A Transformation Begins

I would like to invite you to my home for a drink and then show you my new warehouse down the road. We no longer work in the same place we live.

– Resident and community leader in Haycan

Peru is one of many countries that have suffered from informality, intransigent institutions and the absence of solid, enforceable property rights that provide citizens with the ability to trade real estate assets in a formal market. Its story will look familiar to other countries with similar problems, and its experience shows how these problems can be addressed and overcome in a way that benefits property owners, investors, lenders and the government.

Part of what makes the case of Peru so interesting is its rich historical legacy, all depicted in its institutions. The mystical stories of the legendary Incas and Macchu Picchu, Tupac Amaru and his battles with the Spaniards, the mysterious Nasca Lines, the beautiful pure gold and silver handmade relics in the churches of Cuzco are all part of Peru’s enticing history. Its journey through modern times is painted in the same strong colors of its past, with migrants searching for opportunities in the new world replacing conquistadores and explorers. Peru
today is a mosaic of cultures, a melting pot of indigenous people, whites, blacks, Europeans, Chinese, Japanese and Africans, whose art and music are renowned and whose sophisticated cuisine is one of the world’s great secrets. During the second half of the twentieth century, Peru struggled to match its past grandeur in so many ways, most obviously through a multitude of economic experiments.

Peru has applied an array of vastly different economic policies over the years. It experimented with autarchy – a policy of economic independence and self-reliance – then a mix of free market policies in the early 1980s, followed by a new era of open market economics in the early 1990s, precipitated by the country defaulting on its international debt. It bridged capitalism and socialism in original ways. It shifted from private ownership to collectivism, to massive nationalizations and back again. It applied varied schools of economic thought in the extreme, resulting in extreme social and economic outcomes. At different times, the country has been a “transitional” economy, a “developing” economy, a closed economy and an attractive destination for foreign direct investment. It is a country renowned for the richness of its natural resources, especially mineral ores – gold, silver and copper – with traditionally important exports in ores, agriculture and fisheries. Today, Peru’s economy is once again competing in the world market. This “checkered” history affords a vivid illustration of how Reality Check Analysis can be applied.

The year 1990 marked a new beginning in the nation’s modern political economy – a real commitment by a new government to restructure the fundamental macroeconomic conditions. Peru’s new leaders were dedicated to rectifying a deteriorating economy suffering from negative economic growth (GDP declined by 11.7 percent in 1989 and 5.1 percent in 1990), hyperinflation (7,485.7