



PERU

June 2021

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 27, 2021, following discussions with the officials of Peru on economic developments and policies underpinning the IMF arrangement under the Flexible Credit Line. Based on information available at the time of these discussions, the staff report was completed on May 18, 2021.
- A **Statement by the Executive Director** for Peru.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



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

FOR IMMEDIATE RELEASE

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

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

The FCL was established on March 24, 2009 as part of a major reform of the Fund's lending framework (see Press Release No. 09/85). The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (one or two years), and subject to a mid-term review in two-year FCL arrangements. Disbursements are not phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs. This large, upfront access with no ongoing conditions is justified by the very strong track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong.

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

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

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

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



PERU

May 18, 2021

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

EXECUTIVE SUMMARY

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

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

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

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

Approved By
Patricia Alonso-Gamo
 (WHD) and
Rupa Duttagupta
 (SPR)

This report was prepared by a team comprising Leo Bonato (head), Luisa Charry and Etibar Jafarov (all WHD), Vassili Bazinas (MCM), and Gohar Minasyan (SPR). Patricia Delgado Pino and Danjing Shen (all WHD) provided excellent research and editorial assistance.

CONTENTS

CONTEXT	4
RECENT DEVELOPMENTS	4
OUTLOOK, RISKS, AND POLICY SETTINGS	6
REVIEW OF QUALIFICATION CRITERIA	11
SAFEGUARDS ASSESSMENT	14
STAFF APPRAISAL	14
BOX	
1. Update of the External Economic Stress Index	10
FIGURES	
1. High Frequency Indicators	5
2. Financial Market Developments	7
3. Recent Economic Developments	15
4. Qualification Criteria	16
5. Reserve Coverage and FCLs from an International Perspective	17
TABLES	
1. Selected Economic Indicators	18
2. Nonfinancial Public Sector Main Aggregates	19
3. Statement of Operations of the General Government	20
4. Balance of Payments	21
5. Monetary Survey	22
6. Financial Soundness Indicators	23
7. Financial and External Vulnerability Indicators	24
8. Medium-Term Macroeconomic Framework	25
9. Capacity to Repay Indicators	26

ANNEXES

I. External Debt Sustainability Analysis	<u>27</u>
II. Public Debt Sustainability Analysis	<u>29</u>