



Gobierno del Perú

# PERU: A Reliable Partner for the OECD

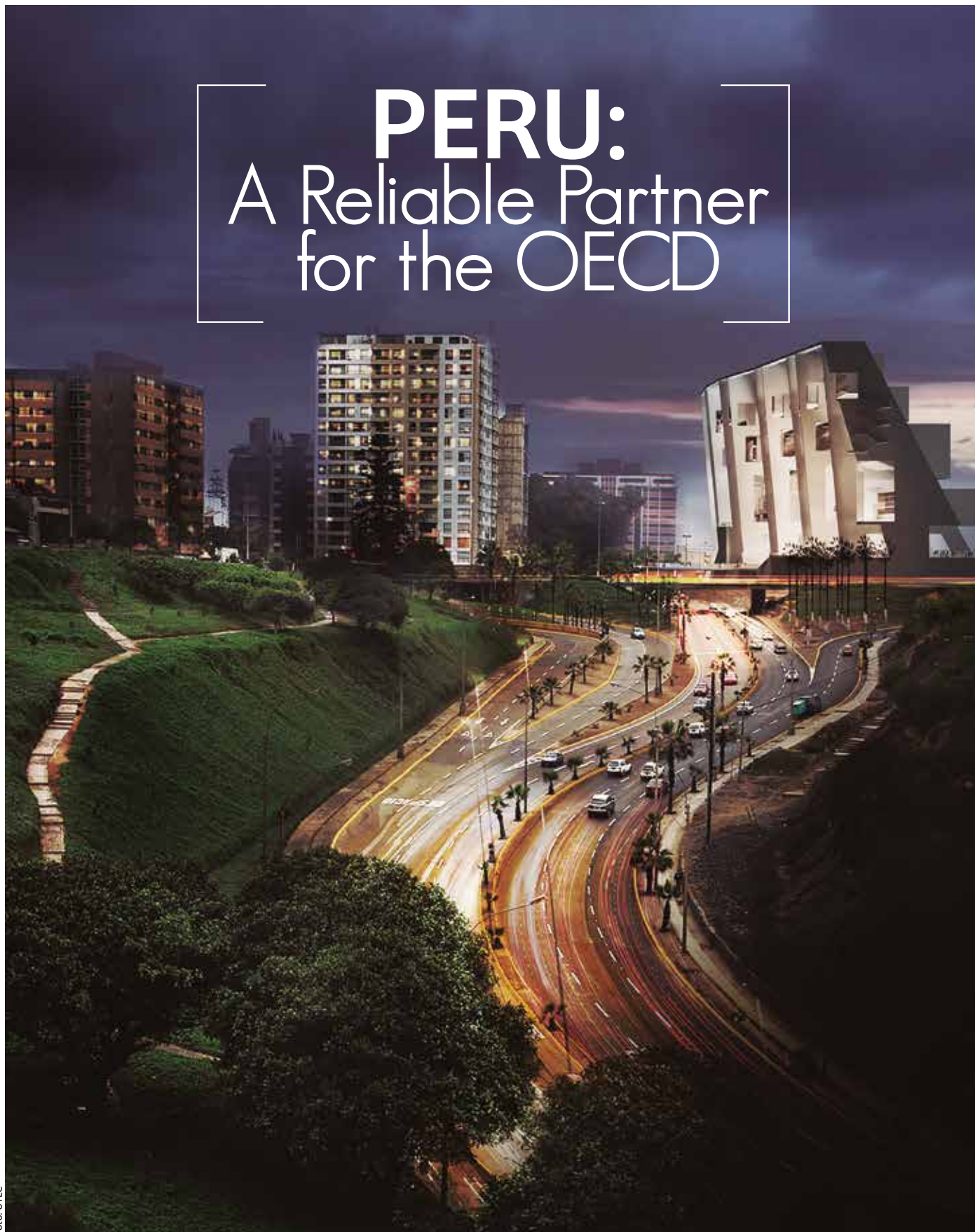


Foto: UTEC



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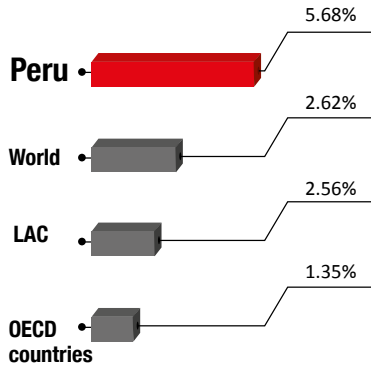


# PERU TOWARDS THE WORLD

Peru is proud of its millenary history and culture, endowed with a generous array of natural resources and flavors, and driven by friendly and entrepreneurial people. Thanks to its political and economic stability, Peru has become an attractive place to invest and a leading country in Latin America, and has made great strides towards economic and social development.

## SOUND EXAMPLE OF GROWTH

Peru's growth in the last ten years (2006-2016) by far surpassed average growth in the region and OECD countries.



Source: Central Bank of Peru, World Bank, OECD stats  
Note: 2016 is a projection

## AGRICULTURAL AND MINING LEADER

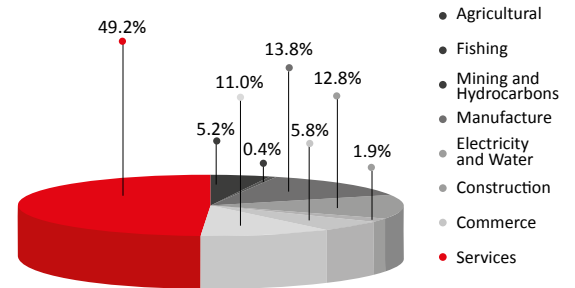
Currently, Peru is gaining ground in international trade and holds the position as the largest exporter of various agricultural and mining products.



Source: Peruvian Institute for Entrepreneurial Action (IPAE) 2016

## MORE THAN MINING

The service sector -comprised of industries such as transportation and communication, education, finance services, and real state- is the one that contributes most to the GDP, surpassing mining and trade.



Source: Central Bank of Peru

Government type:  
**Representative Democracy**

## A COUNTRY WITH STRATEGIC LOCATION

Peru is located in central western South America, bordering the Pacific Ocean. This strategic location grants access to the world's most important trade zones.



### Currency

**Sol**

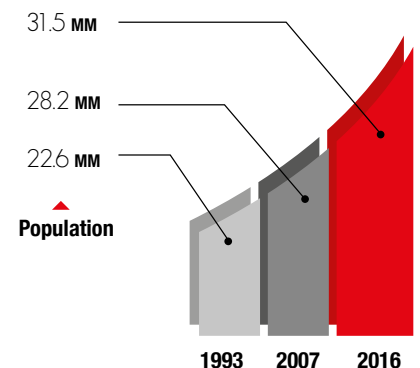
Foreign Exchange:  
**1 dollar = 3.3 soles**  
(December 2016)

**Inflation rate**  
**3.20%**

Source: Central Bank of Peru

## ...AND A YOUNG POPULATION

It is the 42nd most populated country in the world, with a youth majority. In 2016, 33% of Peru's total population was under 18 years old.



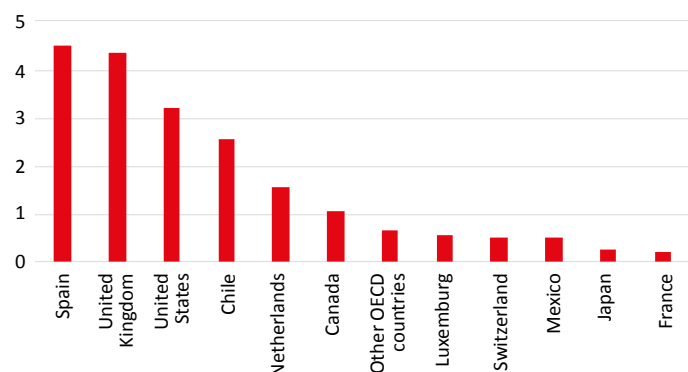
Source: Institute of Statistics of Peru (projections)

## ONE OF THE MOST BIODIVERSE COUNTRIES

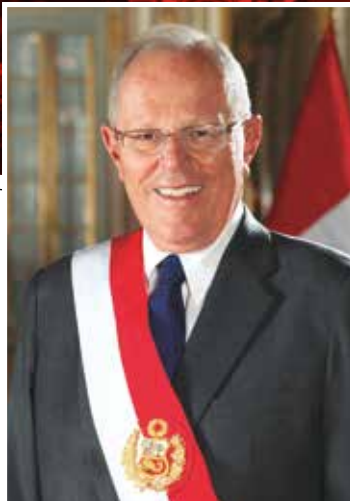
Peru is acknowledged as one of the **20 COUNTRIES** with **THE MOST BIODIVERSITY ON EARTH**, with **10% of the world's flora**, the second-most variation of bird species, and the third-most of amphibians and mammals.

## AN ATTRACTIVE COUNTRY FOR OECD INVESTMENT

Nearly 70% of Peru's stock of foreign investments comes from the OECD countries.



Source: ProInversion  
Note: In US\$ billions



Pedro Pablo Kuczynski  
President of Peru

## PERU: A Reliable Partner for the OECD

### Peru is advancing towards the modern world, **with the OECD!**

Over the last decades, Peru's government has engaged in reforms that have strengthened its institutions, improved services and product delivery to its citizens, and positioned the country as a global actor in international markets. Today, Peru is an upper middle-income country that embraces sustainable growth through the adoption of higher standards and international best practices. To this end, Peru started a Country Programme with the Organisation for Economic Cooperation and Development (OECD), which was accomplished successfully, demonstrating the readiness of our country to join the organization.

During the last twenty years, Peru has achieved outstanding progress by implementing sound fiscal and monetary policies, leading to the consolidation of a robust economy that has lifted 9 million people out of poverty. This economic growth has created new opportunities for local and foreign investors, in areas such as mining, agriculture, manufacturing, retail, and infrastructure, which has fueled a dynamic domestic market with an expanding middle class. As a result, Peru has overcome major financial crises and natural disasters through its design of better policies, while also improving public spending supported by Congress.

Internationally, Peru recognizes the increasing relevance of its trade relationship with the Pacific Rim and thus plays an active role as a member of the Asia Pacific Economic Cooperation (APEC). Similarly, the shared priorities of members of the Pacific Alliance and like-mindedness with OECD values have made this integration forum the most successful and advanced in Latin America. In fact, Peru's commitment to these values encouraged us to become Co-Presidents of the OECD Latin America and the Caribbean Programme, which we see as a catalyst for enacting reforms region-wide.

Peru acknowledges the importance of adopting responsible policies and adhering to the standards set out by the OECD. My strategy toward OECD membership is fully supported by our Congress and is a top priority of this administration. Our country's steady growth, respect for democracy and rule of law, and free market economy have positioned Peru as a reliable partner that can promote OECD values and standards globally.

Peru is advancing towards the modern world, with the OECD!



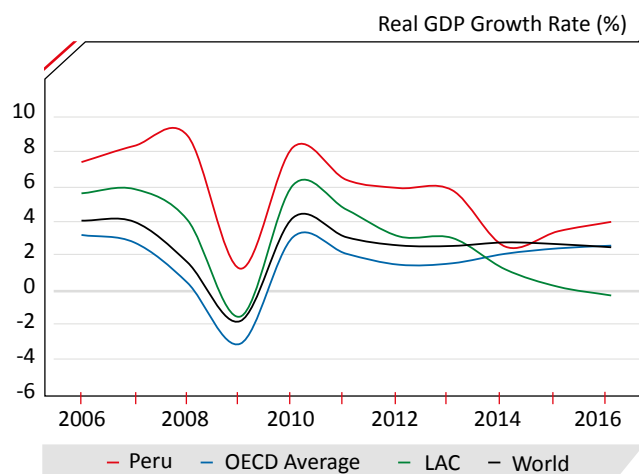
# A variety of successful experiences to share

30 years ago, Peru faced a political, economic and social crisis, with annual inflation rates of up to 1,000% and terrorist violence that entailed great human and economic losses. Thanks to a set of successful public policies that have laid the foundations for comprehensive and sustainable development, Peru has shown resilience in the face of economic and financial crises and has become a reference for stability and sound economic management throughout the region and beyond.

## 1

### REMARKABLE MACROECONOMIC MANAGEMENT

For two decades, the Peruvian economy has been among the most dynamic in the world. Between 1994 and 2016, Peru's annual Gross Domestic Product (GDP) growth rate averaged around 5% - a trend that has raised its growth potential and doubled the average income of its citizens. Peru has become a regional leader of macroeconomic stability due to the continuity of its sound monetary and fiscal policies. The inflation rate is close to 3%, while the fiscal deficit is below 3% of GDP. The country's debt remains below 25% of GDP and is one of the lowest in Latin America. Meanwhile, net international reserves are equivalent to one-third of the GDP, making them among the highest in the region and contributing to the country's strong investment grade rating, the second highest in Latin America. Further, according to the Global Competitiveness Report 2015-2016 of the World Economic Forum, Peru ranks 23rd out of 140 countries worldwide in terms of sound macroeconomic environment.



Source: Central Bank of Peru, OECD, IMF

#### "Peru is a Bright Spot on the Global Stage"

"There are far too few examples of good government these days"  
Time, December 1<sup>st</sup>, 2016

#### "Peru is one of the most vibrant economies in the world"

"IMF Director Christine Lagarde's first visit to Latin America was not to Brazil or Chile, but to Peru"  
IMF, December 3<sup>rd</sup>, 2011

## 2

### PRIVATE INVESTMENT AND THE TRANSFORMATION OF THE ECONOMY

The key pillar of Peruvian economic progress has been private sector development. Peru has carried out reforms spanning an array of topics, including increased privatization, equal treatment of foreign investment, tax stability contracts, improved labor market flexibility, tax simplification, reduction of administrative barriers, freer capital flows, trade liberalization, and investment promotion. As a result, private investment has steadily increased at annual rates of over 30% for much of the last

two decades. The increase of foreign direct investment has also been notable, and more than 69% of it comes from companies based in OECD countries. The alliance between foreign and domestic investment has allowed several Peruvian firms to consolidate their position in the Latin American market and around the world: Peruvian companies include the world's leader in glassware security for cars, the third largest producer of underground mining equipment, and the fourth largest soft drink bottler worldwide.

# 3

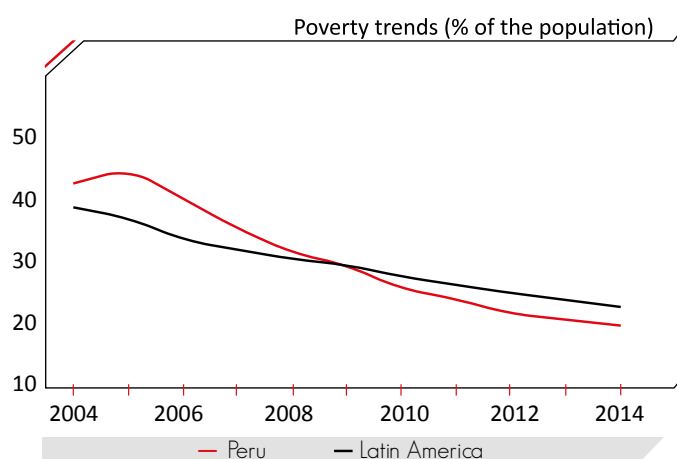
## STEADY GROWTH ALONG WITH DRAMATIC POVERTY REDUCTION AND SOCIAL INCLUSION

Peru has taken advantage of its sustained economic growth to achieve a substantial reduction in poverty. In 15 years, poverty rates fell dramatically from 58% to 22% in 2015, the most significant progress made in Latin America, pulling 9 million Peruvians out of poverty. Public policies and expenditure focused on improving living conditions of the poorest by using performance-based budgeting and targeted social programs. Performance-based budgeting approaches promoted safe pregnancy and birth, adequate health monitoring and nourishment for children, access to education, and food during regular basic education. Meanwhile, social programs focused on providing minimum incomes to the poorest families and the elderly, conditional on children's schooling and medical check-ups. Thanks to these efforts, poverty was significantly reduced and the middle class in Peru doubled in size- from 14% of the population in 2005 to 32% in 2015. Rates of growth for rural incomes grew at three-times the speed of urban incomes (reducing the gap between both areas), and almost one in four women joined the labor market.



"How has Peru cut its poverty rate in half in just ten years? Building on decades of economic growth, a policy of inclusive economics has meant many of the poorest in the country have shared in the prosperity created by the boom".

BBC, December 26<sup>th</sup>, 2016



Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and World Bank)

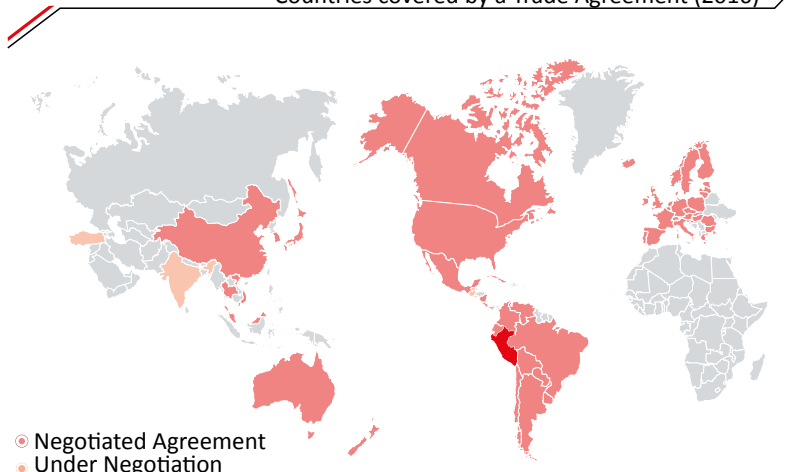
# 4

## TRADE LIBERALIZATION TO DIVERSIFY PRODUCTION AND DEVELOP NEW BUSINESS CLUSTERS

Trade liberalization is a distinctive element of Peru's growth strategy. Since 1990, the country has taken measures to promote international trade- first by reducing tariffs, and later by negotiating free trade agreements (FTA) with its main partners. In 2016, the Heritage Foundation ranked Peru as the 17th most open economy in the world. Peru's stability and pro-market reforms eased FTA negotiations with the USA, the EU, and China. Today, more than 90% of Peru's international

trade is covered by FTAs. This policy has allowed the consolidation of important industries (such as mining and fishing), as well as the development of new ones (such as agribusiness, clothing and metalworking). The export boom in these new sectors witnessed the creation of many new businesses expanding throughout the country: in 10 years, the number of exporting companies increased from 6,500 to 8,000 in 2016, and the variety of exported items increased from 747 to 1,328 over the same period.

Countries covered by a Trade Agreement (2016)



Source: Ministry of Trade and Tourism of Peru

### "Peru Leads Region in Putting New Faith in Global Trade"

"Parts of Latin America broaden embrace of globalization as U.S. veers toward protectionism"

WSJ, February 8<sup>th</sup>, 2017

## 5

## AS A BEACON FOR THE REGION, THE PACIFIC ALLIANCE SHARES THE OECD'S VISION AND VALUES

The Pacific Alliance is the main regional integration forum in Latin America. Peru is a founding partner, along with Chile, Mexico and Colombia, countries that are either OECD members or currently negotiating membership. In its six years of existence, the Alliance has become an example of how to promote investments, improve the quality of life of its citizens, and share good

public management practices. As a result, the forum has attracted the attention of 49 observer countries, including almost all OECD members. Due to Peru's engagement with the OECD, the influence of OECD standards and best practices in the Pacific Alliance --and hence throughout the Latin American region-- has been enhanced.



The growing Pacific Alliance

Join the club

"WORDS such as exciting, inspiring and intriguing are not often used to describe free-trade agreements, but they are being tossed around liberally in Latin America in a growing number of countries with Pacific coastlines."

The Economist April 29<sup>th</sup>, 2013

## 6

## GOOD GOVERNANCE AND BETTER PUBLIC SERVICE DELIVERY

Peru is committed to democracy, rule of law, and respect for fundamental human rights. The justice administration is autonomous and institutions guarantee transparent elections. The Government has been working to implement public governance reforms aligned with the 17 Sustainable Development Goals, the OECD Framework for Measuring Well-Being and the OECD Policy Framework for Investment. Thus, a special emphasis has been given to strengthening the Center of Government, multilevel governance, public integrity, open government, e-government and regulatory policy. To this end, a Vice-Ministry of Territorial Governance was created within the Presidency of the Council of Ministers (PCM) to coordinate national strategic policies from the Center of Government; the National Authority for Transparency and Access to Information was created; and the rules on legal persons' liability involved in bribery were reinforced. Additionally, gender equality is actively promoted in the public sector.



**"THE GOVERNMENT RECOGNIZES THAT A MORE PARTICIPATORY, TRANSPARENT, OPEN, EFFICIENT AND EFFECTIVE PUBLIC SECTOR IS ESSENTIAL TO MEETING CITIZENS' NEEDS SUCCESSFULLY"**

OECD PUBLIC GOVERNANCE REVIEW: PERU

OECD, 2016



7

## FREE CAPITAL FLOWS AND SUSTAINED **HIGH INVESTMENT** RATES

The large capital flows that have entered the country in the last 20 years have been encouraged by free movement of capital and the existence of a technical, independent, and solid monetary authority. The quality of this institution, within a context of general economic stability, has made possible the massive entrance of long-term capital in many industries, and its existence has minimized the risk of capital outflows in recent international crises. The inflow of foreign exchange through private investment has led to a strengthening of the local currency and a significant increase in the country's international reserves. The tools used by the monetary authority to reduce attractiveness of short-term capitals have generated a sound banking solvency level and increased companies' financing capacity, allowing corporate loans to increase five-fold between 2006 and 2016.



**“PERU'S CENTRAL BANK HAS MAINTAINED  
A **VERY PRAGMATIC APPROACH** THROUGHOUT  
THE EXTRAORDINARILY CHALLENGING PAST FEW  
YEARS”**

THE BANKER, JULY 6<sup>TH</sup>, 2010

A renowned **Central Bank**

2016

- › **The World's Best Central Banker**  
Global Finance
- › **The Best Central Banker in Latin America**  
Latin Finance
- › **The Best Central Banker in Latin America**  
Global Markets

2015

- › **Central Banker of the Year**  
The Banker (Financial Times)
- › **The World's Central Banker**  
Global Finance

2012

- › **Central Banker of the Year in Latin America**  
Emerging Markets (Euromoney International Investor PLC)
- › **Distinguished Service through the Year – Bravo Award**  
Latin Trade

2010

- › **Central Bank Governor of the Year**  
Emerging Markets (Euromoney International Investor PLC)

PERU:  
A Reliable Partner  
for the OECD

# An opportunity to continue making progress

## ➤ Benefits for the OECD

- ✓ Peru is a reliable partner with steady public policies. Its political stability, respect for the rule of law, and promotion of human rights have allowed the implementation of long-term policies that have shown resilience during the global financial crisis and, above all, achieved GDP growth and shared prosperity.
- ✓ Peru has successfully implemented policies combining economic growth, poverty reduction and social inclusion. Thus, Peru's experience may contribute to OECD discussions on public policy and encourage dissemination and implementation of OECD standards, for instance through the Regional Program for Latin America and the Caribbean, which Peru co-presides.
- ✓ Peru's outstanding economic performance has also had an impact on the financial markets: its capital markets have grown five-fold in 10 years and the financial system has grown 4 times in terms of placements. Also, Peru is considered to have the best environment for microfinance institutions by the Economist Intelligence Unit for the seventh year in a row.
- ✓ Peru is a key player in the international arena. It is a founding member of the Pacific Alliance and host of two APEC meetings (2008, 2016), the COP20 meeting (2014), the South America – Arab Countries Summit (ASPA, 2012), the Latin American WEF Annual Meeting (2013), and the IMF and World Bank Annual Meetings (2015), which returned to Latin America after 48 years. In addition, Peru will host the Summit of the Americas in 2018.

## ➤ Benefits for Peru

- ✓ The engagement with the OECD is an opportunity to strengthen Peru's institutional framework, with an aim to consolidate long-term development through policy dialogue and incorporate OECD best practices and governance standards.
- ✓ Peru will have access to invaluable sources of statistical, economic and social data, which will expand its ability for problem-solving using evidence-based measures.
- ✓ OECD standards will help Peru set a feasible road map to strengthen its performance on key issues, such as public service delivery, territorial development, the promotion of integrity in the public sector, the regulation of conflict of interests, and the development of open government and e-government principles.
- ✓ The ultimate goal of Peru's relationship with the OECD is to consolidate a public administration that serves all its citizens. The OECD's vast knowledge of efficient and effective administrations will catalyze Peru's learning process towards development.



# The OECD Country Programme in Peru

Peru has been engaged with the OECD to improve its public policies for the last two decades. In this context, in 2014, Peru signed an ambitious Country Programme (CP) with the OECD, which comprises 19 policy reviews, participation in 19 OECD committees and working parties, and the adherence to 12 selected OECD legal instruments. A Multi-ministerial Commission within the Executive Branch was created to lead this process and a Special Commission in Parliament was created to oversee the implementation of recommended reforms.

## Policy Reviews

### COMPLETED DURING THE CP

14

The Country Programme's 19 policy reviews cover five key areas for Peruvian development: i) economic growth, ii) public governance, iii) integrity and transparency, iv) human capital and productivity, and v) environment. As of the end of 2016, 14 studies have been completed through the Country Programme, including the Multidimensional Review, Public Governance Review, Public Integrity Review, Regulatory Policy Review, Territorial Review, the Assessment of Statistics and Statistical System,

### TO BE COMPLETED IN 2017

4

### TO BE COMPLETED IN 2018

1

among others. Two additional reviews were carried out prior to the Country Programme (the Investment Policy Review in 2008 and the Innovation Policy Review in 2011). The remaining reviews will be completed during 2017-2018, according to the Country Programme schedule. The policy reviews provide important recommendations to improve Peruvian policies and institutions, many of which have already been implemented by the Executive in coordination with Congress.

### COMPLETED BEYOND THE CP

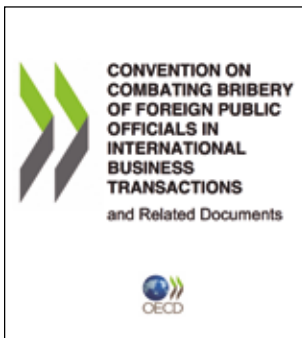
2



## Legal Instruments

### ADHERED DURING THE CP

6



As part of its commitment to OECD standards, Peru has requested adherence to several legal instruments in order to align the country's policies with best international standards. During the Country Programme, Peru has adhered to six legal instruments and has requested adherence to three legally-binding OECD instruments, triggering a revision of the Peruvian legal framework against the OECD

### ADHERENCE REQUESTED

3

### IN PROCESS OF ADHERENCE

3

### ADHERED BEYOND THE CP

21

Codes of Liberalisation of Capital Movements and Current Invisible Operations, the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the Convention on Mutual Administrative Assistance in Tax Matters. Additionally, Peru adhered to 21 other OECD legal instruments besides the ones included in the Country Programme.

## Participation in Committees and Working Groups

### PARTICIPATION DURING THE CP

19

As part of the Country Programme, Peru has been consistently participating in 19 committees and working groups, earning upgrades to its status from invitee to participant in the Territory Development Policy Committee and the Regulatory Policy Committee and from participant to associate in the Working Group on Bribery in International Business Transactions. Peru also participates in other committees and working groups beyond the

### PARTICIPATION BEYOND THE CP

7

Country Programme, including as the vice-chair in the Governing Board of the Development Centre; associate to the Working Party on Responsible Business Conduct; participant in the Committee on Consumer Policy, the Competition Committee and the Joint Working Party on Agriculture and Trade; and invitee in the Fishery Committee and the Working Group on State Ownership and Privatisation Practices.



# PERU: A Reliable Partner for the OECD

## ➔ Implementation of OECD's Recommendations

Both the Executive Branch and Congress –with a majority of votes in the hands of the opposition– have pledged to continue the advancement of more reforms aimed at adopting the OECD's recommendations. Some of the reforms already enacted include:

- ✓ The Government has begun a review of administrative procedures, and all Executive Government institutions issuing rules are now required to conduct an analysis of regulatory quality.
- ✓ The Presidency of the Council of Ministers has been restructured in order to strengthen the center of government.
- ✓ Legal measures have been adopted to strengthen protection for whistleblowers in cases of corruption.
- ✓ The legal framework on legal persons' liability involved in foreign bribery has been reinforced.
- ✓ The Tax Code has been modified to facilitate the exchange of information with other countries for tax purposes.
- ✓ New legislation has been enacted on water quality, waste management, mining and fishing.

N° of Legislative  
Decreets **Approved**

Topics

**8** Environmental  
management

- › Solid waste management
- › Water and sanitation
- › Artisanal fishery
- › Informal and artisanal mining

**4** Economic and  
fiscal policies

- › Automatic exchange of tax information and mutual administrative assistance
- › Base erosion and profit shifting, transfer pricing and tax avoidance

**6** Public governance  
and regulatory  
policy

- › Governance of public-private partnerships
- › Interoperability, administrative simplification and service improvement
- › Transparency and access to information

**6** Public Integrity

- › International bribery
- › Whistleblower protection
- › Strengthening institutions to fight corruption
- › Integrity and public ethics
- › Prevention of money laundering and terrorism financing

**5** Territorial  
development

- › Better regional planning integrated with the fiscal framework
- › Urban policy
- › Rural policy and growth

## PERU'S ENGAGEMENT WITH THE OECD

Peru's engagement with the OECD has a long-term history that denotes an orderly process to become a member of the organization.



### OECD's core values shared by Peru

**Objective:** Our analysis and recommendations are independent and evidence-based.

**Open:** We encourage debate and shared understanding of critical global issues.

**Bold:** We dare to challenge conventional wisdom starting with our own.

**Pioneering:** We identify and address emerging and long-term challenges.

**Ethical:** Our credibility is built on trust, integrity and transparency.





Trabajando para  
todos los peruanos



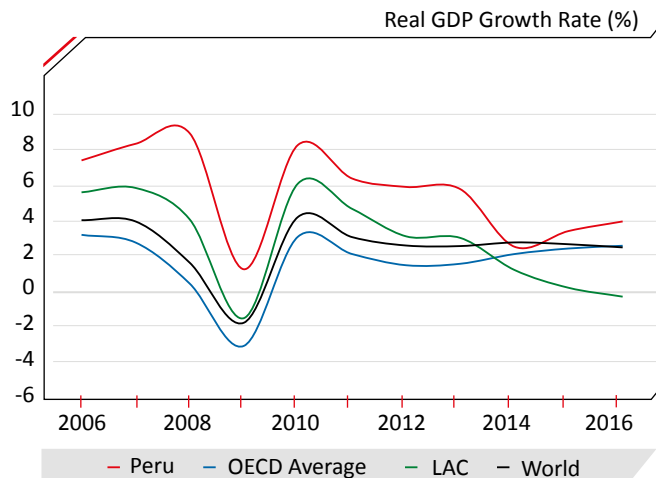
## Gobierno del Perú



PERU: A RELIABLE PARTNER FOR THE OECD

## SOUND ECONOMIC POLICIES AND GROWTH

**FOR THE LAST DECADE, THE PERUVIAN ECONOMY HAS BEEN AMONG THE MOST DYNAMIC IN THE WORLD...**

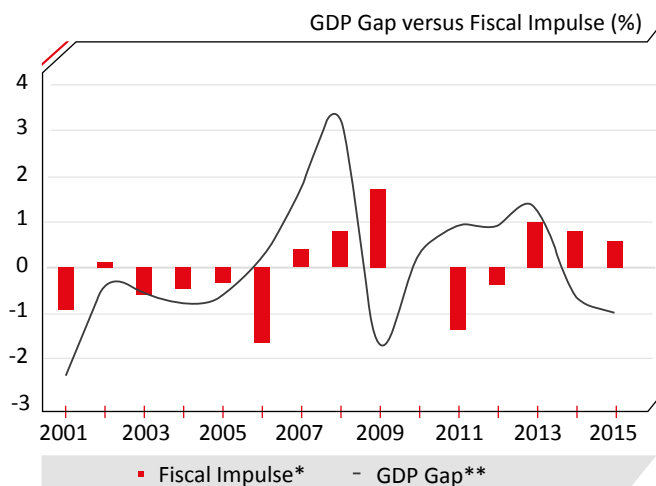


Source: Central Bank of Peru, International Monetary Fund, OECD

Peru's sound macroeconomic policies and structural reforms, supported by favorable external conditions, have rendered significant economic growth. Peru's economy has advanced by nearly 6% per year during the last decade, and by 4.7% per year over the last two decades.

This context allowed for an increase in domestic savings, which, complemented with Foreign Direct Investments (FDI) to the tune of 5% of Gross Domestic Product (GDP) on average over the last ten years, have transformed the landscape in mining, agribusinesses, services and commerce.

**A COUNTERCYCLICAL FISCAL STANCE HAS SUPPORTED THIS GROWTH...**



Source: Ministry of Economy and Finance of Peru

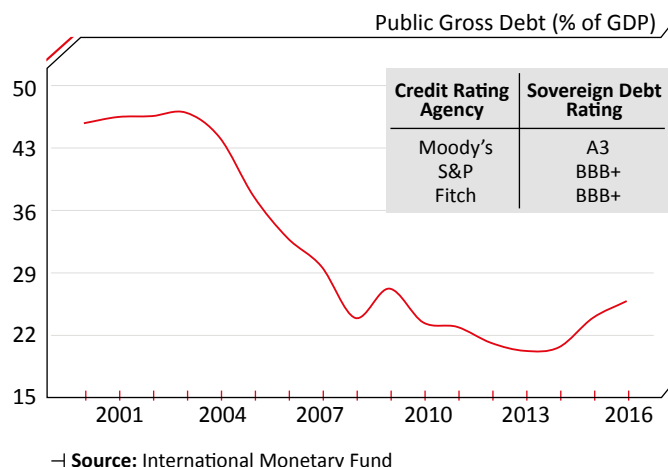
\* Annual variation of the structural fiscal deficit

\*\* Difference between actual and potential GDP growth

Peru's countercyclical fiscal policies have helped to cushion the impacts of the international financial crisis. Peru has accumulated surpluses during booming years, which has allowed for its current expansionary fiscal policy. This has helped to maintain resilient growth in Peru, even as global economic activity has slowed down.

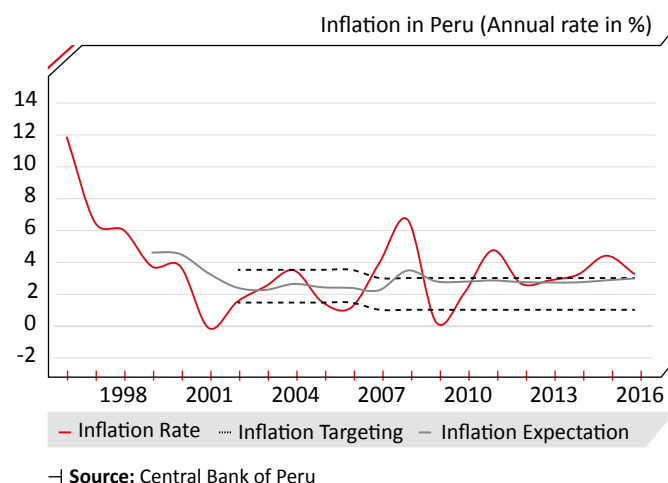
Peru's inflation targeting regime has also allowed monetary policy to be countercyclical and inflation expectations remain well-anchored. Both monetary and fiscal policy have contributed to stabilizing the economy, lowering inflation expectations, and increasing domestic savings from just above 10% of GDP in the early 1990s to 24% in 2014.

### ...AND DEBT MANAGEMENT HAS ALSO BEEN COMMENDABLE



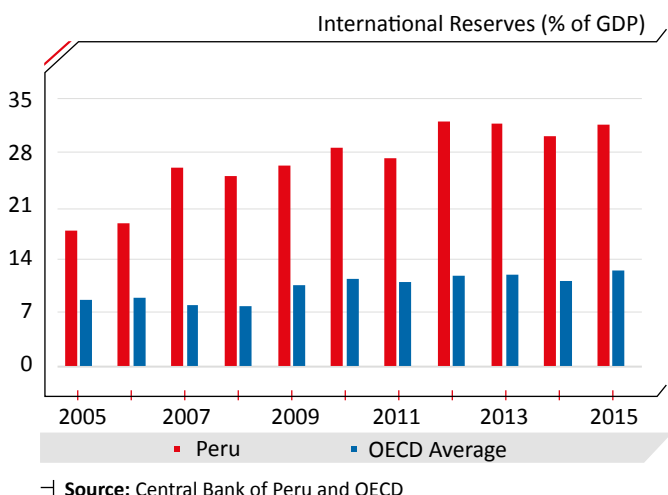
At 24% of GDP, Peru's gross public debt remains one of the lowest in the region and net debt (discounting public sector assets) is even lower at approximately 8% of GDP. Markets have recognized Peru's prudent macroeconomic policies and good track record implementing structural reforms by continuously upgrading its sovereign debt ratings with positive or stable outlooks, which are among the highest in the region according to Standards and Poor's, Moody's and Fitch. Likewise, Peru's credit risk—measured by the Emerging Markets Bond Index (EMBI) Global Sovereign Yield Spreads—has fallen from 600 basis points in 2000 to only 200 in 2016, among the lowest in Latin America.

### PERU'S INFLATION EXPECTATION REMAINS WELL-ANCHORED THANKS TO ITS INFLATION TARGETING REGIME...



As a policy response to manage macroeconomic challenges, the Central Bank of Peru (BCRP) adopted an Inflation Targeting regime in 2002, becoming the first authority to implement this framework in a partially dollarized economy. The BCRP has also implemented measures to reduce levels of dollarization in the economy, which has led to a decline in the credit dollarization rate from 50% in 2010 to less than 30% by July 2016. The inflation targeting regime, supported by a sound fiscal policy, has allowed Peru to stabilize and anchor inflation expectations and maintain low inflation rates: the average headline inflation reached 3.6% in 2016, the second-lowest inflation in the region.

### ...AND THE COUNTRY HAS A COMFORTABLE EXTERNAL BUFFER TO FACE EVENTUAL FUTURE SHOCKS



Peru saved a significant share of the commodity-boom gains experienced in the 2000s, accumulating international reserves to face external and internal shocks. Currently, these reserves represent almost one-third of Peru's GDP, a higher percentage than in other comparable Latin American economies. These reserves are equivalent to 21 months of imports, also higher than the coverage levels of these regional neighbors. Peru's international reserve levels are on average twice as high compared to those of OECD countries over the past 10 years.

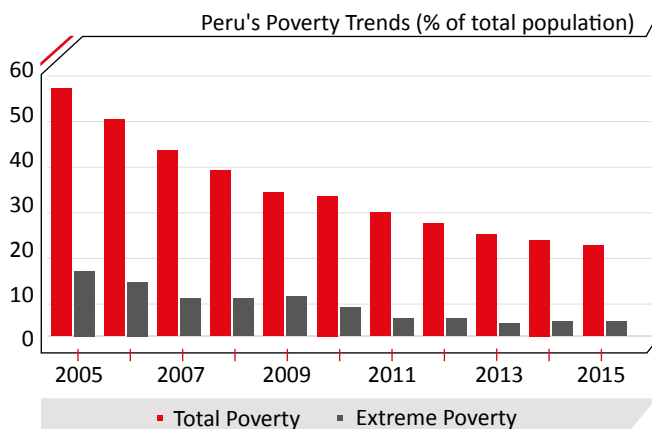




## Gobierno del Perú

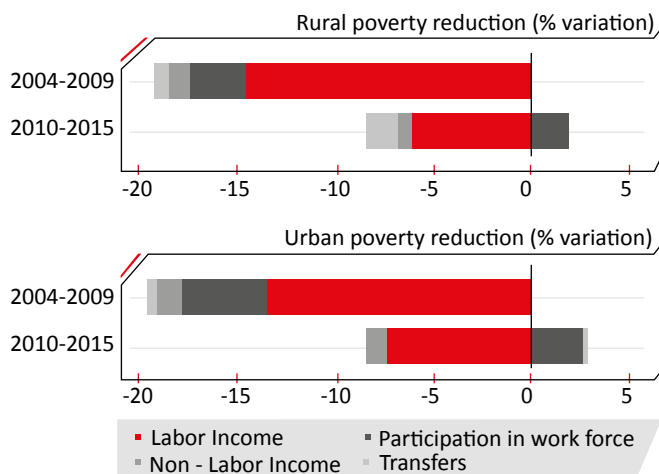


PERU: A RELIABLE PARTNER FOR THE OECD

IMPROVED  
LIVING  
CONDITIONSPERU'S GROWTH HAS BEEN **STRONGLY PRO-POOR AND EQUITABLE...**

Source: Institute of Statistics of Peru

The percentage of Peruvians living in poverty and extreme poverty has drastically declined over the last decade. Between 2004 and 2015, poverty in Peru shrank by more than half (from 58% to 22%) --pulling nine million Peruvians out of poverty. Extreme poverty also fell from 16% to 4% during the same period, while the middle class expanded by 18%, outnumbering the poor in 2013.

**HIGHER LABOR INCOME WAS THE PRIMARY DRIVER OF POVERTY REDUCTION...**

Source: World Bank Systematic Country Diagnostic (2016)

Labor income from agriculture, mining, services and utilities, together with transfers, contributed to this dramatic decline in poverty. In rural areas, non-labor incomes and cash payments from safety nets established over the past ten years helped to alleviate extreme rural poverty. Over the period 2009 – 2015, average real expenditure per person in rural areas increased by 32.2% (showing greater purchasing power); while average monthly real income per person in the country increased by 24.9%.

## ...LEADING TO A MORE **EQUITABLE COUNTRY**

Peru's Poverty Trends ( % of total population )









	2005			2015	
	LAC	Peru		LAC	Peru
Upper Class	1.9	1.1	Upper Class	2.9	1.3
Middle Class	21	14.2	Middle Class	32.8	32.3
Lower Class	77.1	84.7	Lower Class	64.3	66.4

Source: Interamerican Development Bank

Income per capita grew 85% on average over the last ten years, significantly increasing the country's middle class population, while unemployment has fluctuated around 4% since 2004. This reduction in income disparity has translated into an improved quality of life for millions of Peruvians as they join the middle class. The thriving middle class has also accelerated production and delivery of services, meeting the growing demand of its population.

## PERU'S NATIONAL STRATEGY TO IMPROVE LIVING STANDARDS IS IMPLEMENTED **THROUGH KEY SOCIAL PROGRAMS...**

Main Social Programs

	Target (Years of age)	Change in the Budget (Millions of US\$)	Change in Beneficiaries (Thousands of people)	International Standard ISO 9001
 Cuna Más	0 - 3	99	262	-
 Qali Warma	3 - 12	315	379	-
 Juntos	0 - 17	151	325	
 PRONABEC	17+	328	69 <sup>2</sup>	
 Pensión 65	64+	283	480	

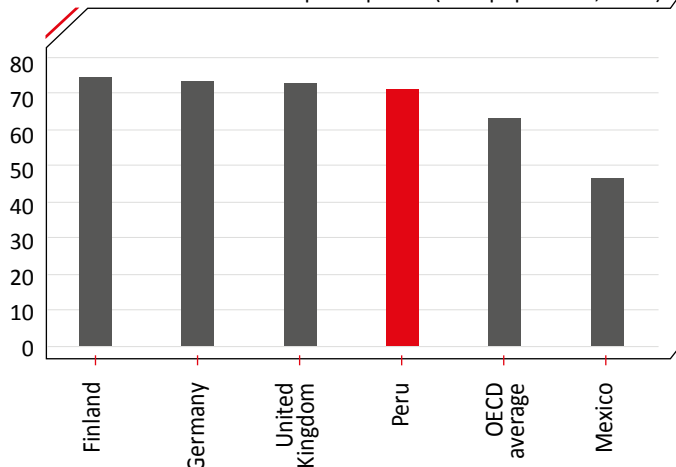
Source: SIAF - Ministry of Economic and Finance of Peru

Social programs in Peru apply a life-cycle approach, with programs covering the full chain of human development: from birth, childhood and youth, to adulthood and old age. These social programs aim to improve the quality of life for vulnerable populations within Peru and are aligned with the following key values:

- a) Development of skills and respect for fundamental human rights.
- b) Promotion of opportunity and economic capacity.
- c) Establishment of a social safety net.

## PERUVIAN WOMEN ARE **ACTIVE CONTRIBUTORS** TO ECONOMIC ACTIVITY AND DECISION-MAKING IN THE POLITICAL SPHERE...

Female labor force participation (% of population, 2015)



Source: OECD and Institute of Statistics of Peru (Household National Survey)

Peruvian women's participation in the work force – at 72% of the working age population – compares with developed countries such as the UK, Germany, and Finland. Public policy efforts have encouraged this trend, including a legal mandate for the equal treatment of men and women in areas affecting economic opportunity and entrepreneurship, as well as protections against sexual harassment in public spaces, according to the World Bank Group's *Women, Business, and the Law 2016* report. Though still in the minority, women also make up a significant share of political-decision makers, with nearly 30% of Congressional members (slightly above the OECD average) and strong female players at the highest political levels, including the President of Congress.



Gobierno del Perú

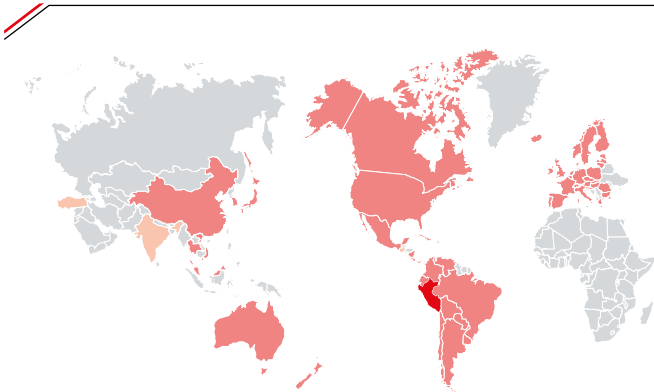


PERU: A RELIABLE PARTNER FOR THE OECD

**OPEN DOORS**  
FOR GLOBAL  
TRADE

**MORE THAN 90% OF PERU'S INTERNATIONAL TRADE IS COVERED BY TRADE AGREEMENTS...**

Countries covered by a Trade Agreement with Peru (2016)

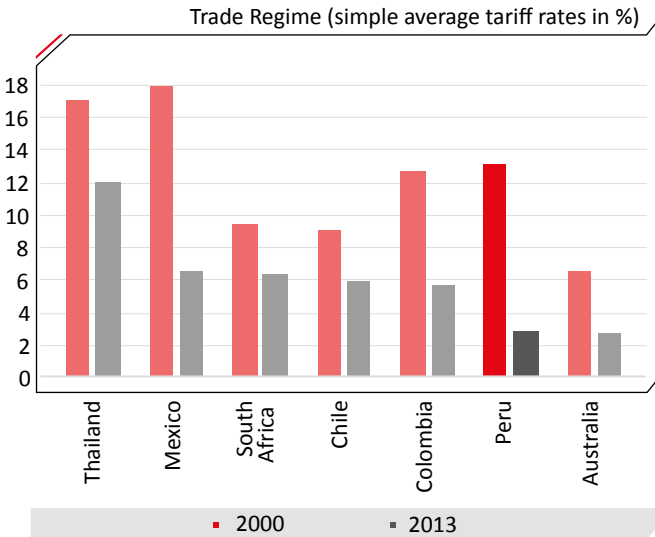


● Negotiated Agreement  
● Under Negotiation

Source: Ministry of Trade and Tourism of Peru

Peru has one of the world's most liberal trade policy regimes, with 19 preferential trade agreements in force with 53 countries worldwide. It is a member of several economic cooperation blocks, including the Pacific Alliance, which is the most successful integration effort in Latin America, and the Asia-Pacific Economic Cooperation (APEC), which includes 21 members of the Pacific Rim housing 41% of the world's population and 44% of the world's trade. As a result, Peru's negotiated agreements encompass three quarters of the world GDP.

**PERU HAS AN INCREASINGLY LIBERALIZED TRADE REGIME...**

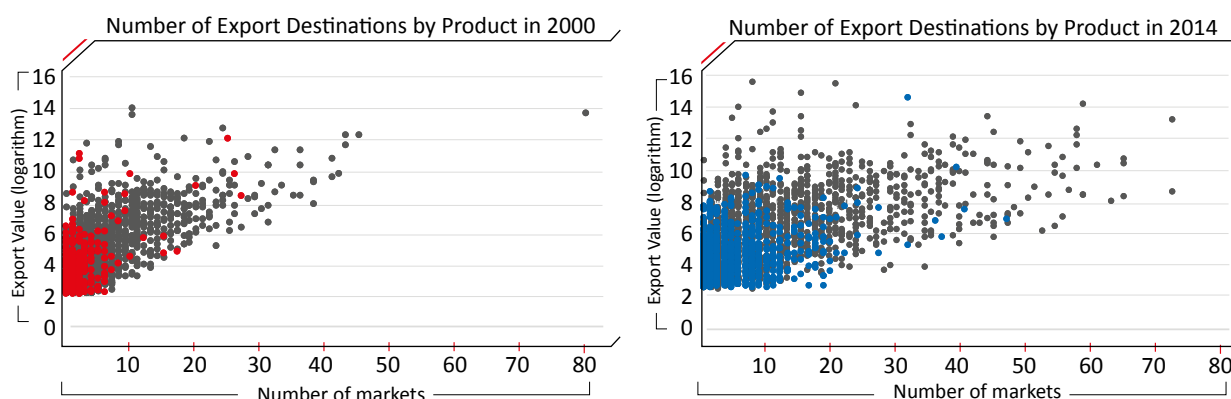


Source: World Integrated Trade Solution

Deep and comprehensive reforms that began in 1990 have led to a sharp cut in tariffs, elimination of most non-tariff barriers, and liberalization of services. In 2017, Peru ranked 17th out of 180 economies worldwide on commercial freedom, according to the Heritage Foundation. Peru has also modernized its Customs legislation by introducing key elements of the revised 2006 Kyoto Convention and the 2014 Bali WTO Trade Facilitation Agreement, particularly on improving the Authorized Economic Operators (AEO) regime and adopting a more targeted system of risk management and penalties.



### ...WITH AN INCREASING NUMBER OF PRODUCTS BEING EXPORTED



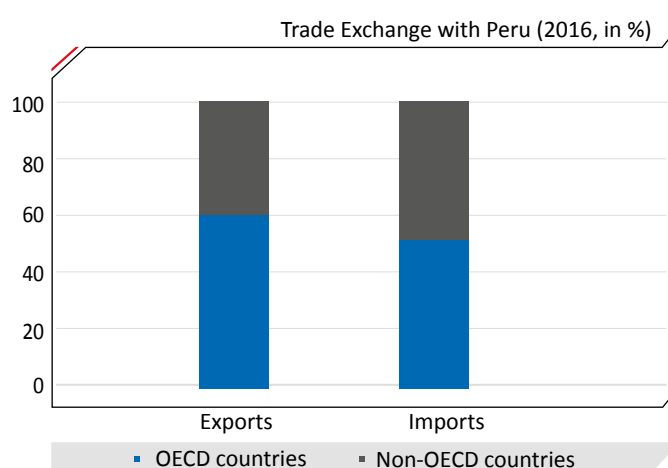
Source: Analysis of Selected Export Competitiveness Issues. World Bank, 2016  
 Note: Graph excludes mineral exports. Each dot represents a product defined by HS6 Code.

Even though minerals and metals are still prominent in Peru's exports basket (e.g. copper, gold, zinc, silver, and tin), economic diversification has increased in the last years. Between 2000 and 2014, the number of exported Peruvian products grew from 747 to 1,328 products (defined at the HS-6-digit level) --which currently reach 118 markets around the world. Export of new products (represented as blue dots in the 2014 graph) have outnumbered products that are no longer exported (represented as red dots in the 2000 graph). The

bulk of "non-traditional exports" include mainly vegetables and food products (fishmeal, asparagus, avocados, grapes, and coffee), as well as apparel and textiles.

Focusing on improving its relative comparative advantage, Peru has increased its market share in 5 of its 10 top exports, becoming a leading exporter worldwide in a variety of products: first exporter of asparagus and artichoke; second exporter of copper, silver, and avocado; third of zinc and mango; and fourth of tin and lead.

### PERU IS A RELIABLE TRADE PARTNER FOR MANY OECD MEMBERS



Source: Central Bank of Peru, TradeMap

In the last 20 years, Peru has multiplied its trade volume by ten-fold, reaching the equivalent of 45% of GDP in 2015. Such an increase was made possible by the significant expansion of world trade, which Peru could take advantage of in part due to i) a liberal trade regime, ii) the participation of economic integration organizations, and iii) the negotiation of free trade agreements, starting with the first modern free trade agreement with the United States in 2009.

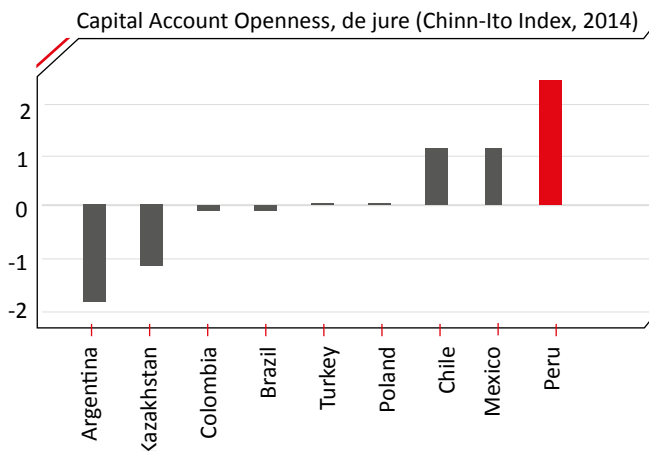
Peru is particularly engaged with OECD member countries, who account for 56% of Peruvian trade – most notably, the United States, Canada, Switzerland, Japan, Spain and Korea. Among some of the most popular exports to these countries are the non-traditional products, such as asparagus, grapes, and avocados; as well as traditional products such as gold, silver and tin.



## Gobierno del Perú



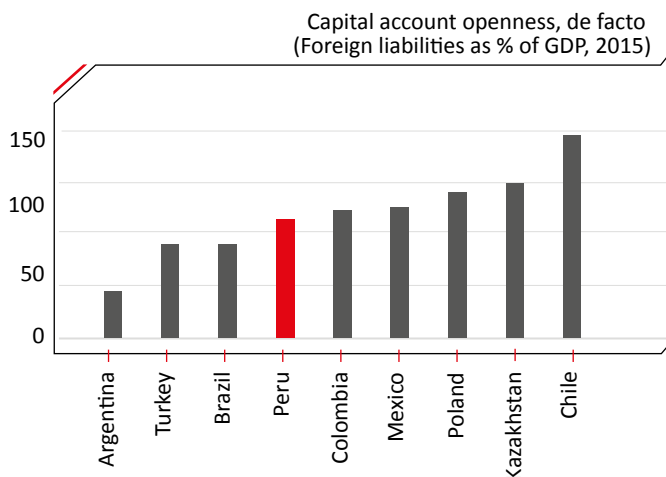
## PERU'S CAPITAL ACCOUNT IS VERY OPEN...



— Source: Chinn, Menzie D. and Hiro Ito (2006) based on the Annual Report on Exchange Arrangements and Exchange Restrictions, International Monetary Fund

- The openness of Peru's capital account within the balance of payments is shown by the Chinn-Ito Index of the IMF, which measures rules pertaining to cross-border investments. Peru is the most open country among the selected regional and OECD member comparator countries.

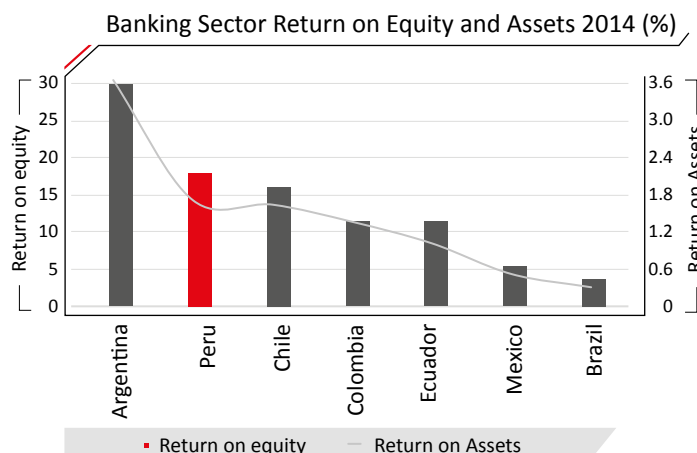
## ...WHICH HAS PROMOTED DYNAMIC CAPITAL FLOWS



— Source: International Investment Position, International Monetary Fund

- As a measure of actual capital inflows, the foreign liabilities in Peru are in line with the same group of comparators. Peru has been a recipient of long-term capital flows for more than 20 consecutive years. Likewise, investments as a proportion of long-term capital are currently greater than long-term loans, which may create an interesting dynamic in the coming years for capital flows intending to remain in Peru.

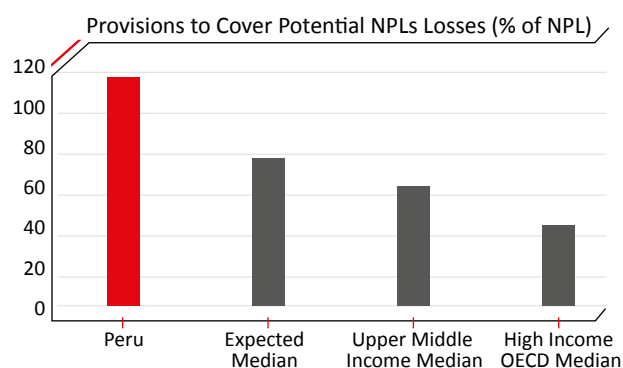
## PERU HAS MAINTAINED A PROFITABLE, WELL-CAPITALIZED, AND RESILIENT FINANCIAL SECTOR...



Source: World Bank, Financial Intermediation Report (mimeo), 2016

The ratio of capital to risk-weighted assets remained stable at 15% as of December 2016. The banking system's return on equity reached 19.9% in December 2016, among the highest in the Latin America and Caribbean region. Moreover, the banking sector credit has more than doubled over the last ten years, deepening savings-investment intermediation.

## ...AND GOOD QUALITY OF THE BANKING SECTOR'S PORTFOLIO



Source: World Bank, Financial Intermediation Report (mimeo), 2016

The non-performing loans (NPLs) ratio in 2016 was only 2.9% for banks and 3.1% for the financial system as a whole—including banks, municipal credit unions, and other lending institutions (excluding cooperatives). The ratio of provisions to overdue loans for banks remains high at 118%, which is strong compared to other similar economies. Furthermore, according to the 2010 Financial Sector Assessment Program (FSAP) update of the World Bank Group and IMF, Peru's legal framework for bank resolution is in line with best international practices.

## PERU IS A GLOBAL MODEL FOR PROMOTING REGULATION, INNOVATION AND COLLABORATION TO INCREASE FINANCIAL INCLUSION

Ranking of Financial Inclusion 2016  
(Normalised score 0-100, where 100=best)

"<-->" No change in rank, Δ denotes a change

Position	Variation of position 2015	Country	Score/100
1	<-->	Peru	89
1	Δ1	Colombia	89
3	Δ1	India	78
3	<-->	Philippines	78
5	<-->	Pakistan	63
6	<-->	Chile	62
		World Average	49

Source: Global Microscope 2016 - The Economist Intelligence Unit

Peruvian authorities have established an enabling and fair marketplace for non-banking financial institutions, in part by introducing legislation that enables e-money providers and new financial products to thrive. Continuation of reforms initiated in the 1980s have laid the foundation for microfinance businesses to develop and mature, consolidating Peru's position as a global leader and pioneer of financial inclusion since 2008, according to the annual ranking published by the Economist Intelligence Unit's Global Microscope.





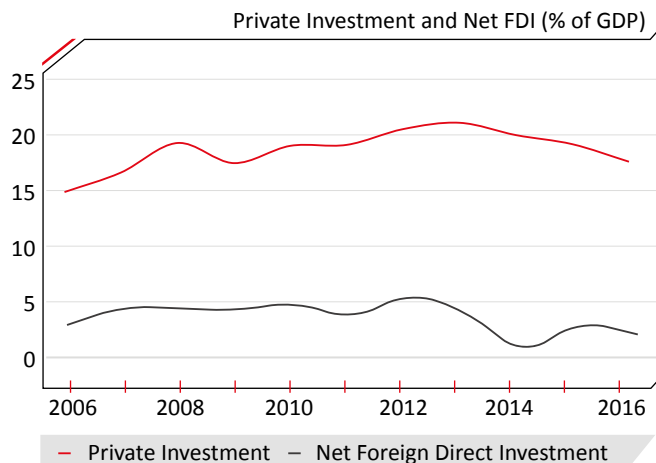
## Gobierno del Perú



PERU: A RELIABLE PARTNER FOR THE OECD

## MORE BUSINESS WITH AND FOR THE WORLD

### PERU HAS MADE EFFORTS TO PROMOTE PRIVATE SECTOR DEVELOPMENT...

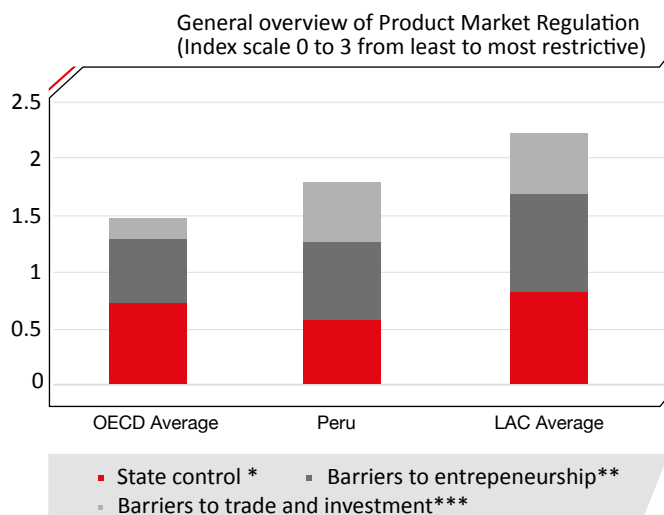


Source: Central Bank of Peru

Peru has carried out a series of reforms to stimulate private sector development, including measures to enable privatization, equal treatment for domestic and foreign investors, tax stability options for large private investments, labor market flexibility in certain markets (such as agribusiness), tax simplification, reduction of administrative barriers, free capital mobility, and continuous expansion of free trade and investment agreements.

As a result of these efforts, Peru has maintained rates of private investment to GDP of about 19% over the past decade.

### PERU'S REGULATORY ENVIRONMENT IS FRIENDLIER THAN THE LATIN AMERICAN AVERAGE



\* Measuring public ownership and government involvement in business operations.  
 \*\* Measuring complexity of regulatory procedures, administrative burdens on start-ups, and barriers to competition.  
 \*\*\* Measuring explicit or indirect restrictions to trade or investment.

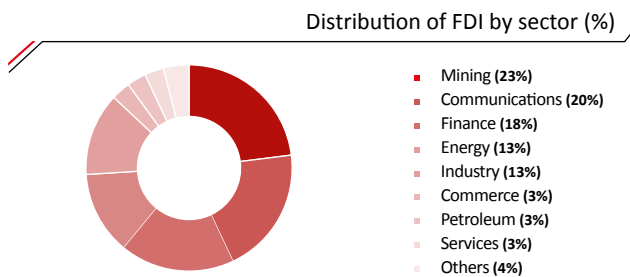
Source: OECD and World Bank (2015)

According to the OECD Product Market Regulation Index, Peru's product market regulation is more enabling than many non-OECD and LAC countries, though it is still more restrictive than in OECD countries on average.

In comparison with OECD countries, businesses operating in Peru face more complex regulatory procedures, but State involvement is less prevalent. Peru's National Institute for Competition and Promotion of Intellectual Property (INDECOPI) enforces competition and intellectual property law, eliminates regulatory barriers, and protects consumers across the country.

## PERU: A RELIABLE PARTNER FOR THE OECD

### PERU HAS ATTRACTED SIGNIFICANT AMOUNTS OF FOREIGN DIRECT INVESTMENT (FDI)...

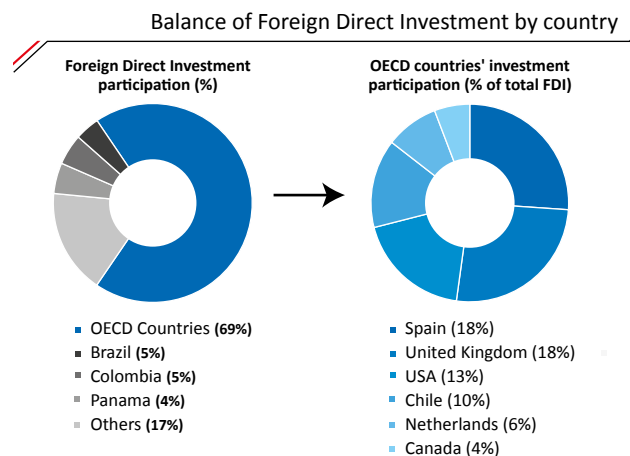


The stock of foreign direct investment has grown from US\$12 billion in 2000 to more than US\$24 billion in 2016. The mining boom and business opportunities in the country helped to spur private investments in upstream sectors such as chemicals, metal products, electricity and gas, land transport, as well as telecommunications and financial services.

Source: ProInversion 2016

Note: FDI balance in Peru as contribution to share capital, updated as of June 30, 2016.

### ...WITH A SIGNIFICANT PORTION COMING FROM MULTIPLE OECD COUNTRIES



Led by investments from the United Kingdom, Spain, the United States, and Chile, FDI contributed by OECD countries make up almost 70% of Peru's stock of foreign investments. OECD countries invest most in mining (19%), telecommunications (20%), and financial sectors (16%).

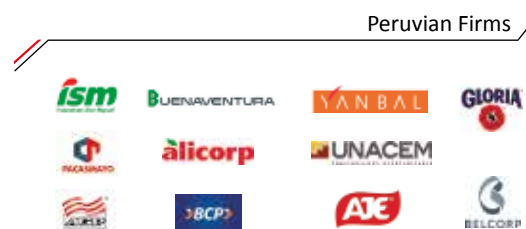
Source: Central Bank of Peru

Note: The countries in blue shades belong to the OECD.

### MANY INTERNATIONAL FIRMS HAVE SUCCESSFULLY ESTABLISHED IN PERU, WHILE SOME PERUVIAN FIRMS HAVE EXPANDED ABROAD



Peru's market is open to foreign competition and investment. Many foreign firms play a leading role in a range of sectors, including wholesale and retail trade, mining, electricity, oil and gas, and port logistics. At the same time, many Peruvian firms have increased their productivity and competitiveness as they move to international markets. Peru's enabling environment for international business has allowed both foreign and domestic firms to thrive in an international context.





## Gobierno del Perú



PERU: A RELIABLE PARTNER FOR THE OECD

# GOOD GOVERNANCE FOR INCLUSIVE GROWTH

### PROGRESS MADE IN PUBLIC GOVERNANCE

In 2013 the Government approved the National Policy on Public Management Modernization (NPM), whose goal is to consolidate an efficient, inclusive and open public administration.

Some of the key components of the NPM include the following:

#### a) Improve planning and foresight capacity at all government levels

The National Strategic Planning Center (CEPLAN) is responsible for coordinating public policies with strategic and operational plans in line with the country's priorities. The National Strategic Development Plan establishes the priorities guiding government decisions and actions in order to achieve development goals by 2021.

#### b) Adopt performance-based budgeting for public resource allocation

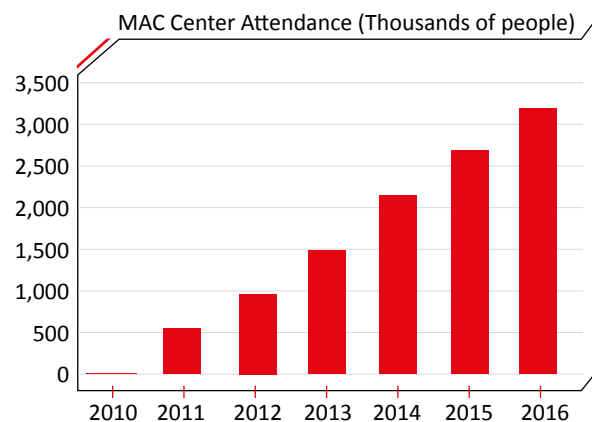
Peru's performance-based budgeting seeks to improve the efficiency of resource allocation to programs across the territory. In 2016, 62% of the national budget was allocated to 90 programs related to health, education, safety, labor, and production.

#### c) Build a transparent and accountable government

Peru has been part of the Open Government Partnership since 2012. Under the Transparency and Access to Public Information Act, enacted in 2002, all public entities are obliged to implement and update the Standard National Portal, which contains information on institutional management expressed in simple and clear language to promote transparency within the public administration.

#### d) Provide services to citizens more efficiently

The Citizen's Service Centers (MAC) are integrated platforms in which the government has grouped 92 highly-demanded services provided by 21 public entities, including tax payments, taxpayer identification registration, issuance and duplication of national ID cards and passports, and issuance of various certificates.

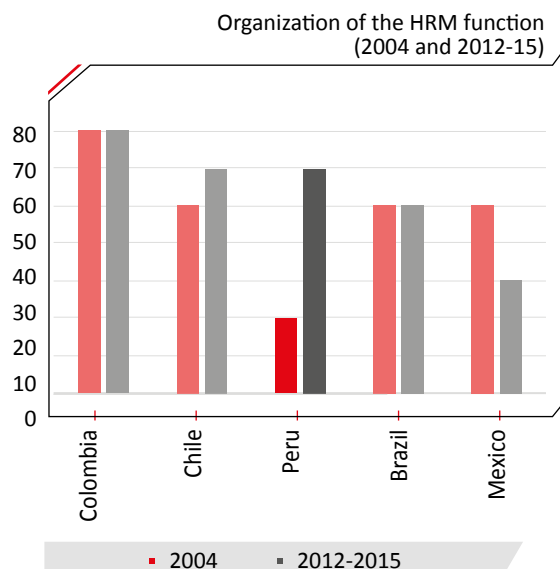


Source: Presidency of the Council of Ministers of Peru  
Note: Includes MAC North Lima, MAC Callao, MAC Ventanilla y MAC Piura (2010-2016)

#### e) Improve and professionalize the civil service

Through its civil service reforms, Peru established the National Civil Service Authority (SERVIR) and set out a single, flexible and meritocratic public employment regime. According to the Inter-American Development Bank (IDB), between 2011 and 2015, Peru rose from 29 to 41 points (out of 100) in the Civil Service Development Index, reflecting the impact of these reforms.

In addition, according to the Human Resources Management Index (HRM) of the IDB, countries with high scores – such as Peru – tend to have a stronger civil service agency at the central level and a more capable and professional line management across the administration. Only a handful of countries in Latin America (Peru among them) have carried out policies to strengthen the senior management levels of the public administration.



Source: Inter-American Development Bank

## A NEW PHASE IN ITS PURSUIT OF MORE EFFECTIVE GOVERNANCE

While officially declaring 2017 the “Year of Improved Public Service Delivery”, the Government has enacted several reforms aiming at adopting OECD public governance standards and recommendations, including:

### a) Center of Government

The Presidency of the Council of Ministers (PCM) has been restructured. Public institutions under the purview of PCM whose functions are not at its core are being transferred to other ministries. Also, the Vice-Ministry of Territorial Governance and a Delivery Unit have been created.

### b) Digital Government

The Secretary of Digital Government was created to enhance collaboration and coordination among government institutions. The National Open Data Strategy has been approved and National Open Data Portal launched.

## PERU: A RELIABLE PARTNER FOR THE OECD

### c) Multilevel Governance

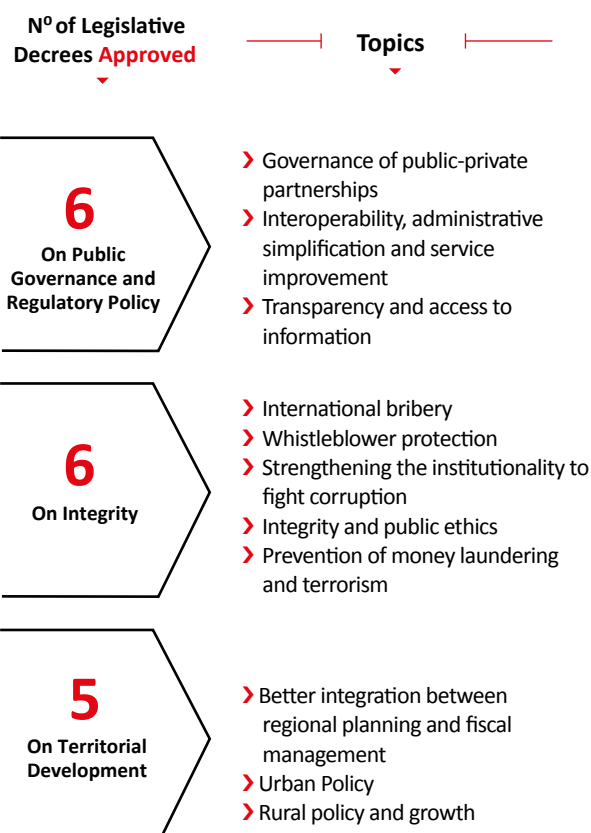
The government created a new structure (Gobiernos Regionales – Executive GORE) to systematize the policy reform agenda between the national and regional governments and to decentralize and monitor reform efforts. Regional Development Agencies have recently been created and have begun operations.

### d) Public Integrity and Transparency

A National Authority for Transparency and Access to Information has been created. The Government has adopted legal measures to strengthen protection for whistleblowers. The legal framework to prevent foreign bribery has also been reinforced.

### e) Regulatory Policy

The Peruvian Government has begun a review of administrative procedures, to be performed over the next two years. In addition, all Executive institutions issuing rules conduct an analysis on the quality of new regulation.







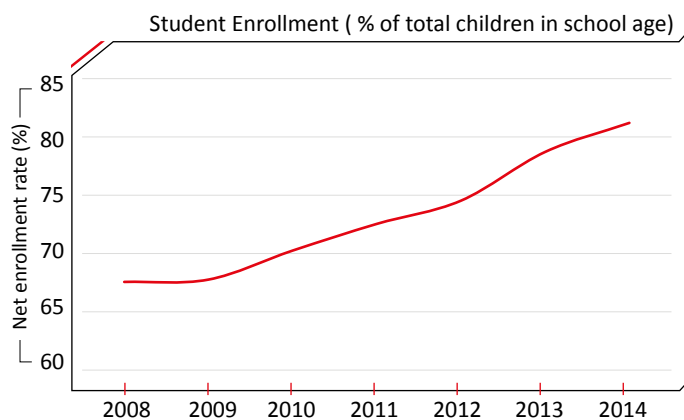
Gobierno del Perú



PERU: A RELIABLE PARTNER FOR THE OECD

## EDUCATING FOR THE 21<sup>st</sup> CENTURY

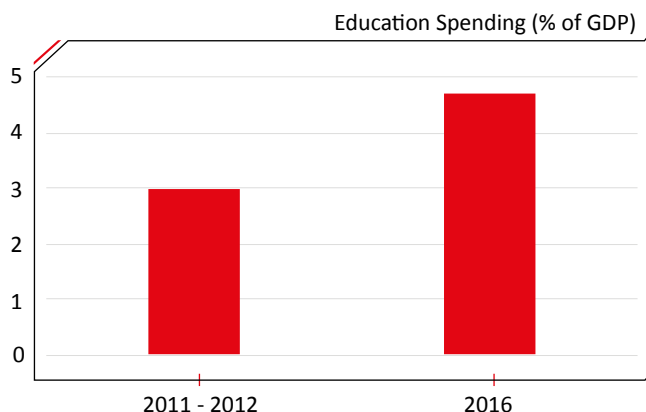
### PERU HAS RAISED LEVELS OF **COVERAGE IN EDUCATION**



— Source: Ministry of Education of Peru

- Improving the quality of basic education is at the center of Peru's strategy to reduce poverty and inequality by equipping students with the necessary skills to thrive in the labor market. Higher spending in education and an increase in the proportion of certified teachers has helped to increase net enrollment for pre-primary education (3–5 years) from 54% in 2001 to 83% in 2014, and in secondary education from 69% to 83% over the same period. Coverage rates do not differ significantly between males and females.

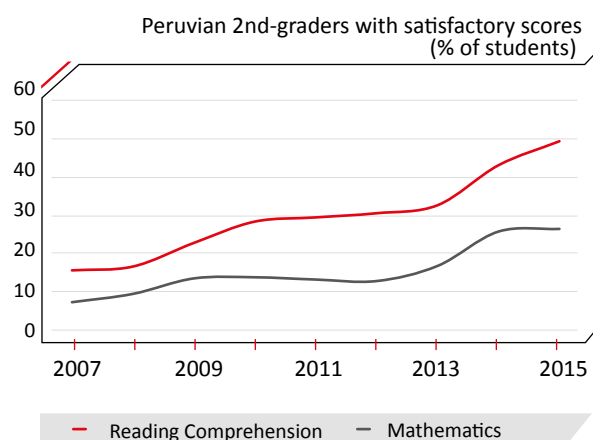
### **EDUCATION SPENDING HAS BEEN INCREASING, PARTICULARLY AT THE PRE-PRIMARY LEVEL**



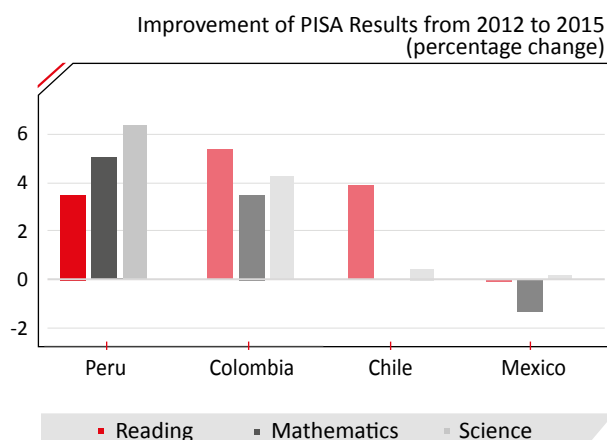
— Source: Ministry of Education of Peru

- Public spending on education has seen an upward trend, reaching 4.7% of GDP in 2016. Spending levels per student (as a percentage of GDP per capita) has been increasing in the last decade for all levels of education, but most notably for pre-primary education.

## EDUCATION EFFORTS ARE DELIVERING BETTER RESULTS...



Source: ECE 2015, Ministry of Education of Peru



Source: OECD Programme for International Student Assessment (PISA)

- Learning outcomes in primary and secondary education are still low, but recent standardized assessments have shown substantial improvements. The national test for second graders (ECE), developed by the Ministry of Education, shows that the proportion of students with a

satisfactory level in reading and math have increased three-fold from 2007 to 2015. This trend is also reflected by the latest PISA results, which show that Peru's students achieved the fourth highest rates of improvement worldwide on the 2015 assessment.

## ... INDICATING THAT RECENT REFORMS IN THE EDUCATION SECTOR POINT IN THE RIGHT DIRECTION

- Peru's on-going education reform, launched in 2010, rests on four key pillars:

### a) Strengthening the teaching profession.

Ensures that entrance, permanence, and promotion within the teaching career are based on reliable evaluations of competence, merit, and dedication. Over 300 thousand teachers have already been evaluated in their career paths according to this criteria, resulting in an average 40% increase of teachers' wages based on merit and effort between 2011 and 2015. These promotions have led to a fairer representation of female and young teachers in top vocational levels.

### b) Closing the educational infrastructure gap.

Ensures that schools meet necessary conditions for learning by providing inputs, services, and adequate infrastructure nationwide, following a national ten-year plan to improve educational infrastructure. In the period 2011 to 2015, investments in education infrastructure accumulated US\$ 4 billion.

### c) Raising learning quality for all.

Focuses on developing students' full potential by promoting skills oriented to personal and professional development, drawing upon an extended school-day, the use of information technologies, and educational support programs. This led to the introduction of a new National Curriculum in 2017 that focuses on relevant and modern skills and the promotion of peace, tolerance, and democratic values.

### d) Managing education more effectively.

Includes the provision of incentives for subnational entities that are responsible for key decisions, competitively selecting school managers, providing them with specialized training on school leadership, and regularly evaluating their performance.