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. The Peruvian Government through appropriate fiscal and credit policies has succeeded in eliminating an imbalance in its external payments which had persisted since mid-1957, although the level of international reserves remains low. Excessive government borrowing from the central bank and bank credit expansion financed by incurring legal reserve deficiencies in the first half of 1959 accentuated the internal and external disequilibrium of the economy. In the last half of the year, however, the Government adopted a firm policy of avoiding recourse to the central bank, bank legal reserve requirements were enforced, and the central bank increased its rediscount rates substantially and pursued a restrictive loan and rediscount policy. The result was an impressive improvement in the country's exchange position and stabilization of the exchange rate at a more appreciated level than prevailed at mid-1959.

3. Peru's export prospects for 1960 appear favorable, and the Government has adopted fiscal and credit policies for 1960 which aim at maintaining and consolidating the domestic price and exchange rate stability and the improved balance of payments position achieved in the latter months of 1959. In this respect, the Government's determination to balance its budget and establish as a firm principle that government budgets in the future must be financed without recourse to central bank credit is of great importance in restoring confidence in the Peruvian sol and increasing the creditworthiness of the country. The favorable export outlook for 1960 offers Peru an opportunity to improve its foreign exchange position, but this will require considerable restraint in bank credit expansion, including strict compliance with legal reserve requirements on bank deposits.

4. The Fund does not object to the temporary retention of Peru's multiple exchange rates and welcomes the determination of the Peruvian authorities not to revert to exchange and trade restrictions as a solution to Peru's payments problems.

---

Transmitted by the IMF as relevant for the CONTRACTING PARTIES in connexion with their consultation with Peru under the Decision of 21 November 1952.

Spec(60)228
difficulties. Success in the present stabilization efforts should lay the basis for establishment of a unified exchange rate system. The Fund urges Peru to eliminate the remaining element of bilateralism in its international payments relations.

5. In concluding the 1959 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Peru.