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October 3, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Ecuador - Exchange Arrangements and Exchange System

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

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

ECUADOR

Exchange Arrangements and Exchange System

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

(In consultation with the Legal Department)

Approved by E. Wiesner and M. Guitian

October 2, 1984

In a communication dated September 4, 1984 (Attachment), the Ecuadoran authorities have notified the Fund of changes introduced to the dual exchange market system.1/

Transactions in the official exchange market were sharply reduced and are now limited to (a) receipts from exports of crude petroleum and petroleum derivatives;2/ (b) earnings from the investment of official international reserves; (c) payments for the f.o.b. value of imports on the Special List I;3/ (d) debt service payments on external debt disbursed before September 4, 1984; (e) profit and capital remittances corresponding to registered investments made before September 4, 1984 and the proceeds of which were converted in the official market; and (f) payment for services contracted by the State Petroleum Company. It is estimated that the restructured official market, which contains primarily public sector transactions, will remain in surplus.

With regard to the exchange rate in the official market, the system of daily depreciation by S/. 0.05 per U.S. dollar each calendar day in effect since June 1983 was halted on September 4, 1984, and the official exchange rate was fixed at the level reached on that date (S/. 66.50 per U.S. dollar, buying, and S/. 67.85 per U.S. dollar, selling). The authorities have indicated that they stand ready to adjust the official exchange rate from time to time in light of economic conditions and international factors.

1/ There are two exchange markets in Ecuador, the official market and the free market. However, the Central Bank transacts in the free market at the central bank free market exchange rate, which moves in line with the exchange rate in the free market (EBS/83/91).

2/ In Ecuador all exports of crude petroleum and petroleum derivatives are made by the public sector.

3/ Comprises medicines and basic staples.

The exchange rate in the free market will continue to be established by market forces; on September 4, 1984 that rate was S/. 99.00 per U.S. dollar (buying) and S/. 101.00 per U.S. dollar (selling).1/ Transactions carried out at the central bank free market rate are (a) all nonpetroleum exports; (b) all imports not included in the official market; (c) disbursements of external loans and the service of those loans; (d) essential central government services not included in the official market; and (e) investments, amortization, and investment income.2/ Payment for and receipts from all other transactions are to be effected in the free exchange market.

The maximum surrender period for export receipts was shortened to 30 days for coffee, cacao beans, bananas, fruit, shrimp, and for all those exports for which payment is received immediately; 60 days for all other primary products; and 180 days for all remaining exports.

In addition, the Ecuadoran authorities removed all import prohibitions, except for motor vehicles, imposed in late 1982 and not removed in February 1984.3/ Also, the minimum financing period for imports was reduced and some import duties lowered.

The shift of transactions from the official to the free market represents a simplification of the dual exchange market system. The staff is in contact with the Ecuadoran authorities and will inform the Executive Board of any further developments. Approval of exchange restrictions, except for the bilateral payments agreements, and of the multiple currency practice had been granted through the end of the stand-by arrangement, which lapsed on July 24, 1984 (EBS/84/92, Supp. 2). No action by the Executive Board is proposed at this time.

1/ The free market exchange rate used by the Central Bank on September 4, 1984 was S/. 98.50 per U.S. dollar (buying) and S/. 99.50 per U.S. dollar (selling).

2/ The transactions which have been shifted to the free exchange market of the Central Bank include half of nonpetroleum exports, all List I imports not explicitly exempted by the measure, and service on external debt disbursed on or after September 4, 1984.

3/ In February 1984 the Ecuadoran authorities lifted prohibitions for a list of imports representing in value about 75 percent of the total which had been prohibited since late 1982 (EBS/84/92).

Quito, Ecuador

September 4, 1984

Mr. Jacques de Larosiere
Managing Director
Interfund
Washington, D.C.
U.S.A.

This is to inform you of the measures relating to exchange matters adopted by the Monetary Board on Tuesday, September 4, 1984, with a view to achieving the objectives set forth below:

(a) Maintaining the real value of the exchange rate;

(b) Promoting and diversifying exports;

(c) Rationalizing the use of foreign exchange;

(d) Working toward elimination of over- and underinvoicing;

(e) Promoting the investment of venture capital from abroad;

(f) Improving the allocation of resources in the economy.

The measures adopted are as follows:

The dual exchange rate system (official and free) is maintained with central bank intervention.

The system of daily minidevaluations is abolished and the official exchange rate is set at S/. 66.50 per U.S. dollar for buying and collection of charges, and at S/. 67.85 for selling. The rate will be adjusted as necessary in light of economic conditions and international factors.

The rates quoted on the free market will fluctuate depending on the supply of and demand for foreign exchange, with central bank intervention.

In accordance with the above, there have been various shifts from the official market to the free market with central bank intervention, making the market structure as follows:

Central Bank's official market

The official market will be supplied with the proceeds from exports of petroleum and petroleum derivatives and the income from investment of international monetary reserves.

It will provide the foreign exchange required to cover the f.o.b. value of imports on Special List I, for service of the external debt contracted and disbursed to date, for the repatriation of profits and capital from investments registered and received in the official market to date, for the rendering of services to CEPE, and for other minor services under existing contracts.

Free market with central bank intervention

One hundred percent of nonoil exports, the f.o.b. value of [imports on] Lists I-A, I-B and II, pending disbursements and disbursements under the new external loans and the service thereof, essential central government services not included in the official market, and investments, amortization and investment income (investors having the option of selling or not selling the foreign exchange to the Central Bank).

In addition, effective today, the maximum periods for surrendering foreign exchange have been reduced to: 30 days for any proceeds relating to sight drafts, coffee beans and cocoa beans, bananas, fruits in general, processed or unprocessed shrimp; 60 days for primary commodities other than the above; and 180 days for other products, as well as for new products and new markets.

As regards the form of payment for imports, the periods have been simplified and reduced to: nonreimbursable, 120 days for Special List I, List I-A and List II, and 180 days for List I-B.

Finally, the prohibitions introduced in 1982 that are still in force are lifted and the items in question are incorporated into List II, except for motor vehicles, and the customs duty is lowered for List I-A and for certain readily smuggled products on List II.

Regards

Dr. Carlos Julio Emanuel
General Manager
Central Bank of Ecuador