PERUVIAN Import CHARGES

Results of Consultations between the International Monetary Fund and the Government of Peru concluded on 27 February 1959

1. The Government of Peru has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Peru continues to experience exchange difficulties. In 1958, a large budget deficit, financed to a large extent by central bank credit, increased inflationary pressures. The ensuing rate depreciation has raised the cost of foreign payments by nearly one third since then. Only by letting the exchange rate depreciate and by raising import duties has it been possible to reduce the import demand below the 1957 record level sufficiently to bring it into line with lower exchange earnings and the necessity to minimize the use of exchange reserves. The Fund believes that the utmost restraint will have to be observed in the fiscal and credit policies of Peru in 1959 if exchange and economic stability are to be restored.

3. The Peruvian authorities have indicated their desire to bring the inflationary pressures under control. To achieve this the Peruvian authorities have devised a program which includes a reduction of government spending and an increase in revenues at least to the point where any fiscal deficit in 1959 is avoided, caution in meeting the demands for new central bank credit by the development banks, stabilization of the volume of central bank credit to the commercial and savings banks at its present level, avoidance of any major liberalization of the reserve requirements against the deposit obligations of the commercial and savings banks and enforcement of these requirements, and resistance of any excessive wage and salary increases. The Fund believes that the implementation of these measures would assist in achieving exchange rate stability, but urges the Peruvian authorities not to counter the fundamental trends in the exchange market.

4. Peru still maintains a dual exchange market. The Fund does not object to the temporary retention of Peru's multiple exchange system. The Fund welcomes the determination of the Peruvian authorities not to revert to exchange and trade restrictions as a solution to the present payments difficulties. The Fund believes that Peru should re-examine the need for the bilateral features in its payments agreement with Argentina which is awaiting ratification.

5. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Peru.