

EBS/85/60

CONFIDENTIAL

March 14, 1985

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

There is attached for the information of the Executive Directors a paper on recent changes in the exchange arrangements of Western Samoa.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Saito (ext. 7614) or Mr. Quirk (ext. 8520).

Att: (1)

INTERNATIONAL MONETARY FUND

Western Samoa--Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by Tun Thin and Manuel Guitián

March 13, 1985

In the attached communications dated February 28 and March 5, 1985, the Western Samoan authorities notified the Fund that, as of March 1, 1985, the fixed link between the Western Samoan tala and the New Zealand dollar was discontinued. With effect from that date, the exchange rate is to be determined on the basis of a fixed relationship between the tala and a weighted basket of currencies. The basket is a composite of the currencies of Western Samoa's most important trading partners and countries that are major sources of private transfers from abroad, that is, New Zealand, the United States, Australia, Japan, and West Germany. The exchange rate is to be determined with reference to the basket of currencies with account taken also of other factors considered to be important by the authorities. The U.S. dollar will replace the New Zealand dollar as the intervention currency. The change in the midpoint exchange rate of the tala was from WS\$2.338 = US\$1 on February 28 to WS\$2.342 = US\$1 on March 1, representing a 0.2 percent depreciation of the tala in terms of the U.S. dollar.

In the staff report for the 1984 Article IV consultations and review under Western Samoa's stand-by arrangement with the Fund (EBS/84/4, 1/7/85) it was noted that the authorities were committed to a flexible exchange rate policy, keeping movements in the exchange rate and relative prices under review. The staff believes that the February 28, 1985 action described above is consistent with the exchange rate policy intentions of Western Samoa's authorities noted in that staff report.

Attachments

INTERFUND
WASHINGTON, DC

WESTERN SAMOA -- EXCHANGE RATE

AS FROM MARCH 1, 1985, THE FIXED LINK BETWEEN THE WESTERN SAMOAN TALA AND THE NEW ZEALAND DOLLAR WILL BE DISCONTINUED. IN FUTURE, THE EXCHANGE RATE WILL BE DETERMINED ON THE BASIS OF THE FIXED RELATIONSHIP BETWEEN THE TALA AND A WEIGHTED BASKET OF CURRENCIES BASED ON WESTERN SAMOA'S MOST IMPORTANT TRADING PARTNERS AND COUNTRIES WHICH ARE MAJOR SOURCES OF PRIVATE TRANSFERS FROM ABROAD--NEW ZEALAND, UNITED STATES, AUSTRALIA, JAPAN AND WEST GERMANY.

THE U.S. DOLLAR WILL ALSO REPLACE THE NEW ZEALAND DOLLAR AS THE INTERVENTION CURRENCY USED BY THE CENTRAL BANK. THE TALA/U.S. DOLLAR RATE WILL BE DETERMINED DAILY ON THE BASIS OF EXCHANGE RATE QUOTATIONS FOR THE U.S. DOLLAR AND OTHER CURRENCIES INCLUDED IN THE BASKET.

WE BELIEVE THE CHANGE IN ARRANGEMENTS ALLOWS MORE FLEXIBILITY IN EXCHANGE RATE MANAGEMENT AND MEANS THAT THE RATE FOR THE TALA WILL TEND TO VARY FROM DAY TO DAY AGAINST ALL CURRENCIES INCLUDING THE NEW ZEALAND DOLLAR. FLUCTUATIONS AGAINST INDIVIDUAL CURRENCIES SHOULD ALSO BE LESS EXTREME UNDER THE NEW SYSTEM THAN THE PREVIOUS ARRANGEMENT OF A FIXED LINK TO SINGLE CURRENCY.

COMMERCIAL BANKS ARE ALSO REVISING THE METHOD OF QUOTING EXCHANGE RATES EACH DAY. FROM MARCH 1, BANKS WILL FOLLOW INTERNATIONAL PRACTICE AND QUOTE ALL FOREIGN CURRENCIES PER ONE UNIT OF DOMESTIC CURRENCY E.G.:

ONE TALA	=	US\$.4348 (SAY 43 1/2 U.S. CENTS)
RATHER THAN US\$1	=	TALA \$2.3000

DAVIES
CENTRAL BANK OF SAMOA

RECEIVED CABLE ROOM: FEBRUARY 28, 1985

INTERFUND
WASHINGTON, DC

EXCHANGE RATE -- WESTERN SAMOA

REFERS TO MESSAGE RECEIVED MARCH 5, 1985

	<u>28/2</u>	<u>1/3</u>	<u>5/3</u>
1. US DOLLAR/TALA	4341/4215	4320/4220	4375/4275
NZ DOLLAR/ "	9683/9459	9747/9553	9415/9228
AUS. DOLLAR/ "	6010/5872	6061/5941	6308/6183
YEN/ "	1128/1094	1129/1096	1146/1112
DM/ "	1456/1413	1461/1404	1514/1455

THE TALA INITIALLY STRENGTHENED AGAINST NEW ZEALAND DOLLAR FOLLOWING THE LATTER'S FLOAT. HOWEVER NEW ZEALAND DOLLAR STRENGTHENED SUBSTANTIALLY TODAY AGAINST U.S. DOLLAR BY ABOUT \$7 AND CONSEQUENTLY ALSO AGAINST TALA.

2. CONFIRM THAT 1979 STATEMENT CONTINUES AND MANAGEMENT OF EXCHANGE RATE INCLUDES FACTORS OTHER THAN BASKET. LATEST CHANGE PROBABLY PROVIDES MORE REALISTIC BASIS FOR EXCHANGE RATE MANAGEMENT TO CONFORM WITH 1979 POLICY.

DAVIES
CENTRAL BANK OF SAMOA

RECEIVED IN CABLE ROOM: MARCH 5, 1985