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July 3, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Norway - Basket Index for the Norwegian Krone

The Secretary has received the following memorandum dated July 2, 1984 from Mr. Lindø:

We have received the following telex from Mr. Knut Getz Wold, Governor of the Bank of Norway, dated June 30, 1984:

"Please forward the following message to Mr. Jacques de Larosière, Managing Director, Interfund, Washington, D.C.

I have the honour to advise you that Norges Bank, in consultation with the Government, has decided with effect from July 2, 1984, to undertake a technical modification in the calculation of the basket index for the Norwegian krone. The new index will be based on a geometric average of the changes in individual exchange rates from their base values, while an arithmetic average has been used up to now.

This method of calculating the index is in conformity with similar calculations of changes in effective exchange rates undertaken by international organizations, such as OECD and IMF, and also in conformity with our own calculations of relative international competitive position with regard to unit labour costs for industrial products. The basket for the Norwegian krone comprising 14 currencies important for the Norwegian external economy, as well as their base rates and weights, will remain unchanged. The base value of the index will be 100, and Norges Bank will as previously and to the extent necessary, purchase and sell foreign currency in the market in order to keep the index within the previously practised margins. Based on the exchange rate quotations on Friday, June 29, the exchange rate index using the new method of calculation will fall from 101.1 to 98.9. Since both values are within the permissible range of fluctuation, the alteration in the method of calculation will not necessarily have immediate exchange rate effects; however, in the event of a future strengthening of the krone, the intervention point will be reached more quickly. In the somewhat longer term, the new method of calculation may be expected to result in a somewhat weaker krone than if the previous method had been retained."

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