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March 4, 1986

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

The Secretary has received the following communication dated February 24, 1986 from the Managing Director of the National Bank of Hungary:

Acting on behalf of the Hungarian authorities, I have the honor to inform you about a modification of the exchange arrangements applied by Hungary.

With effect January 24, 1986 a modification was introduced in the composition and the calculation principle of the basket of currencies on the basis of which the exchange rate of the Hungarian forint against convertible currencies (currencies other than those of the member countries of the Council for Mutual Economic Assistance, Albania and the Democratic People's Republic of Korea) is derived. The elements of the modification can be detailed as follows:

- the basic method of a weighted basket, which had been applied up to the above date, remained unchanged;
- weights attached to each of the currencies in the basket are calculated under the new system on the basis of the total currency composition of Hungary's exports and imports payments in convertible currencies;
- the basket consists of those ten convertible currencies, which have a more than 1 percent share out of the total composition of Hungary's exports and imports payments in convertible currencies: the Austrian schillings, deutsche mark, French francs, Italian lire, Japanese yen, Netherlands guilders, pounds sterling, Swedish kronor, Swiss francs, and U.S. dollars.

It is expected by the Hungarian authorities that in result of the modification of the currency basket the future movements in the forint exchange rate will reflect more closely the behavior in the international foreign exchange markets of the currencies of Hungary's major trading partners.

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