

EBS/86/45

CONFIDENTIAL

February 27, 1986

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange rate of Botswana pula.

Mr. Callender (ext. 8750) is available to answer technical or factual questions relating to this paper.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Botswana--Exchange Arrangements

Prepared by the African Department and the  
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by A.D. Ouattara and S. Kanesa-Thanan

February 27, 1986

In the attached communication dated January 23, 1986, the Bank of Botswana has notified the Fund of the change in the currency basket employed for determining the value of the pula. With effect from January 20, 1986 the relative weight of the amount of the rand in the pula basket has been reduced to 65 percent, while that of the SDR has been increased to 35 percent. Since January 9, 1985, the pula had been pegged to a currency basket in which a weight of 75 percent is assigned to the rand and 25 percent to the composite of currencies included in the SDR. The exchange rate of the pula was revalued by 1 percent against the old basket before the new basket took effect.

The Botswana authorities justify their decision to change the relative weights of amounts of currencies in the pula basket on the strength of the balance of payments position of Botswana and on the need for some appreciation of the pula vis à vis the rand in order to moderate the impact of the acceleration of inflation in South Africa on the cost of living in Botswana.

A staff team has recently completed the 1986 Article IV consultation discussions with Botswana and the preliminary assessment is that Botswana's fiscal and external payments positions and prospects remain strong, with sizable surpluses projected to persist over the medium term. The staff believes that the above-mentioned exchange rate action is not likely to alter this assessment given the existing policy environment. The staff report on those discussions will include, inter alia, a more detailed appraisal of Botswana's exchange rate policies.

Attachment

ATTACHMENT

INTERFUND  
WASHINGTON, D.C.

JANUARY 23, 1986

ON THE RECOMMENDATION OF THE BOARD OF DIRECTORS OF THE BANK OF BOTSWANA AND IN CONSULTATION WITH THE MINISTRY OF FINANCE, HIS EXCELLENCY THE PRESIDENT OF THE REPUBLIC OF BOTSWANA DECLARED THAT THE BASKET FOR DETERMINING THE VALUE OF THE PULA WOULD CONTAIN INITIAL WEIGHTS OF 65 PERCENT FOR THE RAND AND 35 PERCENT FOR THE SDR WITH EFFECT FROM JANUARY 20, 1986. THIS REPRESENTED A REDUCTION IN THE WEIGHT OF THE RAND OF 10 PERCENTAGE POINTS AND A CORRESPONDING INCREASE IN THE WEIGHT OF THE SDR. THE BOARD OF DIRECTORS OF THE BANK OF BOTSWANA UNDERTOOK AN EXTENSIVE REVIEW OF THE PULA BASKET WHICH CONSIDERED, AMONG OTHER FACTORS, BOTSWANA'S PATTERN OF INTERNATIONAL TRADE AND PAYMENTS, THE NEED TO MAINTAIN A CONGENIAL INVESTMENT CLIMATE, COMPETITIVENESS OF BOTSWANA PRODUCTS ESPECIALLY IN RELATION TO PRODUCTS FROM THE COMMON CUSTOMS AREA, AND THE NEED TO CONTAIN INFLATION WITHIN REASONABLE LIMITS, THE BOARD CONCLUDED THAT THE REVISED BASKET APPROPRIATELY REFLECTED THE ECONOMIC STRENGTH OF BOTSWANA AND DEVELOPMENTS ON THE EXCHANGE MARKET.

THE NEW BASKET IS CALCULATED ON THE BASIS OF FIXED CURRENCY AMOUNTS CALCULATED ON THE BASIS OF THE EXCHANGE RATES PREVAILING ON THE DAY IT CAME INTO EFFECT. THE EXCHANGE RATE OF THE PULA WAS REVALUED BY 1 PERCENT AGAINST THE OLD BASKET BEFORE THE NEW BASKET TOOK EFFECT. THE NEW CURRENCY AMOUNTS IN THE BASKET ARE: 0.7827 RAND AND 0.1684 SDR. THE EXCHANGE RATE ON JANUARY 20 WAS PULA 1 = U.S. DOLLAR 0.5248.

REGARDS,

M.N. BHUIYAN  
DIRECTOR OF RESEARCH