



Peru's Economic and Business Report

First Quarter

May 2021




PERU

Ministry
of Foreign Affairs



Building a better
working world

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The Peru's Economic and Business Report presents quarterly progress and projections of the main macroeconomic indicators.

Peru is considered one of the most important countries in Latin America and one of the world's leading emerging markets, with a solid recent history of economic and business stability.

Peru's macroeconomic strengths - low levels of debt, inflation and fiscal deficit, while maintaining high levels of international reserves - is widely recognized, not only by credit rating agencies but also by worldwide investors.



1

COUNTRY OVERVIEW

Government

Peru is a democratic constitutional republic with a multiparty system. The President is the Chief of State and Head of Government and is elected every five years.

- ▶ President until July 28, 2021: Francisco Sagasti
- ▶ On June 2021 a second round of voting will be held to elect the president for the period 2021-2026

The President appoints the Prime Minister and the members of the Cabinet. There is a unicameral Congress of 130 members elected for a five-year period. For the period 2021-2026, congressional representation consists of ten parties.

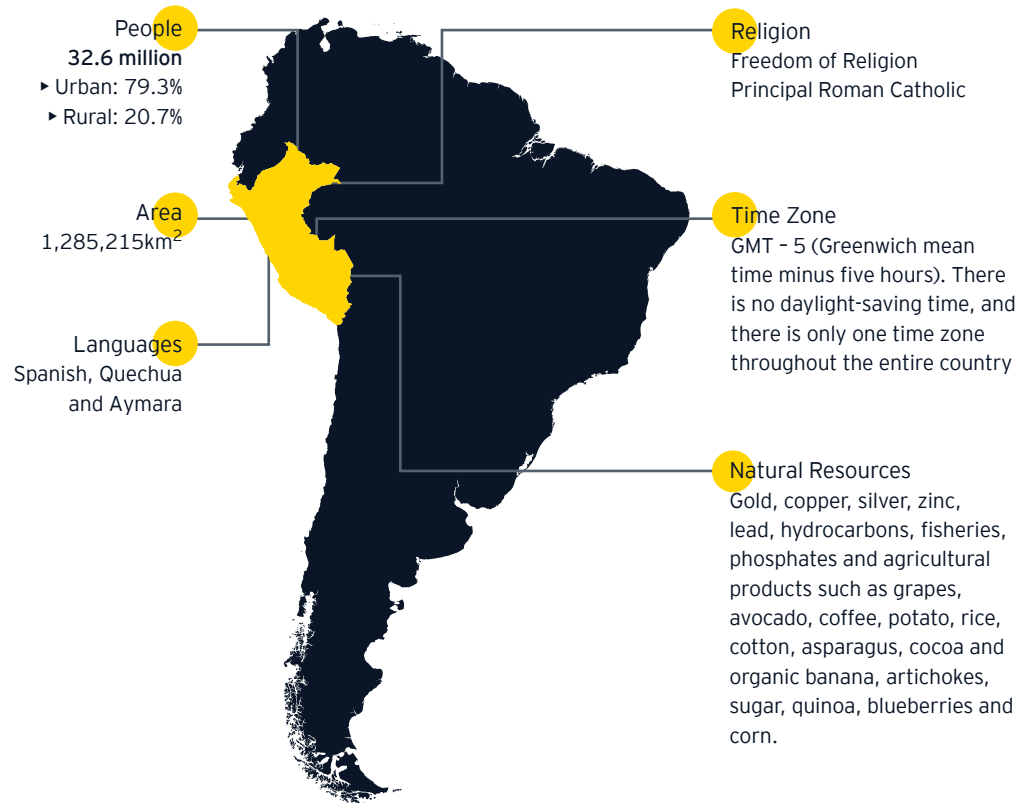
The legislative proposals can be submitted by both the executive and legislative branch and will become law once they are approved by the Congress and

promulgated by the President. The judicial and electoral bodies are independent.

Geography

- ▶ Located on the west central coast of South America, Peru is bordered by the Pacific Ocean to the west, by Chile to the south, by Brazil and Bolivia to the east, and Colombia and Ecuador to the north.
- ▶ Peru is divided geographically into three natural regions: the coast, a narrow strip measuring approximately 3,080 km long that accounts 11.7% of Peru's territory; the highlands, site of the Andean mountain range covering 27.9% of the national territory; and the amazon rainforest, which occupies 60.4% of the territory and is rich in petroleum and forest resources.

GENERAL INFORMATION





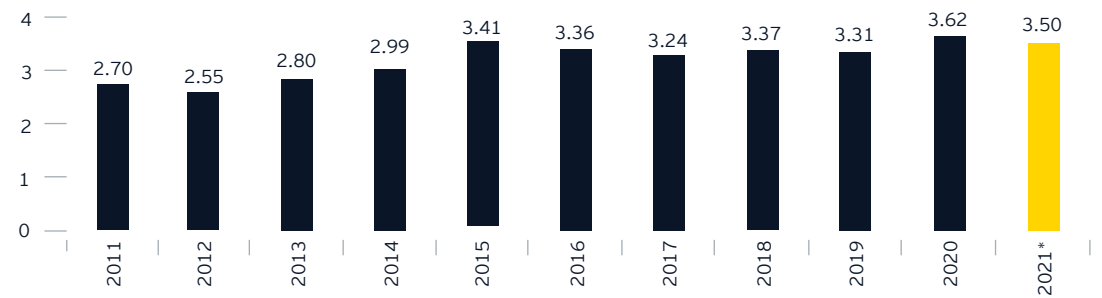
MACROECONOMIC INDICATORS AND PROJECTIONS

Currency

The official currency of Peru is the Sol (PEN -S/). The country has a free-floating exchange rate regime, with the Central Reserve Bank of Peru (BCRP) occasionally intervening for purposes of stabilization. As at March 31, 2021, banks were buying US Dollars at PEN3.760 and selling them at PEN3.763. The projection of the exchange rate for 2021 is PEN3.50.

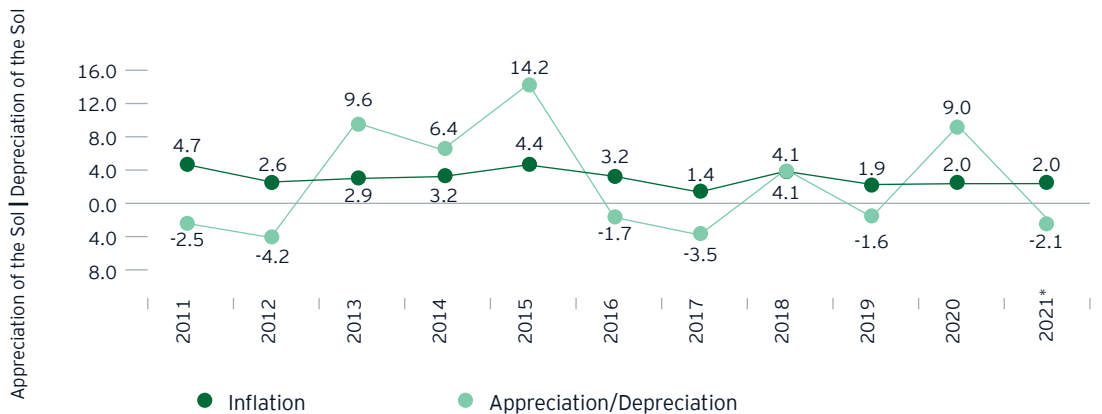
As of the end of the first quarter, the inflation rate in Peru was 1.6% and the depreciation rate of the Sol against the US Dollar for the same period was 2.5% explained mainly by the general election situation. According to the Central Reserve Bank of Peru (BCRP) it is estimated that at the end of the year 2021, the inflation rate will be 2.0%, below the target range, and the depreciation will be around 2.1%.

EXCHANGE RATE EVOLUTION: NUEVOS SOLES PER USD1 (END OF EACH YEAR)



*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

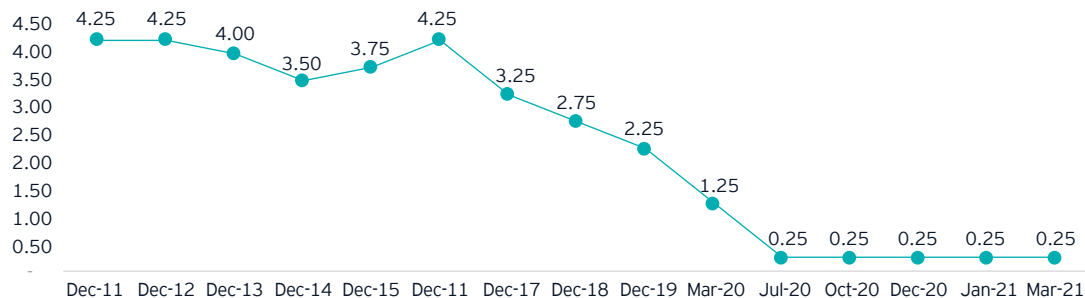
APPRECIATION/DEPRECIATION AND INFLATION (PERCENTAGE)



*Projection. March 2021 Inflation Report. Exchange rate is estimated at PEN3.50
Source: Central Reserve Bank of Peru (BCRP)

The Central Reserve Bank maintains a strong expansionary monetary policy, keeping the interest rate low at 0.25% as of May 2021. The BCRP considers appropriate to maintain this level for a prolonged period and as long as the negative effects of the pandemic persist on the inflation and its determinants.

REFERENCE INTEREST RATE (PERCENTAGE)



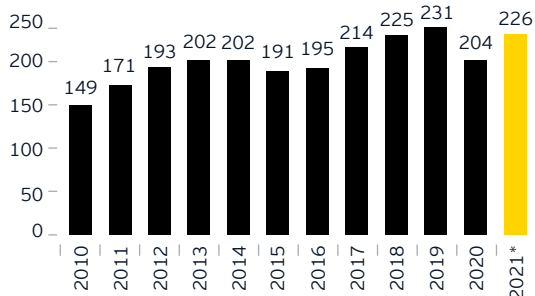
Source: Central Reserve Bank of Peru (BCRP)

Gross Domestic Product (GDP) and International Reserves

Following a drop in GDP of 11.1% in 2020, a rebound effect is expected, with a GDP growth of 10.7% in 2021 as estimated by the Central Reserve Bank of Peru (BCRP) as of March 2021. Additionally, the

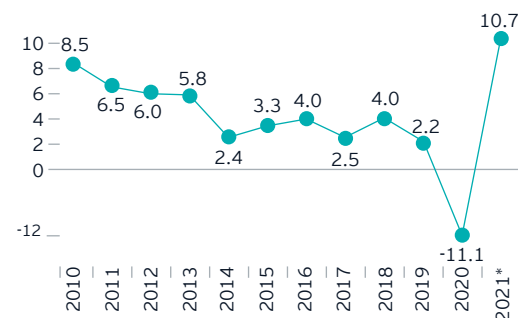
Peruvian economy would grow 4.1% annually on average between 2022 and 2026, according to estimates by the Ministry of Economy and Finance.

REAL GROSS DOMESTIC PRODUCT (GDP) (IN USD BILLIONS)



*Estimated as April 2021
Source: International Monetary Fund (IMF)

GROSS DOMESTIC PRODUCT (GDP) (PERCENTAGE CHANGE)



*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

PERU'S GROSS DOMESTIC PRODUCT (GDP) BY ECONOMIC SECTOR, BASED ON THE ECONOMIC STRUCTURE OF THE YEAR 2007



Source: National Institute of Statistics and Information (INEI)

GROSS DOMESTIC PRODUCT (GDP) BY INDUSTRY (PERCENTAGE CHANGE)

Industry	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (Q1)	2021*
Agriculture and Livestock	4.1	5.9	2.7	1.6	3.5	2.7	2.8	7.8	3.4	1.3	0.2	1.8
Fisheries	52.9	-32.2	24.8	-27.9	15.9	-10.1	4.7	47.7	-25.9	2.1	38.6	7.2
Mining	-2.1	2.5	4.3	-2.2	15.7	21.2	4.5	-1.7	-0.8	-13.5	3.0	11.0
Hydrocarbons	5.1	1.0	7.2	4.0	-11.5	-5.1	-2.4	0.0	4.6	-11.0	-15.8	6.5
Manufacturing	8.6	2.5	4.9	-3.6	-1.5	-1.4	-0.2	5.9	-1.7	-13.2	16.1	18.1
Electricity and Water	7.6	5.8	5.4	4.9	5.9	7.3	1.1	4.4	3.9	-6.1	2.7	7.5
Construction	3.6	15.8	0.0	1.9	-5.8	-3.2	2.1	5.3	1.5	-13.9	41.9	17.4
Commerce	8.9	7.2	5.9	4.4	3.9	1.8	1.0	2.6	3.0	-16.0	-0.5	18.0
Other Services	7.0	7.0	6.1	5.1	4.1	4.1	3.3	4.4	3.8	-10.3	-3.8	8.9
GDP	6.5	6.0	5.8	2.4	3.3	4.0	2.5	4.0	2.2	-11.1	3.8	10.7

*Projection. March 2021 Inflation Report. Q1=First Quarter of 2021.

Source: Central Reserve Bank of Peru (BCRP), National Institute of Statistics and Information (INEI)

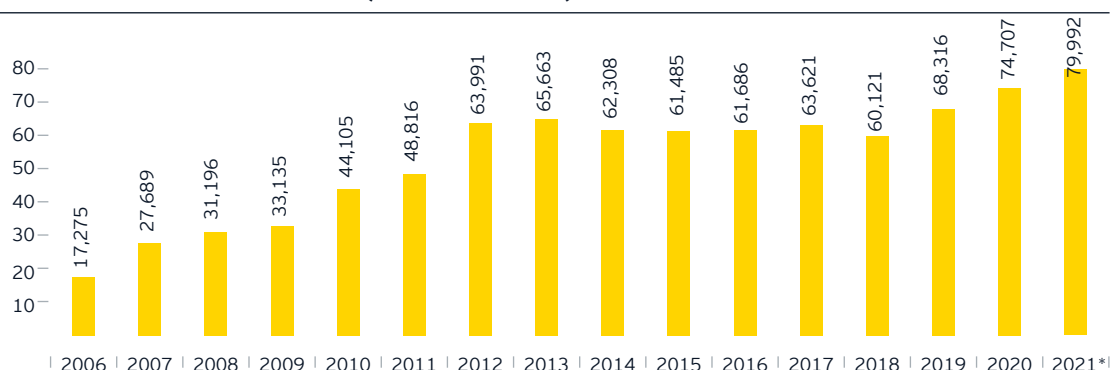
GROSS DOMESTIC PRODUCT (GDP) BY TYPE OF EXPENDITURE (PERCENTAGE CHANGE)

Variables	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (Q1)	2021*
Domestic Demand	7.8	7.3	7.2	2.2	2.9	1.1	1.4	4.2	2.3	-9.8	5.4	9.6
a. Private Consumption	6.4	5.8	5.3	4.1	3.4	3.5	3.8	3.8	3.0	-8.7	2.2	8.5
b. Public Consumption	4.8	9.4	6.7	10.1	9.5	5.7	3.0	0.1	2.1	7.5	9.1	3.5
c. Private Investment	11.4	13.5	6.4	-2.1	-4.5	-4.3	5.0	4.5	4.0	-16.5	36.9	15.5
d. Public Investment	-18.0	20.8	12.1	-2.0	-7.5	10.3	4.5	5.6	-1.4	-17.7	24.0	15.0
Exports	8.8	5.4	-0.9	-0.8	3.3	6.9	5.5	2.4	0.8	-20.0	-2.7	13.9
Imports	9.8	10.4	3.6	-1.4	2.4	-1.7	3.6	3.2	1.2	-15.6	3.3	9.2
GDP	6.5	6.0	5.8	2.4	3.3	4.0	2.5	4.0	2.2	-11.1	3.8	10.7

*Projection. March 2021 Inflation Report. Q1=First Quarter of 2021.

Source: Central Reserve Bank of Peru (BCRP), National Institute of Statistics and Information (INEI)

Peru is estimated to maintain a comfortable level of international reserves, representing in 2020 the 38% of GDP. As of March 31, 2021, these reserves total USD79.9 billion.

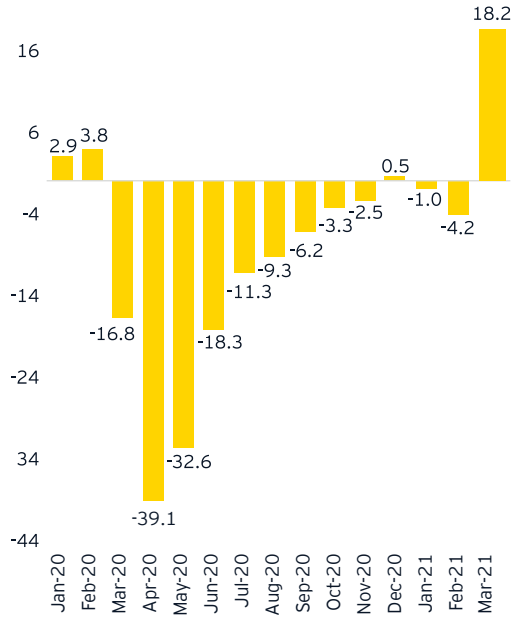
NET INTERNATIONAL RESERVES (IN USD MILLIONS)

*As of March 31, 2021

Source: Central Reserve Bank of Peru (BCRP)

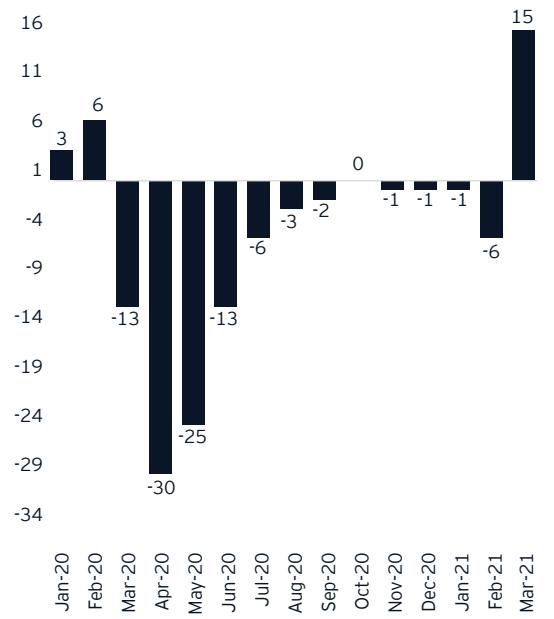
In March, the economy grew 18.2% accumulating a 3.8% growth as of the first quarter of 2021. This recovery is supported by the main economy indicators which are already operating at 90% to 95% of pre pandemic levels.

GROSS DOMESTIC PRODUCT (INTERANUAL PERCENTAGE CHANGE)



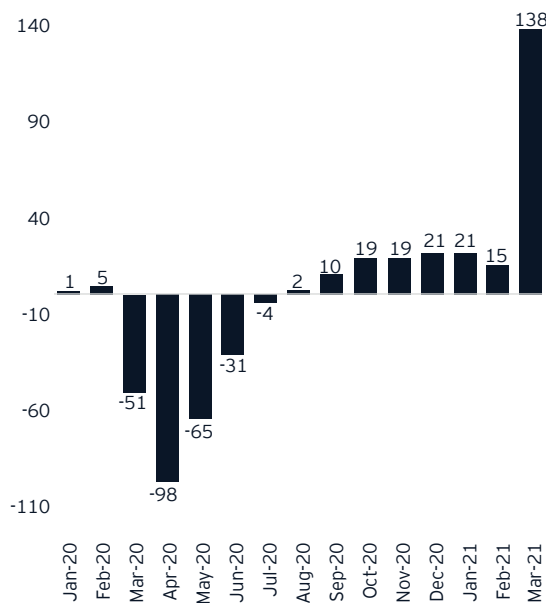
Source: National Institute of Statistics and Information (INEI)

ELECTRICITY PRODUCTION (INTERANUAL PERCENTAGE CHANGE)



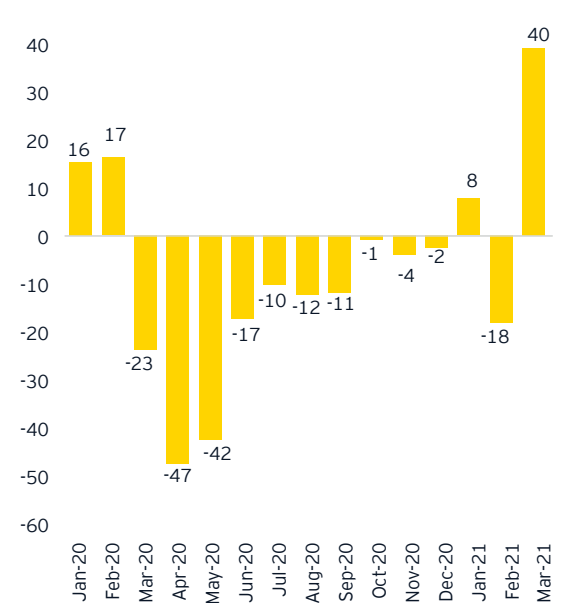
Source: National Institute of Statistics and Information (INEI)

DOMESTIC CEMENT CONSUMPTION (INTERANUAL PERCENTAGE CHANGE)



Source: National Institute of Statistics and Information (INEI)

CONSUMPTION INDICATOR (INTERANUAL PERCENTAGE CHANGE)



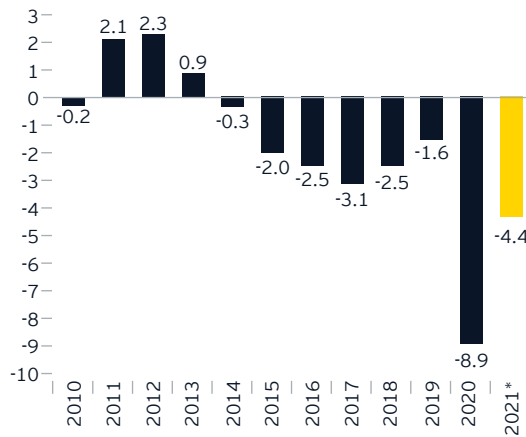
Source: National Institute of Statistics and Information (INEI)

Public Sector

Public deficit reached 8.9% in 2020 and it is expected to decrease in 2021, reaching 4.4% of the GDP.

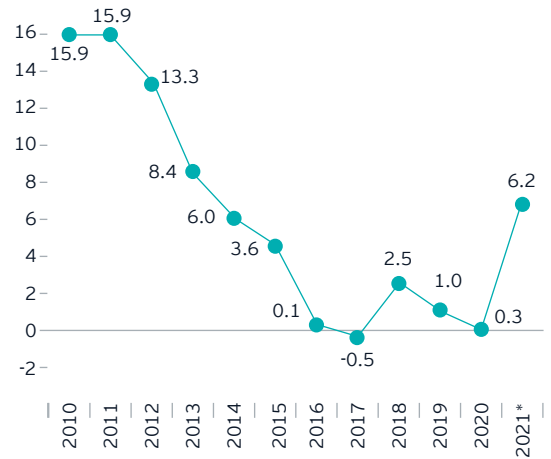
Public spending will continue to grow as part of the countercyclical macroeconomic policy to face the impact of Covid-19; it is estimated to grow 6.2% in 2021.

ECONOMIC RESULTS (SURPLUS / DEFICIT) OF THE NON-FINANCIAL PUBLIC SECTOR (PERCENTAGE OF THE GDP)



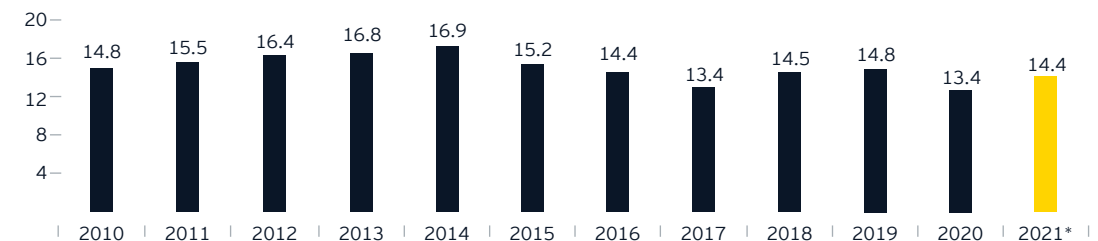
*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

PUBLIC SPENDING (PERCENTAGE CHANGE)



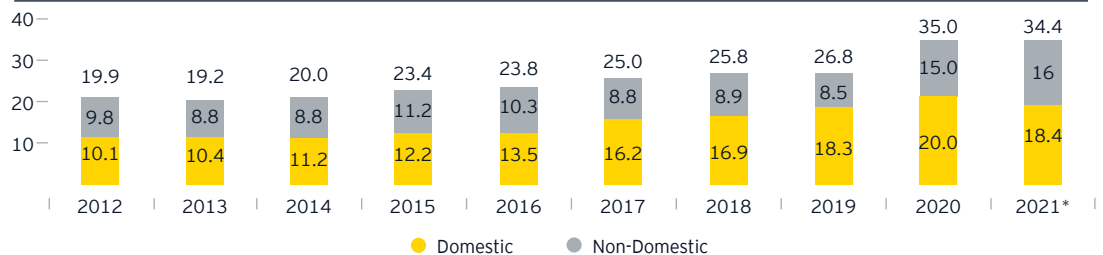
*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

TAX BURDEN (PERCENTAGE OF THE GDP)



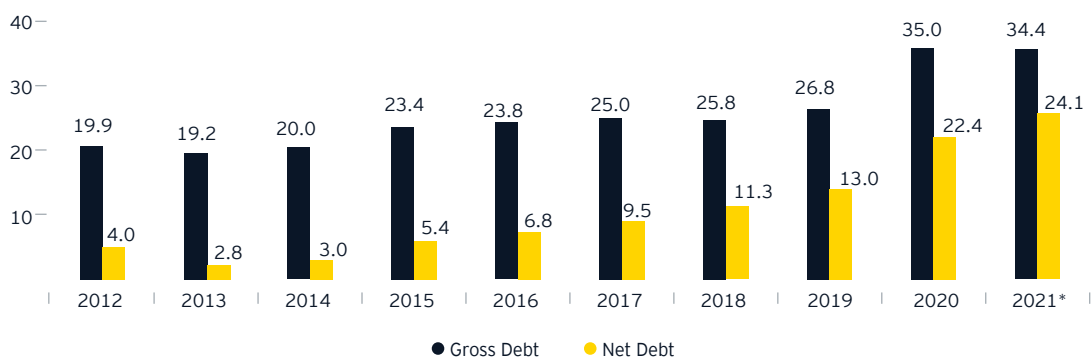
*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

PUBLIC DEBT (PERCENTAGE OF THE GDP)



*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

DEBT OF NON-FINANCIAL PUBLIC SECTOR (PERCENTAGE OF THE GDP)



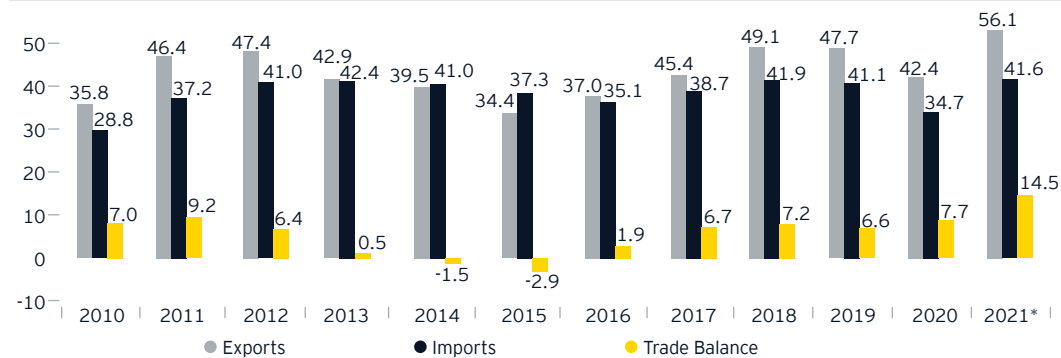
*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

International Trade

At of the first quarter of 2021, total exports amounted to USD13.1 billion, increasing 27.3% compared to the same quarter of 2020. In the same period, total imports totaled USD10.7 billion, increasing only 16.7%. According to the estimates, Peruvian exports would reach USD56.1 billion

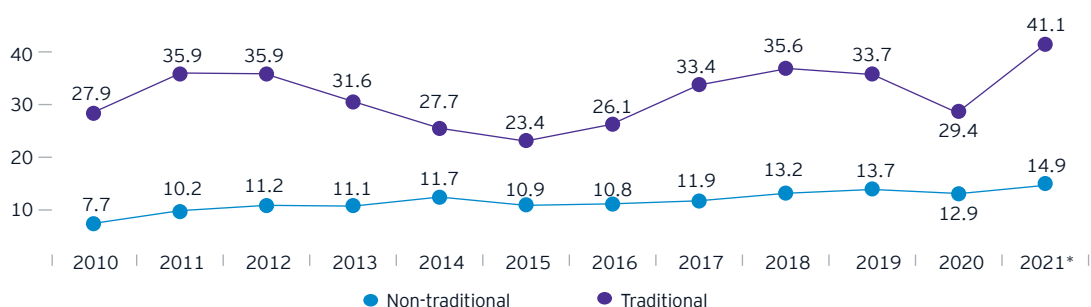
in 2021, while imports would account for an approximate amount of USD41.6 billion. During the first quarter, traditional exports reached USD9.5 billion, while non-traditional exports USD3.6 billion; it is estimated that by the end of 2021, they would have reached USD41.1 billion and USD14.9 billion, respectively.

TRADE BALANCE (IN USD BILLIONS)



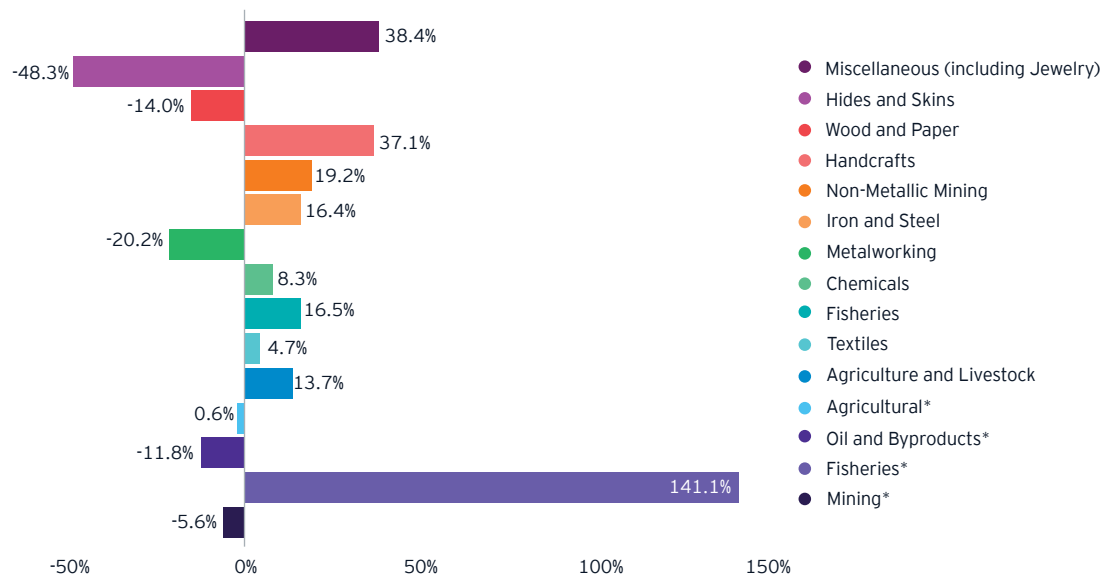
*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

TRADITIONAL AND NON-TRADITIONAL EXPORTS (IN USD BILLIONS)



*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

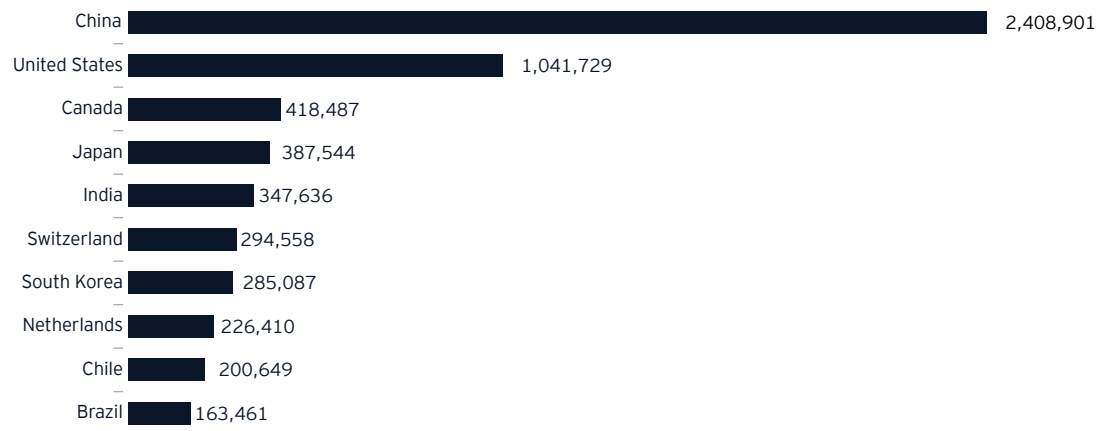
EXPORTS BY ECONOMIC SECTOR AS OF MARCH 2021 (INTERANUAL PERCENTAGE CHANGE)



*Traditional

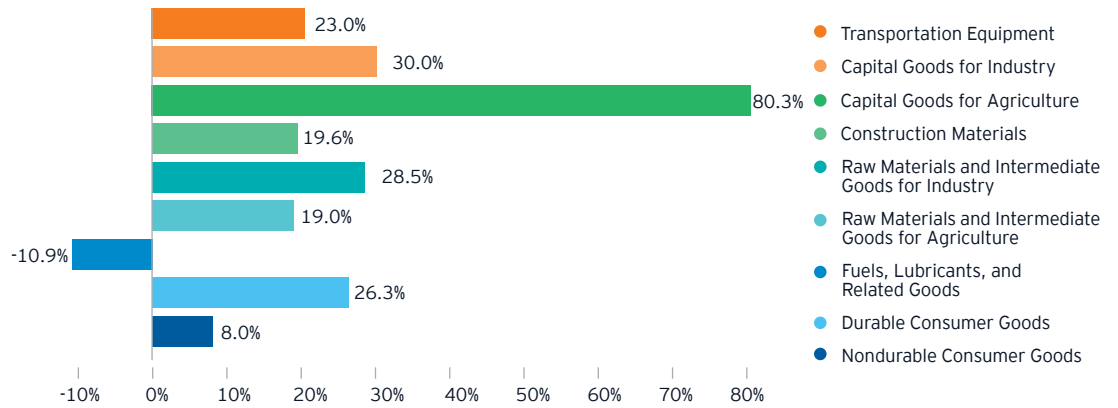
Source: National Superintendency of Customs and Tax Administration (SUNAT)

**EXPORTS BY TRADING PARTNER
TOP TEN PARTNERS MARCH 2021 (THOUSANDS OF USD)**



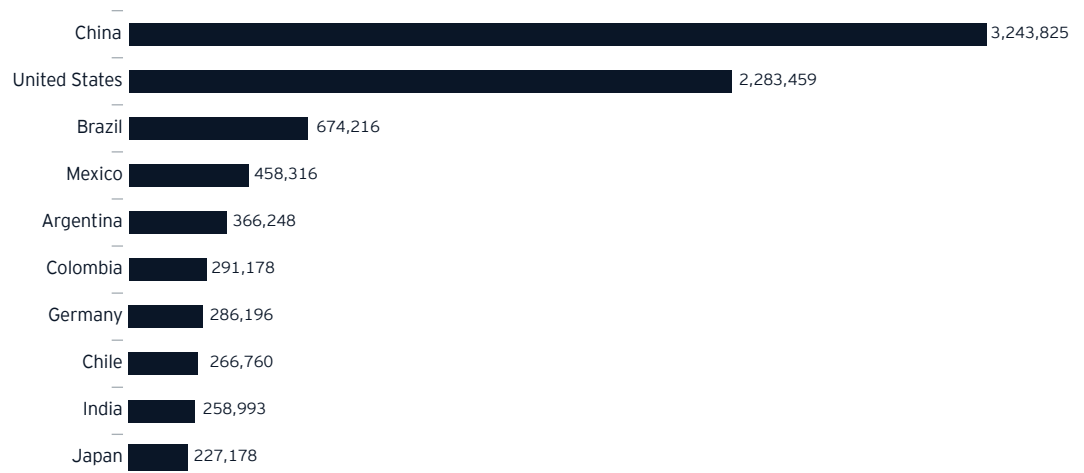
Source: National Superintendency of Customs and Tax Administration (SUNAT)

IMPORT OF CONSUMER GOODS ACCORDING TO CUODE AS OF MARCH 2021 (INTERANUAL PERCENTAGE CHANGE)



Source: National Superintendency of Customs and Tax Administration (SUNAT)

**IMPORTS BY TRADING PARTNER
TOP TEN PARTNERS MARCH 2021 (THOUSANDS OF USD)**



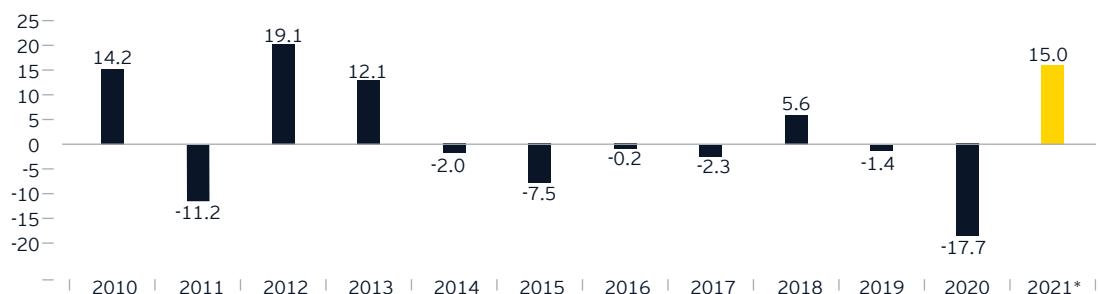
Source: National Superintendency of Customs and Tax Administration (SUNAT)



3 INVESTMENT ENVIRONMENT

As of the first quarter of 2021, the Public investment grew 24.0%, while Private investment did 36.9%. It is estimated that the Public and Private investment will have an important grow recovery in 2021 of 15.0% and 15.5%, respectively.

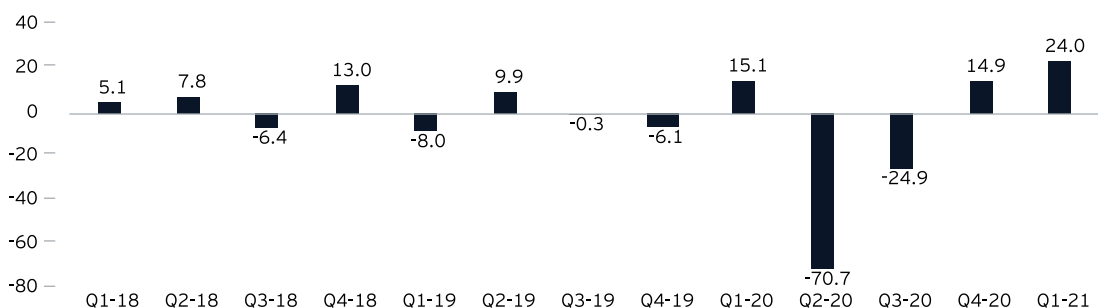
PUBLIC INVESTMENT (PERCENTAGE CHANGE)



*Projection. March 2021 Inflation Report

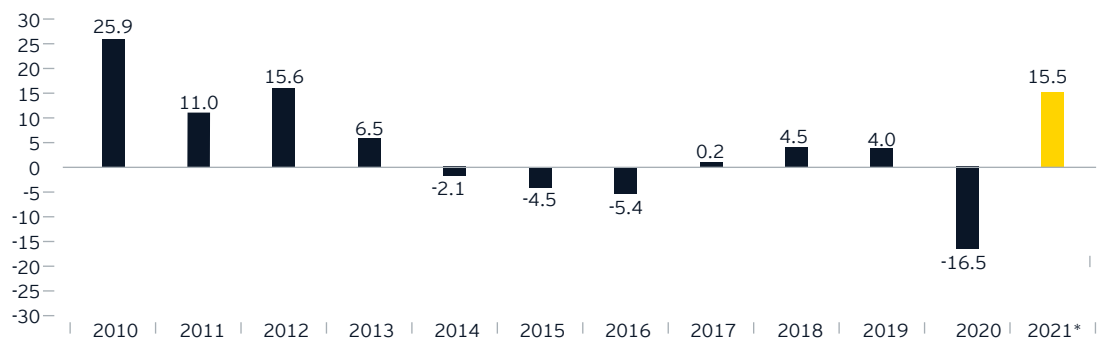
Source: Central Reserve Bank of Peru (BCRP)

QUARTERLY PUBLIC INVESTMENT (ANNUALIZED PERCENTAGE CHANGE)



Source: Central Reserve Bank of Peru (BCRP)

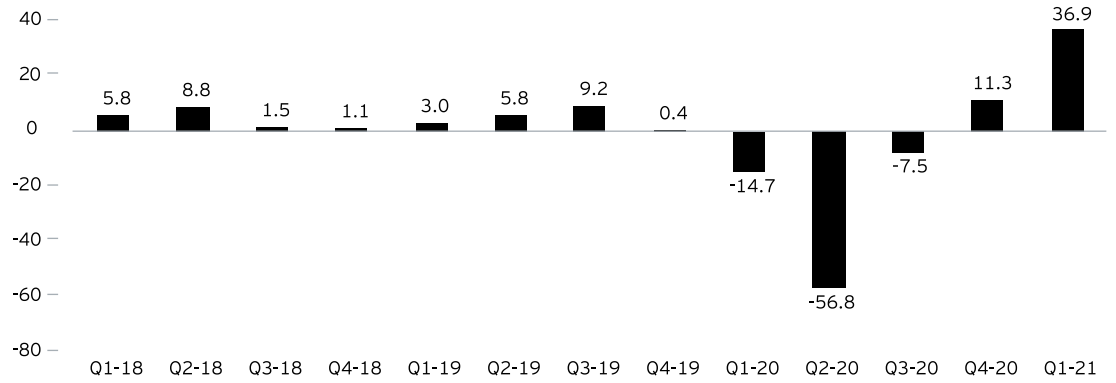
PRIVATE INVESTMENT (PERCENTAGE CHANGE)



*Projection. March 2021 Inflation Report

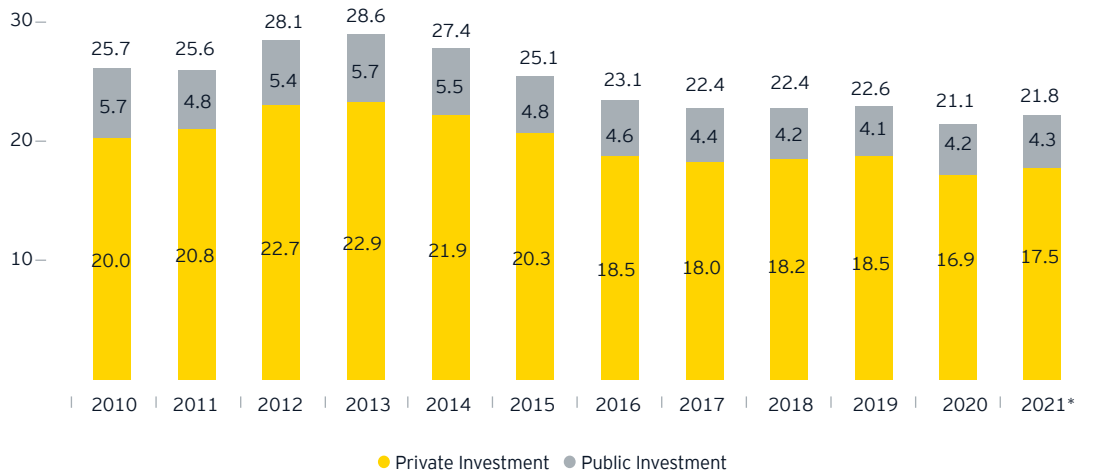
Source: Central Reserve Bank of Peru (BCRP)

QUARTERLY PRIVATE INVESTMENT (ANNUALIZED PERCENTAGE CHANGE)



Source: Central Reserve Bank of Peru (BCRP)

FIXED GROSS INVESTMENT (PERCENTAGE OF GDP)



*Projection. March 2021 Inflation Report
Source: Central Reserve Bank of Peru (BCRP)

Business Facilities

According to Doing Business 2020, Peru ranks 76th out of 190 countries in terms of readily available facilities to startup a company and of doing business, ranking sixth among the countries of Latin America. According to Forbes 2019, Peru ranks 64th among the best countries in the world for doing business, and fifth in Latin America.

DOING BUSINESS

Ranking for Latin America	
Position	Country
59	Chile
60	Mexico
65	Puerto Rico (United States)
67	Colombia
74	Costa Rica
76	Peru
86	Panama
91	El Salvador
96	Guatemala
101	Uruguay
115	Dominican Republic

Source: World Bank (WB) - Doing Business 2020

FORBES

Best Countries for Doing Business	
Position	Country
33	Chile
48	Costa Rica
54	Mexico
58	Uruguay
64	Peru
67	Colombia
73	Brazil
75	Panama
76	Argentina
91	Dominican Republic
97	Guatemala

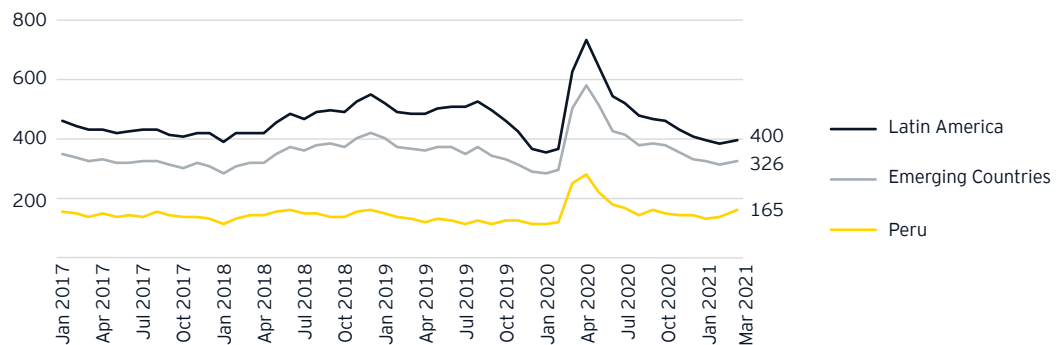
Source: Forbes 2019

Country Risk and Investment Grade

As of March 31, 2021, Peru had a country risk of 165 basis points. This score is below that of Emerging Countries (326) and of the regional average (400).

As a result, Peru has been positively rated by the best-known risk rating agencies, thereby ratifying the country's investment grade and attracting international attention.

COUNTRY RISK INDICATOR - EMBIG (IN BASIS POINTS)



Source: Central Reserve Bank of Peru (BCRP)

EVOLUTION OF THE LONG-TERM DEBT RATING IN FOREIGN CURRENCY

Agency	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Fitch	BBB-	BBB-	BBB	BBB	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
S&P	BBB-	BBB-	BBB	BBB	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Moody's	Baa3	Baa3	Baa3	Baa2	Baa2	A3	A3	A3	A3	A3	A3	A3	A3

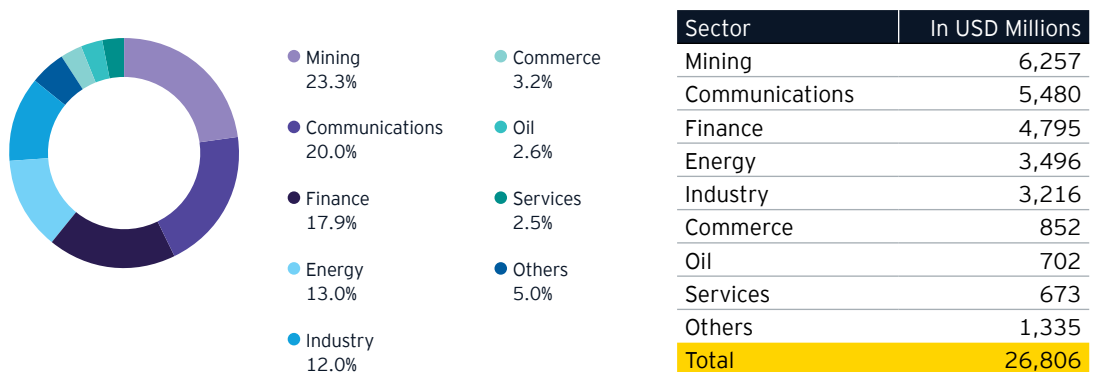
*As of March 2021

Source: Standard & Poor's, Fitch Ratings, Moody's

Foreign Direct Investment

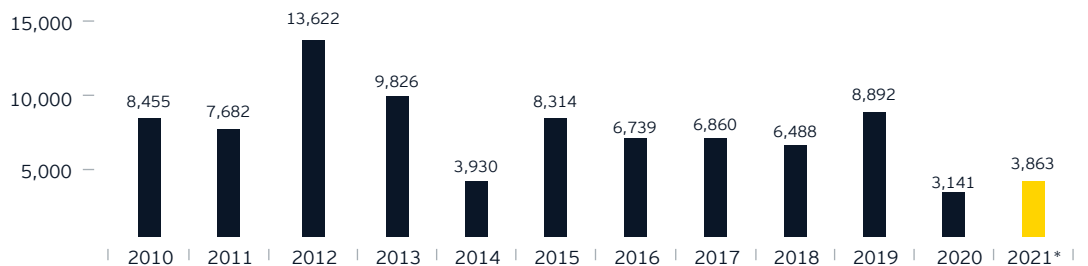
In 2020, the flow of the Foreign Direct Investment (FDI) reached USD3.1 billion and it is expected to reach approximately USD3.9 billion, representing an increase of 23% for 2021. The Mining, Communications and Finance sectors represent the 61.7% of total FDI balance.

BALANCE OF FOREIGN DIRECT INVESTMENT BY SECTOR 2020



Source: Private Investment Promotion Agency (ProInversión)

FLOW OF FOREIGN DIRECT INVESTMENT (IN USD MILLIONS)



*Projection. March 2021 Inflation Report

Source: Central Reserve Bank of Peru (BCRP)



4 INTERNATIONAL RELATIONS

Peru has been a member of the World Trade Organization (WTO) since 1995, and in 1998 it became a member of the Asia-Pacific Economic Cooperation Forum (APEC). In 2011, it formed the Pacific Alliance with Chile, Colombia, and Mexico. It is also a member country of the Latin American Integration Association (ALADI) and a member-state of the Southern Common Market (MERCOSUR). Peru has begun to follow a Country Program to join the Organization for Economic Cooperation and Development (OECD). This is a key tool to ensure Peru's successful entrance into the organization.

It is important to mention that foreign investors are protected against inconvertibility, expropriation, political violence, and other non-business risks via access to multilateral and bilateral agreements. Peru has signed an agreement with the Overseas Private Investment Corporation (OPIC) and the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA). Peru has also entered into the World Bank's International Convention on the Settlement of Investment Differences (ICSID) as an alternative for the settlement of any disputes that may arise between investors covered by the ICSID and the Peruvian Government.

Bilateral Investment Treaties (BITs)

Peru currently has in force 25 Bilateral Investment Treaties (BITs) with:

- ▶ Argentina
- ▶ China
- ▶ Colombia
- ▶ Cuba
- ▶ Czech Republic
- ▶ Denmark
- ▶ El Salvador
- ▶ Finland
- ▶ France
- ▶ Germany
- ▶ Italy
- ▶ Japan
- ▶ Malaysia
- ▶ The Netherlands
- ▶ Norway
- ▶ Paraguay
- ▶ Portugal
- ▶ Romania
- ▶ Spain
- ▶ Sweden
- ▶ Switzerland
- ▶ Thailand
- ▶ The Belgium-Luxembourg Economic Union
- ▶ The United Kingdom
- ▶ Venezuela

Free Trade Agreements and Economic Integration Agreements

Peru has a total of 15 free trade agreements and economic integration agreements (TLCs & EIAs) in force with Canada, Costa Rica, the European Free Trade Association (EFTA), the European Union, Japan, Panama, Australia, Chile, China, Honduras, South Korea, Mexico, Singapore, the United Kingdom and the United States.

Peru is currently in the midst of negotiations with Turkey, El Salvador, and India, and has concluded negotiations with Brazil, Guatemala, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (with Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore, and Vietnam) which includes the Trans-Pacific Partnership Agreement

Double Taxation Avoidance Agreements

Currently, Peru has signed and ratified agreements to avoid double taxation with following countries: Brazil, Chile, Canada, Mexico, Portugal, South Korea, Switzerland and the Andean Community (together with Colombia, Ecuador and Bolivia).

It should be noted that Peru has signed an agreement to avoid double taxation with Japan which has been recently entered into force in January 29, 2021. Likewise, there are negotiations with Spain, France, Singapore and the United Kingdom.

On June 27, 2018, Peru signed the Multilateral Convention against base erosion and profit shifting, result of the OECD/G20 BEPS Project, which it is pending ratification.

For more information, find the Peru's Business, and Investment Guide 2021 and other specialized investment guides at:

<https://www.gob.pe/institucion/rree/colecciones/146-guias-de-negocios-e-inversion>



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Paulo Pantigoso
Country Managing Partner
paulo.pantigoso@pe.ey.com

Assurance

Rafael Huamán
Assurance and Corporate Integrity Leader
rafael.huaman@pe.ey.com

Consulting

Jorge Acosta
Consulting Leader
jorge.acosta@pe.ey.com

Tax

David de la Torre
Tax Leader
david.de.la.torre@pe.ey.com

Strategy and Transactions

Enrique Oliveros
Strategy and Transactions Leader
enrique.oliveros@pe.ey.com

Financial Services Office (FSO)

José Carlos Bellina
Financial Services Office (FSO) Leader
jose.bellina@pe.ey.com



Executive Office For Economic Promotion (DPE)

Eduardo Chávarri García
Ambassador
Director General of Economic Promotion
echavarri@rree.gob.pe

Ana Cecilia Gervasi Díaz
Minister
Director of Investment Promotion
agervasi@rree.gob.pe

Sergio Ávila Traverso
Minister
Director of Tourism Promotion
savila@rree.gob.pe








Giancarlo Gálvez Alvarado
Counselor
Director In Charge of Trade Promotion
ggalvez@rree.gob.pe

About EY

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EY PERU

Lima

Headquarters

Av. Víctor Andrés Belaúnde 171, San Isidro - Lima 27

Secondary headquarters

Av. Jorge Basadre 330, San Isidro - Lima 27

Tel: +51 1 411 4444

Arequipa

Av. Bolognesi 407, Yanahuara - Arequipa 040, Arequipa

Tel: +51 54 484 470

Chiclayo

Av. Federico Villareal 115 - Salón Cinto, Lambayeque

Tel: +51 74 227 424

Trujillo

Sede Miguel Ángel Quijano Doig

Av. El Glof 591, Urb. Las Flores del Golf III,

Víctor Larco Herrera 13009 - Trujillo, La Libertad

Tel: +51 44 608 830

Ministry Of Foreign Affairs (MRE)

The Executive Office for Economic Promotion (DPE) is the institution of the Ministry of Foreign Affairs (MRE) responsible for coordinating with Peruvian missions abroad in an effort to promote Peru as a country capable of providing goods and services in international markets, as well as positioning it as a world-renowned tourist destination, and a country with interesting business and investment opportunities in different economic sectors.

Jr. Lampa 545, Lima 1

Tel: +51 1 204 3361 / +51 1 204 3365 (DPE)

dpe@rree.gob.pe

www.gob.pe/rree

