

Peru

High Growth Markets country profile

Peru benefits from a wide range of important mineral resources in the mountainous and coastal areas, while its waters provide excellent fishing grounds. However, over-dependence on minerals and metals exports and imported foodstuffs leaves the economy vulnerable to fluctuations in world prices. The country's rapid expansion, coupled with cash transfers and other programs have helped to reduce the national poverty rate by 23 percent since 2002, but inequality still persists. Peru has continued to attract foreign investment, although political activism and protests are hampering development of natural resource extraction.

Country overview

Geography and climate

- **Location:** western South America, bordering the South Pacific Ocean, between Chile and Ecuador
- **Climate:** varies from tropical in the east to dry desert in west; temperate to frozen in the Andes
- **Regions:** 24 regions and 1 province
- **Major cities:** Lima (8.8 million); Arequipa (0.8 million) (2009)

Political system

- **Type of government:** constitutional republic
- **Capital:** Lima

Population, language and religion

- **Population:** 31.2 million (2013)
- **Urban population:** 77%
- **Demographics:** 0–14 years: 27.3%; 15–64 years: 65.5%, 65 years and over: 6.7%
- **Official language:** Spanish, Quechua, Aymara, Ashaninka
- **Prominent religions:** Roman Catholic and Evangelical

Currency and central banking

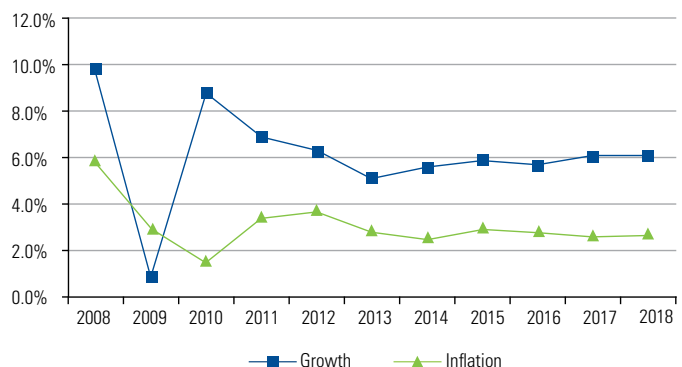
- **Local currency:** Peruvian Nuevo Sol (PEN)
- **Exchange rate:** 1 PEN = US\$0.3489 (1 April 2014)
- **Interest rate (average annual rate):** 4.0% (2013); 4.3% (2012); 4.3% (2011); 3.0% (2010); 1.3% (2009)
- **Foreign exchange reserves:** US\$65.15 billion
- **Total debt (2013):** external: US\$50.15 billion; internal public debt: 14.9% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US\$344.8 billion and is expected to grow by 5.9 percent annually** from 2014–2018, supported by improving business confidence, large mining projects coming on stream and a rate cut in November 2013.
- **Foreign direct investment (FDI) (billions):** inbound: US\$6.9 (2008); US\$13.2 (2013); US\$12.6 (2018 forecast); outbound: US\$0.7 (2008); US\$0.1 (2013); US\$0.2 (2018 forecast)
- **Exports free on board (FOB) (billions):** US\$45.9 (2012); US\$42.2 (2013); US\$62.5 (2018 forecast)
- **Imports FOB (billions):** US\$41.1 (2012); US\$42.9 (2013); US\$54.9 (2018 forecast)
- **Sector breakdown:** service: 58.6%; industrial: 34.5%; agriculture: 6.9%
- **Trade balance (billions):** surplus of US\$4.8 (2012); deficit of US\$0.7 (2013); surplus of US\$7.6 (2018 forecast)
- **Stock exchanges:** Bolsa de Valores de Lima (BVL)

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Key considerations

- **Fiscal and monetary policy:** The administration has shown a willingness to introduce more structural reforms than had been expected. Despite increases in funding, public education and healthcare are expected to continue to underperform. The government also plans to increase spending on social programs to reduce poverty levels. Private investment in transport, energy and water infrastructure should remain strong, despite government involvement in the market.
- **Competition policy:** Peru's constitution bans monopolies, oligopolies and restrictive practices, except in some temporary circumstances. The general oversight body is the National Institute for the Defence of Competition and Protection of Intellectual Property (Indecopi). Indecopi's scope was extended in July 2013, to try to eliminate bureaucracy that hampers productive development and business growth. Fines can be levied on public sector employees that apply or order the application of illegal or unreasonable bureaucratic barriers. Most price controls have been eliminated.
- **FDI policy:** Peru has an open policy towards foreign investment. The economy was liberalized in the 1990s and successive governments have promoted FDI, with overseas investors subject to the same legal treatment as local investors. An agreement with the Multilateral Investment Guarantee Agency (MIGA) insures private investors against non-commercial risks such as asset expropriation. During 2014–2015, confidence in Peru should remain strong, owing to its network of free trade agreements (FTAs) and other investment protection agreements. A review of mining concession procedures aim to ease tensions between investors and communities, but social conflicts are likely to continue. During 2016–2018, expect to see continued FDI in extractive mega-projects and hydropower. Despite this broadly optimistic outlook, social unrest may discourage investment to some extent.
- **Foreign trade and exchange controls:** Tariffs are levied on imports at either 9 percent or 17 percent, although recent reductions have lowered the average effective tariff to 1.9 percent. Most non-tariff barriers have been eliminated. Peru's foreign-trade legislation rules out taxes on specific exports, but various traditional products are still subject to levies. There are no restrictions in exchange controls. During 2014–2015, existing FTAs are set to be implemented (with China, South Korea, Japan and the European Union (EU)). FTA with India should progress slowly due to further opposition from local business lobbies. In the years 2016–2018, trade links with regional blocs may deepen, and the government is expected to seek bilateral FTAs with emerging economies. The Pacific Alliance should improve regional integration and speed up the development of ties with countries in the Pacific basin.
- **Financing policy:** The period 2014–2015 should see consolidation and greater competition in banking, while the merger with Colombian and Chilean stock markets provides a platform for expanding the capital markets. As the economy slows, expect banks to impose some restrictions on consumer lending. Between 2016–2018, growth in pension funds should boost local capital markets, while bank lending is predicted to increase as interest rate spreads narrow.
- **Taxes:** Corporate income tax is 30 percent for distributed earnings and 27 percent for reinvested earnings. Branch profit tax is levied at 30 percent and remittance tax at 10 percent. The 30 percent tax on royalties will probably increase. Any interest earned abroad is taxed at 5 percent. Value-added tax (VAT) was reduced from 19 percent to 18 percent in February 2011. New measures to address tax evasion are to be introduced in 2014–2015, along with reforms to the customs regime to simplify tax procedures. Some investments in the Andes and Amazon regions should enjoy an extension of existing tax exemptions. Despite increased efforts to reduce tax evasion during 2016–2018, the expansion of the tax base should progress at a modest pace.

KPMG in Peru

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In Peru, KPMG has approximately 300 professionals and its office located in the capital city of Lima.

KPMG in Peru aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Peru website: kpmg.com/pe

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Peru: High Growth Markets country profile

Publication number: 130913i

Publication date: June 2014