

EBS/86/90

CONFIDENTIAL

April 23, 1986

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

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

Att: (1)

INTERNATIONAL MONETARY FUND

INDIA

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 the Research Department)

Approved by P. R. Narvekar and Eduard Brau

April 22, 1986

The recent evolution of India'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 February 1986 the Indian rupee had depreciated in real effective terms by more than 10 percent since the last occasion on which India's exchange rate developments were brought to the attention of the Executive Board--the Article IV consultation in February 1985. The depreciation is estimated to have amounted to 11.0 percent.

Exchange rate policy and developments in India during the past few years are described in the recently issued staff report for the 1986 Article IV consultation (SM/86/54, 3/16/86, and Supplement 1) and the report on recent economic developments (SM/86/56, 3/14/86).

The value of the rupee is determined in relation to a trade-weighted basket of currencies. The real effective exchange rate of the rupee was relatively stable from the end of 1981 through mid-1985, as a small and gradual appreciation from end-1981 through end-1983 was subsequently reversed by the end of 1984. After strengthening marginally during the first part of 1985, the rupee has depreciated steadily in real effective terms from July 1985 onward, reflecting mainly the broadly unchanged value of the rupee against the weakening U.S. dollar over this period. As a result, the nominal effective rate depreciated by 9.7 percent during the year ended February 1986. As there was also a slight improvement in India's relative price position, the real effective depreciation during this period amounted to 11.0 percent.

Discussion by the Executive Board to conclude the 1986 Article IV consultation with India is scheduled for April 28, 1986.

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

(Indices: 1980 = 100)

	Peal 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						
II	105.9	103.9	101.9	93.5	112.6	112.0
III	102.1	102.6	99.6	87.5	113.1	115.6
IV	96.6	98.8	97.8	86.1	113.9	113.6
1982						
I	97.4	101.3	96.1	85.5	114.1	112.5
II	96.2	102.7	93.7	84.0	113.6	113.0
III	97.2	104.4	93.1	82.1	115.4	117.9
IV	97.8	105.4	92.8	81.0	116.8	116.5
1983						
I	96.5	103.3	93.4	79.5	119.3	117.7
II	99.5	104.9	94.8	78.5	123.3	122.7
III	100.6	107.3	93.8	77.5	124.6	127.2
IV	101.4	107.0	94.8	75.9	128.8	128.5
1984						
I	99.6	104.8	95.1	73.4	132.0	130.2
II	97.9	103.9	94.2	71.7	133.1	132.5
III	98.3	104.1	94.4	68.0	135.8	138.6
IV	96.5	103.0	93.7	64.8	137.6	137.3
1985						
I	95.5	103.0	92.8	61.3	139.1	137.2
II	96.5	103.4	93.3	62.9	143.0	142.3
III	95.1	103.6	91.9	65.2	142.7	145.6
IV	90.6	99.0	91.5	65.1	144.6	144.2
Monthly						
1985						
Feb. <u>3/</u>	95.0	102.7	92.5	60.8	138.6	136.7
March	95.6	103.1	92.7	60.7	140.2	137.9
April	96.7	103.3	93.6	63.0	142.6	140.6
May	96.7	103.4	93.6	62.7	143.3	142.4
June	95.9	103.4	92.8	63.0	143.0	144.0
July	96.2	104.2	92.3	65.3	142.8	146.1
Aug.	95.1	103.6	91.8	65.7	142.7	146.4
Sep.	94.1	103.0	91.4	64.6	142.6	144.3
Oct.	92.3	100.7	91.7	65.6	143.8	144.9
Nov.	90.2	98.7	91.3	65.0	144.3	143.9
Dec.	89.3	97.6	91.5	64.6	145.6	143.9
1986						
Jan.	87.6	96.2	91.1	64.1	145.6	144.0
Feb.	84.5	92.7	91.2	63.1	146.3	144.2
Percentage change						
Feb. 1985- Feb. 1986	-11.0	-9.7	-1.4	3.9	5.5	

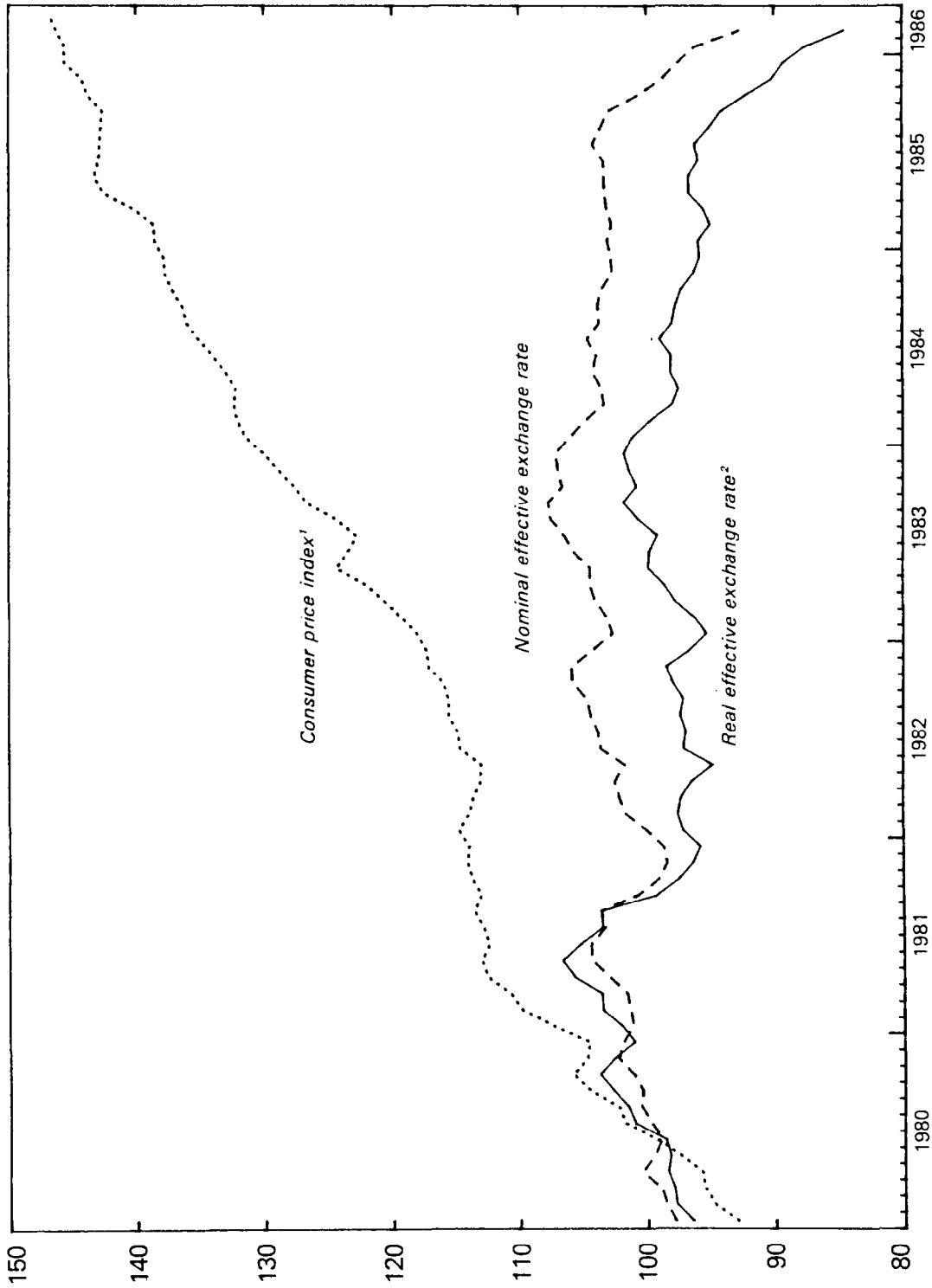
Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.

CHART
INDIA
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



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