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EBS/85/247

CONFIDENTIAL

November 6, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Sierra Leone - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Sierra Leonean leone.

Mr. Belanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

SIERRA LEONE

Real Effective Exchange Rate--Information Notice

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

(In consultation with the Legal Department
and the Research Department)

Approved by A. D. Ouattara and Eduard Brau

November 6, 1985

The recent evolution of the real effective exchange rate of the Sierra Leonean leone, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. ^{1/} Based on this index, as of August 1985 the leone had appreciated by more than 10 percent since the last occasion on which the Executive Board was informed of Sierra Leone's exchange rate policy--a joint Exchange Arrangements and Real Exchange Rate Information Notice in March 1985. The appreciation is estimated to have amounted to 25.2 percent.

The leone is pegged to the SDR, and the exchange rate was last adjusted in February 1985. On that occasion, the leone had been depreciated by 58.3 percent against the U.S. dollar. Since that time, the nominal effective exchange rate index has depreciated by 8 percent, despite an appreciation of the leone by 6 percent against the U.S. dollar, reflecting the sharp decline of the dollar over this period. With very high domestic inflation--estimated to be about 100 percent a year--the real effective appreciation resulting from these developments has been substantial. The recent appreciation has offset about a third of the effects on the real exchange rate of the February 1985 devaluation.

In concluding the 1984 Article IV consultation with Sierra Leone ^{2/}, Directors urged the authorities to adopt urgently a comprehensive adjustment program, including measures to reverse the deteriorating financial situation and an appropriate flexible exchange rate system to correct the severe overvaluation of the leone. During

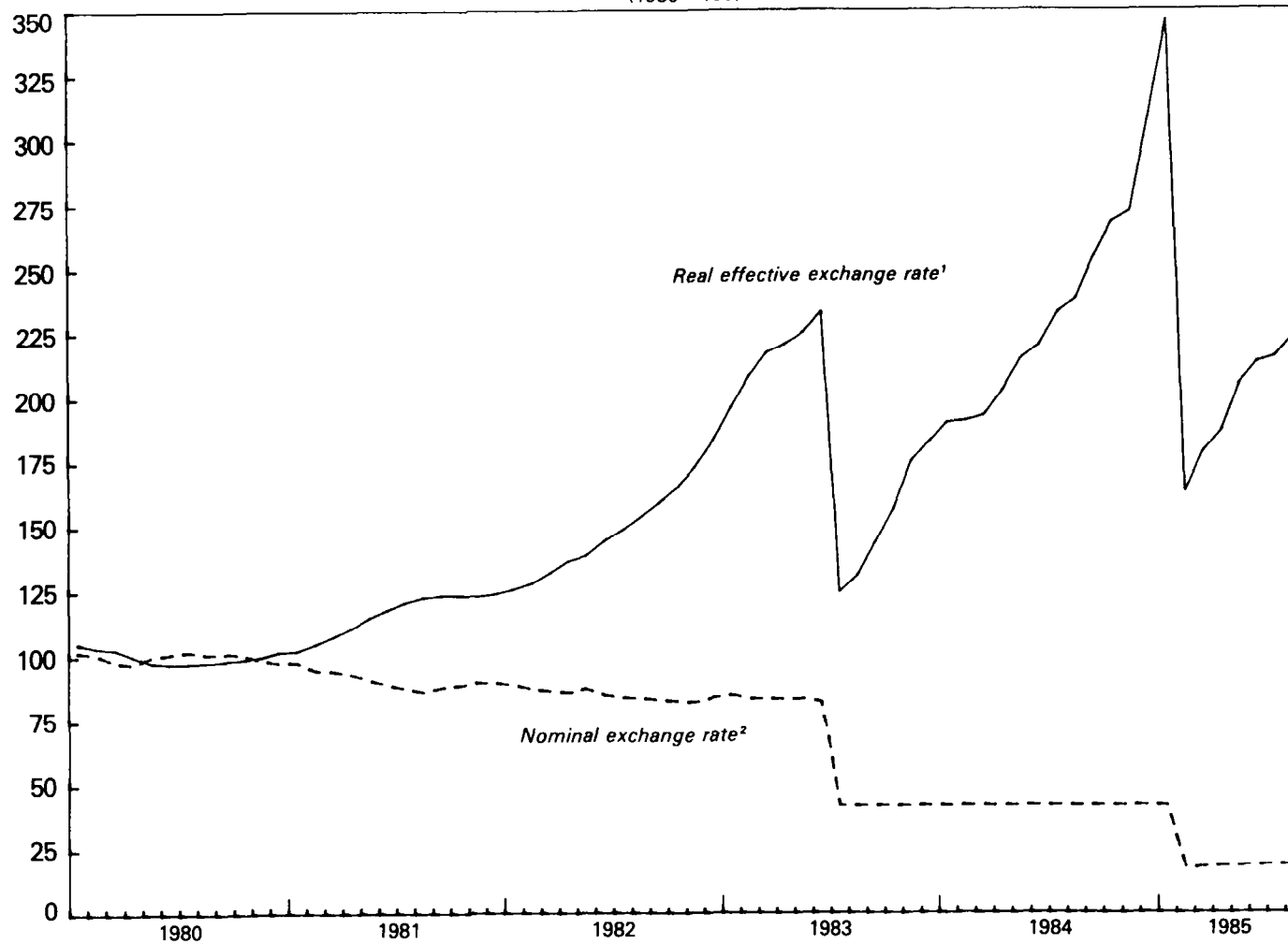
^{1/} The consumer price index in Sierra Leone is available on a quarterly basis only, and the third quarter datum is a staff estimate. For the purpose of the information notice system, monthly data are derived by interpolation of the seasonally adjusted quarterly series.

^{2/} Chairman's summing up circulated as SUR/84/109, November 7, 1984.

their discussions of Sierra Leone's overdue obligations to the Fund under Rule K-1 and notice of failure to settle Trust Fund obligations on May 29, June 28, and September 27, 1985, Executive Directors reiterated this position. 1/ The 1985 Article IV consultation mission, which visited Sierra Leone during the period September 9-20, 1985, also stressed the need for the authorities to implement urgently a comprehensive adjustment program, including a flexible exchange rate system. The staff report for the consultations, which is scheduled to be circulated to the Executive Board in the near future, will include a detailed review of recent developments in the exchange rate of the leone and an appraisal of their implications for policy.

1/ See EBS/85/106 and EBS/85/223.

SIERRA LEONE
REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



¹ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer price, monthly consumer price determined by interpolation of quarterly data; increases mean appreciation.
² U.S. dollar per Leone.

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Table 1. Sierra Leone: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1980						
I	103.8	101.4	102.4	100.2	98.7	96.1
II	98.4	100.4	98.0	99.5	96.7	98.6
III	97.8	99.3	98.5	101.4	99.8	102.1
IV	100.1	98.9	101.2	98.9	105.1	103.1
1981						
I	104.8	100.1	104.6	95.6	111.1	108.2
II	114.5	103.7	110.4	90.8	121.5	124.5
III	122.4	107.9	113.4	87.1	127.1	130.4
IV	123.5	106.2	116.2	89.2	133.6	130.0
1982						
I	128.6	107.2	120.0	87.3	139.5	135.8
II	139.8	109.1	128.1	85.9	152.4	157.0
III	153.7	110.4	139.2	83.4	168.1	173.0
IV	173.5	112.5	154.2	82.6	187.1	180.5
1983						
I	207.0	115.8	178.8	83.8	223.2	217.1
II	226.1	116.0	194.9	82.8	243.2	251.7
III	133.0	61.1	217.6	42.0	270.5	279.3
IV	171.5	62.2	275.6	42.0	364.3	348.6
1984						
I	191.3	63.2	302.9	42.0	395.6	384.9
II	212.2	64.2	330.6	42.0	439.6	456.4
III	241.7	68.6	352.2	42.0	469.9	486.3
IV	282.5	71.8	393.1	42.0	524.6	499.7
1985						
I	229.0	46.8	502.6	25.7	693.9	675.7
II	201.4	31.3	643.4	18.3	919.3	955.2
III	1,060.9	1,098.5
Monthly						
1985						
March <u>3/</u>	178.2	32.6	546.6	17.7	762.1	
April	186.5	31.3	596.3	18.2	837.0	
May	204.7	31.4	652.3	18.2	919.3	
June	212.9	31.2	681.7	18.4	964.3	
July	215.0	30.1	714.0	18.7	1,011.5	
August	223.1	29.9	747.3	18.9	1,060.9	
Percentage change						
March 1985- Aug. 1985	25.2	-8.4	36.7	6.8	39.2	

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.

