

Background Note on the Economic and Social Situation in Peru

Economic situation

Peru is a medium-size commodity-exporting economy, with a GDP per capita of US\$7,310 (PPP \$12,330). Despite some negative impact of the global financial crisis, the country's economic growth has averaged 6.4 per cent during 2003-2013, one of the strongest growth performances in the Latin American and Caribbean region. According to the UN publication of the *World Economic Situation and Prospects 2015*, Peru's growth slowed down to 3.2 per cent in 2014, mainly because of the weakening international prices of primary commodities (in particular, the prices of copper and gold). The growth outlook for 2015-16 is in the range of 4.9 to 5.0 per cent. The economy is facing a challenge to diversify, reducing its high dependency on the exports and production of a few commodities.

In response to the decline in the international prices of minerals, the Government has quickly responded with measures to boost internal demand by, for example, giving extra bonuses and wage increases for state employees as well as extra loans for small businesses.

Human Development and Poverty Reduction

Peru's rank in the Human Development Index 2014 has remained stable at the 82nd place of 187 countries, at a value of 0.737, below Brazil and Mexico, as well as below the average of the Latin American and Caribbean region (0.740). Overall poverty rate has been reduced significantly in the 2000s, from 54.7 per cent in 2001 to 27.8 per cent in 2011 (National Institute of Statistics, INEI). Poverty is much more concentrated in the rural regions of the highlands (Sierra) as compared with the urban centres. Poverty rate stands at 60.3 per cent in rural areas as compared with 21.1 per cent in urban areas.

Inequality

Income inequality has remained high, with the richest quintile absorbing 44 per cent of the income and the poorest quintile sharing only 5 per cent. Income inequality remains considerable between rural and urban areas, and inequalities also remain within urban areas in terms of access to running water & sanitation, electricity, public transportation, education and health services. For example, 30 per cent of the population do not have access to running water. Rural

electrification is scarce, and public expenditure in education (2.7 per cent of GDP) and health (1 per cent of GDP) are among the lowest in the Latin American region.

Social Policies

About 70 per cent of the Peruvian labour force works in the informal sector (according to the ILO estimates) and only one in six persons in this sector have some health coverage and one-in twenty five have some retirement benefits. The administrations have been seeking to extend the health insurance as well as the pension systems, in particular by building upon the National Fund for Compensation and Social Development FONCODES as well as the conditional cash transfer programme JUNTOS (meaning “together”). While JUNTOS is generating benefits, its efficiency may be significantly improved.

Climate Change and Sustainable Development

The adverse impact of climate change on Andes’ ice melting and water availability remains a major challenge to overcome. The loss in volume of the glacier surface in Peru, equivalent to 7,000 million cubic metres of water or about 10 years of water supply for Lima, has meant a reduction by 12 per cent of the water flow to the country’s coastal region, which accommodates 60 per cent of the population of Peru.

Peru’s sustainable development will depend largely on increasing investment on adaptation technologies and mitigation strategies as well as on facilitating access to running water & sanitation and electricity in rural areas, in particular.