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Peru Struggling for Its Monetary Stability

By Ewald Wünschel, Estella/Spain

Venezuela and Peru are the two Latin American countries with the greatest monetary stability. Peru’s prosperity phase was introduced in 1959 when Pedro Beltrán took vigorous measures in order to prevent an inflationary decline of the Sol—the country’s currency—similar to that of the Brazilian Cruzeiro and the Argentine Peso. Ever since the Government has pursued a policy that made the country’s currency one of the most stable monetary systems of the world. Owing to the favourable position of Peru’s economy above all in the sphere of foreign trade, assisted by a carefully balanced Government policy, the Sol could be kept at an exchange rate of 27 Soles = 1 US$.

Prosperity in Copper Mining and Fishing Industry

Although Peru just the same as most Latin American countries disposes of large raw material deposits and other natural resources, hitherto they have been little utilised. Remarkable is the development of the fishing industry which just in the last years gained much more importance. Above all the catch of anchovies which migrate to the North close to the shore in the cold waters of the Humboldt-stream made Peru the most important fishing country of the world. In the period from 1948 to 1965 the fishing yields increased almost hundredfold. The anchovies are processed mainly to fish-meal, which exported in large quantities is an important foreign exchange earner. Already by the end of May, 1966, fishing had surpassed the results of the previous year’s corresponding period by 25 %, and it is expected that 1966 will be the most profitable year of Peru’s fishing industry.

A similarly favourable development is shown by copper mining which particularly since 1952, when the copper mines of the Southern Peru Copper Corporation at Toquepala were opened up, is holding a major position in Peru’s economy. Already now 200,000 tons of copper are exported annually and exports are rising so rapidly that they are expected to reach soon the 500,000 tons mark, a development made possible by the exploitation of new copper deposits. However, a large share of the copper output, of mineral oil production and transports is dominated by British corporations and American trusts.

Due to the at present high price of copper and the extremely favourable export position and profitable proceeds of the fish-processing industry, foreign exchange reserves earned in foreign trade easily cover the country’s import requirements. With that Peru contrasts clearly with the large group of those Latin American countries that with low export prices of raw materials and agricultural produce together with high prices of imported manufactures have to contend with chronic balance of trade deficits.

The favourable development trends in Peru’s economy invigorated the optimism of the country’s leading industrial and financial quarters. Pedro Beltrán had taken the first steps towards a recovery of the currency by reducing drastically Government expenditure and trying through a series of other measures to prevent the threatening inflation of the Sol. The present Government under Bellaunde Terry has still continued this policy although with growing difficulties. However, the new Government has undertaken too much with its ambitious large-scale policy. Long-range development plans, comprehensive housing projects (since 1946 the State has only built 2,000 houses through publicly assisted house-building) and large-scale concepts for the extension and improvement of
the defective highway network, the construction of reservoirs for power production and irrigation schemes are surpassing considerably the country’s economic conditions and financial possibilities.

In spite of all promises the Government was not able to maintain monetary stability. Cost of living rose by 17% within the past year. Therefore, in order to prevent the development of a deficit in the balance of payments, as caused by such a policy, stabilisation measures were soon taken—particularly in the field of import taxation of luxuries. However, the simultaneous price decline of raw materials important for exports opposed these measures to such a degree that the overall economic development seemed to be endangered extremely.

More Favourable Future Prospects

But meanwhile this situation has become somewhat more hopeful again. For, on the one hand, the Government’s stabilisation measures have become effective and, on the other, the foreign exchange income from iron, copper and fish-meal increased more than anticipated. And finally, in spite of a considerable reduction of the Central Bank’s gold and foreign exchange reserves, those of the private banks continued to rise. Taking into consideration the foreign trade results and curtailments of the budget the price increase is reduced to 7% in the period between June, 1965, and May, 1966, and most of it still falls to the share of 1965.

If thus a critical situation seems to have been mastered with comparatively simple instruments, new dangers are threatening caused by Government expenditure. For apparently expansion policies after having just been slowed down are to be continued now.

After cuts in expenditure by 7.5% in the past fiscal year, the budget for the coming year provides for such a multitude of programmes and projects that according to cautious estimates expenditure will rise by approximately 20%. However, the possibility of budget reductions through Congress should not be ignored. This body should not be too much inclined to cooperate unconditionally with the Government. A partial compensation for the planned expenditure increase will be brought about by favourable catches of fish, the at present rather efficient competitiveness of the processing industries and the price increase of minerals and metals. For all these reasons Peru could—at least in the near future—avoid the risk of an inflation and the impediment of a steady overall economic development.

Foreign Trade Favours Developing Countries

By Dr Lodovico Groja, Rome

Today, international trade forms a worldwide network of extremely extensive and complex relations, which are not to be considered as an independent economic event. In fact they involve a much wider significance and greater implications for all parties concerned, referring in particular to their economic and social development in relation both to the inflow and outflow of goods.

In such a network, a rôle of increasing importance is played by the so-called “emerging or developing areas”, whose rate of progress depends to a great extent on their ability of trading with other countries. Without going into details about the functions of foreign trade as a development factor, suffice it to say that imports into “emerging countries” consist at an early stage of manufactured goods destined to satisfy development needs, both human and structural, in certain essential fields. Later they tend to change gradually, as the demand for capital goods and technical know-how increases, so that eventually they reach a second stage, when the purchase abroad of those products that can be manufactured locally is partially or completely abandoned.

Protection for these “newly born” industries is strictly necessary during their early growth. This is a complex problem and it requires the assistance of more industrially advanced countries for supporting and developing those enterprises and productive activities, which importing countries recognise as having a true social value.

Different stages can also be observed in the development of exports from “emerging” countries, which at first are made up simply of raw materials naturally available, sometimes almost as a monopoly. During a subsequent stage some of these materials may be exported as semi-manufactured products, after having undergone partial processing.

In all cases, whatever their composition may be, exports assume a fundamental and determining importance for an accelerated evolution of the economy in the countries concerned, as they allow the procurement of the necessary means for the purchase abroad of capital and essential consumer goods and furthermore they support the formation of a basic industrial set-up, as a platform for further steps in the same direction.