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May 25, 2021

**Statement by Mr. Mochtar and Mr. Nghiem on Peru
(Preliminary)
Executive Board Meeting
May 27, 2021**

We thank staff for the insightful report, and also thank Mr. Chodos and Mr. Hendrick for the informative Buff statement. We broadly concur with staff's appraisal and assessment that Peru continues to meet the qualification criteria for access to Flexible Credit Line (FCL) resources. We offer some comments as follows.

We welcome the Peruvian authorities' sound macroeconomic policies and institutional frameworks which form a solid foundation for economic recovery when the Covid-19 crisis abates. At this juncture, strong policy frameworks and robust policy response have helped the country mitigate the adverse impact of the pandemic and maintain its creditworthiness in international capital markets. We agree with staff that the FCL provided a buffer against external downside risks and the authorities' treatment of the FCL as precautionary and temporary until May 2022 is reasonable.

We welcome the authorities' policy mix to sustain the economic recovery. We support authorities' stance in maintaining accommodative monetary policies under the flexible exchange rate and inflation targeting framework, while keeping an expansionary fiscal policy stance given the high uncertainty of pandemic and the attendant global downside risks. Amidst the surge in unemployment and labor informality, macroeconomic policies should be prioritized to boost domestic production, investment and consumption, also taking into account the need to address increased poverty and inequality.

We see merit to be more cautious while keep strengthening external buffer to contain the global financial market uncertainty. We note the development of Peru's capital account that relies heavily on the private flows. In this context, while strong foreign reserves

can provide some buffers for sudden capital outflows, we recommend the authorities continue to be cautious and foster greater external resilience against adverse impact on the economy from sudden private outflows arising from tail risks.

We commend the authorities' commitment to improving institutional quality, despite the current challenges brought by the COVID-19 pandemic. In particular, we welcome authorities' implementation of a wide range of policies to strengthen governance and anti-corruption institutions, as well as the institutional reforms and tightened AML/CFT regulations. Authorities should maintain this momentum to enhance institutional quality and transparency to keep pace with the overall structural reforms in the economy.