International trade finance assignment

Business

According to this case, the character of the case; Santiago, part of the pharmaceutical distribution business was working during a time when Venezuela had been “ Tumultuous”. Political turmoil affected its economy as well. He opposed Hugo Shave regiment and was thus “ technically” not allowed to exchange domestic currency for foreign currency (as he needed it for his import business).

The president of the corrupted county suspended sale of dollars In the country as the Bolivar fell to Its record low against the dollar. This led to the establishment of the black markets which traded the domestic currency at a higher rate than what It was actually valued for. The currency from BBS. 1891. 50/$ shot up to BBS. 2500/$. Inflation had been “ soared” more than 20% per year. To curb this inflation, the government imposed “ fiscal policy” measures. The government re-valued currency to as. 600/$, established a commission to control the distribution of foreign exchange and imposed strict price control so as to ease Inflation since Santiago opposed Hugo Shave, he was not allowed to convert his money. Thus Venezuela manages to impose capital controls. According to Capital controls, technically it allows a country to preserve a fixed rate of exchange for its currency without risking its holdings of hard currency or foreign currency reserves.

The problem, however, is that this control or preservation comes at a substantial cost, as many Investors will no longer be willing to Invest the same levels of funds In that country. If at all. Capital controls allow a country, whether Venezuela, Malaysia, or China, to control the level and flow of capital flowing in and out of the country. Because few countries have problem with too much capital flowing in, but rather with capital out flows-??

capital flight-?? capital controls are typically utilized to prohibit massive capital outflows following unfavorable or crises In political or economic events.

In this case, therefore Capital controls might have contributed to the increase in the cost of servicing Venezuelan floating interest rate external debt and rolling over maturing external debt; secondary market yields on Venezuelan Brady bonds were higher than those of other important Latin American countries, and this differential was eliminated shortly after the controls were removed.

These developments may, however, have also reflected a market assessment that Venezuelan general economic problems were relatively more severe than elsewhere in Latin America; and the narrowing of the differential coincides in time not only with the elimination of the controls, but with the adoption of an MIFF program in April 1996 and intensified macroeconomic and structural adjustment. (elm, 2000) MIFF (2000) " Experience with the Use of Capital Controls to Limit Short-Term Capital Inflows" Retrieved March 1, 2010 from http://www. Miff. Org/external/pubs/Ft/pop/poppa/ index. HTML