

Economic & Commercial Report for the week ending 03rd November 2017

1. Analysis of Trade Data (Peru)

Doing Business 2018- How is Peru faring?

The ease of doing business in Peru is increasingly becoming challenging. According to the World Bank Doing Business ranking of 2018, Peru ranked in the 58th position amongst 119 countries compared. The country fell by four positions compared to last year, which added its fourth consecutive fall. The top position reached by Peru was in the year 2015 when it reached 35th position. In the region, Chile is at position 54, Columbia at 59 and Mexico at 49.

The ranking reveals that there are two important factors in which Peru is lagging behind. Among the 10 determinants of the business climate, the country occupies its worst position in terms of tax payments: the 121st position in the world. This is because in Peru nine tax payments have to be made in a year, taking a time of 260 hours and an average rate of 35.6% of the profits, according to the report. The big problem at this point is the low predictability of taxes, according to César Fuentes, ESAN (business school) professor. The problem in Peru, he considered, is not the tax rates, but the unpredictable, flexible and friendly nature of the tax system. For his part, Juan Carlos Odar, Director of Phase Consultores, said that the poor performance of the tax system responds to taxpayers who don't pay, while there are companies that have exemptions or avoid taxes. The former Minister of Production Piero Ghezzi used to say that Peru is good in the macroeconomic part, but bad in microeconomics, and the Doing Business is a sample of it. This, according to Fuentes, is a call for attention to the urgency of having market reforms with a comprehensive vision.

Topics	DB 2018 Rank
Overall	58
Starting a Business	114
Dealing with Construction Permits	61
Getting Electricity	63
Registering Property	44
Getting Credit	20
Protecting Minority Investors	51
Paying Taxes	121
Trading across Borders	92
Enforcing Contracts	63
Resolving Insolvency	84

For Hugo Perea, chief economist for Peru of BBVA Research, all aspects in which the country has retreated are closely related to long-term investment, on which economic growth depends. The second factor in which Peru is lagging behind is that of facilities to open a business: this process takes 26.5 days and costs about US \$ 595, according to the World Bank. In addition to this, there are two other factors in which the country is located below the middle of the table. In foreign trade facilities, it is ranked 92, due to the high export and import costs, in addition to the long terms of said operations, according to the report. The resolution of insolvencies is also an area Peru is lagging behind, which is a process that takes more than three years, and in which Peru is positioned at 84. On the other hand, there are two factors in which Peru shows some strength. The first is in access to credit, in which he held position 20. Meanwhile, in the ease of registering property, Peru reached the position 44.

CHALLENGES: The World Bank reported that, in the last four years, Peru has not made more than three reforms aimed at improving the business climate. Last year, recalled the agency, only saw a reform in this direction: the rate of Income Tax for companies was reduced. Meanwhile, during 2015 two measures were taken. One was to improve the credit information systems with the personal data protection law. In addition, an online registry was created to facilitate the payment of taxes. For César Fuentes, this shows the lack of emphasis in these reforms and the need to create an agenda of pending issues to be addressed in the microeconomic field. Meanwhile, Hugo Perea said that improving the business climate is a strategy very aligned to the goal of achieving economic growth through investment. However, he considered that it would not be healthy to take as an objective of economic policy the improvement in the position of the country in the ranking. The Ministry of Economy and Finance (MEF) expects an improvement in the ranking indicators, which today present challenges.

2. News analysis related to Trade

Peru:

i. **J.P. Morgan: Peru economy to grow 4.4% in 2018** (*Andina : 01/11/2017*) - Peruvian economy will get back on track and grow 4.4% in 2018 —above its 3.5% potential— driven by better commodity prices and investment in post-disaster reconstruction, J.P. Morgan projected on Nov 1. During a presentation on Peru's economic outlook at Baker McKenzie headquarters in London, J.P. Morgan Emerging Markets Research Global Director Luis Oganés affirmed "the worst of the economic downturn is over" and the financial firm "expects a recovery." J.P. Morgan's estimates are thus in line with those of the Central Reserve Bank of Peru (BCR), which projects growth at 2.8% for 2017 and at 4.4% for 2018.

ii. **Peru eyes US\$10 bn in mining projects in 2018** (*Andina : 31/10/2017*) - Peruvian mining is in a good moment, and the sector may materialize projects valued at US\$10 billion by the end of 2018, Energy and Mines Minister Cayetana Aljovín affirmed on Oct 31. "Expectations for major investments in mining projects are doing great. It is clear that metal prices make a number of projects feasible and companies' boards feel much more comfortable [in this sense]," Aljovín explained. The projects in question are Corani (Puno region), Mina Justa (Ica), Quellaveco (Moquegua), the expansion of Toromocho (Junín) and Pampa de Pongo (Arequipa).

iii. **Export of cocoa beans was reduced to US \$ 92 million between January and August of 2017** (*Gestión : 02/11/2017*) - Between January and August of this year, exports of cocoa beans have reached US \$ 92 million. This represented a fall of 27.9% with respect to the same period of the previous year, says Comex with data from Sunat. Peru is the second producer of organic cocoa, after the Dominican Republic. According to Sierra and Selva Exportadora, 90% of Peruvian cocoa production is exported and more than half consists of cocoa beans. Peruvian exports of cocoa beans have almost tripled in recent years, going from US \$ 69 million in 2012 to US \$ 202.5 million in 2016. This goes hand in hand with the increase of hectares of crops in the main producing departments. According to the Ministry of Agriculture, there are more than 130,000 cultivated hectares of cocoa in the country.

iv. **Execution of public investment grew 31% in October, the best result within the last 19 months** (*Ministry of Economy & Finance Press Release : 01/11/2017*) - During the month of October 2017, the execution of public investment increased by 31%, in nominal terms, with respect to the same period last year, this being the highest rate of the last 19 months. Thus, in October, S / 2737 Million was executed. It is important to highlight that this expansion of public investment is widespread at all levels of government, which enhances the fiscal impulse on the national economy. Thus, the national government investment grew 19%, while the investment of regional and local governments grew 35% and 46%, respectively.

v. **INEI: Construction grows 8.92% in September** (*El Comercio : 01/11/2017*) - The production of the Construction sector grew 8.92% in September, when compared to the same month of 2016, while Mining and Hydrocarbons managed to accumulate four months of consecutive expansion, reported the National Institute of Statistics and Informatics (INEI). Thus, the positive result of the first sector was based on the higher domestic cement consumption (4.19%) and public works investment spending (23.64%).

Bolivia:

vi. **Exports of Bolivia grows 8.8%** (*Jornada.Net : 03/11/2017*) - The value of Bolivia's exports in the first nine months of the year stood at 5,797 million dollars, 8.8% more than in the same period of 2016, which is mainly due to the push of the hydrocarbons sectors and mining. This was reported by the National Institute of Statistics (INE) in its report on the growth of exports between January and September. The sale of hydrocarbons, essentially natural gas to Brazil and Argentina, reached the figure of 1,942.4 million dollars, 21.4% more than the 1,600 million reported a year earlier. In the case of minerals, exports totaled 1,614.9 million dollars, 20.8% more than the 1,337.2 million dollars reported in the 2016 comparison period. The activities that present negative figures with respect to last year are the manufacturing and agriculture.