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EBD/83/159

June 2, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Belgium and Luxembourg - Exchange System

The attached paper on the exchange system of Belgium and Luxembourg is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Belgium and Luxembourg: Exchange System

Prepared by the European and Exchange and
Trade Relations Departments

Approved by L. A. Whittome and Subimal Mookerjee

June 1, 1983

Effective May 26, 1983, the regulations concerning the dual exchange rate arrangements of Belgium and Luxembourg have been modified; the official notice issued by the Belgium-Luxembourg Exchange Institute (IBLC) to Belgian and Luxembourg banks is attached. The change takes the form of a derogation to the regulation whereby foreign currencies purchased in one exchange market may not be sold on the other. This opens a one-way link between the two markets by allowing the sale on the official market of currencies acquired on the financial (free) market. The option to channel capital inflows through the official market is thus introduced. As a consequence, the financial exchange rate for the Belgian franc cannot show a premium relative to the official rate, which acts as an effective ceiling for the financial rate. Under such an arrangement, capital inflows are not discouraged. However, the possibility remains for the financial rate to move to a discount relative to the official rate, thereby discouraging capital outflows.

The change re-establishes the link between the two markets which existed in the period up to May 11, 1971, when the system was basically implemented with a view to stemming capital outflows. The return to the pre-1971 arrangements has been dictated by the desire to maintain or, at any rate, not to discourage the substantial capital inflows which have taken place since the March 21, 1983 realignment of exchange rates within the European Monetary System. These inflows have presently considerably narrowed the spread between the official and the financial rate, which had widened to around 6 per cent in the period leading up to the realignment; since mid-April the discount on the financial franc has been less than 1 per cent.

The exchange rate system of Belgium and Luxembourg was reviewed on the occasion of the 1982 Article IV consultation, when it was noted (SM/82/177, p. 19) that the maintenance of dual exchange rates by Belgium gave rise to a multiple currency practice subject to Fund approval under Article VIII, Section 3; approval for the maintenance of the practice was not granted. The recent developments have narrowed

the spread between the two markets to less than 2 per cent, and have thus eliminated the multiple currency practice for the time being. A review of these developments and of the continuing operation of the dual exchange rate system will be undertaken on the occasion of the 1983 Article IV consultations with Belgium and Luxembourg to be held towards the end of 1983.

Official Text of General Authorization for Authorized Banks to Sell
on the Official Market Assets Acquired on the Free Market

Effective Date: May 26, 1983

Notwithstanding the provisions of Article 9(1) of Regulation "A", authorized banks are until further notice authorized to sell on the official market, and to transfer to their position on the official market, assets in foreign currencies acquired on the free market.