



MONTHLY ECONOMIC REVIEW

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EXECUTIVE SUMMARY

Conduct of Monetary Policy

The primary objective of monetary policy remains to contain inflation at low and stable levels. This notwithstanding, BOU ensures that its monetary operations are cautious not to exacerbate instability in both the domestic money and foreign exchange markets.

- Net-issuance of Treasury bills and daily sales of foreign exchange under the sterilization strategy were used to sterilize liquidity, while the Repo instruments facilitated management of short-term fluctuations in liquidity, mainly in form of fine-tuning operations.
- The Rediscount rate and Bank rate were maintained at 20.58 percent and 21.58 percent respectively.
- On account of the stability observed in the foreign exchange market, Bank of Uganda did not intervene in the foreign exchange market, but has continued to monitor developments closely.

Domestic prices and Inflation

- Inflationary pressures marginally eased.
- The annual headline inflation rate declined from 10.3 percent to 9.4 percent between August and September 2003.
- The annual underlying inflation rate that was 6.5 percent in October 2003 declined to 6.1 percent.

Domestic Money Market Developments and interest rates

Money market interest rates were generally rising over the four week-ended October 10, 2003.

- In the primary market for Treasury Bill, discount rates on the 91-days, 182-days, 273-days and 364-days bills were recorded at 17.17 percent, 17.46 percent, 16.69 percent and 15.57 percent, respectively, as at the auction held on October 15, 2003. This is compared to the respective levels of 14.16 percent, 15.98 percent, 16.45 percent and 15.07 percent four weeks ago.
- In the secondary market for Treasury bills, the indicative bid/offer rates were also higher in the four weeks to October 10, 2003. The turnover of the market amounted to Shs 9.48 billion, higher than Shs 5.93 billion recorded in the previous four weeks ended September 12, 2003.

- The shilling interbank money market remained buoyant through the four weeks. In line with other rates, the weighted inter-bank money market rate rose from 6.59 percent to 13.35 percent over this period.
- No bank reported a revision in the prime-lending rate through the four weeks ended October 10, 2003. Hence these rates remained in a range of 17-22 percent.
- Effective rates on shilling deposits in commercial banks declined in July 2003, while the corresponding lending rates rose from 18.34 percent to 19.52 percent. On the foreign exchange denominated loans, the lending rates declined from 11.07 percent to 8.92 percent.

Foreign Exchange Market and the Exchange Rate

The foreign exchange market remained stable through the four weeks to October 10, 2003.

- The Shilling appreciated by 0.15 percent against the US Dollar over this period, compared to 0.05 percent over the four weeks to September 11, 2003.
- The average spreads rose marginally from Shs 8.25 to Shs 8.88 during the four weeks to October 10, 2003.
- While BOU maintained its presence in the market under the sterilization strategy, selling a total of US \$ 5.7 million, there was no need for any intervention over this period.

Real sector Developments

In the Index of Industrial Production, production in major manufacturing establishments increased by 18.0 percent and 1.7 percent in the months of July 2003 and August 2003, respectively. The trend, partly reflective of the seasonal pattern, reverses declines of 11.2 percent and 3.3 percent recorded in May 2003 and June 2003, respectively.

The turnover on the Uganda Securities Exchange of Shs 123.3 million in September 2003, was more than a tenfold over the Shs 12.0 million recorded in August 2003.

Government Budgetary Operations

The preliminary estimates for August 2003 show that the government revenue and grant receipts and expenditure were above the programmed level.

- Revenue and receipts from budget support grants amounted to Shs 158.0 billion compared to the programmed level of Shs 145.2 billion.
- Government's expenditure and net lending (excluding cheque float reduction) amounted to Shs 173.9 billion, compared to the anticipated level of Shs 161.9 billion.
- The overall fiscal balance for July 2003 was a deficit of Shs 15.9 billion, quite close to the projected Shs 16.7 billion. Excluding grants, the government budget balance was a deficit of Shs 59.2 billion.

The balance of payments

In August 2003, the current account balance is estimated at a deficit of US \$ 9.18 million, while the capital and financial account is estimated at a surplus of US\$ 27.53 million. Thus, the overall balance is estimated at a surplus of US\$ 18.35 million.

- Total export proceeds for the period August 2003 are estimated at US \$ 45.04 million, out of which coffee accounted for 17.6 percent.
- The import bill (cif) is estimated at US\$124.98 million during August 2003. This is a decrease of 5.0 percent compared to the July 2003 import bill.
- Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$21.65 million, while net private transfer inflows are estimated at US\$32.21 million in August 2003.
- The services and income outflows exceeded inflows by US\$ 21.89 million during August 2003.
- Official debt service (excluding IMF payments) is estimated at US\$7.31 million for the month of August 2003. No IMF principal obligations were externalized in August 2003. Short-term inflows of US\$ 11.09 million exceeded outflows by US\$0.70 million.

Monetary and Financial Sector Aggregates

- By August 2003, the broad money aggregates M3 and M2A were 0.7 percent and 3.3 percent, over their respective June 2003 levels. These growth rates reverse the declines of 1.2 percent and 0.7 percent recorded in July 2003. The year-on-year growth rates for M3 and M2A are estimated at 22.0 percent and 18.9 percent respectively, far higher than 20.4 percent and 14.7 per cent recorded in June 2003
- Private sector credit increased at a slower pace of 1.3 percent, compared to 2.4 percent during July 2003 level largely driven by the increase in shilling denominated loans.
- Net credit to government, increased by Shs 19.0 billion in August 2003, compared to an increase of Shs111.0 billion over July 2003.
- Assets of Non-Bank Financial Institutions (NBFIs) grew by 0.4 percent to Shs134.87 billion in August 2003, as the increase in the loan portfolio was marginal at 0.8 percent. Private sector deposits in these institutions also grew by 0.1 percent to Shs 51.66 billion.

The policy outlook

Bank of Uganda is set to maintain the cautious monetary policy stance to ensure that inflation remains low and stable. It is also committed to manage liquidity in a manner that does not cause instability in both the domestic and foreign exchange markets.

A CONDUCT OF MONETARY POLICY

Bank of Uganda (BOU)'s monetary policy is focused on containing inflation, but operations of its instruments are cautious not to exacerbate instability in the markets. While the net issues of Treasury bills and daily sales of foreign exchange remained important instruments of sterilization of excess liquidity, the Repurchase Agreements (REPOs) is continuously consolidating its role of fine-tuning and short-term liquidity management. The liquidity management effort is supplemented by adjustments in the pricing of the liquidity providing windows, the Rediscount Rate and Bank rate, to ensure a consistent monetary policy stance.

Occasionally, sales of foreign exchange through BOU's intervention are effected in the interbank foreign exchange markets (IFEM) to curb instability in the foreign exchange market.

In the four weeks to October 17, 2003, net issuance of Treasury bills amounted to Shs 7.90 billion. This is much lower than the net issue of Shs 27.61 billion in the corresponding four-week period to September 19, 2003. Gross issues of the REPOs instrument for short-term liquidity management amounted to Shs 35.0 billion over this period, against maturities of Shs 51.07 billion. This is compared to issues and maturities of Shs 95.80 billion and Shs 79.94 billion over the preceding period ended September 19, 2003. Over the same period, BOU was in the foreign exchange market under the sterilization strategy to mop up structural liquidity. The net sales of foreign exchange amounted to US\$ 5.70 million the same amount sold in the preceding four weeks period ended August 15, 2003.

The Rediscount rate was maintained at 20.58 percent, while the Bank rate, which is statutorily set at least one percentage point above the Rediscount rate, stood at 21.58 percent.

B DOMESTIC PRICE AND INFLATION DEVELOPMENTS

In September 2003, the Annual Headline Inflation rate continued the downward trend observed since July 2003. The annual Headline Inflation rate for September 2003 reduced to 9.4 percent from the level of 10.3 percent recorded in August 2003. However, the monthly Headline Inflation rate increased slightly by 0.4 percent in September compared to 0.1 percent recorded in August. The Annual Composite Headline Inflation rate during Q1, 2003/04 was averaged at 10.3 percent compared to 10.6 percent posted in Q4 2002/03.

The Annual Underlying Inflation rate dropped to 6.1 percent in September compared to 6.5 percent registered in August. Likewise, the monthly Underlying Inflation rate dropped to -0.2 percent compared to 0.0 percent recorded in August 2003. The drop in the annual Underlying Inflation rate was attributed to the decline in prices of manufactured goods, as well as a fall in fuel prices, which led to lower transport fares.

The Annual Food Crops Inflation rates dropped to 24.1 percent in September compared to 27.1 percent recorded in August 2003. However, the monthly Food Crop Inflation rate registered a bigger increase of 3.1 percent in September compared to 0.7 percent in August 2003. This increase was attributed to the rise in the average prices of staple foods, particularly of matooke due to drought, which has affected most growing areas. Similarly, average prices of meat and poultry increased on account of short supply of cattle due to drought, foot and mouth disease and high demand from the Democratic Republic of Congo (DRC).

The Rent, Fuel & Utilities sub-group index registered an increase of 0.5 percent during the month, which was lower than 2.2 percent recorded in August 2003. This was on account of marginal increases in the average prices of charcoal and water. Health, Education & Entertainment sub-group index registered a smaller increase of 0.1 percent. This was attributed to increases in the average prices of drugs and hairdressing.

While the other sub-group indices of Beverages & Tobacco, and Household and Personal goods both dropped by -0.1 percent. The Clothing and Footwear index remained unchanged, at 0.0 percent

The developments in inflation are illustrated in Table 1 below.

Table I. Three months rolling inflation rates outturn (June –August 2003)

Period	Headline Inflation (%)		Underlying Inflation (%)		Food Crops Inflation (%)	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
July 2003	0.3	11.1	0.8	6.3	-2.2	33.5
August 2003	0.1	10.3	0.0	6.5	0.7	27.7
September 2003	0.4	9.4	-0.2	6.1	3.1	24.1

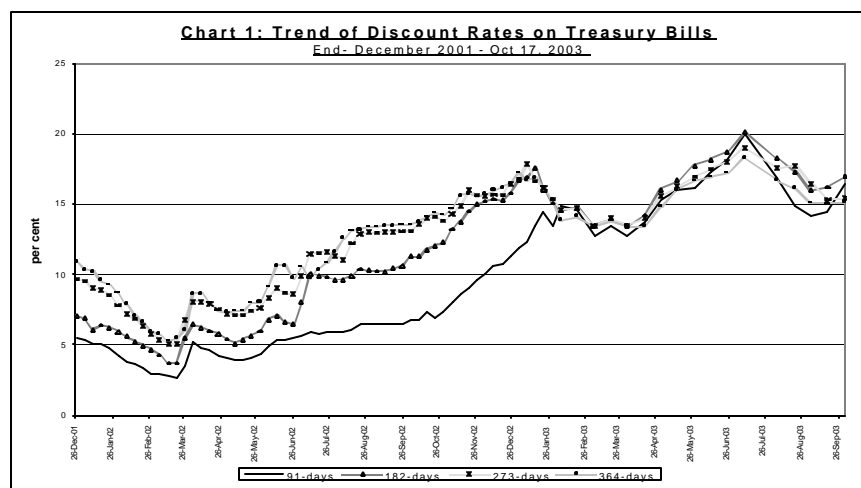
Source: Uganda Bureau of Statistics

C DEVELOPMENTS IN THE DOMESTIC MONEY MARKET AND INTEREST RATES

The downward trend in the domestic money market interest rates observed in the previous period was reversed for all tenors except the 273-day bill, in the four weeks ended October 10, 2003.

i Primary Market for Treasury bills

In the primary auction market for Treasury bills, the respective weighted annual discount rates for the 91-day, 182-day, 273-day, and 364-day bills stood at 17.17 percent, 17.46 percent, 16.69 percent and 15.57 percent, respectively, at the auction held on October 15, 2003. This compares to levels of 14.16 percent, 15.98 percent, 16.45 percent and 15.07 percent, respectively, recorded in the auction held on September 03, 2003 (see trends in Chart 1 below).



ii Secondary Market for Treasury bills

The average bid/offer rates in the secondary market for Treasury bills rose significantly for the 91-day and 182-day bills, and declined marginally for the 273-day and the 364-day papers, when compared to the quotations made four weeks ago.

As shown in Table II, the average bid/offer rates for the four weeks to October 10, 2003 were recorded at 14.43/14.18 percent, 15.16/14.90 percent, 14.98/14.73 percent and 14.64/14.39 percent for the 91-days, 182-days, 273-days and 364-days securities respectively. This compares to the respective 13.94/13.76 percent, 14.70/14.46 percent, 15.01/14.75 percent and 14.94/14.73 percent, respectively in the four weeks to September 12, 2003.

Table II: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bills over the four week period to October 10, 2003

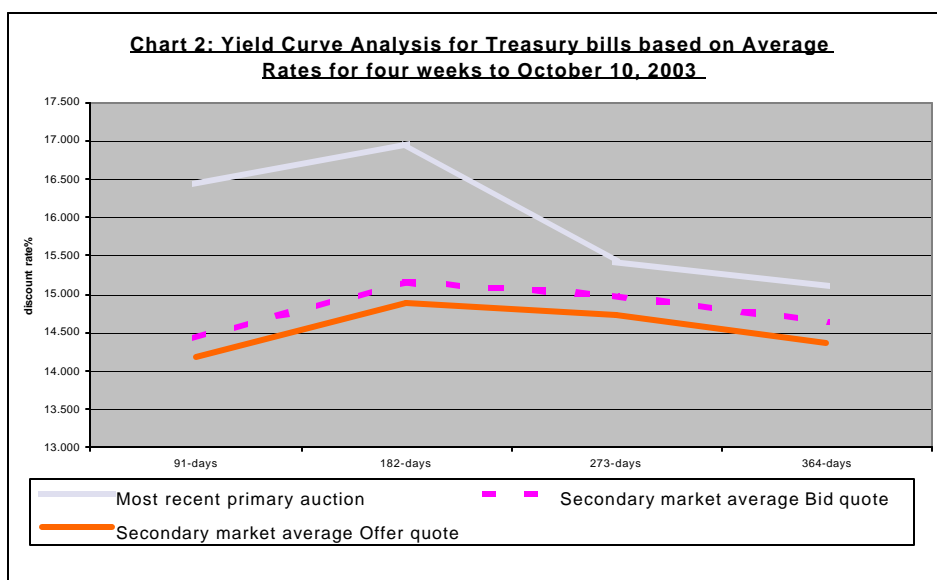
	Type of security							
	91-days		182-days		273-days		364-days	
<i>Discount rates quotation (%)</i>								
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	12.75	12.50	13.85	13.60	14.25	14.00	14.00	13.75
Max	16.60	16.35	17.08	16.83	15.55	15.30	16.10	15.85
Average	14.43	14.18	15.16	14.90	14.98	14.73	14.64	14.39
<i>Trading Activity</i>								
Transactions (Shs bill)	9.484		...		...		...
O/w Horizontal repos	0.000		...		...		...
- Av. H/Repo rate	-		...		...		...
O/w- Outright sales	9.484		...		...		...
- Av. Discount rate	15.59%		...		...		...
- Av. Effective Yield	17.40%		...		...		...

Source: Compiled from Domestic Financial Markets Department records

Total trades in the four weeks ended October 10, 2003 amounted to Shs 9.48 billion at an average discount rate of 15.59 percent, compared to Shs 5.93 billion at an average interest rate of 14.48 percent in the four weeks ended September 12, 2003. As was the case in the previous four-week period, all the trades were outright sales.

The yield curve, based on the average discount quotations in the secondary market evolved relatively in line with the developments in the primary market. However, as shown by Chart 2 below, the margins narrowed at the longer end of the market. For the fourth consecutive four week period, no rediscounts at Bank of Uganda were recorded.

Activity in the domestic inter-bank money market for the four weeks ending October 10, 2003 continued to be buoyant in the call money market (i.e. transactions of less than 30 days tenor). The most active period was the week ended September 26, 2003, when transactions worth Shs 55.10 billion were recorded, while the least activity was in the week of October 10, 2003, when Shs 11.70 billion was traded. Within the four-week period, the weighted inter-bank rate in the call market gradually went up from 6.59 percent being recorded in the week ended September 19, 2003 to 13.35 percent recorded the week ending October 10, 2003. Only one bank did not participate in the inter-bank market, as was the case in the previous period ending September 12, 2003.



iii Commercial Banks' Retail Interest Rates

There were no adjustments in the prime-lending rates of Commercial banks in the four weeks to October 03 2003. Consequently, the number of commercial banks charging prime lending rates in the ranges 16.0-18.0 percent, 18.1-20.0 and 20.1-22.0 percent remained at 3, 9 and 3 respectively. (See Table III).

**Table III: Weekly Movements in the Prime Lending Rates
(Figures are end-period)**

Prime Lending Rate (%)	Jun 03	Jul 03	Aug 03	Sep 05, 03	Oct 03, 03
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	9	2	2	3	3
18.1 – 20.0	5	9	10	9	9
20.1 – 22.0	1	4	3	3	3
22.1 - >>	0	0	0	0	0
Range (Min – Max)	16% – 20%	18% – 22%	18% – 22%	17% – 22%	17% – 22%

Source: Weekly Report of Interest rates by Commercial Banks

Information on the commercial banks' effective lending and deposit rates for the period ending August 2003 as portrayed in Table IV, shows that the effective lending rates on foreign denominated loans increased marginally from 8.92 percent in July 2003 to 8.98 percent in August 2003. The rates on shilling denominated loans increased from 19.52 percent to 22.43 percent over the same period.

Two commercial banks adjusted their indicative deposit rates downwards over the same period. The savings deposit rates remained in the range of 0-7 percent while that for the time deposits changed from 0.25-14.0 percent to 0.25-13.0 percent. The number of banks with maximum savings rates of at least 5.0 percent and those reporting a maximum time deposit rate of at least 8 percent was nine (9) in both cases, thus maintaining the position reported in the previous period.

Table IV: Commercial Banks' Lending and Deposit Rates

Weighted Average Rates (%)	Shilling Denominated				Forex Denominated			
	Jun 02	Jun 03	Jul 03	Aug 03	Jun 02	Jun 03	Jul 03	Aug 03
Lending	17.5	18.34	19.52	22.43	12.42	11.07	8.92	8.98
Demand Deposits	1.12	1.33	1.09	1.40	1.26	0.96	0.96	0.96
Savings Deposits	2.02	2.89	2.46	2.66	3.86	1.00	1.50	1.57
Time Deposits	3.64	13.27	10.43	8.33	4.59	1.73	1.47	1.47

Source: Monthly Report, BS100 Returns by Commercial Banks

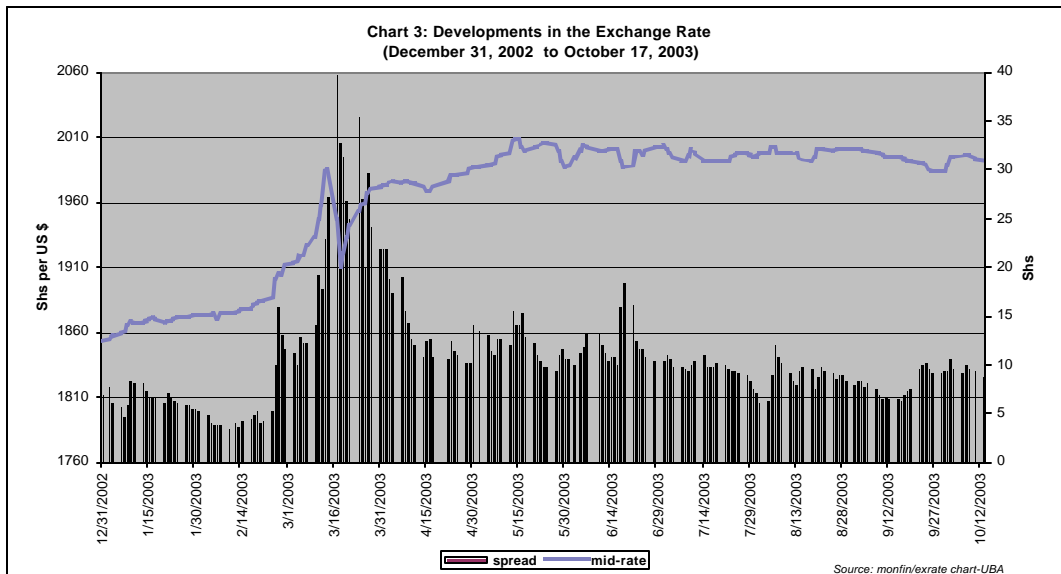
The weighted rate on shilling denominated savings registered a marginal increase from 2.46 percent in July 2003 to 2.66 percent in August 2003. The weighted time deposits rate on the other hand, declined from 10.43 percent to 8.33 percent in the same period. On the foreign currency denominated deposits, the rates on demand deposits continued to be stable at 0.96 percent while they increased marginally from 1.50 percent to 1.57 percent on the savings deposits. The time deposit rate also remained stable at 1.47 percent.

D EXCHANGE RATE AND FOREIGN EXCHANGE MARKET

Developments in the foreign exchange market indicate that there was relative stability and the Bank of Uganda did not intervene, but maintained its presence in the IFEM through sterilization operations. The Shilling initially registered strong gains against the US Dollar during the second half of September 2003 mainly due to subdued Dollar demand and improved inflows. The Shilling appreciated by 0.49 percent from Shs 1994.54 per US\$ as at September 12, 2003 to Shs 1984.68 per US\$ as at September 19, 2003. The trend, however, was short-lived when, during the first half of October 2003, the shilling depreciated by 0.38 percent from Shs 1984.68 per US\$ as at September 30, 2003 to Shs 1991.37 per US\$ as at October 13, 2003. The depreciation experienced in the first half of October, however, has been mainly on account of the increased demand as corporate companies in the telecommunication, energy, manufacturing and construction sectors became active again in the market.

Over the four weeks ended October 13, 2003, the Shilling appreciated by 0.15 percent from Shs. 1,994.54 per US \$ to Shs. 1991.37 per US \$. On a period average basis, it appreciated by 0.35 percent from an average exchange rate of Shs 1998.42 per US\$ for the four weeks ended September 12, 2003 compared to the average of Shs1991.30 per US\$ for the same period ending October 13. The average spreads between the weighted inter-banks' buy and sell rates increased slightly from Shs 8.24 during the previous period to the level of Shs 8.88. The marked movements in the spreads are a reflection of the relative calm in the IFEM market during the period under review (see Chart 3).

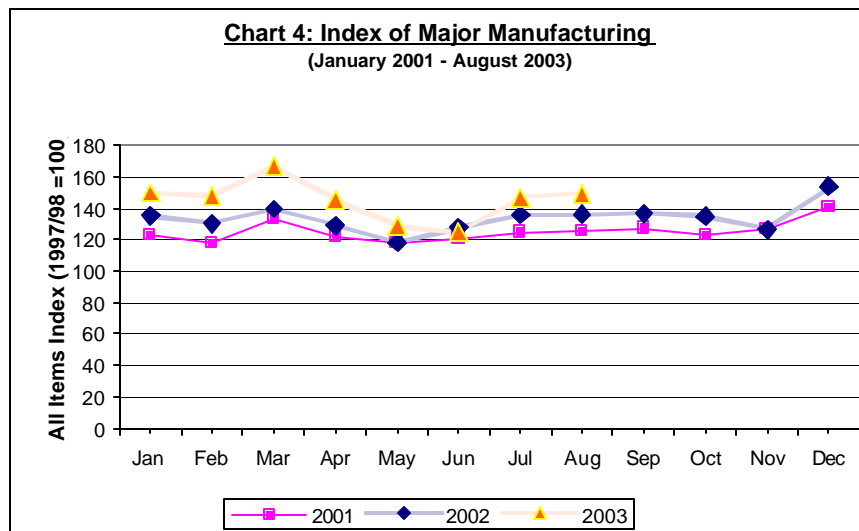
Commercial banks' daily retail sales and purchases averaged US\$5.99 million and US\$5.70 million respectively during the period September 15, 2003 to October 13th 2003, while cross currency trading averaged US\$0.99 million during the same period. BOU maintained its presence in the IFEM under the sterilization strategy geared at mopping up excess liquidity injected by poverty reducing government expenditures. Net sales of foreign exchange by Bank of Uganda on account of sterilization amounted to US \$5.7 million in the four weeks period to October 13th 2003, virtually at the same level as that posted in the preceding period ending-September 12th 2003. Bank of Uganda continues to watch market developments very closely.



E REAL SECTOR DEVELOPMENTS

i) Index of Industrial Production

Production in the major manufacturing establishments, as measured by the index of industrial production released by UBOS, increased by 18.0 percent in July and by 1.7 percent in August 2003. As seen in Chart 4 below, the index trended above its 2001 and 2002 corresponding levels over these two months. The increase in the overall index over this period was mainly on account of the beer, sugar and edible Oil categories. However, the textiles performed extraordinarily well in July when their index level rose from 56.3 in June 2003 to 117.2 on account of seasonal production for school uniforms. Textile production later returned to normal levels, thus registering a decline of 30.5 percent compared to July levels. Some other manufacturing establishments recorded cutbacks in production during August 2003. These included the cement, laundry soap and cigarettes, which were 11.3 percent, 3.8 percent and 13.2 percent respectively, below their respective July 2003 levels.



(ii) Trading at the Uganda Securities Exchange (USE)

In September 2003, trading at the Uganda Securities Exchange rose sharply compared to activity in August 2003. As seen in Table V below, the turnover in September 2003 was Shs 123.3 million, compared to Shs 12.0 million recorded in August 2003. In line with this rise in turnover, the number of shares also leaped to 154,508 from 2,798 over the same period. The Bank of Baroda Uganda (BOBU) counter, registering 86 percent of the total turnover for the month, dominated trading. British American Tobacco Uganda (BATU) that registered no activity in August 2003 came in as the second most active counter claiming 10 percent of the total turnover of September 2003. Two counters; East African Breweries Limited (EABL) that registered modest activity in August 2003 and Kenya Airways (K.A) registered no activity in September 2003. Share prices remained stagnant during the month.

Table V: Trading at Uganda Securities Exchange

	Mar '03	Apr '03	May'03	Jun '03	Jul '03	Aug'03	Sep '03
Total Turnover (Shs Million)	17.0	40.1	27.5	11.0	49.6	12.0	123.3
No. Of Deals	12	17	12	13	4	7	9
No. Of Shares	5,253	29,949	6,189	4,465	29,201	2,798	154,508

Compiled from records of Uganda Securities and Exchange

F GOVERNMENT BUDGETARY OPERATIONS

In the month of August 2003, the preliminary estimate for government budgetary operations show that although both revenue and expenditure levels were higher than programmed, the overall fiscal balance for this period was lower than programmed.

i) Revenue and Grants

In August 2003, total revenue and budget support grant receipts were estimated at Shs 158.0 billion. This was an improvement compared with Shs 143.1 billion realised in July 2003. This outturn was also higher than the programmed level of Shs 145.2 billion due to higher than anticipated budget support grants during the month.

During August 2003, total domestic revenue declined by Shs 6.6 billion or 5.4 percent from Shs 121.4 billion collected in July 2003 to Shs 114.8 billion. Notably, the URA revenue collections were below the programmed target for the month by Shs 14.1 billion mainly due to lower than expected yields from major revenue heads – PAYE, corporate tax, excise duty on beer, VAT on other goods and VAT on imports – which offset the surpluses generated by other revenue heads. The preliminary outturn for the non-tax revenue collections for August 2003 is estimated at Shs 1.2 billion. This was Shs 0.8 billion lower than the July 2003 collections and higher than the anticipated target for the month of Shs 2.6 billion.

Budget support grants generated a good outturn despite the prevalence of a more appreciated exchange rate than projected. The total disbursements for August 2003 were estimated at Shs 43.9 billion, which was much higher than the programmed amount for the month of Shs 14.9 billion. This was largely because bi-lateral donors disbursed more Poverty Alleviation Fund (PAF) grants than anticipated.

**Table VI: Summary of Government Budgetary Operations:
(July - August 2003 (Billion Shs))**

	Revised Budget 2003/04	Prel. Jul 2003	Prel. Aug 2003	Prog. Aug 2003
Total Tax & Import Support Receipts	2,228.6	143.1	158.0	145.2
Total Domestic Revenue	1,690.9	121.4	114.8	130.3
URA Excluding Refunds/Govt. Taxes	1,655.2	119.4	113.6	127.7
Non URA Revenues	35.7	2.0	1.2	2.6
Import Support Grants	537.7	21.7	43.3	14.9
Expenditure & Lending	2,358.1	99.8	173.9	161.9
Current Expenditure	1,732.4	94.5	143.4	133.4
Development Expenditure	572.3	6.0	32.4	27.2
Others 1/	52.9	(0.7)	(1.9)	1.3
Overall Surplus (Deficit)	(129.5)	43.3	(15.9)	(16.7)
Excluding Grants	(667.2)	21.6	(59.2)	(31.6)

Source: Ministry of Finance, Planning and Economic Development

Notes:

1/ Includes Net Lending/Repayments, Arrears Repayments and Contingency.

ii) Expenditure

In the month of August 2003, government's expenditure and net lending (excluding cheque float reduction and arrears payment) was estimated at Shs 173.9 billion up from Shs 99.8 billion registered in July 2003. This outturn was higher than the programmed level of Shs 161.9 billion, by Shs 12.1 billion. The locally funded expenditure (recurrent expenditure, locally funded capital expenditure and net lending but excluding interest payment on external debt) amounted to Shs 167.7 billion. The current expenditures for the month were estimated at Shs 143.4 billion measured against the anticipated level of Shs 133.4 billion. Out of the total current expenditure, a total of Shs 56.6 billion (32.5 percent) was paid out as wages and salaries. Interest payments took up Shs 19.1 billion (or 13.3 percent), representing an increase from Shs 17.9 billion spent in July 2003. Other recurrent expenditures rose from Shs 25.4 billion in July 2003 to Shs 62.8 billion in August 2003, while development expenditures were estimated at Shs 32.4 billion, up from Shs 6.0 billion in July 2003. On a cumulative basis, the government spent Shs 273.7 billion during the first two months of 2003/04 accounting for 85.3 percent of the total expenditure target of Shs 321.1 billion.

iii) The Overall fiscal balance

The overall fiscal balance for August 2003 was a deficit of Shs 15.9 billion compared to a deficit of Shs 16.7 billion, which was anticipated in the programme. Excluding grants, the deficit amounted to Shs 59.2 billion. The deficit was financed by domestic sources from which the government borrowed Shs 24.2 billion. However, government repaid principal on external debt amounting to Shs 8.4 billion.

G THE BALANCE OF PAYMENTS DEVELOPMENTS

In August 2003, the current account balance is estimated at a deficit of US \$ 9.18 million, compared to a deficit of US \$ 18.78 million over July 2003. The capital and financial account is estimated at a surplus of US\$ 27.53 million compared to a surplus of US\$ 18.52 million in July 2003. Thus, the overall balance is estimated at a surplus of US\$ 18.35 million in August 2003.

i) Exports

Total Exports (developments for the month of August 2003)

Total export proceeds in the month of August are estimated at about US\$45.04 million, which is 6.9 percent lower than the value of US\$48.38 million realized in the month of July 2003.

Coffee Exports

Coffee exports during the month of September 2003 amounted to 176.65 (60-kilogram) thousand bags worth US\$6.93 million. This was a decrease of about 12.1 percent in volume and 12.3 percent in value compared to the August exports. The average realized export price in September stood at 65 cents per kilo (US\$0.65 per kilogram), down by 1 cent compared to the price in August 2003.

Non-coffee Exports

Non-coffee exports for the month of August 2003 are estimated at US\$37.13 million, which represents a decrease of about 0.2 per cent compared to US\$37.22 million (revised) realized in July 2003. However, there was an improvement of 26.4 per cent of non-coffee exports for the month of August 2003 compared to the same month last year (US\$29.37 million).

In particular, increases in the value of non-coffee exports were noted in gold, cotton, maize and flowers. For the month of August 2003 compared to the month of July 2003, gold exports increased from US\$0.11 million to US\$2.14 million, cotton exports rose from US\$0.32 million to US\$0.84 million, maize exports increased from US\$0.59 million to US\$2.02 million and flower exports rose from US\$1.15 million to US\$2.25 million.

Exports of tea, tobacco, electricity, international fish, hides and skins, and simsim amounted to US\$2.11, US\$1.68, US\$1.05, US\$5.68, US\$0.32 and US\$0.18 million showing reductions of 59.8 percent, 4.7 percent, 18.6 percent, 22 percent, 64.4 percent and 62.1 percent respectively, over the July export proceeds. Oil re-exports also registered a decline of 24.5 per cent in value from US\$4.49 million in the month of July to US\$3.39 million in the month of August due to the scaling down of the United Nations operations in Congo. (For more details see appendix table 1: exports of merchandise).

ii) Imports

Total imports are estimated at US\$124.98 million during August 2003. Private sector imports are estimated at US\$110.64 million for the month of August 2003. This is a decrease of 6.8 per cent compared to the July 2003 import bill, which amounted to US\$118.72 million. Oil imports accounted for US\$13.06 million in August 2003, about 10.5 percent of total imports. This was a decrease of 3.8 per cent compared to US\$13.57 million spent in July 2003 and a decrease of 0.5 percent compared to the oil bill of August 2002.

Government imports are estimated at US\$14.34 million for the month of August 2003, which is 11.4 per cent higher than July 2003 imports, which amounted to US\$12.88 million. The increase was due to an increase in non-project imports by about US\$2.17 million. (See Appendix Table 5)

iii) Other Inflows and Outflows

Official aid (excluding project aid but including resources from the HIPC¹ Initiative) inflows amounting to about US\$21.65 million was disbursed in August. Private transfer inflows are estimated at US\$41.99 million for the month of August, about US\$7.89 million higher than the estimate for the month of July 2003. Private transfer outflows are estimated at US\$9.77 million, thus net private transfers amounted to US\$32.21 million during the month of August.

Official debt service (excluding IMF payments) is estimated at US\$7.31 million for the month of August 2003. No IMF principal obligations were externalized in August 2003.

H MONETARY AGGREGATES AND FINANCIAL SECTOR AGGREGATES

(i) Banking Activities²

Broad Money

Broad Money M3, which comprises currency in circulation plus all private deposits, expanded by 0.7 percent to Shs2359.9 billion between July 2003 and August 2003. This represents a turnaround in growth of money supply, compared to a decline of 1.2 percent at end-July 2003. In the corresponding period during the last financial year, M3 grew by the same percentage. The year-on-year growth rate for M3 is recorded at 22.0 percent; while growth relative to June 2003 was 0.6 percent.

M2A, comprising of M3 less foreign currency deposits of the private sector, grew by 3.3 percent to Shs1793.8 billion from Shs1736.6 billion in July 2003. This represents a major pick up in money supply, compared to a decline of 0.7 percent for July 2003. On an annual basis, M2A growth was 18.9 percent, while it was 2.5 percent over its June 2003 level. The developments in money supply are shown in Table VI below.

Net Foreign Assets (NFA)

Between July 2003 and August 2003, the NFA of the banking system declined by 2.3 percent or Shs49.1 billion to Shs 2070.2 billion. At BOU, NFA shrunk by Shs24.7 billion. In particular, foreign reserves at BoU dropped by Shs 29.8 billion or US\$ 17.4 million. At Commercial banks, NFA fell by 4.3 percent or Shs24.4 billion.

Net Claims on Government (NCG)

The government's net position with the banking system (NCG) as at end-August 2003 was a borrowing of Shs520.5 billion, up by 3.8 percent or Shs19.0 billion relative to July 2003 (Table VI). At BoU, the government drew down its savings by Shs. 10.7 billion over the month, mainly on account of a rise in advances, which offset the rise in government deposits of Shs63.1 billion. At commercial banks, net claims on Government increased by Shs8.4 billion during August 2003. This was mainly on account of a rise in Treasury bill holdings by Shs29.4 billion, which offset a rise in Government deposits of Shs21.2 billion. Relative to June 2003, the claims of the banking system on government increased by Shs130.1 billion or 33 percent.

² Based on the Preliminary Monetary Survey for August 2003

Private Sector Credit (PSC)

At end-August 2003, the stock of outstanding credit to the private sector by the banking sector stood at Shs881.0 billion (Table VI), of which Shs6.1 billion was held by BOU and Shs874.9 billion by commercial banks. This represents growth of 1.3 percent (or Shs11.6 billion) from end July 2003. The year-on-year growth rate in PSC is recorded at 29.8 percent for end-August 2003, while relative to June 2003, PSC grew by Shs32.4 billion or 3.8 percent.

Credit Flows

During August 2003, the total (shilling and foreign currency) gross extensions amounted to Shs105.1 billion, while recoveries were Shs97.7 billion resulting in net extensions of Shs7.37 billion. After accounting for reductions and additions of capitalised interest there was rise in the stock of credit of approximately Shs11.85 billion³ (see Appendix Table 1). During the month, commercial banks extended shilling loans amounting to Shs71.6 billion, and recovered Shs64.1 billion, thus net extensions were Shs7.5 billion. Net recapitalised interest stood at Shs3.6 billion and therefore, the net change in the stock of shilling loans to the private sector was Shs11.1 billion (see Appendix Table 2). For foreign currency loans, gross extensions stood at Shs33.5 billion, while recoveries were Shs33.6 billion, yielding net extensions of Shs-0.09 billion (See Table 3). After taking into account effects of capitalised interest, the net growth in the stock foreign currency loans was Shs0.79 billion.

Table VII: Developments in Monetary and Credit Aggregates (June 01 – August 03)

<i>(in billion shillings unless otherwise stated)</i>	June 2001	June 2002	Dec. 2002	June 2003	July 2003	August 2003
Net Foreign Assets (NFA)	1211.0	1552.6	1594.2	2101.3	2119.3	2070.2
Domestic Credit	1106.8	1151.4	1366.6	1247.2	1378.7	1409.4
Net Credit to Gov't (NCG)	460.6	482.0	587.8	390.4	501.5	520.5
Claims on the Private Sector	634.9	661.7	772.1	848.6	869.0	881.0
M3	1583.7	1925.4	2055.0	2373.4	2344.6	2359.9
Forex deposits	390.2	434.8	424.9	624.2	608.0	566.1
M2A	1193.4	1490.6	1630.2	1749.2	1736.6	1793.8
Forex/M3 (%)	24.6	22.6	20.7	26.3	25.9	24.0
Demand Dep./M3 (%)	30.5	32.1	31.1	30.6	31.1	30.2
Term Dep./M3 (%)	23.5	22.8	24.7	23.7	23.2	23.8
Currency/M3 (%)	22.8	22.1	21.2	19.4	19.8	22.1

Source: Monetary Survey, Research Department, Bank of Uganda

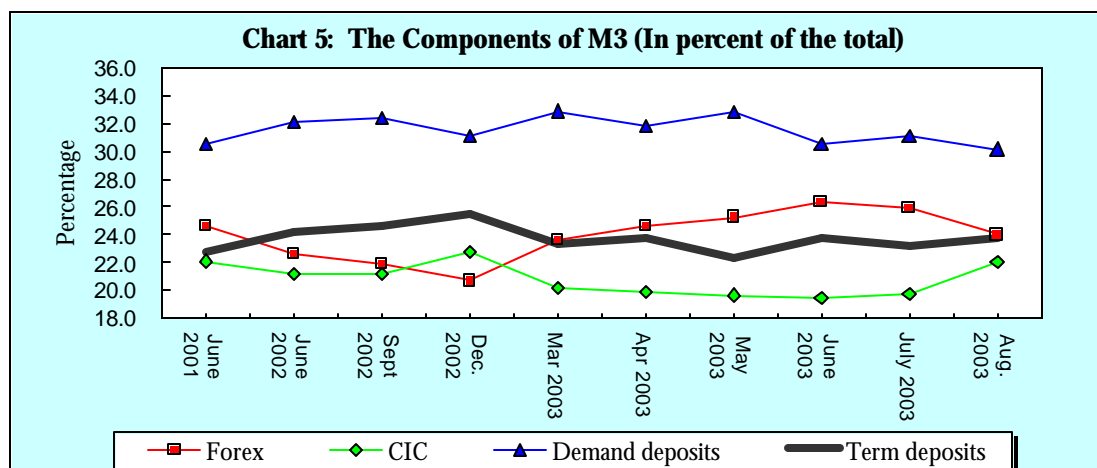
(Appendix Tables 1-3 summarize the evolution of the monthly change in outstanding loans and advances of commercial banks for the period January 2002 to August 200)

Liabilities of the Banking System

On the liabilities side, foreign currency accounts fell by 6.9 percent or Shs41.9 billion to Shs566.1 billion in August 2003 (see Table VII). In US\$, foreign currency accounts decreased by US\$21.7 million to US\$283.0 million. Demand deposits declined by 2.4 percent or Shs17.9 billion to Shs711.6 billion, while term deposits (time, savings and CDs) grew by 3.2 percent to Shs560.9 billion. Currency in circulation (CIC) grew by 12.4 percent or Shs57.5 billion to Shs521.3 billion. Reflecting these developments, the ratio of foreign currency deposits to M3 fell to 24.0 percent from 25.9 percent recorded in July 2003. The ratio of demand deposits to M3 fell to 30.2 percent from 31.0 percent in July 2003, while that of term deposits was at 23.8 percent from 23.2 percent

³ 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.

in July 2003. However, the ratio of CIC to M3 rose to 22.1 percent compared to 19.8 percent in June 2003. The trends of the ratios are shown in Chart 5 and Table VII above.



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

Assets

In the month of August 2003, total assets and liabilities of the non-bank financial institutions grew marginally to Shs 134.87 billion from Shs 134.33 billion recorded at the end of July 2003. This represents a growth rate of 0.4 percent, compared to the growth rate of 1.6 percent realised in the month of July 2003. During this period, the growth in the assets was mainly attributed to the rise in the balances with commercial banks and associated companies and increased investment in fixed assets.

Loans and advances

The stock of NBFIs outstanding loans and advances to the private sector grew slightly by 0.8 percent to Shs 75.46 billion as at end-August 2003 compared with the growth rate of 1.3 percent registered in the preceding month. The secured and unsecured loans grew by 1.5 percent to Shs 10.72 billion compared with an increase of 7.2 percent in July 2003. Over the same period, the mortgage loans rose slightly by Shs 0.64 billion or 1.7 percent, while the administered loans fell by 0.9 percent to Shs 26.35 billion. The building and construction sector continued to hold the largest share of loans and advances from the credit institutions at approximately 85.9 percent of the total as at end-August 2003. The trade and commerce sector accounted for the second largest share of the total loans and advances at 10.6 percent, up from 9.8 percent recorded in July 2003.

Deposits

During the month of August 2003, private sector deposits in the credit institutions rose slightly by 0.1 percent to Shs 51.66 billion. This rise was mainly on account of the growth in the time deposits of 2.4 percent to Shs 7.41 billion. In contrast, the savings deposits declined by Shs 0.11 billion or 0.3 percent to Shs 44.25 billion over the same period. Other deposits, which mainly comprise of funds collected on behalf of government from the beneficiaries of the government pool house sale scheme, rose slightly by 2.0 percent from Shs 22.11 billion at end-July 2003 to Shs 22.54 billion at the end of August 2003.

iii) **Leasing**

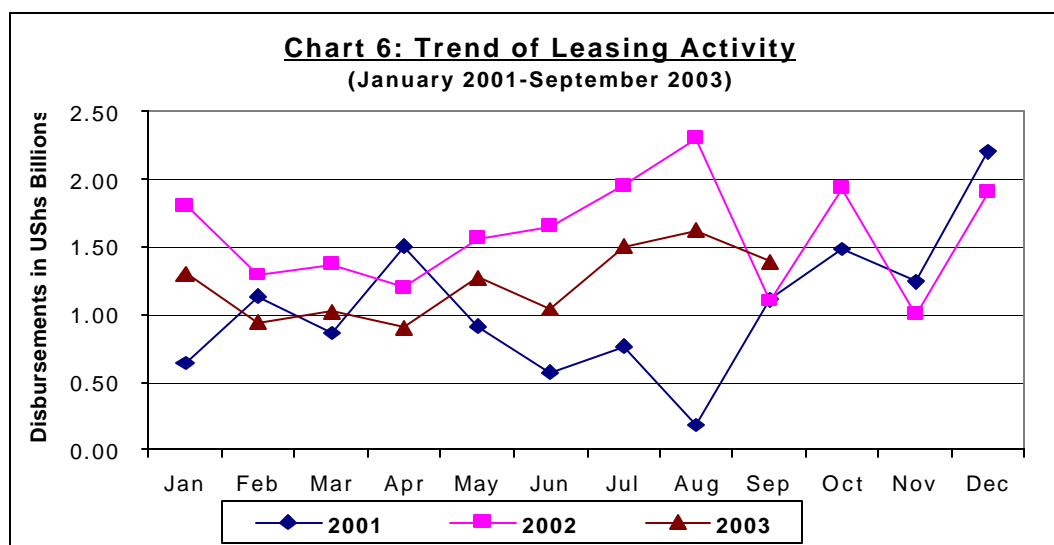
The value of assets leased in August 2003 rose to Shs 1.62 billion from Shs 1.50 billion in July 2003 but declined to Shs 1.39 billion in September 2003. Compared to September 2002, there was an increase of 26 percent in the value of assets leased in September 2003.

**Table VII. Leasing Activity disbursements
in Shs billions**

	Mar	Apr	May	Jun	Jul	Aug	Sep
2001	0.86	1.50	0.91	0.57	0.76	0.18	1.11
2002	1.37	1.20	1.56	1.65	1.95	2.30	1.10
2003	1.02	0.90	1.27	1.04	1.50	1.62	1.39

Source: Bank of Uganda

From Chart 6 below, in 2003, the trend of leasing activity is observed to fluctuate more steadily in 2003 than in 2001. Also, leasing activity in 2003 seems to move at the same rate as in 2002 although the disbursement values are lower in 2003.



I POLICY OUTLOOK

Bank of Uganda is set to maintain the cautious monetary policy stance to ensure that inflation remains low and stable. It is also committed to manage liquidity in a manner that does not cause instability in both the domestic and foreign exchange markets.

A. Table 1: 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							
Q1	254.33	(246.12)	8.21	6.20	(15.67)	(9.47)	(1.26)
Q2	255.69	(250.61)	5.08	5.05	(14.99)	(9.94)	(4.86)
Half 1 2001/02	510.02	(496.74)	13.29	11.25	(30.66)	(19.41)	(6.12)
Q3	249.06	(219.55)	29.52	7.02	(21.24)	(14.22)	15.30
Q4	264.20	(255.30)	8.90	10.03	(15.77)	(5.74)	3.16
Half 2 2001/02	513.27	(474.85)	38.41	17.06	(37.01)	(19.95)	18.46
2001/2002	928.31	(886.08)	42.23	27.01	(64.65)	(37.64)	4.59
2002/2003							
July	87.65	(88.32)	(0.67)	5.35	(5.57)	(0.22)	(0.89)
August	100.43	(89.55)	10.87	4.43	(6.50)	(2.07)	8.81
Sept	56.92	(77.68)	5.29	4.21	(3.83)	0.38	5.67
Q1	271.05	(255.55)	15.50	13.98	(15.89)	(1.91)	13.59
October	101.57	(72.78)	28.79	6.84	(4.10)	2.74	31.53
November	109.29	(79.80)	29.49	6.91	(3.86)	3.05	32.54
December	111.40	(76.16)	35.24	7.94	(9.57)	(1.63)	33.61
Q2	322.26	(228.74)	93.51	21.69	(17.52)	4.16	97.68
Half 1 2002/03	593.31	(484.29)	109.01	35.67	(33.41)	2.25	111.27
Jan 2003	121.57	(94.59)	56.98	2.57	(2.70)	(0.13)	26.85
February	114.92	(93.76)	21.16	3.09	(3.73)	(0.64)	20.52
March	112.20	(96.31)	15.90	3.82	(2.75)	1.07	16.97
Q3	348.69	(284.65)	64.04	9.48	(9.18)	0.30	64.34
April	99.66	(116.52)	(16.86)	3.56	(1.22)	2.33	(14.52)
May	142.80	(122.79)	20.00	5.84	(2.18)	3.65	23.65
June	104.75	(112.23)	(7.48)	4.97	(3.42)	1.55	(5.93)
Q4	347.21	(351.54)	(4.33)	14.37	(6.83)	7.54	3.20
Half 2 2002/03	695.90	(636.19)	59.71	23.85	(16.01)	7.84	67.55
2002/2003	1,289.21	(1,120.48)	168.72	59.51	(49.42)	10.09	178.81
2003/2004							
July	111.51	(97.42)	14.09	5.24	(3.82)	1.41	15.50
August	105.06	(97.69)	7.37	13.10	(8.62)	4.48	11.85

Source: Research Department, Bank of Uganda

**Table 2: 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							
Q1	167.24	(178.30)	(11.06)	4.39	(13.47)	(9.08)	(20.14)
Q2	169.88	(173.45)	(3.57)	4.38	(11.29)	(6.91)	(10.49)
Half 1 2001/02	337.12	(351.75)	(14.63)	8.77	(24.77)	(16.00)	(30.63)
Q3	171.14	(160.07)	11.07	5.83	(18.36)	(12.52)	(1.45)
Q4	190.31	(181.50)	8.81	8.05	(11.83)	(3.79)	5.03
Half 2 2001/02	361.45	(341.56)	19.89	13.88	(30.19)	(16.31)	3.57
2001/2002	698.57	(693.31)	5.26	22.65	(54.96)	(32.31)	(27.05)
2002/2003							
July	65.46	(63.74)	1.72	5.20	(5.23)	(0.02)	1.69
August	74.04	(66.72)	7.32	3.67	(5.08)	(1.41)	5.91
Sept	56.92	(51.49)	5.44	3.69	(2.87)	0.82	6.26
Q1	196.42	(181.95)	14.47	12.56	(13.18)	(0.62)	13.85
October	68.25	(55.15)	13.10	6.49	(3.98)	2.51	15.61
November	82.69	(60.13)	22.56	6.41	(3.70)	2.71	25.27
December	78.42	(57.34)	21.08	6.45	(8.18)	(1.73)	19.36
Q2	229.36	(172.61)	56.75	19.35	(15.86)	3.49	60.24
Half 1 2002/2003	425.78	(354.56)	71.22	31.91	29.03	2.88	74.09
Jan 2003	90.24	(66.42)	23.82	2.22	(2.34)	(0.12)	23.70
February	60.77	(62.95)	(2.18)	2.28	(3.51)	(1.23)	(3.41)
March	71.01	(53.68)	17.32	3.51	(2.59)	0.92	18.24
Q 3	222.02	(183.05)	38.97	8.01	(8.44)	(0.43)	38.54
April	71.88	(71.49)	0.40	3.13	(1.11)	2.02	2.42
May	86.75	(58.52)	28.23	4.63	(1.76)	2.87	31.10
June	81.21	(85.38)	(4.17)	4.19	(2.76)	1.42	(2.74)
Q 4	239.84	(215.38)	24.46	11.95	(5.63)	6.31	30.78
Half 2 2002/03	461.86	(398.44)	63.43	19.96	(14.07)	5.89	69.31
2002/2003	887.64	(753.00)	134.65	51.87	(43.11)	8.76	143.41
2003/2004							
July 2003	74.54	(70.30)	4.24	4.79	(2.99)	1.79	6.03
August	71.59	(64.13)	7.46	11.74	(8.14)	3.60	11.06

Source: Research Department, Bank of Uganda

**Table 3: Monthly Change in outstanding loans and advances of Commercial banks
(Foreign Currency Loans, billion Shs)**

Period	Extensions ¹	Recoveries ²	Net extensions ³⁼¹⁺²	Cap interest ⁴	Repd cap int ⁵	Net Cap int ⁶⁼⁴⁺⁵	Net change 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							
Q1	87.09	(67.83)	19.26	1.81	(2.20)	(0.39)	18.88
Q2	85.81	(77.16)	8.65	0.67	(3.69)	(3.02)	5.63
Half 1 2001/2002	172.90	(144.99)	27.92	2.48	(5.89)	(3.41)	24.51
Q3	77.92	(59.48)	18.44	1.19	(2.88)	(1.69)	16.75
Q4	73.89	(73.81)	0.08	1.99	(3.94)	(1.95)	(1.86)
Half 2 2001/2002	151.81	(133.29)	18.53	3.18	(6.81)	(3.64)	14.89
2001/2002	229.74	(192.77)	36.97	4.36	(9.69)	(5.33)	31.64
2002/2003							
July	22.20	(24.58)	(2.38)	0.14	(0.34)	(0.19)	(2.58)
August	26.39	(22.83)	3.56	0.76	(1.41)	(0.66)	2.90
Sept	26.04	(26.19)	(0.15)	0.52	(0.96)	(0.44)	(0.59)
Q1	74.63	(73.60)	1.03	1.42	(2.71)	(1.29)	(0.27)
October	33.32	(17.64)	15.68	0.35	(0.12)	0.23	15.92
November	26.60	(19.67)	6.92	0.50	(0.16)	0.34	7.27
December	32.98	(18.82)	14.16	1.49	(1.39)	0.10	14.26
Q2	92.90	(56.13)	36.77	2.34	(1.67)	0.67	37.44
Half 1 2002/2003	167.53	(129.73)	37.80	3.76	(4.38)	(0.62)	37.17
Jan 2003	31.33	(28.17)	3.16	0.35	(0.36)	(0.01)	3.15
February	54.15	(30.81)	23.34	0.82	(0.23)	0.59	23.93
March	41.20	(42.62)	(1.42)	0.31	(0.16)	0.15	(1.28)
Q3	126.67	(101.60)	25.07	1.47	(0.74)	0.73	25.80
April	27.77	(45.03)	(17.25)	0.42	(0.11)	0.31	(16.94)
May	56.05	(64.28)	(8.23)	1.21	(0.42)	0.78	(7.45)
June	23.54	(26.85)	(3.31)	0.79	(0.66)	0.13	(3.18)
Q4	107.36	(136.16)	(28.80)	2.42	(1.19)	1.22	(27.57)
Half 2 2002/03	234.03	(237.76)	(3.72)	3.89	(1.93)	1.95	(1.77)
2002/2003	401.56	(367.49)	34.07	7.65	(6.31)	1.33	35.41
2003/2004							
July	36.97	(27.12)	9.85	0.45	(0.83)	(0.38)	9.47
August	33.47	(33.56)	(0.09)	1.36	(0.48)	0.88	0.79

Source: Research Department, Bank of Uganda

Table 4: Exports of Merchandise, US\$ Million.**Appendix Table 1**

EXPORTS OF MERCHANDISE(in millions of US\$)	Jul-02	Aug-02	Sep-02	Jul-03	Aug-03	Sep-03
Total Exports (in US\$ million)	40.50	36.96	35.87	48.38	45.04	
1. Coffee						
Gross coffee shpmt (vol) (60-Kg bags)	0.43	0.29	0.25	0.29	0.20	0.18
Av. unit value	0.45	0.43	0.45	0.65	0.66	0.65
Value of total shipment(BOP)	11.57	7.59	6.82	11.16	7.91	6.93
2. Non-Coffee export values(in US \$ million)	28.93	29.37	29.05	37.22	37.13	
Electricity	1.25	1.32	1.44	1.29	1.05	
Gold	6.10	5.19	3.97	0.11	2.14	
Cotton	0.92	0.56	0.00	0.32	0.84	
Tea	1.97	1.39	2.13	5.25	2.11	
Tobacco	1.06	2.25	0.80	1.76	1.68	
Fish & its prod. (International)	5.98	6.67	7.14	7.27	5.68	
Fish & its prod. (Regional)	1.97	2.20	2.36	2.40	1.87	
Hides & skins	0.59	0.15	0.19	0.89	0.32	
Simsim	0.07	0.01	0.08	0.48	0.18	
Maize	0.73	0.62	0.61	0.59	2.02	
Beans	0.06	0.43	0.23	0.24	0.25	
Flowers	1.43	1.36	1.31	1.15	2.25	
Oil re-exports	0.05	0.04	0.75	4.49	3.39	
Cobalt	0.73	1.07	0.12	0.00	0.00	
Others	6.01	6.13	7.91	10.99	13.37	

Source **Research Department, Bank of Uganda**

Table 5: Imports of Merchandise, US\$ Million

	Jul-02	Aug-02	Jul-03	Aug-03
Total Imports (Millions US\$)	112.11	96.58	131.60	124.98
Government Imports	14.23	10.24	12.88	14.34
Project	8.17	8.37	12.37	11.66
Non-Project	6.06	1.87	0.51	2.69
Private Sector Imports	97.89	86.34	118.72	110.64
Oil	13.26	13.12	13.57	13.06
Non-Oil	70.15	64.89	100.69	92.16
Estimated imports	14.48	8.33	4.46	5.42

Source **Research Department, Bank of Uganda**