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EBS/84/266

CONFIDENTIAL

December 21, 1984

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

There is attached for the information of the Executive Directors an information notice on a change in the real effective exchange rate of the Paraguayan guarani.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson, ext. 8671.

Att: (1)

INTERNATIONAL MONETARY FUND

PARAGUAY

Real Effective Exchange Rate--Information Notice

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

(In consultation with other departments)

Approved by E. Wiesner and Manuel Guitian

December 20, 1984

The recent evolution of Paraguay's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of October 1984 the Paraguayan guarani has appreciated in real effective terms by more than 10 percent since the last occasion on which developments in Paraguay's exchange rate were brought to the attention of the Executive Board--the notification of a change in Paraguay's exchange rate system in June 1984 1/. The appreciation is estimated to have amounted to 16.6 percent.

On May 24, 1984, Paraguay modified its exchange system, reducing the number of basic exchange rates from seven to three, and bringing about a weighted average devaluation of 36 percent. An exchange rate of \$ 160 per US\$1 applies to transactions of the binational entities, to official capital and external debt service payments, and to all other current invisible transactions of the government. An exchange rate of \$ 240 per US\$1 applies to most export receipts, government imports, imports of petroleum and fuel, selected agricultural and industrial inputs, and to transactions related to registered foreign borrowings by banks and the nonbank private sector 2/. A freely determined exchange rate is applied to all other imports, profit remittances, service payments, and a small part of export receipts. In October the free market rate averaged about \$ 400 per US\$1, after reaching a seasonal low of \$ 450 per US\$1 in August.

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1/ EBD/84/168 (6/13/84).

2/ During the recent Article IV consultation mission to Paraguay (October 20-November 10, 1984), the staff was informed that imports of petroleum and fuel, to which a rate of \$ 160 per US\$1 was applied on May 24, 1984, have in practice been transacted at a rate of \$ 240 per US\$1 since mid-July.

The exchange rate used in the information notice system, which is a composite of the three exchange rates, has depreciated against the U.S. dollar by about one percent since June. Between June and October consumer prices in Paraguay increased nearly 12 percent, raising the 12-month rate of inflation to over 25 percent. The real effective rate, however, remains about 22 percent below the level in effect prior to the May 24 action.

Article IV consultation discussions were recently held in Asuncion. The implications of the real effective exchange rate developments for Paraguay's economy are discussed in the staff report for the consultation (SM/84/276).

Table. Paraguay: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

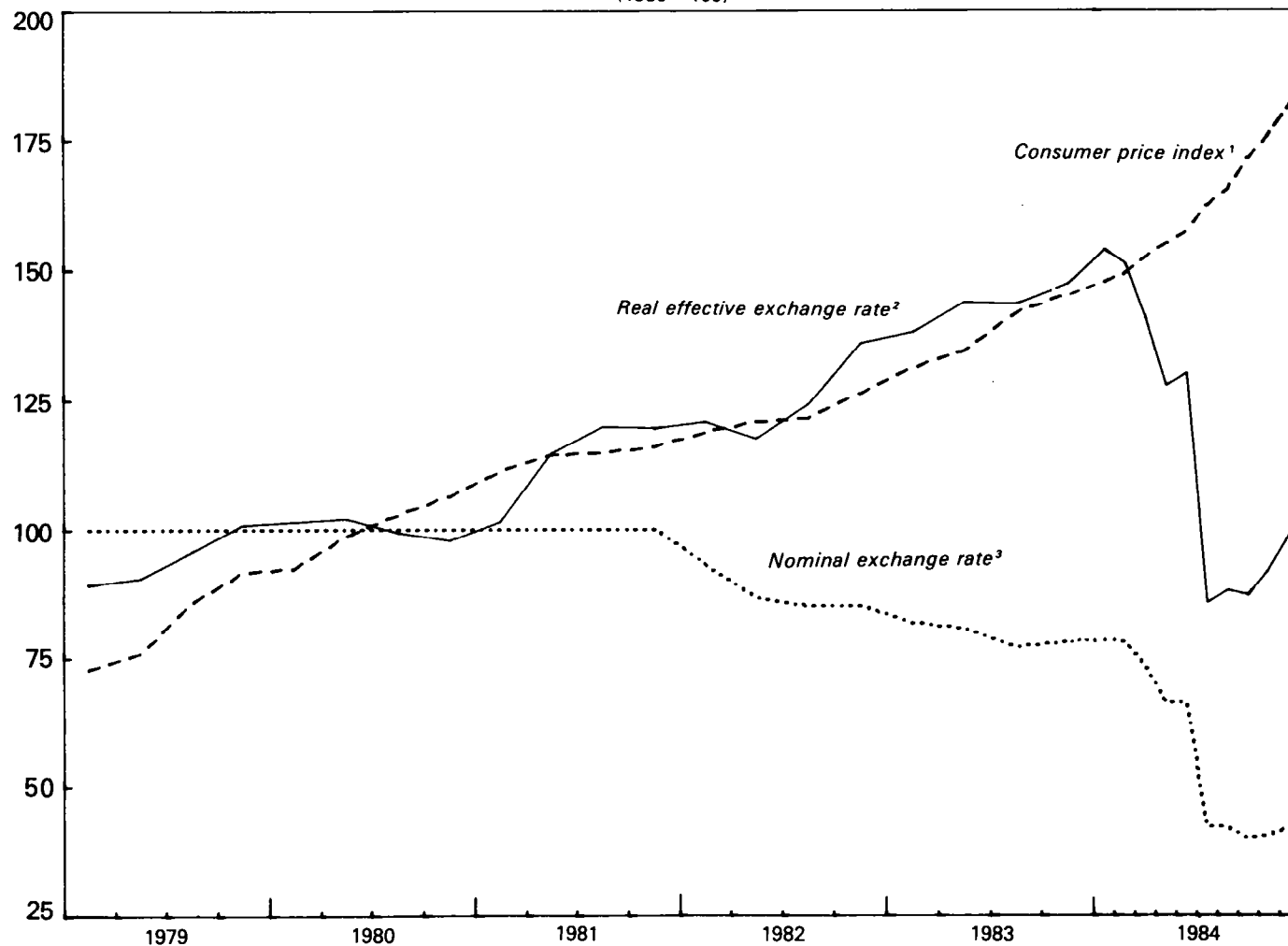
|                         | Real<br>Effective<br>Exchange<br>Rate <u>1/</u> <u>2/</u> | Nominal<br>Effective<br>Exchange<br>Rate <u>1/</u> | Relative<br>Consumer<br>Prices<br>(Local<br>Currencies) | Exchange<br>Rate in<br>terms of<br>U.S. dollars <u>1/</u> | Consumer<br>Price<br>Index<br>(Seasonally<br>Adjusted) | Consumer<br>Price<br>Index (Not<br>Seasonally<br>Adjusted) |
|-------------------------|---|--|---|---|--|--|
| <u>Quarterly</u>        |   |  |   |   |  |  |
| 1979                    |   |  |   |   |  |  |
| I                       | 89.2  | 69.8   | 127.3   | 100.0   | 73.1   | 73.5   |
| II                      | 90.5  | 75.1   | 120.2   | 100.0   | 76.0   | 75.6   |
| III                     | 95.8  | 78.5   | 121.6   | 100.0   | 85.8   | 85.5   |
| IV                      | 100.7   | 85.5   | 117.5   | 100.0   | 91.6   | 92.0   |
| 1980                    |   |  |   |   |  |  |
| I                       | 101.2   | 94.2   | 107.3   | 100.0   | 92.5   | 92.9   |
| II                      | 101.8   | 98.4   | 103.2   | 100.0   | 98.6   | 98.1   |
| III                     | 99.2  | 101.0  | 97.9  | 100.0   | 102.7  | 102.5  |
| IV                      | 97.8  | 106.4  | 91.6  | 100.0   | 106.2  | 106.6  |
| 1981                    |   |  |   |   |  |  |
| I                       | 101.4   | 116.3  | 86.9  | 100.0   | 111.1  | 111.5  |
| II                      | 114.5   | 143.5  | 79.8  | 100.0   | 114.3  | 113.6  |
| III                     | 119.8   | 167.1  | 71.5  | 100.0   | 114.6  | 114.5  |
| IV                      | 119.4   | 181.3  | 65.7  | 100.0   | 116.0  | 116.4  |
| 1982                    |   |  |   |   |  |  |
| I                       | 120.7   | 200.1  | 60.1  | 93.1  | 118.6  | 119.1  |
| II                      | 117.3   | 210.8  | 55.5  | 86.7  | 120.7  | 119.9  |
| III                     | 124.0   | 254.5  | 48.7  | 85.1  | 121.3  | 121.3  |
| IV                      | 135.8   | 306.9  | 44.2  | 85.1  | 126.2  | 126.6  |
| 1983                    |   |  |   |   |  |  |
| I                       | 137.8   | 349.9  | 39.4  | 81.8  | 131.0  | 131.5  |
| II                      | 143.6   | 416.7  | 34.4  | 80.8  | 134.3  | 133.4  |
| III                     | 143.1   | 474.9  | 30.1  | 77.2  | 141.6  | 141.6  |
| IV                      | 147.3   | 592.5  | 24.9  | 78.1  | 145.3  | 145.7  |
| 1984                    |   |  |   |   |  |  |
| I                       | 148.6   | 701.1  | 21.1  | 76.7  | 149.7  | 150.2  |
| II                      | 114.4   | 629.5  | 18.1  | 58.3  | 158.2  | 157.1  |
| III                     | 89.0  | 560.7  | 15.9  | 40.9  | 170.7  | 170.6  |
| <u>Monthly</u>          |   |  |   |   |  |  |
| 1984                    |   |  |   |   |  |  |
| June <u>3/</u>          | 85.7  | 491.5  | 17.4  | 42.4  | 162.4  | 161.7  |
| July                    | 88.1  | 530.8  | 16.6  | 42.1  | 165.2  | 164.6  |
| Aug.                    | 87.2  | 544.5  | 16.0  | 39.9  | 171.4  | 171.3  |
| Sep.                    | 91.8  | 606.8  | 15.1  | 40.7  | 175.4  | 176.0  |
| Oct.                    | 99.9  | 685.4  | 14.5  | 42.0  | 181.4  | 182.4  |
| Percentage<br>change    |   |  |   |   |  |  |
| June 1984-<br>Oct. 1984 | 16.6  | 39.5   | -16.4   | -0.9  | 11.7   | ...  |

Source: Information Notice System.

- 1/ Increases mean appreciation.  
2/ Using seasonally adjusted consumer price indexes.  
3/ Date of latest consideration by Executive Board.



CHART  
PARAGUAY  
REAL EFFECTIVE EXCHANGE RATE  
AND RELATED SERIES  
(1980 = 100)



Source: Information Notice System.

<sup>1</sup>Seasonally adjusted.

<sup>2</sup>Trade weighted index of nominal exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation.

<sup>3</sup>U.S. dollars per guarani (index of composite of multiple exchange rates).