criticism is directed at the government's control of imports, which is causing disruptions for the commercial sector.

Whether the debate will become more confrontational in the days ahead is difficult to predict. Most observers feel that the accelerating crisis in EL Salvador will not impact on Nicaragua, but the Reagan administration's policies could help tilt the balance in the country—although in which direction remains a dangerous unknown. Clearly, the country's political crisis is far from being resolved. Dealing with it, as well as pressing forward with economic restoration, will be the government's onerous and dominating tasks of 1981.

Peru Finds Freeing Economy A Contentious Process

Despite some setbacks, Peruvian President Fernando Belaunde's economic team is pushing ahead with its broad program to open up the country's protective trade system. In addition to the tariff reduction that went into effect a few months ago (*BL* '80 p. 314), changes are being implemented in the tax drawback certificates (Certexes) awarded for exports, and moves are afoot to simplify the taxation system, establish industrial free-trade zones and institute further tariff cuts. Much of the recent flurry of activity has come about in the midst of a tug of war between business, which opposes the reduction of protective tariffs and the elimination of the Certex, and the administration, which is intent on easing trade barriers with the final aim of making local business competitive in the world marketplace.

The Peruvian Exporters Association (Adex) launched a campaign last month denouncing the economic program supposedly engineered with IMF assistance. Adex accused both the IMF and the government of trying to make all interest rates positive before year-end, shrink all import duties to a uniform 10%, abolish all subsidies and do away with the Certex completely. This tack, Adex charged, would boost inflation, turn the economy over to foreign capital, hurt local manufacturers by cutting into their exports, aggravate unemployment and, finally, escalate repression, which would be required to impose the harsh program.

Following the Adex onslaught, the government has attempted to clarify its stand on the issues raised. First, although empowered to set interest rates (*BL* '80 p. 391), the Central Reserve Bank has announced that positive interest rates are not in the cards before 1981. Savings rates are expected to rise about 20 percentage points, upping interest on three-year deposits to 58.5% and on mortgage bonds to 53%. These rates, which will be slightly above the effective 48% yield (when interest and currency devaluation are factored in) on dollar CDs, are intended to attract more funds into local currency savings. The central bank has also stated that the rates banks can charge on loans will increase only 10 percentage points, bringing the maximum to about 50%, still 10 points below inflation. Firms that have been selling on easy credit terms will especially feel the pinch, but the central bank expects that by setting more realistic costs for money, the overall impact will be to stimulate savings and reduce inflation.

Regarding subsidies and import duties, the administration has been explicit and unyielding. Cabinet officers have repeatedly stated that subsidies on foodstuffs will be completely eliminated next year. In this way, the government believes it can free prices and aid the farm sector without running into budgetary problems. However, officials are equally clear that a 10% import duty would be virtually impossible in Peru, both politically and economically. Some top members of the Economy, Finance and Commerce Ministry have expressed the hope that eventually duties might be reduced to an average 25% from the current 35% average level.

With the Certex, the government may have buckled under to Adex pressure. Rather than doing away with the system, officials have pledged to modify it. The new program incorporates administrative and procedural changes designed to make it possible to issue Certexes in 48 hours, rather than the two months frequently required previously. Companies report that the system has been expedited, although it is not as fast as intended. However, the backlog of Certex applications has been cleared up.

Costa Rican Business Reacts Harshly To Austerity Moves

The tough economic measures recently imposed by the Costa Rican government (*BL* '80 p. 323) to ease its balance-of-payments crisis, is pitting President Rodrigo Carazo's administration against the business community. Some critics are predicting a string of bankruptcies and labor unrest because of the anticipated rise in unemployment. The government, faced with mounting pressure, may end up making some concessions to certain industries without, however, reneging on its basic program.

The strongest reaction has come from industries dependent on imports. Under the new regulations, they can purchase dollars at the official exchange rate only for half the import's value— meaning that importers' costs have automatically risen about 30%, since the free-market rate is averaging around 60% over the official rate. On top of this expense, importers are stuck with prior deposits, which for some products are as high as 50% of the import's value, and surcharges ranging as high as 25%. The combination of new levies is an especially drastic blow to small and medium-sized firms that are hard put to get credit.

Motor vehicle assemblers are facing even tougher import restrictions—and complaining bitterly about them—because included in the package is a prohibition against importing cars with engines of 1250 cc or larger. The government has tried to placate the angry industry by lifting the surcharges on imports of spare parts, but industry spokesmen claim that it will not alleviate their plight. Manufacturers state that the price of a small car assembled in Costa Rica will now rise about 30%. Expecting sales to plummet, many firms and sales agencies are planning layoffs.

Construction industry officials predict a slowdown in housing starts because of the 25% surcharge slapped on construction-material imports, as well as the prior import deposits required. They too foresee greater unemployment. Also faced with increased costs are electrical-appliance producers, which generally tend to be small or medium-sized operations.

Strong pressure on officials to rescind the measures is coming equally from business organizations. The Chamber of Commerce issued a list of suggestions for alleviating the negative impact on business, including a recommendation for the elimination of the prior deposit. The Chamber suggests that if the government is unwilling to abolish the deposit, it should at least reduce the deposit's time span from six months to three. Also, the organization recommends that importers be allowed to use the funds on deposit to negotiate letters of credit.

Another change advocated by the Chamber is that the import surcharges and the prior deposits be calculated on the c.i.f. value of the product in dollars at the official exchange rate of C8.60:$1, rather than on the average between the official and the free-market rate. The Chamber of Commerce and other business organizations are also concerned with the delays in obtaining approval for official dollars at the Central Bank. Importers charge that transactions of $5,000 or less get processed very quickly, but transactions for larger amounts can take weeks. Several companies have been advised by the Central Bank that their requests could take months to receive authorization. Some firms are complaining that these delays are hurting their reputation with suppliers.

Another sector feeling the pinch is the travel industry. The government will not grant foreign exchange at the official rate for travel purposes and requires that all airline tickets be purchased in dollars. The Tourist Board is also charging the 5% tax on air tickets to travel agents at the free-market rate. Tourism industry officials fear that the sector, which employs 28,000 people, could be severely hurt, and the National Association of Airlines has gloomily predicted that some airlines may halt their runs to Costa Rica because of the anticipated drop in local travelers.

The government's reaction to the criticism has been that it cannot and will not appease one sector at the expense of another and that it will not backtrack. The authorities are likely to reverse this stance only if the import restrictions prove immediately effective and the trade deficit is significantly less than the $600 million now predicted for 1980.

QUARTERLY UPDATER

	YEARLY COMPARISON		QUARTERLY COMPARISON			OUTLOOK
	Year ended Sept. 30, 1980	% change over previous 12 months	3rd quarter 1980	% change over 2nd quarter 1980	% change over 3rd quarter 1980	Forecast for 4th quarter 1980
Mexico						
Trade ($ millions)						
Total imports	17,001.4	60.2	5,113.6	21.7	71.0	5,400
Total exports	12,744.1	65.2	3,831.0	3.6	85.1	4,200
Agricultural	1,725.0	−2.5	177.0	−54.4	−44.9	250
Petroleum	8,070.4	154.7	2,868.2	11.8	166.2	3,200
Production						
Gray cement (millions MT)	16.2	8.1	4.1	1.2	1.9	8.2
Processed petroleum (millions cu m)	64.5	19.1	17.3	1.6	24.3	18.0
Steel ingot (millions MT)	6.8	−3.0	1.7	0.5	5.4	1.8
Money supply (P billions)	382.5[1]	32.0	19.2[2]	0.6	32.0	Up 8.0%[3]
Wholesale price rise (%)	25.7	25.7	5.7	5.7	25.7	6.0
Col rise (%)	28.5	28.5	6.1	6.1	28.5	6.0
Exchange rate (P:$1)[4]	23.0	1.0	23.0	0.6	1.3	23.2

FOOTNOTES: (1) Estimate; (2) Quantum increase during third quarter; (3) Increase over third quarter—not adjusted for seasonal differences; (4) Middle rate at end of period—not adjusted for seasonal differences.