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Cor. 1

April 7, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ecuador - Exchange System

The attached paper on changes to the exchange market system of Ecuador is circulated for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

Ecuador--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 Manuel Guitian

April 6, 1933

In the attached communication dated March 25, 1983, the Central Bank of Ecuador has informed the Fund of changes to the exchange market system 1/ that were introduced on March 19, 1983.

1. The official exchange rate was changed from S/. 33.00 = US$1 to S/. 42.00 = US$1, representing a depreciation of 21.4 per cent, and it will be depreciated by a further S/. 0.04 per US$1 each business day with effect from March 23, 1983.

2. Seventy per cent, instead of the previous 100 per cent, of proceeds from exports other than oil and oil derivatives, bananas, coffee beans, cocoa beans, and sugar, are required to be surrendered in the official exchange market. The latter group of products remains subject to the 100 per cent surrender requirement. Public sector foreign exchange and the proceeds from official foreign capital and from over one year private credits authorized by and registered with the Central Bank are also channeled to the official market.

3. Sales of foreign exchange at the official rate by the Central Bank are to be limited to the following transactions: (a) payments for the c. & f. value of imports of goods on List I 2/; (b) debt service payments by the public sector and approved public sector expenditures; (c) certain debt service payments by the private sector; and (d) expenses for post-graduate studies and for special courses for the handicapped, and expenses relating to press, radio and television services. Payments for all other transactions are to be effected in the free exchange market.

4. The rates of prior import deposits were reduced as follows: goods on List I (A), zero; goods on List I (B), 20 per cent; and goods on List II, 50 per cent.

1/ Ecuador has maintained a dual exchange market system since November, 1971.

2/ Permitted imports are divided into two categories: LIST I consisting of essential goods (Group A) and semiessential goods (Group B); and LIST II, consisting of less essential and luxury goods.

5. "Monetary Stabilization Surcharges" on the c.i.f. value of imports are to be levied at the following rates:

Products	Rates of surcharge (In per cent)
List I (A)	5
List I (B)	8
List II	15

The above measures, as well as other policies, will be discussed in detail in the staff's report on Ecuador's request for the use of Fund resources under a stand-by arrangement to be circulated to the Executive Board at a later date. In the meantime, no action by the Executive Board is being proposed.

Attachment

Attachment

Quito, March 25, 1983

International Monetary Fund
Washington, D.C.

This is to inform you of the latest economic resolutions adopted by the Ecuadoran Government under the stalization program for readjusting the economy, particularly as regards the external sector.

1. A new official rate of exchange has been set at S/. 42 per US$1 or equivalent in other foreign currencies, effective as from March 19, 1983. This exchange rate will be increased by 4 centavos per dollar each business day starting on March 23, under a minidevaluation system.

2. It has been resolved that the following shall be surrendered in the official exchange market:

(a) The total value of exports of oil and oil derivatives, bananas, coffee and cocoa beans, and sugar, as well as 70 per cent of that of the remaining export products.

(b) Foreign capital for investment of an official nature and all public sector foreign exchange, whatever its purpose.

(c) Private external credit with a maturity of more than one year, authorized by and registered with the Central Bank.

Similarly, the Central Bank will sell at the official rate the foreign exchange required to make the following payments:

(a) Those arising from the C & F value of goods appearing in List I.

(b) Contractual amortization and interest payments on external public sector borrowings and other external public sector expenditure which meets the requirements established in [...].

(c) Contractual amortization and interest payments on external private sector borrowings, including current refinancing schemes but excluding service on private short-term debt incurred as from May 13, 1982 whose foreign exchange was not surrendered to the Central Bank.

(d) Foreign exchange for postgraduate studies and special courses for the handicapped, as well as that needed to cover press, radio and television services.

Attachment

All exchange transactions not referred to above shall be negotiated in the free market.

3. The Central Bank has been empowered to intervene in the free exchange market to purchase foreign exchange for 30 per cent of the f.o.b. value of exports other than oil and oil derivatives, bananas, coffee beans, cocoa beans, and sugar, and to sell such foreign exchange to cover the C & F value of imports appearing in List II (nonessential products).

4. The prior deposit percentages on the c.i.f. value of goods to be imported have been lowered as follows:

List	Section	Prior Deposit	Duration
I	A	0 per cent	-
I	B	20 per cent	180 days
II	-	50 per cent	270 days

5. "Monetary stabilization surcharges" have been set on the c.i.f. value of imports, at the following percentages:

List	Section	Surcharge
I	A	5 per cent
I	B	8 per cent
II	-	15 per cent

The interest rate structure for both lending and borrowing operations has been simplified and adjusted. The basic interest rate (minimum borrowing rate) was set at 13 per cent and the official lending rate (minimum lending rate) was set at 16 per cent.

6. The Monetary Board has been empowered to regulate the holding of current accounts in foreign currency by public sector institutions.

REGARDS
EDUARDO SAMANIEGO
ACTING GENERAL MANAGER
BANCENTRAL ECUADOR