

EBS/83/85

CONFIDENTIAL

April 27, 1983

To: Members of the Executive Board  
From: The Secretary  
Subject: Peru - Consultation Under Extended Arrangement

Attached for consideration by the Executive Directors is a paper on a consultation under the extended arrangement for Peru. A draft decision appears on pages 27 and 28. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. van Houten, ext. 74971.

Att: (1)

INTERNATIONAL MONETARY FUND

PERU

Consultation Under Extended Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal,  
Legal, and Treasurers Departments)

Approved by E. Wiesner and Manuel Guitian

April 26, 1983

I. Introduction

On June 7, 1982, the Executive Board approved an extended arrangement for Peru in an amount equivalent to SDR 650 million (264 per cent of quota). Of this amount, SDR 140 million was made available and SDR 100 million was purchased during the period through February 28, 1983. An amount equivalent to SDR 290 million is available during the period March 1, 1983-February 29, 1984. This amount includes the undrawn balance of SDR 40 million from the period through February 28, 1983.

In a letter dated April 2, 1982, requesting the extended arrangement, the Peruvian authorities stated that they would consult with the Fund before March 1, 1983 on the policies for the period March 1, 1983-February 29, 1984. These consultations were conducted in Lima from January 24 to February 16, 1983.<sup>1/</sup> The policies for the second year of the extended arrangement are described in the memorandum annexed to the attached letter from the Peruvian authorities (Attachment III).

As of March 31, 1983, Fund holdings of Peruvian soles amounted to SDR 811 million, or 330 per cent of quota, including SDR 215 million under the compensatory financing facility. It is proposed that the phasing of the SDR 290 million that may be purchased during the second year be as follows: purchases shall not exceed SDR 40 million until May 20, 1983, SDR 102.5 million until August 20, 1983, SDR 165 million until November 20, 1983, and SDR 227.5 million until February 20, 1984. Assuming all repurchases due during the period through March 31, 1984 are made, purchases of the full amount available in the second year of the arrangement would raise Fund holdings of Peruvian soles to 409 per cent of quota, and to 328 per cent of quota excluding the compensatory financing facility (Table 1).

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<sup>1/</sup> The staff team consisted of Messrs. Sanson (Head), van Houten, Bonvicini, Rubli-Kaiser (all WHD), Blejer (FAD), Neuhaus (ETR), and Mrs. Rodriguez (Secretary-WHD).

Table 1. Peru: Projection of the IMF Position--March 31, 1983-May 31, 1985

	Out- standing March 31, 1983	Operations in Second Year of Arrangement				Out- standing March 31, 1984	Operations in Third year of Arrangement April 1984- May 1985	Out- standing May 31, 1985
		Apr.-June 1983	July-Sept. 1983	Oct.-Dec. 1983	Jan.-Mar. 1984			
(In millions of SDRs)								
<u>Purchases</u>	565.3	102.5	62.5	62.5	62.5	760.7	260.0	936.8
Under tranche policies	350.1	102.5	62.5	62.5	62.5	560.8	260.0	736.9
Ordinary	(167.5)	(79.9)	(31.2)	(31.3)	(31.2)	(304.0)	(64.8)	(339.0)
Supplementary	(182.6)	(--)	(--)	--	(--)	(140.4)	(--)	(86.3)
Enlarged access	(--)	(22.6)	(31.3)	(31.2)	(31.3)	(116.4)	(195.2)	(311.6)
Compensatory financing	215.2	--	--	--	--	199.9	--	199.9
Oil facility	--	--	--	--	--	--	--	--
<u>Repurchases</u>		10.5	35.0	18.4	30.7		83.9	
Under tranche policies		2.8	27.4	18.4	30.7		83.9	
Ordinary		(--)	(12.4)	(13.1)	(11.6)		(29.8)	
Supplementary		2.8	(15.0)	(5.3)	(19.1)		(54.1)	
Enlarged access		(--)	(--)	(--)	(--)		(--)	
Compensatory financing		7.7	7.6	--	--		--	
Oil facility		--	--	--	--		--	
<u>Net purchases</u>		92.0	27.5	44.1	31.8		176.1	
<u>Memorandum item:</u>								
<u>Total holdings (end-of-period)</u>	811.3	903.3	930.8	974.9	1,006.7	1,006.7	1,182.8	1,182.8
Excluding compensatory and oil facilities	596.1	695.8	730.9	775.0	806.8	806.8	982.9	982.9
(In per cent of quota)								
<u>Total holdings (end-of-period)</u>	329.8	367.2	378.3	396.3	409.2	409.2	480.8	480.8
Excluding compensatory and oil facilities	242.3	282.9	297.1	315.0	327.9	327.9	399.5	399.5

Source: International Monetary Fund.

The program for the second year of the extended arrangement has been developed in close coordination with the World Bank staff to provide a consistent macroeconomic framework for a proposed structural adjustment loan. World Bank activities in Peru have been extensive. As of January 31, 1983, Peru had received 54 loans from the World Bank for a total of US\$1,392 million, including a program loan in 1979 for US\$115 million. World Bank lending has been fairly diversified, covering a wide range of sectors (Statistical Appendix Table 36). Net disbursements of Bank loans to Peru amounted to about US\$60 million in 1982, and are projected to increase to over US\$200 million in 1983. The Bank foresees new commitments, including a structural adjustment loan, for a total of about US\$600 million before the end of 1984. The Bank's medium-term lending program includes projects in the areas of electricity power, water supply, urban infrastructure, mining, petroleum, agriculture, and education.

The latest Article IV consultations were conducted in Lima in August 1982, and were concluded by the Executive Board on December 1, 1982.

## II. Performance Under the Extended Arrangement and Recent Developments

### 1. Objectives and policies for the first year of the extended arrangement

The financial program for the period through February 28, 1983 was designed within the framework of a medium-term plan aimed at achieving a viable external payments position with high and stable rates of economic growth and declining inflation. The achievement of these goals was based on the improvement of resource allocation through the strengthening of market mechanisms. Emphasis was placed on the removal of impediments to private investment in the basic sectors of the economy, the design of a more efficient public investment program, the opening up of the economy, and the elimination of domestic price distortions. The balance of payments and inflation objectives were to be achieved through the pursuit of a flexible exchange rate policy, improved domestic demand management, in particular by reducing the fiscal deficit, and by raising interest rates to more realistic levels. Inflation was expected to decline only gradually over the program period, principally because of the need to eliminate remaining consumption subsidies and the widespread de facto indexation throughout the economy.

In view of the financial deterioration registered in 1981, the program for the first year of the extended arrangement called for a halving of the overall deficit of the nonfinancial public sector to about 4 per cent of GDP, the elimination of major remaining price subsidies, and the pursuit of more flexible interest rate and exchange rate policies. The fiscal improvement was to be generated by an increase in nonfinancial public sector savings equivalent to 3-1/2 per cent of GDP, and the remainder by a reduction in public investment. The strengthening of the savings performance depended heavily on the elimination of

subsidies on the consumption of wheat and rice and on the increase in the domestic price of regular gasoline to an average for the year of US\$1.15 per gallon. These measures were to be complemented by restraint in the granting of general wage increases to government employees, strict control over other categories of spending, and the imposition of a 15 per cent import tariff surcharge. The overall deficit of the non-financial public sector was to be financed mainly by net medium- and long-term foreign capital inflows, so that domestic credit would be channeled mostly to the private sector.

The tightening of domestic demand and the pursuit of a more flexible exchange rate policy were projected to bring about a reduction in the external current account deficit from 7-1/2 per cent in 1981 to 6 per cent in 1982, and to limit the loss of net official international reserves to US\$100 million, following a decline of US\$540 million in 1981. With investment activity expected to rise in response to the elimination of longstanding impediments to private sector participation in a number of basic sectors, the program contemplated a rate of growth of real GDP of 4 per cent in 1982. Domestic inflation--which had exceeded 70 per cent over the 12 months ended December 1981--was expected to decline moderately to some 60 per cent during 1982.

The financial program also included injunctions against the introduction of multiple currency practices, the imposition of restrictions on payments and transfers for current international transactions, the conclusion of bilateral payments agreements inconsistent with Article VIII, and the introduction of any new or intensification of any existing restriction on imports for balance of payments reasons.

## 2. Review of developments during 1982

Peru was in compliance with all the performance criteria of the program for the first year of the extended arrangement, except for a temporary deviation with respect to the net domestic asset ceiling at the end of February 1983 (Table 2). The performance of the Peruvian economy in 1982 was mixed in terms of progress toward the attainment of the basic objectives of the program. Real GDP rose by less than 1 per cent, reflecting a slowdown in the rate of growth of agricultural output, continued weakness in the domestic manufacturing sector, and the impact of depressed world market conditions on export activities. Notwithstanding lower than projected imports, the current account deficit of the balance of payments did not decline by as much as expected mainly because of an even larger shortfall of exports over the programed level. Net capital inflow to the public sector was considerably higher than expected and permitted an accumulation of net official international reserves of US\$120 million. The rate of inflation as measured by changes in the consumer price index remained at 73 per cent over the period December 1981-December 1982.

Table 2. Peru: Performance Under Extended Fund Facility

	1982 1/			1983	
	June 30	Sept. 30	Dec. 31	Feb. 28 1/	Mar. 15 2/
(In billions of soles)					
<u>Net domestic indebtedness of nonfinancial public sector</u>					
Limit (adjusted)	1,195.0	1,345.0	1,340.0	...	10,870.0 3/4/
Actual	1,039.7	1,186.2	1,312.5	...	...
Margin	155.3	158.8	27.5	...	...
<u>Net domestic assets of the monetary authorities 5/</u>					
Limit	410.0	420.0	405.0	450.0	550.0 4/
Actual	276.4	218.9	302.7	516.9	374.9
Margin	133.6	201.1	102.3	-66.9	175.1
(In millions of U.S. dollars)					
<u>Net international reserves of the monetary authorities 5/</u>					
Target (minimum)	410.0	460.0	560.0	...	406.0 4/
Actual	600.0	806.2	828.0	...	463.5
Margin	190.0	346.2	268.0	...	57.5
<u>Contracting of foreign debt</u>					
1-5 years					
Limit	300.0 6/	300.0 6/	300.0 6/	350.0 7/	300.0 8/
Actual	8.6	34.1	140.8	140.8	13.5 9/
Margin	291.4	265.9	159.2	209.2	286.5
1-10 years					
Limit	1,100.0 6/	1,100.0 6/	1,100.0 6/	1,250.0 7/	1,250.0 8/
Actual	479.6	716.1	846.3	882.5	52.9 9/
Margin	620.4	383.9	253.7	367.5	1,197.1

Source: Central Reserve Bank of Peru.

1/ Accounts denominated in foreign currency valued at US\$1=S/. 628.

2/ Accounts denominated in foreign currency valued at US\$1=S/. 1,250.

3/ For the second year of the extended arrangement the limit is defined as total net indebtedness of the nonfinancial public sector. The comparable figure for December 31, 1982 is S/. 10,579 billion.

4/ Limit for March 31, 1983.

5/ Central Reserve Bank and Banco de la Nacion.

6/ Limit for January 1-December 31, 1982.

7/ Limit for January 1, 1982-February 28, 1983.

8/ Limit for January 1-December 31, 1983.

9/ As of March 23, 1983.

Partly in response to slack external demand, but principally because of slippages in the implementation of pricing measures and of poor control over expenditure by a number of state enterprises, the reduction in the overall deficit of the nonfinancial public sector in 1982 fell somewhat short of the programed adjustment. The deficit declined from about 8-1/2 per cent of GDP in 1981, to 6-1/2 per cent in 1982 compared with a programed deficit of about 4 per cent (Table 3). Most of this deficit was covered by recourse to foreign financing, including heavy use of short-term credits, which had not been included in the limits on the indebtedness of the nonfinancial public sector.

The overall deficit of the Central Government in 1982 was only slightly larger than programed (1.9 per cent of GDP compared with 1.8 per cent). Tax revenue was adversely affected by external sector developments, and investment spending exceeded projections, but restraint on current spending, particularly on defense outlays and transfers, were offsetting factors.

The operations of the rest of the nonfinancial public sector fell considerably short of expectations. The program envisaged an operating surplus equivalent to over 2 per cent of GDP and an overall deficit of approximately 2-1/2 per cent of GDP; instead savings were only 1-1/2 per cent of GDP and the overall deficit reached more than 4-1/2 per cent of GDP.<sup>1/</sup> Principal factors explaining this performance were: (i) the failure to eliminate subsidies on wheat and rice consumption and to bring regular gasoline prices to an average of US\$1.15 for 1982; (ii) unexpectedly large operating losses experienced by the state mining companies, and (iii) the inability to control expenditures in a number of enterprises.

The continued subsidization of wheat and rice consumption increased the combined overall deficit of the state marketing agencies in 1982 from a programed virtual equilibrium to almost 1 per cent of GDP. This deficit was financed by recourse to foreign short-term borrowing. The price controls on bread and other wheat derivatives were lifted in August 1982 and led to a considerable increase in the consumer prices of these products; however, the selling price of wheat to millers remained under control and was held virtually unchanged throughout the year. By the end of 1982 the selling price of wheat was about 50 per cent of its cost, as against some 70 per cent at the end of 1981. In the case of rice, the price-cost relationship was maintained at around 60 per cent throughout 1982, as increases in the selling price of rice matched the increased support price paid to producers plus interest charges on borrowing incurred by ECASA (the state marketing agency) to purchase the crop.

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<sup>1/</sup> The actual 1982 figures include operations of a newly-formed entity engaged in housing construction. This entity had not been included in the consolidated public sector at the time the program was negotiated. The overall operations of this entity in 1982 were in equilibrium with investment spending equivalent to 0.9 per cent of GDP financed entirely by an operating surplus.

Table 3. Peru: Operations of the Nonfinancial Public Sector  
(As per cent of GDP)

	1979	1980	1981	1982	1983	
				Prog.	Prel.	Proj.
<u>Central government current</u>						
<u>revenue</u>	18.0	20.5	17.9	18.5	17.9	16.8
Income tax	4.0	6.1	3.8	3.5	3.7	3.3
Tax on goods and services	7.4	7.6	7.4	8.3	8.3	8.2
Import tax	2.2	3.2	3.8	3.7	3.4	3.6
Export tax	2.9	2.5	1.4	1.0	0.9	0.4
Other tax and nontax	1.5	1.1	1.5	2.0	1.6	1.3
<u>Central government current</u>						
<u>expenditure</u>	14.4	18.1	17.7	16.5	15.9	15.6
Wages and salaries	4.0	4.8	5.2	5.0	5.1	4.4
Goods and services	0.6	0.7	0.8	0.8	0.8	1.0
Military outlays	3.4	4.9	4.4	4.1	3.9	3.8
Interest	4.5	4.3	4.5	4.1	3.9	4.2
Transfers	1.9	3.3	2.8	2.5	2.2	2.2
<u>Central government current</u>						
<u>account surplus</u>	3.6	2.4	0.2	2.0	2.0	1.2
<u>Rest of public sector</u>						
<u>operating surplus</u>	0.7	-0.4	0.4	2.2	1.5	3.3
<u>Public sector current</u>						
<u>account surplus</u>	4.3	2.0	0.6	4.2	3.5	4.5
<u>Capital expenditure</u>	6.0	8.4	9.2	8.4	10.1	8.3
Central Government	4.2	5.3	5.1	3.8	4.0	2.3
Rest of public sector	1.8	3.1	4.1	4.6	6.1	6.0
<u>Overall public sector</u>						
<u>deficit (-)</u>	-1.7	-6.4	-8.6	-4.2	-6.6	-3.8
Central Government	-0.6	-2.9	-4.9	-1.8	-1.9	-1.1
Rest of public sector	-1.1	-3.5	-3.7	-2.4	-4.7	-2.7
<u>Financing</u>	1.7	6.4	8.6	4.2	6.6	3.8
External	6.6	2.5	1.3	3.7	6.4	2.6
Internal	-4.9	3.9	7.3	0.5	0.2	1.2

Sources: Central Reserve Bank of Peru; and Fund staff estimates.



The domestic price of regular gasoline was adjusted several times during 1982 to raise the average price to the equivalent of about US\$0.95 per gallon, compared with a programmed average price of US\$1.15 per gallon. The prices of other petroleum derivatives were increased at a faster pace than that of regular gasoline, but the weighted U.S. dollar average price of a barrel of oil derivatives at the end of 1982 was still below the anticipated level. The lower yield from domestic sales by PETROPERU was compensated by a combination of smaller purchases from foreign oil companies operating in Peru and larger export earnings.

Inadequate control over expenditures affected the financial position of ELECTROPERU even though electricity tariffs were adjusted by more than 80 per cent in nominal terms during the year. Sizable wage increases were granted, purchases of goods and nonwage services rose sixfold, and investment outlays were considerably in excess of the level foreseen in the program. Albeit at a smaller scale, similar expenditure overruns occurred in a number of other public enterprises.

The heavy reliance on foreign borrowing by the nonfinancial public sector in 1982 was accompanied by considerably smaller than expected net recourse to domestic bank credit. Net bank credit to the nonfinancial public sector increased by 20 per cent during 1982 <sup>1/</sup> compared with 100 per cent in 1981, while credit to the private sector expanded by almost 100 per cent, down from 110 per cent in 1981 (Table 4). Total domestic assets of the banking system rose by some 60 per cent in 1982 as against 80 per cent in 1981.<sup>2/</sup> With money and quasi-money rising by 74 per cent during 1982, the net international reserves of the banking system increased by about US\$90 million. In 1981 the growth of money and quasi-money had not been sufficient to finance the expansion of bank domestic assets, and the net international reserve loss of the banking system amounted to US\$500 million.

Interest rates on deposits denominated in soles were raised in early 1982. Specifically, the interest rate limit on term deposits in soles was unified at 55 per cent per year and the three-month minimum period for compounding interest was abolished, permitting an effective maximum rate of 72 per cent per year. However, the increase was not sufficient to improve the attractiveness of sol-denominated saving instruments in relation to U.S. dollar instruments as the pace of exchange rate depreciation accelerated.<sup>3/</sup> As a consequence, one half

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<sup>1/</sup> In relation to the stock of liabilities to the private sector at the beginning of the period.

<sup>2/</sup> Analysis of monetary developments in this section is based on stocks in which accounts denominated in foreign currency are valued at the actual exchange rate prevailing on the date indicated.

<sup>3/</sup> During most of 1982, the maximum effective annual interest rate paid on sol-denominated time deposits by banks was around 72 per cent, the yield on U.S. dollar-denominated certificates of deposits was slightly below LIBOR and the depreciation of the sol averaged 80 per cent per year.

Table 4. Peru: Rate of Growth of Monetary Indicators 1/

(In per cent, or as indicated)

	Dec. 1978- Dec. 1979	Dec. 1979- Dec. 1980	Dec. 1980- Dec. 1981	Dec. 1981- Dec. 1982	Proj. Dec. 1982- Dec. 1983
<u>A. Central Reserve Bank</u>					
Net international reserves (in millions of U.S. dollars)	1,018	1,056	-688	81	-100
Net domestic assets <u>2/</u>	-157	-126	58	-52	8
Liabilities to private sector	83	110	27	47	54
<u>B. Central Reserve Bank and Banco de la Nacion</u>					
Net international reserves (in millions of U.S. dollars)	1,500	803	-535	121	-100
Net domestic assets <u>2/</u>	-219	-43	61	-27	26
Liabilities to private sector	90	112	28	49	53
<u>C. Banking System</u>					
Net international reserves (in millions of U.S. dollars)	1,579	722	-504	92	-100
Net domestic assets <u>2/</u>	-6	61	81	61	55
Net credit to public sector <u>3/</u>	-29 <u>4/</u>	76	103	19	49
Gross credit to private sector	64	91	112	96	65
Liabilities to private sector	100	103	68	74	55
<u>Memorandum item</u>					
Consumer price index	67	61	73	73	55

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Foreign exchange accounts valued at end-of-period exchange rate.2/ Change in relation to the stock of liabilities to the private sector at the beginning of the period.3/ Excludes change in deposits of the nonfinancial public sector in the Central Reserve Bank on account of debt relief operations.4/ Includes reduction of outstanding net bank credit to the public sector as a result of the

of the increase in private sector financial savings in 1982 was in the form of U.S. dollar-denominated certificates of deposit. By the end of 1982, these deposits accounted for almost 40 per cent of total money and quasi-money compared with 30 per cent at the end of 1980 and 1981 (Statistical Appendix Table 28).

Notwithstanding a considerable deterioration of the country's terms of trade for the second consecutive year (Statistical Appendix Table 32), the external current account deficit declined from 7-1/2 per cent in 1981 to 7 per cent of GDP in 1982. The 1982 U.S. dollar value of merchandise exports, which had been projected to be some US\$400 million higher than that of 1981, turned out to be slightly lower than the level of the previous year (Table 5). The bulk of the shortfall reflected lower than projected mineral prices and petroleum shipments. Partly in response to the pursuit of more flexible exchange rate policy, and despite marketing difficulties, the value of nontraditional exports increased by about 8 per cent last year.

Most of the shortfall in exports was compensated by an unexpectedly large contraction in the value of merchandise imports, which declined by some US\$300 million over the 1981 level. After taking into account a lower than projected net service outflow the current account deficit amounted to US\$1,400 million in 1982, somewhat higher than envisaged in the program. Net capital inflows, which were projected to rise to some US\$1.3 billion in 1982 from US\$1.0 billion in 1981, amounted to US\$1.5 billion with a marked increase in net short-term borrowing by public enterprises more than compensating for lower than anticipated official medium- and long-term borrowing.

During 1982 the Peruvian authorities continued depreciating the sol in frequent small steps, and the rate of depreciation was accelerated with the intention of strengthening the country's competitiveness. Consequently the sol was depreciated in real terms by around 13 per cent against the U.S. dollar over the period December 1981-December 1982, reversing a substantial portion of the real appreciation which had occurred during 1979-81. Reflecting the appreciation of the U.S. dollar against other currencies, the real depreciation of the sol with respect to the currencies of Peru's main trading partners in 1982 was 7 per cent (Charts 1 and 2).

### III. The Program for 1983

The program for 1983 has been designed to strengthen Peru's financial position in accordance with the medium-term plan supported by the extended arrangement. The economic setting for the adjustment effort is not favorable. Growth in export volume is expected to be limited by weak world demand and by protectionist measures in a number of markets for Peru's nontraditional exports. Foreign and domestic private investment is projected to be below expectations, partly because of depressed world demand conditions, even though Peru has removed most

CHART 1  
PERU  
EXCHANGE RATE INDICES<sup>1</sup>

(June 1976 = 100)

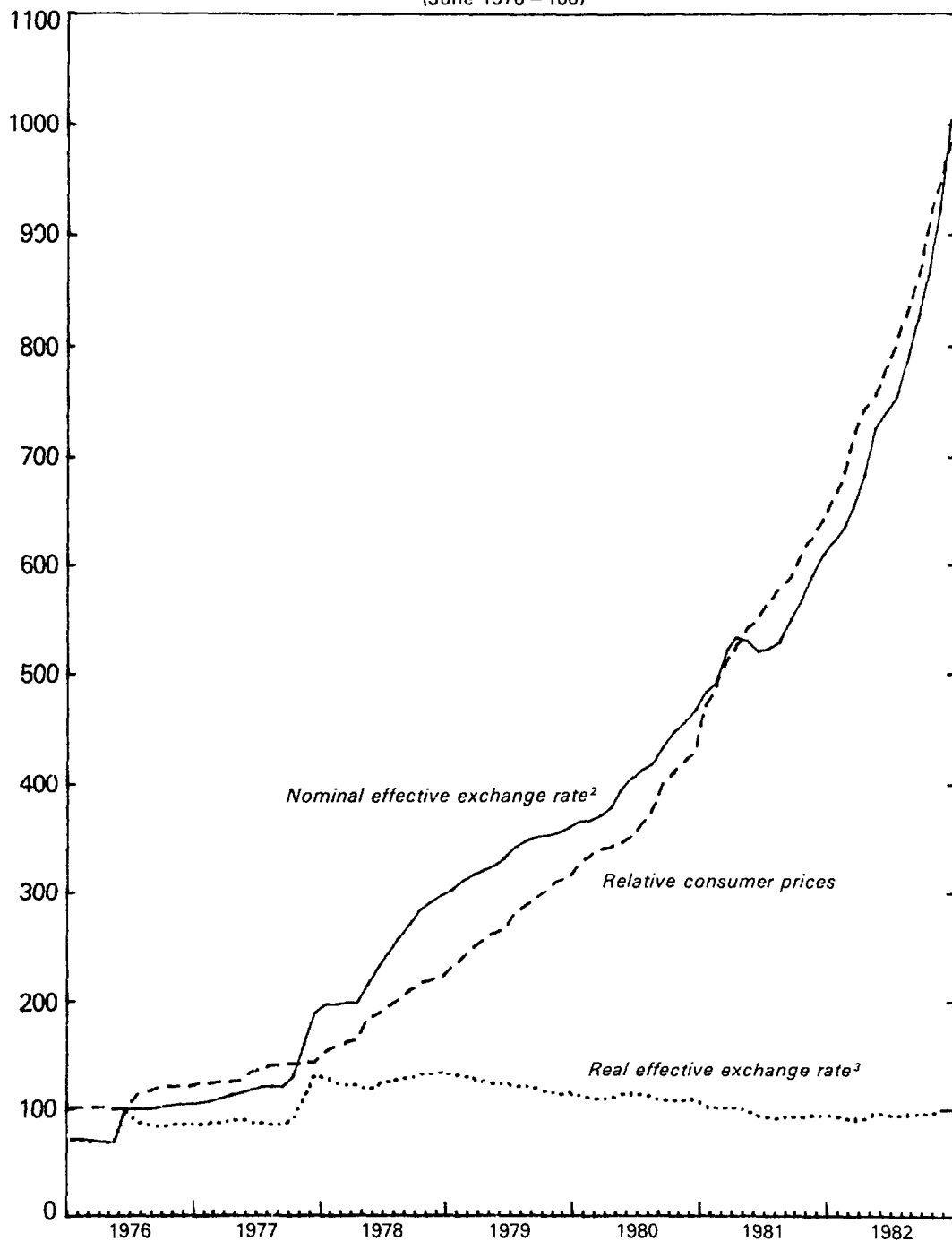


<sup>1</sup>In soles per unit of foreign exchange.

<sup>2</sup>Adjusted by price movements in Peru and in the United States.

<sup>3</sup>Adjusted by exchange rate and price movements in Peru's major trading partners.

CHART 2  
PERU  
EXCHANGE RATE INDICES<sup>1</sup>  
(June 1976 = 100)



<sup>1</sup>In soles per unit of foreign exchange.

<sup>2</sup>Adjusted by exchange rate movements in Peru's major trading partners.

<sup>3</sup>Adjusted by exchange rate and price movements in Peru's major trading partners.

Table 5. Peru: Summary Balance of Payments, 1979-1983

(In millions of U.S. dollars)

	1979	1980	1981	1982		Proj. 1983
				Prog.	Prel.	
<u>Current account</u>	<u>729</u>	<u>62</u>	<u>-1,513</u>	<u>-1,368</u>	<u>-1,401</u>	<u>-877</u>
Trade balance	1,540	836	-548	-133	-290	318
Exports, f.o.b.	(3,491)	(3,898)	(3,255)	(3,647)	(3,212)	(3,496)
Imports, f.o.b.	(-1,951)	(-3,062)	(-3,803)	(-3,780)	(-3,502)	(-3,178)
Investment income	-967	-835	-885	-1,072	-1,084	-1,205
Public sector	(-484)	(-478)	(-528)	(-628)	(-654)	(-830)
Private sector	(-483)	(-357)	(-357)	(-444)	(-430)	(-375)
Other services	34	-74	-247	-353	-217	-190
Transfers	122	135	167	190	190	200
<u>Long-term capital</u>	<u>676</u>	<u>580</u>	<u>671</u>	<u>1,268</u>	<u>1,053</u>	<u>837</u>
Nonfinancial public						
sector 1/	778	480	348	828	651	587
Disbursement	(1,045)	(1,279)	(1,561)	(1,680)	(1,492)	(1,731)
Amortization	(-267)	(-799)	(-1,213)	(-852)	(-841)	(-1,144)
Financial public						
sector	-141 2/	8 2/	63	40	192	134
Private sector	39	92	260	400	210	116
Direct investment	(71)	(27)	(125)	(285)	(53)	(69)
Loans	(-32)	(65)	(135)	(115)	(157)	(47)
<u>Basic balance</u>	<u>1,405</u>	<u>642</u>	<u>-842</u>	<u>-100</u>	<u>-348</u>	<u>-40</u>
Short-term capital and errors and omissions (net)	152	58	317	--	440	-60
Allocation of SDRs	22	22	21	--	--	--
<u>Overall surplus of deficit (-)</u>	<u>1,579</u>	<u>722</u>	<u>-504</u>	<u>-100</u>	<u>92</u>	<u>-100</u>
Variation of non- official reserves (increase -)	-79	81	-31	--	29	--
<u>Net official inter- national reserve movement</u>						
(increase -)	<u>-1,500</u>	<u>-803</u>	<u>535</u>	<u>100</u>	<u>-121</u>	<u>100</u>

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Includes CENTROMIN from 1980.

2/ Includes repayments of 1978 rollover with US\$121 million in 1979 and US\$23 million in 1980.

institutional and legal barriers to investment in the basic sectors of the economy. Reflecting these conditions, real GDP in 1983 is projected to rise by less than 1 per cent for the second consecutive year (Table 6). In addition, because of the deterioration of world capital market conditions, the financing of the current account deficit in 1983, even one which is sharply reduced from that of 1982, would require close coordination between the authorities, foreign commercial banks, and the Fund.

The strengthening of Peru's financial position in 1983 is based on a reduction in Peru's current account balance of payments deficit from 7 per cent of GDP in 1982 to 4.5 per cent in 1983, and a corresponding improvement in the country's domestic savings performance. To achieve these objectives, the program contemplates a reduction in the overall financing requirements of the nonfinancial public sector from 6.6 per cent of GDP in 1982 to 3.8 per cent, and continued flexibility in interest and exchange rate management. Prudent demand management and wage policy are expected to bring about a modest lowering of inflation over the year--to around 55 per cent on a December-December basis--from more than 70 per cent during both 1981 and 1982. A summary of the assumptions, targets, and measures of the program for 1983 is provided in Attachment IV.

1. Performance criteria, consultation provisions,  
and review clauses

Quantitative performance criteria for the period through February 29, 1984 are set out in Table 7, and are described in the Memorandum on Economic Policy for the Second Year of the Extended Arrangement annexed to the letter dated , 1983. The program includes a performance clause regarding the authorities' intentions in respect of multiple currency practices, restrictions on payments and transfers for current international transactions, bilateral payments agreements, and restrictions on imports for balance of payments purposes. In addition, as a performance criterion, the authorities will consult with the Fund before September 30, 1983 to assess progress achieved during the second year of the program.

The following quantitative criteria are subject to testing during the program year:

(a) A set of limits on the total net indebtedness of the nonfinancial public sector defined to include: (i) the outstanding net claims of the domestic banking system and COFIDE on the nonfinancial public sector; (ii) the outstanding amount of bonds issued by the nonfinancial public sector and held outside the nonfinancial public sector, the domestic banking system, and COFIDE; and (iii) the outstanding foreign debt of the nonfinancial public sector, regardless of maturity and financing source. Total indebtedness will be tested against these limits at the end of each calendar quarter.

Table 6. Peru: Macroeconomic Flows

(As per cent of GDP)

	1980	1981	1982		1983	1984
			Prog.	Est.	Prog.	Prog.
<b>I. Balance of payments</b>						
Current account surplus or deficit (-)	0.4	-7.6	-6.0	-7.0	-4.5	-3.5
Trade balance	4.8	-2.7	-0.6	-1.5	1.6	...
Factor payments	-4.8	-4.3	-4.7	-5.4	-6.2	...
Other services and transfers	0.4	-0.6	-0.7	-0.1	0.1	...
Capital account	3.5	4.9	5.6	7.6	4.0	3.5
Private capital 1/ Nonfinancial public sector 2/	1.0	3.6	1.9	1.2	1.4	...
	2.5	1.3	3.7	6.4	2.6	...
Net official inter- national reserves (increase -) 3/	-3.9	2.7	0.4	-0.6	0.5	--
<b>II. Public sector 4/</b>						
Central government current account	2.4	0.2	2.0	2.0	1.2	...
Revenue	(20.5)	(17.9)	(18.5)	(17.9)	(16.8)	(...)
Expenditure	(-18.1)	(-17.7)	(-16.5)	(-15.9)	(15.6)	(...)
Rest of public sector's operating surplus	-0.4	0.4	2.2	1.5	3.3	...
Public sector savings	2.0	0.6	4.2	3.5	4.5	6.0
Fixed investment	7.3	8.6	8.0	10.0	8.3	...
Other capital expenditure	1.1	0.6	0.4	0.1	--	...
Overall deficit	-6.4	-8.6	-4.2	-6.6	-3.8	-2.0
Net foreign financing	2.5	1.3	3.7	6.4	2.6	...
Net domestic financing	3.9	7.3	0.5	0.2	1.2	...
<b>III. Savings and investment</b>						
Fixed capital formation	17.6	21.3	23.0	21.4	20.0	23.0
Public sector	7.3	8.6	8.0	10.0	8.2	...
Private sector 5/	10.3	12.7	15.0	11.4	11.8	...
Investment = savings	17.6	21.3	23.0	21.4	20.0	23.0
External savings	-0.4	7.6	6.0	7.0	4.5	3.5
National savings	18.0	13.7	17.0	14.4	15.5	19.5
Public sector	(2.0)	(0.6)	(4.2)	(3.5)	(4.4)	(6.0)
Private sector	(16.0)	(13.1)	(12.8)	(10.9)	(11.1)	(13.5)
Memorandum item:						
Annual growth rate of real GDP	3.0	3.2	4.0	0.7	0.5	2.0

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Includes net errors and omissions, and net borrowing by the financial public sector.

2/ Includes short-term borrowing.

3/ Includes Central Reserve Bank of Peru and Banco de la Nacion.

4/ Includes CENTROMIN from 1981.

5/ Includes inventory changes.



Table 7. Peru: Quantitative Performance Criteria of the Extended Arrangement for Period through February 29 1984

	Stock on	Targets and Limits for					
	Dec. 31 1982	March 31 1983	June 30 1983	Sept. 30 1983	Nov. 15 1983	Dec. 31 1983	Feb. 29 1984
(In billions of soles)							
Net domestic assets 1/2/3/	-20	550	600	580	555	455	600
Net indebtedness of the nonfinancial public sector 3/	10,579	10,870	11,027	11,346	...	11,514	...
(i) Net claims of the domestic banking system and COFIDE	1,186	...	...	...	...	...	...
(ii) Outstanding bonds issued by the non-financial public sector 4/	9	...	...	...	...	...	...
(iii) Outstanding foreign debt	9,384	...	...	...	...	...	...
(In millions of U.S. dollars)							
Net official international reserves 5/	846	406	440	526	...	746	...
Contracting of external debt 2/6/							
1-5 year maturity	--	300	300	300	300	300	330
1-10 year maturity	--	1,250	1,250	1,250	1,250	1,250	1,400

Sources: Central Reserve Bank of Peru; and Memorandum on Economic Policy of the Government of Peru.

1/ Defined as the difference between (i) the sum of the Central Reserve Bank and Banco de la Nacion's liabilities to the private sector, and (ii) the sum of the net international reserves of the Central Reserve Bank and Banco de la Nacion, the medium- and long-term net foreign assets of the Central Reserve Bank and Banco de la Nacion, and the guarantees on short-term foreign borrowing of the Banco de la Nacion.

2/ These limits are applied throughout the period.

3/ Foreign exchange accounts valued at US\$1.00 = S/. 1,250.

4/ Excluding bonds held by the domestic banking system, COFIDE, and the nonfinancial public sector.

5/ Defined as the difference between the foreign assets of the Central Reserve Bank and Banco de la Nacion and their external liabilities (including Banco de la Nacion guarantees on short-term foreign borrowing), except those with maturities of at least one year and which are explicitly and contractually designated as covering the downpayment or other charges on goods financed by foreign suppliers of bilateral credits.

6/ Defined to include contracting or guaranteeing, since January 1, 1983, of external debt by the non-financial public sector, COFIDE, and the official banking system except for loans classified as reserve liabilities of the Central Reserve Bank and Banco de la Nacion. The contracting limits exclude refinancing loans on public sector payments to all foreign creditors, except those to foreign commercial financial institutions.

(b) A set of limits, subject to continuous testing, on the combined net domestic assets of the Central Reserve Bank and the Banco de la Nacion. These limits are consistent with the inflation and balance of payments objectives of the authorities and take into account the domestic financing requirements of the nonfinancial public sector as well as the credit needs of the private sector.

(c) A set of quarterly targets on the combined net international reserve position of the Central Reserve Bank and the Banco de la Nacion, compatible with the limits on the combined net domestic assets of these two institutions.

(d) A set of limits, subject to continuous testing, on the contracting of new public and publicly guaranteed external debt with an original maturity of at least one year and up to and including ten years. A sublimit is intended to control such debt with an original maturity of at least one year and up to and including five years.

## 2. Fiscal policy

A key element of the financial program for 1983 is a projected reduction in the overall deficit of the nonfinancial public sector to 3.8 per cent of GDP, from 6.6 per cent in 1982. It is envisaged that about two thirds of the overall deficit will be financed by net foreign resources, and the remainder by net domestic bank credit. The fiscal adjustment programed for 1983 is consistent with the original medium-term goal under the extended arrangement of reducing the overall deficit of the nonfinancial public sector to no more than 2.0 per cent of GDP by 1984.

Initial fiscal projections for 1983 indicated the possibility of a sharp rise in investment spending related principally to ongoing projects, and a decline in revenues in relation to GDP. To reduce the likely fiscal deficit, public investment was cut back from slightly above 10 per cent of GDP in 1982 to 8.3 per cent through the application of a strict set of priorities established by the authorities with technical assistance from both the World Bank and the Inter-American Development Bank (Table 8).

Central government investment outlays were cut back to 2-1/3 per cent of GDP (1-2/3 per cent below the 1982 level) by scaling down road construction and large irrigation projects. Investment by the rest of the public sector was cut back to 6 per cent of GDP, about the same level as in 1982, mainly by slowing the pace of execution of large energy projects by ELECTROPERU, which accounts for about one half of the total capital formation of public enterprises. In contrast, exploration efforts and development of an oil field by PETROPERU were intensified.

Table 8. Peru: Public Sector Investment

	1982	1983		1982	1983	
	Prel.	Budget	Prog.	Prel.	Budget	Prog.
	(In billions of soles)			(Percentage of GDP)		
General Government	602.0	1,064.6	651.0	4.34	4.36	2.67
Central Government	522.4	936.6	567.5	3.77	3.84	2.33
Regional boards	(101.0)	(335.0)	(204.0)	(0.73)	(1.37)	(0.84)
Other	(421.4)	(601.6)	(363.5)	(3.04)	(2.47)	(1.49)
Public agencies	70.8	114.5	70.0	0.51	0.47	0.29
Local governments	8.8	13.5	13.5	0.06	0.05	0.05
Public enterprises	805.6	1,994.7	1,366.0	5.81	8.18	5.60
ELECTROPERU (Electricity)	362.5	617.7	517.0	2.61	2.53	2.12
PETROPERU (petroleum)	97.5	357.3	307.0	0.70	1.46	1.26
ENACE (housing)	121.0	203.0	205.0	0.87	0.83	0.83
CENTROMIN (mining)	99.0	100.0	68.0	0.71	0.41	0.28
EMATINSA (mining)	6.9	173.0	66.0	--	0.71	0.27
ENTEL (communications)	21.7	151.0	30.0	0.16	0.62	0.12
ENAFER (railways)	21.9	38.5	22.0	0.16	0.16	0.09
HIERROPERU (iron)	8.7	30.2	12.0	0.06	0.12	--
SEDAPAL (water and sewerage)	11.1	39.5	40.0	0.08	0.16	0.16
Others	55.3	288.5	99.0	0.40	1.18	0.41
Total public investment	1,407.6	3,059.3	2,017.0	10.15	12.54	8.27

Sources: Central Reserve Bank of Peru; and Ministry of Economy, Finance, and Commerce.

Other categories of spending were also revised downward. Wage policy has been tightened considerably. The number of general wage increases for government employees has been reduced from four to three in 1983, allowing for a cumulative pay rise of 35 per cent in calendar year 1983, or nearly 13 per cent below the expected rate of inflation over the same period.<sup>1/</sup> As a result, including specific increases for some sectors, the payroll of the Central Government is projected to decline from 5.1 per cent of GDP in 1982 to 4.4 per cent in 1983. Continued strict control over military spending and transfers to autonomous agencies is projected to compensate in part a rise in interest payments. As part of the Government's overall wage policy and as a means of raising the operational surplus of state entities, specific actions have been taken to moderate wage increases granted by some large public sector enterprises.

To help control public spending in 1983, monthly spending authorization for each ministry and major public entity have been established and the Banco de la Nacion's ability to grant overdrafts to public sector entities has been curtailed. On a monthly basis, the public sector's financial situation is being monitored by a coordinating body composed of the Central Reserve Bank, the Banco de la Nacion, and the Ministry of Economy, Finance, and Commerce. In addition, the Ministry of Economy, Finance, and Commerce has designated supervisors in the principal public enterprises with authority to overrule management decisions regarding expenditures. To strengthen further the control of the Ministry of Economy, Finance, and Commerce, on February 18, 1983, a special session of Congress approved legislation authorizing the Ministry to adopt all measures considered necessary to implement the 1983 public sector program.

With the objective of strengthening the financial position of the public enterprises and reducing resource misallocation, prices and tariff of goods and services sold by the public sector were also revised. The subsidy on wheat has been eliminated,<sup>2/</sup> and the domestic wholesale price of rice was raised by 8-3/4 per cent in January, and is to be raised by 7 per cent per month until the subsidy on rice has been eliminated. The retail price of regular gasoline was raised by 16 per cent at the beginning of February, and by 12 per cent in March with prices of other petroleum derivatives raised commensurately; the program calls for domestic prices of petroleum derivatives to be raised monthly so as to maintain them at their February 1983 level in terms of U.S. dollars (US\$1.10 per U.S. gallon in the case of regular gasoline). Electricity rates were increased by 10 per cent on February 1, 1983, and

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<sup>1/</sup> The general government wage policy was set out in March in Law No. 23556. This Law also severely restricts the contracting of new general government workers.

<sup>2/</sup> On February 23, 1983, the price at which ENCI sells wheat to private mills was more than doubled; the new price was set at the equivalent of US\$175 per metric ton. In April, all controls on the trading of wheat were removed.

by 7 per cent on March 1, and will continue to be raised by 5 per cent per month during the remainder of 1983. Other prices of goods and services sold by public agencies are to be adjusted periodically in line with cost increases and with the need to finance investment. In accordance with this policy water rates were increased an average of 30 per cent effective April 1, 1983. (For a listing of prices of selected products subject to controls, see Statistical Appendix Table 21.)

The expected elimination of the wheat and rice subsidies over the course of 1983 is projected to reduce the overall financial needs of ENCI and ECASA (the state marketing agencies) by the equivalent of 1/2 per cent of GDP; higher domestic prices of petroleum derivatives should yield additional revenues equivalent to 1/2 per cent of GDP (of which, slightly more than one half would accrue to the Central Administration). Altogether, the combination of these price measures and restraint in wages and other current expenditures, are expected to raise the operating surplus of the rest of the public sector from 1.5 per cent of GDP in 1982 to 3.3 per cent in 1983.

Central Government revenues were initially projected to decline sharply reflecting the phasing out of the tax on traditional exports and a drop in income and import taxes due to the economic recession. To mitigate the decline in Central government revenue a number of measures were taken, including (1) the above-mentioned increase in gasoline prices,<sup>1/</sup> and (2) the replacement of the import tariff surcharge of 15 per cent by a flat across-the-board additional duty of 10 per cent on the c.i.f. value of imports. Additional revenues are expected from the implementation of a number of changes in tax administration, but no explicit allowance was made in the program for them. Notwithstanding the new measures, central government revenues are projected to decline from 18 per cent of GDP in 1982 to 16.8 per cent in 1983. After accounting for the restraint in wages and other current spending, the current account surplus of the Central Government is expected to decline from 2 per cent of GDP in 1982 to 1.2 per cent in 1983.

### 3. Monetary policy

The monetary program for 1983 contemplates a small increase in the velocity of money and quasi-money, in line with the trend observed during the past two years.

The projected flow of private financial resources into the banking system is expected to be adequate to finance the domestic needs of the nonfinancial public sector and to support an expansion of credit to the private sector consistent with the economic growth, price, and balance of payments objectives of the program. Given the present reserve requirements system, which includes a 90 per cent marginal reserve on foreign currency deposits and zero marginal reserve on deposits denominated

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<sup>1/</sup> A share of the increase in prices of petroleum products accrues to the Central Government.

in domestic currency above the average level during January 7-31, 1982, the extent of Central Bank intermediation depends on the increase of local currency deposits in relation to the growth of foreign currency deposits. Consistent with the authorities' intention to pursue policies which favor local currency denominated financial savings, the program projects only a minor increase in the intermediation role of the Central Bank. Specifically, only a modest net credit expansion by the monetary authorities to the development banks (particularly the Agricultural Bank) has been incorporated in the program.

The total net credit expansion of the monetary authorities in 1983, including credit to development banks and to the nonfinancial public sector, is consistent with a net official international reserve loss of US\$100 million over the year. Since the first quarter of 1983, the nonfinancial public sector borrowed heavily from the Central Bank because of a delay in the disbursement of foreign bank loans, but the domestic credit is expected to be repaid during the remainder of the year once the foreign bank loans are disbursed.

Interest rate flexibility is a major element of the financial program. As was noted already, at the close of 1982 about 40 per cent of Peru's money and quasi-money was denominated in U.S. dollars. The authorities are keenly aware of the importance of reversing the dollarization of domestic financial savings, as the current high proportion of dollar-denominated savings represents a potentially unstable element of the Peruvian financial system. Accordingly, maximum interest rates on 60-day term deposits denominated in soles were raised in April 1983 to about 88 per cent per annum, compared with some 72 per cent before.<sup>1/</sup> The authorities are reluctant to free entirely domestic interest rates, even for selected sol-denominated financial instruments, because they fear that rates might rise excessively and force loan rates to unacceptably high levels. The authorities intend to follow closely the behavior of dollar deposits and are prepared, if necessary, to take appropriate additional actions to encourage domestic currency savings. In a related decision to eliminate distortions in the financial system, effective interest rates charged by the Agricultural Bank were raised from an average of 45 to 64 per cent per annum.

#### 4. Wage policy

Wage policy in 1982 was characterized by quarterly wage adjustments to government employees and nonunionized private sector workers, and cost-of-living bonuses for unionized workers.<sup>2/</sup> As a means of dampening wage pressures, the authorities reduced the rate of general salary in-

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<sup>1/</sup> The total volume of deposits captured by the new term deposits with the higher yield may not exceed 10 per cent of total deposits at each financial institution. Maximum effective interest rates on domestic currency loans were raised from 83 per cent to close to 100 per cent.

<sup>2/</sup> For a summary of wage measures, see Statistical Appendix Table 22.

creases awarded to government employees to below that of inflation. As a result, the average remuneration of civilian personnel employed by the Central Government declined by almost 15 per cent in real terms during 1982. At the higher salary levels, the decline was mitigated to some extent by a new policy of special increases for some categories of skilled civil servants with a view to maintain or attract qualified personnel to specific positions. Information on wage developments in the private sector and in public enterprises subject to collective bargaining suggests that wage increases throughout the economy outpaced domestic inflation in 1982.<sup>1/</sup>

The program for 1983 contemplates a tightening of wage policy in regard to the nonunionized private sector; although the policy of improving earnings of the lowest paid workers will continue. Three general wage increases are expected to be granted over the year, compared with four such increases during the last several years. In line with this strategy, in February 1983, private sector wage earners not subject to collective bargaining were granted a special bonus to compensate in part for increases in the cost of living. The bonus included increases of 20 per cent for minimum wages and 8 per cent for wages in excess of the minimum (up to twice the minimum wage). In March, the minimum wage was raised by one third over the adjusted February level. In the Central Government, the cumulative wage increases for 1983 are programed at 35 per cent, significantly below the projected rate of inflation of 55 per cent. In February 1983, the Central Government base wage as of December 31, 1982, was raised by 14 per cent. As base wages form only part of the total wage package, this increase was equivalent to an increase in the total wage bill of less than 10 per cent, consistent with the programed wage policy for 1983. In addition, the authorities intend to modify the mechanism of wage determination in state enterprises, where automatic wage adjustments and collective bargaining agreements have led to considerable upward pressure on salary levels. With respect to wage determination in the private sector, the Government will intensify efforts to bring management and labor to agree on voluntary price-wage guidelines which would contribute to moderate inflationary pressures.

##### 5. External sector policies

In 1982 the authorities depreciated the sol at frequent intervals at a pace faster than domestic inflation, with the objective of recovering a substantial part of the decline in competitiveness suffered in

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<sup>1/</sup> In the case of some state enterprises, a system was in effect which provided automatic quarterly adjustments determined by the change in the consumer price index of the previous quarter. These adjustments were calculated by applying the rate of change of the consumer price index to the average salary; the resulting nominal increase was granted to all employees regardless of salary level. In addition to these automatic adjustments, special increases were granted to personnel with salaries above the average; finally, further wage increases were negotiated through the collective bargaining process.

recent years. During January-December 1982 the value of the sol declined by 13 per cent against the U.S. dollar in real terms, and by some 7 per cent vis-a-vis the currencies of Peru's major trading partners. During 1983, pursuit of a flexible exchange rate policy will continue to be a principal instrument of balance of payments management. Accordingly, the authorities have reiterated their commitment to continue depreciating the sol daily at least in line with domestic inflation.

An important objective in the Peruvian government's medium-term program is the improvement of economic efficiency. To this end, a major liberalization of the import system and a reduction in the rate of subsidization of nontraditional exports took place during the second half of 1980 and 1981. The authorities have maintained their commitment to a further reduction in trade barriers, but progress toward that goal was halted in early 1982, by the temporary introduction of a 15 per cent import surcharge. The surcharge was mostly for fiscal purposes and was to be lifted at the end of 1982. However, it was not removed at that time because of severe budgetary constraints. In April 1983 the surcharge was replaced by an additional import tariff of 10 per cent on the c.i.f. value of imports. This action entails an increase in the unweighted average tariff from 37 per cent to 42 per cent.<sup>1/</sup> The authorities have stressed that the tariff change contributes to economic efficiency by reducing tariff dispersion and thereby lowering effective protection in a number of industries. For the period ahead, the authorities have expressed their intention to continue reducing tariff dispersion and lowering import barriers as circumstances permit.

The combination of demand policies and exchange rate flexibility is expected to contribute to a lowering of the current account balance of payments deficit to 4.5 per cent of GDP in 1983 from 7 per cent in 1982 on the strength of an improvement in the trade balance, and in spite of a sharp rise in factor service payments. The trade balance is projected to shift from a deficit of 1-1/2 per cent of GDP in 1982 to a surplus of over 1-1/2 per cent in 1983 reflecting a 9 per cent increase in the value of exports and a 9 per cent contraction of imports. Growth of nontraditional exports is expected to be boosted by some recovery in industrial countries and by the strengthening of Peru's competitiveness but could be hindered by protectionist tendencies abroad. Copper and other mining export earnings are projected to increase on the basis of higher unit prices. However, these gains are expected to be partially offset by lower petroleum export receipts because of an expected drop in prices. The projected drop in imports, which follows a similar decline in 1982, reflects an adjustment to a more normal import level following a two-year period during which the value of imports rose cumulatively by almost 100 per cent.<sup>2/</sup>

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<sup>1/</sup> Statistical Appendix Table 35 provides an overview of the level and structure of customs tariffs up to December 31, 1982.

<sup>2/</sup> Details of the export and import projections for 1983 are provided in Statistical Appendix Tables 33 and 34.



The key element for the financing of the 1983 current account gap is an agreement between Peru and foreign commercial banks involving a new US\$880 million medium-term loan and an orderly rollover of Peru's short-term indebtedness. The medium-term loan is intended to provide resources to service the principal due to foreign banks in 1983 and to help finance the net new capital requirements of the economy. Net lending by the World Bank, which is another important financing element for 1983, includes a structural adjustment loan, and is projected to amount to US\$225 million, compared with about US\$60 million in 1982. On the basis of these capital flows the net international reserves are projected to decline by US\$100 million in 1983.

The Peruvian authorities have reassessed their external debt strategy in the light of the difficult world capital market situation. Over the medium term they intend to rely increasingly on loans from multilateral development agencies for the financing of priority development projects and to limit net new commercial bank borrowing to prudent levels. Nevertheless, public debt service (including service on debt to the Fund) is projected to rise from 38 per cent of exports of goods and nonfactor services in 1982 to 47 per cent in 1983. On the basis of the stated Peruvian debt strategy, continued prudent demand management, exchange rate flexibility, and a number of specific assumptions concerning world economic trends, the ratio should decline gradually to 36 per cent by 1988 (Table 9). The assumptions include a gradual improvement in the external environment leading to a gradual firming up of prices for Peru's export products, and some further decline in world market interest rates.<sup>1/</sup>

Control over public external borrowing has been strengthened substantially. In late 1982 foreign short-term public borrowing was brought under the control of the General Directorate of Public Credit. More recently the reporting delays on medium- and long-term public borrowing have been reduced substantially and has permitted the inclusion of external borrowing from all sources under the limits on net indebtedness of the nonfinancial public sector in the program for 1983. Ceilings on new commitments of external public and publicly guaranteed debt in the 1-10 year maturity range as well as a subceiling on 1-5 year maturities will continue to apply during the second year of the program, to improve Peru's external debt structure.

#### IV. Staff Appraisal

Given the weakening of the public sector and the balance of payments in 1981, Peru's financial program for 1982, which covered most of the first year of the extended arrangement, was based on the control of domestic demand and the achievement of realistic levels for the exchange rate, interest rates, and other controlled prices. Broadly

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<sup>1/</sup> A medium-term balance of payments projection is provided in Statistical Appendix Table 41.

Table 9. Peru: Medium- and Long-Term External Public  
Debt Service, 1980-1988

	1980	1981	1982	1983	1984	Projected		1987	1988
						1985	1986		
(In millions of U.S. dollars)									
1. Medium- and long-term debt (excluding IMF)	1,325	1,767	1,425	1,904	2,162	2,100	2,268	2,380	2,565
a. Principal	(833)	(1,247)	(871)	(1,166)	(1,248)	(1,118)	(1,239)	(1,320)	(1,467)
b. Interest	(492)	(520)	(554)	(738)	(914)	(982)	(1,029)	(1,060)	(1,098)
2. Debt to IMF	154	88	93	151	162	193	230	152	130
a. Repurchases	(119)	(46)	(48)	(95)	(90)	(116)	(164)	(97)	(81)
b. Charges	(35)	(42)	(45)	(56)	(72)	(77)	(66)	(55)	(49)
<u>Total (1 + 2)</u>	<u>1,479</u>	<u>1,855</u>	<u>1,518</u>	<u>2,055</u>	<u>2,324</u>	<u>2,293</u>	<u>2,498</u>	<u>2,532</u>	<u>2,695</u>
Principal (1a + 2a)	(952)	(1,293)	(919)	(1,261)	(1,338)	(1,234)	(1,403)	(1,417)	(1,548)
Interest (1b + 2b)	(527)	(562)	(599)	(794)	(986)	(1,059)	(1,095)	(1,115)	(1,147)
(In per cent)									
Debt service in relation to exports of goods and nonfactor services									
Excluding IMF	28.5	44.0	35.3	43.7	42.9	37.3	37.7	36.2	34.2
Including IMF	31.8	46.2	37.6	47.1	46.1	40.7	41.5	38.5	36.0
Ratio of interest payments to GDP	3.1	2.8	3.0	4.1	4.9	5.1	5.2	5.1	5.1

Sources: Central Reserve Bank of Peru; General Directorate of Public Credit; and Fund Staff

speaking, Peru complied with all the performance criteria of the first year of the extended arrangement and, notwithstanding some slippages in the attainment of the program's objectives, progress toward the correction of external and internal imbalances was achieved.

The overall balance of payments shifted from a deficit of about US\$500 million in 1981 to a surplus of approximately US\$100 million last year, and the external current account deficit was reduced from close to 8 per cent of GDP to 7 per cent over this same period. The pace of depreciation of the sol was speeded up in 1982 and part of the erosion of competitiveness experienced by Peru over the past few years was restored. On the domestic front, the overall deficit of the nonfinancial public sector was reduced from 8-1/2 per cent of GDP in 1981 to 6-1/2 per cent in 1982. The fiscal adjustment fell short of the programed reduction of the overall deficit to 4.2 per cent of GDP in 1982, partly because of adverse export developments, but also because of slippages in the control of spending by some public enterprises and in the implementation of pricing policies.

The larger than expected deficit of the public sector was more than financed by use of short-term foreign borrowing, a source of financing which had not been included under the limits on the financing of the nonfinancial public sector. Domestic bank credit expansion to the public sector was smaller than projected, hence facilitating monetary management and contributing to maintaining the net credit expansion of the monetary authorities within the ceilings of the program. Domestic interest rates were raised in early 1982, but the increase was not sufficient to improve the attractiveness of sol-denominated savings instruments in relation to U.S. dollar certificates, as the pace of depreciation of the sol accelerated.

The combination of lower than expected international prices for Peru's main exports, slack world demand conditions, and adverse developments in foreign financial markets contributed to a slowing of the rate of growth of GDP from an annual average of more than 3 per cent during 1979-81, to less than 1 per cent in 1982. At the same time, slippages in demand management and widespread indexation were important factors behind the persistence of domestic inflation at more than 70 per cent per annum for the second consecutive year.

The program for 1983 has been designed to continue strengthening Peru's financial position along the lines of the medium-term plan supported by the Extended Arrangement. Peru's adjustment effort for 1983 is being carried out at a time when economic conditions are not favorable. Growth of traditional exports is expected to be limited by weak world demand and Peru's efforts to expand its nontraditional exports could be hindered by protectionist tendencies abroad. In addition, access to world financial markets has become considerably more limited, thus affecting negatively domestic investment, notwithstanding a projected increase in domestic savings. These conditions are expected to contribute to a low rate of growth of GDP in 1983 for the second consecutive year.

The principal elements of the 1983 financial program are a tightening of demand policies, a moderate wage policy, and continued flexibility of interest and exchange rate management. These policies are expected to contribute to a reduction of the current account deficit of the balance of payments from 7 per cent of GDP in 1982 to 4-1/2 per cent in 1983, an overall balance of payment deficit of no more than US\$100 million, and a lowering of inflation from about 70 per cent registered in both 1981 and 1982, to some 55 per cent.

The program calls for a reduction in the overall deficit of the nonfinancial public sector from 6.6 per cent in 1982 to 3.8 per cent of GDP in 1983, through adoption of an austere expenditure plan and substantial increases in public prices and tariffs. In large measure, the success of the program will hinge on the authorities' ability to control spending. Specifically, the wage bill must be held firmly in check and public investment will need to be limited to 8-1/3 per cent of GDP as programed. The staff welcomes the authorities' decision to tighten access to financing by public entities and to strengthen administrative practices for controlling and monitoring spending.

The strict control of all categories of spending is to be accompanied by a major effort to eliminate consumer subsidies on a number of basic commodities and improve operating receipts of state enterprises through the pursuit of realistic pricing policy. Accordingly, subsidies on wheat and rice are expected to be eliminated during 1983, and domestic prices of petroleum derivatives and electricity tariffs are being adjusted on a monthly basis. With respect to central government tax revenue, the larger receipts related to the change in import tariffs and the increase in indirect taxes on domestic sales of petroleum products are expected to compensate in part for lower receipts from a drop in taxable income in the mining and manufacturing sectors, the phasing out of export taxes, and a decline in imports. Given the sluggish tax revenue performance in recent years the staff would urge the authorities to continue implementing measures aimed at improving tax administration.

The monetary program, which incorporates the domestic credit needs of the public sector and provides for the credit requirement of the private sector, is consistent with a loss in net international reserves of US\$100 million and a moderate reduction in the rate of inflation. In this context, the staff welcomes the authorities' commitment to raise domestic interest rates on financial savings denominated in domestic currency to levels equivalent to those prevailing in world markets.

Following a far-reaching reduction of import barriers and tax benefits to nontraditional exports in 1980-81, the process of trade liberalization suffered a setback with the imposition of an import surcharge in 1982. This surcharge was replaced in April 1983 by a flat across-the-board additional tariff of 10 per cent on the c.i.f. value of imports that should reduce sectoral tariff dispersion and lower effective protection. Given present severe budgetary constraints, the action taken by the authorities can be considered as a temporary means of

raising revenue. The staff would urge the authorities to seek alternative sources of revenue and to resume the process of reducing nominal tariff levels.

One of the main objectives of the program is a reduction in the rate of inflation; however, the adjustment of controlled prices to realistic levels and the improvement of Peru's competitiveness through a flexible exchange rate policy are likely to contribute to a high rate of price increase in the short run. Hence, success in reducing the rate of inflation this year will depend fundamentally upon the quality of the demand and wage policies put into effect. The staff is satisfied that the fiscal and monetary policies described in the letter of intent and accompanying policy memorandum will contribute to a lowering of inflationary pressures. The staff welcomes also the authorities' intention to pursue a restrained wage policy in the public sector in 1983 as a means to influence wage agreements in the private sector. In this regard, the staff believes that moderate increases in minimum wages and intensified efforts through the Prices and Salaries Commission would help ensure that wage awards in the private sector do not exceed the guidelines set for public employees.

The pursuit of a flexible exchange rate policy has been instrumental in protecting the balance of payments from unfavorable developments in the world economy and the staff fully supports the policy of the authorities to continue depreciating the sol at least in line with domestic inflation.

The reduced access of Peru to world financial markets and a sizable expansion in short-term foreign borrowing by a number of public agencies during 1982 have led the authorities to strengthen the control mechanisms over public foreign borrowing. Accordingly, the program incorporates foreign borrowing of all maturities within the limits on nonfinancial public sector borrowing. The staff welcomes the authorities' intention of reducing foreign market borrowing and of relying increasingly on resources from multilateral agencies and other official sources, as this strategy will permit an improvement of the country's debt structure over the medium term.

### V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Peru has consulted with the Fund in accordance with paragraph 4 of the letter of April 2, 1982 attached to the extended arrangement for Peru (EBS/82/77, 5/4/82) in order to reach understandings with the Fund regarding the policies and measures that Peru will pursue during the period from March 1, 1983 to February 29, 1984.
2. The letter dated \_\_\_\_\_, 1983 from the President of the Central Bank and the Minister of Economy, Finance, and Commerce, together with the attached Memorandum on Economic Policy of the Government of Peru for the second year of the extended arrangement shall be attached to the extended arrangement for Peru (EBS/82/77, 5/4/82), and the letter dated April 2, 1982, together with the attached Memorandum of the Economic Policy of the Government of Peru shall be read as supplemented and modified by the letter dated \_\_\_\_\_, 1983, together with the attached Memorandum on Economic Policy.
3. Accordingly, Peru will not make purchases under this extended arrangement until February 29, 1984:
  - a. During any period in which:
    - (i) The data at the end of the preceding period indicate that the limit on net indebtedness of the nonfinancial public sector referred to in

paragraph 7 of the memorandum annexed to the attached letter has not been observed, or

(ii) The data at the end of the preceding period indicate that the target for the net international reserve position of the Central Reserve Bank and the Banco de la Nacion of Peru referred to in paragraph 10 of the memorandum annexed to the attached letter has not been observed, or

(iii) The limit on the net domestic assets of the Central Reserve Bank and the Banco de la Nacion of Peru referred to in paragraph 8 of the memorandum annexed to the attached letter is not observed, or

(iv) The limit on the contracting of new public external debt referred to in paragraph 12 of the memorandum annexed to the attached letter is not observed; or

b. After September 30, 1983, if the review contemplated in paragraph 5 of the attached letter has not been completed.

4. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 140 million until May 20, 1983; SDR 202.5 million until August 20, 1983; the equivalent of SDR 265 million until November 20, 1983; and the equivalent of SDR 327.5 million until February 20, 1984.

Table 10. Peru: National Accounts

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
(In billions of soles at current prices)						
<u>Consumption expenditure</u>	<u>1,376.2</u>	<u>2,271.4</u>	<u>3,865.9</u>	<u>6,989.9</u>	<u>11,254.2</u>	<u>19,362.6</u>
Public sector	208.9	301.0	626.2	1,075.0	1,661.0	2,699.0
Private sector	1,167.3	1,970.4	3,239.7	5,914.9	9,593.2	16,663.6
<u>Gross domestic investment</u>	<u>243.2</u>	<u>447.7</u>	<u>876.6</u>	<u>1,801.3</u>	<u>2,971.2</u>	<u>4,877.9</u>
Fixed capital formation	234.5	441.0	843.1	1,642.0	2,839.7	4,641.7
Public sector <sup>1/</sup>	(93.1)	(163.7)	(361.3)	(693.0)	(1,399.0)	(2,017.0)
Private sector	(141.4)	(277.3)	(481.8)	(949.0)	(1,440.7)	(2,624.7)
Change in stocks	8.7	6.7	33.5	159.3	131.5	236.2
<u>Domestic expenditure</u>	<u>1,619.4</u>	<u>2,719.1</u>	<u>4,742.5</u>	<u>8,791.2</u>	<u>14,225.4</u>	<u>24,240.5</u>
<u>External sector</u>	<u>51.5</u>	<u>349.1</u>	<u>220.0</u>	<u>-335.8</u>	<u>-353.9</u>	<u>160.0</u>
Exports of goods and nonfactor services	374.4	912.6	1,340.7	1,694.5	2,821.3	5,452.5
Imports of goods and nonfactor services	322.9	563.5	1,120.7	2,030.3	3,175.2	5,292.5
<u>Gross domestic product at market prices</u>	<u>1,670.9</u>	<u>3,068.2</u>	<u>4,962.5</u>	<u>8,455.4</u>	<u>13,871.5</u>	<u>24,400.5</u>
(In billions of soles at constant 1970 prices)						
<u>Consumption expenditure</u>	<u>261.3</u>	<u>258.5</u>	<u>273.5</u>	<u>281.1</u>	<u>275.1</u>	<u>278.4</u>
Public sector	39.7	35.4	43.1	41.3	38.6	39.5
Private sector	221.6	223.1	230.4	239.8	236.5	238.9
<u>Gross domestic investment</u>	<u>39.2</u>	<u>44.0</u>	<u>57.0</u>	<u>69.5</u>	<u>66.6</u>	<u>60.2</u>
Fixed capital formation	37.7	43.3	54.7	63.1	63.6	57.2
Public sector <sup>1/</sup>	(16.2)	(16.1)	(24.7)	(27.4)	(30.6)	(24.9)
Private sector	(21.5)	(27.2)	(30.0)	(35.7)	(33.0)	(32.3)
Change in stocks	1.5	0.7	2.3	6.4	3.0	3.0
<u>Domestic expenditure</u>	<u>300.5</u>	<u>302.5</u>	<u>330.5</u>	<u>350.6</u>	<u>341.7</u>	<u>338.6</u>
<u>External sector</u>	<u>13.4</u>	<u>23.3</u>	<u>5.1</u>	<u>-4.3</u>	<u>7.1</u>	<u>11.8</u>
Exports of goods and nonfactor services	48.8	60.9	57.6	54.1	58.3	56.4
Imports of goods and nonfactor services	35.4	37.6	52.5	58.4	51.2	44.6
<u>Gross domestic product at market prices</u>	<u>313.9</u>	<u>325.8</u>	<u>335.6</u>	<u>346.3</u>	<u>348.8</u>	<u>350.4</u>

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

<sup>1/</sup> Includes Centromin since 1980.



Table 11. Peru: Sectoral Origin of Gross Domestic Product  
at Constant Prices

	1979	1980	1981	Proj. 1982	Proj. 1983
(In millions of soles at 1970 prices)					
Gross domestic product	325,838	335,613	346,285	348,785	350,417
Agriculture and livestock	41,125	38,918	43,861	45,177	46,758
Fishing	4,235	4,017	3,523	3,452	3,173
Mining	32,948	32,025	30,616	32,116	32,373
Manufacturing	78,634	82,802	82,802	80,898	80,898
Construction	14,521	17,257	19,156	19,731	18,941
Government	25,033	25,420	26,015	26,535	26,800
Other	129,342	135,174	140,312	140,876	141,474
(As per cent of total)					
Gross domestic product	100.0	100.0	100.0	100.0	100.0
Agriculture and livestock	12.6	11.6	12.7	13.0	13.3
Fishing	1.3	1.2	1.0	1.0	0.9
Mining	10.1	9.5	8.9	9.2	9.2
Manufacturing	24.1	24.7	23.9	23.2	23.1
Construction	4.5	5.1	5.5	5.6	5.4
Government	7.7	7.6	7.5	7.6	7.7
Other	39.7	40.3	40.5	40.4	40.4
(Annual percentage change)					
Gross domestic product	3.8	3.0	3.2	0.7	0.5
Agriculture and livestock	3.1	-5.4	12.7	3.0	3.5
Fishing	9.5	-5.1	-12.3	-2.0	-8.1
Mining	11.9	-2.8	-4.4	4.9	0.8
Manufacturing	3.9	5.3	--	-2.3	--
Construction	3.7	18.8	11.0	3.0	-4.0
Government	-0.5	1.5	2.3	2.0	1.0
Other	2.7	4.5	3.8	0.4	0.4

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

Table 12. Peru: Manufacturing Production

(Index numbers 1973 = 100)

	1978	1979	1980	1981	Prel. 1982
<u>Total</u>	<u>113.8</u>	<u>118.2</u>	<u>124.4</u>	<u>124.4</u>	<u>121.5</u>
<u>Fishmeal</u>	<u>154.5</u>	<u>161.6</u>	<u>108.5</u>	<u>113.7</u>	<u>147.0</u>
<u>Food, beverages, and tobacco</u>	<u>108.3</u>	<u>113.2</u>	<u>119.5</u>	<u>120.4</u>	<u>120.6</u>
Food	101.2	101.2	101.6	102.5	98.9
Beverages	120.1	131.3	145.2	143.5	147.9
Tobacco	106.1	116.7	128.4	137.5	144.5
<u>Textiles, clothing, and leather</u>	<u>98.3</u>	<u>102.2</u>	<u>100.2</u>	<u>96.5</u>	<u>89.0</u>
Textiles	106.4	113.4	108.0	107.8	101.0
Clothing	73.4	68.2	72.0	51.8	...
Leather and furs	88.9	85.1	102.3	96.7	...
Leather shoes	76.0	72.1	80.4	73.6	57.0
<u>Lumber and furniture</u>	<u>102.8</u>	<u>97.5</u>	<u>95.2</u>	<u>88.6</u>	<u>...</u>
Lumberyards	138.4	133.2	122.1	122.8	...
Furniture	61.4	57.7	65.3	50.5	...
<u>Paper, printing, and publishing</u>	<u>83.1</u>	<u>72.3</u>	<u>87.3</u>	<u>91.9</u>	<u>81.9</u>
Paper and paper products	105.4	99.6	121.2	113.7	86.7
Printing and publishing	68.7	54.7	65.5	76.6	78.8
<u>Petroleum derivatives and other chemical products</u>	<u>126.8</u>	<u>130.1</u>	<u>143.9</u>	<u>147.1</u>	<u>150.6</u>
Industrial chemical products	167.8	175.5	184.9	184.5	204.3
Other chemical products	126.7	113.8	134.4	138.7	133.8
Petroleum refining	114.0	132.2	136.1	138.8	140.7
Rubber products	101.4	109.5	132.8	129.8	122.7
Plastic products	99.6	114.2	124.9	136.5	147.8
<u>Nonmetallic mineral products</u>	<u>112.8</u>	<u>115.1</u>	<u>124.6</u>	<u>127.9</u>	<u>120.0</u>
Porcelain products	140.3	121.9	114.0	137.4	116.9
Glass and glass products	96.2	114.0	117.6	117.8	133.7
Other	113.7	114.3	128.7	129.7	116.0
<u>Basic metallic industry</u>	<u>168.6</u>	<u>193.3</u>	<u>189.1</u>	<u>177.2</u>	<u>176.5</u>
Iron and steel	131.2	138.9	156.0	141.0	106.1
Nonferrous metals	182.0	212.8	200.9	190.1	201.7
<u>Metallic products and machinery</u>	<u>93.4</u>	<u>92.4</u>	<u>114.5</u>	<u>120.3</u>	<u>101.4</u>
Metallic products, except machinery	97.0	92.0	110.8	100.5	93.5
Machinery, except electrical	122.3	134.6	163.1	175.7	132.0
Electrical machinery and equipment	125.7	115.1	135.4	153.1	124.6
Vehicles	38.4	43.4	67.1	70.4	65.4
Equipment for measurement and control	112.6	98.1	110.5	138.8	...
<u>Other</u>	<u>84.8</u>	<u>81.3</u>	<u>89.4</u>	<u>83.5</u>	<u>...</u>

Source: Ministry of Industry, Tourism, and Integration.

Table 13. Peru: Mineral Production by Major Products 1/

	Value					Prel.	Proj.
	1981 <u>2/</u>	1978	1979	1980	1981	1982	1983
(Volumes in thousands of the indicated units)							
Metals	21,427						
Copper (FMT)	12,936	376	397	367	342	367	368
Lead (FMT)	1,536	183	184	189	195	213	217
Silver (Fkg)	2,440	1,337	1,364	1,392	1,460	1,470	1,510
Zinc (FMT)	2,725	458	491	488	496	557	568
Iron (FMT)	1,790	3,275	3,622	3,780	4,034	3,861	4,200
Petroleum							
(barrels)	8,124	55,060	69,952	71,369	70,445	71,358	70,445
(Percentage change from preceding year) <u>3/</u>							
<u>Total</u>		<u>15.0</u>	<u>10.3</u>	<u>-2.8</u>	<u>-2.4</u>	<u>4.9</u>	<u>0.8</u>
Metals		5.6	5.4	-4.4	-2.8	6.3	1.5
Copper (FMT)		11.9	5.5	-7.7	-6.8	7.2	0.3
Lead (FMT)		2.4	0.7	2.8	3.2	9.2	2.0
Silver (Fkg)		2.9	2.1	2.0	4.9	0.7	2.7
Zinc (FMT)		-4.0	7.3	-0.7	1.6	12.3	2.0
Iron (FMT)		-18.8	10.6	4.3	6.7	-4.3	8.8
Petroleum							
(barrels)		65.5	27.0	2.0	-1.3	1.3	-1.3

Sources: Ministry of Energy and Mines; Central Reserve Bank of Peru; and Fund staff estimates.

1/ The products listed represent about 95 per cent of Peru's overall mining output.

2/ In millions of soles at 1970 prices.

3/ Percentage change correspond to values at constant prices of 1970.

Table 14. Peru: Agricultural and Livestock Production

	Value <sup>1/</sup>	Percentage Change from Preceding Year					
	1981	1978	1979	1980	1981	1982 <sup>2/</sup>	1983 <sup>3/</sup>
<u>Total agricultural and livestock production</u>	<u>42,533</u>	<u>-3.0</u>	<u>3.1</u>	<u>-5.4</u>	<u>12.7</u>	<u>3.0</u>	<u>3.5</u>
<u>Agricultural products</u>	<u>26,248</u>	<u>-2.1</u>	<u>5.6</u>	<u>-9.9</u>	<u>14.0</u>	<u>2.5</u>	<u>3.7</u>
Domestic consumption							
Crops	20,466	-4.0	3.0	-11.3	17.3	3.6	5.3
Potatoes	(3,796)	(8.4)	(0.2)	(-19.6)	(22.1)	(6.6)	(1.1)
Rice	(3,501)	(-20.3)	(19.2)	(-24.6)	(69.4)	(8.7)	(13.9)
Corn	(1,247)	(-26.4)	(17.0)	(-30.0)	(29.5)	(1.3)	(30.8)
Wheat	(485)	(-6.3)	(-7.2)	(-26.2)	(54.0)	(-14.4)	(--)
Other	(11,437)	(-0.5)	(-0.4)	(-2.3)	(4.0)	(2.0)	(1.4)
Export crops	5,782	5.8	15.5	-5.3	3.9	-1.1	-2.1
Cotton	(3,016)	(6.4)	(29.9)	(5.4)	(11.5)	(-17.7)	(-5.8)
Sugarcane	(1,026)	(-9.6)	(-11.7)	(-20.4)	(-8.4)	(34.6)	(-0.5)
Coffee	(1,740)	(27.5)	(25.2)	(-8.5)	(--)	(3.2)	(2.0)
<u>Livestock products</u>	<u>16,285</u>	<u>-4.5</u>	<u>-1.0</u>	<u>2.6</u>	<u>10.6</u>	<u>3.9</u>	<u>3.2</u>
Poultry	5,548	-17.1	-0.2	21.2	27.2	7.9	6.6
Beef	2,267	2.3	-2.7	-3.2	7.5	1.6	1.1
Pork	1,392	-1.9	-0.9	-4.6	7.6	-0.7	2.0
Lamb	408	--	0.9	-8.8	-9.2	9.0	2.4
Milk	3,191	0.2	0.2	-5.4	0.6	2.6	1.3
Eggs	1,554	3.6	-4.7	8.5	6.3	1.7	1.2
Other	1,925	-1.5	-0.5	-12.5	2.4	1.0	1.2

Sources: Ministry of Agriculture and Food; Central Reserve Bank of Peru.

<sup>1/</sup> In millions of soles at 1970 prices.

<sup>2/</sup> Preliminary.

<sup>3/</sup> Projected.

Table 15. Peru: Overall Production, Consumption, and Exports in the Fishing Industry

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
(In thousands of metric tons)						
<u>For industrial use</u>						
Overall industrial fish catch	2,812	2,882	1,726	1,850	2,867	2,000
Anchovy catch	(1,187)	(1,363)	(720)	(1,225)	(1,726)	(1,200)
Other	(1,625)	(1,519)	(1,006)	(625)	(1,141)	(800)
Fishmeal						
Production	670	688	456	478	645	...
Exports	472	657	416	314	619	...
Domestic consumption	78	95	59	72	100	...
Change in stocks	120	-64	-19	92	-74	...
Closing stocks	158	94	75	167	93	...
Fishoil						
Production	129	127	78	76	205	...
Exports	--	70	--	--	--	...
<u>For human consumption</u>						
Overall catch for human consumption	619	758	971	851	586	647
Fresh fish	(176)	(177)	(156)	(147)	(155)	(165)
Canned fish	(238)	(345)	(567)	(566)	(352)	(380)
Frozen fish	(191)	(201)	(220)	(106)	(49)	(70)
Salted fish	(14)	(35)	(28)	(32)	(30)	(32)
Domestic fish consumption	215	219	214	191	191	...
(Annual percentage change)						
<u>Selected indicators of fish production</u>						
Overall industrial catch	39.4	2.5	-40.1	7.2	55.0	-30.2
Fishmeal production	34.7	2.7	-33.7	4.8	34.9	...
Fishoil production	21.7	-1.6	-38.6	-2.6	169.7	...
Overall catch for human consumption	30.6	22.5	28.1	-12.4	-31.1	10.4

Sources: Ministry of Fisheries; Central Reserve Bank of Peru; and Fund staff estimates.

Table 16. Peru: Production, Imports, Exports,  
and Consumption of Petroleum  
and Petroleum Derivatives

(In millions of barrels)

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Crude petroleum</u>						
<u>production</u>	55.1	70.0	71.2	70.4	71.4	70.4
PETROPERU	21.3	18.7	16.1	15.3	19.7	21.5
Other producers	33.8	51.3	55.1	55.1	51.7	48.9
<u>Petroleum imports</u>	2.1	0.3	0.6	0.4	0.6	0.4
Imports of crude	0.4	--	--	--	--	--
Imports of derivatives	1.7	0.3	0.6	0.4	0.6	0.4
<u>Petroleum exports</u>	13.7	24.1	22.3	19.9	22.7	20.4
Exports of crude	10.7	19.0	17.5	15.0	15.4	15.7
Exports of derivatives	3.0	5.1	4.8	4.9	7.3	4.7
<u>Refinery use</u>	44.4	51.2	53.5	56.4	57.1	55.1
Crude refined	43.1	49.4	51.9	54.9	55.5	53.3
Crude consumed	1.3	1.8	1.6	1.5	1.6	1.8
<u>Domestic consumption of</u>						
<u>derivatives</u>	41.1	42.5	46.1	47.3	47.1	47.1

Sources: Ministry of Energy and Mines; and Central Reserve Bank of Peru.

Table 17. Peru: Domestic Production and Consumption  
of Petroleum Derivatives

(In millions of barrels)

	1978	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Production</u>	<u>46.1</u>	<u>51.4</u>	<u>54.1</u>	<u>56.8</u>	<u>57.7</u>	<u>55.5</u>
Refinery	44.4	51.1	53.5	56.4	57.1	55.1
Imports	1.7	0.3	0.6	0.4	0.6	0.4
<u>Uses</u>	<u>46.1</u>	<u>51.4</u>	<u>54.1</u>	<u>56.8</u>	<u>57.7</u>	<u>55.5</u>
Domestic consumption	41.1	42.5	46.1	47.3	47.1	47.1
Gasoline	(9.9)	(9.7)	(10.4)	(10.9)	(11.3)	(11.3)
Jet fuel	(2.4)	(2.6)	(2.8)	(3.0)	(3.1)	(3.1)
Kerosene	(5.5)	(5.6)	(5.9)	(6.6)	(6.5)	(6.5)
Diesel	(9.2)	(9.6)	(10.3)	(11.4)	(11.3)	(11.3)
Residual	(12.2)	(13.1)	(14.5)	(13.2)	(12.5)	(12.5)
Other	(1.9)	(2.0)	(2.2)	(2.2)	(2.4)	(2.4)
Exports	3.0	5.1	4.8	4.9	7.3	4.7
Change in stocks <u>1/</u>	2.0	3.8	3.2	4.6	3.3	3.7

Source: Central Reserve Bank of Peru.

1/ Includes own consumption by refineries.

Table 18. Peru: Annual Changes in Consumer Prices in the Lima Metropolitan Area

(Percentage change over 12-month periods)

	Total	Food	Cloth- ing	Housing, Fuel, and Elec- tricity	Furni- ture	Medical Expenses	Transport and Commu- nications	Leisure Activi- ties	Other
(Year averages)									
1977	38.0	40.4	31.7	17.7	33.1	39.0	54.8	39.8	37.4
1978	57.8	60.3	52.3	39.1	60.5	66.2	59.8	61.8	58.1
1979	67.7	74.1	79.1	37.0	65.5	60.0	57.8	71.1	69.2
1980	59.2	58.8	60.3	38.8	79.4	68.3	34.6	66.7	75.4
1981	75.4	76.4	62.6	63.6	90.4	83.3	68.6	79.5	84.0
1982	64.5	52.9	46.6	69.2	70.8	78.9	79.2	71.9	82.0
(End of month)									
1977 - December	32.4	32.9	29.5	25.6	23.9	38.1	42.8	35.0	32.7
1978 - December	73.7	78.3	72.5	18.0	82.4	77.4	69.3	77.2	80.8
1979 - December	66.7	75.7	78.8	81.9	64.3	64.7	50.7	66.0	58.9
1980 - March	62.5	66.2	78.8	38.9	71.3	73.4	44.3	71.6	74.8
June	57.3	58.5	76.1	37.1	74.6	70.2	28.8	62.7	75.6
September	59.3	55.9	86.4	35.5	90.1	72.8	39.1	66.0	51.1
December	60.8	57.4	81.2	43.4	86.3	66.6	38.0	75.2	71.8
1981 - March	75.8	105.0	75.2	61.2	98.5	79.9	59.6	81.4	80.9
June	81.6	83.9	72.2	67.8	96.4	87.3	71.5	86.0	88.5
September	71.7	72.3	52.3	65.1	85.7	84.9	58.8	76.8	82.9
December	72.7	68.2	50.2	69.8	87.6	81.7	80.0	73.7	86.1
1982 - March	60.2	47.2	47.0	58.1	76.8	81.2	76.7	71.0	78.1
June	61.0	46.2	44.4	68.3	70.9	74.5	84.5	67.7	79.0
September	65.7	53.4	45.2	72.6	66.1	81.0	84.4	72.2	85.7
December	72.9	72.1	47.7	73.8	62.1	80.1	79.4	72.6	88.8
1983 - March	90.1	...	...	...	...	...	...	...	...

Sources: National Institute of Statistics; and Central Reserve Bank of Peru.



Table 19. Peru: Prices of Selected Petroleum Derivatives 1/

	1978	1979	1980	1981		1982				1983
	June	June	June	June	Dec.	Mar.	June	Sept.	Dec.	Feb. 3 2/
(In soles per gallon)										
Gasoline:										
Super 95 oct.	145.0	195.0	260.0	420.0	580.0	665.0	780.0	985.0	1,080.0	1,300.0
Regular 84 oct.	125.0	170.0	215.0	340.0	480.0	550.0	650.0	820.0	900.0	1,160.0
Kerosene for domestic use	15.0	20.0	30.0	66.0	114.0	136.6	178.2	250.2	302.5	490.6
Diesel #2	50.0	80.0	114.5	205.0	356.5	425.2	524.4	694.5	760.3	980.4
Residual fuel #6	37.0	55.0	78.0	127.5	240.0	300.0	390.0	545.0	615.0	820.0
(In U.S. cents per gallon) <u>3/</u>										
Gasoline:										
Super 95 oct.	93.9	86.6	91.2	100.3	114.4	115.6	115.4	123.9	109.1	121.9
Regular 84 oct.	81.0	75.5	75.4	81.2	94.7	95.6	96.2	103.2	90.9	108.8
Kerosene for domestic use	9.7	8.9	10.5	15.8	22.5	23.7	26.4	31.5	30.6	46.0
Diesel #2	32.4	35.5	40.2	48.9	70.3	73.9	77.6	87.4	76.8	91.9
Residual fuel #6	24.0	24.4	27.4	30.4	47.3	52.1	57.7	68.6	62.1	76.9

Sources: Ministry of Energy and Mines; and Central Reserve Bank of Peru.

1/ End-of-month prices for general consumption in coastal and mountain regions. The price of diesel and residual fuel consumed in the mining sector is higher.

2/ As of February 3, 1983.

3/ Expressed in terms of the end-of-month exchange rate.

Table 20. Peru: Private Sector Wages and Salaries  
in the Lima Metropolitan Area

	Nominal Minimum Wage 1/	Nominal Wages	Nominal Salaries	Real Minimum Wage	Real Wages	Real Salaries
	(In soles per month)			(Index number, 1973=100)		
1977	4,875	11,288	19,180	76.4	75.1	67.5
1978	5,900	16,065	25,989	61.5	66.8	57.5
1979	11,063	26,078	39,992	65.8	64.5	52.6
1980	21,790	45,053	67,923	81.0	72.6	58.0
1981	32,243	77,640	121,243	68.5	71.4	58.9
<u>1979</u>						
December	15,000	32,070	48,243	72.6	67.5	53.7
<u>1980</u>						
February	18,000	35,550	54,327	79.1	67.9	54.9
May	22,020	42,960	63,378	89.1	75.6	59.0
August	22,020	44,970	67,571	79.5	70.6	57.8
November	25,350	56,730	84,417	78.5	76.3	60.1
<u>1981</u>						
February	27,390	63,480	99,200	70.5	71.0	58.8
May	30,690	72,840	111,136	68.4	70.5	57.0
August	33,750	81,810	124,346	67.8	71.5	57.5
November	37,140	92,430	150,289	66.9	72.4	62.3
<u>1982</u>						
February	40,860	105,570	178,348	65.6	73.7	65.9
May	45,780	119,370	198,498	64.2	72.8	64.1
August	50,370	136,350	226,700	62.1	73.0	64.3
November	60,000	...	...	63.2	...	...
<u>1983</u>						
February	72,000	...	...	62.6	...	...
March	96,000	...	...	76.2	...	...

Sources: Ministry of Labor; Central Reserve Bank of Peru; and Fund staff estimates.

1/ Lima Province.

Table 21. Peru: Prices of Selected Products Subject to Price Control

	1979	1980		1981		1982		1983	
	Dec.	June	Dec.	June	Dec.	July	Dec.	Jan.	Mar. 1/
(In soles)									
<b>Foodstuffs</b>									
Rice (per kg.)	80.00	95.00	95.00	135.00	180.00	235.00	285.00	310.00	310.00
Soybean (per kg.)	91.00	120.00	120.00	120.00	190.00	190.00	250.00	250.00	250.00
Yellow corn (per kg.)	45.00	45.00	65.00	80.50	96.00	135.00	175.00	175.00	175.00
Sorghum (per kg.)	40.50	40.50	60.00	72.50	86.40	117.00	150.00	150.00	150.00
White sugar (per kg.)	68.00	68.00	100.00	185.00	205.00	240.00	317.00	337.00	445.00 2/
Wheat flour (per kg.)	47.58	49.16	73.06	130.14	130.14	146.80	193.20	210.20	210.20
French bread (per 40 grs.)	3.80	3.80	5.00	8.50	8.50	10.00	15.00	19.00	19.00
Vegetable oil (per lt.)	Freed								
Oil mixture (per lt.)	179.00	179.00	179.00	Freed					
Pasteurized milk (per lt.)	54.50	54.40	70.00	135.00	160.00	200.00	255.00	290.00	290.00
Evaporated milk (per 14.5 oz.)	75.00	75.00	95.00	190.00	245.00	300.00	360.00	425.00	425.00
<b>Fuels</b>									
Gasoline 84 octanes (per U.S. gallon)	200.00	215.00	240.00	340.00	480.00	695.00	900.00	1,000.00	1,300.00
Diesel 2 (per U.S. gallon)	103.50	114.50	135.00	205.00	356.50	566.80	760.32	848.44	1,087.00
(In June 1976 soles)									
<b>Foodstuffs</b>									
Rice (per kg.)	16.30	15.68	12.03	12.27	13.20	12.73	12.09	12.22	10.35
Soybean (per kg.)	18.54	19.81	15.20	10.91	13.94	10.29	10.61	9.86	8.35
Yellow corn (per kg.)	9.17	7.43	8.23	7.32	7.04	7.31	7.42	6.90	5.85
Sorghum (per kg.)	8.25	6.68	7.60	6.59	6.34	6.34	6.36	5.91	5.01
White sugar (per kg.)	13.85	11.22	12.67	16.82	15.04	13.00	13.45	13.29	14.87
Wheat flour (per kg.)	9.69	8.11	9.25	11.83	9.55	7.95	8.20	8.29	7.02
French bread (per 40 grs.)	0.77	0.63	0.63	0.77	0.62	0.54	0.63	0.74	0.63
Vegetable oil (per lt.)	Freed								
Oil mixture (per lt.)	36.46	29.54	22.67	Freed					
Pasteurized milk (per lt.)	11.10	9.00	8.87	12.27	11.74	10.83	10.82	11.44	9.69
Evaporated milk (per 14.5 oz.)	15.28	12.38	12.03	17.27	17.97	16.25	15.27	16.75	14.19
<b>Fuels</b>									
Gasoline 84 octanes (per U.S. gallon)	40.74	35.49	30.40	30.91	35.21	37.64	38.18	39.43	43.43
Diesel 2 (per U.S. gallon)	21.08	18.90	17.10	18.64	26.15	30.70	32.25	33.45	36.31

Sources: Ministry of Agriculture and Food; and Central Reserve Bank of Peru.

1/ Preliminary.

2/ Effective as of April 1, 1983.

Table 22. Peru: Wage Increases since July 1, 1981 1/

Date	Description of Measure	General Government Employees (Subject to "Ley Anual de Remuneraciones del Sector Público")	Unionized Workers		Nonunionized Workers in the Private Sector	Pensions and Minimum Wages
			Public Enterprises	Private Enterprises		
7/1/81	Supreme Decrees 135-81-EF, 13-81-TR and 14-81-TR: Mandates across-the board wage increases for public and nonunionized private sector workers and a wage bonus for unionized workers.	<u>Increase:</u> 10 per cent.	<u>Increase:</u> 10 per cent of total wage (i.e., basic wage plus bonuses) up to a maximum of S/. 5,000 per month. This increase is to be considered as a payment in advance of the next negotiated wage increase.		<u>Increase:</u> 10 per cent of total wage (i.e., basic wage plus bonuses).	<u>Pension increase:</u> Public sector pensioners receive a minimum increase of S/. 3,000 per month or 10 per cent of their pension whichever is higher.
7/1/81	Supreme Resolution 016-81-TR: Mandates a 10 per cent minimum wage increase for the private sector.					<u>Minimum wage increase:</u> S/. 3,060 per month.
10/1/81	Supreme Decrees 018-81-TR, 019-81-TR and 215-81-EFC: Mandates across-the-board wage increases for public and nonunionized private sector workers and a wage bonus for unionized workers.	<u>Increase:</u> 10 per cent.	<u>Increase:</u> 10 per cent of total wage (basic wage plus bonuses) up to a maximum of S/. 5,000 per month only for collective agreements struck between 6/30/81 and 10/1/81. This increase is to be considered as a payment in advance of the next negotiated wage increase.		<u>Increase:</u> 10 per cent of total wage (i.e., basic wage plus bonuses).	<u>Pension increase:</u> Public sector pensioners receive a minimum increase of S/. 3,000 per month or 10 per cent of their pension, whichever is higher.
10/1/81	Supreme Resolution 028-81-TR: Mandates a 10 per cent minimum wage increase for the private sector.					<u>Minimum wage increase:</u> S/. 3,390 per month.
10/1/81	Supreme Decree 017-81-TR: Mandates a fuel bonus for the private sector.			<u>Increase:</u> S/. 1,020 per month only for workers receiving less than S/. 100,000 per month as of 9/30/81.		
12/31/81	Supreme Decrees 028-81-TR, 029-81-TR, and 005-81-PIM: Mandates across-the-board wage increases for public and nonunionized private sector workers and wage bonus for unionized workers.	<u>Increase:</u> 10 per cent effective as of 1/1/82.	<u>Increase:</u> 10 per cent of total wage (basic wage plus bonuses) up to a maximum of S/. 5,000 per month only for collective agreements struck between 1/1/81 and 6/30/81. This increase is to be considered as a payment in advance of the next negotiated wage increase.		<u>Increase:</u> 10 per cent of total wage (i.e., basic wage plus bonuses) up to a maximum of S/. 11,142 per month.	<u>Pension increase:</u> Public sector pensioners receive a 12 per cent increase up to a maximum of S/. 11,142 per month.

Table 22. Peru: Wage Increases since July 1, 1981 (Continued) 1/

Date	Description of Measure	General Government Employees (Subject to "Ley Anual de Remuneraciones del Sector Público")		Unionized Workers Public Private Enterprises Enterprises		Nonunionized Workers in the Private Sector	Pensions and Minimum Wages
1/1/82	Supreme Resolution 036-81-TR: Mandates a 10 per cent minimum wage increase for the private sector, effective as of 7/1/82.						Minimum wage increase: S/. 3,720 per month.
2/14/82	Supreme Decrees 053-82-EFC and 04-82-TR: Mandates a transportation bonus effective as of 2/15/82.				Increase: S/. 1,410 per month only for workers receiving less than S/. 120,000 per month.		
3/31/82	Supreme Decree 095-82-EFC: Mandates a wage increase for public sector workers, effective as of 4/1/82.		Increase: 10 per cent of the basic wage in effect on 2/28/81.				Pension increase: Public sector pensioners receive a minimum increase of S/. 4,000 per month or 10 per cent of their pension, whichever is higher.
3/31/82	Supreme Decree 08-82-TR: Mandates a 10 per cent wage bonus for unionized private sector workers.			Increase: 10 per cent of basic wage and cost of living allowances in effect on 3/31/82.			
3/31/82	Supreme Decree 09-82-TR: Mandates a 10 per cent cost of living allowance for nonunionized private sector workers effective as of 4/1/82.					Increase: 10 per cent of total wage (basic wage plus bonuses granted, before 12/31/81).	
4/2/82	Supreme Resolution 017-82-TR: Mandates a minimum wage increase of 12 per cent for the private sector.						Minimum wage increase: S/. 4,920 per month.
6/29/82	Supreme Decree 046-82-PLM: Mandates a wage increase for public sector workers, effective as of 7/1/82.		Increase: 9 per cent of basic wage.				Pension increase: Public sector pensioners receive an increase of S/. 4,000 or 9 per cent of their pension, whichever is higher.

Table 22. Peru: Wage Increases since July 1, 1981 (Concluded) 1/

Date	Description of Measure	General Government Employees (Subject to "Ley Anual de Remu- neraciones del Sector Público")	Unionized Workers		Nonunionized Workers in the Private Sector	Pensions and Minimum Wages
			Public Enterprises	Private Enterprises		
7/1/82	Supreme Decree 016-82-TR: Mandates a cost of living allowance for nonunionized workers in the private sector.				Increase: 10 per cent of total wage (basic wage plus bonuses granted before 6/30/82).	
7/3/82	Supreme Resolution 023-82-TR: Mandates a 10 per cent minimum wage increase, effective as of 7/1/82.					Minimum wage increase: S/. 4,590 per month.
9/23/82	Supreme Resolution 030-82-TR: Mandates a 19 per cent minimum wage increase.					Minimum wage increase: S/. 9,630 per month.
2/3/83	Supreme Decree 002-83-TR: Mandates a special wage bonus to compensate for increases in the cost of living to nonunionized private sector workers and a 20 per cent minimum wage increase.				Increase: 20 per cent over the minimum wage set as of 9/23/82 and 8 per cent applied to the amount in excess of the minimum wage, and up to two times the minimum wage.	Minimum wage increase: S/. 12,000 per month.
2/3/83	Supreme Decree 20-83-EFC: Mandates an increase over the basic wage for public sector employees.	Increase: 14 per cent over the basic wage earned as of 12/31/82.				
3/8/83	Supreme Decree 004-83-TR: Mandates a 33 per cent minimum wage increase.					Minimum wage increase: S/. 24,000 per month.

Sources: Ministry of Labor and Welfare; and Central Reserve Bank of Peru.

1/ Excludes wage increases resulting from collective bargaining agreements, and special wage increases granted to specific groups of general government workers.

Table 23. Peru: Central Government Operations

(In billions of soles)

	1979	1980	1981	1982		Proj. 1983
				Prog.	Prel.	
<u>Current revenue</u>	<u>552.2</u>	<u>1,019.3</u>	<u>1,523.0</u>	<u>2,647.0</u>	<u>2,492.0</u>	<u>4,102.0</u>
<u>Tax revenue</u>	<u>493.6</u>	<u>939.9</u>	<u>1,382.0</u>	<u>2,389.0</u>	<u>2,254.0</u>	<u>3,748.0</u>
Income tax	121.6	303.1	326.3	505.0	514.0	797.0
Property tax	24.6	56.2	87.8	134.0	148.0	259.0
Tax on goods and services	227.3	379.1	630.0	1,192.0	1,172.0	2,012.0
General sales tax	(161.9)	(281.2)	(461.0)	(826.0)	(784.0)	(1,307.0)
Petroleum	/20.3/	/31.0/	/53.0/	/104.0/	/93.0/	/203.0/
Other	/141.6/	/250.2/	/408.0/	/722.0/	/691.0/	/1,104.0/
Excise taxes	(65.4)	(97.9)	(169.0)	(366.0)	(388.0)	(705.0)
Petroleum	/40.5/	/59.7/	/104.0/	/232.0/	/217.0/	/420.0/
Other	/24.9/	/38.2/	/65.0/	/134.0/	/171.0/	/285.0/
Import tax	68.1	158.4	320.0	535.0	476.0	887.0
Export tax	88.3	123.4	116.0	149.0	116.0	91.0
Tax credits	-36.2	-80.3	-98.0	-126.0	-172.0	-298.0
<u>Nontax revenue</u>	<u>58.6</u>	<u>79.4</u>	<u>141.0</u>	<u>258.0</u>	<u>238.0</u>	<u>354.0</u>
<u>Current expenditure</u>	<u>442.0</u>	<u>898.0</u>	<u>1,504.4</u>	<u>2,363.0</u>	<u>2,213.0</u>	<u>3,807.0</u>
Wages and salaries	122.1	238.4	447.5	722.0	718.0	1,084.0
Goods and services	19.1	36.3	64.8	108.0	93.0	236.0
Military outlays	103.5	243.9	373.0	587.0	543.0	925.0
Interest	138.1	214.0	382.4	586.0	558.0	1,025.0
Domestic	(62.0)	(92.2)	(203.7)	(278.0)	(259.0)	(347.0)
Foreign	(76.1)	(121.8)	(178.7)	(308.0)	(299.0)	(678.0)
Subsidies and transfers	59.2	165.4	236.7	360.0	301.0	537.0
To rest of public sector	(24.6)	(56.2)	(90.0)	(141.0)	(126.0)	(193.0)
To private sector	(34.6)	(109.2)	(146.7)	(219.0)	(175.0)	(344.0)
<u>Current account surplus or deficit (-)</u>	<u>110.2</u>	<u>121.3</u>	<u>18.6</u>	<u>184.0</u>	<u>279.0</u>	<u>295.0</u>
<u>Capital revenue</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5.0</u>	<u>8.0</u>	<u>--</u>
<u>Capital expenditure</u>	<u>128.6</u>	<u>262.3</u>	<u>434.2</u>	<u>540.0</u>	<u>554.0</u>	<u>816.0</u>
Fixed capital formation	92.4	177.7	350.7	464.0	509.0	565.0
Transfers and other	36.2	84.6	83.5	76.0	45.0	251.0
<u>Overall deficit</u>	<u>-18.4</u>	<u>-141.0</u>	<u>-415.6</u>	<u>-215.6</u>	<u>-267.0</u>	<u>-521.0</u>
<u>Financing</u>	<u>18.4</u>	<u>141.0</u>	<u>415.6</u>	<u>215.6</u>	<u>267.0</u>	<u>521.0</u>
External (medium term, net)	40.4	28.3	-17.8	160.0	131.0	114.0
Disbursements <sup>1/</sup>	(167.6)	(225.7)	(407.8)	(595.0)	(593.0)	(1,263.0)
Amortizations	(-127.2)	(-197.4)	(-425.6)	<sup>2/</sup> (-435.0)	(-462.0)	(-1,149.0)
External (short term, net)	6.0	-5.4	8.9	--	12.0	--
Internal (net)	-28.0	118.1	424.5	91.0	124.0	407.0
Banking system (net)	(-24.9)	(105.5)	(247.7)	(...)	(388.2)	(...)
Frozen deposits in Central Bank (net)	(-66.5)	(-13.0)	(72.7)	(...)	(--)	(...)
Bonds outside financial system (net)	(39.3)	(-9.0)	(-18.0)	(...)	(-5.0)	(...)
Other (net)	(24.1)	(34.6)	(122.1)	(...)	(-259.2)	(...)

Sources: Ministry of Economy, Finance, and Commerce; Central Reserve Bank of Peru; and Fund staff estimates.

<sup>1/</sup> In 1978-80 includes debt rescheduling.

<sup>2/</sup> Includes US\$360 million of prepayments.

Table 24. Peru: Summary of Nonfinancial Public Sector Operations

(In billions of soles)

	1979	1980	1981	Prog. 1982	Prel. 1982	Proj. 1983
Current account surplus or deficit (-)	133.2	99.2	52.9	606.0	486.4	1,078.0
Capital revenue	1.1	7.5	1.7	5.0	10.6	4.0
Capital expenditure	185.4	426.7	788.3 <u>1/</u>	1,208.0	1,407.6	2,017.0
<u>Overall surplus or deficit (-)</u>	<u>-51.1</u>	<u>-320.0</u>	<u>-733.7</u>	<u>-597.0</u>	<u>-910.6</u>	<u>-935.0</u>
<u>Financing</u>	<u>51.1</u>	<u>320.0</u>	<u>733.7</u>	<u>597.0</u>	<u>910.6</u>	<u>935.0</u>
<u>External financing</u>	<u>203.6</u>	<u>124.0</u>	<u>107.5</u>	<u>519.0</u>	<u>837.1</u>	<u>639.0</u>
Medium and long-term (net)	(175.4)	(142.0)	(147.4)	(519.0)	(435.1)	(714.0)
Disbursements	/333.8/	/386.4/	/654.1/	/1,058.0/	/1,010.1/	/2,144.0/
Amortization	/-158.4/	/-244.4/	/-506.7/2/	/-539.0/	/-575.0/2/	/-1,430.0/
Short-term (net)	(28.2)	(-18.0)	(-39.9)	(--)	(402.0)	(-75.0)
Domestic financing (net)	-152.5	196.0	626.2	78.0	73.5	296.0
Banking system	(-99.5)	(129.0)	(312.6)	(...)	(19.1)	(...)
Frozen deposits in the Central Bank	(-91.9)	(-15.0)	(72.7)	(...)	(--)	(...)
Other financial intermediaries	(34.6)	(31.9)	(75.1)	(...)	(37.2)	(...)
Placement of bonds (net)3/	(30.6)	(-4.0)	(-16.0)	(...)	(-17.0)	(...)
Other including statistical discrepancy	(-26.3)	(54.1)	(181.8)	(...)	(34.2)	(...)

Sources: Statistical Appendix Tables 23, 24, 25, 26, and 27.

1/ Includes S/. 39 billion in accumulation of rice stock by ECASA.2/ Includes US\$360 million of prepayments.3/ Outside financial system.



Table 25. Peru: Operations of the Decentralized Agencies

(In billions of soles)

	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Current revenue</u>	<u>30.3</u>	<u>62.2</u>	<u>109.2</u>	<u>160.2</u>	<u>238.0</u>
Tax revenue	--	--	--	--	--
Current transfers	18.6	39.9	72.3	103.5	163.0
Other revenue	11.7	22.3	36.9	56.7	75.0
<u>Current expenditure</u>	<u>27.6</u>	<u>55.7</u>	<u>103.5</u>	<u>154.8</u>	<u>214.0</u>
Wages and salaries	15.6	31.2	51.6	75.3	103.0
Purchases of goods and services	5.1	9.9	15.9	24.6	33.0
Current transfers to private sector	4.8	11.3	25.0	34.9	49.0
Interest payments	2.1	3.3	11.0	20.0	29.0
<u>Current account surplus or deficit (-)</u>	<u>2.7</u>	<u>6.5</u>	<u>5.7</u>	<u>5.4</u>	<u>24.0</u>
<u>Capital revenue</u>	<u>2.0</u>	<u>9.9</u>	<u>12.2</u>	<u>10.1</u>	<u>26.0</u>
Sales of assets	0.1	--	--	--	--
Capital transfers	1.9	7.5	11.9	9.8	25.0
Other	--	2.4	0.3	0.3	1.0
<u>Investment expenditure</u>	<u>5.1</u>	<u>16.7</u>	<u>23.8</u>	<u>27.4</u>	<u>33.0</u>
Gross capital formation	5.1	16.3	23.8	26.4	33.0
Financial investment	--	0.4	--	1.0	--
Capital transfers	--	--	--	--	--
<u>Overall surplus or deficit (-)</u>	<u>-0.4</u>	<u>-0.3</u>	<u>-5.9</u>	<u>-11.9</u>	<u>17.0</u>
<u>Financing</u>	<u>0.4</u>	<u>0.3</u>	<u>5.9</u>	<u>11.9</u>	<u>-17.0</u>
External financing (net)	--	--	6.0	12.1	--
Borrowing	(--)	(--)	(6.0)	(12.1)	(--)
Amortization	(--)	(--)	(--)	(--)	(--)
Internal financing (net)	0.4	0.3	-0.1	-0.2	-17.0
Banking system (net)	(-0.5)	(-2.1)	(-6.2)	(--)	(...)
Other financial inter- mediaries (net)	(-0.4)	(0.3)	(0.5)	(--)	(...)
Other (net)	(1.3)	(2.1)	(5.6)	(-0.2)	(...)

Sources: Ministry of Economy, Finance, and Commerce; Central Reserve Bank of Peru; and Fund staff estimates.

Table 26. Peru: Operations of the Social Security Administration

(In billions of soles)

	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Current revenue</u>	<u>63.8</u>	<u>140.1</u>	<u>218.6</u>	<u>358.0</u>	<u>558.0</u>
Tax revenue	--	--	--	--	--
Contributions to social security	50.0	110.5	195.8	325.7	507.0
Current transfers	--	--	--	--	--
Other revenue	13.8	29.6	22.8	32.3	51.0
Sales of goods and services	--	--	--	--	--
<u>Current expenditure</u>	<u>57.4</u>	<u>109.0</u>	<u>190.4</u>	<u>307.7</u>	<u>486.0</u>
Wages and salaries	16.2	32.6	57.0	94.3	147.0
Purchases of goods and services	17.2	32.2	53.6	88.8	136.0
Current transfers to private sector	24.0	44.2	79.7	124.6	201.0
Interest payments	--	--	--	--	2.0
<u>Current account surplus or deficit (-)</u>	<u>6.4</u>	<u>31.1</u>	<u>28.2</u>	<u>50.3</u>	<u>72.0</u>
<u>Capital revenue</u>	<u>0.9</u>	<u>4.7</u>	<u>1.0</u>	<u>2.3</u>	<u>3.0</u>
Sales of assets	--	4.6	1.0	0.8	1.0
Capital transfers	--	--	--	--	--
Other	0.9	0.1	--	1.5	2.0
<u>Investment expenditure</u>	<u>3.8</u>	<u>19.1</u>	<u>24.9</u>	<u>43.4</u>	<u>37.0</u>
Gross capital formation	3.1	12.0	18.9	33.9	29.0
Financial investment	0.7	7.1	6.0	9.5	8.0
Capital transfers	--	--	--	--	--
<u>Overall surplus or deficit (-)</u>	<u>3.5</u>	<u>16.7</u>	<u>4.3</u>	<u>9.2</u>	<u>38.0</u>
<u>Financing</u>	<u>-3.5</u>	<u>-16.7</u>	<u>-4.3</u>	<u>-9.2</u>	<u>-38.0</u>
External financing (net)	--	--	--	--	--
Internal financing (net)	-3.5	-16.7	-4.3	-9.2	-38.0
Banking system (net)	(-5.8)	(-10.1)	(-24.4)	(-2.0)	(...)
Other financial inter- mediaries (net)	(0.1)	(--)	(--)	(--)	(...)
Placement of bonds (net) <u>1/</u>	(0.1)	(1.0)	(--)	(--)	(...)
Other (net)	(2.1)	(-7.6)	(20.1)	(-7.2)	(...)

Sources: Ministry of Economy, Finance, and Commerce; Central Reserve Bank of Peru; and Fund staff estimates.

1/ Outside financial system.

Table 27. Peru: Operations of the Municipalities

(In billions of soles)

	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Current revenue</u>	<u>13.9</u>	<u>26.6</u>	<u>43.0</u>	<u>70.3</u>	<u>113.0</u>
Tax revenue	3.1	6.0	9.4	23.7	35.0
Current transfers	5.2	15.0	16.5	19.0	30.0
Other revenue	5.6	5.6	17.1	27.6	48.0
<u>Current expenditure</u>	<u>13.8</u>	<u>27.1</u>	<u>54.5</u>	<u>83.6</u>	<u>122.0</u>
Wages and salaries	9.3	20.2	38.1	58.4	87.0
Purchases of goods and services	3.0	3.9	13.0	19.4	27.0
Current transfers to private sector	1.3	2.8	4.0	5.3	7.0
Interest payments	0.2	0.2	0.4	0.5	1.0
<u>Current account surplus or deficit (-)</u>	<u>0.1</u>	<u>-0.5</u>	<u>-12.5</u>	<u>-13.3</u>	<u>-9.0</u>
<u>Capital revenue</u>	<u>1.5</u>	<u>4.0</u>	<u>1.9</u>	<u>2.2</u>	<u>3.0</u>
Sales of assets	--	--	--	--	--
Capital transfers	1.4	3.6	1.5	2.2	3.0
Other	0.1	0.4	0.4	--	--
<u>Investment expenditure</u>	<u>1.4</u>	<u>2.5</u>	<u>11.5</u>	<u>8.8</u>	<u>14.0</u>
Gross capital formation	1.3	2.3	11.3	8.8	14.0
Financial investment	--	--	0.1	--	--
Capital transfers	0.1	0.2	0.1	--	--
<u>Overall surplus or deficit (-)</u>	<u>0.2</u>	<u>1.0</u>	<u>-22.1</u>	<u>-19.9</u>	<u>-20.0</u>
<u>Financing</u>	<u>-0.2</u>	<u>-1.0</u>	<u>22.1</u>	<u>19.9</u>	<u>20.0</u>
External financing (net)	--	--	--	--	--
Internal financing (net)	-0.2	-1.0	22.1	19.9	20.0
Banking system (net)	(-0.6)	(-0.8)	(9.8)	(--)	(...)
Other financial interme- diaries (net)	(--)	(0.1)	(--)	(--)	(--)
Other (net)	(0.4)	(-0.3)	(12.3)	(19.9)	(...)

Sources: Ministry of Economy, Finance, and Commerce, Central Reserve Bank of Peru; and Fund staff estimates.

Table 28. Peru: Operations of the Consolidated State Enterprises

(In billions of soles)

	1979	1980	1981	Prel. 1982	Proj. 1983
<u>Current revenue</u>	<u>832.7</u>	<u>1,479.8</u>	<u>2,296.1</u>	<u>...</u>	<u>...</u>
Sales of goods and services	798.2	1,414.8	2,198.7		
Transfers from Central Administration	0.8	5.7	3.3	...	...
Other	33.7	59.3	94.1	...	...
<u>Current expenditure</u>	<u>818.9</u>	<u>1,539.0</u>	<u>2,283.2</u>	<u>...</u>	<u>...</u>
<u>Current account surplus or deficit (-)</u>	<u>13.8</u>	<u>-59.2</u>	<u>12.9</u>	<u>165.0</u>	<u>698.0</u>
Capital revenue	19.5	38.4	18.7	20.0	219.0
Investment expenditure	69.3	175.6	326.0 <sup>1/</sup>	806.0	1,366.0
<u>Overall surplus or deficit (-)</u>	<u>-36.0</u>	<u>-196.4</u>	<u>-294.4</u>	<u>-621.0</u>	<u>-449.0</u>
<u>Financing</u>	<u>36.0</u>	<u>196.4</u>	<u>294.4</u>	<u>621.0</u>	<u>449.0</u>
External (long term, net)	135.0	113.7	159.2	292.0	600.0
Borrowing	(166.2)	(160.7)	(240.3)	(405.0)	(881.0)
Amortization	(-31.2)	(-47.0)	(-81.1)	(-113.0)	(-281.0)
External (short term, net)	20.1	-12.6	-48.8	405.0	-75.0
Internal (net)	-119.1	95.3	184.0	-76.0	-76.0
Banking system (net)	(-67.7)	(36.5)	(85.7)	(-367.1)	(...)
Frozen deposits in Central Bank	(-25.4)	(-2.0)	(--)	(--)	(...)
Rest of financial system	(31.5)	(29.5)	(69.4)	(58.2)	(...)
Placement of bonds	(-8.8)	(4.0)	(2.0)	(-12.0)	(...)
Other (net)	(-48.7)	(27.3)	(26.9)	(244.9)	(...)

Sources: Enterprises' own financial statements; Central Reserve Bank of Peru; and Fund staff estimates.

<sup>1/</sup> Includes S/. 39 billion in accumulation of rice stock by ECASA.

Table 29. Peru: Money and Quasi-Money

(End of year)

	1978	1979	1980	1981	1982	Proj. 1983
(In billions of soles)						
<u>Total 1/</u>	<u>320.2</u>	<u>640.6</u>	<u>1,242.8</u>	<u>2,194.8</u>	<u>3,813.7</u>	<u>5,911.2</u>
<u>Money</u>	<u>177.1</u>	<u>316.2</u>	<u>541.6</u>	<u>804.0</u>	<u>1,088.9</u>	<u>1,687.8</u>
Currency	91.0	162.0	273.4	436.6	627.9	973.3
Demand deposits	86.1	154.2	268.2	367.4	461.0	714.5
<u>Quasi-money 1/</u>	<u>143.1</u>	<u>324.4</u>	<u>701.2</u>	<u>1,390.8</u>	<u>2,724.8</u>	<u>4,223.4</u>
In soles	92.3	172.9	315.2	726.2	1,244.8	1,929.4
In foreign currency	50.8	151.5	386.0	664.6	1,480.0	2,294.0
(In billions of December 1978 soles) 2/						
<u>Total 1/</u>	<u>320.1</u>	<u>384.3</u>	<u>463.7</u>	<u>474.2</u>	<u>476.4</u>	<u>476.4</u>
<u>Money</u>	<u>177.1</u>	<u>189.7</u>	<u>202.1</u>	<u>173.7</u>	<u>136.0</u>	<u>136.0</u>
Currency	91.0	97.2	102.0	94.3	78.4	78.4
Demand deposits	86.1	92.5	100.1	79.4	57.6	57.6
<u>Quasi-money 1/</u>	<u>143.1</u>	<u>194.6</u>	<u>261.6</u>	<u>300.5</u>	<u>340.4</u>	<u>340.4</u>
In soles	92.3	103.7	117.6	156.9	155.5	155.5
In foreign currency	50.8	90.9	144.0	143.6	184.9	184.9
(Annual percentage change of real money and quasi-money)						
<u>Total 1/</u>	<u>-6.5</u>	<u>20.1</u>	<u>20.7</u>	<u>2.3</u>	<u>0.5</u>	<u>--</u>
<u>Money</u>	<u>-15.7</u>	<u>7.1</u>	<u>6.5</u>	<u>-14.1</u>	<u>-21.7</u>	<u>--</u>
Currency	-13.8	6.8	4.9	-7.6	-16.9	--
Demand deposits	-17.6	7.4	8.2	-20.7	-27.5	--
<u>Quasi-money 1/</u>	<u>8.3</u>	<u>36.0</u>	<u>34.4</u>	<u>14.9</u>	<u>13.3</u>	<u>--</u>
In soles	-22.6	12.4	13.4	33.4	-0.9	--
In foreign currency	296.9	78.9	58.4	-0.3	28.8	--

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Quasi-money in foreign currency valued at end-of-period exchange rate. Stock as of December 31, 1980 excludes 90-day exchange certificates introduced in 1980 to delay monetization of export receipts, they were eliminated in 1981.

2/ Deflated on the basis of the consumer price index.

Table 30. Peru: Summary Accounts of the Banking System

(In billions of soles)

	December					Prel.	Prel.	Proj.
	1979 (US\$1=S/. 288)	1980	1980 (US\$1=S/. 426)	1981	1981 (US\$1=S/. 628)	1982	1982 (US\$1=S/. 1,250)	1983
<b>I. Central Reserve Bank</b>								
<u>Net international reserves 1/</u>	<u>122</u>	<u>426</u>	<u>631</u>	<u>338</u>	<u>498</u>	<u>549</u>	<u>1,093</u>	<u>968</u>
<u>Net domestic assets</u>	<u>55</u>	<u>-77</u>	<u>-252</u>	<u>121</u>	<u>-32</u>	<u>122</u>	<u>-393</u>	<u>80</u>
Credit to nonfinancial public sector	32	184	183	341	337	507	496	496
Central Government	(32)	(184)	(183)	(341)	(337)	(511)	(502)	(...)
Rest of public sector	(-)	(-)	(-)	(-)	(-)	(-4)	(-6)	(...)
Credit to banks (net)	26	-273	-352	-277	-415	-499	-1,003	-550
Capital and surplus	-20	-6	-6	-4	-4	-5	-5	-5
Other assets (net)	17	18	-77	61	50	119	119	139
Blocked deposits	(-122)	(-133)	(-133)	(-63)	(-63)	(-48)	(-48)	(-28)
<u>Medium- and long-term foreign liabilities</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>12</u>	<u>17</u>	<u>19</u>	<u>36</u>	<u>36</u>
<u>Liabilities to private sector</u>	<u>171</u>	<u>342</u>	<u>371</u>	<u>447</u>	<u>449</u>	<u>652</u>	<u>664</u>	<u>1,012</u>
Money	163	282	282	441	441	640	640	987
Currency	(162)	(273)	(273)	(436)	(436)	(628)	(628)	(973)
Demand deposits	(1)	(9)	(9)	(5)	(5)	(12)	(12)	(14)
Quasi-money	8	60	89	6	8	12	24	24
Local currency	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Foreign currency	(8)	(60)	(89)	(6)	(8)	(12)	(24)	(24)
<b>II. Banco de la Nacion</b>								
<u>Net international reserves</u>	<u>9</u>	<u>-64</u>	<u>-94</u>	<u>-29</u>	<u>-43</u>	<u>-17</u>	<u>-35</u>	<u>-35</u>
<u>Net domestic assets</u>	<u>35</u>	<u>136</u>	<u>195</u>	<u>179</u>	<u>257</u>	<u>198</u>	<u>373</u>	<u>373</u>
Credit to nonfinancial public sector (net)	127	114	168	216	287	103	221	517
Central Government	(126)	(92)	(106)	(78)	(64)	(256)	(378)	(...)
Rest of public sector	(1)	(22)	(62)	(138)	(223)	(-153)	(-157)	(...)
Credit to banks (net)	-101	-2	2	-80	-78	104	123	-173
Credit to private sector	12	32	41	51	63	89	144	174
Capital and surplus	-23	-29	-29	-65	-67	-129	-142	-172
Other assets	20	21	13	57	52	31	27	27
<u>Medium- and long-term foreign liabilities</u>	<u>11</u>	<u>14</u>	<u>21</u>	<u>73</u>	<u>108</u>	<u>82</u>	<u>164</u>	<u>164</u>
<u>Liabilities to private sector</u>	<u>33</u>	<u>58</u>	<u>80</u>	<u>77</u>	<u>106</u>	<u>99</u>	<u>174</u>	<u>174</u>
Demand deposits	5	9	9	13	13	16	16	16
Quasi-money	28	49	71	64	93	83	158	158
Local currency	(2)	(3)	(3)	(4)	(4)	(7)	(7)	(7)
Foreign currency	(26)	(46)	(68)	(60)	(89)	(76)	(151)	(151)

Table 30. Peru: Summary Accounts of the Banking System (Concluded)

(In billions of soles)

	December					Prel.	Prel.	Proj.
	1979 (US\$1=S/. 288)	1980 (US\$1=S/. 426)	1980 (US\$1=S/. 426)	1981 (US\$1=S/. 628)	1981 (US\$1=S/. 628)	1982 (US\$1=S/. 1,250)	1982 (US\$1=S/. 1,250)	1983 (US\$1=S/. 1,250)
III. Commercial Banks								
Net international reserves 1/	23	8	12	17	25	46	91	...
Net domestic assets	337	661	785	1,223	1,444	1,992	2,773	...
Credit to nonfinancial public sector (net)	15	11	13	26	31	36	52	...
Central Government	(18)	(11)	(11)	(28)	(28)	(33)	(37)	(...)
Rest of public sector	(-3)	(-)	(2)	(-2)	(3)	(3)	(15)	(...)
Credit to banks	119	265	339	363	491	575	1,063	...
Credit to private sector	220	391	446	890	994	1,484	1,854	...
Capital and surplus	-61	-115	-116	-223	-225	-365	-375	...
Other assets (net)	44	109	103	167	-153	262	179	...
Medium- and long-term foreign liabilities	-1	-1	-2	-3	-4	-5	-9	...
Liabilities to private sector	361	670	799	1,243	1,473	2,043	2,873	...
Demand deposits	127	218	218	304	304	361	381	...
Quasi-money	234	452	581	939	1,169	1,662	2,492	...
Local currency	(94)	(183)	(183)	(452)	(452)	(824)	(824)	(...)
Foreign currency	(140)	(269)	(398)	(487)	(717)	(838)	(1,668)	(...)
IV. Specialized Banks								
Net international reserves	5	-3	-5	3	4	-34	-69	...
Net domestic assets	135	212	237	407	445	669	857	...
Credit to nonfinancial public sector (net)	43	37	40	133	136	164	138 2/	...
Central Government	(34)	(28)	(28)	(128)	(128)	(146)	(146)	(...)
Rest of public sector	(9)	(9)	(12)	(5)	(8)	(19)	(-8) 2/	(...)
Credit to banks (net)	-45	-6	-7	-28	-29	-218	-232	...
Credit to private sector	174	294	313	583	622	1,168	1,212	...
Capital and surplus	-63	-110	-115	-223	-224	-319	-320	...
Other assets (net)	26	-3	6	-58	-60	-126	59	...
Medium- and long-term foreign liabilities	41	45	67	86	121	154	201	...
Liabilities to private sector	99	164	165	324	328	481	497	...
Demand deposits	20	33	33	46	46	52	52	...
Quasi-money	79	131	132	278	282	429	445	...
Local currency	(77)	(129)	(129)	(271)	(271)	(414)	(414)	(...)
Foreign currency	(2)	(2)	(3)	(7)	(11)	(15)	(31)	(...)
V. Consolidated Banking System								
Net international reserves 1/	159	367	544	329	485	543	1,080	955
Net domestic assets	562	932	966	1,929	2,112	2,983	3,609	5,099
Credit to public sector (net)	217	346	404	716	791	810	907 2/	1,203 2/
Central Government (net)	(210)	(315)	(328)	(575)	(557)	(945)	(1,063)	(...)
Rest of public sector (net)	(7)	(31)	(76)	(141)	(234)	(-135)	(-156) 2/	(...)
Credit to private sector	406	717	800	1,524	1,680	2,743	3,212	4,551
Capital and surplus	-167	-260	-265	-516	-519	-818	-842	-1,100
Other assets (net)	106	129	27	205	160	248	332	443
Blocked deposits	(-122)	(-133)	(-133)	(-63)	(-63)	(-48)	(-48)	(-28)
Medium- and long-term foreign liabilities	57	65	95	168	241	251	481	563
Liabilities to the private sector	664	1,234	1,415	2,090	2,356	3,275	4,208	5,492
Money	316	542	542	804	804	1,089	1,089	1,648
Quasi-money	348	692	873	1,286	1,552	2,186	3,119	3,804
In local currency	(173)	(315)	(315)	(726)	(726)	(1,245)	(1,245)	(1,930)
In foreign currency	(175)	(377)	(558)	(560)	(826)	(941)	(1,874)	(1,874)

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

1/ Includes gold valuation adjustment of US\$39.4 million in 1979, and US\$167.6 million in 1980-81.

2/ Includes net credit to FONAVI.

Table 31. Peru: Net International Reserves of the Banking System

(In millions of U.S. dollars)

	December 31					Dec.
	1977	1978	1979	1980	1981	1982
<u>Central Reserve Bank</u>	-483.8	-591.7	426.2	1,480.4	793.2	874.0
Assets	417.2	468.8	1,300.7 <sup>1/</sup>	2,214.8 <sup>2/</sup>	1,271.9	1,660.0
Liabilities	-901.0	-1,060.5	-874.5	-734.4	-478.7	-786.0
To IMF	(219.6)	(-346.6)	(-519.9)	(-537.7)	(-445.4)	(-707.3)
Other	(681.4)	(-713.9)	(-354.6)	(-196.7)	(-33.3)	(-38.7)
<u>Banco de la Nacion</u>	-470.7	-451.5	30.4	-220.7	-68.3	-27.7
Assets	18.4	0.7	406.0	229.1	388.5	147.5
Liabilities	-489.1	-452.2	-375.6	-449.8	-456.8	-175.2
<u>Net official international reserves</u>	-954.5	-1,043.2	456.6	1,259.7	724.9	846.3
Assets	435.6	469.5	1,706.7	2,443.9	1,660.4	1,807.5
Liabilities	-1,390.1	-1,512.7	-1,250.1	-1,184.2	-935.5	-961.2
<u>Specialized banks</u>	2.5	-0.8	16.7	-11.7	6.4	-55.3
Assets	4.6	3.2	24.0	19.4	28.1	61.6
Liabilities	-2.1	-4.0	-7.3	-31.1	-21.7	-116.9
<u>Commercial banks</u>	-148.9	19.0	80.6	28.2	40.5	73.0
Assets	17.2	119.7	127.5	89.2	133.9	165.3
Liabilities	-166.1	-100.7	-46.9	-61.0	-93.4	-92.3
<u>Net international reserves of the banking system</u>	-1,100.9	-1,025.0	553.9	1,276.2	771.8	864.0
Assets	457.4	592.4	1,858.2	2,552.5	1,822.4	2,034.4
Liabilities	-1,558.3	-1,617.4	-1,304.3	-1,276.3	-1,090.6	-1,170.4

Source: Central Reserve Bank of Peru.

<sup>1/</sup> Includes a gold valuation gain of US\$39.4 million during the year.<sup>2/</sup> Includes a gold valuation gain of US\$128.2 million during the year.



Table 32. Peru: Terms of Trade Estimates, 1978-83

	1978	1979	1980	1981	1982	Proj. 1983
(Index values; 1977 = 100)						
Export prices	102	159	199	172	147	163
Import prices	114	127	142	144	145	155
Terms of trade	89	125	140	120	101	106
(Annual changes in per cent)						
Export prices	2.0	56.4	25.1	-13.6	-14.9	11.5
Import prices	14.5	11.2	11.7	1.4	0.3	6.8
Terms of trade	-10.9	40.7	111.9	-14.8	-15.2	4.4

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

Table 12. Peru: Value, Volume, and Unit Prices of Principal Exports, 1978-83

(Value in millions of U.S. dollars; volume in thousands of metric tons unless otherwise indicated; and prices per unit as specified)

	1978 1/	1979	1980	1981	1982	Proj. 1983
<u>Total f.o.b. value</u>	<u>1,941</u>	<u>3,491</u>	<u>3,898</u>	<u>3,255</u>	<u>3,212</u>	<u>3,496</u>
<u>Traditional products</u>	<u>1,597</u>	<u>2,817</u>	<u>3,067</u>	<u>2,562</u>	<u>2,462</u>	<u>2,696</u>
Fishmeal						
Value	192	256	192	141	202	125
Volume	483	657	416	285	616	320
Price (U.S. dollars per metric ton)	397.1	389.7	460.6	494.7	328.8	390.0
Cotton						
Value	38	49	72	64	85	74
Volume	18	20	32	32	59	46
Unit value (U.S. cents per lb.)	95.4	112.1	100.7	91.5	65.0	73.1
Sugar						
Value	51	34	13	--	19	28
Volume	291	181	53	--	59	80
Unit value (U.S. cents per lb.)	8.6	8.6	11.2	--	15.0	15.8
Coffee						
Value	168	245	141	106	113	112
Volume	54	70	44	46	43	41
Unit value (U.S. cents per lb.)	142.2	159.8	145.0	105.9	118.3	124.3
Copper (including unrefined silver)						
Value	408	674	752	529	459	624
Volume	344	373	350	322	331	351
Unit value (U.S. cents per lb.)	53.9	81.9	97.4	74.7	62.9	80.7
Iron and iron ore						
Value	74	85	95	93	106	124
Volume (in million of net tons)	4.8	5.7	5.7	5.3	5.5	6.0
Unit value (U.S. dollars per net ton)	15.4	14.8	16.5	17.7	19.1	20.6
Silver (refined)						
Value	207	234	312	312	206	378
Volume (in millions of troy ounces)	41.6	24.8	15.9	28.1	26.0	27.0
Unit value (U.S. dollars per troy ounce)	5.0	9.4	19.6	11.1	7.9	14.0
Lead (including unrefined silver)						
Value	90	294	383	219	190	240
Volume (million troy ounces)	176	164	154	146	171	162
Unit value (U.S. cents per lb.)	23.1	81.0	112.8	68.0	50.4	67.2
Zinc						
Value	133	171	210	272	244	274
Volume	437	418	438	499	465	505
Unit value (U.S. cents per lb.)	13.8	18.6	21.8	24.7	23.8	24.6
Petroleum and derivatives						
Value	180	646	792	692	716	567
Volume (in millions of barrels)	13.8	23.6	22.4	19.9	22.7	20.4
Unit value (U.S. dollars per barrel)	13.0	17.4	35.3	14.7	31.6	27.8
Other traditional products	56	129	105	134	122	150
<u>Nontraditional products</u>	<u>344</u>	<u>674</u>	<u>831</u>	<u>693</u>	<u>750</u>	<u>800</u>

Sources: Central Bank of Peru; and Fund staff estimates.

1/ For 1978, exports of unrefined silver are included in those of refined silver.

Table 34. Peru: Imports by Sector, Economic Category, and Financing Arrangement, 1978-1983

(In millions of U.S. dollars)

	1978	1979	1980	1981	1982	Proj. 1983
<u>Total imports, f.o.b.</u>	<u>1,601</u>	<u>1,951</u>	<u>3,062</u>	<u>3,803</u>	<u>3,502</u>	<u>3,178</u>
By sector						
Public sector	831	795	1,360	1,442	1,206	1,137
Private sector	754	1,105	1,644	2,287	2,216	1,958
Donations	16	51	58	74	80	83
By economic category						
<u>Consumer goods</u>	<u>402</u>	<u>352</u>	<u>768</u>	<u>901</u>	<u>737</u>	<u>649</u>
Public sector	<u>317</u>	<u>259</u>	<u>530</u>	<u>496</u>	<u>302</u>	<u>309</u>
Private sector	78	88	228	391	420	325
Donations	7	5	10	14	15	15
<u>Raw materials and intermediate goods</u>	<u>735</u>	<u>900</u>	<u>1,163</u>	<u>1,381</u>	<u>1,325</u>	<u>1,226</u>
Public sector	<u>248</u>	<u>248</u>	<u>401</u>	<u>415</u>	<u>376</u>	<u>377</u>
Private sector	485	646	752	953	936	835
Donations	2	6	10	13	13	14
<u>Capital goods</u>	<u>458</u>	<u>693</u>	<u>1,126</u>	<u>1,521</u>	<u>1,440</u>	<u>1,303</u>
Public sector	<u>264</u>	<u>287</u>	<u>428</u>	<u>531</u>	<u>528</u>	<u>451</u>
Financed by official loans	(236)	(241)	(343)	(402)	(427)	(376)
Other	(29)	(46)	(85)	(129)	(101)	(75)
Private sector	185	368	660	943	860	798
Direct investment	(61)	(184)	(214)	(233)	(192)	(228)
Other	(124)	(184)	(446)	(710)	(668)	(570)
Donations	8	38	38	47	52	54
<u>Unclassified</u>	<u>6</u>	<u>6</u>	<u>5</u>	<u>--</u>	<u>--</u>	<u>--</u>
By financing arrangement						
Cash and short-term ) trade credits )	1,585	1,063	1,713	2,373	2,107	1,778
Long-term financing )		837	1,291	1,356	1,315	1,317
Donations	16	51	58	74	80	83

Sources: Central Reserve Bank of Peru; and Fund staff estimates.



Table 35. Peru: Level and Structure of Customs  
Tariffs, July 1980-December 1982

	July 31 1980	December 31		
		1980	1981	1982
(In per cent)				
Average tariff (unweighted)	39	34	32	32
Standard deviation (unweighted)	24	18	18	18
Maximum tariff	155	60	60	60
Maximum tariff (including surcharge)	156	61	61	69
(Number of eight-digit customs items)				
Zero per cent	30	31	37	64
More than 0 and up to 10 per cent	390	388	594	582
More than 10 and up to 20 per cent	773	755	1,297	1,314
More than 20 and up to 30 per cent	1,535	1,577	1,223	1,217
More than 30 and up to 40 per cent	773	768	647	641
More than 40 and up to 50 per cent	440	436	380	377
More than 50 and up to 60 per cent	455	1,149	1,029	1,031
More than 60 per cent	701	--	--	--
<u>Total</u>	<u>5,097</u>	<u>5,104</u>	<u>5,107</u>	<u>5,226</u>

Source: Ministry of Economy, Finance, and Commerce.



Table 36. Peru: Structure of Quantitative Import Restrictions

(Number of eight-digit customs items)

	December 31				
	1978 1/	1979 2/	1980	1981	1982
Total 3/	4,643	5,032	5,104	5,207	5,226
Without quantitative restriction	2,877	3,997	4,979	5,089	5,075
With quantitative restriction	1,766	1,035	125	118	151
Importable with Ministerial "observation"	(453)	(1,026)	(118)	(111)	(144)
Prohibited items	(1,313)	(9)	(7)	(7)	(7)

Source: Ministry of Economy, Finance, and Commerce.

1/ Until March 1979 the National Register of Manufactures was used as a device for restricting imports of goods also produced domestically. While the Register was redundant in the case of prohibited items, it also contained (and hence effectively banned) a large number of items subject to Ministerial "observation" and a smaller number of items on the permitted list of items that could be imported without quantitative restrictions. On December 31, 1978 the National Register of Manufactures consisted of 1,437 items.

2/ A "list of imports prohibited until December 31, 1980" was in effect from March 7, 1979 to December 4, 1979. On October 31, 1979, this list contained 297 items.

3/ The number of items in the Peruvian customs nomenclature (NABANDINA) has increased due to the splitting up of existing items and the addition of new items on a net basis.





Table 37. Peru: Financial Relations with the World Bank Group

(In millions of U.S dollars)

	Commitments (net of can- cellations)	Disbursements	Undisbursed Amount	
A. <u>IBRD Operations (as of January 31, 1983)</u>				
Agriculture and rural development	249.1	105.1	144.0	
Industry, industrial credit, and mining	181.0	94.9	86.1	
Petroleum and power	330.8	120.5	210.3	
Transport	370.3	207.3	163.0	
Urban development, water supply, and education	102.5	46.6	55.9	
Program loan	115.0	115.0	--	
Health	33.5	--	33.5	
<u>Total</u>	<u>1,392.4</u>	<u>689.4</u>	<u>703.0</u>	
Repayments		(205.0)		
Total outstanding		484.4		
B. <u>IFC Operations (as of February 28, 1983)</u>				
	<u>Loans</u>	<u>Equity</u>	<u>Total</u>	
Commitments	50.5	1.8	52.3	
Total held by IFC	29.5	1.4	30.9	
Total undisbursed (including other participants)	21.0	--	21.0	
C. <u>IBRD Loan Transactions</u>				
	<u>1980</u>	<u>Actual</u> <u>1981</u>	<u>1982</u>	<u>Proj.</u> <u>1983</u>
Disbursements	139.6	76.3	80.2	255.0
Repayments	14.8	19.8	21.5	28.0
Net lending	124.8	56.5	58.7	227.0

Source: IBRD.



Table 38. Peru: Contracting of External Public Debt, 1978-1982 1/  
(In millions of dollars)

	By Maturities				Total
	1-5 years	5-10 years	10-15 years	over 15 years	
1978	169	91	92	113	465
1979	547	168	737	305	1,757
1980	149	201	835	354	1,539
1981	299	193	957	440	1,889
1982 <u>2</u>	141	705	1,344	540	2,730

Source: General Directorate of Public Credit.

1/ Includes debts with public guarantee and minor amounts resulting from cost escalation on loans contracted in previous years. Also includes refinancing loans but excludes the effects of debt relief.

2/ Preliminary.



Table 39. Peru: External Debt Outstanding, 1977-82

(In millions of U.S. dollars)

	December 31					
	1977	1978	1979	1980	1981	1982
<u>Medium- and long-term debt 1/</u>	<u>6,263</u>	<u>7,226</u>	<u>7,941</u>	<u>8,125</u>	<u>8,172</u>	<u>9,424</u>
Public and publicly guaranteed debt	4,311	5,135	5,764	6,043	6,210	7,053
Central Reserve Bank	626	751	869	710	455	707
Private debt without public guarantee	1,326	1,340	1,308	1,372	1,507	1,664
<u>Short-term debt</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>1,703</u>	<u>2,286</u>
Central Reserve Bank	275	309	5	25	23	39
Banco de la Nacion (net)	471	452	-30	221	68	28
Other banks 2/	168	105	54	92	115	185
COFIDE (direct credits)	...	...	...	...	50	114
Other credits guaranteed by the banking system and COFIDE	...	...	...	...	1,317	1,746
Other commercial and financial credits	...	...	...	...	130	150
<u>Total debt</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>9,875</u>	<u>11,710</u>

Sources: Central Reserve Bank of Peru; and General Directorate of Public Credit.

1/ With an original maturity of at least one year.

2/ Commercial and specialized banks.



Table 40. Peru: Exchange Rate Indices

(June 1976 = 100)

Relative to:	Nominal Rate 1/		Consumer Prices		Real Rate 1/	
	U.S. Dollar	Trading Partners	United States	Trading Partners	U.S. Dollar	Trading Partners
	(1)	(2)	(3)	(4)	(5)=(1):(3)	(6)=(2):(4)
1976						
June	100.0	100.0	100.0	100.0	100.0	100.0
December	106.7	104.4	125.1	121.3	85.3	86.1
1977						
June	121.5	118.1	142.7	134.8	85.1	87.6
December	191.5	188.4	155.1	143.6	123.5	131.2
1978						
June	235.0	231.9	207.5	188.7	113.3	122.9
December	297.9	298.0	247.1	221.7	120.6	134.4
1979						
March	321.5	318.5	278.6	248.6	115.4	128.1
June	343.5	333.8	301.0	267.3	114.1	124.9
September	363.4	353.1	337.5	296.2	107.7	119.2
December	381.7	361.6	361.5	313.9	105.6	115.2
1980						
March	405.4	373.8	394.8	341.4	102.7	109.5
June	433.5	406.4	414.2	354.3	104.7	114.7
September	468.0	435.9	477.2	402.9	98.1	108.2
December	518.3	470.5	517.0	431.7	100.3	109.0
1981						
March	595.9	523.9	627.4	516.2	95.0	101.5
June	638.9	522.2	686.3	556.1	93.1	93.9
September	688.1	550.4	738.3	592.5	93.2	92.9
December	765.6	609.2	819.6	645.3	93.4	94.4
1982						
March	865.7	653.3	941.4	725.9	92.0	90.0
June	1,015.5	740.4	1,031.6	786.0	98.4	94.2
September	1,193.2	824.5	1,165.5	867.0	102.4	95.1
December	1,460.3	1,002.9	1,364.6	990.0	107.0	101.3
1983						
January	1,581.1	1,084.1	1,465.4	1,053.5	107.9	102.9
February	1,689.5	1,136.0	1,578.4	1,124.8	107.0	101.0

Sources: Central Reserve Bank of Peru; and IMF Data Fund.

1/ An increase in the index reflects a depreciation.





Table 41. Peru: Balance of Payments Projection, 1983-88

	1983	1984	1985	1986	1987	1988
(In millions of U.S. dollars, or as indicated)						
<u>Current account</u>	-877	-700	-721	-742	-767	-788
Trade balance	318	657	722	745	758	801
Exports, f.o.b.	(3,496)	(4,089)	(4,597)	(4,898)	(5,374)	(6,192)
Imports, f.o.b.	(-3,178)	(-3,432)	(-3,875)	(-4,153)	(-4,616)	(-5,391)
Investment income	-1,205	-1,385	-1,470	-1,517	-1,549	-1,593
Public sector	(-830)	(-1,028)	(-1,102)	(-1,138)	(-1,159)	(-1,192)
Private sector	(-375)	(-357)	(-368)	(-379)	(-390)	(-401)
Other services	-190	-182	-193	-200	-221	-251
Transfers	200	210	220	230	245	255
<u>Long-term capital</u>	837	700	721	742	767	788
Public sector	721	600	618	636	657	675
Private sector	116	100	103	106	110	113
<u>Short-term capital</u>	-60	--	--	--	--	--
<u>Overall balance</u>	-100	--	--	--	--	--
Memoranda items						
GDP (in billions of U.S. dollars)	19.5	20.0	20.6	21.2	21.9	22.5
Ratios (as percentage of GDP)						
<u>Current account deficit</u>	-4.5	-3.5	-3.5	-3.5	-3.5	-3.5
Trade balance	1.6	3.3	3.5	3.5	3.5	3.6
Net factor payments	-6.2	-6.9	-7.1	-7.1	-7.1	-7.1
Other services and transfers	0.1	0.1	0.1	0.1	0.1	--
<u>Capital movements</u>	4.0	3.5	3.5	3.5	3.5	3.5
Public sector	3.4	3.0	3.0	3.0	3.0	3.0
Private sector	0.6	0.5	0.5	0.5	0.5	0.5
<u>Overall balance</u>	-0.5	--	--	--	--	--

Source: Fund staff projection.



## Peru: Selected Economic and Financial Indicators, 1981-83

	1981 Actual	1982 Prog.	1983 Est.	1983 Prog.
(Annual per cent changes, unless otherwise specified)				
National income and prices				
GDP at constant prices	3.9	4.0	0.7	0.5
GDP deflator	65.0	62.2	62.9	75.1
Consumer prices (year average)	75.4	60.8	64.5	71.9
External sector (on the basis of U.S. dollars)				
Exports, f.o.b.	-16.5	13.3	-1.3	8.8
Imports, f.o.b.	24.2	-1.8	-7.9	-9.3
Non-oil imports, f.o.b.	24.6	-2.0	-8.1	-9.4
Export volume	-3.4	9.0	16.0	-2.4
Import volume	21.9	-10.7	-8.2	-15.1
Terms of trade (deterioration -)	-15.2	-4.8	-15.2	4.4
Nominal effective exchange rate (depreciation -)(year average)	-23.6	...	-30.1	...
Real effective exchange rate (depreciation -)(year average)	15.0	...	1.1	...
Government budget				
Revenue and grants	49.4	74.1	64.2	64.1
Total expenditure	67.1	49.5	42.7	67.1
Money and credit <sup>1/</sup>				
Domestic credit <sup>2/</sup>	111.3	50.0 <sup>3/</sup>	66.9	62.7
Public sector (net)	102.7	9.5 <sup>3/</sup>	19.2	48.7
Private sector (gross)	111.6	65.4 <sup>3/</sup>	96.2	65.0
Money and quasi-money (M2)	68.4	40.6 <sup>3/</sup>	73.8	55.0
Velocity (GDP relative to M2)	3.9	4.3 <sup>3/</sup>	3.7	4.1
Interest rate (effective annual rate on three-month time deposit)	62.3	71.2	71.2	...
(In per cent of GDP)				
Overall public sector deficit (-)	-8.6	-4.2	-6.6	-3.8
Central government savings	0.2	2.0	2.0	1.2
Central Government budget deficit (-)	-4.9	-1.8	-1.9	-2.1
Domestic bank financing	5.1	0.7	0.9	1.7
Foreign financing	-0.2	1.1	1.0	0.4
Gross domestic investment	21.3	23.0	21.4	20.0
Gross national savings	13.7	17.0	14.4	15.5
Current account deficit (-)	-7.6	-6.0	-7.0	-4.5
External debt (public medium- and long-term)				
Inclusive of use of Fund credit (end of year)	33.1	35.1	39.0	44.9
Debt service ratio <sup>4/</sup>	11.5	7.7	10.7	13.5
Interest payments (in per cent of exports of goods and nonfactor services) <sup>4/</sup>	21.7	15.6	24.5	25.5
(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-427.4	-89.0	83.3	-91.0
Gross official reserves (months of imports)	5.2	...	6.2	...
External payments arrears	--	--	--	--

Sources: Central Reserve Bank of Peru; and Fund staff estimates.

<sup>1/</sup> In this subsection foreign currency denominated balances are valued at end-of-period exchange rates.<sup>2/</sup> Includes other assets and liabilities.<sup>3/</sup> Program changes were calculated at accounting exchange rates.<sup>4/</sup> Debt service on medium- and long-term private and public debt, including IMF, plus interest payments on short-term debt.



Peru--Basic DataArea and population

Area	1,280,000 sq. kilometers
Population (end of 1982)	18.8 million
Annual rate of population increase (1972-82)	3 per cent
Unemployment rate (Prel. 1982; Lima Metropolitan Area)	6.8 per cent

GDP (1982)

SDR 16.9 billion
US\$19.9 billion
S/. 13,871.5 billion

GDP per capita (1982)

SDR 899

<u>Origin of GDP</u>	<u>1980</u>	<u>1981</u>	<u>Prel. 1982</u>	<u>Proj. 1983</u>
		(per cent)		
Agriculture	12	13	13	13
Mining	10	9	9	9
Manufacturing	25	24	23	23
Construction	5	6	6	5
Government	8	8	8	8
Other	41	40	41	42

Ratios to GDP

Exports of goods and services	27.0	20.0	20.3	22.4
Imports of goods and services	22.6	24.0	22.9	21.7
Current account of the balance of payments	0.4	-7.6	-6.0	-4.5
Central government revenues	20.5	17.9	17.9	16.8
Central government expenditures	18.1	17.7	15.9	15.6
Public sector savings	2.0	0.6	3.5	4.5
Public sector overall surplus or deficit (-)	-6.4	-8.6	-6.6	-3.8
External public debt (end of year)	35.2	33.1	39.0	44.9
Gross national savings	18.1	13.7	14.4	15.5
Gross domestic investment	17.7	21.3	21.4	20.0
Money and quasi-money (end of year)	24.8	24.7	23.6	22.5

Annual changes in selected economic indicators

Real GDP per capita	0.2	1.1	--	-2.8
Real GDP	3.1	3.9	0.7	0.5
GDP at current prices	61.8	71.5	64.1	75.9
Domestic expenditures (at current prices)	74.5	85.4	61.8	70.4
Investment	95.8	105.5	64.9	64.2
Consumption	70.3	80.8	61.0	72.0
GDP deflator	56.9	65.0	62.9	75.1
Cost of living (annual averages)	59.2	75.4	64.5	71.9
Central government revenues	84.6	49.4	63.6	64.6
Central government expenditures	103.3	67.5	47.1	72.0
Money and quasi-money <sup>1/</sup>	103.4	68.4	73.8	55.0
Money	71.5	48.3	35.4	55.0
Quasi-money	134.5	82.7	95.9	55.0
Net domestic bank assets <sup>2/</sup>	60.8	80.8	61.0	55.0
Credit to public sector (net)	24.8	29.1	6.5	11.4
Credit to private sector	55.7	64.3	69.8	53.2
Merchandise exports (f.o.b., in U.S. dollars)	11.7	-16.5	-1.3	8.8
Merchandise imports (f.o.b., in U.S. dollars)	56.9	24.2	-7.9	-9.3



<u>Central government finances</u>	<u>1980</u>	<u>1981</u>	<u>Prel. 1982</u>	<u>Proj. 1983</u>
	<u>(billions of soles)</u>			
Revenues	1,019.3	1,523.0	2,492.0	4,102.0
Expenditures	1,160.3	1,938.6	2,767.0	4,623.0
Current account surplus or deficit (-)	121.3	18.6	279.0	2,950.0
Overall deficit (-)	-141.0	-415.6	-267.0	-521.0
External financing (net)	109.8	-8.9	143.0	114.0
Internal financing (net)	31.1	424.5	124.0	407.0
<u>Balance of payments</u>	<u>(millions of U.S. dollars)</u>			
Merchandise exports, f.o.b.	3,898	3,255	3,212	3,496
Merchandise imports, f.o.b.	-3,062	-3,803	-3,502	-3,178
Investment income (net)	-835	-885	-1,084	-1,205
Other services and transfers (net)	61	-80	-27	10
Balance on current and transfer accounts	62	-1,513	-1,401	-877
Official capital (net)	488	411	843	721
Private capital (net)	92	260	210	116
Errors and omissions <sup>3/</sup>	139	286	469	-60
Allocation of SDRs	22	21	--	--
Change in official net reserves (increase -)	-803	535	-121	100
<u>International reserve position</u>	<u>Dec. 31 1980</u>	<u>June 30 1981</u>	<u>Dec. 31 1982</u>	
	<u>(millions of SDRs)</u>			
Monetary authorities (gross)	1,917.7	1,426.5	1,730.1	1,638.6
Monetary authorities (net)	987.7	622.8	692.0	767.2
Rest of banking system (net)	12.9	50.6	16.8	16.1

<sup>1/</sup> Foreign exchange accounts valued at end-of-period exchange rate.

<sup>2/</sup> In relation to the stock of money and quasi-money at the beginning of the period. Excludes contra-entry of SDR allocations.

<sup>3/</sup> Includes short-term capital and variations of nonfinancial reserves.





Fund Relations with Peru

Status: Article VIII.

Quota: SDR 246 million (Proposed Quota under the Eighth General Review is SDR 330.9 million).

Fund holdings of Peruvian soles:	<u>As of March 31, 1983</u>	<u>Millions of SDRs</u>	<u>Per cent of Quota</u>
Total		811.35	329.82
Under CFF		(215.27)	(87.51)

SDR Department:	<u>As of March 31, 1983</u>	<u>Millions of SDRs</u>	<u>Per Cent of Net Cumulative Allocation</u>
	Net cumulative allocation	91.32	100.00
	Holdings	0.02	--

Exchange rate: March 31, 1983: S/. 1238.57 per U.S. dollar. The exchange rate for the sol in the official market is adjusted on almost a daily basis, and the regime is classified as one of adjustment according to a set of indicators. Transactions with certificates of deposit denominated in dollars provide a parallel market with a freely determined exchange rate. As of June 28, 1982, this certificate rate was 1/2 per cent above the official rate. The representative rate for the sol is the midpoint between buying and selling rates in the official market. Since April 30, 1982 the Fund's holdings of soles have been accounted for at the rate of SDR 0.00145315 per sol, or S/. 688.16020 per SDR.

Gold distribution: Peru has received gold amounting to 105,266.981 fine ounces in four distributions.

Direct distribution of profits from gold sales: Peru received a total of US\$19.536 million in the period July 1, 1976-July 31, 1980.

Last consultation: The 1982 Article IV consultation discussions were completed in December 1982 (EBS/82/191).



Peru: Summary of the Financial Program for 1983

I. Major Assumptions

1. Real GDP is projected to grow by 0.5 per cent. Output contraction in the fishing and construction sectors are expected to offset partially the increases in agriculture and mining.
2. Terms of trade are expected to improve by 4.4 per cent. (For price and quantity assumptions on major exports, see Statistical Appendix Table 33.)
3. The ratio of money and quasi-money to GDP is projected to drop from 23.6 per cent to 22.5 per cent.
4. An average exchange rate of US\$1 = S/. 1,250 is assumed for 1983. This rate is consistent with the intention of the authorities to depreciate the sol in line with domestic inflation.

II. Targets

1. Inflation of 55 per cent (December 1982-December 1983).
2. Balance of payments overall deficit of US\$100 million, and current account deficit equivalent to 4.5 per cent of GDP. The overall balance of payments is expressed in terms of changes in the net international reserve position of the Central Reserve Bank and the Banco de la Nación taken together, and is to be tested quarterly.
3. Domestic investment level equivalent to 20 per cent of GDP.

III. Principal Elements of the Program

1. Fiscal policy

The overall deficit of the nonfinancial public sector is to be reduced by the equivalent of 2.8 percentage points of GDP, to 3.8 per cent. The bulk of this reduction rests on the implementation of an austere expenditure plan. Public investment is projected to be reduced by 1.8 per cent of GDP. The savings performance of the nonfinancial public sector is projected to increase by the equivalent of 1 percentage point of GDP. A deterioration in Central Government's savings of 0.8 per cent of GDP is expected to be more than compensated by increased savings by the rest of the public sector.

The main discretionary measures accounting for the improvement in the nonfinancial public sector's overall balance from 1982 to 1983 are:



<u>Measure</u>	<u>Impact as per cent of GDP</u>
1. Elimination of rice and wheat subsidy	0.5
2. Increases in domestic petroleum derivative prices	0.5
3. Substitution of a flat import tariff for the import surcharge	0.5
4. Tightened of wage policy	0.7
5. Other savings in current spending and other revenue measures and increases in public utility tariffs	0.4
6. Cut in investment spending	<u>1.8</u>
Total	4.4

The effect of these measures on the 1982 public sector performance is projected to be partially offset by (1) a decline in tax revenue due to the phasing out of the tax on traditional exports, a drop in imports, and a decline in taxable income, and (2) increases in interest payments. The combined net effect of these factors add up to 1.6 per cent of GDP. To monitor fiscal performance, the use of net new credit from both foreign and domestic sources by the nonfinancial public sector has been limited to S/. 935 billion. Quarterly limits on the use of net credit by the nonfinancial public sector have been established as performance criteria.

## 2. Money and credit

Total net domestic credit expansion of the Central Reserve Bank and the Banco de la Nacion has been limited to S/. 50 billion over the program year, with quarterly ceilings as performance criteria. The program contemplates the creation of a sol-denominated savings instrument carrying an interest return competitive with the rates offered on dollar-denominated deposits.

## 3. External sector

a. The sol is expected to be depreciated on a daily basis, without preannouncement, at least in line with domestic inflation.

b. External borrowing commitments with maturities of one to ten years are to be limited to US\$1.25 billion with a sub-limit of US\$300 million for maturities of one to five years.

c. The exchange and trade system is to be maintained consistent with the obligation of Article VIII of the Articles of Agreement of the Fund.



Lima, Peru  
April , 1983

Mr. Jacques de Larosiere  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. In April 1982 the Government of Peru sent to you a letter requesting the support of the International Monetary Fund in the form of a three-year extended arrangement for a medium-term program of adjustment and structural change. The first year of this arrangement is about to be completed. Despite a number of setbacks, including the continuing recession and protectionist tendencies in the industrial world and adverse world financial market conditions, Peru has complied with all the quantitative performance criteria of the program and with the understandings related to its exchange and trade system.

2. In accordance with the extended arrangement approved by the Fund on June 7, 1982, we request that the equivalent of SDR 250 million be made available to Peru during the second year of the extended arrangement, including appropriate use of the Fund's borrowed resources.

3. During the second year of the extended arrangement, we plan to continue implementing the economic and financial policies as described in our letter of April 1982. The specific policies and understandings for the second year of the extended arrangement are set out in an economic policy memorandum attached to this letter. The Government of Peru understands that during any period in respect of which any of the policy understandings contained in paragraphs 7, 8, 10, 11, and 12 of the attached economic policy memorandum are not observed, Peru will not request any purchase under the arrangement until understandings with the Fund have been reached regarding the circumstances in which such purchases may be resumed.

4. The Government of Peru will not request any purchase under the arrangement during any period after March 1, 1984, in which understandings on performance clauses for the third year of the extended arrangement are not reached or understandings so reached are not observed.

5. The Government of Peru will periodically consult with the Fund, in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the program described in the attached economic policy memorandum and about policy adaptations which may be appropriate for the achievement of its objectives. In any event, the Government will review with the Fund before





September 30, 1983 the progress made in implementing the program in conjunction with the 1983 Article IV consultation discussions. Moreover, before March 1, 1984 the authorities of Peru will consult with the Fund on the policies and measures for the third year of the extended arrangement.

Yours sincerely,

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Richard Webb Duarte  
President  
Central Reserve Bank of Peru

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Carlos Rodriguez Pastor  
Minister of Economy,  
Finance and Commerce

Attachment: Memorandum on Economic Policy of the Government of Peru  
for the Second Year of the Extended Arrangement.



Memorandum on Economic Policy of the Government of Peru  
for the Second Year of the Extended Arrangement

1. In April 1982 the Government of Peru formulated a three-year program of adjustment and structural change aimed at providing the basis for a stable rate of growth and a substantial increase in employment opportunities while reducing inflation and attaining a viable external payments position. The Government of Peru remains fully committed to implement policies of structural change over the medium term. Flexible exchange and interest rate policies and a lowering of effective protection are the principal instruments of such a strategy. A reduction of the size of the public sector and improvements in fiscal administration are being pursued vigorously; incentives for private savings and investments are being provided; a more efficient public investment program is being executed; and a sound public external debt management is being implemented. Adequate pricing policies are expected to promote agricultural development; a new industrial incentives law should help boost manufacturing output; and the removal of impediments to foreign private investment should contribute to the development of mining and petroleum sectors.

2. Given the financial deterioration registered in 1981, the program for 1982 was centered on the control of domestic demand--chiefly through a sizable reduction of the public sector deficit--and the pursuit of realistic policies in the area of the exchange rate, interest rate, and other controlled prices.

3. The combination of lower than expected international prices for Peru's main exports, the adverse developments in the world financial markets, and slippages in the control of spending by some public agencies and in the implementation of pricing policies presented obstacles to the achievement of the objectives set out in the program. In particular, the reduction in the overall deficit of the nonfinancial public sector in 1982 was much less than programed. The export shortfall, together with demand pressures which were considerably greater than projected, contributed to a larger than programed current account deficit in the balance of payments and to the maintenance of inflation at a high level. The larger current account gap was accompanied by even larger capital inflows and the overall balance of payments was in surplus compared with the moderate deficit which had been programed.

4. The economic outlook is not favorable. Growth in domestic economic activity in 1983 is expected to remain low in reflection of world economic conditions. The prices of a number of Peru's export products, including copper and silver, are expected to increase, but the price of petroleum exports is projected to decline. The growth in export volume is expected to be limited by weak world demand and Peru's efforts to expand its nontraditional exports--essential if Peru is to expand its import capacity over time--are being hindered by protectionist measures abroad. However, the maintenance of a flexible exchange rate policy geared to the further improvement of Peru's competitiveness



should enhance export prospects. With respect to the capital account of the balance of payments, conditions in world capital markets have tightened substantially in comparison with 1982, even for countries like Peru which are making serious efforts to improve economic performance in the framework of a comprehensive financial program.

5. Policies for 1983 have been designed to continue to strengthen the medium-term adjustment program. In particular, a major goal is to reduce the net financing requirements of the public sector from about 6.6 per cent of GDP in 1982 to 3.8 per cent in 1983, a level which is expected to be consistent with available foreign sources of finance.

6. To bring about the planned improvement in the public sector finances, the Government has adopted an austere expenditure plan. Investment outlays by the nonfinancial public sector, which had risen to 10.2 per cent of GDP in 1982 have been reduced to 8.3 per cent of GDP, a level which will need to be supported by a substantial domestic savings effort. The investment plan has been structured with the help of technical assistance provided by the World Bank and the Inter-American Development Bank on the basis of a strict set of priorities. The level of current expenditures of the Central Government in relation to GDP has been maintained from 1982 to 1983 as a result of the adoption of a moderate wage policy and restraint in other spending categories, including defense. The introduction of a comprehensive wage policy for the rest of the public sector is expected to contribute to a curtailment of the operational expenditures of the principal public enterprises. The successful execution of the spending plan will depend on a careful control and monitoring of expenditures. To this effect, the Ministry of Economy, Finance, and Commerce has instituted monthly spending limits for each ministry and public entity. Control over the operations of the public enterprises has been strengthened through direct supervision of the Ministry of Economy, Finance, and Commerce, as provided by law, but not implemented until this year.

7. On the revenue side, a major effort has been made to reduce substantially the remaining subsidies on a number of products, raise the domestic prices of petroleum derivatives, and improve the administration of Central Government taxes. The subsidy on imported wheat has been eliminated. The Government has implemented frequent small increases in the price of rice with the objective of eliminating the subsidy. In the beginning of February 1983, the price of regular gasoline was raised by 16 per cent to the equivalent of US\$1.10 per gallon. The prices of other petroleum derivatives were raised commensurately. Henceforth, monthly price increases will be announced so as to maintain the dollar price of petroleum products at present levels. Public utility tariffs will continue to be raised in line with cost increases or by larger amounts where required to help finance investment. Consumption taxes have been raised substantially and the improvement in the administration of the value added tax has already begun to give benefits in terms of larger revenues. The Government has now begun to



apply strict enforcement procedures to income tax collections with the expectation of raising the level of revenue. The Government has phased out the 15 per cent import tariff surcharge and has raised the tariff schedule by 10 percentage points across the board with the objective of reducing the dispersion of the tariff structure and of improving resource allocation. The implementation of these policies will make it possible to limit the net indebtedness of the nonfinancial public sector, defined as the sum of net credit from all domestic and foreign sources to the amounts specified in the annexed Table 1.

8. The availability of foreign resources in 1983 is expected to be sufficient to cover the bulk of the financing requirements of the nonfinancial public sector so that most of the increase in private financial saving is expected to be available to finance the requirements of the private sector. During 1982, a disproportionate amount of the growth in financial savings was in the form of certificates of deposit denominated in U.S. dollars, a development which is not consistent with the promotion of a stable financial system. With the objective of improving financial stability as well as the efficiency of resource allocation, a realistic alternative to dollar deposits has been provided in the form of deposit instruments denominated in soles with a rate of return highly competitive with foreign rates. All financial intermediaries have been permitted to capture additional resources by issuing such instruments. To limit the size of the shift from existing financial savings in soles, relatively high minimum requirements have been instituted for these new instruments. Over time, as experience dictates, these requirements may be modified. A slowdown in the rate of growth of dollar-denominated certificates of deposit (to which a marginal reserve requirement of 90 per cent applies) should reduce the intermediary role of the Central Reserve Bank, further reduce the effective average reserve ratios, and hence improve the efficiency of financial intermediation. To ensure the consistency of the above-described monetary policies with the Government's balance of payments and inflation objectives, limits will apply to the sum of the net domestic assets of the Central Reserve Bank and Banco de la Nación. These limits for the period until February 29, 1984 are set forth in annexed Table 2.

9. The Government remains committed to a lowering of inflation over time. However, the necessity of raising controlled prices to realistic levels and of improving the competitive position of Peru through a flexible exchange rate policy, is likely to lead to a continuation of a high rate of price increases in the short term. Thereafter, the speed at which inflation is brought down will be greatly influenced by the success of the demand policies outlined above and by the wage policy. The Government has decided to keep general wage increases under constant surveillance to ensure fulfillment of its fiscal and inflation objectives. To help ensure wage moderation, the Central Government wage awards have been made applicable to the rest of the public sector. Moreover to protect employment in the private sector, the Government in the framework of the Prices and Salaries Commission, will use its best endeavors to ensure that wage awards in the private





sector do not exceed productivity increases. A basic principle guiding the authorities in this regard will be the avoidance of indexation to past inflation so as to make wage determination forward looking.

10. The pursuit of a flexible exchange rate policy has played a key role in protecting the balance of payments given the unfavorable developments in the world economy and the policy of reducing import barriers over time. As inflation can be brought down only gradually and the Government remains committed to the policy of opening up the economy to foreign competition to improve the efficiency of the economic apparatus, the pursuit of a flexible exchange rate policy remains indispensable during the program period. Accordingly, the Government will continue to depreciate the exchange rate of the sol on a daily basis without preannouncement, at least in line with domestic inflation. Targets for the net official international reserve position for the period until December 31, 1983 are set out in the annexed Table 3 to help guide exchange rate management.

11. Currently Peru does not maintain any restrictions on payments and transfers for current international transactions, and capital transfers can be made through the certificate market as well as through the unrestricted export and import of domestic currency. The Government will continue with the policy of allowing exporters to dispose freely of a greater portion of export receipts and reducing mandatory transfers of export surrenders from banks to the Central Reserve Bank to a level sufficient to meet the Central Reserve Bank's own exchange requirements. Further changes will be made as permitted by balance of payments developments. The Government does not intend to introduce any new multiple currency practice, impose restrictions on payments or transfers for current international transactions, conclude bilateral payments agreements which are inconsistent with Article VIII of the Articles of Agreement, or impose or intensify restrictions on imports for balance of payments reasons.

12. The Government, since assuming office in August 1980, has made efforts to improve control over external borrowing and to strengthen coordination among different entities responsible for such operations. Overall ceilings on the contracting and guaranteeing of external debt with maturities of one year or more were established in late 1980. Since then, the authority of the General Directorate of Public Credit has been expanded to include approval of the terms of all foreign loans negotiated by the Banco de la Nacion and COFIDE--the two exclusive financial agents for external borrowing operations of the public sector. In August 1982, moreover, a law was passed requiring public sector entities to request authorization from the Directorate of Public Credit to incur short-term foreign debt. The mechanism has now been put into place whereby short-term foreign borrowing by the public sector can be effectively controlled and monitored. To help in planning the orderly development of Peru's external public debt, limits have been placed on the contracting of new public and publicly guaranteed external debt with an original maturity of one to ten years as set forth in the annexed Table 4.



Table 1. Peru: Limits on the Net Indebtedness  
of the Nonfinancial Public Sector 1/

(In billions of soles)

Dates	Limits
December 31, 1982	10,579
March 31, 1983	10,870
June 30, 1983	11,027
September 30, 1983	11,346
December 31, 1983	11,514

1/ For purposes of this limit, the net indebtedness of the nonfinancial public sector is defined as the sum of (i) net claims of the domestic banking system and COFIDE on the nonfinancial public sector, (ii) the outstanding amount of bonds issued by the nonfinancial public sector and held outside the domestic banking system, COFIDE, and the nonfinancial public sector, and (iii) the outstanding foreign debt of the nonfinancial public sector.

The above limits shall be adjusted by:

1. Adding the revaluation of foreign currency-denominated subscriptions to nonmonetary international organizations.
2. Adding any increase in the paid-in capital subscriptions to these international organizations.
3. Any change in the initial stock outstanding on December 31, 1982 made as a result of revisions of past data.



Table 2. Peru: Limits on the Net Domestic Assets of the Central Reserve Bank and Banco de la Nacion of Peru 1/

(In billions of soles)

Time Periods	Limits
Up to March 31, 1983	550
April 1-June 30, 1983	600
July 1-September 30, 1983	580
October 1-November 15, 1983	555
November 16-December 31, 1983	455
January 1-February 29, 1984	600

1/ Defined as the difference between (1) the sum of the Central Reserve Bank and Banco de la Nacion's liabilities to the private sector, and (2) the sum of the net international reserves of the Central Reserve Bank and Banco de la Nacion, the medium- and long-term net foreign assets of the Central Reserve Bank and Banco de la Nacion, and the guarantees on short-term foreign borrowing of the Banco de la Nacion.

Each limits shall be adjusted by:

1. Adding the revaluation of foreign currency-denominated subscriptions to nonmonetary international organizations.
2. Adding any increase in the paid-in capital subscriptions to these international organizations.
3. Any changes in the initial stock outstanding on December 31, 1982 made as a result of revisions of past data.
4. Adding the total of Banco de la Nacion guarantees on short-term foreign borrowing outstanding as of March 7, 1983.



Table 3. Peru: Targets on the Net Official International Reserve Position of Peru 1/

(In millions of U.S. dollars)

Dates	Targets
December 31, 1982	846
March 31, 1983	406
June 30, 1983	440
September 30, 1983	526
December 31, 1983	746

1/ Defined as the difference between the foreign assets of the Central Reserve Bank and Banco de la Nacion of Peru and their external liabilities, except those with maturities of at least one year and which are explicitly and contractually designated as covering the downpayment or other charges on goods financed by foreign suppliers of bilateral credits. The above targets shall be adjusted by any changes in the initial stock outstanding on December 31, 1982 made as a result of revisions of past data, and shall be lowered by subtracting the total of Banco de la Nacion guarantees on short-term foreign borrowing outstanding as of March 7, 1983.





Table 4. Peru: Limits on the Contracting of External Debt Contracted by or Guaranteed by the Public Sector with Original Maturity of at Least One Year and Up to and Including Ten Years 1 /

(In millions of U.S. dollars)

Maturity Ranges	January 1- December 31, 1983	January 1, 1983 February 29, 1984
At least one year and up to and including five years	300	330
At least one year and up to and including ten years	1,250	1,400

1/ For the purpose of these limits, the public sector will be defined to include the nonfinancial public sector, COFIDE, and the official banking system (defined to include the Central Reserve Bank, Banco de la Nacion, and specialized banks), except for loans classified as reserve liabilities of the Central Reserve Bank and Banco de la Nacion. The contracting limits exclude refinancing loans on public sector debt payments to all foreign creditors, except those to foreign commercial financial institutions.

These limits shall exclude:

1. Export prefinancing credits provided by the IDB or the IBRD;
2. The utilization by the private sector of credit lines provided by foreign official entities to promote exports to Peru, and which are channeled through COFIDE or the official banking system; and
3. Guarantees by COFIDE or the official banking system of foreign credits contracted by the private sector.

