

THE ECONOMY

Fluctuations in the value of the Rupee

Since July 1972, the Sri Lanka Rupee has been linked to the Pound Sterling at the rate of Rs. 15.10 per one Pound Sterling. Our exchange rate system is based on this official rate with the Sterling. Exchange rates for other currencies are determined on the basis of the London market rates for these currencies. Under this system, while the Rupee-Pound rate remains fixed, the value of the Rupee fluctuates with the changes in exchange rates between the Pound and other currencies. Any weakening of the Pound, for example, as a result of continuing balance of payments problems or a relatively higher rate of inflation in UK, or any strengthening of other major currencies such as the US Dollar as a result of an improved economic outlook in the US, would lead to a depreciation of the Sri Lanka Rupee against these other currencies.

For example in 1973 there was a mild depreciation of the Rupee vis-a-vis most other foreign currencies. The exchange rate with the US Dollar, for example, changed from Rs. 6.40 at the end of 1972 to Rs. 6.75 at the end of 1973, denoting a depreciation in the value of the Rupee by about 5 per cent.

On the other hand, in 1974, when several important currencies depreciated in relation to the Pound Sterling, the Rupee appreciated against these currencies. The appreciation was particularly marked in relation to the Australian Dollar, the Japanese Yen and the Italian Lira. There was an overall appreciation of the Rupee by about 3 per cent against other foreign currencies.

In 1975 there have been some marked fluctuations in the value of the Rupee particularly in relation to the US dollar and by the end of August the Rupee had depreciated to the extent of 10% vis-a-vis the US Dollar. The important factor behind these exchange rate fluctuations has been the changes in the

economic situation and outlook in UK and USA. During January-March 1975 when the US economy was passing through a period of economic stagnation characterised by a drop in industrial production and a sharp rise in unemployment coupled with a high rate of inflation the US Dollar depreciated against most other currencies including the Pound.

further to Rs. 7.80 per Dollar which is a depreciation rate of about 14% from the end of the 1974 level. Thus, although Sri Lanka has not officially devalued the Rupee, world currency fluctuations have in effect led to a depreciation of the Rupee against most other foreign currencies except the Pound Sterling. The economic outlook in UK, in particular the success with which the inflation is controlled in that country, has turned out to be a major determinant of the value of

	Rs. per \$	US Cts per Re.
End 1972	6.40	15.63
End 1973	6.74	14.83
End 1974	6.69	14.95
1975 Jan. 29th	6.50	15.34
Mar. 5th	6.41	15.61
Apr. 4th	6.53	15.26
May 14th	6.79	14.73
June 19th	6.87	14.56
End Aug.	7.39	13.53

The exchange rate rose from £1 = \$ 2.33 at the end of 1974 to £1 = \$ 2.43 in March 1975. There was a corresponding appreciation of the Sri Lanka Rupee from Rs. 6.69 per US \$ to Rs. 6.41; an appreciation of 4.4%. In the later months, there was a general deterioration in the economic prospects in UK with growing trade deficits, a high rate of unemployment and a high inflation rate. These factors depressed the value of the Pound. In addition, clear signs of economic recovery appeared in US which strengthened the US \$ against practically all major currencies. The result was a drop in the value of the Pound to US \$ 2.11 by the end of August. There was a corresponding drop in the value of the Rupee vis-a-vis the US Dollar. The exchange rate at the end of August (Rs. 7.39 per US \$) represented a drop of about 10% from the level that prevailed at the end of 1974.

So long as the rate of inflation in UK continues at a higher level than in other industrialised nations, the chances are that the value of the Pound would go down further. Most analysts expect the Pound to fall to the level of US \$ 2 (that is 50 pence per dollar) unless the rate of inflation in UK is sharply brought down. If this happens the Sri Lanka Rupee would depreciate

the Rupee against other foreign currencies.

Emergency food aid for Maldives-Sri Lanka helps with stocks

About one third of the population of the Maldivian Islands will receive free rations from the World Food Programme (WFP) because of a dwindling tuna catch. The Republic of Maldives earns practically all of its annual \$3 million in foreign exchange by exporting dried tuna. One third of the earnings pays for the import of cereals and other foods.

As the average catch has fallen from 5,000 tons per year to about 3,000 tons and the food bill has risen due to higher prices, semi-starvation has struck about half the 190 inhabited islands. Normal schools of tuna have not arrived this year for causes not ascertained.

To supplement the rations provided by the Government from its resources, the Food and Agriculture Organization has approved \$496,000 emergency aid for four months for 37,250 people. The Government of Sri Lanka, in spite of its own needs, has agreed to the immediate shipment of the food from WFP and national stocks held in the country, according to the U.N. Chronicle of July 1975.