

Peru

Country Report

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August 2016

Country Snapshot

Government

Head of State	Ollanta Humala Tasso (since July 2011)
Ruling party	Fuerza Popular
Main opposition parties	PPK; Frente Amplio; APP
Elections	Last elections were held in April 2016, Fuerza Popular won with 36.3% of the votes. Next parliamentary elections due in 2021.

Demographics and social indicators

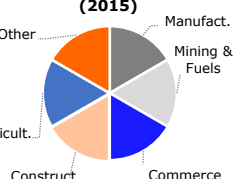
Population	30.4 million (CIA, 2015F)
Main Language	Spanish
Life expect. at birth	73.48 years (CIA, 2015F)
Literacy %(adults>15)	94.5% (CIA, 2015F)
Urban population	78.6% (CIA, 2015)

Economic structure

GDP in USD	USD 192.14 bn (IMF, 2015)
GDP per capita	USD 6,021.1 (IMF, 2015)

GDP structure (% of the nominal GDP)

Manufact.	13.4%
Mining & Fuels	13.4%
Commerce	13.4%
Construct.	13.4%
Agricult.	13.4%
Other	13.4%



	1980-89	1990-99	2000-09	2010-15
Real GDP growth*	0.6%	3.2%	5.0%	5.4%

* Average growth rates from the WEO April 2016 (IMF)

Trade Structure - Main partners by destination/origin (2015)

Exports		Imports	
	% of total		% of total
China	22.1%	China	22.7%
USA	15.1%	USA	20.6%
Switzerland	8.1%	Brazil	5.1%
Canada	6.9%	Mexico	4.5%
Japan	3.4%	Colombia	3.4%

Source: ITC; BPI cal.

Trade structure - Top product groups (2015)

Exports		Imports	
	USD bn		USD bn
Ores	9.9	Machinery	5.5
Prec.stones	6.0	Elec.Equip.	4.4
Mineral fuels	2.4	Mineral fuels	3.9
Copper	1.9	Vehicles	3.7
Fruits	1.8	Plastics	2.0

Source: ITC; BPI cal.



Country Rating

	Rating	Last change	Outlook
S&P	BBB+	Aug 2013	Stable
Moody's	A3	July 2014	Stable
Fitch	BBB+	Oct. 2013	Stable

Business Development Indicators

Last update

Global Competitiveness Index

Ranking 69 (out of 140 countries) 2015

Ease of Doing Business

Ranking 50 (out of 189 countries) 2016

Human Development Index

Ranking 84 (out of 188 countries) 2015

Corruption Perceptions Index (Transparency.org)

Ranking 88 (out of 168 countries) 2015

General assessment

Strengths	Weaknesses
<ul style="list-style-type: none"> Strong government balance sheet and low public debt level; A healthy and well capitalized banking system; Multiple free trade agreements; Strong banking supervision and regulation; Robust external buffers. 	<ul style="list-style-type: none"> High dollarization level (28% of credit in USD); Infrastructure gap; Vulnerability to adverse weather shocks; Dependence on commodity exports; Underdeveloped capital markets; Weak human capital.

Outlook and Risks

Economic growth is expected to reach 3.7% this year, accelerating to 4.1% in 2017 (driven by the expected increase in mineral exports and recovery in public investment). The risks are balanced. Downside risks include the economic deceleration in China, the normalization of the monetary policy in the USA, lower commodity prices, possible adverse spillovers from other economies of the region (though these should be relatively small), adverse weather conditions and a stronger USD. On the upside: improvements in business confidence and a more effective execution of the existing pipeline of infra-structure projects.

Key Macroeconomic Indicators

	Source	2012	2013	2014	2015E	2016F	2017F
GDP (real % change)	WEO	6.0%	5.9%	2.4%	3.3%	3.7%	4.1%
Nominal (bn USD)	WEO	192.8	202.1	202.9	192.1	178.6	189.7
Nominal (bn of Nuevos Soles)	WEO	508.4	546.0	576.0	612.0	643.1	683.0
CPI (% change, annual avg.)	WEO	3.7%	2.8%	3.2%	3.5%	3.1%	2.5%
Unemployment rate (%)	WEO	6.8%	7.5%	6.0%	6.0%	6.0%	6.0%
Trade balance (bn USD)	Article IV	6.4	0.5	-1.5	-3.2	-1.9	-0.9
Exports of Goods (bn USD)	Article IV	47.4	42.9	39.5	34.2	33.8	36.2
Imports of Goods (bn USD)	Article IV	41.0	42.4	41.0	37.4	35.7	37.1
Services, net (bn USD)	Article IV	-2.4	-1.8	-1.7	-1.7	-1.7	-1.8
Current account balance (% GDP)	WEO	-2.7%	-4.3%	-4.0%	-4.4%	-3.9%	-3.3%
Fiscal balance (% GDP)	WEO	2.1%	0.8%	-0.3%	-2.2%	-2.2%	-1.4%
Primary Balance (% GDP)	WEO	3.0%	1.7%	0.7%	-1.3%	-1.1%	-0.1%
Gross Public Debt (% GDP)	WEO	21.2%	20.3%	20.7%	23.1%	25.3%	25.5%
Total External Debt (% GDP)	Article IV	27.3%	27.2%	29.7%	33.7%	37.7%	36.5%
Real effective exchange rate (period average)	Article IV	8.1	-0.2	-1.6	0.8	-	-
Gross Foreign Reserves (bn USD)	Article IV	64.0	65.7	62.4	61.5	62.2	62.9
in months' imports of goods and services	Article IV	15.4	16.2	16.5	16.6	16.4	16.0

Sources: Macroeconomic projections from the IMF (World Economic Outlook April 2016 and Article IV July 2016).

Peru still recorded one of the most preeminent economic performance among Latin America countries

Peru still recorded one of the most preeminent economic performance among Latin America region, but, as the majority of the countries in the region, faced an adverse external environment in 2014 and the economic activity decelerated to 2.4%, from 5.9% in 2013. For this evolution contributed the drop in metal prices in the international markets, the weak demand from the main trade partners (namely China), the decrease in public and private investment and temporary supply disruptions in fishing, mining and agriculture sectors. In 2015, however, the economy recovered despite the volatile external background, in line with the increase in mining and fishing production, and a partial recovery in services and commerce. Additionally, private and public consumption supported the economy in the preceding year, together with inventory accumulation. On the other side, investment, public and private, was a drag on overall activity. The expectation for an increase in mineral exports, despite less favorable external conditions, as well as a recovery in public investment are the factors that should support the economic activity in 2016, which, according to the IMF, should expand 3.7%. Risks to the outlook are balanced, but we highlight, on the downside, the economic deceleration in China, adverse spillovers from other countries in the region (these should be relatively small), asset price adjustments in advanced and emerging economies and a stronger dollar.

Rising inflation rate led the Central Bank to adopt a more restrictive monetary policy

The inflation rate has increased, in line with food supply shocks from the El Niño phenomenon, and depreciation of the domestic currency against the USD. In this context, and aiming at re-anchoring inflation expectations to the range defined by the Central Bank (1%-3%), the institution proceeded with three increases in the reference interest rate: a 25 basis points increase in September 2015, and two other in the same dimension in January and February this year, to 4.25%. More recently, the monetary institution reinforced that these effects have been dissipating, as observed in the decrease in inflation rate recorded in the last months.

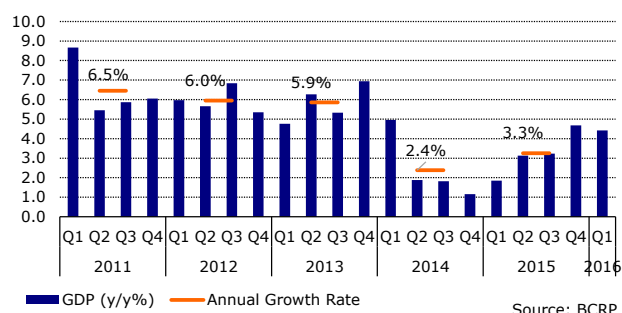
Fiscal policy more expansionist in 2015

During 2003-2013, the gross public debt fell more than half to 20% of GDP and overall public balance improved from -1.6% of GDP in 2003 to +0.8% of GDP in 2013, explained by prudent macroeconomic management during the commodity boom and important structural reforms. In 2014, the government announced a package of measures to stimulate the economy of Peru, with a total net cost of about 2% of GDP (0.2% of GDP was spent in 2014 and the remaining measures are planned for 2015). Though the expansionist nature of the fiscal policy in 2015, delays were recorded in execution of capital expenditure. Additionally, the revenues dropped, reflecting the decrease in tax rates under this package of measures, as well as the drop in commodity prices and one-off extraordinary revenues collected in 2014. The public debt increased in 2015, and included the issuance of a EUR 1.1 bn Eurobond, with 11-year maturity and a 2.75% yield, to pre-finance the 2017 needs. Despite the good performance in public finances, the IMF recommends a gradual fiscal consolidation in the following years to protect fiscal buffers, taking into account the expected challenging economic environment.

The current account deficit deteriorated in 2015

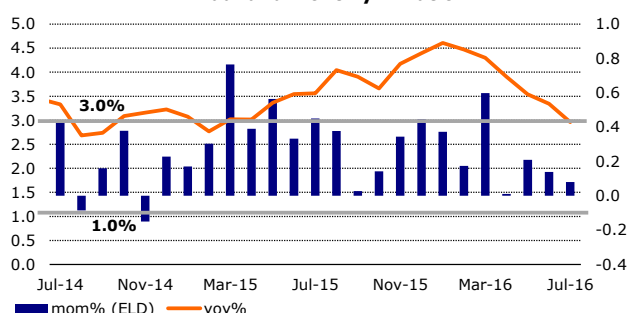
Peru registered a current account deficit of 1.3% of GDP, on average, between 2000 and 2013. Since 2012, the deficit had increased, mostly reflecting deterioration in the terms of trade and a decline in the volume of exports. In 2015, and after a recovery in 2014, the deficit deteriorated again, reflecting a drop in metal prices in the international financial markets, while non-commodity exports did not benefit from the depreciation of the domestic currency. The current account deficit was partially financed by the foreign direct investment and medium/long-term loans, while other capital flows remained subdued. The drop in international reserves was lower than recorded in 2014, reaching USD 61.5 billion in end-2015. Nonetheless, reserves remained at a comfortable level, superior to 16 months' of imports of goods and services.

Economic Growth in Peru



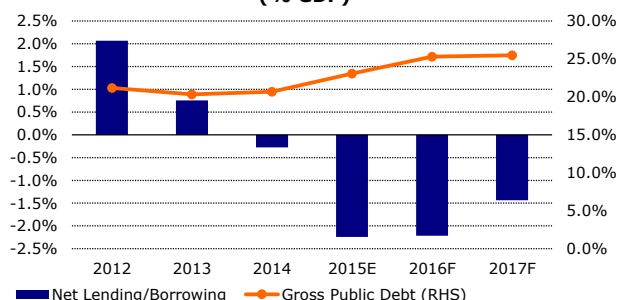
Source: BCRP

Annual and Monthly Inflation



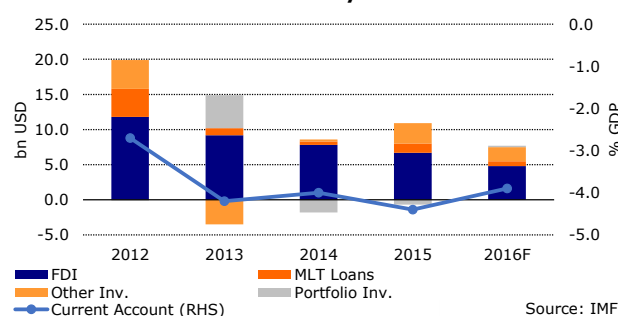
Source: BCRP

General Government Net Lending/Borrowing and Public Debt (% GDP)



Source: IMF

Balance of Payments



Source: IMF