Committee on Balance-of-Payments Restrictions

1986 CONSULTATIONS WITH PERU
(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee on Balance-of-Payments Restrictions in taking the decision called for in paragraph 8 of the Declaration.

1. Peru's previous consultations

2. Since its last full consultation in the Committee, held on 17 November 1975, Peru has held four simplified consultations, in June 1977, November 1979, October 1981 and December 1983. The report of the full consultation is contained in BOP/R/84 and those of the simplified consultations in BOP/R/94, 108, 120 and 137.

3. In the previous full consultation, the Committee noted that the level of import restrictions, especially non-tariff restrictions, was high, while taking into account the IMF's finding that restrictions did not then exceed those necessary to prevent a further decline in Peru's monetary reserves. It also expressed the hope that new factors, particularly development programmes in the petroleum, phosphates and copper industries, which could be expected to contribute to improving the balance-of-payments position, would soon place Peru in a position to start relaxing its restrictions and to move away from reliance on non-tariff measures towards control of imports through tariffs only (BOP/R/84, para.25). Following the 1975 consultation, and particularly in 1980, import restrictions were largely abolished and tariffs reduced (see BOP/W/76). However, in 1982 a temporary surcharge of 15 per cent on imports was introduced, and extended through 1983 at a rate of 10 per cent (L/5527). In their statement for the 1983 consultation (BOP/237), the Peruvian authorities already noted a considerable deterioration in the external sector, with large current account deficits not offset despite major capital inflows. The current account deficits were then attributed to adverse trends in prices of main export products, growing debt servicing charges and a higher level of imports related to increasing domestic business activity in a context of trade liberalization.

II. Policy developments since the last consultation

4. The main developments in import policy since end-1983 show a gradual tightening of import controls in 1984 through quantitative restrictions and increases in tariffs (reversing the previous trend towards liberalization). The new government elected in April 1985 has greatly increased the number of products subject to import controls, in response to the severe financial crisis facing it on its entry to office in July.

5. Import licensing requirements were re-imposed on a number of product categories including tobacco, clothing, table and toilet linen, and footwear in July 1984, and imports temporarily suspended. In December 1984 the import suspension list was expanded and extended for one year. Further licensing
requirements were introduced in March and April 1985. Subsequently, in October 1985, as part of the emergency economic programme, the new administration introduced a ban on a wide range of "non-essential" goods. The licensing and prohibition provisions do not apply to imports from Andean Group countries or to goods falling under any international agreement to which Peru is party.

6. Peru notified to GATT its consolidated import licensing list in L/5889, and the complete list of products banned in October 1985 in L/5889/Add.1. The lists of textile and clothing products subject to prior import licensing under Supreme Resolution 093-05-ICTI/CO-CE of 26 April 1985, and those whose imports were suspended in 1985 under Law No. 24030 on Public Sector Financing, were notified to the Textiles Surveillance Body in 1985 (see COM.TEX/SB/1115/Add.14 and COM.TEX/SB/1116).

7. The products subject to import licensing and prohibitions have been estimated by the Peruvian authorities at some 39 per cent of tariff lines and of imports (BOP/263).

8. Tariff modifications made between July 1984 and January 1985 were notified in L/5798. In addition, a general increase in tariffs was made in July 1984. All tariffs of 10-20 per cent were increased by 1 percentage point, those from 21-32 per cent by 2 percentage points, those in the range 33-47 per cent by 4 points, 48-61 per cent by 6 points and those over 61 per cent by 8 points with 10 point increases for certain luxury goods. Products with tariff rates of under 10 per cent were exempted, as were certain products for the pharmaceutical industry, the fishing fleet, and public transport. (See C/W/470).

9. The import surcharge mentioned in the background paper for the 1983 consultation (BOP/W/76) was again increased in April 1984 to 15 per cent. In May 1985 the rate was increased to 17 per cent. Subsequently, from 1 January 1986, the rate was reduced to 12 per cent for imports of industrial inputs. Imports by the public sector, gifts, and products which are exempt from duty as a result of international obligations, are not subject to the surcharge.

10. Domestic economic policy during 1984 and the first half of 1985 was conducted against the background of a decline of some 12 per cent in GDP in 1983, with inflation of some 112.5 per cent and a high level of public sector budget deficit (some 10 per cent of GDP). During spring and summer of 1984 public spending was further increased, reportedly partly financed through advance borrowing from the 1985 budget, and interest rates were maintained at a significantly negative level in real terms. In 1984 GDP grew at 4.3 per cent in real terms: however, inflation continued at a high rate (111.5 per cent) rising to even higher levels in the first half of 1985. The external debt rose to a level of $14 billion in 1985, with heavy arrears in interest payments carried over from 1984. Debt servicing requirements rose from 50 per cent of export value in 1983 to some 160 per cent in 1985.

11. The new administration elected in mid-1985 introduced, immediately after taking office, an emergency economic programme with effect from 1 August 1985. The programme comprised an immediate devaluation of 12 per cent in the value of the currency against the United States dollar, in many public sector and controlled consumer prices, reductions in interest rates on short-term loans and on deposits, and a one-time compensatory increase in public-sector salaries and in the minimum wage level. Price incentives for
production of basic foodstuffs were increased and a proportion of bank credit redirected to agriculture. Military and other public expenditures were sharply reduced. The Government also announced that debt service payments would be limited to 10 per cent of export receipts. Measures were taken by the Central Bank to discourage speculation and encourage a shift of investment into sol-denominated deposits.

12. The first result of the emergency programme was a rapid reduction in inflation, from a monthly rate of around 11 per cent to around 3 per cent. However, the contractionary pressures implicit in the rapid rise of real interest rates and sharp slowdown in real monetary growth led the government, in Phase II of the economic programme which began in October 1985, to take some steps aimed at stimulating the economy. Trade-related measures included higher export incentives, including an increase in the proportion of foreign exchange earnings which can be retained by exporters for exchange on the secondary market, preferences for domestically produced goods under government procurement procedures, the exemption of non-competing capital goods and imports for farming and fisheries from tariffs and domestic sales taxes, and the prohibitions of imports mentioned in paragraphs 5 and 6 above. In addition, a new currency, the Inti, equal to 1,000 soles, was introduced in February 1986.

III. Recent developments in Peru's foreign trade

13. Exports of minerals remain Peru's major source of foreign exchange; because of the increased rôle of petroleum exports in the past seven years, their share in total exports have even risen from around one-half to about two-thirds. In the second half of the 1970s, there was a strong breakthrough of non-traditional exports (mainly processed food and textile goods), but they have performed poorly since 1980. Traditional exports of agricultural products (coffee, sugar and cotton) and of fishmeal, once important items in Peru's export structure, have been lately earning together a mere 10 per cent of total exports.

14. Peru's heavy dependence on mineral exports was a favourable feature in the late 1970s, when the sharp rises in international prices of non-ferrous metals and petroleum helped the economy out of the deep balance-of-payments crisis of 1975-1976 (see the Chart). Since 1980, international prices of Peru's major mineral exports (including petroleum) as well as that of fishmeal, have declined considerably in dollar terms, and Peru's terms of trade have fallen markedly (see Chart). These trends are continuing. The continuing rise in import demand up to 1982 led to a shift of the trade balance into deficit in 1981/82. In the past five years, export revenue has declined steadily in dollar terms, from a peak of $3.9 billion in 1980 to $2.8 billion in 1985, for a volume of exports roughly comparable to that of 1980. A surplus has been obtained on the trade account since 1982 only through a strong decline in imports, from $3 billion in 1980 to $2.1 billion in 1984. Estimates suggest that the volume of imports was approximately halved in the three years to 1985, as a result of several factors, including contracting levels of internal demand, particularly in 1983, and domestic and external credit shortages, particularly in 1984. Central Bank estimates show that imports of capital and consumer goods declined particularly rapidly. The stricter import controls introduced in autumn 1985 will further reduce the import bill.
CHART

PERU'S FOREIGN MERCHANDISE TRADE AND TERMS OF TRADE ESTIMATES, 1975 TO 1985

(Billion dollars and index - 1981=100)

$ billion

EXPORTS (f.o.b.)

IMPORTS (c.i.f.)

TERMS OF TRADE

1985 data are estimates.

Sources: Banco Central de Reserva del Perú, Memoria 1984; and International Monetary Fund, International Financial Statistics.