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SM/84/250
Supplement 1
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

December 20, 1984

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

The following correction has been made in SM/84/250, Supplement 1
(12/20/84):

Page 3: footnote 1/ was inadvertently omitted.

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

raised from 60 to 66 percent.^{1/} This measure was taken in an attempt to stem the shift of resources toward U.S. dollar-denominated certificates of deposit; these certificates had increased from less than 50 percent of total bank liabilities to the private sector at the end of June 1984 to nearly 55 percent at the end of November.

In recent months, the authorities have stepped up the pace of currency depreciation. On October 29 the sol was devalued by 2 percentage points in excess of the usual daily adjustment. Moreover, since the last week of November, the daily rate of depreciation has been raised to about 0.4 percent from 0.2 percent previously. On a monthly basis, the current rate of depreciation is close to 13 percent, up from about 7 percent during the year through November 1984; during that 12-month period, the rate of price increase averaged a little above 6 percent a month. The spread between the U.S. dollar-denominated certificates of deposit market exchange rate and the official rate widened from about 8 percent in September to more than 15 percent in mid-November. However, the acceleration of the pace of depreciation since late November appears to have had a dampening effect on the certificate market and the spread has narrowed to about 2 percent. Since the Staff Report was issued, the spread has often exceeded 2 percent and, in light of the changes introduced in late October (see SM/84/250, pages 21 and 27), has given rise to a multiple currency practice. Approval of this practice is not recommended.

Net international reserves of the Central Reserve Bank exceeded the program target by about US\$340 million at the end of November. However, since midyear there has been a substantial accumulation of central administration arrears with foreign creditors. By the end of November, such arrears amounted to over US\$300 million, of which about US\$200 million were delayed interest payments. Peruvian officials have estimated that by the end of the year central administration arrears will amount to some US\$410 million, of which US\$260 million would be on account of interest and US\$150 million on account of principal.

^{1/} This change represents an increase from 82.2 percent to 93.5 percent if compounding is continuous.