

EBS/82/144

CONFIDENTIAL

August 12, 1982

To: Members of the Executive Board
From: The Secretary
Subject: Solomon Islands - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on a change in the exchange arrangements of the Solomon Islands.

Att: (1)

INTERNATIONAL MONETARY FUND

The Solomon Islands--Exchange Arrangements

Prepared by the Asian and Exchange and Trade
Relations Departments

(In consultation with the Legal Department)

Approved by Tun Thin and Donald K. Palmer

August 12, 1982

In the attached communication dated August 11, 1982 the Chairman of the Solomon Islands Monetary Authority has notified the Fund that, with effect from the opening of business on August 13, 1982, the Solomon Islands dollar will be devalued by 10 per cent relative to the currency basket against which it is pegged. As of August 13, 1982 the new exchange rates of the Solomon Islands dollar will be approximately SI\$1 = US\$0.95 and SI\$1 = \$A 0.97. The devaluation is to be undertaken with a view to restoring the competitiveness of the external sector.

Also with effect from August 13, 1982 the Solomon Islands Monetary Authority is to be authorized to make discretionary adjustments to the exchange rate of the Solomon Islands dollar with respect to the currency basket which do not exceed, on balance, 2 per cent in any four-week period. Such discretionary changes are to be permitted in order to allow the authorities to react as frequently as is necessary to any deterioration in the competitiveness of the external sector. At the same time, the authorities will announce the removal of import duties on certain categories of investment goods, an increase in the rate of allowable depreciation of capital, and administrative improvements in the exchange control operations carried out by the Solomon Islands Monetary Authority on behalf of the Government.

A Fund mission has recently visited the Solomon Islands and these and other developments affecting the exchange system will be reviewed in the staff's reports to be issued shortly to the Executive Board.

TO: INTERFUND

FROM: MR. HUGHES, CHAIRMAN MONETARY AUTHORITY

AUGUST 11, 1982

SOLOMON ISLANDS MONETARY AUTHORITY IS TO BE AUTHORIZED TO EXERCISE DISCRETION TO ADJUST EXCHANGE RATE OF "BASKET" WITHIN A BAND OF TWO PER CENT EITHER SIDE OF RATE THAT WOULD HAVE BEEN WITHOUT DISCRETIONARY ADJUSTMENT, IN ANY PERIOD OF FOUR WEEKS. THE PURPOSE OF THIS CHANGE IS TO ENABLE US TO REACT TO DETERIORATIONS IN COMPETITIVENESS OF EXPORT SECTOR, SUCH AS CAN BE SHOWN TO HAVE OCCURRED IN RECENT PAST, BY RELATIVELY SMALL ADJUSTMENTS, AS FREQUENTLY AS NECESSARY.

WITH EFFECT FROM FRIDAY, AUGUST 13, AT OPENING OF BUSINESS AT 9 A.M. HONIARA TIME, THE EXCHANGE RATE OF THE SOLOMON ISLANDS DOLLAR AGAINST THE REFERENCE CURRENCY AND THE BASKET AS A WHOLE WILL BE RAISED BY 10 PER CENT.

THE DEVALUATION OF SOLOMON ISLANDS CURRENCY BY 10 PER CENT HAS BEEN DECIDED ON BASIS OF OUR RECENT STUDIES INDICATING THAT SUCH AN ADJUSTMENT WILL GO A SIGNIFICANT WAY TO RESTORE LOST COMPETITIVENESS WHICH WE ESTIMATE TO HAVE FALLEN BY A GREATER EXTENT THAN IN 1981 (PREVIOUS CHANGE) AND 1982.

THE MINISTER WILL ALSO ANNOUNCE REMOVAL OF IMPORT DUTIES ON CERTAIN CATEGORIES OF INVESTMENT GOODS, INCREASE IN CAPITAL ALLOWANCES UNDER INCOME TAX ACT IN FORM OF ACCELERATED DEPRECIATION AND ADMINISTRATIVE IMPROVEMENTS IN EXCHANGE CONTROL OPERATIONS (NO CHANGE IN POLICY) CARRIED OUT BY SOLOMON ISLANDS MONETARY AUTHORITY ON BEHALF OF GOVERNMENT.

REGARDS

HUGHES, CHAIRMAN

SOLOMON ISLANDS MONETARY AUTHORITY

Received in Cable Room: August 11, 1982