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May 25, 2021

Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Coronel on Peru
(Preliminary)
Executive Board Meeting
May 27, 2021

We thank staff for the report and Messrs. Chodos and Hendrick for their helpful statement.

We support the completion of the Flexible Credit Line (FCL) review. We agree with staff's assessment underpinning Peru's qualification under the FCL, including its strong track record of policy implementation, sustainable external position, access to international capital markets on favorable terms, and comfortable international reserve position. Also, Peru's public debt remains relatively low and sustainable, despite the large fiscal support deployed last year, and its capacity to repay the Fund is strong even if the FCL was fully disbursed. We are pleased to hear from staff that both presidential candidates in the second and final round of elections have expressed "their broad commitment to maintaining very strong policies and institutional frameworks." While this is reassuring, we look forward to an early briefing to the Board on the main policy priorities of the new administration.

The FCL arrangement has been playing an important role in helping safeguard Peru's sound macroeconomic framework while minimizing tail risks during a crisis like no other. Peru's access to the FCL showcases that supplementing a country's own international reserves with precautionary arrangements helps maintain sound policies and strengthen resilience. In our view, these arrangements could be further expanded and made available to additional member countries. In this regard, staff should consider combining existing FCLs with Short-term Liquidity Lines (SLLs). While the former adds buffers to cope with big shocks and tail risks, the latter provides additional layers of protection to cover sharp fluctuations in liquidity. Combining both may be effective in supporting vulnerable economies that are otherwise in good shape. *Staff's comments would be welcome.*

Peru's strong fundamentals and ample buffers have allowed a swift response to the pandemic crisis. Notwithstanding the unprecedented fiscal support, mobility restrictions, and public health interventions, the pandemic hit the economy hard last year, leaving a trail of job destruction and increased poverty. The COVID-19 shock also laid bare structural vulnerabilities that highlight the need for reform in the social and health areas. We encourage the next administration to tackle head on these challenges.

We take positive note that, according to staff, the financial system remains fundamentally sound despite pandemic-related headwinds. Also, the financial and corporate sectors have remained stable throughout the crisis. As noted by Messrs. Chodos and Hendrick in their statement, the authorities will focus on the remaining FSAP recommendations, including higher capital surcharges for systemically important banks and enhanced supervision of financial groups. This is welcome. We encourage the next administration to seize the opportunity and make further progress on recovery and bankruptcy frameworks to lend a steady hand to failing but viable businesses in the aftermath of the pandemic crisis.

With these remarks we wish the authorities success in their future endeavors.