

BANK OF UGANDA



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Reforms to the Primary Dealership System

As part of the process of increasing efficiency and enhancing liquidity in the financial market, the Bank of Uganda in collaboration with the Ministry of Finance, Planning and Economic Development, has undertaken reforms to the Government securities market. These reforms have in part included automation of the auction processes to enhance efficiency and price transparency, which has increased the global visibility of Uganda's financial markets.

While these reforms have been successful in promoting a vibrant primary market, challenges nonetheless remain in the secondary market, as the trades have remained persistently low. In FY 2019/20, the turnover in the secondary market was recorded at 41 percent of the total outstanding stock of Government securities. This means that 59 percent of the total outstanding stock of Government securities was not traded at all, and was simply held till maturity. This is quite low compared to say, South Africa, where secondary market turnover amounts to 1,200 percent of the total outstanding stock of Government securities. This means that in South Africa, the total outstanding stock of Government securities changes hands 12 times in a year, which substantially increases liquidity in the market.

The increased liquidity of the Government securities market enhances the attractiveness of the securities as it facilitates the ease of entry and exit into the financial market. It also strengthens a country's ability to withstand exogenous shocks to the economy, as offshore investors would be more assured of stability in prices as opposed to the expectation of heightened volatility in illiquid markets.

In order to enhance liquidity in the secondary market, effective October 01, 2020, competitive bidding in the primary market for Government securities shall be limited to only Primary Dealer Banks. I also want to take this opportunity to announce that after an evaluation process that started early this year, the following seven banks have now been appointed Primary Dealer Banks for a period of three years:

1. ABSA Bank
2. Bank of Baroda
3. Centenary Bank
4. DFCU Bank
5. Housing Finance Bank
6. Stanbic Bank
7. Standard Chartered Bank

Investors should continue submitting their bids to their respective commercial banks as usual, where they will be well served. All commercial banks will continue to access the primary market for non-competitive bids (below UGX 200 million). However, for competitive bids

(those above UGX 200 million), Non-Primary Dealer Banks will access government securities from the Primary Dealer Banks in the secondary market.

I would like to take this opportunity to congratulate the new Primary Dealer Banks and to say that the Bank of Uganda looks forward to a more vibrant secondary market for Government securities in Uganda.

A handwritten signature in black ink, appearing to be 'E. Tumusiime-Mutebile', written over a faint horizontal line.

Prof. Emmanuel Tumusiime-Mutebile

Governor

September 07, 2020