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1. MONETARY POLICIES AND DEVELOPMENTS

Policy Actions

During the quarter ended June 1999, Bank of Uganda (BOU) continued with the pursuit of a tight monetary policy stance. There were, however, challenges which confronted monetary management namely, the closure of the two banks and the speculative attack on the shilling. Specifically, as a result of the closure of two banks, there were distortions in the underlying liquidity relationships.

Consequently, monetary policy over the period under review was cautiously pursued in order to balance the two sensitive and almost conflicting objectives of reducing the negative impact of bank closures on the economy on the one hand and maintaining price stability on the other.

To address the excess liquidity problem in the economy and the depreciation pressures in the foreign exchange market, BOU pursued a tight monetary policy by stepping up net issuance of treasury bills. Net issuance of treasury bills amounted to Shs14.97 billion during the quarter under review. In addition, BOU bills amounting to Shs20 billion were issued. BOU intervened into the foreign exchange market to the tune of US\$32.7 million (net sale). And by end-June, 1999, base money stood at Shs445.7 billion from Shs436.8 billion as at end- March 1999.

Both the Rediscount Rate and the Bank Rate continued to take into account developments in the treasury bill and the shilling inter-bank market rates, respectively with a policy margin being varied to reflect the monetary policy

stance adopted by the Bank. Following developments in the inter-bank market and the need to tighten the monetary policy stance, the policy margin on the Bank rate was revised from 2 percentage points in the second quarter of 1998/99 to a peak of 8.5 percentage points in May, 1999 before it was reduced to 2.0 percentage points recorded at end-June 1999.

Similarly, the policy margin for the Rediscount rate was changed from 3.0 percentage points to a peak of 9.00 percentage points in May, 1999 before being reduced to 3.0 percentage points by the end of June, 1999.

The minimum statutory cash reserve requirement that banks can hold on demand deposits and time and savings deposits were maintained at 9 per cent and 8 per cent respectively. However, to address structural problems associated with currency movements in upcountry areas, the proportion of vault cash eligible as reserves assets was increased from 30 per cent to 50 per cent for banks with a domestic network of at least 10 branches.

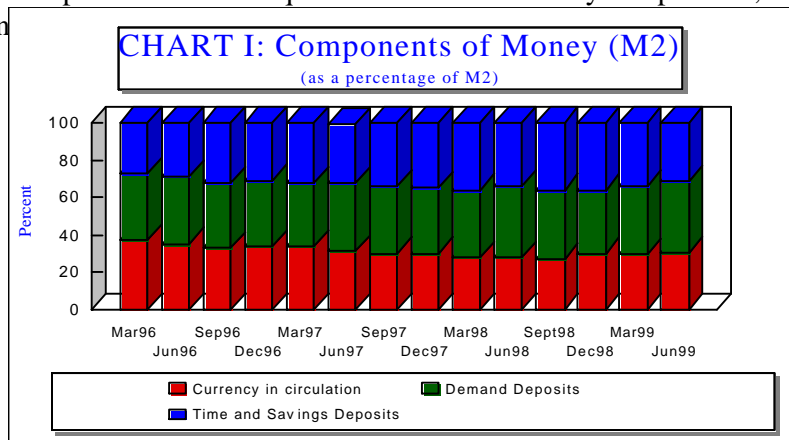
Money Supply

During the fiscal year ended June 1999 money supply as measured by M3 grew by 13.8 per cent compared to 26.1 per cent in 1997/98 while M2 grew by 7.9 per cent compared to 23.7 per cent in 1997/98. However, during the quarter ended June 1999 broader money M3 grew by 3.8 per cent, while M2 declined marginally by 0.3 per cent. The comparable growth rates for the third quarter of 1998/99 were 3.6 per cent and -0.3 per cent for M3 and M2, respectively. The slow growth in money

supply over the quarter was attributed to the tight monetary policy stance.

Currency in circulation increased by 3.1 per cent or Shs8.5 billion to Shs284.7 billion during the quarter compared to a decline of 3.4 per cent in the previous quarter (see table 1). The increase in currency in circulation reflected preference for more liquid assets given the contagion effects associated with the closure of banks. The share of currency in circulation as a ratio of M2 increased from 29.2 per cent as at end-March, 1999 to 30.2 per cent for the quarter ended Jun

deposits increased from 36.6 per cent as at end-March, 1999 to 38.2 per cent by end-June, 1999, while that of private time and savings deposits dropped from 34.2 per cent to 31.5 per cent over the same period. This reflected a general shift to a more liquid assets earlier on mentioned. The total deposit base shrank by 1.7 per cent (excluding Shs11.1 billion in certificate of deposits, CDs) from Shs668.1 billion as at end-March, 1999 to Shs657.0 billion by end-June, 1999. This compares with a growth of 1.4 per cent in the third quarter of 1998/99. Demand deposits increased by 4.2 per cent, while private declined by



proportion of M2, the share of demand

7.9 per cent.

The Net Foreign Assets (NFA) of the banking system increased by 8.2 per cent to Shs782.3 billion as at end-June, 1999, lower than the 12.8 per cent growth posted in the previous quarter. This was largely accounted for by the increase in the NFA of Monetary Authorities of Shs57.4 billion and a rise in net foreign assets of commercial banks by Shs1.6 billion.

During the quarter under review net domestic credit rose by 10.7 per cent to Shs488.3 billion as at end-June, 1999. This is in contrast to a decline of 4.2 per cent recorded in the previous quarter. The increase was on account of faster growth in private sector credit, which billion at end-June, 1999.

grew by 17.0 per cent during the quarter compared to -0.22 per cent growth in the previous quarter. The effect of private sector credit growth on net domestic credit was, however, more than offset by increased Government savings of Shs84.8 billion with the banking system. The increase in net domestic credit was largely driven by increased claims on parastatals.

Other items (net) of the banking system declined by Shs63.9 billion over the period under review. As a result of the movements in net domestic credit and other items (net), the Net Domestic Assets increased by Shs2.6 billion to Shs184.7

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

	March 99	April 99	May 99	June 99
Net Foreign Assets	723.2	790.6	737.3	782.3
Monetary Authorities (net)	527.6	538.2	491.1	585.0
Foreign Reserves	1043.9	1080.2	993.4	1086.6
Commercial Banks	195.6	252.3	246.2	197.2
Net Domestic Credit	441.3	417.0	453.6	488.3
Claims on Government (net)	-43.1	-67.8	-62.5	-127.9
Claims on Private sector	484.5	484.8	516.1	566.9
Crop Finance	63.6	74.3	65.4	9.9
Other Loans	420.8	410.5	450.7	495.5
Other Items (Net)	-46.1	-92.8	-74.1	-110.0
Revaluation	213.1	173.2	200.4	193.6
Other (net)	-252.4	-258.2	-265.4	-323.3
NDA (net of revaluation)	182.1	151.0	179.2	184.7
Broad Money - M3	1118.4	1114.8	1116.8	1160.5
Foreign Exchange Accounts	170.3	202.8	184.9	207.8
Broad Money - M2	944.3	908.2	920.9	941.6

Currency in Circulation	276.2	270.5	285.2	284.7
Private Demand Deposits	345.6	330.5	335.2	360.1
Private Time & Savings Deposits	322.5	307.2	300.5	296.9

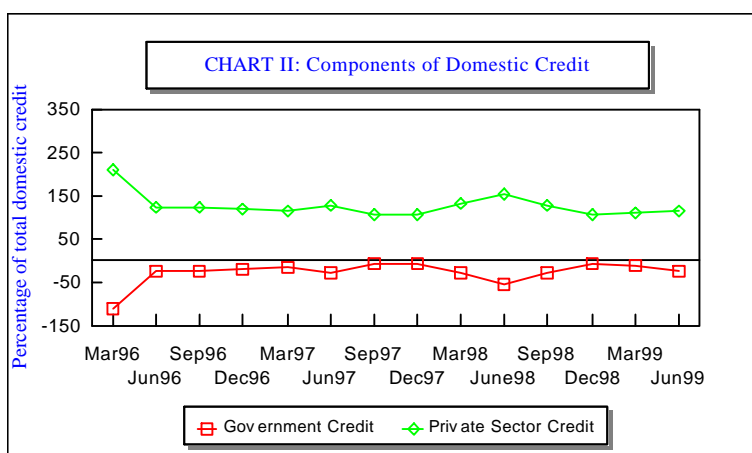
Source: Research Department, Bank of Uganda.

2. COMMERCIAL BANKS' ACTIVITIES

Overview

Commercial bank lending to private sector was buoyant during the quarter under review, increasing by over 18.4 per cent compared to a growth of 0.3 per cent in the third quarter. Net foreign assets increased by 0.8 per cent or Shs1.6 billion to Shs197.2 billion. The

claims on government declined by Shs48.3 billion to Shs97.1 billion while net balances with the Bank of Uganda dropped by Shs14.3 billion to Shs105.4 billion largely on account of increased credit activity in the private sector.



Cash in vaults increased marginally by Shs1.9 billion, while other items net (OIN) declined further during the

quarter bringing the balance to Shs133.9billion (See Table 2)

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

	Sep98	Dec98	Mar99	Jun99	Change, Jun/Mar (Shs bn)
Net Foreign Assets	176.6	202.7	195.6	197.2	1.6
Claims on the private sector	453.4	468.4	469.6	556.2	86.6
Claims on government (net)	120.0	142.1	145.4	97.1	-48.3
Claims on the Bank of Uganda	106.8	85.0	119.7	105.4	-14.3
Cash in Vaults	26.9	33.0	30.6	32.5	1.9
Other Items Net	-109.0	-126.6	-118.7	-133.9	-15.2
Total	774.7	804.6	842.2	854.5	12.3

Source: Bank of Uganda

Deposits

The growth in private sector shilling deposits registered an overall decline of 1.7 per cent to Shs657.0 billion, compared to an increase of 1.4 per cent in the previous quarter. The decline during the quarter was attributed to the contraction in time and savings deposits equivalent to 7.9 per cent from Shs322.5 billion as at end-March, 1999 to Shs296.9 billion as at end-June, 1999. This was largely on account of

depositors shifting to more liquid assets following the instability in the banking sector. This decline however, was partially offset by an increase in demand deposits of 4.2 per cent to Shs360.1 billion, compared to a rise of 5.8 per cent the previous quarter (Table 3). However, the decline in private sector deposits was more than offset by an increase in government deposits with the banking system, which allowed for the registered increase in private sector credit during the period under review.

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

Deposits	Sep98	Dec98	Mar99	Jun99	Change, Jun/Mar (%)
Demand	317.2	326.6	345.6	360.1	4.2
Time & Saving	322.5	332.2	322.5	296.9	-7.9
Total	639.7	658.7	668.1	657.0	-1.7

Source: Bank of Uganda

Loans and Advances

After an increase of 6.3 per cent registered in the previous period, growth of private sector credit rose by 3.8 per cent in the quarter under review. The outstanding stock of credit amounted to Shs497.5 billion as at end-June, 1999 up from Shs479.4 billion by end-March, 1999. Credit to trade and other services sector registered a modest growth of 0.7 per cent with the wholesale sub-sector credit increasing by 11.2 per cent to Shs90.4 billion. Growth in credit to the manufacturing sector was robust at 13.4 per cent to Shs156.1 billion from 10.5 per cent in

the previous quarter. Similarly, credit to the transport, electricity & water sector registered an increase of 20.3 per cent after a decline of 17.3 per cent recorded the previous quarter. On the contrary, credit to the construction sector declined by 0.8 per cent while credit to agriculture sector contracted during the period under review. Credit to this sector declined by 7.9 per cent, which was however, an improvement compared to a decline of 11.1 per cent in the preceding quarter. Mining was the only sector which registered zero growth during the period under review (Table 4).

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

Sector	Sep98	Dec98	Mar99	Jun99	Change Jun/Mar (%)
Agriculture	74.6	77.2	68.6	63.2	-7.9
o/w Crop Finance	63.5	63.6	56.8	54.0	-4.9
Manufacturing	113.2	124.5	137.6	156.1	13.4
Trade & Other Services	187.7	203.5	229.5	231.1	0.7
o/w Wholesale (Imp & Exp)	99.6	79.4	81.3	90.4	11.2
Transport, Electricity and Water	11.9	21.4	17.7	21.3	20.3
Building & Construction	23.5	24.2	25.9	25.7	-0.8
Mining	0.4	0.3	0.1	0.1	0.0
Total	411.3	451.1	479.4	497.5	3.8

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 113.3 billion compared to Shs126.4 billion by end-March 1999. Of this amount, the excess reserves holding amounted to Shs63.1 billion by end-June, 1999 compared to Shs73.8 billion by end-March, 1999.

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

	Sep98	Dec98	Mar99	Jun99	Jun/Mar (Shs bn.)
Holdings of treasury bills	104.0	108.3	140.67	144.68	4.1
Total Reserves	106.6	101.7	126.4	113.3	-13.1
Excess Reserves	57.9	55.4	73.8	63.1	-10.7
Holdings of BOU bill	4.8	6.7	19.9	14.9	-5.0

Source: Bank of Uganda

3. TREASURY BILLS MARKET AND INTEREST RATES DEVELOPMENTS

Treasury Bills

During the quarter under review, Bank of Uganda continued to use the treasury bill instrument actively for monetary management purposes. Treasury bills issued over the quarter at face value amounted to Shs135.18 billion while total maturities amounted to Shs120.21 billion, giving a positive net issuance of Shs14.97 billion. The total the stock of treasury bills increased from Shs168.77 billion as at end- March, 1999 to Shs170.17 billion by end-June, 1999.

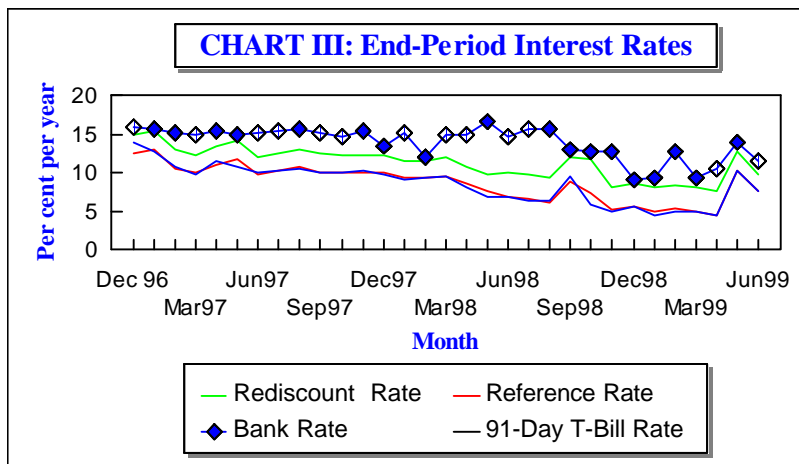
Activity in the treasury bill market was buoyant during the quarter with total bids exceeding offers in most auctions. Bids (competitive and non-competitive) amounted to Shs198.49 billion while the amount offered was Shs158.00 billion.

The treasury bill market remained concentrated within commercial banks whose holdings accounted for over 67 per cent of the outstanding stock of treasury bills by end quarter.

Interest Rate Movements

The interest rates on the 91-day treasury bill increased from 5.00 per cent as at end-March, 1999 to 7.60 per cent by end-June, 1999 in line with a tight

monetary policy stance. The interest rates on the 182-day and 273-day treasury bills increased from 5.82 per cent and 5.62 per cent as at end-March, 1999 to 8.86 per cent and 10.94 per cent respectively, by end-June, 1999.



The rate on the 364-day bill increased much faster from 6.90 per cent recorded

at end-March to 12.00 per cent at end-June, 1999. Following developments in

liquidity conditions, the Rediscount rate increased from 8.04 per cent as at end-March, 1999 to 9.72 per cent by end-June, 1999, while the Bank rate rose

from 9.38 per cent as at end-March, 1999 to 11.50 per cent as at end-June, 1999.

**Table 6: Treasury Bill Issues for April - June 1999
(in Shs billion)**

	Q2'98/99	Q3'98/99	Q4'98/99			
			Apr 99	May 99	Jun99	Q4'98/99
Stock of Treasury Bills (shs bn)	140.83	168.77	170.25	200.33	170.17	170.17
91 Day TB Factors						
Average Price	98.61	98.73	98.90	97.63	97.88	97.88
Annualised Discount Rate (%)	5.57	5.08	4.44	8.56	8.12	8.12
Annualise discount Yield (%)	5.77	5.25	4.35	10.58	7.74	7.74
Reference rate (%)	8.48	5.29	4.44	8.56	7.58	7.58
Rediscount Rate (%)	11.66	9.42	7.75	13.86	11.18	11.18
Net Issues (shs billion)	(18.01)	19.18	11.17	(0.57)	4.36	14.96
Total Issues (at face value in shs billion)	100.56	123.22	45.32	39.43	50.43	135.18
91 days	84.08	100.21	33.32	33.09	43.29	109.70
182 days	6.50	8.53	3.00	1.20	2.00	6.20
273 days	5.50	6.79	4.00	2.15	2.13	8.28
364 days	4.50	7.69	5.00	3.00	3.00	11.00
Total Receipts (shs billion)	98.52	120.85	44.36	38.05	48.87	131.28
91 days	82.86	98.92	32.95	32.30	42.38	107.63
182 days	6.32	8.30	2.91	1.13	1.91	5.95
273 days	5.21	6.49	3.83	1.97	1.96	7.76
364 days	4.15	7.14	4.67	2.65	2.62	9.94

Total Maturities (shs billion)	118.58	104.04	34.15	40.00	46.06	120.21

Source: Bank of Uganda

Inter-Bank Money Market

The shilling inter-bank money market was generally active throughout the

period under review. The weighted average inter-bank rate rose from 5.0 per cent as at end-March 1999 to 9.02 per cent by end-June 1999.

4. PUBLIC FINANCE

Revenue

During the last quarter of fiscal year 1998/99, Government revenue collection (including non URA revenue) amounted to Shs253.5 billion, representing an increase of 6.2 per cent over the preceding quarter. As shown in Table 7, tax revenues realised by government totalled Shs242.4 billion, up from Shs238.0 billion in the previous quarter. Non-tax revenue amounted to Shs11.1 billion from Shs0.6 billion in the third quarter. Despite this increase in revenue collection, the realisation fell short of the expected Shs268 billion for the quarter. External grants amounted to

Shs22.5 billion, down from Shs90.9 billion in the previous quarter. This was attributed to the deferral of the programme by the IMF. The improvement in tax collection was partly attributed to various reforms implemented. This included changes introduced by the 1997 Income Tax Act which significantly boosted company and personal income tax revenues and to the improvement in tax administration in the URA. In addition, the improvement reflected the depreciation of the shilling vis- a -vis the US dollar towards the end of the quarter which led to higher import tax collection.

Expenditure

Total government expenditure during the period under review was Shs303.1 billion, compared to Shs239.5 billion spent in the previous quarter.

The bulk of the expenditure (78 per cent) went to finance the recurrent budget. Total recurrent budget amounted to Shs235.9 billion. Out of this, Shs91.1 billion was spent on wages

and salaries and Shs112.8 billion was for non wage recurrent. This covers travel, training (both domestic and foreign), and sundry purchases and others. A total of Shs14.4 billion was paid in interest on local and external debt, while statutory payments amounted to Shs9.4 billion. Development expenditure amounted to Shs66.1 billion over the quarter. Under net lending and investment, Government spent Shs1.1 billion.

Overall Budget Balance

The operations mentioned above resulted in a deficit of Shs27.1 billion which was partially offset by settlement of arrears amounting to Shs65.0 billion

and adjustment to cash of Shs57.2 billion. The resultant overall balance was therefore a deficit of Shs34.9 billion.

5. EXTERNAL SECTOR DEVELOPMENTS

Developments

In the period under review, the Balance of Payments (BOP) registered an overall deficit of US\$12.41 million compared to a surplus of US\$56.94 million recorded in the third quarter of 1998/99. The current account balance (Table 10) shows a faster deterioration in the deficit

to US\$189.74 million compared to a deficit of US\$27.08 million recorded in the previous quarter. This could not be offset by the improvement on the capital and financial account balance which increased from a surplus of US\$84.02 million in the quarter ended March 1999 to US\$177.33 million in the period under review.

Exports

Total export earnings for the quarter under review amounted to US\$113.01 million, representing a decline of 32.2 per cent compared to the previous quarter and an increase of 25.8 per cent compared to the earnings of the corresponding quarter in 1997/98 (see table 8). The decline in export earnings during the quarter under review was a result of declining commodity export prices and volumes of coffee, cotton, tobacco and fish.

Coffee exports declined by 36.5 per cent from US\$96.85 million in the third quarter to US\$61.47 million in the fourth quarter and was 2.7 per cent lower than US\$63.20 million in the corresponding quarter in 1997/98. The average coffee price for the fourth quarter was US\$1.20 per kg compared to US\$1.44 per kg in the preceding quarter. In volume terms coffee exports

decreased by 23.6 per cent from 1,119,000 (60 kg) bags in the third quarter to 855,000 bags exported in the fourth quarter.

Non-coffee exports declined by 26.2 per cent, from US\$69.81 million in the third quarter to US\$51.54 million in the fourth quarter. Over the same period fish exports fell from US\$12.74 million to US\$5.40 million, while cotton exports fell from US\$7.41 million to US\$3.01 million. Similarly, tobacco exports declined from US\$7.33 million to US\$2.37 million and export earnings from maize and beans fell from US\$1.61 million and US\$2.34 million to US\$0.52 million and US\$0.61 million, respectively. However, these declines were partially offset by increases in export earnings from gold, flowers and electricity.

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

	<u>97/98 Q4</u>	<u>98/99 Q1</u>	<u>98/99 Q2</u>	<u>98/99 Q3</u>	<u>98/99Q4</u>
<u>Total Exports</u>	<u>105.70</u>	<u>125.37</u>	<u>144.54</u>	<u>166.66</u>	<u>113.01</u>
<u>Coffee</u>	<u>63.20</u>	<u>78.79</u>	<u>69.63</u>	<u>96.85</u>	<u>61.47</u>
<u>Non Coffee</u>	<u>42.50</u>	<u>46.58</u>	<u>74.81</u>	<u>69.81</u>	<u>51.54</u>
<u>Electricity</u>	<u>2.95</u>	<u>2.94</u>	<u>2.85</u>	<u>3.10</u>	<u>3.39</u>
<u>Gold</u>	<u>4.50</u>	<u>2.20</u>	<u>2.89</u>	<u>11.04</u>	<u>11.82</u>

Tea	5.61	4.59	6.96	6.14	5.30
Cotton	2.74	0.42	0.01	7.41	3.01
Tobacco	1.88	3.21	8.92	7.33	2.37
Skins & Hides	1.10	1.62	2.00	1.60	1.40
Maize	3.21	1.39	2.37	1.61	0.52
Beans	0.48	0.64	1.03	2.34	0.61
Flowers	1.65	1.36	2.10	1.65	2.09
Oil re-export	2.53	3.21	2.50	4.13	1.97
Fish	4.28	12.58	16.63	12.74	5.40
Others	11.55	12.21	26.67	9.94	13.14

Source: Bank of Uganda

Imports

Total imports amounted to US\$331.01 million, representing an increase of 4.9 per cent compared to US\$315.50 million in the previous quarter and a decline of 12.7 per cent compared to US\$379.22 million in the corresponding quarter in 1997/98. Private sector imports increased from US\$245.17 million in the third quarter to US\$265.83 million during the quarter under review, suggesting that the

exchange rate depreciation over the period did not constrain import demand significantly. Government imports declined by 7.3 per cent from US\$70.33 million to US\$65.17 million over the same period. Oil imports remained relatively stable at US\$14.66 million during the quarter (see Table 9 for summary developments in imports).

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

	97/98 Q4	98/99 Q1	98/99 Q2	98/99 Q3	98/99Q4
Total Imports	379.22	393.73	332.55	315.50	331.01
Government Imports	62.88	59.56	71.14	70.33	65.17
Private Imports	316.34	334.16	261.41	245.17	265.83
Oil	19.99	20.96	14.60	14.48	14.66
Non-Oil	159.02	166.47	136.34	140.19	117.91

Source: Bank of Uganda

Other Current Account Developments

The services account registered a deficit balance of US\$76.51 million compared to a deficit of US\$53.49 million recorded in the preceding quarter and US\$76.76 million deficit in the corresponding quarter in 1997/98. The deficit on the income account narrowed from US\$5.69 million in the third quarter to US\$1.29 million during the quarter under review, largely on account of reduced payment of interest on public debt from US\$13.37 million in the third quarter to US\$6.73 million.

There was a decline in current transfers by 41.3 per cent from US\$180.93 million in the third quarter to US\$106.05 million in the fourth quarter.

This largely reflected the fall in private transfers from US\$83.38 million in the third quarter to US\$53.66 million during the quarter under review. Similarly, transfers to government declined from US\$97.24 million in the third quarter to US\$50.74 million in the fourth quarter.

The overall BOP deficit in the fourth quarter was financed by a net outflow to IMF of US\$17.5 million, exceptional financing of US\$6.81 million and a fall in gross reserves of Bank of Uganda of US\$21.30 million. The level of gross reserves in terms of months of imports of goods and non factor services stood at 4.70 by the end of the reporting period compared to 4.84 months of imports and non factor services at the end of the third quarter of 1998/99 (see summary developments in the BOP in Table 10 below).

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

	<u>97/98Q4</u>	<u>98/99Q1</u>	<u>98/99Q2</u>	<u>98/99Q3</u>	<u>98/99Q4</u>
<u>Current Account Balance</u>	<u>-72.46</u>	<u>-174.45</u>	<u>-86.10</u>	<u>-27.08</u>	<u>-189.74</u>
<u>Exports (fob)</u>	<u>105.70</u>	<u>125.35</u>	<u>144.54</u>	<u>166.66</u>	<u>113.01</u>
<u>Imports (cif)</u>	<u>-379.22</u>	<u>-393.73</u>	<u>-332.50</u>	<u>-315.50</u>	<u>-331.01</u>
<u>Services and Income (net)</u>	<u>-76.76</u>	<u>-80.40</u>	<u>-64.05</u>	<u>-53.49</u>	<u>-76.51</u>
<u>Current Transfers</u>	<u>277.82</u>	<u>174.31</u>	<u>165.97</u>	<u>180.93</u>	<u>106.05</u>
<u>Capital and Financial Account Balance</u>	<u>108.13</u>	<u>124.14</u>	<u>103.34</u>	<u>84.02</u>	<u>177.33</u>
<u>Overall Balance</u>	<u>35.67</u>	<u>-50.31</u>	<u>17.24</u>	<u>56.94</u>	<u>-12.41</u>
<u>Total Forex Reserves (end period)</u>	<u>750.50</u>	<u>712.50</u>	<u>720.40</u>	<u>753.80</u>	<u>732.50</u>
<u>Reserves (in months of imports & non factor services)</u>	<u>4.81</u>	<u>4.57</u>	<u>4.62</u>	<u>4.84</u>	<u>4.70</u>

Source: Bank of Uganda

6. EXTERNAL DEBT SERVICE

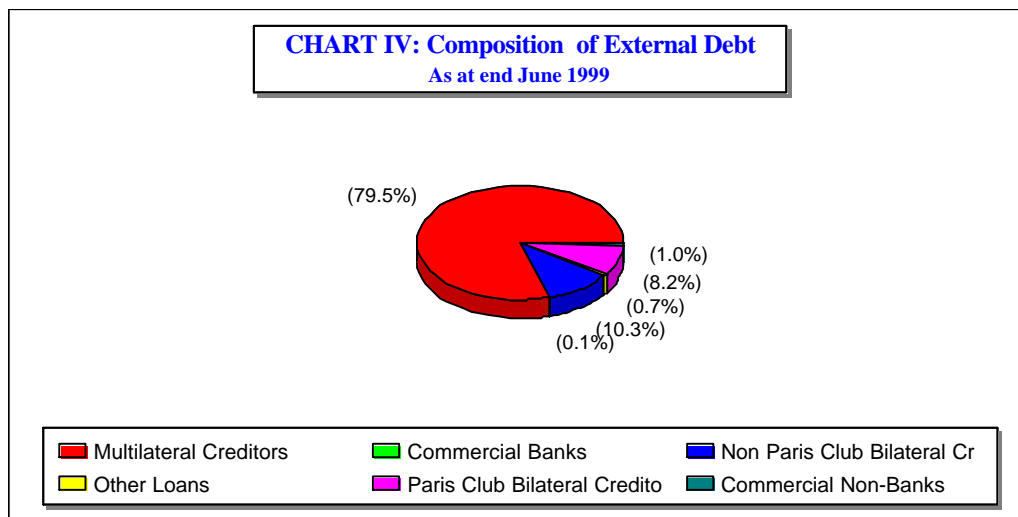
During the quarter ended June 1999 Uganda's stock of debt outstanding and

disbursed amounted to US\$3.490 billion. The debt stock to GDP at the

end of 1998/99 fiscal year was estimated at 54 per cent as compared to 60 per cent in the previous year. About 79.7 per cent of the external debt was owed to multilateral institutions, 10.4 percent to non Paris Club bilateral creditors and 8.3 per cent to Paris Club creditors. Chart IV below shows the composition of the debt stock for each creditor category.

The ratio of debt service to exports of goods and services, deteriorated slightly from 21 per cent in March 1999 to 22 per cent in June 1999. Disbursement of Highly Indebted Poor Countries

million for the quarter ending June 1999 compared to US\$ 19.52 million received for the quarter ended March 1999. During the period under review, there were no purchases from the International Monetary Fund. Total repayments to the Fund however, increased to US\$ 19.76 million compared to US\$ 8.65 million in the previous quarter. The bulk of the payments to the Fund were composed of scheduled principal maturities equivalent to US\$ 17.5 million while the remainder was interest and other charges.



Initiative (HIPC) funds for Debt relief provision amounted to US\$ 15.23

Payments recorded towards maturing private sector long and medium term debt service were down to US\$7.21 million compared to US\$17.61 million recorded for the quarter ending March

1999. For the financial year ending June 1998/99, these payments increased to US\$ 37.6 million compared to US\$ 11.45 million recorded as at end June 1998. The bulk of the loan repayments

are linked to imports of raw materials used in the construction industry.

Some types of machinery for factories in the sugar and tea sectors were also

imported in consignments covered under loan contracts. In the services sector, television and communications equipment and accessories for some private firms also came under some form of credit financing arrangements.

7. DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

Foreign Exchange Rates

During the quarter under review, the average mid-rate in the inter-bank

foreign exchange market depreciated by 4.8 per cent, from Shs1381.16 per US dollar in March, 1999 to Shs1447.22 per US dollar in June, 1999. This

compares with a depreciation of 0.9 per cent in the previous quarter and 6.8 per cent in the corresponding quarter a year ago. There was a fast depreciation of the shilling vis-a-vis the dollar between March and May, 1999 before an appreciation of Shs1447.22 was realised at end-June 1999. During this period the average mid-rate in the inter-bank foreign exchange market depreciated by 10 per cent, reaching a peak level of Shs1518.97 per US dollar in May 1999. In the bureau market, the average mid-rate depreciated by 5.4 per cent from Shs1375.34 per US dollar in March, 1999 to Shs1449.04 per US dollar in June, 1999. The average bureau mid-rate reached a peak of Shs1523.60 per US dollar in May 1999.

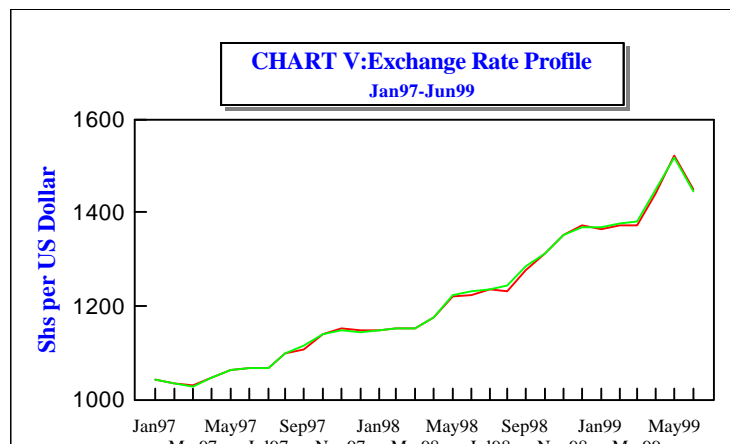
The depreciation pressures experienced between April and May, 1999 are attributed to the seasonality in the coffee exports. In addition, the supply of foreign exchange was also affected by the ban on fish exports to the European Union market and the reduction in tourism activities. The impact of the appreciation of the US dollar against major currencies further exacerbated the depreciation pressures on the shilling.

Following the restoration of confidence in the market on account of Central Bank's intervention in the inter-bank foreign exchange market and its adoption of a tighter monetary policy stance, the shilling strengthened and regained its relative stability in June, 1999.

Transaction Volumes

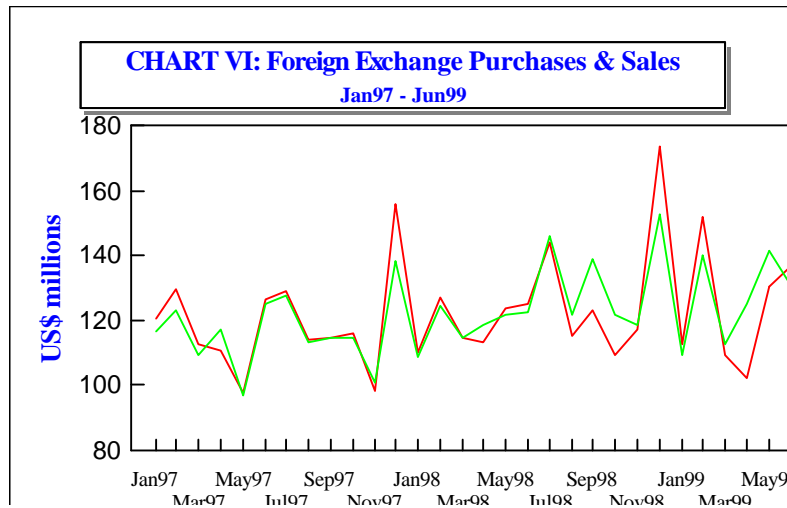
Purchases in the inter-bank foreign exchange market amounted to US\$369.39 million while gross sales totaled US\$396.70 million. This compares to US\$374.54 million and US\$361.94 million in purchases and

sales, respectively made in the previous quarter. In the bureau market purchases and sales were US\$75.68 million and US\$73.35 million, respectively compared to US\$76.37 million and US\$74.65 million in the preceding



quarter

To contain the depreciation pressures and maintain relative stability in the market BOU intervened and sold on a net basis, US\$32.7 million to the inter-bank foreign exchange market.



8. PRICE DEVELOPMENTS

During the financial year 1998/99 inflation remained subdued, with negative annual headline inflation rates observed during the first seven months of the year. The headline annual inflation rate became positive in February, 1999, reaching its peak of 5.4

per cent in April, 1999. This however, slowed to 5.3 per cent by the end of the fourth quarter of 1998/99. This compares with negative 1.4 per cent recorded during the corresponding quarter in 1997/98. The monthly inflation rate rose from 0.5 per cent in

March, 1999 to 1.7 per cent in April and dropped to negative 0.6 in June 1999.

The annual underlying inflation rate fell from 4.6 per cent in March, 1999 to 2.8 percent in June, 1999 while the monthly underlying inflation rate rose from negative 0.5 per cent in April, 1999 to 0.1 per cent in May before declining to negative 0.2 per cent registered in June, 1999.

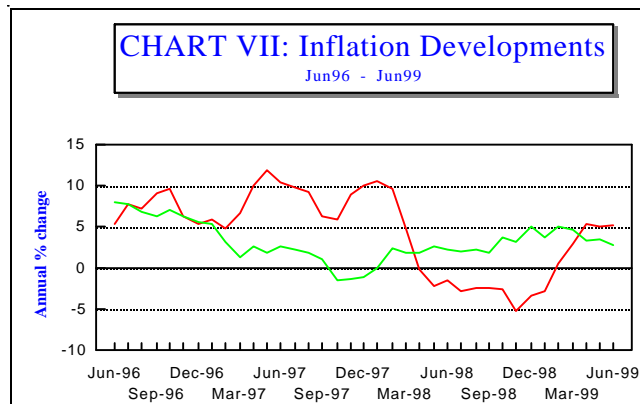
Also the rising trend observed in the fourth quarter was attributed to a sharp

reduction in food prices during the corresponding period in 1998 as suggested by the negative monthly inflation rates from February to September, 1998.

When measured on an annual basis, the monthly inflation rise in this quarter compared to the negative monthly inflation rates over the corresponding quarter in 1998 translates into an annual inflation rate of about 5 per cent.

9. MANUFACTURING

The index of industrial production of 15 major



manufacturing establishments showed a decline of 10.1 per cent from 423.5 in March 1999 to 380.7 in June 1999.

The index of sugar production declined by 45.0 per cent between March and June 1999. The index fell from 836.2 recorded in March 1999 to 459.7 in June 1999. The sharp decline in sugar production index during the period was attributed to the temporary closure of Kakira Sugar Works for maintenance. Similarly, the index of beer production fell by 2.4 per cent from 563.4 in March

to 549.6 in June on account of reduced demand.

Declines were also observed in the production index of textiles, cement and electricity by 9.5, 16.1 and 8.3 per cent, respectively. The decline in textiles production index was mainly due to the low demand for the products and the lack of raw materials. However, increases of 10 and 6.2 per cent were registered in the production index of laundry soap & edible oil and soft drinks, respectively.

