

BANK OF UGANDA



MONTHLY ECONOMIC REVIEW

**AUGUST
2005**

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EXECUTIVE SUMMARY

Monetary Policy Stance and Actions:

The primary objective of monetary policy remains to contain inflation at low and stable levels. To achieve this, BOU monetary policy operations ensure that liquidity management does not exacerbate instability in the goods market, the domestic money market and the foreign exchange market.

A review of developments for the four-week period ended July 29, 2005 suggests that:

- Net-issuance of Treasury bills, Treasury bonds and forex sterilization deals were used to sterilize liquidity, while the repurchase agreement instruments (REPOs) facilitated the short-term, normally fine-tuning operations. The net withdrawal of liquidity by government securities amounted to Shs20.05 billion¹ compared to an injection of Shs 46.11 billion reported last month. The outstanding stock of REPOs in the month of June was Shs 10.00 billion.
- In line with developments in the Treasury bill market, the Rediscount rate and Bank rate declined from 14.77 percent and 15.77 percent, by end June 2005, to 14.42 percent and 15.42 percent, respectively by July 29, 2005.

Inflation Developments

- The **annual headline inflation** for July 2005 eased for the second consecutive month to **10.0%**, down from 10.7% recorded in the June 2005. This was due to the slower pace of increases in food; and beverages and tobacco group indices
- The **annual underlying inflation** declined to **6.4%** in July 2005, down from 6.6% for the year ended June 2005. The prices of goods rose by 6.5% in both June 2005 and July 2005, while that of services increased by 6.1% in July 2005, compared to 6.6% recorded in June 2005. Slower pace of increases in prices of services during the month of July 2005 compared to that of June 2005, attributed to the fall in annual underlying inflation.

Real Sector Developments

- Electricity consumption increased by 23.3 percent between March and June 2005. All consumer categories registered increases in consumption, with the largest rises recorded in the Commercial and Domestic categories of consumers. This may be attributed to the increase in the number of consumers in these categories.
- Average pump prices of premium and diesel increased between June and July, while those of kerosene reduced over the same period, mainly on account of the National Budget, read on June 18th, in which, with immediate effect, taxes on premium and diesel were increased while those of Kerosene were reduced.

¹ This number includes Treasury bills and Treasury Bonds.

- Trading volumes during this month were lower than that in the previous month by 17.9. A total of 1,063,152 shares were traded during the month under review as opposed to 1,174,448 shares traded in the previous month. DFCU made up 98 percent of the total trading activity and New Vision counter trading amounted to 0.17 percent of the total turnover. There was however, no trading at the British American Tobacco, East African Breweries and Kenya Airways counters.
- Between end-June and end-July 2005, market capitalisation at the USE decreased by 0.52 percent from shs 3,135 billion to shs 3,118.7 billion while the all share index increased by 2.93 percent to 640.53 from 622.28,

Domestic Securities and Money Market Developments:

- In line with the monetary policy objectives and financial markets development, Bank of Uganda issued a 3-year bond on July 27, 2005. The Shs 25.00 billion issue was over subscribed by Shs 23.30 billion and realized a cover ratio of 193.21 percent. At a weighted average price of 87.77 per Shs 100, the resultant yield-to-maturity for the 10.25 percent coupon bond was 15.50 percent compared to 17.70 percent in the previous 3-year issue that was reopened in May 2005.
- The total outstanding stock of Treasury bonds stood at Shs 555.00 billion by end of July 2005. A 3-year bond coupon payment of Shs 2.46 billion was effected during the month.
- Two Treasury bill auctions with offers of Shs 30.00 billion and Shs 40.00 billion each were held in the month of July 2005. Both auctions were oversubscribed. The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at 8.49, 10.49, and 11.99 percent, respectively, for the auction of July 20, 2005. This compares to rates of 8.98, 10.71, and 13.14 percent, for 91-day, 182-day, and 364-day bills respectively, recorded in the auction held on June 22, 2005.
- In the four weeks ended July 29, 2005, total treasury bills secondary market trades amounted to Shs 75.52 billion, of which Shs 66.00 billion was related to horizontal repos. This was higher than the Shs 38.14 billion in secondary market trades for the four weeks ended June 30, 2005. The average discount rates on these trades for the 91-days, 182-days, and 364-days securities were 9.68, 8.53, and 11.01 percent, respectively. There were commercial bank borrowings from BOU that amounted to Shs 135.00 billion during the month.
- The yield curve based on the average yield-to-maturity quotations in the secondary market evolved closely in line with the developments in the primary market. The primary market curve trended below the secondary market curve for the 2-year paper and was inverted at the 5-year paper. The secondary market curve remained inverted at the 3-year paper (see Chart 7).
- Activity in the domestic inter-bank money market (i.e. transactions of less than 30 days in tenor) for the four weeks ended July 31, 2005 was the highest so far reported in the period including the previous financial year 2004/2005. Inter-bank lending on a short term basis amounted to Shs 534.62 billion at a weighted average rate of 6.78

percent from 8.04 percent reported last month. The weekly weighted average rates ranged from 6.31 percent to 8.24 percent. Transactions between domestic banks and foreign entities² in the money market amounted to Shs37.57 billion, at an average rate of 7.95 percent compared to Shs46.89 billion at 9.47 percent. All the commercial banks participated in the inter bank market during the four weeks.

- No commercial bank adjusted its prime-lending rate over the period under review. Consequently, the range of these rates for the banking system as a whole remained unchanged at 16-21 percent as was recorded in the previous period.
- There was a fall in the effective lending rate on the shilling denominated loans from 19.42 percent to 18.18 percent in June 2005 as well as in the foreign denominated loans to 8.46 percent from 8.86 percent reported in May 2005.
- The weighted rates on shilling denominated saving and demand deposits decreased from 1.78 and 1.13 percent to 1.77 percent and 1.07 percent respectively in June 2005 but the weighted rates on the time deposits were relatively stable maintaining a rate of 8.67 percent in the period under review. The demand and saving deposit rates on the foreign currency were also stable at 0.98 percent and 1.45 percent respectively from May to June 2005. Time deposit rates reversed the rising trend reported in the previous review to decline from 3.39 percent to 3.00 percent.

Developments in Monetary and Financial Aggregates

These developments cover both the banking system and the non-bank financial institutions for the period ending June 2005.

- Broad Money M3, which comprises currency in circulation plus all private deposits, expanded by 0.8 percent to Shs2,811.1 billion in June 2005, compared to a contraction of 0.6 percent registered in May 2005. M3 has risen from its end-June 2004 position by 8.7 percent.
- NFA of the banking system fell by 1.7 percent or Shs46.0 billion to Shs2628.4 billion. In particular, NFA at BoU contracted by 4.3 percent or Shs92.4 billion to Shs2050.7 billion, while at commercial banks NFA grew by 8.7 percent or Shs46.4 billion to Shs577.7 billion. Foreign reserves at BoU shrunk by an equivalent of Shs109.8 billion, compared to a decline of Shs141.0 billion in the previous month.
- The government's net position with the banking system (NCG) as at end-June 2005 was a saving of Shs160.1 billion, up by Shs46.6 billion. At BoU, government savings decreased by Shs 58.9 billion over the month, on account of a strong fall in Government deposits of Shs250.6 billion, which more than offset a decline in government advances of Shs191.7 billion. At commercial banks, net claims on Government fell by Shs105.6 billion in June 2005, on account of a strong rise in Government deposits of Shs82.9 billion, coupled with a decline in commercial banks' investment in Government securities of Shs22.7 billion.

² A distinction is made between the interbank market in which only domestic commercial banks participate and the money market where foreign banks also carry out transactions.

- The stock of outstanding credit to the private sector by the banking sector stood at Shs1244.6 billion of which Shs23.2 billion was from BOU and Shs1221.5 billion from commercial banks. This represents a growth of 5.4 percent or Shs64.2 billion during June 2005. In May 2005, PSC rose by 1.0 percent or Shs12.3 billion. Over the year 2004/2005 private sector credit grew significantly by 23.2 percent.
- During June 2005, the total (shilling and foreign currency) gross extensions by commercial banks amounted to Shs175.3 billion, while recoveries were Shs128.1 billion resulting in net extensions of Shs47.2 billion. After accounting for flows in capitalised interest, there was an increase in the stock of credit of about Shs69.2 billion.
- In the month of June 2005, the total assets of the Non-Bank Financial Institutions increased by 1.38 percent to Shs194.09 billion from Shs191.45 billion at the end of May 2005. This is less than the outturn observed over the same period a year ago. The increase in assets during June 2005 was mainly on account of an increase of 5.3 percent in balances with commercial banks in and outside Uganda as well as a 1.74 percent increase in total loans and advances.

Fiscal Developments

- Total revenue and budget support grant receipts (excluding project grants) for June 2005 were estimated at Shs255.40 billion. This is higher by Shs53.52 billion (26.5 percent) than Shs201.88 billion recorded in May 2005³.
- Total domestic revenue collected in June 2005 is estimated at Shs233.05 billion, of which 97.7 percent came from URA collections. This was higher than the programmed target by Sh58.77 billion, and also higher than the previous month's collections as a result of further improvement in tax collection performance. The preliminary outturn for non-URA revenue collections for June 2005 was estimated at Shs5.27 billion.
- Receipts from budget support grants were estimated at Shs22.35 billion during June 2005, which was lower than the program target of Shs38.65 billion. This was also lower than Shs33.35 billion realised in May 2005.
- In June 2005, government expenditure and net lending increased by 32.1 percent. The increase was mainly on account of development expenditure. Expenditure on wages and salaries accounted for 30.7 percent of recurrent expenditure, while interest payments increased by 12.1 percent over this period. The outturn in total government expenditure was higher than the projected level for the period by Shs65.94 billion.
- The overall fiscal balance for May 2005 was a deficit of Shs93.13 billion compared to a deficit of Shs62.99 billion recorded in May 2005. Excluding grants, the fiscal balance worsens to a deficit of Shs116.08 billion.

³ This amount is also higher than the programmed figure of Shs252.64 (see table 12).

Developments in the Foreign Exchange Market in June 2005

- Basing on the end month, the Shilling depreciated by 1.96 percent against the US Dollar compared to an appreciation of 1.28 percent recorded for the previous period.
- BOU continued to watch foreign exchange market developments very closely to ensure market stability. In addition BoU continued sterilisation in the IFEM. Overall there was a net intervention on the sale side to a tune of US\$ 11.00 million for the month of July 2005.

Balance of Payments Developments

- In June 2005, the current account balance was estimated at a deficit of US\$55.0 million, while the capital and financial account was estimated at a surplus of US\$36.6 million. As a result, the overall balance of payments was estimated at a deficit of US\$18.4 million.
- Total export earnings have been on a steady increase since February 2005, amounting to US\$75.6 in June 2005. Coffee exports in the month of June 2005 accounted for 23.9 percent of the total export.
- The import bill (fob) was estimated at US\$142.3 million during June 2005 compared to the US\$139.5 million⁴, which was recorded for the month of May 2005.
- Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$12.9 million. Private sector transfer inflows exceeded outflows by US\$9.0 million in June 2005, and services and income outflows exceeded inflows by about US\$ 37.3 million.
- Official debt service (excluding IMF payments) was estimated at US\$18.6 million for the month of June 2005. The IMF principal payments externalized in the same month amounted to US\$7.9 million.
- Official foreign reserves (including valuation changes) were estimated at US\$1,325.6 million in June 2005, equivalent to 5.9 future months of imports of goods and services.

Policy Stance

- The continued concern for inflation coupled with developments in the foreign exchange market suggest that Bank Of Uganda will continue with a tight monetary policy stance to contain the inflationary pressures. It is also committed to manage liquidity in a manner that will not cause instability in both the money and foreign exchange markets.

⁴ Effective May 2004, import values are reported f.o.b.

A MONETARY POLICY STANCE AND ACTIONS

Bank of Uganda (BOU)'s monetary policy is focused on containing inflation at low levels. However, operations of its instruments are cautiously undertaken in order not to exacerbate instability in the money and foreign exchange markets. Sterilization of excess liquidity is usually effected through a combination of sales of Treasury bonds, Treasury bills and foreign exchange. This notwithstanding, BOU actively uses the Repurchase Agreements (REPOs) as a fine-tuning instrument in order to smooth out liquidity developments in the short run. This is in addition to adjustments in the pricing of the liquidity providing windows at the BOU i.e. the Rediscount Rate and Bank rate, to ensure a consistent monetary policy stance.

In line with its policy of a market-determined exchange rate, the Shilling value against other currencies continues to be determined by the supply and demand in the foreign exchange market and BOU only intervenes in the inter-bank foreign exchange market (IFEM) to curb instability.

In the four weeks to July 29, 2005, the net withdrawal of liquidity by Treasury bills was Shs 20.05 billion, compared to the net injection of Shs 46.11 billion in the corresponding four-week period to June 30, 2005. In a continuous effort to promote the development of financial markets alongside the conduct of monetary policy, Bank of Uganda issued a 3-year bond on July 27, 2005 with a face value of Shs 25.00 billion. On the short-term liquidity management front, gross issues of the REPO instrument, whose maturity ranged from 2 to 7 days, amounted to Shs 127.00 billion during this period, against maturities of Shs 117.07 billion. This is compared to issues and maturities of Shs 106.60 billion and Shs 108.88 billion, respectively over the preceding period ended June 30, 2005. By July 29, 2005, the outstanding stock of REPOs was Shs 10.00 billion. Total commercial bank borrowings at BOU amounted to Shs 135.00 billion during the month.

In line with developments in the Treasury bill market, the Rediscount rate and Bank rate declined from 14.77 percent and 15.77 percent, by end June 2005, to 14.42 percent and 15.42 percent, respectively by July 29, 2005.

B DOMESTIC PRICE DEVELOPMENTS

The **annual headline inflation**⁵ for July 2005 eased for the second consecutive month to **10.0%**, down from 10.7% recorded in the June 2005. This was due to a slower pace of increases in food; and beverages and tobacco group indices. All other remaining groups exhibited a higher pace of increases in their indices during the year ended July 2005 compared to the previous month.

The food group⁶ index increased by 16.3% compared to 19.0%; the beverages and tobacco group index rose by 3.4% compared to 7.0%; the clothing and footwear group index rose by 2.2% compared to 0.7%; the rent, fuel and utilities group index rose by 8.0% compared to 5.2%; the household and personal goods group index rose by 1.3%

⁵ Inflation is the percentage change in the Consumer Price Index compared with the same month (or previous month) one year (month) previously.

⁶ Food group comprises of the entire basket of food crops and other food items e.g. manufactured food goods - margarine, cooking oil, etc.

compared to a fall of 0.4%; the transport and communication group index rose by 11.1% compared to 10.3%; and the health, education and entertainment group index rose by 4.9% compared to 4.7% for the year ended July 2005 from that of June 2005. The increase in the food group index is due to the increase in prices of some food items following the onset of drought conditions in some parts of the country, while the rise in other group indices are attributed to the implementation of the different tax measures by government for the financial year 2005/06 that was effected from July 2005.

Conversely, the **monthly headline inflation** rose to **0.6%** in July 2005, up from **-2.1%** in June 2005 because of increases in all the group indices except transport and communication group index. The monthly headline inflation level of 0.6% resulted from increases of: 0.3% in the food group index; 0.8% in the beverages and tobacco group index; 0.7% in the clothing and footwear group index; 2.3% in the rent, fuel and utilities group index; and 0.1% in the health, education and entertainment group index. This was partly mitigated by a 0.4% decline in the transport and communication group index following a marginal fall in taxi fares (medium distance), which overwhelmed the rise in fuel prices. Increases in food crops, manufactured goods, and fuel prices have contributed to the rise in monthly headline inflation.

The **annual underlying inflation** declined to **6.4%** in July 2005, down from 6.6% for the year ended June 2005. The prices of goods rose by 6.5% in both June 2005 and July 2005, while that of services increased by 6.1% in July 2005, compared to 6.6% recorded in June 2005. The slower pace of increases in the prices of services during the month of July 2005 compared to that of June 2005 led to the fall in annual underlying inflation.

On the other hand, the **monthly underlying inflation** rose to **0.7%** in July 2005 from 0.0% in June 2005. This was attributed to a 1.1% rise in the average prices of goods that more than offset the 0.1% fall in the average prices of services, due to effect of tax increases on a number of goods and services with effect from July 2005.

The **annual food crop inflation**⁷ dropped to **24.3%** in July 2005 from 27.5% June 2005, while the **monthly food crop inflation** rose to **0.3%** in July 2005, from **-8.8%** in June 2005. Despite the drop in annual food crop inflation, the monthly food crop inflation rose because of the onset of drought conditions in parts of western and central Uganda that led to increases in prices of some staple foods, and fruits and vegetables.

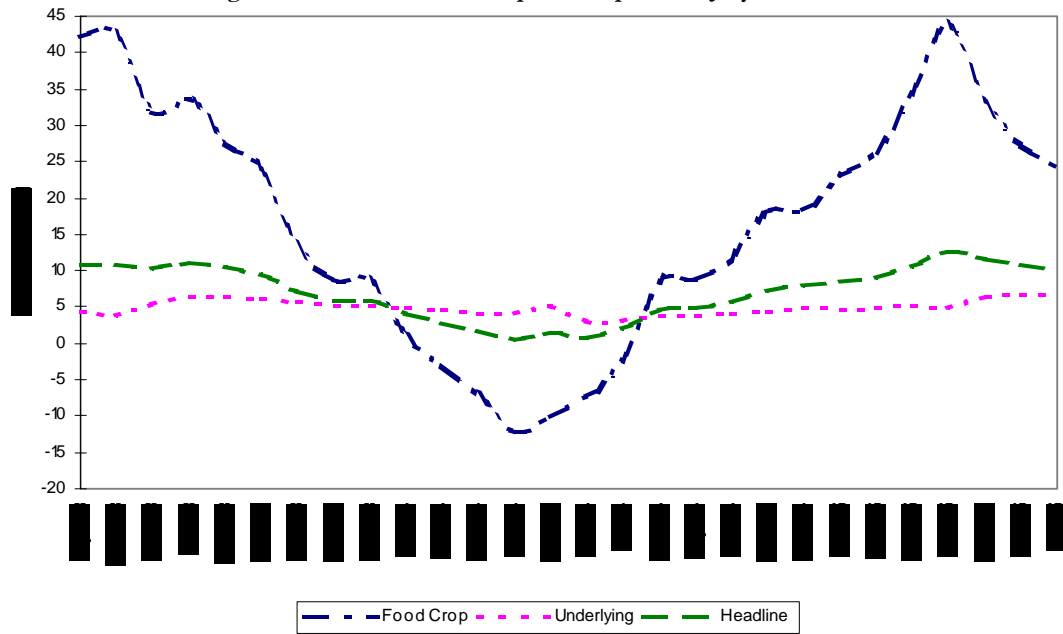
Table 1. Inflation Rates: May 2005 – July 2005

Period	Headline Inflation (%)		Underlying Inflation (%)		Food Crops Inflation (%)	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
May 2005	0.1	11.7	1.7	6.3	-4.8	33.0
June 2005	-2.1	10.7	0.0	6.6	-8.8	27.5
July 2005	0.6	10.0	0.7	6.4	0.3	24.3

Source: Uganda Bureau of Statistics

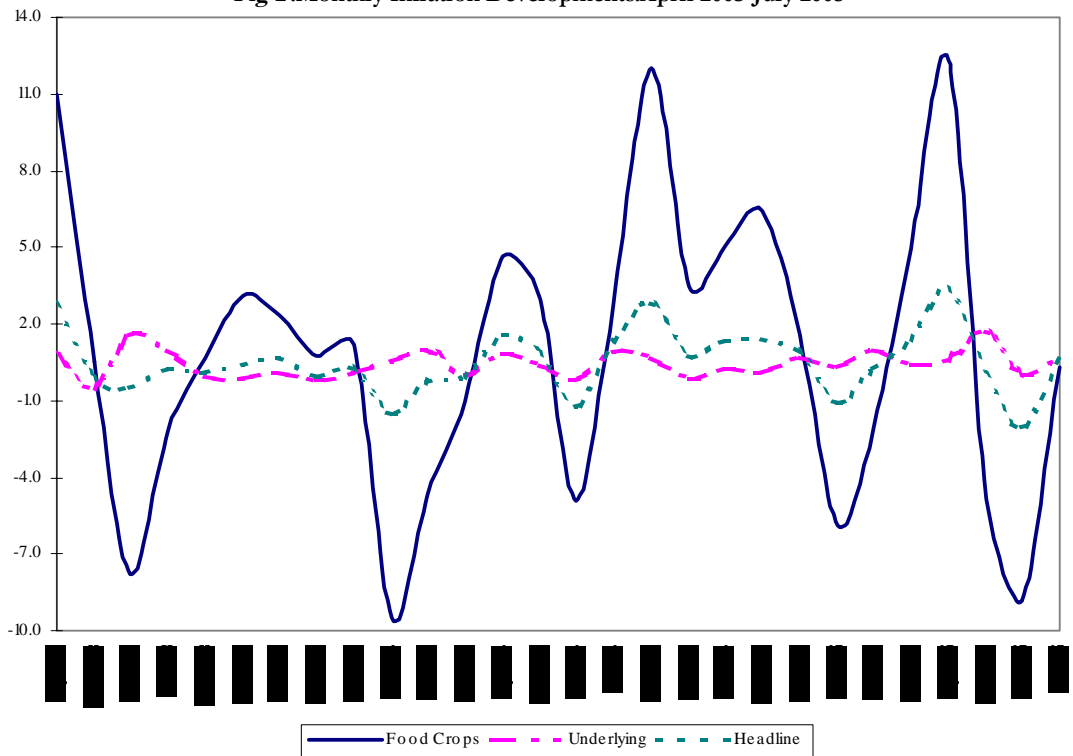
⁷ Food crops refer specifically to grown food crop items that are typically sold fresh in the markets.

Fig 1:Annual Inflation Developments:April 2003-July 2005



Source: Uganda Bureau of Statistics

Fig 2:Monthly Inflation Developments:April 2003-July 2005



Source:Uganda Bureau of Statistics

C REAL SECTOR DEVELOPMENTS

This section looks at the performance of the fuel prices between February and March 2005; electricity consumption between March and June 2005; trading at the Uganda Securities Exchange during July 2005 and leasing activity for June 2005.

Electricity Consumption

Trends in electricity consumption, which were last reported for February 2005, are now available up to June 2005. However, the data provided are still provisional and subject to change as firm data become available.

Between March and June 2005, electricity consumption increased by 23.3 percent from 76.4 Gigawatt hours to 94.2 Gigawatt hours. All consumer categories registered increases in consumption, with the largest rises recorded in the Commercial and Domestic categories of consumers. This may be attributed to the increase in the number of consumers in these categories. Over the period in review, the number of consumers in the Commercial and Domestic categories increased by 6.7 percent and 2.3 percent respectively. Table 1 below shows energy consumption in Gigawatt hours and month-on-month changes for the period March to June 2005. These figures are highly provisional and subject to change.

TABLE 1: ENERGY CONSUMPTION BY TARIFF CATEGORY FOR MARCH TO JUNE 2005 (in Giga Watt Hours (GWH)).

CATEGORY	March 2005	April 2005	Mar-Apr %age Change	May 2005	Apr-May %age Change	June 2005	May-Jun %age Change	Mar-Jun %age Change
Domestic	5.99	14.19	136.9%	9.24	-34.9%	29.90	223.6%	399.3%
Commercial	0.92	2.90	214.7%	1.73	-40.1%	11.49	562.7%	1148.4%
Large Scale Industrial	26.25	31.14	18.6%	29.91	-4.0%	32.54	8.8%	24.0%
Medium Scale Industrial	14.46	18.25	26.1%	19.06	4.5%	20.16	5.8%	39.4%
Street Lighting	0.04	0.04	-3.4%	0.06	56.9%	0.09	54.2%	133.7%
Total	76.40	37.77	-50.6%	59.99	58.8%	94.18	57.0%	23.27%

Source: UMEME

Note: Data are provisional.

Pump Prices of Major Petroleum Products

Average pump prices of premium and diesel increased between June and July, while those of kerosene reduced over the same period, mainly on account of the National Budget, read on June 18th, in which, with immediate effect, taxes on premium and diesel were increased while those of Kerosene were reduced. Average pump prices of premium increased by 4.4 percent from shs 1,974.52 per litre to shs 2,060.97 per litre and that of diesel by 5.3 percent from shs 1,673.23 to shs 1,761.61. On the contrary however, the average pump price of kerosene decreased by 1.7 percent from shs 1,525.81 to shs 1,500.00.

TABLE 3: TRADING AT THE UGANDA SECURITIES EXCHANGE (MARCH –JULY 2005)

	Mar '05	Apr '05	May '05	Jun '05	Jul '05
Trading Days	9	8	9	8	7
Total Turnover	449,920,770	28,462,970	2,212,221,780	467,525,830	383,889,945
No. Shares	1,519,852	75,437	4,572,457	1,174,448	1,063,152
Mrk Capitalization (Billion Ushs, E.O.P)	2,125.1	2,238.2	2,689.2	3,014.0	3,118.8
All Share Index	438.76	462.12	554.82	622.28	640.53

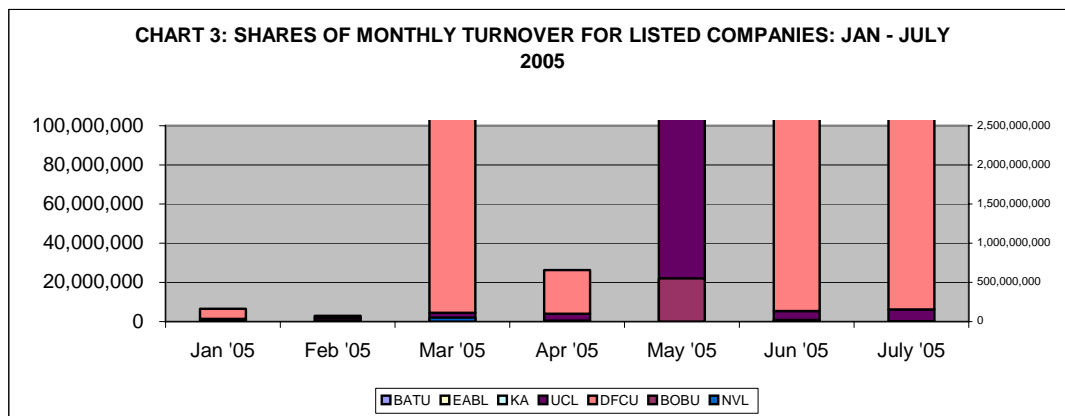
Source: Uganda Securities Exchange

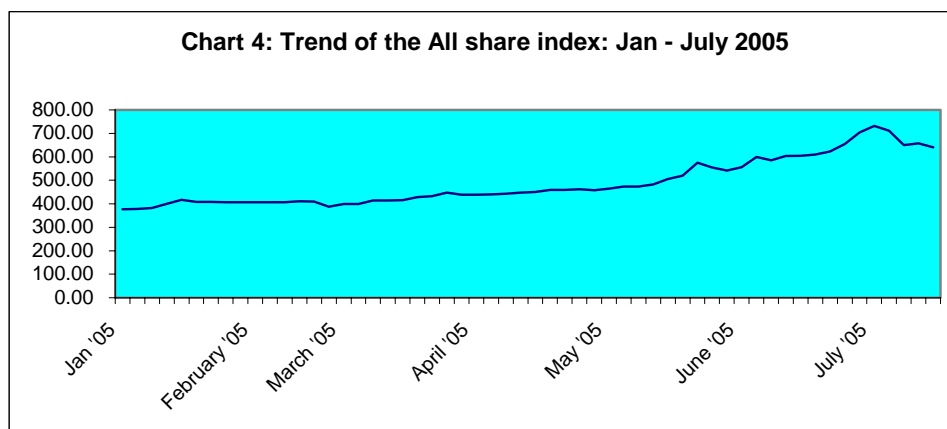
Total turnover during July 2005 amounted to Shs 383.89 million. Trading volumes during this month were lower than that in the previous month by 17.9 percent. A total of 1,063,152 shares were traded during the month under review as opposed to 1,174,448 shares that were traded in the previous month. Much of the activity during the month under review was on account of DFCU that made up 98 percent of the total trading activity. There was relatively little activity at the New Vision counter where total trading amounted to 0.17 percent of the total turnover. There was, however, no trading at the British American Tobacco, East African Breweries and Kenya Airways counters.

During the course of the month, share prices of British American Tobacco and the New Vision Limited, remained unchanged at shs 735 and shs 205 respectively. Kenya Airways share prices recorded an increase of 22.4 percent increasing from shs 1,252 to shs 1,533. Share prices for East African Breweries increased by 10.9 percent from shs 3,454 to shs 3,831 during the first three trading days but thereafter, a decrease of 11.4 percent was recorded. The closing price for the month was shs 3,393.

Share prices for Bank of Baroda, Uganda Clays and DFCU also declined during the course of the month. Bank of Baroda prices decreased by 2.35 percent from shs 850 to shs 830 and that of Uganda Clays by 0.58 percent from shs 12,070 to shs 12,000. DFCU share prices decreased by 2.70 percent, from shs 370 to shs 360. The nature of activity at the USE over the month of July 2005 is attributed to investors deciding to hold onto their shares.

Between end-June and end-July 2005, market capitalisation at the USE increased by 3.48 percent from shs 3,014 billion to shs 3,118.8 billion while the all share index increased by 2.93 percent to 640.53 from 622.28.





(v) Leasing activities

The value of leasing disbursements in June 2005 at shs 2.10 billion were more than double that registered in the previous month when total disbursements amounted to shs 0.94 billion. However, when compared to the corresponding period in the previous year, leasing disbursement during June 2005 were lower by 14.5 percent. This month's disbursement is the highest since the beginning of the year.

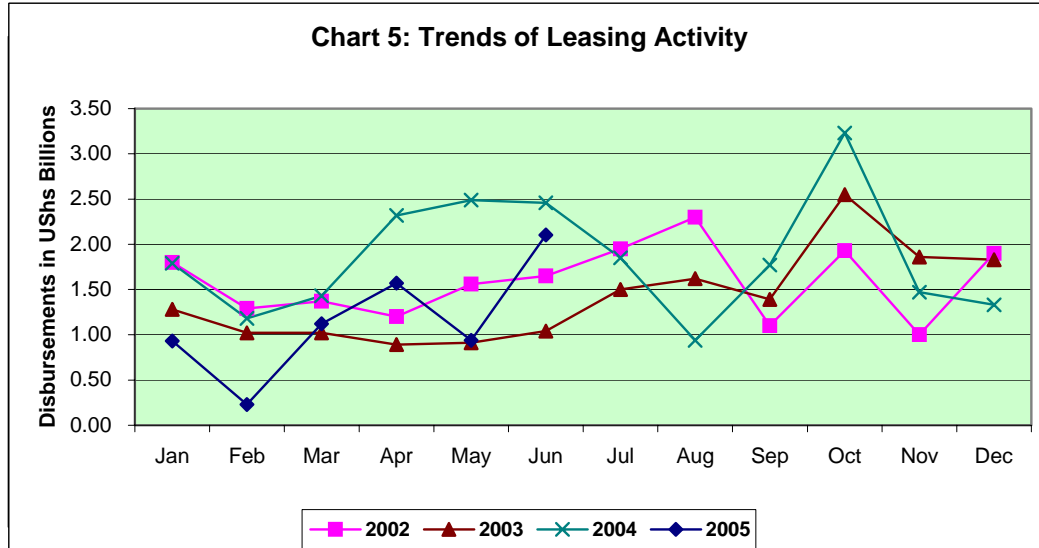
Unlike the previous month when most of the disbursements (35.31%) were directed towards the transport sector, during the month under review, the communication sector had the largest share of disbursements at 57.5 percent, followed by the transport sector with 17.6 percent. Other sectors that received disbursements were commerce and trade with 11.6 percent, banking with 7.1 percent, health with 3.8 percent, and manufacturing with 2.4 percent. This is a strong indicator that the services sector is playing a major role in the economy.

Table 4: Sectoral Distribution of Assets Leased in Million Shillings Over Apr – Jun 2005

Sector	5-Apr	Share (%)	5-May	Share (%)	5-Jun	Share (%)
Transport	565.7	35.94%	331.3	35.31%	369.6	17.57%
Commerce & Trade	306.2	19.46%	240.8	25.67%	245.0	11.64%
Mining & Construction	0	0.00%	277.6	29.59%	0.00	0.00%
Tourism	0	0.00%	0	0.00%	0	0.00%
Health	51.3	3.26%	18.0	1.92%	79	3.75%

Agriculture	19.7	1.25%	15	1.60%	0.00	0.00%
Manufacturing	571.1	36.28%	29.2	3.11%	50.00	2.38%
Education	59.9	3.81%	0	0.00%	1.6	0.07%
Banking	0	0.00%	26.3	2.80%	150.1	7.13%
Other Services	0	0.00%	0	0.00%	1,208.80	57.45%
TOTAL	1,573.89	100.00%	938.25	100.00%	2,104.10	100.00%

Source: DFCU leasing



D DEVELOPMENTS IN THE DOMESTIC SECURITIES AND MONEY MARKET

Primary Market for Treasury Bonds

In line with the monetary policy objectives and financial markets development, Bank of Uganda issued a 3-year bond on July 27, 2005. The Shs 25.00 billion issue was oversubscribed by Shs 23.30 billion and realized a cover ratio of 193.21 percent. At a weighted average price of 87.77 per Shs 100, the resultant yield-to-maturity for the 10.25 percent coupon bond was 15.50 percent compared to 17.70 percent in the previous 3-year issue that was reopened in May 2005. The total outstanding stock of Treasury bonds stood at Shs 555.00 billion by end of July 2005. A 3-year bond coupon payment of Shs 2.46 billion was effected during the month.

Table 5 below shows details of the most recent Treasury bond issues, and Appendix 1 summarizes the full details on all issues in the market so far which are also listed on the Uganda Securities Exchange.

Table 5: Summary of Government Treasury bond Issues as at July 29, 2005*(In Billions of Uganda Shillings, unless otherwise stated)*

Tenure/Issue date →	2 Year New Issue Jun 15-05	3 Year New Issue Jul 27-05	5 Year Re-opened Nov 17-04	10 Year Re-opened May 19-04
Maturity Date	Jun 14-07	Jul 24-08	Mar 19-09	May 08-14
Offers (Billion Shs)	20.000	25.000	20.000	15.000
Total Bids (Billion Shs)	39.452	48.302	32.227	25.166
O/w Competitive	39.431	48.260	12.989	25.154
Over (Under) Subscription	19.452	23.302	12.227	10.166
Amount Sold (Face Value)	20.000	25.000	20.000	15.000
Amount Sold (Cost Price)	18.430	21.942	17.093	12.991
Cover Ratio %	197.259	193.208	161.135	167.773
Previous Cover Ratio %	130.989	127.828	210.00	...
WAP per Shs. 100	92.152	87.769	85.463	86.608
Previous WAP per Shs. 100	94.454	84.308	92.590	...
Yield to Maturity %	14.669	15.501	16.039	13.477
Previous Yield to Maturity %	14.463	17.700	12.802	...
Coupon Rate	10.000	10.250	10.750	11.000

Source: Research Department - Bank of Uganda**Secondary Market for Treasury bonds**

The four week-period average indicative bid/offer yields-to-maturity in the secondary market were quoted at 14.71/14.46 percent and 16.98/16.73 percent for the 2-year and 3-year bonds, and at 16.42/16.15 percent and 16.14/15.89 percent for the 5-year and 10-year bonds tenors respectively. This is compared to 14.79/14.57 percent and 17.34/17.09 percent for the 2 year and 3 year bonds, and 16.38/16.11 percent and 16.00/15.75 percent for the 5 year and 10 year bond, in the previous four-week period ending June 2005, respectively (See Table 6). Within the month of July 2005, Shs 0.50 billion and Shs 0.07 billion were traded in the 2-year and 3-year bonds, respectively.

Table 6: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bonds over the four week-period to July 29, 2005

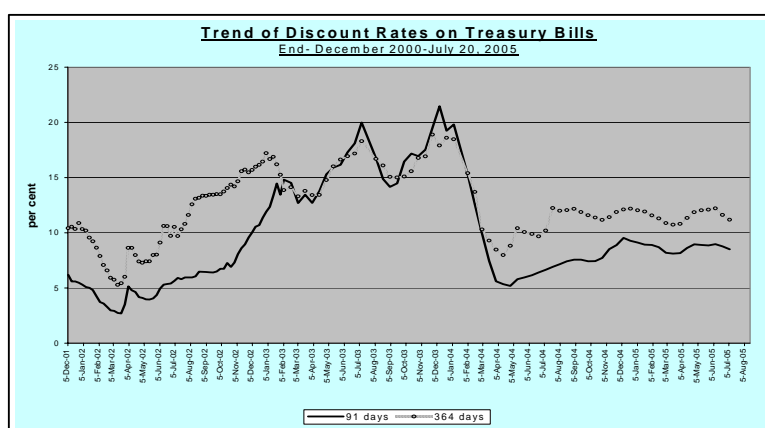
	Tenor of bond							
	2-year		3-year		5-year		10-year	
	Yield-to-maturity quotation (percent)							
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	14.00	13.75	16.00	15.75	16.00	15.70	15.00	14.75

Max	15.00	14.75	18.25	18.00	17.50	17.25	18.00	17.75
Average	14.71	14.46	16.98	16.73	16.42	16.15	16.14	15.89
Source: Compiled from Domestic Financial Markets Department records								

Source: Research Department - Bank of Uganda

ii) Primary Market for Treasury bills

Two Treasury bill auctions with offers of Shs 30.00 billion and Shs 40.00 billion each were held in the month of July 2005. Both auctions were oversubscribed. The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at 8.70, 10.48, and 12.58 percent for the auction of July 06, 2005, and at 8.49, 10.49, and 11.99 percent, respectively, for the auction of July 20, 2005. This compares to rates of 8.98, 10.71, and



13.14 percent, for 91-day, 182-day, and 364-day bills respectively, recorded in the auction held on June 22, 2005 (see Chart 7 below). With the exception of the 364-day bill rates that were stable, the average discount rates on Treasury bills in July 2005, were higher than those registered in July 2004 which ranged between 6.79 percent and 11.22 percent.

iii) Secondary Market for Treasury bills

The average bid/offer yields-to-maturity in the secondary market for Treasury bills for the 91-day, 182-day and the 364-day papers decreased by an average of 0.32, 0.15, and 0.88 percentage points, respectively. The respective average percentage yields to maturity for the 91, 182, and 364-day securities were 8.90/8.64, 10.46/10.18 and 12.15/11.86 in July 2005 compared to 9.22/8.95, 10.60/10.33 and 13.02/12.75 percent in June 2005, respectively.

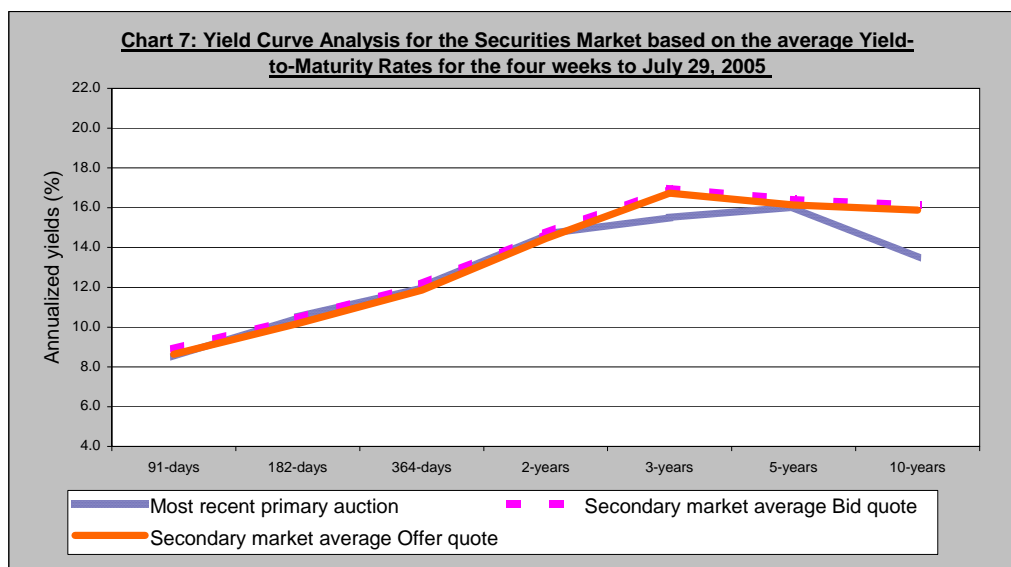
Table 7: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bills over the four-week period to July 29, 2005

	Tenor of bills							
	91-days		182-days		273-days		364-days	
	Yield-to-Maturity quotation (percent)							
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	8.22	7.95	9.93	9.66	0.00	0.00	11.36	11.06
Max	9.29	9.02	10.76	10.48	0.00	0.00	13.40	13.10
Average	8.90	8.64	10.46	10.18	0.00	0.00	12.15	11.86
	Trading Activity							
Transactions (Shs billion)	70.095		5.027		-		0.393	
O/w Horizontal REPOs	66.000		-		-		-	
- Av. H/REPOs rate	7.65 percent		-		-		-	
O/w- Outright sales	4.094		5.027		-		0.393	
Total trades across maturities	Shs 75.515 billion							
- Av Discount rate	9.68 percent		8.53 percent		-		11.01 percent	
- Av Yield to maturity	10.11 percent		8.91 percent		-		11.93 percent	
Rediscounts at BoU	-							
Borrowing at BoU	Shs 135.000 billion							

Source: Compiled from Domestic Financial Markets Department records

In the four weeks ended July 29, 2005, total treasury bills secondary market trades amounted to Shs 75.52 billion, of which Shs 66.00 billion related to horizontal repos. This was higher than the Shs 38.14 billion of the four weeks ended June 30, 2005. The average discount rates on these trades for the 91-days, 182-days, and 364-days securities were 9.68, 8.53, and 11.01 percent, respectively. There were commercial bank borrowings from BOU that amounted to Shs 135.00 billion during the month.

The yield curve based on the average yield-to-maturity quotations in the secondary market evolved closely in line with the developments in the primary market. The primary market curve trended below the secondary market curve from the 2-year paper and was inverted at the 5-year paper. The secondary market curve remained inverted at the 3-year paper (see Chart 7).



v) Domestic Inter-bank market

Activity in the domestic inter-bank money market (i.e. transactions of less than 30 days in tenor) for the four weeks ended July 31, 2005 was the highest so far reported in the period including the previous financial year 2004/2005. Transactions worth Shs 534.62 billion were traded at a weighted average rate of 6.78 percent from 8.04 percent reported last month. The least active period was the week ended July 8, 2005, when transactions worth Shs117.5 billion were recorded, while the most activity was in the following week ended July 15, 2005, with volumes of transactions amounting to Shs152.25 billion. Of this, the over night transactions amounted to Shs 79 billion at a weighted average rate of 5.22 percent. The weekly weighted average rates ranged from 6.31 percent to 8.24 percent. Transactions between domestic banks and foreign entities⁸ in the money market amounted to Shs37.57 billion, at an average rate of 7.95 percent compared to Shs46.89 billion at 9.47 percent. All the commercial banks participated in the inter bank market during the four weeks.

Table 8: Summary of inter bank money market activity

	Total amounts in Billions	Previous amounts in Billions	Weighted average rate (In %)	Weighted average rate (In %)
Total Transactions	534.62	506.80	6.78	8.04
O/w Over night	79.00	102.65	5.22	6.89
With Foreign entities	37.57	46.89	7.95	9.47

⁸ A distinction is made between the interbank market in which only domestic commercial banks participate and the money market where foreign banks also carry out transactions.

vi) Commercial Banks' Retail Interest Rates

There was no revision in the commercial banks' prime lending rate during the four weeks to July 29, 2005. Consequently there were no changes in the number of banks charging rates for the various range categorizations. The range of these rates for the entire industry also remained at 16-21 percent. Table 9 below summarizes these developments.

Table 9: Trends of the Prime Lending Rates During July 2005
(Figures are end-period)

Prime Lending Rate (%)	July 01, 2005	July 08, 2005	July 15, 2005	July 22, 2005	July 29, 2005
0.0 – 10.9	0	0	0	0	0
11.0 – 13.9	0	0	0	0	0
14.0 – 15.9	0	0	0	0	0
16.0 – 18.0	5	5	5	5	5
18.1 – 19.9	7	7	7	7	7
20.0 – 21.9	3	3	3	3	3
Range (Min – Max)	16%-21%	16%-21%	16%-21%	16%-21%	16%-21%

Source: Commercial banks weekly returns

The ranges of the savings and time deposits rates were maintained at 0-8.0 percent and 0.25-20.0 percent, respectively. The respective number of banks with savings rates of at least 5.0 percent and those with a time deposit rate of at least 8.0 percent remained unchanged at five (5) and seven (7), respectively.

Information on the commercial banks' effective lending and deposit rates is available only up to June 2005. As portrayed in Table 10, there was a fall in the effective lending rate on the shilling denominated loans from 19.42 percent to 18.18 percent in June 2005 as well as in the foreign denominated loans to 8.46 percent from 8.86 percent reported in May 2005.

Table 10: Commercial Banks' Lending and Deposit Rates (Percent)

	Local Currency				Foreign Currency Denominated			
	Mar 05	April 05	May 05	June 05	Mar 05	April 05	May 05	June 05
Weighted Average rates								
Lending	20.63	20.78	19.42	18.18	9.17	7.77	8.86	8.46
Demand Deposits	1.12	1.14	1.13	1.07	0.98	0.98	0.99	0.98
Savings Deposits	1.94	1.77	1.78	1.77	1.45	1.45	1.45	1.45
Time Deposits	8.21	8.59	8.67	8.67	2.49	2.69	3.39	3.00

The weighted rates on shilling denominated saving and demand deposits decreased from 1.78 percent and 1.13 to 1.77 percent and 1.07 percent respectively in June 2005 but the weighted rates on the time deposits were relatively stable maintaining a rate of 8.67 percent in the period under review. The demand and saving deposit rates on the foreign currency were also stable at 0.98 percent and 1.45 percent respectively from May to June 2005. Time deposit rates reversed the rising trend reported in the previous review, declining from 3.39 percent to 3.00 percent.

E MONETARY AGGREGATES AND FINANCIAL SECTOR AGGREGATES

(i) Banking Activities

Broad Money

Broad Money **M3**, which comprises currency in circulation plus all private deposits, expanded by 0.8 percent to Shs2,811.1 billion in June 2005, compared to a contraction of 0.6 percent registered in May 2005. M3 has risen from its end-June 2004 position by 8.7 percent. **M2A**, comprising of M3 less foreign currency deposits of the private sector, was largely steady at Shs2157.9 billion at end-June 2005. This compares to a rise of 0.7 percent recorded in May 2005. The developments in money supply are shown in Table 11 below.

Net Foreign Assets (NFA)

Over the month of June 2005, the NFA of the banking system fell by 1.7 percent or Shs46.0 billion to Shs2628.4 billion. In particular, NFA at BoU contracted by 4.3 percent or Shs92.4 billion to Shs2050.7 billion, while at commercial banks NFA grew by 8.7 percent or Shs46.4 billion to Shs577.7 billion. Foreign reserves at BoU shrunk by an equivalent of Shs109.8 billion, compared to a decline of Shs141.0 billion in the previous month.

Net Claims on Government (NCG)

The government's net position with the banking system (NCG) as at end-June 2005 was a saving of Shs160.1 billion, up by Shs46.6 billion from a saving of Shs113.4 billion at the end of May 2005 (Table 11). At BoU, government savings decreased by Shs 58.9 billion over the month, on account of a strong fall in Government deposits of Shs250.6 billion, which more than offset a decline in government advances of Shs191.7 billion. At commercial banks, net claims on Government fell by Shs105.6 billion in June 2005, on account of a strong rise in Government deposits of Shs82.9 billion, coupled with a decline in commercial banks' investment in Government securities of Shs22.7 billion.

Table 11: Developments in Monetary and Credit Aggregates (June 04 – June 05)

<i>(in billion shillings unless otherwise stated)</i>	Jun. 2004	Sep. 2004	Dec. 2004	Mar. 2005	May 2005	Jun. 2005
Net Foreign Assets (NFA)	2,370.5	2,358.8	2,559.0	2,547.7	2674.4	2628.4
Domestic Credit	1,107.4	1,136.9	1,103.5	1,268.5	1075.1	1092.7
Net Credit to Gov't (NCG)	83.4	106.5	-12.8	113.1	-113.4	-160.1
Claims on the Private Sector	1,010.0	1,019.0	1,105.2	1,146.7	1180.4	1244.6
M3	2,587.3	2,582.7	2,646.7	2,802.9	2789.5	2811.1
Forex deposits	662.4	654.0	646.1	633.4	631.9	653.3
M2A	1,924.9	1,928.7	2,000.5	2,169.5	2157.6	2157.9
Demand Deposits	804.0	765.1	739.4	940.6	885.4	860.1
Term Deposits	591.6	621.2	672.5	637.7	684.8	692.7
Currency	529.3	542.4	588.6	591.2	587.3	605.1
Forex/M3 (percent)	25.6	25.3	24.4	22.6	22.7	23.2
Demand Deposits/M3 (percent)	31.1	29.6	27.9	33.6	31.7	30.6
Term Deposits/M3 (percent)	22.9	24.1	25.4	22.8	24.6	24.6
Currency/M3 (percent)	20.5	21.0	22.2	21.1	21.1	21.5

Private Sector Credit (PSC)

At end-June 2005, the stock of outstanding credit to the private sector by the banking sector stood at Shs1244.6 billion (Table 11), of which Shs23.2 billion was from BOU and Shs1221.5 billion from commercial banks. This represents a growth of 5.4 percent or Shs64.2 billion during June 2005. In May 2005, PSC rose by 1.0 percent or Shs12.3 billion. Over the year 2004/2005 private sector credit grew significantly by 23.2 percent.

Credit Flows

During June 2005, the total (shilling and foreign currency) gross extensions by commercial banks amounted to Shs175.3 billion, while recoveries were Shs128.1 billion resulting in net extensions of Shs47.2 billion. After accounting for flows in capitalised interest, there was an increase in the stock of credit of about Shs69.2 billion (see Appendix Table 2)⁹. During the month, commercial banks extended shilling loans amounting to Shs106.1 billion and recovered Shs71.2 billion, thus net extensions were Shs34.9 billion. Net capitalised interest stood at Shs1.1 billion. Thus, there was a net increase in the stock of shilling loans to the non-bank public of Shs36.0 billion (see Appendix Table 3). For foreign currency loans, gross extensions stood at Shs69.2 billion, while recoveries were slightly higher at Shs56.9 billion, yielding net extensions of Shs12.3 billion. After taking into account effects of capitalised interest, the stock of foreign currency loans recorded a net rise of Shs33.2 billion (See Appendix Table 4).

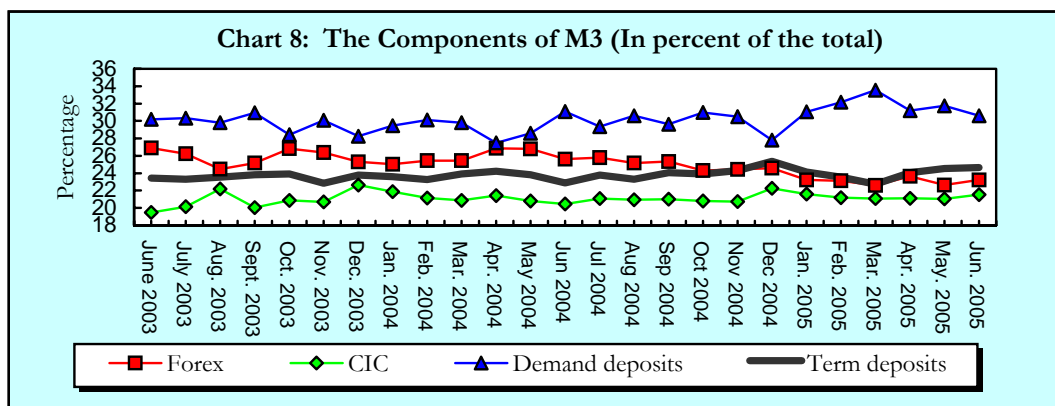
Appendix tables 2-4 summarise the evolution of the monthly change in outstanding loans and advances of commercial banks from July 2004 to June 2005.

Liabilities of the Banking System

On the liabilities side, foreign currency accounts grew by Shs21.4 billion to Shs653.3 billion in June 2005. In US dollars, foreign currency accounts rose by US\$ 16.9 million to US\$375.4 million¹⁰. Demand deposits shrunk by 2.9 percent or Shs25.3 billion to Shs860.1 billion, while term deposits (time, savings and CDs) grew by 1.1 percent to Shs692.65 billion as at end-June 2005. Currency in circulation (CIC) rose by 3.0 percent to Shs605.1 billion. Reflecting these developments, the ratio of foreign currency deposits to M3 rose to 23.2 percent from 22.7 percent at end-May 2005. The ratio of CIC to M3 increased to 21.5 percent from 21.1 percent at end-May 2005. The ratio of term deposits to M3 was steady at 24.6 percent over the month of June 2005, while that of demand deposits dipped to 30.6 percent in June 2005 from 31.7 percent in May 2005. The trends of the ratios are shown in Chart 8 below and Table 9 above.

⁹ The Gross Extensions and Recoveries include lending to Government and Parastatals. PSC as recorded by the Monetary Survey doesn't include lending to Government and parastatals.

¹⁰ The end period mid exchange rate is used to value forex items.



(ii) Non-Bank Financial Institutions (NBFIs) Activities¹¹

Assets

In the month of June 2005, the total assets of the Non-Bank Financial Institutions increased by 1.38 percent to Shs194.09 billion from Shs191.45 billion at the end of May 2005. This is less than the outturn observed over the same period a year ago. The increase in assets during June 2005 was mainly on account of an increase of 5.3 percent in balances with commercial banks in and outside Uganda as well as a 1.74 percent increase in total loans and advances.

Loans and advances

The stock of the outstanding loans and advances to the private sector increased by Shs2 billion or 1.74 percent, to Shs117.44 billion as at end-June 2005, from Shs115.44 billion at end-May 2005. During June 2005, mortgage loans, which accounted for 55.3 percent of total loans, increased by 2.3 percent to Shs65.01 billion while secured and unsecured loans increased by 3.28 percent to Shs27.96 billion at the end of June 2005. Administered loans decreased by 1.4 percent to Shs24.47 billion. The building and construction sector accounted for the largest share (68.3 percent) percent of the total NBFIs advances as at end-June 2005 while the trade and commerce sector accounted for the second largest share of 21.4 percent.

Deposits

In June 2005, private sector deposits¹² in the NBFIs increased by 1.9 percent to Shs88.09 billion, from Shs86.41 billion in May 2005. In particular, time deposits went up by 5.54 percent to Shs24.91 billion and savings deposits increased by 0.6 percent to Shs63.18 billion. Other deposits, which represent funds collected on behalf of government from the beneficiaries of the government's pool house sale scheme, increased by 1.78 percent to Shs30.90 billion over the same period.

¹¹ Only covers 7 credit institutions.

¹² This excludes Agency Funds

Table 12: Developments in the Activities of Non-Bank Financial Institutions (Shs Billion)

	Jun 2004	Dec 2004	Mar 2005	May 2005	Jun 2005
Total Assets	153.76	181.74	185.04	191.45	194.09
O/w Loans and advances	91.03	103.71	110.18	115.44	117.44
Secured & unsecured	12.73	15.01	18.65	27.08	27.96
Mortgage	54.06	63.72	66.98	63.54	65.01
Administered	24.23	24.98	24.55	24.82	24.47
Total Deposits ¹³	93.28	110.13	113.74	118.16	120.45
Savings	56.34	61.99	61.48	62.81	63.18
Time	10.78	19.30	21.73	23.60	24.91
Agency Funds	26.15	28.30	29.50	30.36	30.90
Source: Bank of Uganda					

F GOVERNMENT BUDGETARY OPERATIONS

i) Revenue and Grants

Total revenue and budget support grant receipts (excluding project grants) for June 2005 are estimated at Shs 255.40 billion. This is higher by Shs53.52 billion (26.5 percent) than Shs201.88 billion recorded in May 2005¹⁴.

Total domestic revenue collected in June 2005 is estimated at Shs233.05 billion, of which 97.7 percent or Shs 227.79 billion came from URA collections. URA revenue collections were higher than the programmed target for the month by Shs58.77 billion, and also higher than the previous month's collections of Shs163.21 billion as a result of further improvement in tax collection performance. The preliminary outturn for non-URA revenue collections for June 2005 was estimated at Shs5.27 billion. This was Shs2.05 billion lower than the collections for May 2005 but higher than the program target of Shs.3.33 billion.

Receipts from budget support grants are estimated at Shs22.35 billion during June 2005, which was lower than the program target of Shs38.65 billion. This was also lower than Shs33.35 billion realised in May 2005.

¹³ Includes accrued interest

¹⁴ This amount is also higher than the programmed figure of Shs252.64 (see table 12).

Table 13: Government Budgetary Operations: May – June 2005 (Billion Shs)

	Revised Budget 2003/04	Prog. Budget 2004/05	Approved Budget 2004/05	Prel. May. 2005	Prel. Jun. 2005	Prog. Jun. 2005
Total Tax & Import Support Receipts	2,228.55	2,367.36	2,364.41	201.88	255.40	252.64
Total Domestic Revenue	1,690.90	1,866.72	1,866.72	168.53	233.05	172.36
URA Excluding Refunds/Govt. Taxes	1,655.20	1,830.02	1,830.02	163.21	227.79	169.02
Non URA Revenues	35.70	36.70	36.70	5.32	5.27	3.33
Budget Support Grants	537.65	500.64	497.69	33.35	22.35	80.29 2/
Expenditure & Lending	2343.26	2,446.70	2,499.48	264.27	349.14	283.20
Current Expenditure	1,732.86	1,872.75	1,874.06	204.57	235.39	158.64
Development Expenditure	536.89	501.05	558.13	56.64	97.52	126.37
Others 1/	73.51	72.90	67.30	3.06	16.23	(1.80)
Overall Fiscal Balance (Deficit)	(114.71)	(79.34)	(135.08)	(62.39)	(93.73)	(30.56)
Excluding Grants	(652.34)	(579.98)	(632.76)	(95.74)	(116.08)	(110.85)

Source: Ministry of Finance, Planning and Economic Development
1/ Includes Net Lending/Repayments, Arrears Repayments and Contingency.
2/ Constitutes Project Support Grants Ushs 41.64 billion and Budget Support grants of Shs38.65 billion.

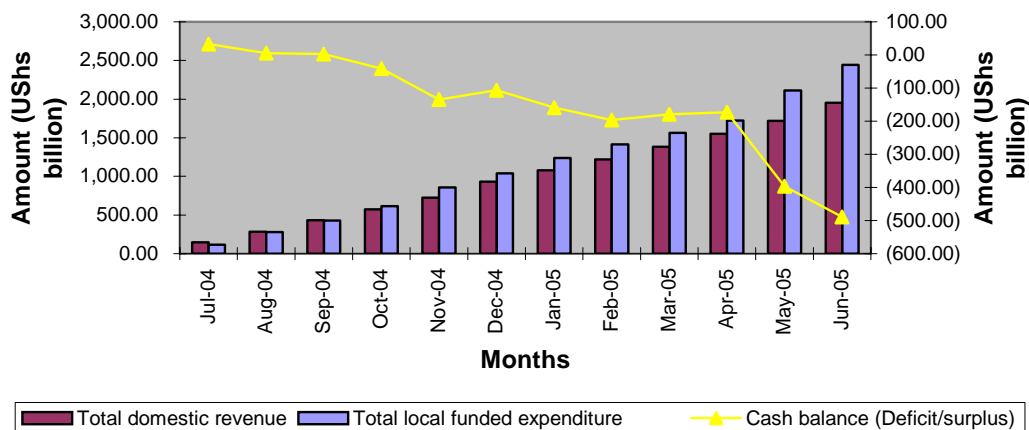
ii) Expenditure

In June 2005, government expenditure and net lending increased by 32.1 percent or Shs84.87 billion to Shs349.14 billion. The increase was mainly on account of development expenditure, which increased by Shs40.88 billion, from Shs56.64 billion in May 2005 to Shs97.52 billion in June 2005. Expenditure on wages and salaries amounted to Shs72.23 billion, which accounted for 30.7 percent of current expenditure. Interest payments increased from Shs17.44 billion to Shs19.55 billion over this period. Out of this amount, Shs3.41 billion was on account of external debt. Other recurrent expenditures during the month amounted to Shs135.10 billion, which was an increase of 16.6 percent or Shs19.22 billion from Shs115.87 billion recorded in the month of May 2005. The outturn in total government expenditure was higher than the projected level for the period by Shs65.94 billion.

iii) Overall Fiscal Balance and Financing

The overall fiscal balance for June 2005 was a deficit of Shs93.73 billion compared to a deficit of Shs62.99 billion recorded in May 2005. Excluding grants, the deficit worsens to Shs116.08 billion. The above budgetary deficit was financed through net domestic borrowing of Shs127.38 billion from domestic sources. The net external financing of the budget amounted to Shs-33.64 billion.

Developments in fiscal operations for Jul 04- Apr 05



G EXCHANGE RATE AND FOREIGN EXCHANGE MARKET

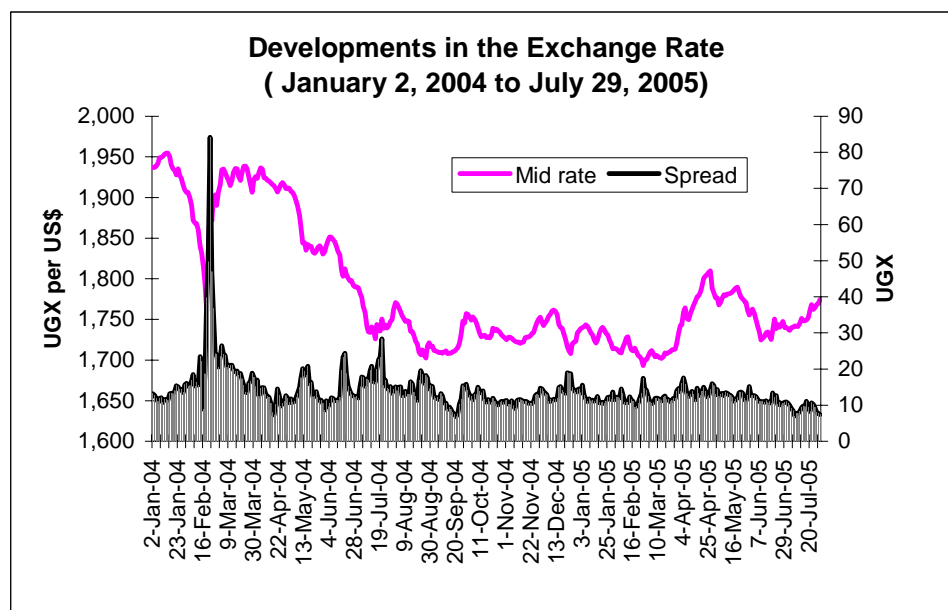
The Uganda Shilling exhibited a depreciation trend during the month of July 2005. On average, the Shilling vis-à-vis the US Dollar depreciated by 0.10 percent on a daily basis within this period. Basing on the end month, the Shilling depreciated by 1.96 percent against the US Dollar from Shs 1740.25 per US Dollar as on the 30th June 2005 to Shs 1774.44 per US Dollar on the 29th July 2005. This is in contrast with the appreciation of 1.28 percent recorded for the previous period from Shs 1762.76 per US dollar as on the 31st May 2005 to Shs 1740.25 per US Dollar as on 30th June 2005.

On a monthly average basis, the Shilling depreciated by 0.79 percent from Shs 1738.32 per US \$ in June, 2005 to Shs 1752.12 per US \$ for July, 2005. The average spreads between the weighted inter-banks' buy and sell rates, reduced from Shs 11.25 during the previous period to Shs 8.97 during the month under review. (See Chart 5)

The shilling depreciated during the month of July 2005 as a result of increased demand coupled with reduced inflows from the big corporate companies, the energy, construction and manufacturing sectors, which became active in the market. Some exporters were reluctant to transact hoping to fetch better prices in the next period.

Commercial banks' daily retail sales and purchases averaged US \$8.48 million and US \$8.00 million respectively during the month under review. When compared to the preceding month, both the average sales and purchases declined by US \$1.0 million and US \$0.9 million respectively from US \$9.49 million sales and US \$8.95 million purchases recorded for the period ended June 30, 2005. There were a number of forwards and swap transactions between the non-bank market participants during the month under review.

BOU maintained its presence in the IFEM under the sterilization-intervention strategy geared at mopping up excess liquidity injected by poverty reduction government expenditures. On a net basis, BOU sold US \$11.00 million, broken down as sterilization total of US \$6.00 million and intervention total on the sale side of US \$5.00 million, during the period under review compared to US \$6.00 million sold during the previous period. Bank of Uganda continues to watch market developments very closely to ensure market stability.



H DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The overall balance of payments is estimated at a deficit of US\$23.4 million in June 2005. The Current Account balance is estimated at a deficit of US\$55.0 million, an improvement from a deficit of US\$ 66.8 million registered in the preceding month. The Capital and Financial account is estimated at a surplus of US\$36.6 million, a deterioration from a surplus of US\$ 49.1 million recorded in the preceding month.

i) Exports

Total Exports (developments for the month of June 2005)

Total export proceeds in the month of June 2005 are estimated at about US\$75.6 million; a slight deterioration of about 3.3 percent, compared to the export earnings of US\$78.1 million recorded in the preceding month.

Coffee Exports

During the month of June 2005 coffee exports amounted to 229 thousand (60-kilogram) bags worth US\$18.1 million. This was an increase of 4.9 percent in volume and an increase of 7.7 percent in value compared to the previous month's exports. The average realized export price for coffee in June increased from US\$ 1.28 per kilogram in May 2005 to US \$ 1.31 per kilogram in June 2005.

Non-coffee Exports

The total value for non-coffee exports for the month of June 2005 was estimated at US\$57.5 million; a 6.3 percent decrease, compared to US\$61.3 million realized in the previous month.

There was a decrease in the estimated earnings for a number of non-coffee exports in June 2005 compared to the previous month. Specifically, export proceeds from simsim, tobacco, cobalt, beans, cotton, flowers gold and oil re-exports decreased by 55.0 percent, 50.5 percent, 38.1 percent, 31.1 percent, 24.0 percent, 17.6 percent, 15.4 percent, and 11.6 percent, respectively. Nonetheless, exports earnings from, hides and skin, fish (both regional and international), and maize increased by 43.7 percent, 16.3 percent, and 11.5 percent, respectively. There were no export earnings from electricity, following the halting of power exports by the Uganda Electricity Transmission Company.

ii) Imports

The total import bill for the month of June 2005 was estimated at US\$142.3 million. Private sector imports were estimated at US\$129.8 million, 3.2 percent higher than the May 2005 private sector import bill. Oil imports values amounted to US\$15.4 million, an increase of about 12.5 percent compared to the oil import bill of May 2005.

Government imports decreased in June 2005, amounting to US\$12.5 million, compared to the US\$13.7 million in the previous month. The Government import bill in June 2005 accounted for approximately 8.8 percent of the total import bill.

iii) Other Inflows and Outflows

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$12.9 million. Net private sector transfer inflows were estimated at US\$9.0 million in June, compared to a net outflow of US\$1.2, which was estimated for the month May 2005. Services and income outflows exceeded inflows by about US\$37.3 million.

Official debt service (excluding IMF payments) for the month of June 2005 was estimated at US\$18.6 million. The IMF principal obligations amounting to US\$7.9 million were externalized during June 2005. Estimates of net trade credit amounted to inflows of US\$0.9 million, consisting of inflows (buyers' credit and suppliers' credit) estimated at US\$19.3 million and outflows (pre-finance shipments and suppliers' credit repayments) estimated at US\$18.4 million.

In June 2005, the level of gross foreign reserves was estimated at US\$1,325.6 million; US\$45.3 million lower than that in the preceding month. This reserve level is estimated to cover 5.9 months of future imports of goods and services.

I POLICY OUTLOOK

In the coming months, Bank of Uganda monetary policy stance will aim at ensuring that inflation remains low and stable. It will also ensure that liquidity management does not cause instability in either the domestic or foreign exchange market.

Appendix Tables:

Appendix 1: Summary of the Treasury bond Auctions

Tenure	2 Years	2 Year reopened	2 Years	2 Year reopened	2 Year reopened	2 Years	2 Year reopened	2 Year reopened	2 Years New Issue	3 Years	3 Year reopened	3 Year reopened	3 Years	3 Years reopened	3 Years reopened	3 Years	3 Years reopened	3 Years	5 Years	5 Years reopened	10 Years
Issue date	Jan 14-04	Jun 03-04	Jun 30-04	Aug 11-04	Sep 08-04	Jan 27-05	Feb 23-05	Mar 23-05	Jun 15-05	Feb 25-04	Jun 16-04	Jul 14-04	Oct 06-04	Nov 03-04	Dec 01-04	Apr 20-05	May 18-05	Jul 27-05	Mar 24-04	Nov 17-04	May 19-04
Maturity Date	Jan 14-06	Jan 14-06	Jun 29-06	Jun 29-06	Jun 29-06	Jan 25-07	Jan 25-07	Jan 25-07	Jun 14-07	Feb 22-07	Feb 22-07	Feb 22-07	Oct 04-07	Oct 04-07	Oct 04-07	Apr 17-08	Apr 17-08	Jul 24-08	Mar 19-09	Mar 19-09	May 08-14
Offers (Bn Shs)	20.000	30.000	30.000	30.000	30.000	30.000	35.000	35.000	20.000	20.000	30.000	30.000	30.000	30.000	30.000	25.000	20.000	25.000	20.000	20.000	15.000
Total Bids (Bn Shs)	36.461	44.188	46.776	40.000	50.526	38.527	45.417	45.846	39.452	44.830	44.811	32.123	43.936	33.431	35.650	39.225	25.566	48.302	41.999	32.227	25.166
O/W Competitive	36.390	44.175	46.774	39.966	50.506	38.458	45.398	45.834	39.431	44.784	44.800	29.989	43.914	33.396	28.687	39.214	25.562	48.260	41.997	12.989	25.154
Over (Under) Sub	16.461	14.188	16.776	10.000	20.526	8.527	10.417	10.846	19.452	24.830	14.811	2.123	13.936	3.431	5.650	14.225	5.566	23.302	21.999	12.227	10.166
Amt Sold (FY)	20.000	30.000	30.000	30.000	30.000	30.000	35.000	35.000	20.000	20.000	30.000	30.000	30.000	30.000	30.000	25.000	20.000	25.000	20.000	20.000	15.000
Amt Sold (Cost Price)	16.603	29.641	28.127	27.892	28.260	27.598	32.797	33.059	18.430	17.564	27.793	27.144	26.187	26.352	25.709	21.656	16.862	21.942	18.518	17.093	12.991
Cover Ratio %	182.305	147.292	155.920	133.336	168.419	128.422	129.764	130.989	197.259	224.149	149.370	107.077	146.380	111.437	111.833	156.900	127.828	193.208	210.000	161.135	167.773
Previous Cover Ratio %	182.305	147.292	155.920	133.336	168.419	128.422	129.764	130.989	...	224.149	149.370	107.077	146.380	111.437	118.833	156.900	127.828	...	210.000	...
WAP per Shs. 100	83.020	98.805	93.758	92.974	94.202	91.993	93.707	94.454	92.152	87.819	92.642	90.482	87.354	87.840	85.698	86.625	84.308	87.769	92.590	85.463	86.608
Previous WAP per Shs. 100	83.020	98.805	93.758	92.974	94.202	91.993	93.707	94.454	...	87.819	92.642	90.482	87.354	87.840	85.698	86.825	84.308	...	92.590	...
YTM %	20.808	13.558	13.672	15.105	15.006	14.769	14.294	14.463	14.669	15.478	15.127	16.802	15.696	15.935	17.554	16.040	17.700	15.501	12.802	16.039	13.477
Previous YTM %	...	20.808	13.558	13.672	15.105	15.006	14.769	14.294	14.463	...	15.478	15.127	16.802	15.696	15.935	17.554	16.040	17.700	...	12.802	...
Coupon Rate	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.000	10.250	10.250	10.250	10.250	10.250	10.250	10.250	10.250	10.250	10.750	10.750	11.000

Source: Compiled from Domestic Financial Markets Department records

Appendix 2:

Monthly Change in Outstanding Loans and Advances of Commercial Banks (Total of local and foreign Currency, billion Shs)

Period	Extensions	Recoveries	Net ext.	Cap interest	Repd cap int	Net Cap int	Net change
	1	2	3=1+2	4	5	6=4+5	7= 3+6
1999/2000	404.75	(311.48)	93.27	30.58	(91.27)	(60.69)	32.58
2000/2001	852.28	(769.56)	82.71	40.98	(71.61)	(30.64)	52.08
2001/2002	928.31	(886.08)	42.23	27.01	(64.65)	(37.64)	4.59
2002/2003							
Q1	271.05	(255.55)	15.50	13.98	(15.89)	(1.91)	13.59
Q2	322.26	(228.74)	93.51	21.69	(17.52)	4.16	97.68
Q3	348.69	(284.65)	64.04	9.48	(9.18)	0.30	64.34
Q4	347.21	(351.54)	(4.33)	14.37	(6.83)	7.54	3.20
2002/2003	1,289.21	(1,120.48)	168.72	59.51	(49.42)	10.09	178.81
2003/2004							
Q1	343.22	(317.19)	26.03	25.07	(15.56)	9.51	35.54
Q2	367.62	(303.38)	64.24	25.63	(16.14)	9.49	73.73
Half 1 2003/04	710.84	(620.57)	90.27	50.70	(31.70)	19.00	109.27
Q3	381.64	(354.20)	27.44	15.16	(7.59)	7.57	35.01
Q4	363.83	(373.38)	(9.55)	20.19	(12.69)	7.50	(2.05)
Half 2 2003/04	951.15	(910.59)	40.56	40.48	(25.36)	15.11	55.67
2003/2004	1,456.31	(1,348.15)	108.17	86.05	(51.98)	34.06	142.23
2004/2005							
July. 2004	124.95	(130.26)	(5.32)	10.16	(3.51)	6.65	1.33
August. 2004	101.95	(124.85)	(22.90)	11.22	(3.99)	7.23	(15.67)
September. 2004	142.95	(132.41)	10.55	14.42	(4.63)	9.79	20.34
Q1	369.67	(387.52)	(17.85)	35.86	(12.23)	23.63	5.79
October. 2004	137.94	(100.73)	37.20	11.83	(8.11)	3.72	40.92
November. 2004	129.20	(121.69)	7.50	10.06	(3.55)	6.50	14.01
December. 2004	186.12	(149.42)	36.70	13.82	(12.14)	1.67	38.38
Q2	453.26	(371.85)	81.41	35.70	(23.80)	11.90	93.31
Half 1 2004/05	826.23	(761.82)	64.40	71.56	(36.03)	35.53	99.94
January 2005	150.71	(134.33)	16.38	10.13	(8.80)	1.34	17.72
February 2005	133.78	(134.78)	(1.00)	9.21	(9.51)	(0.30)	(1.30)
March 2005	78.33	(64.71)	13.62	9.56	(4.87)	4.68	18.30
Q3	420.58	(386.31)	34.27	31.87	(25.86)	6.02	40.29
April 2005	151.36	(138.49)	12.86	11.08	(4.12)	6.96	19.82
May 2005	139.73	(128.71)	11.02	9.31	(8.53)	0.78	11.80
June 2005	175.30	(128.07)	47.23	28.17	(6.21)	21.97	69.20
Q4	466.38	(395.28)	71.11	48.57	(18.85)	29.72	100.82
Half 2 2004/2005	886.96	(781.58)	105.38	80.44	(44.71)	35.73	141.11
2004/2005	1,713.19	(1,533.27)	179.91	152.00	(80.74)	71.27	251.18

Source: Research Department, Bank of Uganda

**Appendix 3 :Monthly Change in Outstanding Loans and Advances of Commercial Banks
(Shilling loans, billion Shs)**

Period	Extensions	Recoveries	Net extensions	Cap interest	Repd cap int	Net Cap int	Net change
	1	2	3=1+2	4	5	6=4+5	7= 3+6
1999/2000	309.57	(257.58)	51.99	21.91	(65.28)	(43.37)	8.62
2000/2001	602.42	(553.62)	48.80	32.75	(59.58)	(26.83)	21.97
2001/2002	698.57	(693.31)	5.26	22.65	(54.96)	(32.31)	(27.05)
2002/2003							
Q1	196.42	(181.95)	14.47	12.56	(13.18)	(0.62)	13.85
Q2	229.36	(172.61)	56.75	19.35	(15.86)	3.49	60.24
Q3	222.02	(183.05)	38.97	8.01	(8.44)	(0.43)	38.54
Q4	239.84	(215.38)	24.46	11.95	(5.63)	6.31	30.78
2002/2003	887.64	(753.00)	134.65	51.87	(43.11)	8.76	143.41
2003/2004							
Q1	234.28	(222.12)	12.16	22.96	(13.37)	9.59	21.75
Q2	270.88	(215.44)	55.44	22.61	(13.25)	9.36	64.80
Half 1 2003/04	505.16	(437.56)	67.61	45.57	(26.62)	18.95	86.55
Q3	248.82	(229.44)	19.38	12.42	(6.11)	6.30	25.69
Q4	230.71	(230.53)	0.18	17.51	(10.99)	6.52	6.70
Half 2 2003/2004	479.53	(459.96)	19.56	29.92	(17.10)	12.82	32.38
2003/2004	984.69	(897.52)	87.17	75.49	(43.72)	31.77	118.94
2004/2005							
July. 2004	91.22	(93.84)	(2.63)	8.46	(2.92)	5.53	2.91
August. 2004	75.68	(87.36)	(11.69)	8.85	(3.64)	5.20	(6.48)
September. 2004	92.67	(92.66)	0.02	12.54	(3.99)	8.55	8.57
Q1	259.39	(273.87)	(14.47)	29.91	(10.65)	19.26	4.79
October. 2004	89.31	(67.61)	21.70	10.55	(6.10)	4.45	26.15
November. 2004	77.37	(79.62)	(2.25)	8.62	(2.50)	6.11	3.87
December. 2004	116.94	(99.04)	17.89	8.50	(11.60)	(3.10)	14.79
Q1	283.62	(246.27)	37.35	27.66	(20.20)	7.46	44.81
Half 1 2004/05	543.79	(520.22)	23.58	57.57	(30.85)	26.72	50.30
January 2005	92.63	(76.73)	15.90	5.72	(8.15)	(2.44)	13.46
February 2005	71.72	(73.70)	(1.98)	5.00	(9.15)	(4.15)	(6.12)
March 2005	78.33	(64.71)	13.62	9.56	(4.87)	4.68	18.30
Q3	242.69	(215.14)	27.54	20.28	(22.18)	(1.90)	25.64
April 2005	85.22	(79.63)	5.59	8.34	(1.69)	6.65	12.24
May 2005	94.72	(83.27)	11.45	6.60	(6.80)	(0.20)	11.25
June 2005	106.11	(71.20)	34.91	5.85	(4.74)	1.11	36.02
Q4	286.05	(234.09)	51.96	20.78	(13.22)	7.56	59.52
Half 2 2004/05	528.73	(449.23)	79.50	41.06	(35.40)	5.66	85.16
2004/2005	1,072.53	(960.22)	112.31	98.63	(66.25)	32.38	144.69

Source: Research Department, Bank of Uganda

Appendix 4: Monthly Change in outstanding loans and advances of Commercial banks (Foreign Currency, billion Shs)

Period	Extensions	Recoveries	Net extensions	Cap interest	Repd cap int	Net Cap int	Net change
	1	2	3=1+2	4	5	6=4+5	7= 3+6
1999/2000	95.19	(54.30)	40.89	8.71	(26.04)	(17.33)	23.55
2000/2001	249.86	(215.95)	33.91	8.23	(12.03)	(3.80)	30.11
2001/2002	229.74	(192.77)	36.97	4.36	(9.69)	(5.33)	31.64
2002/2003							
Q1	74.63	(73.60)	1.03	1.42	(2.71)	(1.29)	(0.27)
Q2	92.90	(56.13)	36.77	2.34	(1.67)	0.67	37.44
Q3	126.67	(101.60)	25.07	1.47	(0.74)	0.73	25.80
Q4	107.36	(136.16)	(28.80)	2.42	(1.19)	1.22	(27.57)
2002/2003	401.56	(367.49)	34.07	7.65	(6.31)	1.33	35.41
2003/2004							
Q1	108.93	(95.06)	13.87	2.11	(2.19)	(0.08)	13.79
Q2	96.74	(87.95)	8.8	3.03	(2.90)	0.13	8.93
Half 1 2003/04	205.68	(183.01)	22.67	5.13	(5.08)	0.05	22.72
January 2004	42.90	(44.20)	(1.30)	0.75	(0.49)	0.27	(1.03)
Feb. 2004	40.32	(38.36)	1.96	1.37	(0.42)	0.95	2.91
Mar. 2004	49.60	(42.21)	7.40	0.62	(0.57)	0.05	7.44
Q3	132.82	(124.76)	8.06	2.74	(1.47)	1.26	9.32
April 2004	34.13	(29.44)	4.69	1.04	(0.67)	0.38	5.07
May 2004	45.70	(45.81)	(0.11)	0.65	(0.52)	0.13	0.02
June 2004	53.30	(67.60)	(14.30)	0.99	(0.52)	0.47	(13.83)
Q4	133.13	(142.85)	(9.73)	2.68	(1.70)	0.98	(8.75)
Half 2 2003/04	265.95	(267.62)	(1.67)	5.42	(3.18)	2.24	0.57
2003/2004	471.62	(450.63)	21.00	10.55	(8.26)	2.29	23.29
2004/2005							
July 2004	33.73	(36.42)	(2.69)	1.70	(0.59)	1.11	(1.58)
August 2004	26.27	(37.49)	(11.22)	2.37	(0.34)	2.03	(9.19)
September 2004	50.28	(39.75)	10.53	1.88	(0.64)	1.24	11.77
Q1	110.28	(113.66)	(3.37)	5.95	(1.57)	4.37	1.00
October 2004	48.63	(33.13)	15.51	1.28	(2.01)	(0.73)	14.78
November 2004	51.82	(42.08)	9.75	1.44	(1.05)	0.39	10.14
December 2004	69.19	(50.38)	18.81	5.32	(0.55)	4.77	23.58
Q1	169.64	(125.58)	44.06	8.04	(3.60)	4.44	48.50
Half 1 2004/05	282.43	(241.61)	40.83	13.99	(5.18)	8.81	49.64
January 2005	58.08	(57.60)	0.48	4.42	(0.64)	3.77	4.26
February 2005	62.06	(61.08)	0.97	4.21	(0.36)	3.85	4.82
March 2005	136.08	(117.19)	18.89	12.53	(7.55)	4.98	23.87
Q3	420.58	(386.31)	34.27	31.87	(25.86)	6.02	40.29
April 2005	66.14	(58.87)	7.27	2.74	(2.43)	0.31	7.58
May 2005	45.01	(45.44)	(0.44)	2.72	(1.73)	0.99	0.55
June 2005	69.19	(56.87)	12.32	22.32	(1.46)	20.86	33.18
Q4	180.34	(161.19)	19.15	27.78	(5.63)	22.16	41.31
HALF 2 2004/2005	358.23	(332.35)	25.88	39.38	(9.31)	30.07	55.95
2004/2005	640.66	(573.06)	67.60	53.37	(14.48)	38.89	106.49

Source: Research Department, Bank of Uganda

Appendix 5: Mid Exchange Rate in the IFEM, Spreads, Commercial Banks' Purchases and Sales.

II.

Date	Mid rate UGX/US\$	Spread UGX	Purchases Million US\$	Sales Million US\$
1-Jun-05	1756.94	12.67	11.36	8.13
2-Jun-05	1748.59	12.31	10.12	13.59
6-Jun-05	1742.06	11.61	10.18	11.57
7-Jun-05	1733.79	10.99	11.26	9.95
8-Jun-05	1724.75	10.99	12.37	16.09
10-Jun-05	1726.82	10.99	8.47	10.38
13-Jun-05	1729.32	10.80	11.28	9.91
14-Jun-05	1733.45	11.27	7.52	9.42
15-Jun-05	1734.69	10.65	6.89	9.30
16-Jun-05	1729.81	10.86	6.00	8.47
17-Jun-05	1725.49	10.58	6.96	7.86
20-Jun-05	1735.99	13.37	7.56	5.24
21-Jun-05	1750.64	12.05	9.88	7.95
22-Jun-05	1738.52	12.61	8.56	6.97
23-Jun-05	1743.69	10.12	7.26	11.71
24-Jun-05	1740.46	10.69	9.69	9.38
27-Jun-05	1743.81	10.05	10.69	8.33
28-Jun-05	1747.64	10.57	7.85	7.28
29-Jun-05	1739.73	10.82	6.89	9.62
30-Jun-05	1740.25	10.92	8.14	8.66
1-Jul-05	1738.25	10.57	7.73	8.69
4-Jul-05	1736.24	9.97	9.54	8.29
5-Jul-05	1739.82	9.04	6.81	10.42
6-Jul-05	1740.42	8.51	7.37	12.01
7-Jul-05	1742.09	6.95	7.46	7.08
8-Jul-05	1741.50	7.69	11.34	9.81
11-Jul-05	1741.08	7.63	6.30	7.86
12-Jul-05	1745.14	8.33	10.05	6.41
13-Jul-05	1751.09	9.29	8.40	7.00
14-Jul-05	1748.42	9.77	6.72	8.82
15-Jul-05	1748.33	9.56	6.11	10.09
18-Jul-05	1749.52	11.09	8.41	6.53
19-Jul-05	1751.45	9.37	5.91	5.42
20-Jul-05	1761.97	8.27	7.08	8.37
21-Jul-05	1768.35	10.65	5.24	7.47
22-Jul-05	1762.41	10.23	5.63	9.69
25-Jul-05	1764.13	9.40	8.92	6.21
26-Jul-05	1768.04	7.98	9.42	14.09
27-Jul-05	1769.83	7.62	11.05	7.96
29-Jul-05	1774.44	7.43	10.57	7.33

Compiled by BOU

Appendix 6:EXPORTS OF MERCHANDISE (in millions of US\$)

	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Total Exports	62.66	67.12	73.16	77.26	78.11	75.55
1. Coffee						
Gross coffee shipment, million (60-Kg) bags	0.21	0.21	0.20	0.21	0.22	0.23
Av. unit value	0.90	0.96	1.19	1.21	1.28	1.31
Value of total shipment (BOP)	11.45	12.39	13.93	15.35	16.78	18.07
2. Non-Coffee exports	51.21	54.73	59.23	61.92	61.33	57.48
Electricity	1.02	0.27	0.24	-	-	-
Gold	2.27	3.38	3.92	6.70	8.24	6.97
Cotton	4.30	7.29	6.82	6.46	5.64	4.29
Tea	2.96	1.94	1.75	3.93	2.94	3.02
Tobacco	4.23	4.25	2.58	3.40	2.73	1.35
Fish & its prod.(excl. regional)	10.34	10.07	12.65	11.67	10.95	12.73
Fish & its prod.(regional exports)	3.41	3.32	4.17	3.85	3.61	4.20
Hides & skins	0.67	0.39	0.37	0.98	0.57	0.82
Simsim	0.19	0.41	0.87	0.73	0.43	0.19
Maize	1.73	1.23	0.49	1.31	1.16	1.29
Beans	0.63	0.26	0.10	0.28	0.81	0.56
Flowers	2.11	3.10	2.95	3.08	3.42	2.81
Oil re-exports	2.98	3.65	3.23	2.30	2.81	2.49
Cobalt	1.03	1.04	1.12	0.54	1.65	1.02
Others	13.33	14.14	17.97	16.69	16.39	15.74

Source: Bank of Uganda

Appendix 7:IMPORTS OF MERCHANDISE (in millions of US\$)

	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Total Imports	133.81	130.55	123.67	141.40	139.53	142.31
Government Imports	11.27	11.54	12.44	12.82	13.70	12.48
Project	8.21	5.64	9.69	9.82	6.76	10.52
Non-Project	3.06	5.90	2.75	3.00	6.94	1.96
Private Sector Imports	122.54	119.00	111.23	128.58	125.83	129.84
Oil imports	12.57	12.62	14.57	15.04	13.65	15.36
Non-oil imports	109.96	106.38	96.67	113.53	112.18	114.48

Source: Bank of Uganda

Note: All import figures are reported at f.o.b value.