Bank of Uganda

Research Department

Economic and Financial Indicators

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Executive Summary

Consistent with the persistent inflationary pressures and the upside risks on inflation in the near-term, BOU pursued a relatively tight monetary policy stance during the month. Net liquidity withdrawal from the banking system amounted to Shs.98.4 billion in May 2011 compared to Shs.8.7 billion in April 2011. Consequently, money market rates and yields on government securities rose across the board.

Uganda's economy rebounded strongly since the beginning of the fiscal year after a sharp decline in most of 2009/10. On year-on-year basis, GDP grew by 4.5 percent, 9.2 per cent and 5.7 per cent in Q1, Q2 and Q3 of 2010/11 respectively. On a period average basis, GDP grew by 6.4 per cent in the first three quarters of 2010/11 and the economy remains strong and is forecast to grow at around 6.3 percent in both 2010/2011 and 7 percent in 2011/2012 underpinned by solid domestic demand.

The amount of money in the economy provides important indications about demand conditions. Although gradually declining in line with the tight monetary policy stance, growth in monetary aggregates continues to be robust enough to signal strong economic activity. In the three months to April 2011, the annual growth in M3 averaged 29.6 percent. Although this was lower than the average annual growth rate of 37.1 percent realised in the three months to January 2011, it was nonetheless higher than the average annual growth rate of 23.2 registered in the corresponding period of 2009/10.

However, the monthly average growth rates have decelerated markedly, from an average monthly growth rate of 3.87 percent for both M3 and M2 between August and November 2010 to about 0.78 percent and 0.7 percent respectively between December 2010 and April 2011.

Growth in private sector credit also continues to be robust, averaging 34.1 per cent in the period July 2010 to April 2011 compared to 20.9 percent in the corresponding period of 2009/10. In April 2011, annual growth in private sector credit rose to about 38.2 percent from 37.5 per cent in March 2011. The month-on- month growth rate however declined to 1.5 percent from 1.9 percent in March 2011. In terms of sectoral growth rates of private sector credit, personal and household loans continued to decline in April 2011, albeit at a slower rate than what was observed in preceding months.

Government expenditure remained on a positive trend. Tax revenues on domestic goods and services have been rather robust. Direct taxes collections climbed 26.1 per cent on year-on-year basis in April 2011, while indirect taxes increased by 8.2 per cent. Similarly, excise taxes grew by 13.4 per cent, while the growth in VAT on domestic goods and services rose to 6.1 per cent during the same period.

Trade balance improved in April 2011, largely on account of the decline in imports, but it continues to be rather weak. Goods imported for production purposes declined by 29.6 percent compared to the growth of 28.7 percent recorded in March 2011. On the other hand, imports for consumption rose by 24.1 percent in April 2011, up from 5.3 percent recorded in March 2011.

In part due to weak current account, the exchange rate depreciated by 0.9 percent and 9.8 percent on monthly and annual basis, respectively in May, 2011. The shilling movement continue also to be influenced by carry trade dynamics and the strong demand for forex.

The annual overall consumer price index, rose 16 percent in May 2011. More than half of the increase was due to rising food crop prices, food prices are prone to volatile price swings, often due to weather disruptions. Inflation however gained momentum since the beginning of 2011 due to cost– push factors but not from the demand side of the economy. The main driver of inflation since January 2011 has been food prices which reflect a combination of drought and rising global prices, particularly oil and food prices. Food inflation rose from -1.10 per cent in December 2010 to 35.2 per cent in May 2011, while non-food rose from 5.5 per cent to 7.4 per cent in the same period. The annual headline inflation rose in May 2011 to 16.0 per cent from 3.3 per cent at the beginning of the fiscal year.

With a weight of 27.2 in the CPI basket, food inflation contributed 9.6 per cent of the headline inflation of 16 per cent in May 2011. Beverages and tobacco; clothing and footwear; rent, fuel and utilities; household and personal goods; and health, entertainment and others contributed 0.51, 0.95, 1.47, 0.95, 2.4 respectively. The annual core inflation rate also rose to 11.3 per cent in May 2011 from 9.7 per cent in April 2011. Core inflation has been impacted mainly by rising international prices of imported commodities, including oil prices. The inflation break down clearly shows that inflation has been due to supply-side shocks rather than from excess demand pressures. There is therefore little monetary policy can do to prevent these supply side shocks. Any attempt to entirely offset the inflation effects by changing the settings of monetary policy instruments would needlessly cause short-term fluctuations in the economy.

On a good note, food inflation and oil prices have started to fall recently, indicating that the rise in consumer prices may have reached its peak and inflation is expected to fall to around 6 percent by year-end. Oil prices, the most visible player in the commodity run-up, have declined in recent weeks in large part due to signs that the US recovery may not be as strong as expected and that ECB may not launch an extended campaign of rate hikes. However, there are upside risks, from higher global commodity prices or weather related food supply shocks in Uganda. The steps taken to tighten monetary policy are fully appropriate.

The recent surge in food and energy prices and the subsequent increase in inflation have posed a major challenge to BOU's monetary policy credibility. Combating inflationary pressures has been more challenging, in part due to a larger share of food and fuel products in the consumption basket, and also because of the shillings depreciation in large part due to weak current account balance. The upsurge of inflation has also highlighted the complex challenges facing BOU in an increasingly globalized world.

With these developments, BOU will maintain a tight monetary policy stance in the months ahead untill inflationary risks significantly reduce. Tight monetary policy will soften aggregate demand and this will ensure that retailers do not pass on high international commodity prices to consumers, which has partly been fanning underlying price pressures. A tight policy stance may mean that the rate of growth is likely to slip further in the last quarter of 2010/11. However, in the near future, the fiscal austerity measures and investment in infrastructure, stability in the financial system, all suggest a positive outlook for the Ugandan economy. These developments will trigger higher consumption and investment demand, increasing loans used both by households and firms, and contribute to growth of the economy on the back of domestic demand. However, the weak course of foreign demand, domestic demand-driven growth could negatively influence the trade balance, leading to an expansion in the current account deficit and thus continue generating depreciation pressures.

In the medium term, it should be emphasized that the agriculture sector has the potential to provide food security for both domestic and regional markets, stabilize consumer prices since price hikes have been as a result of volatile food price swings, and also spur rapid economic growth. These opportunities need to be harnessed by both the government and private sector.

1 Introduction

This report reviews developments in the macro economy and analyses the latest developments in inflation and the factors that impact on it in light of the monetary policy stance implemented in May 2011. It also presents the inflation outlook for the near-term and assesses whether the upside risks to inflation continue to dominate. The report also discusses policy implications of the current developments in the macroeconomic and the near-term inflation outlook and proposes monetary policy actions for June 2011.

2 Monetary policy actions and the performance of the RMP

2.1 Monetary Policy Actions

Consistent with the persistent inflationary pressures and the near-term upside risks to inflation, BOU pursued a relatively tight monetary policy stance in May 2011. The objective of this policy stance was to curb the second-round effects of inflation and anchor longer-term inflation expectations at levels consistent with BOU's inflation target while avoiding adverse effects on economic growth. Anchoring inflation expectations is crucial in maintaining price stability over the medium term. Given that inflation was largely caused by supply side shocks, it was neither desirable nor feasible for BOU to bring inflation back to the targeted levels in the short-run. Consequently, there was a marginal decline in the interbank rates during the month.

Consistent with the monetary policy stance for the month, BOU issued Treasury securities to keep structural liquidity in line with the monetary policy stance. Two calendar Treasury bill auctions, with offers of Shs. 95.0 billion each were held during the month. Both auctions were oversubscribed, by Shs. 59.2 billion and Shs. 107.8 billion respectively.

BOU also issued a new 2-year treasury bond on May 25, 2011 of Shs. 95 billion at a cost of Shs. 91.0 billion. The yields to maturity rose to 12.7 percent from 11.0 percent in the auction of March 30, 2011. the bond was over subscribed by Shs. 103.1 billion.

However, BOU also issued reverse REPOs to fine tune short term liquidity needs of the banking system. Reverse repos issued amounted to Shs. 360 billion at close of May 2011 compared to Shs. 610 billion at the end of April 2011. Overall, net liquidity withdrawal from the banking system amounted to Shs.98.4 billion in May 2011 compared to Shs.8.7 billion in April 2011. BOU also maintained its presence in the IFEM purchasing US$ 0.5 million per day for reserve build-up and, in addition, intervened and sold US$ 57 million in the IFEM in a bid to calm the rapid depreciation pressures that emerged early in the month. Banks continued to use swaps to fund their liquidity needs.

Table 1: Liquidity withdraw

	May-11	Apr-11
Government Expenditure	581.710	418.243
URA tax remittances to BOU	-405.623	-347.560
Net Repo Issuance	-160.957	-11.112
Net Treasury securities issuance	34.509	-86.145
Net FX markets operations	0.000	26.083
Net Borrowing from Standing Facility	0.000	-6.573
Net Liquidity Withdrawals (-) / Injections (+)	***-98.367***	***-8.676***

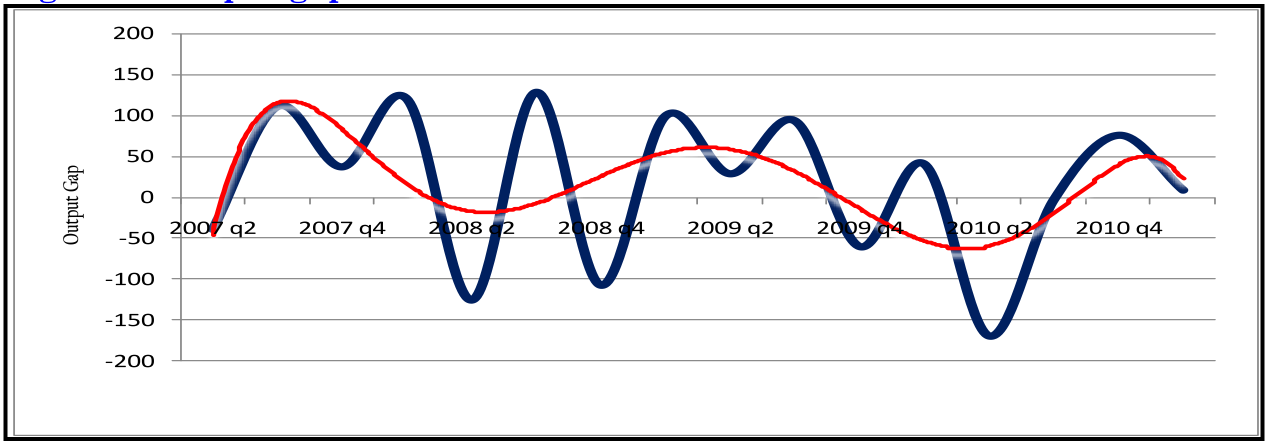
3 Macroeconomic developments

3.1 Quarterly GDP

The growth momentum decelerated slightly in the third quarter of 2010/11. On year-on-year basis, GDP grew by 5.7 percent in Q3-2010/11, down from 9.2 percent in Q2-2010/11. On a period average basis, GDP grew by 6.4 percent in the first three quarters of 2010/11 compared to the average growth rate of 6.5 percent in the corresponding period of 2009/10. The slowdown was on account of the slackening in the industry and services components, which more than offset the growth posted by agriculture, forestry and fishing sectors.

Analysis of actual GDP relative to potential output indicates that the positive output gap that emerged in the Q1-2010/11 continued into Q3-2010/11 as shown in Figure 1. However, looking at the long-run or potential GDP which on average is about 7 per cent, this suggests that aggregate demand is still on average below the potential. However, the surge in output in Q2 could have contributed to inflationary pressures. Accordingly, BOUs tight monetary policy stance since the start of year has been consistent with the evolution of the output gap. Going forward, Agricultural output is likely to be further boosted by the rains while the industrial and services sector will greatly benefit from increased electricity generation due to the scheduled completion of the Bujagali dam later this year. In summary, future growth prospects remain robust.

Figure 1: Output gap



Source: Bank of Uganda

3.2 Aggregate Demand

The amount of demand in the economy relative to overall supply is an important consideration for monetary policy. The level of spending, in money terms, relative to the economy's ability to produce will determine the extent of inflationary pressure in the economy. Assessing the level of demand, whether it is growing more or less quickly than the economy's ability to supply goods and services, and whether this is likely to continue into the future, are key issues for monetary policy. Monetary policy tries to ensure that the level of demand, in money terms, is consistent with the inflation target. We therefore assess whether the level of demand is exceeding the supply of goods and services by assessing demand conditions across the economy and the extent of inflationary pressure in the economy.

To build an overall picture of the current and future level of demand in the economy we look at the different components of demand and this helps in interpreting and understanding changes in overall demand. The main components are: consumers' expenditure-spending on goods and services; investment expenditure; government expenditure; expenditure on exports- spending by foreigners on Ugandan goods and services; expenditure on imports- spending by Uganda residents on foreign goods and services.

Each of the main components of aggregate demand is likely to be growing at a different rate at any point in time, not least because they are influenced by different factors. For example, consumers' expenditure might be rising strongly because of the growth in earnings or because people are confident about the future. But exports might be falling because demand in overseas economies is declining.

The extent of inflationary pressure in the economy will depend on the overall level of demand. There are also links between different components of demand - for example, strong growth in consumer spending is likely to increase import demand, or perhaps make it more attractive to increase investment in consumer goods industries.

Consumer spending is by far the largest component of total demand in the economy. So it is important to track this particularly closely. The amount of money in the economy provides important indications about demand conditions. Monetary statistics, such as narrow and broad money, as well as consumer credit data, can provide information about whether spending is likely to rise.

Although gradually declining in line with the tight monetary policy stance, growth in monetary aggregates continues to be robust enough to signal strong economic activity. In the three months to April 2011, the annual growth in M3 averaged 29.6 percent. Although this was lower than the average annual growth rate of 37.1 percent realised in the three months to January 2011, it was nonetheless higher than the average annual growth rate of 23.2 registered in the corresponding period of 2009/10.

In the period July 2010 – April 2011, annual growth in M2 averaged 32.7 per cent compared to 22.4 percent in the corresponding period of 2009/10. However, the monthly average growth rates have decelerated markedly, from an average monthly growth rate of 3.87 percent for both M3 and M2 between August and November 2010 to about 0.78 percent and 0.7 percent respectively between December 2010 and April 2011.

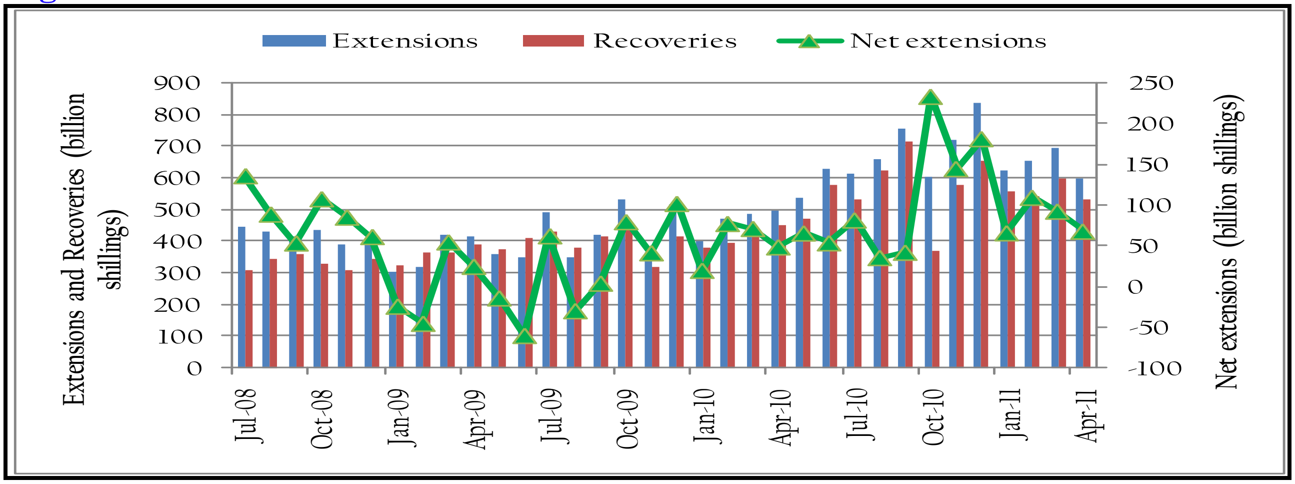
Growth in private sector credit also continues to be robust, averaging 34.1 per cent in the period July 2010 to April 2011 compared to 20.9 percent in the corresponding period of 2009/10. In April 2011, annual growth in private sector credit rose to about 38.2 percent from 37.5 per cent in March 2011. The month-on- month growth rate however declined to 1.5 percent from 1.9 percent in March 2011.

Net credit extensions, although declining, also remained relatively robust as shown in Figure 2. In the period July 2010 – April 2011 , net credit extensions averaged Shs. 105.5 billion per month compared to Shs. 49.6 billion in the corresponding period of 2009/10. The strong growth in private sector credit is indicative of the strong demand for money which is used for the purchase of real production and to undertake aggregate expenditure in the economy.

The outlook for the demand for money in the near term continues to be strong mainly due to the upside risks on inflation.

On account of the continued strong growth in monetary aggregates coupled with the positive output gap and the upside risks on inflation, BOU will continue to tighten monetary policy, at least in the near-term.

Figure 2: Credit Extensions and Recoveries

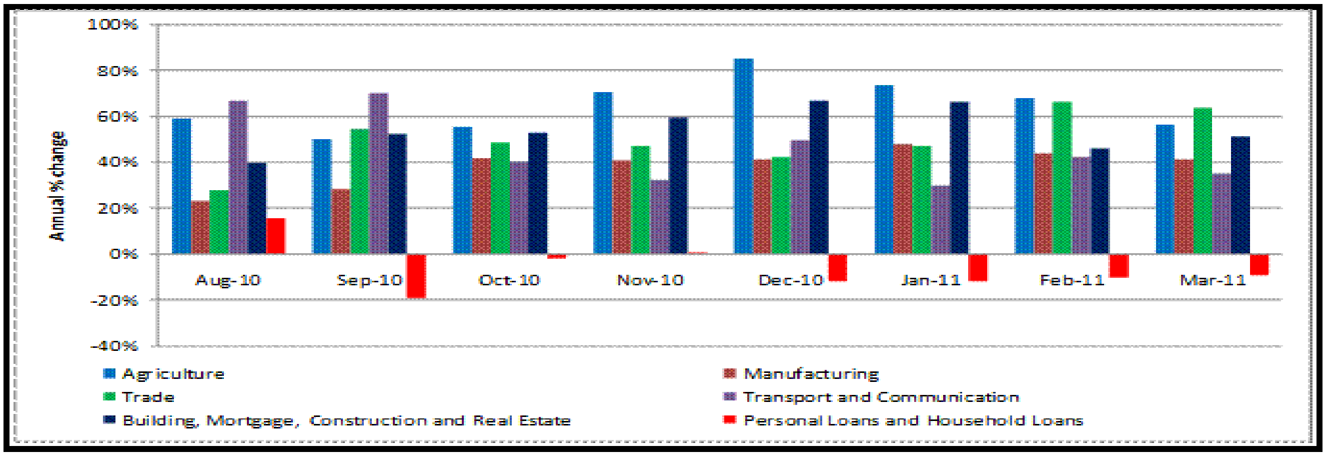


Source: Bank of Uganda

Demand for and supply of credit, as proxied by the value of loan applications and loan approvals, respectively, continues to be strong, which is indicative of robust economic activity going forward. After consistent declines recorded in the four months to February 2011, there was an increase in the demand for and supply of credit in March and April 2011. The value of loan applications increased to Shs. 714 billion in April 2011 compared to Shs. 512 billion in March 2011, while the value of applications approved rose to Shs. 437 billion in April 2011 from Shs. 375 billion in March 2011.

In terms of sectoral growth rates of private sector credit, personal and household loans continued to decline in April 2011, albeit at a slower rate than what was observed in preceding months, as shown in Figure 3. This decline may in part be attributed to the saturation of lending to this category of customers. This may contribute to a fall in private consumption spending, and therefore economic activity, at least in the near-term. Although this decline does not augur well for consumer led economic growth, the buoyancy of growth in credit to agriculture, manufacturing, trade, transport and communication, and building and mortgage sectors should contribute to robust growth, going forward

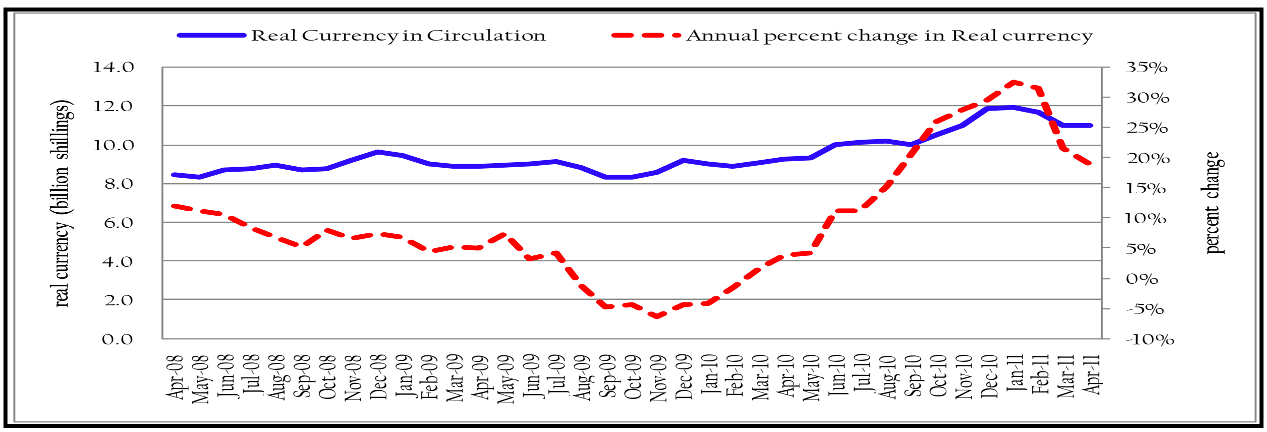
Figure 3: Sectoral Analysis of Commercial Banks' Credit to the Private Sector



Source: Bank of Uganda

Real currency in circulation, a good proxy for private consumption in Uganda, continues to be robust, although it declined slightly in the last few months largely on account of the tight monetary policy stance adopted by the BOU. The annual growth rates declined from about 34.0 percent in January to about 18.0 percent in April 2011 as shown in Figure 4. Notwithstanding this decline, the real growth has remained positive in contrast to the declines registered between August 2009 and February 2010. The decline in the growth rates is however consistent with the tight monetary policy stance pursued by Bank of Uganda.

Figure 4: Real currency in circulation



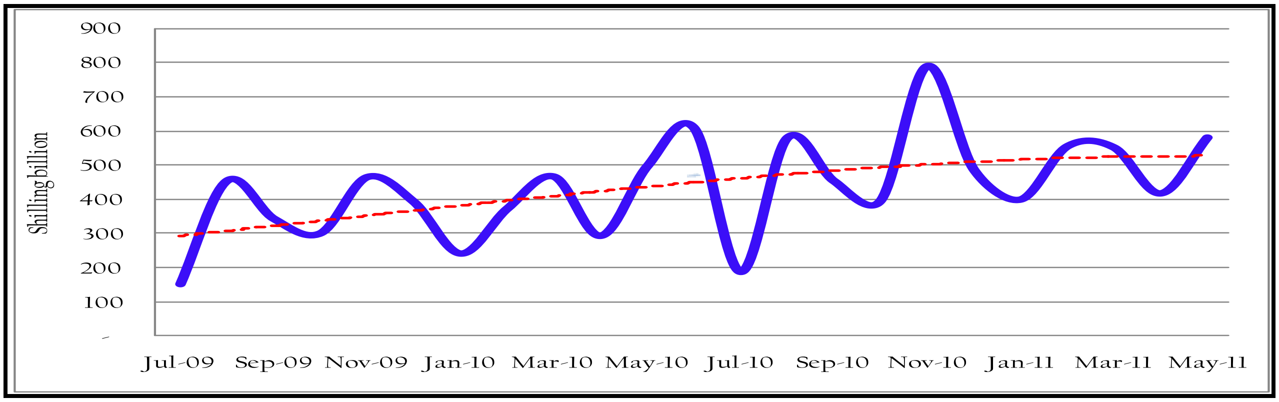
Source: Bank of Uganda

The other important indicator of the level of economic activity is government's domestic expenditure and taxes on domestic goods and services. The government expenditure on domestic goods and services, although erratic has maintained an upward trend as shown in Figure 5.

In the eleven months of 2010/11, government expenditure on domestic goods and services averaged Shs. 491.5 billion per month compared to Shs. 362.6 billion in the corresponding period of 2009/10. Thus, although domestic expenditure has been rather erratic month-on-month, the upward trend suggests that government expenditure has had a positive impact on aggregate demand. Government spending for the FY 2010/11 as of May 2011 totalled Shs.5.4 trillion and is projected to reach Shs.5.8 trillion by end of June 2011 while tax revenue remitted to BOU totalled to Shs.4.22 trillion and is expected to reach Shs. 4.8 trillion by end of June 2011. With aid budget support projected at about US$ 650 and government imports of almost equal magnitude, this suggests domestic borrowing of about Shs. 1.0 trillion which is less than what was projected by about Shs. 300 billion.

Overall, government expenditure as a percentage of GDP is projected to rise from 19.8 per cent in FY 2009/10 to about 23.7 per cent in FY 2010/11 reflecting a loose fiscal stance. However, the fiscal stance remains mindful of the need to pursue fiscal consolidation and debt sustainability within a long-term framework.

Figure 5: Government domestic expenditure



Source: Bank of Uganda

The performance of taxes on domestic goods and services has been rather robust. Direct tax collections climbed by 26.1 percent on year-on-year basis in April 2011, while indirect taxes increased by 8.2 per cent. Similarly, excise taxes grew by 13.4 per cent, while the growth in VAT on domestic goods and services rose to 6.1 percent during the same period.

Expectation is that revenue growth will continue to pick up as economic growth accelerates. Increased tax revenues owing to the buoyancy of economic activity will have a positive effect on public finance. Budget revenues based on indirect taxes surged due to the increase in domestic demand, interest expenses decreased on the back of falling interest rates.

Table 2: Fiscal Operations (Shs. Billion)

	Mar-10	Apr-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Expenditure	467.3	293.9	487.6	400.3	555.9	525.5	418.2	581.7
Tax Revenue	338.0	351.2	545.2	447.8	371.8	412.4	418.6	404.6

Source: Bank of Uganda

The external balance is another major indicator of the direction of exchange rate movements. In addition, the level of imports and exports is a significant indicator of the overall level of economic activity. Changes in export activities represent the competitive position of the country, while the strength of domestic economic activity is reflected by developments in import activity.

Although the trade balance improved in April, largely on account of the decline in imports, it continues to be rather weak as shown in Figure 6. In April 2011, total export earnings stood at US$ 204.3 million. This was a decline of 5.4 percent from what was realised in March 2011 but an increase of 15.3 percent from what was realised in April 2010. This compares with the respective monthly and annual growth rates of minus 2.2 percent and 22.7 percent registered in March 2011. The fall in export earnings was mainly due to respective decline of 21.2 per cent, 45.1 per cent and 47.7 per cent in value of coffee, cotton, and tobacco exports, following the end of the havest season. Non-coffee exports also declined by 8.4 per cent between March and April 2011 to US$ 143.2 million. ICBT exports however rose by 33.8 per cent over the same period. COMESA abd Europe remain the main destination of Uganda's exports.

The import bill (f.o.b) in April, on the other hand, stood at US$ 360.2 million. This was a decline of 29.4 percent from what was realised in March 2011, and an increase of 14.3 percent when compared to the import bill of April 2011. The decline in the import bill relative to that of March 2011 was largely accounted for by the adjustment in government imports, which declined to US$ 19.5 million from US$ 116.5 million in March 2011.

Figure 6: Trade balance and the Terms of Trade (Jan 2010-Apr 2011)

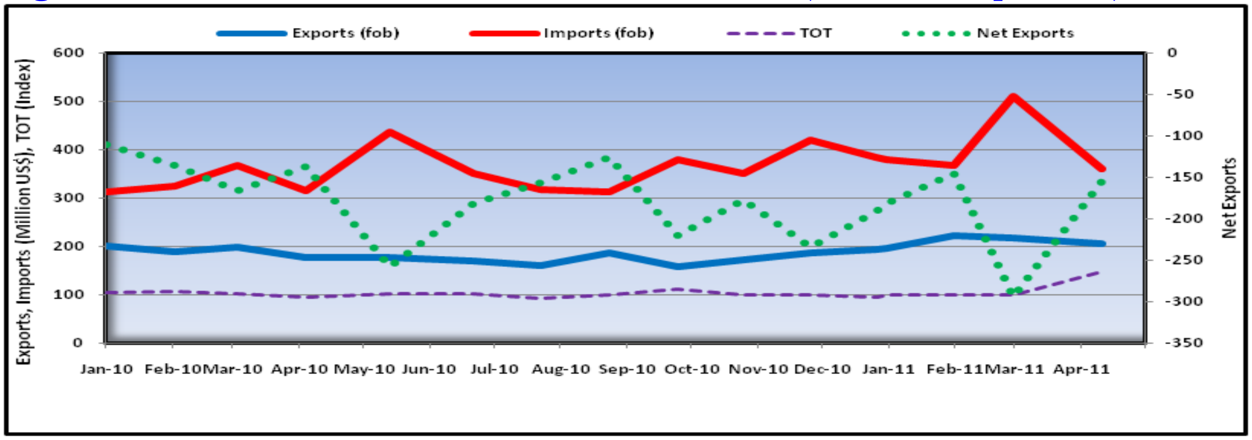
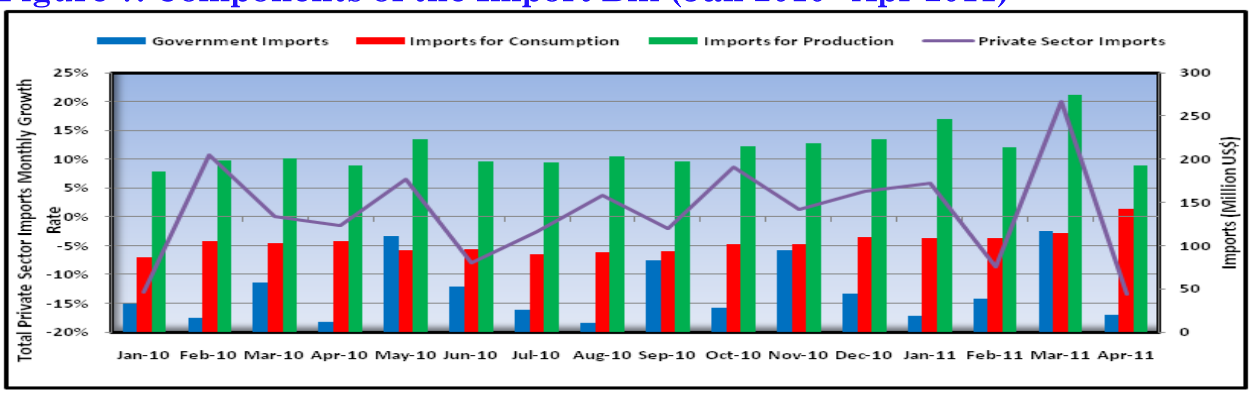


Figure 7: Components of the Import Bill (Jan 2010– Apr 2011)



Source: Bank of Uganda

In order evaluate the impact of imports on economic activity, Private sector imports are disaggregated according to use. While imports of intermediate and capital goods add to the productive capacity of the economy, imports of consumption goods have implications for aggregate demand, at least in the near-term. In April 2011, goods imported for production purposes declined by 29.6 percent compared to the growth of 28.7 percent recorded in March 2011. On the other hand, imports for consumption rose by 24.1 percent in April 2011, up from 5.3 percent recorded in March 2011. The evolution of the different components of imports is shown in Figure 7. India, Kenya, UAE, China, Japan, South Africa, Singapore, Indonesia, Netherlands, Kuwait and USA accounted for 85.8 per cent of Uganda's imports.

The support to the economic activity from net exports in near term will depend on the extent to which import growth slows in response to the sharp increase in import prices following shilling's depreciation. The large swings in domestic demand, and their impact on the demand for imports, make it difficult to isolate the effect of higher import prices with any precision. But imports appear, so far at least, to have remained stronger than might have been expected. Trade data are subject to both substantial measurement error and subsequent revision, so it is possible that imports have actually been weaker than the data currently suggest. But it is also possible that the resilience of imports reflects a present lack of suitable domestic substitutes for goods and services that are currently imported. The projections are that the supply of such products should increase in the medium to long term, enabling more significant switching of expenditure away from imports. Together with export growth, that would mean that net exports make a substantial contribution to GDP growth. But the risks around that contribution from net exports are judged to be weighted to the downside.

3.3 Financial Sector Developments

3.3.1 Short-term liquidity conditions and money market rates

The short-term liquidity conditions remained relatively tight during the month largely reflecting the tight monetary policy stance. BOU maintained its structural liquidity sterilisation instrument mix for the month but issued reverse REPOs to fine-tune short-term liquidity. Despite the tight monetary policy stance, the substantial fiscal injections realised at the second half of the month led to a marginal decline in the interbank money market rates, with the weighted average 7-day rate declining from 10.7 percent in April 2011 to 10.3 percent in May 2011.

The overall weighted interbank rate also declined from 9.4 percent to 7.8 percent. The weighted average 7-day reverse REPO rate also fell from 10.9 percent to 10.5 per cent during the same period. As at May 31, 2011, there was no outstanding stock of reverse REPOs compared to the closing stock of Shs. 160 billion in April 2011. Net Reverse REPO issues amounted to Shs. 360 billion in May 2011 compared to Shs. 610 billion in April 2011.

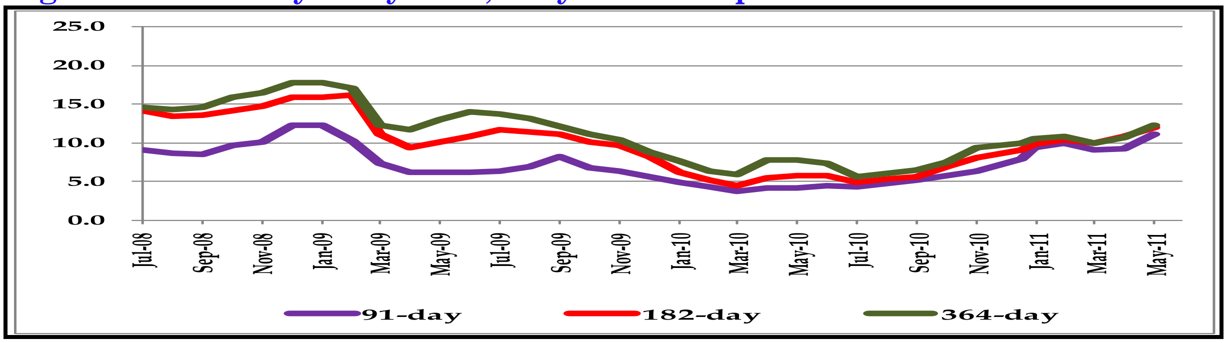
The liquidity tightness in the banking system earlier in the month was further echoed by some banks rediscounting treasury securities worth Shs. 58.7 billion.

3.3.2 Rates on Government securities

The average yield on both Treasury bills and bonds rose during the month. The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at 10.8, 11.9, and 12.0 per cent for the auction of May 04, 2011, and at 11.4, 12.2, and 12.7 per cent for the auction of May 18, 2011. This compares with the respective yields of 9.7, 11.3, and 11.3 per cent recorded in the last auction of April 2011. The resultant yield-to-maturity for the 2-year paper rose to 12.7 percent from 12.5 percent registered in the 2-year bond auction of March 30, 2011. The total bond sale amounted to Shs. 91 billion at cost.

The increase in average yields on both Treasury Bills and Bonds could in part be explained by high inflation expectations and the tight monetary policy stance being pursued by BOU. Developments in Treasury bill yields are shown in Figure 8.

Figure 8: Treasury bill yields, July 2008 to April 2011



Source: Bank of Uganda

Given the rise in the yields on the 91-day Treasury bill within the month, the Rediscount rate and Bank rate rose to 13.66 percent and 14.66 percent respectively by the end May 2011 from 12.11, and 13.11 per cent recorded at the end of April 2011.

3.3.3 Commercial Banks' interest rates

Commercial banks average lending rates on domestic currency denominated loans declined by 75 basis points to 19.21 percent in April 2011. On the other hand, Demand deposit rates were relatively stable increasing by just two basis points to 1.20 percent. The saving deposit rate was also stable declining by a basis point to 2.36 per cent while the time deposit rates increased by 110 basis points to 10.78 percent.

The lending rates on foreign currency denominated loans also followed a similar trend, with the weighted average lending rate declining by 21 basis points to 9.93 per cent. While the demand and saving deposit rates were largely stable, the average time deposit rate increased by 25 basis points as shown in Table 3.

Table 3: Commercial bank lending and deposit rates

Commercial Bank rates	*Local currency denomination*					*Foreign currency denomination*				
	Dec-10	Jan-11	Feb-11	Mar-11	**Apr-11**	Dec-10	Jan-11	Feb-11	Mar-11	**Apr-11**
Lending	19.71	20.09	19.58	19.97	**19.21**	8.57	10.81	9.49	10.14	**9.93**
Demand	1.28	1.24	1.17	1.18	**1.20**	0.96	0.95	1.09	1.08	**1.08**
Saving	2.37	2.35	2.41	2.38	**2.36**	2.65	1.50	1.49	1.49	**1.49**
Time	9.78	7.96	9.99	9.68	**10.78**	3.87	4.13	3.01	3.22	**3.47**
Average Deposit Rate	2.02	2.24	2.02	2.09	**2.24**	1.25	1.17	1.67	1.30	**1.30**
Spread (Lending less time)	9.94	12.12	9.58	10.29	**8.44**	4.70	6.68	6.47	6.92	**6.46**

Despite the continued increase in the yield of government securities, commercial banks' lending rates have remained relatively stable. However, the continued increase in yields on government securities, coupled with tight monetary policy, may eventually translate into commercial banks interest rates. In particular, if markets begin to lose patience, higher rates will ensue and this will ultimately impact on investment and therefore growth.

3.4 Exchange Rate Developments

The average monthly exchange rate for May 2011 stood at Shs. 2,387.7 per US Dollar, representing a depreciation of 0.9 percent and 9.8 percent on monthly and annual basis, respectively. This is in contrast to the monthly appreciation of 1.07 percent recorded in April 2011. The depreciation recorded for the most part of the month was mainly driven by commercial banks sourcing for dollars to cover their short dollar positions coupled with strong demand from the manufacturing, telecommunications, oil and energy sectors.

The shilling movement continue to be influenced by carry trade dynamics and the strong demand for forex. For instance, the net commercial bank foreign currency trading with non-bank entities recorded a net sale of US$ 19.9 million in May 2011 compared to a net sale of US$ 7.6 million in April 2011. This shows that demand for foreign exchange by non-bank entities far exceeded the amount supplied by the non-bank entities. The supply of foreign exchange during the month was mainly on account of exports proceeds, offshore agents and NGOs.

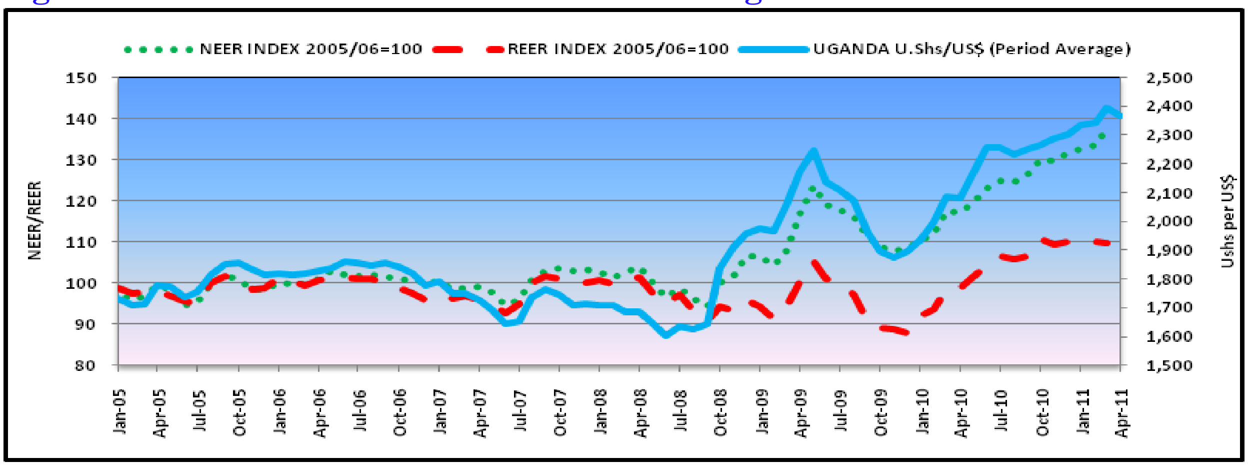
In order to moderate the depreciation pressures, BOU intervened on three occasions, selling a total of US$ 40.0 million. In addition, BOU conducted a targeted sale of US$ 26.6 million in order to meet UETCL's demand for foreign exchange during the month. The net impact of BOU's action in the IFEM during the month of May 2011 was a net sale of US$57.7 million on account of intervention, targeted sales and the daily purchase of forex for reserve build-up compared to a net purchase of US$ 14.5 million in April 2011.

The nominal effective exchange rate (NEER) of the Uganda shilling, which measures the value of the shilling against a basket of trade partners' currencies, depreciated to 137.3 index points in April 2011 from 117.3 in April 2010, however appreciated slightly by about 0.08 per cent when compared to March 2011. Measured on a bilateral basis, the shilling has fluctuated between 2300 and 2400 against the US$ since December 2010.

The Real Effective Exchange Rate (REER), which measures the competitiveness of domestic traded goods relative to those of Uganda's trading partners, appreciated by 2.1 percent in April 2011 on a monthly basis, compared to an appreciation of 0.4 percent in March 2011. This was however a depreciation of 8.8 percent on an annual basis.

The appreciation of the REER was mainly driven by the increase in domestic inflation relative to that of Uganda's trading partners. Annual domestic inflation rose 14.1 percent in April 2011 from 11.2 percent in March 2011, while the average annual inflation of Uganda's major trading partners rose by just 0.2 percentage points to 6.0 percent from 5.8 percent in March 2011. The evolution of the bilateral Shs/US Dollar rate, NEER and REER is shown in Figure 9.

Figure 9: Nominal and Real Effective Exchange Rate Movements

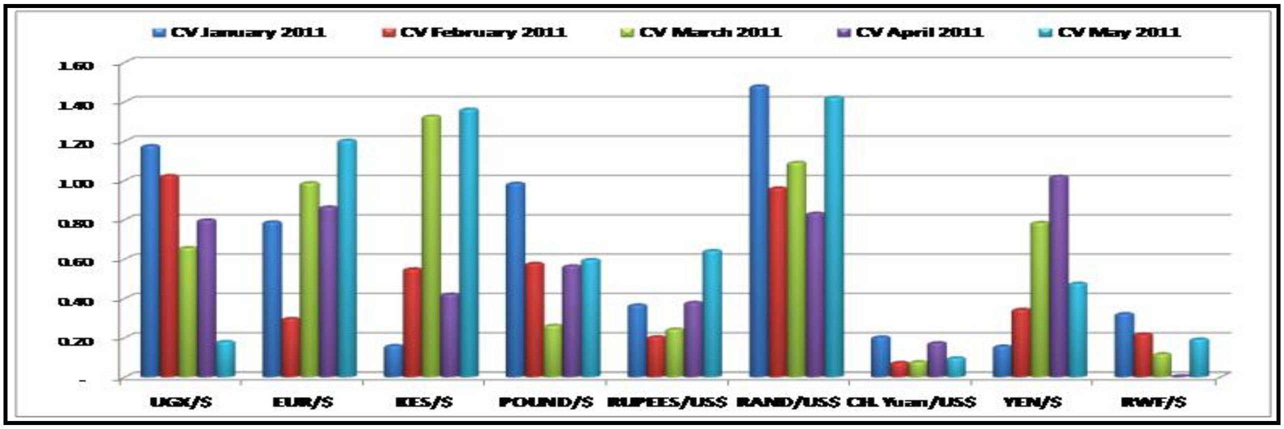


Source: Bank of Uganda

The volatility of the bilateral UShs/US$ exchange rate, as measured by the coefficient of variation, declined in May 2011 as shown in Figure 10. Although the desirable attribute of the floating exchange rate regime is the constant fluctuation against other currencies, which in part allows for efficient absorption of shocks to the balance of payments, excessive volatility creates a lot of business uncertainty and can be disruptive to economic activity. The reduction in volatility should therefore help facilitate the flow of trade and foreign investment in the economy.

Figure 10 also shows the variability of selected currencies against the US Dollar. As can be seen from the figure, the volatility of the Uganda shilling does not seem to differ significantly from that of other currencies. Indeed, in May 2011, the variability of the bilateral UShs/US dollar rate was lower than that of the KES/US dollar, Rand/US dollar, Euro/US dollar, Rupee/US dollar and Yen/US dollar rates. The variability of the UShs/ US dollar exchange rate was lower than what was realised in April 2011.

Figure 10: Variability of exchange rates of selected currencies against the US Dollar



Source: Bank of Uganda

4 Inflation Developments and Outlook

4.1 Inflation developments

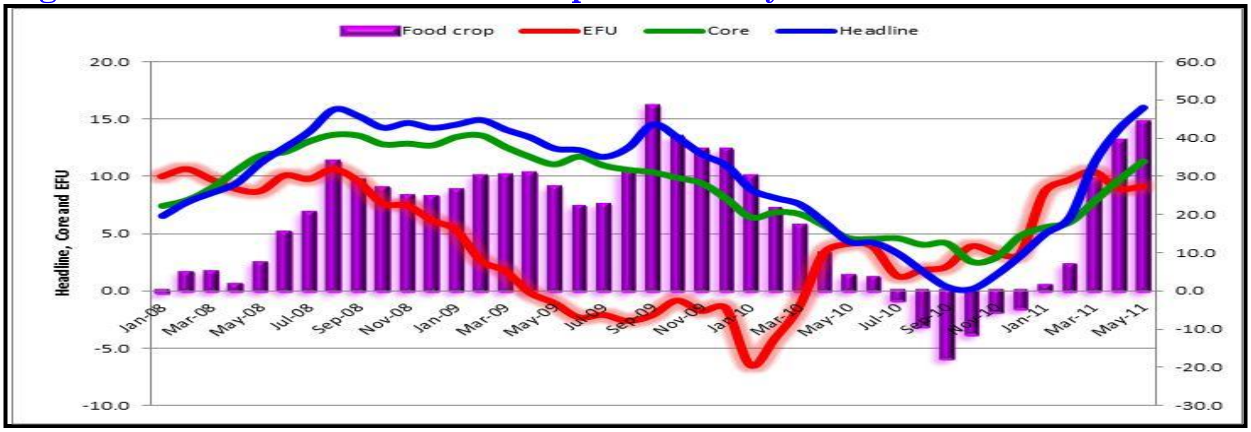
The domestic growth prognosis has improved, although growth remains below potential. The recovery in aggregate demand has been sustained and has been the main driver of growth. At this stage there are no discernible inflationary pressures coming from the demand side of the economy. The high, but moderating, food prices and commodity prices have been significant upside risks to the domestic inflation outlook. The main risks to the inflation outlook in this regard remain food and oil prices in particular. In addition, the potential exists for there to be adjustments in the exchange rate that would impact on the inflation outlook.

The annual headline inflation rose in May 2011 to 16.0 percent from 14.1 percent recorded in April 2011. This is the highest inflation rate in 17 years, with comparable levels of 16.2 per cent last registered in May 1994. Core inflation has been impacted by rising international prices of imported commodities, including oil prices, and the exchange rate depreciation. The annual core inflation rate also rose to 11.3 percent in May 2011 from 9.7 per cent in April 2011. This unprecedented pace in inflation remains a major challenge to the Banks price stability objective.

Food prices have increased markedly since they bottomed out in September 2010. Food crops registered a higher annual inflation rate of 44.1 percent in May 2011 compared to 39.3 percent registered in April 2011. Likewise, in the same period, Energy, Fuel and Utilities (EFU) inflation increased to 9.1 percent from 8.9 percent. The annual food inflation rate increased to 35.2 per cent in May 2011 compared to 30.8 per cent recorded in April 2011. Non-food inflation increased moderately over the period, rising from 6 percent in January 2011 to 7.4 per cent in May 2011.

Arua, Jinja, Masaka and Gulu centres registered higher annual headline inflation rates of 23.2 per cent, 21.2 per cent, 19.3 per cent and 20.6 per cent, in May 2011. The annual inflation developments are shown in Figure 11.

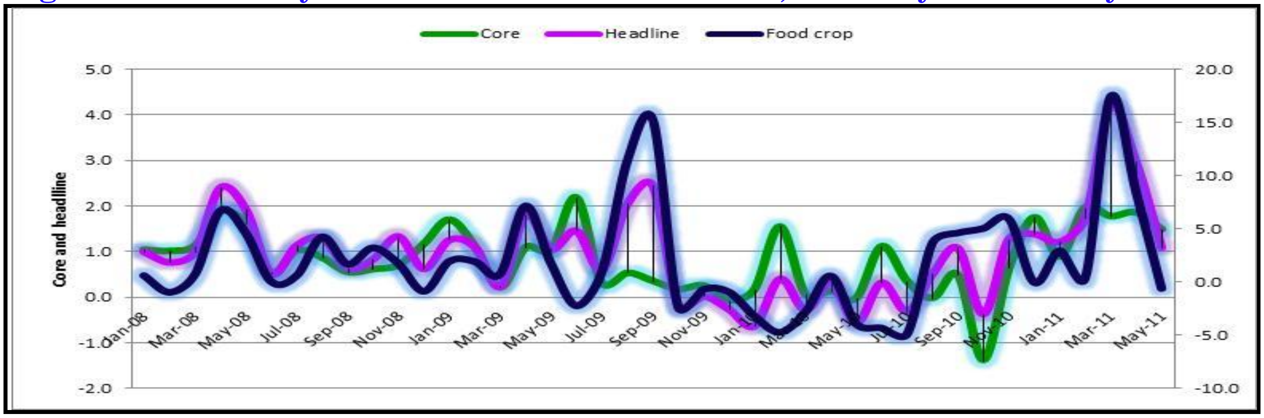
Figure 11: Annual inflation developments: July 2007- March 2011



Source: UBOS

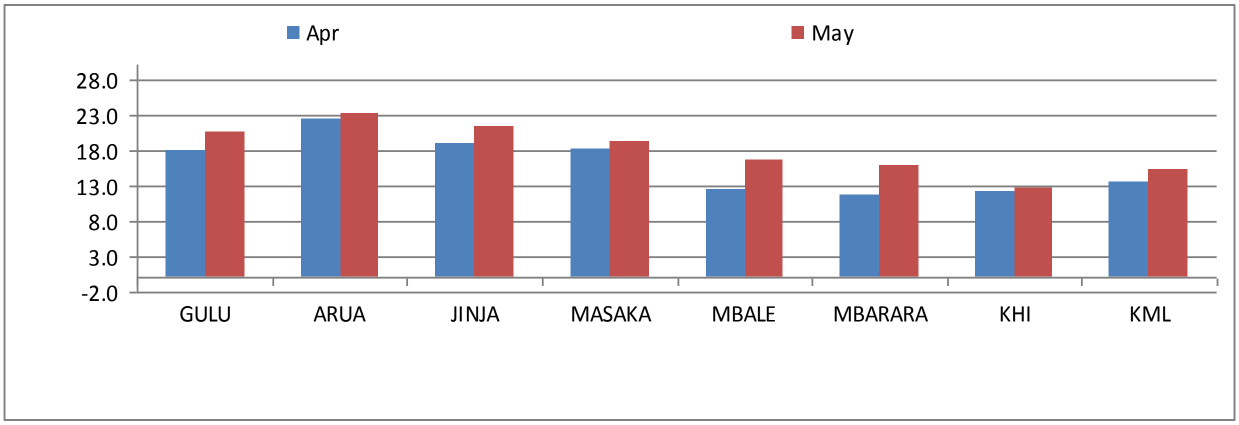
The monthly headline inflation stood at 1.1 percent in May 2011 compared to 3.0 per cent recorded in April 2011. Similarly, the monthly core CPI went up by 1.5 percent in May 2011 compared to 1.8 percent increase in April 2011. Monthly food crops inflation rate in May 2011 was -0.6 percent while EFU inflation was 0.4 percent. The increase in prices of food items are attributed to higher transport costs and reduced supplies to the market. However, prices for fresh vegetables, fish, fresh milk, and charcoal dropped in most centres during the month. Developments in monthly inflation are depicted in Figures 12 and 13.

Figure 12: Monthly headline and core inflation, January 2008 – May 2011



Source: UBOS

Figure 13: Annual Headline Inflation Rates by Centre



Source: UBOS

Causes of Inflation

The main driver of inflation since January 2011 has been food prices which reflect a combination of drought and rising global prices, particularly oil and food prices. Food inflation rose from -1.10 per cent in December 2010 to 35.2 per cent in May 2011, while non-food rose from 5.5 per cent to 7.4 per cent in the same period.

Table 4 shows some of the major drivers of inflation across the different basket categories. As shown in the table, food prices continued to surge in May 2011. Annual staple food prices rose by 66 percent in May 2011, and with a weight of about 6.6 in the CPI basket, this implies that staple food contributed about 4.36 percent of the 16 percent inflation in May 2011. Similarly, meat and poultry prices rose by about 32.2 percent on annual basis in the same period.

With a weight of 27.2 in the CPI basket, food inflation contributed 9.6 per cent of the headline inflation of 16 per cent. Beverages and tobacco; clothing and footwear; rent, fuel and utilities; household and personal goods; and health, entertainment and others contributed 0.51, 0.95, 1.47, 0.95, 2.4 respectively.

This break down clearly shows that inflation has been due to supply-side shocks rather than from excess demand pressures. There is therefore little monetary policy can do to prevent these supply side shocks. Any attempt to entirely offset the inflation effects by changing the settings of monetary policy instruments would needlessly cause short-term fluctuations in the economy.

High inflation is also partly explained by the base effects. The base effects will continue to push inflation higher until towards the end of the year. The base effects will push year-on-year inflation lower around the same time in 2012. Therefore clear signal on whether inflation is declining should be detected by the sequential momentum in decline in inflation (i.e., the month-on-month inflation) slow down. The month-on-month inflation peaked in March 2011 at 4.2 percent, declined to 3.0 percent and 1.1 percent in April and May 2011. Month-on-month food inflation has also started to abate, declining from 17.4 per cent in March 2011 to 8.5 per cent in April 2011 and minus 0.6 per cent in May.

In addition, Kampala has a weight of abot 57 per cent in the computation of the inflation. As a result, of the 16 per cent inflation in May 2011, about 1.6 per cent was meals in restaurants. This might not be a true reflection of the cost of inflation to Ugandan households.

Table 4: Annual percentage increases in prices of some commodities in the CPI basket

	weight	2010 M07	2010 M08	2010 M09	2010 M10	2010 M11	2010 M12	2011 M01	2011 M02	2011 M03	2011 M04	2011 M05
Food	27.16											
staples	6.62	-21.1	-30.4	-33.3	-25.0	-18.8	-21.5	-13.8	-1.3	28.6	47.0	65.9
Fresh Fruit	1.07	-3.7	0.1	-4.6	-1.9	9.5	26.7	21.6	11.8	24.2	22.7	37.1
Fresh Vegetables	1.81	27.1	14.9	-4.4	1.6	8.6	22.7	30.7	8.8	22.5	35.5	12.5
Dry Vegetables	2.46	10.8	9.6	-0.8	-3.1	4.0	7.2	10.9	14.3	28.3	30.2	31.8
Meat & poultry	3.16	0.0	-0.1	2.9	3.2	8.1	9.1	15.0	17.4	20.4	24.2	32.2
Fish	1.58	21.1	19.9	28.5	36.3	39.5	37.8	39.1	41.1	37.1	49.8	43.3
Milk & eggs	2.09	4.8	0.0	-9.8	7.3	9.6	7.9	8.2	10.8	28.9	25.3	25.5
Oils & fats	0.99	-1.3	0.8	1.8	4.5	8.5	13.4	21.3	28.2	34.4	36.5	38.1
Rent,fuel & utilities	14.84											
HH Repair & Main.	7.77	-4.9	-4.1	-3.5	-2.8	-1.6	0.5	6.2	9.0	12.8	13.9	15.9
HH. Personal goods	4.50											
Soap,toiletries etc	2.41	4.4	6.1	5.6	7.3	7.4	8.8	13.2	14.0	19.0	21.3	23.8
HH textile & furniture.	1.14	8.7	9.3	10.1	11.1	11.4	12.4	12.3	12.5	13.1	16.2	21.7
Other HH. goods	0.9	3.5	2.2	1.3	0.2	0.2	2.9	3.9	8.38	7.9	9.5	12.5
Transport & commun.	12.83											
Transport fares	4.44	0.1	0.2	2.3	4.4	3.0	10.6	6.6	9.3	14.1	15.5	14.2
Communication	5.59	0.5	0.5	0.5	-46.1	-46.1	-46.1	-45.6	-45.6	-66.5	-66.5	-66.5
Other transport & communication costs	2.79	9.6	10.9	11.7	14.1	12.6	13.1	15.1	16.6	17.5	16.2	18.8
Health, Entertainment & others	16.83											
Meals in Restaurants	8.28	12.5	12.2	10.4	12.1	11.7	15.9	15.9	15.5	16.8	17.5	19.2

External inflation developments and pressures

On-going inflation-related worries must not be seen in isolation. Instead, it is a challenge being faced by several economies, both developing and developed. The global inflation expectations, especially in the near term, remain high largely due to the rapidly rising prices for agricultural products, oil and strong growth prospects in the emerging market economies. Global inflation developments, especially of Uganda's major trading partners indicate persistent inflation.

Inflation in Kenya, one of our major trading partners, rose to 13.0 per cent in May 2011 from 12.1 per cent in April 2011, driven mainly by the rising costs of food and fuel. Goods from China, India and other East Asian countries are increasingly becoming more expensive because of a combination of nominal exchange rate appreciation and cost increases in these economies and the shilling depreciation. China's consumer prices rose by 5.5 per cent in May 2011 with expectations that it will hit 6 per cent in June 2011. Inflation in India was reported at 9.41 per cent in April 2011. As costs go up in China and India, they charge more for products and that means Ugandans pay more. A sustained rise in the cost of imported goods could generate further imported inflation. To be sure, it is very difficult to tell when the trend will reverse. In addition, continued strong growth in commodity-intensive emerging economies in the medium term and scarcity of raw materials in the long term could well mean that the trend of rising commodity prices could persist and this would add to the imported price pressures.

Crude oil prices have risen substantially due to a combination of the geopolitical squabbles in the MENA region and high global demand, particularly from the emerging markets. In December 2010, international crude oil prices averaged US$ 90 per barrel but surged to an average of US$ 120 in April 2011 before declining to an average of US$ 115 per barrel in May 2011. This has resulted in domestic pump fuel prices to rise to Shs. 3,550 and Shs. 3,250 per litre of petrol and diesel respectively at end May 2011 from Shs. 3100 and Shs. 2500 per litre of petrol and diesel respectively at end December 2010. Since the price elasticity of energy demand to price in Uganda is low, i.e. since much of energy-consuming economic activity is essential, as a consequence, consumer spending on other items has to be squeezed since real wages have not increased, as so do corporate profits and therefore spending by firms. Ultimately, the increase in fuel prices pass-through to domestic costs of production, and therefore to domestic inflation.

The global inflation expectations, especially in the near term, remain high largely due to the rapidly rising prices for agricultural products, oil and strong growth prospects in the emerging market economies.

4.2 Inflation Outlook

The risks to the inflation outlook emanate mainly from cost– push factors. Apart from the oil price, these factors included food prices and imported costs.

However, most importantly, the concern is that core inflation forecasts indicate that it is likely to be sticky, persistently being above the 5 per cent target for most of 2011. This is understandable given that raw material prices continue to rise. In a country such as Uganda, high food inflation inevitably translates into other forms of inflation, in addition to rising raw material prices, in part due to global commodity prices and the exchange rate depreciation.

Part of the increase in inflation is on a statistical basis. The base effects will continue to push inflation higher until towards the end of the year. The base effects will push year-on-year inflation lower around the same time in 2012.

Further upside risks to inflation may stem from the global inflation that keeps spinning. Goods from China, India and other East Asian countries are increasingly becoming more expensive because of a combination of nominal exchange rate appreciation and cost increases in these economies. As costs go up in China and India, they charge more for products and that means Ugandans pay more. A sustained rise in the cost of imported goods could generate further imported inflation. Indeed, it is very difficult to tell when the trend will reverse. In addition, continued strong growth in commodity-intensive emerging economies in the medium term and scarcity of raw materials in the long term could well mean that the trend of rising commodity prices could persist and this would add to the imported price pressures.

The outlook for commodity prices is always uncertain. In particular, further demand or supply shocks could lead to sharp movements in prices. And changes in the commodity-intensiveness of growth may also lead to substantial price movements. But there is particular uncertainty at present around the role of global activity in global inflationary pressures. The recent strength in commodity and world export price inflation could abate if it reflects a combination of supply-side factors in commodity markets and an earlier-than-expected recovery in world growth. But if overheating in emerging economies has also pushed up prices, then global inflationary pressures could prove more persistent, without appropriate countervailing action by policymakers.

Forecasts suggest that inflation is going to remain elevated for a while yet, after which we expect inflation to show a marked decline assuming stable/falling international commodity prices and lower risk premium. If growth were to be in the range above 7 per cent and international commodity price inflation maintains its current pace, then inflation would show no signs of peaking. In short we could face an adverse long-term cost shocks. What does this mean for overall inflation?

The existence of imported inflation pressures is, however, not sufficient for overall inflation - as measured by broad price indices like the CPI - to emerge. Neither, in fact, is it necessary. Given imported inflation, what matters for the path of prices broadly is the evolution of domestic prices. Indeed, this is the component of prices that central banks have the most control over in the medium term. Overall inflation can be low even when import price inflation runs high if domestic generated inflation is sufficiently subdued. Conversely, overall inflation can be high even with low import price inflation if domestic generated inflation is strong. Put differently, what will happen to overall inflation will depend on how much domestic generated inflation the BOU/government will allow. With a combination of structural bottlenecks and limited substitution of raw materials and capital goods in Uganda's production process, inflation could be higher in the long run unless output is constricted at much lower levels.

5 Policy implications

Monetary policy decisions are made on the basis of current and expected developments in the wider macroeconomy. The outlook and recent developments in some of the main variables influencing inflation still indicate persistently higher than BOU targeted inflation. More than half of the increase in inflation was due to rising food crop prices, which rose by 44.1 per cent on annual basis in May 2011. Food prices are prone to volatile price swings, often due to weather disruptions.

The global economy is relatively resilient but growth forecasts for major economies for 2011 have been revised downwards due to inflation surge. There are growing doubts about the sustainability of global economic recovery, fuelled by weaker US data over the first few months of this year, the surge in oil prices before the recent correction, and the tightening by central banks in many emerging countries and the euro area in response to higher inflation. However, global monetary and fiscal conditions are still very expansionary: Most governments are shying away from tightening fiscal policy despite large deficits. The global real short-term interest rate is still negative and way below the growth rate of the global economy, indicating very easy monetary policies. Long-term interest rates are also very low and have eased further recently.

Core developed economies and emerging economies' central banks are the drivers behind this global inflation. Super-expansionary monetary policy in the mature economies is imported by emerging economies through their US dollar soft or hard pegs. This has been pumping up emerging economies growth and commodity prices and is fuelling global consumer price inflation. The European Commission raised its inflation forecast for the euro region this year and projected the economy to gather strength next year, adding pressure on the ECB to increase borrowing costs further. The risks to the global inflation outlook are clearly tilted to the upside and further hikes in commodity prices can't be ruled out.

The surge in food and energy prices and the subsequent increase in inflation have posed a major challenge to BOU. In particular, BOU has faced a substantial acceleration of inflation since early 2011, raising concerns about the credibility of monetary policy. Combating inflationary pressures has been more challenging, in part reflecting a larger share of food and fuel products in the consumption basket, and also because of depreciation pressures in large part due to weak current account balance. The upsurge of inflation has also highlighted the complex challenges facing BOU in an increasingly globalized world. BOU is facing new policy challenges, stemming from a difficult combination of global financial turmoil, economic slowdown, and volatility in commodity markets, exchange rate depreciation, and inflation pressures.

Against the backdrop of persistent inflation, monetary policy will remain tight in June 2011. Tight monetary policy will soften aggregate demand and this will ensure that retailers do not pass on high international commodity prices to consumers, which has partly been fanning underlying price pressures. The challenge, as always, is whether this is either too late or too much too soon. The BOU's view is that the observed pressures and risks to the inflation outlook emanate from supply-side shocks rather than from excess demand pressures. The BOU accepts that there is little it can do to prevent these price increases from impacting on inflation.

The challenge facing BOU is that it is difficult to determine whether these shocks are of a temporary or permanent nature. The appropriate response under such circumstances is to remain vigilant to the emergence of possible generalised price increases, or so-called second-round effects. The BOU will not ignore these upside risks and pressures because they have the potential to impact negatively on inflationary expectations and, in so doing, affect general price-setting behaviour.

Looking at the month-on-month inflation, food inflation and oil prices have started to fall recently, indicating that the rise in consumer prices may have reached its peak. Oil prices, the most visible player in the commodity run-up, have declined in recent weeks in large part due to signs that the US recovery may not be as strong as expected and that ECB may not launch an extended campaign of rate hikes.

There are considerable uncertainties around the future path of inflation. Inflation continues to be sensitive to movements in commodity and energy prices, which have been extremely volatile in the recent past, and could well move sharply again during the forecast period. But the medium-term outlook for inflation will also reflect substantial, but opposing, domestic pressures on inflation. To the upside, second-round effects of the sustained period of above-target inflation could put upward pressure on prices. To the downside, crop harvest, a slackening demand and the presence of a substantial margin of spare capacity could push inflation well below the target. The BOU will continue to set policy to balance the upside and downside risks in order to meet the inflation target in the medium term.

Overall, the recovery in the world economy was maintained and is expected to support growth in Uganda, as should the current level of the shilling. But the continuing squeeze on households' real incomes is likely to weigh on demand, especially over the course of the year. The economy remains strong and is forecast to grow at around 6.3 percent in both 2010/2011 and 7 percent in 2011/2012 underpinned by solid domestic demand. Inflation has peaked and many of the drivers have started to dissipate and inflation is expected to fall to around 6 percent by year-end. However, there are upside risks, from higher global commodity prices or weather related food supply shocks in Uganda. CPI inflation is likely to remain above the target throughout 2011. The near-term core inflation profile is markedly higher, largely reflecting increasing costs of production due to rising costs of imported machinery and raw materials and also increases in energy costs. The steps taken to tighten monetary policy are fully appropriate.

Further ahead, the Medium-Term Program indicating fiscal discipline and investment in infrastructure, stability in the financial system, all suggest a positive outlook for the Ugandan economy. These developments will trigger higher consumption and investment demand, increasing loans used both by households and firms, and contribute to growth of the economy on the back of domestic demand. However, the weak course of foreign demand, domestic demand-driven growth could negatively influence the trade balance, leading to an expansion in the current account deficit and thus continue generating depreciation pressures.

Appendix

UGANDA: CURRENT ECONOMIC AND FINANCIAL INDICATORS (in billions of U Shs: end of month unless otherwise indicated)													
	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Foreign Exchange Market													
Inter-Bank Purchases (US$M)	798.7	894.6	729.9	804.4	640.9	655.5	731.1	828.3	853.5	656.3	857.9	731.5	524.7
Inter-Bank Sales (US$M)	813.4	899.5	701.4	827.3	633.3	636.9	762.1	792.3	962.9	648.9	854.0	739.1	544.7
Cross currency trading (US$ million)	277.1	152.5	426.7	174.4	165.3	180.0	149.2	105.1	292.4	142.1	143.0	137.1	160.2
Inter-Bank Mid-Rate (UShs/US$)	2,174.6	2,257.4	2,257.3	2,230.9	2,251.3	2,264.8	2,288.9	2,303.9	2,332.5	2,341.9	2,393.3	2,367.6	2,387.7
Foreign Exchange Reserves													
Gross Foreign Reserves in months of imports of goods and Ser	4.9	4.9	4.9	4.9	4.7	5.1	5.2	5.2	4.6	4.4	4.1	4.1	
Bank of Uganda Foreign Exchange Reserves (US$ M)	2,560.5	2,498.2	2,571.1	2,693.8	2,716.8	2,764.2	2,807.9	2,808.5	2,541.9	2,539.7	2,356.0	2,366.2	
Tax Revenue	297.9	364.4	426.8	352.8	320.2	331.9	347.3	428.0	506.0	346.0	402.0	348.0	405.6
Monetary and Credit Aggregates (2)													
Broad Money supply M3	7,966.1	8,293.1	8,011.6	8,467.3	8,641.0	8,831.5	9,340.2	9,406.5	9,403.3	9,648.3	9,760.3	9,708.8	
Foreign Exchange Accounts Deposits	1,824.3	1,881.4	1,845.6	1,976.0	2,027.4	2,086.1	2,156.3	2,138.5	2,237.8	2,247.4	2,351.1	2,275.3	
Money supply M2	6,141.8	6,411.7	6,166.0	6,491.4	6,613.6	6,745.4	7,183.9	7,268.1	7,165.4	7,401.0	7,409.3	7,433.5	
Currency in circulation	1,344.7	1,443.2	1,459.7	1,472.9	1,460.9	1,531.5	1,623.0	1,774.6	1,808.5	1,796.8	1,762.7	1,814.4	
Shilling denominated Demand deposits	2,267.7	2,345.7	2,115.9	2,368.0	2,388.2	2,418.0	2,734.1	2,619.7	2,489.8	2,745.8	2,662.4	2,617.2	
Shilling denominated Time and saving deposits	2,529.5	2,622.8	2,590.5	2,650.5	2,764.5	2,795.9	2,826.7	2,871.7	2,867.1	2,858.3	2,984.1	3,001.8	
Private Sector Credit	4,433.5	4,510.1	4,624.1	4,697.4	4,817.4	5,084.5	5,244.5	5,451.8	5,539.6	5,709.0	5,818.2	5,906.0	
Weighted Average Interest Rates on Shilling Transactions.													
Savings Deposit Rate	2.4%	2.4%	2.5%	2.6%	2.4%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Time Deposit Rate	7.5%	7.3%	7.1%	6.8%	5.4%	7.6%	7.6%	9.8%	9.8%	10.0%	9.7%	10.8%	
Lending Rate	20.6%	20.1%	19.6%	20.3%	18.8%	20.0%	20.1%	19.7%	20.1%	19.6%	20.0%	19.2%	
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%	1.1%	1.1%	1.3%	
Savings Deposit Rate	1.5%	1.7%	1.5%	1.7%	1.5%	1.5%	1.5%	2.7%	1.5%	1.5%	1.5%	1.5%	
Time Deposit Rate	1.8%	3.2%	3.7%	4.0%	3.5%	3.7%	3.1%	3.9%	4.1%	3.0%	3.2%	3.5%	
Average Lending Rate	9.0%	10.8%	10.6%	10.2%	10.0%	9.3%	9.8%	8.6%	10.8%	9.5%	10.1%	9.9%	
Treasury Bills													
91 Days (End period Weighted Discount Rate)	4.1%	4.3%	4.2%	4.8%	5.1%	5.7%	6.5%	8.1%	9.1%	9.3%	8.2%	9.2%	10.6%
182 Days (End period Weighted Discount Rate)	5.5%	5.3%	4.8%	5.2%	5.6%	7.1%	7.9%	8.7%	9.4%	9.4%	9.2%	10.4%	11.2%
364 Days (End period Weighted Discount Rate)	7.5%	6.2%	5.4%	5.9%	6.3%	7.3%	8.9%	9.2%	9.8%	9.3%	9.0%	10.2%	11.2%
Treasury Bond Secondary Market rates													
2-year Bond													
Bid	6.4%	7.7%	6.4%	6.0%	7.2%	8.4%	9.1%	9.8%	10.1%	11.5%	11.1%	11.2%	12.1%
Offer	6.2%	7.5%	6.2%	5.8%	7.0%	8.2%	8.9%	9.7%	9.9%	11.4%	11.0%	11.1%	12.0%
5-year Bond													
Bid	8.1%	8.2%	8.1%	8.3%	9.3%	9.5%	10.5%	11.6%	11.8%	12.1%	12.0%	12.3%	12.9%
offer	8.0%	8.0%	8.0%	8.1%	9.1%	9.3%	10.3%	11.5%	11.7%	12.0%	11.8%	12.1%	12.7%
10-year Bond													
bid	12.1%	12.8%	12.1%	11.4%	11.5%	12.0%	12.4%	12.5%	12.6%	13.4%	13.4%	13.6%	14.0%
offer	11.9%	12.6%	11.9%	11.1%	11.3%	11.8%	12.2%	12.3%	12.4%	13.2%	13.2%	13.4%	13.9%
Bank of Uganda Rates (End Month)													
Rediscount Rate	7.2%	7.4%	7.3%	7.6%	8.1%	8.6%	9.2%	11.0%	12.1%	12.9%	13.3%	12.1%	13.7%
Bank Rate	8.2%	8.4%	8.3%	8.6%	9.1%	9.6%	10.2%	12.0%	13.1%	13.9%	13.3%	13.1%	14.7%
7-day Interbank Rate	2.7%	3.2%	3.2%	3.4%	3.5%	3.9%	5.3%	6.3%	9.1%	11.0%	9.8%	10.7%	10.3%
Overall Interbank Rate	2.7%	2.7%	2.8%	3.0%	3.0%	3.9%	4.8%	5.4%	9.3%	8.0%	7.9%	9.4%	7.8%
Consumer Price Index (Base 2005/06)													
Composite CPI, Annual percentage change.	4.3	4.2	3.3	1.7	0.3	0.2	1.4	3.1	5.0	6.4	11.1	14.1	16.0
Core CPI, Annual percentage change	4.6	4.5	4.6	4.0	4.2	2.5	2.9	4.8	5.6	6.0	7.8	9.7	11.3
Food crops CPI, Annual percentage change	3.9	3.5	-2.5	-9.2	-17.6	-11.4	-5.5	-4.6	1.5	6.9	29.1	39.3	44.1
Elec, Fuel & Utilities (EFU) CPI, Annual percentage cl	4.1	3.9	1.3	1.8	2.1	3.9	3.3	3.2	8.6	9.7	10.4	9.0	9.1
Producer Price Index for Manufacturing Sector													
PPI-M Composite	179.4	181.3	182.5	185.9	191.4	194.7	197.8	201.5	209.3	212.8			
PPI-M Local	166.5	167.0	166.2	168.6	175.7	179.0	179.7	182.9	188.6	190.7			
PPI-M Export	226.3	237.4	245.1	249.3	249.8	252.9	263.4	268.6	283.6	291.9			
Monthly Average Pump Prices of Petroleum Products													
Motor Spirit Premium (PMS)	2,889.0	2,870.0	2,860.0	2,928.0	2,986.0	3,255.0	3,056.9	2,985.5	3,110.0	3,170.0	3,382.0	3,484.0	3,495.0
Diesel (AGO)	2,290.0	2,334.0	2,346.0	2,343.0	2,366.0	2,486.0	2,480.7	2,474.7	2,530.0	2,702.0	2,923.0	3,007.0	3,196.0
Kerosene (BIK)	1,919.0	1,956.0	1,960.0	1,980.0	2,001.0	2,071.0	2,083.6	2,123.8	2,186.0	2,365.0	2,549.0	2,598.0	2,682.0
Source: Research Department, Bank of Uganda													

Imports of Merchandise (US$ millions)	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
Total Imports (c.i.f)	**389.53**	**404.71**	**455.53**	**390.08**	**544.62**	**435.64**	**395.64**	**388.60**	**477.05**	**436.72**	**527.69**	**482.58**	**473.17**	**459.55**	**642.32**	**446.90**
o/w cost																
Total Imports (fob)	**311.63**	**324.83**	**365.91**	**315.07**	**434.97**	**351.21**	**316.71**	**312.36**	**378.68**	**349.24**	**419.61**	**384.19**	**378.04**	**367.00**	**510.16**	**360.22**
Government Imports	33.26	16.71	57.55	11.14	111.23	53.13	26.17	11.08	83.38	28.28	94.46	44.47	18.46	38.91	116.53	19.50
Project	29.28	6.54	10.52	9.48	4.63	16.10	10.11	7.33	8.41	25.59	15.11	24.09	8.68	17.37	10.54	15.80
Non-Project	3.98	10.18	47.03	1.66	106.60	37.03	16.06	3.74	74.97	2.69	79.35	20.37	9.78	21.55	106.00	3.70
Formal Private Sector Imports	272.18	303.42	302.70	297.31	317.94	293.10	286.00	295.41	290.56	315.82	319.61	333.02	355.05	322.49	389.44	335.95
Oil imports	42.10	38.27	41.01	46.44	47.20	45.18	43.87	44.81	43.74	49.00	49.16	54.58	53.38	51.86	67.76	27.10
Non-oil imports	230.08	265.15	261.68	250.87	270.73	247.92	242.13	250.60	246.82	266.82	270.45	278.44	301.67	270.63	321.68	308.84
Estimated Private Sector Imports	6.19	4.70	5.66	6.62	5.80	4.98	4.55	5.87	4.73	5.14	5.55	6.70	4.54	5.60	4.19	4.77
Total Private Sector Imports	278.36	308.12	308.36	303.93	323.74	298.08	290.54	301.28	295.29	320.96	325.15	339.72	359.58	328.09	393.63	340.72
o/w freight																
Total Imports	63.00	64.60	72.47	60.66	88.68	68.28	63.83	61.66	79.56	70.74	87.41	79.57	76.93	74.84	106.87	70.10
Government Imports	8.04	4.04	13.90	2.69	26.87	12.83	6.32	2.68	20.14	6.83	22.82	10.74	4.46	9.40	28.15	4.71
Project	7.07	1.58	2.54	2.29	1.12	3.89	2.44	1.77	2.03	6.18	3.65	5.82	2.10	4.20	2.55	3.82
Non-Project	0.96	2.46	11.36	0.40	25.75	8.94	3.88	0.90	18.11	0.65	19.17	4.92	2.36	5.20	25.60	0.89
Private Sector Imports	54.96	60.56	58.57	57.97	61.81	55.44	57.50	58.98	59.42	63.91	64.59	68.83	72.47	65.44	78.73	65.39
Oil imports	10.17	9.24	9.91	11.22	11.40	10.91	10.60	10.82	10.57	11.84	11.87	13.18	12.89	12.53	16.37	6.55
Non-oil imports	44.79	51.31	48.66	46.75	50.40	44.53	46.91	48.15	48.85	52.08	52.71	55.65	59.58	52.91	62.36	58.84
Private Sector through forex	54.84	60.42	58.51	57.85	61.81	55.44	57.45	58.98	59.41	62.09	64.59	67.60	72.47	65.44	78.73	64.41
o/w insurance																
Total Imports	14.90	15.28	17.14	14.35	20.98	16.15	15.10	14.59	18.82	16.74	20.68	18.82	18.20	17.70	25.28	16.58
Government Imports	1.90	0.96	3.29	0.64	6.36	3.04	1.50	0.63	4.76	1.62	5.40	2.54	1.05	2.22	6.66	1.11
Project	1.67	0.37	0.60	0.54	0.26	0.92	0.58	0.42	0.48	1.46	0.86	1.38	0.50	0.99	0.60	0.90
Non-Project	0.23	0.58	2.69	0.09	6.09	2.12	0.92	0.21	4.28	0.15	4.53	1.16	0.56	1.23	6.06	0.21
Private Sector Imports	13.00	14.33	13.86	13.71	14.62	13.12	13.60	13.95	14.06	15.12	15.28	16.28	17.14	15.48	18.62	15.47
Oil imports	2.41	2.19	2.34	2.65	2.70	2.58	2.51	2.56	2.50	2.80	2.81	3.12	3.05	2.96	3.87	1.55
Non-oil imports	10.60	12.14	11.51	11.06	11.92	10.53	11.10	11.39	11.56	12.32	12.47	13.16	14.09	12.52	14.75	13.92
Private Sector through forex	12.97	14.29	13.84	13.69	14.62	13.11	13.59	13.95	14.05	14.69	15.28	15.99	17.14	15.48	18.62	15.24

Exports of merchandise (US$ millions)	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
Total Exports	**200.27**	**188.45**	**198.67**	**177.16**	**176.15**	**170.05**	**159.85**	**186.61**	**157.92**	**171.29**	**185.11**	**192.44**	**196.16**	**221.02**	**216.07**	**204.32**
Total Formal Exports	**132.88**	**134.96**	**151.72**	**136.76**	**138.97**	**136.09**	**123.16**	**144.80**	**117.51**	**132.45**	**139.95**	**146.39**	**161.03**	**178.90**	**190.44**	**170.02**
1. Coffee (Value)	**25.35**	**26.40**	**21.79**	**15.55**	**18.23**	**23.03**	**27.53**	**23.66**	**18.96**	**23.30**	**32.14**	**28.69**	**29.98**	**27.83**	**34.10**	**26.87**
Volume ('000 60-Kg bags)	0.26	0.26	0.22	0.15	0.18	0.23	0.27	0.22	0.17	0.19	0.27	0.24	0.22	0.19	0.22	0.18
Av. unit value	1.60	1.66	1.67	1.70	1.71	1.63	1.72	1.81	1.86	2.07	2.01	2.01	2.32	2.39	2.55	2.54
2. Non-Coffee formal exports	**107.53**	**108.56**	**129.93**	**121.21**	**120.74**	**113.06**	**95.63**	**121.14**	**98.55**	**109.15**	**107.80**	**117.70**	**131.05**	**151.07**	**156.34**	**143.15**
Electricity	1.04	0.98	1.05	1.04	0.95	1.08	1.12	1.17	1.05	1.01	1.05	1.00	1.09	1.14	1.33	1.19
Gold	1.58	3.83	5.14	4.72	3.72	6.28	0.82	1.68	0.27	0.79	0.86	0.39	0.38	0.50	0.26	0.29
Cotton	1.16	1.67	3.16	4.05	3.61	1.03	0.15	0.00	0.65	0.77	0.57	4.38	12.38	17.54	23.50	12.91
Tea	6.70	5.29	6.39	7.01	6.70	5.91	5.23	4.01	4.10	5.54	6.09	5.30	6.56	3.61	4.29	6.00
Tobacco	8.37	9.76	5.09	8.38	6.94	2.63	4.55	3.36	3.68	4.37	4.62	7.60	3.27	6.56	7.26	3.80
Fish & its prod. (excl. regional)	11.93	9.94	12.66	11.54	9.91	9.02	8.44	11.36	9.83	11.01	13.96	14.22	16.70	13.79	9.37	10.41
Hides & skins	1.03	1.11	1.34	1.51	1.57	1.65	0.99	0.95	1.23	1.21	0.84	3.72	2.09	2.86	3.25	3.06
Simsim	1.31	1.64	2.89	2.00	0.36	0.41	0.76	1.51	0.52	0.35	0.40	0.73	3.24	3.81	3.15	1.34
Maize	2.98	2.09	3.44	2.46	4.85	3.97	3.22	1.94	2.06	3.02	3.10	2.28	1.70	1.79	1.62	1.26
Beans	0.41	0.21	0.31	0.49	1.28	1.02	0.23	0.09	0.19	0.92	1.65	1.16	0.80	1.10	0.32	0.49
Flowers	3.58	4.34	4.45	2.87	4.31	5.49	4.14	4.32	3.63	3.19	3.34	2.89	3.89	4.45	3.86	3.68
Oil re-exports	9.15	5.49	10.30	11.34	9.33	7.85	11.16	11.43	9.21	7.47	8.44	5.79	7.23	7.15	6.73	7.04
Cobalt	1.04	1.63	1.06	1.06	1.39	2.12	1.59	1.06	1.06	1.59	2.12	1.06	0.53	1.59	1.82	1.59
Others	57.26	60.59	72.64	62.77	65.84	64.61	53.22	78.28	61.07	67.92	60.76	67.19	71.20	85.18	89.58	90.11