

EBS/83/262

CONFIDENTIAL

December 2, 1983

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 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

December 2, 1983

In the attached communication dated November 22, 1983, the authorities of Bolivia have notified the Fund of a change in the exchange rate of the Bolivian peso. With effect from November 21, 1983, the exchange rate of the Bolivian peso in terms of the U.S. dollar has been changed from \$b 196.0 = US\$1 (buying) and \$b 200.0 = US\$1 (selling), to \$b 500.0 = US\$1 (buying) and \$b 510.2 = US\$1 (selling). This action represents a 60.8 percent devaluation of the midpoint rate of the Bolivian peso vis-à-vis the U.S. dollar.

Prior to the action now being notified to the Board, the exchange rate of the peso had appreciated in real effective terms by 43 percent from July to November 1983 (see EBS/83/239: "Bolivia--Real Effective Exchange Rate - Information Notice," 11/7/83). The staff has been informed that the exchange rate devaluation was accompanied by increases in government-controlled prices of fuel, food, electricity, and transportation services. In addition, income taxes were reduced by 40 percent through the end of January 1984. Shortly before the devaluation, the authorities had raised the minimum wage by 72 percent and granted for the period November 1983 to January 1984 a special bonus of \$b 7,500 per month for workers earning less than \$b 75,000 a month.

Bolivia's economy has experienced severe difficulties in recent years: activity declined by some 15 percent in the two-year period 1982-83, and inflation remained well above 250 percent per year. Notwithstanding the decline in economic activity, the external current account deficit is estimated to have widened in 1983 and external payments arrears continued to accumulate. The Bolivian authorities have recognized the need for strong measures to redress the external and internal imbalances in the economy. The staff is of the view that the exchange rate and pricing policy measures constitute steps in the appropriate direction, but fall short of the full set of comprehensive and consistent measures that is urgently needed to reverse the rapid deterioration of the Bolivian economy. The authorities have remained in close contact with the staff, and an Article IV consultation mission is scheduled to take place in January 1984. The staff report of the consultation discussions with the Bolivian authorities will contain a review and appraisal of exchange rate and other policies.

INTERFUND
WASHINGTON, DC
NOVEMBER 22, 1983

THIS IS TO INFORM YOU THAT PURSUANT TO SUPREME DECREE NO. 19890 OF NOVEMBER 17, 1983 and RESOLUTION NO. 293/83 OF THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF BOLIVIA OF NOVEMBER 18, 1983, THE NEW EXCHANGE RATE FOR THE BOLIVIAN PESO VIS-A-VIS THE U.S. DOLLAR IS BOLIVIAN PESOS 500 PER U.S. DOLLAR. THIS RATE SHALL APPLY TO ALL TRANSACTIONS IN U.S. DOLLARS BEGINNING NOVEMBER 21, 1983. PLEASE TAKE NOTE OF THIS COMMUNICATION.

REGARDS

FOREIGN DEPARTMENT
OFFICE OF THE PRESIDENT
NAVIANA

Received in Cable Room: November 23, 1983