



# PERU

June 2021

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

In the context of the Review Under the Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- 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 27, 2021, following discussions 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 18, 2021.
- A **Statement by the Executive Director** for Peru.

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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**Washington, D.C.**



## IMF Executive Board Completes Review of Peru's Performance Under the Flexible Credit Line Arrangement

FOR IMMEDIATE RELEASE

**Washington, DC – May 27, 2021:** The Executive Board of the International Monetary Fund (IMF) completed today the mid-term review of Peru's qualification under the Flexible Credit Line (FCL) arrangement. The Executive Board reaffirmed that Peru's very strong macroeconomic policies and institutional policy frameworks, sound economic fundamentals, and track record continue to warrant access to FCL resources.

The two-year arrangement was approved on May 28, 2020 for an amount of SDR 8.007 billion (about US\$11 billion or 600 percent of quota). The Peruvian authorities have reiterated their intention to treat the arrangement as precautionary.

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 with no ongoing conditions 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, Mr. Mitsuhiro Furusawa, Deputy Managing Director, made the following statement:

"Peru's very strong macroeconomic policies and institutional policy frameworks and solid track record of prudent policy settings have underpinned strong growth and stability over the past several years and helped the country navigate the challenges posed by the COVID-19 pandemic. A sound inflation-targeting regime, a credible fiscal framework and low public debt, and sound financial sector supervision and regulation have allowed the country to deploy a robust policy response to mitigate the socio-economic impact of the pandemic while maintaining strong access to international capital markets.

"Following the worst economic contraction in 30 years, economic activity is expected to rebound this year as COVID-19 vaccines are rolled-out, and the pandemic is gradually brought under control. Nevertheless, the economic outlook remains highly uncertain. Despite the rapid recovery in some large economies, and improved commodity prices, external risks remain elevated. The Flexible Credit Line (FCL) arrangement, along with sizable international reserves, low public debt, anchored inflation, and a sound financial system have provided the authorities with valuable insurance in a period of unprecedented uncertainty and volatility.

"The FCL will continue to play an important role in supporting the authorities' macroeconomic strategy, by sustaining market confidence and providing a valuable buffer against tail risks. The authorities intend to continue to treat the arrangement as precautionary and to phase out its use as external conditions allow. An appropriate communication strategy will be important to prepare markets for this step."



# PERU

## REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

May 18, 2021

### EXECUTIVE SUMMARY

**Context.** Peru's very strong macroeconomic policies and institutional policy frameworks have helped anchor strong growth and stability over the past several years and navigate the challenges posed by the COVID-19 pandemic. The confluence of a sound inflation-targeting regime, flexible exchange rate, credible fiscal framework, reflected in very low public debt, and sound financial sector supervision and regulation have allowed the country to deploy a robust policy response to mitigate the socio-economic impact of the pandemic while sustaining strong access to international capital markets. Following the worst economic contraction in 30 years, economic activity is expected to rebound this year as COVID-19 vaccines are rolled out, and the pandemic is gradually brought under control. Real GDP is expected to return to its pre-pandemic level by 2022, supported by improved terms-of-trade and a pick-up in domestic demand. The second round of presidential elections is scheduled for June 6.

**Risks.** The economic outlook remains highly uncertain. Despite the rapid recovery in some large economies, including due to progress with vaccinations, and improved commodity prices, external risks remain elevated and higher than pre-pandemic levels. Setbacks in the evolution of the pandemic, a sharp rise in global risk premia that portends a tightening of financial conditions and access to international capital markets, and volatility in commodity prices are the main sources of downside risk.

**Flexible Credit Line (FCL).** The Executive Board approved a two-year FCL arrangement of SDR 8.007 billion (about US\$11 billion or 600 percent of quota) on May 28, 2020. The FCL arrangement has provided Peru with a substantial buffer while helping anchor market confidence. The authorities expect to continue to treat the FCL as precautionary. Given the elevated global risks arising from the COVID-19 shock and heightened uncertainty, the authorities have expressed a desire to maintain the current level of access. In line with the strategy delineated at the time of the FCL approval, exit from the arrangement will be conditional on the evolution of external risks.

**Qualification.** Staff assesses that Peru continues to meet the qualification criteria for access to FCL resources and recommends that the Board complete this review, which would allow Peru to make purchases until the expiration of the FCL arrangement on May 27, 2022.

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## CONTEXT

1. **Peru's track record of very strong macroeconomic policies and institutional policy frameworks has served it well.** The successful inflation-targeting regime, the flexible exchange rate, a credible fiscal framework, reflected in the low level of public debt, and sound financial sector supervision and regulation have enabled strong growth over the past 15 years, including across multiple electoral cycles and governments. More recently, the very strong policy frameworks and sizable macroeconomic buffers have allowed the country to deploy a robust policy response to mitigate the socio-economic impact of the COVID-19 pandemic and sustain ample access to international capital markets.
2. **Peru has been hit hard by the COVID-19 pandemic.** As noted in the 2021 Article IV consultation staff report ([IMF Country Report 21/63](#)), the pandemic has taken a heavy toll on lives, and economic activity. The official death toll currently exceeds 64,000, and the death rate is amongst the highest in Latin America. Output contracted by 11.1 percent last year, and despite an expected recovery this year, real GDP would return to its pre-pandemic level only by end-2022. The unemployment rate in the Lima Metropolitan region more than doubled in 2020, rising to 13.0 percent from 6.6 percent in 2019, labor market participation fell, and informality increased from already high levels.<sup>1</sup> Despite a large policy response, poverty is estimated to have increased to 27.5 percent in 2020, up from 21.7 percent in 2019.<sup>2</sup> The crisis is likely to leave significant scars in the medium term, and risks to the outlook remain elevated and tilted to the downside.
3. **Policy buffers are ample, and the FCL arrangement has provided added insurance against elevated external downside risks.** The external position strengthened in 2020, and the current account moved into a 0.5 percent of GDP surplus from a deficit of 1.7 percent of GDP in 2019. Substantial foreign borrowing by the public sector in 2020 (US\$7 billion) offset plummeting FDI inflows (down 67 percent), and gross international reserves rose US\$6.5 billion to US\$74.9 billion (36.8 percent of GDP). Peru is a first-time FCL user, and the arrangement has played a key role in supporting the authorities' robust policy response to the COVID-19 pandemic by helping to preserve investor confidence and providing insurance against tail risks.<sup>3</sup>

## RECENT DEVELOPMENTS

4. **A second wave of COVID-19 contagions that began early in 2021 is slowly abating.** The 7-day average of new daily COVID-19 cases has fallen to about 5,000, after peaking at about 9,000 in mid-April. However, the infection levels are similar to those observed in the first wave of the epidemic and continue to stretch capacity in the health sector. Mobility restrictions introduced early in the year have been gradually lifted in some lower-risk areas (Figure 1). Peru has firm contracts for importing some 60 million doses of COVID-19 vaccines, which would cover most of the population

<sup>1</sup> The informal share of employment rose from 71.6 percent in 2019Q3 to 73.7 percent in 2020Q3.

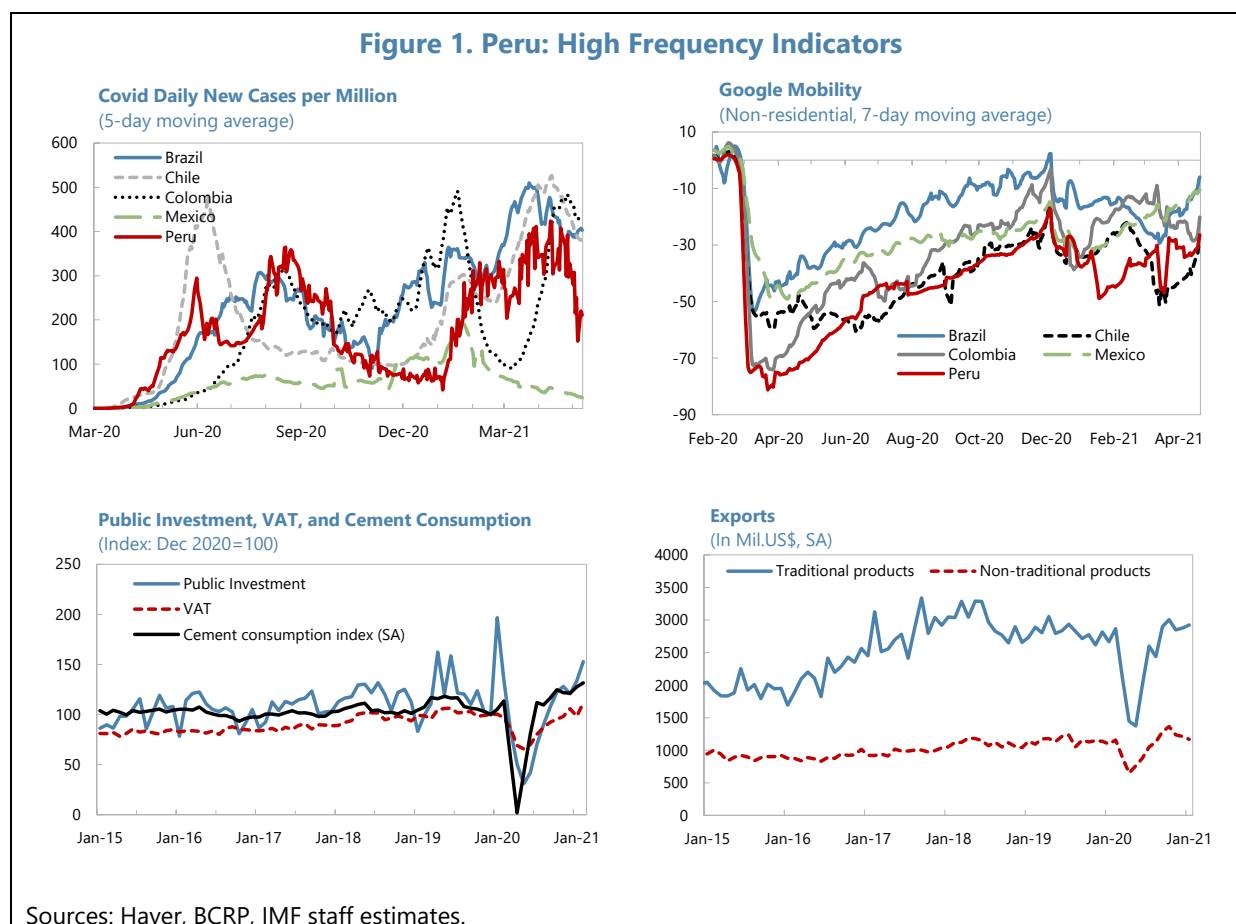
<sup>2</sup> According to the World Bank.

<sup>3</sup> Since the FCL request, the EMBI and 5-year CDS spreads for Peru have compressed by 82 bp and 20 bp, respectively.

(32 million) and is making progress in negotiating with several manufacturers to secure sufficient doses to immunize the entire population. About 754 thousand people had been fully vaccinated as of mid-May and the administration expects the population over 60 years of age to be vaccinated before June, with most of the adult population vaccinated in the second half of the year (reflecting higher expected vaccine availability).

### 5. The latest round of mobility restrictions had a limited effect on economic activity.

Economic activity fell 2.1 percent m/m (sa) in February 2021 (down 4.2 percent y/y), pointing to some upside risk to staff's forecast of a 5.7 percent decline in Q1. High-frequency indicators point to sustained momentum in public investment, cement consumption, and VAT revenues in March. Both traditional and non-traditional exports continued to recover through early 2021, supported by higher commodity prices.<sup>4</sup> However, the labor market continues to underperform: the unemployment rate jumped to 14.5 percent in February, and employment in Lima remains 12.0 percent below pre-pandemic levels.<sup>5</sup> Both headline and core inflation have remained within the central bank's target range. The exchange rate has depreciated by 2.1 percent year-to-date, with interventions by the central bank stabilizing recent volatility. International reserves rose by US\$2.4 billion to US\$77.1 billion in April 2021 from end-2020.



<sup>4</sup> Copper prices have increased about 70 percent since April 2020.

<sup>5</sup> Assuming participation rates at pre-COVID-19 levels, the shadow unemployment rate stood at 20.7 percent.

**6. The financial system remains sound, and pockets of vulnerability remain contained.**

Credit growth to the private sector has remained strong at 9.4 percent y/y in March—driven primarily by government-guaranteed lending in local currency under the *Reactiva Perú* program—while the dollarization ratio of credit to the private sector continues to decline (down to 20 percent in March from 26 percent a year earlier). As of end-2020, asset quality had deteriorated slightly, with NPLs increasing to 4.2 percent (up from 3.4 percent in end-2019), and profitability also declined with the ROE falling to 3.1 percent (from 17.9 percent in end-2019). Asset quality is expected to continue to deteriorate as default rates rise in the cooperative and microfinance sectors, which represent approximately 7 percent of total system assets. Top-down stress tests conducted at the time of the 2018 FSAP<sup>6</sup> point to a resilient financial system and limited solvency problems even under adverse scenarios.<sup>7</sup>

**7. The second round of the presidential elections is scheduled for June 6, 2021.** A new Congress was elected on April 11,<sup>8</sup> and Mr. Pedro Castillo and Mrs. Keiko Fujimori moved to the runoff, since neither secured the required 50 percent of the vote in the first round. The latest vote intention surveys point to a very tight race between the two candidates. Financial market volatility has increased ahead of the elections but appears to be contained. Both candidates have expressed in public statements their commitment to the very strong policies and institutional frameworks that currently underpin the FCL arrangement. This commitment has been confirmed in separate discussions with their economic teams.

## OUTLOOK, RISKS, AND POLICY SETTINGS

**8. Economic activity is expected to rebound in 2021.** Under the assumption that Peru will vaccinate 75 percent of its population by January 2022, staff projects output will increase by 8½ percent this year, and 5.2 percent next year. Real GDP growth is projected to converge to 3¼ percent over the medium-term.<sup>9</sup> However, real GDP would be 9 percent below pre-pandemic projections by the end of the forecast horizon, reflecting scarring related to firm closures, the permanent loss of dislocated workers, reduced human capital accumulation, and foregone investment. Slack in the labor market would take time to absorb and a large negative output gap in 2021–22 would keep inflation within the target range of 2 +/- 1 percent. Over the medium-term, the current account would gradually move into a deficit of 1.6 percent of GDP, with international reserves remaining at comfortably high levels.

<sup>6</sup> The sources of shocks for the baseline and adverse scenarios in the stress tests (GDP growth slowdown, tightening of global financial conditions and depreciation of the currency) remain relevant in today's circumstances.

<sup>7</sup> The authorities' 2020 round of stress tests confirmed the assessment.

<sup>8</sup> Ten parties will be seating in the new Congress that will be inaugurated on July 27. No single party will hold the majority.

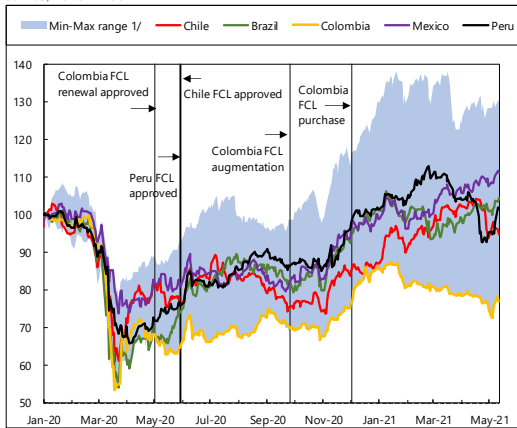
<sup>9</sup> While recent data releases have surprised to the upside, the latest wave of COVID-19 infections has been more protracted than anticipated at the time of the 2021 Article IV consultation, when staff expected the outbreak to resolve by end-March. Moreover, mobility restrictions were reintroduced in several regions in late April (including in Metropolitan Lima), and the vaccination campaign is off to a slow start suggesting downside risks to Q2.



**Figure 2. Peru: Financial Market Developments**

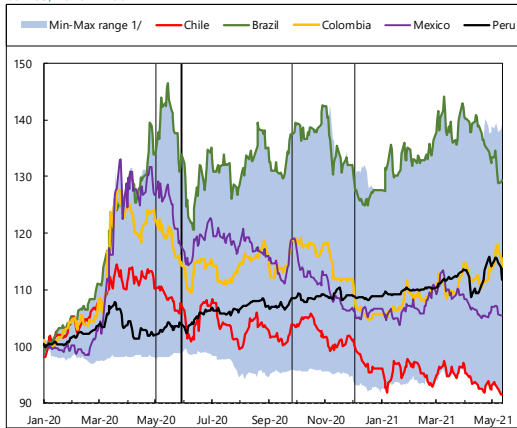
**Domestic Equity Indices 2/**

Jan 03, 2020 = 100



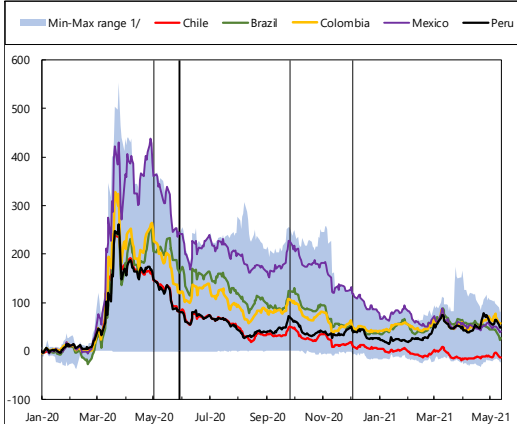
**Local Currency per US Dollar Indices**

Jan 03, 2020 = 100



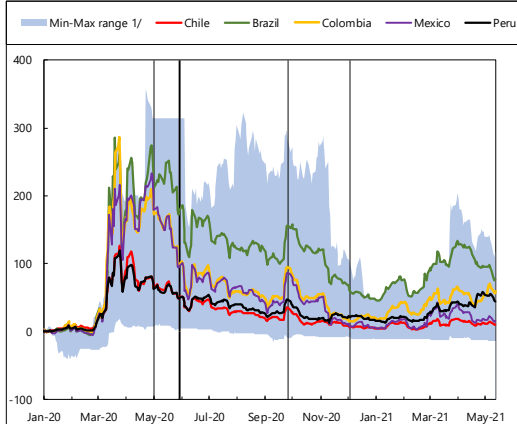
**EMBIG Spreads 3/**

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



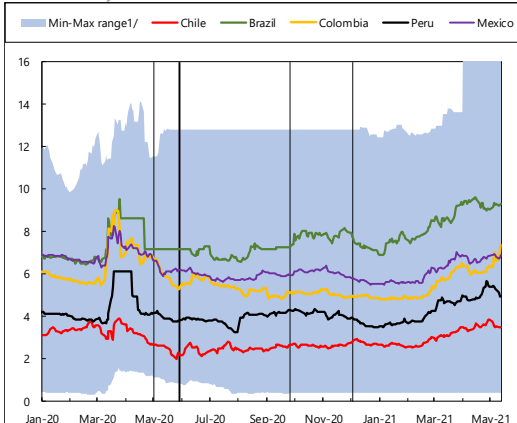
**CDS Spreads**

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



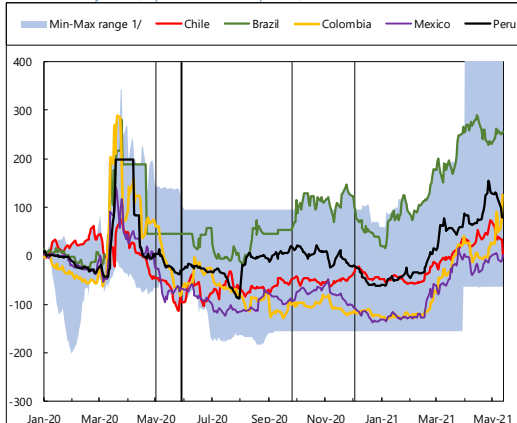
**Domestic Currency Sovereign Bond Yields 4/**

Yield to Maturity



**Domestic Currency Sovereign Bond Yields 4/**

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/ National benchmark share price indices.

3/ Mexico's EMBIG includes Sovereign and Quasi.

4/ 10 year government bond or closest available maturity.

**9. The outlook is highly uncertain, and risks remain elevated.** On the domestic front, containing the latest COVID-19 outbreak has been a challenge, which could be further compounded by the approaching cold weather seasons if the vaccination rollout is not accelerated. A new round of broader and stricter mobility restrictions could dampen economic activity in such a scenario. Further political uncertainty and social unrest could also weigh on private investment in the short-term. On the external front, setbacks in the evolution of the pandemic globally, a sharp rise in global risk premia that portends a tightening of financial conditions and access to international capital markets, volatility in commodity prices, and a global reversal in trade integration are the main sources of downside risk. Risks to the upside include a faster rollout of the vaccines, higher public investment, and stronger global growth.

**10. The external accounts remain highly vulnerable to external shocks.** While Peru's external environment has improved reflecting higher commodity prices since the second half of 2020, the external accounts are still vulnerable to global downside risks. Under the baseline scenario, the external economic stress index (ESI) would turn negative in the later part of the year—indicating risk levels above average—as commodity prices stabilize and the U.S. gradually tightens monetary policy. The stress levels would remain above pre-pandemic levels well into 2022 (Box1). Moreover, exports of non-mineral goods and services, especially tourism, are expected to lag behind global growth suggesting that the ESI could be understating the level of economic stress.<sup>10</sup> Under an adverse scenario of the ESI, a reversal of the recent commodity price gains, lower global growth, and increased emerging market volatility would result in high external economic stress.

**11. Fiscal policy support was significant in 2020, but as elaborated in the Article IV staff report, an additional stimulus is warranted in the short-term.** The fiscal deficit widened to 8.9 percent of GDP in 2020, which included the deployment of above-the-line measures in the amount of 5.1 percent of GDP. The overall deficit is expected to fall to 5 percent of GDP in 2021 as transitory relief measures are gradually phased out. The government announced a new set of measures in late January to address the second wave of the pandemic that amount to about 1.2 percent of GDP, including an additional round of cash transfers, higher health spending, and a new guaranteed-lending program to provide working capital loans to SMEs. In late March, Congress authorized a new round of extraordinary withdrawals from the private pension funds that could amount to about 4.7 percent of GDP, in addition to the 7.6 percent of GDP withdrawn from the funds last year.<sup>11</sup>

**12. Over the medium-term, higher revenue mobilization will be key to accommodate higher spending needs in key sectors and preserve the fiscal anchor.** Peru's tax intake (as a percent of GDP) is low relative to peers (see the Selected Issues Paper in the Staff Report of the 2019 Article IV Consultation).<sup>12</sup> At the same time, the pandemic has exposed additional budgetary pressures that will need to be addressed, including serious capacity bottlenecks in the public

<sup>10</sup> More than half of tourist arrivals in Peru come from other countries in Latin America, which has lagged advanced economies in the administration of vaccines.

<sup>11</sup> See Annexes III-V of the 2021 Article IV consultation staff report, [IMF Country Report 21/63](#).

<sup>12</sup> The authorities are still working on measures to close the 0.7 percent of GDP revenue gap over the medium-term identified at the time of the 2021 Article IV consultation.

healthcare system, shortages in the social safety net, the need for higher infrastructure investment, improving the quality of education, and facilitating sectoral reallocation and reducing informality to increase productivity. Moreover, continued withdrawals from the private pension funds are weakening the viability of the pension fund system and may create implicit liabilities for the state. Closing revenue gaps over the medium-term will allow the country to accommodate the higher spending needs and maintain fiscal sustainability. Going forward, continuing to anchor policy to a credible medium-term plan will help the authorities navigate through the unprecedented levels of uncertainty.

**13. Guided by the inflation targeting framework, monetary policy remains appropriately expansionary, given the large negative output gap and anchored inflation expectations.** After reducing its benchmark interest rate by 2 percentage points to a historic low of 0.25 percent at the onset of the crisis, the central bank (*Banco Central de Reserva de Perú*, BCRP) has reiterated that supportive monetary conditions are likely to persist for a prolonged period. Other measures by the BCRP included the liquidity provision through guaranteed-credit repo operations with banks under the *Reactiva Perú* program, lowering reserve requirements, and extending the amount and maturity of repo operations, and the introduction of new security repos conditional on the expansion of long-term lending. Inflation expectations remain anchored at the mid-point of the target range.

**14. In the medium-term, greater exchange rate flexibility would increase economic resilience.** Peru's multi-instrument policy framework with a strong focus on the exchange rate and financial stability has served the country well. The level of the exchange rate is market-determined, although the central bank's FX interventions (FXI) on both sides of the market have kept exchange rate volatility lower than in peer countries. Over the medium term, as currency mismatches decline further, additional exchange rate flexibility would help foster the development of hedging instruments, strengthen the transmission of monetary policy, and further reduce dollarization by inducing agents to internalize exchange rate risk.

**15. Macroprudential policies have been properly eased and closing key regulatory and supervisory gaps will boost financial sector strength.** The authorities have relaxed several macroprudential measures—including reducing the countercyclical capital buffer for financial institution—extended the grace period for loans issued under *Reactiva Perú* and permitted loan restructurings. Nonetheless, careful monitoring is required as default rates are likely to rise among corporates as pandemic-related support is withdrawn. As the economy recovers, macroprudential policies could initiate a gradual return to normal conditions, encouraging banks to focus on borrowers' viability, funding viable but illiquid firms and allowing for a resolution of unviable enterprises. Areas for further progress include implementing requirements for recovery and resolution planning for domestic systemically important banks and financial groups, reinforcing the legal protection of supervisors, and bringing some regulations in line with Basel III, including those regarding risk weights for foreign currency loans and capital surcharges for systemic banks.

**16. The FCL complements Peru's very strong policy frameworks, reinforces external buffers and provides insurance against elevated risks.** Given continued risks and high uncertainty (Box 1), the authorities are not requesting a reduction in access at this time. Going forward, the

authorities intend to continue treating the FCL arrangement as precautionary and temporary, providing insurance against a wider range of adverse external shocks, and supporting their macroeconomic strategy by helping to preserve investor confidence. In line with the strategy delineated at the time of the 2020 FCL approval, exit from the arrangement will be contingent on the evolution of external risks.

### Box 1. Update of the External Economic Stress Index

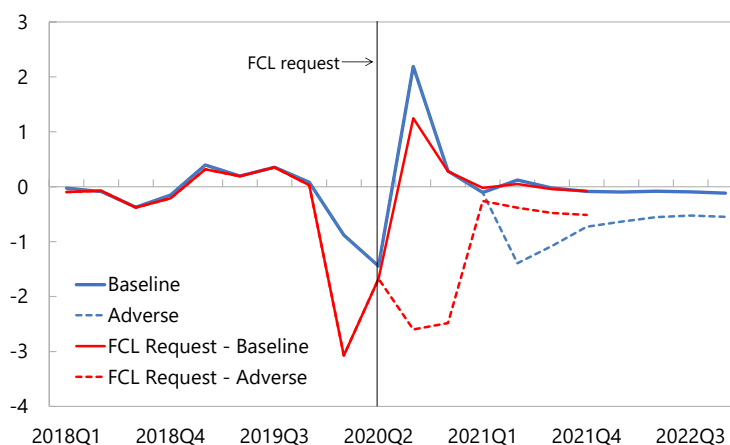
**The External Economic Stress Index (ESI) for Peru was initially introduced at the time of the FCL request in May 2020 (Country Report No. 20/181).** The index is based on four variables that capture the main sources of external risk for Peru: (i) the growth rate of a weighted average of copper and gold prices (a proxy for mineral exports and FDI), (ii) the world GDP growth rate (a proxy for the demand of 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, and the weights are estimated using the relevant BOP and IIP data, all expressed as shares of GDP. The weights (unchanged from the previous estimates) are as follows: 0.35 for commodity prices, 0.16 for world GDP, -0.22 for the VXEEM, and -0.17 for the U.S. Treasury rate.

**While the ESI was positively affected by favorable commodity prices and the global growth rebound in late 2020, it is expected to turn negative over the next 12 months in the baseline scenario.** The

scenario reflects the WEO projections of world GDP growth, commodity prices, and U.S. interest rates, and assumes the VXEEM gradually converges to its long-term average. It should be noted that while the ESI takes global growth as a proxy for the demand for Peru's exports of non-mineral goods and services, the nature of the COVID-19 shock implies that demand for some of Peru's exports such as those related to the tourism sector, will continue to lag behind. Therefore, in its current design, the ESI likely understates the level of external economic stress.

#### External Economic Stress Index

(Negative values = above average stress)



Sources: Country authorities; and IMF staff estimates.

**The adverse scenario is broadly consistent with the realization of downside global risks relevant for Peru.** Following the downside scenario presented in the April 2021 WEO, global GDP is assumed to be 1.5 percentage points below the baseline in 2021, and 2.5 percentage points below the baseline in 2022. The commodity price gains from 2020Q3 through 2021Q1 are assumed to be reversed, and the weighted average of copper and gold prices is assumed to stabilize around the levels observed in 2019. Emerging market volatility is assumed to remain about 2 standard deviations above the baseline, while U.S. interest rates are assumed to increase 5 basis points (bp) every quarter starting in 2021Q2, compared to 2021Q3 under the baseline. Overall, the ESI in the adverse scenario is calculated to be at -0.8, compared to -0.1 under the baseline, and to -0.7 during the GFC.

## REVIEW OF QUALIFICATION CRITERIA

**17. In staff's assessment, Peru continues to meet the qualification criteria for an FCL arrangement.** Fiscal policy has been guided by the Fiscal Responsibility and Transparency Law, which sets ceilings on the fiscal deficit and public debt, and anchors policy settings around a well-defined medium-term fiscal framework.<sup>13</sup> Monetary policy is anchored by a credible inflation targeting framework supported by a floating exchange rate regime. Financial system oversight is effective and based on a sound supervisory and regulatory framework. In staff's assessment, Peru met all relevant core indicators for qualification:

- *Sustainable external position.* Peru's latest External Sector Assessment characterizes the external position as moderately stronger than the level implied by medium-term fundamentals and desirable policy settings. However, the unprecedented circumstances witnessed in 2020 imply that the uncertainty around the estimates underpinning the assessment is very high (see Annex VI of the 2021 Article IV Staff Report). Policy gaps (1 percent of GDP) account for over two-thirds of the current account gap (1.4 percent of GDP), reflecting Peru's stronger fiscal balances compared to the rest of the world. The central bank continues to intervene in the foreign exchange market to smooth excessive volatility, without targeting a specific level of the exchange rate. The external debt sustainability analysis (Annex I) shows that despite increasing in 2020 to 43.1 percent of GDP, Peru's external debt is still relatively low compared to peers and is expected to decline over the medium term to about 30 percent of GDP. Net foreign assets are projected to stabilize at around 37 percent of GDP over the medium term.
- *Capital account position dominated by private flows.* The share of public debt in Peru's total external debt averaged 36 percent over the past three years, and the bulk of external debt is owed to private creditors. FDI and other private inflows (debt-creating and non-debt-creating) are normally large relative to overall balance of payments inflows, although the year 2020 was an outlier. Public sector flows accounted for about 23 percent of total flows on average for the period 2017-19 and rose to about 54 percent in 2020.<sup>14</sup>
- *Track record of steady sovereign access to international capital markets at favorable terms.* Spreads on Peru's sovereign debt have historically been among the lowest in Latin America. The EMBIG spread over U.S. Treasury Bonds averaged 148 bp in 2018, 129 bp in 2019, and 173 bp in 2020. The average sovereign spread through end-April stood at 150 bp.<sup>15</sup> Peru has successfully

<sup>13</sup> The set of fiscal rules encompasses a ceiling of 1 percent of GDP for the overall deficit for the Non-Financial Public Sector (NFPS), a ceiling on the debt-to-GDP ratio of 30 percent, and ceilings on non-interest and current spending. Other institutional arrangements guide the budget execution at the regional and local levels. While the fiscal rules were suspended during 2020-21 to tackle the COVID-19 pandemic, the authorities have indicated their intention to reinstate them in 2022. Under the authorities' projections, the 1 percent-of-GDP fiscal deficit target would be met in 2026. Staff has advised the authorities that the available fiscal space allows for a more gradual return to the targets (see [IMF Country Report 21/63](#)).

<sup>14</sup> Total public sector flows are calculated as the sum of the absolute value of general government and the BCRP's short-term portfolio, medium-term loans and other transactions (of T-bills). Total flows are calculated as the sum of absolute values of FDI, portfolio and other asset and liability flows. Reserve flows are excluded.

<sup>15</sup> 5-year CDS spreads averaged 80 bp in 2018, 59 bp in 2019, 76 bp in 2020 and 69 bp through April 2021.

placed sovereign bonds on international markets at favorable terms (US\$2.4 billion in 2017, US\$1.8 billion in 2018, US\$1.9 billion in 2019, and US\$7 billion in 2020, including US\$1 billion in century bonds).<sup>16</sup> At \$5 billion, the latest global issuance in March 2021 covers over 40 percent of the nonfinancial public sector financing requirements. The three major credit rating agencies continue to assign an investment grade rating to Peru (the second highest-rated sovereign in Latin America behind Chile).<sup>17</sup> In staff's assessment, Peru did not lose market access at any point during the last 12 months.

- *Comfortable reserve position.* Gross international reserves reached US\$74.9 billion at end-2020, up from US\$68.4 billion at end-2019, levels that well exceed standard reserve adequacy metrics and compare favorably to peers (Figure 5). After adjusting reserves for FX deposits of the government and commercial banks<sup>18</sup> and augmenting the ARA metric to account for the volatility of Peru's commodity exports,<sup>19</sup> the reserves to ARA metric ratio comes to 189 percent for 2020, and to 136 percent for the average of the past five years.
- *Sound public finances and sustainable public debt.* The fiscal position remains strong, notwithstanding the large policy support deployed in 2020. The public debt sustainability analysis (DSA) indicates that Peru's public debt is expected to remain sustainable with high probability given the projected recovery of the economy in the medium term, and a gradual withdrawal of the fiscal impulse deployed to attend the COVID-19 health emergency (see Figures 1–5, and Annex VIII of the [IMF Country Report No. 21/63](#)). Under staff's baseline scenario, the public debt-to-GDP ratio is forecast to stabilize at about 38 percent of GDP over the medium term. Gross financing needs are expected to average about 5 percent of GDP over the forecast horizon. An elevated share of public debt held by non-residents stands out as the main debt profile risk, along with moderate external financing requirements risks.
- *Low and stable inflation in the context of a sound monetary and exchange rate policy framework.* Peru has maintained low (single-digit) and stable inflation since the introduction of the inflation-targeting framework in 2002. Inflation remains well within the BCRP's target band, including during the past three years, and inflation expectations are well-anchored, with one-year ahead expected inflation remaining at 2.3 percent.

<sup>16</sup> Cumulative issuance during 2018–20 is equivalent to about 570 percent of Peru's IMF quota.

<sup>17</sup> Moody's and S&P qualify the outlook for the credit rating as stable. Fitch downgraded the outlook to negative on concerns over political instability, stalling progress on reforms, and curbing economic growth on December 2020. On March 2021, Moody's upgraded the outlook on Peru's banking sector from negative to stable. Peru's credit rating sits comfortably above speculative grade: 1 full grade (3 notches) in the case of Moody's, and two notches above in the case of S&P and Fitch.

<sup>18</sup> 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.

<sup>19</sup> Consistent with guidance on assessing reserve adequacy for commodity 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.

- *Sound financial system and absence of solvency problems that may threaten systemic stability.* Peru entered the crisis with a well-capitalized and profitable banking system, and average capital adequacy ratios remain above regulatory thresholds. Dollarization in the financial system has been decreasing. Furthermore, growth in NPLs has been limited, in part due to significant use of crisis-related loan forbearance measures.<sup>20</sup> The 2021 Article IV Consultation did not highlight significant solvency risks or recapitalization needs.
- *Effective financial sector supervision.* The authorities have taken significant steps to strengthen financial sector oversight, in line with the recommendations of the 2018 FSAP. The 2018 FSAP noted that the SBS had made significant progress in implementing the Basel regulatory reform agenda. While not yet fully equivalent to Basel III, the implemented capital and liquidity regulatory framework aims to achieve the same objectives with broadly equivalent overall capital levels. Reforms that have been fully or partially implemented include expanding financial co-operatives' oversight by SBS, monitoring banks' off-balance-sheet exposures, introducing new risk-monitoring tools, implementing risk-based supervision for all insurers, strengthening crisis preparedness and management, and enhancing the emergency liquidity assistance framework. Several measures are being prepared, in line with the FSAP recommendations, including higher capital surcharges for systemically important banks, enhanced supervision of financial groups, and requirements for recovery and resolution planning for domestic systemically important banks and financial groups.
- *Data transparency and integrity.* The overall quality of economic data continues to be high and adequate to conduct effective surveillance, and Peru remains in observance of the Special Data Dissemination Standards (SDSS).
- *Track record.* Peru has a sustained track record of implementing very strong macroeconomic policies, as acknowledged by Executive Board in the last Article IV Consultation (see [IMF Country Report No. 21/63](#)).

**18. The authorities have continued to make advances in institutional quality, despite the difficult circumstances unleashed by the COVID-19 pandemic.** They have made progress on strengthening governance and anti-corruption institutions, and the institutional reforms approved with the 2019 referendum have been implemented. Under the Anti-Corruption Plan (2018–21), the Offices of Institutional Integrity have been created in more than 200 public sector entities, a whistleblower complaint platform has been launched, and an integrity index by the Integrity Secretariat to focus on areas with higher corruption risks has been developed. The Comptroller's Office monitors emergency-related spending, identifies abuses, and regularly publishes its reports. Efforts to ensure the accuracy of beneficial ownership information of companies collected by the Revenue Authority (SUNAT) are ongoing. Several AML/CFT regulations have been issued to guide customer due diligence requirements for politically exposed persons. Asset declaration requirements cover high-level public officials and are made publicly available.

<sup>20</sup> As of November 2020, 28 percent of total loans had been modified, with the highest shares in consumer lending and lending to SMEs.

**19. Peru’s strong multi-instrument policy framework has allowed policymakers to respond effectively to large and severe shocks.** The country’s policy frameworks have shown consistency and resilience as exhibited during the 2014–16 commodity price downcycle, the natural disasters in the aftermath of a severe *El Niño* weather phenomenon in 2017, and the COVID-19 pandemic. Throughout, and despite bouts of political instability and fears of sharp policy reversals, policy buffers have remained ample, fiscal sustainability has not been undermined, and the financial system has remained strong. Moreover, the authorities remain committed to maintaining such policy frameworks in the future.

## SAFEGUARDS ASSESSMENT

**20. Staff has completed the safeguards procedures for Peru’s FCL arrangement.** KPMG Peru issued an unmodified (clean) audit opinion on BCRP’s financial statements for 2019. The annual financial statements are audited in accordance with international standards, include comprehensive disclosures and are published on a timely basis. Staff reviewed the 2019 audit results and held discussions with the BCRP and KPMG Peru. No significant issues emerged from the conduct of these procedures.

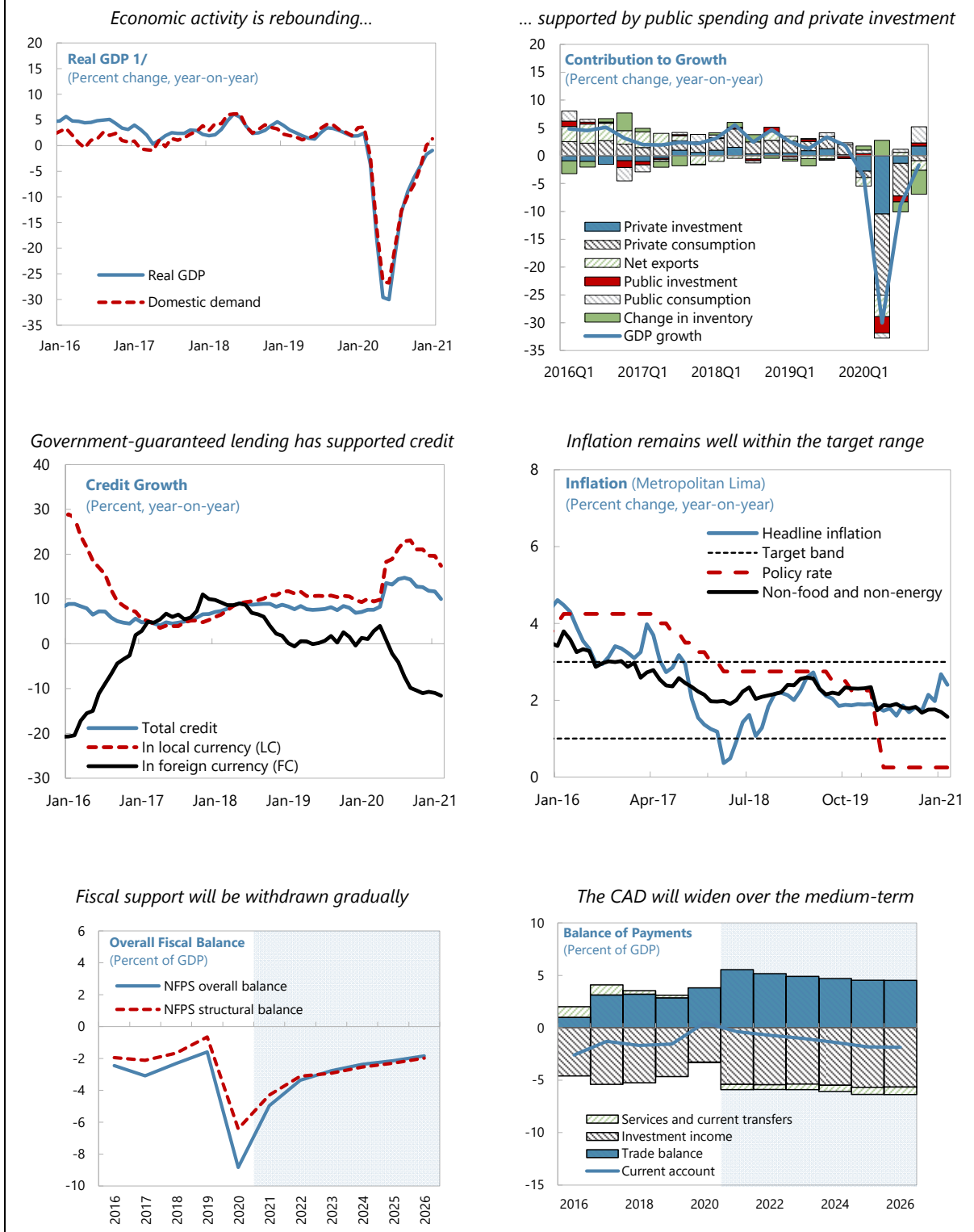
## STAFF APPRAISAL

**21. The FCL arrangement has supported the authorities’ policies in an unprecedented set of circumstances by providing a buffer against tail risks.** The arrangement, along with sizable international reserves, low public debt, anchored inflation, and a sound financial system have provided the authorities with valuable insurance in a period of unprecedented uncertainty and volatility. While the economic fallout of the pandemic has had a significant effect on economic activity, unemployment, and poverty, fiscal space and market access remain ample. The authorities have communicated that they expect to continue treating the FCL as precautionary. Given the elevated global risks arising from the COVID-19 shock and heightened uncertainty, the authorities are not requesting a reduction in access at this time.

**22. Staff’s assessment is that Peru continues to meet the qualification criteria for access to FCL resources.** As noted in the Executive Board’s assessment of the 2021 Article IV consultation, Peru has very strong macroeconomic policies and institutional policy frameworks. The authorities have a strong track record of prudent policy settings, and both candidates who will participate in the second round of the Presidential elections have expressed their broad commitment to maintaining very strong policies and institutional frameworks. Therefore, staff recommends completion of the review under the FCL arrangement for Peru as specified under the Executive Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended).



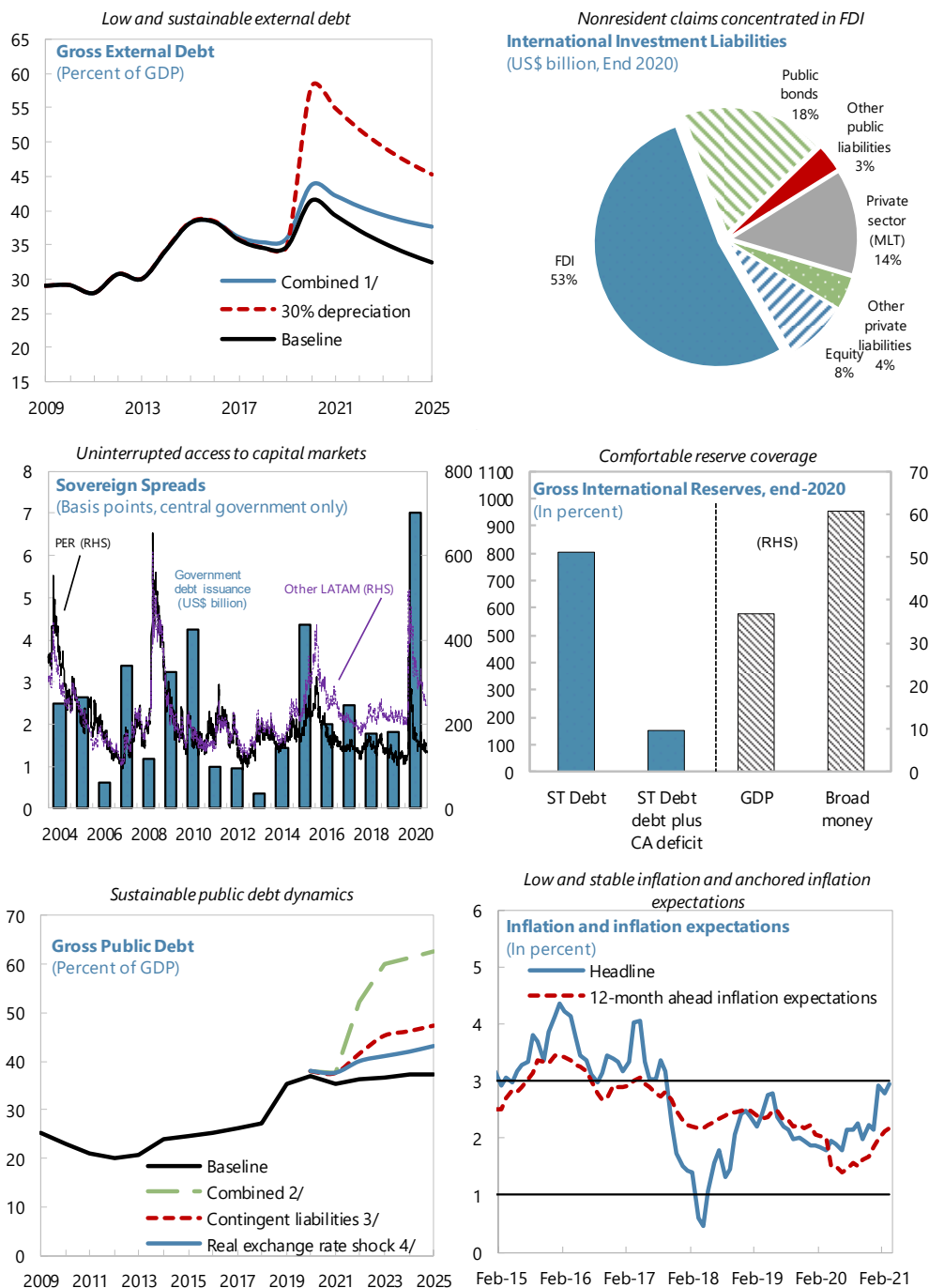
**Figure 3. Peru: Recent Economic Developments**



Sources: National authorities, and IMF staff estimates.

1/ Monthly rates of growth for GDP and domestic demand are calculated from the three-month rolling sums of the respective variables.

Figure 4. Peru: Qualification Criteria



Sources: Country authorities (BCRP, MEF); Datastream; Haver; and IMF staff estimates.

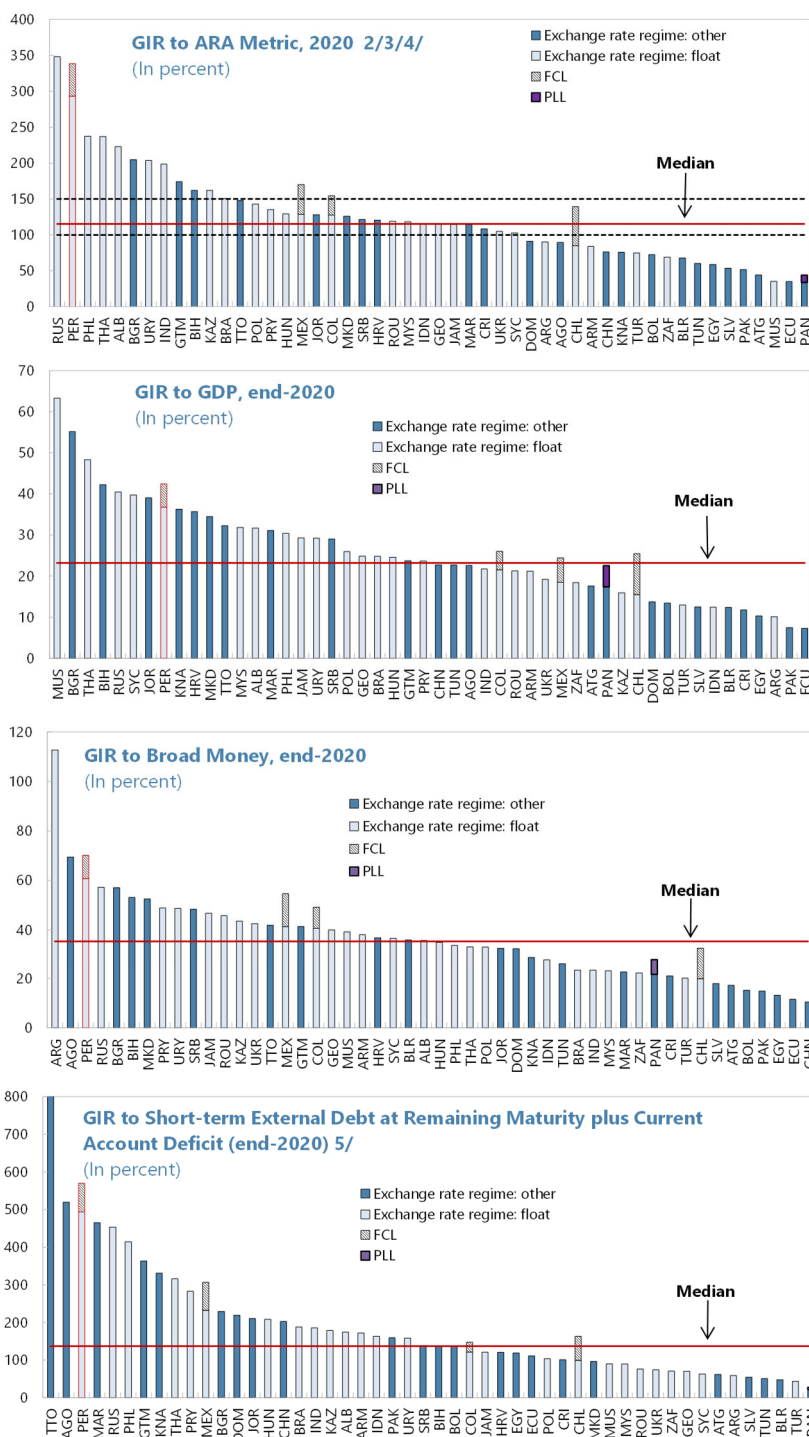
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate; growth; and non-interest current account balance.

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 and FCLs from an International Perspective<sup>1/</sup>



Sources: World Economic Outlook; IFS; and IMF staff estimates.

1/ The sample of countries included in these charts includes all EMEs for which data is available.

2/ The ARA metric provides a tool to help inform reserve adequacy assessments, but individual circumstances (for example, access to swap lines, market maturity, etc.) require additional judgment and, for this reason, mechanistic comparisons of the ARA metric do not provide a complete view.

3/ The ARA Metric is a weighted sum of potential drains on the BoP, depending on the country's exchange rate regime. For fixed exchange rates, ARA Metric = 10% × Exports + 10% × Broad Money + 30% × Short-term Debt + 20% × Other Liabilities. For floating exchange rates, ARA Metric = 5% × Exports + 5% × Broad Money + 30% × Short-term Debt + 15% × Other Liabilities. See "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", IMF, 2016. For Colombia, includes a commodity buffer. Without a commodity buffer, the value is 145%.

4/ The upper and lower lines denote the 100-150 percent range of ARA metric, which are considered broadly adequate for precautionary purposes.

5/ The current account balance is set to zero if it is in surplus.

Table 1. Peru: Selected Economic Indicators

	2017	2018	2019	Prel. 2020	2021	2022	Proj.			
							2023	2024	2025	2026
<b>Social Indicators</b>										
Poverty rate (total) 1/	24.2	22.3	21.7	27.5	...	...	...	...	...	...
Unemployment rate for Metropolitan Lima (period average)	6.9	6.7	6.6	13.0	...	...	...	...	...	...
(Annual percentage change; unless otherwise indicated)										
<b>Production and prices</b>										
Real GDP	2.1	4.0	2.2	-11.1	8.5	5.2	4.8	3.4	3.3	3.3
Output gap (percent of potential GDP)	-1.4	-1.0	-1.7	-7.2	-3.0	-1.4	-0.1	0.0	0.0	0.0
Consumer prices (end of period)	1.4	2.2	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Money and credit 2/ 3/</b>										
Broad money	8.8	9.6	8.8	27.5	13.0	9.6	7.8	7.7	6.2	5.7
Net credit to the private sector	5.1	10.3	6.4	14.5	4.0	4.0	6.2	5.5	5.4	5.3
Credit-to-private-sector/GDP ratio (%)	40.4	42.1	43.0	53.3	48.4	47.0	46.9	47.1	47.3	47.5
<b>External sector</b>										
Exports	22.5	8.0	-2.8	-11.1	27.5	3.7	3.7	3.9	4.1	4.5
Imports	10.2	8.1	-1.9	-15.6	19.9	5.0	4.8	5.0	4.8	4.5
External current account balance	-1.3	-1.7	-1.5	0.5	-0.4	-0.7	-1.0	-1.4	-1.8	-1.8
Gross reserves In billions of U.S. dollars	63.7	60.3	68.4	74.9	75.1	75.1	75.0	74.2	71.8	71.0
Percent of short-term external debt 4/	306	364	433	496	519	505	494	506	445	439
Percent of foreign currency deposits at banks	225	213	224	224	206	204	207	209	211	222
(In percent of GDP; unless otherwise indicated)										
<b>Public sector</b>										
NFPS revenue	23.0	24.5	24.8	22.1	22.4	23.1	23.1	23.2	23.2	23.2
NFPS primary expenditure	24.9	25.5	25.0	29.3	25.6	24.7	24.0	23.7	23.6	23.3
NFPS primary balance	-1.9	-1.0	-0.2	-7.2	-3.3	-1.6	-0.9	-0.6	-0.3	-0.1
NFPS overall balance	-3.1	-2.3	-1.6	-8.9	-5.0	-3.4	-2.8	-2.4	-2.1	-1.8
NFPS structural balance	-2.1	-1.7	-0.6	-6.4	-4.3	-3.1	-2.9	-2.5	-2.3	-2.0
NFPS structural primary balance 5/	-0.9	-0.3	0.7	-4.8	-2.6	-1.3	-1.1	-0.7	-0.5	-0.2
<b>Debt</b>										
Total external debt 6/	35.7	34.6	34.7	43.1	39.0	36.6	34.2	32.5	30.9	29.8
Gross non-financial public sector debt 7/	25.4	26.2	27.1	35.4	35.4	36.2	36.7	37.2	37.5	37.4
External	8.8	8.9	8.5	15.0	14.1	13.9	13.4	12.9	12.7	12.9
Domestic	16.7	17.3	18.6	20.3	21.3	22.3	23.2	24.3	24.8	24.5
<b>Savings and investment</b>										
Gross domestic investment	20.6	21.7	21.5	18.8	21.1	22.0	22.3	22.5	22.7	22.9
Public sector (incl. repayment certificates)	4.6	4.8	4.6	4.2	4.1	4.1	4.1	4.2	4.2	4.3
Private sector	17.3	17.7	18.0	16.7	16.9	17.9	18.2	18.4	18.5	18.7
National savings	19.3	20.0	19.9	19.3	20.7	21.3	21.3	21.2	20.9	21.1
Public sector	1.8	2.9	3.4	-3.9	-0.1	1.4	2.0	2.5	2.8	3.1
Private sector	17.5	17.1	16.5	23.2	20.9	19.9	19.3	18.7	18.2	18.0
<b>Memorandum items</b>										
Nominal GDP (S/. billion)	698	740	770	712	815	872	929	976	1,024	1,075
GDP per capita (in US\$)	6,726	7,000	6,958	6,084	6,678	7,051	7,389	7,644	7,901	8,180

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/ Short-term debt is defined on a residual maturity basis and includes amortization of medium and long-term debt.

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 the IMF's World Economic Outlook.

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 Aggregates

	2017	2018	2019	Prel. 2020	Proj.					
					2021	2022	2023	2024	2025	2026
(In millions of soles; unless otherwise indicated)										
<b>Revenues</b>	<b>160,273</b>	<b>181,293</b>	<b>191,202</b>	<b>157,201</b>	<b>182,326</b>	<b>201,713</b>	<b>214,661</b>	<b>226,291</b>	<b>237,695</b>	<b>249,919</b>
Taxes	93,475	107,358	113,754	95,829	114,428	126,592	135,315	143,118	151,259	159,914
Other	66,799	73,935	77,448	61,372	67,898	75,121	79,346	83,173	86,436	90,005
<b>Primary expenditures 1/</b>	<b>173,546</b>	<b>188,407</b>	<b>192,741</b>	<b>208,824</b>	<b>208,829</b>	<b>215,571</b>	<b>223,330</b>	<b>231,687</b>	<b>241,229</b>	<b>250,757</b>
Current	137,665	148,512	152,588	172,975	168,982	173,183	178,381	183,823	190,490	197,424
Capital	35,881	39,895	40,154	35,849	39,847	42,387	44,948	47,864	50,739	53,333
<b>Primary balance</b>	<b>-13,272</b>	<b>-7,114</b>	<b>-1,539</b>	<b>-51,623</b>	<b>-26,503</b>	<b>-13,858</b>	<b>-8,669</b>	<b>-5,396</b>	<b>-3,534</b>	<b>-838</b>
Interest	8,336	10,012	10,720	11,495	13,927	15,507	17,099	17,748	18,375	18,988
<b>Overall balance</b>	<b>-21,609</b>	<b>-17,126</b>	<b>-12,259</b>	<b>-63,118</b>	<b>-40,430</b>	<b>-29,364</b>	<b>-25,768</b>	<b>-23,144</b>	<b>-21,909</b>	<b>-19,827</b>
External financing	-10,415	-557	4,510	33,414	16,000	4,146	864	691	370	6,374
Domestic financing	32,023	17,683	7,749	29,704	24,430	25,218	24,904	22,453	21,538	13,452
<b>Public Gross Debt 2/</b>	<b>177,461</b>	<b>193,721</b>	<b>208,623</b>	<b>251,893</b>	<b>288,065</b>	<b>316,129</b>	<b>340,597</b>	<b>362,591</b>	<b>383,350</b>	<b>402,077</b>
External	61,163	65,505	65,340	106,994	114,732	121,313	124,687	125,745	129,777	139,041
Domestic	112,749	124,938	140,515	142,409	171,143	192,926	214,320	235,556	252,583	262,345
Repayment Certificates	3,549	3,278	2,768	2,490	2,190	1,890	1,590	1,290	990	690
<b>Public Assets 3/</b>	<b>92,709</b>	<b>89,704</b>	<b>92,494</b>	<b>69,994</b>	<b>66,036</b>	<b>65,036</b>	<b>64,036</b>	<b>63,186</b>	<b>62,336</b>	<b>61,536</b>
(In percent of GDP; unless otherwise indicated)										
<b>Revenues</b>	<b>23.0</b>	<b>24.5</b>	<b>24.8</b>	<b>22.1</b>	<b>22.4</b>	<b>23.1</b>	<b>23.1</b>	<b>23.2</b>	<b>23.2</b>	<b>23.2</b>
Taxes	13.4	14.5	14.8	13.5	14.0	14.5	14.6	14.7	14.8	14.9
Other	9.6	10.0	10.1	8.6	8.3	8.6	8.5	8.5	8.4	8.4
<b>Primary expenditures 1/</b>	<b>24.9</b>	<b>25.5</b>	<b>25.0</b>	<b>29.3</b>	<b>25.6</b>	<b>24.7</b>	<b>24.0</b>	<b>23.7</b>	<b>23.6</b>	<b>23.3</b>
Current	19.7	20.1	19.8	24.3	20.7	19.9	19.2	18.8	18.6	18.4
Capital	5.1	5.4	5.2	5.0	4.9	4.9	4.8	4.9	5.0	5.0
<b>Primary balance</b>	<b>-1.9</b>	<b>-1.0</b>	<b>-0.2</b>	<b>-7.2</b>	<b>-3.3</b>	<b>-1.6</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-0.3</b>	<b>-0.1</b>
Interest	1.2	1.4	1.4	1.6	1.7	1.8	1.8	1.8	1.8	1.8
<b>Overall balance</b>	<b>-3.1</b>	<b>-2.3</b>	<b>-1.6</b>	<b>-8.9</b>	<b>-5.0</b>	<b>-3.4</b>	<b>-2.8</b>	<b>-2.4</b>	<b>-2.1</b>	<b>-1.8</b>
External financing	-1.5	-0.1	0.6	4.7	2.0	0.5	0.1	0.1	0.0	0.6
Domestic financing	4.6	2.4	1.0	4.2	3.0	2.9	2.7	2.3	2.1	1.3
<b>Public Gross Debt 2/</b>	<b>25.4</b>	<b>26.2</b>	<b>27.1</b>	<b>35.4</b>	<b>35.4</b>	<b>36.2</b>	<b>36.7</b>	<b>37.2</b>	<b>37.5</b>	<b>37.4</b>
External	8.8	8.9	8.5	15.0	14.1	13.9	13.4	12.9	12.7	12.9
Domestic	16.2	16.9	18.2	20.0	21.0	22.1	23.1	24.1	24.7	24.4
Repayment Certificates	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
<b>Public Assets 3/</b>	<b>13.3</b>	<b>12.1</b>	<b>12.0</b>	<b>9.8</b>	<b>8.1</b>	<b>7.5</b>	<b>6.9</b>	<b>6.5</b>	<b>6.1</b>	<b>5.7</b>
<b>Public Net Debt</b>	<b>12.1</b>	<b>14.1</b>	<b>15.1</b>	<b>25.5</b>	<b>27.3</b>	<b>28.8</b>	<b>29.8</b>	<b>30.7</b>	<b>31.4</b>	<b>31.7</b>
<b>Memorandum items</b>										
Commodity related revenues 4/	1.0	1.9	1.4	1.3	1.8	1.7	1.7	1.7	1.7	1.7
Output gap (percent of potential GDP)	-1.4	-1.0	-1.7	-7.2	-3.0	-1.4	-0.1	0.0	0.0	0.0
NFPS non-commodity structural balance	-3.7	-3.9	-2.4	-7.9	-5.9	-4.7	-4.5	-4.1	-3.8	-3.5
NFPS non-commodity primary structural balance	-2.5	-2.5	-1.0	-6.3	-4.2	-2.9	-2.6	-2.3	-2.0	-1.7
NFPS structural balance 5/	-2.1	-1.7	-0.6	-6.4	-4.3	-3.1	-2.9	-2.5	-2.3	-2.0
NFPS structural primary balance 5/	-0.9	-0.3	0.7	-4.8	-2.6	-1.3	-1.1	-0.7	-0.5	-0.2
Fiscal impulse (+ = expansionary) 6/	0.2	-0.6	-1.0	5.2	-2.0	-1.2	-0.2	-0.4	-0.2	-0.3

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 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 the IMF's World Economic Outlook.

6/ Percentage points of potential GDP.

**Table 3. Peru: Statement of Operations of the General Government<sup>1/</sup>**  
(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	Prel. 2020	Proj.					
					2021	2022	2023	2024	2025	2026
<b>Revenue</b>	<b>18.3</b>	<b>19.4</b>	<b>19.9</b>	<b>18.0</b>	<b>18.3</b>	<b>18.9</b>	<b>18.9</b>	<b>19.1</b>	<b>19.2</b>	<b>19.3</b>
Taxes	13.4	14.5	14.8	13.5	14.0	14.5	14.6	14.7	14.8	14.9
Social Contributions	2.1	2.2	2.2	2.2	2.1	2.0	2.0	2.1	2.1	2.1
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	2.7	2.7	2.8	2.3	2.2	2.2	2.2	2.3	2.3	2.3
<b>Expense 2/</b>	<b>16.5</b>	<b>16.5</b>	<b>16.8</b>	<b>21.9</b>	<b>18.7</b>	<b>17.5</b>	<b>16.9</b>	<b>16.6</b>	<b>16.3</b>	<b>16.1</b>
Compensation of employees	6.1	6.2	6.4	7.4	6.8	6.5	6.2	6.1	5.9	5.7
Use of goods and services	6.0	5.7	5.8	6.6	6.8	6.4	6.2	6.0	5.9	5.8
Interest	1.1	1.2	1.3	1.5	1.6	1.5	1.5	1.4	1.2	1.1
Social benefits	1.7	1.9	1.8	1.9	1.8	1.7	1.7	1.6	1.6	1.6
Other 3/	1.6	1.5	1.5	4.6	1.7	1.3	1.4	1.5	1.7	1.8
<b>Net acquisition of nonfinancial assets</b>	<b>4.7</b>	<b>4.9</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.6</b>	<b>4.6</b>
Acquisition of nonfinancial assets	4.7	4.9	4.5	4.5	4.5	4.5	4.5	4.5	4.6	4.6
<b>Gross Operating Balance</b>	<b>1.8</b>	<b>2.9</b>	<b>3.2</b>	<b>-3.9</b>	<b>-0.3</b>	<b>1.3</b>	<b>2.0</b>	<b>2.5</b>	<b>2.9</b>	<b>3.3</b>
<b>Net lending (+) borrowing (-) 4/</b>	<b>-2.9</b>	<b>-2.0</b>	<b>-1.4</b>	<b>-8.4</b>	<b>-4.8</b>	<b>-3.1</b>	<b>-2.5</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.4</b>
<b>Net acquisition of financial assets 5/</b>	<b>-1.3</b>	<b>-0.4</b>	<b>0.6</b>	<b>-0.7</b>	<b>-2.3</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-1.9</b>	<b>-1.6</b>	<b>-0.7</b>
<i>By instrument</i>										
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits 6/	-1.3	-0.4	0.6	-0.7	-2.3	-2.6	-2.3	-1.9	-1.6	-0.7
<i>By residency</i>										
Domestic	-1.3	-0.4	0.6	-0.7	-2.3	-2.6	-2.3	-1.9	-1.6	-0.7
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities 7/</b>	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>	<b>7.7</b>	<b>2.5</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.7</b>
<i>By instrument</i>										
Debt securities	3.7	2.3	1.2	3.2	0.5	0.1	0.1	0.1	0.1	0.1
Loans	-2.1	-0.7	0.8	4.5	2.0	0.5	0.1	0.1	0.0	0.6
<i>By residency</i>										
Domestic	3.7	2.3	1.2	3.2	0.5	0.1	0.1	0.1	0.1	0.1
External	-2.1	-0.7	0.8	4.5	2.0	0.5	0.1	0.1	0.0	0.6
<b>Memorandum items</b>										
Central Government Net lending (+) borrowing (-)	-3.2	-2.2	-2.5	-9.0	-4.7	-3.3	-2.7	-2.2	-1.7	-1.3
Regional Governments Net lending (+) borrowing (-)	0.1	0.4	0.5	-0.1	0.1	0.3	0.4	0.5	0.5	0.6
Local Governments Net lending (+) borrowing (-)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
General Government Primary Balance	-1.8	-0.8	-0.1	-6.8	-3.1	-1.6	-1.0	-0.6	-0.5	-0.2
General Government Overall Balance	-2.9	-2.0	-1.4	-8.4	-4.8	-3.1	-2.5	-2.0	-1.7	-1.4
Gen. Gov. primary spending (real percentage change)	4.1	4.9	1.0	12.8	-3.1	-0.1	1.8	1.9	2.7	2.5
<i>Of which:</i> Current spending	3.9	3.9	3.1	19.5	-6.3	-1.6	1.0	1.3	2.3	2.1
Capital spending	4.8	8.2	-5.7	-10.2	11.3	5.9	4.4	3.9	3.9	3.9
General Government non-financial expenditures	20.1	20.2	20.0	24.9	21.5	20.5	19.9	19.7	19.7	19.6

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 Stabilization Fund (FEPC), but includes cash payments.

3/ Includes other transfers.

4/ Net lending (+)/ borrowing (-) is equal to gross operating balance minus net acquisitions 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: Balance of Payments**  
(Billions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	Prel. 2020	Proj.					
					2021	2022	2023	2024	2025	2026
<b>Current account</b>	<b>-2.8</b>	<b>-3.8</b>	<b>-3.6</b>	<b>1.0</b>	<b>-0.8</b>	<b>-1.7</b>	<b>-2.6</b>	<b>-3.7</b>	<b>-5.0</b>	<b>-5.4</b>
Merchandise trade	6.7	7.2	6.6	7.7	12.5	12.5	12.5	12.5	12.6	13.2
Exports	45.4	49.1	47.7	42.4	54.1	56.1	58.2	60.5	62.9	65.7
Traditional	33.6	35.6	33.8	29.4	40.3	41.8	43.3	44.8	46.4	48.5
Mining	27.6	28.9	28.1	25.8	35.7	37.1	38.5	39.8	41.3	43.1
Nontraditional and others	11.9	13.4	13.9	13.0	13.7	14.2	14.9	15.7	16.5	17.3
Imports	-38.7	-41.9	-41.1	-34.7	-41.6	-43.6	-45.7	-48.0	-50.3	-52.5
Services, income, and current transfers (net)	-9.5	-11.0	-10.2	-6.8	-13.4	-14.2	-15.1	-16.2	-17.7	-18.6
Services	-1.5	-2.8	-3.2	-4.1	-4.5	-4.5	-4.8	-5.0	-5.4	-5.7
Investment income	-11.5	-11.8	-10.7	-6.7	-12.2	-13.1	-13.7	-14.6	-15.8	-16.5
Current transfers	3.6	3.6	3.7	4.0	3.3	3.4	3.5	3.5	3.5	3.6
<b>Capital and financial account balance</b>	<b>3.0</b>	<b>1.5</b>	<b>10.6</b>	<b>9.5</b>	<b>1.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.9</b>	<b>2.6</b>	<b>4.6</b>
Public sector	3.3	2.1	4.4	9.8	1.5	1.1	0.3	0.3	0.2	1.8
Medium-term loans 1/	-1.5	0.2	-0.3	9.0	1.7	1.1	0.2	0.2	0.1	1.7
Other public sector flows 2/	4.1	2.1	4.5	1.1	-0.2	0.0	0.1	0.1	0.1	0.1
Short-term flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	-0.3	-0.6	6.1	-0.3	-0.5	0.5	2.2	2.6	2.4	2.8
Foreign direct investment (net) 3/	6.4	6.5	8.0	2.7	7.2	7.6	7.9	7.9	7.9	8.3
Medium- and long-term loans	-3.7	-1.6	-2.2	-3.4	-2.4	-2.2	-2.0	-1.9	-1.8	-1.8
Portfolio investment	-1.8	-3.9	-0.3	1.3	-2.5	-2.8	-3.0	-3.3	-3.5	-3.8
Short-term flows 4/	-1.2	-1.5	0.6	-0.8	-2.8	-2.1	-0.7	-0.2	-0.2	0.0
<b>Errors and omissions</b>	<b>1.4</b>	<b>-1.3</b>	<b>-0.1</b>	<b>-4.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Overall balance</b>	<b>1.6</b>	<b>-3.6</b>	<b>6.9</b>	<b>5.6</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.8</b>	<b>-2.4</b>	<b>-0.8</b>
<b>Financing</b>	<b>-1.6</b>	<b>3.6</b>	<b>-6.9</b>	<b>-5.6</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.8</b>	<b>2.4</b>	<b>0.8</b>
NIR flow (increase -)	-1.6	3.6	-6.9	-5.6	-0.2	0.0	0.0	0.8	2.4	0.8
Change in NIR (increase -)	-1.9	3.5	-8.2	-6.4	-0.2	0.0	0.0	0.8	2.4	0.8
Valuation change	0.3	0.1	1.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)									
<b>Current account balance</b>	<b>-1.3</b>	<b>-1.7</b>	<b>-1.5</b>	<b>0.5</b>	<b>-0.4</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-1.4</b>	<b>-1.8</b>	<b>-1.8</b>
Trade balance	3.1	3.2	2.9	3.8	5.5	5.2	4.9	4.7	4.5	4.5
Exports	21.2	21.8	20.7	20.8	23.9	23.3	22.8	22.7	22.6	22.6
Traditional	15.7	15.8	14.6	14.4	17.9	17.4	17.0	16.8	16.7	16.7
Mining	12.9	12.8	12.2	12.6	15.8	15.4	15.1	14.9	14.8	14.8
Nontraditional and others	5.5	6.0	6.0	6.4	6.1	5.9	5.8	5.9	5.9	5.9
Imports	-18.1	-18.6	-17.8	-17.0	-18.4	-18.1	-17.9	-18.0	-18.1	-18.1
Services, income, and current transfers (net)	-4.4	-4.9	-4.4	-3.3	-5.9	-5.9	-5.9	-6.1	-6.4	-6.4
Investment income	-5.4	-5.2	-4.7	-3.3	-5.4	-5.4	-5.4	-5.5	-5.7	-5.7
<b>Capital and financial account balance</b>	<b>1.4</b>	<b>0.7</b>	<b>4.6</b>	<b>4.7</b>	<b>0.4</b>	<b>0.7</b>	<b>1.0</b>	<b>1.1</b>	<b>1.0</b>	<b>1.6</b>
Foreign direct investment (net)	3.0	2.9	3.5	1.3	3.2	3.2	3.1	3.0	2.9	2.9
<b>Overall balance</b>	<b>0.8</b>	<b>-1.6</b>	<b>3.0</b>	<b>2.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-0.3</b>
<b>Memorandum items</b>	(Annual percentage change)									
Export value	22.5	8.0	-2.8	-11.1	27.5	3.7	3.7	3.9	4.1	4.5
Volume growth	8.0	1.6	0.6	-13.4	10.0	4.8	4.2	4.0	4.0	4.0
Price growth	13.4	6.3	-3.4	2.7	15.9	-1.0	-0.5	-0.1	0.1	0.5
Import value	10.2	8.1	-1.9	-15.6	19.9	5.0	4.8	5.0	4.8	4.5
Volume growth	4.5	1.4	-0.2	-11.1	13.8	5.6	4.3	3.2	3.0	2.9
Price growth	5.5	6.7	-1.7	-5.1	5.4	-0.6	0.4	1.7	1.8	1.5
Terms of trade	7.5	-0.4	-1.7	8.2	9.9	-0.4	-0.9	-1.8	-1.7	-1.0
Gross international reserves (in billions of US\$)	63.7	60.3	68.4	74.9	75.1	75.1	75.0	74.2	71.8	71.0
Average exchange rate (S/. per US\$)	3.26	3.29	3.34	3.50	3.61	3.62	3.64	3.66	3.68	3.70

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 privatizations.

4/ Includes Financial Corporation for Development (COFIDE) and the National Bank.

**Table 5. Peru: Monetary Survey<sup>1/</sup>**  
(Billions of soles, unless otherwise indicated)

	2017	2018	2019	Prel. 2020	Proj.					
					2021	2022	2023	2024	2025	2026
Central Bank										
<b>Net foreign assets</b>	<b>150</b>	<b>159</b>	<b>170</b>	<b>223</b>	<b>213</b>	<b>211</b>	<b>267</b>	<b>260</b>	<b>251</b>	<b>240</b>
(In billions of U.S. dollars)	81	73	85	88	91	92	77	77	75	77
Net international reserves 2/	206	203	226	270	271	273	274	273	265	263
(In billions of U.S. dollars)	64	60	68	75	75	75	75	74	72	71
Long-term net external assets	0	0	0	0	0	0	0	0	0	0
Foreign currency liabilities	-56	-43	-57	-48	-57	-62	-8	-12	-14	-24
<b>Net domestic assets</b>	<b>-93</b>	<b>-98</b>	<b>-105</b>	<b>-137</b>	<b>-120</b>	<b>-112</b>	<b>-164</b>	<b>-154</b>	<b>-141</b>	<b>-128</b>
Net credit to nonfinancial public sector	-65	-61	-64	-49	-45	-42	-42	-42	-42	-42
Credit to the financial sector 3/	15	7	5	41	46	51	-9	-3	4	10
Securities issued	-32	-26	-28	-89	-89	-90	-88	-84	-78	-71
Other assets (net)	-11	-18	-18	-40	-31	-31	-25	-25	-25	-25
<b>Monetary base</b>	<b>57</b>	<b>61</b>	<b>65</b>	<b>86</b>	<b>93</b>	<b>99</b>	<b>103</b>	<b>107</b>	<b>109</b>	<b>112</b>
Currency	46	50	52	70	82	92	53	58	63	68
Reserve	11	12	12	16	11	7	49	49	46	44
Depository Corporations 4/										
<b>Net foreign assets</b>	<b>178</b>	<b>172</b>	<b>194</b>	<b>248</b>	<b>250</b>	<b>256</b>	<b>247</b>	<b>246</b>	<b>238</b>	<b>236</b>
<b>Net domestic assets</b>	<b>106</b>	<b>138</b>	<b>143</b>	<b>183</b>	<b>237</b>	<b>277</b>	<b>328</b>	<b>374</b>	<b>420</b>	<b>459</b>
Net credit to the public sector	-63	-57	-62	-37	-3	23	48	70	92	105
Credit to the private sector	282	311	331	379	394	410	436	460	484	510
Other assets (net)	-114	-116	-126	-160	-155	-155	-156	-156	-156	-156
<b>Broad money</b>	<b>283</b>	<b>310</b>	<b>338</b>	<b>431</b>	<b>486</b>	<b>533</b>	<b>575</b>	<b>619</b>	<b>658</b>	<b>695</b>
Domestic currency	191	215	237	310	355	400	442	489	533	577
Foreign currency	92	96	101	121	132	134	133	130	125	119
Financial System 5/										
<b>Net foreign assets</b>	<b>263</b>	<b>262</b>	<b>298</b>	<b>365</b>	<b>365</b>	<b>363</b>	<b>367</b>	<b>366</b>	<b>359</b>	<b>358</b>
<b>Net domestic assets</b>	<b>209</b>	<b>236</b>	<b>256</b>	<b>342</b>	<b>406</b>	<b>459</b>	<b>511</b>	<b>563</b>	<b>614</b>	<b>658</b>
Net credit to the public sector	-24	-15	-15	11	45	70	95	117	139	152
Credit to the private sector	340	368	393	457	488	515	543	572	601	633
Other assets (net)	-108	-116	-122	-126	-126	-126	-126	-127	-127	-127
<b>Liabilities to the private sector</b>	<b>472</b>	<b>498</b>	<b>554</b>	<b>707</b>	<b>771</b>	<b>822</b>	<b>879</b>	<b>929</b>	<b>972</b>	<b>1,016</b>
Domestic currency	361	383	428	549	610	663	722	777	828	880
Foreign currency	111	116	127	158	161	159	157	152	144	135
Monetary base	7.2	7.3	5.2	33.2	8.6	5.6	4.0	4.0	2.7	2.3
Broad money	8.8	9.6	8.8	27.5	13.0	9.6	7.8	7.7	6.2	5.7
Domestic currency	12.5	12.2	10.2	30.8	14.5	12.6	10.7	10.5	8.9	8.3
Foreign currency	1.7	4.1	5.6	19.8	8.9	1.5	-0.8	-1.6	-3.9	-5.4
Liabilities to the private sector	11.2	5.7	11.3	27.5	9.1	6.6	6.9	5.7	4.7	4.5
Domestic currency	13.9	6.1	11.8	28.3	11.2	8.6	8.9	7.7	6.5	6.3
Foreign currency	3.4	4.2	9.6	24.7	1.7	-1.1	-1.4	-3.1	-5.0	-6.1
Depository corporations credit to the private sector	5.1	10.3	6.4	14.5	4.0	4.0	6.2	5.5	5.4	5.3
Domestic currency	5.3	11.6	9.8	20.3	4.5	4.3	7.1	6.2	6.1	6.0
Foreign currency	4.6	7.1	-2.2	-2.4	2.2	2.8	2.9	2.9	2.7	2.7

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 SMEs and the Fund for Financing Housing.



**Table 6. Peru: Financial Soundness Indicators<sup>1/</sup>**  
(Percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020
	(as of December)						
<b>Capital Adequacy</b>							
Capital to risk-weighted assets 2/	14.2	14.3	15.1	15.2	14.8	14.7	15.6
Regulatory Tier I capital to risk-weighted assets 3/	10.4	10.3	11.0	11.4	11.3	11.6	11.8
Nonperforming loans net of provisions to capital 4/	0.2	-0.3	-0.4	-0.6	-0.6	-0.5	-3.6
Leverage 5/	8.3	7.9	8.7	9.4	9.8	10.2	8.8
<b>Asset Quality</b>							
Nonperforming loans to total gross loans 4/	2.9	2.9	3.1	3.3	3.3	3.4	4.2
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5
Nonperforming, refinanced and restructured loans to total gross loans 4/ 6/	4.0	4.0	4.4	4.8	4.9	4.9	6.0
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5
Refinanced and restructured loans to total gross loans	1.1	1.1	1.3	1.5	1.6	1.5	1.9
Provisions to nonperforming loans 4/	157.7	161.8	157.1	151.1	150.7	149.1	178.5
Provisions to nonperforming, restructured, and refinanced loans 4/ 6/	114.4	116.5	111.1	105.0	101.6	103.3	123.6
<b>Sectoral distribution of loans to total loans</b>							
Consumer loans	18.1	18.3	18.9	19.2	19.8	21.4	17.7
Mortgage loans	15.5	15.2	15.1	15.4	15.3	15.6	14.4
Large corporations	17.2	21.4	22.2	22.6	23.3	22.2	18.7
Small corporations	17.0	15.8	14.8	14.3	14.3	14.3	16.0
Medium size firms	18.3	16.9	16.4	15.4	14.8	13.7	18.8
Small firms	10.1	9.0	9.1	9.4	9.1	9.3	10.6
Microenterprises	3.8	3.4	3.6	3.7	3.5	3.5	3.9
<b>Earnings and Profitability</b>							
Return on equity (ROE)	18.2	21.1	19.2	17.7	17.9	17.9	3.1
Return on assets (ROA)	1.9	2.1	2.0	2.1	2.2	2.2	0.4
Financial revenues to total revenues	85.0	85.1	85.3	84.2	83.4	83.7	84.6
Annualized financial revenues to revenue-generating assets	10.6	10.5	10.1	10.2	10.3	10.4	7.8
<b>Liquidity</b>							
Total liquid assets to total short-term liabilities (monthly average basis)	39.4	37.7	35.4	38.5	34.6	36.4	50.3
In domestic currency	25.3	26.2	26.7	33.0	27.2	27.5	50.6
In foreign currency	55.2	47.5	44.9	45.7	45.3	50.3	49.8
Deposit-to-loan	90.5	92.0	88.4	92.1	89.4	90.9	99.3
<b>Foreign Currency Position and Dollarization</b>							
Share of foreign currency deposits in total deposits	43.4	49.5	44.1	39.3	35.9	35.2	34.6
Share of foreign currency loans in total credit	38.4	30.1	28.8	29.4	28.5	26.5	22.7
<b>Operational efficiency</b>							
Financing to related parties to capital 7/	9.4	12.3	9.1	9.6	12.3	9.7	9.7
Nonfinancial expenditure to total revenues 8/	33.0	30.9	30.8	30.7	30.7	29.9	31.8
Annualized Nonfinancial expenditure to total revenue-generating assets 8/	4.1	3.8	3.7	3.7	3.8	3.7	2.9
<b>Memorandum items</b>							
General Stock market index, IGBVL	14,794	9,849	15,567	19,974	19,350	20,526	20,822
EMBI+ PERU spread, basis points	181	243	170	112	137	92	117

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 7. Peru: Financial and External Vulnerability Indicators**  
(Percent, unless otherwise indicated)

	2017	2018	2019	Prel.			Proj.			
				2020	2021	2022	2023	2024	2025	2026
<b>Financial indicators</b>										
Public sector debt/GDP	25.4	26.2	27.1	35.4	35.4	36.2	36.7	37.2	37.5	37.4
<i>Of which: in domestic currency (percent of GDP)</i>	16.7	17.3	18.6	20.3	21.3	22.3	23.2	24.3	24.8	24.5
90-day prime lending rate, domestic currency (end of period)	3.6	4.3	3.3	0.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
90-day prime lending rate, foreign currency (end of period)	2.2	3.4	2.7	1.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Velocity of money 1/	2.5	2.4	2.3	1.7	1.7	1.6	1.6	1.6	1.6	1.5
Net credit to the private sector/GDP 2/	40.4	42.1	43.0	53.3	48.4	47.0	46.9	47.1	47.3	47.5
<b>External indicators</b>										
Exports, U.S. dollars (percent change)	22.5	8.0	-2.8	-11.1	27.5	3.7	3.7	3.9	4.1	4.5
Imports, U.S. dollars (percent change)	10.2	8.1	-1.9	-15.6	19.9	5.0	4.8	5.0	4.8	4.5
Terms of trade (percent change) (deterioration -) 3/	7.5	-0.4	-1.7	8.2	9.9	-0.4	-0.9	-1.8	-1.7	-1.0
Current account balance (percent of GDP)	-1.3	-1.7	-1.5	0.5	-0.4	-0.7	-1.0	-1.4	-1.8	-1.8
Capital and financial account balance (percent of GDP)	1.4	0.7	4.6	4.7	0.4	0.7	1.0	1.1	1.0	1.6
Total external debt (percent of GDP)	35.7	34.6	34.7	43.1	39.0	36.6	34.2	32.5	30.9	29.8
Medium- and long-term public debt (in percent of GDP) 4/	15.4	15.5	17.0	23.7	22.2	21.3	20.2	19.4	18.6	18.4
Medium- and long-term private debt (in percent of GDP)	16.4	14.9	14.3	14.8	12.7	11.5	10.4	9.6	8.9	8.3
Short-term public and private debt (in percent of GDP)	4.0	4.2	3.4	4.6	4.2	3.9	3.7	3.5	3.4	3.3
Total external debt (in percent of exports of goods and services) 4/	145.2	138.5	145.1	191.9	147.2	140.2	133.0	126.2	119.7	115.4
Total debt service (in percent of exports of goods and services) 5/	44.7	34.6	38.9	32.8	29.9	29.7	29.1	27.3	28.7	27.6
<b>Gross official reserves</b>										
In millions of U.S. dollars	63,731	60,288	68,370	74,909	75,069	75,059	75,032	74,225	71,825	71,025
In percent of short-term external debt 6/	306	364	433	496	519	505	494	506	445	439
In percent of short-term external debt, foreign currency deposits, and adjusted CA balance 6/ 7/	112	112	122	151	131	127	125	124	118	119
In percent of broad money 8/	73	66	67	63	56	51	48	44	40	38
In percent of foreign currency deposits at banks	225	213	224	224	206	204	207	209	211	222
In months of next year's imports of goods and services	14.8	14.0	19.5	17.3	16.4	15.5	14.7	13.8	12.7	12.6
Net international reserves (in millions of U.S. dollars)	63,621	60,121	68,316	74,707	74,867	74,857	74,830	74,023	71,623	70,823
Central Bank's Foreign Exchange Position	37,493	39,548	42,619	58,258	58,418	58,408	58,381	57,574	55,174	54,374

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 rates.

Table 8. Peru: Medium-Term Macroeconomic Framework

	2017	2018	2019	Prel. 2020	Proj.					
					2021	2022	2023	2024	2025	2026
(Annual percentage change)										
<b>Production</b>										
GDP at constant prices	2.1	4.0	2.2	-11.1	8.5	5.2	4.8	3.4	3.3	3.3
Domestic demand at constant prices	1.1	4.2	2.4	-9.8	9.4	5.4	4.8	3.2	3.0	3.0
Consumption	2.3	3.3	2.8	-6.4	6.3	4.1	4.4	3.0	2.8	2.9
Investment	-0.2	4.7	2.9	-17.3	9.5	10.0	6.1	3.8	3.6	3.4
Of which: Private	0.2	4.5	4.0	-17.2	10.0	11.2	6.5	3.7	3.5	3.5
Of which: Public	-1.8	5.6	-1.4	-17.7	7.0	4.7	4.3	4.5	3.8	3.0
Net exports (contribution to GDP growth)	1.0	-0.1	-0.1	-1.6	-0.7	-0.2	0.0	0.2	0.3	0.3
Exports	7.4	2.4	0.7	-20.0	10.0	4.8	4.2	4.0	4.0	4.0
Imports	3.9	3.2	1.2	-15.6	13.8	5.6	4.3	3.2	3.0	2.9
Consumer prices (end of period)	1.4	2.2	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	3.9	2.0	1.8	4.1	5.4	1.8	1.7	1.6	1.6	1.8
<b>Trade</b>										
Merchandise trade										
Exports, f.o.b.	22.5	8.0	-2.8	-11.1	27.5	3.7	3.7	3.9	4.1	4.5
Imports, f.o.b.	10.2	8.1	-1.9	-15.6	19.9	5.0	4.8	5.0	4.8	4.5
Terms of trade (deterioration -)	7.5	-0.4	-1.7	8.2	9.9	-0.4	-0.9	-1.8	-1.7	-1.0
(In percent of GDP; unless otherwise indicated)										
<b>External current account balance</b>	-1.3	-1.7	-1.5	0.5	-0.4	-0.7	-1.0	-1.4	-1.8	-1.8
<b>Total external debt service 1/</b>	11.0	8.6	9.3	7.4	7.9	7.7	7.5	7.0	7.4	7.1
Medium- and long-term	7.1	4.5	4.7	4.0	3.8	3.8	3.7	3.4	3.9	3.8
Nonfinancial public sector	2.6	1.3	1.5	1.0	1.3	1.6	1.8	1.7	2.3	2.3
Private sector	4.4	3.3	3.2	3.0	2.5	2.2	1.9	1.8	1.6	1.5
Short-term 2/	0.1	0.1	0.1	0.1	0.1	0.1	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
Private sector	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest	1.4	1.5	1.4	1.2	1.6	1.6	1.5	1.5	1.6	1.6
Amortization (medium-and long-term)	5.8	3.2	3.4	2.8	2.2	2.2	2.2	2.0	2.4	2.3
<b>Public sector</b>										
NFPS primary balance 3/	-1.9	-1.0	-0.2	-7.2	-3.3	-1.6	-0.9	-0.6	-0.3	-0.1
NFPS interest due	1.2	1.4	1.4	1.6	1.7	1.8	1.8	1.8	1.8	1.8
NFPS overall balance 3/	-3.1	-2.3	-1.6	-8.9	-5.0	-3.4	-2.8	-2.4	-2.1	-1.8
Public sector debt 3/	25.4	26.2	27.1	35.4	35.4	36.2	36.7	37.2	37.5	37.4
<b>Savings and investment</b>										
Gross domestic investment	20.6	21.7	21.5	18.8	21.1	22.0	22.3	22.5	22.7	22.9
Public sector 3/	4.6	4.8	4.6	4.2	4.1	4.1	4.1	4.2	4.2	4.3
Private sector	16.0	16.9	16.8	14.6	16.9	17.9	18.2	18.4	18.5	18.7
Private sector (excluding inventories)	17.3	17.7	18.0	16.7	16.9	17.9	18.2	18.4	18.5	18.7
Inventory changes	-1.3	-0.8	-1.2	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
National savings	19.3	20.0	19.9	19.3	20.7	21.3	21.3	21.2	20.9	21.1
Public sector 4/	1.8	2.9	3.4	-3.9	-0.1	1.4	2.0	2.5	2.8	3.1
Private sector	17.5	17.1	16.5	23.2	20.9	19.9	19.3	18.7	18.2	18.0
External savings	1.3	1.7	1.5	-0.5	0.4	0.7	1.0	1.4	1.8	1.8
<b>Memorandum items</b>										
Nominal GDP (billions of nuevos soles)	698.0	740.1	770.0	712.3	814.6	872.1	928.9	975.8	1,023.5	1,075.4
Gross international reserves (billions of U.S. dollars)	63.7	60.3	68.4	74.9	75.1	75.1	75.0	74.2	71.8	71.0
External debt service (percent of exports of GNFS)	44.7	34.6	38.9	32.8	29.9	29.7	29.1	27.3	28.7	27.6
Short-term external debt service (percent of exports of GNFS)	0.4	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Public external debt service (percent of exports of GNFS)	10.7	5.1	6.1	4.4	4.8	6.0	6.9	6.5	8.9	8.9

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 9. Peru: Capacity to Repay Indicators<sup>1/</sup>

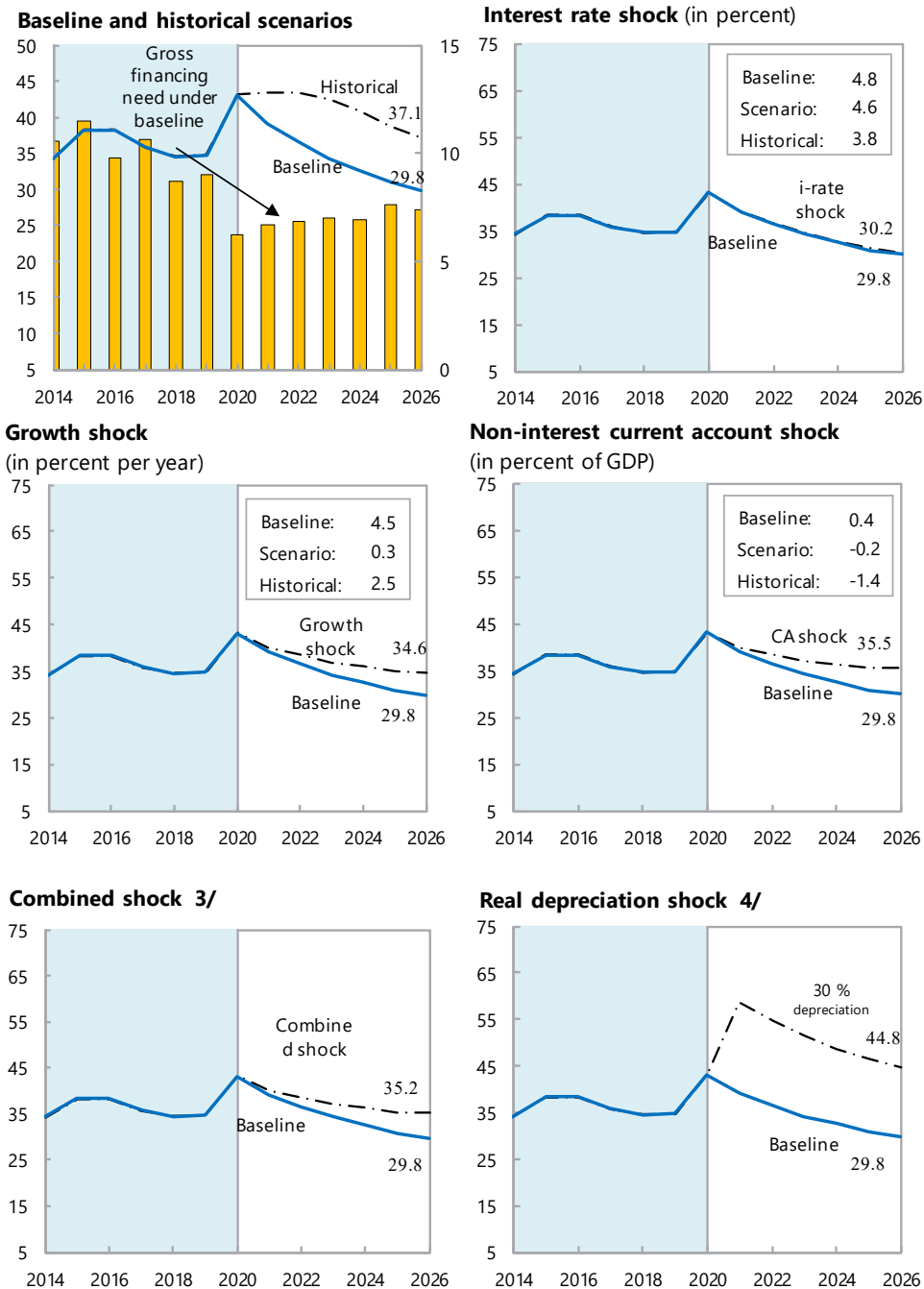
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Exposure and Repayments (in SDR millions)</b>								
GRA credit to Peru	0.0	0.0	8,007.0	8,007.0	8,007.0	6,005.3	2,001.8	0.0
(In percent of quota)	0.0	0.0	(600.0)	(600.0)	(600.0)	(450.0)	(150.0)	(0.0)
Charges due on GRA credit 2/	0.0	0.0	128.4	194.2	194.2	211.1	115.2	10.2
Debt service due on GRA credit 2/	0.0	0.0	128.4	194.2	194.2	2,212.8	4,118.7	2,012.0
<b>Debt and Debt Service Ratios 3/</b>								
In percent of GDP								
Total external debt	34.7	43.1	44.2	41.4	38.9	35.8	31.9	29.8
Public external debt	17.0	23.8	27.4	26.2	24.9	22.8	19.7	18.4
GRA credit to Peru	0.0	0.0	5.1	4.9	4.6	3.3	1.1	0.0
In percent of Gross International Reserves								
Total external debt	117.1	117.3	132.9	133.0	132.0	128.6	123.6	122.2
Public external debt	57.5	64.8	82.4	84.1	84.5	81.7	76.4	75.5
GRA credit to Peru	0.0	0.0	15.5	15.6	15.7	11.9	4.1	0.0
In percent of Exports of Goods and Services								
Total external debt service	38.9	32.8	30.2	30.1	29.5	32.0	37.1	31.6
Public external debt service	6.2	4.9	5.5	6.8	7.7	11.5	17.7	13.1
Debt service due on GRA credit	0.0	0.0	0.3	0.5	0.4	4.7	8.5	4.0
In percent of Total External Debt								
GRA credit to Peru	0.0	0.0	11.6	11.7	11.9	9.3	3.3	0.0
In percent of Public External Debt								
GRA credit to Peru	0.0	0.0	18.8	18.5	18.5	14.6	5.4	0.0
Sources: Country authorities and IMF staff estimates.								
1/ Assumes full drawings under the FCL 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 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 2017–26**  
(Percent of GDP, unless otherwise indicated)

	Actual				Projections						Debt-stabilizing non-interest current account 6/
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
<b>Baseline: External debt</b>	35.7	34.6	34.7	43.1	<b>39.0</b>	<b>36.6</b>	<b>34.2</b>	<b>32.5</b>	<b>30.9</b>	<b>29.8</b>	<b>-1.3</b>
Change in external debt	-2.5	-1.2	0.2	8.4	-4.1	-2.5	-2.3	-1.7	-1.6	-1.0	
Identified external debt-creating flows (4+8+9)	-4.3	-1.2	-2.6	2.2	-5.0	-3.2	-2.6	-1.5	-0.8	-0.7	
Current account deficit, excluding interest payments	-0.1	0.2	0.2	-1.7	-1.2	-0.9	-0.5	-0.1	0.2	0.3	
Deficit in balance of goods and services	-2.4	-2.0	-1.5	-1.8	-3.6	-3.3	-3.0	-2.8	-2.6	-2.6	
Exports	24.6	24.9	23.9	22.5	26.5	26.1	25.7	25.8	25.8	25.9	
Imports	22.2	23.0	22.4	20.7	22.9	22.8	22.7	23.0	23.2	23.3	
Net non-debt creating capital inflows (negative)	-2.1	-1.1	-3.4	-1.9	-2.1	-2.0	-1.9	-1.8	-1.6	-1.6	
Automatic debt dynamics 1/	-2.0	-0.3	0.5	5.8	-1.7	-0.3	-0.1	0.4	0.6	0.6	
Contribution from nominal interest rate	1.4	1.5	1.4	1.2	1.6	1.6	1.5	1.5	1.6	1.6	
Contribution from real GDP growth	-0.7	-1.3	-0.8	4.4	-3.3	-1.9	-1.6	-1.1	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-2.7	-0.4	-0.1	0.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.7	0.0	2.8	6.2	0.9	0.8	0.2	-0.3	-0.8	-0.4	
External debt-to-exports ratio (in percent)	145.2	138.5	145.1	191.9	147.2	140.2	133.0	126.2	119.7	115.4	
<b>Gross external financing need (in billions of US dollars) 4/</b>	22.8	19.5	20.9	12.7	15.2	16.6	17.8	18.4	21.2	21.6	
in percent of GDP	10.7	8.7	9.0	6.2	6.7	6.9	7.0	6.9	7.6	7.4	
<b>Scenario with key variables at their historical averages 5/</b>					<b>43.5</b>	<b>43.3</b>	<b>42.4</b>	<b>40.9</b>	<b>38.7</b>	<b>37.1</b>	<b>-3.1</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>											
Real GDP growth (in percent)	2.1	4.0	2.2	-11.1	8.5	5.2	4.8	3.4	3.3	3.3	
GDP deflator in US dollars (change in percent)	7.5	1.2	0.3	-0.6	2.2	1.4	1.0	1.1	1.1	1.3	
Nominal external interest rate (in percent)	4.0	4.3	4.0	3.2	4.1	4.3	4.4	4.6	5.1	5.4	
Growth of exports (US dollar terms, in percent)	21.3	6.6	-1.7	-17.1	30.8	5.0	4.4	4.5	4.5	4.9	
Growth of imports (US dollar terms, in percent)	9.3	8.8	0.1	-18.6	23.1	5.9	5.6	5.5	5.4	5.2	
Current account balance, excluding interest payments	0.1	-0.2	-0.2	1.7	1.2	0.9	0.5	0.1	-0.2	-0.3	
Net non-debt creating capital inflows	2.1	1.1	3.4	1.9	2.1	2.0	1.9	1.8	1.6	1.6	
<p>1/ Derived as <math>[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)</math> times previous period debt stock, with <math>r</math> = nominal effective interest rate on external debt; <math>r</math> = change in domestic GDP deflator in US dollar terms, <math>g</math> = real GDP growth rate, <math>e</math> = nominal appreciation (increase in dollar value of domestic currency), and <math>a</math> = share of domestic-currency denominated debt in total external debt.</p> <p>2/ The contribution from price and exchange rate changes is defined as <math>[-r(1+g) + ea(1+r)] / (1+g+r+gr)</math> times previous period debt stock. <math>r</math> increases with an appreciating domestic currency (<math>e &gt; 0</math>) and rising inflation (based on GDP deflator).</p> <p>3/ For projection, line includes the impact of price and exchange rate changes.</p> <p>4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.</p> <p>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.</p> <p>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.</p>											

**Figure 1. Peru: External Debt Sustainability Bound Tests<sup>1/2/</sup>**  
 (Percent of GDP, unless otherwise indicated)



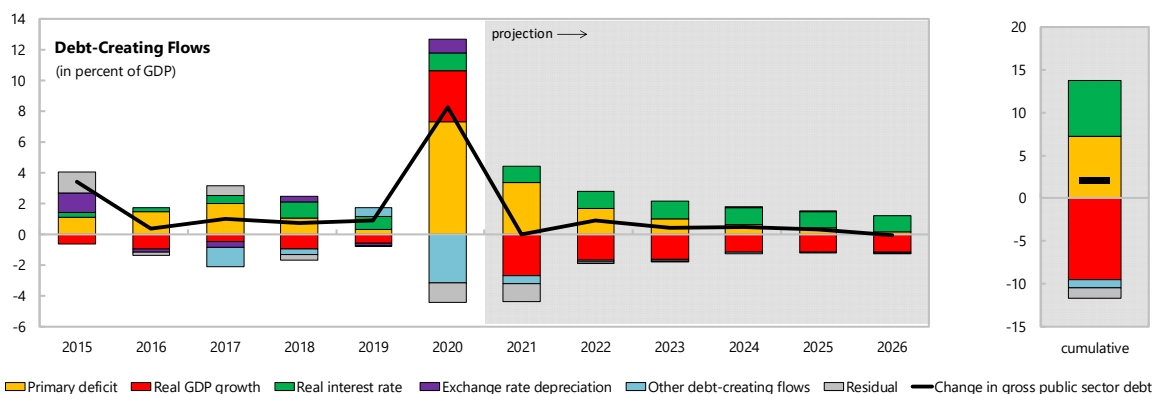
Sources: International Monetary Fund, Country desk data, and staff estimates.  
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being 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 2021.

## Annex II. Public Debt Sustainability Analysis

**Figure 1. Peru: Public Debt, Economic and Market Indicators<sup>1/</sup>**  
(Percent of GDP, unless otherwise indicated)

	Debt, Economic and Market Indicators <sup>1/</sup>										As of February 08, 2021		
	Actual			Projections									
	2010-2018 <sup>2/</sup>	2019	2020	2021	2022	2023	2024	2025	2026				
Nominal gross public debt	23.4	27.1	35.4	35.4	36.2	36.7	37.2	37.5	37.4				
Public gross financing needs	2.3	4.1	9.2	5.4	4.3	4.4	4.8	4.6	5.9				
Real GDP growth (in percent)	4.8	2.2	-11.1	8.5	5.2	4.8	3.4	3.3	3.3				
Inflation (GDP deflator, in percent)	2.9	2.1	1.8	2.0	2.0	2.0	2.0	2.0	2.0				
Nominal GDP growth (in percent)	8.2	4.0	-7.5	14.4	7.1	6.5	5.0	4.9	5.1				
Effective interest rate (in percent) <sup>4/</sup>	5.3	5.5	5.5	5.5	5.4	5.4	5.2	5.1	5.0				
Sovereign Spreads													
EMBIG (bp) 3/											136		
5Y CDS (bp)											55		
Ratings											Foreign	Local	
Moody's											A3	A3	
S&P's											BBB+	A-	
Fitch											BBB+	BBB+	

	Contribution to Changes in Public Debt										cumulative	debt-stabilizing primary balance <sup>9/</sup>
	Actual			Projections								
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026			
Change in gross public sector debt	-0.2	0.9	8.3	0.0	0.9	0.4	0.5	0.3	-0.1	2.0		
Identified debt-creating flows	-1.2	1.0	9.5	1.2	1.0	0.4	0.5	0.3	0.0	3.3		
Primary deficit	-0.5	0.3	7.3	3.3	1.7	1.0	0.6	0.4	0.1	7.2		-0.2
Primary (noninterest) revenue and grants	25.7	24.7	22.0	22.3	23.0	23.0	23.1	23.2	23.2	137.8		
Primary (noninterest) expenditure	25.2	25.0	29.3	25.6	24.7	24.0	23.7	23.6	23.3	145.0		
Automatic debt dynamics <sup>5/</sup>	-0.4	0.1	5.4	-1.7	-0.6	-0.5	-0.1	-0.1	-0.1	-3.0		
Interest rate/growth differential <sup>6/</sup>	-0.6	0.3	4.5	-1.7	-0.6	-0.5	-0.1	-0.1	-0.1	-3.0		
Of which: real interest rate	0.5	0.8	1.2	1.1	1.1	1.1	1.1	1.1	1.0	6.5		
Of which: real GDP growth	-1.1	-0.6	3.3	-2.7	-1.7	-1.6	-1.2	-1.1	-1.2	-9.5		
Exchange rate depreciation <sup>7/</sup>	0.1	-0.2	0.9	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.3	0.6	-3.2	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-1.0		
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	-0.3	0.6	-3.2	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-1.0		
Residual, including asset changes <sup>8/</sup>	0.9	-0.1	-1.3	-1.2	-0.1	0.0	0.0	0.0	0.0	-1.2		



Source: IMF staff calculations.

<sup>1/</sup> Public sector is defined as non-financial public sector.

<sup>2/</sup> Based on available data.

<sup>3/</sup> EMBIG.

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

<sup>5/</sup> Derived as  $[(r - \pi(1+g)) - g + ae(1+r)] / (1+g+\pi+gm)$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = 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).

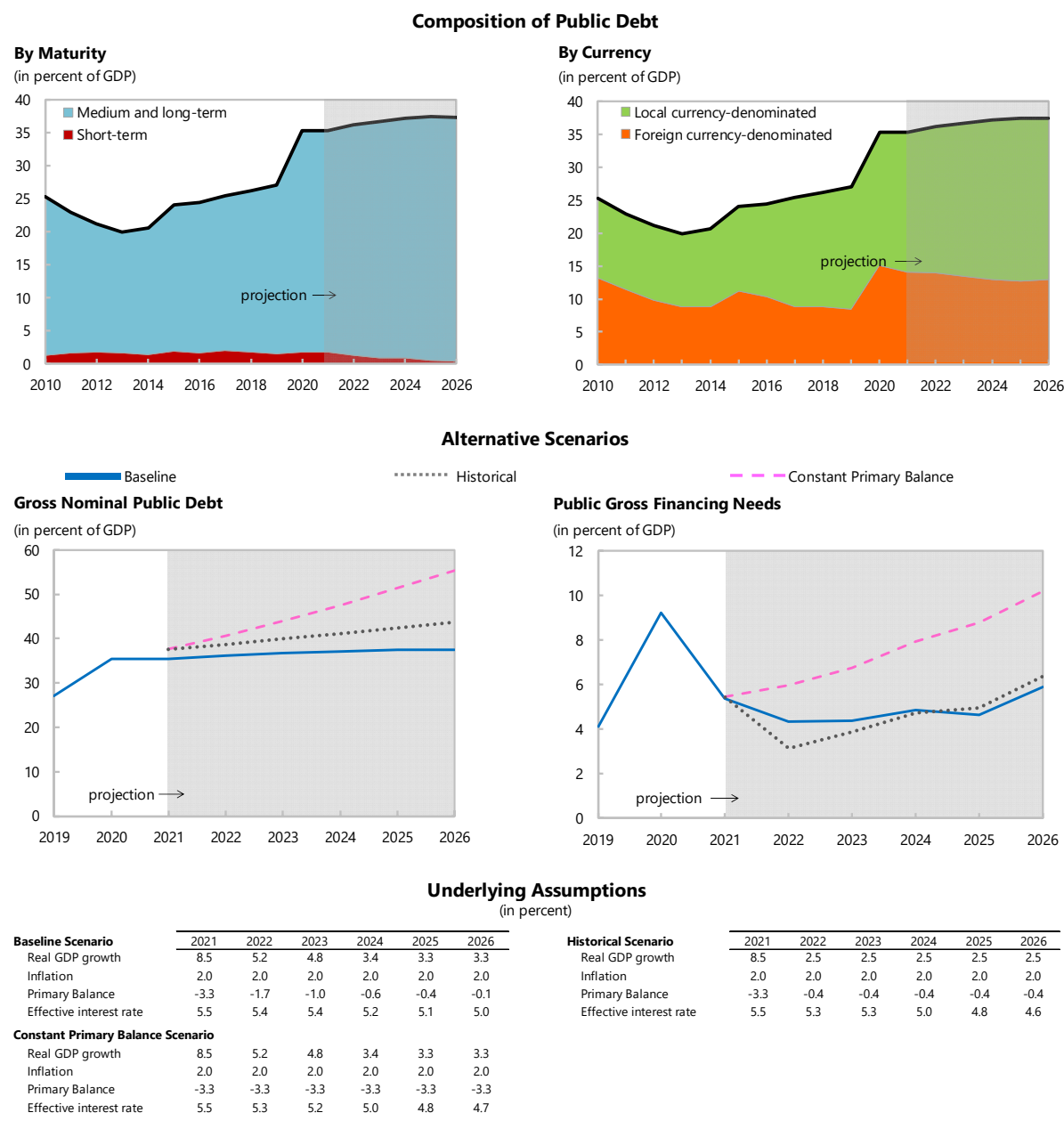
<sup>6/</sup> The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

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

<sup>8/</sup> Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

<sup>9/</sup> 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.

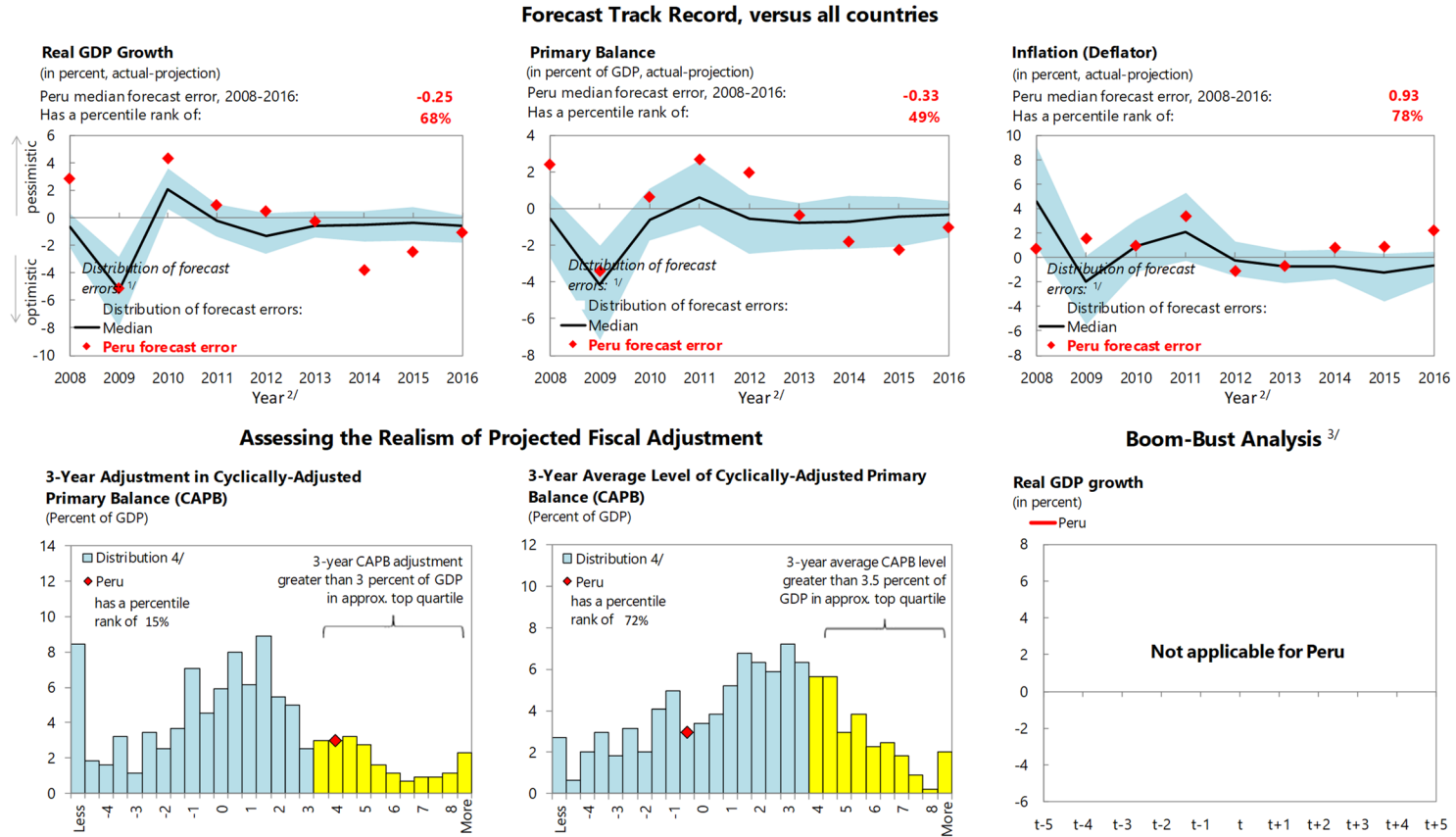
**Figure 2. Peru: Public Debt Sustainability Analysis (DSA) – Composition of Public Debt and Alternative Scenarios**



Source: IMF staff calculations.



Figure 3. Peru: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

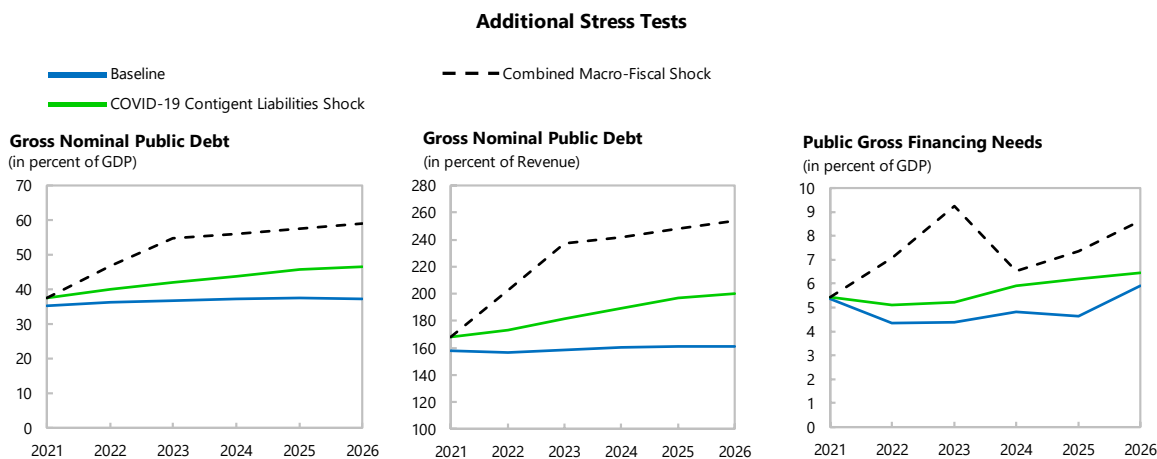
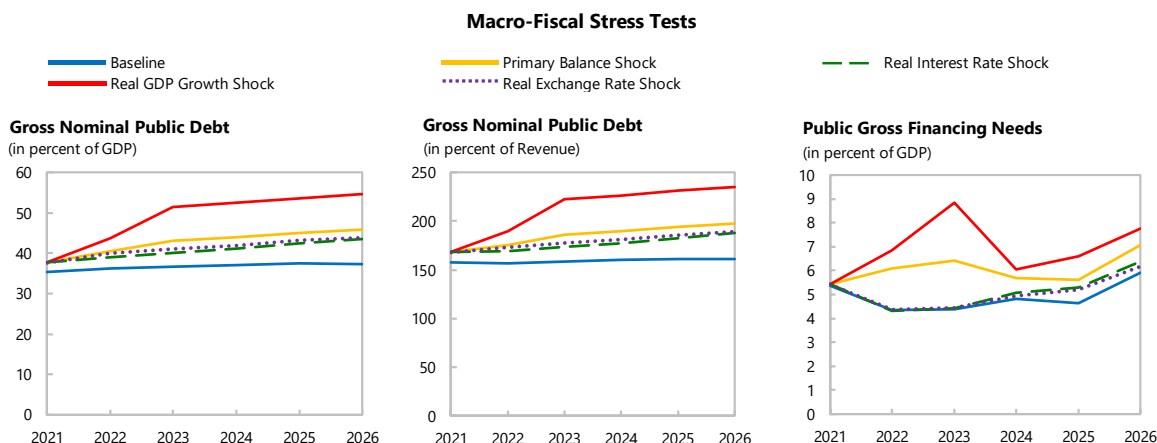
1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Peru, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Peru: Public DSA – Stress Tests



### Underlying Assumptions (in percent)

	2021	2022	2023	2024	2025	2026
<b>Primary Balance Shock</b>						
Real GDP growth	8.5	5.2	4.8	3.4	3.3	3.3
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-3.3	-3.2	-2.5	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.3	5.3	5.1	5.0	4.9
<b>Real Interest Rate Shock</b>						
Real GDP growth	8.5	5.2	4.8	3.4	3.3	3.3
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-3.3	-1.7	-1.0	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.3	5.5	5.5	5.5	5.6
<b>Combined Shock</b>						
Real GDP growth	8.5	0.1	-0.3	3.4	3.3	3.3
Inflation	2.0	0.7	0.7	2.0	2.0	2.0
Primary balance	-3.3	-4.1	-5.0	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.6	5.4	5.4	5.5	5.5
<b>Real GDP Growth Shock</b>						
Real GDP growth	8.5	0.1	-0.3	3.4	3.3	3.3
Inflation	2.0	0.7	0.7	2.0	2.0	2.0
Primary balance	-3.3	-4.1	-5.0	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.3	5.3	5.2	5.0	4.9
<b>Real Exchange Rate Shock</b>						
Real GDP growth	8.5	5.2	4.8	3.4	3.3	3.3
Inflation	2.0	6.8	2.0	2.0	2.0	2.0
Primary balance	-3.3	-1.7	-1.0	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.6	5.2	5.0	4.8	4.7
<b>COVID-19 Contingent Liabilities Shock</b>						
Real GDP growth	8.5	4.7	4.3	2.9	3.3	3.3
Inflation	2.0	2.0	2.0	2.0	2.0	2.0
Primary balance	-3.3	-1.7	-1.0	-0.6	-0.4	-0.1
Effective interest rate	5.5	5.3	5.3	5.0	4.9	4.7

Source: IMF staff.

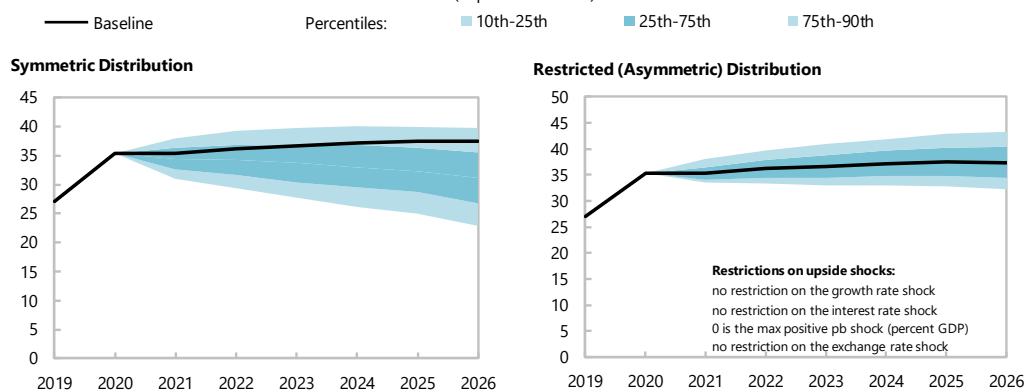
**Figure 5. Peru: Public DSA – Risk Assessment**

**Heat Map**

Debt level <sup>1/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs <sup>2/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile <sup>3/</sup>	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

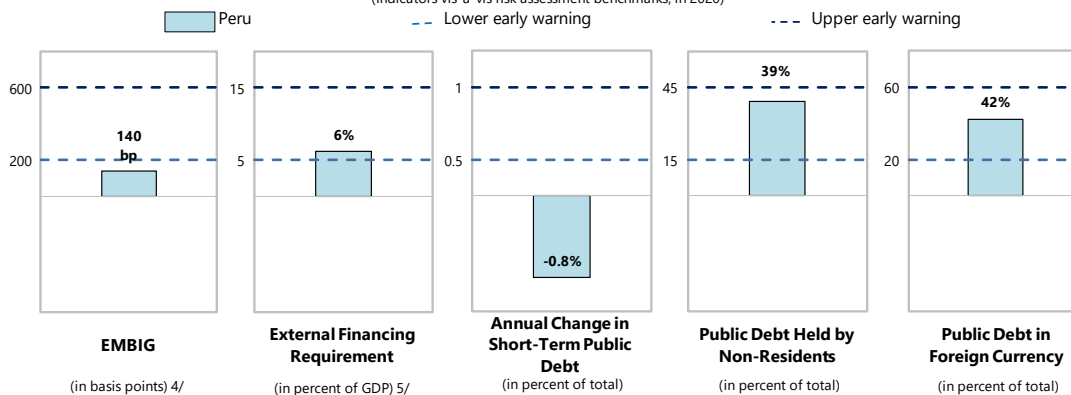
**Evolution of Predictive Densities of Gross Nominal Public Debt**

(in percent of GDP)



**Debt Profile Vulnerabilities**

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 10-Nov-20 through 08-Feb-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

**Statement by Mr. Chodos, Executive Director and  
Mr. Hendrick, Senior Advisor on Peru  
May 27, 2021**

**Key Points**

- Peru is recovering from the negative impact of COVID-19.
- Peru's track record of very strong macroeconomic policies and institutional frameworks played a crucial role in mitigating the impact of the pandemic.
- Peru continues to face the effects of the unprecedented shock caused by the pandemic and the authorities persist in their efforts to mitigate the impact on the poor.
- Global risks remain elevated.
- The FCL has played an important role in enhancing market confidence if tail risks were to materialize.
- Peru will continue to treat the FCL as precautionary and temporary; and, as originally envisaged, will exit in May 2022, provided that global risks have declined.

Our Peruvian authorities would like to express their gratitude to staff and Management for their continued support and for this review of Peru's continued qualification for a Flexible Credit Line (FCL). Peru's track record of very strong macroeconomic policies and institutional frameworks contributed to the accumulation of large policy buffers, which were crucial to implement a robust response to mitigate the impact of the COVID-19 pandemic. The FCL provided a valuable added insurance against elevated external downside risks and will continue to play this critical role for the second year of the arrangement. Our authorities will continue to treat the FCL as precautionary and, provided that global risks abate, will be ready to exit in May 2022.

**1. Peru's economic activity is expected to strongly rebound in 2021 and recover to pre-pandemic levels in 2022.** As discussed at the time of the recent Article IV consultation, after a deep contraction of 11.1 percent in 2020, the authorities expect double-digit growth in 2021, led by a strong recovery in domestic demand and historically high commodity prices.<sup>1</sup> GDP growth was higher than expected in the first quarter of 2021 (3.8 percent) despite the impact of a second wave of COVID-19 cases. As of April 2021, high-frequency indicators, including cement consumption, VAT revenues, public investment, and traditional and non-traditional exports, point to sustained momentum in economic recovery, although production remains significantly below pre-pandemic levels in several labor-intense industries. The authorities have implemented a targeted round of mobility restrictions, differentiating regions and cities according to their health risk level, with an aim to minimize the impact on economic activity. Employment is expected to gradually recover to pre-pandemic levels in the next few years.

**2. Headline inflation remains within the target<sup>2</sup> and inflation expectations remain well anchored at the mid-point of the target range.** Peru has maintained low single-digit and stable inflation since 2002, when the inflation-targeting framework was implemented. The Central Reserve Bank of Peru

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<sup>1</sup> Peru is the world's second largest copper producer.

<sup>2</sup> The BCRP's inflation target range is 1-3 percent.

(BCRP) has built strong credibility, which has enhanced the power of monetary policy. At the onset of the pandemic, in March 2020, the BCRP policy rate was reduced by 200 bps to a historic low of 0.25 percent. In its May 2021 forward-guidance, the BCRP continues to state that accommodative monetary conditions are likely to persist for an extended period. Given the large negative output gap and anchored inflation expectations, monetary policy will remain expansionary until clear signs of recovery are in place.

**3. The authorities continue to value exchange rate flexibility as an appropriate shock absorber for a small open economy like Peru.** As explained in the staff report, the level of the exchange rate is market-determined; evolves in line with fundamentals; and, when needed, BCRP FX intervention takes place on both sides of the market to reduce excess volatility. The level of international reserves reached US\$ 77.8 billion as of May 12, 2021 (up from US\$ 68.4 billion at end-2019), which well exceeds standard reserve adequacy metrics; and, as shown in Figure 5 of the staff report, compares favorably to peers. This level of reserves, enhanced by the FCL arrangement, provides a considerable buffer against external risks.

**4. Peru's fiscal position remains strong and public debt is still relatively low, despite the large policy support deployed in 2020.** The additional expenditure due to COVID-19 was financed with public savings and issuance of global bonds in international markets at a very favorable rate, given the solid fundamentals and the investment grade rating assigned to Peru by the three major credit rating agencies. Still, the ratio of public debt to GDP rose to just 34.8 percent by end-2020. As the economy recovers and crisis-related fiscal measures unwind, the authorities expect the fiscal deficit to converge to 1.0 percent of GDP in the medium term, with the public debt-to-GDP ratio to fall to 31.4 percent by 2030 and gradually decline below the threshold of 30 percent in the outer years. The staff's DSA analysis confirms that public debt remains sustainable with a high probability.

**5. The financial system has remained strong and stable and is well supervised by the regulatory authority.** As explained in the Article IV discussion, significant steps have been taken to strengthen financial sector oversight, in line of the recommendations of the 2018 FSAP. As Peru entered the pandemic, banks were well-capitalized and profitable, with average capital and adequacy ratios above regulatory thresholds. Dollarization in the financial system continues to decline, and NPL growth has been limited. As the economy recovers, and macroprudential policy easing begins to normalize, the authorities do not envisage a substantial change of these conditions, given banks' ability and experience with their corporate and household clients. Banks in Peru are mostly conservative and follow strict screening and safeguard procedures. The Superintendence of Banks, Insurance Companies, and Pension Funds (SBS) has implemented a capital and liquidity regulatory framework aiming to achieve the same objectives of Basel III, with broadly equivalent overall capital levels. The authorities will continue to focus on the remaining FSAP recommendations, including higher capital surcharges for systemically important banks and enhanced supervision of financial groups.

**6. Peru continues to face the effects of the unprecedented shock caused by the pandemic and the authorities persist in their efforts to mitigate the impact on the poor.** Although the second wave of COVID-19 is slowly abating, the number of cases continues to challenge the capacity of the health sector. Additionally, despite a large policy response in 2020 equivalent to 20 percent of GDP, and due to the presence of a large hard-hit informal sector, progress in poverty reduction experienced a setback. Poverty increased to 30.1 percent in 2020, up from 20.2 percent in 2019. After a slow start due to some initial supply problems, the vaccination rollout is speeding up and the government has secured 60 million doses of COVID-19 vaccines for this year, which is expected to cover the adult population

before the end of the year. In the meantime, the authorities have indicated that additional measures to support the most needed segment of the population, as well as small- and medium-sized businesses, will be announced in the following weeks.

**7. The authorities agree with staff's view that the outlook is uncertain, and risks remain elevated, with some upside risks that could materialize.** First, there is persistent uncertainty about pandemic-related global developments with the potential to negatively affect forecasts for Peru's main trading partners, including the possibility of new virus strains that could prolong the COVID-19 outbreak worldwide. Second, there is a risk associated with the upcoming winter season in Peru if the vaccination rollout does not accelerate due to delivery delays. Third, the second round of the presidential elections is scheduled for June 6, 2021; and as every five years, uncertainty increases around the transition to a new government, but both candidates have expressed in public statements their commitment to strong policies and institutional frameworks. Fourth, Peru is a small open economy subject to a variety of external shocks, including a sharp rise in global risk premia, volatility in commodity prices, and a global reversal in trade integration. Yet, in addition to the possibility of stronger global growth, the authorities expect that their efforts to revamp public investment<sup>3</sup> and accelerate vaccine rollout will contribute to materializing some upside risks.

**8. The External Economic Stress Index (ESI) for Peru is expected to turn negative over the next 12 months in the baseline scenario.** As described in Box 1, despite favorable commodity prices and the global growth rebound, risks associated with EME equities (as measured by the VXEEM volatility index) and debt rollovers (as measured by the change in the 10-year U.S. Treasury yield) could turn the ESI negative in the latter part of the year. The stress levels will likely remain above pre-pandemic levels well into 2022. Moreover, we appreciate staff's relevant comment that the ESI could be understating the level of economic stress, as the exports indicator (based on the weighted average of copper and gold prices) does not capture the importance of the tourism industry. The latter has been severely affected and is not expected to rebound to pre-pandemic levels until vaccination reaches higher levels in Peru and in tourists' countries of origin. The adverse scenario shows higher external economic stress as expected, assuming a reversal of recent commodity price gains, lower growth, and increasing EME volatility. Against this backdrop, the FCL continues to provide an important buffer of international liquidity.

**9. The authorities will continue to treat the FCL as a precautionary and temporary arrangement.** Given the high risks and uncertainty surrounding the recovery of the world economy after the pandemic, and the expected higher-than-average economic stress (as reflected by the ESI in the baseline and adverse scenarios), the authorities will maintain access unchanged at this mid-term review and intend to exit the FCL arrangement after the end of the second year, conditional on a reduction of global risks. The authorities reiterate their appreciation to Management, Mr. Bonato, and his team for their commitment and hard work during the mid-term review process. The FCL has provided a strong signal of confidence in the strength of Peru's policy framework and fundamentals, as well as valuable protection against tail risks amid unprecedented uncertainty and volatility in global financial markets.

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<sup>3</sup> Between January and April 2021, general government investment increased 65 percent in real terms, which shows the Government's strategy to boost economic activity and create jobs. In the following months, investment is expected to continue to be dynamic due to the actions that are being taken to guarantee the execution of the budget.