



Politics and the economy in Peru: Beyond the coming elections

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Among the top performers in Latam

A resilient economy

Politics is very complicated

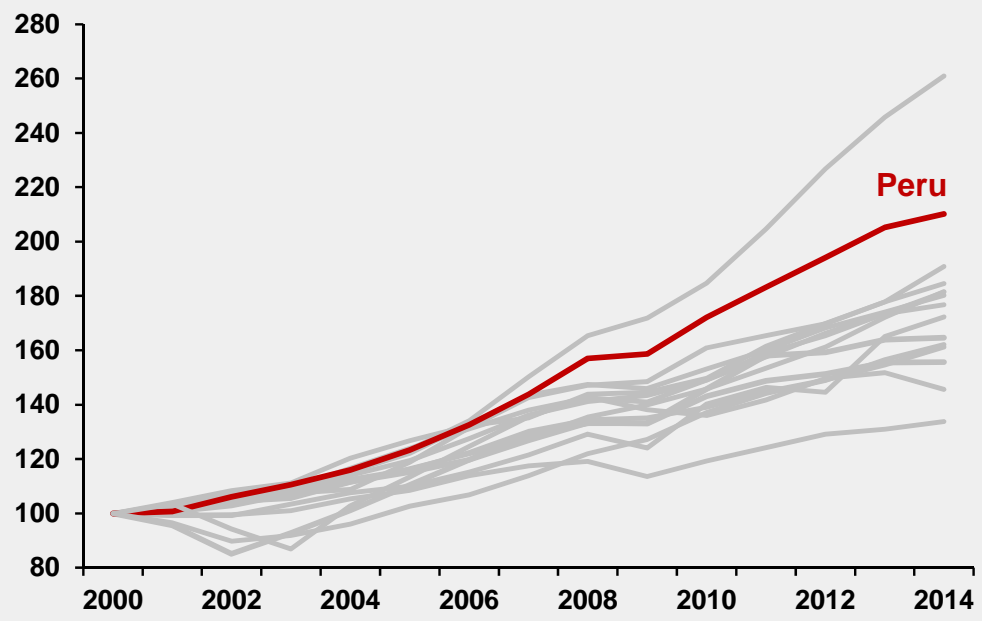
Presidential elections have a moderate short run effect on the economy

Growth perspectives and challenges ahead

Peru is among the top performers in the region

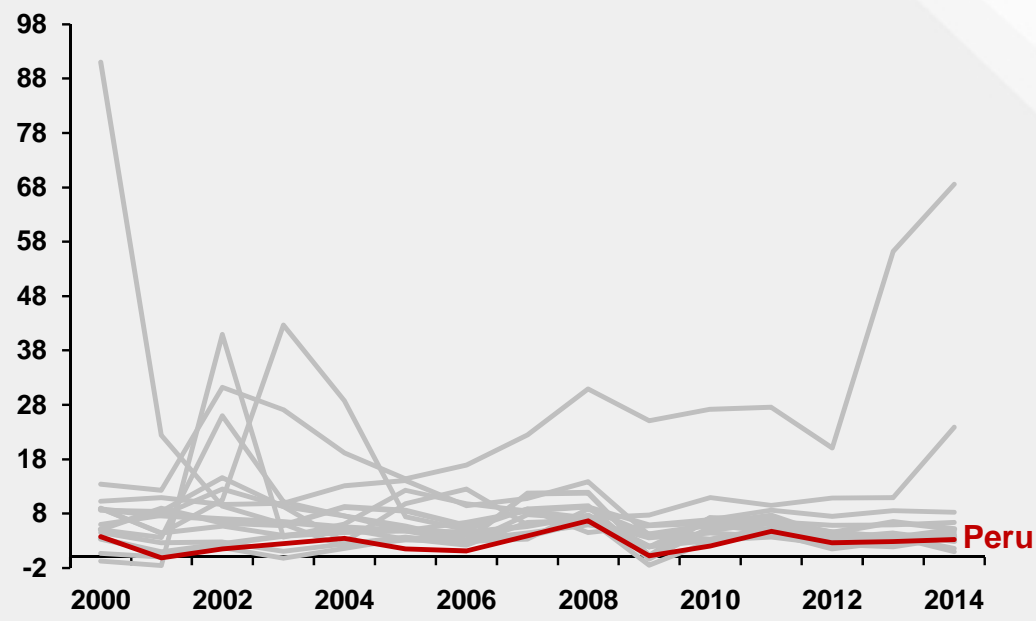


LATAM: GDP
(2000=100)



Source: IMF 1/ End of period.

LATAM: INFLATION 1/
(Annual % change)

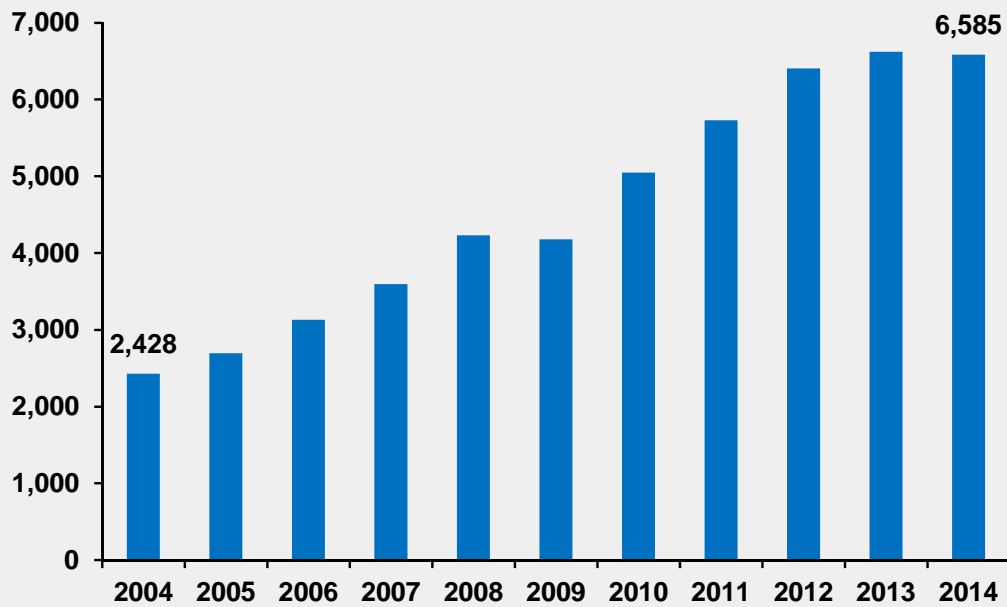


Source: IMF

Economic growth and social progress

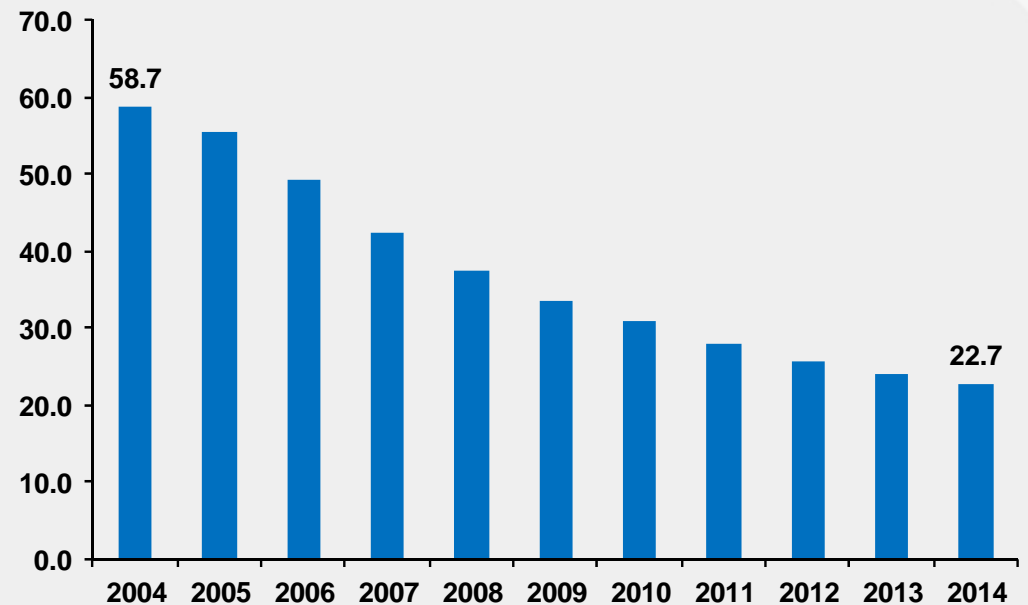


PERU: GDP PER CAPITA (US\$)



Source: BCR

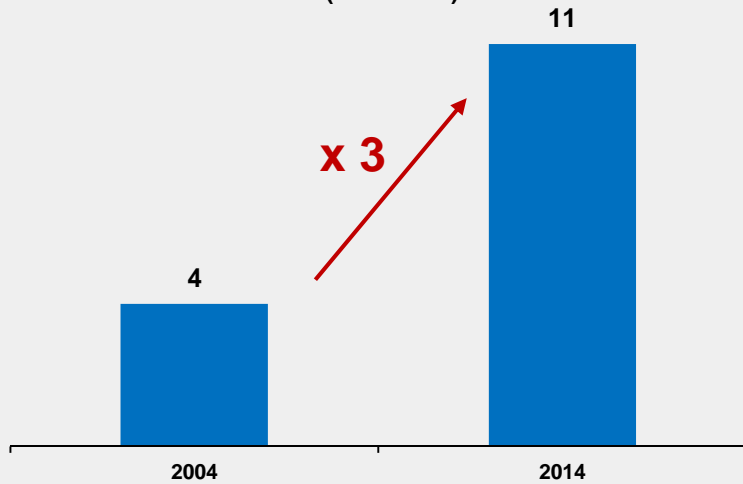
PERU: POVERTY (% of population)



Source: INEI

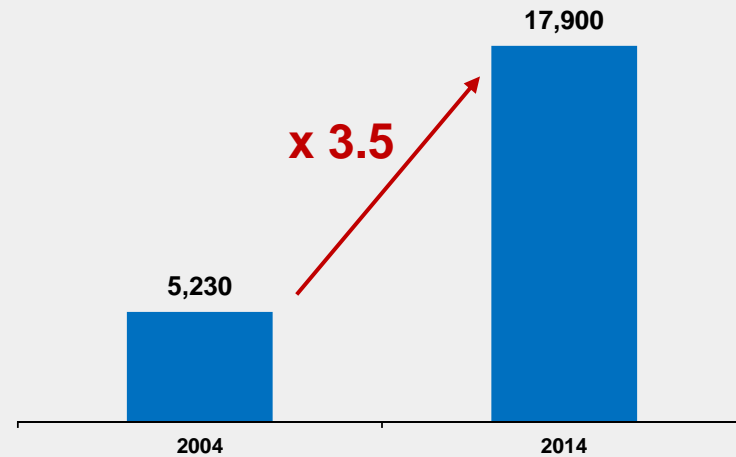
New and bigger markets

PERU: CEMENT CONSUMPTION
(Million MT)



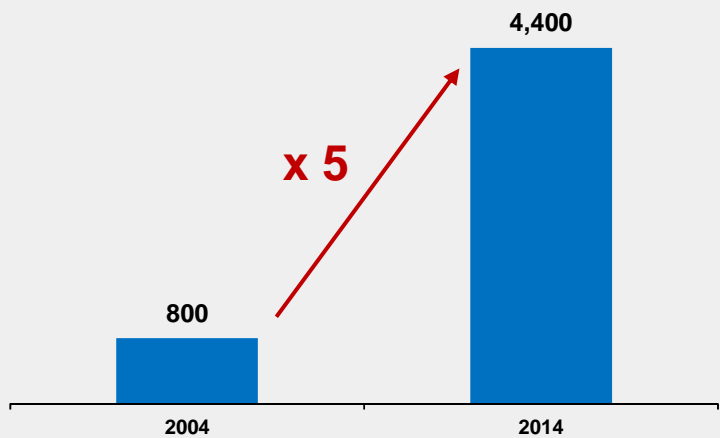
Source: INEI

PERU: RETAIL SALES
(S/ Million from 2007)



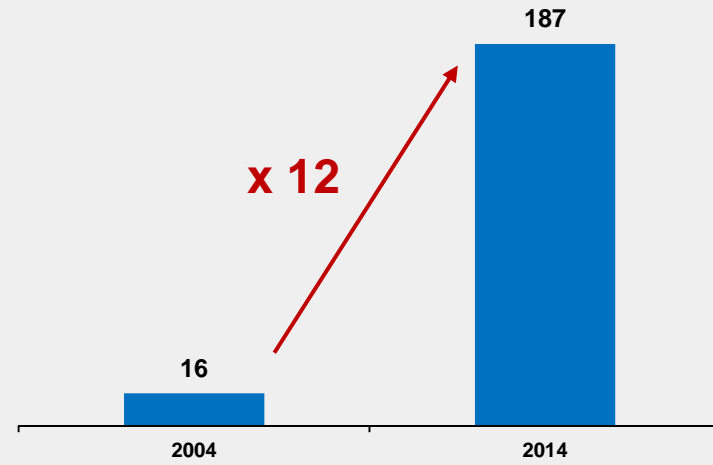
Source: SMV, companies, BCR, APOYO Consultoria

PERU: NON-TRADITIONAL AGRICULTURAL AND
LIVESTOCK EXPORTS
(US\$ FOB Million)



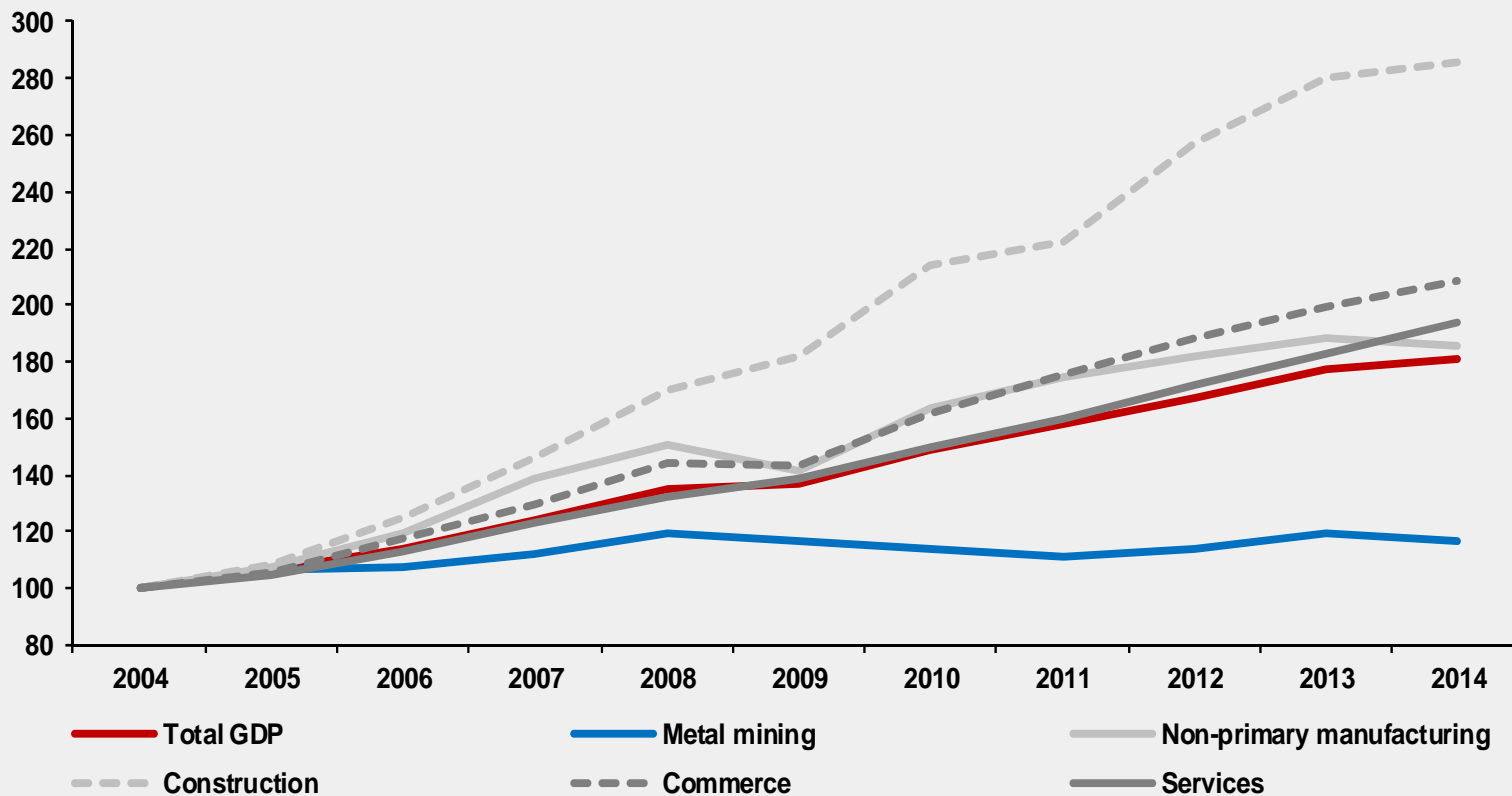
Source: Veritrade

PERU: NEW VEHICLE SALES
(Thousand units)

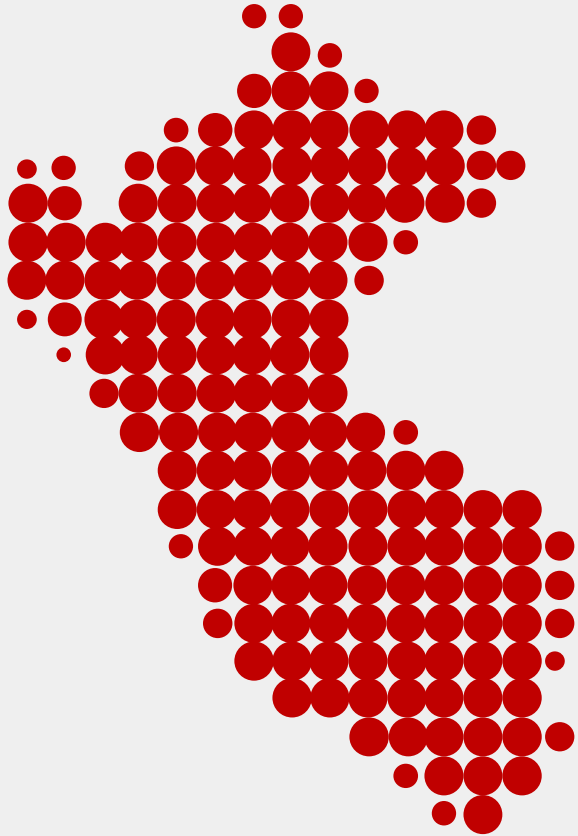


Source: Araper

REAL GDP BY ECONOMIC SECTORS (Index 2004=100)



Source: BCR



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Growth perspectives and challenges ahead

Resilience: still growing after all these shocks

Between 2013 and 2015:

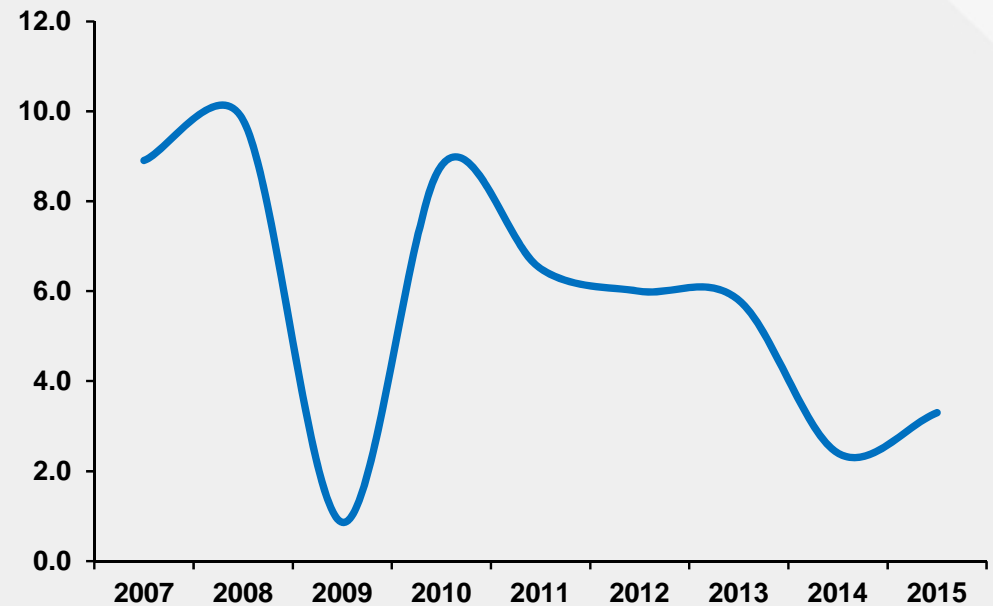
Copper price - 41%

Gold price - 37%

Foreign Direct Investment - 42%

Source: BCR, Bloomberg

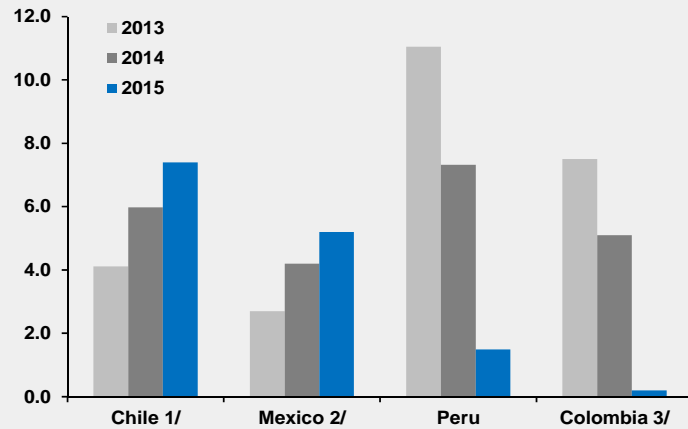
PERU: GDP
(Real % change)



Source: BCR

Peru endured the different shocks without fiscal support

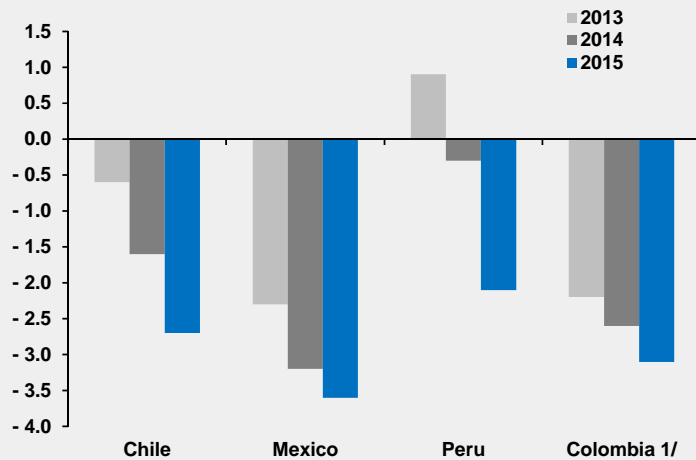
GENERAL GOVERNMENT TOTAL EXPENDITURE
(Real % change)



1/ 2015 is the Central Government total expenditure.
2/ Total budget expenditure.
3/ 2015 is an estimate.

Source: BCR, Dipres, Secretaría de Hacienda y Crédito Público, IMF

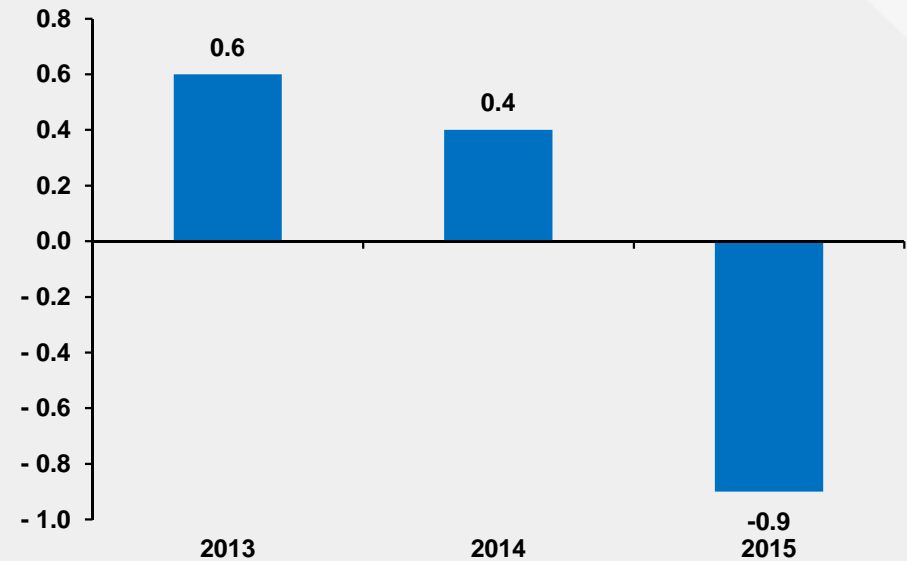
FISCAL BALANCE
(% of GDP)



1/ 2015 is an estimate.

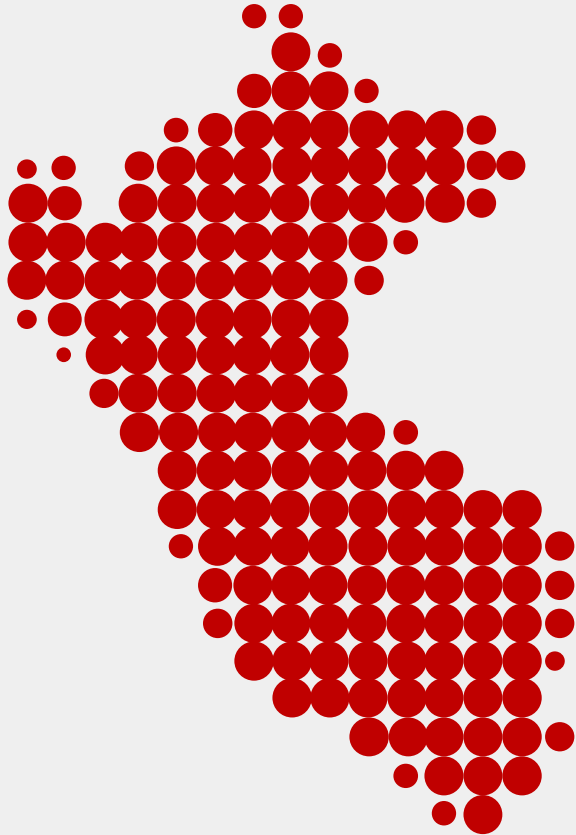
Source: BCR, LatinFocus

WEIGHTED FISCAL STIMULUS 1/
(% of potential GDP)



1/ The weighted fiscal stimulus is an indicator of how the fiscal stance is impacting on the economic cycle, taking into account public expenditure's multiplier effects on the economy.

Source: BCR



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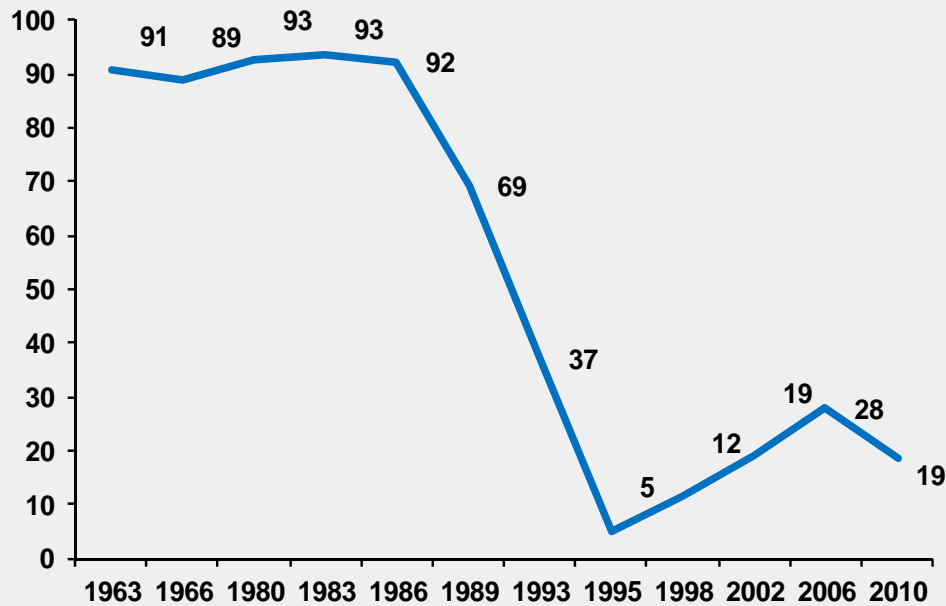
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Good growth perspectives and business opportunities

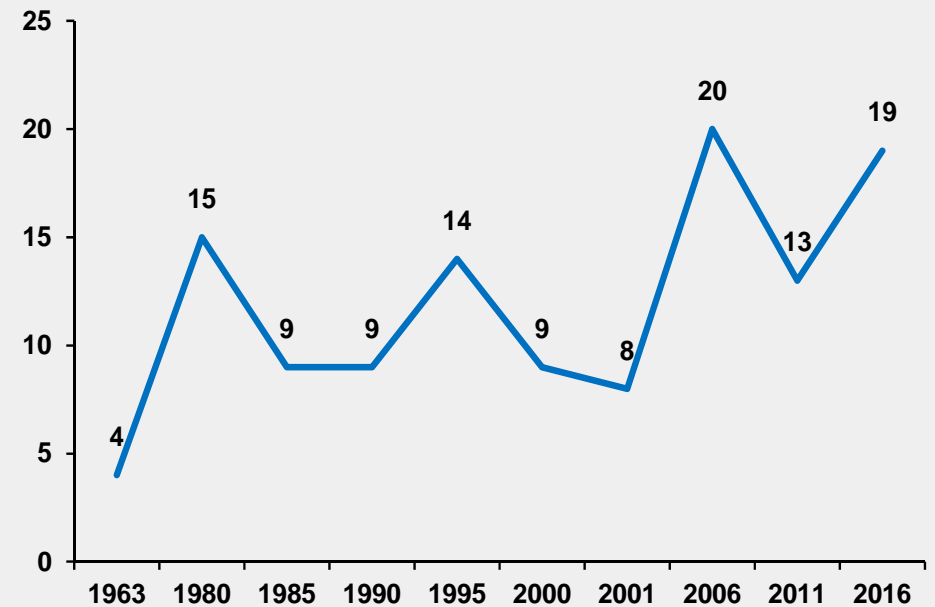
Politics is based on individuals and not on political organizations

VOTES RECEIVED BY TRADITIONAL POLITICAL PARTIES IN MUNICIPAL AND REGIONAL ELECTIONS (%)



Source: Jurado Nacional de Elecciones (JNE)

NUMBER OF PRESIDENTIAL CANDIDATES



Source: Jurado Nacional de Elecciones (JNE)

Result: Political fragmentation of authorities

Peru



- 25 regions
- 22 different “political colors”
- Regions, provinces and municipalities execute **more than 60%**^{1/} of public investment.

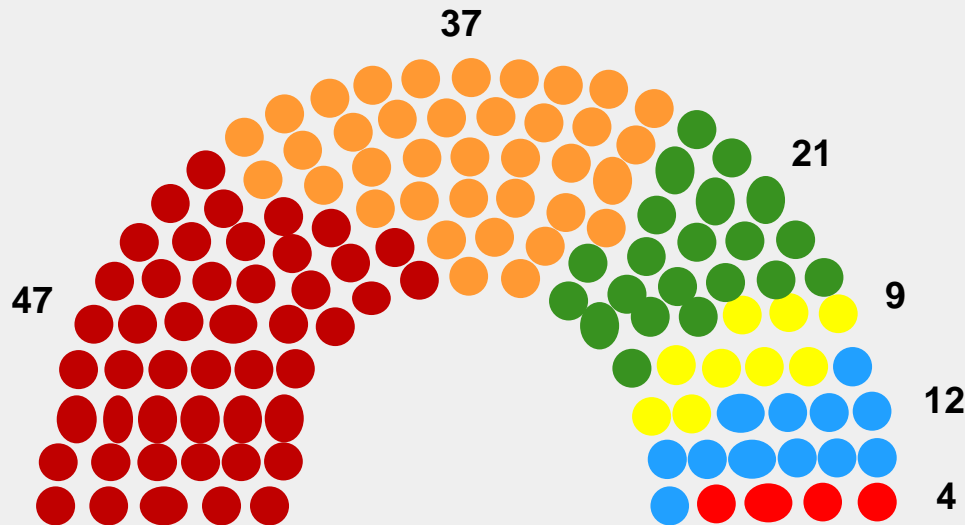
1/ 2012-2015 average.

Source: BCR

Result: Political fragmentation of Congress

COMPOSITION OF THE PERUVIAN CONGRESS

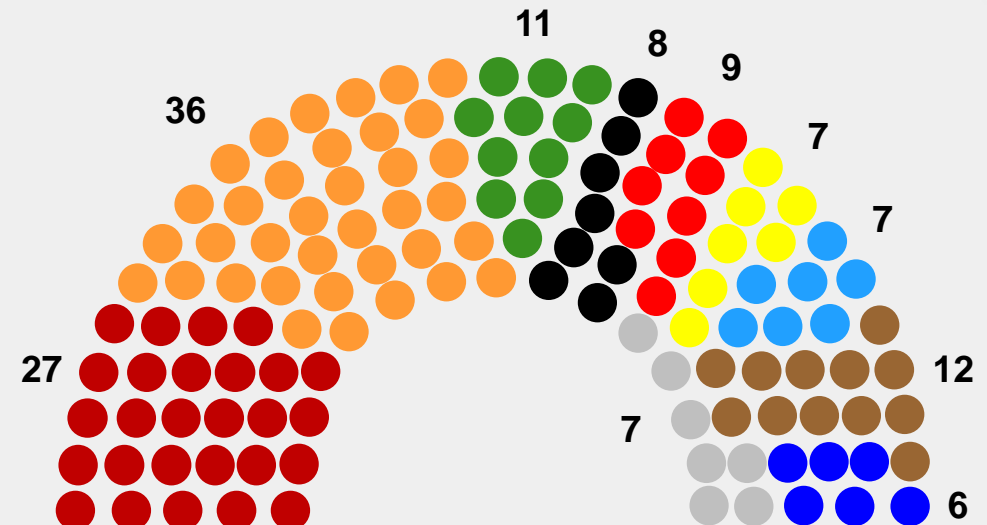
July 2011



6 parliamentary groups

22 Congressmen per group (avg.)

December 2015



10 parliamentary groups

14 Congressmen per group (avg.)



The current elections

19 candidates and a very confusing process

Front runners

Vote intention (March 2016)



Keiko Fujimori
(Fuerza Popular)

35%



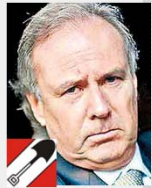
Julio Guzmán
(Todos Por el Peru)

17%



Pedro P. Kuczynski
(Peruanos Por el Cambio)

7%



Alfredo Barnechea
(Accion Popular)

5%



Alan García
(Alianza Popular)

4%

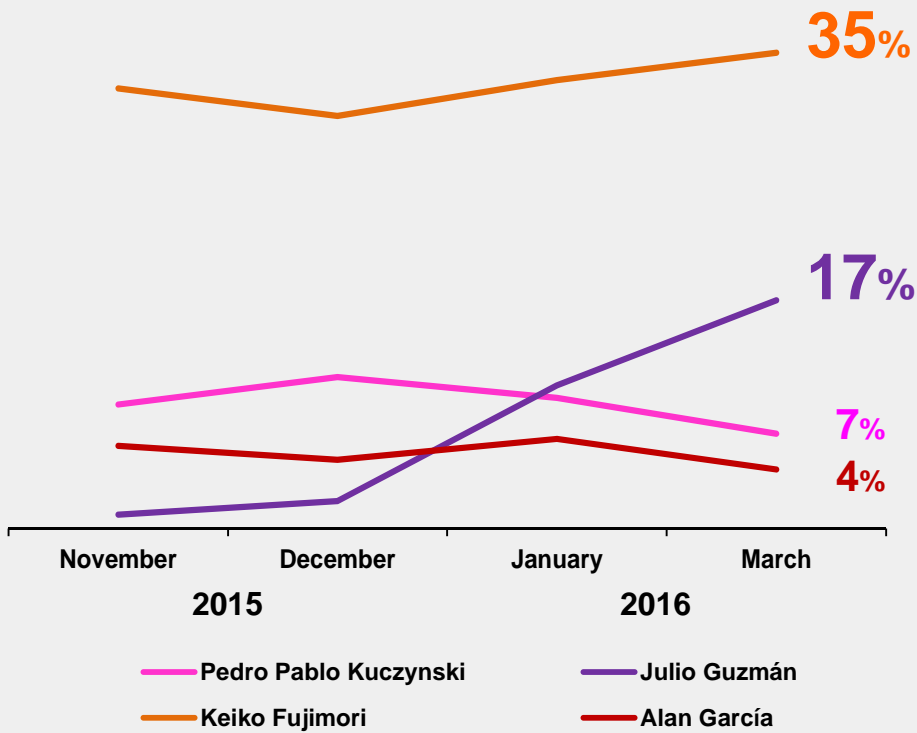
Source: GFK

Voting intentions up to March 2016

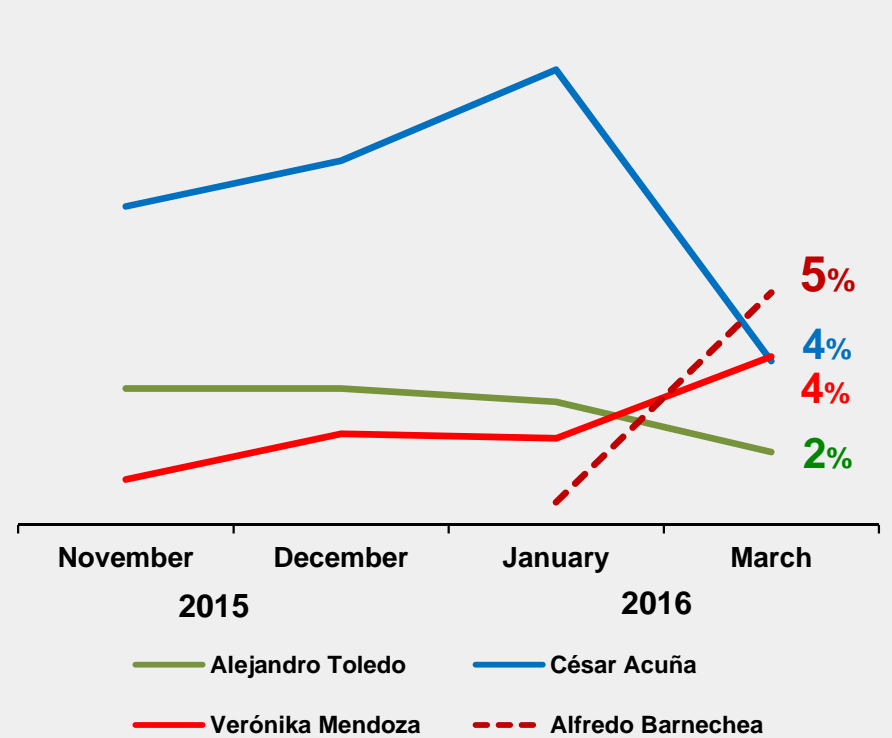


VOTING INTENTION NOVEMBER 2015 – MARCH 2016 (% of respondents)

Front runners



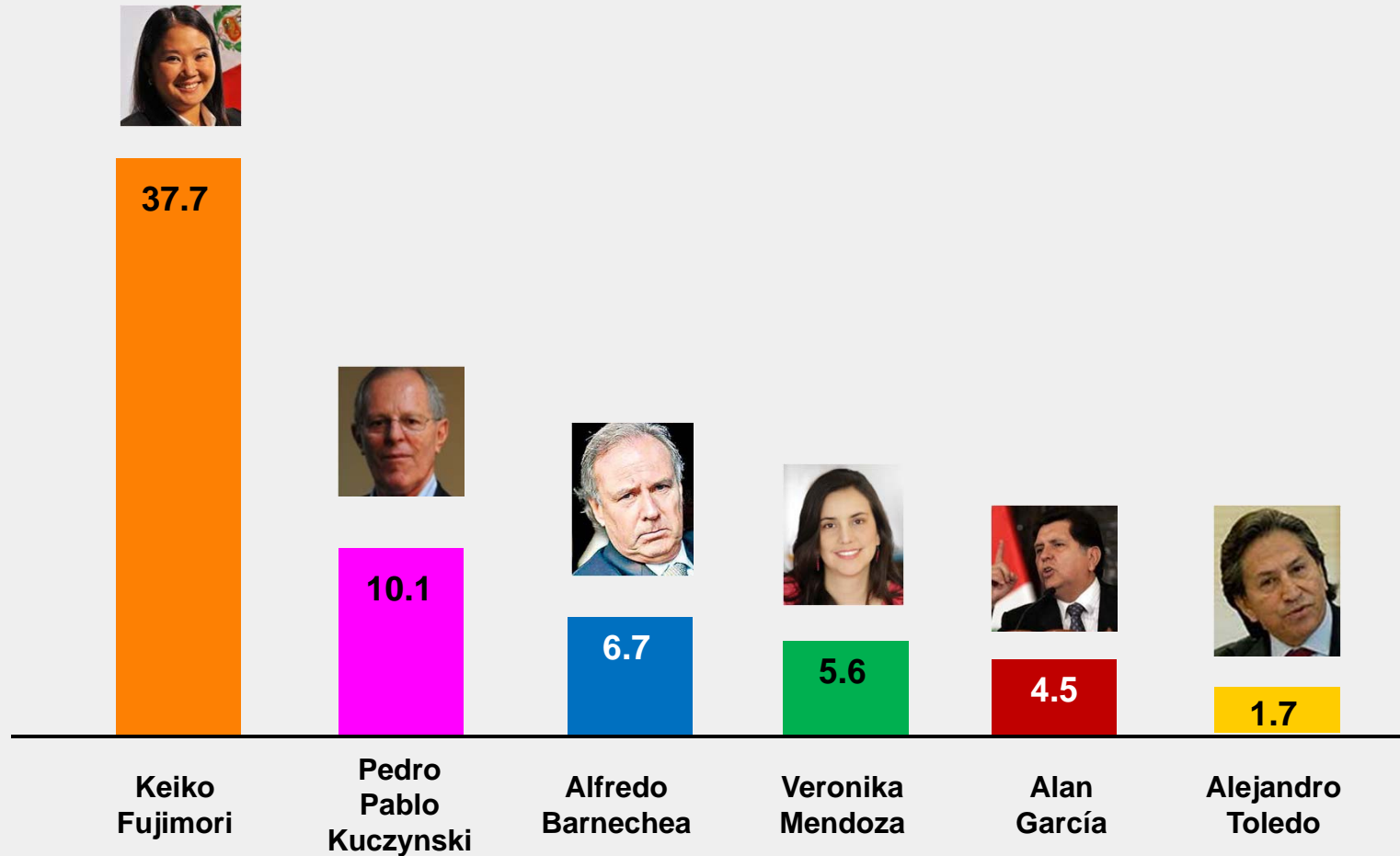
Other candidates



Source: GFK

"Exercise" without Guzmán and Acuña

MARCH 2016: VOTING INTENTION WITHOUT GUZMÁN AND ACUÑA 1/ (% of respondents)



1/ Valid votes.

Source: GFK

32 days to election day but it is still too early to call the final results



20%

Decided their vote one week before election day.

Source: Ipsos Peru (August 2010)

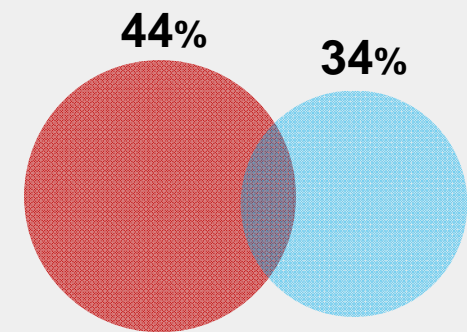
23%

Decided their vote on election day.

Source: Ipsos Peru (August 2010)

Second round scenarios up to March 2016

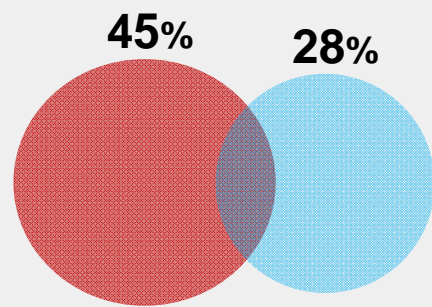
VOTING INTENTION SCENARIOS FOR THE SECOND ROUND



K. Fujimori J. Guzman

Blank/invalid 15%

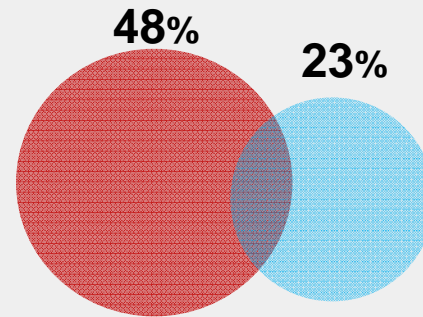
No answer 7%



K. Fujimori P. Kuczynski

Blank/invalid 20%

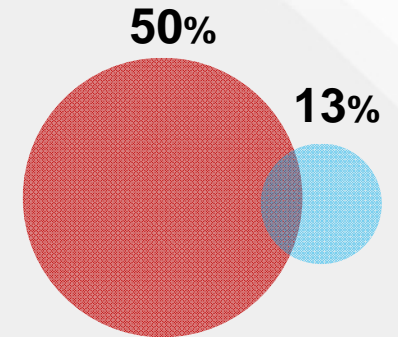
No answer 7%



K. Fujimori A. Barnechea

Blank/invalid 23%

No answer 6%

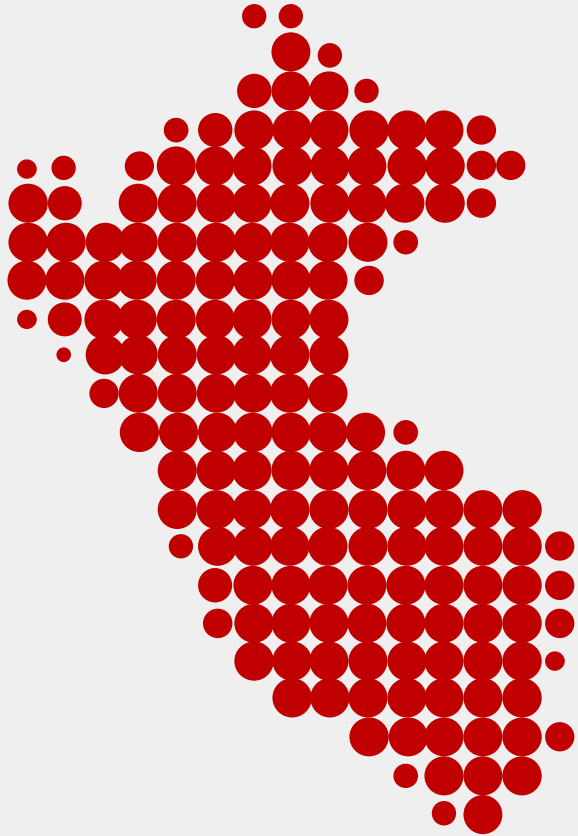


K. Fujimori A. Garcia

Blank/invalid 32%

No answer 5%

Source: GFK



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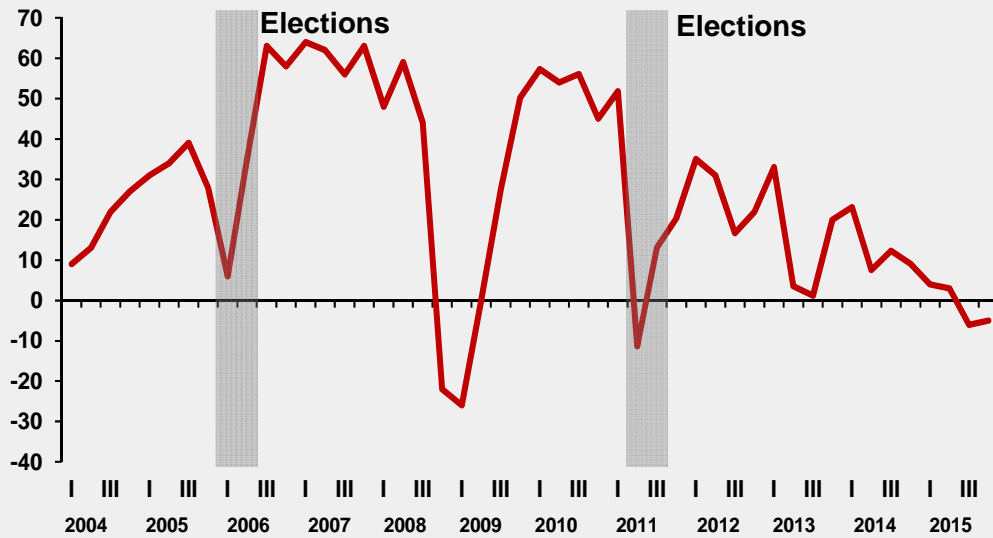
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Presidential elections have a moderate short run effect on the economy

Growth perspectives and challenges ahead

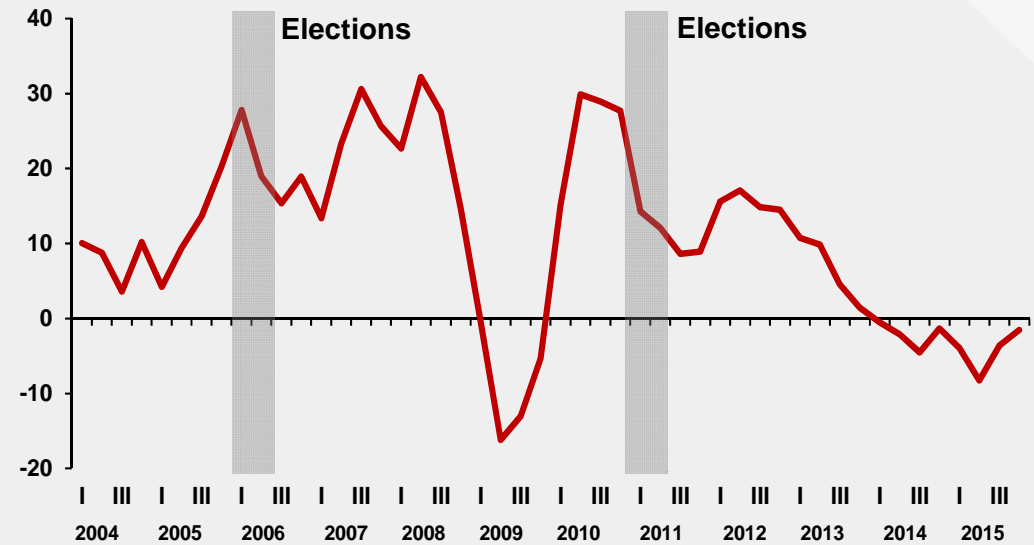
Presidential elections have a moderate short run effect on the economic activity

PERU: CONFIDENCE TO INVEST
(Points)



Source: Survey made to APOYO Consultoría's SAE clients

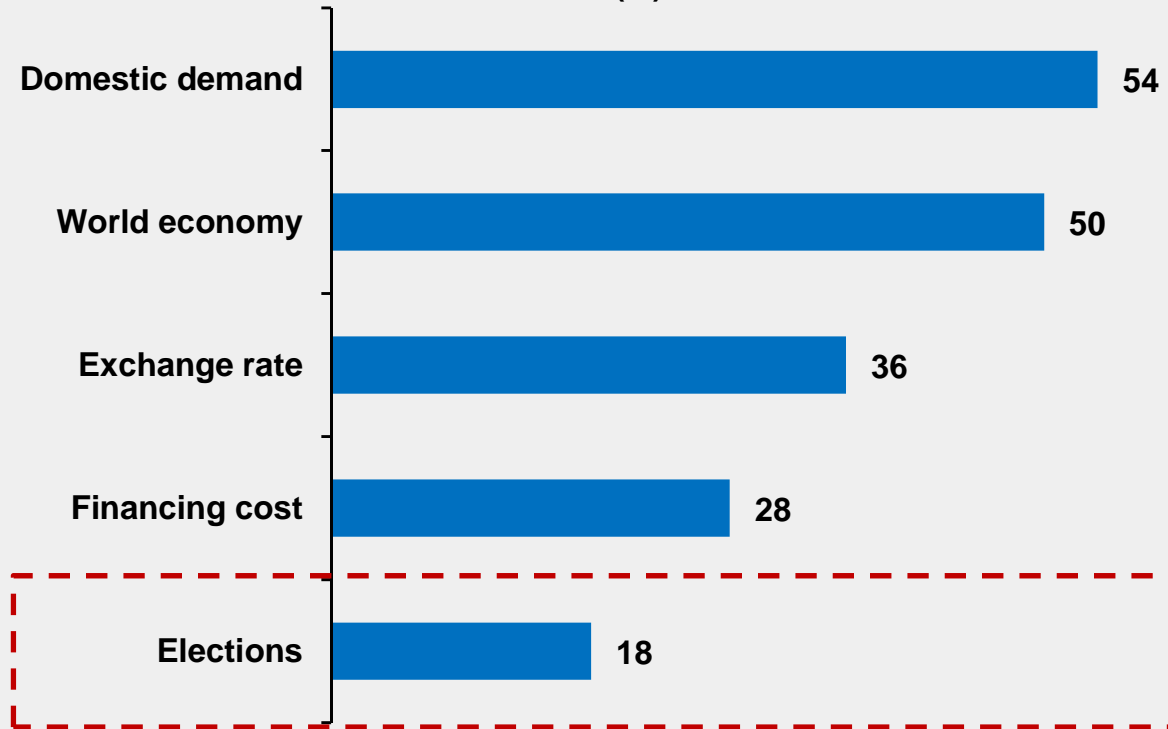
PERU: PRIVATE INVESTMENT
(Real. % change)



Source: BCR

Other factors seem to be more important for investment plans

FEBRUARY 2016: MAIN CONCERNS REGARDING CURRENT INVESTMENT PLANS 1/ (%)



1/ Percentage of people that considered it very important.

Source: Survey made to APOYO Consultoria's SAE clients



**Risk of drastic changes to
the economic model is
limited**

CONSTITUTION OF 1993

«The government performs subsidiary entrepreneurial activities only under legal authorization (...）」

«Contractual terms cannot be modified by laws or any other disposition」

«Domestic and foreign investment are subject to the same conditions」

«The government guarantees the free possession and disposition of foreign currency」

- **Changes in the Constitution require broad and lasting political consensus.**

Institutional arrangements prevent significant changes in the economic model

Other investment protection mechanisms:

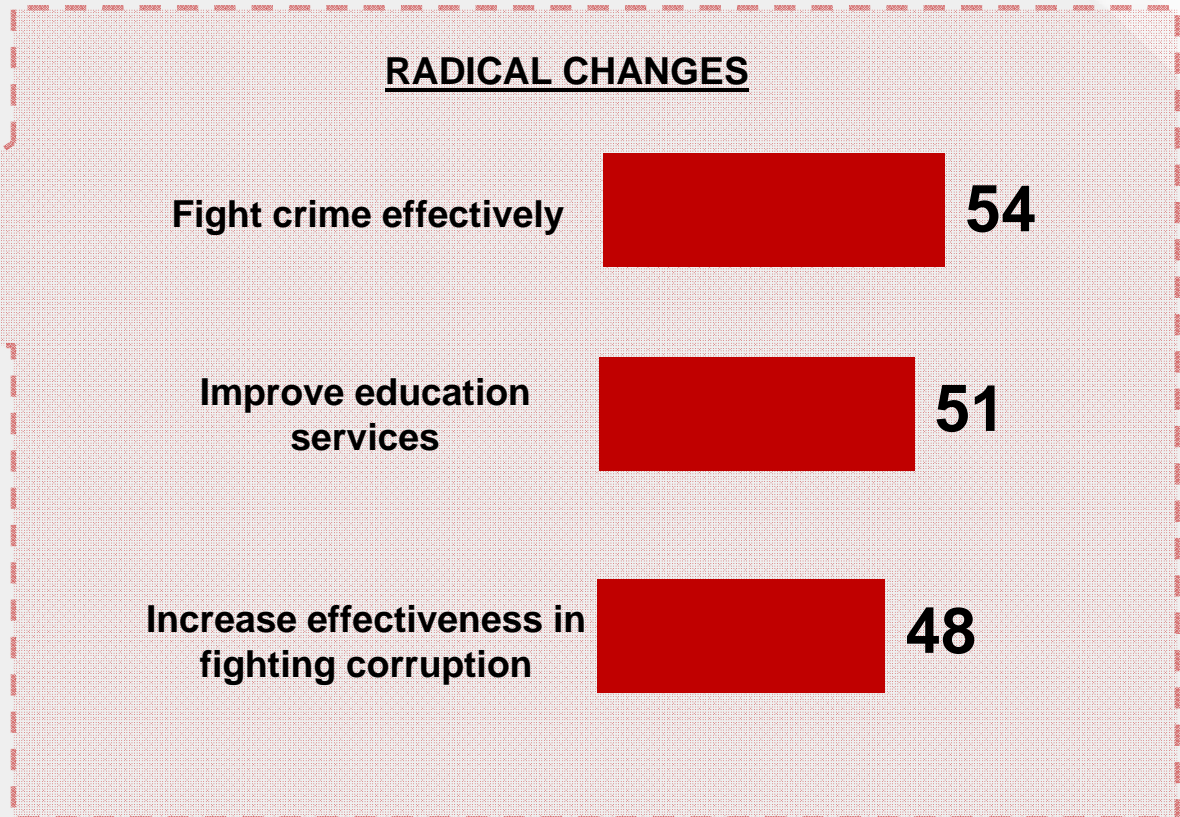
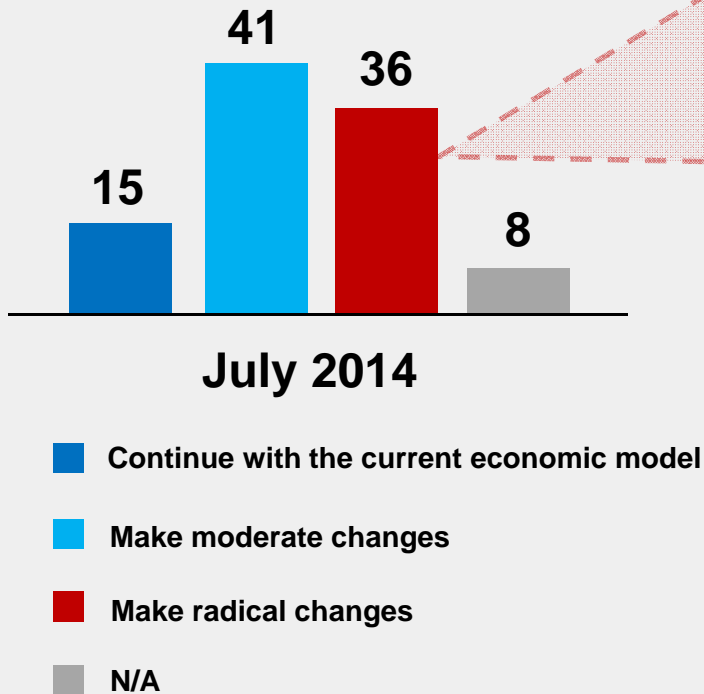
- **Free Trade Agreements and international treaties have the same legislative hierarchy as the Constitution^{1/}.**
- **Peru is a member of the International Centre for Settlement of Investment Disputes.**
- **Most contracts have an arbitration clause.**
- **Autonomy of Central Bank and Bank and Insurance Superintendence.**

1/ Constitution of 1993: fourth final disposition.

What people think about the economic model

What changes would you like the next government to do? (top three answers)

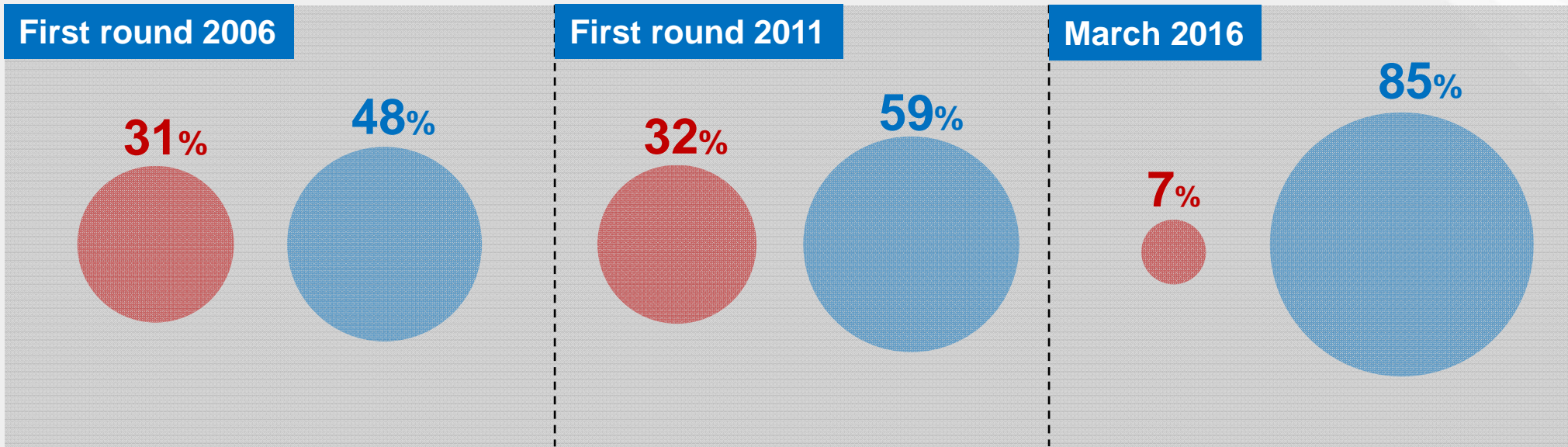
Regarding the economic model, would you like the next Government to...?



Source: Ipsos Peru, Encuesta Nacional Urbana Rural, July 2014

Vote intention and the economic model

PRESIDENTIAL ELECTIONS: RESULTS AND VOTE INTENTION 1/

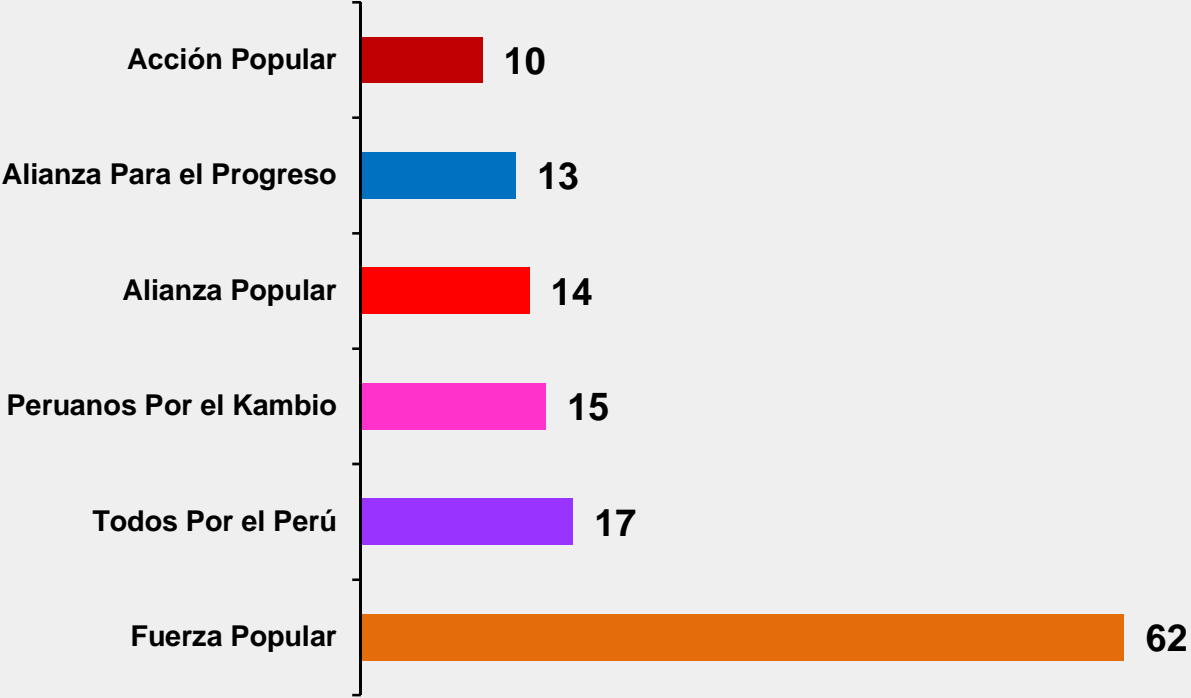


 Vote intention for candidates that propose radical changes to the economic model

 Vote intentions for candidates that propose adjustments to the economic model

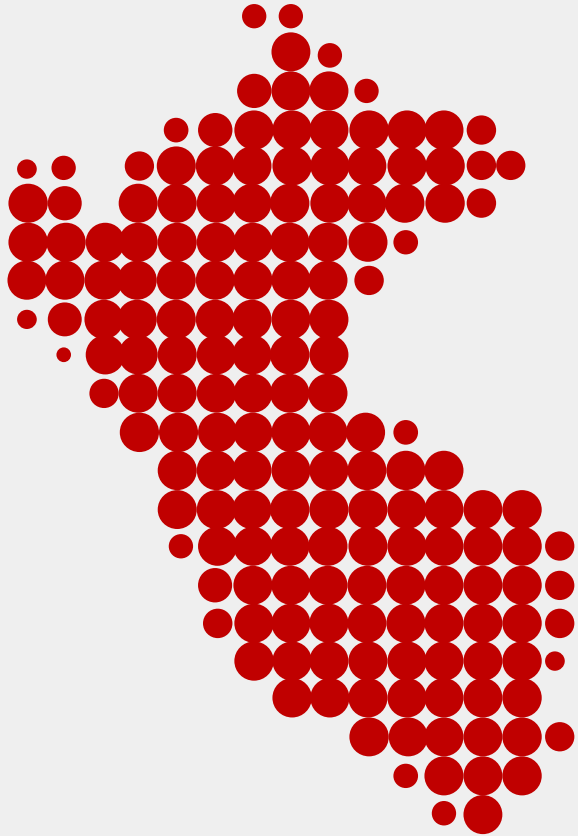
1 / Valid votes (%) in the first round of presidential elections 2006 and 2011, and urban-rural survey made in the last week of February 2016.

COMPOSITION OF THE PERUVIAN CONGRESS 1/ (Number of seats)



1/ Simulation over valid votes.

Source: GFK, APOYO Consultoria



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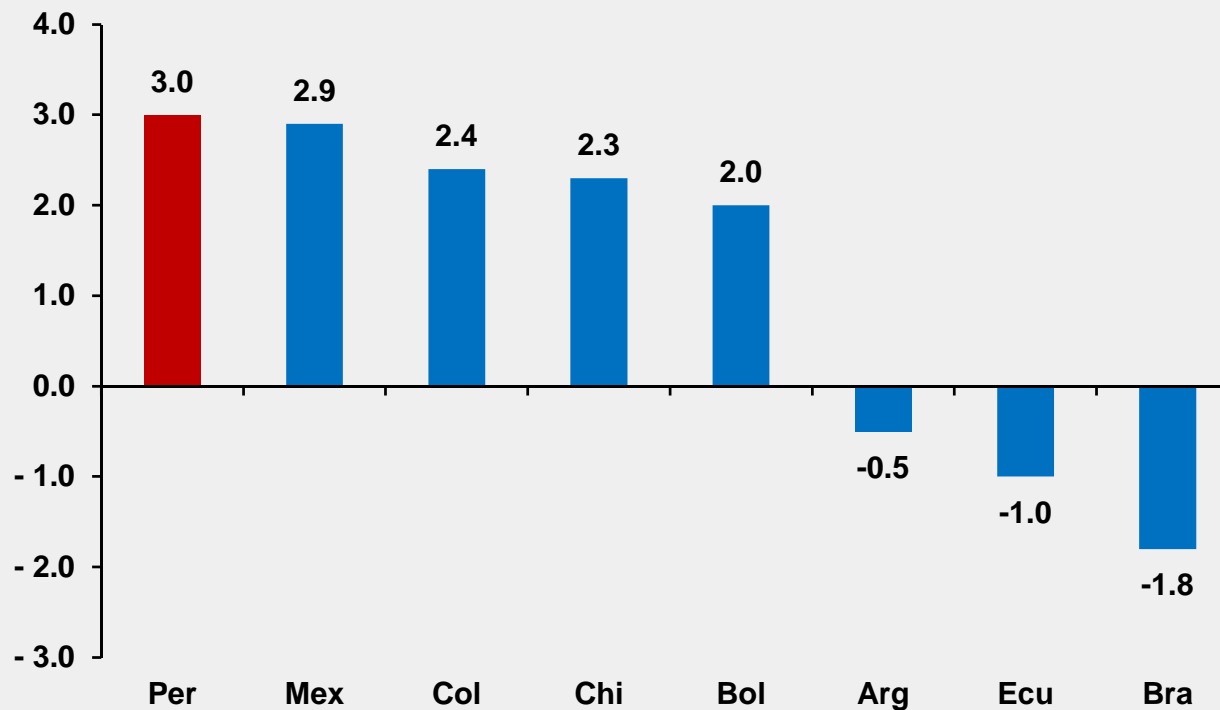
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Growth perspectives and challenges ahead

Peru: among the top performers in Latam in the upcoming years

LATAM: GDP, 2016-2017 1/
(Real % change)



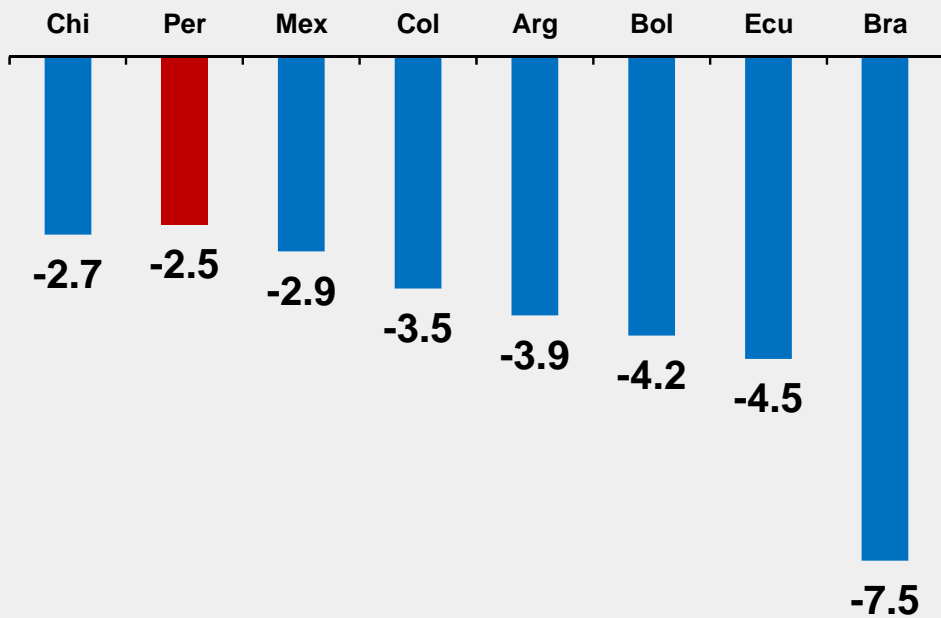
1/ Forecast made in February 2016.

Source: LatinFocus, APOYO Consultoria

Peru: no pending macroeconomic adjustments ahead

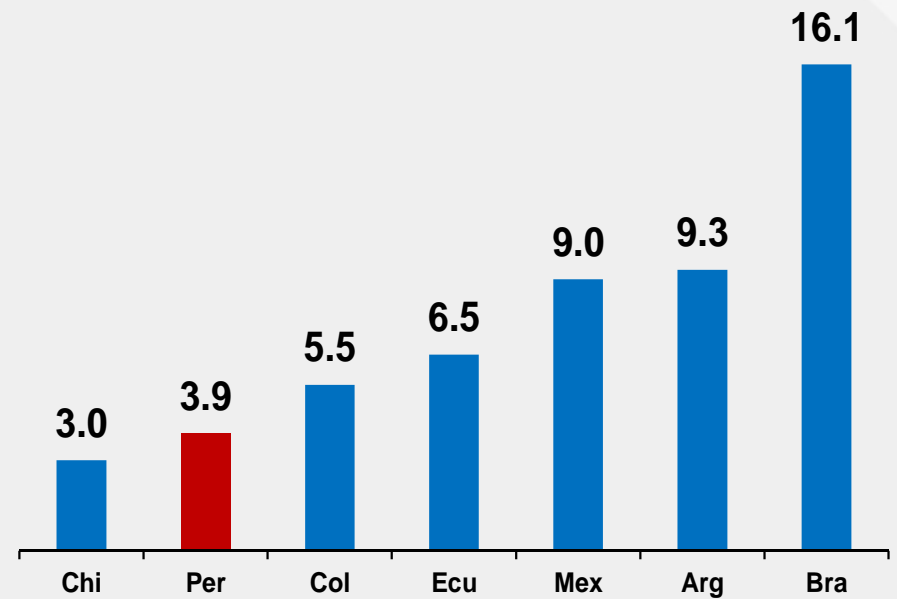


LATAM: AVERAGE FISCAL BALANCE, 2016-2017
(% of GDP)



Source: LatinFocus, APOYO Consultoria

LATAM: PUBLIC FINANCING NEEDS 2016
(% of GDP)

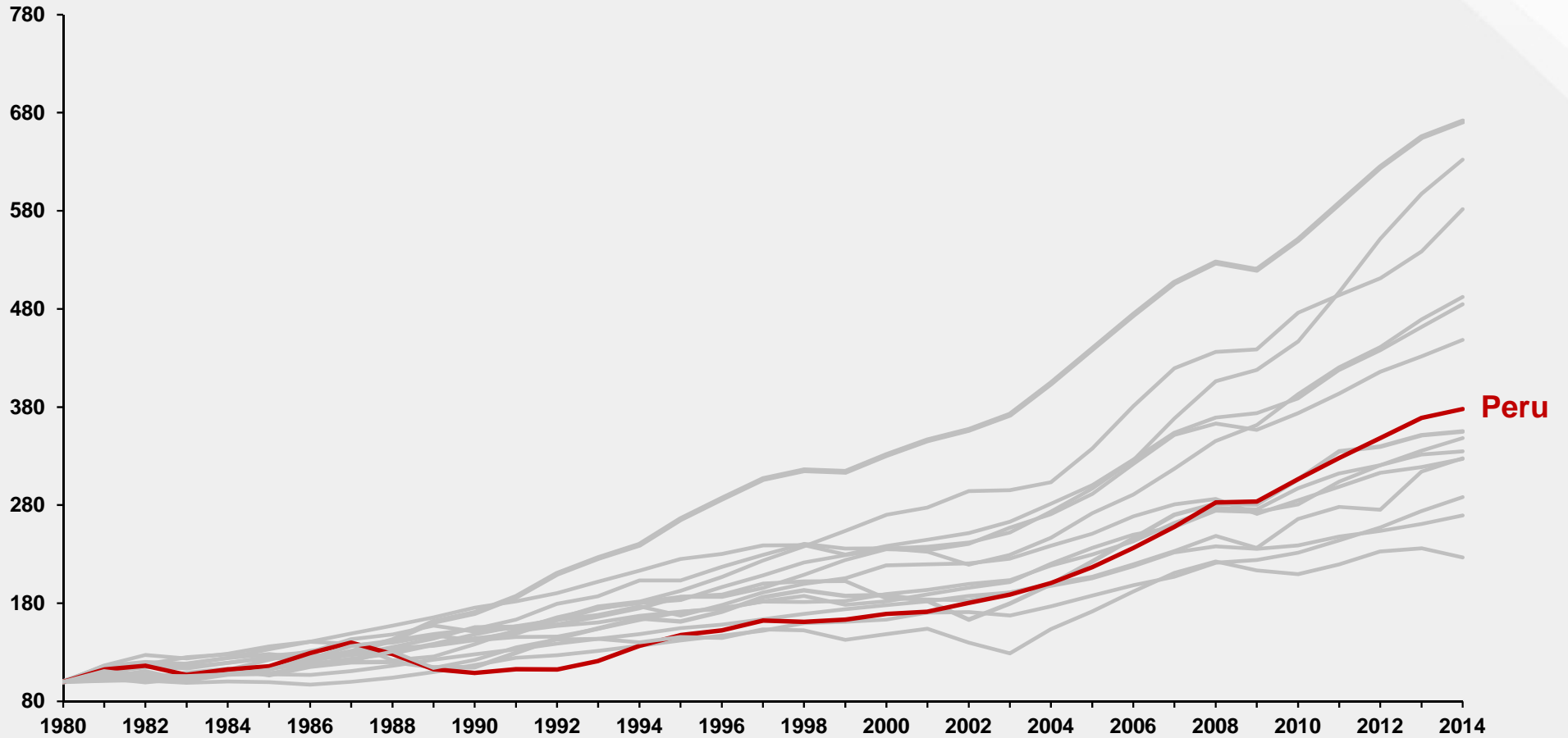


Source: IMF, APOYO Consultoria

Peru: there is still room to catch up



LATAM: GDP PER CAPITA 1/
(Index 2000=100)

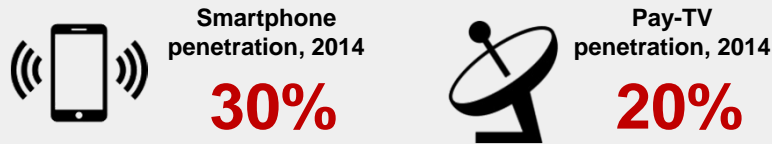


1/ Based on Purchasing Power Parity (PPP)

Source: IMF

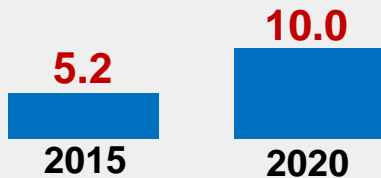
Peru: market opportunities

1 Smartphone and pay-TV penetration are low, but they are increasing very fast.

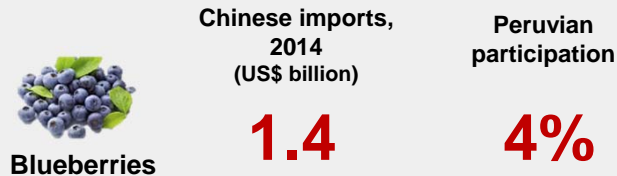


3 Infrastructure investment through PPP will double in the next five years.

Infrastructure investment through PPP (US\$ billion)



5 China demands agricultural products in which Peru is very competitive.



2 E-commerce is barely used.

E-commerce sales, 2013 (US\$ million)



4 Peru receives fewer tourists than its main competitors in Latin America.

International tourist arrivals, 2014 (Million tourists)



6 Peru has room for more fast fashion stores.

Number of fast fashion stores, 2016

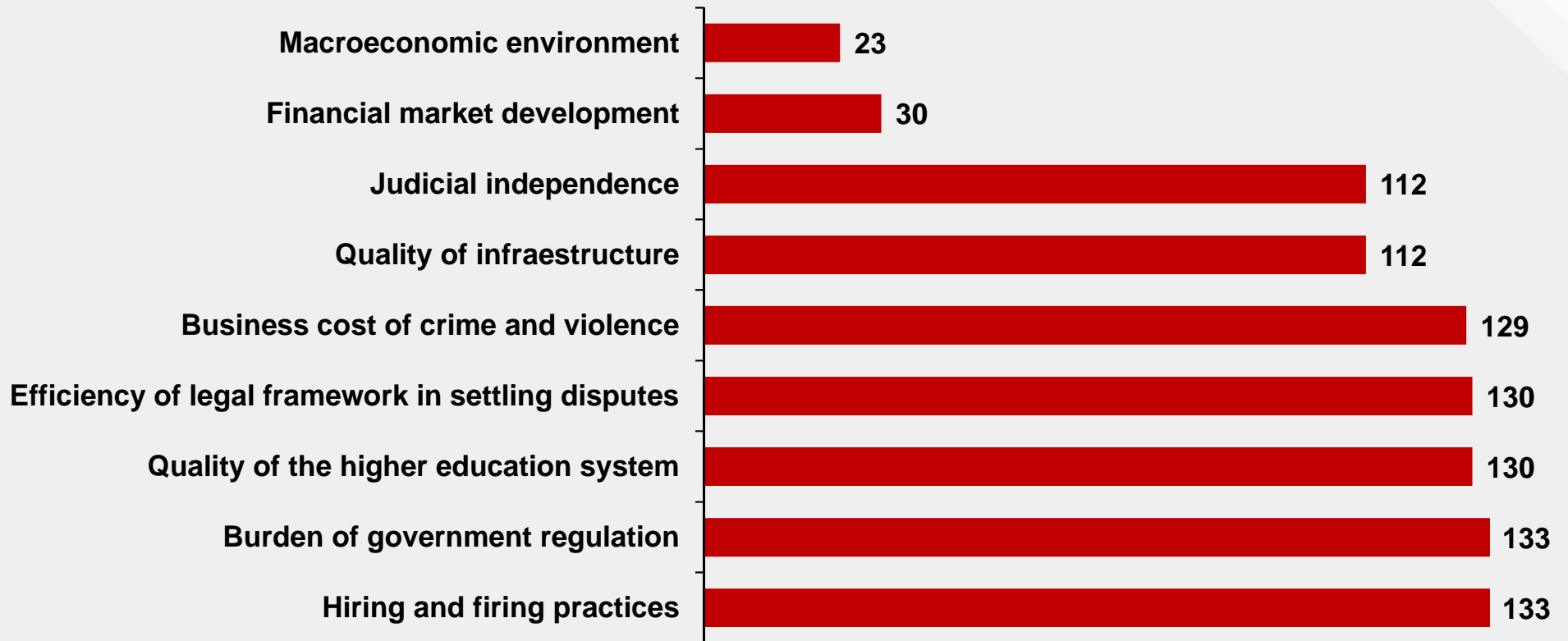




Challenges ahead

A good macroeconomic environment is necessary, yet insufficient

PERU: GLOBAL COMPETITIVNES RANKING, 2015-2016
(Rank out of 140 countries)



Source: WEF

OECD: MAIN RECOMMENDATIONS OF THE MULTI-DIMENSIONAL REVIEW OF PERU

- Reduce inefficiencies in investment and improve quality in infrastructure and logistics.
- Simplify complex and burdensome labor regulation and reduce non-wage costs.
- Implement a more effective taxation system and improve progressivity in the tax system.
- Improve the quality of essential public services (health, education).
- Improve governance of all branches in Government to tackle corruption.

Source: OECD

Pending reforms need:

- Political dialogue and leadership.
- Political consensus.
- Continuity in the implementation and a long term approach.



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