



PERU

June 2022

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

In the context of the Formal Staff Report Request for an Arrangement under the FCL, 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, 2022, following discussions that ended on March 1, 2022, 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 12, 2022.
- 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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IMF Executive Board Approves New Two-Year US\$5.4 Billion Flexible Credit Line Arrangement for Peru

FOR IMMEDIATE RELEASE

- The IMF approved today a successor two-year arrangement for Peru under the Flexible Credit Line (FCL), designed for crisis prevention, of about US\$5.4 billion.
- Peru qualifies for the FCL by virtue of its very strong economic fundamentals and institutional policy frameworks, a track record of implementing very strong policies, and commitment to maintaining such policies.
- As with the previous FCL arrangement, the Peruvian authorities stated their intention to treat this new arrangement as precautionary. The lower credit line request reflects better economic and external reserve positions, and demonstrates the authorities' strategy of gradually exiting the facility.

Washington, DC – May 27, 2022. The Executive Board of the International Monetary Fund (IMF) approved today a successor two-year arrangement for Peru under the Flexible Credit Line (FCL) in an amount equivalent to SDR 4.0035 billion (about US\$ 5.4 billion)¹ and noted the cancellation by Peru of the previous arrangement in the amount of SDR 8.07 billion. The Peruvian authorities stated their intention to treat the new 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). It allows its recipients to draw on the credit line at any time and is designed to flexibly address both actual and potential balance of payments needs to help boost market confidence. Drawings under the FCL are not phased nor tied to ex-post conditionality as in regular IMF-supported programs. This large, upfront access with no ex-post conditionality is justified by the very strong policy fundamentals and institutional policy frameworks and sustained track records of countries that qualify for the FCL, which gives confidence that their economic policies will remain strong, and they will respond appropriately to the balance of payments difficulties that they are encountering or could encounter.

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

"Peru's very strong economic fundamentals and policy frameworks—anchored by a credible inflation targeting framework, a flexible exchange rate, effective financial sector supervision and regulation, and a solid medium-term fiscal framework—have allowed the authorities to deliver a comprehensive and timely response to the COVID-19 pandemic and promote growth. As a result, and spurred by robust external demand, favorable terms of trade, and a

¹ Dollar amount based on the Special Drawing Right (SDR) quote of 1 USD = SDR 0.74121 on May 27, 2022

surge in construction, Peru's economy recovered strongly in 2021, registering one of the highest growth rates in the region.

"Nevertheless, the Peruvian economy remains exposed to elevated risks, including from renewed waves of the COVID-19 pandemic, slowing economic activity in key trade partner countries, the war in Ukraine, tighter global financial conditions, and political uncertainty. The new arrangement under the Flexible Credit Line will continue to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against tail risks and bolstering market confidence.

"The authorities intend to treat the arrangement as precautionary and exit the arrangement when external conditions allow. The lower level of access requested—300 percent of quota, down from 600 percent in the FCL approved in 2020—as part of the authorities' strategy of gradually phasing out the use of the facility is a reflection of the country's very strong fundamentals, including the additional buffers built with the accumulation of international reserves, as well as the decline in external financing needs, since the 2020 arrangement."



PERU

May 12, 2022

REQUEST FOR AN ARRANGEMENT UNDER THE FLEXIBLE CREDIT LINE AND CANCELLATION OF THE CURRENT ARRANGEMENT

EXECUTIVE SUMMARY

Context. Over the last quarter of a century, Peru has become one of the most dynamic economies in Latin America. During this period, Peru built very strong policy and institutional frameworks and economic fundamentals while maintaining external, financial, and fiscal stability. The strength of the Peruvian economy was tested with the COVID-19 pandemic in 2020, when the economy collapsed, leading to a significant deterioration of the fiscal accounts. Subsequently, the economy recovered strongly in 2021, and the fiscal position strengthened considerably, while inflationary pressures emerged (in line with global trends). However, Peru is bearing a very high humanitarian and economic cost from the COVID-19 pandemic, sizable under-employment, and a large increase in poverty. These challenges and recent social unrest related to high energy and food prices point to the need to accelerate structural reforms to foster high and inclusive growth. While political uncertainty has risen, with frequent cabinet reshufflings, the authorities remain committed to maintaining their very strong policy frameworks and prudent macroeconomic policies.

Outlook and Risks. The economy is expected to grow by 3 percent in 2022 and 2023, while inflation is expected to continue declining to be within the target range by 2023. The outlook is subject to an unusually high level of uncertainty given the ongoing pandemic (with likely new COVID-19 variants), slowing economic activity in key trade partner countries, Russia's invasion of Ukraine leading to escalation of sanctions and other disruptions, leading to higher energy and food prices, tighter financial conditions and other adverse spillovers, de-anchoring inflation expectations in the U.S. and/or advanced European countries, prompting central banks to tighten policies faster than anticipated, and resulting in sharp tightening in the global financial conditions, and political uncertainty.

Flexible Credit Line. Staff assesses that Peru qualifies under the FCL. The authorities are requesting a two-year arrangement under the FCL for 300 percent of quota (about SDR 4 billion) and the cancellation of the current arrangement for 600 percent of quota (about SDR 8 billion). The successor FCL arrangement would complement existing sizable buffers and very strong policy frameworks, providing enough insurance against extreme external risks. As in the past, the authorities intend to treat the arrangement as precautionary. The lower access in the requested FCL is in line with the authorities' strategy of gradually phasing out Peru's use of the FCL facility and reflects a higher level of reserves than at the time of the 2020 arrangement (as the economy experienced a positive

terms-of-trade shock and buffers were built up through public borrowing and the special SDR allocation in 2021).

Fund liquidity. Staff estimates that under an adverse scenario, potential additional financing needs for 2022-23 could amount to some US\$5 billion (or about SDR 4 billion). The proposed commitment under the requested FCL would have a positive impact on the Fund's liquidity position as the current precautionary FCL with higher access is being cancelled.

Process. An informal meeting to consult with the Executive Board on a possible FCL arrangement was held on May 3, 2022.

Approved by
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CONTENTS

CONTEXT	5
RECENT DEVELOPMENTS	6
OUTLOOK AND RISKS	8
REVIEW OF ECONOMIC POLICIES	11
FLEXIBLE CREDIT LINE ISSUES	12
A. The Authorities' Request	12
B. Assessment of FCL Qualification	13
C. Access Considerations	18
D. Exit Strategy	22
E. Impact on Fund Finances	22
STAFF APPRAISAL	22
BOXES	
1. Updated External Economic Stress Index	10
2. Description of the Adverse Scenario	19
FIGURES	
1. Recent Economic Developments	24
2. Comparison with LA5 and Other EMEs	25
3. Comparison with LA5 Countries	26
4. FCL Qualification Criteria	27
5. Reserve Coverage and FCLs in an International Perspective	28
TABLES	
1. Selected Economic Indicators	29
2. Nonfinancial Public Sector Main Fiscal Aggregates	30
3. Statement of Operations of the General Government	31
4. Balance of Payments	32

5. Monetary Survey _____	33
6. Financial Soundness Indicators _____	34
7. Financial and External Vulnerability Indicators _____	35
8. Medium-Term Macroeconomic Framework _____	36
9. Capacity to Repay Indicators _____	37

ANNEXES

I. External Debt Sustainability Analysis _____	38
II. Public Debt Sustainability Analysis _____	41

Twenty-Four Month Flexible Credit Line Arrangement _____	50
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APPENDIX

I. Written Communication _____	51
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