

MONTHLY ECONOMIC AND FINANCIAL INDICATORS



MARCH 2008

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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 March 2008. In spite of exogenous shocks that affected domestic prices, the overall macroeconomic conditions remained broadly stable. Both the annual headline and core inflation rates rose relative to the outturn reported in February 2008. The exchange rate remained relatively stable

and most measures of money supply registered modest nominal growth. Banking system's stock of credit to the private sector increased between January 2008 and February 2008. The volume and value of coffee exports rose in March 2008 relative to the corresponding period a year ago. The value of merchandise exports in February 2008 was higher than that recorded in February 2007.

I INFLATION

As reported by Uganda Bureau of Statistics, the annual Headline Inflation rate rose to 8.1 percent in the year ended March 2008, up from 7.5 percent reported for the year ended February 2008, mainly attributed to higher annual prices of food products and refined oil. The monthly Headline Inflation also increased to 0.9 percent from 0.5 percent recorded in the month of February 2008. The increase in regional demand for food items particularly from Southern Sudan coupled with reduced supplies also affected prices of most food items up during the month of March 2008.

The annual Food Crops² Inflation remained stable at 4.8 percent as registered in the year ended February 2008. The month-on-month food crops inflation however increased to 0.7 percent in March 2008 from minus 0.1 percent in February 2008. Figure 1 shows the movements in the inflation rates for the period July 2006 to March 2008.

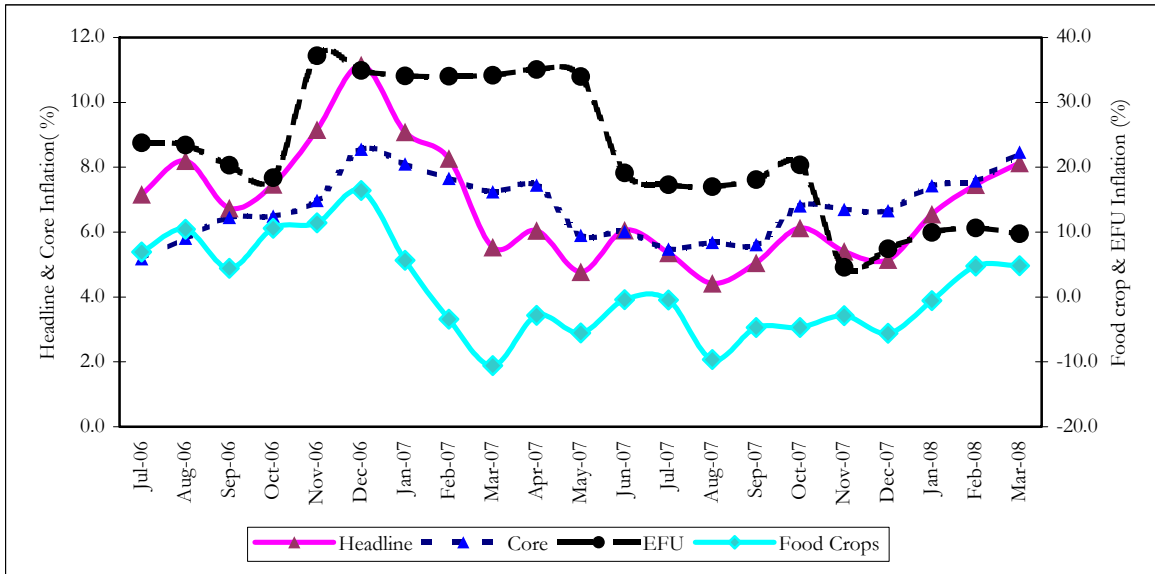
The annual Core Inflation rate¹ increased to 8.5 percent from 7.6 percent in the year ended February 2008, on account of higher annual increases in prices of manufactured products particularly soap, tea and books. Similarly, the month on month Core Inflation edged up to 1.0 percent from 0.7 percent in February 2008 due to the increase in prices of beef, lunch, and some manufactured items.

The annual Energy, Fuel, and Utilities (EFU) inflation rate however eased to 9.7 percent from 10.8 percent in the year ended February 2008, due to slower annual increases in the average price of petroleum products. The month on month EFU inflation rate also declined to minus 0.7 percent, from 0.5 percent in February 2008.

¹ Excludes food crops, electricity, fuel and metered water

² Food crops include fresh food crop items and related products such as milk and flour

Figure I: Annual Inflation rate developments, July 2006 to March 2008



Source: Uganda Bureau of Statistics

II FOREIGN EXCHANGE MARKET

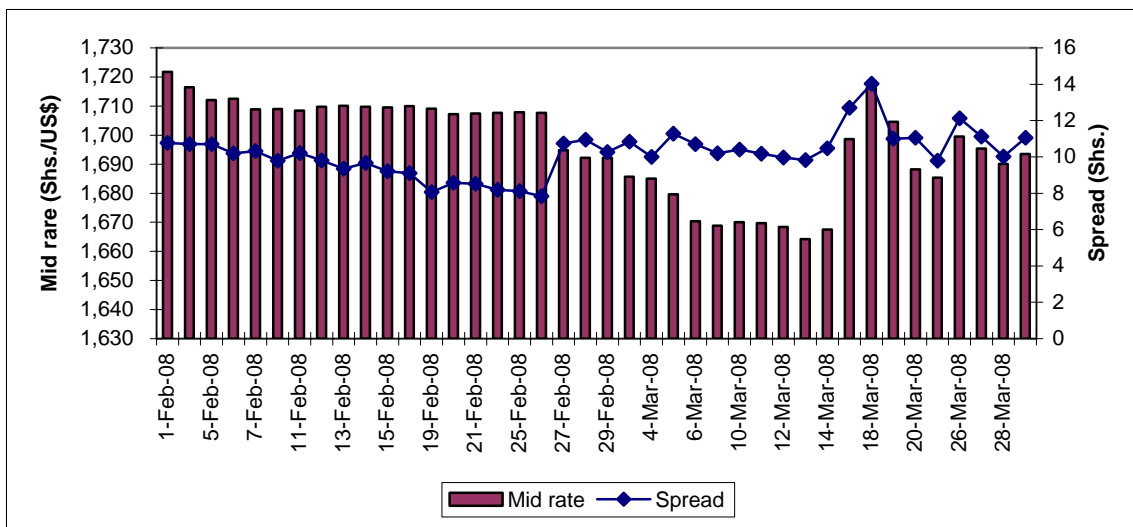
i) Exchange rates

The exchange rate was largely stable during the month of March 2008, registering an appreciation of 1.4 percent from an average mid exchange rate of Shs. 1,707.8 per US\$ in February 2008 to an average exchange rate of Shs. 1,684.3 per US\$. The appreciation trend during March 2008 was partly a result of low demand for the U.S. dollar and shilling liquidity tightness in the banking sector. The Bank of Uganda resumed sterilisation of liquidity through daily sale of US\$ 0.5 million in the Inter-

bank Foreign Exchange Market (IFEM). Sales through this market, for the month of March 2008 amounted to US\$ 8.5 million. Also, during the course of the month under review, the Bank of Uganda intervened in the IFEM to the tune of US\$17.8 million on the buy side and US\$20.0 million on the sale side resulting in a net sale of US\$2.2 million.

Figure II shows the trend of the nominal exchange rate and spread between the buying and selling rates.

Figure II: Daily mid rate and spread, February 2008 and March 2008.



Source: Bank of Uganda

ii) Foreign exchange purchases and sales

Gross foreign exchange purchases in the IFEM increased by 33.4 percent from US\$ 557.4 million in February 2008 to US\$ 743.5 million in March 2008. Gross sales also rose by 23.5 percent from US\$ 569.6

million to US\$ 703.6 million over the same period. Cross currency trade transactions increased from US\$ 348.2 million in February 2008 to US\$ 497.8 million in March 2008.

III DOMESTIC MONEY MARKETS AND INTEREST RATES

Interest rates

The end period weighted discount rates on the 182-day, and the 364-day Treasury bill increased from the end-February 2008 levels of 11.2 percent and 11.3 percent to 11.5 percent and 11.9 percent at end March 2008 respectively. The 91-day discount rate however remained at the February 2008 level of 7.8 percent. On account of the latter developments, the policy rates, Rediscount and Bank rate, remained the same at the February levels of 14.0 percent and 15.0 percent respectively.

The monthly average weighted lending rate on the commercial banks' shilling denominated loans rose to 19.5 percent in February 2008 from 19.4 percent in January 2008. The foreign exchange denominated loans' weighted average lending rate also rose to 14.9 percent from 13.2 percent registered in January 2008. Figure III shows the pattern of selected categories of interest rates.

Treasury bill holdings

The outstanding stock of treasury bills decreased from Shs. 1,534.6 billion at end February 2008 to Shs. 1,507.9 billion at end March 2008. Commercial banks' holdings of treasury bills increased from Shs. 730.5 billion to Shs. 834.3 billion while insurance companies' holdings³ decreased from Shs. 374.2 billion to Shs. 361.8 billion. Holdings by the 'Others' category also declined from Shs. 239.6 billion to Shs.

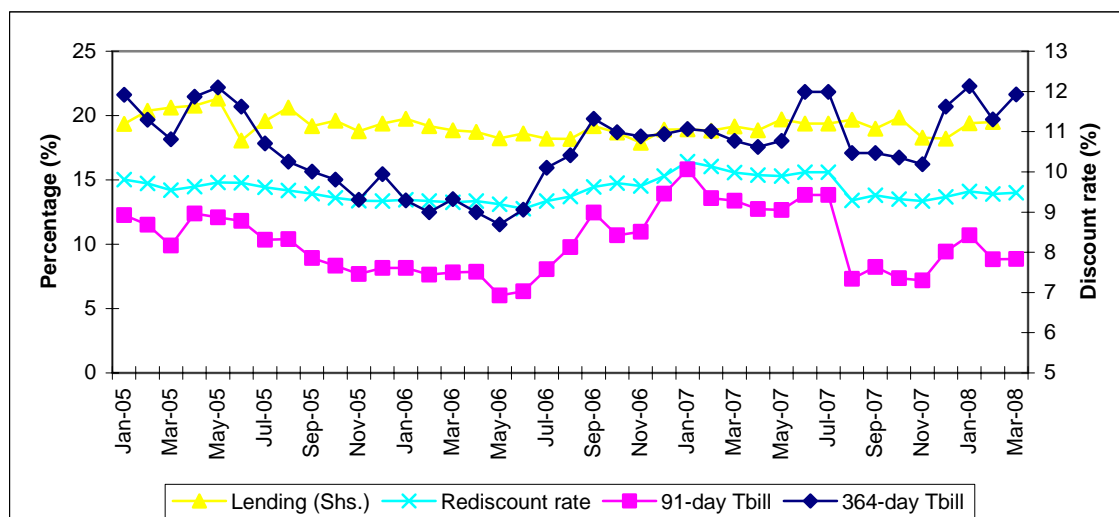
152.3 billion. Bank of Uganda's holdings of treasury bills decreased from Shs. 190.3 billion at end February 2008 to Shs. 159.5 billion at end March 2008 on account of Repos.

Treasury bonds

The stock of Treasury bonds increased from Shs. 1,216.7 billion at end February 2008 to Shs. 1,276.7 billion at end March 2008. A new 3-year bond worth Shs. 60 billion was issued on March 05, 2008 with a weighted average price of 92.1 per Shs. 100 and a yield to maturity ratio of 13.6 percent

³ Includes holdings of insurance companies, non-clearing banks, trust companies and other financial institutions

Figure III: Selected Interest and policy rates, January 2005 to March 2008



Source: Bank of Uganda

IV MONETARY AGGREGATES

i) Money supply

Most measures of money supply increased modestly between January 2008 and February 2008. Narrow money **M1** grew by Shs. 107.9 billion from Shs. 2,369.2 billion at end-January 2008 to Shs. 2,477.2 billion at end February 2008. Currency in circulation slightly increased from Shs. 1,019.2 billion to Shs. 1,022.4 billion and private sector's demand deposits increased from Shs. 1,350.0 billion to Shs. 1,454.7 billion.

Private sector's time and savings deposits increased from Shs. 1,185.3 billion to Shs. 1,215.9 billion while certificate of deposits remained at the end January 2008 level of Shs. 0.1 billion. Money supply **M2** therefore expanded from Shs. 3,554.6 billion to Shs. 3,693.1 billion.

The private sector's foreign exchange deposits rose from Shs. 1,091.8 billion to Shs. 1,169.7 billion. Broad money supply **M3** therefore increased by 4.7 percent from Shs. 4,646.4 billion to Shs. 4,862.8 billion.

Domestic credit increased by Shs. 149.7 billion from Shs. 1,420.9 billion to Shs. 1,570.6 billion. Domestic credit contributed 3.2 Percent to the growth in Broad money between January 2008 and February 2008.

The banking system's net claims on Government declined from a saving of Shs. 1,032.1 billion at end January 2008 to a saving of Shs. 1,010.5 billion at end February 2008. Government's net position with the central bank improved by Shs. 41.2 billion from a saving of Shs. 2,333.4 billion at end January 2008 to a saving of Shs. 2,374.6 billion at end February 2008, largely on account of the increase in government deposits in the banking system. Government's net position with the commercial banks declined by Shs. 62.8 billion from a borrowing position of Shs. 1,301.3 billion as at end January 2008 to a borrowing of Shs. 1,364.1 billion at end February 2008 on account of an increase in commercial banks' investment in Government securities of Shs. 66.8 billion that more than offset the increase in government deposits of Shs. 3.9 billion. The banking systems' claims on the private sector increased from Shs. 2,422.6 billion to Shs. 2,552.2 billion at end February 2008. The stock of loans to Parastatals by commercial banks however decreased from Shs. 26.2 billion at the end of January 2008 to Shs. 24.8 billion at the end of February 2008.

Net foreign assets (NFA) of the banking system decreased by Shs. 37.9 billion from Shs. 5,157.1 billion to Shs. 5,119.1 billion between end January 2008 and end February 2008. The decline was on account of a 2.3 percent decrease in the Bank of Uganda's NFA from Shs. 4,517.8 billion to Shs. 4,415.0 billion while commercial banks' net foreign assets increased from Shs. 639.3 billion to Shs. 704.1 billion between January 2008 and February 2008 respectively.

ii) Base money

Base money expanded from Shs. 1,467.6 billion at end February 2008 to Shs. 1,513.8 billion at end March 2008. Currency issued also rose marginally from Shs. 1,152.4 billion to Shs. 1,161.2 billion. Commercial banks' total reserves increased from Shs. 315.2 billion to Shs. 352.6 billion over the review period.

V COMMODITY SUB-SECTOR

i) Total exports

Overall, export proceeds in the month of February 2008 rose relative to the same period a year ago. Total exports were estimated at US\$ 162.2 million in February

2008 compared to US\$ 139.8 million in February 2007 and US\$ 163.4 million in January 2008.

ii) Coffee exports

As reported by Uganda Coffee Development Authority (UCDA), total coffee exports for the month of March 2008 amounted to 279,248 (60Kg) bags worth US\$ 36.3 million, representing an increase of 5.2 percent and 49.8 percent in volume and value terms, respectively relative to the month of March 2007. On a cumulative basis, coffee exports for the first half (October-March) of coffee year 2007/08 amounted to 1,602,428 (60 Kg) bags worth US\$ 181.2 million, representing an increase of 9.9 percent and 38.7 percent in volume and value terms, respectively relative to a similar period in the

previous coffee year. The good coffee prices coupled with good weather explained the relative good performance in the coffee year so far. The average realised export price for robusta coffee rose to US\$ 2.2 per Kilogram in March 2008 from US\$ 1.9 per Kilogram in February 2008.

The farmgate price for Kiboko (dry cherries of Robusta) coffee averaged Shs. 1,250 - 1,300 per kilogram while Fairly Average Quality (FAQ) coffee averaged Shs. 2,900 - 3,000 per kilogram respectively during the month.

iii) Non-coffee exports

There was an improvement in the estimated earnings from the non-coffee exports in February 2008 relative to the level of February 2007. The total value of non-coffee exports for February 2008 was estimated at US\$ 125.2 million, 5.5 percent higher than the realized value in the corresponding month in the previous year. Improvements were recorded for most commodities, save for gold⁴, tobacco and fish exports (both regional and

international), which declined by US\$ 9.4 million, US\$ 2.7 million and US\$ 2.6 million, respectively between February 2007 and February 2008. Export earnings of base metals and products, flowers, cobalt and other⁵ commodities increased from US\$ 4.3 million, US\$ 2.8 million, US\$ 1.6 million and US\$ 58.3 million in February 2007 to US\$ 7.4 million, US\$ 3.3

⁴ Gold exports are based on supply contracts made with dealers and the values do not necessarily reflect variations in production

⁵ Other exports include agricultural products-vanilla, cocoa beans, fruits and vegetables, groundnuts, rice and manufactured products like soap, plastic products, textiles, beers, cement, sugar and cellular phones

million, US\$ 2.2 million and US\$ 73.2 million in February 2008 respectively.

Table I shows the detailed performance of Uganda's exports up to February 2008.

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

	Feb-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Total Exports	139.83	126.07	134.24	142.40	145.86	163.40	162.21
1. Coffee	20.15	18.34	17.65	21.00	29.48	39.73	37.03
Volume (millions of 60-Kg bags)	0.22	0.18	0.17	0.20	0.27	0.36	0.32
Av. unit value	1.51	1.70	1.70	1.76	1.80	1.83	1.94
2. Non-Coffee exports	119.68	107.73	116.59	121.40	116.37	123.67	125.19
Electricity	0.45	0.80	1.07	1.09	1.03	1.23	0.73
Gold	12.97	1.19	1.01	2.19	1.11	3.18	3.59
Cotton	2.84	0.44	0.48	1.02	0.35	0.72	2.02
Tea	4.05	3.03	4.83	4.19	4.08	3.92	4.26
Tobacco	9.23	3.05	2.53	10.01	8.30	0.41	6.53
Fish & its prod. (excl. regional)	12.81	8.76	9.47	12.14	9.43	9.87	10.42
Fish & its prod. (Regional exports)	3.84	2.63	3.63	3.69	3.25	3.56	3.64
Hides & skins	0.73	0.61	1.39	1.51	0.79	1.45	1.40
Simsim	0.50	0.84	0.84	0.21	0.05	0.92	2.29
Maize	2.03	0.55	1.46	1.96	2.24	2.17	0.62
Beans	0.25	0.08	0.11	0.72	0.27	0.28	0.23
Flowers	2.77	3.03	3.01	3.27	1.72	3.71	3.26
Oil re-exports	3.05	3.01	4.00	0.46	3.16	2.52	3.36
Cobalt	1.56	2.29	1.71	0.57	1.14	1.68	2.22
Base metals & their products	4.27	8.33	6.88	6.85	7.37	8.71	7.40
Others	58.33	69.08	74.18	71.53	72.10	79.35	73.24

Source: Bank of Uganda

iv) Imports

Total imports amounted to US\$ 300.5 million in February 2008, compared to US\$ 258.3 million in January 2008 and US\$ 197.9 million in February 2007. The increased value of imports in February 2008 compared to January 2008 is partly on account of normalisation of the transportation on the Kenyan route that had witnessed a disruption in the flow of goods into Uganda in January 2008. Government imports increased to US\$ 11.0 million in February 2008 from US\$ 6.8 million in February 2007. The increase was largely on

account of a rise in Non-project imports by government, which increased by US\$ 5.3 million over the period. This more than offset the decline in Project imports by government of US\$ 1.1 million between February 2007 and February 2008.

Private sector imports increased from US\$ 191.2 million to US\$ 289.5 million between February 2007 and February 2008. The oil import bill of the private sector amounted to US\$ 52.9 million, US\$ 23.3 million more than the oil import bill of February 2007.

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 also rose

by US\$ 75.1 million to US\$ 236.6 million in February 2008 from US\$ 161.5 in February 2007 and US\$ 198.4 million recorded in January 2008. Table II provides information on imports of goods.

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

	Feb-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08
Total Imports	197.92	249.05	299.35	309.65	259.33	258.33	300.52
Government Imports	6.75	5.26	10.08	5.41	5.90	13.29	10.99
Project	4.27	3.25	6.07	4.55	3.55	6.67	3.19
Non-Project	2.48	2.02	4.01	0.86	2.36	6.63	7.80
Private Sector Imports	191.17	243.79	289.28	304.24	253.43	245.03	289.53
Oil imports	29.64	38.78	39.19	43.16	32.12	46.64	52.92
Non-oil imports	161.54	205.01	250.08	261.08	221.31	198.39	236.61

Source: Bank of Uganda

v) Other Key Developments in Balance of Payments

The overall balance of payments was estimated at a deficit of US\$ 16.9 million in February 2008 compared to a surplus of US\$ 33.3 million in January 2008 and a surplus of US\$ 54.9 million in February 2007. The Current Account balance recorded a deficit of US\$ 118.4 million compared to the deficit of US\$ 59.4 million registered in the corresponding period of 2007, on account of increased imports of goods and services. The Capital and Financial account recorded a surplus of US\$

102.0 million in February 2008, compared to the surplus of US\$ 114.3 million recorded in February 2007.

By end-February 2008, the level of gross foreign reserves amounted to US\$ 2,613.0 million, a build up of US\$ 742.1 million from the levels recorded by end February 2007. The February 2008 foreign exchange reserve level was estimated to cover 6.6 months of future imports of goods and services.

VI CONCLUDING REMARKS

In the previous month, Bank of Uganda's monetary policy actions remained committed to maintaining price stability and achieving overall macroeconomic stability objectives.

Going forward, the conduct of monetary policy will continue to focus on price stability and overall macroeconomic stability.

