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Cauvi  
Pérez**

**Hogan  
Lovells**

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## **Perspectives on a Post-Pandemic World in Peru**

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January 7, 2021



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## OUR PANELISTS

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Payet, Rey, Cauvi, Pérez  
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**MODERATOR**



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## OVERVIEW

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- 04** Peru's recovery from the COVID-19 crisis
- 16** Peru: Post-Pandemic Investment Opportunities
- 27** The current business climate and changes to the rules of the game
- 34** Q&A

# Presentation for Hogan Lovells

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CONSULTORIA**

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## Peru's recovery from the COVID-19 crisis

January 2021

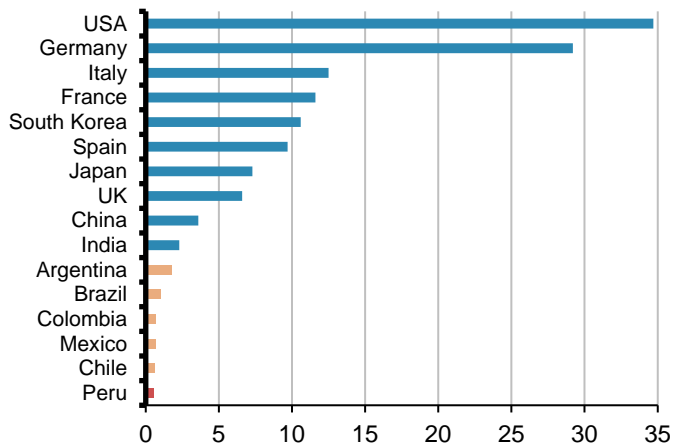
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HEALTH AND ECONOMIC CRISIS

# Peru was ill-prepared to face the pandemic

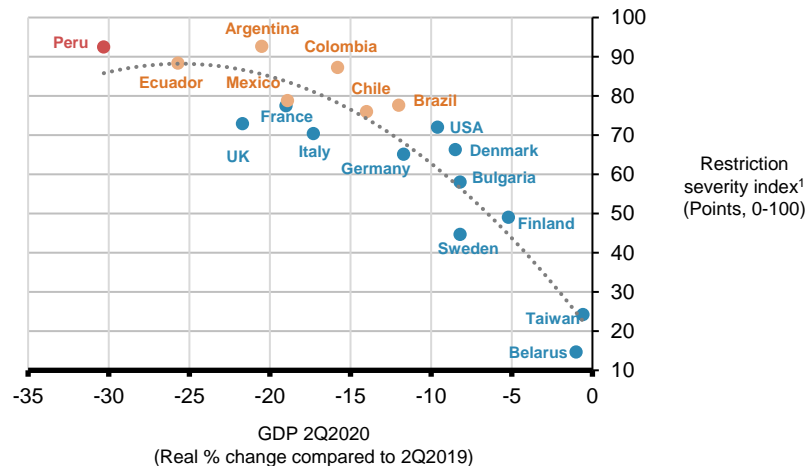
## PRE COVID-19: ICU BEDS BY COUNTRIES

Beds per 100 thousand inhabitants



SOURCE: Statista, Global Health Intelligence

## 2Q2020: GDP AND RESTRICTION SEVERITY INDEX



<sup>1</sup> Average of 2Q2020. A result closer to 100 indicates more severe restrictions.

SOURCE: Statistical institutes, Oxford University

## HEALTH AND ECONOMIC CRISIS

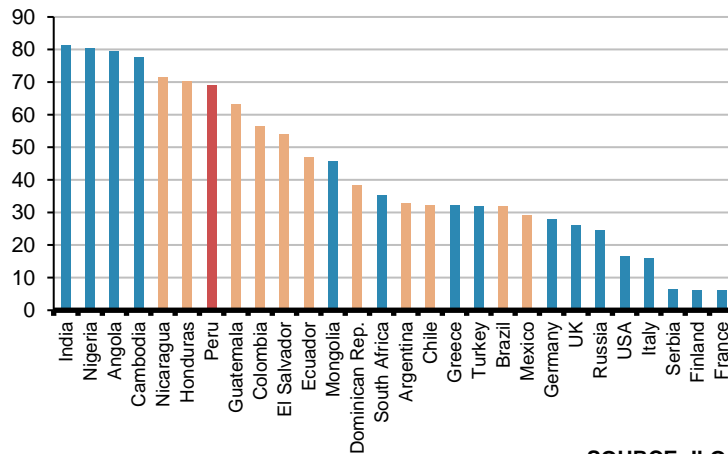
## Lockdown vs informality

## 2018: LABOR INFORMALITY

% of employment

■ LAC countries

■ Other countries



SOURCE: ILO

COVID-19 DEATHS<sup>1</sup>

COUNTRY	COVID-19 deaths (Per 100,000 habitants)
Belgium	173
Italy	126
Peru	118
UK	115
Spain	110
United States	107
Mexico	101
France	99
Argentina	98
Brazil	94
Chile	90
Colombia	89
Romania	83
Ecuador	82

<sup>1</sup> As of January 5<sup>th</sup>, 2021.

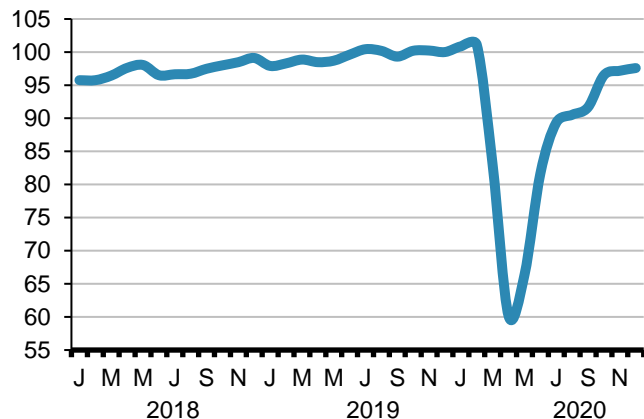
SOURCE: Johns Hopkins University

CURRENT SITUATION

# Fast economic recovery after the strict lockdown, due to a large policy response

## PERU: GDP<sup>1</sup>

% of December 2019



<sup>1</sup> November and December of 2020 are estimates made in December 2020. Seasonally adjusted series.

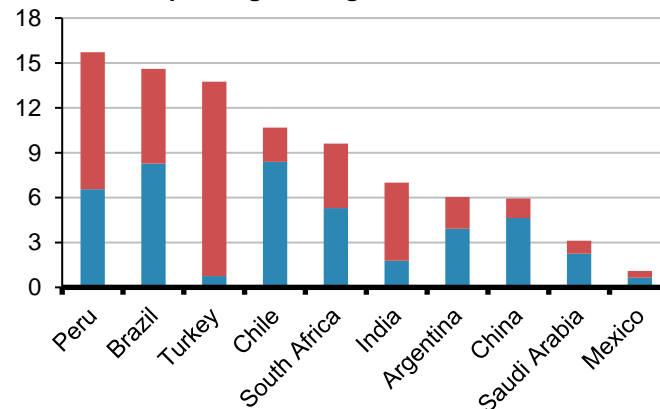
SOURCE: BCR, APOYO Consultoría

## EMERGING ECONOMIES: ECONOMIC POLICY RESPONSE TO COVID-19<sup>1</sup>

% of GDP

■ Equity, loans and guarantees

■ Additional spending or foregone revenues



<sup>1</sup> As of September 2020.

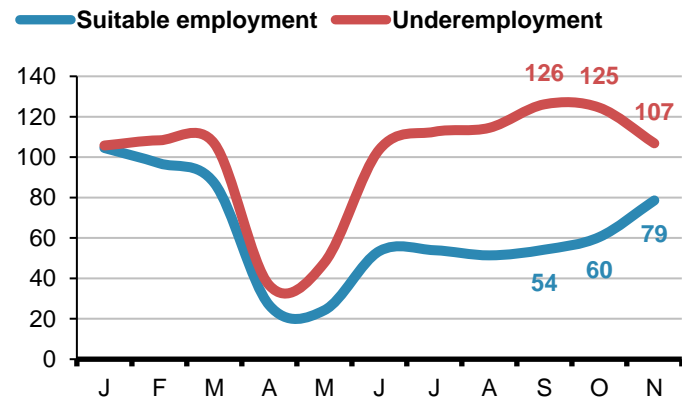
SOURCE: IMF

CURRENT SITUATION

# Labor income is still depressed

## 2020: EMPLOYMENT BY TYPE IN METROPOLITAN LIMA

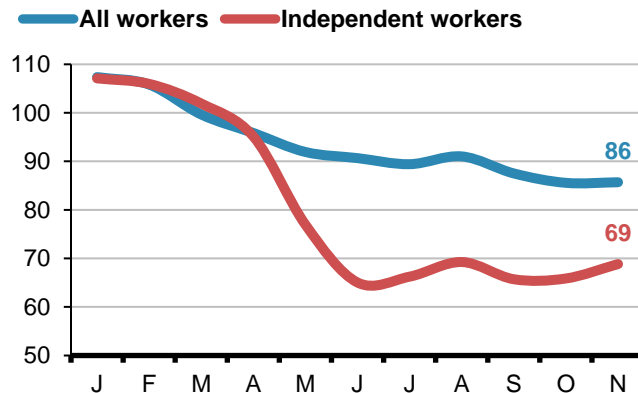
%, with respect to the same month of 2019



SOURCE: INEI, APOYO Consultoría

## 2020: AVERAGE LABOR INCOME IN METROPOLITAN LIMA<sup>1</sup>

%, with respect to the same month of 2019



<sup>1</sup> Average of the last three months.

SOURCE: Permanent survey of employment - INEI

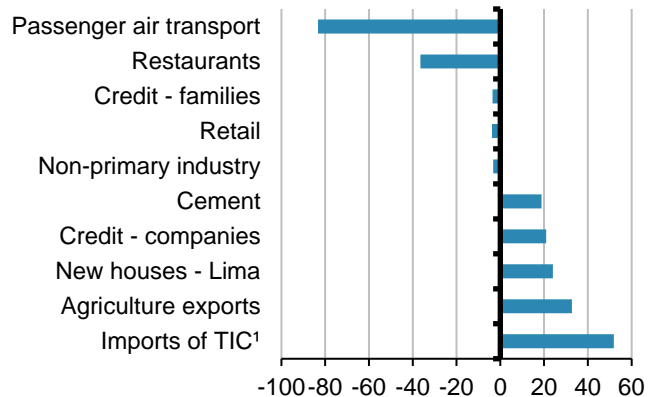


CURRENT SITUATION

# Huge differences between markets remain

## OCT-20: INCOME INDICATORS OF SOME MARKETS

% change in real terms



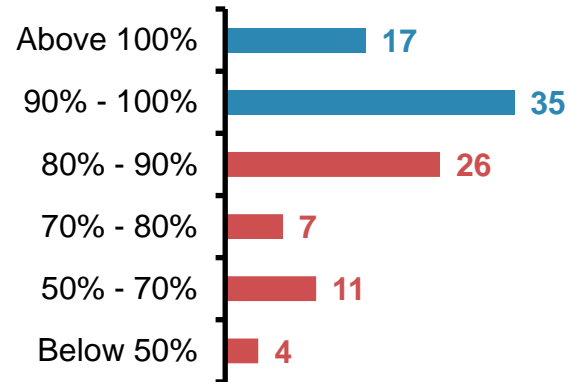
<sup>1</sup> Considers cell phones, mobile wireless network equipment, laptops, and other digital telecommunications devices. Information for August-October.

SOURCE: MTC, INEI, BCR, Asocem, Veritrade



## DEMAND IN 4Q2020 COMPARED TO PRE-COVID19 LEVEL

% of executives



<sup>1</sup> Survey conducted in December 2020.

SOURCE: APOYO Consultoría

## OUTLOOK

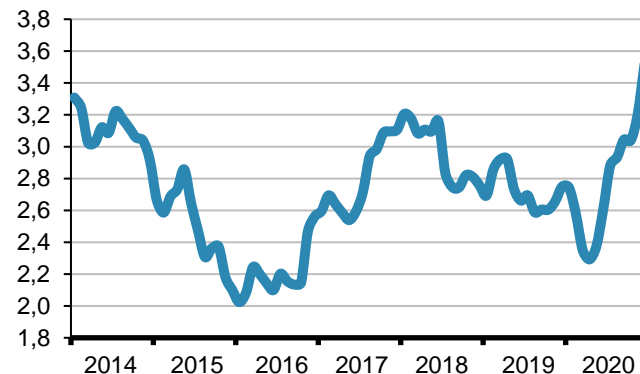
# Continued macroeconomic recovery, with challenging business environment

## KEY DRIVERS FOR 2021

- 1 High commodity prices and low interest rates
- 2 Slow distribution of vaccines
- 3 Business confidence
- 4 Political uncertainty

## COPPER PRICE

US\$/lb, monthly average



SOURCE: BCR

## OUTLOOK

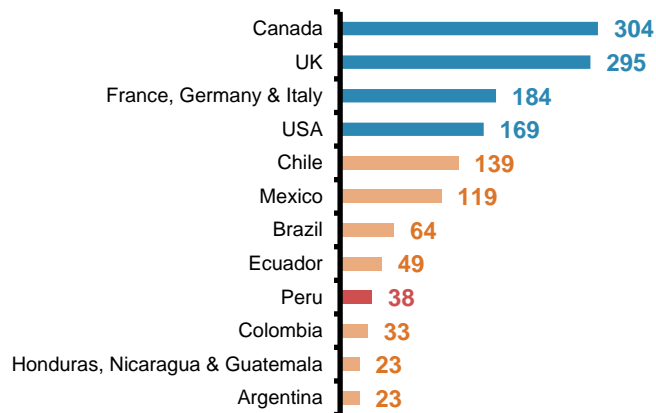
# Continued macroeconomic recovery, with challenging business environment

## KEY DRIVERS FOR 2021

- 1 High commodity prices and low interest rates
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- 3 Business confidence
- 4 Political uncertainty

COVID-19: VACCINE CONTRACTS<sup>1</sup>

% of population covered



<sup>1</sup> As of January 5<sup>th</sup>, 2021.

SOURCE: Tracking Covid-19 - Bloomberg

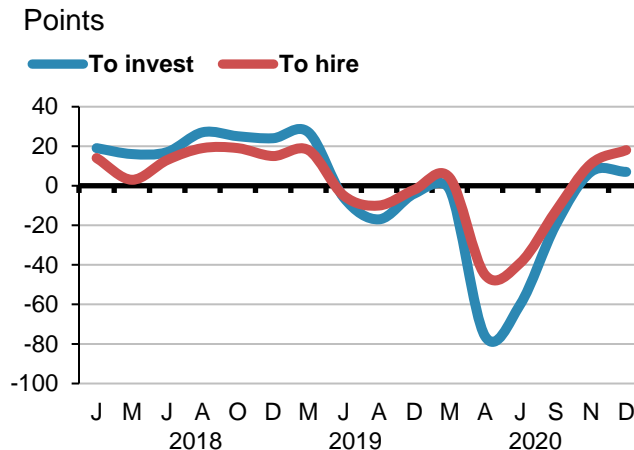
## OUTLOOK

# Continued macroeconomic recovery, with challenging business environment

## KEY DRIVERS FOR 2021

- 1 High commodity prices and low interest rates
- 2 Slow distribution of vaccines
- 3 Business confidence
- 4 Political uncertainty

## BUSINESS CONFIDENCE TO INVEST AND HIRE



SOURCE: APOYO Consultoría

## OUTLOOK

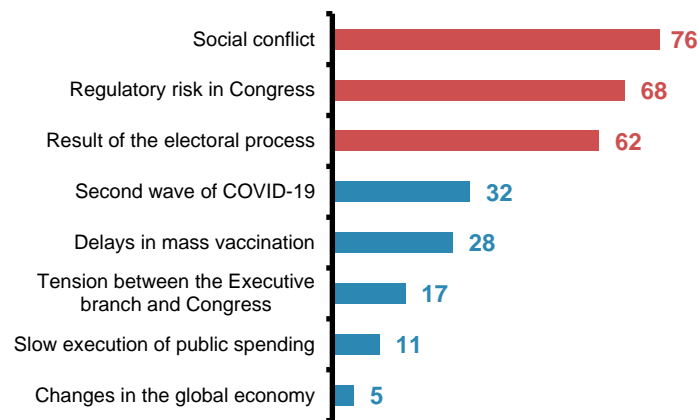
# Continued macroeconomic recovery, with challenging business environment

## KEY DRIVERS FOR 2021

- 1 High commodity prices and low interest rates
- 2 Slow distribution of vaccines
- 3 Business confidence
- 4 Political uncertainty

## MAIN RISKS FOR THE ECONOMIC RECOVERY<sup>1</sup>

% of executives, multiple choice



<sup>1</sup> Survey conducted in December 2020.

SOURCE: APOYO Consultoría

## OUTLOOK

# GDP will grow around 9% in 2021, but without causing macro supply constraints

LATAM: GDP<sup>1</sup>

Real % change

	2020	2021	CUMULATIVE GROWTH 2020-2021
Emerging and Developing Europe	-4,6	3,8	-1,0
Middle East and Central Asia	-4,0	3,0	-1,1
Advanced Economies	-5,8	3,9	-2,1
Latam	-7,4	3,6	-4,1
Chile	-6,0	5,0	-1,3
Brazil	-4,6	3,0	-1,7
Honduras	-5,2	2,9	-2,5
Colombia	-7,0	4,5	-2,8
Peru	-12,0	9,0	-3,6
El Salvador	-7,0	2,8	-4,4
Ecuador	-8,0	3,6	-4,7
Bolivia	-8,0	3,5	-4,8
Argentina	-11,0	5,0	-6,5

<sup>1</sup> Forecast made in December 2020

SOURCE: IMF, APOYO Consultoría

## PERÚ: MAIN CHARACTERISTICS OF THE MACROECONOMIC ENVIRONMENT IN 2021

Rebound of sales and profits, but few investments in production capacity

Growth in formal employment, but limited recovery of wages

Low inflation and interest rates

Surge in non-performing loans

MAIN MACROECONOMIC INDICATORS<sup>1</sup>

	2019	2020	2021	2022	2023
<b>I. Real sector (% change in real terms)</b>					
GDP	2,2	-12	9	5	3
Local sales <sup>2</sup>	2,9	-11	9	5	3
Formal private employment <sup>3</sup>	4,1	-10	7	6	3
GDP (US\$ billion)	230,8	200,0	226,0	245,0	257,0
Per capita GDP (US\$)	7 091	6 089	6 805	7 326	7 613
<b>II. Macroeconomic balances (% del GDP)</b>					
Fiscal result	-1,6	-8,2	-4,9	-3,4	-2,3
Public debt	26,7	33,2	33,3	34,3	34,7
Current account	-1,5	0,2	-0,5	-0,8	-0,6
<b>III. Monetary sector<sup>4</sup></b>					
Annual inflation, CPI (%)	1,9	2,0	1,5	1,5	2,0
Exchange rate (Soles per U.S. Dollar)	3,31	3,62	3,40	3,40	3,40
Central bank reference rate (%)	2,25	0,25	0,25	0,25	0,75
Credit to the private sector (% annual change) <sup>5</sup>	7,0	14,5	-2,0	0,0	3,5

<sup>1</sup> From 2020 figures were forecasted in December 2020.

<sup>2</sup> Domestic demand without inventories.

<sup>3</sup> Employment registered in the electronic payroll system.

<sup>4</sup> End-of-period.

<sup>5</sup> Corresponds to credit granted by depositary corporations, corrected for exchange rate. Includes credit of "Reactiva Perú".

SOURCE: BCR, Ministry of Labor and Employment  
Promotion, Apoyo Consultoria

The background of the slide is a composite image. On the left, there is a stack of several coins. In the center, a silver pen lies diagonally across a document. The document features a financial chart with a candlestick pattern and a line graph. The word 'Dec' is visible on the chart. The overall color palette is warm, with orange and yellow tones.

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## **Peru: Post-Pandemic Opportunities**

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**José Cúneo - Partner**



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## WHY PERU?

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Same treatment to foreign investment.



Strong macro-economic fundamentals.



Expected rebound of Peru's economy during 2021-2022.



Huge infrastructure gap, particularly in public services (sanitation, healthcare, education, transportation).



Use of new instruments to handle big infrastructure projects.



Abundance of natural resources (minerals, fishing, agricultural products).



High potential demand in certain sectors (construction and real estate, agri-business).

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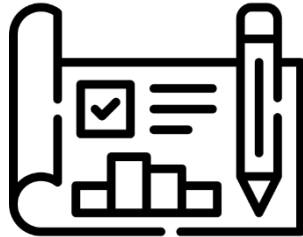
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## INFRASTRUCTURE

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### 2019: Plan Nacional de Infraestructura para la Competitividad (PNIC).



- Estimated short term infrastructure gap: US\$ 32.5 billion.
- 4% of GDP per year required to close the gap.
- 52 prioritized infrastructure projects.
- Identified and prioritized according to best international practices (UK government and BID).
- Focused on transportation, sanitation, energy and agriculture.

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## INFRASTRUCTURE

### Distribution by Sector

Sector	Projects	Investment (S/ millions)
Transportation & Communications	31	82,677
Agriculture	4	5,648
Sanitation	6	5,447
Energy	11	5,425
<b>TOTAL</b>	<b>52</b>	<b>99,196</b>

### Modality of Execution

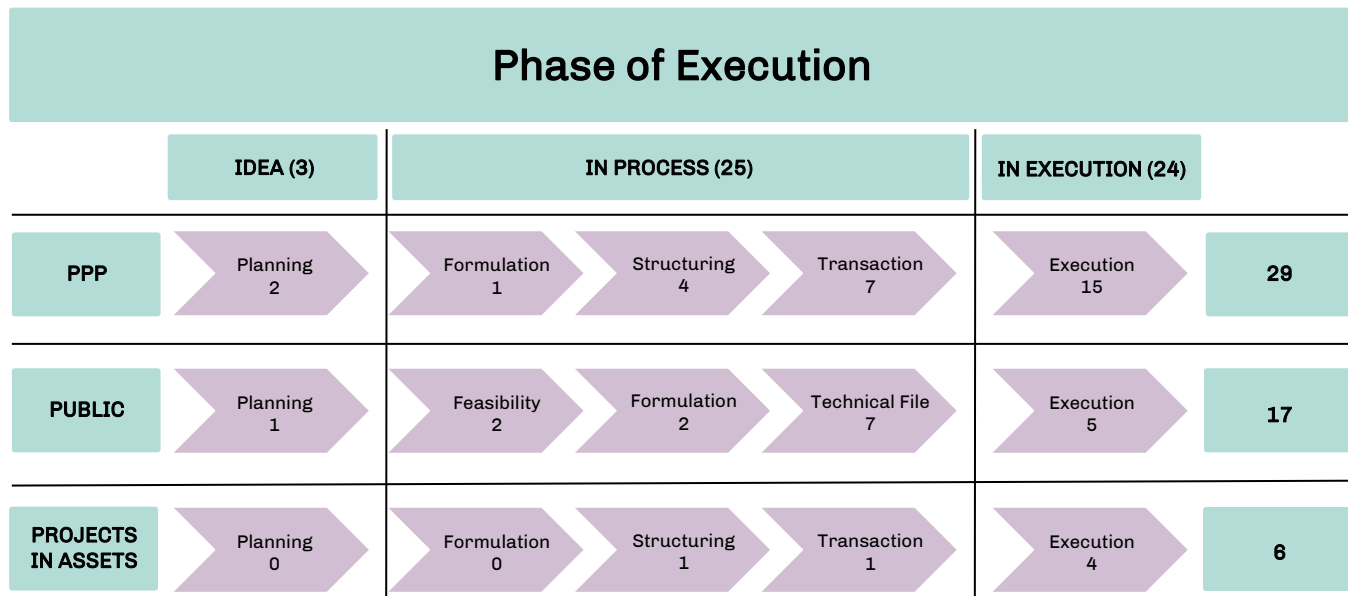
Modality		Projects	Investment (S/ millions)
Public-Private Partnerships	Autofinanced	18	19,904
	Cofinanced	11	45,305
Public		17	30,755
Projects in Assets		6	3,233
<b>TOTAL</b>		<b>52</b>	<b>99,196</b>

SOURCE: PNIC

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## INFRASTRUCTURE



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## INFRASTRUCTURE

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Use of other mechanisms to carry out project that the government is unable to manage:

- Government to government agreements: Juegos Panamericanos, Reconstrucción con Cambios, Chinchero Airport.
- PMO agreements / BIM type management.
- Development of standard form of PPP agreement based on MEF guidelines.

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## MINING

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- Peru is a mining country. 2° world producer of copper, zinc and silver / 6° of gold.
- Ranked 24° in Frasier Institute's survey of attractiveness as mining jurisdiction.
- Contributes average 9% of GDP, 60% of exports and 20% of income tax.
- Important generator of direct and indirect formal employment.
- Solid pipeline of projects in development or pre-development stage (US\$56 billion).
- High prices expected for copper, gold and other minerals.
- Some efforts have been made to simplify permitting procedures.
- Mining will be key for Peruvian recovery in a post-pandemic environment.

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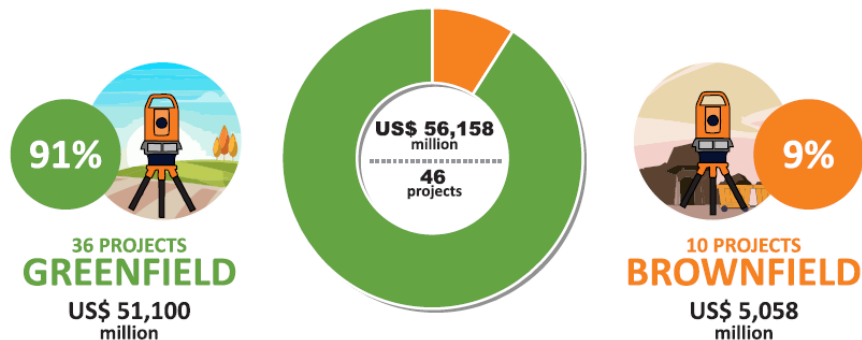
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## MINING

➤ Pipeline of main mining projects.



Chart 04: Investment in mine construction projects by type of project



### NEW PROJECTS

- Antilla
- Ariana
- Ayawilca
- AZOD (Accha and Yanque)
- Cañariaco (North)
- Cañón Florida
- Conga
- Corani
- Cotabambas
- Don Javier
- El Galeno
- Mantaro phosphates
- Pacífico Phosphates
- Haquira
- Hierro Apurímac
- Hilarión
- La Granja
- Los Calatos
- Los Chancas
- Macusani
- Magistral
- Michiquillay
- Justa Mine
- Ollachea
- Pampa de Pongo
- Río Seco Copper Plant
- Pukaqaqa
- Quechua
- Quellaveco
- Río Blanco
- San Gabriel
- San Luis
- Shalipayco
- Tía María
- Trapiche
- Zafranal

### EXPANSION PROJECTS

- Bayovar Expansion
- Pachapaqui Expansion
- Santa María Expansion
- Shouxin Expansion
- Toromocho Expansion

### RELOCATION PROJECTS

- Chalcobamba Stage I
- Coroccohuayco Integration
- Inmaculata Optimization
- Pampacancha
- Yanacocha Sulfuros

SOURCE: Ministry of Energy and Mines, taken from "2020 Portfolio of Mining Construction Projects".

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## MINING

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### Opportunities:

- Financing (equity / indebtedness) required by certain projects (Pampa del Pongo, Corani).
- Sale of non-strategic assets.
- Mining operations nearing end of life of mine may generate opportunities for operators interested in recovery.
- Space for mining contractors (e.g. construction companies).





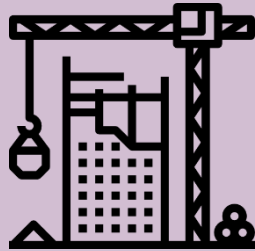
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## CONSTRUCTION & REAL ESTATE

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- Unsatisfied demand of housing (approx. 2 million units nationwide, 1 million in Lima).
- Since the third quarter of 2020 the GDP of construction, dispatches of cement and production of bricks has consistently increased (from October figures are back in blue).
- Purchase of housing units increased after lock-down.
- Two digit expected growth in Lima during 2021.
- Fondo MiVivienda.
- New development of industrial parks in peripheral areas of Lima and other cities as recovery takes place.

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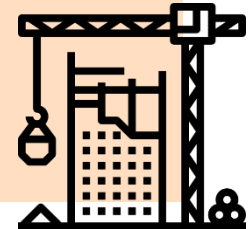
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## CONSTRUCTION & REAL ESTATE

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### Development of REITS as investment alternative.

- FIBRA / FIRBI were created to promote investment in real estate for renting. Regulated by the SMV.
- Tax benefits:
  - i. Transferor of property in exchange for interests in FIBRA / FIRBI defers income tax and VAT (only triggered when interests are transferred).
  - ii. Gross income received by individuals that holds interests in FIBRA / FIRBI are subject to 5% rate.
- Can invest in properties in Peru and abroad.
- Still a small market, but growing.
- Available to family offices and individuals, but also institutional investors.



A close-up photograph of chess pieces on a board, with a warm, golden light source in the background creating a soft glow. The pieces are in sharp focus in the foreground, while others are blurred in the background.

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## **Business Climate & Changes to Rules of the Game**

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**Carlos A. Patrón - Partner**

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## Business Climate Stress Test



**COVID19**



**Inadequate Government response and  
unprecedented economic contraction**



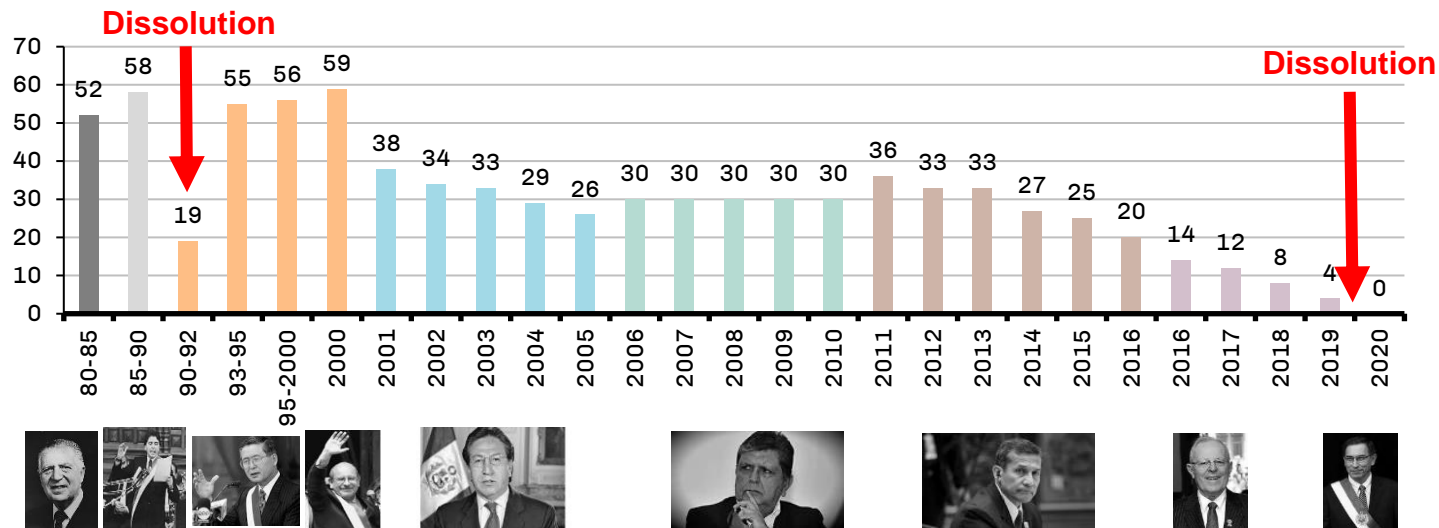
**Political mayhem: Populist Congress and three Presidents  
in one week**

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## THE ROAD TO PARLIAMENTARIANISM

### 1980-2020: Executive representation in Congress (% of seats)



SOURCE: APOYO, taken from "La parlamentización del presidencialismo peruano" - Milagros Campos, JNE, Congreso de la República.



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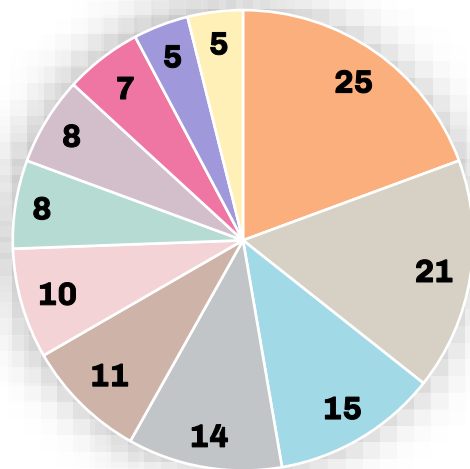
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## 2020 POLITICS: AN EXECUTIVE WITHOUT CONGRESSIONAL REPRESENTATION

### Congress Fragmentation: Political Parties / Groups

#### CONGRESS: PARLIAMENTARY GROUPS

Number of members of Congress



- Acción Popular
- Alianza por el Progreso
- FREPAP
- Fuerza Popular
- Podemos Perú
- Unión por el Perú
- Partido Morado
- Frente Amplio
- Independientes
- Somos Perú
- Descentralización Democrática

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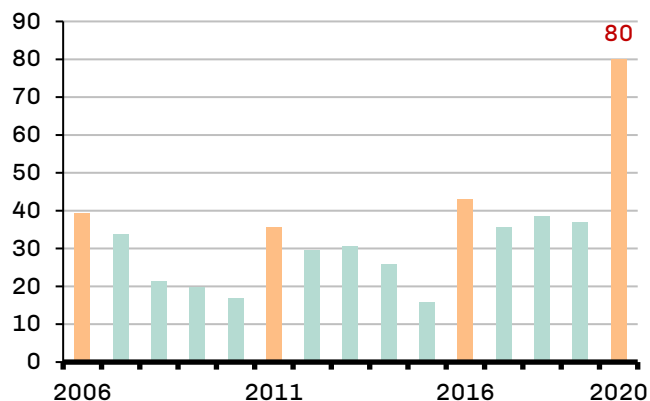
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## REGULATORY RISK AND POPULISM

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### CONGRESS: NUMBER OF BILLS PRESENTED<sup>1</sup>

Monthly average per legislative year

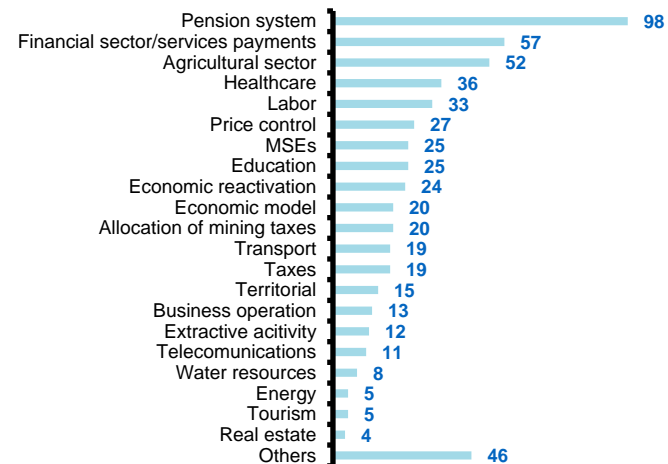


<sup>1</sup> The months where Congress was closed have been excluded from the calculations

SOURCE: Plataforma de Alertas Regulatorias de APOYO Consultoría

### CONGRESS: REGULATORY BILLS<sup>1</sup>

Number of bills



<sup>1</sup> As of November 26<sup>th</sup>, 2020.

SOURCE: Congress  
COMPILED BY: APOYO Consultoría

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## HERE WE GO AGAIN

2021 GENERAL ELECTIONS

## 24 political organizations may run



**Frente Amplio**  
(Marco Arana)



**Juntos Por  
el Perú**  
(Verónica  
Mendoza)



**Partido  
Nacionalista**  
(Ollanta  
Humala)



**Alianza Para  
el Progreso**  
(César  
Acuña)



**Partido Morado**  
(Julio Guzmán or  
Carolina  
Lizárraga)



**Perú Patria  
Segura**  
(Rafael Santos)



**Avanza  
País**  
(Hernando  
de Soto)



**Todos Por el  
Perú**  
(Fernando  
Cillóniz)



**Perú Libre**  
(Pedro Castillo)



**Renacimiento  
Unido  
Nacional**  
(Ciro Gálvez)



**Perú Nación**  
(Francisco Diez  
Canseco)



**Podemos  
Perú**  
(Daniel Urresti)



**Somos Perú**  
(Daniel  
Salaverry)



**Restauración  
Nacional**  
(George  
Forsyth)



**PPC**  
(Alberto  
Beingolea)



**Solidaridad  
Nacional**  
(Rafael López  
Aliaga)



**Unión Por el  
Perú**  
(José Vega)



**Democracia  
Directa**  
(Andrés  
Alcántara)



**Frepap**  
(the party won't  
present a  
presidential  
candidate)



**Contigo**  
(Gilbert Violeta)



**Acción Popular**  
(Y. Lescano or  
L.Gálvez)



**APRA**  
(Nidia Vílchez,  
Juan Carlos  
Sánchez or  
Rafael Zevallos)



**Frente de la  
Esperanza**  
(Fernando  
Olivera)



**Fuerza  
Popular**  
(Keiko  
Fujimori)



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## Pandemic will ease, side effects may linger



COVID19 regulations should phase out



Populist congressional action will continue until elections



Changes to the Constitution (amendments or an Assembly) will be proposed and debated during electoral process



Outcome of elections and ability of new President to build consensus will determine if populism relaxes or continues



New Congress will appoint a new Constitutional Tribunal (ie, gatekeeper)



Merger Control will come into effect with an unprecedented anti-business climate in executive agencies

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**Q&A**

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**THANK YOU.**

**Payet, Rey, Cauvi, Pérez Abogados**

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