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AGENDA**

EBS/67/267

CONFIDENTIAL

November 22, 1967

To: Members of the Executive Board

From: The Secretary

Subject: United Kingdom - Nonmetropolitan Areas - Changes in Par Value

The attached paper with respect to a proposed change in the par values of the currencies of certain nonmetropolitan areas in respect of which the United Kingdom has accepted the Articles of Agreement is circulated for consideration by the Executive Directors at a meeting of the Executive Board scheduled for 11.30 a.m. today, November 22, 1967.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Nonmetropolitan Areas in the United Kingdom--
Changes in Par Values

Prepared by the European Department

(In consultation with the Exchange and Trade Relations Department, the
Legal Department, the Research and Statistics Department, and
the Treasurer's Department)

Approved by L. A. Whittome

November 22, 1967

As indicated in the memorandum from the U.K. Executive Director dated November 17, 1967, the United Kingdom Government has informed the Managing Director of the Fund that in accordance with Article IV, Section 9, of the Articles of Agreement, and effective November 18, 1967, it proposes to change the par values of the currencies of the following nonmetropolitan areas in respect of which the United Kingdom has accepted the Articles of Agreement (see Mr. Maude's memorandum of November 21, 1967, attached). In all of the specified cases this represents a change in the par value of 14.3 per cent.

Currency	Units per Metropolitan Unit	Par Value in U.S. cents per Currency Unit Prior to Nov. 18, 1967	Proposed Par Value in U.S. cents as from Nov. 18, 1967
East Caribbean dollar	4.800 00	58.333 3	50.000
British Honduras dollar	4.000 00	70.000	60.000
South Arabian dinar	1.000 00	280.000	240.000
Bermuda pound	1.000 00	280.000	240.000
Falkland Island pound	1.000 00	280.000	240.000
Gibraltar pound	1.000 00	280.000	240.000
Fiji pound	1.110 00	252.252	216.216
Hong Kong dollar	16.000 00	17.500	15.000
Mauritius rupee	13.333 33	21.000	18.000
Seychelles rupee	13.333 33	21.000	18.000

No change in par value is proposed for the Bahama Islands, Bahrain, Brunei, Rhodesia, and Tonga.

Staff Appraisal

The staff considers that, for all practical purposes, the monetary system of the nonmetropolitan territories enumerated on page 1 is a part of that of the United Kingdom even though their currencies are nominally different. From that point of view the balance of payments reasons that have led to the devaluation of sterling, are, with few exceptions, applicable also to the nonmetropolitan territories and reference may be made to EBS/67/253 of November 18, 1967. Commercial and financial links with the United Kingdom are extremely close in all of the mentioned cases. In many cases, the exports of the metropolitan territories to the United Kingdom dominate their total exports where they have free entry and benefit, in certain cases, from preferential long-term trade agreements (e.g., sugar under the Commonwealth Sugar Agreement). The position of these export industries would have been severely hurt if the par values of the currencies concerned had remained above the par value of sterling. At least as crucial is the danger that in the absence of an adjustment of the rates of these nonmetropolitan currencies, funds now held in these territories would have been shifted immediately and on a large scale to London for fear that an alignment of the rates would be made in any case at some later time. Such shifts could have provoked serious disruptions in their financial systems, and particularly in their banks. Furthermore, the banks, other institutions, and private residents of these territories would have been exposed to serious losses on their investments in sterling securities and sterling balances, and it is unlikely that these losses would have been fully offset by the book profits on sterling liabilities. In addition, many incomes of families in the nonmetropolitan territories are dependent, often to a considerable extent, on private transfers from the United Kingdom; receiving these transfers at a depreciated rate would have meant real hardships for many persons.

It should be noted furthermore that in all cases, except Mauritius, local legislation automatically links the exchange rate of the nonmetropolitan currencies to the rate of sterling. Thus, from a statutory point of view, these territories had no alternative but to change their effective rates immediately upon the change in the par value of sterling. These changes in par values for the specified currencies follow from the change in par value for the pound sterling (EBS/67/253) which was made to correct a fundamental disequilibrium. Accordingly, the following decision is recommended for the consideration of the Executive Board:

1. The Government of the United Kingdom has proposed a change in the par value of the currencies listed below, in respect of which it has accepted responsibility in accordance with Article XX, Section 2(g), to take effect on November 18, 1967.

Nonmetropolitan areas	Currency	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U.S. dollar	U.S. cents per currency unit
Antigua, Dominica, Montserrat, St. Christopher-Nevis-Anguilla, St. Lucia, St. Vincent	East Caribbean dollar	0.444 335	70.000 0	2.000 00	50.000 0
British Honduras	dollar	0.533 203	58.333 3	1.666 67	60.000 0
The Federation of South Arabia	South Arabian dinar	2.132 81	14.583 3	0.416 667	240.000
Bermuda	pound	2.132 81	14.583 3	0.416 667	240.000
Falkland Islands	pound	2.132 81	14.583 3	0.416 667	240.000
Gibraltar	pound	2.132 81	14.583 3	0.416 667	240.000
Fiji	pound	1.921 45	16.187 5	0.462 500	216.216
Hong Kong	dollar	0.133 301	233.333	6.666 67	15.000 0
Mauritius	rupee	0.159 961	194.444	5.555 55	18.000 0
Seychelles	rupee	0.159 961	194.444	5.555 55	18.000 0

2. The Fund concurs in this proposal.

Direction of Trade^{1/}

	Exports		Imports	
	Total (In millions of U.S. dollars)	Exports to United Kingdom (In per cent of total)	Total (In millions of U.S. dollars)	Imports from United Kingdom (In per cent of total)
East Caribbean area	22	nearly 100	52	about 80
British Honduras	12	41	24	33
South Arabian Federation	187	21	301	11
Bermuda	55	19	102	13
Falkland Islands	6	20	2	nearly 100
Gibraltar	14	86	42	5
Fiji	50	44	65	20
Hong Kong	1,323	14	1,767	10
Mauritius	72	80	68	24
Seychelles	22	12	42	36

^{1/} Data are for latest year available.

The Managing Director

21st November, 1967

Evan W. Maude

Non-Metropolitan Currencies: Par Values.

In my memorandum to you of 17th November, I undertook to send you a further memorandum on the subject of the separate currencies of the territories in respect of which the United Kingdom has accepted the Articles of Agreement.

I am now in a position to inform you that the par values of the following such currencies were adjusted in line with and simultaneously with the change in the par value of the pound sterling:-

	<u>New Par Values in Terms of Gold</u>		<u>New Par Values in Terms of U.S. Dollars</u>	
	Grams of fine gold per currency unit	Currency Unit per troy ounce of fine gold	Currency Units per U.S.Dollars	U.S.cents per currency unit
Bermuda pound	2.13281	14.5833	0.416667	240.000
British Honduras dollar	.533203	58.3333	1.66667	60.0000
East Caribbean dollar	.444335	70.0000	2.00000	50.0000
Falkland Islands pound	2.13281	14.5833	0.416667	240.000
Fiji pound	1.92145	16.1875	.462500	216.216
Gibraltar pound	2.13281	14.5833	0.416667	240.000
Hong Kong dollar	.133301	233.333	6.66667	15.0000
Mauritius rupee	.159961	194.444	5.55555	18.0000
Seychelles rupee	.159961	194.444	5.55555	18.0000
South Arabian dinar	2.13281	14.5833	0.416667	240.000

There has been no change in the par values of the following currencies:-

Bahamas dollar

Bahrain dinar

Brunei dollar

Rhodesian pound

Tongan pa'anga (pound)