

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/53
Supplement 1

CONFIDENTIAL

March 16, 1983

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

There is attached for the information of Executive Directors a paper on further developments in the exchange system of Venezuela.

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 E. Wiesner and W.A. Beveridge

March 15, 1983

In the attached communication dated March 4, 1983, the Venezuelan authorities have notified the Fund of the introduction of a three-tier multiple exchange rate system in accordance with the provisions of the earlier Decree No. 1842 of February 22, 1983, which was appended to "Venezuela--Exchange System," (EBS/83/53, 3/7/83).

The three exchange markets established by Venezuela for the bolivar are the following:

1. The exchange rate of Bs 4.2925 = US\$1 will apply to:

a. Foreign exchange proceeds, to be surrendered to the Central Bank of Venezuela, stemming from the extraction and marketing of hydrocarbons and the mining of iron ore. These foreign exchange proceeds are to be held on account by the Central Bank for the firms surrendering them, and the balances may be used only by the account holders to finance operations in Venezuela and abroad deemed to be normal. Surrender of these foreign exchange proceeds is mandatory, except that the Central Bank may authorize Petroleos de Venezuela, S.A., enterprises operating in the nationalized petroleum sector, or other state enterprises to maintain funds denominated in foreign currencies, and to administer such funds in accordance with the purposes for which such authorization has been granted;

b. Foreign exchange obtained by the central government, states, municipalities, autonomous institutions, state enterprises and other public entities and purchased exclusively by the Central Bank; and

c. All foreign exchange brought into Venezuela by the Venezuelan Investment Fund, to be sold exclusively to the Central Bank;

In addition, the exchange rate of Bs 4.30 = US\$1, which is somewhat depreciated with respect to the above rate, will apply to:

d. Transactions mentioned in Article 2 of Decree No. 1842, as described in page 4 of Attachment III, EBS/83/53, 3/7/83, e.g., service payments on public external debt and on private external debt contracted up to February 23, 1983, current government expenditures abroad, imports of

essential goods and services, expenditures arising from the international commitments of Venezuela, and expenses of students abroad and service payments on private debt, provided that they are for debt with maturities of not less than three years starting in 1984, and are made in equal annual installments;

e. The valuation of exports to which the provisions of Article 8 of the Law on Export Incentives apply;

f. Expenses of students abroad, providing that the studies are financed with scholarships or fellowships provided by public sector entities or institutions. In the case of students who are not receiving financial aid from such institutions, a monthly limit may be established.

2. The exchange rate of Bs 6.00 = US\$1 will apply to:

a. Foreign exchange earned from export of goods (other than petroleum and iron ore) and services by autonomous institutions and state enterprises, and purchased exclusively by the Central Bank;

b. Foreign exchange earned from exports by the private sector and purchased by the commercial banks; and

c. Sales of foreign exchange by the Central Bank for imports of goods mentioned in Article 3 of Decree 1842 (as described on page 4, Attachment III, EBS/83/53, 3/7/83), i.e., transactions not mentioned in Article 2 of Decree No. 1842.

3. The Central Bank will sell foreign exchange to the commercial banks in respect of transactions mentioned in 1(d), (e) and (f) above at Bs 4.2925 = US\$1 and in respect of transactions mentioned in 2 above at Bs 5.9925 = US\$1.

In order to purchase foreign exchange for transactions specified under Articles 2 and 3 of Decree No. 1842, the Minister of Finance may require an advance deposit of up to the value of foreign exchange requested.

Other changes in the exchange system are related to the administration of the system. A Differential Exchange System Advisory Committee, with the Minister of Finance as chairman, has been set up to oversee the authority to be delegated to the Central Bank concerning foreign exchange trading in the country.

A staff team is currently visiting Caracas to conduct the 1983 Article IV consultation discussions with Venezuela. The consultation report will contain an appraisal of these changes, which give rise to multiple currency practices and exchange restrictions subject to the Fund's approval under Article VIII. No action by the Executive Board is therefore proposed at this time.

TO: INTERNATIONAL MONETARY FUND, WASHINGTON, D.C.

FROM: CENTRAL BANK OF VENEZUELA, CARACAS

DATE: MARCH 4, 1983

Here follow texts of recently issued decrees of the Presidency of the Republic and of the exchange agreement between the Ministry of Finance and the Central Bank of Venezuela.

Decree No. 1848--February 27, 1983

Luis Herrera Campins
President of the Republic,

In accordance with Articles 7 and 8 of the Organic Law of the Central Government, in Council of Ministers,

Considering:

That Decree No. 1842 of February 22, 1983, published in Official Gazette No. 32670 of February 22, 1983, authorized the Minister of Finance to agree with the Central Bank of Venezuela on limitations and restrictions on the free convertibility of the national currency:

Considering:

That in accordance with Article 91 of the Law of the Central Bank of Venezuela it is incumbent upon the Executive Branch to specify the limits within which the Central Bank of Venezuela may exercise the powers conferred upon it under item (b) concerning the regulation of foreign exchange trading within the country,

Decrees:

Article 1. A Differential Exchange System Advisory Committee is hereby set up, to consist of the Minister of Finance, who will act as Chairman, the Minister of Development, the Minister of Agriculture and Livestock; the Head of the Central Coordination and Planning Office, the President of the Central Bank of Venezuela, and the President of the Venezuelan Investment Fund.

Article 2. The Committee will advise the Minister of Finance on matters relating to the authorizations he should grant to the Central Bank of Venezuela concerning foreign exchange trading within the country.

Article 3. The Head of the Differential Exchange System Office (RECADI), a unit that will be set up within the Ministry of Finance, will serve as Secretary of the Committee.

Done in Caracas, on the twenty-seventh day of February, nineteen hundred and eighty-three, 172nd year of Independence, 124th of the Federation, and Bicentennial of the birth of the Liberator, Simon Bolivar.

Decree No. 1851--February 27, 1983

Luis Herrera Campins,
President of the Republic,

In exercise of the powers conferred by Article 190(12) of the Constitution, in accordance with Article 91(b) of the Law of the Central Bank of Venezuela, in accordance with Article 8 of Decree No. 1842 of February 22, 1983, published in Official Gazette No. 32670 of February 22, 1983, in Council of Ministers,

Decreets,

Article 1. For the purposes of Article 2 of Decree No. 1842 of February 22, 1983, it will be understood that:

(a) "current government expenditure abroad" means such expenditure inherent to the Venezuelan foreign service and to special missions on behalf of the Executive, Legislative or Judiciary;

(b) "imports of goods and services declared essential by the National Executive" means payments of the f.o.b. value to suppliers abroad for goods and services imported to Venezuela that have been declared essential by the Executive. For payment of freight and insurance on such imports, the same rate of exchange will apply as for the authorized imports up to an amount equivalent to 10 per cent of the f.o.b. value of said imports;

(c) "expenses of students abroad" means remittances for payment of tuition, textbook, room, and board expenses of persons pursuing studies abroad at the secondary, technical, university, higher post-graduate, and specialization levels. If such studies are financed through scholarships or fellowships provided by public sector entities or institutions, the remittances will be made at the preferential exchange rate. In the case of students who are not receiving financing from such entities, the Executive shall set monthly limits for remittances at the preferential exchange rate.

Article 2. To purchase foreign exchange at the exchange rates to be set under Articles 2 and 3 of Decree No. 1842 of February 22, 1983 and intended for payment of goods and services related thereto, the parties concerned may be required, at the discretion of the Ministry of Finance, to make a deposit with the Central Bank of Venezuela, or to furnish a bond to said Bank from a financial institution or insurance company legally established in the country, in an amount up to the equivalent of the requested exchange, in order to guarantee that the import operation will in fact be carried out.

Article 3. The Minister of Finance shall issue such regulations as may be required to verify and control both the actual value and the contents of the imports for which the foreign exchange mentioned in the preceding article is requested.

Article 4. For the purpose of allocating exchange to cover imports of goods, whether or not considered essential, the Executive shall act so as

to insure maintenance of normal and appropriate flows of imports, fulfillment of the purposes of the differential exchange rate system, and maintenance of adequate levels of available exchange reserves.

Done in Caracas, on the twenty-second day of February, nineteen hundred and eighty-three, 172nd year of Independence, 124th of the Federation, and Bicentennial of the birth of the Liberator, Simon Bolivar.

Decree No. 1855--February 28, 1983

Luis Herrera Campins
President of the Republic,

In exercise of the powers conferred upon him by Article 190(12) of the Constitution, in accordance with Article 91(b) of the Law of the Central Bank of Venezuela, and in accordance with Article 8 of Decree No. 1842 of February 22, 1983, in Council of Ministers,

Decreases:

Article 1. For the purposes of Article 2 of Decree No. 1842 of February 22, 1983, it will be understood that:

(a) "public external debt" means foreign-currency debts of the central government, decentralized government entities, and government enterprises;

(b) "private external debt" means:

(i) the outstanding debt ascertained by identifying the foreign-currency assets and liabilities, as at February 18, 1983, of domestic entities governed by the General Law on Banks and Other Credit Institutions and of enterprises governed by the Law on Insurance and Reinsurance Companies;

(ii) the outstanding debt ascertained by identifying the foreign-currency assets and liabilities, as at February 18, 1983, resulting from operations between financial institutions and domestic and mixed enterprises in the following sectors: manufacturing, for the purchase of capital goods for use in the country; transportation and public services, for investment in equipment; construction, only as regards debts in connection with works contracts entered into with the central government, decentralized government entities, and government enterprises, or those guaranteed by public entities or State banks for construction of low-cost housing. In the case of commitments toward foreign financial institutions, a certificate of registration with the Superintendency of Foreign Investments, dated before February 18, 1983, will be required. Requests being processed by that date and duly approved subsequently will be exempt from this provision.

Article 2. The private debt mentioned in the preceding article will benefit from the exchange rate applicable to the items under Article 2 of Decree No. 1842 of February 22, 1983, as regards both capital and

interest, only if it is repayable in a period of no less than three (3) years starting in 1984 and in annual and equal portions. Each annual portion may be divided into equal and consecutive installments.

Article 3. The Ministry of Finance will maintain a central register of debts.

Article 4. Parties concerned shall request registration of their debts within ninety (90) calendar days following the date of publication of this Decree in the Official Gazette, submitting the forms to be provided for the purpose at offices to be specified by the Ministry of Finance.

Article 5. For the purposes of debt registration, the parties concerned should provide the information required in the form prepared by the Ministry of Finance. The form must state that the party concerned agrees irrevocably that the information shown may be verified in the country or abroad by the Ministry of Finance through the services of independent external auditors, in which case the expenses will be borne by the party concerned.

Article 6. In order to purchase foreign exchange under the provisions of Article 2 of Decree No. 1842 of February 22, 1983, a prior statement of the debt as registered by the Differential Exchange System Office in the Ministry of Finance will be an absolute requirement.

Article 7. The Ministry of Finance shall also centralize all data from other records that may be of use in ensuring the best implementation of Decree No. 1842 of February 22, 1983.

Article 8. The Ministry of Finance shall issue such resolutions as it may deem necessary to implement this Decree.

Done in Caracas, on the twenty-eighth day of February, nineteen hundred and eighty-three, 172nd year of Independence, 124th of the Federation, and Bicentennial of the birth of the Liberator, Simon Bolivar.

Central Bank of Venezuela
Agreement

The Executive and the Central Bank of Venezuela, respectively represented by Mr. Arturo Sosa, Minister of Finance, authorized by the President of the Republic in Council of Ministers, and by Mr. Leopoldo Diaz Bruzual, President of the Central Bank of Venezuela, authorized by the Board of Directors at its meeting of February 28, 1983 in accordance with Articles 2(3), 31(11), 91(b), 92 and 93 of the Law of the Central Bank of Venezuela, have agreed as follows:

1. All foreign exchange resulting from the operations of the legal entities set up under Article 6 of the Organic Law granting the State a monopoly on the extraction and marketing of hydrocarbons, or under Article 10 of Decree No. 580 of November 26, 1974 granting the State a monopoly on the mining of iron ore, whatever may be source of such exchange or the nature of the activity whereby it is produced, shall be obligatorily sold to the Central Bank of Venezuela at the rate of Bs 4.2925 per U.S. dollar.

The obligatory sale mentioned above also includes the amounts which enterprises operating in the petroleum sector must transfer to Petroleos de Venezuela, S.A. (PDVSA) in accordance with Article 6(5) of the Law granting the State a monopoly on the extraction and marketing of hydrocarbons.

2. The Central Bank of Venezuela shall credit the accounts it will open on its books for the purpose with the equivalent in bolivares of foreign exchange acquired in accordance with Clause One above. Funds deposited in such accounts may not be transferred to other banking or financial institutions in the country and shall be used by the account holders to finance their normal operations in Venezuela and abroad by means of payment orders or checks drawn on the Central Bank of Venezuela, unless they are authorized to do otherwise by joint decision of the Central Bank of Venezuela and the Ministry of Finance in accordance with Article 42(5) of the Law of the Central Bank of Venezuela.

3. Except as provided in the following clause, the legal persons referred to in Clause One of this agreement may not hold foreign-currency deposits abroad and all their foreign-currency claims abroad must be ceded or transferred for collection to the Central Bank of Venezuela, which shall effect the credits provided for in the preceding Clause.

4. When circumstances so justify, the Board of Directors of the Central Bank of Venezuela may at its discretion authorize Petroleos de Venezuela, S.A., enterprises operating in the nationalized petroleum sector, or other State enterprises, to maintain funds denominated in foreign currency, in which case the enterprises concerned must administer such funds in accordance with the objectives and purposes specified in the relevant request for authorization.

5. Foreign exchange obtained by the central government, states, municipalities, autonomous institutions, State enterprises and other public entities, under public foreign-currency borrowing operations or otherwise, except as mentioned in Clause 7, shall be purchased exclusively by the Central Bank of Venezuela at the rate of Bs 4.2925 per U.S. dollar. This provision shall not apply to State enterprises subject to the General Law on Banks and Other Credit Institutions.

6. All foreign exchange brought into the country by the Venezuelan Investment Fund shall be sold exclusively to the Central Bank of Venezuela at the rate of Bs 4.2925 per U.S. dollar.

7. Foreign exchange earned through exports of goods and services by autonomous institutions and State enterprises shall be purchased exclusively by the Central Bank of Venezuela at the rate of Bs 6.00 per U.S. dollar. Those legal persons referred to in Clauses 1 and 6 of this agreement are excluded from this provision.

8. Foreign exchange resulting from exports of the private sector and offered to the Central Bank of Venezuela shall be purchased by the bank of issue at the rate of Bs 6.00 per U.S. dollar.

9. In order to benefit from the provisions of Article 8 of the Law on Export Incentives, export prices must be calculated on the basis of Bs 4.30 per U.S. dollar.

10. The Central Bank of Venezuela may buy and sell foreign exchange on the free exchange market.

11. For sales of foreign exchange by the Central Bank of Venezuela in the cases specified in Article 2 of Decree No. 1842 of February 22, 1983 and in accordance with such regulations as may be issued for the purpose, the rate of exchange is set at Bs 4.30 per U.S. dollar.

12. For sales of foreign exchange by the Central Bank of Venezuela for importation of such goods as may be specified by the Executive under the provisions of Article 3 of Decree No. 1842, the rate of exchange is set at Bs 6.00 per U.S. dollar.

13. When foreign exchange is sold by the Central Bank of Venezuela to commercial banks in the cases provided for in Clauses 11 and 12, the rate of exchange shall be Bs 4.2925 and Bs 5.9925 per U.S. dollar, respectively. Intermediary banks shall transfer such foreign exchange to their customers at the rate of Bs 4.30 and Bs 6.00 per U.S. dollar, respectively, in accordance with the above-mentioned Clauses.

Received in Cable Room: March 4, 1983