3 per cent growth in May 2012, compared to a contraction of 1.7 per cent in April 2012. Mays' expansion in private sector credit is largely attributable to improved credit supply, owing to May's reduction in the Central Bank Rate. Demand factors may also have contributed to the growth in private sector credit, given that industrial output appears to be recovering. The expansion of credit in May, all factors constant, should positively contribute to economic activity in the coming period.

Government expenditure on goods and services remains volatile, mainly due to domestic tax collections. In June 2012, government expenditure fell short of that projected by about Shs. 160 billion. Government expenditure totalled Shs. 554 billion in June 2012, compared to Shs. 556 billion the previous month.

Figure 11: Real Private sector credit



Source: Bank of Uganda

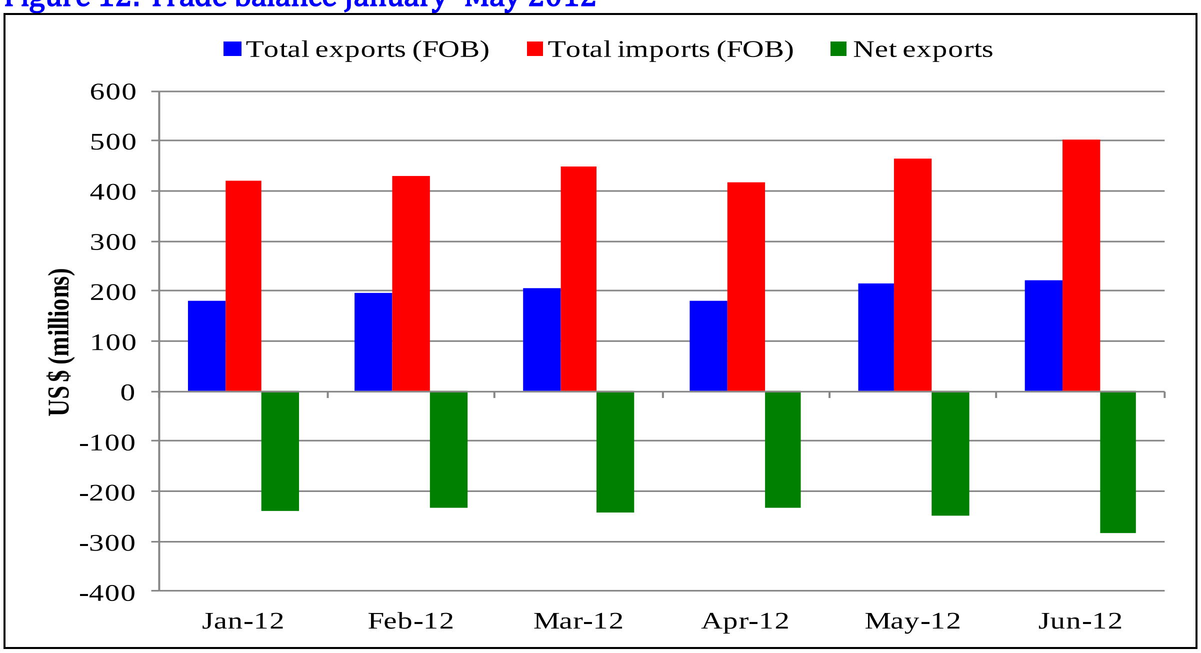
For the financial year 2011/12, government expenditure averaged Shs. 541 billion per month, compared to Shs. 504 billion the previous year. However, government expenditure fell short of the targeted average of Shs. 640 billion per month in 2011/12, largely due to lesser revenue collection on account of muted economic activity. Annual tax revenue continues to underperform targeted tax revenues, with a cumulative shortfall for 2011/12 increasing by Shs. 22 billion to Shs. 140 billion in May 2012. The revenue short fall is mainly in direct taxes and taxes on international trade. However, on a monthly basis, net tax revenue collection rose by 3.3 per cent to Shs. 500 billion in May. The monthly increase was largely driven by increases in indirect taxes and taxes on international trade. Notably, indirect taxes increased by 2.4 per cent in May 2012 to Shs. 122 billion, whilst taxes on international trade rose by 8.1 per cent to Shs. 250 billion in May 2012.

2.3.3. Domestic and External demand

There was an increase in both domestic and external demand in May 2012 as imports and exports both increased month on month by 11.5 and 16.6 per cent respectively. On an annual basis, imports and exports grew faster at 15.2 and 17.1 per cent respectively. Export earnings increased to US$ 254 million (FOB) in May, from US$ 218 million in April, whilst imports receipts rose to US$ 464 million (FOB), from US$ 416 million (*figure 12*). However, net trade contributed negatively to growth because the absolute increase in import payments exceeded the increase in export earnings.

However, the terms of trade improved by 10.7 per cent to an indexed level of 109.4 in May. Improvement in the terms of trade is due to the export price index rising faster than import prices in May. During the month, the export price index rose by 33.4 per cent to 210.2, while the import price index rose by 20.5 per cent to 192.2. The growth in export earnings during the month arose from expansion in both coffee and non-coffee exports, which on a monthly basis grew by 63.6 and 12.9 per cent respectively. The significant rise in coffee earnings may only be a seasonal effect, since coffee exports typically occur chiefly within the two coffee seasons of March-June and September-November. The increase in domestic demand (imports) was on account of increased private sector imports. During the month, private sector imports rose by 18.4 per cent, private sector non-oil imports increased by 18.6 per cent to US$ 378 million in May. The increase in private sector non-oil imports could signify increased domestic demand in the Ugandan economy.

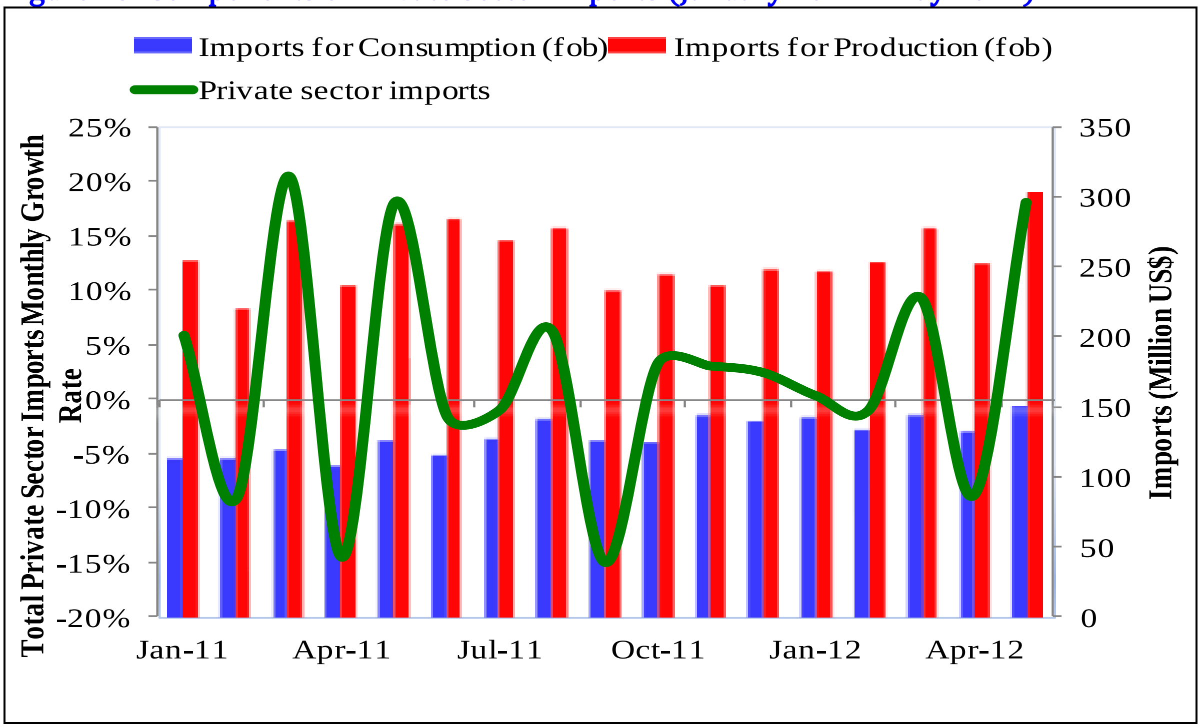
Figure 12: Trade balance January–May 2012



Source: Bank of Uganda

The disaggregation of imports (*figure 13*), shows that in May, private sector imports of goods for production purpose rose by 20.4 per cent to US$ 3012 million; Imports of goods for consumption purposes increased by 14.6 per cent to US$ 149 million in the same period. The increase in private sector imports was largely widespread, save for animal and animal products and base metal imports. The increase in private sector imports reinforces the assumed recovery in aggregate demand during this period.

Figure 13: Components of Private Sector Imports (January 2011 – May 2012)



Source: Bank of Uganda.

2.4. Exchange Rate Developments

2.4.1. Bilateral shilling –US Dollar rate

In June 2012 the Uganda shilling remained relatively stable, depreciating by 0.2 per cent on a month-on-month basis to 2,484.36/US$. On an annual basis, the shilling depreciated by 1.0 per cent from Shs. 2,461.04/US$ in June 2011.

The depreciation was mainly due to increased corporate demand from offshore and the oil sector. The increase in the withholding tax rate on government securities, in the budget for the FY 2012/13, and the Euro zone debt crisis may also present bearish sentiment for the shilling.

In the region, the Kenyan Shilling depreciated by 0.8 per cent in June on a monthly basis to an average midrate of KShs. 84.92/US$. Similarly the Rwandan Franc depreciated by 0.3 per cent to an average midrate of RWF 609.81/US$. The Tanzanian shilling remained stable at TZS 1,581.00/US$. The South African

Rand depreciated by 3.6 per cent, while the Euro and the British Pound depreciated by 2.1 and 2.5 per cent respectively. The fact that several currencies reflect similar trends is an indication that country-specific policy settings and macroeconomic conditions have not resulted in idiosyncratic pressures on exchange rate regimes. Developments in regional currencies are shown in ***table 9.***

Table 9: Trend of the Regional Currencies against the US dollar (2008=100)

	Ushs/US$	Kshs/US$	TZShs/US$	ZAR/US$	Euro/US$	Pound/US$
Jul 11	5.1	0.8	0.9	-0.3	0.6	1.3
Aug 11	6.4	3.3	1.4	3.4	-0.2	-1.6
Sept 11	2.2	3.9	2.4	7.6	4.0	3.4
Oct 11	-0.3	5.0	2.6	5.3	0.5	0.3
Nov 11	-8.0	-7.4	3.5	2.5	1.1	-1.0
Dec 11	-5.2	-7.3	-5.6	0.6	2.9	1.9
Jan 12	-1.3	-0.6	-3.6	-2.1	2.1	0.6
Feb 12	-3.6	-3.6	0.4	-4.5	-2.4	-1.6
Mar 12	6.7	-0.3	0.2	-0.7	0.2	-0.4
Apr 12	0.9	0.4	-0.5	3.0	0.3	0.5
May 12	-1.1	1.4	-0.2	3.9	2.8	-1.4
Jun 12	0.2	0.8	0.0	3.6	2.1	2.5

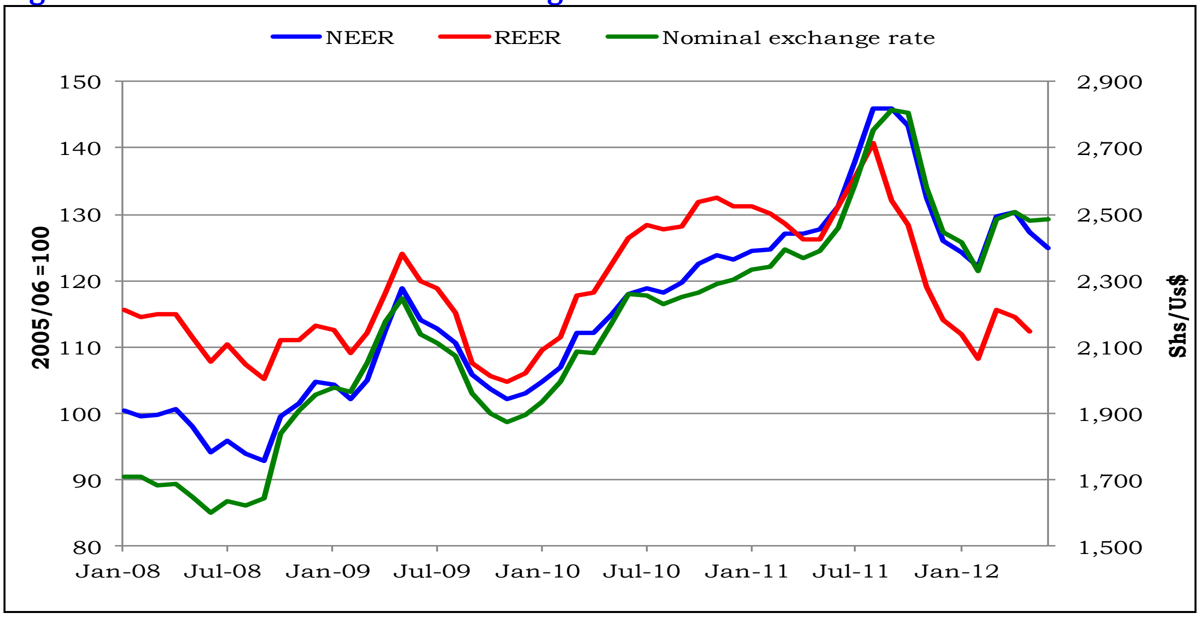
Source: Bank of Uganda

2.4.2. Nominal and real effective exchange rate

In June 2012, the Nominal Effective Exchange Rate (NEER), appreciated by 1.9 per cent on a monthly basis and 4.7 per cent on an annual basis to an indexed level of 124.9. The NEER has, on average, been appreciating since August 2011, largely supported by inflows of US dollars into the country. Net offshore foreign currency purchases by local banks accumulated to US$ 545 million between August 2011 and June 2012, representing about 48 per cent of total net demand. Furthermore, the slowdown in global economic recovery, particularly in the Euro zone and China has exacerbated the shilling's appreciation against its major trading partners. The shilling appreciated against the British Pound (by 2.2 per cent), the Kenya Shilling (by 0.5 per cent), the Sudanese Pound (by 11.5 per cent), the Euro (by 1.9 per cent), the South African Rand (by 3.4 per cent), the Indian Rupee (by 3.4 per cent), the Swiss Franc (by 2.5 per cent), and the Korean Won (by 1.3 per cent), amongst other currencies.

The Real Effective Exchange Rate (REER), which measures how competitive Uganda's traded goods are compared to its trading partners, appreciated by 1.8 per cent in May 2012 to an indexed level of 98.3. On an annual basis, the REER appreciated by 10.9 per cent. The appreciation of the REER was mainly due to significantly higher domestic inflation relative to foreign inflation. ***Figure 14*** shows the evolution of the effective exchange rates.

Figure 14: Nominal and Effective Exchange Rates



Source: Bank of Uganda

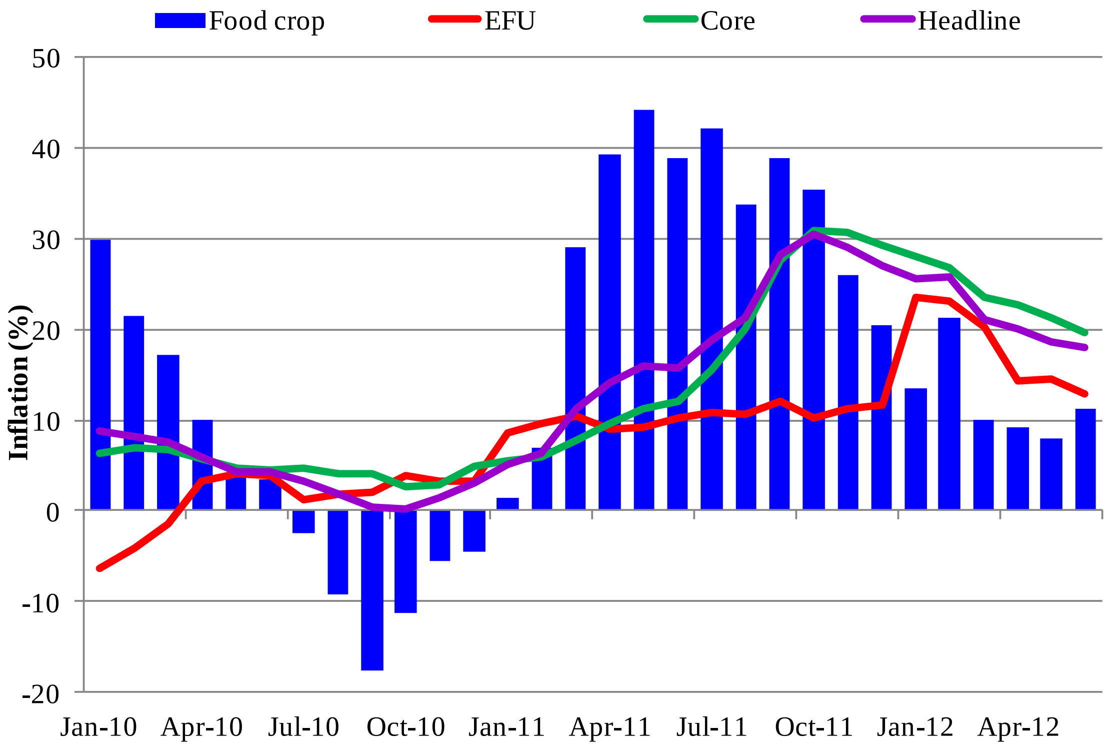
3. Inflation

3.1. Developments and determinants

The disinflationary trend continued in June 2012, consolidating the gains that have been witnessed since the last quarter of 2011. Annual headline inflation declined by 6pp to 18.0 percent, whilst core inflation fell by 17pp to 19.5 percent in June. The decline in annual headline inflation may be attributed to a deceleration in both food and non food inflation. Food prices fell because of increased food supply, facilitated by the favourable rains. On the other hand, non-food inflation decreased due to reduced domestic fuel prices, largely attributable to lower international oil prices. Notably, annual EFU inflation fell by 1.6 percentage points to 12.9 per cent in June.

Annual non-food inflation declined by 6pp to 20.4 per cent in June. Annual food inflation declined by 10 pp to 12.7 per cent in June. The inflation developments in June further strengthen the outlook that the onset of the rainy season will intensify the disinflationary pressures. Inflation movements are presented in ***figure 15*** and ***table 10***.

Figure 15: Annual Inflation Developments: January 2010 – June 2012



Source: UBOS

Monthly changes present a strong disinflationary trend over the past six months. Monthly headline inflation averaged only 0.6 per cent during January to June 2012, compared to an average value of 1.9 per cent in the same period of the previous year. Monthly changes in core inflation have also decelerated considerably, averaging 0.3 per cent over the past six months, compared to 1.6 per cent in same time period the previous year. However, average monthly EFU inflation increased in the first half of 2012 to 1.5 per cent, compared to 1.2 per cent in a similar period of the last year. This is largely attributable to an increase in electricity prices by the Electricity Regulatory Authority.

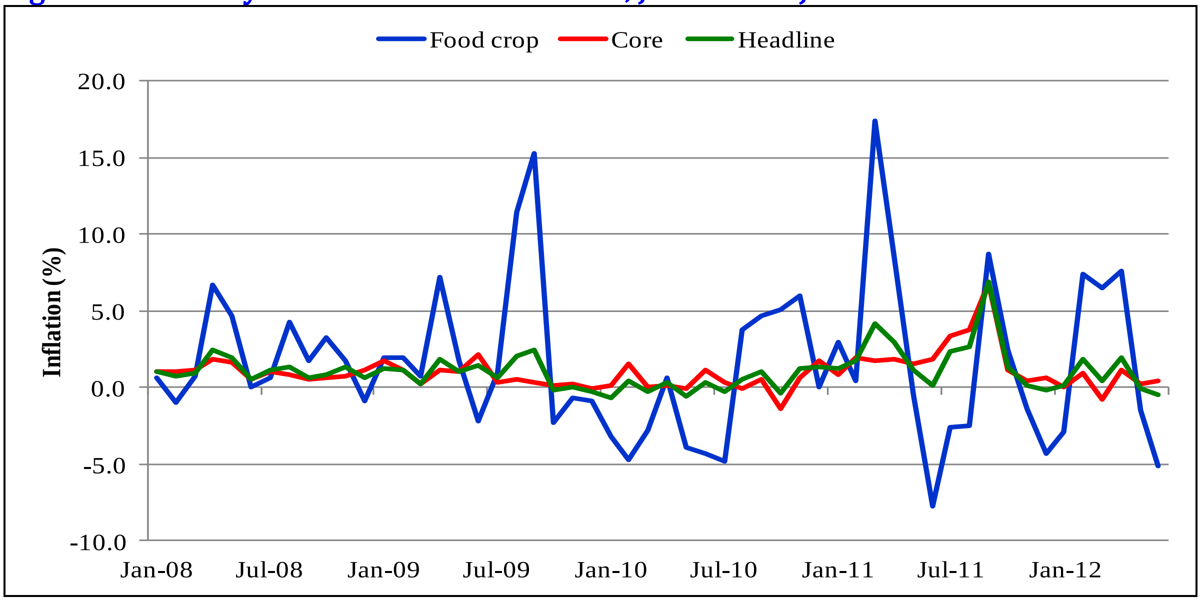
Table 10: Headline and core inflation January-June 2012

	Jan 12	Feb	Mar	Apr	May	Jun	Average Jan-June 2012	Average Jan-June 2011
	Annual							
Headline	25.6	25.7	21.1	20.0	18.6	18.0	21.5	11.4
Core	28.1	26.7	23.6	22.8	21.2	19.5	23.6	8.7
EFU	23.5	23.1	20.2	14.3	14.5	12.9	18.1	9.8
Food Crops	13.5	21.4	10.1	9.1	8.0	11.2	12.2	26.7
Food	27.2	27.6	15.4	15.0	13.7	12.7	18.6	22.6
Non Food	24.2	24.3	23.7	22.3	21.0	20.4	22.6	6.4
Beverages and tobacco	24.1	25.0	23.6	23.2	25.1	25.4	24.4	9.7
Clothing and footwear	43.8	42.7	39.0	34.9	27.1	19.0	34.4	15.7
Rent, Fuel and utilities	34.5	35.0	31.8	29.1	27.0	25.7	30.5	8.3
H.hold and personal goods	28.0	27.3	24.5	22.3	19.5	18.4	23.3	16.9
Transport and communication.	20.9	16.7	24.1	20.8	20.4	17.5	20.1	-13.0
Education	10.9	14.8	14.9	14.7	14.3	18.2	14.6	6.0
Heath, entert. & Others	20.9	20.6	19.2	19.4	19.0	17.9	19.5	12.8
	Monthly							
Headline (Monthly)	0.1	1.8	0.4	2.0	-0.1	-0.5	0.6	1.9
Core	0.0	0.9	-0.8	1.2	0.2	0.5	0.3	1.6
Elec, Fuel & Utilities (EFU)	11.8	1.0	-0.5	-3.7	0.6	-0.3	1.5	1.2
Food Crops	-3.0	7.4	6.5	7.6	-1.5	-5.1	2.0	3.5
Food	-2.3	2.3	1.1	5.5	-0.1	-3.4	0.5	3.6
Non Food	1.3	1.7	-0.2	0.3	0.0	0.8	0.7	1.0

Source: UBOS

Substantial monthly price decreases were recorded for matooke, Irish potatoes, sweet potatoes, green vegetables, beans, rice, chicken and milk. This is mainly attributable to increased supplies in the market. However, sugar and fruit prices rose, the net result being that the composite food group index decreased by 3.4 per cent. In the non-food category, prices rose by 0.8 per cent on the month, chiefly driven by charcoal and firewood prices increases.

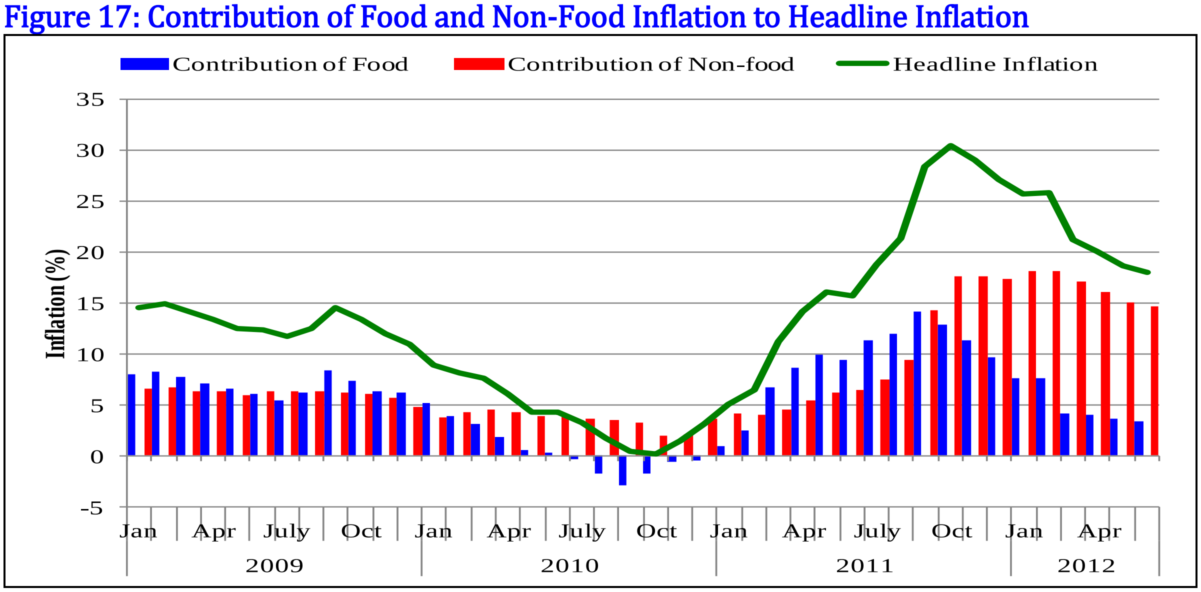
Figure 16: Monthly headline and core inflation, June 2008 - June 2012



Source: UBOS

In June, food accounted for 3.4 per cent of the overall inflation figure, whilst non-food inflation accounted for the remaining 14.6 per cent. The non-food component of headline inflation continues to bear increasing weight over the food component, particularly compared to earlier in the year, thereby strengthening the impact that monetary policy may hold over the headline inflation figure. ***Figure 17*** presents the contribution of food and non-food inflation to the headline figure.

Figure 17: Contribution of Food and Non-Food Inflation to Headline Inflation



Source: UBOS

A disaggregation of commodities in ***table 11*** shows considerable inflationary reductions in fresh vegetables by 65pp to 12.0 per cent, household repairs and maintenance by 39pp to 10.7 per cent, soap and toiletries by 20pp to 18.6 per cent, and transport fares by 45pp to 7.5 per cent in June. However considerable inflationary increases were registered in staples and dry vegetables. Staples prices doubled by 52pp to 10.4 per cent over the month, whilst dry vegetables prices increased by 45pp to 13.0 per cent. Given that staples are heavily weighted in the basket, accounting for 6.6 per cent, their price rise contributed to the relative stickiness in inflation in June. Other commodities either remained fairly stable or slightly increased in June 2012.

Table 11: Annual percentage price increases of some commodities in the CPI basket

	Weight	Jul 11	Aug	Sept	Oct	Nov	Dec	Jan 12	Feb	Mar	Apr	May	Jun
Food	**27.2**												
staples	**6.6**	93.6	83.7	82.0	66.6	41.2	23.4	9.5	2.9	-3.6	1.8	5.2	10.4
Fresh Fruit	**1.1**	37.6	30.2	29.6	19.1	16.7	11.3	17.7	39.0	20.4	26.0	16.9	19.3
Fresh Vegetables	**1.8**	-11.0	-11.7	17.9	22.8	28.2	31.5	28.6	84.0	63.4	28.6	18.5	12.0
Dry Vegetables	**2.5**	25.0	18.9	15.4	12.5	10.7	13.1	12.7	10.1	0.4	8.1	8.5	13.0
Meat & poultry	**3.2**	33.4	39.2	43.4	47.4	44.4	42.9	37.5	35.6	32.5	31.2	21.3	21.5
Fish	**1.6**	27.8	35.8	30.0	23.9	34.9	26.0	22.6	17.7	13.4	8.2	11.8	11.9
Milk & eggs	**2.1**	13.2	6.9	5.2	7.3	12.0	12.5	16.3	22.7	9.8	16.4	12.4	13.1
Oils & fats	**1.0**	39.9	36.2	42.5	42.1	36.7	33.1	43.4	39.3	16.4	12.8	10.7	10.3
Sugar, tea & spices	**2.7**	32.8	76.7	138.0	112.9	109.3	85.8	59.4	38.3	17.0	11.0	1.5	1.7
Rent,fuel & utilities	**14.8**												
HH Repair & Main.	**7.8**	20.8	23.0	25.6	27.7	29.0	28.2	23.3	20.9	17.3	18.1	14.6	10.7
HH Personal goods	**4.5**												
Soap,toiletries etc	**2.4**	28.6	29.8	34.4	35.1	36.5	34.3	29.9	30.1	25.3	22.7	20.6	18.6
HH textile & furniture	**1.1**	22.6	23.4	26.3	26.1	26.5	27.7	27.8	25.8	27.7	24.7	18.3	19.3
Other HH goods	**0.9**	15.5	17.9	20.5	22.3	24.0	23.7	21.8	18.9	17.8	18.2	17.3	17.2
Transport & communication	**12.8**												
Transport fares	**4.4**	19.5	21.2	25.2	22.6	24.7	22.8	28.0	21.0	15.2	11.9	12.0	7.5
Communication	**5.6**	-66.5	-66.5	-45.2	1.7	1.7	1.7	0.7	0.7	63.8	63.8	63.8	63.8
Other transport & communication costs	**2.8**	21.8	21.4	23.0	20.5	26.1	27.8	26.2	22.0	19.9	16.2	14.9	13.7
Health Entertainment & others	**16.8**												
Meals in Restaurants	**8.3**	15.6	17.9	22.1	21.6	22.7	21.3	21.8	21.1	19.6	19.7	18.2	17.2

Source: UBOS

3.2. Inflation Forecasts

In June headline inflation, which was 18 per cent, just fell within the forecast range of 14-18 per cent. However core inflation, which was 19.5 per cent, just missed the forecast range of 15-19 per cent, largely due to increased school fees in May 2012. Increased school fees added about 0.6 per cent to inflation.

Inflation is expected to remain above 10 per cent for most of 2012 but decline gradually to towards 5 per cent by mid-2013, primarily due to the lag effect that monetary policy typically has. Yet it may be worth highlighting that increases in water tariffs and in duty on alcohol and tobacco, as announced in the 2012/13 budget could raise the prices of these products.

The downward trend in inflation is expected to continue, aided by international oil prices. As shown in ***figures 18a*** and ***18b***, the forecast range for headline inflation and core inflation remain unchanged at 14-18 per cent and 15-19 per cent respectively in July. The latest inflation forecast for December 2012 indicates that headline inflation will fall to about 9 per cent while core is likely to be about 8 per cent. The forecast for June 2013 indicates that headline inflation will be around 6 per cent and core inflation around 5 per cent.

Figure 18a: Headline inflation forecasts

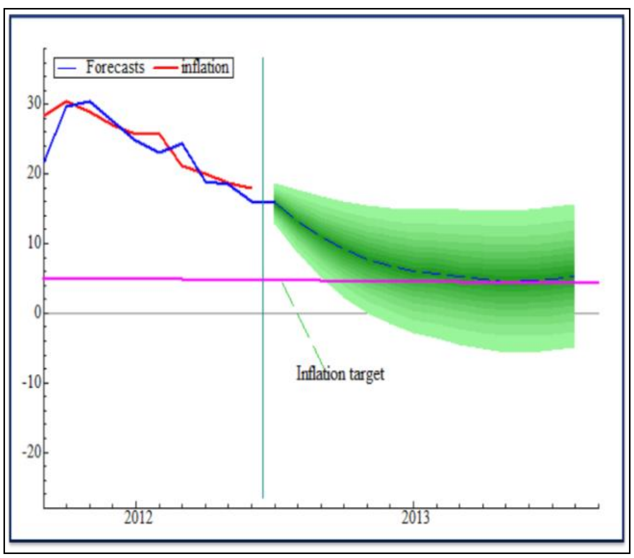
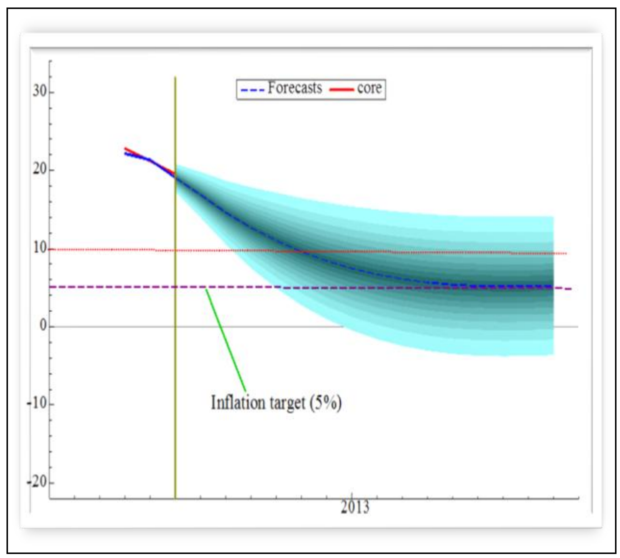


Figure 18b: Core inflation forecasts



The forecasts are reliant upon falling oil prices and a lagged pass-through impact of the shilling appreciation. However it is worth highlighting the volatility of oil prices, which weakens the certainty of the forecast. Oil price volatility is therefore the main risk to the inflation forecast and may be the prime driver in a divergence of actual inflation from the forecasts.

4. Policy Implications and Framework for July 2012

Global economic activity was still weak across both advanced economies and emerging economies. The euro zone remained in recession, while the USA experienced rising unemployment and emerging markets experienced decline in exports and FDI, notably even in China and India. China's manufacturing activity grew at its slowest pace in seven months in June 2012, adding to fears surrounding a Chinese economic slowdown.

Attempts have been made to improve the gloomy global economic outlook. European leaders have committed to the idea that the ECB may act as the single supervisor of euro zone banks, which may allow for capital to be directly injected into troubled banks and avoid intensifying sovereign debt. A single supervisor of euro zone banks may improve market confidence in countries where there has been a vicious feedback loop between a troubled banking system and elevated sovereign debt, notably in Spain and Ireland. Expansionary monetary policy in China should also improve the global outlook by boosting domestic demand and offsetting the decline in exports.

The economic slowdown in developed and emerging market economies, and therefore decelerating global inflation, is likely to spill over into Uganda. Imported inflation is unlikely to be an issue. Indeed, global inflationary pressures continued to abate in June, mainly on account of lower energy prices. However, it is worth highlighting the volatility of oil prices. Despite low oil prices, the pessimistic global economic outlook currently warrants expansionary monetary policy.

The domestic economy seems to have rebounded in June, but it remains below its potential level and is negatively affected by the Chinese economic slowdown and the European recession. Muted consumer spending was registered in the last 3 quarters of the FY 2011/12. This was a reflection of weak household income growth, tight credit conditions and the government's tight fiscal stance. Consumer spending, which accounts for approximately 80 per cent of GDP, is likely to remain subdued in 2012 and 2013, if these factors continue to prevail. A disinflationary effect is likely if the output gap forecast to remain negative in 2012 and 2013. In Q1 2012, the economy expanded by 2.0 per cent on a quarterly seasonally adjusted basis. However this represents a deeper than expected slowdown, which in part was a result of the lagged effects of past contractionary monetary policy and the weak global economic conditions. The slower domestic economic growth, sticky inflation and relatively high interest rates suggest that a cautious easing of monetary policy may be the optimal policy objective for BOU.

In June, annual inflation decelerated at a rate lower than earlier anticipated, mainly due to elevated school fees. Also there remain upside risks to inflation from supply bottlenecks, and the deterioration of the current account balance which continues to affect the exchange rate outlook. Looking forward, the near-term inflation trajectory indicates a continued and more pronounced decline, in particular from easing international oil prices and the lagged pass-through impact of the shilling appreciation. Inflation is expected to remain above 10 per cent for most of 2012 but decline gradually towards the 5 per cent target in mid-2013.

The delay for reaching the inflation target is primarily due to the lag effect of monetary policy. However, increases in water tariffs and excise duty on alcohol and tobacco, announced in the 2012/13 budget, may stem the decline in inflation. Nonetheless, the disinflationary trend is expected to continue, thus encouraging expansionary monetary policy.

The growth in monetary aggregates rebounded in May 2012 but was still very weak. Credit has been procyclical and bank lending to the private non-financial sector, the backbone of the economy, remains restrained. The continued weakness of growth in monetary aggregates and low private sector credit supply indicates that aggregate demand remains subdued and may constrain economic activity going forward. Further, growth in monetary aggregates and private sector credit are no longer risks to inflation but rather pose challenges for the growth of the economy. The developments in monetary aggregates therefore support expansionary monetary policy in order to boost economic activity.

Fiscal policy also supports expansionary monetary policy. The government's projected expenditure for 2012/13 is lower than that of 2011/12, thus suppressing aggregate demand further. In the current environment of depressed spending, an increase in government expenditure may serve simply to maintain demand. However, the room to increase government expenditure is limited by the decline in funds pledged by donors and high interest rates. In the budget for 2012/13, the government announced that infrastructure spending will be financed by issuing securities estimated at Shs. 225 billion. If not well-planned, this financing could exert undue pressures on the interest rate, thereby increasing the financing costs of this kind of debt. The financing could also crowd out credit to the private sector.

Contrary to the above, developments in the exchange rate do not support monetary policy easing. After defensive rate hikes at the end of 2011, Uganda faces renewed foreign exchange pressure, which, amidst weaker export revenues, may affect the current account balance and consequently domestic demand. In light of the uncertain global environment, which threatens the shilling and risks a negative feedback loop of external and fiscal deficits, capital outflows and inflation, tight monetary policy is warranted.

In consideration of the likely impact of global and domestic developments stipulated above, BOU eased monetary policy further by reducing the CBR to 19 per cent. The band on the CBR was maintained at plus/minus 3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR. Consequently, the rediscount rate and the Bank rate in July were set at 23 per cent and 24 per cent respectively.

Appendix

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs: end of month unless otherwise indicated)	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Foreign Exchange Market													
Inter-Bank Purchases (US$M)	906.9	672.4	779.6	783.9	843.0	794.7	911.5	1,076.2	836.6	787.9	629.4	963.0	809.6
Inter-Bank Sales (US$M)	931.2	670.7	800.1	792.1	782.8	779.8	856.2	898.5	760.5	781.2	760.5	868.6	747.7
Cross currency trading (US$ million)	121.8	147.5	68.5	151.5	149.1	160.6	105.0	111.0	106.9	142.4	111.2	211.2	158.1
Inter-Bank Mid-Rate (UShs/US$)	2,461.0	2,587.2	2,753.2	2,814.0	2,805.4	2,582.2	2,446.9	2,414.2	2,328.0	2,485.0	2,506.2	2,479.1	2,484.4
Foreign Exchange Reserves													
Gross Foreign Reserves in months of imports of goods and Ser	3.5	4.1	3.9	3.6	3.7	3.7	3.7	4.1	4.2	4.1	4.2	4.3	4.2
Bank of Uganda Foreign Exchange Reserves (US$ M)	2,044.0	2,466.7	2,373.8	2,256.5	2,316.7	2,344.6	2,399.1	2,528.0	2,556.1	2,521.3	2,556.6	2,650.2	2,558.0
Tax Revenue	423.8	402.1	485.3	466.4	450.3	462.4	661.0	510.3	474.4	487.5	483.8	499.6	752.8
Monetary and Credit Aggregates (2)													
Broad Money supply M3	10,437.7	10,438.7	10,836.4	10,665.1	10,480.1	10,495.4	10,426.6	9,967.6	10,264.8	10,565.7	10,423.8	10,712.9	
Foreign Exchange Accounts Deposits	2,492.0	2,510.5	2,883.8	2,948.8	2,751.2	2,799.5	2,788.5	2,580.2	2,590.3	2,913.8	2,926.6	3,029.0	
Money supply M2	7,945.7	7,928.2	7,952.6	7,717.3	7,728.9	7,695.9	7,638.1	7,387.4	7,674.5	7,651.9	7,497.2	7,683.9	
Currency in circulation	1,899.6	1,975.7	2,080.6	1,984.6	1,987.5	2,030.2	2,092.0	2,003.5	1,936.7	1,901.4	1,868.1	1,845.4	
Shilling denominated Demand deposits	2,825.3	2,555.1	2,689.5	2,582.0	2,662.8	2,566.2	2,477.8	2,474.2	2,730.7	2,694.8	2,639.4	2,732.0	
Shilling denominated Time and saving deposits	3,220.8	3,397.4	3,182.5	3,150.7	3,078.6	3,099.5	3,068.3	2,909.7	3,007.1	3,055.7	2,989.8	3,106.6	
Private Sector Credit	6,512.0	6,559.0	6,832.0	7,069.8	6,965.4	7,038.6	6,981.6	6,864.6	6,895.7	7,103.3	7,130.6	7,149.2	
Weighted Average Interest Rates on Shilling Transactions.													
Demand Deposit Rate	1.1%	1.2%	1.2%	1.2%	1.2%	1.3%	1.2%	1.3%	1.3%	1.4%	1.6%	1.4%	
Savings Deposit Rate	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.3%	3.2%	3.2%	3.3%	3.3%	3.3%	
Time Deposit Rate	11.0%	13.0%	14.2%	14.4%	12.8%	19.9%	23.9%	21.2%	19.8%	20.0%	18.7%	17.4%	
Lending Rate	20.0%	21.7%	20.4%	23.3%	23.6%	25.4%	26.7%	27.3%	26.8%	27.6%	26.1%	26.7%	
Weighted Average Interest Rates on													
Foreign Exchange Transactions													
Demand Deposit Rate	1.1%	1.08%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	1.01%	
Savings Deposit Rate	1.5%	1.5%	1.5%	1.6%	1.7%	1.7%	1.7%	1.9%	1.8%	1.8%	1.8%	1.5%	
Time Deposit Rate	2.4%	2.1%	3.9%	2.4%	3.8%	4.5%	4.1%	5.9%	9.2%	4.5%	4.6%	7.4%	
Average Lending Rate	9.4%	9.7%	9.8%	9.7%	9.5%	10.2%	10.1%	10.3%	10.2%	10.0%	8.2%	9.3%	
Treasury Bills													
91 Days (End period Weighted Discount Rate)	12.3%	13.4%	14.6%	15.7%	18.7%	20.5%	20.0%	20.5%	17.4%	15.7%	16.3%	16.4%	16.7%
182 Days (End period Weighted Discount Rate)	12.7%	13.3%	14.7%	16.3%	18.4%	20.6%	20.1%	21.4%	16.4%	17.3%	17.4%	17.5%	17.1%
364 Days (End period Weighted Discount Rate)	13.2%	12.8%	15.2%	16.6%	18.9%	19.6%	18.9%	19.8%	15.8%	16.9%	16.9%	16.8%	16.1%
Treasury Bond Secondary Market rates													
2-year Bond													
Bid	13.3%	14.7%	14.9%	16.3%	18.0%	18.8%	19.8%	19.7%	18.3%	16.1%	15.9%	15.3%	15.2%
Offer	13.1%	14.6%	14.8%	16.1%	17.9%	18.7%	19.7%	19.5%	18.2%	15.9%	15.8%	15.2%	15.0%
5-year Bond													
Bid	13.8%	14.9%	15.5%	16.7%	17.7%	18.0%	17.8%	17.8%	17.5%	16.2%	16.1%	15.5%	15.3%
offer	13.6%	14.7%	15.4%	16.6%	17.6%	17.9%	17.7%	17.7%	17.3%	16.0%	15.9%	15.3%	15.2%
10-year Bond													
bid	14.4%	15.0%	15.9%	16.9%	18.4%	18.8%	18.7%	18.7%	17.9%	16.9%	16.7%	15.8%	15.5%
offer	14.3%	14.9%	15.7%	16.7%	18.3%	18.7%	18.5%	18.4%	17.8%	16.7%	16.6%	15.6%	15.3%
Bank of Uganda Rates (End Month)													
Rediscount Rate	15.7%	16.0%	17.0%	21.0%	25.0%	28.0%	28.0%	27.0%	26.0%	25.0%	25.0%	25.0%	24.0%
Bank Rate	16.7%	17.0%	18.0%	22.0%	26.0%	29.0%	29.0%	28.0%	27.0%	26.0%	26.0%	26.0%	25.0%
CBR		13.0%	14.0%	16.0%	20.0%	23.0%	23.0%	23.0%	22.0%	21.0%	21.0%	21.0%	20.0%
7-day Interbank Rate	11.1%	15.0%	19.4%	20.6%	24.9%	26.1%	27.5%	28.2%	23.5%	25.0%	22.7%	20.7%	20.1%
Overall Interbank Rate	9.8%	13.2%	18.5%	19.7%	23.0%	23.8%	26.7%	27.0%	19.2%	21.8%	21.3%	18.7%	21.3%
Consumer Price Index (Base 2005/06)													
Composite CPI, Annual percentage change.	15.7	18.8	21.4	28.3	30.5	29.0	27.0	25.6	25.7	21.1	20.0	18.6	18.0
Core CPI, Annual percentage change	12.1	15.6	20.0	27.6	30.8	30.6	29.2	28.1	26.7	23.6	22.8	21.2	19.5
Food crops CPI, Annual percentage change	39.0	42.3	33.7	38.8	35.3	25.9	20.4	13.5	21.4	10.1	9.1	8.0	11.2
Elec, Fuel & Utilities (EFU) CPI, Annual percentage cl	10.3	10.8	10.7	12.1	10.1	11.3	11.6	23.5	23.1	20.2	14.3	14.5	12.9
Producer Price Index for Manufacturing Sector													
PPI-M Composite	230.5	238.2	256.0	266.6	271.0	268.0	260.4	256.8	248.5	249.5	249.3		
PPI-M Local	209.5	216.4	225.1	238.2	244.6	242.4	244.3	241.4	236.9	234.5	234.1		
PPI-M Export	307.8	319.2	366.5	369.1	367.0	361.1	321.3	313.8	293.2	305.2	305.5		
Monthly Average Pump Prices of Petroleum Products													
Motor Spirit Premium (PMS)	3,580.0	3,700.0	3,850.0	3,865.0	3,950.0	3,880.0	3,750.0	3,500.0	3,400.0	3,550.0	3,700.0	3,650.0	3,650.0
Diesel (AGO)	3,300.0	3,345.0	3,350.0	3,475.0	3,550.0	3,500.0	3,750.0	3,400.0	3,150.0	3,280.0	3,320.0	3,250.0	3,100.0
Kerosene (BIK)	2,800.0	2,825.0	2,850.0	2,910.0	2,980.0	2,890.0	2,850.0	2,800.0	2,600.0	2,650.0	2,840.0	2,750.0	2,750.0
Source: Research Department, Bank of Uganda													

Summary of Imports and Exports

Imports of Merchandise (US$ millions)	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12
Total Imports (c.i.f)	**495.79**	**534.82**	**486.67**	**569.17**	**488.79**	**480.42**	**504.75**	**522.49**	**521.80**	**530.42**	**555.03**	**515.80**	**574.44**
o/w cost													
Total Imports (fob)	**407.28**	**438.87**	**399.85**	**466.33**	**401.11**	**393.20**	**412.90**	**431.98**	**426.51**	**434.13**	**453.58**	**421.51**	**468.79**
Government Imports	12.35	51.32	3.65	26.18	51.28	23.41	44.87	41.77	35.07	46.88	30.28	35.72	13.45
Project	9.67	15.84	1.78	12.96	9.06	11.71	20.30	33.29	10.26	19.54	19.57	35.39	4.79
Non-Project	2.68	35.48	1.87	13.21	42.22	11.70	24.57	8.48	24.81	27.34	10.71	0.32	8.66
Formal Private Sector Imports	390.48	382.69	391.44	434.42	346.28	365.81	364.10	384.69	385.22	383.21	417.86	380.56	450.75
Oil imports	70.29	70.25	69.69	78.43	67.56	66.62	63.29	72.29	78.77	69.13	72.03	62.09	72.92
Non-oil imports	320.19	312.44	321.75	355.98	278.72	299.19	300.80	312.40	306.45	314.07	345.83	318.48	377.83
Estimated Private Sector Imports	4.44	4.87	4.76	5.74	3.55	3.97	3.94	5.52	6.22	4.04	5.44	5.23	4.59
Total Private Sector Imports	394.93	387.56	396.20	440.15	349.83	369.79	368.03	390.21	391.44	387.25	423.30	385.80	455.34
o/w freight													
Total Imports	84.77	91.89	83.15	98.49	83.97	83.53	87.97	86.69	91.26	92.22	97.16	90.30	101.19
Government Imports	3.07	12.75	0.91	6.50	12.74	5.82	11.14	10.37	8.71	11.64	7.52	8.87	3.34
Project	2.40	3.93	0.44	3.22	2.25	2.91	5.04	8.27	2.55	4.85	4.86	8.79	1.19
Non-Project	0.67	8.81	0.47	3.28	10.49	2.91	6.10	2.11	6.16	6.79	2.66	0.08	2.15
Private Sector Imports	81.70	79.14	82.24	91.99	71.23	77.72	76.82	76.32	82.55	80.57	89.64	81.43	97.85
Oil imports	17.46	17.45	17.31	19.48	16.78	16.55	15.72	17.96	19.57	17.17	17.89	15.42	18.11
Non-oil imports	64.24	61.69	64.93	72.51	54.45	61.17	61.10	58.36	62.98	63.40	71.75	66.01	79.73
Private Sector through forex	80.55	79.08	80.94	91.99	71.23	77.66	76.82	76.32	82.55	80.57	87.98	81.42	97.85
o/w insurance													
Total Imports	3.74	4.06	3.67	4.35	3.71	3.69	3.88	3.83	4.03	4.07	4.29	3.99	4.47
Government Imports	0.14	0.56	0.04	0.29	0.56	0.26	0.49	0.46	0.38	0.51	0.33	0.39	0.15
Project	0.11	0.17	0.02	0.14	0.10	0.13	0.22	0.37	0.11	0.21	0.21	0.39	0.05
Non-Project	0.03	0.39	0.02	0.14	0.46	0.13	0.27	0.09	0.27	0.30	0.12	0.00	0.10
Private Sector Imports	3.61	3.49	3.63	4.06	3.14	3.43	3.39	3.37	3.64	3.56	3.96	3.60	4.32
Oil imports	0.77	0.77	0.76	0.86	0.74	0.73	0.69	0.79	0.86	0.76	0.79	0.68	0.80
Non-oil imports	2.84	2.72	2.87	3.20	2.40	2.70	2.70	2.58	2.78	2.80	3.17	2.91	3.52
Private Sector through forex	3.56	3.49	3.57	4.06	3.14	3.43	3.39	3.37	3.64	3.56	3.88	3.60	4.32

Exports of merchandise (US$ millions)	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12
Total Exports	**216.84**	**225.955**	**224.120**	**221.246**	**203.586**	**193.188**	**208.274**	**224.169**	**213.282**	**225.516**	**238.870**	**217.665**	**253.887**
Total Formal Exports	**187.32**	**194.154**	**191.362**	**184.715**	**174.307**	**167.486**	**177.943**	**192.321**	**181.469**	**197.522**	**204.512**	**181.679**	**216.273**
1. Coffee (Value)	**40.02**	**57.948**	**54.629**	**44.363**	**48.825**	**30.455**	**34.661**	**36.969**	**33.707**	**36.163**	**30.183**	**21.865**	**35.772**
Volume ('000 60-Kg bags)	0.25	0.371	0.376	0.309	0.340	0.215	0.227	0.242	0.226	0.244	0.188	0.141	0.253
Av. unit value	2.63	2.604	2.423	2.391	2.391	2.358	2.542	2.543	2.481	2.467	2.682	2.580	2.361
2. Non-Coffee formal exports	**147.30**	**136.206**	**136.733**	**140.352**	**125.482**	**137.031**	**143.282**	**155.352**	**147.762**	**161.359**	**174.329**	**159.814**	**180.501**
Electricity	1.20	1.528	1.543	1.661	1.482	1.386	1.362	1.346	0.962	1.451	1.391	1.740	1.548
Gold	0.34	0.285	0.826	0.454	0.501	1.831	0.296	1.590	1.007	0.874	0.853	1.199	1.134
Cotton	8.65	1.470	4.098	1.197	0.240	0.000	0.172	3.740	9.314	11.438	16.278	12.618	9.281
Tea	6.92	5.957	7.107	5.505	5.909	6.333	6.753	6.872	7.450	4.223	2.968	3.701	8.348
Tobacco	4.72	4.325	2.490	3.187	3.998	2.958	6.525	5.425	7.036	6.207	5.680	2.723	5.213
Fish & its prod. (excl. regional)	13.21	12.143	9.442	9.627	9.569	11.238	12.322	15.903	12.456	12.493	11.798	10.556	11.979
Hides & skins	2.59	3.004	2.119	1.915	2.567	3.829	3.229	2.542	2.549	3.453	3.980	3.604	4.920
Simsim	1.54	0.376	0.100	1.009	1.215	0.803	0.290	0.403	1.993	1.283	2.006	2.204	2.905
Maize	2.43	1.176	2.970	5.618	3.743	2.860	1.252	0.931	1.668	5.029	8.260	4.111	5.318
Beans	0.88	3.305	2.348	2.655	2.431	2.781	0.826	0.917	0.269	0.690	0.613	0.673	0.309
Flowers	5.50	4.941	5.478	5.166	4.609	4.033	3.576	3.292	4.722	4.911	4.354	3.678	6.102
Oil re-exports	8.12	9.19	9.67	8.12	8.92	9.57	10.41	9.06	7.09	11.68	12.21	9.47	15.688
Cobalt	1.59	1.581	1.581	1.581	1.048	1.587	1.579	1.581	0.527	1.580	0.527	0.527	1.054
Others	89.63	86.921	86.964	92.657	79.253	87.827	94.693	101.754	90.721	96.046	103.410	103.009	106.703