

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

EBS/83/85
Correction 2

CONFIDENTIAL

May 19, 1983

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

The following correction has been made in EBS/83/85 (4/27/83):
Page 76, under limits, line 3: for "11,027" read "11,111"

A corrected page is attached.

Att: (1)

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 | 11,111 |
| 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.