



PERU

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Peru, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 26, 2025, with the officials of Peru on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2025.
- An **Informational Annex** prepared by the IMF staff.

The document listed below have been or will be separately released.

- Selected Issues

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IMF Executive Board Concludes 2025 Article IV Consultation with Peru

FOR IMMEDIATE RELEASE

- *After a strong recovery in 2024, growth is expected to moderate in 2025, amid global and election-related uncertainty, and thereafter to remain close to potential. Inflation is expected to remain close to the midpoint of the target band. The financial system is sound. Risks are tilted to the downside given elevated external uncertainty, but Peru has ample buffers to cope with shocks.*
- *Meeting the 2025 fiscal deficit target would require additional efforts in a pre-election year. In the medium term, further fiscal consolidation measures should be identified to comply with the fiscal rule deficit targets and debt ceiling. Introducing both spending and revenue measures would make the consolidation more balanced and credible.*
- *Structural reforms are urgently required to lift potential growth, including updating the fiscal decentralization framework to help boost investments in the critical mineral sector. Enhanced efforts are needed to curb the low but rising level of insecurity, reform labor and tax regulations that impose excessive costs for formalizing or growing a business, enhance the independence and integrity of judicial bodies and tools to combat corruption impunity, build resilience to natural disasters, and embrace the opportunities of digital technologies and artificial intelligence.*

Washington, DC – June 10, 2025: On June 5, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the 2025 Article IV consultation¹ with Peru and endorsed the staff appraisal without a meeting on a lapse-of-time basis.²

The economy has recovered from consecutive natural disaster shocks and social turmoil. Inflation is firmly within the target band, owing to the central bank's early and decisive monetary tightening followed by cautious easing. The financial sector remained sound and profitable. The current account surplus further improved, underpinned by strong terms of trade. However, the fiscal position weakened. A relative political stability persists but pre-election tensions are rising. Lingered political uncertainty weighs on economic prospects and dents the appetite for structural reforms to boost potential growth.

Growth is expected to moderate to 2.8 percent in 2025. A favorable momentum in private consumption and elevated public investment would support continued growth, but pre-election

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

tensions would weigh on the private investment recovery while the impact of the first-round effects of the tariffs and global growth slowdown would be negative, although relatively moderate. Inflation is expected to remain within the target band of 1-3 percent. The current account balance is envisaged to remain in a surplus of 1.7 percent of GDP in 2025, with low external financing and debt rollover risks.

Evolving risks are dominated by the potential for larger adverse impacts on global growth and commodity prices, due to prolonged trade policy uncertainty and financial market volatility, but Peru has ample buffers to cope with shocks. In the short term, key domestic risks include an intensification of political uncertainty, social unrest over security concerns, and weather-related shocks. Key external risks include trade policy uncertainty, tighter financial conditions, and commodity price volatility. Recent government initiatives to accelerate private sector involvement in public investment projects and streamline burdensome regulations could help revive private investment. Peru's macroeconomic resilience is reinforced by very strong buffers including low public debt, abundant international reserves, and access to international capital markets on favorable terms.

Executive Board Assessment

After a strong recovery, growth is expected to moderate, amid global policy uncertainty and pre-election tensions, and thereafter to remain close to potential. With a closed output gap and firmly anchored inflation expectations, headline inflation would remain within the target band. The current account balance is envisaged to remain in a surplus, only gradually returning to a deficit in the medium term—stabilizing at its norm, of about 1.5 percent of GDP—as private investment recovers and terms of trade normalize. The external position in 2024 was stronger than the level implied by medium-term fundamentals and desirable policies, due to strong terms of trade and a recovery in traditional exports. Risks are tilted to the downside given elevated external uncertainty, but Peru has ample buffers to cope with shocks. Very strong macroeconomic policies and institutional policy frameworks remain in place.

A broadly neutral monetary policy stance is appropriate. Inflation expectations are approaching 2 percent, and the output gap is closed. However, given heightened external uncertainty, monetary policy should remain data dependent. Continued exchange rate flexibility should be allowed to help cushion the impact of external shocks.

Meeting the 2025 fiscal deficit target will require additional efforts in a pre-election year. The 2025 budget envisages a deficit of 2.2 percent of GDP, consistent with the revised fiscal rule target. A tax revenue rebound from the economic recovery and one-off factors will help reduce the deficit in 2025, but additional efforts of about 0.4 percent of GDP will be needed to secure fiscal rule compliance. Additional spending control measures would make this year's consolidation plans more credible and balanced. In May 2025, the authorities announced initiatives to improve spending efficiency, but further efforts will be needed to comply with this year's target.

A combination of spending restraint and revenue-raising measures would be needed to comply with the medium-term fiscal targets. To comply with the fiscal rule deficit target of 1 percent of GDP by 2028 and the debt ceiling of 30 percent of GDP by 2035, the authorities' medium-term consolidation plan envisages a reduction of current spending by about 0.4 percent of GDP per year between 2026 and 2028. Identifying both revenue and spending measures—including efforts to streamline tax expenditures; strengthen tax administration; and control wages, discretionary transfers, and inefficient public investment—would secure a

balanced and gradual consolidation. In the absence of measures, public debt would gradually rise over the medium term, while remaining relatively low compared to peers. Legislative initiatives bearing fiscal costs, proposals that erode the tax base, and excessive reliance on private participation schemes would complicate the attainment of fiscal targets. Reforms to significantly reduce Petroperú's costs and enhance its transparency and governance are also needed to safeguard fiscal credibility.

Systemic risks are limited, but authorities should continue to proactively contain financial vulnerabilities. Banks are profitable, with ample liquidity and capital buffers. While elevated for small- and medium-sized firms, NPLs are expected to continue improving and would support the growth of credit. The authorities should continue to be vigilant of pockets of vulnerability, particularly in corporate loans.

Focused macroprudential policies could reduce financial vulnerabilities from remaining dollarized credit. While the aggregate value of unhedged dollar credit is low, unhedged dollar credit tends to be riskier and concentrated in large- and medium-sized companies in the construction, commerce, and manufacturing sectors. The authorities' regulation to introduce higher risk weighting in 2026 will help alleviate vulnerabilities from unhedged dollar credit. To ensure the stability of dollar funding for financial institutions, the authorities could consider introducing currency-specific NSFR requirements to complement the existing currency-specific LCR limits.

Policy efforts are needed to revive the domestic capital market. It is critical to maintain the prohibition of future pension withdrawals, as approved in the recent pension reform, to protect the functioning of the domestic capital market, decrease financing costs, and lower the risks of old-age poverty. Measures to broaden the investor base through retail investment products could play a significant role in attracting funds back into the securities market.

Financial resilience would be strengthened by addressing remaining regulatory gaps. The revised Basel III risk-weight framework and improving the activation criteria for the countercyclical capital buffer (CCyB) will help enhance the effectiveness of the entire regulatory framework. Completing the evaluation of recovery plans for domestic systemically important banks and expanding to the financial group level and their resolution planning will eliminate uncertainty under potential systemic events by facilitating orderly crisis management.

Updating the fiscal decentralization framework, along other needed structural reforms, could help boost investments in the critical mineral sector and increase potential growth. A US\$64 billion pipeline of mining investment projects has been mostly stalled for many years due to bureaucratic complexity and social conflicts. Unlocking these projects and channeling the additional fiscal revenues could permanently boost potential growth. Updating the fiscal decentralization framework, including redesigning natural resource revenue-sharing formulas, to improve public spending efficiency and generate high-impact public investments could help ensure that mining dividends translate into greater development. Enhanced efforts are also needed to curb the low but rising level of insecurity, reform labor and tax regulations that impose excessive costs for formalizing or growing a business, enhance the independence and integrity of judicial bodies and tools to combat corruption impunity, build resilience to natural disasters, and embrace the opportunities of digital technologies and artificial intelligence. The OECD accession process provides a clear roadmap for other critical reforms to boost the business climate, reduce informality, and reform the civil service.

Peru: Selected Economic Indicators

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Social Indicators											
Poverty rate (total) 1/	30.1	25.9	27.5	29	27.6	...	...	...	...	...	...
Unemployment rate for Metropolitan Lima (average)	13	10.7	7.8	6.8	6.4	...	...	...	...	...	...
(Annual percentage change; unless otherwise indicated)											
Production and Prices											
Real GDP	-10.9	13.4	2.8	-0.4	3.3	2.8	2.6	2.5	2.5	2.5	2.5
Output gap (percent of potential GDP)	-5.5	0.8	0.7	-1.3	-0.4	0	0	0	0	0	0
Consumer prices (end of period)	2	6.4	8.5	3.2	2	2	2	2	2	2	2
Consumer prices (period average)	1.8	4	7.9	6.3	2.4	1.7	1.9	2	2	2	2
Money and Credit 2/ 3/											
Broad money	29.2	2.7	-0.7	2.2	11.6	1.7	5.6	5.6	5.6	5.6	5.6
Net credit to the private sector	14	6.5	3.3	0.7	0.9	4.7	5.7	6	6	6	6
Credit-to-private-sector/GDP ratio (%)	52.4	45.9	44.4	41.8	38.9	38.9	39.3	39.8	40.4	40.9	41.5
External Sector											
Exports	-10.7	47.4	4.8	2	12.4	5.8	3.1	1.9	3.2	3.2	2.7
Imports	-15.5	38.2	16.7	-11	4.5	4.1	3.1	4.1	4.4	4.6	4.6
External current account balance (percent of GDP)	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3	0.4	-0.1	-0.8	-1.5
Gross reserves In billions of U.S. dollars	74.9	78.5	72.2	71.3	79.2	84.2	88.7	92.7	96.4	100.4	104.9
Percent of short-term external debt 4/	491	578	509	404	435	477	505	517	606	641	635
Percent of foreign currency deposits at banks	222	229	209	204	213	220	219	217	213	210	208
(In percent of GDP; unless otherwise indicated)											
Public Sector											
NFPS revenue	21.8	25.5	27	23.9	22.7	23.6	23.1	23.1	23.2	23.3	23.4
NFPS primary expenditure	29.1	26.5	27.1	25.1	24.5	24.4	23.9	23.5	23.3	23.2	23.2
NFPS primary balance	-7.3	-1	-0.1	-1.2	-1.8	-0.7	-0.8	-0.4	-0.1	0.1	0.2
NFPS overall balance	-8.9	-2.5	-1.7	-2.8	-3.5	-2.6	-2.5	-2.2	-2	-1.8	-1.7
NFPS structural balance 5/	-7	-3.9	-2.2	-2.6	-3.7	-2.9	-2.9	-2.5	-2.2	-1.9	-1.8
NFPS structural primary balance 5/	-5.4	-2.4	-0.6	-0.9	-1.9	-1.1	-1.1	-0.6	-0.3	0	0.1
Debt											
Total external debt 6/	43.7	46.3	42.7	40.3	38.5	35.7	33.8	31.6	30.1	28.8	27.4
Gross non-financial public sector debt 7/	34.9	36.1	34	33	32.8	33.7	34.7	35.5	35.9	35.9	36
External	14.8	19.4	17.6	15.8	15.5	15.1	14.8	13.7	13	12.3	11.3
Domestic	20	16.7	16.4	17.1	17.3	18.5	19.9	21.8	23	23.6	24.6
Savings and Investment											
Gross domestic investment	18.3	20.8	21	17.7	18.1	17.9	18.1	18.7	19.1	19.5	19.8
Public sector (incl. repayment certificates)	4.3	4.7	5	5	5.3	5.2	4.9	4.9	4.9	4.9	4.9
Private sector	16.7	20.4	20.2	17.9	17.2	17.1	16.9	16.7	16.6	16.5	16.4
National savings	19.2	18.8	16.9	18.4	20.3	19.6	19.4	19.1	19	18.7	18.3
Public sector	-3.9	2.8	4.3	3	2.4	3.6	3.2	3.5	3.7	3.9	4
Private sector	23.2	15.9	12.6	15.4	17.9	16	16.2	15.6	15.3	14.8	14.3
Memorandum Items											
Nominal GDP (\$/. billion)	722	878	937	1,001	1,085	1,136	1,188	1,242	1,299	1,360	1,423
GDP per capita (in US\$)	6,328	6,849	7,319	7,930	8,485	8,814	9,182	9,505	9,825	10,168	10,529

Sources: National authorities; UNDP Human Development Indicators; and IMF staff estimates/projections.

1/ Defined as the percentage of households with total spending below the cost of a basic consumption basket.

2/ Corresponds to depository corporations.

3/ Foreign currency stocks are valued at end-of-period exchange rates.

4/ Short-term debt is defined on a residual maturity basis and includes amortization of medium and long-term debt.

5/ Adjusted by the economic cycle and commodity prices, and for non-structural commodity revenue. The latter uses as equilibrium commodity prices, a moving average estimate that takes 5 years of historical prices and 3 years of forward prices according to the IMF's World Economic Outlook.

6/ Includes local currency debt held by non-residents and excludes global bonds held by residents.

7/ Includes repayment certificates and government guaranteed debt.



PERU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

May 20, 2025

KEY ISSUES

Context: The economy has recovered from consecutive natural disaster shocks and social turmoil. Inflation is firmly within the target band. The external balance has further improved, underpinned by favorable terms of trade. However, the fiscal position has weakened. A relative political stability persists but pre-election tensions are rising. Lingering political uncertainty weighs on economic prospects and dents the appetite for structural reforms to boost potential growth.

Outlook and Risks: Growth is expected to moderate in 2025 amid global policy and election-related uncertainty. Inflation is expected to remain close to the midpoint of the target band. Risks to the outlook are tilted to the downside. Peru's macroeconomic resilience is reinforced by very strong buffers, including relatively low public debt, abundant international reserves, and a robust financial sector, which have allowed access to international capital markets on favorable terms.

Key Policy Advice: Policies should continue to focus on ensuring sustained and resilient growth.

- *Monetary and Exchange Rate (ER) Policies.* A broadly neutral monetary policy stance is appropriate at the current juncture, as the output gap is closed, and inflation is expected to remain close to the target. Looking ahead, monetary policy will remain data driven. The Central Bank (BCRP) should continue to allow greater ER flexibility to absorb shocks in the context of heightened global policy uncertainty.
- *Fiscal Policy.* Further fiscal consolidation measures should be identified to comply with the fiscal rule deficit targets and debt ceiling. Introducing both spending and revenue measures—such as reducing the wage bill, discretionary transfers, and inefficient public investment; and curtailing sectoral tax benefits and expenditures—would make the consolidation more balanced and credible. A number of legislative fiscal initiatives and government proposals would complicate the attainment of fiscal targets and need to be appropriately costed.
- *Financial sector policies.* The financial system is sound. The authorities should continue to proactively contain pockets of vulnerability. Targeted macroprudential

measures could be introduced to contain financial sector vulnerabilities associated with remaining credit dollarization. Fully operationalizing new regulations and closing gaps will reinforce financial resilience.

- *Structural reforms.* Reforms in the critical minerals sector and related policies can help lift potential growth. The fiscal decentralization framework, including the distribution of natural resource-based transfers, needs to be updated to help unlock long-delayed mining projects and ensure that the dividends from elevated mineral prices translate into greater development for all citizens. Enhanced efforts are needed to curb the low but rising level of insecurity, reform labor and tax regulations that impose excessive costs for formalizing or growing a business, enhance the independence and integrity of judicial bodies and tools to combat corruption impunity, build resilience to natural disasters, and embrace the opportunities of digital technologies and artificial intelligence. The OECD accession process provides a clear roadmap for more ambitious reforms to enhance governance, improve the business climate, reduce informality, and reform the civil service.

Approved By
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Discussions took place in Lima and Trujillo during March 11-26, 2025. The team comprised Sònia Muñoz (Head), Moya Chin, Enrico Di Gregorio and Jose Torres (all WHD), and Tomohiro Tsuruga (MCM). Zamid Aligishiev (WHD), Maxym Kryshko (SPR), and Eduardo Camero (FAD) joined some meetings virtually. Óscar Hendrick (OED) also participated in the discussions. The mission met with Central Bank Governor Julio Velarde; Minister of Economy and Finance José Salardi; Superintendent of Banks, Insurance, and Pensions Sergio Espinosa; Vice Minister of Energy and Mines Henry Luna; National Superintendent of Customs and Tax Administration Víctor Mejía; La Libertad Regional Vice-Governor Joana Cabrera; Trujillo Mayor Mario Reyna; other senior government officials from the Agency for the Promotion of Private Investment, National Infrastructure Authority, and Superintendency of the Securities Market; the Swiss State Secretariat for Economic Affairs; private sector and civil society representatives; and think tanks. Daria Kolpakova (WHD) provided research assistance. Geraldine Cruz (WHD) provided administrative assistance. Vanessa Husni and Vera Winkelried (CSF vendors) provided interpretation services.

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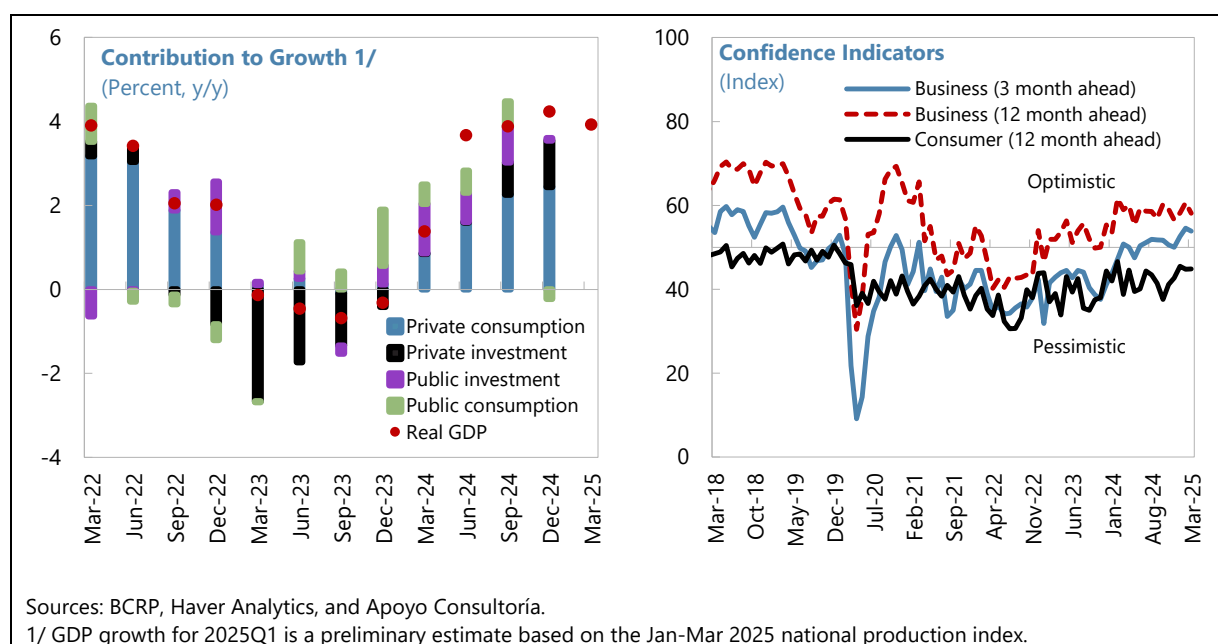
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ECONOMIC RECOVERY WITH LINGERING POLITICAL UNCERTAINTY

1. Relative political stability persists, but with the April 2026 elections officially called, political tensions are rising. An implicit alliance between the legislative and executive powers has maintained the current relative political stability, but Congress is increasingly challenging the Boluarte administration to improve their political prospects. With 43 political parties registered for the election, political uncertainty is high. Persistent political fragmentation could continue to impede structural reforms. Although the return of bicameralism in 2026 could foster political stability, it might also empower Congress to continue approving unfunded fiscal initiatives.

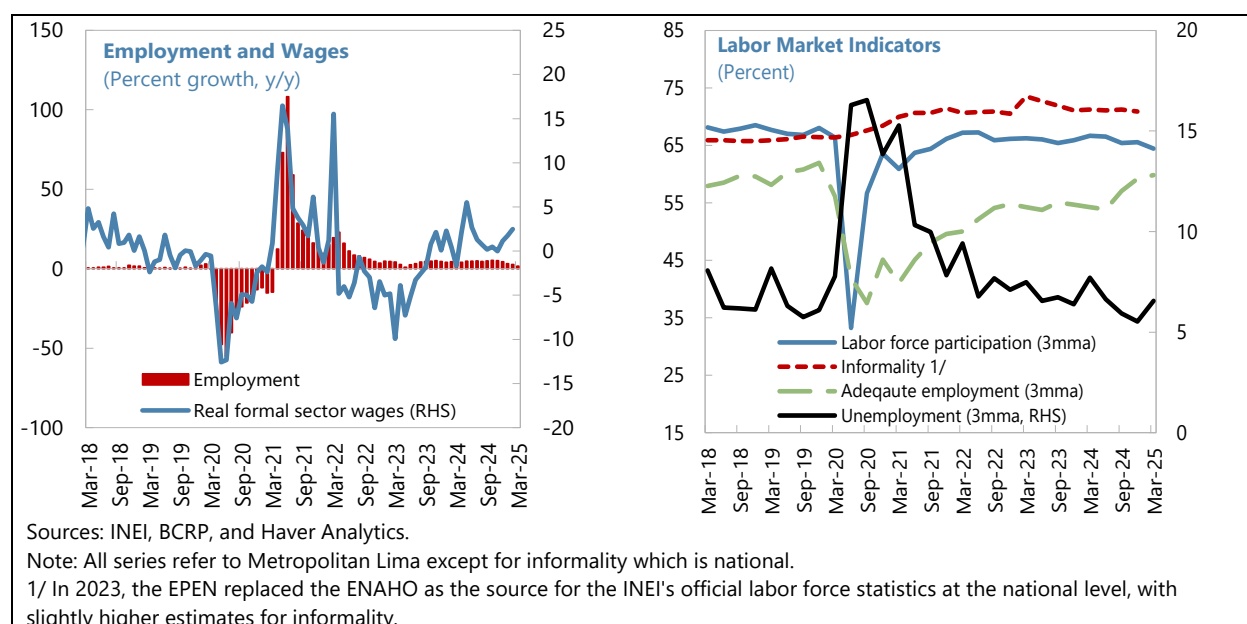
2. Very strong macroeconomic policies and institutional policy frameworks remain in place. Inflation is low and inflation expectations are anchored inside the target band. Strong supervision and appropriate macroprudential policies have helped preserve financial stability. Peru has one of the lowest debt ratios in the region, although the recent lack of adherence to fiscal rule targets and unfunded legislative initiatives may affect the strength of the fiscal policy framework going forward. Thanks to a long track record of sound macroeconomic policies (broadly in line with past IMF advice, Annex I), the country boasts market access on favorable terms, as evidenced by relatively low and stable EMBI spreads and a stable exchange rate (ER). In May 2024, Peru exited a two-year Flexible Credit Line (FCL) arrangement (300 percent of quota).



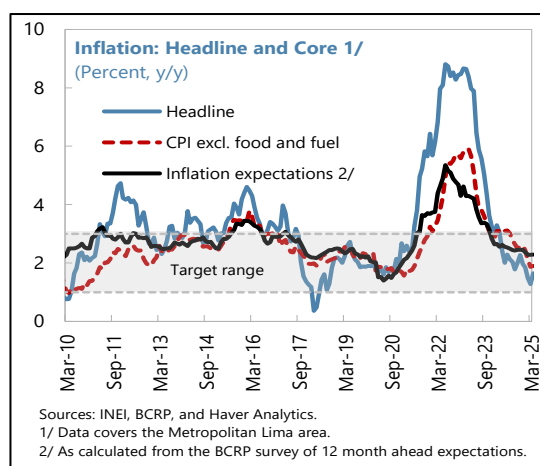
3. The economy vigorously recovered in 2024. Following a contraction of -0.4 percent in 2023 due to consecutive natural disaster shocks and social turmoil, growth rebounded in the second half of 2024, reaching 3.3 percent. The expansion was supported by a robust recovery in primary sectors and strong public investment. A gradual improvement in labor markets and consumer confidence, lower inflation, positive real wage growth, and a seventh round of pension withdrawals

led to rising private consumption in the second half of 2024.¹ Private investment remained subdued amid uneasiness about the next election, but looser financial conditions and improved business confidence supported a tepid rebound.

4. The labor market has strengthened, but slack remains. The unemployment rate declined to 5.5 percent in 2024 (from 6.4 percent in 2023) while the adequate employment rate increased to 59.2 percent in 2024 (from 54.7 percent in 2023),² with strong growth in both overall and adequate employment. Real wage growth averaged 1.3 percent y/y in 2024 (from -3.4 percent in 2023). However, both the labor force participation and adequate employment rates remain below pre-pandemic levels and informality remains very high.



5. With inflation firmly within the target range, the BCRP proceeded with monetary policy normalization. Headline, core, and inflation expectations remain anchored within the target band of 1-3 percent (1.7 percent, 1.9 percent, and 2.3 percent, respectively, in April 2025). The BCRP continued its easing cycle, lowering the policy rate by 200 bps since January 2024 to 4.5 percent in May 2025.



¹ Four rounds of private pension withdrawals were allowed in 2020 as a Covid-19 support measure. Three additional withdrawals were allowed in 2021, 2022 and 2024. Private pension savings declined to around 10 percent of GDP in 2024 from 22 percent of GDP in 2020 (see [2024 Article IV](#) for a discussion on private sector pension withdrawals). A pension reform enacted in September 2024 prohibits further withdrawals, but legislators have already introduced a proposal to allow for an eighth withdrawal in 2025.

² Adequate employment is defined as workers who either work 35 hours or more per week and earn above a minimum reference income or work fewer than 35 hours per week but do not wish to work more.

Box 1. Public Support to Petroperú

Petroperú, a large state-owned oil company, has had financial difficulties over the past decade due to problems with the construction of a new refinery. The company is involved in the transportation, refining, distribution, and sale of fuel and other petroleum products. It is considered by the government to be critical to ensure fuel supply in peripheral areas, where high costs and low profitability discourage the presence of private fuel importers. The company registered a negative primary balance between 2013 and 2023.¹ Its dire financial situation is largely driven by problems with the Talara Refinery Modernization Project, which started in 2014 to increase the company's refining capacity and align it with updated environmental standards. The project was later transformed into the construction of a new state-of-the-art facility with more refining capacity than the national oil production.² Because of execution delays, the project accumulated cost overruns, weighing on the company's profitability and indebtedness.³ At the same time, inadequate management, weak governance (with 12 presidents over the past decade), and competition from fuel importers led Petroperú to rapidly lose market share, from 1/2 of domestic fuel sales in 2017 to about 1/4 at end-2024.

To address its operating and financial challenges, Petroperú has repeatedly obtained government support. Combining debt guarantees, capital injections, and direct loans, the government has provided cumulative financial support of about 1.8 percent of 2024 GDP since 2013. As part of this support, in September 2024, the government allowed Petroperú to access a short-term credit line of up to US\$1 billion and the capitalization of earlier support (debt forgiveness) for up to US\$750 million to ensure the company's sustainability, secure the sale of hydrocarbons, and guarantee fuel supply throughout the country. The government also took over maturing debt of US\$800 million and required Petroperú to cut spending by 10 percent in 2024 and 30 percent by 2025. A new CEO and board of directors were appointed in November 2024. In February 2025, the company announced that the spending reduction goal for 2024 was met and confirmed its intention to meet the agreed-upon target for 2025.

The fiscal cost of public support remains manageable but could undermine fiscal credibility. The

financial support granted in September 2024 increased the capital spending (and the fiscal deficit) of the central government by about 0.6 percent of GDP, but did not directly affect the NFPS balance since this capital transfer was concurrently recorded as capital income for Petroperú.⁴ Even though the state guarantees increase the size of the general government's contingent liabilities, Petroperú's total outstanding debt remains relatively modest (at about 1.8 percent of GDP).⁵

However, recurring financial support diverts government resources from other policy priorities and erodes fiscal credibility. Addressing Petroperú's structural governance challenges is essential for improving its profitability.

NFPS Effects of Petroperu's Government Support

(Percent of 2024 GDP)

GG Primary Expenditures	
<i>CG Capital spending</i>	+0.6
GG Primary Balance	-0.6
SOEs Operating Balance	
<i>SOE Capital income</i>	+0.6
Overall NFPS Balance	0.0

Sources: National Authorities; and IMF staff estimates. Capital spending refers to the September 2024 central government capital transfers that do not add to gross fixed capital formation.

¹ According to the authorities' fiscal reporting for the NFPS, which includes capital spending in balance calculations. From a financial perspective, the company has consistently recorded operating losses since 2022 only.

² To operate at full capacity, oil imports of at least 40 percent of total are required.

³ The initial project cost was about US\$1.3 billion, which was then expanded to US\$4.5 billion as the project became more ambitious, but cost overruns of over 40 percent resulted in a total cost of about US\$6.5 billion (including pre-operational interest).

⁴ The capital transfer reflects the two components of the Emergency Decree 13/2024 of up to US\$750 and US\$800 million plus interest payments. The third component, a government-guaranteed credit line for US\$1 billion, is a contingent liability for the central government.

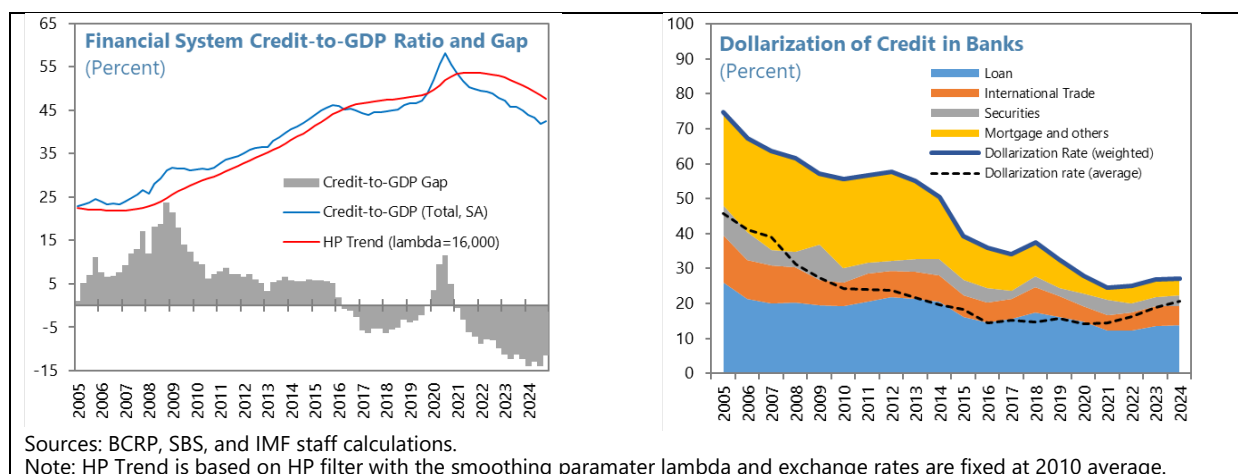
⁵ Consolidation at the NFPS level puts Petroperú's consolidated debt at 1.7 percent of GDP at the end of 2024.

6. The fiscal position weakened in 2024. The non-financial public sector (NFPS) deficit increased from 2.8 percent in 2023 to 3.5 percent of GDP in 2024, well above the revised fiscal rule deficit target of 2.8 percent of GDP for 2024.³ The fiscal deterioration was explained by lower tax collection (VAT, CIT, and excises) and a higher execution of public investment by both the central and sub-national governments, which was partly offset by lower spending from the expiration of 2023 stimulus programs. An operation to provide financial support to Petroperú, a large oil state-owned company, increased the general government's capital spending by 0.6 percent of GDP but did not impact the NFPS deficit (Box 1). Despite the increase in the fiscal deficit, gross public debt fell slightly to 32.8 percent of GDP, as the deficit was partly financed by a reduction in total public assets to 8.6 percent of GDP (from 10.4 percent in 2023).⁴

NFPS Fiscal Balance (Percent of GDP)				
	2023	2024		
	Outturn	Budget 1/	Outturn	Change 2/
Revenues (GG)	19.6	19.5	19.1	-0.6
Taxes	15.1	14.9	14.7	-0.3
Other	4.6	4.6	4.4	-0.2
Primary Expenditure (GG)	20.9	20.5	21.2	0.2
Current	15.6	15.1	15.0	-0.7
Capital	5.3	5.4	6.2	0.9
Primary Balance (GG)	-1.3	-0.9	-2.1	-0.8
Interest	1.7	1.7	1.7	0.0
SOEs Net Operating Balance	0.1	-0.2	0.3	0.1
Overall Balance (NFPS)	-2.8	-2.8	-3.5	-0.7

Sources: MEF and IMF staff calculations.
 1/ Budget figures reflect the projections reported in MEF's August 2024 multi-annual macroeconomic framework (MMM).
 2/ Difference between 2024 and 2023 outturn figures in percent of GDP.

7. The financial sector is sound. Banks have ample capital and liquidity, substantially above required levels.⁵ The non-performing loan (NPL) ratio somewhat improved to 4.0 percent in December 2024, from a peak of 4.6 percent in March 2024. NPLs are fully provisioned but remain elevated for small- and medium-sized businesses. The return on equity improved to 14.5 percent in December, due to lower provisions and a gradual recovery of the interest margin. Credit growth has been sluggish amid weak corporate investment and a cautious lending stance towards loans for lower-income households and small- and medium-sized firms. More recently, the credit-to-GDP gap has started to narrow (from -13.9 percent in 2024Q1 to -11.5 percent in 2024Q4), mainly explained by the stabilization of corporate credit. Recently, credit dollarization has increased slightly compared to the trough in 2022, particularly for small banks.



³ In July 2024, in agreement with Congress, the government revised the fiscal rule deficit target to 2.8 percent of GDP for 2024 (from 2 percent) with a path reaching 1 percent of GDP by 2028 (previously 2026). It also delayed the onset of the 30 percent of GDP public debt ceiling until 2035 (previously 2032).

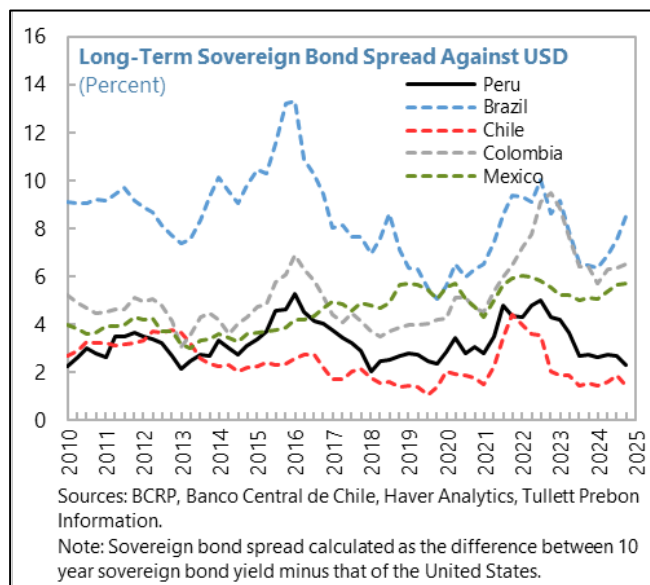
⁴ The reduction in assets is partly explained by a more efficient use of public deposits in a single treasury account.

⁵ In December 2024, the regulatory capital ratio was 17.2 percent, while the LCR stood at 161.4 percent in domestic currency and 174.2 percent in foreign currency.

8. After declining in 2024, financial asset price volatility increased in the first quarter of 2025 due to global policy shocks.

Despite the narrowing interest rate differential vis-a-vis the US, the nominal ER was broadly stable in 2024, amid a vigorous economic recovery and high commodity prices, supported by foreign exchange (FX) intervention by the BCRP in the first half of 2024. Long-term sovereign yields declined to 6.6 percent in 2024Q4 compared to 7.2 percent a year earlier, and remain among the lowest in the region. From late 2022 to end-2024, stock prices gradually recovered and volatility declined. Volatility increased following the US tariff announcements in

April 2025, leading to a sharp depreciation of the exchange rate, losses in equity markets, and a rise in long-term sovereign yields, which was partially reversed after the announcement of a 90-day pause. While elevated, volatility in Peru remains low among regional peers.



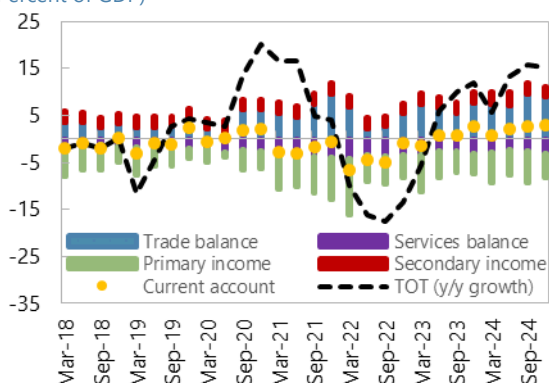
9. Peru's 2024 external position was stronger than the level implied by medium-term fundamentals and desirable policies (Annex II).⁶ Improved terms of trade and strong agricultural and fishing exports sustained an improvement in the current account surplus to 2.2 percent of GDP in 2024 (from 0.7 percent of GDP in 2023), while the real effective exchange rate continued to appreciate (Box 2). The private savings-investment (SI) balance increased due to falling private investment and sluggish private consumption, while higher public consumption and investment widened the negative public SI balance. International reserves remained at a comfortable level at end-2024 (US\$79.2 billion or 248 percent of the ARA metric, from US\$71.3 billion or 225 percent of the ARA metric at end-2023).

⁶ The evaluation of the external sector was made based on actual outcomes for 2024. The difference between the estimated cyclically adjusted current account balance for 2024 (1.2 percent of GDP) and the current account norm from the multilateral model (-1.2 percent of GDP) yields a current account gap of 2.4 percent of GDP. Thus, the assessment of the external position is "stronger than the level implied by medium-term fundamentals and desirable policies."

Box 2. Drivers of the Current Account Surplus

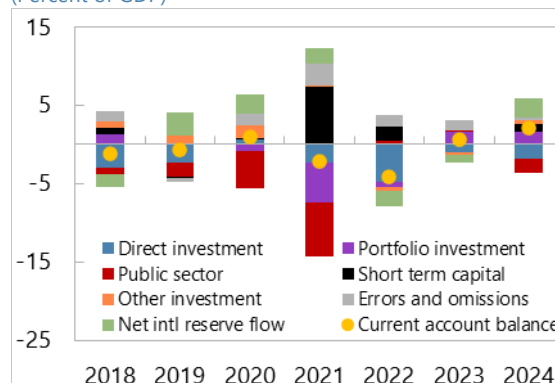
After reverting to a surplus in 2023, the current account balance (CAB) further improved in 2024, due to a record trade balance (TB). Between 2000–22, the CAB averaged -1.7 percent of GDP. The CAB moved to a surplus in 2023, led by sizable import compression during the economic downturn. The surplus widened in 2024 thanks to a remarkable TB, which offset a wider primary income deficit due to higher foreign repatriation of profits. Declining public savings led to a negative public savings-investment (SI) balance. The private SI balance, however, increased due to falling private investment and somewhat increased private savings resulting from sluggish private consumption. Buoyant net inflows, dominated by FDI liabilities and sovereign bond issuances, resulted in an increase in net international reserves.

Decomposition of the Current Account
(Percent of GDP)



Sources: BCRP and Haver Analytics.

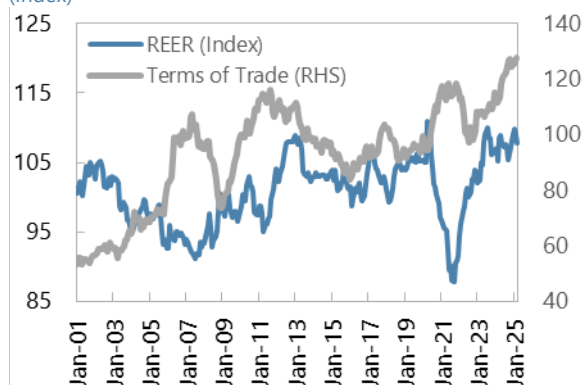
Balance of Payments
(Percent of GDP)



Sources: BCRP and Haver Analytics.

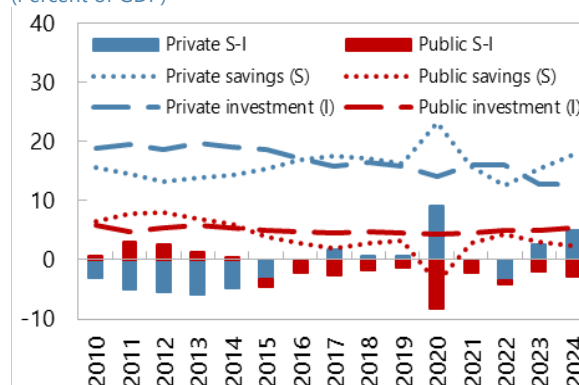
The outstanding TB was underpinned by elevated commodity prices and a strong recovery in agriculture and fishing. The TB increased from 6.6 percent of GDP to 8.2 percent of GDP, its highest level since 2006, driven by favorable terms of trade. Exports of goods increased by about 12 percent, due to growth in both volumes (about 4 percent, primarily agriculture and fishing) and prices (about 8 percent, primarily gold and copper). Imports of goods increased by 4.5 percent, as volumes increased (about 7 percent) amid growth normalization while prices declined (about -2 percent).

Terms of Trade and REER
(Index)



Sources: IFS, BCRP, and Haver Analytics

Savings-Investment Balance
(Percent of GDP)



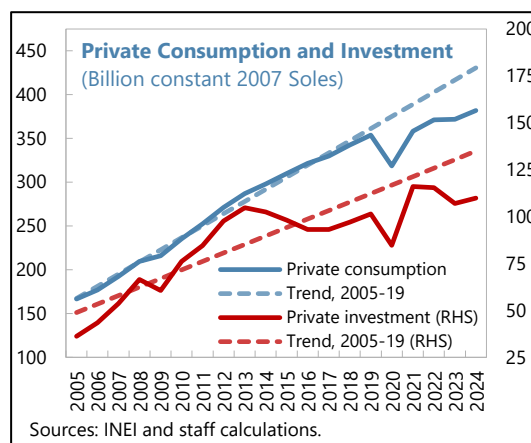
Sources: BCRP, INEI, and Haver Analytics.

The real effective exchange rate continued to appreciate. While the exchange rate remained broadly stable, depreciating by about 0.3 percent in 2024, the Peruvian sol had a better relative performance compared to its main trading partners, amid a stronger US dollar. Peru's real effective exchange rate (REER) appreciated 0.9 percent in 2024, following an appreciation of 6.2 percent in 2023, and stands 6.6 percent above the 2000–24 historical average. The REER appreciation in 2024, if sustained, could reduce competitiveness.

A CHALLENGING EXTERNAL OUTLOOK

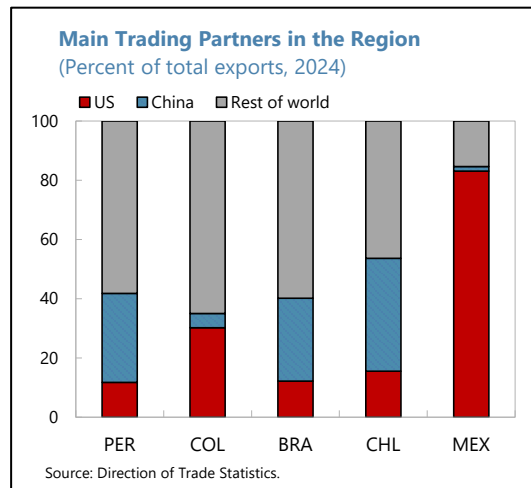
10. Growth is expected to moderate in 2025, amid global policy uncertainty and pre-election tensions, and thereafter to remain close to potential. Real GDP growth is projected at 2.8 percent in 2025, supported by a favorable momentum in private consumption,⁷ while public investment decelerates but remains elevated. Despite historically high metal prices, global policy uncertainty and pre-election tensions would weigh on the recovery of private investment. Peru would be relatively mildly negatively affected by the first-round effects of the tariffs and global growth slowdown (see below). The

current account balance is envisaged to remain in a surplus of 1.7 percent of GDP in 2025, with low external financing and debt rollover risks, only gradually returning to a deficit in the medium term—stabilizing at its norm, of about 1.5 percent of GDP—as private investment recovers and terms of trade normalize. Credit growth is expected to rebound modestly, due to limited private investment. With a closed output gap and firmly anchored inflation expectations, headline inflation would remain within the target band. Starting in 2026, growth is projected to converge to its estimated potential of about 2.5 percent (from a 6 percent average potential growth in the previous decade).



11. The short-term impact of trade policy shocks is very uncertain but expected to be limited.

Following the US tariff announcements on April 2, Peru faces a 10 percent tariff on about 70 percent of its exports to the US.⁸ First-round effects from trade policy shocks are estimated to reduce growth in 2025 by about 0.1 percentage points,⁹ given Peru's relatively low exposure to the US and low sensitivity of exports to trade shocks.¹⁰ The majority of the impact would fall on the agro-industrial sector, although the sector is not expected to experience large reductions in external



⁷ Subdued inflation and the ongoing labor market recovery would support rising private consumption.

⁸ The remaining products fall under an exemption for energy and critical minerals, which includes copper.

⁹ The estimate incorporates assumptions from the World Economic Outlook April 2025 *Reference Forecast*. The estimate was obtained by applying product-specific price elasticities of demand (obtained from Fally and Sayre, 2019, "Commodity Trade Matters"; and Dahl, 2020, "Mineral Elasticity of Demand and Supply Database") to the product composition of Peru's exports to the US in 2024.

¹⁰ The estimated elasticity of exports to GDP for Peru, 0.52, is below the LA-7 average, see Devarajan et al. (2023), "Trade Elasticities in Aggregate Models: Estimates for 191 Countries."

demand, as many products such as fruits are exported in the off-season of US production. Impacts are also expected to be limited for the other main export, mining products, as local companies have 20- to 30-year investment horizons that would not be affected by temporarily lower profits due to a decline in mineral prices, mainly copper, that would arise from a global growth slowdown.¹¹ Manufacturing exports could face the highest exposure to tariffs and a growth slowdown but comprise a small fraction of exports. A potential increase in exchange rate volatility is expected to have a limited impact on domestic inflation, given a relatively low pass-through.

Box 3. Potential Economic Impacts of the Chancay Mega-port

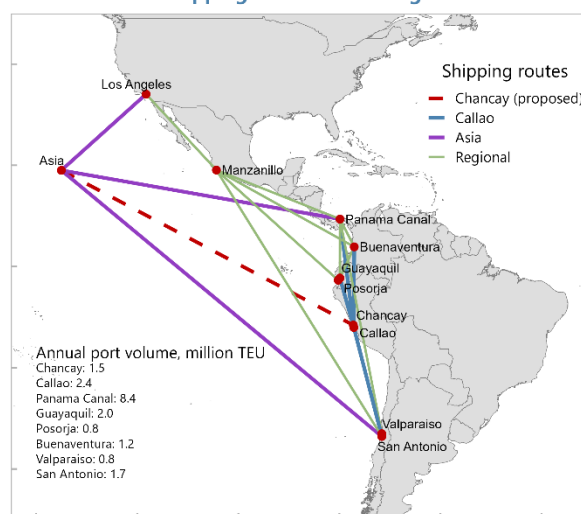
The Chancay Port, inaugurated in November 2024, is the largest deepwater port in Latin America.

Chancay is privately owned by China's Cosco Shipping Ports (60 percent) and Peru's Volcan (40 percent) and is capable of handling modern "ultra-large" cargo ships. The initial phase comprised an investment of US\$1.3 billion and has a capacity of 1.5 million containers/year. The full project would involve a total investment of US\$3.5 billion over the next decade to triple the port's capacity.

Chancay has the potential to transform Peru into a regional hub for trade with Asia.

By providing direct routes from Peru to China, transit time is expected to be cut by 30-70 percent, bringing market access benefits and competitive gains for mining, forestry, and agricultural products. The BCRP estimates the economic impact between 0.3-0.9 percent of GDP per year starting in 2025, depending on the magnitude of displacement from Callao (Peru's main port). Because of its strategic position, Chancay could attract trade from neighboring countries, but its regional impact could be mixed. While in the near term it could pose competition to some ports in the region (such as Chile, Panama, Ecuador, and Colombia), it could ultimately facilitate intra- and inter-regional trade by lowering trade costs.

Main Ports and Shipping Routes in the Region



Sources: PortWatch, Economic Commission for Latin America and the Caribbean, and IMF staff calculations.

However, implementation of ancillary policies needs to take place to maximize Chancay's potential.

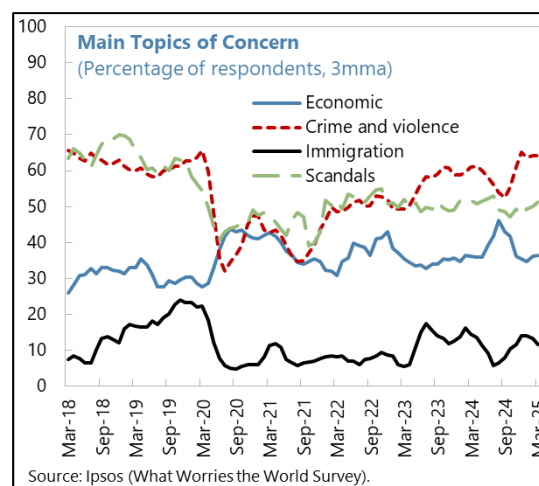
Large transportation projects to improve land connectivity with Chancay (such as a peripheral road ring around Lima, a train linking Lima and Chancay, and highways linking Chancay to the Peruvian jungle and mining regions) would not be completed before 2032. There is a need to integrate the port with surrounding towns, which currently mostly lack basic public services. The government's plan for the creation of a Special Economic Zone (SEZ) around Chancay¹ could boost investment but at a possibly elevated fiscal cost. Existing SEZs have not been very successful in attracting private investment.

1/ In April, Congress approved the regulatory framework for new SEZs. Companies in SEZs would benefit from a zero percent income tax rate for the first five years, which would gradually increase towards 15 percent in 20 years. Peru already has four existing SEZs in Tacna, Piura, Moquegua, and Arequipa.

¹¹ While currently excluded from the April 2 and 10 tariff announcements, copper exports to the US could face tariffs in the future. Impacts are expected to be modest, given the low sensitivity of demand to price changes that would result from tariffs and the ability of local companies to easily redirect exports to non-US markets at any given world price.

12. Risks are tilted to the downside given elevated external uncertainty, but Peru has ample buffers to cope with shocks.

In the short term, key domestic risks include an intensification of political uncertainty, social unrest over security concerns, and weather-related shocks. Key external risks include trade policy uncertainty, tighter financial conditions, and commodity price volatility (Annex III). While increased political instability could further delay structural reforms, recent government initiatives to accelerate private sector involvement in investment projects and streamline burdensome regulations could help revive private investment and unblock long-delayed mining and infrastructure projects.¹² Growth could also be higher than envisaged if the



new Chancay port attracts trade from neighboring countries (Box 3). However, the risk balance is dominated by the potential for larger adverse impacts on global growth and commodity prices, due to prolonged trade policy uncertainty and financial market volatility. Peru's macroeconomic resilience is reinforced by very strong buffers including low public debt, abundant international reserves (about 27 percent of GDP), and access to international capital markets on favorable terms.

TOWARDS SUSTAINED AND RESILIENT GROWTH

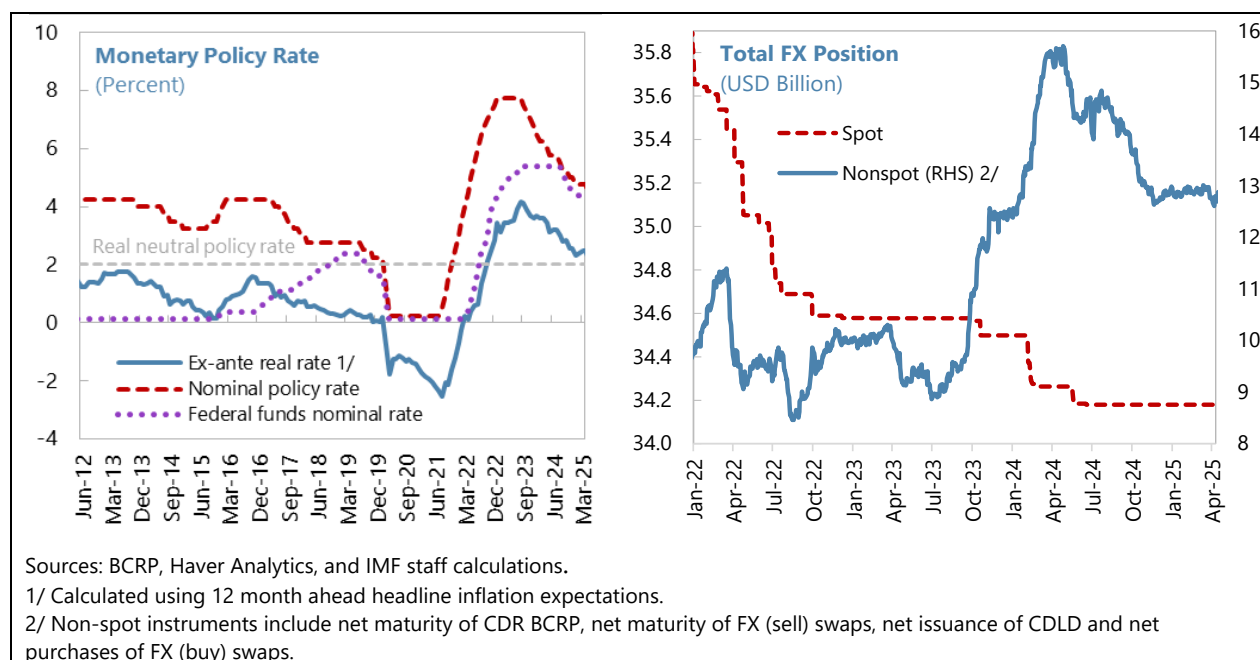
A. Completing Monetary Policy Normalization

13. The BCRP's broadly neutral monetary policy stance is appropriate. The BCRP's early and decisive monetary tightening followed by cautious easing has successfully brought inflation back to the middle of the target band. With well-anchored inflation expectations and a closed output gap, a broadly neutral monetary policy stance is appropriate (the real ex-ante policy rate stood at 2.2 percent in May 2025, 20 bps above the estimated real neutral rate of 2 percent). However, given heightened external uncertainty, monetary policy should remain data dependent.

14. The BCRP should continue to allow ER flexibility. In February and May 2024, the BCRP intervened in the spot market in response to ER pressures arising from market's expectation of a rapidly narrowing interest rate differential vis-à-vis the US (see Annex V of the [2024 Article IV](#)). The stock of derivative positions increased by about US\$3.1 billion from January until April 2024, then

¹² The government has plans to award US\$8 billion in public-private partnerships (PPPs) and increased the ceiling for the repayment of works-for-taxes—private execution of public investment funded via tax credits—to about US\$12.6 billion for subnational governments and public universities. At end-March 2024, the government unveiled a package of 402 measures, which included proposals to simplify the corporate tax regime; extend the drawback for non-traditional exports; raise the exemption threshold for the temporary tax on net assets (ITAN); improve tax administration, including the control of illegal mining activities; remove restrictions on outsourcing of services; repeal regulations related to union membership; reform the public agency for private investment; and streamline bureaucratic procedures, mostly in transportation, fishing, mining, and construction.

decreased by about US\$2.8 billion through mid-April 2025. Going forward, given the potential for higher exchange rate volatility due to heightened global policy uncertainty, ER flexibility should be maintained to help cushion the impact of external shocks (see Annex II).



B. Addressing Rising Fiscal Pressures

15. Meeting the 2025 fiscal deficit target is important for fiscal credibility and will require additional efforts in a pre-election year. The 2025 Budget envisages a NFPS deficit of 2.2 percent of GDP, in line with the revised fiscal rule deficit target path approved in July 2024. The implied deficit reduction is envisaged to come from tax revenue gains of about 0.9 percent of GDP, of which 0.3 percent are due to one-off factors¹³ and the rest from the economic recovery, elevated commodity prices, and the newly introduced taxation of digital services.¹⁴ However, the expected revenue gains would likely fall short. Staff estimates that additional measures of about 0.4 percent of GDP would be required to comply with the 2025 target. Additional spending control measures would make this year's consolidation plans more credible and balanced. As 2025 is a pre-election year, political appetite for consolidation initiatives might be limited, while spending and tax concession pressures will likely intensify. In May 2025, the authorities announced initiatives to improve spending efficiency, but further efforts will be needed to comply with the target.

¹³ Of these, 0.2 percent of GDP would come from capital gains taxes from Enel's sale of its local power generation and distribution assets, and 0.1 from a tax amnesty program (*fraccionamiento especial*). While tax amnesties temporarily boost revenues and reduce tax liabilities, they also undermine incentives for tax compliance.

¹⁴ Tax administration and compliance have significantly improved in recent years (thanks to electronic invoicing, a digital tax registry, notices of tax due, leveraging of big data tools, taxpayer compliance profiles, and enhanced use of treaties to exchange taxpayer information). The modernization of the tax administration (SUNAT) continues, supported by SECO-funded FAD TA (Annex VIII). Progress is being made at the Fiscal Tribunal in reducing the backlog of tax litigation cases. However, SUNAT lost about 1/3 of its staff over the past decade and has not received critical funding for IT improvements. The planned integration of its staff into the civil service's human resource management system (SERVIR) will greatly limit SUNAT's ability to attract and retain talent.

16. Without measures, complying with the medium-term fiscal targets will be challenging.

To comply with the fiscal rule deficit target of 1 percent of GDP by 2028 and the debt ceiling of 30 percent of GDP by 2035, the authorities' medium-term consolidation plan envisages a reduction of current spending by about 0.4 percent of GDP per year between 2026 and 2028. The authorities have introduced a new procurement law that became effective in April 2025, which would improve spending efficiency. However, the adjustment mostly relies on unidentified measures. In the absence of measures, public debt would gradually rise over the medium term, while remaining relatively low compared to peers (Annex IV).

Non-Financial Public Sector (Percent of GDP)													
	2024	2025 ^{1/2/}			2026			2027			2028		
	Baseline	Budget	Baseline	Gap	Budget	Baseline	Gap	Budget	Baseline	Gap	Budget	Baseline	Gap
Revenues (GG)	19.1	20.3	20.0	-0.2	19.9	19.6	-0.3	19.9	19.7	-0.2	19.9	19.8	0.0
<i>Taxes</i>	14.7	15.7	15.6	-0.1	15.4	15.1	-0.3	15.3	15.1	-0.2	15.3	15.2	-0.1
<i>Other</i>	4.4	4.6	4.4	-0.2	4.5	4.5	-0.1	4.6	4.6	0.0	4.6	4.6	0.0
Primary Expenditure (GG)	21.2	20.6	20.8	0.2	20.0	20.4	0.4	19.5	20.1	0.5	19.2	20.0	0.9
<i>Current</i>	15.0	14.9	15.0	0.1	14.5	15.0	0.5	14.1	14.7	0.6	13.8	14.7	0.9
<i>Capital</i>	6.2	5.7	5.8	0.0	5.5	5.4	-0.1	5.4	5.4	-0.1	5.4	5.4	0.0
Primary Balance (GG)	-2.1	-0.4	-0.8	-0.4	-0.1	-0.8	-0.7	0.3	-0.3	-0.7	0.7	-0.2	-0.9
Interest	1.7	1.8	1.8	0.0	1.8	1.7	-0.1	1.9	1.9	0.0	1.9	1.9	0.0
SOEs Net Operating Balance	0.3	0.1	0.0	0.0	0.1	0.0	-0.1	0.1	0.0	-0.2	0.1	0.1	-0.1
Overall Balance (NFPS)	-3.5	-2.2	-2.6	-0.4	-1.8	-2.5	-0.7	-1.4	-2.2	-0.9	-1.0	-2.0	-1.0
Gross Public Debt ^{3/}	32.8	33.2	33.7	0.4	33.3	34.7	1.5	33.0	35.5	2.5	34.1	35.9	1.9
Sources: MEF and IMF staff calculations.													
Note: General Government (GG), Non-Financial Public Sector (NFPS).													
1/ Budget figures reflect the projections reported in MEF's August 2024 multi-annual macroeconomic framework (MMM), while baseline reflects IMF staff projections.													
2/ Gap refers to the difference between IMF staff baseline and budget figures in percent of GDP. Differences reflect different macro frameworks and the assumed speed of fiscal consolidation. Compared to the budget, the baseline projection shows the effect of more conservative assumptions with unchanged policies.													
3/ Staff's gross public debt figures include CPRAOs.													

17. The required fiscal consolidation could be attained by a combination of spending restraint and revenue-raising measures. A balanced and gradual fiscal consolidation would combine spending and revenue measures, while safeguarding fiscal space for critical social and investment needs. On the spending side, there is room to lower the wage bill and discretionary transfers, which are above average pre-pandemic levels, and inefficient public investment (see 2025 Selected Issues). On the revenue side, Peru's relatively low tax burden suggests that there is space to curtail sectoral tax benefits, special regimes, and tax expenditures; strengthen tax administration; and promote formalization to expand the tax base. Reforms to significantly reduce Petroperú's costs and enhance its transparency and governance are also needed to safeguard fiscal credibility.

Box 4. Fiscal Pressures from Legislative Initiatives

A 2022 ruling from the Constitutional Court effectively granted Congress fiscal initiative. Article 79 of the 1993 Constitution states that Congress cannot create or augment public spending beyond its own budget and that the approval of tax benefits or exemptions requires a previous technical analysis from the Ministry of Finance. A 2022 ruling from the Constitutional Court effectively granted fiscal initiative to Congress by interpreting that while legislative initiatives cannot affect the current year's budget, they can affect future fiscal commitments. This interpretation had immediate and important implications as it encouraged legislators to become more active on fiscal policy. According to the Fiscal Council, since 2021, the current legislature proposed and approved 168 initiatives with fiscal impact. Although less than 1/5 of these initiatives have been costed, they amount to 5.7 percent of 2024 GDP (of which 0.8 percent of GDP is deemed permanent). More broadly, the share of measures approved by insistence (those with a negative opinion from the Ministry of Finance) in the current legislature rose to 20 percent from only 9 percent over the previous 20 years.

Legislative activity in this area has introduced non-negligible medium-term costs, affecting fiscal credibility. Some of the recently approved measures reduce revenue collection. These include (i) extending a reduced VAT rate for micro and small businesses in the tourism sector, (ii) a new general framework for special economic zones with reduced corporate income tax (CIT) rates for 25 years, and (iii) waiving tax penalties and interests for tax-amnesty participants.¹ A reduced CIT rate for agroexporting businesses is also being debated. Other measures that raise spending include (i) revising collective bargaining rules, (ii) expanding the wage bill (by converting temporary workers into tenured public employees, increasing wages, and with new hires), (iii) creating 20 new universities, (iv) introducing a bi-cameral congress, and (v) the pension reform.²

Selected Tax Base-Reducing Initiatives by Congress

List and Description	Legislative Status	Potential Fiscal Cost
-Reduced VAT extension for the tourism sector	Approved	0.1% GDP/year
-Special Economic Zones 0% CIT rate for the first 5 years; 7.5% until year 10; 10% until year 15; 12.5% until year 20; and 15% until year 25	Approved	N/A
-Reduced CIT for large agri-business	Plenary agenda	0.2% GDP/year
-CIT and VAT benefits to promote industrial development, sustainability, renewable energy adoption, digitalization, and the knowledge economy	Commission debate	2.9% GDP/year
-Generalized VAT and other tax reductions 10% VAT rate for micro and small businesses, 12% for medium-sized firms, and 15% for all other businesses; suspension of financial transaction taxes until end-2026; drop to 2% tax rate on second-category incomes.	Commission debate	0.8% GDP/year
-Deduction on salaries for 18-25 and 55-65 year old workers	Commission debate	0.6% GDP/year
-Dedicated temporary tax regime for incomes earned up to 2022 but previously undeclared, which are now declared, repatriated, or invested	Approved	0.3% GDP/year
-Full waiver of fines, surcharges, interest, and all tax debt-related expenses for tax debt owed by Reactiva Perú beneficiaries until initiative's approval	Commission debate	8% GDP/year
-Exceptional incentive regime for businesses with tax debt incurred up to 2018, with tax-debt expense discounts depending on speed of repayment	Commission debate	7.6% GDP/year
Sources: Fiscal Council, MEF, and IMF staff estimates. Expected costs are reported in annual 2024 GDP percentage terms. The cost of tax amnesty initiatives is intended as one-off foregone collections.		

¹ Between 2014 and 2024, the number of tax bills increased by 190 percent, mostly seeking to grant preferential tax treatments.

² The pension reform, enacted in September 2024, increased the minimum pension, introduced a consumption-based contribution, made enrollment automatic, fostered competition among pension fund managers, and prohibited early withdrawals.

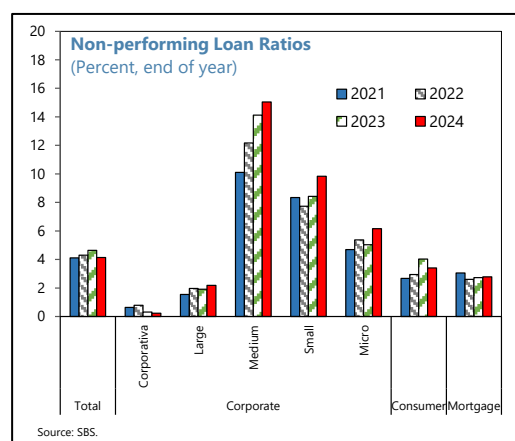
18. A number of legislative initiatives and government proposals would complicate the attainment of fiscal targets. Recent legislative initiatives have introduced non-negligible fiscal pressures, while lack of costing has reduced fiscal transparency (Box 4). To ensure transparency and thoroughly assess the implications for fiscal sustainability, all legislative initiatives should be

accompanied by a technical report from the Ministry of Finance (MEF) with rigorous costing.¹⁵ Moreover, proposals to establish zero-tax special economic zones, tax benefits for the agricultural sector, and a higher exemption threshold for the temporary net asset tax (ITAN) could erode the tax base. While growth- and efficiency-enhancing, an excessive reliance on PPPs and works-for-taxes for infrastructure provision could eventually raise the government's exposure to contingent liabilities and result in unforeseen budgetary pressures over the medium term.¹⁶ The MEF should retain its critical gatekeeper role in assessing and managing fiscal implications of PPP projects.¹⁷

C. Enhancing Financial Sector Resilience

19. The financial sector remains sound. Systemic risks are limited and largely unchanged.

Banks remain profitable, with ample liquidity and capital buffers.¹⁸ The NPL ratio is high but expected to continue improving, given strong economic activity. The financial supervisory authority's latest top-down stress tests suggest that the banking system would remain solvent with median capital ratio at around 13 percent under adverse scenarios, well above the minimum requirements of 10 percent. The authorities should continue to remain vigilant of pockets of vulnerability, particularly NPLs for medium- and small-sized firms and unhedged dollar-denominated credit exposure.



20. Focused macroprudential policies could reduce financial sector vulnerabilities from remaining dollarized credit. While the aggregate value of unhedged dollar credit is low (about 9 percent of total credit as of 2023), staff analysis, using a dollar loan dataset, shows that unhedged dollar credit tends to be riskier and concentrated in large- and medium-sized companies in the

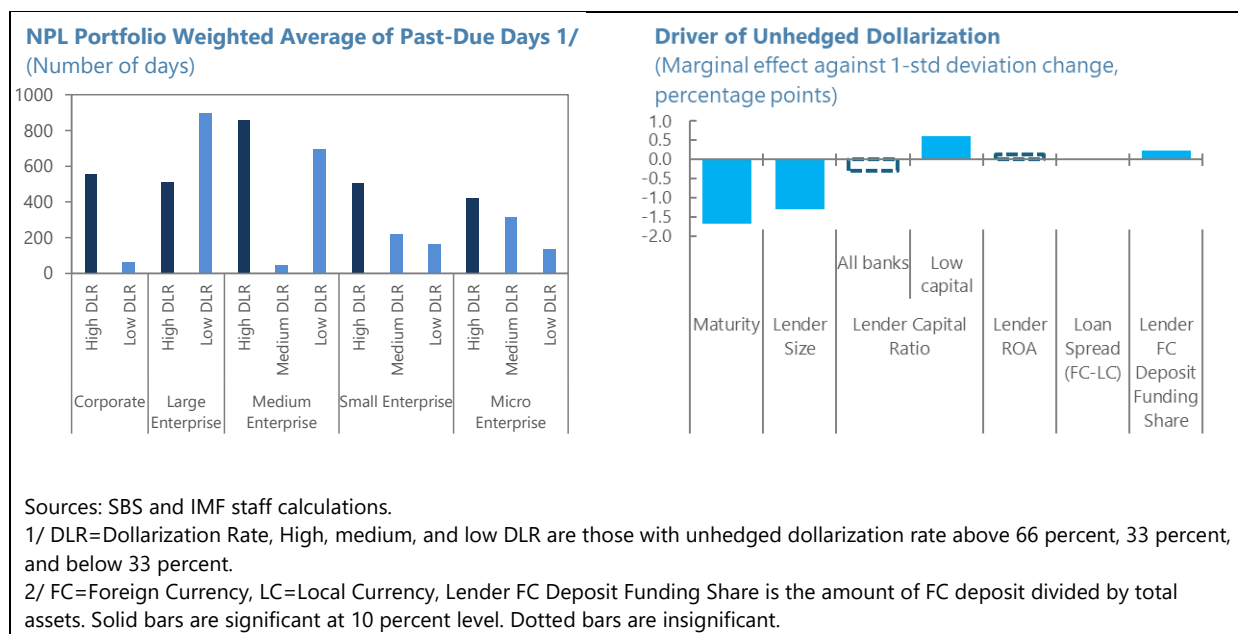
¹⁵ For example, in Chile, all initiatives debated in Congress are costed by the Ministry of Finance and published as an annex in the Quarterly Fiscal Report. In the US, the Congressional Budget Office provides the costing of all initiatives debated in Congress.

¹⁶ A rapid increase in PPP and works-for-taxes concessions could lower the quality of the selected projects. Public investment planning should carefully evaluate the merits and risks of different available investment modalities and ensure that resource allocation reflects the most pressing needs. PPPs also make the government liable for firm compensation, for example, when the service originating from a PPP project does not allow the firm to recover its investment. In the case of works-for-taxes, the time lags between their concession, execution, and the tax credit use by the firm can introduce significant uncertainty for medium-term budgeting and result in unexpected budgetary needs (inclusive of future maintenance costs) at the central and subnational government level. The geographic distribution of interested firms could also exacerbate investment allocation inequalities.

¹⁷ In April 2025, Congress approved a reform (still to be enacted by the Executive) that would shift the role of governing entity overseeing and managing PPPs from the MEF to ProInversión, the PPP promotion entity. This change could undermine the MEF's ability to provide prior binding opinions on critical issues during the PPP's development and approval process and could affect comprehensive investment planning, efficiency, and fiscal risks.

¹⁸ Peru's banking sector is highly concentrated, with five banks accounting for over 85 percent of banking sector assets.

construction, commerce, and manufacturing sectors (Annex V).¹⁹ To contain vulnerabilities, the financial supervisory authority has introduced a new regulation to impose higher capital charges on credit to debtors with higher unhedged FX exposure, taking effect in 2026.²⁰ The effectiveness of these measures could be enhanced by improving the identification of unhedged positions, including hedging through FX derivatives. Staff analysis also shows that lender characteristics, such as capital ratios and availability of dollar deposit funding, are positively correlated with unhedged dollar credit. To ensure the stability of dollar funding for financial institutions, the authorities could consider introducing currency-specific Net Stable Funding Ratio (NSFR) requirements to complement the existing currency-specific Liquidity Coverage Ratio (LCR) limits.



21. Policy efforts are needed to revive the domestic capital market. Public offerings in the domestic capital market significantly decreased since the pandemic. A recovery has been curtailed by seven rounds of pension withdrawals, which limited pension funds' investments. Maintaining the prohibition of future pension withdrawals, as approved in the recent pension reform, is critical to protect the functioning of the domestic capital market, decrease financing costs, and lower the risks of old-age poverty. In addition, the securities market regulator should continue its efforts to expand the investor base through the introduction of new retail products, such as sovereign exchange-traded funds (ETFs) that were launched in early April 2025.²¹

¹⁹ Unhedged dollar credit refers to dollar credit to unhedged debtors.

²⁰ Resolution S.B.S. n°-00774-2025 will be in effect in January 2026 and is envisaged to roughly double the capital charge for unhedged borrowers. The new regulation includes new metrics for evaluating unhedged exposure based on the coverage ratio, defined as the Earnings Before Interest Tax, Depreciation, and Amortization (EBITDA) divided by the sum of long-term debt plus interest expenses.

²¹ The securities market regulator has also developed a roadmap aimed at revitalizing the capital markets, which was published in early March 2025. This roadmap outlines plans to expand the securities issuers and investor base, improve infrastructure, and enhance transparency and governance.

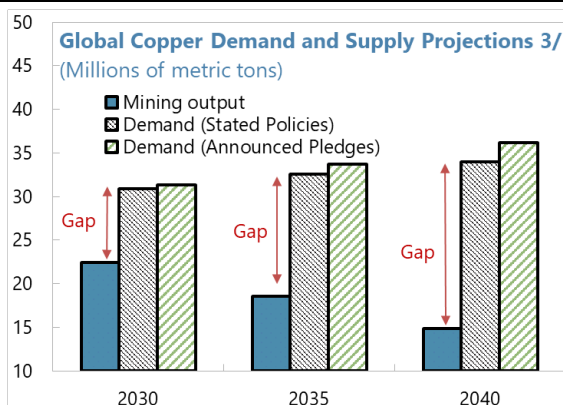
22. Operationalizing new regulations and addressing remaining gaps will enhance financial resilience. Most institutions already comply with Basel III capital requirements, as recommended by the 2018 FSAP (Annex VI). The authorities have made progress in revising the Basel III risk-weight framework and plan to review the countercyclical capital buffer (CCyB) activation criteria to combine data-dependent signals with expert judgement. Recovery plans for domestic systemically important banks have been submitted for review and should be later extended to the financial group level and to their resolution planning thereafter.

D. Reviving the Critical Mineral Sector and Potential Growth

23. Further investments in developing and exporting critical minerals would increase potential growth. Reversing negative TFP growth and revitalizing private investment would raise potential growth, which has continuously declined since 2014 (see [2024 Selected Issues](#)). Peru holds the second-largest global reserves of copper, a critical mineral projected by the International Energy Agency (IEA) to face a worsening global supply shortage. However, a US\$64 billion pipeline of mining investment projects has been mostly stalled for many years due to bureaucratic complexity and social conflicts. Staff calculations using the IMF DIGNAR model show that unlocking these projects and channeling the additional fiscal revenues from expanded mining operations to growth-enhancing public investment would permanently boost potential growth, by increasing the annual growth dividend to 0.7 percentage points (p.p.) during the mining expansion and 0.2 p.p. afterwards. Closing the public investment efficiency gap relative to LA5 peers could further raise annual potential growth (Box 5). The country should strive to adopt and enforce the highest international environmental quality standards and practices as it increases mining operations. Advancing pathways to formalizing small-scale miners and combatting illegal mining are essential to ensure a stable environment to foster investments.

Top 10 Mining Projects by Investment 1/

Project	Mineral	Type	Investment (US\$ mln)	Years of Delay 2/
Conga	Gold	Greenfield	4,800	12
El Galeno	Copper	Greenfield	3,500	14
Hierro Apurímac	Iron	Greenfield	2,900	4
Río Blanco	Copper	Greenfield	2,792	12
Los Chancas	Copper	Greenfield	2,600	11
Michiquillay	Copper	Greenfield	2,500	12
Yanacocha Sulfuros	Copper	Brownfield	2,500	1
La Granja	Copper	Greenfield	2,400	13
Haquira	Copper	Greenfield	1,860	11
Pampa de Pongo	Iron	Greenfield	1,781	12



Sources: MINEM and International Energy Agency.

1/ As of November 2024.

2/ Based on initial estimated start of operations.

3/ The IEA's Stated Policies Scenario reflects the current trajectory of the energy system based on existing policy settings. The Announced Pledges Scenario assumes that governments will fully and timely deliver on all their announced climate-related commitments.

Box 5. Growth Dividends from Unlocking Peru's Potential as a Critical Mineral Exporter¹

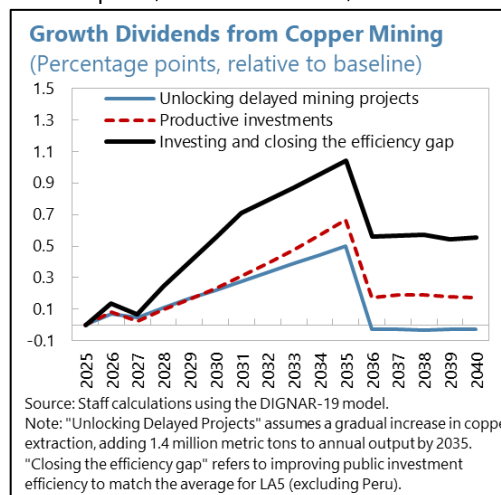
The anticipated increase in the global copper demand shortage presents a growth opportunity for Peru. The forecasted copper supply-demand imbalances could lead to higher copper prices (as supply increases typically lag demand growth, as recently attested by the sevenfold increase in lithium prices during 2022-2023), improving Peru's terms of trade and boosting nominal exports, national income, and fiscal revenues, even without an increase in production.

Unlocking stalled mining projects would temporarily increase potential growth. Staff calculations, using the IMF's DIGNAR model, suggest that unlocking delayed mining projects could add up to 0.5 percentage points (p.p.) to annual potential growth during the mining ramp up (between 2025 and 2035), after which growth would return to its initial trajectory.

Channeling additional resources into productive investment could help preserve the growth dividend.

Allocating 45 percent of the additional fiscal revenues from expanded mining operations into productive public investment projects—that, for example, address infrastructure gaps or enhance climate resilience—could lift

annual potential growth by up to 0.7 p.p. during the ramp up and by 0.2 p.p. afterwards.² Saving a portion of fiscal revenues could also help mitigate potential Dutch disease effects from expanded mining operations. However, to fully take advantage of the growth dividends, poor public investment selection and execution, institutional challenges, and governance weaknesses must be addressed. Closing the public investment efficiency gap relative to LA5 peers could further raise annual potential growth, by up to 1 p.p. during the ramp up and 0.6 p.p. afterwards, but the pace of public investment should take into account absorptive capacity constraints.



¹ Prepared by Zamid Aligishiev. See more details in Annex VII.

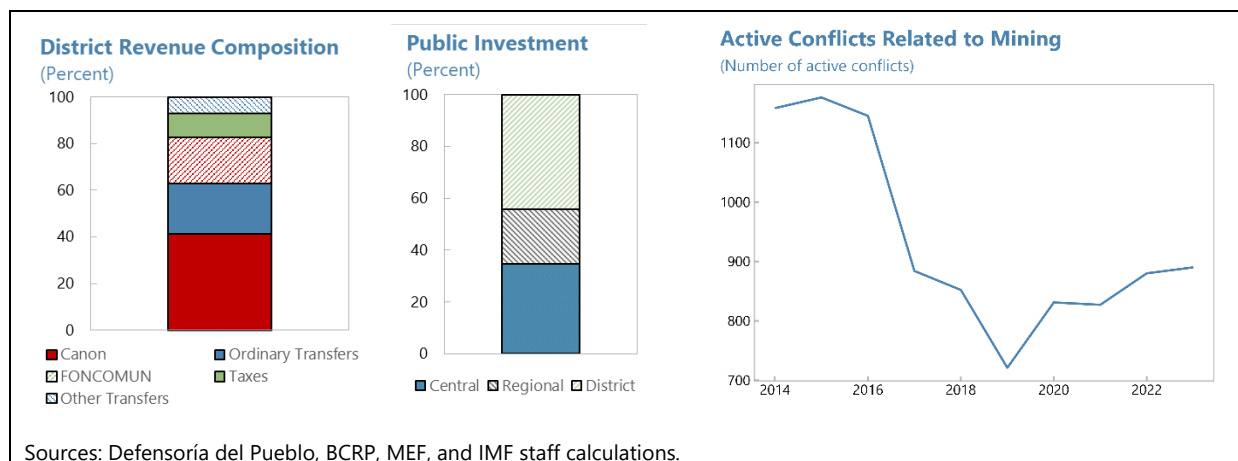
² In all scenarios, copper mining activity is projected to gradually expand starting in 2025, contributing an additional 1.4 million metric tons to annual output by 2035. The price of copper is assumed to remain steady at \$8.19 per kilogram throughout the projection period. The "Closing the Efficiency Gap" scenario envisions a phased implementation of reforms aimed at improving public investment efficiency to the LA5 average (excluding Peru) by 2030.

24. Updating the fiscal decentralization framework could help ensure that mining dividends translate into greater development. Social conflicts, which have long delayed new mining projects, arise from a perception among local communities that mining does not yield tangible benefits.²² Although local governments receive nearly 2 percent of GDP in natural resource revenues and account for over 40 percent of public investment,²³ staff analysis of local investment

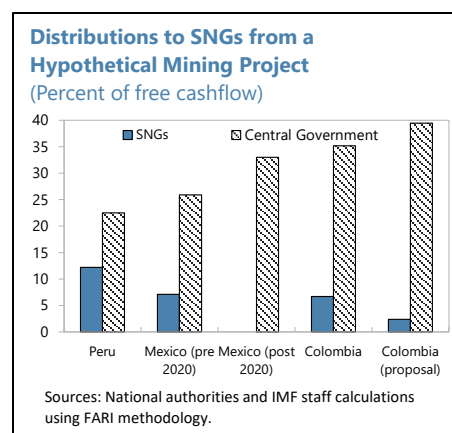
²² Disputes often center around water availability, land use, environmental damage, and economic disruptions. Peru has institutions and frameworks for preventing, monitoring, and managing conflicts, but these are scattered and often ineffective (World Bank, 2021, "Peru – Mining Sector Diagnostic").

²³ There are four levels of administration in Peru: the central government, regional governments, and two categories of local governments (provinces and districts). Regional and local governments constitute the subnational governments. Regional and local government budgets are heavily reliant on transfers from the central government, including ordinary transfers (which are discretionary), equalization transfers (FONCOR, *Fondo de Compensación Regional*, and FONCOMUN, *Fondo de Compensación Municipal*), and natural resource-based transfers (the canon, which is financed by 50 percent of corporate income taxes and royalties levied on natural resource production, primarily mining). FONCOR and resource-based transfers are earmarked for public investment.

projects, public goods provision, and development outcomes shows a limited impact on economic development, possibly related to investment project selection and execution and institutional challenges (Box 6). To improve public spending efficiency and generate high-impact investments, efforts should focus on enhancing the scale and impact of projects; improving coordination between local, regional, and central governments; increasing the capacity of regional and local authorities with project formulation and implementation; replacing discretionary transfers with rules-based transfers to improve predictability;²⁴ tracing the final use of transfers at the local government level; and strengthening accountability and oversight from the central government.



25. Natural resource revenue-sharing formulas should be redesigned. As in many countries, the allocation of natural resource revenues (NRR) to subnational governments (SNG) is based on the principle of origin, with producing districts receiving a larger share to compensate them for the costs and externalities of natural resource extraction. In Peru, the share of NRR allocated to SNG is relatively high compared to peers, and the distribution is extremely unequal. In addition, the allocation of NRR to SNG is remarkably volatile, which complicates the planning and execution of local and regional investment projects. The revenue-sharing formulas should be revamped such that a share of the NRR to SNG co-finances, with the central government, high-impact regional projects, such as irrigation districts, water and electricity generation or transport infrastructure; benefits accrue more equitably outside of producing districts;²⁵ and the volatility of NRR transfers to SNG is reduced (for instance, by using a moving average of NRR in the distribution formula) (Box 7). To ensure that fiscal revenues increase commensurately with expanded mining operations, the



²⁴ For regional governments, discretionary transfers (ordinary transfers) make up 70 percent of regional revenues and are earmarked for line ministries' regional offices.

²⁵ Article 66 of the 1993 Constitution states that all natural resources are owned by the Nation.

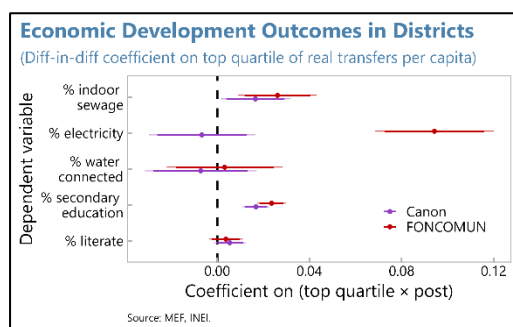
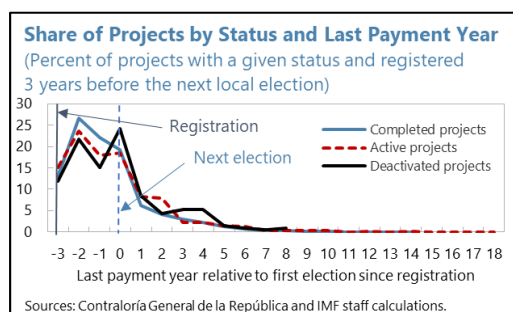
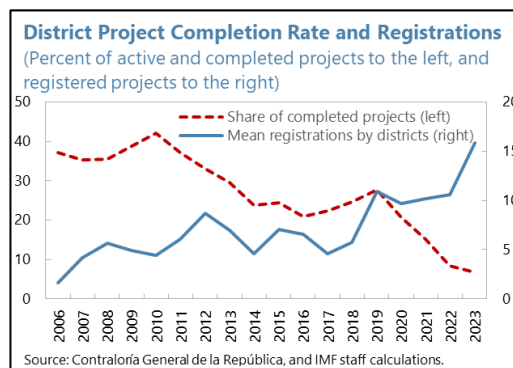
progressivity of the fiscal regime for mining could be enhanced, so that the government take increases for more profitable projects.

Box 6. Assessing the Fiscal Decentralization Framework¹

District governments execute a large share of public investment. The decentralization process began in 2002. As the lowest administrative level, districts receive about 80 percent of their funding through central government transfers, including resource-based revenues (the canon) and an equalization transfer (FONCOMUN). Despite their limited capacity and size (with a median population under 5,000), districts execute over 40 percent of public investment. Staff analysis of local investment projects registered in the *Banco de Inversiones* shows that the average number of registered projects per district has increased nearly 10-fold to 15.8 over 2006-23, with nearly all districts currently registering projects.

Limited capacity and institutional constraints weigh on the execution and transformative potential of district investments. Fewer than 40 percent of projects registered before 2010 have been completed (as of August 2024). Despite limited technical expertise in project design and management, districts are constrained to spend their allocated funds, as the canon is earmarked for public investment. As a result, they mostly undertake feasible projects, which are small and of a short-time horizon but with a low impact. Only 3 percent of districts have ever completed projects over US\$13.4 million. Projects are closely tied to political cycles, with the average project executed in 16 months and unfinished projects often abandoned when new authorities enter office and prioritize new projects.

Districts that are top recipients of canon and FONCOMUN have more public goods, but not necessarily better development. High canon and high FONCOMUN districts were identified as those in the top quartile of real canon and FONCOMUN transfers per capita between 2002-14. Using data from an annual survey of district governments, social conflict reports, and the censuses,² the impact on local public goods and development was estimated by comparing relative outcomes using a difference-in-differences specification when feasible. Compared to other districts, top recipient districts have more public goods, including municipal employees, police officers and stations, and health centers. However, mining-related social conflicts are higher in high canon districts, which could be related to the fact that their development outcomes are not consistently better and basic needs gaps mostly persist. Spending efficiency is also quite low, as high canon districts do not experience better outcomes than high FONCOMUN districts despite having 40 percent higher revenues per capita.



¹ Prepared by Moya Chin, Enrico Di Gregorio, and Jose Torres. See more details in the accompanying Selected Issues Paper "Revamping Fiscal Decentralization to Secure Peru's Position as a Leading Critical Mineral Exporter."

² The 2004-23 *Registro Nacional de Municipalidades*, 2014-23 social conflict reports, and 1993, 2005, 2007, and 2017 censuses.

Box 7. Reforming Natural Resource Revenue-Sharing Formulas¹

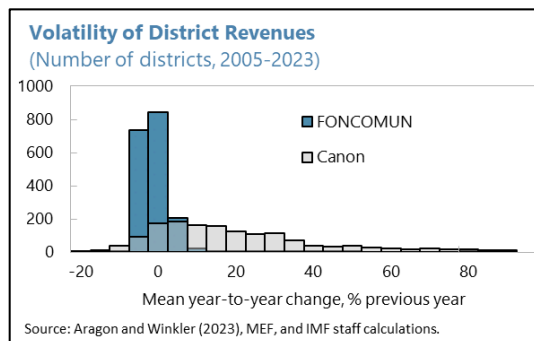
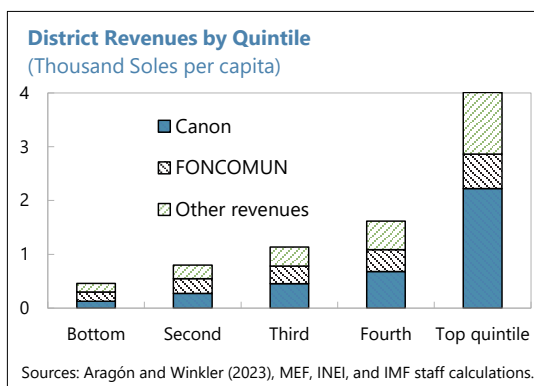
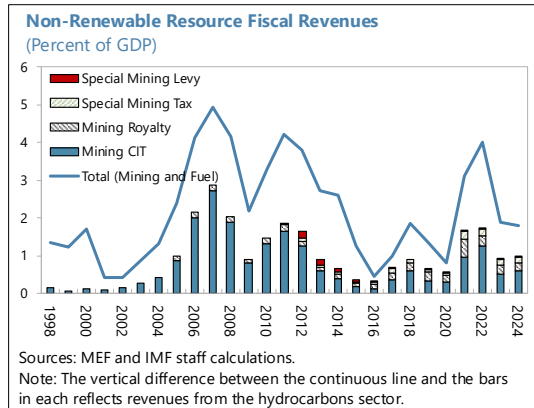
The allocation of NRR to SNG typically follows the principle of origin but is also influenced by country-specific factors. Peru collects NRR using several profit-based fiscal instruments. As in other mining countries, although SNG do not have a sovereign right to natural resources, the government transfers a share of NRR, allocating a higher share to producing districts (principle of origin) to cover the costs of extraction (including negative externalities). The allocation of NRR to SNG can also be influenced by considerations for regional inequalities and political economy.

In Peru, the share of NRR distributed to SNG is high.

SNG receive 50 percent of income tax receipts (the canon) and all mining royalties, while in Colombia SNG receive only 25 percent of royalties. A more systematic comparison, using FAD's FARI model,² shows that the share of NRR distributed in Peru is very high and is likely to substantially exceed extraction costs. After the mid-2000s commodity price boom, the high fixed share led to substantial resources flowing to small districts and inefficient spending (given limited local capacity).

NRR transfers perpetuate regional inequality. Given that natural resources are geographically concentrated, and the canon allocation formula heavily favors producing districts, transfers to SNG are very unequal (with 70 percent of the canon allocated to only 20 percent of districts). This perpetuates regional disparities as equalization transfers (FONCOR and FONCOMUN) are too small and their formulas are not means-tested to significantly offset the uneven distribution of NRR. Allocating a greater share of NRR to non-producing districts would help reduce regional inequality and better reflect the Constitution, which states that natural resources belong to all Peruvians (not just to producing regions).

Distributions to SNG are highly volatile, hindering public investment planning and execution. On average, canon revenues for the median district fluctuate nearly 30 percent year to year. The allocation formula transfers the volatility of NRR to SNG, although the central government is better prepared to handle it given its access to financial markets on favorable terms. This greatly complicates the planning and execution of infrastructure projects, promotes pro-cyclical fiscal policies at the subnational level, and reduces the capacity of national fiscal policy to respond to adverse shocks. To reduce volatility, other resource-rich countries have introduced stabilization mechanisms or sovereign wealth funds. Using a simple moving average in the allocation formula could also reduce volatility.



¹ Prepared by Eduardo Camero.

² The Fiscal Analysis of Resource Industries (FARI) methodology uses a discounted cash flow model to compare fiscal regimes for extractive industries.

26. More structural reforms are urgently needed to durably lift potential growth. The authorities have made progress in unblocking large transportation and irrigation infrastructure projects, but efforts are needed to curb the low but rising level of insecurity,²⁶ reform labor and tax regulations that impose excessive costs for formalizing or growing a business, enhance the independence and integrity of judicial bodies to end corruption impunity, build resilience to natural disasters, and embrace the opportunities of digital technologies and artificial intelligence (see [2024 Article IV](#)). The OECD accession process provides a clear roadmap for other needed reforms to boost the business climate, reduce informality, and reform the civil service.

AUTHORITIES' VIEWS

27. The authorities indicated that medium-term growth would exceed 3 percent, with 2025 projected to be the year of strongest expansion. They emphasized that the vigorous rebound in 2024 has led to a strong positive inertia that is continuing into 2025 and would support a growth rate above 3 percent. They explained that business expectations are buoyant and high frequency indicators signal that private investment is rising. They noted that while the output gap is closed, labor markets would continue improving and supporting the robust private demand.

28. The authorities acknowledged the presence of both favorable and adverse factors that may affect the evolution of economic growth. They highlighted the upside risks to growth from recent government initiatives to boost investment and productivity. More specifically, the government is implementing concrete measures aimed at fast-tracking investments, with a particular focus on developing a portfolio of over US\$70 billion in public-private partnership (PPP) projects and promoting mining investments totaling more than US\$65 billion. Additionally, a cross-sector deregulation initiative is being rolled out to remove bureaucratic obstacles, facilitate strategic project execution, and encourage greater private sector involvement in addressing infrastructure gaps, all of which are expected to sustain the economic recovery and boost formal employment. On their part, they considered that the first-round effects of trade policy shocks would be limited, as local agroindustry and mining companies operate with sufficient margins to absorb the impacts of shocks and expected only moderate reductions in external demand.

29. The authorities concurred that a broadly neutral monetary policy stance is appropriate. They noted that inflation expectations are well-anchored, and the output gap is closed. They explained that due to food price shocks in early 2024, inflation is currently below the midpoint of the target range, which has led to a decline in inflation expectations, but would return to the midpoint by the second half of the year. Given heightened external uncertainty, they signaled that monetary policy would continue to be data dependent.

30. The authorities remained committed to a gradual fiscal consolidation and underscored the importance of boosting potential growth. They concurred with the need to maintain fiscal prudence and intend to comply with the 2025 fiscal deficit target. They explained that the 2024

²⁶ Between 2019-2024, extortion allegations per 100,000 inhabitants have increased to 64.1 (from 12.0) and homicides per 100,000 inhabitants have increased to 7.4 (from 3.5). Despite the rapid increase, crime rates in Peru remain among the lowest in the region.

public procurement law and other rationalization measures would help control current spending by improving spending efficiency, while the taxation of digital services and efforts to improve tax administration would complement the cyclical rebound in revenues. They stressed that PPP and works-for-taxes projects would be executed with high standards by experienced firms, and that such initiatives would enhance the quality of public infrastructure without generating spending pressures on the current budget, while also providing a flexible response to emerging issues such as insecurity. They noted that, in the medium term, if evolving economic and fiscal conditions justify it, a reconsideration of the current medium-term fiscal target and debt ceiling may be contemplated to strengthen the established fiscal framework. Such a change would need an exhaustive analysis conducted in coordination with all stakeholders and founded on a broad consensus. Further, they emphasized that to strengthen public finances, it is necessary to continue making efforts to increase tax collection and generate efficiency gains in public spending. Lastly, they indicated the importance of continuing the close monitoring of the implementation of measures that Petroperú agreed to in 2024 and expect reform plans to be announced later in the year.

31. The authorities concur that the financial system is sound and systemic risks are limited. They emphasized that capital holdings and liquidity are well above minimum requirements to handle adverse scenarios. They noted that while credit growth recovered only slowly in 2024, recent improvements in NPLs could support the recovery going forward. They confirmed that the ongoing revision of the risk weighting scheme for bank capital regulation would align more closely with Basel III standards, with most FSAP recommendations already implemented. They are recalibrating the counter-cyclical policy activation criteria, reflecting recommendations from the 2024 Article IV consultation. They strongly reiterated their opposition to new private pension withdrawals, which were prohibited in the recent pension reform law, as this would harm the domestic capital market.

32. The authorities support focused macroprudential policies to reduce financial vulnerabilities from remaining dollarized credit. They acknowledged that, while aggregate unhedged dollarization is low, it is concentrated in some large- and medium-sized firms. However, despite the concentration of dollarization in certain credit portfolios, these exhibit very low credit risk indicators and are not currently viewed as a pressing macroprudential concern. To further mitigate any potential accumulation of foreign exchange credit risk, they are revising add-ons to raise the capital charge for foreign currency-denominated credit under new regulations and have established clearer criteria for identifying unhedged credit exposure. The authorities agreed to evaluate the introduction of currency-specific NSFR, along with the existing currency-specific LCR.

33. The authorities recognized that updating the fiscal decentralization framework could help revive the critical mineral sector and potential growth. They acknowledged that inefficient public spending of natural resource revenues has fueled social conflicts and delayed mining projects. They agreed that public spending could be made more impactful by implementing improvements in the management of natural resource revenues; enhancing the scale and impact of local public investment projects; and improving coordination between different levels of government. They further noted that local governments could take advantage of PPP and works-for-

taxes opportunities to address urgent public investment needs. They highlighted that the rising trend of illegal mining is worrisome, and that additional measures would be needed to effectively combat it. They stated their interest in moving towards a more progressive tax system for the mining sector, although they emphasized the importance of carefully evaluating any changes based on the need to maintain a stable economic environment that is attractive to investment.

STAFF APPRAISAL

34. After a strong recovery, growth is expected to moderate, amid global policy uncertainty and pre-election tensions, and thereafter to remain close to potential. With a closed output gap and firmly anchored inflation expectations, headline inflation would remain within the target band. The current account balance is envisaged to remain in a surplus, only gradually returning to a deficit in the medium term—stabilizing at its norm, of about 1.5 percent of GDP—as private investment recovers and terms of trade normalize. The external position in 2024 was stronger than the level implied by medium-term fundamentals and desirable policies, due to strong terms of trade and a recovery in traditional exports. Risks are tilted to the downside given elevated external uncertainty, but Peru has ample buffers to cope with shocks. Very strong macroeconomic policies and institutional policy frameworks remain in place.

35. A broadly neutral monetary policy stance is appropriate. Inflation expectations are approaching 2 percent, and the output gap is closed. However, given heightened external uncertainty, monetary policy should remain data dependent. Continued exchange rate flexibility should be allowed to help cushion the impact of external shocks.

36. Meeting the 2025 fiscal deficit target will require additional efforts in a pre-election year. The 2025 budget envisages a deficit of 2.2 percent of GDP, consistent with the revised fiscal rule target. A tax revenue rebound from the economic recovery and one-off factors will help reduce the deficit in 2025, but additional efforts of about 0.4 percent of GDP will be needed to secure fiscal rule compliance. Additional spending control measures would make this year's consolidation plans more credible and balanced. In May 2025, the authorities announced initiatives to improve spending efficiency, but further efforts will be needed to comply with this year's target.

37. A combination of spending restraint and revenue-raising measures would be needed to comply with the medium-term fiscal targets. To comply with the fiscal rule deficit target of 1 percent of GDP by 2028 and the debt ceiling of 30 percent of GDP by 2035, the authorities' medium-term consolidation plan envisages a reduction of current spending by about 0.4 percent of GDP per year between 2026 and 2028. Identifying both revenue and spending measures—including efforts to streamline tax expenditures; strengthen tax administration; and control wages, discretionary transfers, and inefficient public investment—would secure a balanced and gradual consolidation. In the absence of measures, public debt would gradually rise over the medium term, while remaining relatively low compared to peers. Legislative initiatives bearing fiscal costs, proposals that erode the tax base, and excessive reliance on private participation schemes would complicate the attainment of fiscal targets. Reforms to significantly reduce Petroperú's costs and enhance its transparency and governance are also needed to safeguard fiscal credibility.

38. Systemic risks are limited, but authorities should continue to proactively contain financial vulnerabilities.

Banks are profitable, with ample liquidity and capital buffers. While elevated for small- and medium-sized firms, NPLs are expected to continue improving and would support the growth of credit. The authorities should continue to be vigilant of pockets of vulnerability, particularly in corporate loans.

39. Focused macroprudential policies could reduce financial vulnerabilities from remaining dollarized credit.

While the aggregate value of unhedged dollar credit is low, unhedged dollar credit tends to be riskier and concentrated in large- and medium-sized companies in the construction, commerce, and manufacturing sectors. The authorities' regulation to introduce higher risk weighting in 2026 will help alleviate vulnerabilities from unhedged dollar credit. To ensure the stability of dollar funding for financial institutions, the authorities could consider introducing currency-specific NSFR requirements to complement the existing currency-specific LCR limits.

40. Policy efforts are needed to revive the domestic capital market. It is critical to maintain the prohibition of future pension withdrawals, as approved in the recent pension reform, to protect the functioning of the domestic capital market, decrease financing costs, and lower the risks of old-age poverty. Measures to broaden the investor base through retail investment products could play a significant role in attracting funds back into the securities market.

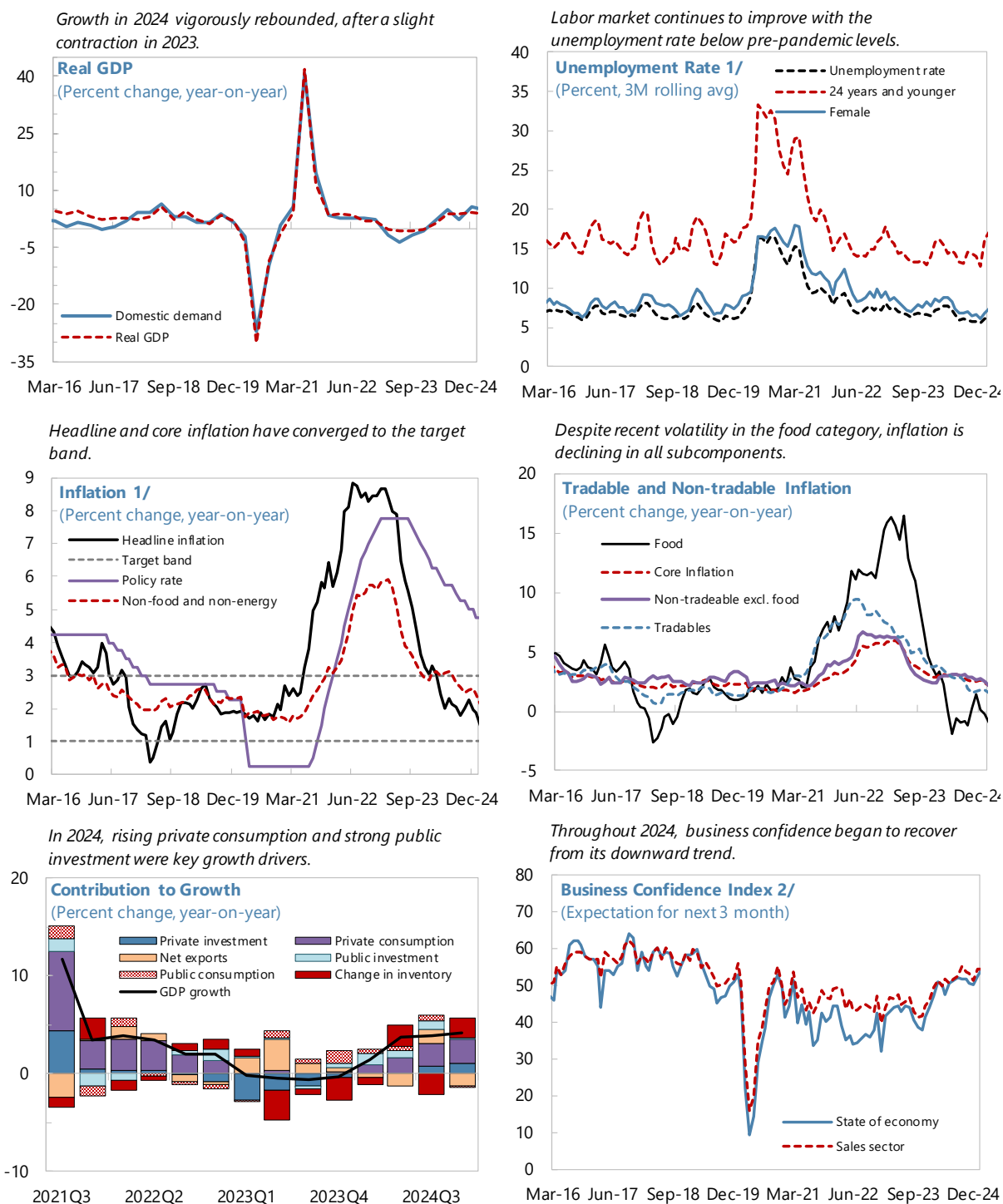
41. Financial resilience would be strengthened by addressing remaining regulatory gaps.

The revised Basel III risk-weight framework and improving the activation criteria for the countercyclical capital buffer (CCyB) will help enhance the effectiveness of the entire regulatory framework. Completing the evaluation of recovery plans for domestic systemically important banks and expanding to the financial group level and their resolution planning will eliminate uncertainty under potential systemic events by facilitating orderly crisis management.

42. Updating the fiscal decentralization framework, along other needed structural reforms, could help boost investments in the critical mineral sector and increase potential growth.

A US\$64 billion pipeline of mining investment projects has been mostly stalled for many years due to bureaucratic complexity and social conflicts. Unlocking these projects and channeling the additional fiscal revenues could permanently boost potential growth. Updating the fiscal decentralization framework, including redesigning natural resource revenue-sharing formulas, to improve public spending efficiency and generate high-impact public investments could help ensure that mining dividends translate into greater development. Enhanced efforts are also needed to curb the low but rising level of insecurity, reform labor and tax regulations that impose excessive costs for formalizing or growing a business, enhance the independence and integrity of judicial bodies and tools to combat corruption impunity, build resilience to natural disasters, and embrace the opportunities of digital technologies and artificial intelligence. The OECD accession process provides a clear roadmap for other critical reforms to boost the business climate, reduce informality, and reform the civil service.

43. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Peru: Real Sector Developments

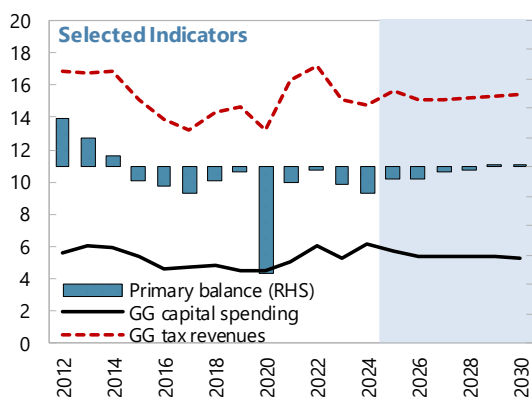
Sources: Banco Central de Reserva del Perú, HaverAnalytics, IMF staff calculations, INEI.

1/ Data covers the Metropolitan Lima area.

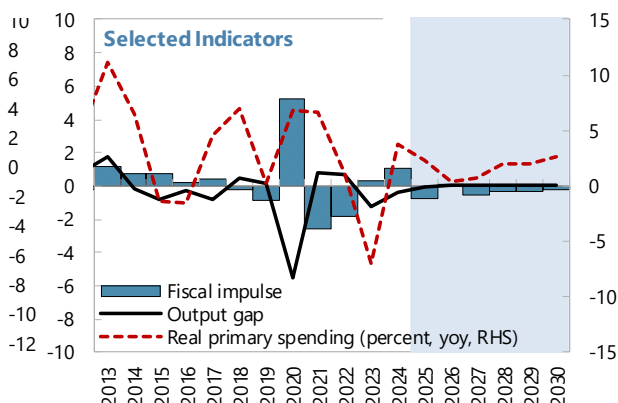
2/ Index values of 50 and greater indicate positive growth expectations.

Figure 2. Peru: Fiscal Policy Developments
(Non-Financial Public Sector, Percent of GDP unless otherwise indicated)

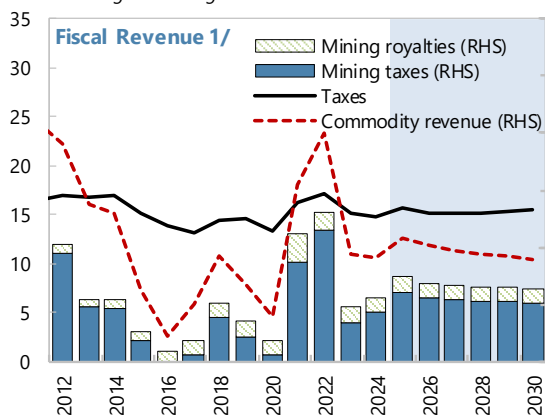
In 2024, fiscal accounts weakened due to lower than expected tax revenues and a public investment surge...



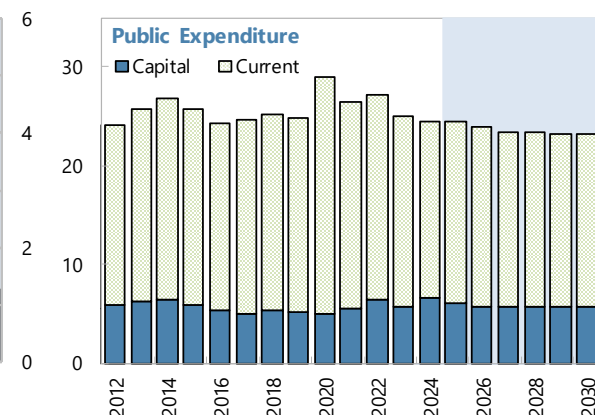
...resulting in an expansionary fiscal stance as the economy recovered from earlier years' shocks...



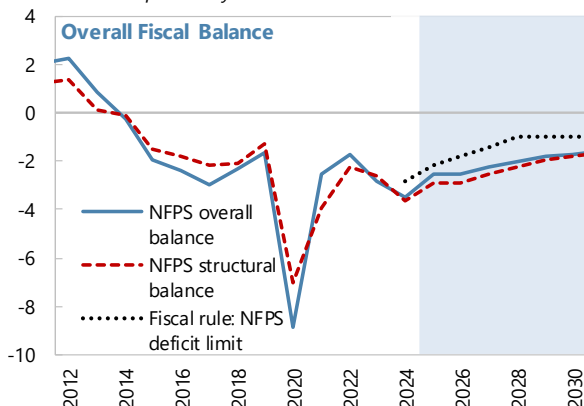
...and high commodity prices did not yet translate into higher mining revenues.



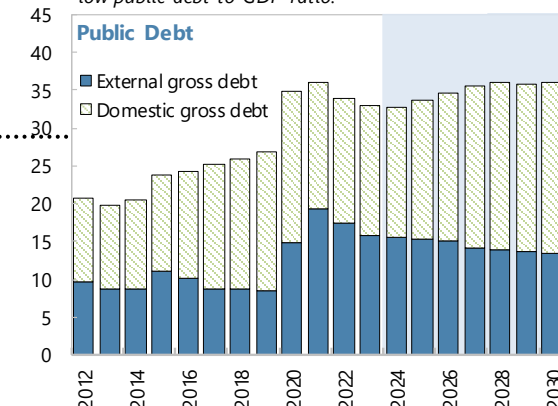
Future challenges in significantly reducing spending...



...may keep the NFPS deficit above the fiscal rule limits if not accompanied by revenue measures...



...putting upward pressure to an otherwise relatively low public debt-to-GDP ratio.

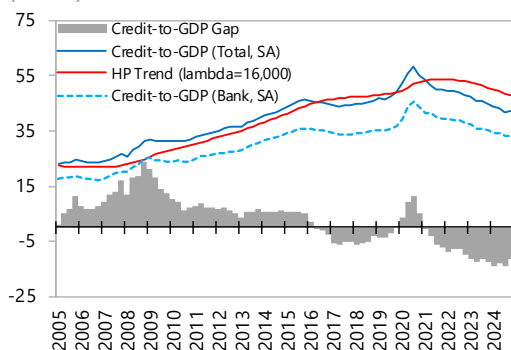


Sources: National authorities and IMF staff estimates.
1/ Net of restitutions.

Figure 3. Peru: Macro-Financial Conditions

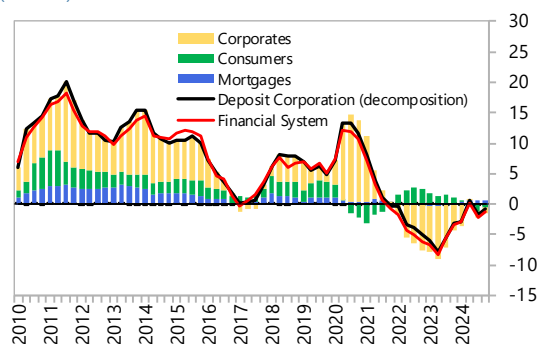
Credit has been weak compared to its trend, but the negative credit-to-GDP gap has begun narrowing...

Financial System Credit-to-GDP Ratio and Gap 1/
(Percent)



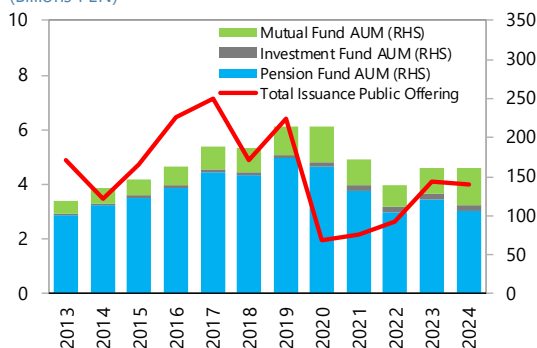
Real credit has stopped declining, but the momentum of growth is weak.

Real Growth of Credit
(Percent)



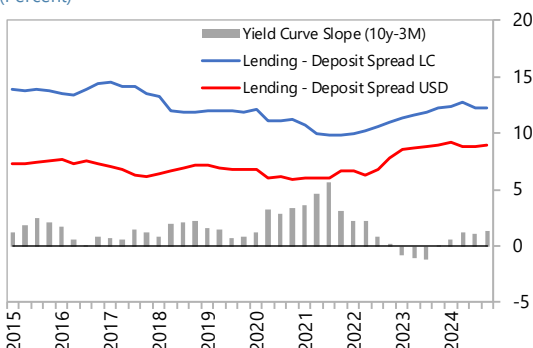
Public offerings are moderately recovering after the pandemic dip, but are weighed down by pension fund withdrawals.

Capital Market Activity and Pension Funds 2/
(Billions PEN)



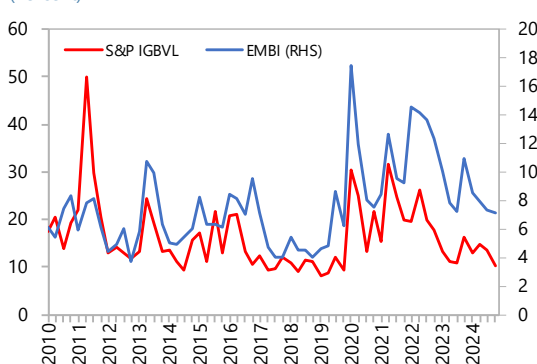
The loan-deposit spread for loans in LC is around the pre-pandemic level, while the spread for USD loans has

Loan Effective Credit Spread Against Deposit Rate 3/
(Percent)



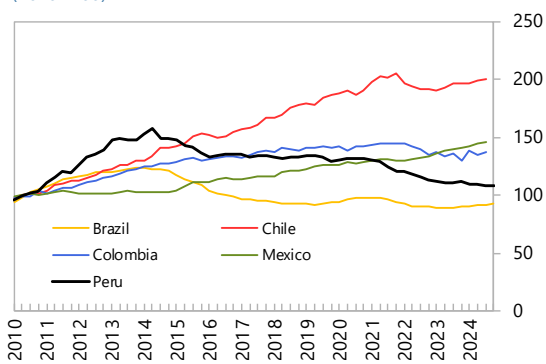
Volatility declined, and the capital market was stable in 2024.

Market Realized Volatility 4/
(Percent)



Residential property prices have been declining.

Development of Real Residential Property Price
(2010=100)



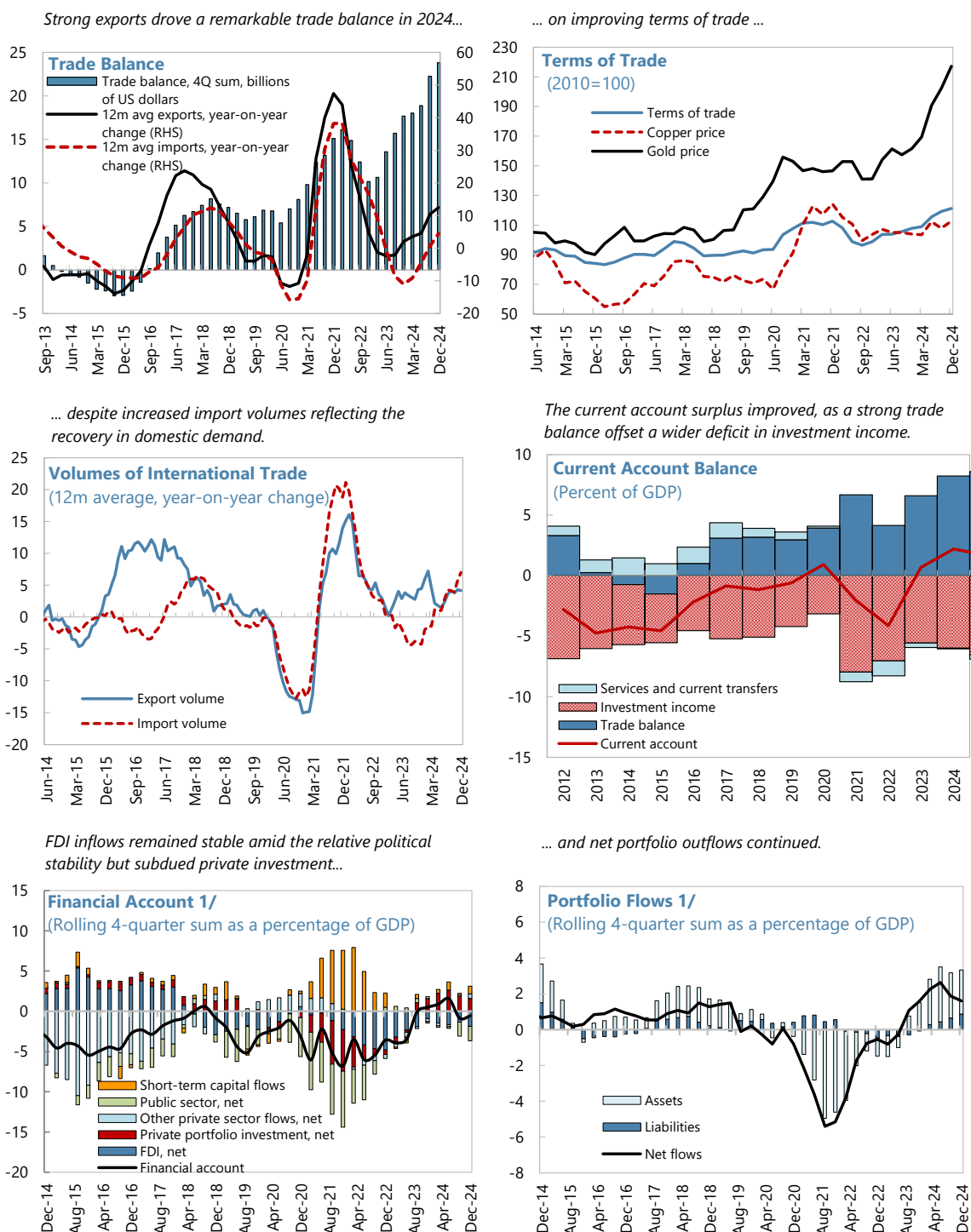
Sources: BCRP, BIS, IMF staff calculations, Refinitiv WorkSpace, and SBS.

1/ SA=Seasonal Adjusted. HP trend is based on HP filter with smoothing parameter lambda.

2/ AUM=Assets Under Management (including legal reserves).

3/ LC=Local Currency. Yield Curve Slope = 10-year sovereign bond yields - 3-month repo operation rates.

4/ S&P IGBVL and J.P. Morgan EMBI (Peru) total return index. Realized volatility of daily returns by moving 30-days average (backward -14days and forward +15days).

Figure 4. Peru: External Sector Developments

Sources: National authorities, Haver Analytics, and IMF staff estimates.

1/ Negative values indicate inflows.

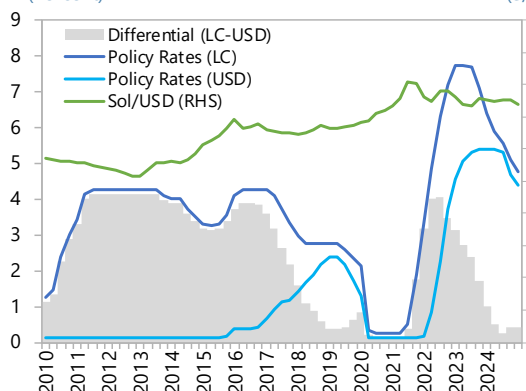
Figure 5. Peru: Exchange Rate Developments

Despite the substantial narrowing interest rate differential vis-à-vis the USD, the currency was stable in 2024.

The BCRP's FXI operations have been somewhat passive since 2022, with very little spot market operations.

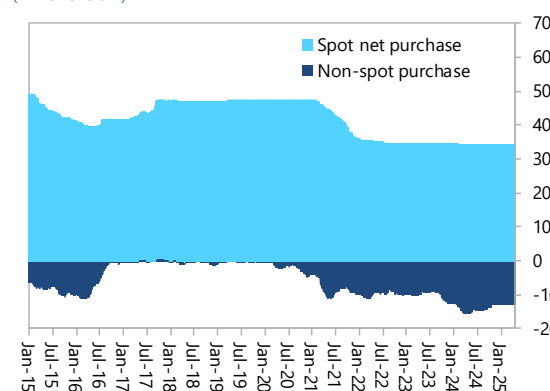
Exchange Rate and Interest Rate Differential

(Percent)



Cumulative Net Purchase of FX by BCRP

(S/USD) (Billions USD)

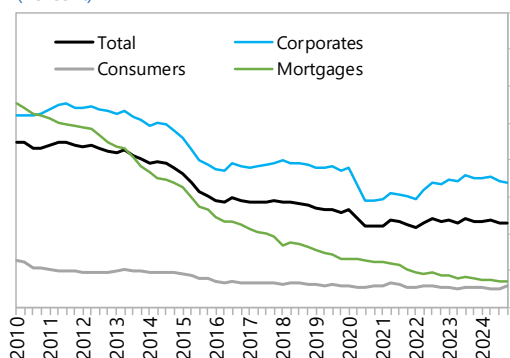


The dollarization rate has significantly declined since 2010, but since 2022 the momentum has stalled.

The open FX position of deposit institutions is small.

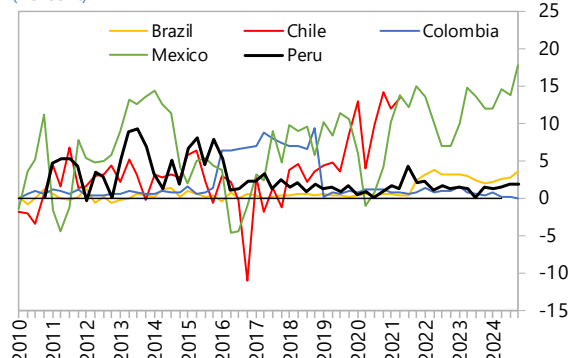
Dollarization Rate of Credit 1/

(Percent)



Deposit Institutions' Open FX Positions Per Capital

(Percent)

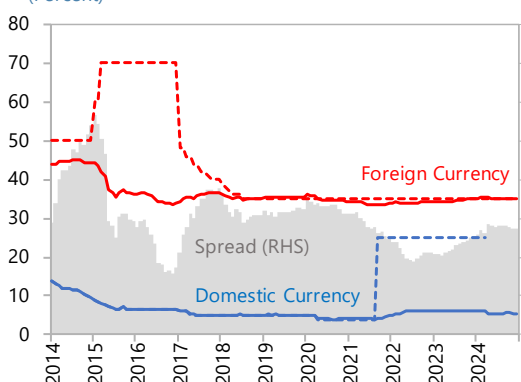


The spread between BCRP's required reserve ratio for foreign and local currency is still smaller than the pre-pandemic period.

The FX derivative market turnover of Peru is the lowest among LA5 countries.

Central Bank Reserve Requirement by Currency 2/

(Percent)



Turnover of Foreign Exchange Derivatives in 2022

(Billions USD)

(Percent of GDP)



Sources: BCRP, BIS, IMF, Haver, and Refinitiv Workspace.

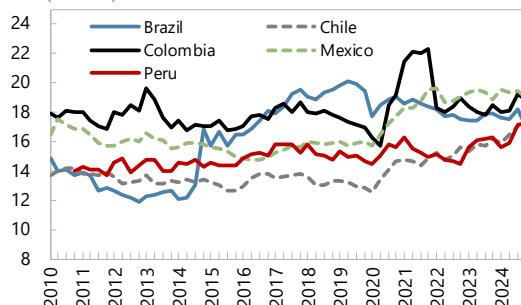
1/ Dollarization of credit from deposit institution to private sector. Calculation is based on IMF staff calculation with exchange rate implied in total credit from deposit institution to private sector.

2/ Solid lines represent average reserve requirement rates for outstanding balance. Dotted lines represent marginal reserve requirement rates for new positions. BCRP abolished marginal requirements for local currency in April 2024. Spread = Foreign Currency - Domestic Currency.

Figure 6. Peru: Financial Sector Developments

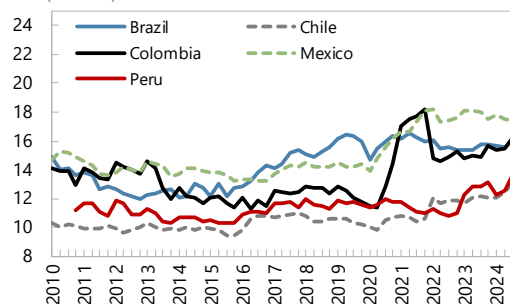
The regulatory capital ratio has increased since last year and is well above the required level of Basel III.

Regulatory Capital Ratio 1/ (Percent)



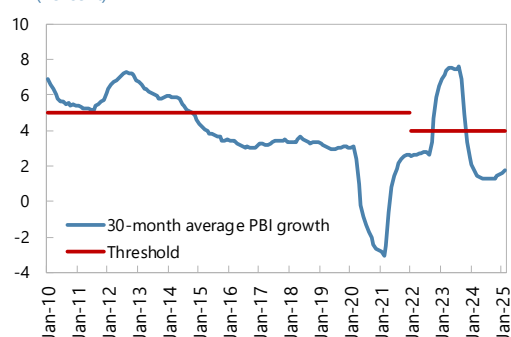
The Tier 1 capital ratio is well above the minimum required level under Basel III.

Tier 1 Capital Ratio 1/ (Percent)



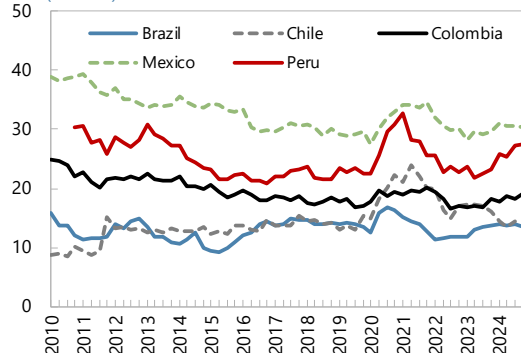
The counter-cyclical policy rule has resumed in June 2024, but is unlikely to be activated.

Counter-cyclical Policy Threshold 2/ (Percent)



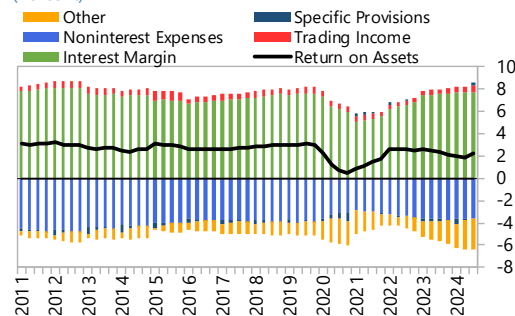
While most of the excess liquidity during the pandemic has been unwound, a relatively high level of liquidity is maintained.

Liquid Asset Ratio (Percent)



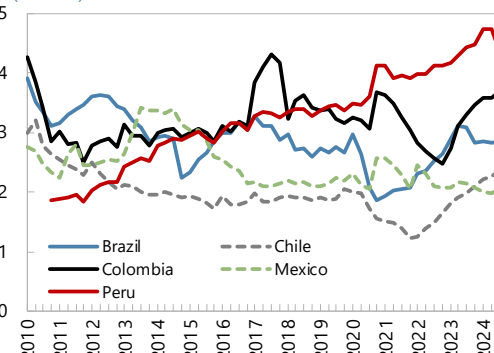
The positive contribution from a higher interest margin has been offset by increasing costs and provisions.

Decomposition of ROA (Percent)



The NPL ratio has been elevated, but started to improve in 2024.

Non-Performing Loans per Gross Loans 3/ (Percent)



Sources: IMF Financial Soundness Indicators.

1/ Under full implementation of Basel III, financial institutions are required to satisfy the minimum required Tier1 ratio (8.5%) = CET1 (4.5%) + conservation buffer CET1 (2.5%) + AT1 (1.5%), and minimum required total capital ratio (12.5%) = minimum Tier1 ratio (8.5%) + Tier2 capital ratio (4%) by September 2024.

2/ Counter-cyclical policy is activated when (i) 30-month average PBI growth cross the threshold from below, or (ii) the same indicator is above the threshold, and 12-month average PBI growth is 2% higher than the one in the previous year. As of December 22, 2022, SBS approved a resolution regarding cyclical component of capital conservation buffer, clarifying the procyclical rule to apply starting from June 2024 (Resolución S.B.S. N°3954-2022).

3/ Nonperforming loans are defined in each jurisdiction. For Peru they are defined as overdue loans after 15 days since the due date for commercial loans and after 30 days for small business loans. Mortgage, consumer, and leasing loans are considered overdue after 30 days since the due date for the non-paid portion and after 90 days for all the credit. The overdue loans include credits under judicial resolution.

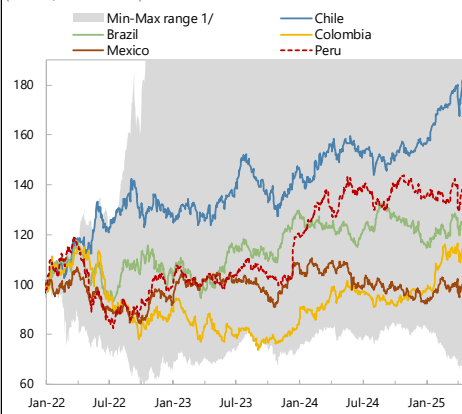
Figure 7. Peru: Financial Market Indicators

Peruvian equities trended upward in 2024 given the economic recovery and relative political stability, but declined in early 2025 amid trade policy uncertainty.

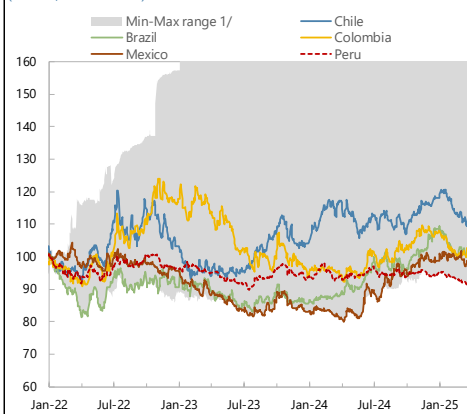
The PEN remains stable relative to the USD, with low levels of volatility compared to peers.

Domestic Equity Indices 2/

(Jan 04, 2022 = 100)

**Local Currency per US Dollar Indices**

(Jan 04, 2022 = 100)

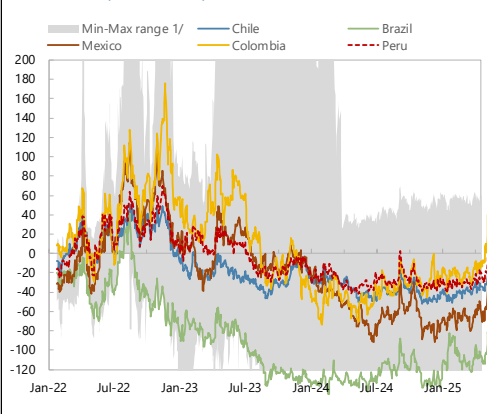


Spreads remain stable due to a decline in external shocks characterizing the volatility of preceding years...

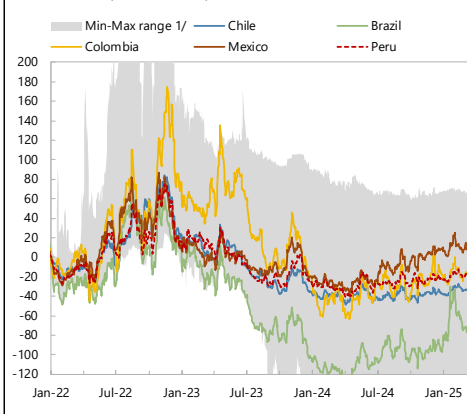
... While CDS spreads have followed the same trend.

EMBIG Spreads 3/

(Difference in spreads (basis points) relative to Jan 04, 2022)

**CDS Spreads**

(Difference in spreads (basis points) relative to Jan 04, 2022)

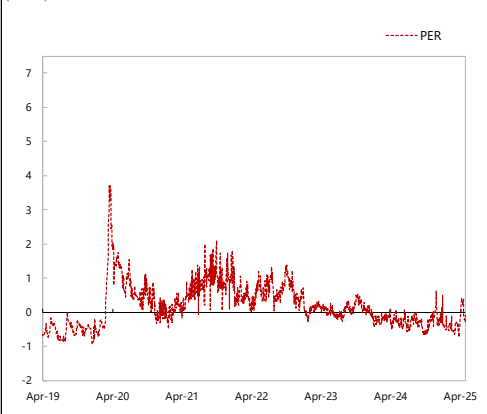


Market conditions indicated higher levels of distress at the end of 2024...

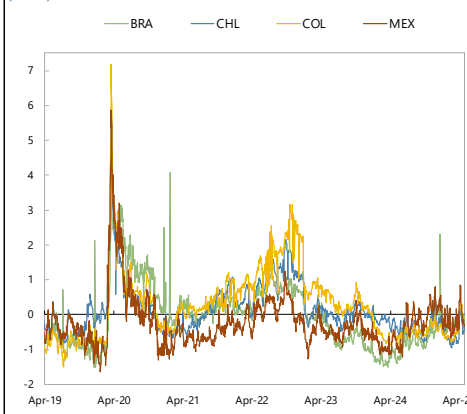
... similar to that of regional peers.

Distressed Market Conditions Index 4/

(Level)

**Distressed Market Conditions Index: LA5 Excluding Peru**

(Level)



Sources: Haver Analytics and Bloomberg LLP.

1/ Selected sample of emerging market countries including Brazil, Chile, Colombia, Mexico, Peru, Uruguay, Czech Republic, Croatia, Hungary, Poland, Turkey, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

2/ National benchmark share price indices.

3/ Mexico's EMBIG includes Sovereign and Quasi.

4/ Distressed Market Conditions Index is a composite of 23 indicators measuring market conditions. A higher level indicates greater distress.

Table 1. Peru: Selected Economic Indicators
(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Social Indicators											
Poverty rate (total) 1/	30.1	25.9	27.5	29.0	27.6	...	...	...	...	...	...
Unemployment rate for Metropolitan Lima (average)	13.0	10.7	7.8	6.8	6.4	...	...	...	...	...	...
(Annual percentage change; unless otherwise indicated)											
Production and Prices											
Real GDP	-10.9	13.4	2.8	-0.4	3.3	2.8	2.6	2.5	2.5	2.5	2.5
Output gap (percent of potential GDP)	-5.5	0.8	0.7	-1.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Consumer prices (end of period)	2.0	6.4	8.5	3.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (period average)	1.8	4.0	7.9	6.3	2.4	1.7	1.9	2.0	2.0	2.0	2.0
Money and Credit 2/ 3/											
Broad money	29.2	2.7	-0.7	2.2	11.6	1.7	5.6	5.6	5.6	5.6	5.6
Net credit to the private sector	14.0	6.5	3.3	0.7	0.9	4.7	5.7	6.0	6.0	6.0	6.0
Credit-to-private-sector/GDP ratio (%)	52.4	45.9	44.4	41.8	38.9	38.9	39.3	39.8	40.4	40.9	41.5
External Sector											
Exports	-10.7	47.4	4.8	2.0	12.4	5.8	3.1	1.9	3.2	3.2	2.7
Imports	-15.5	38.2	16.7	-11.0	4.5	4.1	3.1	4.1	4.4	4.6	4.6
External current account balance (percent of GDP)	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3	0.4	-0.1	-0.8	-1.5
Gross reserves In billions of U.S. dollars	74.9	78.5	72.2	71.3	79.2	84.2	88.7	92.7	96.4	100.4	104.9
Percent of short-term external debt 4/	491	578	509	404	435	477	505	517	606	641	635
Percent of foreign currency deposits at banks	222	229	209	204	213	220	219	217	213	210	208
(In percent of GDP; unless otherwise indicated)											
Public Sector											
NFPS revenue	21.8	25.5	27.0	23.9	22.7	23.6	23.1	23.1	23.2	23.3	23.4
NFPS primary expenditure	29.1	26.5	27.1	25.1	24.5	24.4	23.9	23.5	23.3	23.2	23.2
NFPS primary balance	-7.3	-1.0	-0.1	-1.2	-1.8	-0.7	-0.8	-0.4	-0.1	0.1	0.2
NFPS overall balance	-8.9	-2.5	-1.7	-2.8	-3.5	-2.6	-2.5	-2.2	-2.0	-1.8	-1.7
NFPS structural balance 5/	-7.0	-3.9	-2.2	-2.6	-3.7	-2.9	-2.9	-2.5	-2.2	-1.9	-1.8
NFPS structural primary balance 5/	-5.4	-2.4	-0.6	-0.9	-1.9	-1.1	-1.1	-0.6	-0.3	0.0	0.1
Debt											
Total external debt 6/	43.7	46.3	42.7	40.3	38.5	35.7	33.8	31.6	30.1	28.8	27.4
Gross non-financial public sector debt 7/	34.9	36.1	34.0	33.0	32.8	33.7	34.7	35.5	35.9	35.9	36.0
External	14.8	19.4	17.6	15.8	15.5	15.1	14.8	13.7	13.0	12.3	11.3
Domestic	20.0	16.7	16.4	17.1	17.3	18.5	19.9	21.8	23.0	23.6	24.6
Savings and Investment											
Gross domestic investment	18.3	20.8	21.0	17.7	18.1	17.9	18.1	18.7	19.1	19.5	19.8
Public sector (incl. repayment certificates)	4.3	4.7	5.0	5.0	5.3	5.2	4.9	4.9	4.9	4.9	4.9
Private sector	16.7	20.4	20.2	17.9	17.2	17.1	16.9	16.7	16.6	16.5	16.4
National savings	19.2	18.8	16.9	18.4	20.3	19.6	19.4	19.1	19.0	18.7	18.3
Public sector	-3.9	2.8	4.3	3.0	2.4	3.6	3.2	3.5	3.7	3.9	4.0
Private sector	23.2	15.9	12.6	15.4	17.9	16.0	16.2	15.6	15.3	14.8	14.3
Memorandum Items											
Nominal GDP (\$/. billion)	722	878	937	1,001	1,085	1,136	1,188	1,242	1,299	1,360	1,423
GDP per capita (in US\$)	6,328	6,849	7,319	7,930	8,485	8,814	9,182	9,505	9,825	10,168	10,529

Sources: National authorities; UNDP Human Development Indicators; and IMF staff estimates/projections.

1/ Defined as the percentage of households with total spending below the cost of a basic consumption basket.

2/ Corresponds to depository corporations.

3/ Foreign currency stocks are valued at end-of-period exchange rates.

4/ Short-term debt is defined on a residual maturity basis and includes amortization of medium and long-term debt.

5/ Adjusted by the economic cycle and commodity prices, and for non-structural commodity revenue. The latter uses as equilibrium commodity prices a moving average estimate that takes 5 years of historical prices and 3 years of forward prices according to the IMF's World Economic Outlook.

6/ Includes local currency debt held by non-residents and excludes global bonds held by residents.

7/ Includes repayment certificates and government guaranteed debt.

Table 2. Peru: Nonfinancial Public Sector Main Fiscal Aggregates
(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
(In billions of soles; unless otherwise indicated)											
Revenues	157.2	223.7	252.6	239.3	246.8	268.6	274.5	286.9	301.6	317.2	333.6
Taxes	95.6	143.2	161.3	151.1	160.0	177.5	179.3	187.7	197.9	208.8	220.2
Other	61.6	80.5	91.3	88.2	86.8	91.1	95.2	99.2	103.7	108.4	113.4
Primary Expenditures 1/	209.7	232.6	254.0	250.9	266.4	277.1	283.7	291.5	303.3	315.8	330.4
Current	173.3	184.2	193.5	193.7	195.4	207.6	215.5	220.5	229.2	238.3	249.5
Capital	36.4	48.5	60.5	57.2	71.0	69.5	68.1	71.0	74.1	77.5	80.8
Primary Balance	-52.5	-8.9	-1.4	-11.6	-19.6	-8.4	-9.2	-4.6	-1.7	1.4	3.2
Interest	11.6	13.1	14.7	16.7	18.5	20.6	20.8	23.1	24.5	25.8	27.2
Overall Balance	-64.1	-22.0	-16.1	-28.3	-38.1	-29.0	-30.0	-27.7	-26.2	-24.4	-24.0
External financing	34.2	53.2	4.4	0.1	5.5	5.5	5.6	-2.5	4.5	6.1	4.0
Domestic financing	29.9	-31.1	11.6	28.2	32.6	23.5	24.4	30.3	21.7	18.3	20.0
Public Gross Debt 2/	251.7	317.0	318.6	330.0	355.6	382.9	412.5	440.6	467.1	487.7	511.7
External	107.0	170.4	164.5	158.3	168.4	172.1	176.1	170.1	168.7	167.1	161.2
Domestic	142.2	144.5	152.8	170.9	186.7	210.6	236.5	270.9	298.3	320.6	350.5
Repayment Certificates	2.5	2.1	1.3	0.7	0.5	0.2	-0.1	-0.4	0.0	0.0	0.0
Public Assets 3/	74.4	107.9	104.6	87.8	77.1	77.2	78.6	80.7	82.8	81.0	82.9
(In percent of GDP; unless otherwise indicated)											
Revenues	21.8	25.5	27.0	23.9	22.7	23.6	23.1	23.1	23.2	23.3	23.4
Taxes	13.2	16.3	17.2	15.1	14.7	15.6	15.1	15.1	15.2	15.4	15.5
Other	8.5	9.2	9.7	8.8	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Primary Expenditures 1/	29.1	26.5	27.1	25.1	24.5	24.4	23.9	23.5	23.3	23.2	23.2
Current	24.0	21.0	20.6	19.3	18.0	18.3	18.1	17.7	17.6	17.5	17.5
Capital	5.0	5.5	6.5	5.7	6.5	6.1	5.7	5.7	5.7	5.7	5.7
Primary Balance	-7.3	-1.0	-0.1	-1.2	-1.8	-0.7	-0.8	-0.4	-0.1	0.1	0.2
Interest	1.6	1.5	1.6	1.7	1.7	1.8	1.7	1.9	1.9	1.9	1.9
Overall Balance	-8.9	-2.5	-1.7	-2.8	-3.5	-2.6	-2.5	-2.2	-2.0	-1.8	-1.7
External financing	4.7	6.1	0.5	0.0	0.5	0.5	0.5	-0.2	0.3	0.5	0.3
Domestic financing	4.1	-3.5	1.2	2.8	3.0	2.1	2.1	2.4	1.7	1.3	1.4
Public Gross Debt 2/	34.9	36.1	34.0	33.0	32.8	33.7	34.7	35.5	35.9	35.9	36.0
External	14.8	19.4	17.6	15.8	15.5	15.1	14.8	13.7	13.0	12.3	11.3
Domestic	19.7	16.5	16.3	17.1	17.2	18.5	19.9	21.8	23.0	23.6	24.6
Repayment Certificates	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Assets 3/	10.3	12.3	11.2	8.8	7.1	6.8	6.6	6.5	6.4	6.0	5.8
Public Net Debt	24.6	23.8	22.8	24.2	25.7	26.9	28.1	29.0	29.6	29.9	30.1
Memorandum Items											
Commodity related revenues 4/	0.8	3.1	4.0	1.9	1.8	2.2	2.0	1.9	1.9	1.9	1.8
Output gap (percent of potential GDP)	-5.5	0.8	0.7	-1.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
NFPS non-commodity structural balance	-8.0	-5.9	-5.9	-4.3	-5.2	-4.7	-4.6	-4.2	-3.9	-3.7	-3.5
NFPS non-commodity primary structural balance	-6.4	-4.4	-4.4	-2.7	-3.5	-2.9	-2.8	-2.3	-2.0	-1.8	-1.6
NFPS structural balance 5/	-7.0	-3.9	-2.2	-2.6	-3.7	-2.9	-2.9	-2.5	-2.2	-1.9	-1.8
NFPS structural primary balance 5/	-5.4	-2.4	-0.6	-0.9	-1.9	-1.1	-1.1	-0.6	-0.3	0.0	0.1
Fiscal impulse (+ = expansionary) 6/	5.2	-2.6	-1.8	0.3	1.0	-0.8	0.0	-0.5	-0.3	-0.3	-0.2

Sources: National Authorities and IMF staff estimates.

1/ Official data excludes expense accrued during the period by Repayment Certificates (CRPAOs) but includes cash payments.

2/ Official data excludes stock of debt accumulated and not paid during the period by CRPAOs.

3/ Obligations of depository corporations with the public sector.

4/ Net of tax restitutions. In 2014, excludes one-off revenue from the sale of a mine Las Bambas.

5/ Adjusted by the economic cycle and commodity prices, and for non-structural commodity revenue. The latter uses as equilibrium commodity prices a moving average estimate that takes 5 years of historical prices and 3 years of forward prices according to the IMF's World Economic Outlook.

6/ Percentage points of potential GDP.

Table 3. Peru: Statement of Operations of the General Government 1/
(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Revenue	17.8	21.0	22.1	19.6	19.1	20.0	19.6	19.7	19.8	19.9	20.1
Taxes	13.2	16.3	17.2	15.1	14.7	15.6	15.1	15.1	15.2	15.4	15.5
Social Contributions	2.2	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Grants	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.2	2.5	2.8	2.6	2.4	2.4	2.5	2.6	2.6	2.6	2.6
Expense 2/	21.6	18.5	17.4	17.2	16.5	16.8	16.5	16.1	15.9	15.7	15.7
Compensation of employees	7.3	6.2	6.0	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Use of goods and services	6.3	6.1	6.0	5.9	5.8	5.7	5.7	5.6	5.4	5.4	5.4
Interest	1.5	1.4	1.4	1.5	1.5	1.8	1.5	1.4	1.3	1.1	1.0
Social benefits	1.9	1.8	1.8	1.6	1.5	1.5	1.5	1.4	1.4	1.3	1.3
Other 3/	4.7	3.0	2.2	1.9	1.3	1.5	1.5	1.3	1.5	1.6	1.7
Net Acquisition of Nonfinancial Assets	4.5	5.0	6.1	5.3	6.2	5.8	5.4	5.4	5.4	5.4	5.3
Acquisition of nonfinancial assets	4.5	5.0	6.1	5.3	6.2	5.8	5.4	5.4	5.4	5.4	5.3
Gross Operating Balance	-3.8	2.5	4.7	2.5	2.6	3.2	3.1	3.6	3.9	4.2	4.4
Net Lending (+) Borrowing (-) 4/	-8.3	-2.5	-1.4	-2.8	-3.6	-2.5	-2.3	-1.8	-1.4	-1.1	-1.0
Net Acquisition of Financial Assets 5/	-0.7	3.7	-1.0	-3.0	-2.5	-1.8	-1.5	-1.7	-0.8	-0.4	-0.4
<i>By instrument</i>											
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits 6/	-0.7	3.7	-1.0	-3.0	-2.5	-1.8	-1.5	-1.7	-0.8	-0.4	-0.4
<i>By residency</i>											
Domestic	-0.7	3.7	-1.0	-3.0	-2.5	-1.8	-1.5	-1.7	-0.8	-0.4	-0.4
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities 7/	7.6	6.2	0.4	-0.2	1.1	0.8	0.8	0.1	0.6	0.8	0.6
<i>By instrument</i>											
Debt securities	3.1	0.5	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Loans	4.4	5.8	0.3	-0.3	0.8	0.5	0.5	-0.2	0.3	0.5	0.3
<i>By residency</i>											
Domestic	3.1	0.5	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
External	4.4	5.8	0.3	-0.3	0.8	0.5	0.5	-0.2	0.3	0.5	0.3
Memorandum Items											
Central Government Net lending (+) borrowing (-)	-8.8	-3.8	-3.3	-4.0	-4.1	-3.1	-2.8	-2.1	-0.6	-0.6	-0.7
Regional Governments Net lending (+) borrowing (-)	-0.1	0.7	0.9	0.5	0.4	0.6	0.5	0.5	0.6	0.6	0.7
Local Governments Net lending (+) borrowing (-)	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
General Government Primary Balance	-6.8	-1.1	0.0	-1.3	-2.1	-0.8	-0.8	-0.3	-0.2	0.0	0.0
General Government Overall Balance	-8.3	-2.5	-1.4	-2.8	-3.6	-2.5	-2.3	-1.8	-1.4	-1.1	-1.0
Gen. Gov. primary spending (real percentage change)	12.8	5.3	-1.4	-4.5	7.1	1.3	0.5	0.9	2.3	2.3	2.8
Of which: Current spending	19.4	-0.5	-7.7	-1.6	1.4	3.6	2.3	0.4	2.3	2.3	3.1
Capital spending	-9.6	31.2	20.0	-12.1	23.8	-4.3	-4.2	2.2	2.2	2.5	2.2
General Government non-financial expenditures	24.6	22.1	22.0	20.9	21.2	20.8	20.4	20.1	20.0	20.0	20.0

Sources: National authorities and IMF staff estimates.

1/ Fiscal data is not fully compiled on an accrual basis.

2/ Official data excludes expense accrued during the period by Repayment Certificates (CRPAOs) and Petroleum Price Stabilization Fund (FEPC) but includes cash payments.

3/ Includes other transfers.

4/ Net lending (+)/ borrowing (-) is equal to gross operating balance minus net acquisitions of nonfinancial assets.

5/ (+) corresponds to increase in financial assets; (-) to a decrease in financial assets.

6/ Includes Fiscal Stabilization Fund (FEF).

7/ (+) corresponds to increase in liabilities (disbursement and/or issuance); (-) to decrease in liabilities (amortizations).

Table 4. Peru: Monetary Survey 1/
(In billions of soles, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Central Bank											
Net Foreign Assets	223	236	211	210	224	221	226	232	238	246	256
(In billions of U.S. dollars)	88	92	83	80	94	107	115	122	128	135	141
Net international reserves 2/	270	312	274	264	298	313	329	345	359	374	391
(In billions of U.S. dollars)	75	78	72	71	79	84	88	92	96	100	105
Long-term net external assets	0	-10	-10	-9	-9	-4	-2	-1	0	0	0
Foreign currency liabilities	-48	-65	-53	-44	-65	-88	-102	-112	-121	-128	-135
Net Domestic Assets	-137	-139	-118	-116	-119	-124	-124	-125	-125	-127	-131
Net credit to nonfinancial public sector	-49	-71	-66	-43	-32	-32	-32	-32	-32	-32	-32
Credit to the financial sector 3/	41	30	11	4	1	1	1	1	1	1	1
Securities issued	-89	-42	-29	-41	-43	-45	-48	-52	-56	-60	-63
Other assets (net)	-40	-56	-36	-35	-45	-48	-45	-42	-38	-36	-36
Monetary Base	86	97	93	90	98	97	101	107	113	119	126
Currency	72	83	80	75	84	82	86	91	96	101	107
Reserve	14	14	13	15	14	15	15	16	17	18	19
Depository Corporations 4/											
Net Foreign Assets	248	274	237	221	269	285	302	319	334	350	368
Net Domestic Assets	189	174	208	234	239	231	243	258	275	292	311
Net credit to the public sector	-40	-74	-58	-29	-4	-18	-20	-22	-18	-12	-10
Credit to the private sector	378	403	416	418	422	442	467	495	525	556	590
Other assets (net)	-150	-155	-150	-155	-179	-193	-204	-216	-232	-252	-269
Broad Money	436	448	445	455	508	516	545	576	608	642	679
Domestic currency	314	312	313	325	368	374	395	417	441	466	492
Foreign currency	122	136	132	130	140	142	150	159	167	177	187
Financial System 5/											
Net Foreign Assets	366	359	316	303	351	360	377	394	409	425	443
Net Domestic Assets	289	265	273	320	342	343	353	375	404	438	477
Net credit to the public sector	1	-43	-50	-21	4	-10	-12	-14	-10	-4	-2
Credit to the private sector	442	469	478	485	487	509	537	568	603	639	677
Other assets (net)	-155	-160	-160	-165	-145	-166	-183	-193	-198	-200	-200
Liabilities to the Private Sector	654	624	604	623	693	703	730	769	813	863	920
Domestic currency	501	462	441	458	518	528	552	583	619	658	703
Foreign currency	153	162	163	165	175	174	179	186	195	205	217
Monetary base	33.2	13.1	-4.4	-3.2	9.2	-1.4	4.7	5.3	5.5	5.6	5.6
Broad money	29.2	2.7	-0.7	2.2	11.6	1.7	5.6	5.6	5.6	5.6	5.6
Domestic currency	32.7	-0.7	0.3	3.9	13.1	1.7	5.7	5.6	5.6	5.6	5.6
Foreign currency	21.1	11.4	-3.1	-1.7	7.9	1.7	5.6	5.6	5.6	5.6	5.6
Liabilities to the private sector	18.1	-4.6	-3.2	3.1	11.3	1.4	3.9	5.2	5.8	6.2	6.6
Domestic currency	17.1	-7.7	-4.6	3.9	13.1	2.0	4.4	5.6	6.1	6.4	6.8
Foreign currency	21.3	5.7	0.7	0.9	6.2	-0.4	2.4	4.0	4.8	5.3	5.9
Depository corp credit to the private sector	14.0	6.5	3.3	0.7	0.9	4.7	5.7	6.0	6.0	6.0	6.0
Domestic currency	19.7	5.6	2.3	0.8	1.6	5.4	6.3	6.4	6.4	6.3	6.3
Foreign currency	-2.5	10.0	6.4	0.4	-1.6	2.2	3.6	4.2	4.6	4.9	5.1

Sources: National Authorities and IMF staff estimates.

1/ Stocks in foreign currency are valued at the end-of-period exchange rate.

2/ Excludes subscriptions to the IMF and the Latin American Reserve Fund, Pesos Andinos, credit lines to other central banks, Andean Development Corporation bonds, and foreign assets temporarily held by the Central Bank as part of swap operations.

3/ Including the National Bank.

4/ Depository corporations comprise the Central Bank, the National Bank, commercial banks, the Agricultural Bank, financial firms, municipal banks, rural banks and credit unions.

5/ Financial system comprises depository corporations and other financial corporations. Other financial companies include mutual funds, COFIDE, insurance companies, leasing companies, pension funds, the Financing Agency for SMEs and the Fund for Financing Housing.

Table 5. Peru: Financial Soundness Indicators
(In percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Credit										
Total assets (in billions of domestic currency)	393.9	394.9	415.0	433.6	468.0	578.6	579.0	569.0	581.2	616.0
Total assets (percent of GDP)	64.4	59.8	59.0	58.1	60.3	80.3	66.1	60.7	58.0	56.8
Total non-interbank loans (in billions of domestic currency)	254.5	267.8	282.4	311.1	329.7	372.4	397.4	410.9	408.3	408.5
Total non-interbank loans (percent of GDP)	41.6	40.6	40.1	41.7	42.5	51.7	45.3	43.8	40.8	37.6
Loan to asset ratio	70.7	68.2	70.5	74.5	72.8	70.1	68.0	71.3	71.0	67.9
Credit-to-GDP ratio of financial system	47.9	48.6	47.0	47.8	48.8	52.8	60.7	50.6	48.1	46.1
Credit-to-GDP gap of financial system	5.6	-0.6	-5.7	-5.1	-2.3	7.4	-4.3	-8.6	-11.6	-11.8
Credit from financial system to private sector (in billions of domestic currency)	302.7	322.8	340.3	368.2	393.1	442.2	468.5	475.3	481.4	480.9
Credit from financial system to private sector (percent of GDP)	49.5	48.9	48.4	49.4	50.7	61.4	53.5	48.4	45.8	44.4
Credit from depository institutions to private sector (in billions of domestic currency)	255.5	268.6	282.3	311.4	331.4	377.8	402.6	413.2	418.5	422.1
Credit from depository institutions to private sector (percent of GDP)	41.7	40.7	40.1	41.8	42.7	52.5	45.9	44.5	41.8	38.9
Growth of credit from deposit institutions to private sector (nonfinancial private, yoy)	13.9	5.1	5.1	10.3	6.7	13.7	6.2	4.5	1.3	0.5
In domestic currency	28.0	7.2	5.3	11.6	10.1	19.4	5.5	2.5	0.7	1.6
In foreign currency	-9.2	0.4	4.6	7.1	-2.1	-2.6	8.8	12.1	3.1	-3.2
Growth of credit from deposit institutions to private sector (nonfinancial corporates, yoy)	13.5	4.1	3.3	9.3	3.7	24.5	6.5	-1.5	-2.3	-0.1
Growth of credit from deposit institutions to private sector (consumers, yoy)	16.0	8.6	8.5	13.4	12.7	-6.2	3.6	21.8	8.3	-1.1
Growth of credit from deposit institutions to private sector (mortgages, yoy)	12.4	4.5	7.7	9.8	8.7	4.4	8.2	8.0	5.4	5.0
Real growth of credit to private sector (total, deposit institutions, yoy)	10.5	1.6	2.1	8.8	4.5	11.7	1.9	-3.9	-2.0	-1.5
In domestic currency	24.6	3.6	2.3	10.1	7.9	17.4	1.2	-5.9	-5.7	-0.3
In foreign currency	-12.6	-3.1	1.6	5.6	-4.4	-4.6	4.5	-0.8	-5.9	-5.1
Real growth of credit from deposit institutions to private sector (NFC, yoy)	10.1	0.6	0.3	7.8	1.5	22.4	2.3	-10.9	-11.2	-2.0
Real growth of credit from deposit institutions to private sector (consumers, yoy)	12.6	5.0	5.5	11.9	10.4	-8.2	-0.6	13.2	6.6	-3.1
Real growth of credit from deposit institutions to private sector (mortgages, yoy)	9.0	0.9	4.7	8.3	6.4	2.4	4.0	-0.8	-0.9	3.1
Capital Adequacy										
Capital to risk-weighted assets	14.3	15.1	15.2	14.7	14.7	15.6	15.0	14.5	16.3	17.2
Regulatory Tier 1 capital to risk-weighted assets	10.3	11.0	11.4	11.3	11.6	11.8	11.0	11.0	13.1	13.6
Financial leverage	8.6	9.5	9.8	10.4	10.9	9.1	9.4	10.3	11.7	11.7
Asset Quality										
NPLs net of provisions to capital 1/	-0.3	-0.4	-0.6	-0.6	-0.5	-3.6	-1.4	0.3	-0.5	-1.4
NPLs to gross loans 1/	2.8	3.0	3.3	3.3	3.4	4.1	3.9	4.1	4.5	4.0
Earnings and Profitability										
Return on equity (ROE)	21.2	19.3	17.7	17.9	18.0	3.1	12.1	16.5	13.1	14.5
Return on assets (ROA)	2.9	2.7	2.7	2.9	3.0	0.4	1.7	2.5	2.2	2.4
Interest margin to gross income	81.0	86.0	87.4	88.4	88.0	91.7	90.2	90.7	91.7	91.6
Trading income to gross income	9.6	6.5	6.5	5.8	6.9	7.7	7.8	5.9	5.8	6.4
Noninterest expenses to gross income	45.9	46.9	46.2	45.5	44.6	48.0	51.2	46.6	44.8	44.1
Provisions to NPLs to gross income	23.7	26.4	28.7	29.4	29.4	51.3	46.4	38.4	39.2	34.3
Liquidity										
Total liquid assets to total assets	22.3	20.9	23.2	21.6	22.6	30.9	25.7	22.7	23.3	27.4
Total liquid assets to total short-term liabilities	37.7	35.4	38.5	34.6	36.4	50.3	40.4	35.2	35.1	38.9
Deposit-to-loan	91.6	88.1	91.1	88.6	90.5	98.2	91.5	89.1	92.4	102.8
Foreign Currency Position and Dollarization										
Net open foreign exchange positions to capital	7.9	2.3	2.5	1.8	1.7	0.8	2.1	1.3	1.4	1.9
Share of foreign currency liabilities in total liabilities	49.1	44.4	40.7	39.1	37.6	33.4	37.7	36.6	35.9	36.2
Share of foreign currency loans in total loans	30.1	28.7	29.3	28.3	26.4	22.7	23.2	24.2	24.6	24.0
Share of foreign currency credit to private sector in total credit to private sector	35.8	31.7	30.4	30.2	28.3	25.8	24.8	24.3	23.3	22.8
Equity and Property Market										
General stock market index, IGBVL, point	12,008	13,501	17,156	20,148	20,081	17,734	20,098	21,362	22,441	29,006
Equity market capitalization-to-GDP ratio	29.3	40.8	45.8	41.0	42.5	42.2	34.5	29.2	31.8	29.0

Sources: BCRP; BIS; IMF; Haver; Refinitiv; World Federation of Exchanges; SBS.

Note: Financial soundness indicators are those for deposit institutions, unless otherwise indicated.

1/ Nonperforming loans are defined as overdue loans after 15 days since the due date for commercial loans, and after 30 days for small businesses loans. In the case of mortgage, consumer and leasing loans, they are considered overdue after 30 days since the due date only for the non-paid portion and after 90 days for all the credit. The overdue loans include credits under judicial resolution.

Table 6. Peru: Balance of Payments
(In billions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Current Account	1.9	-4.7	-10.1	1.8	6.3	5.1	4.2	1.3	-0.4	-2.9	-5.6
Merchandise trade	8.1	15.1	10.2	17.7	23.8	26.1	26.9	26.2	26.3	26.4	25.9
Exports	42.8	63.1	66.2	67.5	75.9	80.3	82.9	84.5	87.1	90.0	92.4
Traditional	30.0	46.8	47.8	48.9	55.2	58.7	60.3	60.8	62.4	64.4	66.0
Mining	26.1	39.9	38.1	42.8	47.7	50.5	52.1	53.1	54.7	56.7	58.2
Nontraditional and others	12.8	16.3	18.4	18.7	20.7	21.6	22.6	23.6	24.7	25.6	26.4
Imports	34.7	48.0	56.0	49.8	52.1	54.2	55.9	58.2	60.8	63.6	66.5
Services, income, and current transfers (net)	-6.2	-19.8	-20.3	-15.8	-17.5	-21.0	-22.7	-25.0	-26.8	-29.3	-31.4
Services	-4.9	-7.6	-8.8	-7.7	-7.8	-8.4	-8.7	-8.9	-9.3	-9.7	-10.2
Investment income	-6.5	-18.0	-17.2	-14.9	-17.3	-19.8	-21.3	-23.4	-25.1	-27.5	-29.5
Current transfers	5.2	5.8	5.8	6.8	7.6	7.2	7.2	7.3	7.6	7.9	8.3
Capital and Financial Account Balance	-6.3	-15.3	-8.8	1.3	-1.6	0.1	-0.3	-2.7	-4.1	-6.9	-10.1
Public sector MLT flows	-9.8	-15.6	1.2	0.7	-5.3	-1.7	-1.7	0.5	-1.4	-1.8	-1.3
Assets	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	10.1	15.6	-1.1	-0.8	5.2	1.7	1.7	-0.5	1.4	1.8	1.3
Portfolio investment	6.9	11.2	-0.1	-1.8	1.0	0.9	0.4	-1.1	0.7	0.9	0.0
Other transactions involving Treasury bonds	1.1	0.3	-1.8	0.1	3.3	0.2	0.2	0.2	0.2	0.2	0.2
Medium-term loans 1/	2.1	2.4	0.8	0.9	0.9	0.6	1.1	0.4	0.5	0.8	1.1
Disbursements	2.5	2.8	1.8	2.0	2.0	2.0	2.2	2.2	2.4	2.3	2.4
Amortization	-0.3	-0.4	-1.1	-1.1	-1.1	-1.4	-1.1	-1.8	-1.9	-1.6	-1.3
BCRP: other transactions	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector MLT flows	2.9	-16.3	-14.3	0.8	0.8	1.2	0.2	-1.0	-1.8	-2.6	-3.3
Assets	1.1	-8.5	-3.0	5.5	8.7	6.7	7.1	7.4	7.7	8.1	8.4
FDI	1.9	2.0	-0.6	1.5	1.5	1.7	1.8	1.9	2.0	2.1	2.2
Portfolio investment	-0.8	-10.4	-2.5	4.1	7.2	5.0	5.3	5.5	5.7	6.0	6.3
Liabilities	-1.8	7.8	11.3	4.7	7.8	5.5	6.9	8.4	9.5	10.7	11.7
FDI 2/	0.7	7.1	11.2	3.9	6.9	7.4	8.9	10.1	11.1	12.2	13.2
Portfolio investment	0.8	1.2	-1.1	-0.2	2.5	0.4	0.2	0.3	0.3	0.3	0.3
Medium- and long-term loans (net)	-3.4	-0.6	1.2	1.0	-1.6	-2.3	-2.1	-2.0	-1.9	-1.8	-1.7
Short-term capital 3/	0.6	16.6	4.3	-0.2	2.8	0.6	1.2	-2.2	-0.9	-2.5	-5.5
Assets	2.6	16.4	4.1	1.9	0.7	0.6	1.2	-2.3	-0.9	-2.5	-5.5
Liabilities	1.9	-0.2	-0.2	2.1	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	-3.0	-6.3	-3.8	-3.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	5.3	4.4	-5.1	-2.8	7.1	5.0	4.5	4.0	3.7	4.0	4.5
Financing	-5.3	-4.4	5.1	2.8	-7.1	-5.0	-4.5	-4.0	-3.7	-4.0	-4.5
NIR flow (increase -)	-5.3	-4.4	5.1	2.8	-7.1	-5.0	-4.5	-4.0	-3.7	-4.0	-4.5
Change in NIR (increase -)	-6.4	-3.8	6.6	0.9	-8.0	-5.0	-4.5	-4.0	-3.7	-4.0	-4.5
Valuation change	1.1	-0.6	-1.5	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)											
Current Account Balance	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3	0.4	-0.1	-0.8	-1.5
Capital and Financial Account Balance	-3.0	-6.8	-3.6	0.5	-0.6	0.0	-0.1	-0.8	-1.2	-1.9	-2.6
Foreign direct investment (net)	0.6	-2.3	-4.8	-0.9	-1.9	-1.9	-2.2	-2.5	-2.6	-2.8	-2.9
Overall Balance	2.6	2.0	-2.1	-1.0	2.4	1.6	1.4	1.2	1.1	1.1	1.2
Memorandum Items	(Annual percentage change)										
Export value	-10.7	47.4	4.8	2.0	12.4	5.8	3.1	1.9	3.2	3.2	2.7
Volume growth	-13.9	12.7	2.5	4.6	4.3	1.0	2.1	1.9	1.9	2.0	1.9
Price growth	3.6	30.7	2.3	-2.4	7.8	4.8	1.0	0.0	1.2	1.3	0.7
Import value	-15.5	38.2	16.7	-11.0	4.5	4.1	3.1	4.1	4.4	4.6	4.6
Volume growth	-11.0	18.6	2.6	-4.4	7.1	5.2	3.3	3.2	3.2	3.3	3.3
Price growth	-5.0	16.6	13.8	-6.9	-2.4	-1.0	-0.2	0.9	1.1	1.2	1.2
Terms of trade	9.1	12.2	-10.1	4.8	10.4	5.9	1.2	-0.9	0.1	0.0	-0.5
Gross international reserves (in billions of US\$)	74.9	78.5	72.2	71.3	79.2	84.2	88.7	92.7	96.4	100.4	104.9
Average exchange rate (S/. per US\$)	3.50	3.88	3.83	3.74	3.75	3.75	3.72	3.72	3.73	3.74	3.74

Sources: National authorities and IMF staff estimates and projections.

1/ Includes financial public sector.

2/ Excluding privatizations.

3/ Includes Financial Corporation for Development (COFIDE) and the National Bank.

Table 7. Peru: Financial and External Vulnerability Indicators
(In percent, unless otherwise indicated)

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
Financial Indicators											
Public sector debt/GDP	34.9	36.1	34.0	33.0	32.8	33.7	34.7	35.5	35.9	35.9	36.0
Of which: in domestic currency (percent of GDP)	20.0	16.7	16.4	17.1	17.3	18.5	19.9	21.8	23.0	23.6	24.6
90-day prime lending rate, domestic currency (end of period)	0.6	2.9	8.7	7.7	5.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
90-day prime lending rate, foreign currency (end of period)	1.1	1.0	5.5	6.3	5.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Velocity of money 1/	1.7	2.0	2.1	2.2	2.1	2.2	2.2	2.2	2.1	2.1	2.1
Net credit to the private sector/GDP 2/	52.4	45.9	44.4	41.8	38.9	38.9	39.3	39.8	40.4	40.9	41.5
External Indicators											
Exports, U.S. dollars (percent change)	-10.7	47.4	4.8	2.0	12.4	5.8	3.1	1.9	3.2	3.2	2.7
Imports, U.S. dollars (percent change)	-15.5	38.2	16.7	-11.0	4.5	4.1	3.1	4.1	4.4	4.6	4.6
Terms of trade (percent change) (deterioration -) 3/	9.1	12.2	-10.1	4.8	10.4	5.9	1.2	-0.9	0.1	0.0	-0.5
Current account balance (percent of GDP)	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3	0.4	-0.1	-0.8	-1.5
Capital and financial account balance (percent of GDP)	-3.0	-6.8	-3.6	0.5	-0.6	0.0	-0.1	-0.8	-1.2	-1.9	-2.6
Total external debt (percent of GDP)	43.7	46.3	42.7	40.3	38.5	35.7	33.8	31.6	30.1	28.8	27.4
Medium- and long-term public debt (in percent of GDP) 4/	23.7	26.8	24.6	22.6	22.6	22.0	21.4	20.3	19.8	19.4	18.8
Medium- and long-term private debt (in percent of GDP)	15.2	15.3	14.2	13.3	12.5	11.3	10.1	9.2	8.3	7.5	6.8
Short-term public and private debt (in percent of GDP)	4.9	4.3	4.0	4.4	3.3	3.2	3.0	2.8	2.7	2.6	2.5
Total external debt (in percent of exports of goods and services) 4/	197.3	158.5	147.0	147.1	134.1	123.3	118.5	113.0	108.5	104.8	101.2
Total debt service (in percent of exports of goods and services) 5/	34.8	25.4	24.8	28.0	30.6	26.7	25.5	25.4	21.9	20.6	20.6
Gross official reserves											
In millions of U.S. dollars	74,909	78,539	72,246	71,319	79,200	84,200	88,700	92,700	96,400	100,400	104,900
In percent of short-term external debt 6/	491	578	509	404	435	477	505	517	606	641	635
In percent of short-term external debt, foreign currency deposits, and adjusted CA balance 6/ 7/	153	161	144	136	143	151	153	153	158	158	156
In percent of broad money 8/	62	70	62	58	59	61	60	60	59	58	57
In percent of foreign currency deposits at banks	222	229	209	204	213	220	219	217	213	210	208
In months of next year's imports of goods and services	15.4	13.5	13.7	12.8	13.6	13.9	14.6	14.7	14.5	14.4	14.4
Net international reserves (in millions of U.S. dollars)	74,707	78,495	71,883	71,033	78,987	83,987	88,487	92,487	96,187	100,187	104,687
Central Bank's Foreign Exchange Position	58,258	57,345	52,040	51,571	53,555	58,555	63,055	67,055	70,755	74,755	79,255

Sources: National authorities; IMF's Information Notice System (INS); and IMF staff estimates/projections.

1/ Defined as of the ratio of annual GDP to end-period broad money.

2/ Corresponds to depository corporations.

3/ End of period; data from INS.

4/ Includes Central Bank's debt.

5/ Includes debt service to the Fund.

6/ Short-term debt includes amortization of medium- and long-term loans falling due over the following year, including debt swaps.

7/ Current Account deficit adjusted for 0.75*net FDI inflows; if adjusted CA balance>0, set to 0.

8/ At end-period exchange rates.

Table 8. Peru: Medium-Term Macroeconomic Framework

	2020	2021	2022	2023	2024	Proj.					
						2025	2026	2027	2028	2029	2030
	(Annual percentage change)										
Production											
GDP at constant prices	-10.9	13.4	2.8	-0.4	3.3	2.8	2.6	2.5	2.5	2.5	2.5
Domestic demand at constant prices	-9.6	14.4	2.6	-1.9	3.8	3.9	2.9	2.8	2.8	2.9	2.9
Consumption	-7.0	11.0	2.9	0.9	2.7	2.8	2.6	2.4	2.5	2.5	2.5
Private	-9.9	12.4	3.6	0.1	2.8	2.9	2.6	2.4	2.5	2.6	2.6
Public	7.9	4.8	-0.2	4.6	2.3	2.1	2.4	2.2	2.1	2.2	2.2
Investment	-16.2	34.6	0.7	-5.4	4.9	3.5	1.7	2.2	2.1	2.1	2.1
Of which: Private	-16.5	37.0	-0.5	-7.3	2.6	3.7	2.6	2.2	2.2	2.2	2.1
Of which: Public	-15.1	24.7	6.0	2.8	14.1	2.8	-1.4	2.4	2.0	1.7	2.0
Net exports (contribution to GDP growth)	-1.5	-1.0	0.2	1.5	-0.4	-1.1	-0.3	-0.3	-0.4	-0.4	-0.4
Exports	-19.7	13.3	5.2	4.9	5.1	1.0	2.1	1.9	1.9	2.0	1.9
Imports	-15.2	17.9	4.4	-1.3	6.9	5.2	3.3	3.2	3.2	3.3	3.3
Consumer prices (end of period)	2.0	6.4	8.5	3.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	4.1	7.3	3.8	7.3	4.9	1.8	1.9	2.0	2.0	2.1	2.1
Trade											
Exports, f.o.b.	-10.7	47.4	4.8	2.0	12.4	5.8	3.1	1.9	3.2	3.2	2.7
Imports, f.o.b.	-15.5	38.2	16.7	-11.0	4.5	4.1	3.1	4.1	4.4	4.6	4.6
Terms of trade (deterioration -)	9.1	12.2	-10.1	4.8	10.4	5.9	1.2	-0.9	0.1	0.0	-0.5
	(In percent of GDP; unless otherwise indicated)										
External Current Account Balance	0.9	-2.1	-4.1	0.7	2.2	1.7	1.3	0.4	-0.1	-0.8	-1.5
Total External Debt Service 1/	7.7	7.4	7.2	7.7	8.8	7.7	7.3	7.1	6.1	5.7	5.6
Medium- and long-term	3.7	2.9	3.1	3.8	4.5	4.4	4.1	4.1	3.2	3.0	3.0
Nonfinancial public sector	0.7	0.8	1.4	1.9	1.9	2.0	1.9	2.1	1.4	1.4	1.6
Private sector	3.0	2.1	1.7	1.9	2.5	2.4	2.2	2.0	1.8	1.6	1.4
Short-term 2/	0.1	0.1	0.1	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Nonfinancial public sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	0.1	0.1	0.1	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Interest	1.3	1.3	1.5	1.8	1.7	1.9	1.7	1.7	1.5	1.3	1.2
Amortization (medium-and long-term)	2.6	1.7	1.8	2.2	3.0	2.7	2.5	2.5	1.9	1.7	1.9
Public Sector											
NFPS primary balance 3/	-7.3	-1.0	-0.1	-1.2	-1.8	-0.7	-0.8	-0.4	-0.1	0.1	0.2
NFPS interest due	1.6	1.5	1.6	1.7	1.7	1.8	1.7	1.9	1.9	1.9	1.9
NFPS overall balance 3/	-8.9	-2.5	-1.7	-2.8	-3.5	-2.6	-2.5	-2.2	-2.0	-1.8	-1.7
Public sector debt 3/	34.9	36.1	34.0	33.0	32.8	33.7	34.7	35.5	35.9	35.9	36.0
Savings and Investment											
Gross domestic investment	18.3	20.8	21.0	17.7	18.1	17.9	18.1	18.7	19.1	19.5	19.8
Public sector 3/	4.3	4.7	5.0	5.0	5.3	5.2	4.9	4.9	4.9	4.9	4.9
Private sector	14.1	16.2	16.0	12.7	12.8	12.7	13.2	13.8	14.2	14.6	14.9
Private sector (excluding inventories)	16.7	20.4	20.2	17.9	17.2	17.1	16.9	16.7	16.6	16.5	16.4
Inventory changes	-2.7	-4.3	-4.2	-5.1	-4.4	-4.4	-3.7	-2.9	-2.4	-1.9	-1.5
National savings	19.2	18.8	16.9	18.4	20.3	19.6	19.4	19.1	19.0	18.7	18.3
Public sector 4/	-3.9	2.8	4.3	3.0	2.4	3.6	3.2	3.5	3.7	3.9	4.0
Private sector	23.2	15.9	12.6	15.4	17.9	16.0	16.2	15.6	15.3	14.8	14.3
External savings	-0.9	2.1	4.1	-0.7	-2.2	-1.7	-1.3	-0.4	0.1	0.8	1.5
Memorandum Items											
Nominal GDP (billions of nuevos soles)	721.7	878.0	937.2	1001.3	1085.2	1,136.3	1,188.3	1,242.5	1,299.4	1,360.0	1423.1
Gross international reserves (billions of U.S. dollars)	74.9	78.5	72.2	71.3	79.2	84.2	88.7	92.7	96.4	100.4	104.9
External debt service (percent of exports of GNFS)	34.8	25.4	24.8	28.0	30.6	26.7	25.5	25.4	21.9	20.6	20.6
Short-term external debt service (percent of exports of GNFS)	0.5	0.3	0.5	0.9	0.8	0.6	0.5	0.5	0.4	0.4	0.4
Public external debt service (percent of exports of GNFS)	3.2	2.7	4.7	6.8	6.7	6.9	6.6	7.4	5.2	5.0	6.0

Sources: National authorities and IMF staff estimates.

1/ Includes interest payments only.

2/ Includes the financial public sector.

3/ Includes Repayment Certificates (CRPAOs).

4/ Excludes privatization receipts.

Annex I. Recommendations of the 2024 Article IV Consultation and Authorities' Actions

Recommendations	Policy Action
Fiscal Policy	
Fiscal stance. If revenues continue to disappoint, delay the fiscal consolidation by one year (setting a fiscal target for 2024 of 2.5 percent of GDP) to support the growth recovery. The fiscal adjustment path over the medium term to achieve the fiscal target of a deficit of 1 percent of GDP is necessary and should be gradual.	Partially implemented. The fiscal consolidation was delayed, but the NFPS deficit reached 3.5 percent of GDP in 2024, due to underperforming revenues and high public investment. The authorities remain committed to a gradual fiscal consolidation consistent with the fiscal rule and expect the deficit to reach 1 percent of GDP by 2028.
Fiscal consolidation. Revenue mobilization measures are needed, including expanding taxes; improving tax administration and compliance; curtailing sectoral tax benefits, special regimes, and tax expenditures; and simplifying the tax system. Spending measures should include improving spending efficiency, reducing unfunded spending initiatives, and improving governance at SOEs. Fiscal policy guidance should be improved to bolster credibility.	Partially implemented. The government enacted marginal spending control measures in March 2024, capped non-critical expenditures at 2024 levels, implemented several tax administration and policy measures (a Special Regime for the recovery of tax debts in October 2024, a digital services VAT in December 2024, and an excise tax on remote gaming and sports betting in January 2025), adopted in April 2025 a new procurement law that is expected to improve spending efficiency, and announced new spending efficiency measures in May 2025. Tax administration and compliance, including most recently with tax arrears, are improving, but further progress would require additional resources and independence. Recent measures by Congress that reduce the tax base and entail unfunded spending risk complicating future fiscal consolidation efforts.
Fiscal Council. The opinion of the Fiscal Council (FC), on both the Budget and Mid-term Budget Update, and the response from the Ministry of Finance should be included as annexes in official documents. The FC should have regular hearings before Congress, be allowed greater operational independence, and undergo a peer review.	Partially implemented. The opinion of the FC and the response from the Ministry of Finance are included in the Budget but not in the Mid-term Budget Update. Both institutions would benefit from a more regular and transparent dialogue.
Pension Reform. It is urgent following large withdrawals from private pension funds. Fine-tune proposed measures, including (i) clarifying the language limiting early withdrawals from private pension savings accounts; (ii) aligning the eligibility criteria for the minimum pension to avoid shrinking the pool of potential	Partially implemented. A pension reform, enacted in September 2024, expands the minimum pension, fosters competition among managers, introduces consumption-based contributions, and prohibits early withdrawals. A comprehensive reform is still required to address the very low coverage and inadequate income support for the elderly.

Recommendations	Policy Action
beneficiaries; and (iii) improving the targeting mechanism of the non-contributory pension.	
Monetary and ER Policy	
Monetary stance. Additional data-dependent monetary policy easing is appropriate.	Implemented. The BCRP continued its easing cycle, lowering the policy rate from 6.5 percent in January 2024 to 4.5 percent in May 2025.
Foreign exchange interventions (FXI). With the interest rate differential against the US expected to narrow, the BCRP should continue to allow for greater ER flexibility and consider targeted measures to support de-dollarization. Allowing greater ER flexibility and removing tax hurdles could also foster development of the FX derivative market and allow for additional hedging opportunities.	Partially implemented. The authorities continue to maintain a discretionary approach but intervene more sporadically. There were interventions in February and May 2024 to reduce volatility in the exchange rate. The BCRP's stock of derivative positions increased by about US\$3.1 billion from January to April 2024. However, it has decreased its legacy position by about US\$2.8 billion through mid-April 2025, supported by the rebalancing of foreign assets by private pension funds. SBS is revising the add-on exposure for recalibrating the risk weights for foreign exchange credit to better reflect the riskiness.
Financial Policies	
Macprudential. Closely monitor and proactively contain financial vulnerabilities from the growth slowdown and maintain liquidity cushions against private pension withdrawals.	Implemented. Enhanced vigilance was put in place given emerging pockets of vulnerability amid the slowing growth. The repo facility for private pension funds is ready for use when necessary.
Regulation. Close key regulatory and supervisory gaps in line with the recommendations of the 2018 FSAP. Revise the activation threshold for counter-cyclical policies, given the low growth environment.	In progress. See Annex VI. Basel III new capital rules are being phased in, but the full implementation of the new requirements was delayed until March 2025. The counter-cyclical framework was reinstated in June 2024, but the activation threshold uses a growth rate much higher than current potential growth estimates.
Structural Policies	
Productivity. Boost productivity by reforming labor and tax regulations that create barriers for formalizing or growing a business, fully embracing the digital and artificial intelligence revolution by facilitating technological diffusion and job transition, boost the business climate, and reform the civil service.	Partially implemented. Progress has been made in restarting large infrastructure and mining projects. The government has introduced a package of measures to counteract overregulation and excessive red tape.
Informality. Reduce informality.	Partially implemented. The informality rate declined from levels in 2023 but remains elevated.
Climate. Scale up investments in climate adaptation and resilience.	Partially implemented. Progress has been made in enhancing public infrastructure, diversifying the

Recommendations	Policy Action
	energy matrix, and improving climate change statistics.
<p>Governance. Improve the effectiveness of governance institutions to end corruption impunity, including prioritizing implementation of anti-corruption frameworks and supporting these with adequate resources; enhancing the independence and effectiveness of judicial bodies; and effective use of AML tools.</p>	<p>In progress. The National Board of Justice, which appoints judges and prosecutors, remains operational. Recent hiring of additional staff at the Comptroller General's Office supports verification of asset declarations of public officials. Digitalization efforts are in progress. Judicial reform is pending.</p>
<p>Infrastructure. Strengthen the capacity to execute public investment to reduce the large infrastructure gap.</p>	<p>Partially implemented. Public investment grew strongly in 2024. The government increased awards of PPPs for large infrastructure projects, have raised the cap for works-for-taxes to enhance local public investment, and implemented initiatives to improve local government capacity. However, the infrastructure gap remains large amid capacity challenges.</p>

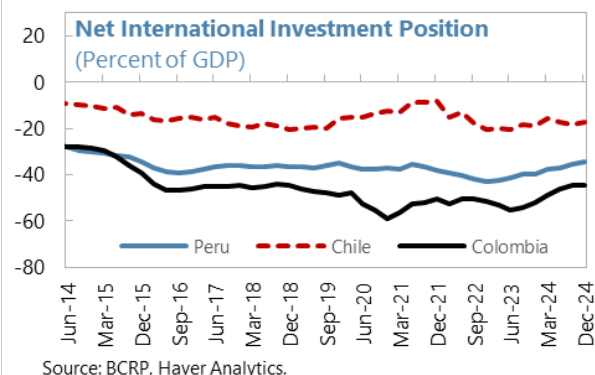
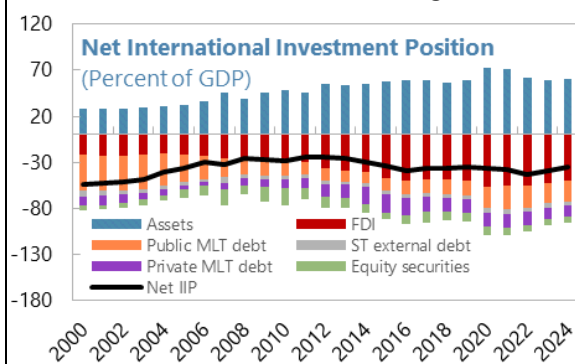
Annex II. External Sector Assessment

Overall Assessment: Peru's external position in 2024 was stronger than the level implied by medium-term fundamentals and desirable policies. Elevated commodity prices and a strong recovery in traditional exports underpinned an increase in the surplus of the current account (CA) balance. The appreciation of the real effective exchange rate (REER) in 2024 could cause a loss in competitiveness. Despite a volatile external environment and political uncertainty, the reserve coverage remained strong and adequate even after considering the dependence on commodity prices and the existence of substantial domestic FX liabilities.

Potential Policy Responses: A cautious and broadly neutral monetary policy stance, continued exchange rate (ER) flexibility with limited foreign exchange (FX) interventions, and a medium-term fiscal consolidation to attain the fiscal rule targets would create a strong macroeconomic policy mix to support the external position going forward. Credible measures to underpin the medium-term fiscal consolidation and a moderation of political volatility would encourage private investment and help rebalance the savings-investment balance to bring the CA closer to its norm. An acceleration of structural reforms, including amending the fiscal decentralization framework with an improved distribution of resource-based fiscal revenues, to facilitate growth-enhancing public investment, and measures to improve productivity and reduce informality, could revamp Peru as a critical mineral exporter and increase competitiveness.

Foreign Assets and Liabilities: Position and Trajectory

Background. Peru's IIP is characterized by large foreign reserves, moderate external debt, and large FDI liabilities. After increasing from -53 percent of GDP in 2000 to -24 percent of GDP in 2011, Peru's net IIP has been on a declining trend due to CA deficits, driven by the accumulation of FDI liabilities. In 2024, net IIP increased to -34.6 percent of GDP from -40 percent of GDP in 2023, due to the CA surplus. External assets (60 percent of GDP) include sizeable central bank foreign assets holdings (27 percent of GDP). These are offset by large FDI liabilities (50 percent of GDP), moderate external indebtedness (public and private external debt of about 39 percent of GDP), and equity securities (6 percent of GDP). As the CA balance returns to a deficit, the net IIP is projected to increase until 2028, before declining to about -29 percent of GDP in 2030.



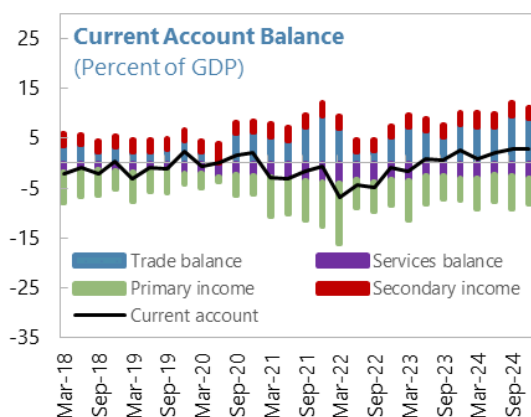
Assessment. Gross external financing needs declined, due to the higher CA balance, to an estimated 3.7 percent of GDP in 2024. While a negative NIIP could pose risks, including those arising from the structure of debt and valuation changes in reserve assets, Peru's NIIP is dominated by FDI liabilities. FDI liabilities declined in 2023 and 2024 as share of GDP due to low investment, leading to a lower NIIP, but are envisaged to increase with the start of new mining projects. The

external sustainability (ES) approach does not suggest a need for external adjustment. The estimated medium-term CA balance required to stabilize the NIIP at its end-2024 level is -1.9 percent of GDP, below the medium-term CA balance projections in the baseline.

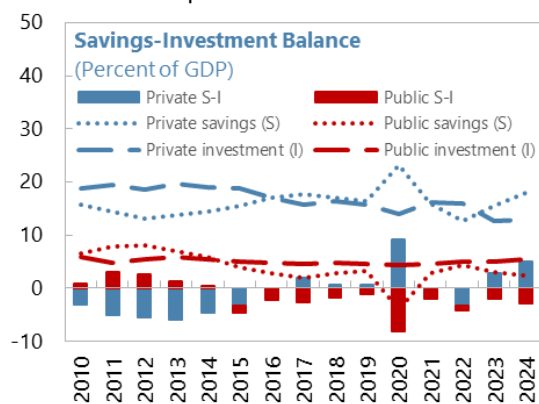
2024 (% GDP)	NIIP: -34.6	Gross Assets: 60	Reserve Assets: 27	Gross Liab.: 95	Debt Liab.: 39
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Current Account

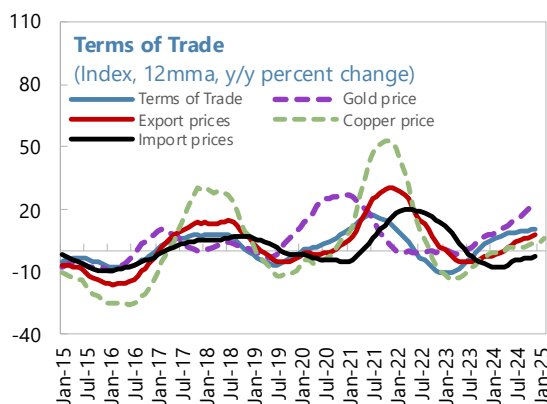
Background. Despite the growth normalization, improved terms of trade (TOT) and strong agricultural and fishing exports sustained a CA surplus. The surplus increased to 2.2 percent of GDP in 2024, from 0.7 percent of GDP in 2023, thanks to a remarkable trade balance (TB), which offset a wider primary income deficit. The TB increased to 8.2 percent of GDP in 2024 from 6.6 percent of GDP in 2023, its highest level since 2006, driven by a 10.4 percent increase in the TOT. Exports of goods increased by about 12 percent, due to growth in both volumes (about 4 percent, primarily agriculture and fishing) and prices (about 8 percent, primarily gold and copper). Imports of goods increased by about 4.5 percent, as volumes rose (about 7 percent) amid the growth normalization while price growth was negative (about -2.4 percent). The services deficit slightly narrowed by 0.2pp of GDP, as freight costs increased in tandem with the continued recovery in tourism-related revenues. Investment income outflows increased by 0.4pp of GDP, due to higher foreign repatriation of profits. Declining public savings led to a negative public savings-investment (SI) balance, but were offset by a positive private SI balance that has been increasing due to falling private investment and somewhat increased private savings. Over the medium term, the CA is expected to return to a deficit and stabilize at its norm of about 1.5 percent of GDP.



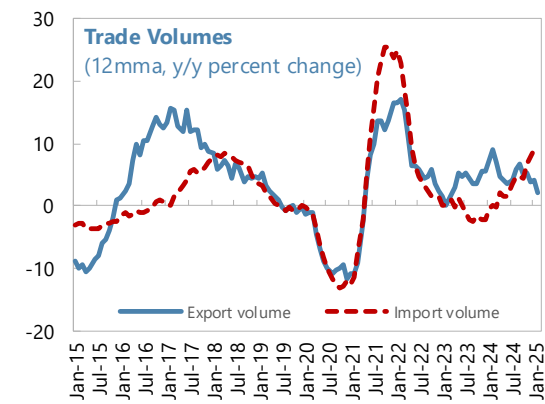
Source: BCRP, Haver Analytics.



Source: BCRP, INEI, Haver Analytics.



Source: BCRP, Haver Analytics.



Source: BCRP, Haver Analytics.

Assessment. The External Balance Assessment (EBA) CA model estimates a CA norm of -1.2 percent of GDP. After accounting for the temporary impact of cyclical factors such as TOT and business cycle, staff estimates the 2024 cyclically adjusted CA balance to be 1.2 percent of GDP, based on the actual 2024 CA balance of 2.2 percent of GDP. The CA gap is 2.4 percent of GDP, indicating that Peru's external position in 2024 was stronger than the level implied by medium-term fundamentals and desirable policy settings. Stronger fiscal balances compared to the rest of the world (the contribution of the relative fiscal policy gap to the overall CA gap was estimated at 0.3 percent of GDP) counterbalanced a larger health expenditure, credit gap and FX interventions gap (combined contribution estimated at -0.2 percent of GDP), resulting in about 0.1 percent policy gap.

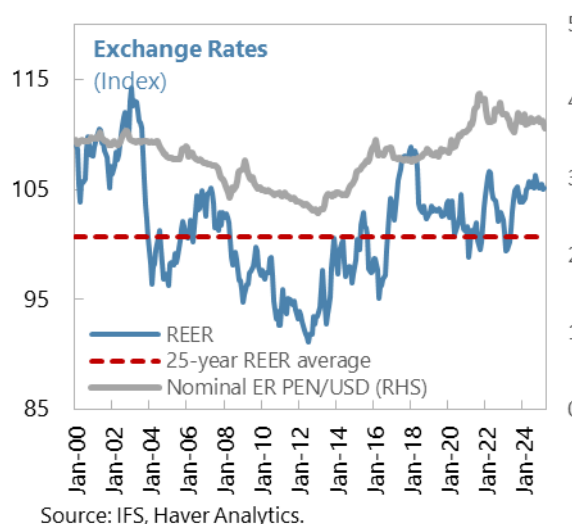
Current Account and REER Gaps, 2024 (Percent of GDP, unless otherwise stated)			
	EBA CA regression	EBA REER (index)	EBA REER (level)
2024 CA actual	2.2		
Cyclical contributions (from model) (-)	1.0		
Cyclically Adjusted CA	1.2		
CA Norm (from model) 1/	-1.2		
CA Gap 2/	2.4		
o/w Policy gaps	0.1		
Elasticity	-0.2		
REER Gap (in percent) 3/	-12.3	9.3	31.5

Source: IMF staff estimates.
 1/ Cyclically adjusted.
 2/ The CA gap is the cyclically adjusted CA minus the CA norm.
 3/ Positive value indicates overvaluation.

Real Exchange Rate

Background. The nominal ER remained broadly stable in 2024, depreciating by about 0.3 percent (average) and 0.05 percent (eop). Instead, the REER appreciated 0.9 percent (average) and 2.1 percent (eop) in 2024, reflecting the Peruvian sol's better relative performance compared to its main trading partners, amid a stronger US dollar. The REER appreciation in 2024 followed an appreciation of 6.2 percent (average) and 2.9 percent (eop) in 2023, and the REER now stands 6.6 percent above a 25-year average.

Assessment. The EBA CA model, with an estimated elasticity of 0.19, implies a REER undervaluation of about 12.3 percent. The EBA REER approaches estimate an overvaluation of 9.3 percent (index method) and an overvaluation of 31.5 percent (level method) in 2024. We base our assessment on the EBA CA model, while acknowledging that the strength of the REER highlighted by the REER models, which is explained by remarkable TOT and the increase in the fiscal deficit, raises competitiveness issues and is aggravated by structural factors constraining potential growth, such as negative TFP growth and high degree of informality.



Capital and Financial Accounts: Flows and Policy Measures

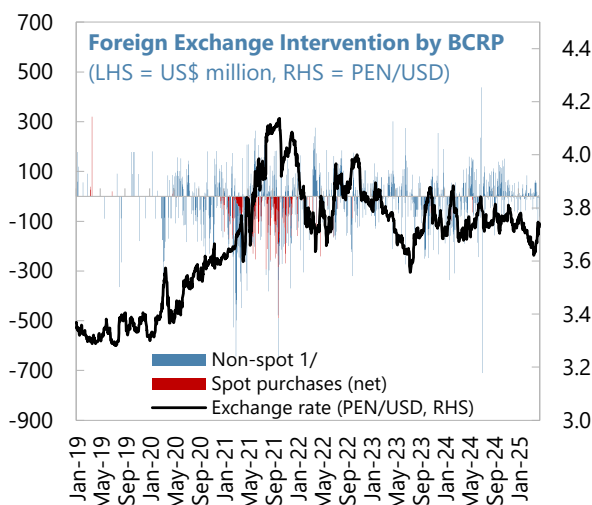
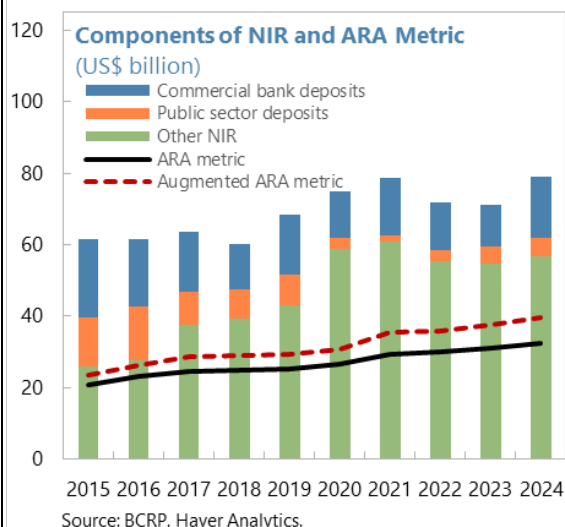
Background. Net inflows into the capital and financial account are estimated to have increased in 2024 to 0.6 percent of GDP after declining to -0.5 percent of GDP in 2023. Inflows were dominated by public sector liabilities (US\$5.2 billion, including a US\$3 billion Eurobond issuance) and FDI liabilities (about US\$6.9 billion), which declined in 2023 and rebounded in 2024 driven by higher reinvested earnings of foreign investors exceeding withdrawals of equity capital for debt instruments associated with the foreign acquisition of a power distribution and supply company

(Enel). These inflows were accompanied by short-term capital outflows, which increased to US\$2.8 billion of outflows from US\$0.2 billion of inflows.

Assessment. Strong economic fundamentals and diversification of creditors have underpinned strong capital inflows, including during periods of stress. FDI inflows have benefitted from capital contributions and earned profits in critical economic sectors, such as mining and infrastructure. The start of new mining projects in 2025 should contribute to higher FDI liabilities and could catalyze additional investments in the medium term. Lower commodity prices and an intensification of political uncertainty are the key risks for FDI.

FX Intervention and Reserves Level

Background. The BCRP intervenes in the FX market to smooth ER volatility caused by various shocks without targeting a specific level. The BCRP increased interventions in 2021 to contain volatility and relieve market pressure from political uncertainty, selling US\$17.5 billion (8.1 percent of GDP), including US\$11.6 billion on the spot market (5.1 percent of GDP). Interventions subsided thereafter and, in 2023, were conducted primarily through FX swaps to maintain the BCRP's stock of derivative positions. In 2024, the BCRP intervened in the spot and non-spot FX markets in February (US\$1.4 billion, 0.4 percent of GDP, on the non-spot market and US\$233 million, 0.1 percent of GDP, on the spot market) and May (US\$1.1 billion, 0.3 percent of GDP, on the non-spot market and US\$78 million, 0.02 percent of GDP, on the spot market) in response to increased volatility due to market's expectation of a rapidly narrowing interest rate differential vis-à-vis the US.



Source: BCRP and IMF staff estimates.

1/ Net maturity of CDR BCRP, net maturity of FX (sell) swaps, net issuance of CDLD and net purchases of FX (buy) swaps.

Assessment. The flexible ER has long served as the primary mechanism of adjustment to external shocks. Peru's international reserve coverage exceeds adequacy metrics. Gross international reserves were US\$79.2 billion (27.4 percent of GDP) at the end of 2024, about 248 percent of the ARA metric, well above the 100–150 percent adequacy range. Reserves also exceed an augmented ARA metric that incorporates Peru's heavy reliance on commodity exports and the volatility of copper and gold prices.

Annex III. Risk Assessment Matrix

Risks	Likelihood	Impact	Policy Response
Global Risks			
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies or green transition) increase commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	Medium. Volatile import prices increase inflation and weaken private consumption. While higher commodity prices can strengthen exports, excessive volatility reduces confidence and adversely affects investment.	Adjust monetary policy according to the assessed impact on inflation and inflation expectations. Allow the ER to play its role as a shock absorber. Provide targeted fiscal support to the most vulnerable.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFIs in distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	Medium	High. High interest rates exert downward pressure on the ER. Tighter financial conditions abroad lead to large capital outflows.	Allow the ER to play its role as a shock absorber. ER interventions can be used to prevent excessive volatility. Accelerate efforts to support de-dollarization.
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	Medium. First-round effects reduce mineral export prices and distort investment decisions, which lower potential growth. Less diversified trading partners and supply-chain networks increase vulnerability to external shocks.	Advance structural reform agenda to boost investment and growth. Work with international community to foster cooperation on global issues. Engage with major trading partners to maintain open trade policies.
Domestic Risks			
Social unrest. Slowing economic growth, worsening citizen security amplify risks of social unrest. Political polarization and instability weaken policymaking.	High	High. Political uncertainty and social conflict erode confidence, stifle investment, and generate capital outflows. Low government effectiveness further erodes trust in key institutions and entrenches low growth.	Advance structural reform agenda to boost investment and growth. Continue political reform to reduce political polarization and increase stability. Strengthen governance and enhance anti-corruption enforcement efforts.

Risks	Likelihood	Impact	Policy Response
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	High. Peru is highly vulnerable to natural disasters related to climate change. Damage to infrastructure, agriculture, and other producing sectors results in economic, social, and fiscal costs.	Promptly deploy resources to promote timely reconstruction and employ countercyclical policies as needed. Invest in resilient infrastructure and implement effective adaptation measures.
Acceleration in private investment. Recent government initiatives revive private investment. New Chancay megaport attracts regional trade and private investment. Start of the Tia Maria mining project unblocks other long-delayed large mining projects.	Medium	High. Higher private investment accelerates potential growth.	Reform decentralization framework to increase spending efficiency of resource-based fiscal revenues. Advance structural reform agenda to secure a permanent increase in potential growth.
Note: The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.			

Annex IV. Sovereign Risk and Debt Sustainability Analysis

The overall risk of sovereign stress in Peru is low and public debt is expected to stabilize, although at a higher level than in 2024. The assessment reflects Peru's history of fiscal discipline, its debt-to-GDP ratio among the lowest in the region, relatively safe debt composition, and public assets which serve as buffers.

1. The low but growing public debt ratio is expected to stabilize over the medium term.

In the baseline scenario, debt grows slowly from a low starting level (32.8 percent of GDP in 2024) due to deficits assumed above the revised fiscal rule limits, and ultimately stabilizes around 36 percent of GDP in the medium term. Implementing the feasible consolidation envisioned in the fiscal rules would otherwise allow Peru to meet gradually its long-run debt target (30 percent of GDP). The shares of marketable debt, foreign and domestic-currency denominated debt, and the residual maturity profile of public debt should remain broadly stable over the forecast horizon.

2. The Non-Financial Public Sector is the statistical coverage of Peru's public debt

statistics. The investor base is well diversified, and the law of the debt is equally distributed between local and foreign. Most of the public debt is marketable, with over ten years of residual maturity.

3. The feasibility analysis of the baseline scenario does not currently point to major

concerns. The track record for forecasting the main debt drivers does not highlight any systematic bias, and the projected fiscal consolidation is well within norms. The growth forecast for real GDP in the baseline is consistent with reasonable estimates of the fiscal multiplier.

4. Medium-term liquidity risks are low. The results are robust for the GFN Financeability Module, supported by low gross financing needs and the strength of the macroeconomic policy frameworks and institutions. The Fanchart module points to moderate levels of risk.

In turn, staff assesses long-term risks to be low, with mechanical triggers on long-run amortization pressures mostly reflecting Peru's own history of low amortization needs. Gross financing needs in GDP terms are expected to stay among the lowest in emerging markets. Feasible fiscal consolidation can help to address the moderate financing pressures that could stem from sensible risk scenarios, including climate change adaptation and natural resource scenarios.

Figure 1. Public Debt Sustainability Analysis—Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting generally modest levels of vulnerability over short and longer term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low on the basis of the strength of macroeconomic policy frameworks and institutions, low gross financing needs, and the availability of public assets, albeit net public debt has been on the rise in recent years. Gross debt is expected to stabilize in the medium term as fiscal deficits gradually moderate and thanks to modest help from asset financing in line with Peru's recent history.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	Low	Risks from large amortization profiles in the long term could be lowered, but remain manageable and relatively modest among emerging markets. Risks for climate adaptation is low, as is that for commodity shocks, and natural disasters.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes
DSA Summary Assessment			
<p>Commentary: Peru's overall risk of sovereign stress is assessed to be low. The public debt ratio and other indicators have improved since the COVID-19 pandemic, though there is recent slippage as the fiscal deficit targets enshrined in the fiscal rules have been missed in 2023 and 2024. The public debt ratio is expected to stabilize over the medium term at a level higher than in 2024 as the authorities are expected to delay the planned fiscal consolidation. Medium-term liquidity risks are low, as signaled by the GFN Financeability Module and supported by the strength of the macroeconomic policy frameworks and institutions. Long term risks appear manageable and would be low should the authorities fully implement the consolidation envisaged in the revised fiscal rules, safeguarding fiscal discipline.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability")</p>			

Figure 2. Public Debt Sustainability Analysis — Debt Coverage and Disclosures

						Comments							
1. Debt coverage in the DSA: 1/						CG	GG	NFPS	CPS	Other	Not applicable		
1a. If central government, are non-central government entities insignificant?						n.a.							
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline						Inclusion							
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes							
				2	Extra budgetary funds (EBFs)	Yes							
				3	Social security funds (SSFs)	Yes							
				4	State governments	Yes							
				5	Local governments	Yes							
				6	Public nonfinancial corporations	Yes							
				7	Central bank	No							
				8	Other public financial corporations	No							
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/			
4. Accounting principles:						Basis of recording		Valuation of debt stock					
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/			
5. Debt consolidation across sectors:						Consolidated		Non-consolidated					
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable													
Reporting on Intra-Government Debt Holdings													
Issuer		Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
CPS	NFPS	GG: expected	CG	1	Budget. central govt						30.0		
				2	Extra-budget. funds	5.2	0.6	0	0	0.4	13.9	10.0	0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
				8	Oth. pub. fin. corp								0
Total					0	5.2	0.6	0	0	0.4	13.9	10.0	30.0

1/ CG=Central government; GG=General government; NFPs=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

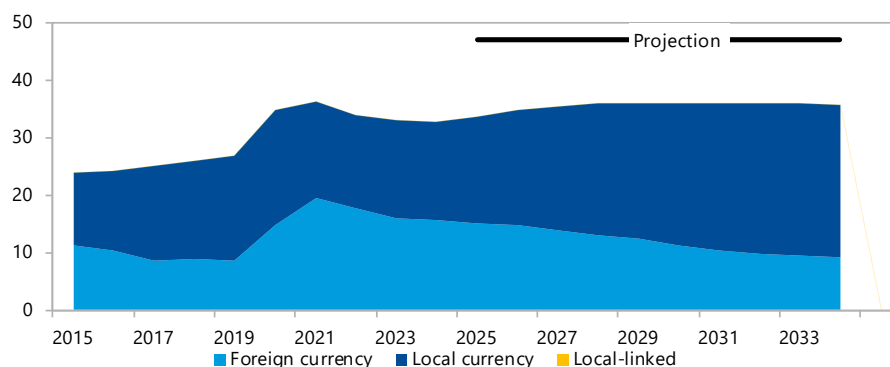
4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

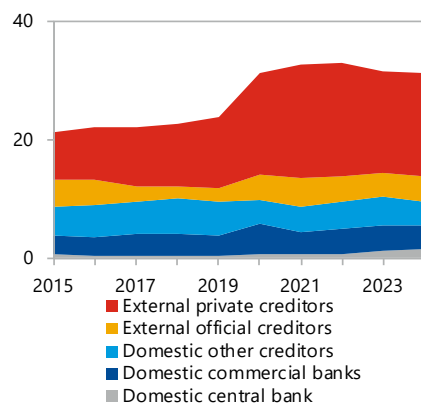
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

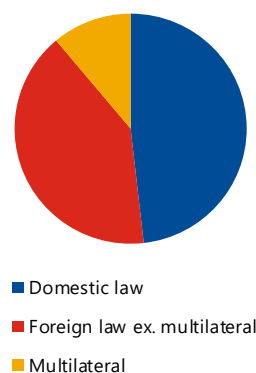
Commentary: Billions of PEN. Only includes debt securities issued by the BCG and held by the rest of the public sector.

Figure 3. Public Debt Sustainability Analysis — Public Debt Structure Indicators**Debt by Currency (Percent of GDP)**

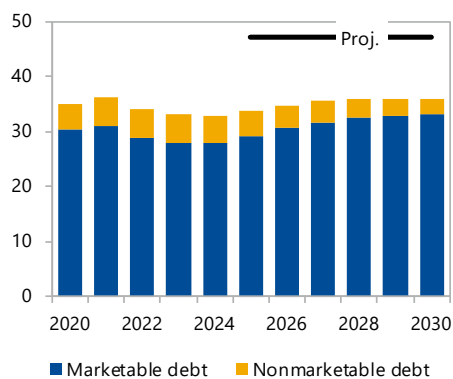
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)

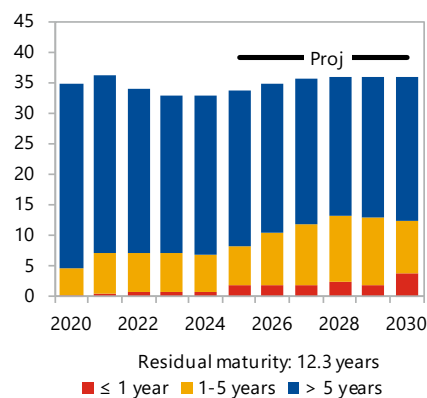
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2024 (Percent)

Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)

Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)

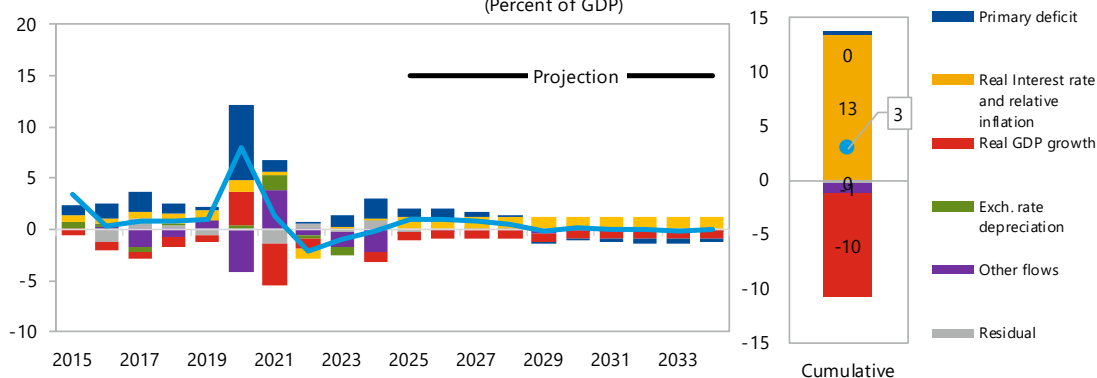
Note: The perimeter shown is nonfinancial public sector.

Commentary: The share of domestic and foreign-currency denominated public debt is expected to remain broadly stable over the forecast horizon. The lion's share of public debt is expected to remain marketable, and with a residual maturity longer than 10 years. The investor base is well diversified, and the governing law of the debt is equally distributed between local and foreign.

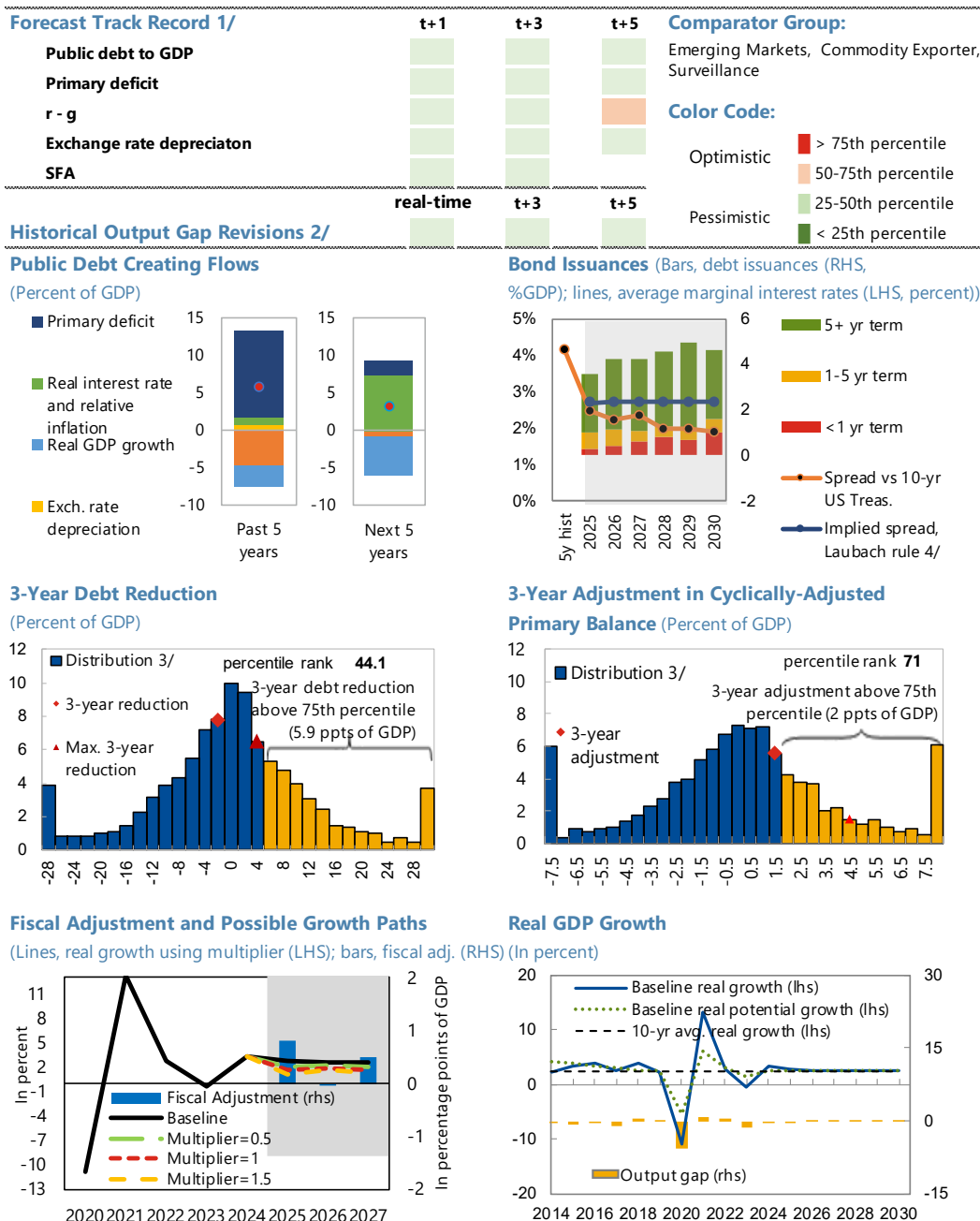
Figure 4. Debt Sustainability Analysis—Baseline Scenario
(Percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	32.8	33.7	34.7	35.5	35.9	35.9	36.0	36.0	35.9	35.8	35.7
Change in public debt	-0.2	0.9	1.0	0.7	0.5	-0.1	0.1	0.0	-0.1	-0.1	-0.1
Contribution of identified flows	-1.0	1.1	1.1	0.7	0.5	-0.1	0.1	0.0	-0.1	-0.1	-0.1
Primary deficit	1.9	0.8	0.8	0.4	0.2	0.0	-0.2	-0.3	-0.4	-0.4	-0.4
Noninterest revenues	22.7	23.6	23.0	23.0	23.2	23.3	23.4	23.4	23.5	23.6	23.7
Noninterest expenditures	24.5	24.4	23.9	23.5	23.3	23.2	23.2	23.2	23.1	23.2	23.3
Automatic debt dynamics	-0.8	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Real interest rate and relative inflat	0.3	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.2
Real interest rate	0.3	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.1	-0.9	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-2.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Other transactions	-2.1	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.7	3.6	4.2	4.2	4.6	5.3	4.6	6.7	6.5	7.1	7.2
of which: debt service	3.9	2.8	3.5	3.9	4.4	5.4	4.8	7.0	7.0	7.5	7.6
Local currency	3.0	1.1	1.7	1.7	2.8	3.6	2.7	4.7	5.1	5.4	5.7
Foreign currency	0.9	1.7	1.7	2.1	1.7	1.7	2.1	2.3	1.9	2.1	1.9
Memo:											
Real GDP growth (percent)	3.3	2.8	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator; percent)	2.4	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	8.4	4.7	4.6	4.6	4.6	4.7	4.6	4.6	4.5	4.6	4.5
Effective interest rate (percent)	3.2	5.8	5.4	5.6	5.6	5.5	5.6	5.6	5.6	5.6	5.5

Contribution to Change in Public Debt
(Percent of GDP)



Commentary: Public debt is expected to stabilize over the medium term at a level higher than in 2024 owing to delays in implementing the fiscal consolidation envisioned in the revised fiscal rules. Real growth and interest dynamics underscore the importance of maintaining fiscal discipline in the future.

Figure 5. Public Debt Sustainability Analysis — Realism of Baseline Assumptions

Commentary: The realism analysis does not point to major concerns. The forecast track record for the main drivers does not reveal any systematic bias, and the projected fiscal consolidation is within norms. The real GDP growth forecast in the baseline is consistent with reasonable estimates of the fiscal multiplier, and converges to potential GDP growth over the forecast horizon.

Source: IMF staff calculations.

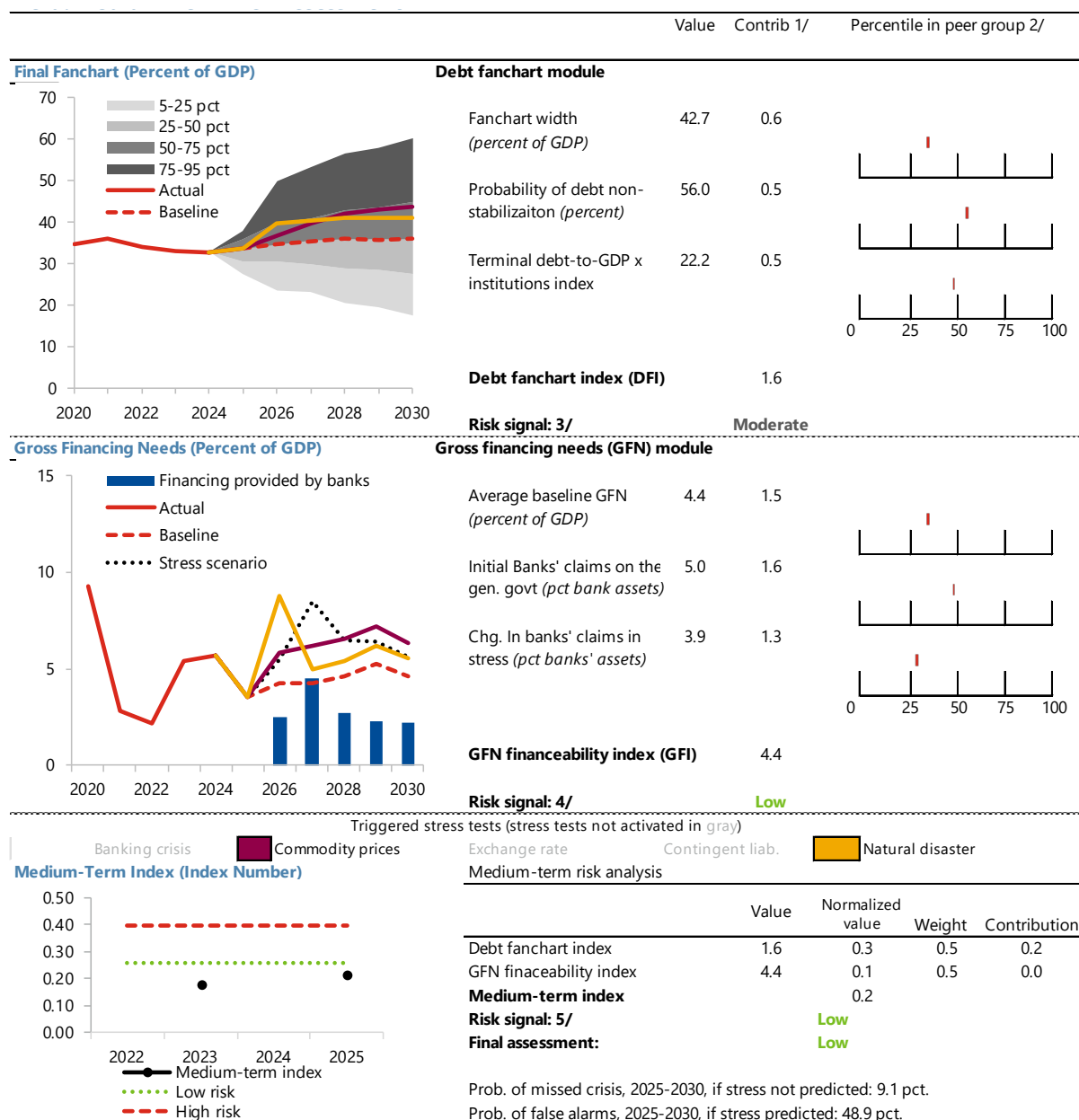
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Public Debt Sustainability Analysis—Medium-Term Risk Assessment



Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, while the GFN Financeability Module suggests a low risk level, supported by low gross financing needs. Even under risk scenarios featuring adverse commodity price and natural disaster conditions, gross financing needs are expected to stay below or at levels comparable to those experienced during 2020.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Public Debt Sustainability Analysis – Long-Term Risk Assessment – Large Amortization

Triggered Modules

Large amortizations

Pensions

Climate change: Adaptation

Natural Resources

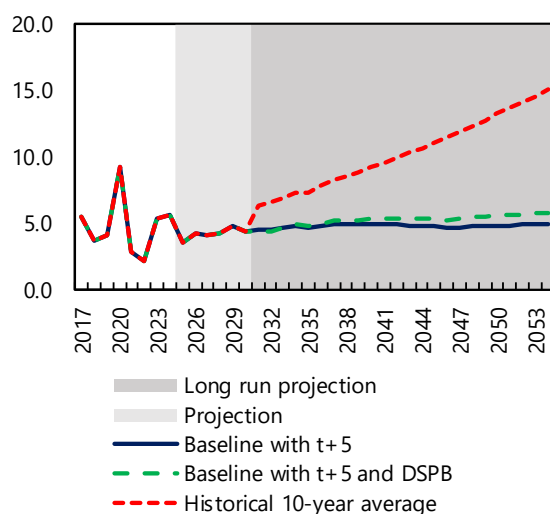
Health

Climate change: Mitigation

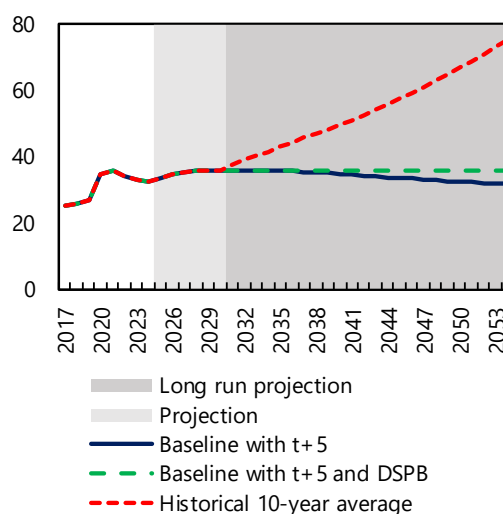
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Historical average assumptions	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Overall Risk Indication		<div></div>

GFN-to-GDP Ratio



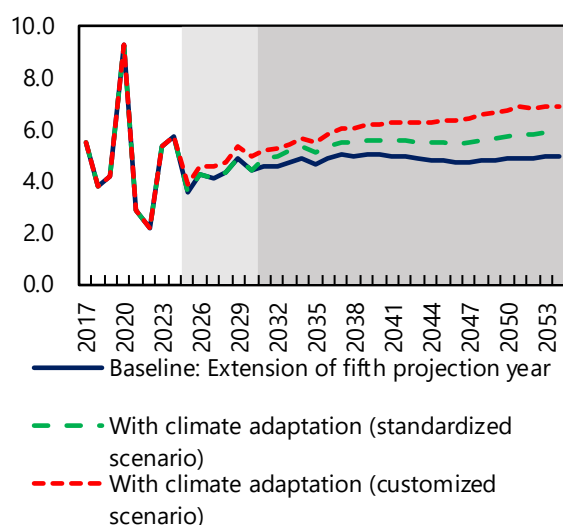
Total Public Debt-to-GDP Ratio



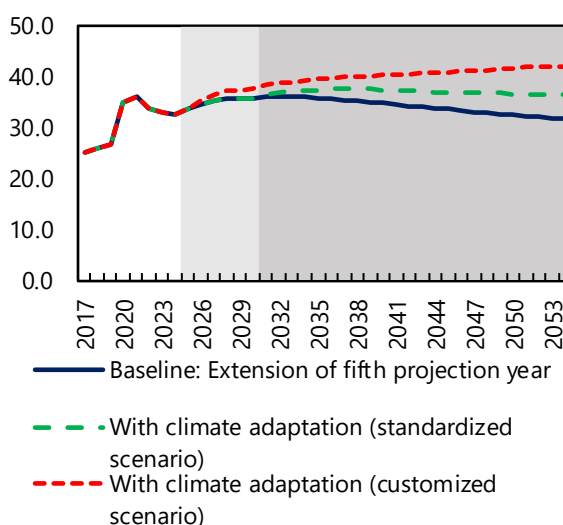
Commentary: Peru's low long-term risks reflect manageable gross financing needs, with average GFN ratios over the next 25 years below the 30th percentile of the 2024 distribution across market access countries, typically associated with low liquidity risks. Long-run amortizations, while high relative to Peru's own amortization history, will remain equally well manageable in GDP terms.

Figure 8. Public Debt Sustainability Analysis - Long-Term Risk Assessment – Climate Change: Adaptation

GFN-to-GDP Ratio



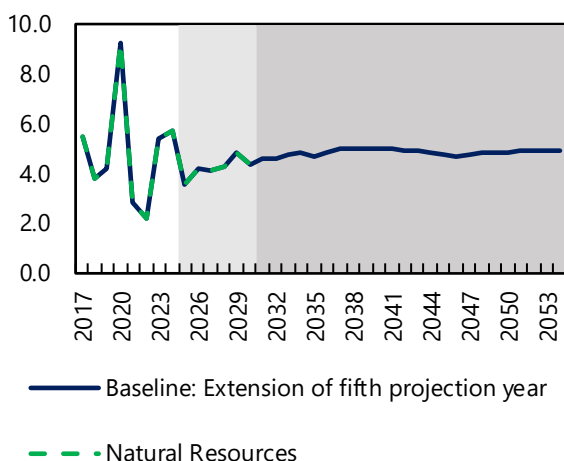
Total Public Debt-to-GDP Ratio



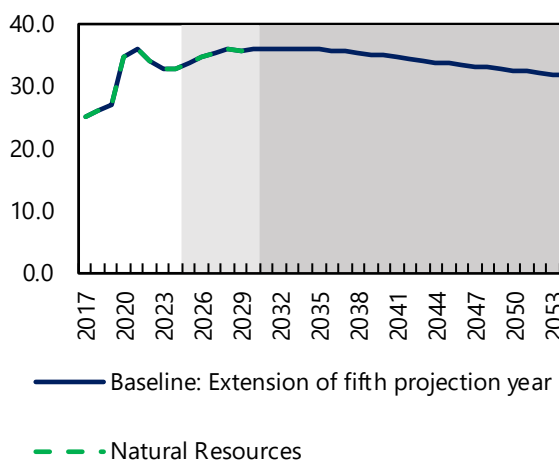
Commentary: Debt in the long run is expected to remain sustainable in light of climate adaptation risks, including in a custom scenario with more conservative assumptions on the impact on primary balances based the World Bank's CCDR model. Consolidation in line with the fiscal rules would help to secure fiscal buffers and prevent debt growth.

Figure 9. Public Debt Sustainability Analysis - Long-Term Risk Assessment – Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



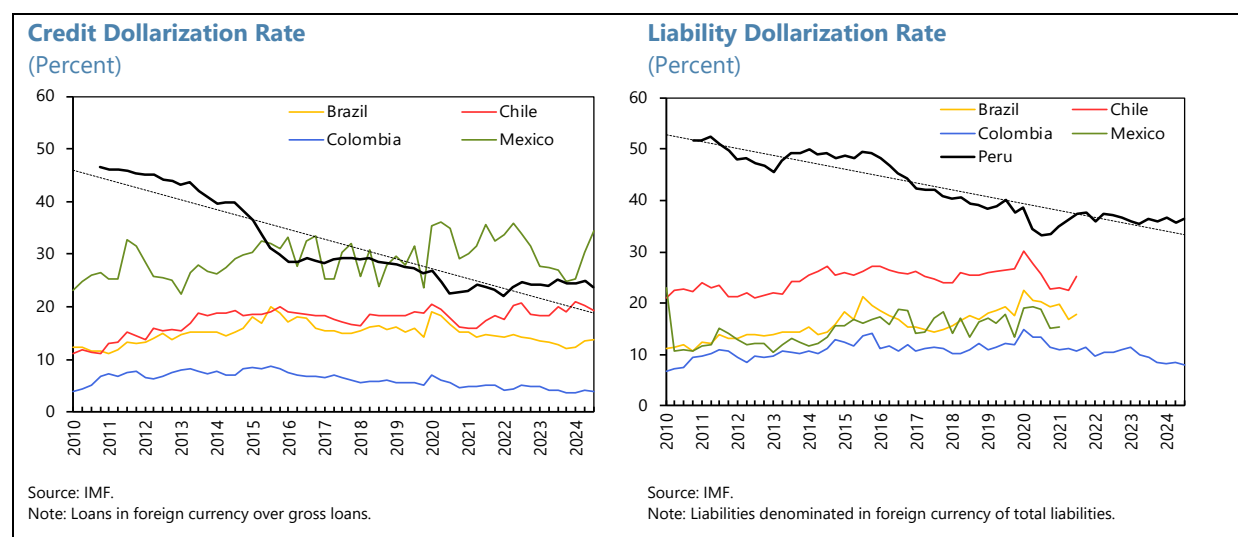
Commentary: Debt in the long run is expected to remain sustainable in light of natural resource discovery and depletion risks. Consolidation in line with the fiscal rules would further help to secure fiscal buffers and prevent debt growth.

Annex V. Financial Stability Risks from Dollarization¹

The de-dollarization process has stalled. Staff analysis shows that unhedged dollar credit, which is concentrated in large- and medium-sized companies in some sectors, is riskier. The results illustrate that the interest rate differential and foreign exchange (FX) volatility are determinants of deposit dollarization, and the degree of credit dollarization is positively correlated with the lender's capital and the amount of foreign currency deposits relative to total assets. Focused macroprudential policies are recommended to mitigate the vulnerability against potential foreign exchange fluctuations.

A. Stalled De-Dollarization

1. The de-dollarization momentum has stalled. The share of foreign currency loans declined to 24.6 percent in 2023 from 46.5 percent in 2010, supported by various policy measures.² Castillo et al. (2016) argue that measures such as repo operations along with higher reserve requirements for foreign currency, which became effective after 2013, were particularly effective. However, more recently, credit dollarization has been above the trend, increased from its 2022 trough, and remains high compared to other Latin American countries.



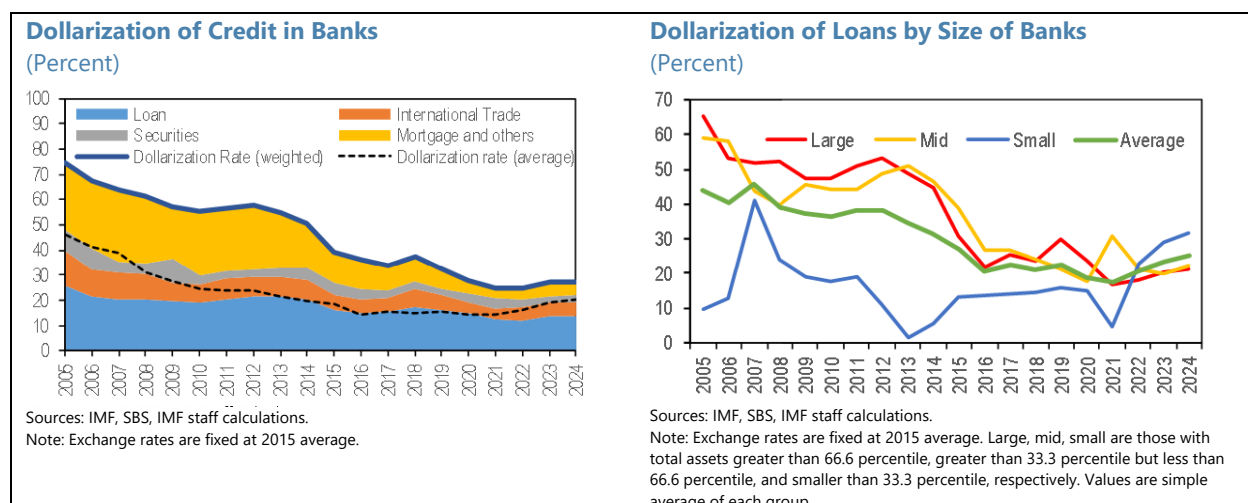
2. Corporate loan dollarization remains stubbornly high. The bulk of past credit de-dollarization is attributed to the *pesification* of mortgages, while the dollarization of corporate loans has remained broadly stable.³ More recently, dollar loans have started to increase, particularly at

¹ Prepared by Tomohiro Tsuruga (MCM).

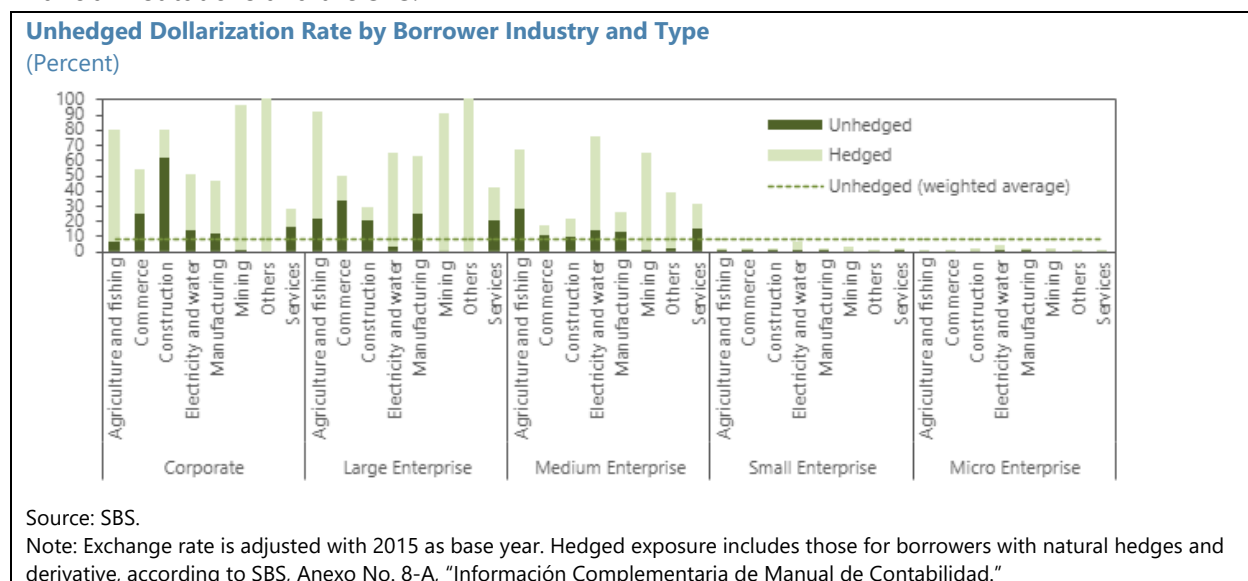
² The BCRP imposed higher reserve requirements on FX-denominated liabilities. In addition, the SBS introduced exposure add-ons of 8 percent to FX credit when calculating risk assets, and is currently planning to migrate to a higher risk weighting in lieu of add-ons. The SBS also introduced LCR regulation targeting FX liquidity.

³ Data on the balance sheet items of banks are based on "Vigente," which does not include restructuring and recovery due to data constraints. This could create discrepancies between the aggregate dollarization rate cited in this annex from more comprehensive indicators compiled by BCRP and SBS.

small banks. Some of these dollar debtors are hedged with derivatives or married with dollar income or deposits, whereas others are only partially hedged and thus exposed to a currency mismatch.



3. To study the distribution of unhedged dollar credit, the analysis relies on tabulated supervisory data from the SBS. The data is cross-tabulated by type of credit,⁴ industry, collateral, and NPL status, with a historical coverage from 2015 to 2023. The data also contains borrower characteristics (such as the income-to-debt ratio, total assets, and risk score) and lender characteristics (such as total assets, capital ratio, deposits in foreign currency, and deposit rates). Importantly, the data classifies borrowers as hedged or unhedged, based on assessments by lender financial institutions and the SBS.⁵



⁴ Type of credit is either corporate (large corporate, large enterprise, medium enterprise, small enterprise, and microenterprise), mortgage, or consumer loan.

⁵ The methodology is as follows. By regulation, lender financial institutions are mandated to perform scenario analysis where exchange rates fluctuate by 10-20 percent, then assess borrowers' level of exposure (not exposed, exposed, and highly exposed). SBS confirms the lenders' classifications by assessing additional borrower-level

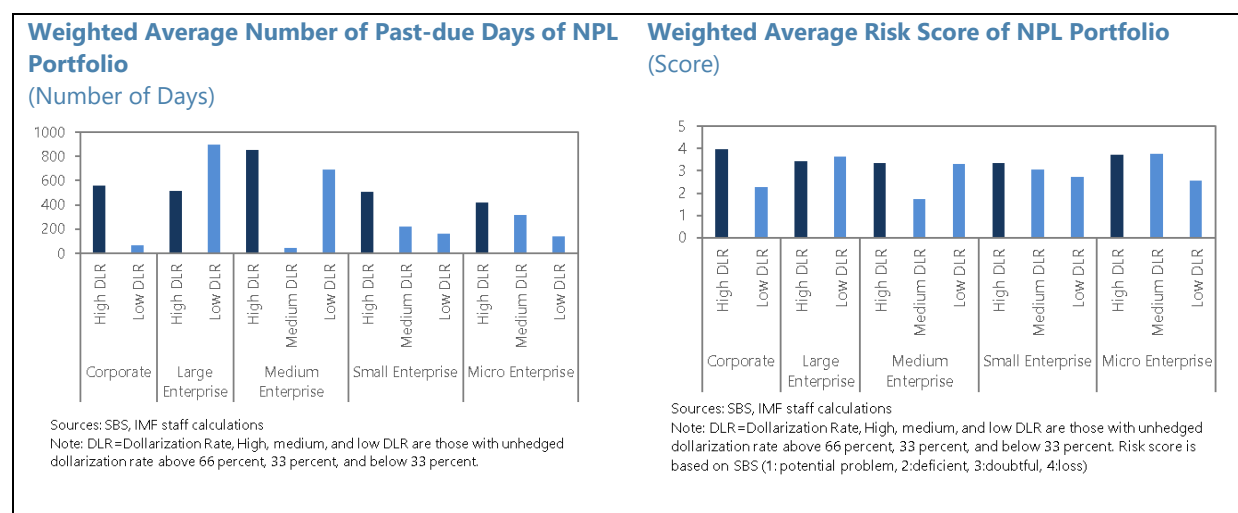
(continued)

4. There is significant sectoral heterogeneity in the share of unhedged credit dollarization. Dollarization is concentrated among large- and medium-sized debtors. While large debtors in mining, fishing, and agriculture have a natural hedge from their income in USD (in other words, protected from exchange rate fluctuations), others tend to be unhedged, particularly in construction, manufacturing, and commerce.

B. Riskiness of Dollarized Credit

5. Given the heterogeneity and concentration of unhedged dollarization, there could be pockets of vulnerability due to FX fluctuations. Firms in the construction, manufacturing and commerce sectors are dollarized and unhedged, potentially carrying a high currency mismatch (both in their income and expenditure, and in their assets and liabilities). Depreciation pressures would increase the nominal value of debt for these firms and could negatively affect the repayment capacity.

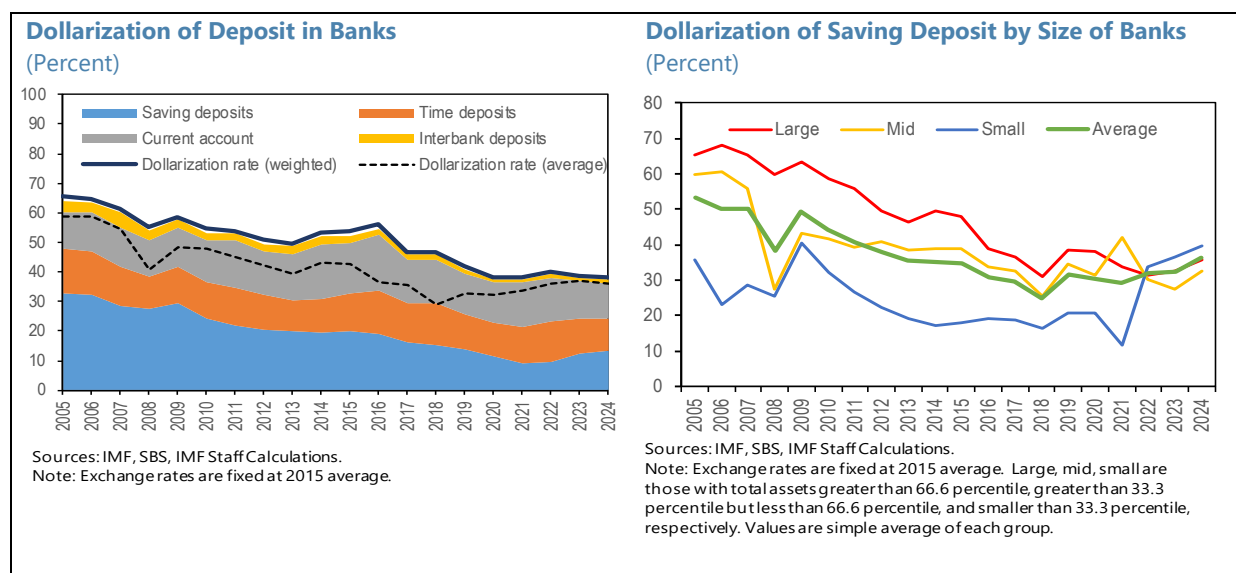
6. Unhedged dollarized loans are riskier. When focusing on non-performing loans, which are elevated and have increased substantially since the pandemic, debtors with a higher unhedged dollarization rate tend to have more days of loans overdue. Corporates and medium-sized enterprises are particularly more prone to longer days overdue. The same patterns emerge with the riskiness scores calculated by the SBS, where highly dollarized credits are deemed riskier, confirming the higher riskiness for unhedged borrowers.⁶



characteristics (such as the amount of foreign currency debt, industry, and experience with derivative instruments). Based on the classification, unhedged exposure is defined as the sum of the exposure to borrowers classified as exposed and highly exposed.

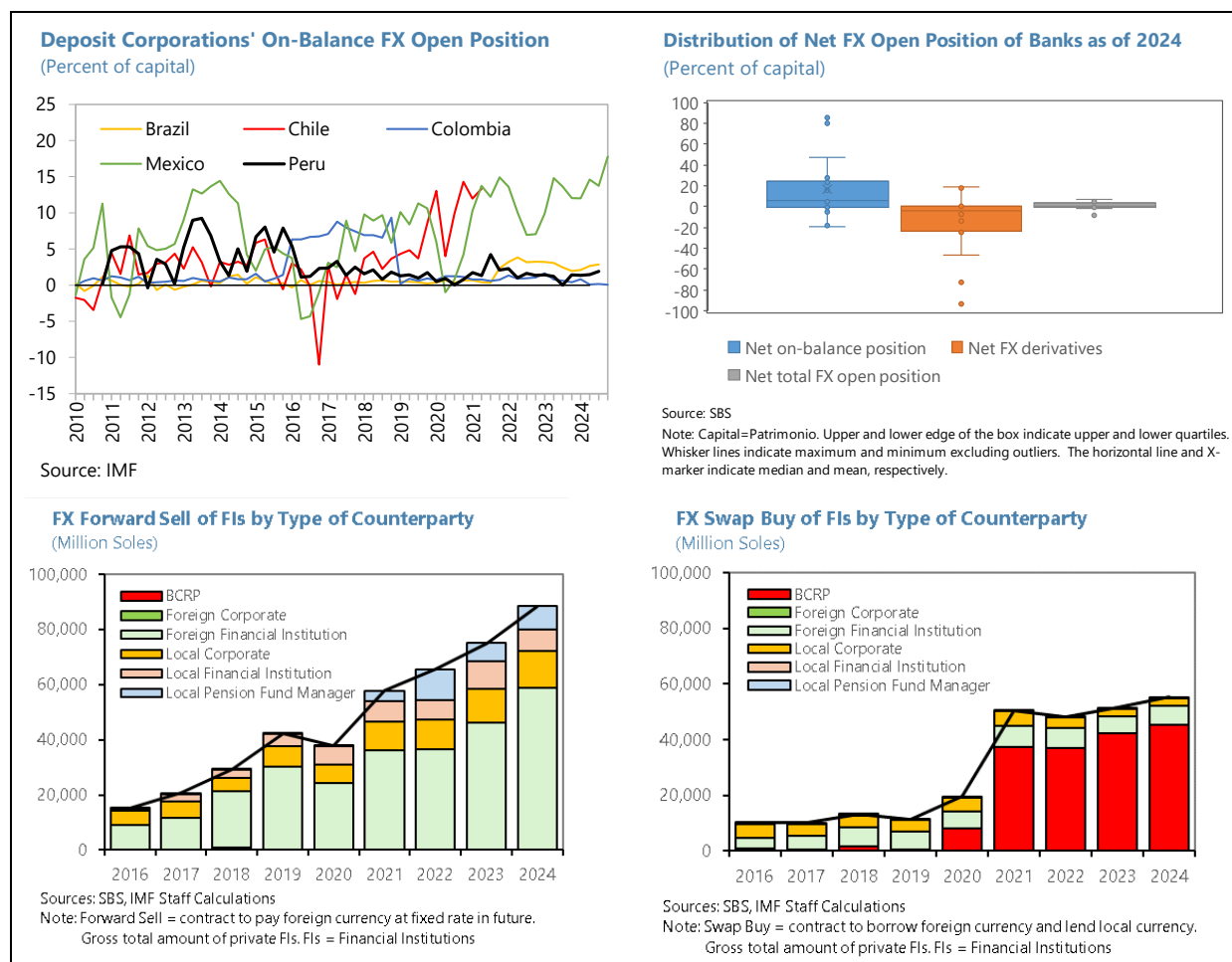
⁶ While credit with higher unhedged dollarization rate tends to show longer past due days across most credit types, this could be confounded by unobserved factors that contribute to higher riskiness (e.g., sectors with higher unhedged dollarization may be inherently riskier). Uncovering precise causal estimates is not feasible due to constraints with the existing data.

7. Deposit dollarization has also been elevated, providing funding for dollar credit. Past deposit de-dollarization was mostly due to a decline in saving deposits. More recently, saving deposits have increased, most notably in small banks, with the level surpassing that of the pre-pandemic period. This could be related to the recent withdrawals from private pensions and the narrowing interest rate differential vis-à-vis USD.



8. FX mismatch of financial institutions is contained on average, but some banks rely heavily on FX derivatives to close open FX positions. Aggregate foreign currency asset-liability mismatch is contained at around 0.3 percent of total assets. SBS monitors the aggregate and individual gap daily and regulates that the gap must be lower than 10 percent of regulatory capital. Financial institutions with open net on-balance positions close the gap using FX derivatives, such as FX forwards and swaps, with some relying on FX derivative instruments as high as about 90 percent of capital. However, counterparties of these FX derivatives contracts are highly concentrated in foreign financial institutions and the BCRP. Given the shallowness of the FX derivative market, funding could become unstable during periods of stress without liquidity support from the BCRP.⁷

⁷ According to the Bank for International Settlement (2022), "Triennial Survey of Foreign Exchange and Over-the-Counter (OTC) Derivatives Market in 2022," daily average turnover of FX derivatives for Peru is about 0.33 percent of GDP, the lowest among all LA5 countries. During the Covid-19 pandemic, the amount of FX funding through FX forwards with foreign financial institutions declined sharply in 2020, leading the BCRP to increase funding through FX swaps. BCRP continues to refinance these positions.



C. Drivers of Dollarization

Insights from Cross-Country Panel Analysis

9. The determinants of credit dollarization were analyzed using a cross-country panel regression with quarterly panel data for LA6 countries (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) from 2001Q2 to 2023Q4. The credit dollarization rate (FX adjusted, Financial Soundness Indicator) was regressed with the following variables: (i) past dollarization rate, (ii) (PEN-USD) interest rate differential, (iii) current account balance to GDP, (iv) exchange rate (ER) volatility, (v) global growth (Haver), and (vi) rule of law (World Governance Index, World Bank).

10. The results indicate significant effects for the interest rate differential and FX volatility. Using a dynamic panel regression based on generalized method of moments, the results indicate that borrowers tend to borrow in dollars when the domestic interest rate is relatively higher and when the ER volatility is lower. Rule of law is not a clear determinant.

Insights from Granular Regulatory Data

11. Supervisory data was used to estimate the relationship between Peru-specific structural and cyclical factors and unhedged credit dollarization. The share of unhedged foreign currency credit was regressed on lender size, lender capital ratio, lender profitability, loan interest rate spread against local currency, and the share of FX deposit funding. Controls included the past unhedged dollarization share and fixed effects for credit type, industry, collateral, and NPL status.

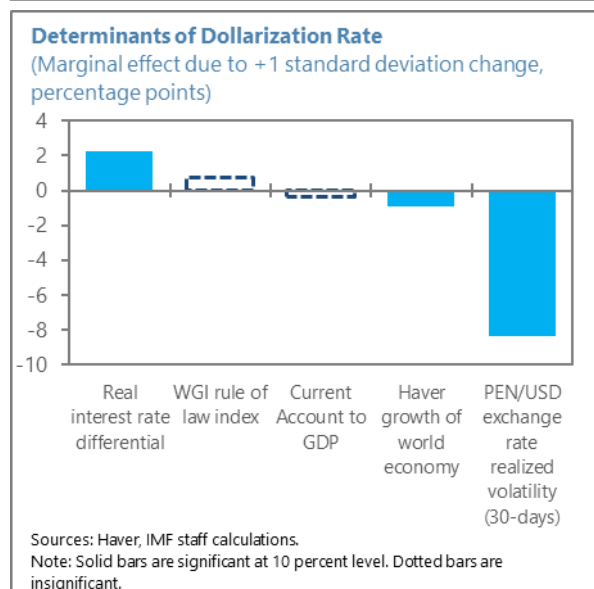
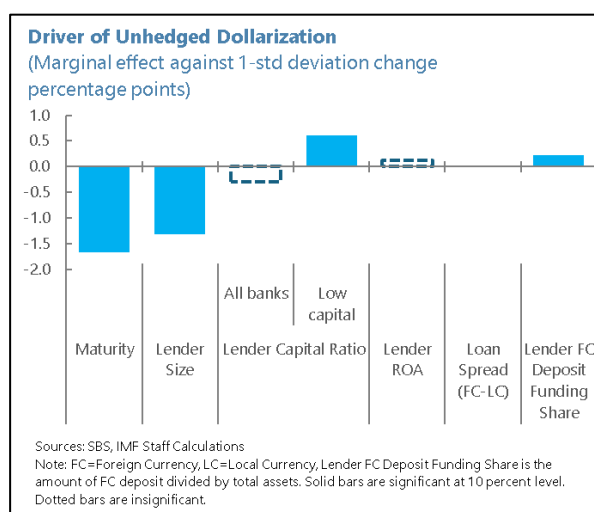
12. Lender characteristics are relevant for unhedged credit dollarization.

a. The unhedged dollarization rate decreases for banks with lower capital adequacy.

Because of the stricter regulatory treatment of FX credit and liquidity by the SBS, higher dollarization is relatively costly for banks, which translates into more restrictive lending behavior by lenders with lower capital ratios against unhedged credit.

b. The unhedged dollarization rate increases for banks with higher foreign currency deposits.

This supports the previous observation that higher deposit dollarization could provide sources of funding for dollar credit. Increases in dollar deposits would be partly allocated to reserve accounts in BCRP due to the foreign currency reserve requirement, but could also be allocated to foreign currency assets, including credit.⁸



D. Policy Responses

13. Focused macroprudential policies could reduce financial sector vulnerabilities associated with remaining unhedged dollarized credit against potential exchange rate fluctuations. Given the high concentration

of unhedged dollarized credit in some sectors, focused macroprudential policies would be appropriate to achieve the last mile of de-dollarization. This could include the following:

⁸ Guitierrez, Ivashina and Salomao (2023) point out that higher deposit dollarization could contribute to higher credit dollarization, as banks tend to offer cheaper dollar credit to avoid a currency mismatch.

- **Higher risk weights targeting debtors with higher unhedged FX exposure.** SBS is implementing new regulation to replace add-ons for FX-credit exposure with higher risk weights on unhedged FX credit.⁹
- **Better identification of hedged/unhedged borrowers.** The new regulation by SBS will also introduce a metric to identify unhedged borrowers. The identification of unhedged exposure in large corporates could be further improved by including coverage of derivative positions.
- **Closer monitoring of credit and FX funding.** A more comprehensive solvency/liquidity stress testing could be useful to identify the transmission of risk due to FX credit. Stress scenarios could, for example, assume a loss of foreign counterparts in FX derivatives markets or the absence of liquidity support by the BCRP.
- **Introduction of foreign currency-specific NSFR.** NSFR was introduced in December 2024 with a minimum requirement of 80 percent and will be fully phased in with a minimum requirement of 100 percent by 2026, and is not currency-specific. To strengthen the stability of funding for foreign currency assets, SBS could consider introducing foreign currency-specific NSFR.

⁹ Resolution S.B.S. no-00774-2025 will be in effect in January 2026, and would roughly double the capital charge for unhedged borrowers, according to the SBS. The new regulation includes new metrics for evaluating unhedged exposure based on the coverage ratio, defined as the Earnings Before Interest Tax, Depreciation, and Amortization (EBITDA) divided by the sum of long-term debt plus interest expenses.

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Castillo, Paul, Hugo Vega, Enrique Serrano, and Carlos Burga (2016) "De-dollarization of Credit in Peru: The Role of Conditional Reserve Requirements," Chapter 9 of *Challenges for Central Banking: Perspectives from Latin America* edited by Jacome, L. Ignacio, Hamid Faruquee and Krishna Srinivasan, International Monetary Fund. [Chapter 9. De-dollarization of Credit in Peru: The Role of Conditional Reserve Requirements in: Challenges for Central Banking.](#)

Gutierrez, Bryan, Victoria Ivashina, Juliana Salomao (2023) "Why Is Dollar Debt Cheaper? Evidence from Peru," *Journal of Financial Economics*, 148 (3): 245-272.

Annex VI. Implementation of FSAP Recommendations

1. The financial system has improved and gained strength with time. The 2018 FSAP for Peru found that the financial system had developed and become more resilient since the 2011 FSAP. Peru's main vulnerabilities were assessed to be external, particularly related to growth in trading partners due to reliance on commodity exports, as well as to exchange rate depreciation due to significant dollarization. At that time, shocks in the form of uncertainty and spillovers from the ongoing *Lava Jato* investigation were judged as significant domestic headwinds. The mission's stress test analysis showed that although highly concentrated, the banking system proved resilient to adverse shocks due to the strong capital buffers and profitability. The interconnectedness analysis found that the joint probability of distress across all banks had fallen since the peak of the global financial crisis; however, shocks affecting credit exposures, which are strongly correlated among large banks, could become systemic events due to the highly concentrated nature of the banking system.

2. The FSAP found that the Peruvian authorities could improve financial stability by acting across a number of dimensions. The macroprudential framework could be improved by bringing capital surcharges in line with Basel III requirements, enhancing monitoring of off-balance sheet exposures, increasing foreign currency lending risk weights, and introducing new risk monitoring tools. Oversight of banks could be strengthened by granting the Superintendency of Banks (SBS) powers to exercise consolidate supervision, enhancing financial group supervision, implementing recovery and resolution requirements for domestic systemically important banks (DSIBs), finalizing the review of the capital requirement framework, implementing risk-based supervision for insurers, and creating a deposit-insurance system for cooperatives. The FSAP also recommended measures to strengthen crisis preparedness and cooperation between relevant agencies. Finally, measures that would deepen money markets and improve the private pension system were also proposed.

3. The authorities have made significant progress on the recommendations from the 2018 FSAP. Notably, countercyclical provisions and capital surcharges fully aligned with the Basel III framework are in effect. Recovery plans for domestic systemically important banks (D-SIBs) are already under review. The deposit insurance system for cooperatives has started providing coverage from 2025. The SBS has enhanced its monitoring of off-balance-sheet exposures, while also implementing various additional tools for monitoring systemic risks. Further progress has been made on other recommendations, including amending the SBS' authority to exercise consolidated supervision, risk-based supervision for insurance companies, strengthening crisis preparedness, and efforts to strengthen money markets. Notable areas of non-compliance with recommendations include completing the assessment of the recovery plan of DSIB banks to expand it to financial groups and start resolution planning, as well as reforms that strengthen the legal protection of SBS staff.

FSAP Key Recommendations	
Recommendations	Update on Progress
Systemic Risk and Macroprudential Policy	
Increase capital surcharges for systemic banks to levels in line with Basel III framework; increase countercyclical provisioning for smaller banks. (SBS) (ST)	New regulations were issued in June 2024 for countercyclical provisions and capital surcharges in line with Basel III framework. In addition, a new methodology was established by the SBS for determining buffers for concentration (single debtor, economic sector, and geographic area). A more risk sensitive provisioning scheme has been developed, requiring higher countercyclical provisions for SME portfolio. In March 2022, the General Law was changed to align the composition of regulatory capital to Basel III. All the related regulation was issued in December 2022 and is active as of January 2023. Systemic risk buffers will be completely phased in 2024 and conservation buffers in 2026.
Enhance the monitoring of off-balance-sheet exposures of banks. (SBS) (IT)	SBS monitors the development of deposit institutions including their off-balance-sheet exposures. SBS issued in 2023 rules for a standardized report of credit commitments.
Increase foreign currency lending risk weights in line with Basel III guidelines. (SBS) (ST)	An 8-percent increase in capital surcharges is currently applied to exposures subject to credit ER risk. SBS has calibrated the risk weights for foreign exchange credit exposure and will announce the changes by end-2025.
Introduce new risk-monitoring tools , such as growth-at-risk, systemic risk analysis, and corporate sector stress testing; give enhanced mandate for macroprudential policy to BCRP and SBS; implement Memorandum of Understanding between BCRP and SBS to strengthen coordination. (BCRP/SBS) (ST/MT)	The growth at risk methodology and a granular risk model for corporate debtors have been incorporated in the stress test model. BCRP and SBS hold a quarterly meeting for information sharing. A systemic risk monitoring framework was implemented to timely identify vulnerabilities and systemic risks in the Peruvian financial system, aligning this identification and monitoring process with the recommendations of the International Monetary Fund and the World Bank.
Financial Sector Oversight	
Banks	
Amend legal framework to grant SBS powers to exercise full consolidated supervision. (SBS) (MT)	A draft law amendment for holding companies has been prepared. It needs to be approved by Congress.
Enhance financial group supervisory and regulatory approach regarding (i) group governance and risk-management requirements; (ii) consolidated capital adequacy and liquidity risk-management assessment; (iii) establishing a lead supervisor; and (iv) establishing a supervisory group rating. (SBS) (ST)	The SBS requires and assesses detailed group-wide risk management reports (i). The SBS requires and assesses capitalization plans when group capital is below the regulatory minimum as well as liquidity stress tests and contingency plans at group level (ii). The SBS leads consolidated supervision because of the largest supervised firm within a financial group ("lead firm") is effectively responsible for submitting consolidated

FSAP Key Recommendations	
Recommendations	Update on Progress
	information to the SBS (iii). Internal classification process of D-SIBs includes an overview of the financial group (iv).
Implement requirements for recovery and resolution planning for D-SIBs, as well as for financial groups. (SBS) (MT)	The SBS has received the recovery plans from D-SIBs (approved by the Board of Directors) and has conducted a general review of their compliance. However, a comprehensive review to give feedback has not yet been carried out. Requirements for resolution planning are still in progress.
Strengthen legal protection of all SBS staff in line with international best practice. (MEF) (MT)	A draft law amendment that includes SBS staff legal protection has been prepared. It needs to be approved by Congress.
Strengthen the SBS's internal governance and control framework by enhancing the Internal Audit Function, including the establishment of an Internal Audit Committee. (SBS) (ST/MT)	The functions of the Internal Control Committee at SBS were expanded to include aspects related to internal risk management, information security, and compliance with regulations. The Ethics Tribunal was conformed. A good governance model with appropriate levels of authority, responsibility, accountability and control mechanisms was established.
Finalize the review of the current methodology for the calculation of the additional capital requirements as planned; enhance the activation trigger of the countercyclical buffer and enhance the systemic and single name risk buffers. (SBS) (ST)	Regulatory changes have been completed on: (i) regulatory capital requirement for systemic risk, (ii) reduction of the trigger that activates the rule for countercyclical provisioning and capital requirement and (iii) capital requirements for additional risks. The capital conservation buffer (CCoB) was implemented in 2023, with an adjustment schedule aiming to reach 2.5 percent by December 2026. A review of the cyclical rule based on the credit-to-GDP gap indicator is in place to better align with international standards.
Insurance	
Implement risk-based supervision for all insurers and brokers. (SBS) (ST)	Risk-based supervision model for insurance companies is applied since 2019-2020. A trial of a risk-based supervision model for brokers was run in 2022. The final model was approved in February 2024 and is applied since then.
Cooperatives	
Design a deposit-insurance system after passage of law to bring financial cooperatives under supervisory umbrella of SBS. (BCRP, MEF and SBS) (MT)	The regulation for a deposit-insurance system has been approved and the premiums began to be collected. The insurance started to provide coverage in January 2025 to those cooperatives that have complied with 24 contributions (2 years of premiums).

FSAP Key Recommendations	
Recommendations	Update on Progress
Crisis Management	
Strengthen crisis preparedness and management arrangements. (MEF, BCRP, SBS, FSD) (MT)	<p>The BCRP and SBS participated in a cross-border crisis simulation exercise for 7 countries of the Americas. This exercise, led by the FSI BIS, aims to test the effectiveness of the existing resolution framework.</p> <p>In 2025, it is expected to begin coordination with MEF and BCRP to develop a draft about resolution coordination.</p>
Enhance information-sharing between SBS and FSD. (SBS, FSD) (MT)	An evaluation is in progress to establish formal channels for information sharing during a systemic crisis, with FSD Board including representatives from the industry. Coordination meeting was held on 2025Q1.
Require payout of most insured deposits within seven working days and provide legal protection to FSD staff/agents. (SBS, MEF) (MT)	<p>In practice, FSD payouts are usually carried out within 48 hours.</p> <p>Regarding legal protection, a draft law amendment to enhance the resolution framework including legal protection for all staff involved has been prepared. It needs to be approved by Congress.</p>
Enhance the ELA framework by specifying eligibility and collateral requirements, and by providing for enhanced supervision, to ensure its effectiveness. (BCRP) (ST)	<p>Previously, the BCRP had a last-resort liquidity program to financial institutions that accept government-guaranteed loans as collateral.</p> <p>The eligibility and collateral requirements for CRM and repo operations are specified in the corresponding Circular.</p> <p>Coordination between the BCRP and the supervisory authority is not required to provide liquidity through the discount window (créditos de regulación monetaria/ CRM), but the BCRP shares information with the supervisory authority. In addition to CRM, the BCRP can offer liquidity using repos, for which eligible instruments are announced. SBS considers the accessibility of financial companies to the ELA and repo facility of BCRP in their liquidity stress test.</p>
Financial Integrity	
Strengthen risk-based AML/CFT supervision (including sanctioning powers to enhance effectiveness) for banks and other high-risk reporting entities, focusing on preventive measures for mitigating risks of laundering of proceeds of corruption and drug trafficking. (MEF/SBS) (ST/MT)	<p>A draft law amendment for increasing the cap on fines has been prepared and is currently under internal review by the SBS. It is expected to be submitted to Congress during the first half of 2025.</p> <p>The FIU has consolidated its risk-based supervisory resources to cover a larger number of reporting entities. A recent amendment to the regulation on politically exposed persons (PEPs) updates and specifies the list of functions and positions held by PEPs, who are subject to enhanced due diligence requirements.</p> <p>The FIU implemented a new risk-based prioritization model for suspicious transaction reports in September 2024. Additionally, a technical assistance project, supported by the Swiss State</p>

FSAP Key Recommendations	
Recommendations	Update on Progress
	<p>Secretariat for Economic Affairs, is supporting the FIU to identify high-impact ML/TF cases.</p> <p>A new regulation for virtual asset service providers (VASPs) was issued in August 2024, establishing a legal definition and key AML/CFT obligations, including the appointment of a compliance officer. The regulation also establishes future provisions for the FATF's Travel Rule. AML/CFT supervision of VASPs is expected to begin in mid-2025. The authorities also conducted a 2024 study on the economic activities of VASPs in Peru and are carrying out AML/CFT workshops for VASPs.</p>
Financial Deepening and Pension Reform	
<p>Deepen repo markets, improve clearing and settlement infrastructure, prioritize medium- and long-term issuance around benchmark tenors. (BCRP/MEF) (ST/MT)</p>	<p>Work is ongoing to improve Repurchase Agreements related to the temporary transfer of securities to give greater dynamism to the public debt market and allow financial institutions to improve their settlement procedures in the secondary market. Currently, regulations for these operations have been approved while a framework contract is being prepared. To facilitate securities loans, a collateral management system is being developed.</p> <p>The Strategy for Global Asset and Liability Management (EGIAP for its acronym in Spanish) aims to strengthen the market for public debt securities in the national currency with medium and long-term maturities. The EGIAP also aims to achieve interconnection with Euroclear. The implementation of phase 2 "Secondary Market Link" would allow all bonds to be euro-clearable and can be registered and settled in the local ICLV, improving investors' access to this market.</p>
<p>Design reforms to improve the private pension system. (MEF) (ST/MT)</p>	<p>In September 2024, a pension reform proposal was approved by the Congress that includes features such as expanding minimum and social pension, automatic enrollment, limiting early withdrawals from the private pension accounts, and periodic assessment of parameters.</p>
Time Frame: IT (Immediate) = less than 1 year; ST (short-term) = 1- 3 years; MT (medium-term) = 3-5 years.	

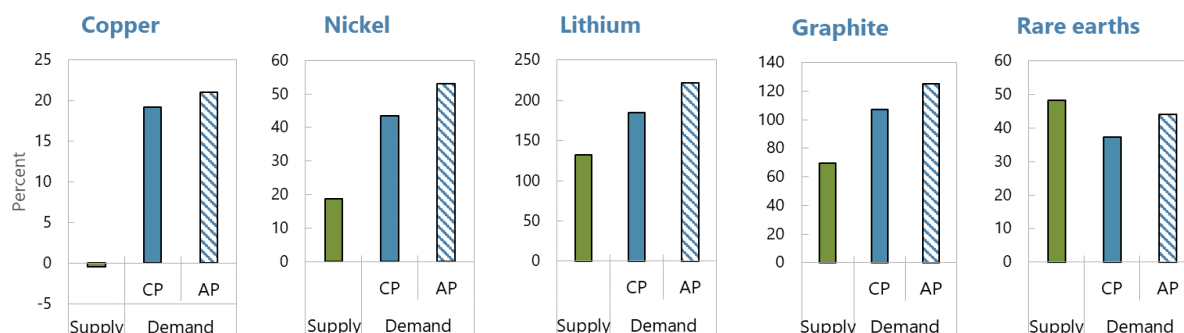
Annex VII. Leveraging Critical Mineral Exports for Sustainable Growth¹

The demand for critical minerals is projected to rise significantly in coming decades, with copper expected to face an increasing global shortage. As the holder of the world's second-largest copper reserves, Peru will receive higher revenues from rising copper prices but could benefit more by unlocking stalled mining projects. However, the boost to potential growth will only be temporary unless the additional fiscal revenues are channeled into productive public investments to sustain and extend the growth dividend. Reforms that improve public investment efficiency would further amplify the returns of such investments.

- 1. The demand for critical minerals is expected to surge in coming decades.** The International Energy Agency (IEA) identifies five critical minerals: copper, lithium, nickel, graphite, and rare earths. Demand for these minerals is expected to substantially outpace the projected mining supply. Copper and lithium stand out as the two critical minerals for which future supply-demand mismatches are the most drastic and would persist even after accounting for additional supply from recycling or higher assumptions for the productivity of mines (IEA, 2024).
- 2. Peru holds the second-largest global copper reserves, which the IEA envisages will face a worsening shortage.** The latest IEA outlook for the copper industry indicates that by 2040 annual extraction could fall 19 million metric tons short of future demand or equivalently about 73 percent of the current market size. Peru will benefit from this opportunity as it has the world's second-largest copper reserves and a well-established mining industry.
- 3. The anticipated shortage presents a unique opportunity for Peru to ramp up its copper production.** To seize its full mining potential, reforms are needed to cut red tape and reform the fiscal decentralization framework to alleviate anti-mining sentiments. Unlocking stalled mining projects could increase annual copper production by up to 1.4 million metric tons.
- 4. The envisaged copper shortage could deliver windfall revenues.** The forecasted copper supply-demand imbalances could lead to higher copper prices (as supply increases typically lag demand growth, as recently attested by the sevenfold increase in lithium prices during 2022-2023), improving Peru's terms of trade and boosting nominal exports, national income, and fiscal revenues, even without an increase in production.

¹ Prepared by Zamid Aligishiev (WHD).

Figure 1. Change in Supply and Demand for Critical Minerals between 2023 and 2030



Source: International Energy Agency.

Note: The Stated Policies (CP) Scenario reflects the existing policy settings. The Announced Pledges (AP) Scenario assumes that governments will fully and timely deliver on all their announced commitments.

5. The IMF's DIGNAR-19 (Melina et al., 2016; Aligishiev et al., 2021) model is used to explore policies to secure sustainable long-term growth dividends. This model is a small open-economy dynamic general equilibrium model that allows public investment to affect productivity in non-traded and traded non-resource good sectors. The model includes an exogenous natural-resource sector that pays royalties and corporate income tax to the government. Government revenues can be spent on public investment or transfers to low-income households. The model allows to simulate changes in public investment efficiency and accounts for Dutch Disease effects through learning-by-doing externalities in the traded non-resource sector.

6. To isolate macro-fiscal implications of different developments and policies, the illustrative analysis considers five scenarios.

- *Scenario 1: Higher copper price.* In this scenario, copper production remains at baseline levels, but prices begin to rise after 2030, coinciding with the IEA-projected worsening copper shortage. By 2035, prices increase by 10 percent and stabilize at that level through 2040 (price per kilogram increases from US\$8.2 to \$9 over five years). Additionally, this scenario assumes that: (a) 45 percent of additional fiscal revenues from the mining sector are used to fund unproductive public investment projects; (b) 55 percent are saved in the Fiscal Stabilization Fund until it reaches a ceiling of 4 percent of GDP; (c) the residual is distributed to low-income households via direct transfers.²
- *Scenario 2: Unlocking delayed mining projects.* Copper production gradually increases, adding 1.4 million metric tons of copper (the productive capacity of the six main copper mining

² Fiscal revenues from mining include corporate income tax (CIT), dividend withholding tax, royalties, and special mining taxes. 50 percent of CIT revenues and the entirety of royalty revenues are allocated to public investment projects, which may be either productive or unproductive. The average effective tax rate is assumed to be 37.3 percent, based on estimates from the Fiscal Affairs Department. The total cash cost of copper production is set at USD 2,580 per metric ton.

projects) per year by 2035, and remain at that level through 2040. Copper price remains at \$8.2 through the entire horizon. Additional fiscal revenues are allocated as in *Scenario 1*.

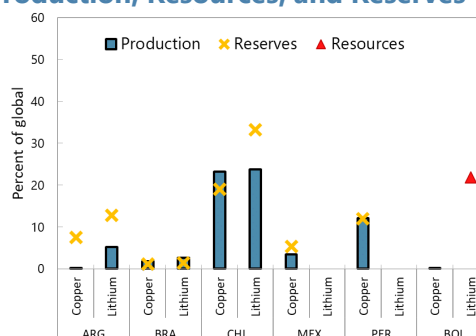
- *Scenario 3: Productive investments.* This scenario builds on *Scenario 2* but assumes that 45 percent of the additional revenues are allocated towards productive public investments instead of unproductive projects. Productive investments increase marginal products of labor and private capital inputs.
- *Scenario 4: Investing fiscal revenues in full.* This scenario builds on *Scenario 3* but assumes that additional fiscal revenues from mining are allocated to productive public investments only.
- *Scenario 5: Investing and closing the efficiency gap.* This scenario builds on *Scenario 3*, with the added assumption that the government implements structural reforms aimed at enhancing public investment efficiency to reach the average of LA5 countries. The reform process begins in 2025 and is fully implemented over a five-year period. During this time, public investment efficiency improves gradually, increasing linearly from 48 to 62 percent.

Table 1. Peru: Capacity of Stalled Copper Projects

Project	Life of mine, years	Estimated peak annual production, metric tons
El Galeno	20.4	144,353
Rio Blanco	20	200,000
Los Chancas	18	130,000
Michiquillay	25	225,000
La Granja	40	500,000
Haquira	20	236,000
Total		1,435,353

Source: Ministerio de Energía y Minas.

Figure 2. LAC Copper and Lithium: Production, Resources, and Reserves



Source: United States Geological Survey.

7. Higher copper prices lead to additional fiscal revenues but only provide a temporary boost to potential growth. The increase in copper prices, assumed in *Scenario 1*, raises national income and domestic demand, leading to real exchange rate appreciation. As a result, annual output growth accelerates in 2031-2035, adding as much as 0.2 percentage points to annual baseline growth at the 2035 peak (Figure 3).³ Once prices stabilize at a higher level, output growth returns to its initial trajectory. This results from the Dutch Disease effects, where the expanding resource and non-traded sectors erode the competitiveness of the traded sector and ultimately lead to its crowding out.⁴ The non-traded sector grows faster than under the baseline scenario, while growth in

³ The results are presented as deviations from the baseline scenario, which assumes no changes in extraction levels, copper prices, fiscal policies, or the efficiency of public investments. Staff estimates the baseline potential growth rate at 2.5 percent.

⁴ The adverse impact of Dutch disease on the domestic non-resource traded goods sector operates through two main channels: the spending effect and the resource movement effect. The spending effect arises from nominal exchange rate appreciation, which erodes the international competitiveness of the domestically produced traded

(continued)

the traded sector slows down. Although fiscal revenues remain 0.2 percent of GDP higher on a permanent basis, the economy does not benefit from permanently higher GDP growth.

8. Unlocking stalled mining projects would deliver a larger, but still temporary, increase in potential growth. A copper extraction ramp-up (*Scenario 2*)—driven by the operationalization of the stalled copper projects *El Galeno*, *Rio Blanco*, *Los Chancas*, *Michiquillay*, *La Granja*, and *Haquira*—would increase national income and fiscal revenues and boost mining output growth. Under *Scenario 2*, annual output growth accelerates in 2025–2035, with annual growth exceeding the baseline by 0.5 percentage points at the 2035 peak (Figure 3). However, once the ramp-up is complete and the unlocked mines reach their expected productivity, output growth returns to its initial path. The underlying economic intuition is underpinned by Dutch Disease effects (as in *Scenario 1*), the return of copper output growth to the baseline, and the fact that small-scale, unproductive investment projects fail to catalyze private sector growth. However, the permanently higher fiscal revenues would enable Peru to replenish its Fiscal Stabilization Fund by 2037.

9. Channeling additional fiscal revenues into productive public investment projects can preserve the growth dividend. Targeted investments, such as closing infrastructure gaps or enhancing resilience to future *El Niño* events, offer significant long-term dividends. The resulting expansion of public capital raises the return on private investments across all sectors, driving job creation and accelerating growth in non-resource sectors. Allocating the same 45 percent of fiscal revenues from higher copper extraction to *productive* public investment (*Scenario 3*) amplifies and prolongs the increase in potential growth (Figure 4).⁵ Annual output growth in 2025–2035 is higher on average, exceeding the baseline by 0.7 percentage points at the 2035 peak. As copper production stabilizes at higher levels, annual output growth slows but remains 0.2 percentage points above the baseline.⁶ Allocating the entirety of revenues to productive investments (*Scenario 4*) further increases these dividends, with growth exceeding the baseline by 0.8 percentage points at the 2035 peak and by 0.4 percentage points in the long term. However, *Scenario 4* entails delaying replenishment of the Fiscal Stabilization Fund, as the non-resource tax base takes time to grow.

10. To maximize the growth dividend, poor public investment selection and execution, institutional challenges, and governance weaknesses must be addressed. Low public investment efficiency can significantly diminish the growth impact of public investment (Berg et al., 2013). Peru

good. The resource movement effect involves a reallocation of private factors of production (labor and capital) from the non-resource traded sector toward the resource and non-traded sectors. This shift is driven by higher national income, which boosts demand and raises the relative prices of non-traded goods. As these prices increase, resources are drawn away from the traded sector into the expanding non-traded sector (Corden and Neary, 1982; Corden, 1984; and van Wijnbergen, 1984).

⁵ This result is qualitatively similar to Orrego and Vega (2013), but larger in magnitude due to the presence of learning-by-doing externalities in the traded sector and capital input in the non-traded sector in our model.

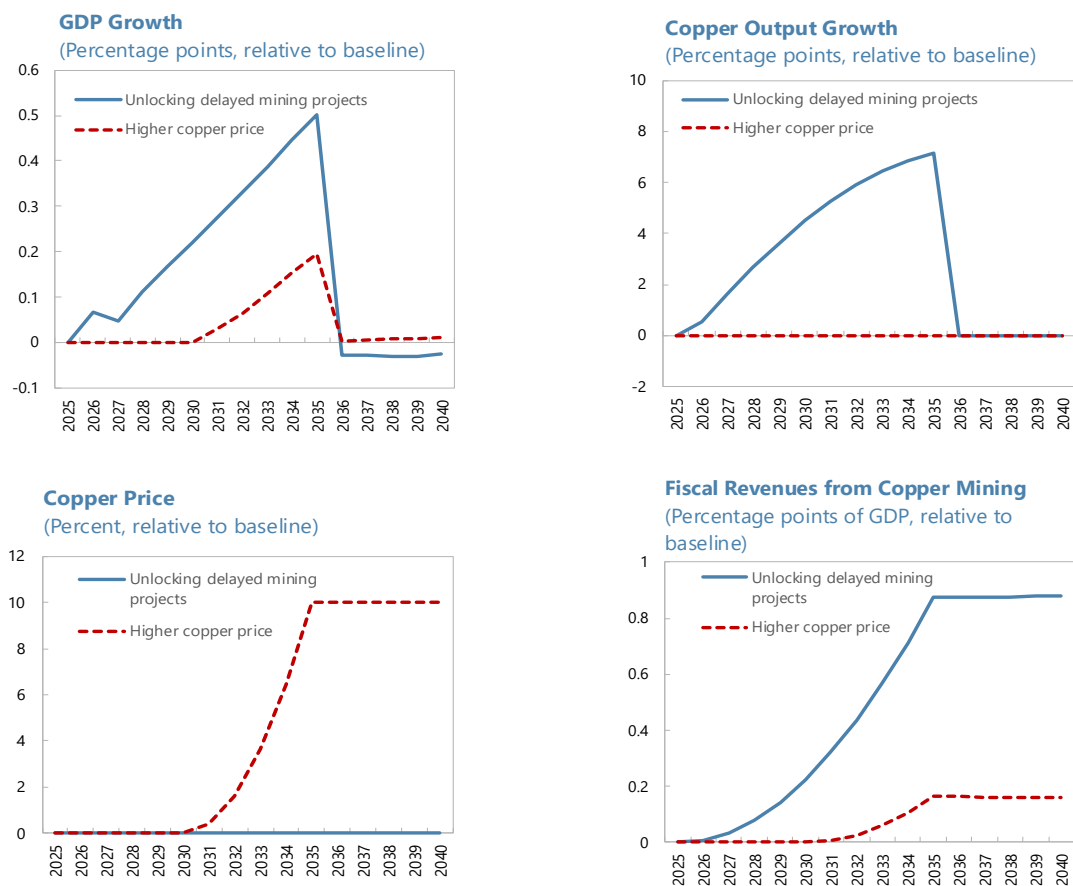
⁶ Public investment continues to expand the capital stock until it reaches a point where new investments only cover depreciation, assuming diminishing returns to capital. Until then, the private sector will sustain its elevated growth momentum, further supporting overall economic expansion. Investments in structural resilience to natural disasters come with an added benefit of a reduction in damages, which can be seen as a lower steady state depreciation rate.

lags behind LA5 peers in the quality and efficiency of public investment (Baum et al., 2020). Complementing the enhanced public investment with measures that address the efficiency gap—raising public investment efficiency from 48 percent to 62 percent—substantially amplifies the growth dividend. Average annual output growth from 2025 to 2035 is higher, peaking at 1 percentage point above the baseline in 2035, and remaining 0.6 percentage point above the baseline.

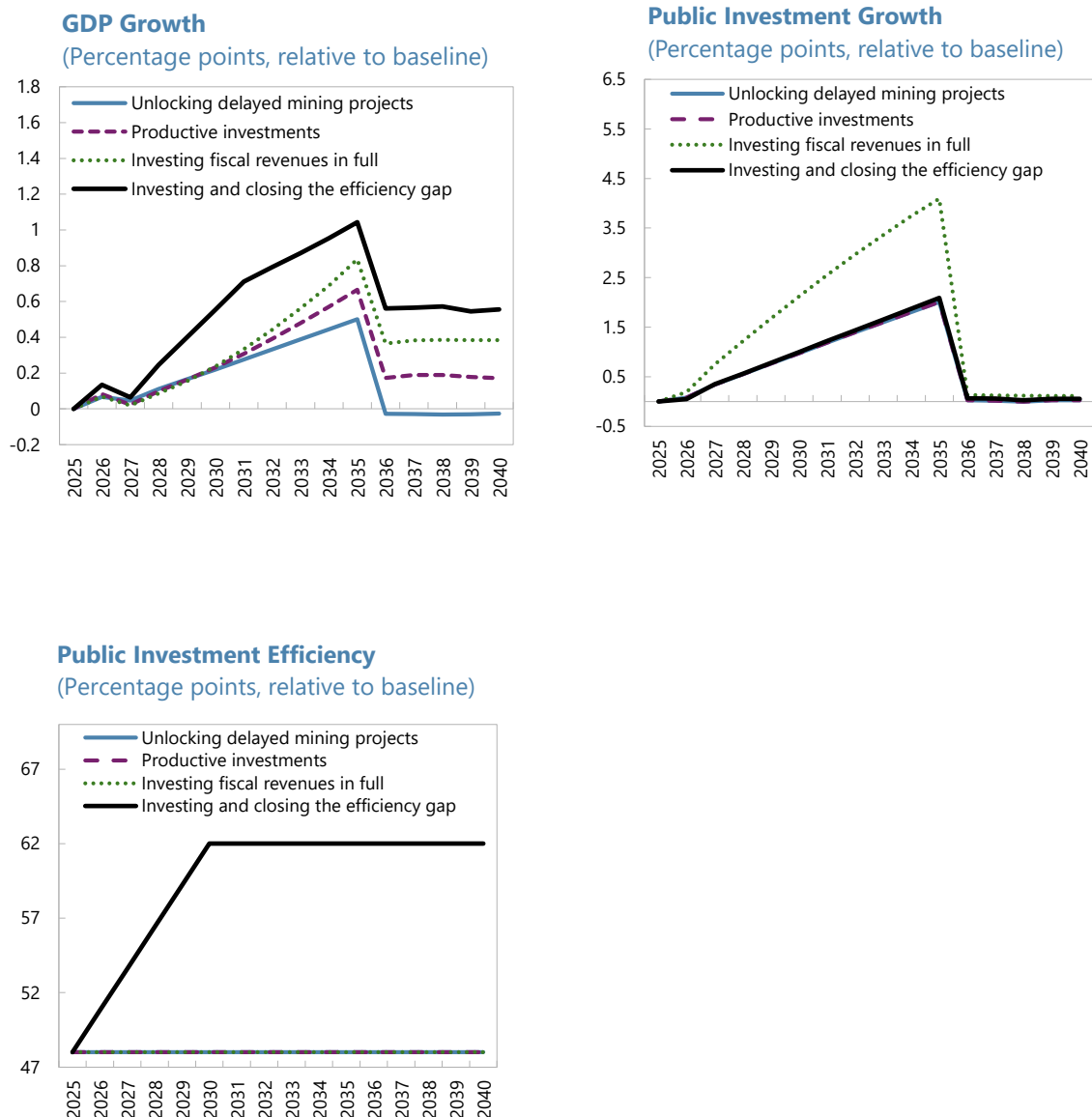
11. Importantly, scaling up investments too rapidly could trigger bottlenecks in the production of public capital. Closing the average efficiency gap is only one side of the coin. If public investment increases too rapidly (as often occurs during resource windfalls), absorptive capacity constraints, stemming from supply bottlenecks or inadequate planning, can lead to higher costs and increased inefficiencies even in countries that manage investment well under normal conditions (Collier et al., 2010; van der Ploeg, 2011; and Buffie et al., 2012). In such cases, combining a gradual investment increase with higher public savings is often the preferred policy approach.

12. Saving a portion of fiscal revenues could be an effective pillar in the wider strategy to mitigate Dutch disease effects. Dutch disease pressures arise as foreign exchange earnings are repatriated and spent, fueling domestic demand, driving nominal exchange rate appreciation, and ultimately prompting a shift of resources away from the traded sector. These effects can be moderated by saving resource revenues abroad (e.g., in a sovereign wealth fund). Accumulating savings domestically can also moderate Dutch disease pressures, but are less effective, since they may still lead to higher domestic absorption over the medium term, as funds propagate through the financial system and increase domestic credit. Nevertheless, both strategies can help contain demand-driven pressures and limit real exchange rate appreciation, thereby reducing the negative competitiveness impacts typically associated with the Dutch disease.

Figure 3. Macro-Fiscal Implications from Higher Copper Prices and Exports



Source: IMF staff calculations.

Figure 4. Funding Public Investment and Public Investment Efficiency

Source: IMF staff calculations.

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Annex VIII. Summary of Capacity Development (CD) Strategy

1. Peru's policy frameworks and institutions continue to strengthen thanks to Fund's CD.

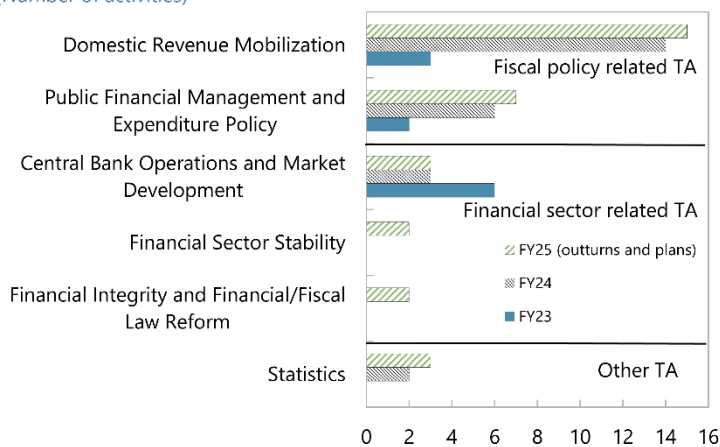
Delivery combines frequent on-the-ground technical assistance (TA) visits and online meetings, along with long-term expert (LTX) engagement. In line with previous AIV recommendations and the authorities' priorities, recent and forthcoming CD has focused on revenue and customs administration, public financial management, financial technology, cybersecurity and AML/CFT risks, as well as statistical reporting, with particular attention to preparing Peru to address its current and upcoming climate challenges.

2. Partner collaboration has been strong, particularly with detailed policy analysis and reform advice provided by the World Bank and the IDB.

Key Areas of Focus for Fund CD

- Revenue and Customs Administration:** with ample CD activity and funding over the past decade—including an intensification in the post-pandemic period—revenue and customs administration has been a TA priority in line with the authorities' commitment to fiscal consolidation and an efficient and fair tax enforcement system. The objectives of a three-year FAD-led SECO project that commenced in December 2022 include improving SUNAT's organizational arrangements, strengthening corporate and Compliance Risk Management (CRM), developing a VAT compliance control model, improving data analytics capabilities for informed decision-making, streamlining customs clearance of goods, enhancing post-clearance audit, and adopting new technologies for core customs processes. Recent emphasis on CRM will ensure that SUNAT is well equipped to appropriately addresses compliance risks in key economic sectors, taxes, and taxpayer segments of the Peruvian economy. Most recently, SUNAT has been able to provide support to other revenue agencies in AFR and WHD, reflecting the success of CD in this area.
- Public Financial Management (PFM):** With more than ten missions over the last decade, FAD continues to provide CD on PFM reforms to support Peru's track record of sustainable fiscal policy and the authorities' commitment to disciplined fiscal management. The 2022-2025 SECO project builds on previous SECO-supported PFM projects since 2012. Its focus includes strengthening institutional

Composition of CD Delivery by Workstream, FY23-FY25
(Number of activities)



Sources: CDMAP and IMF staff calculations.

capacity (e.g. budget department organizational structure; MTBF integration), improving fiscal risk management (identification, analysis, management, disclosure), enhancing the Treasury's asset and liability management (e.g. TSA, digitization, cash and debt management), mainstreaming climate in PFM (e.g. C-PIMA), improving governance, and enhancing performance budgeting. A long-term PFM expert was deployed in February 2024 for 1.5 years, which will ensure continued progress in this area.

- *Tax and Expenditure Policies:* CD on tax policy (TP) has advised the Peruvian authorities on how to achieve their goal of establishing a sustainable and efficient taxation of economic activities, addressing the presence of several tax regimes and the importance of natural resource extraction. Support has been provided on mining TP, capital gains, small taxpayers, special economic zones, international taxation, and the taxation of digital services, which anticipated the extension of the VAT to digital services at end-2024. Expenditure policy TA has sought to ensure the adoption of sustainable spending policies with CD on the public sector wage bill and pension system analysis, which accompanied the adoption of a pension reform in September 2024.
- *Fiscal Policy Frameworks:* In the summer of 2024, FAD remote assistance helped MEF to ascertain the internal consistency of the new fiscal rule targets approved by Congress, considering lackluster economic growth and fiscal dynamics. CD further provided suggestions to strengthen the credibility of the overall fiscal framework, including improving the communication of fiscal objectives and performance.
- *Financial Supervision, Central Bank Operations, and Financial Market Development:* MCM has supported Peru with several TA initiatives responding to the authorities' desire to modernize central banking operations and the better manage risks in the financial sector. Accordingly, recent focus has been on the appropriate development of financial technologies, including cyber-risk management and the design of a Central Bank Digital Currency (CBDC). In 2024, a technical assistance mission advised the SBS on developing a comprehensive cybersecurity strategy for the financial sector, along with establishing a working group tasked with reviewing existing cyber-risk measures and consulting with key stakeholders. A follow-up mission is planned for FY26. Peru has also received virtual and in-person technical assistance from 2022 to 2023 to support the BCRP in the design of a CBDC. Activities encompassed the clarification of objectives and the roadmap, the publication of a white paper in March 2023, and a workshop for stakeholder engagement in June 2023. Prior technical assistance from 2021 to 2022 focused on a feasibility study for the issuance of a national CBDC.
- *Real Sector and Climate Statistics:* STA TA in 2021 and 2022 supported the Statistical Office (INEI) in revising their Consumer Price Index (CPI) estimation methodology, which led INEI to rebase and update CPI with new weights from January 2022 following the missions' recommendations, and to introduce web scraping and scanner data for data collection. Given the country's exposure to climate risks, the Fund has also engaged with various government stakeholders to assist Peru in improving its climate-related statistical infrastructure. Efforts aimed to take stock

of currently-produced climate and environmental statistics, integrate these with existing national accounts, identify data gaps, and develop a work plan to close these gaps under the IMF's Environment and Climate Change Statistics Capacity Development Program.

- *Government Finance Statistics:* STA has been providing CD in various areas to improve government statistics. Support is being provided to transition Peru's GFS to the GFSM 2014 framework, concurrently with adoption of the International Public Sector Accounting Standards (IPSA), and to improve the integrated financial management information system. Advances are also ongoing to enhance public sector debt statistics (PSDS) compilation.

CD Priorities Going Forward

3. In the near term, Fund CD will continue to support the Peruvian authorities in strengthening their frameworks and administrative infrastructure in several of the previously addressed domains. CD to the revenue administration will continue to focus on CRM, while PFM assistance will include improving institutional capacity, fiscal risk management, asset and liability management, mainstreaming climate, and digitization. Tax and expenditure policy CD will cover fuel and alcohol excises and the sustainable management of the public wage bill, respectively. TA in the monetary and financial domain will continue to support the BCRP in the development and implementation planning of a CBDC. Statistical assistance will support the GFSM 2014 and PSDS compilation, while also helping Peru to develop its environmental accounts and macro-relevant indicators that can timely address climate change.

Annex IX. Data Issues

(As of April 25, 2025)

A. Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral	Median Rating
	A	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	B		
Granularity 3/	A		A	B	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						

Rationale for staff assessment. Data provided to the Fund for surveillance are timely, comprehensive, and adequate for macroeconomic and financial analysis. Data coverage, frequency, and timeliness are generally in line with expectations and requirements set in the IMF Data Standards Initiatives. Improving the granularity and coverage of government finance statistics, public debt statistics, and financial soundness indicators would further strengthen the adequacy of data for surveillance.

Changes since the last Article IV consultation. There have been no major changes since the last Article IV Consultation.

Corrective actions and capacity development priorities.

Government finance statistics should be migrated to the GFSM 2014 Manual. Efforts should continue to harmonize data between the Ministry of Finance and BCRP.

Financial soundness indicator should provide data on Liquidity Coverage Ratio and related indicators (e.g., HQLA) to evaluate the regulatory compliance to recently implemented Basel III based rules.

Climate-related statistical infrastructure should be improved, including integrating statistics with existing national accounts and closing data gaps under the IMF's Environment and Climate Change Statistics Capacity Development Program.

Coordination among agencies that compile official statistics should be enhanced to avoid duplication of efforts and enhance consistency of data across sectors.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.

Staff do not use data and/or estimates different from official statistics.

Other data gaps. Coverage and timeliness of statistics of the informal sector could be improved. Foreign exchange intervention (FXI) data is published daily, but could include average maturity of derivative positions. Data related to climate change, particularly related to natural disasters, could be provided.

B. Data Standards Initiatives

Peru subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The timeliness of some key macroeconomic data improves upon SDDS requirements. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 1. Peru: Table of Common Indicators Required for Surveillance

As of April 25, 2025								
	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Peru ⁸	Expected Timeliness ^{6,7}	Peru ⁸
Exchange Rates	3/2025	4/2025	M	M	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	3/2025	4/2025	M	M	M	W	1W	1W
Reserve/Base Money	3/2025	4/2025	M	M	M	W	2W	1W
Broad Money	12/2024	1/2025	M	M	M	M	1M	NLT 3-4W
Central Bank Balance Sheet	3/2025	4/2025	M	M	M	W	2W	1W
Consolidated Balance Sheet of the Banking System	3/2025	4/2025	M	M	M	M	1M	NLT 3-4W
Interest Rates ²	3/2025	4/2025	M	M	D	D	...	1D
Consumer Price Index	3/2025	4/2025	M	M	M	M	1M	1D
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Q1/2025	4/2025	Q	Q	A	Q	2Q	8W
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	3/2025	4/2025	M	M	M	M	1M	4W
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q4/2024	2/2025	Q	Q	Q	Q	1Q	NLT 8W
External Current Account Balance	Q4/2024	2/2025	Q	Q	Q	Q	1Q	8W
Exports and Imports of Goods and Services	Q4/2024	2/2025	Q	Q	M	M	8W	5-6W
GDP/GNP	Q4/2024	2/2025	Q	Q	Q	Q	1Q	8W
Gross External Debt	Q4/2024	2/2025	Q	Q	Q	Q	1Q	8W
International Investment Position	Q4/2024	2/2025	Q	Q	Q	Q	1Q	8W
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. ⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. ⁵ Including currency and maturity composition. ⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than. ⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. ⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".								



PERU

May 20, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department (In consultation with
other departments)

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FUND RELATIONS

(As of April 30, 2025)

Membership Status: Joined 12/31/1945; accepted the obligations of Article VIII, Sections 2(a), 3, and 4 on 2/15/1961.

General Resources Account:	SDR Million	Percent of Quota
Quota	1334.50	100.00
Fund holdings of currency	1012.54	75.87
Reserve Tranche Position	322.01	24.13

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	1888.95	100.00
Holdings	1790.91	94.81

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
FCL	May 27, 2022	May 26, 2024	4,003.50	0.00
FCL	May 28, 2020	May 26, 2022	8,007.00	0.00
Stand-By	Jan. 26, 2007	Feb. 28, 2009	172.37	0.00
Stand-By	Jun. 09, 2004	Aug. 16, 2006	287.28	0.00

Projected Payments to the Fund:

	2025	2026	2027	2028	2029
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	2.23	2.95	2.95	2.95	2.95
Total	2.23	2.95	2.95	2.95	2.95

Exchange Arrangement

Peru has a floating exchange rate arrangement. Peru accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, 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).

Last Article IV Consultation

The 2024 Article IV consultation was concluded on May 20, 2024 (IMF Country Report No. 24/133).

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 Financial System Stability Assessment (FSSA) report was discussed by the Executive Board on March 12, 2001. A follow-up FSAP mission was concluded in February 2005. In April 2011, the Executive Board took note of the staff's analysis and recommendations in the report on Peru's FSAP Update. More recently, Fund-Bank missions visited Lima in the period July 2017–February 2018 to conduct another FSAP Update. Regarding ROSCs, In October 2002, an FAD mission conducted a Fiscal ROSC for Peru (IMF Country Report No. 04/109, 4/16/04), while an STA mission conducted a Data ROSC for Peru in February 2003 (IMF Country Report No. 03/332, 10/24/03).

Technical Assistance

FAD		
Year	Purpose	
2014	Follow-up Macro-fiscal	7/30/2014
2014	Treasury Management	11/23/2014
2015	Follow-up on Tax and Customs Administration	1/19/2015
2015	Local Government Revenues and BEPS in Natural Resource Sector	12/1/2015
2015	RA-GAP	7/7/2015
2016	Budget Management	2/15/2016
2017	Fiscal Reporting and Budgeting	1/16/2017
2017	Follow-up on Tax and Customs Administration - TADAT	3/7/2017
2017	Tax Administration	6/7/2017
2017	Public Investment Management	8/17/2017
2018	Treasury Management	2/20/2018
2018	Governance Pilot	9/23/2018
2019	Budgeting Investment and PIMA	4/29/2019
2019	Tax Regimes	08/12/2019
2019	Revenue Administration	11/13/2019
2019	Public Financial Management (PFM) - MTBF	12/6/2019
2020	Large Taxpayer Units	1/20/2020
2020	PFM - MTBF	5/15/2020
2020	PFM/Budget - MTBF	7/16/2020
2020	Customs – Risk Management	8/9/2020
2020	PFM/Treasury Management and Payments Digitalization	10/14/2020
2020	PFM/Treasury Management: Cash Flow Plans	11/24/2020
2021	Tax Administration – Risk Management	4/20/2021

2021	Tax and Customs Administration – Risk Management and Research	3/14/2021
2021	Tax and Customs Administration – Risk Management and Exchange of Information	3/13/2021
2021	Tax Policy – Mining Sector, Digital Services and Capital Gains Taxation	11/15/2021
2022	Debt Management – Debt Servicing Payment Process	2/15/2022
2022	Public Financial Management - Fiscal Risks Assessment Tool	11/18/2022
2023	Revenue Administration – Compliance Improvement Plan	3/6/2023
2023	Revenue Administration – Compliance Plan Finalization	8/28/2023
2023	Revenue Administration – Customs Compliance	10/02/2023
2023	Public Financial Management - Digitization Modernization	10/10/2023
2023	Revenue Administration - Corporate Income Tax Gap Analysis Evaluation	11/13/2023
2024	Expenditure Policy - Pension Reform	1/12/2024
2024	Revenue Administration - Compliance Risk Management framework	1/17/2024
2024	Revenue Administration - Compliance Risk Management	6/12/2024
2024	Revenue Administration - Compliance Risk Management	8/12/2024
2024	Fiscal Policy Frameworks - Updating the Fiscal Rule	8/13/2024
2024	Public Financial Management	9/23/2024
2024	Revenue Administration - Compliance Risk Management	11/10/2024
2024	Public Financial Management - Reform Priorities	11/18/2024
2024	Revenue Administration - Compliance Risk Management	12/9/2024
2025	Revenue Administration – Compliance Risk Management	2/3/2025
2025	Public Financial Management - Digital PFM	2/11/2025
2025	Public Financial Management – Planning	2/26/2025
MCM		
2021	CBDC Feasibility	08/27/2021
2022	Back Office Processes	02/15/2022
2022	CBDC Design Phase 1/3	08/01/2022
2022	CBDC Design Phase 2/3	12/20/2022
2023	CBDC Design Phase 3/3	6/19/2023
2024	Cyber Strategy for the Financial Sector	8/13/2024
LEG		
2017	Strengthening AML/CFT Supervision of the SMV	2/7/2017
STA		
2018	Monetary and Financial Sector Statistics	10/22/2018
2019	Sectoral Accounts	7/15/2019
2020	National accounts (sectoral balance sheets, GDP statistics)	1/16/2020
2020	Follow-up National accounts (sectoral balance sheets, GDP statistics)	4/27/2020

2020	CPI Weights	10/19/2020
2020	Follow-up Sectoral Accounts	11/23/2020
2021	Sectoral Accounts	6/21/2021
2023	Government Finance Statistics and Public Sector Debt Statistics	7/10/2023
2024	Government Finance Statistics	4/8/2024
2024	Environment and Climate Change Statistics	5/27/2024
2025	Environment and Climate Change Statistics	2/3/2025

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

- Country page: <http://www.worldbank.org/en/country/peru>
- Overview of World Bank Group lending to Peru:
<http://financesapp.worldbank.org/en/countries/Peru/>
- IBRD-IDA project operations:
http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=PE

Inter-American Development Bank:

- Country page: <https://www.iadb.org/en/countries/peru/overview>
- IADB's lending portfolio: <https://www.iadb.org/en/countries/peru/projects-glance>