

EBS/84/56

CONFIDENTIAL

March 15, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Real Effective Exchange Rate - Information Notice

The attached information notice on a change in the real effective exchange rate of the Bolivian peso is circulated for the information of the Executive Directors.

Att: (1)

INTERNATIONAL MONETARY FUND

BOLIVIA

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere and Exchange and
Trade Relations Departments

(In consultation with the Legal and Research Departments)

Approved by E. Wiesner and Manuel Guitián

March 14, 1984

The recent evolution of Bolivia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in Table 1 and the attached chart. Based on this index, as of January 1984 the Bolivian peso had appreciated in real effective terms by more than 10 percent since the last occasion on which Bolivia's exchange rate developments had been brought to the attention of the Executive Board--a notification in December 1983 of a change in exchange arrangements.^{1/} The real effective appreciation is estimated to have amounted to 12.6 percent.

A dual exchange market was formally established in March 1982, consisting of an official market, in which the exchange rate was to be changed periodically by the Central Bank, and a secondary market, in which the exchange rate was to fluctuate freely in response to changes in supply and demand conditions. In the course of the year, the intensification of domestic demand pressures caused the peso to depreciate rapidly in the secondary market, while the official market rate was kept unchanged at \$b 44 per U.S. dollar. Since 60 percent of exports and about 80 percent of imports were channeled through the secondary market, the composite exchange rate ^{2/} for trade transactions depreciated by 80 percent between March and November 1982, which was more than enough to offset the effects on the real effective rate of the high rate of inflation prevailing in Bolivia during that period.

In November 1982, the official exchange rate was devalued to \$b 196 per U.S. dollar (buying), close to the level of the secondary market rate at that time, and the secondary market could no longer be used for legal exchange transactions. With inflation continuing at a very high rate, the real effective exchange rate of the peso appreciated

^{1/} EBS/83/262 (12/2/83). An information notice reporting a real appreciation of the peso of 43 percent between July and September 1983 had been issued in November (EBS/83/239, 11/7/83).

^{2/} The exchange rate data for March-November 1982 in Table 1 are a weighted average of the two officially recognized rates.

by 130.5 percent between November 1982 and November 1983. In this period, inflation amounted to about 260 percent. Accordingly, when the authorities raised the peso price of the U.S. dollar on November 21, 1983 by 155 percent on a midpoint basis to \$b 500.0 per U.S. dollar (buying) and \$b 510.2 per U.S. dollar (selling), this action was insufficient to re-establish the level of exchange rate competitiveness prevailing immediately after the November 1982 devaluation. Since that time inflation has continued at a high rate. The consumer price index rose by a seasonally adjusted 23.0 percent in December and 12.2 percent in January 1984, and appears to have accelerated again in February. The exchange rate in the parallel market, which temporarily eased from around \$b 1,600 at the time of the November 1983 devaluation to \$b 1,200 shortly thereafter, has since exceeded \$b 2,000 per U.S. dollar.

Bolivia's economic and financial performance has been deteriorating for several years, reflecting the country's unsettled political and social situation and inadequate policies. Chronic excess demand has resulted in an extremely difficult balance of payments situation (Table 2). Substantial arrears on external debt service payments have accumulated despite the introduction of severe restrictions on exchange availability, large temporary deferments of debt service payments, and the conclusion of rescheduling agreements with foreign banks, individual governments, and some of the country's multilateral creditors.

Staff Appraisal

In the appraisal concluding the information notice to the Executive Board in early November 1983 the staff expressed the belief that a comprehensive adjustment program was necessary to redress the serious external and internal imbalances faced by the Bolivian economy. The devaluation later that month and accompanying pricing measures--although steps in the right direction--fell short of that recommendation, and measures taken since then have aggravated the existing imbalances. Although the Bolivian authorities continue to share the staff's view that only a comprehensive program will permit Bolivia to overcome its difficult economic problems, they have so far been unable to devise and implement such a program in the face of severe political and social adversities. While exchange rate action is insufficient, in isolation, to overcome Bolivia's problems, this does not mean that the exchange rate should remain unchanged as long as these constraints persist. At inflation rates as high as those currently experienced by Bolivia, it would clearly be preferable to take a flexible approach to exchange rate management, which would imply more frequent adjustments of the rate.

A staff team has recently held Article IV consultation discussions in La Paz and is currently preparing the documentation that will serve as a basis for the Executive Board discussion. The staff report will contain a full evaluation of Bolivia's exchange rate policy.

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

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (local currency) <u>2/</u>	Exchange Rate (U.S. dollars)	Consumer Price Index (seasonally adjusted)	Consumer Price Index (not seas- onally adjusted)
<u>Quarterly</u>						
1978						
I	90.93	109.05	83.4	122.55	53.1	53.8
II	91.34	110.72	82.5	122.55	55.0	54.1
III	91.31	108.91	83.8	122.55	58.1	58.1
IV	91.39	108.66	84.1	122.55	60.8	61.0
1979						
I	90.37	111.09	81.3	122.55	61.6	62.5
II	93.34	114.32	81.6	122.55	64.8	63.7
III	93.03	114.59	81.2	122.55	68.1	68.0
IV	95.42	109.98	87.4	114.62	77.1	77.5
1980						
I	95.40	98.53	96.8	100.00	89.9	91.4
II	101.05	99.89	101.2	100.00	99.1	96.9
III	102.20	99.58	102.6	100.00	104.5	104.4
IV	102.33	102.47	99.9	100.00	106.6	107.3
1981						
I	118.85	107.53	110.5	100.00	123.4	125.6
II	132.78	118.57	111.9	100.00	131.5	128.2
III	140.43	127.53	110.1	100.00	136.0	136.1
IV	136.72	128.44	106.5	100.00	137.2	138.8
1982						
I	115.31	100.09	117.7	72.88	158.7	161.2
II	72.67	47.54	153.4	32.73	215.5	208.8
III	56.93	27.15	213.0	17.27	315.8	316.9
IV	69.82	22.43	312.7	13.27	487.1	494.6
1983						
I	81.52	22.14	367.7	12.51	603.6	612.4
II	111.31	23.67	469.8	12.51	817.6	789.9
III	153.86	25.29	606.9	12.51	1,128.4	1,134.1
IV	161.13	18.42	923.2	8.55	1,854.0	1,888.2
<u>Monthly</u>						
1983						
July	128.63	24.64	522.0	12.51	944.5	913.3
Aug.	154.83	25.29	612.1	12.51	1,133.9	1,150.2
Sept.	178.10	25.94	686.7	12.51	1,306.6	1,338.9
Oct.	197.55	26.32	750.5	12.51	1,466.4	1,483.3
Nov.	164.07	17.88	917.5	8.24	1,836.4	1,850.9
Dec. <u>3/</u>	121.77	11.05	1,101.6	4.90	2,259.3	2,330.3
1984						
Jan.	137.17	11.29	1,214.6	4.90	2,534.7	2,554.0
<u>Percentage change</u>						
Dec.-Jan.	12.6	2.2	10.3	--	12.1	9.6

Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

Table 2. Bolivia: Summary Balance of Payments

	1979	1980	1981	1982	Prel. 1983
(In millions of U.S. dollars)					
Current account	-368.2	-24.1	-484.2	-107.6	-112.3
Merchandise trade	-191.4	239.4	-97.7	308.2	227.0
Exports, f.o.b.	(759.8)	(942.2)	(912.4)	(827.7)	(778.4)
Imports, c.i.f.	(-951.2)	(-702.8)	(-1,010.1)	(-519.5)	(-551.4)
Interest (net)	-164.8	-245.8	-328.7	-382.8	-305.6
Other services and transfers (net)	-12.0	-17.7	-57.8	-33.0	-34.7
Capital movements, n.i.e.	181.2	-469.9	54.4	-261.5	-222.7
Nonfinancial public sector	175.0	66.4	173.7	83.3	-2.7
Banking system, n.i.e.	23.2	-58.7	85.8	-25.1	390.8 1/
Private sector 2/	-5.9	-332.9	-83.4	24.0	76.0
Unpaid amortization	-11.1	-144.7	-121.7	-198.4	-614.4 3/
Arrears on gas exports 4/	--	--	--	-145.3	-72.4
Allocation of SDRs and gold monetization	7.7	8.1	9.1	1.9	0.9
Balance requiring official financing	-179.3	-485.9	-420.7	-367.2	-335.1
Balance of payments support loans	--	240.4	125.0	--	--
Unpaid debt service	16.0	144.5	136.7	297.8	639.4
Rescheduling	(0.2)	(--)	(167.4)	(120.4)	(483.9) 1/
Deferment	(--)	(144.3)	(-64.7)	(34.4)	(178.2)
Arrears	(15.8)	(0.2)	(34.0)	(143.0)	(-22.7)
Central Bank net international reserves (increase -)	163.3	101.0	159.0	69.4	-304.3 3/
(As percent of GDP)					
Current account	-8.0	-0.5	-8.2	-1.8	-2.1
Exports, f.o.b.	16.4	17.6	15.5	14.0	14.2
Imports, c.i.f.	20.6	13.2	17.1	8.8	10.1
Capital movements, n.i.e.	3.9	-8.8	0.9	-4.4	-4.1
Balance requiring official financing	-3.9	-9.1	-7.1	-6.2	-6.1
Memorandum items					
Gross official reserves (end of year, US\$ millions)	213.7	139.6	154.2	201.2	175.3
External public debt 4/ (end of year, US\$ millions)	2,034.3	2,312.4	2,752.6	2,803.3	3,173.0 1/
Terms of trade (1978=100)	128.4	136.6	134.2	131.0	143.0

Sources: Central Bank of Bolivia; and Fund staff estimates.

1/ Includes the capitalization of interest and refinancing of principal of short-term debt of the Central Bank amounting to US\$405 million.

2/ Includes errors and omissions, net.

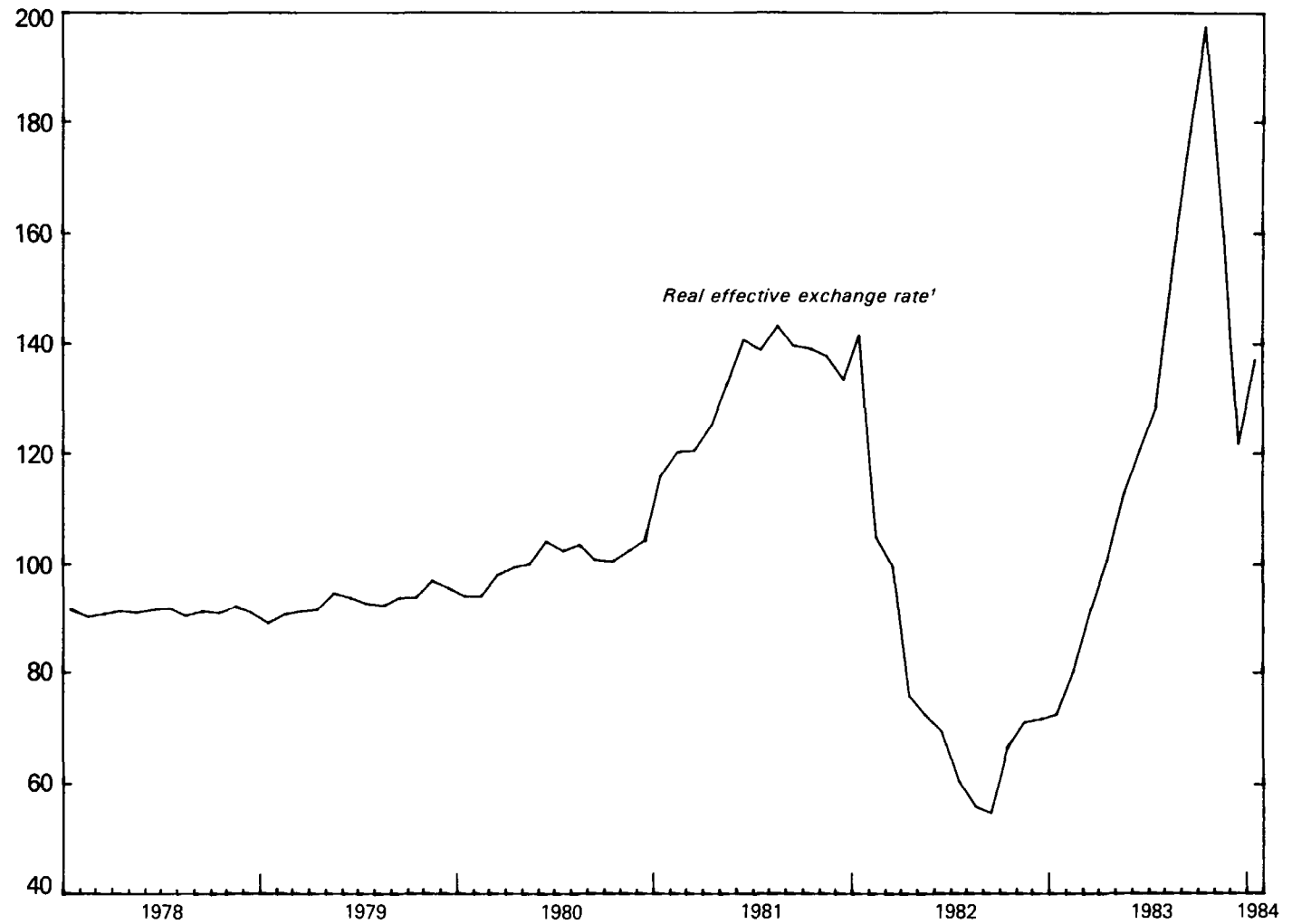
3/ Includes the refinancing of principal of short-term debt of the Central Bank of US\$369.6 million.

4/ Annual net accumulation (-); arising from unpaid gas exports to Argentina.

4/ Medium and long term.

CHART 1
BOLIVIA

INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE



¹Trade-weighted index of nominal exchange rate deflated by seasonally adjusted relative consumer prices; increases mean appreciation.