



MONTHLY ECONOMIC REVIEW

**MARCH
2007**

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EXECUTIVE SUMMARY

Monetary Policy Stance and Actions:

Monetary policy remained focused on ensuring price stability and overall macroeconomic stability. To achieve this, BOU's monetary policy operations ensured 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 February 28, 2007 suggests that:

- Total treasury bill issues of Shs. 78.5 billion valued at cost were marginally offset by treasury bill maturities of Shs. 79.6 billion leading to a net injection of liquidity of Shs. 1.1 billion, contrasting with the net withdrawal of Shs. 19.7 billion that was observed in the previous four-week period to January 31, 2007.
- In a continuous effort to promote the development of financial markets alongside the conduct of monetary policy, Bank of Uganda reopened a 2-year bond on February 07, 2007 with a face value of Shs. 30.0 billion.
- On the short-term liquidity management front, gross issues of the REPO instrument, whose tenors ranged from 3 to 11 days, amounted to Shs. 411.0 billion during this period, against maturities of Shs. 311.1 billion. This is compared to issues and maturities of Shs. 155.0 billion and Shs. 105.6 billion, respectively over the preceding period ended January 31, 2007. By February 28, 2007, the outstanding stock of REPOs was Shs. 165.6 billion.

Inflation Developments:

- Inflationary pressures continued to ease during the year ended February 2007. Annual headline inflation as measured by the change in Consumer Price Index (CPI) fell by 2.3 percentage points to 6.6 percent in February 2007, attributed mainly to annual decline in average prices of food crop items particularly milk, tomatoes, and sweet potatoes.
- The annual underlying inflation went down to 8.3 percent from 8.9 percent in the year ended January 2007. The decline was attributed mainly to decreases in prices of services during the year ended February 2007. Services inflation fell to 6.4 percent from 7.8 percent in January 2007, caused by easing cost of boarding secondary school fees and theatre admission fees during the year ended February 2007. The decline in underlying inflation was supplemented by a moderate drop in goods inflation that fell to 9.3 percent from 9.4 percent in January 2007 on account of downward movement in prices of petrol, women's leather shoes, and the slower rise in sugar.
- The annual food crop inflation¹ decreased to 0.7 percent from 8.1 percent in the year ended January 2007, attributed to reduction in prices of most food crop items particularly milk, staples, fruits, and vegetables following their increased supply. On the same note, the monthly food crop inflation fell to -7.2 percent, down from -3.9 percent in January 2007. However, increased demand from schools during the reopening of the new term and

¹ Food crops includes fresh food crop items and related products such as milk and flour.

Southern Sudan for some selected food items like beans, rice, and maize partly mitigated the decline in food crop inflation.

Real Sector Developments

- Significant trading activity was recorded at the Uganda Securities Exchange (USE) in February 2007, although the values of this activity fell below those of January 2007 on account of the listing of Stanbic Bank Uganda Limited (SBUL), which took place in January 2007. In February 2007, total turnover at the USE dropped compared to January 2007, while the number of shares traded rose in the same period.
- In the month of January 2007, the number of Umeme Limited live customers rose both on monthly and annual basis. Similarly, UMEME Limited purchases and sales of electricity also raised both on monthly and annual basis. The increase in purchases from UETCL may be attributed to the additional thermal generators that reached full capacity in December 2006.

Domestic Securities and Money Market Developments:

Bank of Uganda reopened a 2-year bond on February 07, 2007. The Shs. 30.0 billion issue was over subscribed by Shs. 24.3 billion and realized a cover ratio of 1.8. At a weighted average price of 96.7 per Shs. 100, the resultant yield for the 10.0 percent coupon bond was 13.0 percent, compared to 14.0 percent for the 2-year bond that was reopened on January 10, 2007. This auction brought the total outstanding stock of treasury bonds to Shs. 826.1 billion by end of February 2007. All issues in the market so far are listed on the Uganda Securities Exchange.

- Average indicative bid/offer yields-to-maturity in the secondary market were quoted at 12.7/12.4 percent, 12.6/12.4 percent, 14.0/13.7 percent, and 15.6/15.3 percent for the 2-year, 3-year, 5-year, and 10-year bonds, respectively. These rates were relatively stable when compared to the respective average yields-to-maturity in the previous four-week period ended January 31, 2007.
- Two calendar Treasury bill auctions, with offers of Shs. 45.0 billion and Shs. 55.0 billion, were held in the month of February 2007 and were over-subscribed. The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at at 9.9 percent, 12.0 percent and 12.4 percent for the auction of February 28, 2007. This compares to the respective 10.7 percent, 12.7 percent and 12.4 percent recorded in the auction held on January 31, 2007. The average discount rates on Treasury bills in February 2007 were higher than those registered in February 2006 which ranged between 7.5, and 9.1 percent.
- Despite the marginal fall in interest rates in the primary market within the month, the average bid/offer yields-to-maturity in the secondary market for the 91- day, 182-day, and the 364-day treasury bills increased to 9.9/9.7 percent, 11.2/10.9 percent, and 12.2/11.9 percent from the respective average rates reported in January 2007 of 9.7/9.5 percent, 11.0/10.8 percent, and 12.1/11.8 percent.
- The yield curve, based on the monthly average indicative yield-to-maturity bid and offer quotations in the secondary market, was gently upward sloping throughout the maturity profile of securities, becoming almost flat between the 2-year and 3-year papers.

Inter Bank activity and weighted average lending and deposit rates

- Total volume of transactions in the domestic inter-bank money market (i.e. transactions of not more than 30 days in tenor) for the four weeks ended February 28, 2007 declined to Shs. 406.9 billion at a weighted average rate of 8.1 percent from Shs. 483.9 billion recorded in January 2007 at a weighted average rate of 9.9 percent. The overnight transactions were

the most dominant accounting for 36.1 percent at a weighted rate of 8.40 percent. All the commercial banks participated in the inter bank market during the four weeks.

- The weighted prime-lending rate for all commercial banks were stable at 18.7 as reported for December 2006. However, there were no changes in the number of commercial banks charging rates for the various range categorizations. The range of these rates for the entire industry also remained at 16-21 percent.
- Information on the commercial banks' effective lending and deposit rates is available up to January 2007. There was stability in the shilling effective lending rate marginally increasing from 18.91 percent to 18.93 percent while the effective lending rate for the dollar denominated loans rose from 9.23 percent to 10.45 percent in the month under review.
- The shilling demand and saving weighted average deposit rates that were 1.14 percent and 2.02 percent increased to 1.26 percent and 2.17 percent, respectively however, the time weighted average deposit rate declined from 9.12 percent to 8.80 percent. In the same period, the dollar denominated weighted average demand and saving deposits rates increased from 1.16 percent and 1.53 percent to 1.21 percent and 1.54 percent respectively while the time deposit rate declined from 5.25 percent to 5.04 percent in the month under review.

Monetary Aggregates

- Broad Money M3, which comprises currency in circulation plus all private sectors' deposits, rose slightly by 0.9 percent to Shs 3,657.7 billion. This is compared to a decline in M3 of 0.2 percent registered in December 2006. From end-June through January 2007, M3 grew by 11.8 percent.
- M2A, comprising of M3 less foreign currency deposits of the private sector dipped by 0.7 percent to Shs. 2,810.6 billion in January 2007, compared to the 0.9 percent growth registered in December 2007. M2A has grown by 9.6 percent since end-June 2006.
- Net Foreign Assets (NFA) of the banking system rose by 1.5 percent to Shs. 3,830.7 billion. In particular, NFA at BoU grew by 1.6 percent to Shs 3,196.5 billion. At commercial banks, NFA rose by 0.9 percent or Shs 5.6 billion to Shs 634.2 billion. Foreign reserves at BoU grew by an equivalent of Shs. 49.3 billion compared to a rise of Shs.237.8 billion in the previous month.
- The government's net position with the banking system (NCG) as at end-January 2007 was a saving of Shs. 491.3 billion, compared to a saving of Shs. 528.9 billion at the end of December 2006. This represents a rise in NCG of Shs 37.7 billion. At BoU, net claims on government rose by Shs 16.6 billion over the month on account of a decline in Government deposits of Shs 124.5 billion, which more than offset a dip in Advances to Government of Shs. 107.9 billion. At commercial banks, the Central Government's position worsened by Shs 21.1 billion in January 2007, on account of a decline in Government deposits of Shs. 24.5 billion, which more than offset a decline in commercial banks' investment in Government securities of Shs 3.4 billion.

- The stock of outstanding credit to the private sector by the banking system stood at Shs. 1,743.6 billion, of which Shs 18.9 billion was from BOU and Shs 1,724.7 billion was from commercial banks. This represents a rise of 1.5 percent during the month of January 2007. In comparison, PSC increased by 4.9 percent during the month of December 2006.
- The total (shilling and foreign currency) gross extensions of credit stood at Shs. 284.2 billion, while recoveries were lower at Shs. 267.6 billion, yielding net extensions of Shs. 16.7 billion. After accounting for flows in capitalised interest, there was an increase in the stock of credit of about Shs14.9 billion.
- On the liabilities side, foreign currency accounts at commercial banks rose by an equivalent of 6.6 percent to Shs 847.0 billion in January 2007. In US dollars, foreign currency accounts rose by US\$25.0 million to US\$481.4 million. Demand deposits grew by 4.0 percent to Shs. 1044.2 billion, while term deposits (time, savings and CDs) fell by 5.1 percent to Shs. 892.9 billion as at end-January 2007. Currency in circulation (CIC) fell by 1.4 percent to Shs873.6 billion. Reflecting these developments, the ratio of foreign currency deposits to M3 rose to 23.2 percent from 21.9 percent at end-December 2006. The ratio of CIC to M3 fell to 23.9 percent from 24.4 percent; the ratio of demand deposits to M3 rose to 28.5 percent from 27.7 percent, while that of term deposits to M3 fell to 24.4 percent from 26.0 percent.

Non-Bank Financial Institutions (NBFIs) Activities

- Total assets of the Credit Institutions (CIs) declined by 0.6 percent from Shs. 238.6 billion at the end of December 2006 to Shs. 237.3 billion in January 2007. The decrease in assets was mainly on account of a decrease in investments by the Credit Institutions.
- The stock of outstanding loans and advances to the private sector increased by 1.4 percent to Shs. 156.0 billion as at end-January 2007. Mortgage loans, which accounted for 59.7 percent of total loans, grew by 1.6 percent to Shs. 93.2 billion, while secured and unsecured loans grew by 3.6 percent to Shs. 43.5 billion at the end of January 2007. The building and construction sector accounted for the largest share (72.3 percent) of total CIs advances as at end-January 2007.
- Savings deposits and Time deposits declined by 1.4 and 1.0 percent to Shs. 79.9 billion and Shs. 25.2 billion, respectively. Agency funds (funds collected on behalf of government from beneficiaries of the government's pool house sale scheme) went up by 2.5 percent to Shs. 34.9 billion.
- Total assets held by Micro Finance Deposit Taking Institutions (MDIs) stood at Shs. 120.6 billion, representing a decline of Shs. 7.9 billion or 6.2 percent from Shs. 128.6 billion in December 2006. This was mainly on account of a decrease in MDI investments in Tbills.
- MDI's stock of outstanding loans to the private sector declined marginally by 0.4 percent to Shs. 79.2 billion over the period under review. The Trade and Commerce sector, continued to hold the largest share of the MDIs' loans at 81.4 percent.
- MDI's holdings of Savings and Time deposits remained stable at Shs. 20.3 billion and Shs. 2.8 billion, respectively. Over the period, loan insurance funds grew by 1.2 percent to Shs.

15.5 billion. Total borrowings of the MDIs fell increased from Shs. 41.3 billion to Shs. 30.0 billion

Balance of Payments Developments:

- In January 2007, the current account balance was estimated at a surplus of US\$64.1 million, while the capital and financial account was estimated at a surplus of US\$50.1 million. As a result, the overall balance was estimated at a deficit of US\$14.0 million.
- Total export earnings increased to US\$118.9 million in January 2007; of which coffee export earnings accounted for 23.9 percent.
- The import bill² (fob) was estimated at US\$ 227.3 million during January 2007 compared to the US\$194.6 million, which was recorded for the previous month. This is mainly on account of traders stepped up their merchandise stocks for the new year.
- Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$5.73 million. Private transfer inflows exceeded outflows by US\$133.64 million in January 2007, and services and income outflows exceeded inflows by about US\$94.0 million.
- Official cash debt service (excluding IMF payments) was estimated at US\$4.6 million for the month of January 2007. There were no IMF principal payments during the month under review.
- Official foreign reserves (including valuation changes) were estimated at US\$1,810.5 million in January 2007, equivalent to 6.8 future months of imports of goods and services.

Developments in the Foreign Exchange Market:

- The Uganda shilling appreciated against the US dollar in February 2007. On average, the exchange rate appreciated by 0.1 percent on a daily basis. On a monthly average basis, the shilling gained Shs. 40.6 against the US dollar from a mid-rate of Shs. 1,792.3 per US dollar in January to Shs. 1,751.7 per US dollar in February 2007.
- Bank of Uganda (BoU) intervened twice in the inter-bank foreign exchange market (IFEM) to stem sharp appreciation pressures, which had firmed towards the end of February 2007; and maintained sales of foreign exchange for liquidity sterilization.

² Effective August 2004, import values are reported f.o.b.

ECONOMIC AND MONETARY DEVELOPMENTS

As at February 28, 2007

A. MONETARY POLICY STANCE AND ACTIONS

Bank of Uganda (BOU)'s monetary policy is focused on containing inflation at low and stable 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/Reverse Repos) as a fine-tuning instrument in order to smooth out unexpected 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. BOU only intervenes in the inter-bank foreign exchange market (IFEM) to curb instability.

In the four weeks to February 28, 2007, total treasury bill issues of Shs. 78.5 billion (at cost) were marginally offset by treasury bill maturities of Shs. 79.6 billion leading to a net injection of liquidity of Shs. 1.1 billion, contrasting with the net withdrawal of Shs. 19.7 billion that was observed in the previous four-week period to January 31, 2007. In a continuous effort to promote the development of financial markets alongside the conduct of monetary policy, Bank of Uganda reopened a 2-year bond on February 07, 2007 with a face value of Shs. 30.0 billion. On the short-term liquidity management front, gross issues of the REPO instrument, whose tenors ranged from 3 to 11 days, amounted to Shs. 411.0 billion during this period, against maturities of Shs. 311.1 billion. This is compared to issues and maturities of Shs. 155.0 billion and Shs. 105.6 billion, respectively over the preceding period ended January 31, 2007. By February 28, 2007, the outstanding stock of REPOs was Shs. 165.6 billion.

B. DOMESTIC PRICE DEVELOPMENTS

Inflationary pressures continued to ease during the year ended February 2007. Annual headline inflation as measured by the change in Consumer Price Index (CPI) fell by 2.3 percentage points to 6.6 percent in February 2007, attributed mainly to annual decline in average prices of food crop items particularly milk, tomatoes, and sweet potatoes.

By commodity group, the annual food inflation dropped to 8.0 percent from 12.1 percent in the year ended January 2007, caused by the decline in prices of milk, and most fruits and vegetables; the Rent, fuel, and utilities inflation declined to 14.1 percent in February 2007 from 15.5 percent registered in January 2007 attributed to the decrease in the average price of paraffin and the cost of rent for Grass thatched house; the Household and personal goods inflation declined to 7.3 percent, down from 8.2 percent in January 2007 following the drop in the price of blankets, bath soap, and textile; the Transport and communication inflation went down marginally to 5.3 percent from 5.6 percent in January 2007 due to the decline in the average prices of petrol and taxi fares(long distance) while, the Health, education, and entertainment inflation dropped to 0.5 percent from 2.8

percent in January 2007 on account of lower boarding school fees(secondary), drugs, uniform during the year ended February 2007.

The above decreases was partly mitigated by increases in the following categories: the Beverages and tobacco inflation which rose to 0.5 percent from -0.1 percent in January 2007 due to higher prices of beer and waragi; and the Clothing and footwear inflation that increased to 2.5 percent from 1.5 percent in the year ended January 2007, caused by the rise in the cost of second hand clothing.

The month-on-month headline inflation dropped further to -1.7 percent, down from -0.7 percent in January 2007, due to the drop in prices of matooke, soda, and sweet potatoes, among others.

The annual underlying inflation³ went down to 8.3 percent from 8.9 percent in the year ended January 2007. The decline was attributed mainly to decreases in prices of services during the year ended February 2007. Services inflation fell to 6.4 percent from 7.8 percent in January 2007, caused by easing cost of boarding secondary school fees and theatre admission fees during the year ended February 2007. The decline in underlying inflation was supplemented by a moderate drop in goods inflation that fell to 9.3 percent from 9.4 percent in January 2007 on account of downward movement in prices of petrol, women’s leather shoes, and the slower rise in sugar.

The month-on-month underlying inflation declined to 0.0 percent from 0.2 percent in January 2007. Decreases in average prices of soda, sugar, taxi fares, and theatre admission during the month of February 2007 helped bring down monthly underlying inflation.

The annual food crop inflation⁴ decreased to 0.7 percent from 8.1 percent in the year ended January 2007, attributed to reduction in prices of most food crop items particularly milk, staples, fruits, and vegetables following their increased supply. On the same note, the monthly food crop inflation fell to -7.2 percent, down from -3.9 percent in January 2007. However, increased demand from schools during the reopening of the new term and Southern Sudan for some selected food items like beans, rice, and maize partly mitigated the decline in food crop inflation. The above inflationary developments are depicted in Tables 1 and 2, and Charts 1 and 2 below.

Table 1: Inflation Developments across different Groups: December 2006-January 2007

Groups	Weights	Annual Changes (%)			Monthly Changes (%)		
		Dec-06	Jan-07	Feb-07	Dec-06	Jan-07	Feb-07
Food	45.2	18.2	12.1	8.0	2.4	-2.9	-3.5
Beverages & Tobacco	8.6	1.7	-0.1	0.5	0.1	2.0	-1.6
Clothing & Footwear	5.5	2.3	1.5	2.5	0.4	0.3	0.5
Rent, Fuel & Utilities	14.1	12.1	15.5	14.1	0.4	2.9	0.3
Household & Personal goods	5.3	8.8	8.2	7.3	-0.7	0.5	0.9
Transport & Communication	6.7	6.1	5.6	5.3	1.5	-0.9	0.0
Health, Educ & Entertainment	14.6	3.0	2.8	0.5	0.7	0.0	-0.6

Source: Computed from Uganda Bureau of Statistics data

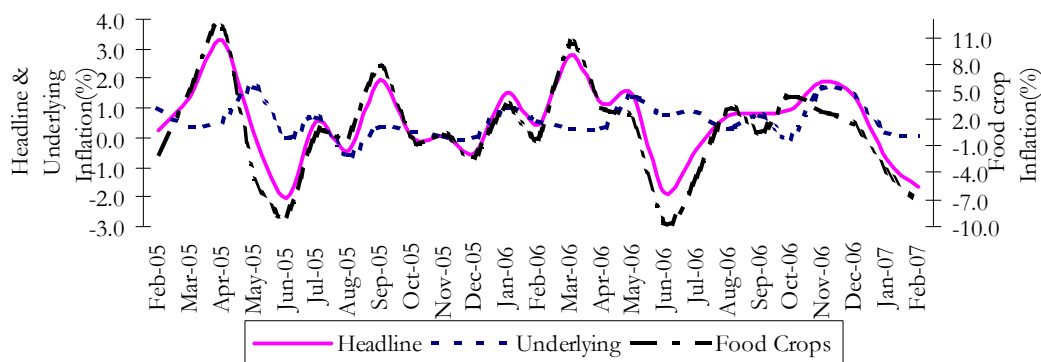
³ Underlying Inflation excludes food crops.

⁴ Food crops includes fresh food crop items and related products such as milk and flour.

Table 2. Developments in Inflation by different measures: December 2006-January 2007

Period	Headline Inflation (%)		Underlying Inflation (%)		Food Crops Inflation (%)	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
December 2006	1.4	11.3	1.4	9.8	1.4	16.3
January 2007	-0.7	8.9	0.2	8.9	-3.9	8.1
February 2007	-1.7	6.6	0.0	8.3	-7.2	0.9

Source: Uganda Bureau of Statistics

Chart 2: Monthly Inflation developments: February 2005-2007

Source: Uganda Bureau of Statistics

C. REAL SECTOR DEVELOPMENTS

This report highlights developments in the Finance, Energy and Industrial sectors, using the latest available data on: activity at the Uganda Securities Exchange (USE), Leasing, Electricity, Fuel consumption and Industrial production, in the month of February 2007.

1.0 Finance Sector

1.1 Uganda Securities Exchange (USE)

Significant trading activity was recorded at the Uganda Securities Exchange (USE) in February 2007, although the values of this activity fell below those of January 2007 on account of the listing of Stanbic Bank Uganda Limited (SBUL), which took place in January 2007. In February 2007, total turnover at the USE dropped by 33.3 percent to Shs 5.5 billion from to Shs 8.3 billion recorded in January 2007. Compared to February 2006, total turnover rose significantly by 38.3 percent as indicated in the Table 3 below.

The number of shares traded however rose by 0.9 percent between January and February 2007.

In February 2007, trading was dominated by SBUL, which recorded trades on every trading day at the USE and accounted for 84.2 percent of turnover recorded. SBUL was followed by DFCU with a turnover share of 13.6 percent.

Consequent to the decline in the average trading price, market capitalisation of the USE also declined in February 2007. The fall in the average price may be attributed to the falling prices at all the three cross-listed equity counters. Average prices for EABL, KA and JHL equities dropped by 10 percent in February 2007 compared to January 2007. The USE All-Share Index rose by 2.6 percent and 29.1 percent on monthly and annual basis, respectively, in the period under review.

Table 3: Trading at Uganda Securities Exchange: February 2006 – February 2007.

	Feb-06	Jan-07	Feb-07	Annual Monthly	
				% Change	% Change
Turnover (Ushs)	3,997,014,605	8,290,688,715	5,528,899,330	38.33%	-33.31%
Number of Shares traded	2,541,654	36,060,360	36,374,066	1331.12%	0.87%
Market Capitalisation (Bn Ushs)	3617.15	5257.69	4990.53	37.97%	-5.08%
Average trading price (Ushs)	3,394.80	2,239.85	2,154.71	-36.53%	-3.80%
USE-All Share Index	724.64	911.21	935.21	29.06%	2.63%

Source: Uganda Securities Exchange

2.0 Energy Sector

2.1 Energy Consumption

In the month of January 2007, the number of live customers rose by 0.5 percent on a monthly basis, and by 1.6 percent on annual basis.

UMEME Limited purchases of electricity from Uganda Electricity Transmission Company Limited (UETCL) increased by 5 percent in January 2007 compared to December 2006, and the by 1.5 percent when compared to January 2006. Similarly, the consumption of electricity indicated by energy billings in GWH increased by 10.8 percent compared to December 2006 and by 5 percent compared to January 2006.

The increase in purchases from UETCL reflects an increase in the amount available to UETCL to supply, which may be attributed to additional thermal generators that were installed in October 2006 and reached full capacity in December 2006.

**Table 4: Energy Consumption by Tariff Category in Giga Watt Hours (GWH):
January 2006 – January 2007**

	Number of Live Customers:			Percentage Changes	
	Jan-06	Dec-06	Jan-07	Annual	Monthly
Domestic	268,943	271,984	273,470	1.7%	0.5%
Commercial	24,511	24,718	24,666	0.6%	-0.2%
Industrial	926	1,009	1,022	10.4%	1.3%
Street Lighting	341	315	315	-7.6%	0.0%
Total	294,721	298,026	299,473	1.6%	0.5%
Consumption in GWH:					
Domestic	31.54	23.07	27.86	-11.7%	20.8%
Commercial	11.31	12.22	12.83	13.5%	5.0%
Industrial	48.28	50.91	54.81	13.5%	7.7%
Street Lighting	0.06	0.04	0.03	-52.8%	-28.1%
Total	91.19	86.24	95.53	5%	10.8%
Purchases in GWH:					
UMEME purchases from UETCL	143.87	139	146	1.5%	5.0%

Source: Umeme limited

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 reopened a 2-year bond on February 07, 2007. The Shs. 30.0 billion issue was over subscribed by Shs. 24.3 billion and realized a cover ratio of 1.8. At a weighted average price of 96.7 per Shs. 100, the resultant yield for the 10.0 percent coupon bond was 13.0 percent, compared to 14.0 percent for the 2-year bond that was reopened on January 10, 2007. This auction, together with Shs. 72.1 billion in 3-year bond maturities, brought the total outstanding stock of treasury bonds to Shs. 826.1 billion by end of February 2007. Coupon payments on the 3-year bond totaling to Shs. 6.1 billion were effected during the month under review. Table 5 below shows details of the most recent Treasury bond issues for each tenor. All issues in the market so far are listed on the Uganda Securities Exchange.

Table 5: Summary of Government Treasury bond Issues as at February 28, 2007

(In Billions of Uganda Shillings, unless otherwise stated)

Tenure/Issue date →	2 Year Reopened Jan 10-07	2 Year Reopened Feb 07-07	3 Year New Issue Nov 15-06	5 Year Reopened Nov 29-06	10 Year New Issue May 19-04
Maturity Date	Oct 16-08	Dec 11-08	Nov 12-09	May-26-11	May 08-14
Offers	30.000	30.000	30.000	20.000	15.000
Total Bids	48.342	54.302	49.165	39.228	25.166
O/w Competitive	48.325	48.325	49.120	39.228	25.154
Over (Under) Subscription	18.342	24.302	19.165	19.228	10.166
Amount Sold (Face Value)	30.000	30.000	30.000	20.000	15.000
Amount Sold (Cost Price)	28.866	29.023	28.263	17.991	12.991
Bid-Cover Ratio	1.611	1.810	1.639	1.961	1.678
Previous Bid-Cover Ratio	1.497	1.611	2.182	2.175	...
WAP per Shs. 100	96.220	96.743	94.210	89.954	86.608
Previous WAP per Shs. 100	92.975	96.220	94.099	89.438	...
Yield to Maturity %	13.975	12.984	12.628	13.822	13.477
Previous Yield to Maturity %	14.155	13.975	12.676	14.271	...
Coupon Rate	10.000	10.000	10.250	10.750	11.000

Source: Bank of Uganda

Secondary Market for Treasury bonds

In the four-week period, average indicative bid/offer yields-to-maturity in the secondary market were quoted at 12.7/12.4 percent, 12.6/12.4 percent, 14.0/13.7 percent, and 15.6/15.3 percent for the 2-year, 3-year, 5-year, and 10-year bonds, respectively (See Table 6). These rates were relatively stable when compared to the respective average yields-to-maturity in the previous four-week period

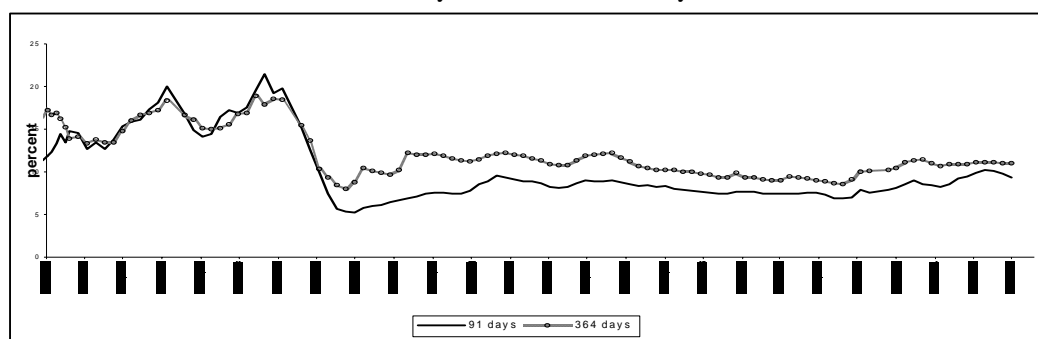
ended January 31, 2007. Within the month of February 2007, Shs. 1.5 billion, and Shs. 8.4 billion were traded in the 2-year, and 3-year bonds at respective average yields-to-maturity of 12.8, and 13.2 percent.

Table 6: Bid/Offer Rates in the Secondary Market for Treasury bonds over the four-week period to February 28, 2007

	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	11.50	11.25	12.10	11.85	12.75	12.50	14.90	14.65
Max	14.15	13.90	12.80	12.55	14.50	14.25	16.50	16.25
Average	12.69	12.44	12.61	12.36	13.92	13.67	15.58	15.33

Source: Bank of Uganda

Chart 3: Primary Market for Treasury bills



Source: Bank of Uganda

Two calendar Treasury bill auctions, with offers of Shs. 45.0 billion and Shs. 55.0 billion, were held in the month of February 2007 and were mostly over-subscribed. The respective weighted annualized yields on the 91-day, 182-day, and 364-day bills stood at 10.4 percent, 12.2 percent and 12.3 percent for the auction of February 14, 2007, and at 9.9 percent, 12.0 percent and 12.4 percent for the auction of February 28, 2007. This compares to the respective 10.7 percent, 12.7 percent and 12.4 percent recorded in the auction held on January 31, 2007. The average discount rates on Treasury bills in February 2007 were higher than those registered in February 2006 which ranged between 7.5, and 9.1 percent (see Chart 4).

Secondary Market for Treasury bills

Despite the marginal fall in interest rates in the primary market within the month, the average bid/offer yields-to-maturity in the secondary market for the 91- day, 182-day, and the 364-day treasury bills increased to 9.9/9.7 percent, 11.2/10.9 percent, and 12.2/11.9 percent (see table 7) from the respective average rates reported in January 2007 of 9.7/9.5 percent, 11.0/10.8 percent, and 12.1/11.8 percent.

Table 7: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bills over the four-week period to February 28, 2007

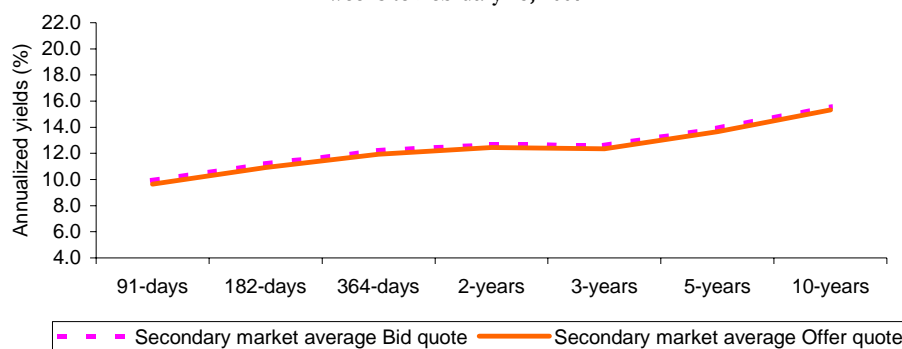
	Tenor of bills					
	91-days		182-days		364-days	
	Yield-to-Maturity quotation (percent)					
	Bid	Offer	Bid	Offer	Bid	Offer
Min	9.54	9.27	10.59	10.31	11.82	11.52
Max	10.63	10.36	12.73	12.45	13.22	12.92
Average	9.93	9.66	11.19	10.91	12.22	11.93
	Trading Activity					
Transactions (Shs billion)	7.214		0.973		10.313	
O/w Horizontal REPOs	6.500		-		-	
- Av. H/REPOs rate	6.75 percent		-		-	
O/w- Outright sales	0.714		0.973		10.313	
Total trades across maturities	18.500					
- Av Discount rate	9.68 percent		9.97 percent		11.43 percent	
- Av Yield to maturity	9.95 percent		10.39 percent		12.31 percent	
Rediscounts at BOU	3.591					
Borrowing at BOU	-					

Source: -Bank of Uganda

In the four weeks to February 28, 2007, one commercial bank accessed the standing facilities at BOU and rediscounted treasury securities worth Shs. 3.6 billion. In the same month, total secondary market trades of treasury bills amounted to Shs. 18.5 billion, of which Shs. 6.5 billion related to horizontal REPOs. This level of trading was lower than the Shs. 48.9 billion for the four weeks ended January 31, 2007. The average discount rates on these trades were 9.7 percent, 10.0 percent and 11.4 percent for the 91day, 182day, and 364-day securities, respectively.

The yield curve, based on the monthly average indicative yield-to-maturity bid and offer quotations in the secondary market, was gently upward sloping throughout the maturity profile of securities, becoming almost flat between the 2-year and 3-year papers (See Chart 4).

Chart 4: Yield Curve Analysis for the Secondary Securities Market for the four weeks to February 28, 2007



Source: Bank of Uganda

Domestic Inter-bank market

Total volume of transactions in the domestic inter-bank money market (i.e. transactions of not more than 30 days in tenor) for the four weeks ended February 28, 2007 declined to Shs. 406.9 billion at a weighted average rate of 8.1 percent from Shs. 483.9 billion recorded in January 2007 at a weighted average rate of 9.9 percent. The overnight transactions were the most dominant accounting for 36.1

percent, as shown in Table 8 below, at a weighted rate of 8.40 percent. All the commercial banks participated in the inter bank market during the four weeks.

Table 8: Summary of inter bank money market activity

Tenor	Month Of January 2007			Month Of February 2007		
	No. of transactions	Amount (Shs bn)	Weighted Rate	No. of transactions	Amount (Shs bn)	Weighted Rate
Overnight	68	168.9	9.03	68	146.8	8.40
2 days	25	33.05	9.50	5	8.0	9.44
3 days	47	88.7	9.96	29	54.7	7.31
4 days	21	36.3	10.64	20	41.6	7.41
5 days	15	38.4	10.39	15	26.1	7.34
6 days	14	32.5	10.53	18	28.2	7.94
1 week	51	81.0	10.72	36	60.9	8.47
> 1 week	7	5.1	10.02	23	40.6	8.06
Total	248	483.9	9.85	214	406.9	8.05

Source: Bank of Uganda

Commercial Bank's Prime and Retail Interest Rates

The weighted prime-lending rate for all commercial banks were stable at 18.7 as reported for December 2006. However, there were no changes in the number of commercial 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 February 2007

(Figures are end-period)

Prime Lending Rate (%)	Jan 25, 2007	Feb 02, 2007	Feb 09, 2007	Feb 16, 2007	Feb 23, 2007
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: Bank of Uganda

Information on the commercial banks' effective lending and deposit rates is available up to January 2007. As portrayed in Table 10, there was stability in the shilling effective lending rate marginally increasing from 18.91 percent to 18.93 percent while the effective lending rate for the dollar denominated loans rose from 9.23 percent to 10.45 percent in the month under review.

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

Weighted Average rates	Shilling Denominated				Foreign Currency Denominated			
	Oct 2006	Nov 2006	Dec 2006	Jan 2007	Oct 2006	Nov 2006	Dec 2006	Jan 2007
Lending	18.67	17.89	18.91	18.93	10.65	11.27	9.23	10.45
Demand Deposits	1.11	1.11	1.14	1.26	1.24	1.19	1.16	1.21
Savings Deposits	2.08	2.02	2.02	2.17	1.54	1.54	1.53	1.54
Time Deposits	8.93	8.87	9.12	8.80	4.69	4.76	5.25	5.04

Source: Bank of Uganda

The shilling demand and saving weighted average deposit rates that were 1.14 percent and 2.02 percent increased to 1.26 percent and 2.17 percent, respectively however, the time weighted average deposit rate declined from 9.12 percent to 8.80 percent. In the same period, the dollar denominated weighted average demand and saving deposits rates increased from 1.16 percent and 1.53 percent to 1.21 percent and 1.54 percent respectively while the time deposit rate declined from 5.25 percent to 5.04 percent in the month under review.

E. MONETARY AND FINANCIAL SECTOR AGGREGATES

Broad Money:

During January 2007, Broad Money M3, which comprises currency in circulation plus all private sectors' deposits, rose slightly by 0.9 percent to Shs 3,657.7 billion. This is compared to a decline in M3 of 0.2 percent registered in December 2006. From end-June through January 2007, M3 grew by 11.8 percent.

M2A, comprising of M3 less foreign currency deposits of the private sector, dipped by 0.7 percent to Shs2,810.6 billion in January 2007, compared to the 0.9 percent growth registered in December 2007. M2A has grown by 9.6 percent since end-June 2006. Developments in money supply are shown in Table 11 below.

Net Foreign Assets (NFA):

Over the month under review, the NFA of the banking system rose by 1.5 percent or Shs55.0 billion to Shs. 3,830.7 billion. In particular, NFA at BoU grew by 1.6 percent or Shs 49.4 billion to Shs 3,196.5 billion. At commercial banks, NFA rose by 0.9 percent or Shs 5.6 billion to Shs 634.2 billion. Foreign reserves at BoU grew by an equivalent of Shs.49.3 billion compared to a rise of Shs.237.8 billion in the previous month.

Net Claims on Government (NCG):

The government's net position with the banking system (NCG) as at end-January 2007 was a saving of Shs 491.3 billion, compared to a saving of Shs 528.9 billion at the end of December 2006. (Table 11) This represents a rise in NCG of Shs 37.7 billion. At BoU, net claims on government rose by Shs 16.6 billion over the month on account of a decline in Government deposits of Shs 124.5 billion, which more than offset a dip in Advances to Government of Shs. 107.9 billion. At commercial banks, the Central Government's position worsened by Shs 21.1 billion in January 2007, on account of a decline in Government deposits of Shs. 24.5 billion, which more than offset a decline in commercial banks' investment in Government securities of Shs 3.4 billion.

Table 11: Developments in Monetary and Credit Aggregates (June '05 – January '07)

<i>(in billion shillings unless otherwise stated)</i>	Jun. 2005	Dec. 2005	Mar. 2006	Jun. 2006	Sep. 2006	Nov. 2006	Dec. 2006	Jan. 2007
Net Foreign Assets (NFA)	2648.0	2730.4	3065.9	3073.6	3418.3	3460.9	3775.8	3830.7
Domestic Credit	982.0	1251.4	1227.3	1382.3	1292.1	1393.1	1220.6	1276.6
Net Credit to Government (NCG)	-176.3	-47.1	-99.1	-112.7	-305.4	-278.3	-528.9	-491.3
Claims on the Private Sector	1150.2	1282.9	1312.1	1475.5	1574.4	1638.0	1718.4	1743.6
M3	2811.1	3101.5	3093.9	3271.6	3431.4	3631.7	3626.2	3657.6
Forex deposits	653.3	665.8	679.1	706.6	791.8	826.3	794.8	847.0
M2A	2157.9	2435.7	2414.8	2565.0	2639.6	2805.4	2831.4	2810.6
Demand Deposits	860.1	896.3	918.7	961.5	996.6	1063.2	1004.4	1044.2
Term Deposits	692.7	829.1	789.1	858.5	865.2	925.7	941.2	892.9
Currency	605.1	710.2	707.0	744.9	777.8	816.6	885.9	873.6
Ratios to M3 (Percent)								
Forex	23.2	21.5	21.9	21.6	23.1	22.8	21.9	23.2
Demand Deposits	30.6	28.9	29.7	29.4	29.0	29.3	27.7	28.5
Term Deposits	24.6	26.7	25.5	26.2	25.2	25.5	26.0	24.4
Currency	21.5	22.9	22.9	22.8	22.7	22.5	24.4	23.9

Source: Bank of Uganda

Private Sector Credit (PSC):

At end-January 2007, the stock of outstanding credit to the private sector by the banking sector stood at Shs 1,743.6 billion (Table 11), of which Shs 18.9 billion was from BOU and Shs 1,724.7 billion was from commercial banks. This represents a rise of 1.5 percent or Shs25.2 billion during the month of January 2007. In comparison, during December 2006, PSC increased by 4.9 percent or Shs80.4 billion.

Credit Flows:

During January 2007, the total (shilling and foreign currency) gross extensions stood at Shs284.2 billion, while recoveries were lower at Shs267.6 billion, yielding net extensions of Shs16.7 billion. After accounting for flows in capitalised interest, there was an increase in the stock of credit of about Shs14.9 billion (see Appendix 1a)⁵. During the month, commercial banks extended shilling denominated loans amounting to Shs173.7 billion and recovered Shs175.4 billion, thus net recoveries were Shs1.7 billion. Net capitalised interest stood at Shs0.9 billion. Thus, there was a net decline in the stock of shilling loans to the non-bank public of Shs0.7 billion (see Appendix 1b). For foreign currency loans, gross extensions by commercial banks amounted to Shs110.5 billion; while recoveries were Shs92.2 billion resulting in net extensions of Shs18.3 billion. After taking into account effects of capitalised interest, the stock of foreign currency loans recorded a net rise of Shs15.6 billion (See Appendix 1c).

Appendices 1a-1c summarize the evolution of the monthly change in outstanding loans and advances of commercial banks from December 2005 to January 2007.

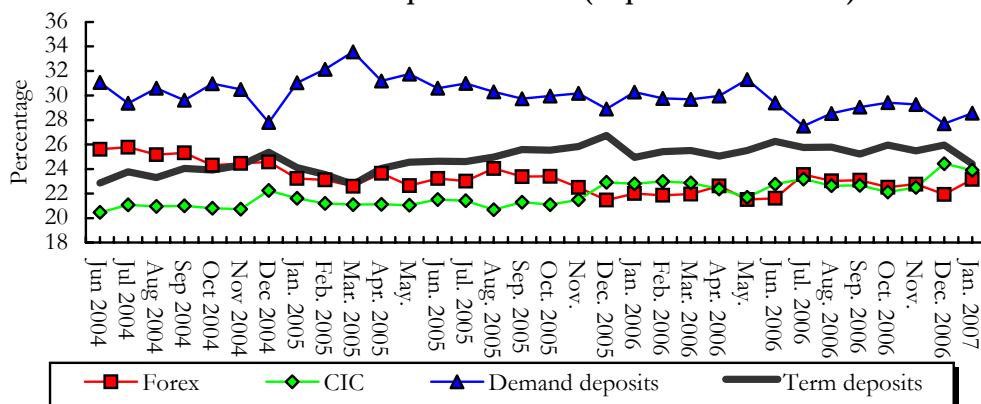
Liabilities of the Banking System:

On the liabilities side, foreign currency accounts at commercial banks rose by an equivalent of Shs 52.2 billion or 6.6 percent to Shs 847.0 billion in January 2007. In US dollars, foreign currency

⁵ The Gross Extensions and Recoveries include lending to Government, Parastatals, and Non-Residents. PSC as recorded by the Monetary Survey excludes lending to Government, Parastatals, and Non-Residents.

accounts rose by US\$25.0 million to US\$481.4 million⁶. Demand deposits grew by 4.0 percent or Shs39.8 billion to Sh1044.2 billion, while term deposits (time, savings and CDs) fell by 5.1 percent or Shs 48.3 billion to Shs892.9 billion as at end-January 2007. Currency in circulation (CIC) fell by 1.4 percent or Shs 12.3 billion to Shs873.6 billion. Reflecting these developments, the ratio of foreign currency deposits to M3 rose to 23.2 percent at end-January 2006 from 21.9 percent at end-December 2006. The ratio of CIC to M3 fell to 23.9 percent from 24.4 percent; the ratio of demand deposits to M3 rose to 28.5 percent from 27.7 percent, while that of term deposits to M3 fell to 24.4 percent from 26.0 percent. Trends in the ratios are shown in Chart 5 below and Table 11 above.

Chart 5: The Components of M3 (In percent of the total)



Source: Bank of Uganda

(i) Non-Bank Financial Institutions (NBFIs) Activities

(a) Credit Institutions⁷

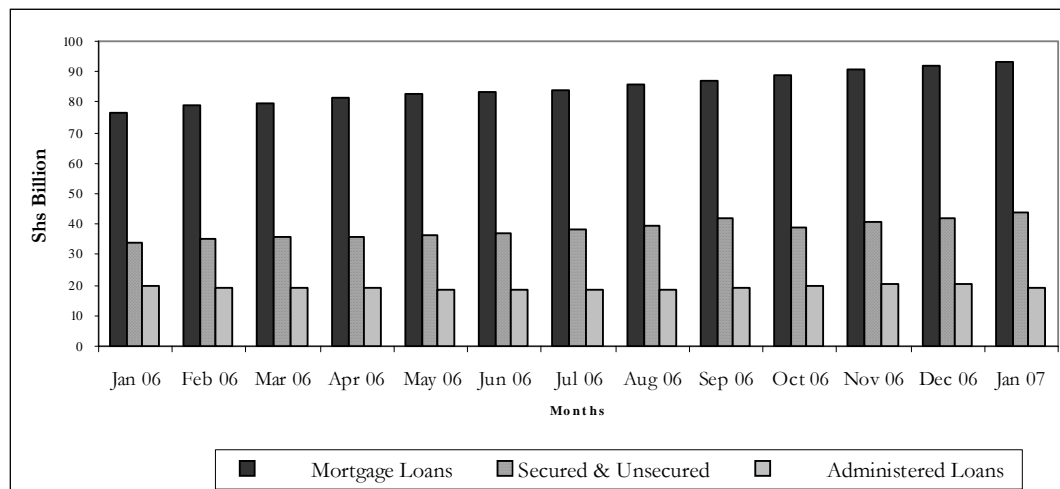
Assets: In the month of January 2007, the total assets of the Credit Institutions (CIs) declined by 0.6 percent from Shs. 238.6 billion at the end of December 2006 to Shs. 237.3 billion (Table 12). This compares with the decline of 0.5 percent observed over the same period a year ago. The decrease in assets during January 2007 was mainly on account of a decrease in investments by Credit Institutions.

Loans and advances: The stock of outstanding loans and advances to the private sector increased by 1.4 percent to Shs. 156.0 billion as at end-January 2007. Mortgage loans, which accounted for 59.7 percent of total loans, grew by 1.6 percent to Shs. 93.2 billion, while secured and unsecured loans grew by 3.6 percent to Shs. 43.5 billion at the end of January 2007. Administered loans declined by 4.3 percent from Shs. 20.1 billion to Shs. 19.3 billion. The building and construction sector accounted for the largest share (72.3 percent) of total CIs advances as at end-January 2007, while the trade and commerce sector absorbed the second largest share of 14.6 percent. The developments in the loans and advances by credit institutions are shown in chart 6 below.

⁶ The end period mid exchange rate is used to value forex items.

⁷ Covers 7 credit institutions.

Chart 6: Outstanding Loans and Advances of the Credit Institutions, January 2006 – January 2007 (Billion Shs at end-period)



Source: Bank of Uganda

Deposits: In January 2007, private sector deposits⁸ of the CIs decreased from Shs. 106.4 billion to Shs. 105.1 billion. Savings deposits decreased by 1.4 percent to Shs. 79.9 billion while Time deposits decreased by 1.0 percent to Shs. 25.2 billion. Agency funds (funds collected on behalf of government from beneficiaries of the government’s pool house sale scheme) went up by 2.5 percent to Shs. 34.9 billion.

Table 12: Developments in the Activities of Credit Institutions (Shs Billion)

	Sep 2006	Oct 2006	Nov 2006	Dec 2006	Jan 2007
Total Assets	232.05	229.00	236.49	238.63	237.31
O/w Loans and advances	148.15	147.12	151.26	153.85	155.99
Secured & unsecured	41.81	38.78	40.67	42.02	43.53
Mortgage	86.95	88.88	90.44	91.69	93.19
Administered	19.40	19.45	20.15	20.13	19.27
Other ^c	83.89	81.88	85.23	84.78	81.32
Total Liabilities	232.05	229.00	236.49	238.63	237.31
O/w Deposits Liabilities ^a	142.35	136.73	140.08	140.88	140.75
Private Sector Deposits	105.83	100.74	104.36	106.42	105.09
Savings	76.01	75.05	78.55	80.95	79.86
Time	29.82	25.70	25.81	25.47	25.23
Agency Funds	34.23	34.23	34.25	34.03	34.88
Other ^b	89.70	92.27	96.41	97.75	96.56

Source: Bank of Uganda

a/ Includes accrued interest

b/ Includes balances due to commercial banks, administered funds, other liabilities, provisions, capital, and Profit/loss.

c/ Includes investments, balances with banks, cash, fixed assets, net due from own offices in Uganda for items in transit and other assets

⁸ This excludes Agency Funds

(b) Micro finance Deposit-Taking Institutions (MDIs)⁹

Assets: In the month of January 2007, the total assets held by MDIs stood at Shs. 120.6 billion, representing a decline of Shs. 7.9 billion (or 6.2 percent) from Shs. 128.6 billion in December 2006. This was mainly on account of a decrease of 62.0 percent in MDI investments in Treasury bills.

Loans and advances: The stock of the outstanding loans to the private sector declined marginally by 0.4 percent to Shs. 79.2 billion over the period under review. Allowances for loan losses (general and specific) increased by 2.3 percent to Shs. 2.7 billion, hence the net loans by end-January 2007 of Shs. 76.5 billion. The Trade and Commerce sector, continued to hold the largest share of the MDIs' loans at 81.4 percent.

Liabilities

Deposits: In January 2007, deposit liabilities in the MDIs amounted to Shs. 23.4 billion, of which Savings and Time deposits were Shs. 20.3 and Shs. 2.8 billion, respectively. This was an increase of Shs. 0.2 billion (1.3 percent) in deposit liabilities from Shs. 23.2 billion in December 2006. Over the period, loan insurance funds also grew by 1.2 percent to Shs. 15.5 billion.

Borrowings: Total borrowings of the MDIs fell from Shs. 41.3 billion to Shs. 30.0 billion. Specifically, short-term borrowings (market rate) fell from Shs. 25.2 to Shs. 14.3 billion while long-term borrowings (market rate) declined by 2.7 percent to Shs. 15.7 billion.

⁹ Covers 4 Institutions

Table 13: Developments in the Activities of Micro finance Deposit-Taking Institutions (Shs Billion)

	Sep 2006	Oct 2006	Nov 2006	Dec 2006	Jan 2007
Total Assets	121.91	125.50	128.78	128.57	120.64
Notes and Coins	3.02	3.79	3.63	3.60	3.72
Balances with financial institutions in Uganda	12.22	13.95	14.04	14.61	17.00
Investments in Treasury bills	18.34	17.48	17.73	16.20	6.16
Net loans outstanding	70.70	71.29	74.41	76.87	76.53
Inter branch/Due from own offices	0.14	0.01	0.11	0.05	0.06
Net Fixed Assets	9.41	9.37	9.73	9.63	9.62
Long Term Investments	0.86	0.86	1.07	1.07	1.12
Other Assets	7.22	8.74	8.06	6.56	6.43
Deposit Liabilities	19.65	20.41	22.93	23.23	23.40
Savings Deposits	17.87	18.41	19.75	20.22	20.29
Time Deposits	1.28	1.44	2.59	2.81	2.84
Total Private Sector Deposits	19.15	19.85	22.34	23.03	23.13
Accrued Interest	0.50	0.57	0.59	0.20	0.27
Loan Insurance Fund*	15.20	15.42	15.65	15.27	15.45
Total Borrowing	38.31	39.98	40.93	41.28	30.01
Other Liabilities**	9.54	10.08	9.15	8.42	9.54
Total Liabilities	82.69	85.89	88.66	88.19	78.40
Total Equity	20.54	21.93	22.44	22.70	23.21
Subordinated Debt	14.88	13.88	13.88	13.88	15.23
Preference Shares	3.80	3.80	3.80	3.80	3.80
Total Liabilities and Equity	121.91	125.50	128.78	128.57	120.64
Source: Bank of Uganda					
* Money deposited by borrowers as insurance for loans					
** Other Liabilities includes grants/ deferred income, interbranch due to own offices, and other long-term liabilities.					

F. DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The overall balance of payments was estimated at a deficit of US\$14.0 million in January 2007. The Current Account balance recorded a deficit of US\$64.1 million, worsening from a surplus of US\$137.9 million registered in December 2006. This resulted mostly from an increase in imports and increased services and income outflows. The Capital and Financial account recorded a surplus of US\$50.1 million in January 2007, down from a surplus of US\$52.6 million in the previous month. This was attributed to a run down in holdings of currencies and deposits assets abroad, relative to December 2006.

i) Exports

Total export proceeds in the month of January 2007 were estimated at US\$118.9 million; an improvement of about 16.3 percent in comparison to the export earnings of US\$102.2 million recorded in the preceding month.

Coffee Exports

During the month of January 2007, coffee exports amounted to 316,128 (60-kilogram) bags worth US\$28.4 million. This was an increase of 27.7 percent and 27.1 percent in value and volume respectively, compared to the previous month's exports.

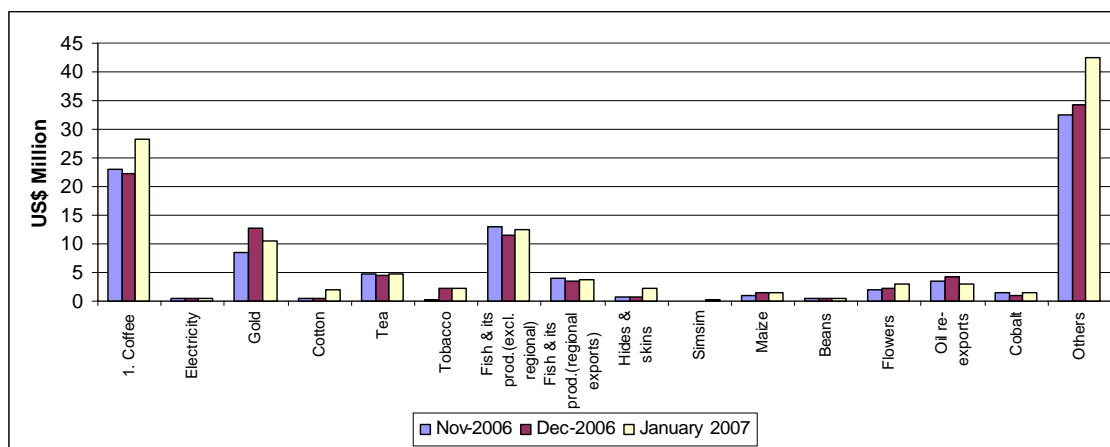
The average realized export price for coffee in January 2007 was US\$1.50 per kg, 1cents (or 0.5 percent) lower than what was realised in December 2006.

Non-coffee Exports

Overall, there was an improvement in the estimated earnings for the non-coffee exports in January 2007 vis-à-vis the previous month. The total value of non-coffee exports for January 2007 was estimated at US\$86.4 million – US\$6.7 million (or 8.4 percent) more than the realized value in the previous month. In particular, there was an increase in earnings from cotton, hides and skins, simsim, base metals and international and regional fish exports. Notable increases were seen in cotton (US\$1.5 million) and international and regional fish exports (US\$1.4 million).

Despite the improved earnings from the above-mentioned commodities, export proceeds from electricity, tobacco, gold, maize, and oil re-exports decreased by a combined total of US\$3.9 million. Specifically, earnings from international exports of gold fell by US\$2.3 million.

Chart 7: Uganda's exports October - January 2007



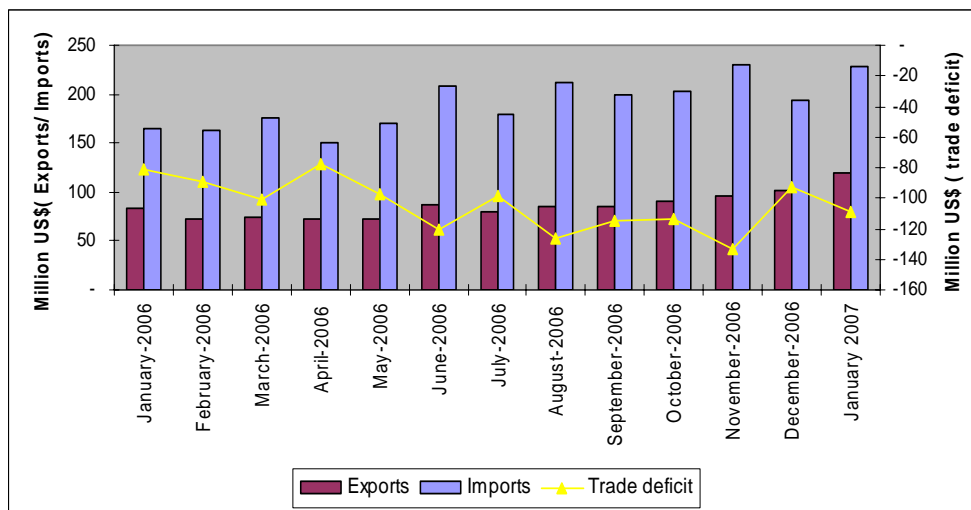
Source: Bank of Uganda

ii) Imports

The total import bill for the month of January 2007 was estimated at US\$227.3 million, of which private sector imports accounted for US\$214.2 million. Other major import items apart from oil were machinery, chemicals & related products, and base metals & their products. The oil import bill amounted to US\$34.2 million – US\$4.2 million less than the oil import bill of December 2006.

Government imports were recorded at US\$13.1 million in the month under review, compared to the US\$3.0 million in the previous month. The increase in government imports was a result of the increase in non-project related imports during the review month. The bulk of government imports comprised of chemical & related products, machinery and miscellaneous manufactured products.

Chart 8: Exports, Imports and the trade balance December 2005 - January 2007



Source: Bank of Uganda

iii) Other Inflows and Outflows

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$5.7 million in the month under review. Net private sector transfer inflows were estimated at US\$133.6 million in January 2007 – US\$0.85 million more than the net inflows recorded in December 2006. Services and income outflows in the same month exceeded inflows by about US\$94.0 million.

Official cash debt service (excluding IMF payments) for the month of January 2007 was estimated at US\$4.5 million. There were no IMF principal payments during the same month. Estimates of net trade credit amounted to outflows of US\$7.38 million, consisting of inflows (buyers’ credit and suppliers’ credit) estimated at US\$31.4 million and outflows (pre-finance shipments and suppliers’ credit repayments) estimated at US\$ 24.0 million.

In January 2007, the level of gross foreign reserves amounted to US\$1,810.5 million; a build up of US\$9.4 million compared to the preceding month. This reserve level is estimated to cover 6.8 months of future imports of goods and services.

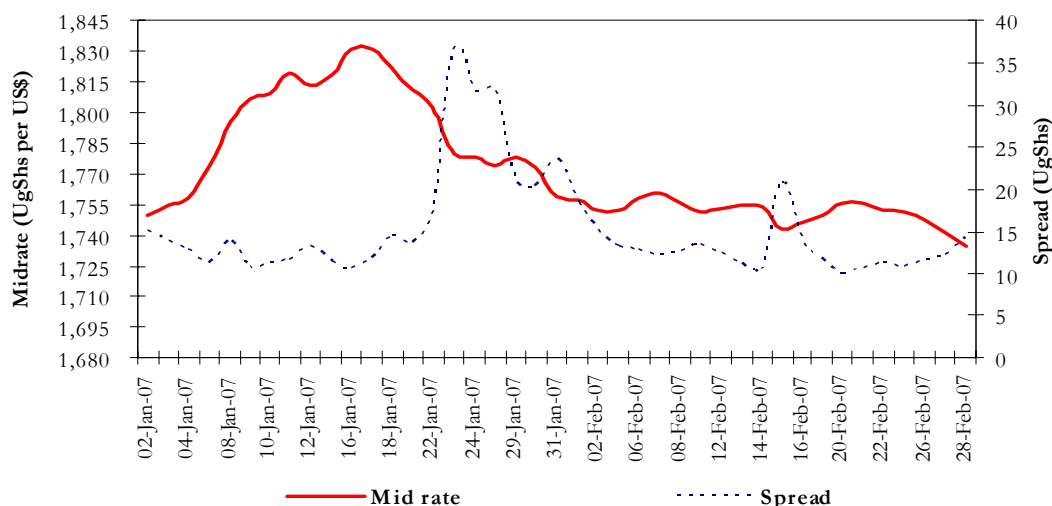
G. EXCHANGE RATE AND FOREIGN EXCHANGE MARKET

During February 2007, the shilling appreciated 2.3 percent gaining Shs. 40.6 against the US dollar to a monthly average mid-rate of Shs. 1,751.7 per US dollar from Shs. 1,792.3 per US dollar in January 2007. Intra-day exchange rate volatility occasioned by sharp appreciation pressures prompted the BoU to intervene in the IFEM to ensure stability.

Movements in the exchange rate reflected sustained shilling strengthening, as indicated in the charts below. Shilling movement against the US dollar was bidirectional from February 1st to 20th, turning to unidirectional appreciation henceforward. Public demand edged over supply by US\$ 2.60 million during the month. The demand side recorded daily average sales of US\$ 13.93 million against daily average purchases of US\$ 13.80 million. Relatively high demand dampened the sharp appreciation pressures that were supported by strong foreign exchange inflows from non-governmental

organizations, exports and offshore players. The appreciation bias of the shilling was influenced by the persistence of long positions held by banks, which averaged US\$ 6.42 million on a daily basis, driving banks towards defensive pricing amidst the strong foreign exchange inflows. The long positions, which spilled into February, had averaged US\$ 12.81 million in January 2007.

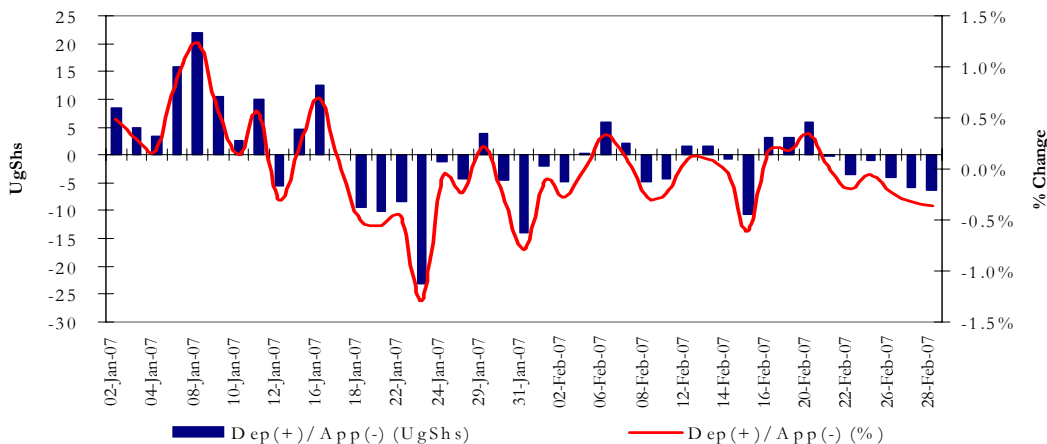
Chart 9: Daily Foreign Exchange Developments



Source: Bank of Uganda

The unit seesawed from the start of the month until February 20th, registering a sharp gain of Shs. 10.7 on February 15th. The balance of market forces gave way to sustained appreciation for the remaining part of the month, as reflected in charts 9 and 10. The spread moved between Shs. 9.97 and Shs. 20.89, with a range of Shs. 10.92 and averaged Shs. 13.04 during the month. Wide variation in the spread indicated volatility in the IFEM. The sharp appreciation pressures necessitated the presence of the central bank in the IFEM to ensure stability. The Bank intervened twice on the buy side for US\$ 20.0 million; spot, to calm pricing pressure. In the first action, the BoU intervened with US\$ 10 million to foster stability on February 26th, which had opened with a long position of close to US\$ 9 million. The second intervention restored stability in a speculative market following a jump in spreads to Shs. 14.26 on February 28th.

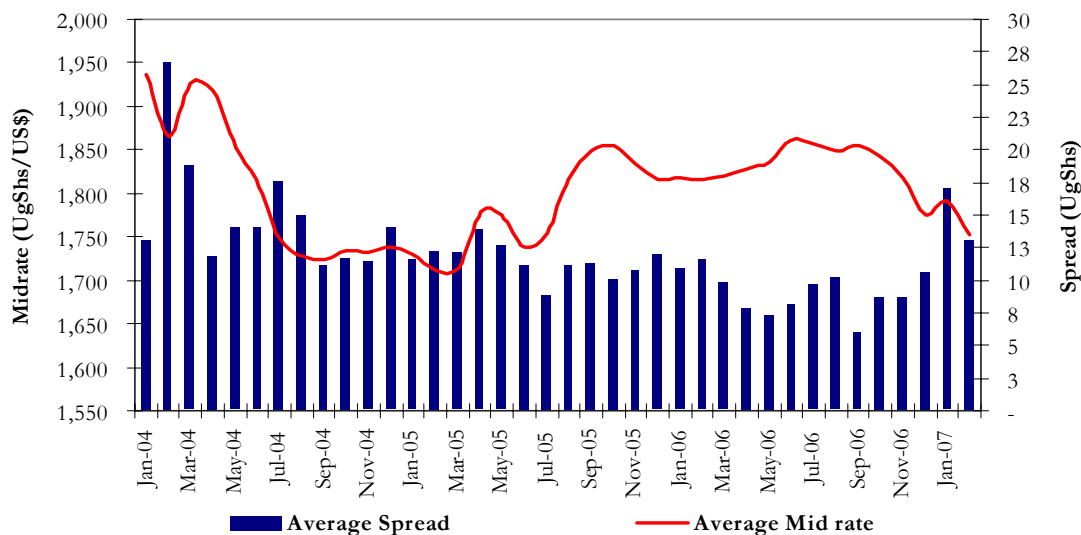
Chart 10: Daily Exchange Rate Changes



Source: Bank of Uganda

Month-on-month comparison of foreign exchange trading showed commercial banks' gross retail purchases and sales were US\$ 275.92 million and US\$ 278.52 million in February 2007 compared to respective levels of US\$ 344.87 million and US\$ 342.29 million in January 2007. Inter-bank trading dropped from US\$ 226.82 million in January 2007 to US\$ 115.67 million in February 2007. Appendix 2: shows trading activity during the month under review.

Chart 11: Monthly Foreign Exchange Rate Developments



Source: Bank of Uganda

The Bank will continue monitoring developments in the IFEM and stand ready to intervene to foster exchange rate stability.

H. POLICY OUTLOOK

In the coming months, Bank of Uganda's 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 both the domestic and foreign exchange markets.

Appendix 1a: 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	1,289.21	(1,120.48)	168.72	59.51	(49.42)	10.09	178.81
2003/2004	1,456.31	(1,348.15)	108.17	86.05	(51.98)	34.06	142.23
2004/2005							
Half 1 2004/05	826.23	(761.82)	64.40	71.56	(36.03)	35.53	99.94
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
2005/2006							
Q1	503.57	(416.72)	86.85	30.94	(13.24)	17.70	104.55
October, 2005	175.16	(138.78)	36.38	13.45	(5.98)	7.47	43.85
November 2005	216.48	(187.16)	29.31	12.99	(5.09)	7.91	37.22
December 2005	206.37	(233.19)	(26.82)	13.30	(6.43)	6.87	(19.95)
Q2	598.00	(559.13)	38.87	39.75	(17.50)	22.25	61.12
HALF1 2005/2006	1,101.57	(975.85)	125.73	70.69	(30.74)	39.95	165.67
January 2006	175.29	(163.74)	11.54	7.85	(6.75)	1.10	12.65
February 2006	180.39	(181.51)	(1.12)	7.66	(7.11)	0.55	(0.57)
March 2006	179.21	(173.82)	5.39	7.82	(6.23)	1.59	6.98
Q3	534.89	(519.08)	15.81	23.33	(20.09)	3.24	19.05
April 2006	180.13	(135.77)	44.35	8.62	(5.49)	3.12	47.48
May 2006	228.92	(168.43)	60.49	10.05	(12.48)	(2.43)	58.06
June 2006	232.50	(171.12)	61.39	11.61	(3.66)	7.95	69.34
Q4	641.55	(475.32)	166.23	30.28	(21.63)	8.65	174.88
HALF2 2005/2006	1,176.43	(994.39)	182.04	53.61	(41.72)	11.89	193.93
2005/2006	2,278.01	(1,970.24)	307.77	124.29	(72.46)	51.84	359.61
2006/2007							
July 2006	236.72	(227.72)	9.00	6.43	(7.73)	(1.29)	7.70
August 2005	242.86	(191.24)	51.61	9.66	(6.14)	3.51	55.13
September 2006	255.62	(218.05)	37.56	8.64	(7.06)	1.59	39.15
Q1	735.19	(637.01)	98.17	24.73	(20.93)	3.81	101.98
October 2006	292.19	(243.75)	48.45	9.10	(4.74)	4.36	52.81
November 2006	340.59	(316.05)	24.54	12.65	(4.91)	7.74	32.28
December 2006	317.74	(239.96)	77.78	39.71	(27.90)	11.81	89.59
Q2	950.53	(799.76)	150.77	61.46	(37.55)	23.91	174.68
Half 1 2006/07	966.02	(703.76)	262.26	71.13	(44.75)	26.38	288.64
January 2007	284.23	(267.56)	16.67	26.97	(28.74)	(1.77)	14.90

Source: Bank of Uganda

Appendix 1b: 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	887.64	(753.00)	134.65	51.87	(43.11)	8.76	143.41
2003/2004	984.69	(897.52)	87.17	75.49	(43.72)	31.77	118.94
2004/2005							
Half 1 2004/05	543.79	(520.22)	23.58	57.57	(30.85)	26.72	50.30
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
2005/2006							
Q1	290.28	(262.92)	27.36	20.76	(9.00)	11.75	39.11
December 2005	111.28	(87.81)	23.47	10.32	(4.76)	5.56	29.03
December 2005	119.17	(115.67)	3.49	9.20	(2.90)	6.30	9.79
December 2005	126.50	(116.59)	9.91	9.71	(4.46)	5.25	15.16
Q2	356.95	(320.07)	36.88	29.23	(12.12)	17.10	53.98
Half 1 2005/2006	647.23	(582.99)	64.24	49.98	(21.13)	28.85	93.09
January 2006	94.96	(99.61)	(4.65)	3.72	(4.82)	(1.10)	(5.75)
February 2006	96.90	(101.09)	(4.19)	4.21	(4.50)	(0.29)	(4.48)
March 2006	102.57	(91.46)	11.11	4.45	(3.80)	0.65	11.76
Q3	294.43	(292.16)	2.27	12.38	(13.13)	(0.74)	1.53
April 2006	107.10	(83.34)	23.76	5.60	(3.80)	1.80	25.56
May 2006	130.10	(88.92)	41.18	6.29	(10.64)	(4.35)	36.83
June 2006	140.02	(92.58)	47.44	9.94	0.27	10.21	57.65
Q4	377.22	(264.84)	112.38	21.83	(14.17)	7.66	120.04
Half 2 2005/06	671.65	(557.00)	114.65	34.21	(27.30)	6.91	121.57
2005/2006	1,318.88	(1,139.99)	178.89	84.20	(48.43)	35.77	214.66
2006/2007							
July 2006	135.71	(121.63)	14.08	5.03	(3.14)	1.89	15.97
August 2005	126.74	(73.71)	53.04	5.44	(3.84)	1.60	54.63
September 2006	163.19	(131.15)	32.04	5.11	(5.47)	(0.37)	31.68
Q1	425.65	(326.49)	99.16	15.57	(12.45)	3.12	102.28
October 2006	171.68	(122.59)	49.08	7.74	(3.35)	4.39	53.48
November 2006	168.17	(124.52)	43.65	9.83	(3.84)	5.98	49.63
December 2006	200.52	(130.15)	70.37	37.99	(25.11)	12.88	83.25
Q2	540.37	(377.26)	163.11	55.56	(32.30)	23.26	186.37
Half 1 2006/07	966.02	(703.76)	262.26	71.13	(44.75)	26.38	288.64
January 2007	173.74	(175.39)	(1.65)	25.74	(24.83)	0.91	(0.74)

Source: Bank of Uganda

**Appendix 1c: 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	401.56	(367.49)	34.07	7.65	(6.31)	1.33	35.41
2003/2004	471.62	(450.63)	21.00	10.55	(8.26)	2.29	23.29
2004/2005							
Half 1 2004/05	282.43	(241.61)	40.83	13.99	(5.18)	8.81	49.64
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
2005/2006							
Q1	213.29	(153.80)	59.49	10.18	(4.24)	5.95	65.44
December 2005	63.87	(50.97)	12.91	3.13	(1.22)	1.92	14.82
December 2005	97.31	(71.49)	25.82	3.80	(2.19)	1.61	27.43
December 2005	79.87	(116.60)	(36.73)	3.59	(1.97)	1.62	(35.11)
Q2	241.05	(239.06)	2.00	10.52	(5.37)	5.15	7.14
HALF1 2005/2006	454.34	(392.85)	61.49	20.70	(9.61)	11.09	72.58
January 2006	80.33	(64.13)	16.19	4.13	(1.93)	2.20	18.40
February 2006	83.49	(80.42)	3.07	3.45	(2.61)	0.84	3.91
March 2006	76.64	(82.36)	(5.73)	3.37	(2.43)	0.94	(4.78)
Q3	240.46	(226.92)	13.54	10.95	(6.96)	3.99	17.52
April 2006	73.03	(52.43)	20.60	3.01	(1.69)	1.32	21.92
May 2006	98.82	(79.51)	19.31	3.77	(1.84)	1.93	21.24
June 2006	92.49	(78.54)	13.95	1.67	(3.92)	(2.26)	11.69
Q4	264.33	(210.48)	53.85	8.45	(7.46)	0.99	54.84
HALF2							
2005/2006	504.79	(437.40)	67.39	19.39	(14.42)	4.98	72.37
2005/2006	959.13	(830.25)	128.88	40.10	(24.03)	16.07	144.95
2006/2007							
July 2006	101.00	(106.09)	(5.08)	1.40	(4.59)	(3.18)	(8.27)
August 2005	116.11	(117.53)	(1.42)	4.22	(2.30)	1.92	0.50
September 2006	92.42	(86.90)	5.52	3.54	(1.58)	1.95	7.47
Q1	309.54	(310.52)	(0.99)	9.16	(8.48)	0.69	(0.30)
October 2006	120.52	(121.15)	(0.64)	1.36	(1.39)	(0.03)	(0.67)
November 2006	172.42	(191.53)	(19.11)	2.83	(1.07)	1.76	(17.35)
December 2006	117.22	(109.81)	7.41	1.72	(2.79)	(1.07)	6.34
Q2	410.16	(422.49)	(12.33)	5.91	(5.26)	0.65	(11.68)
HALF1 2006/2007	719.70	(733.01)	(13.32)	15.07	(13.73)	1.34	(11.98)
January 2007	110.49	(92.17)	18.32	1.23	(3.91)	(2.67)	15.64

Source: Bank of Uganda

Appendix 2: Daily IFEM Developments

Date	Av. Mid-rate	Av. Spread	Sterilization	Intervention	Purchases	Sales	Inter- bank	Cross currency
2-Jan-07	1749.96	15.06	0.00	0.00	9.32	11.74	5.92	0.56
3-Jan-07	1754.96	13.91	0.00	0.00	20.44	15.18	10.37	2.48
4-Jan-07	1758.24	13.01	0.00	0.00	11.99	11.56	3.90	3.40
5-Jan-07	1773.98	11.33	0.00	-5.00	14.48	19.73	18.20	1.00
8-Jan-07	1795.91	13.99	-0.50	-10.00	15.35	25.24	22.81	0.52
9-Jan-07	1806.30	10.81	-0.50	0.00	19.82	14.04	9.62	0.18
10-Jan-07	1808.86	11.41	-0.50	0.00	14.00	17.51	4.67	4.37
11-Jan-07	1818.89	11.67	-0.50	0.00	15.05	13.53	7.00	3.93
12-Jan-07	1813.40	13.24	-0.50	0.00	17.14	12.99	12.00	0.68
15-Jan-07	1817.92	11.44	-0.50	0.00	17.90	18.50	8.20	7.34
16-Jan-07	1830.42	10.68	-0.50	0.00	19.14	15.79	8.65	3.62
17-Jan-07	1830.54	11.99	-0.50	0.00	22.00	17.68	2.70	0.00
18-Jan-07	1821.28	14.60	-0.50	0.00	21.17	17.59	11.00	2.95
19-Jan-07	1811.09	13.83	-0.50	0.00	13.06	14.98	7.20	4.09
22-Jan-07	1802.82	17.21	-0.50	0.00	14.91	21.78	13.80	4.64
23-Jan-07	1779.62	36.52	0.00	10.00	25.17	21.41	29.43	5.14
24-Jan-07	1778.38	31.57	-0.50	0.00	12.50	8.49	15.41	3.86
25-Jan-07	1774.14	31.72	-0.50	0.00	11.30	16.41	7.90	0.79
29-Jan-07	1778.09	20.82	-0.50	0.00	15.39	18.04	4.63	7.98
30-Jan-07	1773.58	20.32	-0.50	0.00	14.65	13.77	6.97	1.13
31-Jan-07	1759.53	23.54	0.00	5.00	20.08	16.33	16.45	1.03
	1792.28	17.08	-7.50	0.00	344.87	342.29	226.82	59.70
1-Feb-07	1757.48	18.65	-0.50	0.00	10.61	12.72	1.52	4.91
2-Feb-07	1752.60	15.35	-0.50	0.00	14.60	13.68	5.55	3.03
5-Feb-07	1752.91	13.37	-0.50	0.00	12.24	15.89	2.55	3.97
6-Feb-07	1758.75	12.84	-0.50	0.00	11.69	11.36	5.89	5.32
7-Feb-07	1760.80	12.40	-0.50	0.00	15.88	13.95	6.53	6.26
8-Feb-07	1755.98	12.81	-0.50	0.00	10.60	16.95	5.25	2.78
9-Feb-07	1751.79	13.44	-0.50	0.00	13.82	12.20	1.84	2.20
12-Feb-07	1753.46	12.51	-0.50	0.00	15.24	17.29	6.33	2.50
13-Feb-07	1755.08	11.31	-0.50	0.00	17.56	13.61	1.35	1.47
14-Feb-07	1754.40	10.48	-0.50	0.00	12.31	9.04	1.55	2.32
15-Feb-07	1743.75	20.89	-0.50	0.00	12.23	15.82	8.70	4.00
16-Feb-07	1746.94	13.78	-0.50	0.00	11.27	22.95	5.09	3.54
19-Feb-07	1750.02	11.71	-0.50	0.00	13.44	13.43	3.30	1.25
20-Feb-07	1756.00	9.97	-0.50	0.00	9.97	8.34	4.70	1.41
21-Feb-07	1755.74	10.63	-0.50	0.00	13.66	13.67	4.95	2.32
22-Feb-07	1752.34	11.41	-0.50	0.00	11.10	12.90	6.25	4.17
23-Feb-07	1751.39	10.84	-0.50	0.00	10.79	10.05	2.08	2.44
26-Feb-07	1747.33	11.73	0.00	10.00	27.96	12.17	13.90	20.18
27-Feb-07	1741.63	12.33	0.00	0.00	11.65	11.04	4.95	3.52
28-Feb-07	1735.33	14.26	0.00	10.00	19.28	21.47	23.40	1.30
	1751.68	13.04	-8.50	20.00	275.92	278.52	115.67	78.90

Source: Bank of Uganda

Appendix 3: Exports of Merchandise (Us\$ Millions)

	August-2006	September-2006	October-2006	November-2006	December-2006	January 2007
Total Exports	85.33	84.47	90.46	96.22	102.22	118.93
1. Coffee						
Coffee Volumes (million 60 kg bags)	0.18	0.16	0.16	0.25	0.25	0.32
Unit Volume	1.37	1.47	1.43	1.53	1.49	1.50
Value of Coffee shipment	14.39	13.97	13.36	22.96	22.21	28.37
2. Non-coffee Exports	70.60	70.38	76.92	72.83	79.66	86.38
Electricity	0.46	0.43	0.47	0.46	0.54	0.46
Gold	10.67	10.67	10.30	8.50	12.81	10.46
Cotton	0.40	0.34	0.46	0.47	0.39	1.92
Tea	3.13	3.23	3.72	4.69	4.45	4.73
Tobacco	1.98	1.41	0.81	0.20	2.35	2.17
Fish & its prod.(excl. regional)	10.94	11.34	12.80	13.00	11.45	12.53
Fish & its prod.(regional exports)	3.28	3.40	3.84	3.90	3.44	3.76
Hides & skins	0.62	0.80	0.54	0.84	0.81	2.34
Simsim	0.43	0.27	0.03	0.02	0.06	0.16
Maize	3.05	2.93	1.20	1.09	1.62	1.43
Beans	1.59	0.81	0.10	0.61	0.48	0.56
Flowers	3.14	3.01	2.68	1.98	2.17	3.00
Oil re-exports	3.18	2.92	3.21	3.45	4.22	3.09
Cobalt	1.26	1.84	1.04	1.56	1.04	1.56
Others	26.81	27.11	35.91	32.51	34.18	42.40
Source: Bank of Uganda						

Appendix 4: Imports of Goods (Us\$ Millions)

	August-2006	September-2006	October-2006	November-2006	December-2006	January 2007
Total Imports	211.63	198.78	203.53	230.10	194.62	227.32
Government Imports	7.96	10.75	11.30	9.19	3.02	13.09
Project	4.33	8.38	4.39	2.29	2.78	2.63
Non-Project	3.63	2.37	6.91	6.90	0.24	10.46
Private Sector Imports	203.67	188.03	192.23	220.91	191.59	214.23
Oil imports	35.65	34.57	32.20	31.60	29.97	34.19
Non-oil imports	168.02	153.47	160.03	189.32	161.62	180.04
Source: Bank of Uganda						
Note: All imports figures are reported at f.o.b value						