

EBS/85/24

CONFIDENTIAL

January 29, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Uganda - Real Effective Exchange Rate - Information Notice

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

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson, ext. 8671.

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 G. E. Gondwe and W. A. Beveridge

January 28, 1985

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 November 1984 the Uganda shilling has depreciated in real effective terms by more than 10 percent since the last occasion on which developments in Uganda's exchange rate were brought to the attention of the Executive Board--the notification of a change in Uganda's exchange arrangements in July 1984. ^{1/} The depreciation is estimated to have amounted to 13.4 percent.

The real effective exchange rate of the Ugandan shilling appreciated sharply in the late 1970s, as a result of the maintenance of an inflexible exchange rate policy in the presence of persistently high inflation. Steps to address the exchange rate situation began in June 1981 with a major devaluation. In August 1982, following several additional devaluations, a dual exchange system was introduced which featured a managed exchange rate and an auction determined exchange rate. Between the first half of 1981 and the first half of 1984, the real effective exchange rate declined by 91 percent.

The exchange system was unified in mid-June 1984, with all international transactions since then effected at the auction rate. Between July and October 1984, despite increased foreign exchange sales through the auction, there was a nominal depreciation of 24 percent. This was largely attributable to rapidly rising domestic demand pressures, which also contributed to a seasonally adjusted increase in the consumer price index of 26 percent over the same period. There was little change in the real effective exchange rate during this period.

^{1/} EBD/84/195 (July 16, 1984).

In November 1984, mainly as a consequence of the uncertainty induced by unexpected changes to the exchange and trade system, the U.S. dollar value of the shilling fell sharply (by 19 percent), with the rate of exchange reaching U Sh 550 = US\$1 by the end of the month. Despite an extremely high estimated inflation rate (9 percent) for the month, 1/ the real effective exchange rate is estimated to have depreciated by 13 percent in November.

Developments underlying the behavior of Uganda's exchange rate and their implications are discussed in the recently issued staff report for the 1984 Article IV consultation (SM/85/14, 1/14/85).

1/ Staff estimate based on information provided by the Ugandan authorities.

Table. Uganda: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

| | Real Effective Exchange Rate <u>1/</u> <u>2/</u> | Nominal Effective Exchange Rate <u>1/</u> | Relative Consumer Prices (Local Currencies) | Exchange Rate in terms of U.S. dollars <u>1/</u> | Consumer Price Index (Seasonally Adjusted) | Consumer Price Index (Not Seasonally Adjusted) |
|-------------------------|--|---|---|--|--|--|
| <u>Quarterly</u> | | | | | | |
| 1979 | | | | | | |
| I | 50.10 | 100.55 | 49.8 | 99.04 | 41.6 | 41.9 |
| II | 54.42 | 99.69 | 54.6 | 97.65 | 46.8 | 49.2 |
| III | 58.49 | 99.08 | 59.0 | 99.89 | 52.6 | 52.8 |
| IV | 65.76 | 99.93 | 65.8 | 99.83 | 60.5 | 56.8 |
| 1980 | | | | | | |
| I | 87.56 | 100.10 | 87.5 | 100.41 | 83.4 | 83.7 |
| II | 94.77 | 99.53 | 95.2 | 99.28 | 93.8 | 98.3 |
| III | 104.39 | 100.11 | 104.3 | 101.37 | 105.4 | 106.1 |
| IV | 113.28 | 100.26 | 113.0 | 98.94 | 117.4 | 111.1 |
| 1981 | | | | | | |
| I | 122.58 | 101.49 | 120.8 | 95.66 | 129.1 | 128.6 |
| II | 107.28 | 72.74 | 155.8 | 64.61 | 171.1 | 178.6 |
| III | 20.31 | 11.22 | 181.0 | 9.21 | 203.8 | 206.0 |
| IV | 20.10 | 10.89 | 184.6 | 9.17 | 212.8 | 203.2 |
| 1982 | | | | | | |
| I | 20.60 | 10.60 | 194.4 | 8.63 | 228.6 | 226.4 |
| II | 20.86 | 10.54 | 198.0 | 8.33 | 237.6 | 246.9 |
| III | 18.86 | 9.20 | 205.3 | 6.97 | 251.0 | 254.2 |
| IV | 19.59 | 8.66 | 226.2 | 6.38 | 280.6 | 270.2 |
| 1983 | | | | | | |
| I | 18.80 | 8.10 | 232.1 | 5.91 | 291.7 | 287.5 |
| II | 16.40 | 7.07 | 232.0 | 5.02 | 296.2 | 306.7 |
| III | 14.12 | 5.87 | 240.6 | 4.00 | 312.3 | 316.5 |
| IV | 12.68 | 4.99 | 254.1 | 3.35 | 336.4 | 325.8 |
| 1984 | | | | | | |
| I | 10.60 | 4.25 | 249.1 | 2.82 | 335.3 | 329.6 |
| II | 9.88 | 3.77 | 261.6 | 2.48 | 356.1 | 367.9 |
| III | 9.54 | 3.24 | 295.0 | 2.01 | 407.5 | 412.7 |
| IV | | | | | 514.7 | |
| <u>Monthly</u> | | | | | | |
| 1984 | | | | | | |
| July <u>3/</u> | 9.60 | 3.48 | 275.7 | 2.20 | 378.5 | 389.0 |
| Aug. | 9.21 | 3.18 | 289.3 | 1.99 | 399.6 | 402.7 |
| Sep. | 9.81 | 3.07 | 320.0 | 1.86 | 444.3 | 446.4 |
| Oct. | 9.57 | 2.81 | 341.2 | 1.67 | 476.5 | 470.1 <u>4/</u> |
| Nov. | 8.31 | 2.25 | 369.5 | 1.36 | 518.4 | 508.7 <u>4/</u> |
| Percentage change | | | | | | |
| July 1984- Nov. 1984 | -13.4 | -35.4 | 34.1 | -38.0 | 37.0 | |

Source: Information Notice System.

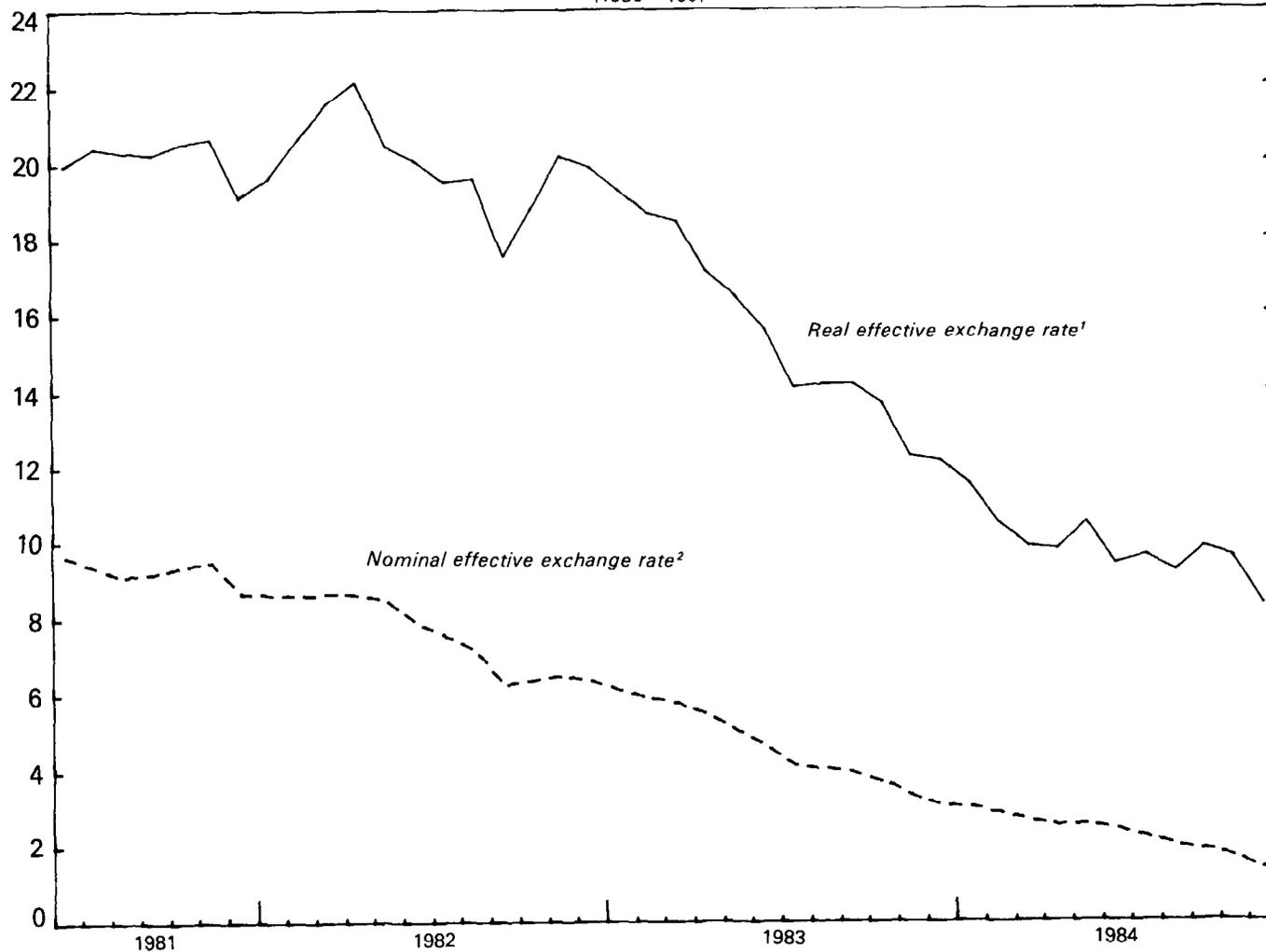
1/ Increases mean appreciation.

2/ Using seasonally adjusted consumer price indexes.

3/ Date of latest consideration by Executive Board.

4/ Staff estimate based on data provided by the Ugandan authorities.

CHART
UGANDA
REAL EFFECTIVE AND NOMINAL EXCHANGE RATE
(1980 = 100)



Source: Information Notice System.

¹Trade weighted index of nominal exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation.

²U.S. dollars per Ugandan schilling (index of composite of multiple exchange rates prior to July 1984).