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EBS/87/55

CONFIDENTIAL

March 9, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Burma - 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 Burmese kyat.

Mr. Belanger (ext. 8671) or Mr. Sheehy (ext. 8672) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

BURMA

Real Effective Exchange Rate - Information Notice

Prepared by the Asian Department and the Exchange
and Trade Relations Department

(In consultation with the Legal Department
and Research Department)

Approved by P.R. Narvekar and Eduard Brau

March 9, 1987

The recent evolution of Burma'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 December 1986, the Burmese kyat appreciated in real effective terms by 10.8 percent since the last occasion on which the Executive Board had an opportunity to discuss Burma's exchange rate policy--the 1986 Article IV consultation in June 1986. 1/ 2/ In nominal effective terms, the currency appreciated by 2 percent from June to December 1986.

The Burmese kyat is pegged to the SDR, and the rate has remained unchanged since May 1977. With the exception of a slight depreciation during the 12-month period ended in March 1986, the kyat has generally appreciated in real effective terms since January 1982. Over the course of 1982 through early 1985, the kyat appreciated by 15.6 percent in real effective terms. This was mainly owing to the strengthening of the SDR vis-a-vis the currencies of Burma's principal trading partners. In contrast, the appreciation of the kyat since June 1986 largely reflects the rise in the rate of inflation in Burma.

1/ Chairman's Summing Up circulated as SUR/86/49 (6/4/86).

2/ As described in the most recent quarterly report on "Indicators of Real Effective Exchange Rates" (EBS/86/278, 12/18/86), a new weighting scheme has been introduced for the calculation of nominal and real effective exchange rates involving, in particular, a more comprehensive representation of direct and third market competition for trade in manufactures and primary commodities. The new weights have not typically changed substantially the estimates of real effective exchange rates. In the case of the Burmese kyat, based on the weights used previously, the appreciation in real effective terms from June to December 1986 would have been 10.2 percent.

Reflecting the prevalence of extensive price controls in Burma, the underlying rate of inflation is significantly higher than the measured rate. Movements in the measured real effective exchange rate index thus understate accordingly the size of the real effective appreciation of the kyat.

Burma's external position has deteriorated sharply in recent years owing to the combined influences of adverse developments in the terms of trade, sluggish performance in export volumes, and a rapid rise in debt service obligations. Export receipts declined by a total of 19 percent during 1984/85-1985/86, 1/ largely reflecting a 14 percent decline in unit values. However, the current account deficit was restricted to around 4 percent of GDP through a sharp curtailment in imports and scaling down of investment. The overall balance recorded a cumulative deficit of SDR 100 million in these two years, mainly on account of rising repayments of external debt resulting from increased commercial borrowing during the late 1970s and the expiration of the grace period on some older concessional loans. Consequently, gross external reserves declined from SDR 110 million (equivalent to 2.3 months of imports) in 1983/84 to SDR 51 million (1 month of imports) in 1985/86. In order to arrest the rapid depletion of gross reserves recourse was made to commercial borrowing in 1985/86. Balance of payments pressures persisted in 1986/87 owing to a further deterioration in the terms of trade.

Staff Appraisal

The real effective appreciation of the kyat since June 1986 reflects primarily the rise in the inflation rate in Burma. In view of the poor terms of trade outlook, increasing debt service burden, and the need to diversify the export base and reconstitute reserves to a safe level, the staff considers that a more flexible approach to exchange rate management is warranted. This view was stressed by Executive Directors during the last Article IV consultation. Burma's exchange rate policy will be discussed with the authorities in the context of the discussions for the next Article IV consultation which are scheduled for the second half of March 1987.

1/ The fiscal year ends March 31.

Table 1. Burma: 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	89.9	99.8	90.1	87.3	103.0	101.0
II	90.7	101.0	89.9	85.7	104.0	104.3
III	93.7	102.3	91.6	83.3	107.6	109.5
IV	93.1	103.4	90.1	82.6	107.1	107.1
1983						
I	91.7	101.5	90.3	83.6	108.3	106.2
II	93.1	103.2	90.2	82.8	109.5	109.8
III	98.1	104.6	93.9	81.3	115.3	117.2
IV	94.2	103.9	90.7	80.8	113.1	113.2
1984						
I	93.9	103.8	90.6	80.5	114.3	112.1
II	95.6	104.0	92.0	80.3	117.1	117.3
III	95.9	106.3	90.3	77.7	116.1	117.9
IV	99.8	107.9	92.5	76.4	120.3	120.8
1985						
I	103.9	111.8	93.0	74.9	122.5	120.0
II	103.5	110.9	93.3	76.3	124.7	124.8
III	102.2	110.1	92.9	78.8	125.3	127.1
IV	101.6	108.7	93.5	83.5	127.4	128.0
1986						
I	100.0	106.9	93.7	86.4	128.5	125.8
II	100.5	106.3	94.6	89.2	130.5	130.7
III	105.4	106.4	99.1	92.3	137.7	139.5
IV	111.2	108.0	103.0	92.5	144.5	145.3
Monthly						
1986						
June <u>3/</u>	101.2	106.3	95.3	89.3	131.7	133.6
July	104.0	106.3	97.9	91.2	135.5	138.1
Aug.	105.0	106.2	98.9	92.8	137.3	139.6
Sep.	107.3	106.8	100.5	92.9	140.2	141.0
Oct.	110.4	107.5	102.8	93.1	143.6	144.8
Nov.	110.9	108.1	102.6	91.9	144.1	145.5
Dec.	112.1	108.4	103.5	92.5	145.8	145.5
Percentage change						
June-Dec. 1986	10.8	2.0	8.7	3.7	10.6	

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

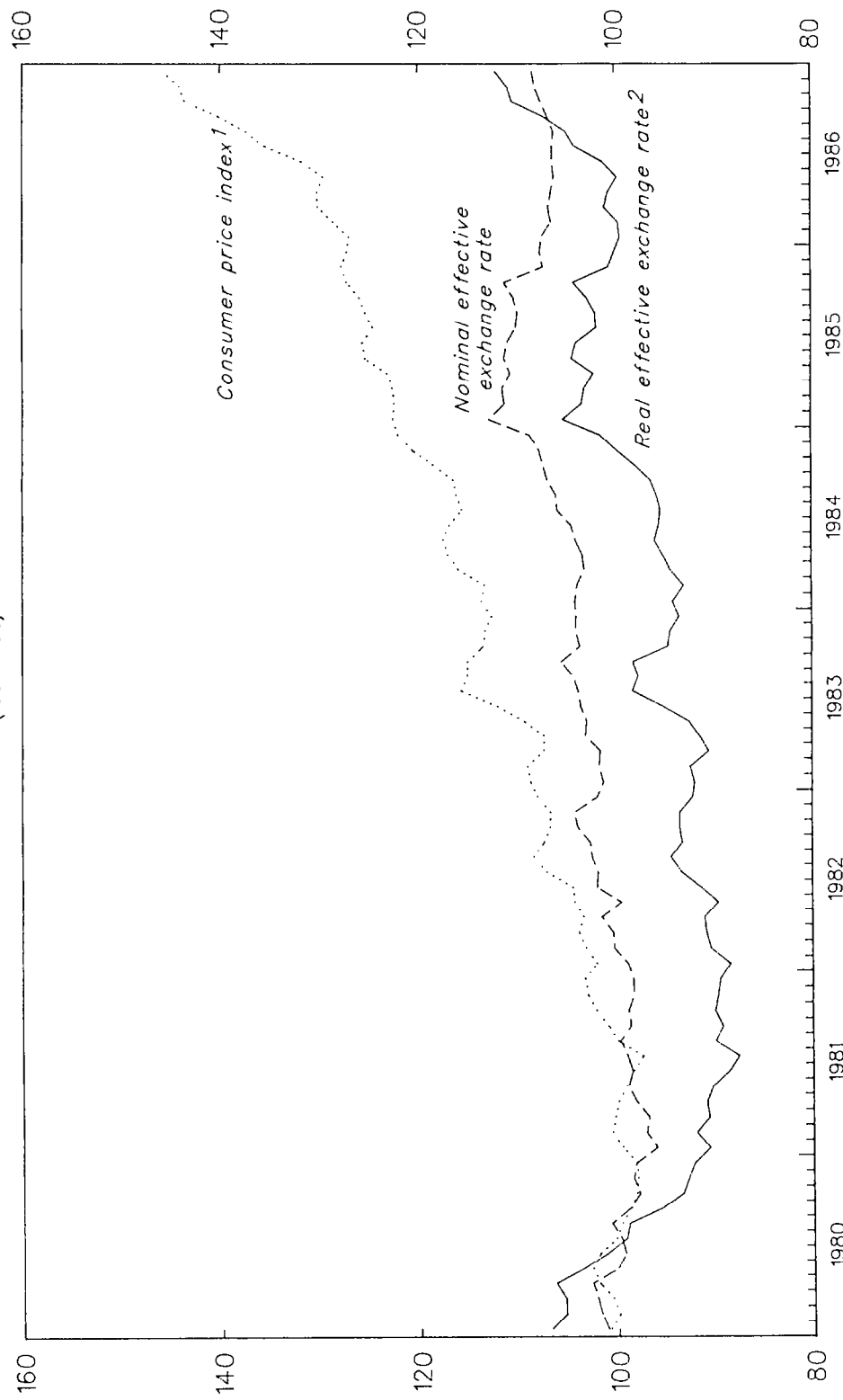
3/ Date of latest consideration by Executive Board.



CHART
BURMA

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.