

EBS/88/31

CONFIDENTIAL

February 16, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Kuwait - 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 Kuwaiti dinar.

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

Att: (1)

INTERNATIONAL MONETARY FUND

KUWAIT

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 12, 1988

The recent evolution of Kuwait'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. This index shows that, as of November 1987, the Kuwaiti dinar had depreciated in real effective terms by more than 10 percent since the last occasion on which Kuwait's exchange rate developments were discussed by the Executive Board--the Article IV consultation (EBM/86/96) on June 13, 1986. The real effective depreciation is estimated to have amounted to 12.2 percent.

Exchange rate policy and developments in Kuwait during the past few years are described in the recently issued staff report for the 1987 Article IV consultation. ^{1/} As noted in the staff report, following a 9 percent appreciation against the U.S. dollar from April 1985 to May 1987, the dinar has since moved fairly narrowly vis-à-vis the dollar. ^{2/} Renewed downward pressures on the U.S. dollar after October have accordingly been reflected in a further depreciation of the dinar in real effective terms, resuming the trend apparent since early 1985.

The staff's assessment, presented in the report for the Article IV consultation, is that the depreciation of the dinar in real effective terms since early 1985 is appropriate, particularly as it could encourage non-oil exports and provides scope for relaxing the system of tariff and nontariff protection in support of the authorities' intentions to enhance the efficiency of the non-oil sector. The Board discussion concluding the Article IV consultation with Kuwait is expected to be held in March 1988.

^{1/} SM/88/17 (1/14/88).

^{2/} The exchange rate of the Kuwaiti dinar is determined on the basis of an undisclosed basket of currencies which takes account of Kuwait's trade and financial relations with other countries. The intervention currency is the U.S. dollar, which is thought to have a substantial weight in the basket.

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

(Indices: 1980 = 100)

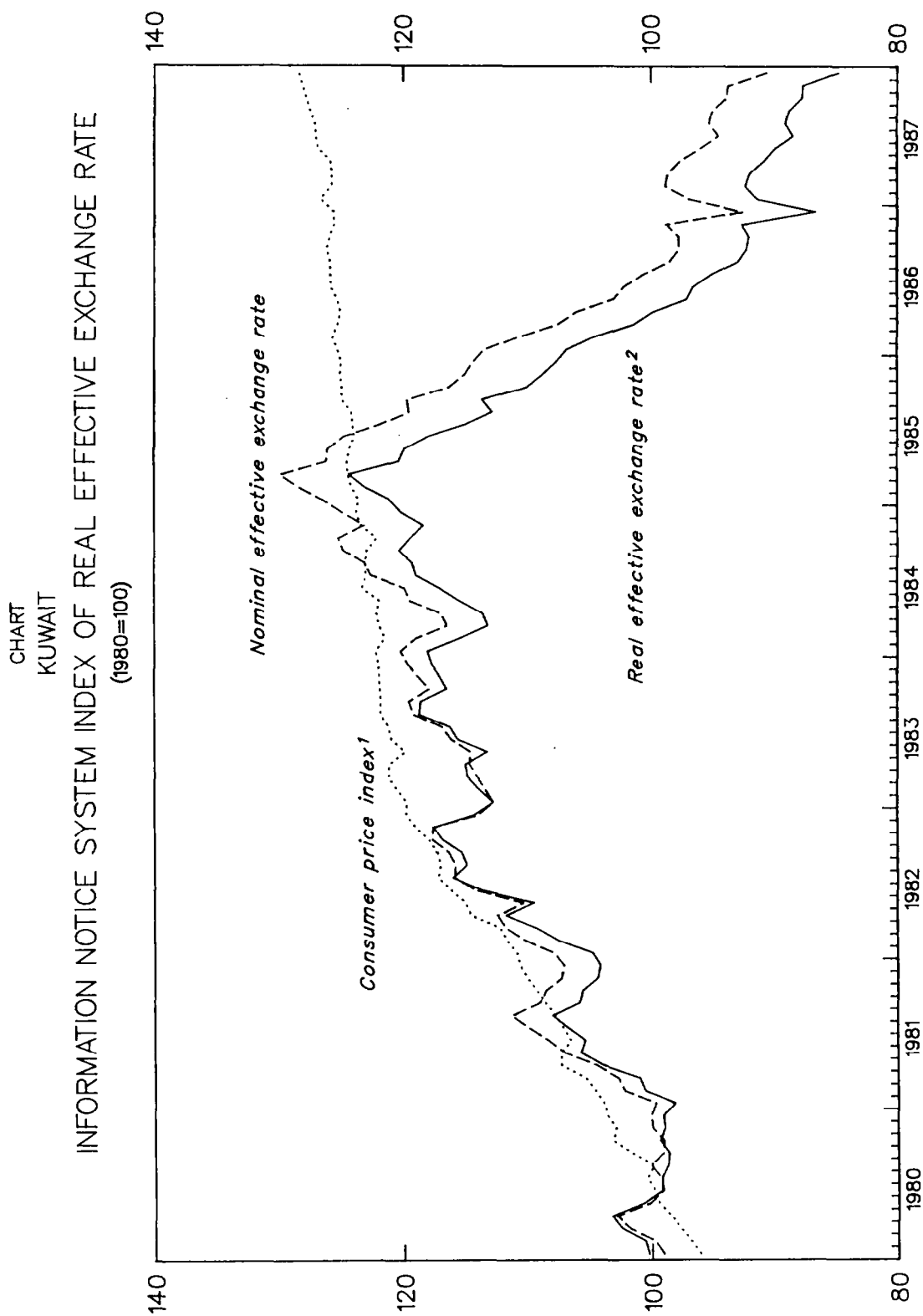
	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	107.2	109.9	97.5	95.1	111.6	111.8
II	111.6	112.3	99.4	94.3	115.2	115.5
III	115.4	116.0	99.5	93.5	117.2	116.9
IV	116.2	116.4	99.9	92.7	118.9	118.7
1983						
I	113.8	113.4	100.4	93.0	120.5	120.6
II	114.6	115.1	99.6	92.7	120.7	120.9
III	117.9	118.5	99.4	92.6	121.6	121.4
IV	117.1	118.8	98.6	92.7	121.9	121.8
1984						
I	115.6	118.6	97.5	92.3	121.9	122.0
II	115.4	118.8	97.1	92.2	122.5	122.6
III	119.5	123.5	96.8	91.2	123.0	122.8
IV	119.3	124.4	95.9	89.6	123.1	123.0
1985						
I	122.9	128.3	95.8	88.3	124.1	124.3
II	119.4	125.6	95.0	89.4	124.3	124.4
III	113.8	120.3	94.6	89.5	124.4	124.3
IV	108.8	115.2	94.4	92.5	125.0	124.8
1986						
I	104.2	110.6	94.3	94.3	125.4	125.7
II	97.8	103.7	94.3	92.8	125.4	125.6
III	93.4	98.9	94.4	92.9	126.0	125.8
IV	90.4	96.4	93.9	90.5	125.7	125.5
1987						
I	91.9	98.1	93.7	96.7	126.1	126.3
II	89.7	96.0	93.4	98.2	126.6	126.7
III	88.5	94.7	93.5	95.7	127.5	
Monthly						
1986						
June <u>3/</u>	96.5	102.2	94.5	91.8	125.9	126.1
July	95.1	100.6	94.5	93.1	125.9	125.5
Aug.	92.9	98.5	94.4	93.0	125.9	125.5
Sep.	92.2	97.7	94.4	92.5	126.2	126.6
Oct.	92.0	97.7	94.2	92.5	125.9	125.8
Nov.	92.7	98.8	93.8	92.0	125.6	124.8
Dec.	86.6	92.6	93.6	86.9	125.6	125.8
1987						
Jan.	91.4	96.9	94.3	94.7	126.7	126.9
Feb.	92.4	98.8	93.5	97.4	125.7	125.9
Mar.	92.0	98.6	93.3	97.9	125.7	126.1
Apr.	90.8	97.6	93.0	99.5	125.8	126.3
May	89.9	96.0	93.7	99.1	126.9	126.5
June	88.4	94.5	93.6	96.2	127.0	127.2
July	89.1	95.3	93.5	95.3	127.1	126.6
Aug.	88.8	95.0	93.4	95.4	127.5	127.0
Sep.	87.8	93.9	93.5	96.3	127.8	
Oct.	87.7	93.7	93.5	96.4	128.1	
Nov.	84.8	90.6	93.6	97.5	128.4	
Percentage change						
June 1986- Nov. 1987	-12.2	-11.3	-1.0	6.2	2.0	

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.



Source: Information Notice System.
¹Seasonally adjusted.
²Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, increases mean appreciation.

