

BANK OF UGANDA



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GUIDANCE NOTES FOR THE BOND SWITCH

Over the past number of years, the Ministry of Finance, Planning and Economic Development (MoFPED) together with the Bank of Uganda (BoU) have been supporting the orderly development of the domestic securities market by establishing a more balanced maturity structure and enhancing liquidity in government's benchmark bonds. This initiative is being implemented through:

- (1) Re-opening of existing benchmark bonds instead of issuing new bonds thereby reducing the number of outstanding issues through consolidating several bonds into fewer, larger bonds.
- (2) Switching existing bonds into other more liquid bonds on the yield curve

In a bond switch/conversion auction, existing holders of a particular bond are invited to voluntarily surrender part or their entire existing bond to the issuer in exchange for another preferred bond(s) by the same issuer. Bond switches provide the government with a tool to rapidly restructure the maturity profile of outstanding debt and spread-out liquidity across the yield curve.

Bank of Uganda has carried out regular bond switches since 2021 and there has been growing interest in the bond switch auctions by market players as seen by the large bid sizes in the auctions. The investors who have not participated in the bond switch auctions have been paid their full principal and interest payments at maturity.

On Wednesday 8th February 2023, BoU will offer a bond switch/conversion auction for current holders of Treasury bond number UG0000001244 11.000% 13-APRIL-2023 to switch into the existing on-the-run bonds.

The offer will only be for willing holders of the source bond UG0000001244 11.000% 13-APRIL-2023 to voluntarily exchange part or their entire stock of the existing bond for another preferred bond (destination bond) by the same issuer.

Willing holders of the mentioned security will exchange part or all of their holdings with other existing bond(s) in the domestic debt portfolio to balance the maturity structure and enhance liquidity in the debt securities market. Please note that for any investor that may not wish to switch their bond, the Government as per standard procedure will pay the full amount of both the principal and interest as they fall due on 13th April 2023.

The benefit of a bond switch for market players who may wish to participate in the bond switch is that it reduces risk/chance that cash flows received later will earn less when reinvested. For the issuer of debt, switching is primarily intended to restructure the maturity profile of existing bonds to a future date in line with liquidity enhancement preferences in the bond market. Hence it is not a tool used to raise new money but for efficient management of the bond restructuring process.