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May 1, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Paraguay - Exchange System

The attached paper on certain modifications relating to Paraguay's exchange system 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 Eduardo Wiesner and Manuel Guitián

May 1, 1984

In the attached communication dated March 22, 1984, the Paraguayan authorities informed the Fund of certain modifications relating to Paraguay's exchange system. The most important changes concern the exchange rate applicable to the purchase of foreign exchange for payments of air transportation fares and freight and the regulations governing the surrender of export proceeds.

1. By Central Bank Circular 14/84 of February 22, 1984, the exchange rate applicable to the purchase of foreign exchange in the official exchange market for the transfer abroad of proceeds from air freight charges and domestic sales of air transportation tickets was changed from $\text{¢ } 160 = \text{US\$1}$ to $\text{¢ } 300 = \text{US\$1}$.

2. Following a series of decisions announced earlier which aimed at simplifying the exchange rate regime applicable to exports, Central Bank Circular 17/84 of March 9, 1984 adjusted the average exchange rate at which export receipts are to be surrendered in the official exchange market. According to the new regulations, the total value of export proceeds will be converted in the official exchange market, as follows: (a) 60 percent of the value of export receipts calculated on the basis of the minimum export price (aforo) ^{1/} for the respective export item is to be converted at $\text{¢ } 160 = \text{US\$1}$, and the remainder at $\text{¢ } 280 = \text{US\$1}$; (b) authorized banks will convert foreign exchange earnings corresponding to the difference between f.o.b. export price and aforo at $\text{¢ } 300$ per $\text{US\$1}$; (c) all foreign exchange receipts converted at $\text{¢ } 280$ and $\text{¢ } 300$ per $\text{US\$1}$ and 37.5 percent of those converted at $\text{¢ } 160$ per $\text{US\$1}$ must be surrendered to the Central Bank, but the remainder may be retained by authorized banks to make payments abroad as authorized by the Central Bank. Under the system that was in effect until the end of 1983, export proceeds calculated on the basis of aforos had to be surrendered in the official market at exchange rates ranging from $\text{¢ } 143.00\text{--}182.67$ per $\text{US\$1}$, depending on the commodity; foreign exchange

^{1/} Minimum export prices (aforos) denominated in U.S. dollars are officially established for all export commodities.

proceeds corresponding to the difference between aforos and actual export prices were allowed to be sold in an illegal but tolerated parallel market. The measure adopted on March 9, 1984 represents a simplification of the exchange rate regime applicable to exports.

The staff has been in contact with the Paraguayan authorities regarding the exchange arrangements. The described changes in regulations pertaining to the exchange rate applicable to exports represent a step toward the establishment of a more realistic exchange rate system. However, further action will be required for the unification of the exchange rate applicable to exports, including the elimination of the system of aforos as a basis for surrendering export earnings.

The last Article IV consultation with Paraguay was completed by the Executive Board on January 16, 1984. At the conclusion of the consultation, the Fund noted the complexity of Paraguay's exchange system and urged the authorities to simplify it and 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

MR. ALVARO DONOSO
INTERFUND
WASHINGTON, D.C. U.S.A.

MARCH 22, 1984

This is to inform you of the following:

Resolution 16/230/83

Sets the minimum price for charcoal at DM 150 per ton f.o.b. Paraguayan port, or its equivalent US\$56 per ton; 37.5 percent foreign exchange to be converted at the rate of guaranies 126 per dollar, 37.5 percent at guaranies 160 and 25 percent at guaranies 230.

Resolution 16/232/83

Authorizes exporters of essential oils to convert 37.5 percent of foreign exchange at guaranies 126 per dollar, 37.5 percent at guaranies 160 and 25 percent at guaranies 230.

Resolution 1/9/84

Exporters shall trade foreign exchange proceeds from their exports at the banks which registered shipping documents.

Resolution 2/9/84

Recipients of prefinancing and financing loans shall sell to the lending banks foreign exchange corresponding to the amount of said loans at the exchange rate in which transaction was carried out.

Circular 6/84

Shipping documents will be valid for 120 days from the date of registration at banks.

Circular 7/84

Export goods in transit, authorized by the Ministry of Finance, will be registered at the Central Bank of Paraguay (BCP). If required documentation is not presented, transaction will be considered as export of domestically-produced goods and corresponding foreign exchange will be surrendered through the banking system.

Circular 14/84

Foreign exchange remittance to pay for residents' fares and air freight shall be converted at the rate of guaranies 300 per dollar and will be provided by the BCP.

Circular 13/84

Sixty percent of the minimum export price of oil seeds and oleaginous fruits, organic oils, residues and waste from food industries, cotton fibers, cotton linters, and cotton fabric will be converted at guaranies 160 per dollar and the remaining 40 percent at guaranies 280. Authorized banks will convert the difference between the minimum price and the f.o.b. price at guaranies 300. Of the foreign exchange converted at guaranies 160, 37.5 percent will be surrendered to the BCP and the banks will be authorized to apply the balance to current transactions. Foreign exchange acquired at guaranies 280 and guaranies 300 will be surrendered to the BCP.

Circular 17/84

Sixty percent of minimum price of all exports will be converted at guaranies 160 per dollar and the remaining 40 percent at guaranies 280. Authorized banks will convert the difference between the minimum price and the f.o.b. price at guaranies 300. Of the foreign exchange converted at guaranies 160, 37.5 percent will be surrendered to the BCP and the banks may apply the balance to current transactions with prior approval of the BCP. Foreign exchange acquired at guaranies 280 and guaranies 300 will be surrendered to the BCP.

Copies of these circulars and resolutions were sent to Mr. Christian Brachet.

REGARDS

FEDERICO MANDELBURGER
ACTING PRESIDENT
CENTRAL BANK OF PARAGUAY