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EBS/87/94

CONFIDENTIAL

April 30, 1987

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. Sheehy (ext. 8672) 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 and the Exchange and
Trade Relations Departments

(In consultation with the Legal and Research Departments)

Approved by Hubert Neiss and Eduard Brau

April 29, 1987

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 1987, the Indian rupee had depreciated in real effective terms by more than 10 percent since India's exchange rate developments were last discussed by the Executive Board in April 1986 at the time of the 1986 Article IV consultation. 1/

The value of the rupee is determined in relation to a trade-weighted basket of currencies. After remaining relatively stable from the end of 1981 through early 1985, the rupee has since depreciated by an estimated 23 percent in real effective terms, reflecting mainly the broadly unchanged value of the rupee vis-a-vis the weakening U.S. dollar. In the period between the last Executive Board discussion and February 1987, the nominal effective exchange rate depreciated by 12.9 percent. As there was a slight deterioration in India's relative price position during this period, the depreciation in real effective terms was 11.4 percent.

During the 1986 Article IV consultation discussion, Executive Directors considered that the medium-term outlook for the balance of payments remained difficult because of the projected continuation of weak export performance. They indicated that bold action was needed to stimulate exports, particularly through measures to strengthen external competitiveness and to improve export profitability relative to domestic sales. They stressed the desirability of maintaining a flexible exchange rate policy as a key element of the export promotion strategy and as a means of reinforcing trade liberalization measures.

1/ Chairman's summing-up circulated as SUR/86/38.

Preliminary information suggests that India's current account deficit narrowed to 1.6 percent of GDP in 1986/87 (fiscal year ended March 31), from over 2 percent of GDP in 1985/86. Exports recovered in volume terms from the depressed performance in the previous year, while imports were contained partly because of a substantial fall in petroleum prices. It is estimated that capital inflows were lower in 1986/87, in part because of smaller remittances from nonresident Indians, and that gross official reserves declined slightly to the equivalent of about five months of imports.

Exchange rate policy and developments will be discussed in detail with the authorities in the context of the next Article IV consultation mission which is scheduled for May 1987.

Table 1. India: Real Effective Exchange Rate and Related Series, 1982-87

(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						
1982						
I	99.8	103.3	96.7	85.5	114.1	112.5
II	98.9	105.0	94.2	84.0	113.6	113.0
III	100.4	107.0	93.8	82.1	115.4	117.9
IV	101.1	108.0	93.6	81.0	116.8	116.5
1983						
I	99.4	105.5	94.2	79.5	119.3	117.7
II	102.7	107.5	95.6	78.5	123.2	122.7
III	104.4	110.3	94.7	77.5	124.7	127.2
IV	105.2	109.8	95.9	75.9	128.9	128.5
1984						
I	103.8	107.6	96.5	73.4	132.0	130.2
II	101.8	106.6	95.5	71.7	132.9	132.5
III	102.9	107.1	96.1	68.0	135.9	138.6
IV	101.3	106.1	95.5	64.8	137.6	137.3
1985						
I	100.7	106.3	94.8	61.3	139.1	137.2
II	101.1	106.1	95.3	62.9	142.8	142.3
III	99.5	105.6	94.2	65.2	143.0	145.7
IV	94.0	100.3	93.8	65.1	144.6	144.3
1986						
I	88.6	94.5	93.8	63.7	146.6	144.6
II	85.7	90.3	94.8	62.9	148.9	148.5
III	82.9	87.0	95.3	62.4	150.5	153.3
IV	81.1	83.8	96.8	60.3	154.1	153.8
Monthly						
1986						
April <u>3/</u>	87.0	91.8	94.7	63.4	148.4	146.4
May	85.3	89.8	94.9	63.0	149.1	148.7
June	84.8	89.4	94.9	62.3	149.3	150.5
July	84.0	88.5	94.9	62.8	149.4	152.6
August	82.4	86.7	95.0	62.5	150.0	153.5
Sep.	82.4	85.7	96.1	61.9	152.2	153.9
Oct.	81.9	84.6	96.8	61.2	153.5	154.7
Nov.	81.3	84.0	96.8	60.1	154.0	153.7
Dec.	80.2	82.8	96.9	59.7	154.9	153.0
1987						
Jan.	78.0	80.7	96.7	60.3	154.9	153.0
Feb.	77.1	80.0	96.3	60.1	155.2	153.0
Percentage change						
April 1986- Feb. 1987	-11.4	-12.9	1.7	-5.1	4.6	4.5

Source: IMF, Information Notice System.

1/ Increase means appreciation.

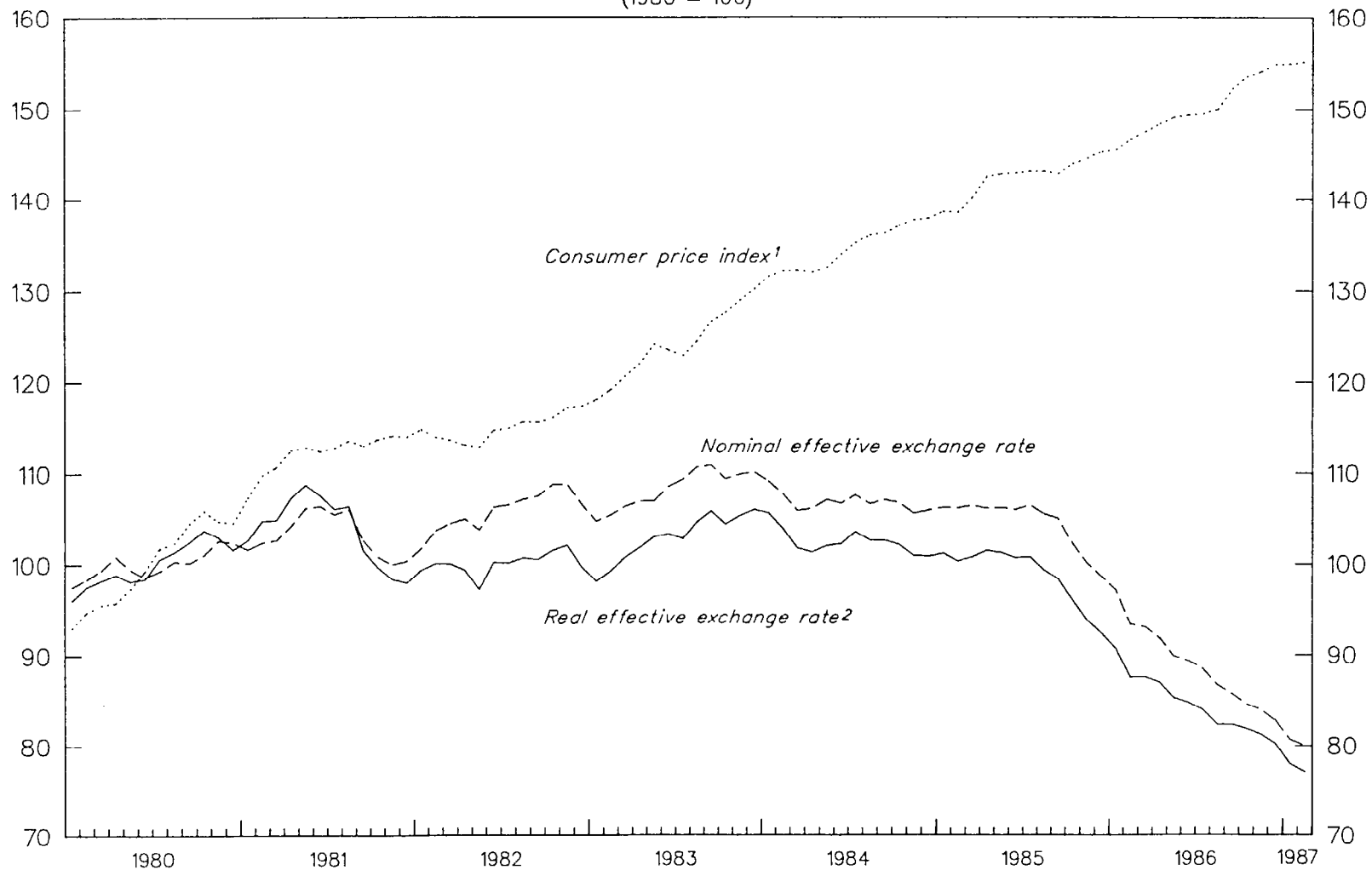
2/ Using seasonally adjusted price indices.

3/ Date of last consideration by the Executive Board.



CHART 1
INDIA

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



Source: Information Notice System.

¹ Seasonally adjusted.

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