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EBD/84/163

June 5, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Western Samoa - Exchange Arrangements and Exchange System

The attached paper on a change in the exchange arrangements and exchange system of Western Samoa is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Western Samoa--Exchange Arrangements and Exchange System

Prepared by the Asian Department and the Exchange and
Trade Relations Department

(In consultation with the Legal Department)

Approved by P.R. Narvekar and Manuel Guitian

June 4, 1984

In the attached communication dated May 31, 1984 the Western Samoa authorities notified the Fund that effective May 31, 1984 the mid-point exchange rate of the Western Samoa tala against the New Zealand dollar was adjusted from WS\$1.1071 = \$NZ 1 to WS\$1.1520 = \$NZ 1, representing a 3.9 percent devaluation. This adjustment follows a 4.3 percent devaluation which took place on May 7, 1984.

The Western Samoa authorities also informed the Fund of the following changes in the exchange system:

1. The foreign exchange allocation system covering imports is to be dismantled effective July 1, 1984, except for imports of motor vehicles, capital equipment of dutiable value in excess of WS\$10,000, and imports of beer, cigarettes, timber, and veneer--all of which will require authorization from the Central Bank.

2. Effective July 1, 1984 all imports in excess of WS\$10,000 are to be financed only against letter of credit facilities with banks. Open account trading is to be progressively phased out as a way of financing trade.

3. The repatriation to Western Samoa of export proceeds is to be tightly administered by the Central Bank.

As was pointed out in the staff report on the previous exchange rate action ^{1/}, the present devaluation of the tala offsets the real appreciation that had occurred since mid-1983. The staff welcomes the continuation of a flexible exchange rate policy as a means of channeling resources into the export and import-competing sectors of the economy. The staff also welcomes the authorities' dismantling with effect from July 1, 1984, for most imports, of the foreign exchange allocation system, which is a transitional arrangement authorized under Article XIV of the Fund's Articles of Agreement. It was noted in the staff report of the 1983 Article IV consultation that the system has resulted in the misallocation of scarce foreign exchange resources, and that steps toward phasing it out would have to be accompanied by strengthened fiscal and monetary policies to avoid a surge in import demand. A staff paper on Western Samoa's request for a stand-by arrangement will be issued shortly.

^{1/} Western Samoa--Exchange Arrangements (EBD/84/147, 5/21/84).

ATTACHMENT

INTERFUND
WASHINGTON, DC

EFFECTIVE 6 PM TONIGHT THE MID POINT EXCHANGE RATE OF THE WESTERN
SAMOA TALA AGAINST THE NEW ZEALAND DOLLAR IS ADJUSTED FROM NZ\$ 1 EQUALS
WSTALA 1.1071 to NZ\$ 1 EQUALS 1.1520.

IN ADDITION THE FOLLOWING MEASURES WERE ANNOUNCED:

1. THE FOREIGN EXCHANGE ALLOCATION SYSTEM COVERING IMPORTS
TO BE DISMANTLED EFFECTIVE 1 JULY 1984.
2. EXCEPTIONS WHICH WILL REQUIRE CENTRAL BANK APPROVAL PRIOR
TO IMPORTATION ARE:
 - (I) ALL MOTOR VEHICLES INCLUDING BUSES FOR PUBLIC TRANSPORT
 - (II) CAPITAL EQUIPMENT OF DUTIABLE VALUE IN EXCESS OF WS\$10,000
 - (III) IMPORTS OF BEER, CIGARETTES, TIMBER AND VENEER.
3. FROM 1 JULY ALL IMPORTS IN EXCESS OF WS\$10,000 TO BE FINANCED
ONLY AGAINST LETTER OF CREDIT FACILITIES WITH BANKS.
4. OPEN ACCOUNT TRADING TO BE PROGRESSIVELY PHASED OUT AS A
METHOD OF FINANCING TRADE.
5. REPATRIATION OF EXPORT PROCEEDS TO BE VIGOROUSLY ADMINISTERED
BY CENTRAL BANK.
6. MONETARY POLICY TO REMAIN TIGHT. OTHER CREDIT INSTITUTIONS
BEING ASKED TO MODERATE LENDING OVER REMAINDER OF YEAR.

REGARDS

K. VA'AI
FINANCIAL SECRETARY
TREASURY, WESTERN SAMOA

Received in Cable Room June 1, 1984