

BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
OPERATIONS



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Ref. EDO.E1.11.1

11 September 2006

All Chief Executives of Commercial Banks

BORROWING WINDOW FROM BANK OF UGANDA

Please refer to Circular ref.EDO.E1.11 dated 2nd August 2006 informing you of the revision of the limit to access the Bank of Uganda Standing facility.

Please find attached operational guidelines governing the facility of borrowing from Bank of Uganda for your information.

A handwritten signature in black ink, appearing to read 'E. B. Kasozi'.

**E. B. Kasozi
EXECUTIVE DIRECTOR OPERATIONS**

Attach:

Copy: Governor
Deputy Governor
Executive Directors



1.0 Borrowing from Central Bank

- 1.1 All the applications for borrowing or rediscounting of Treasury securities will be addressed to the Executive Director Operations (EDO). The applications will be secured by Treasury Securities i.e. Treasury Bills and Bonds.
- 1.2 Where the application is for borrowing, the EDO will determine, by quick reference to the report containing the daily position of commercial banks, that the requirement of the borrowing commercial bank is not more than 25% of the required reserves of the day on which the application is received. If the 25% rule is not violated the EDO will then instruct Director Banking to credit the applicant with the amount requested for.
- 1.3 If the amount required is above the 25% limit, the EDO will consult appropriately and give a definite instruction to the Director Banking of the amount of borrowing and the period allowed to the applicant. If the request is rejected, the EDO shall inform the bank, initially by telephone and confirm in writing. Requests for loans in excess of the 25% rule will be granted only at the discretion of Bank of Uganda.
- 1.4 The Bank of Uganda extends funds to the customer against Treasury bills with less than 91 days to maturity or up to 75% of the face value of the collateral with maturity not exceeding twenty-five years. The term of the loan shall not exceed three months.
 - 1.5.1 Where specific amounts are approved, the Director Banking will cause the account of the borrowing bank to be credited immediately.
- 1.6 The EDO will instruct the Director, Domestic Markets to transfer ownership of eligible Treasury Securities on the Central Depository System (CDS) to Bank of Uganda as security for the loan.

- 1.7 The borrower will be responsible for effecting payment using RTGS after the expiry of the loan.

(By putting the responsibility of effecting payment on the borrower, Bank of Uganda will reserve for itself the right to continue to charge interest when payment is not effected on the due date. Bank of Uganda also has authority to punish banks that do not effect payment on due date by for example rejecting their future requests).

- 1.8 Once a commercial bank loan has been repaid, the Director Banking will advise the Director Financial Markets to return the collateralised securities to the CDS account of the borrowing commercial bank.
- 1.9 These procedures are meant to ensure that all requests from commercial banks are handled in a timely manner by crediting the accounts with the amounts approved or communicating rejection of the request quickly.

2.0 Rediscount Window

- 2.1 This facility is available to all holders of Government securities who have Treasury securities with less than 91 days to maturity. The Bank of Uganda shall apply the Rediscount rate.
- 2.2 All the operations relating to rediscounting of Treasury securities are handled by the Director Financial Markets Department. The procedure is as follows:-
- The request to rediscount Treasury Securities is addressed to EDO
 - DFM verifies securities and rediscount rate
 - Rediscount effected on CDS
 - Payment automatically done on RTGS Rediscounting
 - Securities removed from Bank account to BOU account on CDS
 - Withholding tax of 15% charged on interest earned on Rediscounted Bills.