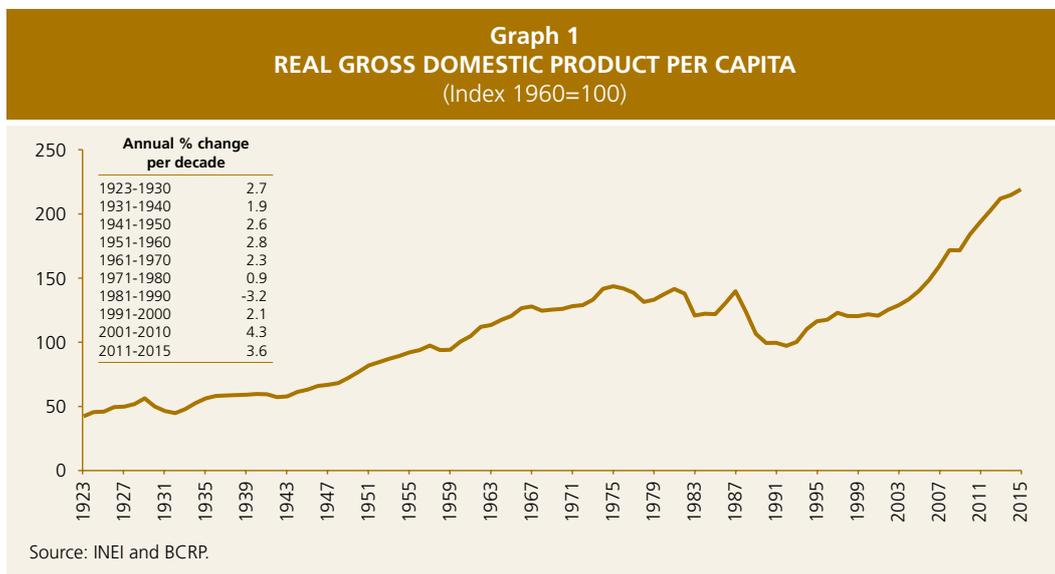


PRODUCTION AND EMPLOYMENT

In 2015, Peru's gross domestic product (GDP) grew at a higher rate than in the previous year –3.3 percent versus 2.4 percent– due to the dynamism of activity in the sectors of metal mining and fishing.

The GDP per capita increased 2.1 percent, less than the average rate in the last five years (3.6 percent).



1. Domestic Demand

The 2.9 percent annual growth rate of domestic demand in 2015 was driven by the components of private consumption (3.4 percent) and public consumption (9.5 percent), while investment showed negative growth rates for the second consecutive year in both the private component (-4.4 percent) and in the public component (-7.5 percent).

Table 1
GROSS DOMESTIC PRODUCT BY TYPE OF EXPENDITURE
(Real % change)

	2013	2014	2015	2006-2015
Domestic Demand	7.3	2.2	2.9	7.5
a. Private consumption	5.3	4.1	3.4	6.0
b. Public consumption	6.7	10.1	9.5	7.5
c. Gross fixed investment	7.3	-2.1	-5.0	10.5
- Private	6.4	-2.1	-4.4	10.3
- Public	10.7	-2.0	-7.5	11.1
Change on inventories (% nominal GDP)	1.4	0.7	1.6	1.0
Exports	-1.3	-0.8	3.5	2.9
Minus:				
Imports	3.9	-1.2	2.2	8.7
GROSS DOMESTIC PRODUCT	5.9	2.4	3.3	5.8
Memo:				
Total public expenditure	8.0	6.0	4.2	8.3

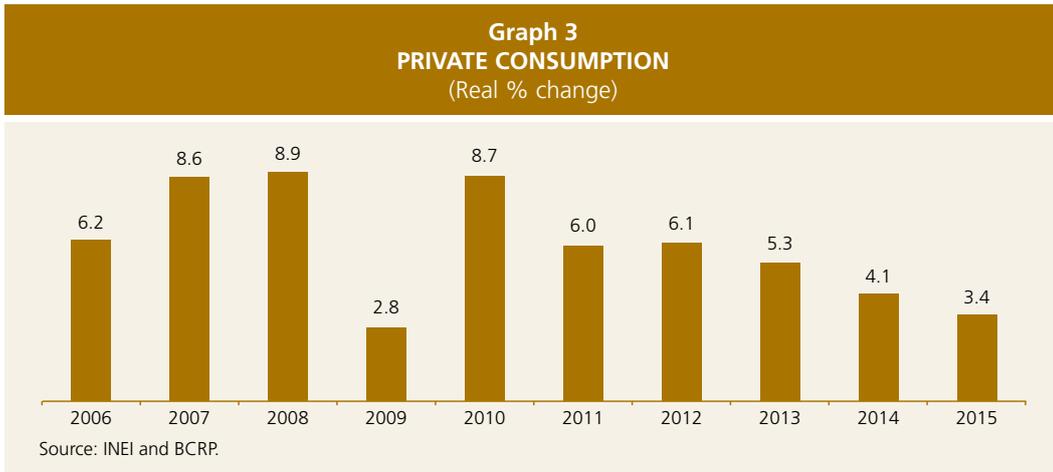
Source: INEI and BCRP.

Graph 2
GDP AND DOMESTIC DEMAND
(Real % change)



1.1. Private Consumption

Private consumer spending slowed down from 4.1 percent in 2014 to 3.4 percent in 2015 as a result of the lower dynamism registered in the labor market, with employment growing at a rate of 2.7 percent, less than in 2014 (4.5 percent).



1.2 Private Investment

Private investment declined for the second consecutive year (-2.1 percent in 2014 and -4.4 percent in 2015). This result was influenced by the completion of a series of investment projects, the decline in the terms of trade, and lower investor confidence.

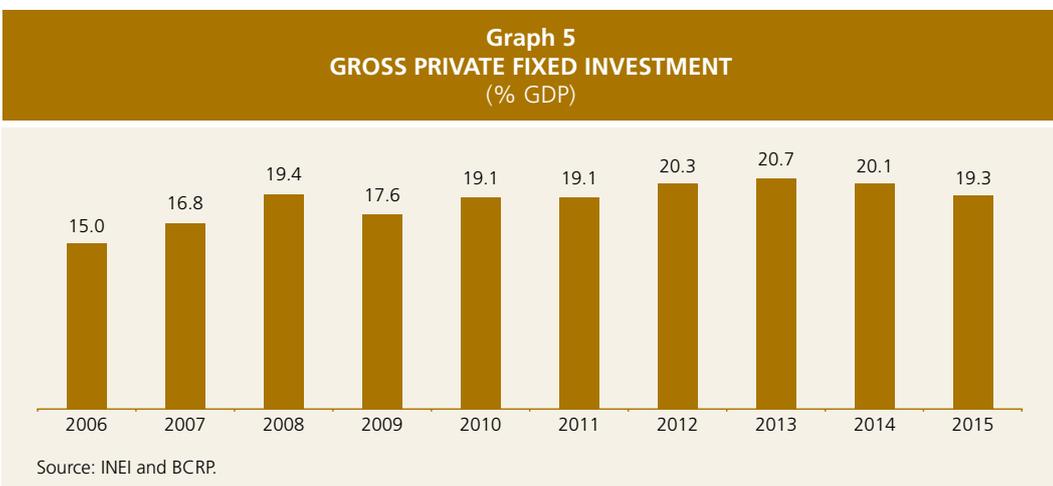
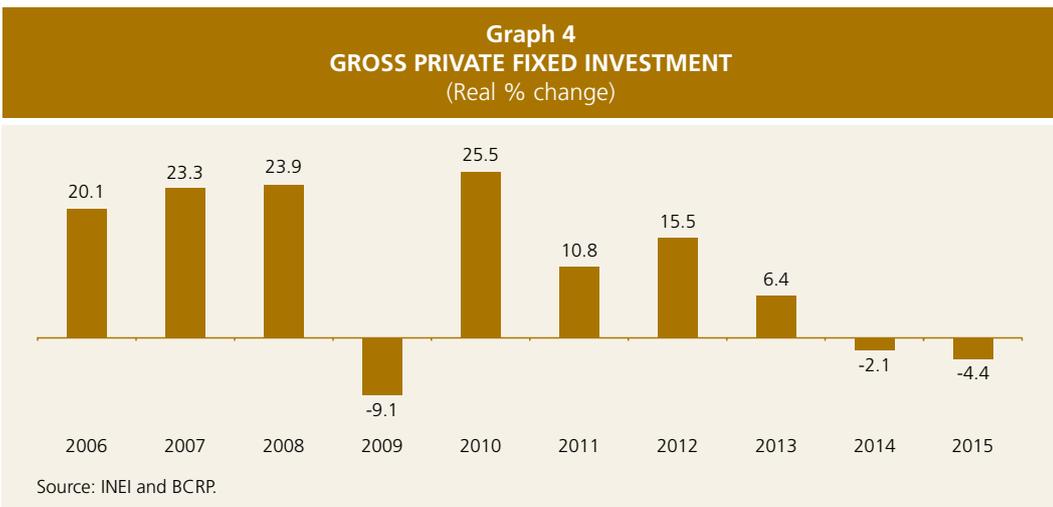


Table 2
MINING INVESTMENT BY COMPANIES
(Million US\$)

	2013	2014	2015
Cerro Verde	1,073	1,744	1,617
Las Bambas	1,709	1,636	1,504
Hudbay Peru	532	736	305
Compañía Minera Antapaccay	627	570	569
Minera Chinalco	1,188	449	397
Southern Peru Copper Corp.	387	329	303
Compañía Minera Antamina	539	328	281
Consorcio Minero Horizonte	170	208	240
Anglo American Quellaveco	149	215	201
La Arena	209	173	149
Compañía de Minas Buenaventura	177	196	144
Minera Yanacocha	304	104	142
Compañía Minera Milpo	73	61	18
Rest	2,787	2,124	1,655
Total	9,924	8,873	7,525

Source: MINEM.

In 2015, investments in the mining sector were lower than in the previous two years and amounted to US\$ 7.5 billion. The investments of Sociedad Minera Cerro Verde (US\$1.6 billion) concentrated in the culmination of the expansion works for the operations of its copper mine in Arequipa, which started operations in September and is expected to achieve its maximum capacity in 2016. The investment in this project (US\$ 4.6 billion) has expanded its ore processing capacity from 120 to 360 thousand metric tons per day. On the other hand, the consortium led by Mining Mineral Group (MMG) invested US\$1.5 billion for the completion of its mining project Las Bambas. According to the Ministry of Energy and Mines, total investment in this project at December 2015 until the start of tests amounts to US\$ 6.6 billion.

In the hydrocarbons sector, Repsol invested US\$ 217 million that were used mainly for the project "Adaptation to the New Fuel Specifications Established by Refinery La Pampilla" (RLP-21), while Transportadora de Gas del Perú continued making investments to expand the capacity of its gas transport system from 655 million cubic feet to 1,540 million cubic feet per day. The investment included continuing with the construction of the Compression Plant in the Jungle area of Echarate and starting the construction of a second pipeline between Chilca and Lurín on the Coast.

In the electricity sector, Luz del Sur invested US\$110 million in 2015 to expand the capacity and make improvements in the electric power grid through the purchase of machinery and equipment,

as well as through the implementation of its Hydroelectric Power Plant Santa Teresa, while Red de Energía del Perú continued with the development of projects aimed at expanding the electricity infrastructure nationwide as well as with the construction of connections for industries in the private sector, with an investment of US\$ 43 million. Moreover, new power generation plants started operations during the year, expanding the power generation capacity by 894 MW with a total private-sector investment of US\$ 1.5 billion. The power plants include Termoeléctrica de Reserva Fría Éten (230 MW), Central Termoeléctrica Recka (181 MW), Central Hidroeléctrica Cheves (168 MW), Central Hidroeléctrica Machupicchu II (102 MW), and Central Hidroeléctrica Santa Teresa (98 MW).

In the industrial sector, Cementos Pacasmayo started producing cement at its new plant in Piura. Total investment in the plant amounts to US\$ 365 million, including engineering works, land, buildings, as well as the full equipment of the plant, which has the capacity to produce 1.6 million metric tons of cement a year. On the other hand, Lindley invested US\$ 79 million mainly in the completion of its plant in Pucusana, which started operations in September 2015. Investment in this plant totals US\$ 200 million.

1.3 Government Spending

Public spending increased 4.2 percent in 2015, less than in 2014 (6.0 percent). Public consumption expenditure grew 9.5 percent, increased spending in areas such as Defense, Interior, Health and Agriculture standing out.

On the other hand, public investment fell 7.5 percent, due mainly to the underperformance of investment spending at the level of sub-national governments (regional and local governments). However, the investment of the national government increased 5.2 percent in 2015 due mainly to increased spending in areas such as Transport, Education, and Health.

1.4 Exports and Imports

After showing a decline of 0.8 percent in 2014, exports of goods and services grew 3.5 percent in 2015 mainly as a result of the increase registered in exports of traditional products, especially gold, copper, and zinc.

On the other hand, contrasting with the decline observed in 2014 (-1.2 percent), imports of goods and services grew 2.2 percent in 2015, reflecting mainly greater imports of oil and oil products and industrial inputs.

1.5 Savings and Investment

In 2015, gross fixed investment decreased by 1.4 percentage points of GDP (from 25.7 to 24.3 percent of GDP) given that public investment dropped from 5.6 percent to 5.0 percent of GDP and private investment fell by 0.8 percentage points of GDP. Moreover, domestic savings fell from 22.3 to 21.6 percent of GDP mainly as a result of the reduction of public sector savings. Since the decline in domestic savings was greater than decline of investment, the need for foreign savings increased from 4.0 to 4.4 percent between 2014 and 2015.

Table 3
SAVINGS AND INVESTMENT
(% nominal GDP)

	2013	2014	2015
I. Domestic investment (=II+III)	27.9	26.4	26.0
Gross fixed investment	26.5	25.7	24.3
Public investment	5.8	5.6	5.0
Fixed private investment	20.7	20.1	19.3
Change on inventories	1.4	0.7	1.6
II. Domestic savings	23.7	22.3	21.6
Public sector	7.0	5.9	3.7
Private sector	16.6	16.4	17.9
III. External savings	4.2	4.0	4.4

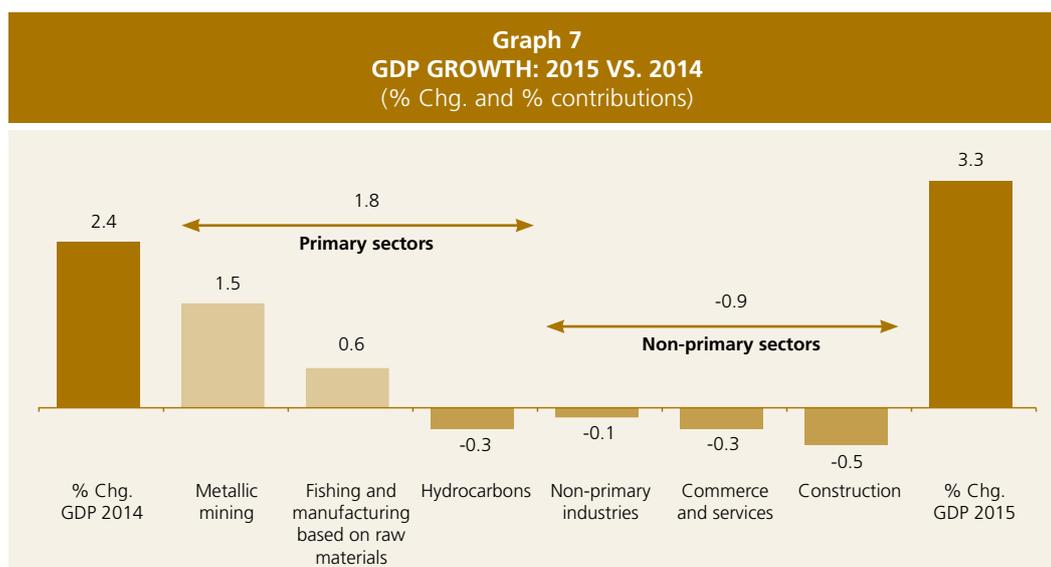
Source: BCRP.

Graph 6
SAVINGS AND INVESTMENT
(% GDP)



2. Production Sectors

The increased output recorded in 2015 (3.3 percent) was driven by the primary sectors (6.6 percent), which recovered from a series of events that affected their supply capacity during 2014. In 2015, however, the occurrence of a moderate intensity El Niño event affected once again some primary activities (the cultivation of some crops and the biomass of sea species, such as anchovy, due to alterations in sea temperatures). In spite of this, growth in 2015 was mostly driven by the primary sectors, especially by increased mining production of copper in Antamina, Toromocho, Antapaccay, and Cerro Verde, as well as by the onset of operations at the mines Constanza and Las Bambas.



On the other hand, growth in the non-primary sectors slowed down from 3.6 to 2.4 percent between 2014 and 2015 as a result of a series of factors, including the underperformance of spending at the level of subnational governments, the further weakening of private investment, and the lower demand for our non-traditional exports, especially the lower demand for these goods of our Latin American trading partners.

Table 4
GROSS DOMESTIC PRODUCT 1/
(Real % change)

	2013	2014	2015	2006-2015
Agriculture and livestock 2/	1.5	1.9	2.8	4.2
Agriculture	1.0	0.7	1.3	2.6
Livestock	2.5	5.8	5.3	4.3
Fishing	24.8	-27.9	15.9	-0.2
Mining and hydrocarbons 3/	4.9	-0.9	9.3	3.3
Metallic mining	4.3	-2.2	15.5	2.4
Hydrocarbons	7.2	4.0	-11.5	4.7
Manufacture 4/	5.0	-3.6	-1.7	3.8
Manufacturing based on raw materials	8.6	-9.3	1.7	-0.1
Non-primary manufacturing	3.7	-1.5	-2.7	5.3
Electricity and water	5.5	4.9	6.2	6.4
Construction	8.9	1.9	-5.9	9.5
Commerce	5.9	4.4	3.9	7.5
Services	6.3	5.0	4.2	6.7
GROSS DOMESTIC PRODUCT	5.9	2.4	3.3	5.8
Memo:				
Primary	5.0	-2.2	6.6	2.8
Non-primary	6.1	3.6	2.4	6.8

1/ Preliminary data.
2/ Includes the forestry sector.
3/ Includes non-metallic mining and secondary production.
4/ Includes secondary production.

2.1 Agriculture

The output of the agriculture sector in 2015 (2.8 percent) was higher than in the previous year (1.9 percent) due to the recovery of agricultural products for the domestic market, the recovery of rice standing out. On the other hand, export-oriented agricultural products and agro-industry products recorded a decline during 2015, which is explained by the lower production of olives, quinoa, sugar cane, and mangos.

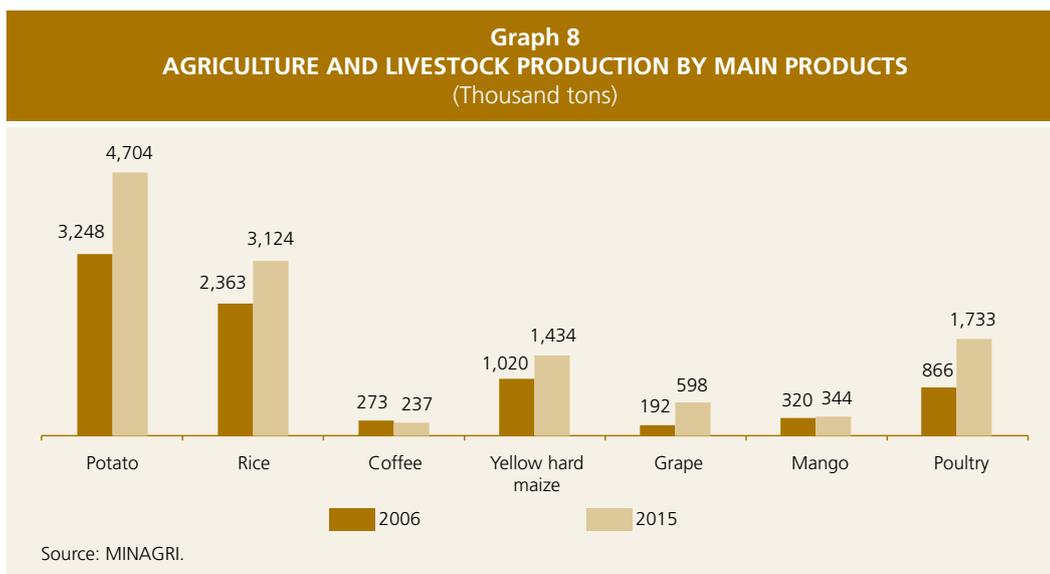
Table 5				
AGRICULTURE AND LIVESTOCK PRODUCTION 1/				
(Real % change)				
	2013	2014	2015	Average 3/ 2006-2015
A. Agricultural production	1.0	0.7	1.3	3.6
For the domestic market	<u>3.0</u>	<u>-0.8</u>	<u>3.0</u>	<u>3.5</u>
Potato	2.3	2.8	0.0	3.6
Rice	0.1	-4.9	7.9	2.4
Banana	1.4	0.7	0.4	2.3
Cassava	6.0	0.9	3.1	2.1
Amilaceous maize	9.6	-1.9	4.6	2.7
Garlic	-0.9	0.1	6.0	4.6
Onion	-0.6	1.4	0.2	4.4
Lemon	3.0	15.5	1.6	2.1
Tangerine	11.7	8.2	5.4	7.6
Orange	2.3	2.7	-1.5	2.9
Alfalfa	4.1	-5.3	3.9	2.0
Tomato	9.9	5.5	-11.4	4.0
For export and industry	<u>-2.5</u>	<u>3.6</u>	<u>-1.7</u>	<u>4.5</u>
Coffee	-20.1	-13.2	6.6	2.3
Sugar cane	6.0	3.6	-10.4	4.9
Yellow hard maize	-2.0	-10.1	16.8	3.7
Asparagus	2.2	-1.7	-0.8	6.2
Grapes	21.3	15.6	17.9	13.4
Olive	-37.6	163.0	-74.7	-3.5
Mango	147.7	-18.0	-8.5	3.9
Cocoa	14.4	14.2	4.3	12.9
Oil palm	9.2	9.2	10.6	13.1
Quinoa	15.8	124.0	-7.9	16.2
B. Livestock production	2.5	5.8	5.3	5.6
Poultry	2.7	9.5	7.9	8.1
Beef	1.9	3.0	-0.3	2.5
Eggs	11.4	2.5	7.7	6.4
Pork	1.8	5.3	5.2	3.3
Milk	0.9	1.7	2.9	3.6
C. Total 2/	1.5	1.9	2.8	4.2

1/ Preliminary.
2/ Includes the forestry sector.
3/ For quinoa considers the average 2008-2015.
Source: MINAG.

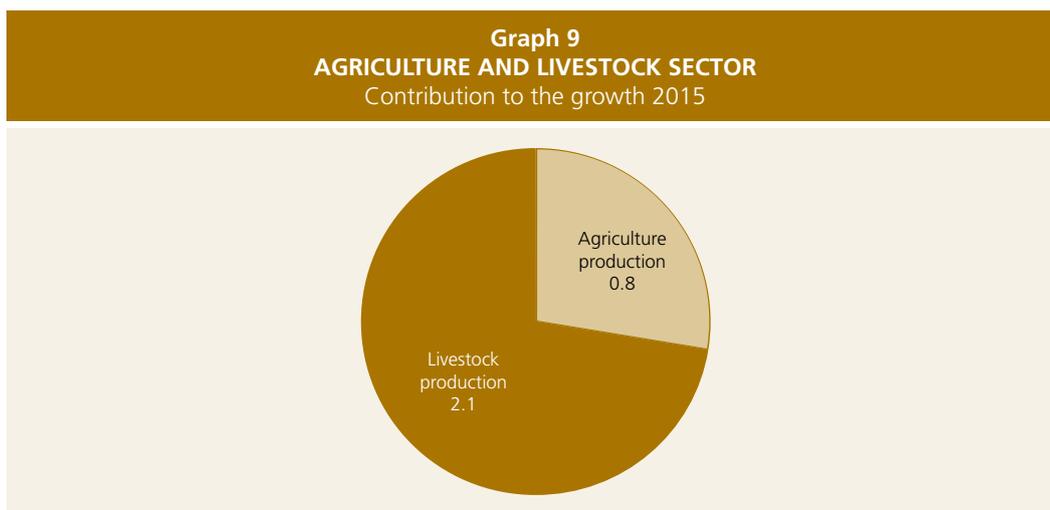
Rice production grew 7.9 percent, favored by better weather and water availability conditions that allowed greater cultivated areas (3.8 percent) and higher yields (4.1 percent). The main regions that prompted the increased cultivation of this crop were Piura and Lambayeque. The production of

potatoes totaled 4,704 thousand tons, almost the same volume of the potato production obtained in 2014 (4,705 thousand tons) when this crop registered historical record volumes.

The production of olives dropped by 74.7 percent in the year, mainly in the regions of Tacna and Arequipa due to the climatic anomalies caused by El Niño. A similar situation was observed in the case of mangos, whose harvest decreased by 8.5 percent in the year, while the decline in the production of sugar cane (down 10.4 percent) was associated with the lower yields obtained in the year (down from 126 metric tons per hectare in 2014 to 121 metric tons per hectare in 2015). The latter was also associated to warm weather anomalies as well as with internal conflicts in the mills of Lambayeque.



The output in the livestock subsector grew 5.3 percent, this subsector being the one that showed the highest contribution to the dynamism of the agriculture sector especially due to the increase observed in poultry production (up 7.9 percent).



2.2 Fishing

During 2015, fisheries production grew 15.9 percent as a result of the increased catch of anchovy (up 60.3 percent). This outcome is associated with a comparative basis effect resulting from the fact

that the second fishing season was suspended in 2014 due to the low levels of biomass and to the presence of a high proportion of young fish.

Table 6
FISHING SEASONS - QUOTATION
(Thousand tons)

	2014		2015	
	South	North-Central	South	North-Central
First season	234	2,530	375	2,580
Second season	0	0	450	1,110
Total year	2,764		4,515	

Source: Ministry of Production.

The volume of anchovy catch for industrial consumption increased from 2.3 million metric tons in 2014 to 3.6 million metric tons in 2015, which accounts for the recovery of the fishing sector. Fisheries for direct human consumption, on the other hand, fell 4.4 percent. The lower extraction of scallops to produce frozen products, as well as the lower catch of mackerel and horse mackerel for canning and for fresh consumption stand out this year.

Graph 10
ANCHOVY EXTRACTION FOR INDUSTRIAL CONSUMPTION
(Million tons)

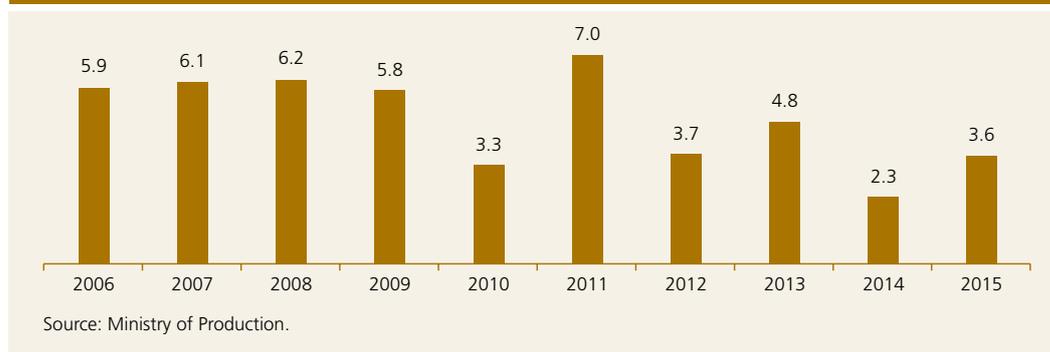


Table 7
FISH CATCH BY MAIN SPECIES
(% change)

Species	2013	2014	2015	Average 2006-2015
Anchovy 1/	28.7	-52.6	60.3	-8.3
Jack mackerel 2/	-25.3	-14.9	-62.2	-11.0
Prawns 3/	-15.8	13.9	23.0	11.5
Giant Squid 3/	-10.1	13.2	-8.2	6.1
Mackerel 2/	166.6	11.2	-48.2	-5.0
Tuna 4/	540.0	-33.7	134.1	1.2
Scallops 3/	129.3	-41.5	-71.6	0.9

1/ Considers fish catch only for industrial consumption.

2/ Considers fish catch for fresh.

3/ Considers fish catch for frozen.

4/ Considers fish catch for canned

Source: Ministry of Production.

2.3 Mining and Hydrocarbons

Recovering from the fall of 0.9 percent recorded in 2014, output in the mining and hydrocarbons sector grew 9.3 percent in 2015. This recovery is mostly explained by the performance of metal mining associated with the extraction of copper ores in Antamina, Toromocho, Antapaccay, and Cerro Verde, as well as with the start of operations at mines Constancia and Las Bambas in 2015, which allowed copper production to grow 25.8 percent in 2015, the highest rate recorded in the past 11 years. However, this increased output was offset by the lower performance of the hydrocarbons subsector, which showed a decline of 11.5 percent, the highest decline observed in 24 years. The latter was associated with the lower international prices of crude oil, which led companies in the sector to modify their production and investment plans.

Table 8
PRODUCTION IN THE MINING AND HYDROCARBONS SECTOR 1/
(Real % change)

	2013	2014	2015	Average 2006-2015
Metallic mining	4.3	-2.2	15.5	2.4
Copper	7.4	0.6	25.8	6.8
Iron	-0.1	7.7	1.8	4.8
Gold	-3.3	-10.3	3.5	-3.5
Silver	5.6	2.5	8.9	2.5
Lead	6.9	4.1	13.9	0.0
Zinc	5.4	-2.6	8.1	1.7
Molybdenum	8.0	-6.2	18.4	1.5
Tin	-9.3	-2.4	-15.6	-7.4
Hydrocarbons	7.2	4.0	-11.5	4.7
Oil	-5.9	10.2	-16.3	-2.6
Liquid of natural gas	20.9	-1.1	-11.6	9.8
Natural gas	2.8	6.0	-3.3	23.3
TOTAL 2/	4.9	-0.9	9.3	3.3

1/ Preliminary.
2/ Includes non-metallic mining and secondary production.
Source: MINEM.

Graph 11
PRODUCTION OF THE METALLIC MINING SUB SECTOR
(Real % change)

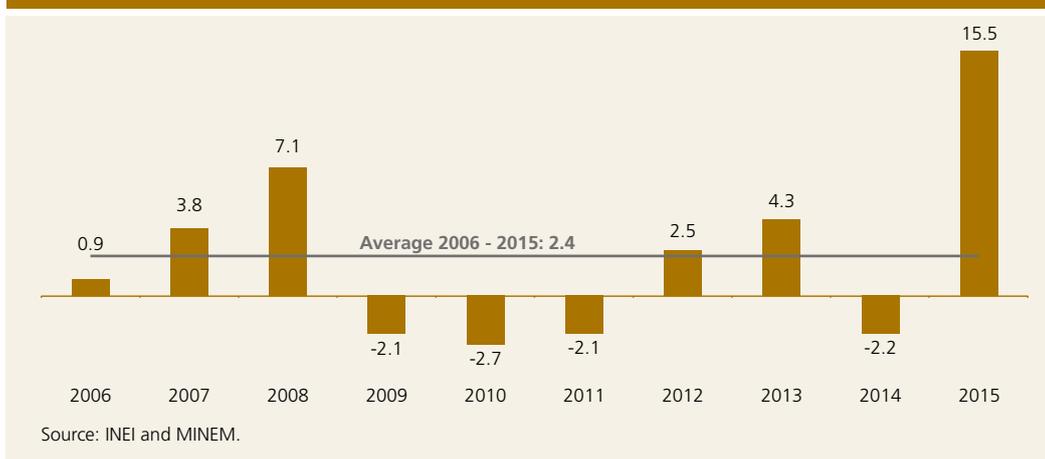


Table 9
MINING PRODUCTION

	2006	2014	2015
Production of gold (Thousand troy ounces)	6,521	4,504	4,663
<i>Largest mining</i>	4,534	1,812	1,751
Minera Yanacocha	2,612	970	919
Minera Barrick Misquichilca	1,668	599	614
Compañía Minera Buenaventura	253	244	218
<i>Rest 1/</i>	1,987	2,078	2,144
<i>New projects</i>	614	768	
La Arena - Rio Alto		220	229
Tantahuatay - Buenaventura		145	154
La Zanja - Buenaventura		144	133
Pucamarca - Minsur		106	118
Anama -Aruntani			74
Inmaculada - Hochschild			59
Production of copper (Thousand fine metric tons)	876	1,294	1,628
<i>Largest mining</i>	795	1,001	1,121
Compañía Minera Antamina	391	362	412
Southern Peru Copper Corporation	326	293	298
Sociedad Minera Cerro Verde		179	208
Antapaccay	79	167	203
<i>Rest</i>	81	222	212
<i>New projects</i>	70	295	
Toromocho - Chinalco		70	182
Constancia - Hudbay			106
Las Bambas - MMG			7
Production of zinc (Thousand fine metric tons)	1,203	1,315	1,422
<i>Largest mining</i>	822	909	988
Compañía Minera Antamina	178	266	298
Compañía Minera Milpo	80	240	247
Volcan Compañía Minera	233	163	180
Empresa Minera Los Quenuales	200	111	103
Sociedad Minera El Brocal	70	7	56
<i>Rest</i>	381	406	433
Production of Silver (Thousand fine troy ounces)	112	121	132
<i>Largest mining</i>	47	57	64
Compañía Minera Antamina	10	13	19
Compañía Minera Buenaventura	12	17	18
Volcan Compañía Minera	13	12	13
Compañía Minera Ares	12	13	10
<i>Rest</i>	65	64	68
Production of Lead (Thousand fine metric tons)	313	277	316
<i>Largest mining</i>	171	110	131
Compañía Minera Milpo	22	34	36
Volcan Compañía Minera	66	24	27
Empresa Administradora Chungar	25	27	25
Sociedad Minera El Brocal	37	3	23
Empresa Minera Los Quenuales	22	15	15
<i>Rest</i>	143	168	185

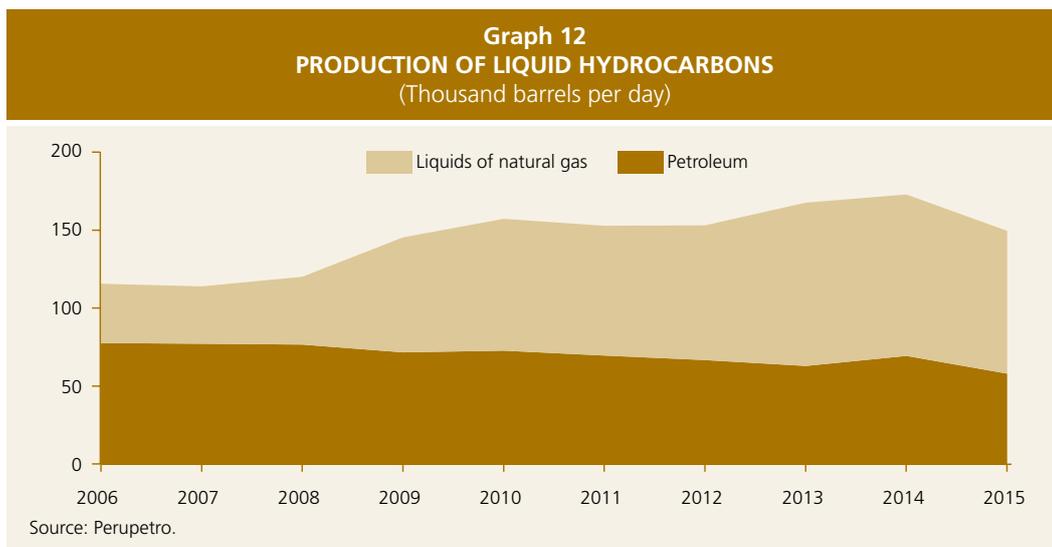
1/ Includes Madre de Dios.

In contrast with the lower growth rates recorded in the previous three years, in 2015 the extraction of **gold** grew 3.5 percent (from 4.5 billion troy ounces in 2014 to 4.7 billion troy ounces in 2015). This increase was associated with the onset of operations of mining projects Anama and Inmaculada, whose output amounted to 74 thousand and 59 thousand troy ounces, respectively.

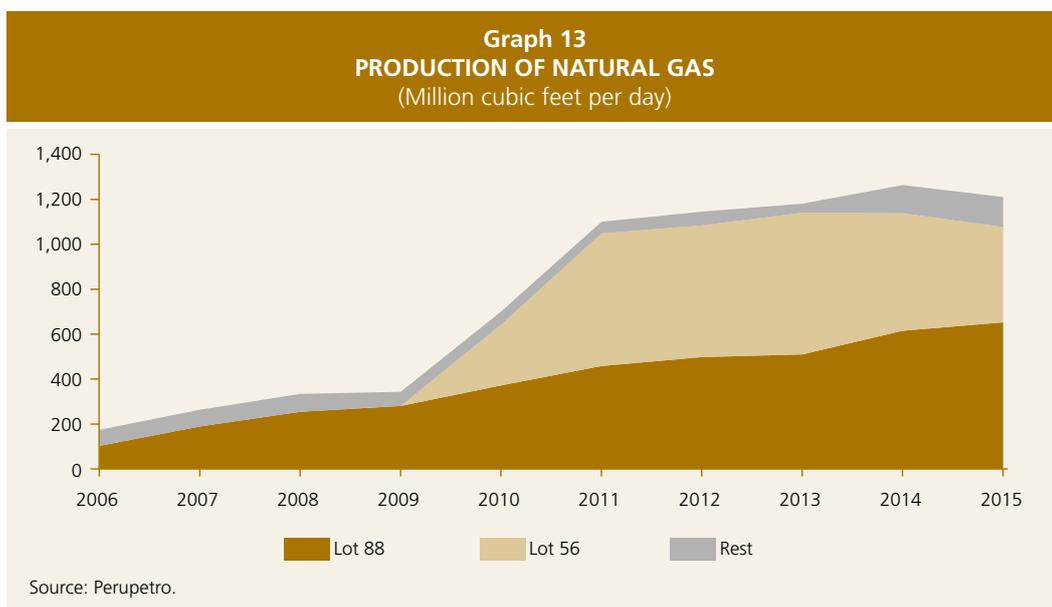
The production of **copper** (1.6 million fine metric tons) grew 25.8 percent in 2015, mainly as a result of the contribution of the new copper projects. Although Toromocho began operations in 2014, it reached its commercial capacity in 2015, increasing its production levels from 70 to 182 fine metric tons. In addition to this, mining projects Constancia and Las Bambas started operations during this year, while Antamina raised its production level even above the one it recorded in 2013 after showing a contraction in 2014.

Zinc production increased 8.1 percent (from 1.3 million metric tons in 2014 to 1.4 million in 2015), while the production of **lead** grew 13.9 percent (316 thousand metric tons in 2015). Both these increases were associated with the start of operations of the expansion of El Brocal in March 2015. Finally, **silver** production grew 8.9 percent (132 million ounces in 2015) due to greater extraction at Antamina.

On the other hand, the production of hydrocarbons shrank 11.5 percent, mainly due to the lower exploitation of liquid hydrocarbons: crude oil (-16.3 percent) and liquid natural gas (-11.6 percent). Lower oil production at Pluspetrol’s Lot I-AB and Lot 8 and at Perenco’s Lot 67 accounted mainly for the contraction of oil activity, while lower activity of Pluspetrol in Lots 56 and 88, in the Department of Cusco, in the province of La Convencion, accounted mainly for the contraction observed in the production of natural gas liquids.



The extraction of natural gas dropped 3.3 percent despite the higher production obtained at Lot 88. The contraction was mainly due to lower activity at Pluspetrol’s Lot 56 (-18.9 percent) as a result of technical problems (the rupture of the gas pipeline in May and several maintenance works carried out in April, August, and September).



2.4 Manufacturing Sector

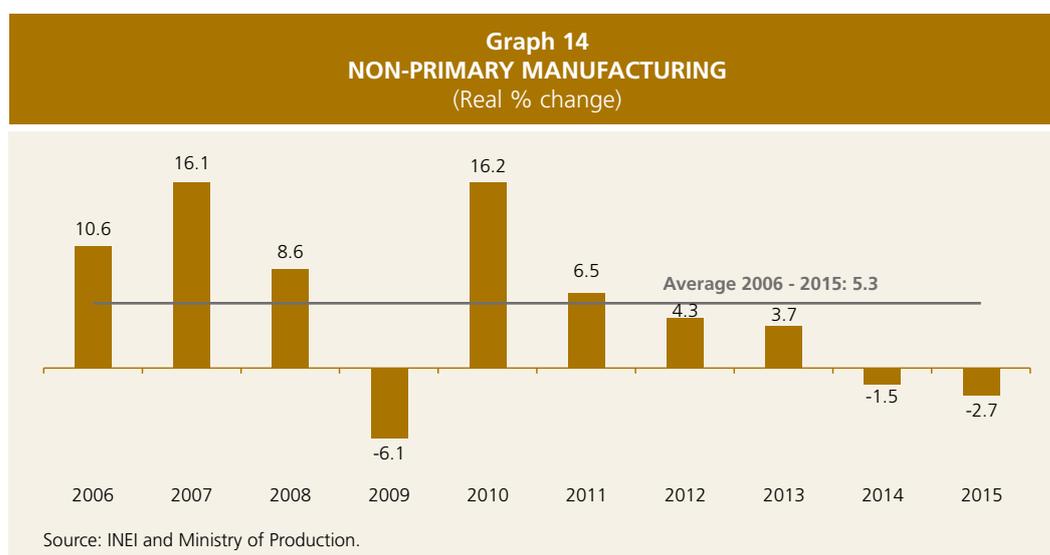
Manufacturing activity fell 1.7 percent in 2015, affected by the evolution of non-primary manufacturing, which showed a negative growth rate of 2.7 percent, while the sectors associated with primary resources grew 1.7 percent. Primary manufacturing saw some recovery since some of the adverse factors that affected this sector during 2014, such as water scarcity, higher temperatures, and the suspension of a second fishing season, were offset during 2015.

Table 10
MANUFACTURING BASED ON RAW MATERIALS BY MAIN INDUSTRIAL GROUPS
(Real % change)

	2013	2014	2015	Average 2006-2015
Manufacturing based on raw materials	8.6	-9.3	1.7	-0.1
Rice	0.1	-4.9	7.9	2.4
Sugar	6.2	2.5	-9.6	4.6
Meat products	2.2	7.2	5.5	5.5
Fishmeal and fish oil	44.3	-63.0	53.0	-8.9
Canned and frozen fish products	-7.3	1.5	-18.9	6.3
Refining of non-ferrous metal	12.8	-5.1	-5.5	-2.1
Refining of crude	-2.7	3.3	0.4	4.4

Source: Ministry of Production and INEI.

The decline of non-primary manufacturing, on the other hand, was associated with a lower demand for inputs, for investment-oriented goods (mainly machinery), and for export-oriented goods (due to the contraction of demand for textiles of our trading partners).



Lower activity in the branches manufacturing inputs (-3.8 percent) was mainly associated with the decline of printing activities (-15.0 percent) due to the lower domestic and external demand for catalogs and advertising inserts. There was also a contraction in the demand for wood (-11.7 percent) as a result of lower exports of sawn wood and the decline of the demand for carpentry parts and pieces. Finally, there was also a lower production of paper and cardboard items (-11.7 percent) due to the lower domestic demand for corrugated paper for packages and containers.

Table 11
GROWTH OF NON-PRIMARY MANUFACTURING BY TYPE OF GOODS
 (Real % change)

	2013	2014	2015	Average 2006-2015
Mass consumption goods	2.3	-2.0	0.4	5.7
Dairy products	3.6	1.4	3.1	5.8
Bakery	-3.4	-0.4	1.6	2.7
Oils and fats	2.6	4.6	4.5	4.6
Miscellaneous food products	12.8	-5.9	-8.4	5.7
Beer and malt	-0.4	0.5	-0.4	5.7
Soft drinks	4.8	1.7	9.1	7.2
Clothing	-9.0	-9.2	-8.7	0.5
Furnitures	8.4	-6.4	7.9	12.5
Other paper and cardboard items	-0.7	11.0	12.7	9.1
Toiletries and cleaning products	9.6	2.0	-1.9	7.8
Pharmaceutical products	-11.5	-1.3	-18.9	2.1
Miscellaneous items	10.3	-7.4	-5.8	1.2
Inputs	0.0	-1.6	-3.8	3.6
Milling industry	-3.7	2.0	0.6	1.6
Other textil items	-0.1	-7.5	-7.2	-2.1
Woods	-16.4	-8.9	-11.7	-4.8
Paper and cardboard	23.2	-20.1	-11.7	4.4
Paper and cardboard containers	3.0	0.2	1.3	5.9
Publishing and printing	-2.1	-0.5	-15.0	6.0
Basic chemicals	6.7	11.4	0.9	2.9
Explosives, chemical and natural scents	29.1	-14.7	19.6	10.2
Rubber	-9.7	-17.2	-4.0	-0.9
Plastic	17.5	8.2	-1.7	6.4
Glass	-15.0	-2.3	0.5	11.6
Capital goods	12.7	-1.8	-4.5	8.5
Iron and steel industry	7.3	5.5	-3.6	2.1
Metallic products	28.3	-2.3	-1.7	12.4
Machinery and equipment	-16.3	1.3	-12.3	-0.6
Electric machinery	12.4	-13.4	-25.8	2.4
Transport equipment	7.2	-7.9	-6.9	15.3
Paints, varnishes and acquires	12.7	1.4	-2.4	9.0
Cement	2.3	4.3	-1.9	7.3
Construction materials	7.6	-4.4	-3.3	8.9
Industrial services	32.0	-3.8	-6.4	11.6
Goods for external markets	-6.0	1.4	-6.1	1.5
Canned food, chocolate and alcoholic beverages	-5.9	9.3	-4.3	8.9
Synthetic fibers	-8.1	12.7	-10.5	-1.7
Yarns, fabrics and finished garments	-7.1	1.9	-5.2	-0.7
Knitted garments	6.9	7.8	-5.9	-1.6
Clothing items	-9.0	-9.2	-8.7	0.5
Total non-primary manufacturing	3.7	-1.5	-2.7	5.3

Source: Ministry of Production.

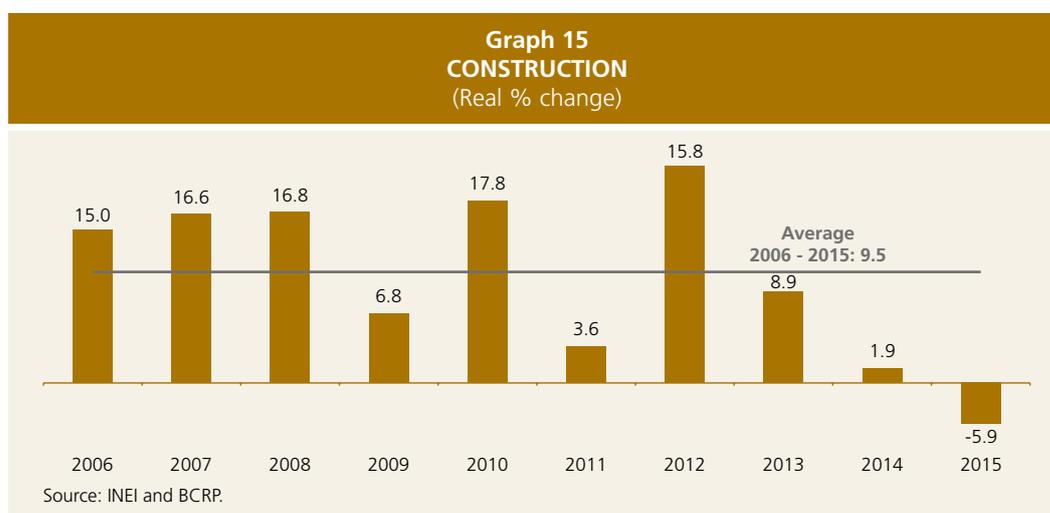
Output in the investment-oriented industrial branches decreased 4.5 percent due to the lower production of electrical machinery (-25.8 percent) after two companies closed operations as well as due to the lower demand for transformers and electrical panels. The manufacturing of machinery and equipment also recorded a decline, particularly in machinery and equipment for mining and construction, while the export-oriented branches showed the sharpest decline (-6.1 percent), with industries such as textiles and the industry of canned food, asparagus and artichoke being especially affected by lower external demand.

In contrast, the consumer-oriented industries grew 0.4 percent, growth in the manufacturing branches of other paper and cardboard items (12.7 percent) standing out.

2.5 Construction

Activity in the construction sector decreased 5.9 percent in 2015, reflecting, on the one hand, the decline observed in private investment after the completion of large projects, the deterioration of confidence

indicators, and lower demand in the real estate market, and, on the other hand, the fall of public investment spending associated mainly with lower spending at the level of the subnational governments. In line with this, the domestic consumption of cement fell 2.0 percent, from 11.4 to 11.2 million metric tons.



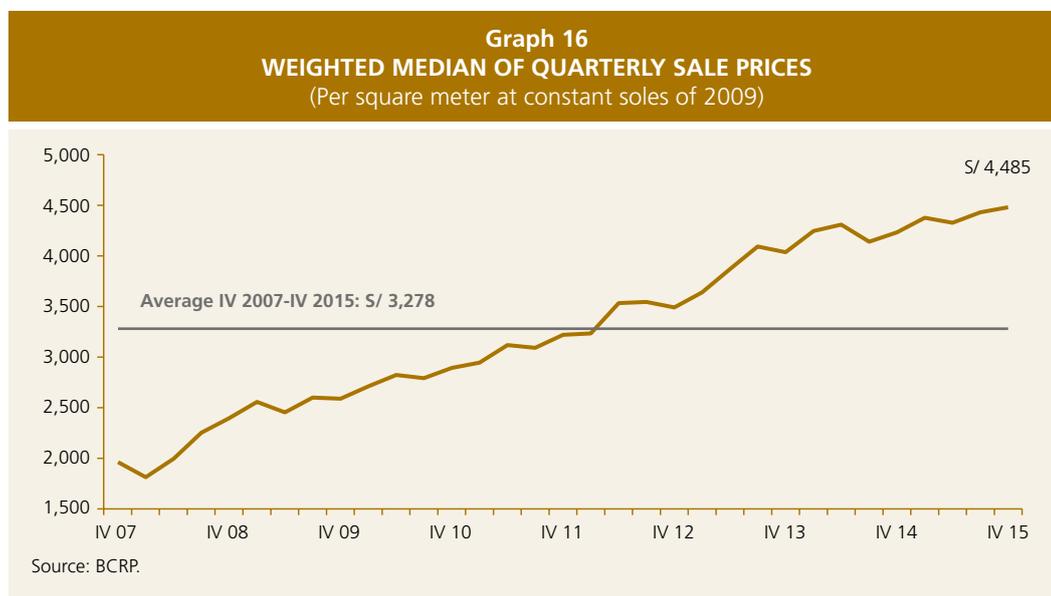
As regards the residential real estate market, according to a study on the buildings market in Metropolitan Lima and Callao –Estudio del Mercado de Edificaciones en Lima Metropolitana y el Callao– published by the Peruvian Chamber of Construction (CAPECO), the number of apartments sold dropped 33.3 percent in 2015 (after having already dropped 22.7 percent in 2014). This trend was also reflected in the credit directed to this segment, which showed a 7.8 percent reduction in new mortgage loans for housing as well as a decrease of 13.0 percent in new loan placements by Mivivienda.

Table 12
REAL ESTATE SECTOR: EVOLUTION OF MAIN VARIABLES

	2013	2014	2015
Apartments: Unit sold - CAPECO 1/	21,133	16,337	10,889
% Change	2.3	-22.7	-33.3
Apartments: Unit sold- TINSA 2/	15,776	11,049	12,901
% Change	-34.7	-30.0	16.8
Unmet demand - CAPECO 1/	411,869	415,592	435,129
% Change	3.9	0.9	4.7
New mortgage loans 3/	35,218	32,915	30,358
% Change	-7.7	-6.5	-7.8
New loans Mivivienda 4/	11,301	9,453	8,227
% Change	13.6	-16.4	-13.0
Number of debtors of current mortgage borrowers 3/	189,152	202,704	209,646
% Change	9.5	7.2	3.4
Mortgages disbursed in S/ (mills.) 3/	6,732	6,816	8,311
% Change	38.1	1.2	21.9
Mortgages disbursed in US\$ (mills.) 3/	634	610	320
% Change	-57.2	-3.8	-47.6
Average interest rate by mortgage loans in S/. 5/	9.4	9.2	9.0
Average interest rate by mortgage loans in US\$ 5/	8.5	8.3	8.2
Ratio PER 6/ 7/	16.1	16.2	17.0

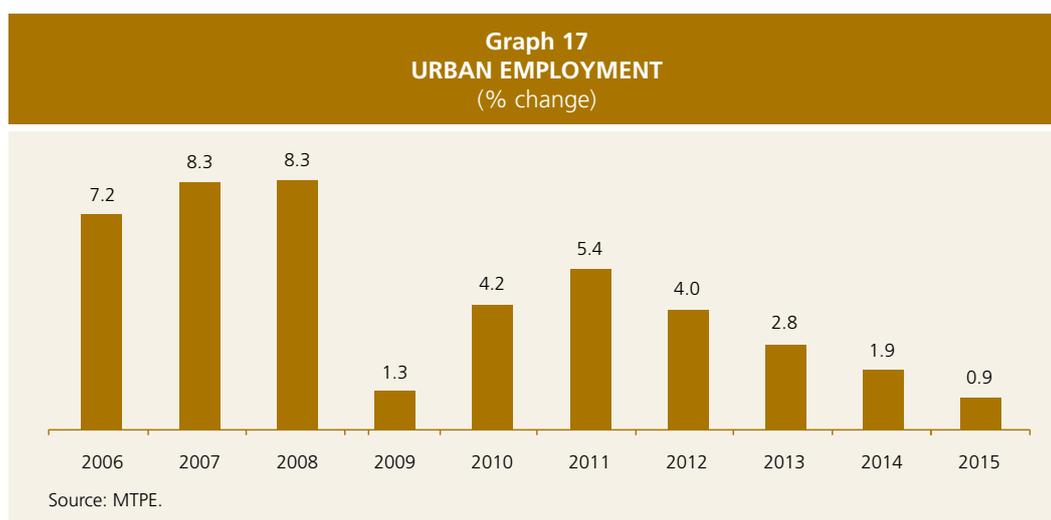
1/ "El Mercado de Edificaciones Urbanas en Lima Metropolitana y el Callao", CAPECO. A one-year period is considered (from July to June in the next year).
2/ "Informe de Coyuntura Inmobiliaria", TINSA PERU SAC.
3/ Commercial banks. Source: SBS.
4/ "Nuevo Credit Mi Vivienda". Source: Fondo Mi Vivienda.
5/ Average lending interest rates by commercial banks. Source: SBS.
6/ Data as of Q4 of the year
7/ Price to earning ratio.

Moreover, the rising trend of sale prices of property per square meter in constant soles that was observed since late 2007 continued to be observed in 2015 (the prices per square meter in Q4-2015 increased 5.9 percent compared to the same period in 2014). The PER ratio, which shows the number of years a property would have to be rented to recover the acquisition value¹ of the property rose from 16.2 in 2014 to 17.0 in 2015.



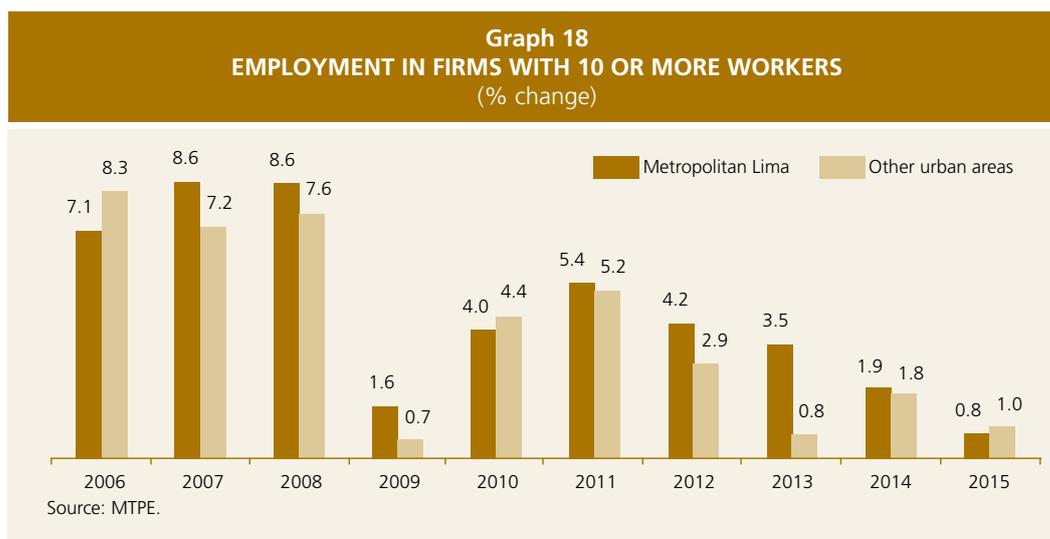
3. Labor

According to the Ministry of Labor, urban employment in formal enterprises with 10 and more workers grew 0.9 percent in 2015.



By geographical area, job creation showed a slower pace of growth not only in Metropolitan Lima (down from 1.9 to 0.8 percent), but also in the major cities in the rest of the country (down from 1.8 percent in 2014 to 1.0 percent in 2015).

¹ Global Property Guide classifies real estate prices as undervalued (5.0-12.5 years), normal (12.5-25.0 years), and overvalued (25.0-50.0 years) according to the PER index.



Moreover, the slower pace of growth of employment in production sectors is explained by the loss of jobs in the manufacturing sector, where this indicator fell for the second consecutive year: -1.5 percent in 2014 and -2.0 percent in 2015. On the other hand, employment in the services sector climbed 2.6 percent.

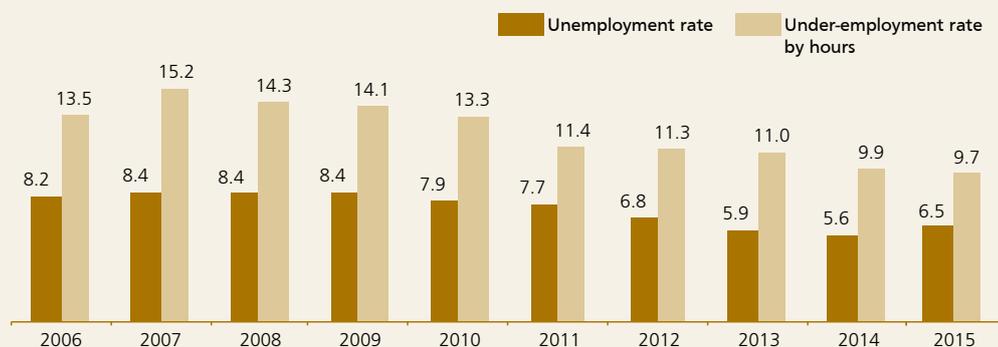
In the regions, employment showed a positive trend in 18 of the 30 cities included in the sample of the Ministry of Labor, the cities of Moquegua and Abancay leading this growth. In contrast, employment recorded negative rates in 12 cities, the highest declines of employment rates being observed in the cities of Pisco and Talara.



According to INEI's survey on employment –Encuesta Permanente de Empleo–, several indicators of the labor market continued showing a positive trend in Metropolitan Lima in 2015. Like in 2014, the employed population grew 1.1 percent. By production sectors, employment grew more in the sectors of construction (7.1 percent), services (1.7 percent), and trade (1.2 percent). This offset the decline of employment in the primary sectors and in the manufacturing sector, where employment fell 8.2 and 3.3 percent, respectively.

The rate of underemployment in terms of hours worked declined from 9.9 percent in 2014 to 9.7 percent in 2015 while the rate of unemployment, which measures the percentage of the economically active population (EAP) who is actively searching for a job and is unable to find work, increased from 5.6 percent to 6.5 percent between 2014 and 2015.

Graph 20
UNEMPLOYMENT AND UNDER-EMPLOYMENT RATE 6M<CI FG'IN
METROPOLITAN LIMA (%)



Source: INEI.

Table 13
WORKFORCE BY LEVELS OF EMPLOYMENT IN METROPOLITAN LIMA 1/
 (Thousand people)

	2013	2014	2015
I. ECONOMICALLY ACTIVE POPULATION (EAP): 1 + 4	4,885	4,917	5,019
1. EMPLOYED	4,594	4,643	4,694
By economic activity			
Manufacturing	722	731	707
Construction	330	340	364
Commerce	977	966	977
Services	2,506	2,550	2,595
Others	59	56	51
By educational level			
Primary school 2/	431	395	374
Complete high school 3/	2,269	2,185	2,289
Higher education	842	932	898
University higher education	1,053	1,131	1,133
By occupation			
Salaried workers 4/	2,847	2,958	2,966
Non-salaried workers	1,747	1,685	1,727
By size of business			
Independent 5/	1,168	1,162	1,516
From 2 to 10 workers	1,591	1,569	1,257
From 11 to 50 workers	460	455	482
More than 50 workers	1,374	1,456	1,439
By number of hours worked per week			
Employed workers working 20 or more hours	4,159	4,249	4,286
Salaried workers working 20 or more hours	2,648	2,769	2,777
2. UNDER-EMPLOYED	1,754	1,589	1,647
Visible under-employment (by hours) 6/	537	487	487
Invisible under-employment (by income) 7/	1,217	1,102	1,160
3. PROPERLY EMPLOYED	2,840	3,054	3,046
4. UNEMPLOYED	291	274	325
II. INACTIVE POPULATION	2,203	2,300	2,334
III. WORKING-AGE POPULATION (PWA)	7,088	7,216	7,353
RATES (%)			
Activity rate (EAP / PWA)	68.9	68.1	68.3
Employment/population (Employed EAP/PWA)	64.8	64.3	63.8
Unemployment rate (Unemployed EAP/EAP)	6.0	5.6	6.5
Under-employment by hours	11.0	9.9	9.7

1/ Annual average.

2/ Includes individuals with no school education or with elementary school education.

3/ Incomplete and complete secondary school.

4/ Includes employees, workers and housekeepers.

5/ Working alone or in partnership, having no salaried workers.

6/ Includes workers unwillingly working less than 35 hours per week.

7/ Workers working 35 or more hours a week who earn less than the minimum salary estimated as benchmark by INEI.

Source: INEI. Encuesta Permanente de Empleo.

Box 1
ANNUAL SURVEY ON CONSTRAINTS OF ECONOMIC GROWTH

The growth of an economy in the long term is determined by productivity and by the accumulation of production factors. Considering that the latter has a limit, the contribution of total factor productivity is essential to determine long term growth.²

The reasons explaining why some countries are more productive than others include a broad number of variables ranging from the degree of institutional development to the level of innovation and technological development achieved. In order to understand the constraints to growth that Peruvian companies have to face and which make them less productive, a set of specific questions addressing the subject was included in the BCRP Survey of Macroeconomic Expectations and in the Quarterly Regional Perception Survey between January and February 2016. The survey was carried out nationwide with a sample of 985 companies representing different economic sectors (377 companies in Lima and 608 companies in the provinces).

Since the aim of the survey was to identify the areas perceived as having the greatest constraints to growth, we established a scale of 0 to 5, where 0 represents the absence of constraints, while 5 indicates that there are very strong constraints to growth.

CONSTRAINTS OF ECONOMIC GROWTH IN DIFFERENT AREAS
(Average grade) 1/

	General		Lima		Central		Northern		Eastern		Southern							
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016						
Peru	3.0	3.2	↑	2.9	3.3	↑	2.9	2.8	↓	3.3	3.1	↓	2.8	3.1	↑	3.1	3.2	↑
Region	3.2	3.1	↓	-	-		3.0	3.0	=	3.3	2.9	↓	3.1	3.0	↓	3.2	3.1	↓
Sector	2.9	3.0	↑	2.8	3.0	↑	2.9	2.7	↓	3.0	2.8	↓	3.0	3.2	↑	2.9	3.0	↑
Business	2.3	2.3	=	2.3	2.2	↓	2.3	2.2	↓	2.3	2.3	=	2.5	2.7	↑	2.4	2.4	=

1/ Scale: 0 to 5.

Source: BCRP Survey of Macroeconomic Expectation and Quarterly Regional Perception Survey.

The survey results show that the perception of growth constraints has increased at the national level and at the sector level in 2016 compared to 2015, whereas this perception has declined at the regional level, with a greater number of constraints at the national and regional levels. The analysis by areas³ shows that the most serious obstacles or constraints perceived by the companies located in Lima, in the northern area and in the southern area of the country are obstacles at the national level, while the companies located in the central and eastern areas of the country perceive that the main obstacles are found at the regional and sector levels, respectively.

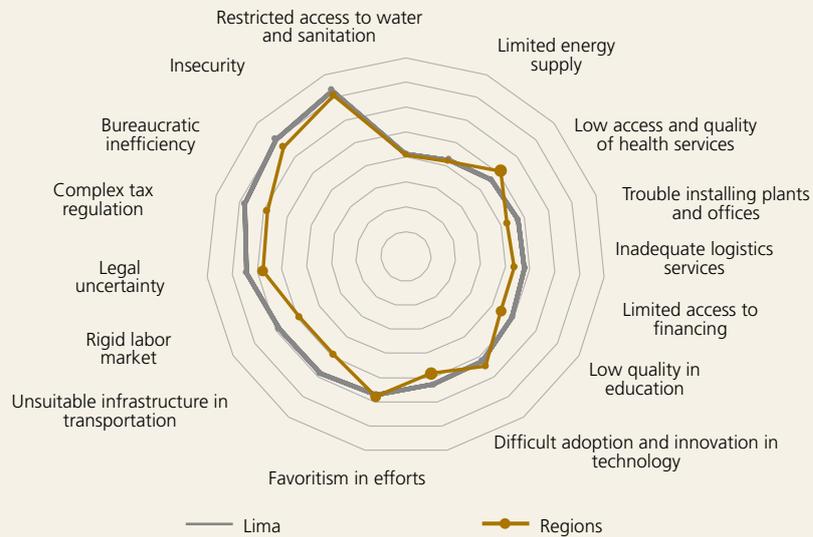
An aspect standing out in the results is the perception that constraints have declined in the central and northern areas of the country in nearly all the levels, whereas in the view of the companies located in the eastern and southern areas, the perception of obstacles has not declined in most of the four areas surveyed.

2 Robert Solow (1956).

3 The Northern area includes the departments of Piura, La Libertad, Lambayeque, Tumbes, and Cajamarca; the Southern area comprises Tacna, Moquegua, Arequipa, Cuzco, Apurímac, and Puno; the Eastern area includes Amazonas, Ucayali, San Martín, Loreto, and Madre de Dios, and the Central area includes Huanuco, Pasco, Junín, Ancash, Ica, Ayacucho and Huancavelica.

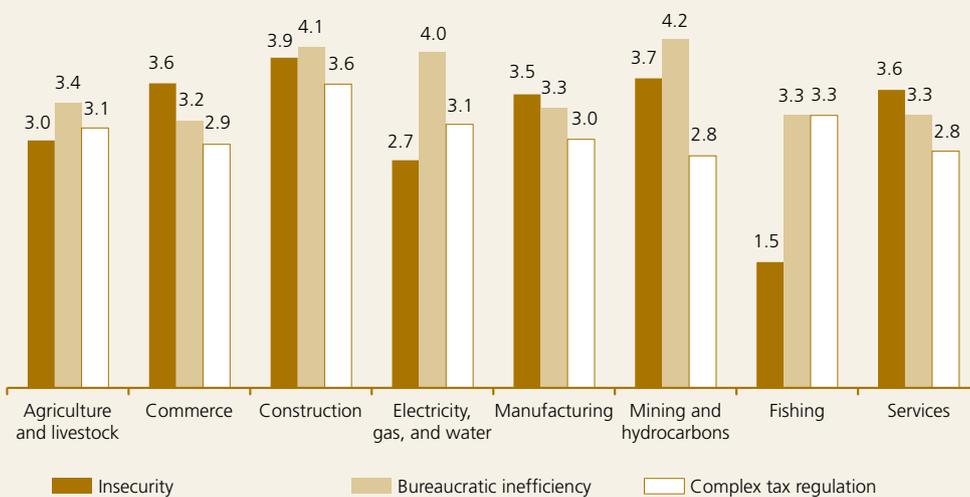
Once we identified the area where obstacles or constraints were found, we asked the companies which were the most serious issues. The results in Lima and in the other regions show that insecurity is identified as the main obstacle to growth, particularly in the northern areas of the country.

CONSTRAINTS PERCEIVED BY THE COMPANIES IN 2016
(Average qualification)



Other institutional factors that were also pointed out as constraints for business are bureaucratic inefficiency and complex tax regulations. When we analyzed the answers by production sectors, we found that construction companies are more emphatic at identifying insecurity as a constraint to the performance of their activity. Moreover, the companies operating in the sectors of mining and hydrocarbons, construction, and utilities (electricity, gas and water) said that the factor that hinder economic activity the most is bureaucracy and inefficiency. In addition, complex tax regulation is also perceived as one of the major obstacles in the sectors of construction and mining and hydrocarbons.

MAIN CONSTRAINTS BY ECONOMIC SECTORS
(Average qualifications)

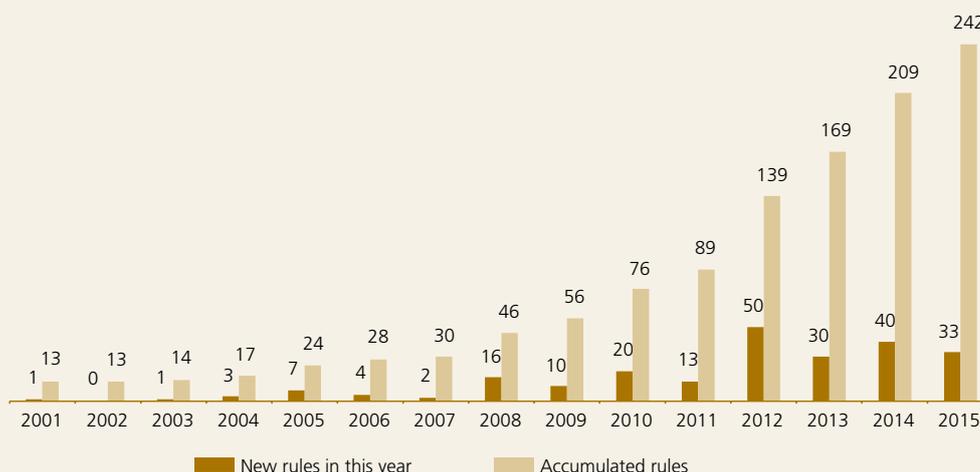


Box 2
BUREAUCRATIC OBSTACLES IN THE MINING SECTOR

The remarkable growth of regulations for carrying out operations in the mining sector is something that has struck both those who have activities in the mining sector and those who do not. If we consider that each new regulation establishes at least one new procedure or formal requirement that a mining company has to comply with, we can conclude that the number of procedures, paperwork and requirements in the sector are 22 times higher today than the number of formal requirements mining companies had to comply with at the beginning of the last decade. The number of regulations for the sector has increased from 11 rules in 2001 to a total of 242 norms at the end of 2015.

This greater number of provisions has a direct impact on the costs and time that mining entrepreneurs need to carry out their activity. Constant changes in the sector's legislation have made the rules of the game unpredictable, which could contribute to slow down the growth of the mining sector.

LEGAL RULES IN FORCE REATIVE TO THE MINING SECTOR



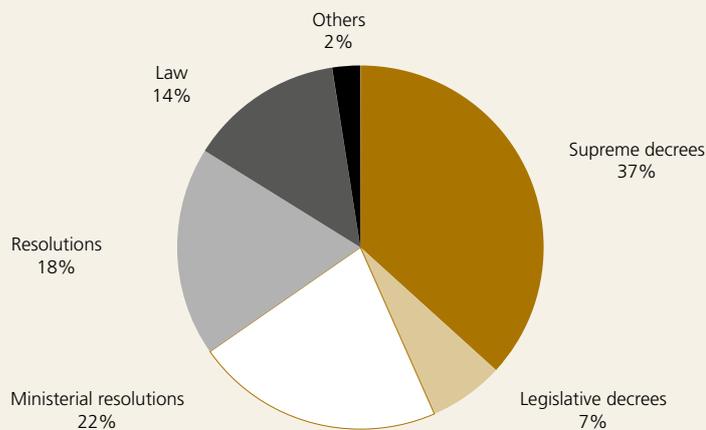
Memo: New rules are considered in net terms (rules issued this year less revoked rules).
 Source: El Peruano.

Why has the Number of Regulations Increased?

Per se, this increase in the legal requirements for mining activities cannot necessarily be considered an obstacle, as it could be reflecting the need to regulate aspects which were previously unregulated by the State. For example, increased concern about environmental issues and about safety and security in the workplace –especially in risky activities such as mining– have led to the creation of several government agencies and their respective legal frameworks to address these issues (e.g. the Ministry of the Environment, SUNAFIL, etc.).

Most of rules governing the sector are supreme decrees and ministerial resolutions, particularly in the Ministry of Energy and Mining and in the Ministry of the Environment, or resolutions of the regulating agencies, such as Organismo de Evaluación y Fiscalización Ambiental (OEFA) and OSINERGMIN. Today, there are 33 laws governing the sector, which represent 14 percent of the total number of rules. 32 percent of the legal provisions that exist in the sector refer to regulations or amendments of such regulations.

STRUCTURE OF RULES THAT AFFECTED MINING SECTOR



Source: El Peruano.

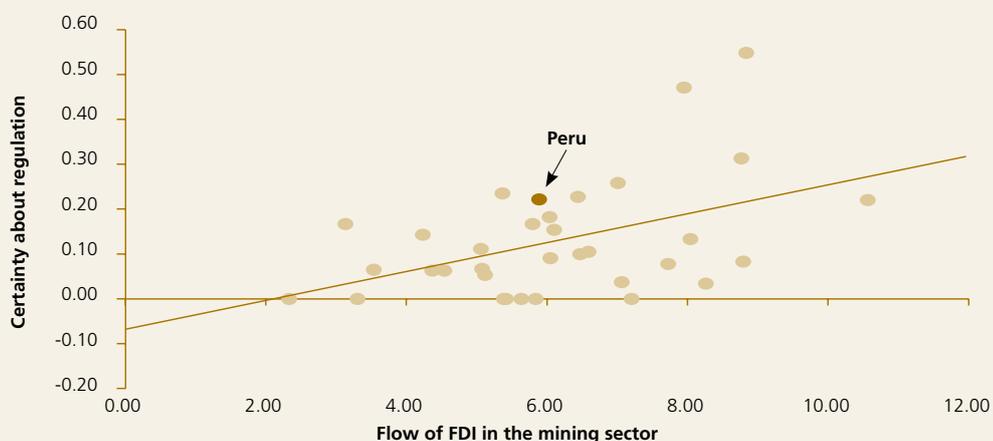
Why is regulation necessary?

Regulations usually originate as a result of discrepancies between private initiatives and the public interest. These discrepancies usually reflect nuances and differences between public and private interests, for which society must reach an agreement. If we consider that all human actions with an economic purpose have an impact, then we have to accept that authorities, which, by definition, serve the interests of the community, should seek how to reconcile both sides, avoiding extremes such as the total prohibition of a specific economic activity or the total absence of regulation, which could cause damage to the environment and society, for example.

A negative externality is the term used in economics to denominate situations when business interests affect a community. Cases of soil, air, and water pollution as a result of tailings or mine dumps are examples that stand out in connection to mining activity.

However, excessive regulation discourages entrepreneurial activity as well as the undertaking of new projects. On the other hand, the more uncertain mining regulation is, foreign direct investment in the mining sector tends to decline.

FOREIGN DIRECT INVESTMENT IN THE MINING SECTOR VERSUS CERTAINTY ABOUT REGULATION
(Frazer index 2014, Investment map 2012)



Source: Fraser Institute and Investment Map.

Which Regulations are Obstacles for the Sector Today?

i. Multiple Agencies Oversee the Sector

Until 2007 OSINERGMIN was responsible for overseeing activities in the mining sector, including both labor- and environmental-related issues. However, with the creation of the Ministry of the Environment in 2008 (Legislative Decree N° 1013) and the creation of the SUNAFIL in early 2013 (Law N° 29981), oversight actions have been divided into these three agencies. The Ministry of the Environment, through OEFA, is responsible for overseeing environmental matters while SUNAFIL is responsible for looking after workers' safety and OSINERGMIN is in charge of overseeing what is associated with the security of the infrastructure required for mining activity.

However, as a result of the different nature of criteria and the lack of coordination between these entities, mining companies are continually subject to controls that extend or delay their production processes.

ii. Limits to Pollution

The following is a clear example of how the rationality of a rule or standard established can very well be questioned: SD N° 003-2008-MINAM established that as of January 1, 2009, concentrations of sulphur dioxide (SO₂) should be 80 micrograms per cubic meter and that thereafter they should be reduced to 20 micrograms per cubic meter as from January 1, 2014. This limit, which incidentally is much more demanding than the limit in force in other mining countries, such as Chile, Mexico and Canada, has been considered to be impossible to reach by most mining companies.

In June 2013, the Ministry of the Environment enacted SD N° 006-2013-MINAM which established an indefinite period for the enterprises operating in the valleys of Ilo, Arequipa and Oroya⁴ to adjust to this limit of 20 micrograms of concentrations of sulphur dioxide per cubic meter, which the Ministry of the Environment argues is the level recommended by the World Health Organization.

iii. Relevance of the Contribution for Oversight

The contribution for oversight is the amount charged by OEFA to the mining companies to carry out the environmental control processes. According to SD N° 130-2013-PCM, large and medium-sized mining companies will pay the contribution with a percentage on their monthly income.

Representatives of the mining sector say this charge is illegal and argue that the service provided by OEFA should be a role of the State and should therefore be funded with taxes. In addition, they argue that the cost of the (control) process has no proportion with the amount charged (a percentage of sales).

iv. Gradualness in OEFA's Fine Collection

Although some progress has been made in terms of OEFA's administrative procedures to sanction environmental failures (incentives have been aligned and the fine amounts for each type of failure have been set), the companies operating in the sector believe that OEFA still has a high degree of discretionary power to issue fines and that many fines are given for potential damage (without effective damage having occurred). They also criticize Law No. 30011 since it does not include an adequate method of refunds for cases in which OEFA has made administrative errors in giving a fine.

According to a recent report published by the Office of the Comptroller-General⁵, the mining sector faces a series of administrative problems that could affect the development of this activity:

4 As established by MR N° 205-2013-MINAM, dated July 2013.

5 Contraloría General de la República (2016). Mejora regulatoria y simplificación de procedimientos administrativos que afectan la inversión. Gerencia de Estudios y Gestión Pública de la Contraloría General de la República.

i. Prior Consultation Law

The Ministry of Energy and Mines is said to have authorized the onset of activities in areas inhabited by indigenous populations because the Ministry of Culture has still not delivered a database of indigenous peoples by regions. The truth is that the Ministry of culture has developed a database of the Peruvian native groups based on the languages they speak. The companies in this sector also argue that the prior consultation requirement has not been implemented in the case of the peasant communities.

ii. Environmental Certification

The deadline for the approval of an Environmental Impact Study (EIS) is 96 days, but in practice, it takes around 170 working days.

iii. Municipal Permits

District municipalities would be demanding far more requirements for obtaining an operation license than those established in their administrative procedures (TUPA).

iv. Use of Water Rights

Companies carrying out prospection or exploration projects would be facing restrictions to acquire the rights to use water from another holder of water use rights that is located in the area of influence of the project, because the legislation prohibits the marketing of water (unless the water comes from underground wells).

v. Permits for Using Explosives

It takes about 4 months to obtain a permit that allows a company a permanent use of explosives during a period of 6 months and it takes 45 days to obtain a permit for 3 months. Moreover, these permits can only be renewed once.

vi. Permits to Use Fuel

OSINERGMIN would be denying requests for annual permits to use fuel to the mining projects that are in the phase of exploitation since it considers that only the phase of "mining exploration" or prospection is a temporary phase.

Box 3 FOREST PLANTATIONS

According to the current legal framework, forest plantations are forest ecosystems made by man through the installation of one or more native or introduced forest species for the purpose of producing wood or forest products other than timber, for forest protection or ecological restoration, or for recreation, environmental services, or any combination of the above. Agro-industrial crops or agroenergetic crops are not forest plantations.

Moreover, forest plantations can be located in private-owned land or on public land given in concessions by the State. Forest plantations are established on deforested lands or

on land that can be afforested, and which are not covered by primary forests⁶ or by mature secondary forests⁷.

Although Law N° 29763, Ley Forestal y de Fauna Silvestre (Forestry and Wildlife Law), was enacted in July 2011, it took more than four years until its regulations were approved. They were recently published on September 30, 2015 (Supreme Decrees No. 020-2015-MINAGRI, Gestión de las Plantaciones Forestales y de Sistemas Agroforestales, the Regulations, and N° 021-2015-MINAGRI, Gestión Forestal y de Fauna Silvestre en Comunidades Nativas y Comunidades Campesinas⁸).

According to specialists in this sector, there are basically two problems associated with the activity of forest plantations in Peru:

- a) **Funding.** Because investment in forestry is a long-term investment, forestry is perceived as a high risk activity by financial intermediaries, so funding is not enough and the requirements of entrepreneurs investing in plantations are not met. Depending on the variety of trees that will be grown, the activity requires having sufficient financial back up to maintain the land at least for five years without having any harvest.
- b) **Property rights.** Another key problem is the absence of cadastres and the poor procedures of land allocation or lack of property rights, that is, the titles or rights over land allocation that make this activity possible. These titles are administrative titles issued by the Regional Forestry and Wildlife Authority in the case of public domain lands.

Forest plantations have a high potential for the generation of formal employment because forestry is a labor-intensive activity (2 hectares of plantation generates 1 permanent job). In addition to this, reforestation efforts promote the formalization of the local economy and contribute to its growth.

The leading companies in Peru engaged in forest plantations cultivate three tree species: bolaina, teak, and capirona. The bolaina is a very fast growing plant, because it is harvested in less than 10 years, in contrast to the radiata pine that is grown in Chile, whose yield starts in 25 years. In addition, in the case of the bolaina, the trees have to be “thinned” or cut in their second or third year to “deforest” the lower quality trees and prioritize the growth of the best specimens. A second thinning is carried out on the fourth year of the plantation. This cut and logging results in manufactured products, such as impregnated poles, which are sold in the domestic market or exported. Other characteristics of this species and of other tree species are offered below.

CHARACTERISTICS OF SPECIES OF FOREST PLANTATIONS

Specie	Farming	Origin	Period of harvest (years)	Growth in first 12 months (cent.)	Basis density (g/cm ³)
Bolaina	Peru	Peru	7 to 9.1/	67-450 2/	0.41 3/
Capirona	Peru	Peru, Brazil	12-14.3/	45-183 2/	0.75 3/
Teak	Peru	India, Malaysia, and Burma	20.4/	74-416 2/	0.65 5/
Radiata pine tree /6	Chile	California	21	< 100	0.43 7/

1/ www.refolasa.com

2/ www.reforestaperu.com

3/ www.plantarperu.com

4/ www.ramsa.com

5/ www.wikipedia.com

6/ Toral, Manuel, et al. (2005). Seasonal growth and yields of forest plantations of pine radiata in floors known trumao according to establishment method. *Bosque* 26(1): 43-54.

7/ www.cttmadera.cl

6 Natural forest with original indigenous forest vegetation, characterized by an abundance of trees.

7 A forest which is regenerated as a result of a process of natural recovery of forest areas in which an original primary forest was affected by human activities or natural causes.

8 Supreme Decrees No. 018-2015-MINAGRI, Gestión Forestal, and N° 019-2015-MINAGRI, Gestión de Fauna Silvestre, were also approved.

Moreover, Peru has an additional competitive advantage for forest plantations: it is located close to the equator. Trees in the tropics near the equator grow two or three times faster than trees in areas with long cold winters, like Chile, for example.

According to MINAGRI, the Forestry and Wildlife Law and its Regulations will contribute to the creation of 500 thousand new jobs linked directly to promoting commercially-oriented forest plantations on public and private lands. In addition, according to Servicio Nacional Forestal y de Fauna Silvestre (SERFOR), there are 10.5 million hectares suitable for reforestation, while well managed commercial plantations only total about 35,000 hectares.

Major Policy Changes

In September of 2015, regulations included forest plantations within the sectors that would benefit from the rules established to promote the agricultural sector (Law N° 27360). The main benefits of this law are:

- a) The rate of the third-category income tax for individuals or entities who develop forest plantations has been reduced from 30 percent to 15 percent. Moreover, under certain conditions, crops cultivated in the jungle areas have an income tax of 0 percent.
- b) Until December 2021, 20 percent of the amount invested in hydraulic infrastructure and irrigation works may be deducted from the income tax annually while Law N° 27360 (law approving the regulations for the promotion of the agriculture sector) is in effect.
- c) Early recovery of the value added tax (VAT) paid in the acquisition of capital goods, inputs, services and construction contracts during the pre-production stage of investments, whose duration may not exceed 5 years.
- d) Workers hired for forest crops are included in a special regime with the following characteristics: workers hired for an indeterminate or fixed term are entitled to a vacation period of 15 calendar days, compensation for arbitrary dismissal equal to 15 daily wages for each full year worked (up to a maximum of 180 daily remunerations), and a monthly contribution for health insurance equivalent to 4 percent of the worker's monthly salary that is paid by the employer.

Furthermore, in contrast with what the previous legislation said, the new regulations establish that the establishment, management and exploitation of forest plantations in lands of private property will not require the approval of the forest authority or the presentation of a management plan.

Conclusions

Financing is one of the main barriers for the development of the forestry sector. The regulation introduces the possibility of getting a mortgage in the case of plantations granted in concession contracts and in the case of plantations on private land, while the security interest is also available for concessions. However, land lots of at least 10 thousand hectares should be available for concessions to attract new developers and this is only possible if the State lands are provided with the appropriate formal real property rights to eliminate informal land tenancy.

Investment in the sector of forest plantations could be particularly attractive to the AFP and insurance companies that require long-term assets to match their liabilities. However, there are no specialized investment funds that can capture the AFP funds and thus solve part of the problem of financing this activity.

Forestry is a combination of property (real estate) and of a raw material (wood as a commodity) that is not abundant. A forest plantation is a unique asset because the owner has the option to delay the extraction of wood and trees continue to grow during this time. Therefore, plantations can reduce the risk of an investment portfolio given that the growth of the trees is not correlated with changes in the macroeconomic environment.