

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

ROOM C-120

01

EBD/85/175

July 15, 1985

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange system of Maldives.

Mr. Aghevli (ext. 7177) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

Maldives--Exchange Arrangements

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

(In consultation with Legal Department)

Approved by Tun Thin and Manuel Guitian

July 12, 1985

In the attached communication dated July 1, 1985, the Maldives authorities have notified the Fund of a change in the exchange system. With effect from July 1, 1985, the Maldivian rufiyaa, which was previously pegged to the U.S. dollar, was linked to a trade-weighted basket of currencies. Under the new system, the mid-point rufiyaa/U.S. dollar exchange rate was set initially at the previous level of 7.10, but the prescribed spread between the buying and selling rate for the U.S. dollar was increased from 0.7 percent to 1.4 percent, in terms of the buying rate--buying and selling rates for the U.S. dollar on July 1 were Rf 7.05 and Rf 7.15.

At the conclusion of the 1984 Article IV consultation discussions in February 1985, the Executive Directors noted that the dollar peg exchange arrangement had contributed to a secular appreciation of the rufiyaa in both nominal and real effective terms, aggravating the underlying weakness of the balance of payments. They suggested that consideration should be given to moving away from pegging to the dollar to pegging to a basket of currencies. Directors also stressed that the authorities should maintain a flexible exchange rate policy geared toward improving the external payments position. The Maldives authorities requested Fund technical assistance in adopting a new exchange rate regime more suitable to Maldives' circumstances, and a staff team visited Male during May 25-June 1 for this purpose.

The new exchange rate arrangement will prevent a further deterioration in external competitiveness due to realignments of major currencies. However, insofar as the level of real effective exchange rate has remained unchanged, no improvement in the external position is expected to result from the new exchange rate arrangement. The staff will discuss the necessary adjustment policies, including the exchange rate, for correcting the external imbalance with the Maldives authorities in the context of the 1985 Article IV consultation which is scheduled to take place toward the latter part of 1985.

Attachment

MR. TUN THIN  
DIRECTOR  
ASIAN DEPARTMENT  
INTERNATIONAL MONETARY FUND  
WASHINGTON, D.C.

MR. FAWZI H. AL-SULTAN  
EXECUTIVE DIRECTOR  
INTERNATIONAL BANK FOR RECON-  
STRUCTION AND DEVELOPMENT  
WASHINGTON, D.C.

EXCHANGE RATES: PLEASE NOTE THAT, WITH EFFECT FROM 1ST JULY 1985, THE  
MALDIVIAN RUFIYAA WILL BE LINKED TO A TRADE-WEIGHTED BASKET OF  
CURRENCIES.

AS PER THE NEW ARRANGEMENTS TODAY'S BUYING AND SELLING RATES FOR THE  
U.S. DOLLAR ARE 7.05 AND 7.15, RESPECTIVELY.

ADAM MANIKU  
GENERAL MANAGER  
MALDIVES MONETARY AUTHORITY

Received in Cable Room: July 1, 1985