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IMF Executive Board Completes Fourth and Final Review Under Peru's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and final review of Peru's economic performance under a 25-month Stand-By Arrangement in the amount equivalent to SDR 172.4 million (about US$257.2 million). The arrangement, which was approved on January 26, 2007 (see Press Release No. 07/15), is being treated by the Peruvian authorities as precautionary.

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"Peru has been enjoying its longest expansion on record, one of the lowest inflation rates in the region, declining vulnerabilities, and poverty reduction. These achievements owe much to the authorities' strong commitment to prudent macroeconomic policies and steady implementation of reforms.

"Despite the adverse impact of the global economic downturn and financial crisis, a soft landing for Peru's economy seems likely, owing to its strong fundamentals and the authorities' sound policy framework. Nevertheless, with downside risks increasing, the authorities' "anti-crisis" preparedness plan is timely and appropriate, as is their commitment to make further advances in tackling structural challenges. Were the downside external risks to intensify, carefully paced countercyclical policies could be contemplated, in line with the authorities' anti-crisis plan.

"The authorities have targeted a broadly neutral fiscal stance, geared to allowing the automatic stabilizers to operate fully and phasing public investment execution evenly. It will be important to enhance the fiscal framework and strengthen the tax base, including by establishing a fiscal rule to formalize the prudent fiscal policy of recent years.

"Monetary policy will remain focused on achieving a gradual convergence to the inflation target range, while ensuring adequate liquidity in the financial system. Peru's exchange rate policy has appropriately balanced exchange rate flexibility and dollarization risks. Going forward, Peru's improved fundamentals provide scope for allowing greater flexibility, which should await more stable external conditions.

"Significant progress has been made in further strengthening the financial system and enhancing the framework for crisis preparedness. The authorities have taken important steps to establish new procyclical provisioning rules and tighten prudential regulations on consumer loans. There is scope to further enhance the framework for liquidity provision to the financial system, including by gradually recapitalizing the Deposit Insurance Fund.
To strengthen poverty reduction, the authorities are assessing their existing programs, improving targeting, and linking expenditure to efficiency. A review of reforms to tackle decisively the existing regional disparities would reinforce these efforts.

"Directors congratulated the authorities on Peru's highly successful Stand-By Arrangement with the Fund," Mr. Portugal said.