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TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS
ON THE CONSULTATION UNDER ARTICLE XVIII:12(a) WITH PERU

1. As requested by the Council at its meeting of 27 March 1968 and in accordance with its terms of reference, the Committee has conducted a consultation with Peru under Article XVIII:12(a). The Committee had before it BOP/81, the text of the Decree of 29 February 1968 containing provisions concerning the suspension of imports referred to in document L/2996, together with material supplied by the International Monetary Fund.
2. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 20 May 1968. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Peru. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Peru. The statement made was as follows:

"In 1967 the balance of payments deficit on current account was \$165.8 million against \$137.3 million in 1966. Taking account of capital transfers and errors and omissions, the over-all deficit, reflected in a fall in the foreign reserves of the official banking system, was \$90.7 million compared to \$60.6 million in 1966. In the first quarter of 1968 the balance of payments situation deteriorated further and at the end of March the net reserves of the official banking system were a negative \$26.2 million.¹

"On August 18, 1967 the Fund approved a stand-by arrangement with Peru effective from that date authorizing Peru to draw up to the equivalent of \$42.5 million over a period of 12 months. The arrangement is in support of a financial program which is designed to restore confidence, to bring about an improvement in the balance of payments, and to achieve reasonable price stability. However, difficulties have been encountered in the implementation

¹This calculation of the net reserve position of the official banking system includes liabilities for short-term borrowings and swap transactions not reflected in the monetary accounts.

"of the program and the balance of payments has continued to be under pressure. Although steps have been taken to raise budgetary revenue, including adjustments in tariff rates, a difficult fiscal situation persists. In September 1967 the monetary authorities withdrew from the exchange market and the exchange rate depreciated sharply. Early in October the Government reinstated on a temporary basis the system of exchange certificates in operation prior to May 16, 1960. The certificates which originate with export receipts are freely negotiable for all import payments and certain other transactions. To date the exchange rate in the certificate market has been maintained at S/.38.70 per U.S. dollar while the draft rate has fluctuated and as of April 11 was at S/.41.32 per U.S. dollar.

"At the present time, the general level of restrictions of Peru which are under reference does not go beyond the extent necessary to stop a serious decline in its reserves."

Opening statement by the representative of Peru

4. In his opening statement, the full text of which appears in an Annex, the representative of Peru explained the background leading up to the economic situation in which Peru now found itself and described the measures which had been taken. For a number of years, the value of Peru's exports had increased steadily at a rate of about 9.9 per cent per annum, and up to about 1962 the increase had corresponded to an increase in volume as well as in price, but more recently the increases had represented mainly higher prices rather than sustained increases in the quantity of exports. Several factors had contributed to this relative stagnation of exports, which was no doubt connected with Peru's efforts to build up its infrastructure. Chief among other causes one might cite an inadequate rate of new investment in exports and the inelasticity of demand for Peruvian products. Meantime, on the import side there had been a spectacular increase, amounting to some 13.5 per cent per annum, or double the rate of increase in Peru's gross national product. Needs for capital equipment to carry out development programmes went some way to explain the increase, but the failure of domestic agricultural production to keep pace with the needs of the population for foodstuffs had also played its part, and imports of foodstuffs had risen sharply in 1965 and 1966, reaching 17 per cent in the latter year, and recently there had also been increased imports of non-essential consumer goods. Now it seemed that Peru's economy had begun a process of deceleration. To a considerable extent, this reflected deliberate Government policy which, for financial reasons, now sought to strengthen the forces of stability by increasing revenues and by reducing expenditures so as to reduce the fiscal deficits which were recognized as a source of the inflationary pressure.

5. With respect to the balance-of-payments position, he recalled that Peru's net deficit in 1966 had been equivalent to \$61 million and in 1967 to \$91 million. In the first three months of 1968 the net deficit already amounted to \$19 million. The unsatisfactory position of exports and high rate of imports were partly responsible, but losses in the trade sector had been aggravated by an outflow of short-term capital. An exchange rate adjustment amounting to a depreciation of some 30 per cent was made in September 1967 when the central bank withdrew support of the rate which had been maintained up to then.

6. The Government of Peru was now taking both long and short-term measures to attain stability without sacrificing the reasonably high rate of growth which Peru had enjoyed. The development of Peru's infrastructure had undoubtedly put an extra strain on the balance of payments but it comprised an essential objective which could not be sacrificed. On the other hand, it was recognized that the budget would have to be balanced if stability were to be assured. To that end also, there had been introduced requirements that banks hold higher reserves, restrictions on credit and, finally the restrictions on imports which were of special concern to the Committee.

7. The representative of Peru noted that his country fitted precisely the contingency foreseen in Article XVIII, paragraph 8 of the General Agreement. Peru had therefore invoked the provisions of Section B of that Article as justification for the import restrictions which it had been obliged to impose and was now consulting with the CONTRACTING PARTIES in accordance with the provisions of paragraph 12(a). The temporary import prohibitions which had been imposed on 29 February 1968 for a ninety-day period covered non-essential goods which had accounted for some 20 per cent of Peru's imports in 1967. Some were products which could be grown or manufactured within the country, and the others, if not available from domestic sources, could be dispensed with for a while at least. He recalled that Peru had made more concessions in GATT than almost any other developing country, and he felt that in the circumstances there could be no question concerning Peru's right to take the action required to safeguard its balance of payments. A certain number of other measures auxiliary to this main effort to curb imports had been taken and Peru was also doing what it could to increase exports. He could not of course guarantee what the balance-of-payments results would be for 1968 but he noted that one recent estimate looked for a favourable current account balance of some \$70 million. On certain assumptions concerning capital movements this same forecast predicted a net favourable balance of over \$22 million.

Balance-of-payments position and prospects and alternative methods of restoring equilibrium

8. Members of the Committee praised the representative of Peru for the very illuminating presentation he had made of Peru's present position. It was not questioned that Peru had acted correctly in invoking Article XVIII:B when it had been found necessary to impose temporary import restrictions. It was noted in this connexion that Peru's long record of maintaining a liberal commercial policy only underlined the seriousness of the concern regarding Peru's present situation. The hope was generally expressed that the months ahead would permit relaxation and removal of the restrictions, as might be possible if increasing reliance could be placed on various domestic anti-inflationary measures. Representatives of several countries expressed their sympathy for the difficulties now being experienced by Peru, which seemed to be caused by a number of factors including a fall in prices of some exports.

9. Members of the Committee noted that Peru had notified the CONTRACTING PARTIES earlier that tariffs were being increased on a list of products, and they referred to the establishment of a working party to consider the relationship between these tariff increases and Peru's GATT obligations. The working party had not yet met as it was understood that data were not yet available concerning the products and rates of duty involved. The representative of Peru replied that Peru had indeed asked the CONTRACTING PARTIES for guidance and advice as to how to deal with its difficult international situation whilst avoiding the use of quantitative restrictions.¹ The working party had not yet met, but Peru was available for consultation in that working party whenever others were ready to meet; the representative of Peru stated that the required information had been submitted some time ago.

10. In the discussion which followed, members of the Committee noted that Peru presented one of the more successful examples of development in Latin America and had achieved very considerable progress without too much difficulty up to about 1965. They agreed that to some extent special factors beyond Peru's control went a long way to explain the less favourable development of exports and imports since that time. On the other hand, it did appear that a rise in long-term public investment outlays at about that time unaccompanied by a corresponding increase in receipts from taxation had resulted in resort by the public authorities to increased inflationary borrowing from the banking system and also in the accumulation of a heavy load of short-term foreign debt. It seemed clear that the resulting inflationary pressures had been a major factor lying behind the large rise in imports since 1965 and that the service of foreign loans also had been placing an additional strain on the balance of payments in that period. These difficulties had been further intensified by the outflow of short-term capital which had taken place last year. Many of the very serious problems which now confronted Peru seemed to be explained by this process.

¹ see C/M/41.

There was a danger that increased costs would make it more difficult than before for Peru to compete effectively in world copper and fishmeal markets while the added burden of debt would continue to add difficulties to the restoration of balance-of-payments equilibrium. On the other hand a continuation of import control would risk adding to the inflationary pressures; it would deprive the Government of a certain amount of revenues and it might even lead to establishment of unwanted industries. Obviously it would be difficult to abandon the controls unless budget deficits could be eliminated, and this very likely would require new sources of revenue as well as strict economy. The price-wage spiral would also have to be arrested and it was noted that commendable progress had already been made in that direction and without much resort to price controls. The question was raised whether stabilization might not in any case be essential to any permanent stemming of the flight of short-term capital. Likewise, it was suggested that Peru might have interest in undertaking negotiations to rephase debt servicing. Effective action on the domestic front, combined with some easing of the effects of past strains on the balance of payments, it was suggested, might make possible an early relaxation of control on imports.

11. The representative of Peru felt that there were many encouraging elements in what had been done already on domestic policy. There had been new strict controls on government spending for more than a year past. A linear cut of 7 per cent in all governmental expenditures had been instituted last year and other new measures had recently been introduced, including a ban on new official borrowing abroad for the next two years. Price control had indeed been used sparingly, in fact only with respect to the essential foodstuffs which account for as much as 60 per cent of the expenditures of much of the population. New sources of foreign exchange income were in sight not only in a hoped-for increase in exports and an expected \$40 million saving on imports, but also in savings which it was hoped to make on the services account. New private investments in paper and copper were expected to bring in some \$40 million of private investment. Apart from selected new investments essential to development, there was to be a reduction in spending. As for rephasing the foreign debt, the representative of Peru believed his Government was favourable to that course but that a decision had not yet been taken.

12. Turning to the balance of payments, members expressed interest in the estimate that had been given concerning 1968 prospects for a favourable balance and asked to what extent it was estimated that increased export income would contribute to this. Bearing in mind that the drought of 1966 had been the worst in forty years and also the general situation of stagnation in the volume of exports that had been described, they asked to what extent increased volume was expected and to what extent increased prices. They enquired also what was planned concerning reduced reliance on foreign loans. They noted that as concerned the heavy expenditure on food imports, this appeared to be more than a temporary phenomenon induced by drought and suggested that perhaps more should be spent on improving agricultural output even if that meant spending less in the immediate future on industrial investment.

13. The representative of Peru replied that according to the estimate he had cited it had been calculated that exports would improve by over 4 per cent in 1968 as compared with 1967, yielding an increased return of some \$31 million, thanks partly to higher silver prices, partly to an increased volume of coffee and cotton exports, and partly to the more competitive prices which devaluation would enable Peru to offer. With respect to agriculture, the representative of Peru assured the Committee that improvement of agriculture enjoyed high priority. Over \$50 million was being invested in irrigation schemes and there were also programmes to teach better farming methods to farmers. A programme of land reform had encountered delays but was on the way. Education concerning nutritional standards was believed to offer prospects for enabling the population to obtain more of their protein requirements from relatively inexpensive foods available from fish and other marine products. Efforts were also being made to rationalize food distribution. He agreed fully that reliance on loans would have to be reduced and stated that already efforts were being made to keep a closer watch on the borrowings of the semi-public sector.

14. In reply to a question as to what special measures had been taken to attract needed capital for productive investment and to stop the outflow of short-term capital, the representative of Peru stated that measures to attract investment had a long history in his country. Certain fiscal burdens had long been removed for importers of machinery and equipment for new industries, and recently extra favourable tax treatment had been made available for investment in certain areas such as Tacna, Arequipa, and Lima-Callao. No special measures had ever been taken to restrict repatriation of foreign capital. However, recently new measures had been taken to slow down the outflow of Peruvian capital and, incidentally, to tighten up on the payment of taxes on income from capital held abroad. For example, it was no longer permitted to sell in Peru shares in mutual funds, as it was considered that the funds of the medium-income saver could better be directed to other investments. Similarly a register was being drawn up of all Peruvian capital held abroad.

15. A question was asked concerning Peru's efforts to promote exports, especially in the non-traditional sector. It appeared that the Banco Industrial had recently been reorganized to make a contribution in that area. It would be interesting to learn more of such efforts and also of what use was being made of a study carried out by the International Trade Centre regarding Peru's trade prospects. The representative of Peru replied that the two questions were linked. The creation of an Export Board within the Banco Industrial had in fact been a consequence of the GATT study. The Decree of 1 March 1968 mentioned in his opening statement had in fact established a new Board to which a new section of the Banco Industrial would serve as technical secretariat. Obviously there was not much more he could say of so recent a move, but the GATT study had clearly given a start to something which might prove very useful.

System and methods of the restrictions and effects of the restrictions

16. Members of the Committee expressed interest in knowing how the list of import prohibitions promulgated on 29 February had been drawn up and in knowing whether they were in part selected because of their local availability. They also expressed great interest in learning about plans concerning the removal of restrictions when the ninety-day period for which they had been imposed expired.

17. The representative of Peru referred to the text of the decree imposing the prohibitions (as contained in BOP/81) where it was stated that economic development and stability in prices were the two guiding criteria of his Government. Where a commodity was not essential for development needs, it had been considered that in the interests of safeguarding the balance of payments the product should be regarded as dispensable. Clearly in some cases the fact that a product was available locally had operated as a factor making its importation less essential. The fact that many of the banned items were available from local sources would moreover reduce the extent to which a backlog of demand would build up to swell the imports when restrictions were removed, for many products on the prohibition list were available either from local assembly or local manufacture and it was only the finished products which were banned. As for the position his Government might take at the end of the ninety days, he could only say that it was quite understandable that no prediction could be made on such a matter as it would only lead to trade speculation, but for the moment no change had been announced in the original plan to maintain the restrictions for ninety days only.

18. Members of the Committee expressed strong interest in seeing the prohibitions terminated, though they understood well the difficulty about making any prediction at this time. Some stressed the serious prejudice that had been caused to certain areas of their trade and their concern that, if the restrictions remained in force for long, permanent impairment of trade relations between foreign exporters and Peruvian importing firms might occur. Others pointed out that so long as the restrictions continued the Government was certainly losing revenue which it could well use. Moreover the availability of fewer goods on the domestic market was sure to increase inflationary pressure. The representative of Peru replied that new restrictions on credit were designed to reduce the money supply and that in particular very strict regulations on instalment sales were now in force.

19. In answer to questions whether the import prohibition applied to imports from all sources without any discrimination, the representative of Peru replied that there was no exception for imports from any source. The representative of Chile, speaking as an observer, stated that his Government was of the view that any waiving of the restriction which Peru, as a member of LAFTA, might accord to imports from other LAFTA countries would be compatible with the free-trade area concept.

20. The question was also asked whether the aforo system mentioned in the background documentation was a system of minimum prices on which duties were calculated or whether it implied a levy on imports valued at less than the established minimum values. The representative of Peru replied that he did not believe the aforo system was relevant to this consultation.

Conclusion

21. Members of the Committee thanked the representative of Peru for his frank answers to their questions. They reiterated their sympathy with Peru's efforts to maintain stability whilst increasing the pace of development and especially commended the steps taken to increase the efficacy of domestic controls over expenditure, to eliminate fiscal imbalance and to search for new sources of revenue. They urged Peru to take energetic steps to solve its economic difficulties primarily through domestic measures. They wished Peru success in these efforts and also in the various steps taken to improve the balance of payments through increased exports and better control of short-term capital outflow. They expressed the view that these various alternatives would certainly be preferable to any continued use of import prohibitions, which they hoped might be dismantled in the very near future. The representative of Peru thanked the Committee for the sympathetic understanding which had been accorded to his explanation of the difficulties confronting his country and promised to convey the Committee's views to his Government.

Annex

STATEMENT BY PERUVIAN REPRESENTATIVE

I should like to thank you for your words of welcome to my delegation and to say that for me personally it is a pleasure to attend a meeting of this Committee for the first time, albeit to present my country's difficult economic situation. In accordance with the provisions of the General Agreement, I shall outline to this Committee the background and nature of the balance-of-payments difficulties which Peru is encountering, and the corrective measures that have been taken.

First of all, a brief reference to past trends in our export trade. Over the period 1960-1966 the value of Peru's exports rose at an annual rate of 9.9 per cent. Up until 1962 this increase in the value of exports was due to better prices and increased demand, but from 1962 to 1966 it was the result solely of price increases, while export volumes remained practically unchanged. In our opinion, the virtual stagnation in the volume of exports was attributable to the inelastic nature of demand for primary products and also to the lack of new investments in the export sector of our economy and also to pressure of costs. In 1966 the growth rate of Peru's exports reached the highest level recorded since 1950, but at the end of 1966 it began to decline, particularly with respect to fish meal and copper.

On the import side, the situation has been as follows:

Over the period from 1960 to 1962 the value of imports increased at an annual average rate of 13.5 per cent. Over the same period, gross national product increased at an annual average rate of 6.6 per cent, and though this is appreciable it represents less than half the import growth rate. From 1963 to 1967 the volume of Peru's imports increased by the spectacular amount of 60.1 per cent. This upswing in imports can be attributed inter alia to the following three factors: first, the national economic growth rate already indicated, which is one of the highest in the Western hemisphere. Secondly, the growth in income (by approximately 7 per cent per annum) resulting from the high rate of development recorded for the country. The income increase was reflected in import expansion as a result of greater potential demand for items that, in relative terms, had become much more accessible than they were before. It should be noted, however, that not all the import increase was reflected in a rise in gross national product and

national income, because of the fact that under our liberalized trade régime, luxury articles and non-essential products which were of no significance for the country's economic development were admitted in large quantities. Thirdly, the virtual stagnation of our agriculture, which is in fact a fairly general feature in the Latin American economies. Our agriculture has been characterized, as is well-known, by inelasticity of supply and is largely a subsistence activity. It was unable to meet the country's food requirements, so that in 1966, for example, foodstuffs had to be imported to a value of \$121 million, representing 17.1 per cent of total imports in that year.

Having outlined the background for what has been happening in Peru's trade and balance of payments, I shall now refer more specifically to the past two years and to aspects that have a direct bearing on the problem of Peru's balance of payments. As I have already mentioned, gross national product increased by 6 per cent in 1966, but in the ensuing year - 1967 - it rose by only 4.2 per cent. This slowing down can be attributed to devaluation of the national currency and the resulting financial uncertainty. Agricultural production declined still further and there was a slowing down in the building industry. It should be noted, however, that in 1966 the building industry had developed at the rate of 21 per cent, and at the rate of 4 per cent in 1967. Although there was no slowing down in respect of fish meal production, in general one may consider that the Peruvian economy's production has entered into a stage of deceleration.

So far as prices and wages are concerned, there was a 30 per cent price increase in the closing months of 1967, as a result of devaluation. From August to December the cost of Living rose by 14 per cent and there was a further 3.5 per cent increase in the first three months of 1968. The currency devaluation was by 30.7 per cent; on the other hand the increase in wages has not exceeded 12 per cent. So far as the national budget is concerned, in the 1967 fiscal year there was a deficit of S/. 5,600 million as a result of the fact that fiscal revenue did not increase as much as had been hoped, and also to the fact that it was not possible to introduce taxes which the Government had been proposing for some time past.

The balance of payments continued to deteriorate in 1967. The 1966 deficit was \$61 million, and in 1967 it reached \$91 million. In the first three months of 1968 the deficit was in the amount of \$19 million. A long-term forecast by the National Planning Institute indicates that by 1970 Peru's imports will have passed the \$1,000 million mark and that the balance-of-payments deficit might be at the level of \$180 million. I have referred to this forecast only in order to give you an idea of the magnitude and complexities of the problem with which we are faced.

Going back to our balance of payments, in 1967 in the merchandise account the drop in prices for fish meal and copper caused a 5 per cent decline in foreign trade receipts. In the capital account there was a substantial reduction in reserves held by the commercial banks. Long-term capital inflow declined

somewhat and there was a massive outflow of short-term capital which contributed to bring about the currency devaluation to which I have already referred.

What has Peru done to cope with this situation? It has adopted, or perhaps I should say it is adopting long-term measures, and it has also hastened to take certain short-term measures. Over the long term the official policy of Peru has been based on two objectives which are difficult to attain in a rapidly developing economy: first, the maintenance of a high level of economic growth, and second, monetary stability. I do not think I can be accused of patriotic bias in stating that in the main these two objectives have been attained by the Peruvian economy over the last eight or ten years and that it is only in the last twelve months that it has begun to meet with obstacles and complications which are tending to upset this highly desirable and greatly desired economic equilibrium.

To achieve these objectives, the Peruvian Government has made intermittent use of a variety of instruments such as regulation of the bank reserve, regulation of primary credits, and regulation of the level of imports through tariff measures, while at all times endeavouring to respect freedom of trade as fully as possible. In June 1967, as GATT is aware, my Government was obliged to increase the duties on certain items representing import products, all of them regarded as non-essential to the progress of the national economy.

At the same time the Government has been following a definite policy of austerity; it has made severe cuts in the budget, together with effort after effort to balance the budget. As will be appreciated, it has not been easy, and it is still not easy, to reconcile these imperatives of fiscal policy with the expenditure which the State is obliged to face. There was a crying need for investment in the economic and social infrastructure of the country - in schools, housing, highways and sources of electric energy.

Consequently, in September of last year the Reserve Bank, faced with a sudden, large-scale drop in currency availabilities, withdrew from the market to allow the sol to find a new parity with the dollar. As I have already said, this involved a 30.7 per cent drop, the value of the Peruvian currency falling from 26.70 to approximately 40 soles per dollar. The causes of this whole trend can be listed as follows: first of all, recurring budgetary deficits; second, instability and decline in the prices of some of Peru's main export products; third, a phenomenal increase in imports; fourth, stagnation in the agricultural sector; and fifth, structural factors such as, in a general way, the dualism of the national economy.

Peru has remained faithful to the principle of free trade and free exchange, and with the exception of the increase in duties on certain import items already referred to, it has taken no preventive steps to correct a situation which could be foreseen. The Government acted ex post facto and introduced the restrictive measures only when the depreciation of the currency and the social and economic consequences immediately following it had taken place. As GATT has already been informed, the Peruvian Government felt obliged to take these restrictive measures, and considers that its action is clearly and unequivocally justified by Article XVIII, Section B, paragraph 12(a), of the General Agreement.

By Supreme Decree 05368 HC of 29 February 1968, the Peruvian Government placed restrictions on imports of certain articles not essential to the national economy, for a period of ninety days. The list of the products, and the text of the Decree, can be found in GATT document BOP/81 of 7 May 1968. Specifically, in taking these measures the Peruvian Government based its action in paragraphs 8 and 9 of Section B of this same Article XVIII of the General Agreement.

Allow me to recall what is stated in these two paragraphs. Paragraph 8 recognizes "that contracting parties ... tend, when they are in rapid process of development, to experience balance-of-payments difficulties arising mainly from efforts to expand their internal markets as well as from the instability in their terms of trade". This is precisely the case of Peru. Paragraph 9 states that "In order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development, a contracting party ... may ... control the general level of its imports by restricting the quantity or value of merchandise permitted to be imported". This is precisely what the Peruvian Government has just done.

The import restrictions covered by the Decree in question comprise products to the value of approximately \$150 million, in terms of our 1967 trade, and consist for the most part of items not essential for the country's economic well-being and development. Subject to any further explanation at a later stage I should like to cite a number of products - if I may go so far - which have been prohibited by this recent Decree of the Peruvian Government. For example, under the heading of animals and animal products, imports of horses for polo playing and horses for racing have been prohibited, imports of live animals which can be reared in the country, and animal products such as coral, bones, ivory, horsehair, etc.

Under the heading of vegetable products imports of certain edible vegetables, food products, coffee, tea, maté, cereal groats and meal, and grains (excepting wheat grains) are prohibited. All the items involved are products which can be grown or are at present being grown in the country and are in the process of expansion.

With regard to products of the food industries we have prohibited canned fish, tunny fish, and sardines. I hardly think I need say that it would be carrying coals to Newcastle, as the phrase goes, and there would be no economic justification for allowing these products in. Under perfumery, toilet preparations and cosmetics, I notice a not insignificant item - dog shampoos; and other headings affected are articles of apparel and footwear, headgear and accessories.

Finally, to give a comprehensive picture of the prohibited items, under the heading of pearls, precious stones, articles of jewellery and watches and clocks I should point out that there is no prohibition on the cheaper type of utility or industrial watches and clocks. The only articles prohibited are expensive watches and clocks, luxury articles which can be regarded as items of jewellery.

Mr. Chairman, I think that if we bear in mind the extremely liberal trade policy which Peru has pursued, both inside and outside GATT, it will help us to understand more readily the need for the measures which my Government has just taken. Allow me to recall that Peru has a long and extremely liberal list of products negotiated with GATT, perhaps the longest and most generous list of any developing country.

Among the specific measures adopted by Peru to cope with the present situation, and complementing the import restrictions, mention may be made of the restoration of the currency certificate by virtue of a Decree of 5 October 1967. Under this system there are two types of market with two different exchange rates. We have an exchange market for currency certificates applicable to commercial transactions and certain specified non-trade transactions, and then we have an exchange market for other types of transaction. The currency certificates are issued for importing goods, paying freight charges, servicing debts and transfers effected by foreign companies, servicing debts in the private sector, and meeting costs of all kinds in the public sector. The exchange rate for currency certificates has been kept at 38.70 per dollar, and the rate for ordinary payments has fluctuated between 41 and 42 soles per dollar. The difference between the two exchange rates as laid down by the International Monetary Fund cannot be taken to mean that there is a multiple system of exchange in Peru; the very slight difference between the two exchange rates in question makes it clear that there is in effect only one exchange rate for foreign currency.

Side by side with these measures and with a view to correcting the imbalance which has led me to come here and make this brief statement, my Government has taken a series of complementary measures to implement the Decree restoring the currency certificates; it has also approved a Supreme Decree and two Laws. The Supreme Decree of 1 March 1968 sets up an Export Promotion Board in the Industrial Bank. Next, Law 19900 provides for a revamping of the tax system to ensure maximum efficiency in the collection of the national revenue, with a view to increasing the State's resources so that it can balance its budget. Finally, Law 16900 suspends for the fiscal year 1968 the servicing of the Government's commitments vis-à-vis the Central Bank.

In conclusion I would like to mention a projection made by the Central Reserve Bank of Peru with respect to the balance of payments for 1968. It is calculated that the trade balance should show a surplus of \$70.6 million; it is assumed that the balance on current account will show a deficit of \$77.3 million and that the total balance of capital will amount to \$99.7 million. If this calculation is correct, the net payments for 1968 would show a favourable balance of \$22.4 million, which might mean that the present situation of the Peruvian economy had been successfully coped with.

My delegation feels that with the present statement it has honoured its undertaking to inform GATT in regard to the restrictive measures which the Peruvian Government has been obliged to adopt in the face of the serious difficulties in its balance of payments.