1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

PERU

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production, and Employment:			
Nominal GDP 2/	65,207	62,968	59,300
Real GDP Growth (pct) 3/	6.9	0.3	3.5
GDP Growth by Sector:			
Agriculture	4.9	3.6	14.5
Manufacturing	6.6	-2.8	3.0
Services	6.9	1.0	-0.3
Government [included in "Services"]	…	…	…
Per Capita GDP (nominal US$) 2/	2,675	2,534	2,350
Labor Force (000s)	6,592	7,309	N/A
Unemployment Rate (pct) 4/	7.7	7.7	10
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.2	10.4	14
Consumer Price Inflation	6.5	6.0	5
Average Exchange Rate (Sol/US$)			
Inter-bank	2.66	2.93	3.37
Parallel	2.66	2.93	3.37
Balance of Payments and Trade:			
Total Exports FOB	6,832	5,735	6,200
Exports to the U.S. 5/	1,579	1,808	1,835
Total Imports FOB	8,553	8,200	7,400
Imports from U.S. 5/	2,001	2,003	1,635
Trade Balance	-1,721	-2,645	-1,200
Balance with U.S.	-422	-195	200
External Public Debt	18,787	19,562	19,200
Fiscal Deficit/GDP	0.1	-0.7	-2.5
Current Account Deficit/GDP	5.0	6.0	4.5
Debt Service Payments/GDP	1.3	1.4	1.0

Net International Reserves	10,169	9,183	8,700
Aid from U.S.	97	105	123
Total Aid	285.1	288.9	626.2

1/ 1999 figures are estimates based on data available as of October.

2/ GDP data calculated using nominal soles figures at average exchange rates. The Peruvian Government is well behind its target to release re-calculated GDP figures, with 1994 as the new base year (which will replace the current 1979 base year).

3/ Percentage changes calculated from GDP data in local currency at 1979 prices.

4/ Urban, at the Third Quarter.

5/ Estimates based on annualized official data for August 1999.

6/ Inflation at year-end.

Source: Central Reserve Bank of Peru, National Institute of Statistics, Ministry of Labor, Presidency of the Council of Ministers, and Embassy estimates.

1. General Policy Framework

Peru is a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past nine years, the government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, lowered tariffs, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: The economy achieved a modest recovery in 1999; real GDP will grow an estimated 3.5 percent after a flat 0.3 percent in 1998. Economic performance in 1998 and 1999 was affected by several factors, including the “El Nino” weather phenomenon, which led to sharp declines in fish exports; worsening terms of trade (as prices for minerals -- Peru’s primary exports -- dropped); and dramatic outflows of short-term capital after the financial turmoil in Russia. The current account deficit contracted in 1999, to about 4.5 percent of GDP. Inflation remained low by Peru’s historical standards, hitting 5 percent for the year. The government’s overall budget was slightly out of balance in 1999, as a result of sharply lower than expected revenues. Peru’s macroeconomic stability has reduced underemployment from 74 percent during the 1980’s to 43 percent for the 1995-1998 period. The percentage of Peruvians living in poverty fell from 55.3 percent in 1991 to just under 40 percent in 1997, according to government indicators.

Trade Policy: Peru’s economy is largely open to imports. As Peru’s largest trading partner, the U.S. exported about $1.6 billion to Peru in 1999, well below the level of 1998. Peru's average tariff rate fell from 66 percent in 1990 to 13 percent in 1998. Some countries (not including the U.S.), however, avoid tariffs on a number of their exports to Peru because of preferential trade agreements. As a member of the Andean Community and of the Latin American Integration Association (ALADI), Peru grants duty-free access to many products originating in those countries. In June 1998, Peru signed a Free Trade Agreement with Chile, which will be phased in over a number of years. In April 1998, the Andean Community signed a framework agreement with MERCOSUR to establish a free trade area after the year 2000; further negotiations in 1999 must still take place on implementation of the agreement. Peru also plans to complete a Free Trade Agreement with Mexico by the year 2000. Peru officially became a member of APEC in November 1998.

Monetary Policy: The central bank manages the money supply and affects interest and exchange rates through open-market operations, rediscounts and reserve requirements on foreign currency and local currency deposits. United States dollars account for two thirds of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. Net foreign reserves have grown to about $9 billion (they were negative in mid-1990). Peru reached an agreement in July 1996 to reschedule its official debt (Paris Club), and closed a deal with its commercial creditors (Brady Plan) in March 1997.

2. Exchange Rate Policy

The exchange rate for the Peruvian New Sol is determined by market forces, with some intervention by the central bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition of foreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the central bank. U.S. exports are generally price competitive in Peru.

3. Structural Policies

Peru is a liberal economy largely dominated by the private sector and market forces. The government dramatically reduced its role in the economy after it began a privatization program in 1992. Since that time, most major state-owned businesses, including the telephone company, electric utilities and mining companies, have been sold. The government backtracked from its original plan to sell off substantially all its companies by 1995, and it intends to keep, for the foreseeable future, the remaining parts of the petroleum company (Petro Peru), some electrical utilities, and the Lima water company. In early 1997, the government announced that it would begin a new phase of the privatization program by selling concessions to build and/or operate public facilities such as airports, roads, railroads, and ports. U.S. companies have participated heavily in the privatization program, particularly in the mining, energy, and petroleum sectors.

Price controls, direct subsidies, and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to over 14 percent by late 1998. Customs collections have more than tripled since the early 1990s, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on its 18 percent Value-Added Tax (VAT). There are also several high excise taxes on certain items, such as automobiles and fuels.

4. Debt Management

Peru's long and medium-term public external debt at the end of June 1999 totaled about $19.2 billion -- less than one third of GDP. Total service payments due on the debt for 1999 are estimated at $1.0 billion. Peru has reduced the burden of external public debt steadily since 1993. The ratio of the debt service to exports of goods and services, which peaked at 76 percent in 1988, fell to 22 percent in 1997. That ratio increased to 25 percent in 1998 and may stay there in 1999. Although the external debt burden appears high when compared with similar countries, the Peruvian government has practically no domestic debt. Moreover, in recent years Peru has maintained a high level of international reserves, while about two thirds of deposits in the banking system are in dollars.

Peru cleared its arrears with the Inter-American Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank, and negotiated an Extended Fund Facility (EFF) with the IMF for 1993-95. The government negotiated a follow-on EFF for 1996-1998 and an unprecedented third EFF for 1999-2001. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993-March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in “official debt” payments coming due between 1996 and 1999, and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru’s debt service profile.

Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The government estimates annual obligations under the deal at about $300 million. With the Brady closing and the Paris Club rescheduling, Peru is now current with nearly all its international creditors.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and obstacles to direct investment have been eliminated over the past nine years. Peru became a founding member of the World Trade Organization in January 1995.

Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in illegal narcotics production); ammonium nitrate fertilizer (which has been used as a blast enhancer for terrorist car bombs), wild plant and animal species, and some radio and communication equipment. The following imports are banned: several insecticides, fireworks, used clothing, used shoes, used tires, radioactive waste, and cars over five years old and trucks over eight years old.

Tariffs apply to virtually all goods exported from the U.S. to Peru, although rates have been lowered over the past few years. A new tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. At the same time, the government did raise some tariffs on agricultural products and imposed an additional “temporary” tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent (by value) of the products imported into Peru; a 20 percent tariff applies to most of the rest, while a few products are assessed rates (because of the additional “temporary” tariffs) of up to 25 percent. Another set of import surcharges also applies to four basic commodities: rice, corn, sugar and milk products. (The surcharge on wheat was eliminated in July 1998). Imports are also assessed an 18 percent value-added tax on top of any tariffs; domestically-produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru’s bilateral and multilateral trade agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, in an effort to preclude competition from foreign investors in recent privatizations of electrical utilities, COPRI, the Privatization Agency, has interpreted that a foreign company or individual is an investor only when the company or individual has actually invested, not when it is considering investing. Furthermore, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land within 50 kilometers from a border, but can operate within those areas through special authorization. There are no prohibitions on the repatriation of capital or profits. Under current law, foreign employees may not make up more than 20 percent of the total number of employees of a local company (whether owned by foreign or national interests) or more than 30 percent of the total company payroll, although some exemptions apply.

Customs procedures have been simplified and the customs administration made more efficient in recent years. As part of the customs service reform, Peru implemented a system of pre-shipment inspections, through which private inspection firms evaluate most incoming shipments worth more than $5,000. (Exceptions include cotton and heavy machinery). The importer must pay up to one percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays and conflicts over valuation.

6. Export Subsidies Policies

The Peruvian Government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat 5-percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be re-exported within 24 months. There are several small-scale export promotion zones where goods enter duty-free; they must pay duties if/when they enter the rest of the country.

7. Protection of U.S. Intellectual Property

Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In April 1999, the U.S. Trade Representative placed Peru on the “Special 301” Priority Watch List due primarily to concerns raised by the International Intellectual Property Alliance (IIPA) about the lack of deterrent-level decisions issued by Peru's intellectual property rights (IPR) tribunal. This tribunal has more recently sped up its decision making process and has reversed its earlier tendency to reduce IPR fines.

IIPA data show that piracy in the software and motion picture industries has declined sharply over the past four years. Software piracy fell from 83 percent in 1995 to 60 percent in 1998, while video piracy fell from 95 percent in 1995 to 50 percent in 1998. During the same period, piracy of sound recordings increased slightly from 83 percent to 85 percent. Peru's market for sound recordings grew so rapidly between 1995 and 1998 that estimated trade losses due to piracy increased from $16 million to $50 million. IIPA's estimates for trade losses in all other sectors remained the same or fell slightly during the 1995-98 period.

In April 1996, Peru passed two new laws to improve its intellectual property rights protection regime and bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. Although the new laws are an improvement, they contain several deficiencies, and the government needs to bring its laws into conformity with the WTO TRIPs Agreement by the year 2000. Although enforcement efforts have increased, piracy remains widespread.

Patents and Trademarks: Peru's 1996 Industrial Property Rights Law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. In June 1997, based on an agreement reached with the U.S. Government, the Government of Peru resolved several apparent inconsistencies with the TRIPs Agreement provisions on patent protection and most-favored nation treatment for patents. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Although Peruvian law provides for effective trademark protection, counterfeiting of trademarks and imports of pirated merchandise are widespread. Peru, along with its Andean Community partners, has been working toward completion of revisions of the common Andean Community policy on Industrial Property by January 2000 to bring it into compliance with the TRIPs Agreement.

Copyrights: Peru's Copyright Law is generally consistent with the TRIPs Agreement. However, textbooks, books on technical subjects, audiocassettes, motion picture videos and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has increased other types of enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru. Insufficient customs, police, and judicial action have been a problem in such areas as sound recordings.

8. Worker Rights

Articles 28 and 42 of the Peruvian Constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of

10 million, only about five percent belong to unions. Close to one half the work force is employed in the informal sector, beyond government regulation and supervision.

a. The Right of Association: Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are not eligible for union membership. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal service contracts to prevent union affiliation. Labor experts assert that companies prefer this type of hiring because it affords them the chance to adapt their total payroll to the business cycle without the hassle of having to seek government approval to release workers. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, law prohibits unions from engaging in explicitly political, religious or profit-making activities. The International Labor Organization (ILO) in June 1996 called on the Peruvian Government to enhance freedom of association.

b. The Right to Organize and Bargain Collectively: Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by force majeure or economic conditions, with 15 days notice to employees. The Peruvian Congress approved legislation in 1995 and 1996 amending the 1992 Employment Promotion Law, which union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this law with the ILO, and the ILO noted that the new legislation failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited, as is imprisonment for debt. In response to a complaint filed with the ILO, however, the government in 1994 acknowledged the existence of forced labor practices in remote areas of the country and said it had taken measures to end them. Although the constitution does not specifically prohibit forced or bonded labor by children, Peru has ratified ILO Convention 105 on the abolition of forced labor, including forced or bonded child labor. Nevertheless, there have been recent reports of forced or bonded child labor in a handful of small informal gold mining operations in a remote area of Peru.

d. Minimum Age for Employment of Children: The minimum legal age for employment is 12. In certain sectors, higher minimums are in force: 14 in agricultural work; 15 in industrial, commercial or mining work; and 16 in the fishing industry. Although education through the primary level is free and compulsory, many school-aged children must work to support their families. Child labor takes place in the informal economy out of the reach of government supervision of wages or conditions. In recent years, government surveys have variously estimated the number of child and adolescent workers to be anywhere from 500,000 to 1.9 million.

e. Acceptable Conditions of Work: The 1993 Constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal". No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector.

f. Rights in Sectors with U.S. Investment: U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare very favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries in Peru -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Industry		1998
Petroleum		117
Total Manufacturing		215
Food & Kindred Products	75	
Chemicals & Allied Products	83	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	(2)	
Electronic & Other Electric Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		96
Depository Institutions		(1)
Finance/Insurance/Real Estate (3)		322
Services		32
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,587

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).
(3) Finance excludes depository institutions.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.