

**FOR
AGENDA**

EBS/09/10
Supplement 1

January 14, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Peru—Staff Report for the 2008 Article IV Consultation, Fourth Review and Inflation Consultation Under the Stand-By Arrangement and Request for Waiver of Applicability of Performance Criteria—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with Peru, the third review and inflation consultation under the Stand-By Arrangement, and Peru's request for a waiver of applicability of performance criteria (EBS/09/10, 1/14/09), which is tentatively scheduled for discussion on **Friday, January 30, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Peru indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Cerisola (ext. 38314) and Ms. Gonzalez (ext. 35968) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 26, 2009; and to the European Commission, the European Investment Bank, and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

PERU

**Staff Report for the 2008 Article IV Consultation,
Fourth Review and Inflation Consultation Under the Stand-By Arrangement and
Request for Waiver of Applicability of Performance Criteria—Informational Annex**

Prepared by the Western Hemisphere Department

January 14, 2009

Annexes

I. Fund Relations	2
II. World Bank Relations	4
III. Relations with the Inter-American Development Bank	6
IV. Statistical Issues	8

Table

Common Indicators Required for Surveillance	10
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ANNEX I. PERU: FUND RELATIONS

(As of November 30, 2008)

I.	Membership Status: Joined 12/31/1945; accepted Article VIII obligations on February 15, 1961.		
II.	General Resources Account	SDR Million	Percent Quota
	Quota	638.40	100.00
	Fund holdings of currency	638.43	100.01
III.	SDR Department	SDR Million	Percent Allocation
	Net cumulative allocation	91.32	100.00
	Holdings	5.82	6.37
IV.	Outstanding Purchases and Loans	None	
V.	Financial Arrangements		

	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Type of Arrangement				
Stand-By	1/26/07	2/28/09	172.37	0.00
Stand-By	6/09/04	8/16/06	287.28	0.00
Stand-By	2/01/02	2/29/04	255.00	0.00

VI. Projected Obligations to the Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	2008	2009	2010	2011	2012
Principal					
Charges/interest		0.92	0.90	0.90	0.90
Total		0.92	0.90	0.90	0.90

VII. Safeguards Assessments

An off-site safeguards assessment of the central bank in 2007 found that safeguards at the *Banco Central de Reserva del Perú* (BCRP) meet the requirements of the safeguards policy.

VIII. Exchange Arrangements

Peru maintains a unified, managed floating exchange rate. On November 5, 2008, the average of interbank buying and selling rates was 3.07 *Nuevos Soles* per U.S. dollar. The exchange system is free of restrictions, except for those maintained solely for the preservation of national or international security, and which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51). Those restrictions are maintain pursuant to UN Security Council Resolutions 1267 (October 15, 1999) and 1373 (September 28, 2001). The central government maintains external payments arrears to unguaranteed suppliers, some of whom are in discussions

with the government, while the rest have not been located. Peru has maintained a clearing arrangement with Malaysia since 1991.

IX. Last Article IV Consultation

The 2006 Article IV consultation was concluded on January 26, 2007 (EBS/07/1).

X. FSAP and ROSCs

Several joint Fund-Bank missions visited Lima in the period September 2000–January 2001 to conduct an FSAP for Peru. The corresponding FSSA report (SM/01/75 dated February 28, 2001) was discussed by the Executive Board on March 12, 2001. A follow-up FSAP mission was concluded in February 2005. In October 2002, an FAD mission conducted a Fiscal ROSC for Peru, while an STA mission conducted a Data ROSC for Peru in February 2003.

XI. Technical Assistance

Department	Date	Purpose
FAD	June 2005, March 2006, November 2006, May 2007–present	Public Financial Management
	May 2005, February, September, and November 2006, February, June and August 2007, April, June and October 2008	Tax policy and administration, customs administration.
	September 2002, September 2003 and August 2004	Public investment and fiscal policy, including issues related to PPPs.
	November 1999	Fiscal rules
MFD/MCM	September 2008	Supervision of Capital Markets.
	March 2008	Implementation of Basel II
	April, July and October 2007	Strengthening the Capital Markets
	April 2006	Financial sector supervision
	April 2005	Consumer protection in the banking system
	March, 2005	Central bank organization
	April, May, December 2002, February 2003, March and September 2004	Inflation targeting
	October 2002	Foreign exchange operations
	August 2002	Accounting and organizational issues
	March 2002	Monetary operations and government securities market
STA	January 1998, October 1999, and March, September and November 2008	National account statistics, new base year for the national account series; and Government Finance Statistics 2001.

XII. Resident Representative

Mr. Luis Breuer has been Resident Representative in Peru since January 2008.

ANNEX II. PERU: WORLD BANK RELATIONS

Bank Group strategy

The World Bank Group support to Peru is defined in the Country Partnership Strategy (CPS) approved by the Board on December 19, 2006. The strategy supports the government's developmental goals with emphasis on inclusive growth and poverty reduction. The agenda includes programs addressing fiscal, national competitiveness, infrastructure and social-sector needs. The country strategy underscores partnerships, flexibility and results orientation in public expenditure. The CPS projects financial assistance of up to US\$3.5 billion between July 2007 and June 2011 and envisages a flexible lending program that will include a combination of two fast disbursing loans and three investment projects per fiscal year. The strategy includes development policy lending operations in the fiscal, social, and environmental sectors. The Bank is currently preparing a Progress Report for the CPS. While this Progress Report takes into account the current financial crisis and adapts the Program accordingly, the overall medium term vision continues to be relevant for Peru.

FY09 pipeline comprises five operations for a total of \$1,405 million. It includes three DPLs-DDOs in the fiscal, environmental, and social sectors for \$1,370 million and two investment lending operations for \$35 million. The program for FY10–FY11 is being discussed with the government in the context of the Country Strategy Progress Report, the global financial crisis, and Peru's new financing needs.

In addition, the Bank has an extensive program of analytical and advisory activities for FY09, including both economic and sector work and nonreimbursable technical assistance. The economic and sector work covers areas such as public expenditure, labor markets, infrastructure, gas development strategy, decentralization, social sectors, and housing and municipal financing. Several multi-year nonlending technical assistance are currently in progress, covering areas such as decentralization, governance and governability enhancement, poverty monitoring, and performance informed budgeting. Additional nonlending technical assistance in education and nutrition are planned for delivery in FY10.

Bank-Fund collaboration in specific areas

- *Tax Reform and Fiscal Decentralization.* Fund staff has taken the lead in assisting in the design of tax reform. Jointly with the World Bank and IDB, staff has worked on drafting laws and regulations for fiscal decentralization. The World Bank has also focused on the design and implementation of decentralization of the social sectors and pro-poor spending policies.
- *Financial Sector.* A joint FSAP was completed in May 2001. Follow up technical assistance to implement FSAP recommendations has been given by both institutions. A joint FSAP update was completed in June 2005.

- *Public Sector Management.* Bank-Fund collaboration has focused in the area of results based budgeting, the implementation of a Treasury Single Account and modernization of budget processes, institutions and information systems.
- *Customs Administration Modernization:* A needs assessment mission was undertaken together with the IMF to develop an action plan for modernizing customs administration. The joint team presented a technical report to SUNAT.
- *Reform of the National Public Investment System (SNIP).* The Bank has been working in close collaboration with the authorities in reducing the institutional bottlenecks of the public investment system. A joint WB-IADB mission took place in March 2007 to revise current government procurement regulations. The Bank is also providing technical assistance in the design of the framework law for Public-Private Partnerships as well as in the implementation of FONIPREL.

Statement of World Bank Loans
(As of December 18, 2008)

In millions of U.S. Dollars					
Loan Number	Year Approved	Borrower	Purpose	Total (Net of Cancellation)	Undisbursed
Sixty six loans have been fully repaid.					
Partially disbursed or undisbursed loans:					
73080/40760	1997	Republic of Peru	Irrigation Subsector Project	95.26	1.07
71420	2003	Republic of Peru	National Rural Water Supply and Sanitation Project	50.00	27.17
71600	2003	Republic of Peru	Additional Financing Lima Water Rehabilitation and Management Project	20.00	0.95
71770	2003	Republic of Peru	Trade Facilitation and Productivity Improvement	20.00	2.18
72090	2004	Republic of Peru	Technical Assistance	45.00	20.37
72190	2004	Republic of Peru	Lima Transport Project	12.00	2.26
72540	2005	Republic of Peru	Justice Services Improvement	6.90	2.23
72550	2005	Republic of Peru	Accountability for Decentralization in the Social Sectors	8.80	6.31
72570	2005	Republic of Peru	Institutional Capacity for Sustainable Fiscal Decentralization	4.98	3.24
72850	2005	Republic of Peru	Vilcanota Valley Rehabilitation and Management Project	25.00	10.20
B1220	2005	Republic of Peru	Agricultural Research and Extension - APL II	200.00	200.00
73220	2006	Republic of Peru	PE (CRL) Guarantee Facility	50.00	46.23
73660	2006	Republic of Peru	Regional Transport Infrastructure Decentralization	50.00	34.99
73680	2006	Republic of Peru	Rural Electrification	25.00	19.80
74230	2006	Republic of Peru	Real Property Rights II Project	50.00	45.92
74430	2007	Republic of Peru	Decentralized Rural Transport Project	20.00	20.00
75880	2007	Republic of Peru	Sierra Rural Development Project	370.00	370.00
			Second Programmatic Fiscal Mgmt and Competitiveness Development Policy Loan		
Total disbursed:				5637.4	
Of which: amount repaid				2918.8	
Total Outstanding:				2651.8	
Total Undisbursed					812.9

Statement of IFC Operations in Peru
(As of November, 2008)

	Total	
	Commitments held	Disbursed
Loans	620.1	249.1
Equity	130.9	118.4
Quasi	54.0	54
Particip Loans	230.0	230
Total	1035.0	651.5

ANNEX III. PERU: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Country Strategy

The Country Strategy for 2007–2011 continues the thrust of Bank assistance in areas relating to competitiveness, social development, and modernization of the State, and reflects wide-ranging discussions of policies with the Government and with Peruvian society to identify the constraints the country faces in achieving its development objectives.

The IDB supports Peru's development agenda by deepening the country's sustainable economic growth and generating greater opportunities for the majority of Peruvians, through efforts grouped into the following three strategic pillars: (i) strengthening Peru's participation in the global economy and enhancing competitiveness; (ii) promoting social development and economic inclusion; and (iii) deepening the reform of the State and improving public sector management.

Lending

As of November 30, 2008, the Bank's portfolio of active, public sector operations consisted of 25 loans for a total amount of US\$833.8 million, of which US\$197.7 million (23.7%) had been disbursed. The public sector lending program for 2008 comprises a policy based loan for US\$130.0 million, an investment loan for US\$25.0 million already approved and an investment loan for US\$ 15.00 million pending approval.

IDB's Structured Corporate Finance Department's portfolio in execution consists of eight A-loans for a total amount of US\$799.6 million, and five credit guarantee operations for US\$165 million. These operations are focused primarily in the financial and natural gas sectors. Private sector lending for 2008 includes two projects for US\$75.0 million, which have been already approved.

To assist Government efforts to de-dollarize the public sector debt, the Bank successfully converted US\$131.0 million of previously disbursed loans into local currency.

Considering recent financial market developments, the Government has requested to modify 18 loan contracts, converting their interest rates from variable LIBOR-based to fixed rates. This change would capture currently available low long term rate, and a unique opportunity to reduce volatility and debt service payments. This process is in its final step.

Peru: IDB Loan Portfolio by Sector
 As of November 30, 2008
 US\$ million

Sector	Commitments	Disbursements	Disbursed (in percent of total)
Agriculture	53.4	18.8	35.2
Environmental	0	0	0
Science and Technology	25.0	3.0	11.9
Urban Development	60.0	39.3	65.5
Social Investment	103.3	90.7	87.8
Modernization of the State	47.6	17.2	36.2
Water and Sanitation	235.6	0.1	0.0
Transportation	308.9	28.7	9.3
Total	833.8	197.7	23.7

ANNEX IV. PERU: STATISTICAL ISSUES

Data provision has some shortcomings, but is broadly adequate for policy formulation, surveillance, and program monitoring. Certain shortcomings occur in the datasets for national accounts, prices and the external sector. Peru subscribed to the Special Data Dissemination Standard (SDDS) in August 1996, and a data ROSC was prepared and published in 2003.

Real Sector and Prices

National Accounts: The accuracy and reliability of estimates are limited by the use of an outdated base year for national accounts compilation and lags with the implementation of methodological recommendations stemming from the *System of National Accounts 1993*. The National Statistics Office (INEI), in consultation with international experts and STA, have developed an action plan to update the base year to 2007 and address various other shortcomings with data sources and statistical techniques to produce annual and quarterly national accounts; the timeframe for implementation is 2008–11.

Prices Statistics: The national consumer price index (CPI) is affected by different consumer basket coverage among its regional components. However, a number of new initiatives are underway to address such methodological weakness. A new national Household Expenditure Survey is scheduled for completion by April 2009, and will permit updating the base year for the compilation of the CPI as well as more robust estimates of household final consumption for national accounts' purposes.

The wholesale price index (WPI) also has problems of limited coverage which should be expanded to include mining, oil and gas extraction, electricity and water, public transportation, and communication.

As with the CPI, the WPI is currently compiled with outdated weights derived from the 1994 input-output table and other reports and publications of relevant line ministries.

Labor market statistics: The authorities monitor labor market developments using four indicators: open unemployment, underemployment, employment, and remuneration. The quality of these indicators has improved over recent years. Nevertheless, wage data come with a relatively long delay; the nationwide unemployment and underemployment situation is surveyed only once a year; and labor productivity data are published only at the time of adjustments of electricity and telecommunications tariffs.

Fiscal Sector

Government finance statistics (GFS) for general government are compiled using the analytical framework of the *GFS Manual 1986*. For the consolidated central government, revenues are compiled on a cash basis, while expenditures are compiled on an accrual basis. The authorities have sent to the Fund information on the components of consolidated central government expenditures by function. The coverage of published national budget data is narrower than the fiscal statistics prepared for program purposes. The authorities have recently prepared a plan to

migrate to the *GFS Manual 2001*. In 2008, the authorities have aligned budgetary classifications to the *GFSM 2001* framework. Also, some activities have been started to align the Chart of Account to the international standards. The authorities report annual GFS data using the *GFSM 2001* presentational framework for publication in the *Government Finance Statistics Yearbook (GFSY)* and monthly data for the *International Financial Statistics (IFS)*.

Monetary Sector

The central bank (BCRP) compiles and publishes the analytical accounts of the central bank, depository corporations, and financial corporations broadly in line with the methodology recommended by the *Monetary and Financial Statistics Manual*. The main discrepancies being the exclusion of the deposits of other financial corporations, state and local governments, and public nonfinancial corporations from the definition of broad money. At the request of the authorities, a mission visited the country in January 2007 to assist with the migration to the new standardized report forms (SRFs) for reporting monetary data to the IMF. The mission finalized the SRF for the central bank, recommending improvements in the classification and sectorization of some accounts. A follow-up mission took place in September 2008 to complete the work on the SRF for other depository corporations and other financial corporations. The BCRP is currently in the process of revising historical data on the basis of the report forms developed by the mission.

External Sector

Despite recent improvements, external statistics continue to be affected by shortcomings. These include: the lack of coverage of assets held abroad and land acquisition abroad by residents; lack of separate identification of liabilities to affiliated enterprises; and not recording on an accrual basis some external debt transactions.

The BCRP has been reporting since August 2001 weekly data on international reserves in accordance with the *Operational Guidelines for Data Template on International Reserves and Foreign Currency Liquidity*. Since August 2006, the BCRP is including the full amount of the liquidity requirements in the reserve template both under official reserve assets and as a contingent net drain (as specified in Section III of the Data Template).

Peru: Table of Common Indicators Required for Surveillance
(As of December 17, 2008)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality Accuracy and reliability ⁹
Exchange Rates	Nov. 2008	12/12/08	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Nov. 2008	12/16/08	D	M	W		
Reserve/Base Money	Sep. 2008	12/8/08	W	M	W	O, LO, LO, LO	O, O, O, O, O
Broad Money	Sep. 2008	12/8/08	W	M	W		
Central Bank Balance Sheet	Sep. 2008	12/8/08	W	M	W		
Consolidated Balance Sheet of the Banking System	Sep. 2008	12/8/08	W	M	W		
Interest Rates ²	Oct. 2008	12/8/08	D	M	D		
Consumer Price Index	Nov. 2008	12/16/08	M	M	M	O, LO, LO, LO	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2004	9/21/2005	Q	Q	Q	O, LO, O, O	O, O, O, LO, O
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Feb. 2008	4/16/08	M	M	M		
Stocks of Central Government Debt ⁵							
International investment Position ⁶	Q2 2008	9/18/08	Q	Q	Q		
External Current Account Balance	Q2 2008	9/18/08	Q	Q	Q	O, LO, LO, LO	LO, LO, O, O, O
Exports and Imports of Goods and Services	Q2 2008	9/18/08	Q	Q	Q		
GDP/GNP	Q2 2008	10/21/08	Q	Q	Q	LO, LO, LO, LO	LNO, LNO, LNO, LO, LO
Gross External Debt	June 2006	Sep. 2006	Q	Q	Q		

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.