

EBS/83/220

CONFIDENTIAL

October 5, 1983

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

The attached paper on recent modifications in the Philippine exchange arrangements is circulated for the information of the Executive Directors.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Philippines--Exchange Arrangements

Prepared by the Asian and Exchange and Trade
Relations Departments

Approved by Tun Thin and Manuel Guitian

October 5, 1983

The Executive Director for the Philippines has notified the Fund of recent modifications in the Philippine exchange arrangements as described in the attached communication to the Secretary.

On October 5, 1983, the peso was devalued by 21.42 percent against the U.S. dollar from P 11.0015 per U.S. dollar to P 14.00 per U.S. dollar.

After a period of stability until end-1979, the peso depreciated gradually from P 7.4 per US\$1 to P 10.20 per US\$1 by June 23, 1983, when it was devalued to P 11.0015 per US\$1, a rate maintained until the present adjustment.

The exchange rate action was taken against the background of a further weakening of the external accounts. During the first half of 1983, Philippine exports failed to recover as had been envisaged at the beginning of the year, and imports were also below expected levels. The capital account worsened and net international reserves declined by \$602 million during the first half of the year. During the succeeding months, capital account developments deteriorated further. Net international reserves declined by \$571 million in July-August. By end-August 1983, gross official reserves had declined to \$2.0 billion (equivalent to about three months' imports). A further reserve loss occurred in September 1983.

Under these conditions, additional adjustment measures became necessary, and the staff believes that the exchange rate action is appropriate. Failure to adjust in the current situation would have seriously jeopardized the Philippines' open trade and payments system.

The communication by the authorities indicates that they are committed to managing the exchange rate flexibly and that they expect its determination to be on the basis of market-related developments. The authorities are now working out the necessary supporting policies to make the devaluation effective, and are in close contact with the Fund staff.

The staff will be reporting to the Executive Board in the near future on these discussions.

Attachment



Office Memorandum

ATTACHMENT

TO . The Secretary

FROM . A.R.G. Prowse

SUBJECT . Exchange Rate Adjustment

DATE October 5, 1983

Would you please inform the Executive Board of the following message which I received today from my Philippine authorities:

On October 5, 1983, the peso guiding rate was determined at P 14 to \$ 1. The rate prevailing the previous day was P 11.0015. The peso depreciation rate is therefore computed at 27.3 per cent. Since January, the peso has depreciated by about 53 per cent.

The exchange rate adjustment is aimed at improving the balance of payments position.

The peso will be allowed to resume its float beginning today, using as basis a trade weighted basket of currencies.

The Philippine authorities, in consultation with the Fund, are undertaking a comprehensive review of economic policies.