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EBD/86/72

March 14, 1986

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange rate of the Hungarian forint.

Mr. Somogyi (ext. 7188) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

HUNGARY

Exchange Arrangements

Prepared by the European Department  
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by L.A. Whittome and J.T. Boorman

March 13, 1986

In the attached communication dated March 5, 1986, the Hungarian authorities have notified the Fund that effective February 28, 1986, the exchange rate of the forint was devalued by 3 percent in terms of the basket to which it is pegged. The devaluation follows a modification to the basket of currencies used to manage the exchange rate (EBD/86/59, 3/4/86) whereby currencies in the basket are now assigned weights based on the total composition of Hungary's export and import payments in convertible currencies. Previously, only the currency composition of export receipts in convertible currencies was taken into account. This modification increased the number of currencies in the basket from nine to ten (the Japanese yen was added) and involved some decrease in the weight given to the U.S. dollar.

According to staff estimates, in the twelve months to January 1986 the forint depreciated by 5.0 percent in trade weighted nominal effective terms and by 8.3 percent in real effective terms, developments which reflect primarily the comparatively high weight assigned to the U.S. dollar in Hungary's exchange rate basket. The recent devaluation is consistent with the authorities' intention to seek to maintain the competitiveness of the Hungarian economy through periodic adjustments of the exchange rate with respect to the basket. The previous occasion on which the forint's parity was changed in terms of its basket was on June 26, 1984 when it was devalued by 5 percent (EBD/84/178, 6/29/84).

Attachment

ATTACHMENT

TO: INTERNATIONAL MONETARY FUND  
THE SECRETARY

FROM: GABOR VERTES  
SENIOR DEPUTY GENERAL MANAGER

ACTING ON BEHALF OF THE HUNGARIAN AUTHORITIES, I HAVE THE HONOUR TO INFORM YOU THAT THE NATIONAL BANK OF HUNGARY DEVALUED THE HUNGARIAN FORINT AGAINST THE WEIGHTED BASKET OF TEN CONVERTIBLE CURRENCIES BY THREE PER CENT, EFFECTIVE 28TH FEBRUARY 1986.

THE DEVALUATION DID NOT AFFECT THE METHODS AND PROCEDURES CURRENTLY FOLLOWED BY THE NATIONAL BANK OF HUNGARY TO CALCULATE THE EXCHANGE RATE OF THE FORINT AGAINST CONVERTIBLE CURRENCIES.

BEST REGARDS

GABOR VERTES  
SENIOR DEPUTY GENERAL MANAGER  
NATIONAL BANK OF HUNGARY  
BUDAPEST

Received in the Cable Room March 5, 1986.