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PERU

May 2023

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRAGEMENT—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 17, 2023. Based on information available at the time of these discussions, the staff report was completed on May 2, 2023.
- 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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PRESS RELEASE

PR23/160

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

FOR IMMEDIATE RELEASE

- The IMF completed the mid-term review of Peru's qualification under the Flexible Credit Line (FCL) arrangement. The arrangement was approved on May 27, 2022 for an amount of about $5.3 billion (equivalent to 300 percent of quota).
- Peru continues to qualify for the FCL by virtue of its very strong economic fundamentals and institutional policy frameworks, and sustained track record of implementing very strong macroeconomic policies that have helped the country absorb large adverse shocks in recent years.
- Given the still elevated global risks and increased uncertainty, the authorities have expressed a desire to maintain the current level of access. The authorities intend to continue to treat the arrangement as precautionary. 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.

Washington, DC – May 18, 2023: The Executive Board of the International Monetary Fund (IMF) completed on May 17, 2023, the mid-term review of Peru's qualification under the Flexible Credit Line (FCL) arrangement.[1] The Executive Board reaffirmed that Peru's very strong macroeconomic policies and institutional policy frameworks, sound economic fundamentals, and proven track record of policy implementation warrant continued access to FCL resources.

The two-year arrangement was approved on May 27, 2022 for an amount of SDR 4.0035 billion (about US$5.3 billion or 300 percent of quota). The Peruvian authorities have reiterated their intention to continue to treat the arrangement as precautionary. The authorities intend to exit the arrangement conditional on the reduction of external risks, in line with their strategy that sees the use of the facility as temporary.

Following the Executive Board's discussion on Peru, Mr. Kenji Okamura, Deputy Managing Director, made the following statement:

"Over the past two decades, Peru's very strong economic fundamentals, institutional policy frameworks, and prudent policy settings have underpinned robust economic growth and stability, spanning multiple electoral cycles and governments. The solid inflation-targeting

[1] 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.

regime, credible fiscal framework, and robust financial sector supervision and regulation have allowed the country to deploy a robust policy response to mitigate the socio-economic impact of the pandemic, and subsequently remove the policy stimulus, while preserving macroeconomic stability and maintaining ample access to international capital markets.

"Following a strong post-pandemic rebound, economic activity slowed down in 2022 and is expected to remain subdued in 2023, with inflation gradually declining to the target range by year-end. The economic outlook remains highly uncertain, and external risks remain elevated. Access to the Flexible Credit Line arrangement, along with sizable international reserves, low public debt, anchored inflation expectations, and a sound financial system have provided the authorities with valuable insurance in a period of high uncertainty and volatility.

"Peru has a sustained track record of implementing very strong macroeconomic policies, and the authorities remain committed to maintaining very strong policies in the future. The Flexible Credit Line 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 exit the facility conditional on the evolution of external risks."

INTERNATIONAL MONETARY FUND

PERU

May 2, 2023

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

EXECUTIVE SUMMARY

Context. Peru's long track record of very strong economic fundamentals and institutional policy frameworks allowed the country to deploy a robust policy response to mitigate the impact of the pandemic and a subsequent successful withdrawal, while preserving macroeconomic stability and sustaining ample access to international capital markets. GDP growth slowed in 2022, falling below potential as the policy stimulus was withdrawn, the external backdrop turned more challenging, and political instability weighed on private investment. Growth is expected to remain subdued in 2023 and to converge gradually to potential over the medium term. Inflation rose in line with international trends but is expected to fall towards the upper end of the target range by year-end. The macroeconomic policy mix is broadly appropriate.

Risks. While social unrest has subsided, the outlook is highly uncertain. Risks to the growth outlook are tilted to the downside, including from an abrupt global slowdown and commodity price volatility, monetary policy miscalibration in advanced economies and systemic financial instability, an intensification of political uncertainty at home, and climate-related shocks. Risks to the inflation outlook are tilted to the upside. The external accounts remain vulnerable to external shocks.

Arrangement. The Executive Board approved a two-year Flexible Credit Line (FCL) arrangement of SDR 4.0035 billion (about US$5.3 billion or 300 percent of quota) on May 27, 2022. The arrangement has supplemented Peru's strong policy buffers and helped anchor market confidence. The authorities expect to continue to treat the FCL as precautionary and maintain access levels. Exit from the arrangement will be conditional on the evolution of external risks, as outlined at the time of the FCL approval.

Review. Staff supports completion of the FCL review as (i) Peru continues to meet all FCL qualification criteria; (ii) the Executive Board gave a very positive assessment of Peru's policies in the context of the 2023 Article IV Consultation; and (iii) Peru continues to have very strong economic fundamentals and institutional policy frameworks, is implementing—and has a sustained track record of implementing—very strong policies, and remains committed to maintaining such policies in the future. Upon completion of this review, Peru would continue to be allowed to make purchases under the FCL arrangement until its expiration on May 26, 2024.

Approved By
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CONTEXT

1. Peru's sustained track record of very strong economic fundamentals and institutional policy frameworks continues to serve it well. The solid inflation-targeting regime, credible fiscal framework, and robust financial sector supervision and regulation have enabled strong growth and the build-up of substantial macroeconomic buffers over the past two decades, spanning multiple electoral cycles and governments. Prior to the COVID-19 pandemic, real GDP rose at an average annual rate of almost 5 percent, multiplying its size by about 2½ times and allowing Peru to reach the rank of upper middle-income economy. Inflation averaged 2½ percent over the same period. Moreover, the built-up of sizable macroeconomic buffers allowed the country to deploy a robust policy response to mitigate the impact of the pandemic, while preserving macroeconomic stability, and sustaining ample access to international capital markets. The successful withdrawal of the pandemic stimulus afterward further attests to the strength of Peru's policy frameworks and resilience of the economy.

2. Social unrest from the latest episode of political instability has subsided. Instability is a recurring feature of Peru's political system, which is characterized by a fragmented party system, frequent clashes between the executive and legislative branches, and the removal of sitting Presidents. The latest such episode took place in December 2022, when former Vice-President Ms. Dina Boluarte became President following a failed *coup d'état* and the impeachment of President Pedro Castillo on allegations of corruption.[1] Violent and disruptive protests ensued after Ms. Boluarte was sworn in. The demonstrations were led by supporters of Mr. Castillo that demanded early national elections, and a constitutional assembly. While Ms. Boluarte had agreed with a snap vote, the calls were rejected by Congress.[2] After three months of protests, demonstrations have waned and are largely contained to the southern part of the country.

3. The government continues to work on ways to strengthen policy commitments. President Boluarte and her cabinet have signaled their commitment to preserve Peru's very strong policy frameworks. Going forward, structural reforms to improve living standards will become an increasingly important ingredient of Peru's policy agenda. Working across the political spectrum will be necessary to quell social strife, restore confidence, and tackle inequality and poverty.

4. Peru's ample policy buffers are supplemented with access to the FCL arrangement, which provides added insurance against tail risks. The very strong policy frameworks that underpin Peru's macroeconomic resilience are supported by solid policy buffers, including low public debt (34.3 percent of GDP at end-2022), sizable international reserves (30 percent of GDP and about 243 percent of the ARA metric at end-2022), access to international capital markets, and a

[1] Ms. Boluarte is the first female president and Peru's 7th president since 2016.

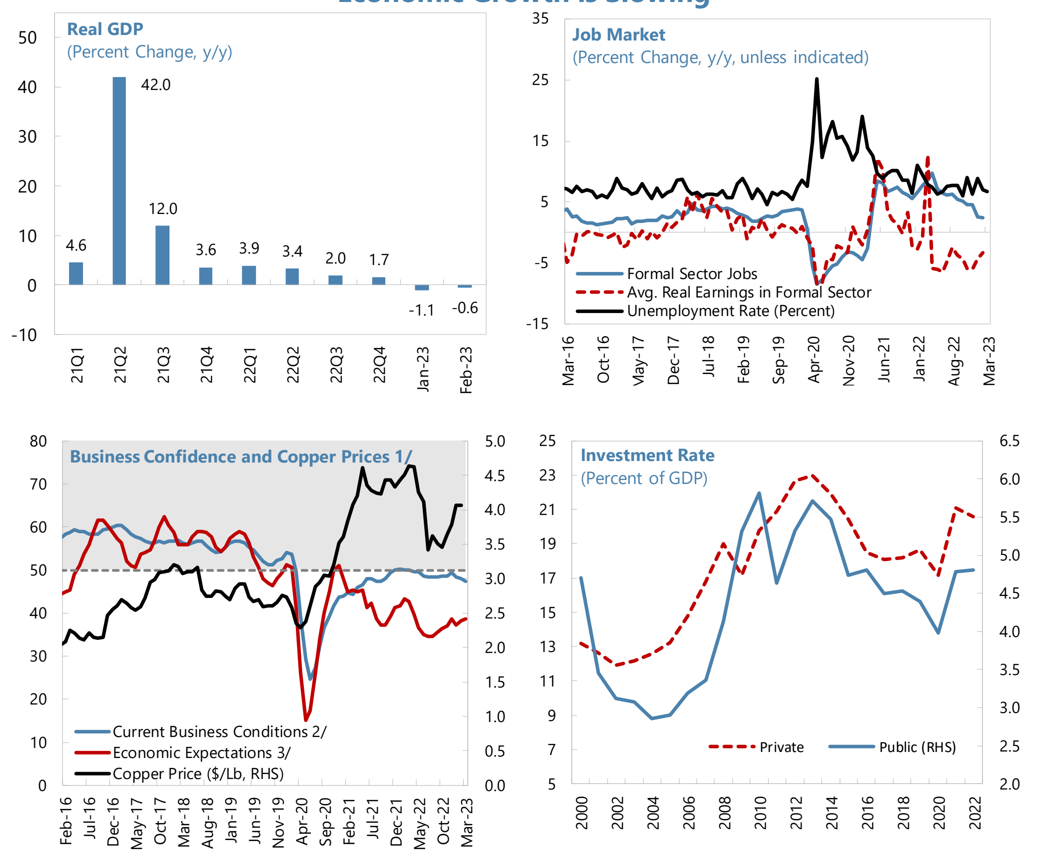
[2] The Constitution establishes the timing of Presidential elections, which is set for April 2026. Changing the date of the Presidential election requires a change of the Constitution, which in turn requires Congressional approval by a super majority in two legislative sessions.

robust financial sector. Access to the FCL arrangement further supports Peru's capacity to cope with adverse shocks.

RECENT DEVELOPMENTS

5. **Economic activity is slowing down.** Following a rapid post-pandemic recovery in 2021, when real GDP rose 13½ percent, GDP growth slowed significantly in 2022 to 2.7 percent, falling below potential growth as the macroeconomic policy stimulus was withdrawn, the external backdrop turned more challenging amid falling terms of trade and tighter financial conditions, and political instability weighed on private investment. Real GDP declined by about 1 percent in January 2023, as road and airport blockades and subdued confidence associated with the protests against President Boluarte adversely affected the tourism, agriculture, and mining sectors. Economic output recovered somewhat in February as protest activity waned and tourist sites reopened. However, Peru has been recently affected by a cyclone and torrential rains, which is likely to affect negatively economic growth. Despite the rapid post-pandemic recovery, the unemployment rate (at 7.5 percent in March 2023) remains above the pre-pandemic level, while job creation in the formal sector continues to increase at a lower rate. Meanwhile, nominal incomes are not keeping up with higher inflation.

Economic Growth is Slowing

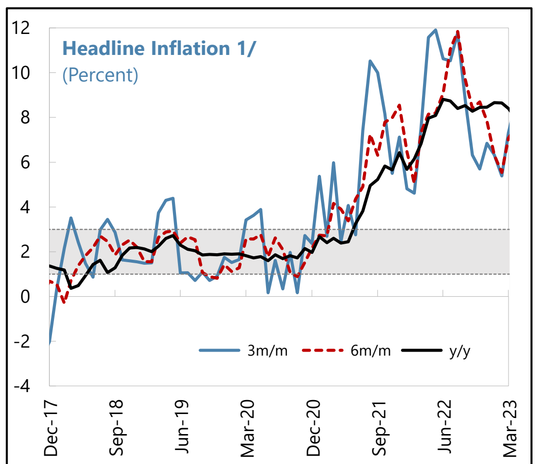


Sources: BCRP, Haver and INEI.
1/ Index value of 50+= (shaded area) indicates growth in the Current Business Conditions or Economic Expectation indices.
2/ Index: 3 month moving average of current business conditions.
3/ Index: 3 month moving average expectations.

6. Inflation is gradually declining but remains above the target range. Headline inflation rose well above the target band of 1-3 percent starting in mid-2021, driven by imported inflation and global supply shocks, including high energy and food prices (in line with global and regional trends). Inflation peaked at 8¾ percent in June 2022, the highest level in the last two decades, and remains high due to supply shocks related to social unrest and road blockades. More immediate indicators of inflation momentum, such as the annualized inflation rate over shorter time horizons (i.e., 3 or 6 months), have been declining since mid-2022, except for an increase in January and March. Similarly, the annualized core inflation and wholesale price inflation rates over shorter time horizons have started to moderate somewhat. Inflation expectations have declined, while longer-term expectations remain relatively well-anchored.[3]

7. The fiscal position remains robust, with public debt decreasing from a low base. Based on preliminary data, the 2022 non-financial public sector (NFPS) fiscal deficit fell to 1.6 percent of GDP—well within the fiscal rule of 3¾ percent of GDP—and a nearly one percentage point improvement from the previous year. Revenue as a share of GDP reached 26 percent of GDP in 2022 (about one percentage point of GDP higher than the pre-pandemic level), though tax revenue increased by about one percentage point of GDP due to one-off receipts. Higher tax revenues more than compensated the increase in public spending. The public debt stock as a share of GDP fell two percentage points from 2021 to 34.3 percent in 2022, well below the debt limit of 38 percent of GDP. The cumulative 12-month fiscal deficit rose to 1.9 percent of GDP in March. The share of foreign holdings of government debt has declined significantly (from 50 percent at end-2021 to 41 percent in February 2023).

8. Monetary policy has been tightened significantly. Following the emergence of inflationary pressures in mid-2021, the BCRP began its tightening cycle in the second half of 2021 increasing the policy rate by 750 basis points in 18 consecutive steps to 7¾ percent in January 2023. The BCRP paused the tightening cycle in February 2023 to assess the impact of monetary policy on inflation and avoid an unnecessary negative impact on economic activity (especially as the output gap is negative) but has signaled that it would take additional measures if needed.



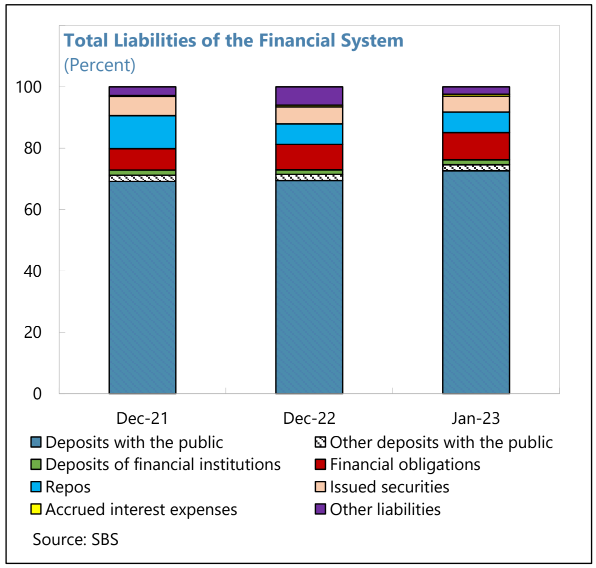
Sources: BCRP and IMF Staff Calculations.
1/ CPI data for Lima Metropolitan Region.

[3] 12-month-ahead inflation expectations fell from 5½ percent in June 2022 to 4¼ percent in March 2023.

Box 1. Effects of Recent Banking Turmoil on the Peruvian Financial System

The recent banking turmoil in the US and Europe has not spilled over to Peru. Deposit withdrawals related to liquidity concerns and vulnerabilities related to unrealized losses on long-duration assets, as interest rates have risen rapidly, have prompted a repricing of risk in the US and European banking sectors. In Peru, however, there has not been any evidence of spillovers, while buffers and effective risk management suggest the system is insulated from similar vulnerabilities that would lead to widespread deposit withdrawals. Liquidity coverage ratios (LCR) are well above regulatory minimums (150 percent in local currency, 170 percent in foreign currency).

Financial institutions (FIs) in Peru have limited exposure to interest rate risk. Held-to-maturity (HTM) securities represent 2 percent of financial system assets, with current unrealized losses amounting to 10 percent of the HTM portfolio. Long-dated securities in the available-for-sale (AFS) portfolio and mortgages represent 4 and 11 percent of financial system assets, respectively. FIs are also required to manage exposure to interest rate risk monthly, with specific limits that trigger additional capital requirements.



Funding of FIs, largely reliant on public deposits, is also relatively stable. Public deposits account for 71 percent of liabilities of the financial system, and approximately 40 percent of the total amount of deposits in the financial system is covered by deposit insurance. Other sources of funding, including unsecured financial obligations, and secured funding operations (repurchase agreements) comprise 17 percent. Direct liability exposure with foreign counterparties is limited (4 percent), but foreign-owned banks—that are required to meet local regulatory requirements—manage 38 percent of assets in the financial system.

9. **The financial sector remains resilient.** The banking system remained healthy despite tightening financial conditions, the withdrawal of support measures, and increased financial market volatility. Performance in the banking system has returned to near pre-pandemic levels, while non-performing loans (NPLs) have stabilized and remain fully provisioned.[4] Following the withdrawal of supportive borrower-based measures, the gradual reinstatement of buffers, and tightening monetary policy, credit growth has decelerated to 3 percent (y/y) in February 2023 and turning negative in real terms (contracting 5½ percent (y/y) in February 2023) as increases in consumer, small and micro enterprises, and mortgage credit were offset by a contraction in wholesale credit. Falling metals prices, the global financial environment, and continued political turmoil contributed to some asset price volatility in 2022. The recent banking turmoil in the US has not resulted in spillovers to the Peruvian financial system (Box 1), and strong buffers and effective risk management practices indicate that financial institutions are less vulnerable.

[4] Return on equity (ROE) and return on assets (ROA) stood at about 16¼ and 2 percent as of December 2022, compared to 17¾ and 2⅓ percent in February 2020, while NPLs were 4 percent.

10. The external accounts remain strong. The current account deficit widened to 4⅓ percent of GDP in 2022, almost double the level a year earlier, reflecting a deterioration in the terms of trade and transitory factors, including higher demand for non-durable goods (as the economy reopened after a long period of confinement), increased shipping rates, and the repatriation of large profits by foreign companies.[5] However, the currency has remained broadly stable, and exchange rate volatility remains among the lowest in the region. The central bank (BCRP) continues to intervene in the spot and forward markets to mitigate volatility, but net interventions fell to about $1 billion in 2022 down from $18.3 billion in 2021. International reserves remain at a comfortable level (US$74.3 billion or around 28 percent of GDP as of March 2023). External debt at end-2022 was at 41.3 percent of GDP, down from 45.9 percent of GDP in 2021.

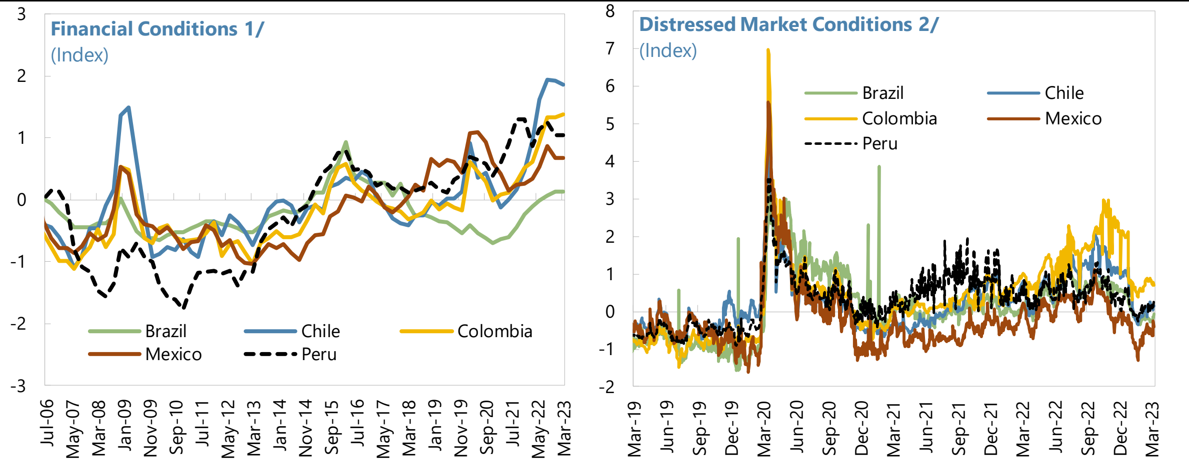
OUTLOOK AND RISKS

11. Economic activity is expected to remain weak in the near term. Real GDP is projected to grow by 2.2 percent in 2023, reflecting tighter financial conditions, decelerating credit growth, sluggish external demand, subdued confidence, the impact of social protests and the transport blockades earlier in the year, fertilizer shortages, and recent cyclone and torrential rains.[6] Production at a new copper mine (*Quellaveco*), a small fiscal impulse, and higher copper prices would provide some support to growth. GDP growth would gradually converge to potential over the medium term, and the small negative output gap of 0.4 percent (of potential GDP) in 2023 is expected to close by 2024. The current account deficit is projected at 1.9 percent of GDP in 2023 and to gradually decline to 1½ percent over the medium term, with low external financing and debt rollover risks. Inflationary pressures are expected to persist in the near term, driven mostly by supply shocks and one-off increases in education prices, but the prompt monetary policy tightening until January 2023 and weakening global and domestic demand are expected to bring inflation within the target range by late 2023-early 2024.

12. Uncertainty around the outlook is high, with downside risks to the growth outlook and upside risks to the inflation outlook. The main sources of external risk include an escalation of Russia's war in Ukraine, an abrupt global slowdown and commodity price volatility, monetary policy miscalibration with a possible de-anchoring of inflation expectations and systemic financial instability. While social unrest from the latest episode of political instability has subsided, key domestic risks include higher political instability and social unrest, and natural disasters. Upside risks to the growth outlook include a "soft landing" in key trade partner countries and an acceleration of structural reforms at home, which could increase medium-term growth.

[5] Net inflows into the capital and financial account are estimated to have normalized in 2022 after record highs of 7 percent of GDP in 2021—following the early withdrawals from the private pension fund and prefinancing of public amortizations. Inflows were dominated by a sharp increase in FDI, reflecting higher reinvested earnings from high metal prices and the additional liquidation of portfolio investments abroad by private pension funds.

[6] The downward revision of GDP growth from 2.4 percent at the time of the 2023 Article IV Consultation to 2.2 percent reflects a higher-than-anticipated negative impact of the protests earlier in the year.



Sources: IMF FCI, IMF DMCI, and IMF Staff Calculations.
1/ The IMF's Financial Conditions Index (FCI) is composed of 11 variables. Higher values indicate a tightening of financial conditions.
2/ The IMF's Distressed Market Conditions Index (DMCI) is composed of 23 variables. Higher values indicate greater distress.

13. The external accounts remain vulnerable to external shocks amid high global uncertainty. Under the baseline scenario, the stress levels would remain above pre-pandemic levels well into 2023, although external risks have abated since the approval of the FCL and the external economic stress index (ESI) is expected to be only slightly negative (Box 2). Under an adverse scenario of the ESI, lower global growth amid tightening financial market conditions, increased emerging market volatility, and a reversal of the commodity price gains in the last couple of years, would result in high external economic stress over the rest of the arrangement period. The stress magnitude in this scenario remains comparable to the adverse evolution of risks projected at the time of the FCL request.

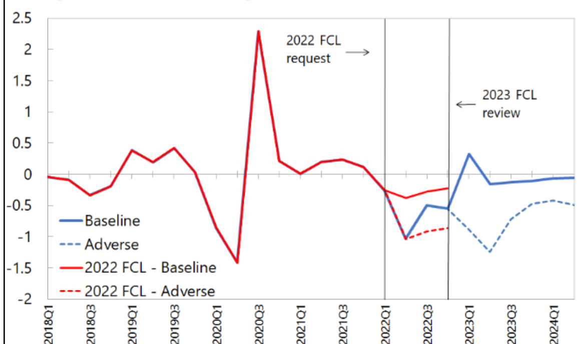
14. Peru's ample policy buffers and access to the FCL arrangement provide insurance against elevated external downside risks. The very strong policy frameworks that underpin Peru's macroeconomic resilience and solid policy are supplemented by access to the FCL arrangement, further supporting the country's capacity to cope with adverse shocks. The authorities intend to continue treating the FCL arrangement as precautionary, providing insurance against a wide range of adverse external shocks, and supporting their macroeconomic strategy by helping to preserve investor confidence. In line with the strategy laid out at the time of the 2022 FCL approval, exit from the arrangement will be contingent on the evolution of external risks.

Box 2. Update of the External Economic Stress Index[1/]

The updated External Economic Stress Index (ESI) for Peru shows that external risks continue to be high. The ESI under the baseline scenario indicates substantially higher risks in 2022 relative to the level and forecasts at the time of the 2022 FCL request. For 2023, an upward revision in copper and gold price assumptions and global financial conditions would improve the external outlook relative to 2022, but would remain below 2019 levels. The adverse scenario assumes lower global growth and commodity prices with significantly negative impact on Peru's terms of trade, and higher financial market volatility. The magnitude of the external stress in this adverse scenario remains comparable with that projected at the time of the FCL request.

Under the baseline, the ESI would stabilize around the average over the next year but remain below 2019 levels. After a period of high stress in 2022 due to deteriorating terms of trade and lower world growth external conditions affecting Peru, the ESI is expected to stabilize mainly on account of an upward revision in commodity prices and less stringent global financial conditions, which are proxied by the emerging markets volatility index (VXEEM) and the yield on 10-year U.S. Treasuries. Nevertheless, the index is expected to remain slightly negative and below the 2019 levels, suggesting a mild level of external economic stress. The baseline is built using the April 2023 World Economic Outlook (WEO) assumptions.

The adverse scenario shows that Peru continues to face elevated external risks. This scenario factors in external risks from multiple shocks affecting the global economy, including lower global credit supply due to greater-than-expected fragility in parts of the global banking system and tightening monetary policy, risk-off behavior, and a decline in business confidence. Under these shocks, global output would decrease by 1.8 percent in 2023 and 1.4 percent in 2024 relative to the baseline, consistent with the April 2023 WEO adverse scenario. As assumed in the 2022 FCL and for comparability of the index over time, copper prices are 15 percent below baseline, the VXEEM index is two standard deviations above baseline, and yields are 100 basis points above baseline.



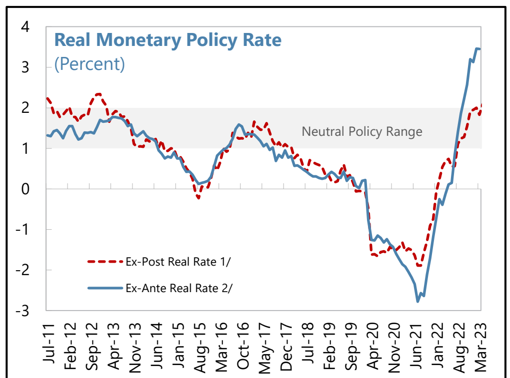
Sources: Country authorities and IMF staff estimates.

1/ The ESI summarizes Peru's external shocks and exposures to these shocks and is based on four key variables which capture external risks for Peru: the growth rate of copper and gold prices (a proxy for mineral exports and FDI), the world GDP growth rate (a proxy for exports of goods and services other than minerals), the emerging market volatility index VXEEM (a proxy for risks to equities in emerging markets), and 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 each of the four variables from their means. The weights are estimated using balance of payments and international investment position data, all expressed as shares of GDP. These variables and weights remain unchanged from the 2020 Peru FCL. The main methodology is described in "Flexible Credit Line—Operational Guidance Note," IMF Policy Paper, July 2018.

POLICY SETTINGS[7]

15. Economic fundamentals and institutional policy frameworks are very strong, and the authorities remain committed to maintaining these policies in the future. During the 2023 Article IV consultation, staff found that the authorities' economic fundamentals and institutional policy frameworks were very strong. The Executive Board also noted that Peru's very strong economic fundamentals and policy frameworks, and sustained track record of implementing very strong macroeconomic policies have helped the country absorb large adverse shocks in recent years. The most immediate challenges are to: (i) fight high inflation; (ii) prevent a significant under-execution of the budget; (iii) enhance financial resilience; and (iv) support inclusive and sustainable growth.

- ***Monetary policy.*** While inflation remains the main macroeconomic problem, this has been driven by supply-side shocks and imported inflation, as the output gap is negative. The BCRP has been proactive in tightening the monetary policy stance in response to rising inflation, and the policy rate is currently in contractionary territory. In particular, the ex-ante real rate (based on 12-month inflation expectations) currently stands at 3½ percent, exceeding the estimated real neutral rate of approximately 1½ percent. The monetary authority recently paused its tightening campaign to assess the impact of recent developments on the outlook, while signaling its commitment to tighten further if warranted. While the current data-driven approach is appropriate, a premature ending of the tightening should be avoided to prevent potentially high costs of a loss of credibility of the central bank. Furthermore, effective communication could help keep inflation expectations anchored while limiting the output costs of disinflation. In line with its long-standing policy, the BCRP intends to continue to allow the currency to fluctuate freely, with FX interventions only limited to address volatility that could endanger market functioning given risks associated with financial dollarization.



Sources: Haver Analytics and IMF Staff Calculations.
1/ Calculated on the basis of core inflation.
2/ Calculated on the basis of headline inflation expectations.

- ***Fiscal policy.*** The NFPS deficit is set to increase moderately to 2.0 percent of GDP in 2023, well below the 2.4 percent of GDP envisioned by the 2023 budget and the fiscal rules, and the public debt stock is expected to remain largely unchanged at 34.3 percent of GDP. Staff estimates that (in the absence of corrective measures) a significant budget under-implementation would be likely in 2023 as the new regional governments usually have difficulties in executing public works. Against that background, the small, targeted and temporary fiscal impulse launched by the authorities in January 2023 (*Con Punche Perú*)—for about ½ percent of GDP to help contain

[7] This section draws on the policy discussions conducted during the recent 2023 Article IV Consultation, March 22, 2023. See IMF Country Report 23/123.

the impact of the increased social unrest on vulnerable households, firms, and subnational governments in the most affected sectors and regions—is appropriate.[8] The authorities' fiscal strategy envisions a gradual fiscal consolidation of about ½ percentage points of GDP per year during 2025-26, which will further enhance macroeconomic resilience. In staff's view, the fiscal adjustment is feasible, but additional measures to strengthen revenue mobilization and/or expenditure rationalization would be necessary to achieve the fiscal targets beyond 2024 and stabilize the debt ratio.[9] Pension reform is a critical priority, as continued early withdrawals from private pension funds risk eroding the public debt investor base, increasing financing costs, and possibly complicating macroeconomic management in the future.

- ***Prudential policies.*** Closing remaining regulatory and supervisory gaps and using macroprudential policies will boost financial sector resilience. Withdrawal of the broad policy support provided during the pandemic has not resulted in an increase in NPLs, and the reintroduction of capital buffers has not impeded the flow of credit as voluntary provisioning was maintained at high levels. In the event of excessive tightening of financial conditions domestically and abroad materializing, the authorities should be ready to provide new targeted and time-bound liquidity support to ensure the flow of credit. Areas for further progress include the enhancement of financial group supervision, implementing requirements for resolution planning for domestic systemically important banks and financial groups, and progress on improving payment infrastructure and access to electronic banking.[10]

- ***Structural policies.*** The authorities need to work on several areas to address the scarring effects of the pandemic, increase potential growth, reduce informality, strengthen governance, and build resilience to climate change. Policies should focus on (i) boosting productivity by reversing pandemic-related learning losses, enhancing infrastructure, and improving the business climate; (ii) augmenting human capital by improving education and public health while reducing incentives to informality; (iii) further improving anti-corruption institutions through digitalization and enhanced transparency; and (iv) mitigating climate risks through public investments and private sector contribution. The OECD accession process would provide an opportunity to adopt these and other structural reforms.

REVIEW OF QUALIFICATION CRITERIA

16. 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, which has led to one of the lowest levels of public debt in

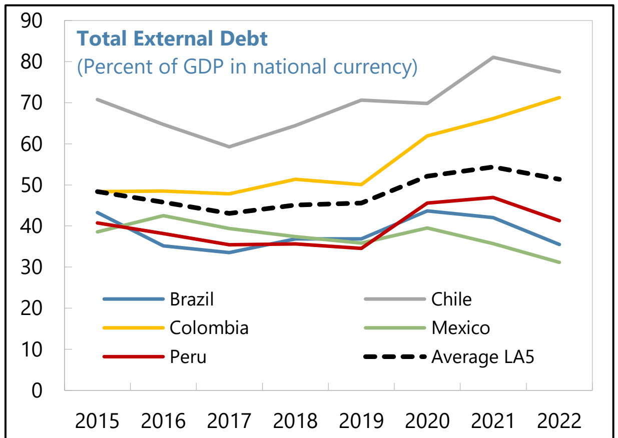
[8] See Box 1 of the 2023 Article IV Consultation report for more details.

[9] Those include efforts to improve tax administration and streamline tax expenditures, more effective control of public spending, and enhanced execution of public investment.

[10] The IMF has provided and continues to provide technical assistance to the BCRP on potential use cases and relevant issues around the design and implementation of a central bank digital currency (CBDC).

the region. Monetary policy is guided by a credible inflation targeting framework, which has led to one of the lowest inflation rates in the region over the last decades, notwithstanding inflation rising above the target band since mid-2021, in line with global trends. Financial system oversight is effective and based on a sound supervisory and regulatory framework. In staff's assessment, Peru meets all relevant core indicators for qualification (Annex I):

- ***Criterion 1. Sustainable external position***. Peru's latest External Sector Assessment conducted during the 2023 Article IV Consultation is in line with the Flexible Credit Line Operational Guidance Note (2018).[11] In particular, the external position for 2022 is assessed as moderately weaker than the level implied by fundamentals and desirable policies. However, the unprecedented circumstances witnessed in 2022, both domestically and abroad, imply that the uncertainty around the estimates underpinning the assessment is very high. The macroeconomic policy mix was strong and supported the external position in 2022, notably the rapid fiscal consolidation efforts and Peru's stronger fiscal balances compared to the rest of the world, as well as the rapid pace of monetary tightening. The central bank continued to intervene in the foreign exchange market to smooth excessive volatility, but without targeting a specific level of the exchange rate, and considerably less than in 2021.[12] The external debt sustainability analysis (Annex II) shows that Peru's external debt declined to 41.3 percent of GDP in 2022, remains low relative to peers, and is expected to decline over the medium term to about 32 percent of GDP. The net IIP is projected to stabilize at around -41 percent of GDP over the medium term.



Sources: National authorities and IMF Staff Calculations.

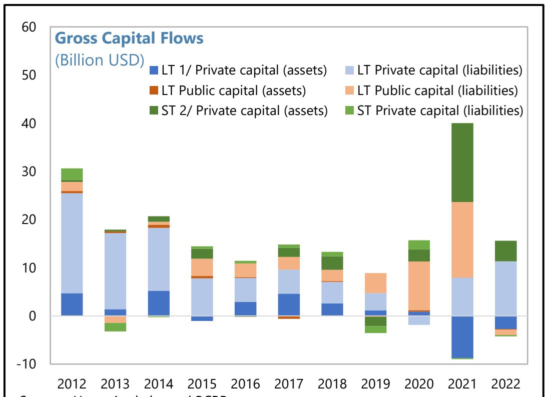
- ***Criterion 2. Capital account position dominated by private flows***. The bulk of Peru's external capital flows is carried out by the private sector, with public flows averaging less than 33 percent of the total capital flows over 2020-22.[13] In 2022, Peru's capital account overwhelmingly consisted of private capital flows (portfolio flows, FDI, long-term loans, and short-term capital flows), accounting for over 93 percent of Peru's total gross flows. This reversed the increasing

[11] The core indicator requires the member's external position to have been assessed, in the most recent Board/ document (Article IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies.

[12] Staff analysis based on the Fund's Integrated Policy Framework (IPF) suggests that there is a role for targeted FX interventions to address large and relevant shocks that may give rise to disorderly market conditions when well-identified and costly frictions are present, such as market shallowness and foreign currency mismatches of assets and liabilities in the private sector (see Annex VI in the 2023 Article IV report).

[13] The FCL Guidance Note (2018) requires that public flows account for less than half of all flows on average in the past three years.

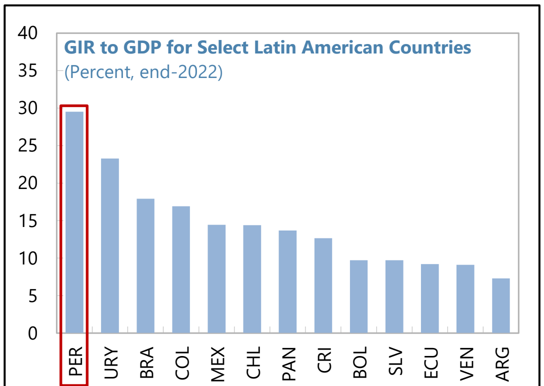
trend in public sector flows observed during the previous two years resulting from large borrowing from abroad, a build-up in precautionary buffers in response to the COVID-19 pandemic, and a dry-up of private flows during the pandemic due to the collapse of the economy. Peru's IIP is characterized by large foreign reserves, moderate external debt, and large FDI liabilities. In 2022, the ratio of the net IIP-to-GDP stood at -40 percent of GDP.



Sources: Haver Analytics and BCRP.
1/ Long Term.
2/ Short Term.

- ***Criterion 3. Track record of steady sovereign access to international capital markets at favorable terms***. Peru has a strong track record of access to international capital markets, and the spreads on the sovereign debt remain among the lowest in Latin America. Peru has successfully placed sovereign bonds on international markets at favorable terms for US$1.8 billion in 2018, US$1.9 billion in 2019, US$7.0 billion in 2020, US$11.2 billion in 2021, and US$0.6 billion in 2022, which represents more than 10 times its IMF quota.[14] The EMBIG spread over U.S. Treasury Bonds averaged 173 in 2020, 166 in 2021, and 207 in 2022 moving in tandem with market trends (See Figure 1). The average sovereign spread through mid-March 2023 stands at 200 basis points. Market appetite for Peruvian bonds remains strong and all bond placements have been vastly oversubscribed.

- ***Criterion 4. Comfortable reserve position***. International reserves declined to US$72.2 billion at end-2022 down from US$78.5 billion in 2021. Nevertheless, at 30 percent of GDP and 243 percent of the Assessing Reserve Adequacy (ARA) metric, they remained the highest in Latin America (as a percent of GDP). International reserves have been on average 260 percent of the unadjusted ARA metric over 2020-2022 and did not fall below 80 percent of in any of these three years.[15] After adjusting reserves for FX deposits of the government and commercial banks and augmenting the ARA metric to account for the volatility of Peru's commodity exports, the reserves to ARA metric ratio comes to 195 percent for 2022.



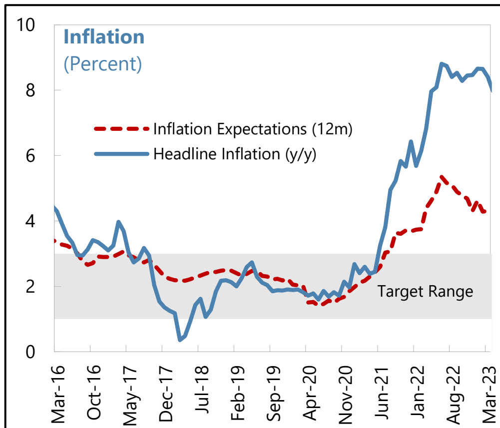
Sources: IMF World Economic Outlook and IMF Staff calculations.

[14] The FCL Guidance note (2018) requires a cumulative public sector external bonds issuance in international markets for at least 50 percent of the country's Fund quota during at least three of the last five years.

[15] The FCL Guidance Note (2018) requires reserves to have been greater than 100 percent of the unadjusted ARA metric on average over the last three years, and not below 80 percent in any of these three years.

- ***Criterion 5. Sound public finances and sustainable public debt***. Peru's fiscal position remains robust. The 2022 NFPS deficit was lower than expected and is set to reach 1 percent of GDP by 2026 according to the fiscal consolidation envisioned in the fiscal rules. Public debt remains among the lowest in Latin America and is projected to fall towards the long-run debt ceiling of 30 percent of GDP by 2030. There are ample fiscal buffers and strong fiscal institutions. The credit rating is investment grade by all major agencies.[16] The sovereign risk and public debt sustainability analysis (Annex III) indicates that Peru's public debt is sustainable with a high probability, and the debt ratio is expected to stabilize over the medium-term. Gross financing needs are expected to average around 3½ percent of GDP over the forecast horizon. The small fiscal impulse in 2023 is temporary and well targeted and is warranted given the negative output gap and the need to address pressing social needs.

- ***Criterion 6. Low and stable inflation in the context of a sound monetary and exchange rate policy framework***. Peru introduced an inflation targeting framework in 2002 with a target range of 1-3 percent and has achieved one of the lowest, single-digit inflation rates in Latin America over the last two decades.[17] Headline inflation has remained inside the target range since 2017, and monthly inflation in the past five years stood at an average 3.4 percent. While inflation and inflation expectations have persistently exceeded the BCRP's target range over the past year, this has been mostly driven by imported inflation and supply shocks. Aggressive and proactive monetary policy tightening has reduced inflationary pressures and continued to bring one-year ahead inflation expectations closer to the target range. Moreover, the BCRP operates with a high level of credibility evidenced by otherwise low and stable inflation since the introduction of the inflation-targeting framework in 2002.



Sources: BCRP and Haver Analytics.

- ***Criterion 7. Sound financial system and absence of solvency problems that may threaten systemic stability***. The banking system in Peru has emerged from the COVID-19 pandemic largely unscathed, with profitability approaching pre-pandemic rates and NPLs remaining stable. The system remains well-capitalized, while average capital adequacy ratios remain above regulatory thresholds. Dollarization in the financial system has been on a downward trajectory

[16] Fitch (BBB/Negative), Moody's (Baa1/Negative), S&P (BBB/Negative).

[17] The FCL Guidance Note (2018) requires single-digit inflation over the past five years. Peru's headline inflation during the period has averaged 3.4 percent.

yet remains at a substantial structural level. Top-down stress tests carried out by the banking supervisor point to resilience even under adverse conditions.[18,19]

- ***Criterion 8. Effective financial sector supervision***. The authorities have taken significant steps to strengthen financial sector oversight, in line with the recommendations of the 2018 FSAP. Neither the 2018 FSAP exercise nor the 2023 Article IV Consultation raised any concern regarding the supervisory framework.[20] A new capital structure for banks was introduced in January 2023 that includes capital conservation and systemic risk buffers in line with Basel III. Other reforms that have been fully or partially implemented include expanding financial cooperatives' oversight by the 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 enhanced supervision of financial groups and requirements for recovery and resolution planning for domestic systemically important banks and financial groups.

- ***Criterion 9. 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).[21]

17. Peru has a sustained track record of implementing very strong macroeconomic policies, underpinned by very strong policy frameworks, and the authorities remain committed to maintaining very strong policies in the future. All the relevant core indicators for qualification criteria were met in each of the five years during 2018-22. The country's strong multi-instrument policy framework (Box 3) has allowed policymakers to respond very effectively both to mild business-cycle fluctuations as well as large adverse shocks in recent years.[22] Peru's very strong policy frameworks have also shown consistency and resilience over several political cycles, and despite episodes of political instability and concerns about sharp policy reversals, policy buffers have remained ample, fiscal sustainability has been preserved, and the financial system has remained strong. Moreover, the authorities remain committed to preserving such policy frameworks over the medium term. Peru's very strong economic fundamentals and policy frameworks, and sustained

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[18] In a severely adverse scenario with a contraction in domestic GDP, depreciation in the exchange rate, persistently high inflation, and deceleration in trade partners' GDP growth, capital ratios vary between 11.5 and 13.5 percent across the financial system.

[19] The FCL Guidance Note (2018) requires the average capital adequacy ratio for the banking sector to be above regulatory thresholds, and the most recent Article IV consultation did not highlight significant solvency risks or recapitalization needs.

[20] The FCL Guidance Note (2018) requires that the most recent FSAP or Article IV report did not raise substantial concerns regarding the supervisory framework.

[21] The FCL Guidance Note (2018) requires that the member is a SDDS subscriber or has made satisfactory progress toward meeting the SDDS requirements.

[22] Shocks included the 2008-9 global financial crisis, the 2014–16 commodity price downturn, the 2017 natural disasters in the aftermath of a severe *El Niño* weather phenomenon, the 2020-22 COVID-19 pandemic and the subsequent removal of the significant pandemic-related policy support.

track record of implementing very strong macroeconomic policies was acknowledged by the Executive Board in the context of the 2023 Article IV Consultation (see IMF Country Report 23/123).

Box 3. Macroeconomic Policy Frameworks

- **Fiscal policy framework.** The current fiscal framework is anchored in the 2003 Fiscal Responsibility and Transparency Law, which was revised in 2016, and contributes to the accountability and transparency of fiscal policy. In its current form, the framework consists of five key elements: (i) a set of fiscal limits (numerical ceilings) on the overall balance, public debt and expenditure; (ii) a medium-term budgeting framework that aligns the budget preparation process and the fiscal rules; (iii) escape clauses that determine the conditions under which deviations from the rules are allowed; (iv) a Fiscal Stabilization Fund; and (v) an independent Fiscal Council. Fiscal policy has been broadly countercyclical, with the government running deficits in the aftermath of the global financial crisis, the COVID-19 pandemic, and in the presence of a negative output gap, and accumulating surpluses when the output gap was positive.

- **Monetary policy framework.** The central bank has been independent since 1993, with a constitutional mandate to maintain the currency's purchasing power. Since its formal adoption of an inflation-targeting framework in 2002, the central bank has achieved a track record of low and stable inflation and relatively low volatility in the exchange rate compared to peers. Exchange rate policy focuses on managing risks stemming from liability dollarization. Foreign exchange rate interventions have, in general, been in line with IPF guidance. The central bank has robust communication and transparency practices, though the use of multiple instruments presents specific communication challenges that can be further developed.

- **Prudential and regulatory framework for financial oversight**. The 2018 FSAP concluded that banking supervision in Peru is robust, with the 2023 Article IV highlighting continued progress towards adopting the recommendations made by the FSAP. Peru has made significant progress on implementation of the Basel III regulatory reform agenda (including in the areas of bank and insurance supervision, systemic risks and macroprudential policies and financial integrity), and the authorities have taken important steps towards strengthening financial sector supervision even further, particularly with the registration of credit cooperatives. Efforts to supervise financial institutions for AML/CFT compliance based on risks continue.

18. The authorities continue to take measures to enhance the quality of the institutional framework. Efforts continue to strengthen anti-corruption institutions (see Annex X from the 2023 Article IV Consultation Staff Report).[23] A new Anti-Corruption Plan is being implemented and legislation has been passed to strengthen fiscal governance. The National Board of Justice (an independent organ to appoint judges and prosecutors) is operational. Offices of Institutional Integrity have been opened in more than 200 public sector entities. A whistleblower complaint platform has been launched, and an integrity index by the Integrity Secretariat has been created to focus on areas with higher corruption risks. The Comptroller's Office monitors emergency-related spending, identifies abuses, and regularly publishes its reports. Moreover, the elevation of President Boluarte proceeded in line with the current constitutional norms, by which national elections are legally set to take place in 2026. Therefore, the refusal by Congress to answer calls for an earlier vote are not to be interpreted as symptomatic of institutional shortcomings.

[23] Peru has an asset declaration form for functionaries and public servants, affidavits for conflict of interest, a Judicial Integrity Commission, and a Financial Intelligence Unit for AML/CFT.

OTHER ISSUES

19. Safeguards procedures. Staff has completed the safeguards procedures for Peru's FCL arrangement. KPMG Peru, the BCRP external auditor, issued an unmodified (clean) audit opinion on the BCRP's financial statements for 2021. The annual financial statements are audited in accordance with international auditing standards, include comprehensive disclosures, and are published on a timely basis. Staff reviewed the 2021 audit results and held discussions with the BCRP and KPMG Peru. No significant safeguards issues emerged from the conduct of these procedures. The audited 2022 results are set to be published by mid-April.

20. Capacity to repay the Fund. Under a tail risk scenario that would prompt Peru to draw on the entire amount available under the FCL (Table 9), the country would continue to have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 10). While the authorities continue to treat the FCL arrangement as precautionary, in the event of a drawdown in 2023, Fund obligation would represent only a small share of Peru's total external debt (5.2 percent), international reserves (8.7 percent) and exports (3.5 percent at the peak of the debt service in 2027).[24] Peru has investment-grade status and an excellent track record of servicing their debt obligations.

21. Exit strategy. The authorities consider the FCL arrangement as a temporary tool requested at a time of elevated external risks with exit dependent on the evolution of such risks. The access of SDR 4.0035 billion (300 percent of quota) under the two-year FCL arrangement represents a reduction from the SDR 8.007 billion (600 percent of quota) under the previous arrangement. In light of prevailing external risks, the authorities are not requesting a change in access at this review. They intend to continue treating the FCL arrangement as precautionary, with the level of access of SDR 4.0035 billion (300 percent of quota) providing insurance against a wide range of extreme adverse external shocks, preserving investor confidence, and supporting the authorities' macroeconomic strategy. The authorities intend to exit the arrangement conditional on the reduction of external risks, in line with their strategy that sees the use of the facility as temporary.

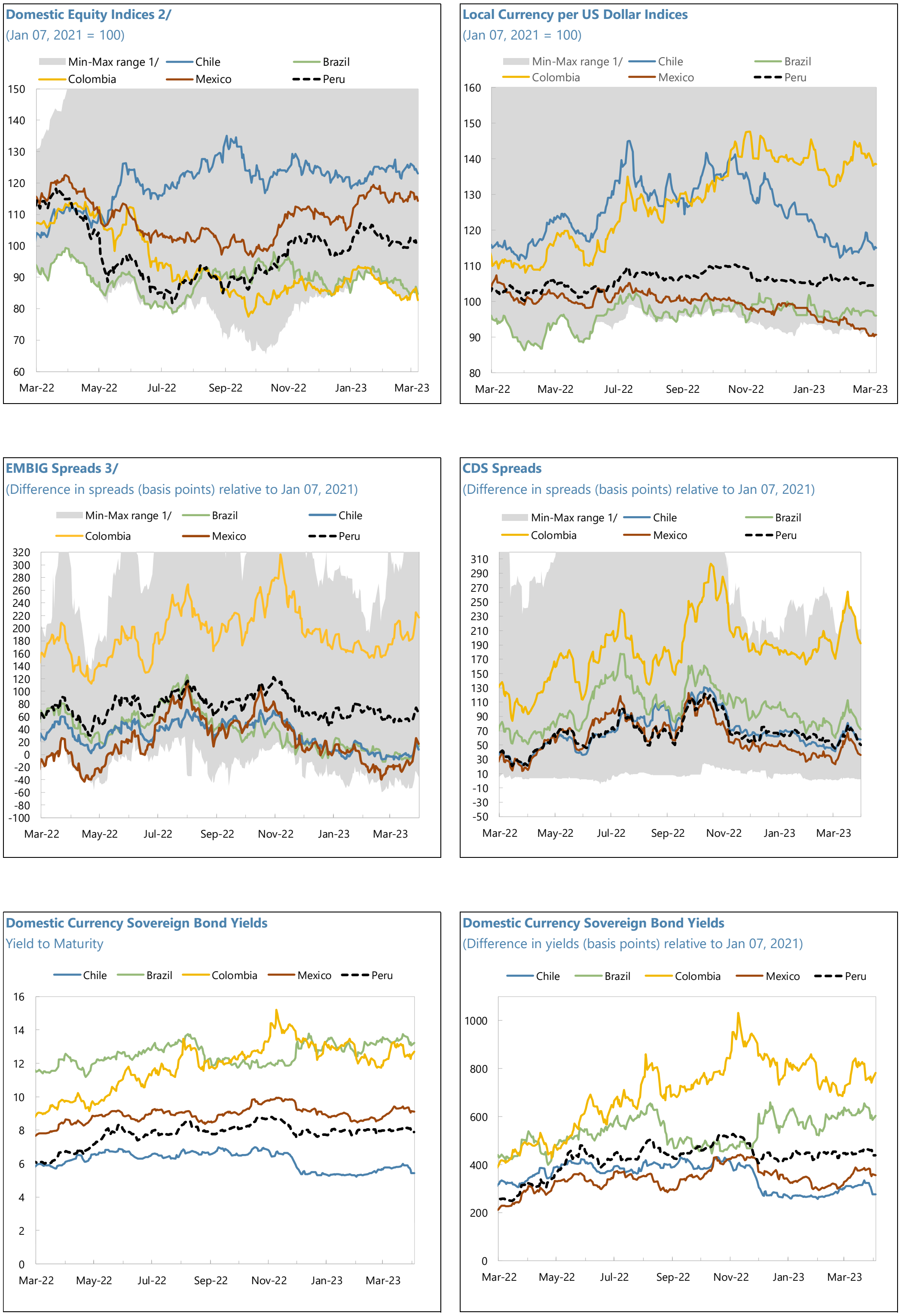
STAFF APPRAISAL

22. The FCL arrangement has bolstered the authorities' macroeconomic policy settings in a context of elevated uncertainty. The arrangement, along with sizable international reserves, low public debt, anchored inflation expectations, and a sound financial system has provided the authorities with valuable insurance in a period of continued uncertainty and volatility. Despite a more challenging external and domestic backdrop, the authorities have successfully removed the extraordinary pandemic-related stimulus, preserved strong policy buffers, and retained ample market access. The authorities expect to continue treating access to the FCL as precautionary.

[24] These indicators of capacity to repay are similar to the levels reported at the time of the FCL request in 2022.

23. Staff assesses that Peru continues to meet the qualification criteria for access to FCL resources. As noted in the Executive Board's assessment of the 2023 Article IV consultation, Peru has very strong economic fundamentals and policy frameworks, and the authorities have a sustained track record of implementing very strong macroeconomic policies that have helped the country absorb large adverse shocks in recent years. The authorities remain committed to maintaining such policies in the future. Therefore, staff recommends completion of the review under the FCL arrangement for Peru.

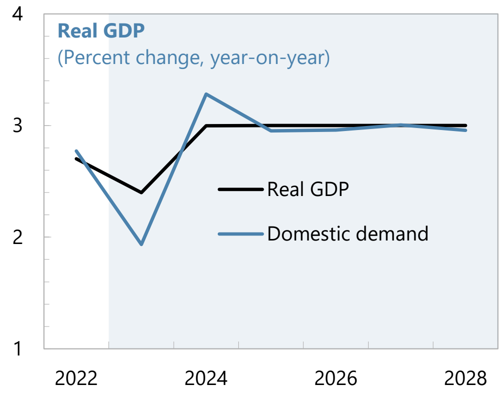
Figure 1. Peru: Financial Market Developments



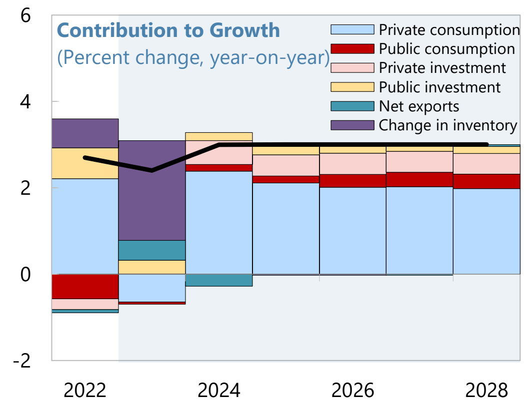
Sources: Haver Analytics and Bloomberg LLP.
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.
2/ National benchmark share price indices.
3/ Mexico's EMBIG includes Sovereign and Quasi.

Figure 2. Peru: Recent Economic Developments and Outlook

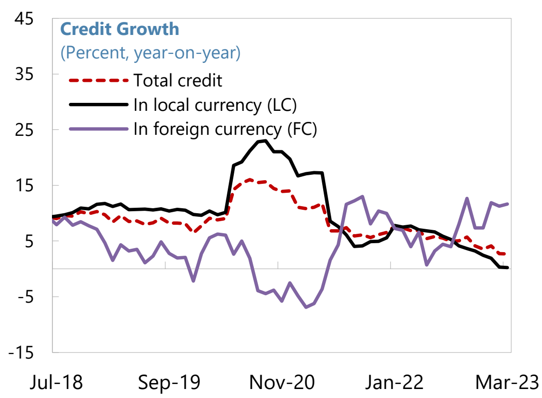
Activity is set to slowdown in 2023...



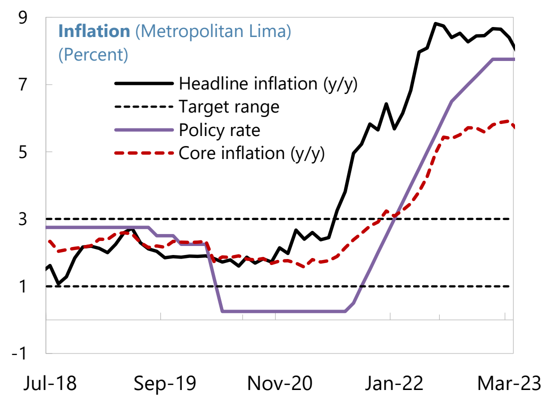
... partly on supply shocks.



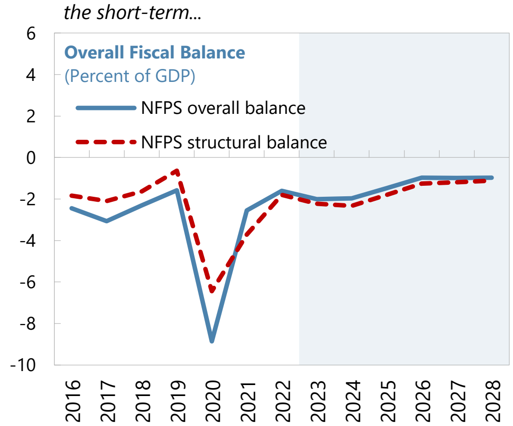
Credit growth is also slowing down.



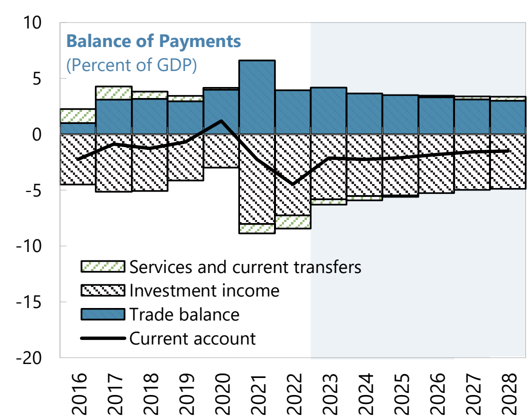
Inflation appears to have peaked.



A small fiscal impulse will provide some support in the short-term...

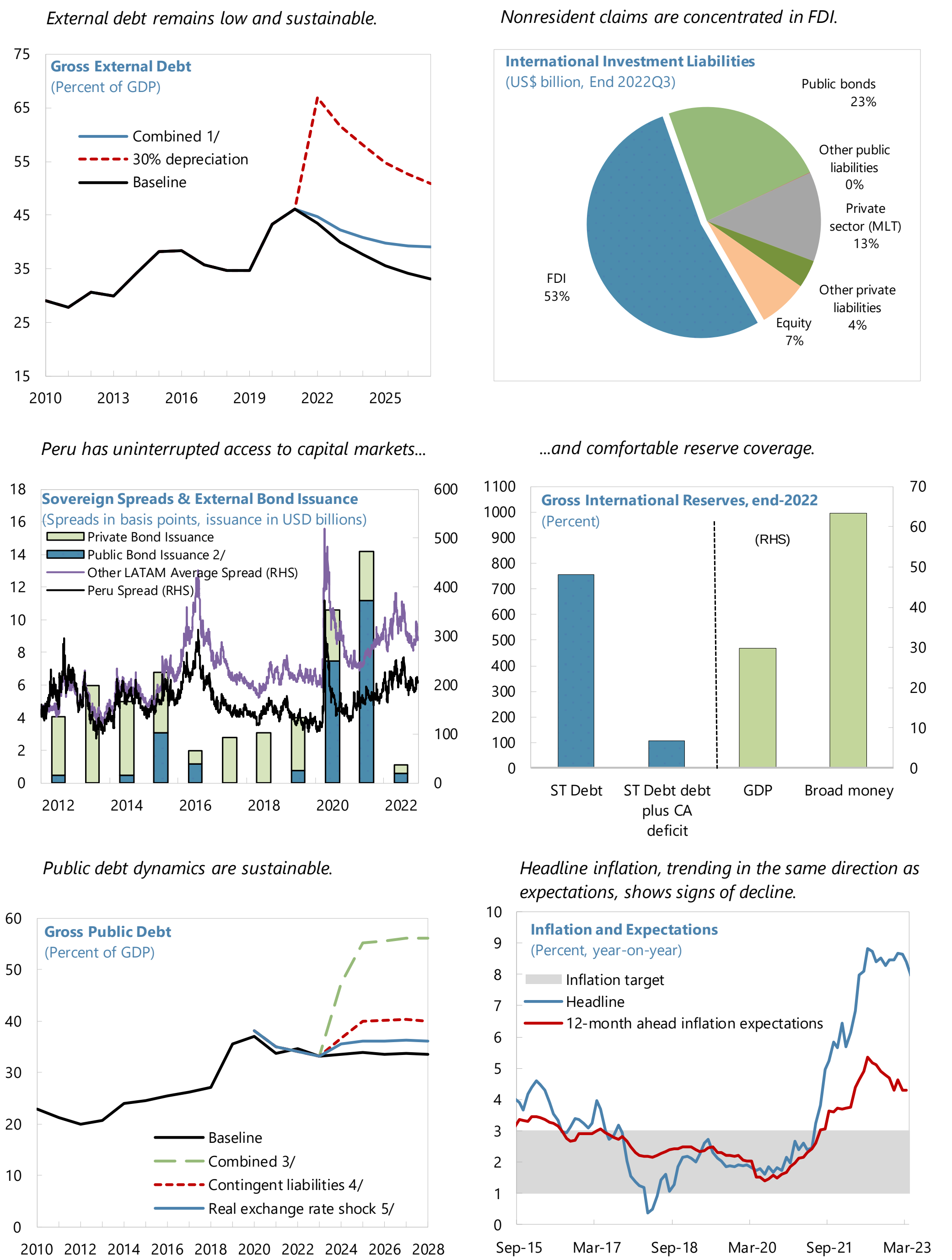


... and the current account deficit will improve.



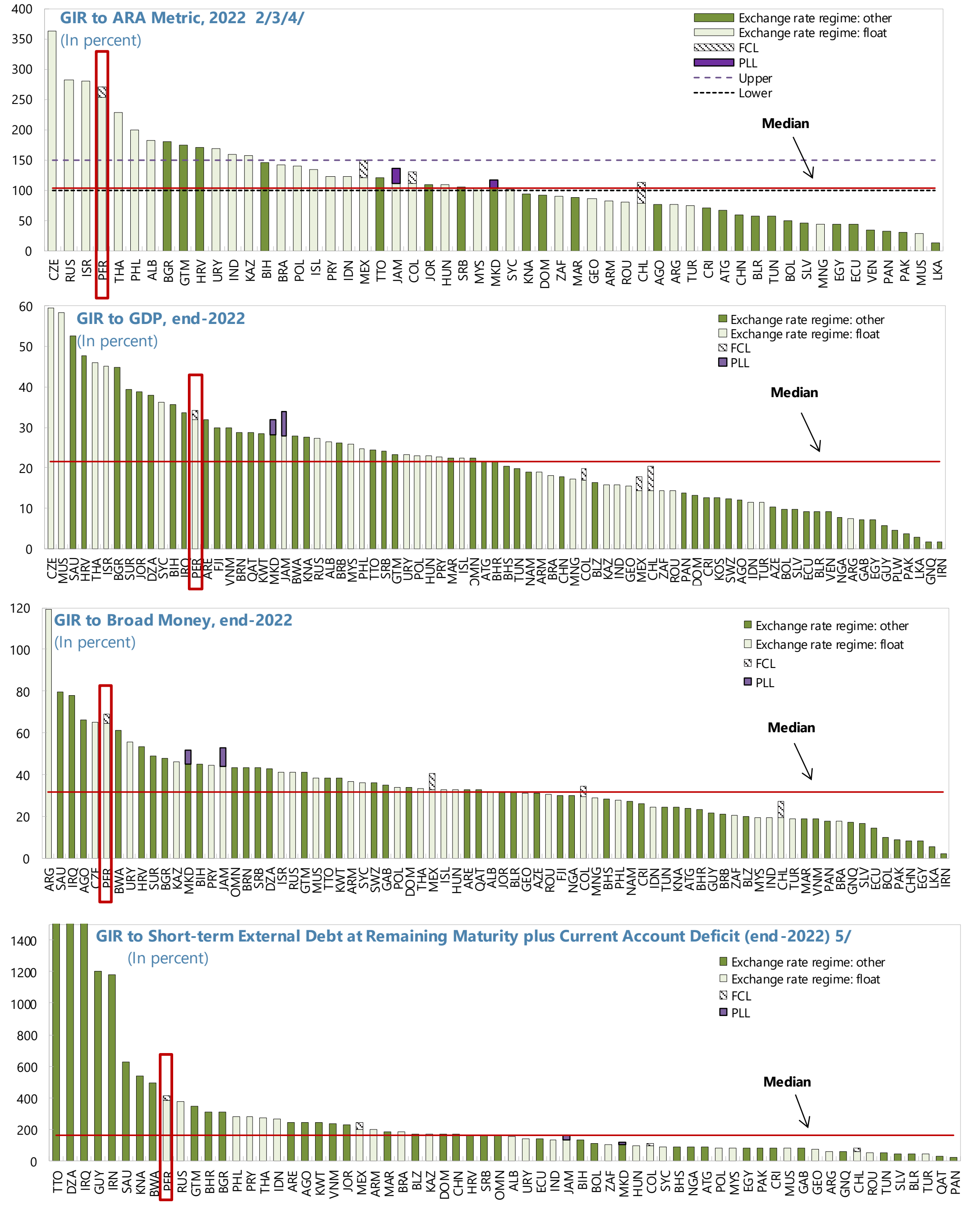
Sources: National authorities and IMF staff calculations.
Note: Shaded area refers to projections.

Figure 3. Peru: Qualification Criteria



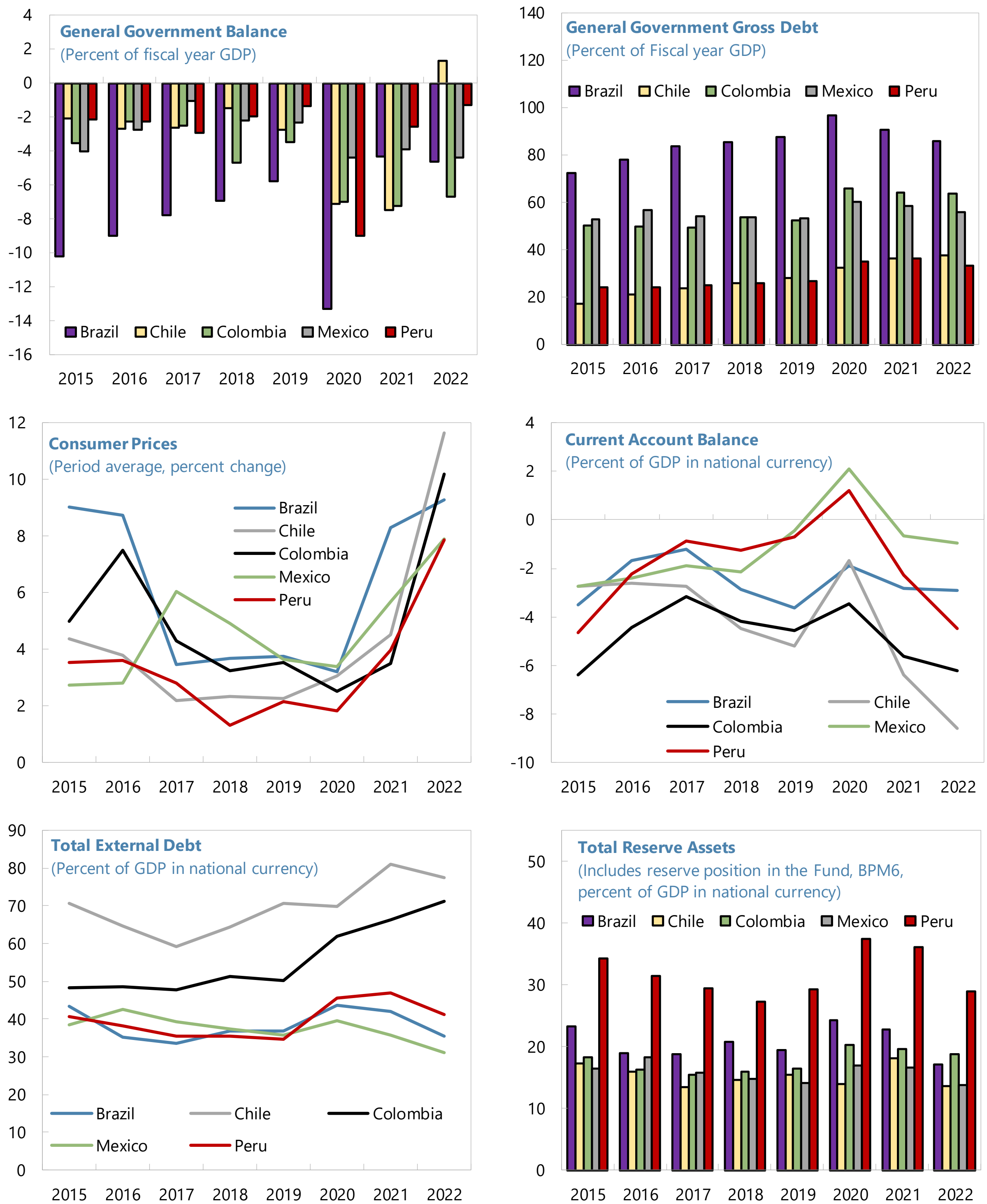
Sources: Country authorities (BCRP, MEF), Datastream, Haver Analytics, and IMF staff estimates.
1/ Combined permanent 1/4 standard deviation shocks applied to interest rate, growth, and non-interest current account balance.
2/ Data is for Nonfinancial Public Sector.
3/ Combined 2 year shock to primary 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).
4/ 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.
5/ Nominal exchange depreciation of 20 percent leading to a real exchange depreciation of around 16 percent.

Figure 4. Peru: Reserve Coverage and FCLs – Cross Country Perspective [1/]



Sources: World Economic Outlook (October 2022), IFS, and IMF staff estimates.
1/ The sample of countries includes all EMEs for which data is available. For Colombia, FCL amount refers to remaining precautionary access.
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.
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.

Figure 5. Peru: Comparison with LA5 Countries



Sources: National authorities and IMF staff calculations.

Table 1. Peru: Selected Economic Indicators

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
Social Indicators										
Poverty rate (total) 1/	20.2	30.1	25.9	…	…	…	…	…	…	
Unemployment rate for Metropolitan Lima (average)	6.6	13.0	10.7	7.8	…	…	…	…	…	
			(Annual percentage change; unless otherwise indicated)							
Production and Prices										
Real GDP	2.2	-11.0	13.6	2.7	2.2	3.0	3.0	3.0	3.0	3.0
Output gap (percent of potential GDP)	-1.6	-7.2	-0.3	-0.3	-0.4	0.0	0.0	0.0	0.0	0.0
Consumer prices (end of period)	1.9	2.0	6.4	8.5	3.0	2.3	2.0	2.0	2.0	2.0
Consumer prices (period average)	2.1	1.8	4.0	7.9	5.6	2.5	2.2	2.0	2.0	2.0
Money and Credit 2/ 3/										
Broad money	8.8	29.2	2.7	-0.3	7.3	6.4	6.8	6.2	6.1	5.0
Net credit to the private sector	6.4	14.0	6.5	3.6	4.7	5.6	5.6	5.9	5.8	6.2
Credit-to-private-sector/GDP ratio (%)	42.7	52.5	45.9	44.5	43.1	43.1	43.2	43.6	43.9	44.4
External Sector										
Exports	-2.2	-10.6	47.2	4.2	0.1	1.9	3.9	3.3	3.1	3.1
Imports	-1.8	-15.6	38.9	16.7	-2.6	4.8	4.2	3.8	3.8	4.4
External current account balance (percent of GDP)	-0.7	1.2	-2.3	-4.3	-1.9	-2.1	-2.0	-1.6	-1.5	-1.5
Gross reserves In billions of U.S. dollars	68.4	74.9	78.5	72.2	74.4	76.4	77.9	79.7	82.1	83.8
Percent of short-term external debt 4/	428	487	589	515	541	552	500	512	517	609
Percent of foreign currency deposits at banks	224	222	229	207	218	227	236	249	267	290
			(In percent of GDP; unless otherwise indicated)							
Public Sector										
NFPS revenue	24.7	21.9	25.6	26.0	25.6	25.5	25.3	25.2	25.1	25.1
NFPS primary expenditure	24.9	29.2	26.6	26.1	25.9	25.8	25.2	24.7	24.6	24.7
NFPS primary balance	-0.2	-7.3	-1.0	-0.1	-0.3	-0.4	0.1	0.6	0.5	0.4
NFPS overall balance	-1.6	-8.9	-2.5	-1.6	-2.0	-2.0	-1.5	-1.0	-1.0	-1.0
NFPS structural balance	-0.6	-6.4	-3.7	-1.8	-2.1	-2.3	-1.8	-1.3	-1.2	-1.1
NFPS structural primary balance 5/	0.7	-4.9	-2.2	-0.3	-0.5	-0.6	-0.1	0.3	0.3	0.3
Debt										
Total external debt 6/	34.5	43.2	45.9	41.3	38.8	37.6	35.6	34.2	32.9	32.4
Gross non-financial public sector debt 7/	26.9	35.0	36.3	34.3	33.8	34.0	33.8	33.2	32.5	32.0
External	8.4	14.9	19.5	17.6	17.3	17.0	15.8	15.2	14.4	14.0
Domestic	18.5	20.1	16.9	16.7	16.5	17.0	17.9	18.0	18.2	17.9
Savings and Investment										
Gross domestic investment	21.8	19.7	21.7	22.1	24.2	24.2	24.0	23.9	23.8	23.7
Public sector (incl. repayment certificates)	4.6	4.3	4.7	5.1	5.1	5.2	5.2	5.2	5.2	5.3
Private sector	18.0	16.8	20.5	20.3	19.1	19.0	18.9	18.7	18.6	18.5
National savings	21.1	20.9	19.4	17.7	22.3	22.0	22.1	22.2	22.3	22.2
Public sector	3.3	-3.9	2.8	4.8	4.5	4.5	5.0	5.5	5.6	5.6
Private sector	17.7	24.9	16.6	12.9	17.8	17.5	17.0	16.7	16.7	16.7
Memorandum Items										
Nominal GDP (S/. billion)	775	719	877	938	1,013	1,068	1,124	1,182	1,242	1,303
GDP per capita (in US$)	7,006	6,145	6,682	7,000	7,626	7,855	8,155	8,468	8,784	9,100

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. The figure for 2021 is from Q3.

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: Non-Financial Public Sector Main Aggregates

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
	(In billions of soles; unless otherwise indicated)									
Revenues	**191.2**	**157.5**	**224.4**	**244.2**	**258.7**	**272.1**	**284.9**	**298.2**	**311.2**	**327.0**
Taxes	113.8	95.6	143.2	161.4	170.2	179.6	188.9	198.5	208.6	219.3
Other	77.4	61.9	81.1	82.8	88.5	92.6	96.0	99.7	102.6	107.6
Primary Expenditures 1/	**192.7**	**209.8**	**233.5**	**244.7**	**262.2**	**276.0**	**283.3**	**291.6**	**305.2**	**321.2**
Current	152.6	173.6	184.9	184.5	195.8	205.7	209.2	213.6	223.3	235.3
Capital	40.2	36.2	48.5	60.2	66.3	70.3	74.1	78.0	81.9	85.9
Primary Balance	**-1.5**	**-52.3**	**-9.1**	**-0.6**	**-3.5**	**-3.8**	**1.6**	**6.6**	**6.0**	**5.7**
Interest	10.7	11.5	13.2	14.7	16.5	17.4	18.4	18.6	18.4	18.5
Overall Balance	**-12.3**	**-63.8**	**-22.3**	**-15.3**	**-20.0**	**-21.3**	**-16.7**	**-12.0**	**-12.3**	**-12.8**
External financing	4.5	31.9	52.5	6.7	6.6	6.1	-0.9	5.9	5.3	14.3
Domestic financing	7.7	31.8	-30.2	8.6	13.3	15.2	17.6	6.1	7.1	-1.5
Public Gross Debt 2/	**208.8**	**251.7**	**318.7**	**321.2**	**342.4**	**362.5**	**379.4**	**392.2**	**404.1**	**416.6**
External	65.3	107.0	170.8	165.0	175.3	181.4	178.2	179.9	178.5	183.0
Domestic	140.7	142.2	145.8	155.0	166.1	180.5	200.9	212.2	225.8	233.5
Repayment Certificates	2.8	2.5	2.1	1.3	1.0	0.7	0.4	0.1	-0.2	0.0
Public Assets 3/	**92.5**	**74.5**	**107.9**	**120.9**	**118.4**	**115.8**	**113.0**	**110.1**	**107.0**	**103.8**
	(In percent of GDP; unless otherwise indicated)									
Revenues	**24.7**	**21.9**	**25.6**	**26.0**	**25.6**	**25.5**	**25.3**	**25.2**	**25.1**	**25.1**
Taxes	14.7	13.3	16.3	17.2	16.8	16.8	16.8	16.8	16.8	16.8
Other	10.0	8.6	9.3	8.8	8.7	8.7	8.5	8.4	8.3	8.3
Primary Expenditures 1/	**24.9**	**29.2**	**26.6**	**26.1**	**25.9**	**25.8**	**25.2**	**24.7**	**24.6**	**24.7**
Current	19.7	24.1	21.1	19.7	19.3	19.3	18.6	18.1	18.0	18.1
Capital	5.2	5.0	5.5	6.4	6.6	6.6	6.6	6.6	6.6	6.6
Primary Balance	**-0.2**	**-7.3**	**-1.0**	**-0.1**	**-0.3**	**-0.4**	**0.1**	**0.6**	**0.5**	**0.4**
Interest	1.4	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.5	1.4
Overall Balance	**-1.6**	**-8.9**	**-2.5**	**-1.6**	**-2.0**	**-2.0**	**-1.5**	**-1.0**	**-1.0**	**-1.0**
External financing	0.6	4.4	6.0	0.7	0.7	0.6	-0.1	0.5	0.4	1.1
Domestic financing	1.0	4.4	-3.4	0.9	1.3	1.4	1.6	0.5	0.6	-0.1
Public Gross Debt 2/	**26.9**	**35.0**	**36.3**	**34.3**	**33.8**	**34.0**	**33.8**	**33.2**	**32.5**	**32.0**
External	8.4	14.9	19.5	17.6	17.3	17.0	15.8	15.2	14.4	14.0
Domestic	18.1	19.8	16.6	16.5	16.4	16.9	17.9	17.9	18.2	17.9
Repayment Certificates	0.4	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Public Assets 3/	**11.9**	**10.4**	**12.3**	**12.9**	**11.7**	**10.8**	**10.1**	**9.3**	**8.6**	**8.0**
Public Net Debt	**15.0**	**24.6**	**24.0**	**21.4**	**22.1**	**23.1**	**23.7**	**23.9**	**23.9**	**24.0**
Memorandum Items										
Commodity related revenues 4/	1.4	0.8	3.1	3.3	2.6	2.5	2.5	2.4	2.4	2.3
Output gap (percent of potential GDP)	-1.6	-7.2	-0.3	-0.3	-0.4	0.0	0.0	0.0	0.0	0.0
NFPS non-commodity structural balance	-2.4	-7.4	-5.6	-4.8	-4.4	-4.5	-4.0	-3.5	-3.4	-3.3
NFPS non-commodity primary structural balance	-1.0	-5.8	-4.1	-3.2	-2.8	-2.9	-2.4	-1.9	-1.9	-1.9
NFPS structural balance 5/	-0.6	-6.4	-3.7	-1.8	-2.1	-2.3	-1.8	-1.3	-1.2	-1.1
NFPS structural primary balance 5/	0.7	-4.9	-2.2	-0.3	-0.5	-0.6	-0.1	0.3	0.3	0.3
Fiscal impulse (+ = expansionary) 6/	-1.0	5.2	-2.3	-1.9	0.2	0.2	-0.5	-0.4	0.0	0.0

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 1/
(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
Revenue	**19.8**	**17.8**	**21.0**	**22.1**	**21.7**	**21.7**	**21.7**	**21.7**	**21.7**	**21.7**
Taxes	14.7	13.3	16.3	17.2	16.8	16.8	16.8	16.8	16.8	16.8
Social Contributions	2.2	2.2	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other revenue	2.8	2.3	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Expense 2/	**16.6**	**22.4**	**18.5**	**17.3**	**17.4**	**17.4**	**16.7**	**16.0**	**15.8**	**15.8**
Compensation of employees	6.3	7.3	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Use of goods and services	5.7	6.3	6.1	6.0	5.7	5.5	5.4	5.3	5.3	5.3
Interest	1.3	2.2	1.4	1.4	1.6	1.4	1.3	1.1	1.0	0.9
Social benefits	1.8	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.6
Other 3/	1.6	4.7	3.0	2.2	2.6	2.8	2.5	2.0	1.9	2.0
Net Acquisition of Nonfinancial Assets	**4.5**	**4.5**	**5.0**	**6.1**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**
Acquistion of nonfinancial assets	4.5	4.5	5.0	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Gross Operating Balance	3.1	-4.5	2.5	4.7	4.3	4.3	5.0	5.7	5.9	5.9
Net Lending (+) Borrowing (-) 4/	**-1.4**	**-9.0**	**-2.5**	**-1.3**	**-2.0**	**-1.9**	**-1.3**	**-0.6**	**-0.3**	**-0.3**
Net Acquistion of Financial Assets 5/	**0.6**	**-1.1**	**3.7**	**-2.0**	**-1.1**	**-1.1**	**-1.1**	**0.1**	**0.3**	**1.0**
By instrument										
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits 6/	0.6	-1.1	3.7	-2.0	-1.1	-1.1	-1.1	0.1	0.3	1.0
By residency										
Domestic	0.6	-1.1	3.7	-2.0	-1.1	-1.1	-1.1	0.1	0.3	1.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities 7/	**1.9**	**7.9**	**6.2**	**-0.7**	**0.9**	**0.8**	**0.1**	**0.7**	**0.6**	**1.3**
By instrument										
Debt securities	1.2	3.1	0.5	-1.4	0.2	0.2	0.2	0.2	0.2	0.2
Loans	0.7	4.8	5.8	0.7	0.7	0.6	-0.1	0.5	0.4	1.1
By residency										
Domestic	1.2	3.1	0.5	-1.4	0.2	0.2	0.2	0.2	0.2	0.2
External	0.7	4.8	5.8	0.7	0.7	0.6	-0.1	0.5	0.4	1.1
Memorandum Items										
Central Government Net lending (+) borrowing (-)	-2.4	-9.6	-3.8	-3.3	-3.0	-2.9	-2.3	-1.4	-1.0	-0.9
Regional Governments Net lending (+) borrowing (-)	0.5	-0.1	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.9
Local Governments Net lending (+) borrowing (-)	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
General Government Primary Balance	-0.1	-6.8	-1.2	0.1	-0.4	-0.4	0.0	0.6	0.7	0.6
General Government Overall Balance	-1.4	-9.0	-2.5	-1.3	-2.0	-1.9	-1.3	-0.6	-0.3	-0.3
Gen. Gov. primary spending (real percentage change)	1.0	13.0	5.3	-1.7	2.9	3.1	0.6	0.5	2.5	3.2
Of which: Current spending	3.1	19.6	-0.4	-8.1	2.2	3.1	-0.3	-0.6	2.3	3.4
Capital spending	-5.7	-9.3	31.2	20.2	4.8	2.9	3.1	3.2	3.0	2.8
General Government non-financial expenditures	19.9	24.7	22.2	22.0	22.1	22.2	21.6	21.1	21.0	21.1

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 acquistions of nonfinancial assets.
5/ (+) corresponds to increase in financial assets; (-) to a decrease in financial assets.
6/ Includes Fiscal Stabilization Fund (FEF).
7/ (+) corresponds to increase in liabilities (disbursement and/or issuance); (-) to decrease in liabilities (amortizations).

Table 4. Peru: Monetary Survey 1/

(In billions of soles, unless otherwise indicated)

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
Revenue	**19.8**	**17.8**	**21.0**	**22.1**	**21.7**	**21.7**	**21.7**	**21.7**	**21.7**	**21.7**
Taxes	14.7	13.3	16.3	17.2	16.8	16.8	16.8	16.8	16.8	16.8
Social Contributions	2.2	2.2	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other revenue	2.8	2.3	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Expense 2/	**16.6**	**22.4**	**18.5**	**17.3**	**17.4**	**17.4**	**16.7**	**16.0**	**15.8**	**15.8**
Compensation of employees	6.3	7.3	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Use of goods and services	5.7	6.3	6.1	6.0	5.7	5.5	5.4	5.3	5.3	5.3
Interest	1.3	2.2	1.4	1.4	1.6	1.4	1.3	1.1	1.0	0.9
Social benefits	1.8	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.6
Other 3/	1.6	4.7	3.0	2.2	2.6	2.8	2.5	2.0	1.9	2.0
Net Acquisition of Nonfinancial Assets	**4.5**	**4.5**	**5.0**	**6.1**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**	**6.2**
Acquistion of nonfinancial assets	4.5	4.5	5.0	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Gross Operating Balance	3.1	-4.5	2.5	4.7	4.3	4.3	5.0	5.7	5.9	5.9
Net Lending (+) Borrowing (-) 4/	**-1.4**	**-9.0**	**-2.5**	**-1.3**	**-2.0**	**-1.9**	**-1.3**	**-0.6**	**-0.3**	**-0.3**
Net Acquistion of Financial Assets 5/	**0.6**	**-1.1**	**3.7**	**-2.0**	**-1.1**	**-1.1**	**-1.1**	**0.1**	**0.3**	**1.0**
By instrument										
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits 6/	0.6	-1.1	3.7	-2.0	-1.1	-1.1	-1.1	0.1	0.3	1.0
By residency										
Domestic	0.6	-1.1	3.7	-2.0	-1.1	-1.1	-1.1	0.1	0.3	1.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities 7/	**1.9**	**7.9**	**6.2**	**-0.7**	**0.9**	**0.8**	**0.1**	**0.7**	**0.6**	**1.3**
By instrument										
Debt securities	1.2	3.1	0.5	-1.4	0.2	0.2	0.2	0.2	0.2	0.2
Loans	0.7	4.8	5.8	0.7	0.7	0.6	-0.1	0.5	0.4	1.1
By residency										
Domestic	1.2	3.1	0.5	-1.4	0.2	0.2	0.2	0.2	0.2	0.2
External	0.7	4.8	5.8	0.7	0.7	0.6	-0.1	0.5	0.4	1.1
Memorandum Items										
Central Government Net lending (+) borrowing (-)	-2.4	-9.6	-3.8	-3.3	-3.0	-2.9	-2.3	-1.4	-1.0	-0.9
Regional Governments Net lending (+) borrowing (-)	0.5	-0.1	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.9
Local Governments Net lending (+) borrowing (-)	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
General Government Primary Balance	-0.1	-6.8	-1.2	0.1	-0.4	-0.4	0.0	0.6	0.7	0.6
General Government Overall Balance	-1.4	-9.0	-2.5	-1.3	-2.0	-1.9	-1.3	-0.6	-0.3	-0.3
Gen. Gov. primary spending (real percentage change)	1.0	13.0	5.3	-1.7	2.9	3.1	0.6	0.5	2.5	3.2
Of which: Current spending	3.1	19.6	-0.4	-8.1	2.2	3.1	-0.3	-0.6	2.3	3.4
Capital spending	-5.7	-9.3	31.2	20.2	4.8	2.9	3.1	3.2	3.0	2.8
General Government non-financial expenditures	19.9	24.7	22.2	22.0	22.1	22.2	21.6	21.1	21.0	21.1

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 acquistions of nonfinancial assets.
5/ (+) corresponds to increase in financial assets; (-) to a decrease in financial assets.
6/ Includes Fiscal Stabilization Fund (FEF).
7/ (+) corresponds to increase in liabilities (disbursement and/or issuance); (-) to decrease in liabilities (amortizations).

Table 5. Peru: Financial Soundness Indicators 1/

(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				(as of December)					
Capital Adequacy									
Capital to risk-weighted assets 2/	14.2	14.3	15.1	15.2	14.8	14.7	15.6	15.0	14.5
Regulatory Tier I capital to risk-weighted assets 3/	10.4	10.3	11.0	11.4	11.3	11.6	11.8	11.0	11.0
Nonperforming loans net of provisions to capital 4/	0.2	-0.3	-0.4	-0.6	-0.6	-0.5	-3.6	-1.4	0.3
Leverage 5/	8.3	7.9	8.7	9.4	9.8	10.2	8.8	9.0	9.9
Asset Quality									
Nonperforming loans to total gross loans 4/	2.9	2.9	3.1	3.3	3.3	3.4	4.2	3.9	4.2
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4	4.1	4.4
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5	3.5	3.4
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	6.0	6.1
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4	4.1	4.4
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5	3.5	3.4
Refinanced and restructured loans to total gross loans	1.1	1.1	1.3	1.5	1.6	1.5	1.9	2.0	1.9
Provisions to nonperforming loans 4/	157.7	161.8	157.1	151.1	150.7	149.1	178.5	159.9	149.3
Provisions to nonperforming, restructured, and refinanced loans 4/ 6/	114.4	116.5	111.1	105.0	101.6	103.3	123.6	105.8	102.8
Sectoral distribution of loans to total loans									
Consumer loans	18.1	18.3	18.9	19.2	19.8	21.4	17.7	17.2	20.5
Mortgage loans	15.5	15.2	15.1	15.4	15.3	15.6	14.4	14.7	15.3
Large corporations	17.2	21.4	22.2	22.6	23.3	22.2	18.7	21.2	20.4
Small corporations	17.0	15.8	14.8	14.3	14.3	14.3	16.0	15.5	14.7
Medium size firms	18.3	16.9	16.4	15.4	14.8	13.7	18.8	18.0	15.0
Small firms	10.1	9.0	9.1	9.4	9.1	9.3	10.6	10.1	10.8
Microenterprises	3.8	3.4	3.6	3.7	3.5	3.5	3.9	3.4	3.4
Earnings and Profitability									
Return on equity (ROE)	18.2	21.1	19.2	17.7	17.9	17.9	3.1	12.1	16.5
Return on assets (ROA)	1.9	2.1	2.0	2.1	2.2	2.2	0.4	1.3	1.9
Financial revenues to total revenues	85.0	85.1	85.3	84.2	83.4	83.7	84.6	81.5	83.3
Annualized financial revenues to revenue-generating assets	10.6	10.5	10.1	10.2	10.3	10.4	7.8	6.9	9.1
Liquidity									
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	41.5	36.1
In domestic currency	25.3	26.2	26.7	33.0	27.2	27.5	50.6	33.6	27.0
In foreign currency	55.2	47.5	44.9	45.7	45.3	50.3	49.8	51.4	48.0
Deposit-to-loan	90.5	92.0	88.4	92.1	89.4	90.9	99.3	92.6	89.5
Foreign Currency Position and Dollarization									
Share of foreign currency deposits in total deposits	43.4	49.5	44.1	39.3	35.9	35.2	34.6	39.5	36.9
Share of foreign currency loans in total credit	38.4	30.1	28.8	29.4	28.5	26.5	22.7	23.3	24.2
Operational Efficiency									
Financing to related parties to capital 7/	9.4	12.3	9.1	9.6	12.3	9.7	9.7	8.9	8.4
Nonfinancial expenditure to total revenues 8/	33.0	30.9	30.8	30.7	30.7	29.9	31.8	35.3	30.8
Annualized Nonfinancial expenditure to total revenue-generating assets 8/	4.1	3.8	3.7	3.7	3.8	3.7	2.9	3.0	3.4
Memorandum Items									
General Stock market index, IGBVL	14,794	9,849	15,567	19,974	19,350	20,526	20,822	21,112	21,330
EMBI+ PERU spread, basis points	181	243	170	112	137	92	117	144	146

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 6. Peru: Balance of Payments

(In billions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
Current Account	**-1.7**	**2.4**	**-5.2**	**-10.6**	**-4.9**	**-5.8**	**-5.6**	**-4.9**	**-4.8**	**-5.0**
Merchandise trade	6.9	8.2	14.9	9.6	11.1	9.7	9.9	10.0	9.9	9.4
Exports	48.0	42.9	63.2	65.8	65.9	67.1	69.7	72.0	74.3	76.6
Traditional	34.0	30.0	46.6	47.3	46.6	47.0	48.7	50.1	51.3	52.6
Mining	28.3	26.1	39.7	37.7	39.5	39.6	40.9	42.1	43.3	44.5
Nontraditional and others	14.0	12.9	16.6	18.5	19.3	20.1	21.0	21.9	22.9	24.0
Imports	-41.1	-34.7	-48.2	-56.3	-54.8	-57.4	-59.8	-62.0	-64.4	-67.2
Services, income, and current transfers (net)	-8.6	-5.8	-20.1	-20.2	-16.0	-15.5	-15.5	-14.9	-14.6	-14.4
Services	-4.0	-4.7	-7.3	-8.3	-6.8	-6.5	-6.1	-5.5	-5.3	-5.2
Investment income	-9.6	-6.1	-18.1	-17.4	-14.6	-14.3	-14.9	-15.1	-15.2	-15.3
Current transfers	5.0	5.0	5.4	5.5	5.4	5.3	5.5	5.7	5.9	6.2
Capital and Financial Account Balance	**8.9**	**7.8**	**14.2**	**7.0**	**7.1**	**7.8**	**7.1**	**6.7**	**7.2**	**6.7**
Public sector	4.4	9.8	13.8	-0.7	1.8	1.7	-0.1	1.6	1.4	3.6
Medium-term loans 1/	-0.3	9.0	13.5	0.9	1.7	1.6	-0.2	1.5	1.3	3.6
Other public sector flows 2/	4.5	1.1	0.3	-1.8	0.1	0.1	0.1	0.1	0.1	0.0
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	4.5	-2.1	0.4	7.7	5.3	6.2	7.2	5.1	5.7	3.1
Foreign direct investment (net) 3/	6.8	0.9	6.1	11.7	6.9	7.7	8.0	8.7	9.3	9.6
Medium- and long-term loans	-2.3	-3.4	-0.9	0.3	-1.5	-1.6	-1.5	-1.5	-1.5	-1.5
Portfolio investment	-0.5	1.4	11.6	1.7	-1.2	-2.0	-1.6	-1.6	-1.6	-1.6
Short-term flows 4/	0.5	-1.0	-16.5	-5.9	1.1	2.0	2.4	-0.4	-0.4	-3.4
Errors and Omissions	**1.2**	**-3.5**	**-6.0**	**-1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**6.9**	**5.3**	**6.2**	**-5.3**	**2.2**	**2.0**	**1.5**	**1.8**	**2.4**	**1.7**
Financing	**-6.9**	**-5.3**	**-6.2**	**5.3**	**-2.2**	**-2.0**	**-1.5**	**-1.8**	**-2.4**	**-1.7**
NIR flow (increase -)	-6.9	-5.3	-4.4	5.3	-2.2	-2.0	-1.5	-1.8	-2.4	-1.7
Change in NIR (increase -)	-8.2	-6.4	-3.8	6.6	-2.2	-2.0	-1.5	-1.8	-2.4	-1.7
Valuation change	1.3	1.1	-0.6	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)									
Current Account Balance	**-0.7**	**1.2**	**-2.3**	**-4.3**	**-1.9**	**-2.1**	**-2.0**	**-1.6**	**-1.5**	**-1.5**
Capital and Financial Account Balance	**3.8**	**3.8**	**6.3**	**2.9**	**2.7**	**2.9**	**2.5**	**2.2**	**2.3**	**2.0**
Foreign direct investment (net)	2.9	0.4	2.7	4.8	2.6	2.8	2.8	2.9	2.9	2.9
Overall Balance	**3.0**	**2.6**	**2.8**	**-2.2**	**0.8**	**0.7**	**0.5**	**0.6**	**0.8**	**0.5**
Memorandum Items	(Annual percentage change)									
Export value	-2.2	-10.6	47.2	4.2	0.1	1.9	3.9	3.3	3.1	3.1
Volume growth	1.2	-13.7	12.9	2.4	1.9	1.6	3.2	2.8	2.6	2.6
Price growth	-3.4	3.7	30.3	1.8	-1.8	0.3	0.7	0.5	0.5	0.5
Import value	-1.8	-15.6	38.9	16.7	-2.6	4.8	4.2	3.8	3.8	4.4
Volume growth	-0.2	-11.1	19.2	2.7	0.7	2.7	2.7	2.7	2.7	2.6
Price growth	-1.7	-5.0	16.6	13.7	-3.3	2.0	1.4	1.0	1.0	1.8
Terms of trade	-1.8	9.1	11.8	-10.4	1.6	-1.7	-0.7	-0.5	-0.5	-1.3
Gross international reserves (in billions of US$)	68.4	74.9	78.5	72.2	74.4	76.4	77.9	79.7	82.1	83.8

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 7. Peru: Financial and External Vulnerability Indicators

(In percent, unless otherwise indicated)

				Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Financial Indicators										
Public sector debt/GDP	26.9	35.0	36.3	34.3	33.8	34.0	33.8	33.2	32.5	32.0
Of which: in domestic currency (percent of GDP)	18.5	20.1	16.9	16.7	16.5	17.0	17.9	18.0	18.2	17.9
90-day prime lending rate, domestic currency (end of period)	3.3	0.6	2.9	8.7	...	...	...	...	...	...
90-day prime lending rate, foreign currency (end of period)	2.7	1.1	1.0	5.5	...	...	...	...	...	...
Velocity of money 1/	2.3	1.6	2.0	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Net credit to the private sector/GDP 2/	42.7	52.5	45.9	44.5	43.1	43.1	43.2	43.6	43.9	44.4
External Indicators										
Exports, U.S. dollars (percent change)	-2.2	-10.6	47.2	4.2	0.1	1.9	3.9	3.3	3.1	3.1
Imports, U.S. dollars (percent change)	-1.8	-15.6	38.9	16.7	-2.6	4.8	4.2	3.8	3.8	4.4
Terms of trade (percent change) (deterioration -) 3/	-1.8	9.1	11.8	-10.4	1.6	-1.7	-0.7	-0.5	-0.5	-1.3
Current account balance (percent of GDP)	-0.7	1.2	-2.3	-4.3	-1.9	-2.1	-2.0	-1.6	-1.5	-1.5
Capital and financial account balance (percent of GDP)	3.8	3.8	6.3	2.9	2.7	2.9	2.5	2.2	2.3	2.0
Total external debt (percent of GDP)	34.5	43.2	45.9	41.3	38.8	37.6	35.6	34.2	32.9	32.4
Medium- and long-term public debt (in percent of GDP) 4/	16.9	24.3	26.8	26.8	25.1	24.2	23.0	22.5	21.9	22.1
Medium- and long-term private debt (in percent of GDP)	14.5	15.2	14.1	12.5	11.0	10.1	9.1	8.3	7.6	6.9
Short-term public and private debt (in percent of GDP)	3.4	4.7	4.3	3.8	3.5	3.4	3.2	3.1	2.9	2.8
Total external debt (in percent of exports of goods and services) 4/	146.7	194.6	156.8	142.7	143.7	141.2	134.0	130.0	126.3	126.0
Total debt service (in percent of exports of goods and services) 5/	37.5	36.0	24.2	25.8	25.8	25.5	26.7	25.6	25.0	21.5
Gross official reserves										
In millions of U.S. dollars	68,370	74,909	78,539	72,246	74,446	76,446	77,946	79,746	82,146	83,846
In percent of GDP	29	36	35	30	28	28	27	26	26	25
In percent of short-term external debt 6/	428	487	589	515	541	552	500	512	517	609
In percent of short-term external debt, foreign currency deposits, and adjusted CA balance 6/ 7/	128	152	137	106	128	129	129	135	141	153
In percent of broad money 8/	67	62	71	62	60	59	56	54	53	51
In percent of foreign currency deposits at banks	224	222	229	207	218	227	236	249	267	290
In months of next year's imports of goods and services	19.5	15.4	13.6	13.0	12.8	12.7	12.5	12.8	12.7	12.5
In percent of unadjusted ARA metric	269	280	267	243	248	249	249	250	255	257
Net international reserves (in millions of U.S. dollars)	68,316	74,707	78,495	71,883	74,083	76,083	77,583	79,383	81,783	83,483
Central Bank's Foreign Exchange Position	42,619	58,258	57,345	52,040	54,240	56,240	57,740	59,540	61,940	63,640

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

	2019	2020	2021	Prel. 2022	Proj. 2023	2024	2025	2026	2027	2028
	(Annual percentage change)									
Production										
GDP at constant prices	2.2	-11.0	13.6	2.7	2.2	3.0	3.0	3.0	3.0	3.0
Domestic demand at constant prices	2.2	-9.9	14.7	2.3	1.9	3.3	2.9	3.0	3.0	3.0
Consumption	3.1	-7.3	12.1	2.5	-1.9	3.5	3.0	3.1	3.2	3.1
Investment	3.3	-16.2	35.0	0.9	1.1	2.6	2.7	2.6	2.6	2.6
Of which: Private	4.5	-16.5	37.4	-0.5	-0.3	2.5	2.5	2.5	2.5	2.5
Of which: Public	-1.5	-15.1	24.9	7.1	7.4	3.3	3.4	3.0	3.0	3.0
Net exports (contribution to GDP growth)	0.1	-1.3	-1.0	0.3	0.3	-0.3	0.1	0.0	0.0	0.0
Exports	1.1	-19.6	13.7	5.4	1.9	1.6	3.2	2.8	2.6	2.6
Imports	1.0	-15.8	18.4	4.0	0.7	2.7	2.7	2.7	2.7	2.6
Consumer prices (end of period)	1.9	2.0	6.4	8.5	3.0	2.3	2.0	2.0	2.0	2.0
GDP deflator	1.7	4.3	7.3	4.1	5.7	2.4	2.2	2.1	2.0	1.8
Trade										
Merchandise trade										
Exports, f.o.b.	-2.2	-10.6	47.2	4.2	0.1	1.9	3.9	3.3	3.1	3.1
Imports, f.o.b.	-1.8	-15.6	38.9	16.7	-2.6	4.8	4.2	3.8	3.8	4.4
Terms of trade (deterioration -)	-1.8	9.1	11.8	-10.4	1.6	-1.7	-0.7	-0.5	-0.5	-1.3
	(In percent of GDP; unless otherwise indicated)									
External Current Account Balance	-0.7	1.2	-2.3	-4.3	-1.9	-2.1	-2.0	-1.6	-1.5	-1.5
Total External Debt Service 1/	8.8	8.0	7.1	7.4	7.0	6.8	7.1	6.7	6.5	5.5
Medium- and long-term	4.6	4.0	2.8	3.3	3.2	3.2	3.7	3.5	3.4	2.6
Nonfinancial public sector	1.5	1.0	0.8	1.6	1.5	1.5	2.1	2.0	2.0	1.3
Private sector	3.2	3.0	2.0	1.7	1.7	1.6	1.6	1.5	1.4	1.3
Short-term 2/	0.1	0.1	0.1	0.2	0.3	0.2	0.2	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	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Interest	1.3	1.3	1.2	1.6	1.7	1.7	1.7	1.6	1.5	1.4
Amortization (medium-and long-term)	3.5	2.8	1.6	1.9	1.7	1.7	2.2	2.1	2.1	1.4
Public Sector										
NFPS primary balance 3/	-0.2	-7.3	-1.0	-0.1	-0.3	-0.4	0.1	0.6	0.5	0.4
NFPS interest due	1.4	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.5	1.4
NFPS overall balance 3/	-1.6	-8.9	-2.5	-1.6	-2.0	-2.0	-1.5	-1.0	-1.0	-1.0
Public sector debt 3/	26.9	35.0	36.3	34.3	33.8	34.0	33.8	33.2	32.5	32.0
Savings and Investment										
Gross domestic investment	21.8	19.7	21.7	22.1	24.2	24.2	24.0	23.9	23.8	23.7
Public sector 3/	4.6	4.3	4.7	5.1	5.1	5.2	5.2	5.2	5.2	5.3
Private sector	17.2	15.5	17.0	17.1	19.1	19.0	18.9	18.7	18.6	18.5
Private sector (excluding inventories)	18.0	16.8	20.5	20.3	19.1	19.0	18.9	18.7	18.6	18.5
Inventory changes	-0.7	-1.3	-3.5	-3.3	0.0	0.0	0.0	0.0	0.0	0.0
National savings	21.1	20.9	19.4	17.7	22.3	22.0	22.1	22.2	22.3	22.2
Public sector 4/	3.3	-3.9	2.8	4.8	4.5	4.5	5.0	5.5	5.6	5.6
Private sector	17.7	24.9	16.6	12.9	17.8	17.5	17.0	16.7	16.7	16.7
External savings	0.7	-1.2	2.3	4.3	1.9	2.1	2.0	1.6	1.5	1.5
Memorandum Items										
Nominal GDP (billions of nuevos soles)	775.3	719.5	877.1	937.7	1012.6	1067.8	1,124.3	1,182.3	1,242.1	1,302.9
Gross international reserves (billions of U.S. dollars)	68.4	74.9	78.5	72.2	74.4	76.4	77.9	79.7	82.1	83.8
External debt service (percent of exports of GNFS)	37.5	36.0	24.2	25.8	25.8	25.5	26.7	25.6	25.0	21.5
Short-term external debt service (percent of exports of GNFS)	0.5	0.5	0.3	0.6	0.9	0.8	0.7	0.6	0.5	0.5
Public external debt service (percent of exports of GNFS)	6.2	4.5	2.7	5.4	5.7	5.8	8.0	7.6	7.8	5.1

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: External Financing Requirements and Sources under Adverse Scenario, 2023-2024 1/

	2023 (baseline)	2023 (adverse)	Contribution to Gap	2024 (baseline)
Gross External Financing Needs	-18.7	-22.6		-19.7
Current Account Balance	-4.9	-8.8	**3.9**	-5.8
FX MLT Debt Amortization	-4.5	-4.5		-4.6
Public	-1.3	-1.3		-1.4
Private	-3.2	-3.2		-3.1
FX ST Debt Amortization	-9.3	-9.3		-9.3
Public	0.0	0.0		0.0
Private	-9.3	-9.3		-9.3
Available Financing	20.9	8.3		21.7
FDI (net)	6.9	5.0	**2.0**	7.7
FX MLT Debt Disbursements	4.7	3.5	**1.2**	4.6
Public	3.0	2.1		3.0
Private	1.7	1.4		1.6
FX ST Debt Disbursements	9.3	7.4	**1.9**	9.3
Private	9.3	7.4		9.3
Net Financing Domestic Currency Debt	0.1	-3.6	**3.7**	0.1
Net Portfolio Investment	-1.2	-3.3	**2.1**	-2.0
Other ST Flows (net)	1.1	-0.7	**1.8**	2.0
Financing Needs+Available Financing	2.2	-14.3		2.0
Errors and Omissions	0.0			0.0
Gross Reserve Accumulation	2.2	-9.0	**-11.2**	2.0
Financing Gap	0.0	-5.3	**5.3**	0.0
in percent of quota			**300**	
Memorandum Item				
Gross International Reserves (GIR)	74.4	63.3		76.4

1/ Assumes full drawing on the current FCL (300 percent of quota) in 2023 and the adverse scenario from the 2022 FCL approval.

Table 10. Peru: Capacity to Repay the Fund[1/]

	2022	2023	2024	2025	2026	2027	2028
Exposure and Repayments (In SDR millions)							
GRA credit to Peru	--	4,004	4,004	4,004	3,003	1,001	--
(In percent of quota)	--	300	300	300	225	75	--
Charges due on GRA credit 2/	--	119	213	213	212	113	24
Debt service due on GRA credit 2/	--	119	213	213	1,213	2,115	1,024
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	41.3	42.3	41.4	38.4	36.3	33.6	32.3
Public external debt 4/	26.8	28.5	27.6	25.8	24.6	22.8	22.3
GRA credit to Peru	--	2.2	2.1	2.0	1.4	0.5	--
Total external debt service	3.5	3.0	3.8	4.2	4.5	4.7	3.3
Public external debt service	1.6	1.7	1.8	2.4	2.7	3.1	1.8
Debt service due on GRA credit	--	0.1	0.1	0.1	0.6	1.0	0.4
In percent of Gross International Reserves							
Total external debt	139.8	168.9	164.9	159.7	154.8	146.6	145.5
Public external debt	90.6	113.5	110.1	107.3	104.9	99.4	100.4
GRA credit to Peru	--	8.7	8.5	8.3	6.1	2.0	--
In percent of Exports of Goods and Services							
Total external debt service	12.1	12.0	14.2	14.9	15.9	17.2	12.2
Public external debt service	5.4	6.8	6.7	8.3	9.6	11.3	6.7
Debt service due on GRA credit	--	0.3	0.4	0.4	2.1	3.5	1.6
In percent of Total External Debt							
GRA credit to Peru	--	5.2	5.1	5.2	3.9	1.3	--
In percent of Public External Debt							
GRA credit to Peru	--	7.7	7.7	7.7	5.8	2.0	--
Memo Items:							
U. S. dollars per SDR (period average)	1.34	1.33	1.33	1.34	1.34	1.35	1.35
Oil Price (WEO APSP, US$ per barrel)	96.4	73.1	68.9	67.0	65.4	64.0	62.8

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

1/ Assumes full drawing of 300 percent of quota under the new access.
2/ Based on the GRA rate of charge 4.463 (as of April 6, 2023).
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services reflect the adverse, and not the baseline, scenario under which the full FCL drawing is assumed.
4/ External debt liabilities of all public sector.

Annex I. Assessment of FCL Qualification Criteria

	Area	FCL Qualification Criteria	Peru's Information	Status
1	Sustainable external position.	The core indicator requires the member's external position to have been assessed, in the most recent Board document (Article IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies.	Peru's latest External Sector Assessment conducted during the 2023 Article IV Consultation indicates that the external position for 2022 is assessed as moderately weaker than the level implied by fundamentals and policies.	✓
2	Capital account position dominated by private flows.	The core indicator requires public flows to account for less than half of a member's direct, portfolio, and other asset and liability flows, on average in the past three years.	The bulk of Peru's external capital flows is carried out by the private sector, with public flows averaging less than 33 percent of the total capital flows over the past three years (2020-22).	✓
3	Track record of steady sovereign access to internationals capital markets at favorable terms.	The core indicator requires public sector issuance or guaranteeing of external bonds or disbursements of public and publicly-guaranteed external commercial loans in international markets during at least three of the last five years for which data are available, in a cumulative amount over that period equivalent to at least 50 percent of the country's Fund quota at the time of the assessment.	Peru has a strong track record of access to international capital markets and the spreads on the sovereign debt remain among the lowest in Latin America. Peru has successfully placed sovereign bonds on international markets at favorable terms for more than 10 times its IMF quota during four out of the last five years during 2018-22.	✓
4	Comfortable reserve position.	The core indicator requires reserves to have been greater than 100 percent of the unadjusted Assessing Reserve Adequacy (ARA) metric on average over three (the current and the two previous) years, and not below 80 percent in any of these three years.	International reserves have been on average 260 percent of the ARA metric over the last three years and not below 80 percent in any of the last three years.	✓

	Area	FCL Qualification Criteria	Peru's Information	Status
5	Sound public finances and sustainable public debt.	The core indicator requires the member's public debt to be assessed as sustainable with a high probability.	Peru's fiscal position remains robust. The sovereign risk and public debt sustainability analysis indicates that Peru's public debt is assessed as sustainable with a high probability.	✓
6	Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.	The core indicator requires the member to have maintained single-digit inflation over the past five years.	Peru introduced an inflation targeting framework in 2002 and has achieved one of the lowest inflation rates in Latin America over the last two decades. Inflation has been in the single digits in the last two decades.	✓
7	Sound financial system and absence of solvency problems that may threaten systemic stability.	The core indicator requires the average capital adequacy ratio for the banking sector to be above regulatory thresholds, and that the most recent Article IV did not highlight significant solvency risks or recapitalization needs.	The banking system is well-capitalized with the average capital adequacy ratios above regulatory thresholds. The 2023 Article IV Consultation did not mention any significant solvency or recapitalization needs.	✓
8	Effective financial sector supervision.	The core indicator requires that the most recent FSAP or Article IV report did not raise substantial concerns regarding the supervisory framework.	Neither the 2018 FSAP exercise or the 2023 Article IV Consultation raised any concern regarding the supervisory framework	✓
9	Data transparency and integrity.	The core indicator requires that the member is a Special Data Dissemination Standard (SDDS) subscriber or has made satisfactory progress toward meeting the SDDS requirements.	Peru subscribes to the Special Data Dissemination Standards (SDSS).	✓

Annex II. External Debt Sustainability Analysis

Table 1. Peru: External Debt Sustainability Framework 2020-28

(Percent of GDP, unless otherwise indicated)

			Prel.	Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 6/**
Baseline: External Debt	**43.1**	**45.9**	**41.3**	**38.8**	**37.6**	**35.6**	**34.2**	**32.9**	**32.4**	**-2.5**
Change in external debt	8.6	2.7	-4.6	-2.5	-1.2	-2.0	-1.4	-1.3	-0.5	
Identified external debt-creating flows (4+8+9)	2.0	-10.9	-2.3	-1.1	-1.1	-1.4	-1.7	-1.9	-1.8	
Current account deficit, excluding interest payments	-2.5	1.1	2.8	0.1	0.4	0.3	0.1	0.0	0.2	
Deficit in balance of goods and services	-1.7	-3.4	-0.5	-1.6	-1.2	-1.3	-1.5	-1.4	-1.3	
Exports	22.2	29.2	28.9	27.0	26.6	26.5	26.3	26.0	25.7	
Imports	20.4	25.9	28.4	25.4	25.5	25.2	24.8	24.6	24.4	
Net non-debt creating capital inflows (negative)	-1.1	-7.9	-5.5	-2.2	-2.1	-2.2	-2.3	-2.4	-2.4	
Automatic debt dynamics 1/	5.6	-4.1	0.4	0.9	0.6	0.6	0.5	0.5	0.4	
Contribution from nominal interest rate	1.3	1.2	1.6	1.7	1.7	1.7	1.6	1.5	1.4	
Contribution from real GDP growth	4.3	-5.3	-1.1	-0.8	-1.1	-1.1	-1.0	-1.0	-0.9	
Contribution from price and exchange rate changes 2/	...	...	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.6	13.7	-2.3	-1.3	-0.1	-0.7	0.4	0.6	1.3	
External debt-to-exports ratio (in percent)	194.6	156.8	142.7	143.7	141.2	134.0	130.0	126.3	126.0	
Gross External Financing Need (in billions of U.S. dollars) 4/	11.3	18.4	25.1	18.7	19.7	21.2	20.5	20.6	18.8	
In percent of GDP	5.5	8.1	10.2	7.1	7.2	7.4	6.8	6.5	5.7	
Scenario with Key Variables at Their Historical Averages 5/		**45.9**	**41.3**	**39.6**	**37.5**	**35.0**	**33.7**	**32.5**	**32.0**	**-3.6**
Key Macroeconomic Assumptions Underlying Baseline										
Real GDP growth (in percent)	-11.0	13.6	2.7	2.2	3.0	3.0	3.0	3.0	3.0	
GDP deflator in U.S. dollars (change in percent)	-0.4	-3.3	5.4	5.3	1.0	1.8	1.8	1.7	1.6	
Nominal external interest rate (in percent)	3.4	3.1	3.7	4.6	4.6	4.7	4.6	4.5	4.3	
Growth of exports and services (U.S. dollar terms, in percent)	-16.6	44.9	7.1	0.4	2.6	4.5	4.0	3.6	3.2	
Growth of imports and services (U.S. dollar terms, in percent)	-18.7	39.0	18.8	-3.9	4.4	3.7	3.4	3.7	3.9	
Current account balance, excluding interest payments	2.5	-1.1	-2.8	-0.1	-0.4	-0.3	-0.1	0.0	-0.2	
Net non-debt creating capital inflows	1.1	7.9	5.5	2.2	2.1	2.2	2.3	2.4	2.4	

Source: National authorities and Fund staff calculations.

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

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

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

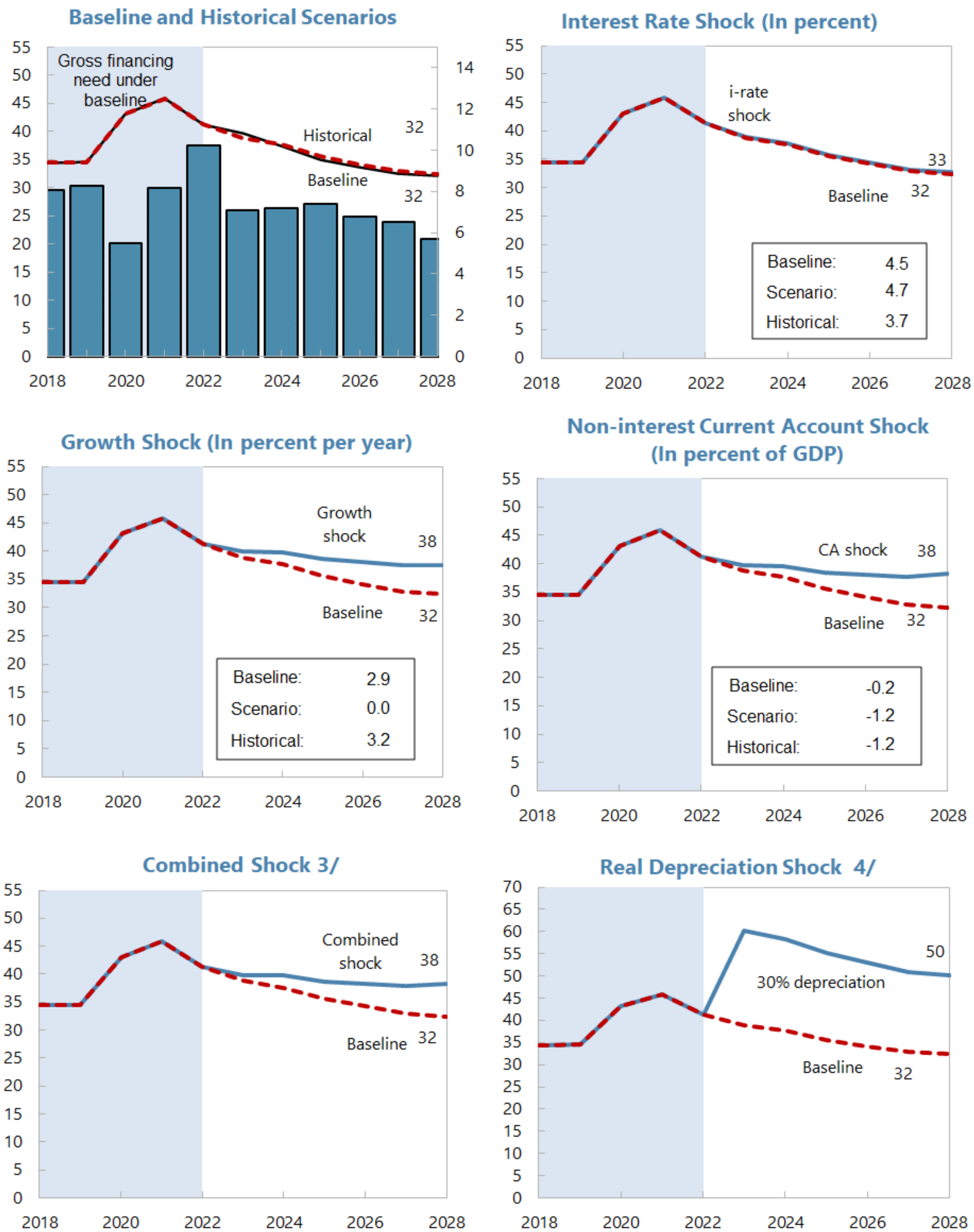
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(Percent of GDP, unless otherwise indicated)



Source: IMF 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 2023.

Annex III. Sovereign Risk and Debt Sustainability Analysis

The sovereign risk and public debt sustainability analysis findings indicate that Peru's public debt is sustainable with high probability. Peru has among the lowest public debt stocks in Latin America, its sovereign debt is rated investment grade, and overall risk of sovereign stress is low.

1. **As the recovery from the COVID-19 pandemic has advanced, the ratio of public debt and other indicators have improved**. Public debt is expected to stabilize over the medium term and fall toward the long-run debt target reflecting the planned fiscal consolidation envisioned in the fiscal rules. The shares of foreign and domestic-currency denominated debt, marketable debt, and the residual maturity profile of public debt are expected to remain broadly stable over the forecast horizon.

2. **The statistical coverage of Peru's public debt statistics is that of the Non-Financial Public Sector**, beyond the minimum required (general government). The sovereign's investor base is well diversified, and the law of the debt is equally distributed between local and foreign. The lion's share of public debt is marketable, with over ten years of residual maturity.

3. **The realism analysis of the baseline scenario does not point to major concerns**. The forecast track record for the main debt drivers does not reveal any systematic bias, and the projected fiscal consolidation is well within norms. The real GDP growth forecast in the baseline is consistent with reasonable estimates of the fiscal multiplier.

4. **Medium-term liquidity risks are low**, as signaled by the GFN Financeability Module and supported by low gross financing needs, and the strength of the macroeconomic policy frameworks and institutions, while the Fanchart module points to moderate levels of risk. In turn, long-term risks are low. Stress tests suggest that debt would remain manageable under risk scenarios of sharp falls in commodity prices and large borrowing needs arising from natural disasters. Risks from large amortization profiles are assessed as low. Aging-related public spending on health and pensions are expected to be accommodated within the fiscal rules.

Figure 1. Peru: Public Debt Sustainability Analysis—Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting low levels of vulnerability in the medium and long term horizons.
Near term 1/	...	...	
Medium term	Low	Low	Medium-term risks are assessed as low on the basis of the strength of macroeconomic policy frameworks and institutions, and low gross financing needs.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Low	Risks from large amortization profiles in the long term are low. Aging-related public spending on health and pensions are expected to be accommodated within the fiscal rules.
Sustainability assessment 2/	...	Sustainable with high probability	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, conditional on the implementation of the planned fiscal adjustment measures envisioned in the fiscal rules. Debt is assessed as sustainable with high probability.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Peru's overall risk of sovereign stress is low and public debt is sustainable with a high probability. The public debt ratio and other indicators have stabilized as the recovery from the COVID-19 pandemic has advanced. The public debt ratio is expected to stabilize over the medium term as the authorities proceed with a planned fiscal consolidation. Medium-term liquidity risks are low, as signaled by GFN Financeability Module and supported by the strength of the macroeconomic policy frameworks and institutions. Long term risks are low.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Peru: Public Debt Sustainability Analysis—Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS / NFPS / GG: expected / CG		Subsectors captured in the baseline	Inclusion	Comments
CPS, NFPS, GG: expected, CG	1	Budgetary central government	Yes	
CPS, NFPS, GG: expected, CG	2	Extra budgetary funds (EBFs)	Yes	Not applicable
CPS, NFPS, GG: expected, CG	3	Social security funds (SSFs)	Yes	
CPS, NFPS, GG: expected	4	State governments	Yes	
CPS, NFPS, GG: expected	5	Local governments	Yes	
CPS, NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	**IPSGSs 3/**

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-government Debt Holdings

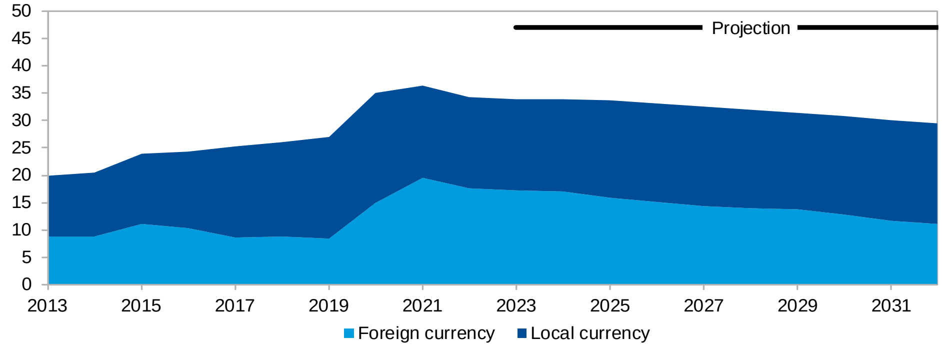
		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS, NFPS, GG: expected, CG	1	Budget. central govt									
CPS, NFPS, GG: expected, CG	2	Extra-budget. funds	2,681								2,681
CPS, NFPS, GG: expected, CG	3	Social security funds	406								406
CPS, NFPS, GG: expected	4	State govt.	1,267								1,267
CPS, NFPS, GG: expected	5	Local govt.									
CPS, NFPS	6	Nonfin pub. corp.	1,509								1,509
CPS	7	Central bank	7,442								7,442
CPS	8	Oth. pub. fin. corp	7,142								7,142
		Total	20,447	0	0	0	0	0	0	0	20,447

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Millions of PEN. Only includes debt securities and loans from the BCG to subnational governments and the rest of the public sector.

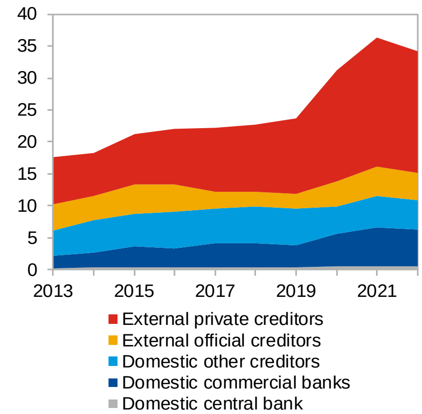
Figure 3. Peru: Public Debt Sustainability Analysis—Public Debt Structure

Debt by Currency (Percent of GDP)



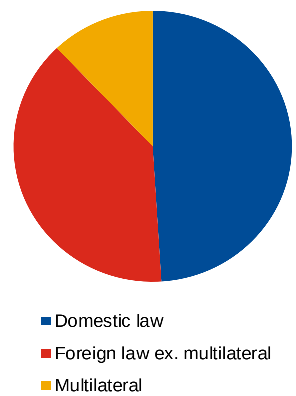
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



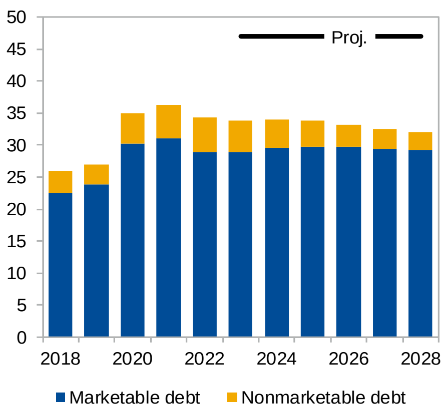
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2022 (percent)



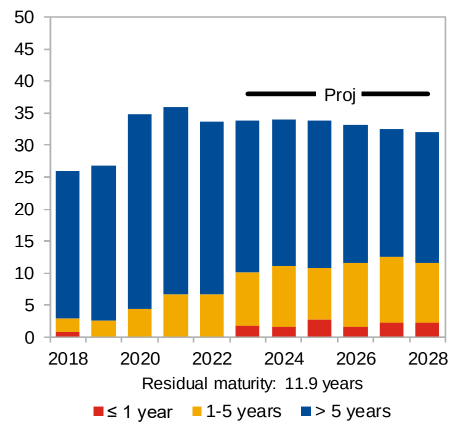
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Commentary: The share of domestic and foreign-currency denominated public debt is expected to remain broadly stable over the forecast horizon. The lion's share of public debt is expected to remain marketable, and with a residual maturity longer than 10 years. The investor base is well diversified, and the law of the debt is equally distributed between local and foreign.

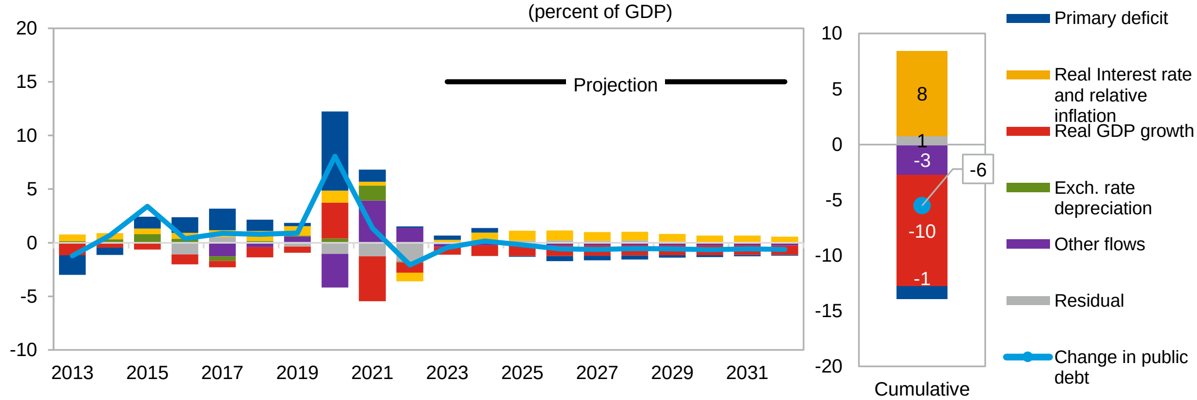
Figure 4. Peru: Public Debt Sustainability Analysis—Baseline Scenario

Percent of GDP, unless otherwise indicated

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	34.3	33.8	34.0	33.8	33.2	32.5	32.0	31.4	30.7	30.2	29.5
Change in public debt	-2.1	-0.4	0.1	-0.2	-0.6	-0.6	-0.6	-0.6	-0.7	-0.6	-0.6
Contribution of identified flows	-0.3	-0.3	0.0	-0.4	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6
Primary deficit	0.1	0.4	0.4	-0.1	-0.5	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1
Noninterest revenues	26.0	25.5	25.4	25.3	25.2	25.0	25.0	25.1	25.1	25.1	25.2
Noninterest expenditures	26.1	25.9	25.8	25.2	24.7	24.6	24.7	24.9	24.9	25.0	25.1
Automatic debt dynamics	-1.8	-0.5	-0.2	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3
Real interest rate and relative inflation	-0.8	0.3	0.8	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Real interest rate	-1.1	-0.2	0.8	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Relative inflation	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.9	-0.7	-1.0	-1.0	-1.0	-1.0	-0.9 .	-0.9	-0.9	-0.9	-0.9
Real exchange rate	-0.1	…	…	…	…	…	… .	…	…	…	…
Other identified flows	1.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	-1.8	-0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.1	0.0
Gross financing needs	2.4	2.8	3.6	3.3	4.2	3.4	4.3	4.5	3.8	5.4	5.2
of which: debt service	2.3	2.5	3.3	3.4	4.7	3.9	4.7	4.8	4.0	5.6	5.3
Local currency	1.3	1.1	1.9	1.4	2.6	1.6	2.9	2.9	1.7	2.9	3.1
Foreign currency	1.0	1.3	1.3	2.1	2.1	2.3	1.8	1.8	2.3	2.7	2.2
Memo:											
Real GDP growth (percent)	2.7	2.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	7.9	5.6	2.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	6.9	8.0	5.4	5.3	5.2	5.1	4.9	5.1	5.1	5.1	5.1
Effective interest rate (percent)	4.6	5.1	5.1	5.1	4.9	4.7	4.6	4.3	4.2	4.1	4.0

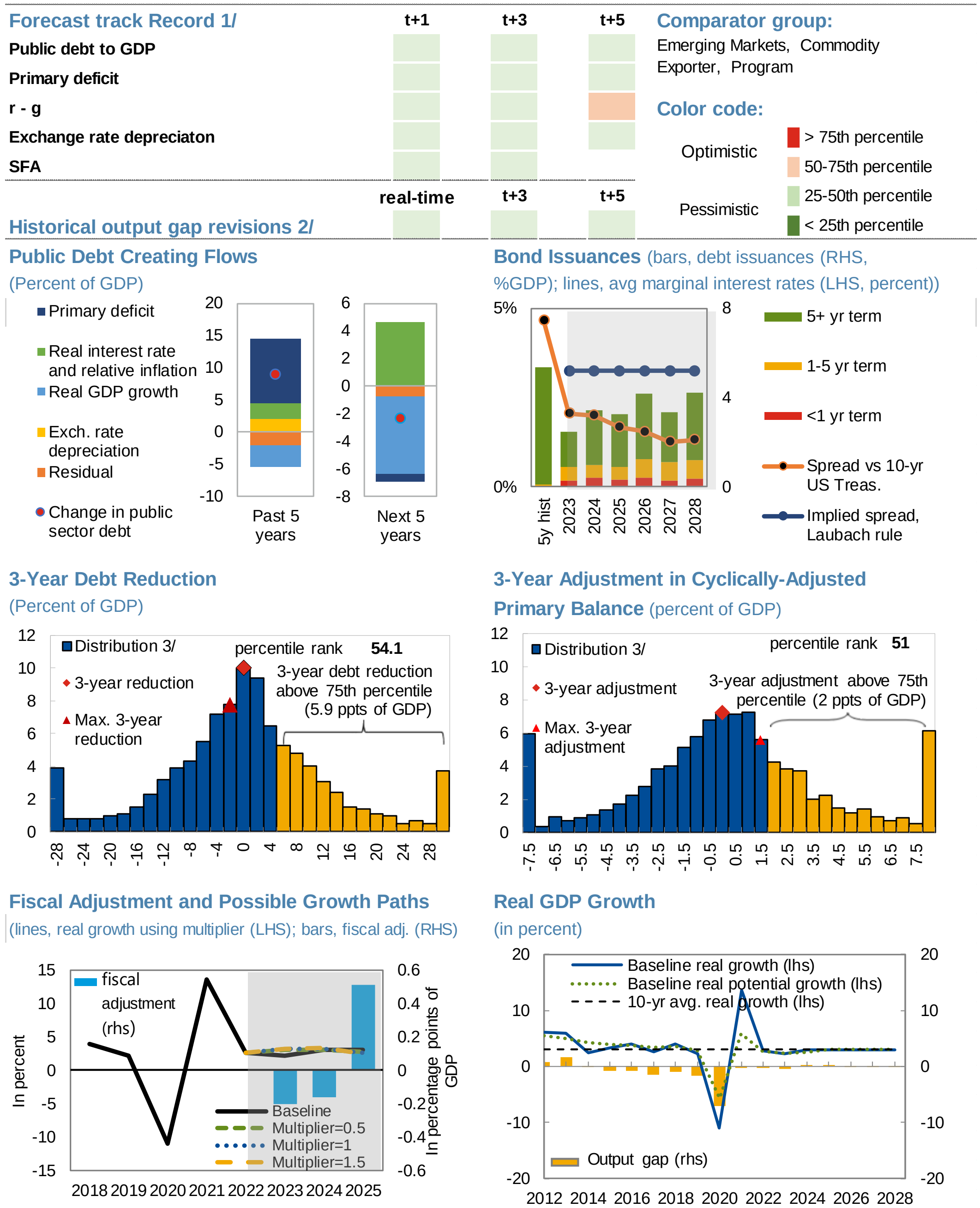
Contribution to change in public debt

(percent of GDP)



Commentary: Public debt is expected to stabilize over the medium term and fall toward the long-run debt target reflecting the planned fiscal consolidation envisioned in the fiscal rules.

Figure 5. Peru: Public Debt Sustainability Analysis—Realism of Baseline Assumptions



Commentary: The realism analysis does not point to major concerns. The forecast track record for the main drivers does not reveal any systematic bias, and the projected fiscal consolidation is well within norms. The real GDP growth forecast in the baseline is consistent with reasonable estimates of the fiscal multiplier, and converges to potential GDP growth over the forecast horizon.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure 6. Peru: Public Debt Sustainability Analysis—Medium-Term Risk Analysis

Debt fanchart and GFN financeability indexes

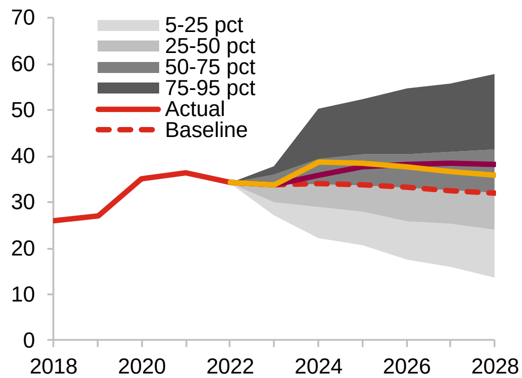
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	44.1	0.6	…
	Probability of debt not stabilizing (pct)	22.6	0.2	…
	Terminal debt level x institutions index	19.8	0.4	…
	Debt fanchart index	**…**	**1.3**	**Moderate**
GFN finance-ability module	Average GFN in baseline	3.6	1.2	…
	Bank claims on government (pct bank assets)	7.5	2.4	…
	Chg. in claims on govt. in stress (pct bank assets)	2.6	0.9	…
	GFN financeability index	**…**	**4.5**	**Low**

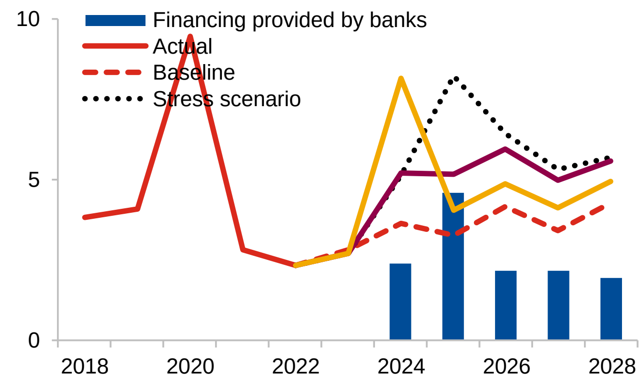
Adv. Econ., Non-Com. Exp, Program: 0 25 50 75 100

Legend: Interquartile range Peru

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

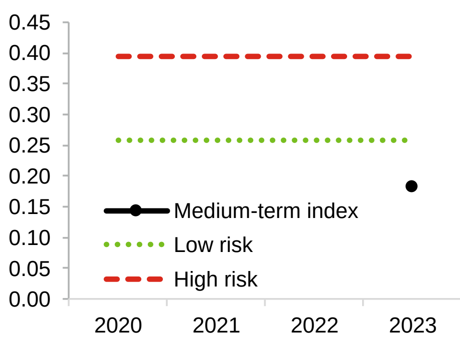


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.2, Low

Prob. of missed crisis, 2023-2028 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 58.0 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, while the GFN Financeability Module suggests a low risk level, supported by low gross financing needs.

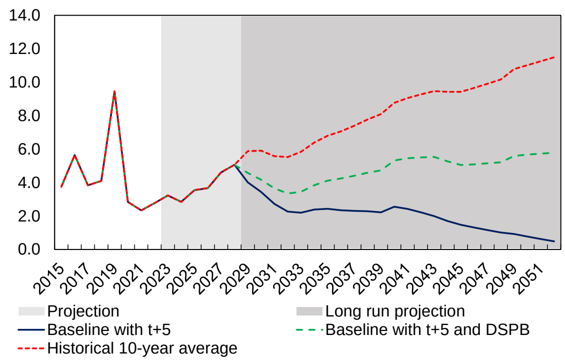
Figure 7. Peru: Public Debt Sustainability Analysis—Long-Term Risk Analysis

Large Amortization

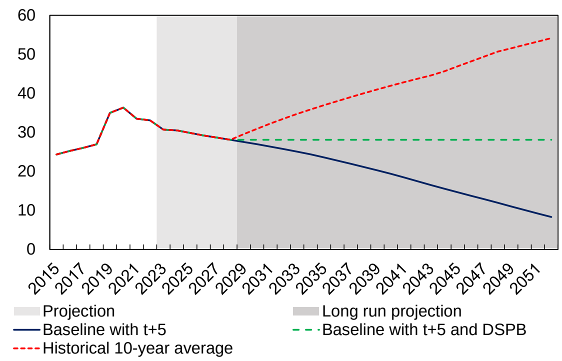
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

Overall Risk Indication	

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Statement by Mr. Herrera and Mr. Hendrick on Peru
May 17, 2023

INTRODUCTION

1. On behalf of the Peruvian authorities, we would like to thank staff for an excellent report on the mid-term Flexible Credit Line (FCL) review. We also appreciate the Executive Board and Management's sustained support for Peru's FCL arrangement. The FCL provides valuable added insurance against elevated downside risks and, together with Peru's robust macroeconomic policies and institutional framework, will continue to bolster market confidence into the second year of the arrangement, amid high uncertainty and multiple risks to the global outlook.

2. **Peru's very strong economic fundamentals and policy frameworks, as well as a steadfast record of resilient macroeconomic policies, have enabled the country to absorb substantial adverse shocks in recent years**. The 2023 Article IV Consultation rendered a highly positive assessment of the economy. The Board and staff commended the decisive monetary tightening strategy aimed at steering inflation towards the target, the flexibility of the exchange rate, the robust level of international reserves, and a better-than-anticipated fiscal position in line with the Fiscal Responsibility Law. Directors also welcomed the banking system's resilience and the recent measures implemented in accordance with Basel III. The authorities remain dedicated to upholding these policies and frameworks, a commitment maintained for the past three decades.

OUTLOOK, RISKS, AND BUFFERS

3. **The authorities concur with staff's view that the outlook remains uncertain, with elevated risks, but Peru's substantial buffers and access to the FCL furnish sufficient insurance against adverse scenarios**. External risks primarily stem from potential escalations of Russia's war in Ukraine, an abrupt global slowdown, commodity price volatility, and global financial tightening. The updated External Economic Stress Index (ESI) for Peru (Box 2) indicates that external risks remain high. Nevertheless, Peru's substantial policy buffers (public debt at a comparatively low level of 33.8 percent of GDP at end-2022, international reserves equivalent to 30 percent of GDP, and approximately 240 percent of the ARA metric at end-2022), access to international capital markets at a remarkably low cost, and a solid financial sector, supplemented by access to the FCL, underpin the country's ability to navigate adverse shocks. On the upside, in addition to a "soft landing" in key trade partners, the authorities anticipate that their efforts to revamp public investment and attract new FDI in mining projects will generate stronger growth than projected. Even under the baseline scenario, Peru's growth in 2023 is forecast to surpass that of its Latin American peers, indicating the resilience of its economy.

RECENT DEVELOPMENTS

4. **The authorities expect real GDP growth at around 2.5 percent in 2023, driven mainly by a recovery in primary sectors.** Despite initial setbacks due to domestic supply-side shocks (including a cyclone, heavy rainfall, and road and airport blockades, which hampered the agriculture and infrastructure sectors), the authorities anticipate a growth rate of around 2.5 percent in 2023. The latter is expected to be primarily fueled by a recovery in private consumption and strong exports. Business sentiment and expectations indicators improved in March 2023, with a positive outlook projected for the rest of the year. Congress has set aside calls for early general elections, a factor that the private sector is incorporating into its business strategies.

5. **Headline inflation (yoy) decreased for the third consecutive month in April 2023, signaling a continued downward trend**. The Central Reserve Bank of Peru (BCRP) increased the policy rate by a total of 750 basis points through 18 consecutive hikes, bringing it to 7.75 percent. In April 2023, core inflation also began to decline, with headline and core inflation rates recorded at 7.97 percent and 5.7 percent respectively, ranking among the lowest in Latin America. Inflation expectations are declining steadily, and longer-term expectations remain well-anchored. By April 2023, the ex-ante real interest policy rate was 3.45 percent, above the estimated real neutral rate of around 1.5 percent, reflecting a tight monetary policy stance. As domestic supply shocks impacting the agriculture sector and key CPI basket components dissipate, inflation is forecast to maintain its downward trend. Accordingly, the BCRP projects headline inflation to gradually converge towards the upper bound of the 1-3 percent target band by late 2023. The monetary authority is committed to its current data-driven approach and stands ready to introduce additional measures if required.

6. **Peru's fiscal position remains solid, its public debt standing out as one of the lowest among emerging market economies**. The non-financial public sector deficit decreased to 1.7 percent of GDP in 2022 (from 2.5 percent in 2021), comfortably fitting within the fiscal rule for that year (3.7 percent). In 2023 it is expected to hit 2.1 percent of GDP in the context of a temporary fiscal stimulus (launched in January) targeting the most affected sectors and regions and providing a moderate boost to the economy. Finally, the fiscal deficit is expected to taper to 1.0 percent of GDP over the medium term. The public debt-to-GDP ratio was 33.8 percent at the close of 2022, and the net public debt-to-GDP ratio was just 21.0 percent during the same period. By March 2023, Peru’s sovereign yield (on its 10-year bond) was the second lowest in Latin America, while the proportion of government debt held by foreign creditors significantly dropped from 50 percent at end-2021 to 39 percent at end-March 2023. The sovereign risk and public debt sustainability analysis confirms that Peru’s public debt is sustainable with high probability.

7. **The current account deficit is expected to contract to 1.4 percent in 2023, propelled by a recovery in the trade balance.** Peru’s external accounts remain strong. The current account deficit is financed by long-term private flows (mainly FDI), which predominate within the capital and financial accounts. Net international reserves hold at a sturdy US$74.3 billion as of March 2023, surpassing all standard reserve adequacy metrics. As depicted in Figure 4 of the staff report, this level compares favorably with peer countries. These reserves, further reinforced by the FCL arrangement, provide a significant buffer against external risks. The authorities continue to value exchange rate flexibility as an effective shock absorber for a small open economy like Peru. The BCRP’s FX interventions are

directed only toward containing excessive exchange rate volatility without affecting its trend. Owing to Peru's comparatively low inflation, the PEN has maintained remarkable stability in the region since the beginning of the century.

8. **The financial system has remained strong, stable, and well-supervised by the regulatory authority**. As clearly explained by staff in Box 1, the recent banking disturbances in the US and Europe have not spilled over into Peru. As discussed in the last Article IV consultation, significant steps have been taken to enhance financial sector oversight, in line with the 2018 FSAP recommendations. Despite the current financial tightening, the withdrawal of support measures, and increased financial market volatility, the banking system remains healthy.

FINAL REMARKS

9. **The authorities plan to continue treating the FCL as a precautionary and temporary arrangement**. In accordance with its commitment to treat the FCL arrangement as a temporary tool, and in line with its strategy for an orderly exit dependent on the evolution of global risks, the current FCL arrangement amounts to 300 percent of the quota, half of the first arrangement approved in 2020. The authorities regard the current level of access as adequate and, depending on global risks, they will consider exiting in May 2024.

10. **The Peruvian authorities remain committed to maintaining very strong macroeconomic policies and will respond in a timely and effective manner to any emerging shocks**. The FCL has imparted a strong signal of confidence in the strength of Peru's policy framework and fundamentals, offering valuable protection against tail risks amid unprecedented uncertainty and volatility in global financial markets. Lastly, we wish to express our gratitude to Ms. Sonia Muñoz and her team for their commitment and diligence throughout the FCL mid-term review process.