

EBS/82/240

CONFIDENTIAL

December 28, 1982

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

The attached paper on the introduction of certain measures modifying Sierra Leone's exchange and trade arrangements is circulated for the information of the Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

SIERRA LEONE

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

December 27, 1982

In a communication received December 17, 1982 (attached), the Minister of Finance of Sierra Leone informed the Fund of the introduction of certain measures modifying Sierra Leone's exchange and trade arrangements. 1/

Effective December 17, 1982, the exchange market was split into two officially recognized markets, the official market and the commercial market. The official exchange rate will continue to be fixed daily by the Bank of Sierra Leone. On December 17, 1982 the official exchange rate in terms of the U.S. dollar was Le 1.257 per US\$1. 2/ Under the new system, 50 per cent of the export receipts of the Sierra Leone Produce Marketing Board, as well as 67 per cent of the export proceeds of DIMINCO (the National Diamond Mining Company), the bauxite company, and the iron ore company, are to be surrendered in the official market. Foreign exchange inflows associated with official borrowings and grants, Fund purchases, and the proceeds from bunker oil sales will also be effected through the official market. Imports related to official borrowings and grants, crude oil, flour and wheat, and textbooks and other educational materials will take place at the official exchange rate, along with Fund repurchases and charges, official principal and interest payments, and reductions in arrears. Altogether, somewhat less than one half of the estimated total foreign exchange transactions are to be effected through the official market.

All transactions not effected through the official market will be made in the commercial market. The exchange rate in the commercial market will be determined by the forces of supply and demand through foreign exchange tenders (i.e., auctions) which will be held at fortnightly intervals. All foreign exchange which is not surrendered at the official market rate must be surrendered to the commercial market within 60 days. Banks will purchase foreign exchange at the previous tender rate less a small commission. All

1/ Apart from these changes, there have been no significant modifications in the exchange and trade system since February 1982; earlier developments are summarized in SM/82/101 (5/28/82).

2/ Based on the official peg of SDR 0.731566 per Le 1.

foreign exchange purchased in the commercial market is to be centralized at the Bank of Sierra Leone. Prior to each tender, banks are to forward the sealed bids of their customers, as well as their own bids, to the Bank of Sierra Leone. The Government will also be able to bid on its own account. Adequate documentation will be required on all bids. Successful bidders will receive the lowest rate at which all foreign exchange in the tender is exhausted. The first tender will be held on January 7, 1983.

With the introduction of the new exchange system, which is a first step toward the adoption of a uniform and realistic exchange rate, the import licensing system has been liberalized. Imports of certain necessities and other priority items will now be licensed freely using Open General Licenses. Other imports will still require Specific Import Licenses, but the process of issuing these licenses will be streamlined. As of December 17, 1982, Unnumbered Import Licenses were abolished.

On December 20, 1982 the Bank of Sierra Leone announced transitional arrangements for the commercial market pending the first tender. Until January 7, 1983, commercial banks may buy foreign exchange for a minimum of Le 2.30 per U.S. dollar. Foreign exchange purchased in this manner may be sold at the purchase price plus a small commission to finance commercial market transactions of up to US\$1,000. Larger transactions and other import payments must await the first tender.

A staff mission is scheduled to visit Sierra Leone in early 1983 to discuss the use of Fund resources. In that context, the operation of the new exchange and trade arrangements, as well as future exchange rate policy, will be reviewed. No action by the Executive Board is proposed at this time.

Attachment

DECEMBER 17, 1982

THE MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON D C.

I WOULD LIKE TO INFORM YOU THAT FOLLOWING CHANGES IN OUR EXCHANGE AND
TRADE ARRANGEMENTS HAVE BEEN ANNOUNCED TODAY IN PARLIAMENT STOP.

EFFECTIVE DECEMBER 17, 1982, TWO OFFICIALLY RECOGNISED MARKETS FOR FOREIGN
EXCHANGE ARE TO BE ESTABLISHED: THE OFFICIAL MARKET AND THE COMMERCIAL
MARKET STOP

A. OFFICIAL MARKET

A QUOTATION WILL CONTINUE TO BE FIXED DAILY BY THE BANK OF SIERRA LEONE
STOP THE OFFICIAL MARKET RATE ON DECEMBER 17, 1982 WAS LE 1.257 PER U.S.
DOLLAR 1 STOP

SOURCES AND USES OF FOREIGN EXCHANGE IN THE OFFICIAL MARKET WILL BE
AS FOLLOWS:

- (1) SOURCES OF FOREIGN EXCHANGE
 - OFFICIAL BORROWINGS
 - OFFICIAL GRANTS RECEIVED
 - PURCHASES FROM THE IMF
 - 50 PER CENT OF THE EXPORT PROCEEDS OF THE SLPMB
 - 67 PER CENT OF THE EXPORT PROCEEDS OF DIMINCO,
SIEROMCO, AND THE IRON ORE COMPANY
 - BUNKER OIL SALE RECEIPTS
- (2) USES OF FOREIGN EXCHANGE
 - IMPORTS ASSOCIATED WITH OFFICIAL BORROWINGS AND
GRANTS RECEIVED
 - IMF REPURCHASES AND CHARGES
 - PRINCIPAL AND INTEREST PAYMENTS ON PUBLIC DEBT
 - ARREARS REDUCTION
 - CRUDE OIL
 - FLOUR AND WHEAT
 - PRESCRIBED TEXTBOOKS AND EDUCATIONAL MATERIAL

B. COMMERCIAL MARKET

ALL TRANSACTIONS NOT EFFECTED THROUGH THE OFFICIAL MARKET WILL BE MADE THROUGH THE COMMERCIAL MARKET, WHERE THE EXCHANGE RATE WILL BE DETERMINED BY TENDERS TO BE HELD BY THE BANK OF SIERRA LEONE AT FORTNIGHTLY INTERVALS. ALL FOREIGN EXCHANGE NOT SURRENDERED IN THE OFFICIAL MARKET MUST BE SURRENDERED THROUGH THE BANKING SYSTEM TO THE COMMERCIAL MARKET WITHIN 60 DAYS, 60 DAYS IN THE CASE OF DIAMONDS. FOREIGN EXCHANGE WILL BE PURCHASED BY THE BANKS AT THE LAST FORTNIGHTLY TENDER RATE LESS A SMALL COMMISSION.

IF SUPPORTED BY THE APPROPRIATE DOCUMENTATION, SEALED BIDS FOR FOREIGN EXCHANGE WILL BE FORWARDED BY THE COMMERCIAL BANKS TO THE BANK OF SIERRA LEONE. GOVERNMENT AND THE BANKS MAY ALSO BID ON THEIR OWN ACCOUNT. EACH FORTNIGHTLY COMMERCIAL RATE WILL BE THAT RATE AT WHICH THE AVAILABLE SUPPLY OF FOREIGN EXCHANGE IS EXHAUSTED. ALL SUCCESSFUL BIDDERS WILL RECEIVE THEIR FOREIGN EXCHANGE AT THAT RATE.

2. IMPORT LICENSES

COINCIDENT WITH THE ADOPTION OF THE NEW EXCHANGE SYSTEM, THE IMPORT LICENSING SYSTEM WILL BE LIBERALIZED. IMPORTS OF CERTAIN NECESSITIES AND OTHER PRIORITY ITEMS WILL NOW BE LICENSED WITH OPEN GENERAL LICENSES. OTHER IMPORTS WILL STILL REQUIRE SPECIFIC LICENSES; HOWEVER, THE SYSTEM OF ISSUING SPECIFIC LICENSES WILL BE STREAMLINED. EFFECTIVE DECEMBER 17, 1982, UNNUMBERED IMPORT LICENSES WILL BE ABOLISHED.

THE FIRST TENDER FOR THE COMMERCIAL MARKET WILL BE HELD ON
JANUARY 7, 1983

BEST REGARDS
HON SALIA JUSU-SHERIFF
MINISTER OF FINANCE
FREETOWN - SL