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May 25, 2021

**Statement by Mr. Rozan and Ms. Albert on Peru  
(Preliminary)  
Executive Board Meeting  
May 27, 2021**

We thank staff for their informative report, as well as Mr. Chodos and Mr. Hendrick for their clear Buff statement. We agree with the thrust of staff's appraisal and offer the following comments:

**We support the completion of this review as all the qualification criteria for access to the FCL's resources are met.** Similar to countries like Colombia, Mexico and Chile, the FCL has been a useful additional buffer to the very strong macroeconomic framework of the country and has continued to send an important confidence signal to the markets by reassuring them about the authorities' commitment to sound management of economic policies. We continue to share the view that the exit strategy should be state contingent, and conditional on the evolution of external risks, in particular as the External Economic Stress Index would remain above pre-pandemic level into 2022 in the baseline, and could be underestimated as highlighted in the report and the Buff statement. We do note that this review occurs ten days before the second round of the presidential elections. Regarding domestic risks, while we welcome the progress regarding institutional reforms, as highlighted in the report, the political context was challenging during the last few years. Further political uncertainty and social unrest could also weigh on private investment as mentioned in the report. We welcome the commitment of the both presidential candidates to the very strong policies and institutional frameworks. We note that this commitment has been confirmed with their respective economic teams. *Could staff give some details about the timing and the content of the discussions with the teams?*

**We welcome the comfortable level of the gross international level (189 percent of the ARA metric), higher compared to its peers.** Staff recently considered that Chile's reserves, which are below the 100 percent ARA metric, were adequate due to several mitigating factors and recommended further reserves accumulation for Colombia (despite a level at 145 percent of the ARA metric). The rules for determining the appropriate level of reserves are not completely clear for us, as we understand this appropriate level goes beyond the notion of the 100-150 percent range of the ARA metric and could be appreciated differently according

to the specific characteristics of each country. *We would be interested if staff could elaborate further on the mechanism to determine the appropriate level of reserves, and we are wondering for example in Peru's case if a level of reserves of 145 percent of the ARA metric, as in Colombia, would be considered as sufficient, or if an accumulation would have been recommended too?*

**We welcome the new set of fiscal measures announced last January and we continue to consider that the country should not hesitate to use its fiscal room to increase expenditures if necessary.** We do note the authorization by Congress for a new round of extraordinary withdrawals from the private pensions, which could weaken the pension system. *Could staff elaborate on the risk of a degradation of the situation of the pension system? Does staff recommend other methods to finance a larger stimulus if necessary (for example bond issuances, as the country borrows on favorable terms)?*

**We continue to support domestic resource mobilization and structural policies to help the country converge to a higher income status, in particular to fight informality.** We welcome the progress regarding governance, anti-corruption, as well as on AML/CFT. We continue to encourage revenue mobilization efforts, in light of the structural low level of tax to GDP, the improvement of the budget execution, given the significant infrastructure gap, and the building up of capacities both at the central government and local levels. We encourage staff to further delineate their recommendations on progressive tax measures to reduce inequalities. Establishing flexible and progressive formalization mechanisms, avoiding thresholds effects, could help firms move towards formalization. Moreover, improving productivity, in particular through digitalization, and climate-resilient policies need to be promoted to build a strong, green and sustainable growth.