

Statement by IMF Mission in Peru

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An International Monetary Fund (IMF) staff mission, led by Mr. Martin Cerisola, visited Lima over the past two weeks and held discussions on the third review under Peru's 25-month Stand-By Arrangement (SBA). The SBA for SDR 172.37 million (about US\$278 million), which the authorities are treating as precautionary, was approved by the IMF's Executive Board on January 26, 2007.

"Peru's strong economic expansion has resulted in the highest growth rate and fiscal surplus in more than a decade, rapidly declining external vulnerabilities, and important advances in employment and poverty alleviation, with inflation still among the lowest in the region. The outlook for the remainder of 2008 is favorable, despite the uncertain growth prospects and inflation pressures in the world economy. The fact that Peru achieved investment grade status in these circumstances is testimony to the country's prudent policies and reforms.

"The strong economic performance has also brought some policy dilemmas. On the back of rising food prices, inflation has accelerated to above the official target, and buoyant capital inflows have intensified currency appreciation pressures. Balancing risks to price stability against the need to sustain an orderly dedollarization process and external competitiveness, the policy response has been prudent, including the announcement of a higher fiscal target for 2008 and the tightening of monetary policy.

"During the discussions, there was consensus that monetary policy, within the inflation targeting regime, and fiscal policy may need to be adjusted further under given circumstances to support economic growth and poverty reduction. The mission is encouraged by the authorities' firm commitment to maintaining macroeconomic stability.

"Progress is being made in alleviating public infrastructure and social needs. The changes of the *National System of Public Investment* (SNIP), the establishment of the *Fund for Regional and Local Investment* (FONIPREL), and the expected enactment of a legal framework for public-private partnerships, bode well for alleviating public infrastructure needs. A prudent fiscal policy has also allowed an increase in resources available to the government's social programs under the revamped anti-poverty strategy *Crececer*.

"Looking forward, it will be important to continue enhancing the business environment—most notably by further simplifying procedures for tax payments and external trade. The current institutional framework supporting tax administration has been effective in maximizing information

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synergies and in strengthening tax compliance. These reforms, along with those being implemented to deepen domestic capital markets, such as the recent changes of investment norms for private pension funds, would help strengthen Peru's competitiveness.

"The IMF mission expects the third review of the SBA 2008 to be considered by the IMF Executive Board by early July."

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