

EBS/83/53

CONFIDENTIAL

March 7, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Venezuela - Exchange System

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

Att: (1)

INTERNATIONAL MONETARY FUND

Venezuela--Exchange System

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

(In consultation with the Legal Department)

Approved by S.T. Beza and W.A. Beveridge

March 7, 1983

In the attached communications dated February 21, 22, and 23, the Venezuelan authorities have notified the Fund of a closure of foreign exchange markets, and the authorization of the Minister of Finance to introduce restrictions on the free convertibility of the bolivar, with the aim of counteracting adverse capital movements that had reduced the level of Venezuela's international reserves.

The staff has been informed by the Venezuelan authorities that the official foreign exchange market in Venezuela has remained closed through the week ending March 4, 1983. Measures to modify the exchange system aimed at counteracting adverse capital movements remain under consideration by the Venezuelan authorities. Further developments in the exchange system will be communicated to the Executive Board as they occur. A staff team will be visiting Caracas beginning March 7 to conduct the 1983 Article IV consultation discussions with Venezuela. The consultation report will describe the changes in Venezuela's exchange arrangements and will give the staff's assessment of those changes.

Attachments

TO: INTERNATIONAL MONETARY FUND
WASHINGTON, DC

FROM: THE CENTRAL BANK OF VENEZUELA
CARACAS

FEBRUARY 21

ARTICLE 2(3) AND ARTICLES 90 AND 91(8) OF THE LAW OF THE CENTRAL
BANK OF VENEZUELA STIPULATE THE FOLLOWING:

THE CENTRAL BANK OF VENEZUELA IS AUTHORIZED TO ORDER THE TEMPORARY
SUSPENSION OF DOMESTIC TRADING IN FOREIGN EXCHANGE BY BANKS, CREDIT
INSTITUTIONS AND EXCHANGE OFFICES UNTIL SUCH TIME AS MEASURES ARE ADOPTED
WHICH ARE DEEMED APPROPRIATE TO COUNTERACT THE ADVERSE CAPITAL MOVEMENTS
WHEREBY INTERNATIONAL RESERVES HAVE BEEN REDUCED. IN ACCORDANCE WITH
THESE PROVISIONS, THIS INSTITUTION HAS DECIDED NOT TO SELL FOREIGN
EXCHANGE ON FEBRUARY 21 AND 22, 1983.

REGARDS

LEOPOLDO DIAZ BRUZUAL
PRESIDENT

Received in Cable Room: February 21, 1983

TO: INTERNATIONAL MONETARY FUND
WASHINGTON, DC

FROM: CENTRAL BANK OF VENEZUELA
CARACAS

FEBRUARY 22, 1983

VERY URGENT

Further to our telex of 2/21/83 we are sending you below the text of Central Bank of Venezuela Resolution Number 83/02/01:

"Pursuant to Article 2, Sections (2) and (3), and Articles 49, 90, and 91 of the Central Bank Law, and in accordance with the agreement adopted by the National Executive and the Central Bank of Venezuela on February 20, 1983, the Board of Directors of the Central Bank of Venezuela resolves: Article 1: domestic trading in foreign exchange by Banks, credit institutions, and exchange offices is hereby suspended through Tuesday, February 22, 1983. Article 2: during the period referred to in the above Article, the Central Bank of Venezuela shall not transact buying or selling operations in foreign currency, except those buying operations referred to in Article one of the exchange agreement adopted by the National Executive and the Central Bank of Venezuela on September 27, 1982. Article 3: within two (2) working days of the publication of this resolution, banks, credit institutions and exchange offices shall send to the Central Bank of Venezuela a statement of their foreign exchange assets entered on their books based on the balance shown at the close of business on the day of publication of the agreement adopted by the National Executive and the Central Bank of Venezuela on February 20, 1983. Caracas, February 20, 1983."

REGARDS

LEOPOLDO DIAZ BRUZUAL
PRESIDENT
CENTRAL BANK OF VENEZUELA

Received in Cable Room: February 22, 1983

TO: INTERNATIONAL MONETARY FUND
WASHINGTON, DC

FROM: CENTRAL BANK OF VENEZUELA
CARACAS

FEBRUARY 23, 1983

Please find below the texts of the decree, agreement, and resolution issued by the National Executive and the Central Bank of Venezuela on February 22, 1983:

"Decree No. 1842, February 22, 1983

Luis Herrera Campins,
President of the Republic,

in accordance with article 190(12) of the Constitution in accordance with Articles 90, sole paragraph, and 91(b) of the Law of the Central Bank of Venezuela, in Council of Ministers,

Whereas:

it is necessary to intervene in the exchange market to counteract the adverse capital movements toward foreign countries and protect continuity of international payments,

Decrees:

Article 1. The Minister of Finance is authorized, by agreements with the Central Bank of Venezuela, to set limitations and restrictions on the free convertibility of the national currency.

Article 2. The agreements shall establish one exchange rate for the following items:

amortization of and interest on, the public external debt,
amortization of, and interest on, the private external debt contracted up to the date of this decree, current government expenditure abroad, imports of goods and services declared essential by the National Executive, expenditure arising from the international commitments of the Republic, expenses of students abroad, sale of exchange to juridical persons incorporated in accordance with Article 6 of the law reserving industry and trade in hydrocarbons to the State, and with Article 10 of Decree No. 580 of November 26, 1974 reserving the iron ore exploitation industry, as also the Venezuelan Investment Fund to the State.

Article 3. Other items, to be determined by the National Executive, may under the agreements be made subject to different exchange rates, or rate fluctuation may be permitted.

Article 4. Marketing of exchange shall be effected in accordance with the terms laid down in the agreements to be adopted pursuant to this decree.

Article 5. The Central Bank of Venezuela shall centralize the purchase and sale of exchange, save such exceptions as the agreements may establish, [and] shall acquire exchange at the rates set in the agreements.

Article 6. The Central Bank of Venezuela shall distribute exchange directly, or through those financial institutions governed by the General Law on Banks and Other Credit Institutions, taking into account their level of business, the general situation on the foreign exchange market, the level of international reserves, and the Venezuelan economy's payment requirements in general.

Article 7. The Minister of Finance is authorized to sign an exchange agreement with the Bank of Venezuela maintaining suspension of sales of exchange during Wednesday, February 23, Thursday, February 24, and Friday, February 25, 1983, with the exception of those sales effected by the Central Bank of Venezuela to make payments for account of the Central Government, autonomous institutions, and state enterprises.

Article 8. The National Executive shall issue the necessary rules for implementation of this decree.

Article 9. This decree shall be revoked when the reasons underlying it cease to exist.["]

Agreement:

Between the National Executive and the Central Bank of Venezuela, represented respectively by Mr. Arturo Sosa, Minister of Finance, authorized by the President of the Republic in Council of Ministers in accordance with Decree No. 1842 of February 22, 1983, and Mr. Leopoldo Diaz Bruzual, President of the Central Bank of Venezuela, authorized by the Central Bank's Board of Directors at a meeting held on this same date, in accordance with the provisions of Articles 2(3), 80, and 91(b) of the Law of the Central Bank of Venezuela, have agreed as follows:

ONE: The Central Bank of Venezuela is authorized to order suspension of trading in exchange in this country during Wednesday, February 23, Thursday, February 24, and Friday, February 25, 1983, except sales effected by the bank of issue to make payments for account of the Central Government, autonomous institutions, and state enterprises.

TWO: The exchange agreement entered into between the National Executive and the Central Bank of Venezuela on September 27, 1982, and all provisions not conflicting with those laid down in the preceding clause, shall remain in effect.

Caracas, February 22, 1983."

Resolution No. 83-02-02:

"The Board of Directors of the Central Bank of Venezuela, in accordance with Articles 2(2) and (3), 90, and 91 of its charter, and in accordance with the provisions of the agreement adopted by the National Executive and the

Central Bank of Venezuela on February 22, 1983, based on Decree No. 1842 of the same date, resolves:

Article 1. Trading in exchange in Venezuela by banks, credit institutions, and exchange brokers is suspended until Friday, February 25, 1983.

Article 2. During the period referred to in the above article, the Central Bank of Venezuela shall not transact buying or selling operations in foreign currency, except those buying operations referred to in Clause One of the exchange agreement between the National Executive and the Central Bank of Venezuela on September 27, 1982 and sales effected by the bank of issue to make payments for account of the Central Government, autonomous financial institutions, and state enterprises.
Caracas, February 22, 1983."

REGARDS

LEOPOLDO DIAZ BRUZUAL
PRESIDENT
CENTRAL BANK OF VENEZUELA
INTERNATIONAL OPERATIONS DEPARTMENT

Received in Cable Room: February 23, 1983