

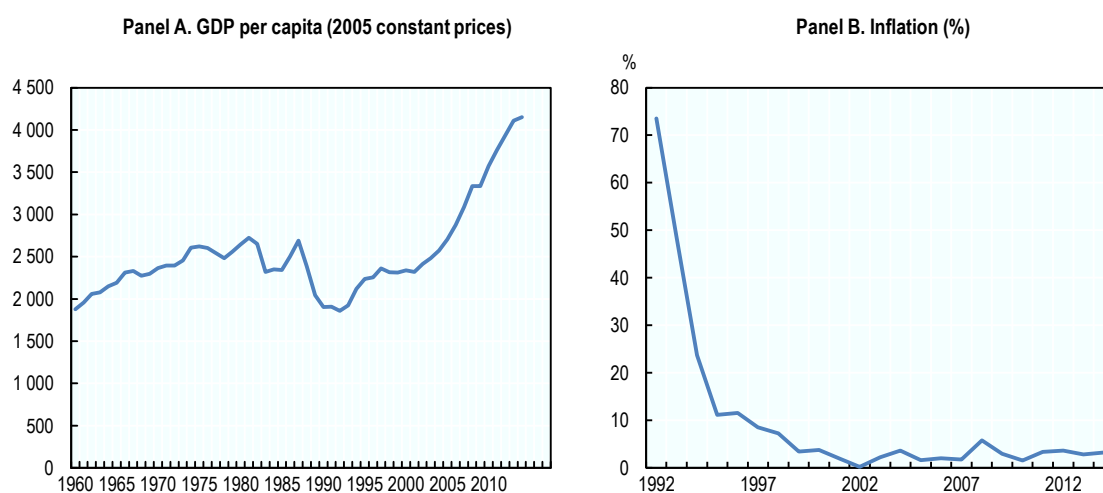
Chapter 4

Macroeconomic policies for inclusive development


Peru's macroeconomic performance has been extraordinary over the last decade. This performance is in part the result of a very favourable external environment, but is also a consequence of a successful combination of sound fiscal policy and monetary credibility. While the former is based on a fiscal responsibility law, the latter is supported by an inflation targeting regime under a dual monetary system. This is a great achievement: a sound macroeconomic framework provides the foundations for a more competitive economy and greater social equity. However, there is still room for improvement. Peru still has a relatively underdeveloped and inefficient financial market. Also, the high level of dollarisation of the financial system increases the economy's vulnerability to external shocks. Finally, a comprehensive fiscal reform is needed to improve the efficiency and equity of the tax system, and in particular to increase fiscal revenues. A more effective and progressive taxation system will be crucial to finance several structural challenges highlighted in the previous chapters, and to reduce income inequalities in Peru.

Underpinned by better macroeconomic management and an exceptionally favourable external environment, Peru's macroeconomic performance has been strong over the last decade. Between 2004 and 2014, per capita GDP grew by an average of 5% per year – the second highest rate of growth in Latin America – and the average inflation rate was 2.6% per annum (Figure 4.1). The unemployment rate fell to historical lows, down from 9.5% in 2004 to 6% in 2014, while labour participation rose from 71 to 79% in the same period (see Chapter 2). In sum, the last decade has been, in macroeconomic terms, the best Peru has had in over a century (Seminario and Alva, 2012; Mendoza, 2013).

Figure 4.1. Peru's macroeconomic performance



Source: World Bank (2015), *World Development Indicators* (database), Washington, DC, <http://data.worldbank.org>

StatLink  <http://dx.doi.org/10.1787/888933265737>

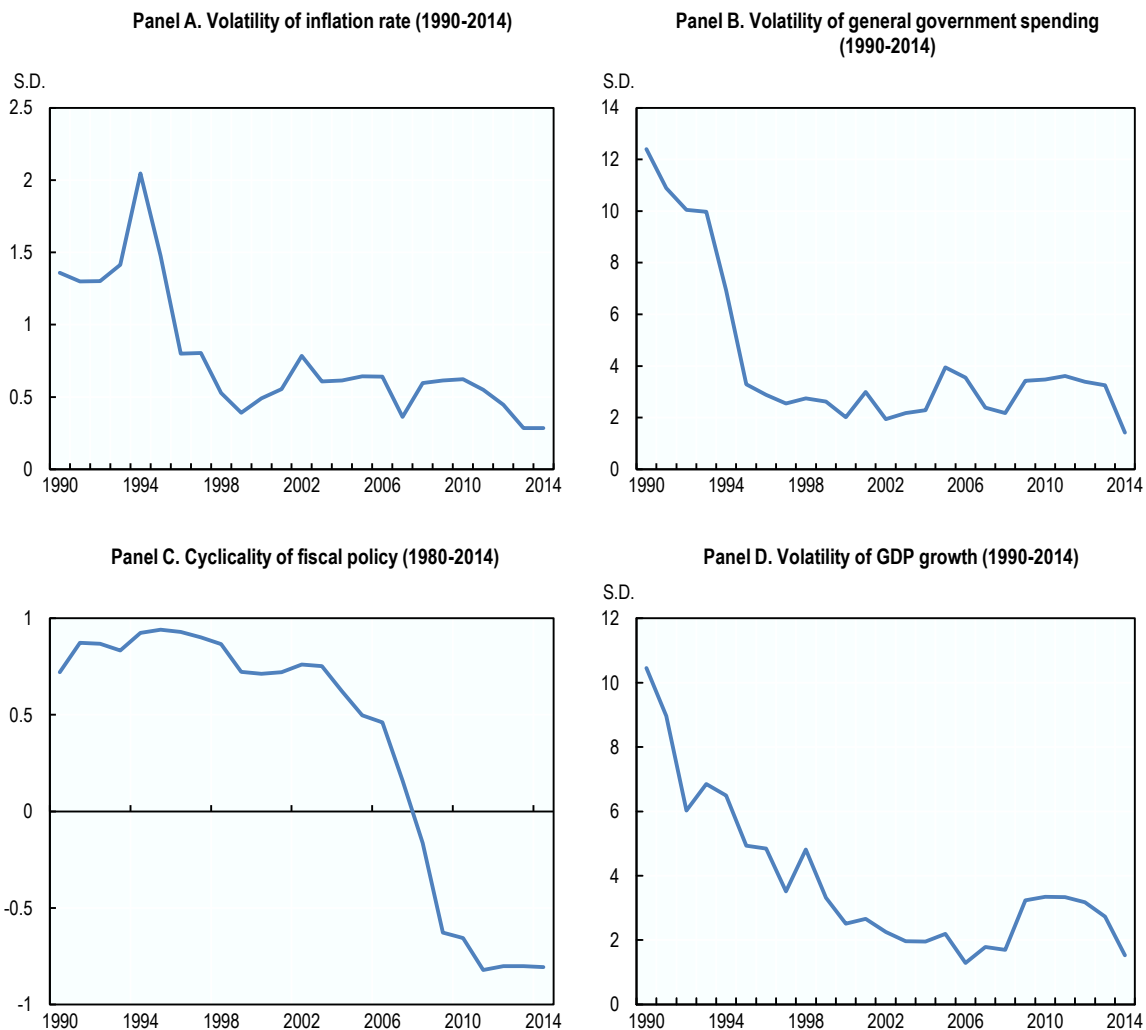
Like other Latin American countries, Peru had suffered for many decades from serious political instability, which had a negative impact on economic growth (Chapter 1; Alesina et al., 1996). But the return to democracy and the stabilising political situation have allowed the country to put in place a sound macroeconomic framework as a solid base from which to build stronger economic growth. Key plans in this framework include major changes in the design of Peru's fiscal and monetary policy, which have helped to reduce macroeconomic instability and improve the capacity of policy makers to respond to external shocks, boosting investment and growth.

This chapter presents Peru's macroeconomic performance, and examines the current and structural challenges that the country faces on the macroeconomic front. First, the chapter reviews the factors behind Peru's strong performance in recent years, analyses the short-term economic outlook, and stresses the need for further strengthening the macroeconomic framework in light of a more challenging external environment. Next, this chapter highlights the need for improvement in access to and administration of the financial resources available for supporting inclusive development. These areas correspond to enhancing access to finance, and increasing capacities for domestic resource mobilisation through the taxation system.

Several factors are behind Peru's strong recent performance


The improvements in Peru's conduct of monetary and fiscal policies are reflected in reduced and less volatile inflation, as well as in the lower volatility and less pro-cyclical behaviour of government spending (Figure 4.2). Together these have helped to reduce volatility in GDP growth (Box 4.1). Lower business cycle volatility improves welfare in two ways: 1) it reduces economic uncertainty, thereby fostering investment and boosting economic growth (Hnatkovska and Loayza, 2004); and 2) it reduces income volatility, which can have a strong impact on households' well-being.

Figure 4.2. Volatility and macroeconomic management in Peru, 1990-2014



Note: In Panels A, B and D, S.D. refers to standard deviation. Panel C. Correlation coefficient between the cyclical components of real government expenditure and real GDP for a 10-year overlapping window. The cyclical components have been estimated using the Hodrick-Prescott Filter. A positive (negative) correlation indicates procyclical (countercyclical) fiscal policy. Real government expenditure is defined as central government expenditure and net lending deflated by the GDP deflator.

Source: OECD calculations based on World Bank (2015), *World Development Indicators* (database), Washington, DC, <http://data.worldbank.org>.

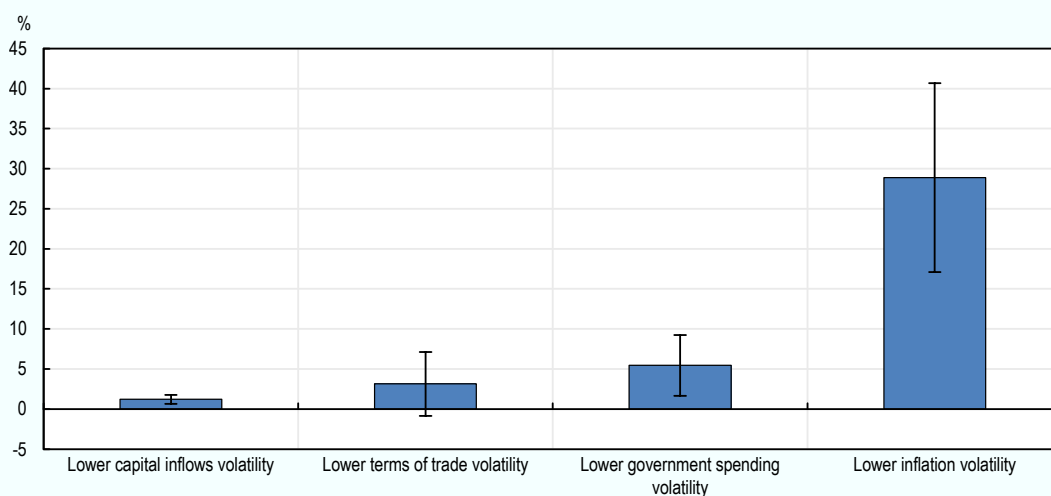
StatLink  <http://dx.doi.org/10.1787/888933265747>

Evidence suggests that in Latin America, welfare improvements from lower business cycle volatility can amount to up to 10% of consumption (Loayza et al., 2007). An improved macroeconomic framework is perhaps the most important asset the government has for its conduct of economic policy. Therefore, continuing to strengthen it should be the cornerstone of future policy making and the foundation on which to build a competitive economy and social equity.

Box 4.1. How have improvements in the macroeconomic framework helped decrease business cycle volatility

Peru has experienced a dramatic settling down in business cycle volatility over the past 25 years. Indeed, the volatility of real output growth has decreased by around 80% since 1990. What factors contributed to this? This box explores this question. Using a panel of 77 countries, including advanced and emerging economies for the period 1960-2014, the main determinants of business cycle volatility have been estimated. Therefore, using the estimated coefficients from this regression, it has been measured how much each explanatory variable contributed to the decrease in volatility in Peru. The results show that although external factors such as less frequent terms of trade shocks and less volatile capital inflows did contribute to the decline in volatility, improvements in Peru's macroeconomic management played a more important role. In particular, according to the estimations, more than half of the decrease in business cycle volatility in Peru can be explained by more stable fiscal and monetary policies (Figure 4.3).

Figure 4.3. What were the main drivers of lower business cycle volatility in Peru?



Note: The bars show the contribution of each variable to the decrease in business cycle volatility observed in Peru between 1960 and 2014. Business cycle volatility is measured as the standard deviation of GDP growth in a 5-year rolling window.

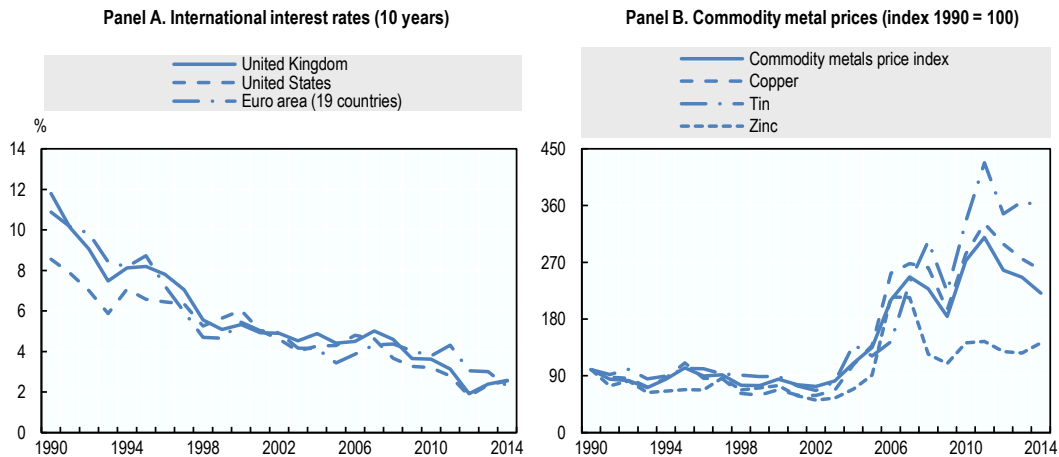
Source: OECD calculations based on Olaberria and Rigolini (2009), "Managing East Asia's macroeconomic volatility", *Policy Research Working Paper*, No. WPS 4989, World Bank, Washington, DC.

StatLink  <http://dx.doi.org/10.1787/888933265756>


Peru has also benefitted from the exceptional external environment prevalent during the last decade. As one of the largest producers of metals in the world (Chapter 3), Peru benefited immensely from the upswing in commodity prices that started a decade ago, and which, together with record low international interest rates (Figure 4.4), had important macroeconomic implications. First, they provided a strong impulse for GDP

growth which, during the last decade, was one of the highest in Latin America. Second, high investment, especially in mining, attracted large capital inflows (Chapter 3). More than two-thirds of these capital flows were in the form of foreign direct investment, lending relative stability to the financing of the current account.

Figure 4.4. The external conditions influencing Peru



Source: IMF (2014), *World Economic Outlook Database*, International Monetary Fund, Washington DC, <http://www.imf.org/external/pubs/ft/weo>

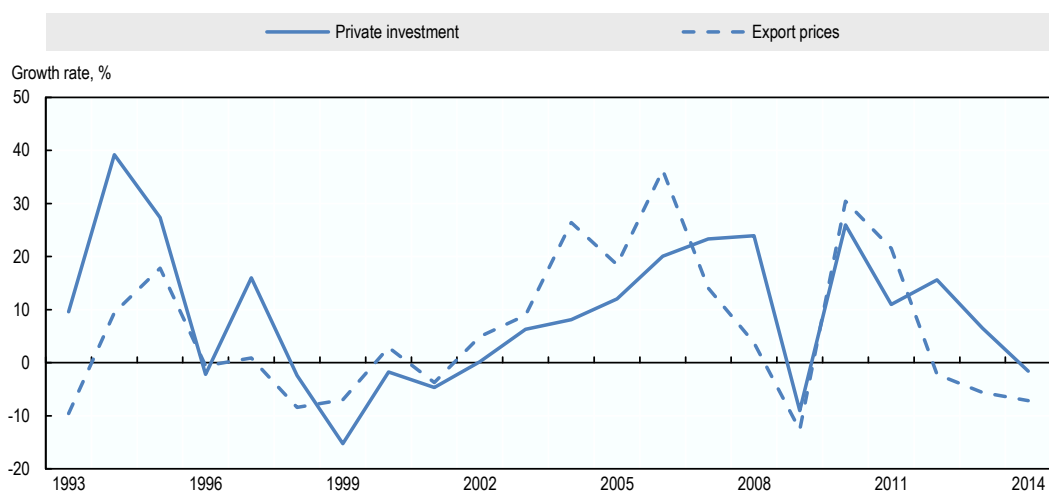
StatLink  <http://dx.doi.org/10.1787/888933265769>

After a decade of strong growth, activity is slowing down


The external environment is now shifting, however, as global commodity prices have declined sharply and external financial conditions are expected to tighten. Although commodity prices are still high by historical standards, their significant drop in the last two years has put an end to the so-called commodity super cycle. The widespread view that the decrease in commodity prices has a strong permanent component has affected the investment plans of mining companies. Therefore, the fall in commodity prices has triggered a sharp decline in investment (Figure 4.5). The fall in metal prices in particular has increased uncertainty and undermined domestic confidence. Net capital inflows have also moderated, coming down from 7.5% of GDP in the period 2010-13 to 3% of GDP in 2014.

Domestic demand has weakened. This is partly due to the sharp contraction in private investment, but also because of softer growth in private consumption, which decreased from 6.1% in 2012, to 4.1% in 2014 (Figure 4.6 and Table 4.1). Public expenditure has also suffered, due to problems with fiscal execution at the regional and local government levels. Between 2012 and 2014 it fell from 8.1% to 6.4%. Activity has also been hampered by idiosyncratic shocks to sectors like fishing and mining. These sectors showed negative growth in 2014. As they are important contributors to GDP, economic growth in Peru slowed to 2.4% in 2014 (from an expansion of 6% in 2012 and 5.8% in 2013; Figure 4.6).

Figure 4.5. Private investment and export prices



Source: Central Bank of Peru (*Banco de la Reserva del Perú*), <http://www.bcrp.gob.pe/estadisticas.html>

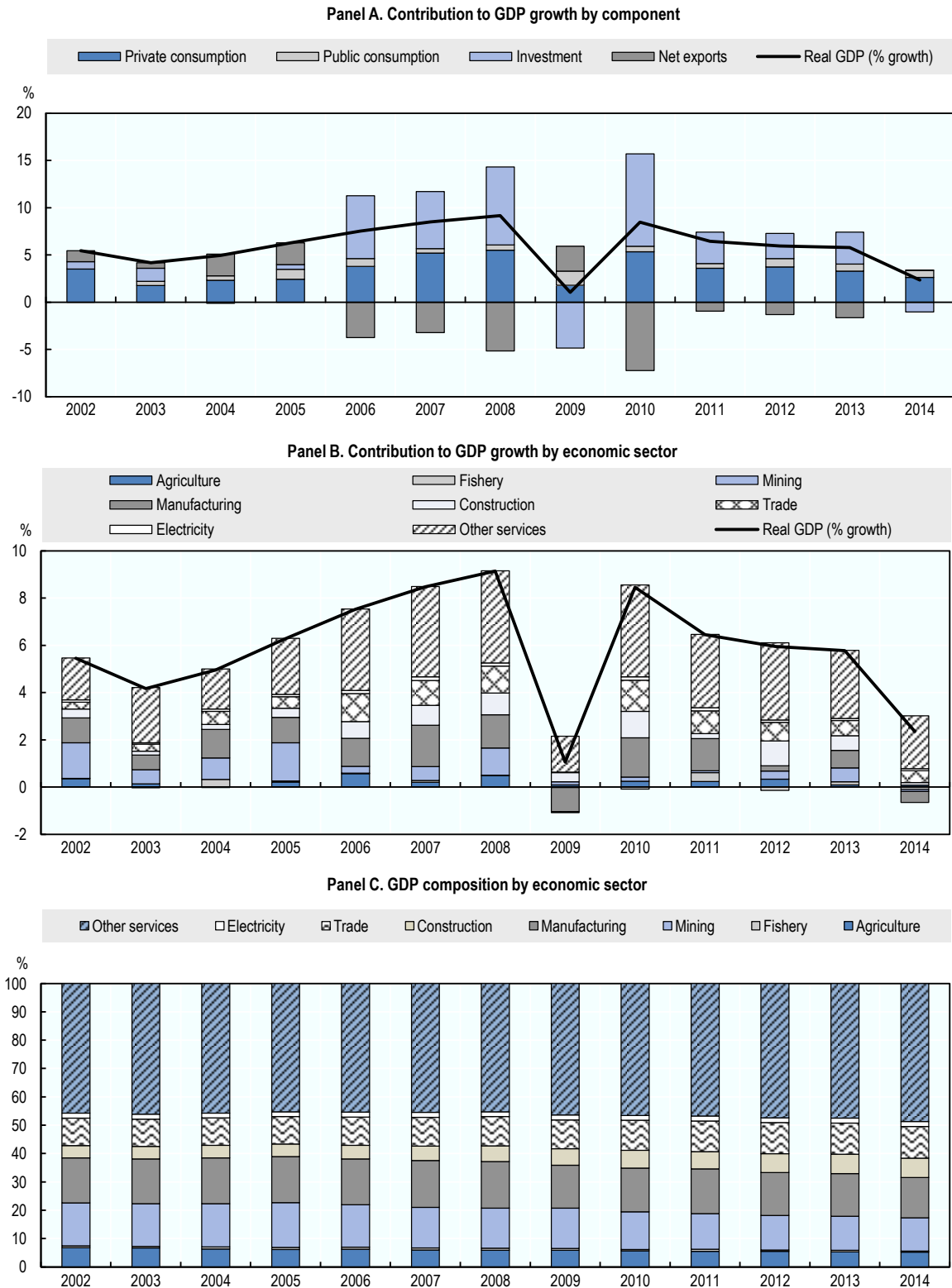
StatLink  <http://dx.doi.org/10.1787/888933265779>

Economic growth in 2015 is expected to pick up gradually to around 3.4% and could potentially reach 4.3% in 2016. This recovery will be driven by a variety of factors, including:

- The recovery from adverse supply shocks that hit the economy in 2014, such as climatic factors that led to temporary interruptions to mining, fishing and agriculture.
- The opening of new mines and implementation of major infrastructure projects, along with an expected recovery of public investment in infrastructure projects. In particular, the government is expected to spend close to 0.3% of GDP on Lima's Metro (Line 2), and 0.4% of GDP on modernising the *Talara* refinery.
- The planned fiscal stimulus, which is expected to take an expansionary route in 2015 and become neutral in 2016. Various tax measures announced in 2014 are hoped to boost activity in the short and medium term. These measures include cutting the income tax rate for individuals and companies, a reduction in the excise tax on fuels, and simplified regimes for general tax on sales.

Monetary policy is also expected to boost activity. After keeping the policy interest rate at 4.25% for more than two years, the Central Bank cut the rate by 100 basis points and has kept it at 3.25% since January 2015. These cuts were intended to facilitate the recovery of the economy. However, inflation currently stands at the upper limit of the target range, and given the high level of dollarisation of credit and significant currency mismatches on balance sheets, a strong and sharp depreciation could have a systemic impact, seriously damaging activity levels (see the next section). This reduces the scope for further cuts in the policy rate.

Figure 4.6. Trends in GDP and GDP growth



Source: Central Bank of Peru (*Banco de la Reserva del Perú*), <http://www.bcrp.gob.pe/estadisticas.html>


StatLink  <http://dx.doi.org/10.1787/888933265785>

Table 4.1. Demand, output and prices: Recent trends and projections in Peru

	2011	2012	2013	2014	2015	2016
	Current prices in PEN million	Percentage change, volume (prices)				
GDP at market prices	469 854.8	6.0	5.8	2.4	3.6	4.3
Private consumption	281 718.0	6.1	5.3	4.1	4.2	4.5
Government consumption	48 111.0	8.1	6.7	6.4	7.0	6.0
Gross fixed capital formation	120 908.2	10.2	12.1	-3.9	1.0	3.0
Final domestic demand	450 737.2	7.4	7.4	2.0	3.6	4.3
Exports of goods and services	139 336.6	5.8	-2.3	-0.3	3.0	5.0
Imports of goods and services	120 219.0	11.3	3.6	-1.4	2.0	5.0
Net exports ¹	19 117.6	-1.2	-1.7	0.3	0.3	0.1
<i>Memorandum items</i>						
GDP deflator	–	2.1	1.7	2.9	2.0	1.5
Consumer price index	–	2.6	2.9	3.2	2.5	2.0
Unemployment rate	–	6.8	7.5	6.0	6.2	6.0
Current account balance ²	–	-2.7	-4.4	-4.1	-4.3	-4.5

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of GDP at market value.

Source: Central Bank of Peru (*Banco de la Reserva del Perú*), www.bcrp.gob.pe/estadisticas.html and OECD projections (June 2015).

The economic environment calls for a stronger and more effective macroeconomic framework

As a small, open economy Peru is highly exposed to external shocks and will, therefore, be significantly affected by the shifting external environment. One important threat to Peru's growth prospects is the deteriorating economic situation in People's Republic of China (China), which has become an increasingly important destination for Peruvian exports (Chapter 3). Lower economic growth in China will hurt Peru through its impact on world metal prices, and hence Peru's terms of trade and economic activity. Estimates suggest that a decrease in China's investment growth by one standard deviation is likely to reduce Peru's terms of trade and GDP growth by about 2 and 0.2 percentage points, respectively (Han, 2014).

Another source of vulnerability is the fact that Peru is a highly dollarised economy. About 40% of Peru's banking system liquidity and 42% of its bank credit to the private sector is denominated in foreign currency. This exposes Peru to changes in external financial conditions which are expected to tighten as the US Federal Reserve starts raising interest rates. Peru's exposure to a US monetary policy shock is larger than that of a typical small, non-dollarised open country.

In sum, shifting external conditions are lowering commodity prices, increasing long-term dollar interest rates, weakening regional currencies and lowering flows of capital to emerging economies. All of these will put pressures on Peru's financial markets and potential growth. As a result, raising the expected revenues and servicing the debt will become more difficult, and tighter financing conditions will affect investment and growth. To better prepare the economy to adjust to the new environment, Peru should reinforce its macroeconomic framework and make sure that banks, governments, businesses and households have solid balance sheets. The sections which follow look at Peru's recent improvements in these dimensions, and suggest areas where further improvements are possible.

The fiscal framework is relatively solid

Fiscal policy responsibility in Peru has gained credibility over the last decade. In the past Peru's public finances were extremely weak and often the cause of financial and economic crises. For instance, the economy operated with fiscal deficits exceeding 10% of GDP during the 1970s and 1980s. High fiscal deficits generated a sharp and unsustainable rise in the government debt-to-GDP ratio: from 29% of GDP in 1980 to 89% in 1990.

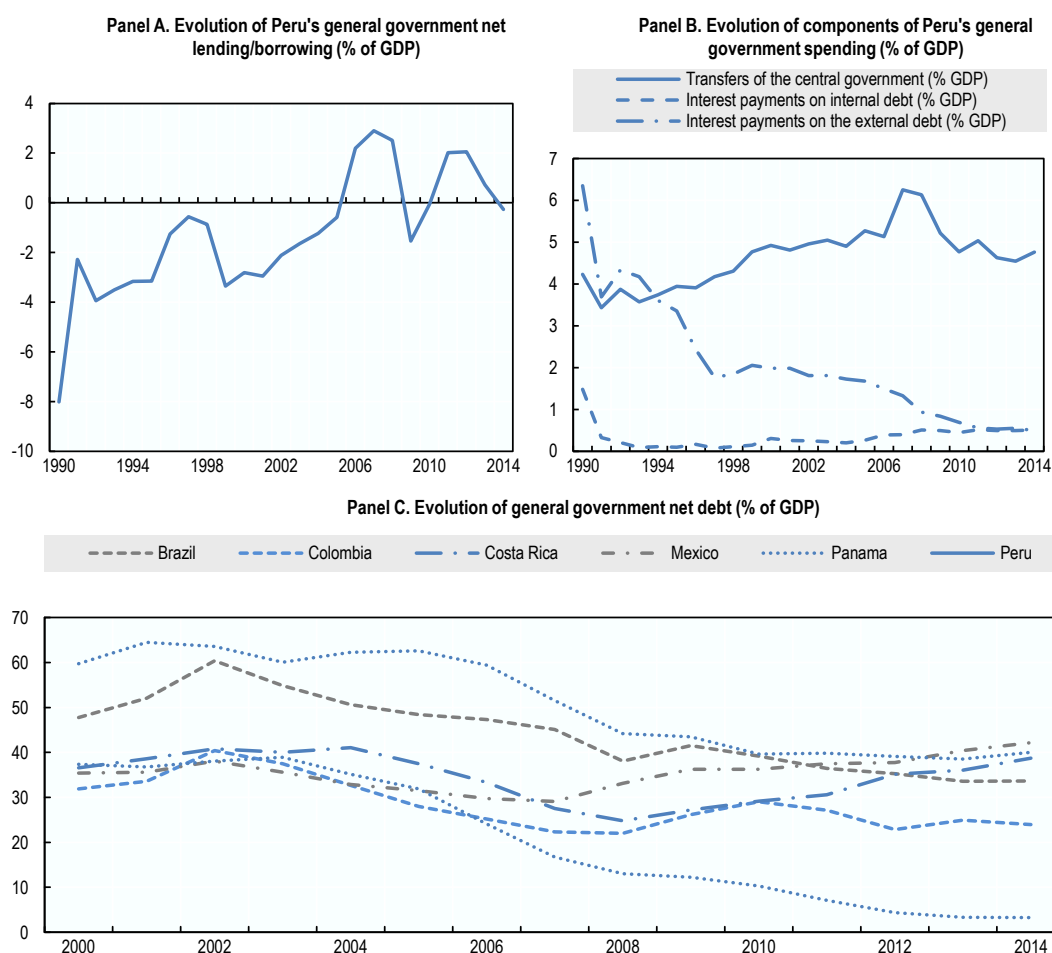
In the early 1990s, the government launched a set of constitutional changes that freed up monetary policy to be independent of fiscal policy. For instance, in 1993 Congress passed a law prohibiting the Central Bank from lending to the government. This measure, and the pensions reform of 1992 which helped reduce the large fiscal gap, saw the fiscal deficit rapidly reduce: from 9% of GDP in 1990 to a fiscal surplus of 2% of GDP in 1995 (Figure 4.7). However, by the end of that decade an expansionary fiscal policy combined with the creation of a set of tax exemptions saw the fiscal deficit re-emerge – at almost 3% of GDP.

The Fiscal Responsibility Law, introduced in 1999, has been very effective in strengthening public finances and reducing public debt. Since then, the management of fiscal policy has significantly improved. Between 2002 and 2007 the fiscal deficit was reduced from 2% of GDP to a surplus of 3% (Figure 4.7). Although the international crisis of 2008-2009 prompted the public deficit to rise to 1.3% in 2009, since then the government resumed the downward path of fiscal deficit. Between 2010 and 2013 the government has had fiscal surplus. Consistent with the behaviour of the fiscal deficit, the public debt to GDP ratio also declined sharply over the same period (Figure 4.7).


However, until very recently the fiscal framework lacked a counter-cyclical fiscal policy, contributing to relatively high volatility in government spending. The Fiscal Responsibility Law helped stabilise debt dynamics, but did not contribute much to reduce the high degree of cyclicity of public spending, keeping macroeconomic instability at a relatively high level. Indeed, when measured by the correlation between the change in the cyclical component of government expenditures and the output gap, Peru, like many other emerging economies, has historically displayed a high level of pro-cyclicality (Frankel et al., 2013).

In October 2013 Congress approved a new macro-fiscal framework incorporating medium-term fiscal objectives and introducing counter cyclicity into the budget planning process by focusing on the structural balance. The implementation of this policy has been associated with more counter-cyclical behaviour of the fiscal balance (Alberola et al., 2015). The new framework outlines a stronger regulatory structure with a more comprehensive spending rule, the creation of an independent body to contribute to the technical analysis of fiscal and macro policy, and corrective actions in cases of breaches of the fiscal rule. It also defines the scope of public expenditure coverage for national government and sub-national governments, and simplifies and strengthens their macro-fiscal frameworks when it comes to monitoring, provision of support and corrective actions. This marked a good step forward; since then, Peru has followed a fiscal rule that has a structural (i.e. cyclically-adjusted) fiscal balance as its target.

Figure 4.7. Fiscal debt and public borrowing, 1990-2014



Source: Central Bank of Peru (*Banco de la Reserva del Perú*), <http://www.bcrp.gob.pe/estadisticas.html> and IMF (2014), *World Economic Outlook Database*, International Monetary Fund, Washington DC, <http://www.imf.org/external/pubs/ft/weo>.

StatLink  <http://dx.doi.org/10.1787/888933265792>

Another strong point is that the decision-making process in the fiscal and budgetary frameworks is relatively well designed. The Ministry of Economy and Finance has made significant improvements through the Public National Investment System (Chapter 5). In addition, fiscal transparency has been enhanced by frequent and efficient fiscal reporting, such as the latest Multiannual Macroeconomic Framework (MEF, 2015). Fiscal reporting and statistics classify information according to international standards. Budgeting practices also operate according to advanced standards. The budget covers the general government, although with few exceptions, such as the Peruvian National Oil Company (PeruPetro). The strategic plan (covering 3 to 10 years) includes detailed and comprehensive medium-term macroeconomic and fiscal projections thanks to the Multiannual Macroeconomic Framework and the fact that the Multiannual Budget Plan baseline projections allow for a two-year outlook.

However, relatively weak evidence-based decision making is affecting the ability to achieve strategic outcomes in the short and medium term. There is a gap between the planned and executed budget since changes to the initial budget commonly occur. The

executed budget exceeded by more than 6% of initial budget in 2013.¹ In addition, there is a lack of appropriate regulations to monitor and better control multi-annual investment projects. Finally, there is no independent evaluation of the government's fiscal performance, despite frequent and significant changes to the fiscal forecasts and targets in the past.

Tax policy needs to do more to target development and equality

A key challenge for Peru is to improve its tax policy so as to turn revenues into a more effective tool for economic and social development. The current tax system does not raise sufficient revenues to finance the provision of the services needed to stimulate inclusive and sustainable economic growth. More revenues need to be raised to finance investment in education and skills (Chapter 2), infrastructure, and innovation (Chapter 3). In the context of the emergence of the middle class, there is a need to provide more and better quality of public services. Social expenditure and infrastructure needs will also require more revenue in the near future. To achieve this objective, it is essential that Peru consolidates the fiscal legitimacy achieved through the public governance improvements (Chapter 5).

In recent years, Peru has taken steps to strengthen its fiscal policy framework and improve its tax revenues. Firstly, Peru has improved the management of its natural resource incomes, thanks to a fiscal rule that helped to reduce the volatility of public expenditure following changes in commodity prices. In addition, public debt at national and sub-national levels remains low, guaranteeing the solvency of the state. In particular, sub-national public debt represents only around 2% of GDP. Secondly, tax revenues as a share of GDP increased by more than 6 percentage points between 1990 and 2013 to reach 18.3% of GDP in 2013. This considerable increase, which is similar to other Latin American countries, is mainly driven by the robust economic growth of recent years and improvements in the tax administration. The most significant increase was in taxes on income and profits, which rose by close to 7 percentage points in the period 1990-2013, much higher than the Latin American average in the same period (less than 2 percentage points).²

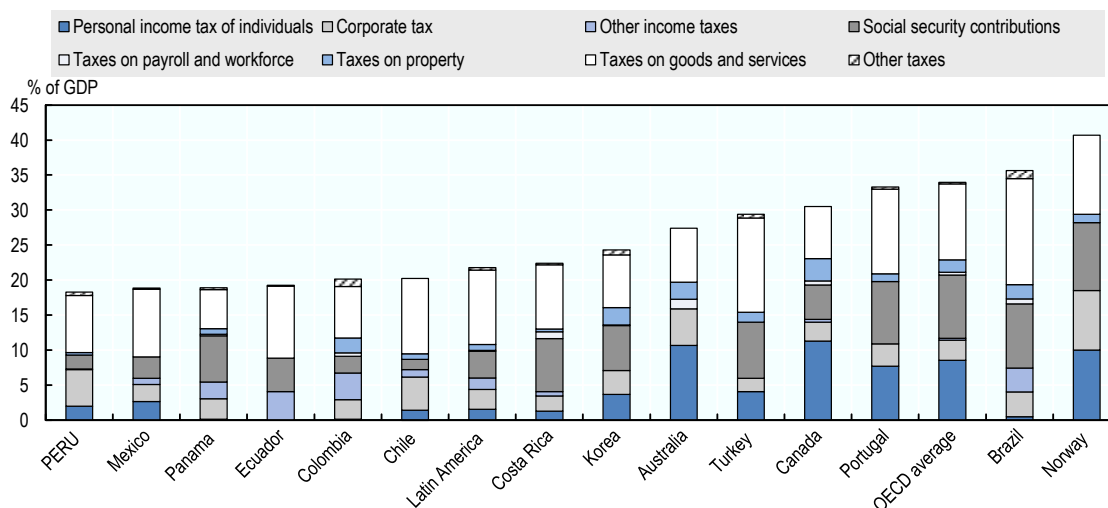
However, tax revenues in Peru are still low compared to benchmark, OECD and Latin American countries (see Annex 1.A1 of Chapter 1 for a description of benchmark countries). While tax revenues represented 18.3% of Peru's GDP in 2013, the average share in Latin American and OECD countries was 21.3% and 34.1%, respectively (OECD/ECLAC/CIAT/IADB, 2015). Fiscal resources are also lower than in all benchmark countries (Figure 4.8).

The bulk of Peru's fiscal revenues are raised by central government: close to 87% of total tax revenues in 2012 (similar to 88.2% of GDP in 1995). This is much higher than the OECD average for unitary countries (62.9% of GDP in 2012).

Redistributive mechanisms, such as taxes and social transfers, do little to reduce income inequalities in Peru. The impact of taxes and transfers on reducing inequalities remains well below that of some other countries in the region (Figure 4.9). This is directly linked to the ineffectiveness of direct transfers, which largely involve in-kind transfers for free or subsidised government services in education and health (Lustig and Higgins, 2013). The effectiveness indicator of social expenditure (i.e. the ratio between the variation of the Gini index and the size of direct transfers as a percentage of GDP) is very low, with only Bolivia performing below Peru within the group of countries portrayed in Figure 4.9 (Lustig and Higgins, 2013). Moreover, while in Peru inequalities

only decline by 2 percentage points after taxes and transfers, in OECD economies they decline by more than 15 percentage points (OECD/ECLAC, 2012). Improvements in fiscal legitimacy at national and sub-national levels are fundamental to increase progressivity and tax revenues in Peru.

Figure 4.8. Tax revenues as percentage of GDP, 2013

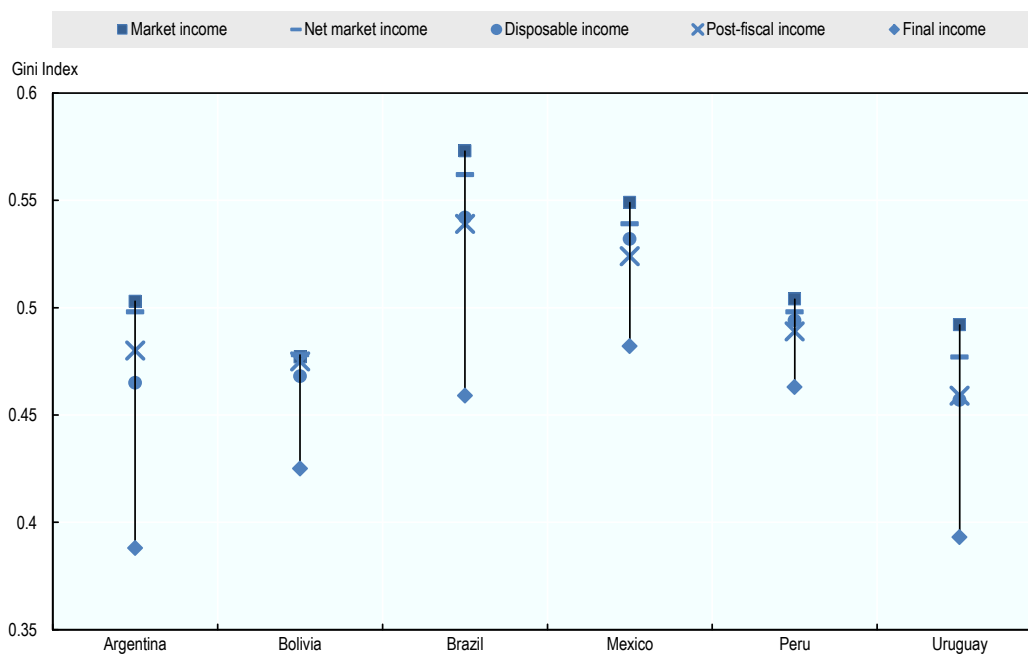


Note: 2012 data for Australia.

Source: OECD/ECLAC/CIAT/IADB (2015), *Revenue Statistics in Latin America and the Caribbean*, OECD Publishing, Paris, http://dx.doi.org/10.1787/rev_lat-2015-en-fr.

StatLink <http://dx.doi.org/10.1787/888933265804>

Figure 4.9. Impact of taxes and transfers on income distribution



Source: Lustig et al. (2013), “The impact of taxes and social spending on inequality and poverty in Argentina, Bolivia, Brazil, Mexico, Peru and Uruguay: An overview”, *CEQ Working Paper*, No. 13, CEQ.

StatLink <http://dx.doi.org/10.1787/888933265812>

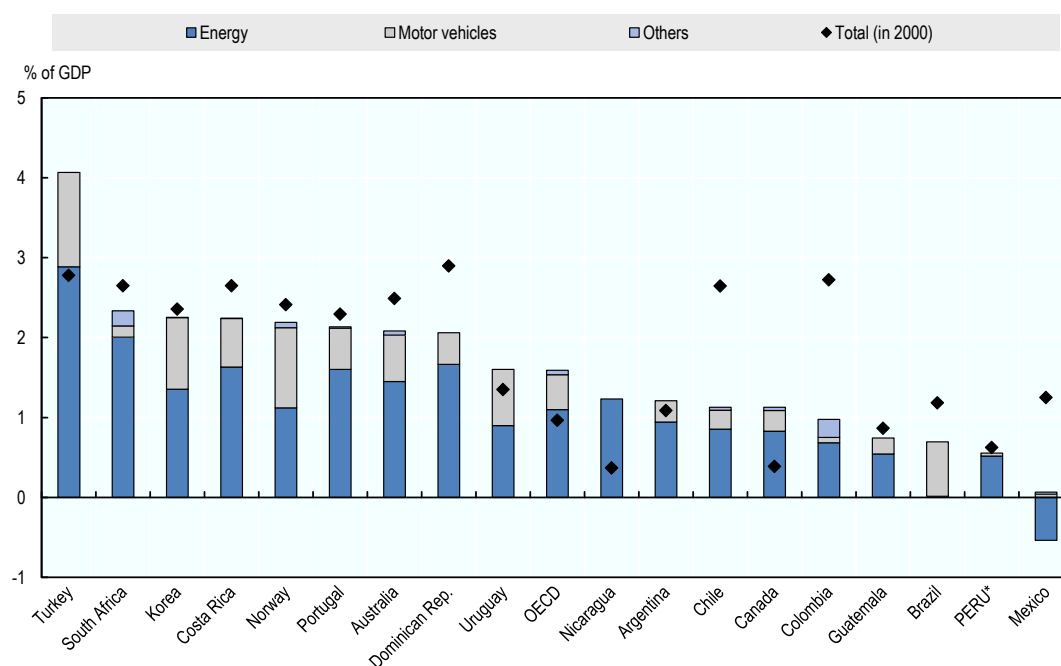
In particular, the prevalence of indirect taxation over direct taxation affects progressivity in Peru. Taxes on goods and services (indirect taxes) represent close to 45% of all taxes. While similar to the average for Latin American economies (50%), this share is high compared to the OECD average (32.8%). Furthermore, a key component of the taxes on goods and services is the Value Added Tax (VAT), which increased from 1.5% of GDP in 1990 to 6.8% in 2013. That increase was impressive even in a Latin American context (involving a 3.7 percentage point change over the same period, to 6.2% of GDP in 2013).³ In 2011-12, the government reduced the tax rate from 19% to 18% in order to reduce exposure to VAT (ECLAC, 2013). However, VAT as a share of GDP has remained constant in recent years. The limited share of the most progressive tax (income tax) does not offset the non-progressiveness of the VAT (Barreix et al., 2011; Jaramillo, 2013). Indeed, direct taxes, and in particular personal income taxes, remain low. While personal income taxes represent close to 25% of total taxes in OECD economies on average, in Peru they only represent 11%, a slightly higher proportion than in Latin American countries (7% of GDP; OECD/ECLAC/CIAT/IADB, 2015). In addition, the absence of an inheritance tax undermines the progressivity of the taxation system.

Some taxation items could be tapped to increase inclusive growth. For instance, tax expenditure represents close to 12% of total tax revenues and has remained higher than 2% of GDP in recent years. Although this is lower than in other Latin American benchmark countries as a proportion of GDP, such as Chile (5%), Colombia (3.5%) and Mexico (5.9%), this represents a loss of revenues (Gómez Sabaíni, Jiménez and Rossignolo, 2012). Also, the current tax system does little to stimulate green growth. Revenue from environmentally related taxes currently amounts to less than 0.6% of GDP, which is significantly below the OECD average of 1.6% of GDP (Figure 4.10). Although Peru has started to charge a fuel duty, a remaining challenge is to adopt a more comprehensive tax system that promotes environmental-related tax revenues to improve environmental policy instruments and to raise tax revenues.

Some distortions in the taxation system could be a bottleneck for competitiveness. A high corporate tax rate affects the dynamism of an economy. Evidence shows that corporate taxes are the most harmful for growth (Johansson et al., 2008). In particular, the negative effect of corporate taxes is particularly pronounced for firms that are catching up with the technological frontier (Schwellnus and Arnold, 2008). This could be the case of some firms in Peru. In addition to the corporate tax, firms have to pay a tax on dividends at 4.1% if their earnings are not re-invested. The recent effort to gradually reduce the corporate tax rate from 30% in 2014 to 26% in 2019 is tackling this key obstacle to investment and formal employment creation. This would move the tax rate towards the OECD average (about 25%). Another possible source of distortion is a financial transactions tax applied to every operation carried out within the financial system, as is also applied in other countries in Latin America. This tax could affect financial inclusion in Peru (Choy, 2013; Coelho, 2009). However, the level of revenues raised by this tax remains below 0.5% of GDP, lower than the Latin America (1.6% of GDP) and OECD averages (1.2% of GDP).


Figure 4.10. Revenues from environmentally-related taxes

% of GDP; 2013 or latest available year



Note: * 2012 data. OECD represents the OECD weighted average.

Source: OECD Database on Instruments Used for Environmental Policy (available at <http://www2.oecd.org/ecoinst/queries/Default.aspx>).

StatLink  <http://dx.doi.org/10.1787/888933265826>

Tax evasion should be tackled in order to increase fiscal space in Peru. Evasion hinders development and inclusive growth and undermines the overall sense of fairness on which the taxation system should be based (Carrasco, 2010). Although it is difficult to estimate tax evasion, studies show that Peru is one of the Latin American economies with the highest levels of tax evasion. In particular, estimated evasion rates for VAT and income taxes are close to 38% and 48%, respectively (Gómez-Sabaini and Jiménez, 2012). Beyond the tax structure, better information systems, and increased transparency and integrity in tax administration operations are fundamental for tackling tax evasion. Moreover, in an international context it is important to ensure that profits are taxed in the country where economic activities generating the profits are performed and where value is created. Like in other developing and emerging markets, base erosion and profit shifting (BEPS) is of major significance for Peru due to its heavy reliance on corporate income tax, particularly from multinational enterprises. Further involvement of Peru in this OECD work in the framework of the Country Programme would help to minimise base erosion and profit shifting.

Peru's tax administration office SUNAT is relatively inefficient compared to its peers' administration offices. For instance, in Peru between 2006 and 2010, aggregate administration costs per 100 units of net revenue collected were higher than 1.5, while in Latin American and OECD economies, this ratio was below 1.5 and 1, respectively (OECD/IDB, 2014). Part of this performance can be explained by the tasks allocated to SUNAT. In contrast to most of the Latin American economies (Argentina and Brazil also being exceptions), SUNAT is also in charge of administering social security contributions

(Corbacho et al., 2012). However, more efforts to include information and communication technologies and better human resources in tax collection would help decreasing the efficiency gap with OECD economies.

Peru's strong monetary policy needs to continue reducing financial dollarisation

Peru's sound monetary policy framework has helped to reduce inflation, supporting strong economic growth. Average inflation in Peru fell from over 100% at the beginning of the 1990s to an average of 2.6% between 2002 and 2014. The conduct of monetary policy during the last two decades can be split into two different periods. The first span, from 1990 to 2002, was one of gradual disinflation. During this period, monetary policy in Peru was implemented through a monetary target framework that used the annual growth rate of the monetary base as an intermediate target and also included instruments such as foreign exchange intervention and high reserve requirements for deposits in foreign currency. The success in disinflation during this period can be attributed to the efficient co-ordination of macroeconomic policies, with a build-up of credibility and a reduction in the consolidated public debt. Low levels of public debt have kept sovereign spreads low, helping to sustain a sharp reduction in monetary policy rates since 2000. The co-ordination between fiscal and monetary policies became the basis of the sound institutional framework that Peru has today.

Since 2002, the monetary framework has been characterised by targeting under a dual monetary system. Indeed, Peru's inflation targeting framework has a particular design, as it is the only central bank in the world to implement the framework within a highly dollarised financial system. The inflation target is 2%, with a tolerance band ranging from 1% to 3%. But the framework requires the central bank to actively intervene in the foreign exchange market to smooth out exchange rate fluctuations and build international reserves as a self-insurance mechanism against negative external shocks. Since 2008, reserve requirements have been used as an active monetary control tool to moderate the impact of capital flows on domestic credit conditions in both domestic and foreign currency.

Dollarisation distorts the transmission mechanism of monetary policy and increases liquidity and solvency risks within the financial system. Because of the high degree of dollarisation in the financial system, the Central Bank of Peru has to intervene frequently in the foreign exchange market to reduce exchange rate volatility and accumulate international reserves to prevent balance sheet effects. In a financially dollarised economy, the interest rate setting also has to take into account how financial dollarisation affects the transmission mechanism of monetary policy. The central bank addresses this issue by explicitly taking into account the impact of dollarisation on credit market conditions and on the dynamics of the exchange rate and inflation (Winkelried, 2013). Dollarisation reduces the impact of monetary policy on inflation and real activity, since a large depreciation not only typically generates a positive impact on exports, but also triggers a negative impact on the financial position of firms with currency mismatches. In sum, the role of credit in the transmission of monetary policy is relatively weak, but would improve if Peru reduced its levels of dollarisation.

In Peru the exchange rate channel is more important than the interest rate channel for keeping inflation under control. Evidence suggests that the interest rate pass-through is rather weak, as is the overall transmission to output and inflation (Acosta-Ormaechea and Coble, 2011). The main issue with financial dollarisation is that it magnifies the reaction of financial intermediaries to sharp movements in the exchange rate. Therefore, a key challenge for the

central bank in keeping inflation under control is to avoid sharp depreciations of the exchange rate such as those driven, for example, by a sudden stop in capital inflows.

The solid and healthy financial sector could be still more efficient and accessible

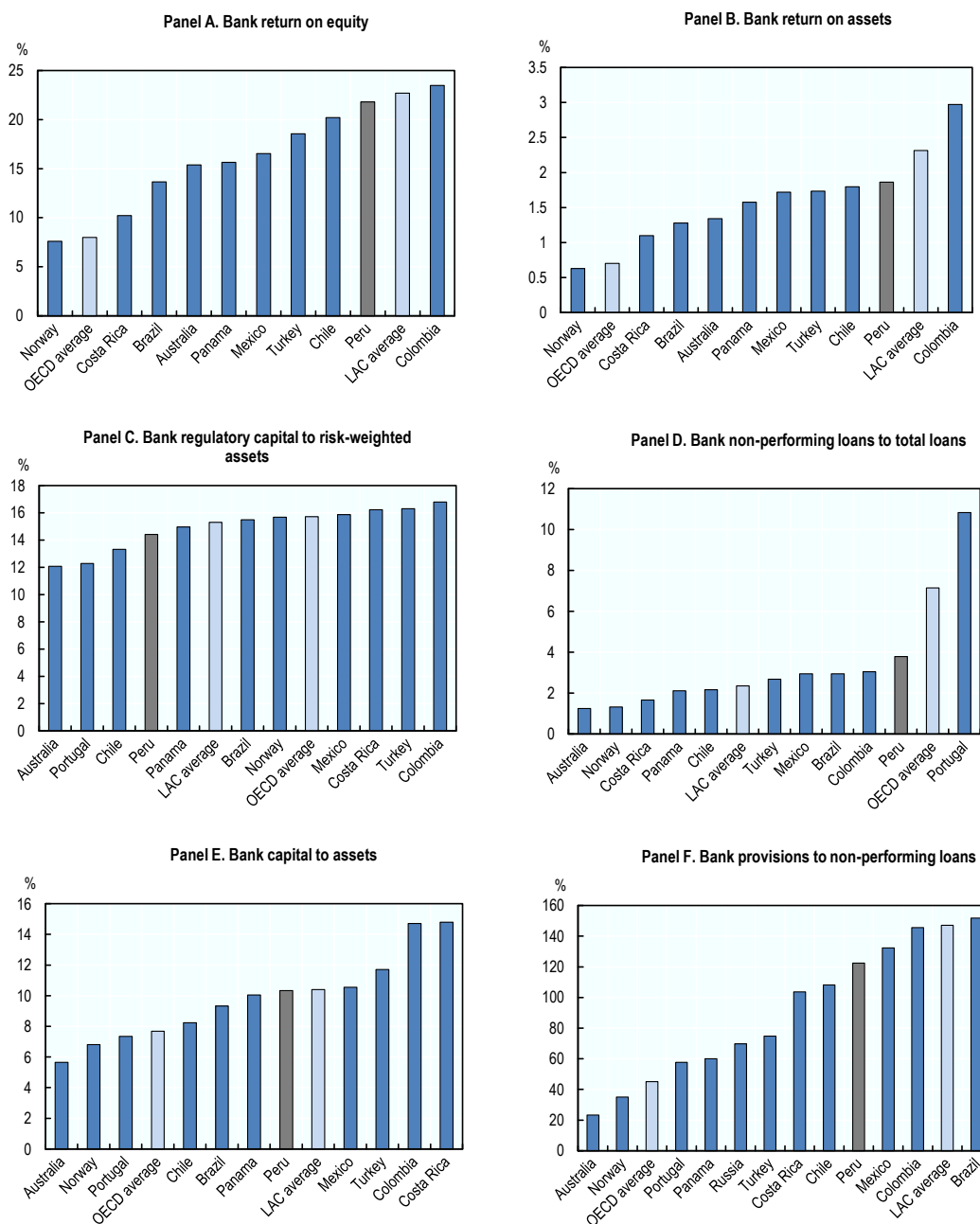
Peru's regulatory framework for its financial system is now strong, following key improvements:

- The inclusion of a countercyclical component in the non-performing loans.
- At 10%, bank regulatory capital to risk-weighted assets is above the Basel ratio of 8%, and is similar to other Latin American countries.
- In addition to the inclusion of liquid and operational risks in banks' assessments, Peru has improved the measure of capital in the solvency ratio. A countercyclical component is included and high concentration in specific business activities requires additional capital from banks to meet their bank regulatory capital to risk-weighted assets ratio.
- The institutional framework of the *Superintendencia de Banca, Seguros y AFP* (SBS) is strong. Despite the Superintendent being appointed by the executive, the Superintendence of Banks, Insurances and Pensions is not subordinated to any ministry, and has autonomy in the regulation and supervision of the financial system.

Overall, the financial system is in a solid position. While credit risk indicators (in particular those related to loans to the retail segment) increased slightly during 2014 as a consequence of lower economic growth, financial institutions took corrective measures. Thanks to the strong regulatory framework explained above, the solvency of the financial system remains good. Banks in Peru account for almost 90% of the assets of the financial system and their solvency and liquidity indicators remain strong. Non-performing loans and credit risk indicators are relatively low. For instance, as of 2014, Peru's bank regulatory capital to risk-weighted assets ratio was 14.4%, above that of Australia, Portugal and Argentina (Figure 4.11).

Despite increases in domestic credit to the private sector over the last decade, access to finance remains low, responding in part to the structural challenges of the Peruvian economy. In the wake of the 1998-2000 emerging markets crisis, credit to the private sector contracted from its peak of 30% of GDP in 1999 to 18% of GDP in 2004. It has since increased – to more than 31% of GDP in 2013. However, this is still very low compared to the OECD average (above 150% of GDP), and some Latin American economies, such as Chile (100% of GDP), Brazil, Colombia and Costa Rica (Figure 4.12, Panel A). To increase investment going forward, access to finance needs to increase and real interest rates need to go down. Borrowers in Peru pay an average annual real interest rate of 18% in 2013, which is significantly higher than in most countries (Figure 4.12, Panel B).

Figure 4.11. Peru's banking system



Note: Bank return on equity is the annualised net income before taxes as a percentage of the value of capital. Bank return on assets is the annualised net income before taxes as a percentage of the value of assets. Bank regulatory capital to risk weighted assets is the total regulatory capital after supervisory deductions, as defined by the Basel Committee on Banking Supervision and national supervisory guidance, as a share of risk weighted assets. Bank provisions to non-performing loans are the total specific loan-loss provisions as a percentage of total non-performing loans.

Source: IMF Financial Soundness Indicators (<http://fsi.imf.org/Default.aspx>).


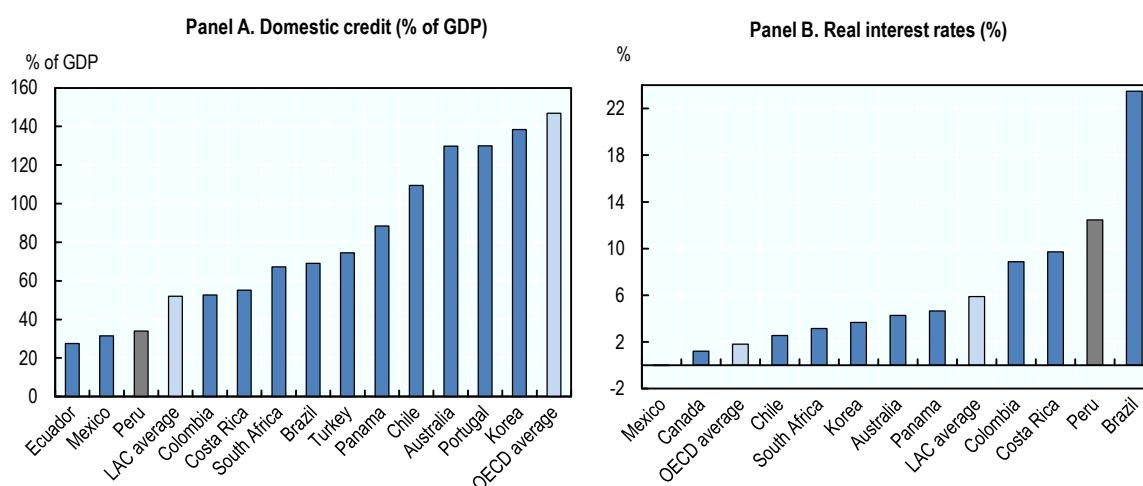

StatLink  <http://dx.doi.org/10.1787/888933265834>

Figure 4.12. Access to credit and cost of finance in Peru (2013)



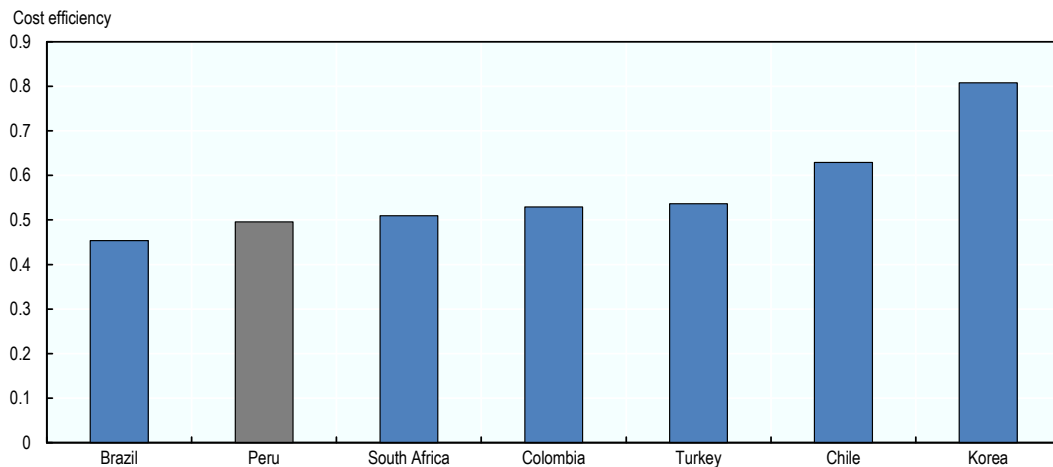
Source: World Bank (2015), *World Development Indicators* (database), Washington, DC, <http://data.worldbank.org>.

StatLink  <http://dx.doi.org/10.1787/888933265840>

In addition, Peru's banking sector is highly concentrated and not very efficient compared to other countries. Profitability indicators, as measured by return to capital, are higher than in other economies (Figure 4.13). The degree of concentration of credit and deposits from financial entities remains high, responding in part to previous financial crises. In particular, close to 80% of the market share is retained by only four banks in Peru. The Herfindahl-Hirschman Index (HHI) in lending (corporate, large enterprises, medium enterprises) and on mortgages shows a relatively high level of concentration: at between 1 500 and 2 500 (Financial Stability Report, 2014).⁴ Estimates of cost efficiency and market contestability show that efficiency in Peru's banking system is relatively low (Figure 4.13). Recent evidence from Latin American countries shows that efficiency and competition are the main determinants of interest rates (Chortareasa et al., 2012). Thus, improving efficiency could be a key driver of lower interest rates (Brock and Rojas-Suárez, 2000). Furthermore, concentration of business activities within a public institution creates distortions in the market. In particular, *Banco de la Nación* concentrates some public payments, such as subsidies to low-income households, affecting efficiency in the access to finance.


The cost of and access to finance could also be influenced by regulatory requirements. Peru's banks are required to hold reserve requirements, and the central bank makes extensive use of them. This requirement, although necessary to main stability in a financially dollarised economy, can distort efficient asset allocation by banks. High reserve requirements generate efficiency costs that affect the degree of financial development and can keep real interest rates relatively high. The fact that the central bank decreased the reserve requirement in domestic currency from 30% in 2013 to 6.5% in June 2015 is good news in this regard. To reduce financial dollarisation, the central bank has also increased reserve requirements in foreign currency to close to 70%.

Figure 4.13. Peru's efficiency in the banking system



Note: Cost efficiency is a measure of the relative distance from the efficient frontier. It ranges between 1 for a fully efficient and 0 for a fully inefficient firm. The selection of benchmark countries (Annex 1.A1 of Chapter 1) is based on data availability.

Source: Daude and Pascal (2015), “Efficiency and contestability in the Colombian banking system”, *OECD Economics Department Working Papers*, No. 1203, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5js30twjgm6l-en>.

StatLink  <http://dx.doi.org/10.1787/888933265858>

The tax on financial transactions (discussed above) could also harm access to formal credit markets if the tax administration office increases this tax in the future. Representing only 0.5% of GDP and a taxation rate of only 0.005%, it is not currently perceived as a binding constraint to access to finance. This tax is levied on transactions in national or foreign currency for any entry or exit of money in accounts in financial companies, and operations that convey cash payments, regardless of the medium used. Furthermore, it may create barriers to competition by exempting transactions within the same institution of the same holder.

Finally, a key aspect affecting the effectiveness of the financial system is the efficiency of the judicial sector. The process for addressing disputes is long and costly (Chapter 3). The lack of contract enforcement and delays in obtaining collateral affect the cost of financing for households and firms.

Important efforts are being made to increase access to finance by maintaining the stability of the financial system; these should move forward:

- Current financial education initiatives by the public and private sectors are familiarising households from low socio-economic backgrounds with financial activities in order to increase their access to finance. These initiatives are welcome and should be expanded.
- Retail companies known as *corresponsales bancarios* are working in partnership with the banking system to provide access to finance to households living in areas without retail bank offices. This helps reduce banks' operational costs. The number of households using these *corresponsales* has been increasing – from 12 395 in 2010 to 38 552 in 2014.

- Recent initiatives in the regulatory framework are promoting mobile banking. These are welcome as they enhance access to finance in remote areas.
- Efforts are being made to adapt scoring and risk analysis to informal firms and workers; these should be stepped up as they can reduce fixed costs and enhance access to finance for these actors.
- To guarantee the stability of the financial system, the inclusion of the supervision of *cooperaciones financieras* at the SBS should reduce the solvency risks of these institutions and would improve the information on the activities of these institutions.

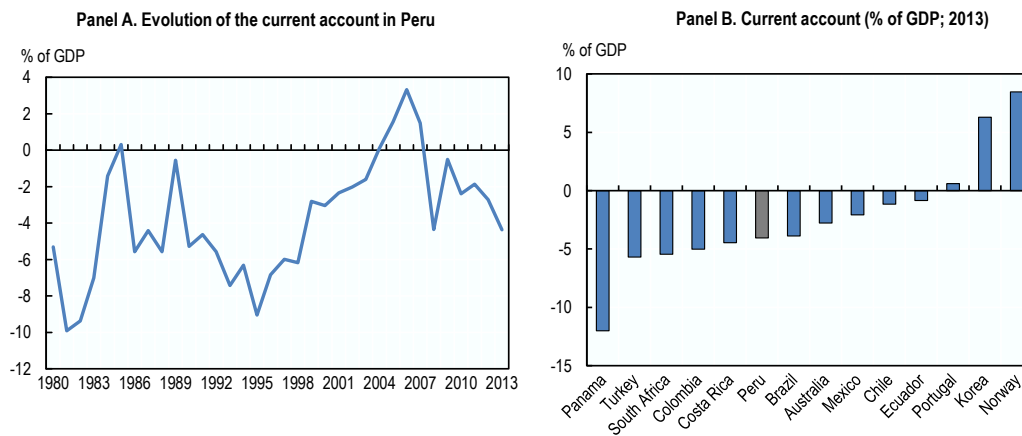
Finally regarding private fixed income market, many Peruvian corporations have been issuing debt instruments in the international market. Renewing them could be harder given the tighter financial conditions. However, as a share of total assets, the debt levels of these corporations has remained relatively stable over the last five years because they have used the emissions in international markets to finance investment projects or to replace other liabilities. Thus, companies have used the proceeds from the bond issue on the international market to pay bank short and medium term domestic debts, thus helping to lengthen the maturity of companies' liabilities (Central Bank of Peru, 2014). In sum, tighter financial conditions will increase the cost of financing abroad for Peruvian corporations, but should not be a source of financial turmoil.

Macro-prudential policies should continue to reduce vulnerabilities to the external environment


Peru's external position has improved significantly over the last decade, although it has recently deteriorated due to weak export performance and lower terms of trade. The current account went from a deficit of around 8% of GDP in 1995 to a surplus of 3% of GDP in 2007 (Figure 4.14). Indeed, this strong external position in the wake of the 2008-09 financial crisis helped Peru weather the turmoil relatively easily. However, since 2010 the current account deficit has increased to around 4% of GDP. This has been driven by deteriorating terms of trade, while export volumes fell and import volume growth remained strong, in particular after 2012.

A potential sharp reversal of capital flows can be an important risk. So far the current account deficit has been easily financed by a bonanza of capital inflows (Figure 4.14). Net capital inflows into Peru have amounted to around 8% of GDP every year, on average, over the last five years, well above the regional average of 5% (Figure 4.15). This bonanza can be explained by both domestic and global factors. Domestically, as discussed above, strong growth of GDP and improved macroeconomic fundamentals attracted large amounts of investment, particularly in mining activities. Meanwhile, the extremely low interest rates in advanced economies generated a flood of financial inflows into emerging economies, including Peru. However, these conditions are changing as international financial conditions are expected to tighten. Evidence suggests that countries like Peru, with large current account deficits and relatively low external assets, may suffer more from a sudden and sharp hike in long-term interest rates in the United States (Olaberria, 2014). In the past, sharp increases in US interest rates have created severe volatility in asset prices and a sudden drying up of capital flows into Latin America, leading to financial crises (Reinhart and Reinhart, 2009).

Figure 4.14. Trends and comparisons in Peru's current account, 1980-2013



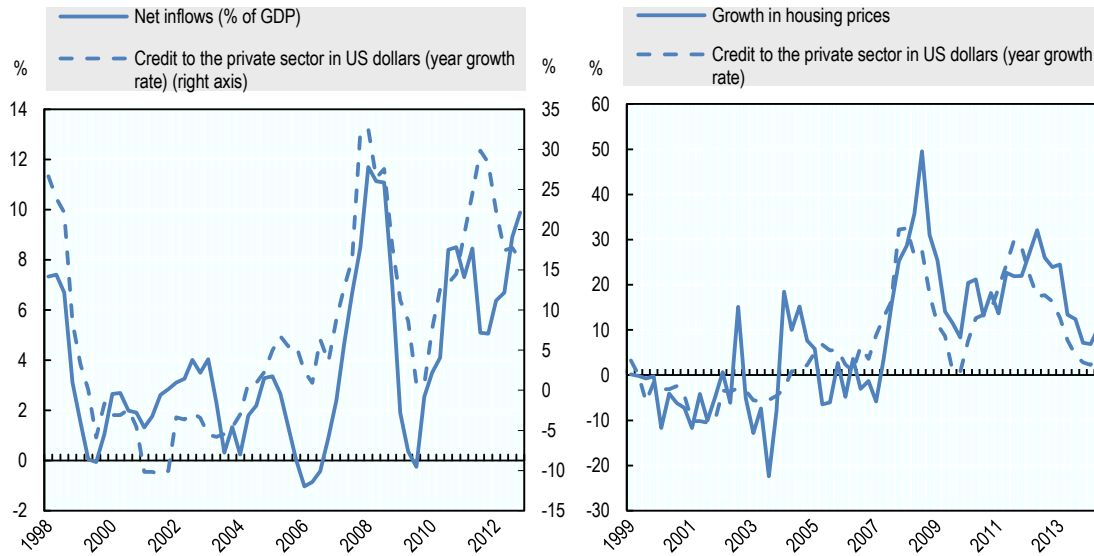
Source: IMF (2015a), *World Economic Outlook April 2015: Uneven Growth, Short- and Long-Term Factors*, IMF, Washington, DC, www.imf.org/external/pubs/ft/weo/2015/01/.

StatLink  <http://dx.doi.org/10.1787/888933265868>

A decrease in capital flows and asset prices could dramatically affect the real economy. In Peru housing prices have been increasing fast, largely following the evolution of net capital inflows and credit in foreign currency (Figure 4.15). Evidence shows that there is a strong link between cycles of capital inflows, credit and asset prices and housing prices (Jara and Olaberría, 2013). When large capital inflows enter an economy the demand for houses increases and prices rise, thereby increasing the economy's access to credit – as houses are the collateral for loans. Increases in credit lead to new rounds of capital inflows that can evolve into a boom in housing prices. This involves a sort of circular process in which higher housing prices make the financial conditions of the economy seem sounder than they actually are, promoting more borrowing and pushing prices even higher. Indeed, the circular process between capital flows and asset prices is stronger in economies which, like Peru, have underdeveloped financial markets, relatively low quality of institutions and are highly dollarised (Olaberría, 2012). In these conditions, the risk is that if capital inflows dry up, the whole circular process can reverse. The result can be great pain, as falls in housing prices reduce the value of collateral, triggering margin calls and causing domestic credit flows to collapse. The financial shock can quickly reverberate within the real economy if firms that cannot finance their working capital cut back on employment and investment.

So far, the risks due to external shocks are being contained. The real effective exchange rate is broadly in line with fundamentals (IMF, 2015b), and the level and composition of Peru's international investment position have improved over the last decade. This is because the negative international investment position has halved since the early 2000s and the composition of foreign liabilities has shifted significantly into non-debt items (Figure 4.16). Also, net international reserves remain comfortable, according to various metrics. Peru does not maintain exchange restrictions or multiple currency practices, and its macro-prudential measures enhance financial stability.

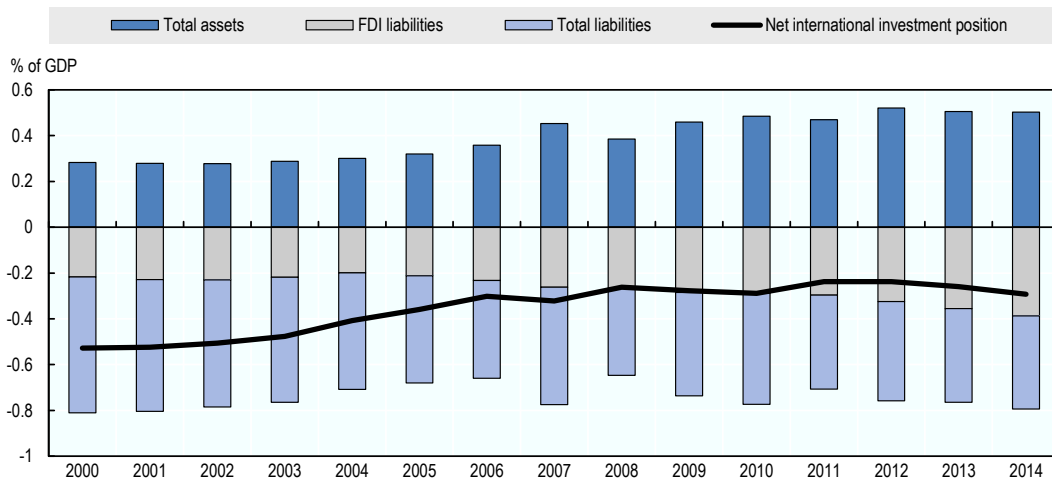
Figure 4.15. House prices, capital flows and credit growth in Peru



Source: Central Bank of Peru (*Banco de la Reserva del Perú*), <http://www.bcrp.gob.pe/estadisticas.html> and IMF (2014), *World Economic Outlook Database*, International Monetary Fund, Washington DC, <http://www.imf.org/external/pubs/ft/weo>.

StatLink <http://dx.doi.org/10.1787/888933265872>

Figure 4.16. Peru’s international investment position, 2000-14



Source: Central Bank of Peru (*Banco de la Reserva del Perú*), <http://www.bcrp.gob.pe/estadisticas.html>

StatLink <http://dx.doi.org/10.1787/888933265880>

The Central Bank has been using a range of macro-prudential tools to contain financial vulnerabilities. For example, the use of reserve requirements has allowed the Central Bank to induce the necessary tightening of monetary policy necessary to offset spillover coming from the quantitative easing policies implemented by the Federal Reserve and European Central Bank. In particular, reserve requirements have been used to offset the impact of capital inflows on credit. Furthermore, to encourage banks to internalise the risk of granting dollar-denominated loans, Peru’s Central Bank sets higher reserve requirements on foreign currency obligations than on domestic currency

obligations. The use of differentiated reserve requirements has helped Peru create a foreign exchange liquidity buffer to reduce systemic liquidity risks, given that the Central Bank cannot act as lender of last resort in foreign currency. To some extent, this has been useful to flatten the credit cycles generated by the capital inflow bonanza, reducing their expansionary effects on domestic credit and maintain stability in the short run. However, as discussed above, reserve requirements imply an important cost in terms of efficiency, so their effects on long-term growth could be positive thanks to a lower financial dollarisation.

Going forward, the Central Bank should strengthen policies to reduce the level of financial dollarisation, while at the same time preventing unnecessary impediments to capital mobility. This will help Peru reduce its vulnerabilities to external shocks and, at the same time, improve the transmission of monetary policy, allowing more room for the exchange rate to fluctuate. Maintaining exchange rate flexibility is a very useful way of cushioning the economy against external shocks. For instance, when the current account deteriorates, or capital inflows decline, the Central Bank will be able to allow the currency to depreciate to absorb the shock. Currently, the Central Bank cannot do that because the typical expansionary effect of the exchange rate channel after the implementation of a policy easing measure is considerably reduced by the high level of financial dollarisation. Only when financial dollarisation is sufficiently low will the expansionary net export effect of currency depreciation be larger than the balance sheet effect.

Conclusions

A credible macroeconomic framework has been crucial for increasing economic stability and boosting economic growth in Peru. Initiated in the 1990s, it has improved the country's monetary and fiscal stances remarkably. The adoption of an inflation-targeting regime to increase stability in the monetary front and the implementation of a fiscal rule to avoid volatility in the public finances contributed to boosting investment and improving consumers' confidence.

However, some risks remain on the macroeconomic front as external conditions become less favourable. Deterioration in commodity prices and economic conditions in China, coupled with increases in US interest rates should affect Peru's balance of payments. Any decline in the current account deficit or a drying up of capital flows and FDI would affect Peru's external solvency. Macro-prudential policies to continue the de-dollarisation of the Peruvian economy will be fundamental to minimising risks of instability in the Peruvian economy (including the housing market).

Access to finance remains low and is affecting both entrepreneurship and inclusiveness. Despite domestic credit to the private sector increased over the last decade, it remains low at less than 35% of GDP. Several factors should be behind this low level of access to finance. These include high levels of work informality and Peru's banking sector is highly concentrated and not very efficient compared to other countries. Also, the cost and access to finance could be influenced by regulatory requirements and inefficiencies in the judicial system. Efforts to increase access to finance are being adopted and should continue.

The fiscal responsibility efforts should be accompanied by improvements in the taxation system to support inclusive development in Peru. The current tax system does not raise sufficient revenues to finance the provision of services that can stimulate

inclusive and sustainable economic growth. Furthermore, the tax system does little to reduce inequality and to promote a green economy. Major bottlenecks related to these challenges are the imbalance between direct and indirect taxes, the lack of progressivity in the taxation system, the large tax expenditures as proportion of total tax revenues, and the low level of environment-related taxes.

Notes

1. Based on information provided by the Ministry of Economy and Finance.
2. Like other countries in the region, Peru has recently increased taxation on all labour and capital income. In particular, the abolition of exemptions on interest and capital gains and the expansion of the tax to cover dividends helped to increase the tax revenues.
3. In the case of Peru, the sustainable growth of VAT-type taxes has more than compensated for the reduction in taxes on international trade and in selective taxes on goods and services (i.e. excise taxes).
4. The Herfindahl-Hirschman Index (HHI) can range from close to 0 to 10 000. It approaches zero when a market is occupied by a large number of firms of relatively equal size and reaches its maximum of 10000 points when a market is controlled by a single firm. According to the US Department of Justice, the agencies generally consider markets in which the HHI is between 1 500 and 2 500 points to be moderately concentrated, and consider markets in which the HHI is in excess of 2 500 points to be highly concentrated.

References

- Acosta-Ormaechea S. and D. Coble (2011), “Monetary transmission in dollarized and non-dollarized economies: The cases of Chile, New Zealand, Peru and Uruguay”, *IMF Working Paper*, No. WP/11/87, IMF (International Monetary Fund), Washington, DC.
- Alberola, E., I. Kataryniuk, A. Melguizo and R. Orozco (2015), “Fiscal policy and the cycle in Latin America: The role of financial conditions and fiscal rules”, Banco de España Working Paper Series, forthcoming.
- Alesina, A., S. Ozler, N. Roubini and P. Swagel (1996), “Political instability and economic growth”, *Journal of Economic Growth*, Vol. 1(2), pp. 189-211.
- Barreix A., M. Bès and J. Roca (2011), “El IVA Personalizado: Aumentando la recaudación y compensando a los más pobres”, Instituto de Estudios Fiscales, Documentos No. 8/2011, available at: http://www.ief.es/documentos/recursos/publicaciones/documentos_trabajo/2011_08.pdf
- Brock, P. and L. Rojas-Suárez (2000), “Interest rate spreads in Latin America: Facts, theories, and policy recommendations”, in P. Brock and L. Rojas-Suárez (eds.), *Why So High? Understanding Interest Rate Spreads in Latin America*, IDB (Inter-American Development Bank), Washington, DC, pp. 1-38.
- CAF (2012), *Finanzas Públicas para el Desarrollo: Fortaleciendo la Conexión entre Ingresos y Gastos*, CAF (Development Bank of Latin America), Bogota, Colombia, www.caf.com/media/4249/RED2012.pdf.
- Carrasco, C.M. (2010), “Instrumentos y técnicas para la medición de la evasión”, *Temática Tributaria series*, No. 7, Inter-American Centre for Tax Administrations (CIAT).
- Central Bank of Peru (2014), *Financial Stability Report 2014*, Central Bank of Peru, Lima.
- Chortareasa, G.E., J.G. Garza-García and C. Girardoneb (2012), “Competition, efficiency and interest rate margins in Latin American banking”, *International Review of Financial Analysis*, Vol. 24, September 2012, pp. 93-103.
- Choy, M. (2013), “Avances en la inclusión financiera en el Perú”, *Revista Moneda*, Issue 155, pp. 26-30.
- Coelho, I. (2009), “Taxing bank transactions. The experience in Latin America and elsewhere”, paper presented at the Third International Tax Dialogue (ITD) Conference, Beijing, 26-28 October.
- Corbacho, A., V. Fretes Cibils and E. Lora (eds.) (2012), *More than Revenue: Taxation as a Development Tool*, IDB, Washington, DC.
- Dancourt, O. (2012), “Reglas de política monetaria y choques externos en una economía semi-dolarizada”, *Working Paper*, No. 346, Departamento de Economía de la PUCP, Lima, Peru.

- Dancourt, O. and W. Mendoza (2009), “Perú 2008-2009: Del auge a la recesión. Choque externo y respuestas de policía macroeconómica”, in O. Dancourt and F. Jiménez (eds.), *Crisis Internacional: Impactos y Respuestas de Política Económica en el Perú*, Fondo Editorial – PUCP, Lima, Peru.
- Dancourt, O. and W. Mendoza (1999), “Los dos canales de transmisión de la política monetaria en una economía dolarizada”, *Working Paper*, No. 162, Departamento de Economía de la PUCP, Lima, Peru.
- Daude, C. and J. Pascal (2015), “Efficiency and contestability in the Colombian banking system”, *OECD Economics Department Working Papers*, No. 1203, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5js30twjgm6l-en>.
- ECLAC (2013), *Fiscal Panorama of Latin America and the Caribbean: Tax Reform and Renewal of the Fiscal Covenant*, ECLAC (Economic Commission for Latin America and the Caribbean), Santiago de Chile.
- Frankel, J.A., C. Vegh and G. Vuletin (2013), “On graduation from fiscal procyclicality”, *Journal of Development Economics*, Vol. 100(1), pp. 32-47.
- Gómez Sabaíni, J.C. and J.P. Jiménez (2012), “Tax structure and tax evasion in Latin America”, *Macroeconomics of Development Series*, No. 118 (LC/L.3455), ECLAC, Santiago de Chile.
- Gómez Sabaíni, J.C., J.P. Jiménez and D. Rossignolo (2012), “Imposición a la renta personal y equidad en América Latina: Nuevos desafíos”, *Macroeconomics of Development Series*, No. 119 (LC/L.3477), ECLAC, Santiago de Chile.
- Han, F. (2014), “Measuring external risks for Peru: Insights from a macroeconomic model for a small open and partially dollarized economy”, *IMF Working Paper*, No. WP/14/161, IMF, Washington, DC.
- Hnatkovska, V. and N. Loayza (2004), “Volatility and growth”, *Policy Research Working Paper Series*, No. 3184, World Bank, Washington, DC, <http://dx.doi.org/10.1596/1813-9450-3184>.
- IMF (2015a), *World Economic Outlook April 2015: Uneven Growth, Short- and Long-Term Factors*, IMF, Washington, DC, www.imf.org/external/pubs/ft/weo/2015/01/.
- IMF (2015b), “Peru 2015 Article IV Consultation”, *IMF Country Report*, No. 15/133, IMF, Washington, DC.
- Jara, A. and E. Olaberría (2013), “Are all capital inflows associated with booms in house prices? An empirical evaluation”, *Working Papers*, No. 696, Central Bank of Chile, Santiago.
- Jaramillo M. (2014), “The incidence of social spending and taxes in Peru”, *Public Finance Review*, Vol. 42(3), pp. 391-412, May.
- Johansson, A., C. Heady, J. Arnold, B. Brys and L. Vartia (2008), “Taxation and economic growth”, *OECD Economics Department Working Paper*, No. 620, OECD Publishing, Paris, <http://dx.doi.org/10.1787/241216205486>.
- Loayza, N., R. Rancière, L. Servén and J. Ventura (2007), “Macroeconomic volatility and welfare in developing countries”, *World Bank Economic Review*, Vol. 21(3), pp. 343-357.

- Lustig, N. and S. Higgins (2013), *Commitment to Equity Assessment: Estimating the Incidence of Social Spending, Subsidies and Taxes: Handbook*, CEQ (Commitment to Equity).
- Lustig, N. et al. (2013), “The impact of taxes and social spending on inequality and poverty in Argentina, Bolivia, Brazil, Mexico, Peru and Uruguay: An overview”, CEQ Working Paper, No. 13, CEQ.
- MEF (2015), “Marco Macroeconómico Multianual 2016-2018”, Ministry of Economics and Finance, Lima, Peru.
- Mendoza, W. (2013), “Milagro peruano: ¿Buena suerte o buenas políticas?”, *Economía*, Vol. 36(72), pp. 35-90.
- OECD/ECLAC/CIAT/IADB (2015), *Revenue Statistics in Latin America and the Caribbean*, OECD Publishing, Paris, http://dx.doi.org/10.1787/rev_lat-2015-en-fr.
- OECD/ECLAC (2012), *Latin American Economic Outlook 2012: Transforming the State for Development*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/leo-2012-en>.
- OECD/IDB (2014), *Government at a Glance: Latin America and the Caribbean 2014: Towards Innovative Public Financial Management*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264209480-en>.
- Olaberria, E. (2014), “US long term interest rates and capital flows to emerging economies”, *OECD Economics Department Working Papers*, No. 1155, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jz0wh671733-en>.
- Olaberria, E. (2012), “Capital inflows and booms in assets prices: Evidence from a panel of countries”, *Working Papers*, No. 675, Central Bank of Chile.
- Olaberria, E. and J. Rigolini (2009), “Managing East Asia’s macroeconomic volatility”, *Policy Research Working Paper*, No. WPS 4989, World Bank, Washington, DC.
- Reinhart, C.M. and V.R. Reinhart (2009), “Bonanzas de flujos de capital: Una mirada que abarca el pasado y el presente”, *Ensayos sobre Política Económica*, Vol. 27(59), pp. 188-250.
- Rossini, R., Z. Quispe and D. Rodríguez (2013), “Flujo de capitales, política monetaria e intervención cambiaria en el Perú”, *Revista Estudios Económicos*, Vol. 25, pp. 39-50.
- Schwellnus, C. and J. Arnold (2008), “Do corporate taxes reduce productivity and investment at the firm level?: Cross-country evidence from the Amadeus Dataset”, *OECD Economics Department Working Papers*, No. 641, OECD Publishing, Paris, <http://dx.doi.org/10.1787/236246774048>.
- Seminario, B. and N. Alva (2012), “El PIB, tres siglos pasados y media centuria venidera”, in B. Seminario, C. Sanborn and N. Alva (eds.), *Cuando Despertemos en el 2062: Visiones del Perú en 50 Años*, Universidad del Pacífico, Lima.
- Winkelried, D. (2013), “Modelo de proyección trimestral del BCRP: Actualización y novedades”, *Revista Estudios Económicos*, Issue 26, pp. 9-60.
- World Bank (2015), *World Development Indicators* (database), Washington, DC, <http://data.worldbank.org>.



From:
Multi-dimensional Review of Peru
Volume 1. Initial Assessment

Access the complete publication at:
<https://doi.org/10.1787/9789264243279-en>

Please cite this chapter as:

OECD (2015), "Macroeconomic policies for inclusive development", in *Multi-dimensional Review of Peru: Volume 1. Initial Assessment*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264243279-9-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.