IMF Country Report No. 20/181

PERU

May 2020

REQUEST FOR ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PERU

In the context of the Arrangement Under the Flexible Credit Line, the following documents have been released and are included in this package: Press Release; staff report; and statement by the executive director for Peru,

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 28, 2020, following discussions that ended on May 4, 2020, with the officials of Peru on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on May 21, 2020.
- A **Statement by the Executive Director** for Peru.
- A **Staff Supplement** of May 21, 2020, on the assessment of the impact of the proposed arrangement under the flexible credit line on the fund's finances and liquidity position

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/224

IMF Executive Board Approves Two-Year US$11 Billion Flexible Credit Line Arrangement for Peru

FOR IMMEDIATE RELEASE

- The IMF approved today a two-year arrangement for Peru under the Flexible Credit Line (FCL), designed for crisis prevention, of about US$11 billion.
- Peru qualifies for the FCL by virtue of its very strong fundamentals and institutional policy frameworks and track record of economic performance and policy implementation.
- The arrangement should boost confidence, and combined with the comfortable level of international reserves, provide insurance against downside risks. The authorities intend to treat the arrangement as precautionary.

WASHINGTON, DC – **May 28, 2020** The Executive Board of the International Monetary Fund (IMF) approved today a two-year arrangement for Peru under the Flexible Credit Line (FCL) in an amount equivalent to SDR 8.007 billion (about US$11 billion, equivalent to 600 percent of quota).

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (one or two years), and subject to a mid-term review in two-year FCL arrangements. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This large, upfront access without ex-post conditionality is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

Following the Executive Board's discussion on Peru, Ms. Kristalina Georgieva, Managing Director and Chair, issued the following statement:

"Peru's very strong policy and institutional frameworks have helped it achieve impressive macroeconomic outcomes and reduce vulnerabilities. The inflation targeting regime in place since 2002 has contributed to low inflation and an anchoring of inflation expectations. Prudent fiscal management, supported by a fiscal responsibility and transparency framework in place since 1999, has been instrumental in lowering government debt and building fiscal buffers. Effective financial sector supervision has contributed to preserving financial stability and improving financial development. In such a context, growth has been robust—averaging nearly 5¼ percent over the past 15 years—while poverty has declined significantly.

"The Covid-19 shock poses an extraordinary challenge, which is pushing the Peruvian economy into a recession. The authorities have responded decisively by putting in place stringent containment measures and a large policy package to limit the socio-economic fallout, which has been possible thanks to Peru's ample fiscal space and monetary policy credibility.

"The package includes a broad set of measures aimed at containing the health emergency, supporting vulnerable businesses and households, and maintaining adequate credit flows to the economy. Nonetheless, and despite its very strong policy buffers, Peru remains vulnerable

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to external tail risks. In particular, a prolonged Covid-19 outbreak would have significant repercussions for trade and financial flows, which could put significant pressure on Peru's balance of payments and magnify the adverse domestic impact of the Covid-19 shock.

"The new 24-month FCL arrangement would serve as an appropriate temporary insurance to buttress confidence in the context of heightened global uncertainties. The authorities have stated their intentions to treat the FCL arrangement as precautionary, as well as to reduce access and consider exit from the FCL arrangement when the exceptional set of external risks have subsided. In that context, the insurance provided by an FCL arrangement would no longer be necessary, and Peru's large international reserves and policy buffers would be sufficient to manage risks."

INTERNATIONAL MONETARY FUND

PERU

May 21, 2020

REQUEST FOR ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE

EXECUTIVE SUMMARY

Context. Peru's very strong policy framework has helped it achieve impressive macroeconomic outcomes and reduce vulnerabilities. Growth has been particularly robust, averaging nearly 5¼ percent over the past 15 years, consistently above the average for the LAC region, while the inflation targeting regime has helped keep inflation low and expectations well anchored. Prudent fiscal management has reduced government debt to very low levels. Very strong financial sector regulation and supervision have contributed to preserving financial stability. External vulnerabilities have been reduced and poverty has been cut by more than half since the turn of the century. In recent years, macroeconomic performance has been adversely affected by a combination of external, domestic, and weather-related shocks that have slowed Peru's growth momentum. Against this background, the Covid-19 pandemic has posed an unprecedented challenge, which is pushing the economy into a recession. Peru has to date shown remarkable financial resilience when compared to other emerging market economies, both within and outside the region, not least because large buffers have allowed the government to respond with a very strong policy package to contain the pandemic and mitigate the economic fallout.

Risks. Uncertainty around global growth forecasts has spiked to unprecedented levels, and external tail risks have increased. A prolonged Covid-19 outbreak would have significant repercussions on terms of trade, exports, and foreign direct investment (Peru is one of the world's largest mineral exporters). A persistent decline in risk appetite as the global outlook deteriorates would curtail capital inflows, particularly non-resident acquisitions of domestic currency debt government bonds. If investors were to liquidate their positions, owing to risk aversion and tight financing conditions, this would lead to large pressures on the balance of payments. In a situation of a global flight to safety, a large pickup in outflows of residents could heighten these pressures.

Flexible Credit Line. The authorities are requesting a two-year FCL arrangement in the amount of SDR 8.007 billion (600 percent of quota), which they intend to treat as

precautionary. In their view, a new FCL arrangement for the requested amount would complement existing buffers and a very strong policy framework and provide enough insurance against extreme external risks. Staff's assessment is that Peru meets the qualification criteria for access to Fund resources under an FCL arrangement. The authorities intend to reduce access under the FCL and, eventually, exit the arrangement, when external risks have sufficiently moderated.

Fund liquidity. The proposed commitment (SDR 8.007 billion) would have a limited impact on the Fund's liquidity position.

Process. An informal meeting to consult with the Executive Board on a possible FCL arrangement for Peru was held on May 8, 2020.

Approved By
Krishna Srinivasan and Vikram Haksar

The report was prepared by a team comprised of Leo Bonato (head), Pedro Rodriguez, Frederik Toscani, Salma Khalid (all WHD), Gohar Minasyan (SPR), with support from Patricia Delgado and Danjing Shen (all WHD).

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1. Peru's very strong policy and institutional frameworks have helped it achieve impressive macroeconomic outcomes and reduce vulnerabilities. Growth has been particularly robust, averaging nearly 5¼ percent over the past 15 years, consistently above the average for the region. The inflation targeting regime, in place since 2002, has contributed to low inflation and an anchoring of inflation expectations around the central bank's (BCRP) target range (2 +/- 1 percent). The fiscal rule framework in place since 1999, with periodic modifications in its numerical parameters, has supported, together with prudent fiscal management, a reduction in government debt to very low levels (under 27 percent of GDP by end-2019). Very strong financial sector supervision, as indicated in the 2018 Financial System Stability Assessment (FSSA), has contributed to preserving financial stability while enabling the country to make considerable progress in implementing the Basel regulatory reform agenda. Peru has also been able to cut poverty by more than half during the past twenty years and reduce inequality, as well as to lower external vulnerabilities—with end-2019 external debt and gross international reserves at around 35 and 30 percent of GDP, respectively.

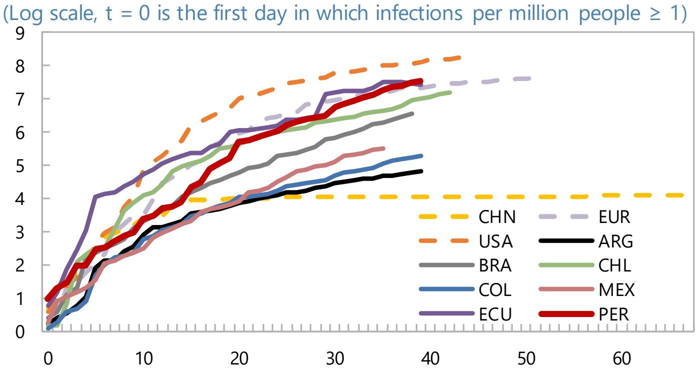
2. In recent years, policy efforts have been targeted at managing a combination of external, domestic, and weather-related shocks, that have slowed Peru's growth momentum. Worsening terms of trade in 2014–15 reduced growth to an average of less than 3 percent from almost 6¾ percent over 2010–13. In 2017, a severe El Niño weather pattern and the first spillovers of the *Lava Jato* corruption investigation further weakened growth to just 2½ percent. After a rebound in 2018, growth slowed again in 2019 to below 2¼ percent on account of weaker external demand, public investment under-execution, and one-off supply factors. Policies have been largely countercyclical to cushion the impacts of these shocks—with fiscal policy running moderate deficits (2 percent of GDP on average) since 2014. The authorities have also made progress in addressing the weaknesses in the governance framework highlighted by the *Lava Jato* investigation.

3. The Covid-19 shock poses an unprecedented challenge, which is pushing the Peruvian economy into a recession. The Covid-19 pandemic has caused both a worldwide health emergency and a global economic crisis (Box 1). Countries worldwide have needed to resort to stringent containment measures, including international travel bans and protracted domestic lockdowns. Economic activity, in turn, has suffered significantly, with a wide range of activities—particularly in the services sector—drying up almost completely. Peru is no exception and has seen similar trends. 2020 growth projections for Peru have been revised down from +3.2 percent in January to -6.5 in the new baseline scenario. As discussed in the coming sections, however, the economic outlook is highly uncertain, and weaker conditions could materialize (both globally and domestically) if the Covid-19 outbreak is more prolonged than anticipated and/or if it causes more persistent economic scarring.

Box 1. Key Features of the Covid-19 Shock

The Covid-19 virus has spread to a wide number of countries, causing major disruptions even in the health systems of advanced economies. While contagion seems under control in China, it is still on an ascending phase in Europe and in the Americas, including Peru. The first case in Peru was confirmed on March 6, and by May 8 the number of cases had risen to over 61.000, in spite of nationwide lockdowns that started in mid-March.

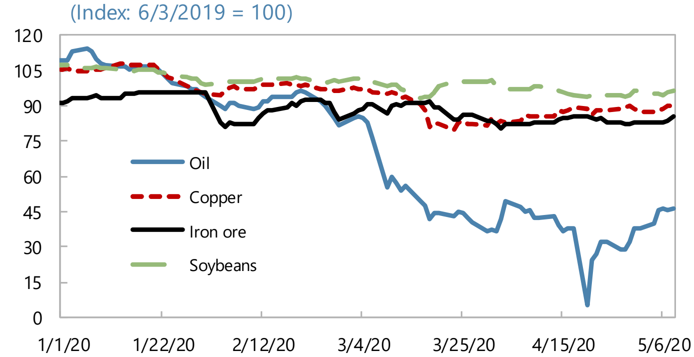
WHD: Covid-19 Infections Per Million People
(Log scale, t = 0 is the first day in which infections per million people ≥ 1)



Sources: John Hopkins University; and IMF staff estimates.

The adverse growth impact of the Covid-19 pandemic has translated into a significant decline in commodity prices, with copper—Peru's main export product—down over 18 percent (year-to-date) and other commodities such as iron ore and soybeans seeing declines of nearly 10 percent. The biggest impact across the commodity spectrum has been felt in the oil market—a price decline of nearly 60 percent.

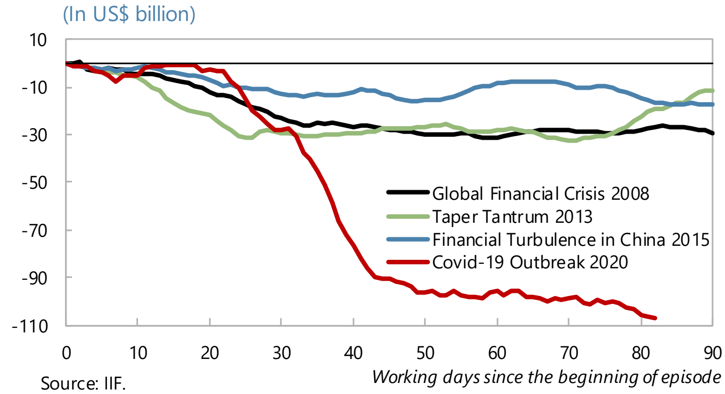
Commodity Prices
(Index: 6/3/2019 = 100)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

The Covid-19 shock has also had a significant impact on capital markets, with stock markets worldwide, including Peru's, experiencing significant volatility and sharp declines in valuations. In addition, higher levels of risk aversion have translated into capital outflows from emerging markets to a degree much more severe than in recent crises and/or market volatility episodes. Peru has been relatively resilient to these developments (see below) but is nonetheless vulnerable to dislocations in global and domestic financial conditions, as some financial vulnerabilities persist (i.e., financial dollarization, concentration, and off-balance sheet exposures).

Cumulative Change in Portfolio Flows to EMs
(In US$ billion)



Source: IIF.
Note: The start dates used for the shock events are September 15, 2008 (Global Financial Crisis); May 23, 2013 (Taper Tantrum); July 25, 2015 (Financial Turbulence in China); and January 23, 2020 (Covid-19 Outbreak).

RECENT DEVELOPMENTS

4. **Supported by stronger public investment, economic activity was rebounding in early 2020 before the Covid-19 shock hit (Figure 1).** At just 2.2 percent, growth in 2019 was subpar.[1] Furthermore, growth in nonprimary sectors slowed to less than 2¼ percent in the last quarter of the year, its lowest rate of growth since the second quarter of 2017—when the economy had been hit by a strong El Niño weather pattern. However, in January–February of 2020 the economy showed signs of recovery, expanding at a rate of 3.4 percent. Both primary and nonprimary sectors showed signs of a rebound, with the former posting an average growth of 4.6 percent in that period and the latter reaching 3.1 percent. Public investment was leading the recovery in the first two months of the year—with investment by the general government increasing by 33 percent year-on-year and the 12-month fiscal deficit of the nonfinancial public sector widening to around 2 percent of GDP (from 1.6 percent at end-2019). The projected fiscal deficit (2 percent of GDP) was consistent with a gradual return to the fiscal rule ceiling, and public debt was expected to remain well below the 30 percent of GDP ceiling.[2]

5. **The rebound was being reflected in stronger credit growth, while inflation remained stable near the mid-point of the central bank's target range.** The growth in credit of the financial system to the private sector had slowed to 6.9 percent (y-o-y) by end-2019, but accelerated in January and February to 7.2 and 7.7 percent, respectively. The acceleration was led by stronger lending to companies, while growth in credit to households remained stable at around 11.3 percent. Furthermore, the credit expansion continued to be concentrated in domestic currency lending, with credit dollarization declining to 26 percent of loans. Deposit dollarization has also declined, reaching 34 percent of total deposits in February.[3] Inflation, on the other hand, remained stable at 1.9 percent at end-February. The banking sector remained profitable and well capitalized in February, with NPLs at 3½ percent of gross loans, ROA at 2¼ percent, and capital at approximately 14¼ percent of risk-weighted assets.

6. **Exports were still lagging, however, and the trade surplus narrowed.** For the period January–February, exports declined three percent in value terms (y-o-y), primarily as a result we a nearly four percent contraction in exports of traditional products. Imports, on the other hand, declined by just about 1½ percent, driven by a 4½ decline in imports of intermediate products (which include oil) but sustained by higher imports of consumption and capital goods (which grew

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[1] See Peru—Staff Report for the 2019 Article IV Consultation (Country Report No. 20/3).

[2] Since 2017, exceptions to the fiscal rule have allowed the fiscal deficit to exceed the 1 percent ceiling. An escape clause covering the period 2017–20 was invoked after the economy was hit by a severe El Niño weather pattern in early 2017. At the end of 2019, the government delayed the return to the 1 percent ceiling further to 2023 in the context of weaker economic growth and higher public investment needs.

[3] Over the last two decades, Peru has been successful in reducing dollarization, which however remains higher than in other countries in the region, and still represents a vulnerability for the possibility of currency mismatches and balance sheet effects of exchange rate movements.

by two and half percent, respectively). As a result, the trade surplus saw a small narrowing of less than 0.1 percent of GDP.

7. The Covid-19 shock has hit the economy hard since mid-March, when the nationwide lockdown started. The first case of Covid-19 was confirmed in Peru on March 6 and just ten days later President Vizcarra directed a two-week national lockdown, which has by now been extended until May 24. Electricity production, a leading indicator closely linked with economic activity, has declined by approximately 28 percent since the lockdown started, also reflecting lower economic activity—particularly in electricity-intensive mining. In addition, the monthly GDP indicator declined about 16¼ percent in March. Inflation slowed slightly to 1.8 percent in March and further to 1.7 percent in April.

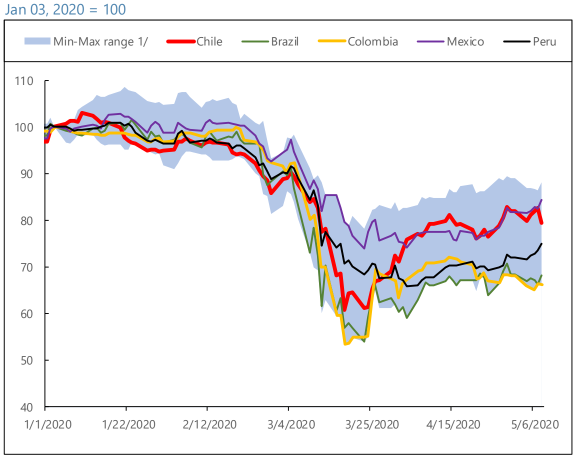
8. So far, Peru has shown remarkable financial resilience when compared to other emerging market economies both within and outside the region. During the latest coronavirus-related markets turbulence, Peru experienced lower financial market pressures than other Latin American countries and many other EMEs, as shown by more muted increases in bond yields and spreads (with the exception, perhaps, of the domestic currency sovereign bond yield). On the other hand, the depreciation of the exchange rate was among the lowest, partly reflecting foreign exchange intervention by the BCRP (see chart below). The outcome of Peru's recent external sovereign bond issuance reflects the country's very strong reputation in international financial markets. On April 16 Peru issued US$3 billion in a combination of five- and ten-year bonds. Demand for the bonds reached almost US$25 billion, while the resulting interest rates were, respectively, 2.39 and 2.78 percent—which are historical lows for Peru.

9. Domestic political uncertainty has eased, although tensions remain. The Constitutional Court affirmed the legality of President Vizcarra's decision to dismiss Congress and call for new parliamentary elections. The latter were held in late January and produced a much more fragmented Congress than the previous one, with no party holding a significant majority. The new Congress has been seated since mid-March and has largely supported the Government emergency agenda, even granting the government legislative powers for 45 days. However, some tensions have emerged, such as discrepancies related to Congress' proposed law to allow individuals to withdraw up to 25 percent of their private pension accounts, which the government has opposed.

Figure 1. Peru: Comparison with LA5 and Other EMEs

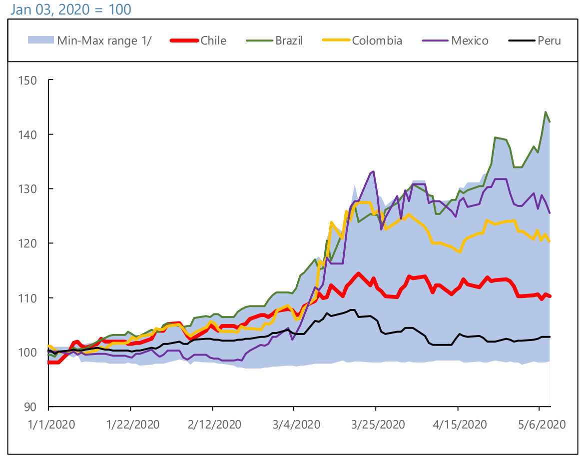
Domestic Equity Indices 2/

Jan 03, 2020 = 100



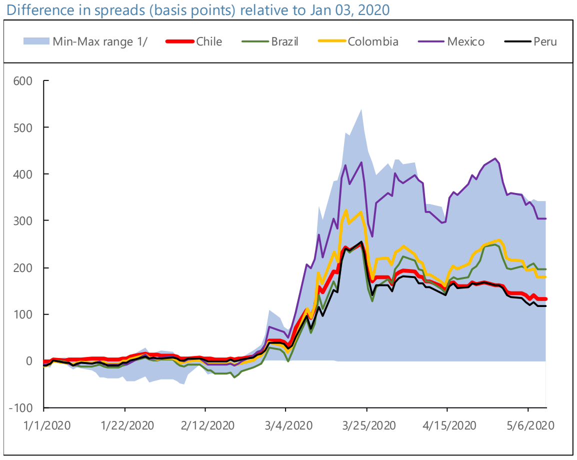
Local Currency per US Dollar Indices

Jan 03, 2020 = 100



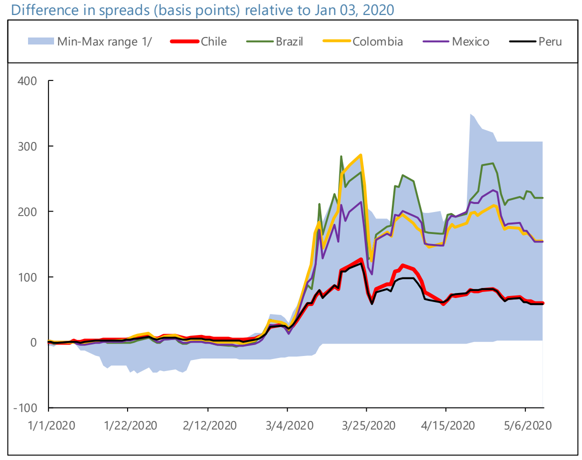
EMBIG Spreads

Difference in spreads (basis points) relative to Jan 03, 2020



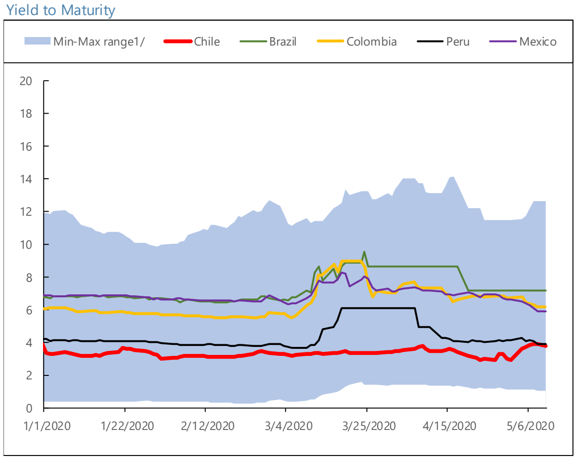
CDS Spreads

Difference in spreads (basis points) relative to Jan 03, 2020



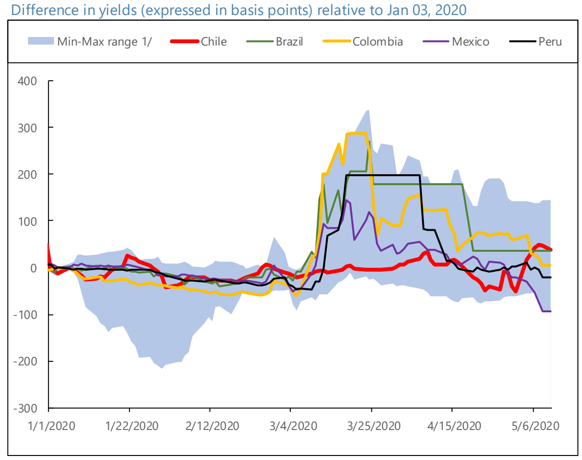
Domestic Currency Sovereign Bond Yields 3/

Yield to Maturity



Domestic Currency Sovereign Bond Yields 3/

Difference in yields (expressed in basis points) relative to Jan 03, 2020



Sources: Haver Analytics and Bloomberg LLP.

1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Russia, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

2/ Naitonal benchmark share price indices.

3/ 10 year government bond or closest available maturity.

OUTLOOK AND POLICIES

10. In the baseline forecast, the economy is expected to contract sharply in 2020, with inflation remaining subdued, the current account deficit narrowing, and the fiscal deficit widening. As indicated above, the Covid-19 shock is already hitting the Peruvian economy hard. The pandemic has caused a dramatic revision of the growth outlook of Peru's main trading partners, a drop in the prices of commodities in which Peru specializes (mostly metals), exchange rate depreciating pressures, and an increase in the sovereign spread. In addition, a domestic outbreak of Covid-19 is testing the capacity of the health system and has brought to a halt production in several sectors. With the global economy projected to contract by 3 percent in 2020 and Peru's nationwide lockdown lasting 10 weeks, Peru's GDP is expected to fall by 6½ percent in 2020, with the brunt of the impact in the second quarter (with nearly 8 weeks of lockdown). The associated contraction in domestic demand and lower oil prices are expected to keep inflation below the central bank's target range—despite supply disruptions—and to lead to a contraction in imports stronger than that in exports. The narrowing of the current account deficit is expected to largely offset a substantial worsening of the financial account, with FDI contracting sharply, and non-resident holdings of local currency debt declining by about 10 percent relative to end-2019.[4] The fiscal deficit is projected to increase significantly—to nearly 8¾ percent of GDP—owing to a combination of lower revenues and higher expenditures, which reflect deteriorating economic conditions and the policy response. The execution of capital projects—including those part of the new fiscal support package (¶12)—is, however, likely to continue to face challenges, particularly in view of the difficult economic conditions. Reflecting the temporary Covid-19-related increase in the fiscal deficit public debt is projected to exceed the 30 percent of GDP ceiling, reaching a high of 37.7 percent of GDP in 2022. It is, however, expected to decline to under 36 percent of GDP by 2025, as a result of stronger growth and an improving fiscal balance. Worsening economic conditions and lower interest rates will lead to a deterioration of banks' asset quality and profitability. Nonetheless, strong reserves and supportive policies (¶12) are expected to help the sector withstand the severity of the shock.[5]

Major Export Trading Partners	Proportion of exports (2019, %)	Real GDP Growth (Proj. 2020, %)
China	29.4	1.2
USA	16.5	-5.9
Euro Area	12.3	-7.5
India	5.3	1.9
Korea	4.5	-1.2

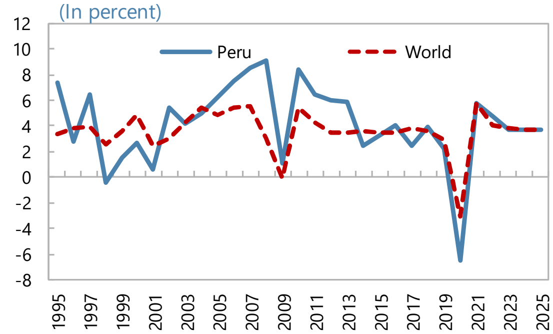
Source: IMF DOT database, WEO

[4] An exception is public medium- and long-term debt, with the government issuing, as previously mentioned, US$3 billion in global bonds in April 2020. On May 15, the government published an emergency decree allowing the issuance of a further US$4 billion, either in domestic or international markets. Even if less than fifty percent of this additional amount is issued internationally, international issuance this year would reach its highest level since 2015.

[5] In the 2018 FSAP Update, stress tests found the system to be resilient to a GDP fall of nearly 10 percentage points vis-à-vis the baseline over a three-year period owing to its strong initial capital and profitability buffers. The total capital shortfall for the system was estimated to be minor (less than 0.1 percent of GDP), with all large banks staying above the minimum CAR of 10 percent. The current shock is expected to be sharper (a 10 percent GDP growth deviation from its baseline in a single year), although less protracted.

11. Given the expected temporary nature of the Covid-19 shock, the 2020 outcomes are projected to significantly unwind next year under the baseline scenario, and further in the medium term. Although the post-Covid recovery path remains highly uncertain, the projected recovery in global growth (5¾ percent in 2021) will drive up demand for Peru's exports and the gradual reduction of the containment measures are expected to help Peru's economy expand by over 5¾ percent in 2021. Nonetheless, the impact of the shock will remain significant, with economic activity still not reaching its pre-Covid-19 level. With the recovery in private demand replacing the exceptional fiscal stimulus effected in 2020, inflation is projected to increase, although remaining near the mid-point of the target range, and the current account deficit to widen. Stronger growth, the unwinding of the transitory fiscal support measures (e.g., cash transfers, tax deferrals, and payroll subsidies), and a rebound in tax revenues are expected to reduce the fiscal deficit to about 3½ percent of GDP in 2021 even as public investment remains high. The balance of payment is also expected to improve in 2021 as FDI rebounds and portfolio flows tick up. FX reserves are expected to remain ample throughout the forecast horizon (significantly above 150 percent of the ARA metric when using total gross international reserves and still comfortably within the 100-150 percent range when using the adjusted GIR/ARA metric[6]). The authorities do not have an explicit reserve target but follow a strategy of maintaining strong external buffers and would look to rebuild buffers following any significant use of reserves. In the medium term, growth is expected to return to its potential of 3½ percent) and the fiscal deficit to gradually decline to below the fiscal rule ceiling—one year later than in the pre-Covid-19 path. The return to the debt ceiling of 30 percent of GDP may, however, need a longer period. Nonetheless, public debt is expected to remain low at the end of the projection period and on a downward trajectory. While the medium-term fiscal adjustment and the return to the numerical parameters of the fiscal rule will be to a large extent the result of the dissipation of temporary support policies and of higher tax collection associated to the economic recovery, it will be nonetheless key for the authorities to

Real GDP Growth
(In percent)



Source: IMF WEO; and IMF staff calculations.

[6] It is important to note that Peru's persistent financial dollarization has implication on the measure of international reserves. Notwithstanding substantial progress in de-dollarizing the economy (IMF, Peru – Staff Report for the 2019 Article IV Consultation, Country Report No. 20/3, ¶8), deposit dollarization stands at 35 percent. One important measure to reduce dollarization and support financial stability has been the use of higher reserve requirements on FX deposit accounts (currently at 35 percent), which contribute significantly to gross reserves. This component of reserves, however, while providing insurance against a FX bank deposit run, is not available as a protection against current account or rollover shocks in the financial account, for example. Netting out central bank liabilities associated with FX reserve requirements (and public sector deposits) from gross reserves would reduce reserves by about 40 percent from US$68.4 billion to US$40.9 billion. The latter figure will be referred to as 'adjusted GIR' in this report.

complement this process by continuing to focus on revenue administration measures—particularly on reducing the VAT compliance gap.[7]

12. The authorities responded swiftly to the Covid-19 shock. More specifically, the policy response has been anchored on a broad set of policies, including:

- **Containment of the pandemic.** In January, when the information on China's outbreak first became available, the government prepared a National Plan for Response and Prevention. After the first case was confirmed on March 6, the government began taking containment measures that were progressively tightened (see text table). With a large concentration of population in Lima, containment has been difficult, and the number of confirmed Covid-19 cases has grown rapidly.

- **Fiscal policy.** The policy support package presented by the government, aimed at addressing the health and economic impact of Covid-19, is the largest in LAC and in Peru's history. On March 29, Finance Minister Alva announced a package of measures amounting to about 12 percent of GDP (later expanded to about 16 percent of GDP) aimed at: (i) addressing the health emergency;[8] (ii) providing economic relief to vulnerable firms and households; and (iii) ensuring a rapid economic recovery once the health emergency is over (see text table).[9] This package is not fully incorporated in the 2020 baseline,

Covid-19 Policy Measures	
Containment of Pandemic	Declaration of national emergency Severe travel restrictions National lockdown Mandatory self-isolation Curfew
Fiscal Policy	*Package equivalent to 7 percent of GDP* • Increased spending in health equipment and personnel • Temporary payroll subsidies, tax deferrals, and means-tested cash transfers • Post-lockdown recovery projects • Emergency lending to small and medium-sized enterprises

[7] Significant progress in revenue mobilization can be attained by continued strengthening of tax administration and reforms of the tax regime for small businesses (S. Khalid, "Tax Revenues in Peru—Recent Trends, Policies, and Prospects", Peru—Selected Issues, Country Report No. 20/4). Prior to the Covid-19, the authorities targeted an annual increase in revenue from improved compliance of 1 percent of GDP for 2019–20.

[8] Health measures included purchase of medical supplies, testing kits, personal protective equipment for health workers, and vehicles; salary bonuses and expansion of life insurance for health workers; and installation of provisional hospitals to accommodate increased demand.

[9] A significant challenge of the policy response has been how to identify vulnerable households. While the identification process has by now helped reach not only poor urban households, but also low-income independent workers and poor rural households, the process has been slower than anticipated and is yet to reach all the intended recipients individuals.

Covid-19 Policy Measures	
	• Efforts to ease liquidity constraints on households *Package equivalent to about 8 percent of GDP* • Government guarantee to support financial sector lending to some 350,000 SMEs for working capital. Guaranteed loans can have a maturity of up to 36 months. Central Bank may provide liquidity for this package through repos of the government guaranteed loans. *Package equivalent to about 1 percent of GDP* • Steps granting households access to restricted individual accounts (i.e., pensions, severance accounts)
Monetary, Exchange Rate, and Financial Sector Policies	- Policy rate cut in March and April by cumulative 200 bps Easing of reserve requirement FX interventions to prevent disorderly market conditions Term modifications for loans

as staff expects continued challenges in public investment execution. The government has also suspended the fiscal rules for the period 2020-21 in the context of the national emergency.[10]

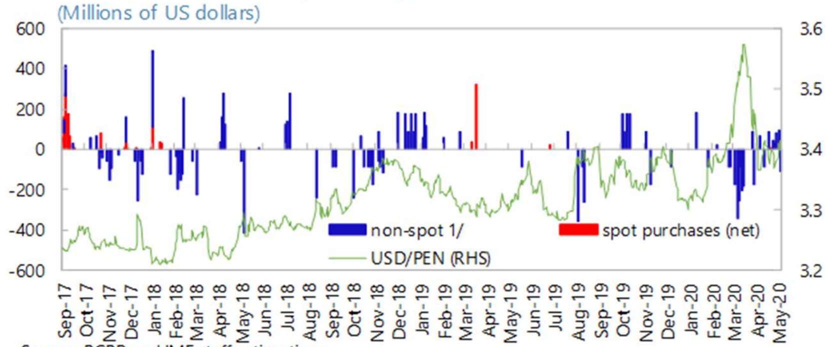
- **Monetary, exchange rate, reserves, and financial sector policies.** The central bank eased monetary conditions further by cutting the policy rate by 100 basis points in mid-March and then again in April to an historic low of 0.25 percent (1.25 percent during the during the GFC). It also eased reserve requirements and injected liquidity into the system in order to support the payment and credit chains. Furthermore, it intervened (selling) in the FX market in a context of depreciation pressures and disorderly market conditions associated with significant volatility in global capital markets.[11] Intervention was, however, moderate and international reserves remain at robust levels (above 200 percent of the adjusted ARA metric and at 131 percent when adjusting reserves for FX deposits of the government and commercial banks). Going forward, the authorities remain committed to limiting foreign exchange interventions to episodes of disorderly market conditions, when large capital flows may cause financial instability or exchange rate misalignment. The superintendence of banks introduced regulation allowing financial institutions to conduct term modifications for loans affected by new economic

[10] The two-year suspension constitutes an extraordinary measure taken in the context of the national emergency and is aimed at undertaking an appropriate response to the health emergency and at mitigating its impact on the economy. Owing to the magnitude of the shock, it was decided not to invoke an escape clause, as it was done in 2017 following the El Niño-related natural disaster. The authorities have not yet outlined a path to return to the fiscal rule parameters, which is likely to be gradual.

[11] 70 percent of the volume of interventions between early March and April 20 occurred on days which saw high stress according to the change in the IMF's composite disorderly market conditions index.

conditions without that translating into a deterioration in the credit classification of the loan (provided that the terms modification was not beyond six months and that the loan was in good status before the modification). The central bank has relaxed two capital flow management measure and macroprudential measure (CFM/MPM)—both related to reserve requirements on FX derivative transactions—to enhance the development of FX hedging transactions.

Exchange Rate and Foreign Exchange Intervention
(Millions of US dollars)



Source: BCRP and IMF staff estimations.
1/ Non-spot instruments include net maturity of CDR BCRP, net maturity of FX (sell) swaps, net issuance of CDLD and net purchases of FX (buy) swaps. An increase is equivalent to a purchase of foreign exchange.

- **Additional policy reforms and contingency plans**. The government has expressed its commitment to maintain a transparent management of the fiscal accounts in spite of the temporary and extraordinary suspension of the fiscal rules.[12] As a key step in this direction, the government plans to include an assessment of the impact of Covid-19 on the fiscal accounts in the context of the Fiscal Responsibility Report for the years 2020 and 2021, as well as to provide a more detailed plan to return to the numerical parameters of the fiscal rule in the context of this year's Multiannual Macroeconomic Framework (which is typically produced by end-August and provides the basis for the budget process). Furthermore, in order to strengthen governance, the government has authorized additional resources to the Comptrollers Office to enhance the monitoring of new expenditures associated with the national emergency. In addition, the government continues to make progress on previously outlined reforms on public financial management and revenue administration aimed at improving the budget process and enhancing revenue mobilization. The government is also exploring measures to improve liquidity/cash management at the central and regional levels, in order to use existing resources more efficiently. Despite the unprecedented scope of the economic support plan, the central bank has indicated that it remains monitoring economic developments and that it could expand its policy support if warranted.

[12] In its official review of the fiscal measures taken by the government to respond to the Covid-19 crisis, the independent Fiscal Council stated that exceeding the legal limit of 30 percent of GDP for public debt does not have any adverse implication for debt sustainability as long as the fiscal measures remain of temporary nature.

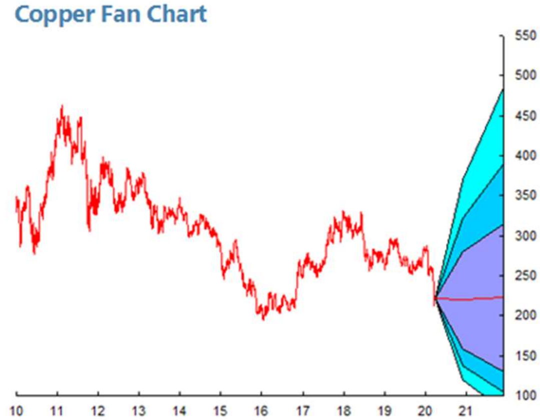
THE FLEXIBLE CREDIT LINE

A. Evolution of Risks and Exposures

13. Uncertainty around global growth forecasts has spiked to unprecedented levels. Even after downgrading baseline global growth to -3 percent, much below the growth rate during the Global Financial Crisis (GFC), the World Economic Outlook sees "severe risks of a worse outcome" while the G-20 Surveillance Note qualifies the outlook as "unusually uncertain". Uncertainty around the path of the Covid-19 outbreak and the associated containment measures is extremely large. But even beyond these direct effects, the path of the global economy could be weaker than expected due to confidence failing to improve, company failures and establishment closures, massive unemployment, and structural shifts in firm and household behavior leading to longer-lasting supply chain disruptions and weakness in aggregate demand.

14. A prolonged Covid-19 outbreak or a persistent decline in risk appetite amid deteriorating fundamentals would have significant repercussions. The Global Financial Stability Report (GFSR) notes that emerging markets have experienced the largest portfolio flow reversals on record amid tight financial conditions. If negative shocks continue to materialize and asset managers are forced to make distressed sales, consequences for emerging market balance of payment needs could be substantial. Lower global demand could also further depress commodity prices. Reflecting increased uncertainty, volatility implied in copper futures prices, Peru's main export, has soared.[13]

Copper Fan Chart



Sources: Bloomberg and IMF staff calculations.

15. Both current and financial accounts in Peru are vulnerable to global downside risks. Peruvian exports are highly concentrated in natural resources, with mineral exports accounting for 65 percent of Peru's 2019 exports, of which copper alone represents 26 percent (Peru is the world's second largest copper exporter). A continued slowdown of external demand, for example, would lead to a steeper drop in copper and other metal prices and would have a large negative impact on the current account, even though gold, Peru's second largest exports, can act as a natural hedge in times of crisis. In terms of financing, Peru's large foreign direct investment flows would also suffer in

[13] The December 2020 mean copper price forecast at end-March 2020 (Bloomberg and IMF staff calculations) was around 20 percent lower now than in January 2020, with the whole distribution having shifted down. Uncertainty has become particularly high around the 2021 forecast, with the one standard deviation confidence interval 35 percent wider than in January 2020.

an environment of low global growth and depressed commodity prices.[14] Non-resident acquisitions of domestic currency debt government bonds have been another key financing item. Non-residents account for about 40 percent of local currency debt and their USD position more than tripled between 2015 and 2019, from US$5 billion to US$17.6 billion (an increase corresponding to 5 percent of GDP). If investors were to liquidate their positions, owing to risk aversion and tight financing conditions as set out in the GFSR, this would lead to large pressures on the balance of payments. In addition, net portfolio investment tends to be negative for Peru as resident investment abroad dominates inflows. In a situation of a global flight to safety, a large pickup in outflows of residents such as that observed during the GFC (a change of US$3.5 billion relative to 2008) could put additional pressure on the balance of payments.

16. **The external economic stress index (ESI) for Peru shows deteriorating conditions under the baseline scenario, and even more so under the adverse scenario.** The index is based on four major variables that capture external risks for Peru: metals prices, world GDP, emerging market volatility, and U.S. Treasury yields. Sharp deterioration of the ESI in the first half of 2020 mostly reflects the unprecedented global contraction and increased stress in financial markets. Under the baseline, the ESI is expected to bounce back and return to average levels in subsequent quarters due to the rapid rebound of the global economy in the second half of 2020. Under the adverse scenario, however, the ESI is expected to stay in negative territory over the next 12 months, reflecting weaker external conditions from prolonged Covid-19 effects.

B. Access Considerations Under an Adverse Scenario

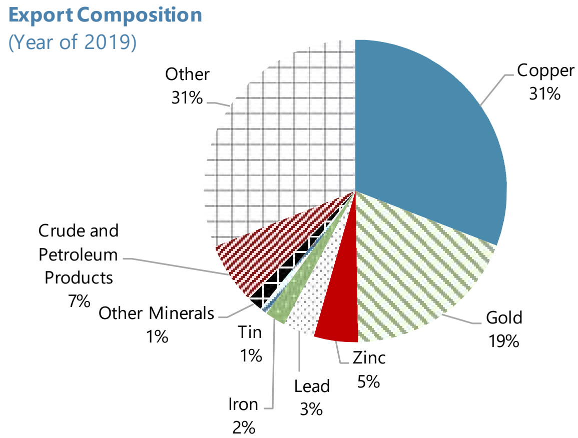
17. **Staff estimates indicate that financing needs would be substantial if the above discussed risks materialized.** In the adverse scenario, a further deterioration in global economic conditions would result in more severe trade and current account movements. Import compression due to exchange rate depreciation and lower oil prices would in the short run be outweighed by falling exports due to low global growth and lower metals prices.[15] Heightened global uncertainty and risk aversion would lead to a sharp decline in capital inflows (FDI, portfolio, and loans) and a reduction in the large stock of local currency debt held by non-residents. Many of the risks are correlated and tend to reinforce each other, creating the possibility of a highly adverse outcome in the current volatile environment.

[14] FDI accounts for the majority of financial account flows in Peru. Since 2000, it has never accounted for less than 48 percent of the financial account balance.

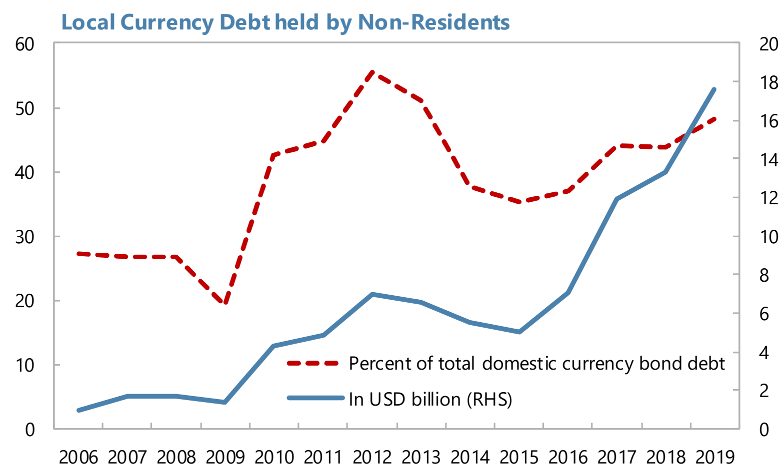
[15] The widening of the current account in the adverse scenario is primarily driven by a bigger and broader decline in metals prices (for which Peru is a net exporter) than in oil prices (for which Peru is a net importer). Furthermore, nontraditional exports (particularly of agricultural products), which have been a source of growth for Peru in recent years, are also expected to contract more in the adverse scenario.

Figure 2. Peru: Key Exposures to External Shocks

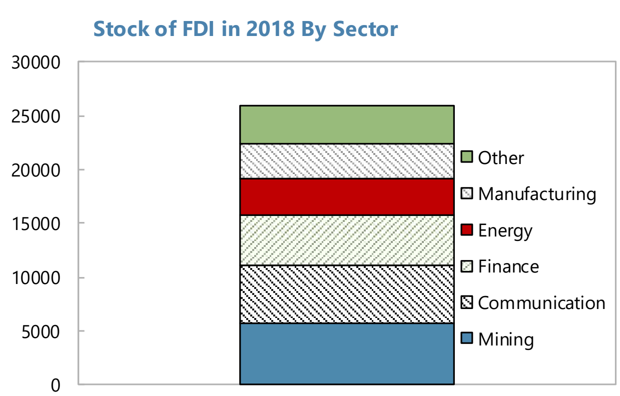
Current account: Exports are highly concentrated, with minerals accounting for nearly two-thirds of Peru's exports

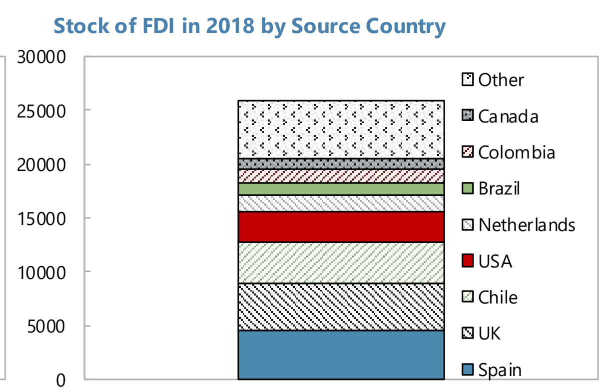


Financial account: Non-resident holdings of domestic currency debt have more than tripled since 2015



Financial account: Relatively diversified FDI cannot protect against a global shock such as Covid-19





Sources: National authorities (BCRP, INEI).

Box 2. External Economic Stress Index

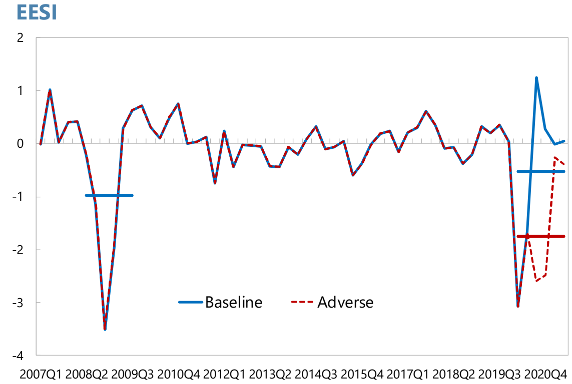
The external economic stress index is based on four major variables which capture external risks for Peru: (i) the growth rate of a weighted average of copper and gold prices (a proxy for mineral exports and FDI); (ii) the world GDP growth rate (a proxy for exports of goods and services other than minerals); (iii) the emerging market volatility index VXEEM (a proxy for risks to equities in emerging markets), and (iv) the change in the 10-year U.S. Treasury yield (a proxy for risks to short term debt as well as medium and long term debt rollovers). The index is calculated as a weighted sum of standardized deviations of the above variables from their means. The weights are estimated using balance of payments and international investment position data, all expressed as shares of GDP. The weight on the commodity prices (0.35) corresponds to the sum of mineral exports and FDI. The weight on world GDP (0.26) corresponds to export of goods and services other than minerals. The weight on the VXEEM (-0.22) corresponds to the stock of equity portfolio investment. The weight on the US government bond (-0.17) corresponds to the sum of short-term debt stock and scheduled amortizations of medium- and long-term debt of both public and private sectors.

External Risks	Channels	External Proxy Variables	Weights
External demand and commodity prices	Mineral exports FDI	Weighted average of copper and gold price, most relevant for Peru	0.35
	Non-mineral exports	World GDP growth, which correlates closely with Peru's export market	0.26
Global financial conditions	Equity portfolio stock	VXEEM	-0.22
	Short term debt portfolio shock and amortization of medium- and long-term debt	Change in 10-year Treasury yield	-0.17

Baseline ESI is already very unfavorable reflecting the sharp contraction of world GDP and increased emerging market volatility in the first half of 2020. Since the baseline assumes a bounce back of world GDP and a gradual return of volatility towards its average, the ESI shows a recover in the subsequent quarters. Notably, because of favorable developments in gold prices, the commodity price component of the index has been largely neutral in 2020Q1 but is expected to contribute negatively in 2020Q2. Gradual but modest tightening of US monetary policy also weighs on the ESI starting on 2020Q3.

The adverse scenario reflects external risks from prolonged Covid-19 effects. In the adverse scenario, the metals prices fall by about 15 percent year-on-year in 2020 and continue to fall further in 2021. World growth follows the April 2020 WEO adverse scenario of 3 percentage points below the baseline throughout the 1-year horizon. Emerging market volatility continues to be high, with VXEEM at about 2 standard deviations above the baseline. Overall, for the average of the 12-month period the ESI in the adverse scenario is -1.7, almost twice as negative as during the GFC and worse than the baseline by 1.2 points.

EESI



Sources: Authorities and IMF staff calculations.

18. In this context, the authorities have requested a FCL arrangement with access of 600 percent of quota on a precautionary basis. The authorities have approached the Fund for an FCL arrangement in an amount of SDR 8.007 billion (600 percent of quota) for a period of 24-months. Given external risks and Peru's exposure to them, staff is of the view that this level of access is justified. Such an arrangement would play a key role in supporting the authorities' macroeconomic strategy, preserving investor confidence, and providing insurance against extremely adverse risks. In the adverse scenario, Peru would face a financing gap of about US$18 billion in 2020 (US$4 billion from a worsening current account and US$14.3 billion from a financial account shock). A 3-percent depreciation of the exchange and a substantial reserve drawdown of US$8.3 billion (US$7.3 billion more than in the 2020 baseline) are assumed in the adverse scenario. The latter corresponds to 43 percent of the total financing needs, taking the adjusted GIR/ARA metric to about 105 percent. Even after this large use of reserves, a residual financing gap of US$11 billion would remain. Box 3 below discusses the assumptions underlying the adverse scenario in detail.

Key Contributors to Financing Gap under Adverse Scenarios
(US$ billion, unless otherwise indicated)

Assumption	2020	2021
Current Account Deficit	4.0	4.1
Financial Account Shock	14.3	14.2
Reserve drawdown	-7.3	-7.3
Remaining gap	11	11

Source: IMF staff calculations.

C. Assessment of Qualification

19. Peru meets the qualification criteria for an FCL arrangement according to staff's assessment (Figure 2). As Directors recognized in the last Article IV consultation with Peru, the Peruvian authorities have a sustained track record of implementing very strong policies amid very strong economic fundamentals and institutional policy frameworks (IMF Country Report 20/3). Monetary policy is guided by a credible inflation-targeting framework in the context of a floating exchange rate regime,[16] while fiscal policy has been guided by the Fiscal Responsibility and Transparency Law, which imposes a ceiling on the fiscal deficit and public debt.

[16] The AREAER classification for Peru is de jure and de facto floating. The central bank uses spot and forward interventions in the FX market to reduce exchange rate volatility without altering the exchange rate trend. Recent interventions while frequent have been limited in size and broadly symmetric, helping to make the Peruvian sol the most stable currency in the region.

Box 3. Description of the Adverse Scenario

Key assumptions on commodity price movements, FX rollover rates, resident portfolio outflows and reserve drawdown in the adverse scenario are informed by past shocks faced by Peru (notably during the GFC) as well as past shocks faced by EMs more broadly. The resulting assumptions are comparable to those in recent FCL arrangements. This configuration of shocks is consistent with an adverse external scenario in which global growth sees a significant additional decline (a further 3 percentage points relative to the baseline) and emerging market financial volatility is further accentuated. In such an environment, Peru's GDP growth would be over 3 percentage points below the baseline and the real exchange rate would depreciate by an additional 3 percentage points vis-à-vis the baseline, notwithstanding the substantial use of reserves explained below.

Current account. Copper exports are assumed to fall by 27 percent, driven by a decline in prices. This corresponds to a one standard deviation price shock, in line with the oil price shock assumed in the recent Colombia FCL arrangement (one standard deviation) and very close to the copper price shock during the GFC. Moreover, other Peruvian non-fuel exports are assumed to fall by one standard deviation (15 percent) so that total exports fall by 27 percent in the adverse scenario relative to the average over 2017-19 (see kernel charts below). In response to an expected exchange rate depreciation and lower oil prices, goods imports contract by 10 percent which would take the reduction in imports in the 2020 adverse scenario relative to the average over 2017-2019 to 20 percent. Overall, the current account worsens by US$4.2 billion.

Foreign Direct Investment. Inward FDI is assumed to fall by 40 percent relative to baseline in the adverse scenario for 2020, which implies a fall of roughly 50 percent relative to the average over 2017–19 (given that the 2020 baseline for FDI is already weak due to the ongoing Covid-19 shock). This is a somewhat larger contraction than in recent FCL arrangements (which assumed a 20-40 percent decline relative to the previous 3-year average) but is in line with the exceptionally large contraction in world growth assumed in the adverse WEO scenario. Inward FDI to Peru has in the past proven resilient but has also experienced large contractions at times, notably when metals prices declined after 2011, with inward FDI contracting by 27 percent in 2013 and 60 percent in 2014 year-on-year.

Foreign-currency denominated debt. *Private:* A rollover rate of 80 percent is assumed for private short-term FX debt, around the 25th percentile of past emerging market crisis episodes and in line with most other FCL arrangements. For private MLT FX debt, Peru has been paying down debt for the past few years with rollover rates already significantly below 100 percent since 2016. As a consequence, in the adverse scenario an assumption of disbursements of 80 percent of baseline was used instead of a rollover assumption. *Public:* Given the profile of Peruvian public debt, amortization of FX debt is very low in both 2020 and 2021. At the same time, the authorities have already issued US$3 billion in global bonds in 2020 and are planning to issue more. Rollover rates for public debt are thus projected to be over 200 percent in both the baseline and the adverse scenario (where we assume that Peru is only able to place the amount already issued in Q2 2020, which is roughly 30 percent less than in the baseline).

Local-currency debt. Peru has seen a surge in non-resident inflows into local-currency public bonds with the total stock of non-resident holdings increasing from US$7.1 billion to US$17.6 billion between 2016 and 2019. In an environment of very high international risk aversion, there is a risk that a substantial portion of the current stock of holdings would be unwound as investors repatriate funds and move into zero-risk assets. The adverse scenario assumes a reduction of 39 percent in the stock relative to end-2019 (31 percent reduction relative to baseline), in line with the 25th percentile of past emerging market crisis episodes. The sell-off corresponds to roughly undoing the increase of non-resident holdings over the previous two years and is somewhat larger than past sell-off episodes in Peru (-15 percent year-on-year in both 2009 and 2014).

Resident portfolio outflows. In a general run for safety scenario we assume outflows equivalent to 1.6 standard deviations, equivalent to the shock assumed in the most recent Mexico FCL arrangement. The assumed negative delta of US$2.5 billion is close to that observed in Peru during the GFC (2009 relative to 2008).

Box 3. Description of the Adverse Scenario (continued)

Reserve drawdown. A substantial reserve drawdown of US$8.33 billion is assumed in the adverse scenario. This corresponds to 43 percent of financing needs, similar to the assumption in the 2018 Colombia FCL arrangement and significantly above the 20 percent ratio assumed in the recent Mexico FCL arrangement. The adjusted GIR/ARA metric would drop to about 105 percent (relative to roughly 110 percent in the recent Colombia and Mexico FCL arrangements).

Assumptions Underlying the Illustrative Adverse Scenarios

(In percent change vis-à-vis baseline, unless otherwise indicated)

Assumption	2020	2021
Copper prices	-27	-27
Non-copper exports	-15	-15
Oil prices	-10	-10
Non-oil imports	-10	-10
FDI	-40	-24
ST private FX debt (rollover rate)	80	80
MLT private FX debt disbursements	-20	-20
MLT public sector disbursement	-30	-30
Non-resident local currency debt stock	-31	-31
Resident portfolio flows (change in US$ billion)	-2.5	-2.5

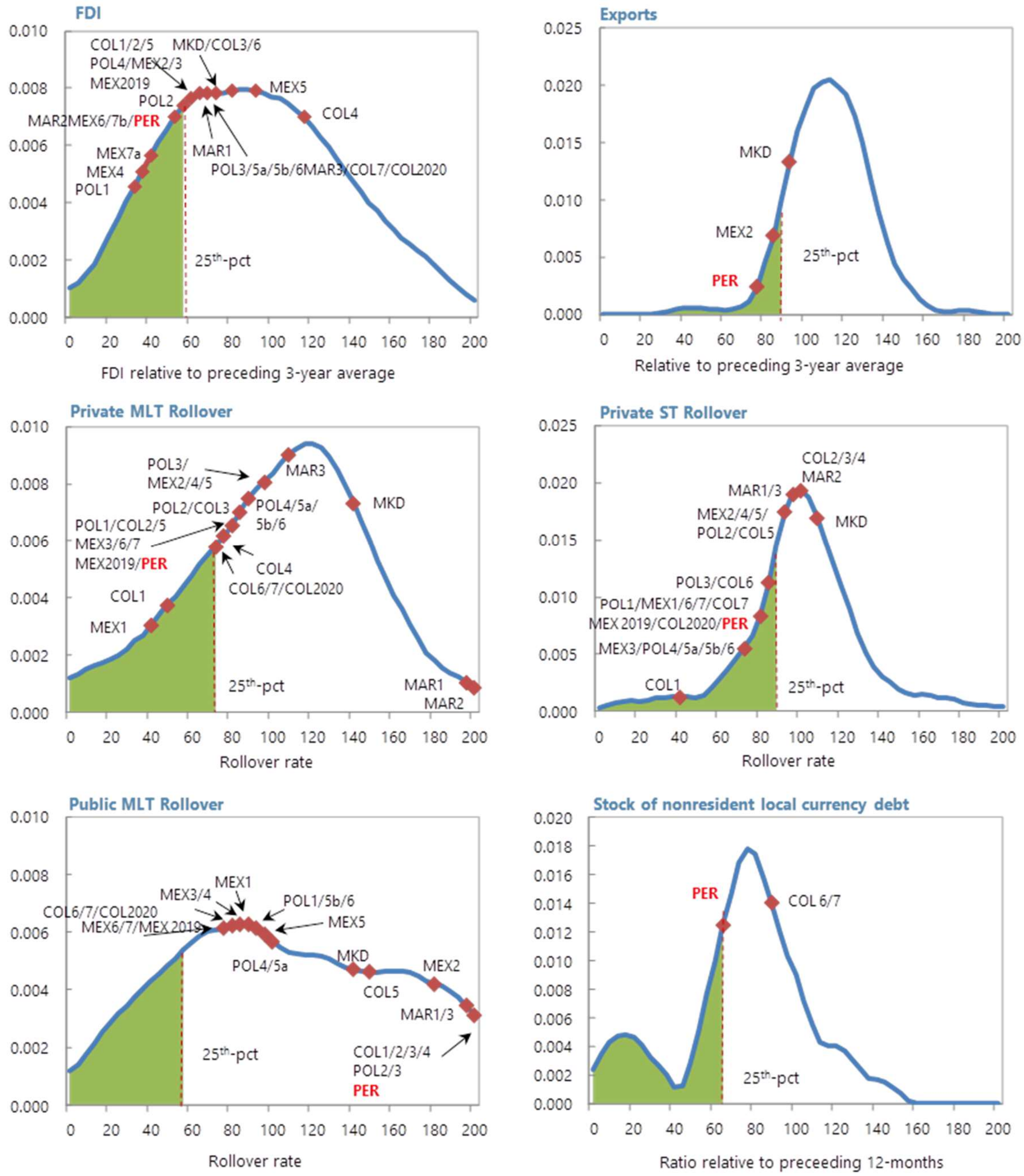
Source: IMF staff calculations.

External Financing Needs under the Adverse Scenario

In billions of USD	2018	2019	2020	2021	2020 (adverse)	Contribution to Gap	2021 (adverse)	Contribution to Gap
Gross External Financing Needs	-19.5	-20.4	-15.7	-14.9	-19.7		-19.0	
Current Account Balance	-3.8	-3.1	-1.8	-2.0	-5.9	**4.0**	-6.1	**4.1**
FX MLT Debt Amortization	-7.2	-7.9	-6.0	-5.9	-6.0		-5.9	
Public	-1.6	-2.2	-0.3	-0.5	-0.3		-0.5	
Private	-5.6	-5.7	-5.6	-5.4	-5.6		-5.4	
FX ST Debt Amortization	-8.4	-9.3	-7.8	-7.1	-7.8		-7.1	
Private	-8.4	-9.3	-7.8	-7.1	-7.8		-7.1	
Available Financing	17.2	27.8	14.7	14.9	0.4		0.7	
FDI (net)	6.5	8.0	5.7	6.5	3.3	**2.4**	4.9	**1.6**
FX MLT Debt Disbursements	5.8	5.3	7.9	4.9	5.9	**2.1**	3.8	**1.1**
Public	1.8	1.8	4.7	1.6	3.3		1.1	
Private	4.0	3.5	3.2	3.3	2.5		2.7	
FX ST Debt Disbursements	9.3	7.8	7.1	7.8	6.3	**0.8**	5.6	**2.2**
Private	9.3	7.8	7.1	7.8	6.3		5.6	
Net Financing Domestic Currency Debt	2.1	4.6	-2.0	0.2	-6.9	**4.9**	-4.9	**5.1**
Net Portfolio Investment	-3.9	-0.3	-2.5	-2.5	-5.1	**2.5**	-5.1	**2.5**
Other ST Flows (net)	-2.6	2.4	-1.4	-2.0	-3.1	**1.7**	-3.7	**1.7**
Financing Needs+Available Financing	-2.3	7.5	-0.9	0.0	-19.3		-18.3	
Errors and Omissions	-1.3	-0.6	-0.2	0.3				
Gross Reserve Accumulation	-3.6	6.9	-1.0	0.0	-8.3	**-7.3**	-7.3	**-7.3**
Financing Gap	0.0	0.0	-0.1	0.3	-10.9	**11.0**	-11.0	**11.0**
in percent of quota						**595**		**593**
Memorandum Items								
Gross International Reserves (GIR)	60.3	68.4	67.4	67.4				
Adjusted GIR 1/	39.2	42.1						
ARA metric	24.9	24.2						
ARA metric, adjusted 2/	30.0	32.0						
GIR/ARA (%)	242.5	282.1						
Adjusted GIR/Adjusted ARA (%)	130.7	131.7				**106**		**106**

1/ Net of public sector deposits and of FX liabilities to the banking sector.
2/ Augmented by volatility of gold and copper prices.

Box 3. Description of the Adverse Scenario (concluded)



Source: IMF staff calculations.

Note: The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. MEX2019 is the current FCL arrangement for Mexico. COL2020 refers to recently approved arrangement for Colombia. PER corresponds to the 2020 adverse scenario in the proposed arrangement for Peru. The distribution on the stock of nonresident holdings of local currency debt is taken from the 2018 Colombia FCL report. In the graph on private MLT rollover, the dot for Peru refers to disbursements relative to baseline given that even in the baseline rollovers are forecast to be well below 100 percent (as they have been since 2016).

- **Sustainable external position.** Peru's External Sector Assessment for 2018 establishes that the external position is broadly in line with medium-term fundamentals and desirable policies, with preliminary estimates confirming this assessment for 2019 as well (2019 Article IV consultation).[17] The EBA current account model estimates a policy gap of zero, with different gaps offsetting each other. Furthermore, the authorities remain committed to limiting foreign exchange intervention to cases of disorderly market conditions, while allowing the exchange rate to be determined by its fundamentals. The external debt sustainability analysis (Annex I) shows that Peru's external debt is relatively low (34.7 percent of GDP at end 2019) and would decline to around 31½ percent of GDP over the medium term. Net foreign assets are projected to decline from -37 percent in 2019 to around -38.2 percent of GDP by 2024.

- **Capital account position dominated by private flows.** The bulk of Peru's external debt is owed to private creditors, with public debt averaging 31 percent of the total over the past 3 years. Private portfolio inflows (debt and non-debt creating) and FDI continue to be large relative to the overall balance of payments inflows, accounting for about 76 percent of overall inflows in the last 3 years. In total, public inflows accounted for only around a third of Peru's direct, portfolio and other asset and liability inflows on average over the last three years.[18]

- **Track-record of steady sovereign access to international capital markets at favorable terms.** Spreads on Peru debt have historically been among the lowest in Latin America. The EMBIG spread over U.S. Treasury Bonds averaged 145 basis points in 2017, 147 basis points in 2018, and 129 basis points in 2019. Up to March 24, 2020, the average spread in 2020 had been 159 basis points. Peru has successfully placed sovereign bonds in international markets at favorable terms. External public issuance in 2017, 2018 and 2019 (US$2.4 billion, US$1.8 billion, and US$1.8 billion, respectively) were cumulatively 330 percent of quota.[19] The three major credit rating agencies all continue to assign an investment grade rating to Peru.[20] In staff's assessment, Peru did not lose market access at any point in the last 12 months.

- **Reserve position which—notwithstanding potential BoP pressures that justify Fund assistance—remains relatively comfortable.** Gross international reserves reached US$68.37 billion at end-2019. This level is well in excess of standard reserve coverage indicators (Figure 3). Peru's reserves have been significantly above the ARA metric in past few years (over 270 percent in 2019 and an average of 255 percent over the previous three years). However, adjusting

[17] Data up to 2019Q3 was available at the time of the 2019 Article IV consultation.

[18] Public inflows are defined as liability flows related to the domestic public sector. Total public inflows are calculated as the sum of the general government and BCRP short term portfolio, medium terms loans and other transactions (of T Bills). Total flows are calculated as the sum of FDI, portfolio, and other asset liability flows. Reserve flows are excluded.

[19] On April 16, 2020, Peru placed an additional US$3 billion in sovereign bonds. Cumulative issuance for 2018-2020M4 is 360 percent of quota.

[20] Moody's assesses Peru at A3 level with S&P and Fitch rating Peru as 'BBB+' with stable outlook (2019)

reserves for FX deposits of the government and commercial banks,[21] as well as augmenting the ARA metric to account for the volatility of Peru's commodity exports[22] brings these ratios down to 131 percent in 2019 and an average of 118 percent in the previous three years.

- **Sound public finances, including a sustainable public debt position.** Staff assesses Peru's public debt is sustainable with a high probability. The assessment takes into account risks to public finances not immediately visible in current public debt projections, such as those discussed in Box 3. The authorities have suspended the fiscal rules for the period 2020–21 due to the national emergency, but have been very transparent regarding the objective of the suspension and the plans to provide support to the economy. The authorities' commitment to address structural weaknesses of the tax system should allow the withdrawal of the fiscal stimulus in line with the improvement of economic conditions while making the adjustment more sustainable. In addition, in order to increase transparency, the authorities plan to include an assessment of the impact of Covid-19 on the fiscal accounts in the context of the Fiscal Responsibility Report for the years 2020 and 2021. While the fiscal deficit is expected to reach 8.7 percent of GDP in 2020, staff projects that it would return to the deficit ceiling of 1 percent of GDP by 2025 (one year later than under the pre-Covid-19 path) under the baseline scenario, supported not only by the dissipation of fiscal support policies and by stronger activity, but also by the authorities continued focus on revenue mobilization. The public debt-to-GDP ratio is expected to increase from 27.2 percent of GDP in 2019 to 37.2 percent of GDP in 2020, in excess of the debt ceiling. The debt to GDP ratio is expected to decline to 35.8 percent of GDP by 2025. The public debt sustainability analysis shows that the debt trajectory is overall robust to standard shocks (Annex II). The debt projection is sensitive to growth, exchange rate fluctuations, interest rates, and the evolution of oil prices, but debt would remain contained even under severe negative shocks. The authorities remain focused on improving revenue mobilization and the budget process in the medium term—with the reduction of the VAT compliance gap and the implementation of a medium-term budget framework being key steps in those areas.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.** Headline inflation was at 1.8 percent in March 2020, supported by monetary policy easing amidst expectations of downside risk to growth and following weak growth of energy prices in the start of the year. Inflation expectations remain at 2 percent, the mid-point of the inflation target band, pointing to the very strong credibility of monetary policy. Peru has maintained single digit inflation, with no deflationary episodes, for over twenty years. The

[21] The Balance of Payments and International Investment Position Manual classifies international reserves as external assets available for use to meet balance of payments needs and for intervention in exchange markets. Consequently, our adjusted GIR excludes foreign currency deposits of commercial banks and the public sector from the central bank's official GIR number.

[22] Consistent with guidance on assessing reserve adequacy for commodity-intensive exporters (*Assessing Reserve Adequacy- Specific Proposals, IMF 2014)*, the ARA metric for Peru is adjusted with a commodity buffer based on a weighted one standard deviation price shock to copper and gold.

adoption of inflation targeting in 2002 has enhanced transparency and credibility, with the BCRP's Transparency Index comparing favorably with peers (IMF Country Report 18/225), and inflation expectations mostly anchored around the mid-point of the target range. Successful use of macroprudential tools has allowed Peru to achieve dramatic reduction in credit and deposit dollarization from 65 and 55 percent in the early 2000s to 27 and 35 percent, which has likely enhanced monetary policy transmission.[23]

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** The 2018 FSAP and the 2019 Article IV consultation did not highlight significant solvency risks or recapitalization needs and the capital adequacy ratio for the banking sector is above regulatory thresholds. As of December 2019, the banking system's Tier-1 capital ratio stood at 11.6 percent, slightly above than at the end of the previous year, and provisioning at 149.1 percent of non-performing loans is high.[24] Liquid assets account for about 21 percent of total assets, and the system is profitable and well-capitalized at present. The central bank has used reserve requirements on foreign currency (and domestic currency) deposits to enhance financial sector stability and stabilize credit conditions in the face of high dollarization, resulting in greater resilience to external shocks such as during the GFC.[25] The 2018 FSAP banking sector stress tests found that profits and previously accumulated countercyclical buffers would help the banking sector withstand a severe GDP shock and a sol depreciation of nearly 20 percent. Similarly, corporate stress tests found the sector capable of withstanding adverse macroeconomic shocks.

- **Effective financial sector supervision.** The 2018 FSAP concluded that banking supervision in Peru is robust, with the 2019 Article IV highlighting continued progress towards adopting the recommendations made by the FSAP. Peru has made significant progress on implementation of the Basel III regulatory reform agenda[26] and is currently working on improved methodologies for countercyclical provisions, capital surcharges for systemic banks, and buffers for concentration risk and interest rate risk. Liquidity coverage ratio (LCR) minimum requirements have been implemented, with tailoring to local circumstances. The authorities have taken important steps towards strengthening financial sector supervision even further, particularly with the registration of credit cooperatives and the implementation of a broad set of FSAP recommendations, including in the areas of bank and insurance supervision, systemic risks and macroprudential policies and financial integrity. Efforts to supervise financial institutions for AML/CFT compliance

[23] M. Ghazanchyan, "The Evolution of Peru's Multi-Instrument Policy Framework," Selected Issues, IMF Country Report 20/4.

[24] This figure compares favorably with other countries in the region: Mexico's provisioning stood at 149 percent (mid 2019) and Colombia at 142 percent (end 2019).

[25] M. Ghazanchyan, "The Evolution of Peru's Multi-Instrument Policy Framework," Selected Issues, IMF Country Report 20/4.

[26] The FSAP notes that although there are differences in the implementation, in particular regarding the different capital buffers, the implemented approaches aim to achieve the same objectives and broadly equivalent overall capital levels.

based on risks are continuing.[27] The authorities remain committed to further improving financial sector supervision, including by strengthening risk-based supervision. Staff encourages the authorities to step up implementation of the recommendations of the 2018 FSAP in the aftermath of this crisis, particularly with respect to increasing capital surcharges for systemic banks in line with Basel III and increasing countercyclical provisioning for smaller banks. Any additional measures to alleviate the impact of the Covid-19 crisis should continue to maintain sound micro-prudential standards for financial institutions.[28]

- **Data transparency and integrity.** The overall quality of Peruvian data continues to be high and adequate to conduct effective surveillance. Peru remains in observance of the Special Data Dissemination Standards (SDDS). A specific statistical issue relates to the reporting of debt issued by the government in the 1960s and 1970s as compensation during a land reform initiative. In a context of very high inflation in the 1980s, there has been significant legal controversy in Peru regarding the valuation of this debt. In 2013, the Peruvian government instituted a process to regularize these bonds, which requires physical authentication owing to the lack of an electronic registry. Approximately 13,000 bonds have so far been submitted to the re-certification procedure by over 600 bondholders. As of August 31, 2019, 88 percent of bonds submitted by bondholders had been verified through the procedure, allowing bondholders to proceed to registration, valuation, and payment, which began in 2018 and is ongoing. So far, about 6 million soles (US$1.8 million) have been paid for approximately 300 bonds. As for the statistical treatment of the bonds, based on Fund staff recommendations, the authorities have started integrating the bonds for which the verification process has been completed as general government debt in their debt statistics as of 2018. For the bonds that have not been submitted through the certification procedure, the physical authentication of the bonds and their relative valuation have not yet been possible and a value of zero is thus assigned to them in the public debt statistics. Bonds which are subject to a separate arbitration procedure are registered as contingent liabilities.

- **Track record.** Peru continues to have a sustained track record of implementing very strong policies, including according to staff's assessment that all relevant core indicators were met in each of the five most recent years.

- **Peru's policy frameworks have shown consistency and resilience in the face of several extraordinary political transitions.** The institutional quality of economic policy is underpinned

[27] The 2018 FSAP notes that the SBS (Superintendencia de Banca y Seguros del Peru) has a robust AML/CFT framework owing to recent issuance of AML/CFT risk management regulation and continuous enhancements in supervisory procedures. The SBS is currently working on modification to the Financial Sector Law with the aim of increasing sanctions, which was an important limitation in the framework identified by the FSAP.

[28] Specifically making sure that (i) loan loss provisioning and the classification of exposures reflect sound accounting practices; (ii) supervisors collect information and maintain close scrutiny over banks' asset quality and provisioning; (iii) borrowers that were already unlikely to repay before the Covid-19 crisis started do not unduly benefit from renegotiations and repayment holidays; and (iv) banks assess the credit quality of exposures subject to renegotiation and identify situations in which borrowers are unlikely to pay.

by the inflation-targeting framework (anchored by a very strong, independent central bank), the fiscal responsibility and transparency law, and the effective prudential and regulatory framework for financial supervision. According to the 2018 Worldwide Governance Indicators,[29] regulatory quality in Peru is high at a point estimate of 0.52 (standard error of 0.18), which exceeds the Latin American and Caribbean average. Weaker areas include Peru's government effectiveness (point estimate of –0.25, standard error of 0.18) and control of corruption (point estimate of – 0.54, standard error of 0.12). In the wake of the *Lava Jato* investigation, the government has put fighting corruption at the top of its agenda.

- President Vizcarra submitted four political and judicial reforms aimed at improving governance to national referendum—of which three were approved.[30] Efforts have been made to enhance administrative transparency through a decree requiring sworn declarations of interest from all public officials, which are published online.

- Institutional mechanisms for public investment and PPPs have been strengthened with the creation of *Invierte.pe* and *Proinversion*.[31]

- An Anti-Corruption Plan (2018–21) is currently being implemented to strengthen anti-corruption institutions. In order to enhance effectiveness of anti-corruption work, the Integrity Secretariat was created in the Presidential Council of Ministers, which in turn has empowered a network of "Integrity Offices" in line ministries.[32]

- Controls under the framework of the COVID-19 emergency have been reinforced by enabling the Comptroller's Office to conduct concurrent monitoring.[33] Transparency has also

[29] The Worldwide Governance Indicators are on a scale of –2.5 to 2.5, with a higher point estimate reflecting a more favorable ranking

[30] The approved reforms include: (i) reform of the entity in charge of appointing, ratifying and removing judges and prosecutors; (ii) reform of financing of political parties; (iii) prohibition of immediate re-election of parliamentarians.

[31] *Invierte.pe* is the new system for the strategic planning and management of public investment and *Proinversion* is the agency for the promotion of private investment in infrastructure. In addition, a package of legislative decrees for enhancing public financial management were approved in September 2018, aiming to address necessary reforms of reducing manual processes, systematizing procurement processes, and integrating real-time accounting.

[32] The functions of the Integrity Offices include supporting public officials/entities in identification of corruption risks; leading incorporation of integrity measures in public entity plans; contributing to internal control; communicating measures internally and externally; developing internal integrity training plans; advising public entities on conflict of interest or ethical situations; collecting information on complaints and sanctions; following up on whistleblower reports and protective measures.

[33] As opposed to just ex- post monitoring. For example, during the procurement process, the Comptroller's Office will monitor activities to prevent misuse and help implement timely corrective action. The same institution is also adapting deadlines for concurrent control in public purchases in relation to the emergency and controlling *in situ* the first needs goods' distribution by municipalities.

been strengthened with online eligibility for social support programs by citizens. The public information system on public works is in line with international good practices.[34]

- Efforts should progress to enhance asset declaration systems for politically exposed persons (PEPs) and establish a beneficial ownership registry for Peruvian companies (See IMF Country Report 20/3). Separately, the authorities are in the process of amending their Banking Law in order to enhance Peru's anti-money laundering framework and are advancing to ensure robust customer due diligence measures against PEPs.

20. The Peruvian authorities have a very strong track record of responding to significant shocks using a multi-instrument policy framework. Peru has been able to successfully navigate a complex external environment in recent years. Fiscal policy remains prudent, and the inflation targeting framework has kept inflation expectations anchored close to the inflation target.

- The central bank has been independent since 1993, with a constitutional mandate to maintain the currency's purchasing power. It formally adopted an inflation-targeting framework in 2002. At the same time, Peru has used a multi-instrument policy framework to achieve its policy objectives, with monetary policy focused on inflation, exchange rate policy on managing risks associated with liability dollarization, and macroprudential policies on mitigating financial stability risks. Foreign exchange interventions, while frequent, have been limited in size and broadly symmetric, contributing to making the Peruvian sol the most stable currency in the region. Macroprudential measures have helped preserve financial stability and reduce the degree of dollarization.[35]

- The current fiscal framework is anchored in the 2003 Fiscal Responsibility and Transparency Law, which was revised most recently in 2016, and contributes to the accountability and transparency of fiscal policy. The 2016 reform of the fiscal responsibility law reinstituted the headline fiscal deficit ceiling[36] and introduced a ceiling of 30 percent of GDP on public debt. The reform also reintroduced ceilings on non-interest and current expenditures. Regarding policy cyclicality, fiscal policy has been largely countercyclical, with the authorities running deficits in the aftermath of the global financial crisis and in the presence of a negative output gap during 2009–10 and accumulating surpluses when the output gap turned positive. In recent years, fiscal policy has remained expansionary owing to a persistent negative output gap, further heightened

[34] The information system on public works (INFOBRAS) allows tracking of georeferenced public works, their stage of execution, the contractor, invested amount, and other items. The system has been qualified as international good practice for transparency and citizen participation in the framework of the United Nations Convention Against Corruption (UNCAC) and replicated in other countries, including Chile.

[35] Comparing Peru with Chile, which follows a conventional inflation-targeting approach, Rodriguez, P., "Peru's Inflation Targeting Framework—How Far From Orthodoxy?", Selected Issues, IMF Country Report No. 20/4 finds that outcomes in terms of output and inflation volatility have been similar, and Peru's deviations from orthodoxy have been temporary and limited in size.

[36] Earlier versions of the rule targeted a structural deficit, but this was replaced with a headline deficit target to enhance transparency.

by the El Niño-related natural disaster of 2017. The central bank lowered the policy rate by 175 bps during June 2017–January 2020 to counter external shocks (El Niño) and weak growth, succeeding in keeping inflation within the target range. The central bank has cut the policy rate by a further 200 basis points to counter the effect of the Covid-19 pandemic.

21. While exports are still concentrated in mineral products, Peru has also made strong gains in economic diversification, assisted by supportive economic policies. Peru has experienced an agro-exporting boom over the past two decades[37], enhancing diversification away from their traditional exports of raw materials towards higher value-added exports of fresh-fruit. Complimentary economic policies have been critical to the growth of this sector, including the development of irrigation districts, free-trade agreements, development of new export markets, and supportive labor market policies. Staff analysis indicates reform priorities for enhancing productivity and diversification include reforms of the legal system, labor and product market reforms, as well as improvement of physical infrastructure.[38]

D. Exit Strategy

22. The authorities consider access to the FCL to be temporary with exit dependent on the evolution of external risks. The authorities intend to treat an FCL arrangement as precautionary, with the requested level of access providing insurance against a wider range of adverse external shocks, preserving investor confidence, and supporting the authorities' macroeconomic strategy. The authorities intend to reduce access under the arrangement, and, eventually, exit the arrangement conditional on the reduction of external risks, in line with their strategy that sees the use of the facility as temporary.

IMPACT ON FUND FINANCES AND SAFEGUARDS

23. The proposed arrangement for Peru under the FCL (SDR 8.007 billion or 600 percent of quota) would have a limited impact on the Fund's liquidity.[39] The Fund's Forward Commitment Capacity (FCC), which is currently around SDR 190 billion, would decline by about 4 percent (Table 10). If Peru were to draw under the FCL arrangement it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC, which is currently only based on quota resources, would decline by another SDR 1.1 billion.

[37] Agricultural exports have risen to 2.7 percent of GDP in 2019 from 0.4 percent in 2001 (IMF Country Report No. 20/3)

[38] Infrastructure development priorities are reflected in the National Plan of Infrastructure for Competitiveness, while labor market reforms critical to the growth of the agricultural sector (agriculture promotion law) have already been extended by the government until 2023.

[39] See Annex on "Assessment of the impact of the proposed flexible credit line arrangement on the Fund's finances and liquidity position".

24. If the resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Peru would be a sizable share of the Fund's outstanding credit.

- Fund credit to Peru would represent 10.4 percent of total GRA credit outstanding as of May 14, 2020, and 9.4 percent of GRA credit outstanding including Peru's purchase. Peru would also be the third largest Fund exposure. The concentration of Fund credit among the top five users of GRA resources would decrease marginally to about 74 percent, from 77 percent as of May 14, 2020.

- Fund credit to Peru would be about 49 percent of the Fund's current precautionary balances.

25. Even if Peru were to draw all the resources available under the new FCL arrangement under a downside scenario, its capacity to repay to the Fund would remain adequate (Table 11). Peru's external debt would rise to about 44 percent of GDP this year, and public external debt would rise to about 25 percent of GDP. Peru's outstanding use of GRA resources would account for nearly 13 percent of total external debt, and about 23 percent of public external debt. Fund credit would initially account for 5.7 percent of GDP and nearly 19 percent of Peru's gross international reserves.[40] External debt service would increase over the medium term but remain manageable under staff's macroeconomic projections. While debt service to the Fund would constitute a large share of total public debt service in 2023–25, such debt service would remain small even at its peak (2.4 percent of GDP), given Peru's overall low external public debt.[41]

26. FCL safeguards procedures are underway. The authorities have provided authorization for the central bank's external auditors to hold discussions with staff. In addition, staff has obtained copies of the central bank's audited financial statements and the management letter for FY2019. Once completed, the results of the procedures will be included in the next staff report for Peru.

STAFF APPRAISAL

27. Staff's assessment is that Peru meets the qualification criteria for access to FCL resources and recommends approval of the FCL request. Peru has very strong policy and institutional frameworks and economic fundamentals, among the strongest in the region and in the largest group of EMEs. In addition, Peru has accumulated an impressive track record of prudent policies and able policy management. The recent volatility in financial markets highlights that, despite Peru's resilience, a prolonged period of capital outflows remains a significant risk, compounded by growing downside risks to the global outlook and financial conditions. In this context, an FCL provides key insurance against external tail risks.

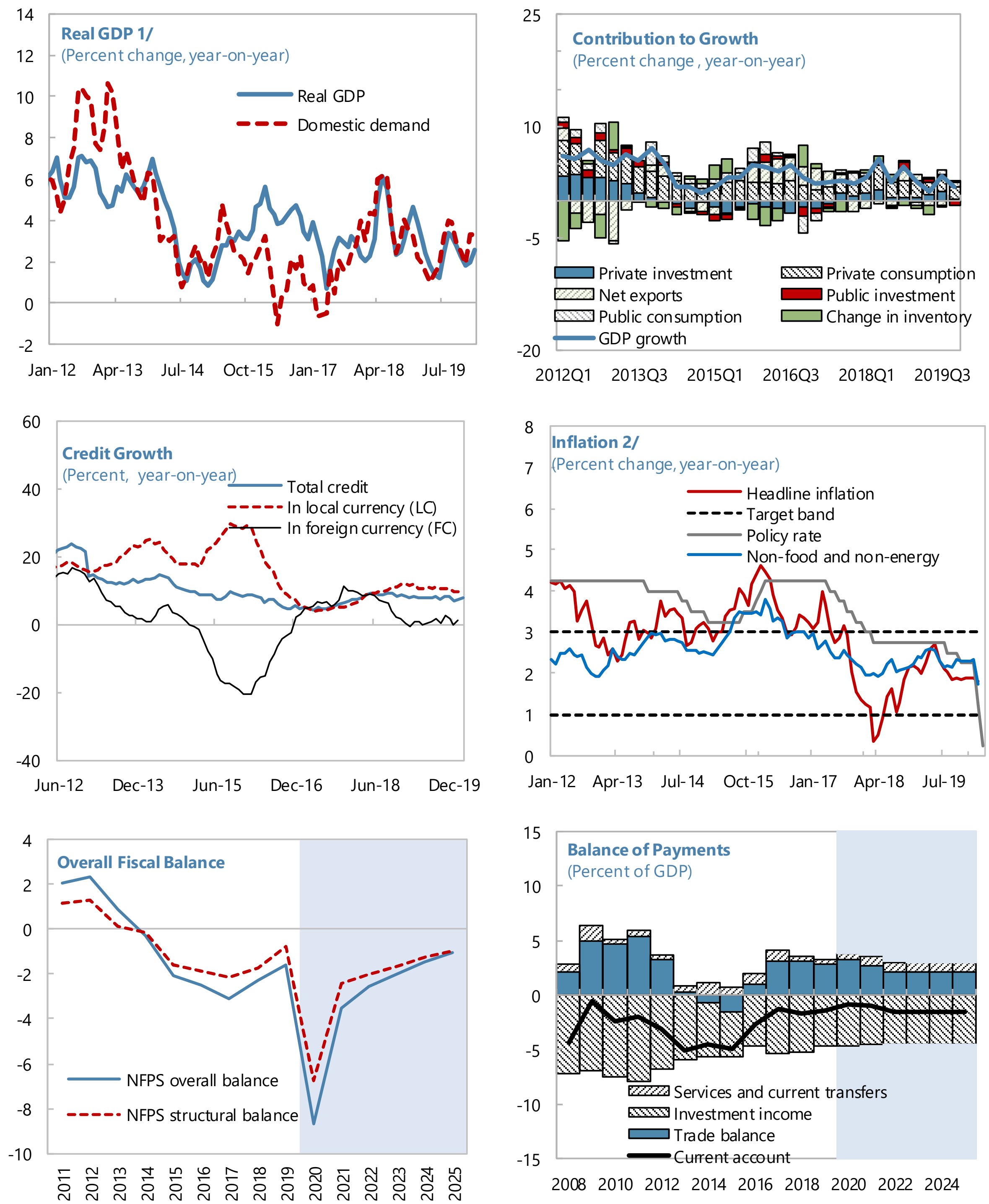
[40] These shares are close or below the median in a sample of 54 Stand-By arrangements approved since 2008.

[41] The projected figures on debt service used in this report are calculated assuming that full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

28. Staff considers the proposed access level appropriate in light of the extraordinary downside risks affecting the global outlook. Despite its very strong policy buffers, Peru remains vulnerable to external tail risks. The materialization of these risks and their combination, which would be likely in an adverse scenario, could expose Peru's vulnerabilities, including its dependence on non-resident financing. A new FCL arrangement with access of 600 percent of quota, which the authorities intend to treat as precautionary, would serve as appropriate temporary insurance to buttress market confidence in a context of heightened global uncertainties. Staff welcomes the authorities' intention to reduce access and consider exit from the FCL arrangement when the exceptional set of external risks will have subsided. In that context, the insurance provided by an FCL arrangement would be no longer necessary and Peru's large international reserves and policy buffers would be sufficient to manage risks.

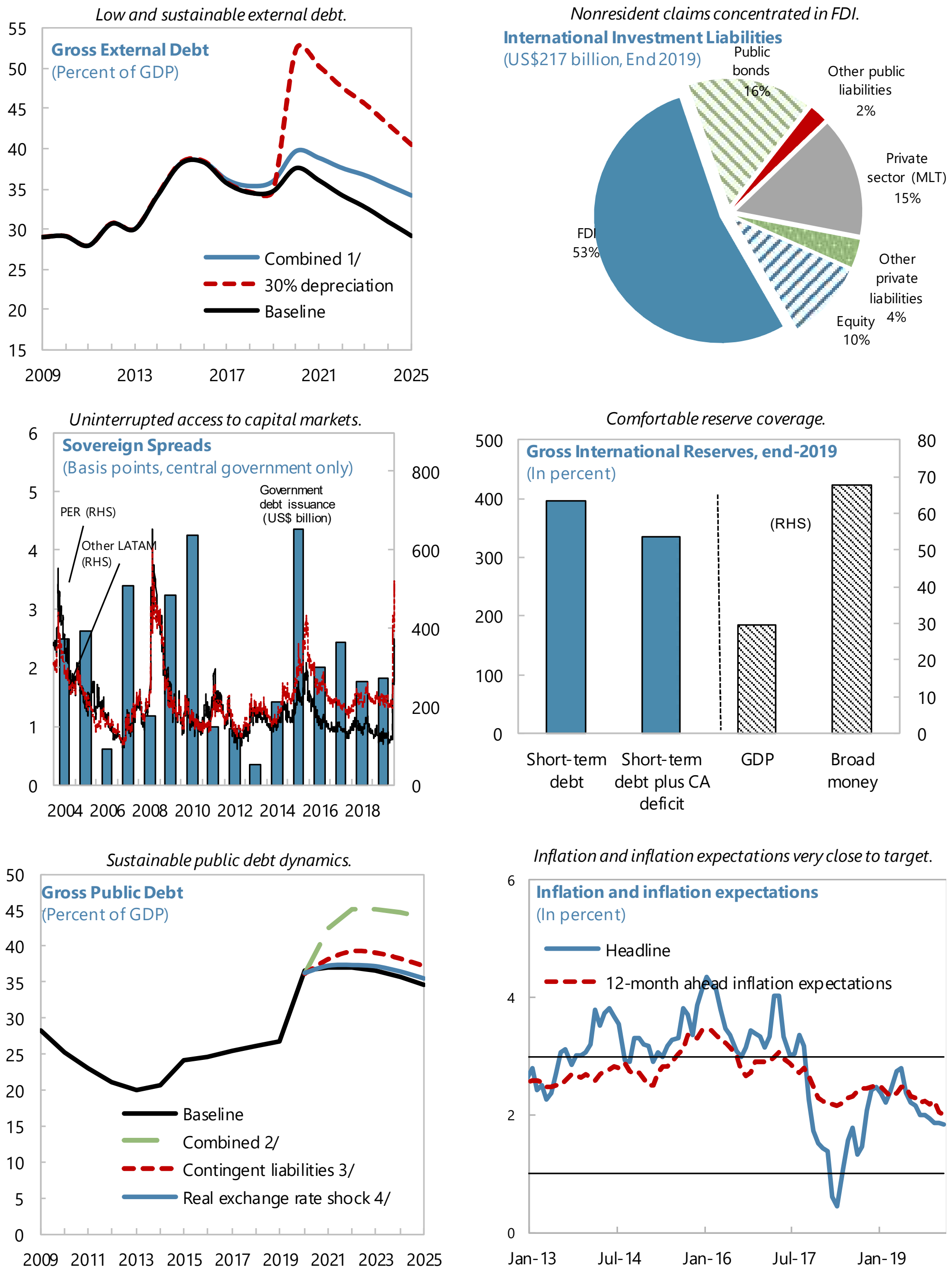
29. Staff's assessment is that the proposed FCL arrangement would have a manageable impact on the Fund's finances. The Fund's Forward Commitment Capacity (FCC), which is currently around SDR 190 billion, would decline by about 4 percent. If Peru were to purchase the full amount available under the proposed FCL arrangement, its capacity to repay to the Fund would remain adequate. Moreover, the risks from the Fund's potential credit exposure to Peru are mitigated by Peru's adequate buffers as well as the country's very strong policy framework and track record of economic performance

Figure 3. Peru: Recent Economic Developments



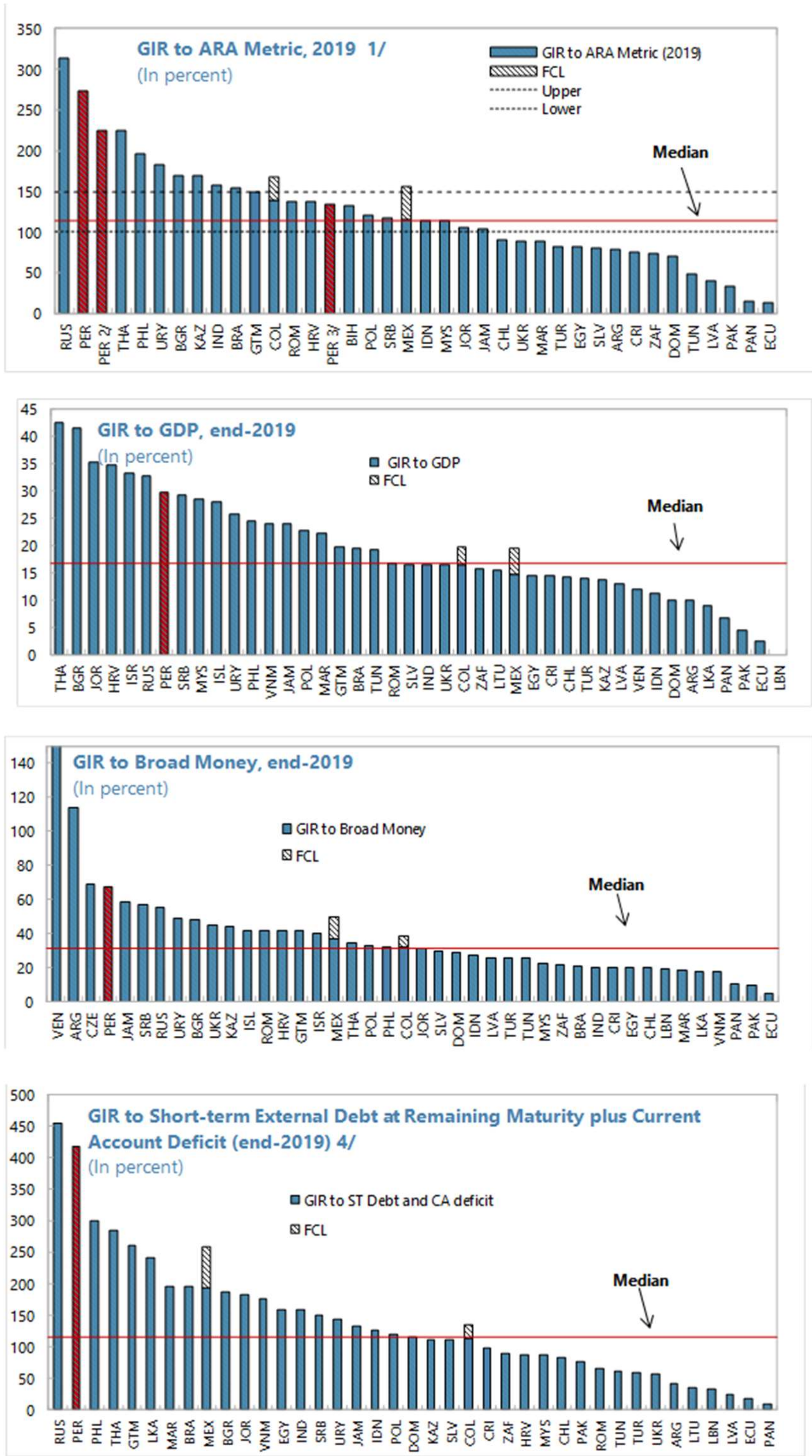
Source: National authorities; and IMF staff calculations.
1/ Monthly rates of growth for GDP and domestic demand are calculated from the three-month rolling sums of the respective variables.
2/ Inflation values correspond to Metropolitan Lima.

Figure 4. Peru: FCL Qualification Criteria



Sources: Country authorities (BCRP, MEF); Datastream; Haver; and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.
2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation); permanent shock to interest rate (to historical maximum) and exchange rate (about 20 percent real).
3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock: growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.
4/ Nominal exchange depreciation of 20 percent leading to a real exchange depreciation of around 16 percent.

Figure 5. Peru: Reserve Coverage in an International Perspective



Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The upper and lower lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
2/ ARA metric adjusted for commodity buffer.
3/ ARA metric adjusted for commodity buffer and GIR net of FX liabilities to the public sector and FX liabilities from banking sector reserve requirements
4/ The current account is set to zero if it is in surplus.

Table 1. Peru: Selected Economic Indicators

						Prel.	Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Social Indicators												
Life expectancy at birth (years)	75.6	75.9	76.1	76.4	76.6	...	...	...	...	...	...	...
Infant mortality (per thousand live births)	13.5	13.2	13.0	12.9	12.7	...	...	...	...	...	...	...
Adult literacy rate	93.7	94.0	94.1	94.2	94.4	...	...	...	...	...	...	...
Poverty rate (total) 1/	22.7	21.8	20.7	21.7	20.5	...	...	...	...	...	...	...
Unemployment rate (period average)	6.0	6.5	6.7	6.9	6.7	6.6	...	...	...	...	...	...
	(Annual percentage change; unless otherwise indicated)											
Production and prices												
Real GDP	2.4	3.3	4.1	2.5	4.0	2.2	-6.5	5.8	4.7	3.7	3.7	3.7
Real domestic demand	2.2	2.6	1.1	1.5	4.2	2.3	-7.3	6.4	5.4	3.9	3.7	3.6
Real domestic demand (contribution to GDP)	2.3	2.7	1.1	1.5	4.1	2.2	-7.1	6.2	5.3	3.8	3.6	3.5
Consumption (contribution to GDP)	3.1	3.7	2.3	1.8	2.6	2.2	-2.8	1.1	3.3	2.4	2.5	2.4
Investment (contribution to GDP)	-0.9	-1.0	-1.2	-0.3	1.5	0.1	-4.3	5.1	1.9	1.4	1.1	1.1
Net Exports (contribution to GDP)	0.1	0.6	2.9	1.0	-0.1	-0.1	0.6	-0.4	-0.5	0.0	0.1	0.2
Output gap (percent of potential GDP)	-0.2	-0.9	-0.6	-1.4	-1.0	-1.7	-5.3	-2.7	-1.1	-0.6	-0.2	0.0
Consumer prices (end of period)	3.2	4.4	3.2	1.4	2.2	1.9	1.4	2.0	2.0	2.0	2.0	2.0
Consumer prices (period average)	3.2	3.5	3.6	2.8	1.3	2.1	1.6	1.7	2.0	2.0	2.0	2.0
External sector												
Exports	-7.8	-12.9	7.8	22.5	8.0	-2.9	-11.5	5.7	4.9	5.2	5.4	5.4
Imports	-3.1	-9.0	-5.9	10.2	8.1	-1.9	-14.1	9.9	7.9	5.6	5.3	5.2
Terms of trade (deterioration -)	-5.4	-6.9	-0.3	7.5	-0.4	-1.8	-0.1	-1.4	-0.3	0.1	0.0	-0.1
Real effective exchange rate (depreciation -)	-2.1	-0.4	-1.7	2.6	-1.7	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit 2/ 3/												
Broad money	9.5	11.5	4.4	8.8	9.5	8.9	10.0	10.0	9.3	8.1	7.9	8.0
Net credit to the private sector	13.2	13.9	5.1	5.1	10.3	6.4	0.8	9.1	8.1	7.1	7.0	7.0
	(In percent of GDP; unless otherwise indicated)											
Public sector												
NFPS revenue	27.7	25.0	23.4	22.9	24.5	24.8	22.6	25.3	25.4	25.4	25.4	25.4
NFPS primary expenditure	26.9	26.0	24.7	24.8	25.4	25.1	29.7	27.0	26.2	25.6	25.0	24.7
NFPS primary balance	0.8	-1.0	-1.4	-1.9	-0.9	-0.2	-7.1	-1.7	-0.8	-0.2	0.3	0.7
NFPS overall balance	-0.3	-2.1	-2.5	-3.1	-2.3	-1.6	-8.7	-3.5	-2.6	-2.0	-1.4	-1.0
NFPS structural balance	-0.8	-1.6	-1.8	-2.1	-1.7	-0.7	-6.8	-2.4	-2.0	-1.6	-1.3	-1.0
NFPS structural primary balance 4/	0.3	-0.5	-0.7	-0.9	-0.4	0.6	-5.2	-0.6	-0.2	0.1	0.5	0.7
External sector												
External current account balance	-4.5	-5.0	-2.6	-1.3	-1.7	-1.4	-0.9	-0.9	-1.5	-1.5	-1.5	-1.5
Gross reserves												
In billions of U.S. dollars	62.4	61.5	61.7	63.7	60.3	68.4	67.4	67.4	67.4	67.4	67.4	67.4
Percent of short-term external debt 5/	522	472	424	306	364	433	517	493	486	487	487	427
Percent of foreign currency deposits at banks	258	225	230	225	213	224	226	215	213	214	217	221
Debt												
Total external debt 6/	34.2	38.2	38.4	35.7	34.5	34.7	39.8	38.2	36.0	34.4	32.9	31.5
Gross non-financial public sector debt 7/	20.6	24.1	24.5	25.4	26.2	27.2	37.2	37.6	37.7	37.6	36.9	35.8
External	8.8	11.2	10.4	8.8	8.8	8.5	11.9	11.6	11.1	10.6	10.1	9.4
Domestic	11.9	12.9	14.1	16.7	17.3	18.7	25.3	26.0	26.6	27.0	26.8	26.3
Savings and investment												
Gross domestic investment	24.7	23.7	22.0	20.6	21.7	21.2	18.0	21.9	22.8	23.3	23.7	24.0
Public sector (incl. repayment certificates)	5.6	5.1	4.9	4.6	4.8	4.6	5.2	5.3	5.2	5.2	5.3	5.3
Private sector (incl. inventories)	19.1	18.6	17.1	16.0	16.8	16.6	12.7	16.6	17.6	18.1	18.4	18.7
Private sector	20.4	19.6	18.2	17.3	17.7	18.0	13.7	16.6	17.6	18.1	18.4	18.7
National savings	20.2	18.7	19.4	19.4	20.0	19.8	17.1	21.0	21.3	21.8	22.2	22.4
Public sector	6.0	3.8	2.7	1.8	2.9	3.3	-3.0	2.1	3.1	3.6	4.2	4.6
Private sector	14.2	14.9	16.7	17.5	17.0	16.5	20.1	18.8	18.3	18.2	18.0	17.9
Memorandum items												
Nominal GDP (S/. billions)	574	609	656	698	740	769	726	785	843	895	951	1,010
GDP per capita (in US$)	6,565	6,141	6,172	6,729	7,003	6,946	6,217	6,424	6,781	7,100	7,444	7,819

Sources: National authorities; UNDP Human Development Indicators; and IMF staff estimates/projections.
1/ Defined as the percentage of households with total spending below the cost of a basic consumption basket.
2/ Corresponds to depository corporations.
3/ Foreign currency stocks are valued at end-of-period exchange rates.
4/ Adjusted by the economic cycle and commodity prices, and for non-structural commodity revenue. The latter uses as equilibrium commodity prices a moving average estimate that takes 5 years of historical prices and 3 years of forward prices according to IMF World Economic Outlook.
5/ Short-term debt is defined on a residual maturity basis and includes amortization of medium and long-term debt.
6/ Includes local currency debt held by non-residents and excludes global bonds held by residents.
7/ Includes repayment certificates and government guaranteed debt.

Table 2. Peru: Nonfinancial Public Sector Main Fiscal Aggregates

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(In millions of soles; unless otherwise indicated)											
Revenues	**159,293**	**152,210**	**153,192**	**160,273**	**181,393**	**190,953**	**164,158**	**198,303**	**213,796**	**227,035**	**241,473**	**256,174**
Taxes	97,649	92,788	92,221	93,475	107,358	113,754	92,788	117,721	127,258	135,540	144,385	153,226
Other	61,644	59,422	60,972	66,799	74,034	77,199	71,370	80,582	86,538	91,495	97,088	102,948
Primary expenditures 1/	**154,648**	**158,245**	**162,152**	**173,546**	**188,395**	**192,667**	**215,822**	**211,917**	**220,379**	**228,926**	**238,247**	**249,424**
Current	117,808	122,140	127,047	137,665	148,559	152,820	173,492	166,064	171,391	177,106	183,431	191,438
Capital	36,840	36,105	35,105	35,881	39,836	39,846	42,330	45,853	48,989	51,821	54,816	57,985
Primary balance	**4,644**	**-6,034**	**-8,960**	**-13,272**	**-7,002**	**-1,714**	**-51,664**	**-13,614**	**-6,583**	**-1,891**	**3,226**	**6,750**
Interest	6,206	6,507	7,178	8,336	10,015	10,671	11,459	14,077	15,201	15,872	16,811	17,281
Overall balance	**-1,562**	**-12,541**	**-16,138**	**-21,609**	**-17,016**	**-12,385**	**-63,122**	**-27,691**	**-21,784**	**-17,763**	**-13,585**	**-10,530**
External financing	-843	9,733	4,320	-10,415	-557	4,510	15,261	4,132	4,243	4,351	4,142	4,316
Domestic financing	2,405	2,808	11,817	32,023	17,573	7,875	47,861	23,559	17,541	13,413	9,443	6,214
Public Gross Debt 2/	**118,558**	**146,652**	**160,653**	**177,461**	**193,721**	**208,833**	**270,089**	**295,324**	**317,913**	**336,599**	**350,589**	**361,500**
External	50,388	67,956	68,057	61,163	65,505	65,340	86,325	91,211	93,517	95,256	95,629	95,315
Domestic	64,004	74,236	88,552	112,749	124,938	140,515	181,086	201,735	222,318	239,565	253,482	265,007
Repayment Certificates	4,166	4,460	4,044	3,549	3,278	2,978	2,678	2,378	2,078	1,778	1,478	1,178
Public Assets 3/	**90,618**	**99,497**	**100,795**	**92,709**	**89,704**	**92,494**	**84,986**	**81,502**	**81,502**	**81,502**	**81,502**	**81,502**
	(In percent of GDP; unless otherwise indicated)											
Revenues	**27.7**	**25.0**	**23.4**	**22.9**	**24.5**	**24.8**	**22.6**	**25.3**	**25.4**	**25.4**	**25.4**	**25.4**
Taxes	17.0	15.2	14.1	13.4	14.5	14.8	12.8	15.0	15.1	15.1	15.2	15.2
Other	10.7	9.8	9.3	9.6	10.0	10.0	9.8	10.3	10.3	10.2	10.2	10.2
Primary expenditures 1/	**26.9**	**26.0**	**24.7**	**24.8**	**25.4**	**25.1**	**29.7**	**27.0**	**26.2**	**25.6**	**25.0**	**24.7**
Current	20.5	20.0	19.4	19.7	20.1	19.9	23.9	21.2	20.3	19.8	19.3	18.9
Capital	6.4	5.9	5.4	5.1	5.4	5.2	5.8	5.8	5.8	5.8	5.8	5.7
Primary balance	**0.8**	**-1.0**	**-1.4**	**-1.9**	**-0.9**	**-0.2**	**-7.1**	**-1.7**	**-0.8**	**-0.2**	**0.3**	**0.7**
Interest	1.1	1.1	1.1	1.2	1.4	1.4	1.6	1.8	1.8	1.8	1.8	1.7
Overall balance	**-0.3**	**-2.1**	**-2.5**	**-3.1**	**-2.3**	**-1.6**	**-8.7**	**-3.5**	**-2.6**	**-2.0**	**-1.4**	**-1.0**
External financing	-0.1	1.6	0.7	-1.5	-0.1	0.6	2.1	0.5	0.5	0.5	0.4	0.4
Domestic financing	0.4	0.5	1.8	4.6	2.4	1.0	6.6	3.0	2.1	1.5	1.0	0.6
Public Gross Debt 2/	**20.6**	**24.1**	**24.5**	**25.4**	**26.2**	**27.2**	**37.2**	**37.6**	**37.7**	**37.6**	**36.9**	**35.8**
External	8.8	11.2	10.4	8.8	8.8	8.5	11.9	11.6	11.1	10.6	10.1	9.4
Domestic	11.1	12.2	13.5	16.1	16.9	18.3	25.0	25.7	26.4	26.8	26.6	26.2
Repayment Certificates	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.1
Public Assets 3/	**15.8**	**16.3**	**15.4**	**13.3**	**12.1**	**12.0**	**11.7**	**10.4**	**9.7**	**9.1**	**8.6**	**8.1**
Public Net Debt	**4.9**	**7.7**	**9.1**	**12.1**	**14.0**	**15.1**	**25.5**	**27.2**	**28.1**	**28.5**	**28.3**	**27.7**
Memorandum items												
Commodity related revenues 4/	2.6	1.3	0.5	1.0	1.9	1.9	1.8	2.0	2.0	2.0	2.0	2.0
Output gap (percent of potential GDP)	-0.2	-0.9	-0.6	-1.4	-1.0	-1.7	-5.3	-2.7	-1.1	-0.6	-0.2	0.0
NFPS non-commodity structural balance	-3.3	-2.8	-2.7	-3.7	-3.9	-2.9	-8.9	-4.6	-4.2	-3.8	-3.4	-3.0
NFPS non-commodity primary structural balance	-2.2	-1.7	-1.6	-2.5	-2.5	-1.5	-7.3	-2.8	-2.4	-2.0	-1.6	-1.3
NFPS structural balance 5/	-0.8	-1.6	-1.8	-2.1	-1.7	-0.7	-6.8	-2.4	-2.0	-1.6	-1.3	-1.0
NFPS structural primary balance 5/	0.3	-0.5	-0.7	-0.9	-0.4	0.6	-5.2	-0.6	-0.2	0.1	0.5	0.7
Fiscal impulse (+ = expansionary) 6/	0.7	0.8	0.1	0.3	-0.6	-1.0	5.5	-4.3	-0.4	-0.3	-0.4	-0.2

Sources: National Authorities; and IMF staff estimates.

1/ Official data excludes expense accrued during the period by Repayment Certificates (CRPAOs) and Petroleum Price Stabilization Fund (FEPC), but includes corresponding cash payments.

2/ Official data excludes stock of debt accumulated and not paid during the period by CRPAOs and FEPC.

3/ Obligations of depository corporations with the public sector.

4/ Net of tax restitutions. In 2014, excludes one-off revenue from the sale of a mine Las Bambas.

5/ Adjusted by the economic cycle and commodity prices, and for non-structural commodity revenue. The latter uses as equilibrium commodity prices a moving average estimate that takes 5 years of historical prices and 3 years of forward prices according to IMF World Economic Outlook.

6/ Percentage points of potential GDP.

Table 3. Peru: Statement of Operations of the General Government 1/

(In percent of GDP; unless otherwise indicated)

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	**22.4**	**20.3**	**18.8**	**18.3**	**19.4**	**20.0**	**18.2**	**20.4**	**20.5**	**20.5**	**20.6**	**20.6**
Taxes	17.0	15.2	14.1	13.4	14.5	14.8	12.8	15.0	15.1	15.1	15.2	15.2
Social Contributions	2.2	2.0	2.2	2.1	2.2	2.2	2.5	2.5	2.5	2.5	2.5	2.5
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	3.1	2.9	2.5	2.7	2.7	2.8	2.8	2.9	2.9	2.9	2.9	2.9
Expense 2/	**16.6**	**17.0**	**16.4**	**16.5**	**16.5**	**16.8**	**20.6**	**18.2**	**17.6**	**17.1**	**16.7**	**16.4**
Compensation of employees	6.0	6.0	6.0	6.1	6.2	6.4	7.1	6.7	6.4	6.1	5.9	5.7
Use of goods and services	6.1	6.7	6.2	6.0	5.7	5.8	6.8	6.2	5.9	5.7	5.5	5.4
Interest	1.1	1.0	1.1	1.1	1.2	1.3	1.5	1.7	1.7	1.7	1.7	1.7
Social benefits	2.1	1.9	1.7	1.7	1.9	1.8	2.1	2.0	1.9	1.8	1.8	1.7
Other expenses 3/	1.5	1.4	1.5	1.6	1.5	1.5	3.1	1.6	1.6	1.6	1.7	1.9
Net acquisition of nonfinancial assets	**6.0**	**5.4**	**4.7**	**4.7**	**4.9**	**4.5**	**5.1**	**5.1**	**5.1**	**5.1**	**5.0**	**5.0**
Acquistions of nonfinancial assets	6.0	5.4	4.7	4.7	4.9	4.5	5.1	5.1	5.1	5.1	5.0	5.0
Gross Operating Balance	5.8	3.3	2.4	1.8	2.9	3.2	-2.4	2.2	2.9	3.5	3.9	4.2
Net lending (+) borrowing (-) 4/	**-0.2**	**-2.1**	**-2.3**	**-2.9**	**-2.0**	**-1.4**	**-7.5**	**-2.9**	**-2.2**	**-1.6**	**-1.1**	**-0.8**
Net acquistion of financial assets 5/	**1.0**	**-1.3**	**0.9**	**-1.3**	**-0.4**	**-0.3**	**-4.4**	**-2.0**	**-1.6**	**-1.1**	**-0.7**	**-0.4**
By instrument												
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits 6/	1.0	-1.3	0.9	-1.3	-0.4	-0.3	-4.4	-2.0	-1.6	-1.1	-0.7	-0.4
By residency												
Domestic	1.0	-1.3	0.9	-1.3	-0.4	-0.3	-4.4	-2.0	-1.6	-1.1	-0.7	-0.4
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities 7/	**1.2**	**0.8**	**3.1**	**1.7**	**1.7**	**1.1**	**3.1**	**1.0**	**0.5**	**0.5**	**0.4**	**0.4**
By instrument												
Debt securities	1.3	0.8	3.0	3.7	2.3	0.4	1.0	0.4	0.0	0.0	0.0	0.0
Loans	-0.1	-0.1	0.2	-2.1	-0.7	0.8	2.1	0.5	0.5	0.5	0.4	0.4
By residency												
Domestic	1.3	0.8	3.0	3.7	2.3	0.4	1.0	0.4	0.0	0.0	0.0	0.0
External	-0.1	-0.1	0.2	-2.1	-0.7	0.8	2.1	0.5	0.5	0.5	0.4	0.4
Memorandum items												
Central Government Net lending (+) borrowing (-)	-0.9	-2.8	-2.2	-3.2	-2.2	-2.5	-8.2	-4.1	-3.4	-2.9	-2.4	-2.0
Regional Governments Net lending (+) borrowing (-)	0.6	0.7	0.1	0.1	0.4	0.5	0.0	0.5	0.6	0.7	0.8	0.8
Local Governments Net lending (+) borrowing (-)	0.2	0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
General Government Primary Balance	0.8	-1.1	-1.2	-1.8	-0.8	-0.1	-6.0	-1.2	-0.4	0.1	0.6	0.8
General Government Overall Balance	-0.2	-2.1	-2.3	-2.9	-2.0	-1.4	-7.5	-2.9	-2.2	-1.6	-1.1	-0.8
Gen. Gov. primary spending (real percentage change)	7.3	1.5	-2.7	4.1	4.9	1.0	12.1	-4.9	1.8	1.7	2.0	2.7
Of which: Current spending	10.6	4.6	0.1	3.9	3.9	3.1	14.4	-8.0	0.9	1.1	1.4	2.4
Capital spending	-0.4	-6.6	-10.8	4.8	8.2	-5.7	4.4	6.6	4.7	3.7	3.7	3.7
General Government non-financial expenditures	21.6	21.4	20.0	20.1	20.2	20.1	24.2	21.6	20.9	20.4	20.0	19.7

Sources: National authorities and IMF staff estimates.

1/ Fiscal data is not fully compiled on an accrual basis.

2/ Official data excludes expense accrued during the period by Repayment Certificates (CRPAOs) and Petroleum Price Stabilzation Fund (FEPC), but includes corresponding cash payments.

3/ Includes transfers to the Petrolium Price Stabilzation Fund (FEPC).

4/ Net lending (+)/ borrowing (-) is equal to gross operating balance minus net acquistions of nonfinancial assets.

5/ (+) corresponds to increase in financial assets; (-) to a decrease in financial assets.

6/ Includes Fiscal Stabilization Fund (FEF).

7/ (+) corresponds to increase in liabilities (disbursement and/or issuance); (-) to decrease in liabilities (amortizations).

Table 4. Peru: General Government Stock Positions

(In percent of GDP; unless otherwise indicated)

	2014	2015	2016	2017	2018	Prel. 2019	Projections 1/ 2020	2021	2022	2023	2024	2025
Stock positions:												
Net worth	....	....	....	....	....	....	....	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....	....	....	....	....	....	....	....
Net financial worth	**-2.7**	**-5.3**	**-7.0**	**-8.7**	**-10.2**	**-11.2**	**-19.4**	**-20.9**	**-21.6**	**-21.9**	**-21.8**	**-21.3**
Financial assets	**15.0**	**15.5**	**14.6**	**12.5**	**11.4**	**10.7**	**7.0**	**4.5**	**2.5**	**1.3**	**0.5**	**0.1**
By instrument												
Currency and deposits 2/	14.7	15.2	14.3	12.3	11.2	10.5	6.8	4.3	2.4	1.1	0.3	-0.1
Debt securities	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
By currency 3/												
Domestic	7.9	6.8	6.3	7.8	7.1	6.9	4.3	2.9	1.6	0.8	0.3	0.1
Foreign	6.4	7.7	8.4	4.8	4.0	3.9	2.4	1.6	0.9	0.5	0.2	0.0
Liabilities 4/	**17.7**	**20.8**	**21.5**	**21.2**	**21.7**	**22.0**	**26.4**	**25.4**	**24.1**	**23.2**	**22.3**	**21.4**
By instrument												
Debt securities	12.2	12.3	14.5	17.3	18.7	18.3	20.4	19.3	18.0	17.0	16.0	15.0
Loans	5.5	8.4	7.1	3.9	3.0	3.6	6.0	6.0	6.1	6.3	6.3	6.4
By residency												
Domestic	8.5	9.2	10.9	13.3	14.8	14.6	16.5	15.7	14.6	13.8	13.0	12.2
External	9.2	11.6	10.7	8.0	6.8	7.3	9.9	9.7	9.5	9.4	9.3	9.2
By currency 3/												
Domestic	24.2	29.3	36.6	43.2	48.7	48.8	57.6	56.8	53.3	50.4	47.5	44.8
Foreign	26.0	36.9	36.0	25.9	22.5	24.5	34.5	34.9	34.6	34.5	34.2	33.8
Memorandum items												
Fiscal Stabilization Fund and other public savings	4.5	4.1	4.2	3.0	2.6	2.4	1.6	1.1	1.0	1.0	0.9	0.9

Sources: National authorities and IMF staff estimates.
1/ Assuming zero other economic flows.
2/ Includes stocks of Fiscal Stabilization Fund (FEF).
3/ Preliminary data.
4/ Excludes debt of public enterprises guaranteed by the central government, debt of Petroleum Price Stabilzation Fund (FEPC), and Repayment Certificates (CRPAOs).

Table 5. Peru: Balance of Payments
(In billions of U.S. dollars; unless otherwise indicated)

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account	**-9.1**	**-9.5**	**-5.1**	**-2.8**	**-3.8**	**-3.1**	**-1.8**	**-2.0**	**-3.4**	**-3.7**	**-3.9**	**-4.2**
Merchandise trade	-1.5	-2.9	2.0	6.7	7.2	6.6	6.9	5.8	5.0	5.1	5.4	5.8
Exports	39.5	34.4	37.1	45.4	49.1	47.7	42.2	44.6	46.8	49.2	51.9	54.7
Traditional	27.7	23.4	26.2	33.6	35.6	33.7	29.3	30.9	32.3	33.7	35.2	36.7
Mining	20.5	19.0	21.8	27.6	28.9	28.0	25.3	26.4	27.4	28.6	29.8	31.0
Nontraditional and others	11.8	11.0	10.9	11.9	13.4	13.9	12.8	13.6	14.5	15.5	16.7	18.0
Imports	-41.0	-37.3	-35.1	-38.7	-41.9	-41.1	-35.3	-38.7	-41.8	-44.1	-46.5	-48.9
Services, income, and current transfers (net)	-7.6	-6.6	-7.0	-9.5	-11.0	-9.7	-8.8	-7.9	-8.4	-8.8	-9.3	-10.0
Services	-2.0	-2.1	-2.0	-1.5	-2.8	-2.7	-2.6	-1.8	-1.9	-1.9	-1.9	-2.1
Investment income	-9.9	-7.9	-9.0	-11.5	-11.8	-10.7	-9.8	-9.8	-10.4	-10.9	-11.6	-12.3
Current transfers	4.4	3.3	4.0	3.6	3.6	3.7	3.6	3.8	3.9	4.1	4.2	4.4
Capital and financial account balance	**5.9**	**10.4**	**5.5**	**3.0**	**1.5**	**10.6**	**0.9**	**2.0**	**3.4**	**3.7**	**3.9**	**4.2**
Public sector	-0.1	3.1	2.6	3.3	2.1	4.4	2.4	1.3	1.4	1.4	1.3	1.4
Medium-term loans 1/	1.3	4.0	0.2	-1.5	0.2	-0.4	4.4	1.1	1.2	1.2	1.1	1.2
Other public sector flows 2/	-0.7	-0.4	2.7	4.1	2.1	4.6	-2.0	0.2	0.2	0.2	0.2	0.2
Short-term flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	6.0	7.3	2.9	-0.3	-0.6	6.1	-1.5	0.7	2.0	2.3	2.5	2.8
Foreign direct investment (net) 3/	2.8	8.1	5.6	6.4	6.5	8.0	5.7	6.5	7.2	7.6	8.1	8.7
Medium- and long-term loans	5.7	1.5	-1.7	-3.7	-1.6	-2.2	-2.5	-2.1	-1.7	-1.4	-1.1	-0.8
Portfolio investment	-1.3	-0.8	-1.7	-1.8	-3.9	-0.3	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Short-term flows 4/	-1.3	-1.5	0.7	-1.2	-1.5	0.6	-2.2	-1.2	-0.9	-1.5	-1.9	-2.5
Errors and omissions	**1.0**	**-0.8**	**-0.3**	**1.4**	**-1.3**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.2**	**0.1**	**0.2**	**1.6**	**-3.6**	**6.9**	**-1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**2.2**	**-0.1**	**-0.2**	**-1.6**	**3.6**	**-6.9**	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
NIR flow (increase -)	2.2	-0.1	-0.2	-1.6	3.6	-6.9	1.0	0.0	0.0	0.0	0.0	0.0
Change in NIR (increase -)	3.4	0.8	-0.2	-1.9	3.5	-8.2	1.0	0.0	0.0	0.0	0.0	0.0
Valuation change	-1.2	-0.9	0.0	0.3	0.1	1.3	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)											
Current account balance	**-4.5**	**-5.0**	**-2.6**	**-1.3**	**-1.7**	**-1.4**	**-0.9**	**-0.9**	**-1.5**	**-1.5**	**-1.5**	**-1.5**
Trade balance	-0.7	-1.5	1.0	3.1	3.2	2.9	3.3	2.7	2.2	2.1	2.1	2.1
Exports	19.5	18.0	19.1	21.2	21.8	20.7	20.3	20.5	20.2	20.1	20.0	19.9
Traditional	13.7	12.2	13.5	15.7	15.8	14.6	14.1	14.2	13.9	13.8	13.6	13.3
Mining	10.2	9.9	11.2	12.9	12.8	12.2	12.1	12.2	11.8	11.7	11.5	11.3
Nontraditional and others	5.9	5.7	5.6	5.5	6.0	6.1	6.2	6.3	6.2	6.3	6.4	6.5
Imports	-20.3	-19.5	-18.1	-18.1	-18.6	-17.8	-16.9	-17.8	-18.0	-18.0	-17.9	-17.8
Services, income, and current transfers (net)	-3.7	-3.5	-3.6	-4.4	-4.9	-4.2	-4.2	-3.6	-3.6	-3.6	-3.6	-3.6
Investment income	-4.9	-4.1	-4.6	-5.4	-5.2	-4.7	-4.7	-4.5	-4.5	-4.5	-4.5	-4.5
Capital and financial account balance	**2.9**	**5.4**	**2.8**	**1.4**	**0.7**	**4.6**	**0.4**	**0.9**	**1.5**	**1.5**	**1.5**	**1.5**
Foreign direct investment (net)	1.4	4.2	2.9	3.0	2.9	3.5	2.7	3.0	3.1	3.1	3.1	3.2
Overall balance	**-1.1**	**0.0**	**0.1**	**0.8**	**-1.6**	**3.0**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items	(Annual percentage change)											
Export value	-7.8	-12.9	7.8	22.5	8.0	-2.9	-11.5	5.7	4.9	5.2	5.4	5.4
Volume growth	-1.0	3.0	11.4	8.0	1.6	0.6	-5.2	6.3	3.7	3.7	3.8	3.9
Price growth	-6.8	-15.5	-3.3	13.4	6.3	-3.4	-6.6	-0.6	1.2	1.4	1.6	1.4
Import value	-3.1	-9.0	-5.9	10.2	8.1	-1.9	-14.1	9.9	7.9	5.6	5.3	5.2
Volume growth	-1.6	0.2	-3.0	4.5	1.4	-0.2	-8.2	8.9	6.3	4.2	3.7	3.6
Price growth	-1.5	-9.2	-3.0	5.5	6.7	-1.7	-6.5	0.9	1.4	1.4	1.6	1.5
Terms of trade	-5.4	-6.9	-0.3	7.5	-0.4	-1.8	-0.1	-1.4	-0.3	0.1	0.0	-0.1
Gross international reserves (in billions of US$)	62.4	61.5	61.7	63.7	60.3	68.4	67.4	67.4	67.4	67.4	67.4	67.4
Average exchange rate (S/. per US$)	2.84	3.19	3.38	3.26	3.29	3.34	3.48	3.61	3.64	3.66	3.67	3.67

Sources: National authorities and IMF staff estimates and projections.
1/ Includes financial public sector.
2/ Includes public sector's net external assets and other transactions involving Treasury bonds.
3/ Excluding privatization.
4/ Includes Financial Corporation for Development (COFIDE) and the National Bank.

Table 6. Peru: Monetary Survey 1/

(In billions of soles; unless otherwise indicated)

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						I. Central Reserve Bank						
Net foreign assets	**140**	**133**	**142**	**150**	**159**	**170**	**176**	**179**	**184**	**184**	**181**	**179**
(In billions of U.S. dollars)	78	84	81	81	73	85	86	85	84	85	85	86
Net international reserves 2/	186	210	207	206	203	226	242	244	246	247	247	247
(In billions of U.S. dollars)	62	61	62	64	60	68	67	67	67	67	67	67
Long-term net external assets	0	0	0	0	0	0	0	0	0	0	0	0
Foreign currency liabilities	-46	-77	-66	-56	-43	-57	-66	-65	-62	-63	-66	-68
Net domestic assets	**-86**	**-82**	**-88**	**-93**	**-98**	**-105**	**-63**	**-57**	**-49**	**-111**	**-103**	**-94**
Net credit to nonfinancial public sector	-67	-71	-76	-65	-61	-64	-59	-54	-49	-44	-39	-34
Credit to the financial sector 3/	2	23	22	15	7	5	50	55	60	0	6	13
Securities issued	-14	-20	-21	-32	-26	-28	-31	-34	-37	-41	-45	-49
Other assets (net)	-6	-13	-13	-11	-18	-18	-24	-24	-23	-27	-26	-24
Monetary base	**54**	**51**	**53**	**57**	**61**	**65**	**113**	**123**	**135**	**72**	**79**	**85**
Currency	39	41	43	46	50	52	98	111	123	70	76	83
Reserve	15	11	10	11	12	12	15	12	11	3	3	2
						II. Depository Corporations 4/						
Net foreign assets	**152**	**172**	**176**	**178**	**172**	**194**	**203**	**205**	**206**	**207**	**207**	**207**
Net domestic assets	**72**	**77**	**85**	**106**	**138**	**143**	**168**	**204**	**240**	**276**	**313**	**355**
Net credit to the public sector	-73	-78	-78	-63	-57	-62	-15	9	27	40	49	56
Credit to the private sector	224	255	269	282	311	331	334	364	394	422	451	483
Other assets (net)	-79	-100	-106	-114	-116	-126	-151	-170	-180	-186	-187	-183
Broad money	**224**	**249**	**260**	**283**	**310**	**338**	**371**	**408**	**446**	**482**	**520**	**562**
Domestic currency	152	156	170	191	215	237	264	294	331	367	407	451
Foreign currency	72	93	90	92	95	101	107	114	116	115	114	112
						III. Financial System 5/						
Net foreign assets	**211**	**237**	**246**	**263**	**262**	**298**	**312**	**315**	**316**	**318**	**318**	**319**
Net domestic assets	**143**	**157**	**178**	**209**	**236**	**256**	**297**	**356**	**416**	**474**	**536**	**605**
Net credit to the public sector	-50	-52	-45	-24	-15	-15	33	56	74	87	97	103
Credit to the private sector	271	303	323	340	368	393	395	425	462	498	536	577
Other assets (net)	-77	-94	-100	-108	-116	-122	-131	-126	-120	-111	-97	-76
Liabilities to the private sector	**355**	**394**	**424**	**472**	**498**	**554**	**610**	**671**	**733**	**792**	**855**	**923**
Domestic currency	273	288	317	361	383	428	474	531	591	651	715	786
Foreign currency	82	106	107	111	116	127	136	140	142	141	140	137
						(12-month percentage change)						
Monetary base	3.7	-4.8	4.1	7.2	7.3	5.2	75.1	8.5	9.7	-46.3	8.7	8.7
Broad money	9.5	11.5	4.4	8.8	9.5	8.9	10.0	10.0	9.3	8.1	7.9	8.0
Domestic currency	10.6	3.0	9.0	12.5	12.1	10.3	11.6	11.5	12.3	11.0	10.7	10.8
Foreign currency	7.3	29.3	-3.3	1.7	4.1	5.7	6.3	6.2	1.5	-0.3	-1.1	-1.8
Liabilities to the private sector	10.2	10.9	7.7	11.2	5.7	11.3	10.0	10.0	9.3	8.1	7.9	8.0
Domestic currency	11.1	5.5	9.9	13.9	6.1	11.8	10.7	12.1	11.4	10.1	9.9	10.0
Foreign currency	7.4	29.2	1.6	3.4	4.2	9.6	7.6	2.6	1.4	-0.3	-1.2	-1.9
Depository corporations credit to the private sector	13.2	13.9	5.1	5.1	10.3	6.4	0.8	9.1	8.1	7.1	7.0	7.0
Domestic currency	17.7	28.0	7.2	5.3	11.6	9.7	1.6	10.2	9.3	8.3	8.2	8.2
Foreign currency	6.5	-9.2	0.4	4.6	7.1	-2.2	-1.7	5.7	4.2	3.2	2.8	2.8

Sources: National Authorities; and IMF staff estimates.

1/ Stocks in foreign currency are valued at the end-of-period exchange rate.

2/ Excludes subscriptions to the IMF and the Latin American Reserve Fund, Pesos Andinos, credit lines to other central banks, Andean Development Corporation bonds, and foreign assets temporarily held by the Central Bank as part of swap operations.

3/ Including the National Bank.

4/ Depository corporations comprise the Central Bank, the National Bank, commercial banks, the Agricultural Bank, financial firms, municipal banks, rural banks and credit unions.

5/ Financial system comprises depository corporations and other financial corporations. Other financial companies include mutual funds, COFIDE, insurance companies, leasing companies, pension funds, the Financing Agency for Small and Medium-sized Enterprises and the Fund for Financing Housing.

Table 7. Peru: Financial Soundness Indicators 1/
(In percent; unless otherwise indicated)

	2014	2015	2016	2017	2018	2019
			(as of December)			
Capital Adequacy						
Capital to risk-weighted assets 2/	14.2	14.3	15.1	15.2	14.8	14.7
Regulatory Tier I capital to risk-weighted assets 3/	10.4	10.3	11.0	11.4	11.3	11.6
Nonperforming loans net of provisions to capital 4/	0.2	-0.3	-0.4	-0.6	-0.6	-0.5
Leverage 5/	8.3	7.9	8.7	9.4	9.8	10.2
Asset Quality						
Nonperforming loans to total gross loans 4/	2.9	2.9	3.1	3.3	3.3	3.4
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3
Nonperforming, refinanced and restructured loans to total gross loans 4/ 6/	4.0	4.0	4.4	4.8	4.9	4.9
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3
Refinanced and restructured loans to total gross loans	1.1	1.1	1.3	1.5	1.6	1.5
Provisions to nonperforming loans 4/	157.7	161.8	157.1	151.1	150.7	149.1
Provisions to nonperforming, restructured, and refinanced loans 4/ 6/	114.4	116.5	111.1	105.0	101.6	103.3
Sectoral distribution of loans to total loans						
Consumer loans	18.1	18.3	18.9	19.2	19.8	21.4
Mortgage loans	15.5	15.2	15.1	15.4	15.3	15.6
Large corporations	17.2	21.4	22.2	22.6	23.3	22.2
Small corporations	17.0	15.8	14.8	14.3	14.3	14.3
Medium size firms	18.3	16.9	16.4	15.4	14.8	13.7
Small firms	10.1	9.0	9.1	9.4	9.1	9.3
Microenterprises	3.8	3.4	3.6	3.7	3.5	3.5
Earnings and Profitability						
Return on equity (ROE)	18.2	21.1	19.2	17.7	17.9	17.9
Return on assets (ROA)	1.9	2.1	2.0	2.1	2.2	2.2
Financial revenues to total revenues	85.0	85.1	85.3	84.2	83.4	83.7
Annualized financial revenues to revenue-generating assets	10.6	10.5	10.1	10.2	10.3	10.4
Liquidity						
Total liquid assets to total short-term liabilities (monthly average basis)	39.4	37.7	35.4	38.5	34.6	36.4
In domestic currency	25.3	26.2	26.7	33.0	27.2	27.5
In foreign currency	55.2	47.5	44.9	45.7	45.3	50.3
Deposit-to-loan	90.5	92.0	88.4	92.1	89.4	90.9
Foreign Currency Position and Dollarization						
Share of foreign currency deposits in total deposits	43.4	49.5	44.1	39.3	35.9	35.2
Share of foreign currency loans in total credit	38.4	30.1	28.8	29.4	28.5	26.5
Operational efficiency						
Financing to related parties to capital 7/	9.4	12.3	9.1	9.6	12.3	9.7
Nonfinancial expenditure to total revenues 8/	33.0	30.9	30.8	30.7	30.7	29.9
Annualized Nonfinancial expenditure to total revenue-generating assets 8/	4.1	3.8	3.7	3.7	3.8	3.7
Memorandum items						
General Stock market index, IGBVL	14,794	9,849	15,567	19,974	19,350	20,526
EMBI+ PERU spread, basis points	181	243	170	112	137	92

Source: National authorities.

1/ These indicators correspond to depository corporations.

2/ Since July 2009, the regulatory capital requirement applied to all risks: credit, market and operational risk.

3/ Since July 2009, Banking Law component establishes that the Tier I capital have to be defined, and Risk-weighted assets include overall risks (credit, market and operational).

4/ Nonperforming loans are overdue loans after 15 days since the due date for commercial loans, and after 30 days for small businesses loans. In the case of mortgage, consumer and leasing loans, they are considered overdue after 30 days since the due date only for the non paid portion and after 90 days for all the credit. The overdue loans include credits under judicial resolution. Figures are net of specific and general provisions.

5/Tier I regulatory capital / Total Exposure (on-balance sheet exposures, derivative exposures and off-balance exposures converted into credit exposure equivalents using credit conversion factors).

6/ Includes restructured loans, refinanced loans, and arrears. Refinanced loans refer to those loans subjected to either term and/or principal modifications with respect to the initial debt contract. Restructured loans refer to those loans whose payments have been restructured according to the "Ley General del Sistema Concursal."

7/ Financing to related parties corresponds to those loans to individuals and firms owning more than 4 percent of the bank.

8/ Nonfinancial expenditures do not consider provisions nor depreciation.

Table 8. Peru: Financial and External Vulnerability Indicators

(In percent; unless otherwise indicated)

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Financial indicators												
Public sector debt/GDP	20.6	24.1	24.5	25.4	26.2	27.2	37.2	37.6	37.7	37.6	36.9	35.8
Of which: in domestic currency (percent of GDP)	11.9	12.9	14.1	16.7	17.3	18.7	25.3	26.0	26.6	27.0	26.8	26.3
90-day prime lending rate, domestic currency (end of period)	4.7	4.9	5.2	3.6	4.3	3.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
90-day prime lending rate, foreign currency (end of period)	0.7	1.1	1.2	2.2	3.4	2.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Velocity of money 1/	2.6	2.4	2.5	2.5	2.4	2.3	2.0	1.9	1.9	1.9	1.8	1.8
Net credit to the private sector/GDP 2/	39.1	41.9	40.9	40.4	42.1	43.1	46.0	46.4	46.7	47.1	47.4	47.8
External indicators												
Exports, U.S. dollars (percent change)	-7.8	-12.9	7.8	22.5	8.0	-2.9	-11.5	5.7	4.9	5.2	5.4	5.4
Imports, U.S. dollars (percent change)	-3.1	-9.0	-5.9	10.2	8.1	-1.9	-14.1	9.9	7.9	5.6	5.3	5.2
Terms of trade (percent change) (deterioration -) 3/	-5.4	-6.9	-0.3	7.5	-0.4	-1.8	-0.1	-1.4	-0.3	0.1	0.0	-0.1
Current account balance (percent of GDP)	-4.5	-5.0	-2.6	-1.3	-1.7	-1.4	-0.9	-0.9	-1.5	-1.5	-1.5	-1.5
Capital and financial account balance (percent of GDP)	2.9	5.4	2.8	1.4	0.7	4.6	0.4	0.9	1.5	1.5	1.5	1.5
Total external debt (percent of GDP)	34.2	38.2	38.4	35.7	34.5	34.7	39.8	38.2	36.0	34.4	32.9	31.5
Medium- and long-term public debt (in percent of GDP) 4/	11.8	14.0	15.2	15.4	15.5	17.0	20.9	20.6	19.8	19.2	18.6	17.9
Medium- and long-term private debt (in percent of GDP)	19.1	20.5	19.2	16.4	14.9	14.3	15.1	14.0	12.8	12.0	11.3	10.7
Short-term public and private debt (in percent of GDP)	3.3	3.8	4.0	4.0	4.2	3.4	3.4	3.6	3.4	3.2	3.0	2.8
Total external debt (in percent of exports of goods and services) 4/	152.2	179.5	171.7	145.2	138.5	144.7	173.8	156.3	148.8	142.1	135.7	130.1
Total debt service (in percent of exports of goods and services) 5/	31.9	36.8	38.6	43.8	33.7	36.8	37.8	32.0	32.1	30.3	28.6	30.1
Gross official reserves												
In millions of U.S. dollars	62,353	61,537	61,746	63,731	60,288	68,370	67,400	67,400	67,400	67,400	67,400	67,400
In percent of short-term external debt 6/	522	472	424	306	364	433	517	493	486	487	487	427
In percent of short-term external debt, foreign currency deposits, and adjusted CA balance 6/ 7/	132	110	122	112	113	123	138	130	124	123	123	118
In percent of broad money 8/	83	84	80	73	66	67	65	60	55	51	48	44
In percent of foreign currency deposits at banks	258	225	230	225	213	224	226	215	213	214	217	221
In months of next year's imports of goods and services	16.4	17.0	15.6	14.8	14.1	18.9	16.5	15.3	14.4	13.6	12.9	n.a.
Net international reserves (in millions of U.S. dollars)	62,308	61,485	61,686	63,621	60,121	68,316	67,346	67,346	67,346	67,346	67,346	67,346
Central Bank's Foreign Exchange Position	35,368	25,858	27,116	37,493	39,548	42,619	41,649	41,649	41,649	41,649	41,649	41,649

Sources: National authorities; IMF's Information Notice System (INS); and IMF staff estimates/projections.
1/ Defined as of the ratio of annual GDP to end-period broad money.
2/ Corresponds to depository corporations.
3/ End of period; data from INS.
4/ Includes Central Bank's debt.
5/ Includes debt service to the Fund.
6/ Short-term debt includes amortization of medium- and long-term loans falling due over the following year, including debt swaps.
7/ Current Account deficit adjusted for 0.75*net FDI inflows; if adjusted CA balance>0, set to 0.
8/ At end-period exchange rate.

Table 9. Peru: Medium-Term Macroeconomic Framework

						Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(Annual percentage change)							
Production												
GDP at constant prices	2.4	3.3	4.1	2.5	4.0	2.2	-6.5	5.8	4.7	3.7	3.7	3.7
Domestic demand at constant prices	2.2	2.6	1.1	1.5	4.2	2.3	-7.3	6.4	5.4	3.9	3.7	3.6
Consumption	4.2	4.9	3.0	2.3	3.4	2.9	-3.7	1.5	4.5	3.2	3.3	3.2
Investment	-2.3	-4.7	-4.3	-0.2	5.0	2.7	-20.9	21.1	8.7	6.0	4.8	4.8
Of which: Private	-2.2	-4.2	-5.4	0.2	4.5	4.0	-27.9	27.0	10.2	6.6	5.1	5.1
Of which: Public	-2.7	-6.9	0.3	-1.8	6.8	-2.1	8.3	4.8	3.6	3.6	3.7	3.8
Net exports (contribution to GDP growth)	0.1	0.6	2.9	1.0	-0.1	-0.1	0.6	-0.4	-0.5	0.0	0.1	0.2
Exports	-0.8	4.7	9.1	7.4	2.4	0.8	-5.2	6.3	3.7	3.7	3.8	3.9
Imports	-1.3	2.2	-2.3	3.9	3.2	1.2	-8.2	8.9	6.3	4.2	3.7	3.6
Consumer prices (end of period)	3.2	4.4	3.2	1.4	2.2	1.9	1.4	2.0	2.0	2.0	2.0	2.0
GDP deflator	2.7	2.7	3.5	3.9	2.0	1.6	1.0	2.3	2.5	2.4	2.4	2.4
Trade												
Merchandise trade												
Exports, f.o.b.	-7.8	-12.9	7.8	22.5	8.0	-2.9	-11.5	5.7	4.9	5.2	5.4	5.4
Imports, f.o.b.	-3.1	-9.0	-5.9	10.2	8.1	-1.9	-14.1	9.9	7.9	5.6	5.3	5.2
Terms of trade (deterioration -)	-5.4	-6.9	-0.3	7.5	-0.4	-1.8	-0.1	-1.4	-0.3	0.1	0.0	-0.1
					(In percent of GDP; unless otherwise indicated)							
External current account balance	-4.5	-5.0	-2.6	-1.3	-1.7	-1.4	-0.9	-0.9	-1.5	-1.5	-1.5	-1.5
Total external debt service 1/	7.2	7.8	8.6	10.8	8.4	8.8	8.7	7.8	7.8	7.3	6.9	7.3
Medium- and long-term	3.7	4.3	4.8	7.1	4.5	4.7	4.8	4.5	4.3	4.1	3.8	4.4
Nonfinancial public sector	1.3	1.1	1.5	2.6	1.3	1.5	1.2	1.3	1.4	1.4	1.3	2.0
Private sector	2.4	3.1	3.3	4.4	3.3	3.2	3.5	3.2	2.9	2.7	2.5	2.4
Short-term 2/	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Interest	1.1	1.3	1.4	1.4	1.5	1.4	1.9	1.9	1.8	1.7	1.6	1.6
Amortization (medium-and long-term)	2.6	3.0	3.5	5.8	3.2	3.5	2.9	2.7	2.6	2.5	2.3	2.9
Public sector												
NFPS primary balance 3/	0.8	-1.0	-1.4	-1.9	-0.9	-0.2	-7.1	-1.7	-0.8	-0.2	0.3	0.7
NFPS interest due	1.1	1.1	1.1	1.2	1.4	1.4	1.6	1.8	1.8	1.8	1.8	1.7
NFPS overall balance 3/	-0.3	-2.1	-2.5	-3.1	-2.3	-1.6	-8.7	-3.5	-2.6	-2.0	-1.4	-1.0
Public sector debt 3/	20.6	24.1	24.5	25.4	26.2	27.2	37.2	37.6	37.7	37.6	36.9	35.8
Savings and investment												
Gross domestic investment	24.7	23.7	22.0	20.6	21.7	21.2	18.0	21.9	22.8	23.3	23.7	24.0
Public sector 3/	5.6	5.1	4.9	4.6	4.8	4.6	5.2	5.3	5.2	5.2	5.3	5.3
Private sector	19.1	18.6	17.1	16.0	16.8	16.6	12.7	16.6	17.6	18.1	18.4	18.7
Private sector (excluding inventories)	20.4	19.6	18.2	17.3	17.7	18.0	13.7	16.6	17.6	18.1	18.4	18.7
Inventory changes	-1.3	-1.0	-1.0	-1.2	-0.8	-1.3	-1.0	0.0	0.0	0.0	0.0	0.0
National savings	20.2	18.7	19.4	19.4	20.0	19.8	17.1	21.0	21.3	21.8	22.2	22.4
Public sector 4/	6.0	3.8	2.7	1.8	2.9	3.3	-3.0	2.1	3.1	3.6	4.2	4.6
Private sector	14.2	14.9	16.7	17.5	17.0	16.5	20.1	18.8	18.3	18.2	18.0	17.9
External savings	4.5	5.0	2.6	1.3	1.7	1.4	0.9	0.9	1.5	1.5	1.5	1.5
Memorandum items												
Nominal GDP (billions of nuevos soles)	574.3	609.4	656.1	698.4	740.4	768.6	725.5	785.2	842.7	895.5	951.2	1,010.3
Gross international reserves (billions of U.S. dollars)	62.4	61.5	61.7	63.7	60.3	68.4	67.4	67.4	67.4	67.4	67.4	67.4
External debt service (percent of exports of GNFS)	31.9	36.8	38.6	43.8	33.7	36.8	37.8	32.0	32.1	30.3	28.6	30.1
Short-term external debt service (percent of exports of GNFS)	0.2	0.3	0.4	0.4	0.5	0.5	0.3	0.2	0.3	0.4	0.3	0.3
Public external debt service (percent of exports of GNFS)	5.9	5.4	6.9	10.7	5.1	6.1	5.3	5.3	5.7	5.6	5.5	8.2

Sources: National authorities and IMF staff estimates.
1/ Includes interest payments only.
2/ Includes the financial public sector.
3/ Includes Repayment Certificates (CRPAOs).
4/ Excludes privatization receipts.

Table 10. Peru: Impact on GRA Finances
(millions of SDR unless otherwise indicated)

	as of 05/14/2020
Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	190,400
FCC on approval 2/	182,393
Change in percent	-4.2
Prudential measures, assuming full FCL drwaing	
Fund GRA commitment to Peru	
in percent of current precautionary balances	48.5
in percent of total GRA credit outstanding	10.4
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding	77.0
in percent of total GRA credit outstanding including Peru's assumed full drawing	73.8
Peru's projected annual GRA charges for 2020 in percent of the Fund's residual burden sharing capacity	1,179
Memorandum items	
Fund's precautionary balances (FY20)	16,516
Fund's Residual Burden Sharing Capacity 3/	11.0

Sources: Finance Department and IMF staff estimates.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the 2016 Borrowing Agreements; they will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.

2/ Current FCC minus access under the proposed arrangement.

3/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

Table 11. Peru: Capacity to Repay Indicators 1/

	2019	2020	2021	2022	2023	2024	2025
Exposure and Repayments (in SDR millions)							
GRA credit to Peru	0.0	8,007.0	8,007.0	8,007.0	6,005.3	2,001.8	0.0
(In percent of quota)	(0.0)	(600.0)	(600.0)	(600.0)	(450.0)	(150.0)	(0.0)
Charges due on GRA credit 2/	0.0	129.8	196.6	196.6	213.4	115.7	10.3
Debt service due on GRA credit 2/	0.0	129.8	196.6	196.6	2,215.2	4,119.2	2,012.0
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	34.7	44.1	42.3	39.8	36.7	32.8	30.3
Public external debt	17.0	24.7	24.2	23.2	21.2	18.1	16.4
GRA credit to Peru	0.0	5.7	5.5	5.1	3.6	1.2	0.0
Total external debt service	8.8	9.3	8.0	7.9	8.7	9.3	8.3
Public external debt service	1.8	1.3	1.3	1.4	2.6	3.6	3.0
Debt service due on GRA credit	0.0	0.1	0.1	0.1	1.3	2.4	1.1
In percent of Gross International Reserves							
Total external debt	116.9	146.1	146.0	146.7	143.2	135.2	132.5
Public external debt	57.3	82.0	83.7	85.4	82.5	74.6	71.6
GRA credit to Peru	0.0	18.8	18.8	18.9	14.2	4.8	0.0
In percent of Exports of Goods and Services							
Total external debt service	36.8	45.4	36.6	36.6	40.1	42.9	38.4
Public external debt service	7.5	6.2	5.9	6.5	12.1	16.8	13.7
Debt service due on GRA credit	0.0	0.4	0.6	0.6	6.2	10.9	5.0
In percent of Total External Debt							
GRA credit to Peru	0.0	12.9	12.9	12.9	9.9	3.5	0.0
In percent of Public External Debt							
GRA credit to Peru	0.0	22.9	22.5	22.1	17.2	6.4	0.0

Sources: Peruvian authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings under the FCL upon approval under a downside scenario.
2/ Includes surcharges under the system currently in force and service charges.
3/ Staff projections for external debt ratios (to GDP, gross international reserves, and exports of goods and services) adjusted for the impact of the assumed FCL drawing.

Annex I. External Debt Sustainability Analysis

Table 1. Peru: External Debt Sustainability Framework, 2017-25
(in percent of GDP, unless otherwise indicated)

			Prel.	Projections						
	2017	2018	2019	2020	2021	2022	2023	2024	2025	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	**35.7**	**34.5**	**34.7**	**39.8**	**38.2**	**36.0**	**34.4**	**32.9**	**31.5**	**-2.5**
Change in external debt	-2.6	-1.2	0.2	5.1	-1.6	-2.2	-1.6	-1.5	-1.4	
Identified external debt-creating flows (4+8+9)	-1.7	-0.8	-2.7	1.9	-3.1	-2.2	-1.9	-1.8	-1.9	
Current account deficit, excluding interest payments	-0.1	0.2	0.0	-1.1	-1.0	-0.3	-0.2	-0.1	0.0	
Deficit in balance of goods and services	-2.4	-2.0	-1.7	-2.1	-1.9	-1.3	-1.3	-1.3	-1.3	
Exports	24.6	24.9	24.0	22.9	24.4	24.2	24.2	24.2	24.2	
Imports	22.2	23.0	22.3	20.8	22.5	22.9	22.9	22.9	22.9	
Net non-debt creating capital inflows (negative)	-2.1	-1.1	-3.4	-1.5	-1.8	-2.0	-2.1	-2.1	-2.2	
Net foreign direct investment, equity	3.0	2.9	3.5	2.7	3.0	3.1	3.1	3.1	3.2	
Net portfolio investment,equity	-0.8	-1.8	-0.1	-1.2	-1.2	-1.1	-1.0	-1.0	-0.9	
Automatic debt dynamics 1/	0.5	0.1	0.6	4.5	-0.3	0.1	0.4	0.4	0.4	
Denominator: 1+g+r+gr	1.1	1.1	1.0	0.9	1.0	1.1	1.1	1.1	1.1	
Contribution from nominal interest rate	1.4	1.5	1.4	1.9	1.9	1.8	1.7	1.6	1.6	
Contribution from real GDP growth	-0.9	-1.3	-0.7	2.5	-2.2	-1.7	-1.3	-1.2	-1.1	
Contribution from price and exchange rate changes 2/	...	...	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.9	-0.4	2.9	3.2	1.5	0.1	0.2	0.3	0.5	
External debt-to-exports ratio (in percent)	145.2	138.5	144.7	173.8	156.3	148.8	142.1	135.7	130.1	
Gross external financing need (in billions of U.S. dollars) 4/	22.8	19.5	20.4	15.7	14.9	17.3	17.5	17.7	20.0	
In percent of GDP	10.7	8.7	8.9	7.5	6.9	7.5	7.1	6.8	7.2	
Scenario with key variables at their historical averages 5/		**34.5**	**34.7**	**33.8**	**32.0**	**30.1**	**28.3**	**26.7**	**25.2**	**-3.9**
Key Macroeconomic Assumptions Underlying Baseline										
Real GDP growth (in percent)	2.5	4.0	2.2	-6.5	5.8	4.7	3.7	3.7	3.7	
GDP deflator in U.S. dollars (change in percent)	7.5	1.2	0.1	-3.3	-1.4	1.8	1.9	2.1	2.3	
Nominal external interest rate (in percent)	4.0	4.3	4.0	5.1	4.9	5.0	5.0	4.9	5.0	
Growth of exports and services (U.S. dollar terms, in percent)	21.3	6.6	-1.6	-13.7	11.3	5.7	5.8	6.0	5.9	
Growth of imports and services (U.S. dollar terms, in percent)	9.3	8.8	-0.7	-15.6	13.0	8.1	6.0	5.9	5.9	
Current account balance, excluding interest payments	0.1	-0.2	0.0	1.1	1.0	0.3	0.2	0.1	0.0	
Net non-debt creating capital inflows	2.1	1.1	3.4	1.5	1.8	2.0	2.1	2.1	2.2	

Source: National authorities and Fund staff calculations.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

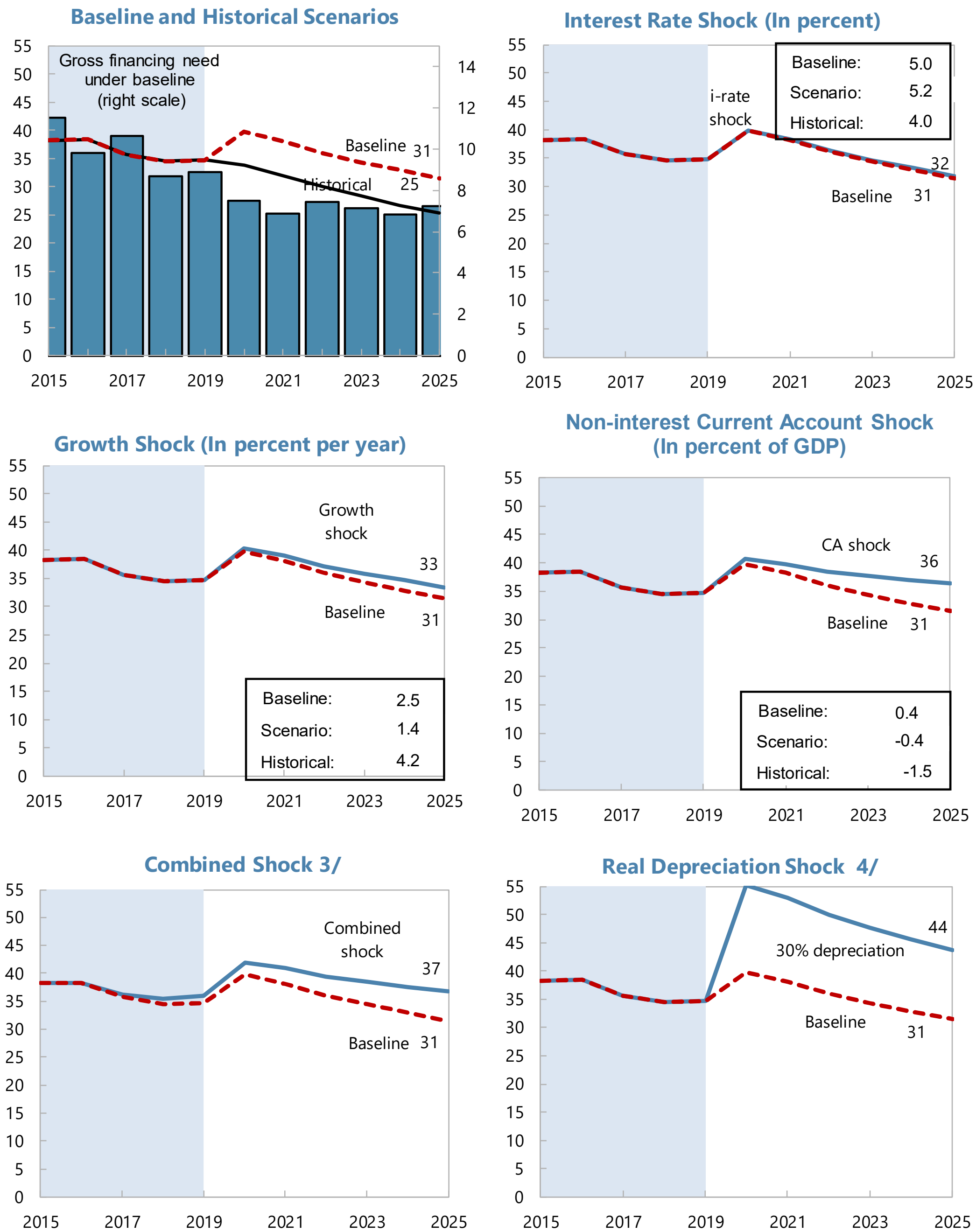
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Peru: External Debt Sustainability: Bound Tests 1/ 2/

(in percent of GDP)



Source: Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2019.

Annex II. Public Debt Sustainability Analysis

Table 1. Peru: Baseline Scenario

(in percent of GDP, unless otherwise indicated)

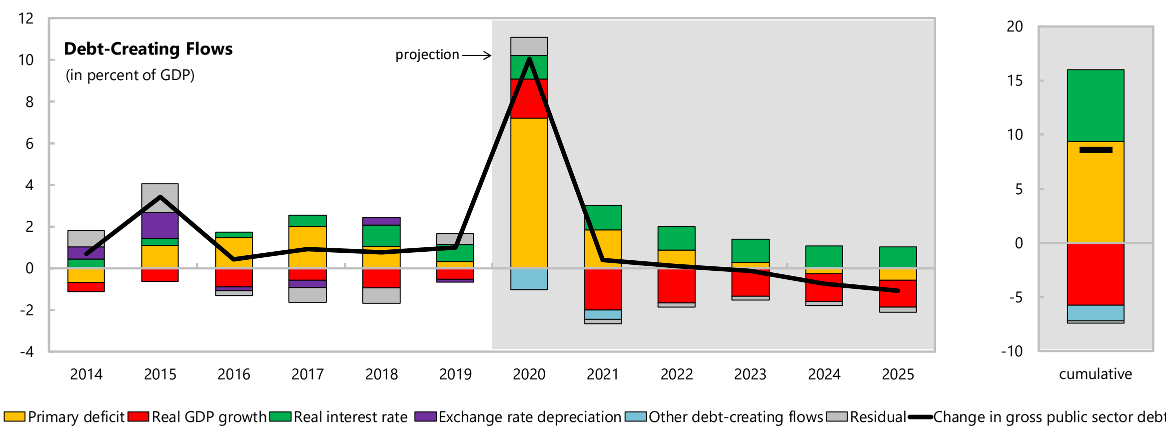
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	23.6	26.2	27.2	37.2	37.6	37.7	37.6	36.9	35.8
Of which: guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public gross financing needs	2.3	3.8	2.3	9.2	3.9	4.0	4.4	4.8	4.0
Real GDP growth (in percent)	4.4	4.0	2.2	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation (GDP deflator, in percent)	3.1	1.3	2.1	1.6	1.7	2.0	2.0	2.0	2.0
Nominal GDP growth (in percent)	7.8	6.0	3.8	-5.6	8.2	7.3	6.3	6.2	6.2
Effective interest rate (in percent) [4/]	5.2	5.6	5.5	5.4	5.3	5.3	5.1	5.1	5.0

As of May 06, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		236
5Y CDS (bp)		102
Ratings	Foreign	Local
Moody's	A3	A3
S&Ps	BBB+	A-
Fitch	BBB+	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.3	0.8	1.0	10.1	0.4	0.1	-0.1	-0.7	-1.1	8.6	
Identified debt-creating flows	-1.2	1.5	0.5	9.2	0.6	0.3	0.1	-0.5	-0.9	8.8	
Primary deficit	-0.5	1.0	0.3	7.2	1.8	0.9	0.3	-0.3	-0.6	9.4	-0.3
Primary (noninterest) revenue and grants	25.7	24.4	24.7	22.5	25.2	25.3	25.3	25.3	25.3	148.8	
Primary (noninterest) expenditure	25.2	25.4	25.1	29.7	27.0	26.2	25.6	25.0	24.7	158.2	
Automatic debt dynamics [5/]	-0.6	0.4	0.2	3.0	-0.8	-0.5	-0.2	-0.2	-0.3	0.9	
Interest rate/growth differential [6/]	-0.5	0.1	0.3	3.0	-0.8	-0.5	-0.2	-0.2	-0.3	0.9	
Of which: real interest rate	0.5	1.0	0.8	1.1	1.2	1.1	1.1	1.1	1.0	6.6	
Of which: real GDP growth	-1.0	-1.0	-0.5	1.9	-2.0	-1.7	-1.3	-1.3	-1.3	-5.7	
Exchange rate depreciation [7/]	-0.1	0.4	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-1.0	-0.4	0.0	0.0	0.0	0.0	-1.5	
General government net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Use of Stabilization Fund	0.0	0.0	0.0	-1.0	-0.4	0.0	0.0	0.0	0.0	-1.5	
Residual, including asset changes [8/]	0.9	-0.7	0.5	0.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	



Source: IMF staff calculations.

1/ Public sector is defined as non-financial public sector and includes public guarantees.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

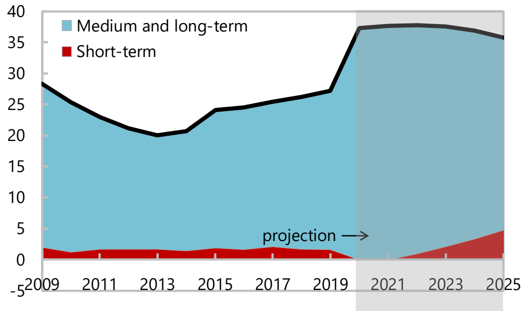
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

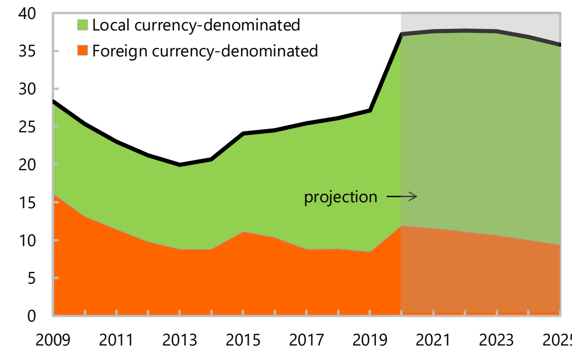
Figure 1. Peru: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



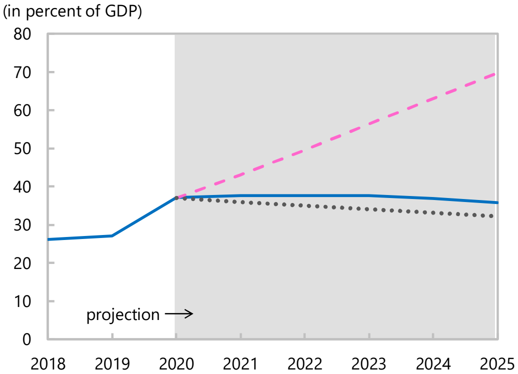
By Currency
(in percent of GDP)



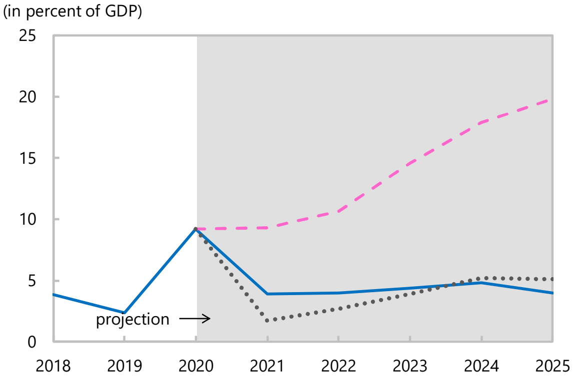
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

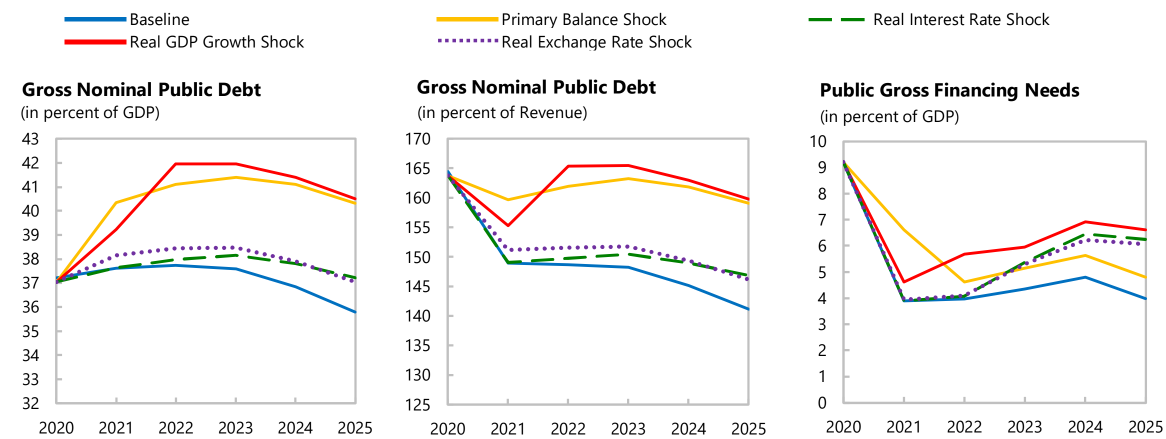
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation	1.6	1.7	2.0	2.0	2.0	2.0
Primary Balance	-7.2	-1.8	-0.9	-0.3	0.3	0.6
Effective interest rate	5.4	5.3	5.3	5.1	5.1	5.0
Constant Primary Balance Scenario						
Real GDP growth	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation	1.6	1.7	2.0	2.0	2.0	2.0
Primary Balance	-7.2	-7.2	-7.2	-7.2	-7.2	-7.2
Effective interest rate	5.4	5.3	5.2	4.9	4.9	4.8

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.5	4.5	4.5	4.5	4.5	4.5
Inflation	1.6	1.7	2.0	2.0	2.0	2.0
Primary Balance	-7.2	0.4	0.4	0.4	0.4	0.4
Effective interest rate	5.4	5.3	5.3	5.1	5.1	5.0

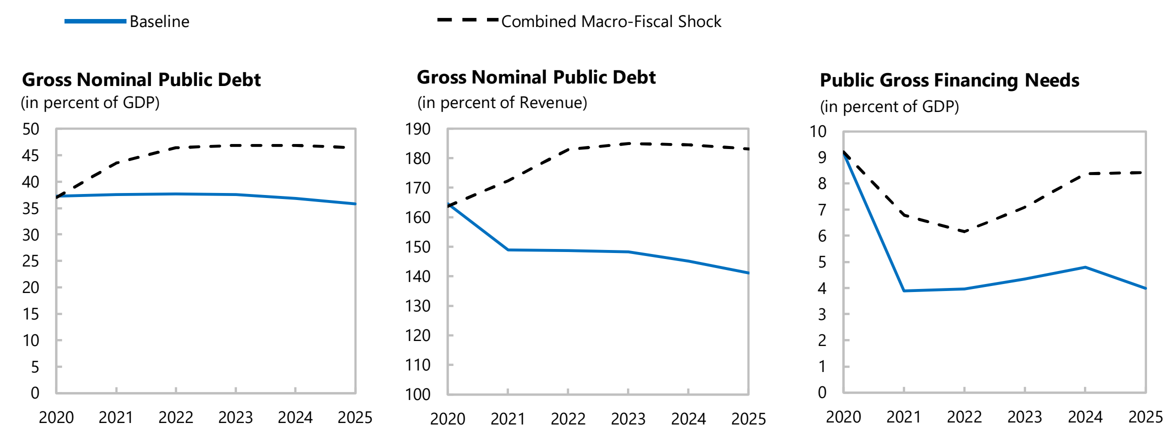
Source: IMF staff calculations.

Figure 2. Peru: Public Debt Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation	1.6	1.7	2.0	2.0	2.0	2.0
Primary balance	-7.2	-4.5	-1.3	-0.6	0.0	0.4
Effective interest rate	5.4	5.3	5.3	5.2	5.1	5.0
Real Interest Rate Shock						
Real GDP growth	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation	1.6	1.7	2.0	2.0	2.0	2.0
Primary balance	-7.2	-1.8	-0.9	-0.3	0.3	0.6
Effective interest rate	5.4	5.3	5.4	5.5	5.7	6.0
Combined Shock						
Real GDP growth	-6.5	3.7	2.6	3.7	3.7	3.7
Inflation	1.6	1.2	1.5	2.0	2.0	2.0
Primary balance	-7.2	-4.5	-2.3	-0.6	0.0	0.4
Effective interest rate	5.4	5.6	5.5	5.6	5.8	6.0

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.5	3.7	2.6	3.7	3.7	3.7
Inflation	1.6	1.2	1.5	2.0	2.0	2.0
Primary balance	-7.2	-2.5	-2.3	-0.3	0.3	0.6
Effective interest rate	5.4	5.3	5.3	5.2	5.2	5.2
Real Exchange Rate Shock						
Real GDP growth	-6.5	5.8	4.7	3.7	3.7	3.7
Inflation	1.6	6.5	2.0	2.0	2.0	2.0
Primary balance	-7.2	-1.8	-0.9	-0.3	0.3	0.6
Effective interest rate	5.4	5.6	5.2	5.1	5.1	5.2

Source: IMF staff.

Twenty-Four Month Flexible Credit Line Arrangement

Attached hereto is a written communication dated May 11, 2020, from the Governor of the Central Reserve Bank of Peru and the Minister of Economy and Finance requesting a Flexible Credit Line arrangement in accordance with paragraph 6(a)(iv)(I) of Decision No. 14283-(09/29), adopted March 24, 2009, as amended, on the Flexible Credit Line Arrangements.

In response to Peru's request, the International Monetary Fund (the "Fund") grants this Flexible Credit Line arrangement in accordance with the following provisions:

1. For a period of twenty-four months from the date of approval of this arrangement, Peru will have the right to make purchases from the Fund in an amount equivalent to SDR 8.007 billion, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. (a) Peru will not make purchases under this arrangement after May 27, 2021, until an Executive Board review of Peru's continued qualification for this Flexible Credit Line arrangement has been completed.

(b) The limitation in paragraph 2(a) above shall not apply to purchases under this arrangement that would not increase the Fund's holdings of Peru's currency subject to repurchase beyond 25 percent of quota.

3. Peru will not make purchases under this Flexible Credit Line arrangement during any period in which Peru: (i) has an overdue financial obligation to the Fund, or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action; or (ii) is failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) ESAF, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

4. Consistent with the Fund's policies, Peru's right to engage in the transactions covered by this Flexible Credit Line arrangement can be suspended only with respect to requests received by the Fund after (a) a formal declaration of ineligibility to use the Fund's resources pursuant to Articles V, Section 5, VI, Section 1(a), and XXVI, Section 2(a) of the Fund's Articles of Agreement, or (b) a decision of the Executive Board to suspend transactions, either generally pursuant to Article XXVII of the Fund's Articles of Agreement, or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit Peru's eligibility to use the Fund's general resources. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and

Peru and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this Flexible Credit Line arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Peru, the Fund agrees to provide SDRs at the time of the purchase.

6. Peru shall pay a charge for this Flexible Credit Line arrangement in accordance with the decisions of the Fund.

7. (a) Peru shall repurchase the amount of its currency that results from a purchase under this Flexible Credit Line arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases, as Peru's balance of payments and reserve position improves.

(b) Any reductions in Peru's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. Peru shall provide the Fund with information necessary to assess its qualification for this FCL arrangement in the context of the review called for in paragraph 5(a) of Decision No. 14283-(09/29), adopted March 24, 2009, as amended, on the Flexible Credit Line Arrangements. In addition, after the period of the arrangement and while Peru has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, as appropriate.

Appendix I. Written Communication

Kristalina Georgieva
Managing Director
International Monetary Fund

Dear Ms. Georgieva,

With the global economy facing an unprecedent test, it has been reassuring to see that the International Monetary Fund (IMF) is once again stepping up efforts to help its membership meet a diverse set of challenges. It was not long ago when the international community looked at the Fund for intellectual leadership and financial support to deal with the Global Financial Crisis. Today, the origin of the world's economic difficulties is different, but the IMF will still need to play a central role to help cushion the global impact of the current crisis.

With uncertainty around the global economic outlook at very high levels, both the Peruvian current and financial accounts are vulnerable to global tail risks. A continued slowdown of external demand could lead to a steep drop in metal prices which would have a large negative impact on the current account. At the same time, Peru' s large foreign direct investment flows would also suffer in such an environment. In addition, given the active participation of nonresident investors in Peruvian financial markets, the country faces the risk of disruptions to financial flows in case of a sudden and severe decrease in risk appetite for emerging markets.

In this context, we would like to request the IMF to approve a Flexible Credit Line (FCL) arrangement for Peru in the amount of SOR 8.007 billion (600 percent of quota) for a period of 24 months. As we are confident that Peru is well prepared to weather the current adverse external environment, we intend to treat the arrangement as precautionary and to reduce access in line with improvements in global economic conditions. Our expectation is that the arrangement will strengthen our financial buffers and bolster confidence that Peru is in a position to withstand a wider range of adverse external shocks.

Thanks to very strong macroeconomic policies and institutions, and strong economic growth, Peru has attained robust fiscal and external positions while at the same time making significant strides in reducing poverty. In 2002, the Central Reserve Bank of Peru (BCRP) adopted an inflation targeting regime, which has contributed to anchoring inflation expectations within the BCRP's 1-3 percent target range and achieving a track record of low inflation. The BCRP's reserve coverage is comfortable, both in terms of months of imports and in terms of short- term external debt; and provides room for intervention in the face of disorderly conditions in the foreign exchange market.

At the current juncture, our policies are geared at containing the health emergency and at mitigating the economic disruptions stemming from both weaker external demand and social distancing measures. Our low levels of public debt have allowed us to implement countercyclical fiscal policies without jeopardizing debt sustainability. Similarly, our track record of low inflation and prudent monetary policies has allowed us to ease monetary conditions while keeping inflation expectations anchored. Our countercyclical fiscal and monetary measures have been complemented with targeted macroprudential measures aimed at allowing well-defined term modifications of banks loans to borrowers who have been affected by the adverse economic conditions. Despite these supporting measures, the severity of the shock we are facing will translate into a decline in economic activity during the current year. Nonetheless, our current and planned policies, especially those aimed at maintaining employment and jumpstarting the economy once the domestic lockdowns are lifted, should help us to quickly restore growth to the path that was in place before the onset of the Covid-19 outbreak.

In spite of the turbulence in global financial markets and domestic economic disruptions, Peru's access to international capital markets remains strong. The outcome of Peru's recent external sovereign bond issuance reflects the country's very strong reputation. On April 16, 2020 Peru issued US$3 billion in a combination of five- and ten-year bonds. Demand for the bonds reached almost US$25 billion, while the resulting interest rates were, respectively, 2.39 and 2.78 percent-which are historical lows for Peru. In line with our robust fiscal buffers, banks' balance sheets are also strong, with high capital ratios and appropriate liquidity buffers. While vulnerabilities associated with financial dollarization still deserve consideration, we are at the moment reaping the benefits of the sustained dedollarization measures that have been in place for a number of years.

Overall, we believe that Peru's macroeconomic track record, and very strong policies and institutional framework provide ample assurances of the country's preparedness to withstand not only the current circumstances but also other adverse shocks that could materialize in the period covered by the FCL arrangement. In this regard, we take this opportunity to inform you that BCRP will provide to the IMF staff all needed information and send the requested authorizations to the BCRP's external auditors, in accordance with the safeguards policy for the FCL.

Sincerely yours,

/s/
Maria Antonieta Alva
Minister of Economy and Finance

/s/
Julio Velarde
Governor Central Reserve Bank

INTERNATIONAL MONETARY FUND

PERU

May 21, 2020

ASSESSMENT OF THE IMPACT OF THE PROPOSED ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE ON THE FUND'S FINANCES AND LIQUIDITY POSITION

Approved By
Andrew Tweedie (FIN) and Vikram Haksar (SPR)

Prepared by the Finance and Strategy, Policy, and Review Departments (in consultation with other departments). The main contributors included Zhibo Tan and Edda Zoli (FIN), and Anne Charlotte Paret Onorato (SPR).

CONTENTS

INTRODUCTION

1. This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Peru on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.[1] The proposed arrangement would cover a 24-month period with access in an amount of SDR 8,007 million (600 percent of quota). The authorities intend to treat the arrangement as precautionary. In their view, it would complement existing buffers to provide insurance against elevated external risks—including those that would arise from a more protracted economic fallout of a wider outbreak of the Covid-19 pandemic. As the external risks subside, the authorities plan to reduce access under the arrangement, in line with their strategy that considers the use of the FCL, and the eventual exit from it, as depending on the evolution of risks.

BACKGROUND

2. Peru has an exemplary track record of meeting its obligations to the Fund under past Fund arrangements. Peru had several arrangements in the 1980s and 1990s. Since June 1999, Peru has had one EFF and four Stand-By Arrangements, but made no drawings. Its last arrangement with the Fund expired in 2009, and Peru has no outstanding credit to the Fund (Annex 1).

3. Helped by very strong policies and policy frameworks, Peru was able to achieve impressive macroeconomic outcomes and reduce vulnerabilities.[2] Growth averaged nearly 5¼ percent over the past 15 years, consistently above the average for the region. This has enabled Peru to make significant progress in reducing poverty. The inflation targeting regime, in place since 2002, has contributed to low inflation, with inflation expectations anchored around the central bank's (BCRP) target range (2 +/- 1 percent). The fiscal rule framework in place since 1999, with periodic modifications in its numerical parameters, has supported, together with prudent fiscal management, a reduction in government debt to less than 27 percent of GDP by end-2019. As indicated in the 2018 Financial System Stability Assessment (FSSA), strong financial sector supervision has helped preserve financial stability while enabling the country to make considerable progress in implementing the Basel regulatory reform agenda.

4. The Covid-19 pandemic is posing an unprecedented challenge. The first case in Peru was confirmed in early March, and by May 11 the number of cases had risen to almost seventy thousand, in spite of nationwide lockdowns that started in mid-March. The economy is heading for a recession this year. The price of copper—Peru's main export product—is down by over 18 percent (year-to-date). Peru's financial markets have experienced significant volatility and sharp declines in valuations, even though the country has shown remarkable financial resilience when compared to other emerging market economies, both within and outside the region, not least because large

[1] See "Flexible Credit Line – Operational Guidance Note" which documents the requirement for an assessment prepared by FIN/SPR on the impact of the proposed FCL arrangement on the Fund's finances and liquidity position, as a supplement to the staff report.

[2] Peru—Request for an Arrangement Under the Flexible Credit Line.

buffers have allowed the government to respond with a very strong policy package to contain the pandemic and mitigate the economic fallout.

Table 1. Peru: External Debt and Debt Services, 2015–20[1/]

	2015	2016	2017	2018	2019	2020 2/
			(In billions of US dollars)			
Total external debt	73.1	74.6	76.5	77.8	80.0	82.9
Public	26.8	29.7	33.1	35.1	39.2	43.6
Private	46.4	44.9	43.4	42.7	40.8	39.3
Total external debt service	15.0	16.8	23.1	18.9	20.4	18.0
Public	2.7	3.4	6.5	3.5	4.2	2.3
Private	12.3	13.4	16.6	15.4	16.2	15.7
			(In percent of GDP)			
Total external debt	38.2	38.4	35.7	34.5	34.7	39.8
Public	14.0	15.3	15.4	15.6	17.0	20.9
Private	24.2	23.1	20.3	19.0	17.7	18.9
Total external debt service	7.8	8.6	10.8	8.4	8.8	8.7
Public	1.4	1.8	3.0	1.6	1.8	1.1
Private	6.4	6.9	7.8	6.9	7.0	7.5
Memorandum item						
Public external debt service in percent of exports	6.5	7.9	12.3	6.2	7.5	4.8

Sources: National Authorities and IMF Staff Estimates.

1/ End of period, unless otherwise indicated.

2/ Assumed potential disbursement under the proposed FCL and related interest are not included. 2020 GDP is based on baseline projections.

5. **Total external and public debt levels remain moderate and are expected to remain stable over the medium term**. Peru's external debt has been broadly stable around 35–38 percent of GDP over the past 5 years (Table 1), remaining at modest levels compared to other emerging markets. External public debt accounted for about 17 percent of GDP in 2019. Public sector debt stood between 24 and 27 percent of GDP in 2015–2019, of which nearly one third was denominated in foreign currency in 2019. Reflecting the temporary Covid-19-related increase in the fiscal deficit, public debt is projected to reach 37. 2 percent of GDP in 2020. It is, however, expected to decline under 36 percent of GDP by 2025, as a result of stronger growth, and improving fiscal balance, and the expiration of the government guarantees. Debt sustainability analyses suggest that both external and public debt would remain manageable under a range of standardized scenarios.

THE NEW FLEXIBLE CREDIT LINE ARRANGEMENT—IMPACT ON THE FUND'S FINANCES AND LIQUIDITY POSITION

6. **Risks and impact on Fund finances from Peru's FCL arrangement are assessed in the context of a downside scenario**. Consistent with the idea that the FCL serves as insurance in the face of the potential realization of downside risks, and that the authorities intend to treat the FCL

arrangement as precautionary, any drawings on the FCL would be expected to take place only when macroeconomic conditions notably worsen vis-à-vis the baseline projections. Therefore, risks and impact on Fund finances are assessed in the context of a downside scenario. Table 2 provides a comparison of the main macroeconomic assumptions underlying the baseline and adverse scenarios.

7. **The adverse scenario reflects external risks from prolonged Covid-19 effects, which lead to increased external financing needs**. In particular, under the adverse scenario, the global economy is projected to face a deeper decline over the coming year—of about three percentage points vis-à-vis the April 2020 WEO baseline—while emerging market financial volatility is expected to remain elevated. This scenario would translate into: (i) a decline of Peruvian exports of goods and services of nearly 16 percent via-à-vis the 2020 baseline, primarily driven by a 27 percent decline in copper exports; (ii) lower financial market access for both the government and private entities; and (iii) a reduction in Peruvian GDP growth of slightly over three percentage points vis-à-vis the 2020 baseline as well as a depreciation of the real exchange rate of about 3 percent (also vis-à-vis the baseline). In this context, the current and financial accounts are expected to worsen in 2020 in the order of $4 billion and $14 billion vis-à-vis the baseline (or around 2 and 7¼ percent of GDP), respectively. Nearly 40 percent of the emerging financing needs would be financed through international reserves (which decline by over $8 billion under the adverse scenario). An economic rebound is expected to materialize in 2021 and over the following years as the health emergency dissipates. The economic impact of the shock would be significant, with Peru's real GDP only returning to its pre-shock level by end-2022.

Table 2. Peru: Comparison of macroeconomic assumptions under baseline and adverse scenarios

(in millions of US dollars)

	2019	2020	2021	2022	2023	2024	2025
Baseline scenario							
Real GDP growth (percent)	2.2	-6.5	5.8	4.7	3.7	3.7	3.7
Nominal GDP	230,328	208,235	217,325	231,673	244,996	259,457	275,238
Gross international reserves	68,370	67,400	67,400	67,400	67,400	67,400	67,400
in months of next year's imports of goods and services	18.5	16.4	15.3	14.4	13.6	12.8	0.0
Exports of goods and services	55,270	47,670	53,058	56,059	59,323	62,890	66,630
Total external debt (in percent of GDP)	34.7	39.8	38.2	36.0	34.4	32.9	31.5
of which: public external debt (in percent of GDP)	17.0	20.9	20.6	19.8	19.2	18.6	17.9
Adverse scenario							
Real GDP growth (percent)	2.2	-9.6	5.8	4.7	3.7	3.7	3.7
Nominal GDP	230,328	212,124	253,479	291,392	313,656	334,631	355,311
Gross international reserves	68,370	59,040	59,040	59,040	59,040	59,040	59,040
in months of next year's imports of goods and services	20.6	15.8	14.6	13.8	13.0	12.3	0.0
Exports of goods and services	55,270	40,119	44,653	47,179	49,926	52,928	56,076
Total external debt (in percent of GDP)	34.7	44.1	42.3	39.8	36.7	32.8	30.3
of which: public external debt (in percent of GDP)	17.0	24.7	24.2	23.2	21.2	18.1	16.4

Source: IMF Finance Department.

8. If Peru were to purchase the full amount available under the proposed FCL arrangement in this downside scenario, its capacity to repay to the Fund would remain adequate (Table 3):

- External debt would rise to about 44 percent of GDP in 2020 and public external debt to nearly 25 percent of GDP, compared to about 40 and 21 percent in the baseline scenario, respectively. These ratios would be close or below the median of other exceptional access cases approved since 2008 (Figure 1). Peru's outstanding use of GRA resources would account for nearly 13 percent of total external debt, and about 23 percent of public external debt. Fund credit would initially be equivalent to nearly 6 percent of GDP and 19 percent of Peru's gross international reserves. Peak Fund exposure relative to different metrics would be below or close to the median of recent exceptional access arrangements (Figure 2). Projected outstanding Fund credit in percent of quota around the peak would also be below that of recent exceptional access cases, and close or below that expected in other recent FCL arrangements in the event of full drawdown (Figure 3).

- External debt service would increase over the medium-term but remain manageable under staff's macroeconomic projections. Peru's projected debt service to the Fund would represent only 0.1 percent of GDP in 2020–2022.[3]

- While debt service to the Fund would constitute a large share of total public debt service in 2023–25, such debt service would remain small even at its peak (2.4 percent of GDP), given Peru's overall low external public debt. Fund peak debt service ratios would remain close to the median of recent exceptional access cases (Figure 2).

9. The proposed arrangement for Peru under the FCL would have a limited impact on the Fund's liquidity. The Fund's Forward Commitment Capacity (FCC) would decline by about 4 percent (Table 4). If Peru were to draw under the FCL arrangement it would be automatically excluded from the Financial Transaction Plan (FTP) and the FCC, which is currently only based on quota resources, would decline by another SDR 1.1 billion.

[3] The projected figures on debt service used are calculated assuming that the full amount available under the arrangement is purchased upon approval of the arrangement, and that all repurchases are made as scheduled.

Table 3. Peru: Capacity to Repay Indicators, 2019–25[1/]

	2019	2020	2021	2022	2023	2024	2025
Exposure and Repayments (in SDR millions)							
GRA credit to Peru	0.0	8,007.0	8,007.0	8,007.0	6,005.3	2,001.8	0.0
(In percent of quota)	(0.0)	(600.0)	(600.0)	(600.0)	(450.0)	(150.0)	(0.0)
Charges due on GRA credit 2/	0.0	129.8	196.6	196.6	213.4	115.7	10.3
Debt service due on GRA credit 2/	0.0	129.8	196.6	196.6	2,215.2	4,119.2	2,012.0
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	34.7	44.1	42.3	39.8	36.7	32.8	30.3
Public external debt	17.0	24.7	24.2	23.2	21.2	18.1	16.4
GRA credit to Peru	0.0	5.7	5.5	5.1	3.6	1.2	0.0
Total external debt service	8.8	9.3	8.0	7.9	8.7	9.3	8.3
Public external debt service	1.8	1.3	1.3	1.4	2.6	3.6	3.0
Debt service due on GRA credit	0.0	0.1	0.1	0.1	1.3	2.4	1.1
In percent of Gross International Reserves							
Total external debt	116.9	146.1	146.0	146.7	143.2	135.2	132.5
Public external debt	57.3	82.0	83.7	85.4	82.5	74.6	71.6
GRA credit to Peru	0.0	18.8	18.8	18.9	14.2	4.8	0.0
In percent of Exports of Goods and Services							
Total external debt service	36.8	45.4	36.6	36.6	40.1	42.9	38.4
Public external debt service	7.5	6.2	5.9	6.5	12.1	16.8	13.7
Debt service due on GRA credit	0.0	0.4	0.6	0.6	6.2	10.9	5.0
In percent of Total External Debt							
GRA credit to Peru	0.0	12.9	12.9	12.9	9.9	3.5	0.0
In percent of Public External Debt							
GRA credit to Peru	0.0	22.9	22.5	22.1	17.2	6.4	0.0

Sources: National authorities, Finance Department, WEO, and IMF staff estimates.
[1/] Assumes full drawing under the FCL arrangement upon approval. The Peruvian authorities have expressed their intention to treat the arrangement as precautionary.
[2/] Includes surcharges under the system currently in force and service charges.
[3/] Staff projections for external debt ratios (to GDP, gross international reserves, and exports) adjusted for the impact of the assumed FCL drawing.

10. The proposed FCL would have a moderate impact on the concentration of the Fund's lending portfolio, both in terms of regions and among Fund facilities:

- **Regional concentration to Latin America would increase slightly**. Currently, the Western Hemisphere accounts for about 62 percent of GRA credit and undrawn balances, including for precautionary arrangements (Figure 4). With the proposed FCL for Peru, that share would rise to 64 percent. The Fund experienced comparable regional concentration in the past, including in the aftermath of the global financial crisis, when lending to Europe accounted for the bulk of the Fund's lending exposure.

- **Among the Fund's different facilities, the share of FCL commitments would rise moderately**. Commitments under FCLs, which represent the bulk of precautionary arrangements, stood at SDR 52.4 billion in mid-May 14, 2020, or 49 percent of total GRA commitments (Figure 4). With the proposed FCL for Peru, the share of commitments from FCL arrangements would increase to 53 percent.

11. If the resources available under the FCL arrangement were fully drawn, the GRA credit exposure to Peru would be a sizable share of the Fund's outstanding credit.

- Fund credit to Peru would represent 10.4 percent of total GRA credit outstanding as of May 14, 2020, and 9.4 percent of GRA credit outstanding including Peru's purchase. Peru would also be the third largest Fund exposure. The concentration of Fund credit among the top five users of GRA resources would decrease marginally to about 74 percent, from 77 percent as of May 14, 2020.

- Fund credit to Peru would be nearly 49 percent of the Fund's current precautionary balances.

Table 4. Peru: Impact on GRA Finances
(Millions of SDR, unless otherwise noted)

	as of 05/14/2020
Liquidity measures	
Forward Commitment Capacity (FCC) before approval 1/	190,400
FCC on approval 2/	182,393
Change in percent	-4.2
Prudential measures, assuming full FCL drawing	
Fund GRA commitment to Peru	
in percent of current precautionary balances	48.5
in percent of total GRA credit outstanding	10.4
Fund GRA credit outstanding to top five borrowers	
in percent of total GRA credit outstanding	77.0
in percent of total GRA credit outstanding including Peru's assumed full drawing	73.8
Peru's projected annual GRA charges for 2020 in percent of the Fund's residual burden sharing capacity	1,179
Memorandum items	
Fund's precautionary balances (FY20)	16,516
Fund's Residual Burden Sharing Capacity 3/	11.0

Sources: Finance and IMF staff estimates.
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources from currently unactivated lines of credit, including the New Arrangements to Borrow or bilateral commitments from members to boost IMF resources.
2/ Current FCC minus access under the proposed arrangement.
3/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

ASSESSMENT

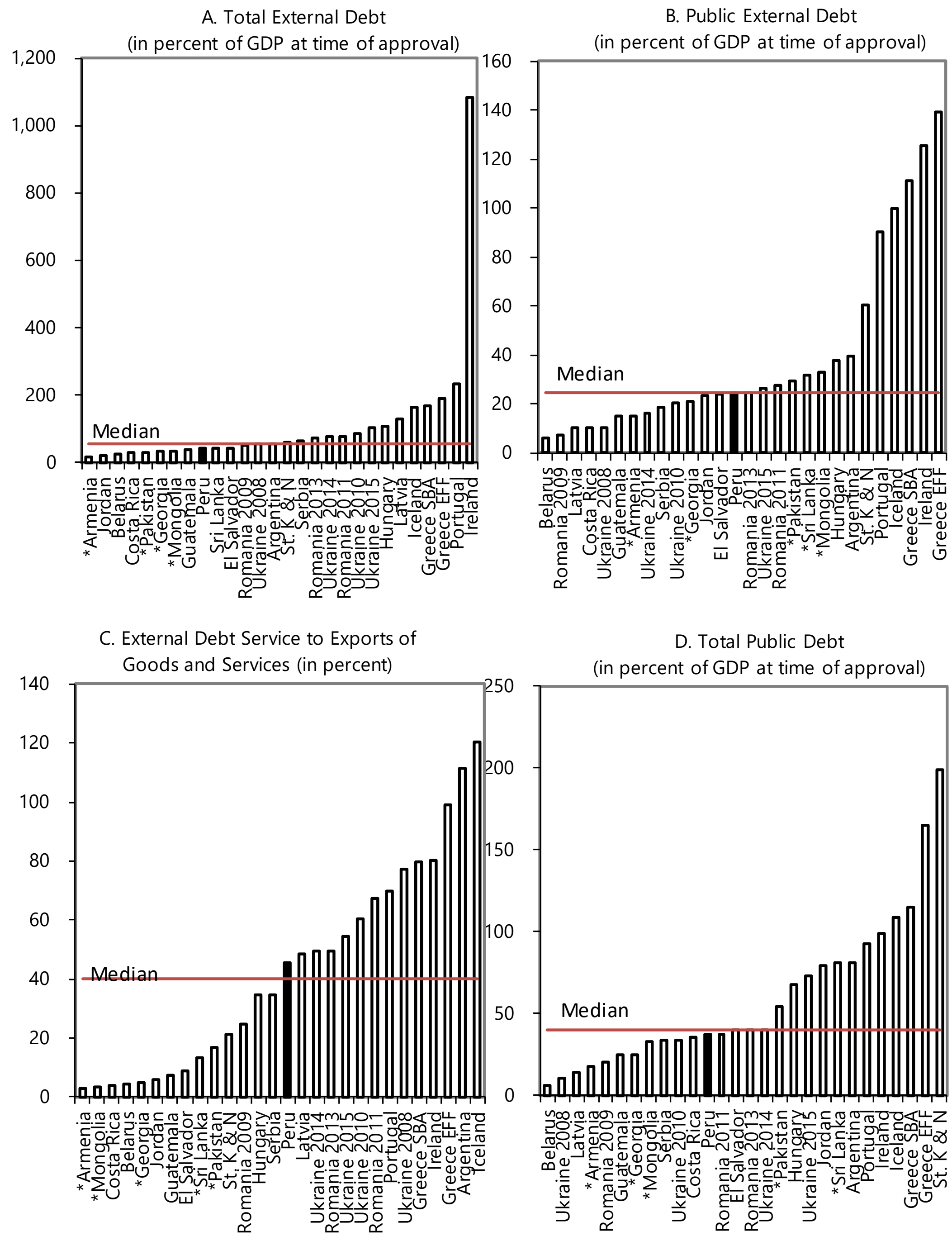
12. The proposed FCL arrangement would have a manageable impact on the Fund's finances. The arrangement would cover a 24-month period with access in an amount of SDR 8,007 million (600 percent of quota). On approval of the proposed new FCL arrangement, the Fund's liquidity position (FCC) would decline by about 4 percent. While the Fund's overall liquidity position is expected to remain adequate after the approval of the proposed FCL arrangement, in view of highly elevated risks to global growth and financial stability at present, a close monitoring of the liquidity position is warranted. In particular, the scale of potential new demand for Fund resources in the aftermath of the global Covid-19 pandemic is subject to large uncertainty and could be unprecedented.

13. If the proposed arrangement were drawn in full, the GRA credit exposure to Peru would be about 9 percent of the Fund’s outstanding credit. Peru intends to treat the proposed FCL arrangement as precautionary. If Peru were to purchase the full amount available under the proposed FCL arrangement, its capacity to repay to the Fund would remain adequate. Moreover, the risks from the Fund's potential credit exposure to Peru are mitigated by Peru’s adequate buffers as well as the country’s very strong policy framework and track record of economic performance. Also, while Peru's overall external debt and debt service ratios would deteriorate somewhat in a downside scenario and assuming full drawing under the proposed arrangement, they would remain close to the median of recent exceptional access cases.

14. The authorities consider access to the FCL to be temporary with exit dependent on the evolution of external risks. The requested level of access is meant to provide insurance against a wider range of adverse external shocks, preserve investor confidence, and support the authorities’ macroeconomic strategy. As the external risks subside, the authorities plan to reduce access under the arrangement, in line with their strategy that considers the use of the facility, and the eventual exit from it, as depending on the evolution of risks.

Figure 1. Debt Ratios of Recent Exceptional Access Cases 1/ 2/

(EA cases since September 2008)



Sources: Finance Department and IMF staff estimates.

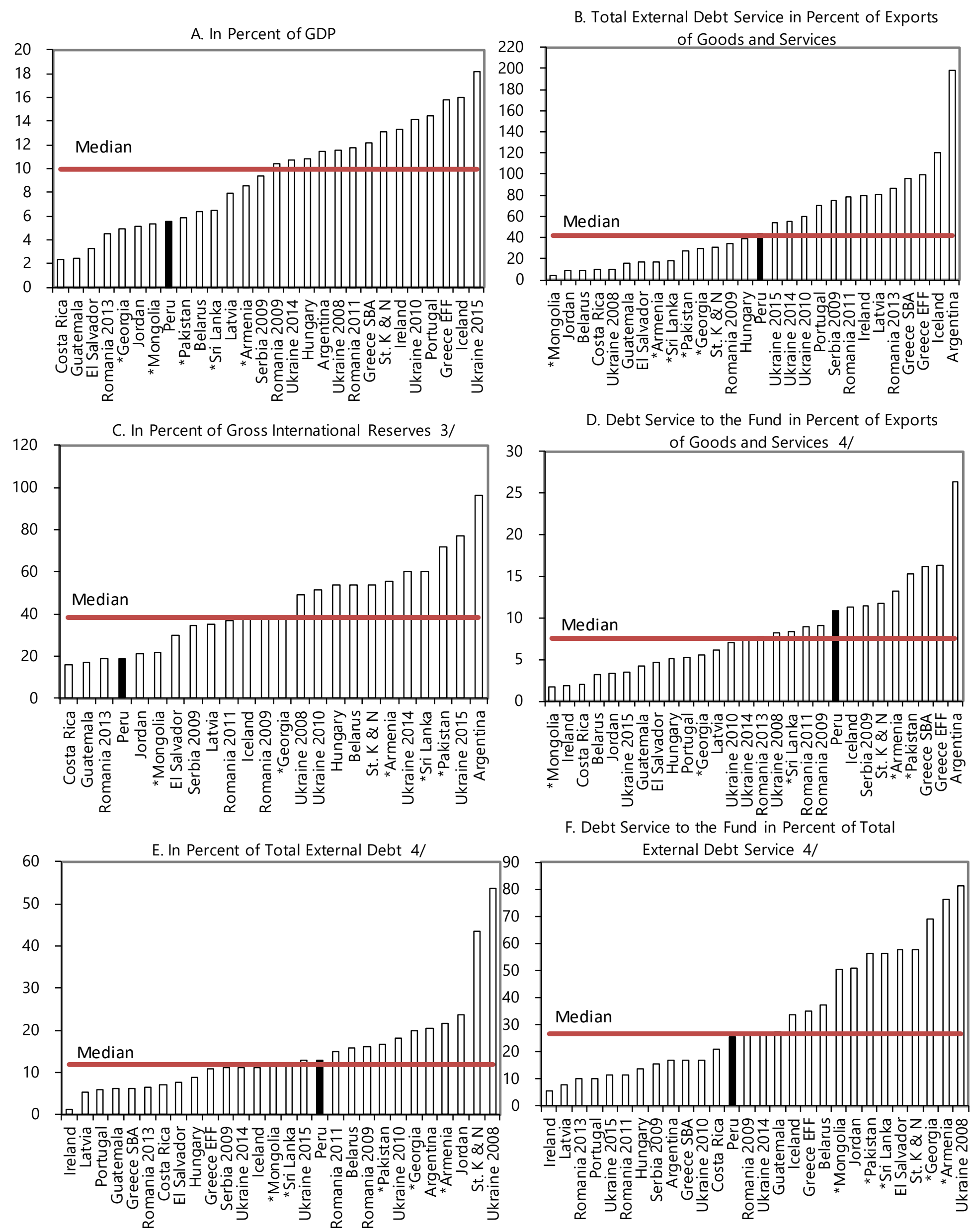
1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.

2/ Asterisks indicate PRGT-eligible countries at the time of the program.

Figure 2. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases 1/ 2/

(EA cases since September 2008)

Peak Fund Exposure Ratios | ***Peak Debt Service Ratios***



Sources: IMF Finance Department and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.

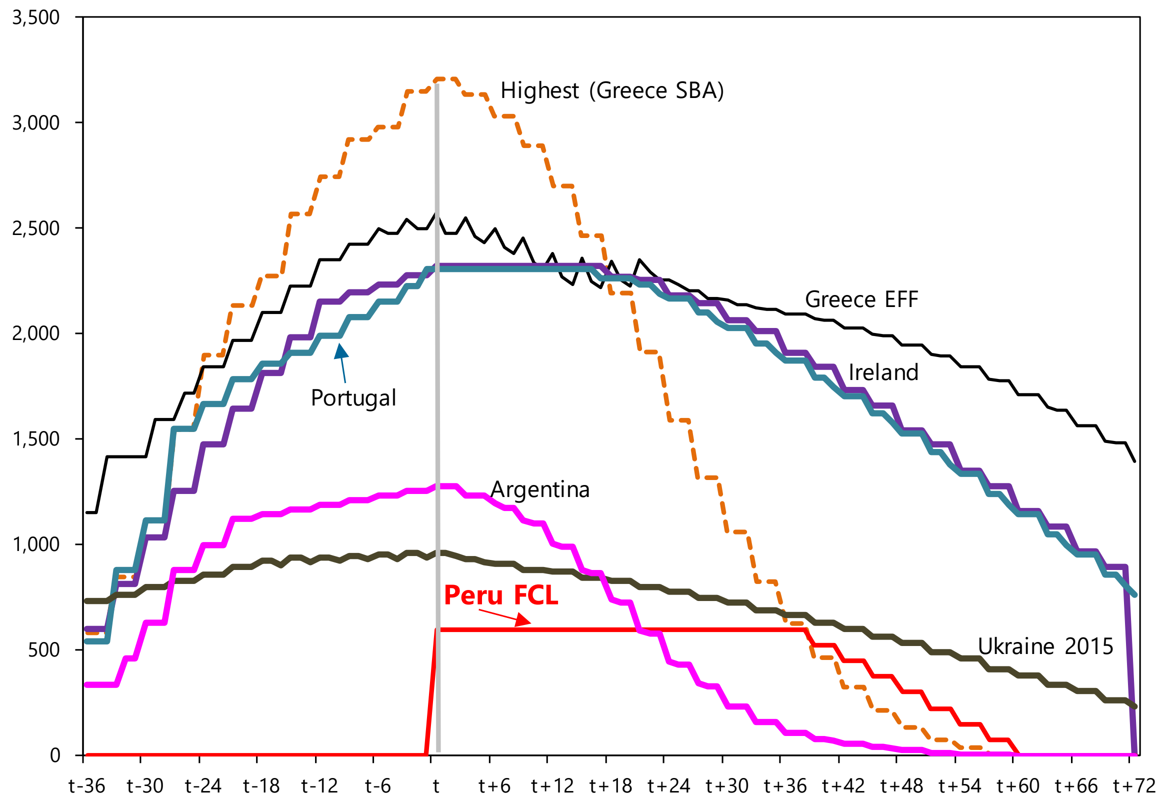
2/ Asterisks indicate PRGT-eligible countries at the time of the program. In Panel F, Georgia's debt service to the Fund includes one from PRGF loan.

3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

Figure 3. Projected Fund Credit Outstanding in the GRA around Peak Borrowing 1/

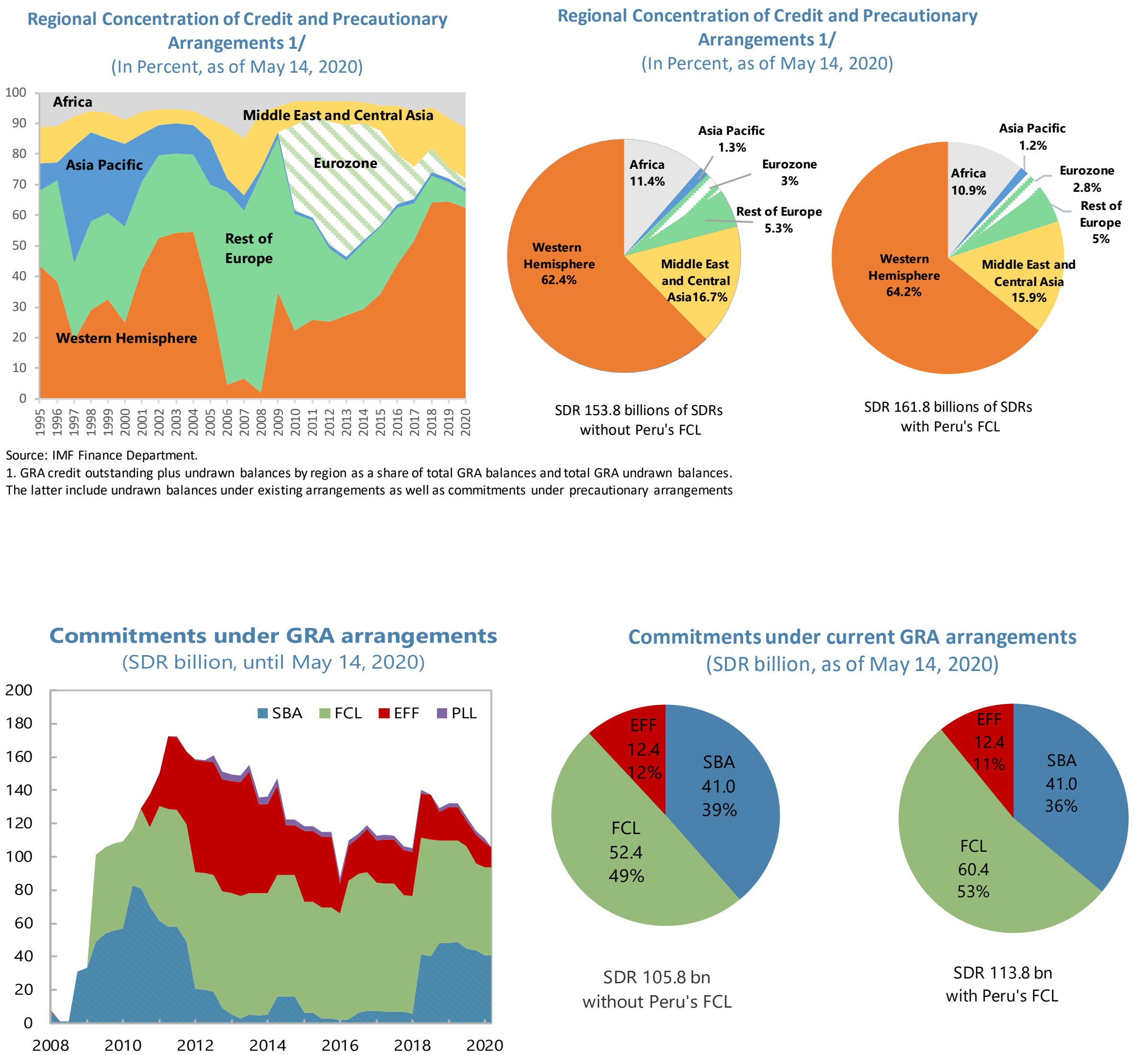
(In percent of quota)



Sources: Finance Department and IMF staff estimates.

1/ t represents the time when outstanding credit to the Fund is at its peak. Time is expressed in months. For illustrative purposes it is assumed that Peru's FCL is fully drawn down at the time of Board approval.

Figure 4. IMF Lending Concentration—By Region and by Lending Instrument



Source: IMF Finance Department.

1. GRA credit outstanding plus undrawn balances by region as a share of total GRA balances and total GRA undrawn balances. The latter include undrawn balances under existing arrangements as well as commitments under precautionary arrangements

Source: IMF Finance Department

Annex I. History of Peru's Arrangements with the IMF

This annex provides a brief overview of Peru's Fund arrangements from 1984 to present[1].

1. **Peru has a strong track record, built over nearly three decades, of meeting its obligations to the Fund under past Fund arrangements**. Peru had several Fund arrangements in the 1980s and 1990s and fully repaid its remaining outstanding credit in 2007 (Table I.1). Although Peru ran arrears to the IMF in 1985, as the country unilaterally imposed a ceiling on external debt payments equivalent to 10 percent of foreign exchange earnings[2], these arrears were cleared in 1993.[3]

2. **From 1984 to March 1999, Peru had one Stand-By Arrangement (SBA) and two arrangements under the Extended Fund Facility (EFF)**:

3. In March 1993, the Fund approved extended arrangement under the EFF equivalent to SDR 1.0 billion (218 percent of quota) to carry out macroeconomic adjustment and structural reform aimed at sharply reducing inflation and creating the conditions for sustained economic growth and a progressive return to external viability. Under that arrangement, Peru made purchases totaling SDR 0.6 billion, and its outstanding credit stood at SDR 642.7 million (138 percent of quota) at end-1993. Peru made repurchases after 1997 on time. Performance under this program was impressive: during 1993–95, output growth averaged 8.5 percent a year, inflation was reduced to 10 percent during 1995, and the net international reserves position of the Central Reserve Bank improved significantly.

- In July 1996, an EFF equivalent to SDR 0.3 billion was approved to support the Government's medium-term economic and reform program during the period 1996–98. Solid performance under the program supported by this EFF allowed Peru to fully repay all its outstanding obligations to the Fund.

4. **Since June 1999, Peru has had one EFF and four Stand-By Arrangements but made no drawings.**

- June 24, 1999: approval of a two-year EFF arrangement equivalent to SDR 383 million to support Peru's economic policies and structural reforms.

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[1] The first IMF arrangement for Peru was approved on February 18th, 1954. This appendix focuses on the most recent arrangements.

[2] Following a series of natural disasters, falling export prices, and the international debt crisis of the early 1980s, Peru faced a severe balance of payment crisis.

[3] Peru was part of the Rights Accumulation Program (RAP) in 1991–1993. Under this program, a member country with long overdue obligations to the IMF, while still in arrears, accumulates "rights" toward a future disbursement from the IMF on the basis of a sustained performance under an IMF-monitored adjustment program. Japan and the United States provided a bridge loan to Peru in March 1993 to settle its arrears to the IMF. Once these were cleared, the amounts accumulated under the RAP were disbursed upon approval of an Extended Fund Facility arrangement (1993–96) and served to repay the bridge loan from Japan and the United States.

- March 12, 2001: approval of a Stand-By Arrangement equivalent to SDR 128 million.
- February 1, 2002: approval of a two-year Stand-By Arrangement with access increased to SDR 255 million.
- June 9, 2004: approval of a two-year Stand-By Arrangement for an access of SDR 287 million.
- January 26, 2007: approval of a two-year Stand-By Arrangement for an access of SDR 172 million.

Annex Table I.1 Peru: IMF Financial Arrangements, 1984–2020

(In millions of SDR)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Purchase	Repurchases	Fund Exposure 1/
1984	Standby Arrangement	26-Apr-84	24-Apr-85	250	30	30	52.0	688.3
1985						0	49.3	639.0
1986						0	43.5	595.5
1987						0	0.1	595.4
1988						0	0.0	595.4
1989						0	18.4	577.0
1990						0	46.5	530.5
1991						0	37.0	493.4
1992						0	34.7	458.7
1993	Extended Fund Facility	18-Mar-93	17-Mar-96	1,018	643	643	458.7	642.7
1994						0	0.0	642.7
1995						0	0.0	642.7
1996	Extended Fund Facility	1-Jul-96	31-Mar-99	300	161	0	0.0	642.7
1997						161	53.6	749.6
1998						0	107.1	642.5
1999	Extended Fund Facility	24-Jun-99	6-Feb-01	383	0	0	107.1	535.4
2000						0	107.1	428.3
2001	Standby Arrangement	12-Mar-01	18-Jan-02	128	0	0	120.5	307.8
2002	Standby Arrangement	1-Feb-02	29-Feb-04	255	0	0	133.9	173.9
2003						0	80.3	93.6
2004	Standby Arrangement	9-Jun-04	16-Aug-06	287	0	0	26.8	66.9
2005						0	26.8	40.1
2006						0	26.8	13.4
2007	Standby Arrangement	26-Jan-07	28-Feb-09	172	0	0	13.4	0

Source: Finance Department.
1/ As of end-December.

Statement by Mr. Chodos and Mr. Morales on Peru
May 28, 2020

On behalf of the Peruvian authorities, we would like to thank staff for the comprehensive assessment of our request for a Flexible Credit Line (FCL) arrangement. We also reiterate the authorities' appreciation to Directors for their positive words, useful suggestions, and commendation of our very strong policy framework. Once again. we confirm our strong commitment to preserve macroeconomic stability and pursue sustainable and inclusive growth.

As was discussed at the time of the Article IV consultation, Peru's very strong macroeconomic policy framework has been successful in allowing for a long period of high growth rates, single-digit inflation, and declining poverty. Our monetary policy has successfully kept inflation on target, with inflation volatility at levels comparable with advanced economies, while maintaining exchange rate flexibility as an appropriate shock absorber for a small open economy like Peru, still reliant on commodity exports. Moreover, Peru has made substantial inroads in mitigating key vulnerabilities by reversing dollarization, strengthening financial soundness, and increasing financial intermediation. Peru's sound fiscal position, low debt, large external buffers and robust financial sector had brought the economy to an expectant position to relaunch growth-supportive policies before the Covid-19 pandemic hit.

We are relying on the strengths of our macroeconomic policy framework to overcome the challenges posed by the Covid-19 pandemic. The world is suffering a rupture in its economic fabric due to the pandemic, with a pervasive impact on the normal functioning of our social systems. Peru is not an exception, and for this reason, our government reacted early by putting in place a comprehensive plan to contain the damage to our health and economic systems. In the first stage, the main objectives were to enhance the capacity of our health systems to respond to the rising demands due to the pandemic, to provide temporary economic support to households and firms, and to prevent major disruptions in payment chains.

Emergency health assistance covered not only our health institutions but also the education sector and public transportation. Economic support to the vulnerable population has rapidly expanded to include our large informal sector and households in remote areas. Delays in tax obligations, temporary tariff reductions for health-related imports, payroll subsidies, allowances to use part of social security funds, and the provision of government-guaranteed credit have all helped to mitigate the unavoidable decline in economic activity. However, the mobilization of the population in a country with complex geography and high informality like Peru has conspired against further progress in containing the propagation of the virus, with more than 100 thousand cases and three thousand deaths as of last weekend despite significant efforts in ramping up testing for more selective interventions. The government has extended the state of emergency until the end of June, with stricter rules for more affected regions, accompanied by measures to gradually reopen some businesses within a comprehensive plan for a gradual normalization of economic activity.

Our fiscal rule has been suspended for the period 2020-21 because of the emergency. However, we have maintained market access, being able to issue sovereign bonds for US$3 billion at very favorable terms with eight times oversubscription at the time of issuance. Our government bond yields in secondary markets have remained broadly stable and credit rating agencies have confirmed their investment grade rating assessments. Even after additional external borrowing, our public debt remains low, mostly held by private creditors. The central bank cut the policy rate by 200 basis points to a record low 0.25 percent to counter the impact of the Covid-19 pandemic, among the lowest rate within emerging markets. Reserve requirements were lowered for domestic and foreign currency liabilities and repo maturities were extended, expanding the list of acceptable collateral. Central bank swap auctions have helped contain exchange rate volatility. In addition, the central bank has provided liquidity to the new government-guaranteed credit line through loan-portfolio repos at a rate determined through an auction, currently slightly above one percent on average. The superintendency of banks has allowed modifications in loan terms for companies affected by the pandemic without modifying the loan classification.

Despite these efforts, the economy is still operating at 44 percent of its capacity because of containment measures internally and worldwide. We plan to continue implementing timely and well-targeted measures consistent with the aims of the second stage of our emergency economic plan, to avoid a long-lasting impact on our growth prospects with the view to facilitate a fast economic recovery once the crisis subsides. To ensure an appropriate use of resources, we will include an assessment of the fiscal impact of Covid-19 at the time of the publication of our Fiscal Responsibility Report. Also, the government has authorized additional resources to the Comptrollers Office, who is now conducting early concurrent assessments of the delivery of new expenditures and government services associated with the national emergency. More generally, the government is continuously assessing improvements to their public financial management framework for a more transparent and efficient budget process, and upgrades to revenue administration practices with the view to enhance revenue mobilization and prevent leakages. Our Anti-Corruption Plan 2018-2021 is fully in place, with our network of “integrity offices” in line ministries ensuring its implementation through strengthening internal controls, compiling relevant information regarding possible unethical conduct by public officials, and following up on complaints. In addition, our Council for Judicial Reform established in 2019 continues coordinating and monitoring judiciary reform initiatives.

For the medium term, we maintain our commitment to improve revenue mobilization and the budget process, and we remain committed to allow the exchange rate to be determined by fundamentals, keeping foreign exchange interventions circumscribed to periods of disorderly market conditions. We plan to upgrade our Banking Law to incorporate provisions for consolidated supervision and enhance our anti-money laundering framework. On structural reforms, the authorities will accelerate the implementation of our National Plan of Competitiveness and Productivity as the crisis recedes, to guide policies to promote strengthening of our human capital, faster technological innovation, integration of informal workers and firms into the formal economy, and upgrading of the business environment; as well as the implementation of our National Infrastructure Plan for Competitiveness aiming at narrowing our infrastructure gap by allowing better planning and monitoring of projects at different government levels.

My authorities intend to treat the two-year FCL with access of 600 percent of quota as precautionary. We believe that this arrangement will help maintain investors' confidence by providing insurance against extreme tail risks. Going forward, a gradual normalization of global conditions would make it appropriate to lower the access size at the time of the mid-term review, as part of a gradual exit strategy, conditional on the evolution of external risks. In this way, the FCL would have fulfilled its intended purpose to complement the strengths of Peru's economic policy framework to preserve confidence in the economy during uncertain times.