

# **Peru: Recent developments, pending agenda and opportunities**

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Minister of Production**

**September 2014**



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# Outline

1. Outstanding macroeconomic performance in recent years
2. Pending agenda
3. Short-term economic deceleration and government responses
4. Development strategy and the National Plan for Productive Diversification
5. Conclusions



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# 1. Outstanding macroeconomic performance in recent years

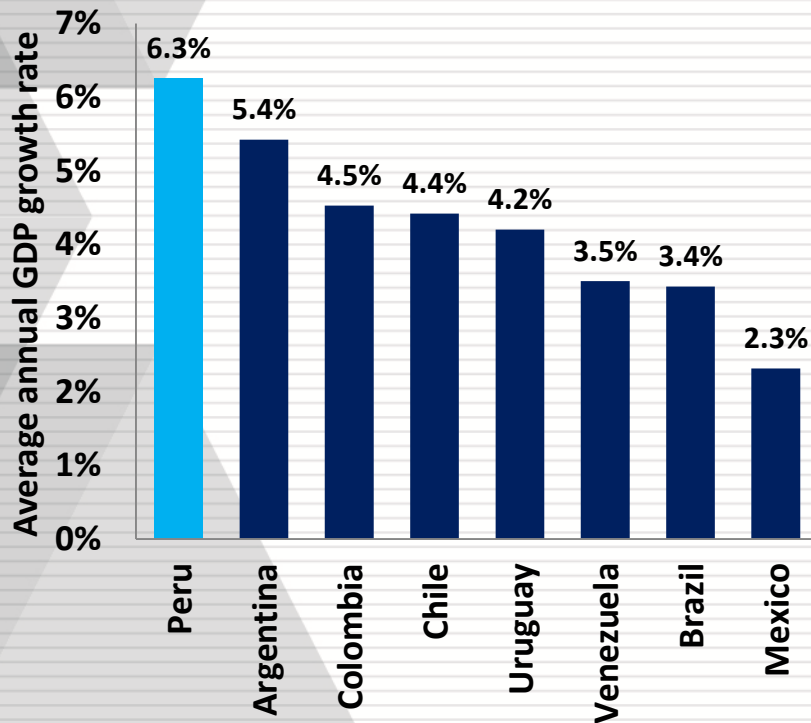


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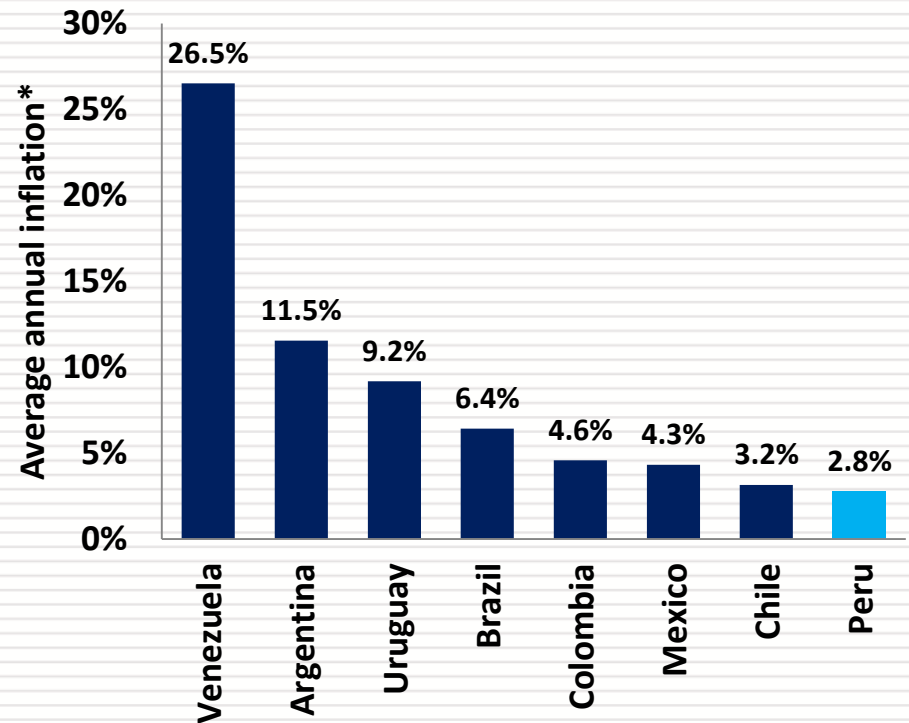
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# Peru: regional leader in growth and inflation

## Average annual GDP growth 2002-2013



## Average annual inflation\* 2002-2013



Source: IMF.  
\*End of period.

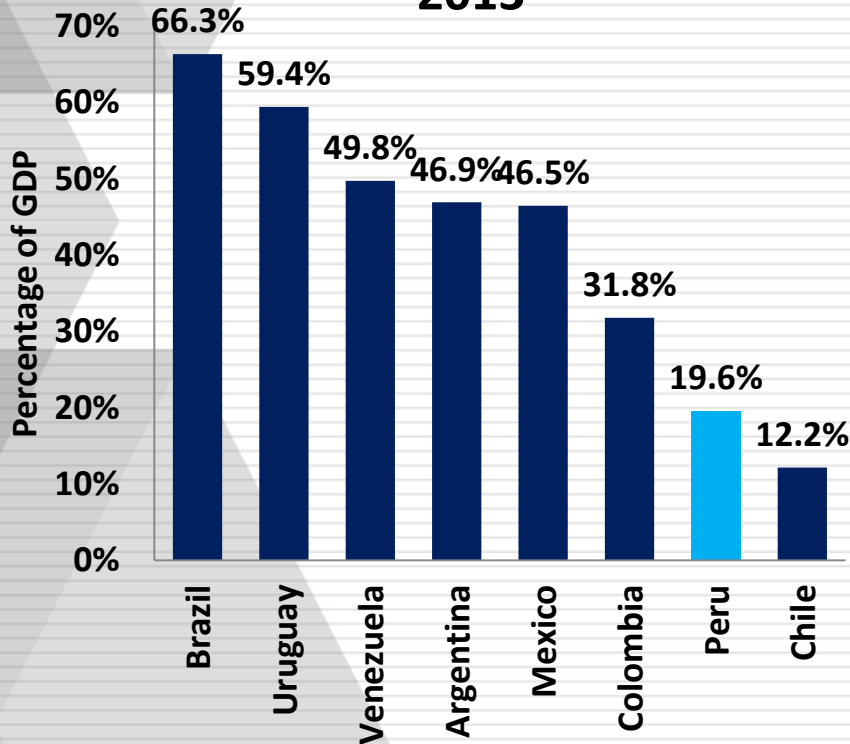


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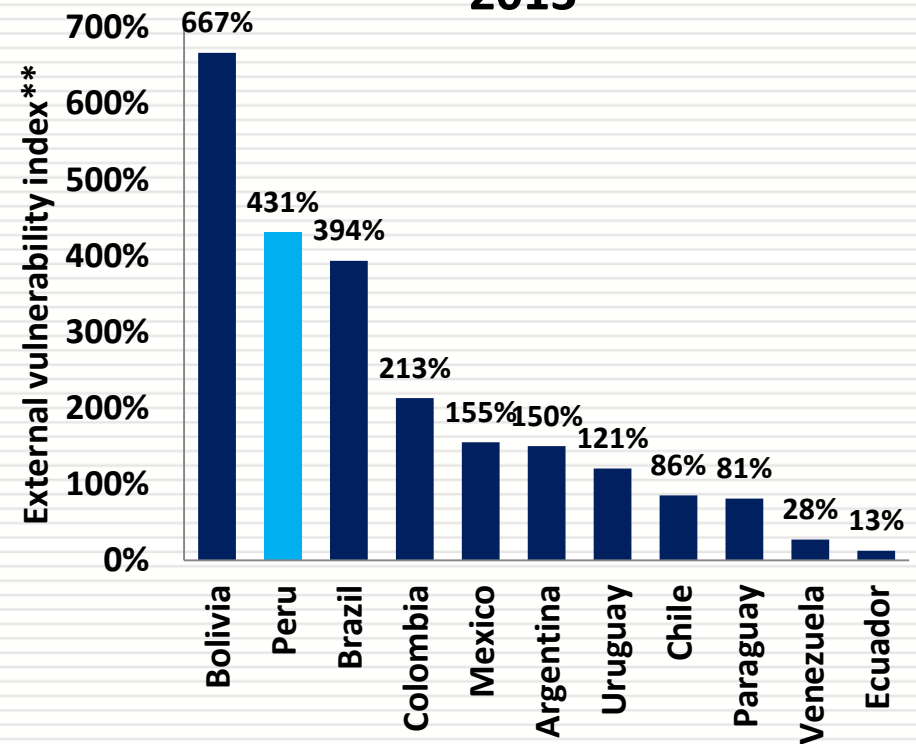
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# Peru: Strong balance sheet

Public debt\*  
2013



Foreign exchange reserves  
2013



Sources: BCRP and World Bank.

\*Gross government debt.

\*\* (Short-Term External Debt+Currently Maturing Long-Term External Debt

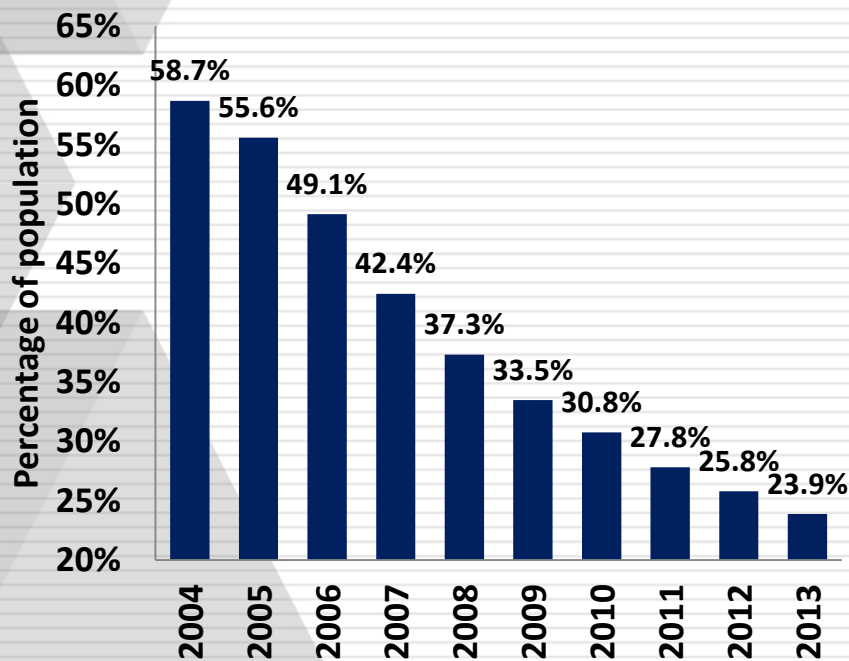
+Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves).



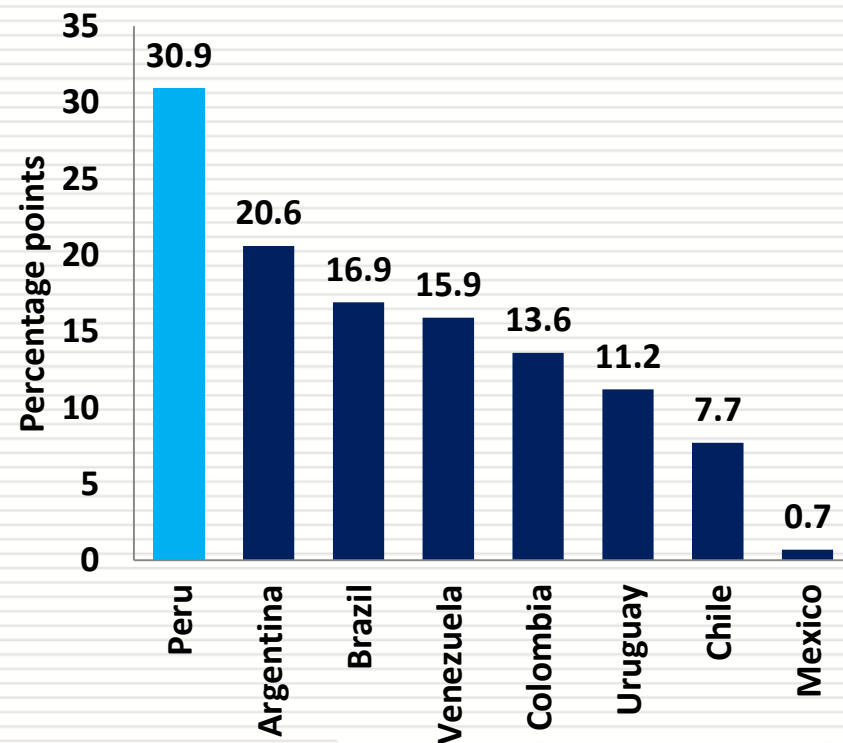
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# Peru: regional leader in poverty reduction

## Evolution of poverty rate in Peru 2004-2013



## Reduction of monetary poverty rate 2004 - 2011



Sources: Centro de Estudios Distributivos Laborales y Sociales (CEDLAS) and INEI.



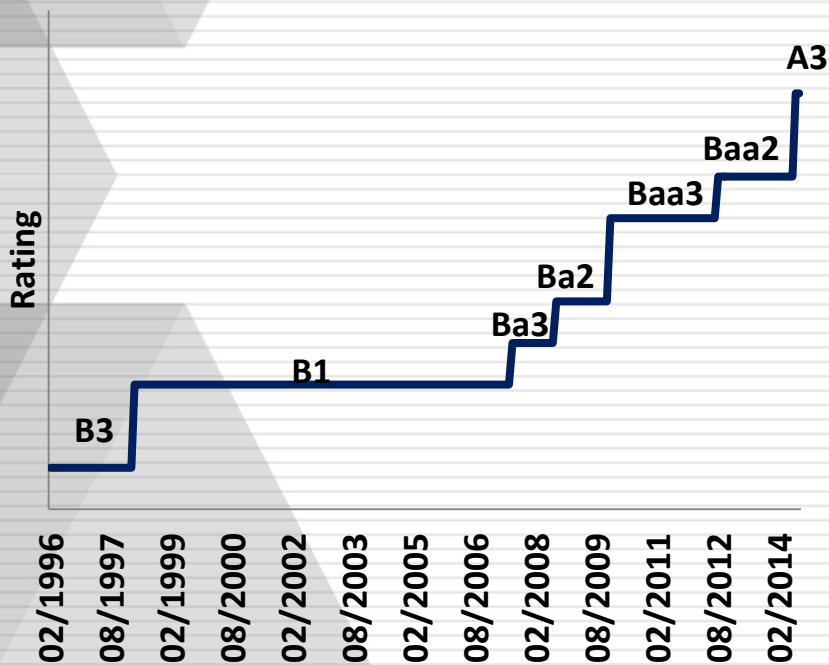
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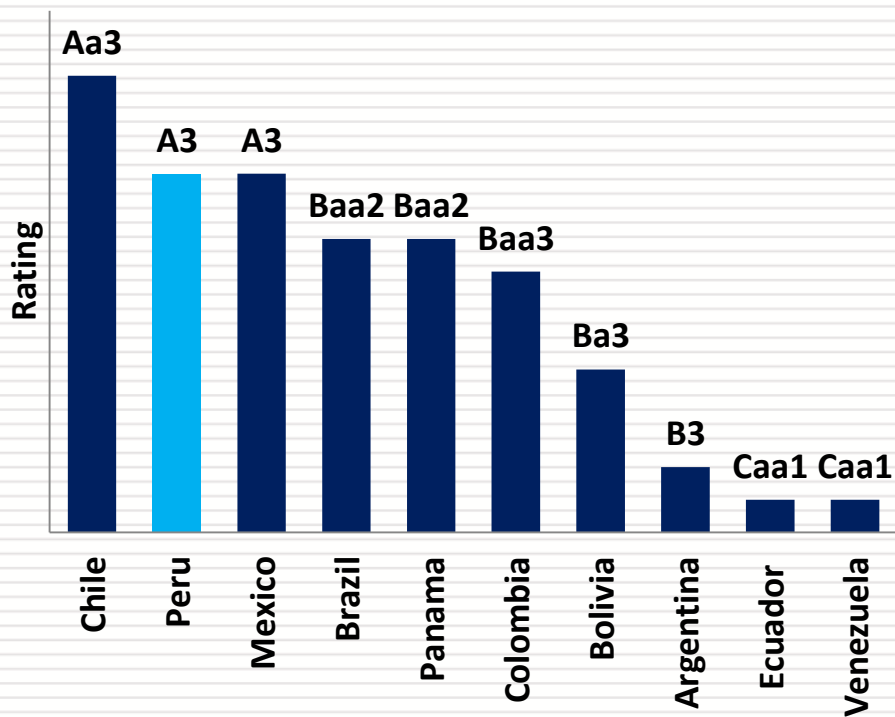
# Excellent improvement in credit ratings

Moody's credit rating

1996-2014



August 2014



Source: Bloomberg.

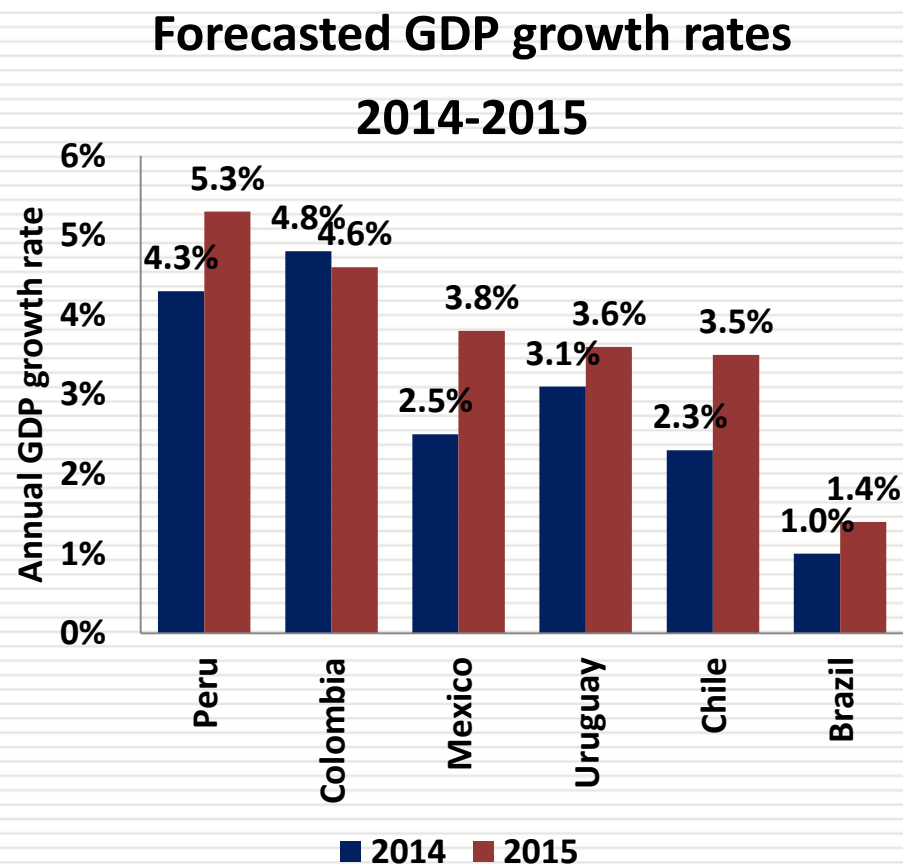
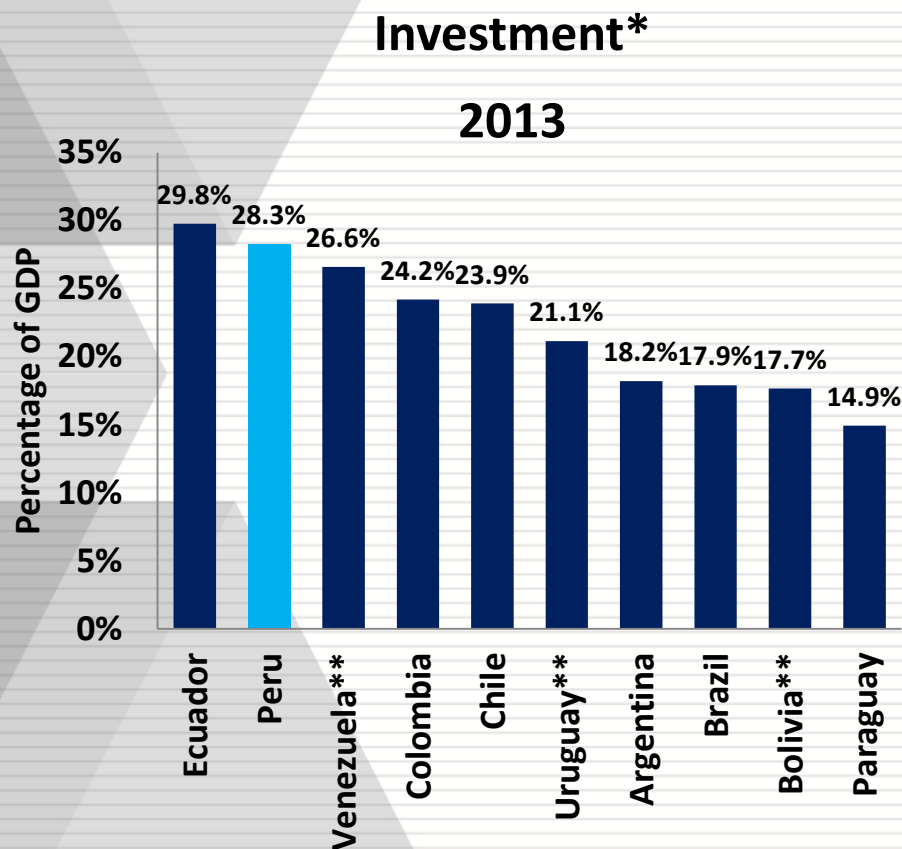
\*Foreign currency long-term bonds rating.



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# Promising expected growth rates



Sources: Consensus Forecasts, august 2014; World Bank.

\*Gross capital formation.

\*\*Datos correspondientes al año 2012.



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## 2. Pending agenda

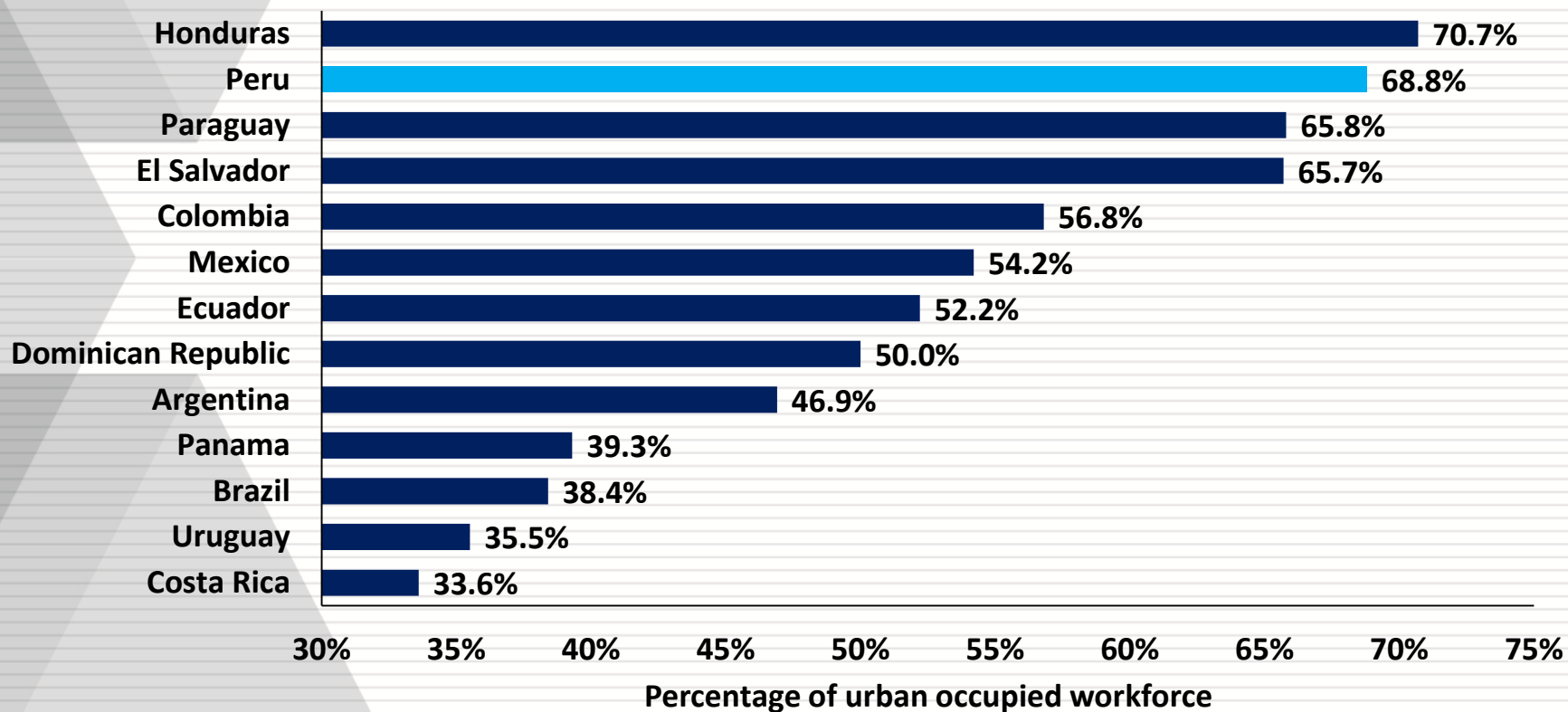


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# High labor informality despite recent employment growth

Urban labour informality  
2011



Sources: ECLAC, ILO.



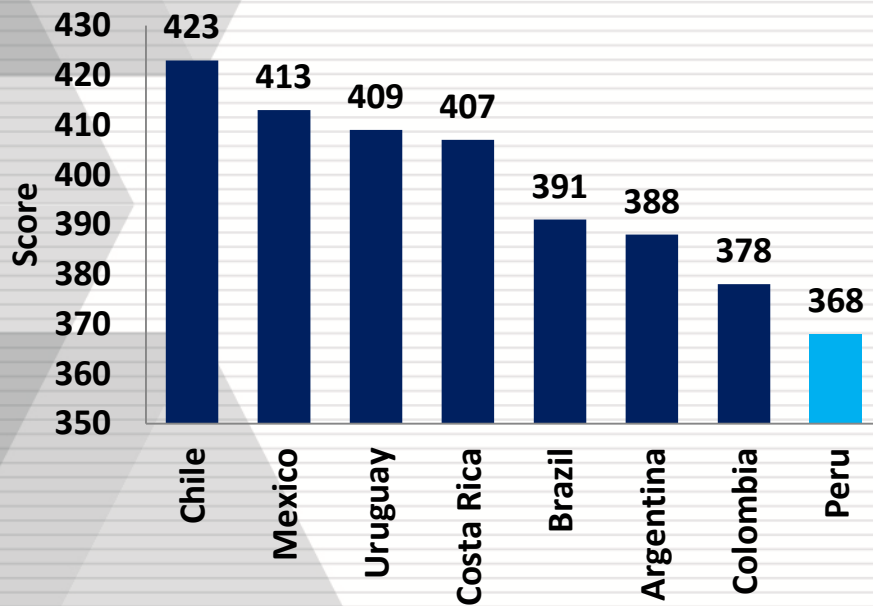
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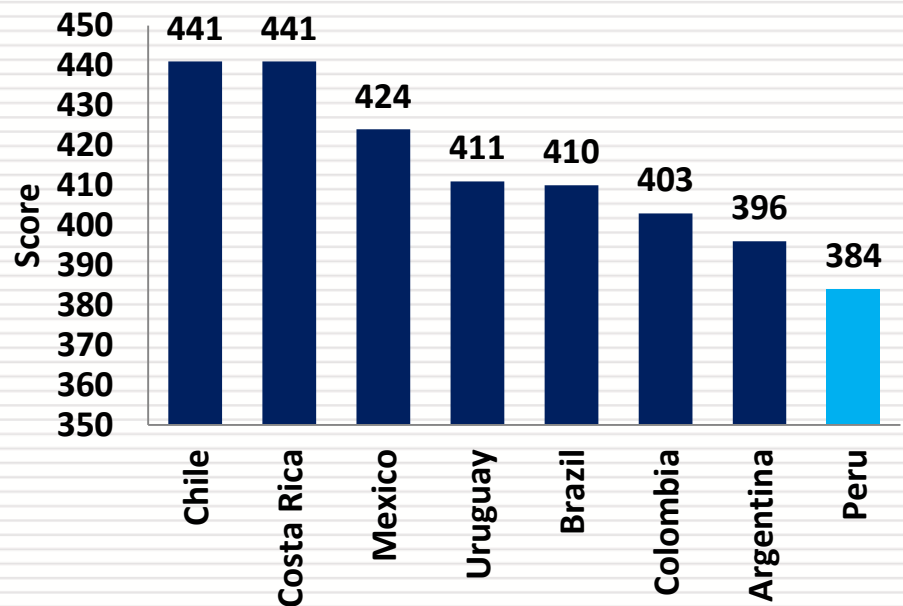
# Perú: lagging in education (big time)

PISA test results  
2012

## Mathematics



## Reading



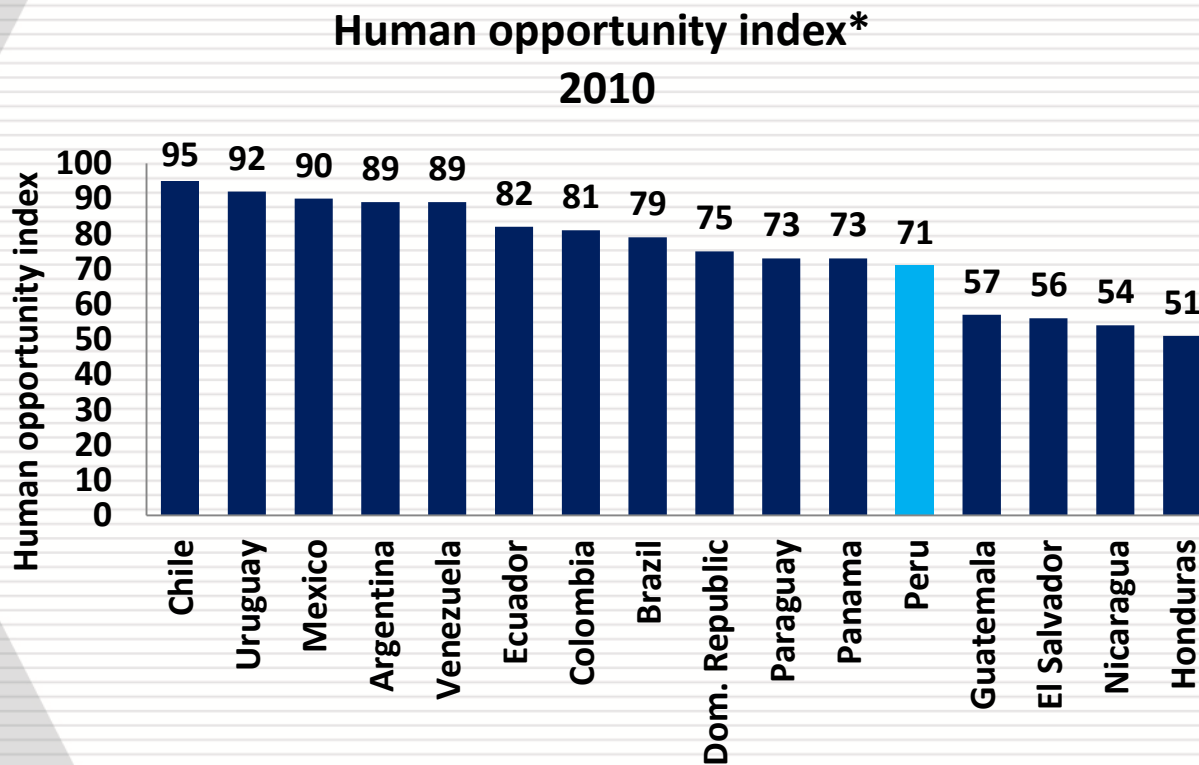
Source: OECD.



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# Inequality in opportunities persist



Source: Molinas et al. (2010).

\*Index measures the impact of a country's context over the chances that a child will have enough access to basic services in order to gain an adequate personal development.

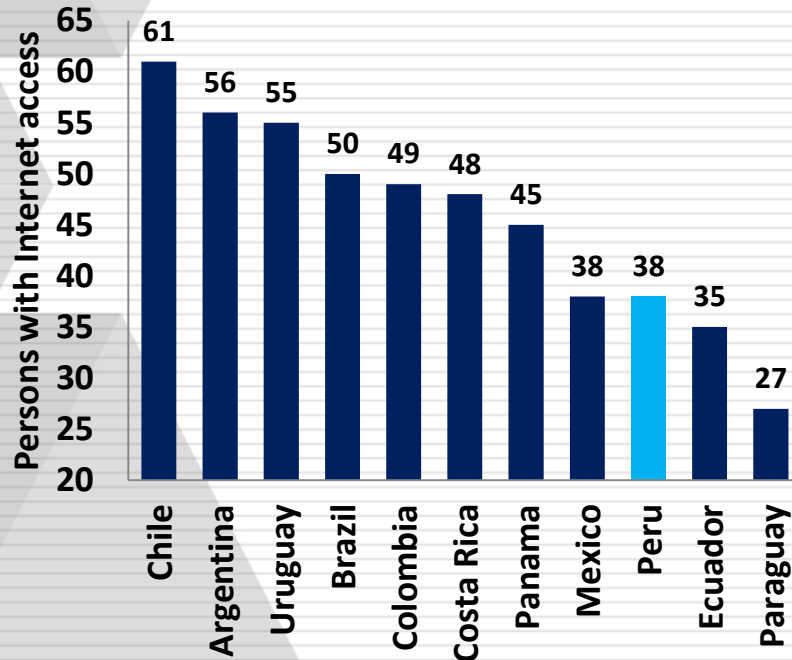


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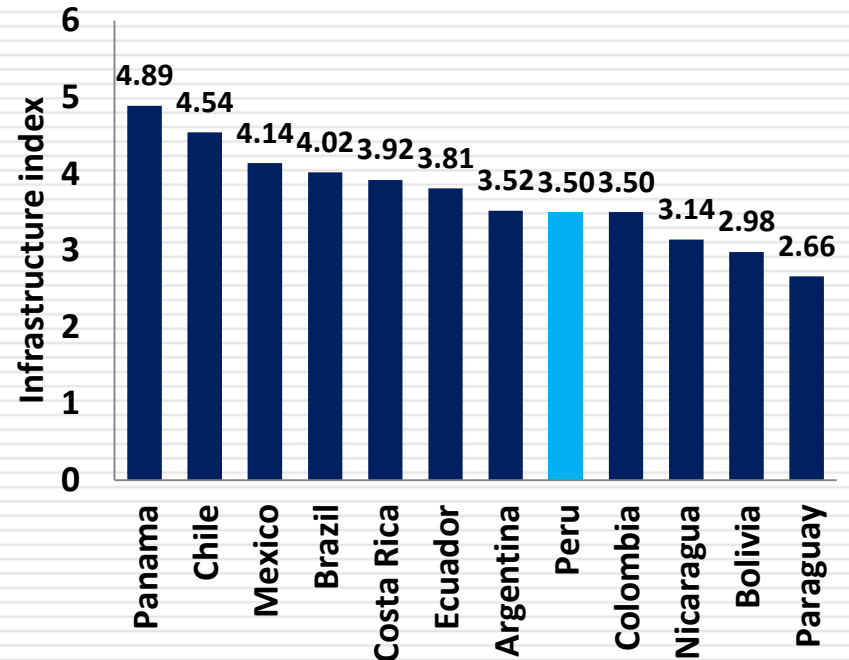
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# Despite high investment, infrastructure gaps remain

Internet access per 100 persons  
2012



Infrastructure index\*  
2013



Sources: World Bank and World Economic Forum.

\*Index extracted from Global Competitiveness Report, which considers infrastructure quality and access. It takes values from 1 to 7, where a higher value represents better infrastructure.

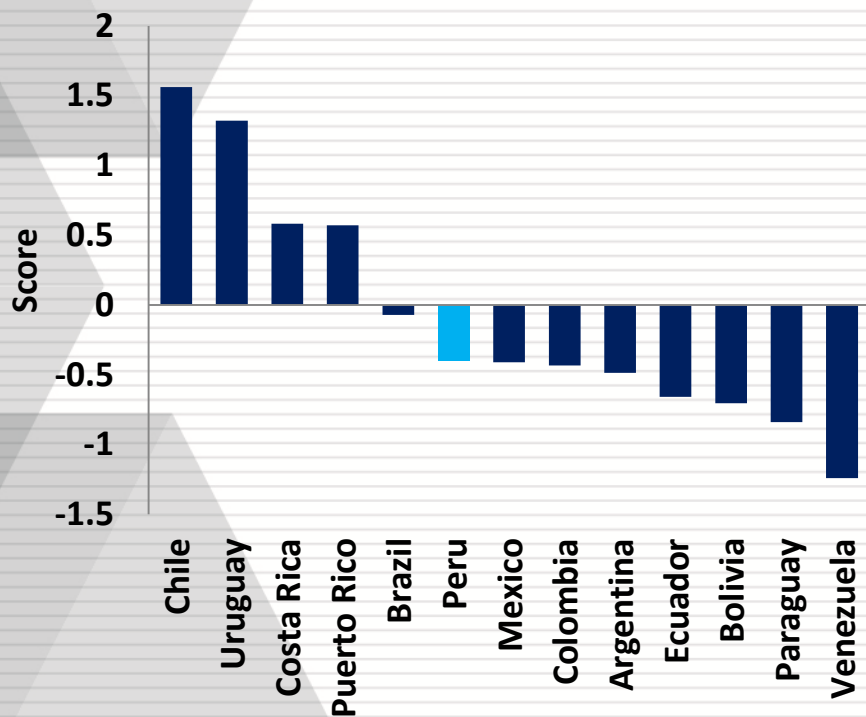


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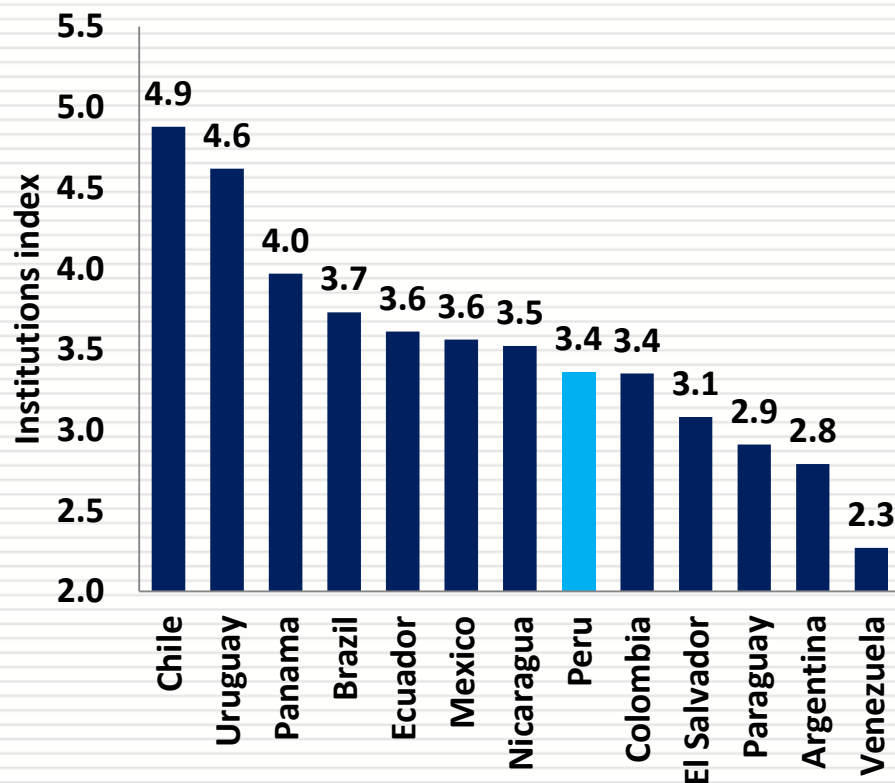
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# Institutional weaknesses have not been solved

## Control of corruption\*



## Institutions index\*\*



Source: World Bank and World Economic Forum.

\*Indicator obtained from World Governance Indicators. It takes values from -2.5 to 2.5, where a higher value represents better institutional aspects.

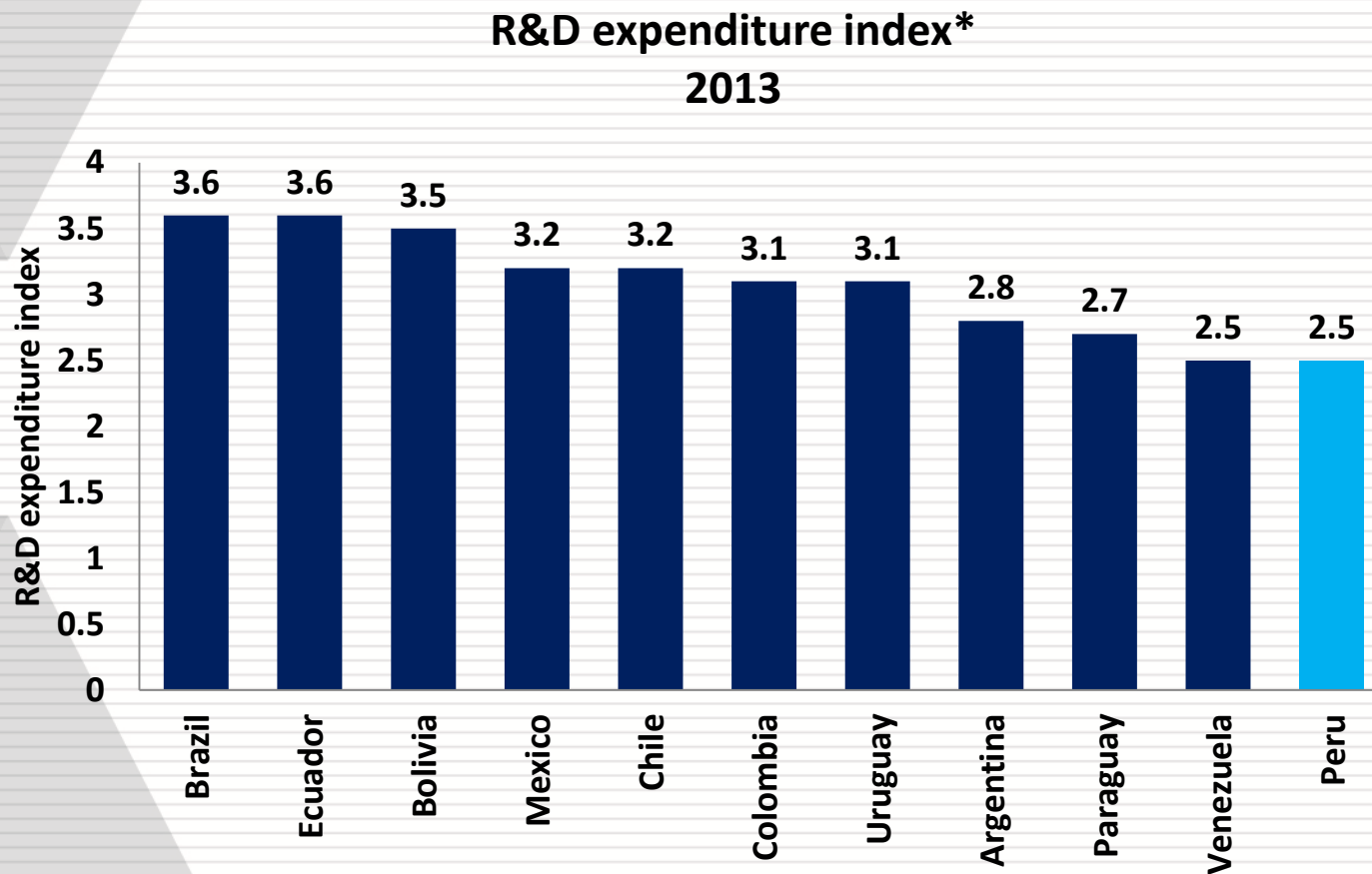
\*\*Indicator extracted from Global Competitiveness Report, which considers various institutional aspects of a country. It can take values from 1 to 7, where a higher value represents better institutions.



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# Significant under-investment in innovation



Source: World Economic Forum.

\*Indicator taken from Global Competitiveness Report. It takes values from 1 to 7, where a higher value represents higher firm investment in R&D activities.



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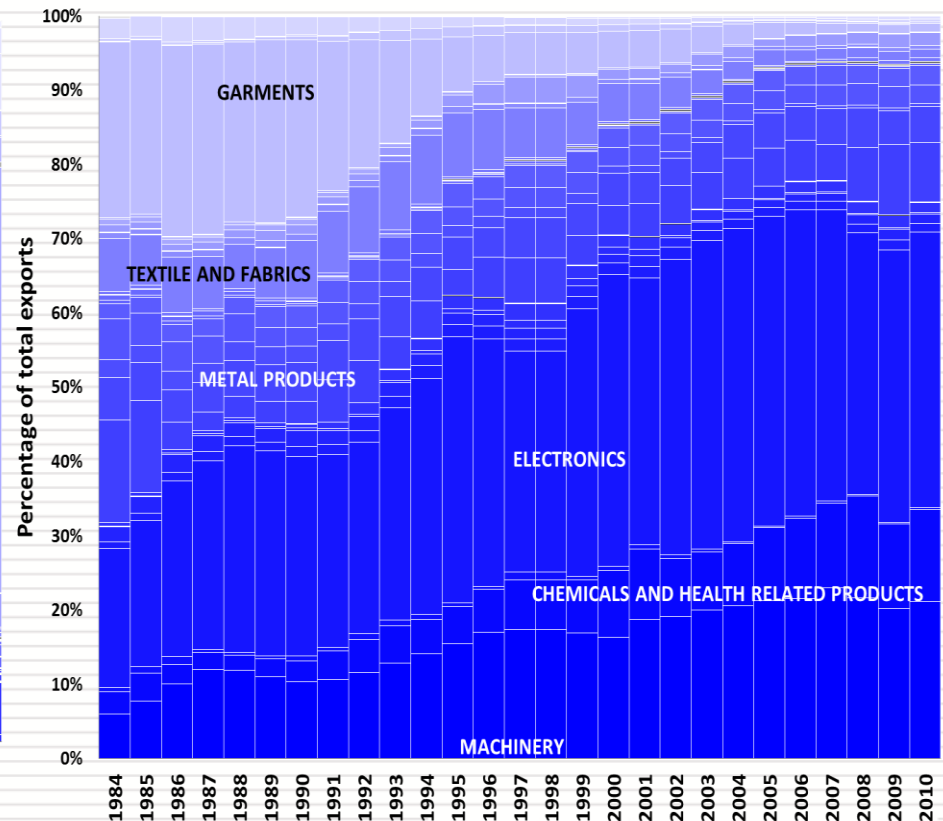
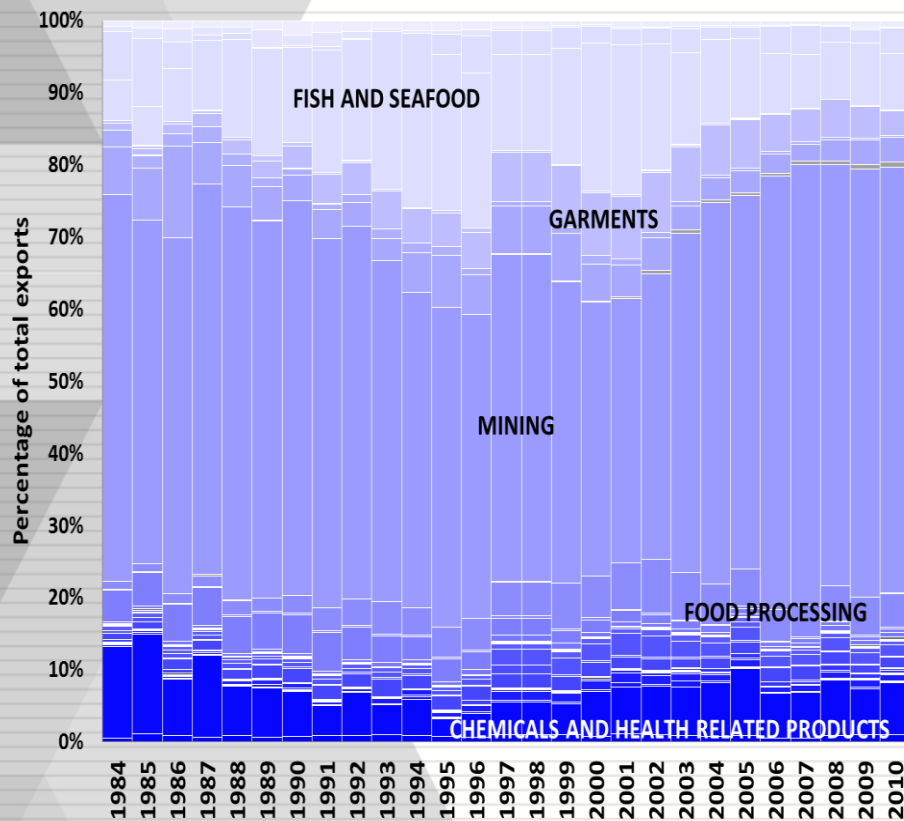
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# Modest productive diversification

## Composition and complexity of exports 1984-2010

### Peru

### South Korea



Source: Stein (2014).

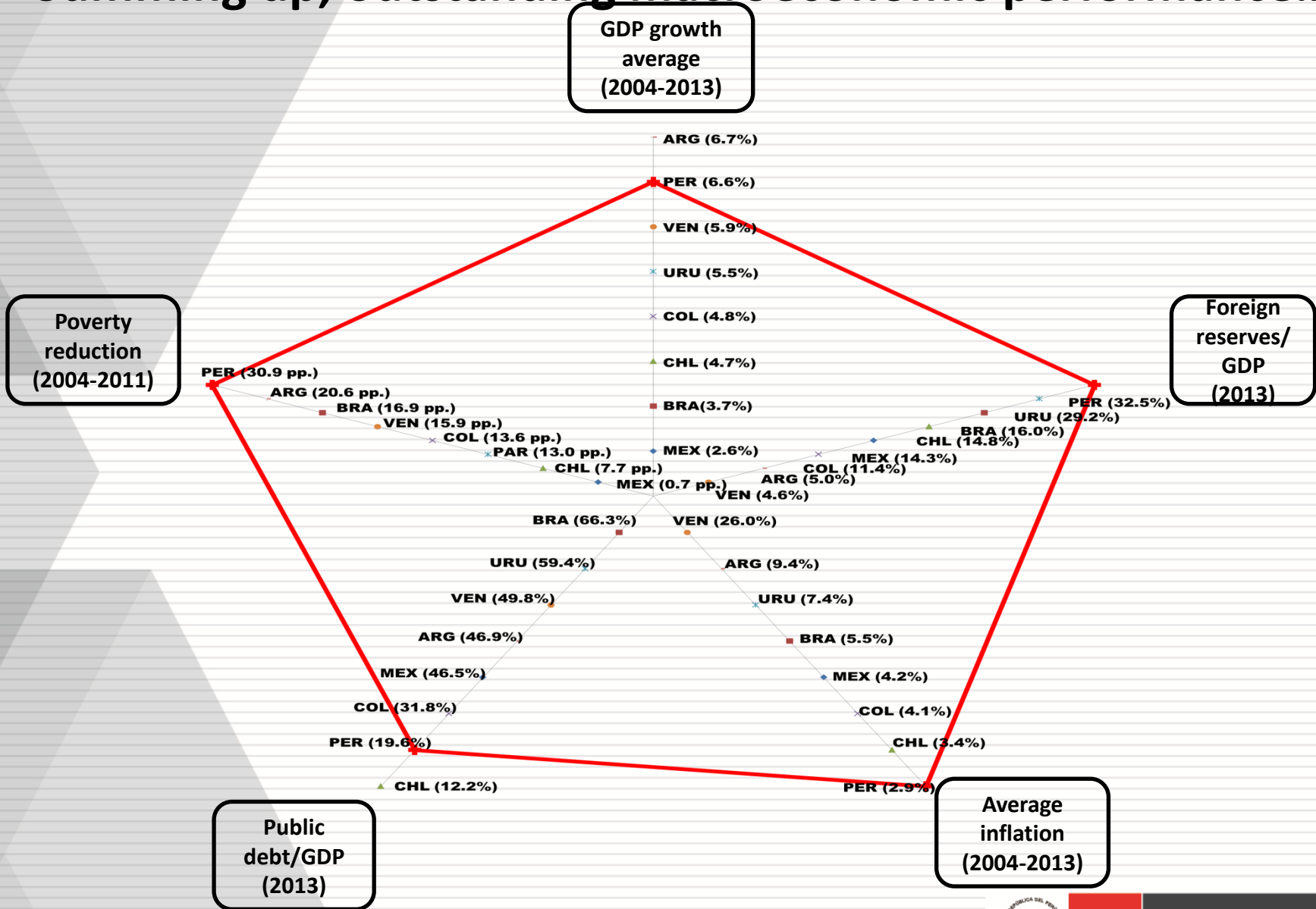


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# Summing up, outstanding macroeconomic performance...



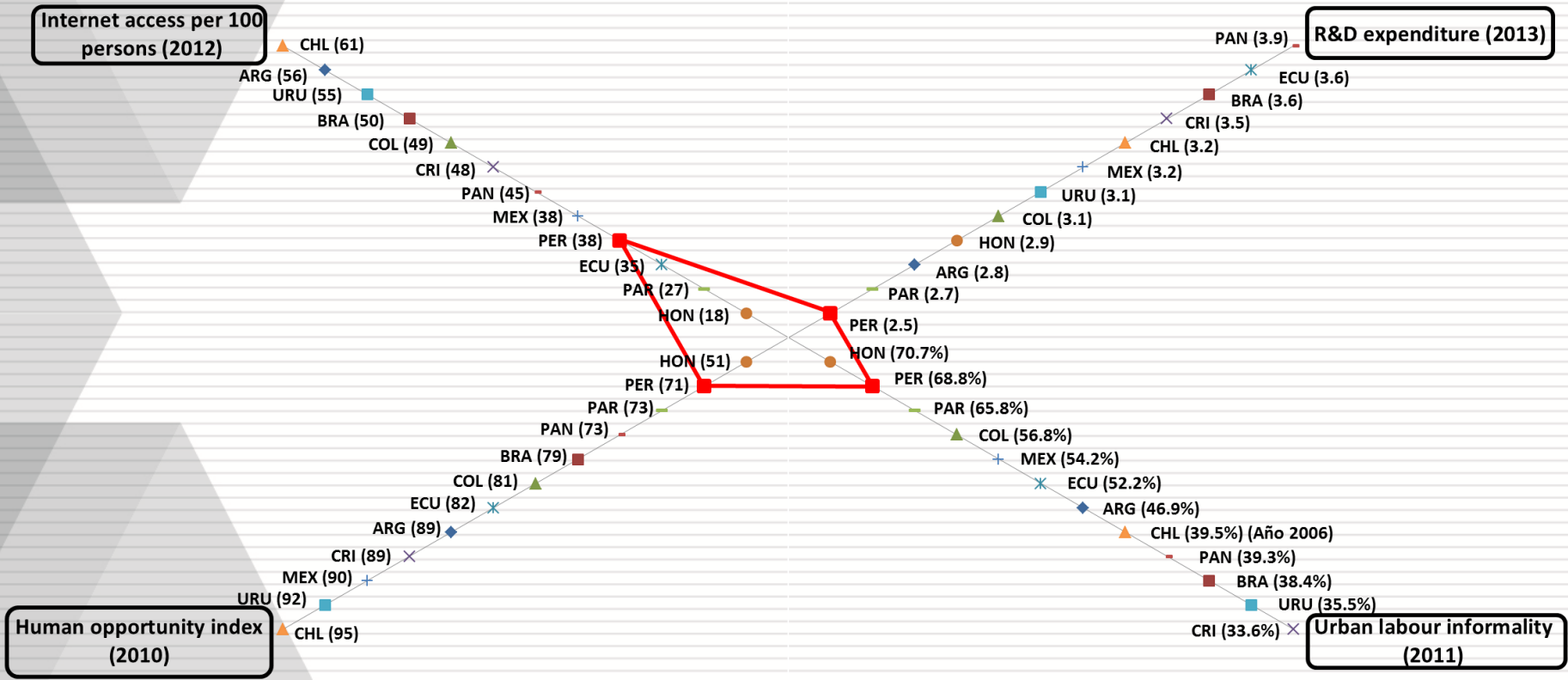
Sources: CEDLAS, ECLAC, IMF, Moody's.



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# ...but lagging in other equally (or more) important ones



Sources: ECLAC, IADB, Molinas et al. (2010) , World Bank, World Economic Forum.



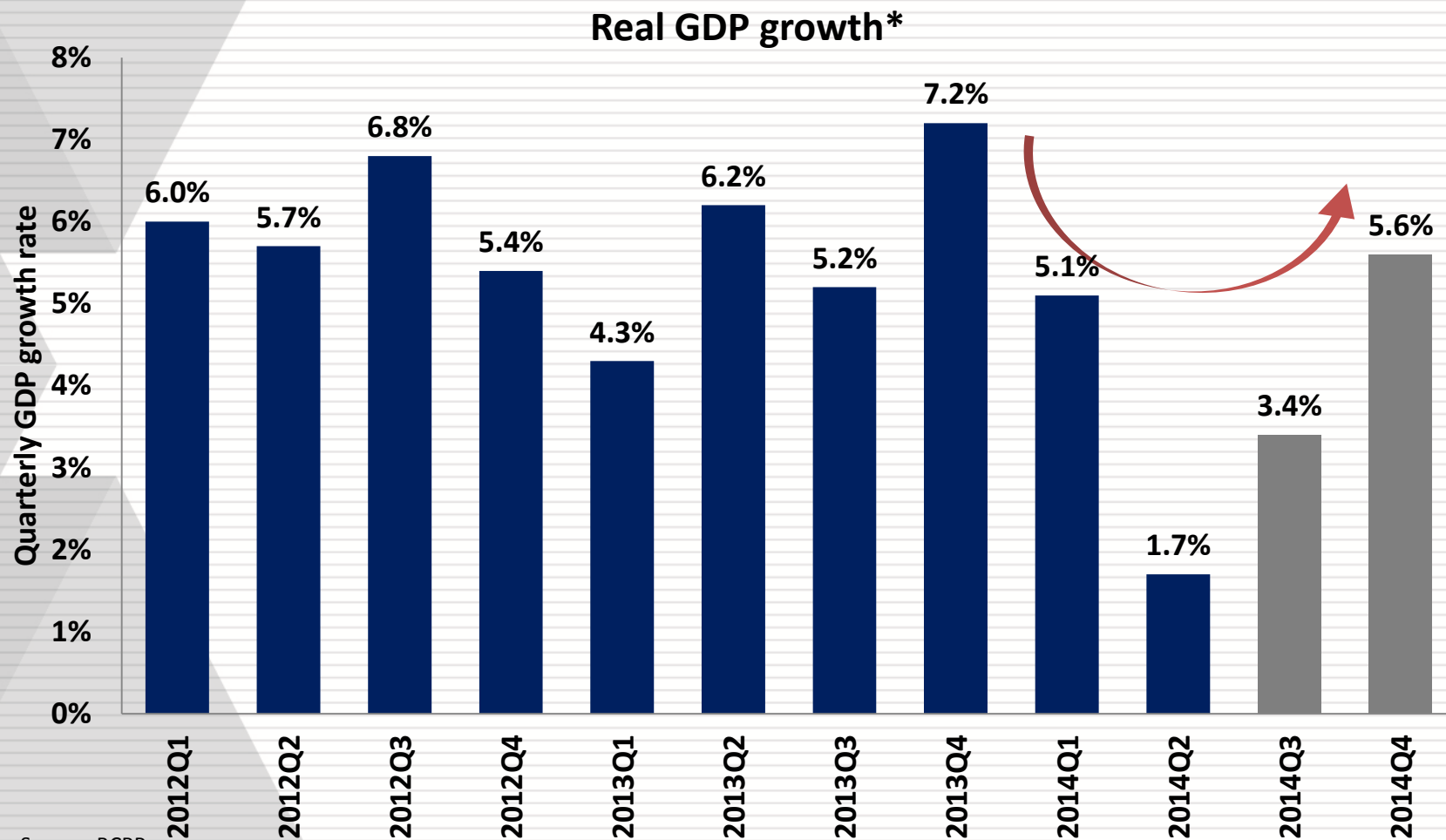
# 3. Short-term economic deceleration and government responses



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# Economy has decelerated



Source: BCRP.

\*Forecasted values for 2014Q3 and 2014Q4.



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# The recent economic deceleration is tightly related to supply shocks

- Primary activity deceleration:
  - Fishing
  - Metallic mining
- Deterioration of terms of trade
- Less dynamism in public investment
- Fall in business confidence

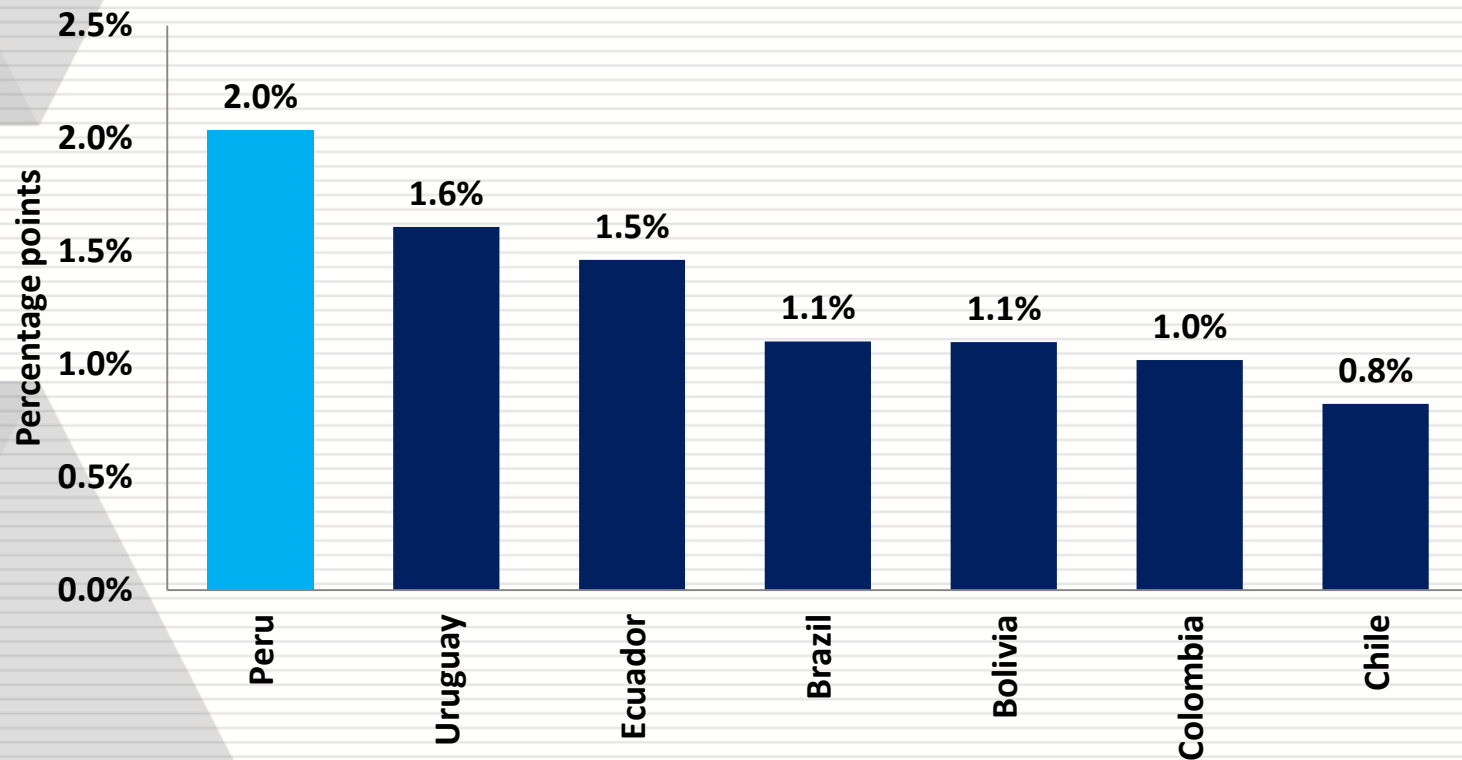


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# The country's growth is highly sensitive to commodity prices

Difference between average GDP growth rates in the 2003-2011 period and the 2014-2019 period\*



Source: IMF.

\*A stable commodity prices scenario is assumed for the 2014-2019 period.



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# The context is beginning to change

## i) More favorable international context:

- Consolidation of the recovery of the US economy.
- Greater dynamism of the Chinese economy because of expansionary fiscal and monetary policy initiated in May 2014.
- Stabilization of the terms of trade.



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# The context is beginning to change

## ii) Beginning of production at Toromocho project:

- Its production levels will be around 100 thousand metric tonnes per year.
- This project will increase the metallic mining growth rate in 3.5 percentage points and the GDP growth rate in approximately 0.3 percentage points.



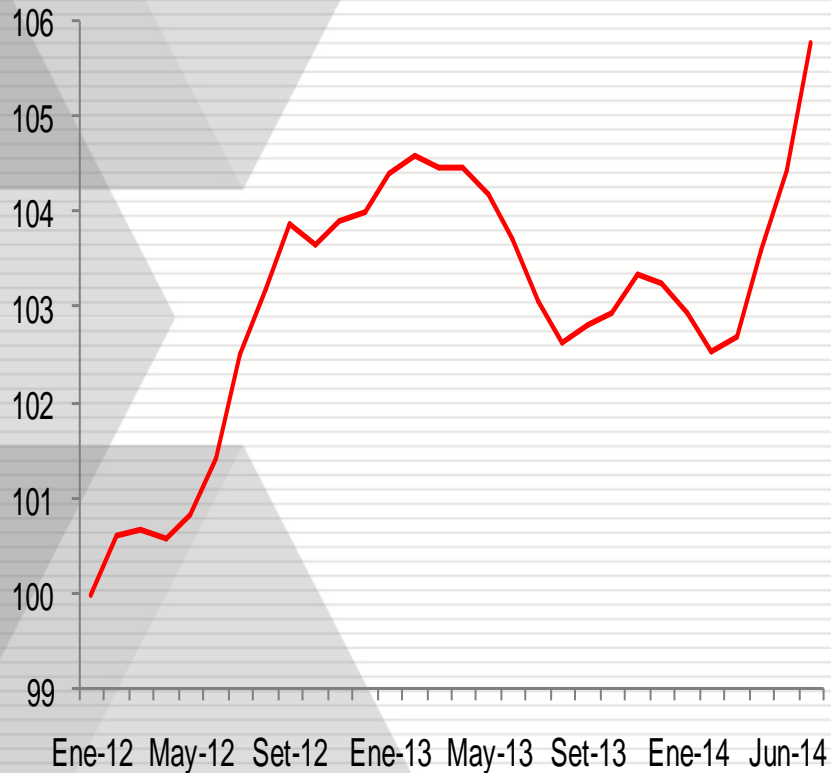
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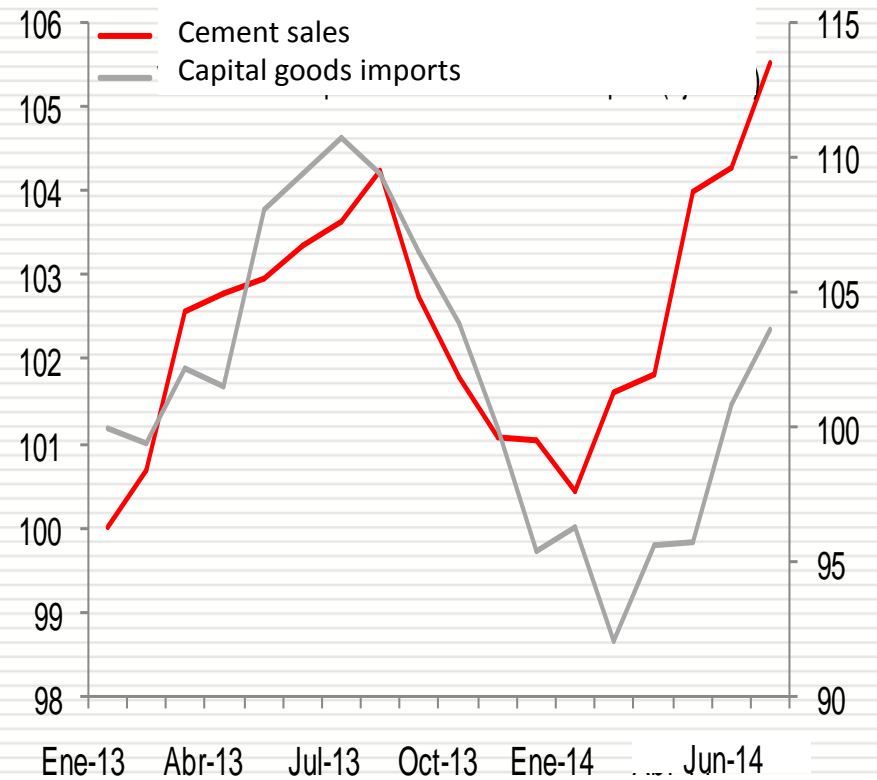


# The context is beginning to change (II)

**Dependent employment in Metropolitan Lima\***  
(Index, January 2012=100)



**Private investment indicators\***  
(Index, January 2012=100)



Sources: EPE-INEI, ASOCEM, SUNAT, MEF.  
\*Moving average of the last 3 months.

# Strategy for short-term economic reactivation

- Fiscal stimulus of 1% of GDP
- Simplification of procedures related to investment projects
- Measures for regulatory improvements and administrative simplification
  - Shortening of the approval time for environmental impact studies
  - Faster information provisions from government institutions for investment projects
  - Establishment of special mechanisms for public contracts
  - Reduced response time for permits and licenses for infrastructure projects
  - Occupational safety and health law modifications to take into account the risk of the activities involved.



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# 4. Development strategy and the National Plan for Productive Diversification

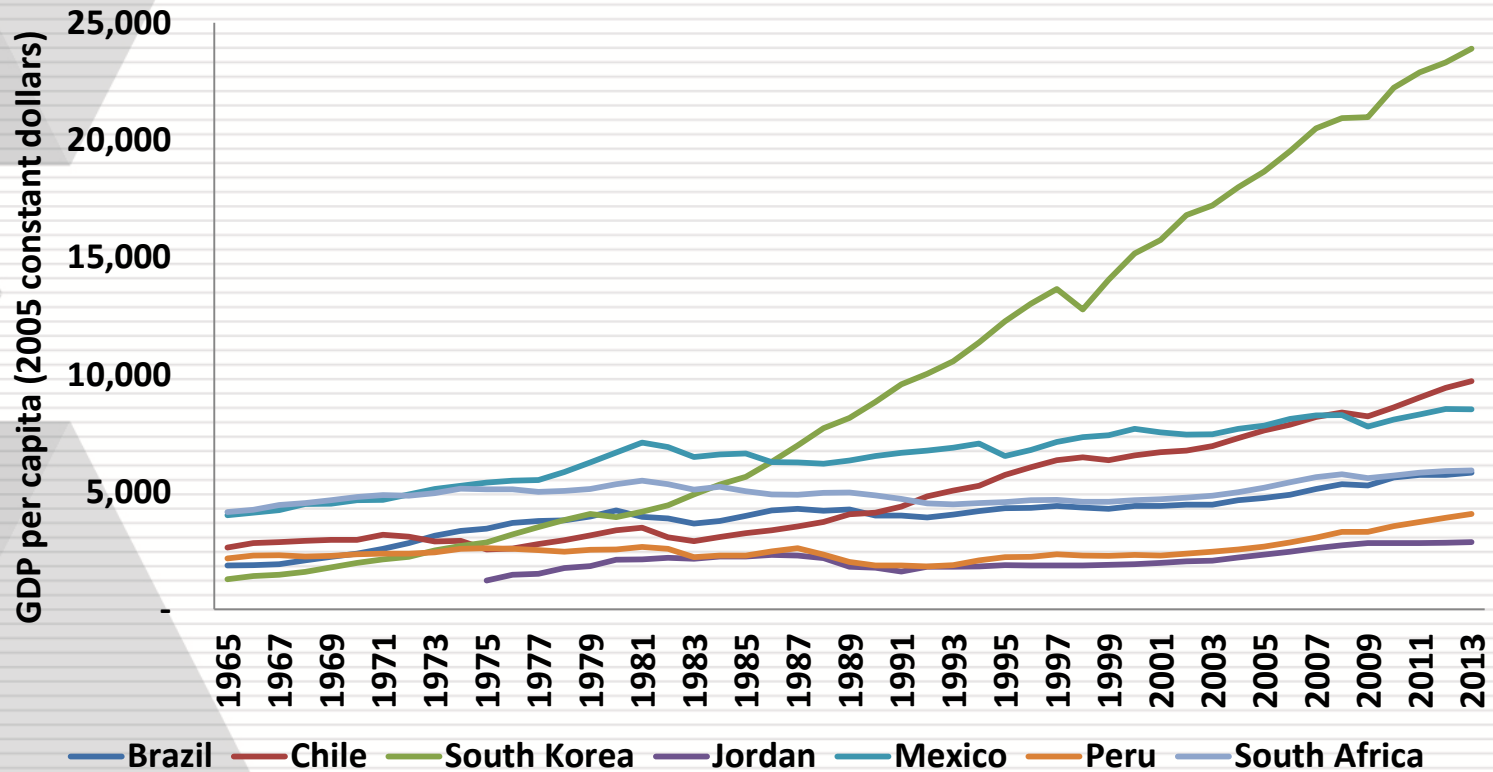


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# The Trap to avoid

## Middle income trap 1965-2013



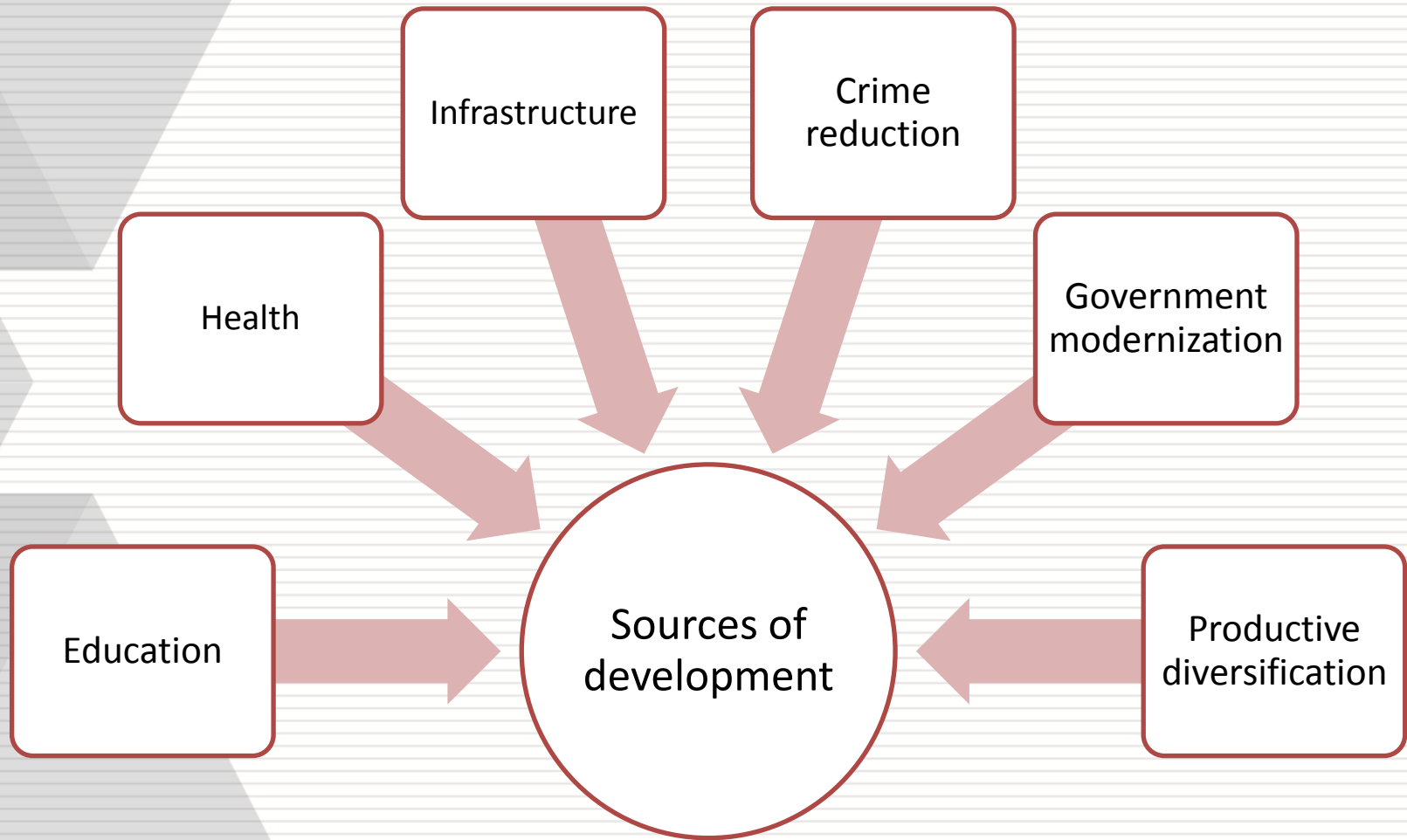
Source: World Bank.



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# Peruvian Development Strategy

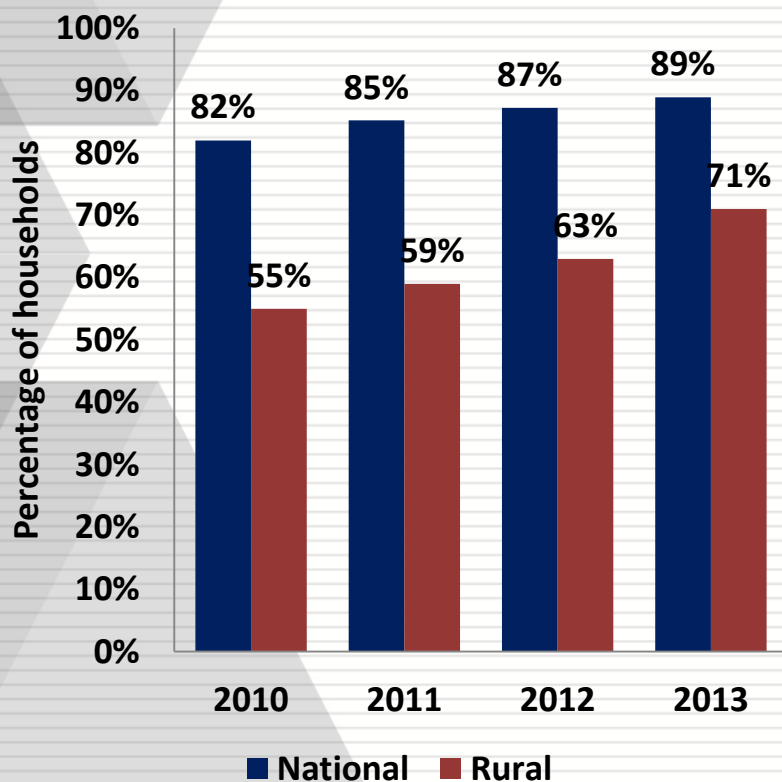


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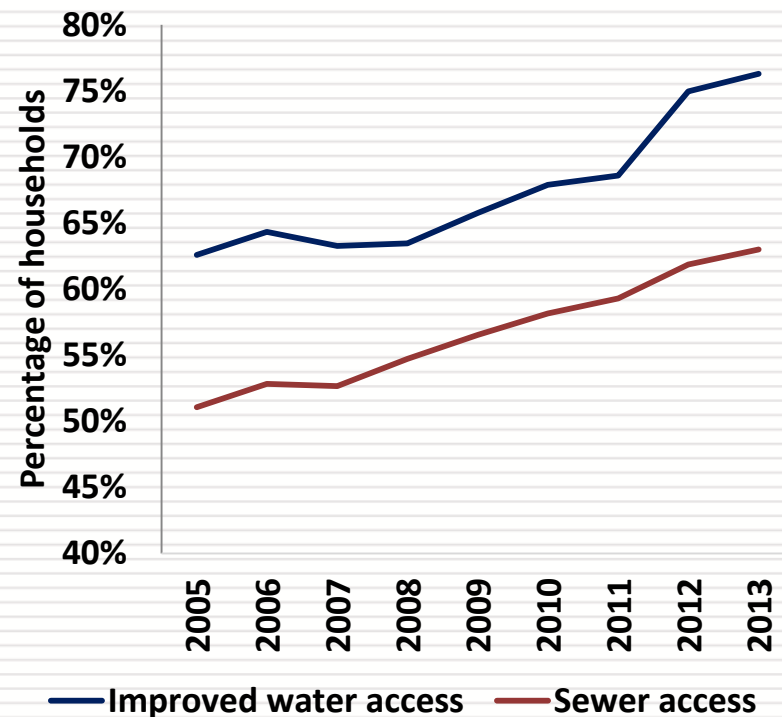
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# Development Strategy: Recent progress

## Electrification coefficient 2010-2013



## Household with access to improved water and drainage 2005 – 2013



Sources: INEI and Ministry of Energy and Mines.

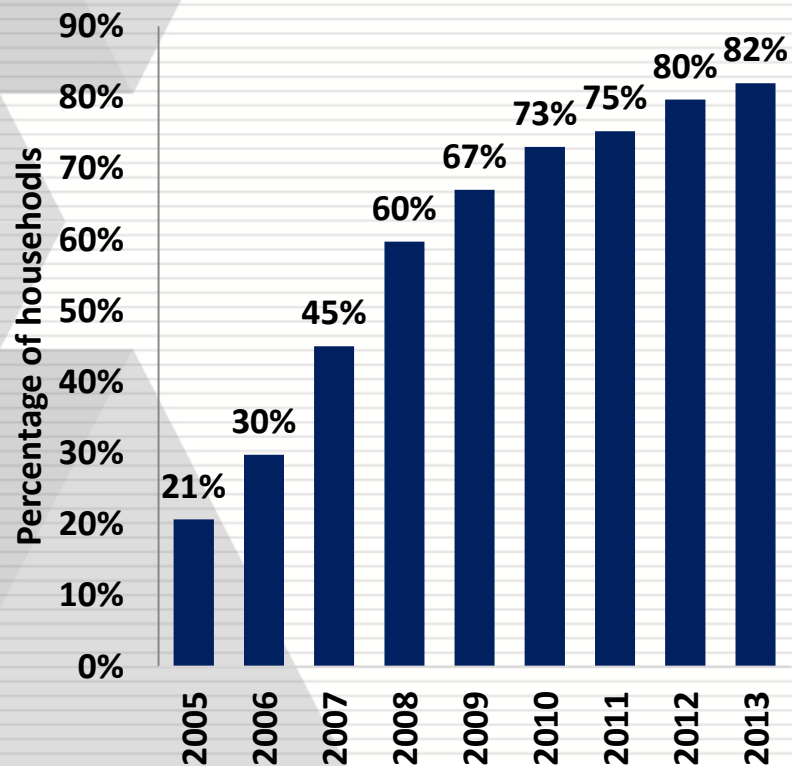


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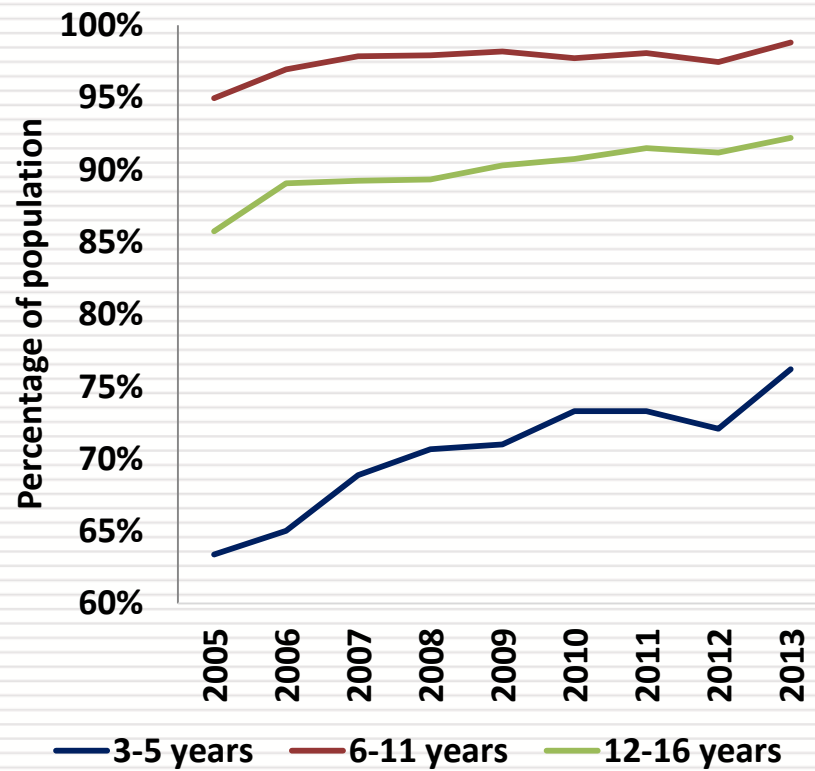
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# Development Strategy: Recent progress (II)

## Percentage of households with at least one cellphone owner 2005-2013



## School attendance by age 2005-2013



Source: INEI.

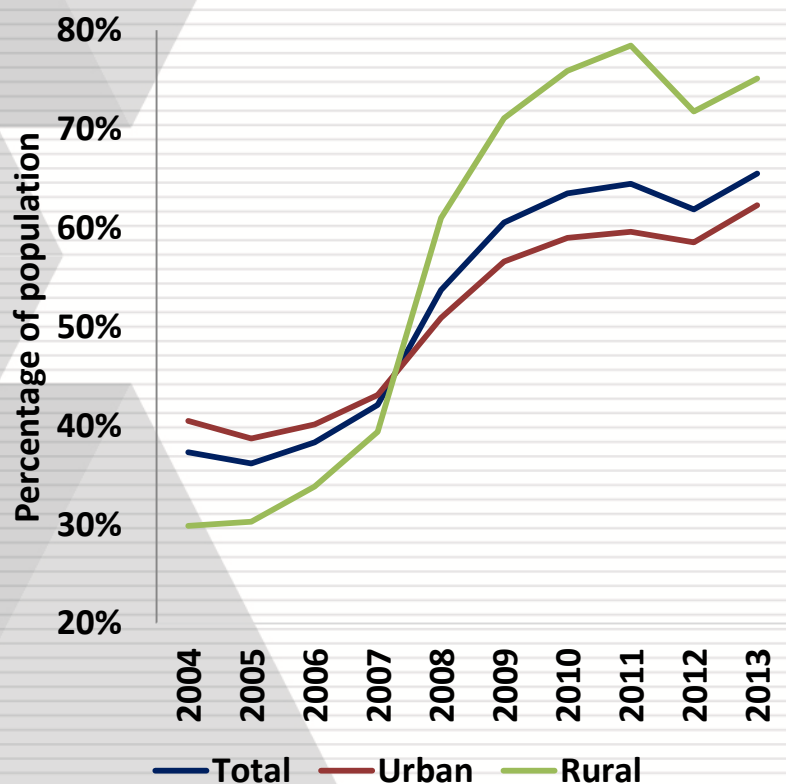


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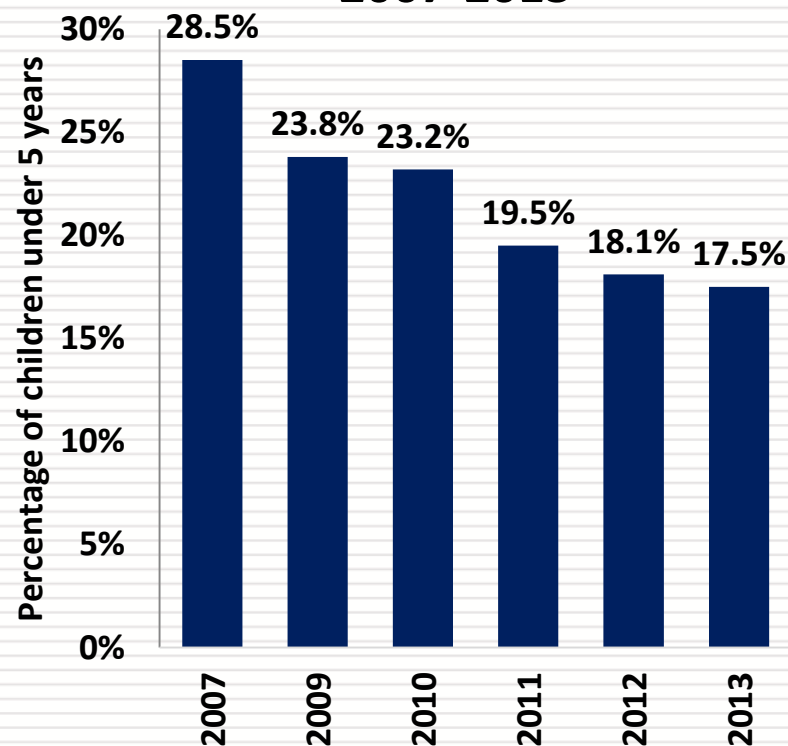
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# Development Strategy: Recent progress (III)

Population with health insurance  
2004-2013



Chronic desnutrition on children  
under 5 years of age  
2007-2013



Source: INEI.



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# National Plan for Productive Diversification

## Goals:

In close coordination with the private sector, we look for:

- Increasing GDP per capita from US\$ 10,900 (PPP) to US\$ 17,000 by 2021 and US\$ 30,000 by 2030.
- Increasing non-traditional exports (as direct contribution from the plan) by US\$ 5 billions in 2021 and US\$ 18 billions in 2030.
- Reducing regional and sectorial gaps.
- Reducing informality in 10pp by 2021 and an additional 20pp by 2030.

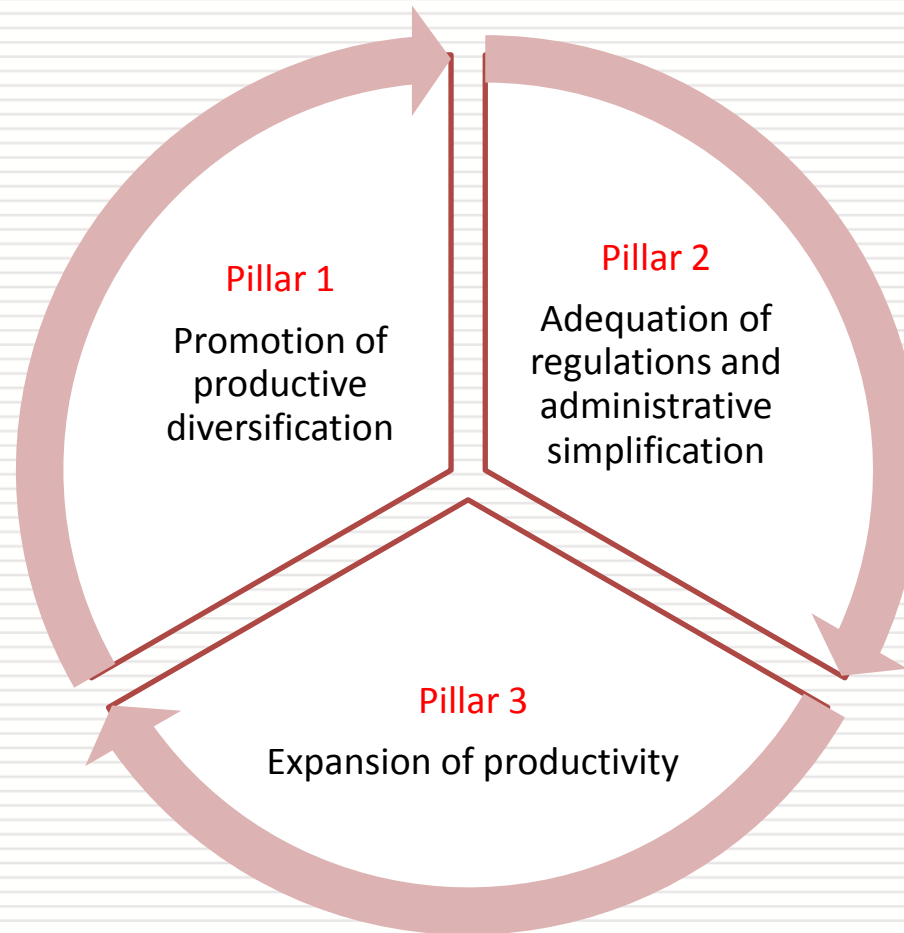


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# The Three Pillars of the Plan

Increasing the export bundle through market failure correction in sectors with high development potential.



Improving investment climate through better regulation and procedures.

Increasing productivity and reducing productive heterogeneity among firms



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# Main actions of the Plan

## Pillar 1: Promotion of the productive diversification

- **Integration to global value chains**
  - Identifying new growth engines for the economy
- **Foreign direct investment attraction**
  - Implementing actions to attract knowledge intensive FDI
- **Implementation of the National Policy for Innovation**
  - Working along the private sector in order to obtain 16 sectoral innovation agendas by 2016
  - Incorporating innovative processes into business strategy
- **Implementation of the National Policy for Quality**
  - Quality as support for diversification
  - Creating the National Quality Institute in 2015



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# Main actions of the Plan

## Pillar 2:

### Adequation of regulations and administrative simplification

- **Removal of investment barriers and facilitation of productive activities**
  - Identification of opportunities for regulation improvement.
- **Adequation of rules to promote competitive and profitable businesses with the ability to generate formal employment**
- **Administrative simplification**
  - Introducing new electronic government measures
  - Introducing new tax schemes for MSMEs
  - Facilitation of information on government goods and services demand



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# Main actions of the Plan

## Pillar 3: Expansion of productivity

- **Technological extension programme for MSMEs**
  - Reinforcing 20 Technology Innovation Centers by 2016 .
  - Technological diffusion for the agricultural sector
- **MSME cost-reduction and financing reform**
  - Creation of a fund for financing MSMEs
  - Factoring and mutual guarantee funds
- **Cluster support programme**
- **Regional diagnostic studies**
  - Implement work agendas to improve regional productivity



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# 5. Conclusions



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# Conclusions

- Significant improvement of macroeconomic conditions over recent years.
- Pending agenda on human and social development indicators.
- Good growth perspectives for the following years.
- Government has an economic development strategy to avoid middle income trap.



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