

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/84/107

CONFIDENTIAL

May 7, 1984

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

Attached for the information of the Executive Directors is a paper on a recent change in the exchange rate of the Bolivian peso.

Att: (1)

INTERNATIONAL MONETARY FUND

Bolivia--Exchange Arrangements

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitián

May 4, 1984

In the attached communication dated April 25, 1984, the authorities of Bolivia have notified the Fund of a change in the exchange rate of the Bolivian peso. With effect from April 13, 1984, the Central Bank's buying and selling rates for the U.S. dollar have been changed from \$b 500 = US\$1 (buying) and \$b 510.2 = US\$1 (selling) to \$b 2,000 = US\$1 (buying) and \$b 2,039 = US\$1 (selling). This action represents a 75.0 percent devaluation of the midpoint rate of the Bolivian peso vis-à-vis the U.S. dollar.

The staff has been informed that the exchange rate action was accompanied by a number of other economic measures which included the following: (1) some relaxation of exchange controls; (2) increases in the domestic prices of petroleum products of 300-500 percent; (3) increases in prices of basic foodstuffs, including an increase in the price of bread from \$b 12.5 to \$b 70 per unit and of rice from \$b 6,500 to \$b 54,500 per quintal; (4) a reduction in subsidies for bread and other wheat products and the freeing of all prices of agricultural and livestock products at the retail level except for a few basic necessities; (5) increases of 200-300 percent in transportation and electricity rates; (6) an increase in wages in the form of a special bonus amounting to \$b 48,325, which represented a 95 percent increase in the minimum wage and an overall average pay increase of about 50-60 percent; (7) the creation of a new Monetary Council to determine monetary, fiscal, and exchange policies; and (8) the creation of a new superintendency of banking within the Central Bank to strengthen and improve control over the operations of financial institutions.

Bolivia's economy has experienced severe difficulties in recent years. The staff is of the view that the exchange rate and pricing measures described above are important initial steps to redress the external and internal imbalances of the economy. The 1984 Article IV consultation discussions were initiated in February 1984 and were continued in April. The staff report which is under preparation will contain a review and appraisal of the exchange rate and other policies. No action by the Executive Board is proposed at this time.

Attachment

TO: INTERFUND
WASHINGTON, DC

FROM: CENTRAL BANK OF BOLIVIA
LA PAZ

APRIL 25, 1984

PURSUANT TO SUPREME DECREE NO 20170 OF APRIL 12, 1984, THE NEW EXCHANGE RATE FOR THE BOLIVIAN PESO VIS-À-VIS THE U.S. DOLLAR HAS BEEN SET AS FOLLOWS:

BUYING RATE	\$b 2,000.00
CENTRAL BANK OF BOLIVIA'S 1.5 PER THOUSAND COMMISSION	3.00
NATIONAL TREASURY'S 1.8 PERCENT TAX	<u>36.00</u>
SELLING PRICE TO THE BANKING SYSTEM AND PUBLIC SECTOR	\$b 2,039.00
BANKING SYSTEM'S COMMISSION	<u>1.00</u>
FINAL SELLING PRICE	<u><u>\$b 2,040.00</u></u>

THE NEW EXCHANGE RATE SHALL APPLY TO ALL TRANSACTIONS IN FOREIGN EXCHANGE AS FROM APRIL 13, 1984. THEREFORE, THE BUYING EXCHANGE RATE, I.E., BOLIVIAN PESOS 2,000.00 PER U.S. DOLLAR, SHOULD BE APPLIED TO ALL OF OUR OPERATIONS WITH YOU. PLEASE TAKE NOTE OF THIS COMMUNICATION.

REGARDS

FOREIGN DEPARTMENT
NAVIANA

Received in Cable Room: April 25, 1984