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EBD/85/82

March 21, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Paraguay - Exchange System

There is attached for the information of the Executive Directors a paper on a recent change in Paraguay's exchange system.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Quirk (ext. 8520) or Mr. Lachman (ext. 8648).

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

March 20, 1985

In the attached communication dated March 11, 1985, the President of the Central Bank of Paraguay has informed the Fund of a modification to Paraguay's exchange system pertaining to export receipts. The last basic change in Paraguay's exchange system was made on May 24, 1984 (see EBD/84/168; "Paraguay - Exchange System", 6/12/84). The exchange system of Paraguay was described in the background paper to the staff report on the 1984 Article IV Consultation (SM/84/274, 12/28/84).

Effective February 18, 1985, the Central Bank reintroduced the system of minimum export prices denominated in U.S. dollars (aforos) as the basis on which surrender and conversion of export proceeds would be made henceforth. Commercial banks are now required to convert 50 percent of export proceeds based on these minimum prices at the rate of \$ 240 per U.S. dollar, and 50 percent at \$ 400 per U.S. dollar. In practice, therefore, export proceeds at minimum prices will now be liquidated at a mixing rate of \$ 320 per U.S. dollar. There is a part of export proceeds that is not based on minimum prices that will be converted at the free market rate, which is currently around \$ 420 per U.S. dollar. Previously, since May 1984, all export proceeds had been converted at a uniform rate of \$ 240 per U.S. dollar.

Following the present modification, Paraguay now has four, rather than the former three, basic exchange rates:

- a. \$ 160 per U.S. dollar for public sector capital and external debt service payments and transactions related to the binational entities;
- b. \$ 240 per U.S. dollar for 50 percent of exports at minimum prices, for registered private capital transactions, for imports of petroleum, fuel oil, and agricultural and industrial inputs;
- c. \$ 400 per U.S. dollar for the remaining 50 percent of export proceeds based on minimum export prices; and

d. a free market exchange rate for all other imports, profit remittances, and service payments, as well as for that part of export proceeds corresponding to the difference between the actual export price and the minimum price set by the Central Bank.

The Chairman's summing-up at the conclusion of the 1984 Article IV consultation with Paraguay on January 16, 1985, noted that Executive Directors stressed the drawbacks of multiple exchange rates and urged that further measures be taken toward their unification at a realistic level. This was particularly the case in view of the projected reduction in foreign exchange inflows related to the construction of Paraguay's hydroelectric projects. The staff would note that since September 1984, the 12-month rate of consumer inflation has picked up from 22 percent to around 30 percent. Moreover, the free market rate has moved from ¢ 400 to ¢ 420 per U.S. dollar, making the need for exchange rate action all the more pressing. The recent exchange rate modification is certainly a step in the right direction in that it increases the incentives for exports. However, it falls well short of the authorities' stated goal of unifying the exchange rate and it increases the complexity of the Paraguayan exchange rate system.

No Executive Board action is being proposed at this time.

Attachment

MR. EDUARDO WIESNER
DIRECTOR
WESTERN HEMISPHERE DEPARTMENT
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431, U.S.A.

ASUNCION, MARCH 11, 1985

I AM PLEASED TO INFORM YOU THAT THE GOVERNMENT OF PARAGUAY HAS ADOPTED CORRECTIVE EXCHANGE RATE MEASURES DESIGNED TO ENCOURAGE EXPORTS AND TO ALIGN THE BANKING EXCHANGE RATE MORE CLOSELY WITH THE FREE RATE. THE MEASURES INTRODUCED ON FEBRUARY 18, 1985 INCLUDE SUCH POSITIVE STEPS AS AN AUTHORIZATION TO BANKS TO CONVERT 50 PERCENT OF EXPORT PROCEEDS AT ¢ 240 PER DOLLAR AND 50 PERCENT AT ¢ 400 PER DOLLAR, COMPARED WITH THE SINGLE RATE OF ¢ 240 PER DOLLAR THAT OBTAINED PREVIOUSLY. BANKS WILL DELIVER ALL FOREIGN EXCHANGE EXPORT PROCEEDS TO THE CENTRAL BANK OF PARAGUAY AT THE RATES SPECIFIED ABOVE.

ANOTHER RULE REQUIRES COTTON AND SOYBEAN EXPORTS, AS IN THE PAST, TO BRING IN THE FOREIGN EXCHANGE FOR THEIR EXPORTS BEFORE THESE MAY LEAVE THE COUNTRY. THE OTHER EXCHANGE REGULATIONS ADOPTED IN 1984 CONTINUE UNCHANGED.

REGARDS

CESAR ROMEO ACOSTA
PRESIDENT
CENTRAL BANK OF PARAGUAY

Received in Cable Room: March 11, 1985

