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EBD/85/140

June 3, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Bolivia - Exchange System

There is attached for the information of the Executive Directors a paper on recent changes in Bolivia's exchange system.

Mr. Flickenschild (ext. 8621) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Bolivia - Exchange System

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

(In consultation with the Legal Department)

Approved by S.T. Beza and Manuel Guitian

June 3, 1985

In the attached communication dated May 21, 1985 the Bolivian authorities have notified the Fund of a change in the exchange system. With effect from May 16, 1985 the Central Bank's buying rate for the U.S. dollar was raised from \$b 45,000 to \$b 67,000 per U.S. dollar and new selling rates of \$b 74,330 and \$b 75,000, respectively, per U.S. dollar were set for exchange sales to commercial banks and the public sector and to the general public; previously, these selling rates had been \$b 49,550 and \$b 50,000 per U.S. dollar. In the communication, the authorities have also informed the Fund of their intention to implement a flexible exchange rate policy.

On a mid-point basis, the exchange rate action represents a devaluation of the Bolivian peso of 33.1 percent. Since the last devaluation on February 11, 1985 (EBS/85/68, 3/22/85) the La Paz consumer price index has risen by some 120 percent. As a result of the latest exchange rate action, the prescribed spread between the buying and selling rate to the general public has increased from 11.1 percent to 11.9 percent in terms of the buying rate, thus intensifying the existing multiple currency practice.

The staff has learned that at about the same time the exchange rate for the purchase of travel tickets administered by the Ministry of Aviation was raised from \$b 95,000 to \$b 300,000 per U.S. dollar. The application of a separate exchange rate for travel tickets represents a multiple currency practice. The exchange rate for the U.S. dollar in the parallel market, which had reached \$b 300,000 per U.S. dollar prior to the recent devaluation, moved to \$b 250,000 per U.S. dollar immediately after the devaluation and stood at \$b 290,000 per U.S. dollar on May 31, 1985.

At the conclusion of the 1984 Article IV consultation with Bolivia, Executive Directors noted that the maintenance of a fixed exchange rate at a time of high inflation had greatly distorted resource allocation, and stressed the need for Bolivia to adopt a policy of more frequent adjustments of the exchange rate (SUR/84/74). The staff therefore encourages the Bolivian authorities to implement their intended flexible exchange rate policy. The staff will discuss exchange rate policy

with the Bolivian authorities in the context of the 1985 Article IV consultation. In the meantime, no action is proposed from the Executive Board.

Attachment

INTERFUND
WASHINGTON, D.C.

MAY 21, 1985

NEW SINGLE EXCHANGE RATE MADE UP AS FOLLOWS TOOK EFFECT ON 5/16/85:

CENTRAL BANK BUYING PRICE FOR US\$1.00 \$b 67,000

CENTRAL BANK COMMISSION \$b 2,500

TAX OF 4.8 PERCENT FOR NATIONAL TREASURY AND

EXCHANGE SUPERVISION DIRECTORATE \$b 3,216

NATIONAL TREASURY COMMISSION \$b 1,614

SELLING PRICE TO THE BANKING SYSTEM AND PUBLIC SECTOR \$b 74,330

ONE PERCENT BANKING SYSTEM COMMISSION \$b 670

FINAL SELLING PRICE FOR US\$1.00 \$b 75,000

THE AUTHORITIES INTEND TO IMPLEMENT A FLEXIBLE EXCHANGE RATE POLICY

REGARDS

LUIS BUSTOS BRETEL
ACTING DEPUTY MANAGER, ECONOMIC RESEARCH
NAVIANA, BALANCE OF PAYMENTS AND FOREIGN EXCHANGE

