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To: Members of the Executive Board

From: The Secretary

Subject: Peru - Exchange Arrangements and Exchange System

Attached for the information of the Executive Directors is a paper on recent changes in Peru's exchange arrangements and exchange system.

Mr. Jaramillo-Vallejo (ext. 8619) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

PERU

Exchange Arrangements and Exchange System

Prepared by the Western Hemisphere and
Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by E. Wiesner and Manuel Guitián

February 2, 1987

On November 27, 1986 the Peruvian authorities transferred a large number of merchandise trade transactions from the official foreign exchange market (MUC) to the controlled financial market for foreign exchange (MFC), where the inti is some 25 percent depreciated with respect to the MUC. They also announced that the inti would be depreciated at a rate of 2.2 percent a month starting in 1987. ^{1/}

Exchange Resolution No. 023-86-EF/90 of November 27, 1986 transferred a large number of import transactions from the official market to the controlled financial markets. The Central Reserve Bank remains committed to maintaining in the MFC a premium over the official exchange rate of at least 25 percent. The only import payments allowed through the official exchange market after the modification are those considered "essential" by the authorities; they include certain foodstuffs, pharmaceutical inputs for medicines, some medical equipment, and inputs for the agricultural sector, including seeds and fertilizers.

Under the existing exchange control system, it is required that export proceeds be surrendered to the Central Reserve Bank, which issues MUC exchange certificates for the portion of the exchange required to be surrendered to the official market, and MFC exchange certificates for

^{1/} The latest Article IV Consultation with Peru was concluded by the Executive Board on December 21, 1984 (SM/84/250, 11/6/84, SM/84/250 Supplement 1, 12/20/84, and SM/84/255, 11/19/84). For a description of economic policies in 1985 and 1986, see "Peru--Exchange Arrangements and Exchange System" (EBD/85/217, 8/19/85), "Peru--Overdue Financial Obligations to the Fund--Report and Complaints Under Rule K-1 and Rule S-1" (EBS/85/279, 12/13/85), "Peru--Overdue Financial Obligations to the Fund--Report and Complaint Under Rule K-1" (EBS/86/28, 2/4/86), "Peru--Real Effective Exchange Rate--Information Notice" (EBS/86/61, 3/13/86), "Peru--Overdue Financial Obligations to the Fund--Review of Decision on Complaint Under Rule K-1" (EBS/86/79, 4/11/86), and "Peru--Exchange System and Real Effective Exchange Rate Information Notice" (EBS/86/228, 10/7/86).

the remainder. MUC exchange certificates, which are denominated in U.S. dollars and have a validity of 10 working days, are held by the surrendering bank (or any other bank to which they may be subsequently assigned) for use by the exporter for his own authorized foreign exchange payments and transfers through the official exchange market (MUC), or for conversion into intis at the official market rate of the day. If not so utilized within their maturity, the MUC certificates are cancelled, and the corresponding amount in intis is credited to the account of the bank and subsequently by the bank to the account of the exporter at the buying rate in effect at the close of the preceding business day, minus a discount of 2 percent. MFC exchange certificates, which also have a validity of 10 working days, may be used by the exporter for his own authorized foreign exchange payments and transfers (either through MUC or MFC), or for conversion into intis at the controlled financial market rate of the day, except as noted below.

Exchange Resolution No. 024-86-EF/90 of November 27, 1986, reduced the surrender requirement in the official foreign exchange market for all exports, and introduced exchange rate subsidies for nontraditional exports. The surrender requirement in the official exchange market was reduced from 100 percent to 90 percent for oil exports, from 95 percent to 65 percent for non-oil traditional exports (excluding those made by small- and medium-size mines), and from 70 percent to 45 percent for mineral exports by small- and medium-size mines; nontraditional exports, which were previously required to surrender 60 percent of export proceeds to the official exchange market, were exempted from that requirement. In addition, in the case of most nontraditional exports, if exporters choose to convert their foreign exchange receipts into intis instead of holding MFC exchange certificates, they are entitled to a subsidy equivalent to 10 percent of the amount being converted. The subsidy amounts to 20 percent for nontraditional exports of cotton, wool or alpaca apparel, canned fish or seafood, processed agricultural goods, and gold handicrafts.

As a result of the new regulations, the exchange rate system now involves an official rate, a controlled financial market rate, three mixing rates associated with the surrender requirements of 45 percent, 65 percent, and 90 percent for various export categories, and two new rates associated with the subsidies of 10 percent and 20 percent for nontraditional exports.

As noted above, concurrent with the transfer of merchandise trade from the official foreign exchange market to the controlled financial market, the authorities announced that the inti would be depreciated in the official market by a minimum of 2.2 percent per month vis a vis the U.S. dollar in 1987. The official rate had been fixed at I/ 13.94 = US\$ 1 since August 1, 1985. Equivalent percentage changes can be expected to take place in the controlled financial market in view of the commitment to maintain the premium at 25 percent.

The new regulations concerning surrender requirements for exports involve an increase in the number of multiple exchange rates; these

multiple currency practices are subject to approval under Article VIII. The staff is of the view that the transfer of current transactions to the controlled financial market, represents a step towards restoring the external competitiveness of the Peruvian economy. However, the announced rate of depreciation in 1987 may be inadequate in light of developments with regard to the rate of inflation in Peru relative to that of its major trading partners. Moreover the staff views with concern the emergence of additional multiple currency practices, and the growing complexity of the system with its administrative and resource allocation consequences. The staff would therefore encourage the Peruvian authorities to adopt policies that would make possible the early elimination of existing exchange restrictions, including external payments arrears, and simplification of the exchange rate system. In the meantime, no action by the Executive Board is proposed.

The most recent Article IV consultation with Peru was concluded December 21, 1984 1/ when it was indicated that the next consultation would be held on the standard 12-month cycle. The timing of the next consultation has not been agreed with the Peruvian authorities.

1/ Chairman's summing up circulated as SUR/85/1 (dated 1/2/85).

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