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The Chairman's Summing Up at the Conclusion
of the 1983 Article IV Consultation with Peru
Executive Board Meeting 83/163 - November 28, 1983

Executive Directors expressed concern about the recent adverse trends in the Peruvian economy and about the sizable slippages in the implementation of the program under the extended arrangement. Directors noted the unexpectedly weak performance of the economy as a result of adverse weather conditions, a point particularly stressed by a number of Directors. Those circumstances explained the expected decline in GDP of about 10 percent in real terms between 1982 and 1983 which had reduced government revenues below the projected level, while government outlays had exceeded the program level because of, inter alia, reconstruction expenditures and internal security requirements. In addition, however, Directors stressed that there had been serious inadequacies in expenditure control, and that the delays in effecting adjustments of controlled prices in 1983 had impeded the planned elimination of subsidies. Wage policy in the public sector had also been clearly inappropriate under the circumstances.

Consequently, in 1983, for the second consecutive year, fiscal performance would fall far short of the program targets. The prompt adoption of substantial revenue measures, together with much needed improvements in tax collection, the intensification of expenditure controls, and the correction of controlled prices for food and energy, were viewed as central to the improvement of the public finances and the return to the adjustment path envisaged in the extended arrangement. The emphasis of expenditure control ought to shift from cutting back on investment expenditure to major cuts in current outlays and improved financial management of public enterprises. Directors also noted that the Peruvian Congress was considering urgently needed additional revenue measures.

Directors stressed their concern about the acceleration of inflation in 1983 to well over 100 per cent, an outcome that they considered closely related to the weakening of the fiscal position. They emphasized the importance of strengthening fiscal policy, of pursuing a strict monetary policy conducive to positive interest rates in real terms and of a firm wage policy aimed at achieving a major reduction of inflation.

The expected deficit in the current account of the balance of payments in 1983, although somewhat lower than the 1982 level, was viewed with considerable concern by Directors in the light of the high debt service burden faced by Peru. Directors noted that for a time the sol had been depreciated at least in line with domestic inflation, but strong reservations were expressed about the recent decision of the authorities

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to preannounce the exchange rate. Directors stressed the need to restore, on the contrary, greater flexibility in exchange rate management in order to assure an adequate degree of international competitiveness, and they welcomed the expressed intention to discontinue the system of preannounced exchange rates as of early 1984.

Directors emphasized the importance of structural reforms to reduce economic rigidities. The continued existence of those numerous rigidities, notwithstanding commitments to reduce them in the context of the extended arrangement, had obviously impaired the efficient functioning of the economy and of the trade liberalization pursued by Peru in the previous few years.

Recent adverse developments in the Peruvian economy had increased the urgency for the Government to take appropriate action, and Directors called on the authorities to implement without delay a major, comprehensive and coherent program, including a tightening of fiscal and monetary management, more flexible pricing, interest, and exchange rate policies, and a firm wage policy to reduce inflation, to adjust the balance of payments position, and thereby to lay the basis for sustained economic growth. The importance of accurate and timely data was an essential prerequisite to sound policy implementation, and Executive Directors regretted the inadequacy of the information procedures that had led to sharp departures in the completion of the program without the Fund being aware of them. The staff view that the principal policy actions should be put in place before the extension of further financial assistance by the Fund was supported by Directors.

In sum, the considerable external difficulties that Peru has had to face and that were recognized by Directors should not be an excuse to relax or to defer adjustment; on the contrary, they made it all the more essential to address the country's problems without delay and to get the economy back under control through strong, decisive measures.

It is expected that the next Article IV consultation with Peru will be held on the normal 12-month cycle.