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CONFIDENTIAL

January 17, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Pakistan - 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 Pakistan rupee.

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

Att: (1)

INTERNATIONAL MONETARY FUND

PAKISTAN /

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 J.T. Boorman

January 17, 1986

The recent evolution of Pakistan'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 October 1985 the Pakistan rupee has depreciated in real effective terms by 14 percent since the last occasion on which the Executive Board had an opportunity to discuss Pakistan's exchange rate policy--the 1984 Article IV consultation in February 1985. ^{1/} It is estimated that 4.2 percentage points of this real effective depreciation occurred during the month of October 1985. In nominal effective terms, the currency depreciated by 12 percent from February to October 1985.

Since January 1982 the exchange rate for the Pakistan rupee has been determined through a managed floating system generally guided by currency baskets. Over the course of 1982 and early 1983, the rupee depreciated considerably in real effective terms. Subsequently through early 1985, partly reflecting the relatively large weight of the U.S. dollar in the baskets and the strength of the U.S. dollar against other major currencies, the rupee appreciated significantly in real effective terms in some periods. Since early 1985 the weakening of the U.S. dollar in combination with limited change in the rupee-U.S. dollar exchange rate has been reflected in the real depreciation of the rupee.

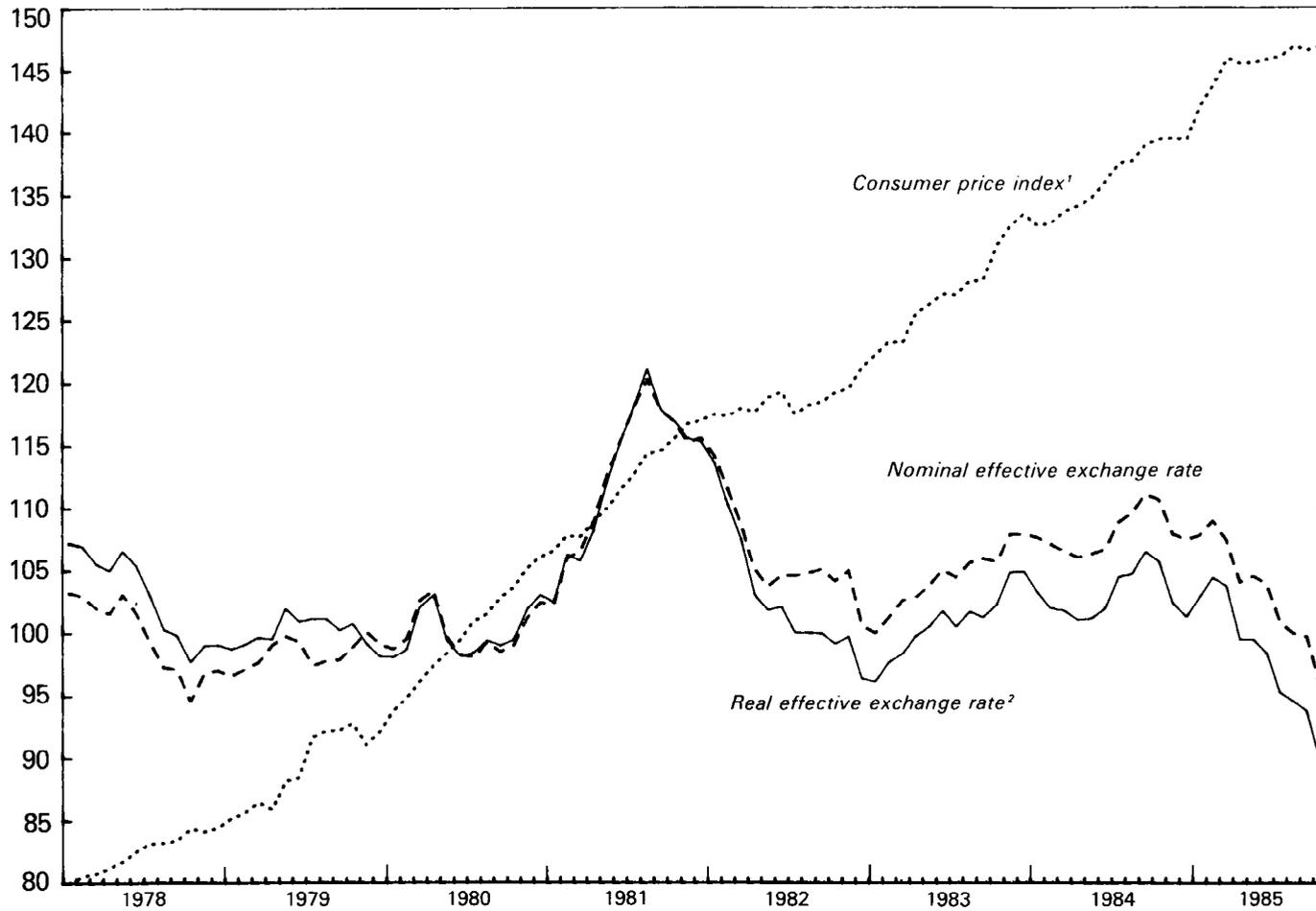
Pakistan's external payments position has come under strain in recent years as the current account deficit widened from the equivalent of 1.8 percent of GNP in 1982/83 (fiscal year beginning July 1) to more than 5 percent in 1984/85. Gross official reserves fell by more than US\$1 billion (or 60 percent) in 1984/85 to the equivalent of five weeks of imports. Despite certain favorable developments early in the current fiscal year, including recoveries of cotton and cotton-based exports and certain remittances, a further overall balance of payments deficit was

^{1/} Chairman's Summing-Up circulated as SUR/85/23 (3/5/85).

recorded during July-October 1985/86. External reserves continued to fall during the first several weeks of 1985/86 but have since risen, bolstered by short-term capital inflows.

Article IV consultation discussions were recently held in Pakistan. The staff report for the consultation, which is expected to be circulated to the Board in February 1986, will include a detailed review and assessment of recent developments and domestic and external policies, including exchange rate policy.

CHART 1
 PAKISTAN
 REAL EFFECTIVE EXCHANGE RATE AND RELATED SERIES
 (1980 = 100)



Source: Information Notice System.

¹Seasonally adjusted.

²Trade weighted index of nominal effective exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation.



Table 1. Pakistan: 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						
1981						
Q1	104.8	104.9	99.9	100.0	107.3	106.3
Q2	111.7	112.1	99.6	100.0	110.0	108.6
Q3	118.9	118.6	100.3	100.0	113.8	115.5
Q4	115.8	115.8	100.0	100.0	116.3	117.1
1982						
Q1	110.4	111.4	99.1	92.9	117.5	116.4
Q2	102.2	104.4	97.9	84.3	118.5	117.1
Q3	99.9	104.7	95.4	80.7	118.0	119.6
Q4	98.4	103.2	95.4	77.6	120.0	120.8
1983						
Q1	97.3	101.2	96.2	76.9	122.9	121.8
Q2	100.6	103.8	96.9	76.3	126.2	124.9
Q3	101.1	105.3	96.0	74.2	127.7	129.3
Q4	104.0	107.1	97.1	74.3	132.3	133.3
1984						
Q1	102.3	107.1	95.5	73.4	132.9	131.8
Q2	101.3	106.4	95.3	72.0	134.9	133.5
Q3	105.2	109.8	95.8	70.1	138.1	139.7
Q4	103.1	108.7	94.9	66.9	139.5	140.6
1985						
Q1	103.7	108.1	95.9	62.9	144.0	142.8
Q2	99.1	104.1	95.1	62.0	145.7	144.2
Q3	94.5	100.1	94.4	61.8	146.5	148.1
Monthly						
1985						
Feb. <u>3/</u>	104.4	108.9	95.8	63.0	143.8	142.6
Mar.	103.7	107.4	96.6	61.7	146.0	144.6
Apr.	99.4	104.0	95.6	62.1	145.5	144.9
May	99.4	104.5	95.1	62.0	145.7	143.6
June	98.3	103.8	94.7	62.0	145.9	143.9
July	95.2	100.8	94.5	61.9	146.1	147.4
Aug.	94.5	99.9	94.6	62.3	146.9	148.3
Sept.	93.7	99.6	94.1	61.4	146.6	148.5
Oct.	89.8	95.7	93.8	61.7	146.9	148.9
Percentage						
Feb. 1985-						
Sept. 1985	-14.0	-12.1	-2.1	-2.0	2.2	

Source: Information Notice System.

1/ Increases mean appreciation.2/ Using seasonally adjusted price indices.3/ Date of latest consideration by Executive Board.