

NATIONAL LIBRARY OF JAMAICA

MINISTRY PAPER - 1977

MULTIPLE EXCHANGE RATE

The Government announced in January of this year that it would not be devaluing the Jamaica dollar. The Government's main concern was the effect which the substitution of a new depreciated rate of exchange would have had on the prices of essential consumer goods. By causing the prices of these goods to be increased the poorer sections of the people already hard pressed would have had an added burden placed on them which this Government was not prepared to do.

On the other hand, we have been faced with the fact that many of our main export industries have become increasingly non-viable. Instead of being net contributors to the revenues of the country, it is estimated that on the basis of their present costs and the conversion of their foreign exchange receipts at the present rate of exchange, they would incur losses which would result in the Budget having to provide a subsidy amounting to \$57mn. for the financial year 1977/78. The main areas of subsidy are:

Sugar	\$11mn.
Bananas	18mn.
Tourism	<u>28mn.</u>
	\$57mn.

In addition, the manufacturing sector has to improve its price competitiveness if it is to increase exports and hold its own in the Jamaican market against imports.

Calculations have shown that since 1970, Jamaica's costs compared with those of its main trading partners have increased between 35% - 40% to our disadvantage in the period 1970 - 1976. No economy can make progress if its main producing sectors are dependent on budgetary aid for survival, because in the final analysis, the Budget itself is dependent on the contributions it receives from all the producing sectors. The present position in Jamaica is that the Bauxite Industry is essentially the only export industry making any worthwhile contribution to the Budget. This situation has to be remedied and all the main sectors revert to the position where they make a fair contribution. To the extent that these sectors are

export oriented, the exchange rate does have an important effect on their viability: To the extent that the sectors produce for the local market, the exchange rate applicable to imports can result in the locally produced item being uncompetitive with imports.

Physical control on imports do prevent excess demand for imported goods being translated into increased imports. Such controls however, cannot by themselves prevent shortages from developing of the relatively low-priced imports and in the final analysis the existence of such cheaper imports tends to discourage local production.

The Government accordingly explored ways and means of developing an exchange rate strategy which would provide positive incentives to the expansion of the productive sector, particularly the export sectors, but avoiding at the same time the serious advantages which would flow from a unitary devaluation. This examination and extensive study have resulted in the Government being satisfied that it can fulfil its international obligations; avoid the adverse price effects of a unitary devaluation; obtain the benefits of a more viable export sector; make our local production more competitive with imports and reduce the burden on the Budget by adopting a system of multiple exchange rates.

Under this system there can be more than one rate of exchange and it is possible to apply the existing rate to transactions involving the importation of basic commodities consumed by the poor. Studies of this system have indicated that the administrative problems can become increasingly complex as the number of rates increase. It has accordingly been decided that we will adopt a Two-Rate System: The present rate of J\$0.9091=US\$1.00 (for convenience this will be called the Basic Rate) and a depreciated rate of J\$1.25=US\$1.00 or J\$1.00=US\$.80¢ instead of US\$1.10 as at present. This represents a depreciation of 37.5%: This rate will be known as the Special Rate. Detailed administrative arrangements are being made in the Bank of Jamaica to put these two rates into effect but broadly, the Basic Rate will apply to the following transactions:

/ (a)

- (a) all purchases and sales of foreign exchange by the Government;
- (b) all basic foods;
(out of a total allocation for food of \$70mn. the Basic Rate will apply to \$60mn. of these imports).
- (c) Essential medical and pharmaceutical products;
- (d) imports of basic raw materials by Jamaica Nutrition Holdings, e.g. wheat, soya beans, etc.;
- (e) animal feeds;
- (f) fertilizers;
- (g) all ~~petroleum~~ imports;
- (h) all purchases and sales of foreign exchange by the bauxite and alumina sector; including their local purchases of imported goods;
- (i) foreign exchange to settle outstanding trade credits in respect of goods which have already been cleared from the wharves and sold at prices based on the existing rate of exchange;
- (j) certain swap arrangements with the commercial banks involving the sale of foreign exchange to the Bank of Jamaica on a buy-back basis at a guaranteed rate of exchange.

Further details of some of the above are given in the Appendix.

All other transactions involving the purchase and sale of foreign exchange will be at the Special Rate so that, for example, all export receipts including tourism receipts would be converted at the Special Rate.

In the administrative arrangements which have been devised, any person having a foreign exchange payment to make will apply to the Bank of Jamaica in the usual way and the Bank will indicate on the Form F.E. the approved rate of exchange to be applied by the commercial bank to the transaction. Importation of goods will be dealt with as follows:

- (a) In the case of application for licences to the Trade Administrator, the licence when granted will indicate whether the basic rate of exchange applies.
- (b) Where licences have already been issued and orders placed, the importer or his commercial bank will submit the relevant documents to the Bank of Jamaica prior to the goods being cleared through customs and the relevant rate will be inserted thereon. Applications need not be made for a rate to be stated when the goods or transactions clearly attract the Special Rate as in all cases where no rate is indicated, the Special Rate applies.

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The relevant rate will apply to the calculation of duty for purposes of the Customs and any ad valorem duty and will be used when the importer is making a payment. By this arrangement the importer will be able to price the goods on the basis of a known rate of exchange and the Prices Commission in making its own computation for purposes of Price Control Orders will be using the approved rate of exchange.

The subsidies from the Budget for sugar, bananas, and tourism will be reduced by 55%.

In the light of the fact that basic foods and other essential items will be paid for at the Basic Rate, it is estimated that approximately 70% of the items entering the cost of living index would be unaffected and as regards the other 30%, it should be borne in mind that only the import content would be affected.

In order to put these arrangements into effect, the foreign exchange market will be closed from Saturday, 23rd April 1977 and will re-open on the morning of Wednesday, 27th April 1977. An exception will be made for funds required for essential travel.

It is the Government's hope that as a result of these arrangements the productive sector will make every effort to increase production and particularly its export performance.

DAVID H. COORE
Minister of Finance & Planning

22nd April 1977.

APPENDIX

Imports, the prices of which will not be affected by the multiple exchange rate:

Rice
Counter Flour
Baking Flour
Cornmeal
Chicken necks and backs
Frozen chilled meats
Corned Beef
Salt Fish
Milk and Dairy Products
Milk Powder
Soya Bean and products
Pickled Beef
Canned Sardines
Canned Herrings
Canned Mackerel
Pickled Fish
Pork Tails
Infant Feeds
Margarine
Cooking Oil

Essential Medical and Pharmaceutical products

Animal Feeds
Fertilizers
Gasolene
Diesel Oil
Fuel Oil
Kerosene Oil
Cooking Gas.

22nd April 1977

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