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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

PERU

PROJECT PAPER

ECONOMIC STABILIZATION AND RECOVERY PROGRAM
PAAD

AID/LAC/P-707

PROJECT NUMBER: 527-0344
GRANT NUMBER : 527-K-601

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CLASSIFICATION: UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT **PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)**	1. PAAD Number: 527-K-601 2. Country: Peru 3. Category: Cash Transfer 4. Date
5. To: AA/LAC:James Michel	6. OYB Change Number: N/A
7. From: LAC/DR:Peter Bloom	8. OYB Increase: N/A To be taken from:
9. Approval Requested for Commitment of $ 50,000,000	10. Appropriation Budget Plan Code LES191-35527-KG31 72-111/21037 (170-65-527-00-50-11)
11. Type Funding: ☐ Loan ☒ Grant; 12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None	13. Estimated Delivery Period: N/A; 14. Transaction Eligibility Date: N/A

15. Commodities Financed

16. Permitted Source	17. Estimated Source
U.S. only	U.S. $50,000,000
Limited F.W.	Industrialized Countries
Free World	Local
Cash $50,000,000	Other

18. Summary Description

The purpose of the proposed ESF program is to strengthen Peru's commitment and efforts to establish a sound economic policy framework and to carry out structural reforms that serve as the foundation for economic stability with sustained economic growth. The U.S. dollar funds will be used to finance servicing of official Government of Peru (GOP) debt to the IMF, the World Bank and the Inter-American Development Bank, as consistent with the ESF Cash Transfer Assistance Amplified Policy Guidance. Local currency deposits associated with this program will be used to fund A.I.D. and other donor and GOP counternarcotics activities.

This authorization covers the full $50.0 million cash transfer amount. The President submitted the annual Certification to Congress required under Section 481(h) of the FAA and the Congressional review period passed without objection. The Presidential Determination required under Section 4(a) of the International Narcotics Control Act of 1990, and the required findings under Section 559(a) (2) of the FY 1991 Appropriations Act have been made.

The resources will be provided in three tranches: $20 million, $15 million, and $15 million. The disbursement of these funds will be conditioned upon continued progress in the counter-narcotics and economic reform programs as established in the International Narcotics Control Act of 1990 (INCA), described in the Grant Agreement and to be further defined in Program Operation Letters issued pursuant to the Agreement.

19. Clearances	Date
DAA/LAC:AWilliams KW	9/30/91
LAC/DPP:BSchouten BS.	
GC/LAC:KHansen (Draft)	9-10-91
LAC/SAM:NParker (Draft)	9-12-91
PPC/PB:TBarker (Draft)	8-15-91
STATE/ARA/ECP:CBryant(Draft)	8-27-91
PFM/FM/A:RBonnaffon BPB	9-30-91
LAC/DPP:BBrockie	
LAC/DPP:RMcClure	9/23/91

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: James H Michel — Date: 9/30/91

Title

CLASSIFICATION: UNCLASSIFIED

Economic Stabilization and Recovery Program

527-0344

PAAD

USAID Peru
June, 1991

P A A D

Economic Stabilization and Recovery Program
(527-0344)

PAAD

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I. SUMMARY AND RECOMMENDATIONS

National Security Directive 18 (NSD-18) provided the blueprint for the U.S. strategy to reduce, and if possible eliminate, the flow of illegal narcotics from the Andean region to the United States. The strategy is built upon two basic premises. The first premise is that the destruction of the narcotics incubus in the Andean region will require effective law enforcement against narcotraffickers combined with economic assistance to help cushion the negative economic effects of the suppression of the drug trade. While illegal narcotics undermine Peru's democratic and economic institutions, it also generates between $600 and $700 million annually in foreign exchange earnings, and it supports about 120,000 farmers nationwide. The second premise is that an effective counternarcotics program needs to be based on a solid U.S. partnership with the Andean countries. The U.S. gained support for its strategy from Bolivia, Peru, and Colombia during the Cartagena Summit, when all participants agreed that a comprehensive program against illegal narcotics would have to include demand reduction in the U.S., interdiction and coca supply reduction in the Andes, material support for these efforts, action against money laundering operations and related controls on inputs and financial operations, and support for broad economic growth in the legitimate economy. The U.S. Congress approved the Presidential initiative with the enactment of the International Narcotics and Control Act (INCA) of 1990.

President Bush's Andean Initiative was launched during a critical juncture in Peru's economic and political history. The country's economy is severely damaged from the crushing effects of hyperinflation and a prolonged recession; the quality of life, particularly for low income groups, and the distribution of income have deteriorated seriously. The external debt burden reached $21.6 billion, of which $12.7 billion constitutes payment arrears. Peru is also experiencing a realignment in the Realpolitik with President Alberto Fujimori--a newcomer to the political scene--governing the country with few solid connections to traditional power groups, and a with a newly elected but fragmented Congress. This situation is compounded by the bloody militancy of a sinister alliance between narcotraffickers and at least one of two active insurgency groups (Sendero Luminoso and MRTA) which together are undermining the political, social and economic foundations of Peruvian society.

President Alberto Fujimori assumed office in July 1990, and immediately took action to address Peru's unprecedented economic crisis. His government initiated a bold and comprehensive economic stabilization program which includes drastic cuts in public spending together with tax reforms and the elimination of subsidies. Results achieved to date are encouraging, with a substantial reduction in inflation, and the government proceeding with negotiations on a medium term economic program with the IMF and the World Bank aimed at restoring financial flows, macroeconomic equilibrium, and sustained growth. An IMF agreement will enable Peru to reschedule and reduce a substantial portion of its external debt, currently more than $12.7 billion in arrears.

The Fujimori administration's policy agenda is consistent with many U.S. foreign policy concerns. The President has assigned high priority to pacification, to improving human rights performance, to making the justice system more efficient, and to addressing the country's endemic problem of corruption. He has also demonstrated his interest in cooperating with the United States in controlling narcotics production and trafficking. After initially rejecting proposed U.S. military assistance in the drug war, he called for an integrated approach involving military, police, and economic assistance. The U.S. Mission has recently concluded and signed an overall framework agreement for a comprehensive anti-narcotics program, along with annexes that describe the law enforcement, military, and economic elements of the assistance. The GOP is setting up an Autonomous Authority for Alternative Development (ADA) to coordinate GOP anti-narcotics efforts directed toward economic development and to interface with U.S. assistance efforts. Discussions with GOP authorities on the economic measures needed to address the country's narcotics problems indicate their approach parallels our own.

This PAAD sets forth the economic case for providing Peru with $50 million in balance of payments assistance, under the Economic Stabilization and Recovery Program (ESRP), in support of NSD-18 and INCA objectives, and proposes implementation mechanisms to provide it. The program is proposed on the basis that the Presidential determination required under the INCA is issued, and the Country Team's judgement that Peru's economic and counternarcotics policies are fully supportive of NSD-18 objectives. The resources will be programmed to help the GOP meet its obligations currently falling due with international financial institutions (IFIs) in the context of an IMF monitored economic adjustment program. The enormous magnitude of the balance of payments gap over the medium term will require that Peru undertake a massive effort to renegotiate a portion of its external debt and obtain fresh resources to generate economic growth. The $50 million would help fill a portion of this gap, which arises out of upcoming debt servicing outlays and imports needed to support real GDP growth of 3 to 6% with price stability. Local currency generated by the assistance will be used to support activities with emphasis on counternarcotics alternative development activities.

II. BACKGROUND

Over the last two decades, Peru's economic policies changed from one administration to the next. Erratic economic frameworks contributed to a sustained deterioration in the balance of payments, production, income levels, income distribution, and inflation.

The Garcia administration (1985-1990) inherited an economy with a strong international reserves position, a competitive real exchange rate, and public sector prices and tariffs that roughly covered operating and capital costs. But, growth rates were low, reflecting exogenous shocks and low investor confidence. The Garcia administration initiated a "heterodox" economic program, which was based on the belief that sustained real GDP growth, employment, and higher income could be achieved by expansionary fiscal and monetary policies combined with administrative controls on key prices and foreign trade, the financing of deficits through forced savings, and subsidies on basic goods and services. Garcia introduced a sustained wage increase program aided by expansionary fiscal policies to stimulate demand. Subsidized credit, lower taxes, price subsidies on agricultural inputs and outputs, and import restrictions on goods competing with domestic industry stimulated production. Inflation and the maintenance of real incomes were addressed by widespread price controls. The Garcia administration also unilaterally limited the amount of external debt servicing payments to 10% of export receipts, thus cutting the country off from external donors.

While the Garcia program initially cut inflation and generated economic growth, it faltered when foreign reserves and excess capacity in key sectors were exhausted, and when inflation accelerated. By 1990, the country was clearly worse off than in 1985. Investor confidence disappeared with Garcia's expropriation of a U.S. oil company and his attempt at nationalizing the banking system. Net international reserves declined from $1.4 billion to minus $189 million. Tax revenue as a percentage of GDP dropped sharply from 13% to 5%. Inflation was running about 32% per month, real GDP had dropped 21% since 1987, and real wages were equivalent to 43% of their 1988 level. External arrears reached about $12 billion, or 65% of external debt. External creditors, including the IFIs, had suspended further lending. Most new U.S. economic assistance except for food aid, resources channelled through NGOs, and counternarcotics assistance ceased because of debt arrears.

Personal income and its distribution worsened. GDP per capita in 1985 was about equal to that of 1968, while current levels are even lower than the levels reached at the end of the 1950s. The ratio of income earned by the highest 20% of the population compared to the lowest 20% is 32 to 1. In 1981, wage earners received 37% of national income, independent workers received 22%, while businesses received 36%. By 1989, the wage earners' share dropped to 20% and the independent workers' share declined to 17%, while the business share increased to 61%.

A coca production industry emerged in partial response to and abetted by this policy environment. Narcotics production and processing preempted resources for economic development, and further hindered the functioning of the economy. It enlarged the fiscal deficit by requiring additional expenditures to fight drug trafficking while generating few tax revenues. The Central Bank lost control over a significant portion of the money supply as coca-dollars entered through the parallel banking system. These inflows aggravated inflation and maintained artificial exchange rates that progressively eroded the competitiveness of legal Peruvian exports.

In early August, the newly elected Fujimori administration immediately implemented major, controversial, and politically painful reforms, to reduce price distortions, improve tax collection, narrow the fiscal deficit and stop hyperinflation. These measures were followed in March 1991 by a comprehensive series of structural reforms aimed at strengthening stabilization yand laying the basis for sustained growth. Parallel to these efforts, the GOP initiated negotiations with the IMF, the World Bank, and the IDB with a view to restore lending from these institutions in support of the Peruvian reform program.

III. THE FUJIMORI ECONOMIC PROGRAM

A. Economic Stabilization

The economic program initiated on August 8, 1990 aimed at stopping hyperinflation by eliminating the public sector's domestic borrowing requirements through increased public prices and taxes and strict controls over public expenditure. The exchange rate regime was unified to eliminate Central Bank subsidies which fueled monetary expansion. Relative prices were realigned through the liberation of the exchange rate regime, interest rates, private sector prices and wages, and the elimination of indexation mechanisms for public sector wages. These measures were complemented with the elimination of quantitative import restrictions and the reduction of tariff rates.

Initial measures included: (i) elimination of subsidies on basic foods and other products; (ii) jumbo increases (3,000%) in fuel prices to restore the financial viability of the public sector's oil company (PETROPERU) and to generate the equivalent of 2.5% of GDP in additional tax revenues to the Central Government; (iii) substantial increases in electricity, water and telephone rates; (iv) elimination of most exemptions of the sales tax and reduction of the rate from 18% to 14%; (v) the adoption of a temporary 1% tax on net wealth and insured assets, and increases in the selective consumption tax on luxury goods; (vi) a temporary 10% tax on the f.o.b. value of exports, and substantial reductions in other export taxes and subsidies; (vii) elimination of almost all quantitative restrictions on imports and of all tariff exemptions, and reduction of import tariffs; and, (viii) the adoption of legal and administrative measures to reduce lags in tax collection and increase penalties for tax evasion, among others.

In addition, the GOP established strict controls on all public sector expenditures; a newly established cash flow committee ensures that central government expenditures do not exceed revenues. The National Development Corporation is monitoring and controlling expenditures by public enterprises. The GOP also created the Social Emergency Program (PES) to assist the poorest sectors weather the initial impact of economic adjustment. As originally envisioned, the PES includes provision of nutrition and transport assistance, and improvement of health services and energy and water facilities.

The Fujimori economic program has the imprimatur of the International Monetary Fund and the World Bank. GOP authorities and the IMF agreed to the terms of a draft letter of intent with the following program objectives and targets:

- To lay the foundation for sustained export-led economic growth through structural reforms that improve competitiveness and efficiency, and by the promotion of domestic and foreign investment. This should be reflected in GDP growth of 2.5 to 3 percent in 1991 and of 5% onwards;

- To improve income distribution and reduce poverty by generating employment and economic opportunities, restoring social services, and establishing social support programs;

- To reduce inflation to monthly rates of 2% by end-1991, and to international levels in the medium term; and,

- To attain balance of payments viability over the medium term, while normalizing relations with Peru's external creditors.

The agreed strategy to achieve these objectives includes raising public revenues and investment, pursuing a disciplined monetary policy, and continuing to permit the exchange rate to be determined by market forces.

B. <u>Structural Reforms</u>

In order to consolidate the economic stabilization effort, improve efficiency, and strengthen public finances, the GOP agreed to implement a broad range of structural reforms:

1. <u>Public Sector</u>

The program is designed to achieve a surplus in the non-financial public sector (NFPS) equivalent 0.6% of GDP in 1991, this would reduce domestic finance requirements and absorb declining Central Bank losses and credit to the Agrarian Bank. This result would be reflected in a reduction in the current account deficit of the NFPS of 3% GDP in 1990 to 0.1% GDP in 1991, and a public investment increase from 1.5% to 3.9% of GDP over the same period.

The tax system is to be simplified to rely on few broad taxes (sales tax, excise tax on gasoline and other products, income tax, property tax, and simplified import tariffs). The sales tax rate is to be increased and the bases of the income and property taxes will be broadened; income tax on interest and wages will be withheld at the source; and valuation basis for property tax will be improved. Fuel prices will be adjusted to maintain tax contribution of the petroleum sector.

The tax and customs administrations (SUNAT and SUNAD) is to be reformed. Tax evaders will be sanctioned with severe penalties, and systems for cross-checking of tax information will be strengthened. The reform of the SUNAD will incorporate new information systems to increase monitoring capacity; the customs service will be modernized and some functions will be delegated to the private sector.

The GOP is to submit to the Congress a draft Law for the Reform of the Public Sector in the first half of 1991. This law will permit the Executive to: (i) redefine the scope of government activities; (ii) recruit trained personnel for senior positions, and (iii) reassign or reduce personnel in the Central Government, public enterprises, and social security institute (IPSS). Special attention will be given to the rationalization of public employment, and to the establishment of a wage structure that reflects productivity levels. The GOP will promote the creation of private social security funds.

Between 1991 and 1995, public expenditures to fight terrorism and narcotrafficking and to improve social infrastructure are to increase. Projected figures show that, as a percentage of GDP, public investment will increase from 2% in 1990 to 7% in 1995. The World Bank and the IDB will assist in the review of the 1990-1995 investment program; priorities will be set and project rankings will be established. It is expected that the private sector will expand investment in the mining, petroleum, and agricultural sectors.

The number of private enterprises will be reduced substantially, and efficiency will be increased on those remaining. A special commission was formed to identify public enterprises for potential privatization, reorganization, or closure.

2. <u>Financial Sector</u>

Monetary policy will aim at restraining central bank domestic credit growth, promoting private savings and financial intermediation. Structural reforms will include (i) strengthening the Superintendency of Bank and Insurance, (ii) restructuring or privatization of public development banks, and (iii) promotion of private equity participation in state-owned commercial banks. The Agricultural Development and National Bank, the Central Government's financial window, will be reorganized in 1991.

Reserve requirements and interest paid on reserves will be lowered further as inflation drops. The BCR will introduce open market instruments in domestic currency in early 1991, and improved instruments in foreign currency. Legal and structural impediments to commercial bank lending to the agricultural sector will be reduced. For example, a mechanism will be established to facilitate farmers' access to commercial credit by permitting the use of land as collateral.

3. <u>Labor Market Reforms</u>

The labor market will be made more flexible by the following measures:

(i) permitting the free negotiation of private sector wages between employers and employees; the Ministry of Labor will intervene when no agreement is reached; (ii) creation and improvement of emergency systems of temporary employment.

4. External Sector

The GOP's medium term strategy is based on trade liberalization, export promotion and expansion of investment-related imports. However, the trade balance is expected to deteriorate in 1991 owing to constrained growth of export earnings on account of export sector capacity limits and poor price prospects for mining, and to import growth fueled to trade liberalization and increased investment.

The GOP is to maintain a flexible exchange rate policy throughout the period with the BCR intervening to achieve the program's reserve targets and safeguard competitiveness. Net international reserves are targeted to reach around 5 months of imports of goods and non-factor services by 1995. If accumulation of reserves exceeds targeted levels, ceilings on net domestic assets will be adjusted downwards to avoid inflationary pressures.

The GOP is to encourage direct foreign investment and a return of flight capital by lifting restrictions on private capital flows and profit remittances, and allowing interest rates to be determined by market forces. The GOP also intends to resolve outstanding contractual issues with foreign companies operating in Peru (Occidental, Southern, Belco, among others).

To liberalize trade, the GOP will pass measures that (i) achieve a maximum import tariff of 20% within 3 years, and 15% by 1995; (ii) establish a commission to investigate anti-dumping complaints; and (iii) determine and verify collection of customs duties at the time imports are paid in financial institutions.

C. Implementation Progress and Prospects

The GOP has made remarkable progress in implementing the program agreed with the IMF, going beyond agreed terms and conditions. Table 1 presents a matrix summarizing Peruvian performance in implementing its economic program. The matrix shows that the pace of economic reform, which is unparalleled in Latin America, has the potential of transforming the structure of the Peruvian economy and making it viable over the medium term, nonetheless, the program is at an early stage with fundamental reforms yet to be carried out.

1. Economic Stabilization

On the stabilization front, the program was successful in stopping hyperinflation and achieving a rough fiscal balance, however, the exchange rate remains

Table 1
Peru: Economic Program Matrix

Objectives	Target	Policy Reforms and Preliminary Results
1. Sustained export-led economic growth.	GDP growth of 2.5 - 3.0 percent in 1991, and of 4 - 5 percent since 1992	Economic activity remains depressed with growth target unlikely to be met in 1991.
2. Reduce inflation.	Monthly inflation of 2 percent by end-1991, and equivalent to international levels in the middle term	Inflation fell to 5.8% in April (7.7% in March, 17.8% in January, 23.7% in December). Annual inflation likely to exceed 150% in 1991
3. Improve income distribution and reduce poverty.	Strengthening of emergency system of temporary employment and promotion of other mechanisms	Establishment of legal framework for social emergency program --National System of Social Compensation and Development Fund. However, little has been accomplished by public sector. Private sector programs have been more responsive.
4. Attain balance of payments viability in the middle term and reinsertion into international financial system.		
Structural Reforms		
Labor Market Labor market flexibilization, generation of employment and economic opportunities, and reorganization of social support programs	Liberalization of labor factor flow in the labor market	Scope of short term employment laws expanded. Creation of tripartite commission to recommend minimum wage policy.
	Freely negotiated wages in the private sector	Worker seniority benefits in the private sector were rationalized to become less of a burden on employees.

		Definition of causes for workers dismissal under strict labor law was expanded.
Land market Liberalization of the land market	Land market liberalized; guarantee right of private property over land	GOP passed a decree that guarantees the right of private property over land, access to credit, and the right to transfer land property.
		The new decree has provisions to avoid microfundios and latifundios
Public Sector Increase public sector's efficiency, public investment and savings, as well as reduce its role in the economy. Action plans for reforms of the budgetary process, public sector employment, social security administration and state enterprises	Current account fiscal deficit of 0.1 percent of GDP in 1991 (3 percent in 1990)	Cash flow committee established
	Public investment increase to 3.9 percent of GDP in 1991 (1.5 percent in 1990) and to 7 percent in 1995	The GOP has not mobilized resources to advance on this objective.
	Tax revenues increase to 11 percent of GDP in 1991, and to 15 percent in 1995	Tax revenues increased from 4% to 7% of GDP.
	Tax system simplification and reform	Expansion of sales tax base
		Modification of real estate property tax
		Measures to facilitate collection of personal wealth and business wealth taxes.
	Reform of tax administration	Legislation authorizing reorganization of tax administration office was passed.
	Reform of the customs administration	Maritime commission regulating port operations was abolished.
		Customs office (SUNAD) given authority to be reorganized.

		Elimination of state port-storage monopolies in airports and sea ports.
	Rationalization of public employment and establishment of wage structure reflecting productivity levels.	Incentives to promote public sector workers' early retirment and rationalize public sector employment were introduced with 50,000 workers using it this far. Public sector workers' wages determined on the basis of the President's monthly wage ($ 1,000 equivalent). No public wages adjustment since January.
	Substantial reduction in number of public enterprises (privatization, restructuring or closure)	Legal framework for privatization was adopted. Initial list of enterprises to be privatized was published and divestiture procedures initiated. Rice Marketing Board (ECASA) declared in state of dissolution and liquidation. Suspension of monopoly powers and exclusive rights held by public enterprises over a broad range of economic activities.
Monetary and Financial Sectors Disciplined monetary policy limiting the expansion of the Central Bank's domestic credit, liberalization of financial markets, and promotion of foreign direct investment	Central Bank's money creation consistent with inflation rate, GDP growth rate, and balance of payments results	Central Bank monetary expansion has remained within targeted levels.
	Reduction of reserve requirements	Interest on reserve requirements reduced from 9% (November, 1990) to 4.5% (February, 1991).
	Introduction of open market instruments in foreign and domestic currency	Free convertibility of foreign exchange bank certificates was declared.

		Residents authorized to open foreign currency deposits in Peru and abroad
	Deregulation of financial markets and prevention of overexposure of financial institutions	General Law of Banking, Financial and Insurance Institutions was passed based on the adoption of multiple banking system --Foreign financial institutions treated on the same basis as domestic financial entities.
		Liberalization of insurance markets and abolition of insurance and reinsurance monopolies.
	Market determined interest rates in domestic and foreign currency	Interest rate regime determined by the market was established for private sector banks.
		Central Bank's interest rates were released to the market.
	Facilitate access to commercial bank credit by farmers, enabling them to use land as collateral	Agricultural Bank loses first claim rights over farmer's loan guarantees
	Restructuring or liquidation of official development banks	New development bank regime under study.
	Reorganization of Agricultural and National Banks (1991)	
	Strengthening of Superintendency of Banking and Insurance	
External Sector Liberalization of foreign trade and reinsertion into international financial system	Flexible exchange rate policy	Elimination of the official exchange rate market.
	Central Bank's net international reserves increase to 5 months of imports by 1995	International reserve levels increased from 3 months to 3.5 months of imports.

Promotion of exports	Export earning surrender requirements eliminated.
	Draw-back mechanism to compensate non-traditional exporters from paying taxes.
	Temporary admissions regime refined and simplified to promote exporters to import production inputs under a temporary basis without paying taxes.
	Liberalization of foreign investment; repatriation of net profits and invested capital is no longer restricted.
Removal of private capital flow restrictions to encourage foreign direct investment	Monthly increases in fuel prices to improve Petroperu's financial situation.
Foster competition in exploration, production, refining, and marketing of petroleum.	Reduction and dispersion of tariff rates to a two-tiered system: 25 and 15 percent.
Maximum import tariff of 20 percent level in 1993 and subsequent unification at 15 percent (timetable announced on Dec 15, 1990)	Agricultural imports subject to surcharge to countervail subsidies in exporting countries.
Special Tariff Commission to investigate antidumping complaints	New customs system based on signed customs declarations was established by SUNAD.
Collection of customs duties at time of import payment in financial intitutions.	Customs agents responsible for tax collection.

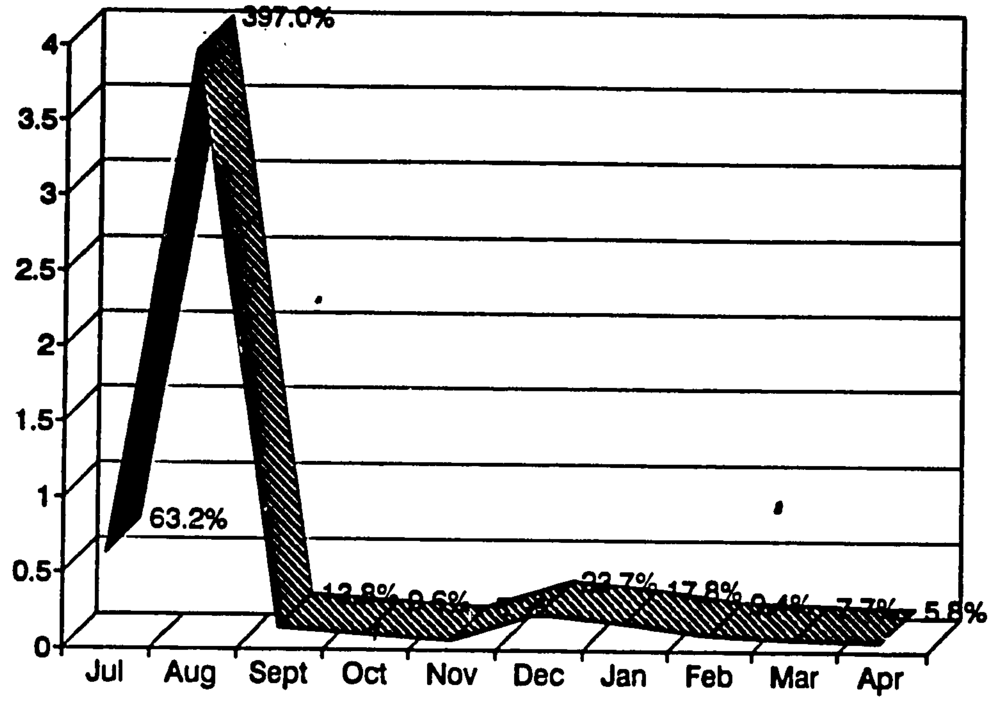
overvalued. Graph 1 shows the monthly inflation rate since the program was introduced in early August. While the graph shows success in stopping hyperinflation, it also shows that monthly inflation levels are far from reaching the target level of 2% per month by end-1991. This problem is associated with the magnitude and complexity of price distortions that the economic stabilization program is trying to correct, and with the adjustments process linked with the transition from a macroeconomic management approach that relied on government intervention to one that relies on market forces. For example, the inflationary surge (23.7%) experienced in December and January (17.8%) is the result of corrective fuel price adjustments and the liberalization of the rental market which released repressed real estate rental prices. While inflation levels began to drop subsequently, other inflationary surges will occur as the authorities adjust public prices and the exchange rate moves toward its long run equilibrium level.

The initial success of the stabilization program rests on precarious foundations and further adjustments are necessary. Fiscal balance was obtained through tax increases and expenditure containment measures which are unsustainable. The GOP program calls for tax structure and administration reforms designed to achieve a sustainable increase in tax revenues from the current 7% of GDP level to 16% of GDP over the medium term. Thus far, the Peruvian Congress has given the Executive full authority to reorganize the tax office and to reform the tax system; these should be implemented by the end of 1991.

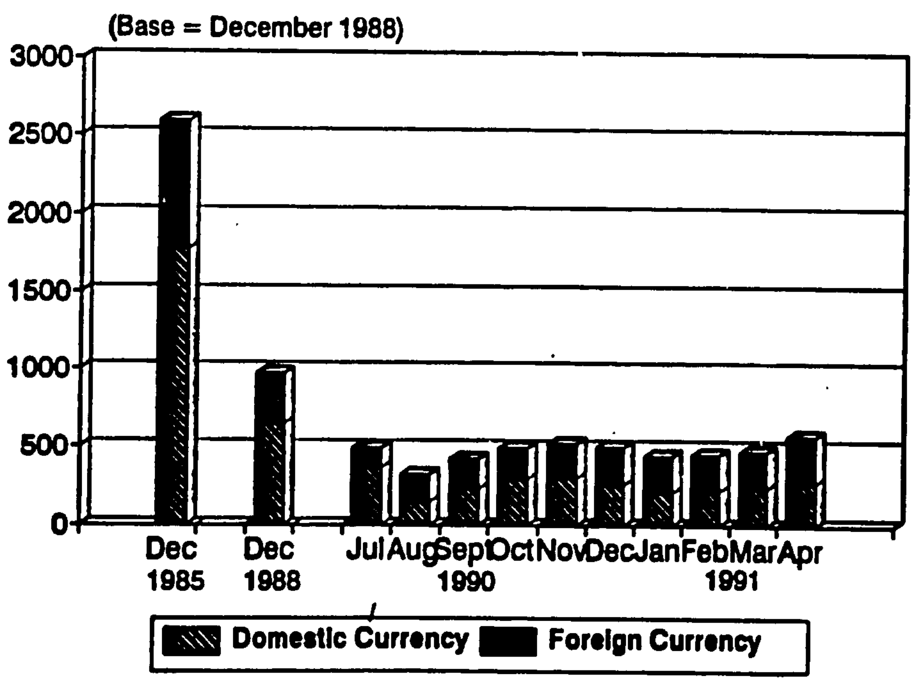
The monetary authorities are maintaining strict controls over domestic monetary expansion (See graph 2), while introducing numerous reforms designed to improve their ability to conduct liquidity-management market operations in domestic and foreign currency. The Central Reserve Bank confronts the task of restoring confidence in the domestic currency and the real value of the exchange rate to levels that promote export promotion and a more efficient allocation of domestic resources, regaining adequate control over monetary aggregates, rebuilding inti liquidity, and liberalizing a repressed financial system. These tasks are hindered by a massive (about $700 million per year) and unpredictable flow of narcodollars into the economy, over which the authorities have little control. Consequently, the Central Bank is forced to pursue a tight monetary policy which constrains a quick economic recovery.

The prospects for the economic stabilization portion of the Peruvian program hinge upon the GOP's political resolve to maintain the pace of economic reform and the availability of timely external financial support. Thus far, the GOP has maintained a firm commitment to reducing inflation. It has introduced several politically painful fuel price adjustments, pursued a strict monetary policy, and maintained public sector wages at increasingly unacceptable depressed levels in the face of mounting protest. However, the degree to which the GOP is able to maintain the current policy course is intimately linked to the availability of external financial support. The GOP needs these resources to proceed with public investment projects that are supportive of economic reactivation.

Graph 1
Evolution of Inflation (%)



Graph 2
Real Money Supply



2. Structural Reform

After several months of little activity, in the second half of 1990, the Peruvian structural reform program gained unprecedented momentum with significant actions in every major area of agreement with the IMF. Following is a summary of actions to date:

a. **Foreign Trade Reform.** The number of tariffs rates and their dispersion were reduced. The previous three-tiered regime (50, 25, and 15 percent), was replaced by a two-tiered system (25 and 15 percent). Inputs for the steel industry (33 items) will remain subject to a temporary 5 percent rate. Imports of milk, wheat, maize, sugar, and sorghum will be subject to a flexible surcharge to countervail subsidies in exporting countries. Most controls, restrictions, licenses, registration requirements, and tariff exemptions were eliminated. The only exceptions were free zones, international agreements, grants, central bank's purchases of precious metals and money, and defense equipment. The GOP also eliminated nearly all non-tariff barriers such as licensing, registration, administrative, and domestic value added requirements. The few exceptions to this liberalization export prohibitions of endangered species (Andean camelids) and their derived products, studs, some plants, and the cultural patrimony.

The new tariff level is the lowest in modern Peruvian history. Items under the 15 percent rate (83 percent of import items) were previously subject to the 15 and 25 percent rates; they include inputs, capital goods, and final consumer goods without comparative advantage, even if produced domestically (these were subject to the 50 percent tariff). Items subject to the tariff of 25% are luxury goods and other consumer goods produced domestically. These represent about 15 percent of import items. The average tariff rate dropped from 26 to 17 percent. The food imports surcharge is designed to be a flexible mechanism to countervail well known producer subsidies in large exporting countries.

The new tariff regimes constitutes a 2 year advance of the scheduled reductions agreed with the IMF. If sustained, the new regime should help contain domestic price increases, foster competition, reduce price distortions, and improve the allocation of domestic resources.

b. **Ports Reform.** The maritime commission, which regulated port operations, was abolished. The commission, which was established in 1935, had deteriorated to the point that the stevedore union had extracted excessive wages from it. The Ministry of Transportation estimated that the elimination of the commission will reduce stowage costs from $12 to $5 per ton.

c. **Foreign Investment.** Foreign investors are authorized to freely repatriate net profits and invested capital. Foreign direct investment profit repatriation was previously governed by the Andean group regulations; the repatriation of invested capital was subject to restrictions established under the Garcia administration. The only requirement of foreign investors is to inform the National Council for External Technology and Investment (CONITE) within 15 days after the transaction is carried out. The new regulations, together with the signing and ratification of the MIGA agreement, allow Peru to offer competitive terms to foreign investors. In addition, the GOP released foreign investor deposits frozen since 1986 by the previous administration. These were the domestic currency counterpart to foreign exchange remittances that were not authorized. This measure will not have an immediate effect on foreign investors with ongoing disputes such as Southern Peru Copper, but negotiations to resolve them are underway.

d. **Temporary Admissions Regime.** The temporary admission regime allows exporters to import production inputs under a temporary basis without paying taxes. The regime was simplified as follows: (a) allowing eligible firms to import on behalf of their domestic suppliers, and to transfer surplus goods, under the same regime, to other eligible firms; (b) approvals will be automatic when the required documents are submitted to the authorities; and (c) eligible firms have to provide only a letter of guarantee issued by a bank for an amount equivalent to the duties and taxes on the temporarily admitted goods; the previous regime required a bank collateral denominated in foreign currency.

e. **Export Earning Surrender Requirements.** The Central Bank relieved exporters from the 100 percent foreign exchange surrender requirements under special circumstances to be defined by the bank. Preliminary soundings with the Central Bank suggest that this measure will give exporters more flexibility in foreign exchange surrender requirements. In practical terms, this measure is resulting in exporters no longer having to take their earnings into Peru.

f. **Drawback Mechanism to Compensate Exporters.** The sales taxes, import tariffs, and employer's compulsory contributions to a State Housing Fund (FONAVI) paid by non-traditional exporters will constitute a fiscal credit for the payment of the income and business wealth tax. If the fiscal credit exceeds income and wealth tax liabilities, exporters will be able to negotiate the tax credit with other exporters. While exporters welcomed the measure, they claim to be subject to other indirect taxes, such as the compulsory contribution to the housing fund, than is commonly known. The Finance Minister announced that this mechanism would be extended to traditional exporters when the fiscal situation improves.

g. **Customs Reform.** The customs office will be reorganized, while port storage monopolies were eliminated. The customs office was given a 180-day period to rationalize its operations and reduce personnel. The state owned seaport (ENAPU) and airport authorities (CORPAC) will no longer have monopoly rights in the operation of warehouses at port facilities.

The customs superintendency (SUNAD) will establish a new customs processing system based on signed customs declarations instead of the lengthy examination of merchandise. SUNAD will carry out random inspections to ensure compliance with declarations. In case of discrepancies, sanctions will be applied.

h. **Short Term Employment Laws.** Firms will no longer be subject to the risk of being sued and legally bound to provide permanent employment to workers, hired under short term contract, who belong to worker's cooperatives. Previously, these workers had a legal avenue to sue employers asking that temporary employment status become permanent. The new law closes that avenue, making the labor market more flexible.

i. **Worker Seniority Benefits.** The GOP established a temporary seniority benefits regime for private sector workers to be in effect until a new labor law is enacted. Under the temporary regime, seniority benefits will be paid by the employer, every semester, on the basis of the wage received by the worker during that period. Benefits will be deposited in a special interest-earning account every six months (in May and November). Worker access to these funds is limited to resignation/retirement, however, under a few exceptions, they may access up to 50 percent of the amount deposited on his/her behalf. The worker will have the option of choosing the financial institution (banks, cooperatives, among others) in which the account will be opened, and whether the deposits will be made in domestic or foreign currency. If the benefits are not deposited on time, the employer will have to pay the interest foregone. Employers will have ten years to deposit benefits accumulated until December 31, 1990.

Under the previous regime, seniority benefits were paid upon resignation/retirement and on the basis of the last wage received. Worker mobility within firms should be improved as seniority no longer constitutes a large contingent liability. Additionally, workers will no longer be subject to the risk of losing all seniority benefits in the event of their employer's bankruptcy. Also, they will have access to credit as their deposits can be used as financial collateral. Fiscal revenues should increase because the base to calculate the income tax is enlarged owing to the reduction of labor compensation costs. Financial sector efficiency should improve as financial institutions compete to attract these deposits.

j. **Causes for Worker Dismissal Were Expanded.** Causes for worker dismissal were expanded. A worker can be legally dismissed if: (1) he undertakes activities deemed against his duties of loyalty, fidelity and diligence to the firm; (2) he participates in wildcat strikes; (3) he refuses to take a required medical examination; (4) he steals the firm's property, regardless of the value involved; and (5) he incurs in repeated and documented tardiness. This measure gives employers more flexibility to dismiss workers.

k. **Tripartite Commission to set Wage Policy.** The government created a special commission that will propose minimum wage policy. The commission will have one representative from the Ministry of Labor and Social Promotion, who will chair it, representatives from the Ministries of Finance, Industry, Transport, and Agriculture, and two representatives each from the labor and private sectors. The minimum wage had been the sole responsibility of the Ministry of Labor. This commission will provide it with minimum wage policy advice. While the commission is democratic in nature, it also has the potential to interfere with the functioning of the labor market.

l. **Legal Framework for Privatization.** The GOP published the legal framework that will govern the restructuring of the state's entrepreneurial activity. The framework establishes that public enterprises can be reorganized through: (a) the transfer of shares and rights in the enterprise, (b) the acceptance of new shareholders, (c) the transfer of assets, (d) financial and legal reorganization, and (e) merger, and liquidation of public enterprises. Resulting revenues will be used to finance the purchase of arms to fight terrorism, equipment and infrastructure for health and education programs, to rehabilitate the road network, and water facilities. The initial list of enterprises to be privatized include three public enterprises, and twenty firms in which the state owns shares.

This framework constitutes the first concrete step in the GOP's privatization program. The initial number of enterprises subject to the law is small and does not include any of the large enterprises. To date only a medium-sized bank (Banco Popular) and the state tobacco company have been included in the list. The GOP also published a list of firms in which its minority interests will be put up for sale.

m. **Legal Framework for Social Emergency Program.** The GOP issued the regulations that govern the National System of Social Compensation and Development (NSSCD). This system is in charge of designing, coordinating, implementing, and evaluating nutrition, health, education, and temporary employment programs for the poor. The directorate, which must be installed within 30 days, will have one representative from the President, who will chair it, and representatives from Prime Minister, the Ministries of Health, and Labor, the National Planning Institute, local governments and NGOs. The GOP also established a fund for the NSSCD, which will be administered by a new public sector institution under the Prime Minister's office. This institution will implement the policies established by the NSSCD. Resources for the fund will come from the Treasury, private donations, external donations, and any other public or private source.

The Social Emergency Program has been the most glaring organizational failure of the GOP. It is unlikely that the new structure will immediately improve the poor coordination and lack of direction that has characterized this program over the last few months. Private sector efforts will continue to provide the bulk of the social emergency assistance.

n. **Foreign Exchange Bank Certificates.** The Central Bank announced the free convertibility of foreign exchange bank certificates (CBME), which had been frozen by the Garcia administration in late 1985. Approximately dols 330 million in CBME's were declared freely convertible. Of these, about $180 million are in deposits at the National Bank, while the rest are in private bank deposits with an average 30 percent reserve requirement. The measure was passed to increase confidence and to pave the way for Central Bank market operations in foreign currency. On the downside, the new convertibility has the potential of worsening the private banks' position since these deposits can now be freely withdrawn. These withdrawals would also reduce Central Bank reserves.

o. **Foreign Currency Deposits in Peru and Abroad.** The GOP authorized residents to open these type of deposits with the purpose of building confidence and formalizing what Peruvian banks had been doing clandestinely with their clients' foreign exchange.

p. **Insurance Markets.** Public institutions were authorized to contract any private insurance firm to meet their needs, provided their terms are more competitive than those offered by the state insurance company. Also, insurance firms were authorized to contract any local or foreign reinsurance firm. Risk and insurance fees are to be market determined. This measure abolishes the insurance monopolies held by the state-owned insurance companies over public sector contracts. Also, it eliminates the monopoly by the local reinsurance firm Reaseguradora Peruana over reinsurance business. Insurance costs should drop, and risks are expected to be shared on a more even basis.

q. **Land Market Reform.** The GOP liberalized the land market in Peru. The right of private ownership over land and the right to transfer property to other parties is now guaranteed. These rights are also extended to foreign businesses or individuals. Rights can be exercised henceforth by enterprises and individual farmers under equal conditions, provided that land titles are registered in the land registry office in accordance with the constitution. Land can be freely sold if it exceeds 3 hectares. Exemptions to leasing prohibitions have been increased, but a few restrictions remain. There are lower and upper limits for the extension of property in order to avoid minifundios and latifundios.

Agricultural land owners are authorized to mortgage and use their land and infrastructure as financial collateral to access credit from the domestic financial system. The decree also regulates the adjudication of state land to private individuals. Applicants will have a maximum 4.9 year period to build infrastructure and start using the land; a letter or cash guarantee is required.

While this measure constitutes a substantial step toward the establishment of the legal basis of a functioning land market, most peasants and small farmers will remain untouched by the new law as the lower limit on land is 3 hectares, and more than half of land owners have less than that amount.

r. **Agricultural Bank Loses Exclusive Right over Loan Collateral.** The public sector's Agricultural Bank will no longer have top priority on farmers' loan guarantees. The previous regime gave the Agricultural Bank preferential rights on loan guarantees. This measure removes one of two major obstacle to increase commercial bank lending to the agricultural sector; the other is poorly defined land property rights.

s. **New banking law.** The GOP published a new banking system law to replace the law which had been passed under the previous regime. The main reforms of the General Law of Banking, Financial and Insurance Institutions are: (1) the adoption of a multiple banking system, which will allow banks to carry out a wide scope of financial and related operations instead of being limited to short term financial operations, as they were by the Garcia administration; and (2) the promotion of domestic savings. Foreign financial institutions (including banks) will be treated on the same basis as domestic financial entities. The new law is one of the main pillars of the structural adjustment program.

t. **Interest Rates.** The Central Bank further liberalized interest rates applied to its lines of credit channeled through development banks. The new rates are based on pre-established margins over markets rates. This measure eliminated remaining interest rate subsidies.

u. **Additional Fiscal Measures.** The sales tax base was expanded by including construction services, the transportation of cargo, and other items. On the expenditure side, the GOP expanded the coverage of its early retirements to include professionals, and extended it until the end of March. Additionally, the GOP removed a procurement provision which automatically increased foreign bids by 25 to 35%; this usually resulted on awards to domestic firms.

3. Implementation Problems

a. **Legal Foundations:** The ability of the GOP to proceed quickly with the adoption of structural reforms rests upon a longstanding but legally weak tradition in Peru; the Executive governs by decree. Under the Peruvian legal system, the Executive is able to perform its functions through the publication of Supreme Decrees signed by the President. The problem with these decrees is that Congress can overturn them, or individuals challenge them through the Courts. Consequently, politically controversial reforms often end up in legal or Congressional quagmires. Potentially, the is the most difficult problem confronting the implementation of several structural reforms adopted by the Administration. While there is no indication to date that Congress is opposed to the reform, the labor sector is gearing up to challenge the reforms most likely to affect them.

b. **Management:** The Central Government's mid-level management cadre is weak. Over the last few years, there has been an exodus of qualified professionals from meager wages in public service. Consequently, the absence of qualified personnel is hampering the implementation of structural reforms. In this regard, the GOP is looking to the private sector and external donors as a source of technical assistance. The private sector, through CONFIEP, has offered to provide the GOP with 100 managers --at no cost-- to assist in the implementation; the GOP has accepted and is now selecting candidates. The IBRD and IDB are incorporating intense technical assistance components to sector loans under design. A.I.D. is providing technical assistance under the PAPI project..

D. The Balance of Payments Situation

The Peruvian balance of payments situation reflects the complexity of the external sector problems that confront the Fujimori administration. Peru needs to have a viable balance of payments position if it is to restore economic growth. Exports must become the engine of economic growth, while Peru's import capacity needs to provide Peru with the resources it needs to grow, and to acquire the technology it needs to face the competitive challenges of an open economy.

The expansionary policies of the Garcia administration severely deteriorated Peru's balance of payments. Between 1986 and 1988, Peru lost more than US$ 1.7 billion of net international reserves. After a partial recovery in 1989, they fell again by more than US$ 700 million in the first semester of 1990 to the - $189 million registered at the end of June (See Table 7, Statistical Annex).

The current account registered an average yearly deficit of about US$ 1.2 billion between 1986 and 1988 (See Table 8, Statistical Annex). This occurred as a result of a drastic deterioration in the trade balance which changed from yearly surpluses of more than US$ 1 billion in 1984 and 1985 to yearly deficits of -$65 million, -$521 million, and -$99 million between 1986 and 1988. However, the most important determinant of the current account deficit has been a chronic deficit in net financial and non-financial services. This reflects Peru's worsening external debt problem and its lack of adequate international trade services technology and infrastructure.

The severe reduction in the level of economic activity since mid 1988 and favorable international prices for Peru's main exports produced a $522 million surplus in the current account and a US$ 900 million gain in net international reserves by the end 1989. However, the return to expansionary policies by the end of that year caused additional reserve losses by the end of the first semester of 1990.

1. Exports and Imports

The balance of trade fluctuated between deficits and surpluses throughout the decade. The strongest position was reached in 1984, 1985, and 1989 when it showed surpluses of over US$ 1 billion. In every instance, however, this performance reflected a drastic downturn in domestic economic activity which reduced import demand and increased exports of goods that could not be absorbed by the domestic market.

Exports declined steadily throughout the previous decade; they dropped from $3.9 billion in 1980 to $2.7 billion in 1988. This reflected a steady deterioration in Peru's terms of trade and the implementation of anti-export policies that seriously eroded Peru's competitiveness. In 1989, despite the relative poor incentives for exports, these rose to $3.5 billion due largely to the depressed state of the domestic market, the reduction in the number of days lost due to strikes in the mining sector -more than three months in 1988- and favorable international prices of some of Peru's export products.

The drastic adjustment measures implemented by the new government since August 1990, which did not include export promotion measures, were not accompanied by the significant real depreciation of the inti expected by exporters; it remains valued sharply higher than it was in 1985. Therefore, depressed domestic demand remains a key determinant of the export drive which began in 1989. Many firms are exporting or looking to export markets as an outlet for part of their production that cannot be absorbed by the local market.

Imports fell steadily from US$ 3.8 billion in 1981 to $1.8 billion in 1985 when the economy was operating under austerity conditions. Their significant growth during 1986 and 1987 reflected heterodox expansionary policies and the continuous real appreciation of the inti. Imports began to decline in 1988 in response to numerous quantitative import restrictions and depressed levels of domestic demand since mid-1988. Their 1989 real value is even lower than the corresponding value in 1985.

2. Capital Account Trends

Trends in the capital account for the last decade can be divided into the Belaunde and the Garcia periods. During the Belaunde period, Peru enjoyed substantial inflows of long term capital in support of expansive public sector policies. Net public sector inflows rose steadily from $371 million in 1980 to $1.4 billion in 1984. The favorable results obtained during 1983 and 1984 included Paris Club reschedulings and commercial bank refinancing. In 1984, however, the GOP accumulated over $1.3 billion in arrears because it failed to reach a new agreement with those creditors. On the private sector side, flows reflected the lending retrenchment by private banks and a significant reduction in net foreign investment; net inflows peaked in 1981 at $260 million, falling to negative levels during 1983-85 owing to considerable capital remittances by foreign investors.

By 1985, when the Garcia administration took office, it became clear that Peru's export earning capacity was not compatible with its growth needs and debt service obligations. Instead of looking for negotiated solutions and promoting exports, President Garcia formalized the moratorium on debt service payments initiated by the Belaunde Administration, and used the international reserves thus released to finance economic growth. Public sector arrears -excluding debt to the IMF- accumulated in excess of US$ 10 billion between 1985 and 1989. This was accompanied by a steady decline in disbursements, which resulted in net inflows falling from US$ 1.4 billion in 1984 to US$ 637 million in 1989.

Private capital inflows showed a marginal improvement, averaging roughly US$ 70 million annually between 1986 and 1989; this reflected prohibitions on capital remittances and private debt service.

3. Financing Requirements in 1991 and 1992

Table 2 shows Peru's external financing requirements for 1991 and 1992. This exercise assumes that policy reforms will not have a significant impact on export performance during this period, and that imports will recover to reflect the 1991 opening of the economy and the initiation of economic recovery in 1992. The severe deterioration of key export sectors such as mining, fisheries, agriculture will take several years and substantial investment to be reversed. On the export side, earnings are estimated to reach US$ 3.4 billion and $3.6 billion in 1991 and 1992 respectively. The corresponding import figures are projected to reach $3.4 billion each year.

The resulting current account, excluding public sector interest on medium and long term debt, shows small deficits that average $225 million each year. When these deficits are combined with other flows such as projected disbursements on existing commitments, private capital inflows, gross reserve accumulation, and public and private debt service obligations, including the clearance of accumulated arrears, the financing gap reaches $14.1 billion in 1991 and $4.2 billion in 1992.

The gap figures illustrate the magnitude and complexity of the Peruvian external debt problem and establish the need to restore Peruvian relations with the international financial community in order to obtain financial assistance to restore balance of payments viability and support the GOP economic program.

4. Reintegration into the International Financial System

One of the top policy objectives of the Fujimori administration is to reinsert Peru into the international financial community. This objective implicitly recognizes that Peru cannot get out from under the crushing effects of a hyperinflationary recession alone, and that part of its current problems are the direct result of the confrontational external debt policies

TABLE 2: EXTERNAL FINANCING REQUIREMENTS (1991-1992)
(In millions of US dollars)

	1991	1992	1991-92
1. Current account (excluding public sector interest on medium and long-term debt)	(215)	(279)	(494)
of which: Exports	3,482	3,661	7,143
Imports	(3,270)	(3,468)	(6,738)
Transfers	259	269	528
2. Disbursements (existing commitments)	210	178	388
Paris Club creditors	118	91	209
Other	92	87	179
3. Private capital (net of projected decrease in arrears)	238	503	741
4. Gross reserves	(146)	(225)	(371)
5. Public sector debt service	(2,600)	(2,601)	(5,201)
Multilateral creditors	(522)	(546)	(1,068)
Bilateral creditors	(1,182)	(1,357)	(2,539)
Paris Club	(922)	(1,023)	(1,945)
Other	(260)	(334)	(594)
Private creditors	(896)	(698)	(1,594)
6. Targeted change in arrears	(11,615)	(1,802)	(13,417)
Multilateral creditors	(357)	(1,802)	(2,159)
Bilateral creditors	(4,971)	0	(4,971)
Paris Club	(4,835)	0	(4,835)
Other	(136)	0	(136)
Private creditors	(6,287)	0	(6,287)
7. Financing gap	(14,128)	(4,226)	(18,354)

06/11/91 Source: IMF

of the previous administration. The GOP also knows that international trade offers the most efficient means to generate sustained economic growth, and that a clean bill of economic health from the IFIs is a necessary condition prior to becoming a reliable trading partner.

Peru's reintegration is constrained by an exceptional set of external debt problems which are reflected in the 1991-92 external requirements and several indicators. The accumulated external debt ($21 billion) to export ratio exceeds 500%, which is twice the average for countries with debt service difficulties. Public debt service obligations as a percentage of exports is about 85%, or more than twice the level for other countries with debt service difficulties. About $13 billion in public debt service obligations is in arrears, of which $2.1 billion is owed to the IFI's (IMF, IBRD, and IDB), $4.8 billion to bilateral creditors, while the rest is owed to private commercial banks.

In this context, the Fujimori Administration embraced an external debt policy based on several considerations: i) obligations to external creditors are recognized; ii) Peru is committed to undertake an economic program that lays the basis for sustained economic growth; iii) external debt service payments will be resumed within the context of a comprehensive and sustainable refinancing arrangement that includes both arrears and upcoming obligations; iv) the regularization of arrears to the IFIs (IMF, IBRD, and IDB) will be a priority; and v) the GOP will explore means to achieve balance of payments viability in the context of adequate growth. On these bases, the GOP initiated a debt rescheduling exercise, beginning with the IFIs and followed by subsequent negotiations with bilateral creditors and private commercial banks.

a. Reinsertion with the IFIs

The circumstances surrounding Peru's large arrears ($2.1 billion) with the IMF, IBRD, and IDB pose a conundrum for Peru as well as the creditor institutions. From Peru's perspective, the priority objective is to reach an accommodation with these institutions that will quickly restore positive net flows from them. From the perspective of these institutions, the primary objective is to reach an accommodation that will recover arrears. The conundrum facing both parties is how to reach a mutually satisfactory reconciliation of their respective priorities.

In response to this problem, the IMF and the IBRD are applying the recently developed "rights approach", which consists of providing Peru with the opportunity to earn--through compliance with a negotiated adjustment program--the right to refinance 100% of accumulated arrears ($857 million with the IMF and $927 million with the IBRD) that were outstanding at the beginning of the adjustment program. Under the arrangement, Peru will have to stay current on IFI debt that becomes due over the life of the adjustment program. Another feature of the rights approach is that the IMF is actively participating in the organization of a "support group" of friendly countries to provide Peru with fresh financing to fill any remaining gap after debt relief is provided.

The IDB is in a better position to assist Peru because its arrears ($357 million) are small relative its capacity to provide Peru with fresh loans in the short term. The latest replenishment has given the IDB considerable capacity to substantially increase its lending. Under the current reinsertion scenario, the IDB will be the first IFI with which Peru will clear its arrears --through bridge financing-- to be followed immediately by disbursements which at a minimum covers them. The IDB is working with the IBRD in developing the appropriate sector programs.

b. Bilateral Debt

The magnitude of accumulated arrears ($4.9 billion) and obligations falling due over 1991-92 ($2.4 billion) to bilateral creditors require that these provide Peru with debt relief in terms which exceed those usually accorded to a country of Peru's income level. Under traditional terms, which would be accorded for the two-year duration of the IMF agreement, cash obligations to bilateral creditors during the same period would reach $2.2 billion. This amount is far too large to enable Peru to service it without compressing import levels down to unsustainable levels. Obligations would include $1.1 billion of post-cutoff date (Nov, 1983) arrears and $0.3 billion of moratorium interest that would have to be paid. The IMF proposed to the Paris Club a debt renegotiation scenario the would provide Peru with additional debt relief as follows:

- A deferral of 30% of moratorium interest not rescheduled in 1991 to 1992;
- a deferral of clearance of post-cutoff arrears to a period beyond the end of the adjustment program negotiated with the IMF; and,
- a deferral to 1992 of the interest payments that accrues on the deferred post-cutoff arrears;

This scenario, which would set a new Paris Club precedent, requires complementary debt relief from other bilateral creditors in terms at least as comprehensive as the Paris Club's, with the exception of debt to other Latin American countries which are assumed to provide the same treatment on pre-cutoff arrears.

c. Commercial Bank Debt

Peruvian debt with commercial banks is about $5.5 billion, of which nearly the entire stock is in arrears. The debt renegotiation exercise under discussion with the IFI's implicitly assumes that Peru would continue its moratorium on this debt, and that renegotiations would take over the medium term in the context of a market based debt reduction scheme.

5. The Balance of Payments Scenario for the Medium Term

Table 3 presents a medium term balance of payments scenario which incorporates the debt renegotiation package under discussion with the IFI's and bilateral creditors. For 1991 and 1992, the proposed rescheduling exercise would leave a financing gap of $522 million and $782 million respectively. The GOP and the IMF requested that the USG and the Government of Japan (GOJ) participate and lead a group of bilateral donors with a view toward mobilizing medium and long term financing to fill this gap. As of this writing, coordination efforts are still underway with good prospects for mobilizing the $1.3 billion over the two year period.

The table also shows a yearly $1 billion gap over the 1993-1995 period. These financing requirements are far beyond the levels that are likely to be available from bilateral sources, indicating that Peru's medium term prospects are far from resolved even with the extraordinary debt relief that Peru would receive in 1991-92, and the projected increase in foreign investment and export earnings over 1993-95. Peru's external debt service obligations would continue to exceed the average for countries which have recently experienced debt service problems. By participating in the financing package for 1991 and 1992, bilateral and multilateral creditors implicitly recognize that Peru will require an additional package of debt relief that includes debt reduction, a sustained flow of fresh financing, and other forms of extraordinary assistance.

IV. THE NARCOTICS PROBLEM

For centuries Peru's coca production was oriented towards domestic demand. But, as cocaine consumption expanded abroad, narcotics traffickers found Peru's Upper Huallaga valley to be an ideal environment for the production of high-quality coca. Peru now supplies over 60% of the world's production of coca leaf, and is rapidly becoming a major coca base producer. There are about 121,300 hectares in coca production. Some 120,000 farmers are engaged in coca cultivation throughout the country, with perhaps 5,000 more involved in related processing, trafficking and financial operations. The industry brings at least $600-700 million in foreign exchange into the country each year.

The expansion of coca production and trafficking has done serious economic, political, social and environmental harm to Peru. Narcodollar liquidity has distorted exchange rates and has swung the cost/returns structure against legitimate crop and other productive activities. A symbiotic relationship between narcotraffickers and terrorists has virtually eliminated civil governmental authority in the coca growing areas, making control and alternative development efforts highly risky. Deforestation, erosion and the disposal of toxic chemicals associated with narcotics are causing incalculable ecological damage in these areas. Drug abuse is expanding

TABLE 3: ILUSTRATIVE MEDIUM-TERM BALANCE OF PAYMENTS SCENARIO (1990-1995)
(In millions of US dollars)

	1990	1991	1992	1993	1994	1995
1. Current account balance	(1,515)	(1,748)	(1,898)	(2,175)	(2,476)	(2,492)
Trade balance	426	212	193	135	29	166
Exports	3,357	3,482	3,661	3,925	4,272	4,732
Imports	(2,931)	(3,270)	(3,468)	(3,790)	(4,243)	(4,566)
Nonfactor services	(850)	(565)	(625)	(712)	(796)	(822)
Factor services	(1,338)	(1,654)	(1,735)	(1,878)	(2,000)	(2,139)
Transfers	247	259	269	280	291	303
2. Capital account	(382)	(512)	(18)	89	329	338
Public sector	(873)	(808)	(561)	(663)	(674)	(655)
Disbursements	240	210	178	80	68	51
Amortization	(1,113)	(1,018)	(739)	(743)	(742)	(706)
Private sector	491	296	543	752	1,003	993
3. Overall balance	(1,897)	(2,260)	(1,916)	(2,086)	(2,147)	(2,154)
Financing						
4. Change in net reserves	(161)	(195)	(272)	(242)	(225)	(200)
of which: IMF repurchases	(63)	(49)	(47)	(17)	0	0
Gross reserv	(98)	(146)	(225)	(225)	(225)	(200)
5. Repayment of arrears	2,058	(11,673)	(1,842)	(40)	0	0
of which: IMF		0	(875)	0	0	0
IBRD and IDB		(357)	(927)	0	0	0
6. Repayment of exceptional fi	0	0	(197)	(432)	(498)	(498)
FLAR		0	0	(57)	(123)	(123)
Deferred obligations		0	(197)	(375)	(375)	(375)
7. FINANCING GAP	0	14,128	4,227	2,800	2,870	2,852
Possible sources of financing		14,129	4,227	2,799	2,870	2,852
8. Rescheduling and deferral		13,087	1,270	1,010	1,025	1,036
Bilateral creditors		5,904	572	274	254	216
Deferral		1,322	0	0	0	0
Post-cutoff arrears		1,125	0	0	0	0
Interest on post-cutoff arrears		97	0	0	0	0
Moratorium interest		100	0	0	0	0
Rescheduling		4,582	572	274	254	216
Moratorium interest		234	175	0	0	0
Current maturities		501	397	274	254	216
Arrears		3,847	0	0	0	0
Private creditors		7,183	698	736	771	820
Current maturities		896	698	736	771	820
Arrears		6,287	0	0	0	0
9. Multilateral disbursements		520	2,175	748	840	852
FLAR		170	200	0	0	0
Other		350	1,975	748	840	852
10. Support Group financing		522	782	1,041	1,005	964

Source: IMF

at high rates with serious consequences to an already weakened social fibre.

Constraints to the reduction of illicit coca in Peru include persistent market distortions caused by faulty economic policies of the past, which made legal crops unprofitable. The deterioration of infrastructure and government services restricts the marketing of legal crops from coca-growing areas. The management and level of police and military resources currently engaged in counter-narcotics enforcement efforts are inadequate to disrupt narcotics trafficking and keep the price of coca down over time, a sine qua non for alternative development programs. And, the lack of security inhibits legitimate private sector investment in the region.

President Fujimori has demonstrated his interest in cooperating with the United States in controlling narcotics production and trafficking. After initially rejecting proposed U.S. military assistance in the drug war, he called for an integrated approach involving military, police, and economic assistance. The U.S. Mission has recently concluded an overall framework agreement for a comprehensive anti-narcotics program. The GOP is setting up an Autonomous Authority for Alternative Development (ADA) to coordinate GOP anti-narcotics economic efforts and to interface with U.S. assistance efforts. Discussions with GOP authorities on the economic measures needed to address the country's narcotics problems indicate their approach parallels our own.

V. THE ECONOMIC STABILIZATION AND RECOVERY PROGRAM

The fundamental objective of the proposed ESRP is to strengthen Peru's commitment and efforts to establish a sound economic policy framework and to carry out structural reforms that serve as the foundation for economic stability with sustained economic growth. The program also responds to the need for international cooperation in addressing the narcotics problem by encouraging the establishment of a macroeconomic framework that facilitates the creation of alternate sources of income to the economy and providing resources to implement activities that advance counternarcotics objectives. The basic strategy is to provide $50 million in balance of payments assistance in direct support of the implementation of the GOP's economic reform program, and budgetary support to finance key counternarcotics activities.

A. Counternarcotic Foundations of the Program

Reducing the amount of drugs produced and processed in Peru is a key U.S. foreign policy objective, as reflected in the Presidential signing of National Security Directive 18 (NSD-18). This Directive established the blueprint for the U.S. strategy to reduce, and if possible eliminate, the flow of illegal narcotics from the Andean region to the United States. The strategy is built upon two basic premises. The first is that the destruction of the narcotics incubus in the Andean region will require effective law enforcement against narcotraffickers combined with economic assistance to help cushion the negative economic effects of the suppression of the drug trade. The second premise is that an effective counternarcotics program needs to be based on a solid U.S. partnership with the Andean countries. The initiative was approved by the U.S. Congress with the enactment of the International Narcotics Control Act of 1990.

U.S. objectives were advanced through the recent signing of a comprehensive U.S.-Peru narcotics agreement that lays out a framework for joint economic, military and law enforcement cooperation. The proposed ESRP initiates fulfillment of the U.S. pledge in that agreement to provide economic support, and establishes a solid base of cooperation to initiate a vigorous interdiction program. Moreover, the President recently issued a determination, required under the INCA, that Peru has demonstrated acceptable performance on counternarcotics activities, human rights, and civilian control over the military.

B. Economic Foundations of the Program

Peru's lack of economic progress can be traced fundamentally to flawed economic policies that led to increasing distortions, inefficiencies, and disinvestment. These policies stultified economic growth and enabled the narcotics industry to flourish. Consequently, any effort to restore Peru's economic viability, which at the same time destroys the distortions that promote the narcotics industry, must begin with a comprehensive economic reform program that promotes price stability and sustained growth. The depth and breadth of the Peruvian economic program, which the ESRP supports, is fully supportive of the objectives of the U.S. counternarcotics strategy and the umbrella agreement signed with Peru.

C. Implementation Strategy

The implementation strategy proposed for the assistance provided through the ESRP program is based upon NSD-18 guidance which establishes that recipient countries must have in place, or taking steps to put in place, a sound economic policy environment. It also fulfills requirements under the INCA. On the basis of this guidance and requirements, the Mission proposes providing the assistance in one disbursement with conditionality consisting of the presentation of a letter of commitment from the GOP with the following elements:

- A description of the Peru's economic reform program. This would include a brief description of objectives, quantitative targets, and performance benchmarks. The Mission expects this paragraph to differ little from the contents of the letter of commitment soon to be signed with the IMF.

- A commitment to continue implementing economic reforms, which are a part of the program, with a schedule of specific actions to be undertaken. This would describe the nature of the economic reforms to be undertaken and a timetable for their implementation. The Mission expects this element to include the actions that will be supported with structural adjustment lending from the IBRD and the IDB. The target sectors include the financial system, agriculture, and international trade.

While a number of policy actions remain to be taken or completed to promote sustained stabilization and recovery of the Peruvian economy, key policy actions already taken need to be adhered to in spite of what may be strong pressures to relax or backtrack. The stabilization and structural reform process which has been initiated is fragile and in danger of being derailed by renewed inflationary expectations and the unravelling of the political consensus. Experience with earlier liberalization programs which could not be carried through to completion, and/or were perceived to involve an unacceptable amount of austerity and meddling by international financial institutions, have led to widespread skepticism and mistrust of economic reform programs.

The ESRP program is therefore designed to provide support (complemented by resources from other donors) to the program of policy reforms agreed with the IMF, and to provide the GOP with a concrete base of economic support upon which to initiate a vigorous interdiction program.

VI. DOLLAR AND DOMESTIC CURRENCY PROCEDURES

The U.S. dollar funds will be used to finance servicing of official Government of Peru (GOP) debt to IMF, the World Bank and the Inter-American Development Bank, as consistent with the ESF Cash Transfer Assistance-Amplified Policy Guidance. Service of debt for military imports or other military requirements and other items A.I.D. cannot finance because of specific legal prohibitions will be ineligible. The detailed procedures for the programming and control of the dollar funds is described in the following sections.

The primary rationale for programming external debt service payments to the IFIs is that it is directly supportive of the reinsertion effort and establishment of normal relations with those multi-lateral development banks, as well as economic stabilization and recovery in the context of sound, market-oriented outward looking economic policies. Support for the economic stabilization program to eliminate fiscal, monetary and trade imbalances impacts directly on increasing incentives for legitimate alternatives to coca production. Programming ESRP dollars for this purpose will fully absorb them since, in 1991 alone, payments coming due on existing debt to the IFIs is estimated at over $520 million (about $44 million per month). Allowing the use of dollars for debt repayment also entails minimum A.I.D. management responsibility, while offering simplicity, optimum internal control and low vulnerability. The Central Reserve Bank of Peru (BCR) will be the custodian for the separate dollar account and dollar transactions.

As described below, local currency will become available through a process which the GOP currently uses to pay its official debt, i.e. the GOP purchases dollars with local currency from existing budgetary resources. In this case, instead of buying dollars directly, the local currency will be deposited into a separate special account in the BCR, prior to release of dollars to pay debt. The special New Sol account will be managed by the Ministry of Economy y Finance (MEF), according to normal practices and controls. Local currencies will be programmed to finance high priority activities in the local currency program.

External public debt payments correspond to GOP budget outlays and amortization payments and budgetary allocations are involved. Under this program, local currency which would have been used for buying dollars, will be channeled into high-priority A.I.D./GOP counter-drug projects. Deposit of local currency, after conditions precedent to dollar disbursement have been met and dollars disbursed to the separate dollar account, but prior to release of dollars to service debt, is consistent with prudent management of the money supply-which is essential given Peru's circumstances.

VII. PROGRAMMING, USE AND CONTROL OF U.S. DOLLARS

A. Programming and Use

As stated above, Program dollars will be used to service official debt of the GOP to the two multilateral development banks and the IMF. The FAA requires that not more than 50% of the OYB be made available prior to Presidential certification to Congress that Peru has complied with counter-narcotics measures. For FY 1991 assistance, the notification period for Congress expired on May 14, 1991. Peru is also subject to certification under the INCA, which has been made. As described in other sections of the PAAD, the GOP is acting on policy reform at a highly accelerated pace, chiefly through the issuance of decrees. The country team is satisfied with the pace of the reform process, and for this reason-and because debt servicing can accelerate the resumption of normal relations with the IFIs and it is important to fund counter-drug projects with local currency- believes one tranche is justified. Such a single tranche would be disbursed during July or August, 1991.

Accordingly, the GOP will group together eligible debt payments due in the time period in which the dollar disbursement is expected to take place, i.e. July-August, 1991. In this way, disbursement of dollars to the separate account, deposit of local currency, and withdrawal of dollars from the separate account to effect payment of official debt of the GOP in that order, is all expected to take place within several weeks. As described below, this is the simplest and least vulnerable system possible for managing dollars.

B. Separate Dollar Account

The following are the steps and/or provisions which relate to management of the separate dollar account:

- The GOP will establish a separate, interest bearing U.S. dollar account ("Separate Dollar Account) in the name of the BCR at the Federal Reserve Bank of New York

(FRB), exclusively for the ESRP program, to be managed by the BCR as part of the GOP's official reserves.

- Upon the GOP meeting conditions precedent to disbursement, disbursement of $50 million (one tranche, as described above) will be made to the separate account of the GOP in the FRB.

- The transfer of funds by the U.S. Treasury to the BCR separate dollar account in the FRB will be made within 48 hours, without any intermediary banks nor accounts.

- The funds in the separate dollar account at the FRB will be placed in U.S. Treasury Bills of short-term maturity to provide interest income while there are no public debt calls on the balance. Any interest income will become part of the principal balance.

- The Cash Management Committee chaired by the MEF will determine what debt is to be paid by ESRP dollars and will submit appropriate documentation to A.I.D.

- The BCR will make payments on GOP official debt to the International Financial Institution (i.e. IMF, IBRD or IDB) directly out of the separate account in FRB.

- The Grantee (i.e. the GOP) will submit monthly reports to support disbursements made for each payment of debt (principal and/or interest).

- The following documentation will be submitted in the reports: (1) copies of MEF/BCR authorization to the FRB (in which the separate account has been established) which authorized payment to the approved creditor (i.e. MDB) and telexed confirmation from such creditor of payment; and (2) name of creditor to which payment was made and the amount involved.

- The Grantee will re-deposit into the separate dollar account at the FRB, any amounts, in dollars equivalent to payments made to service debt which have been determined to be ineligible.

VIII. PROGRAMMING, USE AND CONTROL OF PERUVIAN COUNTERPART FUNDS

A. Description of the LC Program

Local Currency deposits will be used to fund A.I.D. ESF and other donor and GOP Counternarcotics activities. Thus, according to the draft Supplemental Guidance on Programming and Managing Host Country-Owned Local currency, dated 10/11/90, the local currency will be programmed for specific project support, under which "jointly programmed local currency may be used to help meet the host country's contribution to AID DA and ESF projects". Projects contemplated to be funded by the ESF local currency include: Investment and Export Promotion, Small Business and Employment Expansion, and Selva Coastal Road Rehabilitation. This list is subject to change. In addition, local currency will be used for an Administrative (OE) Trust Fund and audit and evaluations to be included under the local currency program. These projects/uses are briefly described below. It should be noted that the projects will, with the exception of the Selva Coastal Road Rehabilitation Activity[1], be described and analyzed in detail in A.I.D.'s normal project development documentation. The table below summarizes LC funding levels.

Table 4
Local Currency Uses
Local Currency Equivalent in Million of US $

A.I.D. Projects		
1.	Investment and Export Promotion	9.5
2.	Selva Coastal Road Rehabilitation Activity	27.2
3.	Small Business and Employment Expansion	2.0
4.	Land Titling and Democratic Strengthening Activity	4.0
5.	Audit and Evaluation	0.6
Trust Fund		
1.	Administrative (OE)	6.7
Total		50.0

The Investment and Export Promotion (IEP) Project (ESF dollar and LC funded) will strengthen Peru's non-traditional export sector, by increasing investments and exports in agriculture/agro-industry, light industry/metal working and apparel. This will be accomplished through technical assistance to be provided to non-traditional exporters and by enhancing the export promotion capabilities of the Association of Exporters (ADEX) and other organizations. In addition, a local currency credit line will be made available to exporters from local currency under the ESR program. It is estimated that $11.0 million and $1.0 million equivalent of local currency will be used for credit and counterpart (institutional support), respectively.

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1. A PP-like document will be prepared by the GOP for this activity for review by USAID/Peru.

The Selva Coastal Road Rehabilitation Activity (LC funded only) will rehabilitate the Lima-Tingo Maria-Tarapoto highway, which is approximately 1000 km. long. This deteriorated highway: provides the main outlet for food, minerals and forestry products destined for Lima and the export market; and is crucial for the development of the highland or "Sierra" region and the departments of Junin and Pasco, as well as the department of San Martin. The project will be totally funded by local currency equivalent of $55.0 million; the $27.2 million will be the initial requirement to initiate road rehabilitation activities from Lima to the Tingo Maria area of the Upper Huallaga Valley.

The Small Business and Employment Expansion Project (ESF dollar and LC funded) will provide technical assistance and investment credit to targeted, dynamic small enterprises for expansion. LC credit funds ($3.0 million) will be used for upgrading and purchasing new machinery and equipment. Not only will the project generate substantial employment (30,000-40,000 jobs), but exports from this dynamic sector will also be increased. The LC equivalent of $500,000 will be used as counterpart for institutional development. Of the three projects, this will be the last to be designed in early FY 1992.

The Land Titling Democratic Strengthening Activity will extend ILD's pioneering efforts to accelerate the land titling process, expand administrative simplification activities, and other efforts to establish the presence of a working government in the Upper Huallaga Valley.

B. <u>Programming and Use-Steps and Provisions</u>

- The GOP and A.I.D. will agree upon a local currency program, related to the GOP's counter-drug program. The program will be formalized by a memorandum of understanding, annex to the Program Grant Agreement, or other appropriate agreement between the GOP and A.I.D.

- Programming, implementation, monitoring, accountability and control of the ESRP local currency will be described in the MOU or other agreement as outlined above. The requirement for programming pursuant to joint agreement between the host government and A.I.D. will be met through the signing of the MOU (or other agreement).

Ancillary agreements to the MOU for the Selva Coastal Road Rehabilitation Activity, and for the IEP and SBEE LC credit funds will be executed by the GOP and A.I.D.

- A separate Trust Fund agreements for Administration (OE) will be also executed between the GOP and A.I.D.

C. Special Local Currency Account-Accountability and Control-Steps and Provisions

- Prior to making payments for debt-servicing, i.e. prior to disbursement out of the separate dollar account, the GOP will deposit a local currency amount equivalent to the debt payment, into a special, interest bearing separate local currency account ("Special LC Account) at the BCR, the managing agency for the program dollar transactions.

- To the extent possible, the BCR will group together the GOP's debt service payments, to make for a small number of local currency deposit transactions (to simplify the process).

-The local currency deposit for each debt service transaction will be required prior to release of dollars from the separate account to make debt payments. This requirement will be incorporated into the memorandum of understanding.

- Local currency deposits will be made into a special local currency account at the BCR. As the overall managing agency for the ESR local currency program, the MEF will manage the special LC account and provide authorization to the National Treasury to transfer funds to implementing entities.

- The GOP (through MEF) will provide reports to A.I.D. on a quarterly basis. Such reports will include information on budgetary allocations and on the overall progress of the local currency program. The BCR will provide monthly reports on dollar and local currency transactions.

- In addition, as local currency will be funding A.I.D./GOP projects, A.I.D. will be monitoring projects, receiving reports, etc., through normal project management procedures.

IX. AUDITS

A. Separate and Special Account

The GOP has its own audit procedures under its Controller General and both the separate dollar account and the special local currency account will be subject to these procedures. In addition, the GOP has agreed that both accounts will be audited by an external internationally accredited CPA firm, in accordance with GAO auditing standards. The USAID will consult with the Office of the Regional Inspector General in Honduras on the process of selecting an audit firm, and the capabilities of any firm to perform the audits.

B. Projectized Local Currency Projects

The Controller General has agreed to establish a special unit that will audit and report on the uses of HCOLC made available for agreed upon projects. These audits will be performed annually in accordance with generally accepted international audit standards and procedures. The MEF and USAID will mutually agree upon the best means of resolving problems that may be disclosed through these audits. The Controller General of Peru will be provided resources from the local currency generations to help finance the cost of these audit services. The exact terms and references regarding the scopes of work and level of effort expected from the Controller General will be the subject of a Program Implementation Letter.

X. REPORTS

As described above, the Grantee will provide implementation progress reports to A.I.D. on a quarterly basis. The BCR, as the managing entity for dollars, will report on the servicing of debt, while the MEF as managing agency will provide reports on the special local currency account. In addition to the quarterly formal reports, the BCR will provide interim reports to A.I.D. on a monthly basis.

XI. COMPLIANCE WITH DOLLAR AND LOCAL CURRENCY GUIDANCE

In designing the dollar and local currency procedures for programming, use, control and reporting, the following guidance documents were adhered to: 1) ESF Cash Transfer Assistance-Amplified Policy Guidance (HB 1, Part IV), 2) Financial Management Guidance on Dollar Separate Accounts for ESF Cash Transfers, etc. (90 State 194322), 3) Supplemental Guidance on Programming Local Currency (88 State 327494), 4) Host Country Owned Local Currency Guidance (88 State 313159), 5) Draft Supplemental Guidance on Programming and Managing Host Country-Owned Local Currency (FM 10/11/90), 6) Draft A.I.D. Local Currency Policy (PPC 12/24/90).

Dollar programming and procedures are in compliance with the first two documents in the following ways:

- a separate, interest-bearing dollar account will be established;

- cash transfer dollars will be "used for servicing debt owed to multilateral development banks and the IMF", as allowed in the ESF Cash Transfer Policy Guidance (No. 1, above);

- the cash transfer will be transferred in a most expeditious manner to the dollar separate account, i.e. within two business days;

- the program agreement will require reports on the status of separate account activity to be submitted to the Mission on at least a quarterly basis (the BCR will provide monthly financial transaction reports);

- audits will be performed at least once a year, by independent auditing firms applying GAO standards; and

- an institutional assessment of the Host Country agency responsible for managing the separate dollar account, i.e. the BCR, was initiated by USAID's Controller Office. The preliminary results are positive and indicate that the BCR will be able to effectively manage the dollar procedures described above. The Mission will not proceed with the grant agreement until the financial assessment is completed and satisfactory.

Local Currency programming and procedures are in compliance with the guidance and draft guidance in the following ways:

- a special non-commingled, interest-bearing account will be established for the local currency deposits;

- programming of LC (mostly for AID projects) is consistent with the FAA;

- LC funded projects will be monitored through normal AID monitoring procedures, in addition USAID is satisfied with the Host Country's monitoring systems regarding the projects;

- the special, non-commingled LC account will be audited by independent auditors applying GAO standards on at least an annual basis;

- the HC agency responsible for managing the LC special account will be the Ministry of Economics and Finance (MEF)

- Local Currency will be programmed through an agreement between the GOP and AID, i.e. a Memorandum of Understanding (MOU).

- Progress reports will be provided on a quarterly basis, and financial transaction reports will be provided monthly;

- The institutional analyses of the BCR, as custodian of the local currency interest-bearing account, and the MEF, as the manager of the local currency uses program, are in process. The ability of the BCR to react to MEF's directions on fund transfers appears to be unrestricted. The capability of the Special Account Unit recently constituted by the MEF to manage the local currency uses program, prepare meaningful and timely reports for A.I.D., and implement follow up requirements is also being evaluated. The Mission will not proceed with the grant agreement until the financial assessment is completed and satisfactory.

- The MEF will arrange analyses/audits of entities involved in implementing projects/activities using local currency.

XII. FINANCIAL MANAGEMENT CONDITIONS AND COVENANTS

A. First and only tranche: US$50 million

Prior to the disbursement of the first tranche (expected to be effected in July, 1991, the GOP will comply with the standard, economic and counter-drug as well as with the following financial management conditions for which evidence satisfactory in form and substance to A.I.D. will be submitted:

- Establishment of a separate account and a special account for the deposit of the US dollar and local currency proceeds of the grant, respectively;

- Provision of the detailed procedures governing how the dollars and local currency will be handled;

- Execution of a Memorandum of Understanding governing the programming, use, control and reporting of the local currency program, and of appropriate ancillary agreements.

- Execution of a trust account agreement, between the GOP and A.I.D., to make available local currency, from the first local currency deposit, to fund administrative expenses (OE). The Administrative Expenses Trust Agreement will provide the local currency equivalent of US$ 6.7 million.

XIII. IMPLEMENTATION SCHEDULE

The following implementation schedule is based on the assumption that the Deputies Committee recommend the issuance of the Presidential determination required under the INCA, and that funds are released immediately thereafter.

- Deputies Committee recommend issuance of INCA determination	June 24
- AID/W review and approval of PAAD	June 27
- Satisfactory completion of financial assessment of host country agency managing dollars.	July 01
- INCA determination issued and funds released.	July 15
- Grant Agreement and HCOLC Memorandum of	

Understanding and Trust Fund negotiated.	**July 23**
Agreement, Memorandum of Understading, and Trust Fund agreement signed.	**July 24**
Disbursement of economic assistance.	**July 26**

Statistical Annex

TABLE 1. GROSS DOMESTIC PRODUCT BY SECTORAL ORIGIN

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
(In million of intis at 1979 prices)											
Agriculture and livestock	358.1	395.4	405.5	366.3	406.6	414.9	431.7	453.9	480.5	462.9	407.7
Fishing	18.8	18.7	20.9	13.0	21.7	24.5	31.8	28.1	36.3	37.7	37.9
Mining	452.1	449.8	463.9	441.6	464.2	495.4	475.8	458.1	383.9	395.5	379.1
Manufacturing	890.5	897.4	853.8	696.0	747.8	794.1	936.9	1,065.7	920.8	751.4	705.4
Construction	207.7	248.8	251.7	199.9	199.8	178.3	221.2	256.5	246.2	206.5	211.9
Government	233.4	239.7	241.8	258.0	277.6	279.0	302.5	313.3	321.7	290.4	284.0
Other	1,500.6	1,599.8	1,603.1	1,380.6	1,432.8	1,442.1	1,560.7	1,712.7	1,538.7	1,318.2	1,265.3
TOTAL	3,661.2	3,849.6	3,840.7	3,355.4	3,550.5	3,628.3	3,960.6	4,288.3	3,928.1	3,462.6	3,291.3
(As percent of total)											
Agriculture and livestock	9.8	10.3	10.6	10.9	11.5	11.4	10.9	10.6	12.2	13.4	12.4
Fishing	0.5	0.5	0.5	0.4	0.6	0.7	0.8	0.7	0.9	1.1	1.2
Mining	12.3	11.7	12.1	13.2	13.1	13.7	12.0	10.7	9.8	11.4	11.5
Manufacturing	24.3	23.3	22.2	20.7	21.1	21.9	23.7	24.9	23.4	21.7	21.4
Construction	5.7	6.5	6.6	6.0	5.6	4.9	5.6	6.0	6.3	6.0	6.4
Government	6.4	6.2	6.3	7.7	7.8	7.7	7.6	7.3	8.2	8.4	8.6
Other	41.0	41.6	41.7	41.1	40.4	39.7	39.4	39.9	39.2	38.1	38.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Percentage changes from the previous period)											
Agriculture and livestock		10.4	2.6	-9.7	11.0	2.0	4.0	5.1	5.9	-3.6	-11.9
Fishing		-0.5	11.8	-37.8	66.9	12.9	29.8	-11.6	29.2	4.4	0.3
Mining		-0.6	3.2	-4.8	5.1	6.7	-4.0	-3.7	-16.2	3.0	-4.2
Manufacturing		-55.4	114.8	-18.5	7.4	6.2	18.0	13.7	-13.6	-19.1	-6.1
Construction		19.8	1.2	-20.6	-0.1	-10.8	24.1	16.0	-6.0	-16.1	2.6
Government		2.7	0.9	6.7	7.6	0.5	8.4	3.6	2.7	-9.7	-2.2
Other		6.6	0.2	-13.9	3.8	0.6	8.2	9.7	-10.2	-14.1	-4.0
TOTAL		5.1	-0.2	-12.6	5.8	2.2	9.2	8.3	-8.4	-11.9	-4.9

Source: Banco Central de Reserva del Perú.

TABLE 2. PER-CAPITA GROSS DOMESTIC PRODUCT
(Intis as of 1979)

	GDP (Millions)	Population (Thousands)	Per-capita GDP
1960	1,504.7	9,931	151.5
1961	1,615.8	10,218	158.1
1962	1,750.8	10,517	166.5
1963	1,815.6	10,826	167.7
1964	1,935.4	11,144	173.7
1965	2,030.9	11,467	177.1
1966	2,201.6	11,796	186.6
1967	2,284.9	12,132	188.3
1968	2,293.0	12,476	183.8
1969	2,379.3	12,829	185.5
1970	2,518.6	13,193	190.9
1971	2,623.9	13,568	193.4
1972	2,699.2	13,955	193.4
1973	2,844.3	14,350	198.2
1974	3,107.4	14,753	210.6
1975	3,213.0	15,161	211.9
1976	3,276.1	15,573	210.4
1977	3,289.3	15,990	205.7
1978	3,298.6	16,414	201.0
1979	3,490.1	16,849	207.1
1980	3,661.2	17,295	211.7
1981	3,849.6	17,755	216.8
1982	3,840.7	18,226	210.7
1983	3,355.4	18,707	179.4
1984	3,550.5	19,198	184.9
1985	3,628.3	19,698	184.2
1986	3,960.6	20,207	196.0
1987	4,288.3	20,727	206.9
1988	3,928.1	21,256	184.8
1989	3,464.6	21,792	159.0

Source: Banco Central de Reserva del Perú.

TABLE 3. NATIONAL INCOME DISTRIBUTION
(In percent of total)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Wages and salaries	35.2	36.7	38.3	39.9	33.7	31.2	32.9	32.0	28.5	19.8
Independent workers	19.1	22.0	22.1	22.1	22.4	21.2	23.5	22.5	19.9	17.3
Bussiness profits	42.1	37.2	35.0	32.5	38.5	42.6	40.3	42.8	48.4	60.6
Other (1)	3.6	4.1	4.6	5.5	5.4	5.0	3.3	2.7	3.2	2.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Rents and net interests.
Source: Banco Central de Reserva del Perú.

TABLE 4. MANUFACTURING OUTPUT VOLUME INDEX
(1979=100)

	GOODS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
I.	CONSUMER GOODS	106.0	107.7	108.2	93.7	98.3	103.5	122.4	139.0	123.0	98.8	n.d.
		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	311-312 Foodstuff	103.4	102.7	101.9	86.9	96.5	96.7	107.5	121.0	114.3	94.4	98.1
	313 Beverages	114.2	114.0	110.7	110.7	102.8	115.5	171.1	210.4	167.0	119.0	144.5
	314 Tobacco	108.9	115.4	117.0	103.3	102.5	90.3	107.8	98.0	74.3	70.2	78.3
	321 Textiles	99.6	100.8	108.0	91.2	97.3	112.4	120.8	133.6	126.5	116.9	103.2
	322 Clothing	110.0	102.7	115.1	103.0	112.2	102.6	112.0	125.4	108.7	77.4	n.d.
	324 Footwear	113.2	103.7	81.9	60.4	58.3	59.8	65.0	38.5	32.3	22.9	14.5
	342 Printing	115.0	133.6	128.3	96.9	110.1	110.4	114.0	133.1	113.8	83.0	n.d.
	356 Plastics	106.9	124.4	124.0	91.7	96.0	99.6	134.2	151.4	113.3	79.0	65.1
	390 Other	118.2	125.7	116.8	109.9	97.0	104.7	136.9	175.5	464.7	101.8	110.1
II.	INTERMEDIATE GOODS	103.8	102.0	97.7	80.9	89.8	94.2	105.8	116.5	104.2	90.4	n.d.
		-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	31x Fishmeal	66.6	69.5	96.7	36.6	82.8	104.2	141.5	119.4	163.7	169.0	142.0
	323 Leather	130.1	125.3	102.2	90.0	82.8	77.0	96.2	105.9	89.2	69.4	62.4
	331 Wood	79.8	90.2	77.3	46.5	50.7	56.2	67.7	86.3	74.6	51.8	n.d.
	341 Paper	115.3	107.4	78.1	70.6	71.2	65.6	80.1	96.4	94.2	49.1	50.6
	351 Chemicals (industrial)	115.7	112.8	107.3	81.2	102.4	102.5	125.2	137.0	125.1	91.5	94.8
	352 Chemicals (other)	117.4	114.1	103.4	89.6	76.3	85.2	115.5	150.5	130.4	82.2	85.1
	353 Petroleum (refined)	107.6	111.4	112.2	104.9	118.9	116.3	119.8	130.8	128.5	113.1	117.4
	355 Rubber	110.0	115.8	102.5	90.2	100.2	100.0	115.4	126.9	102.8	87.4	79.8
	362 Glass	124.0	103.4	124.7	90.2	88.6	77.2	110.4	136.0	126.3	73.9	73.6
	369 Nonmetalic minerals	120.8	119.7	102.4	90.7	79.1	75.7	101.1	137.0	128.3	86.7	92.0
	371 Base metals	108.3	100.4	93.2	73.4	88.7	92.7	116.3	140.0	109.8	81.9	77.5
	372 Base metals (non-iron)	95.5	94.5	94.6	84.6	93.1	98.7	88.6	86.7	67.0	84.5	80.4
III.	CAPITAL GOODS	138.8	146.7	115.2	68.0	69.8	82.6	118.6	151.0	104.8	63.1	n.d.
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	381 Metal products	133.4	121.7	99.4	66.0	70.7	73.9	105.5	150.7	95.1	52.4	52.[illegible]
	382 Machinery	126.9	138.6	105.9	62.0	48.4	57.5	101.3	110.3	86.5	54.9	60.[illegible]
	383 Electrical appliances	133.6	138.0	116.5	79.7	85.8	104.8	138.4	171.1	124.5	79.3	70.[illegible]
	384 Transport material	166.5	206.8	143.8	53.5	57.0	74.2	114.8	146.9	87.3	55.3	56.[illegible]
TOTAL		108.6	109.5	104.2	84.9	91.2	96.9	114.3	130.0	112.3	90.9	92.[illegible]
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Source: Ministerio de Industria, Comercio, Turismo e Integracion (MICTI)
Banco Central de Reserve del Perú

TABLE 5. REAL WAGES AND SALARIES (1)
(1988 = 100)

	WAGES		SALARIES	
	Real index	change (%)	Real index	change (%)
1985				
February	201.6		178.7	
May	187.3	-7.2	163.8	-8.4
August	190.2	1.5	162.2	-1.0
November	205.7	8.2	188.4	16.2
1986				
February	226.2	10.0	195.0	3.5
April	234.3	3.6	209.7	7.5
June	232.4	-0.8	219.9	5.0
August	241.5	3.9	237.2	7.8
October	252.9	4.7	249.8	5.3
December	250.4	-1.0	244.0	-2.4
1987				
February	250.0	-0.1	230.8	-5.4
April	255.3	2.1	235.0	1.8
June	242.3	-5.1	244.0	3.9
August	243.4	0.5	256.4	5.1
October	252.2	3.6	253.7	-1.1
December	249.5	-1.1	241.2	-4.9
1988				
February	241.1	-3.3	233.3	-3.3
April	218.7	-9.3	203.2	-12.9
June	222.7	1.8	207.6	2.2
August	207.4	-6.9	198.8	-4.3
October	133.8	-35.5	128.8	-35.2
December	138.1	3.2	128.8	-0.1
1989				
February	118.7	-14.0	132.4	2.8
April	91.6	-22.8	88.6	-33.0
June	90.8	-0.9	86.2	-2.7
August	94.9	4.6	95.2	10.4
October	105.0	10.5	106.0	11.3
December	99.0	-5.7	91.5	-13.7
1990				
February	103.0	4.0	98.1	7.2
April	98.4	-4.4	114.3	16.5
June	83.5	-15.2	104.9	-8.3
August	41.4	-50.4	45.1	-57.0
October	77.3	86.4	102.5	127.3
December	77.8	0.8	85.7	-16.3

Percentage change in respect to previously displayed month.
(1) Based on Wages and Salaries Survey made in Metropolitan Lima.
Source: Banco Central de Reserva del Perú

TABLE 6. INFLATION: CONSUMER PRICE INDEX (1)
(1990 = 100)

		General Index	Monthly Inflation	Accumul. Inflation	Last 12 months
1980	Dec	n.a.	2.8	60.8	60.8
1981	Dec	n.a.	3.3	72.7	72.7
1982	Dec	n.a.	4.5	72.9	72.9
1983	Dec	n.a.	4.5	125.1	125.1
1984	Dec	0.001	7.4	111.4	111.4
1985	Dec	0.001	2.8	158.3	158.3
1986	Dec	0.003	4.6	62.9	62.9
1987	Dec	0.007	9.6	114.5	114.5
1988	Average	0.038	18.5		
	Dec	0.127	41.9	1,722.3	1,722.3
1989	Average	1.319	34.5		
	Jan	0.187	47.3	47.3	2,280.7
	Feb	0.267	42.5	109.9	2,933.1
	Mar	0.379	42.0	198.1	3,414.0
	Apr	0.563	48.6	343.1	4,329.4
	May	0.724	28.6	469.9	5,149.9
	Jun	0.891	23.1	601.2	5,836.0
	Jul	1.110	24.6	773.6	5,548.9
	Aug	1.388	25.1	992.6	5,704.3
	Sept	1.761	26.9	1,286.0	3,339.4
	Oct	2.171	23.3	1,608.3	2,915.0
	Nov	2.732	25.8	2,049.7	2,949.8
	Dec	3.654	33.8	2,775.3	2,775.3
1990	Average	100.000	43.4		
	Jan	4.744	29.8	29.8	2,433.2
	Feb	6.193	30.5	69.5	2,221.0
	Mar	8.215	32.6	124.8	2,068.6
	Apr	11.279	37.3	208.7	1,903.1
	May	14.977	32.8	309.9	1,967.9
	Jun	21.354	42.6	484.4	2,296.4
	Jul	34.857	63.2	854.0	3,039.8
	Aug	173.235	397.0	4,641.2	12,377.8
	Sept	197.090	13.8	5,294.1	11,089.7
	Oct	216.041	9.6	5,812.8	9,851.7
	Nov	228.855	5.9	6,163.5	8,277.3
	Dec	283.159	23.7	7,649.6	7,649.7
1991	Jan	333.648	17.8	17.8	6,932.4
	Feb	365.080	9.4	28.9	5,795.1
	Mar	393.200	7.7	38.9	4,686.6
	Apr	416.006	5.8	47.0	3,588.4

Source: Instituto Nacional de Estadística.

TABLE 7. INTERNATIONAL RESERVES OF THE BANKING SYSTEM
(In millions of U.S. dollars)

	FOREIGN ASSETS				FOREIGN LIABILITIES		NET INTERNATIONAL RESERVES	
	CENTRAL BANK			BANKING SYSTEM	CENTRAL BANK	BANKING SYSTEM	CENTRAL BANK	BANKING SYSTEM
	Frgn. banks	Other	Total					
1985 Jul	1,043	568	1,611	n.d.	717	n.d.	894	868
Dec	1,589	694	2,283	2,474	790	1,091	1,493	1,383
1986 Dec	1,080	781	1,861	2,108	903	1,242	958	866
1987 Dec	325	805	1,130	1,471	1,087	1,390	43	81
1988 Dec	146	979	1,125	1,478	1,477	1,795	(352)	(317)
1989 Jan	117	1,023	1,140	1,532	1,459	1,784	(319)	(252)
Feb	131	1,012	1,143	1,552	1,466	1,743	(323)	(191)
Mar	211	1,025	1,236	1,709	1,449	1,760	(213)	(51)
Apr	369	1,044	1,413	1,903	1,458	1,759	(45)	144
May	339	1,030	1,369	1,867	1,290	1,603	79	264
Jun	423	1,047	1,470	1,954	1,294	1,608	176	346
Jul	414	1,134	1,548	2,075	1,326	1,677	222	398
Aug	557	1,064	1,621	2,173	1,248	1,613	373	560
Sep	626	938	1,564	2,114	1,114	1,465	450	649
Oct	608	957	1,565	2,152	1,108	1,460	457	692
Nov	551	1,023	1,574	2,186	1,121	1,447	453	739
Dec	436	1,076	1,512	2,047	1,155	1,501	357	546
1990 Jan	385	1,069	1,454	1,963	1,153	1,561	301	402
Feb	230	1,064	1,294	1,788	1,163	1,602	131	186
Mar	150	1,000	1,150	1,565	1,187	1,648	(37)	(83)
Apr	108	1,008	1,116	1,497	1,235	1,615	(119)	(118)
May	101	1,013	1,114	1,500	1,266	1,684	(152)	(184)
Jun	107	1,006	1,113	1,477	1,256	1,666	(143)	(189)
Jul	116	1,069	1,185	1,545	1,290	1,688	(105)	(143)
Aug	375	1,128	1,503	1,862	1,361	1,766	142	96
Sept	572	1,189	1,761	2,187	1,334	1,762	427	425
Oct	697	1,199	1,896	2,354	1,331	1,702	565	652
Nov	606	1,278	1,884	2,348	1,312	1,683	572	665
Dec	533	1,268	1,801	2,289	1,270	1,597	531	692
1991 Jan	478	1,223	1,701	2,245	1,250	1,582	451	663
Feb	461	1,095	1,556	2,208	1,137	1,482	419	726
Mar	537	1,076	1,613	2,258	1,114	1,460	499	798

Source: Banco Central de Reserva del Perú.

TABLE 8. BALANCE OF PAYMENTS
(In millions of U.S.dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
I. CURRENT ACCOUNT BALANCE	(102)	(1,729)	(1,609)	(871)	(221)	125	(1,079)	(1,477)	(1,091)	522	(649)
A. Balance of trade	826	(553)	(429)	293	1,007	1,172	(65)	(521)	(99)	1,402	391
1. Exports f.o.b.	3,916	3,249	3,293	3,015	3,147	2,978	2,531	2,661	2,691	3,542	3,276
2. Imports f.o.b.	(3,090)	(3,802)	(3,722)	(2,722)	(2,140)	(1,806)	(2,596)	(3,182)	(2,790)	(2,140)	(2,885)
B. Financial services	(909)	(1,019)	(1,033)	(1,130)	(1,165)	(1,011)	(821)	(716)	(773)	(649)	(677)
C. Other services	(166)	(318)	(314)	(253)	(221)	(170)	(343)	(422)	(376)	(386)	(610)
D. Transfer receipts	147	161	167	219	158	134	150	180	157	155	247
II. LONG-TERM CAPITAL	463	565	1,194	1,384	1,189	691	630	767	796	722	465
A. Public sector	371	305	989	1,431	1,392	814	606	679	718	637	470
1. Disbursements	1,208	1,620	1,934	1,530	1,026	693	495	585	350	380	245
2. Rescheduling	372	80	109	1,024	499	201	0	0	0	699	0
3. Amortization	(1,203)	(1,394)	(1,054)	(1,145)	(1,441)	(1,329)	(1,453)	(1,591)	(1,492)	(1,206)	(1,163)
4. Net arrears	(6)	.. (1)	0	22	1,308	1,249	1,564	1,685	1,860	764	1,368
B. Private sector	92	260	205	(47)	(203)	(123)	24	88	78	85	(5)
III.SHORT-TERM CAPITAL (1)	361	660	539	(553)	(721)	(536)	(68)	(75)	(103)	(381)	330
IV. BALANCE OF PAYMENTS TOTAL	722	(504)	124	(40)	247	280	(517)	(785)	(398)	863	146

MEMO: Trade indexes (1988=100)											
Traditional export prices	189.5	160.4	133.0	146.0	134.6	118.2	101.4	112.5	133.3	131.7	
Traditional export volumes	100.9	98.8	117.3	104.3	109.8	118.1	113.9	107.1	90.4	117.9	
Import prices	124.2	128.4	129.1	132.0	133.3	130.5	152.7	168.2	178.0	179.4	
Terms of trade (2)	152.5	124.9	103.0	110.6	100.9	90.6	66.4	66.9	74.9	73.4	

(1) Includes SDRs and errors and omissions.
(2) Export prices/Import prices.
Source: Banco Central de Reserva del Perú

TABLE 9A. EXPORTS F.O.B. BY COMMODITY
(Value in millions of U.S. dollars, volume in thousands of metric tons)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
I. TRADITIONAL PRODUCTS	3,071	2,548	2,531	2,460	2,421	2,264	1,886	1,952	1,944	2,543	2,302
1. Fishmeal	195	141	202	80	137	118	206	223	357	411	341
Volume	417	315	616	205	401	508	716	732	812	1,103	1,098
Price (US$/mt)	469.4	448.0	328.5	386.7	342.4	232.6	287.7	305.7	438.7	372.4	310.4
2. Cotton	72	63	85	44	23	51	39	19	30	66	44
Volume (thous. qq)	702	685	1,287	670	246	624	474	189	218	760	450
Price (US$/qq)	101.8	92.8	66.1	66.4	92.5	82.6	81.6	103.5	136.8	87.6	97.3
3. Sugar	13	0	20	35	49	23	22	15	16	20	36
Volume	53	0	59	89	116	64	55	33	36	43	77
Price (US$/qq)	11.4	0.0	15.2	17.9	19.4	16.8	18.5	20.4	20.4	21.1	21.4
4. Coffee	140	107	114	116	126	151	275	143	121	154	97
Volume	44	46	43	55	52	60	75	70	49	86	66
Price (US$/qq)	146.9	107.4	119.4	96.8	112.7	115.9	169.1	94.2	114.3	82.5	67.1
5. Copper (1)	750	529	460	442	442	476	449	559	613	792	732
Volume	350	324	335	292	337	363	347	351	266	293	298
Price (USc/lb)	97.4	74.1	62.3	68.8	59.5	59.3	58.7	72.2	104.5	122.7	111.6
6. Iron and iron ore	95	93	108	75	58	76	60	61	60	56	57
Volume (million net tons)	5.8	5.3	5.7	4.3	4.2	5.2	4.2	4.4	4.5	3.7	3.7
Price (US$/net ton)	16.5	17.7	19.1	17.5	13.9	14.6	14.4	14.0	13.4	15.0	15.6
7. Gold	40	74	56	69	67	43	7	1	0	0	9
Volume (thous.troy oz.)	65.0	157.0	149.0	164.0	183.0	135.0	20.0	2.0	0.0	0.0	25.9
Price (US$/oz.)	616.5	472.7	375.6	420.8	366.7	320.6	353.1	353.8	0.0	0.0	355.0
8. Silver (refined)	315	312	205	391	227	140	107	92	60	98	79
Volume (million troy oz.)	16.0	28.0	26.0	32.7	26.8	22.3	19.1	13.6	8.9	17.2	15.9
Price (US$/oz.)	19.7	11.1	7.9	11.9	8.5	6.3	5.6	6.8	6.7	5.7	4.9
9. Lead (1)	384	218	215	294	234	202	172	256	191	205	182
Volume	152	146	177	191	181	174	136	149	107	165	154
Price (USc/lb)	114.4	68.0	55.2	69.6	58.7	52.7	57.4	78.5	81.1	56.2	53.5
10.Zinc	211	267	268	307	340	268	246	250	281	425	412
Volume	468	477	491	522	511	459	477	445	402	465	523
Price (USc/lb)	20.4	25.4	24.8	26.7	30.2	26.4	23.4	25.5	31.7	41.4	35.7
11.Petroleum and derivatives	792	690	719	544	618	645	232	274	166	217	263
Volume (million barrels)	22.4	19.9	22.8	20.5	23.5	27.1	21.6	17.8	15.5	15.2	15.5
Price (US$/barrel)	35.2	34.6	31.6	26.6	26.3	23.9	10.8	15.4	10.7	14.2	17.0
12.Other (2)	64	54	79	63	100	71	71	59	49	99	51
II. NONTRADITIONAL PRODUCTS	845	701	762	555	726	714	645	709	747	999	974
III.TOTAL F.O.B. VALUE	3,916	3,249	3,293	3,015	3,147	2,978	2,531	2,661	2,691	3,542	3,276

(1) Includes base metal content of unrefined silver.
(2) Includes mainly minor metals.
Source: Banco Central de Reserva del Perú.

TABLE 98. EXPORTS F.O.B. BY SECTORAL ORIGIN

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. In millions of US dollars											
I. TRADITIONAL PRODUCTS	3,071	2,548	2,531	2,460	2,421	2,264	1,886	1,952	1,944	2,543	2,30[illegible]
Agricultural and livestock	225	170	219	195	198	225	336	177	167	240	17[illegible]
Fishing	195	141	202	80	137	118	206	223	337	411	34[illegible]
Mining	1,795	1,493	1,312	1,578	1,348	1,205	1,041	1,219	1,205	1,576	1,471
Petroleum and derivatives	792	690	719	544	618	645	232	274	166	217	26[illegible]
Other	64	54	79	63	100	71	71	59	49	99	51
II. NONTRADITIONAL PRODUCTS	845	701	762	555	726	714	645	709	747	999	974
Agricultural and livestock	72	61	70	56	74	93	72	85	96	114	115
Fishing	117	107	98	80	167	124	111	102	95	122	117
Textiles	224	234	281	186	258	244	232	255	257	351	367
Other	432	299	313	233	227	253	230	267	299	412	375
III. TOTAL	3,916	3,249	3,293	3,015	3,147	2,978	2,531	2,661	2,691	3,542	3,27[illegible]
B. In percent of total											
I. TRADITIONAL PRODUCTS	78.4	78.4	76.9	81.6	76.9	76.0	74.5	73.4	72.2	71.8	70.[illegible]
Agricultural and livestock	5.7	5.2	6.7	6.5	6.3	7.6	13.3	6.7	6.2	6.8	5.[illegible]
Fishing	5.0	4.3	6.1	2.7	4.4	4.0	8.1	8.4	13.3	11.6	10.[illegible]
Mining	45.8	46.0	39.8	52.3	43.5	40.5	41.1	45.8	44.8	44.5	44.[illegible]
Petroleum and derivatives	20.2	21.2	21.8	18.0	19.6	21.7	9.2	10.3	6.2	6.1	8.[illegible]
Other	1.6	1.7	2.4	2.1	3.2	2.4	2.8	2.2	1.8	2.8	1.[illegible]
II. NONTRADITIONAL PRODUCTS	21.6	21.6	23.1	18.4	23.1	24.0	25.5	26.6	27.8	28.2	29.[illegible]
Agricultural and livestock	1.8	1.9	2.1	1.9	2.4	3.1	2.8	3.2	3.6	3.2	3.[illegible]
Fishing	3.0	3.3	3.0	2.7	5.3	4.2	4.4	3.8	3.5	3.4	3.[illegible]
Textiles	5.7	7.2	8.5	6.2	8.2	8.2	9.2	9.6	9.6	9.9	11.[illegible]
Other	11.0	9.2	9.5	7.7	7.2	8.5	9.1	10.0	11.1	11.6	11.[illegible]
III. TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.[illegible]

Source: Banco Central de Reserva del Perú.

TABLE 10. SECTORAL FOB IMPORTS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. In millions of U.S. dollars											
I. Consumer goods	410	610	503	370	265	129	378	409	[illegible]	[illegible]	[illegible]28
II. Intermediate goods	1,134	1,349	1,263	990	924	824	1,242	1,462	1,586	1,102	1,301
III. Capital goods	1,087	1,454	1,411	900	771	558	761	976	729	583	919
IV. Other goods 1/	459	389	545	462	180	295	215	335	203	206	335
TOTAL IMPORTS F.O.B.	3,090	3,802	3,722	2,722	2,140	1,806	2,596	3,182	2,790	2,140	2,884
Main foodstuffs	423	503	371	431	295	204	386	421	415	358	432
B. As percent of total											
I. Consumer goods	13.3	16.0	13.5	13.6	12.4	7.1	14.6	12.9	9.7	11.6	11.4
II. Intermediate goods	36.7	35.5	33.9	36.4	43.2	45.6	47.8	45.9	56.8	51.5	45.1
III. Capital goods	35.2	38.2	37.9	33.1	36.0	30.9	29.3	30.7	26.1	27.2	31.9
IV. Other goods 1/	14.9	10.2	14.6	17.0	8.4	16.3	8.3	10.5	7.3	9.6	11.6
TOTAL IMPORTS F.O.B.	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Main foodstuffs	13.7	13.2	10.0	15.8	13.8	11.3	14.9	13.2	14.9	16.7	15.0

1/ Donations and military equipment.
Source: Banco Central de Reserva del Perú.

TABLE 11. TOTAL EXTERNAL DEBT AND ARREARS
(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (2)
I. LONG TERM	8,126	8,090	9,197	10,925	11,976	12,629	13,200	14,017	14,744	15,372	17,489
1. Public sector (1)	6,043	6,127	6,825	8,256	9,648	10,462	11,068	11,747	12,465	13,102	15,337
a) Bilateral creditors	1,849	1,346	1,195	1,321	1,508	1,793	1,942	2,070	2,281	2,501	5,295
b) Commercial banks	1,536	1,324	1,986	2,406	2,972	3,110	3,262	3,386	3,477	3,536	4,065
c) Multilateral	610	784	949	1,106	1,305	1,426	1,530	1,725	1,908	2,061	2,456
d) Socialist countries	985	930	925	1,076	1,070	1,026	987	1,022	1,040	1,047	1,161
e) Suppliers	1,063	1,543	1,770	2,347	2,793	3,107	3,347	3,544	3,759	3,957	2,360
2. Central Bank	710	455	707	1,089	862	825	788	870	827	792	776
3. Private sector	1,373	1,508	1,665	1,580	1,466	1,342	1,344	1,400	1,452	1,478	1,376
II. SHORT TERM	1,469	1,516	2,268	1,520	1,362	1,092	1,277	1,356	1,749	1,497	1,623
III. TOTAL	9,595	9,606	11,465	12,445	13,338	13,721	14,477	15,373	16,493	16,869	19,112

(1) Includes arrears of original obligation but not unpaid interests on arrears.
Source: Banco Central de Reserva del Perú.
(2) Preliminary results.

	Arrears as of September 30, 1990 (1)		
	Principal	Interest	Total
Bilateral creditors	1,146	886	2,032
Commercial banks	2,817	2,169	4,986
Multilateral (2)	1,221	859	2,080
Socialist countries (3)	0	0	0
Suppliers	2,387	1,988	4,375
Total	7,571	5,902	13,473

(1) Includes imputed interest on arrears.
(2) Includes Central Bank obligations.
(3) Total debt rescheduling was signed at the end of 1989.
Source: Banco Central de Reserva del Perú and IMF.

TABLE 12. NOMINAL AND REAL EXCHANGE RATES (1)
(Period averages)

		Nominal exchange rates				Exchange differential (%)		Real Exchange Rate (July 85=100)	
		Official (2)	Parallel	Exports	Imports	Paral/offic.	Export/Imports	Exports (3)	Imports (3)
1985	Jul	11.9	13.3	11.9	11.9	11.7	-0.3	99.87	100.21
1986	Dec	14.0	20.0	16.1	16.2	43.6	-0.5	79.98	80.37
1987	Dec	28.1	92.0	35.9	34.1	228.0	5.2	94.16	81.21
1988	Jan	33.0	89.5	40.6	37.8	171.2	7.4	94.30	81.27
	Feb	33.0	102.0	43.4	35.0	209.1	24.0	89.30	71.87
	Mar	33.0	105.0	49.0	40.5	218.2	20.9	82.21	69.08
	Apr	33.0	150.0	63.7	43.0	354.5	48.1	92.21	62.94
	May	33.0	176.5	71.7	43.0	434.8	66.7	96.77	57.97
	Jun	33.0	177.5	86.5	46.5	437.9	86.1	105.10	57.01
	Jul	33.0	204.0	99.9	68.5	518.2	45.8	91.00	64.20
	Aug	33.0	283.5	129.8	85.5	759.1	51.8	95.76	65.34
	Sep	210.5	425.0	228.5	263.9	101.9	-13.4	80.07	92.48
	Oct	250.0	510.5	250.0	330.5	104.2	-24.4	63.45	83.88
	Nov	321.4	645.0	321.4	404.4	100.7	-20.5	67.00	84.28
	Dec	500.0	1649.0	543.9	701.7	229.8	-22.5	79.97	103.17
1989	Jan	654.5	1846.8	841.9	1071.4	182.2	-21.4	83.14	105.60
	Feb	909.0	1419.0	1029.2	1263.8	56.1	-18.6	70.09	82.96
	Mar	1,200.0	1305.1	1233.1	1292.4	8.8	-4.6	59.91	62.00
	Apr	1,536.0	1738.2	1595.8	1686.3	13.2	-5.4	52.18	54.51
	May	1,846.8	2800.0	2161.9	2505.4	51.6	-13.7	54.01	60.55
	Jun	2,166.4	3176.4	2561.2	2837.7	46.6	-9.7	50.80	54.97
	Jul	2,670.7	3002.1	2715.9	2880.1	12.4	-5.7	44.66	47.04
	Aug	3,268.3	3364.2	3297.4	3342.8	2.9	-1.4	43.25	43.87
	Sep	3,874.1	4878.7	4290.8	4516.2	25.9	-5.0	44.04	45.51
	Oct	4,267.9	5814.0	5039.4	5072.3	36.2	-0.6	42.77	41.76
	Nov	4,537.2	9354.9	7033.6	6627.8	106.2	6.1	47.84	41.61
	Dec	4,963.4	13989.6	9618.9	8434.0	181.9	14.0	53.31	39.07
1990	Jan	5,803.8	12,507.5	9,751.0	8,000.4	115.5	21.9	39.72	32.59
	Feb	7,219.1	14,060.0	10,498.4	9,431.5	94.8	11.3	32.76	29.43
	Mar	9,663.7	23,200.0	14,373.9	14,369.9	140.1	0.0	33.80	33.79
	Apr	13,547.9	28,475.0	21,929.4	21,583.8	110.2	1.6	37.68	37.09
	May	19,258.9	49,400.0	29,020.8	30,450.7	156.5	-4.7	38.02	39.90
	Jun	27,579.6	95,500.0	52,314.1	51,968.4	246.3	0.7	48.05	47.74
	Jul	44,215.4	185,000.0	80,416.0	84,616.2	318.4	-5.0	46.06	48.47
	Aug	297,570.1	370,800.0	275,584.7	319,750.1	24.6	-13.8	32.37	37.56
	Sep	431,500.0	441,500.0	428,947.4	434,333.5	2.3	-1.2	44.96	45.52
	Oct	443,847.1	445,432.0	441,223.1	446,399.3	0.4	-1.2	43.32	43.83
	Nov	437,038.3	438,214.3	434,595.5	439,481.1	0.3	-1.1	40.92	41.38
	Dec	516,989.3	538,868.4	505,338.0	528,640.5	4.2	-4.4	38.03	39.78
In million intis per dollar									
1991	Jan	0.53	0.54	0.52	0.54	1.9	-3.7	33.30	34.58
	Feb	0.55	0.55	0.54	0.55	0.0	-1.8	32.01	32.60
	Mar	0.56	0.56	0.55	0.57	0.0	-3.5	29.40	30.47
	Apr	0.63	0.63	0.62	0.64	0.0	-3.1	30.71	31.70

(1) Exports and imports rates calculated using a weighted average of nominal exchange rates.
(2) M.U.C. rate.
(3) Decrease in the index means appreciation of the Inti.
Source: Banco Central de Reserva del Perú.

54

TABLE 13. STRUCTURE OF QUANTITATIVE IMPORT RESTRICTIONS

A. Number of eight-digit customs categories 1/

Category	Dec 1979	Dec 1980	Dec 1981	Dec 1982	Dec 1983	Dec 1984	Jul 1985	Dec 1985	Dec 1987	Dec 1988	Dec 1989	Mar 1990	Sep 1990
1. Free	3,745	4,990	5,088	5,075	5,136	4,996	4,757	3,259	0	0	4,192	4,721	5,266
2. Restricted	1,258	107	112	144	118	126	350	1,553	4,715	4,715	535	6	0
3. Prohibited	9	7	7	7	8	179	196	525	539	539	539	539	0
Total	5,012	5,104	5,207	5,226	5,262	5,301	5,303	5,337	5,254	5,254	5,266	5,266	5,266

B. In percentages

Category	Dec 1979	Dec 1980	Dec 1981	Dec 1982	Dec 1983	Dec 1984	Jul 1985	Dec 1985	Dec 1987	Dec 1988	Dec 1989	Mar 1990	Sep 1990
1. Free	74.7	97.8	97.7	97.1	97.6	94.2	89.7	61.1	0.0	0.0	79.6	89.7	100.0
2. Restricted	25.1	2.1	2.2	2.8	2.2	2.4	6.6	29.1	89.7	89.7	10.2	0.1	0.0
3. Prohibited	0.2	0.1	0.1	0.1	0.2	3.4	3.7	9.8	10.3	10.3	10.2	10.2	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ According to the Andean Pact customs nomenclature (NABANDINA).

Source: Banco Central de Reserva del Perú.

TABLE 14. NON-FINANCIAL PUBLIC SECTOR OPERATIONS
(In percent of GDP)

A. 1980-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
CURRENT REVENUES	44.9	38.9	40.5	44.9	41	45.2	33.6	26.5	26.4	15.6
1. Taxes	15.8	13.2	13.1	10.9	11.7	13.5	11.7	8.8	9	5.5
2. Social security contribution	1.8	2	1.8	1.8	1.6	1.7	1.9	2.1	1.3	1
3. Nontax	27.3	23.7	25.6	32.3	27.6	30	20.0	15.5	15.9	9.1
4. Transfers	n.s.	0	0	n.s.	0.1	n.s.	n.s.	n.s.	0.2	n.s.
CURRENT EXPENDITURES	42.4	38.3	40.6	47.4	40.1	41.9	33.6	28.9	30.1	18.4
1. Wages and salaries	8.1	8.6	9.6	10.0	9.5	8.4	8.8	8.9	8.2	6.3
2. Goods and services	22.0	19.0	20.4	24.2	15.9	17.9	12.4	10.1	11.6	6.7
3. Interest (1)	4.7	4.8	4.5	6.0	5.9	5.7	3.3	2.7	3.8	1.8
4. Transfers	7.6	5.9	6.2	7.2	9.8	9.9	9.0	7.2	6.5	3.6
CURRENT ACCOUNT	2.5	0.6	-0.1	-2.5	0.9	3.3	n.s.	-2.4	-3.7	-2.8
CAPITAL REVENUES	0.5	0.7	1.2	0.9	0.6	0.4	0.3	0.3	0.2	n.s.
CAPITAL EXPENDITURES	6.9	7.9	8.7	8.8	8.1	6.3	5.5	4.5	4.0	2.7
OVERALL DEFICIT	-3.8	-6.6	-7.6	-10.4	-6.6	-2.7	-5.2	-6.6	-7.5	-5.5
1. External financing	1.7	1.7	5.9	5.8	4.8	4.3	2.5	1.5	2.1	1.5
2. Domestic financing	2.1	4.9	1.7	4.8	1.8	-1.6	2.7	5.1	5.4	4.0

B. 1989-1990, BY QUARTERS

	1989				1990			
	IQ	IIQ	IIIQ	IVQ	IQ	IIQ	IIIQ	IVQ
CENTRAL GOVERNMENT	-1.0	-1.8	-4.0	-4.3	-5.5	-7.2	-3.4	-1.7
A. Total revenues	8.5	6.7	4.8	5.1	4.4	4.5	5.3	7.5
B. Total expenditures	9.5	8.5	8.8	9.4	9.9	11.7	8.7	9.2
PUBLIC ENTERPRISES	-1.7	-1.9	-1.4	-1.6	-1.1	-0.8	-0.9	-0.3
REST OF THE PUBLIC SECTOR	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
OVERALL DEFICIT	-3.2	-3.9	-5.6	-6.1	-6.8	-8.2	-4.4	-2.1
1. External financing	3.6	1.6	1.2	1.4	0.9	1.1	1.5	0.8
2. Domestic financing	-0.4	2.3	4.4	4.7	5.9	7.1	2.9	1.3

(1) Includes arrears of original obligation but not unpaid interests on arrears.
Source: Banco Central de Reserva del Perú.

TABLE 15. CENTRAL GOVERNMENT CURRENT REVENUES
(In percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1990
TAX REVENUES	16.9	14.1	14.1	11.7	12.6	14.3	12.0	9.1	9.2	5.9	4.2	6.5
1. Taxes on income	5.0	2.9	2.8	2.1	2.1	1.8	2.7	1.8	2.0	0.9	0.6	0.4
2. Taxes on property	0.5	0.6	0.6	[illegible]	0.4	0.4	0.6	0.4	0.5	0.2	0.3	0.5
3. Taxes on imports	2.6	3.0	2.7	[illegible]	2.6	3.0	2.4	1.9	1.3	0.9	1.2	1.0
4. Taxes on exports	2.0	1.1	0.7	0.3	0.1	0.3	0.2	0.0	0.1	0.1	0.1	0.6
5. Taxes on production & consumption	6.3	6.0	6.8	6.2	6.6	8.2	5.8	4.7	4.7	3.0	1.5	3.2
6. Other taxes	0.5	0.5	0.5	0.4	0.8	0.6	0.3	0.3	0.6	0.8	0.5	0.8
NON-TAX REVENUES	1.4	1.2	1.3	1.2	2.4	1.7	1.3	0.6	0.6	0.3	0.2	0.4
TAX REBATES 1/	-1.3	-0.9	-1.0	-0.9	-1.0	-1.1	-0.8	-0.7	-0.6	-0.7	-0.4	-0.4
TOTAL REVENUES	17.0	14.4	14.4	12.0	14.0	14.9	12.5	9.0	9.2	5.5	4.0	6.5

1/ Includes tax incentives for nontraditional exports and tax rebates to public enterprises.
Source: Banco Central de Reserva del Perú.

TABLE 16. NON-FINANCIAL PUBLIC ENTERPRISE OPERATIONS
(In percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (1)
PETROPERU	0.2	0.0	0.0	0.8	0.3	0.7	-0.5	-0.1	-1.9	-1.0	-0.1
ENCI	-0.6	-0.2	-0.5	-0.3	-0.1	-0.1	0.1	-0.1	-1.1	-0.4	-0.1
ECASA	-0.4	-0.6	-0.4	-0.4	-0.4	-0.3	-0.2	-0.5	-0.7	-0.1	0.0
ELECTROPERU	-0.5	-1.0	-1.7	-2.0	-1.6	-1.0	-0.4	-0.5	-0.6	-0.1	-0.2
MINEROPERU	-0.4	-0.3	-0.2	0.0	-0.1	0.0	0.0	0.0	0.1	0.1	0.0
CENTROMINPERU	-0.5	-0.2	-0.5	-0.1	0.2	0.1	-0.2	0.1	-0.2	0.0	0.0
OTHERS	0.4	-0.5	-0.9	-0.3	-0.4	0.0	-0.6	-0.1	0.1	-0.1	-0.1
OVERALL DEFICIT	-1.8	-2.8	-4.2	-2.3	-2.1	-0.6	-1.8	-1.2	-4.3	-1.6	-0.5

(1) Preliminary results.
Source: Banco Central de Reserva del Perú

TABLE 17. PRICES OF SELECTED GOODS AND SERVICES SUBJECT TO PRICE CONTROLS
(In US dollars per unit)

	July 1985	July 1990	September 1990
A. FOODSTUFF (US$ per mt.)			
1. Maize	180.67	125.61	450.83
2. Wheat (bread)	155.05 (1)	61.27	224.71
3. Rice	274.87	286.36	364.27
B, ELECTRICITY			
1. Residential			
a) Social ($c/month)	41.37	5.61	74.25
b) Other (c$/kwh)	2.75	0.49	3.74
2. Industrial (c$/kwh)	2.97	2.96	4.17
C. TELEPHONE (US$/150 local calls per month)	2.59	0.14	1.28
C. FUELS (US$ per gallon)			
1. Gasoline 84 octanes	1.10	0.20	1.57
2. Gasoline 95 octanes	1.25	0.14	2.58
3. Kerosene	0.36	0.16	1.08
4. Diesel 2	1.00	0.16	1.15
5. Residual 6	0.83	0.10	0.74
6. Gas (24 lbs. cylinder)	0.74	0.10	0.67

(1) December 1986 price.
(2) Corresponds to 100 calls per month.
Source: Banco Central de Reserva del Perú.

- 59 -

TABLE 18. CENTRAL RESERVE BANK OPERATIONS

	1985	1986	1987	1988	1989
		(Flows in billions of intis)			
NET DOMESTIC ASSETS	2.8	13.7	44.4	294.5	3,432.4
NET CREDIT TO THE PUBLIC SECTOR 1/	(4.9)	8.0	28.6	48.5	1,413.1
OPERATIONAL LOSSES	3.8	7.1	28.4	192.0	1,021.9
Exchange losses	2.9	1.6	15.9	133.4	416.5
Financial losses	0.9	5.5	12.5	58.6	605.4
AGRICULTURAL BANK	0.6	5.4	11.6	70.4	3,099.5
OTHER ACCOUNTS	3.3	(6.8)	(24.2)	(16.4)	(2,102.1)
		(Flows as percent of GDP)			
NET DOMESTIC ASSETS	1.5	3.8	6.0	6.7	2.5
NET CREDIT TO THE PUBLIC SECTOR 1/	(2.5)	2.2	3.8	1.1	1.0
OPERATIONAL LOSSES	2.0	2.0	3.8	4.4	0.7
Exchange losses	1.5	0.5	2.1	3.1	0.3
Financial losses	0.5	1.5	1.7	1.3	0.4
AGRICULTURAL BANK	0.3	1.5	1.6	1.6	2.3
OTHER ACCOUNTS	1.7	(1.9)	(3.2)	(0.4)	(1.5)

1/ Includes credit granted through the National Bank.
Source: Banco Central de Reserva del Perú & IMF.

TABLE 19. MONEY AND QUASI-MONEY

A. REAL MONEY AND QUASI-MONEY

(Billions of intis of december 1988)

	Money and Quasi-Money: Domestic curr.	Foreign curr.	TOTAL	DOLARIZATION COEFFICIENT (%)
1984 Dec	1,491.8	1,557.4	3,049.2	51.1
1985 Dec	1,770.7	821.6	2,592.3	31.7
1986 Dec	2,281.2	308.6	2,589.8	11.9
1987 Dec	2,289.6	267.8	2,557.4	10.5
1988 Dec	650.1	325.7	975.8	33.4
1989 Dec	585.5	167.0	752.5	22.2
1990 Jan	516.8	154.4	671.2	23.0
Feb	495.3	148.0	643.3	23.0
Mar	473.8	150.2	624.0	24.1
Apr	440.9	140.6	581.5	24.2
May	431.6	137.0	568.6	24.1
Jun	423.6	136.7	560.3	24.4
Jul	364.5	128.1	492.6	26.0
Aug	144.6	182.6	327.2	55.8
Sept	232.2	192.9	425.1	45.4
Oct	294.4	200.0	494.4	40.5
Nov	303.5	219.4	522.9	42.0
Dec	256.7	242.5	499.2	48.6
1991 Jan	212.2	238.4	450.6	52.9
Feb	213.9	237.3	451.2	52.6
Mar	233.7	238.9	472.6	50.6
Apr	271.0	303.4	574.4	52.8

B. FINANCIAL INTERMEDATION AND SAVINGS

(In percent of GDP)

	MONEY AND QUASI-MONEY			FINANCIAL SAVINGS		
	Domestic curr.	Foreign curr.	TOTAL	Domestic curr.	Foreign curr.	TOTAL
1980	12.2	4.1	16.3	5.5	4.0	9.5
1981	11.9	4.6	16.5	6.3	4.5	10.8
1982	12.1	5.9	18.0	7.2	5.8	13.0
1983	10.6	7.4	18.0	6.3	7.3	13.6
1984	9.3	8.1	17.4	5.2	8.0	13.2
1985	8.2	7.6	15.8	4.2	7.4	11.6
1986	12.1	2.7	14.8	6.2	2.6	8.8
1987	12.2	1.1	13.3	6.1	1.1	7.2
1988	6.3	1.7	8.0	2.5	1.4	3.9
1989	4.0	1.6	5.6	2.3	1.2	3.5
1990	2.3	1.6	3.9	1.8	0.8	2.6

Source: Banco Central de Reserva del Perú.

TABLE 20. MAIN INTEREST RATES IN LOCAL CURRENCY (1)
(period average; % per month)

	Lending (2)		Borrowing			
			Saving Deposits		Time Deposits	
	Nominal	Real	Nominal	Real	Nominal	Real
1988 Aug	6.8	-12.2	6.1	-12.8	6.4	-12.6
Sep	11.1	-48.1	10.1	-48.6	10.8	-48.2
Oct	11.1	-21.0	10.1	-21.7	10.8	-21.2
Nov	11.1	-10.7	10.1	-11.5	10.8	-10.9
Dec	20.0	-15.4	17.3	-17.3	19.4	-15.9
1989 Jan	22.0	-17.2	17.3	-20.4	19.4	-18.9
Feb	22.0	-14.4	17.3	-17.7	19.4	-16.2
Mar	27.5	-10.2	21.3	-14.6	24.3	-12.5
Apr	27.5	-14.2	21.3	-18.4	24.3	-16.4
May	27.5	-0.9	21.3	-5.7	24.3	-3.3
Jun	27.5	3.6	21.3	-1.5	24.3	1.0
Jul	27.5	2.3	21.3	-2.6	24.3	-0.2
Aug	27.5	1.9	21.3	-3.0	24.3	-0.6
Sep	27.5	0.5	21.3	-4.4	24.3	-2.0
Oct	25.9	2.1	21.3	-1.6	24.3	0.8
Nov	24.8	-0.8	20.3	-4.4	23.0	-2.2
Dec	23.7	-7.5	19.3	-10.8	21.8	-9.0
1990 Jan	25.0	-3.7	20.3	-7.3	23.0	-5.2
Feb	26.4	-3.1	21.3	-7.0	24.3	-4.8
Mar	29.7	-2.2	23.3	-7.0	26.8	-4.4
Apr	34.9	-1.7	25.4	-8.7	29.4	-5.7
May	36.0	2.4	25.4	-5.6	29.4	-2.6
Jun	46.8	2.9	32.5	-7.1	38.8	-2.7
Jul	51.0	-7.5	35.6	-16.9	43.0	-12.4
Aug	51.0	-69.9	35.6	-72.7	43.0	-71.2
Sep	40.0	23.0	20.0	5.4	23.0	8.1
Oct	18.0	7.7	7.5	-1.9	9.3	-0.3
Nov	15.5	9.1	6.5	0.6	7.2	1.2
Dec	15.8	-6.4	5.5	-14.7	6.0	-14.3
1991 Jan	18.7	0.8	6.5	-9.0	7.1	-9.1
Feb	24.6	13.9	8.4	-0.9	10.2	0.7
Mar	27.4	18.3	9.4	1.5	12.0	4.0

(1) Include taxes and commissions.
(2) Credit up to 360 days.
Source: Banco Central de Reserva del Perú and AID estimates.

Draft Trust Fund Agreement

-63

Proyecto A.I.D. No. 527-0344
A.I.D. Project No. 527-0344

CONVENIO DE CUENTA EN FIDEICOMISO
TRUST ACCOUNT AGREEMENT

ENTRE
BETWEEN

LA REPUBLICA DEL PERU
THE REPUBLIC OF PERU

Y
AND

LOS ESTADOS UNIDOS DE AMERICA
THE UNITED STATES OF AMERICA

PARA
FOR

PROGRAMA DE ESTABILIZACION Y RECUPERACION ECONOMICA
ECONOMIC STABILIZATION AND RECOVERY PROGRAM

Fecha:
Date :

64

CONVENIO DE CUENTA EN FIDEICOMISO de fecha ________________________, suscrito entre la República de Perú y los Estados Unidos de América, actuando a través de la Agencia para el Desarrollo Internacional.

ARTICULO I

INTRODUCCION AL CONVENIO DE CUENTA EN FIDEICOMISO

De conformidad con el Convenio de Cooperación Técnica suscrito entre el Gobierno de los Estados Unidos de América y el Gobierno del Perú, de fecha 25 de enero de 1951, y el Convenio de Donación para el Programa de Estabilización y Recuperación Económica suscrito entre los Estados Unidos y la República de Perú, de fecha ________________________, en el cual, los Estados Unidos de América, actuando a través de la Agencia para el Desarrollo Internacional de los Estados Unidos ("A.I.D."), ha expresado su deseo de asistir a la República del Perú ("Perú") en sus esfuerzos por estabilizar su economía, Perú y A.I.D. mediante el presente acuerdan, los siguientes términos para el establecimiento e implementación de un Convenio de Cuenta en Fideicomiso ("Convenio").

ARTICULO II

CUENTA EN FIDEICOMISO

Se establece una Cuenta en Fideicomiso (la "Cuenta") a nombre del Funcionario encargado de Desembolsos de los EE.UU., cuyo uso está sujeto a los términos y condiciones del presente Convenio. La Cuenta consistirá de una parte de los fondos en moneda local desembolsados de la Cuenta Especial del Banco Central de Reserva del Perú ("B.C.R.") de conformidad con los

TRUST ACCOUNT AGREEMENT dated ____________ between the Republic of Perú and the United States of America, acting through the Agency for International Development.

ARTICLE I

INTRODUCTION TO TRUST ACCOUNT AGREEMENT

Pursuant to the Technical Cooperation Agreement between the Government of the United States of America and the Government of Peru dated January 25, 1951 and the Economic Stabilization and Recovery Program Grant Agreement between the United States and the Republic of Peru, dated ____________ in which the United States of America, acting through the United States Agency for International Development (referred to below as "A.I.D.") has expressed its desire to assist the Republic of Peru ("Peru") in its efforts to stabilize its economy, Peru and A.I.D. hereby agree upon the following arrangements for the establishment and implementation of a Trust Account Agreement ("Agreement").

ARTICLE II

TRUST ACCOUNT

There is established a Trust Account (the "Account") in the name of the U.S. Disbursing Officer, whose use is subject to the terms and conditions of this Agreement. The Account shall consist of a portion of the local currency funds disbursed from the Special Account in the Central Reserve Bank of Peru ("B.C.R.") pursuant to the terms of the A.I.D. Peru Economic

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términos del Convenio de Proyecto de Donación para el Programa de Estabilización y Recuperación Económica (527-0344) de fecha _____________ y el Memorándum de Entendimiento suscrito entre A.I.D. y la República de Perú para el uso de la moneda local generadora de fecha _____________. Los fondos en moneda local depositados en la cuenta serán el equivalente a 3.9 millones de dólares de la Donación otorgada bajo el Convenio de Proyecto de Donación No. 527-0344 de fecha __________, así como el equivalente a 3.0 millones de dólares de cualquier incremento subsiguiente del monto de la Donación efectuado de conformidad con el Convenio de Proyecto de Donación No. 527-0344. Perú efectuará depósitos a la Cuenta en los montos y fechas especificados por A.I.D. en cartas dirigidas al Gobierno de Perú.

abilization and Recovery Grant Agreement (527-0344) dated _________, and the Memorandum of Understanding between A.I.D. and the Republic of Peru for the use of the local currency generated dated __________. The local currency deposited in the account shall be equivalent to 3.9 million dollars under Project Grant Agreement 527-0344 dated __________, as well as the equivalent of 3.0 million dollars of any subsequent increase in the Grant pursuant to Project Grant Agreement 527-0344. Peru will make deposits into the Account in the amounts and on the dates specified by A.I.D. in operational letters to the Government of Peru.

ARTICULO III

USO DE LOS FONDOS

A.I.D. y Perú convienen en que los fondos depositados en la Cuenta serán utilizados para apoyar los gastos administrativos y de operación de la Misión de A.I.D. en el Perú para implementar su programa de asistencia económica.

ARTICLE III

USE OF FUNDS

A.I.D. and Peru agree that funds deposited into the Account will be used to support administrative and operating costs of the A.I.D. Mission to Peru to implement its economic assistance.

ARTICULO IV

DESEMBOLSO DE LOS FONDOS

A.I.D. puede desembolsar los fondos depositados en la Cuenta para los fines especificados en el Artículo III en la forma que el Director de la Misión de A.I.D., o su representante, lo considere conveniente. A.I.D. desembolsará fondos de conformidad con los procedimientos y prácticas regulares de desembolso de A.I.D.

ARTICLE IV

DISBURSEMENT OF FUNDS

A.I.D. may disburse funds deposited into the Account for the purposes specified in Article III in a manner deemed appropriate by the Director of the A.I.D. Mission, or his or her designee. A.I.D. will disburse funds hereunder in accordance with normal A.I.D. disbursement procedures and practices.

-6

ARTICULO V

VIGENCIA DEL CONVENIO Y RESCISION

El Convenio permanecerá vigente hasta que sea terminado por mutuo acuerdo escrito de A.I.D. y el Perú o a la rescisión del programa de asistencia de los EE.UU. al Perú, cualquiera que ocurriese primero. La terminación del Convenio rescindirá las obligaciones de las partes bajo el presente, excepto en el caso de las obligaciones de desembolso que pudiesen haber surgido de conformidad con compromisos no anulados contraídos con terceras partes previo a la terminación del Convenio y sujetos a los procedimientos contenidos en el Artículo X.

ARTICLE V

ENTRY INTO FORCE OF AGREEMENT AND TERMINATION

The Agreement shall remain in force until terminated by mutual written agreement of A.I.D. and Peru or upon termination of the United States assistance program in Peru, whichever is the earlier. Termination of the Agreement will terminate the obligations of the Parties hereunder, except with regard to disbursement obligations which may have arisen pursuant to non-cancelled commitments entered into with third Parties prior to the termination of the Agreement, and subject to the procedures contained in Article X.

ARTICULO VI

REGISTROS E INSPECCIONES

A.I.D. mantendrá registros de todos los desembolsos de la Cuenta. Tales registros serán mantenidos por un período de tres años posteriores a la fecha del último desembolso efectuado de la Cuenta y pueden ser inspeccionados por representantes de Perú en el momento oportuno.

ARTICLE VI

RECORDS AND INSPECTIONS

A.I.D. will maintain records on all disbursements from the Account. Such records will be maintained for a period of three years following the last disbursement from the Account and may be inspected by representatives of Peru at any reasonable time.

ARTICULO VII

TITULO DE PROPIEDAD

A.I.D. mantendrá registros de todos los activos no fungibles utilizados directamente por A.I.D. y adquiridos con fondos proporcionados bajo este Convenio. Tales registros pueden ser inspeccionados por representantes de Perú en el momento oportuno. Todos los bienes así adquiridos deberán ser transferidos a nombre del Gobierno del Perú cuando ya no se necesiten para apoyo al programa de asistencia de los Estados Unidos al Gobierno del Perú.

ARTICLE VII

TITLE OF PROPERTY

A.I.D. will maintain records on non-expendable property utilized by A.I.D. and procured with funds provided under this Agreement. These records may be inspected by representatives of Peru at any reasonable time. All non-expendable property so purchased shall be transferred to the Government of Peru when no longer required for the support of United States assistance program to the Government of Peru.

67

Los ingresos provenientes de la venta de tales bienes no fungibles durante la vida de este convenio serán depositados en la Cuenta.

ARTICULO VIII

INFORMES

A.I.D. preparará y presentará un informe anual al Perú indicando el monto y fecha de los depósitos efectuados en la Cuenta, el monto desembolsado de la Cuenta durante el período cubierto por el informe y el saldo remanente en la Cuenta al término del periodo cubierto por el informe.

ARTICULO IX

CONSULTAS Y ENMIENDAS

A.I.D. y Perú colaborarán para asegurar el logro de los objetivos del Convenio y, a solicitud de cualquiera de las partes, intercambiarán ideas sobre el mismo y las actividades financiadas bajo el Convenio. El Convenio puede ser enmendado mediante cartas operacionales cursadas entre A.I.D. y Perú.

ARTICULO X

DISPONIBILIDAD DE FONDOS

Los fondos puestos a disposición bajo el Convenio permanecerán disponibles hasta que hayan sido gastados. En caso de rescisión del Convenio de conformidad con el Artículo V, los fondos que no hayan sido comprometidos bajo compromisos irrevocables contraídos con terceras partes antes de la rescisión del Convenio serán desembolsados de la Cuenta para fines mutuamente acordados por A.I.D. y Perú.

Proceeds of the sale of such non-expendable property during the life of this Agreement shall be deposited into the Account.

ARTICLE VIII

REPORTS

A.I.D. will prepare and furnish an annual report to Peru stating the amount and timing of deposits into the Account, the amount disbursed from the Account during the reporting period, and the balance remaining in the Account at the end of the reporting period.

ARTICLE IX

CONSULTATION AND AMENDMENTS

A.I.D. and Peru will cooperate to assure that the purpose of the Agreement is carried out and will, at the request of either, exchange views on the Agreement and the activities financed under the Agreement. The Agreement may be amended by operational letters between A.I.D. and Peru.

ARTICLE X

AVAILABILITY OF FUNDS

Funds made available under the Agreement will remain available until expended. In the event of termination of the Agreement pursuant to Article V, funds which have not been committed pursuant to non-cancelable commitments entered into with third Parties prior to termination will be disbursed from the Account for purposes to be mutually agreed upon by A.I.D. and Peru.

ARTICULO XI

COMUNICACIONES

Cualquier notificación, solicitud, documento u otra comunicación oficial, dado, hecho o enviado por cualquiera de las partes a la otra de conformidad con este Convenio deberá ser por escrito y se considerará como debidamente dado o enviado cuando haya sido entregado a la otra parte en la siguiente dirección:

Al Perú: ______________________
____
____

A la A.I.D.: ______________________
____
____

Se pueden sustituir otras direcciones por las arriba indicadas previo aviso por escrito. Todas estas comunicaciones serán en Inglés, a menos que las partes convengan lo contrario por escrito.

ARTICULO XII

REPRESENTANTES

Para todos los fines relativos a este Convenio, el Perú estará representado por la persona que desempeñe, titular o interinamente el cargo de Ministro de ____________ y A.I.D. estará representada por la persona que desempeñe, titular o interinamente, el cargo de Director de A.I.D., quienes podrán designar representantes adicionales mediante notificación escrita, para cualquier propósito relacionado con este Convenio excepto el de enmendar este Convenio. A.I.D. y Perú presentarán a cada parte los nombres de los representantes y los facsímiles de sus firmas en duplicado.

ARTICLE XI

COMMUNICATIONS

Any notice, request, document, or other official communication submitted by either Party to the other pursuant to this Agreement will be in writing and will be deemed duly given or sent when delivered to such Party at the following address:

To Peru: Minister of ___________
Lima, Peru

To A.I.D.: Director
USAID/Peru
Lima, Peru

Other addresses may be substituted for the above upon the giving of prior written notice. All such communications will be in English, unless the Parties otherwise agree in writing.

ARTICLE XII

REPRESENTATIVES

For all purposes relevant to this Agreement, Peru will be represented by the individual holding or acting in the Office of the Minister of ___________ and Coordination, and A.I.D. will be represented by the individual holding or acting in the Office of A.I.D. Director, each of whom, by written notice, may designate additional representatives for all purposes related to this Agreement other than amending this Agreement. A.I.D. and Peru will provide to each other the names of the representatives and duplicate copies of specimen signatures.

109

A.I.D. y Perú aceptarán como debidamente autorizado, cualquier documento firmado por tales representantes en la ejecución de este Convenio, hasta recibir una notificación escrita de revocación de sus poderes.

A.I.D. and Peru will accept as duly authorized any instrument signed by such representatives in implementing this Agreement until receipt of written notice of revocation of a representative's authority.

ARTICULO XIII

IDIOMA DEL CONVENIO

Este Convenio ha sido redactado en dos versiones inglés y español. En caso que existiera ambiguedad o conflicto entre las mismas, la versión en inglés prevalecerá.

ARTICLE XIII

LANGUAGE OF AGREEMENT

This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

EN TESTIMONIO DE LO CUAL, la República de Perú y los Estados Unidos de América, actuando cada cual por medio de sus respectivos representantes debidamente autorizados, han suscrito el presente Convenio en sus nombres y lo han otorgado en el día y el año mencionados en el encabezamiento.

IN WITNESS WHEREOF, the Republic of Peru and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

REPUBLICA DE PERU
REPUBLIC OF PERU

____

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ESTADOS UNIDOS DE AMERICA
UNITED STATES OF AMERICA

Craig G. Buck
USAID/Peru

10