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EBS/85/136

CONFIDENTIAL

May 24, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Venezuela - Real Effective Exchange Rate - Information Notice

There is attached for the information of the Executive Directors an information notice on the real effective exchange rate of the Venezuelan bolívar.

Mr. Fajgenbaum (ext. 7162) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

VENEZUELA

Real Effective Exchange Rate--Information Notice

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

(In consultation with the Legal Department
and the Research Department)

Approved by E. Wiesner and S. Kanesa-Thanan

May 23, 1985

The recent evolution of the real effective exchange rate of Venezuela, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart.^{1/} Based on this index, as of March 1985 the bolivar has appreciated by more than 10 percent since the 1984 Article IV consultation in August 1984, the last occasion on which the Executive Board discussed Venezuela's exchange rate policy. The appreciation is estimated to have amounted to 10.1 percent.

As part of a package of adjustment measures, in February 1983 the Venezuelan authorities adopted a three-tier exchange rate system, which was subsequently modified to a four-tier system in late February 1984. The present system comprises an exchange rate of Bs 4.30 per U.S. dollar applicable to some essential imports and amortization of certain external debts; a rate of Bs 6.00 per U.S. dollar applicable to transactions of the petroleum and iron ore sectors; a rate of Bs 7.50 per U.S. dollar applicable to most other current transactions; and a free rate applicable to the remaining transactions, which since September 1983 has fluctuated between Bs 12 and Bs 14 per U.S. dollar.^{2/} The weighted average exchange rate under this system showed a cumulative real effective depreciation of 36 percent from the fourth quarter of 1982 to the second quarter of 1984.

Since March 1984, there has been a gradual transfer of imports from the Bs 4.30 rate to the Bs 7.50 rate in line with the authorities' intention of unifying the fixed exchange rates by the end of 1985. This has resulted in a small further nominal depreciation against the U.S. dollar, but it has been more than offset by the strength of the U.S.

^{1/} The exchange rate used is a composite rate (weighted average of multiple exchange rates).

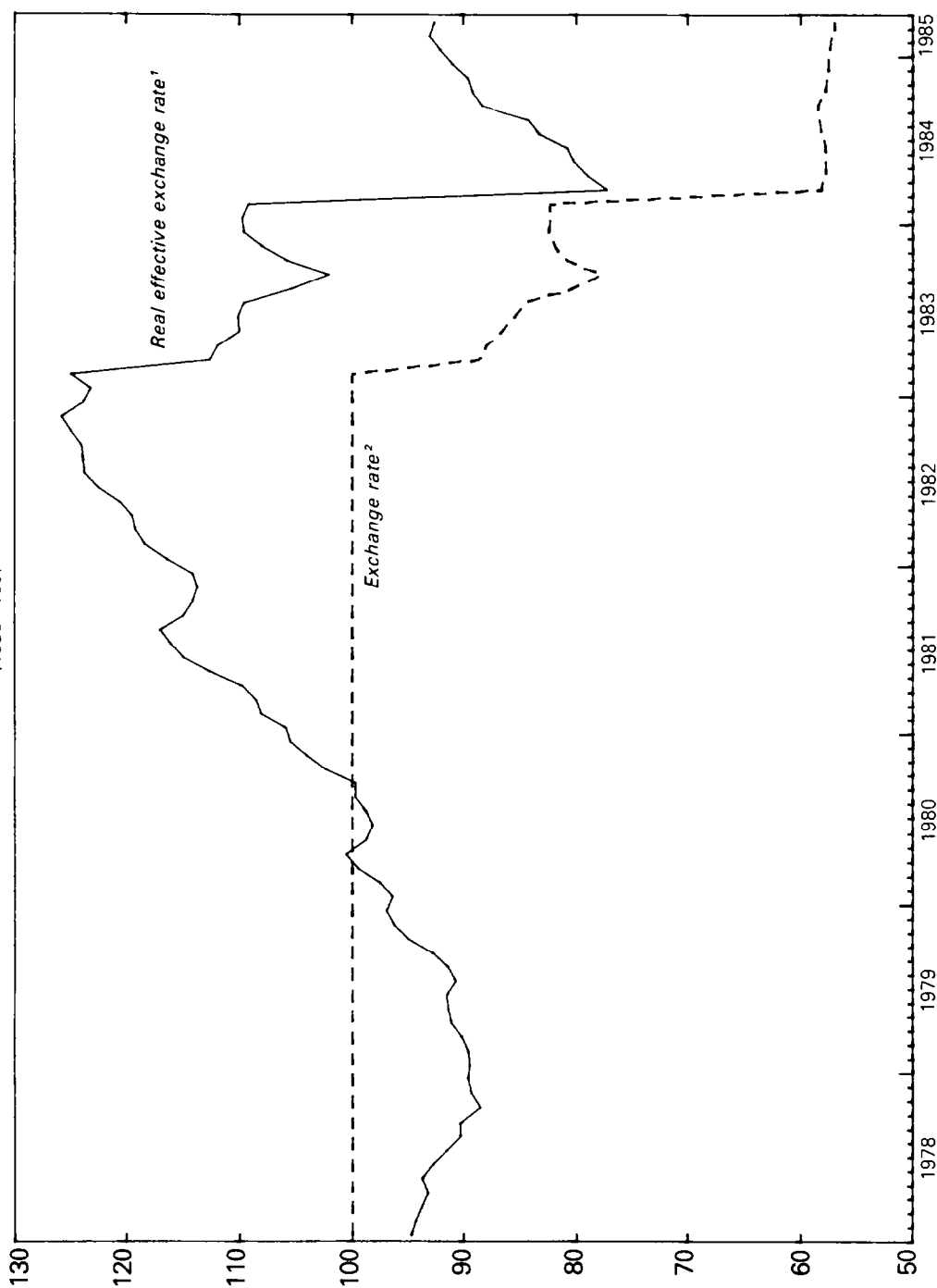
^{2/} For a more detailed description of Venezuela's exchange rate system see SM/84/201, pp. 69-70.

dollar and Venezuela's relatively high rate of price increases. Because of these developments, the real effective exchange rate as calculated for the information notice system registered an appreciation of 16 percent from the second quarter of 1984 to the first quarter of 1985. This left the cumulative real depreciation since the fourth quarter of 1982 at 26 percent.

It should be noted that the rise in consumer prices in the past year—17 percent in the year ended March 1985—was largely concentrated in the last four months of 1984 and reflected the relaxation of price controls and a realignment of relative prices to allow for the effects of the depreciation of the bolivar. Moreover, underlying inflationary pressures have remained relatively low as a result of the tight monetary and fiscal policies, as well as the cautious wage policy, that have been pursued over the last two years.

These developments and their policy implications are reviewed in the staff report for the midyear Article IV consultation (SM/85/115, 4/24/85) scheduled for discussion by the Executive Board on May 30, 1985. As noted in that report, the staff has urged the authorities to accelerate the process of unification of the controlled exchange rates, and it has suggested that in determining the unified controlled exchange rate the authorities would be well advised to take account of the need to reduce the scope of import controls and exchange rate developments in the free market. The staff also has recommended adoption of a flexible exchange rate policy under which full unification of the system would be achieved during 1986.

CHART
 VENEZUELA
 INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
 (1980=100)



¹ Trade weighted index of nominal exchange rates deflated by seasonally adjusted consumer prices. Increase means real appreciation.

² Exchange rate index (U.S. dollar per Venezuelan bolivar).

Table. Venezuela: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies) <u>2/</u>	Exchange Rate in terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1979						
I	89.7	97.3	92.2	100.0	76.9	77.0
II	91.4	98.4	92.8	100.0	79.7	79.4
III	91.6	97.8	93.7	100.0	83.3	83.0
IV	96.1	98.8	97.2	100.0	89.2	89.6
1980						
I	97.7	99.6	98.1	100.0	93.6	93.7
II	99.1	100.1	99.0	100.0	97.7	97.4
III	99.4	99.3	100.1	100.0	101.3	101.0
IV	103.9	101.0	102.8	100.0	107.3	107.8
1981						
I	107.5	103.7	103.6	100.0	111.5	111.5
II	112.4	108.2	103.9	100.0	114.8	114.5
III	116.0	111.8	103.7	100.0	118.1	117.9
IV	114.0	110.5	103.1	100.0	120.2	120.7
1982						
I	118.0	113.3	104.2	100.0	123.7	123.5
II	120.8	115.7	104.4	100.0	126.5	126.3
III	123.9	119.1	104.0	100.0	129.0	129.0
IV	124.9	121.2	103.1	100.0	129.9	130.5
1983						
I	120.3	116.5	103.3	96.2	131.9	131.5
II	110.7	107.4	103.0	86.7	134.2	134.0
III	105.7	103.1	102.5	80.9	136.3	136.4
IV	107.8	105.6	102.0	81.7	138.8	139.4
1984						
I	98.7	97.2	101.6	74.2	141.3	140.8
II	80.0	76.5	104.6	57.8	148.4	148.3
III	85.3	80.1	106.5	58.3	153.9	154.1
IV	89.9	81.2	110.7	57.6	163.4	164.0
1985						
I	92.6	83.5	110.9	57.1	167.4	166.6
Monthly						
1984						
Aug. <u>3/</u>	84.2	79.8	105.5	58.2	152.5	152.4
Sept.	88.4	81.5	108.5	58.5	157.9	158.7
Oct.	89.2	81.2	109.9	57.7	161.1	161.9
Nov.	89.5	80.6	111.0	57.5	163.8	164.5
Dec.	91.0	81.9	111.1	57.5	165.2	165.7
1985						
Jan.	92.1	82.7	111.5	57.3	166.9	166.7
Feb.	93.1	83.9	110.9	57.2	167.4	166.4
March	92.6	84.0	110.3	56.9	167.9	166.7
Percentage change						
Aug. 1984- March 1985	10.1	5.3	4.5	-2.4	10.8	

Source: Information Notice System.

1/ Increase means appreciation.

2/ Using seasonally adjusted consumer price indexes.

3/ Date of latest consideration by the Executive Board.