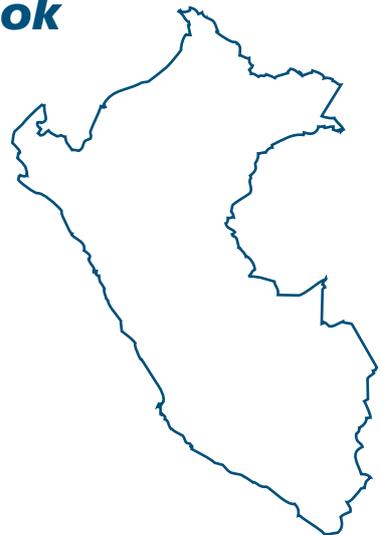




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***Country outlook***  
***Peru***





## Peru



**Form of Government:** Presidential democratic republic

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**Capital:** Lima

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**Official language:** Spanish

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**Population:** 32 million inhabitants (2018)

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**Currency:** Sol (PEN)

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**Exchange rate:** 1 EUR = 3.73 PEN (31/10/2019)  
1 USD = 3.35 PEN (31/10/2019)

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**GDP:** \$225 billion (0.3% of world GDP)

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**GDP per capita:** \$7,007 (\$14,242 purchasing power parity)

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**Ease of doing business:** 67<sup>th</sup> in the world out of 190 according to the World Bank (Doing Business)

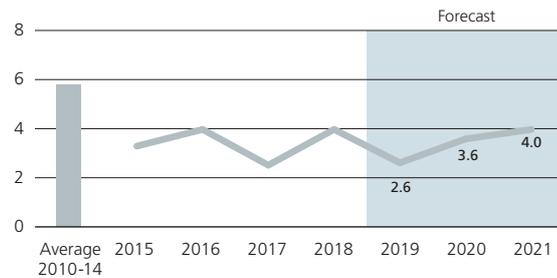
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**Religion:** Catholic: 81%

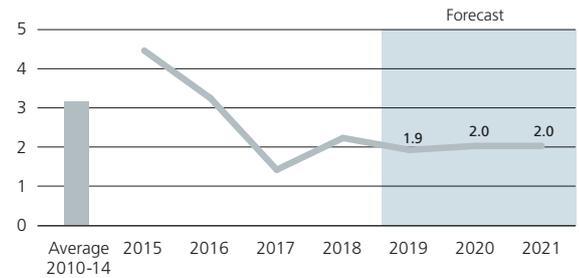
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## Economic forecast

GDP. Year-on-year change (%)



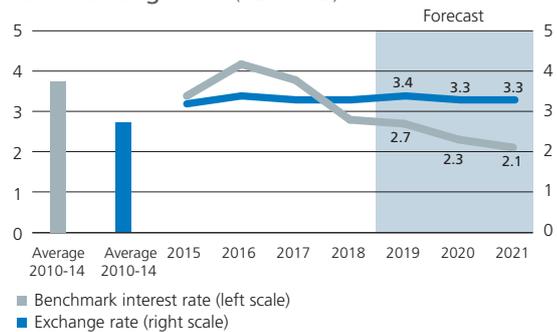
CPI. Year-on-year change (%)



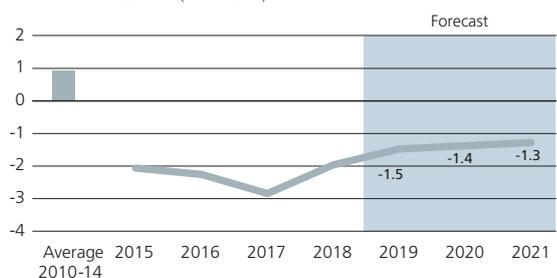
- Growth in Peru will be significantly below historical levels in 2019, due to the impact of political uncertainty on business and consumer confidence. As we do not expect a quick normalisation of the complex political situation, with a strong confrontation between the executive and legislative branches, we believe that recovery in growth will be hampered in 2020-2021 and it will remain below what a sound macroeconomic situation would allow.
- We anticipate a limited increase in consumer prices, around 2% throughout the 2019-2021 forecast period. This is the result of both supply factors (we anticipate moderate food and energy prices) and demand factors (in addition to relatively stable domestic demand, the increase in immigration from Venezuela is helping to contain wage pressures).

## Economic policy

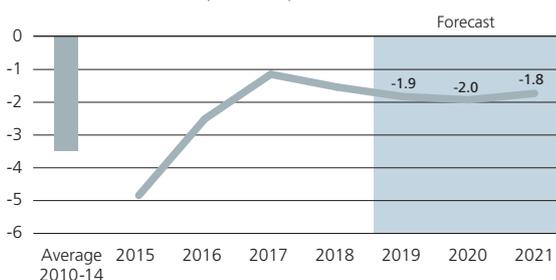
Benchmark interest rate (%) and exchange rate (PEN/USD)



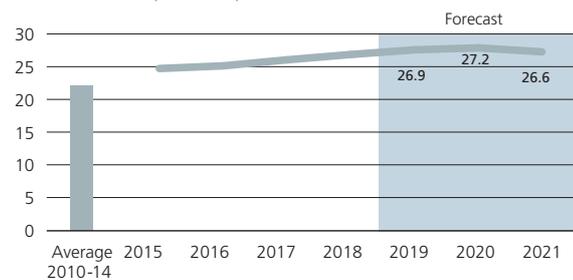
Fiscal balance (% GDP)



Current account (% GDP)



Public debt (% GDP)



- Peru's macroeconomic picture is healthy overall: with inflation under control and the public deficit falling. Furthermore, our macroeconomic scenario anticipates that the exchange rate will remain stable. In this climate of stability, the Central Bank has started a gradual interest rate reduction process, to support the economic recovery. This monetary easing will continue throughout 2020 and part of 2021.
- In 2019 and 2020, we expect the cyclical recovery of revenues to enable a reduction of the public deficit. However, this factor enabling a reduction in the deficit will be partially offset by a discretionary social expenditure policy (which will be implemented through government decrees, since Congress has been dissolved pending legislative elections), so ultimately the deficit will only be moderately reduced. Against this backdrop, public debt will enter a period of stability, always remaining at low levels.

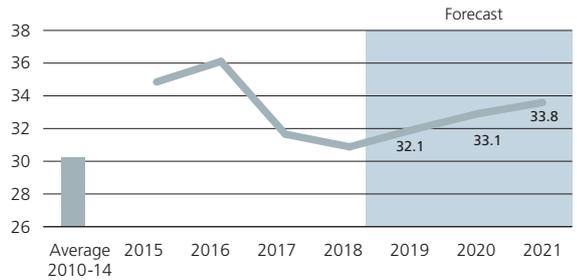
## Financial conditions

Private credit (% GDP)



- We consider the situation in the banking sector to be satisfactory, as there is an adequate level of capitalisation, profitability is quite high and the level of NPLs is low. In this context, economic expansion will help private credit to continue to recover, as it has for a number of years.

Gross external debt (% GDP)



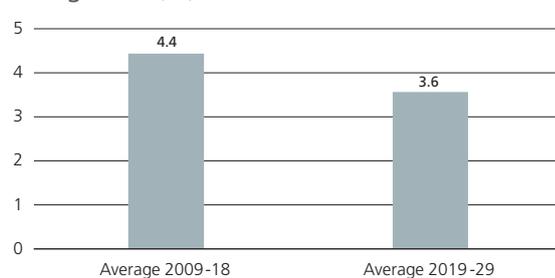
- External debt is experiencing a slight upward trend, which will probably continue through the coming years, although it is expected to remain below 35% of GDP. Overall, the country's reserves are high and loosely cover short-term external debt, providing sufficient room for manoeuvre in the event of possible episodes of financial volatility.

## Political situation

- The governance of the country has become complicated following the confrontation between the executive and legislative branches, a situation that arose after the resignation of the previous president in 2018, due to suspicions of corruption. In this context, the solution reached involves holding legislative elections in January 2020, which will serve to elect a Congress whose term will end in 2021. In April that year, presidential and legislative elections will be held to constitute a new parliament.
- Consequently, it is likely that there will be minimal legislative output during 2019-2021, so the reform ambitions of the past will remain unfulfilled for now. Furthermore, we believe that the political uncertainty, which was high during various parts of 2018 and 2019, is unlikely to disappear until the proposed electoral cycle is completed.

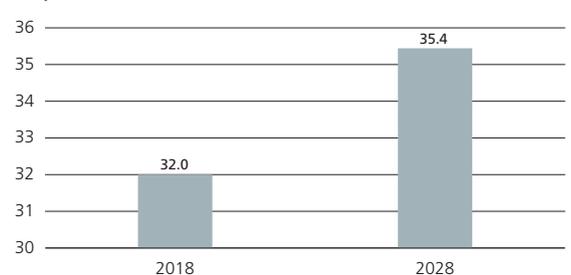
## Long-term outlook

GDP growth (%)



- Peru's growth potential is among the highest in Latin America (above 3.5%), as it is expected to benefit from a highly dynamic demography and from the structural reforms undertaken in recent years (particularly of pensions) as well as those that we expect to be passed in the future legislative term that will begin in 2021 (labour reforms, reduced red tape and anti-corruption measures).

Population (millions of inhabitants)

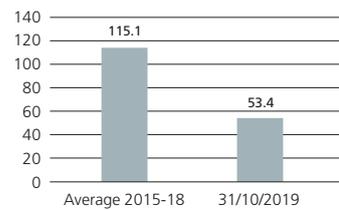


- Overall, institutional quality has room for improvement (with the salient exception of the central bank, which demonstrates strong independence): the judicial system is politicised, corruption is rampant (although the Odebrecht scandal may be bringing about meaningful change in this area), and the party system (great importance of local parties) makes it difficult to form strong parliamentary majorities, as evidenced by the current governance crisis. Moreover, the production model is heavily focused on harnessing natural resources and this makes the Peruvian economy vulnerable to shifts in global demand.

**Country risk**

	Rating	Last changed	Outlook
STANDARD & POORS	BBB+	19/08/13	Stable
MOODY'S	A3	02/07/14	Stable
FitchRatings	BBB+	23/10/13	Stable

CDS\* 5 years (basis points)



OECD credit risk rating (from 0 to 7, with 0 being the best)



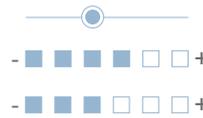
■ Indicates that the country has an "investment grade".  
 □ Indicates that the country does not have an "investment grade".

\*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

**Risks**

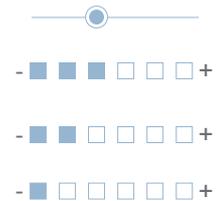
**SHORT-TERM**

- Political instability
- Price of commodities lower than forecasted



**LONG-TERM**

- Maintenance of the production model
- Slowdown of the infrastructure programme
- Changes in the framework of economic policy



**Business environment**

**STRENGTHS**

- Management of macroeconomic policy.
- Size of the labour market.
- Quality of higher education.
- Labour market.

**WEAKNESSES**

- Institutions (lack of confidence and pending modernisation).
- Inefficient labour market.
- Insufficient infrastructures.
- Insecurity.
- Workforce not suitably trained.

**Main sectors**

**EXPORTS**

- Mining: steel and other metals. Agriculture: cotton, sugar cane, corn, avocados, potatoes, coffee, cocoa and wheat.

**IMPORTS**

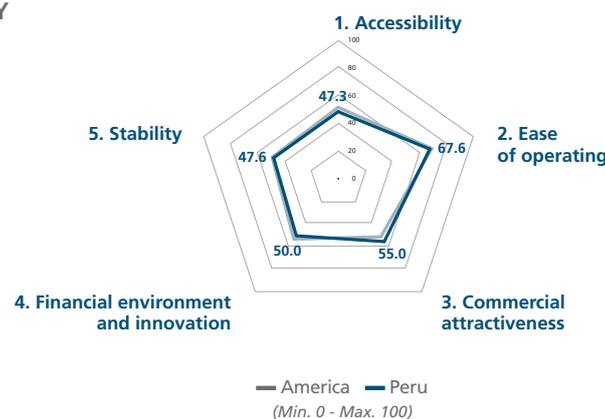
- Industry: textiles, food, oil extraction and refining, machinery and mining.

**CIBI | CaixaBank Index for Business Internationalisation**

**POSITION IN COUNTRY RANKING**



**PILLARS**



**SUBPILLARS**

**Top**

Investment relations with Spain  
 Similar tastes to Spain  
 Distance, communications, and agreements with Spain

**Bottom**

Infrastructures  
 Easiness of operating a business  
 Institutional stability

## Taxation

In Peru, the main taxes are on income, production and consumption, money transfers, and assets. There are also other contributions to Social Health Insurance and the National Pensions System.

The administration and collection of taxes falls to the Superintendencia Nacional de Aduanas y de Administración Tributaria - known as SUNAT - and, in some cases, to municipalities or regulatory bodies.

The main taxes are divided into direct taxes (income tax, temporary tax on net assets and tax on financial transactions), indirect taxes (general sales tax and excise tax), and municipal taxes (property tax, real estate transfer tax and vehicle ownership tax).

The income tax (IR) is applied to net income and determined annually. The fiscal year begins on 1 January and ends on 31 December. Companies incorporated in Peru are subject to the third category income tax for their global income. On the other hand, unregistered companies, branches in Peru and permanent establishments are only subject to taxes on their Peruvian income. The IR rate for registered companies is 27% for the 2017-2018 fiscal year and 26% starting in 2019.

Meanwhile, Peruvian citizens registered in Peru are subject to taxes on their global income, no matter the country, unlike unregistered Peruvians who only pay taxes on their income generated in the country. A non-taxable minimum of 7 UIT (S/ 27,650, approximately US \$8,109) is established

for wages, salaries and any other type of remuneration derived from independent or dependent employment (fourth and fifth category income). Additionally, a 20% deduction is allowed on income from independent employment, and donations and the tax on financial transactions can also be deducted. Other expenses may not be deducted.

Meanwhile, income earned by registered natural persons from leasing, subleasing and transfer of property (first category income), as well as other capital income (second category income) are taxed at an effective rate of 5% on the gross amount.

For non-registered natural persons, the IR on income from dependent employment is 30%, with no deductions. Income generated by independent employment is subject to an effective rate of 24%.

Peru has joined and ratified agreements to prevent double taxation with the following countries: Brazil, Chile, Canada, Portugal, South Korea, Switzerland and Mexico. Likewise, it is a member of the Andean Community of Nations, along with Colombia, Ecuador and Bolivia. It has also negotiated an agreement to prevent double taxation with Spain, which is still pending ratification.

The general sales tax (IGV) is applied to sales of goods within the country, the provision and use of services, and imported goods, and the rate is 18% (including the 2% municipal tax).

## Investment

The Central Reserve Bank of Peru (BCRP) reported an inflow of \$6.488 billion in direct foreign investment in 2018, some 372 million dollars less than the figure achieved in 2017.

According to ProInversión's Foreign Investment Registry, on 30 June 2017 the foreign investment inflow in the form of capital contributions reached \$25.203 billion. Spain, the United

Kingdom and the US are Peru's main sources of capital contributions, accounting for 48% of the balance as of June 2017, while the top 10 countries account for 86% of the overall balance. The contributions are distributed by sector as follows: 87% is concentrated on mining, communications, finance, energy and industry.

## Establishment

### LOCAL COMPANY

There are different forms of companies available in Peru. Those most used by foreign investors are:

- Common corporations (S.A.): these require a minimum of two shareholders. Unregistered shareholders must select a representative to sign the articles of association. The initial investment capital, whether in national or foreign currency, must be deposited in a local bank. There is no minimum amount required by law, however financial institutions usually ask for minimum initial capital of S/ 1,000 (approximately US \$293).
- Closed corporations (S.A.C.): these preserve the limited liability of their partners, of whom there are a minimum of 2 and a maximum of 20. The shares may not be listed on the stock exchange.
- Open corporations (S.A.A.): basically intended for companies with a large number of shareholders (more than 750) or those that have had an initial public offering, or that have bonds convertible into shares, or in which more than 35% of the capital belongs to 175 or more shareholders. They must be registered in the Register of Listed Companies. They are subject to oversight by the Securities Market Superintendency (SMV).
- Limited liability trading companies: these are established with a minimum of 2 and a maximum of 20 shareholder partners. This type of company does not issue shares. The requirements for incorporation are the same as for other company types. Their capital is divided into accumulable and indivisible shares.

## **Establishment** (continuation)

### **BRANCH**

The agreement of a parent company to constitute a branch must be legalised by the Peruvian consulate and certified by the Minister of Foreign Relations in Peru, where applicable, or otherwise must be apostilled in the country of origin, before becoming a public deed and

being included in public records. A certificate of good standing for the parent company is also required. Under the General Corporations Law (LGS), branches of foreign companies can become incorporated companies in Peru under any of the company types legally available.

### **REPRESENTATIVE OFFICE**

The Peruvian legal framework does not include representative offices as a company type and there are no specific regulations covering how to "incorporate or establish" a representative

office in Peru. However, it is understood that the figure would only entail a foreign company naming a representative to enter the country to do preparatory or ancillary work.

## **Alliances** **strategic**

### **FREE TRADE ZONE**

The following special economic zones (ZEE) exist in Peru: the Tacna Free Trade Zone (Zofra Tacna) and the special development zones (ZED) Matarani, Paita and Ilo.

### **JOINT VENTURE**

Peruvian law does not specifically regulate the joint venture contract under the General Corporations Law, including it instead as a consortium, and special legislation refers to similar contracts, but only mentions them without defining them or defining them briefly. This raises the problem that there is no comprehensive and systematic treatment of joint ventures, resulting in a climate of uncertainty, which is why there is no requirement to list this contract in public records, except for in mining where they must be included in the Mining Public Records.

The joint venture contract generically falls under partnership agreements, which create and regulate participation and inclusion in certain businesses or companies, in the common interest of the parties. This type of contract that does not create a legal entity must be in writing and is not required to be included in public records. There are three forms of association contracts: the joint partnership contract, the consortium and the joint venture.

## **Customs** **conditions**

### **FREE TRADE AGREEMENTS**

#### **Regional Agreements**

Andean Community of Nations (CAN).  
Mercosur-Peru.

#### **Multilateral Agreements**

World Trade Organization (WTO).

#### **Existing Bilateral Agreements**

Trade Agreement between Peru and the EU.  
Economic Complementation Agreement no. 50 (ACE 50) between Peru and Cuba.  
The Free Trade Agreement between Peru and Chile.  
The Trade Integration Agreement between Peru and Mexico.  
The Free Trade Treaty (FTT) between Peru and Canada.  
The Free Trade Agreement between Peru and Singapore.

The Free Trade Agreement between Peru and the states of the European Free Trade Association (EFTA).

The Free Trade Agreement (FTA) between Peru and Korea.

The Economic Association Agreement between Peru and Japan.

The Free Trade Agreement between Peru and Panama.

The Free Trade Agreement between Peru and Costa Rica.

The Partial Scope Trade Agreement between the Republic of Peru and the Bolivarian Republic of Venezuela.

The Pacific Alliance.

The Free Trade Agreement between Peru and Honduras.

### **FREE TRADE ZONE**

The Free Trade Zone (Zofra Tacna) provides tax advantages until 2041 and Special Development Zones (ZED) until 2042. These areas are home to industrial and agroindustrial storage, manufacturing and other services. According to Mincetur data, in 2015 the four ZEEs recorded \$280 million in investments and investment commitments, \$40 million in exports and \$140 million in imports, and they generated 1,700 direct jobs.

Users who incorporate companies in the ZOFRATACNA for industrial and agroindustrial

activities, manufacturing, assembly and storage, distribution, unpacking, packing, packaging, marking, and labelling services, among others, get the following benefits: exemption from income tax, general sales tax, excise tax, municipal tax, as well as all existing and future tributes to the central, regional and municipal governments, including those that require express exemption, except contributions to ESSALUD and duties. Foreign goods must only pay a special tariff, providing they come from bonded warehouses located in the ZOFRATACNA.

### Customs conditions (continuation)

#### GENERALISED SYSTEM OF PREFERENCES (GSP)

Peru is one of the countries that, in 2016, was excluded from the EU's Generalised System of Preferences to gain preferential access to the

market under R/EU 1015/2014 (DOUE L-283 27/09/2014).

### Negotiations and protocol

#### BUSINESS CULTURE

Peru's business culture reflects its broad cultural and ethnic diversity. The predominant negotiating strategy is haggling, with exaggerated and apparently firm initial offers that are tightened and lowered over time, even abruptly and unexpectedly at the end of the deal to ensure success. The closing of deals is not necessarily linked to the content of the negotiation, but to the legal security it generates for consolidating trust in the economy and attracting foreign investment: the true goals of international negotiation.

In Peruvian culture, time is relative and unpunctuality and informality are frequent. In Peru, the "heads", or in other words, top-level

hierarchies that are generally centralised, prepared and visibly authoritarian, negotiate.

It is advisable to schedule meetings at least two weeks in advance and to provide details on the titles, positions and responsibilities of the attendees.

It is recommended to dress formally, preferably in dark suits, and men should wear ties on most occasions.

It is also important to avoid changing company contacts, and do so only when absolutely necessary, as it may mean having to rebuild relationships from scratch.

### Top fairs

- FIT Pacífico internacional
- PERUMIN
- Expoalimentaria
- Tecnoagro
- Tecnosalud
- Expofrío internacional
- ExpoTIC
- Expomina
- Top Américas internacional
- Expoplast Perú internacional

### Websites of interest

- Comex Perú: <http://www.comexperu.org.pe/>
- Proinversión: <http://www.proinversion.gob.pe/>
- Superintendencia Nacional de Aduanas y de Administración Tributaria (SUNAT): [www.sunat.gob.pe/](http://www.sunat.gob.pe/)
- Agency to Promote Private Investment: [www.investinperu.pe/](http://www.investinperu.pe/)

### Payment and charging methods

#### MEANS OF COLLECTION

The means of collection and payment most used in foreign trade transactions with Peru is documentary credit, as it offers commercial and warranty conditions to both parties. With this instrument, the exporter has a payment guarantee

backed by a Peruvian financial institution (an irrevocable letter of credit confirmed by the advising bank is the safest payment method for the exporter). Meanwhile, the buyer has a shipping guarantee for the goods.

#### MEANS OF PAYMENT

Other means of payment used in Peru are: Advance payment allows the seller to receive payment for goods before they reach the buyer. However, this method is only used in very specific cases because it is highly risky for the buyer. Direct payment via a cheque or transfer with no document support from the banking institution is

used when there is full trust between the parties. Finally, collection with documentation is also used, in which the exporter submits financial documents (bill of exchange) and/or commercial documents (invoice, etc.) to a financial institution to be handed over to the buyer when indicated by the seller.

#### EXCHANGE RATE INSURANCE

International transactions are affected by market fluctuations, and it is therefore advisable to hedge this kind of transaction with exchange rate coverage (non-delivered forward). Peru's currency, the sol, has been the least volatile

of all Latin American currencies in recent years and was the least affected by the fall of the US dollar. Since the mid 1990s, the sol's exchange rate with the US dollar has fluctuated between 1.25 and 3.55 to 1.

### CaixaBank in the country

The main objective of the office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, whether they are foreign

trade or investment and deployment projects. It also offers consulting and support services to companies.

**CaixaBank**  
**in the world**

- Branches
- Representative offices
- Spanish Desks

