

EBS/83/179

CONFIDENTIAL

August 22, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Peru - Exchange Arrangements

There is attached for the information of the Executive Directors a paper on changes in the exchange rate of the sol.

Att: (1)

INTERNATIONAL MONETARY FUND

Peru--Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by E. Wiesner and S. Kanesa-Thanan

August 19, 1983

The Peruvian authorities have informed the Fund of a change in the buying rate of the sol in the official market from S/. 1,743.00 = US\$1 to S/. 1,850.00 = US\$1 on August 8, 1983, representing a depreciation of 5.8 percent. In addition, with effect from September 1, 1983, monthly rates of depreciation of the sol in terms of the U.S. dollar in the official market will be preannounced for three months in advance. In accordance with that policy, monthly rates of depreciation of the sol in terms of the U.S. dollar of 3.9, 3.8 and 3.6 percent were announced for the months of September, October, and November 1983, respectively. The exchange rate for the sol in the official market will continue to be adjusted on an almost daily basis.

Since mid-1978 Peru has maintained an exchange rate policy based on frequent small depreciations of the sol against the U.S. dollar. In early 1979 the authorities began the practice of preannouncing the exchange rate for one month ahead--and subsequently for three months ahead. The policy of preannouncing the exchange rate was abandoned after July 1980, but the sol continued to be depreciated almost daily on the basis of a set of indicators. As a result of these depreciations, the local currency value of the U.S. dollar was raised at an average monthly rate of approximately 8 1/4 percent during the first seven months of 1983, as compared with an average rise in domestic consumer prices of about 7 3/4 percent per month over the same period. During August 1983, the authorities intend to continue depreciating the sol vis-à-vis the U.S. dollar to attain an exchange rate of S/. 1,960.00 = US\$1 by end-month. On this basis, the sol will have depreciated by some 12 percent vis-à-vis the U.S. dollar during the month of August. On August 16, 1983, the exchange rate in the official market was S/. 1,906.00 (buying) and S/. 1,913.53 (selling) per US\$1.

A key policy objective of the Peruvian authorities under the medium-term economic program supported by an extended arrangement with the Fund is the improvement of Peru's external competitiveness. In accordance with this program, the authorities intended to depreciate the exchange rate for the sol on a daily basis, without preannouncement and at least in line with domestic inflation. A staff team will visit Lima shortly to conduct the 1983 Article IV consultation discussions and the review of the second year program of the extended arrangement. The reports to the Executive Board of these discussions will contain an analysis and appraisal of the recent change in Peru's exchange arrangements. In the meantime, no action by the Executive Board is required.