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EBD/84/195

July 16, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Uganda - Exchange Arrangements and System

There is attached for the information of Executive Directors a paper on a recent change in the exchange rate of the Uganda shilling.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Uganda--Exchange Arrangements and System

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

(In consultation with the Legal Department)

Approved by Oumar B. Makalou and W.A. Beveridge

July 16, 1984

In the attached communication dated July 11, 1984 the Ugandan authorities have informed the staff that, with effect from June 15, 1984, the previous dual exchange rate system has been replaced by a unified system. Henceforth all foreign exchange transactions will take place in the newly established unified market, at an exchange rate determined at an auction held by the Bank of Uganda at weekly intervals. According to additional information available to the staff, the midpoint exchange rate determined at the first auction held after the announcement of the above-mentioned action was set at U Sh 320 = US$1, representing a depreciation of 8.2 percent with respect to the midpoint rate of U Sh 293.65 per US$1 prevailing in the official ("Window One") exchange market on June 14, 1984, and an appreciation of 3.1 percent with respect to the midpoint rate of U Sh 330 = US$1 prevailing in the auction-determined ("Window Two") exchange market in the week ending June 15, 1984.

The communication also describes an important operational feature of the new unified exchange market. Under the auction arrangements used in Uganda since August 1982 all bids have been backed by the full domestic currency counterpart. The difference between the total amount backing the successful bids and the amount required to purchase foreign exchange at the declared exchange rate was returned in cash within a few days of each auction. The change in the arrangement consists of returning any excess domestic currency to successful bidders in the form of 91-day nonrediscountable Treasury Bills. The introduction of this requirement appears to constitute an exchange restriction and therefore is subject to Fund approval under Article VIII, Section 2(a), and may also constitute a multiple currency practice subject to approval under Section 3 of the same Article.

The staff welcomes the unification of the previous dual foreign exchange system and in the course of further discussions in Kampala in August will raise with the authorities the issue of appropriateness of requiring bidders to hold particular forms of nonrediscountable financial assets beyond the date of foreign exchange purchase. In the meantime, no action by the Executive Board is recommended.

ATTACHMENT

TO: INTERFUND
WASHINGTON, DC

FROM: UGANDABANK
UGANDA

JULY 11, 1984

FOLLOWING THE UNDERSTANDING WITH THE FUND, THE TWO WINDOW EXCHANGE RATE REGIME CAME TO AN END ON THE 15TH JUNE 1984 N WAS REPLACED BY ONE EXCHANGE RATE DETERMINED BY AN AUCTION SYSTEM PRACTICALLY SIMILAR IN ALL RESPECTS TO THE FORMER ARRANGEMENTS OF WINDOW 11 (TWO).

IN THE 1984/85 BUDGET DELIVERED TO PARLIAMENT ON JUNE 14TH, 1984, THE MINISTER OF FINANCE ANNOUNCED FOLLOWING MODIFICATION TO SYSTEM OF EXCHANGE RATE AUCTION: QUOTE "THE ANALYSIS OF THE OPERATIONS OF WINDOW TWO SHOWS THAT SOME BIDDERS OBTAINED, IN ONE BID, ALL THEIR FOREIGN EXCHANGE REQUIREMENTS THROUGH HIGH QUOTATIONS N RECEIVED THE EXCESS ABOVE THE MARGINAL RATES RETURNED TO THEM IMMEDIATELY. I NOW PROPOSE THAT THIS KIND OF EXCESS BE REFUNDED TO THE SUCCESSFUL BIDDERS BY WAY OF ISSUANCE OF 91 DAYS NON-DISCOUNTABLE TREASURY BILLS." UNQUOTE

PRINCIPAL REASONS FOR ABOVE MODIFICATION ARE:

(1) TO FACILITATE STABILIZATION OF THE UNIFIED EXCHANGE RATE
(2) TO MINIMIZE WIDE FLUCTUATIONS IN THE RATE
(3) TO REDUCE SPECULATIVE DEMANDS FOR FOREIGN EXCHANGE.

AS WITH WINDOW TWO, THE UNIFIED EXCHANGE RATE IS DETERMINED BY THE MARGINAL BID THAT EXHAUSTS FOREIGN EXCHANGE AVAILABLE AT EACH AUCTION. IN PRACTICE, THE EXCESS IS LESS THAN TEN THOUSAND SHILLINGS, I.E., THE STATUTORY MINIMUM VALUE OF A TREASURY BILL. IN FAIRNESS TO BIDDERS AT THE 95TH AUCTION WHERE BIDS HAD BEEN RECEIVED PRIOR TO BUDGET ANNOUNCEMENT, NO TREASURY BILLS WERE ISSUED IN CONNECTION WITH THAT AUCTION. TOTAL TREASURY BILLS ISSUED FOR THE 96TH AND 97TH AUCTIONS ARE SHS. 47.78 MILLION AND SHS. 19.45 MILLION, RESPECTIVELY.

REGARDS

L. KIBIRANGO
GOVERNOR
BANK OF UGANDA

Received in Cable Room: July 11, 1984