

BANK OF UGANDA

OFFICE OF THE
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December 30, 2003

To: Chief Executives of Commercial Banks

Modalities for Convertibility of the Kenya and Tanzania Shillings

The Monetary Affairs Committee constituted by the East African Central Bank Governors resolved that the three national currencies should be freely convertible. The implementation of full currency convertibility took effect from July 01, 1996. Consequently, all commercial banks are now advised to fully implement the measures required to comply with the East African Community Agreement on the Modalities for Convertibility of the three national currencies.

The details of the modalities for convertibility are indicated on page 5 & 6 of the attached guide.

Ruth Egunu (Mrs)
Executive Director Supervision

CONVERTIBILITY OF EAST AFRICAN REGIONAL CURRENCIES

BACKGROUND

Full convertibility of Kenya, Uganda and Tanzania currencies against one another is one of the most important instruments being used to facilitate trade and investment within East Africa under the auspices of the newly established East African Cooperation. This aspect of monetary co-operation allows residents of the three countries to freely transact business in any of the currencies. The regional currencies are effectively treated in the same way as such currencies as the US dollar, the pound sterling and the yen.

The arrangement that became operational with effect from 1st July 1996, is however, not compulsory but one to be gradually adopted as confidence increases in the use of the regional currencies. Border towns and the three regional capitals are the most important centres where the use of the three currencies will be in greater demand. The bulk of the regional trade is however expected to continue to be settled through letters of credit.

BENEFITS OF CONVERTIBILITY

Convertibility of the three East African currencies underscores the commitment of the three countries to cement the existing harmonious ties and co-operation among

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the people of the region. It enhances the economic benefits of the co-operation in a number of ways including:

1. Easing the flow of trade and other transactions
2. Allowing increased trade among the three East African countries
3. Simplifying requirements for travellers and tourists within the region will be simplified

RISKS OF CONVERTIBILITY

Convertibility calls for all those handling the three currencies to carefully guard against increased risks of counterfeiting and losses arising from exchange rate fluctuations. Such risks are, however, inherent in all dealings involving convertible international currencies.

MODALITIES OF CONVERTIBILITY

The following procedures are recommended for adoption by all authorised dealers to facilitate convertibility of the three currencies:

1. All dealers to quote on a daily basis the currencies of Kenya, Uganda and Tanzania alongside other foreign currencies.
2. Kenya, Uganda and Tanzania currencies to be competitively traded like any other foreign currencies by the authorised dealers.

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3. Commercial banks to open and maintain in their books Kenya, Uganda and Tanzania shillings accounts for their own accounts and on behalf of their customers.
4. Commercial banks should establish correspondent relationships with banks in Kenya, Uganda and Tanzania.
5. Commercial banks will be responsible for the repatriation of surplus Kenya, Uganda and Tanzania shillings to their correspondent banks in the respective countries for credit of their accounts.
5. In cases where commercial banks have no correspondents, their surplus holdings of the three currencies will be appropriately repatriated on a collection basis by the relevant Central Bank for a fee.