PERU

Structural reforms in recent years have sustained Peru’s economic competitiveness. During the 2015–2016 fiscal year, the government reduced the corporate tax rate from 30 percent to 28 percent as part of a planned gradual decrease over the next few years.

Peru’s economy is relatively open and welcomes most foreign investment, but regulatory delays and a lack of predictability in regulations are problematic for foreign investors. Government corruption is a serious problem, and drug trafficking has grown, limiting foreign investor confidence in the economy. State-owned enterprises remain very active in the economy, especially in the petroleum sector.

BACKGROUND: Pedro Pablo Kuczynski, a center-right 78-year-old former World Bank economist and investment banker better known by his initials, “PPK,” narrowly defeated a populist campaign by former President Alberto Fujimori’s daughter in the presidential election of June 2016. Outgoing President Ollanta Humala of the leftist Peruvian Nationalist Party governed moderately during his five-year term, but he did not deepen liberalization and was undermined by allegations of corruption. Nevertheless, poverty rates have been reduced, and Peru has benefited from significant foreign investment in mining and manufacturing. Peru has entered into numerous trade agreements with the U.S. and other countries and is a founding member of the Pacific Alliance.
Although Peruvian law recognizes secured interests in both movable and immovable property, the judicial system (with the exception of the commercial courts) has a large backlog and is extremely slow to hear cases and issue decisions. Corruption is a serious problem in the government, the security forces, the judiciary, customs agencies, and the ports, as well as in local governments, where the influence of drug traffickers has grown.

The top personal income tax rate is 30 percent, and the top corporate tax rate is 28 percent. Other taxes include a value-added tax and a financial transactions tax. The overall tax burden equals 16.8 percent of total domestic income. Government spending has amounted to 22.3 percent of total output (GDP) over the past three years, and budget deficits have averaged 0.6 percent of GDP. Public debt is equivalent to 23.1 percent of GDP.

Recent reforms have dismantled some barriers to launching private enterprises, but the formation and operation of private businesses can still be costly. Labor regulations continue to evolve, with more flexibility gradually being introduced. Most price controls had been eliminated as of mid-2016 except for the regulation of rates set by private companies in telecommunications, energy and mining, public transport, and sanitation services.

Trade is moderately important to Peru’s economy; the value of exports and imports taken together equals 45 percent of GDP. The average applied tariff rate is 1.4 percent. Investment in most sectors of the economy is not screened, but state-owned enterprises distort the economy. The banking sector has been transformed through consolidation. Foreign ownership is substantial, and credit to the private sector has increased steadily.