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**QUARTERLY ECONOMIC
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1. MONETARY POLICIES AND DEVELOPMENTS

Monetary Policy Actions Taken

The agreed macroeconomic objectives of growth, low inflation, sustainable current account and sustainable fiscal deficit remained unchanged as reported in the previous quarterly report.

In light of achieving the inflation objective of 5.0 per cent, the Bank of Uganda pursued a tight monetary policy stance over the second quarter of 1999/2000. On this account the Bank of Uganda stepped up the net issuance of treasury bills (Tbills) and Bank of Uganda bills (BOU bills) during the quarter under review. In addition, Bank of Uganda continued to issue interest bearing promissory notes to commercial banks that undertook to pay customers' deposits in closed banks.

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 14.52 per cent as at end-September 1999 to 16.12 per cent by end-December 1999. Likewise, the Bank rate increased from 14.75 per cent to 16.25 per cent in the same period. The increase was on account of the revision in the margin following the tight stance of monetary policy adopted by the Central Bank. The minimum reserves that banks could hold on demand deposits and time and savings deposits were maintained at 9 per cent and 8 per cent respectively.

In light of the uncertainties associated with the Y2K roll over, Bank of Uganda put in place special facilities to meet increased liquidity demands by commercial banks. The facilities were strictly limited to meeting

demands arising from the Y2K roll over problems. The facilities included a zero policy margin on the reference rate. In addition, the rediscount policy which allowed only instruments with less than 91 days to maturity was waived. Consequently, all instruments irrespective of the number of days left to maturity could now be rediscounted.

Money Supply

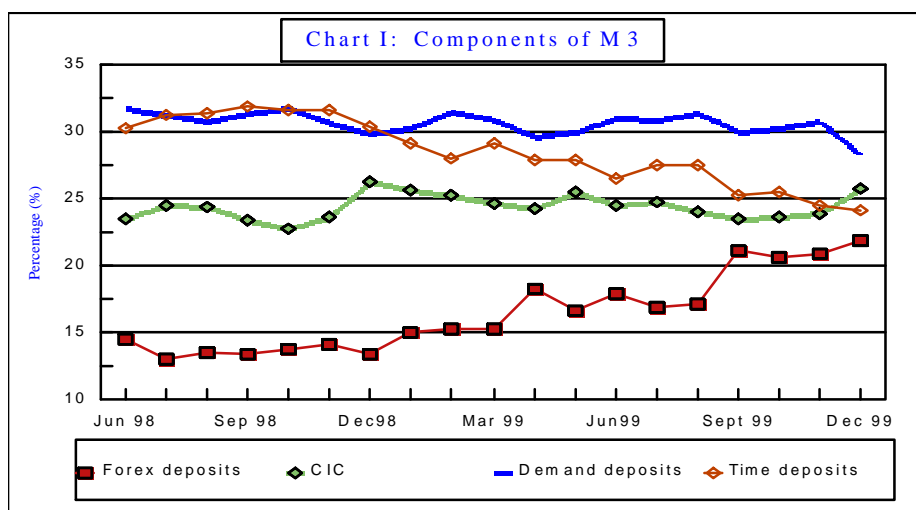
During the second quarter of 1999/2000 money supply as measured by M3 grew by 5.9 per cent compared to a growth of 4.6 per cent in the quarter ended September 1999. As in the previous quarter, the bulk of the increase in M3 occurred in foreign currency component which grew by 9.4 per cent. Broad money M2, however, grew by 5.0 per cent compared to a modest increase of 0.5 per cent in the preceding quarter. Currency in circulation increased by 16.0 per cent to Shs. 330.8 billion during the quarter. The growth in currency in circulation during the period under review reflected the usual seasonal increase in the demand for currency for Christmas festivities. The share of currency in circulation as a ratio of M3 increased from 23.5 per cent as at end-September 1999 to 25.7 per cent by end-December 1999. As a proportion of M3, the share of demand deposits fell slightly from 31.0 per cent by end-September, 1999 to 28.2 per cent by end-December, while that of private time and savings deposits followed a similar trend falling to 24.2 per cent from 26.5 per cent in the previous period. The total private sector deposit base increased by 0.3 per cent compared to an increase of 0.6 per cent that was registered in the previous quarter. The total private sector deposits including certificate of deposits (CDs) were Shs.

671.9 billion as at end-September, 1999 compared to Shs. 674.1 billion by end-December, 1999.

During the quarter under review, demand deposits declined by 0.36 per cent while private time and savings deposits increased by just 1.5 per cent. This compares to a 1.3 per cent

increase in demand deposits and a zero per cent increase in private time and savings deposits in the previous quarter. Chart 1 shows

the evolution of the components of M3 from June, 1998 to December, 1999.



The Net Foreign Assets (NFA) of the banking system increased by 12.4 per cent, from Shs.

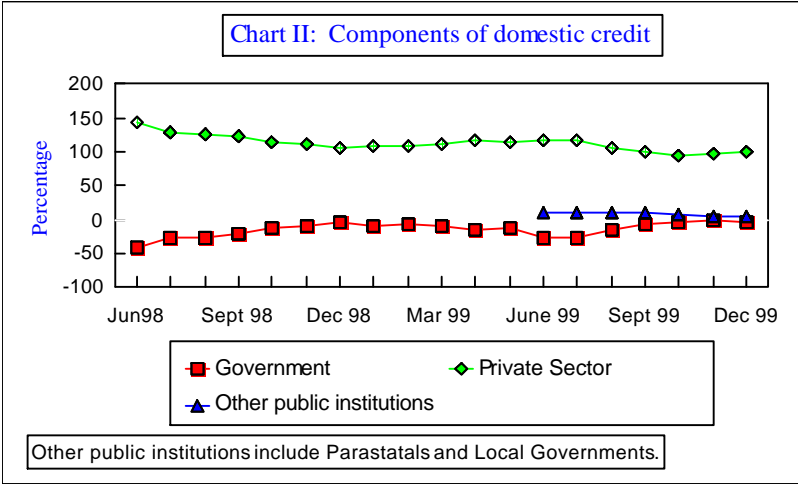
72.5 billion, as at end-September to Shs.868.3 billion as at end-December, 1999. This compares to a decline of 1.3 per cent registered in the previous quarter. The increase in NFA of Shs95.7 billion was attributed to a combination of two factors, the increase in external assets of the banking system of Shs40.8 billion and the

corresponding decline in foreign liabilities of Shs54.9 billion.

During the quarter under review net domestic credit rose by 5.4 per cent equivalent to Shs29.6 billion from Shs. 549.3 billion as at end-September, 1999 to Shs578.9 billion as at end-December, 1999. This compares with an increase of 12.5 per cent in the previous quarter. The bulk of this increase was mainly on account of reduced

fiscal savings with the banking system as outstanding credit to the private sector by commercial banks increased by only 2.7 per cent to Shs. 555.5 billion by end-December 1999 compared to a decline registered in the previous quarter. Chart II plots the basic components of domestic credit covering the period under review. Other items (net) of the banking system moved from Shs. -107.9 billion to Shs. -161.2 billion over the

period under review. As a result of the movements in net domestic credit and other items (net), the Net Domestic Assets (net of revaluation) decreased by Shs3.5 billion to Shs258.1 billion at end-December, 1999. Table 1 provides a summary of the monetary survey over the period September, 1999 to December, 1999.



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

	September 99	October 99	November 99	December 99
Net Foreign Assets	772.5	753.5	808.4	868.3
Monetary Authorities (net)	545.7	535.6	575.5	623.4
Foreign Reserves	1104.6	1084.5	1102.6	1145.8
Commercial Banks	226.8	217.9	232.8	244.8
Net Domestic Credit	549.3	579.2	560.8	578.9
Claims on Government (net)	-43.8	-19.8	-13.1	-1.1
Parastatals and Local Government	52.1	48.3	24.8	24.7
Claims on Private sector	540.9	550.7	549.1	555.3
Crop Finance	9.6	9.6	9.6	9.3
Other Loans	467.6	480.2	473.9	482.5
Foreign Exchange Loans to Residents	63.77	61.00	65.62	63.45
Other Items (Net)	-107.9	-105.8	-114.2	-161.2
Revaluation	179.2	193.5	184.8	159.6
Other (net)	-273.2	-249.3	-247.4	-262.4
NDA (net of revaluation)	261.6	279.3	261.3	258.1
Broad Money - M3	1213	1226.8	1255.0	1285.9
Foreign Exchange Accounts	256.8	253.2	262.5	281.0
Broad Money - M2	957.1	973.7	992.5	1004.9
Currency in Circulation	285.2	289.7	299.3	330.8
Private Demand Deposits	364.9	371.3	386.4	363.1
Private Time & Savings Deposits	296.3	302.2	296.3	300.6
Certificate of Deposits	10.7	10.5	10.5	10.5

Source: Research Department, Bank of Uganda.

2. COMMERCIAL BANKS ↑ ACTIVITIES

Overview

Commercial bank lending to the private sector picked up slightly during the quarter under review, increasing by 1.7 per cent compared to a decline of 4.1 per cent recorded in the first quarter of 1999/2000. The Net foreign Assets position increased by 7.9 per cent or Shs. 18 billion to Shs. 244.8 billion at end December, 1999. Claims on central government increased by Shs. 48 billion to Shs. 179.1 billion while

those on local government and parastatals declined by Shs2.8 billion. On the other hand, claims on Bank of Uganda dropped by Shs. 52.4 billion to Shs. 25.6 billion while cash in vaults increased by Shs. 9.4 billion to Shs39.5 billion. Other items net (OIN) fell by Shs. 3.2 billion during the quarter bringing the balance to Shs.-97.8 billion at the close of the reporting period. Table 2 below indicates the details.

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

	Sep99	Oct99	Nov99	Dec99	Sep-Dec Change (Shs. bn)
Net Foreign Assets	226.8	217.9	232.8	244.8	18.0
Claims on the private sector	533.5	537.6	537.0	542.8	9.3
Claims on government (net)	130.9	137.41	174.2	179.1	48.2
Claims on parastatals & local government	24.0	20.2	21.3	21.2	-2.8
Claims on the Bank of Uganda	78.0	59.0	48.4	25.6	-52.4
Cash in Vaults	30.1	25.8	32.3	39.5	9.4
Other Items Net	-94.6	-60.6	-90.2	-97.8	-3.2
Total	928.7	937.2	955.7	955.2	26.5

Source: Bank of Uganda

Deposits

The private sector shilling deposits registered a marginal overall increase of 0.3 per cent increasing to Shs. 674.1 billion as shown in Table 3, compared to an increase of 0.6 per cent recorded in the previous quarter. The components of total deposits

show that demand deposits fell by 0.5 per cent to Shs. 363.1 billion by end-December 1999. Time and savings deposits however, increased slightly by 1.5 per cent from Shs. 296.3 billion as at end-September 1999 to Shs. 300.6 billion by end-December 1999.

Table 3: Private Sector Deposits with Commercial Banks

(Shs. billion, at end of period)

Deposits	Sep 99	Oct 99	Nov 99	Dec 99	Sep-Dec Change (%)
Demand	364.9	371.3	386.4	363.1	-0.5
Time & Savings	296.3	302.2	296.3	300.6	1.5
Certificate of Deposits	10.7	10.5	10.5	10.5	-1.9
Total	671.9	684.0	693.2	674.1	0.3

Source: Bank of Uganda

Loans and Advances

Private sector credit (including administered loans) increased marginally by 1.1 per cent in the quarter under review. The outstanding stock of credit amounted to Shs. 551.3 billion as at end-December, 1999 up from Shs. 545.0 billion registered by end-September, 1999. In general, there was mixed trend performance with regard to credit extended in the various sectors during the period under review. For example, Agricultural sector registered a decline of 17.1 per cent. Credit to trade and other services sector declined by 1.2 per cent

compared to the growth of 6.4 per cent recorded in the preceding quarter. In the wholesale sub-sector credit increased by 11.8 per cent to Shs. 92.9 billion. Credit to the manufacturing sector increased by 9.8 per cent to Shs. 174.4 billion. Credit to the transport, electricity & water sector increased by 27.1 per cent. There was a decline in credit to the building and construction sector of 8.5 per cent while mining registered a growth of 3.8 per cent during the period under review. These developments are depicted in Table 4.

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

Sector	Sep99	Oct99	Nov 99	Dec 99	Sep-Dec Change (%)
Agriculture	74.88	69.71	72.34	62.07	-17.1
O/w Crop Finance	61.07	55.99	59.29	49.64	-18.72
Manufacturing	158.8	163.1	162.5	174.4	9.8
Trade & Other Services	245.97	247.89	248.28	243.1	-1.18
O/w Wholesale (Imp & Exp)	83.16	91.50	92.82	92.99	11.82
Transport, Electricity and Water	32.9	34.5	34.5	41.8	27.1
Building & Construction	30.9	28.6	26.8	28.2	-8.5
Mining	1.7	1.7	1.8	1.8	3.8
Total	545.0	545.6	546.2	551.3	1.1

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 declined to Shs 85.3 billion compared to Shs. 108.4 billion by end-September 1999. Excess reserves held by the banks declined by Shs. 23.1 billion to Shs. 36.13 billion by end-

December 1999. The only item which increased was the holdings of treasury bills which grew by Shs. 35.2 billion to close at Shs. 219.4 billion during the same period. Table 5 provides an evolution of these aggregates.

**Table 5: Commercial Banks ↓ Liquidity Indicators
(Shs. billion, at end of period)**

	Sep 99	Oct 99	Nov 99	Dec 99	Sep-Dec Change (Shs. bn.)
Holdings of treasury bills	184.2	212.7	240.5	219.4	35.2
Total Reserves	108.4	107.9	104.9	85.3	-23.1
Excess Reserves	59.2	51.9	42.5	36.1	-23.1
Holdings of BOU bill	25.2	23.6	23.0	14.8	-10.4

Source: Bank of Uganda

3. DEVELOPMENTS IN THE NON BANK FINANCIAL INSTITUTIONS

The quarter under review witnessed a modest growth in the activities of the Non Bank Financial Institutions (NBFIs). Total assets, private sector deposits and loans and advances from these institutions posted positive growth over this period. Total investments declined moderately.

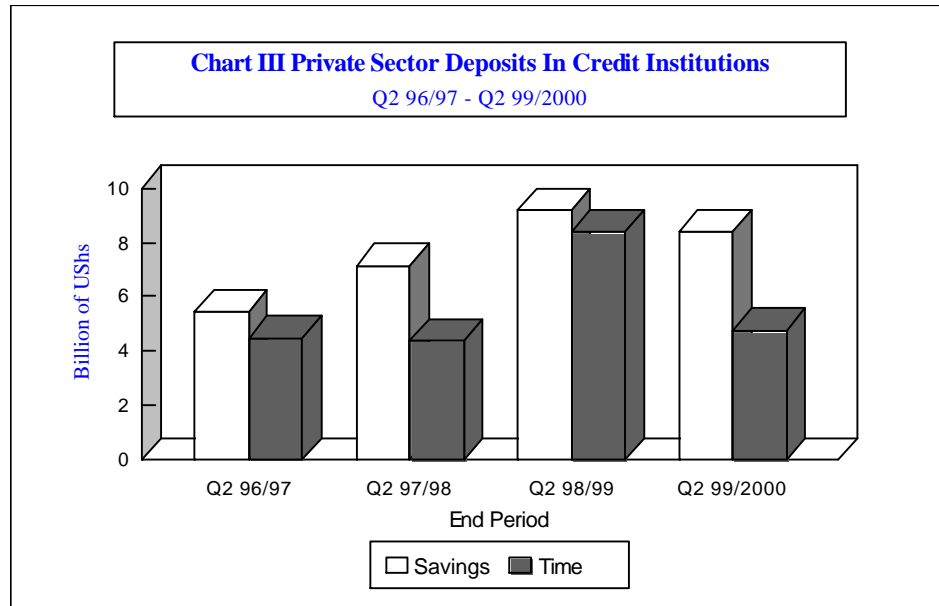
Assets:

NBFIs' total assets witnessed an overall growth of 0.74 per cent to Shs. 61.74 billion as at end-December 1999, up from Shs. 61.29 billion registered at end-September 1999. This compares to a 5.61 per cent registered in the previous quarter. During the second quarter, the source of the growth was partly on account of an increase in the institutions balances with commercial banks, both inside and outside Uganda. The decline in NBFIs' investments was more than offset by increased total

advances together with increased balances in commercial banks.

Deposits:

Total Private sector deposits in the NBFIs registered an overall increase of 1.53 per cent to Shs. 13.15 billion at end-December 1999 as opposed to 9.25 per cent growth observed in first quarter of 1999/2000. Most of the growth came from the savings deposits, which rose by 4.0 per cent to Shs. 8.83 billion at end-December 1999. However, when compared to the corresponding month a year earlier, the private sector deposits contracted by 25.5 per cent, from Shs. 17.57 billion recorded at end-December 1999. Chart III shows the evolution of credit institutions deposits from the second quarter of 1996/97 to the period under review.



Loans and advances:

Taken collectively, credit institutions' total private sector credit grew by 1.07 per cent to Shs. 49.03 billion as at end-December 1999, up from Shs. 48.51 billion recorded at end-September 1999. The administered loans declined slightly from Shs. 29.31 billion to Shs. 29.02 billion while the secured and unsecured loans decreased from Shs. 4.30 billion at end-September 1999 to Shs. 3.93 billion at end-December 1999, representing 8.6 per cent decline. On the other hand, mortgage loans rose by 8 per cent. Most institutions have been very reluctant to extend new loans while concentrating on the recovery effort.

Investments:

Over this quarter, NBFIs total investments declined from Shs. 2.24 billion at end-September 1999 to Shs. 1.68 billion at end-December 1999. The decline in total investments was largely on account of a reduction in holdings of government securities.

Liquidity:

NBFIs balances with commercial banks increased slightly from Shs. 5.92 billion as at end-September 1999 to Shs. 6.25 billion at end-December 1999, representing 5.6 per cent growth as compared to 8.2 per cent growth observed in the preceding quarter. Most of the institutions registered an increase in their balance with commercial banks. On the other hand, vault cash held by these institutions declined from Shs. 0.34 billion to Shs. 0.27 billion over the period under review.

4. TREASURY BILLS MARKET AND INTEREST RATES DEVELOPMENTS

Treasury Bills

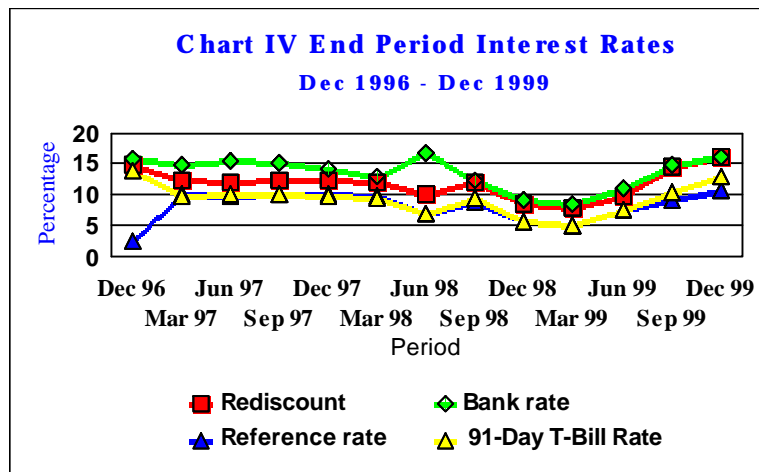
The Bank actively utilised the treasury bill instrument for the purpose of monetary policy management. Treasury bills issued at face value during the quarter amounted to Shs. 200.4 billion while total maturities amounted to Shs. 164.40 billion, giving a positive net issuance of Shs. 36.00 billion. The total stock of treasury bills increased to Shs. 299.46 billion by the end of the second quarter of 1999/2000 compared to the end-September 1999 level of Shs. 214.48 billion.

Commercial banks retained their dominant position in the market accounting for 76.6 per cent of the total stock of treasury bills, up from 73.2 per cent in the preceding quarter. The share of non-bank financial institutions (NBFIs), which comprises insurance companies and credit institutions remained stable at 10.1 per cent. The share of holdings by Bank of Uganda fell from 16.7 per cent as at end September 1999 to 13.3 per cent as at end December, 1999.

The interest rates on the 91-day treasury bill increased from 10.26 per cent recorded in September, 1999 to 12.81 per cent as at end-December, 1999. A mixed trend was observed in the interest rates on the longer dated papers. The interest rates on the 182-day increased from 8.94 per cent to 9.39 per cent. Interest rates for the 273-day and 364-day treasury bills fell from 9.49 and 11.16 per cent to 8.95 and 9.08 per cent, respectively.

Following developments in the inter-bank shilling market, the Bank Rate increased from 14.75 per cent in September 1999 to 16.25 per cent in December, 1999 whilst the Rediscount Rate rose from 14.52 per cent to 16.12 per cent during the same period. Chart IV provides the status picture of the end period interest rates to end December 1999.

Interest Rate Movements



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

	Q4'98/99	Q1'99/20	Q2 99/20			
			Oct 99	Nov 99	Dec99	
Stock of Treasury Bills (Shs. bn)	214.48	251.52	278.11	302.56	299.46	299.46
91 Day TB Factors						
Average Price	98.14	98.21	97.22	97.82	97.61	97.55
Annualised Discount Rate (%)	7.47	7.17	11.16	8.76	9.58	9.83
Annualise Discount Yield (%)	7.86	7.51	11.98	9.26	10.18	10.47
Reference rate (%)	6.66	7.53	11.31	8.77	10.80	10.29
Rediscount Rate (%)	10.93	10.25	16.41	14.76	14.35	15.17
Net Issues (Shs. billion)	14.97	45.67	6.58	18.50	10.92	36.00
Total Issues (at face value in Shs. billion)	135.18	176.19	51.98	70.19	78.21	200.39
91 days	109.70	144.69	39.98	60.19	68.16	168.33
182 days	6.20	9.00	3.50	3.00	1.49	7.99
273 days	8.28	9.50	4.00	3.00	4.25	11.56
364 days	11.00	13.00	4.50	4.00	4.00	12.50
Total Receipts (Shs. billion)	131.29	171.35	49.81	68.14	75.85	193.80
91 days	107.63	142.07	38.87	58.88	66.54	164.29
182 days	5.96	8.65	3.33	2.86	1.42	7.61
273 days	7.76	8.90	3.66	2.79	4.52	10.70
364 days	9.94	11.72	3.95	3.61	3.64	11.20
Total Maturities (Shs. billion)	120.21	130.52	45.39	51.70	67.29	164.40

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 Shs. 39.13 billion during the quarter compared to Shs20.85 billion in the previous quarter. The weighted average

inter-bank rate increased fairly sharply from 5 per cent as at end-September 1999 to 10 per cent by end-December 1999. The trading rates themselves ranged from 3 per cent to 15 per annum during the period under review.

5. PUBLIC FINANCE

Revenue

During the quarter under review, Government tax revenue collection amounted to Shs250.7 billion. This represented a shortfall of about Shs65.1 billion from the budget estimate for this period of the fiscal year. This was largely attributed to a decline in import duties and the failure to realise in full the efficiency gains of tax administration.

Import support grants received during this quarter amounted to Shs. 88.073 billion. The receipts were again far below the program target of Shs. 131.040 billion programmed for the quarter. The shortfall was as a result of the rescheduling of the disbursements by donors to the third quarter of the financial year.

Expenditure

Total government expenditure, including net lending, during the period under review was Shs. 290.4 billion, representing a shortfall of Shs. 35.7 billion compared to the target. The decline in expenditures was a result of government decision to cut expenditures in response to revenue shortfalls. Most of the cuts were borne by development and non wage recurrent expenditure components, thus protecting those classified under Priority Programme Areas and Poverty

Action Fund projects.

Total recurrent expenditure amounted to Shs. 240 billion of which the wage bill represented Shs. 93.5 billion and the non wage recurrent amounted to Shs. 103.5 billion. The latter component covers travel and training, both domestic and foreign, and sundry purchases amongst others. A total of Shs. 17.3 billion was paid in interest on local and external debt compared to the budget of Shs. 33.9 billion, while statutory payments amounted to Shs. 17.5 billion for the whole quarter.

Domestic development expenditure was Shs. 45.8 billion compared to the budget of Shs68.5 billion, while, net lending and investment amounted to Shs. 4.5 billion.

Overall Budget Balance

The aforementioned operations resulted into a surplus of Shs. 49.5 billion. This was, however, reduced by arrears payment amounting to Shs. 41.2 billion. The resultant overall balance therefore, was a surplus of Shs. 8.2 billion. This was financed largely from domestic sources. Domestic financing amounted to Shs. 12.4 billion while external financing was a net repayment of Shs. 21.4 billion.

**Table 7: Budgetary Operations (Cash Basis) October 1999 to December 1999
(In Billions of Shillings)**

	Jul - Sep 99	Oct 99	Nov 99	Dec 99	Oct-Dec 99
Revenue and Grants	254.2	83.0	114.6	142.2	339.8
Total Revenue	231.2	74.2	76.6	100.9	251.8
Tax Revenue	228.0	73.7	76.2	100.7	250.7
Other Revenues	3.2	0.5	0.4	0.2	1.1
Grants	23.0	8.8	38.0	41.2	88.1
Expenditures and Net Lending	221.0	74.5	109.8	106.1	290.4
Recurrent Expenditure	193.7	64.7	90.1	85.2	240.0
Statutory	8.5	6.3	5.6	5.6	17.5
Wages and Salaries	86.1	25.2	37.4	31.0	93.5
Interest Payments	20.4	5.9	4.4	7.0	17.3
Other Non-wage Recurrent	70.6	24.6	40.0	38.9	103.5
URA Transfers	8.1	2.7	2.7	2.7	8.1
Development Expenditure	27.7	7.2	18.0	20.7	45.8
External	0.0	0.0	0.0	0.0	0.0
Domestic Counterpart	33.1	7.2	18.0	45.8	45.8
Net Lending and Investment	-0.5	2.6	1.7	0.2	4.5
Overall Deficit/Surplus	33.3	8.6	4.8	36.1	49.5
Change in Arrears (Net)	-21.0	-1.9	-14.9	-24.4	-41.2
Adjustment to Cash	-0.1	0.0	0.0	0.0	0.0
Overall Deficit (Cash)/Surplus	12.2	6.7	-10.1	11.7	8.2
Financing	-12.2	-6.7	10.1	-11.7	-8.2
External Financing (Net)	-23.8	-4.1	-7.2	-10.1	-21.4
Domestic Financing	80.2	24.0	-2.6	-9.1	12.4
Bank	84.2	24.0	2.1	-7.8	18.3
Non Bank	-4.0	0.0	-4.7	-1.3	-6.0
Residual	-44.2	-13.3	-0.3	30.8	17.3

Source: Ministry of Finance and Economic Planning.

6. EXTERNAL SECTOR DEVELOPMENTS

Developments

In the period under review, the Balance of Payments (BOP) registered an overall surplus of US\$ 28.83 million compared to a deficit of US\$24.54 million recorded in the first quarter of 1999/2000. Table 8 shows that the current account deficit improved from US\$142.41 million recorded in the first quarter to US\$58.32 million in the quarter ended December 1999. On the contrary, the capital and financial account balance dropped to a surplus of US\$87.15 million compared to a surplus of US\$117.87 million in the previous quarter. This was more than offset by the improvement in the current account balance.

The services and income account registered a deficit balance of US \$82.33 million compared to a deficit of US\$73.95 million recorded in the preceding quarter and US\$65.00 million deficit in the corresponding quarter in 1998/99. The deficit on income account improved from US\$8.9 million in the first quarter to US\$0.03 million during the under review,

largely on account of increased interest income on foreign exchange reserves. Current transfers increased by 67.2 per cent from US\$175.25 million in the first quarter to US\$292.97 million in the second quarter of 1999/2000. This largely reflected the increase in private transfers from US\$121.65 million in the first quarter to US\$174.37 million during the quarter under review. Similarly, transfers to government rose from US\$54.29 million in the first quarter to US\$102.06 million in the second quarter.

Overall, the BOP was financed by an increase in reserves of US\$27.4 million and exceptional financing of US\$9.85 million which arose mainly from rescheduling and cancellation of loans. The stock of reserves in terms of months of imports of goods and non-factor services stood at 4.83 by the end of the reporting period compared to 4.66 months of imports at the end of the first quarter of 1999/2000. A summary of developments in the BOP is provided in Table 8 below.

Table 8: Summary Balance of Payment Developments

(US \$ million)

	98/99Q2	98/99Q3	98/99Q4	99/20Q1	99/20Q2
Current Account Balance	-85.89	-27.08	-191.13	-142.41	-58.32
Exports (fob)	142.94	166.66	113.01	95.70	99.78
Imports (cif)	-336.81	-318.95	-332.45	-339.41	-368.75
Services and Income (net)	-65.00	-55.73	-77.29	-73.95	-82.33
Current Transfers	172.98	180.93	106.05	175.25	292.97
Capital and Financial Account Balance	100.10	62.18	198.42	117.87	87.15
Overall Balance	14.21	36.10	7.29	-24.54	28.83
Total Forex Reserves (end period)	720.40	753.80	748.10	733.40	760.80
Reserves (in months of imports and non factor services)	4.62	4.84	4.80	4.66	4.83

Source: Bank of Uganda

Exports

Total export earnings for the quarter under review amounted to US\$99.78 million, representing a sharp decrease from US\$ 142.94 million realised in the corresponding quarter in 1998/99 as shown in Table 9. However, total export earnings were higher at US\$99.78 million compared to US\$95.70 million recorded in the first quarter of 1999/2000. The decline in export earnings was a result of poor performance in exports of coffee, cotton, tobacco and fish. Generally export prices of these commodities collapsed.

Coffee export earnings increased by 14 per cent from US\$54.23 million in the first quarter to US\$ 61.80 million in the second quarter of 1999/2000. This performance in earnings was still approximately US\$ 8 million lower than in the corresponding quarter in 1998/99 due to the decline in the international coffee prices. The average coffee price for the second quarter was US\$1.03 per kg compared to US\$1.05 per kg in the preceding quarter. In volume terms

coffee exports increased by about 16 per cent from 865,000 (60 kg) bags in the first quarter to 1,003,000bags exported in the quarter under review.

Non-coffee exports declined by 15 per cent, from US\$41.48 million in the first quarter of 1999/2000 to US\$35.44 million in the second quarter of 1999/2000. Over the same period fish exports increased by 50 per cent from US\$2.75 million to US\$4.15 million as a result of new export markets in South Eastern countries. Cotton exports fell from US\$1.20 million to US\$0.09 million. Tea exports increased slightly from US\$3.54 million to US\$4.72 million. Similarly, export earnings from beans increased from US\$0.41 million to US\$2.54 million. These increases were also helped by increases in export earnings from other exports which rose by 32 per cent from US\$8.53 million to US\$11.29 million, receipts from tobacco rose marginally by 1.2 per cent to US\$2.52 million. Gold exports however, declined sharply from US\$ 12.32 million to US\$ 3.18 million.

Table 9: Summary Export Developments

(US \$ million)

	98/99 Q2	98/99 Q3	98/99 Q4	99/20 Q1	99/20Q2
Total Exports	142.94	166.66	113.01	95.70	99.78
Coffee	69.63	96.85	61.47	54.23	61.80
Non Coffee	73.31	69.81	51.54	41.48	37.98
Electricity	2.85	3.10	3.39	3.44	3.29
Gold	2.89	11.04	11.82	12.32	3.18
Tea	6.61	6.14	5.30	3.54	7.39
Cotton	0.00	7.41	3.01	1.20	0.09
Tobacco	8.88	7.33	2.37	2.49	2.52
Skins & Hides	2.00	1.60	1.40	0.59	0.68
Maize	2.37	1.61	0.52	2.17	0.36
Beans	1.03	2.34	0.61	0.41	2.54
Flowers	2.10	1.65	2.09	2.08	0.90
Oil re-export	2.50	4.13	1.97	1.88	1.65
Fish	16.63	12.74	5.40	2.75	4.15
Others	25.46	10.72	13.66	8.61	11.29

Source: Bank of Uganda

Imports

Total imports amounted to US\$368.14 million, representing an increase of 8.5 per cent compared to the previous quarter and an increase of 9.3 per cent compared to the corresponding quarter in 1998/1999. Private sector imports increased by 9.2 per cent from US\$279.62 million in the first quarter of 1999/2000 to US\$305.24 million during

the quarter under review, suggesting that import demand was still fairly strong. Government imports increased by 5.2 per cent from US\$ 59.79 million to US\$62.90 million over the same period whereas, oil imports increased by 10.3 per cent to US\$34.55 million during the quarter. Table 10 provides a summary of developments in imports.

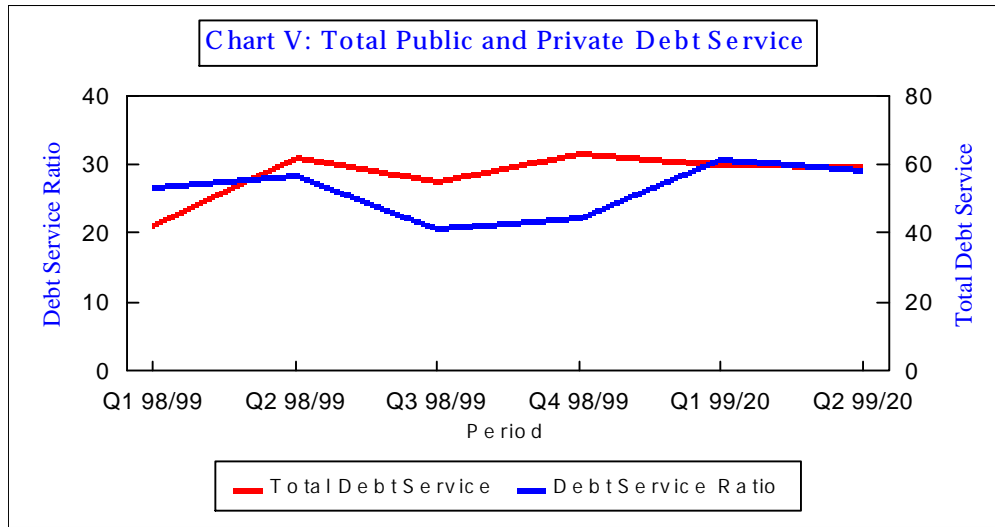
**Table 10: Summary Imports Developments
(US \$ million)**

	98/99 Q2	98/99 Q3	98/99 Q4	99/20 Q1	99/20Q2
Total Imports	336.81	318.95	336.45	339.41	368.14
Government Imports	71.14	70.33	65.17	59.79	62.90
Private Imports	265.67	248.62	271.27	279.62	305.24
of which oil	26.76	24.33	26.07	31.32	34.55

Source: Bank of Uganda

7. EXTERNAL DEBT SERVICE

During the quarter ended December 1999, maturities falling due on medium and long-



term public and publicly guaranteed debt amounted to US\$ 42.01 million of which US\$ 14.55 million were maturities due to the International Monetary Fund (IMF). Principal maturities were US\$ 33.22 million while the balance of US\$ 8.79 million was composed of interest and other charges. Purchases from the IMF amounted to US\$ 12.14 million while repurchases were US\$ 14.55 million. The repurchases were composed of scheduled principal payments equivalent to US\$ 13.39 million, interest charges of US\$ 1.16 million. There was also payments from the HIPC initiative of US\$ 2.80 million. Total payments on medium and long-term debt in the quarter under review amounted to US\$ 33.58 million compared to US\$ 38.36 million in the first quarter of 1999/2000.

Of the total debt service payments, US\$ 7.21 million was a contribution from the HIPC initiative. US\$ 2.80 million was the IMF was used to retire 20.9 percent of the IMF maturities falling due while the rest was from other donors. During the quarter government continued to seek comparable

treatment from the non-Paris club creditors who have not yet agreed to the terms as spelt out in the April 1998 Paris club debt restructuring agreement.

The ratio of debt service (including IMF payments), as a percentage of exports of goods and services was 28.63 slightly lower than that recorded in the previous quarter. This decline can be attributed to a slight increase in the export value and a reduction in total debt service during the second quarter. Chart V below shows the quarterly profile of debt service ratios up to December 1999.

Payments towards private sector debt is estimated to have amounted to US\$ 13.73 million in the quarter under review compared to payments of US\$ 14.81 million in the previous quarter. The expected increase in activity in this sector has made it critically important to closely monitor private capital inflows. Currently the Bank of Uganda is in the process of devising ways of capturing private capital inflows in a systematic manner.

8. DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

Foreign Exchange Rates

During the period under review, the foreign exchange market remained remarkably stable with the average mid-rate appreciating marginally by 0.4 percent in the inter-bank foreign exchange market, from Shs1,508 in October to Shs1,502 per US dollar in December, 1999 compared to a depreciation of 4.1 percent over the corresponding quarter of the previous year. The real effective exchange rate is estimated to have appreciated by 2.2 percent during the quarter under review compared to a marginal depreciation of 0.3 percent over the corresponding quarter of the previous year. In the bureau market, the average mid-

rate appreciated by 0.5 per cent, from Shs1512 to Shs1504 per US dollar compared to a depreciation of 3.4 per cent in the preceding quarter.

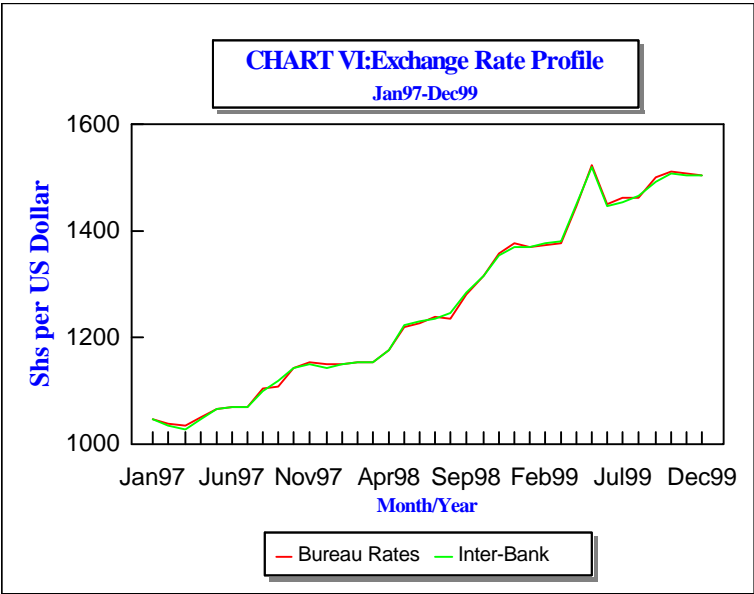
Consistent with its policy of maintaining relative stability in the foreign exchange market, Bank of Uganda intervened and sold on a net basis US\$ 2.4 million during the quarter compared to a net purchase of US\$ 9.4 million over the same period last year.

Transaction Volumes

Compared to the corresponding quarter of

last year, gross purchases in the inter bank foreign exchange market in the period under review declined marginally by 0.75 percent, from US\$ 400 million to US\$ 397 million. Gross sales on the other hand increased by 1.5 percent, from US\$ 393 million to US\$

399 million. In the bureaux segment, gross purchases increased by 18 percent, from US\$ 76 million to US\$ 90 million, while gross sales increased by 13 percent, from US\$ 76 million to US\$ 86 million.

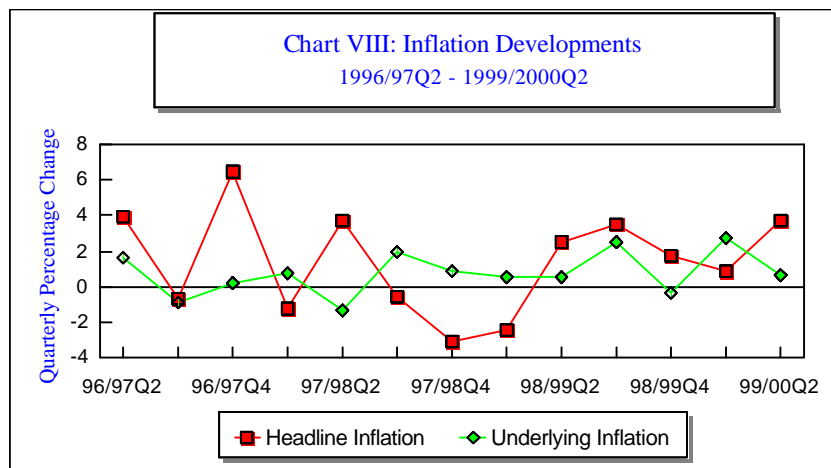
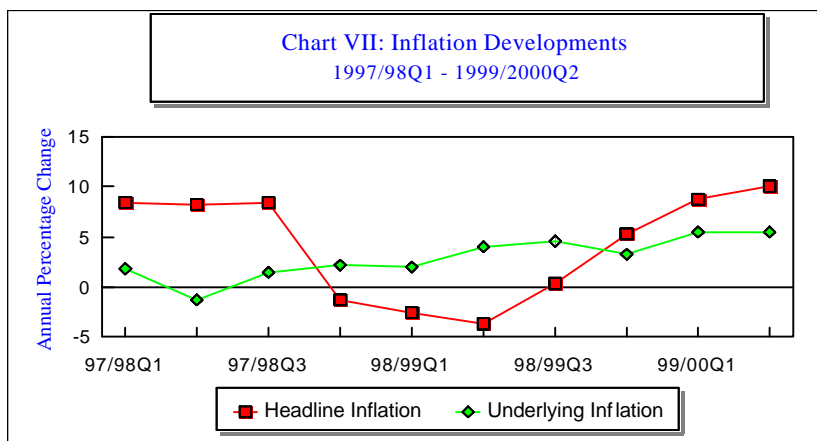


9. PRICE DEVELOPMENTS

Chart VII below shows that the annual average headline inflation rate rose from 8.8 per cent in the first quarter of 1999/2000 to 10.1 per cent in the second quarter compared to a decline from -2.6 per cent to -3.7 per cent in the corresponding period last year. The annual average underlying inflation rate on the other hand rose modestly from 5.4 per cent to 5.5 per cent in the same period compared to a rise of 1.9 per cent in the corresponding period last year. Chart VIII indicates that the monthly average headline inflation during the quarter rose from 0.8 per cent in Q1 to 3.7 per cent in Q2 of 1999/2000 while the monthly average underlying inflation rate during the quarter

declined from 2.7 per cent in Q1 to 0.6 per cent in Q2. The inflation out turn for the second quarter reflected the residual impact of the drought in the western region that led to supply constraints resulting in significant increases in prices of staple foodstuffs, fruits and vegetables. There was also high demand for foodstuffs during the Christmas season which raised prices further upwards. Matoke, passion fruits, pineapples and groundnuts in particular had dramatic increases in prices. This resulted in the rise of the food sub-group index by 5.1 per cent.

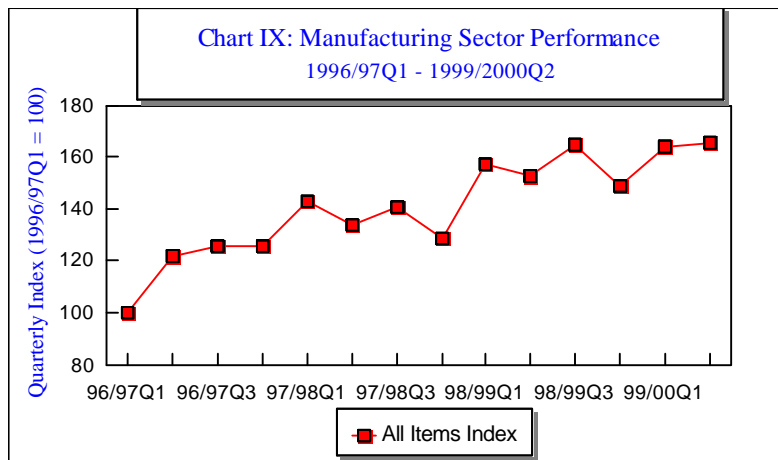
declined from 2.7 per cent in Q1 to 0.6 per cent in Q2 of 1999/2000 while the monthly average underlying inflation rate during the quarter



10. MANUFACTURING

The Manufacturing sector as measured by the index of industrial production improved by 2.2 per cent in the second quarter of 1999/2000 compared to the first quarter of the same financial year. Although this is a small increase given the size of the manufacturing sector, it is an improvement compared to the corresponding quarters of 1997/97 and 1998/99 when the index declined by 9.2 per cent and 4.4 per cent respectively. The rise in the index is largely a result of increased production of beer, soft drinks, cement and Electricity. These sub-group indices rose by 17.6, 19.1, 7.4 and 2 per cent respectively. Sugar, cigarettes, textiles, and soap and edible oil

registered declines of 13.7, 17.8, 15.5 and 6.8 per cent respectively. The increase in the all items index of industrial production in the second quarter can be attributed to the high demand during the Christmas season.



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