

EBS/86/94

CONFIDENTIAL

April 28, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Thailand - 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 Thai baht.

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

Att: (1)

INFORMATION NOTICE SYSTEM

THAILAND

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 25, 1986

Recent movements in the real effective value of the Thai baht, as measured by the standard index developed in connection with the information notice system, are set out in the attached table and chart. Based on this index, the baht had depreciated by February 1986 by more than 10 percent since the last occasion on which the Executive Board discussed Thailand's exchange rate policy--the Article IV consultation and request for stand-by arrangement in June 1985. The depreciation is estimated to have amounted to 10.7 percent during this period.

Following an 8.7 percent devaluation on July 15, 1981, the baht remained pegged to the U.S. dollar until November 1984. Reflecting the appreciation of the U.S. dollar against other major currencies, the nominal effective exchange rate rose by about 24 percent between the last quarter of 1981 and the third quarter of 1984. As price performance in Thailand was substantially better than its trading partners, the real effective exchange rate appreciated by about 13 percent during this period. On November 5, 1984 the baht was devalued by 14.8 percent, and at the same time, the authorities announced that the value of the baht would be determined on the basis of a weighted basket of currencies of major trading partners as well as other considerations. Despite some further depreciation against the U.S. dollar, the baht appreciated in real effective terms by 2 percent in the first three months after the devaluation.

After February 1985, the baht strengthened steadily against the weakening U.S. dollar, reaching a peak in November 1985. In early December 1985, faced with speculative capital outflows, which were induced by market perceptions that the baht had appreciated excessively relative to the U.S. dollar, the authorities devalued the baht by 2 percent and announced that the weight of the U.S. dollar in the basket would be increased. In real effective terms, the baht has depreciated continuously from February 1985, but the rate of depreciation accelerated with the sharp fall in the value of the U.S. dollar after September 1985. Over the year to February 1986, the baht depreciated by 12.5 percent in real effective terms.

Notwithstanding the beneficial effects of the November 1984 devaluation, export receipts fell by about 3½ percent in 1985 because of weak export markets and a drop in commodity prices. The weakness in external demand and the associated plunge in private investment led to a deceleration of output growth to 4 percent, well below Thailand's historical performance. Sluggish domestic demand and falling commodity prices kept domestic inflation below 3 percent. Despite the large export shortfall, the current account deficit of the balance of payments declined from 5 percent of GDP in 1984 to 4 percent of GDP in 1985 because of a sharp contraction of imports. Debt reached the equivalent of 45 percent of GDP in 1985, and the debt service ratio jumped from 24 percent in 1984 to more than 27 percent, reflecting both a bunching of repayments and the decline in exports.

Staff Appraisal

In order to reduce the debt service burden over the medium term, further improvements in the current account of the balance of payments are necessary over the next few years. The depreciation of the baht during 1985 and so far in 1986 has provided the necessary incentives for exports and import substituting activities and has helped contain import growth. Exchange rate policy has therefore reinforced other policies designed to bring about an improvement in the external position.

Discussions with the authorities for the 1986 Article IV consultation were completed during March 1986. Recent developments in Thailand's exchange rate and its exchange rate policy will be examined in more detail in the staff report on the discussions, which is in preparation. Executive Board consideration of the staff report is expected to take place in June 1986.

Table 1. Thailand: 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						
II	109.3	106.2	102.9	98.0	112.0	112.5
III	104.4	102.2	102.1	90.2	113.7	113.8
IV	100.5	98.2	102.4	89.0	116.3	116.3
1982						
I	103.5	101.3	102.1	89.0	117.7	117.2
II	104.9	104.3	100.7	89.0	117.8	118.3
III	107.9	108.5	99.5	89.0	118.6	118.6
IV	109.9	110.4	99.5	89.0	120.2	120.3
1983						
I	106.3	107.6	98.8	89.0	120.5	119.9
II	109.0	110.2	98.9	89.0	122.2	122.6
III	112.8	113.8	99.1	89.0	124.3	124.3
IV	112.2	114.5	97.9	89.0	125.0	125.2
1984						
I	110.1	115.1	95.7	89.0	124.2	123.6
II	109.5	115.9	94.5	89.0	124.2	124.4
III	113.5	122.0	93.1	89.0	124.0	124.1
IV	103.9	113.3	91.7	80.5	123.9	124.1
1985						
I	99.8	108.6	91.9	73.7	125.9	125.3
II	98.3	107.9	91.2	74.6	126.7	126.9
III	96.4	106.1	90.9	76.0	127.5	127.7
IV	91.9	101.6	90.4	77.4	128.2	128.4
Monthly						
1985						
June <u>3/</u>	98.1	107.8	91.0	74.8	127.0	127.3
July	97.0	106.7	90.9	75.9	127.3	127.2
Aug.	96.2	105.8	90.9	76.4	127.5	127.7
Sep.	96.0	105.7	90.9	75.7	127.8	128.2
Oct.	93.3	102.9	90.7	77.2	128.2	128.8
Nov.	92.2	102.1	90.2	78.1	127.9	128.3
Dec.	90.1	99.8	90.3	76.8	128.6	128.2
1986						
Jan.	89.4	98.9	90.4	76.8	129.0	128.0
Feb.	87.6	96.5	90.7	77.4	129.7	129.2
Percentage change						
June 1985- Feb. 1986	-10.7	-10.5	-0.3	3.5	2.1	

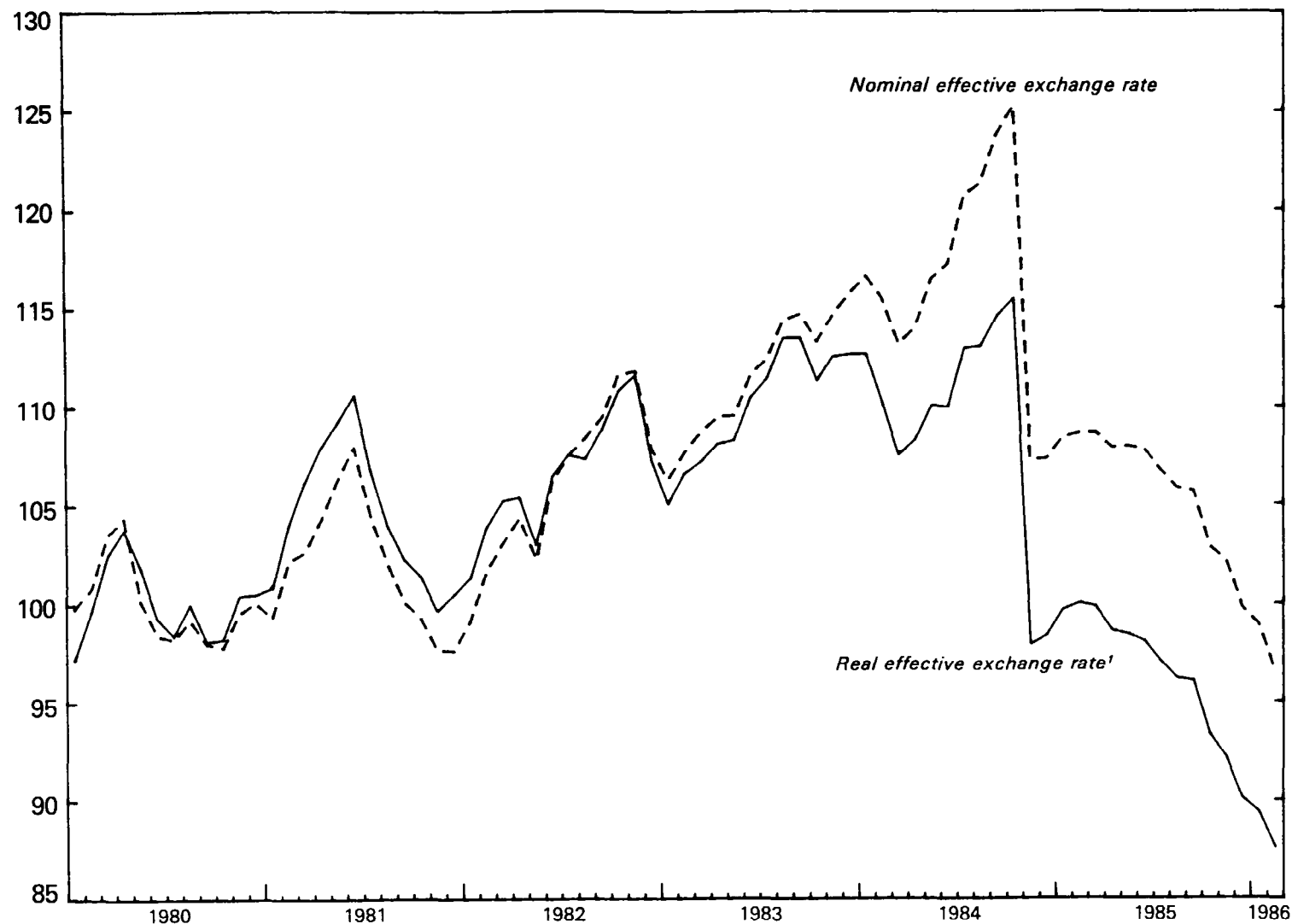
Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.

CHART
THAILAND
REAL AND NOMINAL EFFECTIVE EXCHANGE RATE
(1980=100)



Source: Information Notice System.

¹ Trade weighted index of nominal effective exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation.