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EBS/84/26

CONFIDENTIAL

February 14, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Uganda - Real Effective Exchange Rate - Information Notice

The attached information notice on a change in the real effective exchange rate of the Uganda shilling is circulated for the information of the Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

UGANDA

Real Effective Exchange Rate--Information Notice

Prepared by the African Department and
the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by J. B. Zulu and S. Kanesa-Thasan

February 13, 1984

The recent evolution of Uganda's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of December 1983 the Uganda shilling had depreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Uganda's exchange rate policy--the consideration of a request for a stand-by arrangement in September 1983. The depreciation is estimated to have amounted to 13.1 percent.

Following a devaluation by 89 percent in June 1981, the exchange rate of the Uganda shilling in terms of the U.S. dollar had been depreciated by a further 22.5 per cent by August 1982. At that time, a dual exchange rate system was formally established, whereby the rate in the first market (Window One) would be set periodically by the Central Bank, while the rate in the second market (Window Two) would be determined at an auction held by the Central Bank at weekly intervals. Initially, transactions relating to traditional exports, official loans and essential imports were effected at the Window One rate, while all other transactions were carried out at the Window Two rate. In late June 1983, the transactions at Window One, to which a less depreciated exchange rate applies, were narrowed by shifting to Window Two all non-oil cash imports, service payments on newly contracted debt, and all exports other than coffee and cotton. At the time that the dual exchange rate system was introduced, the Window One and Two exchange rates were U Sh 99.3 = US\$1 and U Sh 300 = US\$1, respectively. Reflecting the Ugandan authorities' intention to unify the two exchange rates within a reasonable period of time, the rate at Window One has been rapidly depreciated so as to narrow the gap between the two rates. As a result, the Window One rate averaged U Sh 234.1 = US\$1 in December 1983, representing a depreciation of 57.6 percent since August

1982. The Window Two rate fluctuated sharply during the same period, but reached U Sh 305 = US\$1 in December 1983, representing a slight depreciation since August 1982. Thus, the ratio of the Window One to the Window Two rate, which had been 0.33 at the time that the dual exchange rate system was established, reached 0.77 in December 1983.

The real depreciation of 13 per cent between September and December 1983 reflects the fact that the composite (weighted average) exchange rate of the Uganda shilling 1/ depreciated by 23 percent in terms of the U.S. dollar, or by 20 percent in effective terms, while the domestic rate of inflation, seasonally adjusted, during the same period amounted to 11 percent. 2/ The movement in the composite rate was mainly accounted for by a depreciation in the Window One rate by 24.6 percent, while the Window Two rate depreciated by 11.5 percent.

These developments reflect the implementation of Uganda's adjustment program, and are discussed more fully in the Staff Report for the 1983 Article IV Consultation and Review of Stand-By Arrangement (EBS/84/7, 1/16/84), scheduled for discussion by the Executive Board on February 22, 1984.

1/ The following weights have been used in computing the composite exchange rate: for the period up to June 1983, 0.906 for Window One and 0.094 for Window Two; for the period since July 1983, the weights have been adjusted to 0.858 and 0.142 for Window One and Window Two, respectively, to reflect an administrative shift in transactions between the two markets.

2/ Based on interpolation of quarterly values for the CPI.

Table 1. Uganda: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (local currency)	Exchange Rate (U.S. dollars per national currency) <u>3/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
<u>Quarterly</u>						
1978						
I	27.2	101.4	26.8	93.7	20.7	21.5
II	30.4	102.1	29.8	94.0	23.5	24.8
III	33.7	101.0	33.3	96.8	26.7	26.7
IV	40.3	100.8	39.9	99.1	32.6	29.4
1979						
I	48.7	100.6	48.4	99.0	40.8	42.4
II	53.9	99.7	54.1	97.6	46.5	49.1
III	58.6	99.1	59.1	99.9	53.0	53.2
IV	66.8	100.0	66.8	99.8	61.0	55.3
1980						
I	85.1	100.2	84.9	100.4	82.0	84.8
II	94.2	99.6	94.6	99.3	93.6	98.3
III	104.4	100.2	104.2	101.4	105.6	106.5
IV	115.2	100.3	114.8	98.9	120.8	110.5
1981						
I	119.2	101.6	117.4	95.7	124.1	127.5
II	106.6	72.8	155.0	64.6	170.1	177.5
III	23.2	11.2	206.3	9.2	235.8	238.4
IV	23.9	10.9	219.3	9.2	254.0	235.2
1982						
I	24.5	10.6	230.8	8.6	273.3	278.8
II	25.6	10.5	242.9	8.3	293.1	304.0
III	23.1	9.2	251.4	7.0	308.7	313.0
IV	22.7	8.7	262.1	6.4	326.4	305.5
1983						
I	22.4	8.1	276.2	5.9	349.4	353.9
II	20.2	7.1	284.7	5.0	365.0	377.6
III	17.3	5.9	295.1	4.0	383.9	389.9
IV	16.0	5.0	318.7	3.4	424.3	399.9
<u>Monthly</u>						
1983						
Sept. <u>4/</u>	17.4	5.8	300.9	3.9	394.5 <u>5/</u>	
Oct.	16.8	5.4	309.4	3.7	408.3 <u>5/</u>	
Nov.	16.0	5.0	318.9	3.4	423.4 <u>5/</u>	
Dec.	15.1	4.6	327.8	3.0	437.8 <u>5/</u>	
<u>Percentage change</u>						
Sept. 1983-Dec. 1983	-13.1	-20.3	8.9	-23.1	11.0	

1/ Increases mean appreciation.

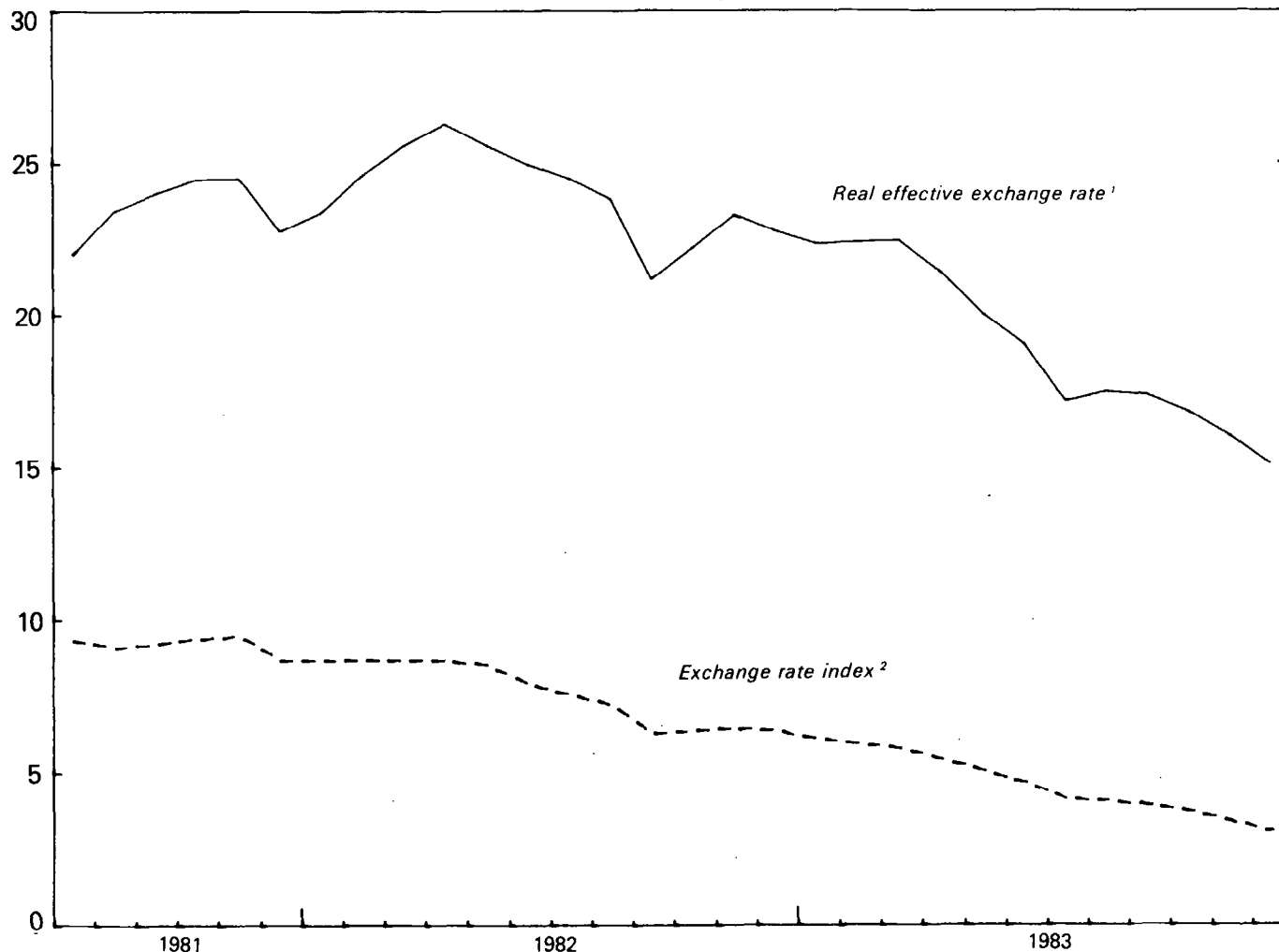
2/ Using seasonally adjusted price indexes.

3/ Since August 1982, this index represents the weighted average of the two (Window One and Window Two) rates.

4/ Date of latest consideration by Executive Board.

5/ Derived by interpolation of seasonally adjusted quarterly series.

CHART 1
UGANDA
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



¹Trade weighted index of composite nominal exchange rate deflated by seasonally adjusted relative consumer prices;
increases mean appreciation.

²U.S. dollars per Uganda shilling.