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EBS/88/21

CONFIDENTIAL

February 4, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Jordan - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Jordan dinar.

Mr. Bélanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

JORDAN

Real Effective Exchange Rate - Information Notice

Prepared by the Middle Eastern Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by A.S. Shaalan and S. Kanesa-Thasan

February 3, 1988

The recent evolution of Jordan's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of November 1987, the Jordan dinar has depreciated in real effective terms by 11.2 percent since the last occasion on which the Executive Board had the opportunity to discuss developments in Jordan's exchange rate, the 1986 Article IV consultation in October 1986. 1/

Since mid-1985, the thrust of exchange rate policy in Jordan has been to encourage economic diversification and enhance external competitiveness. The real effective depreciation of the Jordan dinar during the period October 1986-November 1987 reflects a weakening of the dinar against the currencies of Jordan's major trading partners as well as a slower rise in Jordan's consumer prices. Although since early 1975 the Jordan dinar has been pegged formally to the SDR at the rate of JD 1 = SDR 2.5790 within margins of 2.25 percent, the exchange rate has been allowed to move within a wider band over the past two years. This has acted to limit the extent of appreciation of the dinar vis-à-vis the U.S. dollar, the intervention currency. During the period under review, the SDR appreciated by 11.4 percent against the U.S. dollar, compared with an appreciation of 1.9 percent for the Jordan dinar vis-à-vis the U.S. dollar. Over the same period, consumer prices in Jordan relative to those in its major trading partners declined by 3.4 percent.

The overall balance of payments recorded a surplus of US\$53 million in 1986, reflecting almost entirely the decline in petroleum import payments due to lower prices. No information is available on developments in 1987, except that, during the first 11 months of 1987, gross official reserves declined by US\$134 million to US\$304 million, or the equivalent of about one month's imports of goods and services in 1986.

1/ The Acting Chairman's summing up circulated as SUR/86/112 (10/27/86).

Staff Appraisal

The recent depreciation of the dinar in real effective terms is consistent with the authorities' efforts to foster economic diversification and facilitate external adjustment. This general view was endorsed by Executive Directors in concluding the 1986 Article IV consultation with Jordan.

Recent developments in the real effective exchange rate and their implications for the economy will be reviewed during the forthcoming Article IV consultation discussions with the Jordanian authorities which are scheduled for March 1988.

Table 1. Jordan: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	103.9	105.6	98.4	86.6	115.7	116.9
II	105.7	107.6	98.2	85.6	117.6	116.9
III	107.9	109.5	98.5	83.5	120.3	118.7
IV	109.9	110.6	99.4	82.8	123.0	124.3
1983						
I	107.4	111.5	96.3	84.0	120.9	121.9
II	108.5	113.2	95.8	82.8	122.1	121.4
III	108.3	115.5	93.8	81.1	121.6	120.2
IV	107.3	116.8	91.9	80.7	121.2	122.5
1984						
I	108.4	117.6	92.1	80.0	123.5	124.3
II	109.4	117.8	92.8	79.3	126.2	125.3
III	111.2	120.8	92.0	76.8	126.9	125.5
IV	110.7	121.1	91.4	74.4	128.0	129.6
1985						
I	112.6	124.1	90.7	72.4	128.9	129.4
II	110.2	122.7	89.8	73.9	129.6	128.7
III	109.1	121.7	89.7	76.6	130.8	129.7
IV	105.6	119.9	88.1	79.7	130.3	131.9
1986						
I	103.2	118.6	87.1	82.9	130.1	130.4
II	101.9	117.7	86.5	84.9	129.6	128.7
III	99.6	115.6	86.2	86.6	129.8	128.8
IV	98.3	114.6	85.8	86.5	130.2	131.9
1987						
I	93.5	111.2	84.1	88.1	128.9	129.2
II	92.1	110.3	83.5	89.0	130.0	129.1
III	90.5	109.1	82.9	86.5	130.9	129.8
Monthly						
1986						
Oct. <u>3/</u>	98.7	114.9	85.8	87.1	129.9	131.1
Nov.	99.2	114.9	86.4	86.1	131.0	131.9
Dec.	97.0	113.9	85.2	86.1	129.8	132.7
1987						
Jan.	94.7	112.2	84.4	88.3	128.8	129.8
Feb.	93.0	110.7	84.0	87.8	128.8	129.0
Mar.	92.9	110.6	84.0	88.0	129.2	128.7
Apr.	93.0	110.8	83.9	89.5	129.9	129.7
May	92.3	110.4	83.6	89.8	130.2	129.7
Jun.	91.1	109.6	83.1	87.7	130.1	128.0
Jul.	89.8	108.6	82.6	85.7	129.9	127.7
Aug.	91.5	110.0	83.2	86.7	131.3	130.0
Sep.	90.2	108.6	83.0	87.1	131.5	131.8
Oct.	89.6	108.0	82.9	86.9	131.9	
Nov.	87.6	105.7	82.9	88.8	132.3	
Percentage change						
Oct. 1986- Nov. 1987	-11.2	-8.0	-3.4	1.9	1.8	

Source: Information Notice System.

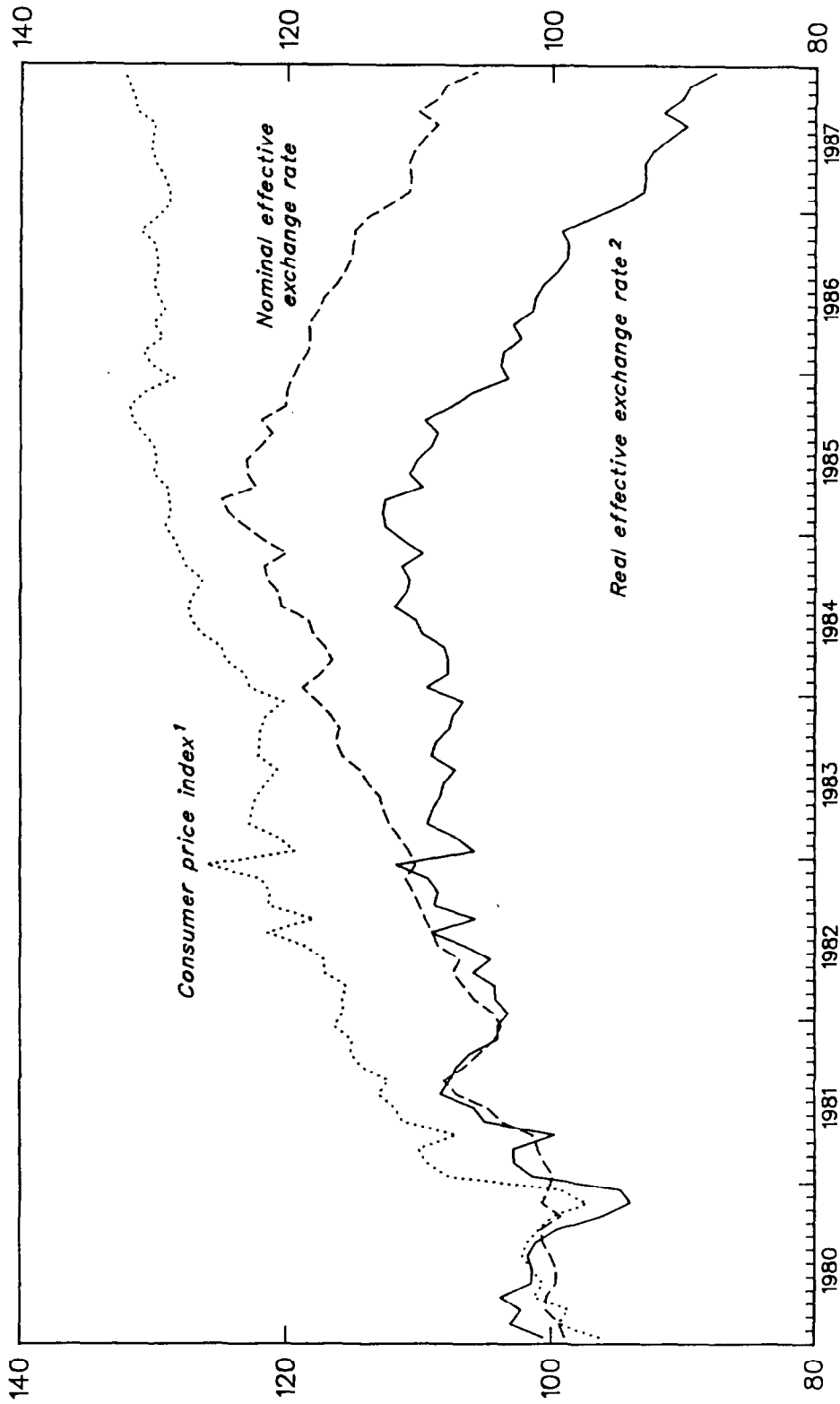
1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.



CHART
JORDAN
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980=100)



Source: Information Notice System.

¹ Seasonally adjusted.

² Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, increases mean appreciation.

