There is no development without optimizing productivity

According to César Liendo, deputy minister of the MEF, the Peruvian economy has shown signs of recovery since the third quarter of 2017. It would be the start of the path of economic acceleration projected by the Economy portfolio.

The economic perspectives for 2018 are better than those of 2017, year marked by the paralysis of large infrastructure projects linked to Brazilian companies, as well as the serious impacts of El Niño Costero. In his dissertation, César Liendo, vice minister of Economy, said that this year the economy will grow 4.0% thanks to the better global context, the impulse of public investment, the acceleration of private investment, as well as the recovery of employment and consumption of families.

During 2017, conditions on the domestic front were not the best. The acts of corruption linked to Brazilian companies and the impact of the El Niño (FEN) Coastal phenomenon have been two extraordinary factors that have had a high economic and social cost. Deputy Minister César Liendo, from the Ministry of Economy and Finance (MEF), points out that "the planned investment deployment was modified as a result of these shocks" and emphasizes that "60% of public investment was concentrated in the emergency zones, which limited the expansion of this investment item during the Coastal FEN. "

Faced with this scenario, explains Liendo, several measures were taken to accelerate the impulse of public spending. Two laws were passed to make the budget more flexible and transfer resources from projects that were not going to be executed to others that could be. Laws 30624 and 30680 allowed for the reallocation of almost S/2000 million to fast investment projects execution with high social impact.

1/ This event had a special presentation by César Liendo, Vice Minister of Economy of the Ministry of Economy and Finance. Panelists: Renzo Rossini, general manager of the Central Reserve Bank of Peru (BCRP); Waldo Mendoza, president of the Fiscal Council and professor of the Pontificia Universidad Católica del Perú (PUCP); and Diego Macera, general manager of the Peruvian Institute of Economics (IPE). The event was moderated by Donita Rodríguez, head of Macroeconomic Analysis of Apoyo Consultoría.

Thanks to this, he maintains, today two-digit public investment rates can be observed, results that have made it an engine for the growth of the Peruvian economy.

To this is added that after 14 quarters of decline, private investment grew 5.4% in the third quarter of 2017, marking the beginning of the process of acceleration of investment that, it is expected, continues in such a way that it grows above of 5.0% in 2018. "The interesting thing about this growth is that the impulse would come from diversified investment, that is, it would not respond only to the largest mining investment or hydrocarbons, which have been engines of growth in recent years, but also to other sectors such as retail, health and education, among others, which still have ample space to grow ", he says. These conditions have occurred in a favorable international context, characterized by an increase in the prices of the main export metals and a greater global demand for non-traditional products. Thus, non-traditional exports grew 8.2% last year and this basket diversified even more compared to previous years.

As a result, the Peruvian economy has shown signs of recovery since the third quarter of 2017, and it would be the beginning of the path of economic acceleration signaled by the MEF. Liendo underlines that this occurs in a context of macroeconomic balance solidity. Unlike other countries in the region, which have had significant reductions in prospects or level of risk rating, Peru has managed to successfully maintain its rating thanks to the measures taken to reactivate the economy and a sound fiscal strategy.

ECONOMIC PROJECTIONS

According to Deputy Minister Liendo, the Peruvian economy will grow 4.0% in 2018, almost 1.5 percentage points more than in 2017. Much of the acceleration of growth, he says, will be given by a greater public impulse, thanks to a rapid implementation of projects through the new public investment system, Invierte.pe, as well as the implementation of the Reconstruction with Changes Plan and the Pan American Games. On the one hand, the Plan of Reconstruction with Changes will demand resources for S/ 7078 million (1.0% of GDP), and the works will be done in an accelerated way thanks to a regulatory framework that streamlines the execution of the investment and a specialized team that will accompany the ministries in the elaboration, adjudication and supervision of the projects. On the other hand, in the case of the Pan American Games, S/2,300 million will be executed that will allow the construction of the eight main works, in a special framework of Government to Government, signed with the United Kingdom. This framework guarantees Peru the effective execution of these investment projects with quality, taking advantage of the British experience in the London 2012 Olympic Games.

Panel discusses the recovery of the Peruvian economy and possible obstacles of various kinds. From left to right: Waldo Mendoza, César Liendo, Renzo Rossini and Diego Macera.

Liendo emphasized that during this year there will be a greater recovery of private investment, in a context of high prices of metals -which have exceeded the forecasts of the Ministry of Economy and Finance-, greater execution of infrastructure projects and a greater dynamism of the mining investment before the implementation of measures to streamline the sector, maintaining quality standards. In the case of mining investment, the MEF estimates that this will grow around 12% in 2018, mainly due to the start of construction of projects such as Mina Justa (total investment of US $ 1,300 million) and the expansion of Toromocho. In addition, it is expected that the diversified investment - the one most linked to domestic demand, such as shopping centers, schools, etc. - will continue to accelerate considering the best context economy.

Finally, the Ministry of Economy and Finance seeks to award a portfolio of projects with Proinversión for more than US $ 5100 million in 2018. On this point, César Liendo points out that "it is sought to recover the level of awards of 2013-2014, but with better projects designed and without frequent addenda. Also important awards, but it is important that Congress approve the law that creates the Special Project for Access to Predicted Investment Projects (APIP)". It should be noted that this entity will significantly reduce the number of actors involved in the expropriation process. In fact, according to the Multiannual Macroeconomic Framework, it is estimated that the time to acquire a property will be reduced from 739 days without APIP to 280 days with this entity. Thus, the MEF expects the virtuous circle of greater investment-employment-consumption to restart.

COMMENTS

Renzo Rossini, general manager of the BCRP

It is expected that by 2018 the expansionary position of both monetary and fiscal policy will be maintained. The output gap (estimated at 0.8%) is closer to zero, but still in negative territory. This justifies a fiscal deficit of 3.5% of GDP and an expansive monetary policy. Inflation will remain around 2%, which will allow maintaining that monetary policy position.

Waldo Mendoza, researcher at the PUCP

The external context is very favorable due to higher international prices and higher capital flows, so that the Peruvian economy will move according to the margin of what is done in fiscal and monetary policies. However, we are tied to an exogenous variable that could interrupt recovery. By 2021, it is clear that the mining sector and PPPs, works that require a lot of state financing, will allow to maintain growth. However, there is no clarity on what the new engines of long-term growth will be.

Diego Macera, general manager of the IPE

There are indicators that indicate that it is reasonable to expect an improvement in the Peruvian economy in the short term, such as the increase in commodity prices, the increase in external demand, higher imports of capital goods, more cement shipments, an increase in construction and mining exploration and public and private investment. The only indicator that does not recover trend is in the labor market and is a wage bill that does not grow and does not gain momentum. This would imply a downward revision of the Government's goal of job creation.