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June 13, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Paraguay - Exchange System

The attached paper on changes in the exchange system of Paraguay is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Paraguay--Exchange System

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

(In consultation with the Legal Department)

Approved by S.T. Beza and Manuel Guitian

June 12, 1984

In the attached communication dated May 29, 1984, the Paraguayan authorities have informed the Fund of modifications to Paraguay's exchange system with effect from May 24, 1984. The exchange system of Paraguay was described in the background paper to the staff report on the 1983 Article IV consultation (SM/84/1, 1/3/84), and information regarding subsequent modifications was contained in "Paraguay--Exchange System" (EBD/84/130, 5/1/84).

According to the attached communication and to additional information provided to the staff, Paraguay's exchange system is now as follows:

1. An exchange rate of ₲ 160 = US$1 is applicable to official capital receipts, foreign exchange sales by the Itaipu and Yacireta binational entities, 1/ payments for imports of petroleum and petroleum products by PETROPAR (the state petroleum enterprise), public sector external debt payments, and all other current invisible payments by, and receipts of, the general government.

2. An exchange rate of ₲ 240 = US$1 is applicable to all export receipts, transactions related to registered foreign borrowing operations by banks and the nonbank private sector (including interest payments), general government import payments, and payments for imports of agricultural and industrial inputs for firms engaged in the processing of domestic raw materials. The exchange rate of ₲ 240 = US$1 is applicable to the value of exports calculated on the basis of the minimum export price (aforo) for the respective export item; the difference between the f.o.b. export price and the aforo may be converted at the rate prevailing in the free exchange market. 2/

1/ The Itaipu Binational Entity, owned jointly by Paraguay and Brazil, is in charge of building and operating the Itaipu hydroelectric complex; the Yacireta Binational Entity, owned jointly by Paraguay and Argentina, is in charge of building and operating the Yacireta hydroelectric project.

2/ Under the previous system, the value calculated on the basis of the aforo was converted at a mixed rate of ₲ 208 per US$1 (60 percent at ₲ 160 per US$1 and 40 percent at ₲ 280 per US$1), and that corresponding to the difference between f.o.b. export price and aforo was converted at ₲ 300 per US$1.

3. All other transactions take place at a rate determined in the free foreign exchange market. Since the introduction of the measures described in this paper, the rate in this market has ranged between ₲ 360 and ₲ 400 per US$1.

4. Commercial banks as well as exchange houses are authorized to operate on their own account in the free foreign exchange market; the Central Bank does not intervene in the free market to regulate the rate. There is a requirement that foreign exchange receipts from exports and capital inflows be transferred daily by commercial banks to the Central Bank, which in turn provides foreign exchange to meet requests related to payments for imports that qualify for the ₲ 240 = US$1 exchange rate. Foreign exchange transactions related to government imports and other current transactions, imports by PETROPAR, receipts of binational entities, official capital flows, and external debt payments are handled solely by the Central Bank.

5. Foreign exchange requests related to payment for imports made before May 24, 1984 at the rate of ₲ 160 = US$1 are to be met by the Central Bank.

6. The advance import deposit requirement, which was applicable to a number of goods and ranged from 100 to 200 percent of import value, was eliminated with effect from May 24, 1984.

The staff has been in close contact with the Paraguayan authorities. The measures described above have simplified Paraguay's multiple exchange rate system considerably, and they represent an important step toward the establishment of more realistic exchange rate policies. They have resulted in a depreciation of the guarani ranging from at least 13 percent 1/ in the case of exports, to more than 50 percent 2/ for the majority of imports. The staff welcomes this action, and urges the authorities to proceed as soon as possible to the unification of the exchange rate at a realistic level, so that existing exchange and trade restrictions may be liberalized. The last Article IV consultation with Paraguay was completed by the Executive Board on January 16, 1984. Because of the complexity of Paraguay's exchange system, the Fund did not approve it at the time and urged the authorities to simplify the system as well as to unify the exchange rate at a realistic level (SM/83/260, 12/27/83). No action by the Executive Board is proposed at this time.

Attachment

1/ Calculated on the assumption of no difference between the f.o.b. export price and the minimum export price (aforo).

2/ In the case of imports previously subject to prior deposit requirements, the effective depreciation was somewhat smaller.

ATTACHMENT

From: Central Bank of Paraguay
Asunción, Paraguay

To: Mr. Christian Brachet
Chief, River Plate Division
INTERFUND
Washington, D.C. (U.S.A.)

May 29, 1984

I am pleased to inform you that the Central Bank of Paraguay has adopted new exchange measures to support the balance of payments. The measures consist mainly of simplifying the exchange rate and bringing it closer to more realistic levels. The new exchange rates which came into force on May 24, 1984 are as follows:

₲ 240 per U.S. dollar--exports, private capital transfers, government imports, imports of agricultural and industrial inputs;

₲ 160 per dollar--official capital receipts, receipts of binational entities, imports of petroleum and fuels, external public debt payments, general government services;

Free exchange rate--all imports other than those listed under the ₲ 240 per dollar heading, remittances of dividends, profits from private capital, other services (freight, insurance, commissions, travel tickets, family remittances).

The new exchange system permits banks to operate on the free exchange market. The Central Bank does not intend to intervene in the free market in order to regulate the exchange rate. The banks will have their own exchange positions in the free market. Export receipts and capital inflows at ₲ 240 per dollar will be transferred by the banks daily to the Central Bank, which will supply the banks with foreign exchange for imports at ₲ 240 per dollar. The Central Bank itself will deal with government and PETROPAR imports, receipts of binational entities, official capital, and external debt payments. The Central Bank will cover private sector imports made before the new exchange system came into force at ₲ 160 per dollar. The exchange houses will continue operating in the free market.

Regards.
César Romeo Acosta
President
Central Bank of Paraguay

Received in Cable Room
May 30, 1984