



SPECIAL REPORT

The Peruvian economy, a success story

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I. INTRODUCTION

Peru is the sixth largest economy in Latin America. If the International Monetary Fund's (IMF) forecast of the Peruvian economy's good performance from the Peruvian economy materialise, it will grow by 18.5 % by 2018—compared to the 2015 statistics—and will join the group of the largest regional economies, behind only Brazil, Mexico, Argentina, Colombia and Chile.

With this diploma—one of the most recent that demonstrates the Peruvian's solid economy—the 11th edition of inPERÚ 2016 begins on October 17, and on this occasion will return to London and Madrid to share their success story with potential investors that have responded to the call.

And joining the group of the largest Latin American economies is not a small feat for a country like Peru, which at the beginning of the 1990s was virtually bankrupt and was an outcast in international financial markets. Having accumulated an average annual expansion of more than five percentage points over the last 15 years, today's reality shows the other side of the coin: Peru is a leader in economic growth among the emerging markets and is acknowledged by the FMI as one of the driving forces in a Latin America marked by Brazilian recession and the Venezuelan crisis.

Peru's economy ranks sixth in the region, behind only Chile, and has enough impetus to continue climbing up the scale, whilst some neighbouring countries are slowing down or maintaining meagre growth, the Peruvian economy could surpass this year's IMF forecast (3.7 %) and expand up to 4 %.

Meanwhile, between 2017 in 2018 it will creep closer to its growth potential and reach expansion rates of 4.5 % and 4.2 % respectively, according to estimates by the Central Reserve Bank of Peru (BCRP). In addition, the BCRP statistics could even exceed themselves if the expectations of the President Pablo Kuczynski's Government are maintained among businesses and if they revive their investments. It is safe to say that the Peruvian economy maintained its sustained growth in the first semester of this year, driven by traditional exportations, internal consumption and public investment. However, private investment shrank by 4.6 % in the same period.

It does seem, however, that the pessimism generated by political instability in the administration of ex-president Ollanta Humala, is already a thing of the past. BCRP data states that business expectations regarding economic revolution over 12 months have risen by 24.5 points between September 2015 and the same month this year, currently placed at 75.1 points.

In this scenario, it can be deduced that private sector investment has entered a process of reactivation and, with this, we reach a variable that explained over half of the local PBI growth between 1951 and 2008 (1.9 percentage points of an average PBI annual growth rate of 3.8 %¹).

¹ Carlos Mendiburu. *Private investment and the economic cycle in Peru*. BCRP Publication Revista Moneda. Page 21.

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2. THE KUCZYNSKI-ZAVALA DUO

Peru’s success story is founded on more than two decades of economic stability, fiscal control and coherent monetary policy. A story that began on 28 July last year in a new era led by Pedro Pablo Kuczynski, a successful international economist who proposed the recovery of economic drive as one of his main objectives to reach a goal of 5 % sustained annual growth.

To reach that, the management of PPK foresees the alleviation of the red tape that slows investment, disentangle granted infrastructure projects and promote new ones under public-private associations, improve the quality of services provided by the State (like health and education), combat public insecurity and corruption, improve the predictability of Judicial Power, among other initiatives. All of this with a view to making Peru the country with the best business climate on the continent and to form part of the OCDE’s exclusive club of countries by 2021.

Ambitious goals which shine within the country’s which—according to the Getulio Vargas Foundation (FGV), the Brazilian centre of economic study—has the third best business climate in Latin America, behind only Argentina and Paraguay.

Peru’s measurement on the FGV scale—at 97 points—stands out as it exceeds that of its other three associates in the Pacific Alliance for this indicator: Colombia (88), Mexico (83) y Chile (65).

“Peru is differentiating itself, standing out amongst its peers. And it’s doing it in a different political framework from what we know of the Peruvians, with one party governing the Executive and another controlling the Legislative aspects. A framework from a new government with great momentum to support and strengthen the lines of development that we’ve seen in recent years and is striving to boost complementarity between the public and private sectors”, assures Francis Stenning, president of inPERÚ. The head of the business community emphasises the political maturity that is being gained in Peruvian society, whose epitome—he says—is the joint effort undertaken by the executive and legislative powers towards the development of the country. President Kuczynski’s decision to delegate the powers of communication in the Republican Congress to his Prime Minister, Fernando Zavala, deserves a special mention.

Zavala—successful economist and executive—has achieved a successful dialogue with

“Kuczynski has emphatically emphasised that his Government intends to eliminate obstacles that pose a hindrance to new investments”

the opposition which has evolved with the approval of legislative faculties requested by the Government to eliminate rules relating to economic revival and business formalisation, public security, the fight against corruption, water and sanitation, and the reorganisation of PetroPerú. In the passing of only a few months, ministerial team led by Zavala may eliminate laws it feels that are necessary to execute the Government plan which brought Kuczynski to power.

The agreement reached in Congress shows the important political capital of Government support, which has an approval rate between 62 % and 65 %. Statistics demonstrate confidence in economic agents under an administration that some analysts predicted would be difficult to govern. In exchange, the Kuczynski-Zavala duo have performed spectacularly with the technical and political capacities already shown during their 2001-2006 administration, when they worked together at the Presidency of the Council of Ministers and the Ministry of Economy, respectively.

The positive perception of Kuczynski’s administration is not just internal however. Having only just started his administration, the president carried out a favourable tour of China, Peru’s first commercial

partner, during which he met with the Asiatic giant’s main authorities. During his official visit, the leader was able to confirm the ongoing interest of Chinese companies to invest in Peru, especially in infrastructure.

In both external and internal arenas, Kuczynski has emphatically emphasised that his Government intends to eliminate obstacles that pose a hindrance to new investments, for which “the country awaits with open arms”, according to his own words. Immediately afterwards the president also affirmed that the state would take responsibility in complying with environmental legislation, as well as adopting an open and respectful approach and consider the citizens’ opinions about the impact of these projects.

3. THE DOOR TO THE PACIFIC ALLIANCE

The favourable economic climate and a Government that breeds confidence provide the ideal backing for inPERÚ Road Show Europe 2016 which takes place this week in London and Madrid. For Francis Stenning, Peru’s current situation is positive in itself, and even more so by the regional and global economic situation. “In an environment in which countries such as Brazil lose their investment-grade, Peru demonstrates solid economic

“According to Stenning, the Pacific Alliance is a good platform for attracting investments, but also means competing with our partners for better positioning”

results and an enviable momentum within the region. We have to communicate this to the world”, he affirms.

It should be clarified that inPERÚ is a non-profit corporation—formed by the country’s main economic groups—which, via these Road Shows, expands and strengthens Peru’s representation in the international financial market. Since its inception in 2012, inPERÚ has travelled through 19 cities across Europe, Asia and America and brought together more than 7400 investors.

“We feel very confident and optimistic to revisit these two very important centres in the world economy”, said Stenning. Confident that the reception will be a positive one, as today Peru offers a multitude of opportunities for investors looking towards emerging markets.

One important factor is that the head of the Economic and Finance Ministry, Alfredo Thorne, announced some days ago that the Government foresees the generation of investments of up to US\$70,000 in infrastructure by 2021.

“Peru is moving from a cycle of strong tendencies towards mining investment to a cycle with resurgence of other economic drivers, among which we should highlight

infrastructure, commerce, agro-industry and tourism”, Stenning adds.

Sectors which, in addition, are covered by the commercial policy developed by the country in the last decade, which currently means that 95 % of its exportable goods are destined to countries with which Peru has signed commercial agreements.

The head of inPERÚ also emphasises that by being a founding member of the Pacific Alliance, Peru also stands as the best entry point to a regional block constituting the eighth largest economy in the world with a total of 217 million inhabitants.

The Pacific Alliance—adds Stenning—is a good platform for attracting investments, but also means competing with our partners for better positioning by showing our competitive advantages. “We are the best entry point to the Alliance, the best economic perspective, the one the best political climate, but we must also be the most well-known”, he remarks.

4. STRATEGIC PARTNERS

To be well-known, commercial ties must also be reinforced with previously established partners, as is the case of Spain. “Visiting Madrid” – October 19—gives us a great

opportunity to strengthen the bonds that we already have with Spanish businesses and reach new stakeholders based on the experience of companies that already do business in Peru”, the president of inPERÚ comments.

According to Corporation data, the Iberian country’s investment in Peru represents

18% of foreign direct investment (FDI) and generates some 500,000 jobs. Spanish investment in the country has historically been concentrated in the telecommunications, finance and electricity sectors; nevertheless, in recent years the Spanish construction industry has been the protagonist in infrastructure sector by winning megaprojects in the transport, energy and sanitation sectors. Just to mention a few cases, Spanish companies are in charge of all lead projects such as the licence for the Red Vial 4, which joins the Lima and La Libertad regions, the modernisation of General San Martín port (Ica), the construction of Lima’s Metro Line 2 and the modernisation of the Talara refinery (Piura).

“In spite of the crisis that it suffered some years ago, Spain has remained a solid commercial partner and has believed in the region both in the short and long-term, and the fact that Iberian investments have intensified in recent years is an example of this.”, remarks Stenning.

Two days before visiting Madrid, on October 17, inPERÚ presents the seminar “Peru” in London: Leading growth in the region”, through which it intends to strengthen commercial and financial relations with economic agents of the world financial capital.

Francis Stenning, President of inPERÚ



Source: BVL

Road Show Asia 2015



Source: inPERÚ

In the words of inPERÚ’s president “for London (and the United Kingdom) it is also a moment of change, so this is the opportunity to secure our commercial ties and stand out from our competitors. Peru’s main economic groups are also represented in the Road Show, and who could reflect important evidence of the country’s promising reality.

Regarding the “Brexit” situation, Stenning explains that as it is a *sui generis* process, but could take more than a year to be defined, is important to maintain a presence in Peru’s presence as one of the most attractive destinations for international capital, in London. “Even though it’s a matter for the Government, I’m sure that during the event, proposals will be made for the need to start conversations that will result in commercial agreements with the UK, similar to those we have the European Union. I don’t have information on the agenda, but it would be logical to do that and our presence can facilitate the beginning of such discussions”, adds Stenning.

As we have seen in previous years, on this occasion inPERÚ anticipates exceeding the predicted number of 600 invited business people and executives—both in London and in Madrid—due to the level of interest in hearing the details of the country’s economic scenario, directly from the principal Peruvian representatives from the public and private sector.

Road Show New York 2016



Source: inPERÚ

inPERÚ 2016, London-Madrid



Source: inPERÚ

5. ADDED VALUE

And if differentiation is the key, inPERÚ starts off on the right foot, being the only private initiative that has the support of the public sector

“inPERÚ starts off on the right foot, being the only private initiative that has the support of the public sector since its creation”

since its creation, especially the Ministries of the Economy, Foreign Trade and External Affairs and the BCRP.

The European Road Show 2016 will be no different, as the heads of the Ministry of Foreign Trade and Tourism – Mincetur- and of the BCRP, Eduardo Ferreyros and Julio Velarde, respectively, are planning presentations regarding the new Government’s economic challenges and the monetary policy as the key to long-term growth. As a part of his agenda, the Minister Ferreyros will meet with his British counterpart, George Osborne and with a group of Latin American investors based in the British capital.

The presence of governors from Arequipa, Yamila Osorio, and Piura, Reynaldo Hilbck, in Madrid deserves a special mention, and they will present potential investment opportunities in their respective regions. For further information, Arequipa is the third most competitive region in the country, behind Lima

and Moquegua, while Piura is placed at number 13 and 24 regions in Peru.

With regards to economic performance, Arequipa was the region with the second highest gross during the second trimester of 2016, with an expansion of 37.2 %, which can be explained mainly by the growth of the mining sector following the extension of the Cerro Verde mine. The same time, Piura’s economy shrank by 2.9 % as a result of the fall of the hydrocarbon sector². Both regions offer competitive advantages—a skilled labour force and infrastructure under development, among others, and a portfolio of important mining, agro-industrial and infrastructure projects waiting to attract local and international investors.

Based on this information, only the most positive results can be expected from this *inPERÚ Road Show 2016*, as we will once again present to two of the world’s most important markets, to tell a story of success, the story of the Peruvian economy.

² Peruvian Economy Institute. *Composite Indicator of Economic Activity-ICAE* 2nd Trimester 2016

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LLORENTE & CUENCA Peru's office, a leader in the sector in the country and the only communication consultancy firm to have received five ANDA and one Gold SABRE Awards. In 2013 and 2014, Luisa was named one of the 50 most influential women in Latin America by the publication *Latin Business Chronicle*. Between March 2014 and March 2016, she chaired the Spanish Official Chamber of Commerce in Peru and, to this day, still sits on its Board of Directors. She has been chair of the Peru's chapter of the Young Presidents' Organization (YPO), and is still part of its Committee of Directors for Latin America and the Caribbean. In 2014, she was recognized as Executive of the Year in Latin America, Executive of the Year in Business Services and Woman of the Year in the Stevie Awards for Women in Business.

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