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March 20, 2023

**Statement by Mr. Stephan and Ms. Khademi on Peru
(Preliminary)
Executive Board Meeting
March 22, 2023**

We thank staff for their comprehensive documents and Mr. Herrera and Mr. Hendrick for their helpful Buff statement. We broadly concur with staff's assessment. We agree that Peru continues to exhibit very strong fundamentals and institutional policy frameworks. Nonetheless, significant structural challenges remain, including social inequality, high informality, and the need to foster broad-based growth. There is the risk that political uncertainty might delay necessary domestic reforms going forward. In this context, we note that several rating agencies have downgraded the outlook on Peru's sovereign rating to negative. Against the backdrop of elevated (external) risks, the authorities' commitment to maintaining strong policies going forward is important and welcome.

Like staff, we strongly encourage the authorities to work towards reducing social tensions and seeking political stability. Restoring confidence and easing elevated social tensions, i.a. by tackling poverty and boosting economic activity, seems of utmost importance. We fully support staff's assessment that building the necessary social consensus to advance structural reforms, particularly regarding the pension reform, will require wholehearted efforts. At the same time, it will be key to sustain Peru's hard-won macroeconomic gains.

To foster broad-based growth, a focus on the structural reform agenda is warranted. We agree with staff that reducing informality through better education and health services as well as frictions in the labor market is critical to support sustainable and inclusive growth. The authorities are well-advised to implement measures to reduce inequality, both in regional and gender terms. With the poverty rate well above the pre-pandemic levels (of around 20 percent), supporting vulnerable households is indispensable. This should include reforms of the pension system to address the issue of low coverage and adequacy as well as large early withdrawals from private pension accounts.

We agree with staff that enhancing the strong fiscal policy framework will help strengthen macroeconomic resilience.

We welcome the BCRP's decisive monetary policy response to rising inflation. We agree with staff that the authorities' decision to pause and reassess recent monetary policy developments seems appropriate. We welcome that the BCRP stands ready to take further measures as needed. As staff, we deem central bank communication important for the effectiveness of monetary policy because it can influence the expectations of market participants, firms, and consumers. The BCRP could consider following other central banks by using communication as a core instrument of monetary policy.

We take positive note of staff's assessment that public debt is low and sustainable.

We agree with staff and the authorities that climate change risks and natural hazards expose Peru to potentially severe economic and welfare losses. We therefore welcome that Peru recently joined the NGFS network to study climate change related matters more deeply and encourage the authorities to request Fund technical assistance.