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November 12, 1990

To: Members of the Executive Board
From: The Secretary
Subject: The Czech and Slovak Federal Republic - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on the exchange arrangements of the Czech and Slovak Federal Republic.

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND
THE CZECH AND SLOVAK FEDERAL REPUBLIC

Exchange Arrangements

Prepared by the European and Exchange and
Trade Relations Departments

(In consultation with the Legal and Treasurer's Departments)

Approved by Massimo Russo and J.T. Boorman

November 12, 1990

The Czech and Slovak Federal Republic became a member of the Fund on September 20, 1990. In the attached communication dated October 19, 1990, the authorities of the Czech and Slovak Federal Republic have submitted the initial notification pursuant to paragraph 7 of the Membership Resolution 1/ of the exchange arrangements that the Czech and Slovak Federal Republic intends to apply under Article IV of the Articles of Agreement.

In the notification, the authorities of the Czech and Slovak Federal Republic have stated that the currency of the Czech and Slovak Federal Republic is the koruna and that two different rates of the koruna against convertible currencies are quoted, namely a rate for commercial/noncommercial transactions and a tourist rate. The commercial/noncommercial exchange rate between the koruna and the currencies of countries other than members of the Council for Mutual Economic Assistance (CMEA), Albania, and the Democratic People's Republic of Korea is determined on the basis of a weighted currency basket (consisting of the currencies of Austria, France, Germany, the United States, and Switzerland), and is applied to commercial transactions, services other than travel, and official transfers. The tourist rate is determined in relation to the parallel market exchange rate at a less depreciated level. Moreover, an auction for foreign exchange is held twice a month; eligibility to participate in auctions is restricted. In addition, the Tuzex rate is applied to transactions in Tuzex (tax-free) stores; the rate represents the value of vouchers for which goods in these stores can be exchanged. On October 15, 1990, the commercial/noncommercial exchange rate was Kcs 24 per US\$1, and the tourist rate was Kcs 31 per US\$1.

1/ Board of Governor's Resolution No. 45-6 (approved on August 20, 1990).

Most trade and financial settlements with CMEA member countries are denominated in transferable rubles through the International Bank for Economic Cooperation (IBEC), and with Albania, the Democratic People's Republic of Korea, Democratic Kampuchea, and the Lao People's Democratic Republic in clearing rubles. For commercial transactions, exchange rates against transferable rubles are set at different rates according to the trading partners, reflecting differences in the domestic price levels among the countries and the bilateral nature of the clearing system within the CMEA area. For noncommercial transactions, exchange transactions with members of the CMEA countries, Albania, and the Democratic People's Republic of Korea are initially denominated in U.S.S.R. rubles, subsequently converted into transferable rubles on the basis of agreed coefficients that are differentiated according to the partners, and eventually cleared through the IBEC. Exchange rates for commercial and noncommercial transactions are quoted weekly, but they are adjusted only periodically.

In light of this notification, the Czech and Slovak Federal Republic has been classified by the staff with the group of countries whose currencies are pegged to a currency composite.

Attachment

STATE BANK OF CZECHOSLOVAKIA
Joromir Zahradnik
Vice President

Prague, Czechoslovakia
October 19, 1990

Dear Mr. Russo:

In accordance with our obligations under the Article IV, I would like to submit the initial notification of the exchange arrangements in Czechoslovakia, as follows:

The currency of Czechoslovakia is the koruna (100 hallers = 1 koruna). Two different rates are quoted for the koruna vis-à-vis convertible currencies, namely, one rate for commercial/noncommercial transactions, and a tourist rate. The commercial/noncommercial exchange rate between the koruna and the currencies of countries other than members of the Council for Mutual Economic Assistance (CMEA), Albania, and the Democratic People's Republic of Korea is determined on the basis of a weighted basket of convertible currencies with the greatest shares in external transactions and payments. These currencies comprise those of Austria, France, Germany, the United States, and Switzerland. The tourist rate follows movements in the parallel market exchange rate, although it is less depreciated than the parallel market rate. In addition, the so-called Tuzex rate is applied to transactions in Tuzex (tax-free) stores; the rate represents the value of vouchers for which goods in these stores can be exchanged.

The State Bank of Czechoslovakia quotes exchange rates weekly for 22 convertible currencies as well as for the European Currency Unit (ECU) and the SDR. The cross rates for convertible currencies are based on the three-day average prevailing in international markets from Wednesday through Friday in the preceding week. The spreads between buying and selling rates amount to 2 percent for the commercial/non-commercial rate, except for bank notes which have larger spreads (normally 3-5 percent), and 20 percent for the tourist rate. There are no spreads for the so-called Tuzex rate. On September 30, 1990, the buying and selling commercial/noncommercial rates for the U.S. dollar were Kcs 15.55 and Kcs 15.87, respectively; the buying and selling tourist rates for the U.S. dollar were Kcs 23.84 and Kcs 29.14, respectively; and the Tuzex rate for the U.S. dollar was Kcs 8.47.

In addition, an auction for foreign transactions is held twice a month. Full participation in this market is limited to juristic persons excluding budgetary and subsidized organizations. Individuals are permitted to take part in auction operations only as purchasers of

foreign exchange and are subject to a special service fee of 10 percent. The volume of transactions at the auctions has been minimal. The auction rate on September 19, 1990 was Kcs 31.04 per U.S. dollar.

Most trade and financial settlements with CMEA member countries are denominated in transferable rubles through the International Bank for Economic Cooperation (IBEC), and with Albaina, the Democratic People's Republic of Korea, Democratic Kampuchea, and the Lao People's Democratic Republic in clearing rubles. For commercial transactions, exchange rates against transferable rubles are set at different rates according to the trading partners, reflecting differences in the domestic price levels among the countries and the bilateral nature of the clearing system within the CMEA area. In addition, secondary commercial rates are quoted for the currencies of Bulgaria and the U.S.S.R., which apply to a small number of inter-enterprise transactions. The spread between the buying and selling rates for all of the above exchange rates is 1 percent. For noncommercial transactions, exchange transactions with members of the CMEA countries, Albania, and the Democratic People's Republic of Korea are initially denominated in U.S.S.R. rubles, subsequently converted into transferable rubles on the basis of agreed coefficients that are differentiated according to the partners, and eventually cleared through the IBEC. Exchange rates for both types of transactions are quoted weekly, but they are adjusted only periodically.

[Signed]

Mr. M. Russo
Director
International Monetary Fund
Washington, D.C. 20431