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Peru favours investment

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The next IMF and World Bank Annual Meeting entitled “The Rising South” will take place in Lima in October. The host country can look back on annual real GDP growth of 6 % (average 2004–2014). However, at the moment – as is the case for all developing and emerging countries – Peru must overcome weak growth, given that real GDP growth fell in 2014 to a relatively low level of 2.3 %.

According to the IMF, the high growth of the last few years is based on structural reforms, relative political stability and a stability-oriented monetary and fiscal policy. But the commodity boom also provides substantial support to economic development. As the third largest copper producer in the world, it is currently struggling with the price of copper, gold and silver that is so important for its exports.

Weak investment adversely affects growth

Over the past ten years, investments were responsible for around half of GDP growth. Real private investments shrank in 2014 for the first time since the start of the 2000s (and in 2009) and therefore also pulled the overall growth performance downwards. This was mostly the result of a decline in mining investment; other investments had been growing in comparison to the previous year.

Public investments cannot balance out the drop in private investments since they only finance around 1/5 of total investments. In addition, 43 % of public investments are carried out by local authorities, whose share of implemented projects is relatively low at 73 %. Support from on-site project teams through programmes organised by the Ministry of Economy and Finance should improve this situation.

Investment needs should be stemmed through PPP

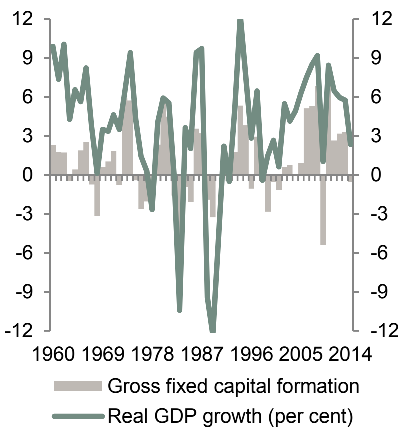
In closing the infrastructure gap of an estimated 45 % of GDP, Peru is building on public-private partnerships. Out of all these projects, a good third of investments made between 2008 and 2015 were funded in part by the government. The rest were self-supporting.

Since 2008, private companies in Peru have been able to carry out local public (infrastructure) projects instead of paying taxes (“Ley de Obras por Impuestos”). The projects are reviewed at national level for feasibility. Potential income tax savings can amount to up to 50 % in the following year. Tax stability for companies can also be guaranteed contractually if they carry out sufficient investment.

Increased incentives for investment

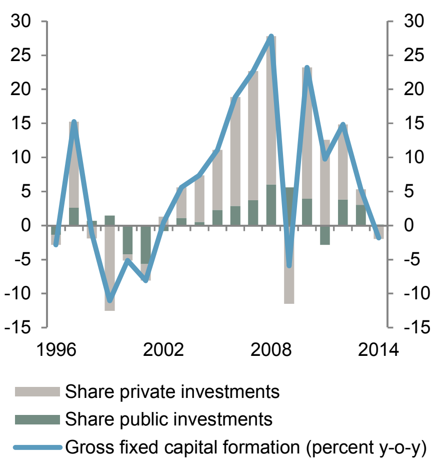
In order to further improve an already good climate for private investments, from 2015 to 2019 corporation tax for companies will be lowered from 30 to 26 % and the depreciation rate for new buildings increased from 5 to 20 % per year, among other things. A further reduction of red tape should speed up investment approval. This and other measures are expected to stimulate growth, for which a fiscal deficit of an estimated -2 % of GDP in 2015 will be accepted. In order to balance out government revenue losses, the tax system, for example, needs to be developed more in the future. ■

Figure 1: Growth contribution of gross fixed capital formation



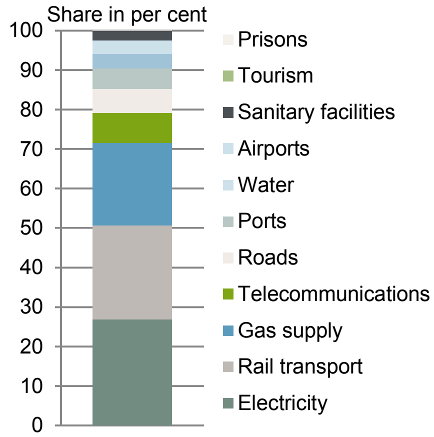
Source: INEI, IMF, own calculations.

Figure 2: Public and private gross fixed capital formation



Source: INEI, own calculations.

Figure 3: PPP infrastructure investments (2008–May 2015)



Source: MEF, own calculations.