

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES

ROOM C-120

01

EBD/83/91

March 28, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Portugal - Exchange Arrangements

The Secretary has received the following memorandum dated March 25, 1983 from Mr. Lovato:

Please inform the members of the Executive Board that, according to a telex I received from my Portuguese authorities, the Bank of Portugal under the direction of the Ministry of Finance and the Plan makes public among others the following:

For the last few years the exchange rate policy has been based on a programmed devaluation of the escudo under a crawling-peg system with the primary objective of maintaining export competitiveness and afford economic agents an outlook of minimum stability as regards developments in exchange rates.

Available data point to the fact that Portuguese exports have maintained their competitiveness. In fact, as compared with 1981, 1982 witnessed gains in market shares in the major importers of Portuguese products.

The last months saw devaluations in several countries (Sweden, Finland, Yugoslavia, Greece and Spain) which are Portugal's competitors in foreign markets. These devaluations although not having seriously affected our external competitiveness lead us now that the realignment of the EMS currencies took place to make a technical adjustment in the effective exchange rate of the escudo of the order of 2 per cent and a monthly increase in the crawling-peg depreciation to 1 per cent.

At the same time, through a notice sent for publication in the official gazette (*Diario da Republica*) with the primary objectives of strengthening domestic savings making their return more attractive, deposit rates rose by 5 per cent for deposits over 1 year and by 4.5 per cent for the remaining deposits while interest rates on demand deposits remained unchanged. The base discount rate and lending rates were increased by 4 per cent.

Other Distribution:
Department Heads