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SM/84/250  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

December 11, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Peru - Staff Report for the 1984 Article IV Consultation

The following corrections have been made in SM/84/250 (11/6/84):

Page 22, para. 4, line 6: for "69 percent" read "72 percent"

line 9: for "40 percent" read "34 percent"

Page 36, Appendix II, column 4, under Change  
in net official reserves (increase -): for "-674 5/" read "674 5/"

Page 38, Appendix IV, under stubs, line 7: for "Capital accounts"  
read "Capital account"

column 2, line 14: for "1.6" read "1.7"

last line: for "68.7" read "72.3"

Corrected pages are attached.

Att: (3)

Other Distribution:  
Department Heads



With regard to the tightening of the regulations governing the sale of exchange for travel abroad, which had been introduced in March 1984 with the objective of controlling speculative capital transactions, the authorities noted that the intended result had been achieved without impeding the availability of exchange to legitimate travelers. The tightening of the regulations does not appear to involve an exchange restriction subject to Fund approval. As noted above, the staff was informed in late October 1984 that the Central Reserve Bank had ceased to sell foreign exchange in the official market for travel abroad. An exchange restriction does not appear to be involved because would-be travelers may freely obtain foreign exchange through recourse to the certificate market.<sup>1/</sup>

b. The trade system

The authorities have been under strong pressure to increase protection to local industry. They noted that the level of protection was raised in 1982 and again in 1983 through tariff increases which were taken for fiscal rather than balance of payments reasons. In April 1984 the tariff surcharge was raised again from 10 to 15 percentage points, increasing the average unweighted tariff from 41 percent to 46 percent. At the end of July, in connection with the reduction of the value added tax, the import tariff was raised further by 5-16 percentage points in rough proportion with the original tariff rates. This increase raised the average unweighted tariff further to about 56 percent. The authorities concurred with the staff's view that the recent tariff increases encourage economic inefficiency and are harmful to the growth of the export sector. They also were concerned that the fiscal gains from higher tariffs were being offset by increased evasion, widespread exemptions, and temporary import duty concessions for particular groups. They hoped to be able to reduce the disparity of tariffs through the elimination of duty exemptions.

Peru's trade system has been relatively free of quantitative restrictions. However, in June and July 1984, prior licensing requirements were imposed on 17 tariff items, including steel, tobacco, clothing, and footwear. At the same time, importation of the latter three products was suspended until the end of 1984, except for goods originating in the Andean group countries.

Since the late 1970s the authorities have supported nontraditional exports through a number of incentives. A direct subsidy in the form of tax payment certificates is paid on the f.o.b. value of certain nontraditional exports. The subsidy varies according to product and region of origin. On the basis of legislation passed in July 1984, the export subsidy system was simplified in September 1984 and new, generally higher rates were established and the coverage of the system was extended.

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<sup>1/</sup> Would-be travelers can acquire maturing certificates of deposit in that market that are immediately redeemed in U.S. dollars by the issuing bank.

The Central Reserve Bank provides concessional financing to exporters of nontraditional products. In September 1983, certain textile products to the United States became ineligible to receive these export facilities with a view to achieving a lifting of the countervailing duties imposed by the United States on such products in early 1983. The authorities stated that they will continue to work toward establishing a system of export incentives in accordance with the conventions under the General Agreement on Tariffs and Trade.

c. External debt management

A number of institutional improvements relating to the control and management of external debt were made in the 1981-83 period, but serious difficulties remain, particularly as regards control over debt service payments.

In 1981 the contracting of medium- and long-term debt was brought under the control of the General Directorate of Public Credit, and in late 1982 this control was extended to short-term debt. Public enterprises were required to register short-term external debt (except export prefinancing) with the Directorate and to obtain its approval for the renewal, rollover, or consolidation of such debt. Starting in 1983, the public enterprises were required to submit short-term borrowing programs (excluding export prefinancing) to the Directorate for approval. Technical assistance provided by the World Bank contributed to reducing substantially the delays in reporting disbursements of medium- and long-term loans. However, problems still remain in accounting for certain suppliers credits.

The need to improve control over external indebtedness is underscored by the high level of external indebtedness of Peru. The stock of total external debt outstanding at midyear 1984 amounted to US\$12.8 billion, equivalent to more than 75 percent of GDP. Service payments on public and publicly guaranteed debt have risen considerably since 1980 and in 1984 debt service obligations are estimated at 72 percent of exports of goods, nonfactor services, and transfers. Payments due after conclusion of the 1984 debt restructuring agreements are estimated to amount to 34 percent of the same receipts. A projection of public and publicly guaranteed debt service payments on the basis of a gradually declining external current account deficit (see medium-term outlook, below) and refinancing agreements in place or currently in process, indicates that the debt service ratio would decline gradually after 1984 (Appendix IV).

The authorities noted that because of the exceptionally high debt service obligations in 1984, the restructuring of a sizable part of these payments had been a major objective of external debt management. External creditors had already consented to restructure debt service payments due in 1983 and early 1984. The same creditors were subsequently

### Monetary Accounts

Peru is currently receiving assistance from the Fund's Bureau of Statistics. The primary objectives of this program are to revise the methodology used for the compilation of monetary data and to develop a standardized system of data collection. So far there have been two technical assistance visits to the Central Reserve Bank of Peru. During the first visit (November 1-19, 1983), the monetary authorities' accounts were revised and redesigned according to uniform criteria of both sectorization and classification. In the second visit (February 15-29, 1984), the methodology for the collection and production of data for the deposit money banks was revised, and new standardized balance sheets and analytical tables were designed. At the request of the Central Bank authorities, a follow-up visit has been scheduled for November 29-December 13, 1984. The primary objective of this third visit is to evaluate the work done in the monetary sector and to integrate the rest of the financial system within the new scheme of monetary accounts.

### Merchandise Trade

Data on trade by partner countries are very uncurrent, the latest available data referring to 1981. Although annual data through 1981 were received by cable for the DOTS yearbook, regular reporting of monthly or quarterly data would be appreciated.

### International Banking Statistics

In recent years, liabilities of banks in Peru to banks in the rest of the world, as reported by banks in Peru, were considerably less than the claims on banks in Peru that are identified in reports from banks in major international banking centers, received as part of the Fund's project on international banking statistics. The discrepancy arises from the fact that the Peruvian authorities treated Arlabank as an international license bank and did not include its accounts in the regular money and banking data. According to standard Fund practice, Arlabank should be regarded as a resident of Peru, and its accounts should be covered in the financial statistics provided by Peru. However, the Peruvian authorities currently do not have any data on Arlabank's operations because the bank, under its charter, is not subject to reporting requirements to, and supervision and control by, either the Central Reserve Bank or the Superintendency of Banking and Insurance Companies.

Peru: Balance of Payments  
(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	
					Prog.	Proj.
<u>Current account</u>	-101	-1,728	-1,609	-872	-902	-773
Merchandise trade	826	-553	-428	293	519	580
Exports, f.o.b.	(3,916)	(3,249)	(3,293)	(3,015)	(3,131)	(3,010)
Imports, f.o.b.	(-3,090)	(-3,802)	(-3,721)	(-2,722)	(-2,612)	(-2,430)
Investment income	-909	-1,019	-1,034	-1,130	-1,415	-1,317
Public sector	(-479)	(-533)	(-540)	(-636)	(-985)	(-881)
Private sector	(-430)	(-486)	(-494)	(-494)	(-430)	(-436)
Other services	-165	-317	-314	-254	-195	-204
Transfers	147	161	167	219	189	168
<u>Long-term capital</u>	462	648	1,200	1,384	902	932
Public sector	371	388	995	1,431	1,002	1,150
Nonfinancial	(363)	(325)	(878)	(1,338)	(927)	(1,025)
Disbursements <sup>1/</sup>	/783/	/1,442/	/1,764/	/1,454/	/1,081/	/1,135/
Rescheduling	/372/	/80/	/109/	/1,013/	/1,140/2/	/1,234/2/
Amortization	/-792/	/-1,197/	/-995/	/-1,129/	/-1,294/2/	/-1,344/2/
Financial	(8)	(63)	(117)	(93)	(75)	(125)
Disbursements <sup>1/</sup>	/425/	/178/	/170/	/109/3/	/140/	/198/3/
Amortization	/-417/	/-115/	/-53/	/-16/	/-65/	/-73/
Private sector	91	260	205	-47	-100	-218
Direct investment	(27)	(125)	(48)	(38)	(-39)	(-108)
Loans	(64)	(135)	(157)	(-85)	(-61)	(-110)
<u>Basic balance</u>	361	-1,080	-409	512	--	159
Delays <sup>4/</sup>	--	--	--	--	--	380
Short-term capital and errors and omissions	323	469	544	-1,291	--	-491
Allocation of SDRs	23	21	--	--	--	--
<u>Overall balance</u>	707	-590	135	-779	--	48
Change in commercial bank reserves (increase -)	63	-21	49	105	--	-48
<u>Change in net official reserves (increase -)</u>	-770	611	-184	674 <sup>5/</sup>	--	-- <sup>5/</sup>
Use of Fund credit (net)	-18	-86	262	48	114	27
Other official reserves	-752	697	-446	722	-114	-27
<u>Memorandum items</u>						
As percent of GDP						
Current account balance	-0.6	-8.7	-8.1	-5.4	-5.3	-4.9
Exports	22.7	16.4	16.7	18.5	18.3	18.0
Imports	17.9	19.2	18.9	16.7	15.5	14.5

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

<sup>1/</sup> Includes increases in unpaid obligations.

<sup>2/</sup> Excludes refinancing of US\$195 million Arlabank loan to the Central Reserve Bank.

<sup>3/</sup> Includes refinancing of US\$11 million and US\$78 million in 1983 and 1984.

<sup>4/</sup> Reflects the nonpayment of debt service by the nonfinancial public sector because of lack of domestic funds

<sup>5/</sup> Includes US\$461 million of nonbank external debt assumed by the banking system in 1983 and US\$9 million in 1984 in accordance with Exchange Resolution 002/83 and still remaining outstanding. Of these amounts, US\$220 million represents official reserve liabilities and US\$241 million represents nonofficial reserve liabilities in 1983.

Peru: Macroeconomic Flows

(In percent of GDP)

	1980	1981	1982	1983	1984	
					Prog.	Proj.
<b>I. Balance of Payments</b>						
<u>Current account balance</u>	-0.6	-8.7	-8.1	-5.4	-5.3	-4.9
Trade balance	4.8	-2.8	-2.4	1.8	3.1	3.5
Factor payments	-5.3	-5.2	-5.0	-7.0	-8.3	-8.1
Other services and transfers	-0.1	-0.7	-0.7	-0.2	-0.1	-0.3
<u>Capital account</u>	5.1	5.6	9.0	1.2	5.3	4.9
Private capital 1/	3.0	4.5	1.4	-4.7	0.2	-1.4
Nonfinancial public sector	2.1	1.1	7.6	5.9	5.1	6.3
<u>Change in net official international reserves</u> (increase -)	-4.5	3.1	-0.9	4.2	--	--
<b>II. Nonfinancial Public Sector 2/</b>						
<u>Central Administration</u>						
Current account	2.4	0.2	0.2	-5.1	0.4	-3.5
Revenues	20.5	17.9	17.6	14.1	15.8	14.9
Expenditures	-18.1	-17.7	-17.4	-19.2	-15.4	-18.4
Rest of nonfinancial public sector's operating surplus	0.6	-0.1	—	2.5	2.3	1.6
<u>Nonfinancial public sector savings</u>	3.0	0.1	0.2	-2.6	2.7	-1.9
Less: fixed investment	7.3	9.0	10.3	9.8	6.8	8.6
Other capital expenditures 3/	0.5	-0.1	-1.0	-0.7	--	-0.4
<u>Overall deficit</u>	-4.8	-8.8	-9.1	-11.7	-4.1	-10.1
Net foreign financing	2.1	1.1	7.6	5.9	5.1	6.3
Net domestic financing	2.7	7.7	1.5	5.8	-1.0	3.8
<b>III. Savings and Investment</b>						
<u>Fixed capital formation</u>	17.7	22.2	22.7	17.0	18.1	15.6
Nonfinancial public sector	7.3	9.0	10.3	9.8	6.8	8.6
Private sector 4/	10.4	13.2	12.4	7.2	11.3	7.0
<u>Investment = savings</u>	17.7	22.2	22.7	17.0	18.1	15.6
External savings	0.6	8.7	8.1	5.4	5.3	4.9
National savings	17.1	13.5	14.6	11.6	12.8	10.7
Nonfinancial public sector	(3.0)	(0.1)	(0.2)	(-2.6)	(2.7)	(-1.9)
Private sector	(14.1)	(13.4)	(14.4)	(14.2)	(10.1)	(12.6)
<b>Memorandum items</b>						
Nominal GDP						
(In billions of Peruvian soles)	4,968.6	8,489.7	14,134.0	26,475.9	51,960.0	56,820.9
(In billions of U.S. dollars)	17.2	19.8	20.3	16.3	16.9	16.7

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

1/ Includes net borrowing by the financial public sector, net errors and omissions, and movements in nonofficial reserves.

2/ Includes the mining companies CENTROMIN and Tintaya.

3/ Net of capital revenues.

4/ Includes inventory changes.

Peru: Medium-Term Outlook

	1983	1984	1985	1986	Projected 1987	1988	1989
<b>I. Balance of Payments</b>							
(In billions of U.S. dollars) 1/							
<u>Current account</u>	-0.9	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5
Exports	3.0	3.0	3.2	3.5	3.8	4.1	4.5
Imports	-2.7	-2.4	-2.5	-2.7	-2.9	-3.2	-3.6
Net investment income	-1.1	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4
Other services	-0.3	-0.2	-0.2	0.2	0.2	0.2	0.2
Net transfers	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<u>Capital account</u>	0.1	0.8	0.7	0.6	0.5	0.5	0.5
Medium- and long-term							
official capital	1.4 2/	1.5 2/	0.8	0.7	0.5	0.5	0.5
Long-term private capital	--	-0.2	-0.1	-0.1	--	--	--
Short-term capital	-1.3	-0.5	--	--	--	--	--
<u>Overall balance</u>	-0.8	--	--	--	--	--	--
<b>II. External public debt</b>							
Debt outstanding 3/	10.0	11.6	12.2	12.6	13.0	13.4	13.8
Gross disbursements 4/	2.7	3.2	2.1	2.1	2.3	2.1	2.2
Amortization 4/	1.2	1.7	1.5	1.7	1.9	1.7	1.8
Interest 4/	0.8	1.1	1.2	1.3	1.3	1.3	1.3
(As a percent of GDP)							
<u>Memorandum items</u>							
Current account	-5.4	-4.9	-4.9 5/	-4.2	-3.2	-2.7	-2.5
Capital account	0.6	4.9	4.9	4.2	3.2	2.7	2.5
Overall balance	-4.8	--	--	--	--	--	--
External debt	76.5	81.1	99.2 5/	95.3	90.3	84.8	79.5
Of which: public sector	62.1	69.4	86.1	83.4	79.5	74.9	70.5
(As a percent of exports of goods and nonfactor services plus transfers)							
External public debt service obligations	52.4	72.3	64.1	66.6	65.6	57.1	55.0

Source: Fund staff estimates.

- 1/ Subtotals may not add up to totals due to rounding.  
2/ Includes reschedulings and delays in payments, the assumed to be US\$0.4 billion in 1984.  
3/ Includes an estimate of the stock of public sector short-term commercial debt.  
4/ Includes operations with the IMF and Andean Reserve Fund.  
5/ Calculated with GDP figure converted to U.S. dollars on the assumption of a real depreciation of the sol.