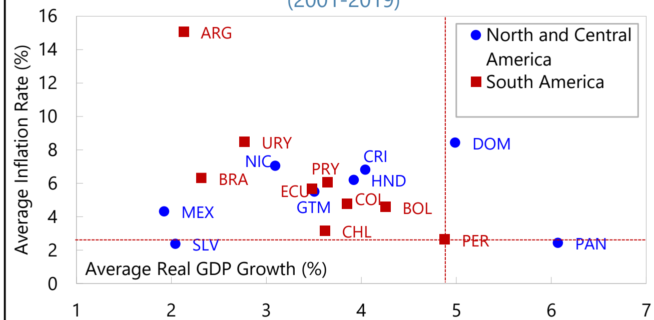
CONTEXT

1. **Peru's macroeconomic performance over the last quarter of a century has been one of the strongest in Latin America but suffered significantly with the COVID-19 pandemic**. Peru embarked on a strong stabilization program in the 1990s which strengthened its economic fundamentals by following prudent macroeconomic policies, implementing ambitious structural reforms, lowering the public debt burden in half, reducing poverty by two-thirds, building large buffers, adapting to terms of trade shocks, and absorbing large direct foreign investment.[1] Over the last two decades prior to the pandemic, Peru's economy has grown at an annual rate of almost 5 percent (multiplying its size by 2½ times), emerging as one of the fastest growing and most stable economies in the region (only after Panama and broadly similar to the Dominican Republic), while inflation was kept under control at an annual average rate of only 2½ percent, (the lowest in South America). However, economic growth slowed down after 2014 following weak copper prices, deteriorated external conditions, and several natural disasters (floods and landslides). More recently, economic activity collapsed in 2020 after facing the shock of the century with the COVID-19 pandemic.

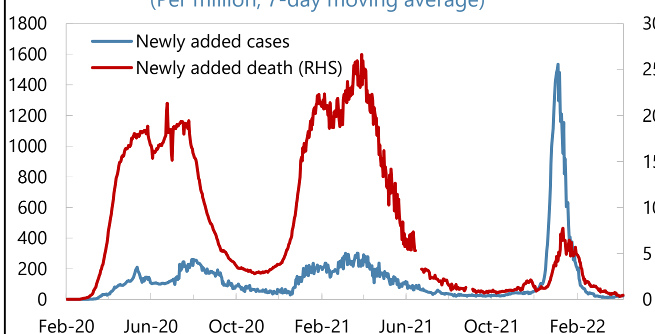
Latin America: Real GDP Growth and Inflation
(2001-2019)



Sources: IMF WEO; and IMF staff calculations.
Note: VEN not included, average inflation for VEN was 4550.88 percent and the average growth was -2.72 percent.

2. **Peru is recovering strongly from its deep recession while bearing high costs of the pandemic and facing new challenges.** Peru was hit hard by the COVID-19 pandemic, recording one of the highest pandemic-related mortality rates globally, despite introducing one of the strictest lockdowns with a devastating impact on economic activity in 2020. The strong policy response mitigated the impact of the pandemic and created the conditions for a rapid recovery. The economy rebounded in 2021, recording one of the highest growth rates in the region. Yet, output remains well below the pre-crisis path, especially in high-contact sectors,

Covid Daily New Cases and Deaths
(Per million, 7-day moving average)



Sources: Johns Hopkins University; and IMF staff calcluations.

[1] Peru's stabilization efforts were supported by almost two decades of uninterrupted Fund programs (1991-2009). After a decade of no Fund arrangements, Peru requested a two-year FCL in 2020 (following the COVID-19 pandemic), which they treated as precautionary and is being replaced with this FCL request. Peru was the first country in Latin America to use Fund resources in 1954, and there have been 25 Fund arrangements since then. See Rossini, R. and A. Santos (2015), "Peru's Recent Economic History", Chapter 2 in Peru: Staying the Course of Economic Success, IMF, Washington DC, International Monetary Fund.

informality remains high, and the poverty rate has increased significantly. Globally higher energy and food prices, tighter financial conditions and other adverse spillovers stemming from Russia's invasion of Ukraine (leading to escalation of sanctions and other disruptions) and the possibility of a new wave of the COVID-19 contagion are formidable challenges as the recent social unrest over high fuel and food prices demonstrate.

3. **Political uncertainty has risen.** Following a contested election, President Castillo was inaugurated in July 2021, with a program focused on reducing inequality and improving social conditions. His administration lacks a majority in Congress and has been beset by controversy, multiple cabinet reshuffles, and impeachment attempts at Congress. Recent attempts to rewrite the 1993 constitution—which underpins the high-quality macroeconomic policy framework— have been dismissed by Congress, and the authorities have signaled that they remain committed to maintaining very strong macroeconomic policy frameworks. The appointment of very able technocrats at the Ministry of the Economy and Finance (including the Minister) and the reappointment of the highly regarded central bank Governor have helped reassure financial markets with sovereign debt spreads among the lowest in the region. Political uncertainty may undermine confidence and potentially trigger adverse market reactions, but it does not pose a risk to the very strong institutional frameworks for conducting macroeconomic policies.

4. **The authorities are requesting a new two-year FCL arrangement with reduced access to succeed the existing FCL arrangement.** Peru's macroeconomic buffers remain sizable, and the current FCL arrangement for 600 percent of quota (SDR 8.007 billion) has helped the authorities preserve investor confidence, providing insurance against tail risks. However, risks remain elevated. In that context, the authorities are requesting a successor arrangement for a lower access of 300 percent of quota (SDR 4.0035 billion). The authorities continue to expect to treat the arrangement as precautionary.

RECENT DEVELOPMENTS

5. **The Peruvian economy rebounded strongly from its deepest downturn in decades.** Progress in the vaccination campaign allowed a gradual lifting of COVID-19 mobility restrictions.[2] Robust external demand, favorable terms of trade, pent-up domestic demand, and a surge in residential construction contributed to lifting real GDP by 13.3 percent in 2021, surpassing its pre-pandemic levels in 2021-Q3. Available high-frequency indicators suggest that growth has been moderating in recent months, growing by almost 4 percent (y/y) in the first two months of 2022.

6. **Unemployment and poverty rates have fallen significantly but remain above pre-pandemic levels.** The pandemic led to significant increases in unemployment, informality, and poverty. Labor force participation rate and total employment remain below the pre-pandemic levels.

[2] As of April 30, 2022, about 26.9 million people (81.7 percent of the population) were fully vaccinated, with about 16 million people (48.6 percent) receiving the third dose. Peru has secured an additional 55 million doses for booster shots. The vaccination of young children started in January 2022, ahead of the return to in-person schooling in March 2022.

Formal employment in the Lima Metropolitan area fully regained its pre-pandemic levels, but the number of "adequately employed" is still ⅕ lower than before the pandemic, and the number of underemployed is higher by about ½. The share of informal jobs nationwide remains high at about ¾ of the total. The poverty rate rose by about ½ (some ten percentage points) to 30.1 percent in 2020 but fell to 22.1 percent in 2021-Q3.

7. **Inflation has increased in line with global trends.** Driven by high energy and food prices and currency depreciation, annual headline inflation started accelerating in mid-2021, rising to 6.4 percent at end-2021 and 8.0 percent in April 2022, due mostly to supply shocks. This is the highest headline inflation level under the inflation targeting framework, although Peru's inflation is the lowest among LA-5 countries. Core inflation reached 3.8 percent (y/y) in April 2022, while (short-term) inflationary expectations have moved above the upper limit of the inflation target band (1–3 percent), prompting the central bank (BCRP) to raise its policy rate by 425 basis points (in nine consecutive moves) to 4.5 percent in April 2022.

8. **The fiscal accounts have strengthened considerably, and the fiscal rule has been modified.** The non-financial public sector (NFPS) deficit fell from 8.9 percent of GDP in 2020 to 2.6 percent in 2021, on the back of strong growth, higher metal prices, the collection of tax arrears, and a significant winding down of the 2020 fiscal stimulus measures. Public debt rose to 36.6 percent of GDP in 2021, from 35.1 in 2020. The stronger fiscal accounts have allowed the Fiscal Stabilization Fund to replenish, which was depleted to finance pandemic-related spending in 2020. The authorities modified the fiscal targets for 2023-25, delaying the gradual fiscal adjustment envisaged in the 2022 Article IV Consultation discussions by one year, starting in 2024 and achieving the NFPS deficit objective of 1 percent of GDP in 2026 (rather than 2025). The debt limit was set at 38 percent of GDP with the aim of returning to the original debt ceiling of 30 percent of GDP in the next ten years. A new medium-term budgeting framework consistent with the fiscal strategy will be presented in August 2022. Following the social unrest related to higher food and fuel prices, the government recently announced a number of measures to contain their impact, including: (i) providing additional fuel subsidies; (ii) suspending excise taxes on fuels; (iii) eliminating the value-added tax on certain basic goods, (iv) increasing the minimum wage by about 10 percent, and (v) postponing the planned fuel price increases.[3] The fiscal cost of these measures is estimated at about 0.3 percent of GDP and will be covered with higher than envisaged tax revenues (reflecting favorable export prices).[4]

Fiscal Deficit
(Percent of GDP)

	(1) Old Rule	(2) Art IV Proj.	(3) New Rule	(4) (3-2) Δ
2022	3.7	2.6	...	...
2023	1.3	2.1	2.4	0.3
2024	1.0	1.5	2.0	0.5
2025	1.0	1.0	1.5	0.5
2026	1.0	1.0	1.0	--

Source: MEF; and IMF staff calculations.

9. **The external position remains solid despite a weaker current account**. The current account balance turned back to a deficit of 2.8 percent of GDP in 2021 (from a transitory surplus of 0.8 percent in 2020), reflecting much higher investment income payments abroad and despite

[3] The increase in minimum wage could induce broad-based wage increases, complicating the disinflation efforts.

[4] In addition, Congress recently approved the sixth withdrawal from the private pension funds, estimated at some S/31.9 billion (or about 3.3 percent of GDP). The first five withdrawals took place in 2020-21.

significant improvements in the trade account (due to large gains in the terms of trade and robust external demand). The financial account reached a record-high surplus of 7.1 percent of GDP in 2021 (from a surplus of 3.8 percent in 2020). Capital inflows were dominated by public sector borrowing, a sharp increase in FDI (partly reflecting increases in retained earnings in the mining sector), repatriation of foreign assets by pension funds, and the new SDR allocation (about US$1.8 billion). Overall, gross international reserves increased by some US$3½ billion to US$78½ billion at the end of 2021.

10. The financial sector remains solid while emergency measures are gradually unwound. The banking system entered the pandemic from a position of relative strength, with adequate capital buffers, relatively high asset quality, and reasonable profitability. During the pandemic, extensive government support in the form of government-guaranteed loans, flexible adjustment to loan terms (without reclassification), relaxation of the liquidity coverage ratio, and the use of the countercyclical capital buffer provided ample liquidity, supporting credit growth that reached 11.8 percent in 2020. Since then, credit growth has moderated, and bank profitability has been recovering while the policy support is gradually withdrawn. Rescheduled loans have decreased from 35.8 percent in June 2020 to 10.1 percent in February 2022. Banks are required to fully provision high-risk rescheduled loans, thereby minimizing the effects of the rise in NPLs (3.8 percent in February 2022). Top-down stress tests conducted by the authorities suggest that the financial system is resilient even under adverse scenarios (a similar result was found by the 2018 FSAP mission).

11. Financial market volatility increased due to political uncertainty but has subsided recently. After facing selling pressure during most of 2021, asset prices and the currency were supported by political developments—a motion to impeach President Castillo was rejected by Congress in early December 2021—and a strong appetite for Peruvian assets. Equity prices fully recovered previous losses, and sovereign and corporate spreads increased less than in most other countries in the region. The increased demand for foreign currency caused the sol to depreciate by 11 percent in 2021 despite a large FX intervention from the BCRP—US$16.5 billion, equivalent to 7.3 percent of GDP—but the currency has appreciated by some 6 percent since December 2021. Low demand for foreign exchange swap instruments from market participants was likely due to the large FX intervention in the spot market.

OUTLOOK AND RISKS

12. Growth is expected to moderate in 2022 as external financial conditions tighten and the policy stimulus is withdrawn. The third wave of the COVID-19 contagion was relatively short-lived (January 2022), but activity was hit by other shocks such as road blockades and social unrest in response to increases in food and energy prices triggered by the war in Ukraine. Nevertheless, growth is expected to remain robust in the first quarter of 2022. For the year as a whole, real GDP growth is expected to moderate to 3 percent, reflecting slower global growth, tighter global financial conditions, the withdrawal of the policy support, the war in Ukraine, and subdued private investment growth. Although Peru's direct trade and financial links with Russia and

Ukraine are limited, the effects of the war in Ukraine on global food and fuel prices are having a significant inflationary impact in Peru, with inflation projected to return to the target range only in 2023. The BCRP has signaled that it will continue adjusting the policy rate until inflation and inflationary expectations revert to the target range. A moderation in profit repatriations and the impact of the war in Ukraine on the terms of trade would narrow the current account deficit to about 1½ percent of GDP over the medium term.

Macroeconomic Framework
(Percent of GDP unless otherwise indicated)

		Projection		
		FCL		Average
	2021	2022	2023	2024-27
GDP growth (%Δ)	13.3	3.0	3.0	3.0
Inflation (%Δ)	6.4	4.0	3.0	2.1
Credit growth (%Δ)	6.3	8.5	7.1	5.4
Fiscal balance	-2.6	-2.6	-2.4	-1.4
Public debt (NFPS)	36.6	35.0	35.5	35.4
Current account	-2.8	-1.5	-1.4	-1.5

Source: IMF staff calculations.

13. The pandemic has left significant scars. Real GDP remains 6¼ percent below its pre-pandemic path (i.e., the level of real GDP projected before the pandemic), and contact-intensive activities such as the hospitality business are expected to recover fully only in the medium-to-long term. While in-person schooling has resumed after two years, extended school closures and unemployment are expected to adversely affect human capital accumulation. Staff estimates that potential growth has declined to some 3 percent (from 3½), reflecting scarring from the pandemic.

14. Downside risks remain substantial. Key external downside risks include 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; the possibility of new pandemic outbreaks, which could induce headwinds for the global economy and higher inflationary pressure; tighter global financial conditions, which would reduce the availability of funds and increase their financing costs for emerging markets; and an abrupt growth slowdown in China, which is Peru's main trade partner, with adverse effects on exports. Key domestic risks include further political uncertainty and additional social unrest, which could have more depressing effects on private investment and growth and may lead to a more expansive fiscal stance in the short-term, as well as persistent inflationary pressures that could require a faster tightening of monetary policy. If further supply shocks materialize (with higher energy and food prices), there is a risk of a more protracted disinflation period.

15. The external accounts remain highly vulnerable to external shocks. Peru's external environment improved significantly in 2021, with Peru benefitting from high demand for its exports and high commodity prices. Yet, external accounts are still vulnerable to global downside risks. Under the baseline scenario, the external economic stress index (ESI) is projected to improve relative to the assessment at the time of the 2020 FCL arrangement but remain below 2019 levels. Under the adverse scenario, external risks are significantly higher (Box 1).

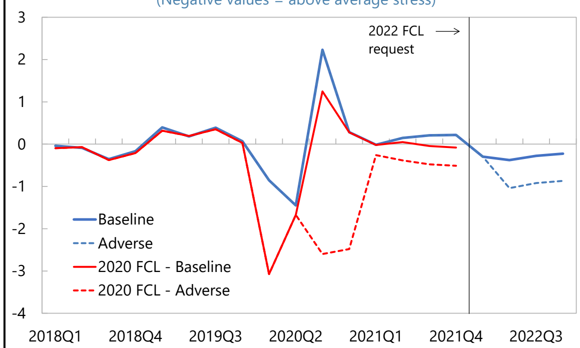
Box 1. Updated External Economic Stress Index [1]

The updated External Economic Stress Index (ESI) for Peru shows that external risks continue to be high but have changed in nature since the 2020 FCL arrangement. In the baseline, an upward revision in copper and gold prices and improved world growth assumptions relative to the outlook in 2020 are offset by global spillovers from the war in Ukraine, although the full impact of the war on the economy of Peru remains uncertain at the moment.[2] The adverse scenario assumes lower global growth and commodity prices with a significant impact on Peru's terms of trade, and higher financial market volatility.

Baseline ESI is forecasted to stabilize over the next couple of years but remains below 2019 levels. The index has stabilized after elevated volatility during 2020-21, reflecting an upward revision in commodity prices and positive world growth dynamics. While conditions have improved compared to the assessment at the time of the previous FCL in 2020, the index is expected to remain in negative territory and below the 2019 levels, suggesting still high levels of external economic stress. The baseline is built using the April 2022 WEO assumptions.

External Economic Stress Index

(Negative values = above average stress)



Sources: Country authorities and IMF staff estimates.

The adverse scenario shows that Peru still faces elevated external risks. This scenario factors in external risks from prolonged COVID-19 effects and a more severe fallout from the war in Ukraine. In this scenario, world growth is weaker than in the baseline, by 1.3 percent by 2023 consistent with the April 2022 WEO adverse scenario. As assumed in the 2020 FCL, copper prices are 15 percent below and the VXEEM index is two standard deviations above the baseline. Copper prices are at historical highs and a reversal would significantly impact Peru. The adverse scenario also assumes yields are100 basis points above the baseline, reflecting a moderate tightening in global financial conditions.

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[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.

[2] While the share of Russia and Ukraine in Peru's trade is marginal, the economic effects of the war are assumed to materialize primarily through commodity prices and trading partners' demand. As a net oil importer, Peru will be affected by higher hydrocarbon prices, while a surge in global food prices will translate into higher inflationary pressures. Furthermore, an increase in risk aversion in financial markets could lead to currency depreciation, a higher sovereign risk premium, and a deterioration in the yield curve. At the same time, Peru stands to benefit from higher copper and gold prices.

REVIEW OF ECONOMIC POLICIES [5]

16. **Peru's very strong macroeconomic policy frameworks have facilitated high growth and helped maintain the economy's resilience to recent shocks.** The inflation-targeting regime, the flexible exchange rate, a credible fiscal framework targeting a low level of public debt, and sound financial sector supervision and regulation facilitated strong growth and allowed the accumulation of sizable macroeconomic buffers during the boom in commodity prices. Since then, the very strong policy frameworks and usage of the buffers helped maintain external, financial, and fiscal stability for decades despite several large shocks, including across multiple electoral cycles and governments. In the last two years, the large and coordinated policy response helped contain the pandemic's impact and paved the way for a strong recovery in 2021. Although financial volatility increased in the context of very close elections in 2021, it has been contained. The fiscal accounts strengthened considerably in 2021, and the central bank embarked on a tightening cycle to contain emerging inflationary pressures.

17. **The authorities are committed to adjusting macroeconomic policies as needed to strengthen credibility, boost resilience, and lift inclusive growth.** With the recovery moderating, inflation above the target, and downside risks prevailing, macroeconomic policies will continue to be fine-tuned to contain inflationary pressure while reducing informality and promoting inclusive growth.

- ***Monetary policy***. Further tightening of monetary policy is expected in the short term. The rapid rise in headline inflation and (short-term) inflation expectations above the inflation target range (1-3 percent) requires some adjustments to continue supporting the nominal anchor. Core inflation is above the upper limit of the inflation target band (i.e., 3.8 percent y/y in April 2022). With the real neutral interest rate estimated at 1.5 percent, the current policy stance (around zero in real terms) remains slightly expansionary. Moving beyond a neutral position with a contractionary bias in the short term will provide policy space to drop back to a neutral position with an expansionary bias in the medium term once inflation expectations are normalized. Indicators such as the deviation of inflation expectations from the target suggest that credibility in central bank policy remains high.

- ***Fiscal policy***. In the short term, the broadly stable fiscal position in 2022–23 is appropriate given the still negative output gap and uncertain outlook. Over the medium term, the authorities intend to enact a gradual fiscal consolidation of about ½ percent of GDP per year during 2024-26 towards the 1 percent of GDP fiscal deficit anchor. In the event risks to the fiscal stance materialize (trying to ease social tensions), contingency plans should be prepared to contain policy slippages. In particular, the introduction of compensating policy measures should be temporary in nature and should allow a full price passthrough while activating the social safety nets to the extent possible. Further efforts at revenue mobilization will also be necessary

[5] This section draws on the policy discussions conducted during the recent 2022 Article IV Consultation, April 29, 2022.

to accommodate additional spending needs and preserve fiscal sustainability. Enhanced targeting of social benefits and a comprehensive civil service reform will help strengthen government effectiveness and contain fiscal risks, while introducing a medium-term spending strategy will help articulate spending priorities and identify areas for savings. Maintaining the Fiscal Council's operational independence will further enhance Peru's very strong fiscal framework.

- ***Prudential policies***. In the absence of systemic risks to the financial system, supportive prudential policies continue to unwind while protecting bank portfolios. Prudential measures used during the pandemic have successfully supported the financial system, and the authorities have proceeded to unwind policies gradually while providing continued support for weaker entities (particularly in the cooperative and microfinance sectors). Closing regulatory and supervisory gaps while continuing progress on systemic risk assessment will enhance financial resilience. The authorities intend to build on progress (and continue work) toward higher capital surcharges for systemically important banks, enhanced supervision of financial groups, and requirements for recovery and resolution planning for domestic systemically important banks and financial groups.

- ***Structural policies***. The structural reform agenda is being designed to reduce scarring from the pandemic, address informality, promote inclusive growth, and improve governance. The focus remains on addressing the fragilities exposed by the pandemic, including by enhancing the provision of public services and improving the digital infrastructure. Efforts to increase productivity, reduce informality, and promote social and financial inclusion are being accelerated. A pension reform will be needed to reduce fiscal and old-age poverty risks. Advances in the capacity to execute public investment are addressed to reduce the large infrastructure gap. Steps are being taken to improve the effectiveness of governance (e.g., comprehensive civil service reform) and anti-corruption institutions enforcement, including verification of asset declarations of key public officials, enhanced customer due diligence of politically exposed persons, improving the accuracy of beneficial ownership information of juridical persons, and strengthening Integrity Offices and the judiciary. A stable and predictable legal and regulatory environment will improve the business climate, nurture confidence, and allow private investment to thrive.

FLEXIBLE CREDIT LINE ISSUES

A. The Authorities' Request

18. In view of the evolving external risks, the authorities are requesting a new two-year FCL arrangement, with a reduction in access. They are requesting access of 300 percent of quota (SDR 4.0035 billion) on a precautionary basis, taking into consideration their assessment of external risks, and the larger level of international reserves. Given external risks and Peru's exposure to them, staff is of the view that this level of access is justified. Such an arrangement would play a key role in

supporting the authorities' macroeconomic strategy, preserving investor confidence, and providing insurance against extremely adverse risks.

19. The authorities are also requesting to cancel the current FCL. The current FCL arrangement for 600 percent of quota (SDR 8.007 billion) remained precautionary and expires on May 27, 2022. It served the authorities well in addressing the inordinate risks of the early phases of the pandemic.

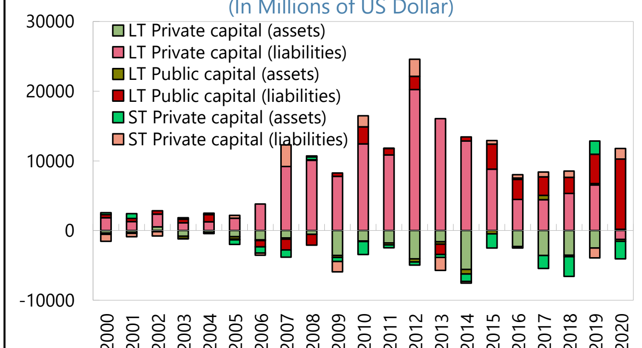
B. Assessment of FCL Qualification

20. In staff's view, Peru continues to meet the qualification criteria for an FCL arrangement. As described in the 2022 Article IV staff report, Peru has very strong macroeconomic policies and institutional policy frameworks.

- ***Criterion 1. Sustainable external position.*** The 2021 external position is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies (2021 Article IV Consultation). The EBA current account model estimates a current account gap close to zero, accounting for the one-off effect of COVID-19. In the medium term, the current account deficit is projected to narrow to 1 percent of GDP, with FDI flows as the main source of external finance. The external debt sustainability analysis shows Peru's external debt peaks at 46 percent of GDP at end-2021, but then moves on a downward trajectory toward 34 percent in the medium term (Annex I).

- ***Criterion 2. A capital account position dominated by private flows*** Historically, Peru's capital account has been dominated by private capital flows (portfolio flows, FDI, long-term loans, and short-term capital flows), which accounted for over 80 percent of Peru's total gross flows. During 2019-2021, public sector flows increased, reflecting large borrowing from abroad and a build-up in precautionary buffers in response to the COVID-19 pandemic. On average, public flows accounted for about 39 percent of total gross flows (direct, portfolio, and other asset and liability flows) in the last three years. Peru's IIP is characterized by large foreign reserves, moderate external debt, and large FDI liabilities. In 2021, the ratio of the net IIP-to-GDP stood at -40.6 percent of GDP.

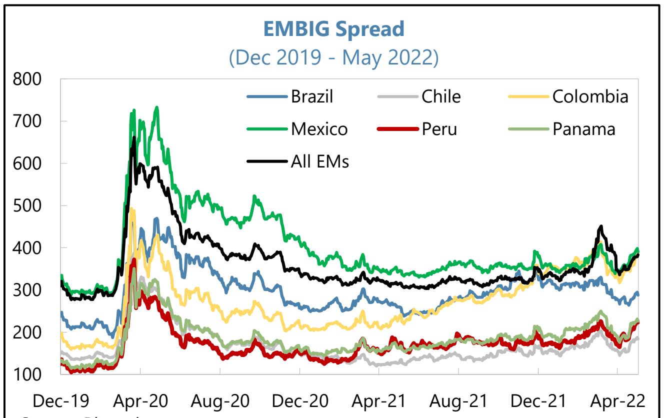
Capital Flows 2000-20
(In Millions of US Dollar)



Sources: Haver; and IMF staff calculations.

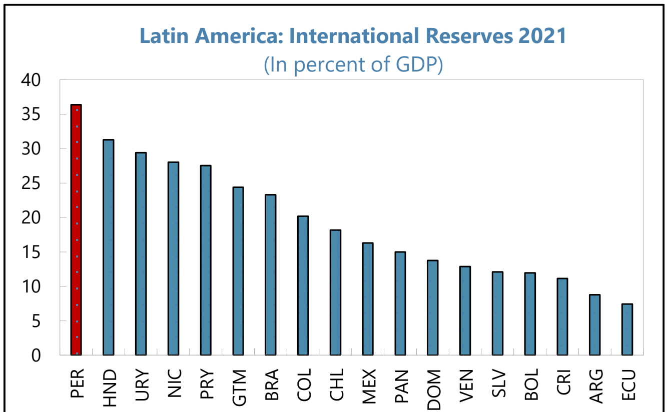
- ***Criterion 3. Track record of steady access to capital markets at favorable terms***. The sovereign maintains a strong track record of access to international capital markets at favorable terms, and the spreads on Peru's sovereign debt remain among the lowest in Latin America. In the staff's view, Peru did not lose market access at any point during the last 12 months.

The EMBIG spread over U.S. Treasury Bonds averaged 129 basis points in 2019, 173 in 2020, and 166 in 2021, moving in tandem with market trends while remaining one of the lowest in Latin America. The average sovereign spread through end-April 2022 stands at 207 basis points. Peru has successfully placed sovereign bonds on international markets at favorable terms (US$1.8 billion in 2018; US$1.9 billion in 2019; US$7 billion in 2020, including US$1 billion in century bonds; and US$11.2 billion in 2021). Market appetite for Peruvian bonds remains strong and all bond placements have been hugely oversubscribed.



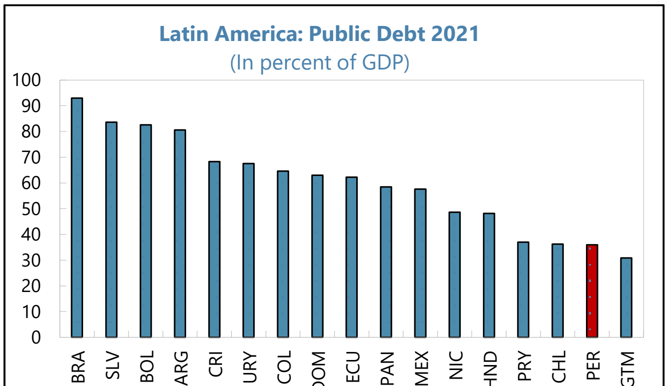
Source: Bloomberg.

- ***Criterion 4. A reserve position which remains relatively comfortable.*** Despite the large external and domestic shocks, gross international reserves increased in 2020-21 by US$10.1 billion and stood at US$78½ billion or about 36⅓ percent of GDP at end-2021, which is the highest in Latin America (as a percent of GDP), and is higher than the level of public debt. At 168 percent of the adjusted ARA metric, reserves exceed the FCL threshold of 100 percent and have never been below this level in each year of the last decade (although it reached 99 percent in 2016).



Source: IMF WEO; and IMF staff calculations.

- ***Criterion 5. Sound public finances, including a sustainable public debt position***. The fiscal position remains strong. The fiscal accounts consolidated successfully in 2021, fiscal buffers are being replenished, and public debt is low. Despite some downgrades to the outlook or rating, the sovereign credit rating remains investment grade by the three major credit rating agencies.[6] The fiscal accounts are expected to remain on a gradual consolidation path, reaching the long-term target of



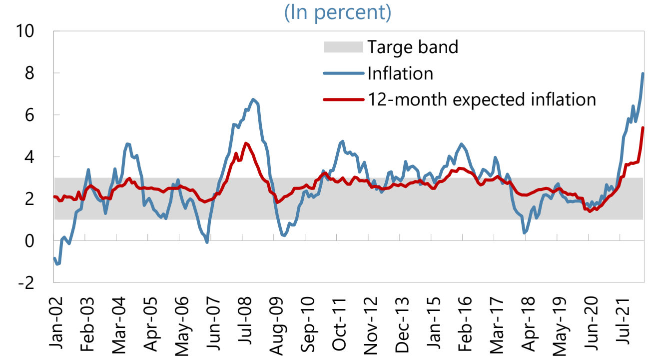
Source: IMF WEO; and IMF staff calculations.
Note: VEN not included, whose public debt is 306.95% of GDP in 2021.

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

1 percent of GDP in 2026. Under the staff's baseline scenario, the public debt-to-GDP ratio is forecast to fall to 35 percent in 2027 and keep falling toward the original 30 percent target after the forecast horizon. The level of public debt was almost 36 percent of GDP at end-2021, one of the lowest levels in Latin America. The public debt sustainability analysis (DSA) indicates that Peru's public debt is assessed as sustainable with a high probability. Gross financing needs are expected to average about 4 percent of GDP over the forecast horizon. The main debt profile risks arise from an elevated share of public debt held by non-residents and large rollover needs in 2024, which the authorities intend to address by conducting debt re-profiling operations in 2022.

- ***Criterion 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.*** Peru has maintained single-digit inflation since the introduction of its inflation targeting framework in 2002, with monetary policy actively used to keep inflation within the target range. As a result, inflation expectations remained within the target range most of the time, with deviations from the target range occurring only in a few cases due to external events or supply shocks, such as during the global financial crisis and 2015–16. Since mid-2021, inflation has risen above the upper limit of the target band mostly due to supply shocks, in line with global trends, including high energy and food price inflation globally, and exchange rate depreciation in 2021 even though Peru has the lowest inflation and "inflation gap" among LA-5 countries. Both core inflation and inflation expectations are above the target range. In response, the BCRP has started to normalize its policy, cumulatively increasing the policy rate by 425 basis points since July 2021, and signaled that it would take further measures if needed. While the BCRP follows a floating exchange rate policy, the BCRP intervened in the FX market in 2021 in the context of disorderly market conditions heightened by political uncertainty and historically high short-term capital outflows, selling about US$17.5 billion (on a net basis), but it did not target a particular exchange rate.

Inflation and Inflation Expectation
(In percent)



Sources: Haver; and IMF staff estimates.

- ***Criterion 7. Sound financial system and the absence of solvency problems that may threaten systemic stability.*** There are no imminent threats to financial stability. The banking system is well-capitalized (15.2 percent capital ratio, December 2021), NPLs have increased but remain relatively low (4 percent, December 2021), and foreseen rises in NPLs from the pandemic in the much smaller cooperative and microfinance sectors are fully provisioned by banks. Weaker entities in the cooperative and microfinance sectors that cannot raise capital have access to asset strengthening measures. Implementation of the 2018 FSAP recommendations has strengthened the resilience of the financial sector.

- ***Criterion 8. Effective financial sector supervision.*** The SBS continues conducting effective supervision of the financial system. Cooperation in supervision between the BCRP and the SBS continues to improve, including during the pandemic, with the authorities making progress on the 2018 FSAP recommendations. Specifically, oversight of financial cooperatives has been expanded, new risk-monitoring tools have been introduced, risk-based supervision has been implemented for all insurers, projects to enhance crisis management are ongoing, and a deposit insurance scheme has been activated, closing remaining regulatory and supervisory gaps.

- ***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 (SDDS).

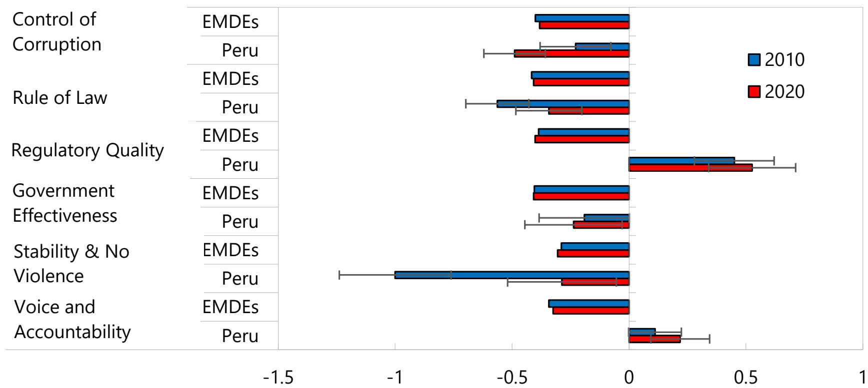
21. The authorities have a very strong institutional policy framework and a strong track record of adequate policy implementation. Peru has a sustained track record of implementing very strong macroeconomic policies, as acknowledged by the Executive Board in the context of the most recent Article IV Consultations. The Peruvian authorities have a very strong track record of responding to significant shocks using a multi-instrument policy framework. Peru's government effectiveness compares relatively well to peers, and, with Peru's OECD accession process underway, it may improve further. The policy frameworks have shown consistency and resilience while facing sizable shocks such as the global financial crisis in 2008-09, commodity price shock in 2014–16, the natural disasters such as *El Niño* weather phenomenon in 2017, and the COVID-19 pandemic in 2020-22. Fiscal policy remains prudent, and the inflation targeting framework has kept inflation expectations anchored close to the inflation target.

- ***Fiscal framework***. The current fiscal framework is anchored in the 2003 Fiscal Responsibility and Transparency Law, which was revised most recently in 2016, and contributes to the accountability and transparency of fiscal policy. In its current form, the framework consists of five key elements: (i) a set of fiscal limits (numerical ceilings) on the overall balance (1 percent of GDP), public debt (30 percent of GDP) 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 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.

22. Indicators of institutional quality show that government effectiveness in Peru is somewhat better than its peers. The institutional quality of economic policy is underpinned by the inflation-targeting framework (anchored by a strong, independent central bank), the fiscal responsibility law, and the effective prudential and regulatory framework for financial supervision. According to the 2020 Worldwide Governance Indicators, which report on six dimensions of governance, Peru's government effectiveness scores better than other emerging markets and developing economies (EMDE) but has deteriorated slightly over the last decade An area above average that has been improving through time is the regulatory quality and voice and accountability, whereas an area that could be improved includes Peru's control of corruption, which is below average and deteriorating through time. The rule of law and absence of violence indicators have improved significantly over time and are now better than in peer countries (see chart).

World Governance Indicators 1/



Source: Worldwide Governance Indicators (WGI).
1/ The WGI estimates ranges from -2.5 (the weakest) to 2.5 (the strongest), with zero corresponding to a median governance performance. Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible. Emerging Market and Developing Economies (EMDEs) country group correspond to WEO definition.

23. The authorities remain committed to maintaining a very strong institutional policy framework going forward. They acknowledge that Peru's very strong fiscal policy framework has served the country well and are preparing new legislation to better align the fiscal rule with the authorities' gradual consolidation objectives. The new medium-term budgeting framework (MTBF) will be presented in August 2022 and is expected to be in line with the authorities' fiscal objectives. The authorities continue building consensus for tax reform to address growing spending needs and preserve fiscal sustainability. They have also requested IMF support to assess the effectiveness of the Fiscal Council to identify areas for improvement. To strengthen the governance framework, legislation reforming and strengthening the judiciary was approved by Congress. Implementing the new 2022 Integrity Strategy and leveraging effective anti-corruption and AML/CFT tools (such as asset declaration, enhanced customer due diligence and transparency of beneficial ownership information) will help identify and manage risks of corruption in the public sector.

24. Commitments to governance and transparency for COVID-related spending have been broadly fulfilled. The 2020 Fiscal Responsibility Report included a detailed assessment of the impact of the pandemic on fiscal accounts. Information on public procurement contracts is published online, and the outcome of selected ex-post audits is also published. The capacity of the Office of the Comptroller General was enhanced with the gradual incorporation of the Offices of

Institutional Control and access to new public sector databases. As of February 14, 2022, the same office had completed 15,551 controls at all levels of government on COVID-related spending. Most controls were simultaneous, with corrective actions recommended in 47 percent of cases. Damages identified by ex-post controls were equivalent to 9.6 percent of audited spending.

C. Access Considerations

25. Staff estimates that financing needs would be substantial in the event external risks of the adverse scenario materialize. The adverse scenario assumes shocks similar to those considered at the time of the previous FCL request. A slowdown in the world economy would trigger lower metal prices and lower demand for Peruvian exports, while oil prices would also fall from their currently elevated levels assumed in the baseline. Renewed volatility in global financial markets and increased risk premia would lead to a sharp pull-back of capital from emerging market economies through lower FDI and problems rolling over short-term debt. In the adverse scenario, Peru would face financing needs of about US$19¼ billion in 2022 (US$5¼ billion from a worsening current account and US$14 billion from a financial account shock).

26. Access of 300 percent of quota on the proposed FCL arrangement should provide sufficient coverage against possible external tail risks. While global risks remain elevated and the shock is significant, Peru would be expected to contribute more to the adjustment by drawing increasingly on its own foreign exchange reserves. This is consistent with the authorities' gradual exit strategy 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. In particular, it is assumed that the reserves drawdown could amount to US$13¾ billion (roughly twice as much as in the 2020 FCL arrangement), which would cover approximately three-fourths of the external shock, while the remaining one-fourth would be covered by the FCL arrangement with 300 percent of quota (about US$5½ billion) (see Box 2 for a detailed discussion of the assumptions underlying the adverse scenario). Despite a substantially higher drawdown of reserves than under the current arrangement, reserve coverage as measured by the adjusted ARA metric would still be 128 percent. This level is higher than under previous arrangements and comfortably within the 100–150 adequacy range.[7]

Assumptions Under the Adverse Scenario
(In percent change vis-à-vis baseline, unless indicated)

	Prev. FCL		New FCL	
	2020	2021	2022	2023
Current Account				
Copper prices	-27	-27	-27	-27
Non-copper exports	-15	-15	-15	-15
Oil prices	-10	-10	-10	-10
Non-oil imports	-10	-10	-10	-10
Financial Account				
Public sector				
MLT disbursements FX	-30	-30	-30	-30
Non-resident L/C debt	-31	-31	-31	-31
Private sector				
Foreign direct investment	-40	-25	-25	-25
MLT disbursements FX	-20	-20	-20	-20
ST rollover rate FX (%)	80	80	80	80
Portfolio flows (SD) 1/	1.6	1.6	1.6	1.6

Source: IMF staff calculations.
1/ Standard deviation (SD) is calculated on pre-COVID flows and the shock is equivalent to US$2.5 billion under both scenarios. The same shock of 1.6 standard deviations applies to ST non-debt capital flows, equivalent to US$1.7 billion.

[7] Under the adverse scenario, real GDP growth would be 4 percentage points lower relative to the baseline projection in 2022 and 1 percentage point lower in 2023, with lower private investments and exports. Inflation would be higher than under the baseline by 2 percentage points in 2022 and 1 percentage point in 2023, reflecting a depreciation of the exchange rate of approximately 10 percent.

Box 2. Description of the Adverse Scenario

Key assumptions on commodity price movements, FX rollover rates, resident portfolio outflows, and reserve drawdown in the adverse scenario are informed by past shocks faced by Peru (notably during the GFC and the COVID-19 pandemic), as well as past shocks faced by EMs more broadly. The assumptions are comparable to those in recent FCL arrangements, particularly the 2020 FCL arrangement for Peru.

- **Current account.** Copper exports are assumed to fall by 27 percent, as in the 2020 FCL, driven by a decline in prices. This corresponds to a 1.1 standard deviation price shock applied to what is considered historically high copper price levels in 2022 (US$4.36/lb projected in the baseline compared to US$2.66/lb in 2020). Other Peruvian non-fuel exports are assumed to fall by one standard deviation (15 percent) as global economic growth is decelerating. Nevertheless, total exports remain 20 percent higher in the adverse scenario relative to the average over 2019–21 reflecting a very strong export performance and extremely favorable terms-of-trade conditions in the baseline. In response to an expected exchange rate depreciation and lower oil prices, goods imports contract by 10 percent. This would still be translated into an increase in imports relative to the average over 2019-2021of 24 percent reflecting, as in the case of exports, a much stronger base in 2021. Overall, the current account worsens by US$5.2 billion.
- **Foreign Direct Investment.** Inward FDI is assumed to fall by 25 percent relative to baseline in the adverse scenario for 2022, which implies a fall of about 16 percent relative to the average over 2019–21. This contraction is close to the range of recent FCLs, which assumed a 20-40 percent decline relative to the previous 3-year average, but lower than the 52 percent shock assumed for Peru's 2020 FCL. The lower shock of 16 percent assumed in this FCL arrangement is rather the result of changes in the denominator, as the average inward FDI 2019-2021 was significantly constrained by the Covid-19 pandemic.
- **Foreign-currency denominated debt.** For the private sector*:* as in the 2020 Peru FCL, a rollover rate of 80 percent is assumed for private ST FX debt, around the 25th percentile of past emerging market crisis episodes and in line with most other FCLs. For private MLT FX debt, an assumption of disbursements of 80 percent of baseline was used instead of a rollover assumption. For the public sector: the adverse scenario assumes a reduction in disbursements of 30 percent.
- **Local-currency debt**. Peru has seen a surge in non-resident inflows into local-currency public bonds, with the total stock of non-resident holdings increasing from US$7.1 billion in 2016 to US$17.6 billion in 2019 and then declining to US$15.7 billion in 2021. In an environment of very high international risk aversion, there is a risk that a substantial portion of the current stock of holdings would be unwound as investors repatriate funds and move into zero-risk assets. The adverse scenario assumes a reduction of 31 percent in the stock relative to end-2021 (and relative to baseline), very close to the 25th percentile of past emerging market crisis episodes.
- **Resident portfolio outflows.** The adverse scenario assumes resident portfolio outflows equivalent to 1.6 standard deviations over the pre-COVID period 2000-19, equivalent to the shock assumed in the 2020 Peru FCL. The negative delta of US$2.1 billion is close to that observed in Peru during the GFC (2009 relative to 2008), when net outflows were US$3.4 billion.
- **Reserve drawdown.** A substantial reserve drawdown of US$13.7 billion is assumed in the adverse scenario. This corresponds to 73 percent of financing needs, significantly above the assumptions in the 2020 Peru FCL and 2022 Colombia FCL, reflecting large reserves accumulation over the last two years and the authorities' FCL exit strategy. The adjusted GIR/ARA metric would drop to about 128 percent (relative to 105 percent in the previous Peru FCL and roughly 110 percent in the recent Colombia and Mexico FCLs).

Box 2. Description of the Adverse Scenario (Continued)

Access Considerations Under the Adverse Scenario

(US$ billion, unless otherwise indicated)

	Peru 2020 FCL		Peru 2022 FCL	
Assumptions	2020	2021	2022	2023
Current Account Shock	4.0	4.1	5.2	5.3
Financial Account Shock	14.3	14.2	14.0	13.2
Reserve Drawdown	7.3	7.3	13.7	13.0
Reserve Drawdown (percent of financing needs)	39.9	39.9	71.5	70.3
Remaining Gap	11.0	11.0	5.5	5.5
Remaining Gap (percent of quota)	598	598	298	298
Memorandum items				
IMF Quota	1.8	1.8	1.8	1.8
Adjusted GIR/Adjusted ARA (%)	105	105	128	130

Source: IMF staff calculations.

External Financing Needs Under the Adverse Scenario

(US$ billion, unless otherwise indicated)

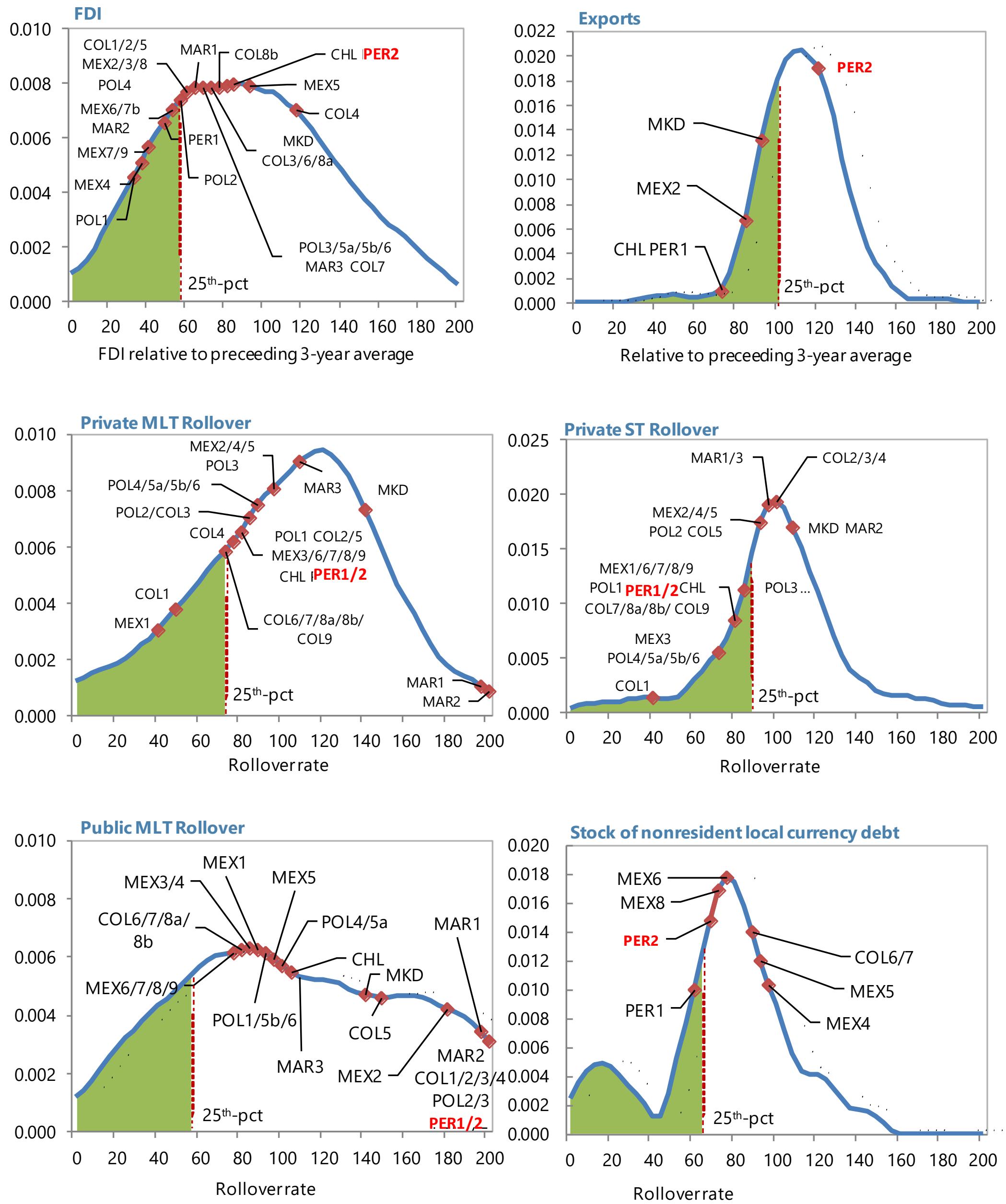
	2017	2018	2019	2020	2021	2022	2023	2022 (adverse)	Contribution to Gap	2023 (adverse)	Contribution to Gap
Gross External Financing Needs	-22.8	-19.3	-19.9	-12.2	-19.5	-17.7	-18.2	-22.8		-23.5	
Current Account Balance	-2.8	-3.9	-2.4	1.5	-6.2	-3.7	-3.7	-8.9	**5.2**	-9.0	**5.3**
FX MLT Debt Amortization	-12.3	-6.9	-8.1	-5.8	-3.7	-4.3	-4.8	-4.3		-4.8	
Public	-4.5	-1.6	-2.2	-0.9	-0.5	-1.0	-1.7	-1.0		-1.7	
Private	-7.8	-5.3	-5.9	-4.9	-3.2	-3.3	-3.1	-3.3		-3.1	
FX ST Debt Amortization	-7.7	-8.5	-9.4	-7.9	-9.6	-9.7	-9.7	-9.7		-9.7	
Public	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	
Private	-7.7	-8.5	-9.4	-7.9	-9.6	-9.7	-9.7	-9.7		-9.7	
Available Financing	23.0	17.3	26.4	21.5	29.3	17.3	17.9	3.3		4.7	
FDI (net)	6.4	6.9	6.8	0.9	6.1	5.3	6.3	3.9	**1.5**	4.6	**1.7**
FX MLT Debt Disbursements	7.2	5.2	5.4	11.5	18.1	6.7	2.7	4.8	**1.9**	2.0	**0.7**
Public	3.0	1.8	1.9	10.0	15.8	6.0	1.9	4.2		1.3	
Private	4.1	3.4	3.6	1.5	2.3	0.7	0.8	0.6		0.6	
FX ST Debt Disbursements	8.4	9.4	8.0	9.4	9.8	9.7	9.7	7.7	**1.9**	7.7	**1.9**
Private	8.4	9.4	8.0	9.4	9.8	9.7	9.7	7.7		7.7	
Net Financing Domestic Currency Debt	4.1	2.1	4.5	1.1	0.3	0.0	0.1	-4.9	**4.9**	-4.9	**5.0**
Net Portfolio Investment	-1.8	-3.2	-0.5	1.4	11.6	2.2	1.2	0.1	**2.1**	-0.9	**2.1**
Other ST Flows (net)	-1.3	-3.0	2.1	-2.8	-16.7	-6.6	-2.1	-8.4	**1.8**	-3.8	**1.8**
Financing Needs+Available Financing	0.2	-2.0	6.5	9.3	9.8	-0.4	-0.3	-19.6		-18.8	
Errors and Omissions	1.4	-1.7	0.4	-4.0	-5.4	0.0	0.0				
Gross Reserve Accumulation	0.0	-3.6	6.9	5.6	3.8	-0.4	-0.3	-14.1	**-13.7**	-13.3	**-13.0**
Financing Gap	1.6	0.0	0.0	-0.3	0.6	0.0	0.0	-5.5	**5.5**	-5.5	**5.5**
in percent of quota									**298**		**298**
Memorandum Items											
Gross International Reserves (GIR)	63.7	60.3	68.4	74.9	78.5	78.2	77.9				
Adjusted GIR 1/	36.9	39.0	40.9	58.0	59.5						
ARA metric	24.6	25.1	25.1	26.6	27.3						
ARA metric, adjusted 2/	29.6	30.0	30.4	31.9	35.4						
GIR/ARA (%)	258.8	240.5	272.5	281.2	287.2						
Adjusted GIR/Adjusted ARA (%)	124.9	130.1	134.3	181.8	168.0				**128**		**130**

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

Source: IMF staff calculations.

Box 2. Description of the Adverse Scenario (Concluded)

Illustrative Adverse Scenario 1/
(Probability density)



Source: IMF staff calculations.

1/ The countries shown are previous FCL/PCL/PLL arrangements, numbered consecutively by country. PER2 is the proposed arrangement for Peru

D. Exit Strategy

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

E. Impact on Fund Finances

28. The proposed new arrangement will have a positive net impact on the Fund's overall liquidity position. The cancellation of the current FCL arrangement in the amount of SDR 8.007 billion, followed by approval of a new FCL arrangement in the amount of SDR 4.0035 billion, is expected to increase the Fund's overall liquidity, as measured by the forward commitment capacity.

29. Peru's capacity to repay the Fund remains strong. The authorities have, as with the previous FCL arrangement, stated that they intend to treat the proposed arrangement as precautionary. Even if Peru were to draw all the resources available under the proposed FCL arrangement under an adverse scenario, its capacity to repay to the Fund would remain adequate. Several factors would mitigate risks to the Fund, including Peru's adequate buffers, very strong policies, and the credibility of its policy framework. In the event of a full purchase of the FCL resources in 2022, total external debt would increase to 48.4 percent of GDP, and afterward would gradually decline over the medium term. Debt service to the Fund would peak at about SDR 2,037.8 million (some 1.1 percent of GDP) in 2026. Moreover, Peru has an excellent track record of meeting its obligations to the Fund (despite running arrears in the 1980's during the debt crisis).

30. Planning for FCL safeguards procedures is underway. The authorities have provided authorization for the central bank's external auditors, KPMG Peru, to hold discussions with staff. Copies of the central bank's audited financial statements for FY2020 were obtained and the ones for FY2021 are expected to become available shortly. KPMG Peru issued an unmodified (clean) audit opinion for FY 2020 and the report indicates that the audit was conducted under the International Standards on Auditing. At the time of the FCL request, staff will also obtain and review the FY 2021 management letter, and discussions will be held with the BCRP and external auditors in line with the FCL safeguards procedures. Once completed, the results will be included in the next staff report for Peru.

STAFF APPRAISAL

31. Peru continues to benefit from the FCL. The arrangement, along with sizable international reserves, low public debt, anchored inflation, and a sound financial system, has provided the authorities with valuable insurance in a period of unprecedented uncertainty and volatility. The

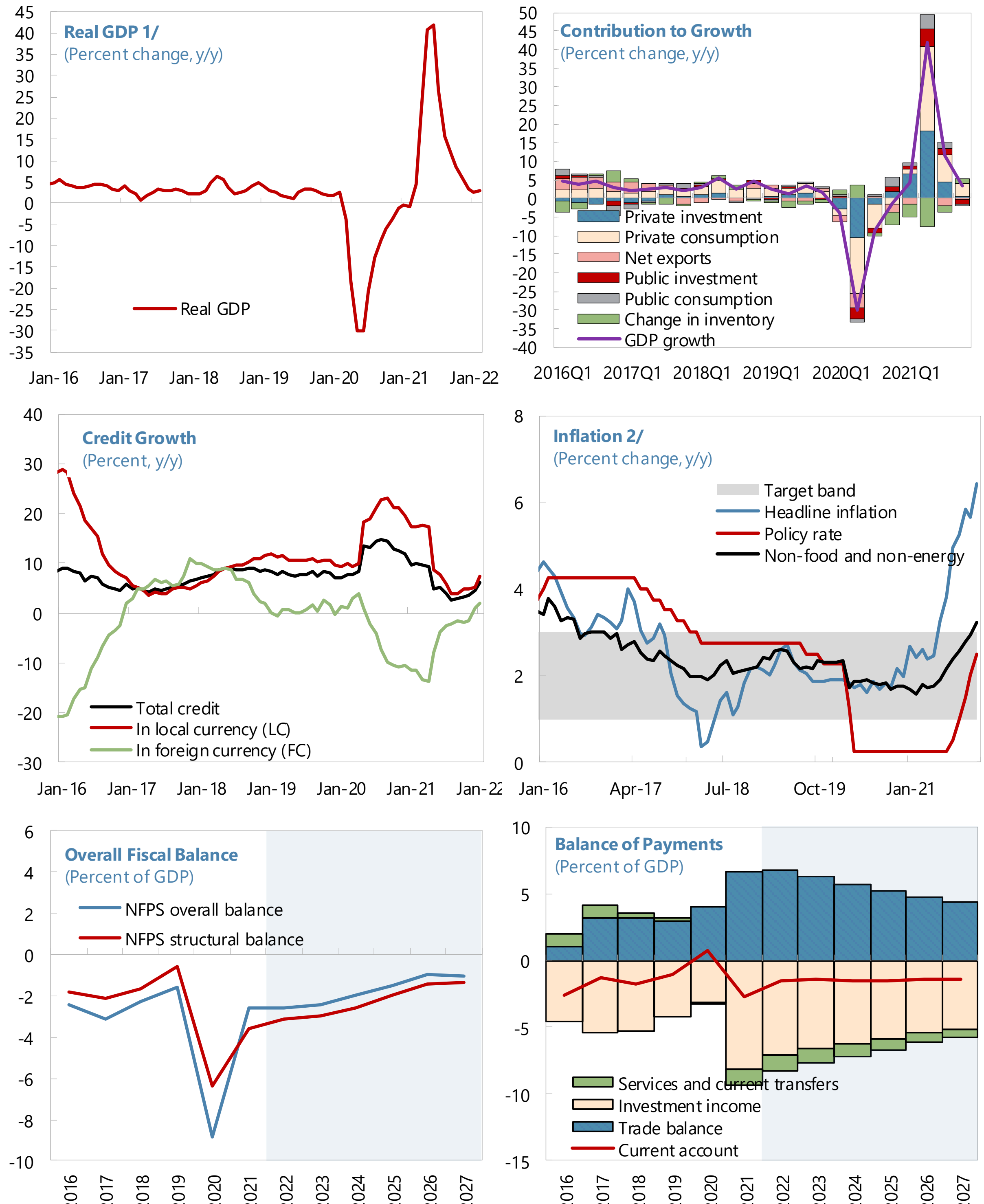
authorities value the FCL as insurance against external tail risks and as validation of the quality of their macroeconomic policies and institutional policy frameworks.

32. **Staff's assessment is that Peru continues to meet the FCL qualification criteria.** As noted in the Executive Board's assessment of the 2022 Article IV consultation, Peru has very strong policy and institutional frameworks and economic fundamentals, among the strongest in the region. In addition, it has an impressive track record of prudent policies and able policy management across various governments, including during the pandemic-induced recession in 2020. However, downside external risks remain elevated, and the possibility of sizable capital outflows remains a significant risk. Further political instability and social unrest could also pose a risk. Peru meets all qualification criteria, while the authorities remain firmly committed to maintaining very strong macroeconomic policies and very strong institutional frameworks going forward.

33. **Staff considers the proposed reduction in access to 300 percent of the quota (half of access under the current FCL arrangement) to be appropriate.** Although external risks are somewhat lower than those at the time of the 2020 FCL arrangement, they remain substantial. Key external risks relate to fallouts from the Ukraine war, the possibility of new pandemic outbreaks, tighter global financial conditions, and an abrupt growth slowdown in Peru's main trade partner countries. The materialization of these risks and their combination, which would be likely in an adverse scenario, could expose Peru's vulnerabilities, including its dependence on commodity exports and external financing. The proposed new FCL arrangement would supplement Peru's policy buffers and protect the economy against tail risks, providing important insurance against external risks. The authorities' intention to reduce access by 300 percent of quota demonstrates their pragmatic exit strategy after two years of experience with the FCL arrangement.

34. **Staff judges the risks to the IMF arising from the proposed FCL arrangement to be manageable.** While Peru intends to treat the FCL arrangement as precautionary, the Fund's credit exposure to Peru would remain moderate even with a possible drawing under the new arrangement. Risks are further contained by Peru's manageable external debt service profile. While the requested amount remains substantial, Peru's track record and the authorities' commitment to maintain a very strong macroeconomic policy framework ameliorate risks to the Fund, although the materialization of fiscal risks would call for additional measures. The proposed new commitment and cancellation of the current arrangement would positively impact the Fund's liquidity position.

Figure 1. Peru: Recent Economic Developments

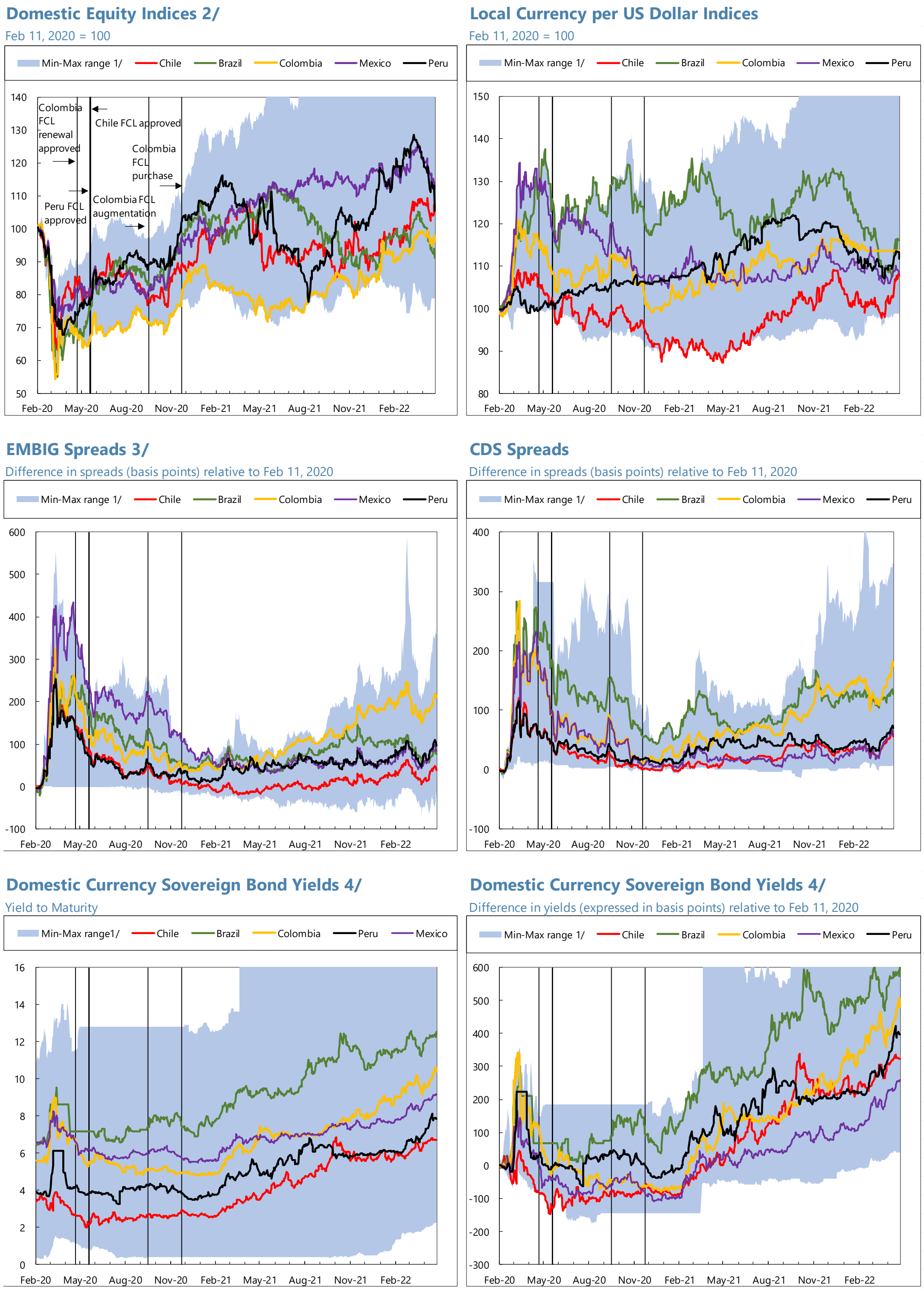


Source: National authorities; and IMF staff calculations.

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

2/ Inflation values correspond to Metropolitan Lima.

Figure 2. Peru: Comparison with LA5 and Other EMEs



Sources: Haver Analytics and Bloomberg LLP.

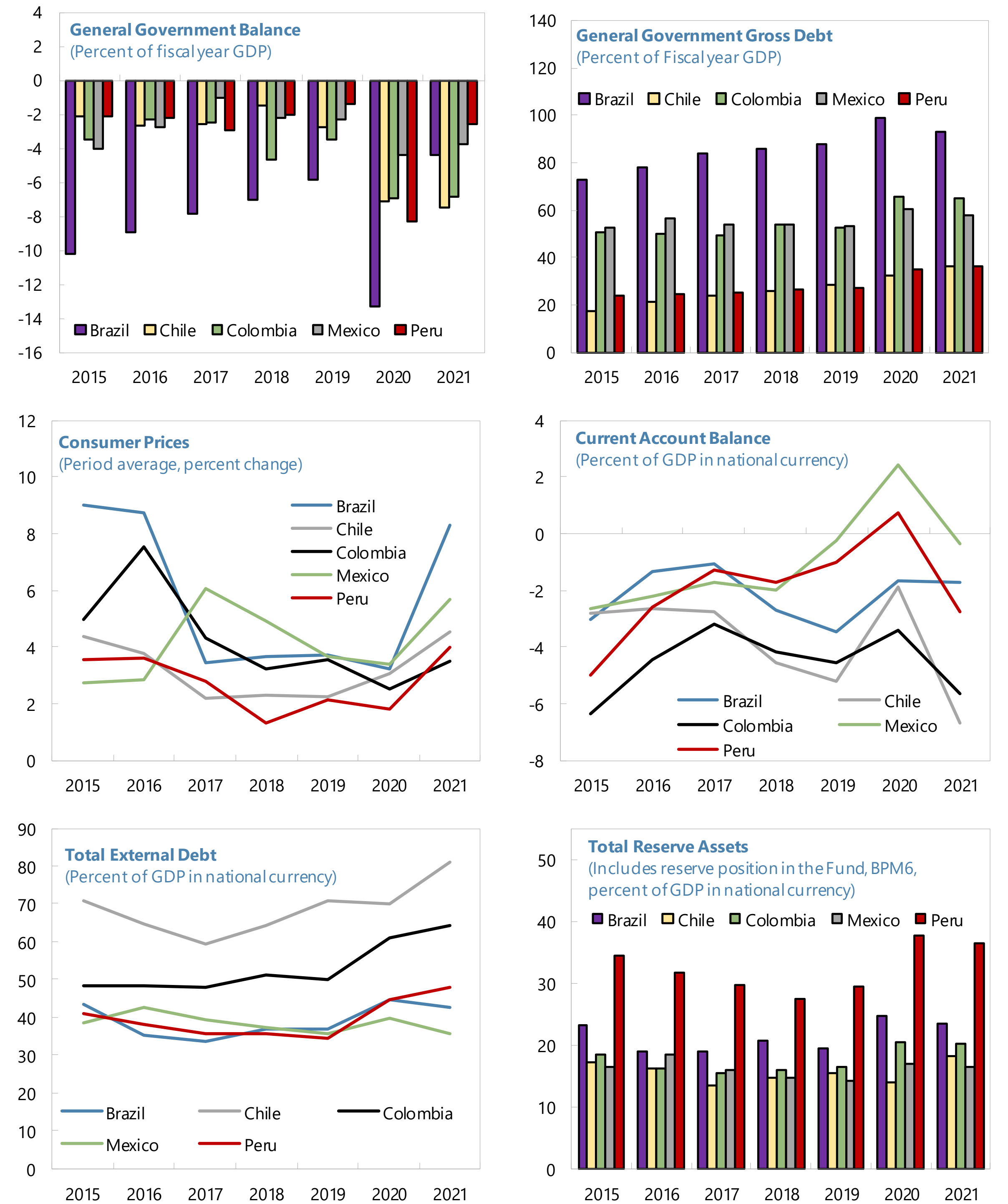
1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

2/ National benchmark share price indices.

3/ Mexico's EMBIG includes Sovereign and Quasi.

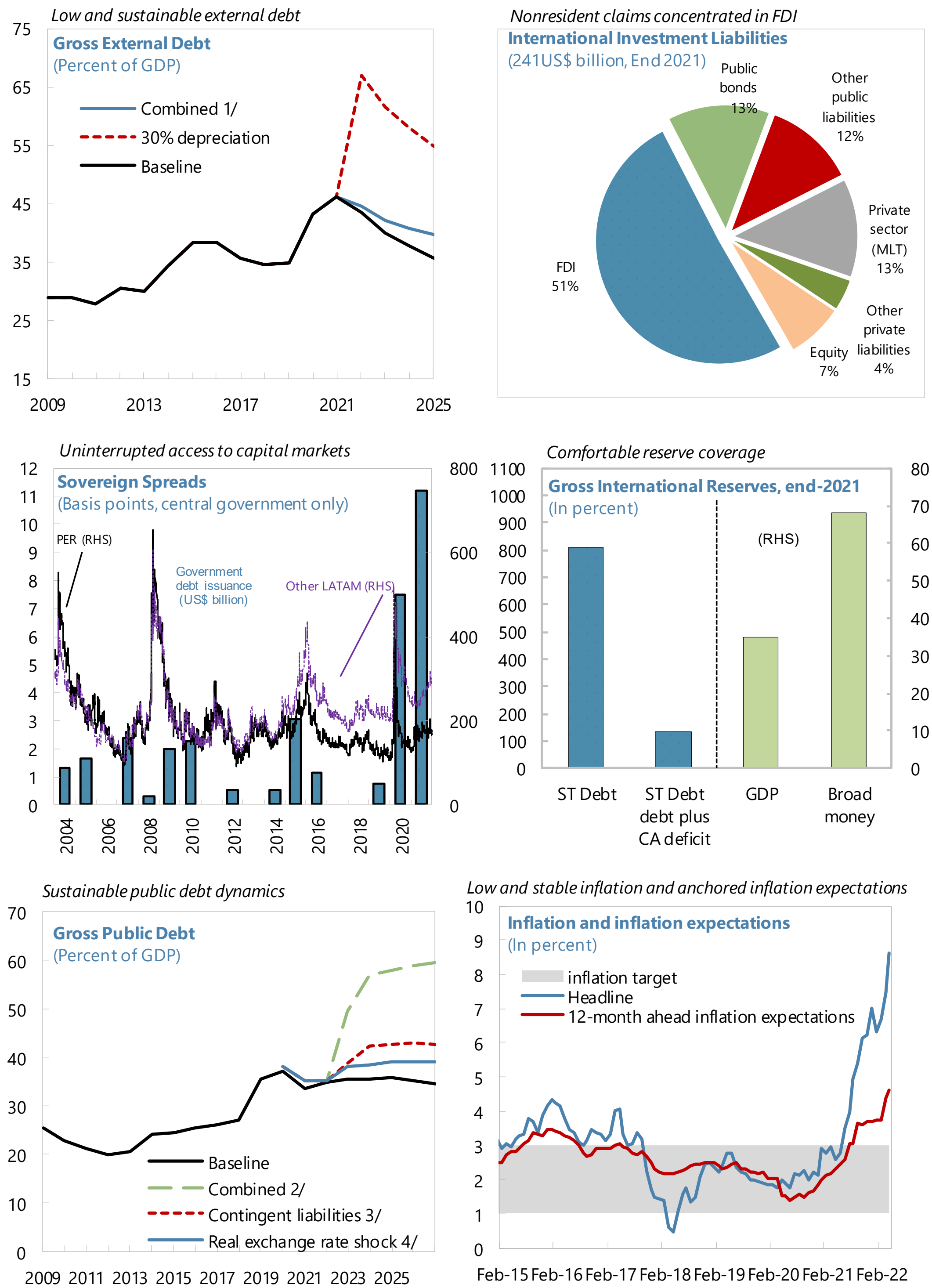
4/ 10 year government bond or closest available maturity.

Figure 3. Peru: Comparison with LA5 Countries



Sources: National authorities; and IMF staff calculations.

Figure 4. Peru: FCL Qualification Criteria



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

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

2/ Combined 2 year shock to primary balance (1/2 standard deviation) and growth (1 standard deviation); permanent shock to interest rate (to historical maximum) and exchange rate (about 20 percent real).

3/ One-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock: growth is reduced by 1 standard deviation for 2 consecutive years; interest rate increases as a function of the widening of the primary deficit.

4/ Nominal exchange depreciation of 20 percent leading to a real exchange depreciation of around 16 percent.

Figure 5. Peru: Reserve Coverage and FCLs in an International Perspective 1/

Sources: World Economic Outlook; IFS; and IMF staff estimates.
1/ The sample of countries included in these charts includes all EMEs for which data is available. 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.

Table 1. Peru: Selected Economic Indicators

	2018	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Social Indicators										
Poverty rate (total) 1/	20.5	20.2	30.1	22.1	...	...	...	...	...	...
Unemployment rate for Metropolitan Lima (average)	6.7	6.6	13.9	10.9	...	...	...	...	...	...
	(Annual percentage change; unless otherwise indicated)									
Production and Prices										
Real GDP	4.0	2.2	-11.0	13.3	3.0	3.0	3.0	3.0	3.0	3.0
Output gap (percent of potential GDP)	-0.9	-1.6	-7.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
Consumer prices (end of period)	2.2	1.9	2.0	6.4	4.0	3.0	2.3	2.0	2.0	2.0
Money and Credit 2/ 3/										
Broad money	9.6	8.8	29.0	2.6	8.4	6.6	6.6	6.4	5.4	5.5
Net credit to the private sector	10.3	6.4	14.0	6.3	8.5	7.1	5.3	5.3	5.4	5.4
Credit-to-private-sector/GDP ratio (%)	42.0	43.0	52.6	46.0	45.5	45.9	45.9	46.1	46.3	46.5
External Sector										
Exports	8.0	-2.2	-10.6	47.1	16.1	3.4	2.8	3.1	3.3	3.7
Imports	8.1	-1.8	-15.6	39.3	17.9	4.8	4.8	5.1	4.9	5.0
External current account balance (percent of GDP)	-1.7	-1.0	0.8	-2.8	-1.5	-1.4	-1.5	-1.6	-1.4	-1.4
Gross reserves In billions of U.S. dollars	60.3	68.4	74.9	78.5	78.2	77.9	78.9	80.4	82.2	84.6
Percent of short-term external debt 4/	369	428	487	586	561	537	565	516	527	563
Percent of foreign currency deposits at banks	213	224	222	229	223	225	233	243	260	282
	(In percent of GDP; unless otherwise indicated)									
Public Sector										
NFPS revenue	24.5	24.8	22.0	25.7	24.5	24.4	24.3	24.3	24.3	24.2
NFPS primary expenditure	25.4	25.0	29.2	26.8	25.5	25.5	25.0	24.4	23.9	23.9
NFPS primary balance	-1.0	-0.2	-7.3	-1.0	-1.1	-1.1	-0.7	-0.2	0.4	0.3
NFPS overall balance	-2.3	-1.6	-8.9	-2.6	-2.6	-2.4	-2.0	-1.5	-1.0	-1.0
NFPS structural balance	-1.6	-0.6	-6.4	-3.6	-3.1	-3.0	-2.6	-2.0	-1.4	-1.4
NFPS structural primary balance 5/	-0.3	0.8	-4.8	-2.1	-1.6	-1.7	-1.2	-0.6	0.0	0.0
Debt										
Total external debt 6/	34.7	34.7	43.3	46.1	43.6	40.0	37.8	35.7	34.2	33.0
Gross non-financial public sector debt 7/	26.2	27.1	35.1	36.6	35.0	35.5	35.7	35.8	35.3	34.6
External	8.8	8.5	14.9	19.6	20.2	19.4	18.5	17.9	17.9	17.7
Domestic	17.3	18.6	20.2	17.0	14.8	16.1	17.2	17.9	17.5	16.9
Savings and Investment										
Gross domestic investment	21.6	21.0	19.3	21.3	25.0	24.6	24.4	24.3	24.1	24.0
Public sector (incl. repayment certificates)	4.8	4.6	4.3	4.6	4.6	4.5	4.5	4.5	4.4	4.4
Private sector	17.6	18.1	16.8	20.6	20.4	20.1	20.0	19.8	19.7	19.5
National savings	19.9	20.0	20.0	18.6	23.5	23.2	22.9	22.7	22.7	22.6
Public sector	2.9	3.4	-4.0	2.8	2.7	2.8	3.2	3.7	4.2	4.2
Private sector	17.0	16.6	24.0	15.7	20.8	20.4	19.7	19.1	18.5	18.4
Memorandum Items										
Nominal GDP (S/. billion)	741	771	717	872	958	1,017	1,070	1,123	1,178	1,236
GDP per capita (in US$)	7,007	6,963	6,127	6,643	7,034	7,475	7,748	8,011	8,296	8,593

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: Nonfinancial Public Sector Main Fiscal Aggregates

	2018	2019	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
	(In billions of soles; unless otherwise indicated)									
Revenues	**181.3**	**191.2**	**157.5**	**224.4**	**234.4**	**248.0**	**260.5**	**272.8**	**286.0**	**299.2**
Taxes	107.4	113.8	95.6	143.2	152.4	161.1	169.4	178.0	187.2	197.2
Other	73.9	77.4	61.9	81.1	82.0	86.8	91.1	94.8	98.7	102.0
Primary Expenditures 1/	**188.4**	**192.7**	**209.8**	**233.5**	**244.6**	**259.4**	**267.8**	**274.5**	**281.1**	**295.5**
Current	148.5	152.6	173.6	184.9	193.3	205.9	211.6	215.9	219.5	230.8
Capital	39.9	40.2	36.2	48.5	51.3	53.5	56.1	58.7	61.6	64.7
Primary Balance	**-7.1**	**-1.5**	**-52.3**	**-9.1**	**-10.3**	**-11.4**	**-7.2**	**-1.7**	**4.9**	**3.8**
Interest	10.0	10.7	11.5	13.2	14.5	13.0	14.2	15.2	16.7	16.7
Overall Balance	**-17.1**	**-12.3**	**-63.8**	**-22.3**	**-24.8**	**-24.5**	**-21.5**	**-16.9**	**-11.8**	**-12.9**
External financing	-0.6	4.5	31.9	52.5	19.7	0.8	0.6	-0.5	6.1	8.8
Domestic financing	17.7	7.7	31.8	-30.2	5.0	23.7	20.9	17.4	5.7	4.2
Public Gross Debt 2/	**194.0**	**208.8**	**251.7**	**318.7**	**334.8**	**361.5**	**382.0**	**402.0**	**416.0**	**427.4**
External	65.5	65.3	107.0	170.8	193.2	197.3	197.7	201.2	210.3	218.3
Domestic	125.2	140.7	142.2	145.8	139.8	162.8	183.1	199.9	205.1	208.8
Repayment Certificates	3.3	2.8	2.5	2.1	1.8	1.5	1.2	0.9	0.6	0.3
Public Assets 3/	**89.7**	**92.5**	**74.5**	**107.9**	**96.5**	**95.5**	**94.7**	**93.8**	**93.0**	**92.2**
	(In percent of GDP; unless otherwise indicated)									
Revenues	**24.5**	**24.8**	**22.0**	**25.7**	**24.5**	**24.4**	**24.3**	**24.3**	**24.3**	**24.2**
Taxes	14.5	14.8	13.3	16.4	15.9	15.8	15.8	15.9	15.9	16.0
Other	10.0	10.1	8.6	9.3	8.6	8.5	8.5	8.4	8.4	8.2
Primary Expenditures 1/	**25.4**	**25.0**	**29.2**	**26.8**	**25.5**	**25.5**	**25.0**	**24.4**	**23.9**	**23.9**
Current	20.0	19.8	24.2	21.2	20.2	20.2	19.8	19.2	18.6	18.7
Capital	5.4	5.2	5.0	5.6	5.4	5.3	5.2	5.2	5.2	5.2
Primary Balance	**-1.0**	**-0.2**	**-7.3**	**-1.0**	**-1.1**	**-1.1**	**-0.7**	**-0.2**	**0.4**	**0.3**
Interest	1.4	1.4	1.6	1.5	1.5	1.3	1.3	1.4	1.4	1.3
Overall Balance	**-2.3**	**-1.6**	**-8.9**	**-2.6**	**-2.6**	**-2.4**	**-2.0**	**-1.5**	**-1.0**	**-1.0**
External financing	-0.1	0.6	4.4	6.0	2.1	0.1	0.1	0.0	0.5	0.7
Domestic financing	2.4	1.0	4.4	-3.5	0.5	2.3	1.9	1.5	0.5	0.3
Public Gross Debt 2/	**26.2**	**27.1**	**35.1**	**36.6**	**35.0**	**35.5**	**35.7**	**35.8**	**35.3**	**34.6**
External	8.8	8.5	14.9	19.6	20.2	19.4	18.5	17.9	17.9	17.7
Domestic	16.9	18.3	19.8	16.7	14.6	16.0	17.1	17.8	17.4	16.9
Repayment Certificates	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Public Assets 3/	**12.1**	**12.0**	**10.4**	**12.4**	**10.1**	**9.4**	**8.8**	**8.4**	**7.9**	**7.5**
Public Net Debt	**14.1**	**15.1**	**24.7**	**24.2**	**24.9**	**26.1**	**26.8**	**27.4**	**27.4**	**27.1**
Memorandum Items										
Commodity related revenues 4/	1.9	1.4	0.8	3.1	3.7	3.5	3.3	3.3	3.2	3.1
Output gap (percent of potential GDP)	-0.9	-1.6	-7.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
NFPS non-commodity structural balance	-3.9	-2.4	-7.4	-5.6	-6.2	-5.9	-5.4	-4.8	-4.2	-4.1
NFPS non-commodity primary structural balance	-2.5	-1.0	-5.8	-4.0	-4.7	-4.6	-4.0	-3.4	-2.8	-2.8
NFPS structural balance 5/	-1.6	-0.6	-6.4	-3.6	-3.1	-3.0	-2.6	-2.0	-1.4	-1.4
NFPS structural primary balance 5/	-0.3	0.8	-4.8	-2.1	-1.6	-1.7	-1.2	-0.6	0.0	0.0
Fiscal impulse (+ = expansionary) 6/	-0.6	-1.1	5.2	-2.4	-0.5	0.1	-0.5	-0.6	-0.6	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)

	2018	2019	2020	2021	Proj.					
					2022	2023	2024	2025	2026	2027
Revenue	**19.4**	**19.9**	**17.9**	**21.1**	**20.6**	**20.5**	**20.6**	**20.6**	**20.7**	**20.8**
Taxes	14.5	14.8	13.3	16.4	15.9	15.8	15.8	15.9	15.9	16.0
Social Contributions	2.2	2.2	2.2	2.1	2.0	2.0	2.0	2.0	2.1	2.1
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Other revenue	2.6	2.8	2.3	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Expense 2/	**16.5**	**16.7**	**21.7**	**18.6**	**18.0**	**18.0**	**17.5**	**17.0**	**16.3**	**16.2**
Compensation of employees	6.2	6.4	7.3	6.3	6.1	6.1	6.0	6.0	6.0	6.0
Use of goods and services	5.7	5.8	6.5	6.4	6.1	5.9	5.8	5.7	5.7	5.7
Interest	1.2	1.3	1.5	1.4	1.4	1.2	1.1	1.0	0.9	0.7
Social benefits	1.9	1.8	1.9	1.7	1.6	1.5	1.5	1.5	1.4	1.4
Other 3/	1.5	1.5	4.5	2.9	2.9	3.3	3.1	2.8	2.3	2.3
Net Acquisition of Nonfinancial Assets	**4.9**	**4.5**	**4.5**	**5.0**	**5.0**	**4.9**	**4.9**	**4.9**	**4.9**	**4.9**
Acquistion of nonfinancial assets	4.9	4.5	4.5	5.0	5.0	4.9	4.9	4.9	4.9	4.9
Gross Operating Balance	2.9	3.2	-3.9	2.5	2.6	2.6	3.0	3.6	4.4	4.6
Net Lending (+) Borrowing (-) 4/	**-2.0**	**-1.4**	**-8.3**	**-2.6**	**-2.5**	**-2.4**	**-1.9**	**-1.2**	**-0.5**	**-0.3**
Net Acquistion of Financial Assets 5/	**-0.4**	**0.6**	**-0.4**	**3.7**	**-0.3**	**-2.2**	**-1.7**	**-1.2**	**0.1**	**0.5**
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/	-0.4	0.6	-0.4	3.7	-0.3	-2.2	-1.7	-1.2	0.1	0.5
By residency										
Domestic	-0.4	0.6	-0.4	3.7	-0.3	-2.2	-1.7	-1.2	0.1	0.5
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/	**1.6**	**1.9**	**7.9**	**6.2**	**2.2**	**0.2**	**0.1**	**0.0**	**0.6**	**0.8**
By instrument										
Debt securities	2.3	1.2	3.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Loans	-0.7	0.8	4.8	5.8	2.1	0.1	0.1	0.0	0.5	0.7
By residency										
Domestic	2.3	1.2	3.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1
External	-0.7	0.8	4.8	5.8	2.1	0.1	0.1	0.0	0.5	0.7
Memorandum Items										
Central Government Net lending (+) borrowing (-)	-2.2	-2.5	-8.9	-3.8	-3.0	-2.8	-2.2	-1.5	-0.6	-0.2
Regional Governments Net lending (+) borrowing (-)	0.4	0.5	-0.1	0.7	0.6	0.6	0.7	0.7	0.7	0.8
Local Governments Net lending (+) borrowing (-)	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
General Government Primary Balance	-0.8	-0.1	-6.8	-1.2	-1.1	-1.2	-0.8	-0.3	0.4	0.5
General Government Overall Balance	-2.0	-1.4	-8.3	-2.6	-2.5	-2.4	-1.9	-1.2	-0.5	-0.3
Gen. Gov. primary spending (real percentage change)	4.9	1.0	13.0	5.3	1.2	2.9	0.8	0.6	0.0	3.0
Of which: Current spending	3.9	3.1	19.6	-0.4	0.5	3.5	0.4	0.1	-1.0	3.1
Capital spending	8.2	-5.7	-9.3	31.2	3.7	0.7	1.8	2.2	2.9	3.0
General Government non-financial expenditures	20.2	20.0	24.7	22.3	21.7	21.7	21.3	20.9	20.3	20.3

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

	2018	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Current Account	**-3.9**	**-2.4**	**1.5**	**-6.2**	**-3.7**	**-3.7**	**-4.2**	**-4.4**	**-4.2**	**-4.4**
Merchandise trade	7.2	6.9	8.2	14.8	16.2	16.0	15.2	14.5	13.9	13.5
Exports	49.1	48.0	42.9	63.1	73.3	75.7	77.8	80.3	82.9	86.0
Traditional	35.6	34.0	30.0	46.5	55.0	56.3	57.4	58.9	60.6	62.7
Mining	28.9	28.3	26.1	39.6	45.8	47.7	49.3	50.9	52.6	54.7
Nontraditional and others	13.4	14.0	12.9	16.6	18.3	19.5	20.4	21.4	22.3	23.3
Imports	-41.9	-41.1	-34.7	-48.4	-57.0	-59.7	-62.6	-65.8	-69.0	-72.5
Services, income, and current transfers (net)	-11.1	-9.3	-6.6	-20.9	-19.9	-19.7	-19.4	-18.9	-18.1	-17.9
Services	-2.8	-3.2	-4.2	-6.6	-7.1	-6.9	-6.8	-6.7	-6.6	-6.5
Investment income	-11.9	-9.8	-6.5	-18.4	-17.1	-17.1	-17.0	-16.6	-16.1	-16.1
Current transfers	3.6	3.7	4.1	4.1	4.3	4.4	4.4	4.5	4.6	4.7
Capital and Financial Account Balance	**2.0**	**8.9**	**7.7**	**16.0**	**3.3**	**3.4**	**5.2**	**5.9**	**6.0**	**6.8**
Public sector	2.1	4.4	9.8	15.6	5.0	0.3	0.3	0.0	1.6	2.3
Medium-term loans 1/	0.2	-0.3	9.0	15.3	5.0	0.2	0.2	-0.1	1.5	2.2
Other public sector flows 2/	2.1	4.5	1.1	0.3	0.0	0.1	0.1	0.1	0.1	0.1
Short-term flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	-0.2	4.5	-2.1	0.4	-1.6	3.1	4.9	5.9	4.4	4.5
Foreign direct investment (net) 3/	6.9	6.8	0.9	6.1	5.3	6.3	6.5	7.5	7.6	7.8
Medium- and long-term loans	-1.9	-2.3	-3.4	-0.9	-2.5	-2.3	-2.2	-2.0	-1.9	-1.8
Portfolio investment	-3.2	-0.5	1.4	11.6	2.2	1.2	-0.3	-1.8	-1.8	-1.8
Short-term flows 4/	-1.9	0.5	-1.0	-16.5	-6.6	-2.1	0.9	2.3	0.6	0.4
Errors and Omissions	**-1.7**	**0.4**	**-4.0**	**-5.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-3.6**	**6.9**	**5.6**	**5.6**	**-0.4**	**-0.3**	**1.0**	**1.5**	**1.8**	**2.4**
Financing	**3.6**	**-6.9**	**-5.6**	**-5.6**	**0.4**	**0.3**	**-1.0**	**-1.5**	**-1.8**	**-2.4**
NIR flow (increase -)	3.6	-6.9	-5.6	-3.8	0.4	0.3	-1.0	-1.5	-1.8	-2.4
Change in NIR (increase -)	3.5	-8.2	-6.4	-3.8	0.4	0.3	-1.0	-1.5	-1.8	-2.4
Valuation change	0.1	1.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)										
Current Account Balance	**-1.7**	**-1.0**	**0.8**	**-2.8**	**-1.5**	**-1.4**	**-1.5**	**-1.6**	**-1.4**	**-1.4**
Trade balance	3.2	3.0	4.0	6.6	6.8	6.2	5.6	5.1	4.7	4.4
Exports	21.8	20.8	20.9	28.1	30.5	29.4	28.8	28.5	28.1	27.9
Traditional	15.8	14.7	14.6	20.7	22.9	21.8	21.3	20.9	20.5	20.3
Mining	12.8	12.3	12.7	17.6	19.1	18.5	18.3	18.0	17.8	17.7
Nontraditional and others	6.0	6.0	6.3	7.4	7.6	7.5	7.6	7.6	7.6	7.5
Imports	-18.6	-17.8	-16.9	-21.5	-23.7	-23.2	-23.2	-23.3	-23.4	-23.5
Services, income, and current transfers (net)	-4.9	-4.0	-3.2	-9.3	-8.3	-7.6	-7.2	-6.7	-6.1	-5.8
Investment income	-5.3	-4.3	-3.2	-8.2	-7.1	-6.6	-6.3	-5.9	-5.5	-5.2
Capital and Financial Account Balance	**0.9**	**3.9**	**3.8**	**7.1**	**1.4**	**1.3**	**1.9**	**2.1**	**2.0**	**2.2**
Foreign direct investment (net)	3.1	2.9	0.4	2.7	2.2	2.4	2.4	2.7	2.6	2.5
Overall Balance	**-1.6**	**3.0**	**2.7**	**2.5**	**-0.1**	**-0.1**	**0.4**	**0.5**	**0.6**	**0.8**
Memorandum Items				(Annual percentage change)						
Export value	8.0	-2.2	-10.6	47.1	16.1	3.4	2.8	3.1	3.3	3.7
Volume growth	1.6	1.2	-13.7	12.9	4.4	3.9	3.7	3.8	3.6	3.5
Price growth	6.3	-3.4	3.7	30.3	11.2	-0.5	-0.9	-0.6	-0.3	0.2
Import value	8.1	-1.8	-15.6	39.3	17.9	4.8	4.8	5.1	4.9	5.0
Volume growth	1.4	-0.2	-11.1	19.5	3.9	4.7	4.6	4.6	4.5	4.3
Price growth	6.7	-1.7	-5.0	16.6	13.5	0.0	0.1	0.5	0.4	0.7
Terms of trade	-0.4	-1.8	9.1	11.8	-2.0	-0.5	-1.0	-1.1	-0.7	-0.5
Gross international reserves (in billions of US$)	60.3	68.4	74.9	78.5	78.2	77.9	78.9	80.4	82.2	84.6
Average exchange rate (S/. per US$)	3.29	3.34	3.50	3.88	3.99	3.94	3.96	3.98	3.99	4.01

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

Table 5. Peru: Monetary Survey 1/

(In billions of soles, unless otherwise indicated)

	2018	2019	2020	2021	Proj.					
					2022	2023	2024	2025	2026	2027
					Central Bank					
Net Foreign Assets	**159**	**170**	**223**	**241**	**173**	**214**	**216**	**220**	**224**	**209**
(In billions of U.S. dollars)	73	85	88	93	107	96	98	100	103	112
Net international reserves 2/	203	226	270	322	308	308	313	320	329	339
(In billions of U.S. dollars)	60	68	75	78	78	78	79	80	82	85
Long-term net external assets	0	0	0	-11	-10	-10	-10	-10	-10	-11
Foreign currency liabilities	-43	-57	-48	-70	-124	-84	-87	-89	-94	-119
Net Domestic Assets	**-98**	**-105**	**-137**	**-146**	**-85**	**-122**	**-122**	**-124**	**-126**	**-109**
Net credit to nonfinancial public sector	-61	-64	-49	-75	-72	-72	-72	-72	-72	-72
Credit to the financial sector 3/	7	5	41	30	35	-15	-8	-2	5	11
Securities issued	-26	-28	-89	-43	-43	-42	-40	-37	-34	-30
Other assets (net)	-18	-18	-40	-59	-5	6	-2	-13	-25	-19
Monetary Base	**61**	**65**	**86**	**95**	**89**	**91**	**94**	**97**	**99**	**101**
Currency	50	52	72	82	88	48	52	56	61	66
Reserve	12	12	14	13	1	43	42	40	38	35
					Depository Corporations 4/					
Net Foreign Assets	**172**	**194**	**253**	**274**	**281**	**273**	**280**	**288**	**298**	**311**
Net Domestic Assets	**138**	**143**	**183**	**172**	**203**	**243**	**270**	**297**	**319**	**340**
Net credit to the public sector	-57	-62	-35	-74	-79	-70	-68	-66	-73	-81
Credit to the private sector	311	331	378	401	436	467	491	517	545	575
Other assets (net)	-116	-126	-160	-155	-154	-154	-154	-154	-154	-154
Broad Money	**310**	**338**	**436**	**447**	**484**	**516**	**550**	**586**	**617**	**651**
Domestic currency	215	237	313	311	346	380	416	454	491	531
Foreign currency	96	101	122	136	138	137	135	132	126	120
					Financial System 5/					
Net Foreign Assets	**262**	**298**	**366**	**359**	**354**	**358**	**366**	**374**	**384**	**397**
Net Domestic Assets	**236**	**256**	**289**	**264**	**302**	**335**	**367**	**394**	**417**	**437**
Net credit to the public sector	-15	-15	1	-44	-49	-40	-38	-36	-42	-51
Credit to the private sector	368	393	442	467	511	535	565	591	620	648
Other assets (net)	-116	-122	-155	-160	-160	-160	-160	-160	-161	-161
Liabilities to the Private Sector	**498**	**554**	**654**	**623**	**656**	**694**	**733**	**769**	**801**	**833**
Domestic currency	383	428	501	461	529	570	613	655	694	735
Foreign currency	116	127	153	162	127	124	120	114	107	99
Monetary base	7.3	5.2	33.2	10.4	-6.7	2.9	3.0	2.9	2.1	2.2
Broad money	9.6	8.8	29.0	2.6	8.4	6.6	6.6	6.4	5.4	5.5
Domestic currency	12.2	10.2	32.3	-0.9	11.5	9.6	9.5	9.2	8.1	8.1
Foreign currency	4.1	5.6	21.2	11.4	1.2	-0.9	-1.4	-2.3	-4.0	-4.8
Liabilities to the private sector	5.7	11.3	18.1	-4.8	5.4	5.7	5.6	4.9	4.2	4.1
Domestic currency	6.1	11.8	17.1	-8.0	14.9	7.7	7.5	6.8	6.1	5.9
Foreign currency	4.2	9.6	21.3	5.7	-21.8	-2.5	-3.3	-4.7	-6.3	-7.6
Depository corp credit to the private sector	10.3	6.4	14.0	6.3	8.5	7.1	5.3	5.3	5.4	5.4
Domestic currency	11.6	9.8	19.7	5.0	11.3	8.8	5.9	6.0	6.2	6.1
Foreign currency	7.1	-2.2	-2.4	10.7	-0.9	0.9	2.6	2.3	2.3	2.3

Sources: National Authorities; and IMF staff estimates.

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

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

3/ Including the National Bank.

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

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

Table 6. Peru: Financial Soundness Indicators 1/

(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
				(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
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
Nonperforming loans net of provisions to capital 4/	0.2	-0.3	-0.4	-0.6	-0.6	-0.5	-3.6	-1.4
Leverage 5/	8.3	7.9	8.7	9.4	9.8	10.2	8.8	9.0
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
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4	4.1
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5	3.5
Nonperforming, refinanced and restructured loans to total gross loans 4/ 6/	4.0	4.0	4.4	4.8	4.9	4.9	6.0	6.0
In domestic currency	3.4	2.9	3.2	3.6	3.7	3.8	4.4	4.1
In foreign currency	2.1	2.9	2.8	2.6	2.4	2.3	3.5	3.5
Refinanced and restructured loans to total gross loans	1.1	1.1	1.3	1.5	1.6	1.5	1.9	2.0
Provisions to nonperforming loans 4/	157.7	161.8	157.1	151.1	150.7	149.1	178.5	159.9
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
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
Mortgage loans	15.5	15.2	15.1	15.4	15.3	15.6	14.4	14.7
Large corporations	17.2	21.4	22.2	22.6	23.3	22.2	18.7	21.2
Small corporations	17.0	15.8	14.8	14.3	14.3	14.3	16.0	15.5
Medium size firms	18.3	16.9	16.4	15.4	14.8	13.7	18.8	18.0
Small firms	10.1	9.0	9.1	9.4	9.1	9.3	10.6	10.1
Microenterprises	3.8	3.4	3.6	3.7	3.5	3.5	3.9	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
Return on assets (ROA)	1.9	2.1	2.0	2.1	2.2	2.2	0.4	1.3
Financial revenues to total revenues	85.0	85.1	85.3	84.2	83.4	83.7	84.6	81.5
Annualized financial revenues to revenue-generating assets	10.6	10.5	10.1	10.2	10.3	10.4	7.8	6.9
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
In domestic currency	25.3	26.2	26.7	33.0	27.2	27.5	50.6	33.6
In foreign currency	55.2	47.5	44.9	45.7	45.3	50.3	49.8	51.4
Deposit-to-loan	90.5	92.0	88.4	92.1	89.4	90.9	99.3	92.6
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
Share of foreign currency loans in total credit	38.4	30.1	28.8	29.4	28.5	26.5	22.7	23.3
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
Nonfinancial expenditure to total revenues 8/	33.0	30.9	30.8	30.7	30.7	29.9	31.8	35.3
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
Memorandum Items								
General Stock market index, IGBVL	14,794	9,849	15,567	19,974	19,350	20,526	20,822	21,112
EMBI+ PERU spread, basis points	181	243	170	112	137	92	117	144

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

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

8/ Nonfinancial expenditures do not consider provisions nor depreciation.

Table 7. Peru: Financial and External Vulnerability Indicators

(In percent, unless otherwise indicated)

	2018	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
Financial Indicators										
Public sector debt/GDP	26.2	27.1	35.1	36.6	34.9	35.5	35.7	35.8	35.3	34.6
Of which: in domestic currency (percent of GDP)	17.3	18.6	20.2	17.0	14.8	16.1	17.2	17.9	17.5	16.9
90-day prime lending rate, domestic currency (end of period)	4.3	3.3	0.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
90-day prime lending rate, foreign currency (end of period)	3.4	2.7	1.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Velocity of money 1/	2.4	2.3	1.6	2.0	2.0	2.0	1.9	1.9	1.9	1.9
Net credit to the private sector/GDP 2/	42.0	43.0	52.6	46.0	45.5	45.9	45.9	46.1	46.3	46.5
External Indicators										
Exports, U.S. dollars (percent change)	8.0	-2.2	-10.6	47.1	16.1	3.4	2.8	3.1	3.3	3.7
Imports, U.S. dollars (percent change)	8.1	-1.8	-15.6	39.3	17.9	4.8	4.8	5.1	4.9	5.0
Terms of trade (percent change) (deterioration -) 3/	-0.4	-1.8	9.1	11.8	-2.0	-0.5	-1.0	-1.1	-0.7	-0.5
Current account balance (percent of GDP)	-1.7	-1.0	0.8	-2.8	-1.5	-1.4	-1.5	-1.6	-1.4	-1.4
Capital and financial account balance (percent of GDP)	0.9	3.9	3.8	7.1	1.4	1.3	1.9	2.1	2.0	2.2
Total external debt (percent of GDP)	34.7	34.7	43.3	46.1	43.6	40.0	37.8	35.7	34.2	33.0
Medium- and long-term public debt (in percent of GDP) 4/	15.5	17.0	23.7	26.9	27.2	25.5	24.4	23.3	22.8	22.5
Medium- and long-term private debt (in percent of GDP)	15.0	14.3	14.9	13.7	12.3	10.8	9.8	8.9	8.1	7.4
Short-term public and private debt (in percent of GDP)	4.2	3.4	4.7	4.3	4.0	3.8	3.6	3.4	3.3	3.1
Total external debt (in percent of exports of goods and services) 4/	141.0	146.7	194.6	157.0	135.8	128.6	122.8	116.8	112.8	109.6
Total debt service (in percent of exports of goods and services) 5/	33.6	37.7	35.6	24.1	23.3	22.7	21.6	23.3	22.6	21.4
Gross official reserves										
In millions of U.S. dollars	60,288	68,370	74,909	78,539	78,189	77,869	78,869	80,369	82,169	84,569
In percent of short-term external debt 6/	369	428	487	586	561	537	565	516	527	563
In percent of short-term external debt, foreign currency deposits, and adjusted CA balance 6/ 7/	112	127	152	134	138	135	139	137	144	153
In percent of broad money 8/	66	67	62	71	64	60	57	55	53	52
In percent of foreign currency deposits at banks	213	224	222	229	223	225	233	243	260	282
In months of next year's imports of goods and services	14.2	19.7	15.5	13.9	13.2	12.5	12.1	11.7	12.0	11.8
Net international reserves (in millions of U.S. dollars)	60,121	68,316	74,707	78,495	78,145	77,825	78,825	80,325	82,125	84,525
Central Bank's Foreign Exchange Position	39,548	42,619	58,258	57,345	56,995	56,675	57,675	59,175	60,975	63,375

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

	2018	2019	2020	2021	Proj. 2022	2023	2024	2025	2026	2027
	(Annual percentage change)									
Production										
GDP at constant prices	4.0	2.2	-11.0	13.3	3.0	3.0	3.0	3.0	3.0	3.0
Domestic demand at constant prices	4.2	2.2	-9.5	14.4	2.8	3.2	3.2	3.2	3.2	3.2
Consumption	3.3	3.1	-7.3	11.6	-1.2	3.5	3.4	3.4	3.4	3.4
Investment	4.4	3.3	-16.3	34.9	-0.2	2.4	2.6	2.6	2.6	2.6
Of which: Private	4.1	4.5	-16.5	37.6	0.0	2.4	2.5	2.5	2.5	2.5
Of which: Public	5.5	-1.5	-15.5	23.7	-1.1	2.2	3.2	2.8	3.0	3.0
Net exports (contribution to GDP growth)	-0.1	0.0	-1.8	-1.0	0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Exports	2.4	1.1	-20.5	14.0	4.4	3.9	3.7	3.8	3.6	3.5
Imports	3.2	1.2	-15.6	18.8	3.9	4.7	4.6	4.6	4.5	4.3
Consumer prices (end of period)	2.2	1.9	2.0	6.4	4.0	3.0	2.3	2.0	2.0	2.0
GDP deflator	2.0	1.8	4.6	7.3	6.7	3.1	2.1	1.8	1.9	1.9
Trade										
Merchandise trade										
Exports, f.o.b.	8.0	-2.2	-10.6	47.1	16.1	3.4	2.8	3.1	3.3	3.7
Imports, f.o.b.	8.1	-1.8	-15.6	39.3	17.9	4.8	4.8	5.1	4.9	5.0
Terms of trade (deterioration -)	-0.4	-1.8	9.1	11.8	-2.0	-0.5	-1.0	-1.1	-0.7	-0.5
	(In percent of GDP; unless otherwise indicated)									
External Current Account Balance	-1.7	-1.0	0.8	-2.8	-1.5	-1.4	-1.5	-1.6	-1.4	-1.4
Total External Debt Service 1/	8.3	8.9	7.9	7.1	7.5	7.1	6.6	7.1	6.8	6.5
Medium- and long-term	4.4	4.7	4.0	2.8	3.4	3.2	2.9	3.5	3.4	3.2
Nonfinancial public sector	1.3	1.5	1.0	0.8	1.5	1.5	1.4	2.1	2.1	2.0
Private sector	3.1	3.3	3.0	2.0	1.8	1.6	1.5	1.4	1.3	1.2
Short-term 2/	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Interest	1.5	1.4	1.2	1.2	1.7	1.4	1.5	1.6	1.6	1.6
Amortization (medium-and long-term)	3.1	3.5	2.8	1.7	1.8	1.9	1.6	2.1	2.0	1.7
Public Sector										
NFPS primary balance 3/	-1.0	-0.2	-7.3	-1.0	-1.1	-1.1	-0.7	-0.2	0.4	0.3
NFPS interest due	1.4	1.4	1.6	1.5	1.5	1.3	1.3	1.4	1.4	1.3
NFPS overall balance 3/	-2.3	-1.6	-8.9	-2.6	-2.6	-2.4	-2.0	-1.5	-1.0	-1.0
Public sector debt 3/	26.2	27.1	35.1	36.6	35.0	35.5	35.7	35.8	35.3	34.6
Savings and Investment										
Gross domestic investment	21.6	21.0	19.3	21.3	25.0	24.6	24.4	24.3	24.1	24.0
Public sector 3/	4.8	4.6	4.3	4.6	4.6	4.5	4.5	4.5	4.4	4.4
Private sector	16.9	16.4	15.0	16.7	20.4	20.1	20.0	19.8	19.7	19.5
Private sector (excluding inventories)	17.6	18.1	16.8	20.6	20.4	20.1	20.0	19.8	19.7	19.5
Inventory changes	-0.7	-1.6	-1.8	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
National savings	19.9	20.0	20.0	18.6	23.5	23.2	22.9	22.7	22.7	22.6
Public sector 4/	2.9	3.4	-4.0	2.8	2.7	2.8	3.2	3.7	4.2	4.2
Private sector	17.0	16.6	24.0	15.7	20.8	20.4	19.7	19.1	18.5	18.4
External savings	1.7	1.0	-0.8	2.8	1.5	1.4	1.5	1.6	1.4	1.4
Memorandum Items										
Nominal GDP (billions of nuevos soles)	740.8	770.5	717.4	872.0	957.9	1017.5	1070.4	1,122.8	1,178.1	1,236.5
Gross international reserves (billions of U.S. dollars)	60.3	68.4	74.9	78.5	78.2	77.9	78.9	80.4	82.2	84.6
External debt service (percent of exports of GNFS)	33.6	37.7	35.6	24.1	23.3	22.7	21.6	23.3	22.6	21.4
Short-term external debt service (percent of exports of GNFS)	0.5	0.5	0.3	0.2	0.3	0.5	0.5	0.5	0.4	0.4
Public external debt service (percent of exports of GNFS)	5.1	6.2	4.4	2.8	4.8	4.9	4.6	6.9	7.0	6.5

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

Table 9. Peru: Capacity to Repay Indicators 1/

	2021	2022	2023	2024	2025	2026	2027
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/	--	59	90	90	93	42	8
Debt service due on GRA credit 2/	--	59	90	90	1,094	2,044	1,009
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	46.1	48.4	46.3	42.7	39.4	36.2	34.1
Public external debt 4/	26.9	31.0	30.1	28.3	26.2	24.3	23.2
GRA credit to Peru	--	2.5	2.4	2.3	1.7	0.5	--
Total external debt service	2.8	3.8	3.8	3.5	4.6	4.9	4.0
Public external debt service	0.8	1.7	1.8	1.7	3.0	3.4	2.6
Debt service due on GRA credit	--	0.0	0.1	0.1	0.6	1.1	0.5
In percent of Gross International Reserves							
Total external debt	132.0	168.0	166.4	161.7	153.6	145.7	140.2
Public external debt	77.0	107.4	108.4	107.0	102.3	97.7	95.5
GRA credit to Peru	--	8.7	8.8	8.7	6.5	2.1	--
In percent of Exports of Goods and Services							
Total external debt service	9.6	10.9	11.2	10.6	14.4	15.5	13.0
Public external debt service	2.8	4.9	5.4	5.2	9.2	10.7	8.5
Debt service due on GRA credit	--	0.1	0.2	0.2	1.9	3.4	1.6
In percent of Total External Debt							
GRA credit to Peru	--	5.2	5.3	5.4	4.2	1.4	--
In percent of Public External Debt							
GRA credit to Peru	--	8.1	8.1	8.2	6.3	2.2	--
Memo Items:							
U. S. dollars per SDR (period average)	1.42	1.39	1.41	1.42	1.43	1.44	1.45
Oil Price (WEO APSP, US$ per barrel)	69.1	106.8	92.6	84.2	78.5	74.7	72.5

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 rage of charge 1.494 (as of April 28, 2022).

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/ The public external debt in this table reflects external debt liabilities of all public sector. This differs from the external public debt reported in Table 1, which covers only the non-financial public sector.

Annex I. External Debt Sustainability Analysis

1. **The latest external sector assessment for Peru assessed that the country's external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies** (see 2022 Article IV Staff Report). This assessment is nevertheless subject to high uncertainties related to the impact of the COVID-19 pandemic. Notwithstanding the adverse effects of the pandemic and significant capital outflows reflecting increased political uncertainty, reserve coverage remains adequate even after considering the dependence on commodity prices and the existence of substantial domestic FX liabilities.

2. **The external debt-to-GDP ratio is expected to decline to pre-pandemic levels to reach 33 percent of GDP in the medium term**. Peru's external debt increased from 34.7 percent of GDP in 2019 to 46.1 percent of GDP in 2021, reflecting higher public sector debt. Foreign borrowing by the public sector was substantial and included bond issuances on international markets. The external gross non-financial public sector debt increased from 8.5 percent of GDP in 2019 to 19.5 percent of GDP in 2021. In the medium term, public debt is projected to decline to 17.7 percent of GDP. Private debt is projected to decline from 26.5 percent of GDP in 2021 to 15.4 percent of GDP by 2027.

3. **External debt remains sustainable under a range of shocks**. Standardized stress tests indicate that external debt would remain resilient to a more severe impact stemming from downside scenarios on growth, primary balance, depreciation, and combined shocks. Under these scenarios, the external debt is mainly sensitive to exchange rate depreciation shock. This scenario assumes a one-time exchange rate depreciation of 30 percent in 2022. In the absence of offsetting non-debt-creating flows, external debt increases by about 23 percentage points to 67 percent of GDP by 2023, and increases gross financing needs in 2023 by 2.6 percentage points of GDP relative to the baseline.

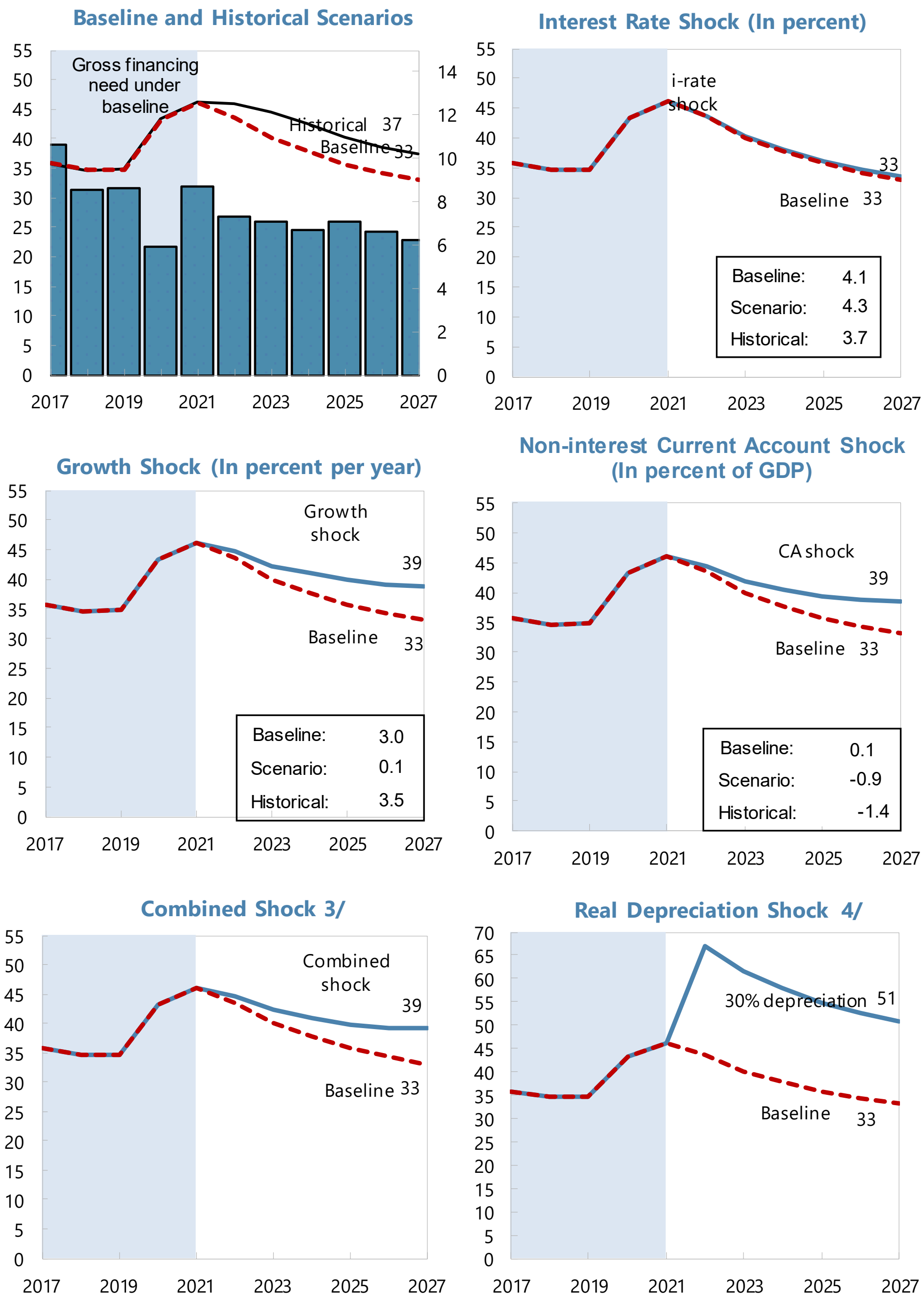
Table 1. Peru: External Debt Sustainability Framework, 2019–27
(In percent of GDP, unless otherwise indicated)

	2019	2020	Prel. 2021	Projections 2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External Debt	**34.7**	**43.3**	**46.1**	**43.6**	**40.0**	**37.8**	**35.7**	**34.2**	**33.0**	**-1.9**
Change in external debt	0.0	8.5	2.9	-2.6	-3.5	-2.3	-2.1	-1.4	-1.2	
Identified external debt-creating flows (4+8+9)	-2.4	2.4	-10.4	-2.9	-2.7	-1.9	-1.5	-1.5	-1.5	
Current account deficit, excluding interest payments	-0.3	-2.0	1.6	-0.2	0.0	0.1	0.0	-0.1	-0.2	
Deficit in balance of goods and services	-1.6	-2.0	-3.6	-3.8	-3.5	-3.1	-2.7	-2.5	-2.2	
Exports	23.7	22.2	29.4	32.1	31.1	30.7	30.5	30.3	30.2	
Imports	22.1	20.3	25.8	28.3	27.6	27.6	27.8	27.8	27.9	
Net non-debt creating capital inflows (negative)	-2.7	-1.1	-7.9	-3.1	-2.9	-2.3	-2.0	-1.9	-1.9	
Net foreign direct investment, equity	2.9	0.4	2.7	2.2	2.4	2.4	2.7	2.6	2.5	
Net portfolio investment,equity	-0.2	0.7	5.2	0.9	0.5	-0.1	-0.6	-0.6	-0.6	
Automatic debt dynamics 1/	0.6	5.5	-4.1	0.4	0.2	0.3	0.5	0.5	0.6	
Denominator: 1+g+r+gr	1.0	0.9	1.1	1.1	1.1	1.0	1.0	1.0	1.0	
Contribution from nominal interest rate	1.4	1.2	1.2	1.7	1.4	1.5	1.6	1.6	1.6	
Contribution from real GDP growth	-0.7	4.3	-5.3	-1.3	-1.2	-1.1	-1.1	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	...	...	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	6.1	13.3	0.3	-0.8	-0.4	-0.6	0.1	0.3	
External debt-to-exports ratio (in percent)	146.7	194.6	157.0	135.8	128.6	122.8	116.8	112.8	109.6	
Gross External Financing Need (in billions of U.S. dollars) 4/	19.9	12.2	19.5	17.6	18.2	18.1	20.0	19.8	19.4	
In percent of GDP	8.6	5.9	8.7	7.3	7.1	6.7	7.1	6.7	6.3	
Scenario with Key Variables at Their Historical Averages 5/		**43.3**	**46.1**	**45.9**	**44.5**	**42.5**	**40.1**	**38.5**	**37.1**	**-3.7**
Key Macroeconomic Assumptions Underlying Baseline										
Real GDP growth (in percent)	2.2	-11.0	13.3	3.0	3.0	3.0	3.0	3.0	3.0	
GDP deflator in U.S. dollars (change in percent)	0.3	-0.1	-3.4	3.9	4.2	1.6	1.4	1.5	1.6	
Nominal external interest rate (in percent)	4.0	3.2	3.0	3.9	3.5	3.9	4.4	4.6	4.9	
Growth of exports and services (U.S. dollar terms, in percent)	-1.4	-16.6	44.8	16.7	4.1	3.4	3.7	3.9	4.1	
Growth of imports and services (U.S. dollar terms, in percent)	-0.1	-18.4	39.2	17.3	4.8	4.8	5.0	4.8	4.9	
Current account balance, excluding interest payments	0.3	2.0	-1.6	0.2	0.0	-0.1	0.0	0.1	0.2	
Net non-debt creating capital inflows	2.7	1.1	7.9	3.1	2.9	2.3	2.0	1.9	1.9	

Source: National authorities and Fund staff calculations.
1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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

(In percent of GDP)



Source: 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 2022.

Annex II. Public Debt Sustainability Analysis

The last debt sustainability analysis (DSA) for Peru assessed the country's public debt as sustainable with a high probability (see 2022 Article IV Staff Report). Under the baseline scenario, the public debt-to-GDP ratio is forecast to stabilize at about 35 percent of GDP in 2022-2023 and then decline. Gross financing needs are expected to average about 3.7 percent of GDP over the forecast horizon. The public debt ratio is unlikely to exceed 70 percent of GDP over the medium term, including in the event of large shocks to key macroeconomic variables. Moderate risks from the share of public debt in foreign currency and external financing requirements stand as the main debt profile risks.

1. **The public debt ratio was broadly stable in 2021.** Public debt rose slightly to 36.6 percent of GDP in 2021, reflecting a significant improvement in the fiscal accounts. The Non-Financial Public Sector (NFPS) deficit fell from 8.9 to 2.6 percent of GDP, supported by higher metal prices and soaring tax revenues, the collection of tax arrears, and a significant winding down of the pandemic-related discretionary stimulus. At end-2021, about 85 percent of the total debt was marketable, and 90 percent of the debt was contracted at fixed rates. The half-life of the public debt stock is 13 years.

2. **Peru maintains market access, reflecting a strong track record of creditworthiness.** Despite downgrades reflecting the weaker fiscal position in 2020 and increased policy uncertainty, the sovereign credit rating remains investment grade. While the bulk of the government's borrowing requirement has been traditionally sourced from a highly liquid domestic market, pressures arising from extraordinary withdrawals from private pension funds in 2020–2021 resulted in higher reliance on foreign markets, and external public debt now represents 54 percent of the debt stock. Effective debt management allowed the sovereign to pre-finance a portion of the 2022 budget.

3. **The baseline scenario assumes a gradual fiscal consolidation is in place over the medium term.** The baseline scenario assumes a gradual fiscal consolidation is in place whereby the primary deficit progressively narrows from 1 percent of GDP in 2021 and moves into a surplus by 2026. The overall deficit would stabilize at 1 percent of GDP by 2026 onwards, in line with the fiscal rules. New debt issuances are assumed to principally consist mostly of domestic currency debt, in line with the authorities' medium-term debt management strategy of mitigating exchange rate, interest rate, and rollover risks. Following the post-pandemic rebound in 2021, real output growth is anticipated to slow down in 2022 and stabilize at potential growth over the medium term, while a small negative output gap is expected to close by 2023. Headline inflation would remain above the central bank's target band in 2022, returning to the target range by 2023 and the mid-point of the target range by 2024. The change in the GDP deflator would stabilize at 2 percent by 2025. The current account deficit is expected to average 1.5 percent of GDP over the medium term.

4. **Public-sector debt dynamics are sustainable with a high probability both under the baseline and historical scenarios** (Figure 1 and Figure 2). Under the baseline scenario, the public debt-to-GDP ratio is expected to stabilize at about 35 percent of GDP in 2022–2025, whereafter it

would decline gradually. A lower primary deficit would be partly offset by a negative interest rate and real GDP growth differential. Under the historical scenario (where real GDP growth, the primary balance, and real interest rates are set at their historical average while other variables are the same as in the baseline), the debt ratio would peak outside the forecast horizon.

5. **The baseline scenario is realistic for purposes of the DSA** (Figure 3). An analysis of staff's forecast errors shows that while estimates of real GDP growth have tended to be optimistic, these have reflected unexpected shocks such as the commodity price downturn in 2014–2016, climate-related natural disasters, and the Covid-19 pandemic. Partly addressing any potential bias, staff's real GDP growth forecast is below the authorities' forecasts for 2022, and broadly in line with consensus expectations. On the other hand, the primary balance, and inflation (deflator) forecast errors have been closer to the median for all countries. Finally, the projected fiscal consolidation underpinning the debt burden trajectory is realistic.

6. **Standardized stress tests reveal that the public debt ratio is likely to remain at manageable levels over the forecast horizon** (Figure 4). In all cases, the debt ratio remains below the 70 percent of GDP benchmark for EMs. The assessment is further confirmed by a probabilistic analysis of the uncertainty surrounding the baseline scenario, as indicated by the Fan Charts.

- ***Real GDP growth shock.*** Lower real output growth than in the baseline by one standard deviation for 2 years starting in 2023 would take the public debt level towards 50 percent of GDP while public gross financing needs would stand at about 5.8 percent of GDP over the medium term.

- ***Real interest rate shock.*** A 200bp increase in real interest rates would take the public sector debt level to about 37 percent of GDP by the end of the forecast horizon. Gross financing needs would stand at about 3.9 percent of GDP through 2027.

- ***Real exchange rate shock.*** A 20 percent depreciation of the exchange rate would take the public sector debt level towards 39 percent of GDP in 2027. Gross financing needs would stand at about 3.9 percent of GDP through 2027.

- ***Primary balance shock***. Fiscal slippages in the form of a deterioration in the primary balance of an additional cumulative 3.2 percent of GDP over the 2022-27 period would take the debt ratio to about 39 percent of GDP in 2027. Public gross financing needs would increase to about 4.5 percent of GDP during the forecast horizon.

- ***Combined macro-fiscal shock***. A single scenario that combines the above-mentioned shocks would take the debt ratio to 56 percent of GDP by 2027. The ratio of public debt to revenue, and public gross financing needs would remain at elevated levels over the medium term.

7. **The risk assessment shows that debt profile vulnerabilities are limited**. Risks arise mostly from a high share of public debt held by non-residents, as the corresponding risk indicator is slightly above the mid-point of the early warning threshold. Meanwhile, moderate risks arise from the share of public debt in foreign currency and external financing requirements, which could give

rise to concerns over financial stability in the case of large exchange rate adjustments (Figure 5). The authorities intend to address larger rollover needs in 2024 by conducting debt-reprofiling operations in the coming months.

8. **Peru's public-sector debt level is sustainable with a high probability.** The debt sustainability analysis is broadly positive. Debt is unlikely to exceed 70 percent of GDP over the medium term, including in the event of large shocks to key macroeconomic variables. The main sources of risk arise from the high proportion of public debt held by non-residents and real GDP growth shocks. Moderate risks from the share of public debt in foreign currency and external financing requirements stand as the main debt profile risks.

Figure 1. Peru: Public Debt Sustainability Analysis

(In percent of GDP unless otherwise indicated)

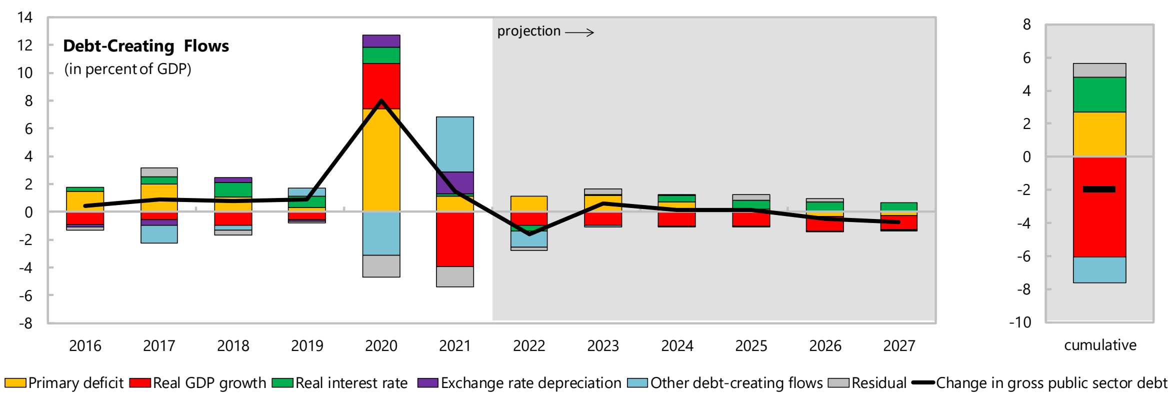
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	23.6	35.1	36.6	35.0	35.5	35.7	35.8	35.3	34.6
Public gross financing needs	2.3	9.5	2.8	3.2	3.5	3.9	3.6	4.4	3.5
Real GDP growth (in percent)	4.1	-11.0	13.3	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator, in percent)	2.9	1.8	4.0	5.5	3.6	2.5	2.1	2.0	2.0
Nominal GDP growth (in percent)	7.0	-6.9	21.5	9.9	6.2	5.2	4.9	4.9	5.0
Effective interest rate (in percent) [4/]	5.4	5.5	5.2	4.6	3.9	3.9	4.0	4.2	4.0

As of April 29, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		218
5Y CDS (bp)		113
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB	BBB+
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.2	8.0	1.5	-1.6	0.6	0.2	0.1	-0.5	-0.7	-2.0	
Identified debt-creating flows	-0.7	9.6	2.9	-1.4	0.2	0.1	-0.3	-0.7	-0.7	-2.8	
Primary deficit	-0.3	7.4	1.1	1.1	1.2	0.7	0.2	-0.3	-0.2	2.7	-0.4
Primary (noninterest) revenue and grants	25.5	21.9	25.6	24.4	24.3	24.3	24.2	24.2	24.1	145.5	
Primary (noninterest) expenditure	25.2	29.2	26.8	25.5	25.5	25.0	24.4	23.9	23.9	148.3	
Automatic debt dynamics [5/]	-0.2	5.3	-2.2	-1.4	-0.9	-0.6	-0.4	-0.3	-0.4	-3.9	
Interest rate/growth differential [6/]	-0.4	4.5	-3.8	-1.4	-0.9	-0.6	-0.4	-0.3	-0.4	-3.9	
Of which: real interest rate	0.5	1.2	0.2	-0.4	0.1	0.5	0.6	0.7	0.6	2.1	
Of which: real GDP growth	-0.9	3.3	-4.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-6.0	
Exchange rate depreciation [7/]	0.2	0.9	1.6	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.1	-3.1	4.0	-1.2	-0.1	-0.1	-0.1	-0.1	-0.1	-1.6	
General government net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Use of stabilization fund	-0.1	-3.1	4.0	-1.2	-0.1	-0.1	-0.1	-0.1	-0.1	-1.6	
Residual, including asset changes [8/]	0.9	-1.6	-1.4	-0.2	0.4	0.0	0.4	0.3	-0.1	0.8	

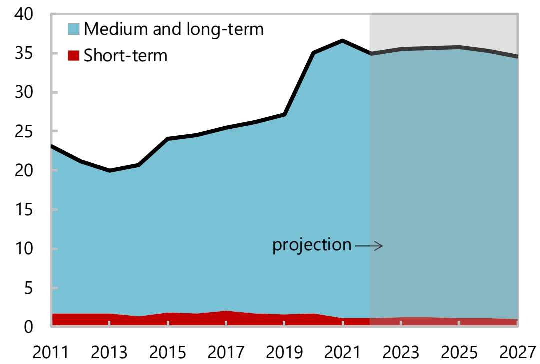


Source: IMF staff calculations.
1/ Public sector is defined as non-financial public sector.
2/ Based on available data.
3/ EMBIG.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

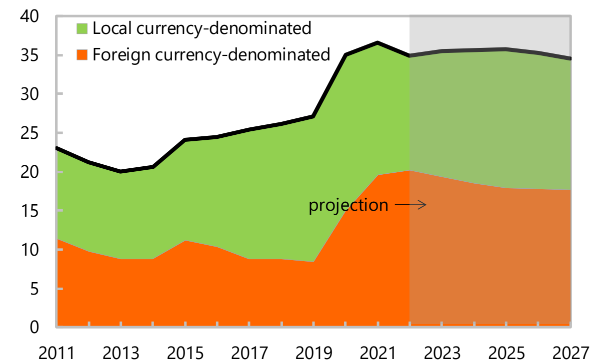
Figure 2. Peru: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



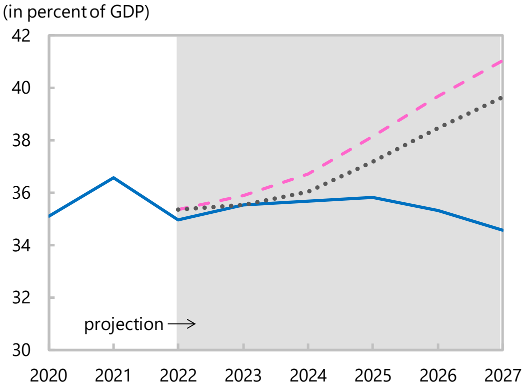
By Currency
(in percent of GDP)



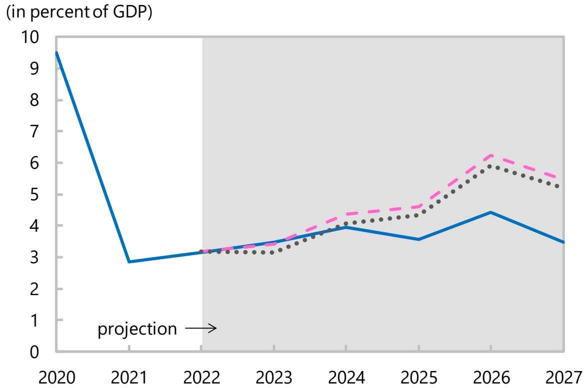
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



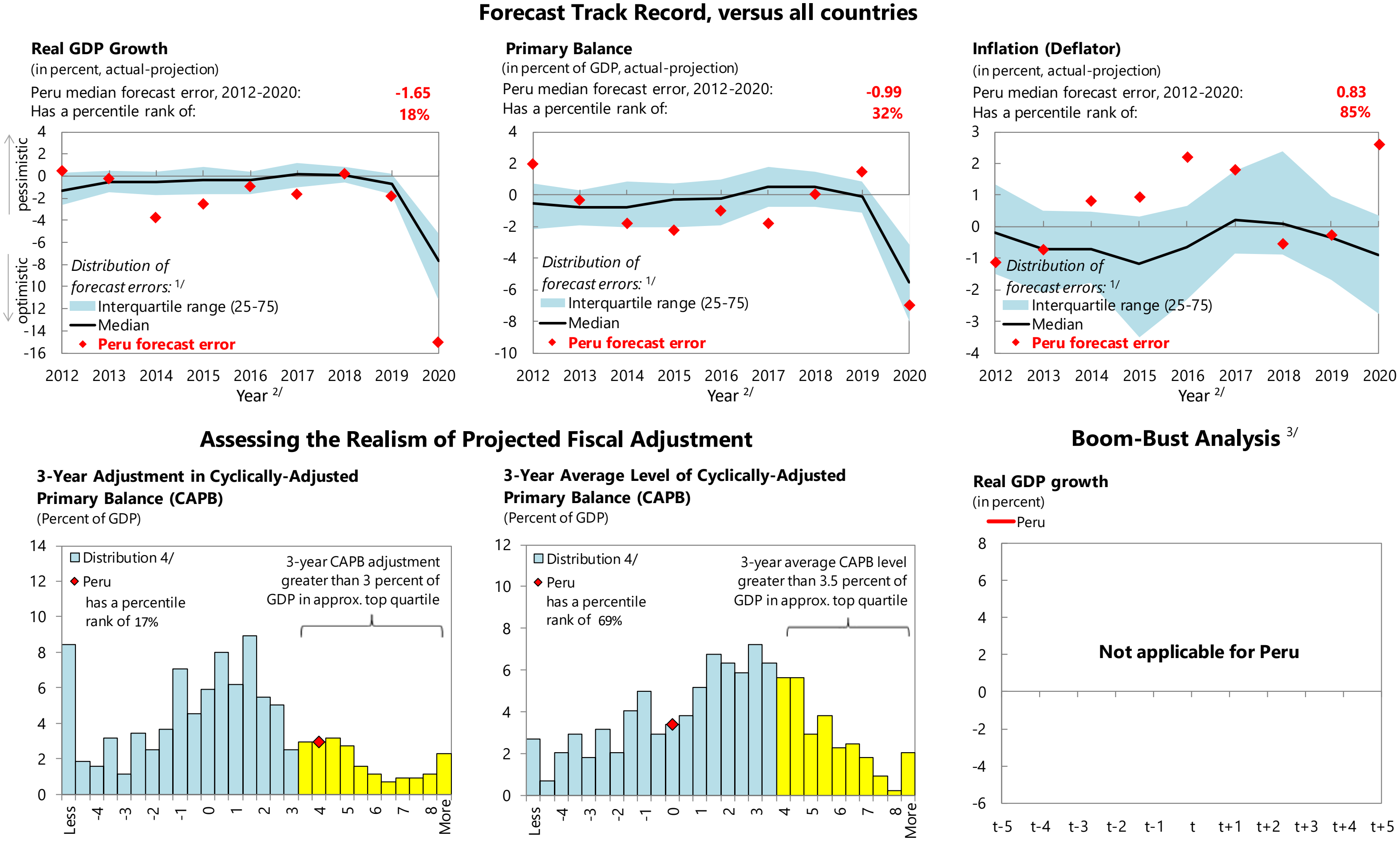
Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	5.5	3.6	2.5	2.1	2.0	2.0
Primary Balance	-1.1	-1.2	-0.7	-0.2	0.3	0.2
Effective interest rate	4.6	3.9	3.9	4.0	4.2	4.0
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	5.5	3.6	2.5	2.1	2.0	2.0
Primary Balance	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	4.6	3.9	3.9	4.0	4.2	4.1

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	3.3	3.3	3.3	3.3	3.3
Inflation	5.5	3.6	2.5	2.1	2.0	2.0
Primary Balance	-1.1	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	4.6	3.9	4.0	4.2	4.5	4.6
Contingent Liability Shock						
Real GDP growth	3.0	-3.0	-3.0	3.0	3.0	3.0
Inflation	5.5	2.1	1.0	2.1	2.0	2.0
Primary Balance	-1.1	-1.2	-0.7	-0.2	0.3	0.2
Effective interest rate	4.6	4.4	3.9	4.0	4.2	4.0

Source: IMF staff calculations.

Figure 3. Peru: Public Debt Sustainability Analysis – Realism of Baseline Assumptions



Source : IMF Staff calculations.

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

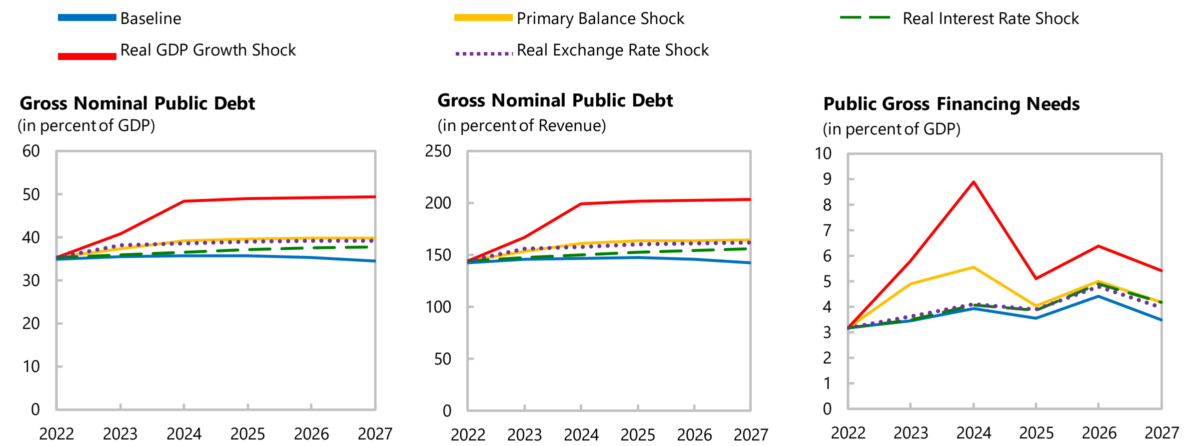
2/ Projections made in the spring WEO vintage of the preceding year.

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

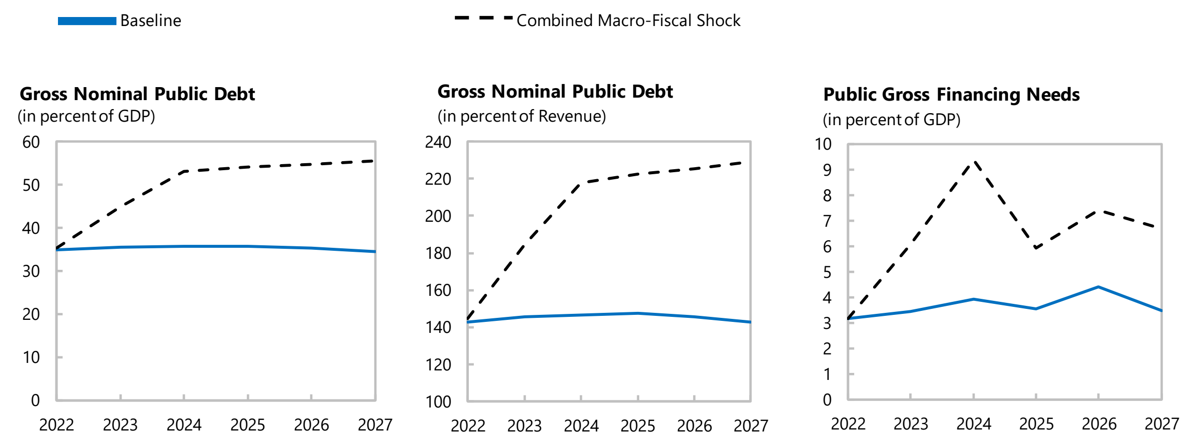
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Peru: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	5.5	3.6	2.5	2.1	2.0	2.0
Primary balance	-1.1	-2.6	-2.2	-0.2	0.3	0.2
Effective interest rate	4.6	3.9	4.0	4.1	4.3	4.2
Real Interest Rate Shock						
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	5.5	3.6	2.5	2.1	2.0	2.0
Primary balance	-1.1	-1.2	-0.7	-0.2	0.3	0.2
Effective interest rate	4.6	3.9	4.2	4.6	5.0	5.2
Combined Shock						
Real GDP growth	3.0	-3.0	-3.0	3.0	3.0	3.0
Inflation	5.5	2.1	1.0	2.1	2.0	2.0
Primary balance	-1.1	-3.4	-4.9	-0.2	0.3	0.2
Effective interest rate	4.6	4.2	4.2	4.8	5.2	5.4

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	3.0	-3.0	-3.0	3.0	3.0	3.0
Inflation	5.5	2.1	1.0	2.1	2.0	2.0
Primary balance	-1.1	-3.4	-4.9	-0.2	0.3	0.2
Effective interest rate	4.6	3.9	4.0	4.3	4.5	4.3
Real Exchange Rate Shock						
Real GDP growth	3.0	3.0	3.0	3.0	3.0	3.0
Inflation	5.5	8.4	2.5	2.1	2.0	2.0
Primary balance	-1.1	-1.2	-0.7	-0.2	0.3	0.2
Effective interest rate	4.6	4.2	3.8	3.9	4.0	3.9

Source: IMF staff calculations.

Figure 5. Peru: Public Debt Sustainability Analysis – Risk Assessment

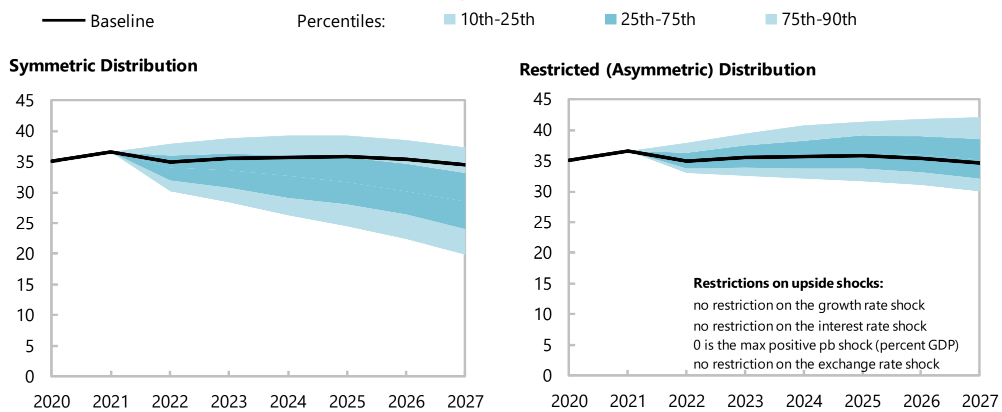
Peru Public DSA Risk Assessment

Heat Map

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

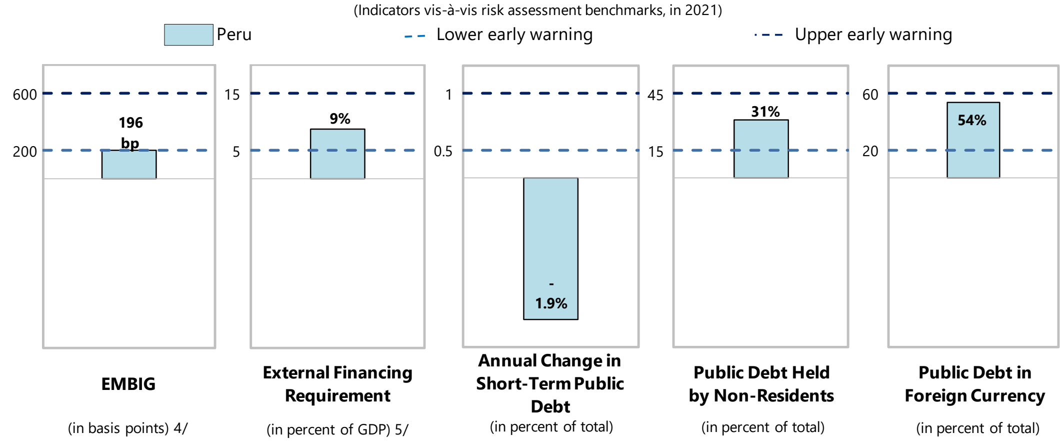
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff calculations.

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

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

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

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

4/ EMBIG, an average over the last 3 months, 29-Jan-22 through 29-Apr-22.

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

Twenty-Four Month Flexible Credit Line Arrangement

Attached hereto is a written communication dated May 5, 2022, from the Governor of the Central Reserve Bank of Peru and the Minister of Economy and Finance requesting a Flexible Credit Line arrangement in accordance with paragraph 6(a)(iv)(I) of Decision No. 14283-(09/29), adopted March 24, 2009, as amended, on the Flexible Credit Line Arrangements.

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

1. For a period of twenty-four months from the date of approval of this arrangement, Peru will have the right to make purchases from the Fund in an amount equivalent to SDR 4.0035 billion, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. (a) Peru will not make purchases under this arrangement after May 26, 2023, until an Executive Board review of Peru's continued qualification for this Flexible Credit Line arrangement has been completed.

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

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

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

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

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

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

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

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

Appendix I. Written Communication

Lima, Peru
May 5, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

More than two years after the outbreak of the COVID-19 pandemic, the world still faces enormous challenges and elevated risks. Volatility of the world economy has increased notably in the last few years, with one of the sharpest contractions ever recorded in 2020, followed by one of the more pronounced recoveries in 2021, and now renewed headwinds leading to a significant deceleration in global activity in 2022. The world economy confronts new major shocks with the war in Ukraine increasing significantly international food and fuel prices, new variants to the COVID-19 virus emerging in other parts of the world, which could deepen the scarring effects of the pandemic as well as potentially disorderly financial conditions following the normalization of monetary policy in the U.S. As a result, key external downside risks remain elevated, and their materialization would have a negative impact on our balance of payments

Against this background, and our commitment to maintaining very strong macroeconomic policies and fundamentals, we would like to request a successor arrangement under the Flexible Credit line (FCL) in the amount of SDR 4.0035 billion (300 percent of quota) for a period of 24 months—lower than the current arrangement as part of our exit strategy, and to cancel the current FCL arrangement in the amount of SDR 8.007 billion (600 percent of quota). We are confident that Peru is well prepared to weather the current adverse external environment and intend to treat the arrangement as precautionary. While external risks are still elevated, Peru has managed to respond adequately to the recent shocks and has built up additional reserves during the last two years, such that access can be reduced. Our expectation is that the arrangement will strengthen our financial buffers and bolster confidence that Peru could withstand a wide range of extreme adverse external shocks.

Peru's strong policy frameworks and buffers helped maintain external, financial, and fiscal stability for decades despite several large shocks, including across multiple electoral cycles and governments. The inflation targeting regime has helped anchor inflation and inflationary expectations, with Peru recording one of the lowest inflation rates in Latin America over the last two decades. While inflation and inflationary expectations have recently risen in line with global trends, the BCRP has embarked on a tightening cycle to contain emerging pressures. Central bank credibility remains high. A credible fiscal framework has allowed Peru to respond strongly to contain the adverse effects of the pandemic while attaining one of the lowest public debt levels in the region. Despite major shocks, Peru successfully placed sovereign bonds on

international markets at favorable terms in the amount of US$18.2 billion in 2020-21, including US$1 billion in century bonds. Peru has one of the lowest sovereign bond spreads in Latin America and our bonds are rated as investment grade by the three major credit rating agencies. Although financial volatility increased in the context of a very close presidential election in mid-2021, it has been greatly contained.

While external risks remain elevated, economic fundamentals continue to be strong, and we are taking measures to strengthen confidence. Peru recovered strongly from the pandemic-induced slump in economic activity, recording the highest economic growth rate in the region in 2021. Our external position is broadly consistent with the level implied by fundamentals and desirable policies, and international reserves are high by standard metrics. Despite the large adverse shocks in 2020-21, we increased our international reserves. The fiscal accounts strengthened considerably in 2021. We are implementing a gradual fiscal consolidation effort that would achieve our fiscal targets in the medium term, with a limited impact on growth. This includes efforts and measures to strengthen tax revenues and increase spending efficiency. Public debt remains sustainable even under adverse shocks.

Overall, we believe that Peru's macroeconomic track record, very strong policies, and institutional framework provide ample assurances of our country's preparedness to withstand the current circumstances and other possible adverse shocks that could materialize in the period covered by the successor FCL arrangement. We remain committed to very strong policies and to respond appropriately to any shocks that may arise. In this regard, we reiterate our expectation to treat this arrangement as precautionary. We also want to inform you that the Ministry of Finance and the BCRP will provide all needed information to the IMF staff and send the requested authorizations to the BCRP's external auditors in accordance with the safeguards policy for the FCL.

Sincerely yours,

/s/	/s/
Oscar Graham Minister of Economy and Finance	Julio Velarde Governor Central Reserve Bank of Peru