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October 16, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Guyana - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on a change in the exchange rate of the Guyana dollar.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Guyana--Exchange Arrangements

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by E. Wiesner and S. Kanasa-Thanan

October 16, 1984

In the attached communication the Bank of Guyana has notified the Fund that, with effect from October 6, 1984, the exchange rate for the Guyana dollar will be changed periodically on the basis of the basket of currencies notified in January, 1984 (EBS/84/13, 1/16/84) consisting of the pound sterling, the deutsche mark, the Japanese yen, the French franc and the Netherlands guilder. The intervention currency continues to be the U.S. dollar. Rates for the Guyana dollar, in terms of the U.S. dollar, will now be announced on a weekly basis. In view of this change, the exchange rate arrangements of Guyana will now be classified as "Currency pegged to other composite (basket of currencies of the members own choice)" instead of the previous classification: "Flexibility limited in terms of a single currency (U.S. dollar)."

For the week beginning October 6, 1984, the central rate for the Guyana dollar was set at G\$4.12 = US\$1, representing a depreciation of 9.0 percent vis-à-vis the previous rate of G\$3.75 = US\$1 maintained since January 11, 1984, when it was depreciated by 20 percent from the level of June 2, 1981. In terms also of foreign currency, the Guyana dollar is estimated to have appreciated in real effective terms by 48.6 percent from June 1981 to July 1983. From July 1983 to August 1984 the real appreciation is estimated at 17.9 percent. From January to August 1984 it is estimated at 12.5 percent.

The Chairman's summing up at the Executive Board meeting concluding the Article IV consultation discussions with Guyana noted that "the measures taken by the authorities in the fiscal and exchange rate areas in the past year, although constituting steps in the right direction, had been clearly insufficient to check the growing external and internal imbalances, which had now reached exceptional proportions." The staff is of the view that the present action is also inadequate to restore competitiveness and to ameliorate the exceptional balance of payments difficulties of Guyana; further, the flexibility created by pegging the rate to a basket of currencies and adjusting it weekly will not by itself achieve the necessary adjustment, given the inappropriateness of the initial rate adopted as a basis for these adjustments.

Attachment

INTERFUND
WASHINGTON, DC

OCTOBER 5, 1984

THE GOVERNMENT OF GUYANA WISHES TO NOTIFY THE FUND THAT WITH EFFECT FROM OCTOBER 6, 1984 THE GUYANA DOLLAR EXCHANGE RATE WILL BE FIXED FROM TIME TO TIME BY APPLICATION OF THE BASKET MECHANISM REFERRED TO IN OUR TELEXES TO YOU OF JUNE 2, 1981 AND JANUARY 11, 1984.

A NEW RATE WILL BE DETERMINED AND DECLARED BY THE BANK OF GUYANA ON FRIDAY OF EACH WEEK FOR THE PERIOD BEGINNING THE NEXT SUCCEEDING SATURDAY AND ENDING ON THE NEXT SUCCEEDING FRIDAY.

THE GUYANA DOLLAR CENTRAL EXCHANGE RATE FOR THE PERIOD COMMENCING SATURDAY OCTOBER 6, 1984 AND ENDING FRIDAY OCTOBER 12, 1984 WILL BE GUYANA DOLLAR 4.12 EQUALS U.S. DOLLAR 1.00. THE U.S. DOLLAR CONTINUES TO BE GUYANA'S INTERVENTION CURRENCY.

MEREA L. MEREDITH
DEPUTY GOVERNOR
BANK OF GUYANA, GEORGETOWN

Received in Cable Room: October 5, 1984