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May 25, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Mr. Mooney on Peru
(Preliminary)
Executive Board Meeting
May 27, 2021**

We thank staff for their useful report, and Messrs. Chodos and Hendrick for their comprehensive Buff statement. While the Peruvian economy has been negatively impacted by COVID-19, strong macroeconomic policies and institutional frameworks played a crucial role in mitigating the effects of the pandemic. The authorities expect to continue to treat the FCL as precautionary, while staff assesses that Peru continues to meet the qualification criteria for access to FCL resources. **We agree with the proposed decision and offer the following points for emphasis.**

We concur with staff that greater revenue mobilization is critical to accommodate the required investment in the areas of infrastructure and skills. The authorities should address the bottlenecks in the public healthcare system as a matter of urgency. In relation to the fiscal rules, we agree that their suspension was justified in 2021 and welcome the authorities' intention to reinstate them in 2022. *Can staff clarify whether the outcome of the forthcoming presidential elections will have an impact on the reinstatement of the fiscal rules in 2022?*

We welcome the easing of macroprudential policies undertaken by the authorities on foot of the crisis. However, careful monitoring will be required as pandemic related support is withdrawn, to ensure that unviable enterprises can be resolved in an orderly manner. We positively note the implementation by the SBS of a capital and liquidity regulatory framework aiming to achieve the same objectives as Basel III. Further progress is needed on implementing requirements for recovery and resolution planning for domestic systemically important banks and financial groups.

We note Congress' recent approval of a further round of pension withdrawals, and agree with staff that continued withdrawals from the private pension funds are weakening the viability of the pension fund system and may create implicit liabilities for the State. We welcome the progress made by authorities on strengthening governance and

anti-corruption institutions, in addition to the regular publication of reports by the Comptroller's Office pertaining to emergency-related spending. In addition, we positively note the issuance of AML/CFT regulations to guide customer due diligence requirements for politically exposed persons.

Finally, the Fund and the Peruvian authorities should cooperate on designing an exit strategy from the FCL when risks have subsided, incorporating a robust communication strategy to manage expectations.