

**BANK OF UGANDA**

**QUARTERLY ECONOMIC  
REPORT**

**DECEMBER 1999  
VOLUME 04/99**

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## TABLE OF CONTENTS

CHAPTER	PAGE
1. MONETARY POLICIES AND DEVELOPMENTS.....	1
2. COMMERCIAL BANKS' ACTIVITIES.....	4
3. THE TREASURY BILL MARKET AND INTEREST RATES DEVELOPMENTS.....	7
4. PUBLIC FINANCE.....	9
5. EXTERNAL SECTOR DEVELOPMENTS.....	11
6. EXTERNAL DEBT SERVICE.....	15
7. THE FOREIGN EXCHANGE MARKET.....	17
8. PRICE DEVELOPMENTS.....	19
9. MANUFACTURING.....	20
10. APPENDIX TABLES.....	21

## 1. MONETARY POLICIES AND DEVELOPMENTS

### **The 1999/2000 Monetary Programme**

The 1999/2000 financial year programme envisages broad macro-economic objectives which include:

Attaining growth rate in real GDP of 7.0 per cent per annum;

Containing the annual inflation rate to 5.0 per cent on end-period and period average basis;

Restricting the current account deficit (excluding grants) to 9.7 per cent of GDP;

Attaining a build up in gross foreign exchange reserves of at least five months of imports of goods and non-factor services.

In line with the broad macro-economic objectives, broad money (M3) is envisaged to grow at 15 per cent while the private sector credit is programmed to expand by 14.7 per cent.

### **Monetary Policy Actions Taken**

Cognizant of the broad objective of attaining inflation of 5.0 per cent and real GDP growth of 7.0 per cent, the BOU pursued a policy of monetary restraint over the first quarter of 1999/2000 in order to maintain base money within the required levels. On this account the BOU decided to issue interest bearing BOU promissory notes to commercial banks that undertook to pay customers' deposits in closed banks involving over Shs135 billion in

deposits. Consequently, in the quarter under review, base money which was recorded at Shs445.7 billion in June 1999 increased to a peak of Shs453.4 billion by end-July, 1999, mainly on account of government transfers through the banks. By end-September 1999, however, base money had been reduced to Shs443.6 billion, following the tight monetary policy and increased net sale of foreign exchange to smoothen out fluctuations in the exchange rate and maintain stability in the foreign exchange market. In light of the liquidity conditions in the banking system, BOU continued to vary issuance of the monetary instruments, the treasury bill and the BOU bill during the quarter under review.

The Rediscount Rate and the Bank Rate continued to take into account developments in the treasury bill and the shilling interbank market respectively, with a margin to reflect the monetary policy stance adopted by the Bank. The Rediscount rate rose from 9.72 per cent as at end-June 1999 to 14.52 per cent by end-September 1999. Likewise, the Bank rate increased from 11.50 per cent to 14.75 per cent in the same period. The increase was on account of the revision in the margin following the tight monetary policy adopted.

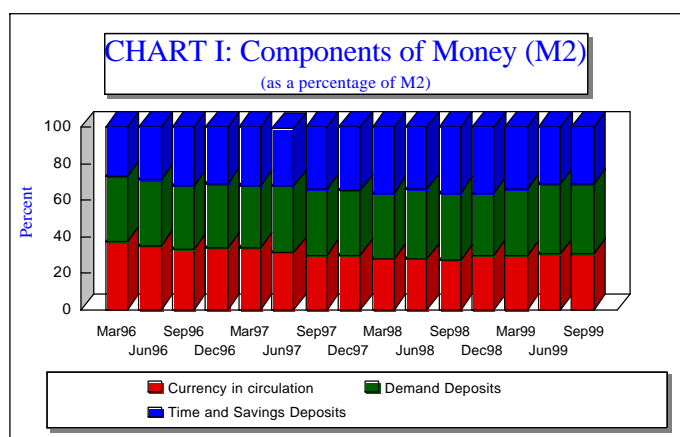
The minimum reserves that banks can hold on demand deposits and time and savings deposits were maintained at 9 per cent and 8 per cent respectively.

### **Money Supply**

During the first quarter of 1999/2000 money supply as measured by M3 grew by 4.6 per cent compared to a growth of 3.8 per cent in the quarter ended June 1999. The increase in M3 was on account of the increase in net domestic assets. Broad money M2, however, grew by 0.5 per cent compared to negative 0.3 per cent in the preceding quarter.

Currency in circulation increased marginally by 0.18 per cent or Shs0.5

in the banking system by the public following the closure of three banks in the previous financial year. The share of currency in circulation as a ratio of M2 declined marginally from 30.2 per cent as at end-June 1999 to 30.1 per cent by end-September 1999 (see Chart I). As a proportion of M2, the share of demand deposits increased slightly from 38.5 per cent by end-June, 1999 to 38.6 per cent by end-September, while that of private time and savings deposits stood at 31.3 per cent over the same period. The total deposit base increased by 0.6 per cent



billion to Shs285.2 billion during the quarter compared to a growth rate of 3.1 per cent in the previous quarter (see Table 1).

The slow growth in currency in circulation during the period under review is a sign of restored confidence

compared to a decline of 1.7 per cent in the previous quarter from Shs657.0 billion as at end-June, 1999 to Shs661.2 billion by end-September, 1999. Demand deposits increased by 1.3 per cent, while private time and savings deposits fell by 0.2 per cent.

The Net Foreign Assets (NFA) of the banking system declined by 1.3 per cent, from Shs782.3 billion, during the preceding quarter to Shs772.5 billion as at end-September, 1999. This compares to an increase of 8.2 per cent in the previous quarter. The decline in NFA was attributed to adverse developments in the overall balance of payments. At the same time, there was sluggish

improvement in export growth, while import growth remained buoyant.

During the quarter under review net domestic credit rose by 12.5 per cent equivalent to Shs61.0 billion to Shs549.3 billion as at end-September, 1999. This compares with an increase of 1.8 per cent in the previous quarter. This increase was mainly on account of reduced government savings with the

Other items (net) of the banking system declined by Shs2.1 billion over the period under review. As a result of the movements in net domestic credit and

banking system of Shs84.1 billion as credit to the private sector by commercial banks declined by 4.1 per cent to Shs533.5 billion during the quarter compared to 14.1 per cent growth in the previous quarter. Under the programme, commercial banks' outstanding claims on the private sector was envisaged to decline by only 2.6 per cent over the first quarter of the year.

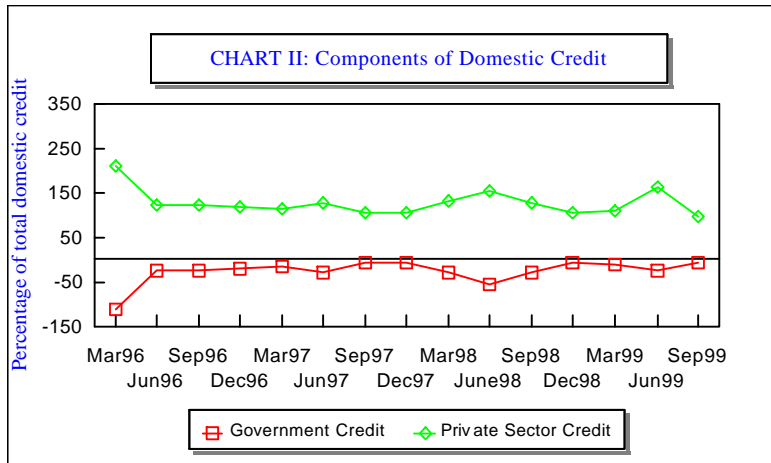
other items (net), the Net Domestic Assets increased by Shs77.5 billion to Shs262.2 billion at end-September, 1999.

**Table 1: Summary Monetary Survey: June 1999 to September 1999.**  
(Shs Billion)

	June 99	July 99	August 99	September 99
Net Foreign Assets	782.3	785.9	764.3	772.5
Monetary Authorities (net)	585.0	587.5	568.4	545.7
Foreign Reserves	1086.6	1092.1	1079.4	1104.6
Commercial Banks	197.2	198.4	195.9	226.8
Net Domestic Credit	488.3	477.2	511.2	549.3
Claims on Government (net)	-127.9	-130.0	-80.5	-43.8
Claims on Private sector	566.9	556.2	542.4	540.9
Crop Finance	9.9	9.7	9.7	9.6
Other Loans	495.5	487.2	474.4	467.6
Other Items (Net)	-110.0	-80.1	-74.7	-107.9
Revaluation	193.6	189.7	194.4	179.2
Other (net)	-323.3	-288.3	-257.0	-272.7
NDA (net of revaluation)	184.7	207.4	243.2	262.2
Broad Money - M3	1160.5	1183.0	1200.89	1213.9
Foreign Exchange Accounts	207.8	199.6	204.7	256.8
Broad Money - M2	941.6	972.3	984.9	946.4
Currency in Circulation	284.7	292.8	288.1	285.2
Private Demand Deposits	360.1	365.3	376.7	364.9

Private Time & Savings Deposits	296.9	314.3	320.1	296.3
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Source: Research Department, Bank of Uganda.



## 2. COMMERCIAL BANKS' ACTIVITIES

### Overview

Commercial bank lending to the private sector was sluggish during the quarter under review, declining by 4.1 per cent compared to a growth of 18.4 per cent in the fourth quarter of 1998/99. Net foreign assets increased by 15 per cent or Shs29.6 billion to Shs226.8 billion.

The claims on government increased by Shs33.8 billion to Shs130.9 billion while claims on Bank of Uganda dropped by Shs27.4 billion to Shs78.0 billion and cash in vaults decreased by Shs2.4 billion. Other items net (OIN) increased by Shs39.3 billion during the quarter bringing the balance to Shs94.6 billion (see Table 2).

**Table 2: Commercial Banks' Assets  
(Shs billion, at end of period)**

	Dec98	Mar99	Jun99	Sep99	Sep/Jun Change (Shs bn)
Net Foreign Assets	202.7	195.6	197.2	226.8	29.6
Claims on the private sector	468.4	469.6	556.2	533.5	-22.7
Claims on government (net)	142.1	145.4	97.1	130.9	33.8
Claims on the Bank of Uganda	85.0	119.7	105.4	78.0	-27.4
Cash in Vaults	33.0	30.6	32.5	30.1	-2.4
Other Items Net	-126.6	-118.7	-133.9	-94.6	39.3
<b>Total</b>	<b>804.6</b>	<b>842.2</b>	<b>854.5</b>	<b>904.7</b>	<b>50.2</b>

Source: Bank of Uganda

### Deposits

The growth in private sector shilling deposits registered an overall increase of 0.6 per cent to Shs661.2 billion (see Table 3), compared to a decline of 1.7 per cent in the previous quarter. The components of total deposits show that demand deposits increased by 1.3 per cent to Shs364.9 billion by end-

September 1999. Time and savings deposits however, decreased slightly by 0.2 per cent from Shs296.9 billion as at end-June 1999 to Shs296.3 billion by end-September 1999. The increase in total deposits during the first quarter of 1999/2000 was a sign that the public had started regaining confidence in the banking system following the closure of the three banks in 1998/99.

**Table 3: Private Sector Deposits with Commercial Banks  
(Shs billion, at end of period)**

Deposits	Dec98	Mar99	Jun99	Sep99	Sep/Jun Change (%)
Demand	326.6	345.6	360.1	364.9	1.3
Time & Saving	332.2	322.5	296.9	296.3	-0.2
<b>Total</b>	<b>658.8</b>	<b>668.1</b>	<b>657.0</b>	<b>661.2</b>	<b>0.6</b>

Source: Bank of Uganda

### Loans and Advances

After a growth of 3.8 per cent registered in the previous quarter, growth of private sector credit declined by 4.5 per cent in the quarter under review. The outstanding stock of credit amounted to Shs475.3 billion as at end-September, 1999 down from Shs497.5 billion by end-June, 1999. There was a general decline in credit to most of the sectors except for construction and mining and transport, electricity & water sectors. Credit to trade and other services sector declined by 4.6 per cent compared to a growth of 0.7 per cent in the preceding quarter, with the wholesale sub-sector credit falling by

16.2 per cent to Shs75.8 billion. Credit to the manufacturing sector declined by 6.6 per cent to Shs145.8 billion from an increase of 13.4 per cent in the previous quarter while credit to agriculture sector fell by 7.6 per cent compared to a decline of 7.9 per cent in the previous quarter. On the contrary, credit to the transport, electricity & water sector registered an increase of 15.0 per cent compared to an increase of 20.3 per cent recorded the previous quarter. There was a modest growth of 1.6 per cent in credit to the construction sector. Mining was the only sector which registered zero growth during the period under review (See table 4).

**Table 4: Outstanding Loans and Advances by Sector\***  
(Shs billion, at end of period)

Sector	Dec98	Mar99	Jun99	Sep99	Sep/Jun Change (%)
Agriculture	77.2	68.6	63.2	58.4	-4.8
o/w Crop Finance	63.6	56.8	54.0	48.4	-10.4
Manufacturing	124.5	137.6	156.1	145.8	-6.6
Trade & Other Services	203.5	229.5	231.1	220.4	-4.6
o/w Wholesale (Imp & Exp)	79.4	81.3	90.4	75.8	-16.2
Transport, Electricity and Water	21.4	17.7	21.3	24.5	15.0
Building& Construction	24.2	25.9	25.7	26.1	1.6
Mining	0.3	0.1	0.1	0.1	0.0
<b>Total</b>	<b>451.1</b>	<b>479.4</b>	<b>497.5</b>	<b>475.3</b>	<b>-4.5</b>

Note: These differ from claims on the private sector in Tables 1& 2 in that outstanding loans and advances include administered loans and exclude lending in-kind by UCB i.e inputs like tractors.

Source: Bank of Uganda

### Liquidity

During the period under review there was a general decline in the levels of liquidity held by the commercial banks as a result of the tight monetary policy stance pursued by BOU. The total reserves of commercial banks with the

central bank amounted to Shs 108.04 billion compared to Shs113.3 billion by end-June 1999. Excess reserves held by the banks declined by Shs3.8 billion to Shs59.2 billion by end-September 1999. Holdings of BOU bills increased by Shs10.3 billion to Shs25.2 billion during the same period.

**Table 5: Liquidity Indicators**  
(Shs billion, at end of period)

	Dec98	Mar99	Jun99	Sep99	Sep/Jun Change (Shs bn.)
Holdings of treasury bills	108.3	140.7	144.7	184.2	39.5
Total Reserves	101.7	126.4	113.3	108.0	-5.3
Excess Reserves	55.4	73.8	63.1	59.2	-3.8
Holdings of BOU bill	6.7	19.9	14.9	25.2	10.3

Source: Bank of Uganda

### 3. TREASURY BILLS MARKET AND INTEREST RATES DEVELOPMENTS

## Treasury Bills

The Bank actively utilised the treasury bill instrument for the purpose of monetary policy management. Treasury bills issued at face value during the quarter amounted to Shs176.19 billion while total maturities amounted to Shs128.73 billion, giving a positive net issuance of Shs47.46 billion. The total stock of treasury bills increased to Shs210.09 billion by the end of the first quarter of 1999/2000 compared to the end-June 1999 level of Shs170.17 billion.

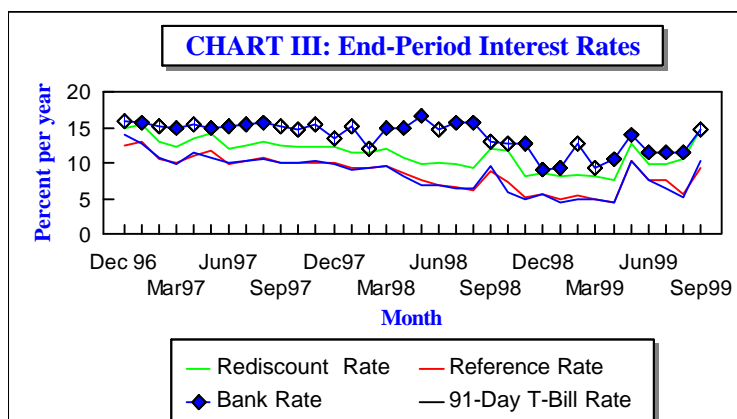
Commercial banks retained their dominant position in the market accounting for 87.7 per cent of the total stock of treasury bills from 67 per cent in the preceding quarter. The share of non-bank financial institutions (NBFI), i.e. insurance companies and credit institutions declined to 4.0 per cent from 4.6 per cent.

## Interest Rate Movements

The interest rates on the 91-day treasury bill declined from 7.60 per cent recorded as at end-June, 1999 to 5.26 per cent at end-August, 1999 but thereafter rose sharply to 10.26 per cent as at end-September, 1999. A similar trend was followed by the interest rates on the longer dated papers. The interest rates on the 182-day, 273-day and 364-day treasury bills fell from 8.66, 10.94, and 12.00 per cent as at end-June 1999 to 6.33, 6.84 and 7.65 per cent respectively at end-August 1999 but then rose to 8.94, 9.49 and 11.16 per cent respectively by end-September 1999.

Following developments in the inter-bank shilling market, the Bank Rate increased from 11.50 per cent as at end-June 1999 to 14.75 per cent by the end of the quarter whilst the Rediscount Rate rose from 9.72 per cent to 14.52 per cent during the same period.

**Table 6: Treasury Bill Issues for July - September 1999  
(in Shs billion)**



	Q3'98/99	Q4'98/99	Q1'99/20			
			Jul 99	Aug 99	Sep99	Q1'99/20
<b>Stock of Treasury Bills ( shs bn)</b>	<b>160.01</b>	<b>170.17</b>	<b>183.67</b>	<b>199.84</b>	<b>210.09</b>	<b>210.09</b>
91 Day TB Factors						
Average Price	98.73	97.88	98.08	98.60	97.95	97.95
Annualised Discount Rate (%)	5.08	8.12	7.69	5.60	8.22	8.22
Annualise Discount Yield (%)	5.25	7.74	8.08	5.80	8.66	8.66
Reference rate (%)	5.29	7.58	4.69	6.32	8.97	8.97
Rediscount Rate (%)	9.42	11.18	7.75	13.86	11.18	11.18
Net Issues (shs billion)	19.18	14.96	10.83	15.64	21.00	47.46
Total Issues (at face value in shs billion)	123.22	135.18	50.90	56.00	69.29	176.19
91 days	100.21	109.70	39.40	46.00	59.29	144.69
182 days	8.53	6.20	3.00	3.00	3.00	9.00
273 days	6.79	8.28	3.50	3.00	3.00	9.50
364 days	7.69	11.00	5.00	4.00	4.00	13.00
Total Receipts (shs billion)	120.85	131.28	49.27	54.80	67.28	171.35
91 days	98.92	107.63	38.64	45.36	58.08	142.08
182 days	8.30	5.95	2.88	2.91	2.87	8.66
273 days	6.49	7.76	3.27	2.85	2.79	8.91
364 days	7.14	9.94	4.47	3.69	3.55	11.71
Total Maturities (shs billion)	104.04	120.21	40.07	40.37	48.29	128.73

Source: Bank of Uganda

### Inter-Bank Money Market

The shilling inter-bank money market was generally active throughout the period under review with the volume of

transactions amounting to Shs20.85 billion during the quarter. The weighted average inter-bank rate declined from 9.02 per cent as at end-June 1999 to 5.0 per cent by end-September 1999.

## 4. PUBLIC FINANCE

### Revenue

As indicated in Table 7, total revenue collections amounted to Shs 228.3 billion while non tax revenue and grants amounted to Shs 3.2 billion and Shs23.3 billion respectively, during the first quarter.

URA, revenue excluding refunds and government taxes, registered a shortfall of Shs 32 billion relative to the budget. There was a decline in all tax heads except PAYE. The poor revenue performance was due to the decline in taxable imports.

The performance of non tax revenues amounted to Shs 3.2 billion during the first quarter. This represents 58.2 per cent of the budgeted non tax revenue.

Import support grants received during the first quarter amounted to Shs 23.3 billion. Part of this amount represents a disbursement of US\$ 9.47 million of Highly Indebted Poor Countries Initiative ( HIPC) funds.

During the first quarter, expenditures including net lending amounted to Shs 244.1 billion. This excludes arrears, government tax payments, and external debt repayments. Total expenditures were Shs 15.1 billion less than the budgeted limit. This partly reflects the cautious fiscal policy which was undertaken to counter the unpredictable revenue out turn for the first quarter.

### **Financing**

The overall deficit including net change in arrears and adjustment to cash was Shs 40.2 billion. This was financed by a run down on domestic savings by Shs 80.2 billion from the domestic sources and net external debt repayment of Shs 25.1 billion.

### **Expenditure**

**Table 7: Budgetary Operations (Cash Basis) July 1999-September 1999**  
(in Shs billion)

	Apr-Jun99	Jul-99	Aug-99	Sep-99	Jul-Sep 99
<b>Revenue and Grants</b>	<b>276.0</b>	<b>89.5</b>	<b>80.0</b>	<b>85.1</b>	<b>254.6</b>
Total revenue	253.5	79.7	74.4	77.1	231.2
Tax revenue	242.4	79.4	71.6	77.0	228.0
Other Revenues	11.1	0.3	2.8	0.1	3.2
Grants	22.5	9.7	5.6	8.0	23.3
<b>Expenditures and net lending</b>	<b>303.1</b>	<b>57.9</b>	<b>105.4</b>	<b>80.8</b>	<b>244.1</b>
Recurrent expenditure	235.9	54.4	87.7	69.5	211.6
Statutory	9.4	1.8	6.1	3.7	11.6
Wages and salaries	91.1	27.0	30.1	33.0	90.1
Interest payments	14.4	2.1	8.7	8.6	19.5
Other non-wage recurrent	112.8	20.7	40.0	21.5	82.2
URA transfers	8.2	2.7	2.7	2.7	8.1
Contingency					
Development Expenditure	66.1	3.3	18.7	11.1	33.1
External					
Domestic counterpart	66.1	3.3	18.7	11.1	33.1
Net lending and investment	1.1	0.2	-1.0	0.2	-0.5
<b>Overall deficit</b>	<b>-27.1</b>	<b>31.6</b>	<b>-25.4</b>	<b>4.3</b>	<b>10.4</b>
Change in arrears (net)	-65.0	-3.4	-15.1	-2.1	-20.7
Adjustment to cash	57.2	-41.2	21.7	-10.5	-30.0
<b>Overall deficit (cash)</b>	<b>-34.9</b>	<b>(13.0)</b>	<b>(18.9)</b>	<b>(8.3)</b>	<b>-40.2</b>
<b>Financing</b>	<b>34.9</b>	<b>13.0</b>	<b>18.9</b>	<b>8.3</b>	<b>40.2</b>
External Financing (net)	55.0	-8.8	-8.7	-7.6	-25.1
Domestic Financing	-81.3	(2.2)	49.6	32.8	80.2
Bank	80.8	-2.2	49.6	36.7	84.2
Non-bank	0.5	-0.0		-3.9	-4.0
Residual	61.2	24.0	-22.0	-16.8	-14.9

Source: Ministry of Finance and Economic Planning

## 5. EXTERNAL SECTOR AND DEVELOPMENTS

## Developments

In the period under review, the Balance of Payments (BOP) registered an overall deficit of US\$41.78 million compared to a surplus of US\$7.29 million recorded in the fourth quarter of 1998/99. The current account deficit (Table 10) improved to a deficit position of US\$161.34 million compared to a deficit of US\$189.74 million in the quarter ended June 1999. On the contrary, the capital and financial account balance dropped significantly to a surplus of US\$119.56 million compared to a surplus of US\$198.42 million mitigating the marginal improvement on the current account balance.

## Exports

Total export earnings for the quarter under review amounted to US\$95.29 million, representing a decrease of 15.7 per cent compared to the previous quarter and a decline of 24.0 per cent compared to the earnings of the corresponding quarter in 1998/99 (see Table 8). The decline in export earnings during the quarter under review was a result of a lower than projected exports of coffee, cotton, tobacco and fish.

Coffee exports declined by 11.8 per cent from from US\$61.47 million in the

fourth quarter to US\$54.23 million in the first quarter of 1999/2000 and was 31.2 per cent lower than in the corresponding quarter in 1998/99. The average coffee price for the first quarter was US\$1.05 per kg compared to US\$1.20 per kg in the preceding quarter. In volume terms coffee exports increased by about 1.2 per cent from 855,000 (60 kg) bags in the fourth quarter to 865,000 bags exported in the first quarter under review.

Non-coffee exports declined by 20.3 per cent, from US\$51.54 million in the fourth quarter of 1998/99 to US\$41.07 million in the first quarter of 1999/2000. Over the same period fish exports fell by 49 per cent from US\$5.40 million to US\$2.75 million as a result of the continued ban on fish exports to EEC countries. Cotton exports fell from US\$3.01 million to US\$1.20 million. Similarly, tea exports declined from US\$5.30 million to US\$3.13 million and export earnings from beans fell from US\$0.61 million to US\$0.41 million. However, these declines were partially offset by increases in export earnings from gold which rose by 4.2 per cent from US\$11.82 million to US\$12.32 million, tobacco by 5.1 per cent to US\$2.49 million and electricity by 1.5 per cent to US\$3.44 million.

**Table 8: Summary Export Developments  
(US \$ million)**

	<u>98/99 Q1</u>	<u>98/99 Q2</u>	<u>98/99 Q3</u>	<u>98/99 Q4</u>	<u>99/2000Q1</u>
<u>Total Exports</u>	<u>125.37</u>	<u>144.54</u>	<u>166.66</u>	<u>113.01</u>	<u>95.29</u>
<u>Coffee</u>	<u>78.79</u>	<u>69.63</u>	<u>96.85</u>	<u>61.47</u>	<u>54.23</u>
<u>Non Coffee</u>	<u>46.58</u>	<u>74.81</u>	<u>69.81</u>	<u>51.54</u>	<u>41.07</u>
<u>Electricity</u>	<u>2.94</u>	<u>2.85</u>	<u>3.10</u>	<u>3.39</u>	<u>3.44</u>
<u>Gold</u>	<u>2.20</u>	<u>2.89</u>	<u>11.04</u>	<u>11.82</u>	<u>12.32</u>
<u>Tea</u>	<u>4.59</u>	<u>6.96</u>	<u>6.14</u>	<u>5.30</u>	<u>3.13</u>
<u>Cotton</u>	<u>0.42</u>	<u>0.01</u>	<u>7.41</u>	<u>3.01</u>	<u>1.20</u>
<u>Tobacco</u>	<u>3.21</u>	<u>8.92</u>	<u>7.33</u>	<u>2.37</u>	<u>2.49</u>
<u>Skins &amp; Hides</u>	<u>1.62</u>	<u>2.00</u>	<u>1.60</u>	<u>1.40</u>	<u>0.59</u>
<u>Maize</u>	<u>1.39</u>	<u>2.37</u>	<u>1.61</u>	<u>0.52</u>	<u>2.17</u>
<u>Beans</u>	<u>0.64</u>	<u>1.03</u>	<u>2.34</u>	<u>0.61</u>	<u>0.41</u>
<u>Flowers</u>	<u>1.36</u>	<u>2.10</u>	<u>1.65</u>	<u>2.09</u>	<u>2.08</u>
<u>Oil re-export</u>	<u>3.21</u>	<u>2.50</u>	<u>4.13</u>	<u>1.97</u>	<u>1.88</u>
<u>Fish</u>	<u>12.58</u>	<u>16.63</u>	<u>12.74</u>	<u>5.40</u>	<u>2.75</u>
<u>Others</u>	<u>12.21</u>	<u>26.67</u>	<u>9.94</u>	<u>13.14</u>	<u>8.60</u>

Source: Bank of Uganda

### Imports

Total imports amounted to US\$340.22 million, representing an increase of 2.3 per cent compared to the previous quarter and a decline of 13.6 per cent compared to the corresponding quarter in 1998/99. Private sector imports increased by 5.6 per cent from US\$267.28 million in the last quarter of 1998/99 to US\$282.17 million during the quarter under review, suggesting

that the exchange rate depreciation over the period did not constrain import demand. Government imports declined by 11 per cent from US\$65.17 million to US\$58.05 million over the same period whereas, oil imports increased by 4.0 per cent to US\$15.45 million during the quarter (see Table 9 for summary developments in imports).

**Table 9: Summary Imports Developments**  
(US \$ million)

	<u>98/99 Q1</u>	<u>98/99 Q2</u>	<u>98/99 Q3</u>	<u>98/99 Q4</u>	<u>99/2001</u>
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<b>Total Imports</b>	<b><u>393.73</u></b>	<b><u>332.55</u></b>	<b><u>315.50</u></b>	<b><u>332.45</u></b>	<b><u>340.22</u></b>
Government Imports	<u>59.56</u>	<u>71.14</u>	<u>70.33</u>	<u>65.17</u>	<u>58.05</u>
Private Imports	<u>334.16</u>	<u>261.41</u>	<u>245.17</u>	<u>267.28</u>	<u>282.17</u>
Oil	<u>20.96</u>	<u>14.60</u>	<u>14.48</u>	<u>14.86</u>	<u>15.45</u>
Non-Oil	<u>166.47</u>	<u>136.34</u>	<u>140.19</u>	<u>116.67</u>	<u>128.91</u>

**Source: Bank of Uganda**

### **Other Current Account Developments**

The services and income account registered a deficit balance of US\$85.11 million compared to a deficit of US\$77.74 million recorded in the preceding quarter and US\$80.40 million deficit in the corresponding quarter in 1998/99. The income account, in particular worsened from a deficit of US\$0.45 million in the fourth quarter to US\$9.98 million deficit during the quarter under review, largely on account of increased payment of interest on public debt from US\$4.73 million in the fourth quarter to US\$11.76 million.

Current transfers increased by 59.1 per cent from US\$106.05 million in the fourth quarter to US\$168.69 million in the first quarter of 1999/2000.

This largely reflected the increase in private transfers from US\$53.66 million in the fourth quarter to US\$115.38 million during the quarter under review. Similarly, transfers to government rose from US\$50.74 million in the fourth quarter to US\$52.54 million in the first quarter.

Overall, the BOP was financed by an increase in the IMF obligations of US\$11.94 million, increase in reserves of US\$0.9 million and exceptional financing of US\$14.33 million which was mainly the rescheduling of loans. The stock of reserves in terms of months of imports of goods and non factor services stood at 4.58 by the end of the reporting period compared to 4.70 months of imports at the end of the fourth quarter of 1998/99 (see summary developments in the BOP in Table 10 below).

**Table 10: Summary Balance of Payment Developments  
(US \$ million)**

	<u>98/99Q1</u>	<u>98/99Q2</u>	<u>98/99Q3</u>	<u>98/99Q4</u>	<u>99/20Q1</u>

<u>Current Account Balance</u>	<u>-174.45</u>	<u>-86.10</u>	<u>-27.08</u>	<u>-189.74</u>	<u>-161.34</u>
<u>Exports (fob)</u>	<u>125.35</u>	<u>144.54</u>	<u>166.66</u>	<u>113.01</u>	<u>95.29</u>
<u>Imports (cif)</u>	<u>-393.73</u>	<u>-332.50</u>	<u>-315.50</u>	<u>-332.45</u>	<u>-340.22</u>
<u>Services and Income (net)</u>	<u>-80.40</u>	<u>-64.05</u>	<u>-53.49</u>	<u>-77.74</u>	<u>-85.11</u>
<u>Current Transfers</u>	<u>174.31</u>	<u>165.97</u>	<u>180.93</u>	<u>106.05</u>	<u>168.69</u>
<u>Capital and Financial Account Balance</u>	<u>124.14</u>	<u>103.34</u>	<u>84.02</u>	<u>198.42</u>	<u>119.56</u>
<u>Overall Balance</u>	<u>-50.31</u>	<u>17.24</u>	<u>56.94</u>	<u>7.29</u>	<u>-41.78</u>
<u>Total Forex Reserves (end period)</u>	<u>712.50</u>	<u>720.40</u>	<u>753.80</u>	<u>748.3</u>	<u>733.40</u>
<u>Reserves (in months of imports and non factor services)</u>	<u>4.57</u>	<u>4.62</u>	<u>4.84</u>	<u>4.70</u>	<u>4.58</u>

**Source: Bank of Uganda**

## **6. EXTERNAL DEBT SERVICE**

During quarter ending September 1999, Annual meetings of the International Monetary Fund and the World Bank were held in Washington D.C. These

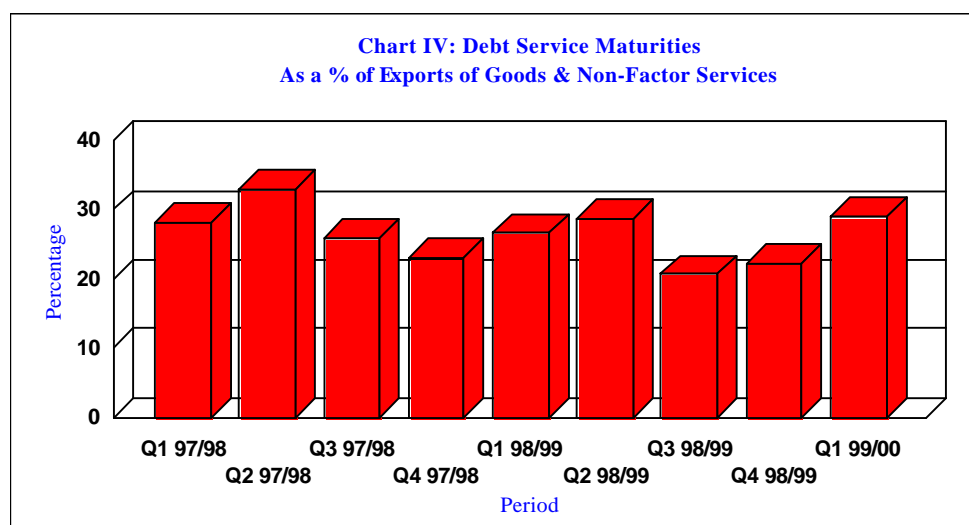
meetings were held from September 28 to September 30 1999. One of the outcomes of the discussions was the Interim Committees endorsement of the

replacement of the IMF's ESAF by a new Poverty Reduction and Growth Facility (PRGF) which is to make poverty-reduction efforts among low-income member countries a more explicit element of a renewed growth-oriented economic strategy. Under this new approach countries will be required to prepare Comprehensive Poverty Reduction Strategy Papers with assistance of the Fund and World Bank. Social and Sectoral programs to reduce poverty are to be taken into account in the design of growth oriented economic policies while greater emphasis is accorded to good governance through greater transparency, improved monitoring, anti-corruption initiatives, accountability and the involvement of all sectors of the society.

During the quarter ended September 1999, the ratio of debt service to

exports of goods and services was recorded at 31 per cent compared to 22 per cent for the quarter ending June 1999. This was mainly explained by lower than expected performance of exports in the quarter ending September, 1999. Disbursement of HIPC funds for Debt relief provision amounted to US\$9.47 million compared to US\$15.23 million received for the quarter ended June 1999. During the period under review, purchases from the International Monetary Fund amounted to US\$ 22.78 million. Total repayments to the Fund were recorded at US\$ 11.13 million compared to US\$ 19.76 million in the previous quarter. The payments to the Fund were composed of scheduled principal maturities equivalent to US\$ 10.84 million and interest and other charges of US\$ 0.29 million.

Private medium and long term debt service amounted to US\$10.04 million compared to US\$ 7.21 million recorded



for the quarter ending June 1999. The slight increase in loan repayments

represents the growing importance of foreign loan financed imports.

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## **7.DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET**

### **Foreign Exchange Rates**

During the quarter under review, there was overall general stability in the foreign exchange market compared to

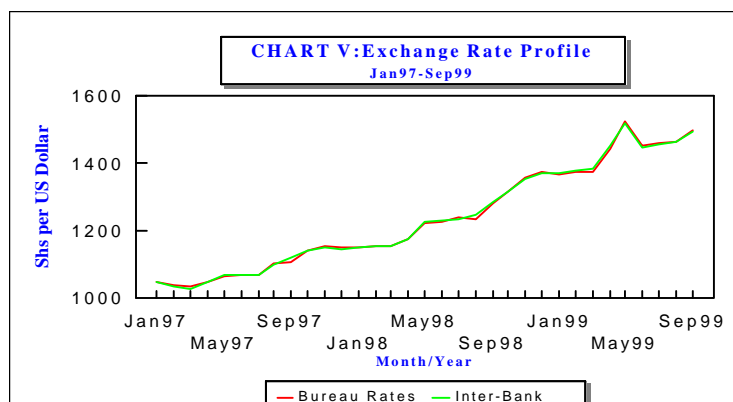
seasonal developments usually observed in the corresponding previous quarters. The average mid-rate in the inter-bank foreign exchange market depreciated by 3.1 per cent, from Shs1447.22 per US dollar in June, 1999 to Shs1491.67 per US dollar in September, 1999. This compares with a depreciation of 4.8 per cent in the previous quarter and 4.4 per cent in the corresponding quarter in 1998/99. The shilling stabilised against the US dollar over the period June to August 1999. The monthly average mid-rates posted for June, July and August were respectively Shs1447, 1454 and 1463 per US dollar, working to an average mid rate of Shs1455 during the period.

However, in the month of September the mid-rate depreciated at a slightly faster pace than observed in the previous two months. The explanation for the increased rate of depreciation beginning early September is mainly attributed to the reduced coffee inflows associated with the low coffee season. Data from Uganda Coffee Development Authority (UCDA) indicated that prices, quantities and hence values of coffee had declined since July 1999. In September alone, the

respective quantity and value of coffee exports declined by 28 and 29.8 per cent over the August out-turn.

The shortage in inflows notwithstanding, it is clear that even the prices for imports have continuously risen (on account of rising international oil prices) over the same period. Consequently, the terms of trade deteriorated and the market under these circumstances would point to the depreciation pressures on the exchange rate. The Bank intervened on the sale side to the tune of US\$19.95 million in September to ease the pressures.

In the bureau foreign exchange market, the shilling depreciated by 3.4 per cent against the dollar compared to a depreciation of 5.4 per cent in the last quarter of 1998/99. The shilling depreciated from the average mid-rate of Shs1449.04 per US dollar in June 1999 to Shs1498.82 per US dollar in September 1999. These rates compare very favourably with the developments in the interbank foreign exchange market.

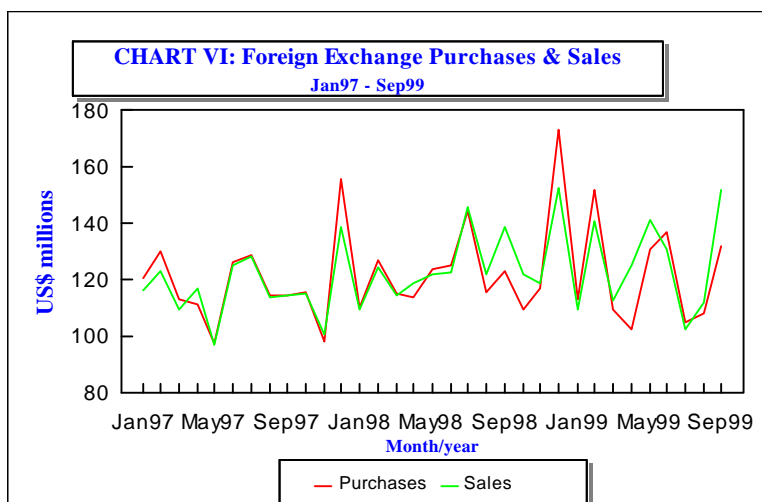


## Transaction Volumes

Purchases in the inter-bank foreign exchange market amounted to US\$346.04 million while gross sales totalled US\$364.10 million during the quarter. This compares to US\$369.39 million and US\$396.70 million in purchases and sales respectively, made in the previous quarter. In the bureau market purchases and sales were

US\$88.22 million and US\$84.93 million, compared to US\$75.68 million and US\$73.35 million in the preceding quarter respectively.

To moderate the depreciation pressures and maintain relative stability in the market BOU intervened and sold US\$32.7 million (net) in the inter-bank foreign exchange market during the quarter as a whole.



## 8. PRICE DEVELOPMENTS

During the first quarter of the financial year 1999/2000, inflation which had been subdued for most of 1998/99 started rising. The annual headline inflation rate rose from 5.3 per cent recorded in June 1999 to 10.1 per cent in September 1999. The monthly inflation rate rose from negative 0.6 per cent in June 1999 to 2.2 per cent in September 1999. The annual underlying

inflation rate on the other hand increased from 2.8 per cent posted in June 1999 to 6.0 per cent in September 1999. This compares to 1.9 per cent recorded in the corresponding quarter in 1998/99.

The factors that contributed to the acceleration in the inflation rate included the prolonged drought in the

Western region of the country, the depreciation pressures generated during the last quarter of 1998/99 and the external shock attributed to the hike in international petroleum prices.

The drought in Western region had tremendous impact on staple food prices as the region serves as a major source of food supply for Kampala. Food price inflation rose to 19.8 per cent in September 1999 from 11.0 per cent in June 1999 and negative 12.0 per cent in September 1998. Similarly, the depreciation of the shilling working through the worsening terms of trade

generated upward pressures by raising the prices of some imported goods, particularly household personal goods.

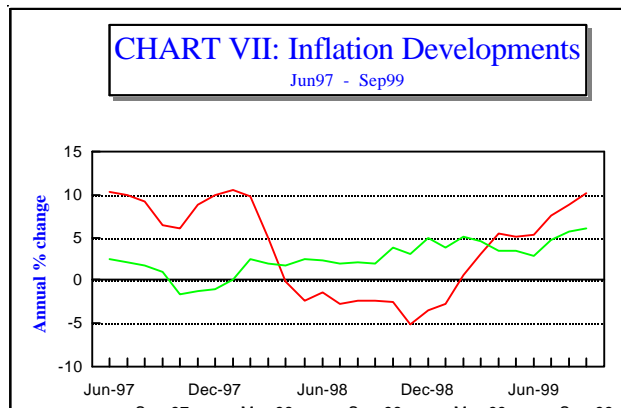
The increase in the international petroleum prices (The London Brents increased from US\$10 per barrel to US\$24 per barrel) was largely responsible for the upward adjustments in the domestic prices of these items. Transport and Communications group index rose by 4.5 per cent during the quarter under review compared to 0.7 per cent in the previous quarter.

## 9. MANUFACTURING

The index of industrial production of 15 manufacturing establishments showed a marked improvement during the quarter under review, with the all items index increasing by 10.4 and 2.8 per cent in July and August 1999, respectively.

The manufacturing

sub-sectors that performed well include sugar and beer. The index of sugar production rose by 82.8 per cent in July 1999 and increased further by 4.7 per cent in August 1999 following the reopening of Kakira Sugar Works earlier on closed for maintenance. Beer production



remained steady with the index increasing by 1.7 and 1.0 per cent in July and August respectively.

However, there was a decline in the index of production of soft drinks by 12.5 and 7.2 per cent in July and August respectively due to a fall in

demand. Similarly, decreases were observed in the production index for cigarettes, textiles and soap and edible oil for the month of August 1999. Cement production however, improved markedly in August with the index rising by 40.2 per cent.

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