

The Peruvian economy is currently facing serious macro-economic problems associated with a rising fiscal deficit and a fragile financial system. The recent agreement reached by the Peruvian authorities with the International Monetary Fund has calmed international markets and reduced the perceived risk of investing in Peru. A tax reform program implemented during the past year, however, has done little to change the investment climate, as political factors seem to have the greatest impact on investors' attitudes.

The newly elected Toledo administration (in office since July 28, 2001) plans to implement reforms to increase private consumption and investment, stimulate food production, increase food security and generate foreign exchange.

Macroeconomic Situation and Outlook

Despite internal social and political tension, the Peruvian economy grew 3.6 percent in 2000. Economic activity expanded from the stimulus of rising fiscal expenditures, particularly during the first half of the year, and robust export growth. For 2001, GDP is expected to grow at about 1.5 percent. Most, if not all, of the slowdown is linked to the uncertain political situation during the first half of the year. For the medium term, however, the forecasted economic growth will be closer to 5.5 percent, according to the new administration.

Peru's external sector is influenced by developments in the U.S. economy, given that approximately 25 percent of Peru's exports are shipped to the United States. A slowdown in the U.S. economy will have a significant effect on several Peruvian export sectors, including agricultural products, such as coffee. The current forecast is for the current account deficit as a share of GDP to decline from 3 percent in 2000 to 2.6 percent in 2001.

The new administration supports a combination of monetary policy to stimulate bank credit to enterprises and families and fiscal policy to expand demand. Proposed policies by the new administration aim to:

- Reduce business taxes
- Reduce the sales tax
- Eliminate any exemption to taxes
- Create a fiscal stabilization fund
- Accelerate privatization efforts

Food Prices and Consumption

Peruvian retail food prices increased by 1.5 percent in 1999-2000. Inflation was recorded at 3.7 percent (about the same level as in 1999). Low food inflation continues to be the main factor in keeping general inflation low, given the importance of food in the overall inflation rate. Food prices at the farm level however, continue to decrease (in real terms) for most products. Inflation is estimated at 3 percent for 2001.

Food Processing and Marketing

The Peruvian food processing system seeks to increase the value-added component in food products to obtain higher prices and reduce waste. The government is also actively trying to implement quality standards on agricultural production, processing and marketing.

Agro-industry production grew by 5.8 percent in 2000, supported by strong growth in the production of olive oil (444%), cocoa paste (371%), fresh asparagus (37%) and dairy products (24%). Regarding food marketing, the new administration has proposed development plans for specific crops (rice, cotton, potatoes, coffee, sugar, and corn). Plans include the creation of supply chains with a price information system and continuing contact with farmers to support the development of a new wholesale market in Lima (to be named "Santa Anita").

Agricultural Production and Trade

Agricultural production increased by 6.4 percent between 1999 and 2000 (6.5 percent growth in the crops sector and 6.3 percent in the livestock sector). The products registering significant growth include sugar, coffee, yellow corn, bananas, tomatoes, poultry and dairy products. For 2001, a 4.7 percent growth is foreseen, but growth could be as high as 5.4 percent if the planned modernization of the agricultural sector takes place. Along with the modernization efforts, the government is pursuing higher private investment in the sector and promoting crop diversification. The livestock sector is forecast to expand 3.8 percent in 2001, mainly in the bovine, poultry and milk sectors.

During the year 2000, agricultural exports decreased by 6.9 percent in volume compared to 1999. Major factors in the reduction include a 13 percent decrease in traditional exports (such as coffee) that represent close to 38 percent of total agricultural exports. Other commodities that experienced reductions were canned asparagus, marigold flour, and mangoes. Fresh asparagus exports registered 14 percent growth during the year, positioning itself as a strong competitor to canned asparagus.

Agricultural exports are estimated at between US\$865 million and US\$ 967 million in 2001. These estimates are taking into account, in the case of coffee, the elimination of domestic obstacles to trade, growth in world consumption (about 4 percent per year) and the increasing production of specialty coffees. For asparagus, an increase in consumption of fresh asparagus is forecasted. In regards to mangoes, the positive effect of entrance to the market of new plantations is being considered for the forecast.

The Commission for the Promotion of Exports (PROMPEX) has outlined several objectives for the medium term:

- Expand agricultural exports through diversification and opening of new markets
- Improve the quality of exports.
- Produce export products with more value added.
- Increase commercial information.

- Support organizations of producers and exporters.
- Promote policy coordination with the Ministry of Agriculture.
- Open new trade offices in Miami and Rotterdam.

Food and Agricultural Policy

The transition Government established in November 2000, was responsible for overseeing the electoral process, and outlined measures to support agricultural production, including a “draw-back” tax system for imports of fertilizers and pesticides and a “Financial Rescue Program” to help farmers with debts less than US\$400,000.

The incoming president emphasized two topics regarding agricultural policy: creation of an agrarian bank (state, private or mixed) and reduction of interest rates for farmers. The main agricultural policies proposed include:

- To improve land and water regulations.
- To establish mechanisms for providing rural credit through an Agrarian Bank, with private capital; and through commercial banks, with funds from international organizations.
- To establish guarantee funds.
- To encourage development of rural infrastructure.
- To improve port and transportation systems.

Water Resources and Water Management

Peru has access to four sources of water supply: rivers, whose waters are captured directly by spillways and redirected by canal systems; natural lagoons at 4,000 to 6,000 meters above sea level; springs, frequently used in the highlands; and underground aquifers. Lack of infrastructure for water storage remains a problem.

Irrigated agriculture uses 86 percent of total local consumption of superficial waters and 66 percent of underground waters. The fact that water costs are estimated to comprise less than one per cent of total agricultural production costs contributes to poor irrigation practices and low water use efficiency. Similarly, lack of proper control and

inappropriate tariffs for the use of ground water has resulted in the overexploitation of aquifers and severe environmental problems, such as contamination and salinity.

A 1990 Presidential Decree established tariffs for agricultural users. The tariffs are used to defray the costs of system operation and maintenance. Traditionally agricultural users were not charged for water; and as a result the cost recovery programs for agriculture are facing resistance.

Water legislation in Peru is contained in Law 17752 of July of 1969, designed to complement the Agrarian Reform legislation. According to the Law, only the State regulates water usage and determines quality standards. The Environment National Council (CONAM by its Spanish acronym) was formed to provide technical assistance and guidelines for establishing uniform environmental regulations, including those related to water. CONAM is involved in three principal areas: pursuing sustainable use of natural resources, preserving environmental quality (targeting industrial pollution), and fostering public education programs.

Proposed legal reforms seek to establish conditions for the creation of a water market and support a broader range of management strategies, including privatization and creation of several river basin organizations. The proposed reforms of the Water Code also include privatization of water rights. Water owners would be free to sell or transfer their water rights, and these rights would be taxed as private property. Some argue that the proposed change is motivated by the desire to bolster agriculture in the economy’s coastal zone, without adequate consideration of conditions in the rest of the country where irrigated agriculture is of lesser importance.

Responsibility for water-quality and water-supply related functions are assigned to different institutions. Water quality responsibilities typically lie with the Ministry of Health while water quantity responsibilities are dispersed among numerous offices within the Ministry of Agriculture. A good administration of the water supply, given the shortage of the resource, mainly in coastal areas, calls for a “new strategic law”, that would not only respond to the hydrographic and ecological characteristics of the different water basins, but also take into account the communal nature of the resource.

PERU

	Units	1997	1998	1999	2000	2001 ^E	2002 ^F
FOOD CONSUMPTION PATTERNS ^a							
Per capita caloric intake	Cal/day	2,348	na	na	na	na	na
From animal products	Cal/day	370	na	na	na	na	na
From vegetable products	Cal/day	1,957	na	na	na	na	na
INCOME AND FOOD PRICES							
Per capita income	US\$/capita	1,724.0	na	na	na	na	na
% of disposable income spent on food	%	45.6	na	na	na	na	na
Food price index	1990=100	1,818.8	1,925.4	1,909.9	1,938.5	1,967.5	1,997.1
General price index (CPI)	1990=100	2,242.6	2,377.2	2,469.1	2,560.4	2,637.2	2,690.0
POPULATION							
Total population	Million	24.4	24.8	25.2	25.6	26.1	26.5
Urban	Million	17.5	17.8	18.1	18.4	18.8	19.1
Nonurban	Million	6.9	7.0	7.1	7.2	7.3	7.4
Share of population in the following age groups							
0-4 years	%	11.9	11.7	11.5	11.3	11.1	13.6
5-14 years	%	23.0	22.7	22.4	22.1	21.8	25.0
15-19 years	%	10.8	10.7	10.6	10.5	10.4	10.9
20-44 years	%	36.9	37.3	37.6	37.9	38.2	34.7
45-64 years	%	12.8	13.0	13.2	13.4	13.6	11.9
65-79 years	%	3.9	4.0	4.0	4.1	4.2	3.4
80-over years	%	0.7	0.7	0.7	0.7	0.7	0.5
Median age of population	Years	20.3	20.4	20.4	20.5	20.5	20.6
Female labor force participation	%	41.3	41.9	42.5	43.1	na	na
LIFE EXPECTANCY ^b							
Males	Years	65.8	66.1	66.3	66.6	66.9	67.2
Females	Years	70.7	71	71.3	71.6	72	72.3
FOOD INFRASTRUCTURE ^c							
Trade capacity							
Grain exports	1,000 Tons	15	130	170	na	na	na
Grain imports	1,000 Tons	2,485	2,798	2,432	na	na	na
Total food and agricultural trade	Million US\$	1,807	1,712	1,507	1,330	na	na
Total food and agricultural exports	Million US\$	793	596	697	614	na	na
Perishable products	Million US\$	68	89	145	145	na	na
Fishery exports	Million US\$	1,403	634	791	1,141	na	na
Total food and agricultural imports	Million US\$	1,014	1,116	810	689	na	na
Perishable products	Million US\$	27	24	20	18	na	na
Road access	Kms	969	1,106	na	na	na	na
Rail access	Kms	873	942	na	na	na	na
Telecommunications ^d	Telephone lines	1,920	2,012	2,001	2,022	na	na
Power generation	Gigawatts	17,953	18,583	19,049	19,902	19,811	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY ^e							
Agriculture as a share of GDP	%	7.7	7.9	8.7	6.4	7.0	7.0
Self sufficiency in horticultural products	%	100.0	100.0	100.0	100.0	100.0	100.0
POLICY TRANSFERS ^e							
Total transfers (subsidy/tax)	Million US\$	218	na	na	na	na	na
Total transfers per capita	US\$/capita	32	na	na	na	na	na
MACROECONOMICS INDICATORS ^f							
GDP growth	%	6.7	0.0	1.4	3.6	1.5	5.0
Interest rate	%	31.1	33.6	28.0	22.0	20.0	20.0
Exchange rate	New Sol/US\$	2.72	3.13	3.51	3.53	3.63	3.67

na = not available E = estimate F = forecast

Sources:

a. Escuela de Administracion de Negocios para Graduados (ESAN).

b. Webb, Richard and Fernandez Baca, Graciela (1997). "Anuario Estadístico, Peru en números 1997", Instituto Cuanto S.A.

c. Ministerio de Agricultura-Oficina de Información Agraria. Superintendencia Nacional de aduanas (SUNAD).

d. Telefonía.

e. Ministerio de Agricultura-Oficina de Planificación Agraria OPP.

f. Instituto Nacional de Estadística e Informática (IENI). Banco Central del Perú.