

Economic report of peru essay sample

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Introduction

Peru is a Latin American country bordering Pacific ocean. Its name is derived from an Indian word, which means land of abundance. Peru has a total population of 27 million as per 2004 with an annual growth rate of 1.5 percent. Peru per head GNI is about US\$2360. About 30 percent of its population is 0-14 years of age, while 63 percent of population is between 15 and 64 years of age. The total death rate is 32 per thousand, while life expectancy is about 70 years (World Bank, 2005).

During the last decade, there has been massive investment in country's infrastructure, improving infant mortality rate dropping from 54 to 26, between 1990 and 2000, while the maternal mortality rate decreased from 265 to 185 per 100,000. There was also increase in secondary school education reaching 74 percent in urban areas and 44 percent in rural areas. However poverty has been the rise increasing to 54 percent and extreme poverty has reached 24 percent of total population in recent years. The table below shows detail. The country 81 percent population is Roman Catholic with few other minor sects and religions. Peru official language is Spanish and Quechua and have literacy rate of 87 percent (CIA factbook, 2005).

Economic Development Since 1960

In the post-World War II decades, Peru achieved an average rate of growth and low level of inflation and rising exports of its diversified primary products. Its output per capita grew 2.9 percent a year in the decade of the 1950s, and 3.2 percent annually in the first half of the 1960s, compared with the regional growth rate of 2.0 percent for these fifteen years. As of 1960,

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income per capita was 17 percent above the median for Latin American countries. However, since the mid 1960s the economy ran into difficulties. The output per capita failed to grow from 1965 to 1988, then fell below 1965 level in 1989 and 1990. The previously moderate rate of inflation accelerated, balance of payments deficits became a chronic problem accumulating deep external debts for the country. Poverty worsened and political violence in the countryside and cities became increasingly intense. The economy and the society as a whole seemed to lose coherence and any sense of direction (World Bank, 2005).

Peru has mixed and developing economy composed mainly of manufacturing, services, agriculture, and mining industries which were nationalized in 1960s and 1970s. In 1987 government nationalized its financial system. Compared to its population, Peru GNP has not grown rapidly, however the country is rich in natural resources including copper, gold, silver and iron. Peru is not self-sufficient and has inadequate irrigation system. Peru main trading partners are US, Japan, Germany. During late 1980s, guerilla violence and increasing inflation created excessive budget deficits leading the country to almost bankruptcy, however the 1990s economic re-structuring changed the situation

(World development indicators, 2004).

The Peruvian economy is becoming market oriented after with its privatization of mining, power and telecommunication industries in 1990s, which also led to massive FDI (foreign direct investment) and cooperation between Peru and IMF administration bringing strong growth between 1994-

1997. Peru economic reforms in 1994 paid off increasing its GDP growth, employment trade, and FDI that helped in improving the social welfare and per capita growth from US\$ 44 billion to \$68 billion in 2004. The country exports also increased from \$19 billion in 1984 to \$20.9 billion in 2004. The interest payment also decreased from 3.1 percent in 1984 to 2.1 percent of GDP in 2004. The debt has also decreased in two decades from \$61 billion in 1984 to \$43 in 2004 as mentioned in table 2 below (World, Bank, 2005).

A WTO (2000) report has mentioned that governments reforms in 1990s has opened the country to trade and commerce which included privatization of industries and financials system. As a result Peru merchandise reached a record growth of 8.5 percent between 1994 and 1998. The FDI flow also increased five fold due to economic liberalization. In the meantime, it was also integrated in Latin American Integration Association. European Union and Japan helped Peru to export its processed and semi-processed products to EU, and US that forms about 60 of its total merchandise.

Peru favorable economic trend has largely been dependent on prudent fiscal monetary policies which were initiated in 1990s. Due to such initiative the economic environment improved in 1990s and inflation fell from 7600 percent at the beginning of 1990s to 3/4 percent by 1999. In 1997 the Government of Peru was able to achieve fiscal balance after the deficit of 10 percent in 1980s. Such conditions created an environment for foreign investment and an environment of pacification process and structural reforms in Peru's financial system reducing the risk of country's economy. In 1998 the El Niño's impact on agriculture, the financial crisis in Asia and the instability in Brazilian markets made an undercut growth for Peru's economy

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making 1999 a tough year, but it did manage to facilitate a loan from IMF. Peru gross domestic growth product (GDP) in 2003 was worth US\$60 billion (IMF, 2004).

According to IMF (2004) Peru economy in 2002 has been active and recovered despite the turmoil in local economies. Its micro performance was stronger and till Dec 2002, high growth was observed. In 2002 GDP growth exceeded the expectation reaching about 5 percent with 1.5 percent inflation rate. The total public deficit was about 2.2 percent of GDP, while official foreign exchange reserve remained at US\$ 1 billion due to substantial cash inflow. Interest rate also remained low and the banking system both local and foreign currency deposit hiked up. This progress was due to government structural reforms, which included comprehensive reforms in tax system and the implementation of the value added taxes that improved the tax transaction to the government. There were also rationalized excise taxes on petroleum products that increased and expanded the products, eliminating deductions from corporate tax, such measures yielded around 0.4 percent of GDP.

In 2003 the fiscal deficit decreased to 1.9 percent of GDP as predicted. The monetary policy was able to achieve the target inflation rate of 2.5 percent, which stabilized the debt and dollarization creating favorable exchange flexibility. The public investment was cut to 2.8 percent of GDP from the previous 3.3 percent level. Peru's growth in the year 2005 has been healthy and largely driven by construction and investment. Peru's export in 2005 reached US\$ 17.1 billion an increase of 34 percent compared to 2004, which is expected to grow to 35 percent in 2006. The country has shown healthy

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growth in energy, construction, commerce and manufacturing sectors growing at the rate of 6.67 percent, which is one of the fastest growing economies in the Latin America (WTO, 2000)

Foreign Direct Investment (FDI)

The Peruvian government has been seeking both local and international FDI to contribute in different sectors of economy. There was a huge investment in 1990s when Peru made progress towards economic and social stability. However the privatization slowed down during the political uncertainty in 2000, where Peru was marked by hyper-inflation and other domestic problems. The Fujimori government took steps to bring the problems under control. The government put economic barriers down and opened economy to foreign investment making Peru one of the most open investment regimes in the world

Since 1992 to 2001, Peru attracted almost US\$ 17 billion FDI from countries, such as Spain, UK, Panama and Netherlands. The basic legal structure for investment was also reformed in 1993 that helped in accelerating the rate of private investment. In 1993 IMF and World Bank has been offering extensive loans to Peru. Over the years, the ration of loans has been doubled from \$12 billion in 1984 to \$29 billion in 2004 as shown in the table below. However as the economy is picking up, IMF expects that Peru will be able to pay these financed loans (WTO, 2000; Wikipedia, 2006).

Agriculture

Since 1950s, Agriculture has been on decline, even though the area under cultivation has increased, still the domestic crops have been unable to meet the growing demands of population. Only 2.8 percent of Peru's land is used for agriculture, 21 percent is permanent pastures, while 54 percent is forest, which leaves little space for further cultivation. The main commercial crops includes coffee, sugarcane, cotton, and rice and other crops consists of potatoes, corn, barley, wheat, manioc, sweet potatoes, vegetables and fruits. Agriculture is concentrated mainly in the valleys of the coastal region in the valleys of the Andes and in the western margins of the eastern region. There has been concentration of various border measures that favoured a limited amount of products hindering the labour, land and crops. About 9 percent of Peru population is engaged in farming, forestry, or fishing. A large part of coastal area is used for growing crops for local consumption. Peru livestock include horses, mules, and poultry, sheep that provides wool, hides and skin for the Peru's population. The total number of livestock in 1987 includes sheep, goats, alpacas, llamas and vicunas. Large quantities of wool are produced, part of which is used in local handicrafts and industry (Country analysis, 2005)

The country forests yield nearly 8 million cubic meters of wood annually, including a substantial proportion of valuable hardwoods. Agriculture is an important sector in Peru and is helping Peru's economy creating jobs and producing products for the local and international market. The sector had difficulty in 1990 during the process of privatization, but the reform in later 1990s has led to the expansion of the agriculture sector.

Forestry, Fishing, Mining and Service Sectors

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During the 1992 and 1999 the country has been successful in getting FDI, while its mining sector also attracted foreign investment, however Peru has been facing tough competition. Peru's forest covers about 54 percent of its land area. Its major harvest includes gum and rubber and other medicinal plants. The harvest in 2003 reached 10.3 million cu ft. Forest products include, balsa lumber and balata gum, rubber, and a variety of medicinal plants. Notable among the latter is the Peru's fishing industry contributes to country's economy.

Fishing has grown after 1950s into a major economic activity. Peru has one of the world's largest fishing zones, rich in a wide variety of fish and marine life. The annual fish catch exceeded 10 million tons in the late 1960s and early 1970s, but dropping enormously in 1970s due to over fishing. The investment in fishing processing industry in 1960s made Peru a leading producer. About 60 percent of its fishing products are meant for export, however it is also suffering from over fishing and over investment. Peru's strategy to attract local and foreign private investment has been particularly successful in the mining industry. Mining and energy attracted just over one third of total direct foreign investment in Peru during 1992-99. Peru used to be a major supplier of services including financial and transport and telecommunication activities, but such services has been on decline since 1990 (Country analysis, 2005; Wikipedia, 2006).

Manufacturing and Mining

Peru had smaller manufacturing industry mainly consisting of textiles, clothing, food products, and handicrafts industries since 1950s. The modern

industries in Peru were developed between 1950 and 1980. The contribution of industries increased in Peru's economy increased from 13 to 24 over the last 40 years giving rise to variety of industries and products, such as mineral, iron and steel products. Other manufacturing industries include electronic fertilizers, ship building, and chemical products. Peru is one of the leading producers of copper, gold, silver, lead and zinc. Petroleum, natural gas and iron are also extracted in vast quantities. In 2003 these extraction included production of 3. 5 million metric tons of iron ore; 831, 223 metric tons of copper; 2, 775 metric tons of silver; 171, 551 kg (378, 200 lb) of gold; and 1, 250, 000 metric tons of zinc and about 35. 4 million barrels of crude petroleum along with 440 million cu m (15. 5 billion cu ft) of natural gas (Country analysis, 2005).

Tourism

Tourism has been contributing to Peru's economy for some times, but it went down in 1980s due to political chaos, rose again in 1990s after the return of normality in the country. In 2000, the tourism was picking up the pace and contributing to its economy (latin-focus, 2003).

Inflation and Unemployment

Despite high economic growth Peru is suffering from high unemployment that is above 10 percent, while analyst believed that the country also has problem of underemployment, which is giving rise to widespread poverty, especially among the rural population (Country analysis, 2005). One reasons for this growing poverty has been hyperinflation since 1990, where government printed too much money to increase revenue. This hasty step <https://assignbuster.com/economic-report-of-peru-essay-sample/>

created more negative result rather than benefits. In Peru generally wages are very low and do not keep up pace with inflation (Peruvians (Ventura, 2000).

Conclusion

Peru has moved a long way from being a poor under developed country to join in the race for development. For the next five years, Peruvian Government has allocated about US\$ 10 billion for in mining and energy sector to meet the demand. Another 15 billion have been allocated to commerce, tourism and agriculture sectors to update these industries and allow them to contribute in the country's economy, which will help in reducing poverty at 5 percent annually.

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