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July 8, 1983

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

There is attached for the information of the Executive Directors a paper on a change in Somalia's exchange arrangements.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Somalia--Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by J.B. Zulu and W.A. Beveridge

July 7, 1983

In the attached communication, dated July 3, 1983, the Somali authorities have informed the Fund that, effective July 1, 1983, a new exchange arrangement has been adopted, whereby the Somali shilling will be pegged to the SDR adjusted for relative price developments in Somalia vis-a-vis the five countries included in the SDR basket. Under this new arrangement, the exchange rate will be maintained within margins of ± 7.5 percent around the fixed real SDR relationship. Within these margins, whenever indicative margins of ± 2.25 percent are exceeded, the appropriateness of the exchange rate will be evaluated taking into account recent and prospective balance of payments developments and the level of international reserves as well as other relevant indicators. The central So. Sh./SDR rate for the base month of July 1983 will be So. Sh. 16.5 = SDR 1. Previously, the exchange rate of the Somali shilling was maintained within margins of ± 2.25 percent about the nominal SDR peg of So. Sh. 16.5 = SDR 1.

A staff team recently visited Mogadiscio to conduct the second semi-annual review under the current stand-by arrangement approved on July 12, 1982 (EBS/82/105, Supplement 1). A report to the Executive Board of these discussions is being prepared and will contain an appraisal of this change in Somalia's exchange arrangements.

Attachment

INTERFUND
WASHINGTON, D.C.

PURSUANT TO ARTICLE 4 SECTION 2(a) OF THE ARTICLES OF AGREEMENT, I WOULD LIKE TO INFORM YOU THAT EFFECTIVE JULY 1, 1983, THE GOVERNMENT OF SOMALIA HAS INTRODUCED A CHANGE IN ITS EXCHANGE ARRANGEMENT. THE SOMALI SHILLING WILL CEASE ITS PEG TO THE NOMINAL SDR AT THE RATE OF SO. SH. 16.5 = SDR 1 WITH EXCHANGE MARGINS OF 2.25 PERCENT, AND WILL BE PEGGED TO THE REAL SDR WITH MARGINS OF 7.5 PERCENT AROUND THIS FIXED RELATIONSHIP. CONSUMER PRICE INDICES WILL BE USED AS INDICATORS OF PRICE AND COST DEVELOPMENTS IN SOMALIA AND THE FIVE COUNTRIES INCLUDED IN THE SDR BASKET. DUE TO THE TIME LAG WITH WHICH PRICE DATA, PARTICULARLY FOR SOMALIA, ARE EXPECTED TO BECOME AVAILABLE, THE CALCULATION OF THE SO. SH./SDR CENTRAL RATE IN ANY MONTH WILL BE BASED ON THREE-MONTH OLD PRICE DATA. THE SO. SH./SDR CENTRAL RATE FOR THE INITIAL MONTH OF JULY 1983 WILL BE SO. SH. 16.5 = SDR 1. IN ADDITION TO THE 7.5 PERCENT MARGINS, THERE WILL BE INDICATIVE BANDS OF 2.25 PERCENT AROUND THE REAL SDR PEG. IN PRINCIPLE, THE POSTED RATES FOR FOREIGN EXCHANGE WILL BE MAINTAINED WITHIN THE INDICATIVE BANDS. WHENEVER THE 2.25 PERCENT BANDS ARE EXCEEDED, THIS WILL TRIGGER AN EVALUATION BY THE CENTRAL BANK OF THE APPROPRIATENESS OF THE POSTED RATES. IN SO DOING, THE CENTRAL BANK OF SOMALIA WILL TAKE INTO ACCOUNT RECENT AND PROSPECTIVE DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND THE LEVEL OF RESERVES AS WELL AS OTHER RELEVANT INDICATORS.

BEST REGARDS.

DR. MOHAMUD JAMA AHMED
GOVERNOR
CENTRAL BANK OF SOMALIA
SOMALBANCA

Received in Cable Room: July 3, 1983