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May 25, 2021

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

*We welcome staff's review of Peru's FCL and the useful Buff statement made by Mr. Chodos and Mr. Hendrick, and are glad the arrangement helped anchor market confidence. It is encouraging that the strong policy frameworks and sizable macroeconomic buffers have allowed the country to respond to the pandemic, to mitigate its socio-economic impact and to sustain access to international capital markets. **We encourage the authorities to plan a program to anchor market confidence on a sustainable productivity growth.***

**In the immediate term, we encourage Peru to strengthen the labor market by moving gradually from tools that have been adequate in the emergency phase of the crisis, to tools that incentive work and support adjustments in skills.** Peru's economic activity and particularly the labor market is lagging in the recovery process, also relative to countries in the region with worse health conditions. Nevertheless, we are encouraged by Peru's capacity to take the appropriate policies, to fully recover from the crisis soon. These should include steps to tackle the increase in labor informality, which would contribute mitigating scars from the crisis and poverty.

**In the context of the forthcoming election, we encourage staff to continue the engagement with the Peruvian authorities and candidates, to ensure that the strong macroeconomic policies and institutional policy frameworks are maintained.** We are encouraged that the financial market volatility due to the political uncertainty is manageable, thanks to the important economic certainty that the declarations of both candidates provide. This confidence in Peru's economic stability regardless of political development is among the factors that make Peru a successful example for the use of FCL.

**The most important challenge for Peru is to rebuild fiscal buffers while at the same time allowing for public expenditure on items that enhance productivity growth in the long run.** As the report illustrates, the export of traditional products has moderated already in mid-2017, but the export of other products has not been able to grow fast enough to compensate. While the forthcoming

economic rebound can contribute to the rebuild of fiscal buffers, we agree with staff that higher revenue mobilization is a key to accommodate the needed investment in fundamental factors, such as infrastructure and skills. These can contribute to diversify the sectoral structure of the economy, and to the sustainability of the fiscal framework in the long run.

**We encourage the authorities to use the insurance currently provided by the FCL as an incentive to increase resilience in the longer term based on the mentioned above fundamental factors.** We are glad that the authorities expect to continue to treat the FCL as precautionary. We note that as an instrument with exceptionally high access, it freezes IMF resources for the duration of the arrangement. In line with the initial plan and emphasized in the Buff statement Peru intends to exit the FCL in May 2022, contingent on the evolution of external risks. However, the review does not elaborate on an exit strategy. *Can staff elaborate on how Peru is intended to exit from this precautionary line? Are there already some preparations or arrangements being made?*