

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/138

CONFIDENTIAL

July 6, 1983

To: Members of the Executive Board  
From: The Secretary  
Subject: Initial Basis for Experimental System of Information Notices

The attached table and note, circulated for the information of the Executive Directors, establishes an initial basis for the operation of the experimental system of information notices on changes in real effective exchange rate of member countries. The comprehensive data on which this note is based are found in the paper on Indicators of Real Effective Exchange Rates (EBS/83/139, 7/7/83).

Att: (1)

INTERNATIONAL MONETARY FUND

Initial Basis for Experimental  
System of Information Notices

Prepared by the Exchange and Trade Relations Department

(In consultation with other Departments)

Approved by C. David Finch

July 6, 1983

To establish an initial basis for the operation of the experimental system of information notices that was endorsed by the Executive Board at the time of the 1983 "Review of the Implementation of Surveillance" (EBM/83/55, 3/28/83), the attached table sets out cumulative changes in real effective exchange rates for Fund member countries. As agreed in the Executive Board, the starting point for the measurement of cumulative changes is the latest occasion on which the Board had an opportunity to discuss the member's exchange rate policy. The table also indicates changes in nominal effective exchange rates from the same date.

The comprehensive data on which these tables are based are presented in the first quarterly report on real exchange rate developments, (EBS/83/139, 7/7/83). That paper, which provides detailed technical specification of the indexes used, also points out that there are serious deficiencies in the data for individual members. In a number of cases such deficiencies were judged to be so serious that real effective exchange rates could not be calculated. In most cases, however, real effective exchange rates were calculated, with the most serious data deficiencies noted in footnotes.

Members for which the change in the index as of April 1983 had exceeded 10 per cent--that is, members for which an information notice would have been issued were the system already in effect--are indicated by an asterisk in the left margin of the tables. For those members (Bolivia, Chile, Ghana, Grenada, Iran, Kuwait, Niger, Paraguay, Sierra Leone, Tanzania, Trinidad and Tobago, and Zaire), the present paper effectively constitutes an information notice. Of those members, all but Niger registered a real effective appreciation. The statistical problems involved in these calculations mean that calculated percentage changes are subject to substantial margins of error. They are also subject to revision, since in many cases cost or price data for April 1983 were based on projections or preliminary estimates.

It is intended that in the future information notices will be issued for individual members whenever the threshold of 10 per cent in real terms seems likely to have been exceeded. For members for which changes in the real effective exchange rate had exceeded the threshold in April 1983, April will be taken as the base month for future calculations. For other members, the date would be the reference month indicated in the tables. A subsequent Board discussion or notification would, of course, provide a new reference month.

For consistency of treatment, it is expected that for the time being indexes of the types used in the table will continue to be the ones to be used in calculating whether the threshold had been passed. These indexes necessarily involve judgments by the staff of trade patterns (in most cases Direction of Trade data have been used) and, in some cases, choices among various measures of price developments or among multiple exchange rates. The staff will be continuing to examine the data and will refine the indexes as experience is gained. It will also continue to seek improvement in the data in the course of its normal contacts with members. Article IV consultations, as was noted in the Chairman's Summing Up at the Conclusion of the Surveillance Review, will provide an opportunity to explore the statistical questions with members, and Article IV consultation reports will include discussions of indicators of competitiveness.

For 36 members no real effective exchange rate changes are indicated because of the absence of data on exchange rates, prices or trade patterns. In most cases changes in nominal effective rates have been calculated, but these mean little given the large differences in inflation rates among countries. Over time the staff will endeavor to develop real effective exchange rate indexes for all members.

#### Explanatory Notes to the Table

##### Type of latest Board consideration

C = discussion at the Board of an Article IV consultation; R = discussion at the Board of use of Fund Resources (requests or reviews of stand-by or extended arrangements, and requests for upper tranche drawings under the CFF); N = notification to the Board in respect of exchange rate changes or notification of changes in the exchange system which includes a substantive discussion of the exchange rate.

##### Date of latest Board consideration

Month in which the Board discussion took place; for notifications not discussed by the Board, month in which notification issued.

Index type

The three types of real and nominal exchange rate indices that have been used are described in EBS/83/139. For 14 industrial countries two measures are employed--relative unit labor costs (Type I) and relative consumer prices (Type II). Type II indexes are used for 22 other countries with sizable exports of manufactures, and Type III indexes (relative consumer prices, but with a different weighting scheme) for other countries.

Percentage changes in effective exchange rates

In cases where the latest Board consideration took place before 1981, December 1980 is taken as the reference month. In cases where it took place in April, May or June 1983, "n.a." is used to indicate "not applicable." "... " denotes cases for which a real (or even nominal, in a few cases) effective exchange rate could not be calculated because of data deficiencies. (For qualifications to the data, see EBS/83/139).

Table 1. Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board Consideration		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Type	Date		Real Index	Nominal Index
	<u>African Department</u>				
Algeria	C	9/82	III	...	3.5
Benin	C	10/81	III	...	-8.3
Botswana	C	9/82	III	-1.5	-0.5
Burundi	C	3/82	III	...	7.5
Cameroon	C	7/82	III	2.5	-2.8
Cape Verde	C	9/82	III	...	-0.2
Central African Republic	C, R	4/83	III	...	n.a.
Chad	C	4/79	III	...	-6.9
Comoros	C	2/83	III	...	-1.7
Congo	C	10/82	III	-1.2	4.2
Djibouti	C	5/82	III	...	12.9
Equatorial Guinea	C	2/83	III	...	-0.5
Ethiopia	C	6/83	III	n.a.	n.a.
Gabon	R	5/83	III	n.a.	n.a.
The Gambia	R	11/82	III	-6.5	-5.6
*Ghana	C	5/80	III	184.3 <u>2/</u>	30.5
Guinea	R	12/82	III	...	2.8
Guinea-Bissau	C	6/83	III	...	n.a.
Ivory Coast	C, R	6/83	III	n.a.	n.a.
Kenya	C, R	3/83	III	0.1	-0.4
Lesotho	C	6/82	III	-0.7	0.3
Liberia	C, R	2/83	III	0.6	1.7
Madagascar	R	4/83	III	n.a.	n.a.
Malawi	C, R	2/83	III	1.1	-0.1
Mali	R	2/83	III	...	-2.6
Mauritania	C	2/83	III	...	1.4
Mauritius	R	5/83	III	n.a.	n.a.
Morocco	C, R	11/82	III	-1.3	--
*Niger	C	12/81	III	-17.7	-4.3
Nigeria	C	9/82	III	8.5	-0.9
Rwanda	C	4/83	III	...	n.a.

Table 1 (continued). Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board Consideration		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Type	Date		Real	Nominal
				Index	Index
<u>African Department Cont'd</u>					
Sao Tome & Principe	C	10/82	III	...	4.7
Senegal	R	11/82	III	-1.7	0.6
Seychelles	C	4/82	III	0.9	5.5
*Sierra Leone	C	6/82	III	27.1	5.7
Somalia	C, R	2/83	III	3.0	2.7
Swaziland	C	1/83	III	0.9	-0.3
*Tanzania	C	9/82	III	18.8	4.0
Togo	C, R	3/83	III	-1.7	-2.2
Tunisia	C	6/82	III	-1.8	-1.7
Uganda	C, R	2/83	III	-8.4	-6.7
Upper Volta	C	6/83	III	...	n.a.
*Zaire	C	3/82	III	51.8	11.9
Zambia	C, R	4/83	III	n.a.	n.a.
Zimbabwe	R	3/83	III	1.0	0.1
<u>Asian Department</u>					
Bangladesh	R	3/83	III	--	0.4
Bhutan	C	10/82	III	...	...
Burma	C	12/82	III	-4.4	-0.7
China	C	8/82	III	...	-0.2
Fiji	N	3/83	III	-1.6	-1.2
India	C, R	2/83	II	1.9	1.3
Indonesia	N	3/83	III	n.a. <sup>3/</sup>	n.a. <sup>3/</sup>
Japan	C	3/83	I	0.6	0.8
			II	0.1	1.1
Kampuchea, Democratic	C	10/73	III	...	...
Korea	C	5/82	II	-0.4	0.5
Laos	C	12/82	III	...	0.4
Malaysia	C	6/82	II	4.2	6.5
Maldives	C	4/82	III	...	4.1
Nepal	N	6/83	III	n.a.	n.a.

Table 1 (continued). Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board Consideration		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Type	Date		Real Index	Nominal Index
<u>Asian Department Cont'd</u>					
Papua New Guinea	N	3/83	III	-1.7	-1.9
Philippines	R	2/83	II	-2.8	-2.5
Singapore	C	9/82	II	2.5	4.3
Solomon Islands	R	6/83	III	n.a.	n.a.
Sri Lanka	C	8/82	III	-2.1	-4.4
Thailand	C, R	11/82	II	-4.3	-2.1
Vanuatu	C	2/83	III	4.3	5.6
Viet Nam	C	6/82	III	...	4.8
Western Samoa	R	6/83	III	n.a.	n.a.
<u>European Department</u>					
Australia	N	3/83	II	-0.8	-1.4
Austria	C	1/83	I	-1.1	0.8
			II	0.7	1.8
Belgium	N	4/83	I	n.a.	n.a.
			II	n.a.	n.a.
Cyprus	C	2/82	III	-2.0	-0.9
Denmark	N	4/83	I	n.a.	n.a.
			II	n.a.	n.a.
Finland	N	10/82	II	2.0	0.7
France	C	6/83	I	n.a.	n.a.
			II	n.a.	n.a.
Germany	N	4/83	I	n.a.	n.a.
			II	n.a.	n.a.
Greece	C	3/83	II	-1.1	1.0
Hungary	R	6/83	II	n.a.	n.a.
Iceland	N	6/83	II	n.a.	n.a.
Ireland	N	4/83	II	n.a.	n.a.
Israel	C	6/83	II	n.a.	n.a.
Italy	N	4/83	I	n.a.	n.a.
			II	n.a.	n.a.

Table 1 (continued). Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board Consideration		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Type	Date		Real Index	Nominal Index
<u>European Department Cont'd</u>					
Luxembourg	N	4/83	III	n.a.	n.a.
Malta	C, N	5/81	III	-0.7	11.9
Netherlands	N	4/83	I	n.a.	n.a.
			II	n.a.	n.a.
New Zealand	C, N	3/83	II	-1.0	-1.5
Norway	N	9/82	I	1.4	-1.1
			II	3.5	2.5
Portugal	C	6/83	II	n.a.	n.a.
Romania	R	3/83	III	...	1.4
South Africa	C, R	6/83	II	n.a.	n.a.
Spain	C	4/83	II	n.a.	n.a.
Sweden	C	12/82	I	-0.8	0.1
			II	1.6	1.4
Turkey	C,R	6/83	III	n.a.	n.a.
United Kingdom	C	2/83	I	2.1	2.2
			II	2.0	3.2
Yugoslavia	C, R	3/83	II	0.9	-3.4
<u>Middle Eastern Department</u>					
Afghanistan	C	1/79	III	...	...
Bahrain	C	6/82	III	5.0	10.2
Egypt	C	5/82	III	7.3	13.5
*Iran, The Islamic Rep. of	N	5/80	III	52.8	16.9
Iraq	N	11/82	III	...	0.2
Jordan	C	10/82	III	2.5	0.5
*Kuwait	C	2/82	III	10.5	6.8
Lebanon	C	5/83	III	...	n.a.
Libya	C	1/83	III	...	4.3
Oman	C	7/82	III	...	3.0
Pakistan	C,R	2/83	II	1.1	2.2
Qatar	C	3/82	III	...	10.9

Table 1 (continued). Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board Consideration		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Type	Date		Real Index	Nominal Index
<u>Middle Eastern Department Cont'd</u>					
Saudi Arabia	C	8/82	III	-0.7	1.5
Sudan	R	1/83	III	...	6.5
Syria	C	1/83	III	...	4.4
United Arab Emirates	C	6/82	III	...	4.6
Yemen Arab Republic	C	8/82	III	...	2.7
Yemen, P.D.R.	C	2/83	III	...	2.2
<u>Western Hemisphere Department</u>					
Antigua and Barbuda	C	4/82	III	2.2	4.2
Argentina	C, R	1/83	II	7.2	-21.2
Bahamas	C	5/83	III	n.a.	n.a.
Barbados	C, R	6/83	III	n.a.	n.a.
Belize	C	6/83	III	...	n.a.
*Bolivia	C	1/83	III	41.4	7.9
Brazil	C, R	2/83	II	1.3	-6.7
Canada	C	1/83	I	0.8	0.4
			II	1.8	2.2
*Chile	C, R	1/83	III	11.4	10.5
Colombia	C	3/82	III	2.5	-9.6
Costa Rica	R	12/82	III	6.2	2.0
Dominica	C, R	8/82	III	5.5	4.8
Dominican Republic	C, R	1/83	III	3.3	2.9
Ecuador	C, R	6/83	III	n.a.	n.a.
El Salvador	N	12/82	III	1.9	0.8
*Grenada	C, R	5/81	III	17.3	16.6
Guatemala	C	6/83	III	n.a.	n.a.
Guyana	C	11/82	III	6.4	2.7
Haiti	R	8/82	III	3.7	1.7
Honduras	C, R	11/82	III	1.8	--
Jamaica	R	6/83	III	n.a.	n.a.
Mexico	C	5/83	III	n.a.	n.a.
Nicaragua	N	7/82	III	...	3.4

Table 1 (concluded). Change in Member Countries' Real and Nominal Effective Exchange Rates During the Period Between the Month of the Latest Board Consideration of Members' Exchange Rate Policies and April 1983

	Latest Board		Index Type	Percentage Change in Effective Exchange Rate Indices 1/	
	Consideration			Real	Nominal
	Type	Date			
<u>Western Hemisphere Department Cont'd</u>					
Panama	C, R	6/83	III	n.a.	n.a.
*Paraguay	N	8/82	III	14.2	59.0
Peru	R	5/83	III	n.a.	n.a.
St. Lucia	C	6/83	III	n.a.	n.a.
St. Vincent	C	3/83	III	--	-1.3
Suriname	C	8/82	III	3.7	4.4
*Trinidad and Tobago	C	9/82	III	14.5	2.3
United States	C	8/82	I	-0.2	1.1
			II	0.3	5.1
Uruguay	C, R	4/83	III	n.a.	n.a.
Venezuela	N	3/83	III	-0.1	0.7

1/ An increase in the value of the indices denotes appreciation.

2/ This figure does not reflect the large devaluation that resulted from the change in Ghana's exchange system of April 22, 1983.

3/ Since the devaluation by 27.5 per cent on March 30, 1983 was not fully reflected in the March figures, April 1983 is taken as the reference month.

4/ Since the devaluation by 23 per cent on February 21, 1983 was not fully reflected in the February figures, March 1983 is taken as the reference month.