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November 17, 1987

To: Members of the Executive Board  
From: The Secretary  
Subject: Hungary - Exchange Arrangements

There is attached for the information of Executive Directors a paper on recent changes in the exchange arrangements of Hungary.

Mr. Somogyi (ext. 7188) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

HUNGARY

Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by Brian Rose and J.T. Boorman

November 17, 1987

In the attached communication from the National Bank of Hungary, the Fund was informed that effective November 11, 1987 the forint was devalued by 5 percent 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 depreciated by 4.3 percent from the preceding day.

Previously in 1987, the forint was devalued in terms of its basket by 7.4 percent on March 11. According to the standard used in the Fund's Information Notice system, in the 12 months to September 1987 the forint depreciated by 9.8 percent in trade weighted nominal effective terms and by 8.3 percent in real effective terms. These developments reflect in part the comparatively high weight assigned to the U.S. dollar in Hungary's exchange rate basket.

The devaluations in 1987 are consistent with the authorities' intention to seek to improve the trade performance vis-à-vis the convertible currency area. The exchange rate action of November 11, 1987 was accompanied by the decision to eliminate with effect from January 1, 1988 the producers' differential turnover tax rebate to exporters, the rate of which had been lowered from 6 percent to 3 percent in March 1987. At the same time, the authorities decided to refrain from implementing earlier considered increases of certain fees levied on imports. In the view of the staff, the recent decisions on the exchange rate and exchange arrangements represent moves in the right direction, in line with recommendations made to the authorities during the Article IV consultation discussions conducted in Budapest during October 13-28, 1987. An assessment of exchange rate policy will be covered in the forthcoming Staff Report for the 1987 Article IV consultation. No action by the Executive Board is proposed at this time.

Attachment

NOVEMBER 10, 1987

FROM: NATIONAL BANK OF HUNGARY  
TO: MR. PATRICK DE FONTENAY  
DEPUTY DIRECTOR  
IMF EUROPEAN DEPARTMENT

ON BEHALF OF THE HUNGARIAN AUTHORITIES, I HAVE THE HONOUR TO INFORM YOU ABOUT THE FOLLOWING MODIFICATIONS IN THE HUNGARIAN EXCHANGE ARRANGEMENTS.

EFFECTIVE 11 NOVEMBER 1987 THE HUNGARIAN FORINT IS DEPRECIATED BY 5 PERCENT AGAINST THE AVERAGE OF A BASKET OF TEN CONVERTIBLE CURRENCIES. THE MIDDLE RATE AGAINST THE U.S. DOLLAR FOR THAT DATE IS HUF 47.4584 PER 1 U.S. DOLLAR (45.4036 ON 10 NOVEMBER 1987). THE DEPRECIATION WILL NOT AFFECT THE METHOD BY WHICH THE EXCHANGE RATE OF THE FORINT IS CALCULATED.

IN CONNECTION WITH THIS MODIFICATION, THE REFUND BY THE STATE BUDGET OF THE PRODUCERS DIFFERENTIAL TURNOVER TAX WILL BE TERMINATED FROM 1 JANUARY 1988. CUSTOMS AND IMPORT LICENSING FEES WILL REMAIN AT THEIR CURRENT LEVEL.

BEST REGARDS  
ISTVAN RACZ  
GENERAL MANAGER  
NATIONAL BANK OF HUNGARY  
BUDAPEST

Received in the Cable Room on November 10, 1987.