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Foreword

This Economic Survey was prepared by Paula Garda and Michael Koelle, under the supervision of Aida Caldera Sánchez. Research assistance was provided by Véronique Gindrey, administrative and editorial assistance by Gemma Martinez, and communication assistance by Laura Fortin and François Iglesias.

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD. The Committee discussed the draft Survey on 8 July 2025. The cut-off date for data used in the Survey is 5 September 2025.

Information about this and previous Surveys and more information about how Surveys are prepared is available at <https://www.oecd.org/en/topics/economic-surveys.html>.

On 25 January 2022, the OECD Council decided to open accession discussions with Peru. On 10 June 2022, the Council at Ministerial Level adopted the Roadmap for the Accession Process of Peru [C/MIN(2022)24/FINAL], setting out the terms, conditions and process for the accession of Peru. In accordance with this Roadmap, OECD technical committees, composed of expert policy-makers from each of the 38 OECD Members, will conduct an in-depth assessments of Peru's legislation, policies and practices against OECD legal instruments and OECD best policies and practices covering multiple areas of government policy, including economic policy but also labour market and social policy, education, and health.

The overarching objective of the OECD accession process is to promote Peru's convergence with OECD standards, best policies and best practices, resulting in better outcomes for OECD Members as well as for Peru and its citizens. Throughout the accession process, the OECD will work closely with Peru to support the adoption of long-lasting reforms for this purpose.

Publication of this document, and the analysis and recommendations contained therein, do not prejudge in any way the results of the review of Peru by the Economic Development Review Committee as part of its [process of accession to the OECD](#).

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Basic statistics of Peru, 2024

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2023)	33.8		Population density per km ² (2023)	26.4	(39.2)
Under 15 (% , 2023)	24.4	(16.9)	Life expectancy at birth (years, 2022)	73.4	(80.6)
Over 65 (% , 2023)	9.0	(18.2)	Men (2022)	71.3	(78.0)
International migrant stock (% of population)	5.4	(15.7)	Women (2022)	75.5	(83.2)
Latest 5-year average growth (%)	1.2	(0.4)	Latest general election	April 2021	
ECONOMY					
Gross domestic product (GDP)			Value added shares (% , 2023)		
In current prices (billion USD)	288.8		Agriculture, forestry and fishing	7.8	(2.7)
In current prices (billion PEN)	1 084.6		Industry including construction	36.7	(27.1)
Latest 5-year average real growth (%)	1.3	(1.7)	Services	55.6	(70.2)
Per capita (thousand USD PPP, 2023) ¹	16.9	(59.0)			
GENERAL GOVERNMENT					
Expenditure	22.7	(43.7)	Gross financial debt (OECD: 2023)	32.8	(110.5)
Revenue	19.1	(38.8)	Net financial debt (OECD: 2023)	22.9	(67.2)
EXTERNAL ACCOUNTS					
Exchange rate (PEN per USD)	3.76		Main exports (% of total merchandise exports, 2023)		
PPP exchange rate (USA = 1, 2023)	1.74		Minerals	42.9	
In per cent of GDP			Stone and Glass	13.9	
Exports of goods and services	28.6	(30.5)	Vegetable	12.9	
Imports of goods and services	22.9	(30.1)	Main imports (% of total merchandise imports, 2023)		
Current account balance	2.2	(-0.3)	Machinery and electronics	20.9	
			Fuels	17.8	
			Chemicals	11.1	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, 2023, OECD: 2024)	69.1	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %, 2023, OECD: 2024)	4.9	(4.9)
Men (2023, OECD: 2024)	77.2	(65.4)	Youth (aged 15-24, %, 2023, OECD: 2024)	8.9	(11.1)
Women (2023, OECD: 2024)	61.3	(51.0)			
Participation rate (aged 15 and over, %, 2023, OECD: 2024)	72.7	(61.0)	Tertiary educational attainment (aged 25-64, %, 2023)	34.4	(41.0)
Average hours worked per year (2023)	2 252	(1 742)	Gross domestic expenditure on R&D (% of GDP, 2022)	0.2	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022, OECD: 2023)	0.8	(3.7)	CO ₂ emissions from fuel combustion per capita (tonnes, 2022, OECD: 2023)	1.8	(7.6)
Renewables (% , 2022, OECD: 2023)	23.1	(12.5)	Renewable internal freshwater resources per capita (1 000 m ³ , 2021)	49.5	
Exposure to air pollution (more than 10 µg/m ³ of PM _{2.5} , % of population, 2020)	99.1	(56.5)			
SOCIETY					
Income inequality (Gini coefficient, 2022, OECD: latest available)	0.403	(0.316)	Education outcomes (PISA 2022 score)		
Poverty gap at USD 6.85 a day (2017 PPP, %, 2022)	11.1		Reading	408	(476)
Public and private spending (% of GDP)			Mathematics	391	(472)
Health care (2022, OECD: 2023)	6.1	(9.2)	Science	408	(485)
Pensions (2023, OECD: 2021)	2.1	(9.9)	Share of women in parliament (%)	38.5	(33.3)
Education (public spending, % of GNI, 2021)	3.5	(4.4)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Peru's strong macroeconomic foundations support resilience, but sustained improvements in living standards require restoring fiscal discipline and accelerating structural reforms to tackle pervasive informality, strengthen the rule of law, expand access to finance, support intergenerational social mobility, accelerate the green transition, and raise productivity—critical to unlock faster and sustainable growth.

- Prudent fiscal management and restoring compliance with fiscal rules are essential to preserve the credibility of the fiscal framework, maintain investor confidence, and create fiscal space for priority investments. Financing social protection, infrastructure, and climate adaptation and mitigation, while safeguarding fiscal sustainability requires higher revenue, more efficient spending, stronger institutions and structural reforms to raise long-term growth. Strengthening administrative capacity is needed to ensure ongoing and future reforms are effectively implemented and sustained.
- Expanding access to finance is critical to boost investment, productivity, and formalisation. Lowering intermediation costs, promoting asset-based and equity financing, and deepening capital markets would enhance access to long-term financing. Informal firms, which make up the majority, would benefit from better access to tailored tools such as fintech, mobile banking, and alternative credit scoring, combined with incentives that link financing to formalisation and productivity improvements.
- Promoting equal opportunities across the life course, from early childhood through to working life is critical to break intergenerational cycles of disadvantage. Reducing informality, expanding access to quality early education, strengthening school-to-work transitions and narrowing labour market gender gaps are key to improve life outcomes for all, especially the most vulnerable.
- Peru is highly vulnerable to climate change and has pledged net-zero emissions by 2050, but reducing emissions and building resilience demands a deep economic transformation. Halting deforestation, expanding renewable energy and low-emissions transport, and strengthening adaptation policies would enhance environmental resilience and support sustainable growth.

Unlocking higher living standards requires bold reforms

Peru's strong macroeconomic foundations have underpinned its macroeconomic resilience, but raising living standards demands bold reforms. With weakening fiscal discipline and subdued long-term growth prospects, reinforcing the macroeconomic framework and advancing structural reforms will be needed to raise living standards in a sustainable way.

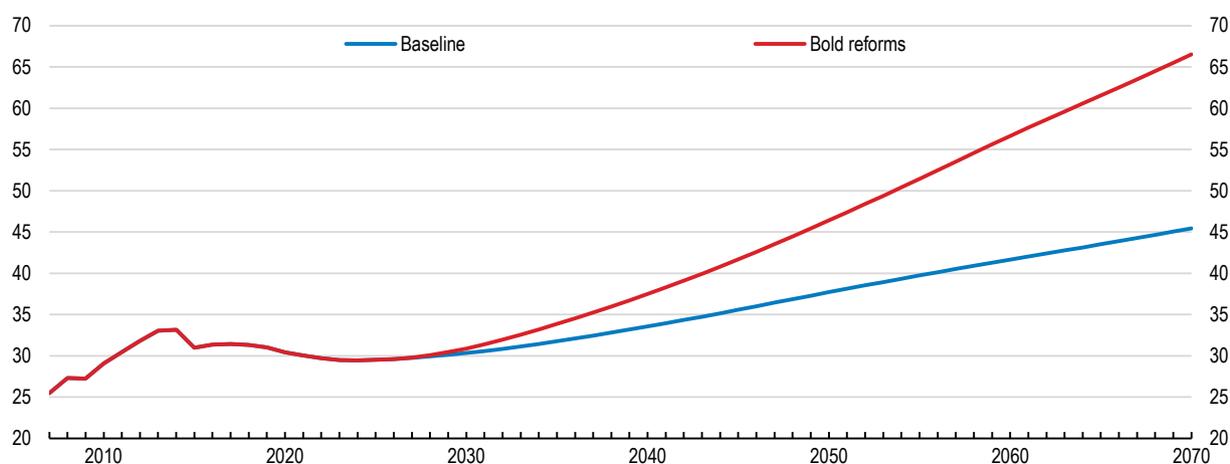
The economy grew by 3.7% between 2008 and 2024, one of the fastest rates in Latin America. Looking ahead, sustaining and accelerating long-term prospects will require tackling structural challenges by boosting investment, improving productivity, and reducing social inequalities to fully unlock the country's human capital potential.

Preserving the strong macroeconomic framework is crucial for stronger and more resilient growth. Inflation remains under control thanks to a credible

inflation targeting regime under an independent Central Bank, the financial system has strong capital and liquidity buffers, and public debt is low by regional standards. A strong external position with substantial international reserves reinforces resilience. Yet, fiscal discipline has deteriorated, with deficits exceeding established fiscal rule limits. Rising spending and tax base erosion measures are undermining the credibility of the fiscal framework and threatening long-term fiscal sustainability.

Figure 1. Faster income convergence requires bold reforms

Convergence of GDP per capita, % of OECD average



Note: Estimates based on the OECD long-term model (Guillemette and Château, 2023). The baseline assumes no new policy changes, with GDP per capita growth driven by demographics, capital accumulation, and trend productivity. The bold reform scenario assumes narrowing the employment gender gap, improving education outcomes, strengthening the rule of law, simplifying product market regulations, and lowering informality as outlined in Table 1.7 of this Economic Survey.

Source: OECD calculation

StatLink  <https://stat.link/lc2r9s>

Recent policy actions, including regulatory simplification, improvements in contributory pension coverage and benefits, progress in financial inclusion and digitalisation and a strong investment pipeline across infrastructure, irrigation, and mining, lay the groundwork for a more resilient and inclusive economy. But faster, inclusive, and sustainable long-term growth will also require tackling structural bottlenecks more broadly by reducing corruption and improving judicial independence and enforcement,

improving the quality of education, boosting female employment, reducing informality and regulatory burdens. Increasing fiscal space for needed social and resilient infrastructure spending is also needed.

Addressing persistently high labour and business informality is particularly critical, as it cuts across all these challenges: it limits productivity, constrains fiscal capacity, weakens job quality and social protection coverage, and hampers human capital development. Reducing informality would unlock broader gains from

reforms and enable a stronger, fairer, and more resilient economy. Strengthening institutions and administrative capacity is also vital to ensure effective implementation and enforcement of these reforms. Taken together, these reforms would allow Peru's GDP

per capita to reach 65% of the OECD average by 2070, compared to just 45% under current policies. This means Peru could accelerate convergence by two decades (Figure 1).

Rebuilding fiscal space amid slower growth

GDP growth is projected to slow to 2.8% in 2025 and 2.6% in 2026 (Table 1), with risks tilted to the downside. Inflation is expected to remain close to the Central Bank's 2% target. The Central Bank's broadly neutral monetary stance is appropriate and should remain cautious and data dependent. While fiscal consolidation has resumed, firmer fiscal prudence is needed to comply with the fiscal rule and to safeguard Peru's strong macroeconomic framework. Over the medium term, supporting debt sustainability requires a clear commitment to prudent fiscal management, improving public spending efficiency and higher tax revenues to create the fiscal space for infrastructure, social and climate change transition priorities.

The economy will decelerate after rebounding in 2024.

Global and domestic uncertainty will keep growth moderate by weakening business and consumer confidence. The government's push to accelerate Public-Private Partnerships (PPPs) together with streamlined permitting, and low inflation will partly offset the effects of uncertainty by supporting private investment and consumption. Government spending will moderate as fiscal consolidation resumes. Export growth is expected to slow, reflecting weaker global demand and new US tariffs imposed on Peruvian exports.

Risks are tilted to the downside. Given the tightening of global financial conditions and elevated uncertainty, downside risks to growth have increased, particularly through weaker investment and external demand. A sharper-than-expected slowdown among the main

trading partners, China and the United States, and weaker copper prices would weigh on Peru's export-oriented economy, hurting government revenues and investment. Domestic political uncertainty ahead of the 2026 general elections could further dampen investment and activity, while rising crime and insecurity may further erode confidence and trigger social unrest. Increasingly frequent extreme weather events also pose risks, with potential damage to infrastructure and agriculture.

Monetary policy is appropriately broadly neutral, with inflation expectations well-anchored. Inflation is within the Central Bank target range of 1-3% since early 2024. However, caution is warranted, as external and weather-related shocks or weaker domestic demand could push inflation away from its target in either direction.

Table 1. Economic growth will remain modest

	2024	2025	2026
Real GDP (annual growth rate, %)	3.3	2.8	2.6
Unemployment rate (% labour force)	5.6	5.4	5.2
Headline inflation (average annual growth rate, %)	2.4	1.7	2.0
Fiscal balance (% GDP)	-3.5	-2.5	-2.2

Source: OECD Economic Outlook database. Updated in August 2025.

Peru's fiscal position deteriorated in 2024, with the deficit rising to 3.5% of GDP. This marked the second consecutive breach of the deficit targets under the fiscal rule (Figure 2). The medium-term fiscal framework sets a 1% of GDP deficit ceiling, unmet since 2014, with transitional targets to guide convergence that are often revised. After a sharp deficit widening in 2020 due to the pandemic, gradual consolidation took

place in 2021-2022, but fiscal performance worsened again in 2023 as revenues declined amid economic contraction, and spending increased to address climate shocks and social unrest. Continued pressures from payroll, repeated support to Petroperú, and new spending measures without adequate revenues further weakened the fiscal stance during 2024.

The government plans a gradual consolidation in the medium-term to realign the deficit with fiscal rules, but new spending measures and tax base erosion without compensatory measures undermine the credibility and feasibility of this strategy and threaten fiscal sustainability. Meeting fiscal targets in 2025 and 2026 will require additional measures of around 0.4% of GDP, despite revenue gains from high metal prices. This could be achieved through stricter payroll control and phasing out inefficient diesel subsidies and tax expenditures. A stronger commitment to fiscal discipline is needed to protect Peru's reputation for sound macroeconomic management, ensure fiscal sustainability, and avoid higher borrowing costs and a loss of investment-grade status.

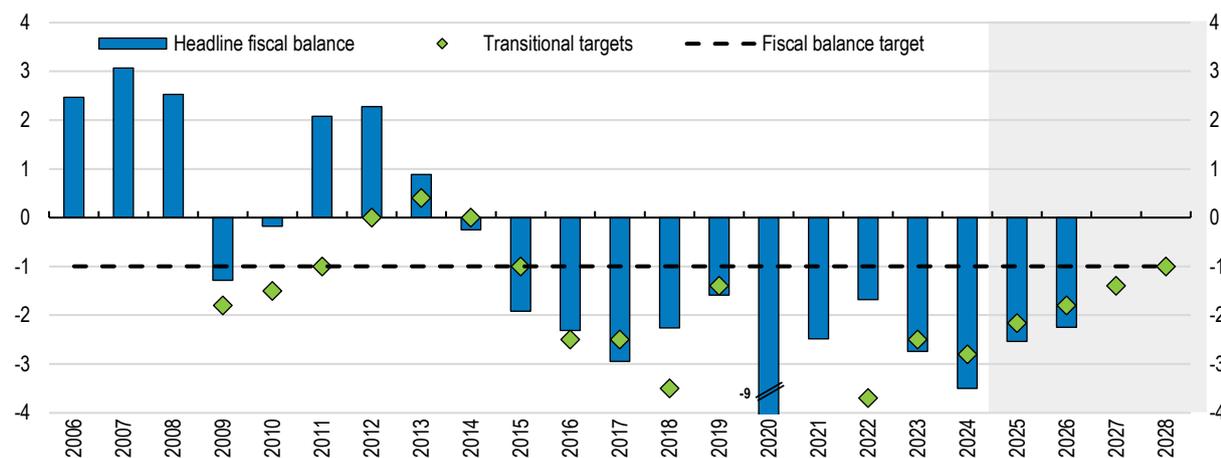
Peru's tax system needs deep reform to raise more revenues to finance social, infrastructure and adaptation and mitigation spending needs, while securing fiscal sustainability. Peru's tax revenues remain low at 17% of GDP in 2024, according to OECD data, well below regional and OECD averages, due to high evasion, informality, overreliance on indirect taxes and a narrow base. In the short term, efforts should focus on strengthening the tax administration and reducing inefficient tax expenditures. Simplifying the corporate tax system by merging the small and medium-sized enterprise regimes, would also reduce evasion, boost formalisation and productivity. In the

medium term, broadening the personal income tax base while reducing social security contributions for low-income workers would improve revenue and strengthen formalisation incentives. Improving revenue collection from property, excise, and environmental taxes would diversify revenues and make the system more efficient and equitable. This should be accompanied by reforms to raise long-term growth, supporting fiscal sustainability over time.

Weaknesses in budget planning, public investment management and procurement and subnational governance undermine the effectiveness of public spending. Reducing in-year budget changes and strengthening multiannual planning would improve the quality of spending. Prioritising investment based on standardised cost-benefit analysis is key for raising the impact of public investment. Corruption remains a major obstacle to Peru's economic and social progress, weakening government effectiveness, distorting public spending, and fostering organised crime. Stronger anti-corruption enforcement and the establishment of a National Integrity and Transparency System are needed to fully implement integrity policies, and strengthen coordination among integrity institutions. Implementing the civil service reform and strengthening judicial independence are also necessary steps to reduce corruption.

Figure 2. Fiscal discipline has deteriorated

Non-financial public sector fiscal balance, % of GDP



Note: The shaded area represents forecasts. Fiscal rules were suspended in 2020 and 2021. Targets for 2024 were revised during the year.
Source: MEF; OECD Economic Outlook.

StatLink  <https://stat.link/uh4o5i>

Supporting SMEs access to finance to drive investment and growth

Limited access to finance is holding back investment, productivity, and the transition to a more resilient and inclusive economy. Credit penetration remains low, and underdeveloped capital markets fail to offer alternative financing options. Micro, small, and medium-sized firms (MSMEs), which make up 99.4% of firms, struggle to access affordable credit (Figure 3), with high interest rates, collateral requirements, and few financing alternatives even when formal. Most firms are largely excluded from formal credit because they are informal. Taken together, this limits firms' ability to invest and grow. Reforms should focus on lowering financing costs, developing alternative funding sources tailored to the needs of both informal and formal MSMEs and deepening capital markets.

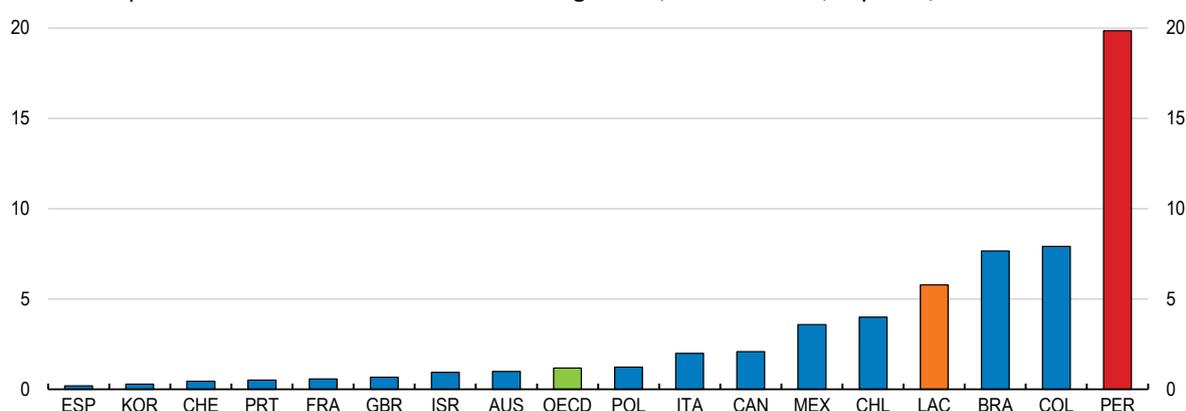
Broadening access to financing beyond traditional bank loans would strengthen the role of smaller firms

as quality job creators and enhance their contribution to innovation, productivity and the green transition. Informal firms—often unregistered and lacking credit histories—are excluded from formal credit and rely on informal lenders or microfinance. MSMEs face high interest rates, collateral requirements, and limited financing alternatives. Improving access to finance at affordable rates requires lowering financial intermediation costs. Credit risk assessment can be improved with new technologies that exploit systemwide information on financial histories shared via open banking. Credit guarantees can further reduce

risk premia by helping micro and small firms build a credit history, but should be targeted to priority sectors to be cost-effective and reduce moral hazard. Reducing administrative burdens, and promoting alternatives to bank loans such as factoring, leasing, hire purchases, and crowdfunding – and accommodating new market entrants offering such products, such as fintechs – would further enhance the supply of finance at competitive rates. These measures would also benefit informal firms by strengthening incentives to formalise and improving their access to more affordable credit, but they must be part of a broader strategy to tackle informality and boost productivity.

Figure 3. Costly credit limits smaller firms' growth

Interest rate spreads between loans to SMEs and to large firms, nominal rates, % points, 2022



Note: LAC is a simple average of Brazil, Chile, Colombia, and Mexico. SMEs including microenterprises.

Source: OECD, Financing SMEs and Entrepreneurs 2024.

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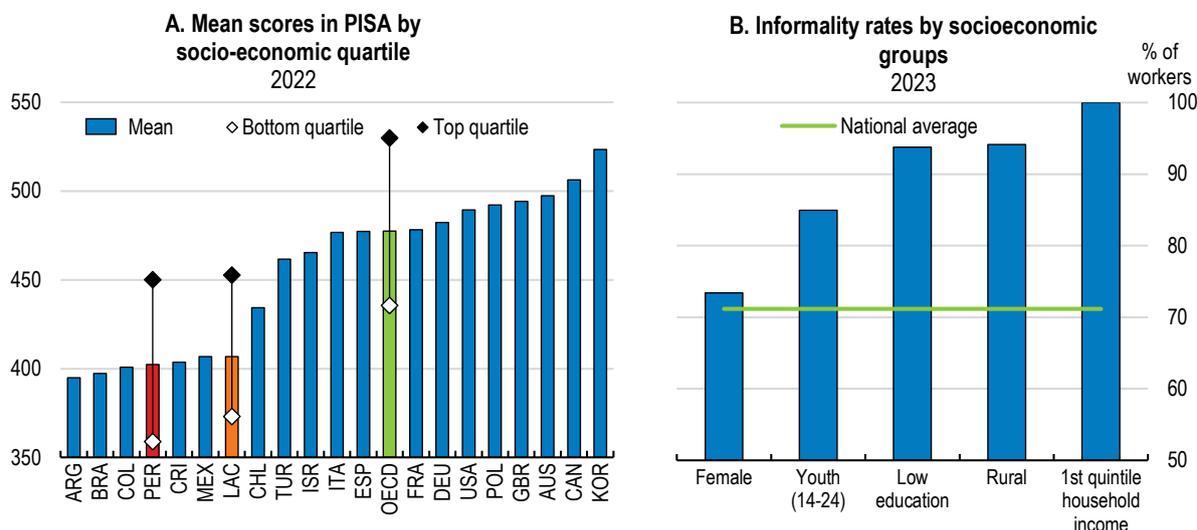
Deepening capital markets would complement bank lending and expand access to long-term finance for infrastructure, innovation, and climate investment. Low liquidity remains a major constraint, driven by a narrow investor base and limited tradable instruments. Supporting dynamic small and mid-sized firms with high growth potential through a business preparation programme to meet reporting and

governance standards would ease their market entry, increase the supply of tradable assets, and help unlock greater market liquidity. Stronger institutional capacity for the securities regulator (SMV) and better formal coordination mechanisms amidst financial regulators would improve the capacity to modernise supervision and enforce regulations effectively.

Promoting intergenerational social mobility to mobilise untapped human capital

Unlocking Peru's full potential requires giving everyone a fair chance to succeed, no matter their background. More children are attaining higher levels of education than their parents, but educational outcomes and access to high-quality formal jobs continue to be highly dependent on socioeconomic backgrounds (Figure 4). Translating education into better outcomes requires improving access to quality education from early years, stronger school-to-work transitions, closing labour market gender gaps, and improving access to formal jobs.

Figure 4. Socioeconomic background strongly shapes education and informality risks



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, and Mexico. Low education refers to completing primary education or less. Informality is defined as those in informal units or in formal units but without pension contributions or unpaid family worker.

Source: OECD, PISA 2022 Database; INEI, IDB SIMs database

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Gradually expanding access to high-quality early childhood education and care would have positive effects on children's future educational outcomes. This would be particularly beneficial to children from disadvantaged backgrounds, who are more likely to experience poor-quality early learning environments. It would also help close gender gaps by easing women's care burden and enabling greater participation in formal, better-paying employment. At the primary and secondary levels, efforts must focus on improving teaching quality and school infrastructure, while addressing rural-urban disparities and high dropout rates. Expanding coverage and improving the adequacy of conditional cash transfers linked to school attendance can help keep students in school and ensure education leads to better job opportunities.

Many young people, especially women and those in rural areas, struggle to transition into formal employment, with high not in employment, education or training (NEET) rates and informality limiting their prospects. Increasing enrolment in vocational

education and training (VET) is essential to improve job opportunities and break cycles of disadvantage. Establishing a unified VET framework should be a top priority to improve quality and oversight. Strengthening pathways within the VET system, expanding flexible, digital, and modular training, and scaling up skills certification and recognition of prior learning would help more youth, particularly from vulnerable backgrounds, gain relevant qualifications and access formal employment. Greater employer involvement in the design of curricula and promoting work-based learning would help align skills with labour market needs.

Unequal and lack of widespread access to formal jobs, particularly among rural populations and women, limits upward mobility. A comprehensive strategy is needed to tackle the drivers of informality. Replacing the current social contribution system, where rates vary by firm size, with a progressive structure based on workers' earnings—with lower rates for low-income workers—would strengthen incentives for

formalisation and firm growth, remove size-related disincentives, and remain fiscally neutral. Addressing informality would also help close gender gaps, as women are overrepresented in low-wage informal jobs.

Enhancing labour law and tax enforcement, lowering costs for formal firm creation, and supporting skill development and firm-productivity would all expand access to formal job opportunities.

Supporting the green transition

Peru is highly vulnerable to climate change. Building resilience and reducing greenhouse gas emissions requires a profound transformation of the economy. Meeting Peru's decarbonisation commitments rests on three main pillars: stopping and then reversing deforestation in the Amazon, decarbonising transport, and quadrupling the country's electricity generation capacity with renewable resources. Better implementation of adaptation plans and policies, including integration across sectors and levels of government, is key to building resilience and reducing vulnerability.

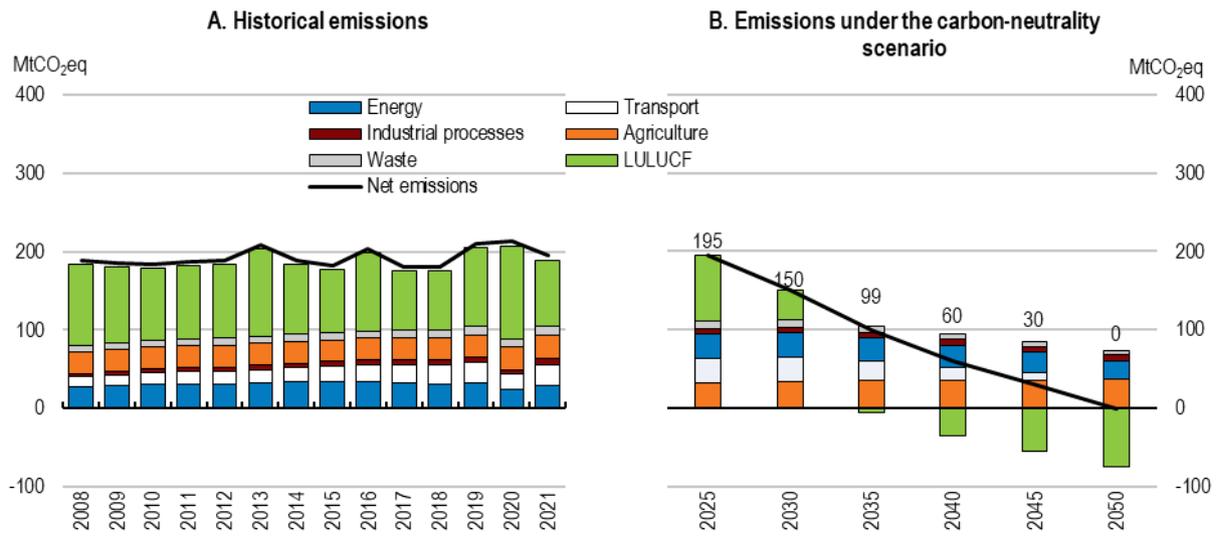
Peru has undertaken bold commitments to cutting emissions and building resilience to climate change, but these commitments need to be better reflected in sectoral or subnational plans and policies to ensure implementation. This requires clear operational targets for each sector, better horizontal and vertical coordination mechanisms with a focus on implementation of climate-related plans, policies and targets, strengthening institutional and administrative capacity, and making use of a greater set of available climate instruments.

The experience from recent rainfall anomalies and natural disasters exposes the need to strengthen adaptive capacity. Rising sea temperatures, changing rainfall patterns, floods, and glacial melting threaten liveability, infrastructure, and the food-producing sector of many Peruvian regions. Responding to fast-onset disasters requires strengthening the disaster risk management framework, early warning systems, and adaptation policies. To foster resilience in the most affected regions, land use and infrastructure planning and public investment need to integrate adaptation measures.

Ending deforestation in the Amazon is the most essential part of the envisaged path to meet Peru's decarbonisation targets (Figure 5). Deforestation contributes 50% of current emissions and is driven by the expansion of the agricultural frontier and informal and illegal logging, mining, and coca production. Tackling these causes requires a comprehensive strategy that involves better coordination across government entities and stricter enforcement, stronger property rights via simpler land titling and a modern land registry, more economic incentives including for reforestation, and empowered communities that are effective stewards of their forests.

Reducing emissions from fossil fuels and making transport emissions-free requires a massive expansion of electricity capacity from renewable energy. A recent reform of the Energy Law removed regulatory disadvantages that had stymied development of wind and solar projects for years. A fast implementation of the reform and an energy strategy that prioritises renewable energy generation, sending predictable price signals through a gradually implemented carbon tax and emissions trading system, and prioritising a fast implementation of the accumulated renewable project pipeline, should be a priority.

Figure 5. Peru must cut GHG emissions, especially deforestation, to meet its climate targets



Note: LULUCF stands for Land use, land use change, and forestry.

Source: OECD Environment Database; IDB (2021), Costos y Beneficios de la carbono-neutralidad en Perú: Un análisis robusto.

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MAIN FINDINGS	KEY RECOMMENDATIONS
Improving the macroeconomic framework	
Informality affects over 70% of workers and remains a major obstacle to sustainable growth. It limits access to social protection, reduces productivity and tax revenues, and reflects deeper structural issues such as weak institutions, poor tax design, and gaps in education and skills.	Establish a comprehensive strategy to foster formalisation, including lower non-wage labour costs, particularly for low-income workers, better skills, stronger law enforcement, simplified labour market and businesses regulations, and more effective and transparent governance.
Inflation has eased and is currently within the Central Bank's 1–3% target range but remains exposed to risks from domestic political instability and global economic uncertainty.	Maintain a cautious and data-dependent broadly neutral monetary policy stance.
Peru's fiscal position has deteriorated post-pandemic, with persistent fiscal deficits, and a second consecutive year of fiscal rule non-compliance in 2024. Meeting the fiscal targets over 2025 and 2026 will be challenging, amid rising spending and tax base erosion.	Strengthen compliance with the fiscal rule through a credible consolidation path focused on curbing spending, particularly public sector payroll, phasing out inefficient subsidies and reduce tax expenditures to ensure debt converges toward target.
Peru's tax-to-GDP ratio remains low at 17%, due to widespread evasion, informality and a narrow tax base, with revenue losses exceeding 10% of GDP in 2023 and tax expenditures at 2.2% of GDP in 2024. The coexistence of multiple SME regimes in the CIT system fosters tax arbitrage, incentivizing firms to stay small and informal.	Mobilise additional tax revenue by strengthening the tax administration, reducing tax expenditures, and streamlining corporate tax regimes for small businesses.
Weaknesses in budget planning, public investment management and procurement and subnational governance undermine the effectiveness of public spending, limiting progress on social outcomes and infrastructure despite relatively high public investment. Up to 40% of public investment can potentially be used more efficiently.	Improve spending efficiency by strengthening budget planning and execution, enhancing project selection through standardised cost-benefit analysis and reforming subnational transfers to better align resources with needs and performance.
Corruption remains a major obstacle, costing an estimated 2.4% of annual GDP undermining service delivery, trust in institutions and the effectiveness of public spending, particularly at subnational levels. Despite strong anti-corruption policies, weak enforcement, fragmented oversight and limited judicial capacity hinder progress.	Establish a National Integrity and Transparency System and advance complementary reforms in justice, civil service, and public sector oversight to strengthen anticorruption enforcement across all levels of government.
Supporting SMEs access to affordable finance	
Small firms face high borrowing costs because of difficulties assessing credit risk due to high informality, lack of credit history, high transaction costs, and limited collateral. Open banking, which enables secure data sharing across financial institutions, is only partially implemented.	Expand credit guarantee schemes and accelerate the implementation of open banking to strengthen the availability and quality of information to improve risk assessments.
The security regulator (SMV) lacks sufficient institutional capacity and operational independence, limiting its effectiveness. Coordination with other financial regulators is effective but mostly informal.	Strengthen the capacity of the securities regulator (SMV) and formalise coordination with financial system, insurance sector, and private pension funds regulator (SBS) and the Central Bank to ensure effective market supervision and coherent policy implementation.
Enhancing equal opportunities to break intergenerational traps	
Low coverage and modest benefits of the conditional cash transfer programme Juntos limits its impact on poverty and school dropouts' reduction.	Expand coverage of the conditional cash transfer programme Juntos, linking it to school attendance.
VET remains underutilised in Peru, with only 2% of youth aged 15 to 24 enrolled. The system is fragmented, lacks clear pathways within VET or to higher education, and varies in quality, limiting its potential to support skills development and upward mobility.	Establish a coordinated, coherent, and systematic governance framework for VET, enforcing consistent quality standards, regulatory oversight and define clear pathways to higher education.
Persistent gender gaps in labour market participation, driven by unequal caregiving responsibilities and limited access to formal jobs, undermine women's ability from translating education into upward mobility.	Gradually roll out accessible, affordable, and high-quality early childhood education and elder care services, prioritising vulnerable populations, disadvantaged areas, and children under age three.
Supporting the green transition	
The Framework Law on Climate Change and national adaptation and mitigation plans are often not reflected in sectoral or subnational policies and plans.	Strengthen horizontal and vertical coordination mechanisms and institutional and administrative capacity, and ensure that climate-related plans and policies are systematically integrated into sectoral and subnational planning and investment decisions.
Peru is highly vulnerable to climate change, especially water-related hazards, including rising sea temperatures, changing rainfall patterns, floods, and glacial melting.	Strengthen the disaster risk management framework and its links with the National Adaptation Plan by expanding early warning systems, improving community outreach and building local technical capacity.
Deforestation of the Amazon forest is a major source of GHG emissions, driven by the expansion of the agricultural frontier and informal and illegal logging and mining.	Develop and implement a national strategy to reduce deforestation, including improved cross-agency coordination, capacity building, improved enforcement, stronger forest land property rights, and economic incentives for forest preservation and community involvement.
Only 5% of total energy production comes from wind and solar, despite high potential. The Energy Law until December 2024 disincentivised renewables due to requirements on continuous power availability.	Accelerate the implementation of the Energy Law reform, ensuring clear secondary regulations and incentives to enable grid access for renewables.
Financing needs for climate change mitigation and adaptation are significant but there is no comprehensive investment plan or funding strategy in place.	Undertake a comprehensive assessment of investment needs for mitigation and adaptation and develop an integral funding strategy, including from international climate funds and private capital markets.



1 Achieving strong growth and safeguarding fiscal sustainability

Paula Garda, OECD

Annual real GDP growth averaged 3.7% of GDP between 2008 and 2024, among the fastest in Latin America. Inflation is well-anchored within the central bank's target band, reflecting strong institutional credibility. Growth is expected to remain moderate due to global and domestic uncertainties and persistent structural challenges: low potential growth, stagnant productivity, high informality, and weak private investment. Fiscal discipline has weakened, with repeated breaches of fiscal rules, rising spending measures without adequate financing, and new tax expenditures that erode the tax base. Structural reforms to tackle informality, boost tax revenues, improve spending efficiency, and strengthen the macro-fiscal framework are needed to support long-term growth and fiscal sustainability.

1.1. Resilient and steady growth amid rising risks

The Peruvian economy has shown resilience amid a series of domestic and global shocks. Real GDP growth averaged 3.7% of GDP between 2008 and 2024, one of the highest in Latin America. Inflation surged in 2022 but has since returned within the central bank's target band, reflecting the institution's strong credibility. Peru's Emerging Markets Bond Index (EMBI) spread remains relatively low and stable reflecting markets' perception of Peru as a comparatively stable credit risk among emerging economies, likely due to the strong external position, the relatively low public debt-to-GDP ratio, and the credible inflation-targeting framework.

Despite this strong track record, growth is expected to remain moderate in the next two years amid mounting macroeconomic and fiscal risks. Peru's potential growth is low and has declined since the end of the commodity boom, held back by weak private investment, stagnant productivity, widespread worker and business informality and a large female labour force participation gap, particularly in STEM areas, and an even distribution of unpaid domestic and care responsibilities. Informality remains a major obstacle to sustainable growth and development: it both reflects and reinforces low productivity, weak institutions, poor tax design, burdensome regulations, and gaps in education and skills. It also undermines firms' incentives to invest and innovate, erodes government revenues, limits the provision of public services, weakening trust in government. A deteriorating fiscal position and repeated breaches of fiscal rules risk undermining investor confidence, potentially raising borrowing costs and worsening the debt outlook. Ensuring fiscal sustainability is increasingly challenging amid significant social and infrastructure expenditure needs. Strengthening the macroeconomic framework, advancing structural reforms and improving institutions and administrative capacities to design, implement, and enforce reforms are needed to restore fiscal sustainability and lift long-term growth.

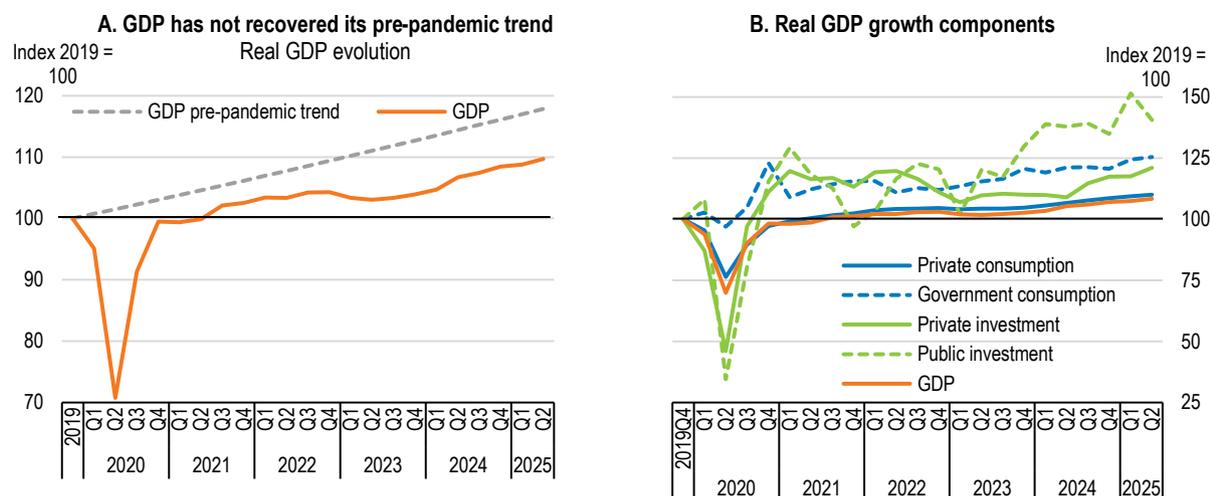
1.1.1. Growth rebounded in 2024 driven by public spending and external tailwinds

After a contraction of 0.4% in 2023, Peru's economy expanded by 3.3% in 2024. Several shocks in 2023, including social protests and weather-related anomalies, caused a significant slowdown, largely due to a sharp decline in private investment. The recovery in 2024 was driven by public expenditure and robust private consumption. Headline inflation has fallen back to the 2% mid-range of the inflation target band since May 2024. Lower inflation and higher employment boosted household spending in 2024. Public investment experienced a notable increase of 14.7% in 2024, reflecting both a recovery from the low base of 2023 and a temporary boost linked to reconstruction efforts following 2023's weather shock as well as improved budget execution by all levels of government. A higher public sector wage bill supported current expenditure. Improved business confidence and gradual monetary easing led to a moderate recovery in private investment. The normalisation of weather conditions benefited fisheries and agriculture, enhancing output and exports in these sectors. High global prices for gold and copper bolstered mining exports. Real imports increased in 2024, supported by higher private consumption and public investment. In the last quarter of 2024, GDP growth accelerated to 4.2% year-on-year. The momentum continued into early 2025, with GDP growing by 3.4% year-on-year in the first half of 2025, as stronger private consumption and investment were partly offset by weaker exports and higher imports. Despite these positive developments, economic activity remains still far below the level it would have reached had it followed its pre-pandemic trend (Figure 1.1).

Despite recent improvements, economic policy uncertainty and poor policy settings hold back investment. Total investment rates, as a percentage of GDP, declined in 2023 and 2024, continuing a trend that began a decade ago with the end of the commodity boom, primarily due to weak private investment (, panel A). Private investment started picking up in the second half of 2024 and gained momentum in the first half of 2025, supported by newly awarded Public-Private Partnerships (PPPs), improved business confidence, looser financial conditions (Figure 1.2, Panel B and C) and the government's to cut bureaucratic barriers. However, economic policy uncertainty remains high since the pandemic, coupled with more recent international uncertainty (Figure 1.2, panel D). Even before the pandemic, uncertainty was high compared to most LAC countries, due to recurring political instability driven by political fragmentation and frequent government and congress changes, and social conflicts in mining regions (IMF, 2024^[1]; World Bank, 2025^[2]). Regulatory unpredictability, weak rule of law, institutional instability, corruption, prolonged tax and legal disputes, and inadequate infrastructure are often cited as obstacles for domestic and foreign investment. In addition, weak administrative capacities and burdensome and unevenly enforced regulations

at the subnational level, increase transaction costs and reduce the predictability of the business environment. Public investment efficiency also remains a concern (as discussed below), requiring reforms to improve its quality.

Figure 1.1. The recovery has been driven by public expenditure but activity remains below its pre-pandemic trend



Note: All series are seasonally adjusted. In panel A, 2019 refers to annual data. The pre-pandemic trend is defined as the average quarterly growth rate over 2017-2019.

Source: OECD Economic Outlook database; BCRP.

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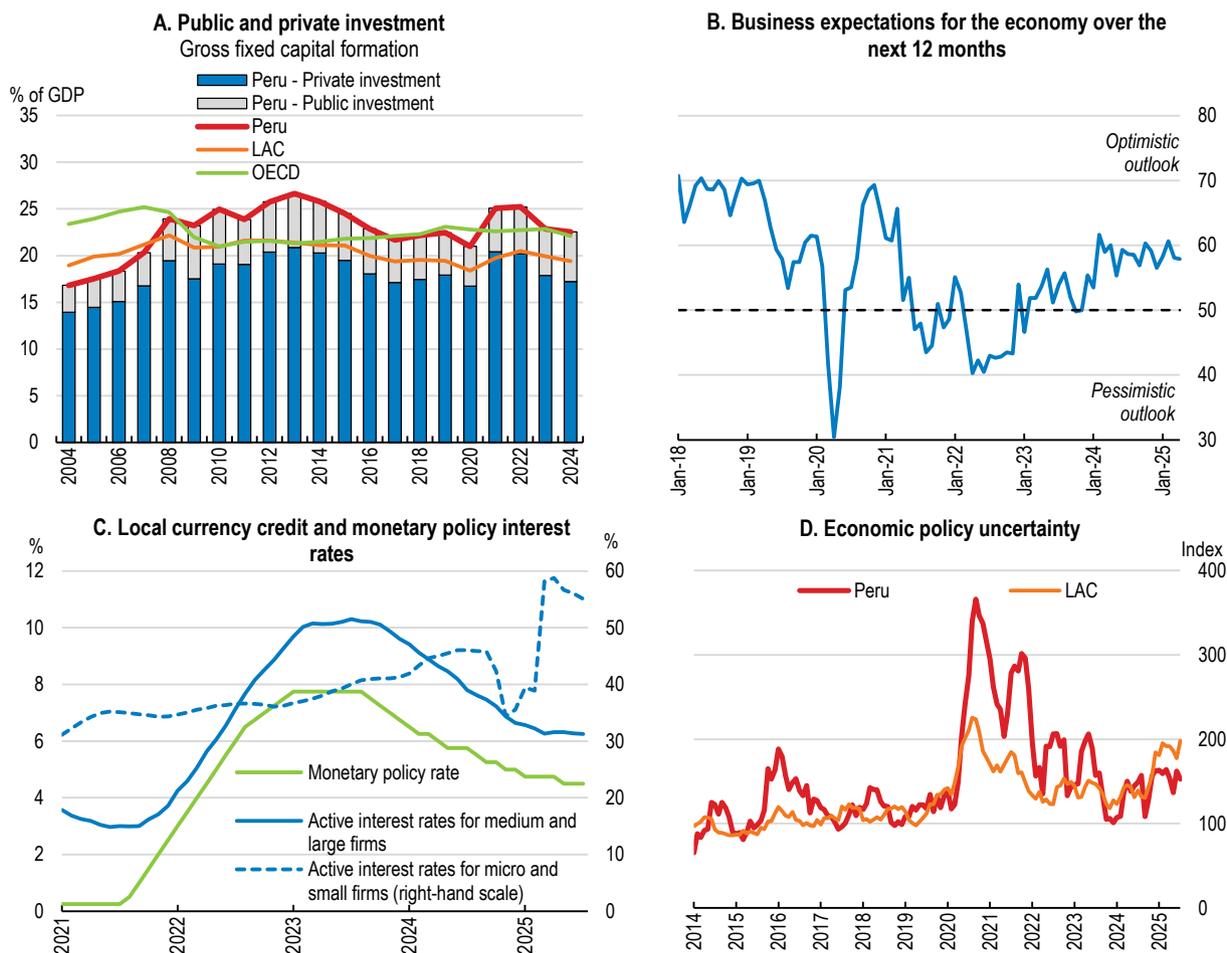
The labour market has recovered more slowly than overall activity. Following a recession-related sharp slowdown in job creation in 2023, total employment grew just by 0.8% in 2024 (Figure 1.3 Panel A). Unemployment stood at 5.9% in the second quarter of 2025, same rate observed in Q2-2024, but still above the pre-pandemic rate of 3.6%. The gender gap in unemployment has widened since the pandemic (Figure 1.3, Panel B), and participation rates, particularly among women, remain below pre-pandemic levels (Figure 1.3, Panel C). Labour market conditions have deteriorated particularly for youth (ages 14–24): youth employment declined significantly in 2024, and the modest recovery in formal employment did not benefit young workers. The share of young people aged 15-29 not in employment, education, or training (NEET) was 23%, well above the OECD average of 13% in 2023, according to OECD data. Pandemic-related school closures and disruptions in remote learning contributed to higher dropout rates leading to skill gaps among young labour market entrants. On a positive note, real wages increased by 2.7% year-on-year in 2024, although they remain still below pre-pandemic levels.

Widespread and persistent informality is a defining feature of Peru's labour market, affecting 71% of workers in 2024, well above the average of 44% in the 6 largest Latin American countries (Figure 1.4). It limits access to productive, high-quality jobs, social protection, and skill development, and hinders social mobility across generations (Chapter 3). Despite an increase of formal employment, as measured by electronic payrolls, — up by 2.7% in 2024 and a further 6% year-on-year in the first quarter of 2025 — informality remains entrenched, especially among rural, young, female, and low-income workers (Figure 1.3, Panel A). Informality both stems from and reinforces a range of structural, institutional, and policy weaknesses—including low worker and firm productivity, weak enforcement of labour and tax regulations, limited state capacity, inadequate skills, and burdensome administrative procedures. Peru's high informality persists despite policies aimed at promoting formalisation—such as reduced social contributions and simplified tax regimes for SMEs—because these measures have often created perverse incentives for firms to stay small and informal, as discussed later in this chapter.

The multidimensional nature of informality calls for a comprehensive strategy to tackle it, as highlighted in the 2023 *OECD Economic Survey of Peru*. Such a strategy needs to combine reforms to shift from firm-size-based to labour income-based social contribution schemes to lower non-wage labour costs for low-income workers and avoid

disincentives for firms to grow and be formal, strengthen skills and legal and law enforcement, simplify labour market and businesses regulations and reinforce the rule of law and institutional accountability, while also reforming the tax system—particularly the schemes for smaller firms—to incentivise formalisation. Peru has proposed measures to address informality in the 2024–2030 Competitiveness and Productivity Plan, including simplified tax and labour regimes for small firms, digitalisation and strengthening labour inspections and employment services, with limited progress on implementation.

Figure 1.2. Private investment is recovering but remains constrained by uncertainty



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, and Mexico. Panel D: Data represent 6-month moving averages and incorporate the domestic and foreign press coverage.

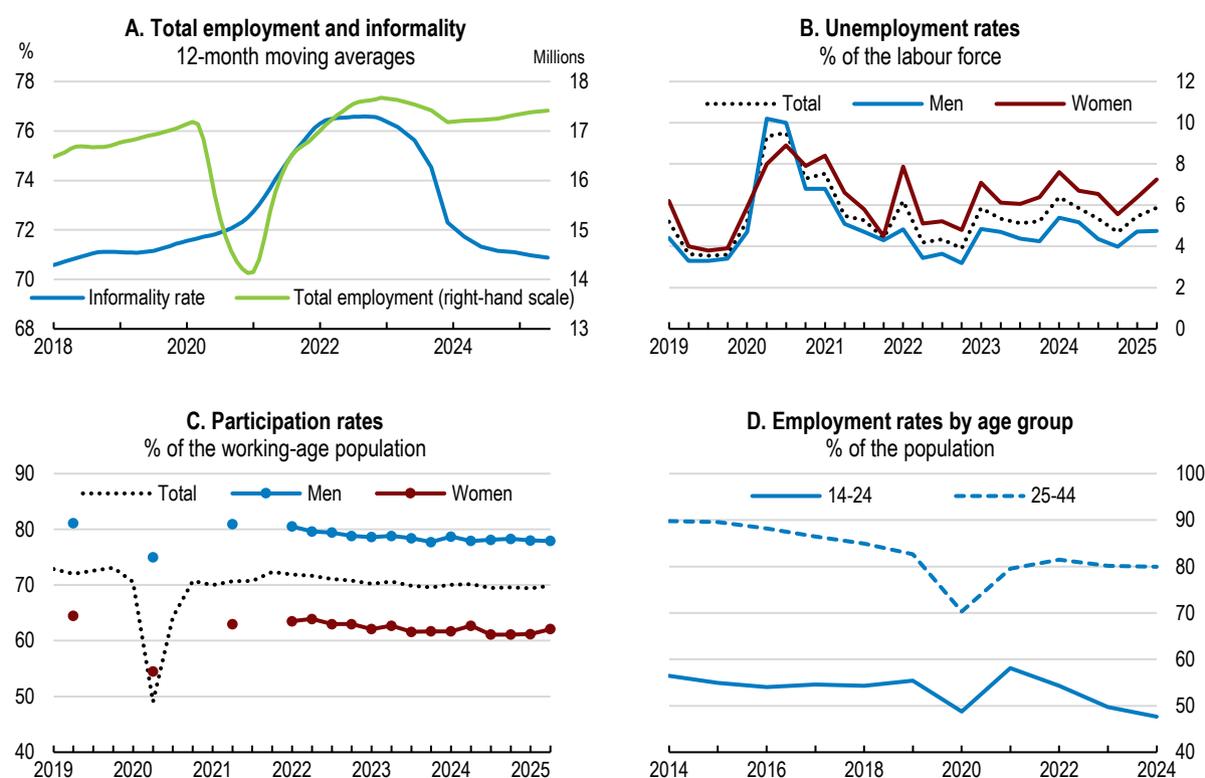
Source: OECD Economic Outlook database; BCRP; Banco de España.

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Poverty in Peru fell to 27.6% in 2024 from 29% in 2023, when it had risen due to high food inflation and economic recession, but it remains well above the pre-pandemic rate of 20%. Rural poverty is now below pre-pandemic levels, while urban poverty remains over 10 percentage points higher; however, rural extreme poverty, at 15% in 2024, is above pre-pandemic levels. Increases in urban poverty have been concentrated in Lima. The vulnerable population—those just above the poverty line—remains broadly unchanged, at 32% in 2024 compared to 33% in 2019, while the middle class has shrunk from 42% to 37% (Macroconsult, 2025^[3]). These trends reflect persistent informality, unemployment above pre-pandemic levels and weak upward mobility.

Peru's external sector provided important support to economic activity in 2024 through stronger trade and financial inflows. The current account surplus widened from 0.3% of GDP in 2023 to 2.2% in 2024 (Figure 1.5, Panel A), driven by improved terms of trade, a rebound in tourism, and rising remittances. The goods trade balance reached a record surplus of 9% of GDP in Q4-2024, supported by high prices for key exports, particularly copper, gold, and fishmeal, which together account for 48% of total exports (Figure 1.5, Panel D). Terms of trade improved significantly in 2024, as Chinese stimulus policies boosted industrial demand for commodities, while uncertainty increased global demand for gold as a safe-haven asset. Meanwhile, lower oil prices kept import costs contained. Remittance inflows continued to grow in 2024, driven by stronger labour markets in the United States, Chile, and Spain, supporting domestic consumption. On the financial side, net capital inflows, particularly foreign direct investment (Panel B) remained strong. In the second quarter of 2025, the current account remained in surplus at 0.9% of GDP. While terms of trade stayed strong, the trade surplus narrowed as imports grew faster than exports, offset by sustained inflows of remittances and foreign direct investment. However, Peru's export base remains concentrated—both in products, with mining accounting for around 60% of goods exports, and in destinations, with China absorbing more than 35% of total exports—leaving the external sector vulnerable to price and demand shocks.

Figure 1.3. The labour market recovery has been slow and labour market conditions for women and youth have worsened

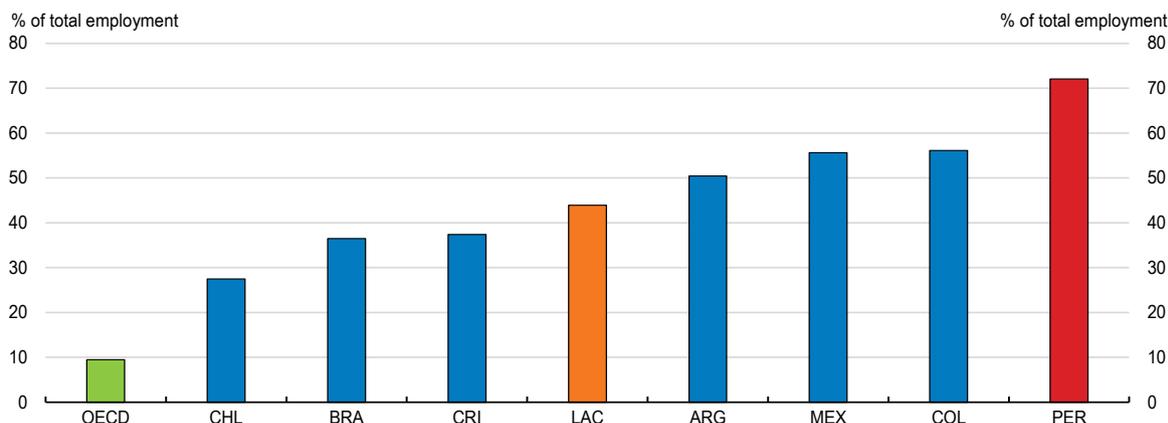


Note: In Panel B, data until 2021 come from the Encuesta Nacional de Hogares. From 2022, from the Encuesta Permanente de Empleo Nacional.
Source: INEI, Encuesta Nacional de Hogares; INEI Encuesta Permanente de Empleo Nacional.

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Figure 1.4. Labour informality is widespread in Peru

Informal employment rates, 2024 or latest year available

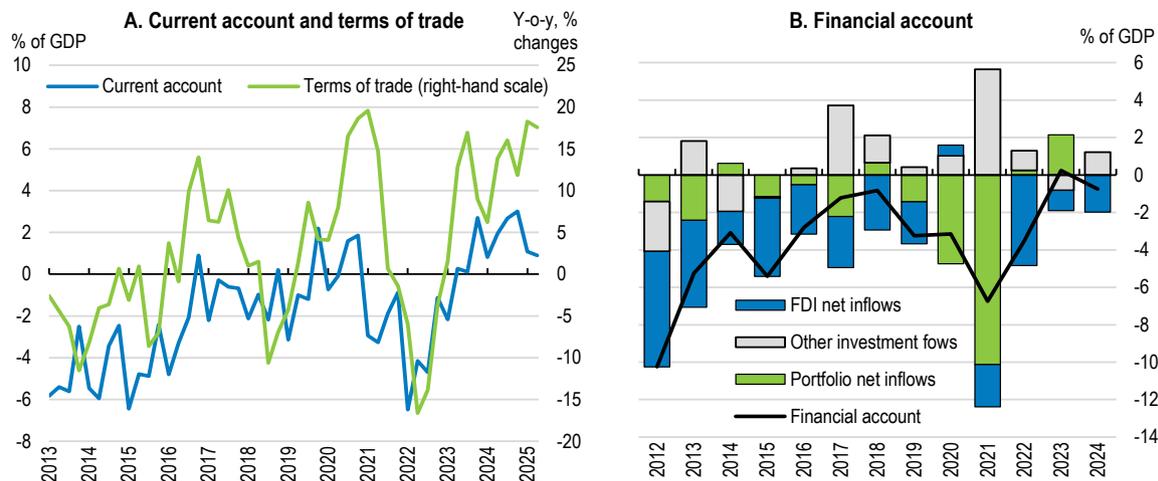


Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico. Informal workers are defined as: self-employed in informal enterprises, contributing family workers, members of informal cooperatives, and employees without formal job contracts or social protection, including domestic workers.

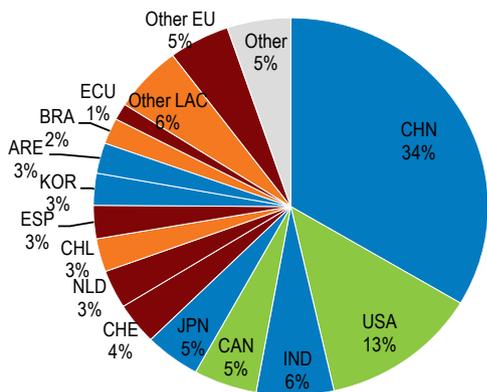
Source: ILO.

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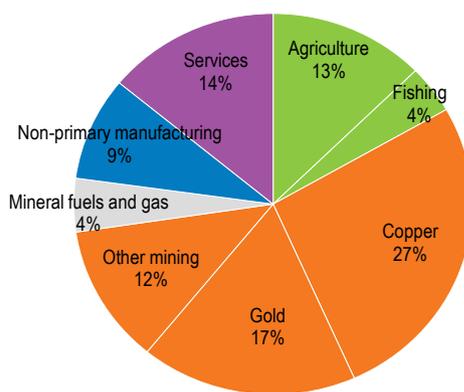
Figure 1.5. Higher terms of trade strengthened Peru’s current account



C. Exports of goods by destination, 2024



D. Exports of goods and services, 2024



Source: BCRP; UN Comtrade.

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1.1.2. Economic growth will be modest

GDP growth is expected to slow to 2.8% in 2025 and 2.6% in 2026, while inflation is expected to stay around the 2% target (Table 1.1). Global and domestic uncertainty will keep growth moderate by weakening business and consumer confidence. Government initiatives to accelerate PPPs together with streamlined burdensome regulations (Box 1.1), and low inflation will partly offset these effects by supporting private investment and consumption. Government consumption and public investment growth are expected to moderate, reflecting a shift towards fiscal consolidation. Peru's terms of trade are expected to remain high, supporting its external position. However, export growth will weaken reflecting the direct impact of new US tariffs on Peruvian products and the broader drag from weaker global growth.

Table 1.1. Economic growth will remain modest

Annual percentage change unless specified, volume (2007 prices)

	2021	2022	2023	2024	2025	2026
-GDP at market prices	13.2	2.8	-0.4	3.3	2.8	2.6
Private consumption	12.5	3.3	0.1	2.7	2.9	2.7
Government consumption	5.5	0.0	3.3	3.5	4.2	1.9
Gross fixed capital formation	33.7	0.7	-5.6	5.2	7.4	2.1
Stockbuilding ¹	0.0	0.3	-1.0	0.6	0.4	0.3
Total domestic demand	16.1	2.6	-1.8	4.1	4.5	1.3
Exports of goods and services	14.1	4.4	3.8	5.3	9.9	2.4
Imports of goods and services	25.2	3.5	-1.7	7.9	10.2	2.1
Net exports ¹	-2.1	0.4	1.6	-0.8	-1.8	-0.3
Memorandum items						
GDP deflator	10.0	4.6	6.3	5.1	4.8	2.8
Consumer price index (average)	4.0	7.9	6.3	2.4	1.7	2.0
Core inflation index ² (average)	2.2	4.7	4.4	2.9	2.0	2.0
Potential growth	1.2	1.4	1.6	2.2	2.6	2.6
Output gap (% of GDP)	-1.2	0.2	-1.8	-0.8	-0.5	-0.6
Unemployment rate (% of labour force)	6.2	4.7	5.4	5.6	5.4	5.2
Current account balance (% of GDP)	-2.3	-4.1	0.3	2.2	1.9	2.3
Government fiscal balance (% of GDP)	-2.5	-1.7	-2.8	-3.5	-2.5	-2.2

1. Contributions to changes in real GDP, actual amount in the first column. 2. Consumer price index excluding food, regulated utilities, and fuel prices. Source: OECD Economic Outlook database based on INEI data. Updated August 2025.

Box 1.1. The government's deregulatory package to drive investment

In March 2025, the government launched a deregulatory package ("*shock desregulatorio*") to streamline procedures, reduce overregulation, and facilitate investment. The package includes 402 measures across three pillars: deregulation and regulatory quality, administrative simplification, and more efficient legislative and public sector management. Key actions include:

- Elimination of nearly 300 national government's bureaucratic barriers declared illegal or unreasonable by INDECOPI, Peru's national competition and intellectual property authority, with a commitment to remove any future barriers INDECOPI may identify and quarterly reviews to continuously identify and remove emerging regulatory obstacles.
- Incentives for subnational governments for the standardisation of prioritised administrative procedures and the elimination of bureaucratic barriers at the subnational level, targeting over 1,800 identified regulatory barriers and disincentivising the creation of future barriers.

- Operationalising the already existing Movable Collateral Registry to improve SMEs' access to credit.
- Relaunch of investment monitoring roundtables dedicated to overseeing and facilitating the execution of investment projects. These teams will focus on ensuring that projects progress, addressing any obstacles that may arise during implementation.
- Promotion of positive administrative silence (Silencio Administrativo Positivo) by replacing negative silence in most procedures and enabling automatic online certificates for approvals under positive silence.
- Reform bill to simplify existing SMEs regimes, promote the declaration of expenses, including payroll expenses, and reduce the cost of tax compliance in order to reduce informality. The proposal is still under development.
- A Public-Private Partnership reform bill in Congress to overhaul the public-private investment framework, streamlining project preparation and reducing delays.

The package is welcome as it seeks to reduce excessive regulation, a long-standing constraint on investment and project execution, particularly in infrastructure and mining, where permitting delays have stalled implementation. While the measures could support investment, firm growth and formalisation, their full impact will depend on timely approval of legislative reforms and effective enforcement, implementation and coordination across government levels. These measures should be accompanied by sustained political commitment and alignment with broader progress on structural reforms in justice, public administration, and education as discussed elsewhere in this Survey.

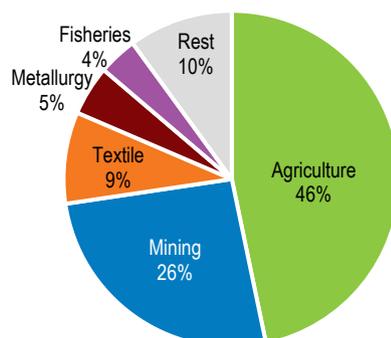
1.1.3. Risks around the outlook are tilted to the downside

Risks and uncertainties remain substantial and tilted to the downside (Table 1.2), but Peru has ample buffers. Externally, risks remain significant. A sharper than expected slowdown in China, Peru's main trading partner, would weaken demand for key exports, lower commodity prices, particularly copper, government revenues and investment. Copper, the country's main export, accounts for nearly 30% of Peru's total exports (Figure 1.5, Panel D) and contributes to fiscal revenues, especially through corporate income tax and royalties from large mining operations. A drop in copper prices would worsen the trade balance, strain public finances, and delay planned mining investments, with broader spillovers to growth and employment, particularly in mining regions. Stricter immigration policies or economic slowdowns in key remittance-sending countries, such as Spain, the United States, or Chile, could limit remittances growth.

Rising global protectionism and trade tensions, particularly from the US, create additional uncertainty and may trigger a broader slowdown in global demand, potentially disrupting Peru's commodity-dependent exports and deterring investment. In April 2025, the United States imposed a 10% tariff on most Peruvian imports, followed in July 2025 by a 50% tariff on semi-finished copper products such as pipes and wires, while raw copper—the bulk of Peru's mining exports—remains exempt. The United States accounted for 12.6% of Peru's goods exports in 2024, with mining products amounting less than 10% of these shipments. Higher tariffs are expected to weigh on key sectors such as agroindustries (Figure 1.6), reducing total exports. There is also a risk of new US tariffs targeting Peruvian exports such as raw copper which would further weigh on trade and investment prospects, especially given Peru's high exposure to external shocks despite low average tariffs and a broad network of trade agreements that cover 90% of its trade. The impact of US tariffs on Peruvian exports may be partially mitigated by seasonal agricultural export patterns. Peruvian goods could also gain an advantage in the US market if they compete with products from countries facing tariffs above 10%. Trade diversion may also offer further benefits, but realising these gains requires addressing non-tariff barriers—such as poor infrastructure quality, weak logistics networks, and regulatory inefficiencies—that currently limit firms' ability to scale up and redirect trade flows quickly. Tackling these bottlenecks is equally critical to supporting broader trade diversification and enhancing export resilience. Diversifying the export base also requires promoting higher-value-added sectors and expanding access to new markets. Peru is actively pursuing new trade agreements with El Salvador, India, Indonesia, Thailand, and Uruguay.

Figure 1.6. Some sectors are highly exposed to the United States

Exports to the United States by sector, %

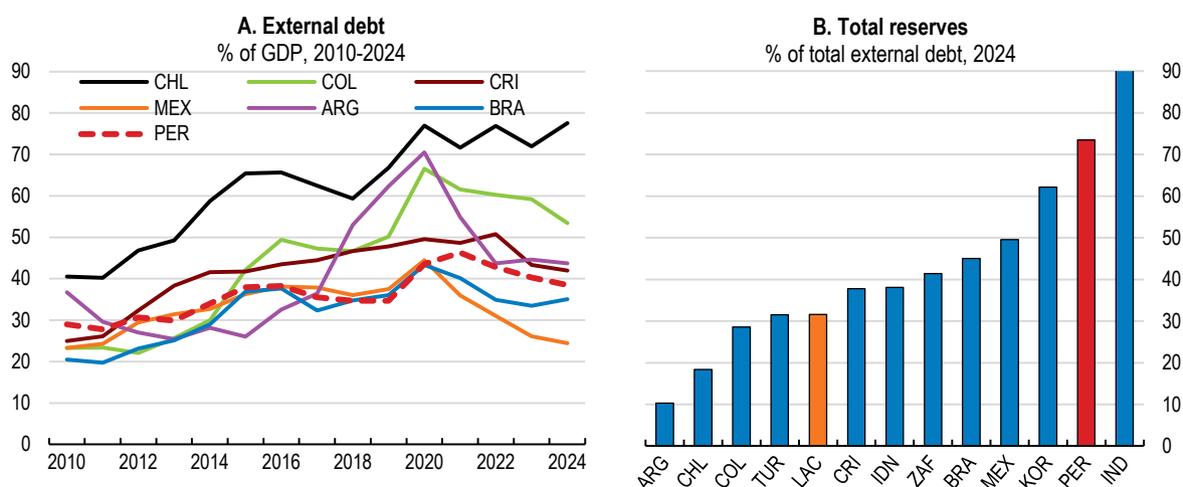


Source: Ministerio de Comercio Exterior y Turismo, *Reporte Mensual de Comercio Exterior*, March 2025.

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Financial market volatility poses an additional risk. A decline in global risk appetite could trigger capital outflows, raise sovereign bond spreads and financing costs. This could lead to exchange rate depreciation, tightening credit conditions and weighing on investment and growth. Additionally, a sudden currency depreciation could lead to an increase in the public debt-to-GDP ratio and worsen balance sheets for firms with unhedged exposures (see next section). Nonetheless, Peru's strong external position including moderate external debt, substantial foreign exchange reserves, a sound financial sector, and a sustainable current account balance, provide important buffers to absorb shocks (Figure 1.7).

Figure 1.7. Peru's external position remains strong



Note: LAC is a simple average of Chile, Colombia, Costa Rica, Mexico, Argentina, and Brazil.

Source: IMF World Economic Outlook April 2025; IMF International Financial Statistics.

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Domestically, political uncertainty remains a key risk, which could be intensified as the 2026 general elections approach, dampening investor confidence and delaying reform implementation. Since 2016, Peru has had six presidents and frequent ministerial and congressional turnovers. Political fragmentation, reflected in over 40 parties registered for the first round in upcoming elections could hamper consensus on pro-growth reforms. Uncertainty may intensify as parties try to differentiate themselves and capture fragmented voter bases. While the recent approval of a bicameral legislature with separate lower and upper chambers may improve legislative processes and add more checks and balances, it is unlikely to fully resolve political fragmentation.

Table 1.2. Events that could lead to major changes in the outlook

Uncertainty	Possible outcome
Sharp escalation of international trade tensions leading to abrupt global slowdown or recession, including in China, accompanied by global financial market disruptions	Diminished demand for key Peruvian commodities, lower export prices, falling terms of trade, reduced export revenues, and weaker fiscal revenues. Capital outflows leading to currency depreciation, complicating financing conditions for both the public and private sectors. Collectively, these factors would lead to abrupt slowdown.
Escalating political uncertainty ahead of the 2026 elections and organised crime could undermine investment and growth.	Heightened political uncertainty, particularly ahead of the 2026 elections, rising organised crime—particularly extortion- and security concerns coupled with escalating social unrest could delay investment decisions, weaken business confidence, and disrupt policy implementation. Social unrest can disrupt key economic sectors, such as mining and tourism, resulting in substantial economic losses. Higher security costs for businesses and increased social instability could negatively affect the private sector.
Extreme events caused by climate change, including a strong El Niño weather phenomenon.	A severe El Niño event could reduce GDP growth, disrupting agriculture and mining production, increasing food and water insecurity, and raise inflationary pressures. Higher fiscal spending on disaster response and reconstruction could impact fiscal sustainability.

Rising crime and security concerns in Peru could revive social unrest and hurt investment and tourism, potentially undermining economic growth. Illegal activities such as extortion, illegal mining, especially of gold, and drug trafficking are estimated to account for 3%-4% of Peru's GDP (Aragón and Ruiz, 2024^[4]). Extortion cases surged by 370% between 2021 and 2023, particularly affecting micro, small and medium-sized enterprises (TheWorld, 2024^[5]). The increase in criminal activity raises businesses' operational costs, disrupts business activity and deters tourism, a key export.

Climate-related shocks, particularly El Niño events, continue to pose a serious threat to Peru's economy. More frequent and intense weather events, such as droughts or floods, disrupt agriculture, damage infrastructure and strain water systems. These events can also trigger inflationary pressures and weigh on tourism and transport. For example, El Niño caused losses estimated at 1.6% of GDP in 2017 (Andrian et al., 2024^[6]), and reduced GDP growth by 1.1 percentage points in 2023 (BCRP, 2023^[7]). Even moderate El Niño events can diminish GDP growth by approximately 0.2 to 0.5 percentage points in the immediate months of impact (Andrian et al., 2024^[6]).

On the upside, faster-than-expected growth in China or globally, or sustained higher copper prices could lift near term growth. Recently announced deregulation measures, if implemented effectively, could help crowd in private investment more than currently expected. Additionally, the new Chancay mega-port could enhance trade flows and boost logistics efficiency and attract further investment, though realising these benefits will require additional investment in infrastructure, logistics, and workforce skills.

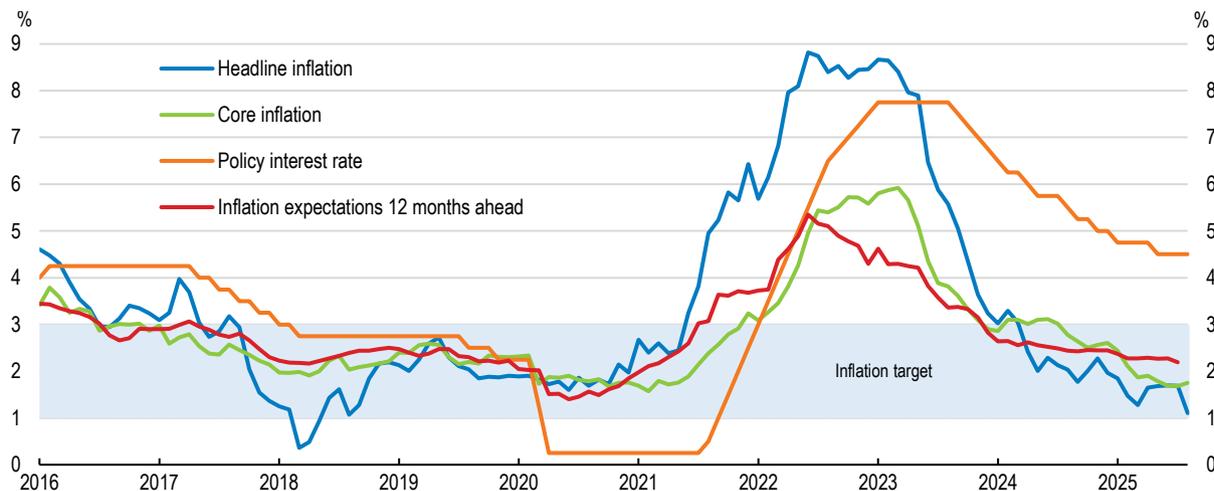
1.2. Monetary policy has brought inflation back to target

Peru's inflation targeting framework—anchored by an independent central bank and a 2% ± 1 percentage point target—has remained effective and credible since its adoption in 2002. The central bank (*Banco Central de Reserva del Perú*, BCRP) combines interest rate policy with active foreign exchange interventions and differentiated reserve requirements to manage liquidity and mitigate risks arising from high financial dollarisation, including currency mismatches and external shocks. Although the Central Bank is independent and its governance generally adheres to international best practices and provides strong constitutional guarantees for operational autonomy and accountability, its autonomy could be further strengthened. The board of directors consists of seven members. The executive branch appoints four of them, including the president, subject to Congress approval, while the Congress selects three. All board members can only be removed for cause. However, the alignment of the appointment of

the president and board directors with the presidential term exposes the Bank's autonomy to the risk of political interference, even though it has not occurred so far. Peru could also consider further additional measures which are less common among OECD members but considered as good practices by other international institutions, for example, setting requirements around the terms of Board members.

The central bank's early decisive monetary tightening has successfully anchored inflation expectations and reduced inflation towards the target range. A tight monetary policy stance, with forward real interest rates peaking at 4.2% in August 2023, has helped reduce headline inflation from its peak of 8.8% in June 2022 to 2% in May 2024, and has remained within the central bank's target range of 1-3% since then (Figure 1.8). Goods inflation eased significantly in 2024, supported by moderating global commodity prices, the stability and moderate appreciation of the Peruvian sol in 2023 and 2024, which contained import costs, and subdued domestic demand. In line with easing inflation and weak domestic demand, the BCRP began a cautious easing cycle in late 2023, lowering its policy rate from 7.75% in August 2023 to 5% by December 2024. Inflation declined to 1.1% in August 2025 consistent with low inflationary pressures in the economy. The decline was primarily attributed to a continued moderation in transportation costs reflecting lower international oil prices. Core inflation has declined more gradually, reaching 1.8% in August, as service inflation moderated since the start of the year. One-year ahead inflation expectations have decreased and remain near the target since the beginning of 2024, at 2.2% in August 2025.

Figure 1.8. Inflation and inflation expectations have declined towards the target



Note: Inflation refers to Metropolitan Lima area.

Source: INEI and BCRP.

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The central bank's broadly neutral monetary stance is appropriate and should remain cautious and data dependent. With anchored inflation expectations and inflation expected to remain within its target range, the BCRP cut its policy rate by 25 basis points in May 2025 to 4.5%. It maintained the rate until September 2025, when it cut again by 25 basis points to 4.25%, close to the estimated real neutral rate of 2% (BCRP, 2023^[7]). The rate is expected to be maintained throughout the projection period, though caution remains warranted. Political uncertainty could contribute to weaker-than-expected domestic demand, that could suppress price levels. Conversely, upside inflationary risks include pressures from weather-related disruptions, higher for longer global interest rates, particularly in the United States, and heightened sovereign risk perception, which could impact exchange rates or raise the neutral real rate. Additionally, geopolitical uncertainties and external shocks, such as elevated oil prices or commodity market instability, could pose challenges to maintaining inflation within the target range and affect monetary policy calibration.

1.3. The financial sector remains resilient

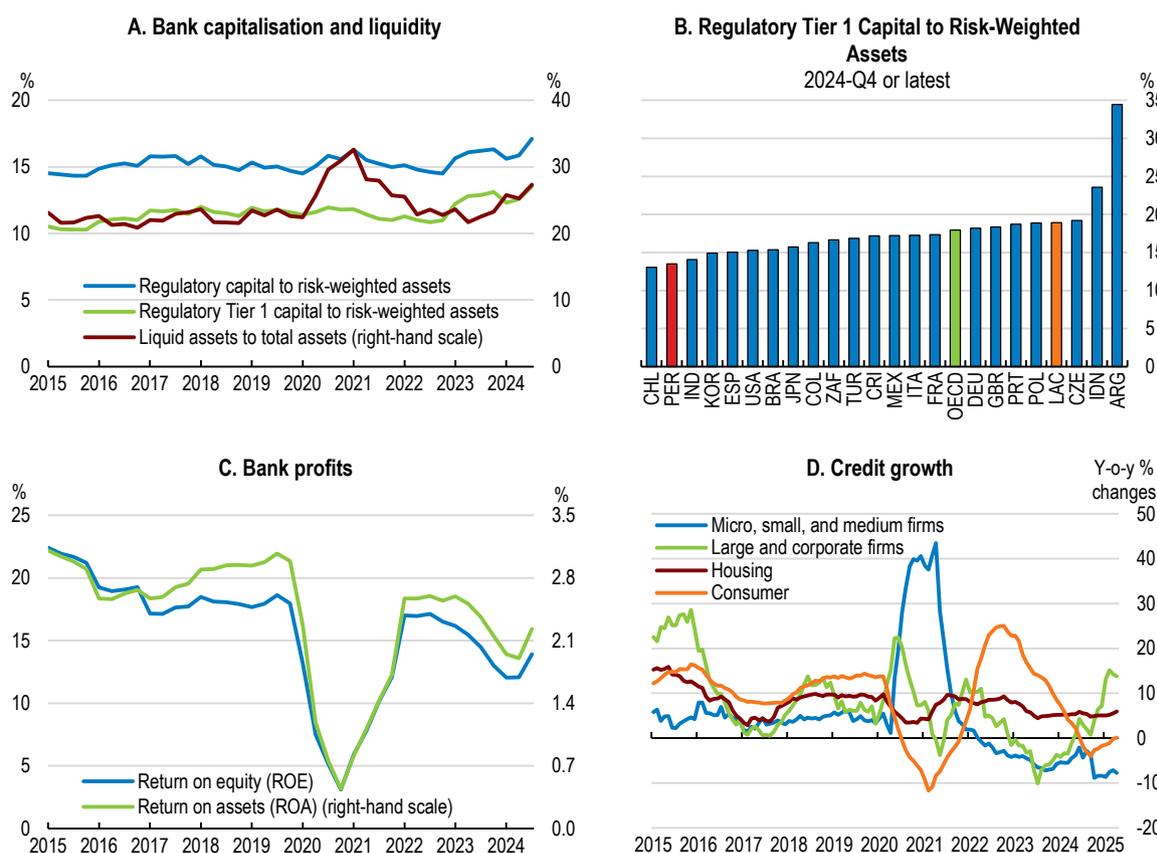
1.3.1. Strong capital buffers support financial stability amid rising NPLs

The financial system has remained resilient supported by strong capital buffers, ample liquidity, and robust regulatory and macroprudential oversight. The banking system, which represents almost 84% of the total financial system assets, is highly capitalised well above Basel III minimums. As of end 2023, the Tier 1 capital ratio was 13%, surpassing the 6% Basel requirement, although lower compared to other emerging and advanced economies (Figure 1.9, Panels A and B). Returns on equity and returns on assets have declined compared to 2023, reflecting weaker credit growth and higher provisioning needs due to rising non-performing loans (Panel C). However, profitability began to recover toward the end of 2024 as credit conditions improved. Stress tests by the Central Bank of Peru and the Financial Superintendency confirm that even under adverse shocks, bank capitalisation exceeds regulatory limits, reflecting the system's robust risk management (BCRP, 2024^[8]; SBS, 2024^[9]).

Credit growth slowed across all loan types due to weaker economic activity in 2023 and tighter lending standards. However, it began to recover by the end 2024 in most sectors (Figure 1.9, panel D). Consumer credit expansion moderated as banks imposed stricter lending requirements and higher provisioning, leading to a decline in the household debt-to-income ratio in 2024 (BCRP, 2024^[8]). The firm loan portfolio has contracted in 2024, when including loans covered by pandemic-related government guarantees (Reactiva programme) (SBS, 2024^[9]). When excluding these Reactiva loans, the total credit portfolio grew by 1.5% instead of contracting 0.3% in 2024. The share of loans to micro, small, and medium-sized firms backed by government guarantees has fallen from 33% to 10% in March 2025, while pandemic-related loan restructurings, which once peaked at 50%, now represent only 1.6%. Impulso MYPERÚ, a state loan guarantee programme implemented in 2023 for micro and small firms and expanded to include medium-sized, large and corporate firms at the end of that year, supported credit to firms with over PEN 15 billion (USD 4.1 billion) in guarantees by mid-2024. In 2024, only large and corporate firms saw loan portfolio growth, driven by improved financing conditions and a gradual recovery, while lending to micro, small and medium-sized firms (MSMEs) kept falling amid weakening credit quality.

Credit quality has weakened, with non-performing loans increasing (Figure 1.10, Panel A), particularly among medium-sized firms, reflecting the lagged impact of economic stagnation in 2023. Provisions remain sufficient to absorb losses, although less ample than in other emerging and regional peers (Figure 1.10, Panel B). Asset quality deteriorated amid subdued household income growth, rising delinquencies in retail and commercial loans, and an increase in loan refinancing following the expiration of pandemic-related government support. The increase in NPLs was more pronounced among medium-sized firms, primarily attributed to the higher sensitivity of medium-sized firms to tighter financial conditions and economic fluctuations due to their limited access to alternative financing sources and higher exposure to variable interest rates, which amplify the impact of increased borrowing costs on their payment capacity (Alvarado, Hernandez and Salinas, 2024^[10]). Microenterprises, while vulnerable, often operate with lower debt levels and have benefited from targeted support programmes, such as the loan guarantees programmes, mitigating the rise in their NPLs. In response to increased credit risk, Peruvian banks tightened lending standards and increased loan loss provisions. Provision coverage exceeded 100% for high-risk portfolios, with additional provisions comprising 14.4% of total reserves in August 2024 (SBS, 2024^[9]).

Figure 1.9. Banks capital and liquidity ratios are adequate and credit growth has decelerated



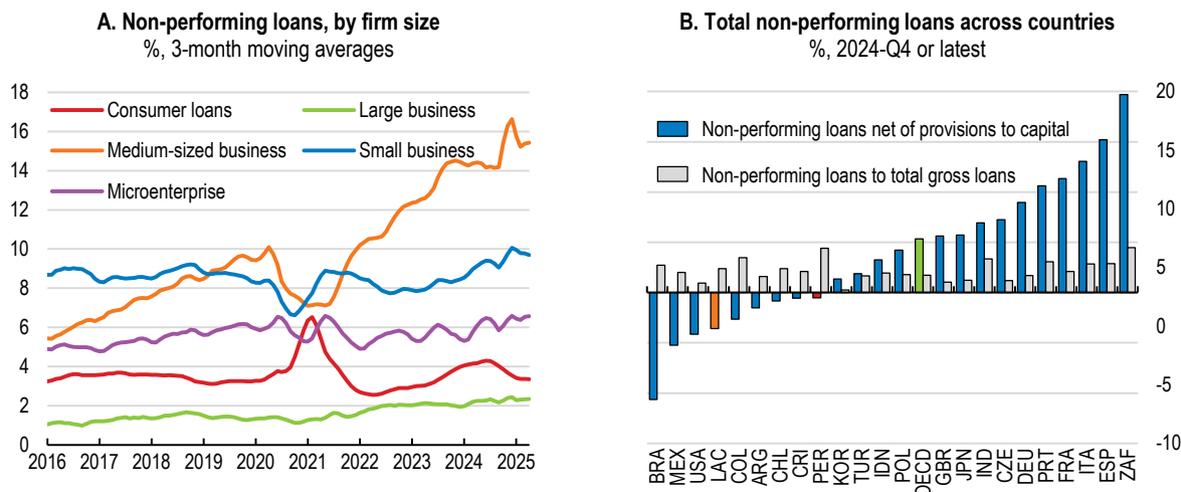
Note: LAC is a simple average of Chile, Colombia, Mexico, Argentina, and Brazil.

Source: IMF; SBS.

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The microfinance sector is facing challenges, although systemic risk for the wider financial sector remains contained (SBS, 2024^[9]), especially given its small size. As of September 2024, 8 out of 24 microfinance institutions reported losses, with some showing low capital ratios. The deterioration is driven by the compounded shocks that affected the Peruvian economy over 2020-2023, including the pandemic, social conflicts and adverse weather conditions, resulting in near half of these institutions experiencing delinquency rates at or above 8% in 2023. Additionally, interest rates caps introduced in 2021, although set at over 100% in local currency, may have restricted access to credit for higher-risk clients. Several rounds of withdrawals from the national mandatory severance savings schemes added pressures on microfinance institutions, leading to reduced liquidity (BCRP, 2021^[11]). To strengthen balance sheets, these institutions must secure additional capital from shareholders or strategic investors, a process closely monitored by the Superintendency of Banking, Insurance, and AFPs (SBS). In 2024, the SBS intervened two insolvent microfinance institutions preventing potential negative impacts from spreading beyond the microfinance sector, thanks to their participation in the Capital Strengthening Programmes (*Fortalecimiento Patrimonial*) implemented in 2021 and extended in 2023. These programmes enabled the timely transfer of assets and liabilities through targeted auctions, ensuring depositors' funds were safeguarded and assets, particularly loans, were efficiently managed. As a result, the microfinance sector has remained stable, with no loss of depositor confidence, but continued monitoring is necessary to mitigate risks to financial stability.

Figure 1.10. Non-performing loans have risen sharply among medium-sized firms, but are provisioned for



Note: Firm loans are classified by firm size: large businesses have sales between PEN 20–200 million or recent capital market issuance; medium-sized businesses have sales between PEN 5–20 million or debt over PEN 300 000; small businesses have sales under PEN 5 million and debt between PEN 20 000–300 000; and microenterprises have sales under PEN 5 million and debt below PEN 20 000. LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico.

Source: SBS; IMF.

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Strengthening financial regulations and aligning with international standards will be crucial to maintaining financial stability amid emerging international risks. Peru has been progressively implementing Basel III standards, with progress on capital adequacy, countercyclical buffers, and liquidity requirements. However, gaps remain in the risk-weighted asset framework, activation rules for capital buffers, Pillar 3 disclosures, and resolution planning for systemic banks, and authorities should continue advancing regulatory reforms to fully close these gaps (IMF, 2025^[12]). The SBS has enhanced financial oversight, particularly in bank recovery and resolution plans, and has adopted macroprudential tools aligned with IMF recommendations (IMF, 2024^[11]), including stricter capital requirements and stress-testing frameworks. Further ex-post evaluations of financial regulations and refinements in countercyclical buffers will help ensure cost-efficient compliance and strengthen the financial system's resilience.

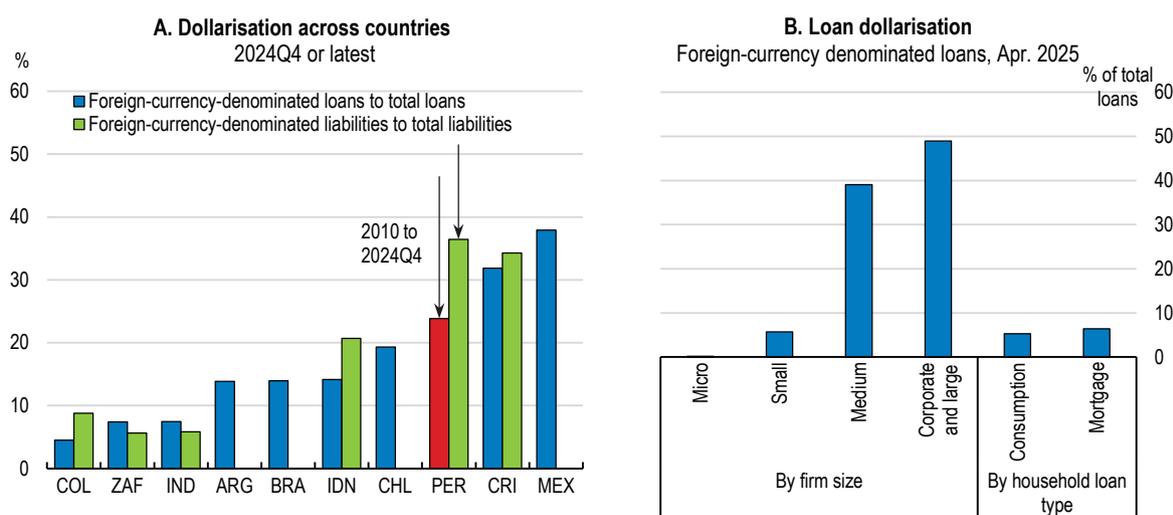
Peru's financial regulators—BCRP, SBS, and SMV—coordinate effectively through both formal (MoUs, Board-level dialogue) and informal channels. However, coordination remains ad hoc in areas such as macroprudential oversight and systemic crisis response, where no formal interagency body exists. Establishing a structured mechanism would align Peru with international good practices and strengthen institutional preparedness for future shocks. This can be done by establishing a formal interagency financial stability committee with regular and emergency meeting protocols and clear decision-making procedures, drawing on OECD practices and tailored to Peru's institutional and legal context.

1.3.2. Further reducing unhedged dollarisation

Over the last decade, Peru has successfully reduced credit and deposit dollarisation (Figure 1.11, panel A), through a combination of strong macroeconomic policies and a comprehensive set of prudential measures. These include higher and conditional reserve requirements on foreign currency liabilities, increased capital requirements and risk weights for foreign currency (FX) loans to unhedged borrowers, and additional provisions for currency-induced credit risk. Targeted measures in sectors such as housing and vehicle loans, combined with macroprudential incentives, have been particularly effective. Despite these efforts, dollarisation remains high in Peru, both in deposits and credit. Deposit dollarisation is among the highest in the region, with most dollar deposits held by residents, reflecting a strong domestic preference for dollar-denominated assets. On the credit side, corporate

dollarisation is also elevated (Figure 1.11, panel B), with near 50% of large and corporate debt in foreign currency by April 2025. Unhedged exposure is lower, at 37%, as many exporting firms are naturally hedged. However, unhedged dollar credit is concentrated among mid-sized firms (38%) while non-performing loans rates are similar for foreign and local currency loans (both at 15%). FX loan delinquency is higher among smaller firms: in 2024, it reached 19% for small firms and 21% for micro firms—more than twice the rates for local currency loans (9% and 6%), respectively. Nevertheless, these portfolios represent 4.3% of foreign currency credit. The higher FX loan delinquencies among smaller firms reflect their limited capacity to manage exchange rate risk, combined with weaker financial buffers. Evidence indicates that the strong preference for dollar deposits, coupled with banks' practice of matching foreign currency assets and liabilities, contributes to lower interest rates on dollar loans (Gutierrez, Ivashina and Salomao, 2023^[13]), which may encourage borrowing in dollars when exchange rate expectations are stable.

Figure 1.11. The financial system would benefit from further reducing dollarisation



Source: IMF, FSI; SBS.

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Starting in 2026, the SBS will implement new regulations requiring financial institutions to identify clients with foreign currency debt exposures above specified thresholds. This will standardise risk classification and improve the monitoring and mitigation of FX-related vulnerabilities. To further support de-dollarisation, the current prudential toolkit—including currency-differentiated liquidity ratios, limits on foreign exchange exposures, higher capital requirements for FX loans, caps on loan amounts relative to collateral, and differentiated reserve requirements—could be reviewed by retaining only the most effective measures to address currency mismatches risks, and, unless necessary to address particular risks, avoid measures that specifically target non-resident transactions. As highlighted in the *2023 OECD Economic Survey of Peru* (Table 1.3), developing deeper and more liquid foreign exchange and derivative markets is essential to allow firms, especially mid-sized ones, to hedge currency risks effectively. This would require improvements in regulation, financial infrastructure, and financial literacy. Currently, Peru's FX-derivative market is among the most underdeveloped in the region, with an average daily turnover of about 0.3% of GDP in 2022, limiting firms' ability to hedge against currency fluctuations. These efforts could be complemented by a more flexible exchange rate regime. While the Central Bank has rightly intervened to smooth excessive volatility, especially during shocks like COVID-19 or global interest rate hikes, frequent interventions may weaken incentives for agents to internalise currency risks, slowing de-dollarisation (IMF, 2024^[1]; IMF, 2019^[14]). Moreover, there is evidence of dollarisation in sectors such as construction materials, machinery, and other intermediate goods, where prices are commonly set in U.S. dollars due to import dependence and industry practices. Targeted measures such as promoting soles-based pricing could support further de-dollarisation in these sectors.

Table 1.3. Past OECD recommendations to improve macroeconomic policies

Past OECD recommendations	Actions taken since the 2023 Economic Survey
Keep a tight monetary policy stance to bring inflation sustainably back to target.	Peru's central bank reduced its benchmark interest rate by 325 basis points since September 2023, with real interest rates remaining above neutral level, contributing to aligning inflation with the target.
Fiscal policy should support monetary policy to address high inflation. Keep the pace of fiscal consolidation in line with current fiscal plans to rebuild fiscal buffers.	Fiscal policy remained expansionary in 2023 and 2024, with both years breaching fiscal rules despite relaxed targets in 2024.
Continue to monitor bank portfolios and lending standards closely.	The central bank and the financial sector regulator (SBS) closely monitored bank portfolios and lending standards, especially during the economic slowdown, to identify and address potential vulnerabilities.
Continue to preserve exchange rate flexibility and gradually limit interventions to avoid abrupt changes in the exchange rate. Develop a deeper foreign exchange and financial derivatives market, by enhancing its regulatory framework, developing a strong financial infrastructure and fostering financial education, particularly for SMEs.	During 2023 and 2024, the Central Reserve Bank of Peru (BCRP) actively intervened in the foreign exchange market, primarily by rolling over maturing derivative contracts. The BCRP's net foreign exchange intervention amounted to USD 2,352 million in derivatives and USD 81 million in spot sales in 2023, while in 2024, it decreased to USD 709 million in derivatives and increased to USD 318 million in spot sales.

1.4. Restoring fiscal discipline

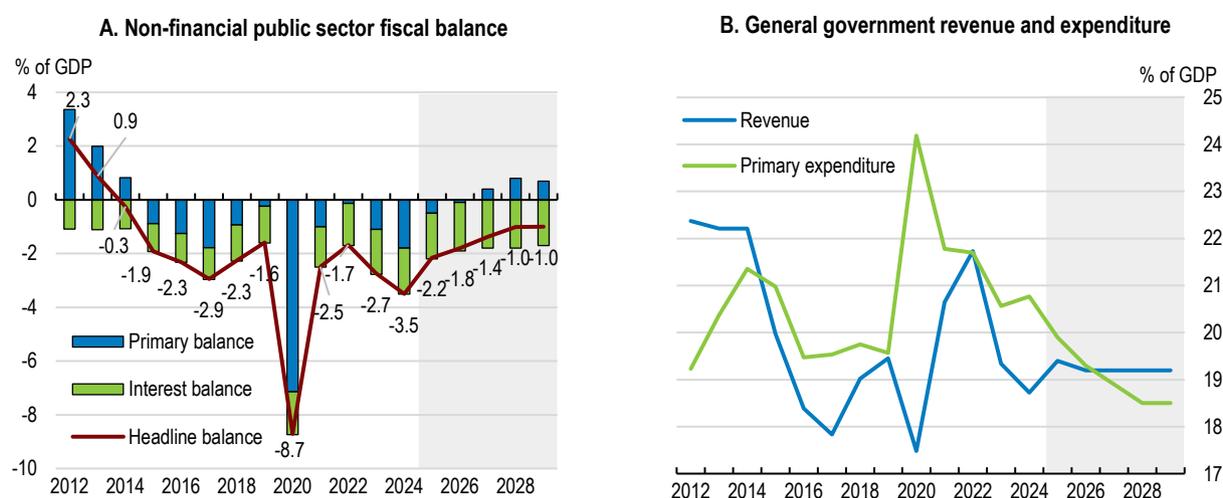
Peru's rule-based fiscal framework (Box 1.2), underpinned by a commitment to fiscal sustainability, has provided macroeconomic stability and fiscal discipline over decades. However, since the COVID-19 pandemic, fiscal performance has weakened. The fiscal deficit peaked at 8.7% of GDP in 2020, due to pandemic-related emergency spending, tax relief, and large-scale social assistance programmes. Although consolidation followed in 2021-2022 (Figure 1.12), the deficit remained elevated, driven by sluggish revenue and rigid spending commitments. In 2023, the deficit rose again to 2.7% of GDP, exceeding the fiscal rule target of 2.4%, amid the economic contraction, a 10.5% real decline in fiscal revenues, and increased spending to cushion climate shocks and social conflicts. The government launched stimulus initiatives ("*Con Punche Perú*"), combining social assistance, tax reliefs for agriculture and tourism and the extension of pandemic-era credit guarantees. Additional substantial funds were directed towards infrastructure repairs and disaster relief.

Box 1.2. Peru's fiscal framework

Peru's fiscal framework established by the 1999 Fiscal Responsibility and Transparency Law has played a key role in maintaining fiscal discipline. It includes a fiscal deficit rule, which limits the non-financial public sector deficit to 1% of GDP; a public debt rule, which caps public debt of the non-financial public sector at 30% of GDP; and two expenditure growth rules based on past and forecasted GDP growth —one of which targets current spending to help safeguard public investment. Transitional deficit targets that guide convergence to the 1% of GDP deficit rule are set by decree and presented in the Medium-Term Macroeconomic Framework and its update prepared in August and April, respectively, by the Ministry of Economy and Finance. Operational ceilings are set at 2.2% of GDP in 2025, 1.8% in 2026, 1.4% in 2027, and 1.0% in 2028 (MEF, 2025^[15]). Temporary deviations are allowed under emergency clauses and extraordinary circumstances, with Congressional approval and a credible return plan. The Fiscal Council gives a non-binding opinion when fiscal targets are revised. Peru's fiscal framework counts with a Fiscal Stabilisation Fund (FEF), which was created to mitigate the impact of economic shocks and revenue volatility. The FEF accumulates resources from fiscal surpluses, 10% of government asset sales, and a share of initial payments from mining concessions. Withdrawals are allowed during periods of economic downturn, natural disasters, or other fiscal emergencies.

The fiscal position deteriorated further in 2024. Despite a modest economic recovery and strong terms of trade, the fiscal deficit rose to 3.5% of GDP in 2024, above the fiscal target of 2.8%, marking the first time since 2000 that fiscal rules were breached two consecutive years. Non-compliance happened despite the government revising the fiscal targets in the middle of 2024, delaying the return to the 1% deficit target until 2028. The slippage reflected high public investment across all levels of government, lower-than-expected revenue, and a sharp increase in the public sector wage bill, which rose by over 6% in real terms in both 2023 and 2024, when average inflation was 6.3% and 2.4%, respectively. By 2024, the wage bill reached 35% of tax revenues, well above the OECD average of 27%, limiting fiscal space for priority spending and increasing long-term rigidities if not matched by productivity gains. In response to revenue shortfalls, the government implemented various fiscal policy adjustments throughout 2024, introducing new taxes on online gaming and digital services, but these were partially offset by tax expenditures, including the extension of VAT reductions for restaurants and hotels (CF, 2025^[16]). Spending controls were imposed on non-priority items, but a supplement budget approved in July ultimately increased total expenditures. Repeated capital injections to *Petroperú*, the state-oil company, driven by *Petroperú*'s financial difficulties and inability to meet its obligations, have heightened fiscal risks by adding to contingent liabilities and reducing fiscal space.

Figure 1.12. The government plans gradual fiscal consolidation to comply with fiscal rules



Note: The grey-shaded area depicts forecasts from 2025 onwards from the Multiyear Macroeconomic Framework 2026–2029.

Source: BCRP and Peru Ministry of Finance and Economy, Multiyear Macroeconomic Framework 2026–2029 (2025).

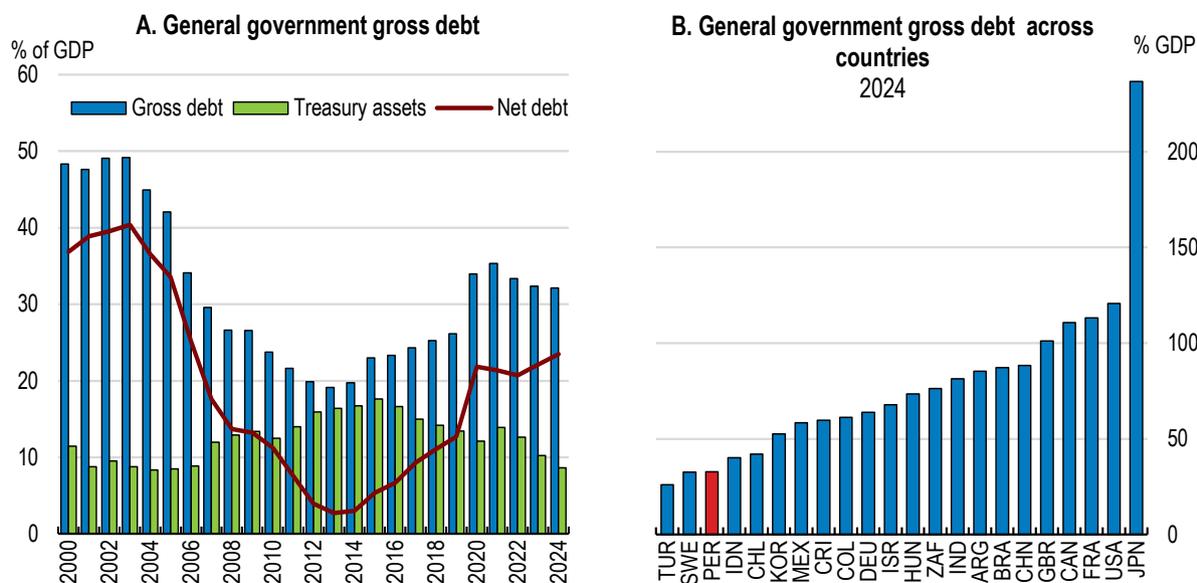
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The government's fiscal plans aim to return to compliance with the fiscal rule, targeting an improvement in the structural primary balance of 1.3 percentage points in 2025 and 0.8 percentage points in 2026 (MEF, 2025^[17]). Achieving this will require reducing primary spending by 0.9% and 0.7% of GDP in 2025 and 2026, respectively, a difficult task in a pre-electoral year, despite stronger revenues from high gold and copper prices and economic recovery (Figure 1.12, panel B). The planned adjustment relies mainly on limiting non-essential current expenditures and improving procurement efficiency under the new Public Procurement Law. However, the Fiscal Council has expressed concerns that the 2025 budget deviates from the medium-term fiscal framework, mainly due to increased payroll expenses, driven by inflation-exceeding salary hikes, new hires, and special bonuses introduced at the end of 2024. This deficit reduction also relies on a projected 0.7% of GDP increase in tax revenues, driven by higher metal prices, economic recovery and one-off factors, such as capital gains taxes from Enel (an Italian energy company) selling its local assets, and a tax amnesty. However, these revenues may be overestimated, and the amnesty could undermine incentives for tax compliance in the medium-term. Other legislative initiatives such as the creation of tax exemptions for Private Special Economic Zones (ZEEP), reduced CIT rate for agroexporting businesses and waiving tax penalties and interests for tax-amnesty participants period will reduce revenues.

Peru's public debt-to-GDP ratio increased to 32.1% in 2024, up from 26% in 2019 (Figure 1.13, panel A). This is equivalent to 1.9 years of total revenues, that is a debt-to-revenue ratio of 1.9 in 2024 based on OECD data. Interest payments also increased reaching 1.7% of GDP in 2024 from 1.4% of GDP in 2019, reflecting the impact of higher borrowing costs. Net debt amounted to 23.5% of GDP in 2024 after increasing fast since 2014 when it reached 3% of GDP. While Peru's public debt remains low compared to regional peers and most emerging markets (Figure 1.13, panel B), deteriorating fiscal indicators and ongoing political uncertainty led S&P to downgrade Peru's sovereign credit rating to BBB- in 2024, just above speculative grade. Although Moody's and Fitch maintained Peru's investment-grade status, they emphasised the need for fiscal consolidation. Rebuilding fiscal buffers is also necessary to strengthen Peru's capacity to respond to shocks, including natural disasters, commodity price volatility and the materialisation of contingent liabilities.

The key short-term fiscal challenge is complying with the planned fiscal consolidation and restore compliance with the fiscal rule. As of July 2025, the fiscal deficit stands at 2.6% of GDP, down from 3.5% in 2024. OECD projections indicate the deficit will exceed the fiscal rule targets in both 2025 and 2026, reaching 2.5% and 2.2% of GDP, respectively (Table 1.1), compared to targets of 2.2% and 1.8%, implying the need for additional adjustment of about 0.4% of GDP. Compliance with the fiscal rule could be achieved by better control of current spending, particularly public sector payroll, which tends to rise in the pre-electoral and electoral years. Eliminating the diesel subsidy under the Fuel Price Stabilisation Fund (FEPC) could generate up to 0.15% of GDP in fiscal space while encouraging investment in cleaner technologies and renewable energy (see Chapter 4). Further savings could come from gradually eliminating inefficient tax expenditures, as discussed below and already recommended in the 2023 *OECD Economic Survey of Peru*.

Figure 1.13. Public debt remains low compared to Peru's peers but is above pre-pandemic levels



Source: BCRP; IMF World Economic Outlook database, April 2025.

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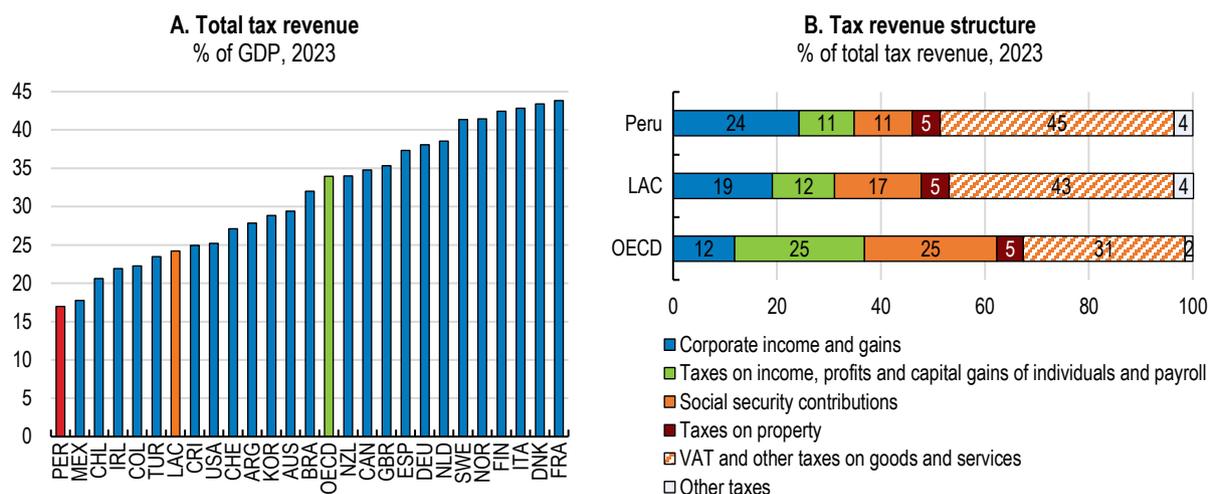
The medium-term plan foresees a consolidation of 0.4 percentage points of GDP per year up to 2028, mainly by containing current expenditure growth, to reduce the deficit to 1.0% of GDP by 2028 and bring debt below 30% of GDP by 2035. However, recent mounting measures affecting spending and revenues make it challenging. For example, in May 2025 authorities passed a reform to redistribute part of the value-added tax (IGV) revenues away from the central government to municipalities, which could raise the fiscal deficit if not matched by spending reallocation (CF, 2025^[18]). Other growing permanent spending commitments and measures that erode the tax base (as discussed in section 1.7) are increasing risks to fiscal sustainability. Without a credible fiscal medium-term strategy, there is a risk of gradual deterioration of fiscal discipline leading to deterioration of investor confidence and higher financing costs.

1.5. Reforming the tax system to increase revenue and stimulate economic growth and formalisation

A stronger tax system is essential to increase revenues, promote formalisation and ensure a fairer distribution of the tax burden. While statutory tax rates are moderate, revenue collection remains low, only 17% of GDP in 2024, well below Latin American averages (24% of GDP) and far from the OECD average of 34% of GDP (Figure 1.14). This gap reflects widespread tax evasion, high informality and inefficient tax administration. Peru's tax mix is heavily reliant on indirect taxes (primarily VAT), while personal income taxes deliver a relatively lower share of revenues, suggesting room to shift toward a more balanced and progressive system to enhance equity. Corporate income tax revenues are also relatively high compared to other Latin American countries, contributing to a significant share of total tax revenues, despite a large share of businesses operating informally, while others use tax incentives and deductions that lower the effective tax burden.

A comprehensive tax reform remains necessary to raise more revenues, broaden the tax base, reduce distortions, tax evasion and informality and increase fairness, as the one outlined in the *2023 OECD Economic Survey of Peru* and discussed in the next subsections (Table 1.4). In the short-term, reform efforts should focus on strengthening the tax administration, reducing tax expenditures and simplifying the corporate tax regimes for small businesses. Streamlining the SME tax regimes would reduce evasion, and boost formalisation. Expanding the personal income tax base – by gradually lowering the exemption threshold – could increase revenues while progressive social security contributions based on labour income would improve formalisation incentives and progressivity. Progressivity can also increase by reforming the taxation of capital income. These reforms to the personal and corporate tax systems are mutually reinforcing and can jointly reduce informality, strengthen compliance, and improve both equity and revenue mobilisation. Improving revenue collection from property, excise, and environmental taxes would diversify sources and make the system more efficient and equitable.

Taken together, these measures could yield 4.2% of GDP in additional revenues (Table 1.6). To fully realise this potential, reforms must be paired with greater public spending efficiency (as discussed in next section), ensuring that new revenues lead to better social and infrastructure outcomes. To sustain fiscal sustainability, it will be crucial to ensure that tax reforms effectively generate the expected revenue when committing to permanent increases in spending. This is particularly important for tax administration reforms, which account for most of the expected revenue gains but are difficult to quantify *ex ante*. By implementing these reforms, along with stronger governance and a comprehensive formalisation strategy that includes lower non-wage costs for low-income workers, better quality of education and training, stronger enforcement and reduced regulatory burden (see Chapter 3), Peru could trigger a virtuous cycle of higher tax collection, lower informality, increased productivity and equity.

Figure 1.14. Tax revenues are low

Note: For comparative purposes with other OECD member countries, the reported tax revenue as a percentage of GDP includes collections by national, regional, and local governments, as well as social security contributions. This may differ from figures published by the BCRP, which use a narrower definition. LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico. Data for Australia and Japan refer to the year 2022.

Source: OECD, Global tax revenue database and OECD Revenue Statistics in Latin America and the Caribbean.

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1.5.1. Addressing tax evasion

Tax evasion remains high accounting for an estimated 10% of GDP in 2023 (MEF, 2025_[17]), and is compounded by Peru's large informal sector (at above 70% of employment) limiting revenue collection. Strengthening tax administration and collection efforts is crucial to reducing evasion and increasing revenues. On-going reforms, such as enhancing cross-border tax cooperation, improving risk-based auditing strategies and expanding the use of digital tools, such as electronic invoicing, digital submission of tax returns and payments, the use of big data analytics and artificial intelligence to better detect risks, and risk-based profiling of taxpayers to guide audits and control measures, must continue. The adoption of electronic invoicing and real-time reporting has helped reduce underreporting and fraud (MEF, 2025_[15]), but more efforts are needed. Tax compliance remains burdensome: businesses in Peru spend 480 hours per year on tax procedures, well above the Latin American average of 317 hours, according to the World Bank's Business Ready platform. This significant gap highlights the need for simplified tax laws and regulations, enhanced user-friendly online platforms for tax filing and payments, and progress on electronic invoicing and taxpayer support services. While electronic invoicing has been progressively implemented, ensuring proper enforcement, and integrating small businesses into the system. Fostering data interoperability between tax authorities and financial institutions would further reduce evasion and boost revenue collection. Implementing advanced data analytics and artificial intelligence can improve tax compliance and detect fraudulent activities (OECD, 2020_[19]).

1.5.2. Reducing tax expenditures

Peru's tax expenditures stand at 2.2% of GDP in 2024 above the 2% of 2023 (MEF, 2025_[15]). The main exemptions include VAT breaks for agricultural products (0.4% of GDP), the Amazon (0.3%), tax expenditures for educational services (0.13%), and the drawback refund system for exporters (0.13%). However, these policies often fail to generate economic or social benefits proportional to their fiscal costs, as already highlighted in the *2023 OECD Survey of Peru*. Tax exemptions in the Amazon region, intended to foster regional development have inadvertently fuelled illegal activities, such as gold mining (Barco and Foinquinos, 2025_[20]). A comprehensive review of tax expenditures is needed to retain only those with a cost-effective impact on well-defined policy goals while phasing out the rest. If necessary, targeted transfers to vulnerable business and households could replace ineffective

expenditures, generating significant tax revenues. A successful example is the 2005 elimination of VAT exemptions in the San Martín region, which was offset by public investment and led to higher economic growth (Barco and Foinquinos, 2025^[20]).

The income tax exemptions granted to Special Economic Zones (SEZs) should be reassessed based on their effectiveness and fiscal impact. SEZs (*Zonas Económicas Especiales*) aim at promoting industrialisation, export diversification, and regional development through tax incentives. However, their economic benefits remain unclear (IMF, 2022^[21]). In 2022, more than 90% of SEZ-related foreign trade involved imports, and SEZ exports made up just 0.1% of Peru's total exports, far below Colombia (4.8%) and Chile (3.9%). On March 2025, the authorities announced that new SEZ will be implemented in the regions encompassing the ports of Chancay and Callao aiming to attract both domestic and foreign investment, boost employment growth, and promote technological advancements by offering businesses operating in these regions a 0% income tax rate. Carefully reviewing SEZ tax expenditures to retain only those that incentivise additional investment and high-quality formal job creation targeted in disadvantaged regions would help prevent unnecessary revenue losses and avoid competitive distortions that disadvantage firms outside the SEZs. To fully realise the potential benefits of SEZs, enhancing infrastructure and ensuring the availability of a qualified workforce is key. The global minimum tax will limit the benefits of certain tax incentives, particularly income-based incentives like the full or partial corporate tax exemptions offered in Peru's Special Economic Zones (OECD, 2022^[22]; OECD, 2023^[23]). Corporate tax exemptions in Special Economic Zones that result in an effective tax rate below 15% could allow other jurisdictions to claim the difference, leading to a loss of revenue for Peru. To align Peru's Special Economic Zones (SEZs) with international standards, the legal framework should incorporate the substance and transparency requirements established under Action 5 of the OECD/G20 BEPS Project, ensuring that tax benefits are granted only where substantial economic activity is conducted and appropriate information is disclosed to tax authorities. Peru has committed to implementing this minimum standard. If the OECD/G20 Forum on Harmful Tax Practices finds that Peru's SEZ regime does not meet these standards, it could result in the SEZ regime being classified as harmful or Peru being listed as a non-cooperative jurisdiction, with reputational and economic consequences.

1.5.3. Improving corporate taxation

Peru's corporate tax system features a general regime with a rate at 29.5%, above the OECD average statutory rate of 21%, and three special regimes for micro, small and medium-sized enterprises (MSMEs). As highlighted in the *2023 OECD Economic Survey of Peru*, this fragmentation contributes to tax arbitrage, inefficiencies and revenue losses. Peru's tax system for MSMEs includes three regimes: the NRUS, a presumptive regime for microenterprises and self-employed workers with gross income up to about USD 25,000 that involves fixed monthly payments and minimal reporting; the RER, a turnover-based regime for those earning up to around USD 140,000; and the RMT, a MYPE simplified profit-based regime for businesses with net income up to roughly USD 2.4 million. While these regimes aim to reduce compliance costs and support small businesses, they also create strong incentives to limit firm size, divide operations, underreport revenues, or hire informally to avoid the obligations linked to larger size.

Peru could simplify the system, by phasing out inefficient special regimes for smaller taxpayers as recommended by the *2023 OECD Economic Survey of Peru*. One option is to retain only one simplified regime based on cash-flow accounting, which would reduce distortions, and support formalisation. The income thresholds for the simplified regime could also be revised, as they are currently high and result in 98% of taxpayers being classified as SMEs, limiting the effectiveness of targeting. To support a smoother transition across regimes, corporate income tax (CIT) rates should be structured to avoid large tax jumps between the simplified and general regimes, which can discourage firm growth and incentivise informality. Peru could also consider combining this with a presumptive regime only for self-employed integrated with social contributions, to facilitate entry into formality. Robust monitoring mechanisms would ensure that only MSMEs benefit from simplified taxation and prevent that larger firms exploit these provisions. Additionally, setting a low tax burden when a taxpayer joins the regime and gradually increasing it over time might foster business registration (Mas-Montserrat, Colin and Brys, 2024^[24]). This reform could be complemented by training programmes and formalisation services to support small firms in transitioning to the formal economy.

Peru captures relatively modest fiscal revenues from mining relative to its potential, reflecting challenges in the current tax regime's design and application. Mining-related revenues averaged less than 1% of GDP based on direct

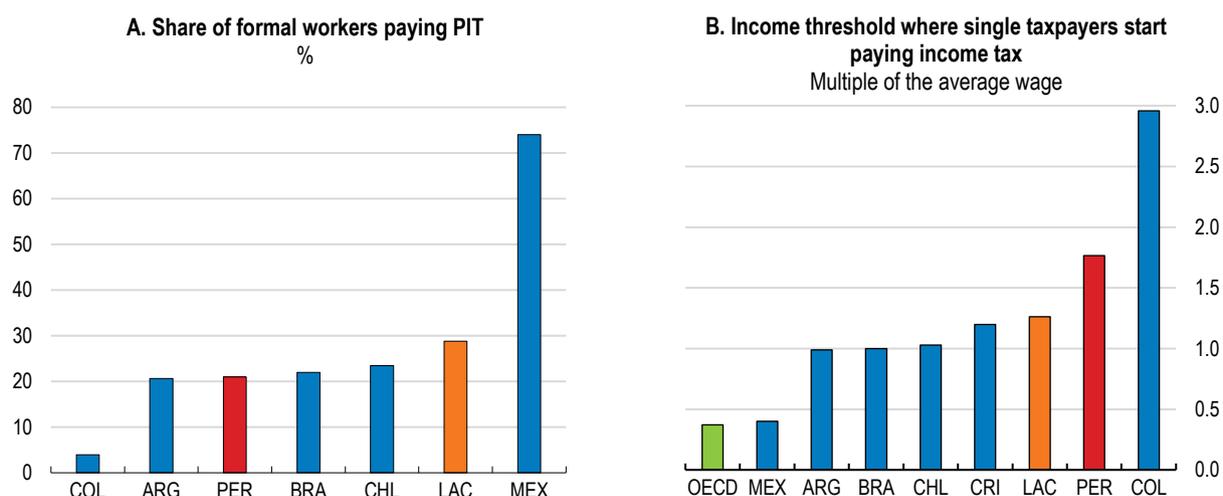
cash tax collections, despite the sector contributing around 10% to GDP and nearly two-thirds of total exports. This comparison is limited, as it excludes other forms of fiscal contributions such as profit-sharing. Peru's marginal effective tax rate on copper investment is 17.6%, among the lowest in the region, reflecting the limited revenue yield of the current framework (Bazel, Mintz and Reyes-Tagle, 2023^[25]). The current regime consists of a mix of profit-based instruments, the special mining tax and special mining contribution and a royalty. In the context of sustained high mineral prices, the mining fiscal regime could be gradually more progressive, so that public revenues increase with profitability, particularly during commodity booms, without discouraging investment (IMF, 2022^[26]; IMF, 2025^[12]). Norway's experience in taxing economic rents from oil and gas through a resource rent tax offers relevant lessons for Peru, demonstrating how a transparent, well-designed regime can raise substantial revenues while preserving investment incentives. Chile, for example, has recently strengthened the progressivity of its mining tax system by linking rates more closely to operating margins, while introducing a cap on the total tax burden to maintain investment incentives. Efforts to formalise small-scale mining and combat illegal extraction are also needed to increase revenues sustainably and creating a more predictable environment for investment. This should be accompanied by policies to improve the sector's competitiveness and environmental sustainability (Chapter 4), while strengthening the framework for intergovernmental transfers to ensure that resource revenues are effectively used for local development without undermining fiscal discipline, as argued below and in the 2023 OECD Economic Survey.

1.5.4. Increasing personal income tax revenues and addressing informality

In the medium term, there are also opportunities to broaden the personal income tax base while boosting formalisation incentives, as discussed in the *2023 Economic Survey of Peru*. The system is characterised by a narrow tax base with the burden concentrated on a small percentage of formal workers (20%), while a vast majority of potential taxpayers remain outside the system due to very high labour informality (over 70% of the labour force) and a relatively high personal income tax threshold where taxpayers start paying personal income tax (Figure 1.15). Improving labour inspection to ensure respect and enforcement of labour rights would help reduce informality and strengthen the tax base (see Chapter 3).

The reform could combine a gradual lowering of the personal income tax threshold with a shift in social security contributions from the current firm-size-based system to one linked to individual labour income, enhancing progressivity and reducing informality (see Chapter 4). Lowering the entry tax rate, currently at 8%, could ease the transition into the income tax system, while a revision of the top marginal tax rates would support greater progressivity of the tax system. Progressive social security contribution based on labour income would reduce incentives for firms to remain small or informal and support labour formalisation, particularly for low-income workers. The combined effect of this reform would be progressive, because those newly subject to the personal income tax would have higher incomes than those benefiting from a more progressive contribution structure, ensuring the overall progressivity of the reform. By reducing informality, this reform would also boost productivity and growth. Additionally, limiting or eliminating deductions and reducing tax expenditures that primarily benefit high-income individuals, by, for example, eliminating the non-taxation of the mandatory severance savings, would reduce opportunities for tax avoidance and the gap between statutory and the effective rates. Tax exemptions for private spending on health and education should also be reviewed, which often benefit disproportionately high-income groups.

Figure 1.15 Few people pay personal income taxes



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico. Panel B: Data refer to the year 2024 for Peru (calculations are based on a monthly average labour income PEN 1 765.9 at national level in 2024; the threshold to start paying personal income taxes is PEN 37 450 annually), to the year 2020 for Argentina and Brazil, and to the year 2022 for other countries.

Source: (Acosta Ormaechea, Pienknagura and Pizzinelli, 2022^[27]); OECD, Taxing wages 2023.

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Reforming the unequal treatment of labour and capital income would further strengthen the equity and revenue-raising capacity of Peru's personal income tax system. Capital income (first and second category) is taxed at a flat 5%, while labour income is subject to progressive rates from 8% to 30%, creating a regressive bias. This is especially true given that high-income individuals in Peru earn a large share of their income from capital. For comparison, dividend withholding taxes average around 18% across OECD countries, and some tax capital income under the progressive personal income tax regime. Aligning Peru's treatment of capital income more closely with labour income would reduce inequities and increase effective taxation at the top.

1.5.5. Improving revenue collection from property, environmental and excise taxes

Property tax revenues were 0.3% of GDP in 2023, one of the lowest in Latin America, and well below the OECD average of 1%, as highlighted in the *2023 Economic Survey of Peru*. This weak performance stems from outdated property registries and valuation methods and widespread informality in land ownership. Updating the cadastre and valuation mechanisms, such as implementing a national multipurpose cadastre like Colombia's, can enhance property tax revenues and support land tenure formalisation. Moreover, strengthening local administrative capacities and enforcement mechanisms, would improve tax collection.

Environmental tax revenues remain limited in Peru, accounting for only 0.6% of GDP in 2022, compared to 2.1% of GDP on average in OECD countries. Peru does not levy an explicit carbon tax; the fuel excise tax acts as an implicit carbon tax but covers only about 25% of GHG emissions and exempts gas-based fuels. Current excise rates also differ between fuels, with diesel generally taxed at a lower effective rate per ton of CO₂ emissions than petrol, weakening environmental signals. Strengthening environmental taxation would require broadening the tax base to include gas fuels, aligning diesel and petrol taxation with carbon content, and introducing an explicit carbon tax. These reforms would better internalise environmental costs, reduce distortions, and raise additional revenues (see Chapter 4).

There is also room to improve collection from excise taxes. Peru has introduced a 1% excise tax on online gaming and sports betting, but collection on excises taxes remains low at 1% of GDP in 2022, compared to 1.8% of GDP on average in Latin America (OECD et al., 2024^[28]). Increasing taxes on alcohol, tobacco, and sugar-sweetened beverages can enhance revenue and improve public health by reducing consumption of harmful products. Applying

taxes on alcoholic beverages based on their alcohol content, without any preferential treatment, would also help strengthen excise revenue collection and promote healthier consumption patterns.

Peru should continue adopting good tax practices, especially those aimed at combating domestic and international tax avoidance and evasion. Since joining the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in 2017 and the two-pillar solution on digital taxation in 2021, Peru is now aligning Double Taxation Agreements with OECD standards to prevent tax avoidance, treaty abuse, and improve dispute resolution. The recent approval in Congress of the BEPS Multilateral Instrument is a positive development in this direction. Peru should swiftly address recommendations from the Global Forum on Transparency and Exchange of Information for Tax Purposes to further reduce cross border tax evasion. Peru should also update its transfer pricing regulations to reflect evolving global standards and address new challenges in international trade. While recent reforms introduced alternative valuation methods and provisions for the rollback of bilateral Advance Pricing Agreements from 2025, ongoing updates are needed to counter increasingly complex tax avoidance strategies.

Table 1.4. Past OECD recommendations on tax system reform

Recommendations in previous Survey	Actions taken since previous Survey (Set 2023)
Strengthen tax administration and reduce tax evasion through stronger use of information technology and cross-checking of information across different sources.	Tax administration and compliance have significantly improved in recent years, aided by the introduction of electronic invoicing, a digital tax registry, notices of tax due, leveraging of big data tools, and enhanced use of treaties to exchange taxpayer information.
Streamline the corporate tax regimes for small businesses by merging the intermediate regimes.	The Executive requested delegated powers from Congress to legislate on tax matters in January 2023 and May 2024, but both requests were denied.
Clarify spending responsibilities for each level of government.	No actions taken
Implement an integral reform of subnational finances including gradually granting more taxing powers at the regional level.	No actions taken

1.6. Improving the quality and efficiency of public spending

Improving the efficiency of public spending is essential for Peru to meet social and infrastructure spending needs while ensuring fiscal sustainability. Peru's historically low tax revenues make it especially important to ensure public resources are used effectively. Gains in efficiency can also help rebuild public trust and increase support for broader fiscal reforms. However, despite recent efforts, inefficiencies remain significant – especially at the subnational level – and were estimated at around 2.5% of GDP annually in 2017 (Izquierdo and Pessino, 2018^[29]).

Given fiscal constraints and low revenues, Peru faces a dual challenge: it must significantly increase spending in education, health, and social assistance to close development gaps, while also improving efficiency of existing spending. First, social spending must be better aligned with long-term economic growth and social development, ensuring funds effectively reach those who need it most. Second, avoiding inefficient allocations by addressing weaknesses in the budget process and improving public investment management. Strengthening performance-based budgeting and spending reviews can help improve budget accountability and effectiveness. Finally, improving the rule of law and reducing corruption is key to ensure public resources are used effectively and equitably. Strengthening administrative capacity is also vital to ensure effective implementation and enforcement of all reforms.

Improving spending efficiency will be necessary but not sufficient to close Peru's development gaps. Even with significant gains in efficiency, public revenues remain too low to meet future spending needs, underscoring the need to pair efficiency reforms with efforts to broaden the tax base, as discussed above.

1.6.1. Key priorities for increasing and improving social spending

Education: aligning spending with outcomes

Public education spending in Peru is 4.2% of GDP in 2024, below the OECD average of 5.1% but represents a larger share of spending than the average LAC and OECD economy (Figure 1.16, Panel A). Yet learning outcomes remain weak compared to OECD countries (Figure 1.16, Panel B). Early childhood education remains underfunded, despite strong evidence showing high returns on investment in the early years. The quality of teaching and inadequate educational infrastructure from early years to secondary education remain major challenges (see Chapter 3). While recent reforms have focused on expanding university access and increasing higher education spending, a more effective strategy would be to reallocate resources to early childhood interventions and better target resources to the most underperforming regions, as already highlighted in the *2023 OECD Economic Survey of Peru*. Additionally, introducing performance-based funding tied to learning outcomes would help align spending with education results. However, given the scale of the gaps, reallocations alone will not be enough. Increasing overall investment in education—particularly in early childhood education, teacher training, and educational infrastructure—is urgently needed to improve learning outcomes.

Health: addressing underfunding and regional disparities

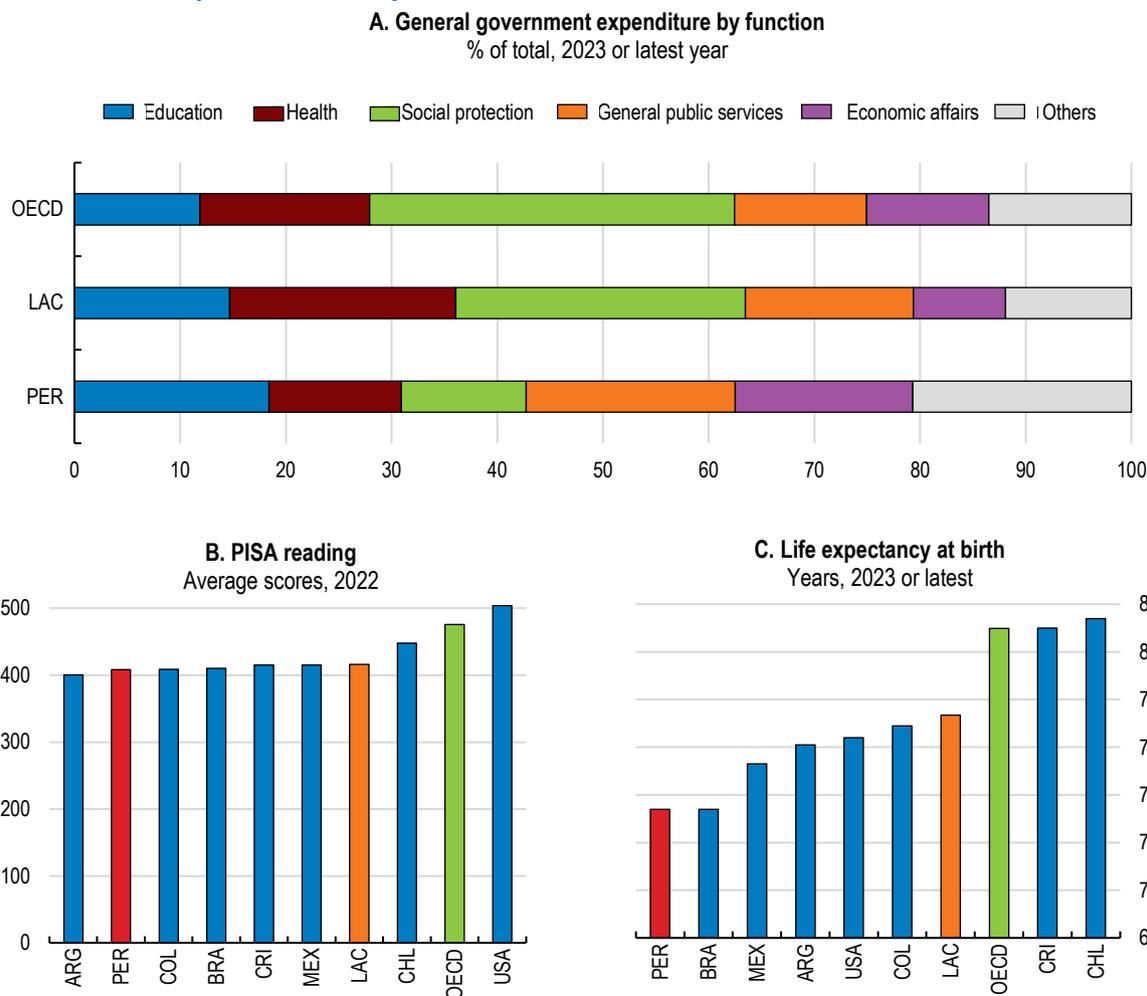
Peru's public health spending is only 4.2% of GDP in 2024, well below the OECD average of 9%, contributing to poor health outcomes, including a low life expectancy (Figure 1.16, Panel C). While health insurance coverage has expanded significantly (from 61% in 2009 to 97% in 2023), funding has not kept pace, leading to declining per capita spending contributing to overcrowded hospitals and long waiting times (Barco and Foinquinos, 2025^[20]). The first level of care remains underfunded, with limited access to preventive and primary health services and large regional disparities persist in health personnel, infrastructure, and service availability between urban and rural areas (OECD, 2025^[30]). Additional investment is essential to expand access to preventive and primary care, address critical infrastructure shortages, and reduce large regional disparities. Achieving universal, high-quality healthcare would require additional spending of 1.2% of GDP (Table 1.6), ideally financed through general taxation to avoid disincentives for formal employment as highlighted in the *2023 OECD Economic Survey of Peru*. Reallocating resources toward strengthening the first level of healthcare, particularly in rural areas, would improve health outcomes and cost efficiency.

Social assistance: expanding coverage and targeting the most vulnerable efficiently

Peru's social assistance programmes must balance coverage and fiscal responsibility. Income support to the working age population remains low, at around 0.2% of GDP, compared to an average of 3% of GDP in other OECD Latin American countries, according to OECD Social Expenditure database. In 2024, Peru allocated 0.9% of GDP to social programmes supporting vulnerable groups, including cash transfers, food assistance, and aid for the elderly. Many low-income households remain excluded due to budget restrictions (OECD, 2023^[31]), while leakages result in benefits reaching many non-vulnerable households (Figure 1.17). For example, nearly 40% of recipients of non-contributory pensions are neither poor nor vulnerable (IMF, 2024^[1]). To close protection gaps, better targeting is needed to reduce leakages and reach those in need. However, this alone will not suffice—higher budget allocations for social assistance will also be required. The *2023 Economic Survey of Peru* highlights that improving coverage and adequacy would require transforming Juntos—the conditional cash transfer programme—into a guaranteed minimum income scheme at a cost of about 1.1% of GDP, and expanding non-contributory pensions at an additional cost of 1.5% of GDP (Table 1.6). Despite welcome efforts to improve targeting by enhancing the household registry during the COVID-19 pandemic, the registry remains incomplete and outdated. The goal is to expand the household registry to cover 77% of households by 2026, but by December 2023 it covered only 40% of households, with poor urban coverage. Adopting modern poverty mapping—such as satellite imagery, and mobile phone data—and expanding the registry using real-time income verification, digital tools like AI, and proactive field outreach through door-to-door visits or community engagement could improve coverage and targeting. Moreover, strengthening information systems by making them interoperable (such as inked administrative data with social registries and population surveys) would enhance programme efficiency and equity, while allowing the country to better adapt

to emergencies, including weather shocks. Chile's Social Information Registry offers a useful example, combining socio-economic and administrative data from multiple sources, including self-registration, to identify potential beneficiaries more effectively. Costa Rica's SINIRUBE is another relevant model, integrating data from over 30 institutions to support social programme targeting, reduce duplication, and improve coordination.

Figure 1.16. Peru spends relatively more on education but outcomes are weak



Note: Panel A: Data for Peru refer to the year 2021; LAC is a simple average of Chile, Colombia, and Costa Rica. Panels B and C: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: OECD National accounts; OECD Health statistics; and OECD PISA 2022.

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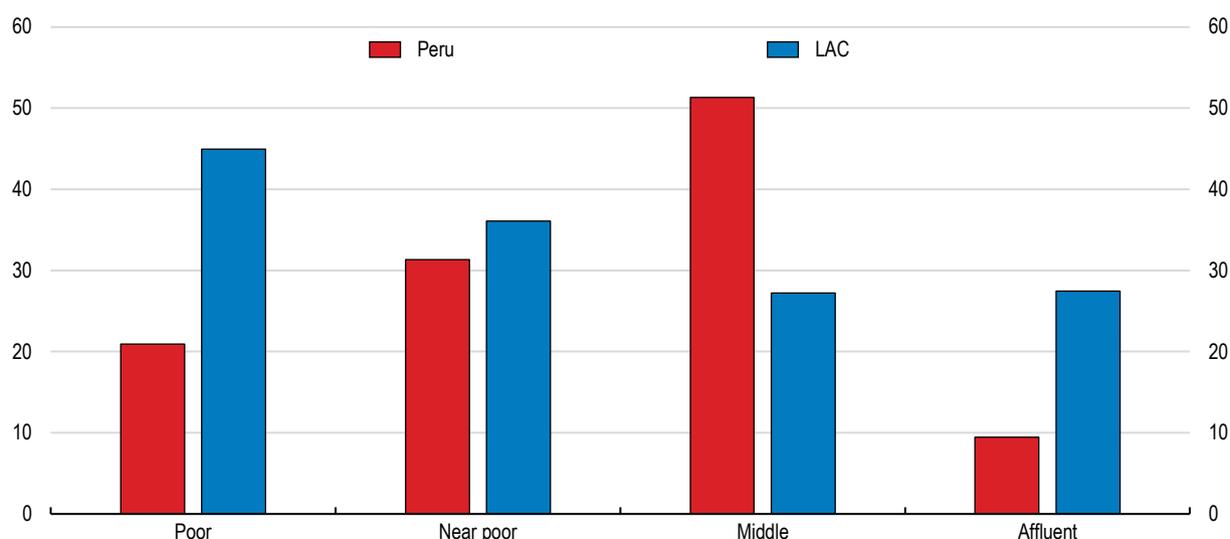
Strengthening budget processes and planning

Weaknesses in the budget process undermine public spending efficiency by weakening project planning and limiting the ability to allocate resources where they are most needed. Continuous in year modifications of the budget – averaging a 22% increase between 2010 and 2019 – lead to late-year spending spikes, rushed disbursements, and lower-quality investments, particularly in infrastructure, education, and health. For example, nearly 30% of annual public investment spending at the national level, and almost 70% at the subnational level, is not pre-defined in the initial budget. This undermines planning and delays project execution. In recent years, this pattern has eased as unspent balances from previous years are now included in the initial budget (PIA), reducing the scale of in-year budget increases: the modified institutional budget (PIM) rose by 17% in 2023 and 9% in 2024. A more credible multi-annual budgeting framework would improve continuity and align spending with strategic goals, rather than the current practice of not firmly committing resources beyond a single fiscal year. Budget rigidities also limit flexibility: most allocations repeat previous years' allocations and are tied to specific funding sources. This limits

flexibility in reallocating resources towards priority areas like health, education, and infrastructure (OECD, 2023^[32]). The government has begun reducing in-year budget modifications, decoupling spending lines from specific funding sources, and implementing a multiannual budgeting framework, but continued efforts are needed.

Figure 1.17. Non-contributory social protection schemes need to be better targeted

Percentage of workers benefitting from non-contributory social protection



Note: Non-contributory social protection programmes include programmes providing universal health coverage and/or unconditional/conditional cash transfers (including non-contributory pensions). Income groups are defined by daily per capita income in USD: poor (≤ 6.85), near poor (6.85–15), middle class (15–70), and affluent (≥ 70).

Source: Estimates based on OECD (2021), Key Indicators of Informality based on Individuals and their Household (KIIBIH) (database), <https://www.oecd.org/dev/Key-Indicators-Informality-Individuals-Household-KIIBIH.htm>.

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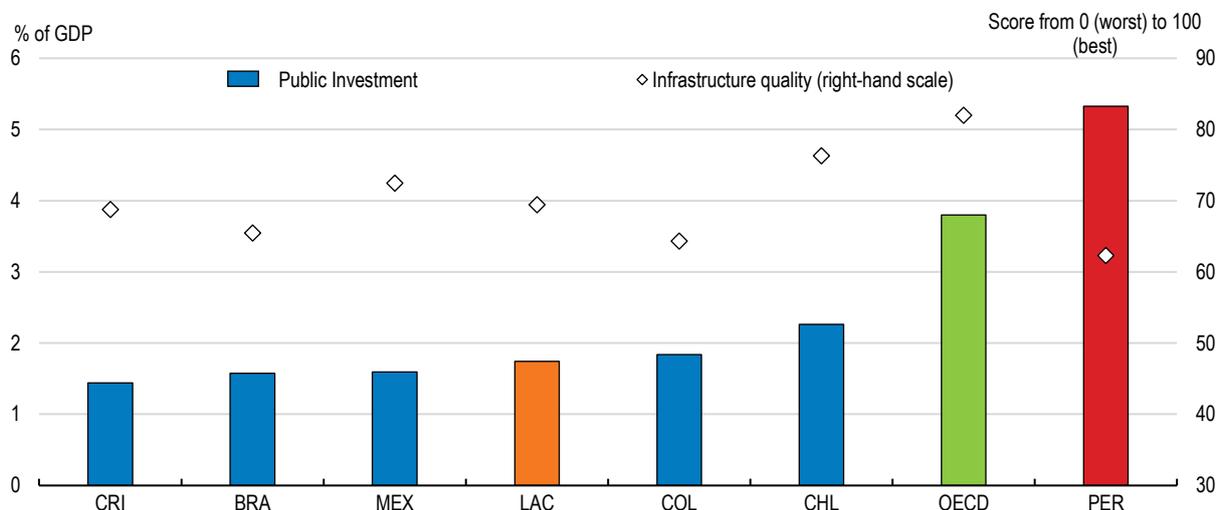
Performance-based budgeting has expanded to nearly half of the national budget (48% in 2023), but its impact is constrained by numerous, fragmented and often overlapping programmes, limited capacity to evaluate performance, and weak links to overall budget planning and strategic priorities. To strengthen performance-based budgeting, Peru could improve the monitoring and use of performance indicators, reduce and consolidate the number of budget programmes to focus on those with the greatest impact, and ensure a better link with strategic planning.

Public spending reviews remain rare in Peru despite their potential to improve allocation. Peru has conducted public spending reviews in coordination with the World Bank in 2003 and 2017. To successfully pursue spending reviews OECD experience suggests that Peru will need to improve its governance, set up clear objectives for the reviews, foster cooperation between line ministries and carve out high level political support (Tryggvadottir, 2022^[33]). Establishing a steering committee of senior officials and a working group comprising relevant officials from the Ministry of Finance and line ministries will also help. Moreover, Peru needs to integrate spending assessments into the government budget planning, particularly within its medium-term framework, to promote spending transparency and help reduce wasteful spending, aligning with OECD best practices. Setting clear targets for spending cuts or reallocation measures has proven to be a key success factor in OECD countries, as it facilitates monitoring when implementing the results of the spending review. Spending prioritisations and reallocations will become increasingly important as population ageing will gradually put further pressure on some categories of social spending, particularly pensions.

1.6.2. Improving public investment efficiency

Peru invests more in public investment (5.2% of GDP in 2024) than the OECD average (3.5% of GDP), however, the quality and efficiency of investment remains poor (Figure 1.18). Up to 40% of public investment could be used more effectively without increasing expenditure (Barco and Foinquinos, 2025^[20]). Peru ranks below OECD and regional peers in infrastructure quality, particularly in transport and logistics. Peru’s infrastructure gap was estimated at 50% of GDP in 2019; reflecting the investment needed to bring infrastructure quality up to OECD averages across most sectors and to regional standards in domestic transport (MEF, 2019^[34]).

Figure 1.18. High public investment does not translate into better infrastructure quality



Note: LAC is a simple average of Brazil, Chile, Colombia, Costa Rica, and Mexico. Data on public investment refer to the year 2024 (Peru), 2023 (Costa Rica, Mexico), 2022 (Chile, Colombia), and 2021 (Brazil). Data on infrastructure quality refer to the year 2019.

Source: OECD Government at a Glance indicators; BCRP; World Economic Forum, Global competitiveness index.

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Investment project planning and evaluation require reform. Although Peru has a National Infrastructure Plan, it is weakly linked to project selection and the multi-annual budget framework, as highlighted in the *2023 OECD Economic Survey of Peru*. It also lacks systematic incorporation of climate resilience and environmental sustainability criteria in project selection and design (Chapter 4). Projects are not assured funding across years, with each fiscal year requiring re-justification and allocation of resources for continuing projects, resulting in delays and inefficiencies. Implementing multi-year budgeting linked to the infrastructure plan would allow the government to commit resources to investment projects over several years, providing predictability.

Subnational governments manage over half of public investment projects and execute over 30% of total public spending (OECD, 2023^[31]), but often face low budget execution rates, particularly for infrastructure. A key issue lies in the design of intergovernmental transfers, which are the main source of subnational revenue. Intergovernmental transfers are largely discretionary and based on inertia rather than need or performance (Barco and Foinquinos, 2025^[20]). Formula-based transfers have complex distribution mechanisms that lack transparency, overlook fiscal capacity, and do not usually include performance-based incentives. A recent reform introduces per capita fiscal capacity into the FONCOMUN, the main municipal equalisation fund, allocation formula to better target small, resource-poor municipalities, and foresees a gradual increase in its funding for capital expenditures starting in 2026 linked to minimum requirements. However, as the increase is financed with central government resources, it implies a significant redistribution of funds across levels of government. To address concerns about the weak administrative and technical capacity of many local governments to use the additional resources effectively, the “Punche Gerente” programme to support municipalities with professional managers is being reinforced.

Formula-based transfers also create perverse incentives, encouraging the creation of new small municipalities to access more funds (Barco and Foinquinos, 2025^[20]). Their limited size also makes them insufficient to counterbalance the significant territorial disparities driven by the concentration of canon and royalties revenues in resource-rich regions. Transfers should be simplified and linked to socioeconomic needs and performance, as recommended in the 2023 *OECD Economic Survey for Peru* (Table 1.4). In parallel, giving regional governments more tax collection powers, while reducing discretionary transfers, would increase accountability and strengthen incentives for higher quality investment, especially if accompanied by efforts to reduce informality, improve cadastres, and strengthen subnational tax administration capacities.

Small, fragmented municipalities often lack technical capacity, leading to disperse and low-impact projects, and more generally lead to limited administrative capacity to implement reforms. High turnover among officials and a shortage of technically skilled personnel have further hindered effective coordination between regional and local governments. Strengthening local technical and administrative capacities, offering incentives for municipal consolidation, stronger coordination across government levels, and clearer definition of responsibilities across levels of government would improve public service delivery.

Project evaluation suffers from low-quality technical studies and poor oversight. Technical studies are often produced by the same entity that approves them, leading to poor project selection (World Bank, 2025^[21]). Many investment projects lack rigorous cost-benefit analysis leading to misallocated funding and low returns (Barco and Foinquinos, 2025^[20]). Following international best practices, project selection should be guided by standardised cost-benefit analysis aligned with a national infrastructure strategy (Box 1.3). To improve quality control, project formulation, evaluation and approval should be carried out by separate entities, rather than being concentrated within the same entity, as is currently the case. At least for large and complex projects, independent reviews and quality filters should be introduced during the formulation phase to ensure evaluations follow a value-for-money approach. The newly created Organism for Investment Project Design and Studies (OEDI), established in 2024 under the Council of Ministers, aims to improve the quality of pre-investment studies and technical designs for medium-complexity projects at the regional and local levels. The creation of real-time digital monitoring platforms could improve transparency and accountability, by tracking project approval, execution, and financial performance. The Autoridad Nacional de Infraestructura (ANIN), created in 2023, was established to centralise and accelerate the execution of large-scale public investment projects by providing stronger technical capacity and oversight. While the consolidation of investment programmes under ANIN aims to improve efficiency and reduce duplication, its current institutional design does not fully separate project formulation from evaluation and approval. Also in 2023, the Advisory Commission for the Development of National Infrastructure was created to strengthen infrastructure governance—particularly for PPPs—by issuing proposals and recommendations, inspired by the UK’s National Infrastructure Commission. Implementing the National Digital Transformation Policy would help streamlining administrative procedures and developing digital public key infrastructures.

Public procurement, accounting for nearly 50% of public spending, is a major driver of inefficiencies in public investment. Weak transparency, excessive bureaucracy, and insufficient competition in bidding processes result in higher costs, project delays, and suboptimal public service delivery. A new public procurement law coming into force in April 2025, introduces major reforms aligned with OECD recommendations (OECD, 2017^[35]). Key changes include a shift from price-based selection criteria to a "value for money" approach, the professionalisation of procurement officials, the introduction of new contracting modalities, and the integration of digital procurement systems under a new digital platform. The law also introduces new standards as integrity pacts (an ethical and mandatory commitment signed by contractors to promote transparency), anticorruption clause, performance evaluation tools to monitor supplier reliability and project execution, enhancing accountability, oversight initiatives, whistleblowing and compliance. Additionally, the law includes the regulation of minor contracts, those for small purchases with easier selection process in which suppliers are invited directly, that is expected to reduce discretionary spending and corruption risks while allowing small-value purchases to remain flexible.

Effective implementation will require a clear roadmap, strong enforcement, enhanced coordination between agencies, and ongoing evaluation (Barco and Foinquinos, 2025^[20]). Publishing regular procurement reports could improve transparency, accountability, and decision-making by tracking progress and identifying inefficiencies. Strengthening procurement as a standalone profession through training, certifications, and civil service integration is crucial for long-term improvements.

Box 1.3. Best OECD practices in public investment management

Strategic planning and prioritisation: A national investment strategy should align projects with long-term economic and social goals. Countries like the UK have established independent commissions to evaluate infrastructure needs and advise on investment priorities, ensuring that decisions are based on technical rather than political consideration.

Ex-ante evaluation and project selection: Ex-ante evaluations assess project feasibility, risks, and expected outcomes before approval. In South Korea, Japan, and Chile, ex-ante evaluations are conducted by independent agencies. The most used evaluation method is social cost-benefit analysis. However, when benefits are difficult to quantify, cost-effectiveness and multi-criteria analysis are applied. In the UK, the "Green Book" guides investment appraisal across all government ministries, integrating economic, social, and environmental assessments. South Korea uses an analytical hierarchy process combined with regional balance considerations to prioritise projects. Many countries apply proportionality principles, setting different evaluation thresholds based on project cost and complexity.

Monitoring, evaluation, and accountability: Real-time project monitoring systems help track progress, control costs, and prevent inefficiencies. Countries such as Canada and Sweden have integrated digital tracking tools to improve public investment oversight. Ex-post evaluations, such as Japan's Government Performance Evaluation System, assess project effectiveness and guide future decisions. Public reporting and citizen participation platforms, like those used in New Zealand and Finland, increase transparency and trust in investment projects.

Strengthening institutional capacity: Effective investment management requires skilled personnel in government agencies. In many Latin American countries, particularly at the subnational level, municipalities lack technical expertise. Countries like Chile and South Korea invest in specialised training for officials handling project formulation and evaluation.

Source: (OECD, 2017^[36]; ITF, 2021^[37]; Aron et al., 2024^[38])

1.6.3. Reducing and preventing corruption

Corruption significantly hinders Peru's economic and social progress by weakening government effectiveness, eroding institutional trust, and limiting the delivery of quality public services. It impairs law enforcement, distorts public spending priorities, and fosters organised crime. High-profile scandals involving public officials and private sector actors have exposed vulnerabilities in public procurement, infrastructure contracts, and political financing. In 2023, corruption affected 12.7% of public spending (2.4% of GDP), with higher shares in public investment (17.5%) and at local (13.1%) and regional (15.4%) government levels (CGR, 2024^[39]). The OECD Public Integrity Indicators results from 2023 place Peru above the OECD average in both the minimum content and the coverage of its strategic framework, reflecting the ambition of its national policy on integrity and anti-corruption (Figure 1.19). However, enforcement gaps, weak internal controls, and persistent integrity risks, particularly at the subnational level, continue to challenge the effectiveness of these policies (OECD, 2024^[40]).

Peru's efforts to strengthen its anti-corruption framework face significant challenges due to enforcement gaps and coordination issues among public integrity institutions responsible for prevention, detection, and sanctioning of corruption (OECD, 2024^[41]). Despite the establishment of the Integrity Model and Institutional Integrity Offices, their implementation is inconsistent, particularly in municipalities with limited administrative capacity and oversight. A pilot project to implement the Integrity Model began in 2023 with fewer than 30 municipalities, expanded to 41 in 2024, and it is expected to reach at least 100 municipalities in 2025. Since 2024, Peru has taken steps to strengthen regional anti-corruption coordination, including issuing 115 recommendations to regional commissions, expanding training, launching a digital monitoring system, and increasing technical assistance, though implementation remains uneven and ongoing in many regions. This is exacerbated by limited inter-institutional coordination, leading to fragmented anti-corruption efforts. Peru could benefit from establishing a comprehensive National Integrity and Transparency System to improve coordination among public integrity institutions and subnational governments, strengthen oversight mechanisms, and ensure effective implementation of integrity policies at all levels of government, thereby improving the fight against corruption. Ensuring the proper functioning

of this system requires strengthening complementary elements, linked to internal control reforms and advancing the civil service reform (OECD, 2024^[40]). OECD Public Integrity Indicators show that Peru meets only four criteria on internal control and risk management and lacks a central body to coordinate and oversee internal control and audit activities. A dedicated administrative system—led by a new national authority—could be established to design and standardise preventive anti-corruption measures, creating a second line of defence within public entities. This system must function independently from the National Control System and the Supreme Audit Institution (SAI).

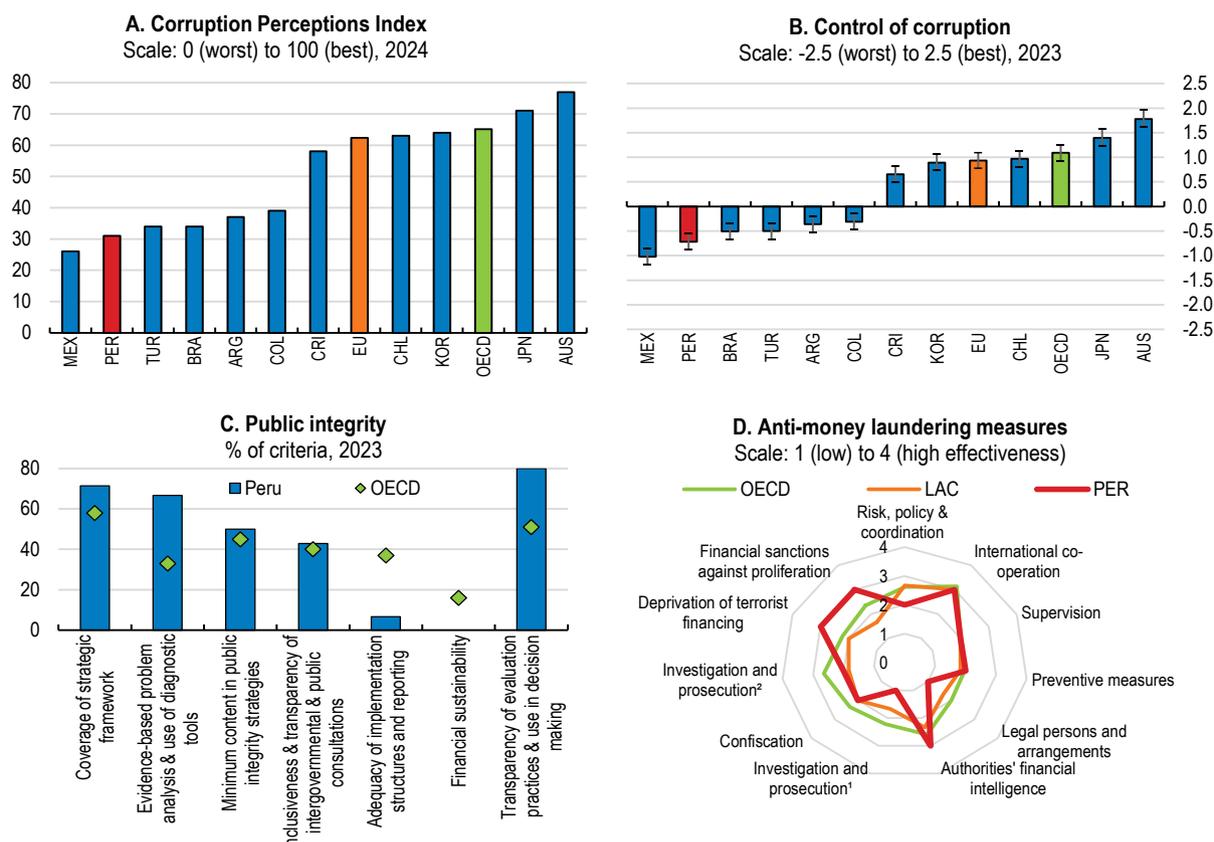
Fully implementing the civil service reform is crucial to reduce corruption, but also to enhance public spending efficiency and strengthen subnational government technical and administrative capacities as discussed above. There have been renewed efforts to advance civil service reform, notably through a 2023 legislative decree that simplified procedures, mandated implementation in the Executive Branch, and introduced enforcement tools, but full implementation will require sustained political commitment and coordination across all levels of government. Strengthening administrative capacity will also require investing in digital systems, improving human resource management, building skills through targeted training, and enhancing data use for planning and oversight. Furthermore, simplifying administrative procedures, reforming public procurement, decentralisation, and ensuring effective judicial enforcement are all critical for a comprehensive anti-corruption strategy.

Peru's constitution safeguards judicial independence, yet challenges persist. Current appraisal and evaluation processes and the high reliance on provisional judges compromises judges' independence and impartiality, while affects the consistency and quality of judicial decisions (OECD, 2024^[40]). In 2024 and 2025, the National Justice Board issued several calls to appoint permanent judges and prosecutors, aiming to reduce this reliance and strengthen the judiciary's stability. The lack of coordination among various judicial bodies leads to inefficiencies and vulnerabilities to external pressures. Enhancing the autonomy of judicial institutions, improving their coordination and establishing robust oversight mechanisms is essential to prevent undue influence and to uphold judicial integrity and accountability. Recent legislative proposals concerning cooperation agreements and asset forfeiture have raised concerns among prosecutors about their potential to hinder anti-corruption efforts (OECD, 2025^[42]). Additionally, limited expertise in financial crime investigations, and weak case management systems hinder corruption prosecutions, as already highlighted in the 2023 OECD Economic Survey of Peru (Table 1.5).

Regulating and ensuring transparency in lobbying and political finance can enhance public spending efficiency and reduce corruption. By reducing policy capture by special interests, these measures can help align public expenditures with the broader public interest, preventing the diversion of resources for private benefit. Peru has improved political financing transparency by banning anonymous donations and foreign contributions, performing slightly above OECD averages on political finance regulations according to the OECD Public Integrity Indicator. However, the National Office for Electoral Processes (ONPE) lacks sufficient capacity to audit campaign finances and enforce compliance, particularly at the subnational level, where illicit financing risks remain high (OECD, 2023^[31]), and not all political parties have submitted their accounts within the timelines defined by national legislation. A 2019 reform criminalised illegal political financing, but weak enforcement due to resource constraints undermines its impact. Strengthening ONPE's auditing powers, enforcing illegal campaign finance regulations, and increasing the capacity of prosecutors and judges to investigate and sanction violations remain key priorities.

Peru's lobbying regulations perform above OECD average in the OECD Public Integrity indicators but lack comprehensive oversight. The 2018 lobbying law update introduced new requirements but faces implementation gaps. There is no central authority to oversee compliance, no unified lobbying register, and no available information on investigations or sanctions. Disclosure obligations only apply to face-to-face meetings, excluding written communications and indirect lobbying. Strengthening oversight, creating a comprehensive register, expanding transparency obligations and supervision of lobbying activities are needed to reduce undue influence in policymaking, as already highlighted in the 2023 Economic Survey.

Figure 1.19. Need to fight corruption and strengthen public integrity in Peru



Note: Panel B shows the point estimate and the margin of error. Panel D shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refer to money laundering. "Investigation and prosecution²" refer to terrorist financing. LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: Panel A: Transparency International; Panels B: World Bank; Panel C: OECD Public Integrity Indicators (database); Panel D: OECD, Financial Action Task Force (FATF).

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Table 1.5. Past OECD recommendations to reduce corruption

Recommendation in previous Survey	Action taken since last Survey (Sep 2023)
Establish a comprehensive strategy for effective corruption deterrence by strengthening preventive anti-corruption measures and implementing complementary reforms in key areas of justice, civil service, public procurement, infrastructure governance, and regulatory transparency.	In May 2024, Peru introduced a new regulation for the Law on Transparency and Access to Public Information. Peru's new General Law on Public Procurement, enacted on June 2024, introduces standardised international contracts, simplifies project management, strengthens dispute resolution mechanisms, and incorporates new procurement methods such as innovation-focused and centralised purchasing, as well as the anti-bribery clause, the anti-corruption clause, and the Integrity Pact. In 2023, Peru enacted a legislative decree to enhance regulatory quality, and in 2025, decrees were issued to implement its provisions, including relevant instruments aligned with international good regulatory practices (e.g. RIA Ex Post).
Reduce the share of temporary judges by replacing them with career positions.	In 2024 and 2025, the National Justice Board issued several calls to appoint permanent judges and prosecutors, aiming to reduce reliance on provisional appointments. As of June 2025, the share of permanent judges increased by 5.3% in the Supreme Court, 11.8% in Superior Courts, and 3.8% in specialised courts, while the number of permanent prosecutors rose from 2,632 to 2,723; the National Justice Board completed eight selection processes and launched eight more to fill 1,334 new positions.
Improve individual and institutional incentives for civil servants to switch to the new regime.	In December 2023, Peru enacted a decree to accelerate the implementation of the civil service reform. This decree was further detailed in directives issued in early 2024, which provided guidelines for transitioning public sector entities to the new civil service regime. Additionally, in 2024, the decree indicated a renewed commitment to advancing civil service reform.

Improve the technical quality of national infrastructure planning and coordination and consistency of national plans with local infrastructure project implementation.

In 2023, Peru established the National Infrastructure Authority to manage large-scale, complex infrastructure and climate adaptation projects, and the Investment Project Studies and Design Agency (OEDI) to support medium-complexity investments at the regional and local levels. In 2025, the government approved the National Public Investment Policy Guidelines (LPNIP) to improve planning, selection, execution, and financing of public investments, focusing on priority services and growth-related gaps..

1.7. Meeting spending needs without undermining fiscal sustainability

Medium term risks to fiscal sustainability are rising, underscoring the need for prudence. Commitments to expand spending – particularly pensions and climate adaptation – are not currently matched by new sources of revenue. In 2024, Congress approved a major pension reform without a clear financing plan, which the Fiscal Council (2024^[43]) warned will significantly increase fiscal costs by about 0.4% of GDP in the short-term (Box 1.4). The National Adaptation Plan 2021–2030 estimates climate adaptation spending needs of around 0.7% of GDP per year, while current spending is only 0.2% of GDP (see Chapter 4). OECD projections suggest that, without further policy action, Peru’s public debt ratio will keep increasing significantly, when accounting for already committed spending needs for pensions and climate adaptation (Figure 1.20, red line).

Broader pressures on public finances are also mounting. A 2022 ruling from the Constitutional Court broadened the scope for legislative involvement in fiscal matters. While the 1993 Constitution limits Congress’s authority to increase spending or approve tax benefits without prior analysis from the Ministry of Finance, the ruling allows such initiatives if their fiscal effects apply to future budgets. This has contributed to more frequent fiscal policy proposals from various political actors.

Several recent initiatives risk creating permanent spending commitments without clearly identified financing. For instance, the creation of 20 new universities and expanded public sector benefits carry long term costs (CF, 2024^[44]; CF, 2025^[18]). Additional measures that erode the tax base stem from current proposals to expand tax-exemptions, such as for special economic and tourist zones. As of May 2025, there are at least 242 bills in Congress with negative fiscal impacts: 42 would reduce public revenues (including 32 granting new tax benefits), 184 would increase public spending, and 22 would affect subnational finances. Most lack cost assessments. In parallel, large on-going infrastructure projects, including those under public-private partnerships and government-to-government contracts could generate fiscal commitments estimated at up to 19% of GDP (CF, 2024^[43]). Continued fiscal support to Petroperú remains a major risk unless credible strategy is implemented to restore Petroperu's viability, in line with OECD Guidelines on Corporate Governance of State-Owned Enterprises, and for example integrate Petroperú under FONAFE’s ownership framework, as recommended in the *2023 Economic Survey*. FONAFE is the public holding company that oversees most Peruvian SOEs and is broadly aligned with OECD best practices, but its mandate and capacity should be strengthened to enhance strategic ownership, professionalise board appointments, and implement performance-based oversight more effectively.

These mounting pressures significantly increase the risks to the sustainability of public finances in the absence of offsetting measures. A firm and credible commitment to prudent fiscal management is needed to safeguard macroeconomic stability, protect investment-grade credit ratings, and preserve the country’s capacity to respond to future shocks. Without such commitment, Peru risks eroding the robust and rules-based macroeconomic framework for which it has long been recognised.

At the same time, Peru needs to increase public spending to achieve a more sustainable and inclusive growth (Table 1.6). Achieving net-zero emissions by 2050 (see Chapter 4), improving education outcomes, strengthening social protection, including expanding non-contributory pensions, increasing health sector funding to improve coverage and service quality, and broadening the reach and adequacy of the Juntos conditional cash transfer programme, will require higher spending, as already highlighted in the 2023 OECD Economic Survey of Peru. Achieving this while keeping debt in a sustainable path will require ambitious efforts to raise tax revenues and improve spending efficiency (Figure 1.20, orange line), and as discussed in detail in the previous sections. An ambitious package of structural reforms to enhance growth – such as strengthening the rule of law, reducing informality, enhancing education - would support a faster return of the debt ratio to the 30% target by 2040 (Figure 1.20, green line, and Table 1.7).

Box 1.4. Overview of the 2024 pension reform and its fiscal costs

In late 2024, Congress approved the *Modernisation of the Pension System Law*, introducing a four-pillar model to improve coverage and adequacy. The implementing regulation expected for the second half of 2025. Key changes include:

- **Contributory pillar:** Mandatory enrolment in either the public (pay-as-you-go) or private (pension funds) scheme, with automatic enrolment in the public scheme by default. The public scheme will transition to a notional defined contribution model by 2030. Self-employed workers—who were previously not required to contribute—will be mandated to contribute 2% of their income, gradually increasing to 5% starting in the third year after the implementing regulation is published, while employees will continue contributing 13% in the public scheme and 10% to the private scheme plus fees and insurance. The retirement age remains 65, but with periodic revisions. Extraordinary early withdrawals from private pension funds are forbidden.
- **Semi-contributory pillar:** A minimum pension is raised, and equalised across schemes, to PEN 600 (53% of the minimum wage) for those with over 20 years of contributions but without sufficient savings, with proportional benefits for those with 10–19 years; this minimum benefit includes government subsidies.
- **Non-contributory pillar:** Gradual expansion of Pension 65 to all elderly in poverty, with benefits capped at 25% of the minimum pension, subject to budget availability.
- **Voluntary pillar:** Includes a state-funded supplementary contribution equal to 1% of the value of electronic purchases made with an electronic sales receipt linked to the contributor's national ID, with two caps: per purchase and annual spending. Also provides, subject to budget availability, a state-funded matching contribution for low-income affiliates, up to a fixed annual cap.

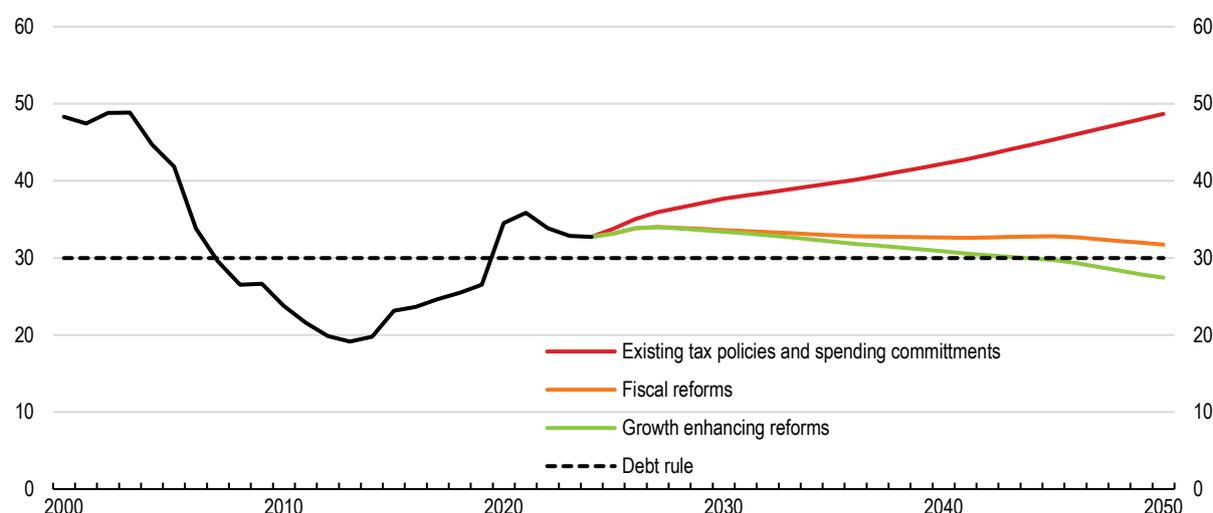
This reform aligns with several OECD recommendations: mandatory enrolment, higher minimum pensions and expanded non-contributory pensions. However, it does not fully resolve low coverage due to informality and infrequent contributions and non-contributory pensions remain inadequate. Further measures are needed to expand coverage, raise benefit adequacy, and strengthen incentives for formalisation, such as proportional pension benefits for contributors with under 10 years for those in the public scheme and progressive contributory rates (lower for low-income workers), accompanied by a universal minimum pension, as already highlighted in the *2023 OECD Economic Survey of Peru*. Better integration of public and private schemes would also improve the system, more precise rules for updating the minimum pension and effective enforcement of the ban on extraordinary withdrawals (see Chapter 2).

The estimated fiscal costs of the pension reform

The reform introduces significant fiscal costs (CF, 2024^[45]). One of the main cost drivers is the higher minimum pension, which will also cover individuals who withdrew funds from their private pension funds (see Chapter 2) and independent workers contributing at a lower rate than formal employees. The consumption-based contribution may cost 0.2-0.3% of GDP annually. Additionally, an increase in benefits for the military and police pension system is estimated to cost PEN 3 billion (USD 0.83 billion). Combined, these reforms are expected to cost approximately 0.4% of GDP in the first year of implementation, nearly doubling in 20 years and tripling beyond 2060. Actual costs may be higher, as current estimates omit the need to adjust benefits to maintain purchasing power.

Figure 1.20. Scenarios for public sector gross debt

Non-financial public sector gross debt as a % of GDP



Note: The base scenario reflects **existing tax policies and spending commitments**, incorporating OECD fiscal forecasts for 2025 and 2026, and projects primary spending to be 0.9 percentage points of GDP higher from 2026 onward accounting for the pension reform and adaptation spending in line with the plan. It assumes real GDP growth and inflation to follow OECD projections over 2025-26 as in Table 1.1, after that real GDP growth gradually converges to a potential output growth of 2.8%; the inflation rate is assumed at the target of 2%. The **fiscal reforms scenario** assumes a gradual increase in primary expenditure, financed through the progressive implementation of tax and spending efficiency reforms, as outlined in Table 1.6. The **growth enhancing reforms scenario** assumes the implementation of an ambitious package of selected structural reforms consistent with recommendations in Table 1.7. In all scenarios the evolution of the interest rate paid on new debt issued is a function of the 10 years US sovereign yield and a risk spread that depends on the ratio of debt-to-GDP. All scenarios account for ageing-related costs (Pessino and Ter-Minassian, 2021^[46]). Source: OECD calculations.

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Table 1.6. Long-term illustrative fiscal impact of the Survey recommendations

Recommendation	Estimated impact on fiscal balance, % of GDP
Revenue side	
Improve tax administration and tax collection	+1.8
Reducing tax expenditures while compensating the vulnerable	+0.9
Merge intermediate corporate tax regimes for small businesses	+0.3
Broaden the personal income tax base by reducing the basic deduction, while reducing social contributions for low-income workers	+0.4
Strengthen collection of property, excise and environmental taxes	+0.8
<i>Total revenue side</i>	4.2
Spending side	
Improve spending efficiency	-1.0
Additional public investment for meeting climate targets and adaptation	0.9+
Expanding early childhood education and improving education and training quality, including VET	1.3+
Improving social protection (non-contributory pensions, health spending and conditional cash transfers)	3.0+
<i>Total spending side</i>	4.2+

Note: This exercise illustrates possible ways Peru could raise and allocate additional tax revenues. This is not an exhaustive list of policy recommendations to be implemented, and actual revenues and spending will depend on the specific reforms adopted. Estimates draw on various sources in the literature and assume that only part of the gaps are closed. For instance, less than half of current tax evasion and spending inefficiencies are reduced. For recurrent taxes on immovable property 80% of the gap is closed relative to the OECD benchmark. The fiscal costs of improving social protection were analysed in detail in the 2023 OECD Economic Survey of Peru. This includes estimates of the budgetary impact of universalising the non-contributory pension programme, increasing health sector funding to improve coverage and service quality, and broadening the reach and adequacy of the Juntos conditional cash transfer programme.

Source: OECD estimates.

Table 1.7. Ambitious structural reforms would lift potential growth significantly

Illustrative estimated impact of selected reforms on potential GDP by 2050 relative to the baseline

Reform	Annual impact on potential GDP (in percentage points)
Closing the employment gender gap	0.3
Improved education outcomes	0.1
Improvement of rule of law and reduced corruption	0.3
Improvement in product market regulations	0.1
Lower informality	0.2
Implied average annual growth increase of implementing the ambitious reform package:	1.0

Note: Simulations based on the OECD long-term growth model (Guillemette and Château, 2023). Potential output estimation is based on a Cobb-Douglas production function with constant returns to scale based on the OECD long-term growth model. Scenario 1 assumes closing two-thirds of the female employment gap by 2060. Scenario 2 aligns student performance and educational attainments with the OECD average by 2050. Scenario 3 assumes a gradual alignment of the Rule of Law index with the first quartile of OECD countries by 2060. Scenario 3 assumes the OECD PMR indicator reaching the top 5 of OECD countries by 2030. Scenario 4 assumes a reduction in the size of informal economy (as a share of GDP) by 2 percentage points from 18% of GDP in 2021 based on estimations on the impact of total factor productivity by (IMF, 2022_[47]). The combined impact of reforms could in fact be larger than the sum of individual scenarios, due to positive interactions across policy areas that reinforce each other's effects on potential output.

Source: Simulations using the OECD long-term model (Guillemette and Château, 2023).

1.8. Improving the fiscal framework

Peru's fiscal framework has played an important role in promoting fiscal discipline over the past two decades, but it is now time for a comprehensive review to strengthen its effectiveness. Fiscal rule compliance has varied over time: between 2000 and 2019, the deficit and expenditure rules were met on 30% and 45% of the time when measured against the medium-term target (e.g. a fiscal deficit of 1% of GDP). Compliance with the deficit rule rises to 75% when measured against operational targets (Mendoza et al., 2021_[48]; FisLac, 2024_[49]). Since the pandemic, compliance has deteriorated, with recurring deviations from fiscal rules and changes in the operational fiscal targets (FisLac, 2024_[49]), raising the need for a review of the framework's design to enhance both compliance and credibility. While reforms to the fiscal framework could strengthen its effectiveness, no rule or framework can substitute for a genuine and sustained commitment to prudent fiscal management, which remains the backbone of a strong macroeconomic framework.

Reforms could include reviewing the adequacy of the current deficit target and debt ceiling to ensure they remain appropriate for current conditions. This may involve shifting the framework's anchor from the 30% of GDP debt ceiling to a prudent debt ceiling aligned with structural economic fundamentals, defined as the highest debt level consistent with long-term fiscal sustainability and economic growth—that is, at some distance below the maximum debt level that can be maintained without triggering rising borrowing costs, losing market access, or undermining future growth. Such an adjustment would make compliance more achievable, while strengthening the credibility of the fiscal framework, and improving its role in guiding fiscal policy. Operational targets, such as the fiscal deficit or expenditure, should be consistent with this prudent debt level, ensuring fiscal policy adjustments align with long-term debt sustainability. Something similar has been done recently in Chile or the European Union.

Simplifying the set of rules could improve clarity and compliance, while strengthening escape clauses, with clear activation criteria, deviation durations and return paths, would improve transparency, flexibility and compliance. Moreover, Peru frequently modifies its operational fiscal targets, undermining the credibility of the framework; better-defined escape clauses would reduce the need for ad hoc adjustments. Peru's fiscal framework, while based on observed variables, incorporates elements that emulate a structural rule—for example, linking current spending growth to potential GDP to smooth expenditure over the cycle. However, given Peru has one of the most volatile terms of trade among OECD countries, adopting structural operational targets that adjust for commodity price fluctuations, such as copper prices—such as the framework used in Chile (Box 1.5)—could help strengthen

compliance and enhance credibility. Over-optimistic growth and revenue forecasts have contributed to unrealistic fiscal targets and subsequent non-compliance or changes in operational targets. Fiscal credibility also depends on better planning and transparency. Improving the transparency of forecast assumptions and sources of fiscal rule non-compliance and target modifications would support more credible and forward-looking policymaking. Extending the medium-term fiscal framework horizon beyond three years would support better medium-term fiscal planning.

Box 1.5. International experiences with structural fiscal frameworks

Chile's fiscal framework is anchored in a structural balance rule that adjusts government revenues for fluctuations in economic activity and copper prices—the country's main export. To determine the structural revenues each year, two independent expert committees estimate the long-term trend of non-mining GDP and a reference copper price. Since 2023, a third committee provides a reference price for lithium, improving the framework's ability to manage revenue volatility from this increasingly important export. Based on these estimates, the Ministry of Finance defines a spending limit consistent with the structural balance target. The structural target is operationalised to achieve a prudent level of public debt over time. Compliance with the rule is monitored by the independent Fiscal Council, which evaluates the government's adherence to the structural balance target, the use of assumptions, and the transparency of fiscal reporting. Deviations from the structural target are allowed only under exceptional and transparently reported circumstances and must be justified publicly in the fiscal policy decree and quarterly public finance reports.

Peru implemented structural fiscal rules between 2015 and 2016. This framework introduced a non-financial government spending rule, supported by an ex-ante structural balance estimation for the non-financial public sector. It aimed to isolate transitory components in GDP and commodity-linked revenues to enhance predictability and stability in public spending.

International experience shows that, when well-designed and supported by strong institutions, structural rules can improve fiscal discipline and credibility. Norway, for example, uses a structural non-oil fiscal balance rule linked to the expected return on its sovereign wealth fund, helping ensure long-term fiscal sustainability. Switzerland's debt brake rule, which adjusts for the business cycle, has kept public debt low and stable. These examples highlight the importance of simplicity, transparency, and independent oversight in making structural rules both credible and enforceable.

The Fiscal Council, established in 2013 and operational since 2016, has quickly established itself as an independent and credible source of fiscal analysis. It plays an important role in promoting sound fiscal policy by independently assessing macroeconomic forecasts, fiscal plans, and compliance with fiscal rules. The Council is well aligned with OECD's Principles for Independent Fiscal Institutions, particularly in areas of local ownership, independence, non-partisanship and transparency. Further alignment could be achieved by formalising access to information through memoranda of understanding and undertaking an external evaluation. Strengthening regular engagement with Congress—such as through hearings on its main assessments—would also help reinforce the Council's role in the budget process and inform fiscal debate. The Council's communication could also improve by making its analysis more accessible to non-technical audiences and increasing media engagement. Protecting its budget from political pressure requires creating a separate budget line, independent from the one for the Ministry of Finance, and introducing multi-annual financing. Strengthening the Council's role may involve conducting cost estimates of selected new policy proposals, deepening its analysis on long-term fiscal sustainability, and analysing regional public finances, where regional fiscal rules exist but are not subject to independent oversight (OECD, 2023^[50]). Expanding responsibilities must be matched with dedicated budget and sufficient staffing to ensure the council has the technical capacity to produce high-quality, independent analysis (Caldera Sánchez et al., 2024^[51]; von Trapp and Nicol, 2017^[52]). Furthermore, the Council's findings could carry more weight in the policy process. While the government publishes a response to the Council's opinion on the annual Budget, this good practice should also apply to the mid-year budget review, which currently lacks both an annexed opinion and a formal reply.

Rebuilding Peru's fiscal buffers is vital for crisis preparedness and for reinforcing rule credibility. The Fiscal Stabilisation Fund (FEF), designed to save windfall revenues, played a key countercyclical role during past crisis, such

as the strong El Niño in 2017 and Covid-19. However, its balance has declined to 1.1% of GDP, well below pre-pandemic levels. With rising copper demand expected from the global energy transition, Peru has an opportunity to strengthen its fiscal buffers. The FEF's has been limited by irregular contributions and weak policy coordination with broader fiscal policy goals. Peru could integrate automatic savings rules directly into its fiscal framework, as Chile and Norway, where structural balance rules require saving excess revenues from high commodity prices in stabilisation funds and allow withdrawals to support spending when prices fall. This could be accompanied by improvements in the FEF's investment policies to manage it as a sovereign wealth fund or a similar vehicle, allowing not only fiscal surpluses but also higher financial returns to strengthen its balance over time. Clear rules, regular audits and public reporting would enhance transparency and accountability, while forward guidance of the use of funds could further strengthen the fund's effectiveness.

Table 1.8. Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Informality affects over 70% of workers and remains a major obstacle to sustainable growth. It limits access to social protection, reduces productivity and tax revenues, and reflects deeper structural issues such as weak institutions, poor tax design, and gaps in education and skills.	Establish a comprehensive strategy to foster formalisation, including lower non-wage labour costs, particularly for low-income workers, better skills, stronger law enforcement, simplified labour market and businesses regulations, and more effective and transparent governance.
Safeguarding monetary and financial stability	
Inflation has eased and is currently within the Central Bank's 1–3% target range but remains exposed to risks from domestic political instability and global economic uncertainty.	Maintain a cautious and data-dependent broadly neutral monetary policy stance.
The financial sector remains resilient, but credit quality has deteriorated, with rising NPLs, and financial pressures on microfinance institutions facing high delinquency rates.	Maintain strong financial oversight and ensure adequate capital buffers to preserve financial stability and prevent systemic risks.
Peru has reduced credit dollarisation to 24% by 2023, but unhedged exposure is concentrated in mid-sized firms, posing financial stability risks.	Review macroprudential measures to retain only the most effective tools against currency mismatches and deepen FX and derivative markets through to support firms' hedging capacity.
While the Central Bank (BCRP) already enjoys significant operational independence, and governance adheres to international best practices further measures could help insulate it more effectively from political cycles.	Introduce staggered board appointments to reinforce continuity, protect institutional memory, and further insulate the BCRP from political cycles.
Peru has been progressively implementing Basel III standards, but some gaps remain.	Continue to make progress in implementing Basel III standards.
Restoring fiscal discipline	
Peru's fiscal position has deteriorated post-pandemic, with persistent fiscal deficits, and a second consecutive year of fiscal rule non-compliance in 2024. Meeting the fiscal targets over 2025 and 2026 will be challenging amid rising spending and tax base erosion. The ongoing financial instability of Petroperu has required repeated and substantial government support, adding significantly to the fiscal deficit.	Strengthen compliance with the fiscal rule through a credible consolidation path focused on curbing spending, particularly public sector payroll, phasing out inefficient subsidies and reduce tax expenditures to ensure debt converges toward target. Restore Petroperu's financial viability through a comprehensive restructuring plan that enhances transparency, strengthens governance and financial oversight.
Reforming the tax system to increase revenues and stimulate economic growth and formalisation	
Peru's tax-to-GDP ratio remains low at 17%, reflecting widespread evasion, informality and a narrow tax base, with revenue losses exceeding 10% of GDP in 2023 and tax expenditures at 2.2% of GDP in 2024. The coexistence of multiple SME regimes in the CIT system fosters tax arbitrage, incentivizing firms to stay small and informal. High informality and a high threshold for start paying personal income taxes result in significant revenue losses. The current personal income tax system treats labour and capital income unequally, weakening its equity and revenue-raising capacity.	Mobilise additional tax revenue by strengthening the tax administration, reducing tax expenditures, and streamlining corporate tax regimes for small businesses. Increase personal income tax collection by lowering the minimum income threshold for personal income tax payments, while introducing a progressive social contributions scheme based on individual labour income to reduce informality. Align the taxation of capital income more closely with labour income to reduce inequities and strengthen the progressivity and revenue potential of the personal income tax system.
Improving the quality and efficiency of public spending	
Weaknesses in budget planning, public investment management and procurement and subnational governance undermine the effectiveness of public spending, limiting progress on social outcomes and infrastructure	Improve spending efficiency by strengthening budget planning and execution, enhancing project selection through standardised cost-benefit analysis and reforming subnational transfers to better align

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
despite relatively high public investment. Up to 40% of public investment can potentially be used more efficiently.	resources with needs and performance.
Frequent in-year budget modifications and absence of credible multiannual planning result in rushed year-end disbursements and low-quality spending. Weaknesses in project appraisal, selection, and execution undermine public investment efficiency.	Reduce within-year budget modifications and implement a credible multiannual budgeting framework.
Corruption remains a major obstacle, costing an estimated 2.4% of annual GDP undermining service delivery, trust in institutions and the effectiveness of public spending, particularly at subnational levels. Despite strong anti-corruption policies, weak enforcement, fragmented oversight and limited judicial capacity hinder progress.	<p>Improve public investment management by separating project formulation, evaluation, and approval for better oversight.</p> <p>Establish a National Integrity and Transparency System and advance complementary reforms in justice, civil service, and public sector oversight to strengthen anticorruption enforcement across all levels of government.</p> <p>Strengthen judicial independence by increasing the number of merit-based selection processes for judges and reducing reliance on provisional appointments.</p>
Enhancing the fiscal framework	
Peru's fiscal framework has historically supported strong outcomes, but credibility has weakened due to frequent target rule revisions, suspensions and inconsistent enforcement and a second consecutive year of fiscal rule non-compliance in 2024.	<p>Review the fiscal framework to enhance credibility and enforceability, including by shifting to a prudent debt ceiling consistent with long-term fiscal sustainability, aligning operational rules with this anchor.</p> <p>Improve the accuracy and transparency of macroeconomic forecasts and systematically publish deviations and underlying assumptions to build trust in fiscal targets.</p>
The Fiscal Council has played a positive role in maintaining robust public finances, but its independence, resources, and impact can be reinforced.	Strengthen the Fiscal Council by enhancing engagement with Congress through regular hearings, securing its financial independence through a separate, multi-annual budget line, supporting its mandate to produce cost estimates of selected new policy proposals.
Peru's economy faces significant risks from commodity price swings and climate-related shocks. The Fiscal Stabilisation Fund has helped Peru manage past crises, but is now significantly reduced. Rising global copper demand offers an opportunity to rebuild fiscal buffers.	Rebuild fiscal buffers by establishing transparent and automatic savings rules linked to the fiscal framework for the stabilisation fund and managing it with clear investment policies to raise long-term returns.

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2 Supporting SMEs' access to finance to drive investment and growth

Paula Garda, OECD

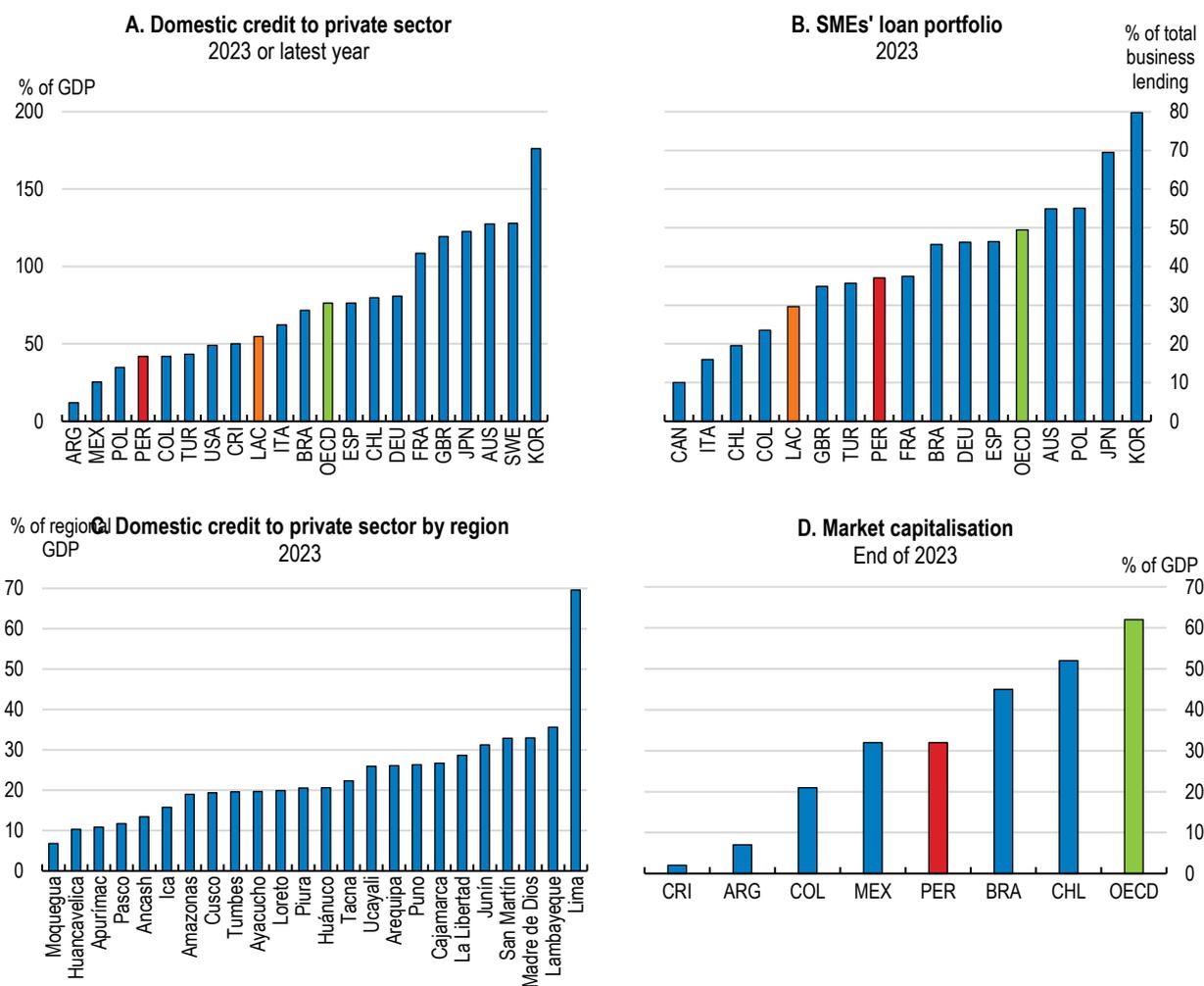
Michael Koelle, OECD

Limited access to finance remains a key constraint for Peru's micro, small and medium-sized enterprises (MSMEs), which account for 85% of employment and 99% of firms, restricting their ability to invest, grow and formalise. Many MSMEs operate informally, lack credit histories, and rely on informal lenders, leaving many without access to formal credit. Even among formal firms, high interest rates, limited credit history, and high transaction costs result in limited access to finance, despite a competitive environment in the MSME finance segment. Capital markets are underdeveloped and offer few alternatives to bank loans, especially for smaller firms. Reforms should focus on lowering financing costs by improving credit information, expanding public credit guarantees and promoting alternatives to bank loans. For informal firms, expanding digital financial services and linking finance to formalisation milestones would support inclusion and productivity. Deepening capital markets and improving digital financial infrastructure would broaden funding sources, boost private investment, and foster a more dynamic business environment.

2.1. Introduction

Access to finance is a persistent barrier to business growth in Peru, limiting private sector development, long term investment, and the country's capacity to transition to a green economy. Despite macroeconomic stability and a sound financial system, private credit stands at just 42% of GDP, well below the OECD average of 76% and lagging regional peers (Figure 2.1, Panel A). Credit penetration is low, particularly for micro, small and medium-sized enterprises (MSMEs) and outside Lima (Figure 2.1, Panel B and C). Traditional credit-based banking dominates, and domestic capital markets are thin and illiquid (Figure 2.1, Panel D), limiting access to the long-term financing that is critical for investment in infrastructure, innovation, and climate-resilience.

Figure 2.1. Firms' access to credit and capital markets is limited



Note: LAC is a simple average of Brazil, Chile, Colombia, and Mexico. Panel D measures the total value of listed companies' equity relative to the size of the economy.

Source: World Bank WDI; BCRP; OECD (2025), Financing SMEs and Entrepreneurs: 2025 highlights; SBS; IMF World Economic Outlook database: April 2024.

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Limited access to finance is closely linked to Peru's high informality, which constrains firm growth and productivity. MSMEs, which account for 85% of employment, are mostly informal and disproportionately affected by the limitations to financial market development. Formal MSMEs—those registered and tax-compliant—can access credit but face high interest rate spreads and stringent collateral requirements, limiting their growth. Alternatives such as equity financing, leasing or factoring remain underutilised, and access to finance outside Lima is particularly limited. Informal firms – typically small, low-productivity, and unregistered – lack credit histories and rely heavily on family networks, informal lenders or microfinance. Nearly half of MSMEs lack access to formal credit (OECD/CAF/SELA, 2024^[1]), often due to informality, high transaction costs and insufficient collateral or credit histories. Female-led MSMEs are less likely to access formal credit due to collateral constraints, higher informality, limited financial literacy, and time-care burdens (World Bank, 2025^[2]).

Expanding access to finance requires differentiated strategies. For informal firms, the priority is to expand access to financial services through fintech, mobile banking, credit scoring based on digital payment histories, and tailored microfinance. These measures should be accompanied by mechanisms to link financing to formalisation milestones – such as business registration, tax ID acquisition, or social security enrolment – supported through technical assistance and simplified procedures, and measures to promote firm productivity growth, such as access to training and mentoring, digital tools, or integration into formal value chains, to avoid misallocation and ensure that finance supports dynamic, scalable businesses. Formal MSMEs would benefit from policies to reduce intermediation costs and promote asset-based and equity finance. Importantly, lowering the cost and improving the availability of credit would also benefit high-potential informal MSMEs, by strengthening the incentives to formalise and making the advantages of entering the formal system more visible.

Deeper capital market development is also needed to support long-term investment and diversify financing sources. Capital markets can complement bank lending by offering long-term finance to large, high-potential firms and infrastructure projects, while freeing up credit for smaller businesses. Addressing these gaps would also support Peru's climate transition by enabling investment in clean technologies and adaptation (Chapter 4).

Expanding access to finance would help high-potential MSMEs scale up and generate more formal jobs. But this alone is not sufficient. A broader strategy is needed to tackle informality, including regulatory reforms that reduce the cost of business formalisation—such as reducing administrative barriers, streamlining licences, registration procedures, and tax compliance—as well as labour market reforms to lower non-wage labour costs and improve enforcement, as highlighted in the *2023 OECD Economic Survey of Peru* (OECD, 2023^[3]) and elsewhere in this Survey. Formalisation and upscaling of MSMEs in Peru is also supported by training, mentoring, innovation and technology transfer, provided by various institutions through different programmes, including the Ministry of Production and the Ministry of Labour and Employment promotion, the development bank COFIDE, the business support centres CITE, the National Microenterprise Development Fund (FONDEMI), the chambers of commerce, international development cooperation and others. Greater coordination among these actors would help expand reach and effectiveness. Together, these policies would improve the formal business environment supporting firm and productivity growth.

This chapter focuses on policy priorities to expand and diversify MSME financing in Peru. It first explores reforms to reduce interest rate spreads and promote alternative financial instruments and digital solutions. It then discusses policies to develop capital markets to provide alternatives to bank credit and support long-term investment. The government plays a key role in expanding financial depth by creating a regulatory environment that supports market development and fosters competition across financial services. Stronger legal protections for creditors and shareholders are also needed to reduce investor risk and improve access to finance for formal firms, while also creating better incentives for firms to formalise and benefit from improved financing conditions. Ensuring strong, independent supervision is essential to build trust and attract long-term investment. Financial deepening must go hand in hand with safeguards to preserve stability and protect consumers.

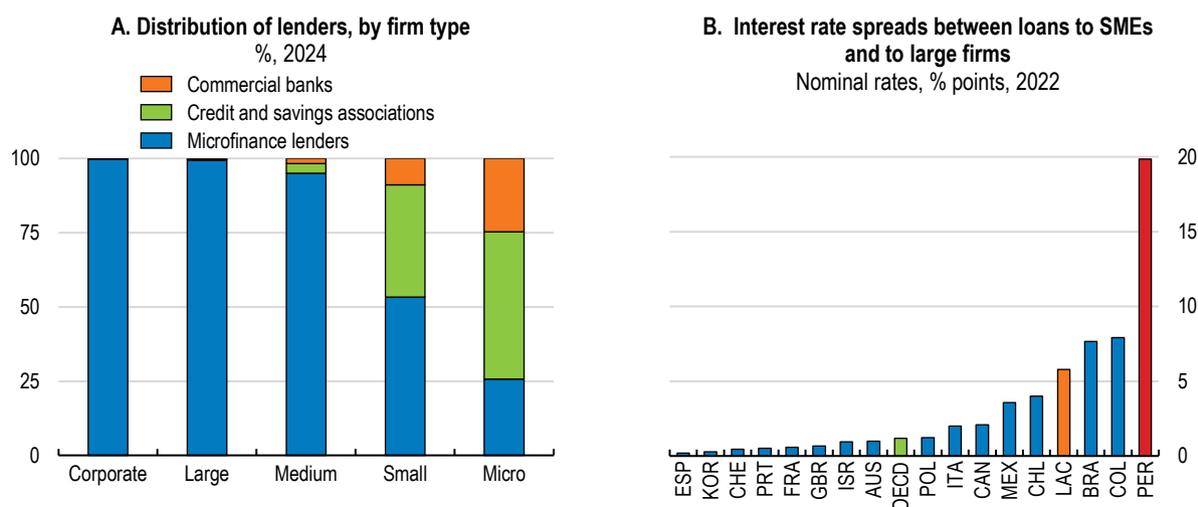
2.2. Supporting MSMEs' access to finance and advancing financial inclusion and digitalisation

2.2.1. Improving MSMEs' access to bank credit

Bank credit remains the primary source of financing for businesses, particularly for MSMEs. While commercial banks dominate lending, the MSME sector benefits from a variety of non-bank financial institutions specialised in the SME and microfinance segments (Figure 2.2, Panel A). However, MSMEs still struggle to obtain credit at affordable rates, because of several challenges, including a deteriorating credit portfolio since the COVID-19 pandemic and 2023 economic slowdown (see Chapter 1), high transaction costs and higher default risk. The gap in interest rates charged to MSMEs and large firms is wider than in any OECD country (Figure 2.2, Panel B). Improving MSMEs' access to bank credit therefore requires first and foremost lowering the cost of financing. This requires tackling the different reasons for the interest rate spread: limited information to assess creditworthiness, high transaction costs relative to the loan size, high costs of refinancing for lenders, and limited collateral (Choy, Costa and Churata, 2015^[4]).

Improving data-based risk assessment frameworks benefits formal firms and—by increasing the rewards of formality—can incentivise informal firms to formalise. High informality hampers credit assessments, as many firms lack verifiable financial histories. Earnings are also typically much more volatile (Engbom et al., 2022^[5]), increasing the basis risk for lenders. Moreover, outdated or inaccurate property registries and high informality of homeownership restrict collateral-based lending, which secures most small business loans in OECD countries. Peru created a legal framework in 2006 to improve MSMEs' access to credit by allowing mobile assets (such as machinery, inventory, accounts receivable, and even livestock) as collateral, but uptake remained low due to burdensome procedures, limited awareness, and weak enforcement. A recent reform introduced a digital platform to simplify registration, reduce costs, and improve legal certainty.

Figure 2.2. SMEs have access to a variety of lenders but pay high interest rates on loans



Note: LAC is a simple average of Brazil, Chile, Colombia, and Mexico. SMEs include micro, small and medium-sized enterprises.
Source: SBS; OECD, Financing SMEs and Entrepreneurs 2024.

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Mitigating SME credit risk

Strengthening credit registries by including alternative data on an individual's or a firm's financial transactions (e.g. utility providers, public authorities, internet and telephone companies) and advancing digital credit scoring using AI can improve risk assessments. To some degree this is already done by private credit bureaus, and in January 2025 regulation was updated to allow basing decisions about SME loans on verifiable transactions data. Some countries,

such as France, enhance credit registries with company accounts data. Peru could consider re-introducing a past requirement for firms above a certain size threshold to publish their accounts, a practice which stopped to be mandatory for non-listed companies in 2016 following a court ruling. The financial superintendence SBS is preparing a new public credit registry covering financial cooperatives, key lenders to MSMEs especially in regions outside Lima. Ensuring full implementation of this registry and its eventual interoperability with the existing public credit registry for the banking sector will be important to improve access to finance of MSMEs, on the one hand, and to level the playing field between commercial banks with privileged access to information and financial cooperatives, on the other hand, allowing cooperatives to better compete against a highly concentrated banking sector.

Open Finance could foster new innovations in credit scoring and MSME financing based on data across the whole financial system. The Central Bank, which is responsible for regulating payment systems, is implementing an ambitious Open Finance agenda with the aim of making all payment technologies interoperable, following on the successful spread of digital wallets enabled by pre-emptive regulation (Vega and Vasquez, 2022^[6]). Accelerating the development of other elements of Open Banking regulated by the *Superintendencia de Banca, Seguros y AFP* (SBS)—the sharing of consumer banking, transaction, and other data among all market participants – by developing and implementing data sharing standards could further improve credit risk assessment and enable a more dynamic business finance market. Brazil, for example, has been implementing an Open Finance agenda since 2021, with mandatory data sharing for all the largest banks subject to financial regulation. Open Finance and interoperability mandates need to be complemented by other measures including data privacy and safety (see below), increasing formality (see Chapter 3) and modernising and updating the land registry (see Chapter 4) to facilitate the more widespread adoption of collateral-based lending and to reinforce incentives to formalise.

Lowering operational costs

Administrative costs, especially for small loans, significantly inflate interest rates. They explain more than half of the interest rate differential between small and large firms (Choy, Costa and Churata, 2015^[4]). Lenders have adapted their business models to the high informality among MSMEs by relying on in-person field visits to gather information about the firm, which together with Peru's challenging geography increases their operating costs. Tailoring compliance requirements to loan size and risk and moving away from one-size-fits-all regulation can reduce costs and improve access. For example, in May 2025, financial institutions' correspondent agents – such as shopkeepers in remote villages – and electronic banking offices were authorised to handle more operations including credit evaluation, account opening and account disbursements subject to certain operational limits. Expanding the digitalisation of financial and administrative processes could bring additional cost reductions. Ongoing public digitalisation efforts, including the tax authority and the civil registry office, are welcome, and should be complemented by digital solutions tailored to financial applications (see below).

Easing the cost of funds for lenders

Smaller lenders serving MSMEs face higher capital costs, partly due to Peru's shallow capital markets. The corporate loan segment is served by the largest commercial banks that can refinance themselves cheaply thanks to access to a range of credit and capital markets, a solid and diversified balance sheet, and healthy profit margins. These banks prioritise lending to large firms due to their lower credit risk, lower administrative costs, and better information. MSMEs are instead increasingly dependent on second-tier funds comprised of smaller institutions with a much higher cost of raising capital. Deepening capital markets for Peru's largest firms, as discussed below, can indirectly improve MSMEs' access to lending by freeing up credit and reducing overall credit costs.

Strengthening credit guarantee programmes

Since 2019, the *Fondo Crecer* credit guarantee programme managed by the state development bank COFIDE has been guaranteeing up to 75% of eligible loans for SMEs and exporting firms. During the pandemic and the 2023 social unrest and climate events, new emergency credit guarantee programmes successfully expanded MSME credit and reduced interest rate spreads, highlighting unmet demand. Default rate of the pandemic programmes were high, between 12% and 25%, reflecting in part the nature of those programmes – preventing or at least delaying

firm widespread bankruptcies to “flatten the curve” (Demmou et al., 2021^[7]) – but also serving as a reminder to carefully design programmes to maximise their benefits and minimise moral hazard.

Guarantees primarily benefit formal MSMEs, but improving their effectiveness can help bring informal firms into formal lending channels. International best practices increasingly target credit guarantees to specific investment projects (e.g. green or digital projects), with built-in incentives for risk-sharing and responsible lending in order to minimise the risk for the public sector. For example, digitalisation and investment in intangibles in France and Korea, and green investments in many EU countries including Ireland, Finland, France, Portugal, Romania, Bulgaria and Sweden but also in Korea and Mexico (OECD, 2024^[8]). Targeting is key to reducing moral hazard and over-indebtedness risks. Other good practice elements include ensuring – through coverage ratios, terms of the guarantee, and collateral requirements – that all parties, including both lenders and borrowers retain a sufficient share of the risk and responsibility (Cusmano, 2018^[9]).

2.2.2. Developing alternative financial instruments for MSMEs

MSME finance needs to look beyond bank credit

Further developing alternative financing instruments, beyond bank financing, can significantly improve access to finance for small and medium-sized firms, particularly informal firms that struggle to meet traditional collateral requirements or navigate complex banking procedures (OECD, 2023^[10]). Yet, according to OECD data which covers operations by supervised financial institutions, the use of alternatives such as factoring, leasing and hire purchases remains limited and has even declined (Figure 2.4). In part this may reflect entry of other providers following regulatory changes; for example, factoring services by unsupervised entities have seen healthy growth in the most recent years (Ministerio de Produccion, 2025^[11]). However, the participation of MSMEs in the factoring market remains at about a quarter. A reform in 2020 provides an updated legal framework for alternative financial instruments such as crowdfunding. However, limited awareness and structural and operational barriers hinder their expansion. Moreover, broadening access to financial instruments has to be balanced with other objectives of financial regulation such as due diligence for preventing money laundering and financial services offered by organised crime.

Developing the factoring market

Factoring can help formal MSMEs with liquidity and also offer a viable entry point for informal firms to formalise by issuing invoices and monetising receivables through recognised platforms. Factoring remains a niche financial service in Peru, characterised by a small number of transactions with relatively high values. Factoring is a type of financing where a business sells its unpaid invoices to a third party at a discount in exchange for immediate cash. One of the main operational barriers is the invoice verification process, which is currently handled by a single platform operated by the largest commercial banks. This system is geared towards high value transactions and excludes many MSMEs with lower-value invoices. To make factoring more accessible, authorities could enable broader invoice verification services – potentially through existing platforms, such as the one managed by the tax authority for electronic invoicing and encourage the development of a factoring markets on which verified invoices can be offered to the highest bidder. Facilitating a low-value formal factoring market could also encourage greater formalisation among MSMEs, which sometimes rely on informal and unregulated forms of instruments that share similarities with factoring. In some countries, such as Mexico, state development banks offer public factoring services as part of value chain development programmes, helping MSMEs secure capital to better integrate into value chains.

Stimulating leasing and hire purchases

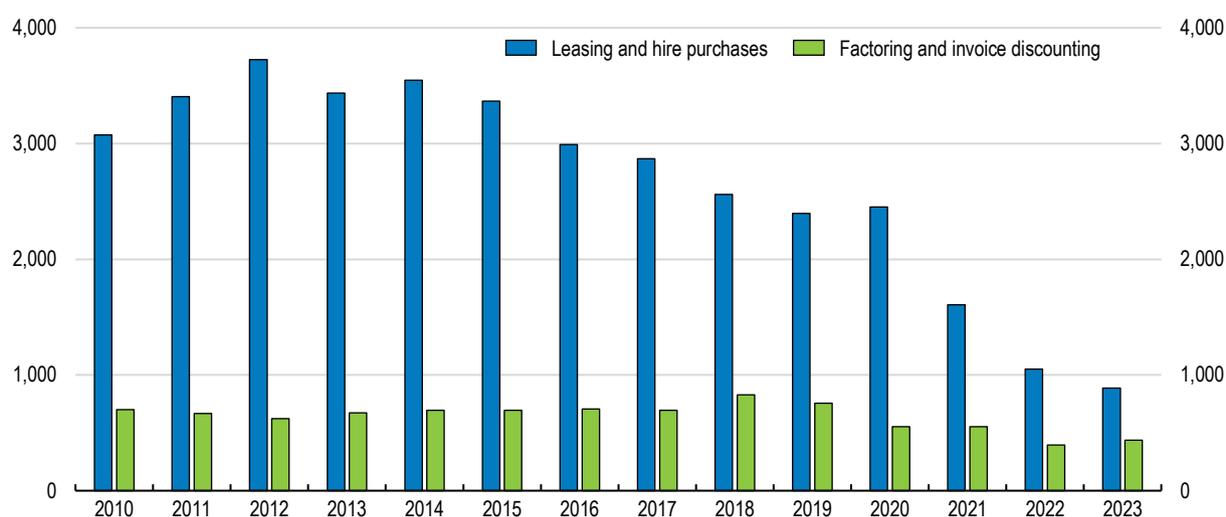
Leasing and hire purchases (HP) are asset-based financial contracts that allow firms to purchase an asset in instalments, with the firm using the asset over the contract duration and assuming its ownership once the contract is fully paid. The asset serves as a natural collateral, and the retention of ownership by the financial provider while the loan is outstanding obviates the need for cumbersome legal debt recovery procedures in the case of defaults; instead, the asset is repossessed by its owner and sold off. Leasing and HP contracts are common in many OECD

countries. In countries such as Peru, leasing and HP mainly support formal firms, but they are also attractive for informal MSMEs by providing access to productive assets without complex loan procedures, circumventing inefficient legal systems and cumbersome bureaucracy procedures. For firms, the option of early termination of such contracts if the need for the asset becomes obsolete or its continued use becomes unaffordable for the firm, can accommodate business risks better than a classical bank loan. Evidence suggests that hire purchase contracts can induce MSMEs to make more high-risk, high-return business investments (Bari et al., 2024^[12]).

The market for leasing and HP in Peru is small and has shrunk by more than half over the last decade (Figure 2.3). A major constraint for market development is the difficulty in legally repossessing a leased good in the case of default, exacerbated by the slow and ineffective legal system, as discussed in the *2023 OECD Economic Survey of Peru* (OECD, 2023^[3]). To ease repossession and prevent unauthorised resale of leased goods, a 2018 law created a Mobile Collateral Information System. However, implementation took seven years, and the system only became operational in early 2025. While this reform aims to boost use of mobile collateral, its effectiveness will depend on effective implementation, awareness, and enforcement; all of which should be closely monitored by authorities. Another recent reform has eased the regulatory requirements for leasing companies, fostering market entry. Authorities could encourage the growth of asset-based finance by raising awareness and conduct financial education among MSMEs or include such contract types in public SME investment promotion schemes, as is for example done in Germany.

Figure 2.3. Use of alternative financing remains limited and has declined over the past decade

Leasing and hire purchase, factoring and invoice discounting, adjusted by inflation (base year 2007), million PEN



Source: OECD Financing SMEs and Entrepreneurs Scoreboard: 2025 Highlights.

StatLink  <https://stat.link/cxjhw>

Fostering MSME equity finance through crowdfunding

Equity financing offers several advantages for firms over debt financing, especially for growth-oriented MSMEs. The absence of a fixed repayment obligation frees cash flows and allows firms to reinvest profits, and the risk sharing it implies incentivises larger and higher-risk, higher-reward investments (Meki, 2025^[13]). Equity investments are complementary to debt finance, as a larger pool of investors or (for limited liability companies) a larger equity base reduces the debt ratio and improves creditworthiness. However, the absence of independently verified accounts and monitoring costs often means that the investor pool is limited to family and close personal networks making informal investments.

Modern financial solutions reduce the information asymmetries and transactions costs that have typically constrained formal equity investments into smaller, non-listed firms. Transactions on digital platforms and cashless payment methods such as digital wallets allow verifying a firm's sales and costs. Crowdfunding platforms allow for

matching small investors and small firms seeking equity investments. The crowdfunding sector in Peru has only been established in 2021 when its regulation by the Superintendence of the Securities Market (SMV) entered in force. While in 2024 five entities held licenses, only one platform disbursed new funding, with a total investment of around USD 10 million and an average equity stake of USD 60,000. Two entities left the market in early 2025. Given the novelty of this financing channel and the still ongoing market entry of providers, authorities should raise awareness among MSMEs and be vigilant for the need of regulatory adjustments.

2.2.3. Supporting the development of digital finance

Digital finance can improve financial inclusion, particularly for small, informal, rural and underserved businesses by enabling low-cost transactions and alternative credit scoring. While mobile payments have expanded rapidly, challenges remain: unequal digital access, low coverage of digital infrastructure, especially broadband, limited financial and digital literacy continue to limit the reach and impact of digital financial services. Advancing open data regulation, ensuring interoperability, fostering financial literacy, data protection, and consumer trust, and building digital infrastructure especially in rural areas can improve outreach.

Fintech regulation and innovation

Open Finance and a promotion of cashless payment systems can improve the competitive environment and provide the big data which on which fintechs base their business model. It can also level the playing field between new entrants and traditional banks that have large amounts of proprietary data (INDECOPI, 2023^[14]). This seems particularly relevant in Peru where commercial banks are not only highly concentrated but often parts of larger conglomerates, as the 2023 *OECD Economic Survey of Peru* discusses (OECD, 2023^[3]). Moreover, encouraging partnerships between telecoms companies, fintechs, and banks could improve MSME financing, especially in remote or rural areas and among informal businesses that are underserved by traditional lenders (OECD, 2023^[10]). In several countries including India, Colombia and Mexico, fintechs use transactions data from digital wallets and QR code payment systems to assess small firms' turnover and income as well as bill payment history to provide small loans or credit lines. Peru's recent success with digital wallets provides an entry point for this, and the recent interoperability of payments system increases the scope for competition in this lending segment. Some commercial banks are already experimenting with developing alternative credit scores based on their proprietary data. The adoption of digital wallets for cashless payments could be further enhanced by allowing the distribution of social programmes and subsidies through them, as has occurred in Brazil.

Financial literacy, data protection, and consumer trust

Evidence shows that adoption of digital financial services in Peru requires trust, financial literacy, and digital skills (Robles, Miranda and Colan, 2024^[15]). Building trust and digital capability is crucial for better financial inclusion of informal MSMEs, enabling safe and informed access to financial services. Developing trust through better financial consumer protection is a key pillar of Peru's National Plan for Financial Inclusion; and overall Peru has an adequate financial consumer protection framework. However, there is room for improvement on governance and oversight to ensure financial services meet consumer needs, and on the mechanisms for filing a formal complaint.

Financial literacy in Peru is lower than on average in OECD countries, but similar to Latin American peers such as Chile and Costa Rica (OECD, 2023^[16]). A particular concern are the low levels of financial literacy among owners and managers of MSMEs (OECD, 2021^[17]). This calls for increased investment into training to develop financial literacy and digital skills, both among adults and among the youth, for example through modules embedded in secondary or technical education such as the SBS's Finance at School programme. The rollout of a digital bank account for all citizens through Peru's state-owned *Banco de la Nación* will further improve financial inclusion and should be accompanied by more training to increase uptake, financial literacy, and trust.

Finally, trust also requires robust data protection and cybersecurity measures. Consumers need to be confident that their personal and financial information and transactions history remains confidential, and that there is a robust infrastructure to prevent unauthorised payments. This is especially relevant given the current security situation (Chapter 1), with many small business owners being exposed to extortion by criminal gangs. Efforts to foster digital

financial services need therefore to align with broader digital government strategies to promote digital literacy and risk awareness, ensuring a secure and trustworthy online environment for all citizens. The government is taking steps in this direction, including the establishment of a national digital authentication system, a national data interoperability platform and a national digital security centre.

Digital infrastructure and rural access

Improving digital infrastructure, especially in rural areas, is key to connecting informal firms to financial services and can facilitate their transition to formality. As of 2022, internet penetration stood at 75%, well below the OECD average of 90%, with sharp urban-rural divides: nearly all urban districts are connected, while one third of rural districts lack connectivity and about 20% of the population lacks mobile internet coverage. While efforts are underway to expand rural mobile broadband access and provide digital skills training, further investment is needed. Examples from Colombia, Mexico and Brazil, such as public broadband backbones to each municipal seat and community networks to facilitate access on a non-profit basis in rural areas could inform Peru's strategy. Additional measures include streamlining regulation, enhancing coordination among stakeholders to lay local connections, exploring solutions based on satellite or mobile data networks, and setting up public Wi-Fi access points and kiosks.

2.3. Deepening capital markets

Deepening Peru's capital markets primarily benefits formal large firms and high-potential MSMEs by expanding and diversifying the country's sources of long-term finance, supporting investment beyond bank credit and improving the financial system's resilience. Furthermore, as more firms access other sources of financing it also frees up bank credit for smaller or newly formalised MSMEs. Yet, Peru's capital markets remain underdeveloped, offering limited alternatives to bank financing (Figure 2.4) and market liquidity remains a critical weakness, with a turnover ratio of just 2% in 2023, far below regional peers like Brazil (119%) and Mexico (19%) (BCRP, 2024^[18]). Global and domestic shocks have further weakened Peru's stock market, eroding liquidity and asset valuations. The combined impact of the pandemic, global inflationary pressures, and synchronised interest rate hikes triggered capital outflows, while domestic political uncertainty led to record outflows in 2021.

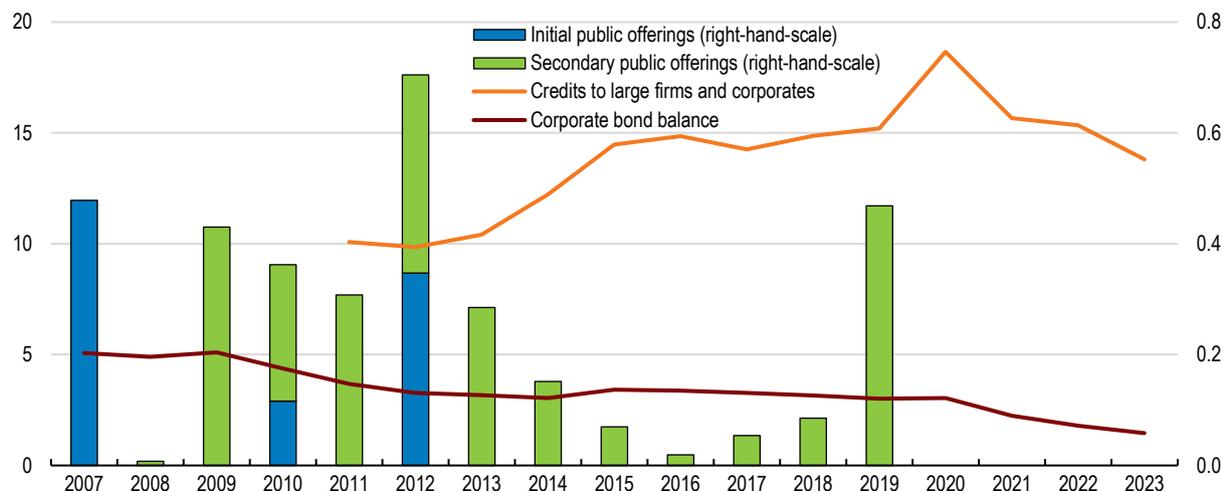
Compounding these trends, Peru authorised seven rounds of pension fund withdrawals between 2020 and 2024, resulting in cumulative outflows equivalent to 9.4% of GDP by the end of 2022, with an additional 3% of GDP in 2024 (BCRP, 2024^[18]). These withdrawals forced pension funds administrators (AFPs) to shift portfolios toward liquid, short-term assets, reducing long-term financing in local currency and increasing market volatility. As a result, the role of AFPs as institutional investors in the capital market has been drastically reduced. By the end of 2023, AFPs and institutional investors held just 6% of total market assets, far below the OECD average of 57%, contributing to weak long-term funding and undermining market depth (OECD, 2024^[19]).

Restoring and expanding capital markets is crucial for enhancing investment opportunities and supporting economic growth. Several barriers, including high business informality, limited financial literacy, weak corporate governance adoption, and burdensome compliance and disclosure requirements, prevent many firms from tapping into equity and bond markets (World Bank, 2024^[20]; BCRP, 2020^[21]).

Efforts to deepen capital markets are already underway. Authorities, in collaboration with the World Bank, are working on a roadmap to address long-standing challenges (World Bank, 2024^[20]; World Bank, 2024^[22]). This initiative builds on a 2019 diagnostic report, from which less than half of the recommendations have been implemented. Peru's OECD accession process presents an opportunity to accelerate these efforts. The proposals in this section align closely with the roadmap and offer a concrete basis to move forward. Priority actions include encouraging more large firms to sell shares to the public, helping small businesses join the capital market, and expanding the investor base. Strengthening the technical and operational capacities of the SMV, and advancing regional integration of capital markets would also help deepen capital markets.

Figure 2.4. Capital markets are shallow and marginal in financing corporates and large firms

Credit, corporate bond balance and public offerings, % of GDP



Source: BCRP.

StatLink  <https://stat.link/ig3b8s>

2.3.1. Addressing the capital market's low liquidity

Low market liquidity undermines efficiency, depth and attractiveness of Peru's capital markets. Increasing capital market liquidity requires boosting both supply and demand of tradable financial instruments. On the supply side, this means improving free float and easing SME access to both equity and bond markets. On the demand side, it involves fostering participation of retail investors and expanding market-maker programmes.

Expanding supply of tradable instruments

Increasing free float for family-owned large firms would expand the supply of tradable shares and enhance market liquidity (OECD, 2019^[23]). Family-owned firms dominate Peru's corporate landscape and are often reluctant to increase free float due to concerns over losing of control. One solution is dual-class shares, where firms issue shares with different voting rights, allowing families to raise capital while retaining decision-making power. Another solution is encouraging staggered share sales where families commit to increasing float over time rather than in one large issuance to maintain market confidence without abrupt changes in control, as Chile has done. Strengthening corporate governance would also help family-owned firms gain investor trust and ease the transition to higher free float. A comprehensive adoption of the G20/OECD Principles of Corporate Governance for listed companies would align Peru with international best practices.

Deepening capital markets will require greater participation from high-potential small and medium-sized enterprises. Lowering market entry barriers for these firms is essential to broaden the supply of listed securities, complementing efforts to increase free float among larger firms. While most Peruvian SMEs are still far from accessing equity and bond markets, building the right infrastructure and regulatory framework now can help the most dynamic among them transition to market-based financing over time. This is particularly important in a context of high market concentration limiting liquidity: in 2023, the ten most traded securities accounted for over a half of total traded volume, and corporate ownership was highly concentrated, with these firms retaining 73% of equity shares, compared to just 7% in OECD markets (Segura and Villavicencio, 2022^[24]; OECD, 2019^[23]; OECD, 2024^[19]).

Most MSMEs cannot enter the capital market due to high listing costs, strict disclosure requirements, and governance demands (World Bank, 2024^[20]). While these measures ensure market integrity, they also deter smaller firms unfamiliar with corporate governance standards from accessing capital markets (OECD, 2023^[25]). Implementing a business preparation programme tailored to help MSMEs comply with financial reporting and

governance requirements would mitigate this issue. The programme could also provide matchmaking services with investors, improving access to capital and facilitating MSMEs' market entry. Successful international models include Mexico's *Certificación Prime*, Serbia's corporate bond issuer programme, and Chile's *Growth & Scale* initiative, which have helped smaller firms enter public markets.

Market supply is also constrained by high concentration, with mining companies alone accounting for 50% of market capitalisation, limiting sectoral diversification and investor options (Macroconsult, 2021^[26]). To broaden participation across sectors and encourage firms from underrepresented sectors to enter the market, targeted incentives such as reduced issuance costs and sector-specific promotional campaigns would help. Chile and Mexico have successfully implemented similar policies, targeting tech, renewable energy, and industrial firms.

Efforts to facilitate MSME bond issuance would broaden the supply of tradable instruments and reduce the current dependence on a narrow set of issuers. The Alternative Securities Market (MAV), designed for this purpose, has fallen short of its objectives. Since its launch in 2012, only 19 issuers have participated, and placements have dropped from USD 30 million in 2019 to USD 7 million in 2022 (World Bank, 2024^[20]). This reflects limited investor confidence, strong competition from traditional bank credit, and high compliance costs for SMEs. Simplifying the MAV's regulatory framework by eliminating unnecessary complexities and aligning procedures more closely with MSME operations could revive activity. Introducing pre-approved templates and standardised issuance processes, following Thailand's example, could streamline compliance and reduce both issuance time and costs. Reducing documentation and reporting requirements, while maintaining adequate investor protection, would further lower barriers and increase MSME participation.

Broadening the investor base

On the demand side, expanding and diversifying the investor base is essential to deepening capital markets and improving liquidity. One option is to boost the currently limited participation of retail investors by developing structured financial products with sovereign-backing, such as sovereign bond-based ETFs, as recently done by Peru, and low-risk mutual funds, which offer retail investors a secure capital markets entry point (OECD, 2019^[23]). This approach has been effective in Mexico and Brazil, where retail-focused sovereign bond instruments have increased participation. The recent launch of Peru's first sovereign bond ETF is a welcome step to expand retail investor participation in capital markets. To sustain momentum, complementary financial education campaigns would further support market access for this type of investors. Publicly supported investment funds targeting mid-sized enterprises would attract both institutional and retail investors by reducing perceived risk and improving investment scalability. Peru's national development bank COFIDE could act as a catalytic investor, co-financing such funds and targeting mid-sized enterprises, drawing from models in the UK (*British Business Bank*) and Colombia (*Bancóldex and Fondo Nacional de Garantías*).

Institutional investors, particularly AFPs, have traditionally dominated market holdings but their role has weakened following repeated pension fund withdrawals. Their preference for buy-and-hold strategies further limits secondary market activity and market depth. The 2024 pension reform prohibited the total or partial withdrawals of pension funds, with exceptions for a house purchase or terminal illness (see Chapter 1), but as of early 2025, Congress continues to debate further extraordinary withdrawals. Restoring the role of AFPs will require preventing new pension withdrawals, promoting voluntary pension savings, and adjusting regulatory frameworks to encourage higher allocations to traded instruments without undermining long-term investment goals.

Market-makers can help boost trading activity and render the market more accessible for non-institutional investors by continuously offering to buy and sell shares, which narrows price gaps and gives investors confidence they can trade when needed. The existing voluntary market-maker programme has limited impact to date, with just three active market makers covering only nine companies (World Bank, 2024^[20]). Expanding the program to cover a broader range of securities and encouraging greater participation, through regulatory support, would help enhance trading activity.

2.3.2. Reducing institutional barriers

Institutional capacity also remains a constraint. The securities market regulator, *Superintendencia del Mercado de Valores* (SMV), faces resources (funding and staff) and capacity shortfalls that weaken its ability to regulate effectively, oversee market activity, and enforce regulations (OECD, 2024^[19]). Outdated technological infrastructure limits its capacity to provide timely and accurate oversight, reducing market efficiency and transparency. Unlike its peers—the SBS and BCRP—the SMV lacks constitutional independence and remains under the Ministry of Economy and Finance, limiting its control over budget, staffing, and legislative initiatives. Better formal coordination between the SMV and the regulator of the financial system, insurance sector, and private pension funds, *Superintendencia de Banca, Seguros y AFP* (SBS), and the Central Bank (BCRP), along with stronger institutional capacity at the SMV, along with measures to strengthen the SMV's operational independence and legislative authority, is essential to ensure robust oversight, improve transparency, and support capital market reforms.

2.3.3. Advancing regional integration

Deeper regional capital market integration through the Latin American Integrated Market (MILA) could expand investor access, enhance market liquidity and diversity funding for Peruvian firms. Chile, Colombia and Peru (which are members of MILA) are working towards full integration of their markets under the unified trading platform (Nuam Exchange). This aims to create a larger and more attractive market for international investors and provide firms with broader funding sources by enabling cross-border trading of securities. However, progress has been limited due to significant operational, regulatory, and political challenges including differences in tax regimes and settlement processes, differing financial regulations and the absence of a shared currency, which introduces exchange rate risk. Advancing regional integration could help Peru address structural weaknesses such as low liquidity and high concentration, by linking it with larger and more diversified markets. Key priorities include, harmonising regulatory standards, modernising cross border financial infrastructure, and strengthening cooperation among supervisors.

Table 2.1. Main findings and recommendations

Main Findings	RECOMMENDATIONS (Key recommendations are bolded)
Supporting MSMEs access to affordable finance	
MSMEs face high borrowing costs because of difficulties assessing credit risk due to high informality, lack of credit history, high transaction costs, and limited collateral. Open banking, which enables secure data sharing across financial institutions, is only partially implemented.	Expand credit guarantee schemes and accelerate the implementation of open banking to strengthen the availability and quality of information to improve risk assessments.
MSMEs mostly borrow from non-bank financial institutions such as cooperatives, at high cost due partly to difficult credit risk assessment. A new public credit registry covering the cooperative sector is in preparation.	Ensure full implementation of the new public credit registry covering cooperatives and its eventual interoperability with the existing public credit registry for the banking sector.
Government loan guarantees helped sustain MSMEs credit during the pandemic but carry moral hazard risks and may crowd out market-based finance. Existing loan guarantee schemes are insufficiently targeted.	Improve targeting and design of government guarantee schemes, including through risk-sharing and risk premia, and link support to incentives for MSME formalisation, digitalisation, and preparation for the green transition.
Alternative financial instruments for MSMEs such as factoring, hire purchase, leasing, and crowdfunding are underdeveloped. The regulatory ecosystem enabling these innovations is recent and has only been partially implemented.	Enable digital invoice verification systems for low value transactions to support factoring, encourage take-up of the new mobile collateral register, and raise awareness among SMEs for factoring, asset-based finance, and crowdfunding.
Interoperability among payment systems promoted open data in finance, but traditional bank transactions data is still proprietary to individual commercial banks. Fintechs have limited access to financial data which would allow them to financially assess MSMEs.	Define data sharing standards and foster partnerships of banks, fintechs, and payment companies to support innovative financial solutions for MSMEs based on alternative transaction data.
Internet penetration is low, especially in rural areas.	Expand rural mobile broadband coverage, especially to underserved communities.
Low financial and digital literacy hinders adoption of financial services and contributes to consumer vulnerability, especially among MSMEs.	Invest in targeted financial and digital literacy training for MSMEs, small entrepreneurs, and rural households, and strengthen financial consumer protection systems.
Deepening capital markets	
Peru's capital markets are shallow with low liquidity. Most MSMEs face significant barriers to entry due to limited financial literacy, weak adoption of corporate governance practices, and high compliance costs.	Implement a business preparation programme to help SMEs meet financial reporting and corporate governance standards required for capital market access.
The Alternative Securities Market (MAV) designed for MSME bond issuance, has seen limited uptake due to high costs and low investor confidence.	Simplify and streamline the regulatory framework for bond issuance and simplify requirements to encourage MSME participation in alternative securities market.
Retail investor participation is limited. Institutional investors dominate the market but have reduced their participation following seven rounds of pension fund withdrawals.	Continue developing retail investment products (e.g. sovereign bond-based ETFs or low-risk mutual funds) backed by sovereign risk to attract new retail investors to the capital market. Establish publicly supported programmes for investment funds specialising in SME financing, building on COFIDE as a catalytic investor. Prevent further extraordinary pension funds withdrawals, only allowing them for exceptional cases such as terminal illness.
The securities regulator (SMV) lacks sufficient institutional capacity and operational independence, limiting its effectiveness. Coordination with other financial regulators is effective but mostly informal.	Strengthen the capacity of the securities regulator (SMV) and formalise coordination with financial system, insurance sector, and private pension funds regulator (SBS) and the Central Bank to ensure effective market supervision and coherent policy implementation.

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3 Social mobility in Peru: unlocking the country's full potential

Paula Garda, OECD

Improving intergenerational mobility is key to unlocking Peru's full productive potential and ensuring that all individuals, regardless of their socioeconomic background, have a fair chance to succeed. While more individuals in Peru attain higher education than their parents, limited access to quality education, widespread informality, weak school-to-work transitions, and persistent gender and regional disparities continue to constrain economic and social mobility. A person's socioeconomic background continues to shape access to quality education and formal jobs, limiting upward mobility for youth, women, and rural populations. The chapter identifies four priorities to strengthen intergenerational mobility: improving education quality and foundational skills, especially early on; supporting school-to-work transitions through better outreach of youth not in employment, education or training and vocational training and job placement; addressing labour market gender gaps; and reducing informality among workers and firms to expand access to higher-quality jobs.

3.1. Low intergenerational mobility limits economic opportunities in Peru

Promoting social mobility is essential for building a more inclusive and resilient economy. While poverty has declined substantially over the past two decades, opportunities to move up the income ladder remain highly unequal in Peru. Intergenerational mobility has improved but is lower than in some peer Latin American countries and the OECD, with a person's socioeconomic background continuing to strongly influence their access to quality education, formal employment and better incomes. More Peruvians are attaining higher education levels than their parents, however, this progress has not translated into proportional income gains. As a result, many Peruvians, particularly those in rural areas, women, youth, ethnic minorities, people with disabilities and those from low-income households face barriers that limit their economic and social advancement.

Peru's unequal access to early childhood and basic education, low quality of education, high level of informality, and large regional disparities contribute to the persistence of poor intergenerational mobility. Informality is often inherited, reinforcing cycles of low-income employment and poor social protection, perpetuating intergenerational inequalities. Education quality is particularly poor in rural areas, where students often attend under-resourced schools. High dropout rates, particularly in rural areas, and low enrolment rates among 15–19-year-olds contribute to poor education outcomes. A critical barrier to social mobility is the weak school-to-work transition. Many young people struggle to enter formal employment, due to poor educational outcomes, limited access to vocational education and training and lack of effective job placement services, contributing to persistently high not in employment, education or training (NEETs) rates. Despite progress in educational attainment, women face significant more barriers than men to formal employment, driven by caregiving responsibilities and social norms, especially in rural areas. Rural workers face great structural barriers, with formal employment concentrated in urban areas, while low-productivity informal agricultural work remains the dominant source of income in rural communities.

Persistently low intergenerational mobility weakens human capital formation, reinforces labour informality, and limits aggregate productivity. Broadening access to economic opportunities, particularly for women, youth and rural populations can raise labour force participation, unlock the country's productive potential and talent, improve resource allocation and strengthen potential growth over the medium term.

This chapter explores the state of intergenerational mobility in Peru, drawing on new evidence and international comparisons on education and income mobility (Box 3.1) and reviews policies that help individuals improve socio-economic outcomes irrespective of their family background. It identifies barriers in education, the labour market and social protection and proposes a reform agenda to improve access to opportunities across generations. Reducing informality among workers and businesses is central as it limits access to high-productivity jobs and social protection, reducing families' ability to invest in their children's education and future. A more progressive tax system—particularly through enhanced personal income tax design and better use of property and potentially capital gains and wealth taxes— can also help raise revenue fairly, support redistributive goals, and improve intergenerational mobility by strengthening the legitimacy and effectiveness of the tax-benefit system, especially when combined with well-targeted cash transfers that reduce poverty and expand opportunities for disadvantaged children.

Box 3.1. New comparative evidence on intergenerational social mobility in Peru

Work conducted for this Economic Survey assesses intergenerational social mobility in Peru using national household survey data, comparing Peru with other Latin American countries, including Argentina, Brazil, Chile, Colombia, and Mexico.

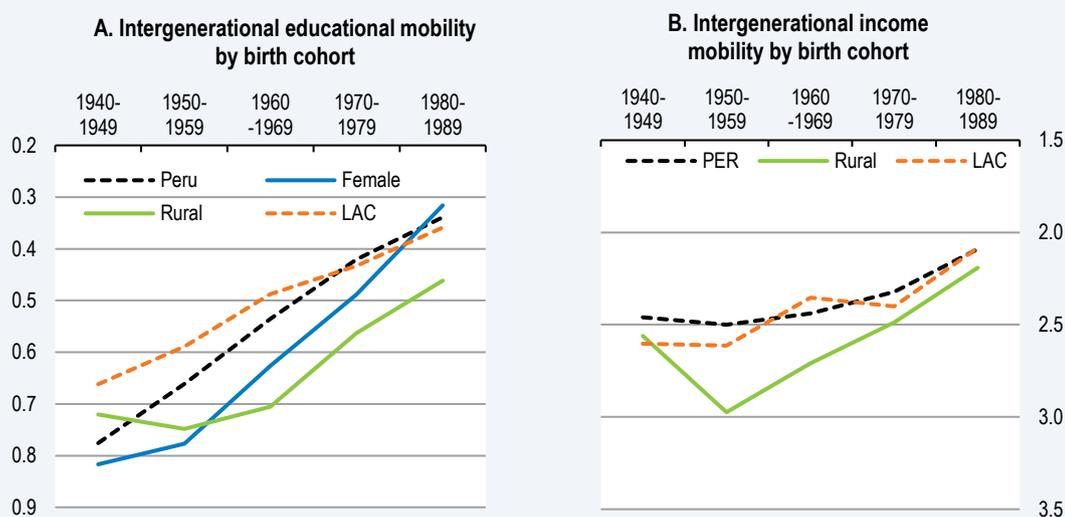
Two key dimensions of intergenerational mobility are explored:

- **Educational mobility:** It is measured by analysing how closely a child's education is associated to their parents' education level. The association captures the degree to which educational attainment is transmitted across generations, with stronger links indicating lower mobility. The results are derived from a linear regression model of the child's years of schooling on the parents' years of schooling taking

into account key demographic characteristics such as gender, age, and place of residence, an approach widely used in the literature (OECD, 2018^[1]; Van der Weide et al., 2024^[2]).

- **Income mobility:** It is measured by ranking individuals within their respective income distributions and estimating the correlation between their income rank and their parents' educational level. Parent education is a good *proxy* for the parents' income, an approach widely used in the literature (OECD, 2018^[1]). The results are derived from a linear regression of the child's income rank on the parents' years of schooling, controlling for gender, age, and place of residence. This allows capturing the extent to which parental education predicts the child's position in the income distribution.

Figure 3.1. Intergenerational social mobility in Peru has improved, but significant gaps persist



Note: A higher point in the graph indicates higher inter-generational mobility (i.e. lower persistence). Each point shows mobility for a birth cohort. An upward trend over time indicates increasing intergenerational mobility. Rural and female estimates are shown as deviations from the national average using mean-centring. LAC is a simple average of Brazil, Chile, Colombia, and Mexico.

Source: Ciaschi, et al. (forthcoming), "Intergenerational social mobility in Peru: comparative assessment and policy implications".

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Key findings:

- **Educational mobility has improved significantly:** Between the 1940–49 and 1980–89 birth cohorts, Peru's educational mobility coefficient increased by 56%, a larger increase than the 38% average across Latin American countries (Figure 3.1, panel A), reflecting expanded access to primary and secondary education, especially in rural areas. However, educational mobility in Peru still lags OECD countries like Sweden, Germany, Spain, and the United States (Van der Weide et al., 2024^[2]). High dropout rates, particularly in rural areas and low enrolment rates among youth aged 15–19-year-olds, hold back progress.
- **Income mobility remains low:** Over the same period, income mobility increased by 15%, a smaller gain than that observed in education mobility, and slightly less than the average improvement across LAC countries (Figure 3.1 Panel B). Higher educational attainment contributed to increased income mobility across generations, but low educational quality and widespread labour informality have limited the benefits of educational progress.
- **Large rural-urban divide:** Educational mobility remains significantly lower for children in rural households due to persistent disparities in access to education (Figure 3.1, Panel A). Income mobility is also lower in rural areas (Figure 3.1, Panel B) due to fewer quality job opportunities, higher informality,

and lower education quality. This rural-urban gap in mobility is wider in Peru than in most Latin American countries.

- **Gender disparities:** Women now complete more years of education than in the past, which has helped to close the gender gap in intergenerational educational mobility (Figure 3.1, Panel A). Despite these educational gains, challenges persist in the labour market, as female workers face weaker labour participation, higher rates of informality, and occupational segregation, being disproportionately represented in lower-paying jobs.

3.2. Strengthening education and early foundations

Early childhood education programmes, especially those targeting disadvantaged children, have lasting benefits, including higher educational attainment and increased earnings in adulthood, improving intergenerational educational and income mobility (OECD, 2025^[3]). While enrolment of four-year-olds is nearly universal with over 95% in 2022, comparable to the highest among OECD countries (99%), access for children under the age of three remains limited, with only 6.4% enrolled (OECD, 2024^[4]). Access to early childhood education is especially limited in rural and vulnerable areas, hindering children's ability to enrol. The EduCuna programme, launched in 2024, to serve low-income children aged 12 to 36 months, is a step forward though its current reach remains limited. As highlighted in the *2023 OECD Economic Survey of Peru*, gradually expanding access and improving quality, through better training for educators, of early childhood education should be priority, particularly in rural and vulnerable areas (Table 3.1).

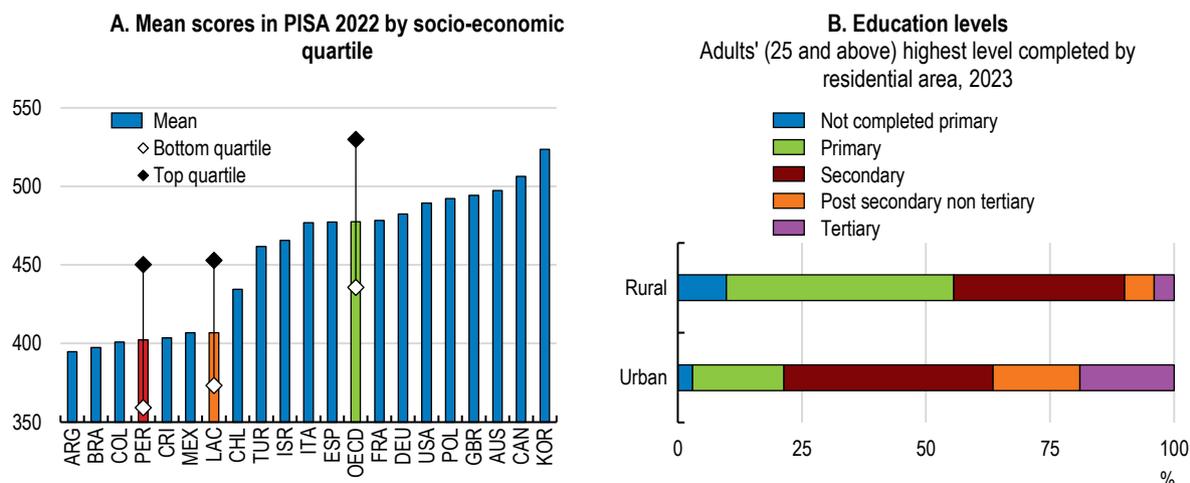
Peru has made significant progress in expanding access to primary and secondary education, contributing to improved intergenerational educational mobility. However, persistent quality gaps, particularly in rural and vulnerable areas, undermine progress. Learning outcomes remain well below the OECD average and lag many Latin American peers, with disadvantaged students performing significantly worse than their peers from more affluent households (Figure 3.2, Panel A). Rural students often underperform compared to their urban counterparts, largely due to more limited school resources and socioeconomic background (Echazarra and Radinger, 2019^[5]). Additionally, among people with disabilities aged 15 and older, 40% have only primary education and 18% have no formal education.

Improving basic education quality is essential to enable low-income students access post-secondary education and to ensure that higher educational attainment translates into better labour market outcomes. Priority should be given to improving teaching quality. Recent policy reversals, including the reinstatement of underqualified teachers, have weakened the 2012 Teacher Reform Law (Ley de Reforma Magisterial), which sought to professionalise teaching by linking career progression to merit and evaluations, notably through the national licensing exam. Nearly 40% of public-school teachers have either not taken or failed the exam, yet continue teaching, often in temporary positions without requirements for further training or exam retakes (Bruns, Schneider and Saavedra, 2023^[6]). Additionally, teacher shortages and high turnover in rural areas weaken education quality and widen learning disparities, as highlighted by the *2023 OECD Economic Survey of Peru* (Table 3.1). Strengthening merit-based recruitment and career progression, ensuring regular, high-quality initial teacher training and providing targeted support and incentives for rural teachers are needed to raise teaching quality and improve student learning outcomes. Improving school infrastructure is also needed. As of 2024, only 44.1% of school facilities have adequate water access and 58.7% have proper sanitation, most acute in rural areas. Investments in classrooms, sanitation, electricity, and internet are needed to provide a conducive learning environment and strengthen local governments to invest more effectively.

Persistent gaps in access to secondary education, particularly in rural areas, continue to limit educational mobility. While enrolment among 6–14-year-olds is near-universal school, only 59% of 15–19-year-olds were enrolled in education in 2022, lower than in most OECD countries (INEI, 2023^[7]), reflecting cumulative dropouts that begin in earlier grades, particularly at transition points such as from primary to secondary education. Rural areas fare worse, with secondary school enrolment almost 10 percentage points lower than in urban areas, and fewer students completing secondary education (Figure 3.2, Panel B). One driver is child labour in rural and indigenous communities

(UNESCO, 2024^[8]), where many children, especially girls, leave school to work in family-based activities due to financial constraints and cultural norms, often reinforced by education systems not adapted to local needs (ILO, 2023^[9]; Echazarra and Radinger, 2019^[5]). Many secondary students in Peru disengage or drop out due to financial pressures, long distances commutes, and a lack of perceived relevance in their education—highlighting the need to offer more flexible, applied learning options to better match diverse interests and support smoother transitions to further education and work, as discussed in later sections. Adolescent pregnancy is also a determining factor for girls and adolescents to drop out of basic education.

Figure 3.2. Learning outcomes and attainment vary sharply by socioeconomic and rural status



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, and Mexico.
Source: OECD, PISA 2022; INEI.

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Table 3.1. Past OECD recommendations on education

Past recommendation	Actions taken since the 2023 survey
Expand access to high-quality early childhood education, prioritising vulnerable children.	The new Ministry of Education's intervention, EduCuna, offers early childhood education to low-income children aged 12 to 36 months, initially reaching 10 300 children. Additionally, PRONIED, the National Educational Infrastructure Programme, improved sanitary facilities in over 26,000 schools in 2023, benefiting 3.6 million students.
Establish targeted support and tutoring programmes for students from vulnerable backgrounds provided by well-trained teachers.	PRONABEC continues to expand its support for talented, low-income Peruvians through scholarships and educational loans. The recently launched Beca Perú 2025 programme offers 174 full scholarships, enabling more individuals to pursue higher education without financial constraints.
Continue improving teacher initial training, teacher recruitment and selection and promote merit-based promotions and rewards, including incentives for teacher's reallocation to disadvantaged schools.	The allowance for community education promoters in PRONOEI increased to PEN 1,130 (approx. USD 300) in December 2024.
Expand coverage and benefits of cash transfer programmes for the poor, based on the existing conditional cash-transfer programme Juntos.	In 2023, the Juntos programme introduced a PEN 80 (USD 22) monthly top-up for households with children in the final three grades of secondary school, provided they met specific conditions.

Expanding the limited coverage and generosity of conditional cash transfer programmes like Juntos, which is tied to school attendance, can ease financial pressures on families and encourage students to stay in school and improve school outcomes. Juntos provides bimonthly cash transfers (PEN 200 or USD 50) conditional on 85% school attendance for children aged 6 to 14, and compliance with regular health checks, with additional incentives in some regions for completing secondary grades or achieving high academic performance. However, coverage is low, especially among older students, and benefit levels are modest relative to the costs families face in keeping children

in school. Successful models like Brazil's Bolsa Família, which provides higher transfers for older students to reduce dropout at the secondary level, offer useful lessons for improving Juntos' impact.

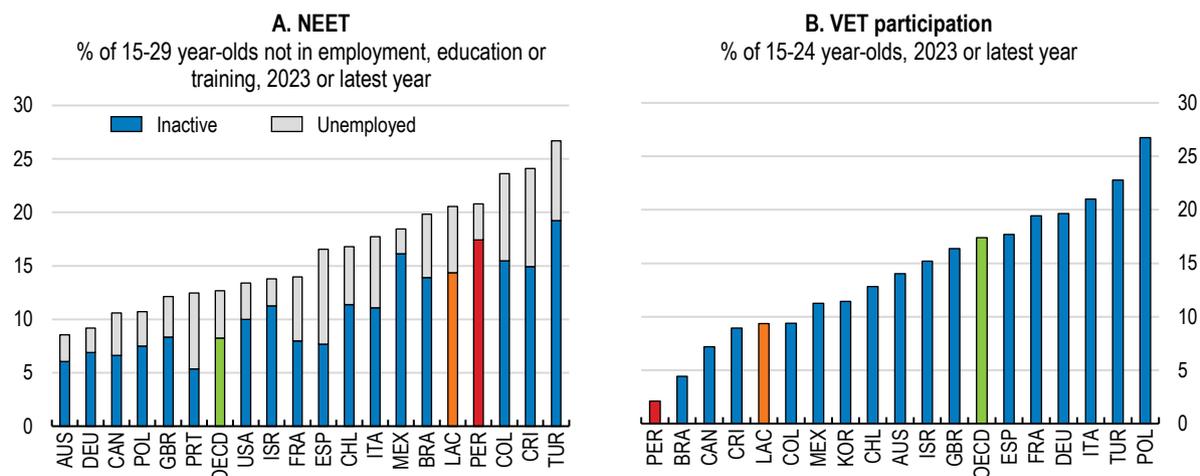
Implementing early warning systems can help identify and better support students at risk of dropping out. These systems use indicators such as attendance, academic performance, and behavioural issues to detect early signs of disengagement. One good example is the Costa Rica early warning system that centralises data on a digital platform, tracks student progress, and involves trained stakeholders like school principals and regional directors to prioritise high-risk cases (ECLAC, 2024^[10]). These systems coupled with targeted support, such as personalised tutoring, academic counselling, and extracurricular activities, can improve student engagement and performance, as highlighted by the 2023 OECD Economic Survey. Adapting upper-secondary education curriculum and modalities to the rural and vulnerable areas realities would also help with student engagement. An example is Mexico's Telesecundaria system, which delivers secondary education in remote areas through televised lessons and local facilitators, using flexible schedules and context-relevant content (VoxDev, 2024^[11]). In Peru, some flexible modalities exist in rural areas, including boarding schools and programmes that alternate classroom instruction with periods of home-based learning. Despite their potential to expand participation, these models currently reach just over 1% of the rural secondary school population (Consejo Nacional de Educación, 2021). The *Jornada Escolar Completa* (Whole Day School) has also proven effective in improving learning outcomes.

3.3. Improving the transition from school to formal jobs

A smooth school-to-work transition enables young individuals, particularly those from disadvantaged backgrounds to secure formal, well-paying jobs, thereby improving their socioeconomic status and breaking cycles of disadvantage. Enhancing school-to-work transitions is key for promoting intergenerational mobility in Peru, where many young people are disengaged from both education and training and employment (NEET) and remain mostly inactive without searching for a job (Figure 3.3, panel A). NEET status is prevalent among women due to teenage motherhood, gender stereotypes, limited access to childcare and elderly care and traditional cultural gender roles (OECD, 2022^[12]). Moreover, for those entering the labour market, informal employment is predominant, with an informality rate of 85% among 15–24-year-olds in 2024, significantly higher than that of prime-aged workers. Entering the labour market through informal jobs often traps young people in low-quality employment, as lack of contracts, social protection, and training in formal settings reduces their chances of transitioning to better-paying formal jobs.

A comprehensive strategy to improve school-to-work transitions in Peru can strengthen intergenerational mobility by reducing NEET rates and improving access to formal employment. This should include better outreach to disengaged youth through second-chance education and social support, expanded access to vocational education across all levels for students from diverse backgrounds, stronger alignment between skills and labour market needs, and flexible, modular, and digital learning pathways to reach rural NEET populations.

Figure 3.3. Many young people are out of work and education and participation in vocational education and training is low



Note: LAC is a simple average of Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: OECD Labour Force statistics; UNESCO Institute for Statistics (UIS); INEI.

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3.3.1. Improving the outreach to youth not in education, employment or training

Outreach programmes through schools, municipalities, and local employment offices are needed to identify NEET youth early and connect them with tailored services. Integrated employment services should provide NEET youth with career guidance, job placement, and entrepreneurship support. Peru's *Centros de Empleo* offer such services but lack national coverage and youth-specific programmes and are understaffed. The *2023 OECD Economic Survey of Peru* highlights the need to expand their reach and strengthen their capacity, including better-trained caseworkers and services tailored to young job seekers. These services should be complemented by psychosocial support, and childcare support, barriers that often prevent participation, particularly among women. Models such as Chile *Joven* and Colombia's *Jóvenes en Acción* show that combining training with support and targeted incentives improves school-to-work transitions and reduces long-term labour market exclusion. Expanding these programmes would also benefit other young people working in informal jobs by providing pathways to formal employment and training opportunities.

Second-chance education and training opportunities, delivered through flexible, modular formats and supported with financial incentives or conditional transfers, can re-engage those who left school before completing secondary education. Coverage remains low: *Educación Básica Alternativa* (EBA)—currently reaching only 2% of over 8 million adults with basic educational needs (Vasques Quispe, 2024) and the *Jóvenes Productivos* programme, which provides training to low-income youth outside formal education reaches less than 6,000 individuals annually (UNESCO, 2024^[8]). The programme has introduced a dual training model that combines classroom learning with practical experience in real work settings. Scaling up such programmes, prioritising youth from rural and vulnerable areas, especially with links to recognised credentials, would expand opportunities for excluded youth.

3.3.2. Enhancing Vocational Education and Training

Vocational Education and Training (VET) can play a crucial role in facilitating the transition from school to work by equipping youth with practical skills and direct workplace experience that improve access to formal jobs (Varsik, 2025^[13]). By offering alternative pathways to traditional academic routes, VET contributes to address skill shortages and reduce youth unemployment and inactivity. Modern VET programmes incorporate training in emerging technologies, preparing students for evolving job markets, supporting higher productivity.

Despite its potential to improve employment prospects, especially for disadvantaged youth (OECD, 2023^[14]), VET suffers from limited quality and remains underutilised in Peru. Only 2% of Peruvians aged 15 to 24 were enrolled in VET programmes across all educational levels, significantly below the OECD average and most Latin American countries (Figure 3.3, panel B), with over 90% of VET students located in urban areas. Graduates of higher non-university technical education in Peru typically experience better earnings and employment conditions compared to those with lower levels of education attainment; in 2022, 67% of these VET graduates aged 18 to 29 earned more than the national minimum wage, compared to 45% of adults with completed secondary general education (UNESCO, 2024^[8]). Although higher technical education shows better outcomes, challenges related to uneven quality still limit its full potential.

Strengthening VET requires a more integrated approach to VET governance, ensuring better oversight, and quality assurance. Peru's VET system is highly fragmented, lacking a unified framework to align training with labour market needs. It consists of multiple providers regulated by different authorities, or, in some cases, not regulated at all (Box 3.2). This fragmentation leads to inefficiencies, overlapping functions, and limited access to flexible learning pathways. Public technical institutes, both at upper-secondary and higher levels, often suffer from insufficient funding and outdated infrastructure, hindering practical training delivery. Private VET institutions, which constitute about 75% of higher technological education providers, vary widely in quality; some offer excellent programmes, while others fail to meet minimum standards (UNESCO, 2024^[8]). Cumbersome regulation has slowed the licensing process, with only 14% of vocational institutions having obtained a licence, and most others still having to undergo the process. Progress has been further hindered by a complex procedure requiring extensive documentation and the Ministry of Education's limited operational capacity. Accreditation remains even more limited, restricting quality control and the credibility of VET programmes. The planned creation of a new employment training agency (ONFE) under the Ministry of Labour is a welcome step. ONFE is expected to function as a regulatory and coordinating body for employment training, eventually expanding the scope of the current Jóvenes Productivos programme, but addressing fragmentation and ensuring coherence will require stronger system-wide governance.

Despite 86% of jobs in Peru requiring low- to middle-level skills (OECD, 2019^[15]), public investment in VET remains limited, with per-student spending at only 70% of that for university students (INEI, 2023^[7]). This underinvestment weakens the ability of VET institutions to modernise training, update equipment, and adapt curricula to industry needs, undermining their role in preparing students for the labour market.

Expanding pathways from non-formal and informal VET programmes to formal VET, and across formal and sector-specific technical schools, can help vulnerable students obtain recognised certifications and improve their chances of accessing formal employment. A key enabler is the recognition of prior learning, which allows skills acquired outside traditional education systems to be formally validated (OECD, 2023^[14]). The Ministry of Labour's Certification of Labour Competencies initiative and the 2019 National Qualifications Framework are steps in this direction, aiming to standardise skill recognition and strengthen pathways within and between VET programmes. The 2025 National Strategy to Promote the Certification of Labour Competences, launched in April 2023, has a potential population of 2.8 million individuals in 2025 to enhance employability through formal recognition. The 2019 National Qualifications Framework of Peru further standardises qualifications across institutions, reducing fragmentation and facilitating educational transitions (UNESCO, 2024^[8]). These efforts are particularly important for rural students, who often move between systems and face difficulties with certification portability. However, slow implementation and weak alignment of most programmes with the framework limit its effectiveness in enabling mobility and recognition.

Expanding access to vocational upper secondary education is crucial to improve school-to-work transitions for those not following tertiary education, particularly from vulnerable backgrounds. In Peru, VET is not integrated into the standard secondary curriculum, but offered in a limited number of secondary schools that combine general education with applied technical subjects (*Secundaria con Formación Técnica*). Coverage remains limited and highly concentrated in urban areas (UNESCO, 2024^[8]). Access is particularly scarce in rural and Amazonian regions, reinforcing territorial disparities in the labour-market. Most students follow a single academic track with little room for applied learning, and existing alternatives—such as *Secundarias Técnicas* or CETPROs—are few, often of low quality, and offer limited pathways to further education. Data show that many students disengage or drop out because they do not perceive the value of education and often prioritise work. Introducing more flexible secondary education structures, with greater subject and programme choice, could increase student engagement, reduce

dropout rates, and support smoother transitions to work or further study. While programmes like the *My Technical Opportunity Strategy* and the *Technical Secondary Education Service Model*—which reaches over 330,000 students—aim to strengthen technical education and support transitions to further training or employment, their reach remains narrow.

Box 3.2. The VET system in Peru

VET is a strategic priority in Peru, included in the National Competitiveness and Productivity Policy (2018), the National Policy on Higher and Technical-Productive Education (2020), and the National Policy for Decent Employment (2021). However, only 10% of students who complete basic education transition to technological higher education. VET enrolment is heavily concentrated in urban areas, and Lima alone accounts for most of it. It lacks a dedicated regulatory, institutional, or programmatic framework divided into four main areas (Table 3.2).

Table 3.2. Types of vocational education and training and education levels

	Education level	VET type and coverage in 2022	Regulator
Formal VET	Upper Secondary (Grades 3–5 of Secondary School) - ISCED 3	Secondary Education with Technical Training (SFT – Secundaria con Formación Técnica) - Implemented only in public secondary schools under the Regular Basic Education (334,568 students – 11% of upper-secondary education)	Ministry of Education
	Post-Secondary Non-Tertiary - ISCED 4	Technical-Productive Education (ETP/CETPROs): short-term, skills-focused, no basic education required. Both public and private CETPROs exist with private CETPROs dominating the landscape (210,441 students)	Ministry of Education
	Tertiary (Higher Technological Institutes, Universities) - ISCED 5–6	Higher Technological Education, Technical Careers in Universities with private universities dominating overall tertiary enrolment. (EST/IESTs, 516,539 Students - 40% of tertiary education)	Ministry of Education / SUNEDU (for universities)
Sector-Specific Technical Institutes	Institutes like SENATI (industry), SENCICO (construction), CENFOTUR (tourism) - ISCED 4–5 Ministry of Production also supports vocational training through the Network of Centres for Innovation and Technology Transfer (CITE)	Provide career and short-term training (37% of total VET enrolment) SENATI –career training -123,754 students SENATI –short-term training- 371,680 SENCICO – 128,461 CENFOTUR -1,523 29 centres delivered 84,883 technology services to 22,755 productive units—primarily micro, small, and medium-sized enterprises (MSMEs)	Respective ministries (e.g. Production, Housing, Tourism); strong private sector involvement in funding and governance
Non-Formal VET		Training by employers or employment centres outside formal education by the Ministry of Labour (5,116 students)	Ministry of Labour and Employment Promotion (MTPE)
Informal VET		Skills learned informally through life or work experience, without certification	Not regulated – recognition via prior learning assessments

Rural-urban disparities in access to VET reflect structural gaps in the local availability of training institutions, infrastructure, and digital connectivity. Expanding digital and virtual learning can help close these gaps but must be supported by investments in digital infrastructure, connectivity, targeted financial aid and policies supporting digital literacy. Scaling up platforms like CAPACÍTA-T, which provides free, self-paced courses aligned with labour market needs outside the formal system, could expand access, especially in remote regions. To unlock its full potential, the platform should be linked to the existing certification platform and the main employment services portal, offer pathways to formal qualifications, and diversify course offerings aligned with the VET system and employers and sectoral needs. Implementing modular courses and micro-credentials, along with recognising prior learning, would increase flexibility and enable students, particularly in low-income or rural settings, to combine study with work or re-enter education at different stages (OECD, 2023^[14]). Scholarship programmes like *Beca 18* could be expanded to

cover more VET students and associated costs, including transportation and living expenses. Brazil's Bolsa Formação programme, which provides free technical courses and stipends to vulnerable students, offers a potential model for Peru. Canada's *Flexibility and Innovation in Apprenticeship Technical Training* initiative also shows how combining in-person and online learning can effectively expand access in underserved regions.

3.3.3. Aligning skills with labour market needs

Without access to relevant, in-demand skills, young people may fail to convert education into higher earnings, reinforcing intergenerational cycles of low income. There is a significant disconnect between vocational training and labour market demands, with only 44% of Peruvian VET graduates in 2022 were employed in fields related to their training (UNESCO, 2024^[8]). At the same time, employers struggle to find workers with the right skills, with 47% of firms reporting hiring difficulties, and as high as 75% in digital sectors by 2023.

Expanding apprenticeships and work-based learning can help bridge the disconnect between training and industry needs. Access to work-based learning is scarce, particularly in remote regions, where resources and employer engagement are limited. The National Policy on Higher and Technical-Productive Education has promoted pilot initiatives for youth outside higher education to test and scale up new training models in high-demand sectors, while government guidelines encourage regional training programmes that align with labour demand. SENATI's dual training model, inspired by the German apprenticeship system, has helped students transition to formal, better-paid jobs (Angles and Lindemann, 2019^[16]). Similarly, the *Jóvenes Productivos* (Productive Youth) programme offers dual training that combines classroom instruction with practical experience in real work environments, targeting youth in vulnerable conditions to strengthen their technical and employability skills and support future job placement. Adapting the model to other sectors and regions, and formalising agreements between training providers and firms with clear learning outcomes and mentoring responsibilities could help. This is also a feature of the *Jóvenes Productivos* programme, which targets vulnerable populations and innovatively integrates employer-driven, on-the-job training with the development of socioemotional, cognitive, and digital skills. Still, many firms remain reluctant to hire apprentices through formal contracts, particularly in vulnerable regions. Implementing financial and regulatory incentives can encourage firms to formalise apprenticeships. For example, Brazil and Colombia mandate that medium and large firms hire apprentices (ILO, n.d.^[17]). Targeted wage subsidies or tax incentives can also make hiring apprentices more attractive, especially in rural and vulnerable regions.

Effective VET programmes require collaboration between local governments, employers, and community organisations to ensure alignment with labour market needs. Engaging firms in co-designing curriculums and managing training programmes would improve the match between developed skills and labour demand (OECD, 2019^[15]). A model to replicate in Peru are the sectoral schools, such as SENATI, that collaborates closely with firms and local governments to adapt training offers to regional economic profiles and labour demands. Engaging employers to co-define qualifications and training modules using the National Qualifications Framework as a reference framework would help. Another example in Colombia is the government training institution, SENA, that actively involves local employers to design and deliver region-specific courses. Other countries have successfully aligned VET with labour market needs using data-driven approaches. Skills assessment and anticipation tools, like Estonia's OSKA, use labour market data to forecast future skill needs and inform training priorities.

3.4. Closing gender gaps in the labour market to improve social mobility

Despite gains in educational attainment and reaching similar years of schooling as men, women remain less engaged in the labour market and are more concentrated in informal and low-paying occupations and care-related sectors, limiting their ability to translate education into higher incomes and leadership opportunities. These challenges are more severe for rural women, who face compounded barriers such as scarce formal job opportunities, weaker transport infrastructure, and social norms that restrict their participation in paid work.

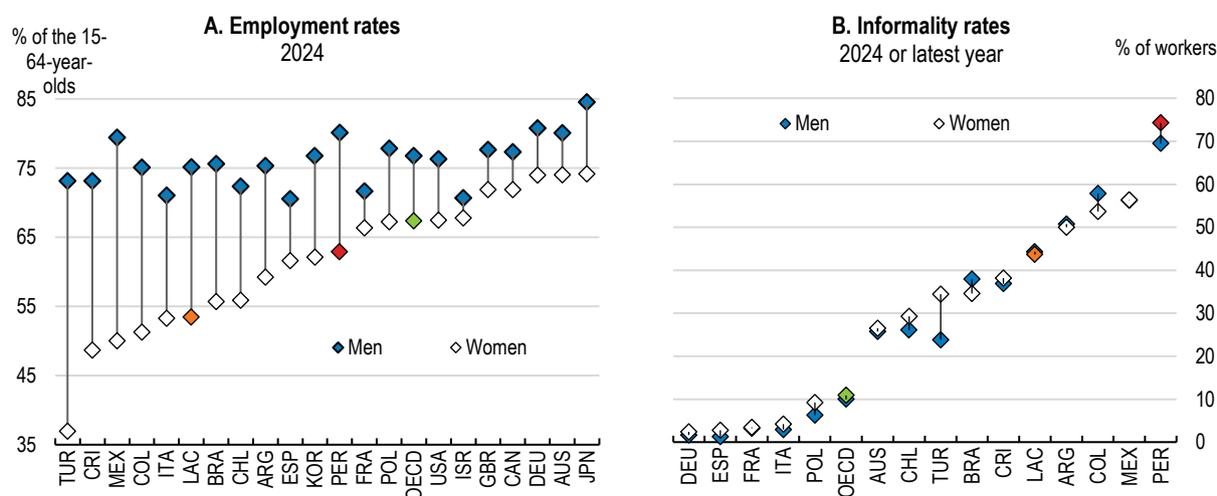
Peru has relatively high labour force participation rates for both men and women compared to other Latin American countries. However, the gender gap at 16 percentage points is above the OECD average of 13 percentage points in 2024. Furthermore, women's employment rates remain significantly lower than men's, with a gender employment gap wider than in most OECD countries (Figure 3.4, panel A). When in employment, women are more likely to be in

lower-paid, informal, and part-time jobs, facing weaker social and employment protection (Figure 3.4, panel B). Women earn, on average, 19% less than men, even when accounting for education and experience, well above the OECD average of 11%. This wage disparity reflects deep-rooted structural barriers, including occupational segregation, caregiving responsibilities, and discrimination in hiring and wage-setting. Women are overrepresented in low-paying service sectors such as domestic work, retail, and hospitality, while men dominate higher-paying industries (OECD, 2023^[18]). In addition, women business owners are far more common in the informal sector: only 22% of formal firms are female led, compared to 60% of informal firms, most of which are home-based. This home-based nature of female entrepreneurship explains a large share of the gender gap in business performance (World Bank, 2025^[19]).

Reducing these gender disparities in the labour market would enhance social mobility across generations, as improved employment outcomes for women would strengthen household incomes, and enhance intergenerational mobility by improving children’s health, education, and future earnings prospects (OECD, 2018^[11]). Moreover, it would yield significant economic benefits. Reducing the female employment gap by two-thirds by 2060 could raise potential output by 0.3 percentage points per year by 2050 (Chapter 1). Higher female participation in formal employment would raise productivity by better utilising human capital and support fiscal sustainability through a broader tax base and reduced reliance on social transfers, contributing to a more inclusive and resilient economy.

The unequal distribution of care work is a major driver of gender disparities in the labour market. Women perform more than three times as many unpaid care hours per week as men, limiting their economic opportunities and pushing many into informal or part-time work (INEI, 2024^[20]). The gap is widest for mothers of young children, whose labour force participation is 20 percentage points lower than that of childless women. Gradually expanding access to early childhood education, especially for vulnerable families should be top priority, with the double dividend of enhancing their children’s educational outcomes, as highlighted before. Investing in formal elderly care services would also ease women’s care burden and help address population ageing. While Peru adopted a national policy for older adults in 2021 and launched the “*Gratitud*” national programme in 2024 to expand community-based and preventive services, its implementation has been limited and most care facilities, known as Residential Care Centres for Older Adults, remain private, leaving low-income and rural elderly without access. Limited public elderly care increases pressure on households—especially women in informal and precarious jobs—and is compounded by low pension coverage: 66.4% of older adults lack coverage, including 77.1% of women and 58.8% of men. Gradually expanding home- and community-based care, with targeted public support and co-payments from higher-income groups, would improve access while maintaining fiscal sustainability.

Figure 3.4. Gender inequalities remain significant in the labour market



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: OECD Labour Force statistics; ILO.

StatLink  <https://stat.link/aoklc2>

Despite progress in educational attainment, large gender gaps persist in fields of study and career paths, limiting women's ability to translate higher education into better-paying jobs. Expanding women's participation in VET, especially in green and digital sectors, would improve representation in career fields with better job prospects. While women make up 60% of all VET students, they remain underrepresented in high-demand science, technology, engineering, and mathematics (STEM) fields, such as engineering, ICT, and natural sciences (UNESCO, 2024^[8]). This results in female VET graduates being more likely to be employed in low-demand fields with lower wages (OECD, 2023^[14]). Furthermore, implementing business skills training that target high-growth entrepreneurs, with a specific focus on women, would strengthen technical and managerial capacities.

Programmes that encourage girls to pursue STEM from early education stages can help address gender biases and stereotype-driven choices. Raising awareness and targeted scholarships, mentorship programmes, and career guidance can help close this gap. Canada's Skilled Futures Programme offers workshops and interviews with female professionals in technical fields to encourage career exploration in high-demand sectors. Similarly, Costa Rica's "*Decidiendo Mi Futuro*" programme successfully increased STEM enrolment among low-income female students by sending motivational text messages featuring women in STEM, career benefits, and enrolment guidance (IDB, 2023^[21]). Targeted digital literacy programmes for women and girls, especially those in rural or disadvantaged settings, would also help. The national career platform *Mi Carrera* could help expand access for girls and young women by integrating gender-sensitive STEM content, mentorship, and labour-market data, especially in rural areas.

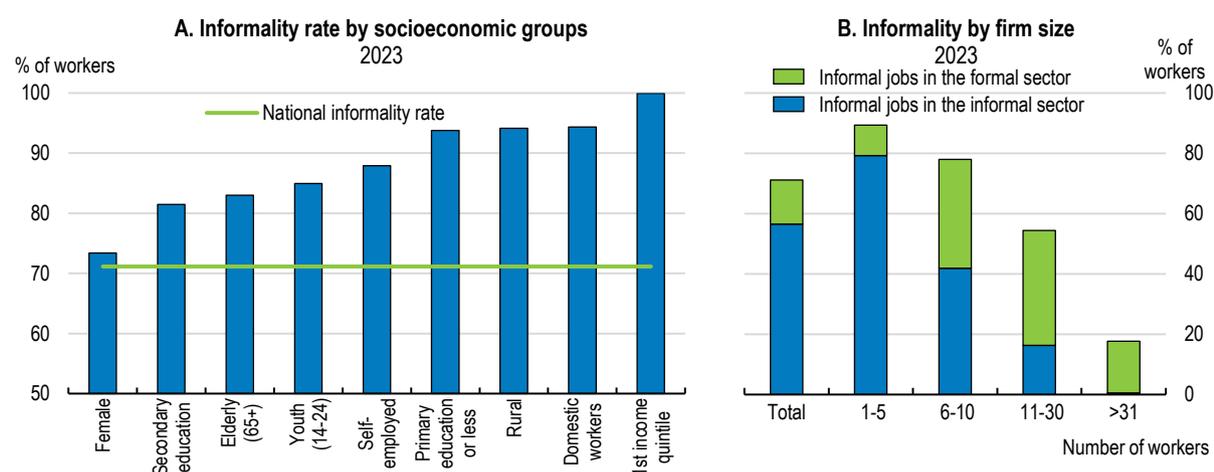
Addressing gender-based violence and discrimination in both workplaces and society is essential to ensuring women's socioeconomic inclusion, economic participation, and access to formal, quality jobs. Violence against women combined with an overload of care responsibilities, lowers productivity, raises business costs, and pushes women into informality, perpetuating violence and restricting autonomy. Gender-based violence and workplace harassment remain major barriers to gender equality, with 34% of female workers reporting workplace harassment over the past 2 years. Peru has a strong institutional framework for gender equality, but widespread informality limits the reach of legal protections, making enforcement inconsistent (Alcazar, Távara and Huerta, 2024^[22]). Some complementary initiatives such as the "Safe Company Free of Violence and Discrimination Against Women" certification, awarded to 38 companies in 2024, and promote workplace policies that prevent violence and discrimination, support work-life balance, and advance women's participation in leadership. Reducing informality and stronger enforcement of existing regulations and shifting deeply rooted gender norms are needed to closing gender gaps.

3.5. Increasing access to formal jobs to break intergenerational traps

Informality acts as a structural barrier to intergenerational mobility by limiting access to better-paying, high productivity jobs, social protection, and skill development opportunities. Informality is often passed across generations, as children of informal workers, with limited parental resources and complex school-to-work transitions, are more likely to enter informal jobs themselves (OECD, 2024^[23]). About 71% of the employed population in 2024 was engaged in informal employment, a rate higher than the LAC average of 45% and higher than expected given its GDP per capita (Loayza, 2016^[24]). Although informality is widespread, it is higher among rural workers, women, youth, the self-employed, people with disabilities and those with lower education or household income (Figure 3.5, Panel A). Over 60% of the population lived in households where all workers were informal, a much higher share than Latin American average (42%) (OECD/OISS, 2024^[25]).

Informality is also tied to weak formal job creation, particularly in rural and low-growth areas, where most firms are informal and lack the productivity or incentives to grow and generate formal employment. Over 99% of firms are micro, small, or medium enterprises, most operating outside the formal system, and even large firms have some degree of reliance on informal labour (Figure 3.5, Panel B). These firms typically underinvest in capital, technology, and training, reinforcing cycles of low-productivity, low-income employment across generations. In 2023, 53% of the workforce was self-employed, rising to over 90% among rural agricultural households, mostly in subsistence informal work due to limited formal job opportunities.

Figure 3.5. Informality is widespread but hits hardest among vulnerable workers



Note: Informality is defined as those in informal units or in formal units but without pension contributions or as unpaid family worker.

Source: INEI.

StatLink  <https://stat.link/tmo14g>

Peru's high level of informality requires a comprehensive strategy that not only improves workers' incentives to formalise but also expands the availability of formal jobs by fostering the growth of productive, formal firms, as the *2023 OECD Economic Survey of Peru* has emphasised (Table 3.3) and discussed in Chapter 1 and 3 of this Survey. This includes improving access to high-quality education, lowering the cost of formal jobs, and reducing tax and regulatory burdens for businesses. Scaling up certification of labour competencies has also shown a positive impact on formalisation. Boosting worker and firm productivity through investments in education, skills, infrastructure, and technology will be crucial to enable the creation of profitable, formal jobs. Experience from other countries shows that reducing informality requires a combination of measures that lower the costs of formality, increase its benefits, and strengthen enforcement, offering valuable lessons for Peru's own strategy (Box 3.3).

Non-wage labour costs, such as mandatory social security contributions and severance payments, tied to firm size rather than individual earnings, place a disproportionate burden on low-wage workers discouraging formalisation. This also creates incentives for businesses to stay small, informal and underreport workforce size, increasing informality. As recommended in the *2023 OECD Economic Survey of Peru*, moving to a progressive contribution system based on worker's earnings with lower rates for lower-income workers would lower barriers to formalisation while remaining fiscally neutral. Similar reforms in Colombia, to reduce non-wage labour costs, and Chile, to subsidise part of social security contributions have been effective in promoting formalisation (Box 3.3). This should be accompanied by a universal minimum pension and the calibration of social contributions rates to ensure adequate replacement rates and stronger incentives for formal employment, as highlighted in the *2023 OECD Economic Survey of Peru*. Additionally, reviewing other firm-size-based policies, like tax schemes for smaller taxpayers (Chapter 1) and the mandatory profit-sharing threshold—which applies to firms with more than 20 employees increasing non-wage labour costs at that threshold—could remove incentives for businesses to remain small and informal. The mandatory profits-sharing threshold induces firms to split operations or limit hiring of formal workers of a 21st employee to avoid triggering this threshold, reducing firm investment and aggregate productivity (Tolentino, 2021^[26]). Reducing regulatory burdens, streamlining permitting processes, expanding formalisation services, and improving SME's access to finance are also key to fostering formal firm growth and quality job creation.

Strengthening labour and tax enforcement against intentional informality is also important, especially when paired with efforts to reduce the costs associated with formalisation. Limited resources of SUNAFIL, Peru's National Labour Inspection Authority, hinder its ability to enforce labour laws effectively. The agency operates with an inadequate number of inspectors, falling short of the ILO's recommendation (TUAC, 2024^[27]). This shortage leads to work overloads and extended inspection processes, sometimes taking up to three years to resolve cases. Investing in additional staff and technology could bolster SUNAFIL's capacity to enforce labour laws effectively. As labour laws

are better enforced, Peru could consider revising its regulatory framework for permanent contracts, which remains highly inflexible and incentivises firms to rely on temporary formal contracts—currently representing around 80% of formal employment—or to hire workers informally, as already highlighted in the 2023 OECD Economic Survey of Peru.

As informality permeates most of Peru’s socio-economic challenges, a comprehensive strategy to reduce informality must go beyond labour market and business environment policies. Addressing corruption and strengthening judicial independence (as discussed in Chapter 1) can improve incentives of formalisation, as businesses and workers are more likely to operate formally when they trust that laws and regulations are applied fairly. Shortening judicial processes would improve enforcement of labour rights and support labour inspection. Improving public spending efficiency by enhancing the quality of public services and infrastructure (as discussed in Chapter 1) can also make formalisation more appealing by demonstrating tangible benefits from tax and social contributions. These policies not only reduce informality but also foster a more dynamic economy with stronger long-term growth potential.

Table 3.3. Past OECD recommendations on reducing informality

Past recommendation	Actions taken since the 2023 Economic Survey of Peru
Establish a comprehensive strategy to foster formalisation, including lower non-wage labour costs, particularly for low-income workers, more flexible employment regulation on permanent contracts, better skills, stronger legal enforcement, and improvements in tax administration.	In 2024, Peru adopted several initiatives to promote formal employment, including the APEC Lima Roadmap and the National Competitiveness and Productivity Plan (2024–2030), which aim to improve regulations and business conditions. "Formalizate Ahora" fairs and SUNAT's "Mi Empresa" programme offer rapid formalisation services, while the Ministry of Labour's Strategic Plan focuses on formalising the workforce and supporting vulnerable groups. New guidelines were also approved to promote productive and formal self-employment with decent working conditions.

Box 3.3. Successful strategies to reduce informality

Several countries have reduced informality by lowering the costs of formal labour, improving skills, simplifying procedures, and strengthening enforcement. Evidence shows that the most effective reforms either reduce the cost of staying formal or increase the benefits of formality (Ulyssea et al., 2025^[28]). While context matters, these experiences offer valuable lessons for Peru.

Chile: A 2008 reform introduced subsidies to partially cover pension contributions for low-income workers. This measure helped increase formal employment, especially among young and seasonal workers, and improved retirement savings (Bravo and Rau, 2013^[29]; Centro de Microdatos, 2012^[30]; SENSE, n.d.^[31]). A comprehensive strategy combining digital tools, administrative simplification, and regulatory reform contributed to a sustained reduction in informality in Chile (ILO, 2019^[32]). Key measures included the PreviRed platform for unified social security payments, the Enterprise in a Day system for fast business registration, and mandatory formal registration to access public procurement. Complementary measures—like simplified tax regimes—further supported formalisation, especially among SMEs, and reforms requiring self-employed and subcontracted workers to contribute to the social insurance system expanded coverage and strengthened incentives for formalisation.

Brazil: Increased schooling is the most important factor in explaining the decline in informality observed in Brazil between 2003 and 2012 (Haanwinckel and Soares, 2021^[33]). Brazil’s MEI (Microempreendedor Individual) scheme, introduced in 2009, helped support formalisation by removing registration costs and lowering ongoing tax costs for individual entrepreneurs with very low income and one employee or less (Rocha, Ulyssea and Rachter, 2018^[34]). More flexible labour markets have supported transitions to formality in Brazil by enabling informal workers to move into formal employment after trade-related shocks (Almeida, Paz and Poole, 2022^[35]).

Colombia: In 2012, the Formal Employment Generation Law eliminated employer contributions to health and family welfare funds for low-wage workers, cutting non-wage labour costs by 13 percentage points. Formal employment rose significantly, particularly among small firms and young workers (Bernal et al., 2017^[36]; Morales

and Medina, 2017^[37]; Garlati-Bertoldi, 2018^[38]). The *Jóvenes en Acción* programme—combining vocational training with cash transfers—raised formal employment, with effects persisting in the long term (Attanasio, Kugler and Meghir, 2011^[39]; Attanasio et al., 2017^[40]). The introduction of a subsidised health insurance scheme for vulnerable and informal workers created incentives for low-income individuals to move into informality, as it provided similar health services for free compared to the contributory system (Camacho, Conover and Hoyos, 2013^[41]).

Mexico: Labour inspections can raise formal employment, though some negative firm-level negative employment effects can be also observed (Samaniego de la Parra and Fernández Bujanda, 2024^[42]). Greater financial inclusion—through access to accounts, credit, insurance, and digital payments—is linked to lower informality, especially in underserved areas (Briano-Turrent, 2025^[43]). The rollout of debit cards to cash transfer recipients led small retailers to adopt card payment terminals, increasing transaction visibility and incentives to formalise (Higgins, 2024^[44]).

Türkiye: Employment subsidies covering employers' social contribution costs had a positive impact on employment, particularly in small firms, and this is driven by the positive effects on formalisation of existing workers more than creation of new jobs (Aşık et al., 2022^[45]).

Uruguay: The *Monotributo Social* scheme offered simplified registration, flat-rate contributions, and access to health and pension coverage for self-employed workers. Formalisation rose among vulnerable groups, particularly women and rural workers (Bergolo and Cruces, 2014^[46]). A reform in 2008 extended health coverage to dependents of salaried private-sector workers, increasing the incentive to hold formal jobs, especially among women, middle-aged workers, and those in small firms (Cruces and Bergolo, 2013^[47]).

Table 3.4. Main findings and recommendations

Main Findings	RECOMMENDATIONS (Key recommendations are bolded)
Strengthening education and early foundations	
Peru has made major progress expanding basic education access, boosting educational mobility. However, dropout rates remain high, particularly in rural areas, preventing further progress. Learning outcomes in Peru remain well below the OECD average, with disadvantaged and rural students significantly lagging. Low coverage and modest benefits of the conditional cash transfer programme <i>Juntos</i> limits its impact on poverty and school dropouts' reduction.	Improve teaching quality by improving initial training and enforcing merit-based teacher career progression. Expand coverage of the conditional cash transfer programme <i>Juntos</i>, linking it to school attendance.
Improving the transition from school to formal jobs	
A large share of youth, especially in urban areas, remain outside education, employment, or training (NEET), limiting their upward mobility, while many of those working do it in informal jobs. VET remains underutilised in Peru, with only 2% of youth aged 15 to 24 enrolled. The system is fragmented, lacks clear pathways within VET or to higher education, and varies in quality, limiting its potential to support skills development and upward mobility. Access to VET is highly unequal, with very limited provision in rural and vulnerable areas, reinforcing territorial and socio-economic disparities in school-to-work transitions. There is a significant disconnect between vocational training and labour market demands. Yet employers have difficulties finding the right skills.	Expand and strengthen employment services with youth-focused services. Establish a coordinated, coherent, and systematic governance framework for VET, enforcing consistent quality standards, regulatory oversight and define clear pathways to higher education. Accelerate and fully implement the National Qualifications Framework. Expand the number of technical schools places, ensuring minimum infrastructure and digital connectivity, prioritising vulnerable areas. Ensure collaboration between local governments, employers, and social partners to align VET with labour market needs.
Closing gender gaps in the labour market	
Persistent gender gaps in labour market participation, driven by unequal caregiving and limited access to formal jobs, undermine women's ability from translating education into upward mobility. Women are underrepresented in high-paying STEM and technical fields, despite being 60% of all VET students.	Gradually roll out accessible, affordable, and high-quality early childhood education and elder care services, prioritising vulnerable populations, disadvantaged areas, and children under age three. Launch targeted STEM outreach and digital literacy programmes for girls from early education.

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4 Supporting the green transition

Michael Koelle, OECD

Peru is highly vulnerable to climate risks—ranging from glacial melt and extreme weather events to threats to its rich biodiversity. Meeting the commitment of decarbonising the economy by 2050 requires first and foremost tackling deforestation in the Amazon, the main source of emissions. Mitigating climate change also requires boosting investment in renewables and greening transportation – while ensuring that the mining sector provides essential minerals for renewable energy in a sustainable way. To increase resilience to already occurring climate risks, investing into adaptation and implementing adaptation strategies is essential not only for safeguarding the environment and ensuring the sustainability and resilience of key export industries but also for protecting the livelihoods of vulnerable populations, particularly those in rural and Indigenous communities. The success of many climate-related strategies, including stopping deforestation, environmental conservation, and sustainably sourcing essential minerals, relies on building consensus and improving livelihoods of vulnerable groups affected by climate change by improving skills and productivity.

4.1. Introduction

Peru is on the frontline of global climate change. In line with its bold international commitments, Peru has taken steps to stop the growth of greenhouse gas (GHG) emissions in recent years, but further action is needed to meet its target of net-zero emissions by 2050 under the Paris Agreement. Recognising the urgency of climate action, Peru has integrated environmental priorities into its policies, including its Nationally Determined Contributions and the National Adaptation Plan, the National Strategy on Climate Change until 2050, the Framework Law for Climate Change and the declaration of a Climate Emergency, which will ease and speed up planning and budget allocation. Peru is also highly vulnerable to effects of global warming and an already changing climate. Rising temperatures, shifting rainfall patterns, and extreme weather events are already disrupting infrastructure, agricultural production, and livelihoods, with impacts set to intensify, calling for intensified implementation of adaptation measures.

Reducing emissions and adapting to climate change requires accelerating a profound transformation of the economy, which has the potential to also spur productivity and well-being. Tackling deforestation in the Amazon, the country's main source of GHG emissions, is essential for protecting biodiversity, supporting sustainable livelihoods, and offsetting hard-to-abate emissions elsewhere. Transitioning to clean energy can reduce fossil fuel dependence, lower energy costs, and enhance energy security by tapping into Peru's abundant potential for renewable sources. Peru faces a big opportunity with the global green transition if a more sustainable mining sector can supply critical raw materials. Investing in energy-efficient and climate-resilient infrastructure can improve living conditions and lower operating and maintenance expenses. Additionally, reducing reliance on private vehicles through better public transport can cut air pollution and congestion, and improve road safety. A shift towards cleaner transportation and better public transit systems will also lead to more sustainable and liveable cities.

The transition, however, comes with short-term costs. Key industries, including mining, agriculture, and transport, will need to invest in cleaner technologies and adjust their business models. Capital assets tied to fossil fuel industries will require replacement, and new and better infrastructure will be necessary. Workers will have to retrain and upskill, and some will have to find employment in other sectors. Carbon pricing policies will make high-emission goods more expensive. At the same time, financing constraints pose challenges, especially as Peru is facing a tight fiscal situation. Ensuring that the transition is both effective and equitable—minimising costs to households, businesses, and the public sector—is crucial. There is already an overwhelming consensus in Peru on the importance of climate change and the need for the government to address it, with 93% of Peruvians saying climate change impacts their daily life and 19 out of 20 supporting stricter government measures to encourage climate-friendly behaviour (EIB, 2023^[1]). Building on this broad societal consensus, ensuring policy consistency, and channelling some resources to affected vulnerable populations will be essential for a successful shift to a sustainable economy.

This chapter outlines a policy mix to help Peru transition cost-effectively to a green economy by reducing emissions and adapting to climate change. The chapter first discusses adaptation measures to manage climate risks already underway. Drawing on research conducted by the OECD and other international organisations, it then explores policies to cut emissions and help meet GHG reduction targets, particularly by stopping deforestation and reducing the reliance on fossil fuels in energy and transport. Next, it discusses how to make agriculture and mining more climate resilient and sustainable. Finally, it outlines policies to support workers through the transition, helping to achieve social and political consensus and avoid skills shortages as the economy evolves.

4.2. Strengthening the environmental policy framework

Peru has established a robust environmental policy framework but faces significant challenges in effectively implementing and operationalising these policies. Peru adopted the National Strategy on Climate Change (ENCC) in 2015 to comply with commitments under the United Nations Framework Convention on Climate Change (UNFCCC). The ENCC includes strategic objectives and priority actions on both mitigation and adaptation and was updated in 2024. Peru ratified the Paris Agreement in 2016 and approved its Framework Law on Climate Change in 2018. In 2021, the country released the 2022-2030 National Adaptation Plan. Since 2022, the Ministry of Economy and Finance (MEF) has started integrating climate change considerations into its Multiannual Macroeconomic Framework, such as assessing the economic impact of extreme weather events, and integrated climate resilience

considerations into the national infrastructure plan. However, Peru still has much work to do in implementing and operationalising these high-level policies and commitments and securing adequate funding for their implementation. According to the OECD climate action and policies measurement framework (CAPMF), Peru adopted fewer climate action policies than any other country (Box 4.1). This calls for strengthening the policy framework and adopting more general broad-based policies to support the green transition, as well as a greater number of sectoral measures that are in turn discussed below.

Box 4.1. Measuring progress on climate action

The OECD climate actions and policies measurement framework (CAPMF) tracks trends in climate action, covering 130 policies accounting for 75% of the instrument types recognised by the IPCC.

According to the CAPMF, while Peru has a similar range of GHG emissions targets and international commitments as other countries, in 2023 it had adopted less (8) climate policy instruments than any other of the 50 countries covered by the database. By comparison, the average OECD country adopted 24 sectoral instruments to steer key emitting sectors towards the green transition, in addition to cross-sectoral instruments.

Peru relies mostly on non-market-based sectoral instruments such as minimum energy performance standards and labels for appliances. However, instruments for the transport sector such as fuel economy standards (present in Argentina, Brazil, Colombia, Costa Rica and Mexico), labels on passenger cars (in Argentina, Brazil and Chile) or an announced ban on internal combustion engines (in Chile, Costa Rica and Mexico) are absent. Moreover, Peru has none of the main market-based instruments – carbon tax, emissions trading system (ETS), feed-in tariffs, renewable auctions or renewable portfolio standards – that many countries rely on for the energy transition, including countries in the region, which on average adopted around 20 instruments.

Source: Nachtigall et al. (2022^[2]), “The climate actions and policies measurement framework: A structured and harmonised climate policy database to monitor countries’ mitigation action”, OECD Environment Working Papers No 203, <https://doi.org/10.1787/2caa60ce-en>; and OECD (2025), Climate Action in Latin America: <https://www.oecd.org/en/data/insights/data-explainers/2025/02/climate-action-in-latin-america.html>

Effectively mitigating and adapting to climate change requires a functional policy coordination framework. Although significant progress has been made in establishing an institutional and legal framework for environmental policy since the Ministry of Environment (MINAM) was first created in 2008, environmental policy could be more effective if it was less fragmented (OECD/ECLAC, 2017^[3]; World Bank, 2022^[4]). While MINAM has the formal mandate to lead climate policy, it lacks resources and key functions in several important areas. Territorial planning, infrastructure development, water policy, forestry management, transport and energy policy are all led by different entities. Moreover, competing sectoral visions exist in areas such as forestry, agriculture and mining. All entities are subject to detailed budgetary provisions by the MEF, which through this process has the power to effectively approve or veto specific policy tools. In some policy areas such as land use planning, a great number of legal provisions are in force, sometimes overlapping or contradictory, without a clear organisation (OECD/ECLAC, 2017^[3]). Finally, administrative capacity of many entities to implement policies – including operationalising, monitoring, and supervising compliance and alignment of implemented actions with plans – is limited in many institutions. This requires complementary reforms to strengthen state capacity, including through anti-corruption, justice, and civil-service reforms (Chapter 1).

Although coordination mechanisms such as the High-Level Commission on Climate Change (CANCC) exist, sectoral planning and horizontal coordination to implement climate policy are not fully aligned. For example, even though they are required by the Framework Law on Climate Change to incorporate climate change and mitigation measures into their sectoral plans, only a few sectors have done so (World Bank, 2022^[4]). OECD countries differ in their institutional setup for achieving strong coordination of climate policies. In some countries such as the Netherlands, responsibility for climate policy is bundled with functions such as economy or finance, which helps embed climate change considerations into policy design across sectors. Other countries such as Estonia and Italy in recent years created ministries for climate or for the ecological transition for better policy coordination.

Vertical coordination between the central and subnational governments is equally a challenge. Responsibility for implementation of policies with a relevance to climate change action has been devolved to subnational

governments in several areas. Local governments are responsible for disaster risk management and urban zoning. Regional governments are responsible for land use designation and forestry management. However, capacity of subnational governments for policy implementation is limited, in part due to the lack of a functional civil service regime and insufficient subnational fiscal capacity, as discussed by the 2023 *OECD Economic Survey of Peru* (OECD, 2023^[5]). As a result, the central government often steps in during crises and emergencies by declaring a state of emergency with associated budget allocations and forming ministerial committees outside the pre-established frameworks. There is a clear need to improve vertical coordination mechanisms and foster the coordinated implementation of agreed plans and policies, as well as effectively monitoring and enforcing compliance with legislated provisions.

Despite its plans, policies, and international commitments, Peru lacks an agreed and transparent path to achieve its medium and long-term climate goals. Many OECD countries, including the United Kingdom, Denmark, France, Germany, Mexico, New Zealand and Sweden have five-year emissions targets that are revised regularly. Such targets set clear expectations for stakeholders and serve as a benchmark for climate policy development and monitoring. Several countries, including the United Kingdom, Denmark and the Netherlands, have independent advisory bodies that propose the five-yearly emissions targets and monitor compliance as well as consistency of plans and policies with targets. Costa Rica's National Decarbonisation Plan played a crucial role in aligning the country's public finance with its climate strategy by setting sector-specific targets. In part, this was enabled by the adoption of the United Nation System of Environmental-Economic Accounting (SEEA).

Peru could do more to provide government entities and the public with access to climate information. While progress has been made in important areas, such as the National Inventory of Greenhouse Gases INFOCARBONO and the National Deforestation and Land Use Platform GEOBOSQUES – both established to comply with obligations under the Paris Agreement – more could be done to improve monitoring capacity, inform entities' environmental policy implementation and law enforcement, and improve public accountability and understanding of climate policy. This includes strengthening the national monitoring, reporting and verification (MRV) system for climate data, especially in the key areas of deforestation, emissions reductions, and adaptation. Digital platforms and interoperable government systems would be a next step in this direction. Annual reporting in an accessible flagship publication, as is common in countries of the European Union, would improve transparency and public accountability. Other areas for improvement include hazard plans for disaster risk management, surveillance and traceability in the mining and agriculture sectors, and monitoring air and water quality (OECD/ECLAC, 2017^[3]; World Bank, 2022^[4]), as well as monitoring and steering financial resources allocated to climate action.

4.3. Adapting to climate change

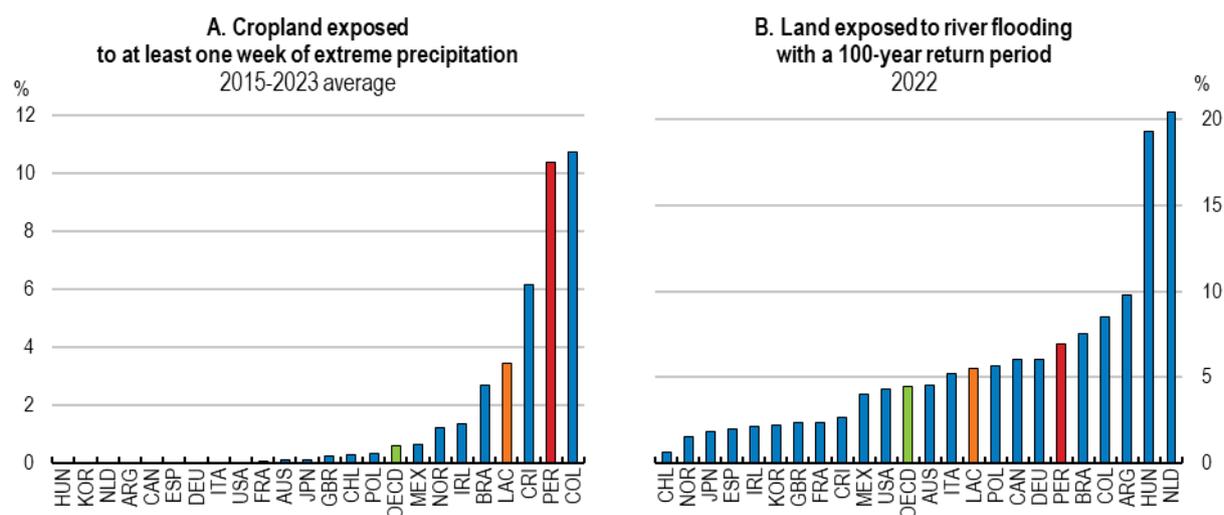
4.3.1. Reducing vulnerabilities and improving adaptive capacity

Peru is more exposed and vulnerable to natural hazards than many other countries, due to the high frequency of hazards and spatial concentration of population and economic activity in high-risk areas (World Bank, 2022^[4]). Floods, landslides and droughts will become more frequent due to climate change. For example, a 1.5°C increase in temperature would result in a 400% increase in the population affected by floods (IPCC, 2022^[6]), which is already higher than in many OECD countries (Figure 4.1). Flooding and landslides resulting from extreme rainfall frequently cause the country's roads to be blocked, or bridges destroyed, with few alternatives to reroute traffic. At the same time, Peru is vulnerable to the slow-onset hazard of rising temperatures. It has already lost 56% of its glaciers during the last 6 decades (INAIGEM, 2023^[7]). Even in a low emissions scenario, Peru will lose 50% of its remaining glacier surface; in a high-emissions scenario it will almost completely disappear (Schauwecker et al., 2017^[8]).

Extreme weather events already disrupt Peru's economy, and climate change is expected to increase their frequency and severity (Cai et al., 2021^[9]). For example, a strong to extreme El Niño Costero, a weather phenomenon that generates cyclical changes in sea temperatures in the Southern Pacific Ocean, leads to a 70% drop in fish production and 11% in agricultural output and damage to infrastructure and the capital stock due to flooding from heavy rainfalls (IMF, 2024^[10]). According to IMF estimations, Peru's economy is already suffering a loss of potential output in the order of 4% due to the cumulative effect of climate events from which it does not fully recover. These accumulated losses are expected to increase to around 16% by 2050 even under the mildest

scenario. Losses may increase to 23% under the most adverse scenario (IMF, 2024_[10]). Translated into annual growth rates, this would further reduce Peru's already low GDP growth by 0.5-0.7 percentage points each year, without accounting for the cost of reconstruction and other contingent fiscal liabilities such as emergency assistance.

Figure 4.1. Peru is highly exposed to floods



Note: LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: OECD exposure to extreme precipitation and to river flooding indicators.

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Such high levels of potential losses call for investments into climate change adaptation. This need is recognised by authorities, who set the objective of reducing by 30% the damages, losses and disruptions caused by hazards associated with climate change. However, current funding for adaptation remains inadequate. The National Adaptation Plan (NAP) estimates spending needs of around 0.7% of GDP per year (Box 4.2), while spending between 2014 and 2020 amounts to only 0.2% of GDP per year and has decreased over time. An investment package which would align adaptation spending with the NAP could mitigate around half to two-thirds of the losses of potential output to climate change (IMF, 2024_[10]). Such investments should be made continuously and be channelled into adaptive capacity. This also requires adequate financing, as discussed further below in this Chapter. Investing into adaptation could improve public finances in the future due to higher growth and lower reconstruction costs after disasters. For example, almost 3% of GDP were allocated by the government to reconstruction efforts after the strong 2017 El Niño phenomenon, although spending efficiency and efficacy were very low, and allegations of corruption were rife, which led to the dissolution of the agency tasked with reconstruction in 2023.

Box 4.2. Peru's National Adaptation Plan

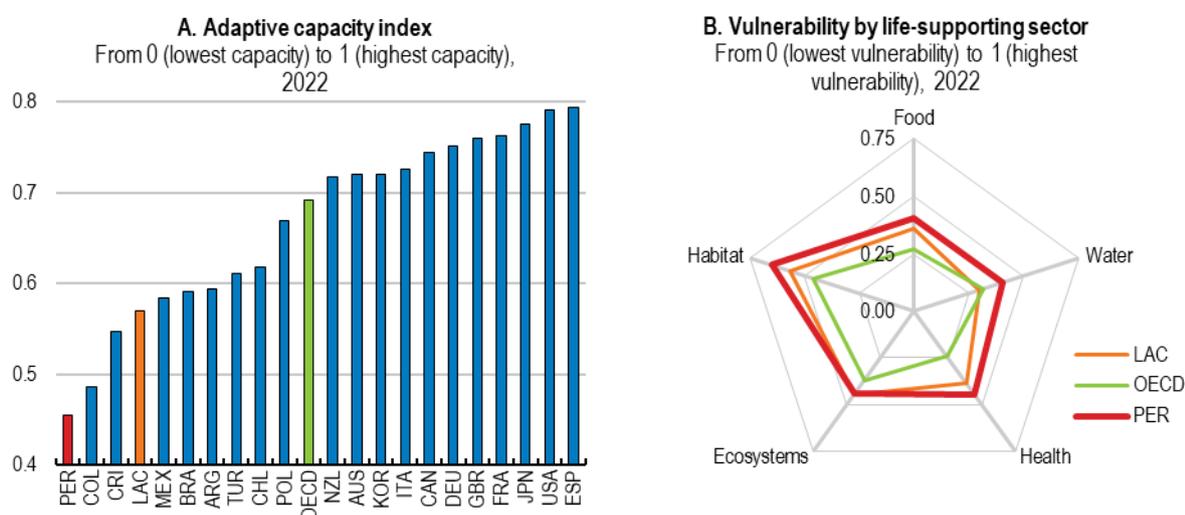
Recognising the high vulnerability of Peru to climate change, in 2021 the government presented its National Adaptation Plan (NAP) with a timeline until 2030. The plan focusses on 5 thematic areas – forestry, agriculture, fisheries, water and health – and includes the 3 horizontal objectives of social equity through gender, intercultural and intergenerational perspectives; a participative approach to formulation and implementation of the NAP; and financial sustainability. Of the 92 adaptation measures in the plan, 51 have cost estimates totalling USD 17bn, with 75% befalling on adaptation in forestry, 17% in agriculture, and the rest on water, health, and fisheries. The plan is accompanied by a monitoring and evaluations framework, the National Plan for Monitoring and Evaluating Climate Change Adaptation.

Source: Ministerio del Ambiente (2021) Resolución Ministerial N. 096-2021-MINAM, *Plan Nacional de Adaptación al Cambio Climático del Perú: un insumo para la actualización de la Estrategia Nacional ante el Cambio Climático*

Current adaptive capacity in Peru is low (Figure 4.2, Panel A). This especially reflects vulnerabilities of water security, the human habitat, and the health sector (Figure 4.2, Panel B) due to long-standing deficiencies in the provision of housing, transport, water, and wastewater infrastructure and an overwhelmed health system, all of which were already identified as bottlenecks in the previous *OECD Economic Survey of Peru* (OECD, 2023^[5]). Moreover, freshwater is highly unequally distributed across the country (OECD, 2021^[11]) and low-income households are more widely exposed to natural disasters and climate change (World Bank, 2023^[12]), raising distributional concerns. Together, these factors imply that investing into resilient infrastructure and improving water governance are no-regret, win-win actions which are both cost-effective in the short-term and have synergies with broader social and economic policy objectives (OECD, 2025^[13]).

A cross-cutting issue is improving and speeding up the implementation of already decided adaptation measures. Even the National Plan for Monitoring and Evaluating Climate Change Adaptation, which tracks adaptation measures until 2030 that were decided in 2021, is neither operational nor has an established timeline for being put into operation. This impedes measuring progress and will hamper the timely detection of whether implementation is on track or not. Ensuring timely and effective implementation is especially crucial at the level of local governments, since many adaptation measures are location-specific. Although all Peruvian regions have adopted regional climate change strategies, limited human and fiscal capacity often limits local administrative capacity. The national government should strengthen technical and financial support to local governments to implement actions that contribute to the fulfilment of the National Adaptation Plan, especially identifying, designing, and managing adaptation projects. Co-financing schemes between national and subnational governments could encourage proactive planning and ensure local resilience measures are aligned with national priorities, while improving public spending efficiency and promoting fiscal discipline.

Figure 4.2. Capacity to adapt to climate change is low



Note: The ND-GAIN Country Index uses data across 45 indicators to annually rank over 180 countries based on their level of vulnerability, and their readiness to successfully implement adaptation solutions to risks exacerbated by climate change, such as over-crowding, food insecurity, inadequate infrastructure, and civil conflicts. The adaptive capacity index inverts the ND-GAIN adaptive capacity indicator so that higher values indicate greater capacity. LAC is a simple average of Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico.

Source: Notre Dame Global Adaptation Initiative Country Index (ND-GAIN), 2025, University of Notre Dame.

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Table 4.1. Previous OECD recommendations to adapt to climate change

Recommendation in previous Survey	Action taken since last Survey (Sep 2023)
Incorporate climate and natural hazard-related risks in stress tests and financial stability monitoring.	Climate stress tests evaluate the impact of climate risk on credit risk profiles of financial institutions.
Integrate climate change fiscal impact assessment into multiannual projections.	Since 2022, the Multiannual Macroeconomic Framework discusses economic and fiscal risks of extreme weather events but does not conduct a full impact assessment.

4.3.2. Strengthening responses to natural disasters

Peru has a long-term national disaster risk management (DRM) policy until 2050 and a shorter-term national DRM plan until 2030, on timeframes which mimic the National Adaptation Plan. While efforts are made to align the two policies, there is a clear margin of progress to further develop synergies, avoid redundancies and benefit from opportunities. Specifically, as in other policy areas, it is essential to strengthen capacities of local governments and improve their incentive structure to align with national priorities (OECD, 2020^[14]). This would help advance implementation of the national DRM policy, which has to date manifested itself mostly in policies and plans, less in practical instruments on which authorities could rely in the event of a disaster (World Bank, 2021^[15]), although some hazard preparedness manuals were recently issued and funding mechanisms are being strengthened. To improve its DRM framework, Peru could further leverage its embeddedness in international initiatives such as the Global Shield against Climate Risks.

Experiences with past disasters, including the 2007 earthquake and the 2017 El Niño Costero, have laid bare deficiencies in disaster governance and management. In response to the last experience, a national early warning system for extreme meteorological conditions has been planned since 2020, when a government-to-government contract was signed with the United Kingdom. However, implementation is significantly behind schedule and should be accelerated and where feasible integrated with the national early warning system for earthquakes and with climate change adaptation policies. If already implemented, an early warning system could have prevented damages from the 2023 tropical cyclone, the 2023/24 El Niño, and the 2025 rainfalls

The high level of informality is an impediment to building resilience to climate change and responding to disasters. Housing informality complicates urban planning, enforcement of building codes, fiscal incentives to develop a climate-resilient housing stock, and the broadening of insurance coverage. Moreover, labour and business informality lowers productivity and makes it difficult to provide a social safety net to vulnerable populations. As the COVID-19 pandemic has shown, this especially restricts the government's ability to respond in a nuanced way to disasters, hindering the provision of targeted support. While the ongoing development of a social registry is expected to bring some improvements, continuing to address the drivers of Peru's structurally high informality (Chapters 1, 2 and 3) will improve the country's adaptability and resilience to climate change.

Disaster insurance coverage is low. Non-life insurance penetration is 0.8%, well below the OECD average of 5.1% or that of countries in the region such as Chile (1.7%). Only 8% of private properties are insured against natural disasters, and many insurance policies explicitly exclude flood risks. For public properties, insurance is theoretically mandatory by law, but in practice insurance coverage is governed by the availability of funds. Moreover, public property management is fragmented, and each entity individually insures their own assets under management, which prevents achieving any economies of scale. Creating a national register of public assets would allow the public sector to achieve such economies of scale, either by leveraging its bargaining power to negotiate collective insurance (IMF, 2024^[10]) or as a basis for the government to self-insure its assets, at least at the national government level, which could be most cost-effective.

Authorities could foster the development of a private disaster insurance market by raising awareness of climate-related physical risks, helping vulnerable segments access insurance, and increasing the availability of affordable insurance through regulation (OECD, 2022^[16]). Low coverage of insurance against natural disasters, such as floods, likely reflects a belief that the government will step in to compensate in the case of a catastrophic event, leading to moral hazard and budgetary uncertainties (Maes et al., 2022^[17]). Moreover, even though information about risk factors is in principle available, it is rarely considered especially for informal construction, which often tends to build in high-risk zones shunned by formal homebuilders. This requires better enforcement of building codes and planning restrictions that prohibit construction in high-risk areas. At the same time, the pricing of insurance contracts according to risk could increase the salience of risk information, making it more likely to be taken into account. Many OECD countries require comprehensive private flood insurance, either by making insurance mandatory for tenants and homeowners and/or by regulating that flood insurance must be provided through standard home insurance packages, such as in France. While making flood insurance universally mandatory may not currently be feasible in Peru due to high tenure informality and lack of enforcement capacity, it could be required for new mortgage contracts, as in Belgium. Targeted subsidies could be offered, to lower-income households, for example through existing mortgage subsidy programmes for the purchase of green homes. In some countries, such as South

Africa, private companies offer home insurance for informal settlements, relying on simple contract features such as fixed payout amounts.

4.3.3. Climate-proofing infrastructure

Land use and infrastructure planning are often inadequate or ineffective, and existing building codes are often not enforced. Most of the housing stock was built informally, and many dwellings of low-income households are in high-risk areas such as hills and riverbeds. Poor building quality and building in inadequate locations are not limited to low-income housing. For example, during the 2017 El Niño Costero floods, 61 health facilities collapsed, affecting the capacity of health services to respond to the disaster (Chávez Cresta, Burbano and Villalobos, 2018^[18]). Only 4% of all municipalities in 2017 had local development plans that integrate disaster risk management considerations (World Bank, 2021^[15]). A basic impediment seems to be lack of risk information for urban and territorial planning (OECD, 2020^[14]). A 2019 study found that only 7 of the 30 most important cities in Peru were up to date with all urban planning instruments as required by national law, whereas 5 cities had none, including Lima (World Bank, 2021^[15]).

Better land use and planning policies could help reduce information asymmetries and help insurers price risk and offer suitable products (IMF, 2024^[19]). Compliance with the building code, which is currently based on a municipal licensing system that suffers from high evasion, could be improved by moving to a system of risk-based building inspections (World Bank Group, 2015^[20]). The 2021 Sustainable Urban Development Law mandates that disaster and climate risk should play an integral role in urban planning, but its implementation would require a clear institutional and regulatory framework for planning, the creation of laws or multisectoral policies on territorial organisation, and a clarification of the roles played by different ministries (World Bank, 2021^[21]). Moreover, a modern and updated land registry (see below and Chapter 1) would help local governments in managing their planning instruments and advancing with land titling. Peru could further leverage its experience with making infrastructure resilient to earthquakes to foster climate change resilience.

Roads in Peru are frequently affected by extreme rainfall. This includes the main roads connecting major cities and agricultural production regions to the capital, such as the Pan-American Highway along the coast and the Carretera Central between Lima and the Andes. Due to the lack of redundancy – there are no parallel secondary roads – highways are blocked for a few weeks each year due to flash floods, landslides, or collapsed bridges. Flood-proofing roads, especially along vulnerable points such as bridges, and accelerating existing plans to create an alternative road in parallel to the Carretera Central, would be a cost-efficient strategy due to the high cost of transport interruptions (Hallegatte, Rentschler and Rozenberg, 2019^[22]). It is important to incorporate resilience to disasters and disruptions already into today’s planning of infrastructure, including the maintenance and upgrading of existing infrastructure, and make adequate financial provisions.

Climate-proofing infrastructure requires participation of the private sector. Through public-private partnerships (PPP) and other mechanisms, the private sector already plays an important role in the development of transport infrastructure, as highlighted in the 2023 *OECD Economic Survey of Peru* (OECD, 2023^[5]). In 2022, the National Infrastructure Plan and the PPP legislation were updated to include sustainability criteria – financial, social, environmental and institutional – in the prioritisation and operation of projects. More could be done to include environmental and climate risk into infrastructure planning and project evaluation, including the public investment appraisal system. This could be done by incorporating climate change risk into the life-cycle cost-benefit evaluation of infrastructure projects, such as in Japan, the United Kingdom, and the United States, or by monetising a project’s potential benefits for fostering adaptation and resilience to climate change, as in New Zealand (OECD, 2024^[23]). Likewise, Peru needs to align its infrastructure planning with land use and territorial planning, as for example Brazil and Costa Rica do.

Liabilities for climate risks should also be appropriately apportioned in infrastructure concessions, which carry large contingent liabilities (Chapter 1). This helps achieve the right degree of risk-sharing and aligns with the OECD recommendation that under no circumstances, unless specified in the contract, should the government adopt responsibility for matters allocated to the private partner, which includes many climate risks. For example, Peru could follow Colombia in including resilience and sustainability clauses directly into PPP contracts for road concessions. In Spain, Colombia, and Costa Rica, adaptation measures must be integrated into infrastructure PPP

project design, and in Sweden, Norway and Chile, concessionaries pay financial penalties for climate-related service disruptions in critical infrastructure, which helps firms internalise the benefits from investing into resilient infrastructure.

4.3.4. Improving water security

The Peruvian coast is highly vulnerable to structural water stress, which will be exacerbated by climate change. The Pacific coastal zone is home to 60% of the population and almost 80% of GDP; yet to less than 2% of all freshwater and 1% of all groundwater. The remaining 97-99% of water resources befall on the Amazon basin (OECD, 2021^[11]). At the same time, most of the large-scale, export-oriented agriculture is located on the desertic coast, made possible by irrigation channels which have been built in recent years. The low water availability does not leave margin for water shortfalls during droughts, and the gradual melting of Peru's glaciers due to climate change will lead to a reduction in water for the coastal region (OECD, 2021^[11]; IFC, 2023^[24]). Water scarcity is already felt today. For example, in late 2024, a drought in the Piura region forced authorities to ration water for human consumption, which impacted both the 2024 harvest of fresh horticultural products such as grapes, asparagus, avocados and blueberries and preparation for the 2025 growing season.

Strengthening the water pricing system would improve incentives for efficient water use (OECD/ECLAC, 2017^[3]; OECD, 2021^[11]). While Peru has in recent years commendably introduced freshwater, groundwater, and wastewater charges, the tariffs are often too low to set appropriate incentives and to collect sufficient resources for investments into water infrastructure. Pricing schemes should systematically include the price of groundwater extraction (which is currently mostly unpriced and even unmonitored, especially for agricultural use). This would set incentives for water conservation and reduce the current overexploitation, as previously recommended by the OECD (OECD, 2021^[11]). Moreover, Peru should remove environmentally harmful subsidies that counteract incentives for water conservation, such as the current reduced electricity tariff for groundwater pumping. Since higher water tariffs could be regressive, affecting particularly low-income households that currently rely on off-grid water extraction, targeted lump-sum subsidies would avoid unintended social impacts.

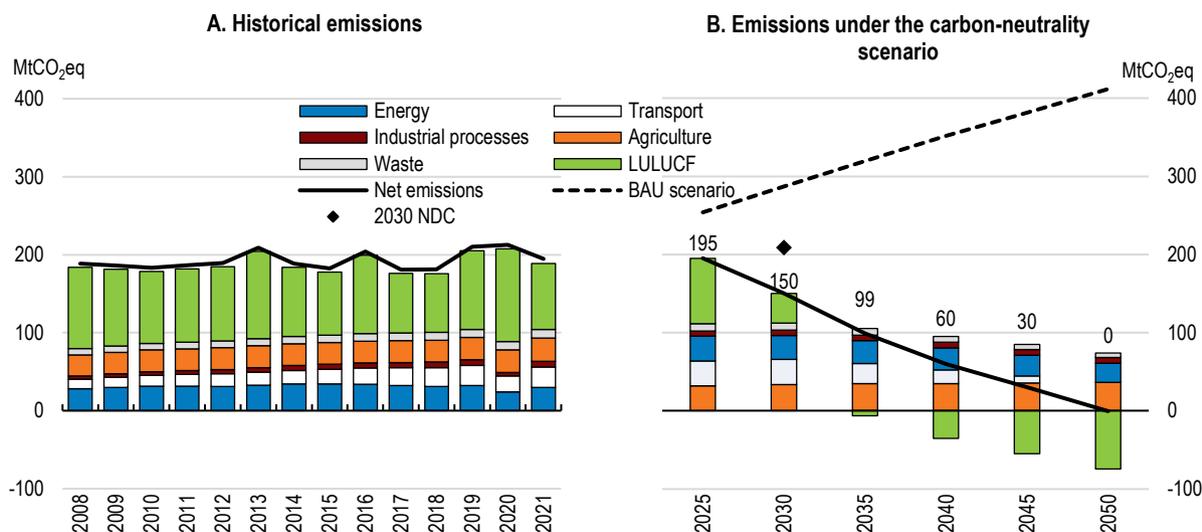
Multi-purpose water storage facilities linked to pipe and irrigation networks could help smooth out greater fluctuations in inter-annual rainfall variability (World Bank, 2022^[4]). Water storage includes nature-based solutions, such as protection of Andean lakes and watersheds, and man-made solutions such as reservoirs. For example, as discussed below, current and planned hydropower projects focus on small dams, which are more resilient to climate change due to their decentralised nature, consume less land, and could be repurposed as energy and water reservoirs. Developing resilience to climate change requires both optimising water flows and investing into reducing water consumption through water-efficient crop varieties and smart irrigation methods (see below).

4.4. Accelerating Peru's progress towards Net Zero

Through its national and international commitments, Peru seeks to reduce its emissions to contribute to the global effort of reducing the overall severity of climate change. If done right, mitigating climate change can bring important co-benefits that in some areas could improve resilience – such as the environmental services and climate regulation from preserving its biodiverse forests, and better energy security from a diversified energy system based on different renewable energy sources. In a developing country like Peru, the green transition further opens up many opportunities for investment, strengthening innovation, adopting modern technologies, and improving efficiency – all factors that ultimately underpin economic growth and productivity. All of this, however, requires substantial policy efforts to steer the country on its transition path.

Peru has a low share of global GHG emissions (0.3%), lower than its share of the world population (0.43%) and similar to its share of world GDP (0.3%). Around half of total net emissions originate from land use, land use change and forestry (LUCLUF). Energy (18%), transport (14%) and agriculture (15%) are other major emitting sectors. The remainder (9%) befalls on waste and industrial processes and product use. Total emissions have largely been stable during the last decade and a half but emissions from sources excluding LUCLUF have increased by 30% since 2008, largely due to a doubling of emissions from transport and significant increases in energy and industrial processes (Figure 4.3, Panel A).

Figure 4.3. Achieving Net Zero by 2050 requires substantial reductions in GHG emissions

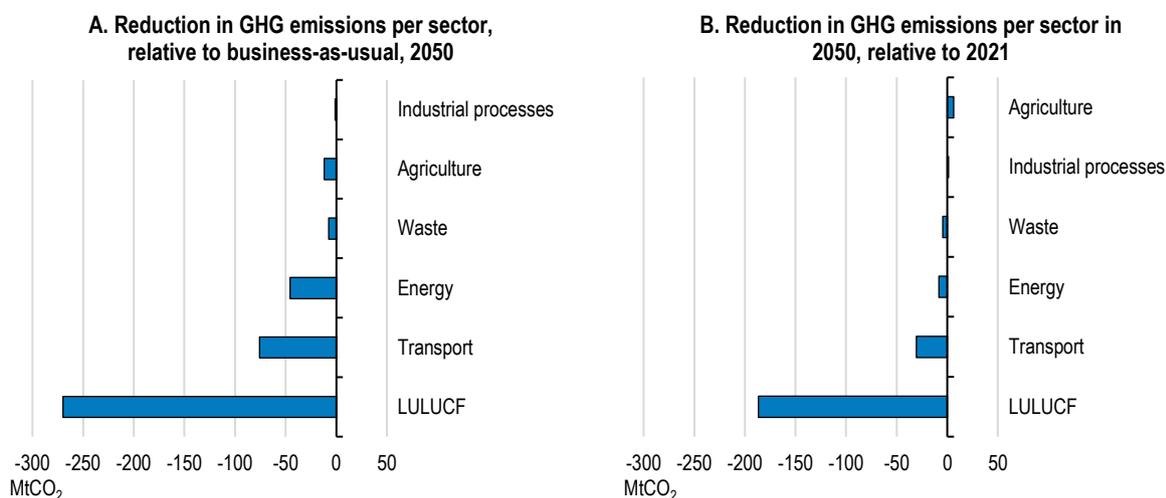


Note: Energy includes UNFCCC reporting categories “Energy Industries”, “Manufacturing and construction (energy)” and “Energy – Other”.
 Source: OECD Environment Database; IDB (2021), Costos y Beneficios de la carbono-neutralidad en Perú: Un análisis robusto.

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A 2021 study by the Inter-American Development Bank serves as a reference for the government and for various international organisations (World Bank, 2022^[4]; Gobierno del Perú, 2024^[25]). It contains a robust evaluation of potential paths to achieving climate neutrality in Peru that considers abatement cost uncertainty, such as uncertainty about the benefits and costs of future technologies including renewables and electric vehicles (IDB, 2021^[26]). The bulk (95%) of all envisaged GHG emissions reductions falls on three of the four sectors with the highest current emissions: LULUCF, transport, and energy (Figure 4.4). In the envisaged net-zero scenario in 2050 (Figure 4.3, Panel B), negative emissions from LULUCF will compensate for hard-to-abate emissions elsewhere, especially agriculture and energy production, where natural gas will continue to smooth fluctuations in energy demand and supply. By contrast, emissions from transport will have reduced to zero, which requires turning around a strong current emissions growth.

Figure 4.4. Land use change, transport, and energy carry the bulk of emissions reductions



Source: IDB (2021), Costos y Beneficios de la carbono-neutralidad en Perú: Un análisis robusto.

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In its Nationally Determined Contributions (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC), submitted in 2015 and updated in 2020, Peru commits to the target of reaching carbon neutrality by 2050. For 2030, Peru commits to GHG emissions not exceeding 209 MtCO₂eq, or 30% below the business-as-usual (BAU) scenario. This is a level of emissions 10% higher than the last decade's average (Figure 4.3) and should be reachable with existing policies (Climate Action Tracker, 2022^[27]). Conditional on receiving international support, Peru's ambition is to cut GHG emissions by 40% relative to BAU or to 179 MtCO₂eq (not shown in the figure).

Achieving the Net Zero scenario by 2050, however, requires a substantial effort relative to business as usual (Figure 4.3, Panel B), both in the short and long term. Peru's net emissions are set to double by 2050 under BAU, especially in transport (+150%), energy (+110%) and LUCLUF (+60%). Significant submissions reductions beyond the NDC targets are required by 2030 to meet the trajectory towards Net Zero. Designing a cost-effective, inclusive and publicly acceptable decarbonisation strategy requires a balanced policy mix including market-based instruments such as emissions pricing, standards and regulations, and complementary policies (D'Arcangelo et al., 2022^[28]). At the same time, such a broad-based strategy can and should deal with abatement cost uncertainty.

Table 4.2. Previous OECD recommendations on climate change mitigation

Recommendation in previous Survey	Action taken since last Survey (Sep 2023)
Update and approve a strategy for the climate transition with concrete milestones and policies to achieve targets and zero net emissions.	The National Strategy on Climate Change was updated in 2025.
Accelerate progress in decarbonisation through more stringent regulations and more consistent price signals, including carbon taxation, while supporting vulnerable households with targeted and temporary transfers.	No action taken
Increase and diversify the use of renewable energy sources.	In 2024, two wind parks with a total installed capacity of 244 MW were completed but no new solar project. The Energy Law update in December 2024 removed distortions that disadvantaged renewable energy.
Assign forest rights and concessions and develop a land ownership registry.	In 2024, 49 Indigenous communities of the Amazon were awarded land titles covering 500,000 ha of forest.
Increase resources dedicated to conservation, reforestation, afforestation, and anti-deforestation enforcement activities.	No action taken

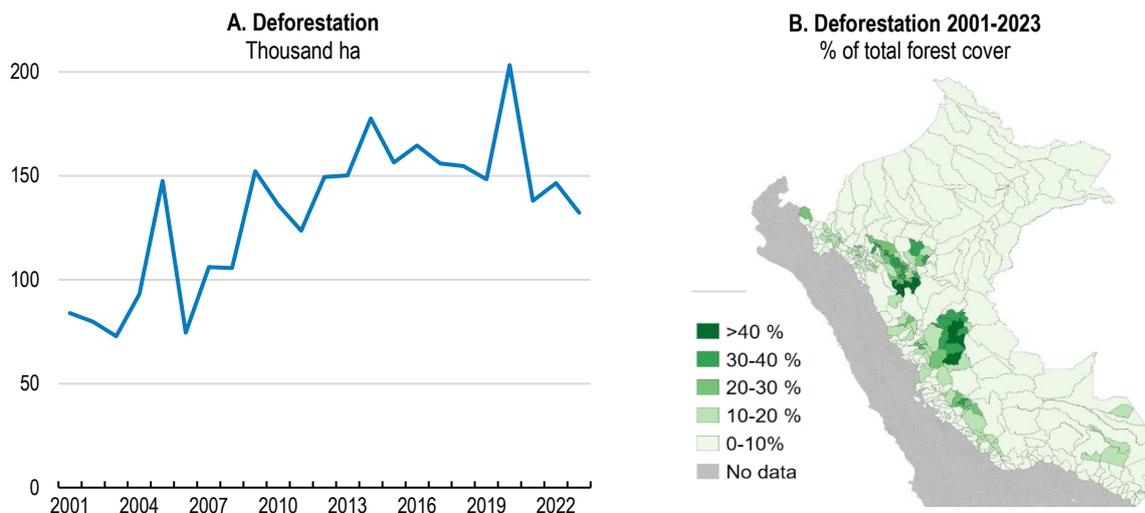
4.4.1. Tackling deforestation

Land use, land use change and forestry (LULUCF) is not only the major source of GHG emissions today (about 50%) but also the sector which is envisaged to carry 70% of emissions reductions by 2050, and an even larger share in the short run (Figure 4.3 and Figure 4.4). A little more than half (53%) of the Peruvian territory is covered by Amazon rainforest, the second largest in South America only behind Brazil and one of the most vital and biodiverse ecosystems in the world. Reducing emissions requires ending deforestation in the Amazon, turning it instead into a carbon sink with negative emissions through reforestation and sustainable forest management. This would then help balance emissions from hard-to-abate sectors and allow reaching Net Zero. In other countries such as Chile, which has been at the forefront of sustainable forestry practice for some time, emissions from LULUCF have long been negative in most years (OECD, 2025^[29]).

Deforestation of the Peruvian Amazon remains high (Figure 4.5, Panel A). It is driven by the expansion of the agricultural frontier, land appropriation, road construction, and informal and illegal logging and mining. In 2020, the first year of the COVID-19 pandemic, deforestation reached a new high. Between 2001 and 2023, total loss of forest cover amounted to 34,000 km², a little more than the size of Belgium. Work conducted for this *Survey* shows that deforestation is mainly concentrated in three geographical areas (Figure 4.5, Panel B and Box 4.3): in the northern highland rainforest in regions such as San Martín and Huánuco, where forest is converted into smallholder agricultural plots; in the central Ucayali region, one of the main timber producing regions where deforestation is often associated to illegal logging (Office of the United States Trade Representative, 2016) as well as selective tree felling to enable illegal coca production (CEPLAN, 2022^[30]); and in the southern Madre de Dios region, where it is generally associated to informal mining (Asner et al., 2013^[31]; Caballero Espejo et al., 2018^[32]). Around three quarters of all deforestation occurs on small plots of less than 5 hectares, suggesting an important role for small-scale, artisanal, and informal activities (see also Box 4.3).

Agricultural activity is a major source of deforestation, as the analysis in Box 4.3 reveals. On the small side, rural farming households clear forests in search of more productive land, often as a result of inefficient or unsustainable agricultural practices on soils with poor nutrient quality. The main legal cash crops including for larger farms in the areas where deforestation is mostly happening are palm oil, coffee and cocoa, which are typically exported, often with the intermediation of middlemen. Illegal coca production also tends to take place in the same areas, due to their high agricultural suitability for this crop and their remoteness.

Figure 4.5. Deforestation has been high for more than a decade



Source: Ministerio de Ambiente, Observatorio Geobosques, <https://geobosques.minam.gob.pe/>; and OECD calculations

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Box 4.3. The spatial distribution and drivers of deforestation

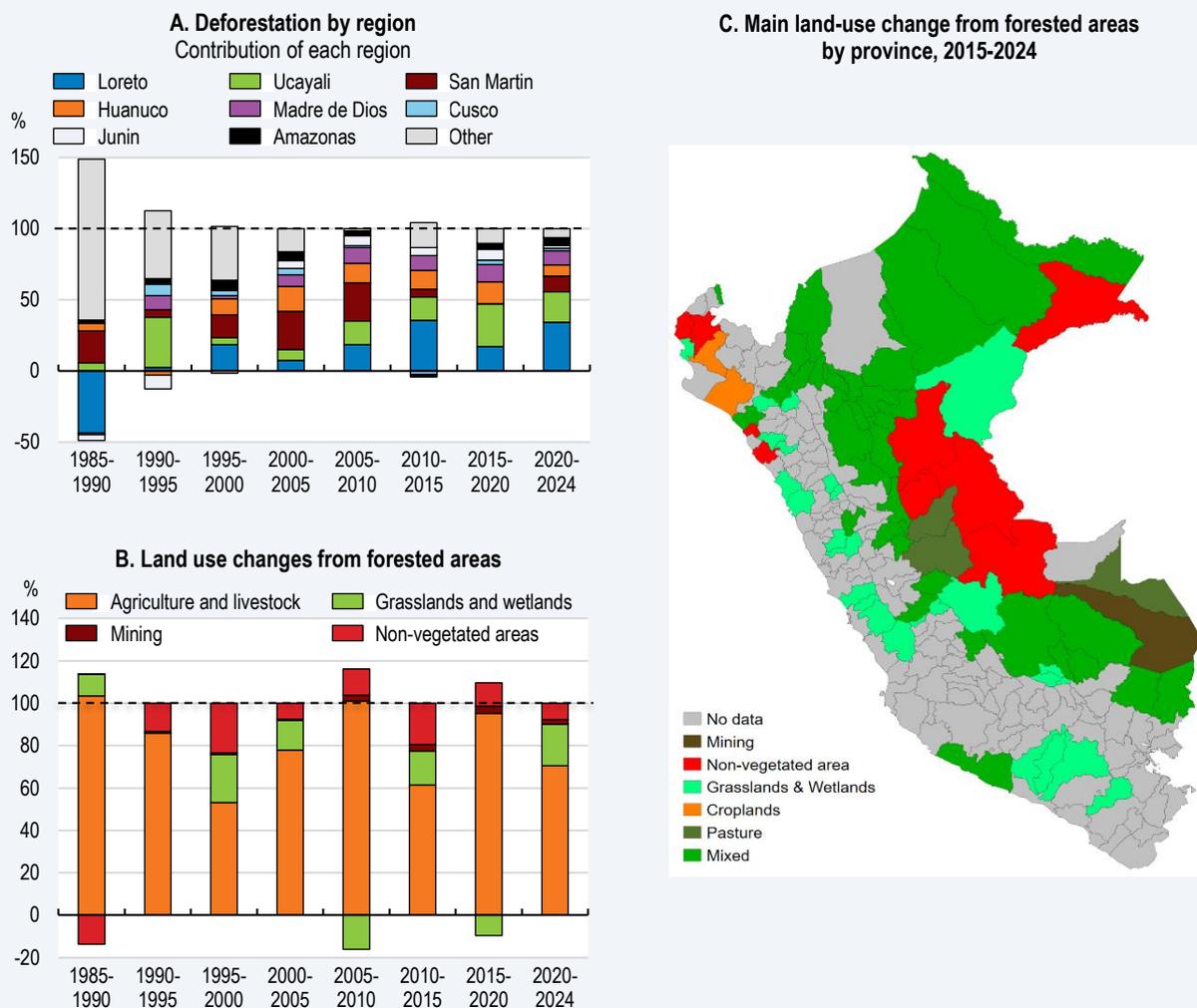
Analysis carried out for this Survey uses data assembled by the MapBiomias project (<https://peru.mapbiomas.org>), which classifies land use and land use change from Landsat satellite imagery using a machine learning algorithm based on the Google Earth Engine. The advantage of this data source (using the latest version from June 2025) is the longer time (1985-2024) and spatial coverage (1,800 of 1,891 Peruvian districts) compared to other sources such as GEOBOSQUES, which is limited to the 400 districts comprising the Peruvian Amazon 2001-2023.

Its main findings are:

- Over the long term (40 years), around 90% of deforestation befalls on the eight regions making up most the Peruvian Amazon – Amazonas, Cusco, Madre de Dios, San Martín, Loreto, Ucayali, Junín and Huánuco (Figure 4.6, Panel A). Over time, there was a shift away from the central Amazon region of San Martín to the eastern and southern regions Madre de Dios Ucayali and Loreto.
- Most (around 90%) of deforested land is converted into land for agricultural and livestock rearing (Figure 4.6, Panel B), largely (to 75%) into mixed-use agriculture combined with pastures for livestock (Figure 4.6, Panel C). This would be consistent with small-scale agricultural activities. Deforestation exclusively for crop growing or cattle grazing takes place in a few regions, notably in San Martín where crops such as rice and palm oil account for a significant share of deforested land
- There is strong spatial concentration of destination uses for deforested land. While mining, accounts only for around 2% of total agricultural land conversion in the last decade (Figure 4.6, Panel B), in is a

significant driver of deforestation in Madre de Dios (33%), and the most important in some provinces of these regions (Figure 4.6, Panel C).

Figure 4.6. A deeper look into deforestation in Peru



Note: In Panel A and B, deforestation is defined as net forest loss over the five-year period, which might differ from estimates of annual forest loss. In Panel C, the main land use change associated with net forest loss by province over the ten-year period is shown. Only districts with at least 1,000 ha of forest loss over the decade are shown.

Source: MapBiomas, Version 3.0 of the annual series of land use in Peru, consulted on 13/06/2025 through the link: <https://peru.mapbiomas.org/estadisticas>; and OECD calculations.

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Two additional drivers of forest loss and degradation that are not covered in the land-use data are illegal logging and coca production. Using complementary data sources on detected coca production and illegal logging alerts, a significant association of these illicit activities and deforestation is found.

Source: Garcia Soto and Koelle (forthcoming). *Deforestation in Peru: A spatial analysis*. Technical Background Paper.

Land use shifts can be achieved with very little investment but rather require effective institutional changes concerning the assignment and enforcement of property rights, the rule of law, and a shift towards nature-based modes of production (BID, 2021^[26]). Many of these issues were already touched upon in the 2023 *OECD Economic Survey of Peru* (OECD, 2023^[5]), but there has been little tangible progress since then. Reversing deforestation and extending forest coverage would generate a range of environmental co-benefits beyond carbon capture including reduced soil erosion, flood risks, and river degradation (IMF, 2023^[33]).

Strengthening institutional arrangements to tackle deforestation

Coordination between the different government entities charged with tackling deforestation, both horizontally among the national entities, and vertically between national and regional authorities, remains a challenge. The Ministry of Agricultural Development and Irrigation (MIDAGRI) is the national forest authority through its National Forest and Wildlife Service (SERFOR), while the Ministry of Environment (MINAM) is tasked with environmental policy and oversees protected areas and those enrolled in various conservation programmes. Informal mining is regulated by the Ministry of Energy and Mines (MINEM), while law enforcement is coordinated by the Ministry of the Interior. Moreover, in regions with a high share of forest coverage, including all the regions containing the Amazon, forest administration and supervision are devolved to the regional governments. Better coordination, including through an integrated forest management plan that is developed together by all entities, and which makes use of all available policy instruments, would strengthen forestry planning, implementation, administration and enforcement of policies, information sharing, and coordination of timely interventions. Tackling deforestation efficiently further calls for concentrating on the regions where deforestation is high and developing differentiated strategies that address the main drivers of deforestation in each region (see Box 4.3). It is also necessary to involve the private sector in the fight against deforestation, including through the mainstreaming of industry sustainability standards and due diligence requirements (CEPLAN, 2022^[30]).

Peru already leverages information technology to monitor its forest cover, map deforestation, and issue early alerts. Since 2017, the GEOBOSQUES platform has provided publicly available information derived from analysis of satellite imagery on forest cover and annual change of forest cover. Moreover, a non-public part of the platform issues real-time early alerts on potential ongoing deforestation for national park authorities and law enforcement agencies. However, there is much more potential to improve this centrally collected high-frequency information and to leverage it to inform local interventions. Evidence from Brazil points to the large positive effects that effective environmental enforcement informed by satellite-based deforestation alerts can have on reducing deforestation (Assunção, Gandour and Rocha, 2023^[34]). Peru should scale up its monitoring and early warning system based on GEOBOSQUES, ensuring timely issuance of alerts and follow-up by law enforcement authorities. Simultaneously, better enforcement requires investing into local enforcement capacity, particularly in remote Amazon regions, ensuring adequate staffing, equipment and capabilities.

Strengthening governance and integrity would enhance the effectiveness of cross-cutting policy efforts. Local officials enforcing policies, regulations and the law often operate with limited oversight, increasing corruption risks. Better monitoring and control systems, including with the aid of digital technologies, are therefore a key step to improving governance. Some regional governments are taking laudable steps in the right direction. The San Martín regional government, for example, has developed an action plan to reduce corruption risks in the timber trade value chain, where falsification of certification for illegally harvested timber is a major problem (Associated Press, 2017^[35]). The objectives are to improve internal control systems for timber certification, and to better monitor and control the issuance of land permits and the forest administration (Basel Institute of Governance, 2024^[36]). At the same time, there is ample room to address impunity and corruption at all levels (Chapter 1), especially regarding illegal land use. Over 80% of Peruvians think that the government is not doing enough to address deforestation and illegal logging and mining, mainly due to corruption (Proética, 2022^[37]). Authorities should therefore intensify efforts to effectively rein in illegal activities that contribute to deforestation as part of a national strategy to intensify the fight against corruption at all levels (Chapter 1).

Strengthening territorial planning and forest land use rights

Most deforestation occurs on lands that have not received any territorial categorisation (Ministerio del Ambiente, 2019^[38]). Zoning, the process of assigning a territorial categorisation according to the Forest Law, is a prerequisite for granting land-use titles such as concessions on lands in the public domain. Evidence from Peru suggests that land titling is effective in preventing deforestation, reducing forest clearing by up to 75% (Blackman et al., 2017^[39]). But zoning is a slow process, with many different steps and actors involved, leading to the risk of significant bottlenecks. Only a minority (30%) of farmers in Peru have a land or land-use title, and subsistence farming across the country takes place irrespective of protected areas, such as for forestry or watershed protection (OECD/ECLAC, 2017^[3]). About 18% of the Peruvian territory is categorised as protected areas; and a smaller share is privately owned. To advance on categorisation of land, the forest zoning process and its ex-post monitoring should be simplified and expedited, including by exploiting digital technologies. Moreover, the local-level of granting of certificates of possession by mayors adds to complexity and potentially results in a growing number of landholders not formally recognised at the national level.

The status quo situation of deforestation driven – among other factors – by expansion of agricultural activity, the need to preserve livelihoods of rural farming households who often live in situations of poverty or extreme poverty, and the global policy goal of stopping deforestation to mitigate the effects of climate change, require a careful balancing act. The challenge lies in sustaining and improving the livelihoods of farmers on their current plot in a sustainable way, eliminating the need to clear another piece of forest to create a plot, either locally or via migration to a different location.

Agroforestry Concessions (*Cesiones en uso para sistemas agroforestales*, CUSAF) promoted by SERFOR could be used more widely to incentivise sustainable land use by small-scale farmers. Agroforestry Concessions are land-use rights on public forest land use for agriculture, awarded on the condition that it is state land without any assigned private usage right, and that the land has been deforested before 2011 (Reyes and Robiglio, 2018^[40]). Concessionaries' land tenure and land use are formalised in return for a commitment to avoid further deforestation and to use sustainable agroforestry practices. Other benefits include technical assistance, trade promotion, and access to credit via a mortgage on the concession plot. While the instrument could potentially cover 120,000 small-scale farming households occupying collectively one million ha of land (Robiglio, Vargas and Suber, 2018^[41]), implementation has been slow, with about 1,200 concessions awarded that cover about 5,500 ha; mainly due to the slow zoning process. Plans by SERFOR to update guidelines to expedite the zoning process are welcome, as long as adequate technical standards that help to preserve forest are ensured, and result in improved processes being implemented.

Agroforestry Concessions could be more successful if they went along with more capacity-building initiatives and better monitoring of sustainable agroforestry practices, more secure land rights to incentivise long-term investments into land productivity, and access to finance (see Chapter 2) to undertake such investments. Knowledge gaps among farmers, especially relating to soil conservation practices and nutrient management, are widespread (Parodi et al., 2022^[42]). Unless concessionaries have the capacity to farm the land sustainably, they will likely be forced to look for a new plot once the old one has degraded. It is estimated that 5 million ha of land – more than the total deforested land since 2001 – are abandoned. Capacitation and supervision visits are carried out by OSINFOR and local forestry agencies, but budget constraints and the fact that areas under concession are remote and spread out are an obstacle. Remote sensing and communications technologies could complement on-site visits and increase their effectiveness.

A recent change to the Forest Law has modified the procedures for granting land-use titles. The law was amended by Congress in December 2023 with limited consultation with affected stakeholders. A key modification concerned temporary provisions that eased the requirements for granting land-use licenses on public land used for agriculture and deforested before January 2024, suspending for two years zoning as a prerequisite for licensing. Some observers believed that the reform could reduce deforestation through several channels: by formalising informal land tenure with licenses that at least in principle have conditions and obligations attached to them, by increasing legal ties of current occupants to their land thus disincentivising further migration, and by helping smallholder producers to become compliant with the European Union Deforestation Regulation (EUDR) (Peña Alegría, 2024^[43]). Others, however, were concerned about the negative signals the legal change might give by promoting impunity,

which might encourage further deforestation via land appropriation and clearing in the expectation of a future land title. In March 2025, the Constitutional Tribunal declared the law's temporary provisions as unconstitutional, citing the Constitution's environmental protection principles and concerns about due process regarding prior consultation of Indigenous communities as arguments. Another part of the law that remains in force suspends the requirement for updating the registered land use category for private plots but explicitly confirms the requirement that 30% of the plot is covered by forest. Upholding this legal requirement, however, demands better monitoring and enforcement capacity. Investing into audits, beginning with large landholdings for their size of forest land and the visible signal audits send, might be a useful first step.

Notwithstanding these legal changes, managing forest land to tackle deforestation requires addressing the underlying problem that records of permitted land use, actual land use, and possession of forest land are mostly outdated and fragmented or inexistent, particularly for public land. Widespread informal occupation and cultivation of land is both a consequence of this situation, and at the same time contributes to it, hampering territorial planning and monitoring and enforcement of forest laws. A more permanent solution that strikes an adequate balance accelerating and streamlining land tenure formalisation while ensuring the enforcement of forest law and protecting communities remains pending. The project for a Sustainable Agriculture of the Amazon Law, which has passed its first hearing in Congress, could provide such an opportunity.

A promising solution, already pursued by other countries in the region, lies in developing a comprehensive and continuously updated land registry as a tool to ease the administration, assignment, and monitoring of land titles and land use rights. For example, Colombia is in the process of developing a multipurpose land registry to unify all information regarding a plot including use, ownership and suitability (see Chapter 1 and (OECD, 2024^[44])). This single registry will serve as a reference for territorial planning and administration, private land markets, monitoring and enforcement of land use regulations, and other purposes such as tax administration. It is meant to be continuously updated to reflect the current situation of the plot, using interoperable databases and artificial intelligence to detect and regularise land use changes. In Peru, such a policy would also be useful in planning and implementing climate change adaptation and disaster risk management policies (see above).

A more agile land assignment and efficient administration of property and land-use rights needs to be accompanied by more effective enforcement, both to prevent opportunistic deforestation and to increase incentives for investing into sustainable production on existing agricultural land. Land appropriation is a main contributor to deforestation, especially when illegal actors are involved and the land belongs to Indigenous communities (Mongabay, 2024^[45]). Enhancing criminal intelligence capabilities to identify and target illegal mining, logging, and cocaine production operations would be essential. Additionally, strengthening cooperation with neighbouring countries like Brazil, Bolivia and Colombia is crucial to rein in transnational criminal networks operating in border regions. However, better enforcement not only requires more law enforcement capabilities and control and monitoring systems to deter corruption (see above), but in general a greater state presence in remote forest areas.

Providing economic incentives

Payment for ecosystem services (PES) and other economic incentives are a key ingredient of successful strategies for reversing deforestation, as the case of Costa Rica shows (Box 4.4). In a context where deforestation is mainly driven by productive activities of poor households, PES has the potential to reduce both deforestation and poverty by providing poor households with a cash transfer conditional on conserving their forest. PES apply the "beneficiary pays" principle to externalities, where a payment is made for an action (such as conserving forest) that would not be privately beneficial to that person. However, there is the risk that PES subsidises forest conservation that would have happened anyway (so-called lack of additionality), or that beneficiaries shift instead to clearing another plot not covered by PES (so-called leakage). Early evidence from PES suggests that these concerns do not outweigh the benefits of PES, which can be cost-effective at reducing deforestation (Jayachandran et al., 2017^[46]) even though the contractual conditionalities are rarely enforced in practice (Wunder et al., 2018^[47]). More recent evidence from Mexico suggests that contracts that require participants to enrol all their land instead of selectively enrolling individual plots increase additionality and reduce leakage, therefore improving the effectiveness and efficiency of PES (Izquierdo-Tort, Jayachandran and Saavedra, 2024^[48]).

There is ample room to expand the use of PES in Peru. The national PES registry maintained by the Environment Ministry lists 70 different national PES schemes. However, the majority relate to watershed protection, and only 12 PES schemes deal with forest conservation as the primary objective, covering about 9,000 ha in total. All these schemes are funded by private or utility companies. As recommended in the 2023 *OECD Economic Survey*, Peru could adopt a public PES scheme based on best practices, such as for example Costa Rica (OECD, 2023^[5]). So far, only the national forest programme (*Programa Bosques*), run by the Ministry of Environment, provides economic incentives for forestry stewardship, but only to communities and other collective beneficiaries, not private landowners. Moreover, incentives are very low at PEN 10 (around USD 2.5) per hectare and year. For comparison, Costa Rica's PES scheme pays between USD 42 and USD 107, and its beneficiaries can be individuals, groups of small landowners organised in an association, and Indigenous communities. The programme's impact could be strengthened by improving its financial resources (the budget totals only USD 2.5 million) which are largely spent on administrative costs (Giudice and Börner, 2021^[49]) and coordination with other forest conservation programmes, especially those under authority of the Ministry of Agriculture.

Box 4.4. How Costa Rica reversed deforestation

Costa Rica is the first tropical country to reverse deforestation with decisive policy action since the mid-1990s, raising its forest cover from 20% to 60% through reforestation, due to a mix of factors: strict forest clearing regulations, expanding protected areas with a strong multi-level governance system, and economic incentives:

- The first national deforestation strategy established in 2008 included reference emission levels from forests and monitoring systems.
- Protected areas cover a quarter of the land mass and have been turned into an important source of revenue worth 3% of GDP, largely due to ecotourism. This provides economic conservation incentives and finances the management and upkeep of protected areas through entrance fees.
- PES cover 1.3 million ha, more than 40% of total forested area. Activities eligible for payment include forest protection, commercial reforestation, agroforestry, and regeneration of degraded areas. Its cost, totalling USD 600 million between 1997 and 2021, is financed by a ring-fenced portion of fuel taxes as well as international green finance mechanisms such as carbon credits and REDD+.
- Complementary success factors of the deforestation strategy included strong institutions, elimination of cattle ranch subsidies, and effective land title enforcement.

Source: (OECD, 2023^[50]) Environmental Performance Review of Costa Rica

Private sector participation in reforestation projects needs much stronger incentives. Reforestation has doubled from around 8,000 ha per year pre-2019 to about 14,000 ha in 2019-2022 (INEI, 2023^[51]). However, this amounts to less than 10% of the total deforested area, barely changing the net loss of forest cover. It is far from Peru's pledge, under the Bonn Challenge, to reforest 3.2 million ha by 2030. Forestry is an underdeveloped sector that falls far below its potential, exemplified by the fact that Peru is a net importer of wood products, despite its rich forest resources (OECD/ECLAC, 2017^[3]). A PES scheme with differentiated payments could provide incentives for reforestation (OECD, forthcoming^[52]). In Costa Rica, for example, landholders receive about twice the payment if the land enrolled in the programme is reforested than if it consists of existing forest to be preserved. Another policy to encourage reforestation, directed at larger plots, is fostering the development of biodiverse commercial timber plantations on deforested land (World Bank, 2022^[53]).

REDD+, a programme of international collaboration to combat deforestation under the UNFCCC, and other voluntary carbon markets provide an opportunity for developing countries like Peru to receive international financial support for PES and other programmes that reduce deforestation and forest degradation. REDD+ implementation in Peru is supported by Norway, Germany, the United Kingdom and the United States. The Peruvian government is actively working on establishing a legal and institutional framework for REDD+, and has put in place several enabling initiatives, for example the forest monitoring platform discussed above and the national registry of mitigation actions (RENAMI). However, implementation of concrete REDD+ projects is still lagging, and largely

limited to early pilot initiatives. Other countries in the region such as Argentina, Brazil, Chile, Colombia and Costa Rica have already received carbon credits based on REDD+ initiatives (IMF, 2024^[19]). While the involvement of many actors such as NGOs is positive for innovation, transparency and safeguarding, the intergovernmental nature of the REDD+ mechanism requires a clear and strong leadership by the Ministry of Environment, complementing and enabling private initiatives while ensuring appropriate standards (Peña and Sarmiento Barletti, 2022^[54]).

A domestic emissions trading system (ETS), as those established in many countries in Europe and Latin America, such as Brazil and Colombia, would provide another avenue to preserve and restore the Amazon forest. An ETS requires emitters of GHG emissions to purchase carbon credits on a market, while individuals and companies that generate negative emissions, such as through afforestation, reforestation, or carbon sequestration projects can generate credits and sell them profitably on the market. This can provide powerful incentives for investing into environmentally beneficial activities that currently have no or only low economic payoffs such as forest conservation or reforestation. The system could build on voluntary domestic carbon credit mechanisms, such as the “Peru Carbon Footprint” mechanism. A domestic ETS should be gradually introduced starting with the largest emitters and the integration between the domestic carbon market and international markets operating under REDD+, Article 6 of the Paris Agreement, and other mechanisms should be ensured to avoid duplication and align incentives. At the same time, a successful implementation of carbon markets requires complementary measures to improve land tenure security and building a strong measurement and monitoring framework of forest coverage, as recommended above.

Ecotourism provides yet another opportunity to improve the valuation of Peru’s natural assets and biodiversity, by creating an important source of income to owners of forest land, including the government as a manager of national parks. This has been a cornerstone of Costa Rica’s successful in reversing deforestation (see Box 4.4). Colombia also promotes ecotourism and cultural tourism as a way of bringing development and economic opportunities to long marginalised rural communities and thus contribute to peacebuilding in the country’s diverse territories (OECD, 2024^[44]). While tourism is an important sector in Peru, contributing about 2.5% to GDP and creating about 700,000 jobs before the pandemic, touristic routes generally concentrate in the capital Lima and regions with cultural assets, such as Cusco (OECD, 2024^[55]). Developing ecotourism in other regions of the Amazon first and foremost requires better domestic transport infrastructure; in addition to training and access to finance through targeted programmes, such as the bio-business programme launched in 2023. The ongoing update of the National Tourism Policy provides an opportunity to focus policy support on creating enabling conditions.

Fostering community involvement

Common ownership of land is the most widespread form on land tenure in Peru and covers 95% of private non-agricultural land (OECD/ECLAC, 2017^[3]). About 10 million ha (15% of the Amazon) currently belong to formally defined communal reserves. Other parts are inhabited and tended by Indigenous communities informally, as has been the practice for many centuries. Involving communities in the policies described above – land titling, PES and REDD+ – while recognising their traditional ancestral knowledge and forestry practices is therefore essential for the success of efforts to stop deforestation. This is an important element of forest conservation and forest management not only in Peru but also in other OECD countries, since worldwide more than a third of intact forest landscapes are estimated to be within Indigenous People’s lands (Fa et al., 2020^[56]). In Canada, for example, community forests are a common form of land tenure recognised by various legal frameworks according to local customs and traditions.

Land right and tenure insecurity negatively affects communities’ livelihoods and ability to effectively participate in REDD+ and other PES schemes. This manifests itself in two main ways. First, indigenous communities in Peru are often unable to enforce their property rights over forest – granted by a communal land title, or the establishment of a communal reserve, for example – against third parties that encroach on and deforest their land. This is especially the case for illegal activities including the cultivation of illicit crops, illegal logging, or gold mining. Many Peruvian Indigenous leaders who resist such activities on their communities’ land are threatened or killed.

Second, the enhanced valuation for forest land that PES causes can provide incentives for land appropriation by third parties (Larson et al., 2013^[57]). Actors foreign to the community might seek to obtain land titles or concessions on untitled community land to benefit from REDD+ and other mechanisms, which might be less accessible to local communities. Recently, Peruvian courts found that Indigenous communities’ lands were expropriated for awarding

concessions (Associated Press, 2024^[58]). It is therefore important to put in place safeguards that prevent communities from being taken advantage of, which are an essential part of “readiness” for REDD+ (UNFCCC, 2024^[59]). A key element for protecting communities is the formalisation of property rights that were previously based on local customs and traditions. Customary rights no longer offer adequate protection once outsiders develop an interest in the land. Authorities should speed up ongoing land titling processes and leverage digital technologies and records to support documentation of land tenure history.

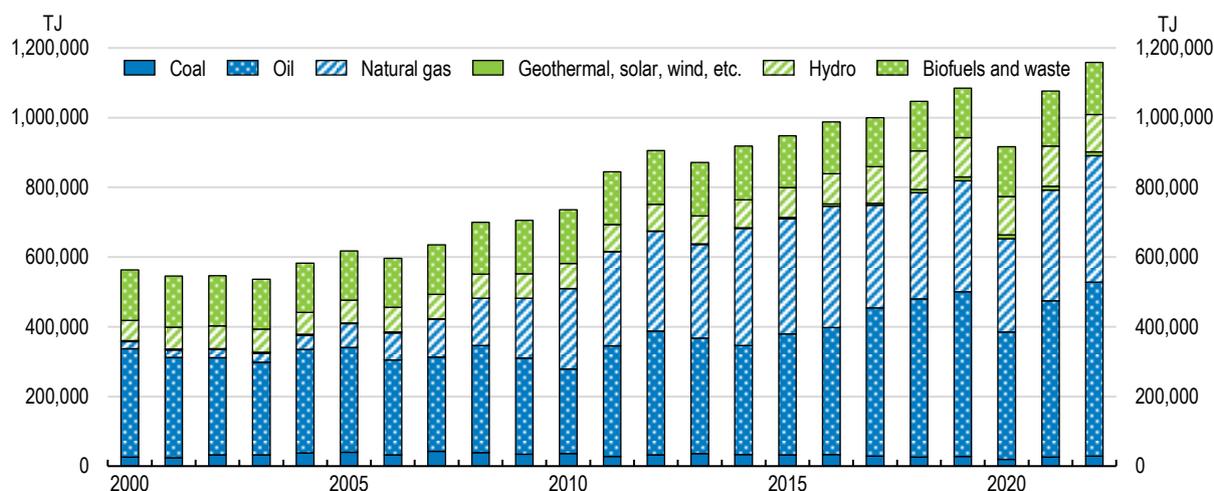
Relatedly, simplifying bureaucratic processes and providing technical and financial support can help communities formalise their land tenure and scale up conservation efforts (Shanee, Shanee and Horwich, 2014^[60]). Peru has more than 170 private conservation areas covering a total of 400,000 ha of land, in addition to ecotourism concessions. However, successfully applying for recognition of a conservation area or conferral of a concession is cumbersome and costly, often beyond the community’s financial and professional resources. A combination of technical assistance for communities and a simplification and streamlining of the requirements would enable more communities to have their conservation efforts formalised and recognised and be able to benefit from REDD+, all of which would increase conservation incentives. Evidence from successful community forest management programmes in Mexico and Brazil points to the role of land tenure formalisation and strong governance institutions that include both the local community as well as supportive outside parties (Cronkleton, Bray and Medina, 2011^[61]).

4.4.2. Reducing the reliance on fossil fuels

Fossil fuels are still predominant in the energy matrix

Fossil fuels account for 71% of Peru’s primary energy supply, mostly for transport and electricity generation (Figure 4.7). GHG emissions from these two sectors have risen more strongly than other sectors in the last decade and are projected to increase by 250% until 2050 in the business-as-usual scenario (BID, 2021^[26]). Currently they make up about 30% of total emissions. Natural gas has been playing an increasingly important role, with total domestic consumption since 2005 rising five-fold thanks to the Camisea gas fields. Oil is still the most important energy source due to its role in transport, which has been rising with economic and population growth as well as higher car ownership. Hydropower supplies close to 10% of total energy and 50% of electricity. Renewable energies including solar, wind and geothermal power still play a relatively marginal role in total energy supply. Around 15% of energy supply stems from biofuels and waste, largely from domestic heating and cooking stoves.

Figure 4.7. Fossil fuels dominate the energy supply



Source: IEA.

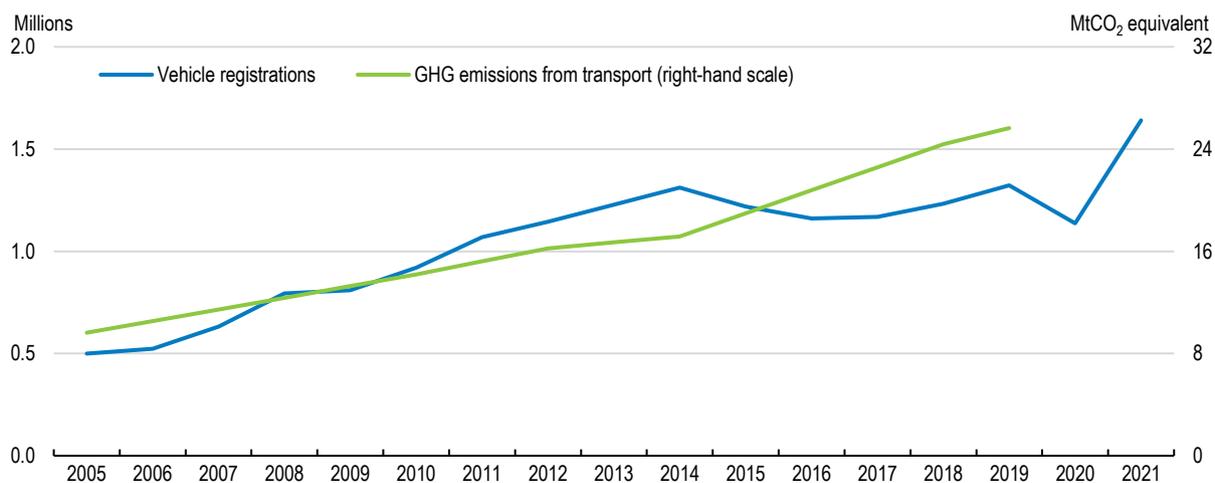
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Reducing the reliance on fossil fuel requires two interconnected and major changes to energy production and consumption. First, the transport sector needs to switch from internal combustion engines powered by fossil fuels to electric vehicles. Second, electricity production needs to expand massively – to a large degree to sustain the electrified transport sector – and be driven by renewables. The legacy policy of natural gas massification – which stems back to the 2000s and seeks to increase access for households, industry and the transport sector to new domestic natural resources with subsidies and infrastructure investments – might require rethinking (World Bank, 2022^[4]). A general, technology-neutral carbon price can set the correct price signals to accelerate these transitions.

Decarbonising the transport sector

Transport accounts for 12% of current GHG emissions. Due to strong growth under the business-as-usual scenario, almost 20% of total envisaged emissions reductions befall on this sector (see Figure 4.4, Panel A and (BID, 2021^[26])). Achieving the long-term goal of zero transport emissions by 2050 requires electrifying the entire vehicle fleet. This is a very challenging endeavour, not least because transport emissions grew the fastest in the last decades, the vehicle fleet is old and contains many pollution-intensive vehicles, and public transport is highly decentralised and informal, pushing many Peruvians to rely on private vehicles if they can afford them (Figure 4.8). Even though in the medium and long term, a zero-emissions vehicle fleet would likely result in substantial operating cost savings, it requires sizeable public and private up-front investments.

Figure 4.8. Car ownership and transport emissions have tripled in fifteen years



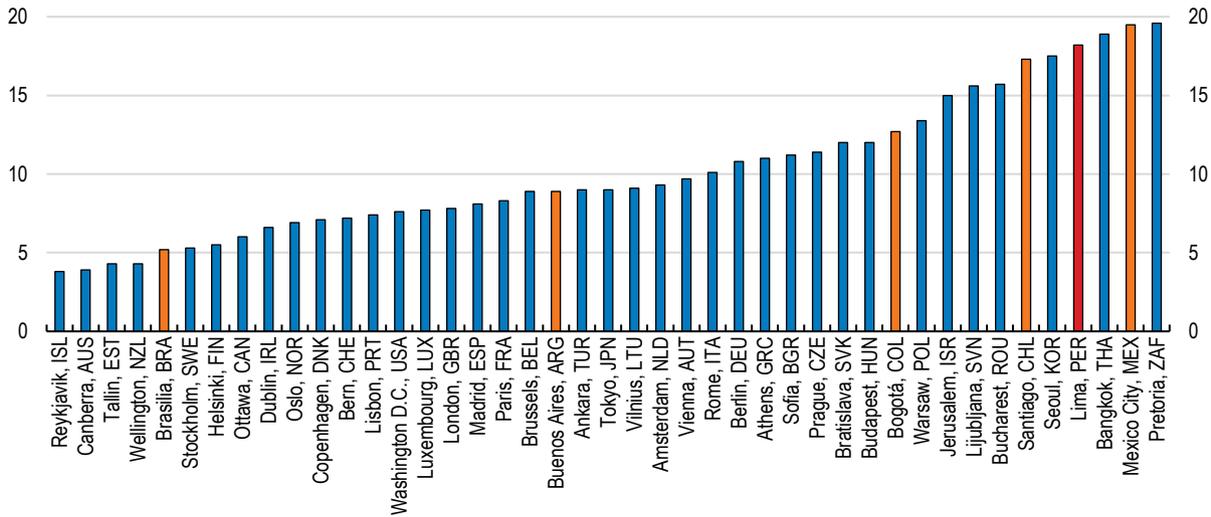
Source: Office of Planning, Budget and Modernisation (OPPM); OECD Environment Database.

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A low or zero-emissions vehicle fleet would help achieve complementary public policy goals, such as reducing air pollution. The share of the population exposed to unhealthy levels of air pollution in Lima is higher than in most major cities of OECD countries (Figure 4.9). Average annual particulate matter (PM_{2.5}) concentration in Lima's districts ranges between 20 and almost 40 mg/m³ (INEI, 2023^[62]). While this represents considerable progress, thanks to policy efforts, since the 2000s when air pollution reached more than 80 mg/m³, current levels are still significantly above the threshold of 5 mg/m³ recommended by the World Health Organisation. Air pollution has been related to more than 10,000 annual premature deaths in Lima (United States EPA, 2020^[63]) and transport has been identified as the main contributor to air pollution (Tapia et al., 2020^[64]).

Figure 4.9. Peruvian cities are heavily exposed to air pollution

2024 average PM_{2.5} concentration, µg/m³

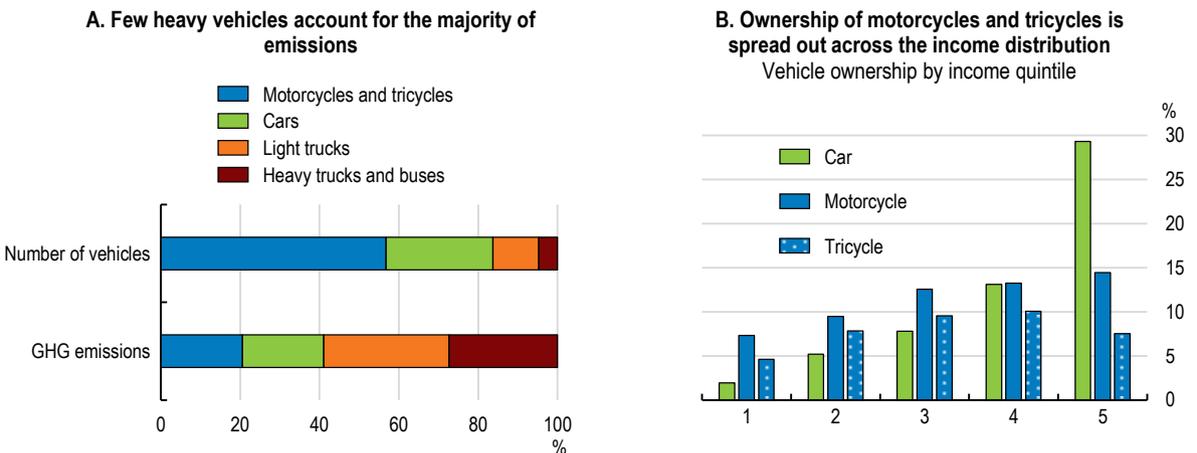


Source: IQ Air, World Air Quality Report 2024.

StatLink <https://stat.link/hy4f5z>

Heavy trucks and buses account for almost 30% of total GHG emissions from transport, even though they make up only 5% of the total vehicle fleet (Figure 4.10, Panel A). Diesel-powered transport vehicles benefit from implicit subsidies in the form of a 70% rebate on fuel excise taxes and the fuel price stabilisation fund, while vehicles running on natural gas benefit as well from tax exemptions and fuel conversion subsidies. Gas-derived fuels can play a role in the short term in mitigating emissions of the existing vehicle stock. However, a comprehensive strategy should ultimately incentivise timely purchases of new, zero-emissions trucks and buses, including discontinuing fossil fuel subsidies (see below). This would not only reduce emissions but also air pollution. Other policy options in the short term include incentivising an increase in biofuels through a rebate on the fuel excise tax rate, which is currently the same as for fossil fuels; a review of biodiesel blend rates, which are only at 5% and unchanged since 2012 compared to 10% in Colombia and 14% in Brazil; and more stringent fuel-efficiency standards for heavy-duty vehicles. In the longer term, development of a market for green hydrogen, for which Peru with its abundant renewable potential has a cost advantage (see below), will help decarbonise freight transport.

Figure 4.10. Heavy-duty vehicles and motorcycles are central to the decarbonisation of transport



Note: Tricycles include mototaxis.

Source: RAGEI (MTC, 2019⁽⁶⁵⁾); OECD calculations from the 2022 Encuesta Nacional de Hogares (ENAH0).

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Urban public transport opens many leverage points for policy to influence the electrification of heavy duty transport, thanks to the strong role governments already play in urban public transport. For example, Santiago de Chile managed to electrify 37% of its bus fleet in 2024, with plans for lifting this share to 55% by 2026 (OECD, 2025^[29]). In Peru, however, the atomisation and informality of public transport provides a basic obstacle to any such initiatives. No Peruvian city, not even the capital, has an integrated public transport system (Box 4.5). Except for the Lima metro, no public transport system receives government financing. An ongoing public transport reform provides an opportunity to create an integrated and sustainable public transport system in Lima. A final, non-renewable five-year license is provided to traditional bus operators in the areas served by new concessionaries. Where there is no concessionary, licenses are renewable for 5 years conditional on replacing the vehicle with a modern bus, and up to 14 years if the new bus is electric. In addition, two new routes will be licensed exclusively to bus companies running an entirely electric fleet. These are steps in the right direction, and it should be a priority for the government to make this long overdue reform a success.

Once established, a consolidated, orderly, and integrated public transport system can and should be leveraged for further emissions reductions. This will require timely and strong complementary policies. First and foremost, the right incentives need to be set, and an enabling environment provided for the renewal and rationalisation of the vehicle fleet with large modern buses, which by itself is expected to bring important emissions reductions. Operators will require financial solutions to bear the large up-front capital investments, and incentives provided by scrapping or fuel conversion programmes that need to be closely coordinated with the reform and implemented in a timely manner. Other complementary measures include effective enforcement of license conditions and against unlicensed operators, impounding the oldest and most polluting vehicles, many of which have acquired significant unpaid traffic fines, and a reconsideration of the VAT exemption for public transport, which might give a cost advantage for formal transport operators that could otherwise deduct VAT paid on inputs.

Box 4.5. The organisation of public transport in Lima

Liberalisation of transport services and the import of used buses in 1992 led to excessive market entry. The number of buses increased fivefold to almost 50,000 units – mostly consisting of vans and small buses with around 20 seats – with knock-on effects on traffic congestion.

In 1997, the Metropolitan Municipality of Lima (MML) regulated bus routes, introducing ten-year licenses. However, the MML allowed for sub-contracting from licensees to vehicle owners, who in turn informally sub-contract drivers renting the licensed vehicle for a daily fee. Drivers on the same route fiercely compete for passengers, impacting service quality and road safety.

In 2003, ten-year licenses stopped to be issued and instead were renewable every six or twelve months on a “temporary” basis in anticipation of an integral transport reform, removing any incentives for investment into vehicle or service quality. The creation of the Authority of Urban Transport in Lima and Callao (ATU) in 2018 led the basis for the currently implemented reform.

In parallel to this traditional, informal and atomised public transport system, in 2011 a BRT system operated by the MML, and a metro operated by the national government were inaugurated. Both systems so far consist of a single line each, although a second metro line originally scheduled for 2019 is now partly operational. In the mid-2010s, an attempt at an integral transport reform awarded major bus routes to concessionaries, but the reform met political resistance and has failed to advance and even been partly reversed.

Source: Jauregi-Fung et al. (2019^[66]): “Anatomy of an Informal Transit City: Mobility Analysis of the Metropolitan Area of Lima.” *Urban Science*, 3, 67.

Bus rapid-transit (BRT) lines offer a cost-effective way of building modern mass transit systems and achieving emissions reductions. A much smaller fleet of high-capacity, low-emissions BRT buses, such as Lima’s *Metropolitano* BRT (which runs on gas) could replace small and polluting old diesel minibuses. Moreover, modern, efficient and safe mass transit systems such as BRT encourage a shift from private car usage. Evidence from Mexico City and Bogotá’s BRT indicates that they can reduce GHG emissions by 10-20% (Scholl, 2015^[67]). Due to the low cost and

high speed of construction compared to light rails or metros, BRT are popular in many countries in the region and are prevalent even in secondary cities such as Pereira in Colombia, Curitiba in Brazil or Pachuca in Mexico.

By contrast, the *Metropolitano* is still Peru's only BRT, despite urban transportation plans of six cities foreseeing a total of 130 km BRT operating by 2030 and a World Bank study showing the feasibility and emissions reduction potential of 400km of BRT corridors by 2050 (World Bank, 2022^[68]). The government should support local authorities in implementing these plans according to schedule. Moreover, the *Metropolitano* performance is hampered by frequent breakdown of buses that are reaching the end of their technical life and a fleet that has not kept up with expansions of the initial corridors (World Bank, 2024^[69]). Authorities should ensure that the bus fleet is replaced as needed, and that operators are provided sufficient incentives for this. It is also essential to integrate the *Metropolitano* with the expanding network of the Lima metro, the implementation of which should be accelerated.

Peru's electric vehicle (EV) market is still very small. In 2023, only 2% of new car registrations were electric (plug-in and hybrid) compared to 17% in Colombia, 50% in France and Germany, and 97% in Norway. The main constraints for the development of electric vehicles are the very limited charging infrastructure, especially outside Lima, and the elevated up-front investment cost of electric vehicles. At the same time, the total cost of ownership of EV in countries such as Germany (with high fuel prices) and China (with low electricity prices) has in recent years fallen below that of vehicles with internal combustion engines, even before subsidies (IEA, 2024^[70]). While Peru's level of economic development and income poses some limits to EV adoption, the experience of Colombia shows that it is possible to achieve much higher EV adoption rates (17%) in a similar context, with the right policies. These include financial and regulatory incentives and the development of charging infrastructure.

Charging infrastructure for EV is underdeveloped. Currently, Peru has around 70 chargers mostly in Lima, all of which are privately owned, and none of which are fast chargers. The absence of a legal framework to foster electromobility – despite almost two dozen congressional initiatives, none of which were adopted – stymies the development of charging infrastructure, despite existing regulation for chargers. In many OECD countries this is boosted by public incentives or regulations. For example, some municipalities in Canada require EV charges to be installed in commercial parking lots or petrol stations. Several countries including Greece, the United Kingdom, and Denmark provide public funding. Other possibilities include updating the building code to create statutory rights for residents of apartment buildings to install EV chargers, such as in Germany, or requiring all new buildings to have at least one EV charging point, as in the United Kingdom.

Fiscal incentives can increase the uptake of EV, especially in the initial phase of adoption while externalities from a thicker EV network justify the use of subsidies. But tax incentives and subsidies must be carefully designed to avoid some of their pitfalls and only be used after careful cost-benefit analysis. Evidence from Canada and Norway shows that EV tax incentives are most efficient if they are targeted at the most polluting vehicles and tied to a scrappage scheme (Fournel, 2023^[71]; Camara, Holtmark and Misch, 2021^[72]). In Peru, this could be achieved as part of a wider clean transport strategy by tying EV subsidies to already existing scrappage schemes for old diesel trucks and buses, although this would require better monitoring and ensuring that the programme reduces the overall vehicle stock. Several OECD countries have subsidy programmes for the acquisition of electric trucks, like the Netherlands, where the amount depends on the size of the company buying the vehicle, or France, where grants can reach up to 40% of the cost of a new electric truck (IEA, 2023^[73]).

A largely untapped segment for EV is motorcycles (including three-wheelers), for which there is a large market in Peru, with a total vehicle stock more than double that of cars (Figure 4.10, Panel A). The total cost of ownership of electric motorcycles in countries such as India and China is already at or below fuel-powered alternatives (IEA, 2024^[70]). However, in 2024 only about 500 of almost 250,000 newly registered motorcycles in Peru were electric. Compared to cars, which are disproportionately owned by high-income households, motorcycle and tricycle ownership is more evenly spread out along the income distribution (Figure 4.10, Panel B). High up-front cost of EV might be a deterrent especially for the lower-income buyers in this market segment who at the same time are more credit-constrained or subject to higher interest rates. For this reason, some countries have introduced targeted subsidies. For example, India bolstered uptake of electric motorcycles and rickshaws with its Go Electric campaign.

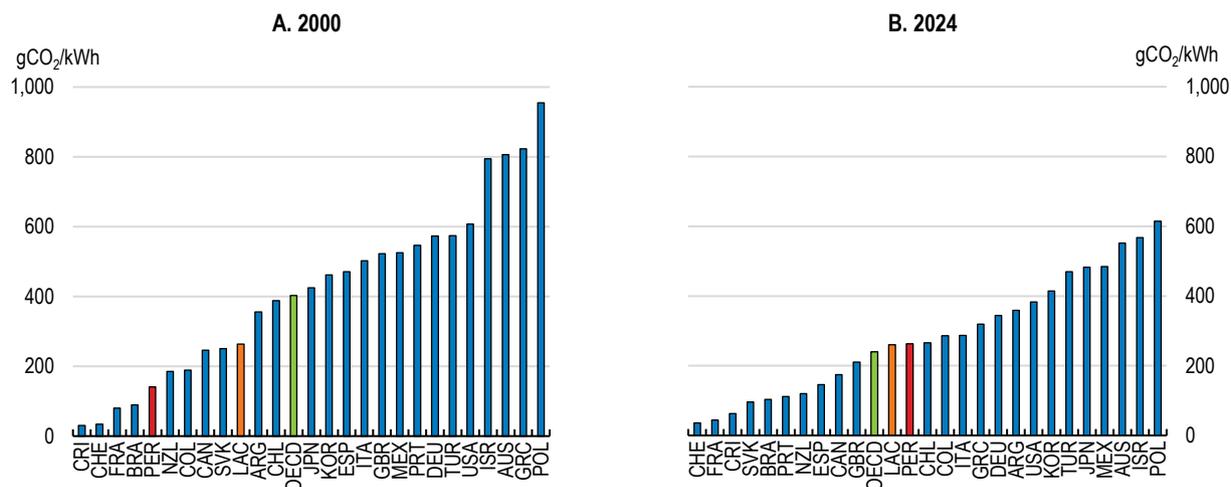
Finally, reducing GHG transport emissions requires developing alternatives to road transport. Non-motorised modes of transport, especially cycling, are feasible especially in coastal cities such as Metropolitan Lima, a mostly flat city

on the sea level with year-round mild temperatures and without any meaningful precipitation. The development of cycle lanes in recent years constitutes some progress, but there is much room for increasing the participation of cycling in transport, which was below 1% in 2019, and which could substitute for motorised means of transports including motorcycles especially in cities. Moreover, many COVID-era cycling lanes have not been sustained, and some cycling infrastructure been reversed, highlighting the need for continued political commitment to comprehensive local clean mobility strategies. Rail and cabotage have the potential to offer efficient alternatives to road transport, especially for freight. Evaluation of freight cabotage pilots point to cost savings relative to road transport – in a context of high logistics costs even compared to other countries in the region – as well as emissions reductions (Semino Romero, Berrospi Villafuente and Akimoto Toyohama, 2020^[74]). However, currently only 0.1% of all domestic cargo is transported via ports. Developing the cabotage sector would further increase climate resilience, since roads are sparse and vulnerable to disruption from climatic events (see above).

Letting renewables lead the energy sector

The energy sector (excluding transport) accounts for 18% of current GHG emissions and 11% of envisaged emissions reductions in the cost-effective scenario (BID, 2021^[26]). Meeting emissions targets will require that essentially all newly installed electricity generation capacity from now on comes from renewables (solar, wind, geothermal and hydropower), with gas providing support in peak times and as a fallback option. Overall, installed electricity capacity is projected to almost quadruple by 2050, not only due to economic growth but also because of the electrification of transport. Peru's CO₂ emissions intensity from electricity generation is close to the average OECD country (Figure 4.11). This is thanks to the role of hydropower, which currently produces half the country's electricity (Figure 4.12), compared to an OECD average of 14%.

Figure 4.11. Emissions intensity of electricity generation is relatively low, but has increased strongly since 2000



Source: Ember (2025); Energy Institute - Statistical Review of World Energy (2024) – with major processing by Our World in Data.

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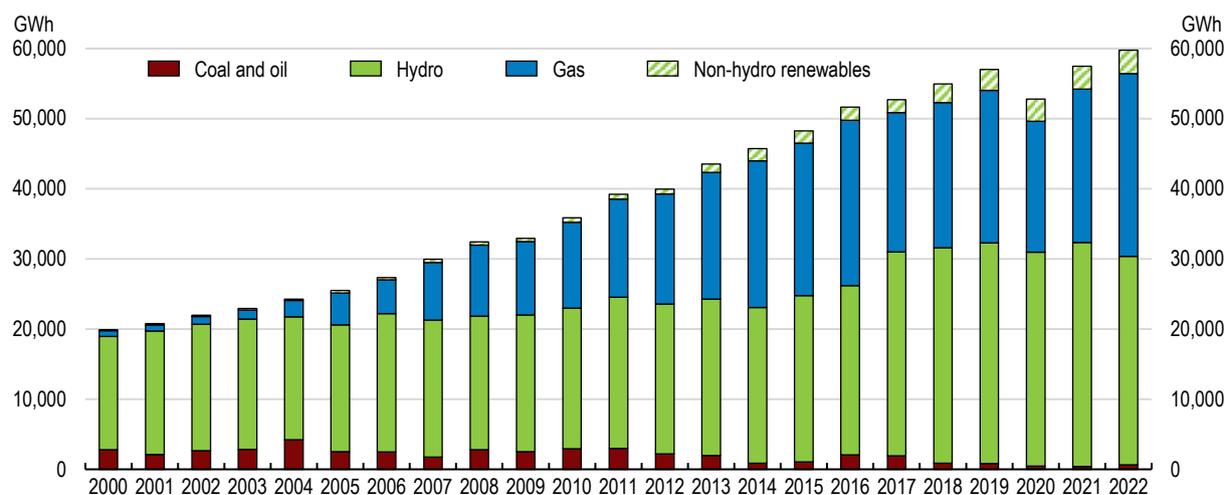
Since its privatisation in the 1990s, Peru's energy sector has been characterised by a solid regulatory and supervision framework. OSINERGMIN regulates the electricity and natural gas sector, sets tariffs, ensures compliance and quality standard. The electric grid is managed by COES. A key emphasis is on competition and quality standards. Overall, the system has worked well, as evidenced by a capacity expansion of 2.4 times since 2000, an increase of electrification from below 70% to 95% of households since 2000, strong growth of the natural gas sector, and generally an absence of power outages that have plagued some other countries in the region.

Natural gas has increased its share of electricity generation from close to 0% in 2000 to 44% in 2022 (Figure 4.12), thanks to the production from the Camisea gas field in Cusco, which became operational in 2004, and which now

provides for 95% of domestic production. While this has diversified the energy mix, reduced costs for consumers, and provided for cleaner energy than if oil and coal were used, it has contributed to a noticeable increase of energy emissions intensity (Figure 4.11). Given the relatively recent rise in domestic gas production, most gas-fired power plants were built in the last 10 years and a nationwide gas massification programme for the residential sector is still in the middle of being rolled out. Virtually zero Peruvian homes have heating, due to the year-round mild weather in many parts of the country, therefore residential gas mainly serves for cooking.

Heavy reliance on natural gas from a single source, which fuels a large part of electricity generation and is vulnerable to supply disruption given the reliance on a single pipeline, constitutes a major energy security risk. The other major energy source, hydropower, is increasingly vulnerable to droughts that are already starting to become more frequent because of climate change. Together, these risks call for a rapid diversification of electricity generation capacity, both in terms of technology and geography.

Figure 4.12. Hydropower and natural gas dominate electricity generation



Source: IEA.

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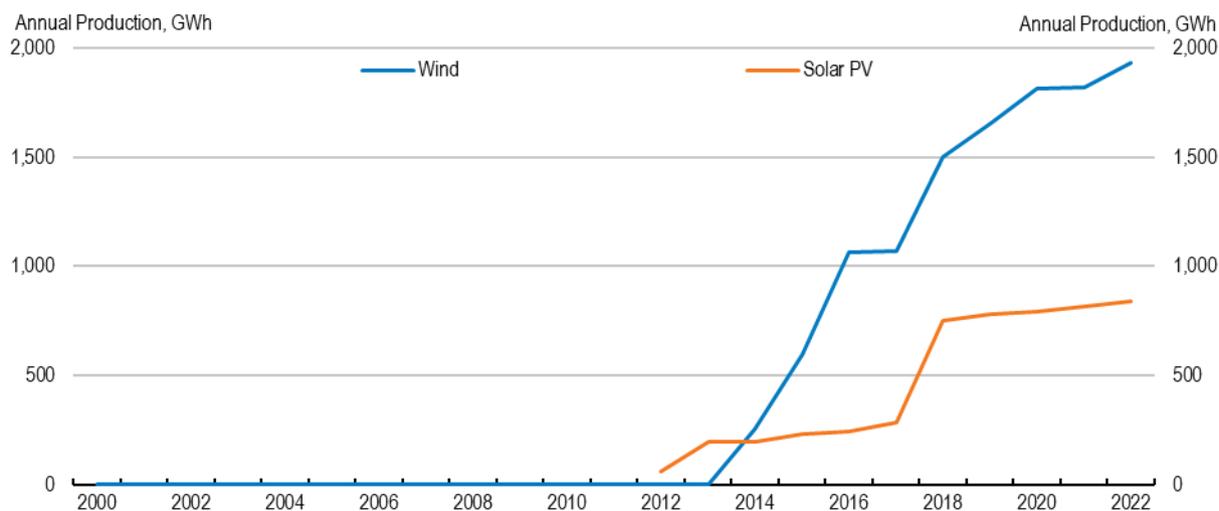
At the same time, rapidly growing electrification, particularly in the transport sector, will demand a substantial expansion of zero emissions energy capacity. The projected path to Net Zero foresees installing an additional 8.7 GW of renewable electricity capacity by 2030 and a total of 45.8 GW by 2050. For reference, in 2023 total installed capacity across *all* sources of electricity amounts to 16GW. Peru has significant renewable energy potential across various sources, more than sufficient to meet this projected demand. Its wind energy potential, especially on the Central and Northern coast, is estimated at 22 GW. The southern regions of Arequipa, Moquegua and Tacna have some of the highest solar potential in the world, and large swaths of unused desert to install solar parks. In addition, total hydropower potential is estimated at 70 GW of which only around 5 GW are currently utilised. There is also a more moderate potential for geothermal and biomass electricity generation.

Despite the risks posed by droughts, the large potential of hydropower suggest it will continue to play a major role in the Peruvian energy mix. Hydropower was the almost exclusive source of electricity generation for decades, with many large dams going back to the 1970s. To reduce vulnerabilities and increase resilience to rainfall anomalies, new projects could focus on small-scale and decentralised systems, reducing dependence on large dams, which are more susceptible to rainfall anomalies. Although the technology is yet being developed, small hydropower dams could additionally be used as energy storage solution to smooth out fluctuations in the electricity generation from wind and solar, while also serving as freshwater reservoirs. These measures would improve water resource management, ensuring freshwater availability in drought-prone regions.

Peru has significant room for progress in developing renewable energy. The government has set the objective to increase the share of non-conventional renewables in electricity generation to 20% by 2030. However, only 5% of

total electricity production currently befalls on wind and solar energy (Figure 4.13), and installed capacity is only about 1,100 MW spread over 33 sites. While this represents significant progress since the first large-scale renewables project started operating in 2012, the current pace is not sufficient to meet the projected required capacity to achieve either the 2030 renewables goal or the 2050 Net Zero objective. In 2024, only two wind parks with a total installed capacity of 244 MW were completed.

Figure 4.13. Development of wind and solar energy has been slow



Source: IEA.

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Until very recently, energy legislation disadvantaged renewable energy technologies. Wholesale electricity prices in Peru are determined by long-term power purchase agreements (PPA) between generators and distributors, supplemented by a spot market based on marginal costs. The previous energy law from 2006 required generators that subscribe to a PPA to ensure 24-hour power availability, effectively shutting down this market for wind and especially solar generators. Instead, they were forced to rely on the spot market selling to traditional energy providers, resulting in lower prices and reduced revenue predictability. In December 2024, Congress approved a reform which allows for PPA contracts to sell separately capacity and energy supplied, levelling the playing field for electricity generators in a technology-neutral way. There is a strong pent-up demand by renewables firms to invest in Peru, where the last renewable energy auction took place in 2016. For example, the Ministry of Energy and Mines lists 13 large-scale solar projects in the planning phase, with a total capacity of 2,300 MW, twice the currently installed capacity of wind and solar combined. Authorities should prioritise a fast implementation of the Energy Law, including the publication of its regulation, to avoid any further delays to the deployment of solar energy at scale. At the same time, new auctions should already be slotted and their schedule communicated in advance to incentivise timely participation by investors.

More generally, predictability for investors could be improved through clear and robust legal and regulatory signals. Investment needs for the energy transition are large, in the order of USD 67 bn until 2050, about USD 26 bn higher than under business-as-usual. Their realisation depends to a large degree on the willingness of private firms to invest. The lack of clear and long-term energy planning in Peru has created uncertainty and delayed key decisions for the sector. An energy transition law could provide a stable regulatory framework, set clear renewable energy targets, institutionalise strategies, monitor progress, and create mechanisms for financing and incentives that would signal long-term policy continuity, therefore increasing predictability for investors. It could align the country's energy strategy with Net Zero commitments and enhance energy security by promoting diversification and decentralised and resilient energy systems. In addition, the National Energy Plan from 2014 should be updated and include clear targets and their monitoring.

Electricity grids need to expand rapidly to meet the projected increase in electricity loads. The energy transition will shift the geography of energy production: solar power is concentrated in the south near the border with Chile, and one of the main areas of wind power potential is the north. Yet most electricity demand befalls on Lima, where currently most thermal power stations are located. Grid constraints are already becoming a binding barrier for large-scale renewables development. Aging energy infrastructure and geographical constraints hinder reliable energy access in remote areas. Recent evidence from Chile shows how grid expansion can spur entry by new providers, increase renewable energy generation, and facilitate price convergence across regions (Gonzales, Ito and Reguant, 2022^[75]).

The variable electricity production from renewables, and its low responsiveness to demand, puts increased requirements on grid flexibility tools such as demand management and energy storage solutions. Smart grids would enhance demand management and energy efficiency, enabling better integration of renewables. By establishing a communications channel between utilities and consumers, they allow to manage both demand and supply of electricity simultaneously. Energy storage is essential to balance electricity supply and demand at all times, improving grid reliability and reducing curtailment. Storage is also pivotal to off-grid and mini-grid systems in remote regions. To incentivise its development, energy storage needs a regulatory framework that allows entities other than electricity generators to provide and withdraw from the grid. With a regulatory framework in place, the government should encourage pilot projects, for example by inviting operators from other countries in the region such as Chile, which plans to install 2GW of storage capacity until 2027 (OECD, 2025^[29]). Other regulatory changes that would encourage grid development and responsiveness include separating energy distribution and retail services to encourage market entry and innovation and creating a feed-in regulation for small-scale rooftop solar installations.

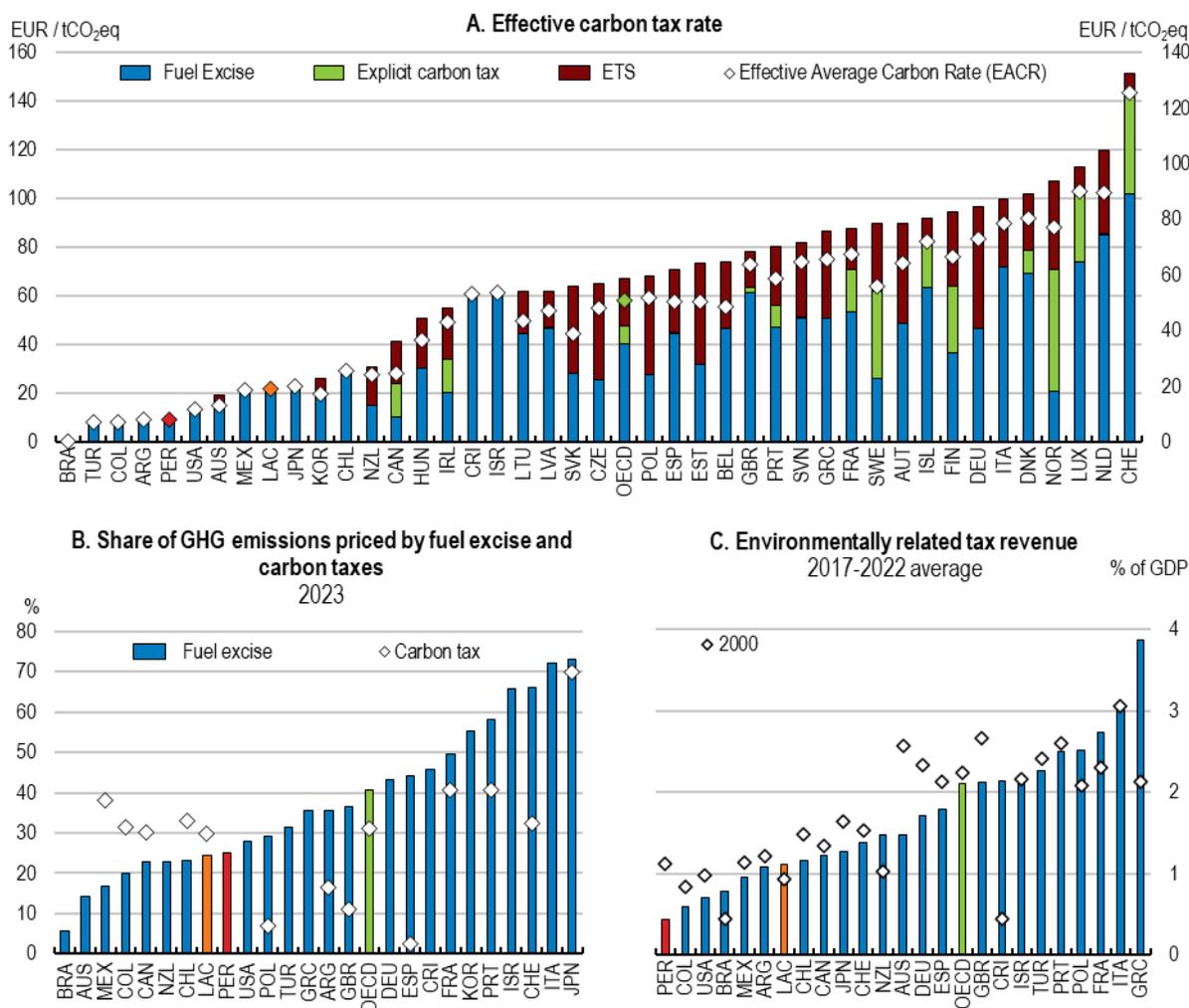
All this calls for significant investments into the grid. Until 2030, the new Transmission Plan which entered into force in 2025 contemplates 19 grid investment projects with a total volume of USD 1bn. Building on this plan, grid investments must consider the broader energy system, including natural gas, and the fact that non-conventional renewables require better national integration to manage local surpluses and deficits. Moreover, international grid integration with neighbouring countries would help balance out weather-dependent surpluses and deficits. The ongoing construction of a transmission line to Ecuador, where rainfall generally follows the opposite pattern as in Peru, is an important step in the right direction. Plans for grid integration with Chile should be accelerated and implemented. Advancing international grid integration moreover requires not only technical transmission coordination but also addressing regulatory and security concerns among countries.

Introducing a price on CO₂ emissions to incentivise cleaner energy and transport

Price signals in form of a carbon tax should set economic, technology-neutral incentives to reduce emissions in a cost-effective way while specific bottlenecks to the energy transition may be addressed with sectoral policy instruments (D’Arcangelo et al., 2022^[28]). Carbon pricing allows consumers of energy – household and firms – to internalise the emissions externalities of their choices and provides clear price signals to the market, including to steer investment decisions. Carbon pricing is an instrument that is technically relatively easy to implement, with limited demands on administrative or monitoring capacity, which allows for a wider applicability in emerging economies like Peru compared to an emissions trading system (ETS). However, implementation carbon prices, especially those that are explicitly levied on consumers, is at times politically difficult, calling for a balanced and gradual approach.

Currently Peru does not levy an explicit carbon tax. The fuel excise tax constitutes an implicit carbon tax but covers only about 25% of all GHG emissions excluding LULUCF (Figure 4.14). Fuel excise tax rates are calculated as a function of the toxicity of each fuel rather than on the carbon content. One of the reasons for the low emissions coverage of the fuel excise tax is that it exempts gas-based fuels. Moreover, effective carbon tax rates and environmentally related tax revenues are very low in international comparison, and even compared to other countries in the region. Fuel excise taxes range USD 0.07-USD 0.12 per litre, much lower than in European countries where they are around USD 0.60 per litre, but also Brazil and Chile (around USD 0.25 per litre). Gas-derived fuels are entirely exempt from excise taxes, reflecting the legacy policy of gas massification. The government should broaden the base of fuel excise taxes by gradually extending them to gas-derived fuels and evaluate increasing all motor fuel excise taxes.

Figure 4.14. Carbon taxes have low effective rates and coverage



Note: LAC is a simple average of Chile, Colombia, Costa Rica, Mexico, Argentina, and Brazil. Panel A: Effective carbon tax rates are averaged across all GHG emissions, excl. LULUCF, including those emissions that are not covered by any carbon pricing instrument, for each of the 79 countries. Effective Average Carbon Rates account for free allocation of allowances in emissions trading systems. All rates are expressed in 2023 EUR using the latest available OECD exchange rate and inflation data. Other GHG emissions data are from CAIT (Climate Watch, 2024) while the data on CO₂ emissions from energy use are based on the IEA World Energy Balances (IEA, 2023). ETS coverage and free allocation estimates are based on the OECD's Effective Carbon Rates 2023, with adjustments to account for recent coverage changes, newly added countries and systems.

Source: OECD, Pricing Greenhouse Gas Emissions 2024; OECD Carbon Pricing and Energy Taxation Database; The Environmental Related Tax Revenue Database.

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As recommended in the 2023 *OECD Economic Survey*, Peru would further benefit from levying an explicit carbon tax, following other Latin American countries such as Argentina, Chile, Colombia and Mexico (OECD, 2023^[5]). To ameliorate public acceptability, a carbon tax should be introduced gradually and on a pre-defined trajectory to allow investors and consumers to make informed long-term decisions. Its proceeds could be explicitly linked to supporting vulnerable households in adapting to climate change or to financing green transition investments (OECD, 2023^[5]). This is especially important as the carbon price that would be required to achieve Peru's emissions target is quite high with respect to its current level, although in line with proposals of carbon prices for middle income countries (Parry, Black and Roaf, 2021^[76]). For example, a carbon tax of USD 20 per ton of CO₂ rising to USD 50 by 2030 would be consistent with Peru's 2030 NDC if LULUCF emissions are reduced by 35% by 2030. Once fully implemented, it would generate additional government revenues in the order of 1% of GDP by 2035 (IMF, 2023^[33]). The required level of the carbon tax depends critically on the speed of reversal of deforestation. For example, reducing LULUCF

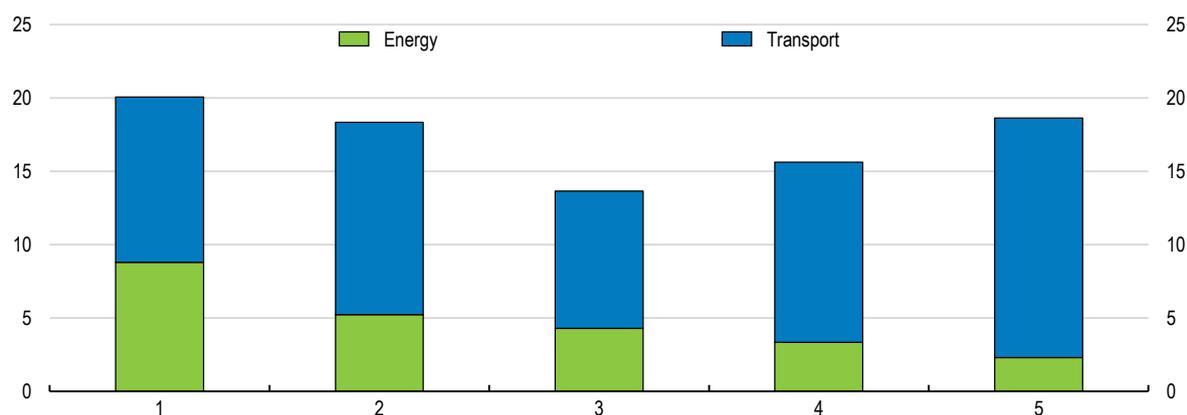
emissions by only 25% instead of 35% would bring up the required carbon tax to USD 155 per ton of CO₂, whereas reducing LULUCF emissions by 40% or more would reduce the required carbon tax to close to zero. These scenarios underline the importance of rapidly reducing deforestation to allow for a balanced and socially acceptable path to meet emissions targets, which could be supported by a carbon tax that helps to align incentives in energy-consuming sectors.

Carbon tax revenues can support the green transition and support vulnerable businesses and households to prevent an increase in inequality and at the same time increase the acceptability of the green transition (Dechezleprêtre et al., 2022^[77]). Poorer households spend more of their income on carbon-intensive goods and services such as transport services and energy, as data calculated for this *Survey* from Peru's National Household Survey show (Figure 4.15). Prices of those goods might increase due to carbon taxes. Some of the revenue they generate could be returned to households. Many OECD countries, including Switzerland, Austria, and some Canadian provinces use lump-sum transfers – which constitute a larger share of total expenditure for lower-income households – while Luxembourg distributes half of its carbon tax revenue to the 40% lowest-income households, with the remainder going into green investments.

There is an exemption from the value added tax and the fuel excise tax for fuels sold in 350 municipalities in the Peruvian Amazon, which incurs tax expenditures of around PEN 250 million per year (Castillo Dextre, 2021^[78]). The exemption creates a distortion in the fuel market, is thought to increase tax evasion and smuggling, and provides cheap energy inputs for illegal economic activities in the region (IPE, 2018^[79]). Moreover, there is no evidence of tax benefits in the Amazon region having contributed to economic development. Peru should consider removing the Amazon tax exemptions in a gradual way, potentially compensating their removal with other, less distortionary transfers to the region. This could be part of a general review of tax expenditures (Chapter 1).

Figure 4.15. Poorer households consume more carbon-intensive services

Expenditure on carbon-intensive goods and services by income quintile, % of income



Note: Energy includes electricity, household consumption of natural gas, coal and biofuels. Transport includes automotive fuels and transport services but not travel.

Source: OECD calculations from the 2022 *Encuesta Nacional de Hogares* (ENAH).

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4.5. Improving the environmental sustainability and resilience of agriculture

The contribution of agriculture to current emissions is modest (14%), but its emissions are hard to abate. The sector is expected to contribute only 3% to emissions reductions under a cost-effective pathway to Net Zero (BID, 2021^[26]). Agriculture is highly vulnerable to climate change, both slow-onset events such as rising air and sea temperatures and glacial melt, as well as fast-onset weather anomalies. Moreover, small-scale and informal agriculture in the Amazon is a major contributor to deforestation without much added value creation (see above).

The El Niño climatic phenomenon, which will be exacerbated by climate change, already visibly affects Peruvian agriculture. During the 2017 and 2023 El Niño, agricultural production contracted each time around 2%; in 2023 this

contributed to the recession of the Peruvian economy (OECD, 2024^[80]; OECD, 2023^[5]; World Bank, 2017^[81]). Irrigated large-scale agriculture projects on the desertic coast have contributed much to exports and job creation and often employ world-leading irrigation techniques that rely on sensors to minimise water use (IFC, 2023^[24]). Yet they are vulnerable to overall water scarcity.

Moreover, changing global consumer preferences are driving the stricter sustainability standards that are increasingly expected from exporting producers (Deconinck et al., 2025^[82]). Lifestyle changes among young urban middle classes in many OECD countries, including an increased consciousness around health, animal welfare, and carbon footprints, are weighing down on global meat demand. Peru is already well positioned to serve the growing demand for meat replacements with products such as fresh avocado, other fresh vegetables, and more niche products such as quinoa and other protein-rich native grains. However, Peruvian agricultural firms have only recently started gaining consciousness and adapting to changing consumer requirements (IFC, 2023^[24]). Moreover, the reliance of many fresh agricultural exports on air freight creates vulnerabilities to heightened climate concerns amongst consumers.

To capitalise on global consumer trends, the government could encourage agricultural producers to adopt sustainability standards. This would help reduce the environmental footprint of such firms in Peru, increase resilience to extreme weather events intensified by climate change, and help preserve and further increase the strong position the country has gained in global food markets. This will require applying and certifying global standards and measurement methodologies in Peru, strengthening the capacity to estimate carbon and water footprints, and supporting the sector with analysis on how to reduce these footprints as well as to increase global advocacy and promote Peru as a source of sustainably produced health foods (IFC, 2023^[24]). There is a role for the government to raise awareness among producers of the changing global market requirements, especially smaller producers who might not be directly connected to consumer-facing international buyers such as foreign supermarkets.

Reducing the environmental footprint of the agriculture sector, and particularly GHG emissions, is possible through a connected set of measures: optimised irrigation practices, the use of less emissions-intensive fertilisers, and the introduction of silvopastoral systems for small-scale Amazon cattle ranchers (BID, 2021^[26]). Currently, rice production utilises flood irrigation, which results in high water consumption and methane emissions; there are other methods available which reduce both. Drip irrigation is already used by some of the most productive, export-oriented farms; reforming water tariffs (see above) would incentivise more producers to adopt this technology and other water conservation practices. Fostering the use of organic fertilisers would incentivise the composting of organic agricultural residues, which are currently mostly burned. In addition, if food consumption in Peru underwent similar trends as in OECD countries, notably a reduction in the meat intensity of diets and a substitution of rice with other, healthier sources of carbohydrates such as cereals, tubers or grains, this would further contribute to a reduction in the emissions intensity of food production (World Bank, 2022^[4]).

To reduce the extension of the agricultural frontier driving deforestation, as discussed above, changing the way producers exploit already deforested land is essential for fostering productivity, efficiency, and sustainable land use. Addressing this requires improving the technical capacities of small-scale agricultural, livestock and forestry producers, especially through agricultural extension and training services. This would help stop deforestation and at the same time improve the income and welfare of small landholders.

Since the 1990s and again further during the last decade, spending on agricultural extension services – programmes to provide training, technology transfer and inputs such as improved seeds and fertilisers – and other direct support for producers has declined. This has contributed to the duality between large-scale agro-exporters on the coast that saw their productivity explode and stagnation in other regions (IFC, 2023^[24]; World Bank, 2017^[81]). Large-scale irrigation and other infrastructure projects have also mostly benefited the coast. As a result, agricultural output has been growing most strongly in coastal regions such as Lambayeque, Tacna, La Libertad, Piura and Ica – in addition to the regions where it has been associated with deforestation such as Ucayali and Pasco (Figure 4.16). While in the past a reorientation of spending to boost agro-exports and foreign exchange earnings might have been justified, the existing duality calls for renewed direct support, especially through extension and other productivity-enhancing services, which would allow producers across Peru to partake in the opportunities offered by agro-exports. Modern technologies, including artificial intelligence, remote sensing, and mobile communications offer potentially important cost reductions and productivity improvements relative to traditional, labour-intensive ways of delivering

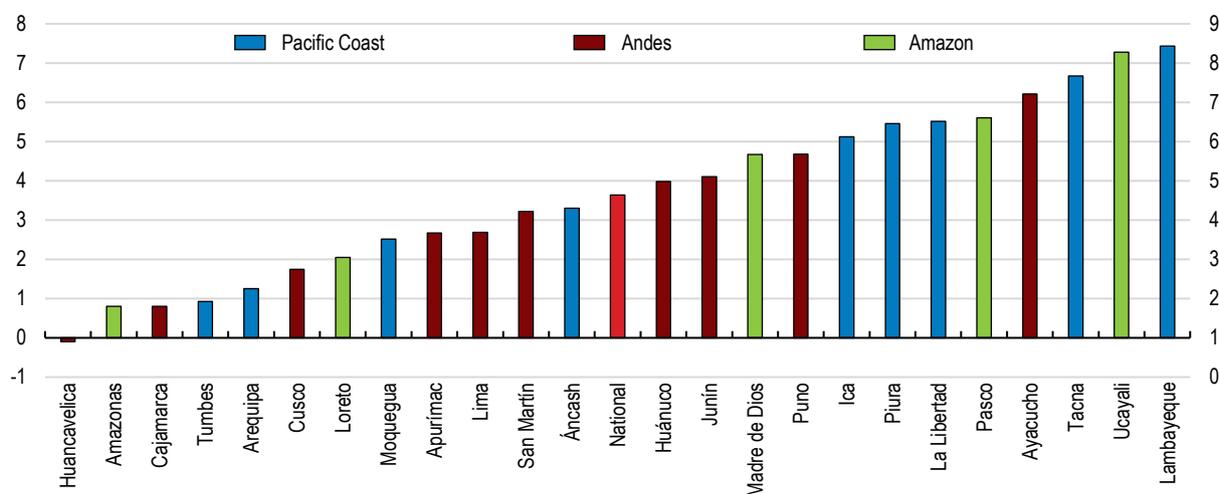
agricultural extension services. This could help provide small-scale farmers with much-needed training in adopting efficient irrigation techniques and more resistant crop varieties, practicing crop diversification, and applying improved soil and water conservation practices.

In addition to knowledge, farmers also need the right incentives and access to financing to invest into better techniques. The duality of the sector, with large and small farms facing very different realities, will need to be reflected. Large farms may need more customised solutions, including R&D support and partnerships with agricultural research institutions. They could be exposed to price incentives such as more cost-reflective water tariffs, or feebate systems, which would require a better measurement of emissions at the farm level. Small farmers largely require technical and financial assistance and encouragement to adopt existing sustainable agricultural practices. Incentives could come from conditioning the provision of various schemes discussed above – payment for ecosystem services, agricultural disaster insurance, and the provision of preferential or subsidised green financial products – to good agricultural practices. The joint offering of access to finance and agricultural extension services through the Agroperu fund is a step in the right direction.

Another policy avenue to increase the productivity of small-scale farmers is to integrate them into the agricultural export value chains that have so far been dominated by large-scale agricultural operations on the coast. Productive alliances that link large agro-exporters to small-to-medium farmers, especially in the interior of the country, have proved to be successful mechanisms for this, facilitating knowledge transfer and access to international market participants (IFC, 2023^[24]). The formation of productive alliances is aided by the fact that many small-scale farmers are already organised into cooperatives and other associative models. Better integrating small-scale farmers in the Andes and Amazon into export value chains requires not only creating linkages between firms in different regions, but also access to finance to scale up operations and better infrastructure such as irrigation and rural roads, as discussed in the 2023 *OECD Economic Survey of Peru* (OECD, 2023^[5]). In addition, this would reduce pressure on ecosystems and water stress on the coast and improve resilience of agro-exports to local climate events.

Figure 4.16. The agricultural boom has been uneven

2015-2022 average annual growth rate of agriculture, livestock, hunting and forestry, %



Source: INEI.

StatLink  <https://stat.link/lb6fua>

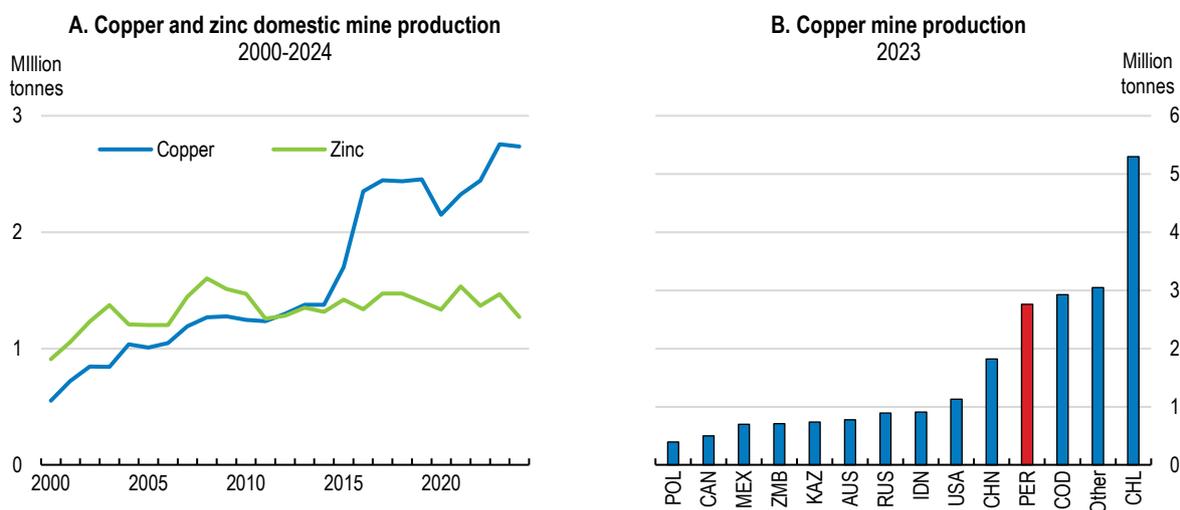
The *Seguro Agrícola Catastrófico* (SAC) provides insurance for farmers' income against adverse climate events and is 100% subsidised by the state and covers 1 million farmers with 2 million ha of land. However, the programme faces budgetary constraints. Cross-country evidence from South America suggests that agricultural insurance has benefits for overall agricultural productivity by mitigating losses from droughts (Caucheteux, Nauerz and Vtyurina, 2025^[83]). A new individual agricultural insurance policy, co-financed 70% by the State, was launched in 2024 and is marketed through rural microfinance institutions. Take-up of this new policy should be monitored, and evaluations conducted with a view to adjusting the policy's parameters, if necessary.

4.6. Supporting a sustainable mining sector

Peru's rich mineral reserves of essential raw materials such as copper (2nd largest in the world), zinc (4th largest in the world) and lithium (12th largest in the world) make its mining sector a key player in the global green transition. However, global markets demand increasingly environmentally sound and stringent methods of production: decarbonising mining operations through renewable energy and efficiency; improved water and environmental management, especially given regional climate stress; and a stronger social license obtained through early, sustained community engagement and benefit-sharing.

Mining makes an important contribution to the Peruvian economy and has propelled the country's high growth during the 2000s and early 2010s. Conversely, growth slowed down with the end of the global commodity boom. While production of most other minerals including gold and silver stagnated or receded, copper production more than quintupled between 2000 and 2023 (Figure 4.17, Panel A). In 2023, mining contributed 12% to GDP and 60% to exports (Chapter 1). Peru accounted for about 11% of global copper and zinc production, respectively, in 2022 (Figure 4.17, Panel B).

Figure 4.17. Peru provides essential raw materials for the global green transition



Source: Ministry of Energy and Mines, General Directorate of Mining; US Geological Survey, January 2025.

StatLink  <https://stat.link/5nvizc>

Although mining represents only 2% of Peru's total GHG emissions, those are under particular scrutiny for minerals that are critical inputs into "clean" technologies, where customers might be particularly sensitive to the environmental footprint of products that serve emissions reductions goals. Mining companies have started reacting to these demands, with many industry leaders – including the operators of some of Peru's largest mines – committing to fully decarbonising their global operations by 2050. Around 45 mining companies are registered on the voluntary carbon marketplace "Peru Carbon Footprint". The mining sector is a large energy user and has the potential to lead to decarbonisation of industrial processes in Peru. This requires procuring electricity from renewable sources and replacing diesel equipment with either electric motors or with other fuels such as green hydrogen in mining trucks, in addition to decarbonising some industrial processes. For example, Peru's newest copper mine Quellaveco has been procuring 100% renewable electricity since the start of its operations through an exclusive power purchase agreement with a newly built wind park. The OECD supports international cooperation and standards on responsible and sustainable mining through several initiatives (Box 4.6).

Peru's mining sector is well placed to lead decarbonisation thanks to its co-location with areas of high renewable energy potential. For example, the southern regions of Arequipa, Moquegua and Tacna are not only rich in critical minerals such as copper but also have some of the largest solar energy potential on the planet (see above). This geographical proximity will be a comparative advantage for Peru to cost-efficiently decarbonise mining. The

government should ensure that appropriate regulatory frameworks and incentives to the different actors involved are in place. The Energy Law reform from December 2024 or the Green Hydrogen Promotion Act that was passed in March are important steps in this direction. The announcement of a USD 2.5bn investment into a green hydrogen plant in the Arequipa region was followed by an announcement of a USD 11bn green hydrogen project in early 2025. These are enormous figures, considering that total FDI inflows amounted to USD 6.7bn in 2023. The introduction of a carbon tax (see above) would also encourage the adoption of low-carbon production technologies, especially in energy-intensive sectors such as mining.

Peru's mining sector is prone to social conflicts. More than half of the 148 active social conflicts in December 2024 are socioenvironmental, and about two-thirds of those pertain to mining projects (Figure 4.18). Many social conflicts involving mining originate in disputes over water, including concerns about contaminated wastewater that is returned to watersheds (OECD, 2021^[11]). Although mining only accounts for about 1% of all water use, the highly uneven water availability in Peru – recalling that 97% of all freshwater flows toward the Amazon – means that mining concessions account for a significant share in some water-stressed watersheds (Natural Resource Governance Institute, 2016^[84]). An additional problem consists in illegal gold mining in the Amazon, which in addition to contributing to deforestation causes significant environmental damage and water contamination through the untreated release of mercury residuals into the environment (OECD/ECLAC, 2017^[3]). Around a quarter of gold in Peru is estimated to be mined illegally (OAS, 2021^[85]). In addition to environmental degradation and forest loss, informal and illegal gold mining has been associated with poor working conditions including child labour and forced labour and links to organised crime.

Box 4.6. OECD standards on sustainable and responsible mining

The OECD has developed several legal instruments that provide government-backed guidance on responsible business conduct (RBC). The OECD Handbook on Environmental Due Diligence in Mineral Supply Chains contextualises and applies this guidance to the mining sector. The common focus is on risk-based due diligence to identify, prevent, mitigate and account for actual and potential adverse impacts of business conduct:

- The **OECD Minerals Guidance** (*OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*) provides a tailored framework for due diligence in mineral supply chains, with a focus on sector-specific risks, especially financial and human rights-oriented.
- The **OECD RBC Guidance** (*OECD Due Diligence Guidance for Responsible Business Conduct*) provides a due diligence framework, applicable to all sectors and risks.
- The **OECD MNE Guidelines** (*OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*) provides recommendations to enhance the business contribution to global sustainable development, including in environmental matters.

Moreover, the OECD Guiding Principles for Durable Extractive Contracts provide guidance to government how to set appropriate framework conditions to balance risks and rewards from mining concessions, including environmental and community relations aspects.

Source: (OECD, 2023^[86]) *Handbook on Environmental Due Diligence in Mineral Supply Chains* and (OECD, 2020^[87]) *Guiding Principles for Durable Extractive Contracts*.

Peru risks losing out on opportunities created by increased resource demand from the green transition because its mines are stalled due to social conflict (OECD, 2021^[11]; World Bank, 2022^[88]; IMF, 2025^[89]). Despite improvements in managing environmental risks with public policies (OECD/ECLAC, 2017^[3]), legacy environmental liabilities of the past when polluters remained unaccountable and perceived conflicts of interest, for example when police officers are contracted by mines to provide private security services, fuel community fear and distrust (Natural Resource Governance Institute, 2016^[84]; World Bank, 2021^[90]). Examples of mining projects stalled in the face of social protest include many large-scale projects that had complied with and obtained all necessary regulatory approvals with the national government, with a total investment volume of USD 64 bn (IMF, 2025^[89]).

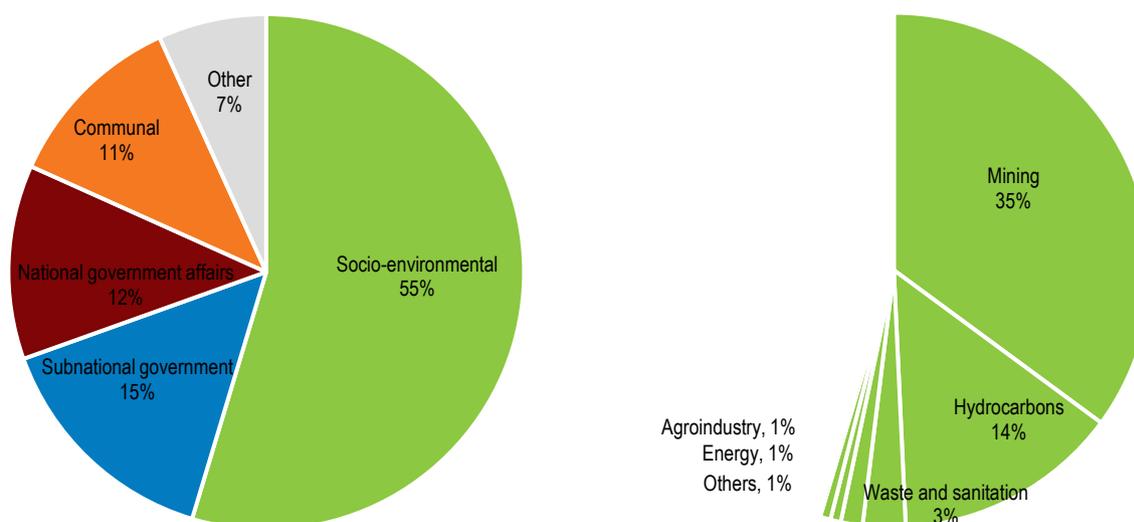
Proactively engaging with communities and other stakeholders and going beyond formal consultations, which intervene often at late stages in the project approvals cycle, to a more participatory decision-making, might improve projects' social acceptance and make them viable throughout their life cycle. Moreover, streamlining approvals processes while maintaining adequate standards would improve the dual perception of low social acceptability and at the same time cumbersome regulations.

Mines require a suite of environmental permits, including water, wastewater, archaeological, chemical, etc. An increased salience of the environmental impacts of mining has led to a proliferation of permits, with many different agencies involved. This increases requirements for coordination and chances of delays, including due to the low administrative capacity and high staff turnover in all branches of the government due to the lack of a civil service regime (OECD, 2023^[5]). While the time to issue environmental permits should be reduced by cutting unnecessary delays and resolving bottlenecks, regulations for a competitive mining sector in the global green transition rely on striking an adequate balance between investment promotion and applying the necessary rigour to safeguard the environment and ensure community consultation and involvement (World Bank, 2021^[90]; IMF, 2025^[89]). Clear guidelines for environmental impact assessments would help ensure consistency and rigour and at the same time predictability and efficiency of the overall process (World Bank, 2025^[91]).

An important bottleneck in the licensing process lies in the opinion by the National Forest Service SERFOR required as part of the process of obtaining a mining license. Since SERFOR does not have a full information system of land certification, and forest concessions are decentralised in many regions to regional governments it can take up to twelve months to issue this opinion (World Bank, 2021^[90]). This provides another motivation for improving the land certification process and the land registry, as recommended above.

Figure 4.18. Social conflicts are driven by environmental concerns, especially around mining

Active social conflicts by type and activity, December 2024



Source: Defensoría del Pueblo - APCSG.

StatLink  <https://stat.link/81qlv0>

Currently, there is little transparency about the allocation of water rights and the monitoring of compliance with wastewater quality standards. Monitoring of water quality in mines' watersheds is very limited; yet the little monitoring that was conducted in the past often found contamination above acceptable thresholds (OECD/ECLAC, 2017^[3]). Improving transparency, monitoring, and communicating of water quality would send the signal the state is willing and able to enforce its environmental laws and standards and hold those who violate them accountable, which could go a long way in building trust. Developing a comprehensive national environmental monitoring network, as recommended by the 2017 *OECD Environmental Performance Review*, could be a way to implement this (OECD/ECLAC, 2017^[3]). Participatory environmental monitoring could improve community engagement and

trust. Improving water reuse and recycling would reduce the amount of water that is returned from mining sites into watersheds.

The government could do more to signal alignment with mining firms' own environmental commitments as well as ensuring that the mining industry stays competitive in a decarbonising world. For example, despite the alignment by many leading players in the industry with the Paris Agreement objective of reaching Net Zero in 2050, and Peru's commitment to the same goal, none of Peru's NDC concern the mining sector. This seems a missed opportunity to signal alignment between climate change and mining policies, and to market Peru's mining sector as a key ally for advancing the global green transition. Chile's national mining policy, for example, has the goal of achieving carbon neutrality in the mining sector by 2040, which sets strong signals to invest into the energy transition in the country's mining sector through green hydrogen and renewable electricity.

4.7. Financing the green transition

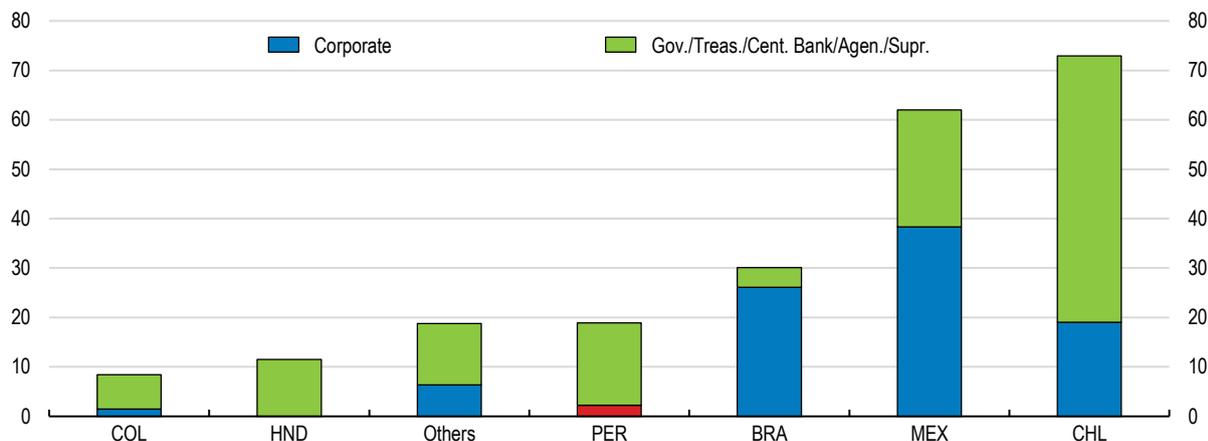
Investment needs to face the green transition are large. Currently, Peru only spends around PEN 4 billion per year (0.4% of GDP) on climate change adaptation and mitigation. The costs of measures to mitigate climate change and achieve net zero are estimated at around USD 60bn in the short term (until 2035) and USD 100bn until 2050, with around half each falling on the public and private sector, respectively (BID, 2021^[26]; World Bank, 2022^[4]). Costs for climate change adaptation are expected to amount to PEN 66bn (USD 17bn) in the short term until 2030, with likely further costs as the effects of climate change materialise.

These investment needs require substantial financial resources. Given Peru's limited domestic public resources and its tight fiscal situation (Chapter 1), tapping into alternative sources of funding including bilateral and multilateral development finance and international markets is essential, as recognised by the National Adaptation Plan. Some USD 23 billion are available globally from bilateral and multilateral development banks and climate funds for developing countries' climate action (OECD, 2023^[92]), although mostly in the form of debt, which limits their usefulness for countries like Peru. At the same time, development finance is often bundled with capacity-building initiatives, which would help strengthen administrative capacity in this area. The government should undertake a comprehensive assessment of investment needs and funding opportunities, and support individual entities with securing funding, especially by providing them with environmental information and assessments to make their case. Subnational governments need to be equipped with better capacity to attract international climate funding, especially in the area of adaptation. A Climate Finance Strategy is currently in the public consultation process; it will be important to complement it with a credible and well-costed decarbonisation plan.

However, even if Peru manages to attract a significant share of international funds, the size of the total investment requires diversified funding sources by expanding green, social, sustainable and sustainability-linked bonds. The government of Peru issued its first sovereign sustainability bond in 2021. In the corporate bonds market, Peru pioneered a green bond for a wind power project in 2014, and the state development bank COFIDE is a major issuer of green bonds (Climate Bonds Initiative, 2022^[93]). However, the general limitations of Peru's shallow capital market (Chapter 3) impact the development potential for its green finance market, which is much smaller than that of other countries in the region (Figure 4.19). Promoting firms' climate-related financial disclosure by developing a green taxonomy would improve the ability of international investors to discriminate amongst firms (Climate Bonds Initiative, 2022^[93]; OECD, 2025^[13]). This will require that such taxonomies are consistent with high-quality, understandable, enforceable and internationally recognised standards that facilitate the comparability across companies and markets. The Green Finance Roadmaps by the Ministry of the Environment and the financial superintendence SBS and the National Competitiveness and Productivity Plan 2024-2030 provide anchor points for broader strategies to finance investments into the green transition and strengthen environmental considerations in the business sector. Ongoing developments of taxonomies for green investment projects and green finance should be prioritised and accelerated to support these efforts, involving private-sector actors to ensure the taxonomy is practical, credible, and tailored to national needs.

Figure 4.19. There is room to grow the private green bonds market in Peru

Latin America, outstanding GSSS bonds, April 2025, USD billions



Source: Palacios, L. and Herrera Isaza, N. (forthcoming), *Financing of the energy transition in Latin America: the role of governments and sustainable finance*. Technical Background Paper.

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Access to finance for firms and households is a key enabler of green investments. Without finance, SMEs are unlikely to adopt solar panels, electric vehicles, efficient irrigation systems, or other low-carbon technologies – and similarly for households. Many low-emissions machines and appliances require higher upfront investment due to their superior technology or the cost of batteries but then incur savings in operating costs over the item’s lifecycle. Investment into low-emissions technologies can also support resilience, especially for more credit-constrained SMEs: it allows firms to better adapt to climate-related shocks (such as investing in flood defence or drought-resistant crops), reducing vulnerability in Peru’s extensive small-farm and small-business sector.

Peru needs to explore ways to create financing mechanisms for private green investment. Several OECD countries have put in place green transition funds, which are endowed from accumulated windfall revenues such as in Greece, or from a pensions surcharge such as in Denmark. Those funds deplete their capital paying out grants, but they could also be used a sovereign investment fund disbursing interest-bearing loans for green investments. Peru could consider endowing a green fund from windfall profits from high minerals prices, which are currently mainly accumulated in the Fiscal Stabilisation Fund (see Chapter 1), thus making even more explicit the positive contribution of mining to the green transition not only globally but also locally in Peru. Financing growth-enhancing investments would also help the country reap long-lasting benefits from providing minerals for global green transition needs (IMF, 2025^[89]).

4.8. Preparing the workforce for the green transition

In a highly informal economy such as Peru’s, the green transition provides opportunities to improve job quality through well-qualified and formal green jobs in modern industries. At the same time, it raises concerns about the social cost of the green transition and the acceptance of climate policies, as in many OECD countries (Dechezleprêtre et al., 2022^[77])

Peru’s green transition will impact employment in several sectors. The headcount and share of employment in the wind, solar and transmission sectors will strongly increase, from around 17,000 workers today in renewable electricity (mostly in hydropower). Jobs in solar and wind energy generation also have a larger job multiplier than more conventional renewable technologies (IMF, 2024^[19]). All of this will require a comprehensive and agile policy response to avoid skills shortages, boost training programmes, and prepare the new generation of the workforce with vocational education and training (VET) programmes (see Chapter 3). At the same time, not all displaced

workers might find re-employment elsewhere, or might need time to do so, calling for strengthening social protection systems including unemployment insurance (Chapter 1).

The transport sector might experience particularly strong jobs pressures from the green transition. Due to its atomisation and high informality, the sector is characterised by an oversupply of small units that create a significant share of employment. Even among the more formal transport services, such as authorised urban bus lines, atomisation and informality are very common (see above). An important political economy challenge for any transport reform will be to mitigate its impact on employment. Authorities are aware of this; for example, the current transport reform in Metropolitan Lima contemplates a gradual implementation, with space to absorb current transport workers into a consolidated public transport system, with regulated driving hours that should result in sufficient jobs to absorb today's minibus drivers. This would not only preserve employment but at the same time improve the poor working conditions of drivers, thus improving reform acceptability, and contribute to the pressing policy objective of reducing informality (see Chapter 3 and (OECD, 2023^[5])).

Strengthening vocational and educational training (VET) is key for creating the workforce for the future (see Chapter 3) and in particular for the green transition. Jobs driven by the green transition, especially those towards the lower end of the range of qualifications, require greater skill proficiency and cognitive skills than traditional jobs with similar qualification requirements (OECD, 2024^[94]). This increases the role of formal VET for building workforce skills, rather than informal on-the-job learning. There is a need for reskilling and upskilling – for electric technicians on the use of renewables technologies, or for informal bus drivers on road and occupational safety – and for programmes to train qualified entry-level professionals such as technicians and engineers. Some VET institutions have already adapted to this changing labour demand, such as SENATI's "school of renewable energy" that provides, among others, short-cycle certifications for photovoltaic energy installations. The government should proactively support VET for the green transition by monitoring demand and appropriately incentivising supply, before skills shortages become a bottleneck that are only slowly resolved if left to market signals and adjustments. Encouraging more girls and women to choose STEM fields will further widen the talent pools with the skills sought for the green transition.

Agriculture and ecotourism provide job opportunities in the context of the green transition for rural areas (Serrate, Iturriza and Urquidí, 2023^[95]). Peru's export agriculture located mostly on the coast already provides for hundreds of thousands of low-skilled jobs, especially for women. In the country's interior, farmers have a strong position in organic agriculture and other sustainability certifications. These existing networks and clusters could be further leveraged to improve productivity through sustainable agricultural practices and improve job quality and labour rights. Tourism, which is currently focussed on sites of archaeological importance in certain regions and cities, could become a motor of employment in more regions in the form of ecotourism, as the example of Costa Rica (see above) shows. The government should support these trends through targeted programmes in VET and agricultural extension services.

Table 4.3. Main findings and recommendations

Main Findings	RECOMMENDATIONS (Key recommendations are bolded)
Strengthening the environmental policy framework	
The Framework Law on Climate Change and national adaptation and mitigation plans are often not reflected in sectoral or subnational policies and plans.	Strengthen horizontal and vertical coordination mechanisms and institutional and administrative capacity, and ensure that climate-related plans and policies are systematically integrated into sectoral and subnational planning and investment decisions.
Adapting to climate change	
Peru is highly vulnerable to climate change, especially water-related hazards including rising sea temperatures, changing rainfall patterns, floods, and glacial melting. Flood insurance coverage is low.	Strengthen the disaster risk management framework and its links with the National Adaptation Plan by expanding early warning systems, improving community outreach, and building local technical capacity. Integrate climate risk data into investment planning and budgeting processes across sectors and government levels.
Land use and infrastructure planning are inadequate or ineffective, and existing building policies are often not enforced, which puts many dwellings at risk of floods and other natural disasters. Road transport is frequently interrupted due to extreme weather events.	Encourage integration of adaptation measures into territorial planning and public investment processes, especially in areas most exposed to floods, droughts, and glacier loss. Prioritise resilient infrastructure projects in transport, water, and housing, especially in flood and drought-prone areas. Incorporate environmental resilience and sustainability clauses into all infrastructure PPP contracts.
Ensuring progress towards Net Zero	
Deforestation of the Amazon forest is a major source of GHG emissions, driven by the expansion of the agricultural frontier and informal and illegal logging and mining.	Develop and implement a national strategy to reduce deforestation, including improved cross-agency coordination, capacity building, improved enforcement, stronger forest land property rights, and economic incentives for forest preservation and community involvement.
Most deforestation occurs on lands that have not received any territorial categorisation.	Promote the development of a modern land registry covering agricultural and forest land and accelerate land categorisation and titling.
Payment for ecosystem services (PES) are underutilised and provide low economic incentives. Reforestation rates are low.	Expand public payment for ecosystem services schemes with differentiated, high-powered, and performance-based economic incentives for both individual and community landholders.
No explicit carbon tax exists, and fuel excise taxes only cover about 30% of all GHG emissions.	Broaden the base of fuel excise taxes and introduce a gradually increasing explicit carbon tax, starting at a moderate rate, on a pre-defined trajectory to provide certainty to investors and consumers.
Heavy trucks and busses account for only 5% of the vehicle stock but 30% of emissions. Electric vehicles (EV) uptake is very low (only 2% of new cars and 0.2% of new motorcycles).	Reduce emissions in heavy transport through scrappage schemes and incentives for EV adoption. Improve access to EV financing and charging infrastructure.
Public transport is highly atomised and informal. Lima is the only city with formal modern transport, but it operates among informal alternatives. A comprehensive public transport reform has been underway in Metropolitan Lima since 2024.	Accelerate the replacement of informal transport with a mass public transport system in Metropolitan Lima and support the roll-out of bus-rapid transit lines in secondary cities.
Only 5% of total energy production comes from wind and solar, despite high potential. The Energy Law until December 2024 disincentivised renewables due to requirements on continuous power availability.	Accelerate the implementation of the Energy Law reform, ensuring clear secondary regulations and incentives to enable grid access for renewables. Develop and implement a medium-term energy strategy that prioritises renewable energy generation and diversifies beyond hydropower and natural gas by scaling up solar and wind energy and green hydrogen.
Improving the environmental sustainability and resilience of agriculture	
The agriculture sector is highly vulnerable to climate change, due to increased frequency of adverse weather events (droughts and flooding). Global changes in consumer preferences increase the stringency of sustainability standards that the market demands. Agricultural extension services have been scaled back in the last decades.	Promote the widespread adoption of climate-smart and sustainable agricultural production practices through technical assistance and training, including agricultural extension services aided by modern technologies, and incentives, focusing on efficient irrigation, low-emissions fertilisers, and improved soil conservation.
Export-based agriculture is concentrated on the desertic coast, which already experiences water stress. Global warming will intensify glacial melt, threatening the main source of freshwater supply to the coast.	Phase out environmentally harmful subsidies and distortions by aligning agricultural water and electricity tariffs to average levels. Promote productive alliances between coastal agro-exporters and small-scale farmers in the interior to facilitate technology transfer and integration into export value chains.

Main Findings	RECOMMENDATIONS (Key recommendations are bolded)
Supporting a sustainable mining sector	
<p>Peru has large reserves of essential minerals for the global green transition such as copper and zinc. The renewable energy potential provides a comparative advantage for decarbonising minerals production but many mining projects are blocked due to socio-environmental conflict.</p>	<p>Encourage the decarbonisation of mining by encouraging the use of renewable energy, electrification of operations, and improving energy efficiency at mining states.</p> <p>Streamline and expedite environmental impact assessments for mining projects and ensure they follow rigorous assessment processes.</p> <p>Reinforce early, inclusive and transparent community engagement to prevent conflict and improve trust around new mining projects.</p>
Financing the green transition	
<p>Financing needs for climate change mitigation and adaptation are significant but there is no comprehensive investment plan or funding strategy in place.</p>	<p>Undertake a comprehensive assessment of investment needs for mitigation and adaptation and develop an integral funding strategy, including from international climate funds and private capital markets.</p> <p>Strengthen green finance taxonomies, disclosure standards, and reporting tools to promote credible and consistent green investment.</p>
Preparing the workforce for the green transition	
<p>The green transition will shift labour demand across sectors, especially demand for jobs in clean energy and the transport sector, requiring new skills and better job matching.</p>	<p>Develop and promote vocational education and training (VET) programmes tailored to skills needs in the clean energy, transport, sustainable agriculture, and ecotourism sectors.</p>

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Peru's strong macroeconomic foundations have supported resilience, but raising living standards requires bold reforms. Growth will moderate amid global and domestic uncertainty and a lower potential growth rate. Fiscal discipline has weakened undermining credibility of the fiscal framework and tax revenues of only 17% of GDP limit resources for social and productive needs. Strengthening compliance with fiscal rules, while curbing inefficient subsidies and tax expenditures, improving revenue collection, and raising spending efficiency are priorities to ensure debt sustainability and finance these needs. Pervasive informality, affecting over 70% of workers and most firms, constrains productivity, fiscal capacity, and job quality. Reducing non-wage labour costs, simplifying labour and business regulations, and broadening access to affordable finance for micro and small firms would support formalisation and investment. Promoting equal opportunities by expanding early childhood education, improving school-to-work transitions, and narrowing gender gaps is vital to mobilise untapped human capital. At the same time, Peru must confront climate vulnerabilities by strengthening adaptation policies to build resilience and halting deforestation, expanding renewable energy, and decarbonising transport to meet its 2050 net-zero target.

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