

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



JULY 2007

The Bank of Uganda Economic and Financial Indicators beginning with February 1999 Edition are now available on the Internet at <http://www.bou.or.ug>

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INTRODUCTION

The indicators presented in this report summarise the major developments in the monetary and financial conditions in Uganda during the month of July 2007. Both the annual headline and underlying inflation rates decreased relative to the outturn reported in June 2007. The exchange rate remained relatively stable and all measures of money supply registered modest nominal

growth. Commercial banks' stock of credit to the private sector increased between April 2007 and May 2007. The volume and value of coffee exports rose in July 2007 relative to June 2007 and the corresponding period a year ago. The value of merchandise exports in June 2007 was higher than that recorded in June 2006.

I INFLATION

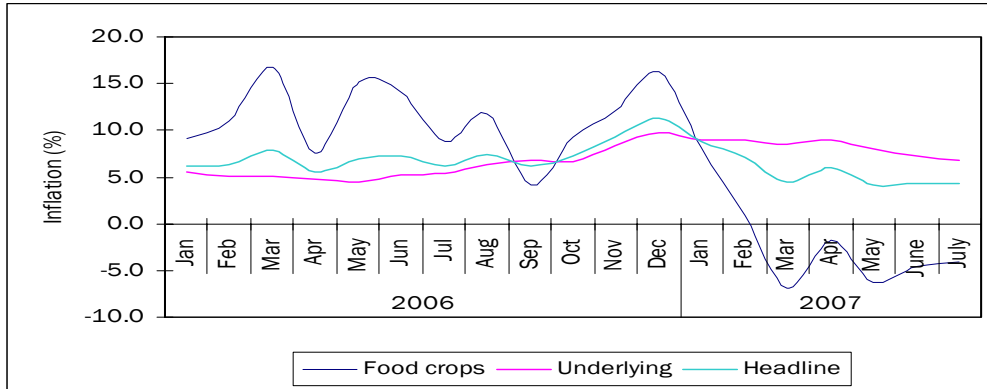
The annual headline inflation rate decreased slightly to 4.2 percent in the month ended July 2007 from the revised¹ 4.4 percent reported for the year ended June 2007, mainly attributed to low prices of food items such as matooke, sweet potatoes, Irish potatoes and fresh cassava. In addition reductions in prices of some fruits, vegetables and cereals in most centres were also observed. The monthly headline inflation rate declined further to 0.5 percent in July 2007 compared to a decrease of 1.7 percent reported in the month of June 2007. This was on account of price reductions in staple foods, vegetables and cereals. Prices of vegetables such as cabbages, tomatoes went down due to increased supply.

Similarly, the annual food crops inflation registered a decline of 4.0 percent in the month ended July 2007 compared to the decrease of 4.6 percent for the month ended June 2007, due to lower prices of staples like cassava, matooke and sweet potatoes. The month-on-month food crops inflation was registered at -3.9 percent in July 2007 compared to -8.0 percent in June 2007. Figure 1 shows the movements in the inflation rates for the period January 2006 to July 2007.

The annual underlying inflation rate declined from 7.3 percent in the month ended June 2007 to 6.8 percent in July 2007, driven by slower increases in prices of goods and services. Goods inflation reduced to 6.5 percent in the month ended July 2007 from the 7.0 percent recorded in June 2007 on account of lower prices of paraffin, petrol, clothing and footwear, utilities, rent, fuel, beverages and tobacco, and drugs. Services inflation decreased to 7.0 percent from the 7.7 percent in June 2007. The month on month underlying inflation rate registered a modest increase from 0.2 to 0.4 in July 2007.

¹ Revised from 4.3 percent on account of revisions in education numbers for June 2007 by Uganda Bureau of Statistics

Figure I: Annual Inflation rate developments, January 2006 to July 2007



Source: Uganda Bureau of Statistics

II FOREIGN EXCHANGE MARKET

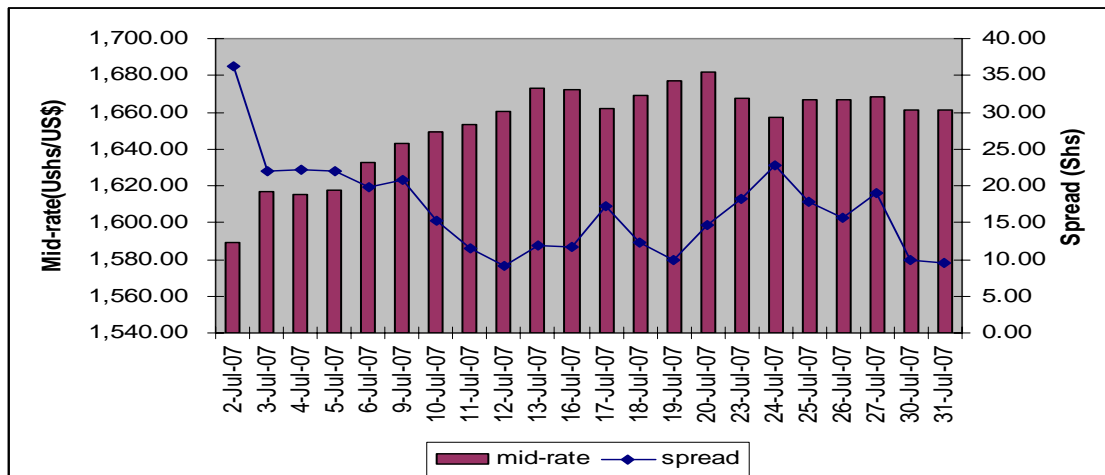
i) Exchange rates

The exchange rate was largely stable during the month of July 2007, registering a marginal depreciation of 0.6 percent from a mid monthly average exchange rate of Shs. 1,643.6 per US\$ in June 2007 to a mid monthly average exchange rate of Shs. 1,652.9 per US\$ in July 2007.

There was intervention in the Inter Bank Foreign Exchange Market (IFEM) by the

Bank of Uganda during the month of July 2007 amounting to a net purchase of US\$ 77.7 million. Bank of Uganda stayed sterilisation of liquidity using foreign exchange sales given the developments in the Interbank foreign exchange market (IFEM). Consequently, a sale of US\$ 3.5 million was effected in July 2007 compared to a sale of US\$ 11.2 million in June 2007. Figure II shows the trend of the nominal exchange rate and spread.

Figure II: Daily mid rate and spread, July 2007.



Source: Bank of Uganda

Foreign exchange purchases and sales

Gross foreign exchange purchases in the IFEM declined by 23.1 percent from US\$ 860.9 million in June 2007 to US\$ 662.4 million in July 2007. Gross sales also reduced by

24.9 percent from US\$ 774.9 million to US\$ 582.0 million over the same period. Cross currency trade transactions declined from US\$ 78.6 million in June 2007 to US\$43.6 million in July 2007.

III DOMESTIC MONEY MARKETS AND INTEREST RATES

Interest rates

The end period weighted discount rates on the 91-day, 182-day and the 364-day Treasury bill remained at the end-June 2007 levels of 9.9, 12.9 and 12.4 percent respectively as there were no Treasury bill offers and thus auctions in the period under review.

The monthly average lending rate on commercial banks' shilling denominated loans for June 2007 was recorded at 19.4 percent from the end May 2007 level of 19.7 percent. The rate on foreign exchange denominated loans also declined to 9.2 from 10.1 percent recorded at end May 2007.

On account of the developments in the Treasury bill market during this month, the Rediscount and Bank rates remained at the end of June levels of 15.6 percent and 16.6 percent. Figure III shows the pattern of selected interest rates.

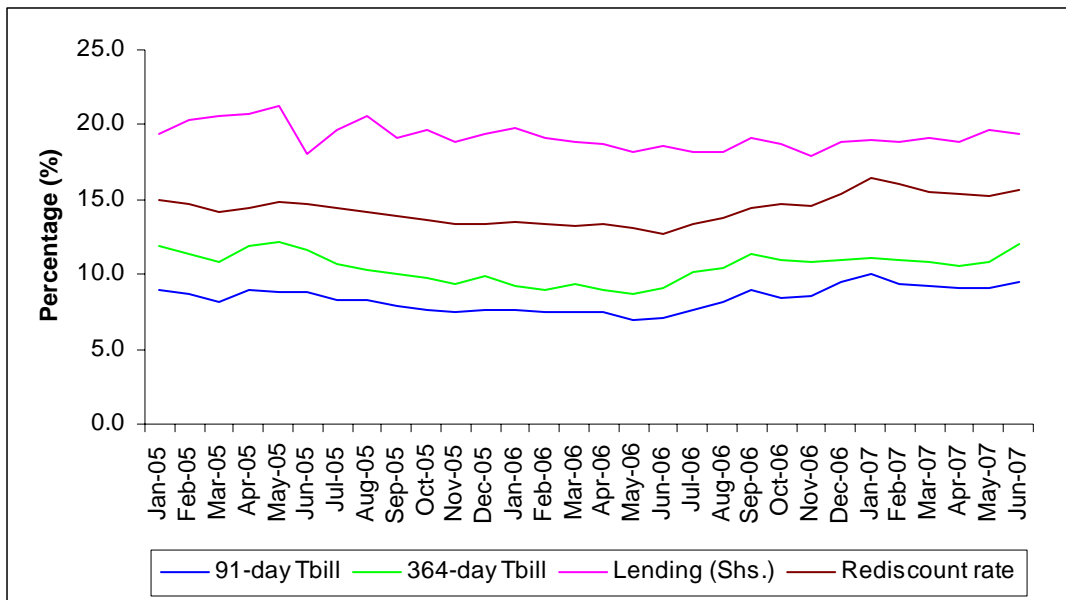
Treasury bill holdings

The outstanding stock of treasury bills decreased from Shs. 1,340.4 billion at end June 2007 to Shs. 1,291.7 billion at end July 2007. Commercial banks' holdings of treasury bills dropped from Shs. 828.3 billion to Shs. 629.7 billion while insurance companies' holdings rose by 14.6 percent from Shs. 240.8 billion to Shs. 275.9 billion. Similarly, holdings by the 'Others' category decreased from Shs. 161.5 billion to Shs. 158.5 billion, while holdings by the Bank of Uganda increased from Shs.109.7 billion to Shs. 227.7 billion.

Treasury bonds

The stock of Treasury bonds increased from Shs. 953.1 billion at end June 2007 to Shs.993.1 billion at end July 2007. A 5-year bond worth Shs.40 billion was opened on July 26, 2007 with a weighted average price of 92.0 per Shs. 100 and Yield-to-maturity of 13.0 percent.

Figure III: Selected interest and policy rates, January 2005 to June 2007



Source: Bank of Uganda

IV MONETARY AGGREGATES

i) Money supply

All measures of money supply recorded modest contraction between May 2007 and June 2007. Narrow money **M1** declined by Shs. 80.5 billion from Shs. 2,072.1 billion at end-May 2007 to Shs. 1,991.6 billion at end June 2007. Currency in circulation increased from Shs. 828.0 billion to Shs. 863.6 billion while private sector's demand deposits decreased from Shs. 1,244.1 billion to Shs. 1,127.9 billion.

Private sector's time and savings deposits registered a marginal decline from Shs. 1,005.5 billion to Shs. 1,002.3 billion while certificate of deposits remained at the end May 2007 level of Shs. 0.1 billion. Money supply **M2** therefore decreased from Shs. 3,077.6 billion to Shs. 2,993.9 billion.

The private sector's foreign exchange deposits however reduced from Shs. 903.8 billion to Shs. 848.1 billion. Broad money supply **M3** therefore declined by Shs. 139.4 billion or 3.5 percent from Shs. 3,981.4 billion to Shs. 3,842.0 billion of which, Net Foreign Assets (NFA) contributed 1.1 percent to the decline in Broad money between May 2007 and June 2007.

Net foreign assets (NFA) of the banking system declined by Shs. 42.2 billion from Shs. 3,967.8 billion to Shs. 3,925.6 billion between end May 2007 and end June 2007 respectively. The decline was registered in commercial banks' net foreign assets from Shs. 686.9 billion to Shs. 504.3 billion due to the effects resulting from shilling appreciation pressures experienced in June 2007. However, Bank of Uganda's NFA increased from Shs. 3,280.9 billion to Shs. 3,421.3 billion largely on account of increased purchases from the IFEM.

Domestic credit reduced by Shs. 334.4 billion from Shs. 1,408.8 billion to Shs. 1,074.4 billion. The banking system's net claims on Government changed from a saving of Shs. 387.9 billion at end May 2007 to Shs. 749.7 billion at end June 2007. Government's net position with the central bank improved by Shs. 368.3 billion from a saving of Shs. 1,362.5 billion at end May 2007 to a saving of Shs. 1,730.8 billion at end June 2007 partly on account of a significant increase in donor budget support disbursement in June 2007, while its net position with the commercial banks deteriorated by Shs. 6.5 billion from a borrowing of Shs. 974.6 billion as at end May 2007 to a borrowing of Shs. 981.1 billion at end June 2007. The banking systems' claims on the private sector increased from Shs. 1,762.4 billion to Shs. 1,789.1 billion at end June 2007. The stock of loans to Parastatals by commercial banks also increased marginally from Shs. 29.4 billion at the end of May to Shs. 30.4 billion at the end of June 2007.

ii) Base money

Base money expanded from Shs. 1,211.1 billion at end June 2007 to Shs. 1,505.7 billion at end July 2007 driven largely by maturing instruments and favourable balance of payments position. Currency issued also increased from Shs. 949.7 billion to Shs. 973.8 billion. Commercial banks' total reserves increased from Shs. 261.4 billion to Shs. 531.9 over the review period on account of the BOU intervention on the buy side in the foreign exchange market.

V COMMODITY SUB-SECTOR

i) Total exports

Overall, export proceeds in the month of June 2007 rose when compared to the same month a year ago. Total exports were

estimated at US\$ 118.3 million in June 2007 compared to US\$ 87.2 million in June 2006.

ii) Coffee exports

As reported by Uganda Coffee Development Authority (UCDA), total coffee exports for the month of July 2007 amounted to 268,864 (60Kg) bags worth US\$ 28.3 million, representing an increase of 52.5 percent and 106.7 percent in volume and value terms, respectively relative to the month of July 2006. On a cumulative basis, coffee exports for the first ten months (October/July) of the current coffee year amounted to 2,294,003 (60 Kg) bags worth US\$ 214.8 million. This represents an increase of 37.5 percent and 51.3 percent in volume and value terms, respectively relative to a similar period in 2005/06. The overall improvement in coffee volume and value in 2006/7 compared to 2005/06 especially Robusta coffee was attributed to good farm-gate prices that prompted farmers to offload their stocks as well as favourable weather conditions at the

critical time of bean maturation. In addition, new coffee plantings, distributed under the government's strategic intervention since 2001, have continued to come into production. The average realised export price improved to US\$ 1.8 per kilogram in July 2007, up from the June 2007 level of US\$ 1.6 per kilogram.

Locally, the coffee-harvesting season has virtually come to an end in Masaka and southwestern regions though marketing is still ongoing. Kiboko (dry cherries of Robusta) coffee prices averaged Shs. 1,200 per kilogram, the same as in June 2007. The fairly average quality (FAQ) coffee prices averaged Shs. 2,400 per kilogram though coffee through the pilot warehouse in Bushenyi district fetched as high as Shs. 2,650 per kilogram in July 2007.

iii) Non-coffee exports

There was an improvement in the estimated earnings from the non-coffee exports in June 2007. The total value of non-coffee exports for June 2007 was estimated at US\$ 93.9 million, US\$ 21.3 million or 29.4 percent more than the realized value in the corresponding month last year. Improvements were recorded for most commodities, save for gold², cotton, fish exports (both regional and international), beans and cobalt, which declined by 86 percent, 24 percent, 28 percent, 21.6 percent, 71.8 percent and 36.1 percent million, respectively over the period under review. However, earnings from base metals and tobacco grew to US\$ 6.2 million, US\$ 6.8 million in June 2007 compared to the

levels of US\$ 3.5 million and US\$ 2.8 million, respectively in June 2006. Table 1 shows the detailed performance of Uganda's exports up to June 2007.

² Gold exports are based on supply contracts made with dealers and the values do not necessarily reflect variations in production

Table I: Exports of merchandise (US\$ Million)

	Jun-06	Jan-07	Feb-07	Mar-07	Apr-07	May -07	Jun-07
Total Exports	87.16	118.93	117.49	133.31	104.06	127.7	118.25
Coffee	14.55	28.37	20.15	24.22	12.96	17.91	24.32
Coffee shipment, million (60-Kg) bags	0.19	0.32	0.22	0.27	0.14	0.18	0.24
Av. unit value	1.30	1.50	1.51	1.52	1.57	1.62	1.66
Non-Coffee exports	72.61	90.56	97.35	109.09	91.10	109.80	93.93
Electricity	0.54	0.46	0.45	0.76	0.63	0.62	0.68
Gold	9.13	10.46	12.97	11.44	9.82	7.27	1.28
Cotton	2.61	1.92	2.84	3.62	3.67	2.69	2.53
Tea	3.90	4.73	4.05	2.72	3.07	4.74	4.41
Tobacco	2.81	2.17	9.23	10.49	4.88	4.22	6.16
Fish & its prod. (excl. regional)	12.02	12.53	12.81	12.31	9.87	11.71	9.42
Fish & its prod. (Regional exports)	3.74	3.76	3.84	3.69	2.96	3.51	2.83
Hides & skins	0.71	2.34	0.73	1.26	2.21	1.92	2.09
Simsim	0.10	0.16	0.50	0.90	0.48	0.20	0.75
Maize	1.38	1.43	2.03	3.92	2.84	2.73	2.22
Beans	1.27	0.56	0.25	0.30	0.16	0.31	0.36
Flowers	2.74	3.00	2.77	3.22	2.17	3.11	2.78
Oil re-exports	2.62	3.09	3.05	4.30	2.99	3.62	3.88
Cobalt	2.18	1.56	1.56	1.56	1.56	1.14	1.39
Others	26.86	42.40	40.26	48.60	43.80	62.01	53.14

Source: Bank of Uganda

iv) Imports

Total imports increased marginally from 244.2 million in May 2007 to US\$ 244.4 million in June 2007. Government imports rose from US\$ 7.5 million to US\$ 11.8 million in June 2007 on account of an increase in non-project imports by government, which amounted to US\$ 7.9 million during the month under review; an increase over the US\$ 3.8 million and US\$ 1.0 million in the previous month and the corresponding month of 2006, respectively.

Project imports by government also expanded slightly from US\$ 3.7 million in May 2007 to US\$ 3.9 million in June 2007.

Private sector imports however declined marginally from US\$ 236.7 million to US\$ 232.6 million. The oil import bill amounted to US\$ 44 million, US\$ 11.3 million more than the oil import bill of June 2006. Non-oil imports, such as; machinery, vehicles and accessories, chemicals and related

products, vegetable products, animal fats and oils and base metals and their products of the private sector decreased by US\$ 11.3

million to US\$ 188.6 million between May 2007 and June 2007. Table 2 provides information on imports of goods.

Table II: Imports of goods (US\$ Million)

	Jun-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Total Imports	207.72	212.03	201.28	211.16	213.92	244.17	244.39
Government Imports	11.78	13.09	5.64	4.70	5.09	7.51	11.79
Project	10.93	2.63	3.16	2.18	1.15	3.69	3.94
Non-Project	0.8	10.46	2.48	2.52	3.94	3.83	7.85
Private Sector Imports	195.94	198.94	195.63	206.47	208.83	236.65	232.60
Oil imports	30.68	34.19	29.64	32.99	30.18	36.81	44.00
Non-oil imports	165.26	164.75	166.00	173.48	178.65	199.85	188.60

Source: Bank of Uganda

v) Other Key Developments in Balance of Payments

The overall balance of payments was estimated at a surplus of US\$ 142.5 million in June 2007 compared to a deficit of US\$ 19.7 million in June 2006. The Current Account balance recorded a deficit of US\$ 4.8 million; an improvement of US\$ 32.1 million compared to the deficit registered in the corresponding month of the previous year. This was mainly due to an increase in private transfers of US\$ 45.3 million despite the deterioration in the trade deficit between June 2006 and June 2007. The Capital and

Financial account recorded a surplus of US\$ 147.3 million in June 2007, an improvement from a surplus of US\$ 9.1 million in June 2006.

In June 2007, the level of gross foreign reserves amounted to US\$ 2,159.9 million; a build up of US\$ 753.4 million compared to June 2006. The June 2007 reserve level is estimated to cover 6.4 months of future imports of goods and services.

VI CONCLUDING REMARKS

Challenges of managing liquidity arising from efforts to stabilise the Foreign Exchange market remained outstanding in July 2007. As the financial year rolls on, the conduct of monetary policy will continue to

focus on sustaining price stability and overall broad macroeconomic stability as envisaged in the program for the fiscal year 2007/08.

