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To: Members of the Executive Board

From: The Secretary

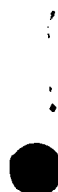
Subject: Poland - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on the recent devaluation of the Polish's zloty.

Mr. Prust (ext. 7884) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

POLAND

Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by L.A. Whittome and J.T. Boorman

February 9, 1987

In the attached communication as amended, the Polish authorities have notified the Fund of changes in the exchange rates for the Polish zloty that became effective on February 1, 1987. First, the value of the zloty was depreciated against the basket of currencies to which it is pegged for purposes of determining exchange rates against convertible currencies; in terms of the U.S. dollar, the exchange rate was changed from Zl 193.25 = US\$1 (rate effective at end-January, 1987) to Zl 240 = US\$1, which represents a depreciation of 19.5 percent. At the same time, the exchange rate for the transferable ruble (TR) was changed from Zl 95 = TR 1 to Zl 115 = TR 1, which represents a depreciation of the zloty of 17.4 percent. (All references to exchange rates are to the midpoint of the relevant buying and selling rates quoted by the National Bank of Poland for spot transactions).

Poland's balance of payments in convertible currencies continues to be weak and the country is able to meet only a relatively small part of its debt service obligations. It is estimated that in 1986 the current account deficit was broadly unchanged at US\$0.5-0.6 billion, equivalent to about 0.75 percent of GDP. The surplus on merchandise trade fell slightly to about US\$1.1 billion and there was little change in the volume of exports.

The change in the exchange rate against convertible currencies should be seen against this background and is in line with the authorities' policy of periodically adjusting the value of the zloty taking into account differences between rates of inflation in Poland and in its major trading partners and the objective of securing the profitability of the major share of exports. This policy has been implemented more actively in the recent past, with the present adjustment following a depreciation of a similar amount (19.4 percent) on September 1, 1986. Staff estimates suggest that between 1981--the year preceding the start of major price and exchange rate adjustments in Poland--and 1986, the cumulative increase in prices received by producers on the domestic market nonetheless exceeded that in prices

received by Polish exporters (in zloty terms) by almost 40 percent. 1/ The recent exchange rate adjustment, coming on top of that in September 1986, will reduce this disincentive to exports and represents a step in the direction recommended by the Executive Board on the occasion of the 1986 Article IV consultation with Poland. 2/ Even so, the profitability of exporting compared with that of producing for the domestic market will remain less than in the pre-1982 period--when, judging from the substantial disequilibrium at that time in the external current account, it may well have been unsatisfactory.

With respect to the currencies of Fund members which are also members of the Council for Mutual Economic Assistance, the implicit rate of exchange based on quotations in terms of transferable rubles typically differs from that based on quotations in terms of U.S. dollars. The resultant broken cross rates constitute a multiple currency practice. The extent of the discrepancies between cross rates has been little affected by the recent action, and Poland's exchange arrangements will be reviewed in detail in the next Article IV consultation report, scheduled for circulation this summer. In the meantime, no action by the Executive Board is proposed.

Attachment

1/ It should be noted that these estimates are on an annual average basis and that the exchange rates in effect after the September 1986 adjustment were more depreciated than the average exchange rate for the whole of 1986.

2/ At EBM/86/169, 10/15/86. Chairman's Summing Up circulated as SUR/86/106 (10/16/86).

INTERNATIONAL MONETARY FUND
WASHINGTON
ATTENTION EUROPEAN DEPARTMENT

MINISTRY OF FINANCE WOULD LIKE TO NOTIFY YOU THAT BEGINNING FROM
FEBRUARY 1, 1987 EXCHANGE RATES OF THE ZLOTY VIS-A-VIS U.S. DOLLAR AND
TRANSFERABLE ROUBLE (TR) HAVE BEEN CHANGED RESPECTIVELY FROM
ZLOTY 193.25 PER U.S. DOLLARS 1 TO ZLOTY 240 PER U.S. DOLLAR 1 AND FROM
ZLOTY 95 PER TR 1 TO ZLOTY 115 PER TR 1.

REGARDS

K. KROWACKI
ADVISOR TO THE MINISTER

Received in the Cable Room 2/1/87

