

EBD/82/303

December 7, 1982

To: Members of the Executive Board
From: The Secretary
Subject: Spain - Exchange Rate Measure

The Fund has received the following communication dated December 4, 1982 from the Bank of Spain:

When the exchange market opens Monday morning December 6, 1982 the Bank of Spain will observe intervention rates of pesetas 127.50/70 per U.S. dollar, which represents an 8 per cent devaluation of the peseta with respect to the December 3 fixing of the peseta at 117.450 per U.S. dollar.

This decision was reached owing to intense speculative pressure on the peseta during the last two months which has increased in recent weeks and forced the Bank of Spain to intervene heavily in the market. The decline in the rate of exchange has been maintained within limits which appear compatible with a situation of approximate equilibrium in accordance with the basic trends in the markets and the Spanish economy.

The Government has announced that its monetary policy targets in 1983, defined in terms of M3, will be situated in a band established around a 13 per cent growth rate (16 per cent in 1983). These monetary targets are considered compatible with a reduction of the inflation rate measured in terms of consumer prices to 12 per cent in 1983 (14.5 per cent in 1982) and with an increase of real GDP in the neighborhood of 2 to 2.5 per cent in the coming year (an estimated 1 to 1.5 per cent in the current year). The Government intends to make an effort to contain the budget deficit and begin to reduce it as a percentage of GDP and is confident that the current account balance of payments deficit will be on the order of 3 billion dollars in 1983 (4.2 billion dollars in 1982).

The Bank of Spain intends to introduce a policy of managed float in the exchange market in the near future. It will respect the basic trends of the market and refrain from any operation involving competitive depreciation.

We trust that the International Monetary Fund will view favorably the decision adopted which seeks to help restore balance to the Spanish economy.

Other Distribution:
Department Heads