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MASTER FILES

ROOM C-120

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August 20, 1985

To: Members of the Executive Board
From: The Acting Secretary
Subject: Peru - Exchange Arrangements and Exchange System

There is attached for the information of the Executive Directors a paper on recent changes in the exchange arrangements and exchange system of Peru.

Mr. Loser (ext. 8373) 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 the Exchange and Trade
Relations Departments

(In consultation with the Legal Department)

Approved by Eduardo Wiesner and Manuel Guitián

August 19, 1985

In the attached telex the Central Reserve Bank of Peru has informed the Fund of certain measures adopted in recent days that involve modifications of the exchange system. As indicated in the telex, the Peruvian authorities depreciated the sol and fixed its exchange rate in terms of the U.S. dollar; suspended temporarily the withdrawal in U.S. dollars of dollar-denominated deposit liabilities (including certificates of deposit) with Peruvian banks; and created a free exchange market for transactions not eligible for foreign exchange from the primary ("unified") exchange market.

On August 1, 1985, the exchange rate of the sol in the primary market was changed from S/.12,449.05 per U.S. dollar to S/.13,942.77 per U.S. dollar on a mid-point basis. Since that date, exchange transactions in the primary exchange market have been taking place at S/. 13,908.00 per U.S. dollar (buying) and S/. 13,977.54 per U.S. dollar (selling).

Also as of August 1, 1985, the convertibility into foreign currency of all U.S. dollar-denominated deposits with Peruvian banks was suspended for a period of 90 days. The bulk of these deposits consists of negotiable certificates of deposit, which, on June 30, 1985, amounted to US\$1,540 million, or some three fifths of the banking system's liabilities to the private sector. During the suspension period, holders of U.S. dollar-denominated deposits may convert them into soles at an exchange rate equivalent to that prevailing in the primary market plus a premium of 3 percent; use them to make any payments abroad that are authorized to be made through the primary market; or use them at their maturity to open new U.S. dollar certificates of deposit. Trading of these certificates between private parties has not been restricted, nor is the suspension of convertibility applicable to diplomatic missions, international organizations or their staffs.

The authorities also have established a temporary free exchange market to be called the Financial Market in Foreign Currency. This

market will be available for transactions not eligible for foreign exchange from the primary market, essentially capital transactions and current invisibles payments, and which heretofore had been channeled through the certificate market 1/. The staff has been informed that the mid-point rate in this market on the first day of trading (August 6) reached S/.14,600 per U.S. dollar, involving a premium of 4.7 percent over the exchange rate in the primary market. On August 9, 1985, the Central Reserve Bank of Peru announced that it had decided to buy foreign exchange acquired by financial institutions in the free exchange market at S/. 17,500 per U.S. dollar.

The Peruvian authorities also have introduced certain modifications to the trade system. On August 12, 1985, 1,786 customs positions, representing about one third of the items in the Peruvian customs tariff, were subjected to prior import licensing. At the same time, exports of handicrafts became entitled to tax credit certificates (Certex) amounting to 35 percent of export value, instead of 30 percent previously.

The new three-tier exchange rate system gives rise to multiple currency practices which are subject to Fund approval under Article VIII, Section 3. The staff would encourage the authorities to pursue policies that would make possible the restoration of a unitary exchange system consistent with the attainment of a sustainable external payments position.

A full review of Peru's exchange and trade system will be conducted on the occasion of the next Article IV consultation discussions with Peru. In the meantime, no action by the Executive Board is proposed.

Attachment

1/ Previously, Peru maintained an official exchange market and a second exchange market (the certificate market) where U.S. dollar denominated certificates of deposit were traded.

TO: INTERNATIONAL MONETARY FUND, WASHINGTON

FROM: CENTRAL RESERVE BANK OF PERU, LIMA

AUGUST 2, 1985

CHANGES IN EXCHANGE ARRANGEMENTS

- THE CURRENCY WAS DEVALUED BY 12 PERCENT ON 8/1/85 AND THE UNIFIED EXCHANGE MARKET /MUC/ RATE WAS FIXED AT S/. 13,908 BUYING AND S/. 13,977.54 SELLING.
- WITH EFFECT FROM AUGUST 1, THE REDEMPTION OF FOREIGN CURRENCY CERTIFICATES /CBME/ AND THE WITHDRAWAL OF DEPOSITS MADE UNDER ANY ARRANGEMENT IN FOREIGN CURRENCY /ME/ AND OF THE RELEVANT INTEREST ARE SUSPENDED FOR 90 DAYS. PAYMENT THEREOF CAN ONLY BE DEMANDED IN DOMESTIC CURRENCY /MN/ AT THE SELLING RATE OF EXCHANGE OF THE UNIFIED EXCHANGE MARKET PLUS 3 PERCENT.
- CBME CONTINUE TO BE NEGOTIABLE. THEIR AMOUNT AND INTEREST, AS ALSO THOSE OF DEPOSITS IN FOREIGN CURRENCY, MAY BE USED FOR PAYMENT IN FOREIGN CURRENCY OF LIABILITIES HANDLED IN THE UNIFIED EXCHANGE MARKET.
- A FINANCIAL MARKET IN FOREIGN CURRENCIES IS ESTABLISHED TEMPORARILY TO HANDLE REQUIREMENTS IN FOREIGN CURRENCY THAT CANNOT BE HANDLED IN THE UNIFIED EXCHANGE MARKET. THE RATE OF EXCHANGE IN THAT MARKET SHALL BE ESTABLISHED BY SUPPLY AND DEMAND.

REGARDS

HECTOR NEYRA CH.
ACTING GENERAL MANAGER