



MONTHLY ECONOMIC REVIEW

**SEPTEMBER
2004**

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EXECUTIVE SUMMARY

Monetary Policy Stance and Actions

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

For the four-weeks period ended September 03, 2004:

- Net-issuance of Treasury bills, Treasury bonds and daily sales of foreign exchange under the sterilization strategy were used to sterilize liquidity, while the Repo instruments facilitated the short-term, normally fine-tuning operations.
- In line with market developments, the Rediscount rate and Bank rate that were 12.60 percent and 13.60 percent, respectively, by August 06, 2004, had increased to 13.10 percent and 14.10 percent, respectively by September 03, 2004.
- Bank of Uganda maintained its presence in the foreign exchange market under the sterilization profile, but also intervened to curb instability therein. Net sales of forex of US \$ 6.0 million over the four weeks to September 03, 2004, were higher than US \$ 2.6 million effected in the corresponding period to August 06, 2004.

Inflation Developments

The upward pressure on inflation observed in July 2004, continued in August 2004.

- The annual headline inflation rate for August 2004 was 4.7 percent, compared to the rate of 1.8 percent observed in July 2004.
- The annual underlying inflation rate increased to 3.7 percent in August 2004 from 3.0 percent in July 2004.

Real Sector Developments

- Trading at the Uganda Securities Exchange (USE) declined in August 2004, with the total turnover dropping by 60.7 percent. Trading continued to be very vibrant at the Uganda Clays Limited and Bank of Baroda counters. Market capitalization rose by 6.7 percent and the All Share index rose from 331.5 in July 2004 to 353.7 by end-August 2004.

Domestic Securities and Money Market Developments

Interest rates in the domestic securities and money markets were on a gradual upward trend over the four weeks ended-September 03, 2004.

- In a continuous effort to promote secondary market trading through increasing the volume of tradable securities, and to create benchmark securities, Bank of Uganda re-opened the 2-year bond on August 11, 2004. The Shs 30.00 billion offer was over subscribed by Shs 10.00 billion. At a weighted average price of 92.97 per Shs 100, the resultant yield for this 10.00 percent coupon bond was 15.11 percent, compared to 13.67 percent in the original issue of the same bond effected in June 2004. This yield remains higher than 13.56 percent, 12.80 percent and 13.48 percent recorded for the most recent auctions of the 2-year, 5-year and 10-year bonds, respectively.
- In the primary auction market for Treasury bills, the weighted annualized yields on the 91-day, 182-day, 273-day, and 364-day bills stood at 7.71 percent, 9.03 percent, 13.55 percent and 13.84 percent, respectively, at the auction held on September 01, 2004. This compares to levels of 7.29 percent, 8.17 percent, 13.35 percent and 13.64 percent, respectively, recorded in the auction held on August 04, 2004.
- The secondary market for all government securities is still minimal and mainly concentrated in the over-the-counter trades by primary dealers as the spreads in the bid/offer rates are still very attractive. The four week-period average indicative bid/offer yields-to-maturity in the secondary market for the 2-year and 5-year bonds were quoted at 14.09/13.88 percent and 15.02/14.80 percent, an increase from the respective 13.98/13.78 percent and 13.79/13.52 percent reported in the previous four week period. On the other hand, the average bid/offer rates quoted for the 3-year and 10-year bonds marginally declined from 15.09/14.89 percent and 17.89/16.92 percent of the previous period to August 06 2004 to 14.97/14.73 percent and 17.68/16.83 percent, respectively. On the other hand, the bid/offer discount rates in the secondary market for respective Treasury bills maintained the upward trend for all papers (maturities) in the period under review
- The yield curve based on the average yield-to-maturity quotations in the secondary market evolved closely in line with the developments in the primary market. However, relatively wide margins between the two curves were observed at the longer end of the market as the curve derived from the primary market remained inverted between the 3-year and 5-year papers and dropped below that from the secondary market
- Activity in the domestic inter-bank and money markets for the four weeks ended September 03, 2004 continued to be buoyant in the call money market (i.e. transactions of less than 30 days in tenor).
- No commercial bank adjusted the prime rate over the period under review. Consequently the range of these rates for the banking system remained at 16-21 percent as was recorded in the previous four weeks to August 06, 2004.
- The lending rate on foreign denominated loans increased from 8.07 percent in June 2004, to 9.13 percent at the end of July 2004, while the rates on shilling denominated loans declined from 20.88 percent to 19.92 percent over the same period respectively. Rates on all shilling denominated deposits increased during the period under review. The demand deposit rate on foreign currency denominated deposits marginally increased from 1.00 percent to 1.08 percent while the rate on savings

deposits remained unchanged at 1.45 percent. Time deposits rate increased from 2.76 percent to 3.37 percent over the same period.

Monetary and Financial Aggregates Developments

These developments cover both the banking system and the non-bank financial institutions.

- In July 2004, broad money aggregates M3 increased marginally by about 0.3 percent, while M2A held steady, compared to increases of 6.9 percent and 8.2 percent, respectively, in June 2004. The year-on-year growth rates for M3 and M2 over the year to July 2004 were 9.6 percent and 11.0 percent, respectively.
- While net credit to government by the banking system increased by Shs 56.1 billion (29.3 percent) during July 2004, private sector credit (PSC) increased by Shs 13.2 billion or 1.3 percent over this period. The year-on-year growth in PSC was 15.7 percent.
- On the liabilities, the respective shares in M3, of currency in circulation, shilling term deposits, shilling demand deposits and forex denominated deposits stood at 21.0 percent, 24.0 percent, 29.7 percent and 25.3 percent, respectively, by end-July 2004, compared to respective levels of 20.4 percent, 31.4 percent, 23.1 percent and 25.1 percent in June 2004.
- In July 2004, the total assets of the Non-Bank Financial Institutions grew by 6.28 percent. This compares to 1.63 percent recorded in July 2003. The growth in assets in July 2004 was mainly attributed to increases in balances with commercial banks.
- Under the leasing activity, the value of assets leased in August 2004 dropped by 49.3 percent to Ushs 0.94 billion from Ushs 1.85 billion disbursed in July 2004 and by 42.1 percent compared to Ushs 1.62 billion for August 2003. Agriculture took the largest share of 54.2 percent of total disbursements.

Fiscal Developments

- Government revenue and budget support amounted to Shs 184.8 billion in **July 2004**, representing an over-performance of Shs 35.8 billion or 24.0 percent relative to the programme level.
- Government expenditure and net lending amounted to Shs 108.3 billion, compared to Shs 182.3 billion envisaged in the programme.
- The overall fiscal balance (including grants) was a surplus of Shs 76.5 billion compared to a deficit level of Shs 33.3 billion anticipated in the programme. Excluding grants, the surplus reduces to Shs 40.9 billion.

Foreign Exchange Market

- Over the four weeks to September 03, 2004, the Shilling appreciated by 2.34 percent against the U.S. Dollar, compared to a depreciation of 1.0 percent over the four weeks period ended August 06, 2004
- The average spreads between the weighted inter-bank buy and sell rates, dropped from Shs 16.83 during the previous period to Shs 14.88 for the period under review.

- BOU was in the IFEM under the sterilization strategy geared at mopping up excess liquidity injected by poverty reduction government expenditures and also under the intervention strategy to restore stability in the market.
- The net sales of forex by BOU over this period, on account of sterilization and intervention strategies, amounted to US \$ 6.0 million, compared to the previous period amount of US \$ 2.6 million.

Balance of Payments Developments

- In July 2004, the current account balance is estimated at a deficit of US\$43.98 million, while the capital and financial account is estimated at a surplus of US\$54.71 million. Thus, the overall balance is estimated at a surplus of US\$10.73 million.
- Total exports proceeds for the month of Jul 2004 are estimated at US\$58.63 million, of which coffee accounted for 21.83 per cent.
- The import bill (fob) is estimated at US\$133.91 million during Jul 2004. This is an increase of about 7.49 percent compared to the import bill of the previous month, which was estimated at US\$124.57 million.¹
- Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounted to about US\$20.03 million. Private sector transfer inflows exceeded outflows by US\$22.33 million in July 2004, and Services and income outflows exceeded inflows by about US\$ 33.95 million.
- Official debt service (excluding IMF payments) is estimated at US\$5.33 million for the month of July 2004. There was no IMF principal externalized in the same month.
- Official foreign reserves (including valuation changes) are estimated at US\$1,159.07 million as at end of July 2004, equivalent to 6.73 months of imports of goods and services.

Policy Stance

- 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.

¹ Effective May 2004, import figures are reported at fob value.

A MONETARY POLICY STANCE AND ACTIONS

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. Sterilization of excess liquidity is effected through sales of Treasury bonds, net issues of Treasury bills and daily sales of foreign exchange. This notwithstanding, BOU actively uses the Repurchase Agreements (REPOs) to fine-tune operations and manage short-term liquidity movements. 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.

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

In the four weeks to September 03, 2004, the net issue of Treasury bills was Shs 29 billion, compared to a redemption of Shs 5.37 billion in the corresponding four-week period to August 06, 2004. Sterilization of excess liquidity through re-opening of a 2-year Treasury bond up to Shs 30.0 billion, at cost value, mopped up Shs 27.89 billion, value-dated August 11, 2004. On the short-term liquidity management front, gross issues of the Repo instrument, whose maturity ranged over durations of 1 to 7 days, amounted to Shs 395.80 billion over this period, against maturities of Shs 396.04 billion. This is compared to issues and maturities of Shs 335.40 billion and Shs 241.06 billion, respectively over the preceding period ended August 06, 2004. Nonetheless, the outstanding stock of repos that stood at Shs 94.57 billion by August 06, 2004 had decreased to Shs 83.36 billion, by September 03, 2004. BOU maintained its presence in the foreign exchange market under the sterilization profile. In addition, BOU intervened in the market to curb instability. Over the four weeks to August 06, the net effect of BOU's transactions in this market was a sale of foreign exchange worth US\$ 6.0 million. This is compared to net sales of US\$ 2.6 million in the preceding four weeks period ended August 06, 2004.

In line with the developments in the Treasury bill market, the Rediscount rate and Bank rate that were 12.60 percent and 13.60 percent, respectively, by August 06, 2004, had increased to 13.10 percent and 14.10 percent, respectively by September 03, 2004.

B DOMESTIC PRICE DEVELOPMENTS

The **Annual Headline Inflation**² for August 2004 rose to **4.7%** from 1.8% in July 2004. The rise in the annual headline inflation rate was due to increases in all the sub-groups of the consumer price index. Food prices rose by 8.7 % compared to a rise of 0.9% for the year ended July 2004; beverages and tobacco prices rose by 5.3% in August 2004 compared to a rise of 0.3% in July 2004; rent, fuel and utilities prices rose by 1.1% in August 2004 compared to a larger rise of 4.3% in July 2004; household and personal goods prices rose by 2.6% compared to a slightly larger rise of 2.7% in July 2004; transport and communication prices rose by 1.7% in August 2004 compared to a rise of 0.7% in July 2004; and health, education and entertainment prices rose by 2.7% compared to a rise of 2.9% in July 2004.

The **Monthly Headline Inflation** increased to **2.8%** in August compared to 1.3% registered in July 2004. This was due to monthly price increases of: 7.1% for food, 0.6% for beverages and

² Inflation is the percentage change in the Consumer Price Index compared with the same month (or previous month) one year (month) previously.

tobacco, 0.6% for household and personal goods, and 0.5% for health, education and entertainment. The above monthly increases fully offset the decreases of 0.3% and 0.9% in the average prices of clothing and footwear and rent, fuel and utilities respectively, while transport and communication prices remained at their July 2004 levels. The largest upward effect on monthly headline inflation came from food crops, whose prices rose by 12.0%.

The Annual Underlying Inflation rose to 3.7% in August from 3.0% in July 2004. The average prices of goods and services in the year ended August 2004 rose at a relatively faster pace than that of July 2004. Goods prices increased by 3.7% in August compared to 2.8% in July, while those of services rose by 3.9% compared to 3.6% in July 2004. The stronger upward impact on annual underlying inflation in August 2004 was from beverages and tobacco; household and personal goods; and health, education and entertainment prices, which all rose by 5.3%, 2.6% and 2.7% respectively.

On a monthly basis, the **Underlying Inflation** fell to **0.7 percent** in August 2004, from 0.8 percent in July 2004. The decrease resulted from a slower pace of increase in the prices of goods which increased by 0.8% in August compared to 1.2% in July 2004. This partially offset the increase of 0.4% in the average prices of services from 0.3% in July 2004.

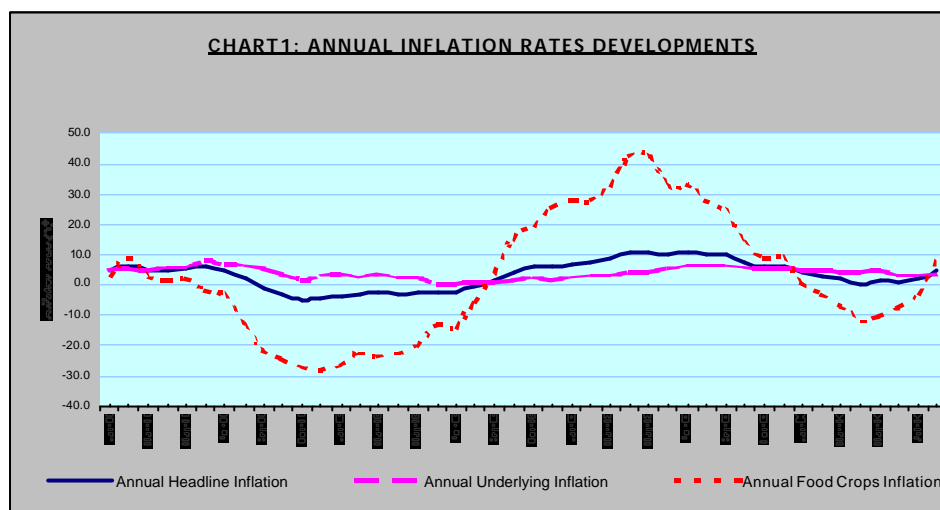
The **Food Crops Annual Inflation** increased to **8.4%** in August 2004 from -2.5% in the year ended July 2004. Similarly, the **Monthly Food Crops Inflation** jumped to **12.0%** in August from 2.9% in July 2004. Increases in prices of food crops were registered in most centres.

The developments in inflation rates are indicated in Table 1 and Chart 1 below.

Table I: Three Months Rolling Inflation Rates Out-turn (June – August 2004)
(percent)

Period	Headline Inflation		Underlying Inflation		Food Crops Inflation	
	Monthly	Annual	Monthly	Annual	Monthly	Annual
June 2004	-1.2	0.9	-0.2	3.2	-4.8	-7.3
July 2004	1.3	1.8	0.8	3.0	2.8	-2.5
August 2004	2.8	4.7	0.7	3.7	12.0	8.4

Source: Uganda Bureau of Statistics



C REAL SECTOR DEVELOPMENTS

On account of data availability, indicators of real sector developments in this report have concentrated on electricity sub-sector, leasing and trading at the Uganda Securities Exchange.

(i) Production

a) Index of Industrial Production

Data on the Index of Industrial Production (IIP), which measures performance of the manufacturing sector, is only available up to May 2004, whose developments were presented in the previous report.

b) Electricity consumption

Statistics on electricity consumption which were previously available up to December 2003 have been updated to June 2004. Problems encountered in the conversion from manual to the automated meter-reading system are the reason for this delay. In addition, the statistics ought to be treated with caution given the few inconsistencies such as the negative consumption quantities reported for the street lighting tariff category.

Average consumption of electricity dropped by 2 percent to 156.04GWH in the quarter ended March 2004 from 131.97GWH of the previous quarter with almost all consumer categories registering declines in consumption but rose 8.3 percent to 165.61GWH in the quarter ended June 2004. Over the second quarter of 2004, the large-scale industrial consumer group recorded the largest increase of 77.3 percent in consumption followed by the commercial category which recorded an increase of 28.3 percent.

While the number of reconnections grew by 6 percent in the quarter to June 2004, the number of disconnections rose by 13.2 percent over the same period thus presenting a net reduction in active accounts of about 7 percent.

Though there has been a decline in consumption, recent reports indicate that demand for electricity is higher than the generation capacity, which has not grown despite the concession of Uganda Electricity Generation Company Limited in November 2002. This low generation capacity coupled with distribution inefficiencies has resulted into the reintroduction of load shedding since the beginning of 2004. These power cuts are expected to continue due to the dry weather conditions experienced in the first six months of 2004, which have resulted in reduced water levels.

With the government signing an agreement with a private company in May 2004 to run the Uganda Electricity Distribution Company Limited with effect from October 2004 for 20 years, the power cuts are envisaged to reduce as this concession is expected to improve efficiency in power distribution. Table II below shows the major electricity variables.

Table II: Electricity Consumption by Tariff category for the Quarters January – March 2004 and April – June 2004

Consumption (Avg GWH) by Tariff Category							
Category	Jan-Mar 03	Apr-Jun 03	Oct-Dec 03	% Chge	Jan-Mar 04	% Chge	Apr-Jun 04
Domestic	31.93	29.91	35.27	-7.4%	32.66	11.6%	36.44
Commercial	13.06	11.77	11.76	-12.2%	10.32	28.3%	13.24
Large Scale Industrial	27.35	21.97	22.12	-7.4%	20.49	77.3%	36.31
Medium Scale Industrial	19.34	17.02	26.19	11.2%	29.13	-48.9%	14.90
Street Lighting	0.28	0.29	0.39	-79.3%	0.08	-125.0%	(0.02)
Total Average	151.89	131.97	156.04	-2.0%	152.91	8.3%	165.61
Active Live Accounts							
	Jan-Dec 02	Jan-Dec 03	Jan-mar 04	% Chge	Apr-Jun04		
Disconnections	255,125	240,276	68,055	13.2%	77,050		
Reconnections	152,230	138,907	43,168	6.0%	45,753		

Source: UEDCL

ii) Activity at the Uganda Securities Exchange (USE)

Trading at the Uganda Securities Exchange contracted in August 2004 with 4,064 shares traded in 23 deals. Total turnover dropped by 60.7 percent to Ushs 19.98 million from Ushs 50.79 million recorded in July 2004. This was however 65.7 percent higher than the turnover registered in August 2003. The Uganda Clays Limited (UCL) and Bank of Baroda Uganda counters continued to dominate trading activity with shares of 92.7 percent and 6.2 percent of total turnover respectively. The reason for the strong activity at the UCL counter is mainly attributed to the company's impressive performance. Prices were generally stable at all counters apart from the EABL counter at which the share price is always very volatile.

Market capitalization of the USE rose 6.7 percent to an end August 2004 level of Ushs 1,414.7 billion from the level of Ushs 1,325.8 billion registered at the end July 2004. This was mainly on account of the improved share price at the EABL counter. Total market capitalization of the USE is very sensitive to events at the EABL counter specifically because it has a substantial number of shares. The all share index opened the month under review at a level of 336.19 and closed at an improved level of 353.71.

The initial public offer of the DFCU limited shares, which was supposed to be closed on September 3rd 2004, was extended to September 17th due to public demand for the shares. The listing of the DFCU shares on the Stock Exchange, which was supposed to take place on September 30th 2004, has also been extended to October 2004. The government on July 30th

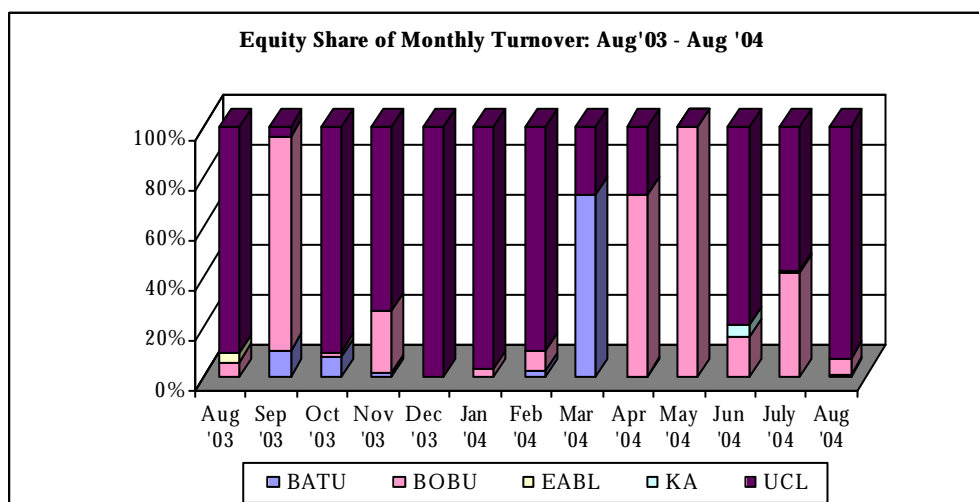
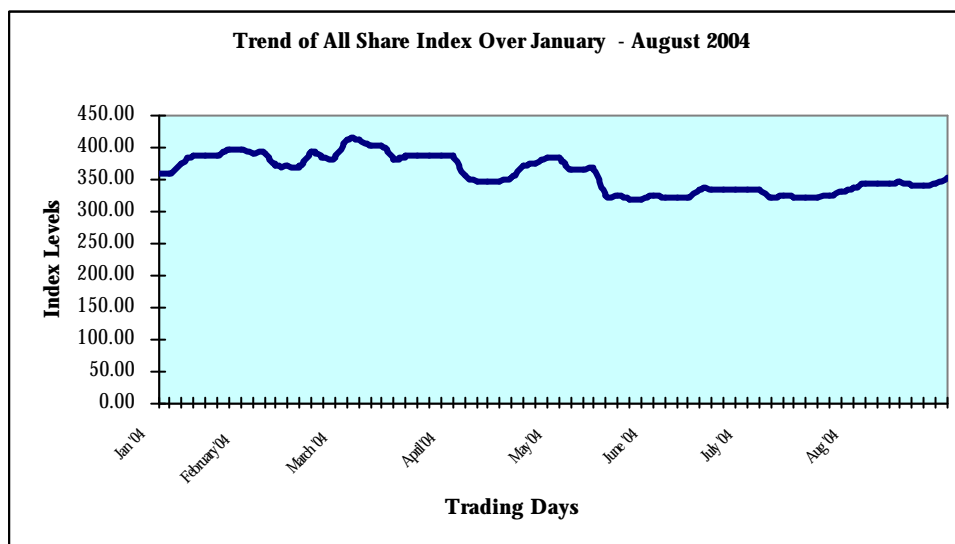
2004 offered its remaining shares (39.97 percent at Ushs 230 per share) in DFCU Limited to the public.

Table III: Trading at the Uganda Securities Exchange (Aug '03, June '04 – August '04)

	June '03	Jul '03	Aug '03	Jun '04	Jul '04	Aug '04
No. of Shares Traded	4,465	29,201	2,799	2,931	31,174	4,064
Turnover (Millions Shs)	10.10	49.59	12.06	6.39	50.79	19.98
No. of Deals	44	30	26	10	31	...23
Trading Days	7	10	8	8	9	9
Market Capitalisation (Billion Shs)	376.2	376	1,040.2	1,342.2	1,325.8	1,414.7
All Share Index Level	N.A	N.A	N.A	334.9	331.5	353.7

Source: Uganda Securities Exchange Limited (USE)

Chart 2: Evolution of the All Shares Index and Market Capitalization



D DEVELOPMENTS IN THE DOMESTIC SECURITIES AND MONEY MARKET

The rates of the domestic securities maintained the gradual upward trend while those in the money market declined over the four weeks ended September 03, 2004.

Primary market for Treasury bonds

In a continuous effort to promote secondary market trading through increasing the volume of tradable securities, and to create benchmark securities, Bank of Uganda re-opened the 2-year bond on August 11, 2004. The Shs 30.00 billion offer was over subscribed by Shs 10.00 billion, translating into a cover ratio of 133.34 percent. At a weighted average price of 92.97 per Shs 100, the resultant yield for this 10.00 percent coupon bond was 15.11 percent, compared to 13.67 percent in the original issue of the same bond effected in June 2004. This yield remains higher than 13.56 percent, 12.80 percent and 13.48 percent recorded for the most recent auctions of the 2-year, 5-year and 10-year bonds, respectively.

The total outstanding stock of Treasury bonds stood at Shs 225.00 billion by September 03, 2004. Table IV below shows details of all the bonds on the market to-date, also listed at the Uganda Securities Exchange.

Table IV: Summary of Government Treasury bond Issues as at September 03, 2004

Tenor/Issue date ®	2 Years		2 Years		3 Years			5 Years	10 Years
	First issue Jan 14-04	Reopened Jun 03-04	Second issue Jun 30-04	Reopened Aug 11-04	First issue Feb 25-04	Reopened Jun 16-04	Reopened Jul 14-04	First issue Mar 24-04	First issue May 19-04
Maturities (Billion Shs)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Offers (Billion Shs)	20.000	30.000	30.000	30.000	20.000	30.000	30.000	20.000	15.000
Total Bids (Billion Shs)	36.461	44.188	46.776	40.000	44.830	44.811	32.123	41.999	25.166
O/w Competitive	36.390	44.175	46.774	39.966	44.784	44.800	29.989	41.997	25.154
Over (Under) Subscription	16.461	14.188	16.776	10.000	24.830	14.811	2.123	21.999	10.166
Amount Sold (Face Value)	20.000	30.000	30.000	30.000	20.000	30.000	30.000	20.000	15.000
Amount Sold (Cost Price)	16.603	29.641	28.127	27.892	17.564	27.793	27.144	18.518	12.991
Cover Ratio (%)	182.305	147.292	155.920	133.336	224.149	149.370	107.077	210.00	167.773
Previous Cover Ratio (%)	....	182.305	147.292	155.920	...	224.149	149.370	...	...
WAP per Shs. 100	83.020	98.805	93.758	92.974	87.819	92.642	90.482	92.590	86.608
Previous WAP per Shs. 100	....	83.020	98.805	93.758	...	87.819	92.642	...	...
Yield to Maturity (%)	20.808	13.558	13.672	15.105	15.478	15.127	16.802	12.802	13.477
Previous Yield to Maturity (%)	...	20.808	13.558	13.672	...	15.478	15.127	...	...
Coupon Rate (%)	10.00	10.00	10.00	10.00	10.25	10.25	10.25	10.75	11.00

Secondary Market for Treasury bonds

The four week-period average indicative bid/offer yields-to-maturity in the secondary market for the 2-year and 5-year bonds were quoted at 14.09/13.88 percent and 15.02/14.80 percent, an increase from the respective 13.98/13.78 percent and 13.79/13.52 percent reported in the previous four week period. On the other hand, the average bid/offer rates quoted for the 3-year and 10-year bonds marginally declined from 15.09/14.89 percent and 17.89/16.92 percent of the previous period to August 06 2004 to 14.97/14.73 percent and 17.68/16.83 percent, respectively (See Table V). An individual bought Shs 0.001 billion worth of the 2-year bond from a primary dealer bank in the period under review.

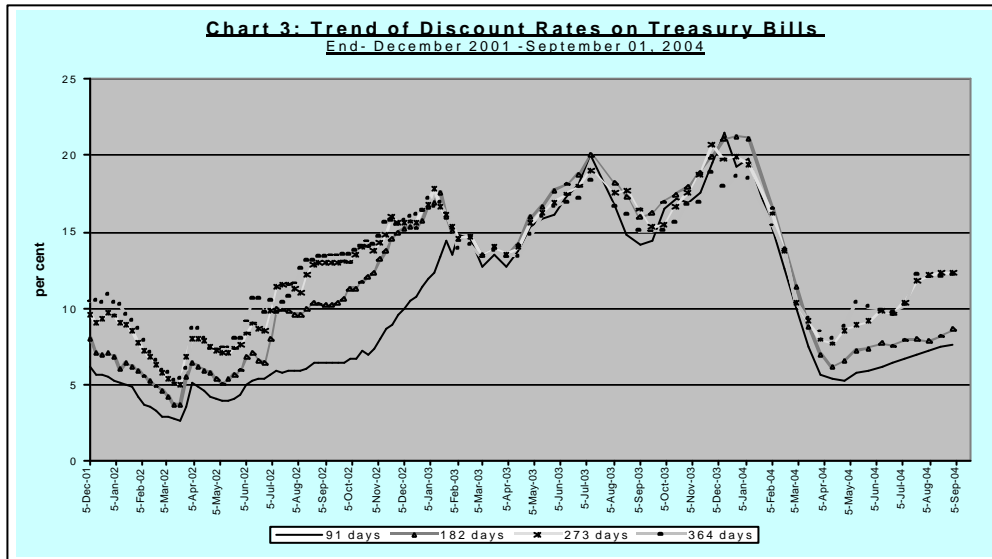
Table V: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bonds over the four week-period to September 03, 2004

	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	13.25	13.00	13.00	12.75	12.95	12.86	15.03	14.78
Max	14.50	14.31	17.14	16.99	16.00	15.75	20.81	19.83
Average	14.09	13.88	14.97	14.73	15.02	14.80	17.68	16.83

Compiled from Domestic Financial Markets Department records

Primary Market for Treasury bills

In the primary auction market for Treasury bills, the respective weighted annualized yields on the 91-day, 182-day, 273-day, and 364-day bills stood at 7.71 percent, 9.03 percent, 13.55 percent and 13.84 percent, respectively, at the auction held on September 01, 2004. This compares to levels of 7.29 percent, 8.17 percent, 13.35 percent and 13.64 percent, respectively, recorded in the auction held on August 04, 2004 (see Chart 3 below). The market was over subscribed for all the auctions held in the period under review, with the exception of the 182-day paper in the auction held on August 18, 2004.



Secondary Market for Treasury bills

The average bid/offer yields-to-maturity in the secondary market for Treasury bills maintained the upward trend for all papers (maturities) in the period under review. As shown in Table VI, the average bid/offer rates for the four weeks to September 03, 2004 were recorded at 7.47/7.21 percent, 8.40/8.13 percent, 13.14/12.85 percent and 13.46/13.20 percent for the 91-days, 182-

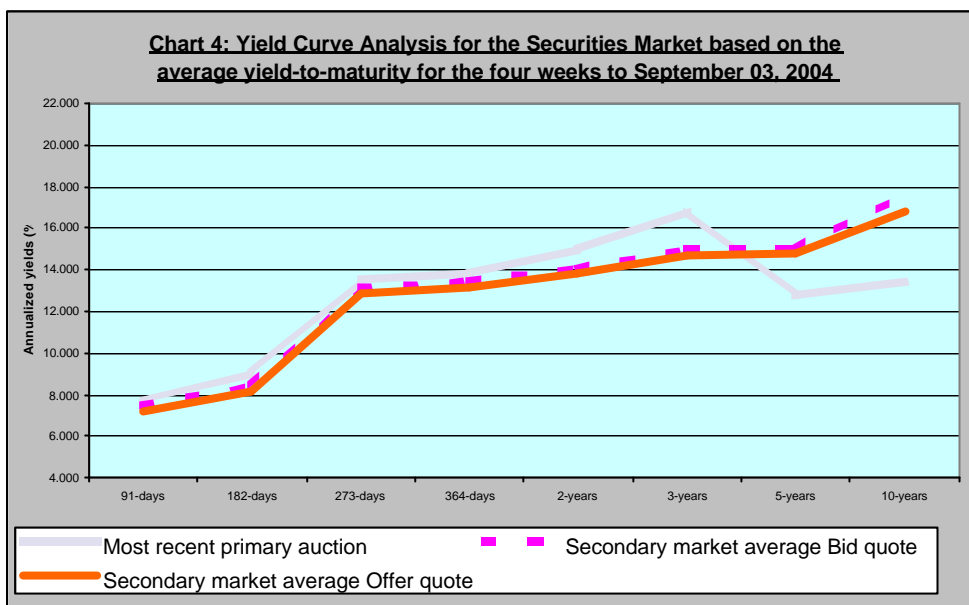
days, 273-days and 364-days securities, respectively. This compares to the respective levels of 7.02/6.76 percent, 8.91/8.64 percent, 11.98/11.75 percent and 12.86/12.56 percent recorded in the four weeks to August 06, 2004.

Table VI: Bid/Offer Rates and Transactions in the Secondary Market for Treasury bills over the four-week period to September 03, 2004

	Tenor of bills							
	91-days		182-days		273-days		364-days	
	Yield-to-Maturity quotation (percent)							
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
Min	6.06	5.80	8.03	7.76	9.05	8.77	9.61	9.33
Max	8.74	8.47	10.20	9.93	15.29	14.99	16.60	16.29
Average	7.47	7.21	8.40	8.13	13.14	12.85	13.46	13.20
	Trading Activity							
Transactions (Shs bill)	7.377		1.806		0.258		0.000	
O/w Horizontal repos	0.000		0.000		0.000		0.000	
- Av. H/Repo rate	-		-		-		-	
O/w- Outright sales	7.377		1.806		0.258		0.000	
Total trades across maturities	Shs 9.441 billion							
Rediscounts at BoU	-							
Borrowing at BoU	-							
- Av. Discount rate	9.60 percent		10.01 percent		10.75 percent		-	
-Av. Yield-To-Maturity	9.88 percent		10.45 percent		11.39 percent		-	
<i>Source: Compiled from Domestic Financial Markets Department records</i>								

Total trades in the Treasury bills for the four weeks ended September 03, 2004 amounted to Shs 9.44 billion, compared to Shs 2.56 billion of the four weeks ended August 06, 2004. The average discount rates on these trades for the 91-days, the 182-days, and 273-days securities were 9.60 percent, 10.01 percent, and 10.75 percent, respectively. As was the case in the previous four-week period, all the trades were outright sales.

The yield curve based on the average yield-to-maturity quotations in the secondary market evolved closely in line with the developments in the primary market. However, relatively wide margins between the two curves were observed at the longer end of the market as the curve derived from the primary market remained inverted between the 3-year and 5-year papers and dropped below that from the secondary market (see Chart 4).



Activity in the domestic inter-bank and money markets for the four weeks ended September 03, 2004 continued to be buoyant in the call money market (i.e. transactions of less than 30 days in tenor). The most active period was the week ended August 20, 2004, when transactions worth Shs 49.90 billion were recorded, while the least activity was in the week of August 27, 2004, when Shs 27.90 billion was transacted. Over the period, there was a gradual decline in the weighted average interbank rate from a high of 6.88 percent in the week ending August 20, 2004 to 6.49 percent in the week ended September 03, 2004. All commercial banks participated in the market during the four weeks. The average of the inter-bank market rates of 6.49 percent over the four weeks to September 03, 2004, was lower than 7.45 percent recorded for the corresponding period ended August 06, 2004.

Commercial Banks' Retail Interest Rates

There was no revision in the commercial banks prime rate during the four weeks to September 03, 2004. Consequently, there were no changes in the number of banks charging rates in the various range categorizations. The range of these rates for the entire industry also remained at 16-21 percent. Table VIII below summarizes these developments.

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

Table VII: Trends of the Prime Lending Rates (Figures are end-period)

Prime Lending Rate (percent)	July 02, 04	July 09, 04	July 16, 04	July 30, 04	Aug 30, 04
	No. of banks charging rates within range				
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	4	5	5	5	5
18.1 – 20.0	7	6	6	7	7
20.1 – 22.0	4	4	4	3	3
22.1 - >>	0	0	0	0	0
Range (Min – Max)	16– 21%	16- 21%	16 – 21%	16 –21%	16 –21%

Source: Weekly Report of Interest rates by Commercial Banks

Information on the commercial banks' lending and deposit rates is available only up to July 2004. As shown in table VIII, there was an increase in the lending rate on foreign denominated loans from 8.07 percent in June 2004, to 9.13 percent at the end of July 2004. That on shilling denominated loans, on the other hand, declined from 20.88 percent to 19.92 percent over the same period respectively.

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

Weighted Average rates	Shilling Denominated				Forex Denominated			
	Apr 04	May 04	Jun 04	Jul 04	Apr 04	May 04	Jun 04	Jul 04
Lending	19.77	20.80	20.88	19.92	9.85	9.45	8.07	9.13
Demand Deposits	1.24	1.17	1.14	1.64	0.96	1.01	1.00	1.08
Savings Deposits	1.87	2.12	2.14	2.20	1.65	1.45	1.45	1.45
Time Deposits	5.71	6.15	6.20	7.07	2.76	2.49	2.76	3.37

Source: Monthly Report, BS100 Returns by Commercial Banks

The weighted rates on shilling denominated savings and time deposits followed an upward trend, increasing from 2.14 percent and 6.20 percent in June 2004, to 2.20 percent and 7.07 percent in July, respectively. The weighted rate on shilling denominated demand deposits followed the same trend increasing from 1.14 percent to 1.64 percent over the same period. The demand deposit rate on foreign currency denominated deposits marginally increased from 1.00 percent to 1.08 percent while the rate on savings deposits remained unchanged at 1.45 percent. Time deposits increased from 2.76 percent to 3.37 percent over the same period.

E MONETARY AGGREGATES AND FINANCIAL SECTOR AGGREGATES

(i) Banking Activities³

Broad Money

Broad Money M3, which comprises currency in circulation plus all private deposits, expanded marginally by about 0.3 percent to Shs2600.6 billion in July 2004. This represents a deceleration in money supply, compared to a rise of 6.9 percent in June 2004.

M2A, comprising of M3 less foreign currency deposits of the private sector, was largely steady, growing from Shs1941.5 billion at end-June 2004 to Shs 1942.1 billion in July2004. This compares to a growth of 8.2 percent over the month of June 2004. The developments in money supply are shown in Table IX below.

Net Foreign Assets (NFA)

Between June 2004 and July 2004, the NFA of the banking system declined by 0.4 percent or Shs8.9 billion to Shs2353.4 billion. In particular, NFA at Commercial banks fell by 5.1 percent or Shs34.7 billion to Shs649.0 billion in July 2004, largely reversing the growth of 5.5 percent in June 2004. However, NFA at BOU expanded by 1.5 percent or Shs25.7 billion, to Shs1704.4

³ Based on the Preliminary Monetary Survey for July 2004.

billion. Foreign reserves at BoU rose by an equivalent of Shs25.0 billion, compared to an increase of Shs111.6 billion in the previous month.

Net Claims on Government (NCG)

The government's net position with the banking system (NCG) as at end- July 2004 was a borrowing of Shs247.9 billion, up by 29.3 percent or Shs56.1 billion from Shs191.8 billion at the end of June 2004 (Table IX). At BoU, the government decreased its savings by Shs. 55.6 billion over the month, on account of a strong decline in Government deposits of Shs 147.8 billion, which more than offset a fall in Advances to government of Shs 92.2 billion. At commercial banks, net claims on Government rose by Shs0.5 billion in July 2004, on account of strong counter movements in Government deposits and commercial banks' investment in Government securities. The deposits fell by Shs21.0 billion to offset a decline in the securities of Shs 20.5 billion.

Table IX: Developments in Monetary and Credit Aggregates (June 03 – July 04)

<i>(in billion shillings unless otherwise stated)</i>	June 2003	Sep. 2003	Dec. 2003	Mar. 2004	Jun. 2004	Jul. 2004
Net Foreign Assets (NFA)	2101.3	2078.3	2255.7	2256.9	2362.4	2353.4
Domestic Credit	1246.2	1431.9	1291.6	1350.1	1201.1	1267.0
Net Credit to Gov't (NCG)	390.4	534.9	320.5	337.5	191.8	247.9
Claims on the Private Sector	848.6	888.2	962.0	997.4	992.5	1005.7
M3	2373.4	2365.2	2407.0	2507.2	2593.2	2600.6
Forex deposits	624.2	580.0	587.3	623.1	651.7	658.6
M2A	1749.2	1785.2	1819.7	1884.1	1941.5	1942.1
Demand Deposits	725.1	741.3	692.2	756.5	814.0	771.9
Term Deposits	562.7	570.4	581.3	605.7	598.7	623.9
Currency	461.4	473.4	546.2	521.8	528.7	546.2
Forex/M3 (percent)	26.3	24.5	24.4	24.9	25.1	25.3
Demand Deposits/M3 (percent)	30.6	31.3	28.8	30.2	31.4	29.7
Term Deposits/M3 (percent)	23.7	24.1	24.1	24.2	23.1	24.0
Currency/M3 (percent)	19.4	20.0	22.7	20.8	20.4	21.0

Private Sector Credit (PSC)

At end-July 2004, the stock of outstanding credit to the private sector by the banking sector stood at Shs1005.7 billion, of which Shs14.3 billion was from BOU and Shs991.4 billion from commercial banks. This represents a rise of 1.3 percent (or Shs 13.2 billion)⁴ compared to the end June 2004 position. In June 2004, PSC fell by 1.8 percent.

Credit Flows

During July 2004, the total (shilling and foreign currency) gross extensions by commercial banks amounted to Shs124.95 billion, while recoveries were Shs130.26 billion resulting in net recoveries of Shs5.32 billion. After accounting for flows in capitalised interest, there was a rise in the stock of credit of approximately Shs1.33 billion (see Appendix Table 1), though net extensions to the private sector alone were recorded at Shs4.9 billion⁵. During the month, commercial banks extended shilling loans amounting to Shs91.22 billion, and recovered Shs93.84 billion, thus net recoveries were Shs2.63 billion. Net capitalised interest stood at Shs5.53 billion. Thus, there was a net increase in the stock of shilling loans to the non-bank public of Shs 2.91 billion (see Appendix Table 2). For foreign currency loans, gross extensions stood at Shs33.73 billion, while

⁴ Only about 4.9 billion is on account of new net-lending.

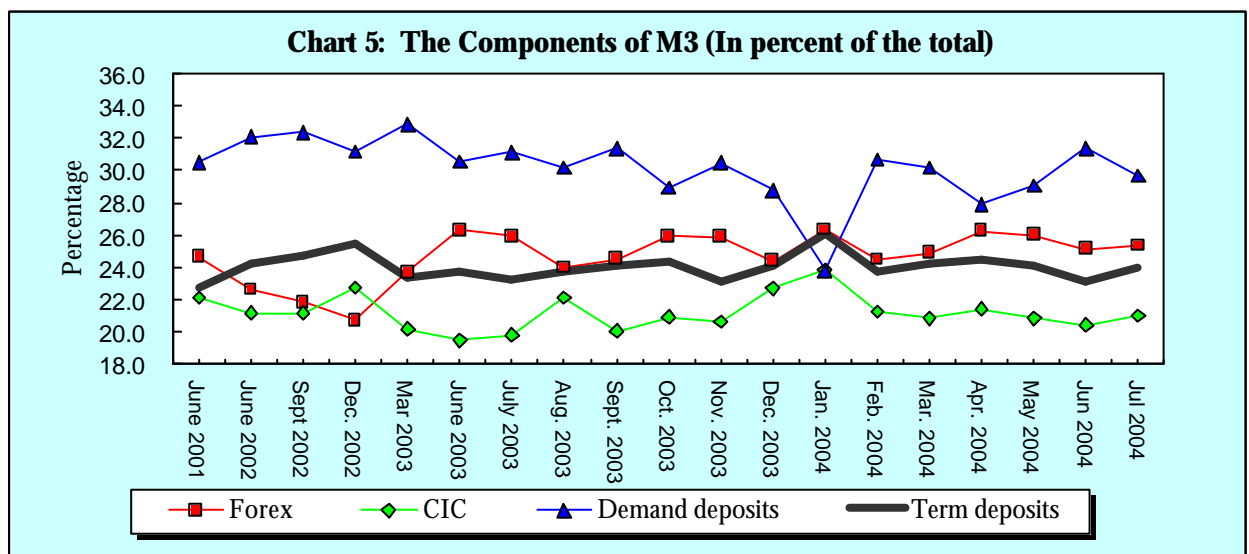
⁵ The Gross Extensions and Recoveries include lending to Government and Parastatals. PSC as recorded by the Monetary Survey doesn't include lending to Government and parastatals.

recoveries were higher at Shs36.4 billion, yielding net recoveries of Shs2.69 billion. After taking into account effects of capitalised interest, the stock of foreign currency loans recorded a net fall of Shs1.58 billion (See Appendix Table 3).

Appendix tables 1-3 summarise the evolution of the monthly change in outstanding loans and advances of commercial banks for the period October 2002 to July 2004.

Liabilities of the Banking System

On the liabilities side, foreign currency accounts rose by 1.1 percent or Shs6.9 billion to Shs658.6 billion in July 2004. In US dollars, foreign currency accounts grew by US\$7.6 million to US\$371.9 million. Demand deposits fell by 5.2 percent or Shs42.1 billion to Shs771.9 billion, while term deposits (time, savings and CDs) rose by 4.2 percent to Shs623.9 billion as at end-July 2004. Currency in circulation (CIC) rose by 3.3 percent or Shs17.5 billion to Shs546.2 billion. Reflecting these developments, the ratio of foreign currency deposits to M3 rose to 25.3 percent from 25.1 percent at end-June 2004. The ratio of demand deposits to M3 declined to 29.7 percent from 31.4 percent in June 2004, while that of term deposits rose to 24.0 percent from 23.1 percent in June 2004. The ratio of CIC to M3 rose to 21.0 percent from 20.4 percent in June 2004. The trends of the ratios are shown in Chart 5 [below](#) and Table IX above.



(ii) Non-Bank Financial Institutions (NBFIs) Activities⁶

Assets

In the month of July 2004, the total assets of the Non-Bank Financial Institutions rose by 6.28 percent, from Shs 153.76 billion at the end of June 2004 to Shs 163.42 billion. This outturn compares to a growth rate of 1.63 percent observed over the same period a year ago. The growth in assets in July 2004 was mainly attributed to a 35.3 percent increase in balances with commercial banks. The balances of the NBFIs in commercial banks, both within and outside Uganda, rose by Shs 7.99 billion to Shs 30.63 billion

Loans and advances

The stock of the outstanding loans and advances to the private sector rose by Shs 2.07 billion to Shs 93.10 billion as at end-July 2004, up from Shs 91.03 billion at end-June 2004. Mortgage loans,

⁶ Only covers 7 credit institutions.

which account for 58.9 percent of the loans, rose by 1.4 percent to Shs 54.82 billion, while secured and unsecured loans increased by 12.6 percent to Shs 14.34 billion at the end of July 2004. By contrast, administered loans fell by 1.2 percent to Shs 23.95 billion, down from Shs 24.23 billion recorded in June 2004. The building and construction sector accounted for the largest share of loans and advances from the NBFIs accounting for 81.3 percent of the total as at end-July 2004. The trade and commerce sector retained the second largest share at 13.2 percent.

Deposits

In July 2004, private sector deposits⁷ in the NBFIs declined by 0.97 percent to Shs 66.48 billion, from Shs 67.12 billion in June 2004. Time deposits went up by 2.85 percent to Shs 11.09 billion, while the savings deposits fell by 1.69 percent to Shs 55.39 billion. Other deposits, which represent funds collected on behalf of government from the beneficiaries of the government pool house sale scheme, rose by 0.98 percent to Shs 26.41 billion over the same period.

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

	Jul 2003	Mar 2004	Apr 2004	May 2004	Jun 2004	Jul 2004
Total Assets	134.33	147.26	150.59	153.03	153.76	163.42
O/w Loans and advances	74.89	88.14	89.38	89.62	91.03	93.10
Secured & unsecured	10.56	12.38	12.09	12.15	12.73	14.34
Mortgage	37.74	50.79	52.42	52.84	54.06	54.82
Administered	26.58	24.96	24.87	24.62	24.23	23.95
Total Deposits	73.72	87.92	90.45	92.47	93.28	92.89
Savings	44.36	53.12	53.70	56.76	56.34	55.39
Time	7.24	9.05	11.43	10.04	10.78	11.09
Agency Funds	22.11	24.97	25.32	25.68	26.15	26.41

Source: Bank of Uganda

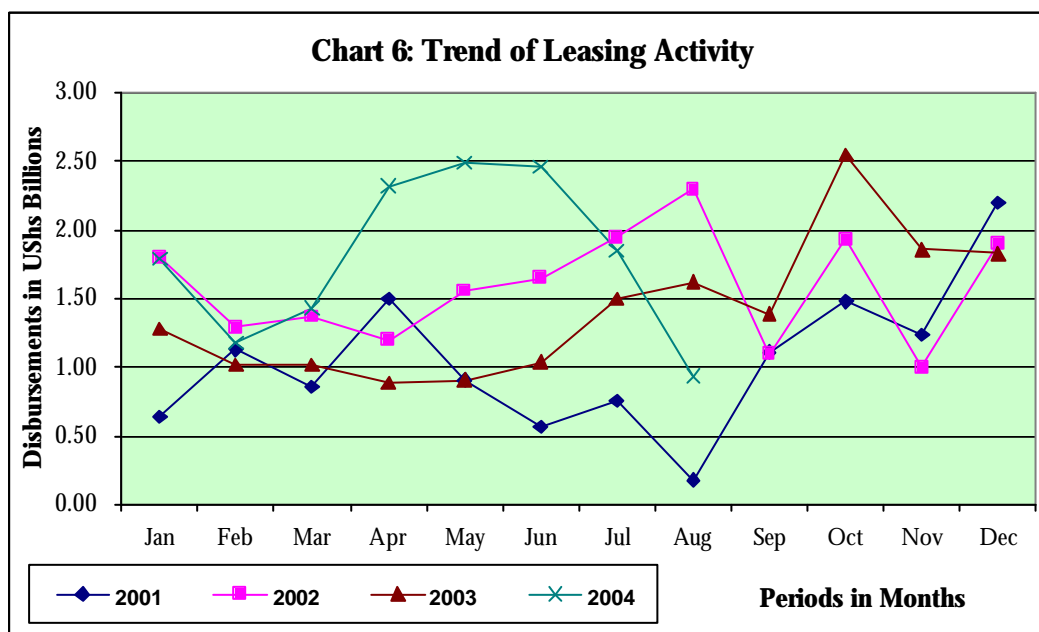
(iii) Leasing

The value of assets leased in August 2004 dropped by 49.3 percent to Ushs 0.94 billion from Ushs 1.85 billion disbursed in July 2004 and by 42.1 percent compared to Ushs 1.62 billion for August 2003. The value of lease credit extended in August 2004 is the lowest in the 15 month period since May 2003 when the disbursements amounted to Ushs 0.91 billion. The decline in lease credit extended is mainly due to strict adherence to the lending guidelines by the leasers in response to increasing non-repayment by lessees. The agricultural sector, for the second month in a row, had the largest share of 54.2 percent having increased from a share of 38.4 percent recorded for July 2004. Commerce and trade came in second with a share of 25.5 percent while transport, usually a dominating sector on the beneficiaries' list trailed with a share of 8.9 percent of total disbursements for August 2004. Table XI below shows the evolution of the leasing disbursements by sector, while Chart 6 depicts the trend of lease credit over 2001 - 2004.

⁷ This excludes Agency Funds

Table XI: Sectoral Distribution of Assets Leased - Shs million (April – August 2004)

Sector	Apr-04	%	May-04	%	Jun-04	%	Jul-04	%	Aug-04	%
Transport	1,587.4	68.4%	1,773.7	71.1%	471.6	19.2%	597.6	32.4%	83.8	8.9%
Commerce & Trade	136.4	5.9%	260.5	10.4%	788.5	32.1%	252.5	13.7%	239.3	25.5%
Mining & Construction	75.6	3.3%	134.4	5.4%	788.8	32.1%	0.4	0.0%	24.7	2.6%
Tourism	42.8	1.8%	0.0	0.0%	26.0	1.1%	34.9	1.9%	0.0	0.0%
Other Services	0.0	0.0%	200.5	8.0%	304.7	12.4%	28.3	1.5%	43.3	4.6%
Health	202.9	8.7%	18.5	0.7%	14.0	0.6%	25.0	1.4%	0.0	0.0%
Agriculture	81.6	3.5%	0.2	0.0%	65.8	2.7%	709.6	38.4%	508.5	54.2%
Manufacturing	0.0	0.0%	0.0	0.0%	0.0	0.0%	40.0	2.2%	0.0	0.0%
Education	105.7	4.6%	63.6	2.6%	0.0	0.0%	153.8	8.3%	10.5	1.1%
Banking	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Communication	0.0	0.0%	41.8	1.7%	0.0	0.0%	0.0	0.0%	26.3	2.8%
Advertising & Media	87.3	3.8%	0.0	0.0%	0.0	0.0%	5.2	0.3%	1.7	0.2%
TOTAL	2,319.6	100%	2,493.2	100%	2,459.4	100%	1,847.2	100%	938.0	100%



F GOVERNMENT BUDGETARY OPERATIONS

i) Revenue and Grants

Total revenue and budget support grant receipts for July 2004 was estimated at Shs 184.80 billion. This is Shs 35.8 billion higher than the program level of Shs 149.1 billion. The over-performance in revenue and grants was mainly attributed to higher tax revenue collections during the month.

Total domestic revenue collected in July 2004 was estimated at Shs 149.3 billion, out of which Shs 147.3 billion or 98.7 percent came from URA collections. Notably, the URA revenue collections were higher than the program target for the month by Shs 42.5 billion due to higher tax collections in respect of domestic taxes. Revenue collections from domestic taxes declined by Shs 38.7 billion to Shs 142.0 billion at end-July 2004, from Shs 180.7 billion collected in June 2004. Taxes on international trade, however, rose from Shs 78.1 billion in June 2004 to Shs 85.6 billion in July 2004. The preliminary outturn for non-tax revenue collections for July 2004 was estimated at Shs 2.0 billion. This was Shs 0.3 billion lower than the collections for June 2004 but almost equal to the program target of Shs 2.0 billion.

Import support grants were estimated at Shs 35.5 billion during July 2004, which was lower than the program target of Shs 42.3 billion. This outturn was also lower than Shs 54.9 billion, which was realised in June 2004.

Table XII: Government Budgetary Operations: June - July 2004 (Billion Shs)

	Revised Budget 2003/04	Draft Budget 2004/05	Prog. Budget 2004/05	Prel. Jun. 2004	Prel. Jul. 2004	Prog. Jul. 2004
Total Tax & Import Support Receipts	2,228.6	2,358.20	2,361.15	242.98	184.80	149.05
Total Domestic Revenue	1,690.9	1,860.51	1,860.51	188.06	149.29	106.75
URA Excluding Refunds/Govt. Taxes	1,655.2	1,830.01	1,830.01	185.72	147.27	104.75
Non URA Revenues	35.7	30.50	30.50	2.3	2.02	2.0
Import Support Grants	537.7	497.69	500.64	54.9	35.51	42.3
Expenditure & Lending	2343.8	2,497.79	2,446.70	340.7	108.33	182.34
Current Expenditure	1,732.4	1,872.36	1,872.75	269.5	101.79	110.27
Development Expenditure	536.9	558.13	501.05	58.3	6.84	72.50
Others 1/	73.5	67.3	72.9	12.6	-0.3	-0.43
Overall Fiscal Balance (Deficit)	(114.7)	(139.59)	(85.55)	(97.8)	76.47	(33.3)
Excluding Grants	(652.4)	(637.28)	(586.19)	(152.7)	40.96	(75.6)

Source: Ministry of Finance, Planning and Economic Development

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

ii) **Expenditure**

In July 2004, government expenditure and net lending decreased by 68.2 percent to Shs 108.3 billion. This outturn was lower than the projected level for the period by Shs 74.0 billion. The reduction reflected mainly a decline in expenditure of Shs 167.7 billion and Shs 51.5 billion in respect of current and development expenditures, respectively. Current expenditures for the month amounted to Shs 101.8 billion, down from Shs 269.5 billion recorded in June 2004. Expenditure on wages and salaries amounted to Shs 53.5 billion which accounted for 52.6 percent of total recurrent expenditures. Interest payments remained unchanged at Shs 16.9 billion. Out of this amount, Shs 2.4 billion was on account of external debt. Other recurrent expenditures for the month amounted to Shs 0.3 billion, while development expenditure was Shs 6.8 billion.

The overall fiscal balance for July 2004 was a surplus of Shs 76.5 billion compared to a deficit level of Shs 97.8 billion recorded in June 2004. Excluding grants, the surplus reduces to Shs 40.96 billion. In the month under review, government repaid (net) Shs 6.8 billion to external sources, compared to Shs 9.9 billion in the preceding month. The government also repaid Shs 69.7 billion to the domestic agents, on a net basis.

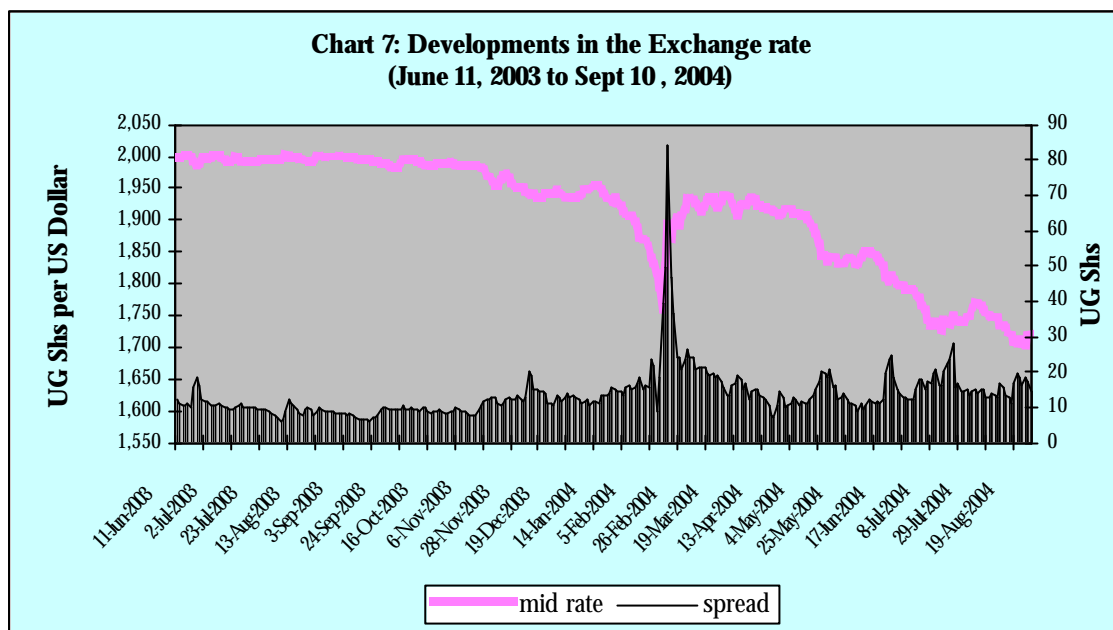
G EXCHANGE RATE AND FOREIGN EXCHANGE MARKET

Over the four-week period to September 03, 2004, the Uganda Shilling was mainly on an appreciating trend, a reversal of the depreciation trend experienced during the corresponding period to August 06, 2004. The Shilling appreciated by 2.34 percent from Shs 1750.69 per US dollar on August 06, 2004 to Shs 1709.78 on September 03, 2004.

On a period average basis, the Shilling appreciated by 1.54 percent from an average rate of Shs 1721.37 per US Dollar for the four weeks ended August 06, 2004, to an average rate of Shs 1694.86 per US Dollar for the corresponding period ended September 03, 2004. The average spreads between the weighted inter-bank buy and sell rates, dropped from Shs 16.83 during the previous period to Shs 14.88 for the period under review.

The average daily volumes of commercial banks' retail purchases and sales of foreign exchange were US\$7.51 million and US\$7.32 million respectively, during the period under review. This is higher than the average of US\$7.04 million for purchases, but lower than US\$7.55 million sales in the corresponding period ended August 06, 2004. Demand remained relatively stronger than supply of foreign exchange in the period under review.

BOU maintained its presence in the IFEM under the sterilization strategy geared at mopping up excess liquidity injected by poverty reduction government expenditures. The total net sales of foreign exchange by BOU on account of sterilization and intervention transactions in the four weeks period to August 06, 2004 amounted to US \$ 6.0 million, compared to US \$ 2.6 million recorded in the preceding period. Bank of Uganda continues to watch market developments closely and ready to take any action to ensure market stability.



H DEVELOPMENTS IN THE BALANCE OF PAYMENTS (BOP)

The overall balance is estimated at a surplus of US\$10.73 million in Jul 2004. The current account balance is estimated at a deficit of US\$ 43.98 million, from a deficit of US\$21.88 million registered in the preceding month. The capital and financial account is estimated at a surplus of US\$54.71 million; a tremendous jump from a surplus of US\$5.9 million registered in the preceding month.

i) Exports

Total export proceeds in the month of July 2004 are estimated at about US\$58.63 million; an increase of 15.39 percent, compared to the export earnings of US\$50.81 million recorded in June 2004.

Coffee Exports

During the month of August 2004 coffee exports amounted to 188 thousand (60-kilogram) bags worth US\$7.89 million. This showed significant reductions of 33.8 percent in volume and 38.3 percent in value compared to the previous month's exports. The average realized export price in July 2004 stood at 70 cents per kilogram, down from an average unit price of 75 cents per kilogram in July 2004.

Non-coffee Exports

The total value for non-coffee exports for the month of July 2004 is estimated at US\$45.83 million; a 20.2 percent increase, compared to US\$38.14 million realized in the previous month.

There was an improvement in the performance of most non-coffee exports in July 2004 compared to the previous month. More specifically, export proceeds from gold, electricity, fish (regional and international) and maize increased by 318.8 percent, 37.33 percent, 11.67 percent, and 25.4 percent, respectively. On the other hand exports of tobacco, tea oil re-exports and cotton declined by 32.3 percent, 38.4 percent, 45.4 percent and 16.2 percent, respectively.

Notably, the increase in the gold earnings was due to the large consignments by the traders during the month.

ii) Imports

The total import bill for the month of July 2004 is estimated at US\$133.91 million at fob value. Private sector imports are estimated at US\$121.25 million, 9.75 percent higher than the June 2004 level. Oil imports are estimated at US\$12.34 million showing an increase of about 5.5 percent and 1.5 percent when compared to the oil bills in the months of June and May, respectively.

Government imports amounted to US\$12.65 million for the month of July 2004, accounting for approximately 9.6 percent of the import bill.

iii) Other Inflows and Outflows

Official aid (excluding project aid but including resources from the HIPC Initiative) inflows amounting to about US\$20.03 million were disbursed in July 2004. Inflows on account of private transfers for the period under review are estimated at US\$41.94 million, a reduction of about 7.9 percent compared to the previous month's inflows.

Services and income outflows exceeded inflows by approximately US\$33.95 million during the month of July 2004.

Official debt service (excluding IMF payments) was estimated at US\$5.33 million while there were no IMF principal obligations externalized during July. Net trade credit amounted to outflows of US\$0.57 million, consisting of inflows (buyers' credit and suppliers' credit) estimated at US\$13.32 million and outflows (prefinance shipments and suppliers' credit repayments) estimated at US\$13.89 million.

In July 2004, the level of gross foreign reserves was estimated at US\$1,159.07 million, higher than US\$ 1,114.28 million in the preceding month of June 2004 by US\$ 44.79 million. This reserve level is estimated to cover 6.73 months of future imports of goods and services.

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.

Appendix

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	928.31	(886.08)	42.23	27.01	(64.65)	(37.64)	4.59
2002/2003							
Q1	271.05	(255.55)	15.50	13.98	(15.89)	(1.91)	13.59
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
September	126.64	(122.07)	4.57	6.73	(3.11)	3.62	8.19
Q1	343.22	(317.19)	26.03	25.07	(15.56)	9.51	35.54
October	140.28	(113.42)	26.86	7.50	(4.69)	2.81	29.67
November	97.20	(80.86)	16.35	8.49	(5.29)	3.20	19.54
December	130.14	(109.10)	21.03	9.64	(6.15)	3.48	24.52
Q2	367.62	(303.38)	64.24	25.63	(16.14)	9.49	73.73
Half 1 2003/04	710.84	(620.57)	90.27	50.70	(31.70)	19.00	109.27
January 2004	128.99	(111.91)	17.08	5.76	(2.75)	3.01	20.10
February 2004	117.57	(126.30)	(8.73)	4.28	(2.09)	2.19	(6.54)
March 2004	135.08	(116.00)	19.09	5.12	(2.75)	2.37	21.45
Q3	381.64	(354.20)	27.44	15.16	(7.59)	7.57	35.01
April 2004	114.41	(112.39)	2.02	6.36	(3.56)	2.80	4.83
May 2004	118.06	(110.98)	7.08	7.72	(4.91)	2.81	9.90
June 2004	131.36	(150.01)	(18.65)	6.10	(4.22)	1.88	(16.78)
Q4	363.83	(373.38)	(9.55)	20.19	(12.69)	7.50	(2.05)
Half 2 2003/04	951.15	(910.59)	40.56	40.48	(25.36)	15.11	55.67
2003/2004	1,456.31	(1,348.15)	108.17	86.05	(51.98)	34.06	142.23
2004/2005							
July. 2004	124.95	(130.26)	(5.32)	10.16	(3.51)	6.65	1.33

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	698.57	(693.31)	5.26	22.65	(54.96)	(32.31)	(27.05)
2002/2003							
Q1	196.42	(181.95)	14.47	12.56	(13.18)	(0.62)	13.85
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
Q3	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)
Q4	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
September	88.15	(87.69)	0.47	6.43	(2.24)	4.20	4.66
Q1	234.28	(222.12)	12.16	22.96	(13.37)	9.59	21.75
October	111.23	(77.65)	33.58	6.85	(3.88)	2.98	36.55
November	72.59	(49.96)	22.64	7.69	(3.80)	3.89	26.53
December	87.06	(87.83)	(0.77)	8.06	(5.57)	2.49	1.72
Q2	270.88	(215.44)	55.44	22.61	(13.25)	9.36	64.80
Half 1 2003/04	505.16	(437.56)	67.61	45.57	(26.62)	18.95	86.55
January 2004	86.09	(67.71)	18.39	5.01	(2.26)	2.74	21.13
February 2004	77.25	(87.94)	(10.69)	2.91	(1.67)	1.24	(9.45)
March 2004	85.48	(73.79)	11.69	4.50	(2.18)	2.32	14.01
Q3	248.82	(229.44)	19.38	12.42	(6.11)	6.30	25.69
April. 2004	80.28	(82.95)	(2.67)	5.32	(2.90)	2.42	(0.24)
May 2004	72.36	(65.17)	7.20	7.07	(4.39)	2.68	9.88
June 2004	78.06	(82.41)	(4.35)	5.11	(3.70)	1.41	(2.94)
Q4	230.71	(230.53)	0.18	17.51	(10.99)	6.52	6.70
Half 2 2003/ 2004	479.53	(459.96)	19.56	29.92	(17.10)	12.82	32.38
2003/ 2004	984.69	(897.52)	87.17	75.49	(43.72)	31.77	118.94
2004/ 2005							
July. 2004	91.22	(93.84)	(2.63)	8.46	(2.92)	5.53	2.91

Source: Research Department, Bank of Uganda

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

Period	Extensions	Recoveries	Net extensions	Cap interest	Repd cap int	Net Cap int	Net change
	1	2	3=1+2	4	5	6=4+5	7= 3+6
1999/2000	95.19	(54.30)	40.89	8.71	(26.04)	(17.33)	23.55
2000/2001	249.86	(215.95)	33.91	8.23	(12.03)	(3.80)	30.11
2001/2002	229.74	(192.77)	36.97	4.36	(9.69)	(5.33)	31.64
2002/2003							
Q1	74.63	(73.60)	1.03	1.42	(2.71)	(1.29)	(0.27)
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
September	38.49	(34.39)	4.10	0.30	(0.88)	(0.58)	3.52
Q1	108.93	(95.06)	13.87	2.11	(2.19)	(0.08)	13.79
October	29.05	(35.77)	(6.71)	0.65	(0.82)	(0.17)	(6.88)
November	24.61	(30.90)	(6.29)	0.80	(1.50)	(0.69)	(6.99)
December	43.08	(21.28)	21.8	1.57	(0.58)	0.99	22.8
Q2	96.74	(87.95)	8.8	3.03	(2.90)	0.13	8.93
Half 1 2003/04	205.68	(183.01)	22.67	5.13	(5.08)	0.05	22.72
January 2004	42.90	(44.20)	(1.30)	0.75	(0.49)	0.27	(1.03)
Feb. 2004	40.32	(38.36)	1.96	1.37	(0.42)	0.95	2.91
Mar. 2004	49.60	(42.21)	7.40	0.62	(0.57)	0.05	7.44
Q3	132.82	(124.76)	8.06	2.74	(1.47)	1.26	9.32
April 2004	34.13	(29.44)	4.69	1.04	(0.67)	0.38	5.07
May 2004	45.70	(45.81)	(0.11)	0.65	(0.52)	0.13	0.02
June 2004	53.30	(67.60)	(14.30)	0.99	(0.52)	0.47	(13.83)
Q4	133.13	(142.85)	(9.73)	2.68	(1.70)	0.98	(8.75)
Half 2 2003/04	265.95	(267.62)	(1.67)	5.42	(3.18)	2.24	0.57
2003/2004	471.62	(450.63)	21.00	10.55	(8.26)	2.29	23.29
2004/2005							
July 2004	33.73	(36.42)	(2.69)	1.70	(0.59)	1.11	(1.58)

Source: Research Department, Bank of Uganda

Table 4: Mid Exchange Rate in the IFEM, Spreads, Commercial Banks' Purchases and Sales.

Date	Mid rate UGX/US\$	Spread UGX	Purchases Million US\$	Sales Million US\$
1-Jul-04	1,782.56	15.06	8.55	8.23
2-Jul-04	1,777.22	17.80	4.47	7.61
5-Jul-04	1,765.90	17.63	5.93	6.67
6-Jul-04	1,758.55	15.26	12.86	10.61
7-Jul-04	1,741.76	17.24	6.35	8.55
8-Jul-04	1,734.97	16.84	6.86	7.61
9-Jul-04	1,733.94	19.64	5.44	6.25
12-Jul-04	1,740.99	20.76	9.63	7.61
13-Jul-04	1,737.41	16.44	5.83	7.42
14-Jul-04	1,726.04	16.40	7.29	6.90
15-Jul-04	1,743.64	19.88	9.66	7.90
16-Jul-04	1,739.62	22.58	6.81	6.47
19-Jul-04	1,735.71	23.30	5.07	6.64
20-Jul-04	1,750.33	28.34	9.23	10.24
21-Jul-04	1,739.00	15.59	4.06	5.00
22-Jul-04	1,742.91	17.01	4.07	7.19
23-Jul-04	1,739.30	14.69	5.29	7.24
26-Jul-04	1,741.64	14.33	5.99	6.46
27-Jul-04	1,747.22	15.12	7.03	7.06
28-Jul-04	1,750.16	13.32	9.14	8.70
29-Jul-04	1,762.20	14.39	5.75	7.70
30-Jul-04	1,770.72	15.08	7.72	5.97
2-Aug-04	1,769.32	13.97	8.75	5.67
3-Aug-04	1,764.87	14.94	6.64	6.79
4-Aug-04	1,759.29	15.07	8.34	12.35
5-Aug-04	1,754.43	12.67	5.06	7.51
6-Aug-04	1,750.69	12.67	9.41	10.23
9-Aug-04	1,747.33	13.82	5.54	8.04
10-Aug-04	1,748.36	13.04	4.75	5.49
11-Aug-04	1,747.31	12.94	9.04	7.05
12-Aug-04	1,735.38	16.50	5.54	7.18
13-Aug-04	1,734.82	15.92	5.52	8.21
16-Aug-04	1,730.03	13.57	9.34	9.54
17-Aug-04	1,723.27	12.53	4.97	5.99
18-Aug-04	1,719.46	11.28	11.72	8.10
19-Aug-04	1,709.34	16.85	11.18	11.06
20-Aug-04	1,706.35	19.51	5.46	7.25
23-Aug-04	1,712.30	18.45	6.88	6.09
24-Aug-04	1,706.20	16.07	6.44	7.37
25-Aug-04	1,702.57	18.21	6.80	6.87
26-Aug-04	1,717.11	17.51	7.36	6.42
27-Aug-04	1,721.31	14.45	11.00	5.27
30-Aug-04	1,716.62	15.42	10.27	5.26
31-Aug-04	1,717.22	15.11	5.60	8.18
1-Sep-04	1,711.65	12.32	6.63	6.95
2-Sep-04	1,711.11	11.91	8.21	5.35
3-Sep-04	1,709.78	12.10	7.94	10.73

Table 5: EXPORTS OF MERCHANDISE (in millions of US\$)

	Feb2004	Mar2004	Apr2004	May2004	Jun2004	Jul2004	Aug2004
Total Exports	58.84	68.75	62.88	51.46	50.81	58.63	
1. Coffee							
Gross coffee shipment, million (60-Kg) bags	0.24	0.24	0.18	0.18	0.26	0.28	0.19
Av. unit value	0.79	0.84	0.82	0.79	0.80	0.75	0.70
Value of total shipment (BOP)	11.22	11.92	8.77	8.62	12.67	12.80	7.89
2. Non-Coffee exports	47.63	56.83	54.12	42.84	38.14	45.83	
Electricity	0.90	0.96	1.13	0.98	0.94	1.30	
Gold	2.72	4.04	12.56	3.59	3.04	12.72	20.1628
Cotton	7.73	8.67	5.04	5.43	2.48	1.36	
Tea	2.29	3.27	3.00	3.97	2.93	1.80	
Tobacco	4.79	6.39	4.34	1.53	1.63	1.10	
Fish & its prod.(excl. regional)	8.14	8.25	8.44	7.92	6.21	6.94	
Fish & its prod.(regional exports)	2.69	2.72	2.78	2.61	2.05	2.29	
Hides & skins	0.46	0.33	0.53	0.37	0.39	0.38	
Simsim	0.35	0.91	0.50	0.39	0.16	0.02	
Maize	2.21	2.90	1.13	1.09	1.05	1.32	
Beans	0.66	0.54	0.66	0.28	0.45	0.31	
Flowers	3.09	2.70	2.41	2.79	2.74	2.50	
Oil re-exports	1.90	1.87	2.18	1.98	2.91	2.44	
Cobalt	0.00	0.00	0.00	1.08	1.61	1.11	
Others	9.70	13.27	9.42	8.84	9.55	10.26	

Source: Bank of Uganda

Table 6: IMPORTS OF MERCHANDISE (in millions of US\$)

	Feb2004	Mar2004	Apr2004	May2004	Jun2004	Jul2004
Total Imports	102.33	114.06	109.30	122.41	124.57	133.91
Government Imports	12.44	9.95	10.28	14.14	14.09	12.65
Project	5.47	9.38	9.51	6.55	10.19	9.42
Non-Project	6.98	0.56	0.77	7.60	3.90	3.23
Private Sector Imports	89.89	104.11	99.02	108.27	110.48	121.25
Oil imports	10.62	13.42	12.90	12.16	11.70	12.34
Non-oil imports	79.27	90.69	86.12	96.11	98.78	108.91

Source: Bank of Uganda

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