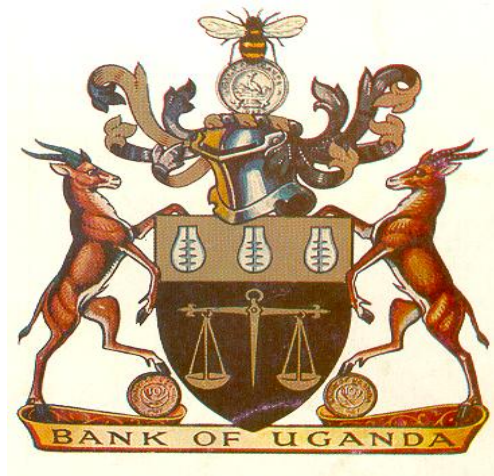
Bank of Uganda



Monetary Policy Report

February 2013

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1 Overview

Core inflation rose above the Bank of Uganda's medium-term target of 5.0 percent in January; annual core inflation reached 5.6 percent in January, up from 4.6 percent in December, largely driven by price increases in alcoholic beverages, sugar and rent. January's acceleration in core inflation marks the second successive increase, which may point to the re-emergence of inflationary pressures. Annual headline inflation however decreased to 4.9 per cent, from 5.3 per cent in December.

There does not appear to be any dominant inflationary pressures resulting from the global economy; inflation remained unchanged in both the euro zone and the UK at 2.2 per cent and 2.7 per cent respectively, declined fractionally in the US and India to 1.7 per cent and 7.2 per cent respectively, and increased in China and Brazil to 2.5 per cent and 5.8 per cent respectively. Despite the confusion in inflation movements over the month, the overall direction of global inflationary pressures remained subdued.

The global economy continues to grow at a slow pace, but further recovered in December. The global manufacturing sector in particular took a positive turn, which establishes a positive outlook for other economic sectors, and was largely driven by China, the UK and US. However, the euro zone and Japan remain major drags on the global manufacturing sector, and wider global economy.

Quarterly GDP and CIEA data and growth in monetary aggregates all indicate that the Ugandan economy is following the global trend: aggregate demand is rebounding, though slowly and below the long-tern average.

The Ugandan Shilling continued to depreciate for the sixth consecutive month in January, by 0.4 per cent compared to December and by 11.2 per cent compared to January 2011. Depreciation pressures continue to be fuelled by bearish sentiments arising from the suspension of donor aid and by the weak current account position.

Although the current account position may be weak, it demonstrated a significant improvement in January, particularly in the goods and services accounts. The trade deficit improved due to a fall in imports and an improvement in the Terms of Trade. However, the reduction in imports was driven by a fall in non-oil private sector imports, which might reflect weak private sector demand in the economy.

2 Money and credit

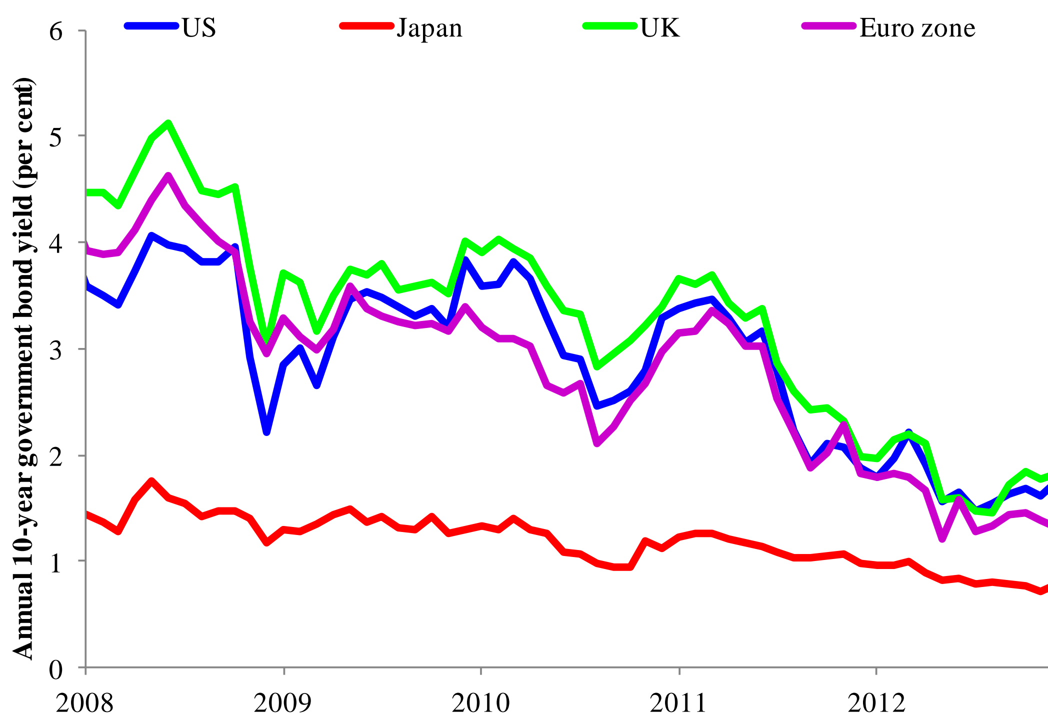
2.1 Global financial markets

Financial markets have an enormous, and increasing, impact upon global economic activity. A well developed financial sector should improve the efficiency with which savings may be channelled into investment, and thereby promote economic growth. Furthermore, well developed financial markets allow enormous capital flows that suffer no national border constraints. However, financial markets are highly susceptible to investor sentiment and investments may be reversed or withdrawn immediately. Whilst the potential benefits that the financial sector promise are vital to economic growth in a globalised world, the destruction that they may also cause in terms of volatility and speculation are important to acknowledge. The following two sections will analyse the monthly developments in international (2.1) and domestic (2.2) financial markets.

Global financial markets continued to settle towards the end of 2012, though heightened volatility in the short-term remains a serious risk due to the lack of complete resolve surrounding the fiscal cliff. Developments in the euro zone improved over the quarter; Spain and Italy, considered two of the more risky economies, both presented falling bond yields and thus improved investor confidence surrounding their economic status. In Spain, bond yields fell from 6.3 per cent in Q3 to 5.4 per cent in Q4, whilst in Italy bond yields fell from 5.8 per cent to 4.5 per cent over the same period. ***Figure 1*** presents ten year government bond yields in some of the largest bond markets; whilst yields are universally lower compared to the start of 2012, yields ticked up in Japan, the UK and US in December.

Stability in global financial markets should lower risk aversion; consequently, the recent stability should prompt investors to seek out markets with higher returns, which may effect greater portfolio inflows to Uganda and an appreciation of the Shilling.

Figure 1: Ten year Government Bond Yields



Source: Bloomberg

The foreign exchange market saw the dollar weaken, but the euro strengthen considerably throughout January. Extension of the US debt ceiling somewhat relieved the pressures on the dollar, but the overwhelming pressures stemming from low Q4 GDP growth, quantitative easing and fragile consumer confidence, which may have been shaken following the re-introduction of 2.0 per cent payroll tax, caused the dollar to depreciate against most major currencies in January. Furthermore, an improved economic outlook in China also acted to reduce dollar demand. The euro position remains vulnerable to poor economic performance, high unemployment and therefore suppressed demand and a persistent lack of resolve surrounding the debt crisis. However, in January banks' early debt repayments to the ECB and the ECB's announcement that it will continue to support the euro, was apparently well received by markets, as the euro appreciated against most currencies over the month.

Throughout the East African Community, Central Banks are operating expansionary monetary policy in accordance with the prevailing disinflatory pressures. Relatively low Central Bank rates are also largely reflected through yields on government securities; the weighted average annualized yield for 91-day Treasury bills fell from 8.2 per cent to 8.1 per cent between December and January in Kenya, whilst in Rwanda and Tanzania the yield remained stable at 12.6 per cent and 11.9 per cent respectively. The weighted average yield for 364-day Treasury bills remained stable at 11.7 per cent in Kenya over the month, and has not been auctioned since September in Rwanda, at which time it was 12.7 per cent. However, in Tanzania the 364-day Treasury bill rose from 13.7 per cent in December to 14.5 per cent in January.

2.2 Domestic financial markets

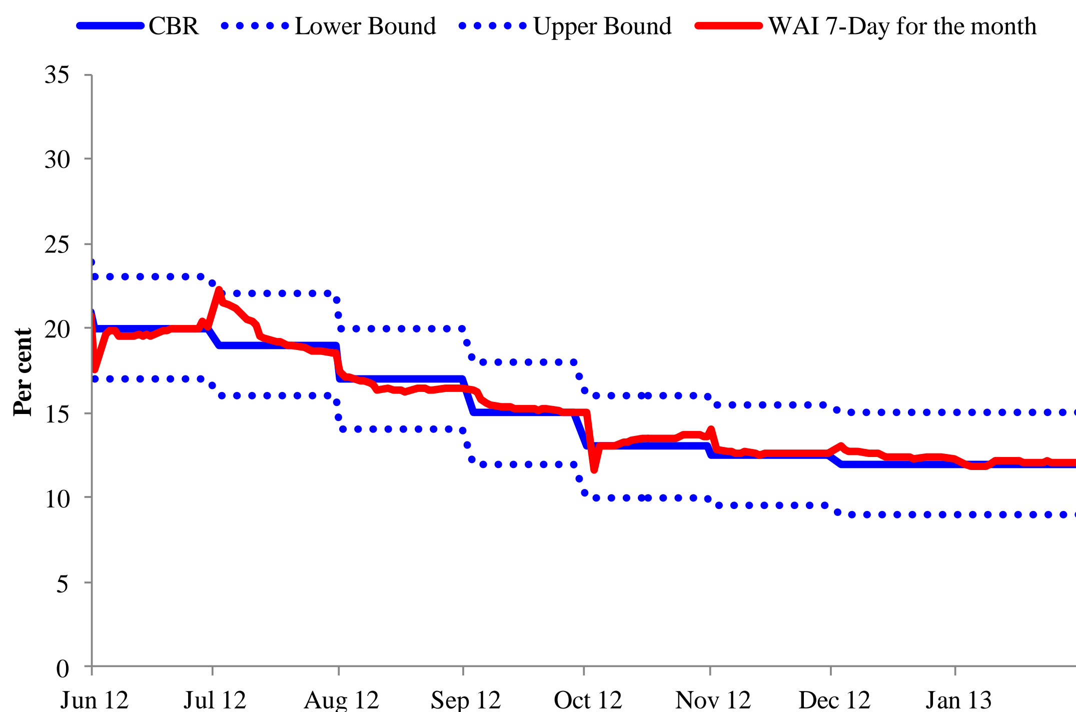
*As previously explained, the importance of a well-developed financial system is to efficiently allocate savings and investments in order to achieve the maximum economic growth rate obtainable. In Uganda, the financial sector is highly concentrated and largely dependent upon commercial banks. The domestic financial sector will therefore promote economic growth if banks are able to balance their liquidity requirements efficiently; if they have easy access to external funds through markets such as the interbank money market (**2.2.1**) or if they can invest excess liquidity in assets such as treasury securities (**2.2.2**) and private sector lending.*

2.2.1 Interbank money markets

Commercial banks were less active in the interbank market in January, although this may be expected on account of lesser liquidity pressures than experienced in the festive season. The volume of interbank activity fell by 12.1 per cent: from Shs 1595.1 billion in December to Shs. 1,422.5 billion in January. The decline in overall activity arose from the 7-day tenor, whose volume of trade declined to Shs. 585.7 billion in January from Shs. 662.6 billion in December. The activity for the overnight rate, on the other hand, increased to Shs.559.6 billion in January from Shs. 550.5 billion in December.

Although liquidity conditions were relatively tight in January, as depicted from the reduction in commercial banks' excess reserves from Shs. 150.5 billion in December to Shs. 78.9 billion in January, the banking system had developed sufficient structural liquidity in November and December that market interest rates were not threatened. Consequently, the weighted average 7-day interbank rate trended comfortably within the CBR band throughout the entire month, and averaged 12.0 per cent in January, compared to December's 7-day weighted average interbank rate of 12.3 per cent, amidst the CBR rate of 12.5 per cent. Similarly, the overnight interbank rate fell from 8.1 per cent in December to 7.5 per cent in January. ***Figure 2***, below, presents the recent harmonisation of the interbank market with the monetary stance.

Figure 2: Evolution of the 7-day interbank rate

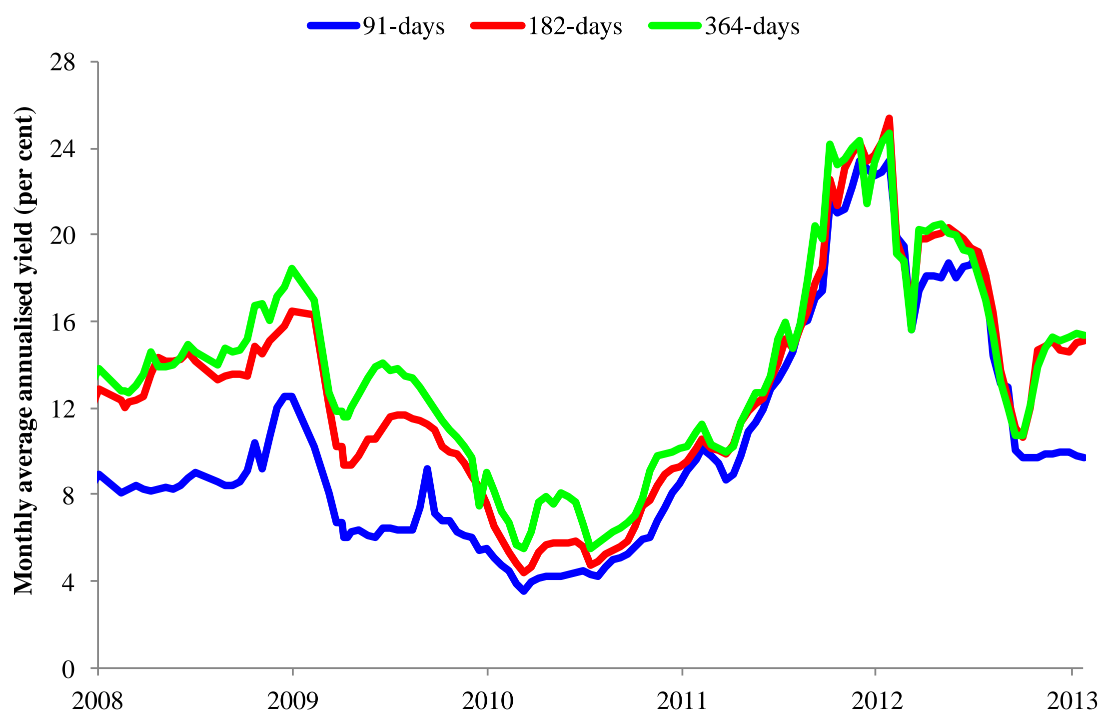


Source: Bank of Uganda

2.2.2 Treasury securities market

January witnessed two Treasury bill auctions and one Treasury bond auction in the primary market, with varying outcomes for yield developments. Weighted average annualized yields for the 182-day and 364-day treasury papers increased to 15.1 percent and 15.4 percent respectively, from respective rates of 14.6 per cent and 15.2 per cent in December, while the annualized yield on the 91-day paper fell to 9.7 percent, from 9.9 percent, over the same period. As with the longer Treasury bill maturities, 3-year Treasury bond yields also increased in the last auction, from 11.8 per cent to 14.7 per cent. The increase in yields for longer maturities may signal market concern surrounding the Government's increased financing needs over the next financial year. Meanwhile, the apparently contradictory fall in the 91-day yield may be an outcome of the accommodative monetary stance and low interbank interest rates. ***Figure 3***, below, highlights the recent divergence in Treasury bill yields.

Figure 3: Treasury bill yields



Source: Bank of Uganda

Prices within the secondary market remained completely unchanged in January; the annualized rates for securities of less than 91-days, 182-days and 364-days remained at 15.5 per cent, 15.8 per cent and 15.3 per cent respectively.

2.3 Monetary aggregates and private sector credit

*Responsible credit growth is also necessary to economic expansion, as may be evaluated with respect to lending and deposit rates (**2.3.1**) and credit growth (**2.3.2**). Very low commercial bank interest rates are likely to increase credit demand, but also credit demand for risky projects, as the borrower has less to lose. However, very high interest rates will stall credit growth, and thereby investment and ultimately economic growth, by elevating the cost of borrowing. Developments in the overall stock of loans, as illustrated through private sector credit (**2.3.3**), are also crucial to analyse, particularly to infer the position of bank balance sheets and for the expected growth of the real economy.*

2.3.1 Lending and deposit interest rates

Whilst the cost of borrowing has been steadily falling over recent months, Uganda remains an expensive country to borrow in, compared to both the global economy and East African Community. However, the fall in lending rates was entirely driven by foreign currency denominated loans, as the weighted average interest rate on Shilling denominated loans increased by 1.1 percentage points to 24.9 per cent in December. Banks attribute expensive Shilling denominated loans to lagged costs arising from previously high Shilling-denominated time deposit rates; indeed in December 2011, the time deposit rate peaked at 23.9 per cent, whilst the spread was only 2.9 per cent. However, throughout 2012 banks have been recuperating their costs through elevated spreads as time deposit rates have fallen at a much faster rate than lending rates. By December 2012 commercial banks' weighted average lending rate was 24.9 per cent, the time deposit rate was 12.7 per cent and the spread was 12.2 per cent.

Persistently high lending rates, particularly in an environment of falling deposit rates, are likely to reduce credit demand, thereby limit investment and pose a downside risk to economic activity. Reassuringly, many commercial banks lowered their prime lending rates[1] (PLRs) in January, which provides a more optimistic outlook for the path of average lending rates. Commercial banks' average prime lending rates ticked down by 3 basis points in December, to be largely unchanged at 22.3 per cent; however, some banks reduced their prime lending rates to below 20 per cent over the month[2]. ***Table 1*** presents commercial banks' monthly weighted average interest rates.

Table 1: Banks' weighted average lending and deposit rates

	Domestic currency denominated loans			Foreign currency denominated loans		
	Average lending rate	Time deposit rate	Spread	Average lending rate	Time deposit rate	Spread
Jan 12	27.2	21.2	6.0	10.3	5.9	4.5
Feb	26.9	19.8	7.1	10.4	5.1	5.3
Mar	27.6	20.0	7.6	10.0	4.5	5.5
Apr	26.1	18.7	7.5	8.2	4.6	3.6
May	26.7	17.4	9.3	9.3	7.4	2.0
Jun	27.0	19.9	7.1	8.4	5.2	3.2
Jul	26.9	17.8	9.1	9.0	3.0	6.0
Aug	26.4	15.2	11.2	9.1	5.0	4.2
Sep	25.7	11.9	13.8	8.7	2.7	6.1
Oct	24.9	12.8	12.1	10.7	4.5	6.2
Nov	23.7	10.8	12.9	10.4	2.6	7.8
Dec	24.9	12.7	12.2	9.8	4.4	5.4

Source: Bank of Uganda

Recall that the fall in weighted average lending interest rates was entirely driven by foreign-currency denominated loans; the weighted average interest rate on which fell by 1.7 percentage points to 8.8 per cent in December, from 10.4 per cent in November. The cost of borrowing in foreign currency is likely to have fallen on account of credit supply outstripping demand over the month, although both were calculated to increase. Given that foreign currency credit tends to be the largest driver of private sector credit, the expansion presents an optimistic outlook for economic activity. Customers may also have been attracted to the foreign currency market by weighted average time deposit rates, which increased from 2.6 per cent to 4.4 per cent over the month, causing the spread to narrow to 4.4 per cent. The increase in foreign currency denominated time deposit rates may be attributed to greater foreign currency demand amidst the continued depreciation pressures on the Shilling.

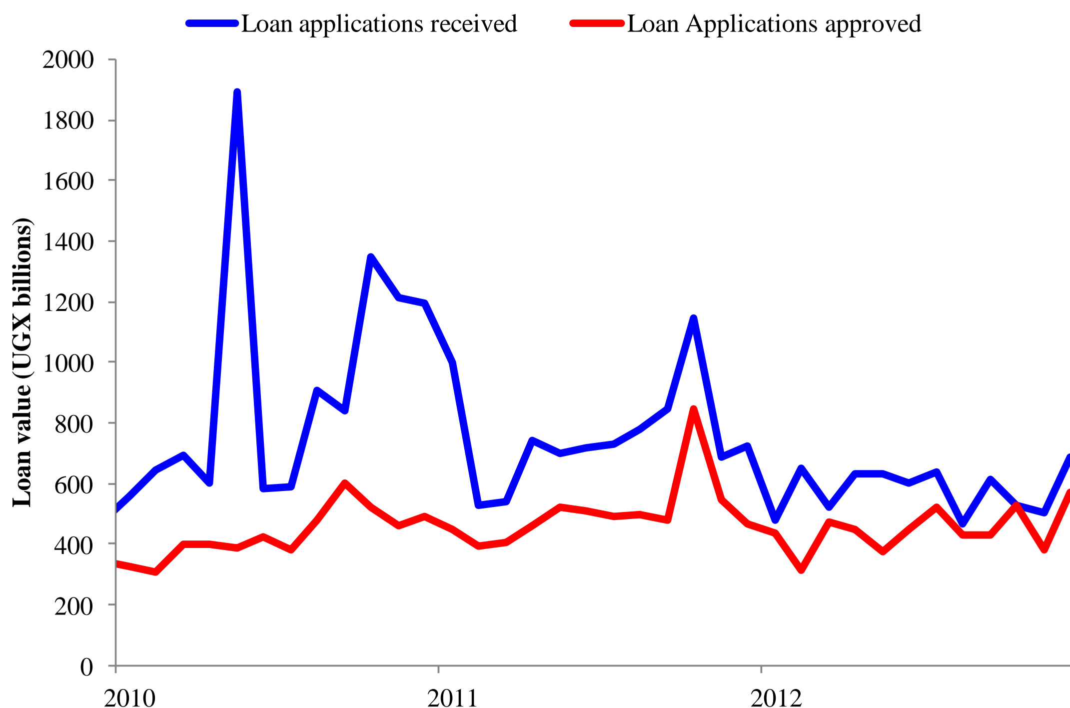
2.3.2 Loan supply and demand

Allowing loan applications and approvals to proxy credit demand and supply presents a pick-up in both credit demand and supply in December, indicating an improvement in private sector performance. The number of loan applications increased by 4.9 per cent, from 39,167 in November, to 41,082 in December, whilst the value of loan applications expanded considerably by 30.6 per cent, from Shs. 525 billion, to Shs. 686 billion over the month. Similarly, the number of loan approvals increased by 10.0 per cent, from 36,767, to 40,456 in December, whilst the value of loan approvals expanded by 50.1 per cent, from Shs.

[1] The interest rate commercial banks charge their best customers.
[2] Barclays and Housing Finance had 19.8 percent and 19.5 percent respectively as their PLRs in January 2013

381 billion, to Shs. 573 billion over the month. Thus it would appear that the structure of loans shifted to much more sizeable amounts, perhaps indicating improved investor confidence. A summary of loan applications and approvals is shown in ***figure 4.***

Figure 4: Loan applications and approvals



Source: Bank of Uganda

2.3.3 Private sector credit

Private Sector Credit (PSC) growth continued over the recent period. On an annual basis, private sector credit growth reached a 6-month high in December at 11.8 per cent; although December's annual private sector credit growth remains below that observed throughout the first half of 2012. Nonetheless, the improved monthly outturns over the recent period indicates that annual PSC growth may be expected to continue to improve; monthly private sector credit growth fell from 2.5 per cent in November to 1.7 per cent in December, though both outturns present positive growth.

As aforementioned, PSC growth continues to be driven by foreign currency denominated loans, largely considered to be a result of lower average lending rates and the prevailing depreciation pressures on the Shilling.

In December, the value of foreign currency denominated loans grew by 56.3 percent, compared to 50.2 per cent in November; meanwhile, the value of Shilling denominated loans declined by 5.9 percent over the month, compared to a contraction of 7.1 per cent in November. Shilling denominated lending has been tightening throughout the second half of 2012; if reduced Shilling lending is driven by supply constraints then this may adversely impact households and SMEs, which typically only borrow in Shillings. ***Table 3***, below, presents lending to the private sector.

Table 3: Private Sector Credit Growth by Currency

	Monthly data				Quarterly data				Annual data			
	PSC	Shilling denominated loans	Forex denominated loans (UGX)	Forex denominated loans (USD)	PSC	Shilling denominated loans	Forex denominated loans (UGX)	Forex denominated loans (USD)	PSC	Shilling denominated loans	Forex denominated loans (UGX)	Forex denominated loans (USD)
Jan 12	-1.7	-1.7	-1.9	5.0	-1.3	-2.4	1.8	13.4	23.9	16.3	34.4	33.0
Feb	0.4	-1.9	6.4	4.3	-2.1	-4.6	4.4	12.9	21.1	11.7	36.5	35.8
Mar	3.0	-0.8	12.1	5.6	1.6	-4.3	16.9	15.7	22.1	9.1	47.2	40.1
Apr	0.2	-0.4	1.5	2.0	3.7	-3.0	21.0	12.4	20.7	6.3	50.2	42.4
May	0.3	0.3	0.1	0.8	3.5	-0.8	13.9	8.6	16.6	2.8	44.9	39.2
Jun	1.0	-0.8	5.3	6.0	1.9	-0.9	7.0	9.0	11.5	2.1	34.9	43.2
Jul	-0.3	-0.2	-0.4	-0.6	1.2	-0.7	5.0	6.2	10.4	1.0	34.2	41.4
Aug	0.6	0.0	1.9	0.7	1.6	-1.1	6.8	6.0	6.6	-2.2	28.5	44.5
Sep	1.3	-0.3	4.4	2.9	1.7	-0.5	5.9	2.9	4.4	-5.0	27.1	42.1
Oct	1.7	-1.5	8.0	6.3	3.7	-1.7	14.8	10.1	7.5	-7.7	48.5	49.0
Nov	2.5	1.0	4.9	0.8	5.7	-0.7	18.1	10.2	9.0	-7.1	50.2	43.3
Dec	1.7	0.2	4.2	4.3	6.1	-0.3	18.0	11.8	11.8	-5.9	56.3	45.0

Source: Bank of Uganda

Further analysis of new loans disbursed in December confirms that foreign currency lending was the main driver of private sector credit growth. Foreign currency lending presents positive net extensions, or loan expansion, over most of the recent period. In December, net extensions for foreign currency based credit totalled Shs 46.8 billion, up from Shs. 1.6 billion in November. As already noted however, Shilling denominated lending demonstrates a negative trend throughout the past year. In December, net extensions for Shillings denominated loans contracted further to minus Shs. 89.7 million, from minus Shs. 54.1 million in November. Despite the continued contraction in local currency lending, the NPA[3] ratio fell marginally to 4.2 percent in December, from 4.7 percent in September, as banks stepped up their recovery efforts, through increased net loan recoveries. ***Table 4*** shows net extensions in both the foreign and domestic currency markets and the NPA ratio.

Table 4: Loan Recoveries and Extensions and NPA Ratio

	Domestic currency denominated			Foreign currency denominated			NPAs
	Extensions	Recoveries	Net extensions	Extensions	Recoveries	Net extensions	
Oct	337.5	-450.1	-112.7	286.5	-295.0	-8.5	-
Nov	361.5	-469.6	-108.2	368.0	-288.8	79.1	-
Dec	360.6	-430.0	-69.5	398.6	-161.6	237.0	3.4
Jan 12	379.9	-425.4	-45.5	300.0	-293.9	6.1	-
Feb	417.8	-394.1	23.7	412.4	-421.1	-8.7	-
Mar	465.6	-515.0	-49.4	371.2	-261.7	109.5	3.9
Apr	368.2	-402.0	-33.7	324.5	-381.4	-56.9	-
May	483.5	-524.3	-40.8	367.0	-326.8	40.3	-
Jun	377.5	-467.7	-90.2	323.3	-324.7	-1.5	4.7
Jul	486.4	-555.2	-68.8	370.9	-236.4	134.5	-
Aug	390.9	-445.0	-54.1	438.2	-436.6	1.6	-
Sep	466.0	-555.7	-89.7	540.8	-494.0	46.8	4.2

Source: Bank of Uganda

[3] NPA is Non-Performing Loans to Total Assets

2.3.4 Monetary aggregates

Growth of the financial sector may be captured through growth in monetary aggregates, as lending allows commercial banks to create money on their balance sheet portfolios. Stable growth in monetary aggregates tends to enable stable inflation and economic growth, whereby rapid money growth is likely to be reflected in elevated inflation as well as poor economic growth.

As would be expected in December, money demand picked up over the month. Base money increased by 14.0 percent in December, compared to 5.7 percent in November, whilst monetary aggregates continued to recover in line with private sector credit growth. On a monthly basis, M1, M2 and M3 grew by 1.2 per cent, 1.5 per cent and 0.6 per cent respectively in December, compared to 13.0 per cent, 8.9 per cent and 8.1 per cent respectively in November. Expansion of the amount of currency in circulation, of 5.8 per cent in December, drove the increase in monetary aggregates, as private sector deposits grew by a much lesser amount, or contracted in some cases.

Time and savings deposits grew by 1.8 percent in December, compared to 3.1 percent in November, and consistent with the attractive interest rate offered upon time deposits. However, demand deposits contracted by 1.8 per cent in December, compared to an expansion of 15.4 per cent in November, which was driven by the UMEME IPO and government releases; whilst foreign currency deposits decreased by 1.5 per cent, compared to an expansion of 2.7 per cent in November. Monthly developments in monetary aggregates are shown in ***table 5***.

Table 5: Evolution of Monetary Aggregates and Private Sector Deposits

	Monetary aggregates			Currency in circulation	Demand deposits	Time & savings deposits	Foreign deposits
	M3	M2	M1				
Jan 12	-4.4	-3.3	-2.2	-4.2	-0.5	-4.9	-7.5
Feb	2.8	3.9	4.2	-3.5	10.5	3.4	-0.5
Mar	2.9	-0.3	-1.4	-1.8	-1.2	1.5	12.5
Apr	-1.3	-1.9	-1.9	-1.8	-1.9	-1.9	0.4
May	1.8	1.5	-0.3	-1.3	0.5	3.9	2.8
Jun	5.4	-0.3	-1.1	6.0	-5.9	0.7	20.1
Jul	-4.7	-1.2	-4.0	-1.8	-5.8	2.6	-12.1
Aug	6.0	7.4	9.5	4.4	13.6	4.3	2.4
Sep	1.7	0.4	2.8	-0.7	5.5	-2.2	4.9
Oct	-3.1	-2.7	-0.9	-1.3	-0.6	-5.2	-4.0
Nov	8.1	8.9	13.0	8.9	15.4	3.1	2.7
Dec	0.6	1.4	1.2	5.8	-1.8	1.8	-1.5

Source: Bank of Uganda

Quarterly and annual growth rates of monetary aggregates depict positive developments in the economy.

M1, M2 and M3 grew by 13.1 per cent, 7.4 per cent and 4.4 per cent respectively on a quarterly basis, and by 18.9 per cent, 13.9 per cent and 14.5 per cent respectively on an annual basis. Growth in monetary aggregates should accommodate private sector credit growth in the coming months and consequently foster economic growth. However, rapid growth in monetary aggregates may surpass the ability of economic activity to keep up, thus may affect alternative channels and pose a monetary policy challenge.

3 Economic activity

3.1 Global economic activity

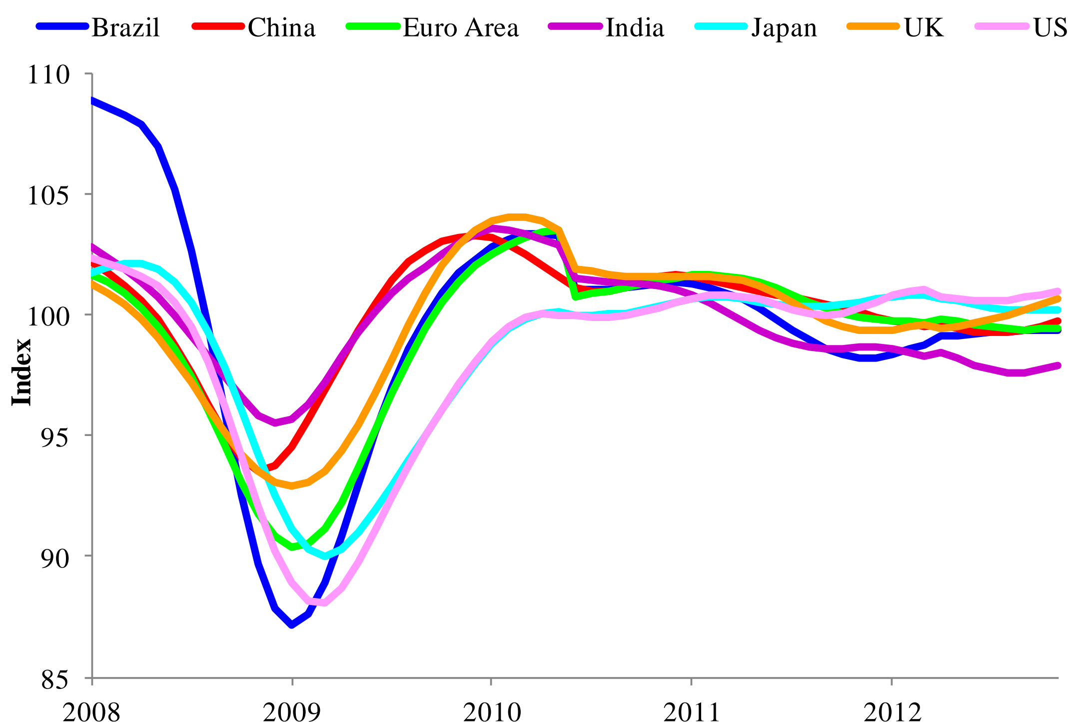
Strong global economic confidence and activity and a favourable exchange rate all tend to increase domestic export demand. Greater global demand will thus boost domestic production, create employment and encourage economic growth. Furthermore, a multiplier effect should accentuate production, employment and growth beyond that to satisfy the increased export demand.

Although outside the control of Ugandan policymakers and business leaders, global economic forces play a critical role within the Ugandan economy. The small size and relatively open nature of the Ugandan economy make it highly vulnerable to global economic developments, particularly via financial flows, demand, exchange-rate and inflationary pressures. The most relevant developments to Uganda will be developments in the world's largest markets: advanced markets such as the Euro zone, Japan, UK and US and increasingly in emerging economies such as Brazil, China, India and South Africa, as well as developments in the East African Community.

The state of the global economy improved further in December, as may be seen from the global all-industry output index, which ticked up to 53.7 in December, from 53.6 in November. The global manufacturing sector demonstrated a particularly positive outturn, which establishes optimism for other indicators as manufacturing is often considered to be a leading indicator. The JP Morgan Global Manufacturing Purchasing Managers' Index (PMI) increased to 50.2 in December, from 49.6 in November. Manufacturing expansion was largely driven by China, the US and the UK, whilst the euro zone and Japan continued to pull down upon global manufacturing output. Indeed, manufacturing output in the euro zone contracted further upon the month, whilst Japanese production suffered its largest contraction since the earthquake in 2011.

Whilst global manufacturing improved, global new export orders deteriorated for the second consecutive month, although at a lesser rate. Thus global economic recovery will be slow and fragile over the short-term. Improved global manufacturing may boost demand for Ugandan exports, many of which constitute inputs in the production chain. However, the euro zone is one of Uganda's largest trade partners; the continued recession in the euro zone might dampen demand for Ugandan exports. Thus aggregate global demand for Ugandan exports depends on the resultant balance between the positive and negative influences. Performance of some leading economies, according to the composite leading indicator, is depicted in ***figure 5*** below.

Figure 5: Composite Leading Economic Indicators



Source: OECD Statistics

The euro zone manufacturing sector continued to decline, but the rate of contraction reduced somewhat; the manufacturing PMI increased to 47.5 in January, from 46.1 in December, though any score below 50 marks contraction. A lower level of production and new orders drove the weak manufacturing result, which might indicate a deeper fall into recession for the euro zone in Q4 2012. Economic recovery in 2013 is likely to only result if a lasting solution to the euro debt crisis is found.

The UK manufacturing sector expanded in December for the first time in recent history, largely due to accelerated growth in production. The Markit manufacturing PMI rose to 51.4 in December, from 49.1 in November and 47.3 in October. However, new export orders declined over the month, which is reflective of the fragile wider global economy; annual GDP is not expected to have grown in Q4 2012 and quarterly GDP is estimated to have contracted by 0.3 per cent. Manufacturing growth illustrates optimism for the UK economy, although it will have to overcome pessimistic economic pressures stemming from the global economy.

The US manufacturing sector also expanded in January; the Markit manufacturing PMI rose to 56 in January, from 54 in December. Indeed the US may present the strongest economy amongst the advanced world as annual Q4 GDP is expected to have grown by 1.5 per cent. Quarterly GDP is expected to have contracted by 0.1 per cent, largely due to a cut in government spending, which clearly depicts the importance to settle fiscal cliff concerns.

Manufacturing growth was widespread throughout the leading emerging economies, which appeared more resilient to weak external influences over the month.

China's HSBC manufacturing PMI increased further to 51.9 in January, compared to 51.5 in December. Chinese manufacturing expansion may be attributed to greater employment and an increase in new export

orders, both of which should quickly translate into growth. Indeed, Q4 2012 annual GDP is expected to have grown by 7.9 per cent, compared to 7.4 per cent in Q3.

India's HSBC manufacturing PMI also displayed a steady increase to 54.7 in December, from 53.7 in November and 52.9 in October. As with China, Indian manufacturing growth may also be attributed to greater employment and an increase in new export orders. Market analysts expect Indian GDP growth to have picked-up in Q4 2012 on account of increased demand and controlled inflationary pressures.

Brazil's HSBC manufacturing PMI also presented manufacturing expansion in December, though at a lower rate of growth than in November; HSBC's manufacturing PMI was 51.1 in December, down from 52.2 in November. Brazilian manufacturing growth was largely driven by an increase in new exports and is expected to be mirrored in the most recent GDP figures.

3.2 Domestic activity

Growth in domestic demand, as realised through an expansion in output, may be attributed to consumption, investment or government expenditure. An increase in any of the above should increase employment, as more workers are needed in the production process and more income is available to pay wages, which will in turn further increase aggregate demand. A multiplier effect should emanate from increased production, unless otherwise disrupted.

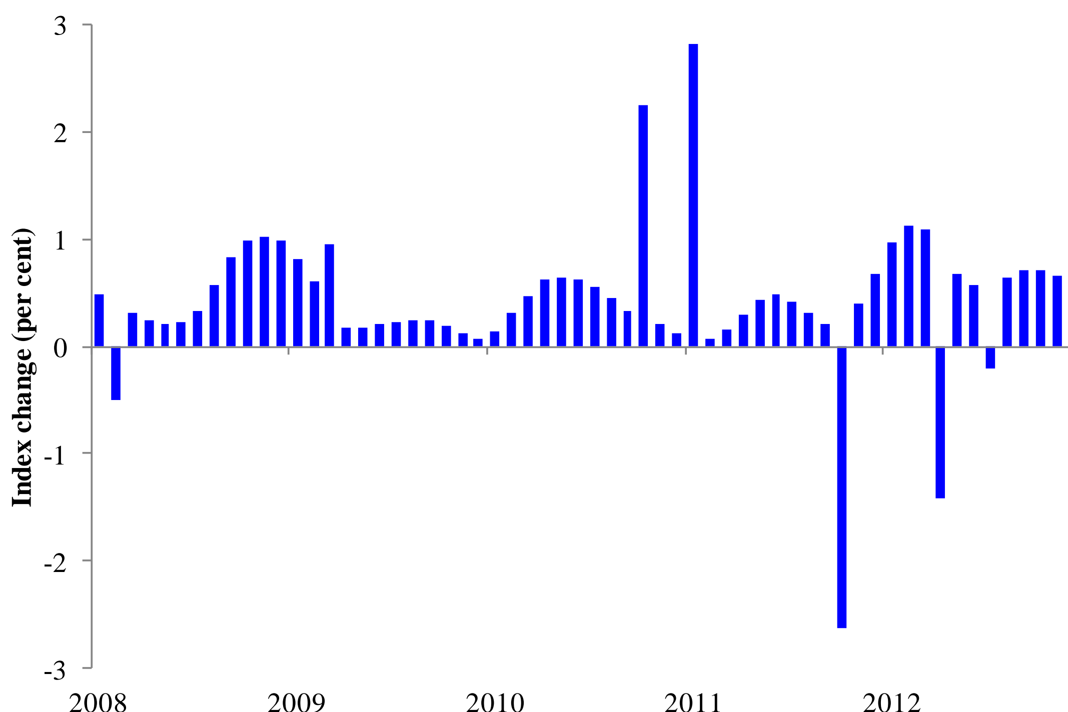
3.2.1 Economic activity

Within Uganda, the services sector is the dominant source of real economic activity, contributing to approximately 52 per cent of GDP. The industrial sector makes up approximately 25 per cent of GDP, whilst agriculture comprises approximately 14 per cent; the remaining 11 per cent arises from net taxes. Whilst agriculture is the smallest real sector, it is comparatively large when compared to other economies, and is where the majority of the population are still employed. Furthermore, it is particularly relevant to monetary policy in that it is the one sector that monetary policy is least able to affect, and because economic development is widely believed to stem from agricultural development. Therefore, this section will evaluate domestic GDP developments across all of the real sectors of the economy.

The composite index of economic activity (CIEA) is an indicator designed to provide more timely information surrounding economic development given the necessary lags in GDP releases. Analysis of the CIEA in December indicates that growth recovered further, albeit at a slightly slower rate than in November; the monthly CIEA rose by 0.6 percent, from 149.3 in November, to 150.1 in December. Improvements in monthly economic activity may be largely attributed to growth in industrial production and wholesale & retail trade, which contributed 1.0 per cent and 0.3 per cent respectively to the aggregate growth figure.

Reassuringly, the CIEA also demonstrates definite gains on a quarterly and annual basis; in Q4 2012 the level of economic activity is estimated to have increased by 2.0 per cent compared to Q3 2012 and by 9.6 per cent compared to Q4 2011. ***Figure 10***, below, shows monthly CIEA growth in Uganda.

Figure 10: Monthly changes in the CIEA



Source: Bank of Uganda

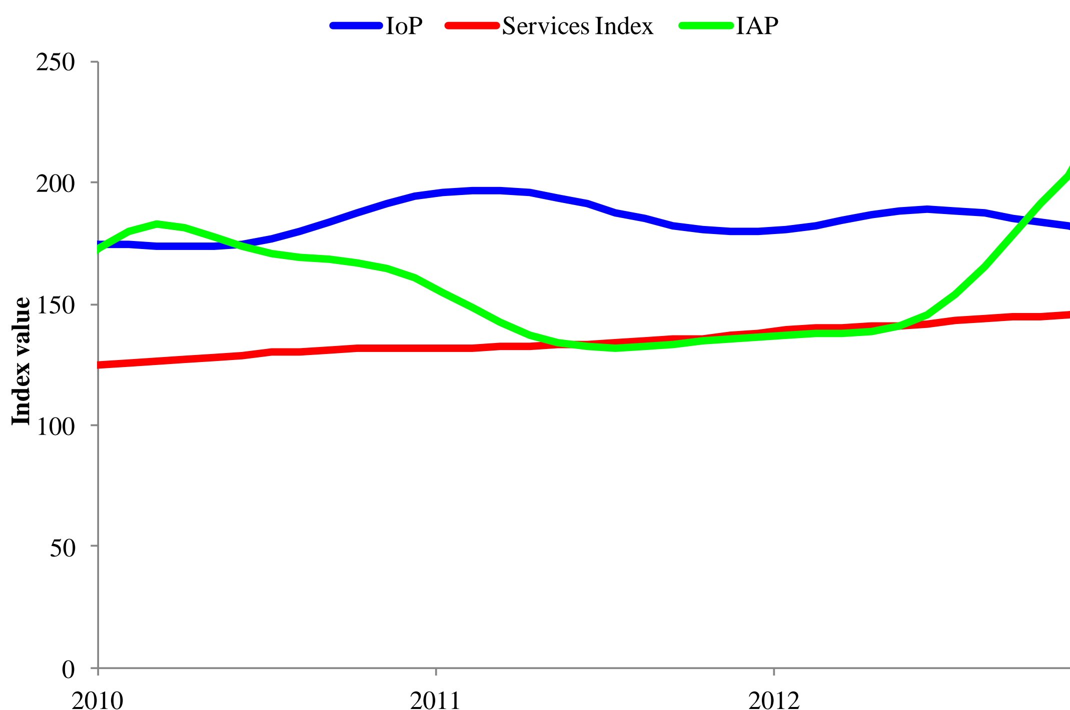
The monthly services and agricultural indices both expanded over December, indicating expected growth in the sectors; however the industrial sector declined, creating a mixed picture for economic growth.

The Index of Production (IOP), which proxy's industrial sector growth, is estimated to have declined by 0.9 percent in December, from 182.1 in November to 180.6. The largest contributors to manufacturing decline were from textiles, clothing and footwear, beverages and tobacco, chemical, paint, soap and foam products, and bricks and cement, which fell by 8.9 percent, 4.3 percent, 2.2 percent and 0.2 percent respectively. However, metal products and food processing, which expanded by 4.5 per cent and 1.5 per cent respectively, are estimated to have countered the decline somewhat. On an annual basis, the manufacturing sector is estimated to have grown by 0.3 percent in December.

The monthly services index rose by 0.4 percent in December to 146.2, from 145.6 in November, thus indicating an expected continued expansion of the services sector. The improvement may be largely attributed to hotel and restaurant activities and wholesale and retail trade, which grew by 0.3 percent and 0.2 percent respectively, and contribute to a large proportion of the index. On an annual basis, the services sector is estimated to have grown by 6.4 percent in the quarter ended December 2012.

The monthly index of agricultural production (IAP) grew by 5.0 per cent to in December to 213.0, indicating above-trend agricultural growth. Considerable increases were noted in market deliveries of Irish potatoes, ground nuts and matooke on the month, however, significant declines were noted in the delivery of maize grain, beans and cassava to the market over the same period. Agricultural development remains largely determinant on weather patterns, whereby excess supply or demand may pose serious inflation implications. ***Figure 11,*** below, illustrates the indices for the agriculture, industrial and services components of GDP.

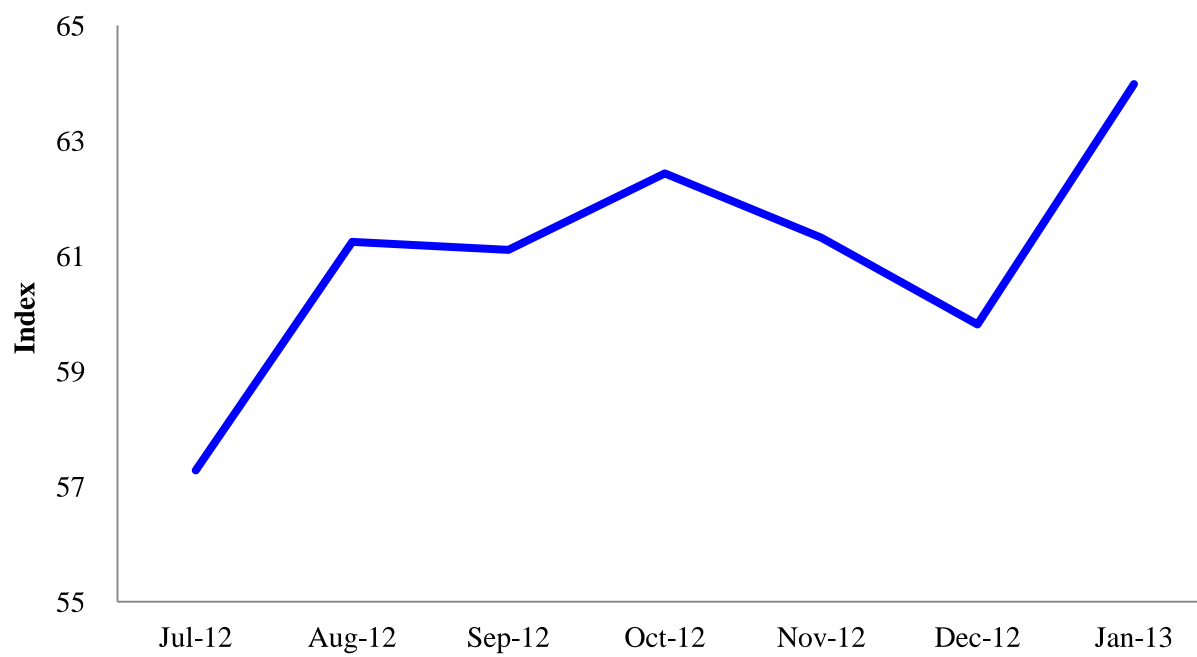
Figure 11: Sectoral indices



Source: Bank of Uganda

In line with the optimistic outlook for economic activity, the business outlook also improved in January; the business confidence index rose to 63.9 points over the month, from 59.8 points in December. The optimistic business outlook infiltrated most economic sectors, in particular the indices for construction, manufacturing, wholesale trade and for 'other services' all increased by 3.9 per cent, 5.6 per cent, 8.7 per cent and 6.1 per cent respectively to respective positions of 59.2, 62.2, 57.3 and 68.1 points. The widespread gain in business confidence strengthens expectations of economic expansion, particularly in the aforementioned sections. However, many businesses report that they remain limited by high borrowing costs and, although much improved, reduced demand. ***Figure 12***, below, presents the Business Confidence Index. Movements in the Business Confidence Index broadly resemble those of GDP, although some sectors appear to have responded to the GDP improvement with a much slower pick-up in activity.

Figure 12: Overall Business Confidence Index



Source: Bank of Uganda

4 Exchange rates and balance of payments

4.1 Exchange rates

Exchange rate movements stem from changes to interest rates and inflation; high interest rates or inflation will create exchange rate depreciation, as explained through the interest rate parity condition. On a global basis, high international interest rates or inflation will encourage domestic appreciation. A domestic depreciation should improve competitiveness within Uganda's export sector and therefore improve the trade deficit, whilst a domestic appreciation will have the opposite effect. Furthermore, depreciation will make international goods more expensive to consumers and vice versa. The effect of the exchange rate upon net exports may also be captured through developments in the terms of trade.

Exchange rate movements may also affect Uganda through rendering other national trade partnerships more or less favourable. For example, if the Ugandan exchange rate remained stable, but the Kenyan exchange rate depreciated, then Uganda may lose trade to Kenya. Therefore, an appraisal of international exchange rates is necessary to explain international trade, and thus growth, patterns.

Finally, the nominal effective exchange rate (NEER) determines the cost of imports to Uganda, whilst the real effective exchange rate (REER) simply adjusts the cost for inflation. A depreciation of the nominal effective exchange rate will increase the cost of imports, which is likely to feed through domestic prices, reduce aggregate demand and thereby dampen growth. This section will review the exchange rate movements on the month.

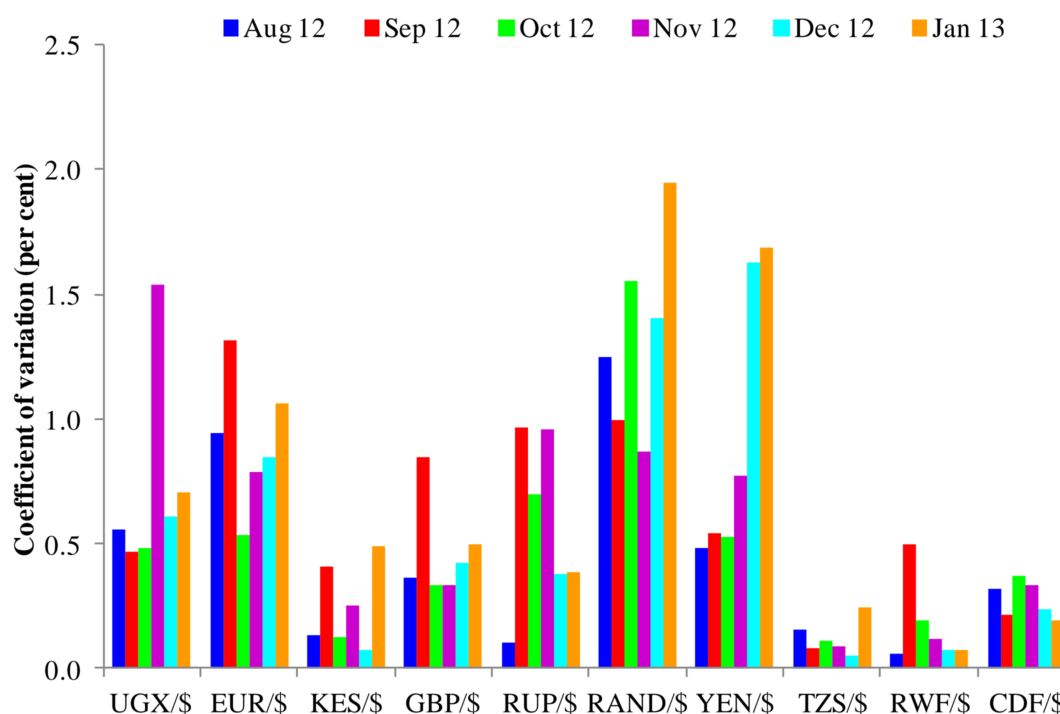
The Ugandan Shilling depreciated by 0.4 percent in January compared to December, and by 11.2 percent compared to January 2012, to a mid-rate of Shs. 2683.79/US$. January represented the sixth consecutive month of depreciation, although with lesser negative momentum than in the latter half of 2012. The prevailing depreciation pressures continue to be fuelled by bearish sentiment, private sector credit and the current account position. The suspension of donor aid, which comprises approximately one quarter of the government budget, is probably the greatest catalyst behind the weak sentiment. Although, expansion of foreign currency denominated credit, in conjunction with declining domestic currency denominated credit, exerts high dollar, and weak shilling demand, as does the weak current account position. Given that the majority of foreign currency denominated loans are concentrated within the production sector, it is possible that the structural shift in loan composition arises from exchange rate mitigation, and not an erosion of domestic investment, which would provide a more positive outlook for the economic environment.

The Shilling's depreciation in January was slowed considerably by the eventual inflows from coffee export receipts, which were later than usual due to climatic conditions, inflows from offshore players and by workers' remittances, which often pick-up in January on account of school registration fees. As a result, currency demand and supply in the foreign exchange market was relatively square on the month. Furthermore, significant (i.e. above US$ 100,000) foreign exchange transactions demonstrated excess supply at about 12 per cent over demand in January.

Figure 6, below, shows volatility in the Ugandan Shilling over the past 6 months, compared with other relevant currencies. The bilateral exchange rate was slightly more volatile in January than in December, however this is biased towards the beginning of the month. Following an early intervention by the BoU, in which US$ 10 million was sold to the market, the exchange rate stabilised throughout the remainder of the month. The co-efficient of volatility rose marginally to 0.7 percent in January, compared to 0.6 percent in December. The exchange rate stability, particularly towards the end of the month, allowed BoU to purchase dollars for reserve build-up, amounting to US$ 119.0 million. The BoU also conducted

targeted sales amounting to US$ 26.2 million over the month, resulting in a net purchase of US$ 92.7 million in the IFEM in January.

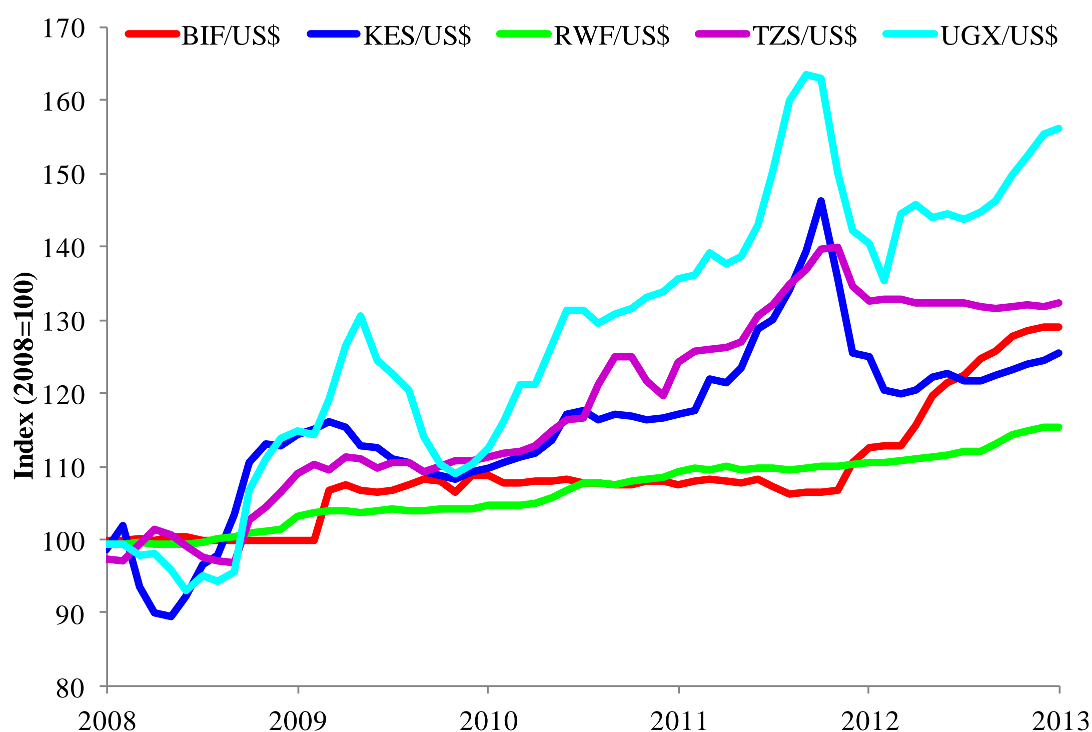
Figure 6: Volatility of selected currencies



Source: Bank of Uganda

Within the EAC, the Kenyan Shillings recorded the highest rate of depreciation against the US dollar; the Kenyan Shilling depreciated by 1.0 per cent over the month to an average of KES 86.90 per US$ in January. The Tanzanian Shilling also depreciated over the month, by 0.4 per cent to an average of TZS 1,586.1 per US$. Meanwhile, the Rwandan and Burundi Francs maintained relative stability over the month at average rates of RWF 631.3 per US$ and BIF 1,472.2 per US$ respectively. ***Figure 7***, below, presents the exchange rates paths of the regional currencies against the US dollar.

Figure 7: Movement in EAC currencies against the US Dollar

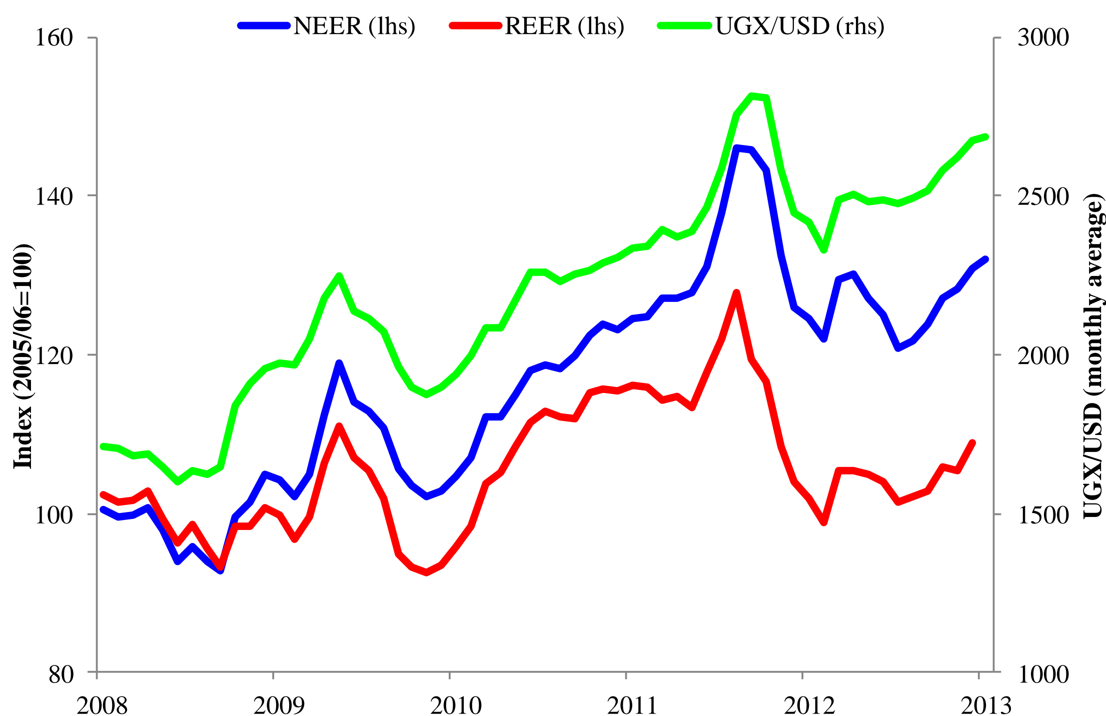


Source: Bank of Uganda

The Nominal Effective Exchange Rate (NEER) depreciated by 0.1 percent on a monthly basis and by 5.3 percent on an annual basis in January. The monthly depreciation presents a much lower figure when annualised than the reality, therefore strengthening the belief that the pace of depreciation slowed in January. Indeed, the 0.1 per cent monthly deprecation in January falls far below the 2.1 per cent depreciation recorded in December. On monthly basis, the Shilling depreciated against the Euro and British Pound by 1.6 percent and 0.4 percent respectively, but appreciated against the South African Rand and Kenyan shilling by 1.2 percent and 0.6 percent respectively.

The Real Effective Exchange Rate (REER) depreciated by 3.3 percent on a monthly basis and by 4.7 percent on an annual basis in December, indicating an increase in the competitiveness of Uganda's exports over the month. The REER depreciation followed that observed in the NEER, and was further driven by the foreign price level, which increased at a faster rate than the domestic price level. Given that Uganda is a permanent net importer of goods and services, inflated global prices may well afflict domestic prices in the immediate future. ***Figure 8***, below, presents the effective exchange rate indices.

Figure 8: Nominal and Effective Exchange Rates



Source: Bank of Uganda

If domestic economic activity improves over the near-term, as is expected, import demand is also likely to pick-up, which might exacerbate the Shilling's current trend of depreciation. However, improved global economic activity might increase export demand, which would relieve the deprecatory pressures. Furthermore, anxiety surrounding the stability of the impending Kenyan elections may shift some investor preference from Kenya to Uganda, which would also exert some inflationary pressure.

4.2 Balance of payments

Increased economic activity, deeper financial market structure, stable and positive inflation and exchange rate depreciation will act to attract capital inflows and increase export demand, thereby contributing to a balance of payments surplus. In the long-term, the balance of payments should be neutral, however short-term deviations are to be expected and a surplus is favourable to economic growth. Uganda typically suffers a trade deficit, which consequently demands a net surplus in the capital and financial accounts. However, capital and financial flows tend to be volatile and thus may not necessarily be relied upon to uphold the balance of payments. This section presents the interaction between the current, capital and financial accounts in order to present the overall balance of payments position.

Preliminary data suggests that the balance of payments recorded a surplus of US$ 91.9 million in December, which is a definite recovery from November's revised deficit of US$51.1 million. The surplus in the overall balance of payments encouraged accumulation of international reserves and an expansion in import cover: in December the net accumulation of international reserves equalled US$ 91.9 million and the total reserve position reached US$ 2,950.5 million, equivalent to 4.2 months worth of imports. ***Table 6***, below, outlines the balance of payments over the past year and highlights that December's expansion was inflows into the financial account.

Table 6: Balance of Payments (US$ millions)

	Dec-11	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
A. Current A/c Balance	**-77.8**	**-178.5**	**-211.6**	**-235.9**	**-242.7**	**-288.6**	**-102.5**	**-148.4**	**-148.0**	**-136.5**	**-95.31**
A1. Goods Account (Trade Balance)	-207.8	-215.5	-197.5	-221.2	-254.3	-157.0	-197.1	-166.9	-188.5	-198.2	-150.05
a) Total Exports (fob)	224.2	238.9	217.3	253.1	254.3	246.8	260.4	252.2	227.6	240.5	220.13
b) Total Imports (fob)	-432.0	-454.4	-414.8	-474.4	-508.5	-403.8	-457.5	-419.1	-416.1	-438.7	-370.18
A2. Services Account (services net)	-20.8	-51.3	-30.0	-44.7	-63.8	-78.2	-3.1	-45.1	-29.1	-49.7	-8.39
A3. Income Account (Income net)	-43.3	-41.8	-47.8	-35.0	-51.3	-124.9	-32.8	-35.4	-32.8	-31.1	-43.00
A4. Current Transfers (net)	194.1	130.1	63.6	65.0	126.7	71.5	130.5	99.0	102.3	142.5	106.13
B. Capital & Financial A/c Balance	**156.8**	**47.4**	**231.1**	**222.3**	**262.9**	**383.6**	**112.9**	**101.2**	**227.6**	**19.1**	**259.57**
B1. Capital Account	3.8	0.3	0.3	0.5	1.5	1.6	14.8	0.3	0.0	0.7	8.22
B2. Financial Account	153.1	47.1	230.8	221.8	261.5	382.0	98.1	100.9	227.6	18.4	251.35
a) Direct Investment	74.5	125.1	125.1	125.1	332.1	80.5	80.5	144.9	80.5	80.5	80.48
b) Portfolio Investment	43.2	6.5	16.9	4.1	8.7	-8.2	-28.4	-29.8	-19.7	-22.8	0.54
c) Financial derivatives, net	5.0	-0.9	0.3	-0.4	1.5	0.7	-0.3	0.2	-0.2	-1.9	0.53
d) Other Investment	30.3	-83.6	88.5	92.9	-80.8	309.0	46.3	-14.4	167.1	-37.4	169.80
C. Errors and Omissions	**-19.0**	**103.1**	**-11.5**	**107.2**	**60.9**	**77.3**	**-10.6**	**72.1**	**-65.3**	66.3	-72.36
D. Overall balance (A+B+C)	**60.1**	**-28.0**	**8.0**	**93.6**	**81.1**	**172.3**	**-0.2**	**24.9**	**14.3**	**-51.1**	**91.91**
E. Reserves and related items	**-60.2**	**28.0**	**-7.9**	**-93.6**	**-81.3**	**-171.0**	**1.9**	**-25.1**	**-12.3**	**49.8**	**-91.85**

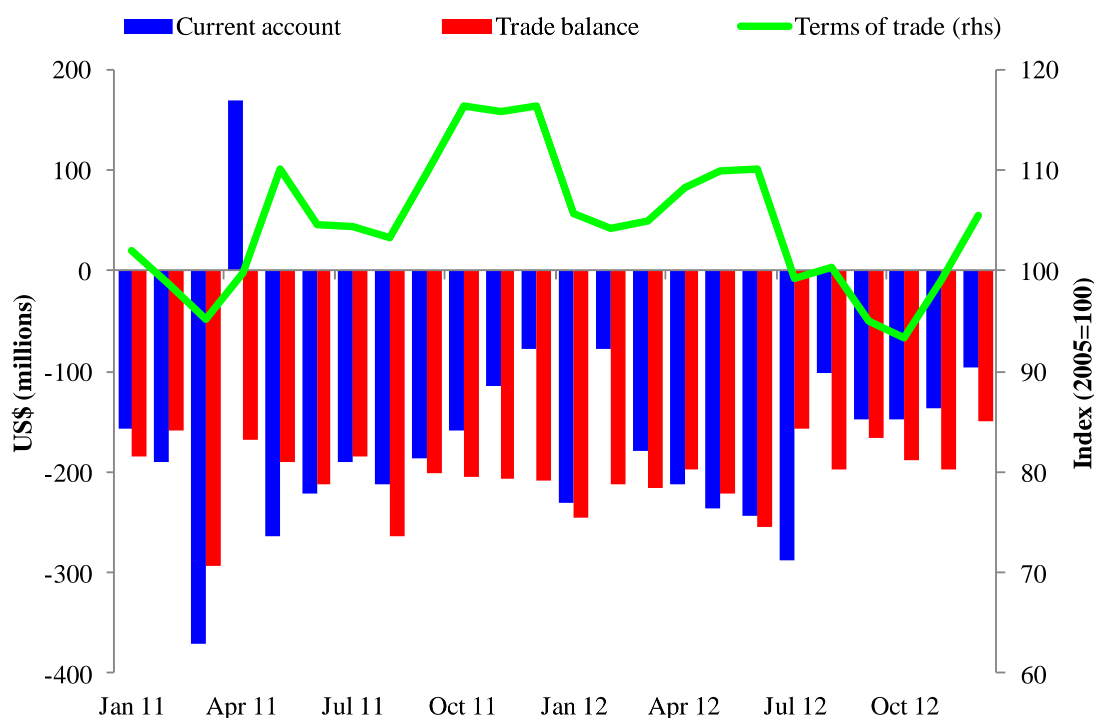
Source: Bank of Uganda

Provisional data for December depicts a considerable improvement in the current account balance to a lesser deficit of US$95.3 million, compared to November's revised deficit of US$136.5 million. The improvement was mainly on account of a reduced deficit in the services account, lesser imports over the month and an improvement in the terms of trade (ToT) position. The trade deficit improved to a deficit of US$150.1 million in December, from a deficit of US$198.2 million in November, driven by a fall in the value of imports by 15.6 percent to US$370.2 million in December. The contraction in imports was mainly driven by the non-oil private sector, imports by which contracted 19.8 percent over the month, reflecting weak private sector demand in the economy. On the other hand, ToT improved by 12.8 percent in December, on account of export prices increasing at a faster rate than import prices.

Despite a 14.9 percent rise in the export price index, the total value of exports also declined in December; export value declined by 8.5 per cent over the month, from US$ 240.5 million in November, to US$220.1 million in December. Reduced exports largely emanated from a reduction in non-oil re-exports, in particular exports of cellular phones to the Middle East and of food grains to Kenya noted considerable contractions. However, exports, and re-exports, of coffee, fish and oil expanded over the month to somewhat offset the contractions in other sectors. Coffee exports grew to US$30.1 million in December, while fish and oil re-exports reached US$9.7 million and US$11.5 million respectively.

Figure 9, below, displays the fall in both imports and exports, but the improvement in the overall trade balance over the month.

Figure 9: Development in the Goods Account (US$ Million)



Source: Bank of Uganda

The deficit in the services account improved to US$8.4 million in December on account of reduced outflows in transport and other business services, whilst the income account deficit worsened to US$43.0 million in December on account of increased dividend payments to non-resident direct investors. The surplus in the current transfers component of the balance of payments fell to US$ 106.1 million in December, from US$142.5 million in November, largely driven by lesser workers' remittances and lesser grant disbursements following the suspension of budget support aid.

In the capital and financial account, the surplus rose to US$ 259.6 million in December, from US$19.1 million recorded in November. This expansion largely arose from commercial banks' withdrawing upon their overseas currency and deposit assets by US$112.0 million, as opposed to an assets build-up. The draw down in foreign assets was motivated in part by large customers' need to fulfil tax obligations and to effect dividend payments. In addition, loan disbursements, specifically project support to government, increased to US$30.5 million in December from US$19.1 million in November.

The short-term outlook for the current account is optimistic, contingent upon an expected improvement in export commodity prices resulting from a recovery in global economic activity; although more local improvements are also expected to play a large role in the anticipated pick-up in the current account. The resumption of oil exports in South Sudan, and the return of relative political stability in the DRC, is expected to boost their aggregate demand, which should increase the demand for Ugandan imports. However, if the Kenyan elections, due to take place in March 2013, exacerbate political tensions and create national instability, as was the case in the last round of elections, this may pose serious trade implications for Uganda; not only is Kenya a dominant destination for Ugandan exports, but the country also provides a key transit route for Ugandan exports around the globe.

The medium- to long-term outlook also appears optimistic; global economic recovery should improve export demand, whilst coffee prices and demand for Ugandan coffee exports is expected to increase on behalf of lesser coffee exports from Central America, which is suffering from coffee leaf rust fungus. Provided that export growth exceeds the import growth arising from improved domestic activity, the current account balance should strengthen.

5 Inflation

5.1 Global inflation

Global inflation tends to have a particularly strong effect upon Ugandan inflation, due to Uganda's trade deficit position. High global inflation may benefit Uganda if it increases the opportunity cost of holding money in domestic currencies, thereby encouraging international investment, and if it induces a depreciation of the Ugandan Shilling, according to the interest rate parity, thereby increasing international demand for Ugandan exports. However, high global inflation may also be detrimental to Uganda as it is likely to filter into import and production-input prices, thereby instigating domestic inflationary pressures. Furthermore, if high global inflation raises international interest rates, then in the short-term it may reduce the appeal of international investment in Uganda, favouring instead nations offering relatively higher interest rates.

Global inflation may also have an indirect affect upon Uganda through affecting global economic activity and investor sentiment. High and volatile inflation tends to reduce market confidence globally.

*Commodity prices are typically the largest contributor to global inflation, and may depict a sensible forecast for future inflationary pressures. Therefore, an analysis of monthly commodity prices is also important to understand global inflationary patterns. The overall effect of global inflationary developments to the Ugandan economy depends upon the underlying inflationary pressures, as will be discussed in the remainder of this section, with particular relevance to commodity prices (**5.1.1**).*

Amongst the developed world, inflation remained largely unchanged over the month, though it ticked-down marginally in the US. In the euro zone, the Annual Harmonized Indices of Consumer Prices (HICP) inflation was unchanged at 2.2 per cent in December; alcohol, housing, food and education exerted the dominant inflationary pressures over the month. In the UK, annual CPI inflation has remained unchanged from October to December at 2.7 per cent. Whilst electricity and gas bills exerted inflationary pressure to the UK inflation figure, a fall in air fares maintained the aggregate balance. In the US, annual CPI fell by 0.1 percentage points to 1.7 percent in December, largely driven by falling energy prices. However, the US monthly inflation figures indicate that a further decline may be expected; the US energy index declined by 1.2 per cent in December and by 4.1 per cent in November, whilst 0.2 per cent monthly growth in the food index in both November and December only produced a minimal counter effect.

Amongst the emerging economies, with the exception of India, inflation largely increased over the month on account of domestic food prices. However the pick-up in inflation poses little risk to Uganda of imported inflation, as the catalysts are largely domestic factors. In China, annual CPI inflation rose to 2.5 percent in December, from 2.0 percent in November, driven by a 14.8 percent increase in the price of vegetables following an exceptionally cold winter. China's accelerated rate of inflation might limit government's space to support economic recovery through monetary policy. In Brazil, annual CPI inflation continued along its recent upwards trend to reach 5.8 per cent in December. The Brazilian central bank attributes the prevailing inflationary pressures to the commodity supply shock experienced in 2012, and expects inflation to subside, and economic growth to rebound, in 2013. Furthermore, a 20 per cent reduction in electricity prices over the month should help abate inflation. In India, the Wholesale Price Index (WPI), India's main measure of inflation, declined by 6 basis points in December, though the headline figure remained unchanged at 7.2 per cent. Indian deflationary pressures encouraged the monetary authorities to cut the policy REPO rate by 25 basis points in December, from 7.75 per cent in November, to 8.0 per cent; the cash reserve ratio was simultaneously reduced in January.

There were no dominant inflationary trends across the East African Community in January. In Kenya, the annual inflation rate has been declining for over a year; however, in January it rose by 0.5 percentage

points to 3.7 per cent, largely driven by a rise in education costs. In Burundi, inflation fell dramatically over the month, from 11.8 per cent in December, to 7.6 per cent in January; more moderate rises in housing, water and energy costs contributed to the lower inflation figure. The most recent CPI release for Rwanda presents a continued downward movement; Rwandan CPI fell from 4.6 per cent in November to 3.9 per cent in December. Tanzania's annual inflation rate stagnated at 12.1 per cent over the same period. These developments indicate that the downward trend in inflation that the region has enjoyed in recent months may no longer prevail.

Table 7 compares selected economic indicators amongst selected countries in the region. The evidence indicates that despite the one year investment rates in Uganda and Ghana remaining the most competitive, the exchange rate depreciation experienced in both countries over the past three months has largely eroded their competitive edge against the countries compared. This analysis is in line with the uncovered interest parity condition, in which the attractive interest rate differential no longer holds when the exchange rate depreciation is taken into account.

Table 7: Summary of regional economic indicators

	Inflation rate (per cent)					Annual depreciation (per cent)				
	Uganda	Kenya	Ghana	Nigeria	Zambia	Uganda	Kenya	Ghana	Nigeria	Zambia
Jul 12	14.3	7.7	9.5	12.8	6.2	-4.4	-6.4	24.9	5.9	0.7
Aug	11.9	6.1	9.5	11.7	6.4	-9.8	-9.4	25.2	3.4	-0.4
Sep	5.5	5.3	9.4	11.3	6.6	-10.6	-12.2	24.6	0.7	2.2
Oct	4.5	4.1	9.2	11.7	6.8	-8	-16	23.2	-1.6	4.4
Nov	4.9	3.3	9.3	12.3	6.9	1.6	-8.6	22.1	-0.8	3.4
Dec	5.3	3.2	8.8	12	7.3	9.3	-0.8	19.7	-4.3	1.8
Jan 13	4.9	3.7	-	-	-	11.2	0.6	16.6	-3.8	3.1
	Policy rate (per cent)					One year investment rate				
	Uganda	Kenya	Ghana	Nigeria	Zambia	Uganda	Kenya	Ghana	Nigeria	Zambia
Jul 12	19	16.5	15	12	9	17.5	13	22	6.6	12.5
Aug	17	16.5	15	12	9	14.3	12.9	22.5	6.9	11.6
Sep	15	13	15	12	9	11.4	10.3	22	6.8	10.7
Oct	13	13	15	12	9.25	12.2	10.6	22.8	6.2	10.5
Nov	12.5	11	15	12	9.25	15	11.8	22.9	6.2	13
Dec	12	11	15	12	9.25	15.2	11.7	22.9	9.1	11.7
Jan 13	12	9.5	15	12	9.25	15.4	11.7	22.9	-	10.2

Source: Various central bank websites

5.1.1 Commodity prices

Global commodity prices increased in December. The World Bank energy and non-energy indices rose by 0.4 and 1.1 percent respectively, following respective declines of 1.5 and 2.0 percent in November. Increased energy prices may be attributed to higher prices for coal and natural gas

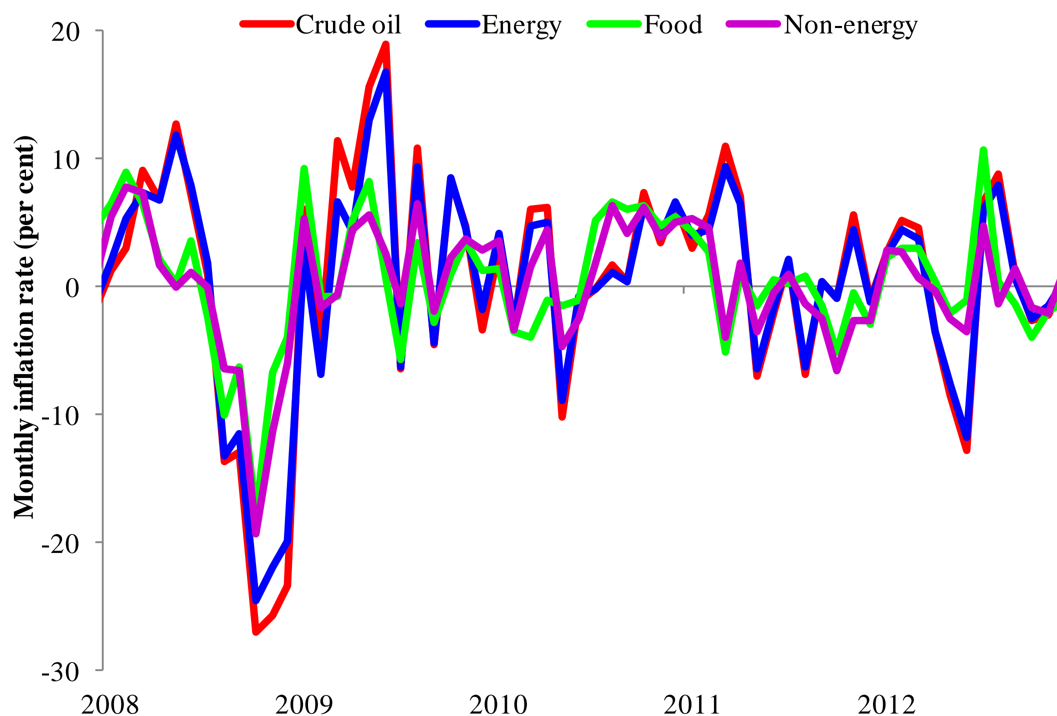
Early indicators for January present a continued rise in commodity prices. Monthly average oil prices for both Europe Brent and WTI Cushing rose to US$ 112.2 and US$ 94.0 per barrel respectively in January, from US$ 109.5 and US$ 87.9 respectively per barrel in December. Despite currently increasing oil prices, the outlook for 2013 is biased towards lower oil prices, thus the implications for Uganda are mixed.

The International Energy Agency (IEA) attributed the rise in oil prices towards the end of 2012 to increased demand in the winter season, reduced output from Saudi Arabia and Iran. Furthermore, the rise in oil prices in January has been attributed to an improved global economic outlook, and consequently a

pick-up in activity and demand, particularly in China. Developments in commodity prices are shown in ***figure 13***, below.

In contradiction to rising commodity prices, food prices have recently been demonstrating disinflatory momentum. The Food and Agricultural Organisation (FAO) Index declined by 1.1 percent in December, compared to November, and by 7.0 per cent when compared to December 2011. FAO attributed the annual decline in commodity food prices to a global fall in major cereal and fat/oil prices.

Figure 13: Main Developments in Commodity Prices



Source: Bank of Uganda

5.2 Domestic inflation

Domestic inflation is necessary to encourage economic growth through promoting investment, employment and monetary policy efficiency. Investment should expand if inflation increases the opportunity cost of holding money. If wages rise, but at a lesser rate than inflation, firm profitability should increase, thereby firms may afford more workers and employment will grow, according to the Philip's Curve. Furthermore, inflation tends to justify slightly elevated interest rates, which creates a larger space for monetary policy to operate, and so adds to its effectiveness. Whilst inflation is necessary to growth, high and volatile inflation may be detrimental through exacerbating shoe-leather and menu costs, through eroding individual's purchasing power and through destroying international confidence in the domestic economy.

In Uganda, 5 per cent inflation is targeted to achieve optimal economic growth. However, the stability and predictability of inflation is likely to have larger growth effects. Monetary policy may only affect demand-side inflationary influences, and is unable to alter supply-side-induced inflationary pressures, such as shocks to food production. Yet, if an inflation breakdown illustrates that monetary policy has effective control over demand-induced inflation, supply shocks may have a limited effect upon credibility allowing a stable inflation trajectory.

*This section will explain the domestic inflation developments upon the month according to demand (**5.2.1**) and supply (**5.2.2**) side influences.*

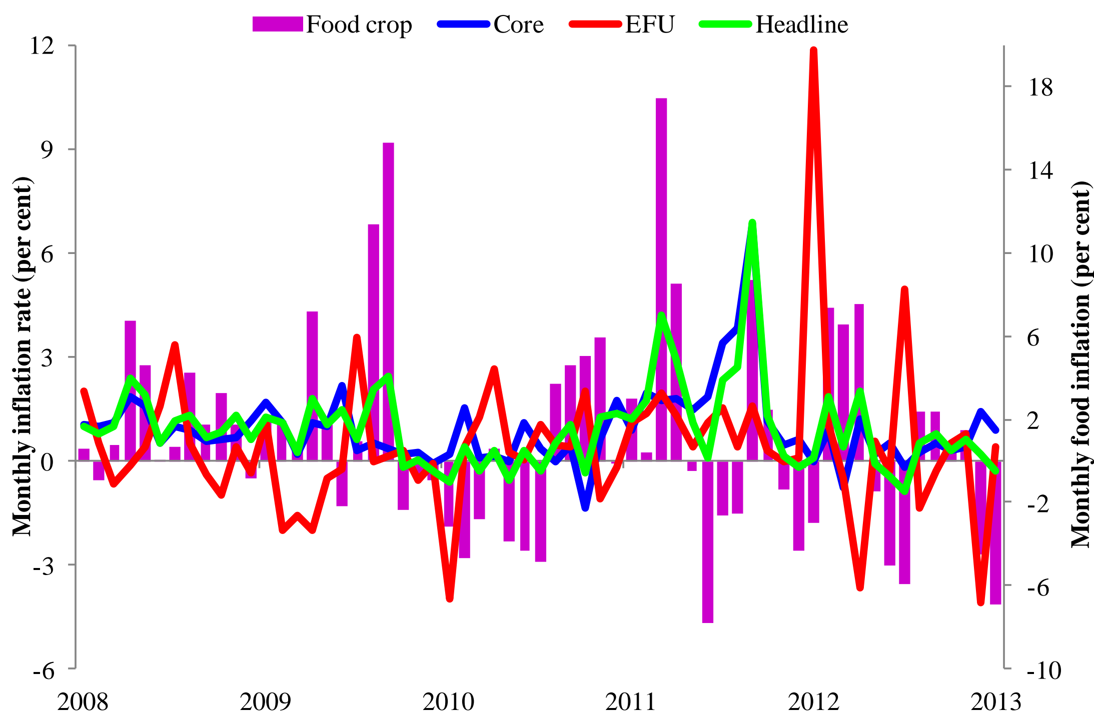
5.2.1 Consumer prices

Annual headline inflation decreased to 4.9 per cent in January, from 5.3 per cent (revised) in December. The inflationary slowdown was largely driven by food crop prices, which fell to 3.0 percent in January, on an annual basis, from 7.3 percent in December. The onset of the harvest season resulted in an improvement in the general food market supply, and thus decelerated prices across a wide range of food crops.

Similarly, annual energy, fuel, and utilities (EFU) inflation declined to minus 2.1 per cent in January, from 9.0 per cent in December. However, the disinflation experienced in EFU prices over the month is likely to be a temporary factor caused by the removal of the 18 per cent Value Added Tax (VAT) that was previously attached to metered water. Nonetheless, metered water accounts for a significant proportion of the EFU inflation basket, at approximately two thirds, and thus will exert considerable pressure upon overall EFU inflation.

Despite falling inflationary outturns in food crop and EFU prices, annual core inflation picked-up in January. Price increases in alcoholic beverages, sugar and rent are deemed attributable for the 5.6 per cent annual core inflation experienced in January, up from 4.6 per cent in December. January's acceleration in core inflation marks the second successive increase, which may point to the re-emergence of inflationary pressures (see ***figure 14*** and ***table 7***). Nonetheless, the Bank of Uganda does not expect inflationary pressures to persist, and anticipates that core inflation will stabilise within the Bank's medium target in 2013.

Figure 14: Annual inflation developments



Source: BoU and UBOS

Monthly headline inflation remained subdued at minus 0.3 per cent in January, compared to 0.2 per cent in December, in part driven by food crop inflation, which fell further to minus 6.9 per cent, from minus 4.5 per cent, over the same period. Like food crop prices, food prices declined in January to minus 2.4 per cent, from minus 2.0 per cent in December. Food prices were driven down by increased market supply and subsequent price decreases in matooke, sweet potatoes, pineapples and some fresh vegetables, which price rises in oranges, tomatoes, green pepper, egg plants, fish and maize flour were unable to offset. Although a lesser weight in the inflation basket, transport and communication prices also declined considerably to minus 4.4 per cent in January, from 5.1 per cent in December.

However, some inflation components demonstrated upwards pressures over the month; rent, fuel and utilities increased by 2.4 per cent in January, compared to 1.0 per cent in December; EFU inflation increased from 4.1 per cent deflation in December to 0.4 per cent inflation in January, although this may be a temporary structural change on account of the removal of VAT on metered water; and petrol, diesel, kerosene, and firewood prices also increased over the month, causing monthly domestic pump prices to inflate, although the respective annual inflation figure fell in January. The increase in domestic pump prices amidst stable global oil prices may result from the exchange rate depreciation.

Monthly core inflation fell in January to 0.9 per cent, from 1.4 per cent in December. However, the monthly inflationary figures are relatively high when compared to earlier in the year, which might indicate the re-emergence of inflationary pressures looking forward. ***Table 7***, below, presents a detailed breakdown of domestic inflation.

Table 7: Inflation dissection (annual percentage changes)

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Annual							
Headline	14.3	11.9	5.5	4.5	4.9	5.3	4.9
Core	15.4	11.5	4.9	4.0	3.8	4.6	5.6
EFU	16.7	14.7	12.6	12.8	13.8	9.0	-2.1
Food crop	7.5	12.8	6.3	4.4	7.5	7.3	3.0
Food	5.4	4.2	-2.8	-2.5	-2.0	0.0	0.0
Non Food	19.1	16.0	10.1	8.4	8.6	8.0	7.2
Beverages and tobacco	23.6	9.9	6.1	6.2	5.2	8.5	12.0
Clothing and footwear	12.5	6.4	2.3	-2.7	-1.2	-3.9	-4.4
Rent, Fuel and utilities	26.9	23.3	10.3	6.0	6.4	7.4	3.9
H.hold and personal goods	15.9	13.1	9.7	7.6	6.3	4.5	5.5
Transport and communication.	17.4	15.9	4.0	3.6	4.7	5.6	2.5
Education	16.9	16.5	16.5	16.5	16.5	16.2	15.8
Heath ,entert. & Others	15.9	13.9	12.2	11.2	11.5	10.2	9.8
Monthly							
Headline	-0.9	0.5	0.8	0.3	0.6	0.2	-0.3
Core	-0.2	0.2	0.5	0.3	0.4	1.4	0.9
EFU	5.0	-1.3	-0.3	0.5	0.8	-4.1	0.4
Food crop	-5.9	2.3	2.4	0.6	1.5	-4.5	-6.9
Food	-3.7	1.3	1.0	0.4	0.2	-2.0	-2.4
Non Food	0.6	0.2	0.7	0.4	0.7	1.5	0.6
Beverages and tobacco	-0.2	-0.5	-0.5	1.9	-0.2	3.5	3.9
Clothing and footwear	-1.9	-0.3	0.6	0.6	3.7	1.1	-0.1
Rent, Fuel and utilities	2.4	0.5	-0.4	0.7	-0.4	1.0	2.4
H.hold and personal goods	0.1	0.3	0.4	-0.4	0.3	0.3	1.0
Transport and communication.	0.6	-0.4	0.6	0.1	2.0	5.1	-4.4
Education	-0.2	0.1	1.6	0.0	0.0	0.0	0.0
Heath ,entert. & Others	0.4	0.4	1.6	0.2	1.0	1.2	1.3

Source: UBOS

6 Economic outlook

*It takes approximately two years for the effect of monetary policy to be fully realised in an economy like Uganda where the financial sector suffers from structural inefficiency, and consequently policymakers require a long-term forecast in order to determine the optimal policy framework. Therefore, all economic influences to the Ugandan economy must be appraised to determine the likely economic trajectory and appropriate policy response. This chapter presents the global (**6.1**) and domestic (**6.2**) economic outlook in order to determine the optimal monetary policy response and to explain the actions taken on the month.*

6.1 Global economic outlook

6.1.1 Outlook for economic activity

Global economic growth is expected to increase in 2013, though the pace of growth is likely to be lacklustre. The International Monetary Fund's (IMF) World Economic Outlook (WEO) for January envisages global annual growth to reach 3.5 percent in 2013, up from 3.2 percent in 2012. Stronger economic policies in the advanced economies are considered to be responsible for the pick-up, in particular the continued implementation of quantitative easing and the forced adherence of all banks in the euro zone to the European Central Bank (ECB). However, the Economist Intelligence Units (EIU) emphasises that the gains from various policy stimulus initiatives may experience a lag, and thus increased growth momentum may not be expected until mid 2013.

Growth in the advanced economies is expected to continue according to recent trends over 2013: economic activity in the US and Japan is expected to accelerate, but to contract in the euro zone. The most recent IMF predictions anticipate US GDP growth to average 2.0 percent in 2013, as predicted in the October outlook, and to increase to 3.0 percent in 2014 on account of improved economic conditions, financial market stability and a stronger housing market. In Japan, growth is expected to reach 2.0 per cent in 2013, as was predicted in the October 2012 outlook. Interestingly, the most recent IMF outlook was not influenced by negative growth of 0.03 per cent in Q2 2012 and of 0.9 per cent in Q3 2012 driving the Japanese economy back into recession. Indeed, the IMF expects the Japanese recession to be short-lived, instigated by temporary trade disruptions with China and quickly remedied by aggressive open-ended monetary easing and a US$ 116.0 billion fiscal stimulus package. Conversely, the euro zone is expected to contract by 0.2 percent in 2013, as lower sovereign yields and improved bank liquidity only minimally filter through to real economic activity. Lack of complete resolve surrounding the euro debt crisis may exacerbate the lag between improved financial market conditions and economic growth, and still poses a downside threat to the level of economic activity.

The emerging and developing economies are expected to demonstrate continued resilience to the global economy over the short- and medium-term; the IMF predict growth in emerging and developing economies to average 5.5 per cent in 2013 and 5.9 per cent in 2014 owing to carefully tailored policies. The World Bank forecasts that growth in developing countries will be supported by more robust financial markets, monetary policy expansion and increased global activity in 2013. However, the World Bank highlights that developing countries that are dependent upon Overseas Development Assistance (ODA) might face difficulties if advanced economies limit their external expenditure in order to focus internally. Thus whilst the overall economic outlook is more optimistic for 2013, developing countries may be growth constrained due to actions taken by advanced economies. China's growth is expected to grow to 8.2 percent over 2013, as may be inferred from the current strong industrial production figures and export data.

The East African Economy presents an optimistic outlook for 2013; however the rate of growth is largely dependent upon macroeconomic policies in the region. The IMF project favourable growth conditions for Tanzania in 2013; so long as tight fiscal and monetary policies are maintained, Tanzania is expected to experience buoyant growth and falling inflation in 2013. If the Rwandan government strengthens the country's debt management capacity over the coming months, the IMF also predict an optimistic outlook for Rwanda; Rwanda has been congratulated with strong growth, contained inflation and falling poverty in 2012, which may continue into 2013 so long as the aforementioned conditions are met. Similarly, the IMF congratulates Kenya with numerous successful economic reforms; however, they warn that continued growth depends upon carefully monitored inflation expectations, convergence between the interbank and central bank policy rate and upon foreign reserve accumulation.

6.1.2 Inflation outlook

Inflation within the advanced economies remained mostly subdued in 2012 due to large output gaps and continued downwards wage pressures. The United Nations' Global Economic Outlook for 2013 states that inflation is expected to moderate further as the disinflatory catalysts persist.

Inflation also subsided throughout most of the emerging and developing world in 2012. However, volatile oil prices and food supply pressures remain inflationary risks to many developing countries in 2013.

Oil price volatility is expected to continue into 2013 as the balance between price rises, on account of geopolitical risk, and price falls, on account of weak global demand, remains unsteady. Furthermore, sluggish global economic recovery, yet increased activity in China, the world's largest oil importer, combined with increased oil supply from North America, Brazil and Russia, but decreased supply from the North Sea and Central Asia will all play upon oil price developments.

The East African Community does not present a uniform inflation trajectory over 2013, although this may arise from different monetary stances between the member states. Whilst Rwanda currently operates an unchanged, but relatively expansionary, policy stance and may expect inflationary pressures in 2013, Kenya continues to expand monetary policy, but with increasing caution surrounding financial markets, and similarly may expect inflationary pressures, though for different reasons. Meanwhile, Tanzania operates tight monetary policy and expects a continued disinflationary momentum over 2013.

The National Bank of Rwanda claim that Rwandan economic growth is resilient to external influences, in particular that the recent exchange rate depreciation will have a limited impact upon inflation. The Rwandan authorities expect growth to remain in 2013 and thus place greater importance upon controlling inflation. Consequently, the policy rate has been held at 7.5 percent for Q1 2013, whilst monetary and exchange rate policies have promised to mitigate any inflation risks looking forward.

On the other hand, the Central Bank of Kenya cut its policy rate by 150 basis points to 9.5 percent on the back of favourable macroeconomic indicators, such as declining food prices, a relatively stable exchange rate, growth in external reserves, a consistent government budget, growth in private sector, confidence in the economy due to positive sovereign credit ratings, and market expectations of stability in 2013. However, inflation could rise in the short term, on the back of continued currency depreciation and election related government expenditure, which might necessitate monetary tightening. Therefore, the monetary policy stance is likely to be cautious over the coming months, and unlikely to expand.

Tanzanian inflation is expected to decline into single digits by June 2013, supported by contractionary monetary policy, continued fiscal consolidation and stability in nominal exchange rate.

6.1.3 Key risks and uncertainties

In January, the World Bank reported that the global economy remains fragile, though the balance of risks is less skewed to the downside than in earlier forecasts. The main downside risks to global economic recovery are the lack of complete resolution surrounding the euro debt crisis and the US fiscal cliff. The weakness of the euro zone economy remains the largest drag to financial stability and recovery of the global economy. However, a quick resolution to debt issues in the US and euro area might propel growth on a global scale.

For the emerging and developing economies, the key risks to growth are weak external demand arising from the advanced economies, which might hinder growth and reduce foreign exchange earnings in commodity exporting countries. Lesser demand for Chinese exports in 2013 may limit Chinese growth, through its investment capability. Furthermore reduced Chinese growth would have a global impact; China is the world's largest importer of commodities, so a fall in Chinese commodity demand would reduce global commodity prices. However, lesser Chinese growth is solely a risk and is not anticipated by economists.

6.2 Domestic economic outlook

6.2.1 Outlook for economic activity

Quarterly GDP and CIEA data and the current growth in monetary aggregates signal that upwards aggregate demand pressures may be developing. However, the overall level of aggregate demand is expected to remain subdued and the negative output gap is expected to persist throughout 2012/13. Investment is also likely to remain weak, deterred by weak demand and prevailing high interest rates. In addition, the growth in foreign currency lending continues to dominate overall private sector credit, as local currency lending remains on a declining trend, which may eventually limit aggregate demand growth and create economic instability.

The IMF noted that whilst the country's medium-term growth is set to converge to its potential level of 6 to7 percent, the growth objective will only be realised by a higher contribution of private investment through improvements in the business environment. Refinements to the inflation targeting framework and efficient management of revenues will contribute to sustainable and inclusive growth.

6.2.2 Inflation outlook

Current inflation forecasts indicate that both headline and core inflation will average 6-7 per cent over this financial year, but may rise to average 7-8 percent in the coming financial year. The inflation forecasts rest on the assumption that the food prices base-effect, that has driven the recent disinflation, has fallen out of the inflation basket and thus price developments looking forward will play a more direct role in the inflation outturn. Furthermore, the forecasts also assume that the current expansion in monetary aggregates will exert upwards pressure on inflation. ***Figures 15a*** and ***15b*** present fan charts to depict anticipated inflation developments over the policy horizon.

Figure 15a: Headline inflation forecasts

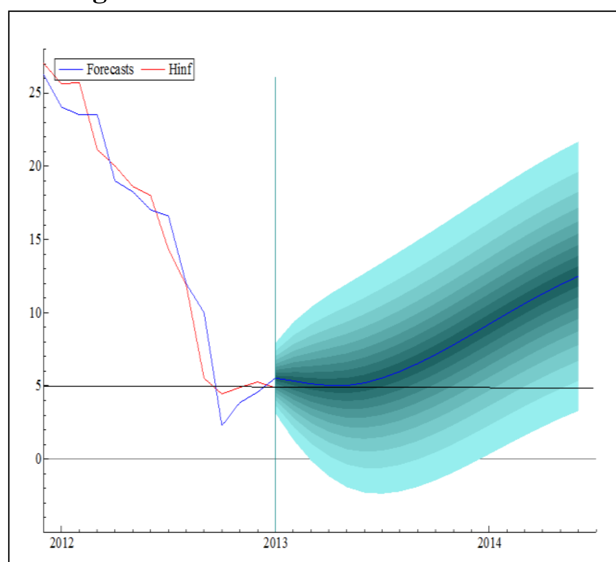
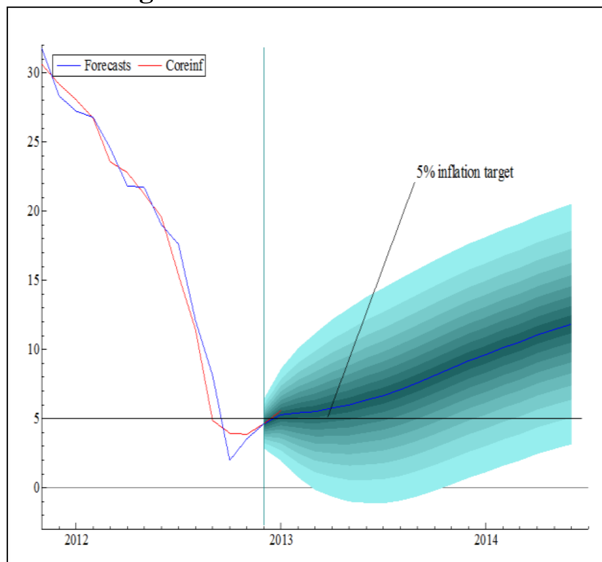


Figure 15b: Core inflation forecasts



Source: Bank of Uganda

6.2.3 Key risks and uncertainties

Although inflationary pressures remain controlled, some risks still exist. Food crop prices are highly fragile and adverse weather conditions pose immediate upside risks to inflation. As aggregate demand rebounds, increased food product demand may also pose an upward risk if food demand outstrips supply to markets. Continued exchange rate depreciation trend, owing to the relatively weak current account position, may also exacerbate inflationary pressures. Furthermore, if increased global demand forces commodity prices to rise, Uganda may also risk imported inflation.

At a regional level, if the Kenyan elections conclude in violence, as in 2008, then the reduction in all trade passing through Mombasa might also exert upwards inflationary pressure.

7 Monetary policy decision

The Bank of Uganda seeks to foster economic growth through price and output stability. 5 per cent medium-term core inflation is targeted in order to achieve Uganda's potential long-term output growth of 6-7 per cent. Inflation is targeted through the Central Bank Rate, which should steer short-term interbank money market rates, thereby affecting long-term interest rates, which will subsequently determine the monetary policy transmission into prices and output growth. Additionally, the Bank of Uganda may intervene in financial markets to address a liquidity shortage or excess, and thus to improve the channel by which the Central Bank Rate determines the interbank money market rate. This section explains the Bank of Uganda's monthly policy decision given the recent data outturns and projections.

Given the largely unchanged macroeconomic outlook for the medium-term, the CBR was maintained at 12 percent in January. BoU felt that contractionary monetary policy, which upside inflationary risks may warrant, might threaten economic recovery, which continues to be subdued by weak private sector credit growth and stubbornly high lending interest rates. Furthermore, the current upswing in inflationary pressures is expected to be a temporary phenomenon, and to be balanced by continued weak domestic demand.

Nonetheless, to reduce the volatility in short-term interest rates the band on the CBR was reduced to +/- 2 percentage points on the CBR, and the margin on the rediscount rate to 3 percentage points on the CBR. The Rediscount Rate and the Bank Rate were set at 15 percent and 16 percent, respectively in February 2013.

Appendix

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs: end of month unless otherwise indicated)													
	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Foreign Exchange Market													
Inter-Bank Purchases (US$M)	1,076.2	836.6	787.9	655.6	963.0	809.6	895.0	755.0	716.1	837.7	981.3	936.1	919.9
Inter-Bank Sales (US$M)	898.5	760.5	781.2	625.0	868.6	747.7	701.6	752.2	675.1	810.0	957.7	802.9	819.4
Cross currency trading (US$ million)	105.3	106.9	142.4	113.9	211.2	158.1	113.9	176.8	181.6	132.4	142.1	123.3	179.6
Inter-Bank Mid-Rate (UShs/US$)	2,414.2	2,328.0	2,485.0	2,506.2	2,479.1	2,484.4	2,474.2	2,492.0	2,515.9	2,579.4	2,623.0	2,673.5	2,683.8
Foreign Exchange Reserves													
Gross Foreign Reserves in months of imports of goods and Ser	3.87	3.91	3.85	3.86	3.92	4.06	4.33	4.29	4.33	4.31	4.22	4.28	4.33
Bank of Uganda Foreign Exchange Reserves (US$ M)	2,528.0	2,556.1	2,521.3	2,544.3	2,574.1	2,643.8	2,827.3	2,817.7	2,880.3	2,902.8	2,855.8	2,950.5	3,017.9
Tax Revenue	510.3	474.4	487.5	483.8	499.6	752.8	523.9	516.2	515.2	500.6	557.5	763.0	620.5
Monetary and Credit Aggregates (2)													
Broad Money supply M3	9,967.6	10,264.8	10,565.7	10,423.8	10,623.6	11,210.7	10,698.6	11,286.8	11,493.4	11,157.3	11,926.6	12,002.0	
Foreign Exchange Accounts Deposits	2,580.2	2,590.3	2,913.8	2,926.6	3,008.0	3,607.7	3,176.4	3,239.8	3,397.6	3,266.7	3,356.1	3,302.5	
Money supply M2	7,387.4	7,674.5	7,651.9	7,497.2	7,615.5	7,603.0	7,522.1	8,046.9	8,095.8	7,890.6	8,570.5	8,699.5	
Currency in circulation	2,003.5	1,936.7	1,901.4	1,868.1	1,845.4	1,952.4	1,919.9	2,002.0	1,988.2	1,963.5	2,138.4	2,262.3	
Shilling denominated Demand deposits	2,474.2	2,730.7	2,694.8	2,639.4	2,663.6	2,515.0	2,374.1	2,687.7	2,824.7	2,805.1	3,240.4	3,180.7	
Shilling denominated Time and saving deposits	2,909.7	3,007.1	3,055.7	2,989.8	3,106.6	3,135.6	3,228.1	3,357.2	3,282.9	3,122.0	3,191.7	3,256.4	
Private Sector Credit	6,864.6	6,895.7	7,103.3	7,130.6	7,149.2	7,238.5	7,219.1	7,264.9	7,360.5	7,486.7	7,668.3	7,809.0	
Weighted Average Interest Rates on Shilling Transactions.													
Demand Deposit Rate	1.3%	1.3%	1.4%	1.6%	1.4%	1.3%	1.4%	1.6%	1.7%	1.6%	1.7%	1.6%	
Savings Deposit Rate	3.2%	3.2%	3.3%	3.3%	3.3%	3.4%	3.4%	3.6%	3.1%	3.1%	3.2%	3.2%	
Time Deposit Rate	21.2%	19.8%	20.0%	18.7%	17.4%	17.7%	16.7%	15.2%	11.9%	12.7%	10.8%	12.7%	
Lending Rate	27.3%	26.8%	27.6%	26.1%	26.7%	27.0%	26.9%	26.4%	25.7%	24.9%	23.7%	24.9%	
Weighted Average Interest Rates on													
Foreign Exchange Transactions													
Demand Deposit Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	9.8%	9.7%	9.6%	
Savings Deposit Rate	1.9%	1.8%	1.8%	1.8%	1.5%	1.5%	1.1%	1.5%	1.6%	1.7%	1.8%	1.7%	
Time Deposit Rate	5.9%	5.1%	4.5%	4.6%	3.4%	5.2%	3.0%	5.0%	2.7%	4.5%	2.6%	4.3%	
Average Lending Rate	10.3%	10.2%	10.0%	8.2%	9.3%	8.4%	9.0%	9.1%	8.7%	10.7%	10.4%	8.7%	
Treasury Bills													
91 Days (End period Weighted Discount Rate)	20.5%	17.4%	15.7%	16.3%	16.2%	16.7%	16.7%	12.7%	10.7%	9.1%	9.3%	9.3%	
182 Days (End period Weighted Discount Rate)	21.4%	16.4%	17.3%	17.4%	17.5%	17.1%	16.4%	13.5%	10.8%	11.4%	13.5%	13.3%	
364 Days (End period Weighted Discount Rate)	19.8%	15.8%	16.9%	16.9%	16.7%	16.1%	14.9%	12.5%	10.2%	10.9%	13.1%	13.1%	
Treasury Bond Secondary Market rates													
2-year Bond													
Bid	19.7%	18.3%	16.1%	15.9%	15.3%	15.2%	14.6%	13.6%	11.8%	11.4%	12.3%	13.6%	14.3%
Offer	19.5%	18.2%	15.9%	15.8%	15.2%	15.0%	14.5%	13.4%	11.7%	11.3%	12.1%	13.4%	14.1%
5-year Bond													
Bid	17.8%	17.5%	16.2%	16.1%	15.5%	15.3%	14.9%	14.0%	12.4%	12.1%	12.4%	13.5%	15.1%
offer	17.7%	17.3%	16.0%	15.9%	15.3%	15.2%	14.7%	13.9%	12.2%	11.9%	12.3%	13.4%	15.0%
10-year Bond													
bid	18.7%	17.9%	16.9%	16.7%	15.8%	15.5%	15.1%	14.7%	14.4%	14.4%	14.6%	14.6%	14.7%
offer	18.4%	17.8%	16.7%	16.6%	15.6%	15.3%	14.9%	14.6%	14.3%	14.3%	14.5%	14.4%	14.5%
Bank of Uganda Rates (End Month)													
Central Bank Rate	23.0%	22.0%	21.0%	21.0%	21.0%	20.0%	19.0%	17.0%	15.0%	13.0%	12.5%	12.0%	12.0%
Rediscount Rate	27.0%	26.0%	25.0%	25.0%	25.0%	24.0%	23.0%	21.0%	19.0%	17.0%	16.5%	16.0%	16.0%
Bank Rate	28.0%	27.0%	26.0%	26.0%	26.0%	25.0%	24.0%	22.0%	20.0%	18.0%	17.5%	17.0%	17.0%
7-day Interbank Rate	28.2%	23.5%	25.0%	22.7%	20.7%	20.1%	18.5%	16.5%	15.0%	13.6%	12.6%	12.3%	12.0%
Overall Interbank Rate	27.0%	19.2%	21.8%	21.3%	18.7%	20.4%	16.0%	13.9%	11.0%	12.4%	10.2%	9.9%	9.2%
Consumer Price Index (Base 2005/06)													
Composite CPI, Annual percentage change.	25.6	25.7	21.1	20.0	18.6	18.0	14.3	11.9	5.5	4.5	4.9	5.3	4.9
Core CPI, Annual percentage change	28.1	26.7	23.6	22.8	21.2	19.6	15.4	11.4	4.9	4.0	3.9	4.6	5.6
Food crops CPI, Annual percentage change	13.5	21.4	10.1	9.1	8.0	11.3	7.5	12.8	6.3	4.4	7.5	7.3	3.0
Elec, Fuel & Utilities (EFU) CPI, Annual percentage d	23.5	23.1	20.2	14.3	14.5	12.9	16.7	14.7	12.6	12.8	13.8	9.0	-2.1
Monthly Average Pump Prices of Petroleum Products													
Motor Spirit Premium (PMS)	3,500.0	3,400.0	3,550.0	3,700.0	3,650.0	3,650.0	3,650.0	3,550.0	3,600.0	3,650.0	3,650.0	3,700.0	
Diesel (AGO)	3,400.0	3,150.0	3,280.0	3,320.0	3,250.0	3,100.0	3,100.0	3,200.0	3,250.0	3,250.0	3,250.0	3,300.0	
Kerosene (BIK)	2,800.0	2,600.0	2,650.0	2,840.0	2,750.0	2,750.0	2,750.0	2,800.0	2,750.0	2,750.0	2,750.0	2,800.0	
Source: Research Department, Bank of Uganda													

Imports of Merchandise (US$ millions)	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Total Imports (c.i.f)	**561.58**	**535.23**	**556.02**	**507.37**	**581.46**	**623.06**	**493.88**	**560.09**	**511.50**	**508.46**	**536.37**	**447.51**	**475.60**
o/w cost													
Total Imports (fob)	**458.09**	**437.95**	**454.37**	**414.77**	**474.36**	**507.39**	**403.76**	**457.47**	**419.07**	**416.09**	**437.71**	**365.54**	**388.42**
Government Imports	66.65	50.70	31.07	29.72	19.02	55.68	11.91	44.89	14.89	20.79	43.17	32.21	25.83
Project	41.84	23.36	20.36	29.40	10.36	50.09	11.65	36.69	12.58	17.81	29.22	29.74	16.84
Non-Project	24.81	27.34	10.71	0.32	8.66	5.59	0.26	8.20	2.32	2.98	13.95	2.47	9.00
Formal Private Sector Imports	385.22	383.21	417.86	380.04	450.75	448.42	388.82	408.49	400.36	390.74	390.85	329.31	358.50
Oil imports	78.77	69.13	72.03	62.09	72.92	64.87	58.38	80.14	76.56	85.67	84.03	84.57	88.51
Non-oil imports	306.45	314.07	345.83	317.95	377.83	383.56	330.45	328.35	323.80	305.08	306.82	244.74	269.99
Estimated Private Sector Imports	6.22	4.04	5.44	5.01	4.59	3.29	3.03	4.09	3.81	4.55	3.69	4.02	4.08
Total Private Sector Imports	391.44	387.25	423.30	385.05	455.34	451.71	391.85	412.58	404.17	395.29	394.53	333.33	362.58
o/w freight													
Total Imports	99.11	93.17	97.35	88.68	102.57	110.78	86.31	98.27	88.53	88.46	94.49	78.50	83.50
Government Imports	16.56	12.59	7.72	7.38	4.72	13.83	2.96	11.15	3.70	5.16	10.72	8.00	6.42
Project	10.39	5.80	5.06	7.30	2.57	12.44	2.89	9.11	3.12	4.42	7.26	7.39	4.18
Non-Project	6.16	6.79	2.66	0.08	2.15	1.39	0.06	2.04	0.58	0.74	3.46	0.61	2.23
Private Sector Imports	82.55	80.57	89.64	81.30	97.85	96.95	83.35	87.12	84.83	83.30	83.76	70.50	77.08
Oil imports	19.57	17.17	17.89	15.42	18.11	16.11	14.50	19.91	19.02	21.28	20.87	21.01	21.99
Non-oil imports	62.98	63.40	71.75	65.88	79.73	80.84	68.85	67.22	65.81	62.02	62.89	49.50	55.09
Private Sector through forex	82.55	80.57	87.98	81.29	97.85	95.71	83.35	87.12	84.83	83.30	83.76	70.50	76.75
o/w insurance													
Total Imports	4.38	4.11	4.30	3.92	4.53	4.89	3.81	4.34	3.91	3.91	4.17	3.47	3.69
Government Imports	0.73	0.56	0.34	0.33	0.21	0.61	0.13	0.49	0.16	0.23	0.47	0.35	0.28
Project	0.46	0.26	0.22	0.32	0.11	0.55	0.13	0.40	0.14	0.20	0.32	0.33	0.18
Non-Project	0.27	0.30	0.12	0.00	0.10	0.06	0.00	0.09	0.03	0.03	0.15	0.03	0.10
Private Sector Imports	3.64	3.56	3.96	3.59	4.32	4.28	3.68	3.85	3.75	3.68	3.70	3.11	3.40
Oil imports	0.86	0.76	0.79	0.68	0.80	0.71	0.64	0.88	0.84	0.94	0.92	0.93	0.97
Non-oil imports	2.78	2.80	3.17	2.91	3.52	3.57	3.04	2.97	2.91	2.74	2.78	2.19	2.43
Private Sector through forex	3.64	3.56	3.88	3.59	4.32	4.23	3.68	3.85	3.75	3.68	3.70	3.11	3.39

Exports of merchandise (US$ millions)	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Total Exports	**213.28**	**225.52**	**238.87**	**217.28**	**253.13**	**254.85**	**246.79**	**260.37**	**252.19**	**227.62**	**242.50**	**220.80**	**251.90**
Total Formal Exports	**181.47**	**197.52**	**204.51**	**181.68**	**216.27**	**221.24**	**216.69**	**220.02**	**208.90**	**182.17**	**197.43**	**176.20**	**206.86**
1. Coffee (Value)	**33.71**	**36.16**	**30.18**	**21.86**	**35.77**	**36.62**	**40.53**	**31.55**	**23.49**	**23.68**	**28.82**	**30.13**	**42.62**
Volume ('000 60-Kg bags)	0.23	0.24	0.19	0.14	0.25	0.28	0.31	0.23	0.18	0.18	0.22	0.24	0.35
Av. unit value	2.48	2.47	2.68	2.58	2.36	2.22	2.21	2.26	2.21	2.21	2.15	2.09	2.06
2. Non-Coffee formal exports	**147.76**	**161.36**	**174.33**	**159.81**	**180.50**	**184.63**	**176.16**	**188.48**	**185.40**	**158.49**	**168.62**	**146.07**	**164.24**
Electricity	0.96	1.45	1.39	1.74	1.55	1.40	0.96	1.17	1.18	1.12	1.12	1.13	1.41
Gold	1.01	0.87	0.85	1.20	1.13	0.91	0.48	0.64	0.49	0.00	0.17	0.06	0.12
Cotton	9.31	11.44	16.28	12.62	9.28	9.22	1.53	1.58	1.27	2.33	0.80	0.34	2.87
Tea	7.45	4.22	2.97	3.70	8.35	6.42	7.14	6.46	5.78	6.67	7.96	6.78	8.76
Tobacco	7.04	6.21	5.68	2.72	5.21	6.67	7.92	5.17	2.22	2.93	6.34	4.35	7.32
Fish & its prod. (excl. regional)	12.46	12.49	11.80	10.56	11.98	10.42	9.40	8.11	8.55	9.43	8.76	9.71	8.75
Hides & skins	2.55	3.45	3.98	3.60	4.92	4.30	3.23	3.17	3.95	4.05	3.23	0.97	0.59
Simsim	1.99	1.28	2.01	2.20	2.90	0.56	0.25	0.03	0.28	0.44	0.09	1.14	3.97
Maize	1.67	5.03	8.26	4.11	5.32	5.27	2.91	4.98	8.00	5.04	5.67	2.91	6.15
Beans	0.27	0.69	0.61	0.67	0.31	0.71	3.03	0.73	0.61	1.47	2.33	1.25	1.34
Flowers	4.72	4.91	4.35	3.68	6.10	5.63	4.84	4.97	3.71	3.56	3.25	2.94	4.55
Oil re-exports	7.09	11.68	12.21	9.47	15.69	11.39	12.04	12.61	12.00	12.09	10.86	11.51	11.25
Cobalt	0.53	1.58	0.53	0.53	1.05	0.53	1.58	2.11	1.05	2.64	1.05	1.05	1.58
Others	90.72	96.05	103.41	103.01	106.70	121.20	120.84	136.73	136.33	106.71	116.96	101.93	105.56

Source: Research Department, Bank of Uganda