



Peru

Building on Success:

Boosting Productivity for Faster Growth

And the Systematic Country Diagnostic

By Katia Vostroknutova, Lead Economist, World Bank







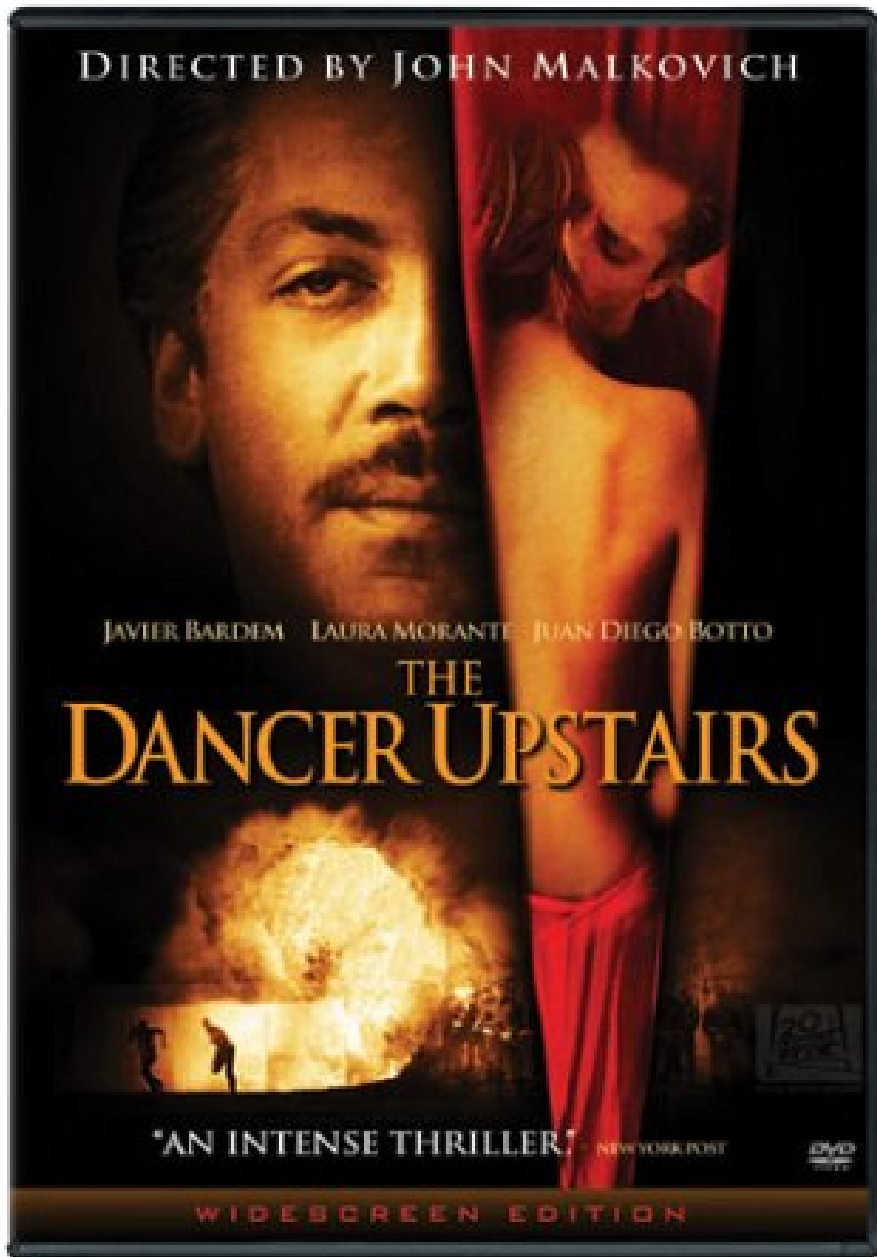


CLICK HERE FOR LARGER MAP

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Alberto Fujimori
藤森 謙也



Alberto Fujimori

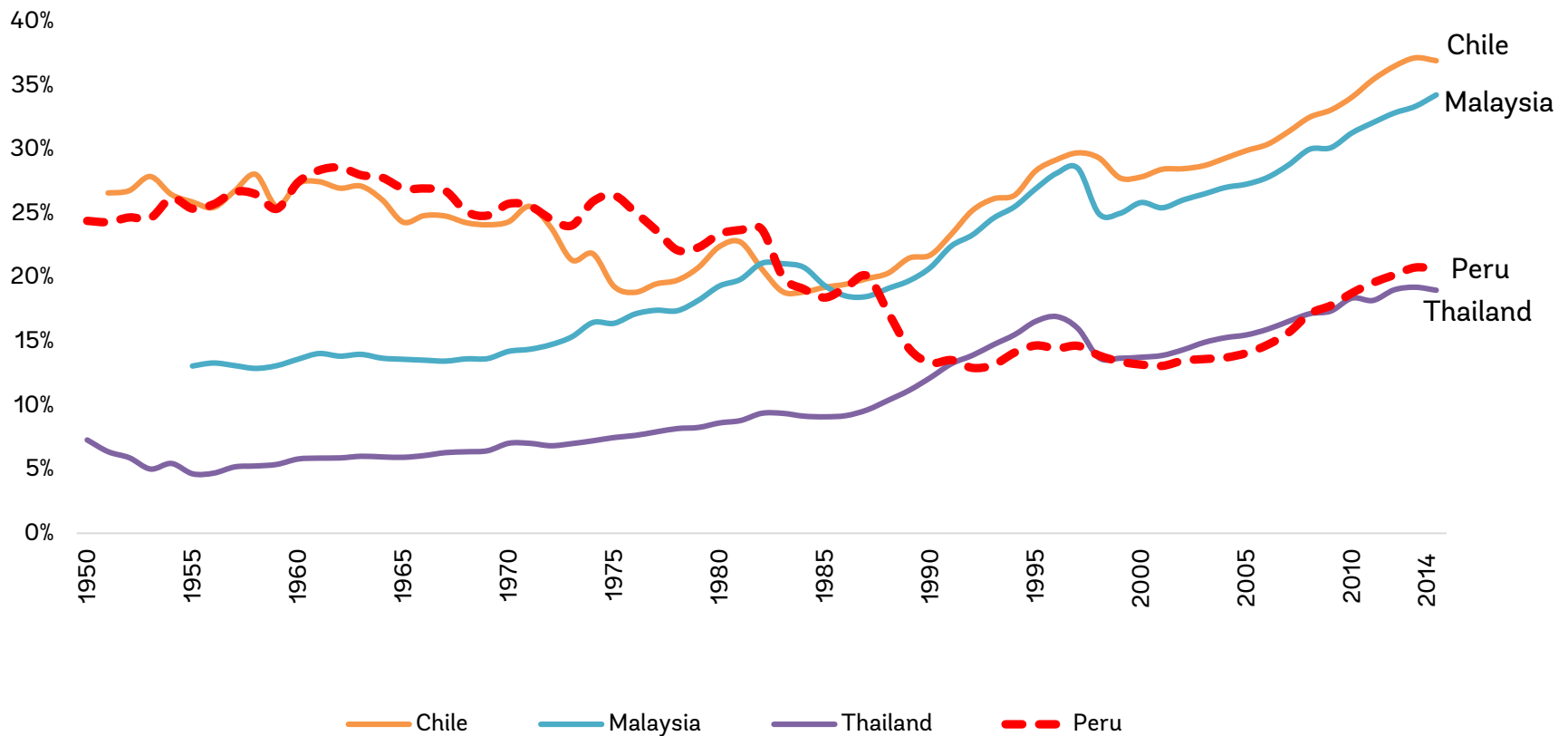
62nd President of Peru

In office

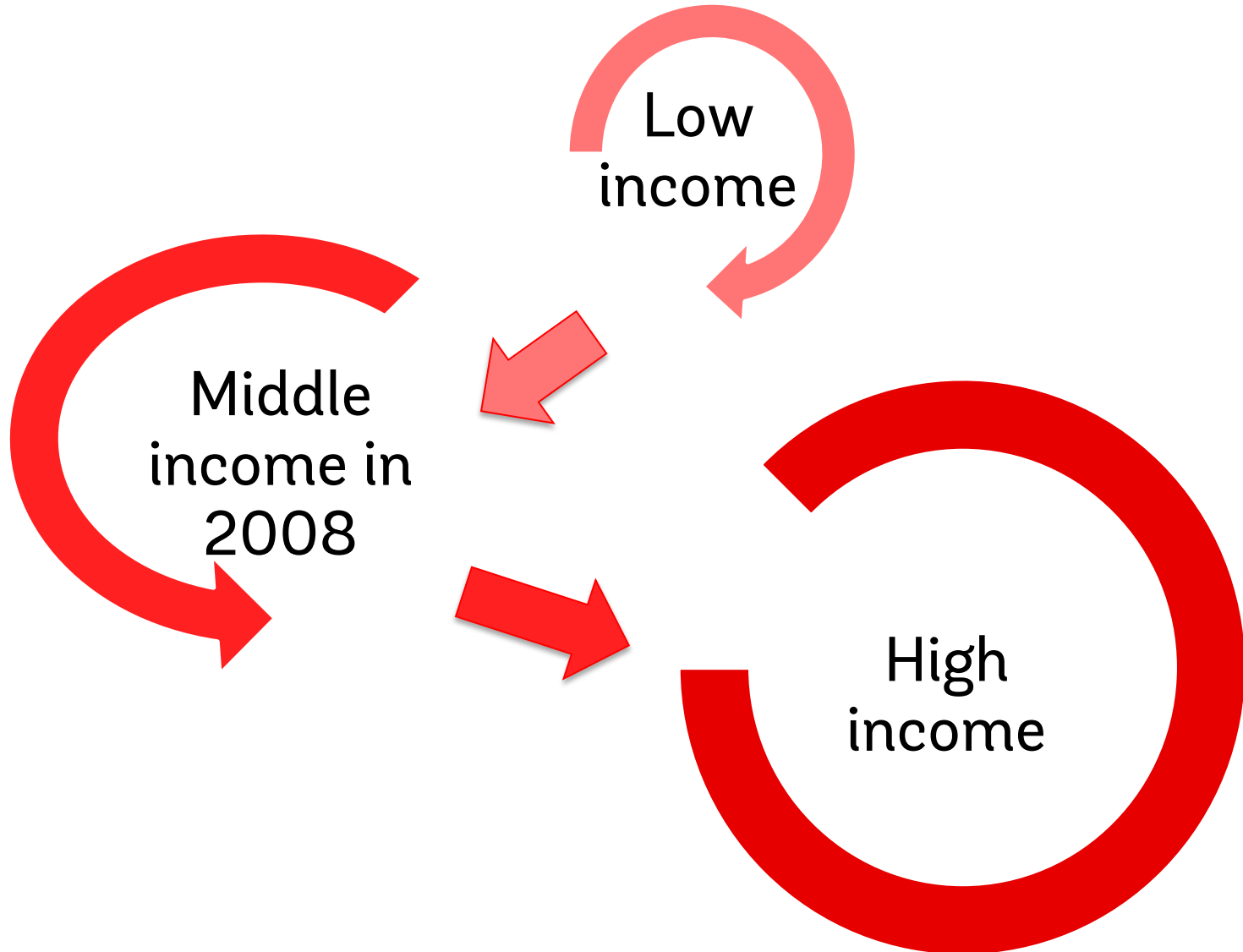
28 July 1990 – 22 November 2000

Finally: Convergence

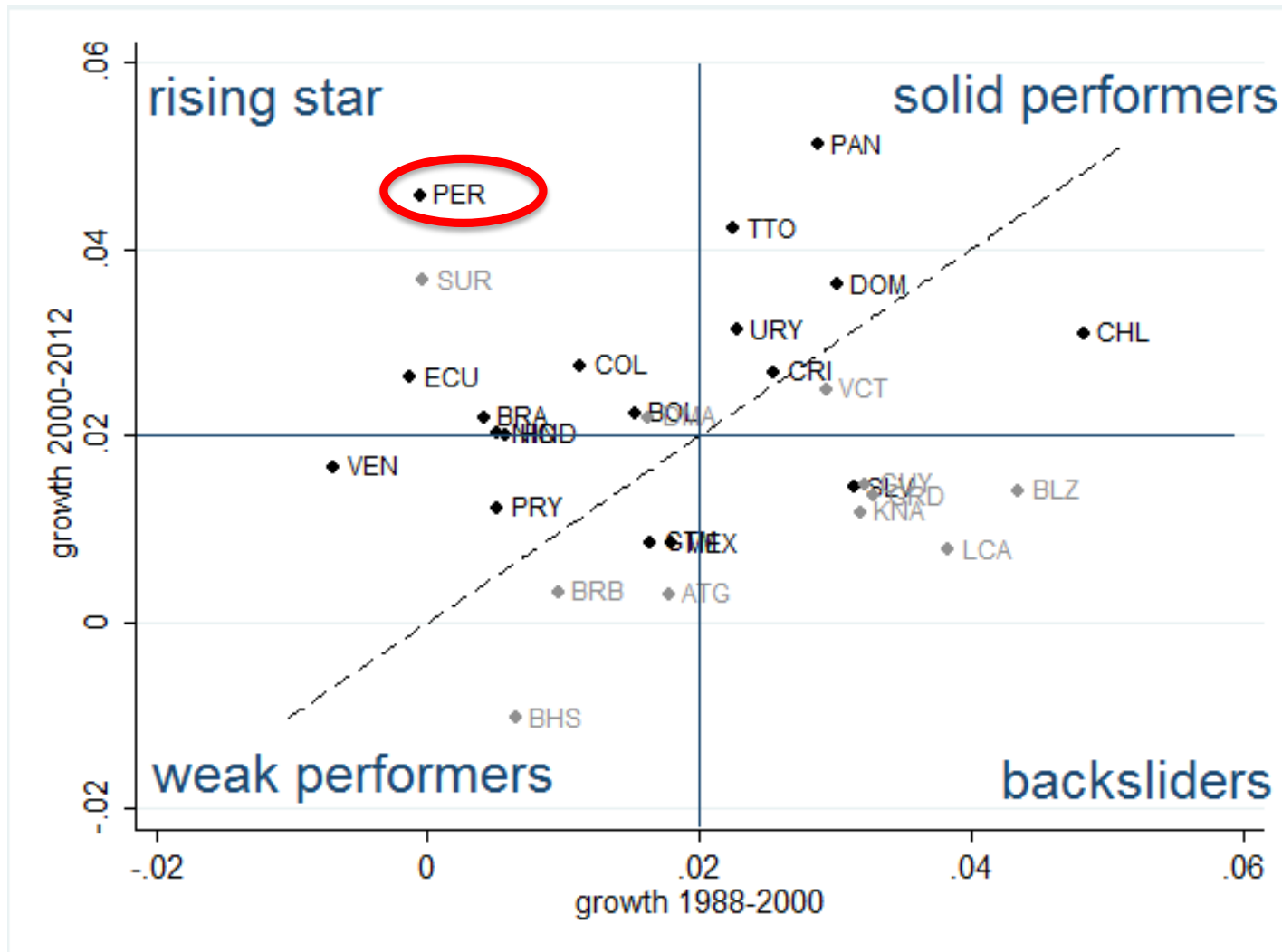
GDP per capita relative to the United States: 1950-2014



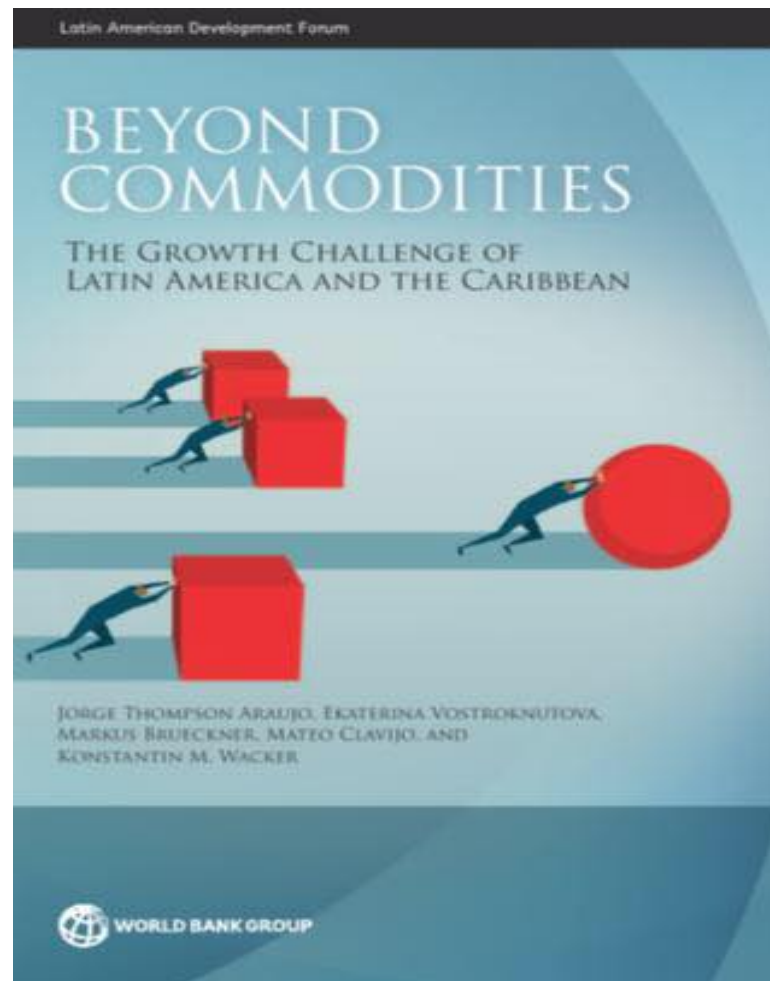
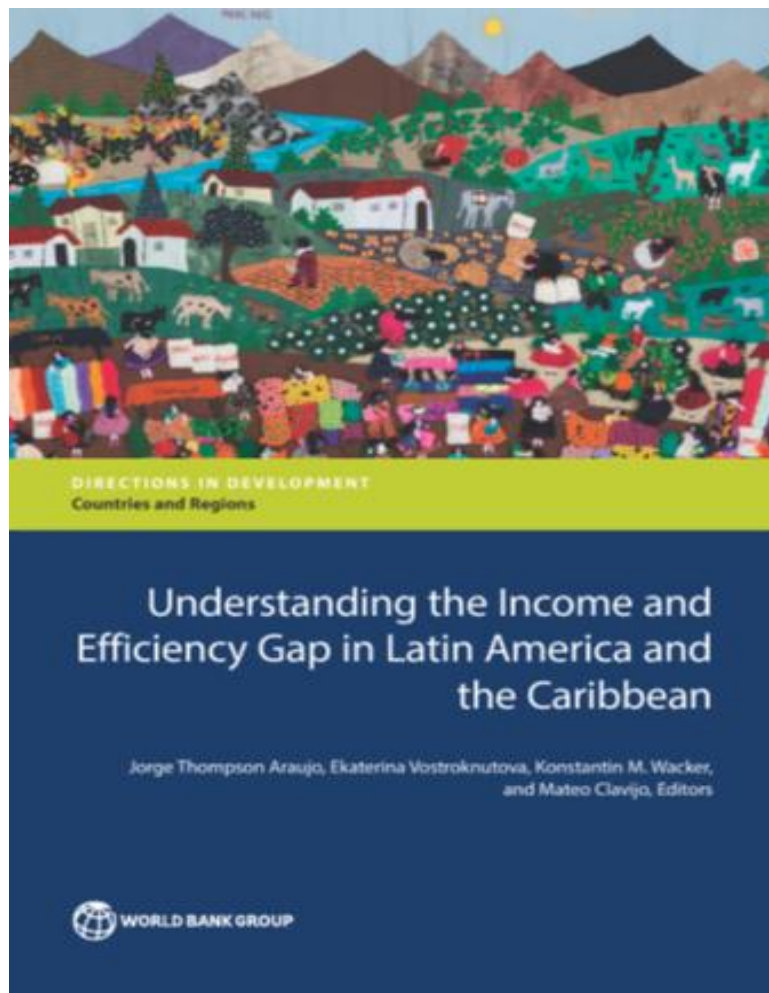
Building on Success



A “growth star” has emerged

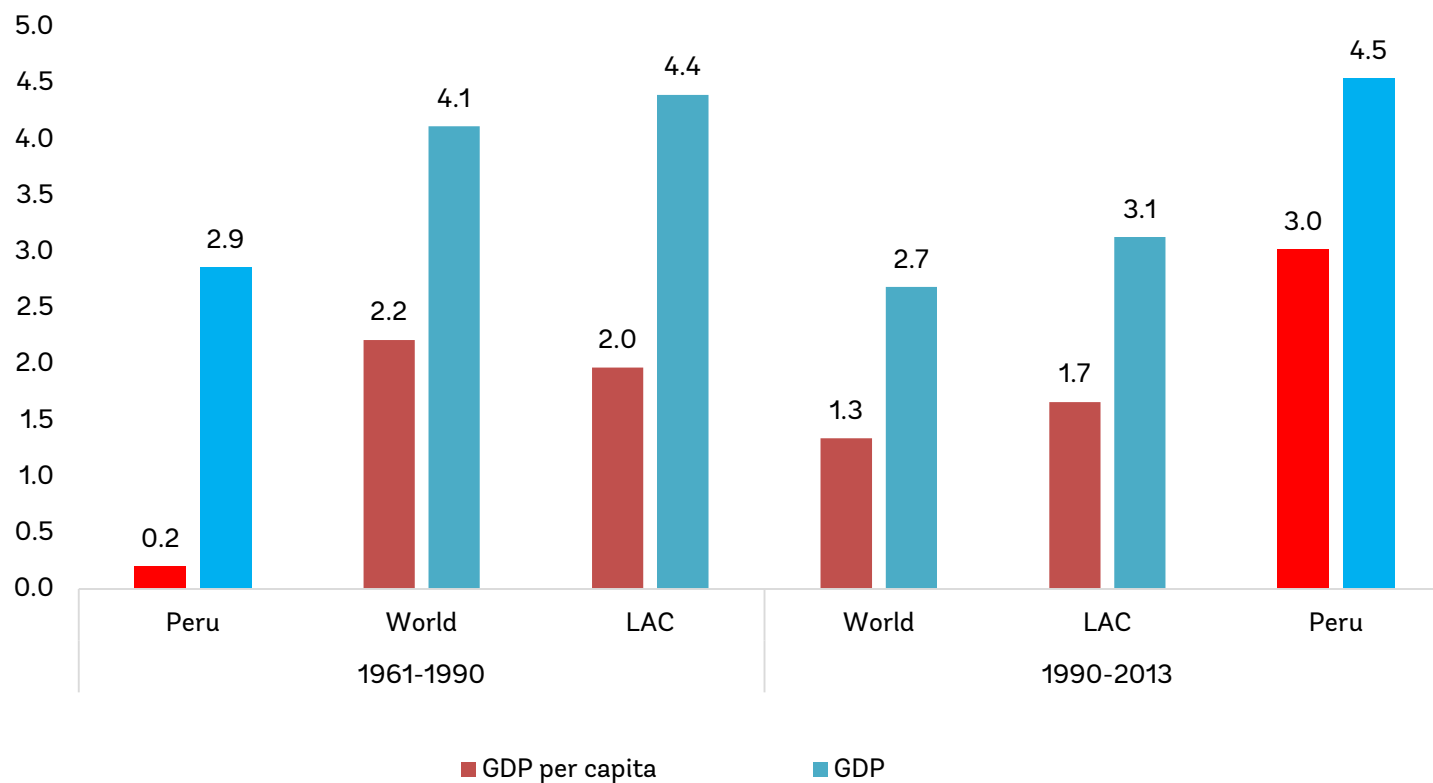


Two recent books on growth in Latin America



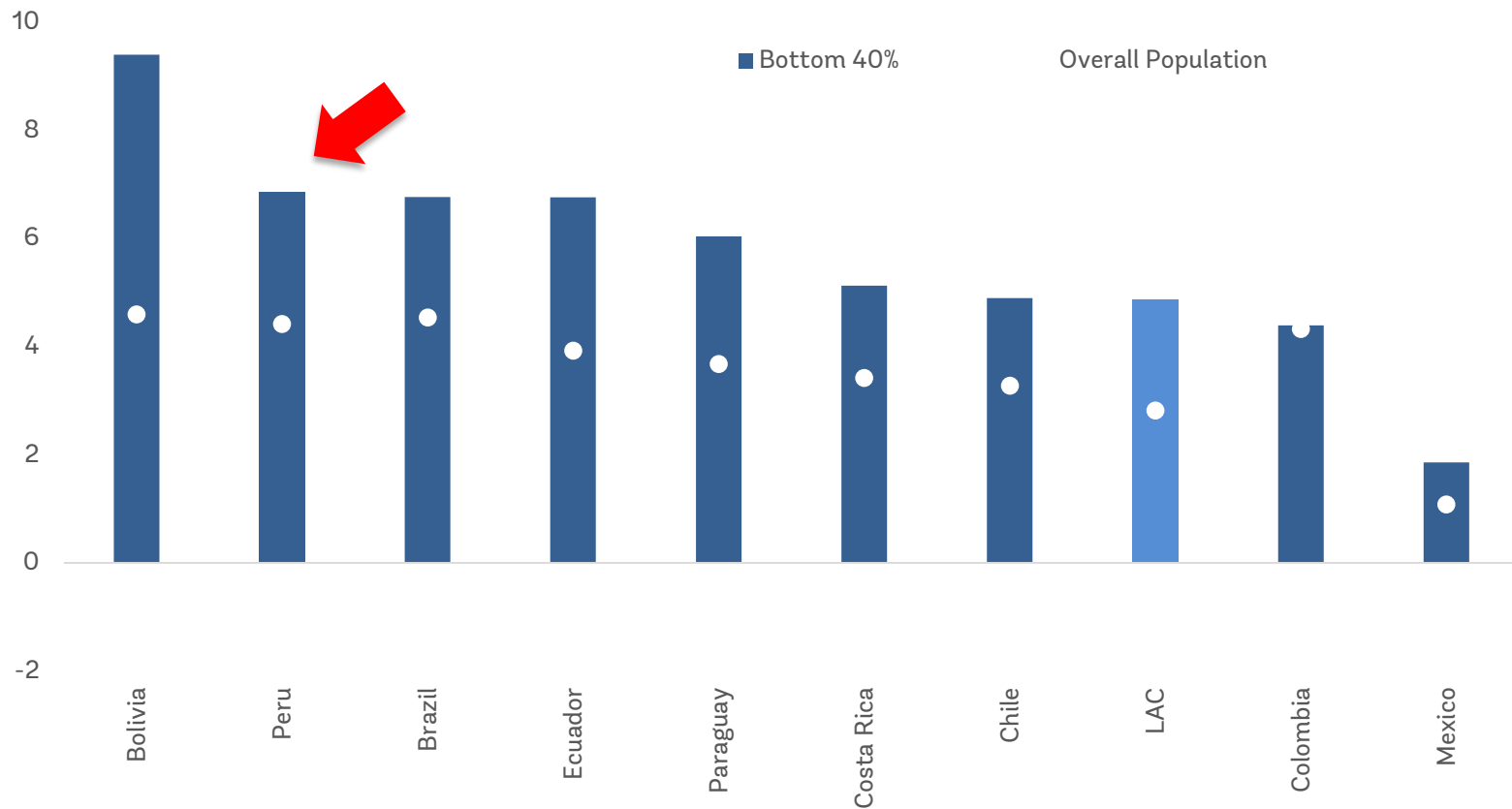
Income per capita doubled in 12 years

(real average annual growth, %)



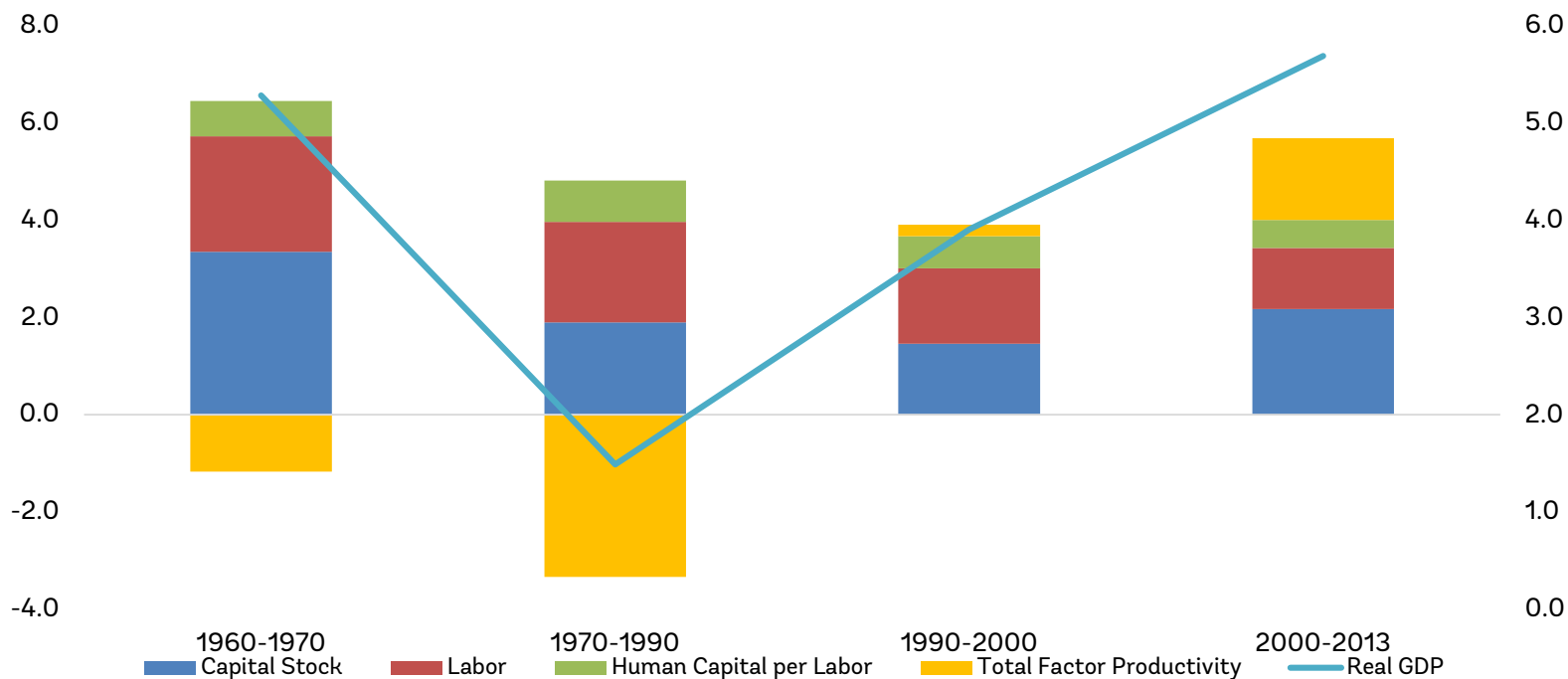
Growth widely shared

(average annual per capita income growth, %)

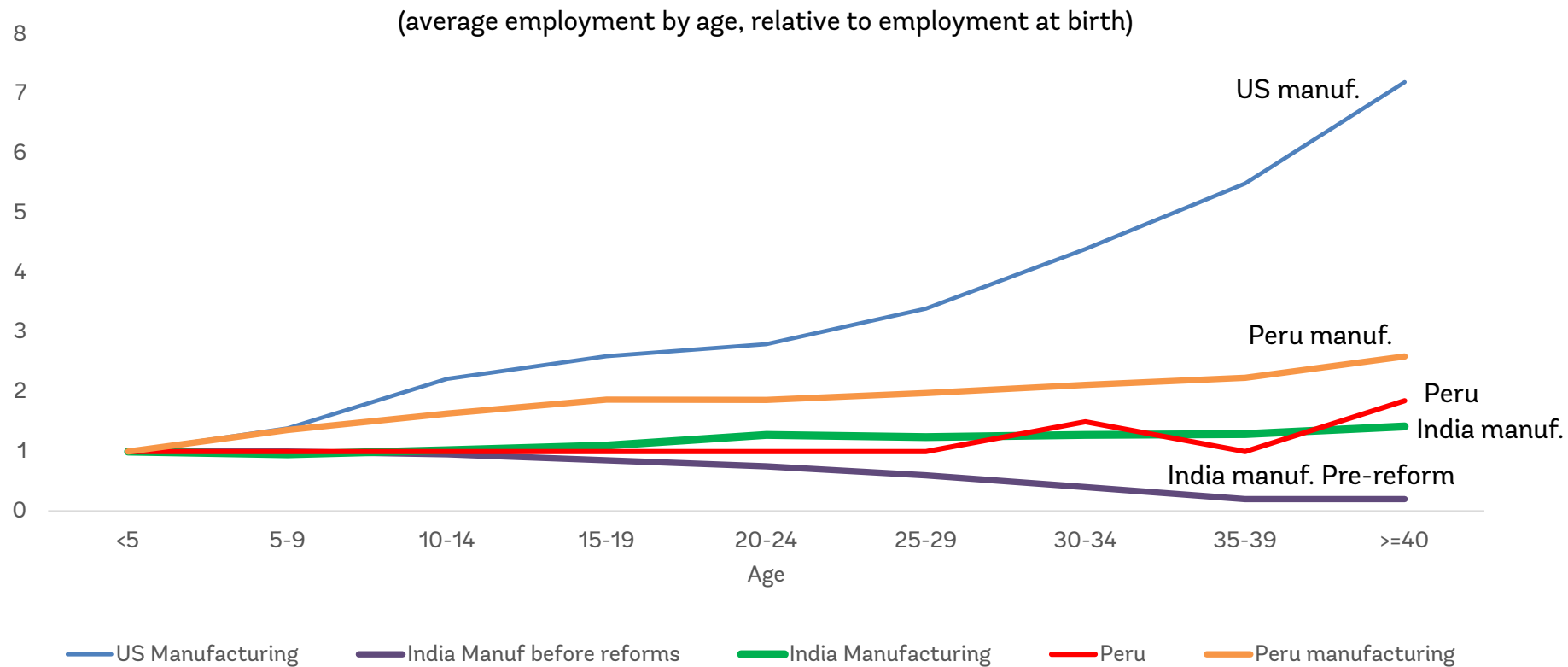


Good news – Productivity's key role in growth

Contribution to growth
(real GDP growth and contributions, percentage points)

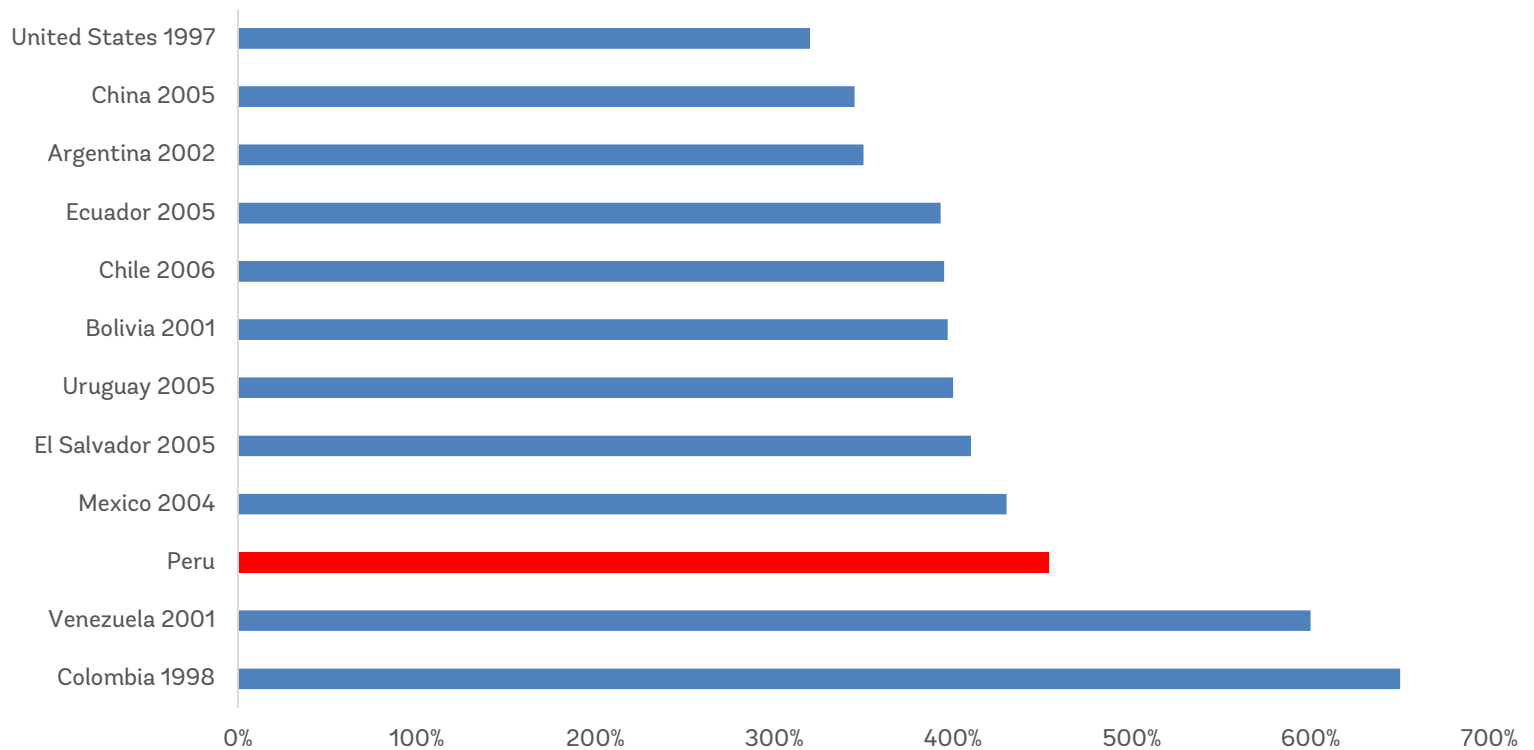


Firms don't grow



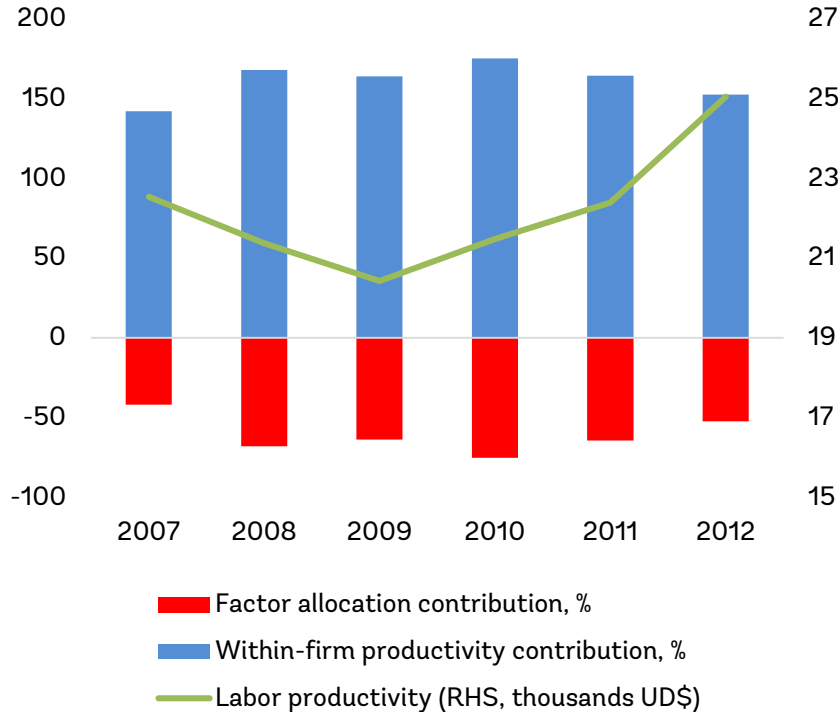
Large dispersion in productivity across firms

(percentage difference in TFP between the 90th and 10th percentile of the TFP distribution)

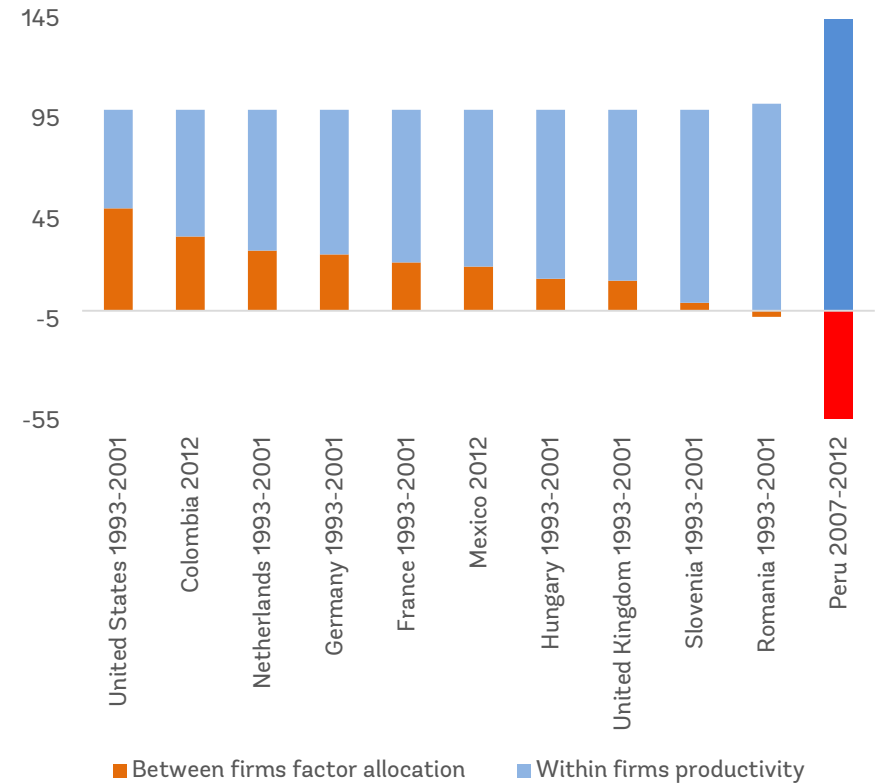


Symptoms of a “factor misallocation” problem

Within-firm TFP growth drives overall TFP growth, but is dragged down by labor allocation...

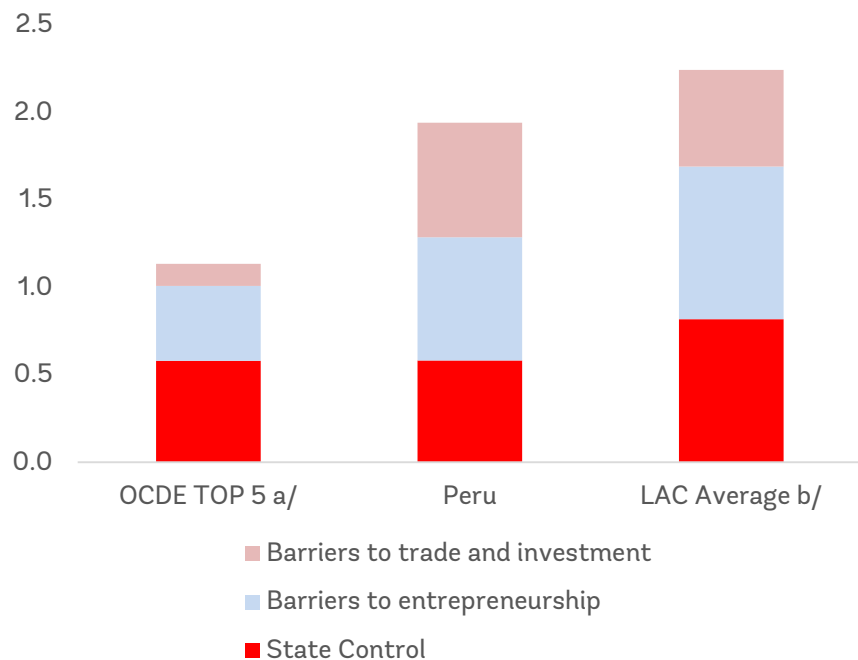


Services have seen no improvement in allocation



Regulatory barriers still high

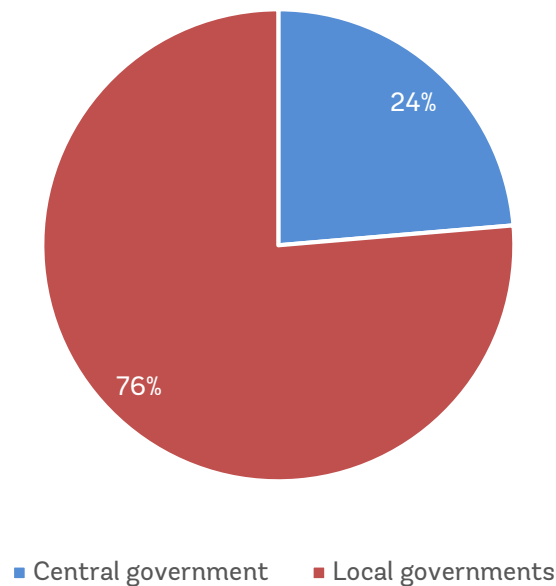
Product Market Regulation Indicator
(higher values = more restrictive to competition)



a/ Top 5 OECD countries are the Netherlands, United Kingdom, Austria, Denmark, and New Zealand.

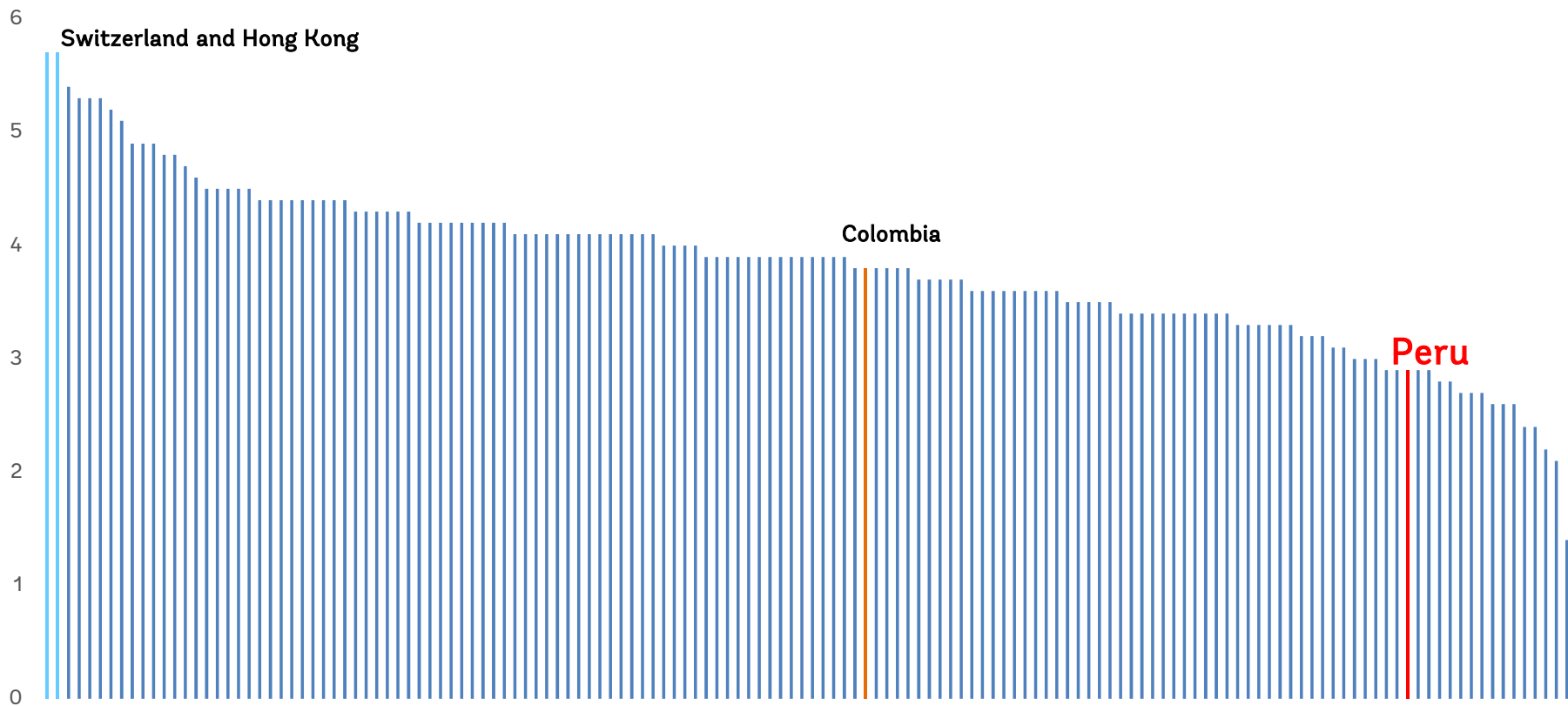
b/ LAC countries include Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Jamaica, Mexico, Nicaragua, and Peru.

Complains about bureaucratic barriers
(% out of 613 processed complains, 2013)



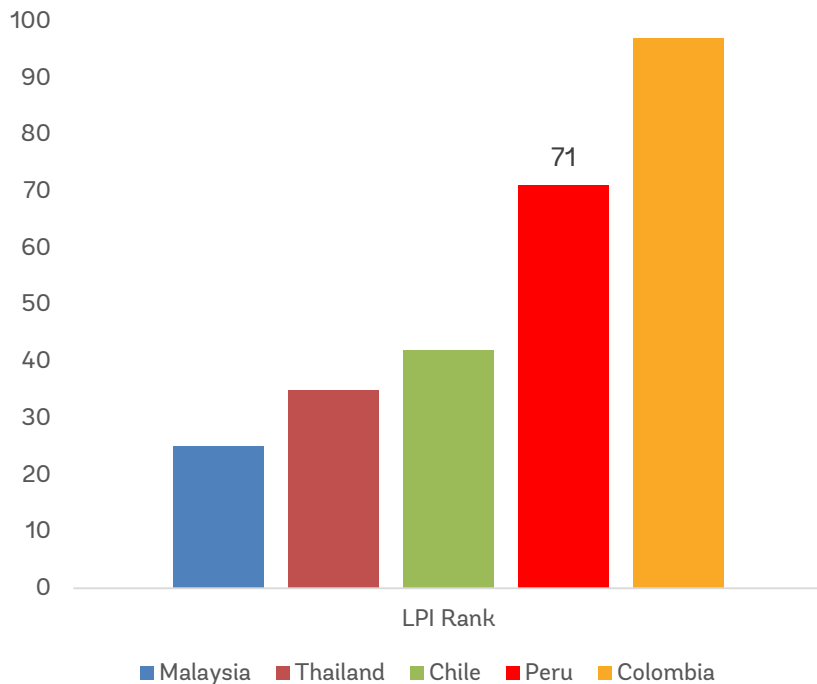
Restrictive labor regulations

(7=Flexible; 1=heavily impeded by regulations)



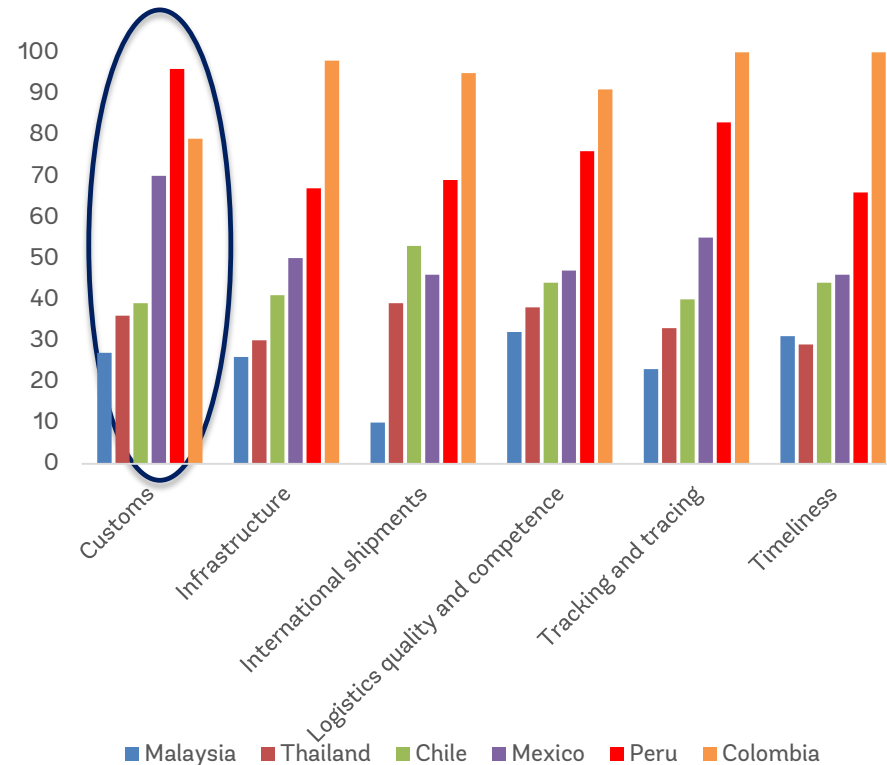
Trade policy undermined by trade facilitation

Poor facilitation and behind the border constraints...
(LPI rank, higher rank means worse performance)



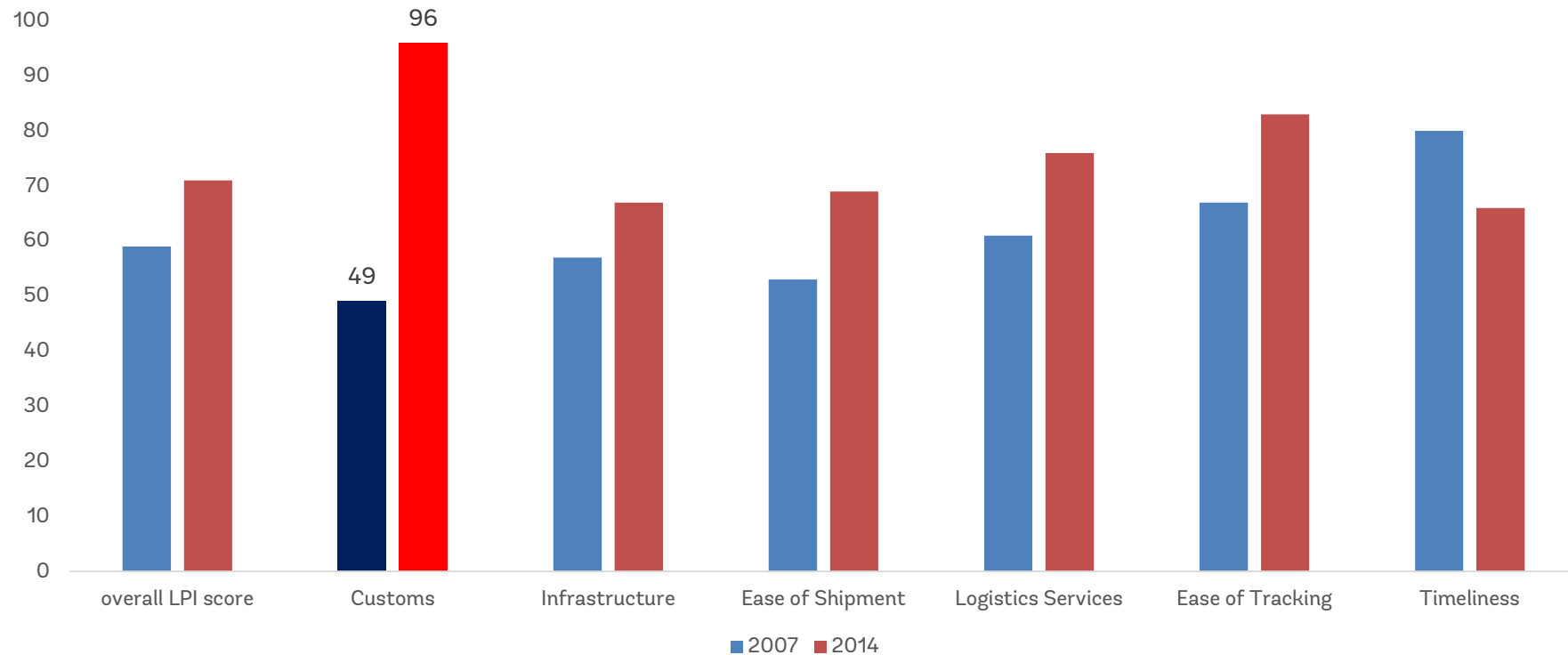
..particularly in customs

(LPI rank, higher rank means worse performance)

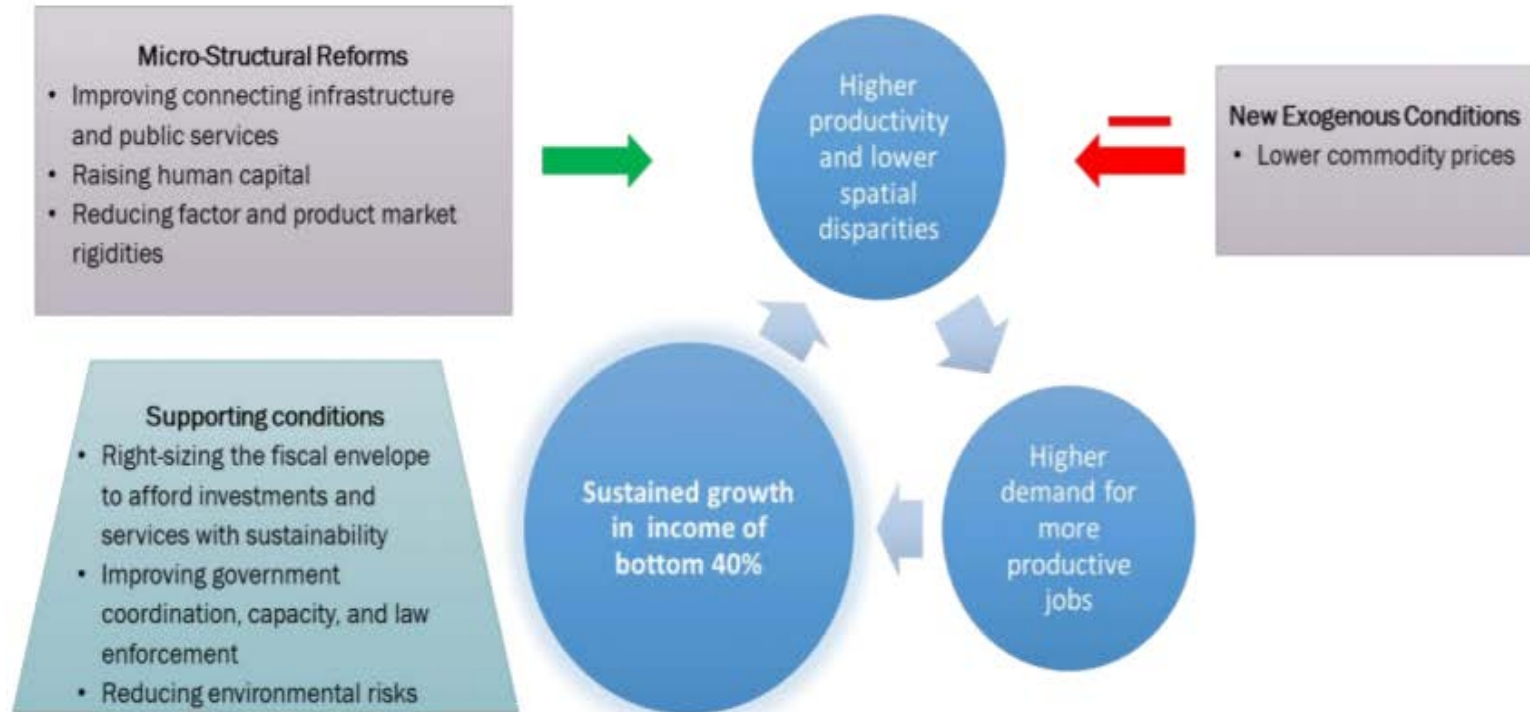


Little improvement has been made

Customs lost 47 positions since 2007
(LPI rank, higher rank means worse performance)



WB's SCD



<http://documents.worldbank.org/curated/en/919181490109288624/pdf/Peru-SCD-final-3-16-17-03162017.pdf>

Table 1: Priority areas and key bottlenecks to address the two structural challenges

Priority Areas	Key Bottlenecks	Prioritization criteria			
		Reduces disparities	Increases productivity	P resent synergies to achieve outcomes	Support the sustainability of outcomes
Improving connecting infrastructure and public services	Large gaps in access to water and sanitation	✓		✓	✓
	Lack of urban planning and cadasters	✓		✓	✓
	Large gaps in connecting infrastructure	✓	✓	✓	
Raising human capital	Fragmented coverage and quality of services in health	✓	✓	✓	
	Low quality of services in education	✓	✓	✓	
	Inefficiencies across social services	✓	✓		
Reducing factor and product market rigidities	Labor and tax regulations that hamper productivity and formalization	✓	✓		
	Regulatory barriers to competition (at the subnational level) that hamper productivity and formalization		✓	✓	
Right-sizing the fiscal envelope	Low efficiency of public spending			✓	✓
	Low tax revenues			✓	✓
	Unfinished decentralization process			✓	✓
Improving government coordination, capacity, and law enforcement	Weak enforcement of the rule of law in the justice system			✓	✓
	Weak enforcement of regulations			✓	✓
	Low level of government coordination and red tape	✓	✓	✓	✓
	Low levels of trust and social capital (citizen-government)			✓	✓
Reducing environmental risks	High exposure to climatic risks and natural hazards			✓	✓
	Reactive and loosely coordinated natural resources management			✓	✓