



PERÚ

Ministerio
de Economía y Finanzas

PERU: ECONOMIC OUTLOOK

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Peru: a strategic location by the Pacific Ocean

Population:

30.5 million

GDP US\$:

US\$ 204 billion

Per Capita GDP US\$:

US\$ 6,700

GDP US\$ PPP:

US\$ PPP 345 billion

Per Capita GDP US\$ PPP:

US\$ PPP 11,149

Credit Rating:

Moodys: A3

S&P : BBB+

Ficth : BBB+

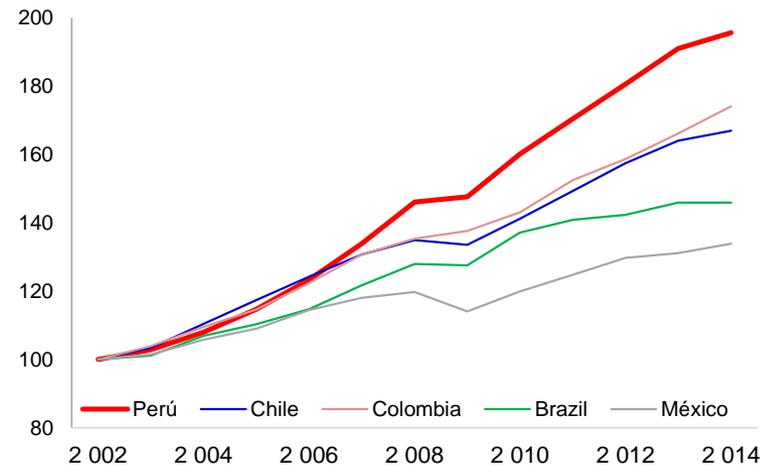


Peru's success story is based on sound macroeconomic policies

Peru's success story is based on:

- Sound economic policies
 - ❑ 1992's Central Bank Autonomy Reform
 - ❑ 1999's Fiscal Responsibility and Transparency Law, strengthened in 2013
- Sustained productivity gains
- Private investment driven growth
- Openness and integration to the world
- Rule of law
- Investment friendly legal framework

LA5: Economic Growth 2002-2014
(2002=100)

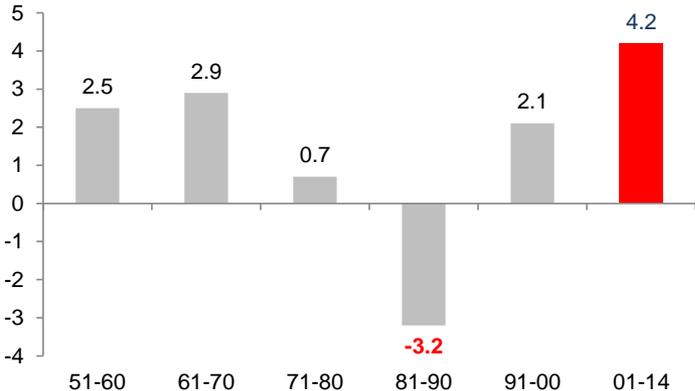


Solid economic growth during the last decade in comparison to our peers

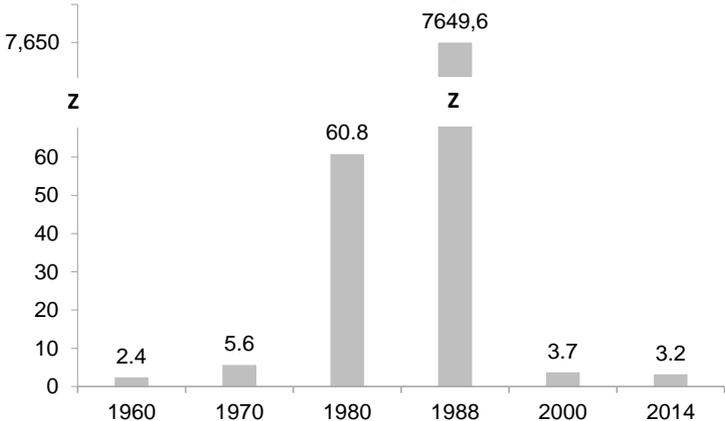
During 2005-2014, Real GDP grew at an average annual rate of 6.1%.

The last decade has seen Peru's best performance in sixty years

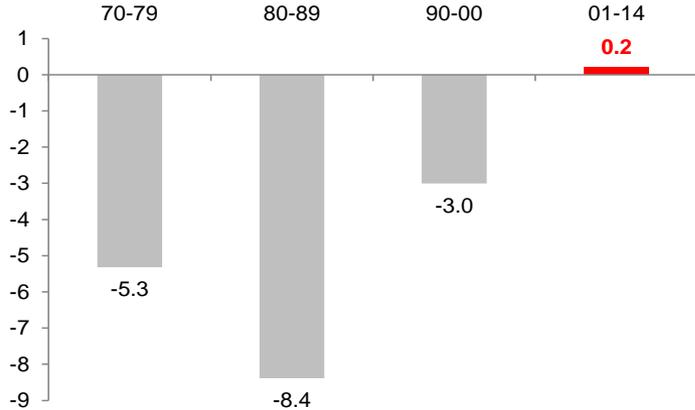
Per Capita GDP
(Average 10 years, % change)



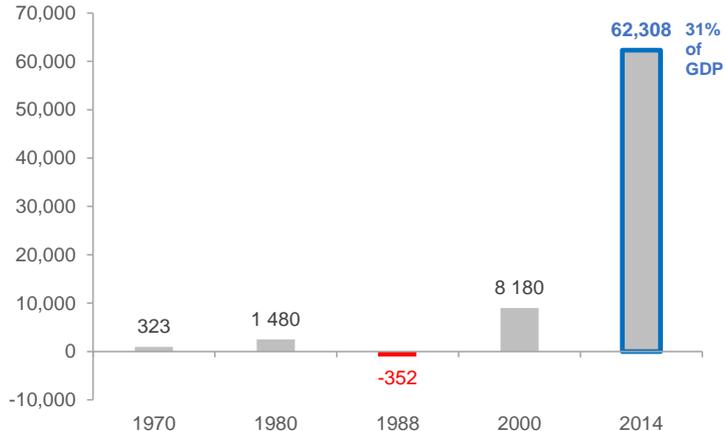
CPI Inflation
(Annual % change)



Overall Fiscal Balance
(% of GDP)



International Reserves
(US\$ Million)

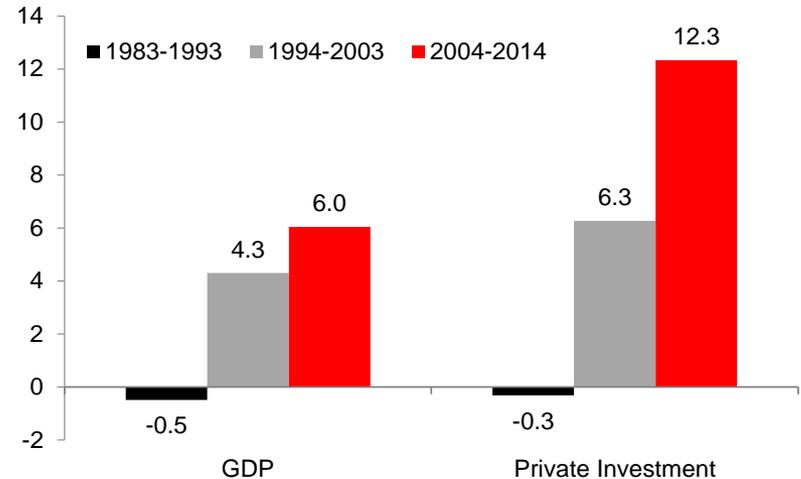


Source: BCRP, INEI.

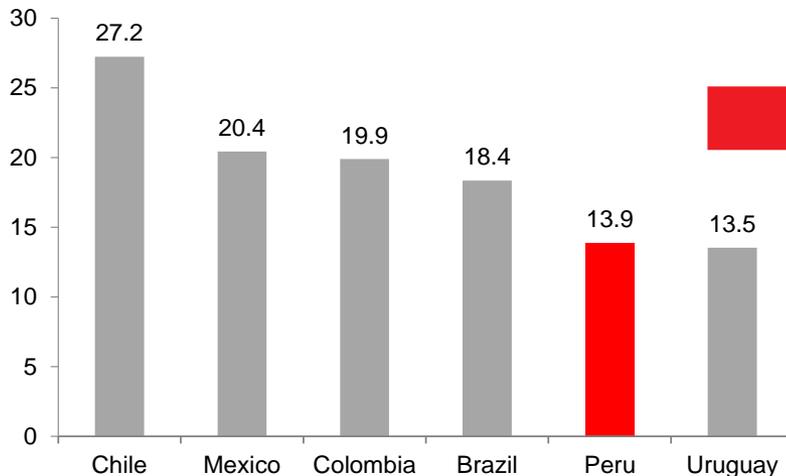
Sustainable economic growth has been driven by consistent capital accumulation

- Private investment has been a key driver of GDP growth
- Peru is currently a regional leader in terms of capital accumulation as a % of GDP up from having one of the lowest levels in the 90's
- This trend should continue with investment in large scale infrastructure and mining projects

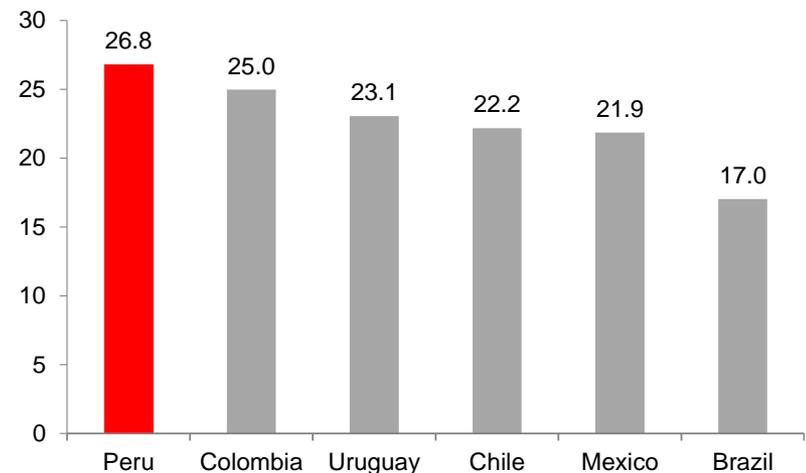
Peru: GDP and Private Investment
(Annual % change)



LA6¹: Total Investment 1990
(% of GDP)



LA6¹: Total Investment 2014
(% of GDP)



1/ The LA6 countries refers to the six Latin American countries that have adopted a formal inflation targeting framework and have relatively more developed domestic capital markets.

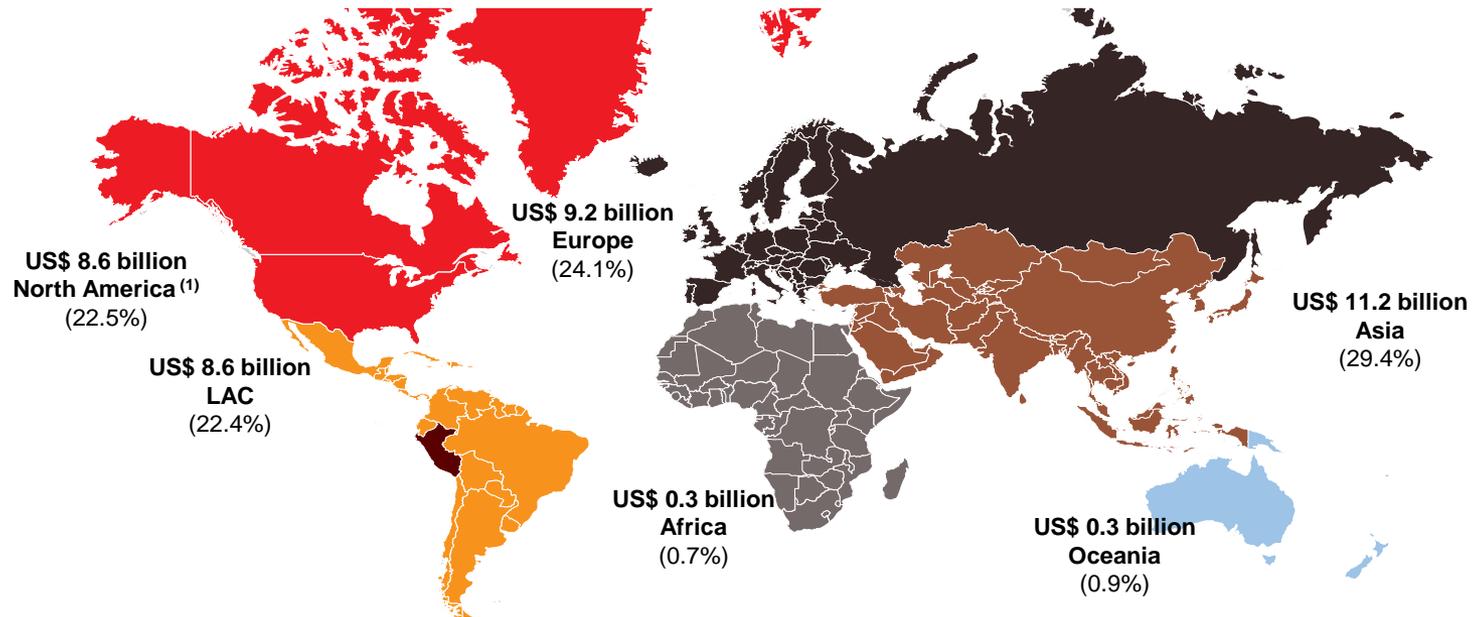
The list includes: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Source: BCRP, IMF – WEO October 2013.

... and global integration which fosters trade and investment

Peru: Total Exports to the World 2014

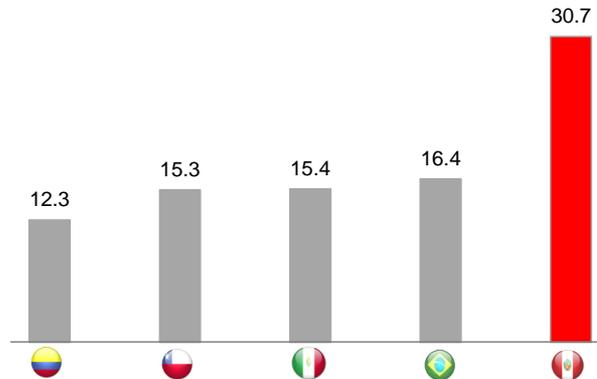
(% of Total Exports 2014)



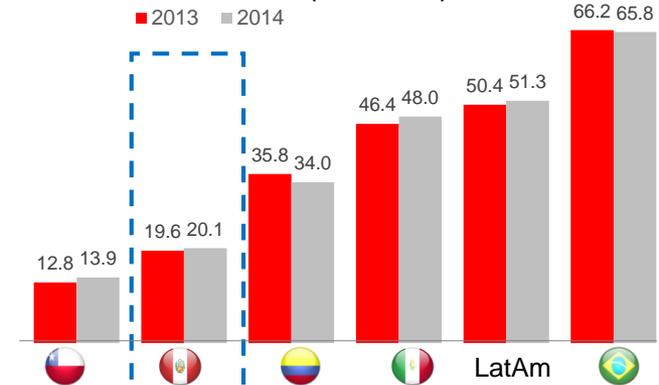
- Peru has implemented Free Trade Agreements (FTA) with USA, Canada, European Union, People's Republic of China, Republic of Korea, Mexico, Chile, Singapore, Japan, Thailand, Costa Rica, Panama, among others
- There are currently ongoing negotiations with Honduras, El Salvador and Turkey
- Peru already has some form of preferential access to countries that represent 73% of the world GDP (92% of world trade)

We have taken advantage of the good times to build solid macroeconomic buffers against exogenous shocks

LatAm: International Reserves 2014
(% of GDP)



LatAm: Gross Public Debt
(% of GDP)

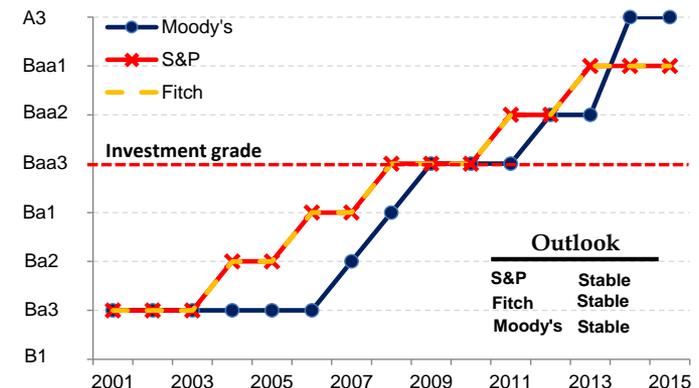


As a result, Peru is a top Investment Grade in LATAM

LatAm: Sovereigns Rating (1)
(Long term debt in foreign currency)

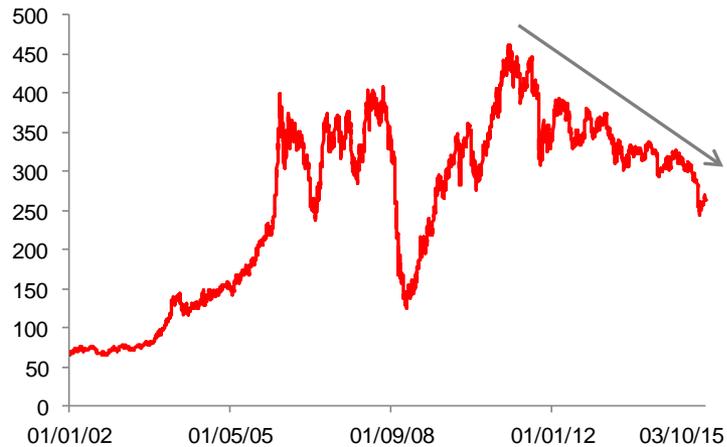
Country	Moody's	S&P	Fitch
Chile	Aa3	AA-	A+
Peru	A3	BBB+	BBB+
Mexico	A3	BBB+	BBB+
Colombia	Baa2	BBB	BBB
Panama	Baa2	BBB	BBB
Brazil	Baa2	BBB-	BBB
Uruguay	Baa2	BBB-	BBB-
Paraguay	Ba2	BB	BB
Bolivia	Ba3	BB	BB-
Ecuador	B3	B+	B
Venezuela	Caa3	CCC	CCC

Sovereign rating evolution
(Long term debt in foreign currency)



Now, we need to cope with the reversal of the commodity cycle

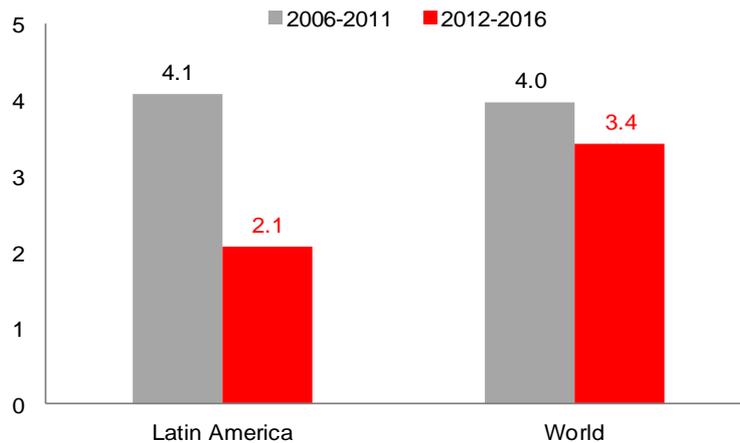
Copper Prices
(cUS\$/lb)



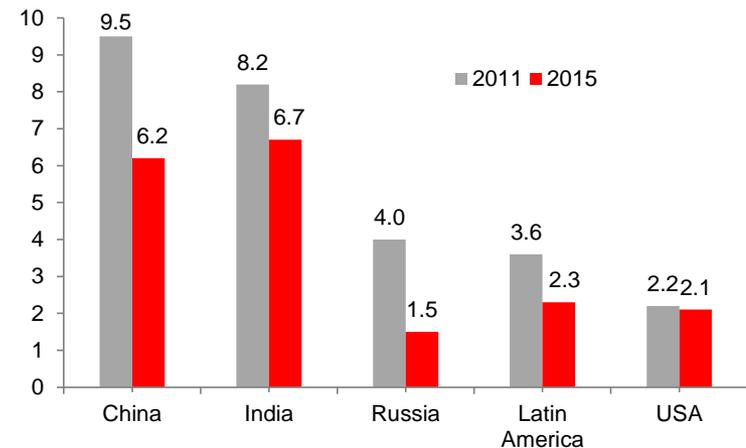
Oil Prices
(US\$/bar.)



IMF: GDP growth
(Annual Average % change)



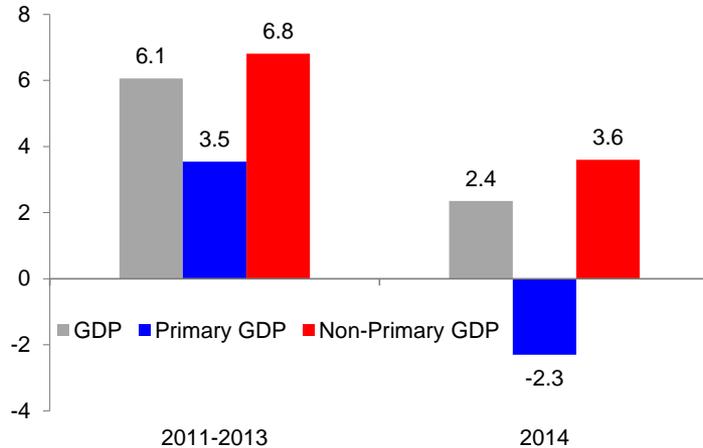
IMF: Potential GDP Growth¹
(Annual % change)



1/ The potential for Latin America is calculated based on data for Argentina, Barbados, Brazil, Chile, Guyana, Mexico and Peru.
Source: IMF WEO January 2015 / World Economy and Development of Markets (January 2015), Bloomberg.

In 2014, Peru's GDP grew 2.4% due to an unfavorable international environment and several primary supply shocks

Economic activity
(Real Annual % change)

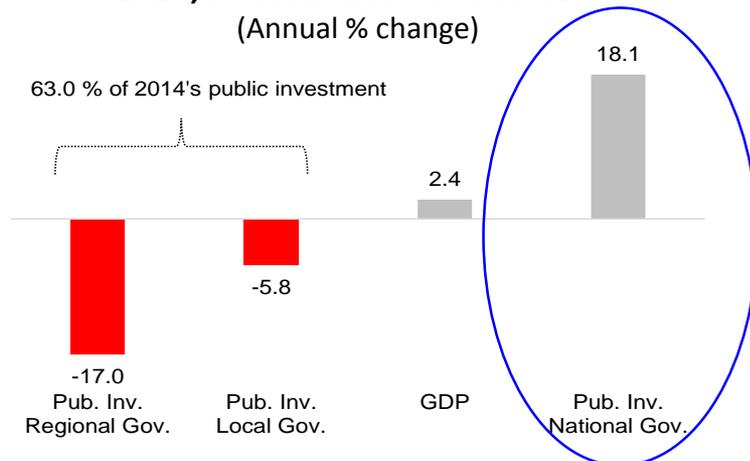


The 2014 moderate growth was explained by:

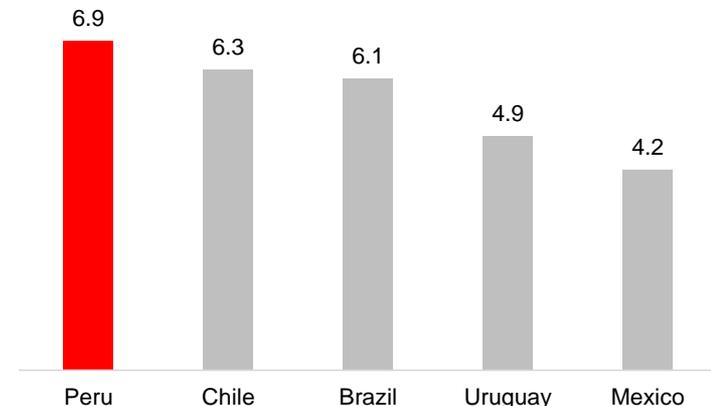
- Unfavorable international environment, characterized by falling terms of trade, capital outflows and lower growth in emerging economies.
- Transitory shocks that affected primary sectors such as decreased production of copper, gold and zinc due to lower ore grades. For these reasons, the volume of exports of goods and services decreased by -0.3%.
- Deceleration in public investment by sub national governments.

The 2014's headwinds were compensated by an expansionary fiscal policy and several policy responses

2014, Fiscal Indicators and GDP
(Annual % change)



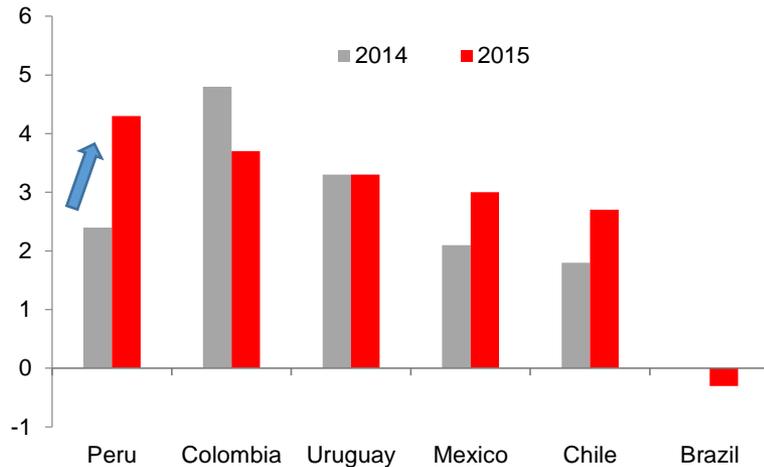
Public expenditure, 2014^{1/}
(Annual % change)



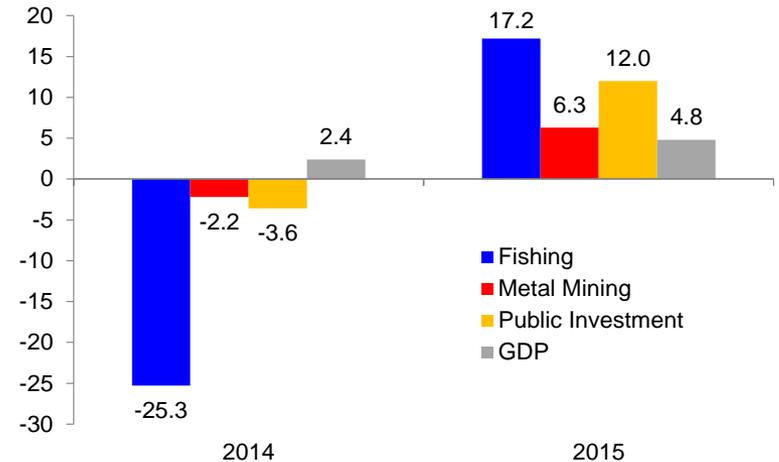
^{1/} In Colombia, National Central Government's non-financial grew 13.6% in 1H2014.
Source: BCRP; MEF, Ministries of Finance.

In 2015, Peru would regain the leadership in the region, leaving behind 2014's transitory shocks

Consensus Forecasts LA6: Real GDP
(Annual % change)



Peru's Central Bank: 2015 Macroeconomic Forecasts
(Real GDP: Annual % change)



The main drivers for 2015-16 growth

- Private Investment (mainly Mining)
- Major Infrastructure Projects

- According to BCRP's Inflation Report (January 2015), Primary GDP and public investment will contribute 1.5 and 0.9 percentage points, respectively, to the acceleration of GDP growth (from 2.4% in 2014 to 4.8% in 2015).

Note:

- **LA6:** refers to the six (6) Latin American countries that have adopted a framework of explicit inflation target, and have developed over their capital markets. The list includes: Brazil, Chile, Colombia, Mexico, Peru and Uruguay. Also called financially integrated economies. These countries represent 73% of Latin America and the Caribbean GDP.

Policy Responses:

- a) Short-term measures to face slower growth**
- b) Medium-term measures to boost potential growth**

Policy Responses: Short-term measures to tackle slow growth

Expansionary and countercyclical fiscal policy responses

Tax (short term)

Reduction of excise tax

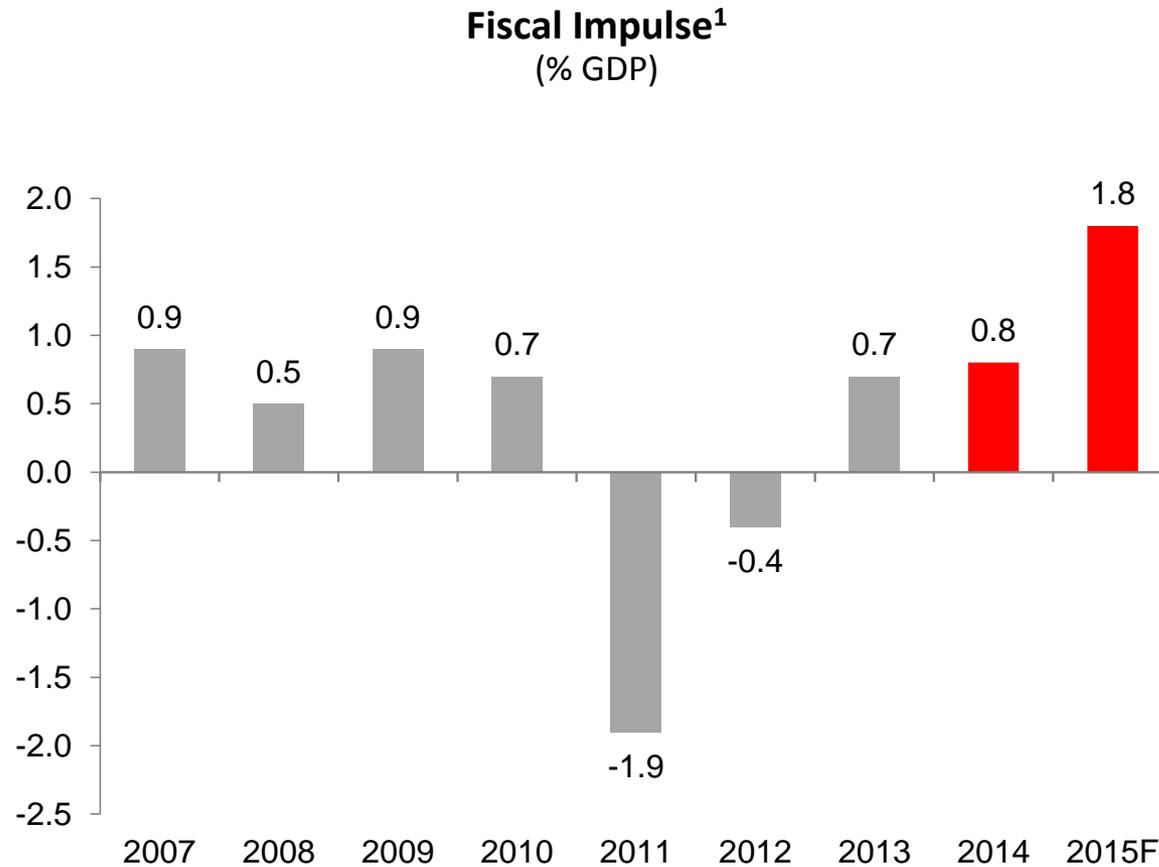
- Pass through to consumers of lower oil prices
- To ensure that this reduction is transferred to the domestic price, the excise tax on fuels has been reduced in those cleaner fuels such as gasoline and bio-gasoline.

Expenditure (short term)

Boosting public investment

- Expansionary 2015 Public Budget.
- Urgent Decrees of extraordinary measures to stimulate growth
 - 001-2014 U.D. (Jul.11th)
 - 002-2014 U.D. (Jul.28th)
 - 004-2014 U.D. (Nov.6th)
 - 005-2014 U.D. (Nov. 21st)
- Impulse on maintenance, increasing up to 40% resource usage from “canon” by subnational government
- Extraordinary adjustments to the price band for the Fuel Price Stabilization Fund.

These policy responses are reflected in a higher fiscal impulse



F: forecast

1/ Fiscal impulse resulting from the difference in the structural primary balance, which is an indicator of how fiscal position affects the economic cycle.

Source: BCRP, MEF.

Policy Responses: Medium-term measures to boost potential growth

Medium-term tax measures

Reduction of tax rates

- For firms from 30% (2014) to 26% (2019). This measure should attract foreign investment.
- For workers from 15% to 8%. It is expected that at least 1.2 million Peruvians will pay less taxes.

Refund of sales tax

- Rationalization of sales tax collection systems by private agents
- Refund for microenterprises that acquire new capital goods. This measure will encourage investment and capital accumulation as a mechanism to increase productivity.

Policy reforms are needed to reduce external vulnerability and boost medium and long term growth rate

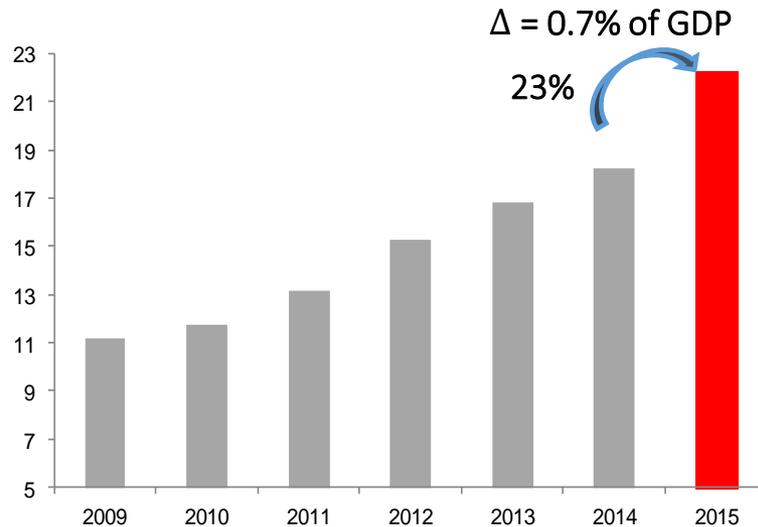
- **Axis 1: Strengthening human capital and reducing informality**
- **Axis 2: Promotion of infrastructure to close infrastructure gap**
- **Axis 3: Adequacy of red tape and reduction of cost overruns**

Policy reforms are needed to reduce external vulnerability and boost medium and long term growth rate

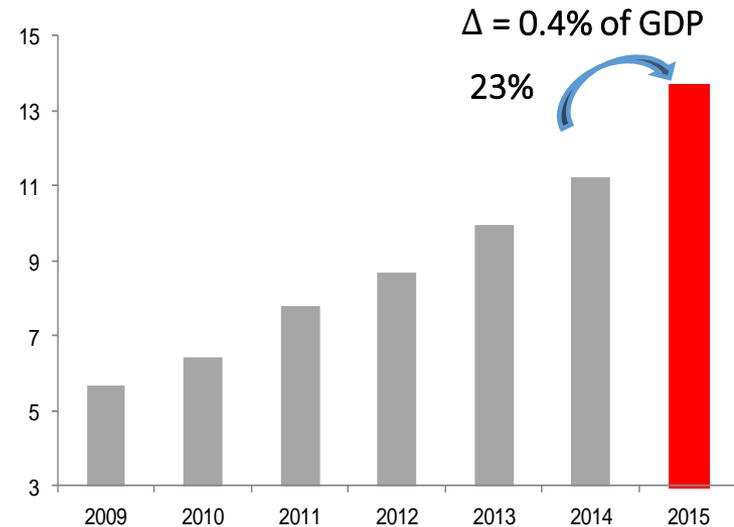
- **Axis 1: Strengthening human capital and reducing informality**
 - ✓ *Civil Service (SERVIR Law).*
 - ✓ *Competitiveness Agenda.*
 - ✓ *Productive Diversification Plan.*
 - ✓ *Reduce transaction costs associated with labor inspections.*
 - ✓ *Higher public resources allocated to Education and Health sectors.*
- **Axis 2: Promotion of infrastructure to close infrastructure gap**
 - ✓ *Emphasize reducing the infrastructure gap through PPP, subject to ex ante evaluation of underlying fiscal risks.*
- **Axis 3: Reduction of red tape and reduction of cost overruns**
 - ✓ *To standardize tax system to OECD countries and reduce excessive tax related cost.*
 - ✓ *To increase predictability and flexibility for the creation of formal employment.*
 - ✓ *Streamlining of procedures and elimination of obstacles and other "transaction costs".*
 - ✓ *Increased predictability regarding the regulatory cost to the investor.*
 - ✓ *Monitoring of awarded projects by Specialized Team.*

Axis 1: Public resources to improve human capital have increased significantly over time

Public resources allocated to Education
(PEN billions)

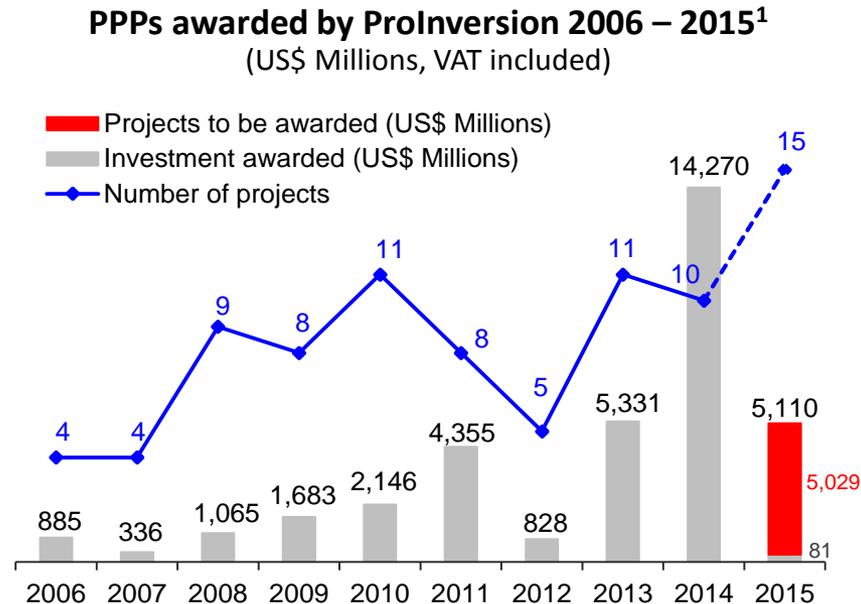


Public resources allocated to Health
(PEN billions)



- An increase of almost 1% of GDP in public resources allocated to Education and Health sectors in 2015.
- Active promotion of Public-Private Partnerships (PPPs) and Public works tax deductions mechanisms in Education and Health projects.

Axis 2: there has been an important promotion of infrastructure projects...



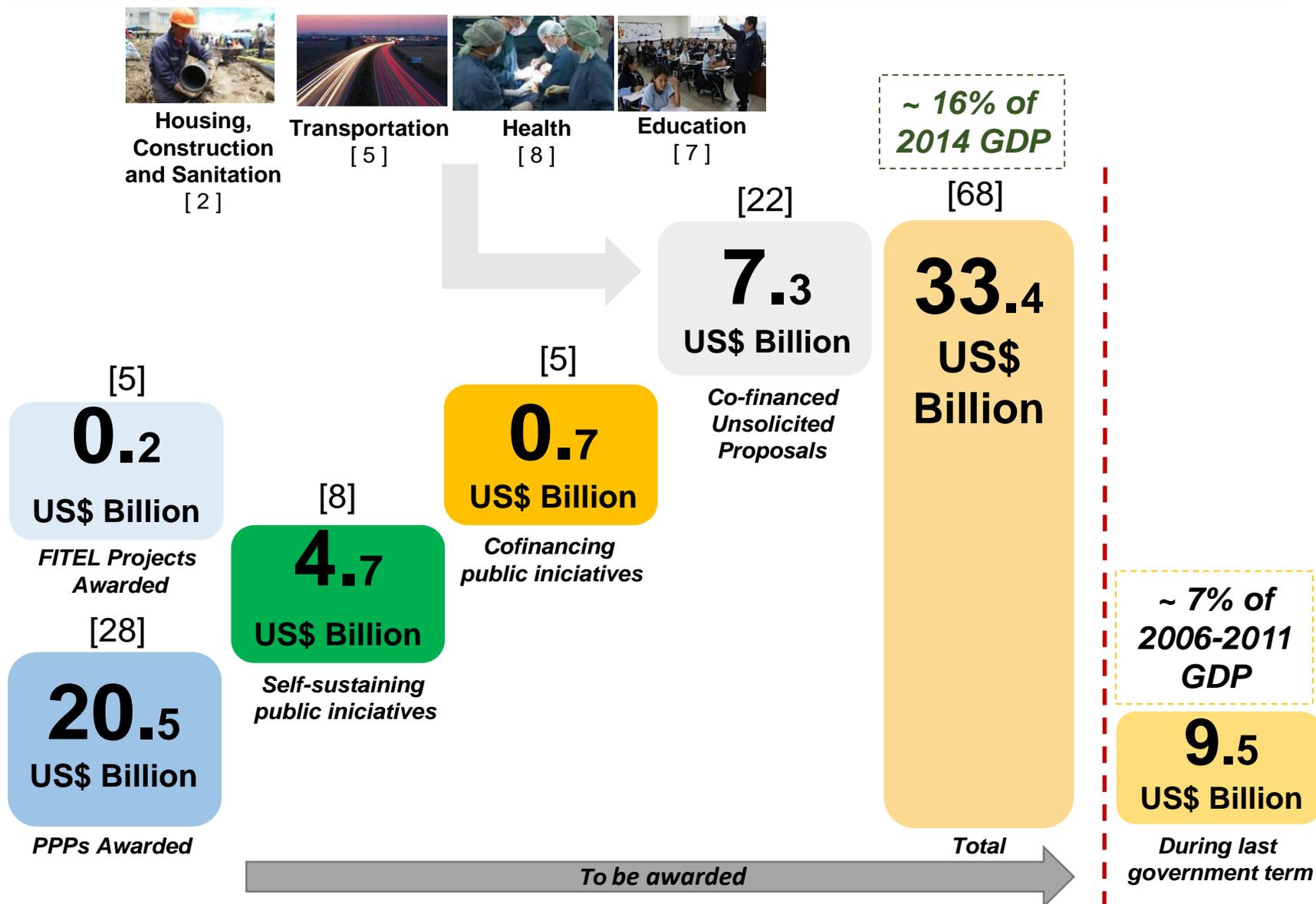
- In this administration, 28 PPP projects have been awarded worth **more than US\$ 20 billion (VAT included)**. The most important are:
 - Metro of Lima and Callao - Line 2 (US\$ 6,783 million)
 - Energy security and Southern Gas Pipeline (US\$ 5,794 million)*
 - New International Airport of Chinchero – Cusco (US\$ 775 million)
 - Longitudinal de la Sierra Road Project - Section 2 (US\$ 651 million)
 - Moyobamba - Iquitos Transmission Line (US\$ 589 million)

^{1/} Information to 03.03.2015. Azangaro-Juliaca-Puno transmission line was awarded on February 12, 2015.

* The amount of potential investment in the project is assumed.

Source: ProInversion.

Axis 2: By different mechanisms, there will be 68 projects awarded in the coming years¹

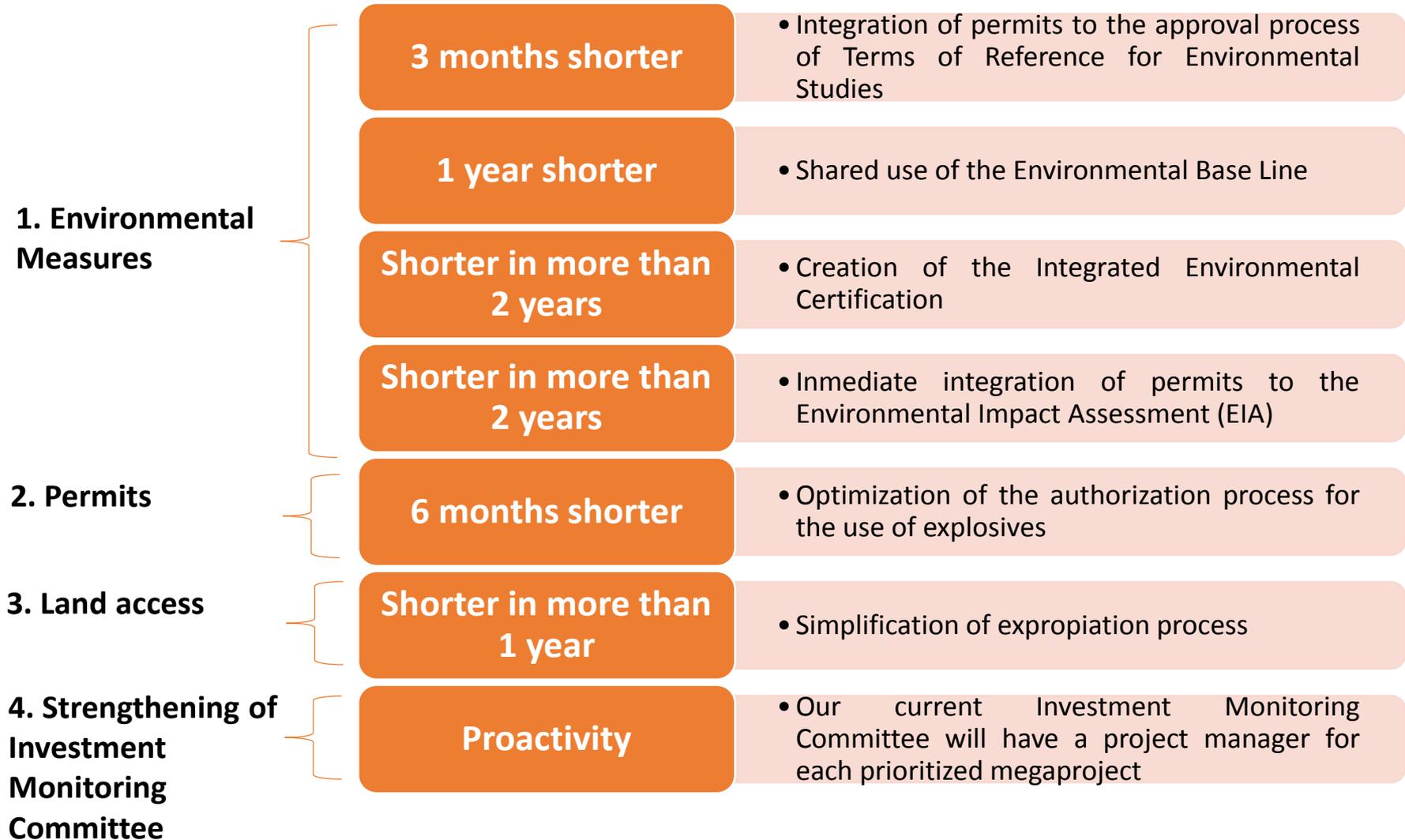


1/. Information to 03.13.2015.

Source: ProInversion [Number of projects in brackets]. Average exchange rate according to awarded date.

Axis 3: The Peruvian Government promotes initiatives that streamline and facilitate the execution of investment projects (unlocking investment)

Benefits of the Law Proposal N° 3941



Axis 3: OECD, a catalyst for reforms

OECD promotes policies that will improve the economic and social well-being of people around the world.

Objectives:

- State Reform through the adoption of best practices for public governance.
- Consolidation of reforms that promote sustained long-term growth.

Agenda:

Nov. 14, 2014: The Foreign Affairs Committee approved in first vote and unanimously the Country Programme 2015-2016¹. This is an instrument for supporting dynamic, emerging economies in designing their reforms and strengthening public policies. The activities of the Country Programme include:

- Identifying barriers to growth and national development.
- Public governance and improvement of institutional framework.
- Transparency and struggle against corruption.
- Improving human capital and productivity.
- The environment.



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