



BANCO CENTRAL DE RESERVA DEL PERÚ



Peru's fundamentals and economic outlook

Julio Velarde

Governor

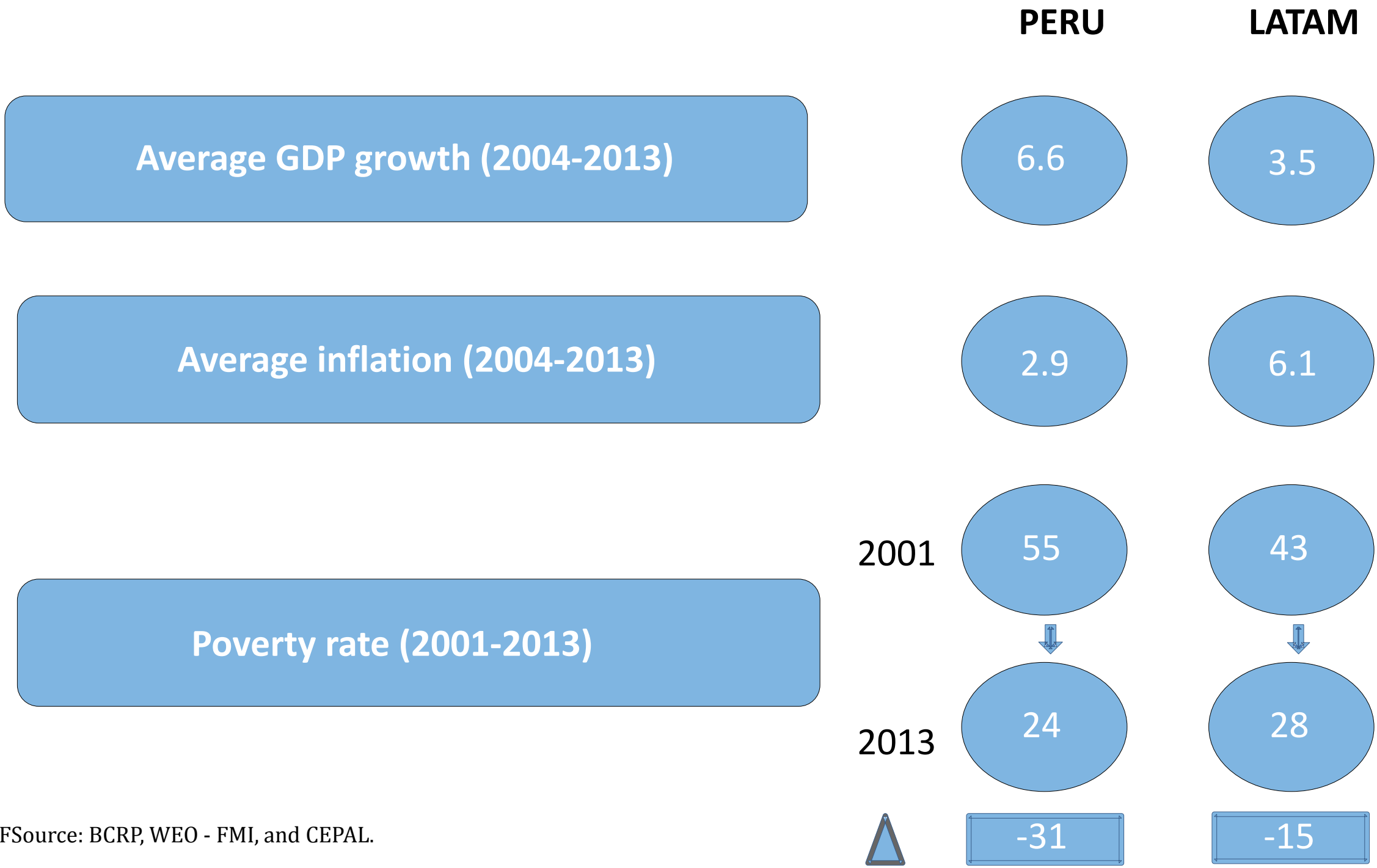
Central Bank of Peru

September 2014

Agenda

- 1. Peru's growth is based on strong fundamentals**
- 2. Recent economic developments and prospects**
- 3. Monetary Policy Framework**

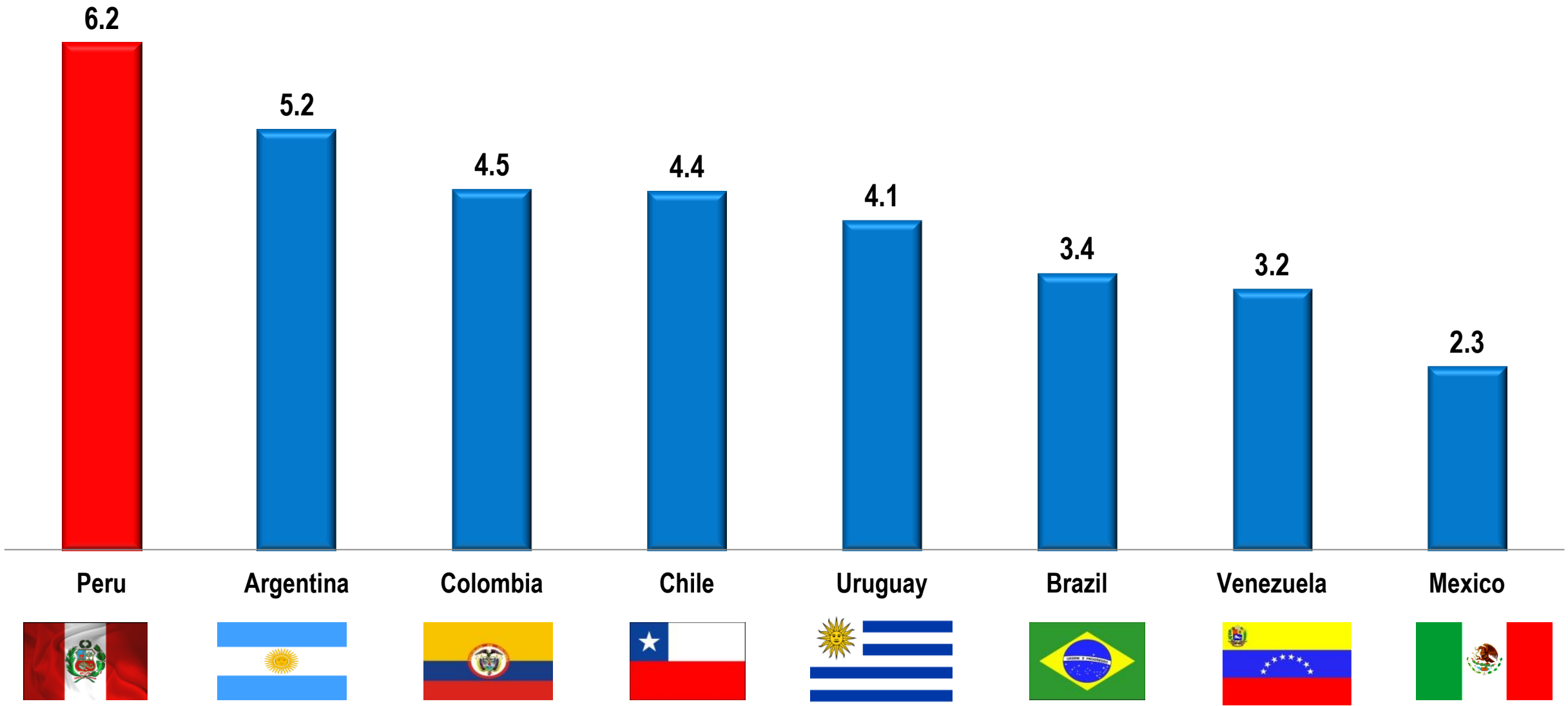
Peru and Latin America in the last 10 years



Source: BCRP, WEO - FMI, and CEPAL.

Peru's average GDP growth is the highest among the region's leading economies

GDP in Latin America : 2002-2013 *
(average percentage change)



Source: WEO – FMI.

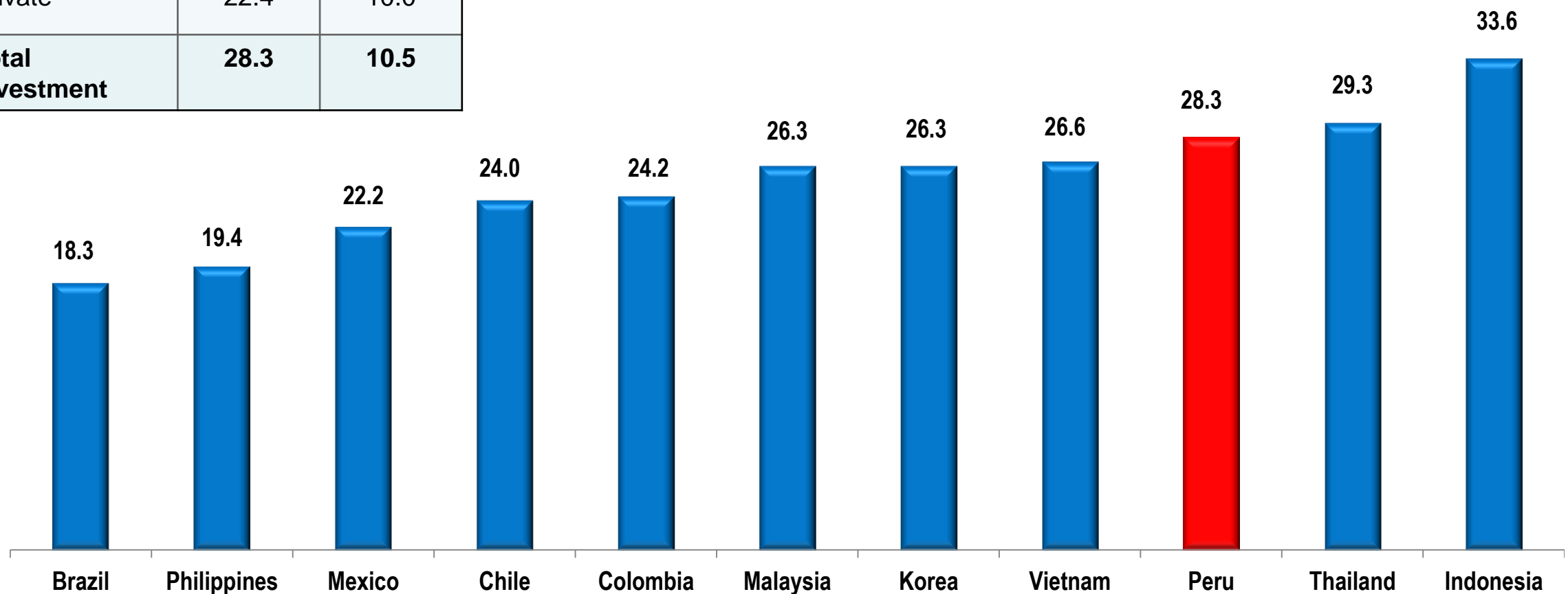
* Gross domestic product at constant prices

Capital accumulation has contributed considerably to sustainable growth. The investment rate was 28 percent in 2013.

Peru (2013)

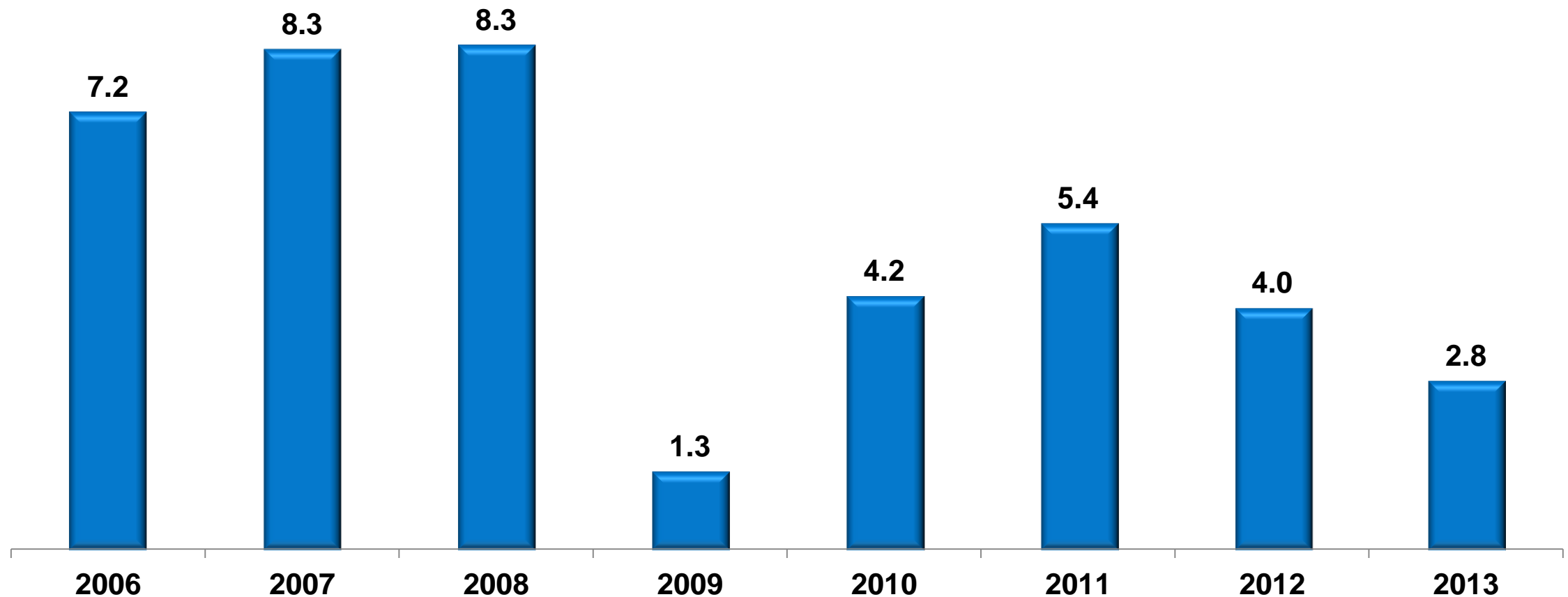
	% GDP	YoY% change
Public	5.8	12.5
Private	22.4	10.0
Total investment	28.3	10.5

Total investment: 2013
(percentage of GDP)



Continuous increase in employment rates, even during the 2008-2009 financial crisis

Urban Employment^{1/}
(Percentage change)

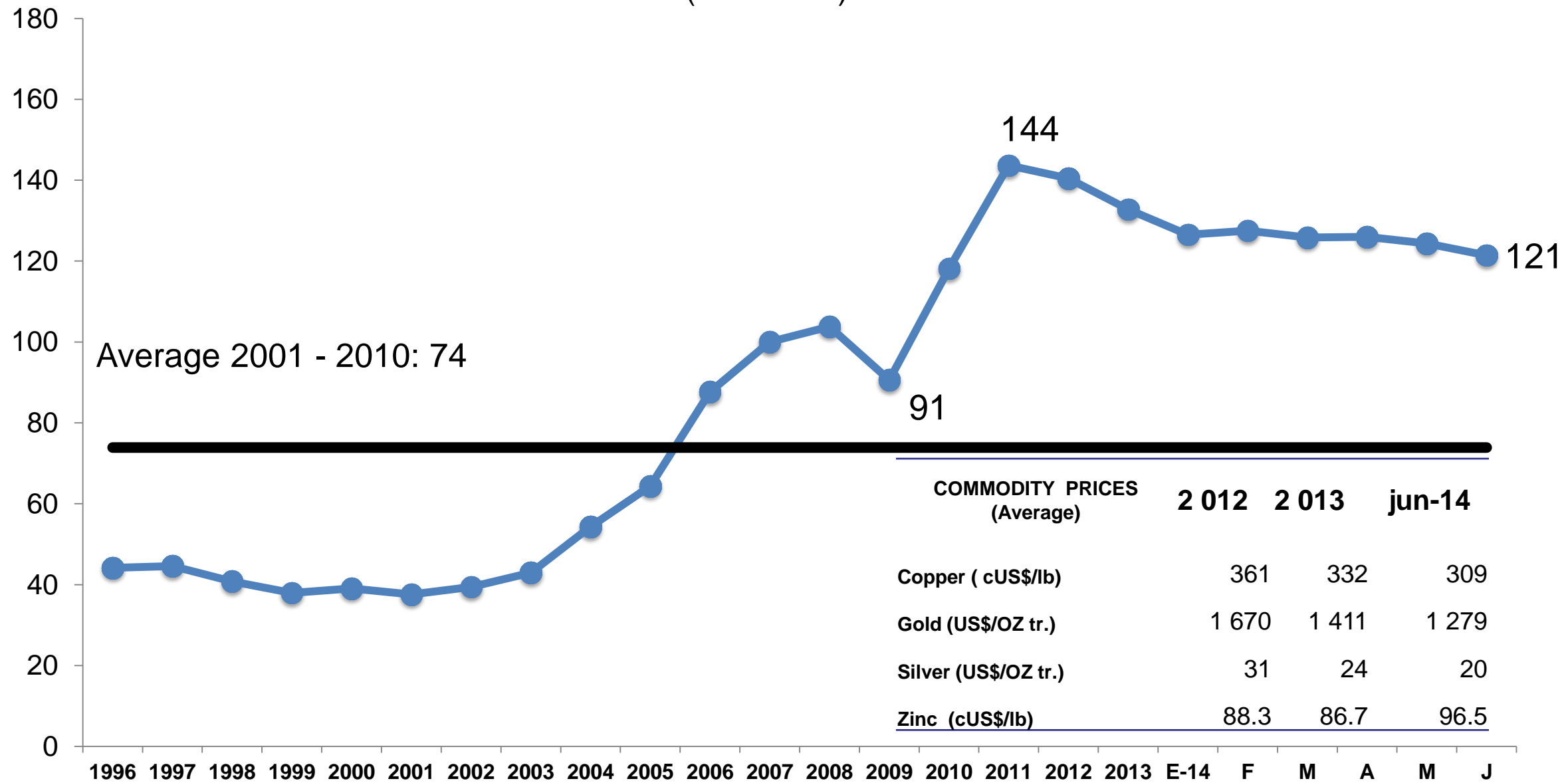


^{1/}Enterprises with 10 or more workers

Source: Ministry of Labor and Promotion of Employment

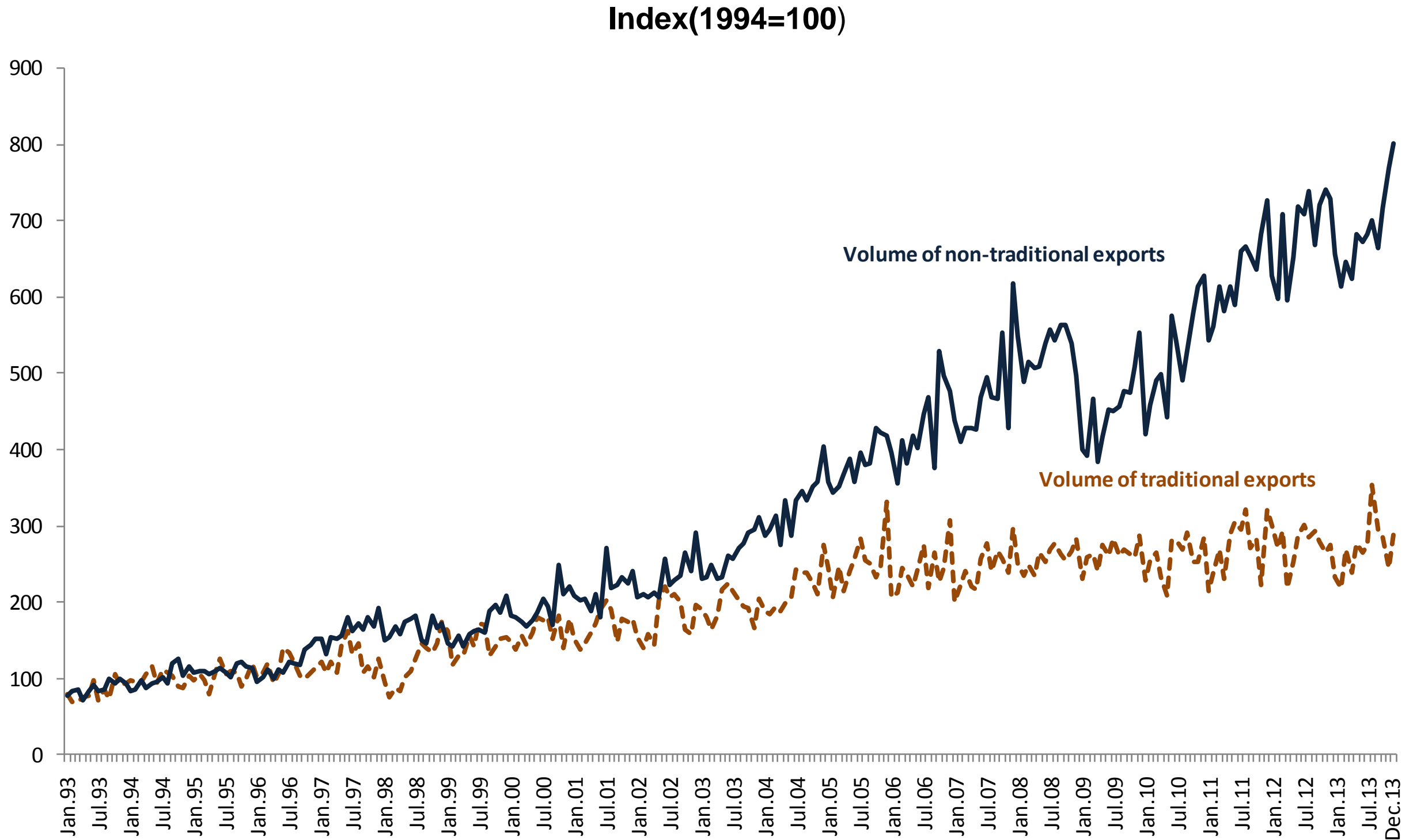
Export prices are lower than in 2012 but remain above the 10-year average

EXPORT PRICE INDEX
(2007=100)



COMMODITY PRICES (Average)	2 0 1 2	2 0 1 3	jun-14
Copper (cUS\$/lb)	361	332	309
Gold (US\$/OZ tr.)	1 670	1 411	1 279
Silver (US\$/OZ tr.)	31	24	20
Zinc (cUS\$/lb)	88.3	86.7	96.5

Faster growth in the volume of non-traditional exports than that of traditional exports



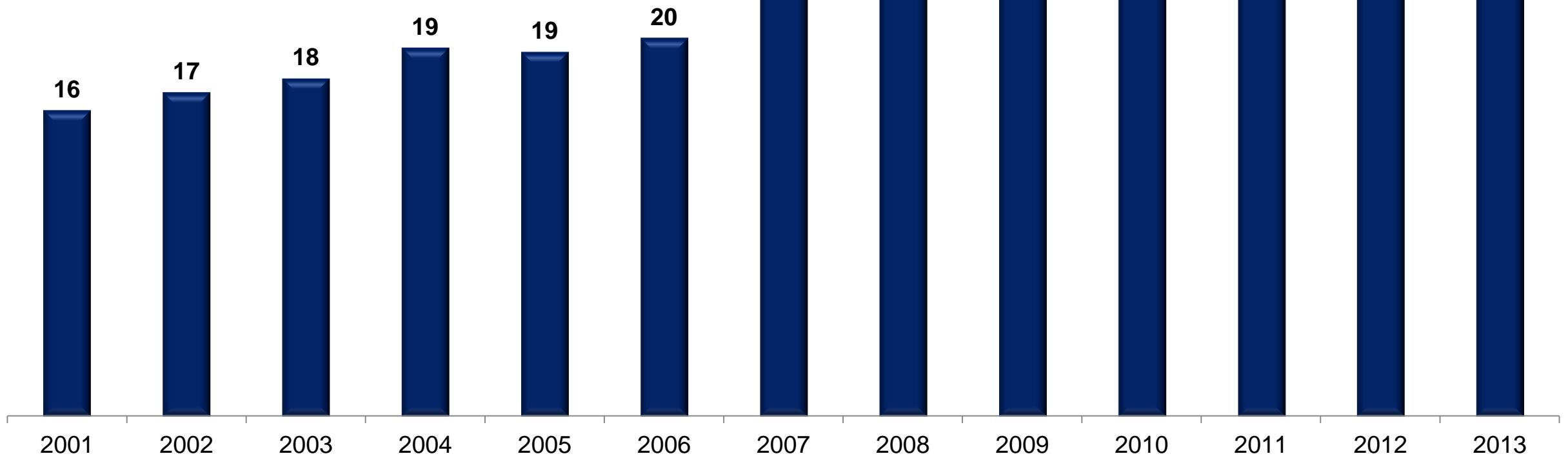
International reserves are equivalent to 32 percent of GDP

International Reserves: 2001-2013
(% GDP)

International Reserves
(% GDP, 2013)

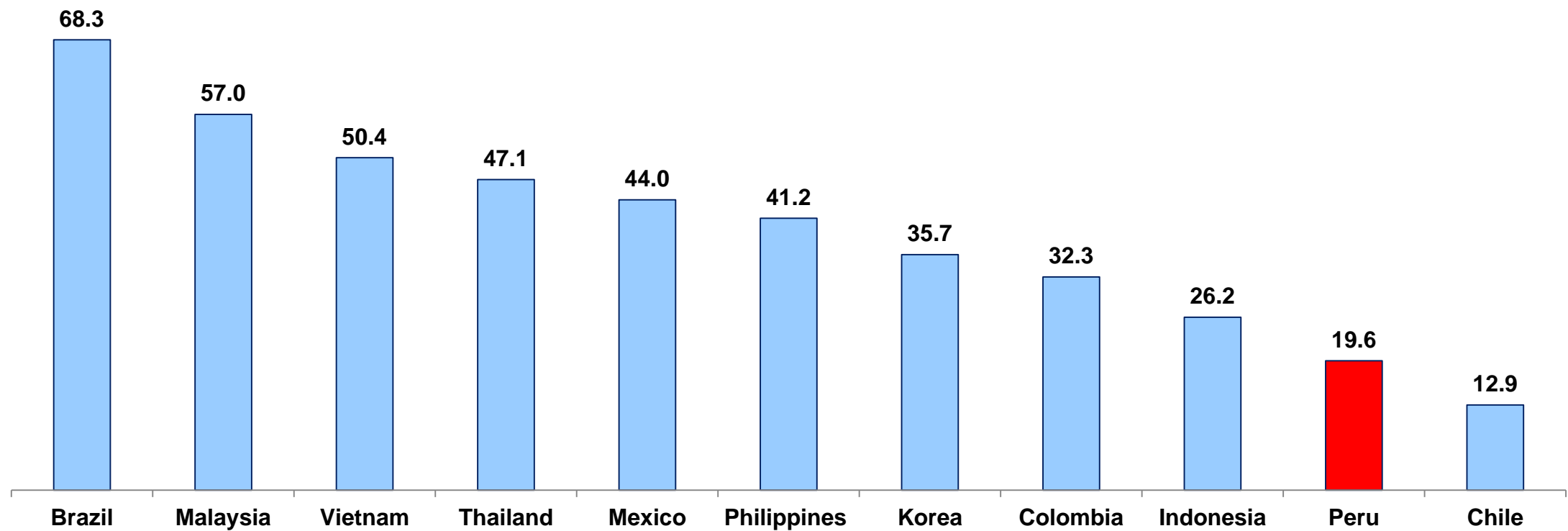


Source: BCRP, JP Morgan y FMI (WEO).



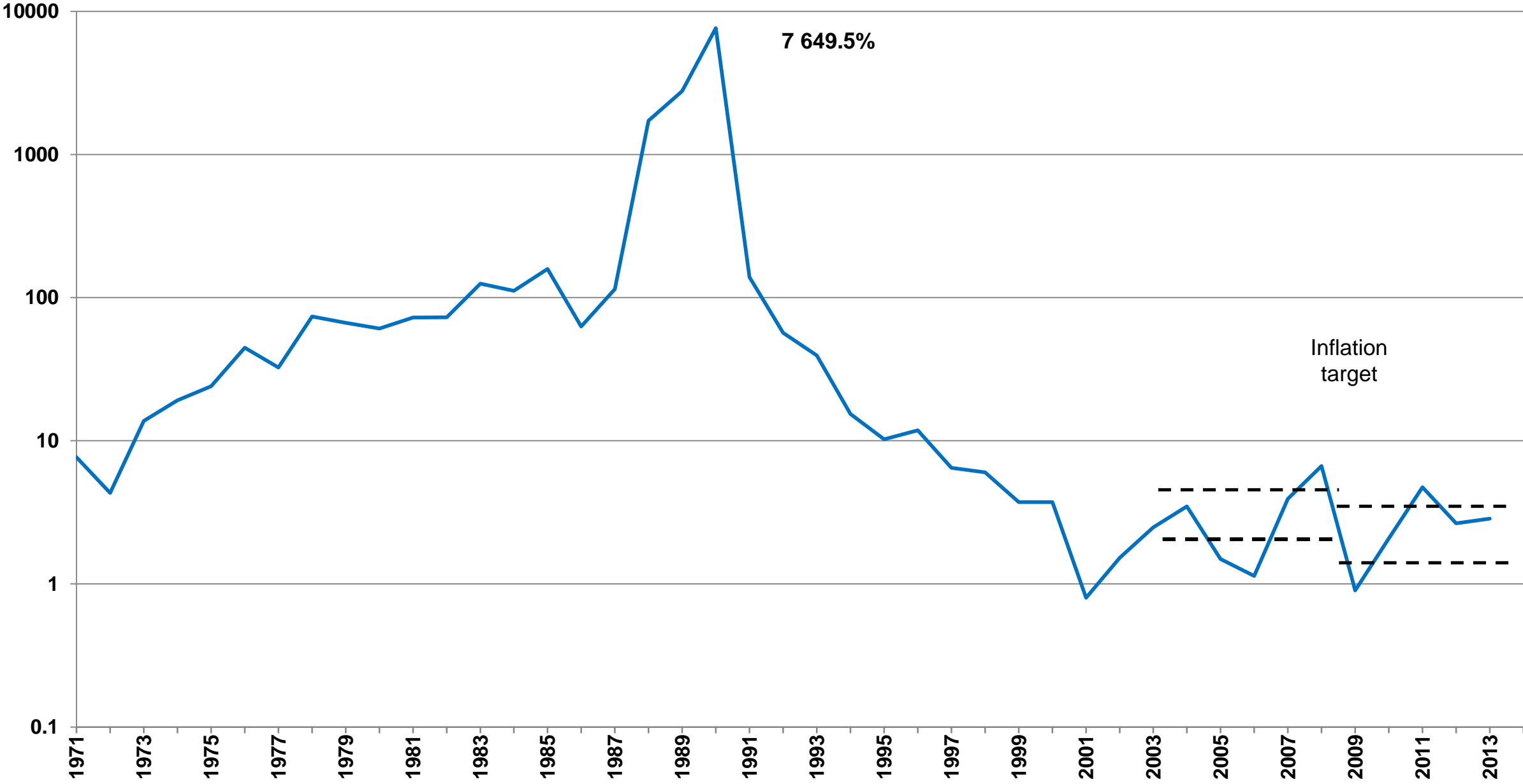
Public debt is among the lowest in the region

Gross public debt: 2013
(% GDP)



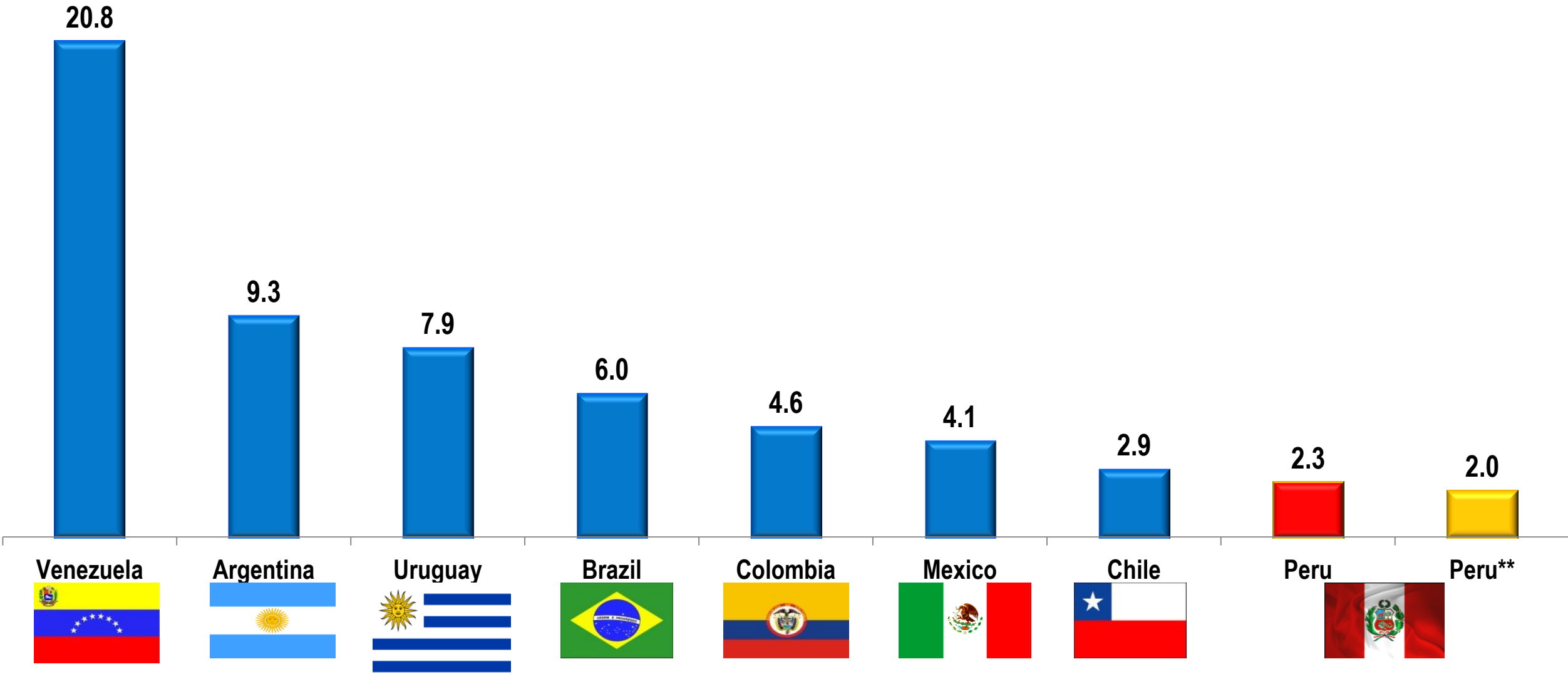
After hyper-inflation in 1990, monetary policy was reformed and inflation was reduced

Inflation Rate 1970 – 2013 (End of period)



Average inflation of 2.3 percent in the last 13 years

Inflation in Latin America: 2001-2013 *
(%)



Source: WEO – IMF

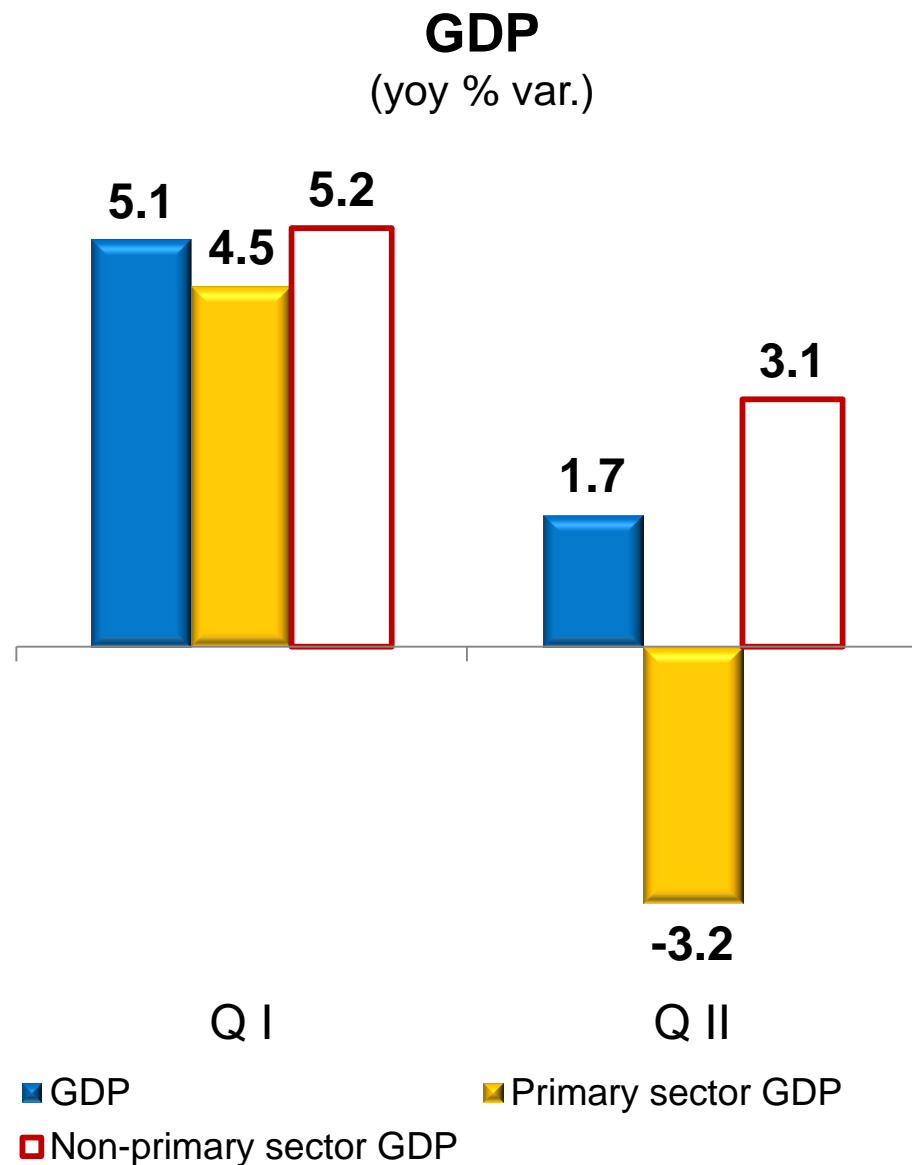
* Inflation, consumer price index, end of period

** Excludes food and energy

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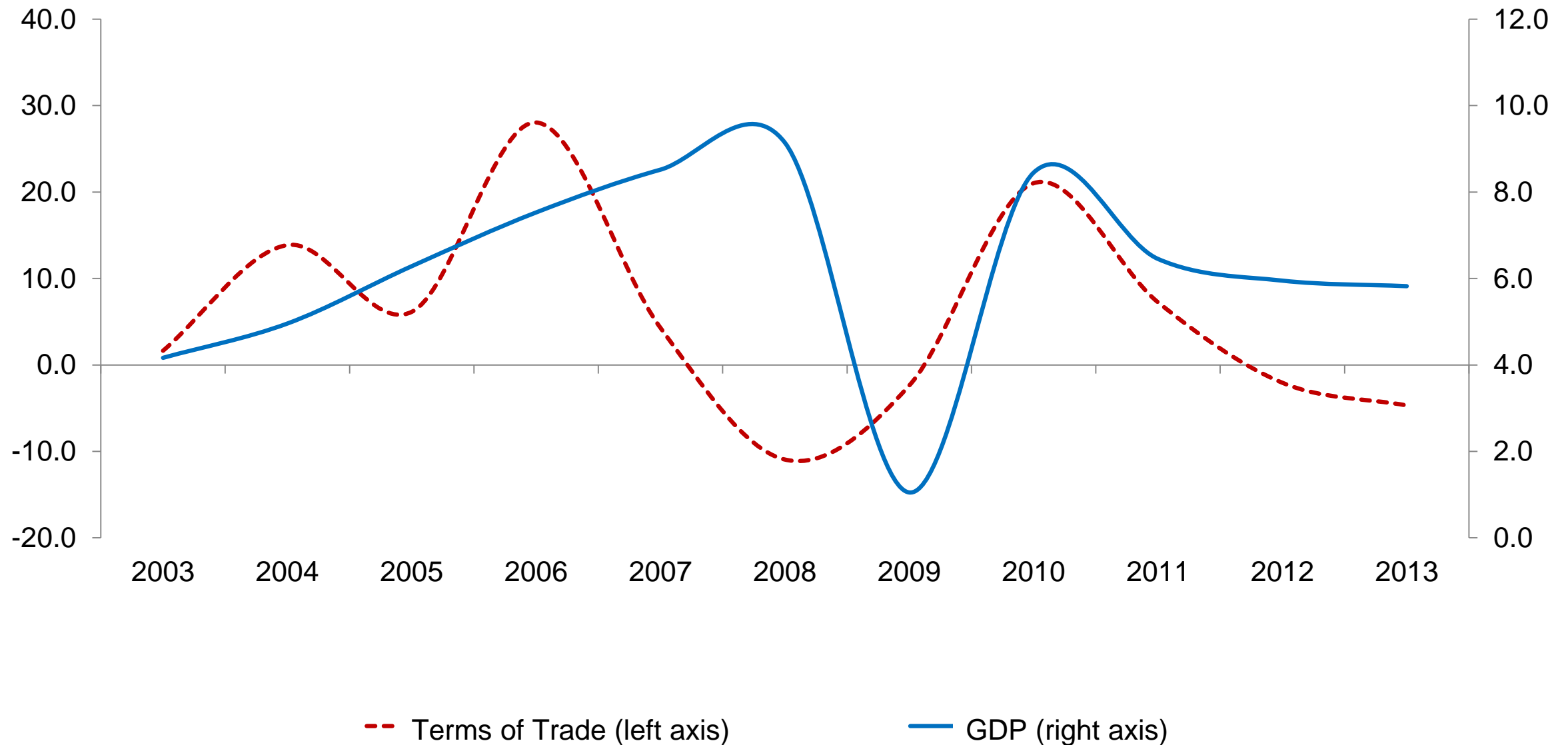
Lower growth in the primary sector, mainly due to temporary supply shocks.



- **Agriculture:** Null growth in the first half of the year due to lower coffee production (-20.9 percent) caused by the yellow rust plague; and lower rice production (-14.3 percent) due to lack of rainfall at the beginning of the year.
- **Fishing:** Decrease in anchovy population due to higher sea temperature. The fishing quota in the North-Central area during the first season was 2.5 million MT and only 52 percent was caught by June 30. Total fishing output was 1.8 million MT in the first half of 2014.
- **Metal mining:** Lower gold production (-16.2 percent in the first half) due to lower metal content; and lower zinc production (-13.4 percent in the same period).
- **Energy:** Lower production of liquid natural gas in Lots 56 and 88 in the first half.

The evolution of the terms of trade affects GDP performance mainly through investment...

GDP and Terms of Trade
(percentage change)



... which is reflected in the trade balance

TRADE BALANCE (Million US\$)

	2012	2013	I Sem. 14	2014*
EXPORTS	46 367	42 177	18 124	39 836
<i>Of which:</i>				
Traditional products	34 825	30 954	12 518	28 105
Non-traditional products	11 197	10 985	5 499	11 495
IMPORTS	41 135	42 217	20 317	42 447
<i>Of which:</i>				
Consumer goods	8 252	8 837	4 261	9 113
Inputs	19 273	19 512	9 343	18 888
Capital goods	13 347	13 654	6 620	13 681
<u>TRADE BALANCE</u>	<u>5 232</u>	<u>-40</u>	<u>-2 194</u>	<u>-2 611</u>
<i>Note (% change):</i>				
Export Volume Index	2.2	-3.8	-2.0	-1.0
Import Volume Index	10.9	3.5	-1.5	0.4
Export Nominal Price Index	-2.2	-5.5	-9.1	-4.6
Import Nominal Price Index	-0.2	-0.8	-0.6	0.1

* Forecast

As of July, public investment has decreased by 1.5 percent. However, an increase in public investment is expected in the upcoming months as a result of fiscal measures.

GROSS CAPITAL FORMATION

(real percentage change)

	Jan - Jul 2013	Jan - Jul 2014
GROSS CAPITAL FORMATION	23.3	-1.5
<i>Of which:</i>		
Regional Governments	23.7	-3.3
Local Governments	25.5	-4.4

The expenditure of regional and local governments increased during the electoral process

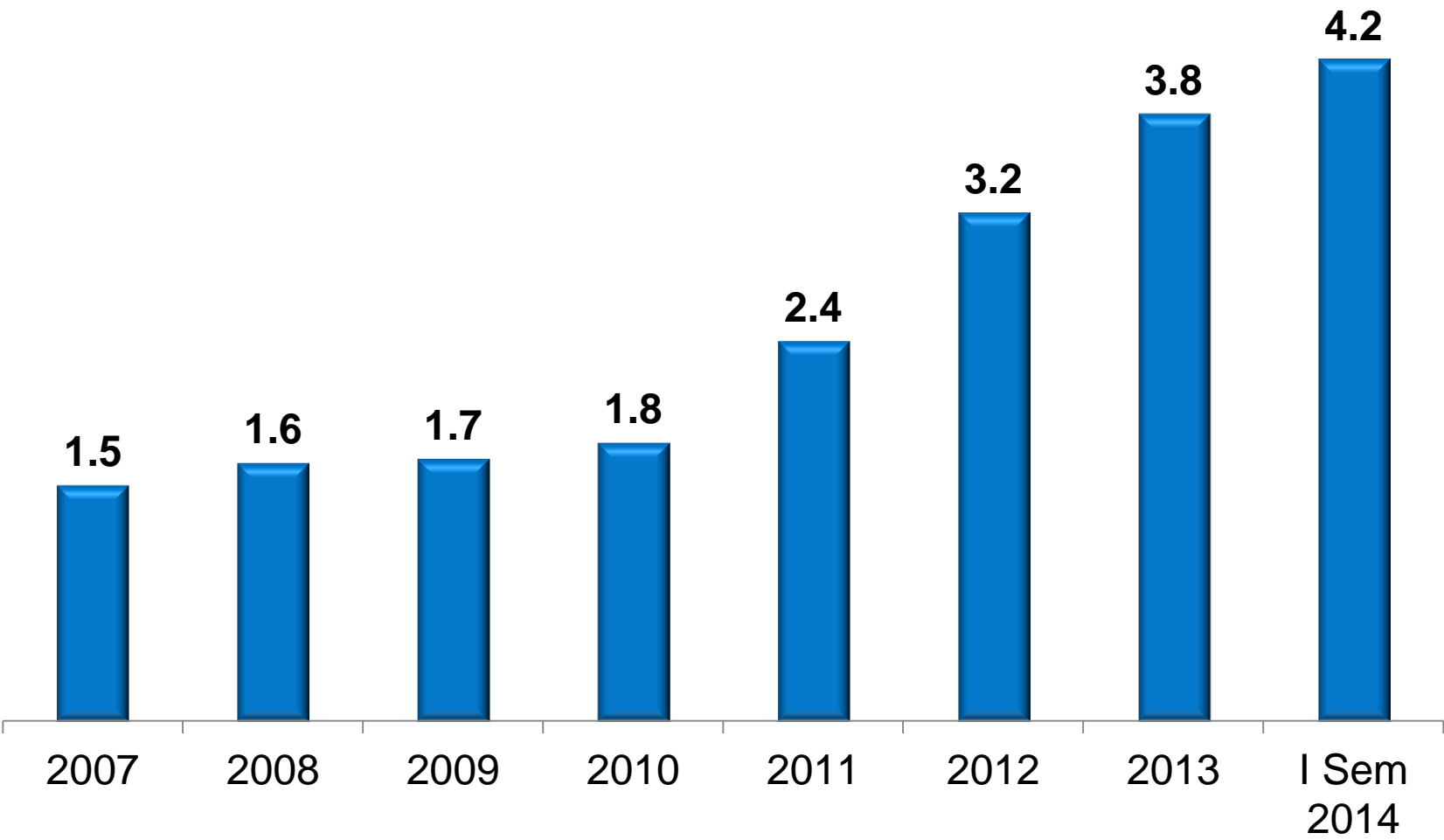
General Government Expenditure

(real percentage change)

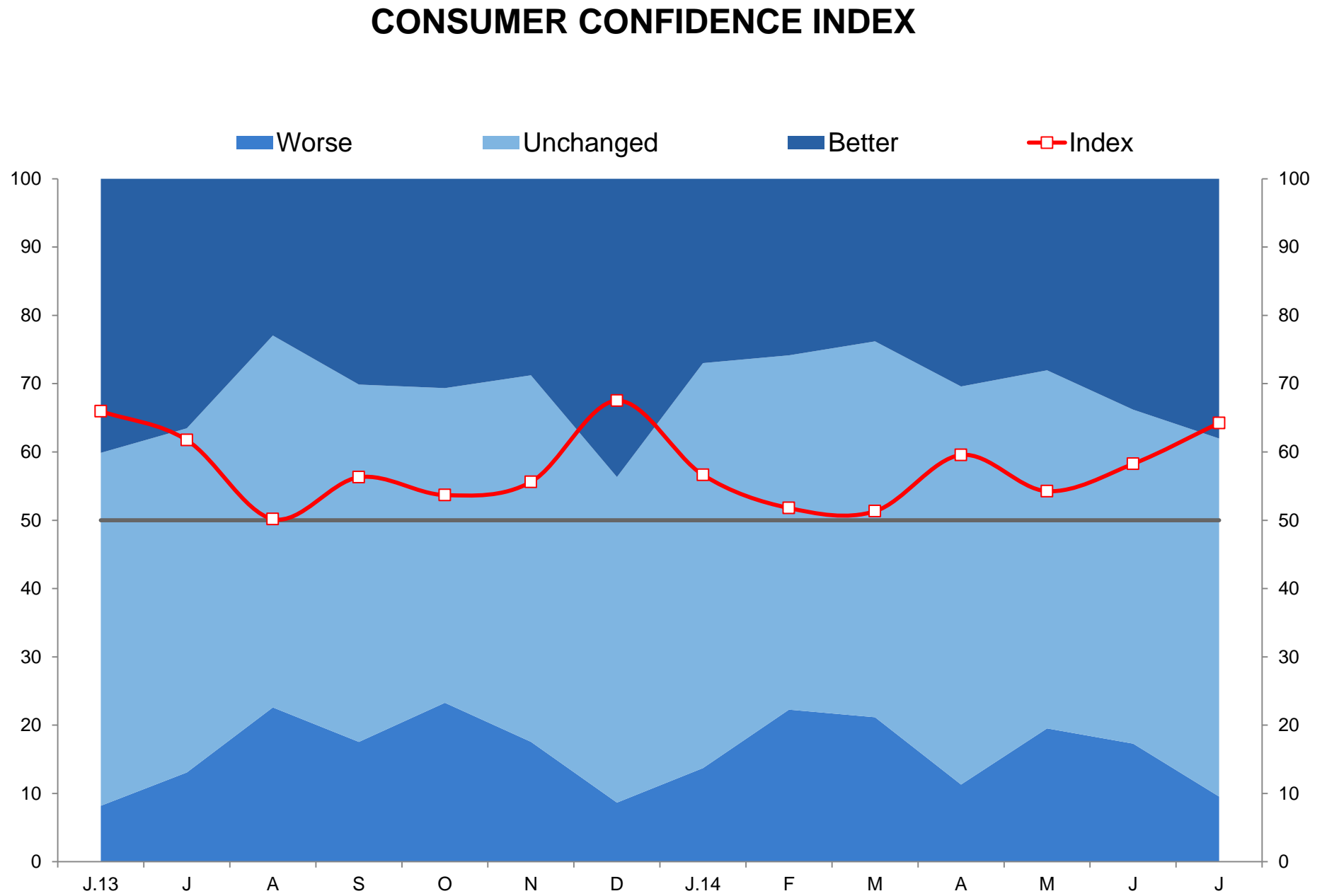
	Aug - Oct 2009	Aug - Oct 2010	Aug - Oct 2013
Regional Governments			
Non-Financial Expenditure	10.9	12.5	10.1
Current Expenditure	5.4	4.9	9.3
Capital Expenditure	26.7	30.1	11.7
Local Governments			
Non-Financial Expenditure	7.3	14.9	-2.0
Current Expenditure	4.3	10.5	0.4
Capital Expenditure	9.4	17.7	-3.7

Since July, the tax withholding rate for the sector of services has been lowered from 12 to 10 percent, which will give companies greater liquidity (\$/. 1 800 million, equivalent to 0.3 percent of GDP).

Tax collection from withholdings
(as a percentage of nominal GDP)



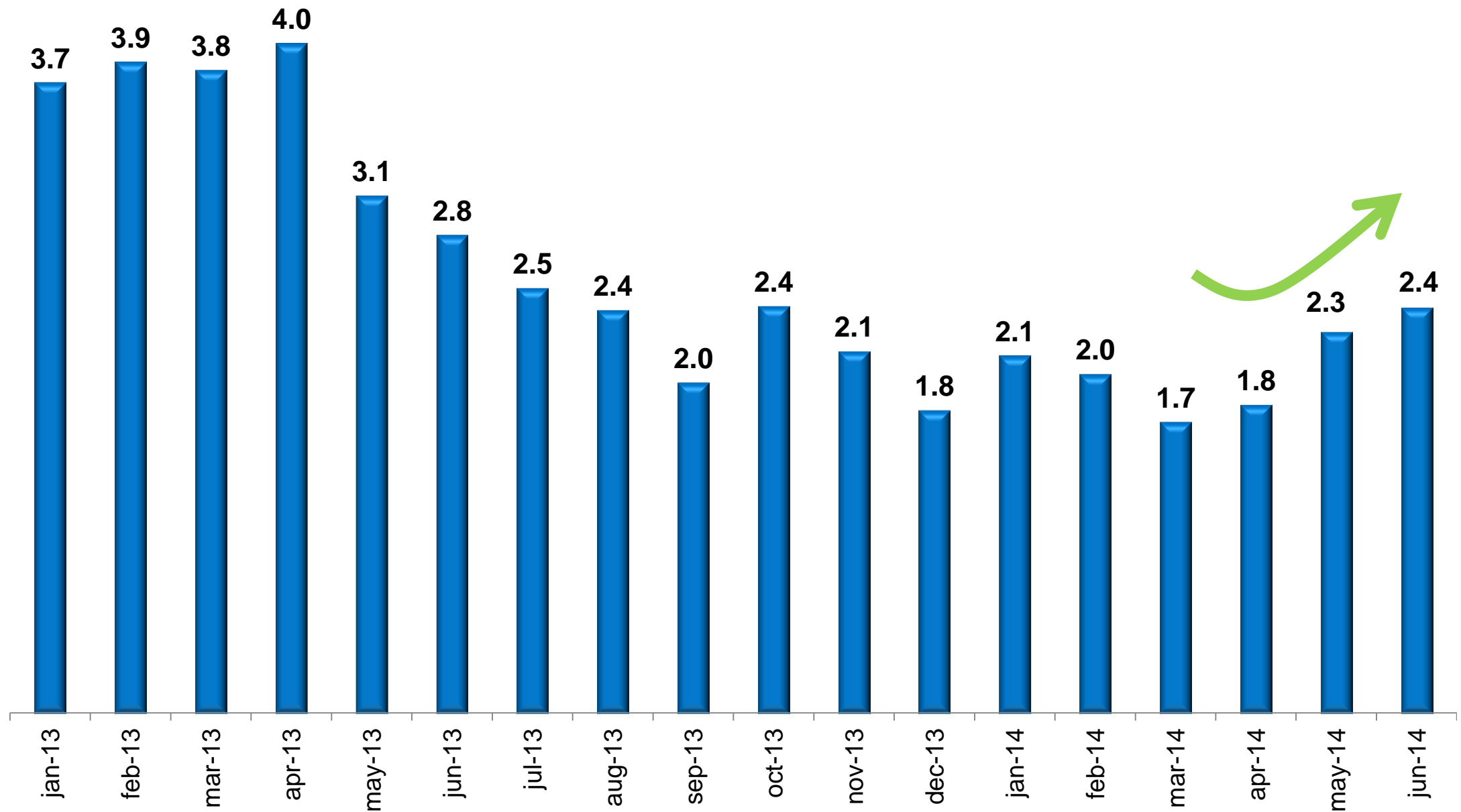
Consumer Confidence Index shows an optimistic level of 64 points in July.



Source: Survey of Macroeconomic Expectations, BCRP.

Signs of recovery in the labor market

Employment (Annual percentage change)

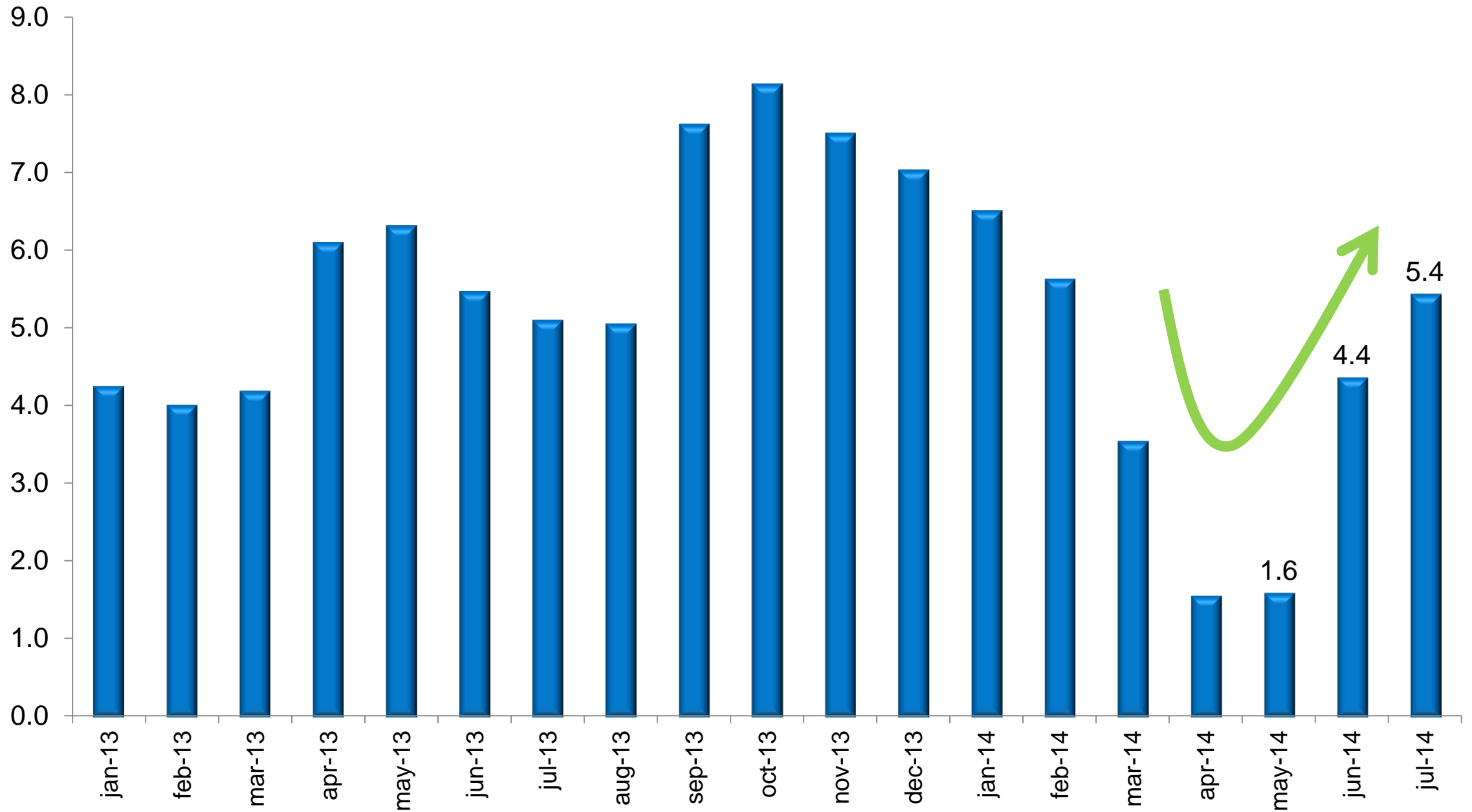


Source: Ministry of Labor and Promotion of Employment

Signs of recovery in the labor market

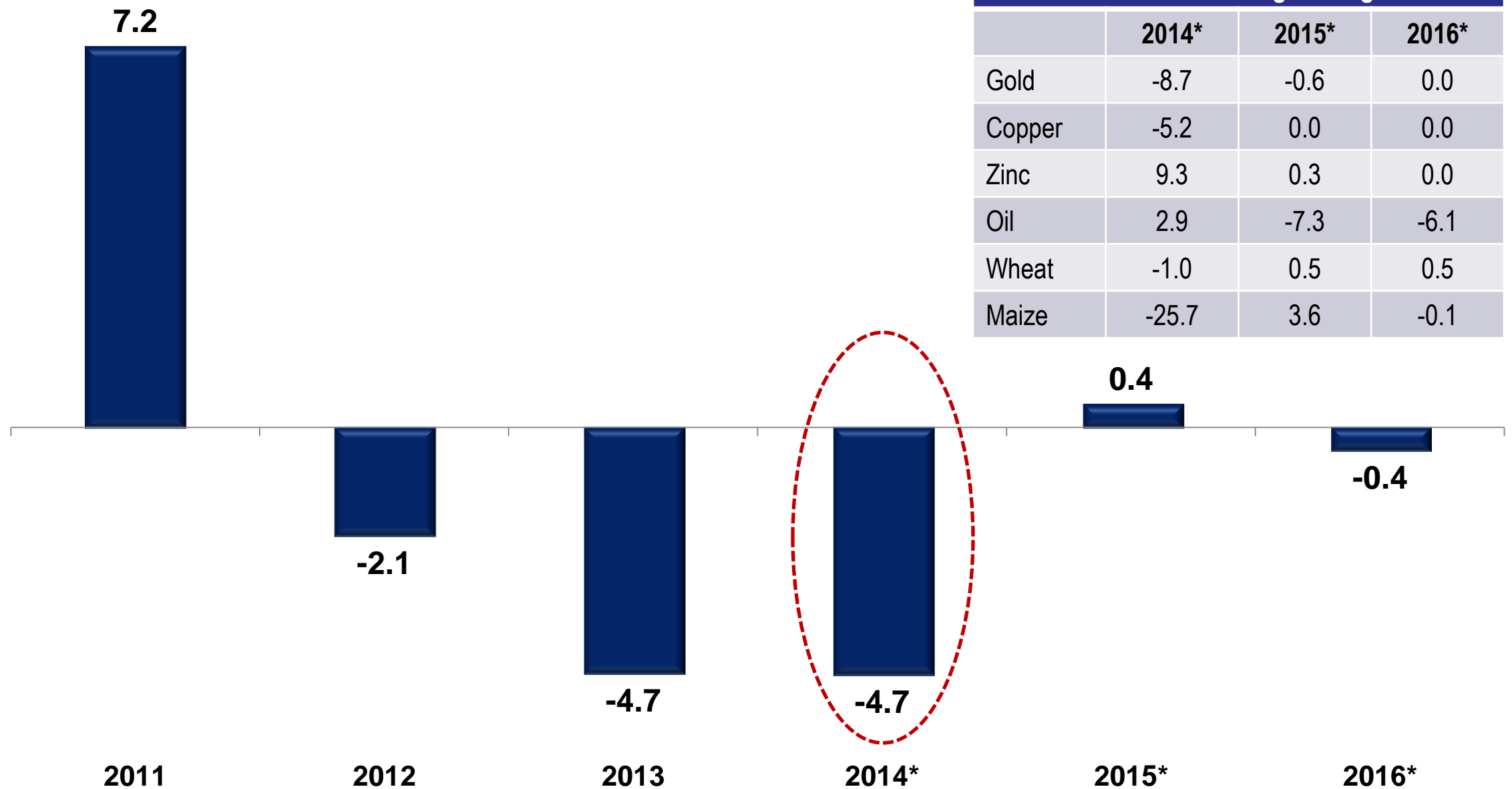
Payroll

(In soles of 2007, real % change)



Negative terms of trade shock

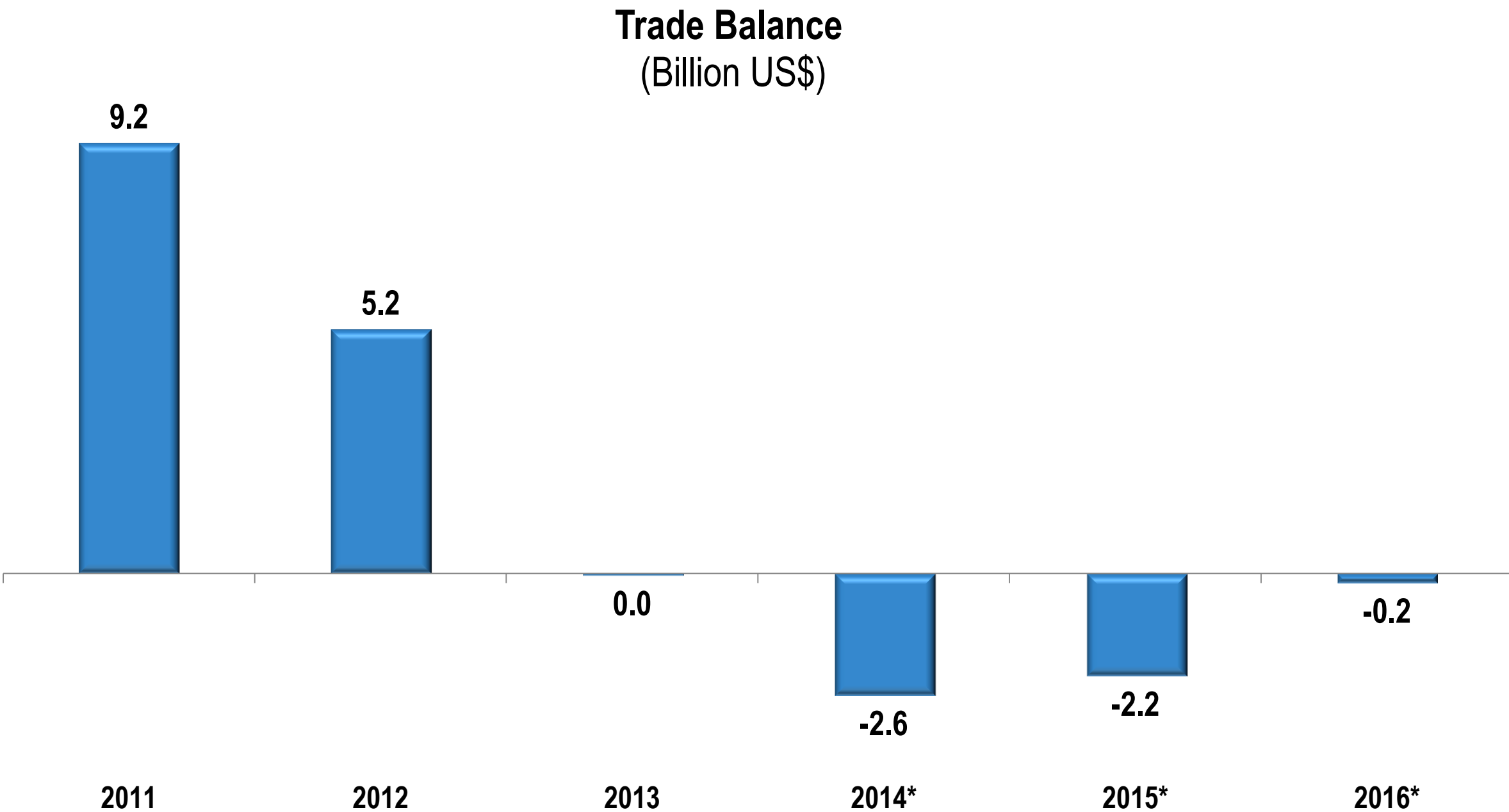
Terms of trade
(Percentage change)



Prices: Percentage change			
	2014*	2015*	2016*
Gold	-8.7	-0.6	0.0
Copper	-5.2	0.0	0.0
Zinc	9.3	0.3	0.0
Oil	2.9	-7.3	-6.1
Wheat	-1.0	0.5	0.5
Maize	-25.7	3.6	-0.1

*Forecast

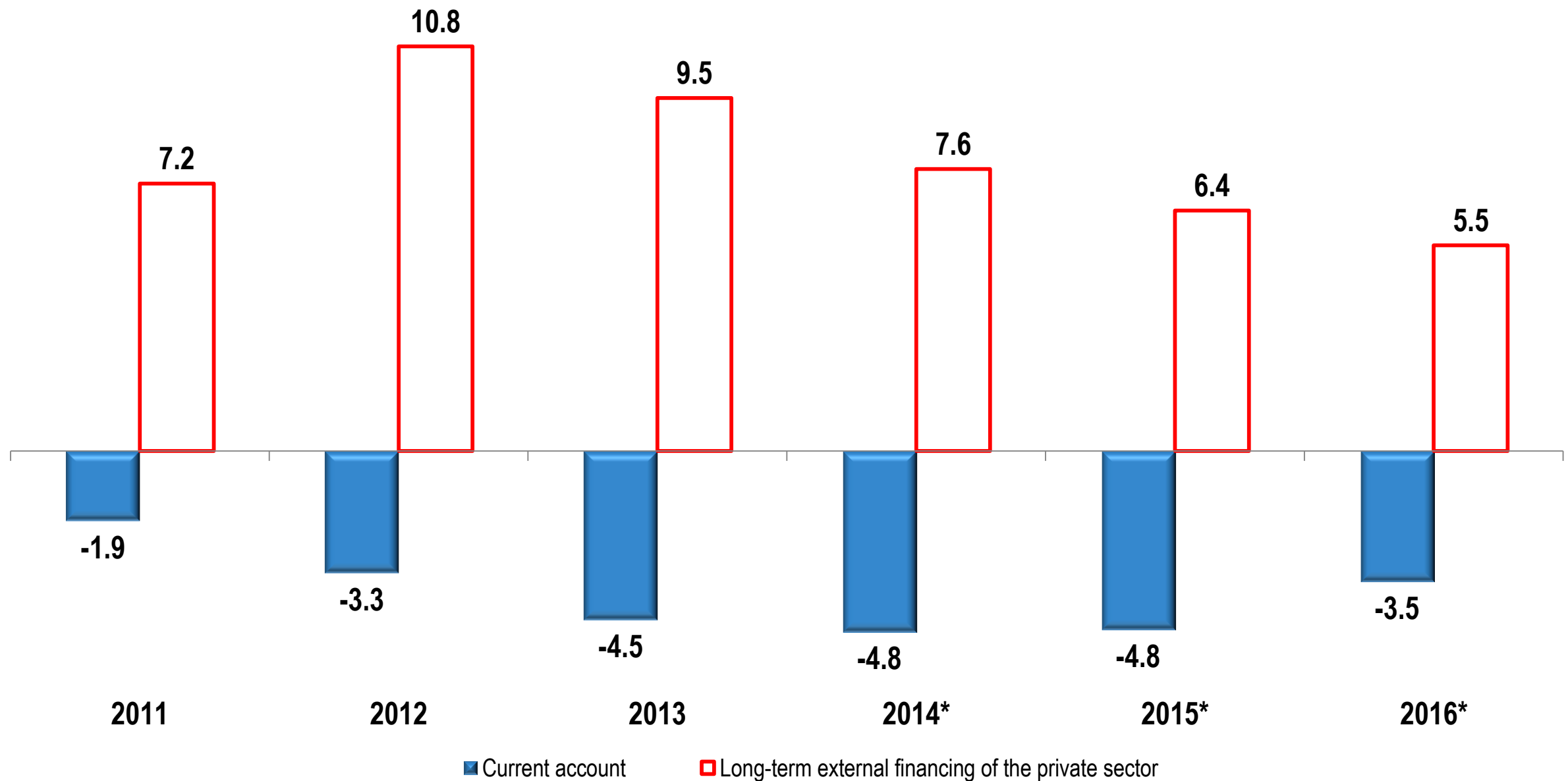
The onset of new mining projects will contribute to improve in the trade balance in the coming years



*Forecast

The current account deficit is financed by long-term private capital inflows

PRIVATE SECTOR CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING^{1/}: 2006-2016
(% of GDP)

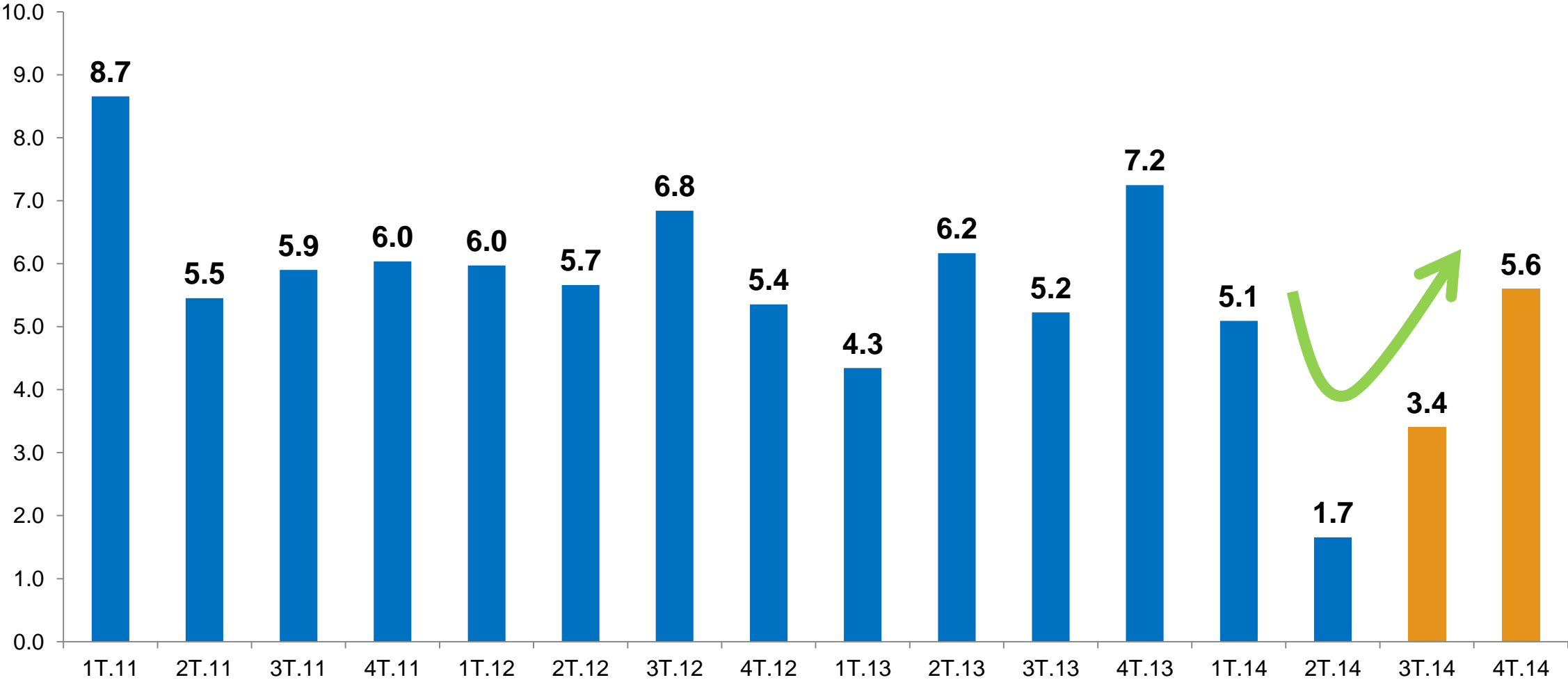


1/ Includes net foreign investments, portfolio investments and private sector's long-term disbursement.

*Forecast.

Recovery of GDP in the second half of 2014, consistent with an annual growth rate of 4.0 percent

Gross Domestic Product (12 month % change)



Recovery in GDP growth associated with a better performance of primary sectors

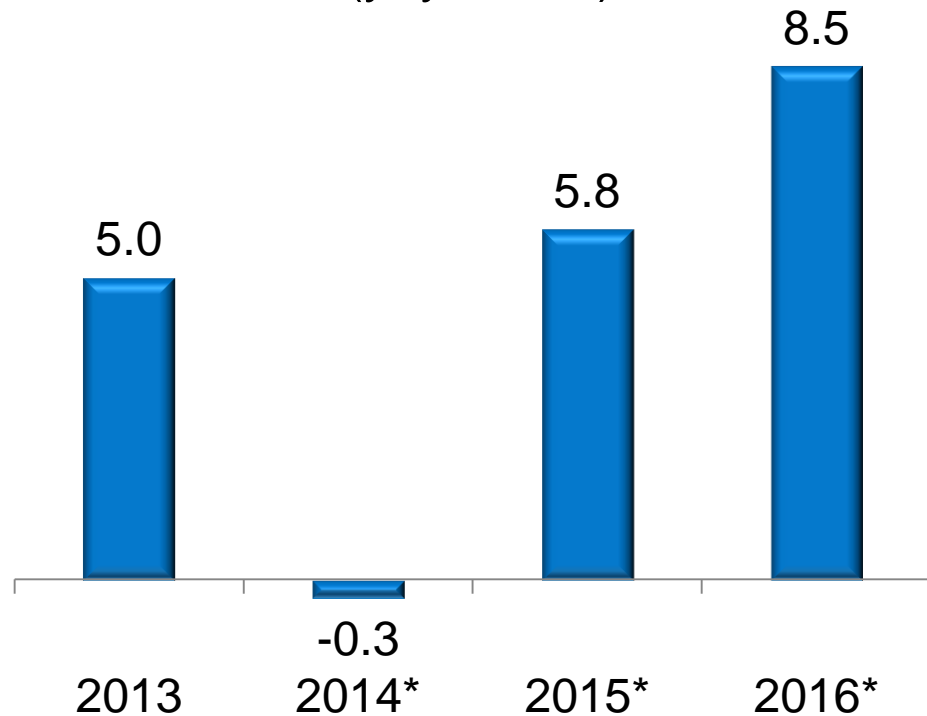
GDP BY ECONOMIC SECTOR (yoy % var)

	2014*	2015*	2016*
Agriculture	1.7	2.4	3.4
Fishing	-2.5	-1.2	35.5
Mining and oil	-0.9	7.6	10.7
Manufacturing based on raw materials	-0.5	2.2	3.6
Non-primary manufacturing	1.7	4.5	4.8
Construction	4.3	8.5	7.5
Electricity and water	5.6	6.1	6.3
Commerce and services	5.8	6.2	5.8
GDP	4.0	6.0	6.3

* Forecast

Negative supply shocks are expected to revert completely by 2016

Primary sector GDP
(yoy % var)



* Forecast.

- **Agriculture**: Production is expected to grow by 2.2 and 3.5 percent in 2015 and 2016, respectively. In 2015 we consider a moderate El Niño effect and a reduction in the impact of the yellow rust plague on coffee production. In 2016 it is expected that both El Niño and the yellow rust plague effect will revert completely.
- **Fishing**: Expected production in the fishing sector assumes a moderate El Niño effect until 2015. In 2016 a full recovery of fishing production is expected, as anomalous sea temperatures in 2015 will not affect the reproductive cycle of anchovies.
- **Metal mining**: Higher copper production in 2015 and 2016 when the Constancia and Las Bambas copper projects start operating. Decrease in gold production due to lower metal content. However, the Inmaculada and Invicta projects will start in 2015; and the Shahuindo project will launch operations in 2016.
- **Energy**: Higher oil production due to the onset of operations at Perenco's Lot 67 (daily production of 12 thousand barrels of oil). Higher production of liquids and natural gas in 2015 due to the start of the production phase in Repsol's Lot 57. In 2016, higher production of liquids and natural gas is expected due to the onset of operations of Camisea's compressor plant.

Higher GDP growth in 2015 and 2016 would be associated with a recovery of private investment and exports

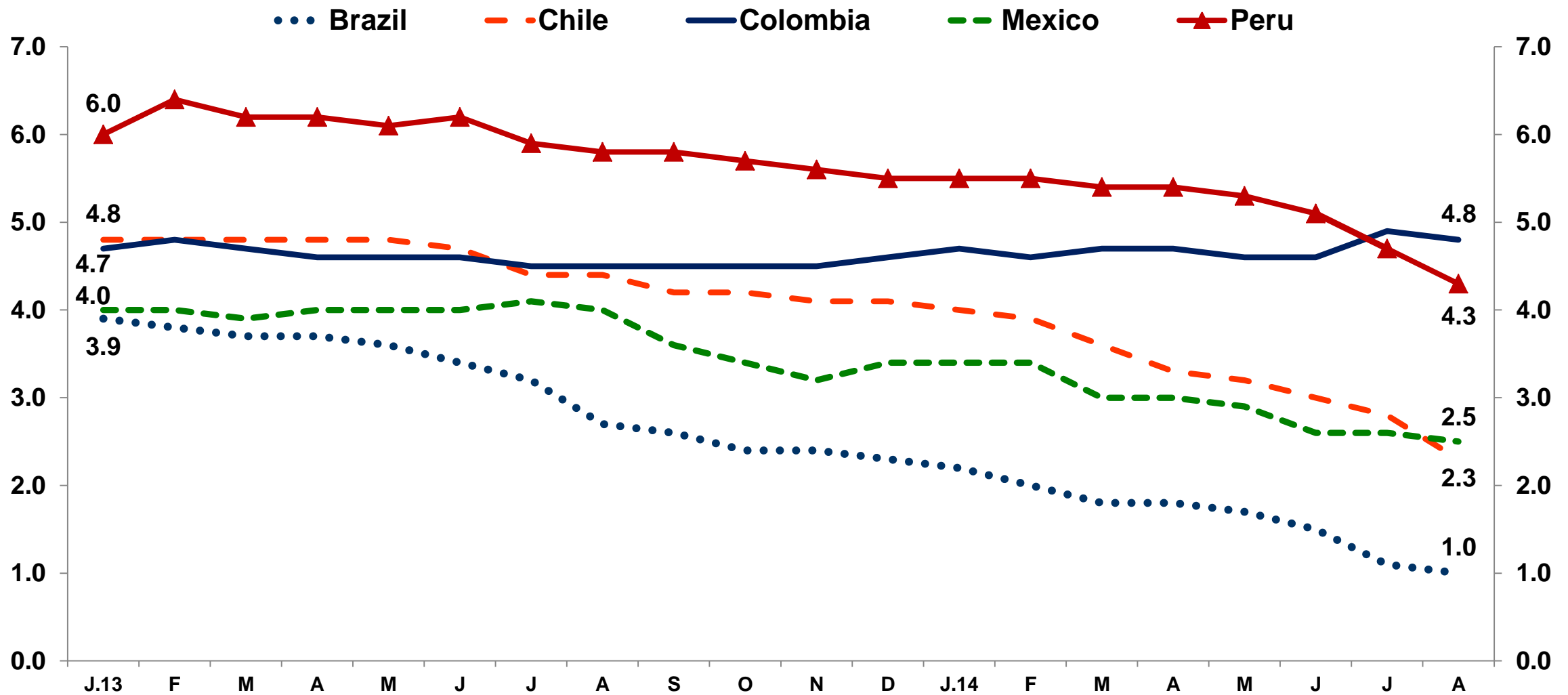
Gross Domestic Product (Real % change)

	2014*	2015*	2016*
Private consumption	4.8	5.0	5.2
Public consumption	8.6	6.0	6.0
Private fixed investment	1.5	6.2	6.5
Public Investment	4.4	8.9	11.0
Change on inventories	-11.5	16.2	-40.2
Exports	-1.5	5.5	10.8
Imports	-0.1	4.7	5.9
GDP	4.0	6.0	6.3

*Forecast.

Peru's growth expectations remain above those for most countries in the region

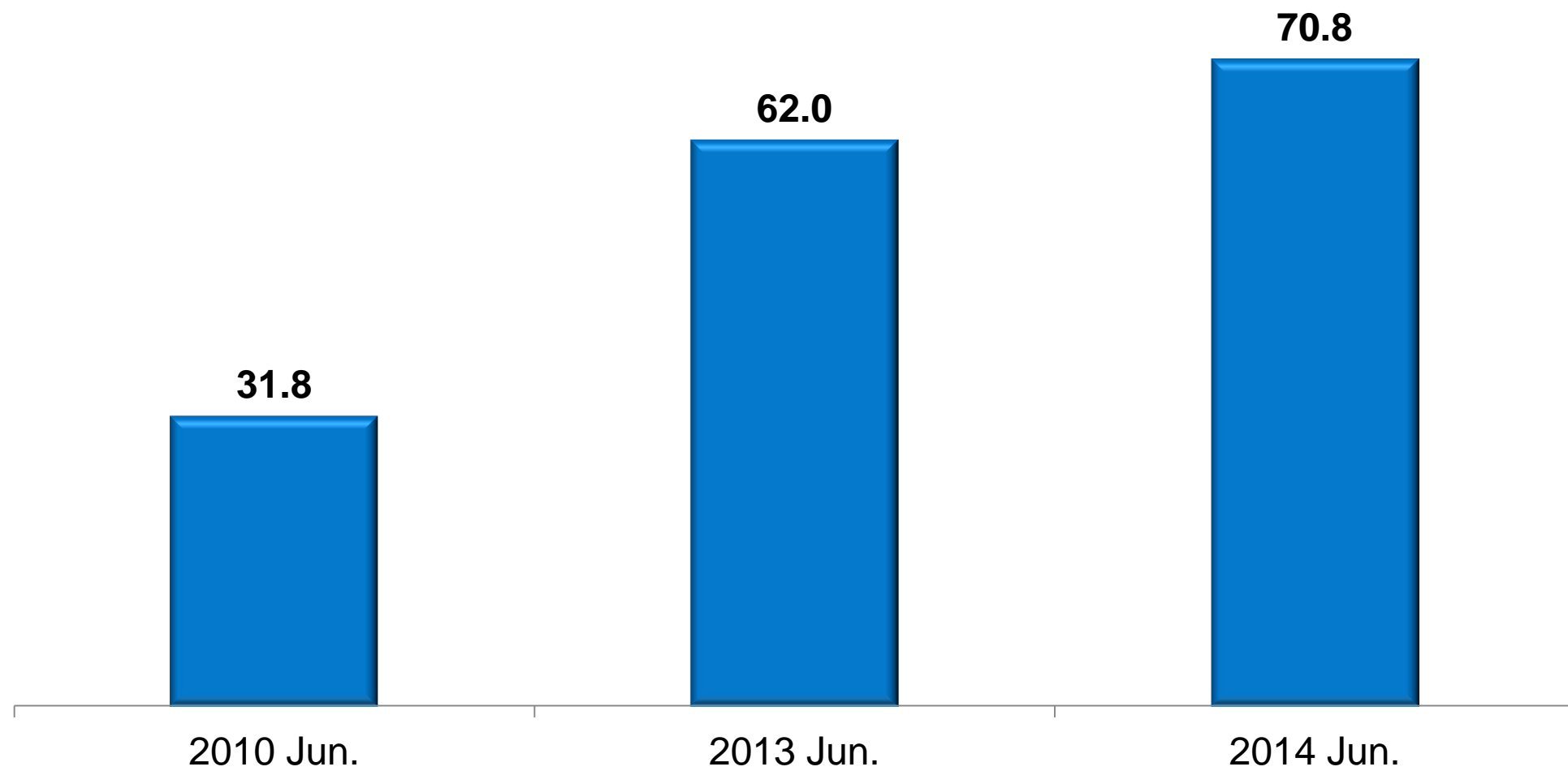
Expected GDP growth for 2014
(annual percentage change)



Source: Latin American Consensus Forecast (August 2014)

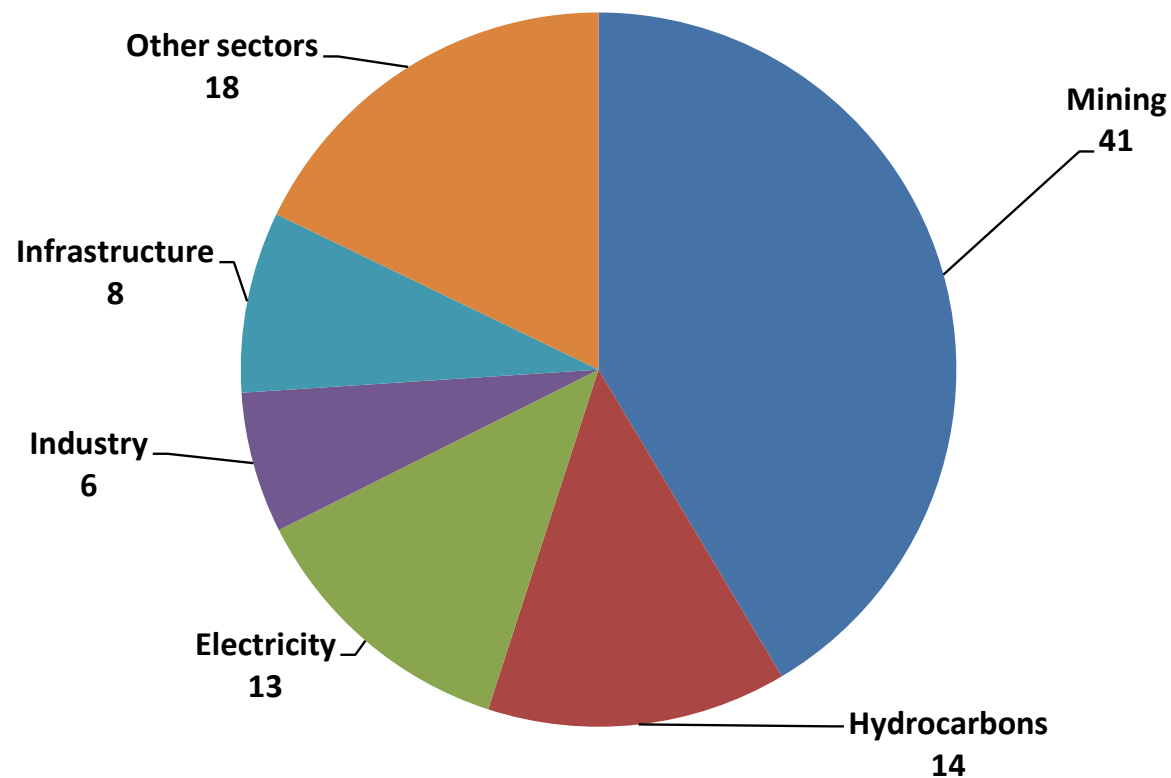
Announced private investment projects amount to US\$ 70.8 billion

ANNOUNCED INVESTMENT PROJECTS (Billion US\$)



US\$ 45.9 billion in private investment announcements for 2014-2016

FORESEEN INVESTMENT PROJECTS: 2014-2016
(% share)



PRIVATE INVESTMENT PROJECTS ANNOUNCED
(Million US\$)

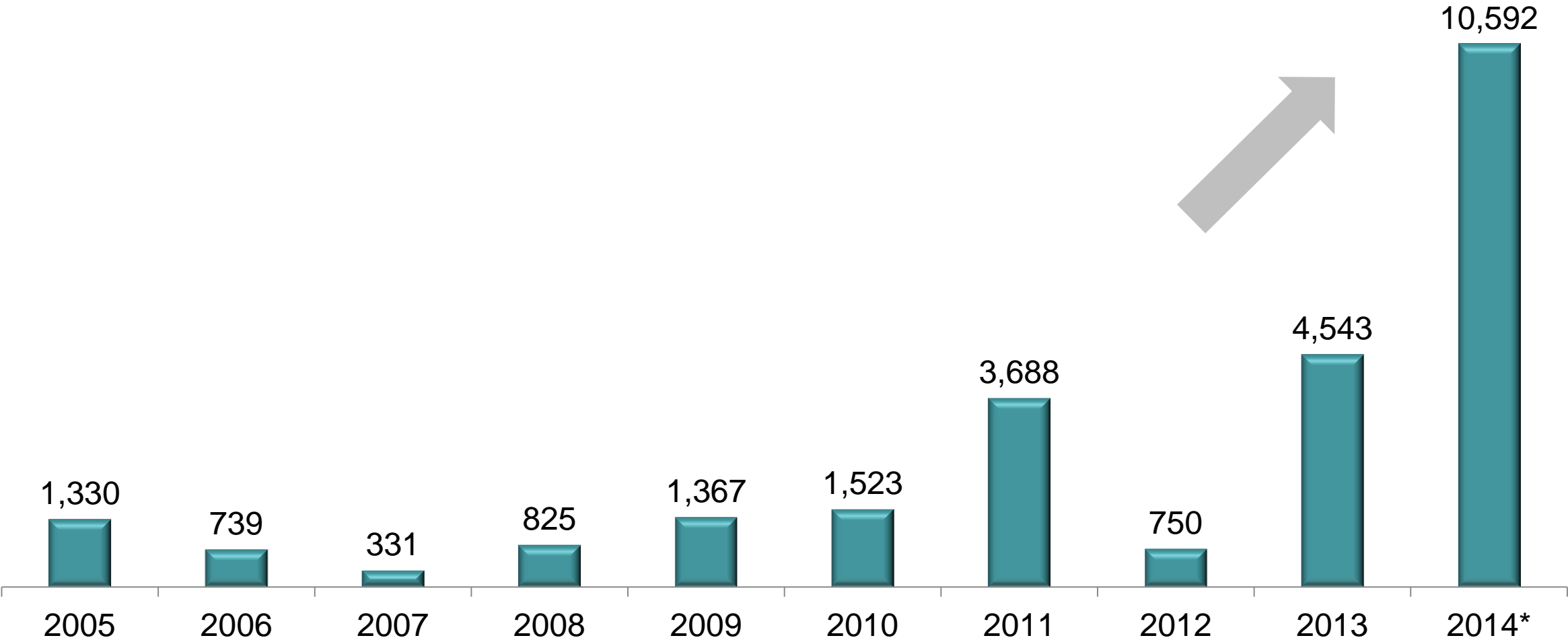
	2014 - 2016		Differences
	IR APR.14	IR JUL.14	
Mining	18 989	19 031	42
Hydrocarbons	5 589	6 226	637
Electricity	5 443	5 785	342
Industry	2 762	2 932	170
Infrastructure	3 627	3 763	136
Other sectors	7 425	8 192	767
Total	43 835	45 929	2 094

IR: Inflation Report

Source: Press media and business information

US\$ 11 billion in investment projects are expected to be implemented in 2014 through concessions

Concessions
(Millions of US\$)



* Concession arrangements to 2014
Source: Proinversión

Concessions amounting to US\$ 10 billion have been granted in 2014

Metro Line 2



US\$ 5 168 M

Southern Gas Pipeline



US\$ 3 600 M

Chincheró Airport



US\$ 658 M

Moyobamba-Iquitos Transmission Line

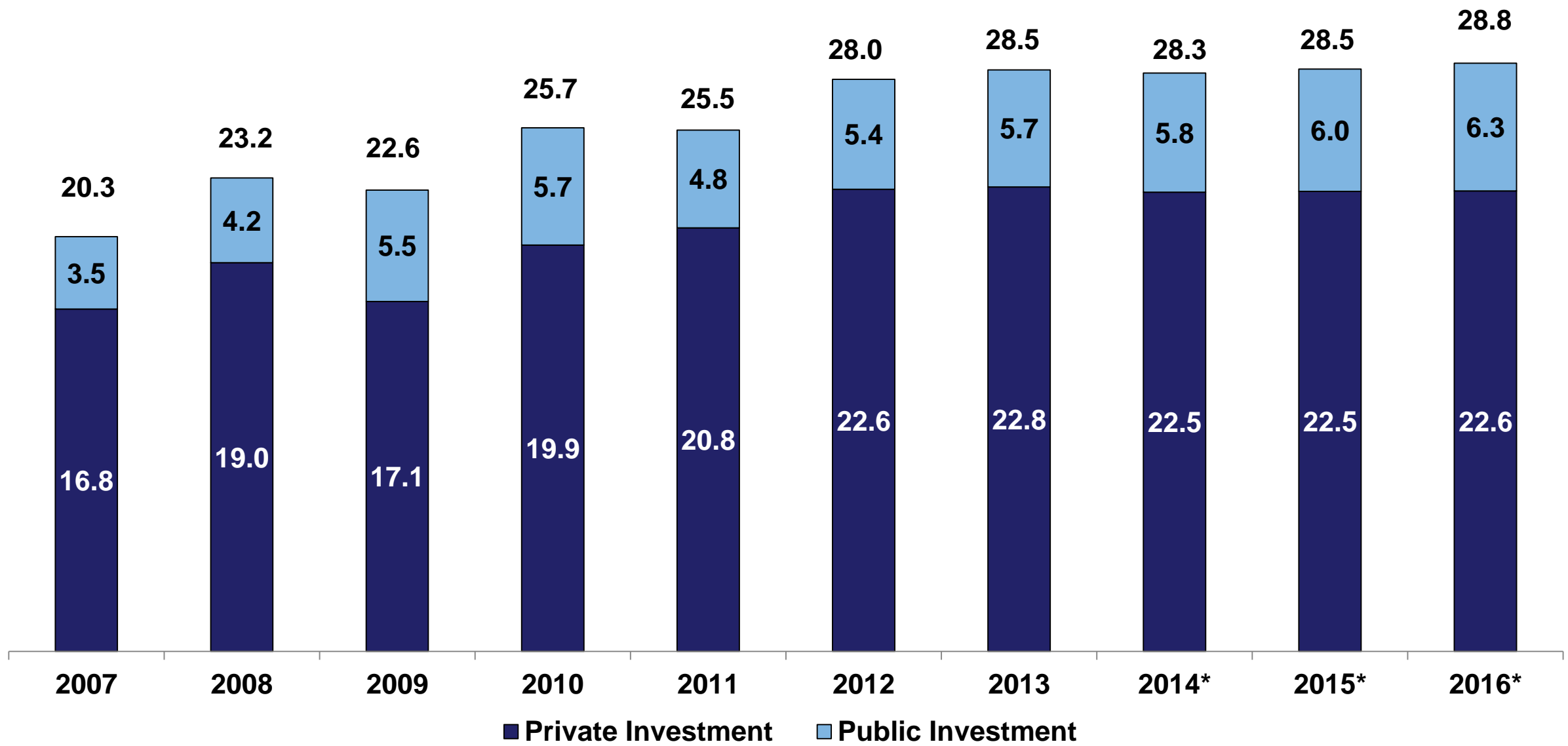


US\$ 434 M

Gross fixed investment represents 29 percent of GDP

GROSS FIXED INVESTMENT: 2007 – 2016*

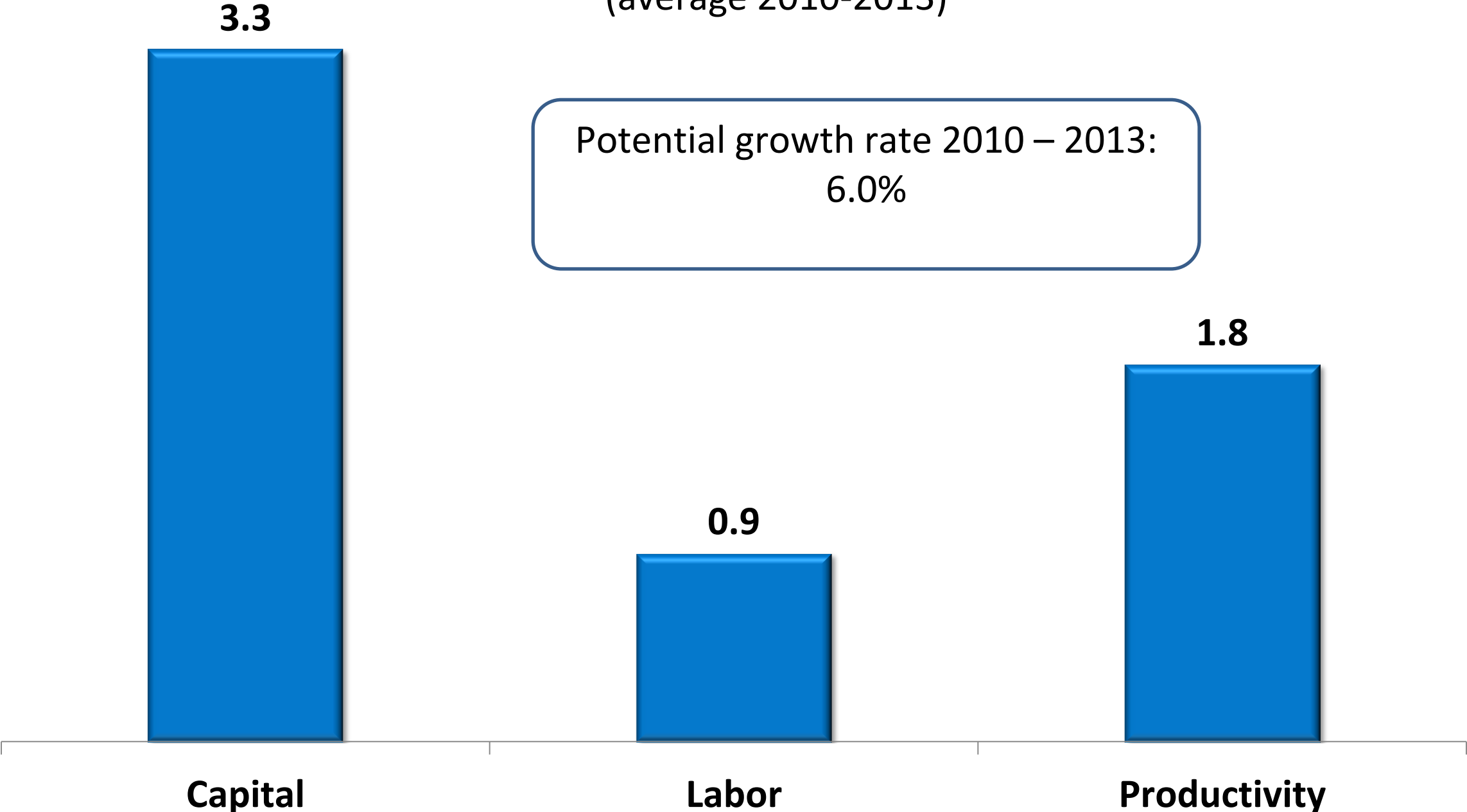
(% real GDP)



* Forecast

Greater capital accumulation contributes to sustainable GDP growth

Sources of potential GDP growth
(average 2010-2013)

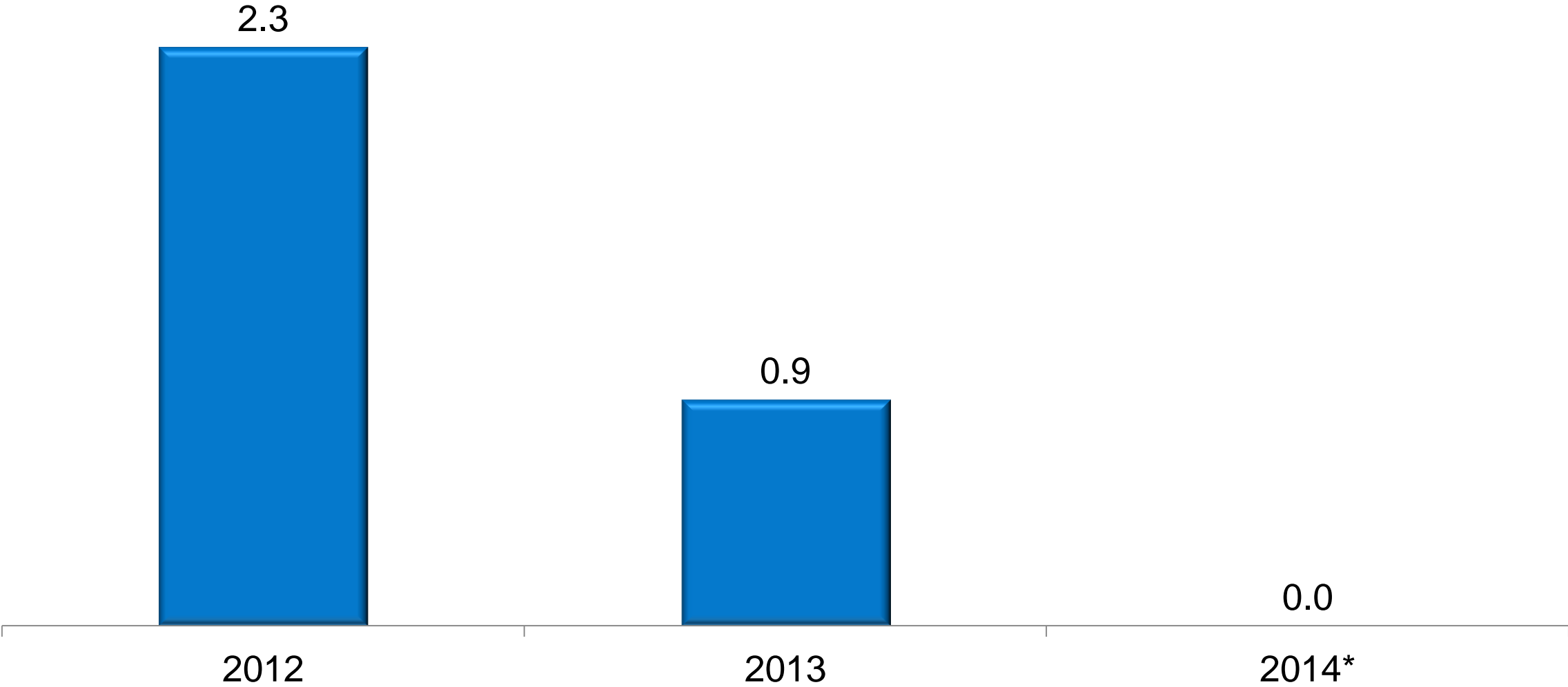


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A balanced overall result is expected for 2014 due to the recent implementation of fiscal measures to boost economic growth

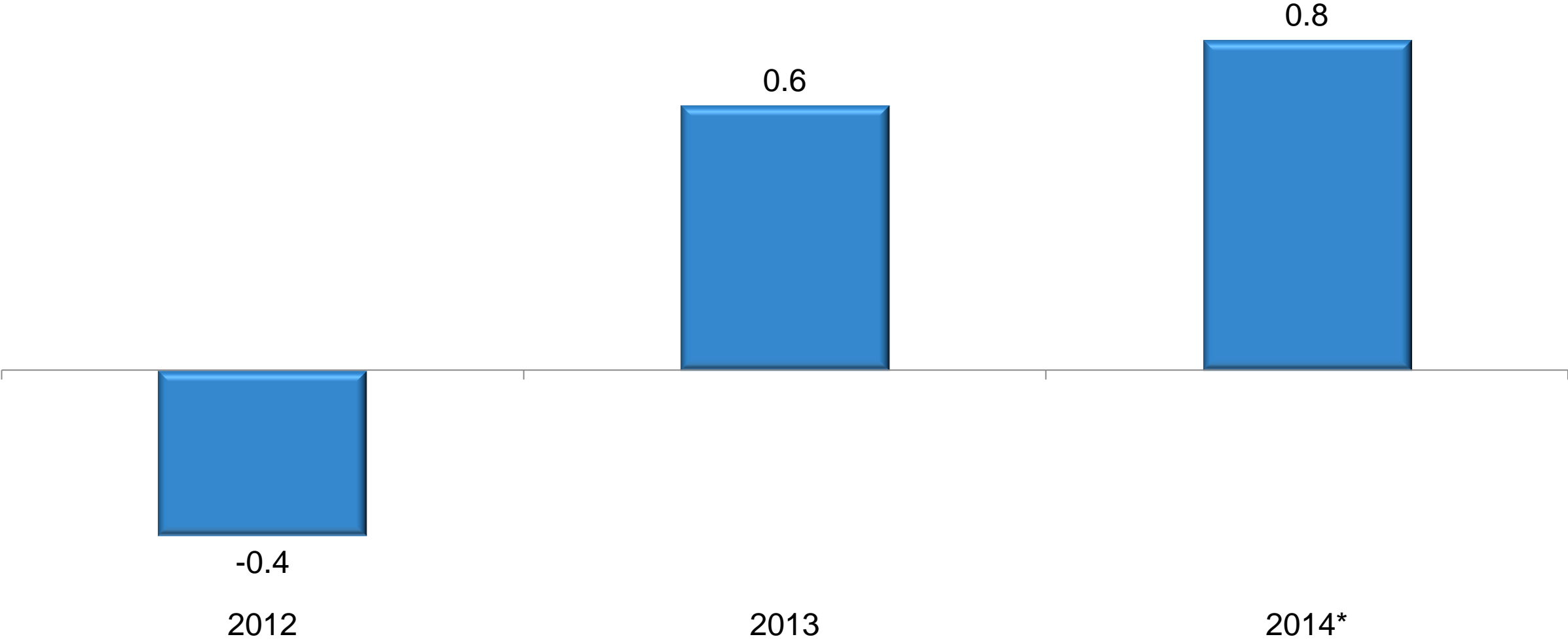
PUBLIC SECTOR OVERALL BALANCE
(% GDP)



* Forecast

Fiscal stimulus would boost GDP growth by 0.8 percent in 2014

FISCAL STIMULUS
(% of GDP)

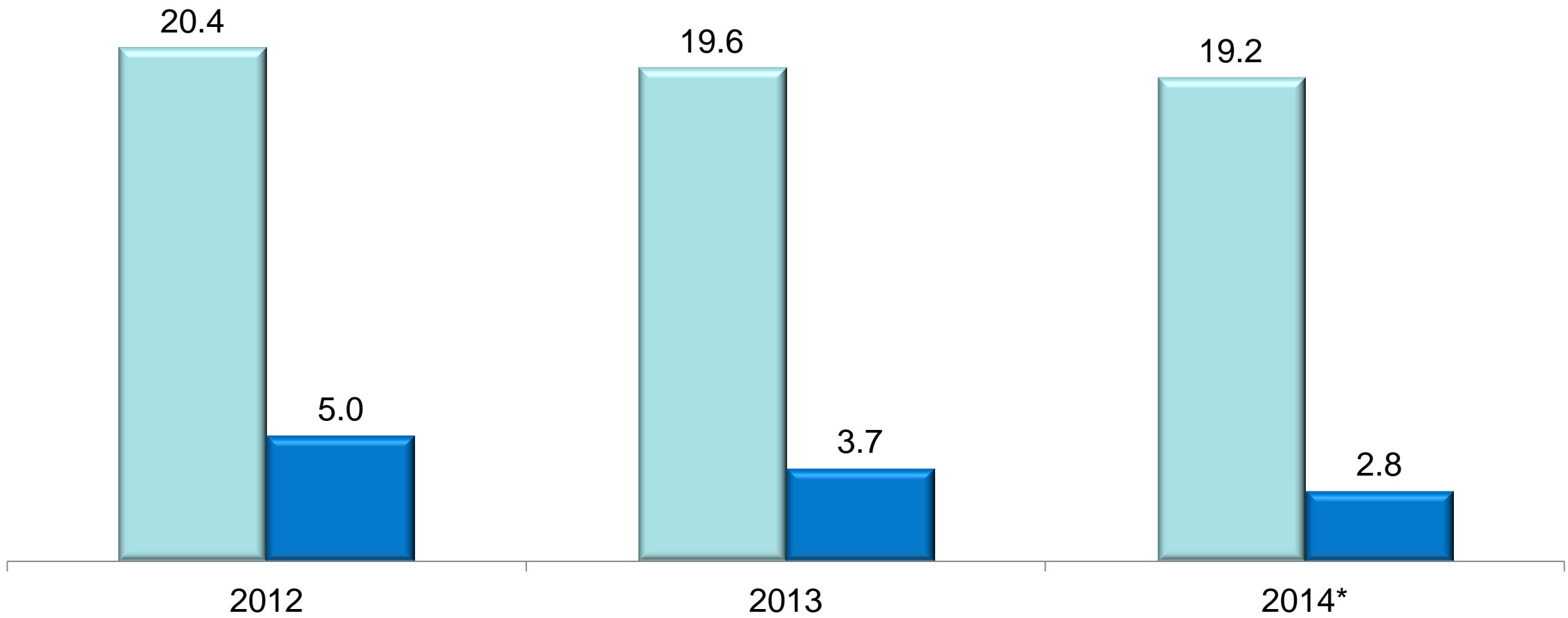


* Forecast

Gross non-financial public sector debt would continue to show a downward trend

NON-FINANCIAL PUBLIC SECTOR DEBT (% of GDP)

■ Gross Debt ■ Net Debt

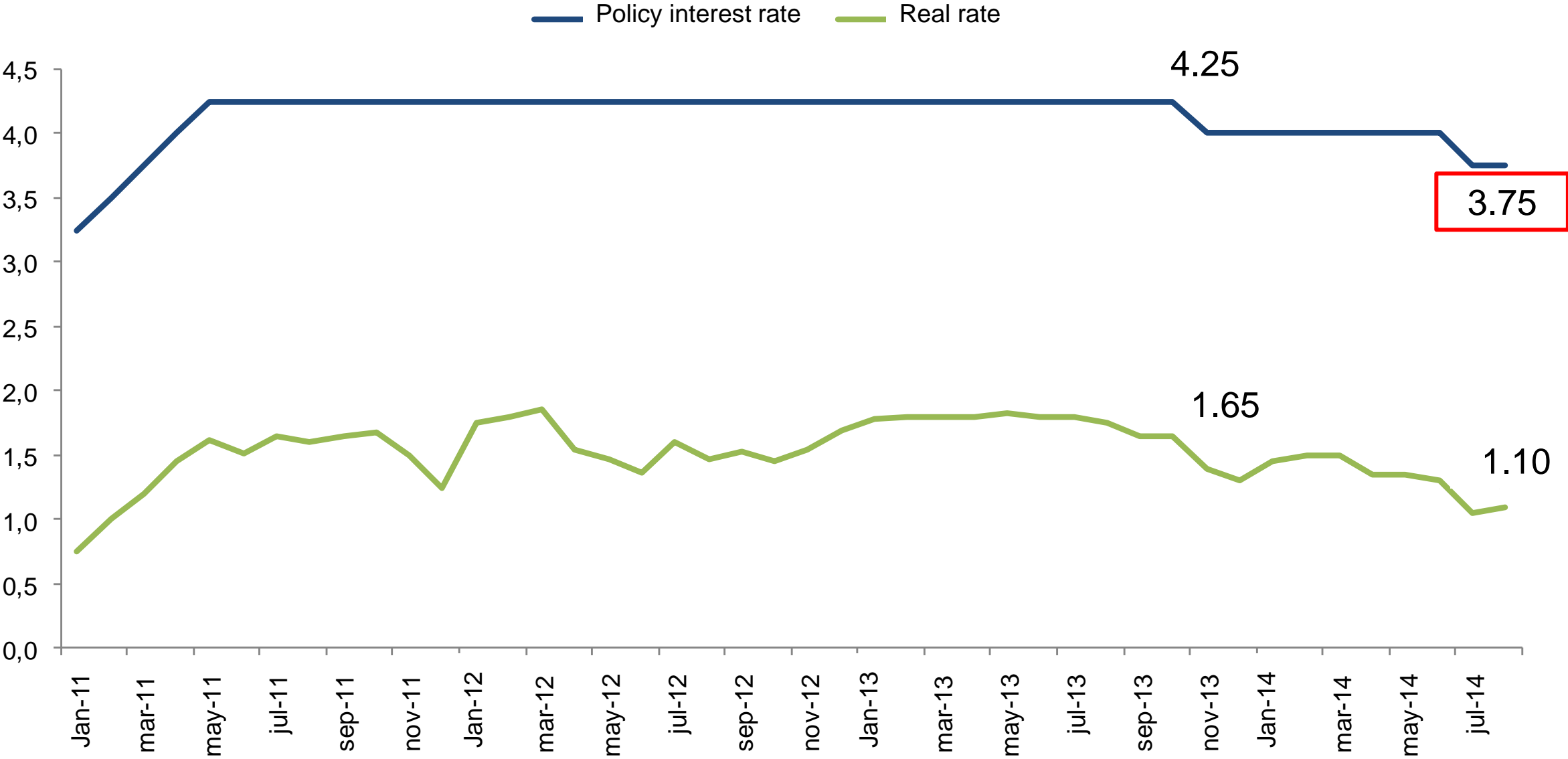


* Forecast

The Central Bank of Peru lowered its monetary policy interest rate to 3.75 percent in July

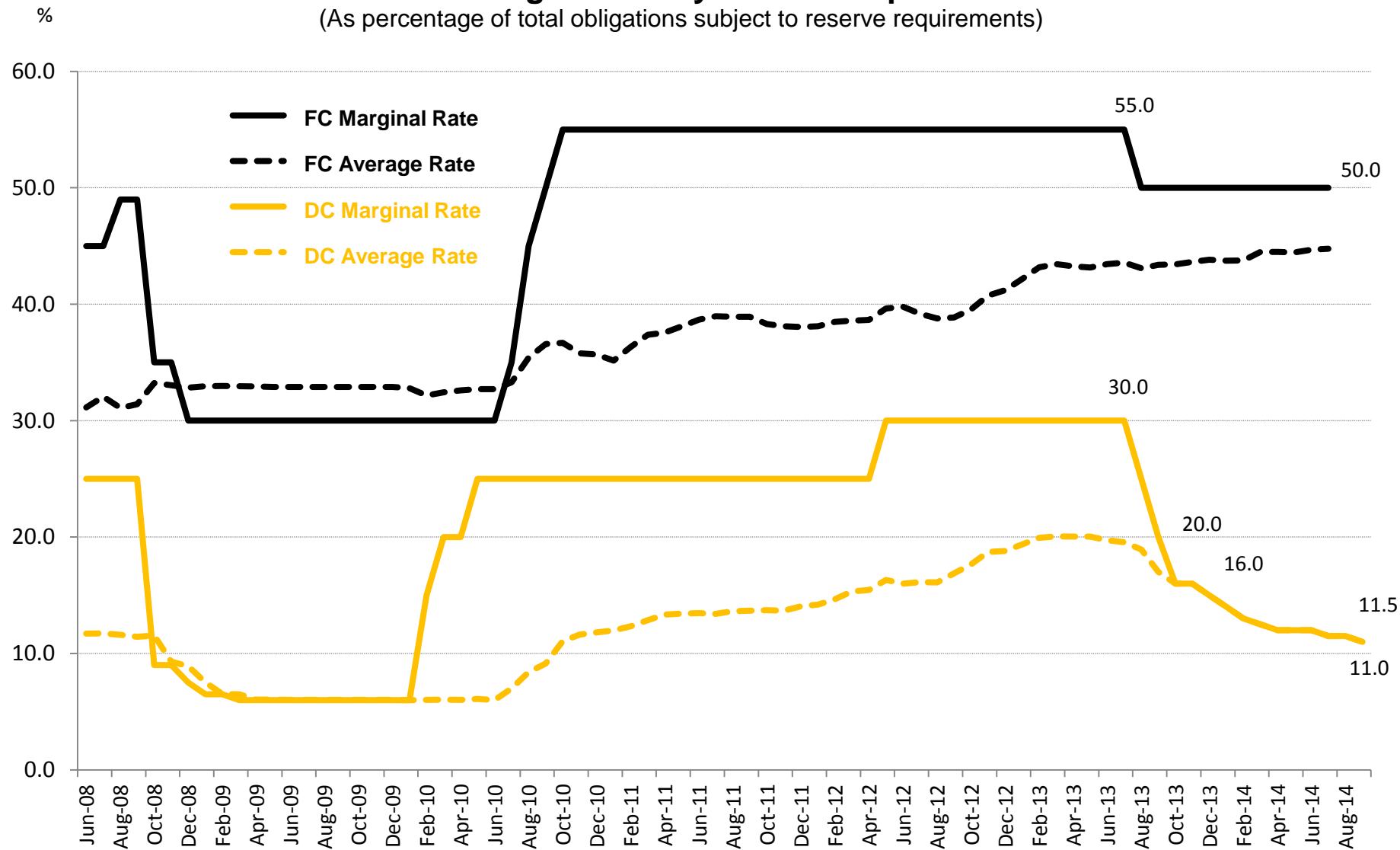
Central Bank policy interest rate vs real rate

(In percentage points)



Macro-prudential measures aim at securing sustainable credit growth and contributing to de-dollarization

Domestic and foreign currency reserve requirement rate ^{1/}
(As percentage of total obligations subject to reserve requirements)



^{1/} Preliminary information for July 2014 and forecast for August and September 2014

Liquidity injection by reducing the rate of reserve requirements in domestic currency
(Millions of S/.)

Month	Liquidity
Jun-13	480
Aug-13	567
Sep-13	2 026
Oct-13	1 064
Dec-13	1 086
Jan-14	1 091
Feb-14	1 086
Mar-14	533
Apr-14	540
Jul-14	543
Sep-14	562
Total	9 578

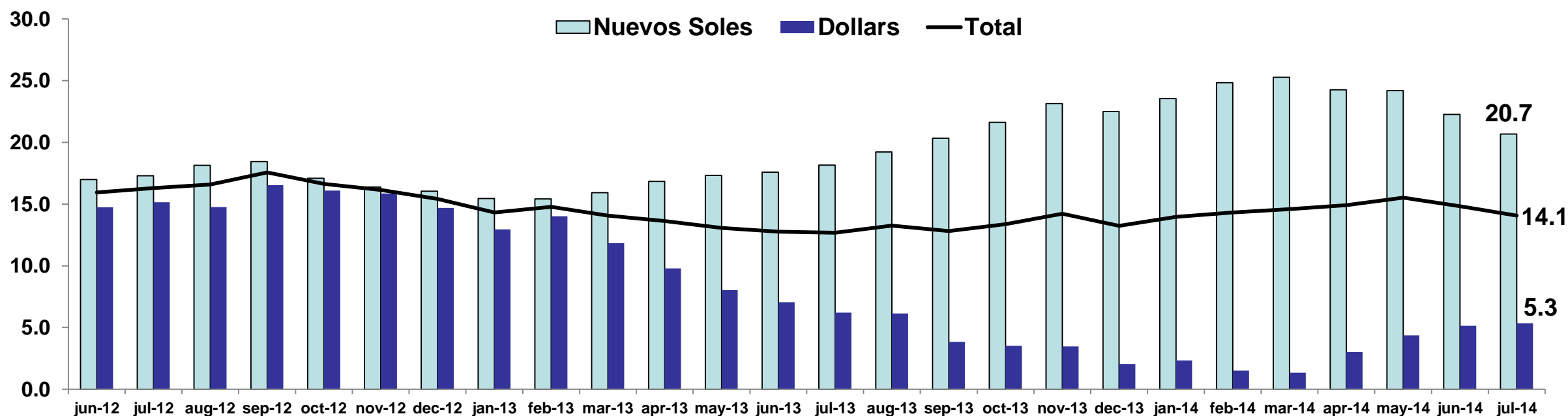
Higher preference for credit in domestic currency since the second quarter of 2013

Credit to the private sector (yoy % var)

	July 2013	July 2014
Domestic currency	18.1	20.7
Foreign currency	6.2	5.3
<u>Total</u>	<u>12.7</u>	<u>14.1</u>

Credit growth rates Jul.14 / Jul.13	Domestic currency	Foreign currency
1. Credit to enterprises	22.6	8.2
2. Credit to households	18.5	-5.9
a. Consumer loans	13.3	0.8
Car loans	41.7	-1.8
Credit cards	12.3	5.1
Other loans	13.2	0.9
b. Mortgage loans	29.7	-8.1
<u>Total</u>	<u>20.7</u>	<u>5.3</u>

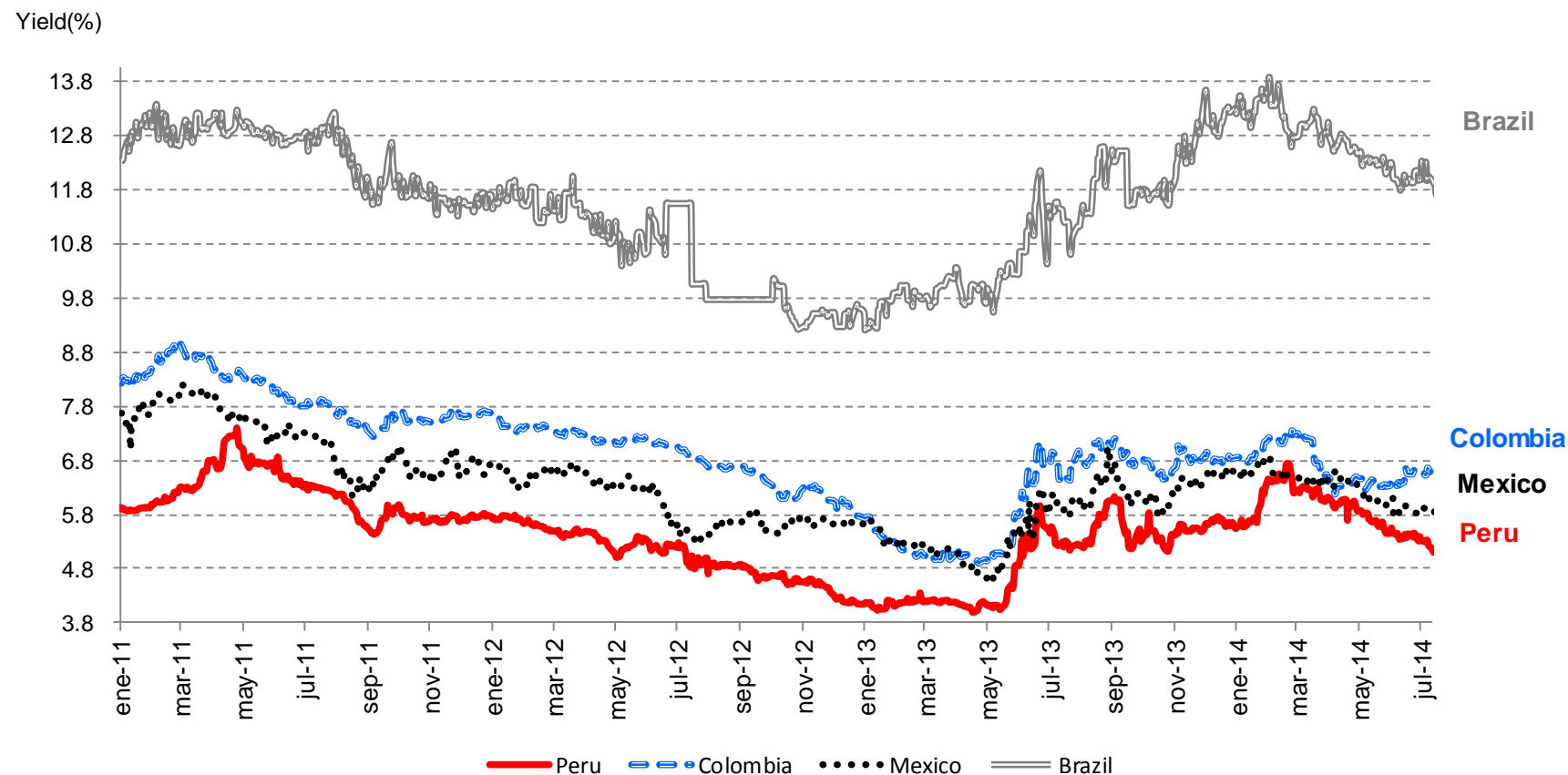
CREDIT TO THE PRIVATE SECTOR



Long term interest rates are consistent with recent developments in the world economy and with macroeconomic fundamentals.

Country	Yield (%) End of period			August 2014: % change with respect to (in bps)		Policy Rate
	Apr. 13	Dec. 13	Aug. 14*	Apr. 13	Dec. 13	
Brazil 2023	9.70	13.21	11.55	185	-166	11.00
Colombia 2024	4.91	6.79	6.61	170	-18	4.25
Mexico 2023	4.56	6.53	5.89	133	-65	3.00
Peru 2023	4.11	5.60	5.22	111	-38	3.75

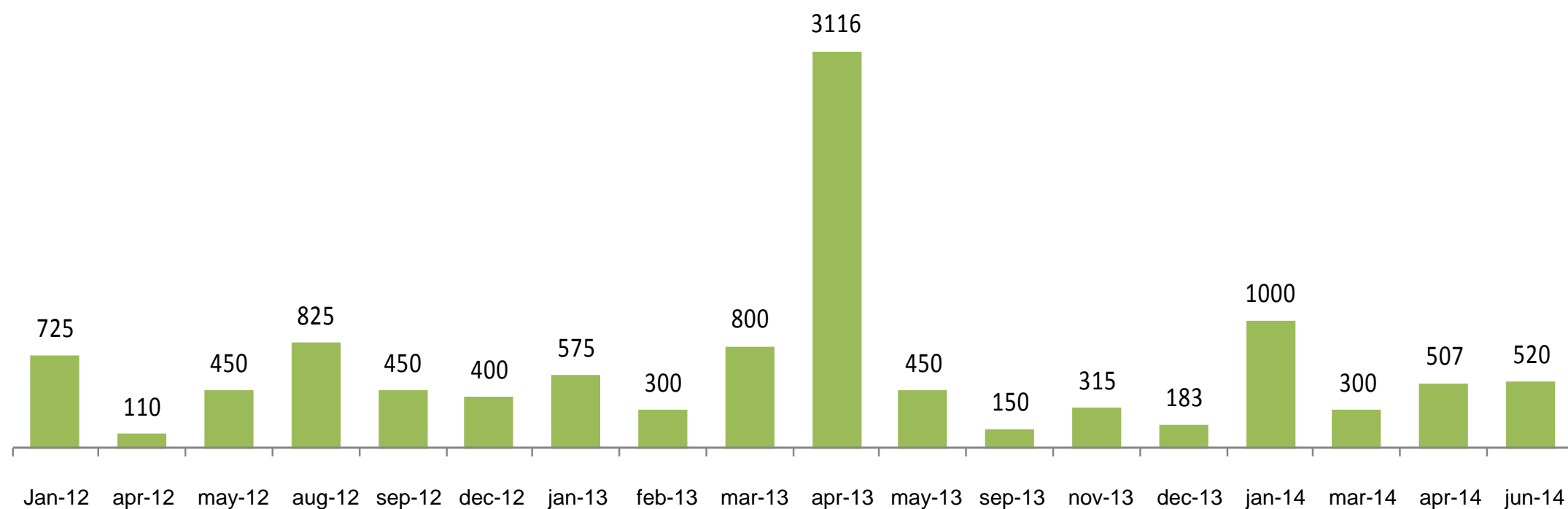
LATAM 10-year Treasury Bond Yield



* As of August 25.
Source: Bloomberg

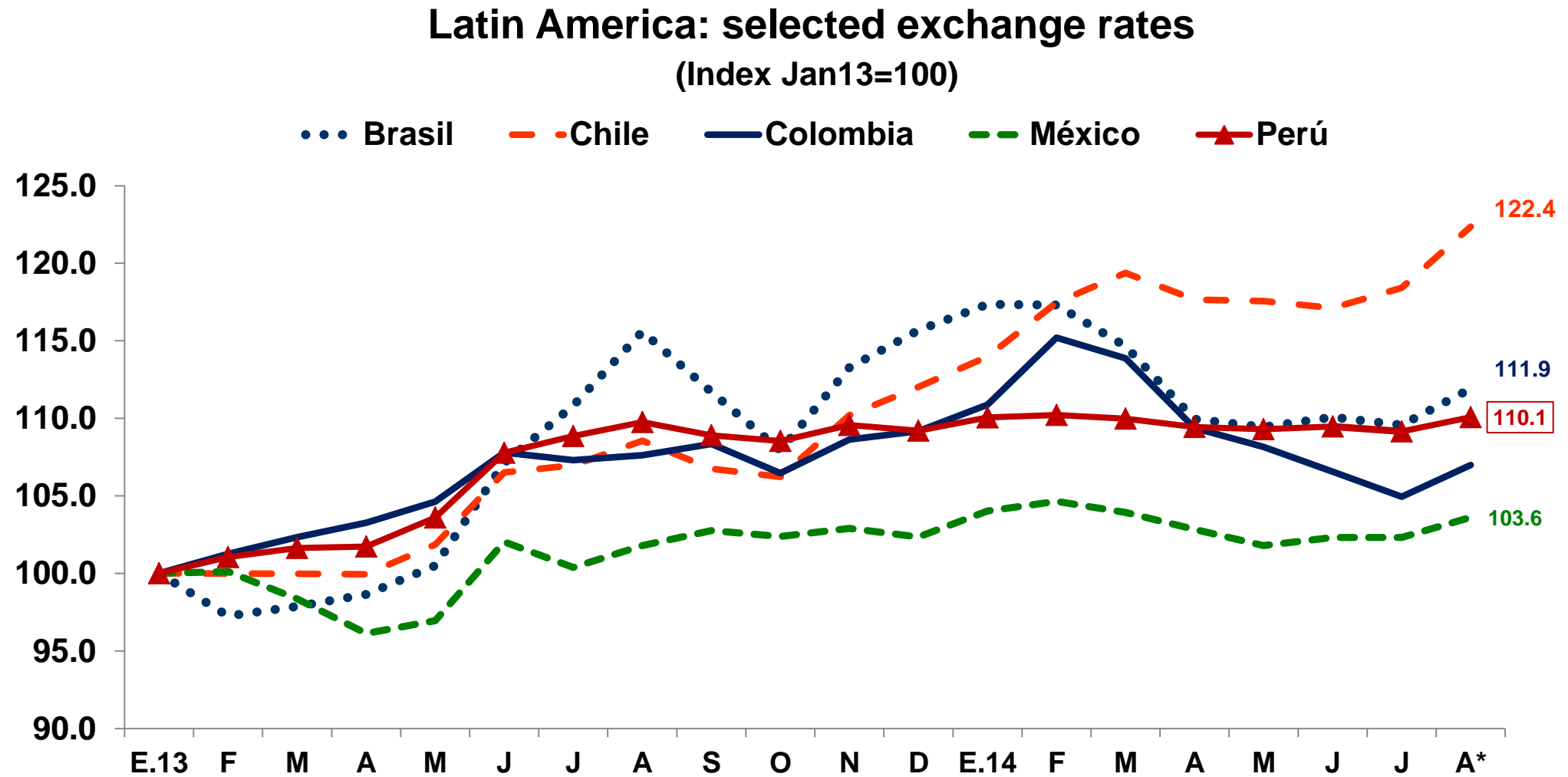
Private sector bonds issued in international capital markets

Private sector bonds issued in international capital markets
(Million of US\$)



	jan-12	apr-12	may-12	aug-12	sep-12	dec-12	jan-13	feb-13	mar-13	apr-13	may-13	sep-13	nov-13	dec-13	jan-14	mar-14	apr-14	jun-14
Financial	725	110	450	325	200	0	275	300	800	1730	450	150	315	133	800	0	75	520
Non Financial	0	0	0	500	250	400	300	0	0	1386	0	0	0	50	200	300	432	0
Total	725	110	450	825	450	400	575	300	800	3116	450	150	315	183	1000	300	507	520

All Latin American currencies have shown lower volatility in the last 6 months



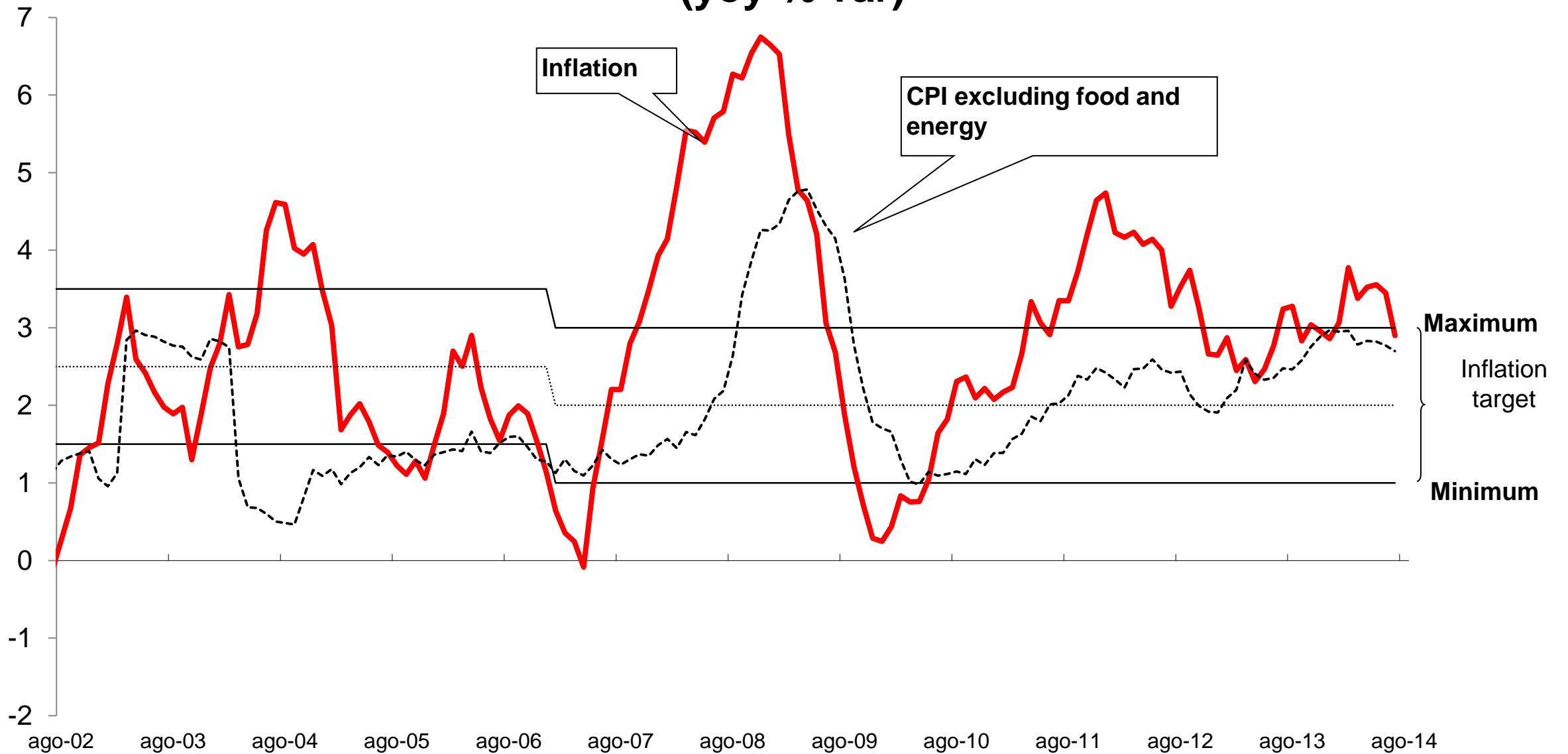
Source: Reuters

Cummulative percentage change					
Period	Brazil	Chile	Colombia	Mexico	Peru
Jan-Feb	1.4	3.3	3.5	2.0	0.9
Mar-Aug*	-2.4	2.5	-6.0	-0.3	0.1

* As of August 26

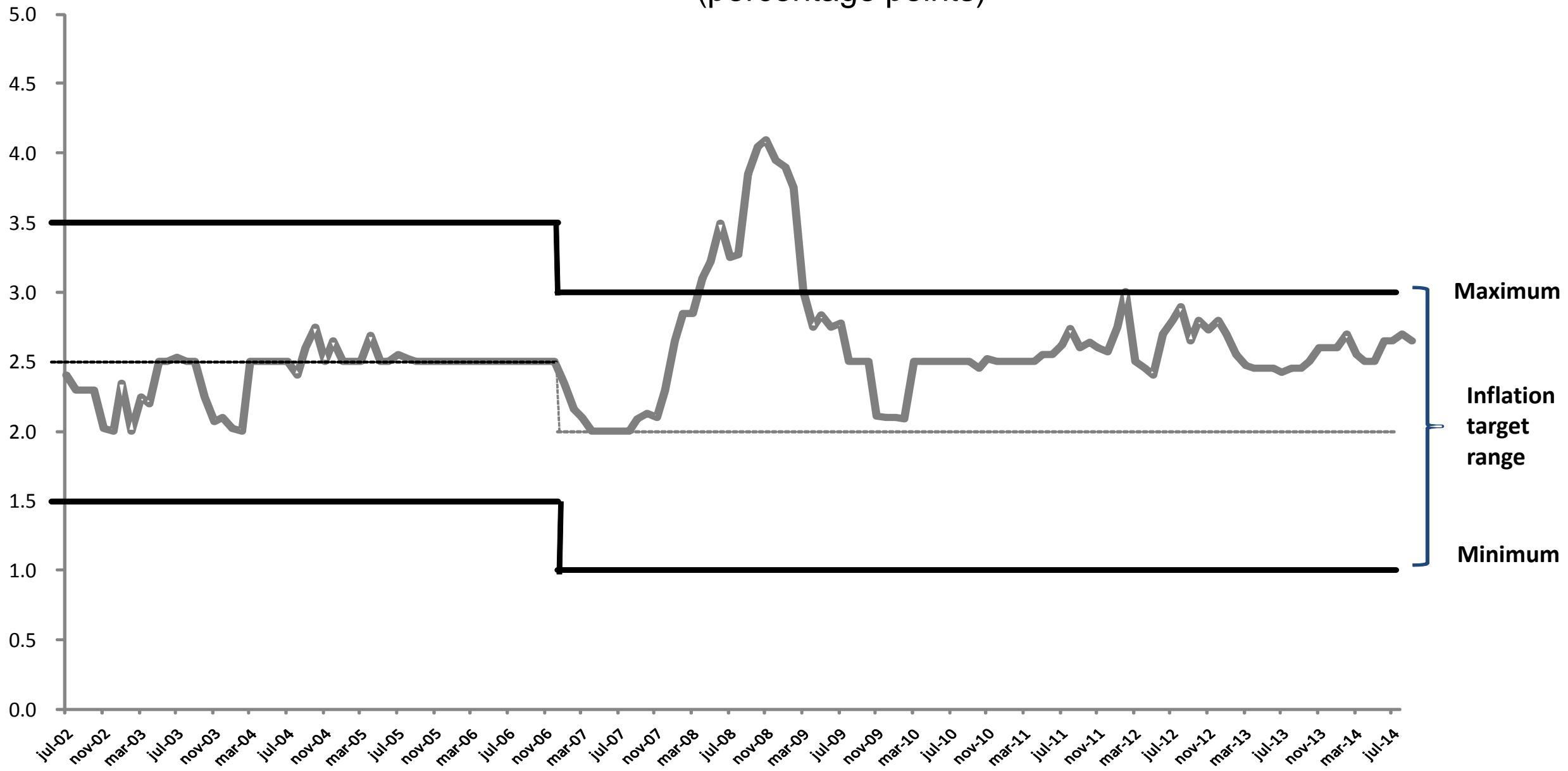
Inflation in August returned to the inflation target range

INFLATION AND INFLATION TARGET (yoy % var)



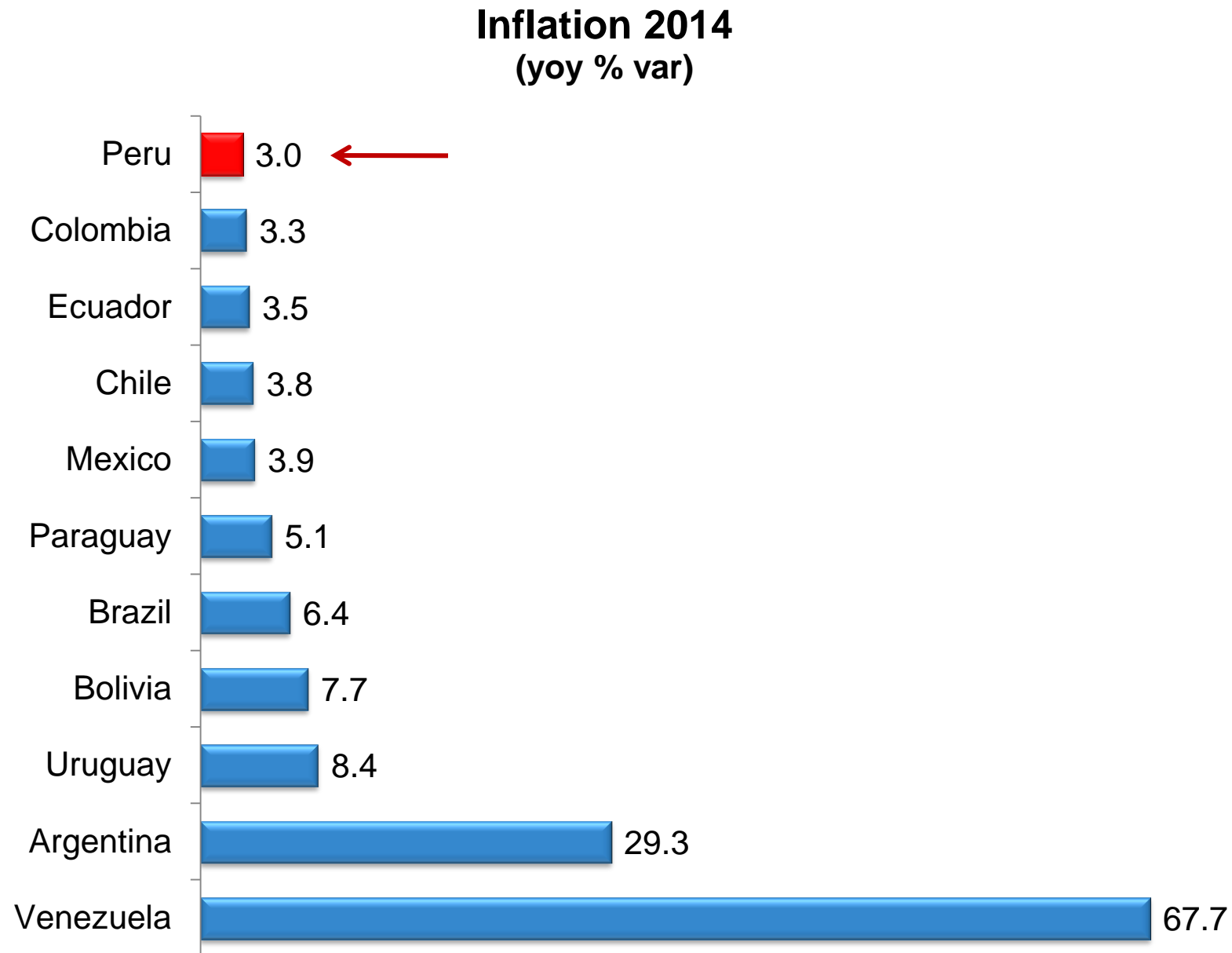
Inflation is anchored within the target range

Inflation expectations for the following year* (percentage points)



* Average of inflation expectations of the financial system and economic analysts.

Inflation in Peru is expected to be the lowest in the region by the end of 2014



Source: Latin American Consensus Forecast (August 2014).

Risks

- Higher output growth in the United States
- Economic slowdown in China
- Obstacles in the implementation of macroeconomic measures to improve competitiveness
- Delays in investment projects in the mining and energy sectors



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