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Statement by an IMF Staff Mission in Peru

An International Monetary Fund (IMF) staff mission, led by Mr. Martin Cerisola, visited Lima over the past two weeks to conduct the 2008 Article IV consultation and the fourth review and inflation consultation under Peru's Stand-By Arrangement (SBA). The SDR 172.37 million SBA, which the authorities treat as precautionary, was approved by the Executive Board of the IMF on January 26, 2007 (see [Press Release No. 07/15](#)).

At the conclusion of the visit, the mission issued the following statement today:

“The IMF mission held extensive discussions with government and central bank officials, as well as a broad spectrum of representatives from the business community, the financial sector, academia, and civil society. These discussions focused on Peru's strong economic performance in recent years, the main challenges lying ahead, and the policies needed to sustain economic success in light of the uncertain and deteriorating global economic environment. The mission was impressed by the strong consensus in society on the need for Peru to sustain prudent macroeconomic policies and pursue further reforms to enhance medium-term growth prospects and entrench long-lasting improvements in the standard of living for all members of society.

“Prudent policies have been essential to mitigate the impact of the global financial crisis on Peru. For the third consecutive year, the nonfinancial public sector is projected to register a surplus and the Central Reserve Bank has taken measures, consistent with its inflation targeting framework, to ensure ample liquidity in the financial system, while limiting pressures on the currency and risks from dollarization. Large official reserves and strong financial soundness indicators, along with banks' limited reliance on external funding also helped buffer Peru from the sharp financial turbulence seen in other countries.

“The IMF mission is of the view that Peru's outlook for 2009 remains favorable while subject to an unusual degree of uncertainty associated with the depth and duration of the global slowdown. The economy's underlying strength and diversified growth base provide an important buffer to the risks of further deterioration in the global economy. The Peruvian economy is expected to be among the fastest growing economies in the world in 2009, with

real GDP growth projected at 6 percent. With global price disinflation already underway, inflation should decelerate below 3 percent by end-2009.

“Discussions also highlighted the need for macroeconomic policies to remain prudent and focused on achieving a soft-landing. This will require a delicate balancing act between the risks associated with the global slowdown and the economy’s underlying momentum. The authorities’ Plan for Sustaining Economic Growth, Employment, and Poverty Alleviation in a Global Crisis is an important step to bolster domestic business confidence. At this juncture, several of the measures announced by the authorities seem sufficient to buffer the economy from the risks associated with the global slowdown.

“The authorities’ focus on strengthening the financial system and sustaining an orderly financial deepening is timely. Prudential regulations on consumer loans have been tightened, and new procyclical provisioning rules are being introduced, while enhanced capitalization requirements will be implemented in line with Basel II. Going forward, continued monitoring of nonperforming loans, particularly those to consumers and microenterprises, is important in light of the expected economic slowdown and tighter bank lending standards. Priority should be given to enacting the increase in minimum capital requirements for microfinance institutions. The mission welcomes ongoing work to strengthen the framework for crisis preparedness, including plans to ensure adequate liquidity in the financial sector.

“It will be important to further institutionalize the prudent fiscal policy of recent years, including by adopting a medium-term expenditure and budget framework, accompanied by a structural fiscal rule. There is also scope to further solidify the inflation targeting framework, by delinking board member appointments from the presidential cycle, and to gradually allow for greater exchange rate flexibility to enhance the economy’s ability to buffer shocks.

“Much has been accomplished in enhancing the business environment and reducing poverty in recent years. Going forward, advancing administrative simplification and reducing the cost of doing business remain important priorities. The IMF mission welcomes the commitment to further assess and enhance the effectiveness of important social programs.”

The IMF staff [mission’s concluding statement](#) has been posted on the IMF’s [website](#).