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May 23, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Jamaica - Exchange System

The attached paper on the exchange system of Jamaica is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Jamaica--Exchange System

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

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitian

May 20, 1983

In the attached communication dated May 17, 1983 the Jamaican authorities have informed the Fund of their decision to establish, effective May 18, 1983, a special exchange rate of J\$2.25 = US\$1. The special rate will apply to all transactions within the CARICOM multi-lateral clearing facility, other than those previously designated for payment at the official exchange rate of J\$1.78 = US\$1. ^{1/} The special rate will also apply to purchases of raw materials by Jamaican enterprises whose exports to CARICOM countries are financed by the Jamaican Export Development Fund. The new exchange rate arrangements are intended to facilitate the normalization of trading relations within the CARICOM area. ^{2/}

From January 10, 1983, and in conjunction with the introduction of a dual exchange market, payments for imports of nondesignated goods from CARICOM countries under the clearing arrangements were made at the parallel market rate of exchange, while the official rate was applied to proceeds from exports to CARICOM countries, and to Bank of Jamaica balances in the clearing facility.

As a result of the new arrangements, Jamaica now maintains three exchange rates. In addition to the special rate for CARICOM transactions, certain designated payments and receipts are effected at the official exchange rate. These payments include essential imports, such as oil and basic foods, and official debt service payments; the receipts include traditional exports, 50 per cent of nontraditional export proceeds, earnings of tourism operators, and official capital inflows. All other transactions are conducted in a parallel market operated by the commercial banks. As of May 17, 1983 the exchange rate in this latter market was J\$2.74 = US\$1.

^{1/} Primarily imports of basic foods from CARICOM countries; the designation of CARICOM and other transactions subject to the official rate is presently under review by the Jamaican authorities.

^{2/} These had been impaired since February 21, 1983, when in response to the dual exchange rate system applied by Jamaica to CARICOM trade, the Central Bank of Barbados suspended transactions with Jamaica through the clearing facility.

The Executive Board approved a three-year extended arrangement for Jamaica on April 13, 1981. The measure described above represents the introduction and modification of multiple currency practices subject to approval under Article VIII, Section 3, of the Articles of Agreement. The staff is presently in close contact with the Jamaican authorities to ascertain performance with respect to this and other aspects of Jamaica's extended arrangement and will report to the Board in due course. In the meantime, no action by the Executive Board is proposed.

Attachment

INTERFUND
WASHINGTON

MAY 17, 1983

WE WISH TO INFORM YOU THAT IT HAS BEEN DECIDED THAT EFFECTIVE MAY 18, 1983 THERE WILL BE A SPECIAL EXCHANGE RATE OF JAMAICA DOLLAR 2.25 = US DOLLAR 1.00 APPLICABLE TO CARICOM TRANSACTIONS OTHER THAN THOSE INVOLVING GOODS AND SERVICES WHICH QUALIFY FOR THE OFFICIAL RATE OF EXCHANGE OF JAMAICA DOLLAR 1.78 = US DOLLAR 1.00. THE CARICOM RATE WILL ALSO APPLY TO PURCHASES OF RAW MATERIALS BY JAMAICAN EXPORTERS TO CARICOM WHICH ARE FINANCED BY THE EXPORT DEVELOPMENT FUND.

BEST REGARDS

OWEN JEFFERSON
DEPUTY GOVERNOR
BANK OF JAMAICA
KINGSTON, JAMAICA

Received in Cable Room: May 17, 1983