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PERU - PRIVATE SECTOR ASSESSMENT

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PREAMBLE

This document has been divided in two parts. The first part outlines the main happenings which occur since July 1980 for a better understanding of the 'model' developed and its original intentions. Evolution of inflation, balance of payments, public finances, etc, are analyzied along the exposition. In the second part and in the measure allow by the available information, industry is analyzed from a microeconomic point of view. Issues such as industrial concentration, production's geographical distribution, distribution of production by industrial divisions, added value, employment, etc., are examined as well as private investment and its financing along the period. The concept 'private sector' should be interpreted as relevant to the industrial sector and distinct from other sectors such as agriculture, mining, etc.

Lima, April 1983

I. ECONOMIC EVOLUTION

THE ORIGINAL INTENTIONS

The change of government in 1980 marked an alteration of the conception of development. Though the winning party, Acción Popular, did not have a detailed governmental plan (as did, for example, the Popular Christian Party) a radical change was expected regarding the military government's policy. The general conception of the new policy was submitted to Congress in August 1980 by the President of the Cabinet, Manuel Ulloa.

If foresaw:

1. The attraction of foreign investment particularly in oil exploration, mining and banking.
2. The obtention of foreign 'soft' credits to develop big infrastructure projects in the electricity, agriculture, roadbuilding, education and housing sectors in the understanding that the State should fundamentally be in charge of infrastructure works leaving the rest to the private sector.
3. The restruction of foreign debt to thus secure an ease in the execution of infrastructure works.
4. The gradual elimination of subsidies, assuming that they distract resources from activities where public money would obtain a higher social profitability and that they will thus alleviate public finances critical situation.
5. The reduction of state-owned enterprises' role and concomitantly incentivation of the private sector.
6. The reduction of the imabalance in income distribution by creating a massive employment program which later became known as 'the million job program'.

While pretending to revert in part the legislation inherited from the military government, the new government making use of extraordinary faculties, implemented a series of concrete steps to prepare the ground for subsequent reforms. These were announced as: elimination of an export tax on minerals, and of MINPECO as monopolic marketing agent; prevalence of the CERTEX as incentive for non traditional exports; reduction of tax rates and establishment of a higher tax base; elimination of a tax which overrated bank interests; transformation of a series of public enterprises into private law regimes; maintenance of the minidevaluation policy; greater credit for the private sector and a review of the labor legislation while at the same time pretending quarterly wages and salaries adjustments effective in 1981.

Already when assuming office, Ulloa repeatedly mentioned that difficulties inherited from the military government would not make his road easy. He mentioned the existence of a price 'retention policy' and that as a consequence of which, the price index only rose by 19.9 per cent during the January-June 1980 period, and likewise, Ulloa considered that these retention percentages had been purposely adulterated.

The government's approach in the establishment of exchange and interest rates was not very different in conception to what the military government had done at the end of its administration, specially with Silva and Moreyra. Its approach to the inflation problem was a gradualistic one. In Ulloa's view, Peru could not be compared with Chile or Argentina. In his view, too, the population had to be persuaded that the entering government would take an effective and gradual approach in its fight against inflation. Such effort would be complemented by imports which would reduce domestic prices to a more competitive level and by a parallel loss of international reserves. Part of the industrial sector showed concern with Ulloa's intentions which were similar to those heralded in 1979 by Silva and Moreyra. Later experience would show that perhaps the gradualist approach was never applied, for Ulloa's office ended without any relief in inflation.

Though Ulloa's position on several issues of the economic policy claimed for a 'belt tightening', he was a populist and was in turn influenced by relatively more populist factions of the party. Undoubtedly, clashes between that these factions were to occur. Further on, Ulloa's 'non populist' policy clashed with members of the governing party such as Alva, who had composed, it was said, an economic team which pretended to be the alternative to what Ulloa's 'Team' was putting in execution. An openly populist measure is to facilitate soft loans for housing construction, a program which already in the previous Belaunde government had been the president's favorite. No doubt the austerity which an inflation reduction program demanded did not show consistency with a subsidies policy on credit--in this case--moreover, when an increase of interests was being contemplated. Anyway, it was thought that interest rates for certain loans on housing building could be reduced to satisfy Belaunde without having much money available for such a purpose.

ULLOA BEFORE THE SENATE

In May 1981, in an exposition before the Senate, Ulloa again emphasized the government's intentions, being at the same time strongly critical of the military government 'instead of trying to be a supporter and promoter of the vigorous enterprising sector, concentrated its efforts in restricting and displacing private activity while, at the same time, neglecting its central responsibility in social action maintaining a painful inheritance in the state of health, the quality of education and the abandonment of the provinces. On the industrial sector, Ulloa did not hesitate to denounce the development strategy of the military government which he considered, as a whole, negative for the country as it had intended industrial growth divorced from the rest of the conomy and having as foundation not a healthy overall interaction with the other country's sectors, but exaggerated protectionism and controllism which eventually suffocated the traditional vigor and spirit of enterprise'. Ulloa clearly noticed the interrelation between agriculture and the industrial sector. The position was that a balanced industrial development was only possible with an expanding agriculture. He also denounced the increasing dependence of the input industry on foreign currency which was even more incentivated by both the fixed exchange policy which in turn discouraged exports and the consequential generation of dollars.

Actually, the customs policy did not differ much from that of Silva. While Silva's had been based on the elimination of bans on imports--in effect through almost all of the military government, in order to obtain a higher fiscal income and thus alleviate somewhat the inflationary problem through a 'burning of reserves'--Ulloa stressed the efficiency which the reduction of customs would generate. In other words, Silva had resorted to custom's liberalization as an obligatory measure before the given situation (lack of State resources and the price problem), while Ulloa resorted to customs' liberalization to adequate industry to new rules of the game. Thus, Ulloa's customs reform attempted to both further elimination of bans on imports and free administrative restrictions on imports. Secondly, it pretended to reduce the disparity among customs. The first step was to reduce the maximum tariff to 60 per cent and then in a second step, customs on inputs and capital goods so to increase again effective protection on industry. This second step meant a reduction in the State's fiscal income and was to differentiate Ulloa's and Silva's policies. The measure of relatively reducing customs on inputs and capital goods was altered when in March 1983, the customs surcharge created in 1981 were modified to overcome in part the gap in fiscal accounts. We will return to this point further on. The government's intentions proved to be more ambitiuos than what was effectively put in practice. Customs were to be gradually reduced to arrive in 1984 to a 25 per cent level from 32 per cent (1981's level). It was expected that in 1984 customs would strongly concentrate in the range of 20 -30 per cent. Ulloa justified this customs program claiming that its effects would be gradual and that industry will easily accommodate itself to the new rules of the game for it is observed that at that time (1981) the manufacturing sector was growing at an annual rate of 6.3 per cent (data from the MITI, Ministry of Industry, Tourism and Integration).

Concerning the CERTEX, Ulloa trusted in this system as a measure to obtain higher amounts of foreign currency from exports, although the system was modified in regards to what had been applied under the military government. The intention was to apply the CERTEX to those products which involved a greater transformation process.

Again, in this message of May 1982, Ulloa emphasized the negativeness of a subsidies policy which, he said, "benefited more than 40 per cent of the population which did not need it and which additionally involved either the generation of inefficiencies in the assignment of resources or a further weaknening of fiscal accounts.

Concerning the traditional 'bottleneck' in Peruvian economy, Ulloa considered that a parity exchange policy was necessary with devaluations commesurate to internal and external inflation to maintain, in this way, an adequate level of international reserves. Capturing of external savings was also emphasized. Among Ulloa's plans was a reduction of international reserves in the amount of 370 million as an aid to the anti-inflationary effort. In practice, this reduction of reserves resulted much greater than expected while reducing the devaluation rythm, which apparently had been originated by authentically 'populist' pressure. In face of attacks following the opening of economy to imports of luxury products, Ulloa claimed that these represented no more than 2 per cent of imports, but instead, meant the collection of S/. 25,000,000 million soles in taxes. He was pleased with the results which showed that while 1980's first quarter capital goods monthly imports amounted to US$50,000,000 million dollars, 1981's comparative period montly imports amounted to US$120,000,000 million dollars which Ulloa considered as "a sign of unequivocal reactivation of confidence". Meanwhile, a slower devaluation rythm since May was justified as a monthly 2 to 3 per cent of reduction of inflation was expected. Actually, 1981's inflation rate was higher than 1980's, although it should be noted that his rate was fundamentally a result of the 'disretention' decided in January 1981 and which increased prices in that month by 11.7 per cent.

In what concerns the monetary and credit program, an austers expansion of liquidity promoting a maximum of credit for productive activities was expected through incentives to financial savings via actual rates and a cautious public sector's financing. At the same time, a selected credit approach was maintained to support promoting actions particularly in agriculture and small enterprises requirements. Associated to the monetary program and finding, in passing, a justification for internal inflation in imported inflation--as had been done by the military government--Ulloa forecasted an inflation of 55 per cent for 1981, which resulted as optimistic as assuming a 6 per cent DGP growth. Optimism was not only a common feature of inflation and DGP growth. It was also assumed that the interest rates policy would increase credit through savings incentives. And precisely because of an expected decrease of the inflation rate, interests slightly decreased in April 1981.

SALARIES AND WAGES

A critical point was price raises and salary adjustments. The government had appointed a very able man, Grados, in charge of the Ministry of Labor. Ulloa intended to increase fuel prices in 1981 to a level equivalent to one dollar per gallon mitigating the effects of this measure in transportation with a projected subsidy to public transport. However, this measure was to be discarded by the strong opposition from transporters. The fuel increases were justified as a form of reducing superflous consumption, of increasing fiscal income and of generating necessary resources so that PETROPERU may continue its oil exploration policy. The true reasons, however, lay in the utilization of this price increase to cover the fiscal gap. This explains the actual increase in fuel prices when prices fell in the international market in 1983. To mitigate the effects on actual incomes, a concertation and dialogue approach with workers was instituted in an effort to create a distended atmosphere.

Thus, great hopes were placed in the Tripartite Commission which did not accomplish its objectives and which later became a failure.

THE JANUARY 1981 'PACKAGES'

The price of January 1981 were virtually the last 'package', a 'fashion' introduced by the military government. They were called 'packages' because the adjustments were all made at one time on a series of products. Afterwards, for political convenience, price increases were gradual and separate for each item. The January 1981 increase mainly affected foodstuffs. For example, canned milk was increased by 67 per cent, sugar by 6 per cent, products which included flour inputs by 55 per cent, rice by 21 per cent and oil by 94 per cent. Gasoline rose by 29 per cent together with air passenger fares. Initially, urban fares were not increased as a subsidy--later forgotten--was to be implemented. Besides these raises, also electricity and telephone costs were increased. Salaries and wages also showed differentiated increases depending on the unionized condition or not of workers. Minimum salaries rose to S/. 27,400 (US$79.00) per month, an increase of 8 per cent. On the other hand, interest rates on money savings rose from 30.5 per cent to 50.5 per cent. It was subsequently reduced to 49.9 per cent and included advance payment of interests as well as a 2 per cent commission which carried the nominal effective rate to approximately 70 per cent.

January's package generated a nation-wide strike of protest but with not very successful results. Typically, Grados, the Labor Minister, claimed that only one third of the labor force had been absent from their jobs mainly due to a transportation shortage. It is interesting to note that this was the first time that the CGTP (Peruvian Workers General Confederation, Communist) and the CTP (Peruvian Workers Confederation, Aprista) had jointly concerted a common strike.

INDUSTRY'S POSITION

Industry had an skeptic view of the economic policy which Ulloa had outlined in Congress and in his public appearance. Neither the customs cut offs nor the policy of increasing in credit costs were welcomed. However, the Banco Central de Reserva (Central Reserve Bank), was announcing a change of the credit policy in 1981 emphasizing credit for the private sector, in part, through a reduction of bank reserves, and pretending , at the same time, a reduction of credit availability for the public sector. It was expected that the increase of credit for economy's private sector would in turn be generated by the greater savings incentives, more so, when a reduction of inflation was being announced.

THE "TRIPARTITE COMMISSION"

The government's optimism was somewhat altered with the pace of economy in 1981, but even early in 1981 it was implicitly admitted that too much had been expected with respect to economy. The "Tripartite Commission" can be an indicator. Here, the State, entrepreneurs and workers were to be represented to basically agree on prices and salaries. The failure of such

Commission which should have reached an agreement until December 1982 at the most (it failed before) can be ascribed to the fact that neither the entrepreneurs of the trade unions trusted what was said in governmental circles. The government intended that salary raises be fixed by the Tripartite Commission. And as a matter of fact, the government had to fix unilaterally, each time, the amount of the raises, as for example, the raise at the end of June when salaries were increased by 10 per cent. Already in May, actual salaries had dropped as the raises were not comparable to the 39.3 per cent inflation of the first six months (implying an annual inflation of 81.6 per cent). In Grado's view, unions had maintained parity with inflation. However, this was no confort for an individual earning a minimum salary of S/. 22,020 in August 1980 and S/. 33,750 (US$78.00) a year after, that is only 53 per cent more. Meanwhile an increasing critical approach claimed that keeping salaries at such low level was feeding a recession which in turn led to the deterioration of the income distribution.

The Tripartite Commission was initially designed early in 1981 with the purpose of establishing an agreement in regards to the union leaders who had been discharged during the military regime. But, afterwards, it was resorted to for an anti-inflationary agreement though a price and salary policy. However, these efforts were useless. The parties would not accept the government's proposals. Even changes in the proposals were a reflection of the extreme optimism. So it is, that a proposal prepared in May 1981 had to be modified in a 'more realistic manner' at the end of June. This new proposal set new targets for the period July-December 1981: a 21.5 per cent inflation, a 45 per cent increase of fuel prices, a 14 per cent devaluation, a 23 per cent increase of salaries and wages, among others. Neither the entrepreneurs or the workers were ready to accept these new targets. On the other hand, the entrepreneurs were resentful of the customs and credit policies. Concerning the customs policy, the discussions between Roberto Abusada (at that time Vice-Minister of Trade and architect of the customs reform) and the entrepreneurs had been extremely cold. What made the entrepreneurs suspicaciuos was the unfulfillment of the fiscal targets. The workers on their part objected the consumer's price index. In contrast to a target of no more than 2.2 per cent, a fiscal deficit of 7.6 per cent, the highest since 1979, against the DGP, was expected in mid 1981.

RESULTS DIFFERING FROM INTENTIONS

The constrast between the expected, the desired and what actually occurred also began to worry the International Monetary Fund, with whom the peruvian government had signed commitments in no less than three opportunities in recent years. On August 1981, the FMI let Ulloa know their concern for the failure to control public finances, for an inadequate handling fo the exchange rate, for the loss of international reserves and for the miscontrol of the inflationary process. In September, the FMI sent a team down to Lima to review figures as Peru was applying for a new laon from the IMF. In the meantime, Ulloa claimed that the inflation in 1982 would be reduced to 45 per cent while announcing a soon recovery of economy. However, on August 1981, Ulloa before Congress did not appear to remember much of his statements of May. While Ulloa was again critical of the economic performance of the military government, there were new projections for the coming months. At the same time, Ulloa tried to justify the non achievement of targets and the announcements of former months. The public sector's deficit would be higher than forecasted relfecting bigger losses in public enterprises. On the other hand, Ulloa said in August 1981, that the GDP will grow at 5.4 per cent annual rythm (ultimately only 3.9 per cent). With respect to inflation, Ulloa claimed that although higher than initially forecasted, a downturn was to occure in 1982. He likewise claimed that the loss of reserves was a consequence of a pre-payment of the foreign debt and a downfall in minerals and oil prices. This drop in prices has represented a loss of 350 million dollars in exports. While reviewing contingencies and while Ulloa searched for some justification, 'new' lines of actions were announced to reduce the fiscal deficit which in August 1981 had become a major economic issue. These included: a periodic increase of utilities' prices, the continued elimination of subsidies on food and fuel, the implementation of a fiscal reform, a greater control of expenditures, selective public personnel salaries and wages raises, reduction of state personnel, credit preferentially oriented to the private sector; permanence of the customs system, a realistic exchange rate, etc. Actually, Ulloa was then telling no new story to the country as he had already made reference to these measures in May 1981. President Belaunde's position in his message to the country in July 1981 followed the same trend. It is worth mentioning in passing, that Belaunde had affirmed in the message that one of the accomplishments of the administration had been the creation of 502,400 new jobs through road and school building works, agrarian credits, hydroelectrical projects, etc.

Ulloa's report to Congress in August 1981 did not appease the uncertainty for the entrepreneurs. The reduction of the devaluation rythm had created the impression of a forthcoming maxi-devaluation and the purchase of three million dollars by Banco Popular early in August appeared as provisions taken in the face of an impending strong devaluation and did not contribute to forge an atmosphere of confidence. On the contrary, it generated more anxiety considering that this is a state-owned bank. As a consequence of this section the dollar's free quotation went up ensuing in August an effectively accelerated devaluation.

LABOR UNION CONFEDERATIONS DID NOT OFFER SUPPORT

In the labor front, in August 1981, the government succeeded in preventing a new labor strike organized by the CGTP. However, the country was not gree from labor conflicts as state employed physicians, the Southern Peru Copper Corporation miners and bank employees were scheduling strikes.

LEGISLATION 'PACKAGE'

Though in the economic field the government's predictions and announcements were not complied, in the 'legal' field some of the expected changes were taking place. On mid June, 110 legislative decrees were promulgated at the expiration term for the extraordinary facultires aconceded by Congress in December 1980 to the Executive. The new constitutional government could neither act or alter the country's course substantialy if steps were not taken to variate the rules of the game. The legislation package intended an alteration of rules governing a number of sectors. However, the industrial sector was not directly included, and only almost a year after was the Industries General Law promulgated. The 110 legislative decrees altered or annulled approximately 6,000 laws issued by the military government in 12 years.

The major measures in the 'avalanche" of legislative decrees included: fiscal reform, changes in the legal regime of state-owned enterprises, restructuration of the Development Financial Corporation - COFIDE, changes in the Mining Law and Regulations for public institutions and state enterprises.

The fiscal reform basically concentrated in the replacement of direct taxes by a tax on the added value (16 per cent for most goods), in the restructuration of texes on personal and corporation incomes or profits, in the reduction of export taxes and in tax incentives on mining equipment purchases. The new tax on the added value replaced a series of former indirect taxes which were in no may uniform. Entrepreneurs, however, were fearful that his tax on the added value would be reflected in higher prices. The government instead, claimed that the tax would increase fiscal income while reducing the actual tax burden since the new tax prevented a series of distorsions effecting efficiency. Not all the products were subject to the 16 per cent tax. Basic products (food and agricultural inputs) were exempted, as too, agricultural machinery and printed matter). On the other hand, rates were 116 per cent for cigarrettes, 60 per cent for gasoline, 43 per cent for diesel petroleum for use in big mining, 40 per cent for large cab, etc.
In what concerns taxes of income and profits, new scales pretended an increment of the taxable base while at the same time adjusting

the scales to prevent on account of inflation, an increase of the taxable burden. In the case of enterprises, these were subject to a minimum 30 per cent tax up to a determined level, a percentage which increased proportionately a maximum to 55 per cent. Foreign enterprises were subject to a 30 per cent tax on their foreign remittances. Taxes on imports were reduced to rates adjusted to the price of minerals.

Regarding the legislation for public enterprises basically contained in the D.L. 216, organizational structures were clearly established for state-owned enterprises while 27 of them were converted to limited responsibility corporations. In addition, CONADE (National Development Corporation) was created with the purpose of formulating and coodinating policies for the different state enterprises acting as a guiding and controlling organism. CONADE was closely connected to COFIDE but did not superseded it, as COFIDE will continue acting as the government's financing corporation. On the other hand, the COFIDE Investments Corporation was created to undertake the management of COFIDE's participation in the different state and private corporations. This separation of activities had prompted by a recommendation of the World Bank. As as additional note, it should be mentioned that the new structure established by COFIDE, COFIDE Investments and CONADE dissolved INDUPERU (the state's holding corporation for the industrial sector.

While the government changed the rules of the game in some sectors and the economic problem appeared to be more serious than initially assumed, the private sector kept an skeptical attitude towards the adopted measures. On the one hand, there was concern on the measures adopted with references to the customs and credit policies. And on the other hand, there was concern for the absence of an Industries Law that would establish the operating rules for the sector. The entrepreneurs were against the goverment's argument which claimed that they had accumulated big profits during the military government taking advantage of the extreme protectionism of a captive market. Futhermore, the entrepreneurs claimed that private investment was being imparied by the non existance of an Industries Law.

THE TEXTILE SECTOR

One of the sectors which created more problems to the government was the textiles sector. The sector intensified its critical position in August and September 1981. They were sunsequently also to demand cheap credits.

Textile producers were also concerned with the disacceleration of devaluation considering that the exchange rate was overvalued by 15 per cent. They in turn threatened with the laying off of a third of their labor force (40,000 workers). The offical charge of conversations with the textile producers was Roberto Abusada who argumented that the crisis situation in the textile sector answered mainly to international factors, such as the revaluation of the dollar against European currencies. Abusada also claimed that the Peruvian textile enterprises were sufficiently modern to stand through the crisis discounting any decision that would again increase custum duties. Additionaly, there existed a problem of internal costs. For example, cotton was sold by ENCI (Inputs Marketing National Enterprise) at prices which exceeded by 20 per cent world market prices.

The textile industry's behaviour was undoubtedly concomitant to developments in the foreing market. Exports particularly to the recessed European market, Peru's major customer for the period January-June 1981 were one half below the comparable period in 1980. At the same time, as mentioned before, the dollar had been revaluated against European currencies while textiles were quoted in dollars. On the other hand, imports for the period January-July 1982 exceeded by 26 per cent those for the comparable period in 1980. Textile producers continuedly argumented that the exporting countries were selling their products in Peru at dumping prices. At the same time, it was generally admitted that pervasive smuggling existed side by side to legal imports.

The textile issue comprised at the same time other important factors that should be taken in account. The government claimed projected target was US$1.25 per gallon (84 octanes gasoline) for June 1982. On the other hand, Ulloa announced the sale of more than 80 state-owned enterprises, although approximately 50 would be still controlled by the government. With respect to customs, increases were contemplated in corn, milk and oil taxes including duties nearing zero. Abusada opportunately pointed out that this attitude did not contradict the customs policy established at the outset of the government but it rather represented an homogenization of duties. Public works, an extremely critical issue in the administration of a 'constructing' government was being neglected. Only in 1983 would some measures be taken in this direction.

RESULTS AND ORIGINAL INTENTIONS

Here it is worth making a reflection before going any further. Based on the preceeding discussion, the dissimilarities between government's intentions concerning fiscal deficit, inflation, exchange policy, etc. and its actual performance should have been noted. When the reduction of the inflation rate was annouced, it stubbornly remained equal or took an upward trend. When trying to reduce the fiscal gap this persisted or increased. When trying to prevent the deterioration of foreign accounts, minidevaluations were reduced. This shows how far were intentions from facts. On the other hand, Ulloa was critized for not being 'sufficiently populist' and dailies openly discussed the "Alvist' option for a solution of the economic problems. Later on these open discrepancies between Ulloa and Alva were somewhat palliated perhaps by an order of the party itself which would give at least in appearance unitary and solidary image. On the other hand, in 1981 experience showed the exogenous pressures to which the economy managing team was subject to. Even that year the government could still 'blame' the military government and more likely in that sense the economic management lost the opportunity of getting things squared having at hand a good explanation. This explanation ("the present situation is a consequence of the military heritage") could no longer be used, for example, in 1983.

THE LABOR FIELD

Disatisfaction remained constant in September 1981. On mid September Belaunde sento to Congress a law by which workers who created disorder or altered the operation of essential public services could be discharged. This law was received with displeasure by the union member of the Tripartite. The CGTP scheduled again a strike for the third week of September (that which had been cancelled in August 1981) but did not have the expected success. Probably Belaunde had all this in mind when deciding to be more energetic towards the unions. In August 1981 a physicians' strike had been staged while a strike of the domestic water supply service had threaten Lima's water supply. On the other hand, there were problems with the Metallurgical Workers Federation, which had stopped the Southern Peru Copper Corporation operations. The bank and physicians' strike had been settled by Grados.

THE FISCAL DEFICIT AGAIN

The problem of the fiscal deficit continued to be a basic issue by the end of 1981. Its seriousness was highlighted by the unexpected request of the government for a US$200 million loan, which had a clearly evident fiscal objective. International banks were relictant to furnish the money but here again Ulloa's good image in international financing circles played its role. Meanwhile, on October 1981 the Central Reserve Bank was still projecting a 5.4 per cent growth for 1981. International reserves, on the other hand, had fallen consistently from January to May 1981. A slight recovery was evidence in the period from June to August to then again take a downturn. On October 1981 reserves were slightly below US$800 million, reflecting a loss US$700 millions since January 1981. Webb admitted the seriousness of the situation, but he said there was no reason for panic. He explained that the decrease of reserves was due to a reduction of income from exports, higher interest payments and a decreased attraction of capitals. Prepayments on the foreign debt had effectively been made on April in the amount of US$377 millions, but this could not be all the explanation. The slowdown of the devaluation rythm responding to political pressures was rather the determinant factor. Webb announced a slight drop in reserves for 1982 while at the same time anticipating a greater currency devaluation. On the other hand, the government declared it could not say if a new loan would be requested from the IMF although the possibility was always under consideration. Webb claimed that relations with the IMF were friendly and the targets of the liquidity expansion were in discussion with them, that is, everything related with the monetary program for 1982. The Central Reserve Bank's President claimed on the other hand that the public and government sectors's deficit was not inflationary as it had been financed by foreign loans and treasury bonds. This did not seem to be the opinion of the IMF who considered that monetary supply had been excessive.

While officially repeated that the government was trying to reduce the fiscal deficit and impose austerity in expenditure late in 1981 millionaire public works project were accorded to private contractors. From September 1981, until the end of the year, contracts were conceded at a rythm which doubled that of the previous eight months. At the same time, new contracts were anticipated for 1982. It should be remembered that in these two years public investment reached all time historical levels measured against the DGP. The assigned projects were giving an impulse to economy as it had in the construction area, for example. The construction sector had grown by 18 per cent in 1980 but had decreased by 1.9 per cent in 1981's first quarter. By mid July the sector showed again an active upward trend (3 per cent in the second quarter) and by the second semester the sector was growing at a rate of 12 per cent. This had not been planned. Actually, the public works program has been considerably delayed. It should have been started six months before, early in 1981. The private sector had not given the necessary impulse to the construction sector in what concerns private housing and business centers' prjects. This could in turn have given an impulse to the GDP since the construction sector represents approximately 6 per cent of the same. Thus, assuming a 12 per cent growth this represents an increase of .72 percentage points of the GDP. Private contractors themselves anticipated a construction boom in the Belaunde administration. Constructing enterprises such as Giulfo Constructores de Caminos S.A., Carlos Tizón S.A., COSAPI S.A., Graña y Montero S.A. had been making long before, important machinery adquisitions. Carlos Tizón, for example, had tripled its machinery inventory in the 1980-1981 period. When the public projects boom started a shortage of skilled labor could be observed thus demanding the payment of premiums over normal wages. A shortage of inputs was anticipated and even cement imports.

THE 1982 EXPECTATIONS

On December 1981 speculations on 1982 was the main subject of conversation. Ulloa had claimed in December 1981 that 1982 was going to be a difficult year. International reserves were at such a level that they could not be used as 'mattress' for 1982 as had accurred in 1981. At the same time, a new loan from the IMF was needed. On the other hand, the intention of "adjusting accounts" had not been very successful. For example, gasoline prices had not been increased as anticipated neither had subsidies been reduced as initially announced (the case of rice, for example). The private sector which had been so concerned all this time did not cease to mention that the government had made promises without wholly complying with them. This impression rose from the government's strategy of promising aid but not actually giving much. Meetings were held not only with entrepreneurs but also with union leaders (the so called "Paracas meeting" making reference to Paracas where the meetings were held).

THE PRIVATE SECTOR'S DEMAND

Entrepreneurs demanded relief measures for the problems facing their respective sectors. Miners asked for cheap credit lines (as perhaps those enjoyed in the past). The government had already reduced export taxes and had established incentives to reinvestment as well as tax concessions. The government's position was that the mining business was instrinsically unstable, that bad years have to be jointly viewed with good ones. Mining enterprises made a point of the fact that in the good years there also was an export tax which reduced their profitability. On the other hand the government did not foresee bankruptcies in the mining sector.

Problems in the fisheries sector derived from the absence of fish, the basic input. These enterprises were also demanding soft credits. On the other hand, the goverment seemed to overlook the fact that the fishmeal processing enterprises were using human consumption fish as raw material. In the first months of 1981 the fishing season had only lasted 46 days.

As previously explained, industry's main problem was centered in the textile sector. The government was considering the possibility of a package of measures to somewhat relieve the situation of the sector. This would include: easing of financing sources in the FENT (Non Traditional Exports Fund line), installment payment of texes, easing of requirements to obtain the CERTEX, control of the entry of containers which, as of textile producers, favored smuggling, subsidize ENCI for a cotton price reduction, assistance in refinancing foreign debts and the conversion of dollars to soles. The measure of reducing the price of cotton was perhaps the more important one, since one of the objections waved by the textile producers was the monopolic prices they were paying to ENCI and which exceeded international prices. This has been explained before. However, there was no agreements between the government and the textile producers with regards to the price of cotton. While the government claimed that now the price was 20 per cent below the international price, the textile producers claimed that the price still exceed the international price.

THE 1982 FISCAL BUDGET

By the end of 1981 the country's 1982 budget was also an important discussion subject. While some claimed it was not balanced, others emphasized it was, however, the Constitution called for a balanced budget. Those who believed it was not balanced were also critical of the assumptions used in its elaboration: 6 per cent GDP growth, 550 soles average exchange rate, 45 per cent of inflation. These assumptions for 1982 rather appeared as objectives to be reached at their best. It should be mentioned that the result was a 0.7 per cent GDP growth, 73 per cent inflation and 748 soles average exchange rate. To "balance" the budget a series of fical measures were prescribed such as the creation of a 15 per cent surcharge on import duties, which was to be only 'temporal'. This tax, as a matter of fact, was modified in 1983 to 10 per cent applicable on the CIF value of the product and not on custom's duties and which actually implied an increase in customs.

ULLOA'S NEW MESSAGE

Early in January 1982, Ulloa again gave a message to the Nation. His message was widely awaited as he had not fulfilled his promise of almost a year before, and these unfulfilled promises or objectives had generated adverse expectations in the different sectors. Ulloa justified the 1981 growth below the expected 6 per cent as a shortcoming originated by the "international situation. The agriculture sector had grown by 12.5 per cent due to the rainfall and greater financial and technical support to farmers. Mining had a bad year because of lower international prices while the construction sector had grown by 7 per cent, falling short from the expected percentage and reflecting the effect of interest rates. Concerning inflation, Ulloa claimed that this was high due to the "disretention" at the beginning of 1981 but presently inflation was at a 54 per cent rate and will continue decreasing in 1982. Meanwhile, fiscal deficit had been 8 per cent of the GDP but Ulloa was careful no to go into such a troublesome subject.

ALLIES' CRITICISM

Acción Popular had the PPC as its close collaborator. But them by the end of 1981 the PPC had already been critical of the government's policy results. The PPC critized the unfulfillment of production and inflation targets and too the bidget's deficit. They were critical of the new jobs being created in association to the government's investing and marketing activities and not as a result of new enterprising units. Concerning inflation, the PPC claimed that due to the municipal elections at the end of 1980, the government has postponed the "disretention" until

1981. The PPC was also critical of the public enterprises claiming that nothing had been done to overcome defficiencies and achieve acceptable levels of efficiency and productivity. The hypothetical sale of minor public enterprises was also criticized as it would not represent a substantial effect in fiscal results. The PPC also questioned the estimates underlying the 1982 budget. Many viewed this PPC critical position as a form of clearing up responsibilities not committing themselves any further unpromising economic results.

CHANGES IN INTEREST RATES

On mid January 1982 the government altered interests minimum rates payed by banks for savings and current account deposits. A maximum rate of 55 per cent was established. Active interest rates were mot modified. Some sectors viewed this increment in interest rates as a preview to the open operation of international banks, when, moreover, the Senate was discussing a modified bank legislation. It was thought in some circles that the international banks would be able to start operations without the disadvantages of the labor charges of some domestic banks and with an up dated technology unavailable in the Peruvian system. On the other hand, the Central Bank was gradually reducing the bank deposits requirements.

THE IMF AGAIN

In February a new IMF mission visited Lima to sign a three year agreement in return for 900 million dollars. Ulloa declared that no discrepancies existed with the IMF and that conversations had been positive but that, nevertheless, a revision of fiscal expenditures had been accorded. One of the IMF agreements was associated to the 1982 Monetary Program which, too, established that reserves would not be lost. At the same time, this indirectly established a limit of 4 per cent of the GDP for the fiscal deficit, restructing credit to the public sector to 'almost zero'. It too, limited foreign indebtness to 1,000 million dollars. Besides, the Treasury Department would 'intercede' before the IMF so that Peru may obtain a new loan even when the situation at the time was similar in some aspects to the crisis of 1978: deterioration of foreign accounts, high fiscal deficit, low domestic growth.

The IMF agreement with IMF again conceded a respite to the government furthermore, because it opened the doors to new loans from private banks. Such loans could mentarily serve as an exhaustion valve as had been the loss of reserves in 1981 or the remnants of the price increases for raw materials in 1980.

INDUSTRIES LAW

On May 1982 the Industries Law as promulgated after being delayed for some time because of the controversial different proposals. The law eliminated the clasification of priorities in industry which had been established during the military regime. At the same time, it determined a change in the industrial communities' regime, which had commonly been a source of constant concern to entrepreneurs since its outset. Instead of priorities, the law established a number of taxation incentives to increase reinvestment in existing plants and was aimed to investment outside Lima. The taxation incentives were not perhaps the desired by the PPC, for example, who demanded more incentives.

Probably the factor which did not permit a softer approach in taxation was the limits imposed by the income side on fiscal accounts. In what concerns the industrial community, the law left the workers the option of choosing to maintain the system within each enterprise. This displeased entrepreneurs who expected that the law would eliminate the industrial communities. A proposal disregarded at the last moment considered its elimination.

In line with the new system, workers could choose receiving 10 per cent of gross profits before taxes in cash plus 13.5 per cent in labor shares which represented 25 per cent of the total cost of the enterprise's gross profits (if a 1.5 per cent was added for administration expenditures of the community) or, in turn, receiving 17 per cent of profits while the enterprise may purchase back the shares. In addition, the enterprise had to offer its workers a minimum 10 per cent of any new public offer, though the latter was unimportant as in Peru public offers of shares are very infrequent, perhaps, because of the cost involved and the great centralization of power among Peruvian enterprises. It was assumed that workers would accept the immediate economic benefits of the new system.

ONCE MORE THE FISCAL DEFICIT

The fiscal deficit continued to be economy's critical issue, on mid 1982 it was reaching levels that forecasted a 7 per cent deficit respect to the GDP in 1982. This was indirectly against with the Fund. The necessity of cut-offs for an approximate 600 million dollars became apparent in an effort to somewhat balance accounts. This was directly associated with constructing enterprises and Belaunde's own public investment program. On July 1982 Webb claimed that expenditure should be adjusted to the country's production possibilities and that the country could not live any longer as if it had not lost exports incomes. However, the country was able to comply with IMF in regards to the international reserves target, while currency was expected to devaluate at a 5 per cent to 6 per cent monthly rythm in the second half of 1982. As of June the accumulated devaluation had been 33.3 per cent while inflation had been 29.9 per cent. There was a clear effort to 'gain parity' even when reserves had been lost in 1981 by the check on the devaluation policy of that year and by the dollar revaluation in international exchange markets. In the meantime, production was falling by approximately 1 per cent in the second quarter as compared to the first. Manufacture as well as construction and mining reflected a reduction in production while only fisheries and agricultural showed improvement in the second quarter. As to the mining sector, in July the government declared state of "emergency" for the median and small mining.

THE INDUSTRIAL SECTOR

The main enterprises of the industrial sector showed a composite situation in mid 1982. Some enterprises has accounting losses while others had profits. Automobile assemblers where partly in a healthy economic situation (Nissan Motor del Peru even had two working shifts) while others where in difficulties because of free truck and bus imports. On the other hand, a moderate normalization of imported automobiles was taking place while imported car sales were slow. The beverages sector showed a healthy economic situation while in the textile sector the enterprises using synthetic fibers showed profits, but not so those using domestic inputs. The metal working sector was confronting losses and the entrepreneurs in this sector were demanding a treatment similar to that given to the textile, mining and fisheries sectors. In the public sector, ELECTROPERU, CENTROMIN, MINEROPERU among others showed heavy losses.

Paradoxically there were enterprises in formation even in sectors considered not profitable at the time as was the case in the textile sector. In Trujillo, for example, Trutex (Textil Trujillo S.A.) was starting activities.

DRASTIC MEASURES IN FISCAL EXPENDITURE

Already by mid 1982, the government had realized that without changes in fiscal expenditure it would be impossible to comply with the IMF's targets. Corrective measures were to be taken to prevent an estimated 9.2 per cent deficit against the GDP . In August 1982 the government decided cut-offs in investment projects associated to the transportation and communication and electricity sectors. A definite decision to raise gasoline prices and eliminate the subsidy on wheat was taken. The effect was forseeable recession. This decision was quite unexpected but 'logical' to a certain extent: the simple fact was that there were no reserves that could be used as a mattress, that there would be no strong increases in export products' prices and that the non compliance with the IMF would jeopardize the expected few future credits.

On the other hand, none of the measures were directed towards imports. Only in 1983 were measures taken to raise fiscal revenues in approximately 120 million dollars by an indirect increase in customs derived from changes in the tax base of the customs overrate previously referred to. The government itself did not accept as a valid judgement that liberalization of imports had been 'untimely'. Furthermore, customs were, conversely, considered as not being high in view of the exchange policy which in 1982 was trying to recover lost ground in reasons of the slower devaluation rythm of 1981. It was mentioned that the government had only reduced the maximum customs duty of 160 per cent advalorem existing in September 1980 to a maximum 60 per cent which affected 1,634 categories which in turn conformed only a fifth of the total. Even more, it was argumented on the government side that the effect of imported products purchases arising from the previous prohibitory policy was now over. Imports in the future will be nearer to normal. As information it was reported that 30 per cent less consumer's goods were being imported by mid 1982. In addition, the government emphasized the positive effect on custom's rebates in different sectors such as, for example, agriculture. March 1981, for example, duties had been reduced in 900 items related to the agricultural sector. Abusada, the architect of the democratic government's customs reduction claimed that the average duty was 32 per cent which could be considered acceptable. In fact, Abusada seemed to be right when he argued that among the industry men themselves there was no concenssus as to if the customs reduction was either 'good' or 'bad'. It was beneficial to some and represented a cost to others which in turn reflected controversial interests.

The government's cut-offs in projects set off the expected crisis among contractors. At the same time, banks became more cautious in loans for the construction sector. The government claimed that cut-offs were equivalent to 20 per cent of the central government's overall investment. Contractors did not refrain their critical attitude for the government's 'unexpected and abrupt' projects cut-off particularly when considerable capital had been invested in the adquisition of machinery and the improvement of equipments and for which they had outstanding debts. However, it may perhaps be correctly assumed that several of the contractors foresaw beforehand the impending situation more so when the IMF was exerting indirect pressure to limit fiscal expenditure.

THE ILIQUIDITY SENSATION

Attending to commitments with the IMF, the Central Reserve had been in 1982 applying its monetary program designed in 1982'2 first quarter. By the end of 1982 there was a clear sensation of the market's lack of liquidity. This was particularly serious for many enterprises in Peru customarily operated with cheap bank credit rather than recurring to the public offer of shares, bonds issues or other financing alternatives which were more expensive or involved a certain loss of control. The mining, textile and fisheries sectors had already been granted concessions with subsidized credit lines. On the other hand, restrictions in the availability of credit for the public sector were provoking in turn problems on reason of what was being given to the private sector as public enterprises (as well as the private) were delaying their payments, thus "scooping" resources from the private sector. Webb defended the idea that selective credit was necessary and should be offered to the productive sectors. What had happened at the end of 1982 had still become more serious in 1983 when it was clear that the possibility of the country's easy indebtness had come to an end, having this been the solution resorted to in former years in concomitance with a reduction of reserves (as in 1981).

ULLOA'S RESIGNATION

By the end of 1982, Ulloa unexpectedly decided to resign. Even if , Ulloa had previously announced that his participation in the government was coming to an end, public opinion considered that he would only retire in July 1983. His decision brought about an evident vacuum reflected in the delay in announcing the name of a substitute. This substitute had to be endowed with international banker qualities since Peru's bottleneck were its foreign accounts. It is not surprising, therefore, that Rodriguez Pastor was chosen as Ulloa's successor. Rodriguez Pastor was a senior official of the Wells Fargo Bank and knew all the 'ins and outs' of the trade. However, despite his reputation as banker, Peru was not able to obtain all the desired credits. During the first quarter of 1983, efforts were being made to obtain sufficient foreign credits to avoid still more drastic measures in meeting the objectives of the IMF agreement. Inflation was a secondary issue and Rodriguez expressly pointed that his main task was to correct foreign unbalances. The government, which in 1980 had emphasized inflation as the main issue, had to reschedule priorities. From 1983 on, inflation was 'officially' put aside and efforts were to concentrate in the balance of payments to eschew an important deficit in the current accounts balance. Even the initial government's 'philosophy' in economic matters was laid aside. For example, in March 1983, imports customs rates were increased to obtain an additional 120 million dollar revenue. This increase was associated to the change in surcharges from 15 per cent on customs to 20 per cent of the CIF value which represented a relatively lower increase for high-tariff products and a relatively high increase for low-tariff products, such as industrial inputs and capital goods. The plan to continue reducing customs, as had been the initial purpose, was practically forgotten. The government, in this sense, was showing a series of inconsistencies with its original intentions in 1980. Futhermore, in 1983 it was clearly that more accelerated steps were being taken to 'stabilize' economy in difficult political times (municipal elections are scheduled for November 1983). The government could no longer efficiently use the argument that a 'belt tightening' in 1983 responded to what the military government had left behind. In the public's mind too much time had passed without any sign of results consistent to what had been announced. On the other hand, arguments claimed that the adjustment should have been done before, for example, in 1981, to opportunely justify the adjustment with the military government's performance. Perhaps the government only had a short term view at the outset and had to satisfy the requests and claims arising from various interests among thém , those of the members of the governing party, who had not received attention during the previous 12 years.

A GENERAL VIEW

From a simplictic bit roughly a correct point of view, it can be said that 1980 was the year when the country lived somewhat on the remnants of the boom in the prices of the minerals of 1979 while at the same time inflation was "repressed". During 1981 the country lived on loans while at the same time losing international reserves, and in 1982, the country lived on loans. In 1983, the government has no longer any option; there are no sufficient international reserves, there are no adequate loans forthcoming, and there is no hope of a notorious improvement in export prices. Being this the case, the adjustment of accounts is not an option, but rather a necessity which would be met without any freedom of action The price, if this limitation is not accepted, is perhaps the crackening of the country's institutions. Ironically, the government which had seemed to be voluntarily choosing the road of accounts adjustment had at the end to adhere without option to some of them. The initial momentum was lost.

II. INDUSTRIAL SECTOR

INDUSTRY AND 'PRIVATE SECTOR' CONCEPTS

The term 'Peruvian industry' is ambiguous, and any analysis of the 'industrial sector' or 'manufacturing sector' has to start with a warning on the existing terminological confusion. The ambiguity on what is and what is not 'industry' is primarily associated to the condition of firms formally registered in the Industry, Tourism and Integration Ministry (MITI). For example, 9,631 industrial enterprises have been registered in 1979, each having 5 or more workers. Nevertheless, many of the registered enterprises do not exist formally through having been registered. Secondly, the ambiguity of 'industry' occurs because the MITI's scope does not include, for example, 'industry' in the fisheries sector. Thus 'manufacturing sector' simply, is distinct from the 'MITI manufacturing sector'. The latter falls within the scope of the MITI. Both 'private sector' and 'industry' are terms which in turn are ambiguous when they do not include formal unregistered enterprises, but also because of the magnitude of the 'informal' sector in the Peruvian dimension. The 'informal' industry is clandestine with reference to registration but its production may be classified as industrial goods. For example, there are many informal enterprises which rebuild used oil filters or which produce shoes at a small scale. These enterprises are not comprised in the official statistics although they are industries and belong to the 'private sector'. This has come to be a serious problem. Howver, the following analysis will mainly refer to the formal sector and the enterprises included in the industrial register and in the corresponding MITI seasonable surveys.

GENERALITIES

Roughly, Peruvian industry employs 13 per cent of the economically active population and generates 25 per cent of the DGP. This proportion has been practically constant since 1965. It is from the 60's that industrial participation in the DGP starts to grow. In this sense, Peru had a belatedly industrialization start off. Industry's protection in the 70's was much greater than in the 60's through restriction on imports and credit policies. In the 70's the imports substitutes process was oriented to the domestic market and only late in the decade were restrictions due to a shortage of foreign currency which made it necessary to reorientate production to foreign markets.

INDUSTRIAL CONCENTRATION

There is a markedly industrial concentration. In 1973, from 4,500 industrial registered enterprises, only four accounted for 13 per cent of the gross value of production while nearly 20 enterprises accounted for 30 per cent of the production. Concentration by industrial sectors in 1975 (only year with available data) is shown in Chart No. 1.

Concentration indexes indicate the effects when domestic markets close to foreign competition. This context must be kekt in mind if 'support for the private sector' is desired.

Several explanations can be put forward for the high concentration indexes. On the one hand, Peru's banking system is traditionally linked to mining, industrial, real estate and insurance interests.

CHART N° 1

CONCENTRATION BY INDUSTRIAL SECTORS: 1975

	Total Concerns	Main Concerns		
	Number	Number	% of Total	% of GVP
Foodstuff	1,861	144	7.7	81.4
Textiles	1,782	163	9.1	56.7
Wood	787	61	7.8	47.6
Paper	501	57	11.3	76.9
Chemicals	705	180	25.5	80.5
Non metallic Minerals	431	34	7.9	66.2
Basic Metallic	91	8	8.8	82.3
Machinery and Equipment	345	161	12.0	67.9
Others	279	35	12.5	59.9
TOTAL	7,782	843	10.8	73.3

Banks serve as a direct link between enterprises and the source of resources. Even state banks which have been shown an increasing importance since the 70's are not free from the pressure of the main groups of power. For a better understanding, Chart No. 2 shows the main family groups which intervene in enterprises registered in Lima's Stock Exchange.

Among commercial banks, the Romero group, is distinct from the others. This group manages the Banco de Crédito in which the Verme, Brescia, Bentin and Nicolini families have also participation. It is worth mentioning that Banco de Crédito is a major bank which generates profits as high as the six banks in which the state has participation (Continental, Popular, Internacional, Peruano de los Constructores, Nor-Peru and Los Anges). Banco de Crédito controls the Financiera de Crédito. On the other hand, the Wiese group controls the bank of the same name and also participates in the Banco Regional del Norte, Banco Regional del Sur, Banco Amazónico and some insurance companies. The Bertello group controlled until recently (April 1983) the Banco Comercial, Compañía de Seguros Italo Peruana, Financiera Comercial del Peru. Until 1981, the Rupp group controlled the Banco de la Industria y Construcción, Financiera Andina, Compañía se Seguros La Universal and had also important interests in the hotel business, commercial aviation and a series of other enterprises grouped in the then called "Vulcano Group". The Brescia group had participation in the Banco de Crédito and controlled in turn the Banco de Lima. Woll controls the Banco Regional Sur Medio y Callao and the Banco de Desarrollo de la Construcción.

The industrial concentration is in turn reflected in the Stock Exchange where control is concentrated in a few hands. Public value offers are infrequent because other sources of resources have been traditionally cheaper (by the control exerted by the banks) and because control of the enterprises is no endangered. Chart No. 3 has been obtained taking a representative sample of enterprises registered in the Stock Exchange and analyzing the control exerted by the 10 major shareholders.

When analyzing the 'private sector', industrial concentration must be taken in account. 'Support for the private sector' cannot be proposed without having in mind who compromises the great enterprise and how important it is in an overall view. Chart No. 4 supplies an example of the diversification of one of the major groups.

GEOGRAPHICAL DISTRIBUTION

Not only propoerty is heavily concentrated in industry. So is the geographical distribution. In 1975 Lima concentrated 70 per cent of the product's gross value, 70 per cent of the added value and 74 per cent of industrial employment. Arranged by products, production is roughly distributed as follows:

Lima and Callao: Food, manufactures, shoes, printed matter, iol refining, electric appliances, metallic tools and equipment and the automotive industry.

Arequipa: Non lasting comsumer's good similar to those in Lima and Callao.

Chimbote: Steel treatment (SIDERPERU) and fisheries.

CHART Nº 2

SECTORS	Baning Nº of enterprises	Financing Nº of enterprises	Insurance Nº of enterprises	Industrial Nº of enterprises	Mining Nº of enterprises	TOTAL ENTERPRISES
[illegible] Pardo	–	–	–	–	2	2
[illegible] Alvarez Calderón	–	–	–	1	–	1
[illegible]llo	1	1	1	1	–	4
[illegible] Cafferata	1	1	2	6	3	13
[illegible] Montori	–	–	–	2	5	7
[illegible]ntori Alfaro	–	–	–	–	3	3
[illegible]ckemeyer	–	–	1	3	1	5
[illegible]ides de la Quintana	–	–	–	–	1	1
[illegible]tín	–	1	1	8	–	10
[illegible]lda Cabanna	–	–	1	–	–	1
[illegible]tuarias Haacker	–	–	–	–	1	1
[illegible] Larco	1	–	1	1	–	3
Ferrandini de Ravego	–	–	–	–	2	2
[illegible]rrand	–	–	–	1	–	1
[illegible]ggero	–	–	1	–	–	1
[illegible]o Massa	1	1	–	–	1	3
[illegible]meister	–	1	–	–	–	[illegible]
[illegible] Petitjean	–	–	1	2	1	[illegible]
[illegible] Colmenares	–	–	3	–	5	[illegible]
[illegible] Piaggio	–	1	1	6	–	[illegible]
[illegible] Cavenago	1	1	1	–	–	3
Majluf	–	1	–	–	–	1
[illegible]rrera	–	–	1	–	2	3
[illegible]colini	1	1	1	–	–	3
[illegible]ro	–	–	–	–	1	[illegible]
[illegible]yet	–	1	1	1	–	3
[illegible]asso	–	–	1	4	5	10
[illegible]nasco-Pinasco	–	1	1	–	–	2
[illegible]o-Patrón	–	–	–	–	1	1
[illegible]ero Seminario	2	1	3	6	1	13
[illegible]hneider Philipp	–	–	–	3	–	3
[illegible]	1	–	1	–	–	2
[illegible]de	–	–	1	3	1	5
[illegible]ese	1	–	1	1	–	3
[illegible] Fernández	–	–	–	3	–	3

CHART N° 3

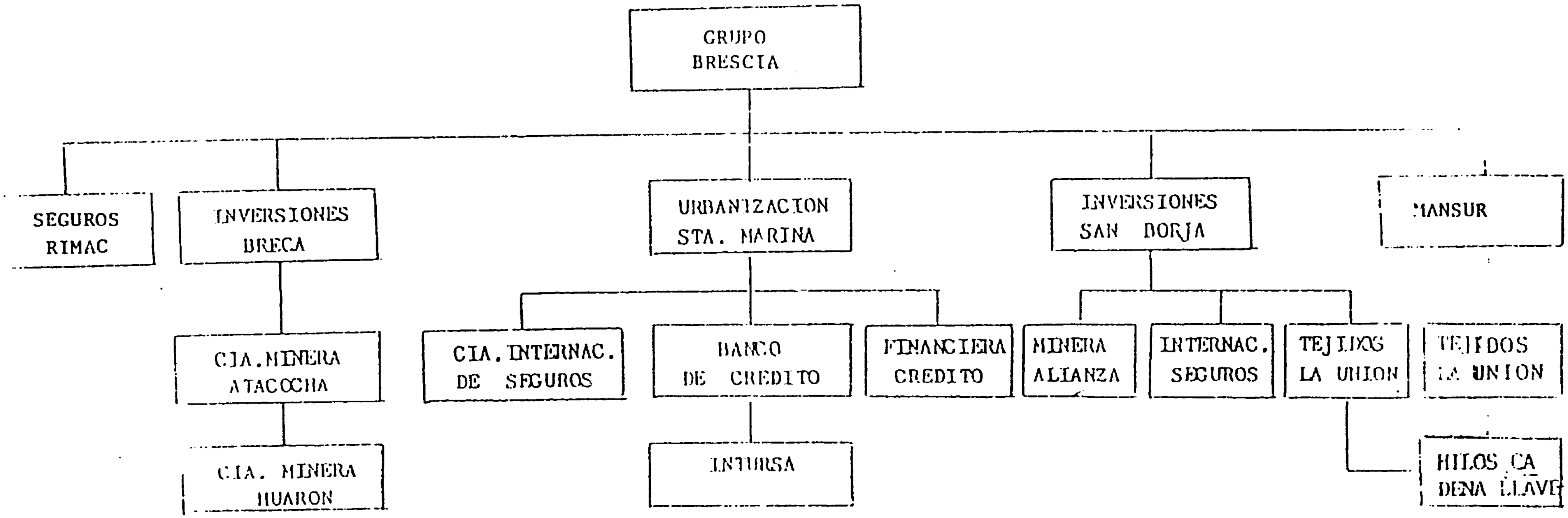
SAMPLE OF ENTERPRISES REGISTERED IN THE STOCK EXCHANGE AS OF DECEMBER 31, 1981

SECTORS

ENTERPRISES	CAPITAL STOCK (Thous. soles)	STOCK % HELD BY THE 10 MAJOR SHAREHOLDERS
BANKS		
- Banco Comercial	5,000:000	68.3
- Banco Crédito	12,100:416	39.8
- Banco Wiese	3,800:000	69.7
Average		59.3
FINANCE COMPANIES		
F. Comercial	830:548	84.3
F. Crédito	1,900:600	58.4
F. de Lima	700:000	100.0
F. del Sur	400:000	61.4
F. Nacional	700:000	96.0
F. Sudamericana	1,540:000	81.8
Promotora Peruana	330:000	83.4
Average		80.8
INDUSTRIAL FIRMS		
- Cervecería Backus y Johnston	14,178:339	37.1
- Cervecería del Norte	6,826:170	69.7
- Cervecería San Juan	6,861:444	67.3
- Cía. Manuf. de Vidrio	1,665:007	92.9
- Cía. Nac. de Cerveza	17,850:456	71.0
- Del Mar S. A.	1,676:977	83.4
- Envasadora de Conservas	2,200:000	77.8
- Fab. de Tejidos La Unión	8,460:913	64.0
- Hilos Cadena Llave	197:216	95.5
- Textil Piura	6,039:582	45.6
- Inresa	3,307:441	60.4
- Plastix Peruana	559:679	92.4

N° 4

CONNECTION BETWEEN THE BRESCIA GROUP ENTERPRISES



44.

47

Piura: Textiles.

Trujillo: Paper and sugar refineries (agro-industrial compunds)

The preceding distribution should not be surprising, as Lima is not only the most populated city of the country, but, however, concentrates the biggest number of consumers. Thus Lima produces the relatively greatest part of consumer's goods.

Geographical concentration is also valid for overall assets, employment, total incomes, consumption of inputs--whether domestic or foreign--and electricity consumption. The relevant data is shown in the Appendix (Charts A1-A6) for 1979 (last year for which information is available).

ADDED VALUE

The subsectors which in a higher degree contribute to the added value are: Food (31) with 25% (always for 1979), chemicals (35) with 20%, textiles (32) with 15%, metal working (38) with 15% and the basic metallic industries (37) with 13%. Chart No. 6 shows the corresponding information.

The proportion of remunerations/personal expenditure in the overall added value in relatively higher in wood (33) with 41%, paper (34) with 37%, sundry industries (39) with 35%, non-metallic minerals (36) with 32% and metal workings (38) with 31%. The ratio for specific taxes and goods and services taxes to the added value is relatively higher in chemicals (35) with 36%, food (31) with 28%, sundry (39) with 18%, non metallic minerals (36) with 18% and textiles (32) with 18% too.

CHARACTERISTICS OF THE INDUSTRIAL SECTOR AND ITS EVOLUTION THROUGH TIME: PRODUCTION

A record breaking industrial production performance is observable in 1970 through 1976 followed by a strong recession in the sector in 1977 through 1978. Then a noticeable recovery can be seen in 1979 and 1980. In 1981 growth was exiguous and negative in 1982. The sector's growth for the period 1980-1982, may be negatively compared with the 5% growth for the previous decade. The manufacturing production's volume index has shown from 1970 to 1976 a yearly growing trend of 9.4%. Actually all subsectors followed the same trend save the basic metals division (CIIU 37). The indicated industrial sector's growth for the period was basically due to a fixed rate of exchange, constant and relatively low interest rates and the population's increased purchasing power as the country was living "beyond its possibilities". On the other hand, major factors were also the restrictions on final products imports and a customs policy which not only banned in many cases imports of certain products, but at the same time, fixed relatively low duties for inputs and capital goods in consonance with the conventional imports substitutes model. As a consequence, there was a strong effective protection for consumer's goods production industries (which produced 52% of the overall added value against an approximately 31% for intermediate goods and 17% for capital goods at 1979 year's end). On the other hand, Chart No. 7 gives data on the growth of the different groupings in the 1976/70, 1978/76 and 1980/78 periods. Charts No. 8 and 9 give more disaggregated information on industrial growth for 1981/1980 and 1980/79. Charts No. 10 and 11 show the evolution of production by major groupings.

CHART [illegible]

INDUSTRIAL DIVISION	No. of fimrs	Percentage	Workers Amount	Workers %	Paid Remuner.	Part. in Gross Production	Consumed Inputs%	Disaggregation % Domestic Origin	Disaggregation % Foreign Origin	Electric Power Consumpt.	Imported Inputs %
31 Food Industries, beverages and tabacco	2,141	22.2	51,656	19.4	18.9	23.5%	22.5	75	25	15.0	28.8
32 Textiles, manufactures and Leather industries	2,050	21.3	58,737	22.1	19.0	13.6	12.4	92	8	16.0	4.9
33 Wood and furniture industries		10.3	15,385	5.8	3.4	1.7	1.6	95	5	1.1	0.4
[illegible] Paper, printing and publishing industries	622	6.5	17,554	6.6	7.8	4.5	4.3	87	13	10.9	3.0
35 Chemical substances and petroleum derivates, rubber, etc.	951	9.9	39,680	14.9	18.8	27.4	31.4	80	20	26.1	32.1
36 Non metallic mineral products	567	5.9	16,856	6.3	5.8	3.7	3.4	88	12	9.6	2.2
37 Basic metallic industries	114	1.2	11,972	4.5	6.4	11.2	10.5	93	7	12.7	3.9
38 Metallic products, machinery and equip.	1,849	19.2	50,794	19.1	18.6	13.6	13.1	65	35	8.0	23.5
39 Sundry manufacturing industries	343	3.5	4,248	1.6	1.3	0.8	0.8	69	31	0.6	1.2
TOTAL	9,631	100.0%	266,882	100.0%	100.0%	100.0	100.0	80	20	100.0	100.0

CHART Nº 6

MANUFACTURING ADDED VALUE PARTICIPATION

CIIU	Industrial Divisions	YEARS 1971 %	1975 %	1976 %	1977 %	1978 %	1979 %
31	Food industries, beverages and tobac.	28.3	27.9	26.0	26.4	24.7	25.3
32	Textiles, manufact. and leather ind.	16.9	14.7	16.1	13.7	13.0	15.5
33	Wood and furniture Industries	2.6	2.5	2.1	2.2	1.4	2.0
34	Paper, printing and publishing ind.	5.3	5.5	4.9	4.9	4.2	4.9
35	Chemical substances and petrol. deriv. rubber, etc.	20.7	18.0	20.8	21.4	28.6	20.1
36	Non metallic mineral products	5.1	4.2	4.3	4.4	4.4	4.3
37	Basic metallic industries	4.5	5.1	4.9	6.8	7.4	12.5
38	Metallic products, machinery and equip.	14.7	18.1	19.5	19.1	15.5	14.6
39	Sundry manufact. industries	1.4	1.3	1.4	1.1	0.3	0.8
INDUSTRIAL SECTOR		100.0	100.0	100.0	100.0	100.0	100.0

decade, 76% of the private investment was channeled to these four sectors. The most important factor in investment has been the "investment by reinvestment'. Charts 15 and 16 supply relevant data.

CHART N° 7

PRODUCTION'S PHYSICAL VOLUME INDEX GROWTH RATES BY MAIN GROUPINGS

	GROUPINGS	1976/1970	1978/1976	1980/1978
311-312	Food	5.1	-2.2	3.2
313	Beverages	13.0	-9.7	10.0
321	Textiles	3.7	-1.8	0.7
351	Industrial Chemistry	17.9	8.2	5.0
352	Sundry Chemistry	15.4	-4.0	3.0
369	Non Metallic Minerals	9.6	-5.7	6.4
371	Iron and Steel	25.2	12.1	9.0
382	Non Electric Machinery	10.5	-10.2	15.5
383	Electric Machinery	17.0	-7.1	3.0

CHART N° 8

	Manufacturing (Industrial Groupings)	Index (January-December) 1979	Index (January-December) 1980	Annual Variation % 1980 / 79
	Total Manufacturing Sector	118.2	125.2	5.9
	MITI Manufact. Sector 1/	106.6	115.7	8.5
31X	Fishmeal Industry	161.6	105.2	-34.9
31	Food, Beverages and Tobacco Ind.	113.3	122.9	8.5
311-312	Food Industries	101.5	107.7	6.3
313	Beverage Industries	131.3	145.2	10.6
314	Tobacco	116.7	128.4	10.0
32	Textiles, Manufacturing and Leather Ind.	102.2	100.5	- 1.7
321	Textile Industries	113.4	108.0	- 4.8
322	Wearing Apparel	68.2	72.2	5.9
323	Leather and Furs	85.1	102.3	20.2
324	Leather Footwear Industries	72.1	82.9	15..
33	WOOD AND FURNITURE INDUSTRIES	97.4	95.2	- 2.3
331	Lumber, Wood, Cork, except Furnit.	133.2	122.1	- 8.3
332	Wooden Furniture	57.7	65.3	13.2
34	PAPER, PRINTING AND PUBLISHING INDST.	72.3	87.3	20.7
341	Paper and Paper Products Ind.	99.6	121.2	21.7
342	Printing, Publishing and the like	54.7	65.5	19.7
35	PETROLEUM DERIVATIVES AND OTHER IND.	130.1	143.9	10.6
351	Industrial Chemical Substances	175.5	184.9	5.4
352	Sundry Chemical Products	113.8	134.4	18.1
353	Petroleum Refineries	132.2	136.1	-3.0
355	Rubber Products	109.5	132.8	21.3
356	Sundry Plastic Products	114.2	124.9	9.4
36	NON METALLIC MINERAL INDUSTRIES	115.0	124.6	8.3
361	Earthnware Products	121.9	114.0	- 6.5
362	Glass and Glass Products	114.0	117.6	3.2
369	Non Metallic Mineral	114.2	128.7	12.6
37	BASIC METALLIC INDUSTRIES	193.4	189.1	- 2.2
371	Basic Iron and Steel Products	138.9	156.0	12.3
372	Basic Non Ferrous Metal Industries	212.8	200.9	- 5.6

Manufacturing (Industrial Groupings)		Index (January-December)		Annual Variation
		1979	1980	1980/79
38	METALLIC AND MACHINERY IND.	92.4	114.5	23.9
381	Metallic Products, except Mach.	92.0	110.8	20.4
382	Construction Machinery, exc.Elec.	134.6	163.1	21.2
383	Electrical Mach. and Equipment	115.2	135.4	17.6
384	Transport Construc. Material	43.4	67.1	54.6
385	Meter and Control Equip, Manufac.	98.3	110.5	12.4
39	SUNDRY MANUFACTURING IND.	81.3	89.4	10.0
390	Other Manufac. Industries	81.3	89.4	10.0

Fisheries Industries, Petroleum and Derivatives and Metal Refinery are excluded from the 'Manufacturing Sector'

CHART N° 9

MANUFACTURING PRODUCTION'S VOLUME INDEX BY INDUSTRIAL GROUPINGS

(Base: Year 1973 + 100.0)

	Manufacturing (Industrial Groupings)	Index (Industrial Groupings)		Annual Variation %
		1980	1981	1981 / 80
	TOTAL MANUFACTURING SECTOR	124 4	124 2	-0 2
	MITI MANUFC. SECTOR1/	115 7	116 3	0 5
31X	Fishmeal Industry	108 5	113 7	4 8
31	Food, Beverages and Tobacco Ind.	119 5	120 4	0 8
311-312	Food Industries	101 6	102 6	-1 0
313	Beverage Industries	145 2	141 5	-1 2
314	Tobacco	128 4	137 5	-7 1
32	TEXTILE, MANUFACTURING AND LEATHER IND.	100 5	96 2	-4 3
321	Textile Industries	108 0	107 8	-0 2
322	Wearing Apparel	72 2	51 8	-28 3
323	Leather and Furs	102 3	96 7	-5 5
324	Leather Footwear Industries	80 4	73 6	-8 5
33	WOOD AND FURNITURE INDUSTRIES	95 2	88 5	-7 0
331	Lumber, Wood, Cork, except Furn	122 1	122 8	0 6
332	Wooden Furnt. and Acces.	65 3	50 5	-22 7
34	PAPER, PRINTING AND PUBLISHING IND.	87 3	90 6	3 8
341	Paper and Paper Products Ind.	121 2	112 4	-7 3
342	Printing, Publ. and the like	65 5	76 6	16 9
35	PETROLEUM DERIVATIVES AND OTHER IND.	143 9	147 1	2 2
351	Industrial Chemical Substances	184 9	184 5	-0 2
352	Sundry Chemical Products	134 4	138 7	3 2
353	Petroleum Refineries	136 1	138 8	2 0
355	Rubber Products	132 8	129 8	-2 3
356	Sundry Plastic Products	124 9	136 5	9 3
36	NON METALLIC MINERAL INDUSTRIES	124 6	127 9	2 6
361	Earthnware Products	114.0	137 4	20 5
362	Glass and Glass Products	117 6	117 8	0 2
369	Non metallic Mineral Utensils	128 7	129 7	0 8
37	BASIC METALLIC INDUSTRIES	189 1	177 2	-6 3
371	Basic Iron and Steel Products	156 0	141 0	-9 6
372	Basic Non Ferrous Metal Ind.	200 9	190 1	-5 4

Manufacturing (Industrial Groupings)		Index (Industrial Grouping) 1980	1981	Annual Variation % 1981 / 80
38	METTALIC AND MACHINERY IND.	114.5	118.4	3.4
381	Metallic Products, excep. Mach.	110.8	100.5	-9.3
382	Construction Machinery exc. Elec.	163.1	175.7	7.7
383	Elec. Mach. and Equipment	135.4	153.1	13.1
384	Transport Construc. Mat.	67.1	63.4	-5.5
385	Meter and Control Equip. Man.	110.5	138.8	25.6
39	SUNDRY MANUFACTURING INDUSTRIES	89.4	83.5	-6.6
390	Other Manufacturing Industries	89.4	83.5	-6.6

Preliminary Results
Does not include: Navy's Industrial Service (SIMA)

Fisheries Industries, Petroleum and Services and Metal Refinery are excluded from the 'Manufacturing Sector'.

CHART 10

PRODUCTION'S PHYSICAL VOLUME BY MAIN GROUPINGS

(Base: Year 1973 + 100,0)

	GROUPINGS	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
311-312	Food	76.3	86.9	95.4	100.0	106.4	107.9	105.8	105.5	101.2	101.3	107.7
313	Beverages	70.9	83.6	88.7	100.0	121.3	132.6	147.3	134.9	120.1	131.3	145.2
321	Textiles	88.7	101.5	98.5	100.0	101.4	102.5	110.3	97.8	106.4	113.4	100.0
351	Industrial Chemistry	53.3	62.0	86.6	100.0	115.8	130.9	143.2	156.0	167.8	175.5	184.9
352	Sundry Chemistry	58.2	70.5	86.8	100.0	107.0	126.1	137.6	123.1	126.7	113.8	134.4
369	Non Metallic Minerals	73.5	89.5	92.7	100.0	123.8	129.0	127.9	117.4	113.7	114.3	128.7
371	Iron and Steel	37.1	38.8	73.2	100.0	122.4	124.7	104.4	123.3	131.2	138.9	156.0
382	Non Electrical Mach.	54.9	65.1	92.4	100.0	118.9	150.6	151.7	142.1	122.3	134.6	163.1
383	Electrical Mach.	56.7	62.7	80.8	100.0	123.9	149.7	145.7	140.9	125.7	115.1	135.4

CHART 11

PRODUCTION'S PHYSICAL VOLUME INDEX ANNUAL VARIATION

BY MAIN GROUPINGS

GROUPINGS		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
311-312	Food	13.5	7.3	4.8	6.4	1.4	-1.9	-0.3	-4.1	0.1	6.3
313	Beverages	17.9	6.1	12.7	21.8	9.3	11.1	-8.4	-11.0	9.3	10.6
321	Textiles	14.4	-3.0	1.5	1.4	1.1	7.6	-11.3	8.8	6.6	-4.8
351	Industrial Chemistry	16.3	39.6	15.5	15.8	13.0	9.4	8.9	7.6	4.6	5.4
352	Sundry Chemistry	21.1	23.1	15.2	7.0	17.9	9.1	-10.5	2.9	-10.2	18.1
369	Non Metallic Minerals	21.6	3.6	7.9	23.8	4.2	-0.9	- 8.2	- 3.2	0.5	12.6
371	Iron and Streel	43.2	88.7	36.6	22.4	1.9	-16.3	18.1	6.4	5.9	12.3
382	Non Electrical Machinery	18.6	41.9	8.2	18.9	26.6	0.7	-6.3	-13.9	10.1	21.2
383	Electrical Machinery	19.6	28.9	23.8	23.9	20.8	-2.7	-3.3	-10.8	-8.4	17.6

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CHART N° 12

INDUSTRIAL SECTOR'S BALANCE OF PAYMENTS

(millions of Dollars)

YEARS	EXPORTS	IMPORTS	BALANCES
1970	26.4	420.7	- 394.3
1971	23.1	550.2	- 527.1
1972	41.5	564.4	- 522.9
1973	87.8	667.6	- 579.8
1974	105.0	1350.7	-1245.7
1975	80.3	1548.4	-1468.1
1976	123.2	1218.6	-1095.4
1977	193.2	1085.4	- 892.2
1978	276.5	1018.8	- 742.3
1979	569.0	1268.8	- 699.0
1980	527.8	1607.2	-1042.[illegible]

INDUSTRIAL SECTOR'S TRADE BALANCE

(Percentage Variation)

YEARS	EXPORTS	IMPORTS	BALANCES
1971	-12.5	30.8	33.7
1972	79.7	2.6	- 0.8
1973	111.6	18.3	10.9
1974	19.6	102.3	114.8
1975	-23.5	14.6	17.9
1976	53.4	-21.3	- 25.4
1977	56.8	-10.9	- 18.6
1978	43.1	- 6.1	- 16.8
1979	105.8	24.5	- 5.8
1980	10.3	26.7	49.1

CHART N° 13

EMPLOYMENT STRUCTURE IN THE INDUSTRIAL SECTOR BY TYPE

OF GOODS (%)

YEAR	TOTAL SECTOR	CONSUMER'S GOODS	INTERMEDIATE GOODS	CAPITAL GOODS
1971	100.0	57.4	25.5	17.1
1972	100.0	56.9	26.0	17.1
1973	100.0	55.4	26.3	18.3
1974	100.0	53.5	26.9	19.6
1975	100.0	52.7	27.0	20.3
1976	100.0	52.8	26.4	20.8
1977	100.0	53.6	26.4	20.0
1978	100.0	53.4	26.8	19.8
1979	100.0	53.1	27.9	19.0

CHART N° 14

PRODUCTION AND EMPLOYMENT IN THE INDUSTRIAL SECTOR

GROWTH RATES (%)

PERIOD	1980/1971	1976/1971	1976/1974	1978/1976	1980/1978
Production	4.0	8.3	4.9	-6.5	4.6
Employment	3.4	5.3	4.9	0.0	1.0

CHART 15

AUTHORIZED PRIVATE INVESTMENT IN THE INDUSTRIAL SECTOR

(Thousands of Soles of 1973*)

YEAR	VALUES			ANNUAL VARIATION %		
	Reinvestment	Constitution	Total	Reinvestment	Constitution	Total
1971	5810.9	4561.3	10732.[illegible]			
1972	[illegible]981.9	1580.0	[illegible]	18.4	-65.2	-18.3
1973	[illegible]416.0	2739.5	11155.5	22.3	72.5	31.7
1974	[illegible]095.8	4212.1	12307.[illegible]	-3.0	53.8	10.3
1975	10904.3	2407.3	13311.[illegible]	34.7	-42.8	8.2
1976	8548.0	1409.8	9957.[illegible]	-21.6	-41.[illegible]	-25.2
1977	10229.0	4251.1	14480.1	19.7	201.5	45.4
1978	8259.4	2646.7	10906.1	-19.3	-37.7	-24.7
1979	9062.1	1397.7	10459.8	9.7	-47.2	-4.1
1980	11390.7	1139.7	12530.[illegible]	25.7	-18.5	19.[illegible]

* Values Deflated with the Total Capital Gross Conformation Price Index.

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CHART 16

AUTHORIZED PRIVATE INVESTMENT IN THE INDUSTRIAL SECTOR

(thousands of Soles of 1973ˣ)

YEAR	VALUES			ANNUAL VARIATION %		
	Reinvestment	Constitution	Total	Reinvestment	Constitution	Total
1971	5711.7	4483.4	10195.1			
1972	8096.2	1868.2	9964.4	41.7	-58.3	- 2.3
1973	8416.0	2739.5	11155.5	4.0	46.6	12.0
1974	8095.8	4212.1	12307.9	- 3.8	53.8	10.3
1975	11078.2	2445.7	13523.9	36.8	-41.9	9.9
1976	8410.1	1387.1	9797.2	-24.1	-43.3	-27.6
1977	10266.7	4266.7	14533.4	22.1	207.6	48.3
1978	828[illegible].8	2655.4	10942.2	-19.3	-37.8	-24.7
1979	9065.[illegible]	1398.2	10463.2	9.4	-47.3	- 4.4
1980	11395.5	1140.2	12535.7	25.7	-18.5	19.8

x Values Deflated with the Fixed Capital Gross Conformation Price Index.

FINANCING

Credit availability for the private sector has been subject to changes with times. During the first half of the 1970 decade, private sector credit expanded swiftly and interest rates were subsidized. In the second half of the 1970 decade a series of difficulties were encountered and a series of stabilization programs were applied. For example, with the purpose of financing the public sector, credit for the private sector contracted between 1977 and 1979. From 1980 on the tendency has been to supply credit fundamentally to the private sector as recovery was based in this sector. However, by mid 1982 a strong shortage of liquidity was being felt as a consequence of the country's IMF through its monetary program. Credit assignments among the different sectors do not show, however, substantial changes from 1980 though 1982 as can be seen in Chart No. 7. The decreasing tendency in national currency, foreign currency credits as well as in credit prices for the private sector are shown in Charts No. 18, 19 and 20.

It should be made clear that Promotion Banking credit has been relatively oriented to the financing of exports through a series of lines, the most popular is FENT (Non Traditional Exports Fund). The Promotion Banking handles in turn credit lines for the small enterprise but apparently in an insufficient amount, moreover, the case is that small enterprises and the informal sector itself are reluctant to accept the necessary bureaucratic procedures involved in a credit application.

CHART Nº 17

COMMERCIAL AND SAVINGS BANKING - ALLOCATIONS BY ECONOMIC SECTORS BENEFITED

BENEFITED SECTORS	1980 December	o/o	1981 December	o/o	1982 November	o/o
AGRICULTURE	3,829	0.9	17,911	1.5	25,279	1.7
Domestic Consump	2,338	0.6	6,350	0.7	13,805	0.9
Others	1,491	0.3	6,561	0.8	11,471	0.8
CATTLE RAISING	3,436	0.9	7,575	0.9	13,506	0.9
Domestic Consump	3,089	0.8	6,704	0.8	12,260	0.8
Others	347	0.1	871	0.1	1,246	0.1
FISHERIES	2,931	0.7	11,181	1.3	15,921	1.1
Domestic Consump	1,842	0.4	8,770	1.0	11,876	0.8
Others	1,089	0.3	2,411	0.3	4,045	0.3
INDUSTRY	170,812	42.5	327,563	37.9	547,176	37.4
Exports	22,814	5.7	43,627	5.0	81,126	5.6
Imports Subst.	98,547	24.5	196,727	22.7	323,857	22.1
Others	49,451	12.3	87,209	10.1	142,193	9.7
MINING	13,893	3.5	37,478	4.3	46,322	3.2
Small	1,071	0.3	7,120	0.8	11,230	0.8
Medium and Big	12,822	3.2	30,358	3.5	35,092	2.4
TRADE	86,180	21.4	232,628	26.8	418,511	28.7
C/V Merchandise	78,234	19.5	216,949	25.0	392,198	26.8
C/V Securities	5,323	1.3	11,085	1.3	15,038	1.1
C/V Real Estate	2,623	0.6	4,594	0.5	11,275	0.8
CONSTRUCTION	22,329	5.6	69,449	8.0	64,546	4.4
Popular Housing	7,455	1.9	16,559	1.9	21,516	1.5
Others	14,874	3.7	52,890	6.1	42,930	2.9
PUBLIC SECTOR	1,582	0.4	3,448	0.4	26,398	1.8
Central Govern.	6	0.0	5	0.0	3,851	0.3
Other Inst.(1)	1,576	0.4	3,443	0.4	22,547	1.5
SUNDRY (2)	97,001	24.1	164,471	19.0	304,657	20.8
TOTAL:	401,993	100.0	868,704	100.0	1'462,316	100.0

(1) Includes Municipalities, Welfare Institutions, Corporations, Social Security, etc.

(2) Includes credits granted to professional annuitants and non specified concepts.

CHART N° 18

PRIVATE SECTOR'S ACTUAL CREDIT EVOLUTION

	Actual Credit in M/N (S/.M.M. of 1979)			Actual Credit in M/E 1/ (S/. M.M. of 1979)			Actual Credit Total to the Private Sector (S/. M.M. of 1979		
	1981	1982	Δ% 82/81	1981	1982	Δ% 82/81	1981	1982	Δ% 82/
January	257	359	39.7	89	104	16.8	346	464	34.1
February	261	350	34.1	91	112	23.1	352	462	31.2
March	271	360	32.8	90	111	23.3	361	471	30.5
April	288	369	28.1	93	113	21.5	381	482	26.5
May	289	381	31.8	95	125	31.6	384	506	31.8
June	295	380	28.8	100	125	25.0	396	506	27.5
July	300	367	22.3	101	138	36.6	400	505	26.2
August	307	363	18.2	100	142	42.0	407	505	24.1
September	311	361	16.1	99	145	46.5	410	506	23.4
October	319	355	11.3	99	166	67.7	419	522	24.3
November	332	357	7.5	102	142	39.2	435	499	14.7
December	353	358	1.4	108	155	43.5	462	513	11.0
Average	290.6	363.3	21.7	97.2	131.5	35.3	396.1	494.8	24.9

1/ Valued at the daily average purchase-sale rate of exchange of the quarter ending on the month indicated.

CHART N° 19

CREDIT, INFLATION AND DEVALUATION EFFECTIVE COSTS
(Annual Rates)

	90 days note		120 days note		Overdraft 1/		Inflation	Devaluation 3/	
	Nominal	Real	Nominal	Real	Nominal 2/	Real		Quarters	Four Months
January	69.6	7.6	71.8	7.6	69.0	-0.3	61.5	58.8	55.9
February	69.6	7.3	71.8	9.1	69.0	8.1	60.2	59.9	59.1
March	69.6	-4.7	71.8	1.0	69.0	-19.7	60.2	63.4	61.5
April	69.6	-4.1	71.8	-1.9	69.0	2.0	60.9	73.8	71.3
May	69.6	-1.5	71.8	2.1	69.0	17.2	58.9	83.8	77.5
June	69.6	5.9	71.8	0.1	69.0	-0.3	61.0	89.4	83.3
July	69.6	5.9	71.8	6.3	69.0	3.2	61.8	86.7	89.3
August	69.6	1.1	71.8	6.2	69.0	0.8	63.1	87.6	88.0
September	69.6	0.3	71.8	1.4	69.0	3.4	65.7	90.6	88.4
October	69.6	-9.0	71.8	-5.2	69.0	-24.1	69.8	98.6	96.2
November	69.6	-9.[illegible]	71.8	-5.7	69.0	-0.3	71.1	109.5	105.0
December	69.6	-8.6	71.8	-6.0	69.0	-0.3	72.9	124.3	115.4
Average	69.6	-0.8	71.8	1.25	69.0	-0.9	64.5	85.5	82.6

1/ Daily capitalization.

2/ Monthly.

3/ Annualized percentage variation of the monthly purchase - sale average rates of exchange.

CHART N° 20

LIQUIDITY EVOLUTION: 1982

	Liquidity (S/.M.M.)		M/N -M4-	Inflation same month previous year	Liquidity in N/C (S/.M.M. 1979)		-M4-
	1981	1982	∆% 82/81		1981	1982	∆% 82/81
January	832	1,492	79.3	61.5	379	421	11
February	863	1,534	77.8	60.2	376	417	11
March	942	1,603	70.2	60.2	385	409	6
April	957	1,615	68.8	60.9	377	395	5
May	1,015	1,662	63.7	58.9	382	394	3
June	1,106	1,803	63.0	61.0	404	409	1
July	1,192	1,935	62.3	61.8	420	421	0
August	1,217	1,915	57.4	63.1	413	399	- 4
September	1,244	1,962	57.7	65.7	410	391	- 5
October	1,275	2,018	58.3	69.8	403	376	- 7
November	1,332	2,031	52.5	71.1	406	362	- 11
December	1,530	2,323	51.8	72.9	451	396	- 12
Average	1,125	1,824	62.1	64.5	401	399	- 0.3

CONCLUSIONS

From the preceding analysis the following basic conclusions may be inferred:

1. The government's economic policy starting July 1980 does not follow a consistent model, it rather has adhered to an erratic approach due to a number of factors among which outstanding are: the availability of foreign credit, the agreement with the International Monetary Fund; export products prices and the political 'necessity' to 'show action'. The original intentions have not been fulfilled. While a reduction of inflation was announced, it actually increased; while austerity in public expenditure was announced, the public sector's deficit as compared to the GDP was no reduced to manageable levels, while a consistent devaluation was announced, minidevaluations were stipped at a certain time of the period, etc.

2. The 'private sector' should not be understood in the traditional terms. Actually, the key private sector is composed by small enterprises and by the informal sector, the latter being of major importance in countries like Peru where state regulations have created this 'exhaustion valve'. No future development strategies can be designed without considering this sector. Nevertheless, this work only analyzes the private formal sector with a predominance of the industrial sector.

3. Peruvian industry is heavily concentrated and linked to banking, real estate, insurance, mining interests, etc. This fact also correlates the financing procedures followed by the enterprises which have received cheap loans without making use of Stock

Exchange public offers. Financing in banking concession terms has led to a strong dependence on banks and the exclusion of 'unrelated enterprises'.

4. The development strategy for the 80's should give utmost importance to exports of manufactured products considering that the domestic market's magnitude cannot warrant opportunities for highly successful accomplishments. This involves a 'realistic' exchange rate, the channeling of investment funds to exports credits, the establishment of governmental institutions (or reinforcement of the existing) to promote exports and the opening of new markets with incentives to exports. Binancing should also be available to small exporters and small enterprises. In this respect, no development strategy can disregard the interdependence of industry, agriculture and the other sectors.

5. 'New entrepreneurs' should receive encouragement, particularly those who start a solid support and who have a more 'scientific' knowledge on the way to do business. These will acquire greater importance even though building an enterprise in the future will involve greater challenges than in the past when there was a captive market, looser credit with implicit subsidies, etc.

A-1

Departments	Geographical Distribution of the Total Assets	Percentage Participation	
		Machinery and Equipment	Other Fixed Assets
Lima Metropolitana	44.42	54%	46%
Callao	12.54	59%	41%
La Libertad	10.45	54%	46%
Ancash	8.51	66%	34%
Piura	5.67	58%	42%
Arequipa	5.37	37%	63%
Lima Provincias	3.16	70%	30%
Loreto	2.36	55%	45%
Lambayeque	2.13	60%	40%
Junín	1.73	77%	23%
Cuzco	1.27	39%	61%
Ica	0.95	58%	42%
San Martín	0.26	87%	13%
Puno	0.24	45%	55%
Tacna	0.23	54%	46%
Huánuco	0.21	53%	47%
Cajamarca	0.18	64%	36%
Ayacucho	0.06	57%	43%
Pasco	0.06	67%	33%
Amazonas	0.05	35%	65%
Madre de Dios	0.05	70%	30%
Tumbes	0.05	59%	41%
Apurímac	0.01	59%	41%
Huancavelica	0.01	60%	40%
Moquegua	0.01	51%	49%

A - 2

Departments	Personnel's Geographical Distribution		Percentage Participation	
	Total Number of Workers	%	Employees %	Workers %
Lima Metropolitana	166,979	62.70	32	68
Callao	25,607	9.59	36	64
La Libertad	12,424	4.65	30	70
Arequipa	11,545	4.32	30	70
Loreto	7,952	2.97	24	76
Junín	6,808	2.55	24	76
Ancash	6,349	2.37	44	56
Lambayeque	6,300	2.36	34	66
Lima Provincias	5,228	1.95	38	62
Piura	5,051	1.89	45	55
Ica	3,580	1.34	31	69
Cuzco	3,007	1.12	32	68
Huánuco	1,727	0.64	28	72
Tacna	864	0.32	37	63
Puno	704	0.26	37	63
Cajamarca	687	0.25	33	67
Pasco	521	0.19	26	74
San Martín	444	0.16	30	70
Madre de Dios	275	0.10	33	67
Ayacucho	205	0.07	34	66
Tumbes	205	0.07	29	71
Amazonas	125	0.04	24	76
Moquegua	111	0.04	32	68
Huancavelica	103	0.03	32	68
Apurímac	90	0.02	34	66
Industrial Sector's Total	266,882	100.00	33	67

A - 3

Departments	Geographical Distribution of Total Incomes %	Percentage Disaggregation			
		Annual Production	CERTEX Income	Other Income	Goods and Services Taxes
Lima Metropolitana	46.[illegible]8 %	80.0%	2.0%	7.0%	11.0%
Callao	17.7[illegible]	84.4	0.7	3.7	11.2
Junín	8.23	92.6	0.3	2.4	4.7
Piura	7.29	73.0	0.6	16.8	9.6
La Libertad	4.66	82.0	3.0	8.0	7.0
Arequipa	4.29	87.0	2.0	4.0	7.0
Lambayeque	2.61	85.6	0.7	8.7	5.0
Ancash	2.60	91.0	1.3	2.0	5.7
Lima Provincias	2.26	87.0	1.0	7.0	5.0
Loreto	1.30	82.0	3.0	3.0	7.0
Ica	0.96	77.0	3.8	7.9	11.3
Cuzco	0.70	75.5	0.5	5.6	18.4
Tacna	0.28	74.0	9.0	7.0	10.0
Huánuco	0.22	82.5	0.1	6.2	11.2
Puno	0.21	80.0	4.0	2.0	14.0
Cajamarca	0.20	83.0	1.0	11.0	5.0
San Martín	0.08	88.0	0.0	6.0	6.0
Tumbes	0.07	89.0	2.0	7.0	2.0
Pasco	0.05	87.5	0.02	8.5	4.0
Amazonas	0.05	85.0	2.0	11.0	2.0
Madre de Dios	0.04	80.0	1.0	13.0	6.0
Ayacucho	0.04	78.0	0.05	10.0	12.0
Huancavelica	0.01	85.2	0.5	5.5	8.8
Apurimac	0.01	85.0	0.06	3.0	12.0
Moquegua	0.01	84.6	0.0	5.8	9.6
National Sector	100.00%	82.4	1.36	6.46	9.73

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Departments	Geographical Distribution of Inputs Consump.	Percentage Disaggregation Domestic Inputs	Foreign Inputs
Lima Metropolitana	49.28%	76%	24%
Callao	22.61	91	19
Junín	7.99	99	1
Piura	7.42	92	8
Arequipa	4.71	73	27
La Libertad	4.19	73	27
Lambayeque	2.15	92	8
Ancash	2.15	74	26
Lima Provincias	2.01	35	15
Loreto	1.13	86	14
Ica	0.82	33	17
Cusco	0.58	90	10
Cajamarca	0.24	94	6
Tacna	0.23	88	12
Puno	0.22	97	3
Huánuco	0.20	92	8
Tumbes	0.10	67	33
San Martín	0.10	98	2
Amazonas	0.07	56	44
Pasco	0.06	91	9
Ayacucho	0.05	99	1
Madre de Dios	0.05	84	16
Huancavelica	0.02	69	31
Apurimac	0.02	94	6
Moquegua	0.01	34	16
National Industrial Sector	100.00	30	20

A - 5

Departments	Proportion of industrial electric power consumption (%)
Lima Metropolitana	44.32
Callao	14.51
Ancash	11.60
Lima Provincias	11.57
La Libertad	5.10
Arequipa	3.18
Piura	3.16
Cusco	2.01
Ica	1.19
Junín	1.08
Lambayeque	1.00
Loreto	0.57
Tacna	0.11
Huánuco	0.10
Puno	0.10
Cajamarca	0.08
Tumbes	0.06
Pasco	0.05
San Martín	0.05
Ayacucho	0.03
Moquegua	0.03
Madre de Dios	0.03
Amazonas	0.03
Huancavelica	0.02
Apurimac	0.02
National Industrial Sector	100.00%

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Departments	Percentage of foreign inputs in domestic industries	Percentage Disaggregation		
		Raw Materials	Anciliary Materials	Parts and Accesories
Lima Metropolitano	53.92%	90%	6%	4%
Callao	22.25	96	3	1
Arequipa	6.60	98	1	1
La Libertad	5.86	94	3	3
Piura	3.12	98	1	1
Ancash	2.87	99	0.5	0.5
Lima Provincias	1.56	81	5	14
Lambayeque	0.91	97	2	1
Loreto	0.84	94	2	4
Ica	0.72	92	5	3
Pasco	0.30	99	1	-
Cusco	0.29	96	3	1
Junín	0.27	66	17	17
Tumbes	0.16	99.4	0.2	0.4
Amazonas	0.15	98	-	2
Tacna	0.14	97	3	-
Cajamarca	0.08	94	4	2
Huánuco	0.08	88	10	2
Puno	0.04	84	10	6
Madre de Dios	0.03	99	1	-
Huancavelica	0.03	95	4	1
Moquegua	0.01	91	8	1
San Martín	0.008	85	6	9
Apurimac	0.005	95	5	-
Ayacucho	0.002	70	15	15

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FINANCIAL SYSTEM'S NATIONAL CURRENCY LIQUIDITY

(thousands of millions soles)

	NOMINAL					R E A L (Base - Dic.1980)				
	Money	Quasimoney			Total	Money	Quasimoney			TOTAL
		Bank	Non Bank	Total			Bank	Non Bank	Total	
1977 Dic.	119	66	40	106	225	554	307	186	493	[illegible]
1978 Dic.	171	83	49	132	303	458	222	132	354	81[illegible]
1979 Dic.	305	163	80	243	548	491	263	129	392	883
1980 Dic.	519	305	144	449	968	519	305	144	449	968
1981 Dic.	759	695	275	970	1,729	439	403	159	562	1,001
1982 Feb.	742	735	313	1,048	1,790	396	392	167	559	955
Mar.	752	803	328	1,131	1,883	377	403	164	567	944
Jun.	830	965	383	1,348	2,178	370	431	171	602	97[illegible]
Set.	878	1,013	412	1,425	2,303	344	397	161	558	90[illegible]
Dic.31	1,038	1,229	462	1,691	2,729	348	412	154	566	914

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BANKING SYSTEM'S TOTAL CREDIT

	Nominal								REAL (Base = Dic.1980)					
	Public Sector (Net) 1/				Private Sector				Public Sector (Net) 1/			Private Sector		
	H/N	H/E S/.	H/E (mill.US$)	Total	H/N	H/E S/.	H/E (mill.US$)	Total	H/N	H/E	Total	H/N	H/E	Total
[illegible] Dic.	105	87	(679)	187	161	10	(77)	171	489	382	871	750	47	797
[illegible] Dic.	179	117	(596)	296	208	31	(158)	239	480	314	794	558	83	641
[illegible] Dic.	174	50	(200)	224	302	90	(360)	392	280	80	360	486	145	631
19[illegible] Dic.	247	144	(421)	386	544	205	(600)	749	242	144	386	544	205	749
1981 Dic.	585	187	(369)	772	1,196	390	(769)	1,586	339	108	447	692	226	918
1982 Feb.	595	196	(356)	791	1,397	425	(772)	1,822	317	105	422	745	227	972
Mar.	622	279	(485)	901	1,408	465	(808)	1,873	312	140	452	706	233	939
Jun.	532	234	(346)	766	1,676	597	(883)	2,273	237	104	341	748	266	1,014
Set.	611	218	(374)	829	1,814	785	(988)	2,599	240	86	326	713	309	1,022
Dic.31	711	232	(234)	943	2,101	994	(1,004)	3,095	238	78	316	704	333	1,037

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MAIN CURRENCIES[1] RATE OF EXCHANGE

(soles per monetary unit)

	US$	D.M. 2/	YEN 2/	F.F 2/	Basket 3
1976	69.37	29.36	0.24	13.96	100
1977	130.38	61.94	0.54	27.71	199
1978	196.18	107.32	1.01	46.93	318
1979					
Mar.	211.35	113.17	1.01	49.19	338
Jun.	225.18	121.84	1.04	52.55	360
Set.	238.09	136.64	1.07	58.06	385
Dic.	250.12	144.45	1.04	62.27	403
1980					
Mar.	266.36	137.16	1.07	59.48	414
[illegible]	284.97	162.08	1.31	69.73	464
[illegible]	309.01	170.60	1.46	73.58	501
[illegible]	341.73	174.44	1.68	76.43	546
1981					
Feb.	372.50	174.97	1.78	74.41	577
Mar.	397.60	189.13	1.88	75.13	617
Jun.	418.92	175.28	1.85	73.54	620
Ago.	440.06	180.13	1.92	75.37	645
Set.	453.96	196.29	1.97	81.94	674
Nov.	487.35	221.17	2.28	87.71	739
Dic.	506.97	225.07	2.31	88.75	761
1982					
	528.02	228.10	2.36	89.25	784
Feb.	550.57	232.12	2.46	91.20	805
Mar.	575.28	239.99	2.39	92.11	833
.	609.17	262.56	2.67	100.30	894
May.	642.84	275.52	2.76	105.13	940
Jun.	675.98	273.42	2.87	97.79	961
Jul.	715.75	292.14	2.86	104.67	1023
Ago.	755.10	302.02	2.97	108.01	1072
Set.	794.75	316.02	3.11	111.37	1119
Oct.	851.85	335.09	3.15	117.93	1189
Nov.	909.03	366.07	3.70	129.11	1293
Dic.	989.67	418.19	4.32	147.15	1435

1 Average purchase-sale price in soles at period's end, excepting the Yen which, starting 1982 refers to the selling price.

2. From 1976 to 1981: cross-reference estimates on quotations against the US dollar. 1982: Fixed Exchange Market

3. Soles pondered devaluation index against the currencies' basket of the seven countries trading most with Peru. Base 1976-100.

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DEVALUATION AND INFLATION: % VARIATIONS [1]

	Realized Devaluation		Inflation			Relative Inflation	
	Official		Domestic	U.S.	Foreign 2/	Bilateral 3/	Multilateral 4/
Dic.75/Dic.76	52.7		44.8	4.7	6.5	38.2	35.9
Dic.76/Dic.77	81.2		32.4	6.8	12.6	24.0	17.6
Dic.77/Dic.78	55.5		73.7	9.1	13.8	59.2	52.7
Dic.78/Dic.79	28.1	19.6	66.7	13.3	10.8	47.2	50.5
Dic.79/Dic.80	35.8	35.6	60.8	12.4	11.0	43.1	44.9
Dic.80/Dic.81	47.7	47.9	72.7	8.9	2.2	58.5	69.0
Dic.81/Dic.82	90.7	90.1	72.9	5.0	0.8	64.7	71.6
Jul.80/Mar.83	306.8	309.7	376.7	18.5	4.0	302.1	358.4
.82/Mar.83	126.2	124.2	111.0	4.0	0.5	102.9	109.6
Dic.82/Mar.83	23.6	24.7	27.5	0.4	0.4	77.0	77.[illegible]

1 Percentage variations obtained when comparing variables average values in the reference months.
2 Includes the inflation of the 7 main trading Peru's partners, as well as their currency variation against the dollar
3 Differential between domestic and US inflation.
4. Differential between domestic and foreign inflation.

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DOMESTIC GROSS PRODUCT BY PRODUCTION SECTORS

	1981 I Quart.	1981 II Quart.	1981 III Quart.	1981 IV Quart.	% Var. last 12 months	1982* I Quart.	1982* II Quart.	1982* III Quart.	1982* IV Quart.	% Var last 12 months
GDP	104.3	106.9	106.4	107.6	3.2	109.5	107.1	107.2	104.0	[illegible]
Agriculture	101.3	109.2	113.8	102.7	12.8	112.2	114.6	109.2	106.0	[illegible]
Fisheries	79.7	92.7	74.4	85.8	-12.3	90.7	92.8	72.9	69.0	[illegible]
Mining	96.2	95.0	84.1	96.5	-4.4	98.9	95.0	101.6	98.9	[illegible]
Manufacturing	104.7	105.4	104.5	107.0	0.1	106.7	101.8	103.0	98.8	[illegible]
Construction	121.7	128.0	138.9	139.2	11.0	139.3	132.8	133.5	134.2	[illegible]
Government	103.0	103.6	104.2	104.8	2.3	105.3	105.7	106.3	106.8	[illegible]
Others	106.2	108.9	108.7	110.1	3.8	111.2	108.9	108.9	106.0	[illegible]

(*) BCR Estimates, subject to modifications.

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METROPOLITAN LIMA CONSUMER'S PRICE INDEX

1979 = 100)

		General Index	% Variation Monthly Rate	Accumulates % Variation	% Variation same month previous year
1979	Average	100.0	4.4		
	December	122.1	2.0	66.7	66.7
1980 :	Average	159.2	4.0		
	December	196.3	2.8	60.8	60.8
1981 :	Average	279.2	4.6		
	December	339.0	3.3	72.7	72.7
1982 :	Average	459.2	4.2		
	January	354.3	4.5	4.5	61.5
	February	367.9	3.8	8.5	60.2
	March	391.6	6.4	15.5	60.2
	April	408.6	4.3	20.5	60.9
	May	421.4	3.1	24.3	58.9
	June	440.5	4.5	29.9	61.0
	July	459.6	4.2	35.5	61.8
	August	479.6	4.4	41.5	63.1
	September	502.3	4.7	48.2	65.7
	October	537.0	6.9	58.4	69.8
	November	561.3	4.5	65.6	71.1
	December	586.3	4.5	72.9	72.9
1983 :					
	January	631.1	7.6	7.6	78.1
	February	680.0	7.8	16.0	84.8
	March	747.6	9.9	27.5	90.9