



# *Office Memorandum*

To: Members of the Executive Board

August 1, 2014

From: The Secretary

Subject: **Mr. Zhu's Report to the Executive Board On His Visit to Peru, July 20–25, 2014**

Attached for the **information** of Executive Directors is Mr. Zhu's report to the Executive Board on his visit to Peru, July 20–25, 2014.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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Department Heads



**Deputy Managing Director Min Zhu's Report to the Executive Board**  
**On His Visit to Peru**  
**July 20–25, 2014**

I visited Peru last week, to have policy discussions with the authorities, to discuss progress with preparations for the 2015 Annual Meetings in Lima, and to participate in the 5<sup>th</sup> Annual Cuzco Conference hosted by the Central Reserve Bank of Peru and the Reinventing Bretton Woods Committee. I took the opportunity to conduct several outreach events.

*Meetings with the Authorities*

I was pleased to meet incoming Prime Minister Jara (on her second day in office); Finance Minister Castilla, Housing Minister von Hesse, and Production Minister Ghezzi; and Central Bank Governor Velarde.

I congratulated the authorities on Peru's strong economic performance and robust macro-policy framework. Their main policy preoccupation is the sudden slowdown in the economy. The central bank projection for 2014 growth has just been revised down from 5.5 percent to 4.4 percent. Staff projections (which will not be public until the September WEO) are still lower, with growth of around 4 percent. The slowdown is partly related to mining, as global mineral demand has softened, some mines have encountered technical problems, and there has been a clampdown on illegal gold-mining. Public investment has also somewhat lagged, including in regions where governors are facing corruption probes. The authorities view the slowdown as temporary, but have used some of Peru's ample policy space to take stimulus measures. On the fiscal side, a June reform package includes measures to increase aggregate demand and to improve the business climate; the fiscal balance is now expected to be zero in 2014, compared with a surplus of 0.9 percent of GDP last year. On the monetary side, the central bank cut the reference interest rate by  $\frac{1}{4}$  point to 3.75 percent. In both cases, I consider these responses to be appropriate and timely.

*Preparations for the Annual Meetings*

Prime Minister Jara reconfirmed Peru's commitment to making the 2015 Annual Meetings a success. The authorities stressed that all preparations will be completed on time. They see the Meetings not only as an opportunity to showcase Peru's economic successes but also as motivation for a forward-looking domestic debate on what policies are needed in future to sustain growth.

I was impressed not only by the authorities' interest in and commitment to the Annual Meetings, but also by the professionalism of the Meetings planning team. My discussions with Section Heads on the status of preparations caused me to conclude that the timetable, though ambitious, is feasible. Progress is on track, or slightly ahead of schedule, in all areas. The most

challenging projects are the construction of a convention center and office block, where the tight schedule leaves no room for slippages. I also requested the team to pay additional attention to connectivity.

*Cuzco Conference: Seventy Years After Bretton Woods—Managing the Interconnectedness of the Global Economy*

My presentation for the opening session of the Cuzco Conference provided an overview of trends toward global integration. I discussed the intensification of real and financial spillovers, focusing on the implications of connectivity and clusters—and I emphasized that the Fund stands ready to support its membership in promoting policy coordination.

The conference served as a useful forum to take stock of developments in the international monetary system. While there were no formal conclusions, the general tenor of the discussions may be characterized as: emerging consensus that a more open global capital account will need some management and hence macroprudential measures need to be carefully considered; a belief that international financial convergence will continue—though perhaps slowly—in the face of post-crisis fragmentation; and acknowledgment that the global financial safety net is still too small.

*Outreach*

After the Cuzco conference I climbed still further into the Andes to visit the Sierra Productiva project. This project, which aims to improve the rural peasant economy by farm training in a combination of modern technology and ancient traditions, has been highly effective. Its staff of only 20 has helped more than 70,000 families escape poverty and has greatly enhanced the health, productivity, and education of rural communities.

Back at sea-level in Lima, I held a townhall with students from the Universidad Catolica (and other linked-in campuses), emphasizing their responsibilities as future leaders in an interconnected world. I announced the finalists in the Fund-sponsored Essay Contest, *How to Build a Better Future in Latin America*, which has attracted substantial attention across the whole region with more than one thousand entries. I was impressed by the vision of the essays, many of which pointed to issues of inequality, social mobility, and access to education. Finally, I was especially pleased by the openness of this young generation to collaborating with the Fund. I hope that my visit—and the Annual Meetings next year in Latin America after nearly 50 years' absence—heralds a new era of trust and cooperation between the region and the Fund.

I request Mr. Hendrick to convey my thanks to the Peruvian authorities and all the other Peruvians who offered hospitality to me and my team, for an exceptionally interesting and valuable visit.