EBD/84/250

September 21, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Exchange System

The attached paper on a change in the exchange system of Bolivia is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERFUND
WASHINGTON, DC

AUGUST 31, 1984

WITH EFFECT FROM AUGUST 17, 1984, BOLIVIA'S EXCHANGE ARRANGEMENTS HAVE BEEN CHANGED AS FOLLOWS:

1. SUPREME DECREE NO. 20422 ESTABLISHED AN "ESSENTIAL" AND A "COMPLEMENTARY" EXCHANGE AREA. FOREIGN EXCHANGE SHALL BE ALLOCATED TO THE ESSENTIAL AREA AT THE EXCHANGE RATE OF $b 2,000, PLUS $b 100 IN TAXES, FOR THE FOLLOWING PURPOSES: PRODUCTION [SIC] OF ESSENTIAL MASS CONSUMPTION GOODS, PHARMACEUTICALS, CONSTRUCTION MATERIALS, MEDICAL EQUIPMENT AND EDUCATIONAL MATERIALS AND EQUIPMENT. IMPORTS OF THESE GOODS SHALL BE PERMITTED ONLY IN CASES WHERE DOMESTIC PRODUCTION IS INSUFFICIENT. THE ESSENTIAL EXCHANGE RATE SHALL ALSO APPLY TO TRANSPORTATION, TO THE PRODUCTION, GENERATION AND DISTRIBUTION OF ELECTRICITY AND HYDROCARBONS, AND TO INPUTS AND CAPITAL GOODS FOR THE EXPORT SECTOR. REGULATIONS DETAILING THE PRODUCTS WILL BE ISSUED SHORTLY.

THE COMPLEMENTARY AREA CONSISTS OF THE REMAINING ECONOMIC ACTIVITIES. THE BUYING AND SELLING EXCHANGE RATES FOR THIS AREA ARE AT $b 5,000 AND $b 5,250, RESPECTIVELY. THE SELLING EXCHANGE RATE HAS BEEN DETERMINED AS FOLLOWS:

BUYING RATE	$b 5,000
CENTRAL BANK OF BOLIVIA'S COMMISSION (5 PER MILL)	$b 25
NATIONAL TREASURY'S 4 PERCENT TAX	$b 200
BANKING SYSTEM'S COMMISSION (5 PER MILL)	$b 25
FINAL SELLING PRICE	$b 5,250

REGULATIONS ON THE USE OF THIS EXCHANGE RATE WILL BE ISSUED BY THE CENTRAL BANK. THE EXCHANGE DIFFERENCE PRODUCED FROM THE SALE OF FOREIGN EXCHANGE TO THE COMPLEMENTARY AREA WILL ACCRUE TO THE NATIONAL TREASURY.

2. SUPREME DECREE NO. 20421 RATIFIED THE MANDATORY SURRENDER TO THE CENTRAL BANK OF 100 PERCENT OF THE VALUE OF EXPORTS. THIRTY PERCENT OF THE NET VALUE OF EXPORTS OF GOODS AND SERVICES MAY BE USED AUTOMATICALLY TO COVER IMPORTS OF INPUTS AND CAPITAL GOODS. THE REMAINING EXCHANGE SHALL BE SETTLED AT THE ESSENTIAL EXCHANGE RATE, AND THE DIFFERENCE BETWEEN THE VALUE OF THE EXPORTS AT THE PARITY RATE AND THE ESSENTIAL RATE SHALL BE

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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INTERNATIONAL MONETARY FUND

Bolivia--Exchange System

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

September 20, 1984

In the attached communication dated August 31, 1984, the authorities of Bolivia have notified the Fund of a change in the exchange system. With effect from August 17, 1984, the unitary rate for the Bolivian peso of $b 2,000 (buying) and $b 2,100 (selling to the general public) per U.S. dollar has been replaced by a system involving five exchange rates.

I. Description of Measures

Supreme Decree No. 20422 establishes an "essential" and a "complementary" exchange market. Foreign exchange is to be allocated for essential imports at a preferential selling rate of $b 2,000 per U.S. dollar plus $b 100, corresponding to a 4 percent tax and commissions of 0.5 percent each for the Central Bank and the intermediating commercial bank. The imports designated as essential are those of which domestic production is considered to be insufficient--including essential mass consumption goods, pharmaceuticals, construction materials, medical equipment, and educational materials and equipment, as well as imports required for transportation, for the generation and distribution of energy resources, and inputs and capital goods for the export sector.

Sales and purchases of foreign exchange other than for essential imports are to take place at rates of $b 5,000 (buying) and $b 5,250 (selling) per U.S. dollar. The selling rate includes a 4 percent tax and commissions of 0.5 percent each for the Central Bank and the intermediating commercial bank.

Supreme Decree No. 20421 states that 100 percent of the value of exports will continue to be required to be surrendered to the Central Bank. Thirty percent of the net value of receipts from exports of goods and services may be used by the exporter to pay for imports of inputs and capital goods. The remaining exchange proceeds are to be settled at the essential exchange rate. In addition, however, a third, "parity" exchange rate is to be set on a fortnightly basis by the Ministry of Finance. The difference between the value of exports at the parity rate and at the essential rate is to be remitted to the exporter in the form of export exchange credit certificates (CERCEX) expressed in Bolivian pesos, which after 90 days may be converted into gold savings certificates. CERCEX may be used in payment of all tax liabilities except departmental royalties.

The gold savings certificates, authorized by Supreme Decree No. 20419, are expressed in terms of gold but will be sold and redeemed in local currency at the gold price paid by the Banco Minero for the acquisition of domestically mined gold. This price, which is based on the gold price in the London Metal Exchange, has been following the U.S. dollar quotations in the parallel market so as to attract domestically mined gold to official channels. The certificates have a redemption period of four years and yield interest at LIBOR, payable every six months in local currency. They are to be freely negotiable and transferable but may not be used to pay liabilities to the Treasury, departmental royalties or the public debt. Commercial banks acquiring such certificates may not use them as part of their required reserves. The issue of gold savings certificates has initially been limited to 50,000 ounces.

Supreme Decree No. 20419 also authorizes the Central Bank to issue negotiable and transferable savings certificates in U.S. dollars for an amount of US$20 million. These certificates are to be sold initially at a price of $b 5,000 per U.S. dollar (the current buying exchange rate in the "complementary" market) which may be changed by supreme decree. Supreme Decree No. 20431 provides that U.S. dollar certificates will be redeemed in U.S. dollars with a maturity of six years and interest at LIBOR payable every six months in U.S. dollars. These certificates may be freely negotiated but may not be used to pay liabilities to the Treasury or public debt.

Residents are no longer permitted to buy tickets for travel abroad with pesos but instead must use U.S. dollar checks (purchased at the complementary exchange rate) made out directly to the order of the airline. Foreign exchange allowances for travel abroad have been reduced to US$300 for neighboring countries, US$500 for other Latin American and Caribbean countries and US$800 for the rest of the world (previously US$500, US$800, and US$1,500, respectively). These amounts may not be cumulated. For medical expenses the foreign exchange limits have been raised from US$1,500 to US$10,000 for treatment not available domestically. Foreign exchange for travel and medical treatment abroad is sold at the complementary exchange rate.

II. Staff Appraisal

In recent years Bolivia has experienced a worsening economic situation accompanied by increasingly severe internal and external imbalances. To a considerable extent these imbalances are attributable to the progressive expansion of the deficit of the nonfinancial public sector. The deficit, which is financed almost entirely through domestic credit expansion, results from a slump in revenue collections, the loss of control over expenditures of the Central Administration and the operations of public enterprises, and inadequate pricing of goods and services sold by these enterprises. The staff is of the view that only the sustained implementation of a comprehensive set of measures--including strong fiscal action, a moderation in wage policy, and the pursuit of more realistic exchange rate, interest rate, and pricing policies--will redress the imbalances.

In April 1984 the authorities announced a set of measures--including the devaluation of the official buying rate from $b 500 to $b 2,000 per U.S. dollar (EBS/84/107, 5/7/84)--that would have represented an important step on the road to economic stabilization. The announcement was followed by widespread protests that prevented the implementation of complementary measures in the areas of demand management and wage, interest rate, and pricing policies.

The exchange measures now notified to the Fund were taken in isolation and represent a step backward for efficient exchange rate management. The unitary official exchange rate was abandoned and replaced by a highly complex system in which the most depreciated rate does not compensate adequately for the loss of competitiveness resulting from several months of high inflation following the April devaluation. At the time the new exchange measures were announced, the exchange rate in the parallel market had depreciated to $b 10,000 per U.S. dollar, approximately twice the level of the new complementary exchange rate.

A number of important features of the new system--including the list of imports eligible for the essential exchange rate and the mechanism to determine the parity exchange rate--have not yet been regulated. In view of the complexity of the new system, full implementation is likely to strain the administrative capacity of the Bolivian authorities. Moreover, certain features of the new system are likely to present operational difficulties for exporters with heavy obligations for royalty payments that are calculated on the basis of the parity exchange rate while local currency is made available at the essential exchange rate.

At the conclusion of the Article IV consultation in July 1984, Fund approval was not given for Bolivia's exchange restrictions (including external payments arrears) and multiple currency practices subject to Article VIII, in view of the absence of policies that would permit Bolivia to phase out these exchange practices. The announced new measures impart greater complexity to Bolivia's exchange system without contributing to a solution of the country's difficult economic situation. The staff urges the authorities to take early action to bring about the unification and liberalization of the exchange system in the context of a comprehensive economic program. No action by the Executive Board is proposed at this time.

Attachment

INTERFUND
WASHINGTON, DC

AUGUST 31, 1984

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1. SUPREME DECREE NO. 20422 ESTABLISHED AN "ESSENTIAL" AND A "COMPLEMENTARY" EXCHANGE AREA. FOREIGN EXCHANGE SHALL BE ALLOCATED TO THE ESSENTIAL AREA AT THE EXCHANGE RATE OF $b 2,000, PLUS $b 100 IN TAXES, FOR THE FOLLOWING PURPOSES: PRODUCTION [SIC] OF ESSENTIAL MASS CONSUMPTION GOODS, PHARMACEUTICALS, CONSTRUCTION MATERIALS, MEDICAL EQUIPMENT AND EDUCATIONAL MATERIALS AND EQUIPMENT. IMPORTS OF THESE GOODS SHALL BE PERMITTED ONLY IN CASES WHERE DOMESTIC PRODUCTION IS INSUFFICIENT. THE ESSENTIAL EXCHANGE RATE SHALL ALSO APPLY TO TRANSPORTATION, TO THE PRODUCTION, GENERATION AND DISTRIBUTION OF ELECTRICITY AND HYDROCARBONS, AND TO INPUTS AND CAPITAL GOODS FOR THE EXPORT SECTOR. REGULATIONS DETAILING THE PRODUCTS WILL BE ISSUED SHORTLY.

THE COMPLEMENTARY AREA CONSISTS OF THE REMAINING ECONOMIC ACTIVITIES. THE BUYING AND SELLING EXCHANGE RATES FOR THIS AREA ARE AT $b 5,000 AND $b 5,250, RESPECTIVELY. THE SELLING EXCHANGE RATE HAS BEEN DETERMINED AS FOLLOWS:

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NATIONAL TREASURY'S 4 PERCENT TAX	$b 200
BANKING SYSTEM'S COMMISSION (5 PER MILL)	$b 25
FINAL SELLING PRICE	$b 5,250

REGULATIONS ON THE USE OF THIS EXCHANGE RATE WILL BE ISSUED BY THE CENTRAL BANK. THE EXCHANGE DIFFERENCE PRODUCED FROM THE SALE OF FOREIGN EXCHANGE TO THE COMPLEMENTARY AREA WILL ACCRUE TO THE NATIONAL TREASURY.

2. SUPREME DECREE NO. 20421 RATIFIED THE MANDATORY SURRENDER TO THE CENTRAL BANK OF 100 PERCENT OF THE VALUE OF EXPORTS. THIRTY PERCENT OF THE NET VALUE OF EXPORTS OF GOODS AND SERVICES MAY BE USED AUTOMATICALLY TO COVER IMPORTS OF INPUTS AND CAPITAL GOODS. THE REMAINING EXCHANGE SHALL BE SETTLED AT THE ESSENTIAL EXCHANGE RATE, AND THE DIFFERENCE BETWEEN THE VALUE OF THE EXPORTS AT THE PARITY RATE AND THE ESSENTIAL RATE SHALL BE

REMITTED TO THE EXPORTER IN THE FORM OF EXPORT EXCHANGE CREDIT CERTIFICATES (CERTIFICADOS DE REINTEGRO CAMBIARIO A LA EXPORTACION--CERCEX), WHICH AFTER 90 DAYS SHALL BE CONVERTED INTO GOLD SAVINGS CERTIFICATES (SEE BELOW). THE MINISTRY OF FINANCE SHALL SET THE PARITY EXCHANGE RATE FORTNIGHTLY. CERCEX MAY BE USED IN PAYMENT OF ALL TAX LIABILITIES EXCEPT DEPARTMENTAL ROYALTIES.

3. SUPREME DECREE NO. 20419 AUTHORIZED THE CENTRAL BANK TO ISSUE NEGOTIABLE AND TRANSFERABLE SAVINGS CERTIFICATES IN DOMESTIC CURRENCY (GOLD CERTIFICATES) AND IN FOREIGN CURRENCY (DOLLAR CERTIFICATES). GOLD CERTIFICATES MAY BE ISSUED FOR UP TO THE EQUIVALENT OF 50,000 TROY OUNCES AND DOLLAR CERTIFICATES FOR UP TO AN AMOUNT EQUIVALENT TO US$20 MILLION.

GOLD CERTIFICATES WILL BE SOLD AND REDEEMED IN PESOS BOLIVIANOS AT THE DOMESTIC CURRENCY EQUIVALENT, SET DAILY BY THE MINING BANK, OF THE INTERNATIONAL GOLD QUOTATION. DOLLAR SAVINGS CERTIFICATES WILL BE SOLD AT A PRICE OF $b 5,000 PER DOLLAR. THIS PRICE MAY BE CHANGED BY SUPREME DECREE.

4. SUPREME DECREE NO. 20431 PROMULGATED SEVERAL COMPLEMENTARY PROVISIONS. THESE ARE: (A) SAVINGS CERTIFICATES MAY BE FREELY NEGOTIATED BETWEEN INDIVIDUALS; (B) DOLLAR CERTIFICATES WILL BE REDEEMED IN DOLLARS, WILL ACCRUE HALF-YEARLY INTEREST, ALSO IN DOLLARS, AND WILL BE SOLD WITH A TERM OF SIX YEARS AND AT THE LIBOR INTEREST RATE.

5. THE FOLLOWING REGULATIONS HAVE ALREADY BEEN ISSUED:

(A) THE SALE OF COMPLEMENTARY AREA FOREIGN EXCHANGE IS AUTHORIZED FOR TRAVEL AND MEDICAL EXPENSES. FOR TRAVEL, THE AMOUNT OF THE TICKET SHALL BE PAID BY MEANS OF A CHECK MADE OUT DIRECTLY TO THE ORDER OF THE AIRLINE. FURTHERMORE, THE FOLLOWING AMOUNTS ARE AUTHORIZED FOR STAYS ABROAD: US$300 FOR NEIGHBORING COUNTRIES, US$500 FOR OTHER LATIN AMERICAN AND CARIBBEAN COUNTRIES, AND US$800 FOR THE REST OF THE WORLD. THESE AMOUNTS MAY NOT BE CUMULATED. THESE PROVISIONS APPLY SOLELY TO RESIDENTS OF BOLIVIA.

FOR MEDICAL EXPENSES, US$10,000 MAY BE SOLD FOR MEDICAL AND HOSPITAL TREATMENT NOT AVAILABLE DOMESTICALLY, SUBJECT TO PRESENTATION OF A CERTIFICATE ISSUED BY THE MINISTRY OF HEALTH AND SOCIAL SECURITY.

(B) *GOLD CERTIFICATES WILL BE DENOMINATED IN UNITS OF GOLD*, I.E., TROY OUNCES, AND ARE DIRECTLY RELATED TO THE LONDON GOLD QUOTATION. ALTHOUGH SUCH CERTIFICATES ARE FREELY NEGOTIABLE AND TRANSFERABLE, THEY MAY NOT BE USED TO PAY LIABILITIES TO THE STATE NOR THE PUBLIC DEBT. COMMERCIAL BANKS ACQUIRING THESE CERTIFICATES MAY NOT USE THEM AS PART OF THEIR REQUIRED RESERVES. THE INTEREST RATE IS LIBOR, PAYABLE IN PESOS BOLIVIANOS; THE REDEMPTION PERIOD WILL BE FOUR YEARS; AND CERTIFICATES WILL BE PRINTED IN THE DENOMINATIONS OF ONE, FIVE, TEN, AND FIFTY UNITS OF GOLD.

(C) DOLLAR CERTIFICATES ALSO MAY NOT BE USED TO PAY LIABILITIES TO THE STATE NOR THE PUBLIC DEBT. DOLLAR CERTIFICATES WILL BE ISSUED IN US$50, US$100, US$1,000, AND US$10,000 DENOMINATIONS.

REGARDS

REYNALDO CARDOZO,
GOVERNOR OF THE FUND FOR BOLIVIA
CENTRAL BANK OF BOLIVIA

Received in Cable Room: August 31, 1984