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IMMEDIATE ATTENTION

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SM/92/2

January 6, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Developments in International Exchange and Payments Systems

There is attached for consideration by the Executive Directors the draft biennial report on developments in international exchange and payments systems over the period 1989-90.

Comments on this draft are to be provided to the Director, Exchange and Trade Relations Department by the close of business on Friday, January 24, 1992. After receiving comments from Executive Directors, it is intended to publish the report, with revisions, in the "World Economic and Financial Surveys" series. As this paper is a staff study and not a report of the Executive Board itself, it is not proposed to circulate the draft a second time before publication, unless an Executive Director so requests.

Mr. Huh (ext. 8525) is available to answer technical and factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Developments in International Exchange and Payments Systems

Prepared by the Exchange and Trade
Relations Department

Approved by Jack Boorman

December 30, 1991

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December 24, 1991

I. Overview and Major Trends

1. The IMF's Responsibilities for Maintaining a Multilateral Payments System

Several of the six stated purposes of the Fund which are set out in Article I of the Articles of Agreement concern directly the Fund's role in maintaining an open, multilateral payments system. Included in the Fund's purposes are: "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation"; to "assist in the establishment of a multilateral system of payments. . .and in the elimination of foreign exchange restrictions which hamper the growth of world trade"; and to make the general resources of the Fund temporarily available to members under adequate safeguards, to enable them "to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity." In other words, the manner in which each country determines the domestic currency price of foreign exchange and the availability and use of foreign exchange to carry out international transactions are of primary interest to the Fund.

Each member country undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. Since the establishment of the Fund in 1944, these obligations have evolved, but principally they have so far involved the type of exchange arrangement member countries can maintain, procedures for reporting to the Fund, and the Fund's role in exercising firm surveillance over members' exchange rate policies. These obligations and the manner in which they are carried out form the subject of this chapter and Chapter II. 1/ Chapters III and IV then focus on the degree to which members' currencies are convertible into one another by examining the practical application of members' general obligations under Article VIII to avoid restrictions on payments and transfers for current international transactions and discriminatory currency practices and members practices with regard to capital flows, on which the Fund has no jurisdiction but which nevertheless are part of its concern under Article I.

Every year the Fund publishes the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). 2/ The information is provided by member countries and serves as the basis for the present biennial report which is, in effect, a summary and analysis of last two issues of the AREAER. The present report covers developments in members' exchange and payments system in the two-year period 1989-90 3/ and follows up on a similar report issued in 1989. 4/ Quantitative trade measures and other restrictions and policies affecting international trade in goods and

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1/ The exercise of bilateral surveillance, principally through the annual Article IV consultation process, and multilateral surveillance, principally in the form of the World Economic Outlook, are not treated explicitly in the present report.

2/ The publication is prepared in accordance with Article XIV of the Fund's Articles of Agreement. The report contains a description of the exchange and payments system of each member country and a few territories which is submitted by the authorities. The 1991 report was published in August 1991 and describes developments in 1990.

3/ In addition, exchange rate developments in industrial countries for part of 1991 are briefly reviewed.

4/ International Monetary Fund, Developments in International Exchange and Trade Systems, Washington, 1989.

services are treated in a separate report on international trade policy. 1/

2. Main Trends in 1989-90

Despite a slowdown in the growth of world output to an annual average of 2.7 percent in 1989-90 from 3.9 percent a year in the preceding five years and an accompanying slowdown in the growth of world trade (Chart 1), the trend towards liberalization in international payments and transfers continued. In good part this stems from a growing recognition that the restrictions involved are inefficient and represent counterproductive means of achieving the desired objective, whether it be to limit outflows of foreign exchange, protect certain classes of imports or exports, or even raise tax revenue. The most dramatic examples of change were in Eastern Europe where major liberalization of exchange systems occurred as these countries moved rapidly to establish currency convertibility as part of fundamental economic reform. Developing countries, in general, brought their exchange systems more in line with market principles, continuing and even accelerating a process observed throughout the 1980s, notably in 1987-88. In the industrial countries further progress was achieved in liberalizing payments and transfers for current international transactions, which were already virtually free in the majority of these countries.

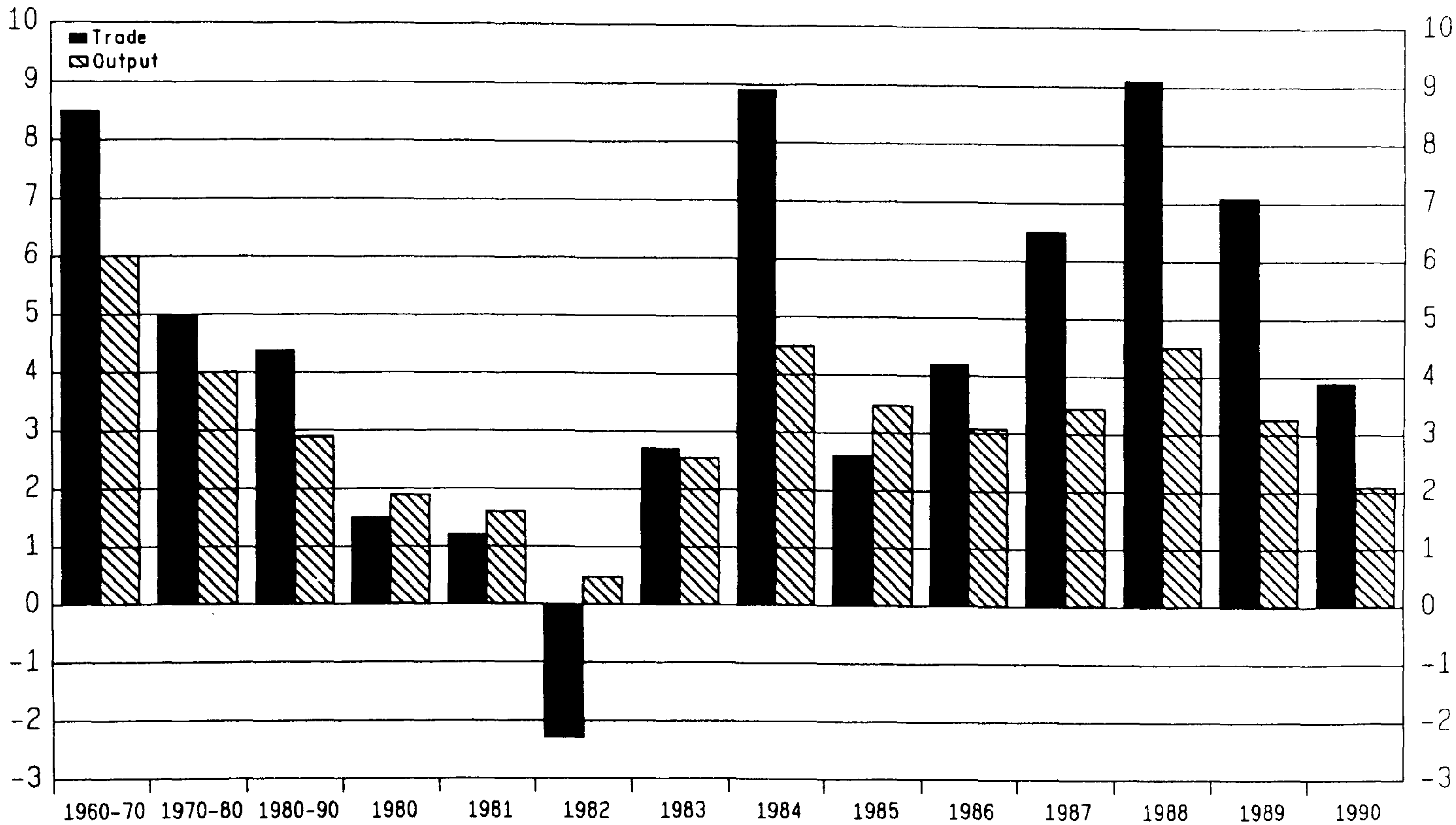
1/ International Monetary Fund, The World Trade System - Developments and Issues, Washington, 1992.

a. Developments in Exchange Systems

Changes in Fund members' arrangements for determining the domestic currency price of foreign exchange have shown a tendency--observed since 1982--to move toward more flexible arrangements and away from single currency pegs, continuing the trend observed in 1987-88. By the end of 1990, 25 countries maintained independent floats of their currencies, compared with eight at end-1982 and 18 at the end of 1988. This tendency has recently become particularly apparent in developing countries where the adoption of more market-related arrangements for determining exchange rates has been accompanied in many cases by the liberalization of controls on international payments and transfers.

The industrial countries, in contrast, have tended to move toward more pegged exchange arrangements since 1987-88. There has been further movement toward a tripolar system among the industrial countries in Europe, Japan, and the United States with attempts to coordinate policies to maintain a degree of nominal exchange rate stability. Within Europe there have been recent tendencies to create an enlarged monetary zone extending even beyond the present EC to encompass directly EFTA countries in a European Economic Area. Concrete steps to peg to the European Currency Unit (ECU) have been taken by several Nordic countries. In a more indirect manner, a European monetary zone may be already said to extend in practice to the 14 African countries whose currencies are pegged to the French franc in the franc zone

Chart 1. Volume of World Trade and Output, 1960-90
(Annual changes, in percent)



Source: GATT; and IMF, World Economic Outlook.

arrangements 1/ as well as more recently, and less formally, to certain countries in Central and Eastern Europe.

For developing countries, moves toward more flexible exchange rate arrangements and liberalization of exchange controls often occurred in the context of comprehensive macroeconomic adjustment programs supported by the Fund. These programs featured a broad range of policy actions, including an increasing emphasis on structural reforms aimed at improving resource allocation and enhancing the supply response of the economy. Reforms typically included trade liberalization and tax, public enterprise, and financial system reform. Problems in industry and agriculture were also addressed, often in conjunction with programs supported by World Bank loans. A review of conditionality by the Fund's Executive Board observed that all but 9 of 44 reviewed programs supported by a Fund arrangement in 1985-88 provided for some degree of exchange rate flexibility.

The incidence of multiple exchange rates among the Fund's member countries has generally declined during the course of the 1980s. Since the 1970's, however, countries have tended to adopt or expand forms of multiple rate systems that affect a large volume of transactions channeled through separate exchange markets rather than resorting to practices confined to only a few types of transactions on the buying or selling side. These systems, which have generally been adopted in the context of Fund supported programs, in most cases were intended to be transitory. There remains a

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1/ This includes the seven countries comprising the West African Monetary Union, the six member countries of the Central African Monetary Area, and Comoros which is not formally a member of the CFA franc zone but maintains an exchange arrangement with France that is similar to those of the CFA franc countries.

large number of multiple rate schemes, many of which represent a step toward greater exchange rate realism, i.e. which approximate market-determined solutions. In a large number of cases, previously illegal or repressed parallel exchange markets were incorporated into the official exchange system, leading in some cases to a marked narrowing of the range of rates between the official market and the former parallel market. These operations, where supported by appropriate fiscal and monetary policies, led to the marginalization or even elimination of the parallel exchange market in several instances. Nevertheless, informal or indeed illegal parallel exchange markets remain in a large number of developing countries, although there is evidence that their relative significance has declined.

b. Main Developments in Restrictive Measures

With respect to restrictive systems, the trend toward liberalization of nontrade current and capital transactions continues. As noted above, the reasons are primarily found in the perceived ineffectiveness and even counterproductiveness in trying to control such financial flows. This trend contrasts with trade where it appears that some major participants have been awaiting the outcome of the Uruguay Round before further reducing restrictions. There also appears to be a close link between the adoption of more market-oriented exchange rates and the lifting of restrictions, especially where this is supported by appropriate fiscal and monetary policies.

Two recent developments are noteworthy. One is the remarkable transformation occurring in the formerly centrally planned economies, especially in Eastern Europe, where current payments restrictions have been significantly lifted and a large degree of currency convertibility established, and bilateral payments arrangements have broadly been dismantled. The elimination of restrictive arrangements with their inherent discriminatory features, many of which were terminated at the end of 1990 or in the early months of 1991, represents an important step toward the universality of multilateral payments regimes.

The second development is the liberalization of capital movements in a number of developing and industrial countries. In many cases, notably in Latin America, these liberalization measures, affecting inward and outward direct investment, portfolio flows and even financial credits in some instances, occurred in regions where heretofore capital flows and other external financial operations were subject to pervasive, although often ineffective, controls. The dismantling of capital controls--in conjunction with the liberalization of trade and payments and transfers for current international transactions--represents a significant step toward the integration of these countries in the world economy. In the EC, liberalization efforts accelerated sharply in 1989 and the momentum was maintained in 1990 as the deadline for a unified capital market approached. Japan also enacted a series of measures easing the regulatory framework for commercial banks' foreign exchange dealings and restrictions on portfolio investment.

II. Developments in Exchange Systems

1. Choice of Exchange Arrangements

In order to make it possible, inter alia, for the Fund to exercise firm surveillance over the exchange rate policies of its membership, each member country is obliged to notify the Fund of its exchange arrangements within 30 days of becoming a member and promptly thereafter of any subsequent changes (see Box 1 for details on exchange rate classifications). Notification procedures consistent with prompt review by the Executive Board of decisions involving substantive changes in exchange rate policies were established under the amended Articles of Agreement in 1978 and are reflected in the Procedures for Surveillance. 1/ The procedures for such notification are to be applied, for example, whenever a member takes official action to establish a new form of exchange arrangement, change the level of a peg, switch the peg to another currency or currency composite, or implement a change in a currency composite other than one occurring from the mere updating of currency weights. Members maintaining more flexible exchange arrangements also are expected to notify the Fund whenever a significant decision has been taken affecting their exchange arrangements. Whenever the real effective exchange rate of a member moves by more than 10 percent--be it the result of nominal exchange rate or relative price changes--since the preceding examination of the member's policies by the Executive Board, this fact is also brought to the Board's attention. The Fund judges whether a member's exchange rate policies are consistent with its obligation "to assure orderly exchange arrangements to promote a stable system of exchange rates", and any issue arising out of assessment can be discussed with the authorities, normally in the context of regular

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1/ International Monetary Fund, Selected Decisions of the International Monetary Fund, Sixteenth Issue (Washington, 1991), pp. 8-18.

Box 1. Definitions of Exchange Rate Classifications

Peg: Single Currency. The country pegs to a major currency--usually the U.S. dollar or the French franc--with infrequent adjustment of the parity. (About one third of all developing countries have single-currency pegs.)

Peg: Currency Composite. A composite is formed using the currencies of major trading partners to make the pegged currency more stable than if a single-currency peg were used. Currency weights may be country specific and reflect the geographical distribution of trade, services, or capital flows. They can also be standardized, such as the SDR and ECU.

Flexibility Limited vis-à-vis Single Currency. The value of the currency is maintained within certain margins of the peg. (This system applies to four Middle Eastern countries.)

Flexibility Limited: Cooperative Arrangements. This applies to countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS) and is a cross between a peg of individual EMS currencies to each other and a float of all these currencies jointly vis-à-vis non-EMS currencies.

More Flexible: Adjusted to Indicator. The currency is adjusted more or less automatically to changes in selected indicators. A common indicator is the real effective exchange rate that reflects inflation-adjusted changes in the currency vis-à-vis major trading partners. Another indicator is a preannounced change.

More Flexible: Managed Float. The central bank sets the rate, but varies it frequently. Indicators for adjusting the rate are broadly judgmental, including, for example, the payments position, reserves, or parallel market developments, and adjustments are not automatic.

More Flexible: Independent Float. Rates are market-determined. Most industrial countries have floats--except for the EMS countries--but the number of developing countries included in this category has been increasing in recent years.

Article IV consultations with the member, or in association with the use by the member of the Fund's resources.

The exchange arrangements adopted since 1973 1/ cover a broad spectrum ranging, by degrees of flexibility, from single currency pegs to free floats. Most countries have adopted arrangements that fall clearly into one or another of the major categories of the classification system adopted by the Fund in 1982, and countries with dual markets usually have one market that is clearly more important than the other, which allows for the classification of at least the major market. The exchange rate arrangements of the Fund's member countries at the end of September 1991 are shown in Table 1.

The exchange rate classifications used by the Fund are basically distinguished by the degree of exchange rate flexibility allowed under the exchange arrangement adopted by each member. Thus, single currency and composite pegs and limited flexibility arrangements reflect margins for fluctuations of less than the equivalent of 2.25 percent around the peg. "Cooperative Arrangements" cover at present only the countries participating in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS); all but two of these countries maintain 2.25 percent margins with respect to their cross rates based on the central rates expressed in terms of the ECU.

1/ From the time of the establishment of the Fund until 1973, the international monetary system was based on par values--the original Bretton Woods system. With a few exceptions, member countries maintained a par value for their currencies in terms of gold, either directly or indirectly through a peg to the U.S. dollar.

Table 1. Exchange Arrangements as of September 30, 1991 1/

Pegged					Flexibility Limited Vis-à-Vis a Single Currency or Group of Currencies		More Flexible		
Single Currency			Currency Composite						
U.S. Dollar	F. Franc	Other	SDR	Other	Single Currency 2/	Cooperative arrangements 3/	Adjusted according to a set of indicators	Other managed floating	Independently floating
Angola	Benin	Bhutan (Indian rupee)	Burundi	Algeria	Bahrain 4/	Belgium	Chile 5/6/	People's Rep. of China 5/	Afganistan 5/
Antigua & Barbuda	Burkina Faso	Kiribati (Australian dollar)	Iran, Islamic Rep. of 5/	Austria	Qatar 4/	Denmark	Colombia	Costa Rica	Australia
Argentina	Cameroon	Lesotho 5/ (South African rand)	Libyan Arab Jamahiriya 7/	Bangladesh 5/	Saudi Arabia 4/	France	Madagascar	Ecuador 5/	Bolivia
The Bahamas 5/	Central African Rep.	Swaziland (South African rand)	Myanmar	Botswana	United Arab Emirates 4/	Fed. Rep. of Germany	Mozambique 5/	Egypt 5/	Brazil
Barbados	Chad	Yugoslavia (deutsche mark)	Rwanda	Cape Verde		Ireland	Zambia 5/	Greece	Bulgaria
Belize	Comoros		Seychelles	Cyprus		Italy		Guinea	Canada
Djibouti	Congo			Czechoslovakia 5/		Luxembourg		Guinea Bissau	Dominican Rep.
Dominica	Côte d'Ivoire			Fiji		Netherlands		Honduras	El Salvador
Ethiopia	Equatorial Guinea			Finland 8/		Spain		India 6/	The Gambia
Grenada	Gabon			Hungary		United Kingdom		Indonesia	Ghana
Iraq 5/	Mali			Iceland 9/				Korea	Guatemala
Liberia	Niger			Israel 10/				Lao P.D.R.	Guyana
Mongolia 5/	Senegal			Jordan				Maldives	Haiti
Nicaragua	Togo			Kenya				Mauritania	Jamaica
Oman				Kuwait				Mexico 5/	Japan
Panama				Malawi				Pakistan	Lebanon
St. Kitts & Nevis				Malaysia 9/				Portugal	Namibia 5/13/
St. Lucia				Malta				Sao Tome and Principe	New Zealand
St. Vincent and the Grenadines				Mauritius				Singapore	Nigeria 5/
Sudan 5/				Morocco 11/				Somalia	Paraguay
Suriname				Nepal				Sri Lanka	Peru
Syrian Arab Rep. 5/				Norway 12/				Tunisia	Philippines
Trinidad & Tobago				Papua New Guinea				Turkey	Romania 5/
Yemen				Poland				Viet Nam	Sierra Leone
				Solomon Islands					South Africa 5/
				Sweden 14/					United States
				Tanzania					Uruguay
				Thailand					Venezuela
				Tonga					Zaire
				Uganda 5/					
				Vanuatu					
				Western Samoa					
				Zimbabwe					

1/ Current information relating to Cambodia is unavailable.
2/ In all cases listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.
3/ This category consists of countries participating in the exchange rate mechanism of the European Monetary System. In each case, the exchange rate is maintained within a margin of 2.25 percent around the bilateral central rates against other participating currencies, with the exception of Spain and the United Kingdom in which case the exchange rate is maintained within a margin of 6 percent.
4/ Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ± 7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.
5/ Member maintains exchange arrangements involving more than one exchange market. The arrangement shown is that maintained in the major market.
6/ The exchange rate is maintained within margins of ± 5 percent on either side of a weighted composite of the currencies of the main trading partners.
7/ The exchange rate is maintained within margins of ± 7.5 percent.
8/ The exchange rate, which is pegged to the ECU, is maintained within margins of ± 3.0 percent.
9/ The exchange rate is maintained within margins of ± 2.25 percent.
10/ The exchange rate is maintained within margins of ± 5.0 percent.
11/ The exchange rate is maintained within margins of ±3.0 percent.
12/ The exchange rate, which is pegged to the ECU, is maintained within margins of ± 2.25 percent.
13/ The currency of Namibia is the South African rand, pending issuance of Namibia's own national currency.
14/ The exchange rate, which is pegged to the ECU, is maintained within margins of ± 1.5 percent.

The "More Flexible" category covers currencies that have arrangements leading to a variance greater than would generally be obtained with margins of more than ±2.25 percent. This residual group is subclassified on the basis of the extent to which the authorities intervene in the setting of exchange rates. For currencies in the "Independently Floating" category, the authorities usually allow the exchange rate to move so as to reflect market forces. If they intervene at all, they do so only to influence, not to neutralize, the direction of exchange rate movements. If the authorities set the rate for a specified short interval (usually one day or one week) and stand ready to buy and sell foreign exchange at the specified rate to maintain the exchange rate unchanged during these intervals against a set of indicators, the currency is subclassified as "Adjusted According to a Set of Indicators". The remaining members fall into "Other Managed Floating".

In some cases, however, observed exchange rate behavior differs from that which is implied by the policy pronouncements of authorities and, therefore, the stated classification. Some countries in the pegged categories, for example, exhibit a relatively high degree of exchange rate variability due to discrete adjustments, particularly when the frequency of adjustment is taken into account. In other words, periods of exchange rate stability are interrupted by occasional discrete adjustments which, when viewed over a longer period of time, suggest a degree of variability which can exceed that of some countries classified as maintaining more flexible arrangements. During 1990 the currencies of the Dominican Republic and Guyana, which were classified as pegged to the U.S. dollar, had a higher level of variability than those of Tunisia, Mauritania, Greece, and Turkey which were classified as floating.

Conversely, the currency of a country maintaining a (nominal) policy of exchange rate flexibility can display de facto stability in terms of another currency or group of currencies. Thus, the currencies of Honduras, Indonesia, and Korea, which were classified as floating, showed the same overall level of variability as currencies pegged to the U.S. dollar. Such discrepancies serve to highlight inconsistencies between the classification of members' exchange rate arrangements and observed exchange rate developments.

Although Fund members have been able to choose between the seeming advantages of monetary independence under floating, and those of greater price stability under pegged rates, in many instances it has been difficult to determine the optimal level of exchange rate flexibility. Here, various practical considerations have played a role, depending on the type of regime. In the most extreme form of single currency peg, the currency of another country is used in circulation. Presently, Kiribati, Panama, Liberia, and Namibia are the only Fund members that use other currencies in this way--the Australian dollar in Kiribati, the South African rand in Namibia, and the U.S. dollar in the other two cases (Panama also circulates its own government checks and circulates its own contractional coins, while Liberia circulates its own coins, but not bank notes). The drawbacks are the loss of seigniorage and independence of monetary policies, but for a very small country these might be compensated for by reduced administrative costs and, perhaps, greater financial stability. The next most rigid form of peg is a one-to-one parity with the currency of peg. These are relatively rare, because different inflation rates have necessitated adjustments over time to the original exchange rate of the currency. The only Fund members to have such a peg at present are The Bahamas, Belgium-Luxembourg, 1/ Bhutan, Lesotho, and Swaziland although, until the mid-1980s, the currencies of the Dominican Republic and Guatemala were at parity with the U.S. dollar. Of these, Lesotho and Swaziland, along with Namibia and South Africa, comprise the Common Monetary Area which is a single exchange control territory.

By definition, members of currency unions peg their currencies to each other at par. Thus, the seven countries comprising the West African Monetary Union (WAMU) 2/ maintain pegged arrangements with the common currency, the CFA franc, being fixed in terms of the French franc at the rate of CFAF 50 = F1. The CFA franc is issued by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). The CFA franc is also issued at the same fixed exchange rate by the Banque des Etats de l'Afrique Centrale (BEAC) to the six member countries of the Central African Monetary Area; 3/ the CFA franc is the common currency in those countries as well. 4/ Similarly, eight Caribbean countries 5/ maintain fixed exchange

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1/ In the context of the Belgium-Luxembourg Economic Union which was established in 1955.

2/ Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

3/ Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon.

4/ In addition, while the Comoros is not formally a member of the CFA franc zone, its exchange arrangements with France are very similar to those of the CFA franc countries.

5/ Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

arrangements and use a common currency, the Eastern Caribbean dollar, which is issued by the Eastern Caribbean Central Bank (ECCB) and is pegged to the U.S. dollar at the rate of EC$2.70 = US$1.

A single currency peg has been the single most frequently used exchange arrangement by developing countries, over one third of which currently have such an arrangement. This type of peg has the merit of being easy to administer and is generally chosen by countries that have a large share of foreign exchange transactions in the currency chosen as the peg. With single currency pegs, however, the real or nominal trade weighted exchange rate continues to fluctuate; different inflation rates cause adjustments vis-à-vis the currency pegs, and, by definition, the peg means the currency floats with the currency of the peg vis-à-vis other currencies. If a country has geographically diversified transactions, a single currency peg could lead to increased uncertainty as to the domestic currency value of many or most of these international transactions.

The 10 industrial countries in the "Cooperative Arrangements" category are the EMS currency group, which have adopted this regime as part of a broader effort to coordinate macroeconomic policies. This category differs from a single currency peg in that arrangements exist to coordinate monetary policy within the region and there are active foreign exchange markets for determining the value of each EMS currency against those outside the EMS arrangements. With single currency pegging, harmonization does not usually exist between the financial policies of the pegger and the country to whose currency it is pegged, and active markets do not exist for that currency vis-à-vis the other currencies against which it floats de facto. The cooperative arrangements have correspondingly less potential than other pegging arrangements for overvaluation or undervaluation of exchange rates.

The members of the European Free Trade Association (EFTA) 1/ have recently been solidifying their exchange rate relationships with the EMS in a less formal context (see discussion on exchange rate developments below). In addition, negotiations between the member countries of the EC and EFTA continues on the establishment of a common market--the European Economic Area or EEA--among their 380 million inhabitants. The EEA would extend the EC's planned internal market to the EFTA countries, allowing for the unrestricted movement of goods, services, capital, and labor among the member countries.

Changes in Fund members' exchange arrangements since 1982 have shown an overall tendency to move away from single currency pegs and toward more flexible arrangements continuing a trend that began in the mid-1970s (Chart 2). This trend was partially reversed in 1988 as only 2 of the 10 reclassifications reported to the Fund by the member countries (Spain and Viet Nam) were clearly in the direction of more flexibility. 2/ The move toward more flexible arrangements, however, was resumed in 1989-90. By the end of 1990, 25 countries maintained independent floats for their currencies compared with 18 at the end of 1988 and 8 at end-1982.

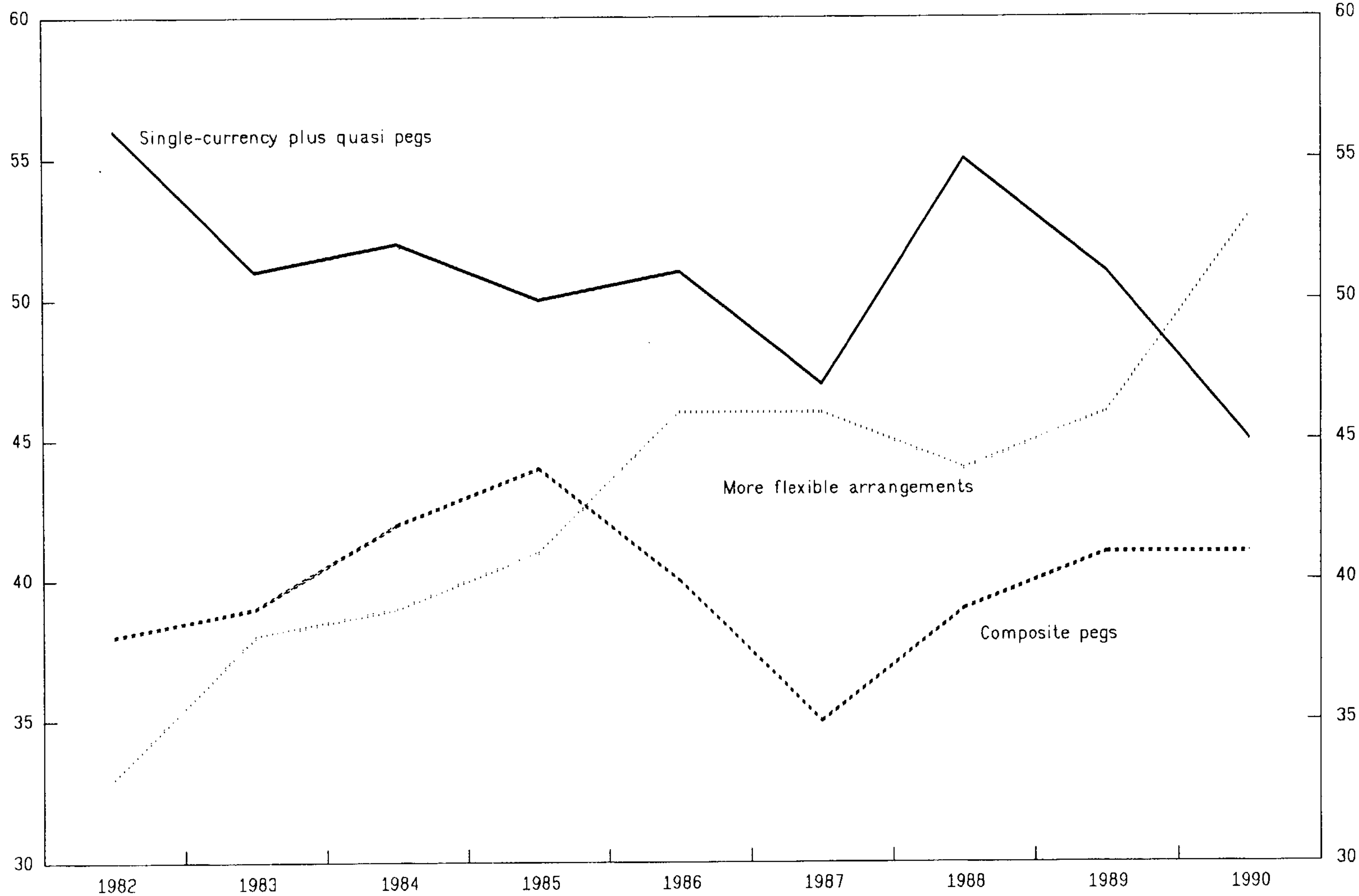
1/ Austria, Finland, Iceland, Norway, Sweden, and Switzerland. Liechtenstein, which maintains a currency union with Switzerland, is an associate member.

2/ Part of the reason for the move back to pegs in 1988 may lie in the evolution of the exchange rates of the pegs concerned. Exchange rate fluctuations of the major currencies creates uncertainty and encourages a move toward more flexible arrangements in developing countries. The temporary stabilization of the U.S. dollar in 1988 might have reduced this uncertainty and encouraged member countries to move to pegs.

CHART 2

EXCHANGE RATE CLASSIFICATIONS, 1982-1990

(In number of countries)



Source: AREAER (various issues).

Of 28 reclassifications in the period 1989-90, 1/ almost one half involved shifts from some form of pegged arrangement (i.e., pegged to a single currency or currency composite (including the ECU and the SDR) to a managed or independent float (Table 2). Two countries moved from a managed float to an independent float (Argentina and El Salvador), 2/ two from adjusting according to a set of indicators to a managed or independent float (Brazil and Portugal), and two from some form of peg to adjusting according to a set of indicators (Mozambique and Zambia). Thus, almost two thirds of the 28 members changing their exchange arrangement elected to adopt more flexible arrangements. The remaining 9 countries instituted more rigid arrangements, primarily shifts from a managed or independent float to a pegging arrangement. In terms of the importance of these groups in the Fund's membership, the countries with single-currency pegs declined from 33 percent at the end of 1988 to 26 percent at the end of 1990 (the share of SDR pegs falling from 5 percent to 4 percent), while the share of countries with independent floating arrangements rose from 11 percent to 16 percent.

In a number of developing countries, changes toward a more flexible arrangement were part of a comprehensive reform of their exchange systems during 1989-90 rather than through isolated measures. Typically they involved the introduction of a secondary exchange market in which the exchange rate is determined by market forces; occasionally, it was the result of unification of multiple exchange markets at a substantially

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1/ Fourteen in each year. In addition, there were four initial classifications, as Angola joined the Fund in 1989, and Bulgaria, Czechoslovakia, and Namibia joined in 1990.

2/ El Salvador moved from a peg to a managed float in 1989 and from a managed float to an independent float in 1990.

Table 2. Summary of Exchange Rate Arrangements Maintained by Members - January 1, 1989 to September 30, 1991

(At end of quarter)

Classification Status	1989 I	II	III	IV	1990 I	II	III	IV	1991 I	II	III
Pegged to:											
U.S. dollar	32	32	32	32	30 1/	28 1/	25 1/	25 1/	26	25	24
French franc	14	14	14	14	14	14	14	14	14	14	14
Other currency	5	5	5	5	5	5	6	6	5	5	5
SDR	8	7	7	7	7	7	6	6	6	6	6
Other composite	31	32	32	34	33 1/	34 1/	34 1/	34 1/	34	34	33
Flexibility limited vis-à-vis a single currency	4	4	4	4	4	4	4	4	4	4	4
Cooperative arrangements	8	9	9	9	9	9	9	10	10	10	10
Adjusted according to a set of indicators	5	5	5	5	4	4	5	5	5	5	5
Managed floating	25	25	26	22	24	22	24	24	23	23	24
Independently floating	18	17	17	19	21	23	26	25	27	28	29
Total 2/ 3/	150	150	151	151	151	150	153	153	153	154	154

1/ In light of the communication received from the Polish authorities in February 1991, the exchange rate arrangement of Poland has been reclassified from the category "Pegged: Other Composite" to the category "Pegged: U.S.Dollar" retroactively with effect from January 1990.

2/ Excluding Cambodia for which no current information is available.

3/ Effective May 22, 1990, the Yemen Arab Republic and the People's Democratic Republic of Yemen merged as the Republic of Yemen.

depreciated market-determined rate. In cases where the bulk of foreign exchange transactions was allocated to the exchange market at a more flexible rate, a reclassification to the "More Flexible" category was undertaken. To a greater or lesser degree, this was true of Argentina, El Salvador, Guatemala, and Jordan in 1989, and Brazil, El Salvador, Honduras, Jamaica, Sierra Leone, Somalia, and Zambia in 1990. The common theme underlying the reforms of the exchange system was to move to a more market-determined system--often in the context of programs supported by the Fund. In some cases, such as El Salvador (1989), Guyana, and Zambia, a dual exchange rate was formally introduced, usually in the context of an already existing parallel market and a shift of transactions from the more appreciated official rate to the parallel market. The dual exchange rate system was generally seen as an intermediate step to full unification. In other cases, such as Argentina, El Salvador (1990), and Jamaica, the move to a more market-determined system took the form of unification of multiple exchange markets, usually involving substantial depreciation of the currency. Finally, in other countries with multiple rates the pace of devaluation of the official rate was increased with the aim of reducing the spread between the official and the freely determined parallel rates and their possible eventual unification. This occurred in Ecuador, Nicaragua, and Somalia. Most of the changes in pegged arrangements occurred in the dollar peg; by end-1990, the number of currencies pegged to the U.S. dollar had fallen to 25, compared with 38 countries in 1988.

Considerably fewer measures affecting exchange arrangements were taken by industrial countries during 1989-90. In June 1989, Spain joined the ERM of the EMS and its currency arrangement was changed from "Independently Floating" to "Cooperative Arrangement". In March 1990, the two-tier market system in the Belgian-Luxembourg Economic Union (BLEU), which had been in place since 1955, was eliminated. In October of the same year, the United Kingdom decided to participate in the ERM of the EMS and its currency arrangement was changed accordingly.

For the developing countries, the tendency toward more flexible exchange rate arrangements can be attributed to two factors. First, domestic rates of inflation accelerated sharply during the 1980s, particularly in the Western Hemisphere, Africa, and Europe. To avoid a deterioration in external competitiveness, these countries were obliged to depreciate their currencies, with a number of them systematically linking the nominal exchange rate to domestic inflation. Second, the uncertainty associated with fluctuations in the bilateral exchange rates of the major currencies has encouraged many countries to adopt a basket peg to mitigate the effects of those fluctuations on their economies. For the industrial countries, the move toward fixed exchange rate systems stems from the conviction that they foster greater "discipline" in domestic monetary and fiscal policies and thereby contribute to price stability. Countries without strong anti-inflationary credibility can peg to the currency of a country that has an established reputation for price stability as a means of disciplining both the authorities and the private sector. Another factor responsible for greater fixity of exchange rate arrangements in industrial countries has been greater economic integration. The EC provides an example where monetary, economic, and political integration has proceeded rapidly. 1/

2. Exchange Rate Developments

a. Industrial Countries

Exchange rate trends of the larger industrial countries in 1989-90 can be interpreted as reflecting (inter alia) relative movements in national interest rates, the movements of which in turn can be associated with official and/or market reaction to macroeconomic developments. A noteworthy feature of these developments in general has been the lower degree of synchronization in the level of economic activity in these countries. The major industrial countries have been at different cyclical positions over the past few years, yielding a staggered occurrence of policy adjustments.

Broadly speaking, the economies of Canada, the United Kingdom, and the United States experienced economic downturns with effect from mid- to late-1990, yielding reductions of interest rates as authorities attempted to stimulate activity. At the same time, demand in Germany and Japan remained buoyant, forcing upward pressure on interest rates as authorities sought to pre-empt inflation. The economies of France and Italy experienced more moderate growth rates, with interest rate developments constrained by

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1/ For greater details on the economic factors responsible for the tendency for the developing countries to adopt more flexible exchange rate arrangements and for the industrial countries to move toward more pegged exchange rate arrangements, see: Bijan Aghevli, Mohsin Khan, and Peter Montiel Exchange Rate Policy in Developing Countries: Some Analytical Issues, Occasional Paper No. 78 (Washington: International Monetary Fund, 1991); and Jacob Frenkel, Morris Goldstein, and Paul Masson Characteristics of a Successful Exchange Rate System, Occasional Paper No. 82 (Washington: International Monetary Fund, 1991).

consideration of acceptable short-term interest rate differentials within the framework of the ERM of the EMS. 1/

Since early 1985, the dollar has depreciated vis-à-vis most of its main trading partners. This trend was interrupted only briefly in 1988 following a sharp rise in the United States' federal funds rate over much of 1988. Subsequently, with the accumulation of evidence indicating a weakening in domestic activity, downward adjustments in short-term interest rates were begun in 1989. The 1989-90 period saw a concomitant rise in interest rates in Germany and Japan. The Bundesbank acted on concerns regarding strong domestic demand and a generally expansionary fiscal stance arising from direct tax cuts in 1990 as part of the larger tax reform being undertaken, and additional expenditures associated with unification. Interest rates in Japan rose from mid-1989 onward as the Bank of Japan sought to dampen domestic demand. This stance contributed to a weakening of the Tokyo stock market throughout 1990, which led to a rise in equity yields and strengthened the yen on the foreign exchange markets after a period of what was generally perceived to be excessively depreciated levels of the yen exchange rate. Between early 1989 and early 1991, the short-term interest rate differential changed in favor of yen- and deutsche mark-denominated assets by more than 6 percentage points; in favor of assets denominated in other European currencies by 4-5 percentage points; and in favor of Canadian dollar assets by 2 percentage points.

1/ See International Monetary Fund, World Economic Outlook, October 1991, Washington, 1991.

The substantial shift in relative interest rates against dollar-denominated assets led to a further depreciation of the U.S. dollar vis-à-vis its trading partners in 1989-90 (Charts 3 and 4). In nominal effective terms, the dollar depreciated by 10 percent in 1989-90. The decline in the U.S. dollar was interrupted only briefly at the height of the Middle East conflict. Following the cessation of hostilities in late February 1991, the dollar appreciated somewhat, reflecting upward revisions in market expectations of economic activity and interest rates in the United States. 1/ The real effective rate of the dollar depreciated by 14 percent in 1989-90 to the lowest level in the past 40 years. The yen depreciated relative to the deutsche mark in 1989, then reversed direction as it appreciated more rapidly than the mark against the U.S. dollar. Between January 1990 and March 1991 the appreciation (in nominal terms) of the yen and mark against the U.S. dollar was 6 percent and 3 percent, respectively.

Currencies of the members of the EMS appreciated in terms of the U.S. dollar throughout the period under review, with some intraperiod fluctuations (Chart 5). Through 1989 and the first half of 1990, the currencies of Italy and Spain had been subject to upward pressure due to their relatively high nominal interest rates (despite relatively high inflation rates in these countries). The strength of these currencies reflected increased

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1/ The stabilization of the U.S. dollar may, in part, have also reflected official policy pronouncements relating to exchange rates, and actual or potential official intervention in foreign exchange markets. The statement following the meeting of the finance ministers and governors of the Group of Seven (G-7) industrial countries on January 21, 1991 noted that the ministers and governors "agreed to strengthen cooperation and to monitor developments in exchange markets," and that they were "prepared to respond as appropriate to maintain stability in international financial markets."

market confidence in the durability of existing parities in the ERM. Moreover, the French franc was strong in the period due largely to the maintenance of a low inflation rate, and reflected market confidence in the appropriateness of the elimination of remaining capital controls in early 1990.

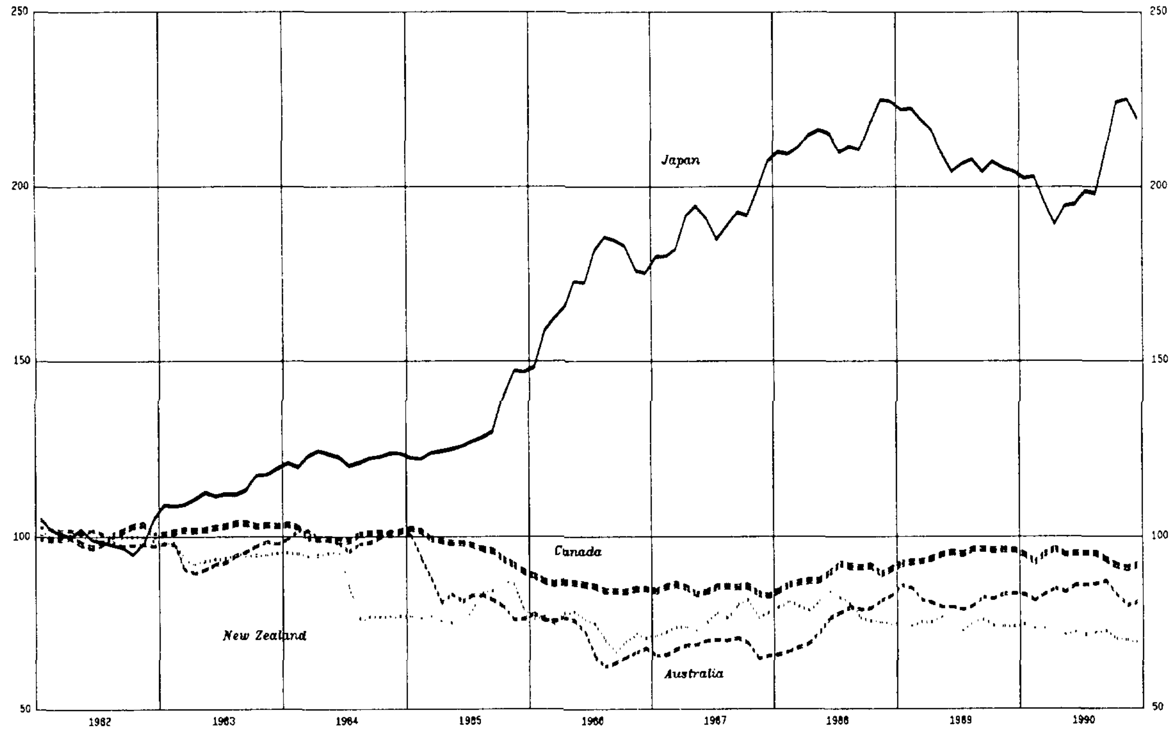
Since August 1990 this pattern changed with the lira falling from the top of the narrow band and depreciating against the deutsche mark by about 2 percent as short-term interest rates in Italy fell, while those in Germany rose. The French franc depreciated from late October such that by the end of 1990 the deutsche mark was near the top of the band, the French franc at the bottom, and the lira had recovered to the middle. The pound sterling, which had been falling throughout 1989 and early 1990 appreciated through the summer of 1990. Subsequently, the currency fell on speculation that the lack of convergence of inflation rates would block entry into the ERM of the EMS. The U.K. authorities decided to participate in the ERM from October 8, 1990 (at a central rate of DM 2.95) and the pound sterling rose briefly, then fell below its central rate at the beginning of November and remained below that rate.

In the first half of 1991, the French franc weakened within the exchange rate bands of the ERM in part because of the reduction in official interest rates in late-1990 and early 1991 while interest rate differentials brought the Italian lira and the Spanish peseta to the top of the narrow and wide bands, respectively. The deutsche mark fell to the center of the narrow band due to the appreciation of the U.S. dollar and the sharp deterioration in the German current account. Between the first quarter of 1989

CHART 3

NOMINAL EFFECTIVE EXCHANGE RATES OF INDUSTRIAL COUNTRIES WITH INDEPENDENTLY FLOATING ARRANGEMENTS, 1982-1990 1/

(Index, 1982=100)

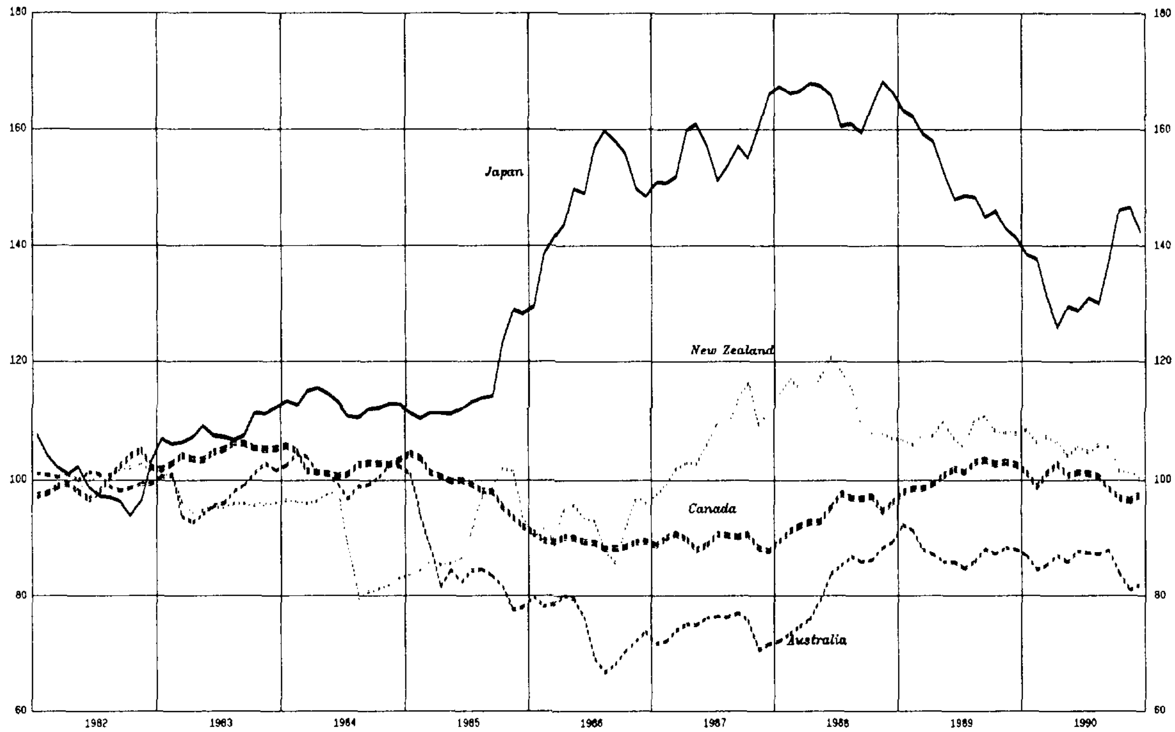


1/Nominal effective exchange rates for Australia, Canada, Japan, and New Zealand are based on a basket of currencies of their trading partners; for the U.S., it is based on a basket of currencies of sixteen industrial countries.

CHART 4

REAL EFFECTIVE EXCHANGE RATES OF INDUSTRIAL COUNTRIES WITH INDEPENDENTLY FLOATING ARRANGEMENTS, 1982-1990 1/

(Index, 1982=100)

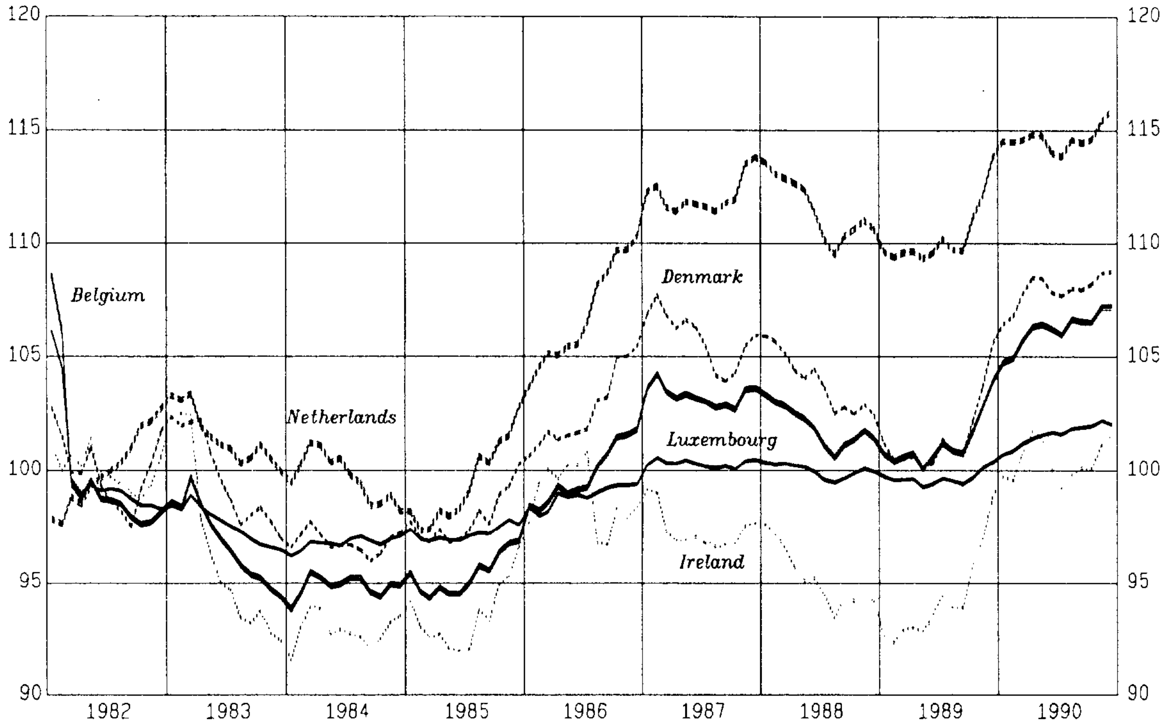


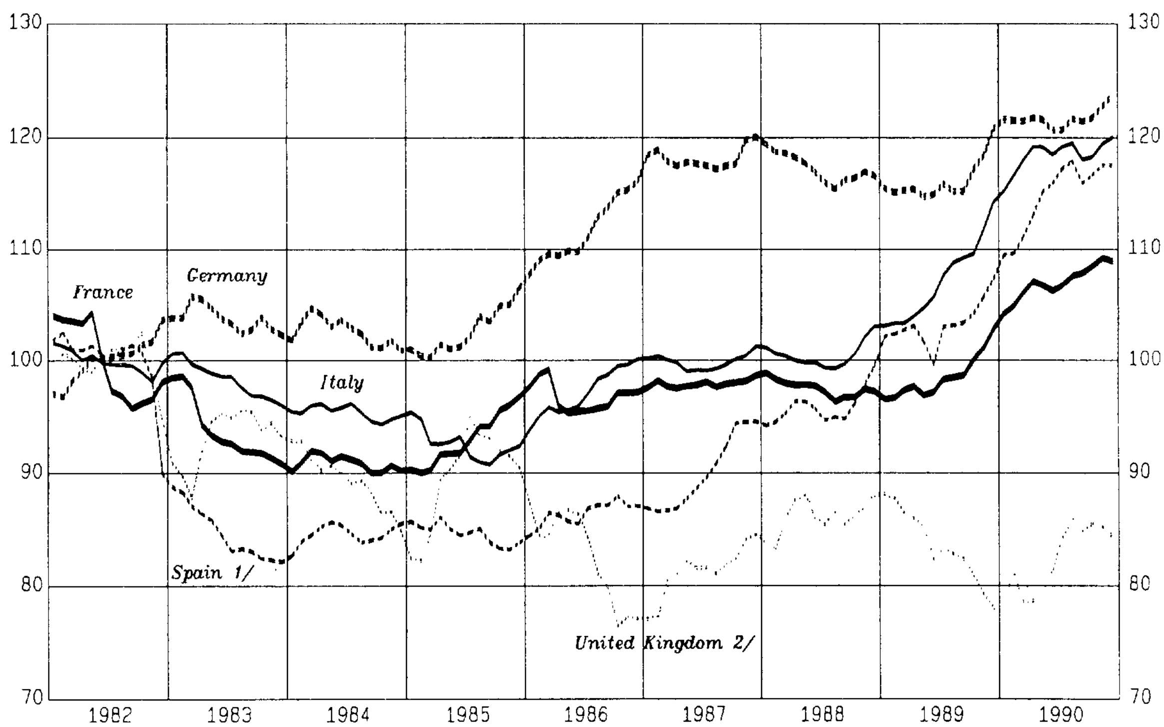
1/Real effective exchange rates for Australia, Canada, Japan, and New Zealand are based on a basket of currencies of their trading partners; for the U.S., it is based on a basket of currencies of sixteen industrial countries.

CHART 5

NOMINAL EFFECTIVE EXCHANGE RATES OF INDUSTRIAL COUNTRIES WITH COOPERATIVE ARRANGEMENTS, 1982-1990

(Index, 1982=100)





1/ Spain joined the EMS on June 19, 1989.
2/ The United Kingdom joined the EMS on October 8, 1990.

and the first quarter of 1991, the ERM currencies appreciated in nominal terms by between 9 percent and 21 percent against the U.S. dollar. The changes in the nominal effective rates of these currencies were more uniform during the period, ranging between about 1 percent (for the Italian lire) and about 8 percent (for the Irish pound). Real effective changes in ERM were also generally in the form of appreciations ranging between .003 percent (for the Belgium franc) and 12.4 percent (for the Spanish peseta).

The members of the European Free Trade Association continued to pursue the policy of maintaining a close relationship in terms of (inter alia) exchange rate movements vis-à-vis the EMS. While all of these countries, except Switzerland, which is not currently a member of the Fund, 1/ are officially pegged to currency composites, the exchange rates have been moving closely with the deutsche mark for the past several years. Several EFTA countries have recently taken additional unilateral steps toward monetary integration with the EC. Norway linked the krona to the ECU with a fluctuation margin of ± 2.25 percent in October 1990. Subsequently, in May 1991, Sweden tied its currency to the ECU within a band of ± 1.5 percent and Finland followed in June 1991 within a band of ± 3 percent. 2/ The link to the ECU should, in time, ease the passage of EFTA countries to full membership in the EC which is the stated objective of Sweden and Austria.

1/ Liechtenstein, an associate member of the EFTA, is also not a member of the Fund.
2/ In November 1991, the Finnish authorities devalued the markka by 12.3 percent.

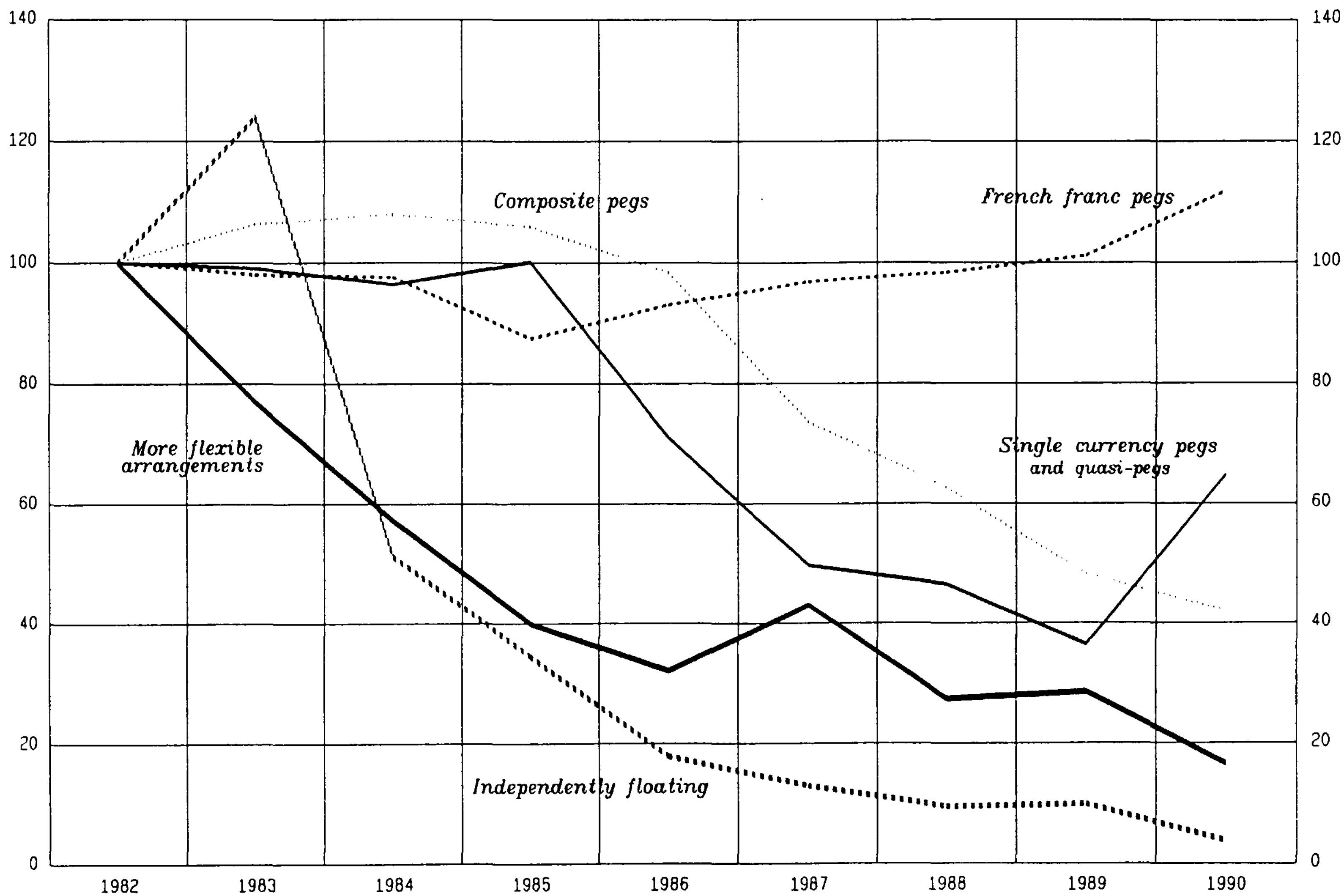
b. Developing Countries

A comparison of average movements of currencies of developing countries in different exchange rate classifications shows that all categories, except for the French franc peggers, have depreciated significantly in nominal terms since 1982; this trend was continued in 1989-90. This is mainly due to the balance of payments difficulties which, for the most part, are the result of serious macroeconomic imbalances in a significant number of countries, as well as unfavorable external conditions, including a less rapid expansion of world trade, declining prices for non-oil commodities, and continuing high interest rates. Recently, however, the aggregate current account deficit of the developing countries has fallen from US$14 billion in 1988 to US$8 billion in 1990, or to less than 1 percent of their exports of goods and services. Charts 6 and 7 show the average exchange rate measures in nominal and real effective terms. As might be expected, the currencies in the more flexible classifications have depreciated the most to cope with widespread balance of payments difficulties in this period. This is partly because countries adopting floating arrangements for the first time have always had large initial currency depreciations, reflecting delays in adjustment and difficult payments situations. Thus, in July 1989, the colon depreciated by 21 percent when El Salvador adopted a more flexible arrangement. Similarly, the lempira depreciated by more than 50 percent (based on to official exchange rate) when Honduras implemented liberalization measures in March 1990 and began to effect nearly all foreign exchange transactions in an interbank exchange market. In real terms, the more flexible currencies have shown less fluctuation (than in nominal terms)

CHART 6

DEVELOPING COUNTRIES: AVERAGE NOMINAL EFFECTIVE EXCHANGE RATES BY REGIME, 1982-90

(Indices, 1982=100)

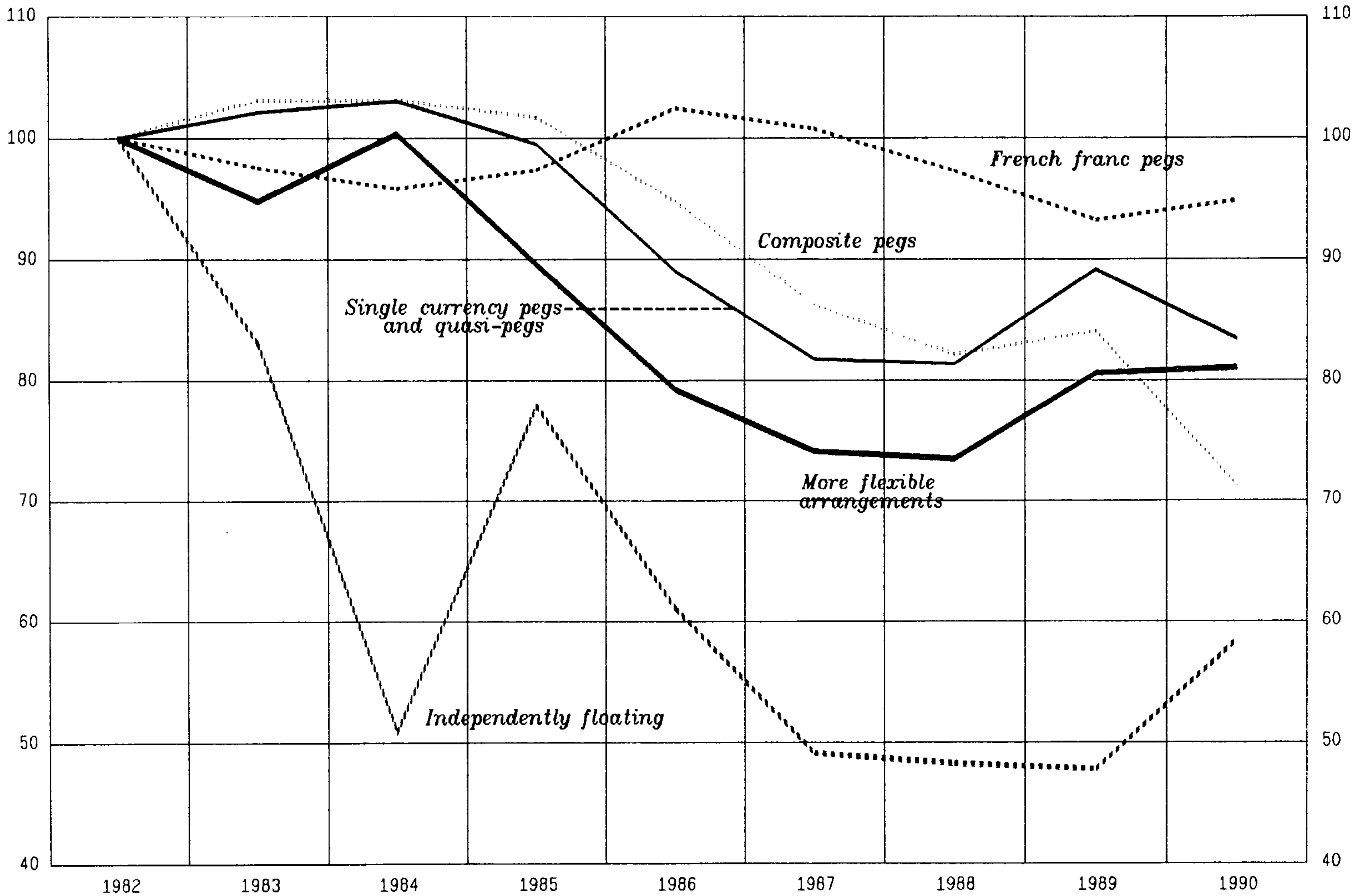


Source: Information Notice System.

CHART 7

DEVELOPING COUNTRIES: AVERAGE REAL EFFECTIVE EXCHANGE RATES BY REGIME, 1982-90

(Indices, 1982=100)



Source: Information Notice System.

in the 1987-89 period; subsequently, these currencies appreciated, partly reflecting rising prices which outstripped nominal devaluations in high inflation countries such as Argentina, Brazil, and Peru.

Overall, however, there continues to be greater long-term stability of the currencies in the single currency pegs. Single-currency peggers are dominated by the group pegging to the U.S. dollar; the dominance of this group of peggers reflects the traditional importance of the U.S. dollar in trade and its role as an intervention currency. Predictably, these currencies followed the dollar's appreciation until the first quarter of 1985 and its subsequent depreciation through 1990. In real terms, since the United States has been relatively more successful in containing inflation, currencies pegging to the dollar have depreciated less than their nominal rates since 1985.

A total of 86 developing countries (over one half the Fund's membership) applied exchange arrangements involving a peg to another single currency or to a currency composite (including the ECU and the SDR) at the end of 1990. The exchange rates at which these currencies are fixed were occasionally adjusted, usually in light of developments and/or intentions regarding external competitiveness. Thirty two of these countries effected such adjustments in the period under review, some of them effecting changes in the exchange rate on more than one occasion (Table 3). Of the 32, all but 3 countries devalued. In foreign currency terms, these devaluations ranged from less than 1 percent (Sudanese pound on March 13, 1989) to 86 percent (Nicaragua's cordoba during the second quarter of 1990). Revaluations were effected by the authorities of Malta (5.9 percent on

Table 3. Discrete Exchange Rate Changes of Pegged Currencies, 1989-90

Country(currency/peg)	Date of Change	Domestic Currency Units per Currency Peg: Old Rate	New Rate	Percentage Change (Depreciation (-)) 1/
Algeria (dinar/other comp.) 2/	QIV 1990	9.5	12.2	-22.1
Bangladesh (taka/other comp.)	March 90	32.27	33.88	-4.8
	April 90	33.88	34.22	-1.0
	May 90	34.22	34.90	-1.9
	August 90	34.90	35.59	-1.9
	September 90	35.59	35.69	-0.3
	November 90	35.69	35.79	-0.3
Botswana (pula/other comp.)	9/30/90	1.84	1.89	-2.6
Burundi (Burundi franc/SDR) 3/	11/23/89	201.00	221.09	-9.1
	12/1-29/89	221.09	232.14	-4.8
Czechoslovakia (koruna/other comp.) 4/	1/8/90	9.3	17.0	45.3
	12/28/90	24.0	28.0	-14.3
Dominican Rep. (peso/US$)	3/10/90	6.33	7.30	-13.3
Guatemala (quetzal/US$) 5/	8/12/89	2.70	2.78	-2.9
Guyana (guyana $/US$)	4/1/89	10.0	33.0	-69.7
	6/15/90	33.0	45.0	-26.7
Hungary (forint/other comp.)	3/21/89	54.100	56.947	-4.9
	4/14/89 6/	56.900	60.486	-5.9
	12/5/89	60.5	64.0	-5.5
Iceland (krona/other comp.)	1/3/89	n.a.	n.a.	n.a.
	2/7/89	n.a.	n.a.	n.a.
	5/10/89	n.a.	n.a.	n.a.
Israel (sheqel/other comp.)	1/3/89	n.a.	n.a.	n.a.
	6/22/89	n.a.	n.a.	n.a.
	3/2/90	n.a.	n.a.	n.a.
	9/10/90	n.a.	n.a.	n.a.
Jamaica (dollar/US$) 5/	2/1/90	6.5	7.0	-7.1
Malawi (kwacha/other comp.)	3/26/90	2.7375	2.9340	-6.7
Malta (lira/other comp.) 7/	12/31/89	0.36	0.34	5.9
Mozambique (metical/other comp.) 5/	QI 1990	814.5	924.1	-11.9
Nicaragua (cordoba/US$) 8/	3/31/89	920.0	6,000.0	-84.7
	6/30/89	6,000.0	20,000.0	-70.0
	9/30/89	20,000.0	22,000.0	-9.1
	12/31/89	22,700.0	38,500.0	-41.0
	Mid-March 1990	38,150.0	46,380.0	-17.7
	QII 1990	46,380.0	340,000.0	-86.4
	9/30/90	340,000.0	1,180,000.0	-71.2
	12/31/90	1,180,000.0	3,000,000.0	-60.7
Papua New Guinea (kina/other comp.)	1/9/90	0.862	0.958	-10.0
Peru (inti/US$) 5/	3/1/89	500.0	1,220.0	-59.0
	6/30/89 9/	1,200.0	2,045.0	-41.3
	9/30/89	2,395.40	4,123.21	-42.0
	12/31/89	4,267.9	5,261.4	-18.9
	3/31/90	5,261.4	11,225.4	-53.1
	6/30/90	11,225.4	33,721.0	-66.7
Poland (zloty/other comp.) 10/	3/31/89	502.60	572.55	-12.2
	6/30/89	850.0	844.6	0.6
	9/30/89	844.6	1,800.0	-53.1
	12/31/89	1,800.0	6,500.0	-72.3
	1/1/90	6,500.0	9,500.0	-31.6
Yemen, PDR (dinar/US$) 11/	5/4/90	0.345	0.462	-25.3
Romania (lei/other comp.)	2/1/90 12/	8.74	21.00	-58.4
	2/1/90	14.2	21.0	-32.2
	11/1/90	21.0	35.0	-40.0
Rwanda (franc/SDR)	11/9/90	102.71	171.18	-40.0
Sao Tome & Principe (dobra/other comp.)	2/24/89	100.0	120.0	-16.7
	9/89	120.0	128.4	-6.5
	6/7/90	140.1	150.7	-7.0
Sierra Leone (leone/US$) 5/	4/1/89	45.0	65.0	-30.8
	1/15/90	65.0	120.0	-45.8
Somalia (shilling/other comp.) 5/	6/30/89		489.0	
	9/30/89	489.0	582.0	-16.0
	3/31/90	930.0	1,160.0	-19.8
	6/30/90	1,299.0	1,572.0	-17.4
Sudan (pound/US$) 13/	1/15/89	11.8	12.0	-1.7
	2/6/89	12.0	13.0	-7.7
	2/13/89	13.0	12.0	8.3
	3/13/89	12.0	12.1	-0.8
Tanzania (shilling/US$)	12/3/89	157.4	190.0	-17.2
	12/31/89	190.0	192.3	-1.2
Uganda (shilling/US$)	3/7/89	165.0	200.0	-17.5
	10/24/89	200.0	340.0	-41.2
	8/31/90	440.0	450.0	-2.2
	9/21/90	450.0	480.0	-6.3
	11/12/90	480.0	510.0	-5.9
	12/21/90	510.0	540.0	-5.6
Viet Nam (dong/US$) 5/	12/18/89	3,900.0	4,300.0	-9.3
Yemen Arab Rep. (rial/US$)	2/19/90	9.76	12.01	-18.7
Yugoslavia (dinar/DM) 5/	1/1/91	7.0	9.0	-22.2
Zambia (kwacha/SDR)	6/30/89	10.80	16.08	-32.8
	9/12/89	16.10	16.86	-4.6
	10/9/89	16.90	17.59	-4.2
	12/31/89	17.6	21.5	-18.2

1/ In terms of currency peg; in the case of "Other Composite: in terms of U.S. dollar.
2/ The currency was gradually depreciated over the period.
3/ In November 1989, the Burundi authorities decided to devalue the franc by 15 percent in local currency terms, with 10 percent initially, and a further 5 percent during the month of December.
4/ On January 8, 1990, the authorities unified the commercial and non-commercial rates and established a tourist rate; the table above shows only developments in the commercial rate. On October 9, 1990, the tourist rate was depreciated by 14 percent. On October 15, 1990, the commercial/non-commercial rate was depreciated by 35 percent. On December 28, 1990, the commercial/non-commercial and tourist rates were unified; the table shows developments in the commercial/non-commercial rate.
5/ Countries whose exchange rate arrangement was reclassified in 1989-90.
6/ Effective September 1, 1989 exchange rate of the forint against the transferable ruble was adjusted from Ft 29 = TR 1 to Ft 27.5 = TR 1, representing an appreciation of 5.5 percent in terms of the transferable ruble.
7/ Effective December 1, 1989 Malta changed the number of currencies in the basket from 10 to 3 (U.S. dollar, pound sterling, ECU) and updated the trade weights to reflect 1986-88 average flows.
8/ Frequency of devaluation higher then once per quarter; weekly devaluations were not uncommon.
9/ Peru abandoned its schedule of preannounced adjustments and replaced it with weekly devaluations in the month of April and biweekly adjustments in May. Effective June 8 a system of daily devaluations of about 1 percent each business day was introduced.
10/ During 1989, there were more than 20 discreet adjustments of the exchange rate. The table shows only the end of the quarter data.
11/ The authorities of both Yemen Arab Republic and Yemen, PDR informed the Fund that effective May 4, 1990 both the Yemeni rial and the Yemeni dinar had been made legal tender in both sectors of their territories as a prelude to unification of the two countries on May 22, 1990. The Yemeni rial and the Yemeni dinar would be fully convertible into each other at the rate of YRls 26 = YD 1. The exchange rate of the rial was unchanged at YRls 12.01 = US$1.
12/ Effective February 1, 1990 Romania unified the commercial and noncommercial rates at Lei 21 = US$1. January 29 commercial and noncommercial rates were Lei 14.23 = US$1 and Lei 8.74 = US$1, respectively.
13/ Changes refer to commercial banks buying rate; official exchange rate remained unchanged at LSd 4.5 = US$1.

December 31, 1989), Poland (0.6 percent on June 30, 1989), and Sudan (8.3 percent on February 13, 1989).

The frequency with which exchange rates pegged to the U.S. dollar were devalued against the dollar in 1990 remained unchanged relative to 1988 and 1989. There were 15 devaluations against the dollar in both 1989 and 1990, compared with 16 in 1988. The sizes of the 1990 devaluations were also similar to those of the previous two years--ranging from 2 percent to 86 percent. This compares with a narrow range of between 2 percent and 2.75 percent in 1984 just before the dollar peaked.

Changes in the exchange rates of developing countries which maintain more flexible exchange arrangements in 1989-90 involved depreciations, with the exception of the Malagasy franc, which appreciated by 4.1 percent, the Singapore dollar, which appreciated by 11.6 percent, and the Tunisian dinar, which appreciated by 7.4 percent (Table 4). Depreciations ranged from 2.7 percent (Mauritanian ouguiya) to over 99 percent (Argentine austral, Brazilian new cruzado, and Peruvian inti). The unweighted average depreciation among developing countries with flexible exchange rate arrangements was 33.4 percent. Currency reforms were effected by the authorities of Brazil twice in the period under review: on January 1, 1989, the cruzado was replaced by the new cruzado at the rate of Cz$1,000 = NCz$1.0. The second reform took effect on March 15, 1990, with the replacement of the new cruzado by the cruzeiro, at the rate of NCz$21.0 = Cr$1.0.3.

Table 4 . Changes in "More Flexible" Currencies in Developing Countries: December 31, 1988-December 31, 1990

	Currency Units Per U.S. Dollar 1/ (End of Period) Dec.31, 1988	Dec.31, 1990	Percentage change Depreciation (-)
Argentina (austral)	13.37	5,585.0	-99.8
Bolivia (boliviano)	2.45	3.4	-27.9
Brazil (cruzado)	0.765	177.06	-99.6
Chile (peso)	247.2	337.1	-26.7
China (yuan)	3.7221	5.2221	-28.7
Colombia (peso)	335.86	568.7	-40.9
Costa Rica (colon)	79.5	103.55	-23.2
Ecuador (sucre)	432.5	878.2	-50.8
Egypt (pound)	0.7	2.0	-65.0
El Salvador (colon)	5.00	8.11	-38.4
Gambia, The (dalasi)	6.6591	7.4946	-11.1
Ghana (cedi)	229.885	344.83	-33.3
Guatemala (quetzal)	2.705	5.02	-46.1
Guinea (franc)	550.0	680.0	-19.1
Guinea-Bissau (peso)	1,363.58	2,508.62	-45.6
Honduras (lempira)	2.0	5.3	-62.3
India (rupee)	14.9489	18.0732	-17.3
Indonesia (rupiah)	1,731.0	1,901.0	-8.9
Jamaica (dollar)	5.48	8.03	-31.8
Korea (won)	684.1	716.4	-4.5
Lao PDR (kip)	452.5	695.5	-34.9
Lebanon (pound)	530.0	842.0	-37.1
Madagascar (franc)	1,526.43	1,465.83	4.1
Maldives (rufiyaa)	8.525	9.62	-11.4
Mauritania (ouguiya)	75.73	77.84	-2.7
Mexico (peso)	2,281.0	2,945.4	-22.6
Mozambique (metical)	626.2	1,038.15	-39.7
Namibia (South African rand)	2.378	2.562	-7.2
Nigeria (naira)	5.353	9.01	-40.6
Pakistan (rupee)	18.65	21.9548	-15.1
Paraguay (guarani)	550.0	1,253.0	-56.1
Peru (inti)	500.0	516,923.0	-99.9
Philippines (peso)	21.336	28.00	-23.8
Sierra Leone (leone)	39.06	188.67	-79.3
Singapore (dollar)	1.9462	1.7445	11.6
Somalia (shilling)	270.0	1,298.5	-79.2
South Africa (rand)	2.3777	2.5625	-7.2
Sri Lanka (rupee)	33.03	40.24	-17.9
Tunisia (dinar)	0.8985	0.8368	7.4
Turkey (lira)	1,814.8	2,930.1	-38.1
Uruguay (new peso)	451.0	1,581.0	-71.5
Venezuela (bolivar)	14.5	50.38	-71.2
Viet Nam (dong)	900.0	6,500.0	-86.2
Zaire (zaire)	274.0	2,000.0	-86.3
Zambia (kwacha)	10.0	42.75	-76.6

Source: International Financial Statistics.
Note: Exchange rates shown are midpoints of buying and selling rates.
1/ For those countries that maintain multiple rates, the rate shown is either that quoted by the authorities as the official rate or that used most widely in the country's international transactions.

3. Multiple Exchange Rates

a. Introduction and Definition

Multiple exchange rates result from market segmentation caused by structural imperfections or when the authorities control foreign exchange payments in such a way as to segregate exchange transactions based upon different types of transaction, transactor, or currency. Multiple exchange rates are an instrument by which balance of payments objectives are sought through manipulation of the exchange market as well as a method of taxation or subsidization. As in the case of all taxes or subsidies, multiple rates simultaneously influence the distribution of income and the pattern of production and consumption and will, therefore, have budgetary, monetary, and balance of payments consequences. Multiple rates distort domestic prices and output and make it more difficult for the authorities to resist pressure for special treatment of a given commodity or class of economic agents. The intervention creates what has been termed by-product distortions, i.e., the attempt to correct a given domestic market imperfection has as a by-product the creation of new, and possibly more serious, distortions elsewhere in the economy. These distortions require examination when multiple rates are used to affect resource allocation.

b. *The Fund's Treatment of Multiple Currency Practices*

Multiple currency practices are subject to the Fund's jurisdiction under Article VIII, Section 3. Action by a member or its fiscal agencies that of itself gives rise to a spread of more than 2 percent between buying and selling rates for spot exchange transactions between the member's currency and any other member's currency would be considered a multiple currency practice. 1/ For the purposes of analysis, multiple currency practices may be classified in four main categories: a dual or multiple exchange market system applying to broad categories of transactions; a separate exchange rate for specified transactions; taxes (or subsidies) that accrue to (or are paid by) the monetary or fiscal authorities on the value of specified exchange transactions; and excessive spreads between buying and selling rates for foreign exchange. Box 2 gives examples of these four types of foreign exchange restrictions. (See also footnote 4 in Table 1, for further instances of such practices).

In April 1984 and February 1985 the Executive Board last reviewed the Fund's experience with and policies on multiple currency practices. The main conclusion of these reviews was to reaffirm the view that multiple rate systems are costly in terms of efficiency and resource allocation and they have not proven conducive to medium-term balance of payments adjustment. 2/

The Fund's policies stated on the occasion of the 1984-85 discussions were based on the experience of its membership with multiple currency practices. Most countries that have adopted measures which give rise to

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1/ In addition, action by a member or its fiscal agencies which results in midpoint spot exchange rates of other member's currencies against its own currency in a relationship which differs by more than 1 percent from the mid-point spot exchange rates for these currencies in their principal markets would give rise to a multiple currency practice.

2/ For more details of the 1984-85 Fund review, see International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, Washington, 1985.

Box 2. Examples of Multiple Currency Practices

Dual or Multiple Market System. Multiple markets usually comprise an official market in which the supply and demand for foreign exchange associated with certain specified transactions are controlled and a free market that handles all other transactions. The free rate is almost always more depreciated than the official rate. Less selective in their impact than the imposition of individual rates for given transactions, multiple markets typically penalize broad categories of suppliers of foreign exchange to the official market--usually exporters--and subsidize groups of purchasers--often the government or key pressure groups.

Fixed Exchange Rate on Given Transactions. Specific foreign exchange transactions can either be subsidized or penalized by the authorities, forcing the purchase or sale of exchange at an over- or undervalued exchange rate. This practice is often used to hold down official expenditures on the servicing of government-guaranteed debt, to encourage migrant labor to repatriate foreign earnings, or to penalize profit remittances abroad by foreign companies or travel abroad by residents.

Taxes/Subsidies on the Value of Transactions. Similar in impact to fixing the exchange rate for given transactions and equally selective, these practices typically target current account transactions. Examples include export bonuses or subsidies, mandatory advance import deposits (which pay no or less than market rates of interest), taxes on remittances abroad, and taxes on sales of exchange by commercial banks.

Excessive spreads. Multiple currency practices result when the Central Bank prescribes buying and selling rates for spot foreign exchange transactions with a spread in excess of 2 percent of their mid-point rate.

multiple currency practices did so at a time of external payments difficulties. The reason for a country to avoid a uniform change of the exchange rate--normally a devaluation--as part of a systematic approach to solving the problem is usually the belief that it will be politically and socially costly. Some believe a uniform devaluation would undermine growth prospects and cause inflation; others believe that it would subvert social priorities by raising the costs of essential imports; and yet others believe that development prospects would be endangered by higher costs for imported inputs for priority sectors.

In some instances, using a dual rate as a temporary device to find a realistic level for a proposed unified exchange rate has been an effective transitional policy tool. In several countries dual markets were established when the authorities intended to unify the fixed official rate with various other rates, official and unofficial, but were uncertain about the appropriate level for the new rate. The movement of the exchange rate in the free secondary market served to indicate the appropriate level for the unified rate in most situations, although speculation in other cases led to a greater depreciation in the parallel market than was warranted by economic conditions.

The Fund's policies with regard to multiple currency practices have remained flexible, pragmatic, and responsive to each country's particular circumstances. An important factor in the Fund's determination of whether to approve multiple currency practices under Article VIII relates to their temporary character. 1/ Approval of these practices is based on the existence of a well-conceived plan designed to bring about the unification of exchange rates over a specific and appropriately brief period of time. The development of such a plan and firm intentions to unify the exchange market are normally expected from a member undertaking an adjustment program supported by the use of Fund resources. The plan usually consists of successive reductions in the dispersion of exchange rates through devaluation of the more appreciated rate or shifts of the transactions undertaken in the various exchange markets.

c. Multiple Exchange Rate Developments

The number of countries using multiple exchange rates either to liberalize or restrict foreign exchange transactions can provide an overall sense of whether countries are making less or more use of the exchange system as a tool to manage their external accounts. These numbers should, however, be interpreted with care: they may reflect measures that are transitional in a country with a program for liberalizing transactions in sequence; a practice that may appear restrictive may not be, such as the adoption of a new exchange rate that is market-determined. Instead of proceeding with a uniform devaluation to correct an external imbalance, the authorities may decide to establish--often as a transitional measure--a dual (or multiple) exchange rate system where certain essential imports and specified export transactions, including in some cases capital transactions,

1/ In addition, for approval to be granted, the measure must be introduced or maintained for balance of payments reasons and it must not discriminate between Fund members.

are assigned to be a legal secondary (parallel) market. 1/ 2/ Thus, it is difficult to compare changes in the degree of complexity of multiple exchange rate systems in a given country over different periods and also to compare the degree of restrictiveness among countries. Not only are there many types of exchange practices, but their scope and incidence can vary widely and can be difficult to measure. The implementation of exchange market segmentation can also have a crucial effect on how distorting it is, yet this is often almost impossible to assess.

1/ The existence of a parallel or secondary market, where a proportion of current transactions takes place at a floating exchange rate that is more depreciated than the rate in the official market, is prima facie evidence of the inappropriateness of the official exchange rate. A parallel market exists in about 70 member countries where access to the official exchange market is restricted. A distinction may be made between legal and illegal parallel markets. Parallel markets to which transactions are relegated by a member or its fiscal agencies may result in multiple currency practices subject to the prior approval by the Fund.

2/ For example, Argentina announced in early December 1989 a package of emergency economic measures aimed at bringing inflation under control. These measures included a 35 percent devaluation of the austral in the official market and the introduction of a freely floating exchange rate for capital transactions and certain current invisible transactions. Subsequently, in late December, the authorities announced the unification of the dual exchange market under a freely floating arrangement. El Salvador adopted a dual exchange rate system in mid-July 1989. In addition to the fixed exchange rate market, a bank exchange rate market was introduced where the exchange rate was market determined. In June 1990, the exchange rate system was unified under the bank rate. Finally, the authorities of Guyana announced in March 1990 the de facto legalization of the foreign currency transactions that formerly took place in the parallel market. While the legalization of the parallel market gave rise to a multiple currency practice, it also allowed the authorized dealers and commercial banks to deal in foreign currency at freely determined rates and shifted transactions relating to nontraditional exports and nonessential imports and services from the official to the new free market.

The number of countries with multiple exchange rates in 1989-90 averaged 42, compared to 44 in 1987-88. Moreover, the share in trade of members with multiple exchange rates has fallen (see below). This trend toward a decrease in the multiple rates among the Fund's member countries is evident from the 1950s, although during certain periods, the incidence of multiple rates increased. In the early 1950s, the world dollar shortage, and problems of bilateralism and inconvertibility that stemmed from it, led to increased use of multiple currency practices by industrial and developing country members. Some two thirds of membership were engaging in such practices in 1955, although the share represented by these countries in international trade tended to be relatively small. Weighted by trade, the incidence was about one third of the membership. In June 1957 1/ the Fund adopted an important decision urging members to simplify their exchange rate structures; it also undertook to assist members in their efforts to do so, providing technical assistance where appropriate. In the late 1950s and early 1960s, these efforts together with the establishment of convertibility among industrial countries and an improvement in the international trade situation, contributed to a substantial simplification of exchange rate systems in both industrial and developing countries. Progress in simplifying developing countries' systems was, however, mixed thereafter and use of multiple rates increased in the late 1960s (particularly in the form of advance import deposit requirements accompanied by import surcharges due to the increasing misalignment of exchange rates), and again in the early 1980s

1/ Executive Board Decision No. 649-(57/33), June 26, 1957, in International Monetary Fund, Selected Decision of the International Monetary Fund and Selected Documents, Sixteenth Issue (Washington, 1991).

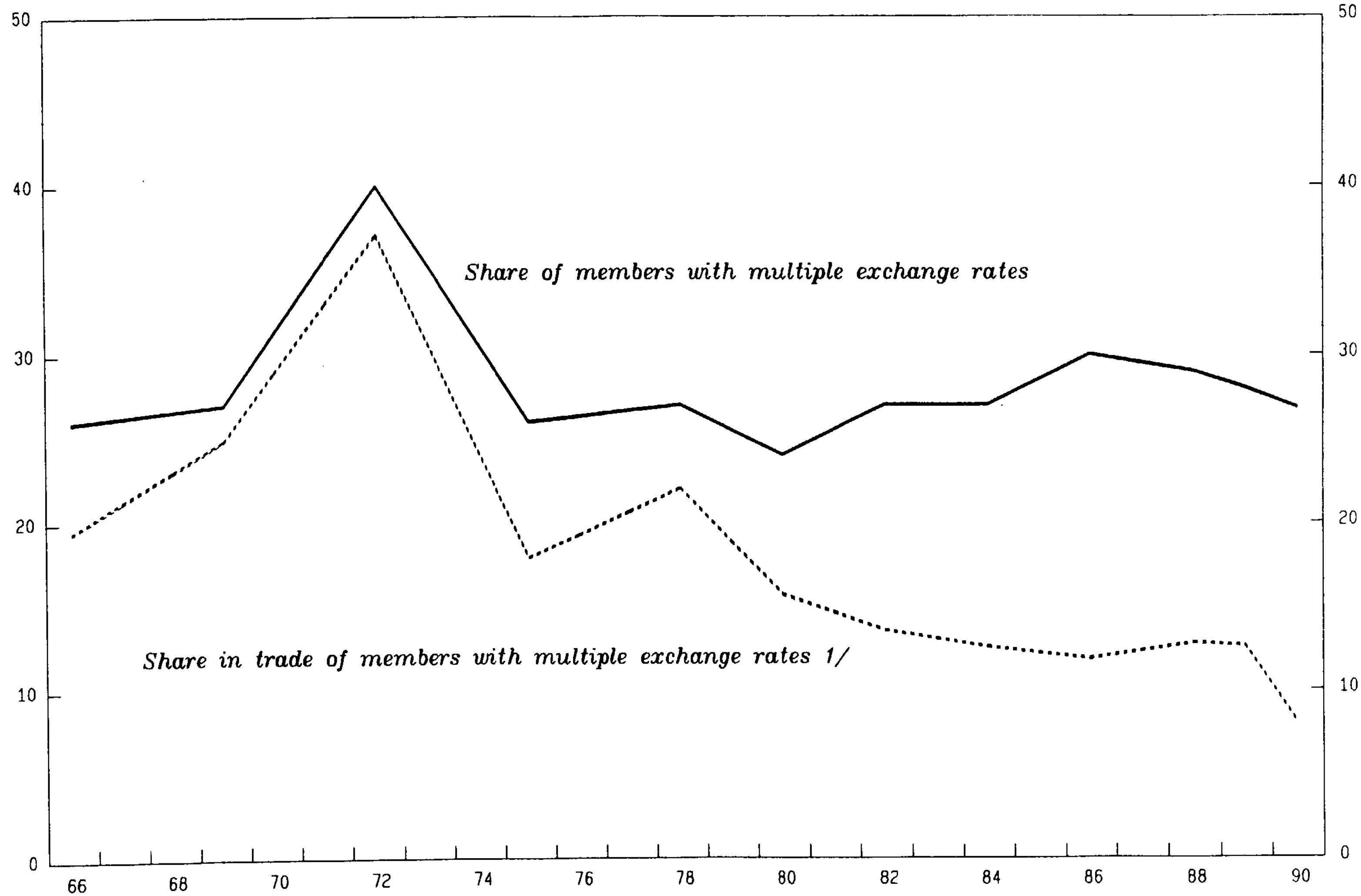
(in response to widespread balance of payments difficulties in the wake of the second round of oil price increases) (Chart 8). Since 1986 there have been renewed reductions in the incidence of multiple rates. In 1986, 46 countries operated some form of multiple rate regime; their number fell to 44 in 1988 and 41 (or one fourth of the Fund's membership) in 1990 (Table 5). The importance in world trade of countries with more than one exchange rate has declined more steadily and rapidly. In 1990, countries with multiple rate systems represented only about 8 percent of total trade, compared with 13 percent in both 1986 and 1988. If Brazil, Mexico, and China are excluded, the countries with multiple rate systems would represent less than 4 percent of total trade in 1990. Appendix I summarizes the multiple exchange rates maintained by members as of end-1990.

During the 1970s, about half the countries with multiple exchange rates had minor forms of restrictive payments practices, such as simple forms of advance import deposit schemes or taxes or subsidies on specific exchange transactions. Since then, countries have tended to adopt more complex practices such as separate exchange markets that affect a large volume of transactions and that have a greater significance for adjustment policies. The shifts to these systems have generally proven to be temporary. Although few of the countries adopting multiple exchange rates since 1983 have adopted simple forms, the developing countries that have recently adopted or expanded complex forms of multiple rate systems have since relinquished them. Thus, although Bolivia, Venezuela, and Guatemala created multiple exchange rates in 1984 and Peru in 1985, Bolivia unified in 1985, Guatemala in 1988, and Peru and Venezuela in 1990. Mozambique, Uganda and Zambia

CHART 8

FUND MEMBERS WITH MULTIPLE EXCHANGE RATES, 1966-90

(In percent)



Sources: AREAER, various issues, and Direction of Trade Statistics.

1/ As a percent of total exports of the membership of the Fund.

Table 5. Features of Multiple Exchange Rate Systems, 1983-90

(Number of countries)

Feature	1983	1984	1985	1986	1987	1988	1989	1990
Separate rate for some capital and some invisibles	35	37	34	36	39	37	35	36
More than one rate for imports	25	23	23	28	33	29	28	30
More than one rate for exports	25	25	28	25	32	29	28	28
Import rate different from export rate	28	28	28	33	36	33	34	33
Memorandum item: One or more features	43	42	41	46	44	44	42	41

Sources: International Monetary Fund, AREAER, various issues.

created new markets in 1989-91, while Bulgaria, Guyana, and Ghana unified their exchange systems during this period.

III. Main Developments in Restrictive Measures

1. Measures Affecting Current Transactions

a. Introduction

While responsibility for multilateral trade policy lies primarily with the General Agreement on Tariffs and Trade (GATT), the Fund has jurisdiction over restrictions on payments and transfers for current international transactions. A variety of purposes may be pursued by exchange restrictions, but most of them are designed to husband foreign exchange resources and to utilize them in accordance with some plan or policy. A comprehensive system of exchange restrictions takes entirely or partly the place of an ordinary market for foreign exchange. Instead of permitting exchange to be bought and sold freely, exchange receipts are channeled into a central pool and distributed to users according to various criteria. The imposition or the tightening of exchange restrictions impedes the free international flow of goods and services and tends to distort relative prices and reduce economic efficiency.

Under Article VIII, Section 2(a) of the Fund's Articles of Agreement, Fund members may not impose restrictions on payments and transfers for current international transactions without the Fund's approval. Nevertheless, as a transitional measure, members are permitted under Article XIV, Section 2, to maintain and adapt to changing circumstances those exchange restrictions in effect on the date on which the country became a member of the Fund. Under Article XIV, Section 3, members maintaining restrictions under Article XIV must consult with the Fund annually as to their further retention. To date, 70 members have accepted the obligations of Article VIII, of which 5 members have accepted in 1989-91, 1/ compared with 3 members in 1987-88.

The most dramatic examples of change were in Eastern Europe where a major liberalization of the exchange systems occurred as part of fundamental economic reform. The scope of change undertaken in these countries means that the progress towards elimination of exchange restrictions was significantly greater than in the period 1987-88 and perhaps not fully reflected in a purely numerical analysis of individual measures introduced. Given the far reaching nature of the transformation involved--from a system of central planning toward a market economy--the following section will consider the sequence of reforms introduced in Eastern Europe in some detail and, briefly, place them in the context of the overall reform being sought.

b. Eastern Europe

While some countries, notably Yugoslavia (before the recent civil war) and Hungary, had already achieved a measure of reform, for most of the countries (Bulgaria, Czechoslovakia, the former German Democratic Republic, Poland, and Romania) the starting point was a centrally planned economy. Again, while the particular circumstances varied, the stylized characteristics of such an economy were such that virtually all means of production were owned and controlled by the state except for a generally small proportion of agricultural land. Detailed planning of practically all economic

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1/ Cyprus, Swaziland, Thailand, Tonga, and Turkey.

activity was the responsibility of a central planning authority. Prices were strictly regulated and did not play an allocative role. In the external sector, foreign trade was managed exclusively by state owned and controlled specialized agencies, while all transactions in foreign currencies were conducted by a single state owned bank at exchange rates that typically were not allowed to reflect world market prices on the domestic economy.

Against this background, the process of correcting earlier relative price distortions in order to move towards full convertibility of the currency usually involved substantial depreciation of the exchange rate and often unification of previously separate exchange rates or the elimination of price equalization schemes. In Romania, for instance, the introduction of foreign exchange auctions in February 1991 was preceded by a cumulative devaluation of the official rate of about 60 percent in 1990. In Czechoslovakia the government which took office in December 1989 devalued and unified the commercial and noncommercial exchange rates. In Poland, the earlier policy of frequent devaluations was succeeded at the start of 1990 by a substantial devaluation with the rate then pegged to the U.S. dollar as an anchor against inflation by tying the prices of tradable goods to world levels, as well as by influencing expectations. Bulgaria, where reform started later, a reform program involving the lifting of exchange and trade restrictions began in February 1991 and included a floating of the exchange rate, which initially depreciated sharply, with the decline partially reversed by a subsequent appreciation. Finally, in the former German

Democratic Republic convertibility was achieved via economic and monetary union in July 1990 with the _Federal Republic of Germany_.

Equally fundamental was the dismantling of state monopolies on foreign trade transactions which was accompanied by the abolition of the state monopoly on the provision of foreign exchange. In _Czechoslovakia_, the foreign trade law was amended in early 1990 to allow all economic units to export their own products and to import inputs for their own production. This was preceded, in January 1989, by a new foreign exchange retention scheme enabling enterprises to import from their retained export proceeds without any foreign exchange license. In _Romania_, similar changes were introduced in February 1990 when new laws opened up all economic activity, including foreign trade, to private units which were allowed to self-finance their imports with up to 50 percent of export proceeds. In _Poland_, where some reform had already taken place, restrictions on the participation of enterprises in foreign trade were liberalized further. In early 1990 a complex system of access to foreign exchange through auctions and retained export earnings was replaced by the unrestricted access to foreign exchange at the official rate from the banking system to pay for all merchandise imports, property rights and attendant services. In _Hungary_, all economic units were allowed to engage in foreign trade (after being registered with the Ministry of Trade) in January 1988. During 1989 and 1990, however, further progress was made in reducing restrictions on exports and imports (for which there are exemption lists) and in March 1989, as a step towards decentralization of foreign exchange operations, commercial banks were authorized to act as intermediaries between the National Bank of Hungary and domestic customers for commercial foreign exchange transactions. Finally, in Yugoslavia as part of the reform process initiated by the government of March 1989, foreign exchange became freely available to carry out payments and transfers for current international transactions. On January 1, 1990 internal convertibility was introduced and residents were free to convert unlimited amounts of dinar into foreign exchange and vice versa upon demand. In the latter part of 1990, however, as balance of payments pressures intensified, the Yugoslav authorities limited again the scope of convertibility.

A number of other restrictions on access to foreign exchange, not necessarily related to trade transactions, were also reduced. In Romania, for instance, in January 1990 the requirement to keep all foreign exchange in bank accounts was eliminated, as were the restrictions on the use of foreign exchange from those accounts which began to yield interest payable in foreign exchange at 4 percent per annum. Also, in Poland, the nonregulated parallel market was liberalized in March 1989. Foreign exchange banks and licensed foreign exchange bureaus were authorized to buy foreign exchange from resident and nonresident individuals (but not enterprises) and sell it to residents.

For current invisibles, common practice has been to treat transactions in services associated with trade as trade transactions for the purposes of exchange control. This happened for instance in Romania and Poland. Elsewhere, significant liberalization also occurred in the area of availability of foreign exchange for travel abroad. Travel allowances were introduced or modified in Romania, Czechoslovakia, Hungary, and Poland.

Even where the allowances were subsequently reduced because of balance of payments pressures, as in Hungary in November 1989, overall reform was firmly in the direction of liberalization since the right to travel and accompanying allowances usually replaced a system whereby legal provision for travel allowances had existed but in practice none, or few, allowances had been granted.

Finally, in March 1990, as part of the liberalization of foreign investment restrictions, Romania allowed foreign currency accounts from which dividends and some of the initial capital contribution could be paid. At the same time the requirements on Romanians working in international organizations or joint ventures to repatriate part of their foreign exchange earnings were reduced. Similarly in Poland, a general permit was issued in mid-January 1990 to allow additional payments and transfers for current invisible and some capital transactions.

c. Measures Affecting Import Payments

A closer review is provided below of the trends in the main forms of individual restrictions. In some cases, reference may already have been made above to the measures introduced as part of a more comprehensive reform of the exchange system. Considerably more detail is provided in Appendix II, which summarizes the measures affecting members' exchange and payments systems in 1989-90. While the degree of restrictiveness of an exchange and payments system cannot be assessed solely on the basis of the number and direction of measures taken over a certain period, the numerical analysis presented below can provide an overall sense of whether member countries are taking more or less restrictive measures.

i. Advance import deposits

Under advance deposit schemes, the authorities require importers to deposit, usually in local currency, with the monetary authorities or commercial banks a specified proportion of the value of an import transaction. In most cases, the deposits are required at the time application is made for an import license or at the time an import letter of credit is opened. They are retained for a specified period (usually not exceeding the life of the import transaction) and often can be used to make the import payment; in some cases, the deposit rates can exceed the value of the underlying transaction. 1/ In general, deposit schemes have been introduced to reduce import demand directly and, in most cases, indirectly, by restraining liquidity creation, which has often been excessive. Moreover, such deposit schemes have on occasion been used to restrain or favor particular imports, to frustrate the effects of liberal import licensing procedures, or to finance current government expenditure.

At end-1990 some 21 countries maintained advance import deposit schemes compared to 22 in 1988. During 1989-90, 16 countries took 37 measures related to advance import deposits, of which 26 were in the direction of liberalization (Chart 9). 2/ Moreover, in all cases except two the countries employing restrictive measures also undertook measures that went in

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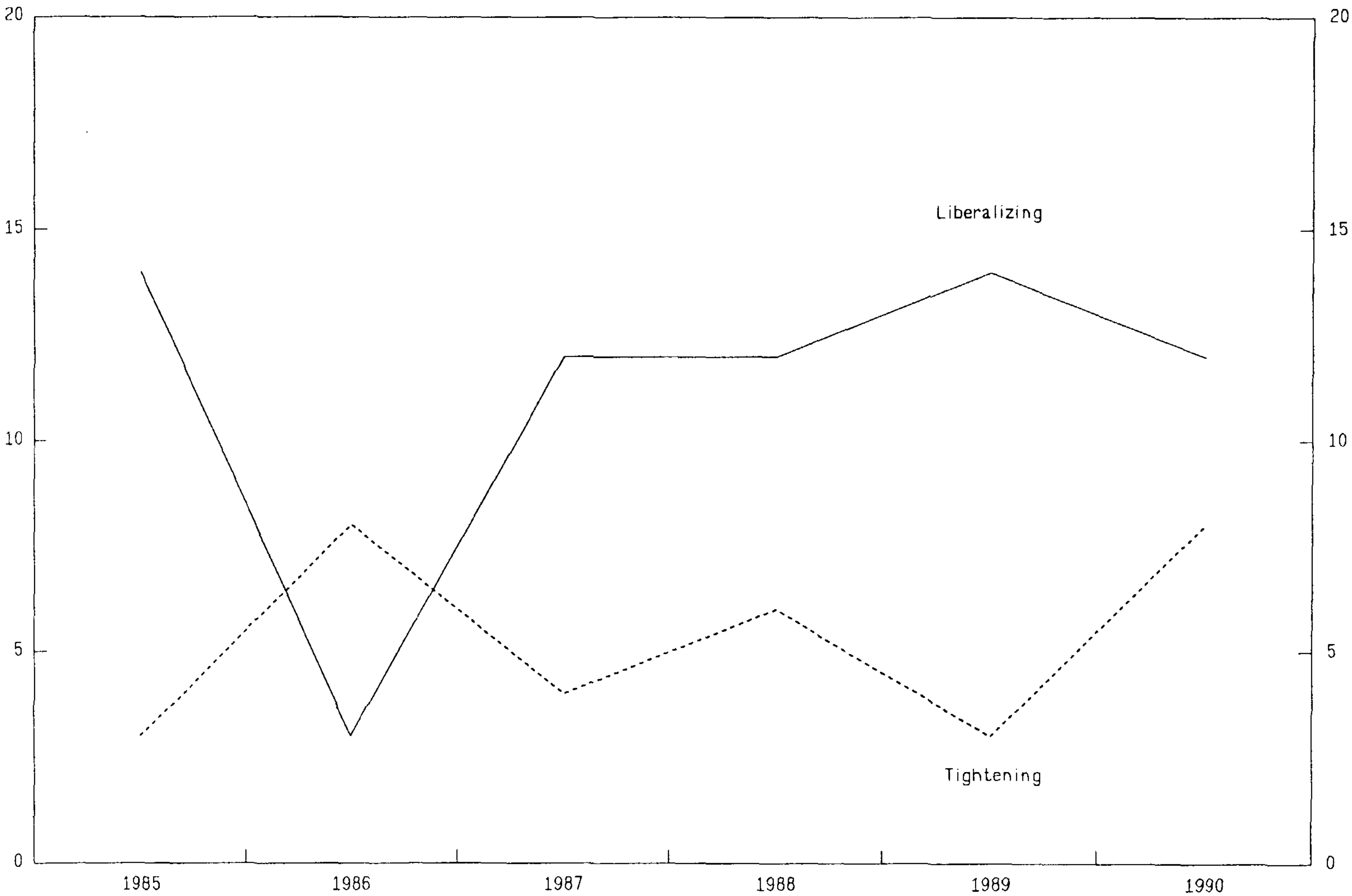
1/ Advance import deposit requirements constitute exchange restrictions under Article VIII, Section 2(a) if they are a precondition for the use or availability of foreign exchange to pay for imports. They can also constitute a multiple currency practice if their terms (remuneration, proportion, and period of deposit) increase the cost of foreign exchange by more than 2 percent.

2/ During 1987-88, 34 measures were taken, of which 24 were in the direction of liberalization.

CHART 9

ADVANCE IMPORT DEPOSITS: DEVELOPING COUNTRIES, 1985-1990 1/

(IN NUMBER OF MEASURES)



Sources: Appendix II and IMF, AREAER, 1986, 1987, 1988.

1/These trends do not purport to indicate the economic significance of the measures taken over the period; however, they can provide an overall sense of whether member countries are taking more or less restrictive measures.

the opposite direction and, sometimes indeed, reversed the earlier measures. In Bangladesh, for instance, advance import deposits of 100 percent and 50 percent for commercial and industrial imports, respectively, under the Secondary Exchange Market (SEM) scheme were introduced in February 1990. But in February/March these rates were reduced to 50 percent and 25 percent, respectively, and in November 1990 the advance import deposit requirement for industrial imports under the SEM scheme was abolished. Similarly in Peru, a noninterest-bearing advance import deposit requirement imposed on certain imports in January 1990 was rescinded in August.

ii. Measures directly affecting the allocation of foreign exchange

As noted above, in a number of countries an important feature of the exchange system is direct governmental involvement in the allocation of foreign exchange. One of the more frequently used methods is the individual allocation of exchange, whereby requests for allocation of exchange are examined individually and granted in the form of a license, on the basis of the merit of each transaction. Another method of allocating foreign exchange is that of determining the aggregate amount of exchange which will be available during a period, and of distributing it on a non-selective basis, such as the first-come, first-served principle. In addition to the measures mentioned above in the context of wholesale reform of the foreign exchange system, a number of countries undertook more partial measures. In Trinidad and Tobago, for instance, 12 product groups were removed from the foreign exchange allocation system for imports in September 1989; in Colombia imports of goods not subject to a prior import license are exempted from the official foreign exchange budget. Liberalization of official foreign exchange restrictions also took place in Malawi, Mozambique, Sudan, and the Republic of Yemen. In the Dominican Republic the requirement for all foreign exchange transactions to be effected through the Central Bank was temporarily suspended in October 1989 because of pressures in the foreign exchange markets, and commercial banks were authorized to make payments for imports with foreign exchange obtained outside the official system. In Argentina, on the other hand, restrictions were tightened considerably in mid-1989 as economic conditions deteriorated. In May, controls on import payments were introduced leading to arrears to suppliers, and in June payments abroad exceeding US$1,000 were suspended. In July, however, these restrictions were lifted and access to official foreign exchange for import payments and interest on private debt was fully restored.

iii. Measures affecting letters of credit

Twelve countries implemented measures related to payments for imports through letters of credit, of which nine moved in the direction of liberalization while three tightened restrictions. Examples of the former are (i) the abolition and lowering of margin requirements against letters of credit in the Republic of Yemen and Nepal, respectively, in early 1989; (ii) the exemption from a prior approval requirement of letters of credit for essential imports in Somalia; and (iii) the abolition, in a series of measures during 1989, of limits on maturity dates for letters of credit in Guatemala.

iv. Administrative measures

Such measures can take a variety of forms but are often introduced as an alternative method of control on the allocation of foreign exchange. Among the industrial countries, on January 1, 1990 Ireland suspended the requirement of prior approval from the Central Bank to make payments to nonresidents to pay for purchases of goods abroad for resale abroad. In Norway restrictions on import payments were abolished. Among developing countries, Algeria introduced new requirements for prior approval of financing arrangements for imports financed with credits of more than 90 days. Similarly, in Nepal all import payments to India in Indian rupees had to be documented. Administrative requirements were relaxed in Western Samoa and Zambia.

v. Trade-related measures

As noted above, while trade measures are not the focus of this study, 1/ major reforms of the trading system have implications for the allocation of foreign exchange and are often accompanied by reforms of the exchange system. Apart from the examples in Eastern Europe this was also the case, for instance, in Liberia where liberalization of the exchange system was accompanied by major trade reform, including abolition of the import licensing system. Significant liberalization of trade was also undertaken in Guinea-Bissau, Malta, and Sierra Leone.

1/ See The World Trade System - Developments and Issues, op. cit.

d. Exports and Export Proceeds

In total, 72 measures in the direction of liberalization were taken by developing countries in 1989-90. This compares to 58 measures in 1987-88 which were also toward greater openness (Chart 10). Six developing countries took measures relating to export licenses in 1989-90, all in the direction of liberalization. Costa Rica, Mali, and Sierra Leone (except for gold and diamond exporters) eliminated the requirement for licenses while Sudan and Zambia substantially simplified the existing system in 1989-90.

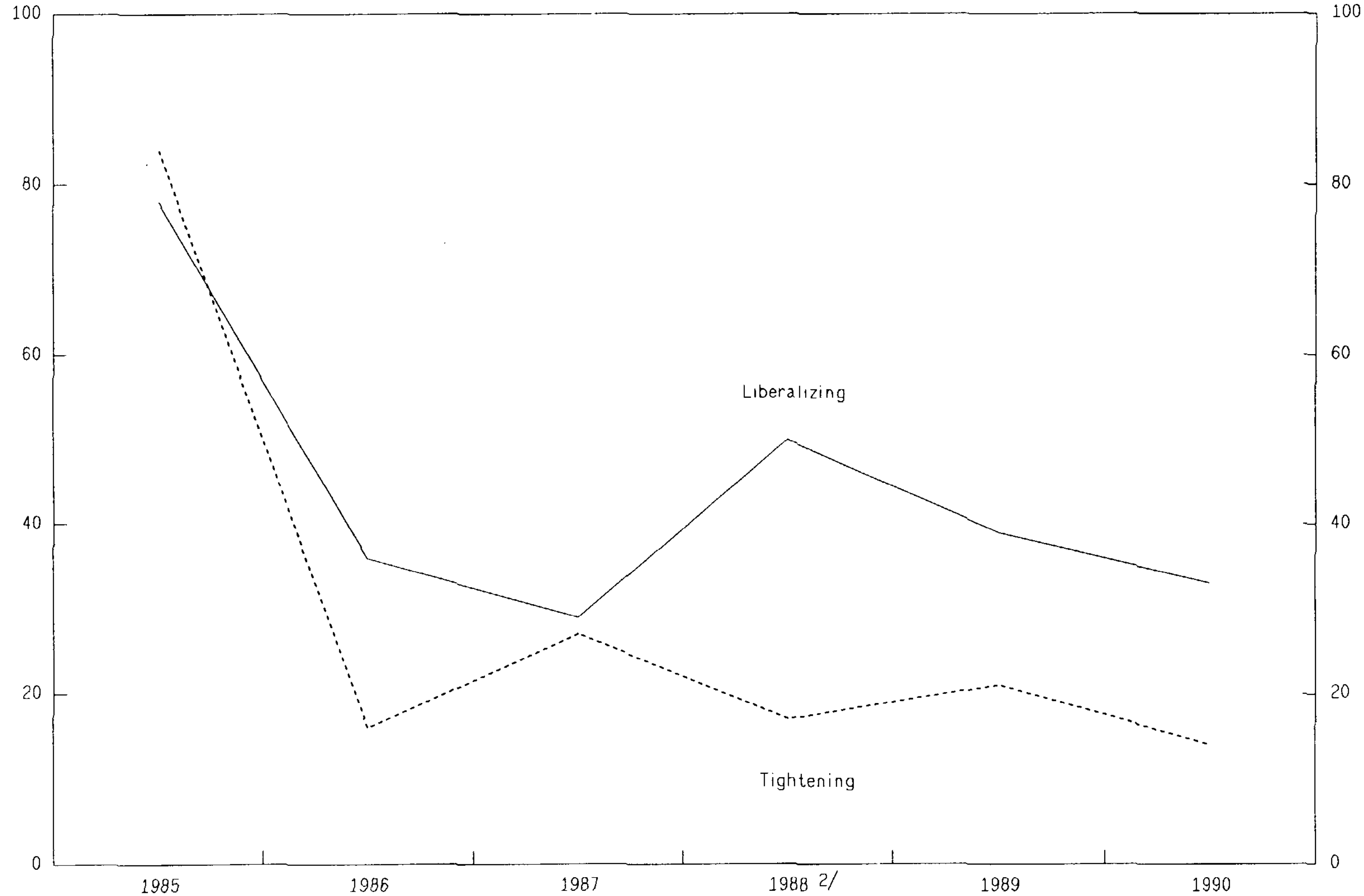
In the face of continuing balance of payments pressures, several developing countries resorted to fiscal and other incentives to promote exports. Bangladesh introduced special incentives for toys, luggage, fashion goods, electronic items and leather goods, and a cash subsidy of 10-20 percent for exports of jute goods; India introduced a scheme providing for compensation of unrebated indirect taxes not refundable under the Duty Drawback System while extending the scope of that system; Kenya made an additional 451 goods eligible to receive export compensation; Nepal introduced a 25 percent cash subsidy on jute hessian exports and incentives of between 10 percent and 35 percent for a further range of products; Pakistan increased income tax exemptions and South Africa introduced an incentive scheme for exporters based on, inter alia, the local product content and movements in the real effective exchange rate.

In the opposite direction, Venezuela reduced the scope of fiscal credits for exports (in the form of a negotiable bond that could be used for tax payments); so too did Bolivia, Poland (where as noted above, a complex system of export incentives was abolished), Uruguay, and Yugoslavia.

Chart 10

Exports and Export Proceeds: Developing Countries, 1985-90

(Number of measures)



Sources: Appendix II and IMF, AREAER, 1986,1987,1988.
1/These trends do not purport to indicate the economic significance of the measures taken over the period; however,they can provide an overall sense of whether member countries are taken more or less restrictive measures.
2/From 1988, the data excludes quantitative trade measures.

Eight developing countries undertook measures relating to credit facilities for exports. Having modified the system of subsidized credits for nontraditional exports several times earlier in the year, Peru abolished the system in August 1990. Turkey also undertook a variety of credit measures in 1989 and 1990, including the establishment of Turkish Eximbank facilities for exports to the U.S.S.R. and Algeria of US$150 million and US$100 million, respectively. Elsewhere Argentina, Malta, and Myanmar eliminated export prefinancing or export promotion schemes while El Salvador eliminated guarantee deposit requirements for a variety of exports.

The trend in other export incentives, principally connected with the treatment of foreign exchange earnings, was in the direction of liberalization. Twenty two countries, including one industrial country (Italy), undertook measures affecting requirements on foreign exchange allowed to be retained by exporters. Of these, 17 countries introduced measures to the direction of liberalization. Italy, for instance, allowed residents to retain foreign exchange receipts from the sale of goods and services in accounts without any time limit whereas previously such balances had to be used for particular transactions or sold to authorized banks within 120 days. The other measures involved either an extension of the period in which export proceeds had to be surrendered, or a decrease in the percentage of the receipts to be surrendered or a reduction in the scope of exports covered by such surrender schemes. Three countries (Chile, Ghana, and Madagascar) took measures related to the repatriation of export proceeds, all in the direction of liberalization. Finally, Honduras expanded the scope of its export incentive system of transferable certificates of foreign exchange (CETRAs) while, in a series of measures throughout 1989 and 1990, Peru revised the system covering foreign exchange proceeds from exports usually, but not always, in the direction of liberalization.

e. Current Invisible Transactions

Restrictions on payments and transfers related to international service transactions are diverse and affect a number of balance of payments categories such as travel, medical expenses, study abroad, subscriptions, advertising, insurance premia, transport and freight, banking and financial services, family remittances, and investment income including profit remittances and interest payments on foreign debt.

Broadly speaking, exchange measures are more widely applied to service transactions than to merchandise trade. To a large extent this is attributable to the greater degree of difficulty in controlling the underlying service transaction. Methods of control imposed on the physical movement of goods have less applicability to services. As a result, services are monitored and controlled and taxed in many countries at the payments or transfer stage through the financial system. Consequently, many service restrictions--probably the majority in the case of developing countries--take the form of exchange restrictions (and often multiple currency practices) subject to approval under Article VIII or maintained under Article XIV.

The financial character of most service transactions also means that the payments and transfers can constitute an important vehicle for capital transfers. Because the liberalization of such transfers requires strong supporting measures to bring both the exchange rate and interest rates to appropriate levels, a number of countries have delayed services liberalization, which has been reflected in the continuing widespread maintenance of restrictions by developing countries. However, one technique for liberalizing current invisibles while retaining capital restrictions has been the introduction of indicative limits whereby payments and transfers beyond the limit are approved if the applicant can document that they are for bona fide current international transactions. Such an approach has permitted a number of countries to accept the full obligations of the Fund's Article VIII, Sections 2, 3, and 4 regarding avoidance of restrictions on payments and transfers for current international transactions, multiple currency practices, and discriminatory currency arrangements, while retaining capital controls consistent with the Fund's Article VI, Section 3.

Conversely, given the far greater degree of liberalization of capital restrictions in industrial countries, there is less need for restrictions on current invisibles to assist capital controls. This is one reason why very few industrial countries maintain such restrictions. At the beginning of 1989 only five industrial countries (Iceland, Greece, Ireland, Italy, and Portugal) maintained restrictions on service transactions compared to almost two thirds of all developing countries.

During 1989-90 both Greece and Portugal relaxed these restrictions. Greece raised the foreign exchange allowance for personal travel in both 1989 and 1990 while Portugal relaxed foreign exchange restrictions on tourists in 1989 as well as prior limits on payments to countries with which Portugal did not maintain special clearing arrangements. Also in 1989, Italy raised the limits on checks that could be written against domestic banks by residents traveling abroad.

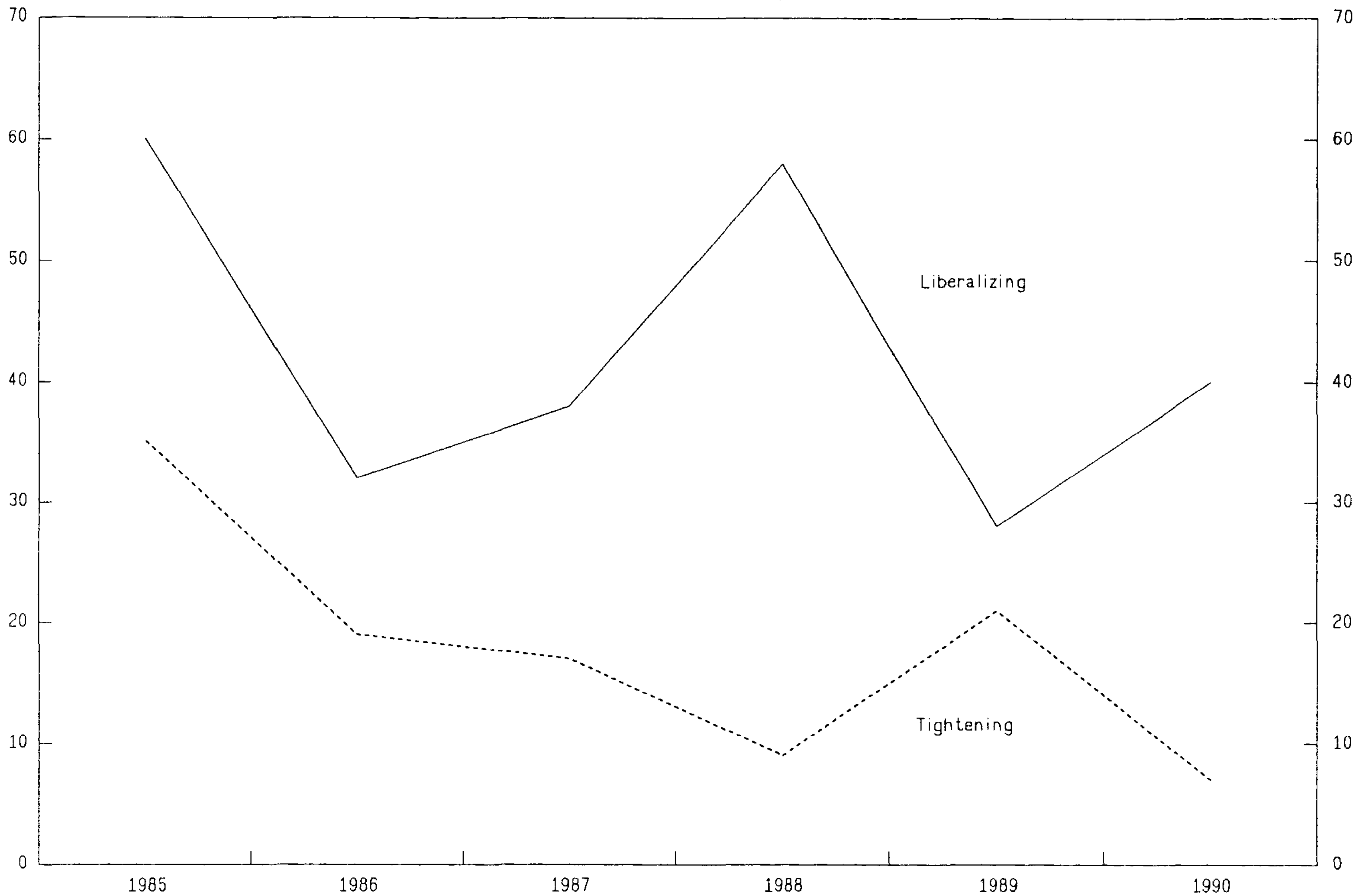
For the developing countries, on balance the trend towards liberalization continued with 67 measures (in the direction of liberalization) taken in 1989-90 compared to 96 measures in 1987-88 (Chart 11). The most common example of this was a relaxation of restrictions on travel allowances, with some 23 developing countries increasing foreign exchange availability for this purpose in 1989-90. This was the case in Bangladesh (for business travel), Brazil, Burundi, Colombia, Cyprus, El Salvador, Israel, Lesotho, Mauritius, Morocco, Nepal, Pakistan, Romania, Sierra Leone, Somalia, Thailand, and Turkey. Only five countries reduced travel allowances: Bangladesh (for personal travel), Hungary, Poland, Sri Lanka, and Sudan. Of these, Bangladesh reduced allowances for personal travel having increased them for business travel by exporters; and Poland and Hungary, as noted above, tightened restrictions on travel allowances in the context of a wholesale liberalization of their international trade and payments systems. In the case of Hungary the tightening followed a major relaxation of travel regulations in 1988 giving every Hungarian citizen the right to a passport valid for five years for unrestricted travel. This basic reform was accompanied by an increase in foreign exchange allowances for travel, which were tightened considerably in 1989 as the balance of payments on service transactions deteriorated.

The other main categories to be liberalized were family and workers' remittances and transfers of profits and dividends. In the former category restrictions were relaxed in Bangladesh, Burundi, Sri Lanka, and Zambia

Chart 11

Current Invisibles: Developing Countries, 1985-90 1/

(Number of measures)



Sources: Appendix II and IMF, AREAER, 1986,1987,1988.
1/These trends do not purport to indicate the economic significance of the measures taken over the period; however, they can provide an overall sense of whether member countries are taking more or less restrictive measures.

while limits were imposed in Madagascar. In the latter category Ghana, Honduras, Madagascar, and Morocco all relaxed restrictions, while Israel reduced VAT to zero on payments for all services, with the exception of tourism.

By contrast, in Brazil restrictions were increased on debt service payments. In a series of measures between July 1989 and January 1990, interest payments accrued on medium- and long-term external debt owed to nonresident commercial banks were made subject to retention at the Central Bank as were remittances of profits and dividends. Dividends of foreign companies were allowed to be remitted abroad only after being retained at the Central Bank for 120 days. In June 1990, however, it was announced that remittances of profits, dividends, and royalties would be freed gradually.

Given the debt servicing difficulties experienced by other developing countries during the period, it is perhaps surprising that the Brazilian example was not followed by more countries. In the main, however, these difficulties were reflected in arrears, which accumulated during the period, rather than in measures of the kind imposed by Brazil. The question of arrears will be considered in greater detail in Section III.3.

2. Measures Affecting Capital Transfers

a. Introduction

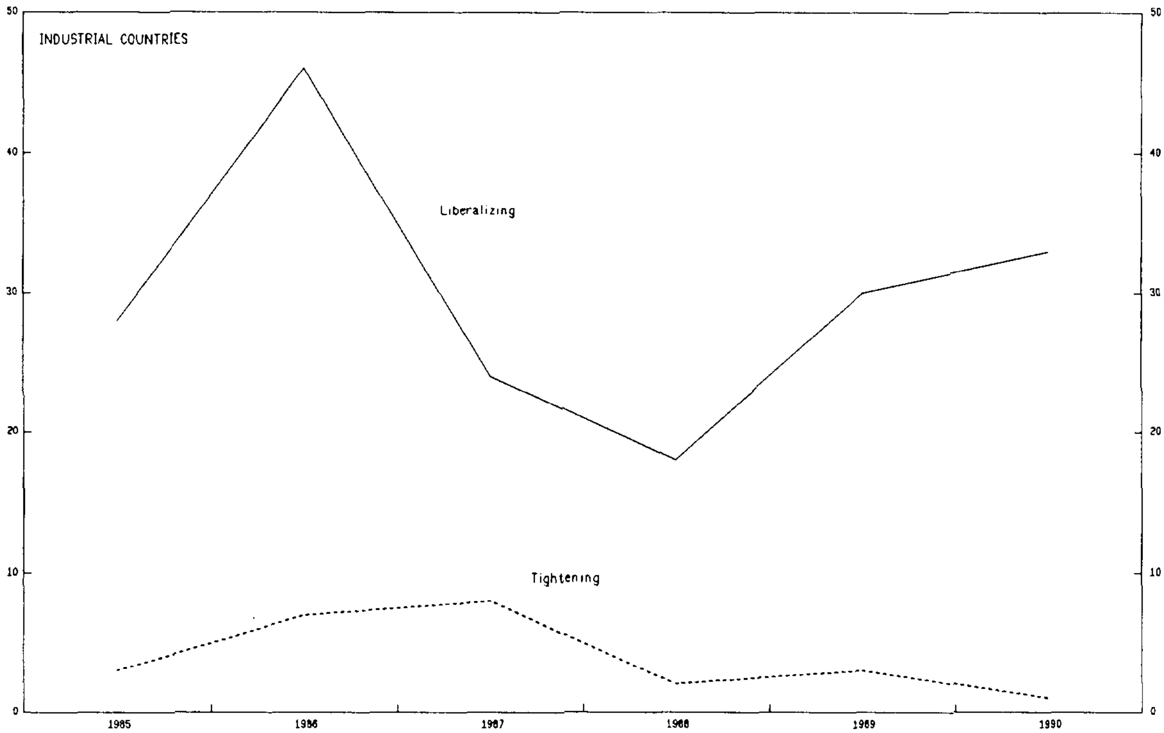
International capital transactions have increasingly come to be conducted within a more liberal regulatory framework in industrial and developing countries alike. In most large industrial countries, a substantial degree of liberalization of capital movements had been achieved for both inflows and outflows by the late 1970s, especially with respect to portfolio and direct investment. The move toward liberalization continued in the 1980s in the areas of interbank transactions, foreign currency accounts, and the provision of financial credits. With the EC's deadline for a unified capital market approaching (see below), these liberalization efforts accelerated sharply in 1989 and the momentum was maintained in 1990 leaving most industrial countries with a virtually fully liberalized system for capital account transactions at the beginning of the 1990s (Chart 12). In developing countries, 101 liberalization measures were introduced in 1989-90 compared to 90 measures in 1987-88. The momentum towards liberalization was especially evident in Latin American countries where policies aimed at attracting foreign direct and portfolio investment and other private capital flows were adopted, often accompanied by Fund-supported programs, as external financing constraints facing indebted developing countries has required greater reliance on private capital inflows. Few new measures were introduced to tighten capital controls even though many countries faced difficult balance of payments situations.

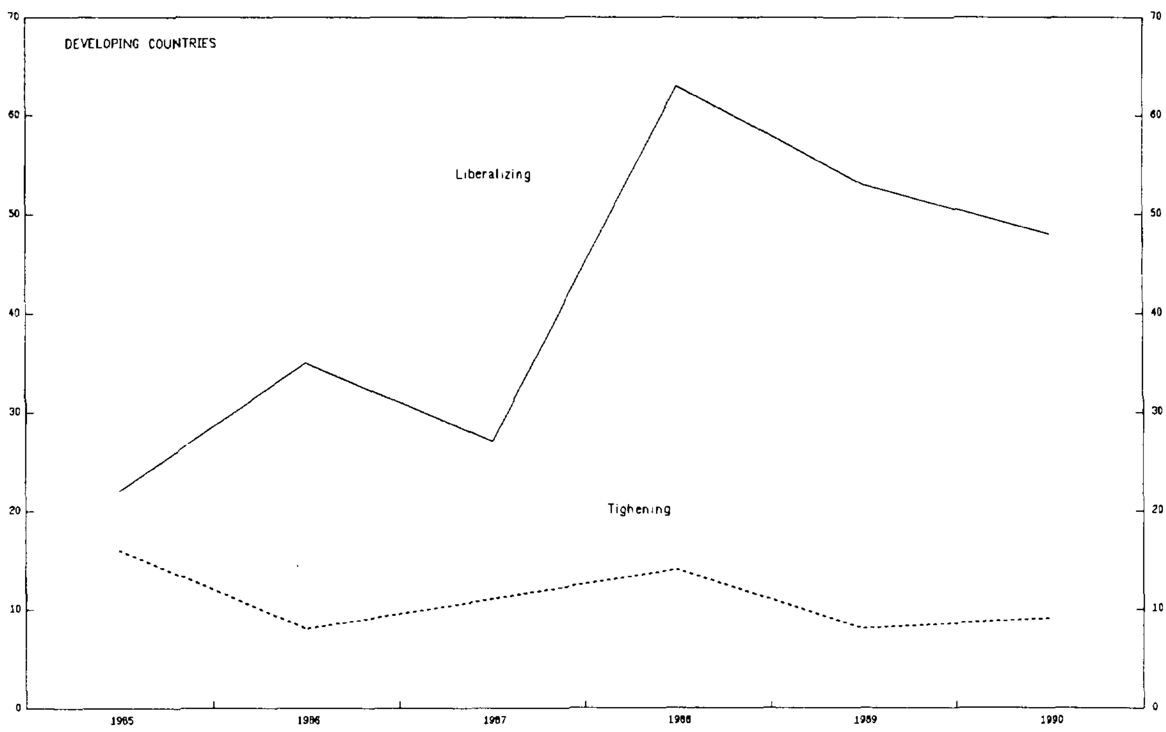
The trend toward a more liberal environment for capital account transactions seems to be increasingly the result of policymakers' growing conviction of the substantial economic benefits that a more open and integrated world economy brings with it, although it also stems from a broad interplay of other factors. For example, trade liberalizations in many service industries, in particular the financial industry, have necessitated accompanying liberalizations of capital account transactions and technological advances have made it more difficult to impose enforceable administrative barriers to some types of capital transactions. Also, with the

Chart 12

Capital Controls, 1985-90 1/

(Number of measures)





Sources: Appendix II and IMF, AREAER, 1986,1987,1988.

1/These measures do not purport to indicate the economic significance of the measures taken over the period; however, they can provide an overall sense of whether member countries are taking more or less restrictive measures.

adoption of comprehensive adjustment programs and greater reliance on market forces, policymakers in many developing countries have become convinced that an open capital account can be maintained with the pursuit of appropriate domestic policies. Finally, the need to attract foreign capital to help countries overcome debt servicing problems has led policymakers to ease restrictions on capital inflows and to promote in particular non-debt creating inflows.

While the Fund's Article VI, Section 3 allows members to regulate capital movements without the approval of the Fund, the Fund's surveillance over exchange rate policies under Article IV, Section 3(a) takes into account developments with respect to capital restrictions. In particular, certain changes in capital restrictions may be seen as indicative of a balance of payments problem that may prompt a discussion between the Fund and a member. Many countries that had relied on stringent controls to prevent capital flight in the face of unrealistic exchange rates found these to be inefficient and even counterproductive.

In contrast to the review of restrictions on current international transactions, the review of measures affecting capital flows includes regulations aimed at controlling the underlying transaction. Often such measures are introduced under the auspices of the exchange control law and other foreign exchange legislation although they more appropriately would be part of the general investment law, special mining legislation or banking supervision or insurance law.

b. Recent Developments in Industrial Countries

As noted above, further significant progress was achieved in the liberalization of capital market transactions in industrial countries in 1989 and 1990. As measured by the number of measures undertaken, the liberalization of capital markets in 1989 was the highest in three years with 14 industrial countries undertaking 31 measures of liberalization; in 1990, the momentum was sustained with 11 countries implementing 33 liberalization measures. In contrast, during 1989-90 just four countries (Iceland, Italy, Portugal, and Spain), each introducing one measure, tightened capital restrictions.

Among the non-European industrial countries, the United States allowed banks to accept foreign currency deposits as of end-1989 and New Zealand increased in August 1989 the minimum value of most direct investments requiring Government consent and permitted as of January 1990 financial institutions to deal in foreign exchange without authorization. Within the framework of the Canada-United States Free Trade Agreement, Canada agreed to increase the monetary thresholds under which review and approval by an agency of the Government of Canada will not be required for most acquisitions of Canadian businesses by U.S. investors. Canada also removed for U.S. investors the limit of a maximum of 25 percent foreign ownership that applies to Canadian financial institutions. Japan enacted a series of measures easing the regulatory framework for commercial banks' foreign exchange dealings and restrictions on portfolio investment; the measures included easing of ceilings on monthly transactions between offshore and onshore markets, abolition of limits on sales of bonds issued in foreign markets to domestic investors, and abolition of all restrictions on maturities and issuance eligibility standards on yen-denominated bonds in foreign markets by nonresidents.

Among the EC countries, Denmark, Germany, the Netherlands, and the United Kingdom had by early 1989 already completely liberalized their capital account transactions. By mid-1990 Belgium-Luxembourg, France, and Italy had also removed remaining capital restrictions, leaving only Greece, Ireland, Portugal, and Spain with such restrictions. Belgium-Luxembourg achieved the full liberalization in March 1990 when it abolished the two-tier exchange rate system under which financial transactions were effected at a separate exchange rate. At the time of its abrogation, the dual exchange rate system had long lost the role of diffusing pressures on the exchange rate; in most of 1989, the discrepancy between the official and the financial rate averaged less than 0.2 percent and it was virtually zero in early 1990. France lifted all exchange restrictions applicable to capital transactions by banks and enterprises engaged in international trade in March 1989. By extending the applicability to all other residents, France's system also became fully liberalized by January 1990. After having devalued the lira by 3.7 percent and accepted the narrower margins within the ERM in January 1990, Italy freed short-term capital movements in January 1990 and abolished the surrender requirement of foreign exchange to the banking system. In May 1990 residents were permitted to open and maintain deposits abroad, thus completing the liberalization of all capital movements. The remaining four EC countries, which continue to have capital account restrictions, all made progress towards their elimination. Greece fully liberalized direct investments by its residents in other EC countries in July 1989, and in January 1990 Ireland removed all restrictions on purchases of foreign securities with maturities exceeding two years and eased restrictions on the sale of securities issued by the EC and affiliated institutions. During 1989 Portugal increased various limits beyond which prior approval was needed for medium and long-term capital transactions, direct investment in other EC and OECD countries, and portfolio investment in foreign securities; and Spain permitted residents to maintain accounts in ECUs at authorized banks and permitted the purchase by residents without restriction of securities denominated in pesetas that were issued by international organizations and foreign governments.

Recent liberalization of capital movements within the EC has been guided by the Capital Liberalization Directive of 1988. The Directive, which was adopted by the EC Council of Ministers in July 1988, called for the removal of all remaining capital controls within two years in most EC countries; however, Ireland and Spain have been authorized to maintain certain restrictions until the end of 1992 1/ and Greece and Portugal until the end of 1992, but with the possibility of extending the authorization until the end of 1995. The Directive requires the liberalization to include all short-term capital transactions (i.e., transactions with an original maturity of one year or less) regardless of whether these transactions are related to any underlying current account transactions. The Directive does, however, contain a safeguard mechanism whereby a country is

1/ Spain has already removed most capital restrictions ahead of the EC directive schedule.

allowed to impose restrictions on most capital movements during a period not to exceed six months if excessive short-term capital movements threaten the stability of the exchange rate and monetary policies.

The Directive has important bearings on capital market liberalizations worldwide in that liberalization is extended not only to EC residents but to non-EC residents as well. Certain exceptions apply however; for example, member countries will continue to be able to exclude direct investments by residents in particular non-EC countries.

In December 1989 the EC adopted the Second Banking Directive. Together with the Capital Liberalization Directive, the fully implemented Second Banking Directive will allow by January 1993 for the unrestricted provision of a broad range of financial services throughout the Community. The Directive calls for abolishing remaining barriers on both the establishment of foreign bank subsidiaries in member countries as well as on the provision of cross-border financial services. The Directive builds on the principle of home country control, whereby a financial institution is allowed to provide the same kinds of services throughout the Community while subjecting itself solely to the banking supervision authorities in the country which issued its license. The Second Banking Directive also has important implications for the worldwide liberalization of the provision of financial services by allowing subsidiaries of banks from third countries to benefit fully from the internal liberalization within the EC.

The collaboration between the EC and EFTA has intensified in recent years following the "Luxembourg Declaration" of 1984 which envisaged the creation of a dynamic European Economic Area (EEA) encompassing the two trading blocks. 1/ Capital market liberalizations within EFTA countries have thus been quite similar to those in EC countries. Whereas Switzerland has long had a liberal regulatory framework for capital transactions, Austria liberalized many restrictions on long-term capital transactions in 1989 and lifted most restrictions on short-term capital transactions in 1990. The only remaining restrictions concern the issuance of domestic securities on foreign capital markets and foreign securities on the domestic capital markets; and the acquisition of real estate by nonresidents. In July 1989 Sweden allowed non-residents to invest in Swedish bonds and money market instruments denominated in Swedish kronor and to make deposits in Swedish kronor in interest-bearing accounts in Swedish banks. Remaining restrictions include deposits made by Swedish residents in foreign banks and payments of life insurance premia to foreign insurance companies. During 1989 Norway enacted a series of measures--including expanded rights for nonresidents to purchase local currency denominated bonds and for residents to obtain foreign currency loans--which by the end of the year had left it with a virtually fully liberalized system for the corporate and institutional sectors; in July 1990 almost all other remaining restrictions, including those affecting individuals, were abolished. In Finland regulations on both outward and inward capital transfers were broadly liberalized in early 1989, with restrictions remaining in place for financial institutions and housing and real estate companies. In 1990, the liberalizations

1/ Current plans envisage the accord to be ratified by national parliaments in 1992. On these plans, the EEA could be in place by January 1, 1993, the same date as the scheduled introduction of the internal market in the EC.

were expanded to include the issuing by residents of markka-denominated bonds abroad and by non-residents in Finland; at the same time the prior authorization requirement of share issues by Finnish companies abroad was abolished. In Iceland, taxes on foreign borrowing were eliminated in 1989, and the following year foreign exchange controls on long-term capital transactions were liberalized and residents were permitted to purchase real estate and foreign securities and undertake direct foreign investments subject to certain limits.

In May 1989, the OECD Council adopted an amended Code of Liberalization of Capital Movements. The Code already covered most medium and longer-term financial operations, including those in securities (bonds and shares), commercial and financial credits, personal capital movements and direct investment (including establishment) in all sectors. The amendments extended the Code's coverage to virtually all capital movements including: (i) money-market operations, including operations in securities and in the inter-bank market; (ii) short-term financial credits and loans; (iii) foreign exchange operations, including spot and forward transactions; (iv) operation of deposit accounts in domestic and foreign currency; (v) swaps, options, futures and other innovative financial instruments; (vi) financial back-up facilities; (vii) commercial credits of more than five years; and (viii) financial credits and loans taken up abroad by non-financial resident enterprises.

c. Recent Developments in Developing Countries

The overall trend among developing countries during 1989-90, as in the years past, was overwhelmingly in the direction of liberalization. More than 50 countries introduced nearly 100 measures of liberalization, whereas only 17 restrictive measures were introduced by 13 countries. However, in spite of the significant progress achieved in recent years and in contrast to industrial countries, developing countries have not in general embraced the idea of fully liberalized capital flows. Furthermore, liberalization measures in developing countries are almost exclusively undertaken unilaterally--often in the context of comprehensive adjustment programs with financial support from the Fund--to achieve country-specific objectives.

Several developing countries introduced a series of liberalization measures on international commercial banking activities during 1989-90, while only two countries resorted to the tightening of such regulations. Bangladesh permitted local banks to extend local currency loans to foreign-owned companies operating within the country. Brazil permitted transfers abroad of proceeds from sales of property and inheritance up to US$300,000. El Salvador and Dominican Republic increased the scope of permissible foreign exchange dealings of commercial banks, and Tunisia allowed offshore banks to accept local-currency-denominated deposits. Romania introduced a foreign exchange retention account program, where up to 50 percent of export proceeds could be deposited; Romania further liberalized the provisions for foreign exchange accounts and eliminated restrictions on the use of foreign exchange from these accounts. Also, Israel liberalized the export credit scheme, allowing exporters to obtain financing outside of the commercial banking sector and Colombia increased the ceilings applicable to foreign currency deposits with domestic commercial banks and financial corporations. As noted, only two countries introduced tightening measures; in China from early 1989 all foreign commercial borrowing was subject to prior approval and restrictions were placed on the use of short-term borrowing as well, and Turkey lowered the limits under which the exchange rate could be freely negotiated between authorized institutions and their customers.

A large and diverse group of developing countries liberalized their regulations concerning nonresidents' accounts and residents' foreign exchange accounts; while at the same time only four countries introduced tighter regulations. Several countries--Cyprus, Egypt, Israel, Mauritius--liberalized would-be emigrants' rights to transfer assets abroad. Turkey liberalized residents' access to international lending and borrowing; while Algeria expanded the right of individuals to open foreign currency accounts to include all residents, and Morocco first lowered and then eliminated the minimum initial deposits required for nonresident Moroccans to open convertible local currency accounts. In Sierra Leone the range of currencies in which domestic economic agents can hold foreign exchange deposits was expanded from only the U.S. dollar to any convertible currency, whereas restrictions on remittances of income of nonresidents were eliminated in Ghana. Peru removed controls on residents' foreign exchange transactions and on resident foreign exchange accounts. Among the four countries that introduced tighter regulations, Poland and Turkey curtailed residents' access to hold foreign currency deposits; Yugoslavia limited temporarily transfers abroad from such accounts in late 1990 and Pakistan required permission from the government for certain transfers of Pakistani securities between nonresidents.

With respect to liberalization of portfolio investments during 1989-90 six countries (India, Madagascar, Mauritania, Morocco, Panama, and Turkey) liberalized inward investments. Whereas India liberalized foreign investments in all hotel-related securities for nonresident Indians, Mauritania's new investment code guaranteed transfers abroad of dividends and profits, and Morocco lifted a general 49 percent limit for the allowable share of foreign participation in local enterprises in most sectors. Madagascar allowed enterprises in the Industrial Free Zone to borrow abroad, and Panama announced new incentives for foreign investment in export processing zones. Turkey broadened the access for nonresidents to purchase domestic securities. In contrast, only two countries liberalized outward investment. Israeli residents were permitted to invest abroad up to 10 percent of their portfolio of financial assets with their own funds, and the rights of foreign residents to repatriate proceeds from liquidation of investment were broadened. Korea abolished requirements concerning credit standing of residents investing abroad, lowered the minimum equity investment ratio, and abolished the minimum interest rate for long-term loans. Furthermore, Korea increased the limits on foreign exchange holdings for investment in foreign securities of domestic securities firms. Whereas Mauritius lowered capital transfer taxes, Turkey provided new tax benefits for foreign investment funds, and Chile increased the access to the official exchange market for repatriation abroad of imported capital and earned profits. Only one country, Gabon, tightened its regulations, when it required foreign companies investing in Gabon to offer shares for purchase by local residents for an amount equivalent to at least 10 percent of the companies' capital.

Not surprisingly, most reforms of capital controls in developing countries during 1989-90 were related to foreign direct investment, as inward foreign direct investment has been increasingly recognized as an important vehicle for economic development. Most measures undertaken were related to the liberalization of inward investment, and the push for liberalization was embraced by a broad spectrum of countries ranging from low-income African countries and middle-income heavily indebted Latin American countries to the fast-growing dynamic economies of South-East Asia. Among African countries, Ethiopia instituted a new investment code, with no restrictions on size, type, and sectors of activity permitted for foreign investments; furthermore, the code guaranteed the right of profit and dividend remittances and proceeds from the sale of assets. Bolivia approved a new law which put domestic and foreign investors on an equal footing. Mauritania and Zimbabwe also strengthened the rights of foreign investors to repatriate profits and dividends, whereas Togo's new investment code emphasized a streamlining of tax exemption privileges. Two heavily indebted countries, Peru and Venezuela, introduced new schemes enabling debt conversions; in Peru new legislation allowed the conversion of donated public debt to be used for development projects and in Venezuela the debt-equity conversion regulations were amended. Venezuela also liberalized substantially restrictions on new direct foreign investments, as did Algeria, Belize, and Mexico. India amended its investment policy by allowing automatic approval of foreign investments with equity shares of up to 40 percent; the Indian Government also eased the access of nonresident Indians to invest in the hotel industry. Korea fully liberalized foreign direct investments in six manufacturing sectors as well as the wholesale distribution business of toiletries and cosmetics; also the administrative ceiling under which automatic approval is guaranteed was raised. Ecuador established a new export processing zone, and China, Ethiopia, and Poland liberalized their joint venture laws. Colombia and Somalia introduced new banking laws; in Colombia the new law permitted foreign equity participation of up to 49 percent (up to 100 percent since January 1991), whereas the Somalian law allowed nonresidents to establish their own financial institutions. Four countries tightened regulations concerning foreign direct investments. Turkey introduced new approval procedures for investments abroad by residents and Malaysia lowered the allowable new foreign capital equity participation in certain manufacturing entities from 100 percent to 60 percent. Finally, in accordance with the Common Monetary Area agreement between the two countries, Lesotho joined South Africa in prohibiting nonresidents from purchasing farms and residential properties with financial rand.

3. Restrictions Leading to External Payments Arrears

The Fund's data on members' external payments arrears include arrears that have been caused by exchange restrictions on current payments or transfers, as well as arrears on financial obligations of which the obligor is the government. 1/

In view of the particularly adverse consequences for the country maintaining arrears and for the international payments system, the elimination or substantial reduction of payments arrears in an orderly manner and without any differentiation in the settlement of arrears as between other members constitutes an important element of members' economic programs supported by the use of Fund resources. 2/ Moreover, the incurrence of arrears and the policies of members giving rise to them have been subject to careful scrutiny in the context of regular Article IV

1/ Payments arrears evidence an exchange restriction under the Fund's Article VIII, Section 2(a), or Article XIV, Section 2, when the authorities of a country are responsible for undue delays in approving applications or in meeting bona fide requests for foreign exchange for payments and transfers for current international transactions as defined in Article XXX(d) on the basis of criteria adopted by the Fund, or distinction has been made between exchange restrictions and defaults (that is, nonpayment of debt for other reasons). Accordingly, when a government or a government entity whose financial operations form part of the central government's budgetary process fails to meet an external payments obligation, the resulting arrears are considered as evidence of defaults by the government rather than exchange restrictions. Similarly, arrears incurred by governments participating in a common central bank are treated as defaults. Although these distinctions are relevant for the purposes of Article VIII and XIV, in the context of the Fund's policies on the uses of its resources, defaults and other forms of arrears involving current and capital payments are viewed as having the same broad macroeconomic character and consequences, and are therefore treated in the same manner. All references to payments arrears in this section relate to arrears as defined in the broadest sense.

2/ A review of the implementation of Fund policies on members' external payments arrears was undertaken by the Executive Board in November 1986, the major conclusions of which were summarized in International Monetary Fund, AREAER, 1987. The conclusions of earlier reviews of Fund policies were summarized in International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, Washington, 1983 and 1985.

consultations with the Fund. The Fund has also consistently followed the practice of not approving under Article VIII, Section 2(a) of the Fund's Articles of Agreement exchange restrictions evidenced by arrears on current international payments, except when a satisfactory program for the elimination of arrears is in place.

After a decline by SDR 7 billion in 1987 from a peak of SDR 36 billion in 1986, external payments arrears of Fund members are estimated to have increased significantly in 1988 and 1989 to SDR 43 billion and SDR 55 billion, respectively (Table 6). In 1990 the amount of arrears is estimated to have increased further to SDR 63 billion, although there was a decline in the number of countries experiencing arrears from 53 in 1988 to 49 in 1990. 1/ The following countries eliminated their arrears in 1989-90: Bolivia, El Salvador, Gambia, Ghana, Guyana, Madagascar, Mali, Mauritania, and the Philippines. As of the end of 1990, the countries with the largest arrears outstanding were Peru, Brazil, and Egypt. The country with the biggest increase in arrears since 1988 was Brazil which had eliminated its arrears in 1988 but owed SDR 9.5 billion in 1990.

1/ As of end-1990, the following 49 members maintained external payments arrears: Algeria, Angola, Antigua and Barbuda, Argentina, Benin, Brazil, Burkina Faso, Cameroon, Central African Republic, the Comoros, the Congo, Costa Rica, Côte d'Ivoire, the Dominican Republic, Ecuador, Egypt, Equatorial Guinea, Gabon, Grenada, Guatemala, Guinea, Guinea-Bissau, Haiti, Honduras, Jamaica, Jordan, Liberia, Mozambique, Myanmar, Nicaragua, Niger, Nigeria, Panama, Paraguay, Peru, Poland, St. Lucia, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Suriname, Syria, Tanzania, Uganda, Viet Nam, Zaire, and Zambia.

Table 6. Arrears Outstanding

(In millions of SDR)

	1983	1984	1985	1986	1987	1988	1989	1990
Algeria	--	--	--	--	--	--	--	101
Angola	--	--	--	--	285	1,258	1,056	1,125
Antigua & Barbuda	13	18	25	33	45	57	89	109
Argentina	3,222	4,163	1,718	544	583	2,927	5,663	7,400
Belize	5	6	--	--	--	--	--	--
Benin	49	89	156	142	191	229	36	25
Bolivia	438	727	220	27	87	57	18	--
Brazil	--	--	1,794	2,963	3,265	--	3,044	9,489
Burkina Faso	--	8	16	32	41	46	100	100
Cameroon	--	--	--	33	150	211	298	642
CAR	28	12	4	2	14	12	17	4
Chad	--	--	--	62	61	58	22	--
Comoros	2	3	4	11	9	16	23	30
Congo	62	97	142	172	268	652	950	457
Costa Rica	39	219	42	143	261	383	315	525
Côte d'Ivoire	174	53	--	17	392	701	1,345	175
Dominican Rep.	211	538	122	144	264	381	575	1,090
Ecuador	101	61	--	--	365	858	1,352	1,873
Egypt	--	--	3,371	5,049	3,172	6,688	7,800	8,800
El Salvador	53	99	85	18	4	25	80	--
Equatorial Guinea	20	36	3	5	10	18	23	29
Gabon	--	--	--	47	--	--	84	275
Gambia	43	52	54	69	29	23	16	--
Ghana	420	237	159	140	79	48	13	--
Grenada	--	1	3	4	6	8	12	14
Guatemala	273	500	533	646	539	214	284	362
Guinea	202	228	247	8	19	70	13	14
Guinea-Bissau	14	60	45	42	23	30	39	36
Guyana	391	564	656	715	711	833	495	--
Haiti	8	2	3	9	10	13	12	13
Honduras	106	179	179	178	243	321	565	341
Jamaica	86	112	101	191	--	--	167	133
Jordan						21	47	168
Liberia	14	22	138	247	462	641	777	773
Madagascar	96	81	77	69	58	43	22	--
Malawi				44	34			
Mali	64	59	65	63	76	39	--	--
Mauritania	55	105	119	--	9	26	7	--
Mexico	267							
Morocco		127	224	482	378			
Mozambique	285	751	838	1,237	--	--	513	208
Myanmar					105	186	244	334
Nicaragua	489	641	633	1,318	1,266	1,899	2,348	2,834
Niger							15	3
Nigeria	5,324	6,134	5,140	6,420	794	3,979	1,218	1,630
Panama					122	1,302	2,057	2,174
Paraguay				92	160	224	235	422
Peru	21	1,411	2,615	4,047	5,253	7,580	8,674	9,559
Philippines					--	181	--	--
Poland			640	2,838	354	409	2,838	793
Romania					50			
St. Lucia	--	1	1	3	4	1	1	1
Sao Tome & Principe	9	6	13	3	14	21	23	13
Senegal							13	11
Sierra Leone	244	244	276	315	319	387	488	556
Somalia			61	130	106	199	325	376
Sudan	1,121	963	1,869	2,207	3,483	4,740	5,403	5,890
Suriname	--	37	49	60	65	70	75	75
Syria				491	543	595	733	702
Tanzania 1/	516	709	581	611	448	16	33	12
Togo	1	4	--	7	84	--		
Uganda	166	111	55	63	23	58	76	57
Venezuela	3,916	4,518	2,735	2,735	2,263	1,057		
Viet Nam	415	684	614	806	985	1,292	1,412	1,620
Western Samoa	3	2	1	1				
Yugoslavia			1,277					
Zaire	372	181	101	85	65	580	261	557
Zambia	980	951	1,490	1,062	1,624	2,131	2,515	837
Total	20,318	25,764	29.494	36,410	29,058	42,753	54,846	63,176

Source: Based on IMF staff reports and other staff estimates.

1/ Excludes arrears to non-Paris Club creditors.

Fifteen of the 49 countries which had arrears at the end of 1990 also had adjustment programs supported by an arrangement with the Fund at that time. Four of these programs provided for an elimination of the payments arrears in 1991 through a combination of rescheduling and cash payments.

IV. Developments in Bilateral Payment Arrangements and CMEA Reform

1. Introduction

While there has been a renewed interest in regionalism, particularly in the context of difficulties in concluding the Uruguay Round of multilateral trade negotiation, this chapter focuses primarily on bilateral payments and the recent reform efforts in Eastern Europe. A recent Fund publication 1/ on developments in regional trade arrangements concludes that beyond a certain threshold the proliferation of arrangements may undercut the multilateral trade system and render it inoperative and that--if the Uruguay Round fails--the risk will increase that the trade system will gravitate toward preferential trading blocs aligned around the European Community, the United States, and Japan (the triad). Such developments, if accompanied by a "fortress mentality" that results in an increase in protection would have adverse effects on world welfare.

Among Fund members, bilateralism in payments agreements has declined in importance in recent years as more currencies became convertible, at least for current transactions, and financial markets became more integrated. This globalization of payments streams took place despite an increasing number and importance of regional trade arrangements. While these opposing

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1/ The World Trade System-Developments and Issues, op. cit.

trends seem striking at first sight, they underline the fact that limitations on the transferability of payments in the form of bilateral payments agreements are a most severe distortion to the free flow of resources with higher economic costs and lower political gains than a set of common trade restrictions. As of end-1990, such agreements between two Fund members and between a Fund member and nonmembers totaled 85 and 40, respectively. The corresponding numbers for 1989 were 79 and 51; in 1988, they were 69 and 72. These figures are not comparable, however, as 4 countries joined the Fund in 1989-90. Among these four new members, two (Bulgaria and Czechoslovakia) had a total of 32 bilateral payments agreements with other Fund members and non-Fund members in 1990. Based on the 1988 membership, there were 51 bilateral payments agreements between Fund members and 72 agreements between Fund members and nonmembers in 1990. Hence, the overall tendency towards a liberalization in payments arrangements continued in 1989-90.

The recent economic changes in Eastern Europe are likely to have further repercussions in the area of payments regulations. In a 1989 publication 1/ the Fund staff noted that the majority of bilateral payments agreements in 1988 were maintained at that time between Fund members and nonmembers, and that these were ". . .difficult to terminate without far-reaching changes in the state trading practices of non-Fund members, particularly in Eastern Europe". In 1990 the political upheaval in Eastern Europe brought about fundamental political and economic changes, including steps towards abolition of central planning and state trading. The greater openness and dismantling of controls over trade and payments eliminate the need and justification for most bilateral payments arrangements, which

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1/ Developments in International Exchange and Trade Systems, op. cit., Chapter 4.

eventually should be reflected in the formal abolition of a number of the present agreements. As the reform process is still in an early stage, the exact nature of trading relations between members of the former Council of Mutual Economic Assistance (CMEA) and with other countries is still evolving, but the initial steps taken indicate the potential for a far-reaching change from bilateralism to a multilateral orientation. 1/

In 1990 Bulgaria and Czechoslovakia--both members of the CMEA--joined the Fund. Two other CMEA members, Hungary and Poland, had joined the IMF in the 1980s. Romania, the fifth full Eastern European CMEA member, has been part of the IMF since the early 1970s. 2/ Trade and payments arrangements in the CMEA and between individual CMEA countries and other countries remained very restricted. Among the remaining bilateral payments arrangements, those involving a CMEA member constituted by far the most important share worldwide. 3/ The recent reform efforts in Eastern Europe have now led to the effective dissolution of the trading arrangements of the CMEA. 4/ While the exact nature of the emerging trade relations is yet

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1/ Most important in that respect is the transition to trade at world market prices in convertible currency from January 1991 (except for certain transactions committed in 1990 that could be settled in transferable rubles until March 31, 1991), which means the complete abolition of all intra-group bilateral trade agreements and the dissolution of the CMEA settlement mechanism. The countries' intention to integrate in world markets, however, also is reflected in their decision to seek membership in the International Monetary Fund and to seek cooperation with other multilateral institutions such as the European Community.

2/ Yugoslavia, an associate member of the CMEA, is a founding member of the Fund.

3/ Developments in International Exchange and Trade Systems op. cit., page 32.

4/ The exact nature and institutional setup of a new Eastern European trading agreement is still unknown at this point. The March 1991 CMEA meeting in Moscow failed to formally dissolve the CMEA, leaving open the debate about a reformed setup for trading relations.

unclear, the introduction of convertible currency trade at world market prices in January 1991 indicates a major move towards world market integration. Since then, a number of trade agreements with indicative commodity lists and bilateral clearing arrangements with swing limits have been concluded between most Eastern European countries and the U.S.S.R. or individual republics of the U.S.S.R.

2. The Fund's Treatment of Bilateral Payments Arrangements

At the inception of the Fund most currencies were not convertible and a major part of trade took place in the framework of bilateral agreements, which was one way to alleviate the shortage of convertible currency. Recognizing the limitations arising through the lack of convertible currency, the Fund initially acknowledged a possible temporary justification for certain bilateral agreements, even though discriminatory payments restrictions and currency arrangements are incompatible with the basic objectives of the Fund. Bilateralism was however, expected to be a passing phenomenon, decreasing in volume and importance with progress by countries to make their currencies convertible. In order to ensure that bilateral arrangements were indeed limited in time and scope to cases were a clear need could be established and would not conflict with the Fund's purpose specified in Article I (iv), 1/ bilateral arrangements were subject to the Fund's jurisdiction under Article VIII, Section 2(a) (on the avoidance of restrictions on current payments) and Article VIII, Section 3 (on the avoidance of multiple currency practices and discriminatory currency

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1/ To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

arrangements). On several occasions the Executive Board reaffirmed that surveillance over bilateral arrangements that involve exchange restrictions and represent limitations on a multilateral system of payments was an integral part of its policy on restrictions. The stated aim of the policy was the elimination of foreign exchange restrictions and the earliest possible establishment of a multilateral system of payments in respect of current transactions between members. The Fund's policy on the elimination of bilateral payments arrangements was to consult regularly with the member countries concerned on their need to retain existing bilateral arrangements or their ability to facilitate the reduction of bilateral arrangements by other countries. This policy has been implemented in the course of regular Article IV consultations with member countries as well as in the context of members' recourse to use of Fund resources.

Under Article XI, Section 2 members retain the right to impose restrictions on exchange transactions with nonmembers or with persons in their territories unless "the Fund finds such restrictions prejudice the interests of members and are contrary to the interests of the Fund". In practice bilateral payments arrangements have been prevalent in the conduct of trade with non-member countries having centrally planned economies. In recent years there had been only limited progress in abolishing these arrangements, although recent events and membership are likely to lead to the formal, as well as de facto, elimination of bilateral payments arrangements.

Historically, bilateral payments arrangements have taken a variety of forms and each arrangement must be examined closely to determine whether or not it embodies features that would be subject to Fund approval under Article VIII, Sections 2(a) or 3. The Fund usually considers the following two elements essential features of bilateral payments arrangements:

- the existence of at least one bilateral payments account between the two countries concerned, <u>and</u>
- agreement between the countries that some or all of the current receipts by one partner from the other shall be used exclusively for current or capital payments to the latter.

The limitations on the transferability of balances in bilateral accounts give rise to a restriction on the making of current payments under Article VIII, Section 2(a), if through governmental action by the parties of the agreement balances in bilateral accounts are not freely transferable into other currencies. 1/ Even where the balances in the bilateral accounts are allowed to be transferred into another currency, if the period between such transfers is judged unduly long (i.e., more than 90 days), an exchange restriction within the meaning of Article VIII, Section 2(a) is involved. Bilateral payments arrangements may involve multiple currency practices subject to Article VIII, Section 3 if the credit balances in the clearing accounts are not remunerated at the prevailing representative interest rate in the market, or if settlement of balances in another currency is effected at a special exchange rate or at an exchange rate whose cross rate differentials exceed more than 1 percent.

1/ Bilateral arrangements between private entities, freely entered into, fall outside the jurisdiction of the Fund.

The following section will recapitulate the main features of the original CMEA to serve as point of departure for an evaluation of the possible path and the progress already achieved by way of integration of the new Fund members into the world of multilateral trade and payments.

3. The Pre-Reform CMEA

a. Major Features of the CMEA Arrangement

The CMEA was formed in 1949 and, after several enlargements, it included in 1990 the U.S.S.R, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, Cuba, Mongolia, and Viet Nam as full members. Yugoslavia was an associate member, and a number of other countries maintained looser associations with the group. 1/ For the past four decades, until the de facto abolition of the arrangement and the introduction of convertible currency trade on January 1, 1991, the arrangement governed all regional trade and payments 2/ as part of the attempt to create a socialist integration system. Since the member countries' national economies operated on production plans, the CMEA cannot be compared to any of the more familiar concepts of regional economic integration, such as customs unions, free trade areas or common markets. The arrangement operated under the following main principles: 3/

1/ For the purpose of this chapter we will concentrate on the six Eastern European CMEA countries.

2/ The quantitative importance of intraregional CMEA (including the U.S.S.R.) trade varies from country to country. A quantification for the countries considered here is given in the next section.

3/ For a detailed description of the CMEA see Schrenk, Martin, "The CMEA System of Trade and Payments: Today and Tomorrow," SPR Discussion Paper No. 5 (January 1990), and Schrenk, Martin, "Whither Comecon," Finance and Development, September 1990.

b. Bilateral clearing: The core function of the CMEA was to set rules for planning and implementing bilateral trade agreements and to provide the institutional framework for settling bilateral accounts. These bilateral trading agreements among CMEA members were negotiated as part of each member's five-year planning exercise and implemented under annual protocols. Bilateral trade was further broken down into a number of sub-balances that had to be cleared independently. Actual transactions were recorded and cleared through clearing accounts held with the International Bank for Economic Cooperation (IBEC) in Moscow, with all transactions denominated in transferable rubles (TR), the CMEA unit of account. Due to the principle of individual balancing, surpluses and deficits were not transferable between commodity groups or trading partners and could not be carried forward to the next period. Despite its name, the transferable ruble lacked both commodity and currency convertibility.

c. Exchange rates: The transferable ruble was used widely in the economic and financial cooperation among CMEA countries, in particular to express prices and denominate transactions and bilateral balances within IBEC. Transactions settled in transferable rubles include most intra-CMEA commodity trade, services, credits, consolidated and converted balances of past noncommercial transactions, and certain other transactions. Due to the lack of commodity and currency convertibility of transferable ruble balances huge deviations in cross rates could emerge without arbitrage possibilities (Table 7). Furthermore, due to the planned nature of trade, exchange rates

Table 7. CMEA--Exchange Rates (end-June 1990)

Country	Currency	Noncommercial Exchange Rate to the Ruble 1/ June 1990	Transferable Ruble Dollar Rate 2/	Implicit Dollar Rate 3/	Official Dollar Rate	Parallel Market Rate 3/
Bulgaria	lev	1.00	1.59	0.623	...	9.00
Czechoslovakia	koruna	12.00	1.59	5.00	16.51	35.00
Hungary	forint	19.10	1.59	11.97	64.67	90.00
Poland	zloty	144.1	1.59	90.34	9,500.00	10,250.00
Romania	leu	8.3	1.59	5.2	20.82	90.00
Yugoslavia	dinar	...	...	...	11.69	19.00
GDR	mark	3.2	1.59	2.01	...	7.00 4/

Sources: Joint Study of the Soviet Union, International Monetary Fund, International Financial Statistics, and International Currency Analysis.

1/ Units of national currency per ruble.
2/ Dollars per transferable ruble as quoted by the International Bank for Economic Cooperation (IBEC).
3/ Units of national currency per dollar, as published monthly by International Currency Analysis survey data.
4/ End-May 1990.

could deviate from more market determined rates 1/ by substantial margins without effects on trade volumes.

d. Trade prices: Since trade quantities were determined in bilateral negotiations, prices were accounting items and did not fulfill any role in determining trade flows. Prices charged were based on the "Bucharest formula" 2/ and did not reflect domestic relative prices or relative scarcities of goods. The Foreign Trade Organizations (FTOs) used domestic prices in all dealings with domestic enterprises and a complex mechanism of "price equalization" (operating through such means as taxes, subsidies, different exchange rates) was put in place to neutralize intercountry price differences. All differences between domestic and converted border prices were thus ultimately absorbed by the budget.

e. Trade balances: The lack of commodity and currency convertibility of the transferable ruble turned bilateral surpluses into involuntary trade credits. Each CMEA country therefore sought to bilaterally balance trade in all subcategories with every other CMEA member. This involved extensive microeconomic planning, using export and import quotas and licenses as instruments. Trade balances under the system could not be influenced by exchange rate changes.

1/ Approximated here by the parallel market rate. As this rate includes a risk premium, one would expect a true market rate to be somewhat less depreciated.

2/ Essentially a five-year moving average of world market prices, converted into TR at the official CMEA exchange rate. Except for the case of basic commodities, quality differences among goods lead to complications with the formula. Furthermore different bargaining power of individual countries and different cross rates to the TR often led to deviations from the reference basis and deviations between pairs of countries.

f. Bilateral and multilateral aspects: The CMEA was not a true multilateral body as all decisions of the Council of Ministers, the highest CMEA decision making organ, had only legally binding character once they got embedded in bilateral agreements. Some common institutions 1/ and a number of multilateral cooperation agreements, however, were put in place to support the long-run goal of socialist integration and regional autarchy. Most important among the multilateral cooperation agreements were treaties institutionalizing some form of horizontal specialization in production of final products, such as machine building, radio engineering, electronics and chemical industry. Trade under such multilateral agreements was in some fields quite important, e.g., amounting for machinery to 42.5 percent of all exports in 1987. Other forms of multilateral cooperation were directed towards common research in science and technology and common exploration of natural resources.

4. Country-Specific Aspects

In the relations among CMEA members bilateral agreements predominated, allowing for some diversion across countries in the framework for intra regional trade, payments and exchange rate regulations. Additionally, most CMEA countries maintained bilateral trade and payments arrangements with countries outside the region. In fact, the 1989 Fund survey on bilateral trade and payments practices showed that most such bilateral arrangements recorded involved developing countries on one side and Eastern European CMEA

1/ The most important were the IBEC, which managed the intraregional clearing of trade and payments and the International Investment Bank (IIB), which was responsible for financing joint projects and undertook some borrowing in convertible currency.

countries on the other. 1/ The following section will examine salient features of each of the member countries' relations to the CMEA group as well as summarize its bilateral trade and payments relations with non-CMEA trading partners. 2/

a. Bulgaria

Intra CMEA issues: In 1990 Bulgaria sold 58.7 percent of its total exports and brought 55.8 percent of its total imports under intergovernmental treaties governing CMEA trade. In order to fulfill the contractual obligations, exports to the CMEA had to be subsidized substantially (by an estimated 526 million lev in 1990, equivalent to about 1.2 percent of GDP).

Other bilateral agreements: Apart from the CMEA countries, Bulgaria had at the end of 1990 bilateral payments agreements with Albania, Bangladesh, Brazil, People's Republic of China, Ethiopia, Finland, Ghana, Greece, Guinea, Iran, Cambodia, Democratic People's Republic of Korea, Lao PDR, Malta, Mozambique, Nicaragua, Pakistan, Tanzania, and Tunisia. Transactions are generally settled through clearing accounts. Imbalances in these accounts are usually to be settled at the conclusion of annual and multi-annual arrangements, in commodities during the six months following the end of agreement periods and thereafter in convertible currency.

1/ Developments in International Exchange and Trade Systems op. cit.

2/ Data reflect the latest available figures, obtained from the respective country authorities. Data include exports to and imports from Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the U.S.S.R.

b. Czechoslovakia

Intra CMEA issues: In 1989 Czechoslovakia exported 53.8 percent of its total exports and imported 61.7 percent of total imports under intergovernmental treaties with other CMEA countries. There were planned targets for imports from the transferable ruble area and "obligatory" exports to the nonconvertible area. In 1990 obligatory exports amounted to 40 percent of all exports to the nonconvertible area. Export subsidies to the convertible currency area were more generous than for intra-CMEA trade.

Other bilateral agreements: At the end of 1990 Czechoslovakia had bilateral payments agreements with Afghanistan, Albania, Bangladesh, People's Republic of China, India, Iran, Cambodia, Democratic People's Republic Korea, Lao PDR, Pakistan, and Yugoslavia. 1/ A bilateral trade agreement was signed with the United States in 1990. 2/

c. Hungary

Intra CMEA issues: In 1990 Hungary exported 34.3 percent of its total exports to the CMEA region and received 32.5 percent of its imports from the CMEA. In contrast to early liberalization movements in trade with the convertible currency area, trade with the CMEA remained closely monitored. Trade with the CMEA was mostly conducted via a central allocation of quotas to enterprises, where the quota represented a delivery obligation. This trade occurred at fixed prices and an elaborate system of taxes and subsidies was applied to ensure that enterprises achieved similar profitability

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1/ A bilateral payments agreement with Finland was terminated on March 31, 1990.

2/ Beginning January 1, 1991 most of those bilateral agreements have been abolished. The remaining treaties are with Afghanistan, Albania, India, and the Islamic Republic of Iran.

in transferable ruble trade as in convertible currency trade. The trade surplus with the CMEA was to be limited by strict enforcement of export quotas, with foreign exchange receipts from CMEA trade in excess of quota not convertible through the banking system, though they could be auctioned to potential importers from the CMEA. In 1988 approximately 15 percent of Hungary's trade with the CMEA was conducted via enterprise level decision making rather than under centrally negotiated quotas. However, it is not known how much of this trade was financed through the auction market.

Other bilateral agreements: At the end of December 1990 Hungary had bilateral payments agreements with Albania, Brazil, People's Republic of China, Colombia, Ecuador, Lao PDR, Korea, and Cambodia. Hungary also had trade agreements with bilateral payments features for certain commodities with Afghanistan, Bangladesh, and Pakistan.

d. Poland

Intra CMEA issues: In 1990, 25.3 percent of all Polish exports were directed to the CMEA area declining sharply from 35.1 percent in 1989. On the import side 28.6 percent of the goods originated from the CMEA, down from 31.9 percent in 1989. Trade with the nonconvertible currency area remained closely monitored and both imports and exports to the nonconvertible currency area required licenses, specifying both volume and value of permissible trade. Export licenses were used to limit exports to the amount specified under bilateral agreements and to ensure compliance with quota requirements. There is evidence that exports to the Soviet Union at least have been limited by a reluctance to grant appropriate licenses. In 1990 intra-CMEA trade started shifting towards settlement in convertible currencies, with 32.9 percent of all exports to and 42.4 percent of all imports from the CMEA being paid in convertible currencies.

Other bilateral agreements: At the end of December 1989 Poland had bilateral payments arrangements with Albania, Bangladesh, Brazil, People's Republic of China, Colombia, Ecuador, India, Iran, Cambodia, Korea, Lao PDR, Lebanon, and Nepal. Poland also had trade agreements with bilateral payments features for certain commodities with Argentina, Bangladesh, Malta, Pakistan, and Yugoslavia. Bilateral agreements with non-CMEA members accounted for 5 percent of total trade with such countries as compared to a peak of almost 8 percent in 1986. During the course of 1990 most bilateral payments agreements with countries other than the CMEA were effectively terminated 1/ and the largest part of all new trade is being freely settled in convertible currencies; in some cases, however, trade under pre-existing contracts will continue under the old clearing arrangements. 2/

e. Romania

Intra CMEA issues: In 1990 Romania sold 42.0 percent of its exports to the CMEA market and obtained 42.3 percent of total imports from there. For transactions with the CMEA there were separate exchange rates for commercial transactions and for nontrade transaction.

1/ The agreements effectively terminated were those with Bangladesh, Brazil, the People's Republic of China, Egypt, Greece, India, the Islamic Republic of Iran, Malta, Nepal, and Pakistan.

2/ Refers to an arrangement with Lebanon and a contract of Elektrim, a Government owned foreign trade organization with Turkey. In the case of the People's Republic of China, Egypt, Greece, India, and the Islamic Republic of Iran, outstanding balances may still be settled under the bilateral agreement.

Other bilateral agreements: In 1990, Romania had bilateral payments agreements with Albania, Brazil, People's Republic of China, Ghana, India, Iran, and the Democratic People's Republic of Korea. In addition certain commercial transactions with Turkey are settled through a clearing account denominated in U.S. dollars.

f. Yugoslavia

Intra CMEA issues: Yugoslavia is an associate member of the CMEA only but in many respects it interacted with the group in the same manner as the full members. Targets were set for trade with the nonconvertible area. In order to combat unanticipated surpluses in nonconvertible currency trade, the dinar's automatic convertibility into or from nonconvertible currencies was lifted. Enterprises whose exports exceeded quarterly targets thus were no longer credited automatically with the dinar equivalent of their exports, but instead were issued a "transferable claim" which was to be settled on a "first come, first served" basis once the claims under the clearing arrangement were in line with the targets. In 1990 Yugoslavia sold 29.1 percent of its exports to the CMEA and received around 24 percent of imports from there.

Other bilateral agreements: On December 31, 1990 there were payments agreements requiring denomination of transactions in U.S. dollars with Albania, Czechoslovakia, Mongolia, and the U.S.S.R. 1/

1/ With effect from January 1, 1991, all transactions have been made in convertible currencies; agreements to that effect have been finalized with all of these countries except with Czechoslovakia.

5. Impact of CMEA Reform

At this juncture it is not yet possible to evaluate the exact impact of the dissolution of the CMEA on the number and jurisdictional nature of bilateral agreements as trade agreements and trade practices for intra- and interregional exchange are still in an evolutionary stage. In this transitional period it is difficult to take stock of the exact number of arrangements still in force. However, all arrangements upheld by all other Fund members with the former Eastern European CMEA countries, which were previously excluded from Fund jurisdiction under Article XI, Section 2, have become subject to approval under Article VIII with respect to those other members if the agreement came into effect after they became members of the Fund.

Following from the above listing of agreements and assuming that non-CMEA members have not altered their trade and payments practices with the Eastern European countries there would, hence, be 36 such bilateral arrangements newly under Fund surveillance and jurisdiction. 1/ In assessing those arrangements the Fund will henceforth apply the same criteria used for other bilateral arrangements and, depending on individual circumstances, will encourage the removal of the restrictive features of these arrangements at the earliest possible date. Concerning bilateral arrangements among the Eastern European countries, which includes all trading arrangements still in force from the old CMEA arrangement, they can

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1/ This would be a maximum number for such arrangements. Realistically one can assume that part of the bilateral arrangements formerly maintained between Fund members and CMEA countries were the only possible way of market access and will be abolished in the course of the reform process.

be retained under Article XIV insofar as they were in existence at the time of Fund membership; otherwise, they would be subject to approval under Article VIII.

Multiple Exchange Rates Maintained by Members
as of December 31, 1990 (Unless Otherwise Noted)

Afghanistan

The official exchange rate is defined in terms of the U.S. dollar but it applies to no more than 10 percent of convertible currency transactions. The official rate applies to (1) a few transactions of the Central Government; (2) certain foreign currency income earned in Afghanistan; and (3) some transactions in accounting units specified under bilateral payments agreements.

Aside from the official rate, there also exists a market-determined rate that prevails in the money bazaar, which operates legally, and a commercial rate set by the Government and linked to the bazaar rate. Most convertible currency transactions are effected at the commercial or free market rates.

Bahamas

The official rate is fixed in terms of the U.S. dollar.

A freely determined exchange rate involves only capital transactions in which "investment currency" is negotiated between residents in respect of purchases from nonresidents of foreign currency securities or in the making of direct investments outside The Bahamas.

Bangladesh

The official rate vis-a-vis the U.S. dollar is determined with reference to a weighted basket.

Different effective exchange rates arise from the operation of the Secondary Exchange Market (SEM), which comprises the Wage Earners' Scheme (WES) and the Export Performance Benefit (XPB) Scheme. Under the WES, foreign exchange earnings remitted by workers abroad, tourist receipts, and most service receipts are sold at a rate determined by a committee of authorized foreign exchange dealers (mainly banks). Under the XPB scheme, exporters and certain indirect exporters of nontraditional items are eligible to receive an exchange rate premium.

Bolivia

The official exchange rate applies to all foreign exchange operations in Bolivia. The official selling rate is determined by an auction held daily by the Central Bank, which sets a floor price below which no bids will be accepted. This floor price is the official exchange rate.

There is a parallel but tolerated exchange market.

Brazil

Since March 1990 Brazil has followed a flexible exchange rate policy under which the cruzeiro floats independently with respect to the U.S. dollar.

Exchange transactions in the exchange markets are carried out by the Central Bank and by banks and tourist agencies authorized to deal in foreign exchange; the tourist agencies deal only in bank notes and traveler's checks in a "manual market." Commercial interbank market rate is the same rate that applies to "agreement dollars" used for settlements with bilateral agreement countries.

Different effective rates arise on the selling side from the application of a financial transactions tax (IOF) of 25 percent to purchases of foreign exchange for imports of selected services. On the buying side, different effective rates arise from the operation of an exchange market since January 1989 in which the exchange rate is freely determined by participants in the market. In this market the transactions include receipts from tourism, payments to exporters of gems and/or to Brazilian investors abroad for foreign exchange receipts corresponding to profits and dividends. The IOF tax of 25 percent was eliminated in March 1990.

Bulgaria

The exchange rate system consists of three rates: (1) a basic rate pegged to a basket of currencies and to be applied to official transfers and imports of essential products; (2) a market rate to be determined at periodic foreign exchange auctions and to be used for most commercial transactions; and (3) a cash rate applied to transactions in bank notes and travelers' checks by individuals and to be set on the basis of prevailing conditions in the market. (A unified, floating exchange rate system was introduced on February 19, 1991).

Chile

The official exchange rate of the Chilean peso (maintained within a band of ±5 percent around mid-point)is pegged to the U.S. dollar at a rate adjusted at daily intervals according to a schedule established on the basis of the domestic rate of inflation during the previous month, less the estimated world rate of inflation. The official foreign exchange market (formal exchange market) consists of commercial banks, exchange houses and other entities that are authorized by the Central Bank. Transactions of merchandise trade, remittances of dividends and profits, and authorized capital transactions are effected at this market.

In addition, there is an informal exchange market through which all transactions not required to be channeled through the official foreign exchange market take place. In both markets, private parties are free to negotiate exchange rates.

The Central Bank has provided an exchange subsidy on the service payments on some debts contracted prior to August 6, 1982. The subsidy is paid by means of notes indexed to inflation with a minimum maturity of six years, and carrying a 3 percent rate of interest. On December 31, 1990, the difference between the official rate and the subsidized rate was Ch$72.8 per US$1. Although the stock of debt eligible for the preferential rate is estimated at less than US$70 million, the actual amount is expected to be negligible due, inter alia, to the bankruptcy of many of the affected debtors, and the subsidy operations are expected to stop soon.

China

Since January 1, 1986 China has followed an exchange arrangement whereby the exchange rate for the renminbi is based on developments in the balance of payments and in costs and exchange rates of China's major competitors.

Since early 1988 all domestic entities that are allowed to retain foreign exchange earnings have been permitted to trade in foreign exchange swap centers at rates mutually agreed upon between buyers and sellers under the supervision of the State Administration of Exchange Control (SAEC), which must approve the use of foreign exchange purchased in the swap centers.

Colombia

The Colombian authorities follow a policy of adjusting the peso in small amounts at short intervals, taking into account (1) the movements of prices in Colombia relative to those in its major trading partners; (2) the level of Colombia's foreign exchange reserves; and (3) Colombia's overall balance of payments performance.

There are other effective exchange rates, which result from (1) a 6.5 percent tax on coffee export proceeds; (2) tax credit certificate (CERTs) granted at three different percentage rates for most export proceeds; (3) the imposition of or remittance tax at two different rates on certain service payments; and (4) an 85 percent advance exchange license deposit for import payments (abolished in January 1991).

Costa Rica

Costa Rica follows a flexible exchange rate system. All transactions, with the exception of allowances for studies abroad (to the students who registered with the Central Bank prior to 1981), take place at the unified exchange rate.

The official exchange rate of ₡ 20.00 = US$1 is used exclusively for granting foreign exchange to students.

Dominican Republic

The official exchange rate is pegged to the U.S. dollar. The Central Bank administers all foreign exchange transactions.

An illegal parallel foreign exchange market exists. On December 31, 1990 the difference between official exchange rate and the parallel exchange rate was about 15 percent.

Since January 1991 the authorities introduced a dual exchange rate system by introducing a freely floating rate determined by an interbank market. Except for specified transactions--including exports and key imports--which are still under the pegged official exchange rate, all other transactions are subjected to the rate determined by the interbank market. With the devaluations of the official exchange rate during the first quarter of 1991, the differences between the official rate, the interbank rate, and the parallel market rate have been reduced to 1-2 percent range.

Ecuador

There are three exchange rates: the official rate, which is used for accounting purposes of the Central Bank only; the intervention market rate of the Central Bank; and the free market rate. All foreign trade transactions of the private sector take place on the intervention market of the Central Bank. Those private sector transactions that do not take place in the intervention market take place in the free market.

Egypt

The exchange rate system consists of the central bank pool rate, the commercial bank rate, and the rate outside banks, which is used for customs valuation purposes.

The rate in the commercial bank market (introduced in May 1987) is set by a committee of eight members (four from public sector banks, two from joint-venture banks, and two from private sector banks), with one observer from the Central Bank and one from the Ministry of Economy and Foreign Trade. The committee fixes the commercial bank rate at the end of each business day, which is binding for all transactions effected in the market the following business day. Four indicators (supply, demand, working balances of the banks, and assessment of general market trends) are used in setting the rates.

The following transactions take place in the commercial bank market: (1) workers' remittances; (2) tourism receipts; (3) bank purchases from all types of foreign exchange accounts and of foreign bank notes or other means of payment; (4) commissions and bank interest receipts; (5) retained private sector export receipts; (6) surrendered private sector receipts from exports; (7) except for cotton, petroleum, rice, Suez Canal and Sumed Pipeline receipts, all public sector visible and invisible receipts; (8) profits of Egyptian companies and banks; (9) public sector visible and invisible payments within the limits established by the foreign exchange budget; (10) some private sector invisible payments; (11) private sector imports; and (12) settlements of letters of credits opened by the private sector before May 11, 1987.

Private sector payments not authorized through the commercial bank market may be effected through free accounts held with domestic banks ("own exchange") at a rate agreed between the parties.

On August 15, 1989, the Government began a process of unifying the Central Bank pool rate with the commercial bank rate, and thus a number of adjustments on the pool rate has been made since then.

Related to bilateral payments agreements, there also exists a number of special exchange rates.

El Salvador

El Salvador maintains a unified floating exchange rate system under which authorized foreign exchange transactions freely take place at rates determined by supply and demand.

The Central Reserve Bank establishes weekly the exchange rate applicable to transactions between the Central Reserve Bank and the public sector, to foreign exchange surrendered by coffee exporters to the Central Reserve Bank, and to the calculation of tax obligations. This rate is the simple average of the exchange rates set by commercial banks and exchange houses during the previous week.

Ghana

The exchange rate of the Ghanaian cedi is determined in an interbank market supported by weekly wholesale auctions conducted by the Bank of Ghana. This rate is used for official valuation purposes, but does not necessarily apply to transactions among authorized dealers, and between authorized dealers and their customers.

With effect from February 1, 1988, foreign exchange bureaus were allowed to be opened by any person, bank, or institution licensed by the Bank of Ghana. Each foreign exchange bureau is free to quote buying and selling rates. All bona fide imports and approved services are allowed to be funded through the bureaus.

International organizations, embassies, and similar institutions are not permitted to transfer funds into Ghana through any foreign exchange bureau or to carry out foreign exchange transactions under the foreign exchange bureau scheme.

Guyana

Three exchange rates exist for the Guyana dollar: an official rate fixed by the Bank of Guyana, a free (cambio) rate determined by market forces, and a special rate fixed by the Bank of Guyana for transactions with CARICOM countries. This CARICOM rate is adjusted weekly on the basis of movements in the cambio exchange rate.

The transactions effected at the official exchange rate are; (a) on the receipts side, sugar, bauxite, rice, and telecommunications; and (b) on the payments side, fuel, sugar, rice inputs, foodstuffs under commodity assistance, and official debt service payments. All other transactions, except CARICOM transactions, are effected at the cambio rate.

On February 21, 1991, the official and cambio rates were unified and the CARICOM rate was abolished. As an interim arrangement, the official rate was set every Friday at the weighted (by volume transactions) average of the exchange rates prevailing in the cambio market in the week ending Wednesday. Also, rice and telecommunications transactions were transferred to the cambio market.

Haiti

The official value of the Haitian gourde is defined in terms of the SDR, but in such a way as to preserve the relationship of G 5 = US$1, which is both the official buying and selling rate for the U.S. dollar.

This official rate applies to the proceeds from sugar exports, as well as 40 percent of all other export proceeds and foreign exchange received by maritime agencies and nongovernmental organizations; 20 percent of private transfers; foreign exchange receipts of public enterprises; certain public sector payments; public debt service payments; payments for imports of petroleum products; and official external loans and grants and transfers received by exchange houses.

A different rate established freely in a parallel market, consisting of the commercial banks and a limited number of authorized exchange houses, is used for all other transactions.

Honduras

With the exception of debt service payments of the Central Government and trade with other Central American countries, all foreign exchange transactions are conducted in an interbank market. The exchange rate in the interbank market is determined by the Central Bank, and is adjusted periodically. The selling rate applicable to purchases by the private sector through the authorized banks and institutions, is the buying rate plus a commission of 1.5 percent, and a commission of 1 percent is applied to purchases by the public sector. Debt service payments, including debt conversions, of the Central Government is conducted at the official rate of L 2 = US$1.

Separate exchange rates arise from an arrangement permitting exporters to Costa Rica, El Salvador, and Guatemala to transfer their foreign exchange proceeds to importers at freely negotiated exchange rates.

Hungary

The exchange rate of the forint against currencies other than those of the member countries of the Council for Mutual Economic Assistance (CMEA) and Albania and the Democratic People's Republic of Korea is derived on the basis of a weighted basket of eleven currencies; the weights are adjusted annually and reflect the currency composition of Hungary's foreign trade turnover with the nonruble currency area. The value of the forint in terms of the basket is adjusted at irregular intervals, notably on the basis of the difference between the domestic and foreign rates of inflation.

The largest portion of Hungary's trade and financial settlements with the member countries of the CMEA is settled in transferable rubles through the International Bank for Economic Cooperation (IBEC), and with Albania, the Democratic People's Republic of Korea, the Lao People's Democratic Republic, and Cambodia in clearing rubles. Official exchange rates for the transferable ruble and the clearing ruble are, in principle, quoted daily by the National Bank, although these rates remain fixed for longer periods. The National Bank also quotes exchange rates for the forint against the currencies of the CMEA, Albania, and the Democratic People's Republic of Korea. These rates are used for noncommercial settlements; e.g., international travel, expenses of diplomatic representation, and scholarships are based on multilateral agreements or, in some cases, on supplemental bilateral agreements.

From the beginning of 1991, trade and financial settlements previously conducted in transferable or clearing rubles, have been settled in convertible currencies, with the prices used for these transactions no longer being determined by intergovernmental agreement, but by prices prevailing in world markets; excluding those orders placed before the end of 1990. At the same time, most noncommercial transactions have also been conducted in convertible currencies, except for tourist travel to the Czech and Slovak Federal Republic.

Also, since the beginning of 1991, the NBH has not quoted exchange rates for the forint against the currencies of the member countries of the CMEA, Albania, and the Democratic People's Republic of Korea; Hungarian commercial banks will have shortly been permitted to trade at freely determined exchanges in these currencies.

Islamic Republic of Iran

The official rate in Iran is fixed in terms of the SDR by Bank Markazi (the central bank). The official rate in terms of the U.S. dollar is determined daily on the basis of the SDR-rial rate. This rate mainly applies to exports of oil, imports of essential goods, military items, certain raw materials and machinery, foreign exchange allowances for certain invisibles, and public sector capital transactions.

In addition, the exchange rate system also consists of two "incentive" rates that apply to non-oil exports, a "preferential" rate and a "competitive" rate that apply to certain imports, a "service" rate used for some invisibles, and the "free" market rate that applies only to Iranian nationals residing in the Republic.

Jamaica

Exchange rates for the Jamaica dollar is market determined under an Interbank Foreign Exchange Trade System (interbank foreign exchange market). The interbank foreign exchange market is operated by the commercial banks and the Bank of Jamaica. In addition to receipts from exports of bauxite, alumina, sugar, bananas, proceeds from official loans and investments and tourism receipts, which must be surrendered directly to the Bank of Jamaica, the commercial banks are also required to surrender 30 percent of their foreign exchange purchases to the Bank of Jamaica at the previous day's average weighted buying rate plus a spread of J$0.03.

The forward market for foreign exchange is operated by the commercial banks at rates negotiated with their customers under certain Bank of Jamaica regulations. The Bank of Jamaica reserves the right to participate in the forward market. The Bank of Jamaica provides exchange rate guarantees to certain importers who use extended credit facilities.

Lesotho

The currency of Lesotho is pegged, at parity, to the South African rand, which, under the Common Monetary Area (CMA) Agreement, is also legal tender in Lesotho.

Under the "financial rand" system, local sales proceeds of CMA securities and other investments owned by non-CMA residents cannot be transferred in foreign currency but must be retained in the form of financial rand balances. These balances are transferable among nonresidents at a freely determined exchange rate and may be used to purchase securities and to finance investments in new firms and certain properties.

Liberia

The Liberian dollar is pegged to the U.S. dollar at $1 = US$1; the currency of the United States is legal tender in Liberia and circulates along with Liberian coinage and the $5 note.

U.S. dollar notes, which used to form the major portion of the currency in circulation, have almost totally disappeared from circulation. Full convertibility between the Liberian dollar and the U.S. dollar at par does not, de facto, exist, and the U.S. dollar attracts a substantial premium in large parallel market transactions, and abnormally high commissions are charged by commercial banks for their sales of offshore funds.

Foreign exchange dealers other than banks are permitted to buy and sell currencies other than the U.S. dollar at market-determined exchange rates.

Mexico

There are two exchange markets: a controlled market covering specified transactions amounting to about 70 percent of all trade and payments transactions, and a free market. The controlled market rate is set under a managed float system guided by a set of indicators. The free market rate is determined by market forces, although the Bank of Mexico intervenes in this market to minimize the spread between the two rates. The transactions at the controlled market rate include merchandise trade with some exceptions, royalties for the use of foreign technologies and patents, principal and interest payments for financial and suppliers' credits by the public and private sectors, Mexican foreign service expenses, along with Mexico's membership contributions to international organizations.

Eligible participants in the controlled market may choose to complete the transaction at a retail sale, agreed between participants and the banks, or at the "equilibrium exchange rate," which is determined for the controlled market each day at a fixing session, in which representatives of the major banks exchange bids for purchases and sales of foreign exchange.

Within the free market, no limitations apply to the access to ownership, or transfer of foreign exchange.

Mozambique

The exchange rates for the metical, which is pegged to a trade-weighted basket consisting of 10 major currencies, are published daily by the Bank of Mozambique (BM), which is the central bank and also the major commercial bank.

Since October 1990, a secondary market for foreign exchange (MSC) in which exchange rates are to be determined freely by supply and demand has been in operation. Authorized operators are free to set buying and selling rates in the MSC.

Nicaragua

There are two currencies in circulation in Nicaragua, the córdoba and the córdoba oro which was issued on August 10, 1990 and is valued at parity with the U.S. dollar. On December 31, 1990 the official buying and selling rates for the córdoba were C$3,000,000 and C$3,060,000 per U.S. dollar, respectively. In addition, there is an unrecognized parallel market in which the value of the córdoba varies with respect to the official rate. Only the Central Bank, the authorized commercial banks, and the authorized exchange houses can buy and sell foreign exchange; transactions outside the banking system and the authorized exchange houses are prohibited.

On March 4, 1991, the authorities announced that the córdoba would be withdrawn by the end of April 1991, and the córdoba oro (CO) would be the only legal tender at an exchange rate of C$5,000,000 = CO 1. On the same date the córdoba oro rate was devalued from parity to CO 5 = US$1 with the U.S. dollar peg maintained.

Nigeria

The exchange system consists of interbank foreign exchange dealings (IFED) (authorized dealers) and a daily allocation of foreign exchange to foreign exchange dealers by the Central Bank and dealings between banks and their customers. After certain deductions, the Central Bank allocates official foreign exchange receipts to the authorized dealers through an auction system (Dutch). Successful bidders in the auction receive an allocation that is based on their relative size (measured in terms of capital). Authorized dealers are then free to sell foreign exchange to their customers for purposes of making payments abroad consistent with Nigeria's exchange regulations. The applicable exchange rate for each authorized dealer is based on the rate quoted by that dealer on that day; they must sell foreign exchange at a margin of not more than 1 percent between buying and selling rates.

Foreign exchange bureaus (FEB) that can freely buy foreign currency notes from and sell them to their clients and, to a lesser extent, only buy travelers checks from their clients, have been in operation since August 1989. The exchange rate in this market differs from the rate in the IFED.

Peru

The external value of the inti is freely determined by participants in the exchange market on the basis of supply and demand conditions.

An exchange tax of 0.5 percent is levied on foreign exchange proceeds from exports of goods and services and on purchases of foreign exchange for imports of goods and services. Commercial banks may charge a commission of 0.25 percent.

Philippines

The exchange rate for the peso is determined on the basis of demand and supply in the exchange market. However, the authorities intervene when necessary to maintain orderly conditions in the exchange market and in light of their policy objectives in the medium term.

Under the Private Corporate Sector Foreign Currency Debt Repayment Program administered by the Private Debt Restructuring and Repayment Corporation (PDRRC), corporate debtors and their foreign creditors are provided with options for arranging repayments and rescheduling, with partial forward exchange cover provided if desired by the debtor; full forward cover is provided for the financially distressed borrowers only. Eligible debt must be non-trade related; due to a bank or financial institution, except multilateral agencies, and foreign government agencies that are members of the Paris Club; outstanding and duly registered with the Central Bank as of October 17, 1983; and falling due between October 17, 1983 and December 31, 1986 or between January 1, 1987 and December 31, 1992. Under both partial (75 percent) and full (100 percent) forward cover, PDRRC provides an exchange rate to the debtors that is set at the central bank selling rate for U.S. dollars prevailing on the date that the eligible debt was effectively entered into the program.

Poland

The exchange rate of the zloty, which is pegged to the U.S. dollar, is officially set by the National Bank of Poland (NBP). Rates are generally set at least once a week, normally on Thursdays, to become effective when they are published on the following Monday.

The exchange rate on the parallel exchange market, in which natural persons are allowed to transact freely, is determined by market forces, and may differ from the official rate set by the NBP. However, interest rate policy is geared in part to limiting the differential between two exchange rates, and during 1990 the parallel market exchange rate remained closely in line with the official rate. Foreign exchange bureaus require licenses to operate in the parallel exchange market.

Romania

The official exchange rate used for all transactions in convertible currencies is defined in terms of a basket of six currencies reflecting the geographical pattern of Romania's trade and payments. Weekly adjustments are made in the leu/U.S. dollar rate in such a way as to maintain the central point on the basket peg.

The currency used for commercial transactions with the member countries of the Council for Mutual Economic Assistance (CMEA), Albania, and the Democratic People's Republic of Korea, is the transferable ruble. For nontrade transactions with the CMEA countries, Albania, and the Democratic People's Republic of Korea, special exchange rates are established by multilateral or bilateral agreement.

On February 18, 1991, an interbank market was introduced, in which the exchange rate is determined through auction type fixing. The official exchange rate (pegged to a basket of currencies) remained in effect. It is applied to purchases of foreign exchange from exporters that is not retained by them, and to the sale of foreign exchange for imports of a limited number of products. Also, with effect from January 1, 1991, all transactions with CMEA countries, Albania, and the Democratic People's Republic of Korea have been taking place in convertible currencies, and the transferable ruble has been abolished.

Sao Tome and Principe

The external value of the dobra is determined by a basket of currencies of nine major trading partners to which the currency is pegged.

Foreign exchange transactions are divided into three categories for the purposes of assessing charges on purchases and sales of foreign exchange: 1) import payments, 2) transactions in foreign checks, and 3) collection of export proceeds.

On import related transactions: on the opening of a letter of credit, a charge of 1.125 percent of the import value is payable with an additional commission to the National Bank of 0.5 percent. A stamp duty of Db 2 per Db 1,000 of import value, plus a flat Db 50, is also payable, as well as a postage levy of Db 50. Any change in the letter of credit carries a further charge of Db 150.

On foreign checks for collection, the National Bank applies a commission in favor of the collecting foreign correspondents, varying according to the particular bank. In addition, the National Bank charges a postage levy of Db 20 for each transaction, together with a stamp duty of Db 15.

For collection of export proceeds, the National Bank charges a commission of 0.25 percent when opening the letter of credit and a further 0.125 percent when funds are received. In addition, a postage levy of Db 500 is charged.

Somalia

The official exchange rate for the shilling, which is pegged to a basket of currencies of Somalia's main trading partners, is adjusted weekly to reflect changes in the cross rates of currencies in the basket and the relative rates of inflation in Somalia and its trading partners. The official exchange rate applies to imports of goods and services and debt-service payments of the government.

The exchange rate in the free market is negotiated freely between resident holders of foreign exchange accounts, i.e., export/import accounts and external accounts.

South Africa

South African authorities intervene in the exchange market to affect the rates quoted by the commercial banks for the "commercial" rand.

Special rand forward cover at preferential rates is provided by the Reserve Bank in respect of import financing offered to and accepted by South African importers. In addition, special rand "offsetting" forward cover at preferential rates may be applied to swap transactions in respect of preshipment financing for South African exporters.

The freely floating "financial" rand system operates with respect to the local sale and redemption proceeds of South African securities and other investments in South Africa owned by nonresidents, capital remittances by emigrants and immigrants, and approved outward capital transfers by residents. The exchange rate for the financial rand is usually at a discount from the commercial rand rate; at the end of 1990 the discount was about 25 percent.

Sudan

There are two exchange markets: (1) the official market in which the exchange rate for the Sudanese pound is pegged to the U.S. dollar, and (2) a commercial bank market in which the rate is, in principle, determined by a bankers' committee composed of representatives of seven commercial banks; in practice the commercial rate is set by the Bank of Sudan.

All export proceeds are converted at the commercial bank market rate, with some exceptions on cotton and gum arabic. The commercial banks also purchase the remittances of Sudanese nationals working abroad.

Along with the portions of cotton and gum arabic exports not covered under commercial bank rate, other transactions under the official rate include government loans, most grants, selected invisibles, imports of petroleum products, a range of intermediate goods, government imports and debt service.

For transactions under the bilateral payments arrangement with Egypt, the official rate is used for invisibles and commercial rate is used for all other transactions.

Suriname

The guilder is pegged to the U.S. dollar at Sf 1.78876 = US$1. There is no exchange market in Suriname. A "conversion rate" of Sf 5 = US$1 is used for the valuation of "own-funds" imports, and the government sells most goods obtained under bridging assistance from the Netherlands at a special conversion rate of Sf 2.50 per f.1.

Syria

The official rate applies to most export transactions, loans, grants and other budgetary receipts, as well as to most public sector imports, public sector invisible payments, and capital transactions.

The promotion rate applies to private remittances, most travel and tourism transactions, transfers of Syrian Government employees abroad, some export proceeds, and medical expenses.

In addition, a portion of proceeds from exports of fruits and vegetables, along with a number of items previously under promotion rate are subject to the "rate in neighboring countries" as determined by the Central Bank.

Another official rate, "rate to promote exports," determined by the Ministry of Economy and Foreign Trade, is applied to public sector export proceeds authorized by the Ministry.

Tunisia

The exchange value of the dinar is determined in accordance with a basket of currencies. The buying and selling rates for foreign currencies are fixed daily by the Central Bank of Tunisia.

The Central Bank extends exchange rate guarantees to certain officially guaranteed loans, with risk premiums based on domestic and international interest rates.

Uganda

In Uganda there are two exchange markets: the official and the foreign exchange bureau market. The external value of the official rate is determined on the basis of a trade-weighted basket of currencies. The exchange rate in the foreign exchange bureau market is determined by supply and demand conditions. In its foreign exchange dealings, the Bank of Uganda charges a commission of 1.4 percent buying and 2.6 percent selling. Authorized foreign exchange bureaus are permitted to buy and sell foreign exchange at market determined rates. At present, the official rate is applied to all government imports, debt service payments, imports of oil, imports under project aid, open general licenses, and Special Imports Programs. Proceeds from coffee exports and official loans and grants are channeled through the official market. All other transactions can take place at the bureau rate.

Uruguay

The exchange rate system in Uruguay is operated as a managed float.

A tax of 2.0 percent is levied on sales of foreign exchange in both the spot and forward exchange markets, if a transaction is settled in Uruguayan new pesos; the tax rate is 0.05 percent for sales of foreign exchange through interbank operations.

Venezuela

Venezuela maintains a unified, interbank exchange system under which the currency is allowed to float in response to market forces. The Central Bank quotes daily reference exchange rates for the bolivar in terms of the U.S. dollar, which are the modes of the buying and selling rates at the closing of the interbank market.

The state-owned Petroleum Corporation (PDVSA) and its affiliates, is obliged to sell to the Central Bank its foreign exchange earnings, at the average interbank selling rate minus 10 centavos. The Central Bank's reference exchange rate applies mainly to disbursements and debt-service payments associated with public and publicly guaranteed external debt and imports of goods and services by the Central Government. All other current and capital transactions are effected through the interbank foreign exchange market at the unified, market determined rate.

Viet Nam

The exchange rate of the dong is quoted in terms of the U.S. dollar by the State Bank of Viet Nam. Adjustments to the exchange rate, aimed at maintaining the spread with the parallel market exchange rate within a range of 10-20 percent, are made at irregular intervals in light of developments in the parallel foreign exchange market, the domestic gold price, internal commodity prices, and international prices. Banks are authorized to set the exchange rates up to a maximum of 5 percent above the official exchange rate, and may set a spread of 2 percent between the buying and selling rates.

Western Samoa

The exchange rate of the tala is determined on the basis of a fixed relationship between the tala and a weighted basket of currencies of Western Samoa's main trading partners.

An exchange levy of 1 percent is charged on gross sales of foreign exchange.

Republic of Yemen

The Yemen rial is pegged to the U.S. dollar and is set at YRls 12.01 = US$ 1 as of December 31, 1990. The Central Bank of Yemen is the main buyer and seller of foreign exchange in the domestic banking system.

There is an informal market for foreign exchange involving money changers who, although legally not permitted to operate in foreign exchange transactions, transact in amounts and within reasonable margins.

Zaïre

The official exchange rate of the zaïre is determined in a weekly interbank fixing session in which the Bank of Zaïre is usually the only seller of foreign exchange. The official rate is determined by the Bank of Zaïre on the basis of foreign exchange demand and information on parallel market exchange rate developments.

A parallel market with a substantial spread from the official exchange rate exists. Transactions at the official rate cover only a small part of foreign exchange transactions in Zaïre.

Zambia

On February 19, 1990 a dual exchange system, comprising the official exchange rate (OER) and the market exchange rate (MER), was introduced. The OER is fixed in terms of the SDR, and the Bank of Zambia purchases foreign exchange at the OER for all remittances of the copper company (ZCCM) and at the MER for all other transactions. The Bank of Zambia sells foreign exchange at the OER for official imports of oil and fertilizer, for payments to International Air Transport Association (IATA), and for the foreign exchange requirements of the copper company. It sells foreign exchange at MER for specified imports and certain service payments. The MER is adjusted to reflect demand and supply conditions. On December 31, OER stood at K 42.5 per US$1 while MER was K 47.4 per US$1.

Exporters are also informally authorized to sell importers foreign exchange retained under the export retention scheme; this sale, on December 31, was around K 80 per US$1.

Zimbabwe

The exchange rate of the Zimbabwe dollar is determined on the basis of a fixed relationship to a trade-weighted basket of currencies. The spread applied by the Reserve Bank of Zimbabwe between the buying and selling rates is 0.8 percent for major currencies and 1.0 percent for other currencies. An additional 0.25 percent on either side of the quoted rates of major currencies may be charged by authorized dealers (authorized commercial and merchant banks). A tax of 20 percent is levied on sales of foreign exchange for purposes of holiday travel.

Forward exchange contracts are permitted only for trade transactions. The Reserve Bank is prepared to cover forward transactions and, at present, quotes fixed discount and/or premium rates for major currencies. The Reserve Bank purchases foreign exchange at the spot preferential telex transfer rate quoted to authorized dealers, less 0.35 percent for three-month contracts and an additional 0.10 percent for each month beyond, up to 0.65 percent for a six-month contract. Sales of foreign exchange take place at the spot preferential telex transfer rate plus 0.65 percent for three-month contracts and an additional 0.30 percent for each month up to 1.55 percent for a six-month contract.

Measures Affecting Members' Exchange and Payments Systems, 1989-90

Member	Date	Direction	Measures
			1. Imports and Import Payments
			a. Quantitative Import Controls
Developing countries - fuel exporting			
Venezuela	5/24/89	Liberalization	First stage of the Government's new Trade Reform for manufacturing sector initiated. Licenses and prohibitions previously imposed on 1,899 items for protective purposes eliminated.
Developing countries - other			
Brazil	3/16/90	Liberalization	Annual import programming and the negative import list (ANEXO C) largely eliminated; the monopoly of Federal Government agencies to import products for reasons other than health, national security and other specified public interests eliminated.
Burundi	8/7/90	Liberalization	The remaining quantitative restrictions on imports, notably on flour, gas bottles, cotton fabric, and pharmaceutical products, were removed.
Guinea-Bissau	2/1/89	Liberalization	OGL introduced, under which most imports are allowed without restriction; the exceptions are petroleum and products on a negative list.
Mauritania	5/17/89	Liberalization	Import-licensing requirements abolished, and the requirements for obtaining an exporter-importer card liberalized; special import regimes for government entities and state enterprises introduced; and a system of special import authorizations for those not holding exporter-importer cards introduced.
Niger	7/1/90	Elimination	System of import licenses abolished, all remaining quantitative import restrictions replaced by customs tariffs ranging from 2.3 percent to 71 percent.
Poland	1/1/90	Elimination	Licensing requirements abolished for imports from the convertible currency area, with exception of those for radioactive materials and military equipment.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Rwanda	1990	Tightening	During 1990 foreign exchange shortages and military imports prompted the authorities to suspend temporarily normal import arrangements. At end-1990, the Central Bank was authorizing civilian imports of a few commodities only (petroleum products, essential foodstuffs, pharmaceutical products, and selected spare parts).
Tanzania	2/1/90	Elimination	Maximum annual limit on imports per importer under the OGL abolished.
	1989	Liberalization	OGL import facility was expanded to include most recurrent inputs and share parts.
Uganda	2/--/90	Introduction	Special Import Program with revised negative list reintroduced. Importers no longer required to obtain prior approval from Bank of Uganda, but import licenses continue to be required.
Yugoslavia	12/1/89	Liberalization	Enterprises allowed to import directly raw materials, intermediate goods, and capital equipment necessary for their production; enterprises that are registered with commercial courts and are authorized to produce and sell specific goods in Yugoslavia also permitted to import and export same goods and services.
	12/22/89	Liberalization	LBO import regime (conditionally free imports) eliminated; most goods that were subject to LBO licensing transferred to the LB regime (totally free imports).
			b. Advance Import Deposits
Developing countries - fuel exporting			
Ecuador	1/24/89	Liberalization	Merchandise imports purchased through the U.S. Commodity Credit Corporation exempted from prior import deposit requirements.
	10/19/89	Liberalization	Rates for prior import deposit requirements (based on c.i.f. value of imports) for private sector imports lowered to between 45 percent and 120 percent.
	12/12/89	Liberalization	Rates for prior import deposit requirements (based on c.i.f. value of imports) for private sector lowered further. Rates for public sector imports on same product categories set at one half the private sector rates. Importers obtaining financing for 90 days or longer (previously 120 days or longer) exempted from prior import deposit requirements. Requirement that some capital goods imports be financed with proceeds of loans from international organizations, governments, or their agencies abolished.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Ecuador (cont'd)	1/18/90	Introduction	Importer required to confirm use of foreign exchange obtained for temporary imports of raw materials and inputs of production within 180 days; requirement also applies to importers who have effected imports under an import permit but have not presented bank guarantees or made prior deposits.
	7/6/90	Introduction	Requests for import payments for which permits were granted after July 9, 1990 required to be made 60 days in advance of foreign exchange sale; prior import deposit scheme abolished.
	11/15/90	Liberalization	Central Bank issues letters of credits for public sector up to 100 percent of the value of imports (c.i.f.) that are financed with loans from multilateral institutions or guaranteed by deposits at the Central Bank.
Developing countries - other			
Afghanistan	1/15/90	Extension	Minimum import deposit ratio reduced to 20 percent from 25 percent in respect of essential products and increased from a range of 25-50 percent to 30-60 percent in respect of other products.
Argentina	7/20/90	Elimination	Three percent advance import deposit requirement abolished.
Bangladesh	2/18/90	Introduction	One hundred percent advance deposit required against letters of credits issued for commercial imports under SEM scheme.
	2/26/90	Introduction	Fifty percent advance import deposit required for industrial imports under SEM scheme. The margin on advance deposit required against letters of credits issues for commercial imports under SEM scheme was reduced to 50 percent.
	3/26/90	Liberalization	Rate of advance deposits for industrial imports under SEM scheme was reduced to 25 percent, respectively.
	11/5/90	Elimination	Advance deposit requirement for industrial imports under the SEM scheme abolished.
Colombia	5/31/89	Liberalization	Rate of advance exchange license deposit reduced from 95 percent to 85 percent of value of exchange license.
	1/1/90	Liberalization	Imports of goods not subject to a prior import license exempted from exchange budget authorized by the Monetary Board.
Costa Rica	12/15/89	Liberalization	Advance import deposit requirement (50 percent at the end of 1988) reduced in three stages to 1 percent.
	12/12/90	Tightening	Ratio of import deposit requirement raised from 1 percent to 30 percent.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
El Salvador	8/8/90	Elimination	Twenty percent guarantee deposits against advanced payments for imports of goods and services eliminated.
	1/1/89	Liberalization	Maturity date of letters of credit for imports from outside Central America at the official exchange rate extended to 180 days from 90 days. This requirement was abolished on December 31, 1989.
	7/31/89	Liberalization	Guarantee deposits required for the opening of letters of credit eliminated.
	12/4/89	Liberalization	Requirement that letters of credit for imports in excess of US$10,000 from outside Central America must carry a minimum maturity period of 180 days eliminated.
Jordan	10/4/89	Thightening	Advance deposits required for import letters of credit raised to the following rates: (1) 30 percent for raw materials, for basic foodstuffs, and medicines that have no domestic substitute; (2) 70 percent for other goods; and (3) 60 percent for all imports into free zones.
Korea	3/1/90	Elimination	Advance import deposit requirement, ranging from 5 percent to 10 percent against usance or sight letters of credit abolished.
Nepal	3/5/89	Liberalization	Rate of margin deposits for import letters of credit for development and construction materials, dairy products, writing papers, newsprint, agricultural products, medical equipment, and educational and scientific materials lowered from 30 percent to 20 percent and that for all other products lowered from 50 percent to 30 percent.
	7/10/89	Tightening	All payments for imports from India in Indian rupees required to be documented.
Pakistan	1/8/90	Elimination	Thirty percent mandatory minimum margin requirement for opening letters of credit abolished.
Peru	1/11/90	Introduction	Noninterest bearing advance import deposit requirement imposed on imports subject to MUC exchange rate. Deposit rate must equal 50 percent of import value and be lodged for 30 days. Imports financed with credits of over 90-day maturity exempted.
	4/19/90	Tightening	Imports made at the MUC exchange rate subject to advance payments authorization.
	8/19/90	Elimination	Noninterest bearing advance import deposit requirement abolished.
Sierra Leone	12/15/89	Liberalization	Imports of all permitted products allowed without license.
	4/25/90	Elimination	Requirement to establish letters of credit with a local commercial bank abolished.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Sri Lanka	6/15/89	Tightening	Commercial banks required to impose a 100 percent advance deposit against letters of credit for importation of specified luxury goods.
Turkey	1/1/89	Liberalization	Imports of investment goods for manufacturing industries exempted from import guarantee deposit requirement.
	4/19/89	Liberalization	Import guarantee deposit rate lowered to 12 percent and to be lowered to 7 percent on May 1 and to 5 percent on June 1.
	11/3/89	Liberalization	Advance import deposit requirement and import certification requirements abolished for some one thousand items on a "List of Investment Goods, Imports of Which are to be Encouraged Directly."
Yemen Arab Republic	3/1/89	Liberalization	Margin requirements against import letters of credit abolished.
	5/22/90	Liberalization	Commercial banks authorized to buy foreign exchange both domestically and abroad, and hold up to 10 percent of foreign exchange purchased to effect import payments on behalf of Central Bank.
	8/1/90	Liberalization	Commercial banks authorized to open letters of credit for importation of most goods, provided such imports are self-financing.
			c. Other Import Measures
Industrial countries			
Iceland	1/1/89	Liberalization	All goods permitted to be imported freely on a deferred payment basis up to three months if not guaranteed by a domestic commercial bank, savings bank, insurance company, or a public investment fund.
Ireland	1/1/90	Elimination	Requirement of prior approval from Central Bank to make payments to nonresidents to pay for purchases of goods abroad for sale abroad suspended.
Norway	12/8/89	Liberalization	Restrictions on periods with respect to payments for imports abolished. Licensing requirement on leasing of machinery and equipment abolished.
Spain	5/29/89	Liberalization	Requirement of bank domiciliation abolished.
	6/1/89	Liberalization	Requirement of import domiciliation removed.
Developing countries - fuel exporting			
Algeria	11/5/89	Introduction	New procedures requiring prior approval of financing arrangements for all imports financed with credits of more than 90 days introduced.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Ecuador	2/14/90	Tightening	Public sector imports for which the terms of payments would involve a maturity of longer than one year required to have prior authorization from Central Bank.
Trinidad and Tobago	9/30/89	Liberalization	Twelve product groups (including most agricultural inputs, some raw materials for manufacturing industries, and capital goods and spare parts) removed from foreign exchange allocation system for imports.
Developing countries - other			
Argentina	5/30/89	Tightening	Controls on import payments introduced, leading to arrears on some payments to suppliers.
	6/21/89	Tightening	Payments abroad exceeding US$1,000 suspended.
	7/10/89	Liberalization	Access to official foreign exchange for import payments and interest on private debt fully restored.
Brazil	9/21/90	Elimination	External financing requirements on certain imports eliminated.
Burundi	10/4/90	Liberalization	The limit of import licenses approved by commercial banks was raised from FBu 10 million to FBu 25 million.
Chile	6/28/89	Elimination	Imports valued at less than US$50,000 exempted from the 120-day minimum financing requirement.
	1/5/90	Liberalization	Minimum import financing requirement (120 days) abolished.
Cyprus	10/19/89	Liberalization	Amount foreign exchange authorized dealers are permitted to sell for advance import payments purposes without prior approval increased from £C 500 to £C 2,000.
Egypt	3/8/89	Tightening	Sixty-five products put on list of goods for which letters of credit were not allowed to be opened.
Ethiopia	10/22/89	Liberalization	Imports of personal effects and motorcars financed with foreigne exchange balances held overseas liberalized.
Ghana	1/14/89	Liberalization	Import-licensing system abolished; importers only required to file import declaration form through the authorized banks for statistical purposes.
Guatemala	10/25/89	Tightening	Bank of Guatemala ceased to provide exchange rate guarantees for import letters of credit.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Honduras	7/16/89	Tightening	Use of the Central Bank's foreign exchange for imports of goods by private sector restricted to a specified list of products. CETRAS generated by the export of goods can be used only for imports of products on a special list, travel expenses up to US$2,500, and other specified expenditures. Products not included in the above-mentioned lists can be imported only on basis of self-financed arrangements.
	3/3/90	Liberalization	Maximum amount of foreign exchange which may be purchased for payments of imports and authorized services without prior authorization from Central Bank raised from the equivalent of US$2,500 to US$3,000.
	7/27/90	Liberalization	Maximum amount of foreign exchange that may be purchased for payments of imports of goods without prior authorization from Central Bank raised to US$5,000.
	9/3/90	Liberalization	Self-financed import mechanism abolished, import financing required to be channeled through the banking system, either with foreign exchange in the interbank market or with credits from abroad (except for financing through export advances and government credit agreements with external institutions).
Hungary	3/1/89	Liberalization	Commercial banks authorized to act as intermediaries for commercial-related foreign exchange transactions between the NBH and exporters/importers; a new regulation clarifying the application of the forint cover requirement for importers opening a letter of credit and specifying the list of imports exempt from the requirement issued.
	3/14/89	Liberalization	Soya flour and fishmeal added to the list of imports exempted from forint cover requirement under letters of credit.
India	6/21/89	Liberalization	Authorized dealers permitted to open transferable letters of credit for imports of goods into India that would provide for transfer of interest from first beneficiary, on condition that second beneficiary is also a resident of the same country; if second beneficiary of the letter of credit is resident in another country, transfer would be permissible only if both countries are defined as the External Group and are not members of the Asian Clearing Union.
Israel	1/5/89	Liberalization	Amount of prepayments allowed for imports of equipment and machinery increased from 15 percent to 35 percent and for other imports from US$50,000 to US$100,000 but not to exceed 35 percent.
Jamaica	11/1/90	Liberalization	Authority to process and make payments for private sector imports delegated to commercial banks.
Jordan	10/8/89	Tightening	Imports into free zones required to be settled in foreign exchange transfers from abroad.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Malawi	8/14/89	Liberalization	Liberalization of foreign exchange controls extended to the remaining 25 percent of raw materials, industrial spare parts, and intermediate goods, including most goods related to commercial transport and some consumer goods (including infant formula, toothpaste, soap, and razor blades).
	4/2/90	Elimination	Prior foreign exchange approval requirement of the Reserve Bank of Malawi for several categories of nonindustrial equipment and related goods and a number of consumer products for which there is domestic competition were removed. (Effective January 10, 1991, the import liberalization program was completed, with restrictions limited to a small negative list, which covers certain luxury items.
Malta	1/1/89	Liberalization	Central Bank of Malta introduced new arrangements to facilitate payment procedures for importation of goods.
Malta	7/29/89	Liberalization	Number of items for which import license is required reduced, and quota-based import regime replaced by a tariff-based system.
Morocco	3/1/89	Liberalization	Requirement to provide dirham deposits in connection with certain requests for foreign exchange abolished.
Mozambique	10/5/89	Liberalization	System of nonadministrative allocation of foreign exchange (SNAAD) came into operation; initially, products eligible for automatic licensing included key inputs for garment and shoe industries and spare parts for freight carriers and public transportation.
	5/14/90	Liberalization	Coverage of system of nonadministrative foreign exchange allocation expanded; limits on amounts for each user removed.
	10/31/90	Liberalization	Under MSC regulations, importers allowed to purchase foreign exchange, provided that for imports exceeding US$500 licenses with notation "Covered by the MSC" were obtained.
Philippines	1/31/90	Tightening	Applications for imports originating from the state trading countries required to be supported by import authorizations issued by Philippine International Trading Corporation.
Rwanda	3/5/90	Liberalization	Imports of goods financed with foreign exchange obtained outside official channels permitted.
Somalia	10/2/89	Liberalization	Letters of credit for imports of essential goods (edible oil, flour, rice, and sugar) exempted from prior approval requirement.
Somalia	6/1/90	Introduction	Auction system (Dutch) introduced for sales of foreign exchange under Commodity Import Program.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Sri Lanka	5/29/89	Tightening	Imports of motor vehicles and motorcycles (whether on a commercial basis and whether exchange is involved or not) required to be made against letters of credit.
	7/24/89	Liberalization	Imports of industrial raw materials and spare parts for machinery (not in commercial quantities) where value of full consignment would not exceed US$500 (c.i.f. Colombo) exempted from requirement to establish letters of credit.
	8/24/89	Tightening	All letters of credit established for imports of motorcycles to be settled only against pro forma invoices indicating make, model, year of first registration, and cylinder capacity. Final commercial invoices must contain the same information.
Sudan	7/2/89	Liberalization	All exceptions to ban on imports under "own resources" scheme and barter deals abolished, except for a few remaining legitimate barter trades.
	6/25/90	Liberalization	During a period of two months (ending 8/24), holders of free and special foreign exchange accounts permitted to use foreign exchange balances existing on 6/25/90 to finance imports of industrial inputs.
	8/16/90	Extension	Grace period for use of foreign exchange accounts to finance certain imports extended by one month.
	10/08/90	Liberalization	Holders of foreign exchange accounts permitted to import industrial and agricultural inputs, car parts and office supplies.
Turkey	2/25/90	Liberalization	Payments for imports allowed to be transferred through commercial banks in the form of either Turkish lira or foreign currencies in accordance with the agreement between the buyer and the seller.
Western Samoa	10/1/89	Liberalization	Minimum c.i.f. value of imports for which financing by a letter of credit is required raised from WS$10,000 to WS$15,000. Requirement of prior approval by the Central Bank for imports of capital equipment eliminated.
Zambia	3/17/89	Liberalization	Importers applying for "no-funds-involved" import licenses not required to reveal sources of foreign exchange.
	11/7/90	Liberalization	Bank of Zambia issued a circular clarifying the procedures for imports of goods at the MER.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
			2. Exports and Export Proceeds
			a. Export Licensing
Developing countries - other			
Costa Rica	6/5/89	Liberalization	Requirement that export licenses be obtained from the Central Bank eliminated; instead, a single export form for simultaneous reporting of all foreign sales required.
Mali	6/15/89	Liberalization	All export licensing requirements abolished.
Sierra Leone	12/15/89	Liberalization	Export licenses, except for annual licenses for gold and diamond exporters abolished.
Sudan	6/28/90	Liberalization	Export procedures were simplified, as follows: (1) exporters were required to submit copies of export contracts and the "EX" export form to a commercial bank, instead of the Bank of Sudan, for approval; (2) export proceeds must be repatriated to the domestic banking system within three months of the shipment date; (3) new procedures were introduced, regulating the allocation and retention of export proceeds, except for cotton and gum arabic.
Turkey	6/13/89	Liberalization	Requirements for export licenses eliminated.
Zambia	9/4/90	Liberalization	Export licensing system liberalized, and export permits from Ministry of Commerce no longer required; instead, licenses issued automatically by the exporter's commercial bank, except for goods on negative list for which authorization by Ministry of Commerce continue to be required. Export procedures were simplified to a single Export Declaration Form.
			b. Fiscal and Other Incentives
Developing countries - fuel exporters			
Venezuela	8/17/89	Liberalization	Fiscal credits for exports modified to be provided only to goods containing domestic value added of more than 30 percent; fiscal credits, consisting of a negotiable bond that may be used for tax payments, set at 30 percent (of f.o.b. value) for exports with domestic value added of between 30 and 90 percent, and at 35 percent for exports with domestic value added of more than and 90 percent.
	8/4/90	Liberalization	Tax incentive for exports, consisting of a negotiable bond which may be used for payments of taxes, reduced to 5 percent of the f.o.b. value for manufactured products and to 6 percent for agricultural products.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Developing countries - other			
Bangladesh	7/1/89	Tightening	Special export incentives introduced for toys, luggage, and fashion goods; electronic and leather products, and frozen foods selected as priority export sectors. A cash subsidy in lieu of Export Performance Benefit would be granted to exports of jute goods at the rates (based on the f.o.b. value) of 10-20 percent.
	9/4/89	Liberalization	Joint ventures, other than the garment industry, located in Export Processing Zones (EPZ) were allowed to retain 70 percent of export earnings in a foreign currency deposit account and convert remaining 30 percent at the secondary market (SEM) exchange rate and keep it in a bank account in domestic currency. Balances on domestic currency bank accounts may be converted into foreign exchange at the SEM rate for payments of imported goods. Retention rate for garment industry is 75 percent.
Bolivia	5/12/89	Liberalization	Period during which nontraditional exporters may claim CRAs extended from six months to one year from date of exportation.
Guyana	3/31/89	Liberalization	Retention ratios under foreign exchange retention scheme unified to 10 percent for all exporters other than bauxite.
	8/1/89	Liberalization	Retention percentage under foreign exchange retention scheme for sugar industry raised to 15 percent.
	2/23/90	Liberalization	Retention percentage under foreign exchange retention scheme for major industry was raised to 17.5 percent.
Honduras	1/6/89	Liberalization	Proportion of CETRAS issued raised from 15 percent to 40 percent for traditional exports.
	7/6/89	Liberalization	Proportion of CETRAS issued raised from 40 percent to 50 percent for all exports, and their transferability outside the banking system was prohibited.
	3/13/90	Elimination	Fiscal incentives given to nontraditional exports through CEFEX (a freely negotiable tax credit certificate) abolished.
India	4/1/89	Introduction	A new Cash Compensatory Support Scheme introduced, providing for compensations of unrebated indirect taxes (on both final and intermediate stages of export production), which are not refundable under the Duty Drawback System.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
India (cont'd)	6/1/89	Tightening	Duty drawback rates applicable to engineering products, certain chemical products, and various plastic products revised, and 16 new items added to the list eligible to receive drawback. Existing facility, under which reduced drawback rates are applied to certain exporters who receive benefits of advance license/ passbook schemes, extended to a number of products.
Israel	6/15/90	Liberalization	Rate of net compensation granted to exporters under exchange rate insurance scheme (FTIC) reduced by 2 percentage points.
Jamaica	11/1/90	Liberalization	Amounts available under foreign exchange retention scheme for exporters of nontraditional goods allowed to be credited to a foreign currency account at a commercial bank, and permitted to be used for business transactions with supporting documentation.
Kenya	6/16/89	Tightening	An additional 451 goods made eligible to receive export compensation.
Nepal	5/1/89	Tightening	Twenty-five percent cash subsidy on exports of jute hessian to countries other than India introduced.
	8/3/89	Tightening	Cash incentives ranging between 10 and 35 percent of value (f.o.b.) granted for a range of export products.
Pakistan	7/1/90	Liberalization	Income tax exemptions of up to 75 percent (instead of 55 percent) allowed for certain exports of goods and services.
Peru	2/1/89	Liberalization	Maturity of CLDs (Freely Disposable Foreign Exchange Certificate) extended to 120 days from 90 days. If converted into domestic currency instead of used for imports, CLDs converted at MUC exchange rate on the date of conversion rather MUC exchange rate prevailing on date of issue. CLDs made transferable to non-exporting parties. Imports paid with CLDs exempted from obligatory financing requirements.
	3/1/89	Liberalization	Maturity of CLDs lengthened to 180 days.
	4/20/89	Liberalization	Percentage of export proceeds allowed to be retained by exporters in the form of CLDs raised to 40 percent.
	6/2/89	Liberalization	Percentage of export proceeds retained by exporters in the form of CLDs raised to 50 percent.
	6/21/89	Liberalization	Maturity period of CLDs extended to 210 days.
	9/30/89	Liberalization	CLD retention rate raised to 55 percent, maturity period of CLDs lengthened to 270 days.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Peru (cont'd)	10/6/89	Liberalization	Exporters surrendering foreign exchange receipts can receive Foreign Exchange Certificates for 45 percent of f.o.b. value of their exports that can be converted into domestic currency at MUC exchange rate; CLDs for 45 percent of the f.o.b. value would be subject to the same regulations that had applied previously to CLDs; and CCs (Convertible Foreign Exchange Certificate) for 10 percent of the f.o.b. value that could be used to open foreign currency deposits and thereby to obtain foreign bank notes.
	11/4/89	Tightening	Percentage of export proceeds that can be converted into CLDs lowered to 35 percent, and percentage of export proceeds that can be converted into CCs raised to 20 percent.
	11/25/89	Tightening	Maturity period of newly issued CLDs shortened from 270 days to 180 days.
	12/1/89	Tightening	Maturity period of outstanding CLDs maturing in 180 to 240 days limited to 180 days; FENT credits would be disbursed in foreign exchange.
	12/22/89	Tightening	Maturity period of CCs established at 60 days.
	12/29/89	Liberalization	Exporters repaying their FENT obligations permitted to use export proceeds in the following order: up to 35 percent of export value (f.o.b.) in Foreign Exchange Certificates (at the MUC exchange rate); up to 35 percent of the export value in CLDs; and the remainder in CCs. Payments of interest and commissions permitted to be made with resources obtained through the free exchange market, CLDs, or CCs.
Poland	1/1/90	Elimination	System of supplementary export incentives (tax relief, export subsidies, and prefrential credits) abolished.
South Africa	4/1/90	Introduction	Incentive scheme for exporters introduced; payments to be based on local content of products, extent of processing involved and movement in real effective exchange rate since 1979.
Turkey	8/2/89	Tightening	Two percent marketing premium based on export value in 1989 introduced for major exporters (foreign trade companies with exports of at least US$100 million in 1988 that pledge to export at least US$100 million in 1989). Premium to be paid from the Support and Price Stabilization Fund and administered by the Turkish Eximbank.
	11/12/89	Tightening	Legislation establishing a 1 percent marketing premium similar to that established in August for major exporters passed. Premium to be available to exporters whose realized exports exceeded US$10 million in 1988 and 1989.
Uruguay	4/4/90	Liberalization	All regulations on refunding indirect taxes on exports abolished.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Yugoslavia	4/1/90	Introduction	A subsidy payment of 7 percent on net exports of goods and 3 percent on net exports of services introduced.
	9/1/90	Tightening	Subsidy payment on net exports which applies uniformly to monthly net exports of goods and services raised to 10 percent.
	12/31/90	Liberalization	Ten percent general export subsidy eliminated.
Zambia	4/6/90	Liberalization	Procedures for export retention scheme simplified, whereby requirement to convert amounts to be retained in kwacha until payment for import took place abolished.
			c. Export Taxation
Developing countries - other			
Honduras	9/20/90	Tightening	Temporary export tax of 9 percent on traditional products to be paid at customs, instead of at the time of foreign exchange surrender, was raised from 9 to 12 percent.
Rwanda	12/14/90	Liberalization	Export taxes were abolished on all commodities except coffee.
			d. Special Credit Facilities
Developing countries - fuel exporters			
Ecuador	1/18/90	Liberalization	Central Bank authorized to purchase foreign exchange proceeds from exports up to 90 days, before actual export shipment except for certain products.
	3/2/90, 6/1/90, 7/6/90	Liberalization	Central Bank modified the authorization to purchase foreign exchange proceeds from exports up to 210 days before actual export shipment except for certain products.
Developing countries - other			
Argentina	7/10/89	Liberalization	System of export prefinancing and a number of export promotion schemes suspended.
	9/15/89	Liberalization	Various export incentives provided under Export Promotion Law of 1984 suspended under Economic Emergency Law.
El Salvador	11/28/90	Elimination	Guarantee deposit requirement for temporary exports eliminated; guarantee deposit requirement for anticipated export receipts eliminated in respect of re-exports.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Malta	1/1/90	Elimination	Export Stabilization Scheme, under which exporters received a subsidy on basis of appreciations of Maltese lira and amount of local value-added, abolished.
Myanmar	4/1/89	Liberalization	Export Price Equalization Fund, through which certain exports were subsidized, abolished.
Peru	1/12/90	Liberalization	Percentage of financing of FENT credits (subsidized credits for nontraditional exports) without advance accounts reduced from 90 percent to 40 percent.
	4/1/90	Elimination	System of FENT credits without advance accounts abolished.
	4/17/90	Liberalization	FENT advance account credits for exporters to be disbursed in intis at free market exchange rate.
	5/15/90	Introduction	Line of credit in intis equivalent to about US$20 million approved as working capital for exporters.
	6/1/90	Elimination	System of FENT credits with advance accounts abolished.
Philippines	10/9/90	Liberalization	Exporters permitted to have access to a U.S. dollar-based working capital credit facility of the Foreign Currency Deposit Units (FCDUs) of local commercial banks without prior Central Bank approval, subject to certain conditions.
Turkey	3/1/89	Tightening	Turkish Eximbank established a US$150 million facility to support exports of Turkish consumer goods to the U.S.S.R. Credits are to be repaid in two years at a rate of 20 basis points over LIBOR; in July, an additional US$150 million facility for nonagricultural exports was announced; the Turkish Eximbank announced the establishment of the Short-Term Whole Turnover Insurance Program which is designed to promote exports of Turkish goods on credit by insuring Turkish exporters on market terms against commercial and political risks.
	6/1/89	Liberalization	Maximum term on Eximbank preshipment credits was raised from 120 days to 180 days, and interest charge on 90-day credits was lowered by 2 percentage points to 37 percent; the credit limit for individual firms was raised from LT 500 million to LT 4 billion.
	7/89	Tightening	US$100 million Eximbank facility for exports to Algeria was announced. (Utilization is to begin in August.)
	1/24/90	Tightening	Premium payments made from the Support and Price Stabilization Fund to exporters of some categories of items increased.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Turkey (cont'd)	12/13/90	Liberalization	Export premium payments to exporters of certain products from Support and Price Stabilization Fund amended, effective January 1, 1991, reducing number of products eligible to receive payments from 116 to 89.
			d. Other Incentives
Industrial countries			
Italy	1/11/90	Liberalization	Decree issued allowing residents to retain receipts of foreign exchange from sale of good and service in Foreign Exchange Accounts without any time limit; previously, such balances had to be used for permitted transactions or sold to authorized banks within 120 days.
Developing countries-fuel exporters			
Ecuador	9/18/90	Liberalization	Period of surrender requirements for foreign exchange proceeds from exports revised.
Iraq	2/1/90	Liberalization	Exporters of goods, other than those manufactured by firms in the public sector, permitted to retain export proceeds in foreign exchange accounts with commercial banks for three years and use them to pay for licensed imports.
Developing countries - other			
Bangladesh	3/31/90	Introduction	Export cash subsidies introduced, retroactive to July 1, 1989 through June 30, 1990 in place of XPB for certain nontraditional exports.
	5/29/90	Tightening	Cash Against Documents facility ceased to be provided to buyers of raw jute, and all exports of raw jute permitted only against irrevocable letter of credit.
	5/31/90	Introduction	Ten percent cash subsidy granted to domestic producers of fabrics which are used to produce certain exported garments.
Chile	7/9/90	Liberalization	Repatriation period for export proceeds extended from 90 to 120 days.
Colombia	8/3/89	Liberalization	Percentage that coffee exporters must either surrender without payment (in the form of untreated coffee) or pay to National Federation of Coffee Growers reduced from 35 percent to 5 percent of volume of excelso coffee that they wish to export (retenciûon cafetera).
	7/25/90	Liberalization	Period of surrender requirements for proceeds from exports other than coffee changed to 3 months after the date of receipt of payment as declared by the exporter.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Colombia (cont'd)	7/25/90	Elimination	System by which Bank of the Republic retained a portion of exchange proceeds surrendered by the exporter of any product to repay debts on imports under the Vallejo Plan eliminated.
Dominican Republic	4/13/89	Liberalization	Exporters given until June 30, 1989 to surrender foreign exchange receipts to the Central Bank.
	8/30/90	Tightening	System of surrender of foreign exchange to Central Bank by exporters of goods and services tightened.
El Salvador	7/25/89	Liberalization	Surrender requirement for export proceeds from cotton and sugar abolished.
Ghana	4/28/89	Liberalization	New procedures for repatriation of retained export earnings introduced, under which foreign exchange entitlements would be credited to the exporters' foreign exchange accounts with banks located in Ghana.
Haiti	7/7/89	Tightening	All export proceeds and foreign exchange receipts by maritime agencies and nongovernmental organizations required to be surrendered to commercial banks, which in turn would transfer these receipts to central bank; exchange houses also required to surrender all transfers received from abroad to central bank.
	10/9/89	Liberalization	Fifty percent of foreign exchange surrendered to be returned to commercial banks, and commercial banks required to return to exporters 15 percent of foreign exchange they received.
	1/10/90	Liberalization	Surrender requirements reduced to 40 percent and 20 percent for export proceeds and private transfers, respectively.
Honduras	9/20/90	Introduction	Explicit fines and penalties for delays in surrender of export earnings and under-invoicing of exports imposed; Central Bank empowered to verify and adjust price declared by exporters for purposes of foreign exchange surrender.
Hungary	10/1/89	Tightening	National Bank of Hungary stopped converting into forint transferable rubles earned on exports outside the scope of negotiated bilateral quotas; transferable rubles earned on these exports were, however, allowed to be traded freely with other enterprises willing and able to acquire imports outside the quota system.
Israel	2/1/89	Tightening	Premium rate under FTIC changed to 4.1 percent.
	7/1/89	Tightening	Premium rate under FTIC changed to 4.9 percent.
Madagascar	12/29/89	Tightening	Export proceeds of enterprises operating in Industrial Free Zone permitted to be repatriated within maximum period of 190 days, instead of the normal period of 90 days, from date of shipment.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Mauritania	1/23/89	Liberalization	Certain enterprises allowed to retain 25 percent of export proceeds on foreign exchange accounts maintained at domestic banks.
Mozambique	2/28/89	Tightening	Retention rates for exporters of most traditional products reduced, with some retention privileges discontinued for 1989; average retention rate declined from about 50 percent in 1988 to about 40 percent in 1989.
	1/1/90	Liberalization	Retention rates for exporters of most products and certain services renewed, with some minor changes; average retention rate remained about 40 percent.
Peru	4/19/90	Tightening	Period for surrendering export proceeds to Central Reserve Bank shortened to five calendar days from the day of receipt of payment.
Philippines	4/26/89	Tightening	Each export shipment (except for shipments of household and personal effects) required to be covered by Export Declaration (without Foreign Exchange Proceeds) issued by an AAB, and approval of Central Bank Export Department required prior to shipment, except for certain categories.
Poland	3/14/89	Liberalization	Enterprises given 14 days to resell to foreign exchange banks portion of export proceeds that may not be retained under surrender regulations.
	1/1/90	Tightening	Revised Foreign Exchange Law came into effect; export proceeds required to be fully surrendered to domestic banking system although enterprises allowed to retain previously accumulated foreign exchange held in "ROD" accounts.
Sierra Leone	3/1/89	Liberalization	Under more liberal policy on exportation of gold and diamonds, licensed exporters of diamonds can retain 40 percent of proceeds from exports. Exporters of agricultural and marine products required to open letters of credit at Bank of Sierra Leone, which would ensure that 40 percent of export proceeds would be transferred to commercial bank in Sierra Leone and 60 percent would be retained at Bank of Sierra Leone.
	4/25/90	Liberalization	Amount of foreign exchange earnings from exports required to be surrendered to Bank of Sierra Leone reduced.
Somalia	7/1/90	Liberalization	Surrender requirement for foreign exchange earned by exporters of nontraditional goods reduced to 30 percent.
Tanzania	4/1/89	Liberalization	Maximum retention rate for nontraditional exports set at 35 percent, and retention privileges for traditional exports abolished.
Thailand	5/8/89	Liberalization	Limit on value of foreign currencies that may be retained by nonbank public raised to B 50,000 a day, provided that they are earned from border exports of rice.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Thailand (cont'd)	12/8/89	Liberalization	Limit on value of imports and exports that do not require filing of Exchange Control Form 21 or 61 increased from B 50,000 to B 100,000.
Tunisia	4/14/89	Liberalization	"Professional accounts" in foreign currency established for industries exporting more than 15 percent of output (except in chemical or energy sectors); these accounts were permitted to be credited with 20 percent of retained export earnings, and allowed to be used to finance expenditures abroad, including imports of goods and services and foreign investments.
Turkey	8/11/89	Liberalization	Surrender requirement lowered from 80 percent to 70 percent, with maximum period allowed for the surrender of 180 days from date of export shipments.
	10/1/89	Liberalization	Transfer requirement for commercial banks for receipts of foreign exchange lowered from 23 percent to 22 percent. (On November 2, requirement was further lowered to 20 percent.)
	10/28/89	Liberalization	"Special Export Rediscount Credits Program" would be phased out and replaced by the "Foreign Trade Capital Companies Rediscount Credit Program." The new program was virtually identical to previous program, except that subsidized credits, which were equal to 5 percent of exports value of previous 12-month period carried a maturity of only 90 days.
Uganda	3/7/89	Liberalization	Export retention scheme for agricultural exports extended to all commodities other than coffee.
Yugoslavia	1/1/90	Tightening	Liquidation of export proceeds from sale of goods and services with respect to clearing account operations limited to actual payments for imports of goods and services.
Zambia	9/20/90	Liberalization	Period during which exporters required to utilize retained foreign exchange earning extended from three to six months.

3. State Trading

Developing countries - fuel exporting

Member	Date	Direction	Measures
Indonesia	9/22/89	Liberalization	Monopoly of Board of Logistics (BULOG) to import maize revoked.

Developing countries - other

Member	Date	Direction	Measures
The Gambia	2/20/90	Elimination	Monopoly of Gambia Produce Marketing Board on exports of groundnuts abolished.
Guinea-Bissau	4/1/89	Liberalization	State import monopoly on cereal abolished.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Laos	7/10/90	Liberalization	Monopoly of public sector on exports, except for logs and minerals abolished.
Liberia	3/1/89	Tightening	Liberia National Petroleum Company (LNPC) granted monopoly right to import petroleum.
Peru	3/31/89	Liberalization	Public sector monopoly on importation of rice ended.
	6/13/89	Liberalization	Public sector monopoly on exportation of rice ended.
Poland	1/1/90	Liberalization	Almost all trade with CMEA countries conducted at world market prices and settled in convertible currencies; a limited volume of trade would continue to take place in transferable rubles through end-March, 1991.
Sao Tome and Principe	6/18/90	Liberalization	Monopoly of ECOMEX over imports of basic foodstuff abolished, and private traders authorized to import and export all goods, except fuel, medicines and those that are specified on a negative list.
Somalia	1/10/89	Liberalization	State trading monopoly on exports of hides and skins and myrrh was abolished.
Sri Lanka	4/15/89	Liberalization	State monopoly on importation of rice was abolished.
Syrian Arab Rep.	1/29/89	Liberalization	Imports of paper and iron and steel products by the private sector were permitted.

4. Current Invisibles

a. Foreign Exchange Allocations for Travel, Medical Treatment, Studies Abroad, and Family Maintenance

Industrial countries

Member	Date	Direction	Measures
Greece	12/29/89	Liberalization	Exchange allowance for personal travel increased from the equivalent of ECU 840 to ECU 1,000 per person per trip to EC member countries, and from US$600 to US$700 per person per trip to other countries.
	9/20/90	Liberalization	Exchange allowance for personal travel increased from the equivalent of ECU 1,000 to ECU 1,200 a trip.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Ireland	4/1/90	Liberalization	Authorized dealers delegated authority to sell foreign exchange in excess of basic allowance for travel equivalent to £Ir1,200, with provision of documentary evidence that foreign exchange is for genuine travel purposes.
Italy	3/10/89	Liberalization	Amount of checks residents traveling abroad may write against their domestic bank accounts was increased from Lit 5 million to Lit 10 million.
Portugal	3/28/89	Liberalization	Restrictions on the acquisition of foreign currency by residents liberalized; tourist travelers allowed to take abroad an amount equivalent to up to Esc 100,000.
	3/9/90	Liberalization	Threshold limit for requirement on resident travelers to document regular acquisition of foreign currency raised from Esc 500 million to Esc 1 billion.
Developing countries - fuel exporting			
Iran, Islamic Rep. of	12/7/89	Liberalization	Annual travel allowance of up to US$300 a person granted, irrespective of the purpose of travel and destination, at "service" exchange rate.
Developing countries - other			
Bangladesh	9/12/89	Liberalization	Foreign exchange allowances for business travel abroad by exporters increased to range of US$4,000-150,000 depending upon size of export companies.
	10/18/89	Liberalization	Ceiling of £ stg. 200 a month on remittances for family maintenance purposes by foreign nationals working in Bangladesh eliminated.
	11/18/89	Tightening	Allowance for personal travel by resident Bangladesh nationals to countries other than Bhutan, India, Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka established at US$1,500 a year, subject to maximum of US$600 a visit.
	8/20/90	Tightening	Foreign exchange allowance for travel by Bangladesh nationals to countries other than Bhutan, India, Maldives, Myanmar, Nepal, Pakistan, and Sri Lanka reduced to US$1,200 a person a year, subject to a maximum of US$5,000 a visit; allowance for travel to these seven countries reduced to US$300 a person a year, with separate limit of US$125 a person a year for travel to India by surface.
Brazil	1/9/89	Liberalization	Limit on foreign exchange allowance for travel increased to US$4,000 irrespective of destination, and purchases and sales of foreign exchange made at freely determined exchange rate.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Brazil (cont'd)	1/9/89	Tightening	Repurchases of foreign exchange by a foreign traveler limited to US$100 a trip or to the dollar equivalent of amount exchanged into domestic currency during visit, whichever is smaller.
Burundi	5/1/90	Liberalization	Daily foreign exchange allowance for business travel increased from US$165 to US$200 a trip.
Chile	10/18/90	Elimination	Requirement that foreign exchange for travel allowances must be obtained no earlier than 20 days before departure date abolished.
Colombia	10/5/90	Liberalization	Limits on foreign exchange purchases for travel abroad increased; prior authorization by ICETEX for purchases of foreign exchange for study purposes eliminated.
Cyprus	10/7/89	Liberalization	Maximum annual allowances for subsistence purposes granted to residents studying abroad increased as follows: for Western European countries, excluding Greece, to £C 3,500; for Greece, to £C 2,200; for Canada and United States, to £C 5,000; for Eastern European and Middle Eastern countries, to £C 2,000; and for all other countries, to £C 3,000.
	4/17/90	Liberalization	Use of credit cards for business travel liberalized. In addition to settlements of hotel, restaurant and transport expenses, credit cards permitted to be used to obtain from an authorized dealer up to £C100 a trip for car rentals and for any other purpose up to £C300 a trip; credit cards permitted to be used for payments of up to £C300 for mail orders of books or other items by enterprises.
El Salvador	7/31/89	Liberalization	Guarantee deposits requirement for foreign exchange applications for travel abroad eliminated.
Hungary	11/1/89	Tightening	Limit on rubles that travelers from the U.S.S.R. were allowed to convert into forint reduced from 30 rubles to 10 rubles.
	11/3/89	Tightening	Provision of foreign exchange allowance for private travel suspended.
	11/20/89	Liberalization	Travel allowance for adults was established at US$50 a year; drawings allowed annually only to the extent of unused previous annual allowances; bonus of US$50 or US$100 granted if allowances were not drawn until third or fourth year, respectively; those who used up more than one half of total available under previous system not eligible for new allowances until 1991-92, respectively; amount of additional allowance for the purchase of railway tickets for any three-year period remained unchanged (Ft 15,400), but portion available in foreign exchange for purchase of gasoline abroad was abolished except for the handicapped.
	12/13/89	Tightening	Conversion of rubles into forint by travelers from the U.S.S.R. prohibited.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Israel	6/15/90	Liberalization	Exchange allowance for the following purposes increased: (1) for tourist travel, from the equivalent of US$2,000 to US$3,000 a person a trip; (2) for family maintenance or gift remittance, from the equivalent of US$1,000 to US$2,000 a year; and (3) for education, from the equivalent of US$500 to US$1,000 a month.
Jamaica	10/17/89	Tightening	Maximum period for which commercial banks are authorized to issue business travel allowance to each traveler reduced to five days in each calendar month. Applications for funds for trips of more than five days processed by Bank of Jamaica.
Kenya	8/16/89	Liberalization	Basic travel allowance for resident adults holding round-trip tickets was increased from K Sh 4,000 to K Sh 10,000 a person (and for children aged 3 to 12 years, from K Sh 2,000 to K Sh 5,000), but allowance to be granted once every 3 years instead of every 2 years; daily business travel allowance increased from K Sh 1,500 to K Sh 2,500 for a maximum of 20 days once every 2 years; those engaged in export trade to be able to apply for allowance more frequently than normal 2-year limit; allowance for emigrants increased from K Sh 2,000 to K Sh 5,000 a person.
Korea	1/1/89	Tightening	Limit on amount of foreign exchange that may be brought into Korea without registration reduced from US$5,000 to US$3,000, and limit on conversion of foreign exchange into won by nonresidents reduced from US$20,000 to US$10,000 a visit.
	12/1/89	Liberalization	Limit on amount of foreign exchange that may be brought into Korea without registration raised from US$3,000 to US$5,000, and limit on conversion of foreign exchange into won by nonresidents was raised from US$10,000 to US$50,000 a visit.
Lesotho	6/11/90	Liberalization	Limits on basic annual exchange allowances increased.
	9/25/90	Liberalization	Settling-in allowances immigrants are permitted to transfer through the "financial rand" were increased from M 100,000 to M 500,000 a family and from M 50,000 to M 250,000 a person (unmarried).
Mauritius	6/23/89	Liberalization	Basic business travel allowance raised from £ stg. 120 to £ stg. 200 a day, and personal travel allowance raised from £ stg. 1,200 to £ stg. 2,000 a person every two years; residents holding international credit cards permitted to use cards to pay for travel expenses exceeding approved travel allowances, subject to payment of a charge of 15 percent; charge would be exempt, however, if traveler provided documentary proof to central bank that expenses exceeding approved limits represented bona fide travel expenses.
	7/1/90	Liberalization	Personal travel allowance for every two years raised from the equivalent of £ stg. 2,000 to £ stg. 4,000, and limit on basic business travel allowance, previously £ stg. 200 per day, eliminated.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Mauritius (cont'd)	7/1/90	Elimination	Prior approval by Bank of Mauritius no longer required for transfers by commercial banks of funds for educational purposes.
	7/1/90	Liberalization	Limit on cash gift remittance abroad raised from the equivalent of Mau Rs 1,000 to Mau Rs 5,000 a person a year.
Morocco	7/30/90	Liberalization	Maximum foreign exchange allowance granted for tourist travel by residents raised from DH 100 to DH 1,000 a person a year.
Mozambique	10/31/90	Liberalization	Individuals permitted to buy foreign exchange in MSC for expenses associated with travel for education, scientific and cultural visit, and medical treatment up to limits prescribed in MSC regulations; an annual limit of US$2,000 set for other travelers; remittances for education abroad limited to US$300 a month.
Nepal	7/10/89	Liberalization	Payments to India in Indian rupees required to be documented; for education, Rs 15,000 permitted at beginning of school year, with additional amounts to be granted upon submission of documentary proof; for pilgrimage, Rs 10,000 per individual to be allowed; for business travel, Rs 15,000, and for other travel, Rs 5,000 to be granted initially and additional amounts would be granted upon submission of documentary proof of need; visitors to India to be granted Rs 2,000; application not to be required for requests up to Rs 500.
Pakistan	1/18/89	Liberalization	Maximum amount of tuition fee allowed to be remitted to educational institution abroad (£ stg. 6,178 a year to United Kingdom and US$9,500 a year to other countries) lifted.
	4/18/89	Liberalization	Ceilings on remittances abroad for advertisement fees in newspaper and magazines by nonexporters, for membership fees for educational, technical, professional, and scientific institutions, for membership fees of bona fide social clubs, and for fees for taking part in examinations held in Pakistan by I.C.W.A. London Institute of Bankers raised from PRs 2,000 to US$250, from PRs 2,000 to US$250, from PRs 300 to US$50, and from PRs 1,000 to US$150, respectively.
	7/20/89	Liberalization	Authorized dealers allowed to convert into foreign exchange unspent amount up to PRs 500 left with foreign tourists out of proceeds of foreign exchange encashed by them in Pakistan.
Poland	3/15/89	Tightening	Foreign exchange at official rate ceased to be provided for travel abroad, and 200 percent surcharge on the provision of convertible currencies for that purpose abolished.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Romania	4/26/90	Liberalization	Travel allowance set at US$75 per person every two years (one half of this amount for children), plus US$30 for those traveling by car; residents allowed to purchase with lei railroad tickets to anywhere in Europe once a year; and in exceptional cases, a second trip to be allowed; travel allowance to CMEA countries raised to lei 3,000 a person a year.
Rwanda	12/1/89	Tightening	Declaration of foreign exchange on entering country made obligatory.
Sierra Leone	4/25/90	Liberalization	Applications for basic travel allowance in excess of US$1,000 per travel not required to be approved by Bank of Sierra Leone.
Sri Lanka	1/27/89	Tightening	Applications for foreign exchange allowances by business travelers in the form of foreign credit cards subject to review (by the Central Bank of Sri Lanka).
	4/5/89	Tightening	Foreign exchange allowance for travel for employment purposes reduced to £ stg. 100.
Sudan	2/7/89	Tightening	The allowance for travel to Egypt was reduced from 500 clearing dollars per year to 100 clearing dollars per year.
	7/2/89	Tightening	Limit of US$50 a person a year established for purchases of foreign exchange from commercial banks for travel purposes, with proof of airline ticket purchase.
	9/27/89	Tightening	A limit of LSd 810 in clearing dollars a person established for travel to Egypt.
Thailand	12/8/89	Liberalization	(1) Limit on amount of domestic currency notes an individual may take out of country without approval (except to the Lao People's Democratic Republic) increased to B 10,000; limit applicable to the Lao People's Democratic Republic set at B 100,000. (2) Amount of foreign exchange authorized banks are allowed to purchase from individuals without submission of Exchange Control Form 71 increased from the equivalent of US$500 to US$1,000. (3) Authorized banks permitted to sell foreign currencies for a bona fide transaction up to limit of US$500, or its equivalent, without submission of supporting evidences and Exchange Control Form 31; previous limit was US$140 a transaction. (4) Authorized banks allowed to sell foreign exchange up to limit of US$5,000 a year for remittances of family maintenance expenses and savings by expatriate workers (the same limit would also apply to a Thai national who is on pilgrimage to Mecca); previous limitmonth for transfers to Europe and United States and US$150 to other countries was US$200.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Thailand (cont'd)			(5) Authorized banks empowered to approve applications for foreign exchange purchases for registration fees for training, seminar, or employment training abroad, application fees for employment abroad, and service fees for international telecommunication.
			(6) Authorized banks permitted to approve automatically Exchange Control Form 51 for exchange of foreign currency held by foreign travelers into other foreign means of payment or into another currency, provided that amount does not exceed US$3,000 or its equivalent at prevailing exchange rate.
	5/22/90	Liberalization	Maximum limit on foreign exchange commercial banks allowed to provide without verification increased as follows: (1) all travel expenses from equivalent US$9,000 to US$20,000; and (2) travel expenses to Mecca, from equivalent of US$5,000 to US$50,000 a year.
Turkey	2/25/90	Liberalization	Limit on amount of foreign currency notes Turkish residents allowed to take out when traveling abroad raised from the equivalent of US$3,000 to the equivalent of US$5,000; residents allowed to take out foreign currency notes in excess of US$5,000 or its equivalent, provided the foreign currency notes were purchased from banks or special finance institutions in Turkey.
Zambia	9/14/90	Liberalization	Foreign exchange to pay for the following service sold at the MER rate: (1) travel abroad other than for medical or educational purposes, (2) inducement allowances gratuities for expatriate workers, and (3) subscription payments.
	12/3/90	Liberalization	Foreign exchange for education and medical treatment abroad sold at the MER rate.

b. Outward Transfers or Payments for Services Rendered by Nonresidents

Industrial countries

Member	Date	Direction	Measures
Portugal	5/2/89	Liberalization	Limits on payments to countries with which Portugal does not maintain special clearing arrangements increased from the equivalent of Esc 7.5 million to Esc 30 million a transaction.
	9/8/89	Liberalization	Registration of contracts on technology may be made with the Bank of Portugal within one month of their conclusion, but must always be made before the realization of foreign exchange.

Developing countries - other

Member	Date	Direction	Measures
Brazil	7/1/89	Tightening	Interest payments accrued on medium- and long-term external debt owed to nonresident commercial banks subject to retention at Central Bank.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Brazil (cont'd)	7/3/89	Tightening	Remittances of profits and dividends subject to retention at Central Bank.
	10/5/89	Tightening	Dividends of foreign companies permitted to be remitted abroad, only after being retained at Central Bank for 60 days (this period extended to 120 days, effective January 10, 1990).
Burundi	5/1/90	Liberalization	Proportion of net annual income of foreign nationals residing and working in firms which export at least 50 percent of their production raised to 70 percent.
Ghana	2/1/89	Liberalization	All bona fide transfers of profit and dividends made eligible for funding through foreign exchange auction market.
	4/27/90	Elimination	Restrictions on remittances of income of non-Ghanaians eliminated.
Honduras	9/3/90	Liberalization	Maximum amount of foreign exchange allowed to be purchased without prior authorization from Central Bank for services increased from US$3,000 to US$5,000 if purchased in newly created market for services.
Israel	4/19/89	Liberalization	Rate of value-added tax on payments for services was reduced from 15 percent to 7.5 percent.
	9/1/89	Liberalization	Value-added tax on payments for services, except tourism, eliminated.
Madagascar	12/28/89	Liberalization	Transfer of dividends and profits to nonresident shareholders unrestricted under the terms of Investment Code and Industrial Free Trade Zone.
Morocco	2/22/90	Elimination	Prior approval for payments abroad for foreign technical assistance no longer required for amounts less than DH 50,000, and such transfers permitted to be effected directly by commercial banks in Morocco.
Peru	11/24/89	Liberalization	Legislation permitting Central Bank to guarantee availability of foreign exchange for purchases of nonfinancial services and for amortization and interest payments on loans associated with exploration and development of hydrocarbon projects passed.
Sri Lanka	5/18/89	Liberalization	Authorized dealers allowed to remit abroad, without prior approval of Central Bank, remittances that were made to firms and individuals resident in Sri Lanka upon request by remitter, provided that (1) remittance returned within a period of six months from date of receipt of remittance; (2) funds realized and credited to account had not been utilized for any purpose; (3) inward remittance so returned had not been effected in respect of any payments that were legitimately due to any resident in Sri Lanka for services rendered or goods supplied to a nonresident or otherwise; and (4) no foreign exchange facilities had earlier been granted on the basis of remittance.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Thailand	5/22/90	Liberalization	Maximum limit on foreign exchange commercial banks allowed to provide without verification for remittance by foreigners working in Thailand increased from equivalent of US$5,000 to US$50,000 a year.
Yugoslavia	12/20/89	Liberalization	Residents allowed to purchase foreign exchange from official banking system with dinars without restriction.
Zambia	1/12/89	Liberalization	Remittances by expatriate employees working on contract restricted to US$4,260 a year (retroactive to November 8, 1988) and be denominated in U.S. dollar terms; previous limit denominated in kwacha (new limit in U.S. dollar terms was same as that expressed in kwacha terms at exchange rates prevailing before this date.)
Zimbabwe	4/18/89	Liberalization	Regulations applying to use of blocked deposits liberalized, whereby transfers of such funds to approved new investors at freely negotiated price are permitted.
	10/1/90	Liberalization	Regulations liberalizing remittances of dividends and profit earned on foreign direct investments in new and existing export-oriented projects other than mining projects introduced.

c. Imports and Exports of Foreign and Domestic Currency Notes, and Holdings of Foreign Currency Domestically

Industrial countries

Member	Date	Direction	Measures
Ireland	4/1/90	Liberalization	Limit on remittances representing personal loans or gifts to residents of non-EC countries raised to £Ir20,000.

Developing countries - fuel exporters

Member	Date	Direction	Measures
Algeria	8/7/90	Tightening	Nonresident Algerian nationals required to convert at least DA 3,500 a year upon entering Algeria.

Developing countries - other

Member	Date	Direction	Measures
Burundi	5/1/90	Liberalization	Limit on domestic currency that a traveler may take out increased from FBu 2,000 to FBu 5,000.
China, People's Rep. of	10/30/89	Tightening	Regulations issued regarding convertibility of foreign exchange certificates (FECs); foreign organizations in China no longer able to exchange FECs for foreign currency; non-Chinese nationals who are residents in China not to be permitted to exchange FECs for foreign currency except when they are leaving China permanently, and reconversion to be restricted to 50 percent of their documented purchases of FECs; tourists leaving China to be allowed to reconvert unused FECs into foreign currency only up to 50 percent of their original purchases.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Colombia	11/21/90	Liberalization	Bank of the Republic stopped redeeming within a period of 80 days all exchange certificates in respect of receipts from services to be issued during November 21, 1990 to March 31, 1991.
Dominican Republic	6/15/90	Introduction	All arriving travelers required to convert the equivalent of US$100 into domestic currency.
	7/13/90	Elimination	Requirement that all travelers arriving in the Dominican Republic must convert the equivalent of US$100 into domestic currency suspended.
	11/5/90	Liberalization	Remittances of foreign exchange abroad permitted to be made only through commercial banks in Dominican Republic.
Cyprus	7/28/89	Liberalization	Expatriate Cypriots and Cypriots working temporarily abroad, after resettling permanently in Cyprus, exempted from obligation to surrender foreign currency earned abroad.
Egypt	7/11/89	Liberalization	Public sector hotels allowed to retain 25 percent of their foreign exchange earnings instead of 10 percent to meet their debt-service obligations; private sector hotels (other than hotels operating under Law No. 230, which are allowed to retain 100 percent) also allowed to retain additional 15 percent of their foreign exchange earnings with approval.
El Salvador	12/5/90	Elimination	Restrictions on sale of foreign exchange for purposes of overseas travel, educational expenses and official missions eliminated.
Israel	6/15/90	Liberalization	Amount of foreign exchange an Israeli resident is permitted to hold increased from the equivalent of US$2,000 to US$3,000.
	6/15/90	Liberalization	Amounts of domestic bank notes an Israeli resident and a nonresident traveler allowed to take out increased from the equivalent of US$50 to US$200 and from US$100 to US$200, respectively.
Mozambique	11/19/90	Liberalization	Participants in the secondary exchange market allowed to maintain foreign currency accounts at Banco Popular de Desenvolvimento.
	10/31/90	Liberalization	Individuals permitted to purchase up to US$500 a day in the MSC on a "no questions asked basis."
Pakistan	7/1/90	Liberalization	Travel agents and tour operators allowed to retain 5 percent of their foreign exchange earnings for marketing and related export promotion expenses.
Peru	4/18/90	Tightening	Payments of insurance premia and repayments of external credits with CLDs no longer permitted.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Romania	5/16/90	Liberalization	Proportion of foreign exchange receipts required to be repatriated by Romanians working in international organizations and joint ventures, and of foreign exchange incomes received by Romanians reduced.
Rwanda	12/1/90	Elimination	Requirement to declare foreign exchange on entering Rwanda abolished.
Sierra Leone	12/13/89	Liberalization	Limit on importation of domestic bank notes was increased from Le 250 to Le 2,500.
Somalia	--/--/90	Liberalization	Amount of Somali shillings allowed to be brought into the country raised to So. Sh. 1,000.
South Africa	6/1/90	Liberalization	Limit on transfers an emigrant family is allowed to make through financial rand increased from R 100,000 to R 200,000.
Sudan	7/2/89	Tightening	Possession of foreign currency prohibited (previously, the equivalent of US$1,000 a person permitted), and a deadline of July 31, 1989 was set for surrendering foreign bank notes; deadline first extended to August 31, 1989, before becoming final on September 30, 1989; during grace period, surrendered bank notes (i.e., without documentary evidence) could be used only to open exceptional foreign exchange accounts from which US$5,000 a year a family could be used for invisible payments (e.g., tourism, medical treatment, education); however, payments for imports from such accounts to be prohibited. Transfers of foreign exchange between bank accounts prohibited; since September 30, 1989, foreign exchange has been required to be surrendered with documentary evidence of transfer; the validation of currency declaration form (until compulsory surrender must be made) extended to two months from three weeks.
	9/1/89	Tightening	Withdrawal of bank notes from foreign currency accounts was prohibited.
	12/10/89	Tightening	A new law was enacted regulating transfers of Sudanese nationals working abroad. The transfers were moved from the official exchange rate to the commercial rate.
Suriname	1/1/90	Elimination	Nonresident travelers no longer required to exchange convertible currency in an amount equivalent of Sf 500 when entering Suriname at Zanderij International Airport, Nickerie, or Albina.
Thailand	5/22/90	Liberalization	Maximum limit on foreign exchange commercial banks are allowed to provide without verification increased as follows: 1) remittances which commercial banks not previously authorized to provide foreign exchange upon application up to equivalent of US$50,000 per transaction; (2) remittance by Thai nationals to relatives who are residing abroad permanently, up to equivalent of US$100,000 a person a year.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Yugoslavia	10/11/90	Tightening	Purchase of foreign bank notes limited to the equivalent of DM 1,000 a person per purchase; export of foreign bank notes limited to the equivalent of DM 1,000 a person a trip.
	11/21/90	Tightening	Purchase of foreign bank note limited to the equivalent of DM 1,000 a person a month.
	12/21/90	Tightening	Purchases of foreign exchange with dinars by resident national to make certain payments limited.
Zambia	11/15/89	Liberalization	Limit on amount of Zambian currency a traveler leaving and/or arriving in the country is raised from K 10 to K 100.

5. Capital Controls

a. Commercial Banks' International Transactions

Industrial countries

Member	Date	Direction	Measures
Finland	3/1/90	Liberalization	Finance companies permitted to apply for the right to intermediate and raise foreign loans to the extent allowed by limits on their foreign currency position.
	7/1/90	Liberalization	Scope of financial sector enterprises to engage in foreign operations expanded.
France	3/9/89	Liberalization	All exchange restrictions applicable to capital transactions by banks were eliminated under Decree 89-154.
Iceland	1/1/89	Tightening	Ratio (in terms of f.o.b. value) of investment goods allowed to be financed abroad by Icelandic businesses reduced to 50-60 percent.
	12/29/89	Liberalization	Taxes on foreign borrowing eliminated.
	11/1/89	Liberalization	Ratio (in terms of f.o.b. value) of investment goods allowed to be financed abroad by Icelandic businesses increased to 70-80 percent; importers also permitted to obtain suppliers' credits for individual shipments of goods with a maturity of up to one year as long as transaction not guaranteed and funds were not relent by a domestic financial institution; otherwise, the maximum maturity period restricted to six months.
	9/1/90	Liberalization	Foreign Exchange controls on long-term capital transactions liberalized, permitting residents to freely obtain credits up to a specified limit.
Ireland	4/1/90	Liberalization	Irish financial institutions permitted to accept deposits in Irish pounds, without limit at fixed terms of at least three months, from both bank and nonbank nonresidents without prior reference to Central Bank.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Italy	2/17/89	Tightening	Marginal reserve ratio on authorized banks' net foreign currency deposit liabilities (which had been equal to zero since September 13, 1987) raised to 25 percent.
	5/2/90	Elimination	Remaining restrictions on authorized banks' foreign exchange management abolished whereby authorized banks no longer required to balance foreign exchange position and net external position, and "spot against forward" operations in foreign exchange no longer subject to ceilings.
Japan	4/1/89	Liberalization	Ceiling on monthly transactions between Japanese offshore market and the domestic markets raised from 5 percent to 10 percent of total average investment balance of participants in previous month.
	5/1/89	Liberalization	Voluntary restraints on medium- and long-term yen-denominated lending by foreign exchange banks located outside Japan abolished.
New Zealand	1/1/90	Liberalization	Any financial institution permitted to deal in foreign exchange without authorization.
Portugal	3/20/89	Liberalization	Foreign exchange swap operations ceased to enjoy special treatment under the regulations on banking credit ceiling.
	7/1/90	Tightening	Enterprises drawing financial credits from abroad required to deposit equivalent of 40 percent of credits in an unremunerated account with Bank of Portugal.
Spain	1/31/89	Tightening	Thirty percent nonremunerated deposit requirement imposed on all new net foreign borrowings by Spanish residents.
	5/14/90	Liberalization	Banks allowed to extend loans in foreign currencies to residents for financing real estate purchases abroad.
	6/19/90	Elimination	Restrictions on guaranteeing of loans extended by or received by residents eliminated. However, prior verification required before payments against such guarantees may begin.
Sweden	7/1/90	Liberalization	Exchange Control Act and Exchange Control Ordinance abolished and Emergency Contingency Act passed by Parliament under which it included provision that residents are generally not allowed to deposit capital in foreign bank accounts or to effect or recive payments through such an account.
United States	12/31/89	Liberalization	U.S. banks allowed to accept foreign currency deposits.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Developing countries - fuel exporting			
Indonesia	1/29/90	Liberalization	Joint venture banks and foreign banks permitted to open branch offices in Batan Island, which is being developed as an export processing zone.
Developing countries - other			
Bangladesh	9/30/89	Liberalization	Authorized dealers allowed to grant, without reference to Bangladesh Bank, loans in domestic currency to foreign-owned manufacturing companies located in Bangladesh to the extent of 140 percent of their paid-in capital, reserves, undistributed profits, and unremitted dividends as disclosed by their last audited balance sheets.
Brazil	4/20/89	Liberalization	Transfers abroad of the proceeds from sales of property and inheritance permitted up to limit of US$300,000 or its equivalent in other currencies, provided that transfers are made through an authorized dealer with supporting documentation.
Colombia	6/6/90	Liberalization	Ceiling applicable to foreign currency deposits which domestic commercial banks and financial corporations may hold increased from 8 percent to 15 percent of their total foreign exchange liabilities.
Dominican Republic	5/3/90	Liberalization	Commercial banks authorized to purchase foreign exchange from the public and surrender it to Central Bank.
Egypt	4/23/89	Liberalization	Commercial banks allowed to use portion of resources of new bank market for settlement of private sector debt obligations in foreign currencies regardless of date on which debt became due; in addition, commercial banks allowed to sell their foreign exchange earnings (accumulated net profits in foreign exchange) to their indebted private sector customers for purpose of settlement of debts denominated in foreign exchange at prevailing new bank market rate.
El Salvador	7/1/90	Liberalization	Authorization for payments of invisibles transferred to commercial banks and exchange houses.
India	7/20/89	Liberalization	Authorized dealers permitted to furnish counter-guarantees to their foreign branches/correspondents to cover guarantees to be issued by the latter in favor of local beneficiaries on behalf of Indian exporters, in accordance with local regulations where these stipulate that such guarantees can be obtained only from resident banks.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Israel	1/5/89	Liberalization	Minimum term on loans obtained by residents reduced from 30 months to 24 months (it was further reduced to 18 months on April 1, 1989); preferential export credit scheme liberalized, whereby exporter are no longer restricted to obtain financing arranged by Israeli banks, but are permitted to obtain financing from any sources and guarantees of such financing for export-production period by Israeli banks; interest rate under the scheme, generally corresponding to LIBOR plus 2 percent, replaced by a range consisting of LIBOR plus 1 percent as the "base," plus a risk premium (differentiated for each borrower) of 0-2 percent.
Jordan	5/31/89	Tightening	Enforcement of requirement that commercial banks deposit 35 percent of their foreign currency deposits with Central Bank of Jordan; these deposits must be in the form of time deposits with terms of not less than one month or of customers' deposits in foreign banks abroad and must be denominated in deutsche mark, French francs, pounds sterling, Swiss francs, or U.S. dollars; Central Bank of Jordan pays interest on deposit balances at rate announced by the Reuter monitor for similar deposits, but this rate is 0.5 percentage points below the Reuter monitor rate for deposit balances that are less than the required 35 percent; fines imposed at annual rate of 10 percent on any shortfalls on deposit balance.
Panama	1/1/89	Liberalization	Restrictions on withdrawals of demand deposits lifted.
	4/15/90	Elimination	Restrictions on withdrawals from savings deposits lifted.
	7/5/90	Elimination	Restrictions on withdrawals from time deposits lifted.
Peru	4/17/90	Tightening	Maximum transfer abroad for banks which had not completed required transfers of surrendered export proceeds reduced from US$100,000 to US$50,000.
	8/8/90	Elimination	Restrictions on debt service payments on nonguaranteed private sector debt eliminated.
Philippines	9/13/90	Introduction	Guidelines governing the purchase and sale of foreign exchange by commercial banks issued.
Romania	1/15/90	Liberalization	Provisions for foreign exchange accounts liberalized, requirement to keep all foreign exchange in bank accounts and restrictions on use of foreign exchange from these accounts eliminated.
Thailand	5/22/90	Liberalization	Maximum limits on transfers which commercial banks are authorized to approve without prior approval increased as follows: (1) remittances of funds by emigrants or inheritances of emigrants, up to the equivalent of US$1 million a person a year; and (2) repayment of loans that have not been registered with Bank of Thailand, proceeds from sales of securities or funds from liquidation, up to the equivalent of US$500,000 per transaction.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Turkey	9/13/89	Liberalization	Foreign exchange risk ratios that determine the maximum and minimum ratios of foreign currency-denominated assets and liabilities commercial banks may hold widened to 88-115 percent from 90-110 percent.
	3/3/90	Elimination	Minimum utilization ratio requirement, under which banks were required to extend 50 percent of foreign exchange deposits as foreign credit, abolished.
	8/17/90	Tightening	Limit on amount of foreign exchange for which the exchange rates are allowed to be negotiated freely between authorized institutions and their customers reduced from US$10,000 to US$3,000.
	10/20/90	Liberalization	Domestic banks and branches of foreign banks allowed to operate in free trade zone to conduct offshore banking activities with approval.
		b. Nonresidents' Accounts and Residents' Foreign Exchange Accounts	
Industrial countries			
Belgium and Luxembourg	7/15/89	Liberalization	Advances on Convertible Accounts to be allowed if extended for at most six months and used for immediate payment in favor of residents for transactions specified on Lists A and B.
France	3/9/89	Liberalization	Enterprises engaged in international trade no longer subject to exchange restrictions. All residents, including individuals and companies having no international activities permitted to open ECU-denominated accounts in France.
	1/1/90	Elimination	Exchange controls lifted allowing residents to hold accounts in foreign currency.
	1/1/90	Liberalization	Exchange restrictions that remained in force at end of 1989, which had prohibited individuals and enterprises not engaged in international activities from holding either monetary assets abroad or accounts in France in foreign currencies other than ECUs, abolished); residents of all OECD countries permitted to issue foreign securities in France (previously only permitted to residents of EC countries); requirement that recognized EC residents had to declare their direct foreign investments in France eliminated, and foreign direct investments by liquidation must be reported to the Ministry within 20 days of its occurrence; foreign direct investments by residents are not restricted.
Greece	3/9/89	Liberalization	Maturity of loans in foreign exchange contracted by exporting firms permitted to be less than six months.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Japan	7/30/90	Liberalization	System of foreign deposit accounts liberalized as follows: (1) in addition to individuals, corporations allowed to open accounts abroad; (2) ceiling on accounts maintained abroad without restriction but requiring reporting to Bank of Japan raised from ¥ 5 million to ¥ 30 million; (3) ceiling on accounts permitted to be maintained abroad with automatic approval of Bank of Japan raised from ¥ 30 million to ¥ 100 million; and (4) trading of foreign securities with deposit balances on accounts held abroad liberalized.
Portugal	3/9/90	Liberalization	Subject to authorization of Bank of Portugal, resident corporations which conduct a significant proportion of business with foreigners allowed to open noninterest-bearing accounts in foreign currency, to be used mainly to channel payments to and receipts from intertnational transactions in goods, services, and capital. Account balance at the end of each month required not to exceed a certain percentage of average amounts of payments or receipts in foreign currency recorded the previous year. Resident individuals allowed to open foreign currency accounts at home to support portfolio operations in foreign securities listed in stock exchanges. Maximum balance on these accounts at the end of each month set at Esc 4 million.
Spain	9/26/89	Liberalization	Spanish residents permitted to maintain accounts in ECUs at authorized banks.
	4/4/90	Elimination	Prohibition against payment of interest on nonresident convertible peseta accounts with balances exceeding Ptas 10 milliion removed.
	6/22/90	Liberalization	Operations of ECU accounts held by residents further liberalized.
Sweden	7/1/89	Liberalization	All remaining currency regulations virtually abolished; in addition, nonresidents allowed to invest in Swedish bonds and money market instruments denominated in Swedish kronor and to make deposits in Swedish kronor in interest-bearing accounts in Swedish banks; remaining exchange controls would apply to deposits made by Swedish companies and individuals in foreign banks and to payments of life insurance premiums to insurance companies outside Sweden.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Developing countries - fuel exporting			
Algeria	9/8/90	Liberalization	Economic entities eligible to open foreign currency accounts in Algeria banks; retained export proceeds not required to be deposited in a foreign currency account; retention ratios increased as follows: (1) 20 percent for tourism operators and wine exporters; (2) 50 percent for agricultural and fisheries product exporters; and (3) 100 percent for exporters of all other goods, except hydrocarbon and mineral products, ratio for which remained at zero and for transport and financial services for which ratio remained at 10 percent.
Developing countries - other			
Bangladesh	8/22/90	Liberalization	Interest rates on nonresident foreign currency deposits raised one percentage point above the interest rates paid on Euro-currency deposits with similar maturities.
Brazil	11/16/89	Liberalization	Export and import companies permitted to maintain foreign currency deposits with establishments authorized to operate in foreign exchange, but funds on these accounts must be transferred to Central Bank.
Burundi	7/1/89	Liberalization	Period after which all nonresidents' earned income, rents, profits, and dividends may be transferred reduced to four years.
Cyprus	7/19/89	Liberalization	Foreign exchange allowance granted to residents emigrating for permanent residence abroad was increased from £C 5,000 to £C 10,000.
Egypt	4/20/89	Liberalization	Emigrants of Egyptian nationality were allowed to export personal effects and furniture up to LE 1,200 a person and LE 3,000 a family; a woman of Egyptian nationality who is married to a foreigner and holding a "Departure Form A" authorized to export up to LE 6,000 when leaving the country permanently.
El Salvador	7/31/89	Liberalization	Duty-free shops were allowed to open foreign currency deposit accounts.
Guinea-Bissau	3/1/90	Liberalization	Commercial bank authorized to accept foreign exchange deposits from nonresidents; these deposits, which may be used without restriction and be freely transferable abroad, to be remunerated in foreign exchange, at a rate of 4 percent a year in the case of demand deposits and at freely negotiated rates in the case of time deposits.
Hungary	9/18/89	Liberalization	Up to 100 percent of income or assets in convertible currencies relating to the following allowed to be maintained in convertible currency accounts: (1) foreign exchange earned from creative, inventive, or artistic activities; (2) honoraria; (3) prizes, awards, and winnings on foreign exchange lotteries; (4) gifts from abroad; and (5) specified fees. Up to 10 percent of export proceeds of small-scale traders and private enterprises may also be maintained on these accounts.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Israel	6/15/90	Liberalization	Limit on assets an emigrant is permitted to transfer abroad annually raised from the equivalent of US$2,000 to US$4,000.
	8/15/90	Liberalization	Various PATAM accounts consolidated into two main types of foreign currency accounts (current and one-year deposit and transitory accounts).
Jamaica	1/1/90	Liberalization	Exporters of nontraditional goods and services allowed to deposit 7.5 percent of their earnings in convertible currencies in a retained account in a commercial bank, and were permitted to use balances on these accounts without restriction.
	7/1/90	Liberalization	Residents and nonresidents permitted to maintain "A" accounts.
	10/01/90	Liberalization	Residents and nonresidents permitted to maintain "B" accounts.
	11/1/90	Liberalization	Any company in the same group as hotel or tourism activity that earns foreign exchange made eligible to maintain a JNRA.
Jordan	8/15/89	Liberalization	Jordanian exporters permitted to maintain with any commercial banks or financial institutions foreign exchange accounts, to be credited with up to 30 percent of export proceeds.
	8/27/89	Liberalization	Balances on time deposits of Jordanian residents in foreign currencies with terms of less than six months allowed to be withdrawn before maturity; if these deposits are credited with foreign currency notes, they may be debited only with currency permits, whereas if they are credited with transfers through banking system or with checks in foreign currency, withdrawals are permitted without any restriction.
Madagascar	12/29/89	Liberalization	Enterprises operating in Free Trade Zone permitted to maintain foreign currency accounts with local banks.
Mauritius	7/1/90	Liberalization	Limit on remittance by emigrant increased from Mau Rs 200,00 to Mau Rs 500,000 a family.
Morocco	4/25/89	Liberalization	Minimum initial deposit required for nonresident Moroccan to open convertible dirham account reduced from DH 500,000 to DH 50,000.
	4/6/90	Elimination	Minimum amount for opening of convertible dirham accounts by nonresident Moroccans abolished.
Mozambique	11/27/89	Liberalization	Banco Standard Totta de Mozambique began operating foreign currency accounts for embassies and consulates, international organizations, and resident foreign citizens.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Pakistan	1/15/89	Tightening	Transfers of Pakistan securities between two nonresidents would require permission from Government if original investment in Pakistan required government approval.
	7/29/90	Liberalization	Authorized dealers permitted to accept foreign currency deposits of 1 year, 2 years, and 3 years maturities at interest rates not exceeding by 0.25 percent per annum, 0.75 percent per annum, and 1 percent per annum, respectively over 12-month LIBOR quoted by Barclays Bank Ltd., London.
	12/1/90	Liberalization	Foreign currency accounts held in Pakistan by Pakistani nationals under Foreign Currency Accounts Scheme permitted to be maintained permanently after their return to Pakistan.
Peru	8/11/89	Liberalization	Repatriated foreign exchange earnings permitted to be sold at free market exchange rate or deposited in foreign exchange accounts.
Poland	10/15/90	Tightening	"S" accounts abolished with outstanding balances convereted into zlotys.
Romania	9/7/90	Liberalization	All exporters allowed to maintain foreign exchange retention accounts in which 50 percent of export proceeds to be deposited.
Sierra Leone	12/13/89	Liberalization	Foreign currency accounts were allowed to be maintained by residents in Sierra Leone subject to certain conditions.
	3/25/90	Liberalization	Residents permitted to hold foreign currency accounts with commercial banks in any convertible currency, and commercial banks permitted to process payments for imports of goods and services from these accounts without approval of Bank of Sierra Leone.
Thailand	5/22/90	Liberalization	Maximum amount allowed transferred to each nonresident baht account increased to B 5 million a day.
Turkey	8/17/90	Tightening	Turkish officials and private businessmen working abroad temporarily and Turkish workers living abroad who have returned to Turkey permanently no longer permitted to open new deposit, and deposit accounts opened before this date required to be closed on maturity.
Yugoslavia	12/21/90	Tightening	Transfers abroad from foreign currency accounts held by resident nationals not allowed up to December 31, 1990.
Zambia	10/20/90	Liberalization	Bank of Zambia permitted nonresident Zambians and resident Zambians working for international organizations to pen nonresident accounts in U.S. dollars and pounds sterling with commercial banks. Opening of such accounts require prior approval from Bank of Zambia.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
			c. Portfolio Investments
Industrial countries			
Austria	2/1/89	Liberalization	Virtually all restrictions on long-term capital transfers abolished; only remaining restrictions concerned (1) issuance of securities on foreign capital markets and of foreign securities on domestic capital markets; and (2) acquisition of real estate by nonresidents.
Finland	9/1/89	Liberalization	Regulations on outward and inward capital transfers liberalized, with immediate effect, except for outward capital transfers by private individuals for which regulation would enter into effect no later than July 1, 1990; with respect to inward capital transfers, nonfinancial institutions, except for housing and real estate companies, permitted to obtain foreign loans of more than one year's maturity (previously, only loans of more than five years' maturity were permitted); suppliers' credits and prepayments in respect of imports were fully exempted from authorization by Suomen Pankki; and most direct investments in Finland would no longer require authorization by Suomen Pankki.
	2/1/90	Liberalization	(1) Markka-denominated bonds with maturities exceeding one year permitted; (2) nonresidents authorized to issue markka-denominated bonds in Finland; (3) share issues by Finnish companies abroad not subject to prior authorization; (4) quotation by the Helsinki Stock Exchange or the OTC market as a condition for the issue of foreign securities in Finland not required; and (5) nonresidents purchasing Finnish securities not required to effect their purchases through the Helsinki Stock Exchange or the OTC market.
France	1/1/90	Liberalization	Firms based in OECD countries permitted to issue securities on French capital market (previously only EC countries permitted to do this).
	1/15/90	Liberalization	Administrative procedures for acquisition of existing French enterprises simplified and placed on a lapse-of-time basis so as to expedite authorization procedures when these are still required. Authorization procedures continue to apply to companies from outside the European Communities for investments exceeding F10 million. Investment applications would be considered to be approved if the Ministry of Economy, Finance, and the Budget does not object within one month.
Greece	1/14/90	Liberalization	Limit on purchases of securities issued by European Communities and European Investment Bank increased from ECU 50 million to ECU 75 million a year.
Iceland	12/15/90	Liberalization	Residents allowed to purchase real estate and foreign securities and to undertake foreign investments up to specified limits.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Ireland	1/1/89	Liberalization	(1) All restrictions on purchases of foreign securities with maturities exceeding two years eliminated; and (2) exchange controls applicable to sales of existing holdings of securities issued by EC, European Investment Bank, European Coal and Steel Community and European Atomic Energy Community abolished.
	4/1/90	Liberalization	Period for which sale proceeds from foreign medium- and long-term foreign securities may be held in foreign currency extended form three months to six months.
Italy	1/19/90	Liberalization	Decree issued allowing residents to purchase bonds and money market instruments issued or payable abroad with remaining maturity terms of less than 180 days. Upon maturity, reimbursed funds can be deposited in Foreign Exchange Accounts without obligation to convert into lire.
Japan	1/4/89	Liberalization	New portfolio investment guidelines for foreign exchange banks were announced; guidelines included: (1) the abolishment of risk assets ratio requirement and introduction of BIS (Bank for International Settlements) portfolio investment guidelines; (2) introduction of ceilings on lending to specified countries of 40 percent of equity capital; and (3) requirement that liquidity ratio in foreign currency deposits be reported to competent authorities.
	1/31/89	Liberalization	Investments in form of foreign currency deposits by investment trusts permitted.
	2/1/89	Liberalization	Ceiling on investments in foreign bonds by loan trust and money trust raised from 3 percent to 5 percent of total assets.
	6/16/89	Liberalization	Issuance of yen-denominated bonds in foreign markets by nonresidents fully liberalized with abolishment of restrictions on maturities and issuance eligibility standards.
	6/24/89	Liberalization	Limit on sale of bonds issued in foreign markets to domestic investors of up to 50 percent of total issuance abolished.
Norway	5/9/89	Liberalization	Nonresidents allowed to purchase bonds denominated in Norwegian kroner quoted and registered in Norway and carrying a maturity of at least one year, provided that such purchases made through authorized Norwegian brokers; new rules also apply to shares in Norwegian bond funds.
	6/14/89	Liberalization	Residents allowed to incur or provide commercial and financial guarantee obligations abroad without permission from Bank of Norway, provided that such guarantees cover licensed transactions or transactions for which no license is required.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Norway (cont'd)	6/30/89	Liberalization	Residents allowed to acquire quoted and nonquoted shares of foreign collective investment funds without permission from Bank of Norway, provided that such transactions conducted through authorized Norwegian brokers.
	12/7/89	Liberalization	Nonresidents allowed to issue bonds denominated in Norwegian kroner in Norway subject to license; bonds issued by nonresidents have to be conducted through authorized Norwegian brokers; residents allowed to purchase and sell bonds issued by licensed nonresidents.
	12/8/89	Liberalization	(1) Residents allowed to acquire foreign nonquoted shares in low-taxation countries subject to license; nonresidents allowed to acquire fixed property in Norway without license. (2) All companies except commercial banks, savings banks, municipal companies, and companies guaranteed by the local or central governments allowed to raise foreign currency loans to finance their own operations or operations of affiliated companies; loans from lenders that do not have special permission from Bank of Norway still subject to license. (3) Individuals allowed to obtain foreign currency loans abroad for purpose of financing business activities subject to license. (4) Contracts of loans in Norwegian kroner between nonresidents and residents made possible subject to license; applications for such loans are treated in the same way as applications for foreign currency loans. (5) Norwegian insurance companies allowed to engage in endowment insurance contracts with nonresidents without license. (6) Legal entities allowed to engage in financial leasing contracts in foreign currencies with Norwegian financial institutions without permission from Bank of Norway; leasing contracts with foreign financial institutions are subject to license, but applications treated liberally.
Portugal	4/29/89	Liberalization	Limits applicable to investments in EC and OECD countries that are allowed freely increased to Esc 50 million.
	9/20/89	Liberalization	Limits on investment in foreign securities by institutional and individual investors increased to Esc 4 million.
	3/28/90	Liberalization	Limits up to which residents can invest in foreign securities listed in stock exchanges in OECD member countries raised as follows: legal entities, 20 percent of their total portfolio (or technical reserves in the case of insurance companies); and individuals, Esc 10 million.
	7/1/90	Liberalization	Portfolio investments by residents in foreign currency securities officially list in recognized stock exchanges abroad fully liberalized.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Spain	4/4/90	Elimination	Restrictions on purchases of marketables foreign monetary instruments by Spanish residents removed.
	4/4/90	Liberalization	Purchases (outright or repurchases agreements) of public bonds by nonresidents fully liberalized.
	6/22/90	Elimination	Restrictions on purchases by residents of securities denominated in pesetas issued by nonresidents on Spanish stock exchanges removed.
	6/22/90	Liberalization	Purchases by residents of shares issued by foreigners on Spanish market classified as foreign investments but not subject to declaration.
	7/8/90	Liberalization	Nonresidents allowed to purchases freely foreign securities in Spanish stock exchanges. Purchases must, however, be reported to authorities by authorized banks. Nonresidents allowed to sell these securities without restrictions, provided they were purchases initially with proceeds from sales of foreign currencies.
	12/27/90	Elimination	To comply with EC provisions, most remaining regulations limiting portfolio investments by residents abroad and by nonresidents in Spain abolished. Foreigners exempted from income tax on dividends and capital gains, provided they do not have permanent residency in Spain.
Developing countries - fuel exporting			
Gabon	7/6/89	Tightening	Foreign companies investing in Gabon required to offer shares for purchase by Gabonese nationals for amount equivalent to at least 10 percent of the companies' capital.
Developing countries - other			
Chile	6/25/90	Liberalization	Individuals and legal entities, domiciled and resident abroad which meet specific conditions granted access to official exchange market to remit abroad (1) proceeds from sales of stocks of registered corporations domiciled in Chile which were purchased with funds from abroad, and (2) dividends and profits accruing from such stocks.
Colombia	12/2/89	Liberalization	New law governing direct foreign investments in financial sector promulgated; law permits foreign participation of up to 49 percent in entities in financial sector, including commercial banks, financial corporations, insurance companies, and trade financing companies; law would also permits foreign majority participation in institutions that receive support from Guaranteed Fund (Fondo de Garantias).
	12/22/89	Liberalization	New law permitting establishment of foreign investment funds promulgated; with approval of National Planning Board, shares of such funds may be placed in the stock exchange; invested funds can be repatriated five years after registration with the Exchange Office.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Israel	6/2/89	Liberalization	Residents permitted to invest abroad up to 10 percent of portfolio of financial assets (up to 50 percent in the case of funds specializing in foreign currency investments) with their own funds.
	8/3/89	Liberalization	Foreign resident's right to reconvert investment proceeds expanded to include investments in debentures issued by Israeli companies whose stocks are traded in Tel Aviv Stock Exchange, excluding those issued by banking institutions or guaranteed by them.
	9/29/90	Liberalization	Limit on minimum period of direct loan from abroad reduced from 12 months to 6 months.
Korea	2/13/89	Liberalization	Requirement concerning credit standing of residents investing abroad abolished; minimum equity investment ratio lowered to 20 percent; and minimum interest rate for long-term loans removed.
	3/2/90	Liberalization	Limits on foreign exchange holdings for investment in foreign securities by domestic securities firms authorized to handle international business increased from US$30 million to US$50 million, and by insurance and investment firms, from US$10 million to US$30 million.
Madagascar	12/29/89	Liberalization	Enterprises operating in Industrial Free Trade Zone permitted to borrow abroad on their sole responsibility.
Malta	7/16/90	Liberalization	Residents over age of 18 allowed to invest in overseas financial assets up to a maximum amount of Lm 1,000 a person a year. A 10 percent tax imposed on investments under the Expenditure Levy Act 1990.
Mauritius	7/14/89	Liberalization	Transfer tax on capital transfers reduced from 45 percent to 15 percent.
Panama	10/1/89	Liberalization	New incentives for foreign investment processing zones announced.
Philippines	6/9/89	Liberalization	Sales proceeds of central bank-registered foreign investments in a domestic company whose stocks were not listed permitted to be traded in local stock exchanges; company shares that were subsequently listed/traded in local stock exchanges at time of their sale permitted to be repatriated in full, net of taxes and fees, subject to prior approval by Central Bank.
Rwanda	4/1/90	Liberalization	Residents permitted to hold foreign currency with commercial banks in any convertible currency.
Turkey	6/19/89	Liberalization	Amendments to Corporation Tax Law and Income Tax Law, exempting "investment funds subject to limited tax liability," adopted; foreign investment funds approved by Treasury allowed to set up securities portfolios, income from which would be tax free.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Turkey (cont'd)	8/11/89	Liberalization	Foreign residents allowed to purchase or sell any type of Turkish securities registered on stock exchange through intermediary institutions operating on the market and to transfer income or proceeds from sales of these securities abroad through banks and authorized financial institutions, provided that such proceeds would not be transferred abroad; if securities had not been purchased with funds transferred from abroad, proceeds from sales of securities allowed to be utilized freely in Turkey.
	2/25/90	Liberalization	Nonresidents allowed to purchase securities, including mutual funds, issued with the permission of the Capital Market Board or issued by the public institutions through intermediary institutions operating under the Capital Market Law and listed at the stock exchange.
	2/25/90	Liberalization	Residents in Turkey allowed to secure foreign credits abroad in cash or kind, provided banks or special financial institutions used as intermediaries.
	2/25/90	Liberalization	Residents allowed to invest abroad in cash up to US$5 million or its equivalent in other currencies through banks and special finance institutions domiciled in Turkey; investments exceeding US$5 million to be permitted with approval.
Zimbabwe	1/20/89	Liberalization	Subject to Reserve Bank approval, repatriation of funds invested in external government bonds at accelerated rates, depending on discounted sales prices of net equity, allowed.
	4/18/89	Liberalization	Regulations governing foreign investment were modified, whereby remittances of after-tax profits of up to 100 percent would be approved depending on the priority status of investment.
			d. Direct Investments
Industrial countries			
Finland	6/1/89	Liberalization	Regulations on direct investments in financial and insurance sector liberalized, only direct investments by private individuals and direct investments in countries with which Finland maintains payments agreements subject to the authorization of Suomen Pankki.
Greece	7/1/89	Liberalization	Direct investments by residents of Greece in EC countries fully liberalized.
Japan	7/1/90	Liberalization	Private persons permitted to undertake foreign investments and grant loans of over one year's maturity to nonresidents without limit.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
New Zealand	8/24/89	Liberalization	Minimum value of direct investments requiring consent from Overseas Investment Commission raised to $NZ 10 million except in certain specified sectors.
Spain	12/27/90	Liberalization	Residents of EC countries allowed to invest freely in all economic sectors of the economy, except in defense-related industries.
Sweden	1/19/89	Liberalization	Riksbank abolished all restrictions on acquisition of foreign equity; shares must, however, be in safekeeping of authorized bank or broker; general exemption announced for sale to nonresidents of Swedish unlisted shares; as from March 1, direct investments, both outward and inward, as well as disinvestments could be made through authorized banks without prior approval of Riksbank.
United Kingdom	2/21/90	Elimination	Ban on foreign direct investments in South Africa lifted.
Developing countries - fuel exporting			
Algeria	4/14/90	Liberalization	Restrictions on foreign investments liberalized, permitting investments in all areas not expressly reserved for the state. Repatriation of capital and profits allowed, subject to the international agreements ratified by Algeria.
Mexico	5/1/89	Liberalization	Restrictions on foreign capital participation in new direct foreign investments were liberalized substantially.
Venezuela	3/15/89	Liberalization	A new framework for debt-equity conversions established.
	9/6/89	Liberalization	Regulations governing an auction-based system for conversion of public external debt into equity issued.
	1/5/90	Liberalization	Foreign direct investments liberalized as follows: (1) elimination of need for prior authorization for investment and of restrictions on foreign investments in certain sectors; (2) foreign firms permitted to open subsidiaries in Venezuela to contract technology without restriction, to invest in Venezuelan securities and stocks, and to obtain financing through shares or debt notes in Venezuelan capital market.
Developing countries - other			
Belize	3/1/90	Introduction	Scope of foreign direct investments widened and incentives for foreign investment improved.
Bolivia	9/17/90	Liberalization	New investment law covering all sectors except mining and hydrocarbons approved. Law put domestic and foreign investors on an equal footing.
Brazil	6/26/90	Liberalization	Repatriation of capital liberalized.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Burundi	5/1/90	Liberalization	Share of return on foreign capital and share allocated to foreign directors permitted to be transferred freely increased to 60 percent of distributed profits in the case of agricultural and industrial enterprises, and to 80 percent in the case of firms that export at least 50 percent of production.
Cameroon	8/10/90	Introduction	(1) Cameroon's participation in the share capital of each banking institution required to be at least 33 percent; (2) banking institutions with foreign majority participation required to submit to monetary authorities information on all of their current transactions abroad and obtain prior approval for any changes in the structure of their equity holdings; and (3) foreign managers required to be approved by monetary authorities and reside in Cameroon.
China, People's Rep. of	2/14/89	Tightening	All foreign commercial borrowings subject to approval; all commercial borrowings are to be channeled through one of ten domestic entities; short-term debt of each entity may not exceed 20 percent of entity's total debt, and short-term borrowing is to be used only for working capital purposes.
	3/6/89	Liberalization	State Administration of Exchange Control announced procedures governing Chinese direct investment abroad; such investments would require government and SAEC approval, a deposit of 5 percent of investment to secure repatriation of dividends and other income from investment, and repatriation of earnings within six months.
	4/4/90	Liberalization	Law on Chinese-foreign equity joint ventures changed as follows: (1) state would not nationalize joint ventures; (2) approval procedures for new foreign investment enterprises; and (3) management rights of foreigners extended.
	5/19/90	Introduction	Regulations on sale and transfer of land use rights in cities and towns aimed at encouraging foreign investors to plan long-term investment adopted.
Ethiopia	7/25/89	Liberalization	Joint ventures decree promulgated; it specifies areas in which joint ventures are permitted, guarantees repatriation of proceeds from liquidation of investment (and dividends), and provides for exemptions from customs tariffs on inputs and equipment imported by joint ventures for production purposes and from income taxes for period of three to five years.
	5/19/90	Liberalization	Special Decree on Investment No. 17/1990 promulgated, removing restrictions on the size, type and sectors of activity and guaranteeing right of foreign investors to remit profits/dividends and proceeds from sale of assets.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
India	5/1/90	Liberalization	Foreign investment policy liberalized, allowing automatic approval of foreign investment proposals of foreign companies with equity shares of up to 40 percent.
	9/22/89	Liberalization	Nonresident Indians/persons of Indian origin (NRIs) and overseas corporate bodies permitted to invest in India, with full repatriation benefits, up to 100 percent of new issues of shares/convertible debentures issued by hotels in three-, four-, and five-star category (previously, only direct investments allowed in these cases up to 74 percent of new issues).
Korea	7/1/89	Liberalization	Nonresidents were permitted to freely invest in six manufacturing sectors, regardless of their equity ratio; amount of new foreign investments permitted without reference to the capital review committee was increased from US$3 million to US$5 million.
	1/1/90	Liberalization	Ceiling on value of foreign investments subject to automatic approval raised from US$3 million to US$100 million; share limit on foreign equity investment in advertising firms increased to 99 percent.
	7/1/90	Liberalization	Foreign investment permitted in wholesale activities of toiletries and cosmetics.
Lesotho	8/10/89	Tightening	Nonresidents were prohibited from purchasing farms and residential properties with financial rand.
Malaysia	3/21/89	Liberalization	Domestic credit facilities for financing purchases of immovable property in Malaysia by nonresidents and nonresident-controlled companies were permitted for up to 50 percent of purchase consideration; such borrowing was required to be repaid within three years.
	12/5/89	Tightening	Limit on new foreign capital equity participation in firms manufacturing impressed/imprinted products was reduced from 100 percent to 60 percent.
Mauritania	1/23/89	Liberalization	New investment code, providing for various benefits and guaranteeing transfers of dividends profits, came into effect.
Morocco	12/5/89	Liberalization	Decree of 1973, which established general limit of 49 percent on allowable share of foreign participation in local enterprises, was abrogated; limits on share of foreign participation would, however, continue to apply in a few sectors in accordance with sectoral decrees.
Peru	3/10/89	Liberalization	Foreign Exchange Bank Certificates (FEBC) permitted to be used for domestic investment purposes with approval of National Commission on Foreign Investments and Technology.
	3/18/89	Liberalization	FEBCs permitted to be redeemed to make provisions for meeting debt-service obligations with Central Bank approval.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (continued)

Member	Date	Direction	Measures
Peru (cont'd)	4/21/89	Liberalization	Legislation approved for conversion of donated public debt for development projects; for qualified projects, fiscal authorities will make available amount in domestic currency to cover local expenses equal to face value of donated debt obligation.
	7/4/89	Liberalization	Disbursements of private sector debt, domestic foreign exchange credits, and payments of capital, interest, and commissions were permitted at free market exchange rate; lines of credit to the public sector permitted to be serviced at MUC exchange rate.
	7/7/89	Liberalization	Conversion System for Donated Public Debt to finance economic and social development projects approved.
Poland	1/1/89	Liberalization	New joint-venture law entered into effect, replacing the Law on Companies with Foreign Capital Participation that had been in effect since July 1, 1986; under new law, joint ventures could have majority foreign participation and a foreign general manager; joint ventures eligible for income tax reliefs and foreign exchange retention on exports at rate of 85 percent; minimum capital requirement equivalent of US$50,000, and joint partners permitted to transfer abroad their profits up to difference between exports and imports.
	11/9/89	Liberalization	Agreement to protect foreign investment signed between Poland and Federal Republic of Germany; with respect to German investment in Poland, transfers of profits and dividends allowed; sales or liquidation proceeds of German investments made before effective date of treaty can be repatriated.
	1/1/90	Elimination	Investment Law abolished income tax relief for joint ventures related to exports.
Romania	3/14/90	Liberalization	A new Foreign Investment Law liberalizing direct foreign investments adopted.
Somalia	12/5/89	Liberalization	New banking law allowing residents as well as nonresidents to establish commercial banks introduced.
South Africa	8/10/89	Tightening	Nonresidents prohibited from purchasing farms and residential properties with financial rand.
Togo	10/31/89	Liberalization	New investment code, emphasizing generation of employment of resident workers and streamlining tax exemption privileges, adopted.

Measures Affecting Members' Exchange and Payments Systems, 1989-90 (concluded)

Member	Date	Direction	Measures
Turkey	8/11/89	Tightening	Applications by residents of Turkey to make direct investments abroad of up to US$25 million or its equivalent subject to approval; export of capital exceeding this amount subject to approval by Council of Ministers.
Viet Nam	3/10/89	Liberalization	State Committee for Cooperation and Investment (SCCI) established (and came into operation on July 1); SCCI has responsibility of coordinating interministerial activities on foreign investment and facilities administrative procedures applying to foreign investors.