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November 17, 1989

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

There is attached for the information of the Executive Directors a paper on the recent suspension of the foreign exchange auction mechanism for determining the exchange rate of the Jamaican dollar.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Jamaica--Exchange Arrangements

Prepared by the Western Hemisphere and
the Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by M. Caiola and S. Kanesa-Thanan

November 17, 1989

The Jamaican authorities have informed the Fund that, with effect from November 1, 1989, the auction mechanism through which the exchange rate for the Jamaica dollar has been determined in recent years was suspended and the exchange rate for the Jamaica dollar was fixed at J\$6.46 (buying) and J\$6.5 (selling) per U.S. dollar (the Annex provides further detail). The exchange rate resulting from the last foreign exchange auction (held on October 25, 1989) was J\$6.19 per U.S. dollar (selling).

The Jamaica dollar had remained stable at around J\$5.5 per U.S. dollar (selling) since late 1985 under the auction mechanism, but it depreciated rapidly starting early July 1989. It is estimated that, at the new fixed exchange rate, the Jamaica dollar is slightly more depreciated in real effective terms than it was during the two years through September 1988 (prior to an acceleration in Jamaica's inflation following Hurricane Gilbert).

The recent exchange rate adjustment was implemented as part of a package of financial policies aimed at restoring equilibrium to the foreign exchange market. Monetary measures announced in early October included an increase from 13 percent to 18 percent in the legal minimum interest rate for savings deposits (effective November 1), an increase in penalties for redemption of government paper before maturity, and limitations in the access of commercial banks to central bank credit. Fiscal measures being implemented include an increase averaging 12-13 percent in the prices of food imports subsidized by the Jamaica Commodity Trading Company, an increase in the import fees for automobiles collected by this company, and a supplementary levy on the consumption of certain luxury goods.

The staff has been holding discussions with the authorities in connection with the third review under the current stand-by arrangement. In the meantime, no action by the Executive Board is proposed.

News Release

Issued by the Bank of Jamaica on November 1, 1989

The Bank of Jamaica wishes to advise the public that with effect from November 1, 1989, the exchange rate for the Jamaica dollar in relation to the United States dollar will be J\$6.46 (buying) and J\$6.50 (selling).

The auction mechanism through which the exchange rate of the Jamaica dollar has been determined in recent years has been suspended. Persons wishing to purchase foreign exchange for over-the-counter transactions such as education, health, business and vacation travel will be dealt with by their commercial banks in the usual manner. Persons who wish to purchase foreign exchange for other service payments and for imports should apply through their commercial banks which will submit the applications to the Bank of Jamaica on a once-weekly basis. As previously obtained, persons requiring amounts of US\$50,000.00 and above can apply directly to the Bank of Jamaica.

All applications must be accompanied by valid import documents or by Forms FE approved by the Exchange Control Department of the Bank of Jamaica. A deposit by way of a Manager's cheque, of the Jamaica dollar equivalent of the amount of foreign exchange required, (calculated at a rate of J\$6.50 = US\$1.00) must also accompany the application. The Bank of Jamaica will pay interest at the commercial banks' savings deposit rate on the Jamaica currency deposited by applicants starting two weeks after the deposit is made and ending on the date on which the foreign currency is delivered.

For this week only, applications will be received from the public on Thursday. In future, applications will be received on Wednesdays. Applications should be deposited at the Bank of Jamaica on those days between the hours of 9:00 a.m. and 12:00 noon.

Successful applicants, i.e. those whose applications are accompanied by the relevant documentation acceptable to the Bank, including the local currency equivalent, will be advised through the commercial banks within two (2) business days of the receipt of the application. Foreign exchange will be paid out to these applicants through their commercial banks on the same basis as at present. Improperly documented applications will also be returned through the applicants' commercial banks within two (2) business days.