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EBD/89/142

May 11, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Background Material on Exchange Rate Developments

The attached set of charts is intended to serve as background material for the informal Board discussion of exchange rate developments scheduled for Monday, May 15, 1989. In addition to the usual review of exchange rate developments, the discussion is expected to refer to recent developments in external imbalances for the seven major industrial countries.

Mr. Takagi (ext. 8980) is available to answer technical or factual questions relating to the attached material.

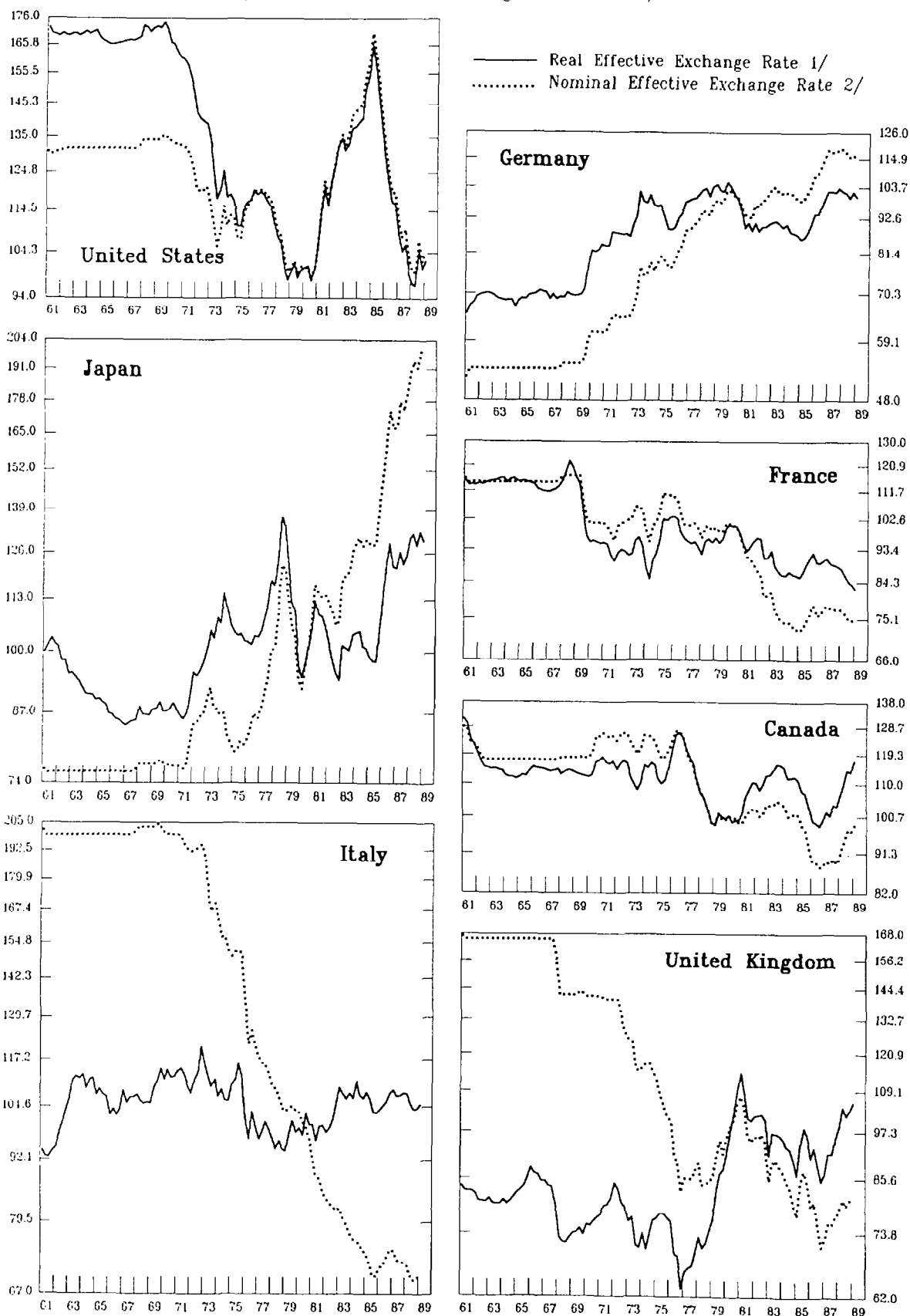
Att: (1)

Other Distribution:  
Department Heads



Chart 1. Major Industrial Countries: Quarterly Average Nominal and Real Effective Exchange Rates, Q1 1961 to Q1 1989

( Indices, 1980 = 100; Semi-logarithmic Scale )

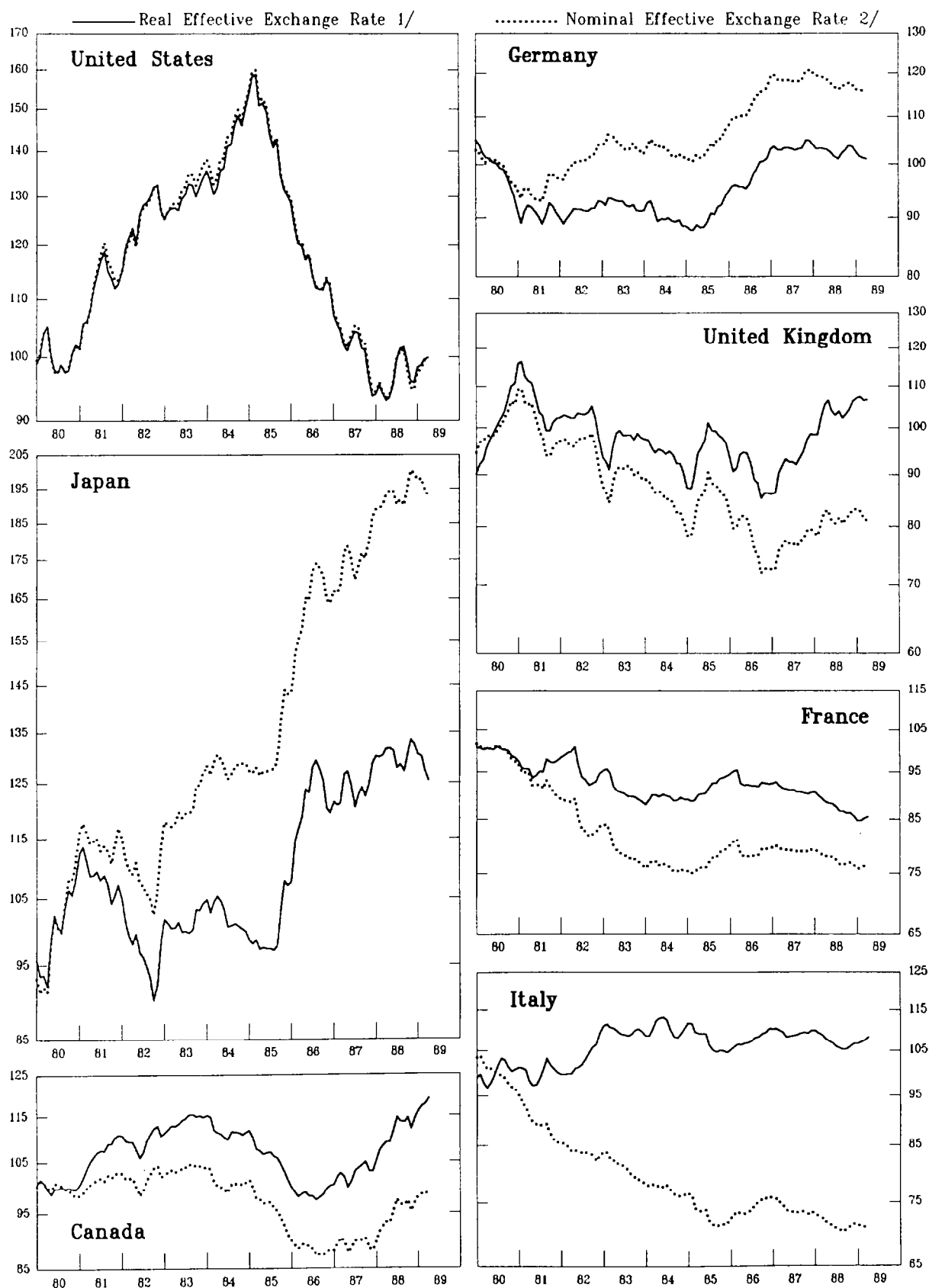


1. Defined in terms of relative normalized unit labor costs in manufacturing, and constructed using export weights based on 1980 trade data.  
 2. Constructed using same weights as real effective exchange rate indices.



## Chart 2. Major Industrial Countries: Monthly Average Nominal and Real Effective Exchange Rates, Jan 1980 to Apr 1989

(Indices, 1980 = 100; Semi-logarithmic Scales)

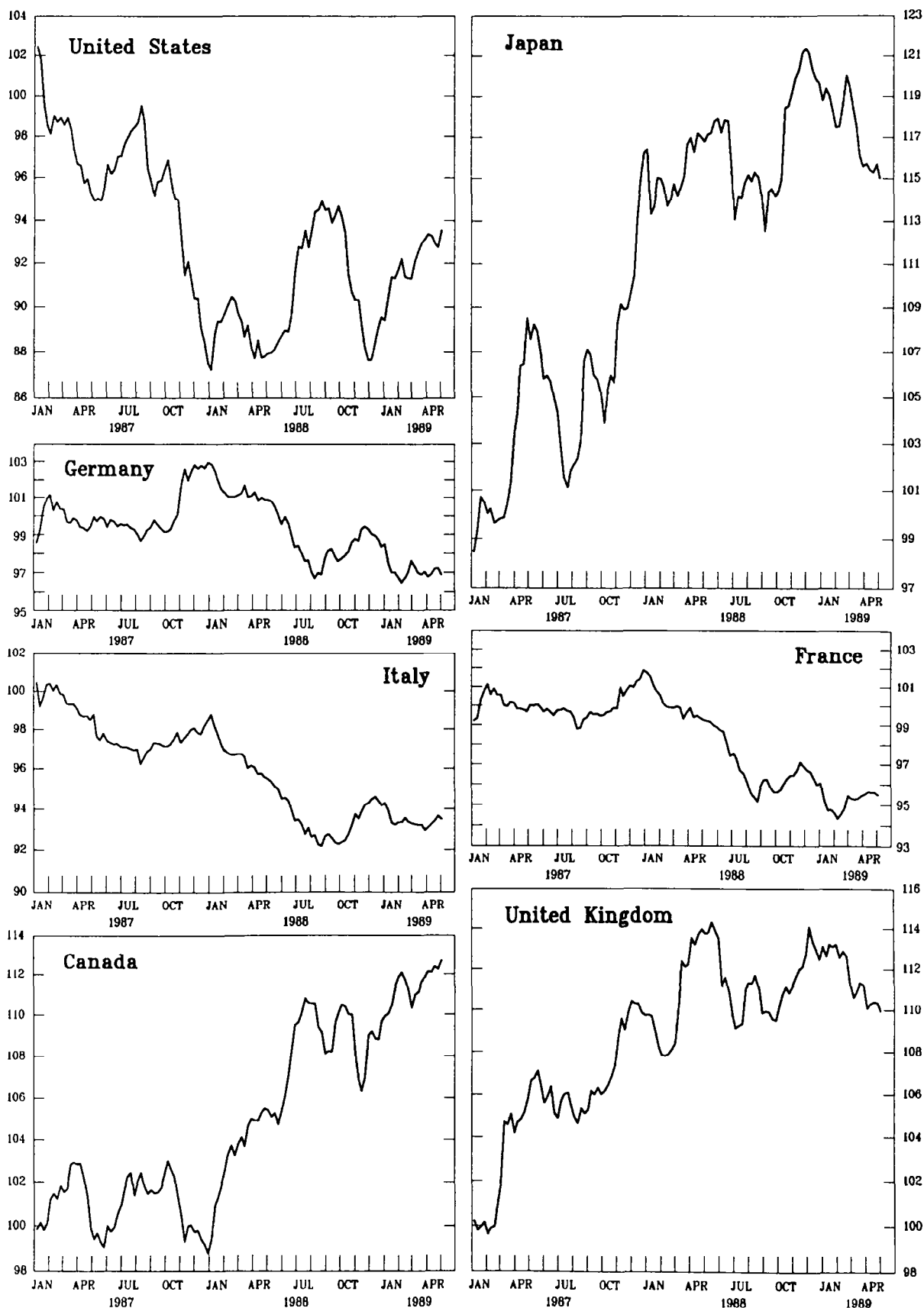


1/ Defined in terms of relative normalized unit labor costs in manufacturing, and constructed using total trade weights based on 1980 trade data (series ...reu in IFS).

2/ Constructed using same weights as real effective exchange rate indices (series ...neu in IFS).



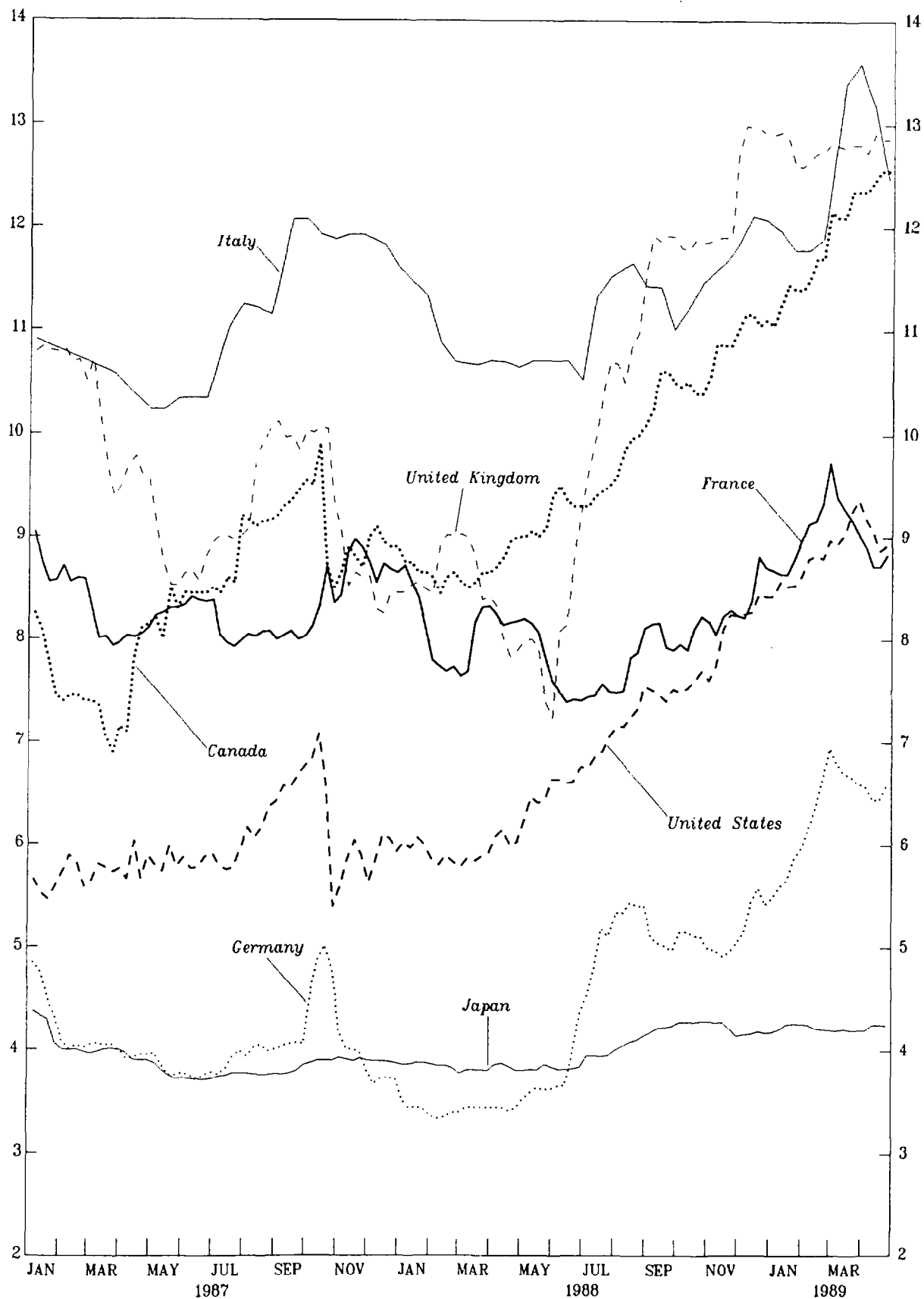
**Chart 3. Major Industrial Countries: Nominal Effective Exchange Rates,  
January 1987 to May 3, 1989<sup>1/</sup>**  
(Indices, Jan 1987 = 100; Semi-logarithmic scales)



<sup>1/</sup> Constructed using weights based on the Fund's Multilateral Exchange Rate Model (series ...amx in IFS); Mid-weekly data.



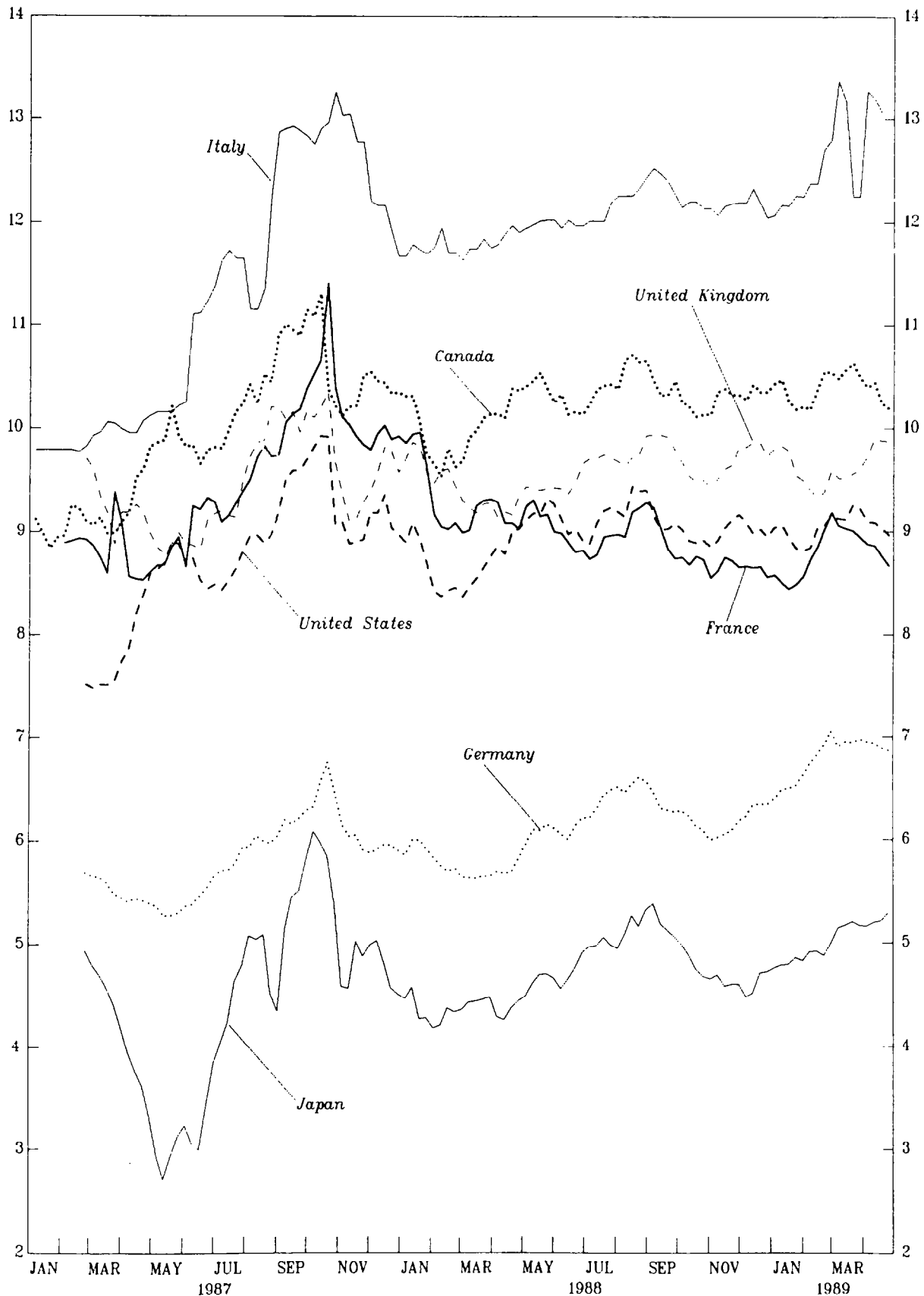
Chart 4. Major Industrial Countries: Short Term Interest Rates<sup>1/</sup>  
January 1987 to April 1989  
(in percent per annum)



<sup>1/</sup> 3-mth. T.Bill rates for U.S., U.K. and Italy; 3-mth. gensaki rate for Japan; rate on 3-mth. financial paper for Canada; 3-mth. interbank rates for other countries.



Chart 5. Major Industrial Countries: Medium and Long Term<sup>1/</sup>  
Interest Rates, January 1987 to April 1989  
(in percent per annum)



<sup>1/</sup> Yields on government (or pub. auth.) bonds with maturities of 30 yrs (US); 15 yrs (UK); more than 10 yrs (Canada); 10 yrs (Japan, France); more than 3 yrs avg. 7 yrs (Germany); 2-4 yrs (Italy). Yield shown for Italy is published net-of-tax yield grossed up at rate of withholding tax.

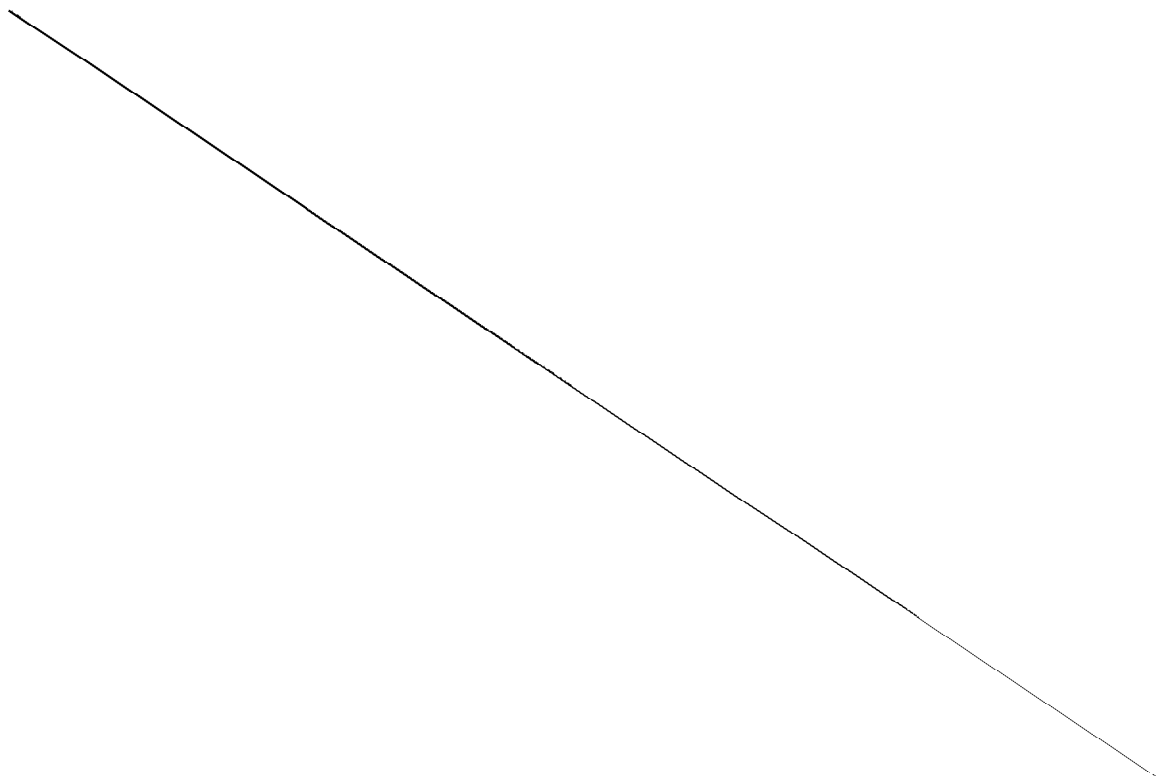


Chart 6. Major Industrial Countries: Differentials between  
Long- and Short-Term Interest Rates  
January 1987 to April 1989  
(in percent per annum)

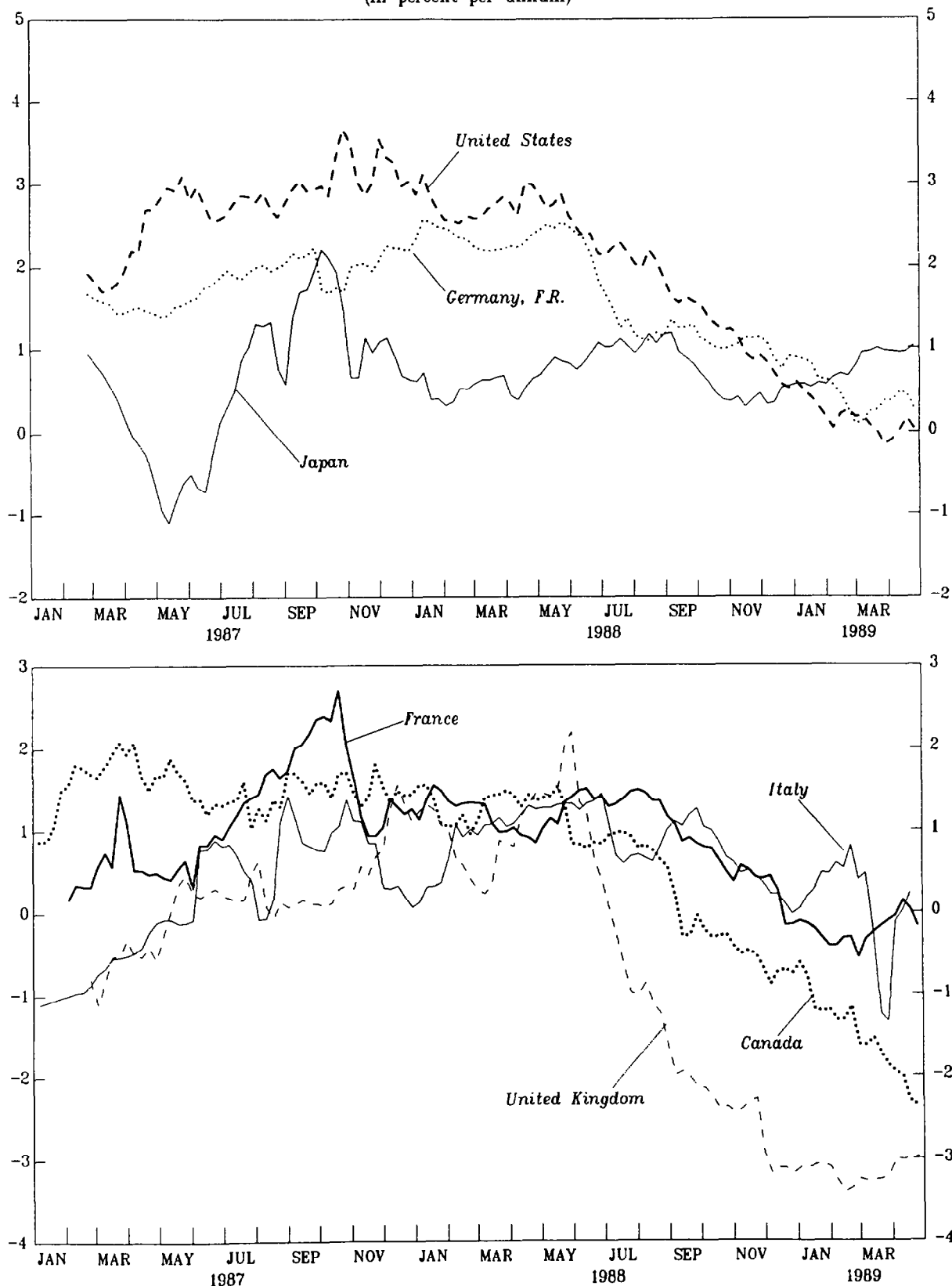
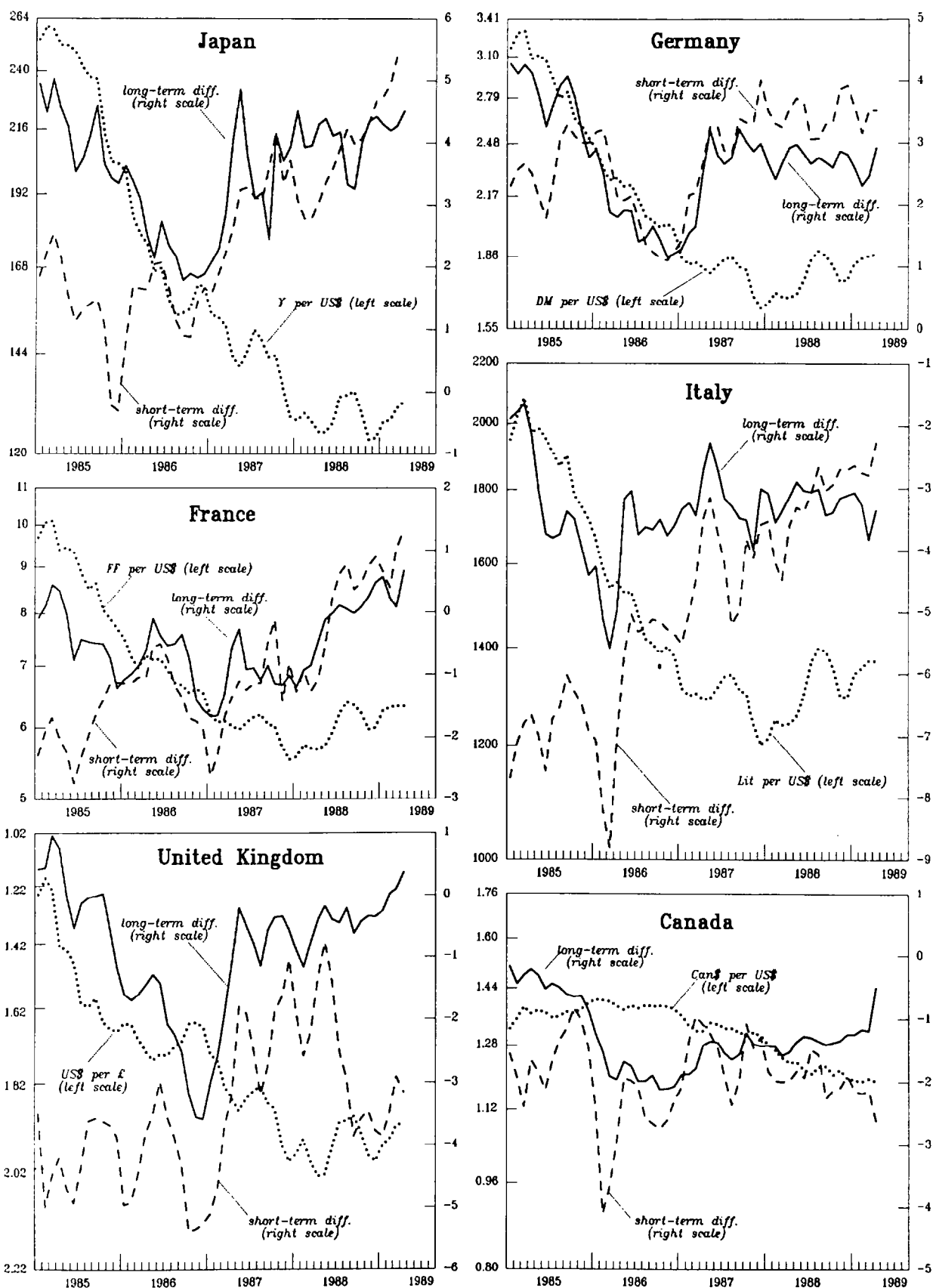




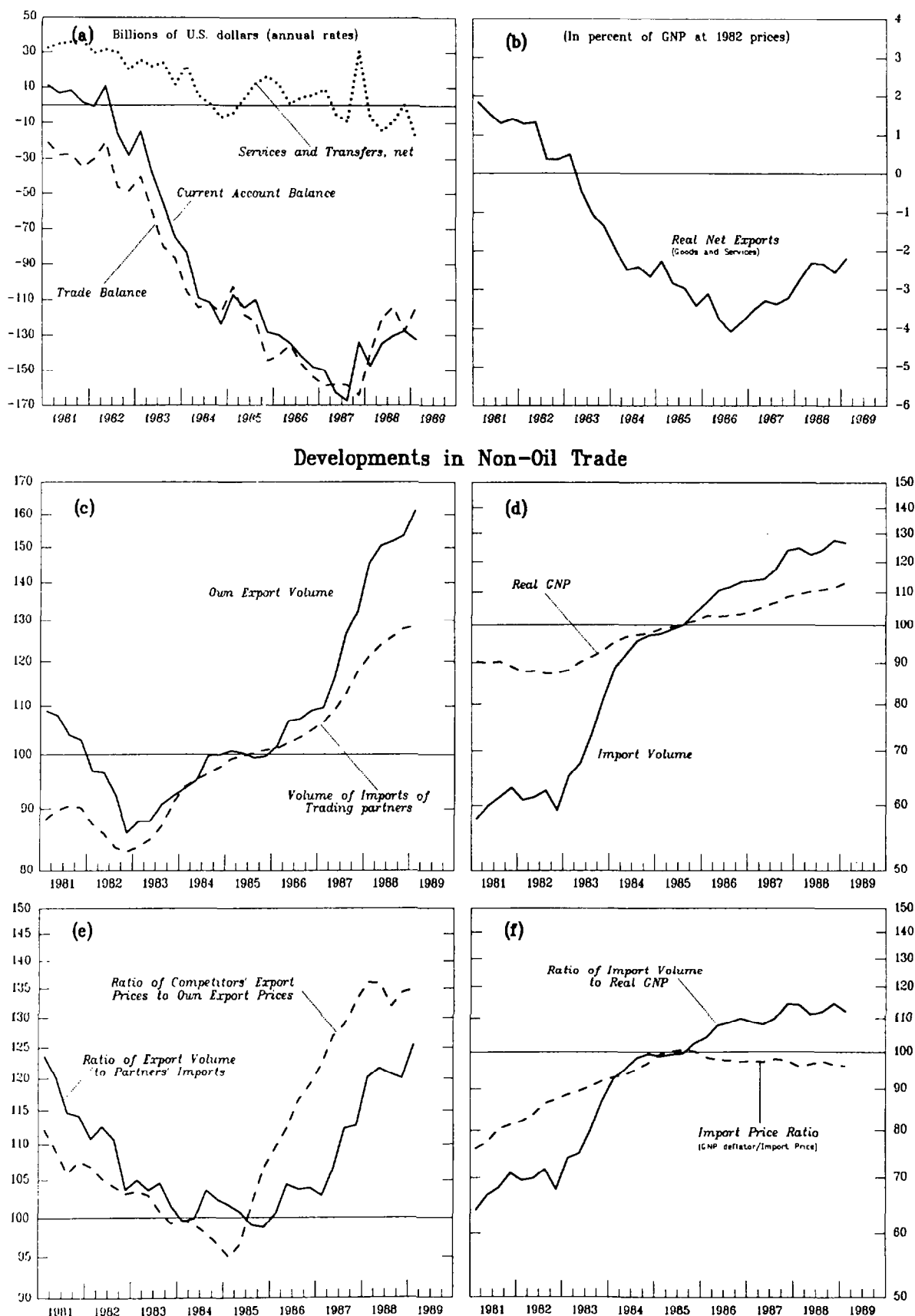
Chart 7. Bilateral Exchange Rates and Interest Differentials vis-a-vis  
U.S. Dollar, January 1985 to April 1989<sup>1/</sup>



<sup>1/</sup> Interest differentials shown are U.S. minus domestic interest rates, in percent per annum. Exchange rates are drawn on logarithmic scales. Data are monthly averages.



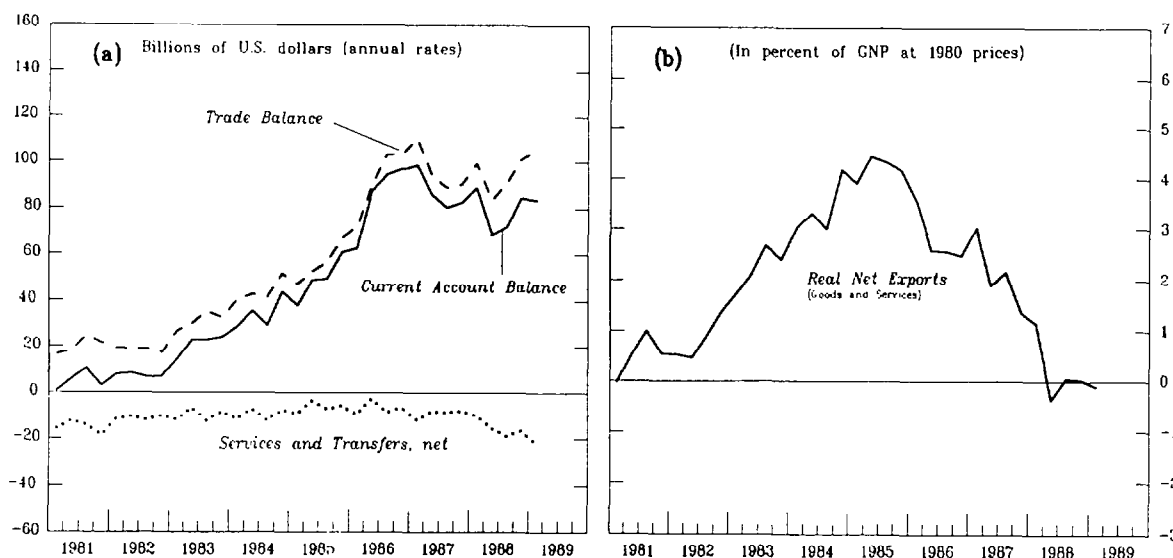
**Chart 8. United States: Current Account and Trade Developments**  
(Indices 1985 = 100, except where noted)



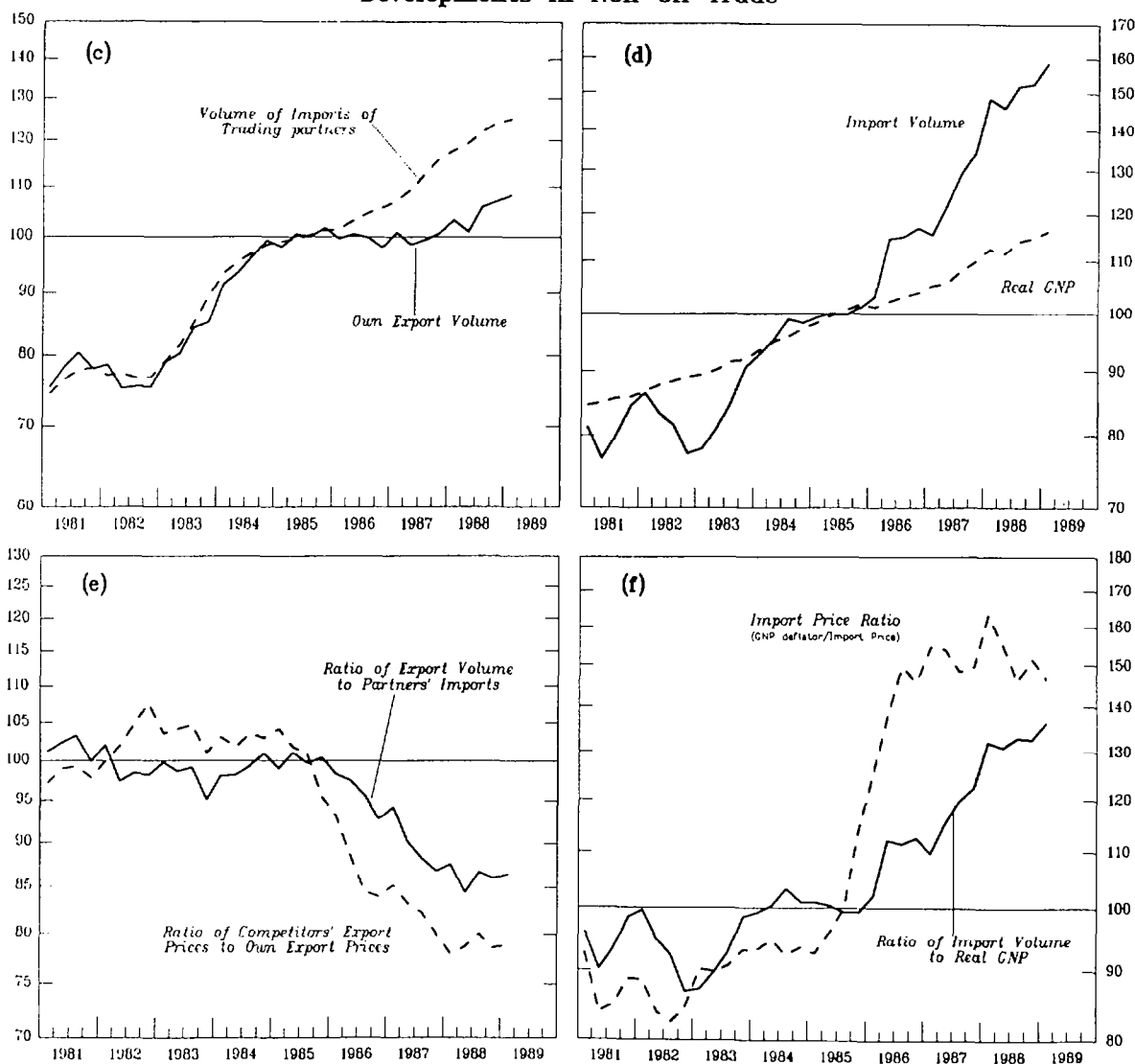


# Chart 9. Japan: Current Account and Trade Developments

(Indices 1985 = 100, except where noted)

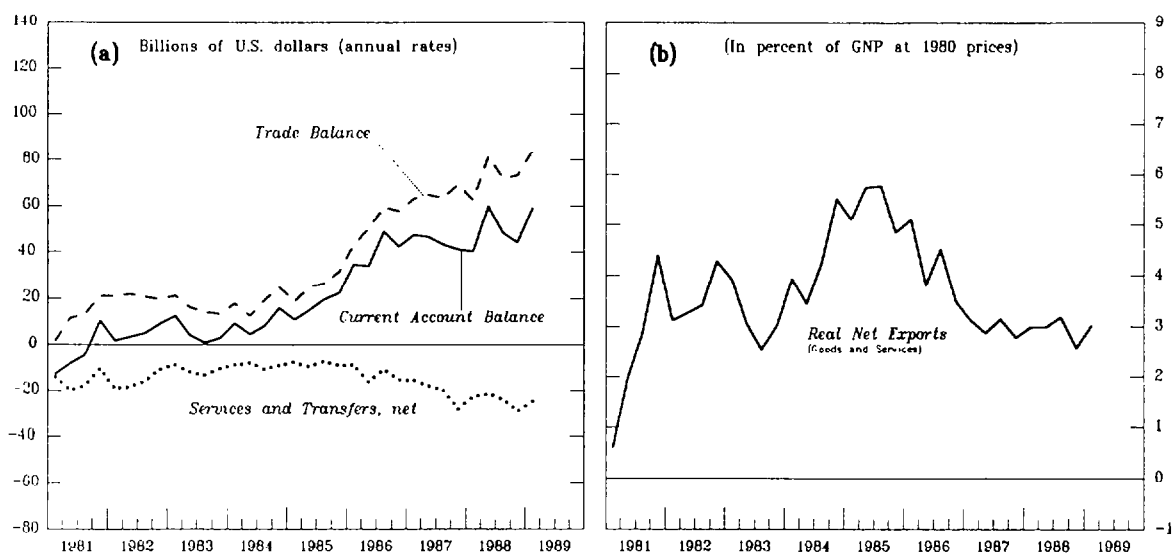


## Developments in Non-Oil Trade

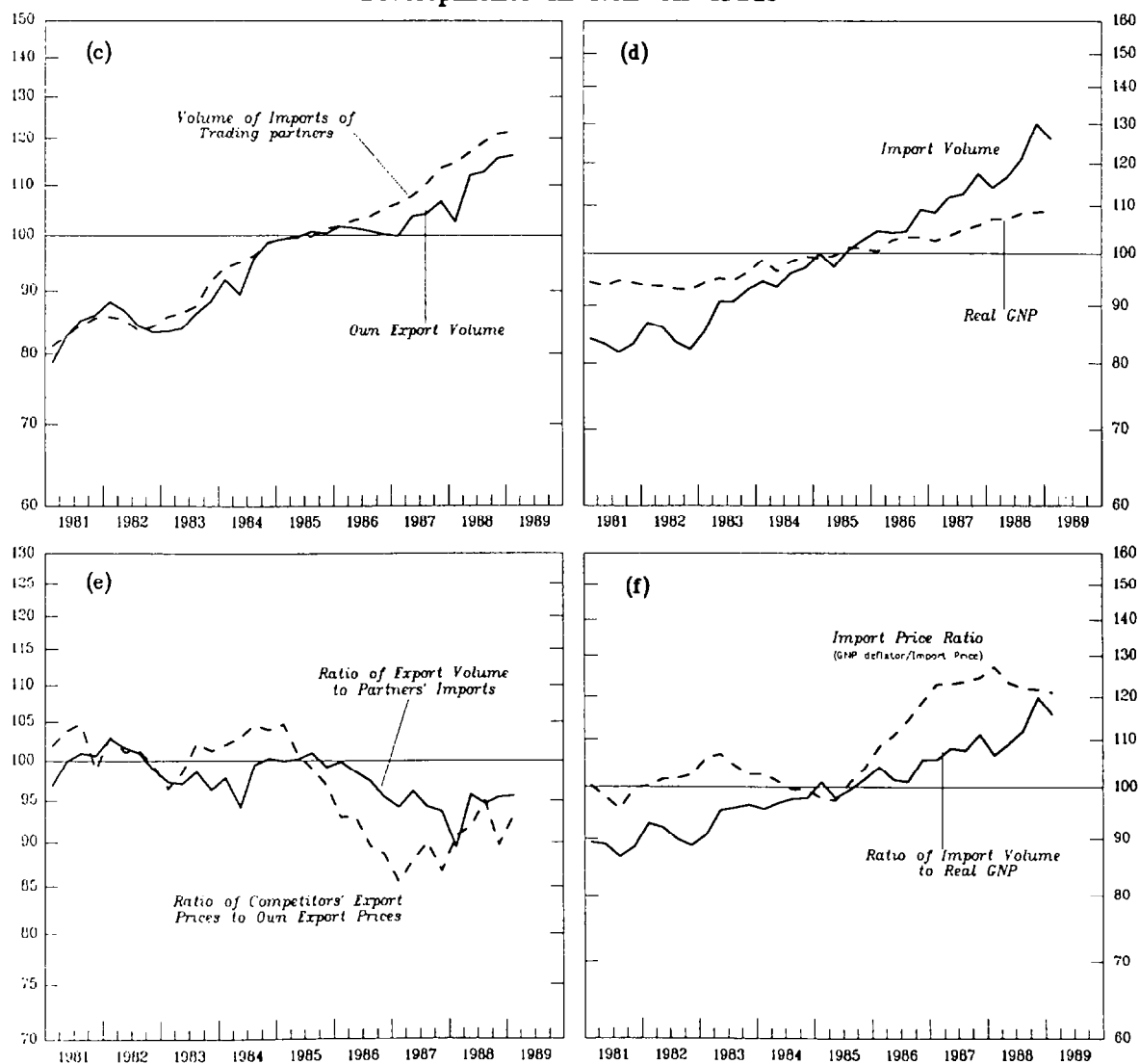




**Chart 10. Germany, Fed. Rep.: Current Account and Trade Developments**  
(Indices 1985 = 100, except where noted)

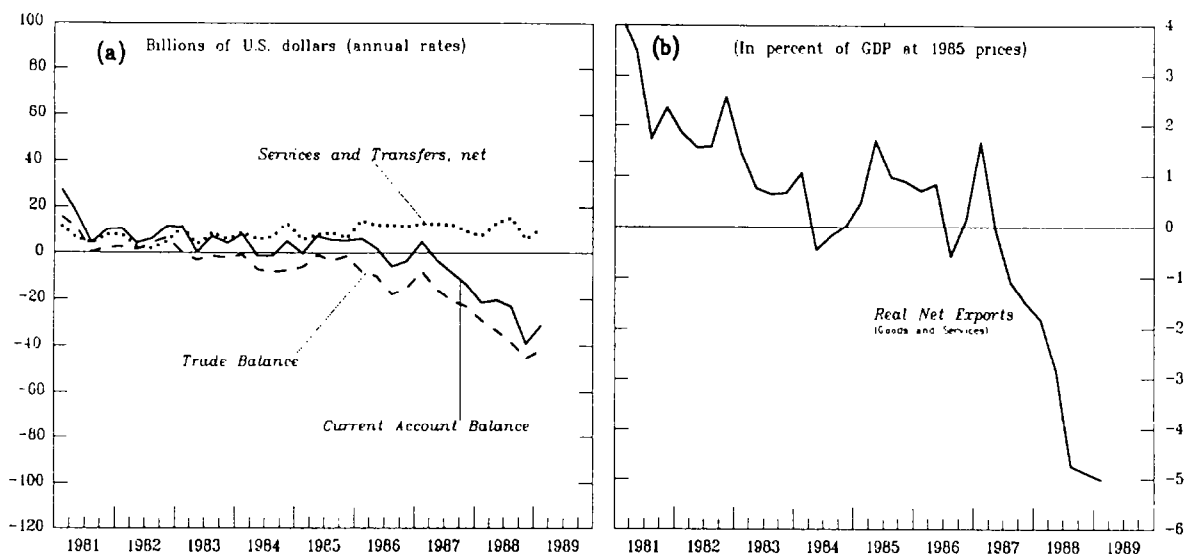


**Developments in Non-Oil Trade**

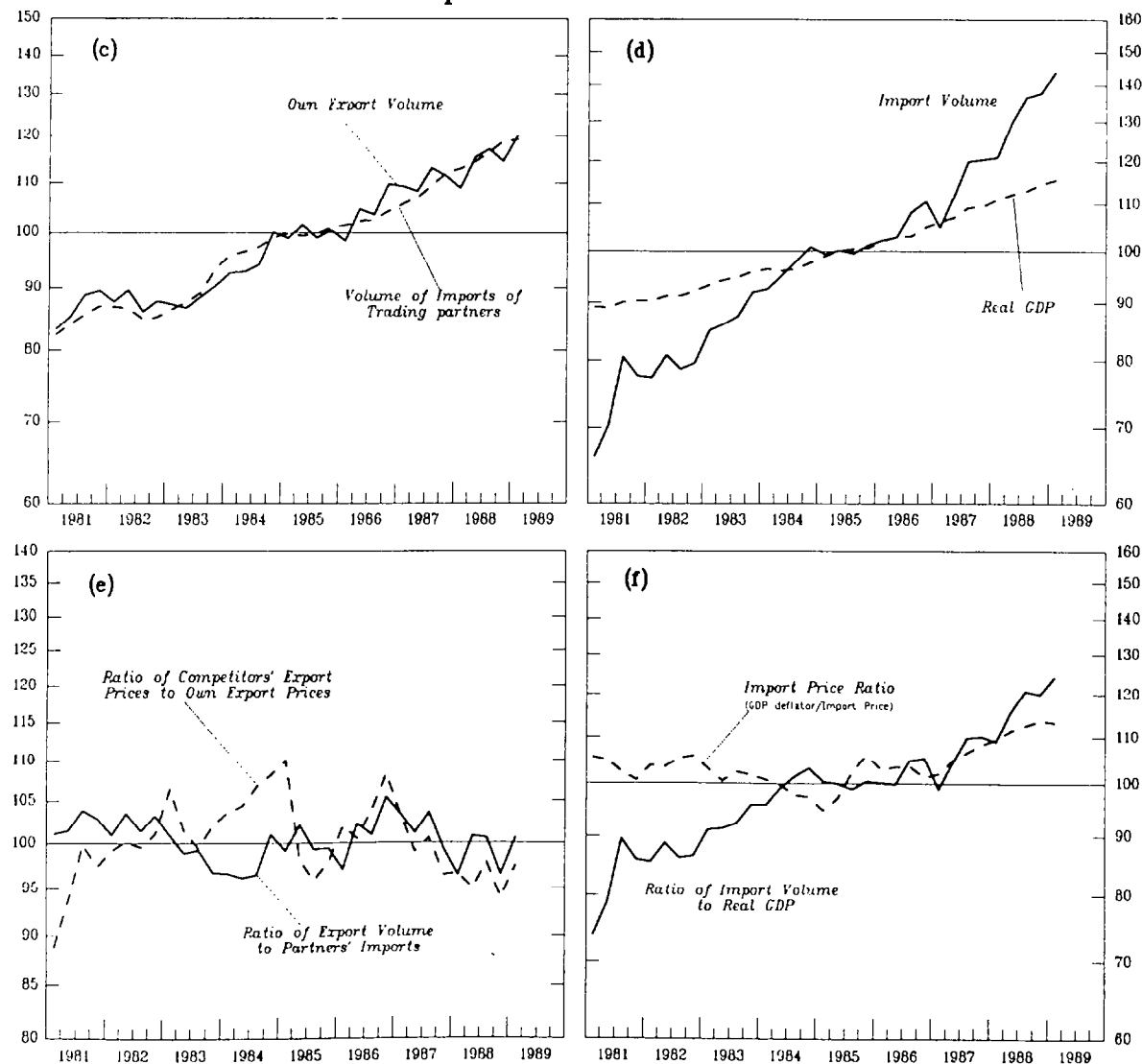




**Chart 11. United Kingdom: Current Account and Trade Developments**  
(Indices 1985 = 100, except where noted)



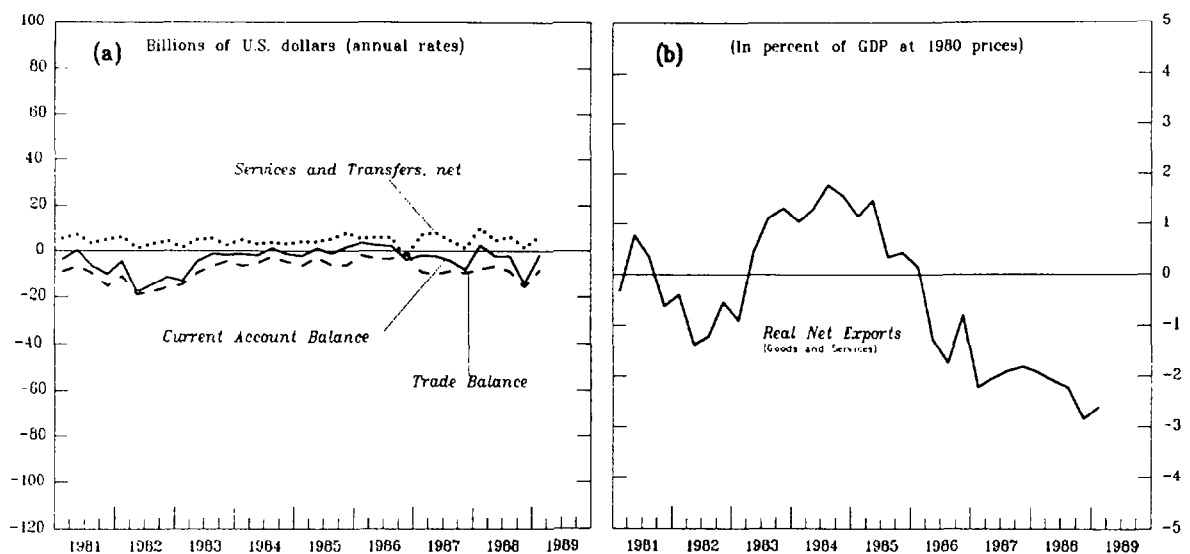
**Developments in Non-Oil Trade**



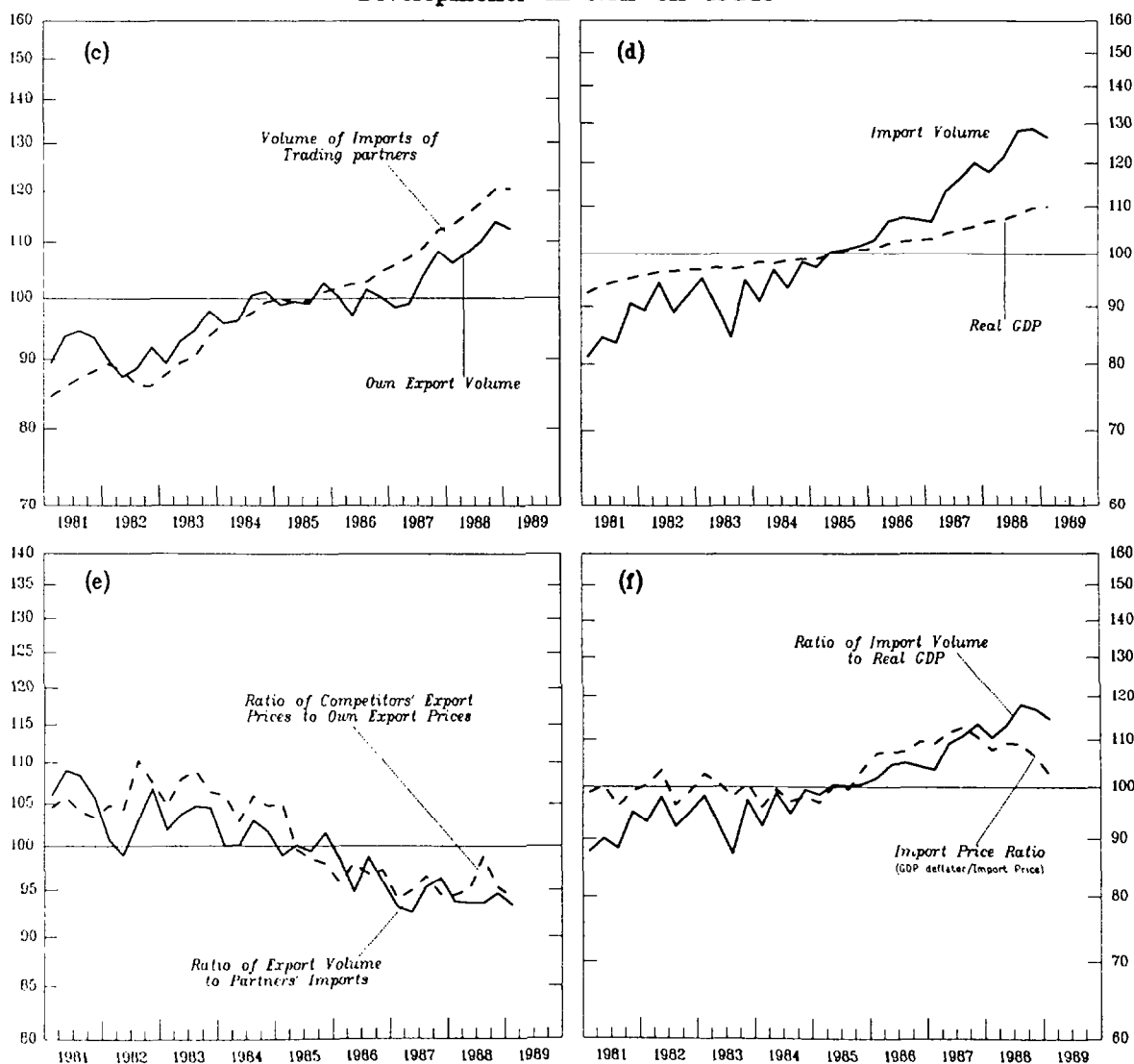


# Chart 12. France: Current Account and Trade Developments

(Indices 1985 = 100, except where noted)



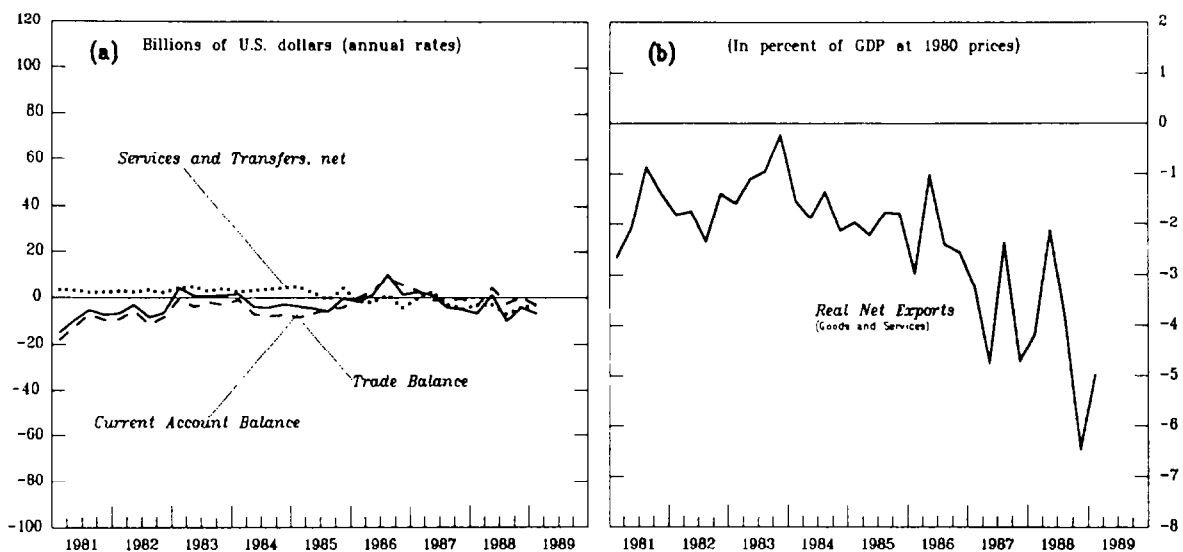
## Developments in Non-Oil Trade



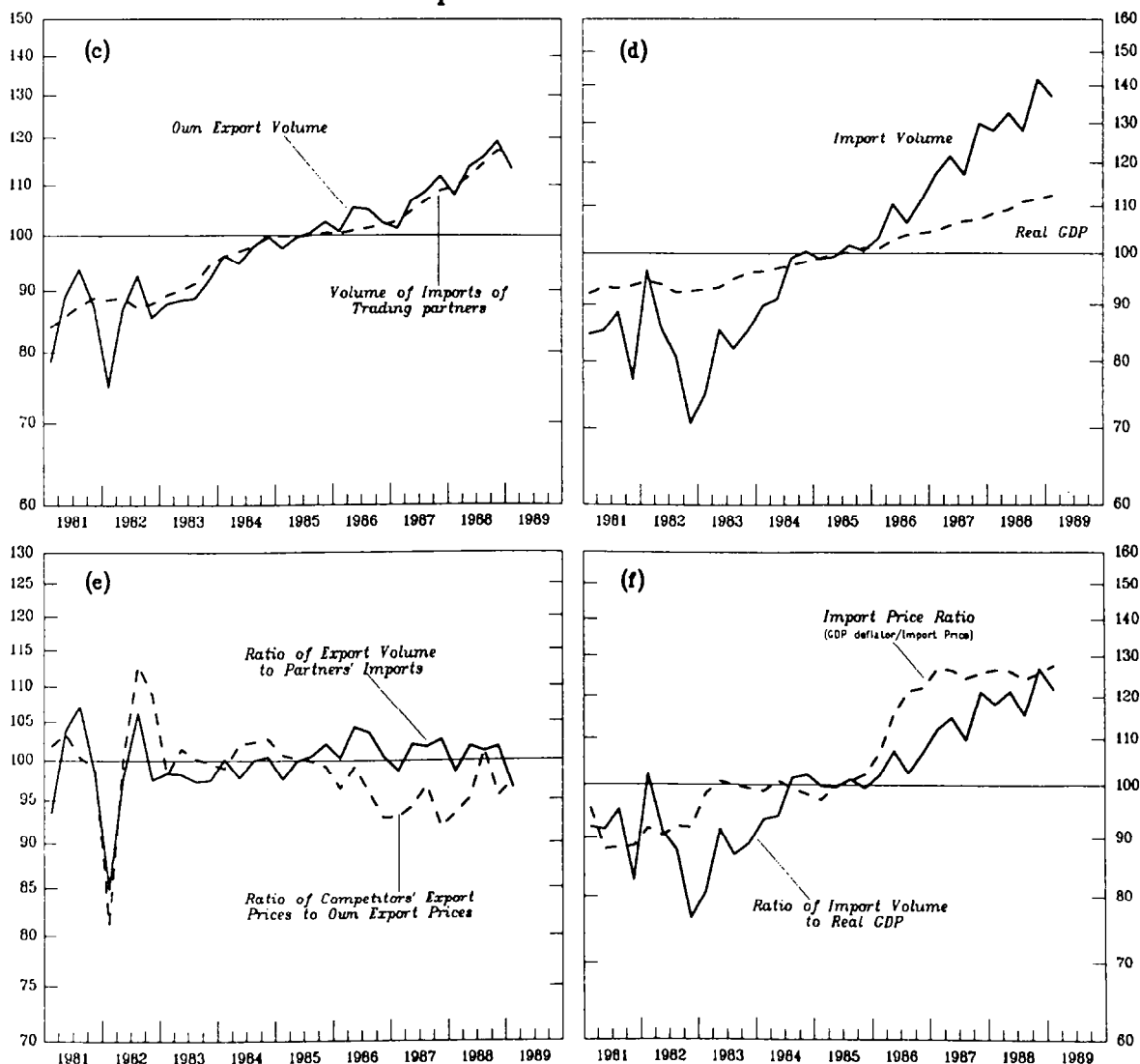


# Chart 13. Italy: Current Account and Trade Developments

(Indices 1985 = 100, except where noted)

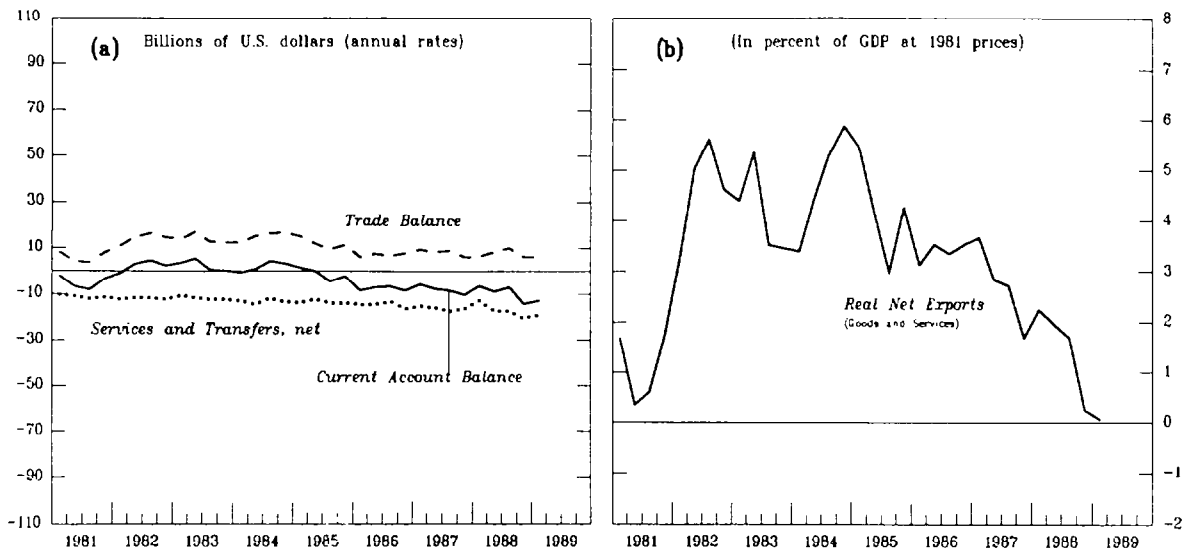


## Developments in Non-Oil Trade





**Chart 14. Canada: Current Account and Trade Developments**  
(Indices 1985 = 100, except where noted)



**Developments in Non-Oil Trade**

