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EBD/90/268
Correction 1

August 30, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Sri Lanka - Modification of Exchange Arrangement

The following correction has been made in EBD/90/268 (8/28/90):

Page 2, line 2: for "under the second annual arrangement"
read "under the third annual arrangement"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Sri Lanka

Modification of Exchange Arrangement

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

(In consultation with the Legal Department)

Approved by Hubert Neiss and Thomas Leddy

August 27, 1990

In the attached communication dated August 20, 1990, the Sri Lankan authorities informed the Fund of the adoption of a more market-oriented exchange arrangement, effective August 20, 1990.

In recent years, the Central Bank adjusted periodically its central exchange rate for spot transactions in terms of the U.S. dollar--taking into account developments in the external sector--and stood ready to buy and sell at that rate within an established margin. Rates for transactions among commercial banks in the interbank market and customer rates were freely determined by the banks. Following a gradual adjustment in the exchange rate that resulted in a 13.8 percent depreciation of the Sri Lanka rupee in terms of the U.S. dollar between July 1 and September 15, 1989, the rate was maintained at SL Rs 40 per U.S. dollar through August 20, 1990 when the new system was introduced.

Under the new arrangement, the Central Bank sets a daily reference exchange rate which is the weighted average of the previous day's rates on spot transactions in the local interbank market, including transactions with the Central Bank and which serves as the Central Bank's initial central rate for the day; when the amount of overall daily interbank transactions is less than US\$2 million, the reference rate is calculated on the basis of the previous two days' weighted average of the interbank spot transactions rate. During the course of the day, the central rate is adjusted--within a predetermined band around the initial central rate--through negotiations between the Central Bank and the commercial banks, depending on the Central Bank's external objectives and market conditions, with the Central Bank prepared to buy and sell at that rate. Transaction rates between commercial banks in the interbank market are negotiated freely between the banks and customer rates are freely determined by the banks.

EBD/90/268

Corrected: 8/30/90

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In a forthcoming staff report for the 1990 Article IV consultation and request for use of Fund resources under the third annual arrangement under the SAF, a more detailed description and assessment of the new arrangement will be presented.

Attachment