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March 17, 2021

**Statement by Mr. Sigurgeirsson and Mr. Bernatavicius on Peru
(Preliminary)
Executive Board Meeting
March 19, 2021**

We thank staff for the comprehensive report and Mr. Chodos and Mr. Hendrick for their helpful Buff statement. We commend the authorities for the sustained track record of very strong policies and robust institutional frameworks, which underpinned an impressive fiscal, monetary, and financial policy package to contain the impact of the pandemic. **We support the thrust of the staff appraisal and offer the following points for emphasis.**

Despite the broad-based fiscal support extended during the pandemic, Peru's public debt remains one of the lowest in the region. While we generally agree that fiscal policy buffers remain ample, the economic and political outlook is highly uncertain, as spending pressures are rising, and risks – tilted to the downside. Therefore, we would be cautious in recommending additional fiscal accommodation without a fully outlined medium-term plan to return to fiscal targets. In this context, we welcome the authorities' decision to utilize the Fund's policy advice in identifying additional revenue sources.

Labor market informality remains one of the highest in the region and has increased further because of the pandemic. Higher levels of labor informality contributed to the notable increase in poverty. The negative impact of the lockdown on the labor market was further aggravated by the large share of contact-intensive industries and limited digitalization, which prevented the use of teleworking. Policy measures to improve the business climate, increase labor market flexibility, and reduce labor market informality should be stepped up in the context of the National Competitiveness Plan.

The inflation-targeting regime has been effective and financial dollarization has declined over recent years under strong supervisory and macroprudential policies. While the authorities have maintained financial stability and strengthened the financial sector oversight, we encourage the authorities to complete the legislative and regulatory reform

agenda and preserve the integrity of the pension system. The weakening financial position of pension funds after the three rounds of pension withdrawals may pose challenges for the effective functioning of the financial system and create implicit liabilities for the state, as the replacement rates are projected to further deteriorate.

We note the open communication and transparency practices of the Central Bank regarding FX interventions. The Central Bank has used FX interventions to smooth exchange rate volatility and, as argued in the BUFF, the authorities are of the view that the interventions are transparent and the rationale for intervention is fully explained in official publications, including the Inflation Report. At the same time, staff recommends that the authorities go further in explaining the intervention rationale in their reporting. *While it is welcome that staff and the authorities agree on continuing work in this area, it is hard to distinguish the differences in opinion in the report and we would be interested to hear staff elaborate more on their thinking, especially as this topic could be relevant given the IPF discussion.*

We wish the authorities every success in these challenging times.