

BUFF/07/177

December 20, 2007

**The Acting Chair's Summing Up  
Peru—Second Review Under the Stand-By Arrangement  
Executive Board Meeting 07/111  
December 19, 2007**

Executive Directors commended the Peruvian authorities' commitment to implementing prudent macroeconomic policies. Together with a favorable external environment, such policies have contributed to strong and broad-based economic growth, a solid external position, low inflation, and declining vulnerabilities. Directors called on the authorities to capitalize on the favorable economic environment by pressing ahead vigorously with structural reforms to consolidate macroeconomic stability, further bolster the economy's resilience to shocks, and sustain high growth and poverty reduction.

Directors commended the authorities for maintaining fiscal discipline through 2007, and encouraged them to keep a strong fiscal stance in 2008. This will be important to contain rising inflationary pressures while addressing Peru's large social and infrastructure needs. In this regard, Directors stressed the need to improve execution of the development budget, particularly by continuing to build capacity at subnational governments, and to safeguard fiscal transparency.

Directors commended the authorities' efforts to address remaining structural fiscal weaknesses. They welcomed the planned comprehensive legal framework for public-private partnerships and the establishment of a single treasury account to improve fiscal management and transparency. They supported legislative reform to ensure consistency in setting expenditure limits under the Fiscal Responsibility and Transparency Law and the Decentralization Law. Directors also encouraged the authorities to implement quickly the new regime for tax incentives, which is critical to broadening the tax base.

Directors welcomed the strengthening of the capacity of the Interministerial Committee for Social Assistance and the efforts to address regional income disparities. They encouraged the authorities to continue to build consensus toward reform of the large social programs.

Directors commended the prudent conduct of monetary policy under the inflation targeting framework, and the authorities' commitment to tighten the monetary stance as needed to keep inflation contained. Most Directors welcomed the increased exchange rate flexibility, and encouraged the authorities to continue with such flexibility given the comfortable level of reserves and the increased resilience of the banking system to exchange

rate movements. They believed that such flexibility would help to better internalize currency risks in the economy, reduce dollarization, and strengthen the inflation targeting framework. Directors also welcomed the recent progress toward de-linking the appointment of board members from the political cycle, which is critical to bolstering central bank independence.

Directors welcomed the authorities' intention to strengthen the financial sector, including through introducing capital requirements for foreign-currency-based credit risks and raising the minimum capital requirements for microfinance institutions. They considered it important also to align the regulatory and supervisory frameworks of public and private banks in order to maintain a level playing field in the financial sector. Directors welcomed the envisaged capital market reforms, which will help mitigate systemic risks and contain currency appreciation pressures.

Directors welcomed the recent full ratification of the Free Trade Agreement with the United States. They underscored the importance of enhancing domestic competitiveness to take advantage of trade liberalization, in particular by tackling high labor market informality and by continuing to simplify and improve the business environment.