



BANCO CENTRAL DE RESERVA DEL PERÚ



Peru's fundamentals and economic perspectives

**Julio Velarde
Governor
Central Bank of Peru**

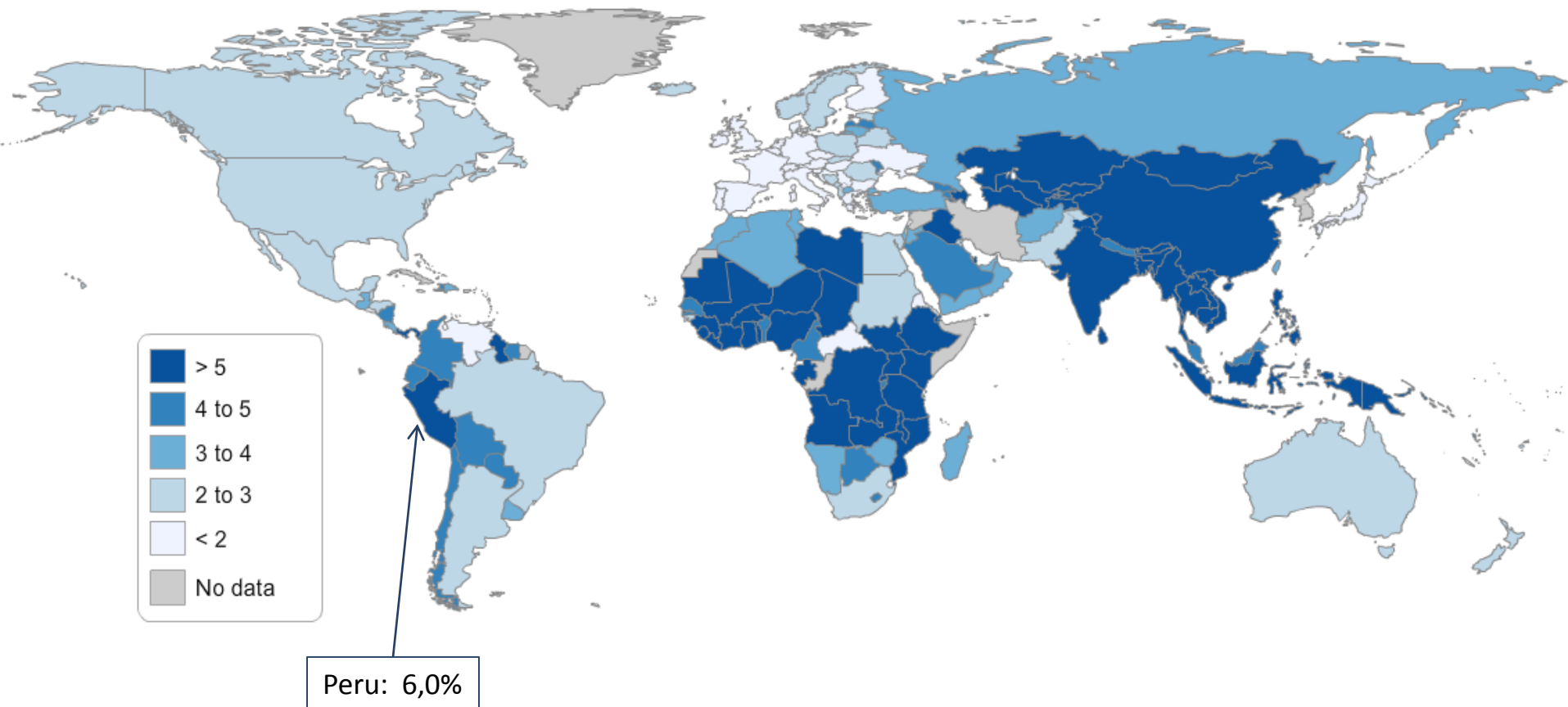
March 2014

Agenda

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

Peru's GDP growth is expected to be among the highest in the region in 2014

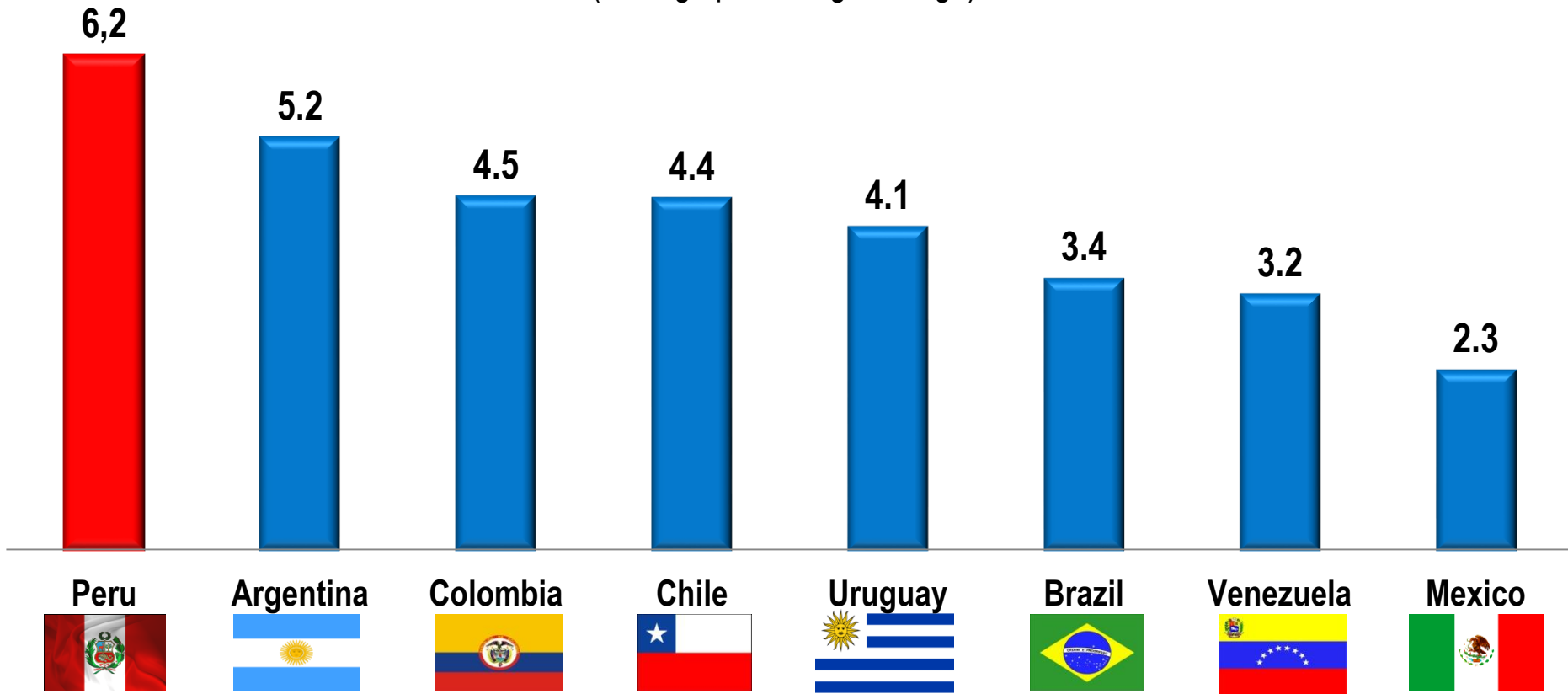
World GDP : 2014
(percentage change)



Source: WEO and BCRP.

GDP growth was the highest among the region's leading economies

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

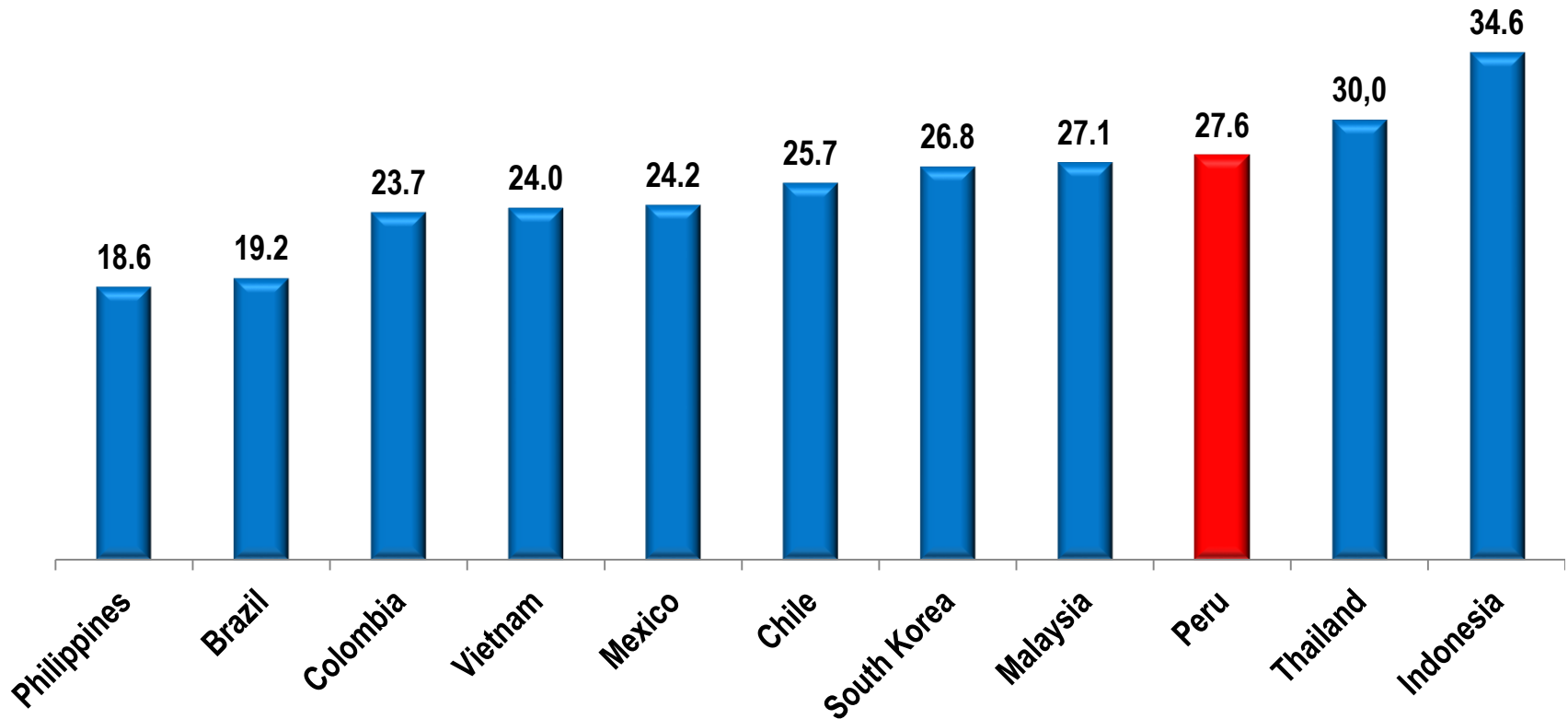


Source: WEO – IMF.

* Gross domestic product at constant prices

Higher capital accumulation contributes to sustainable output growth

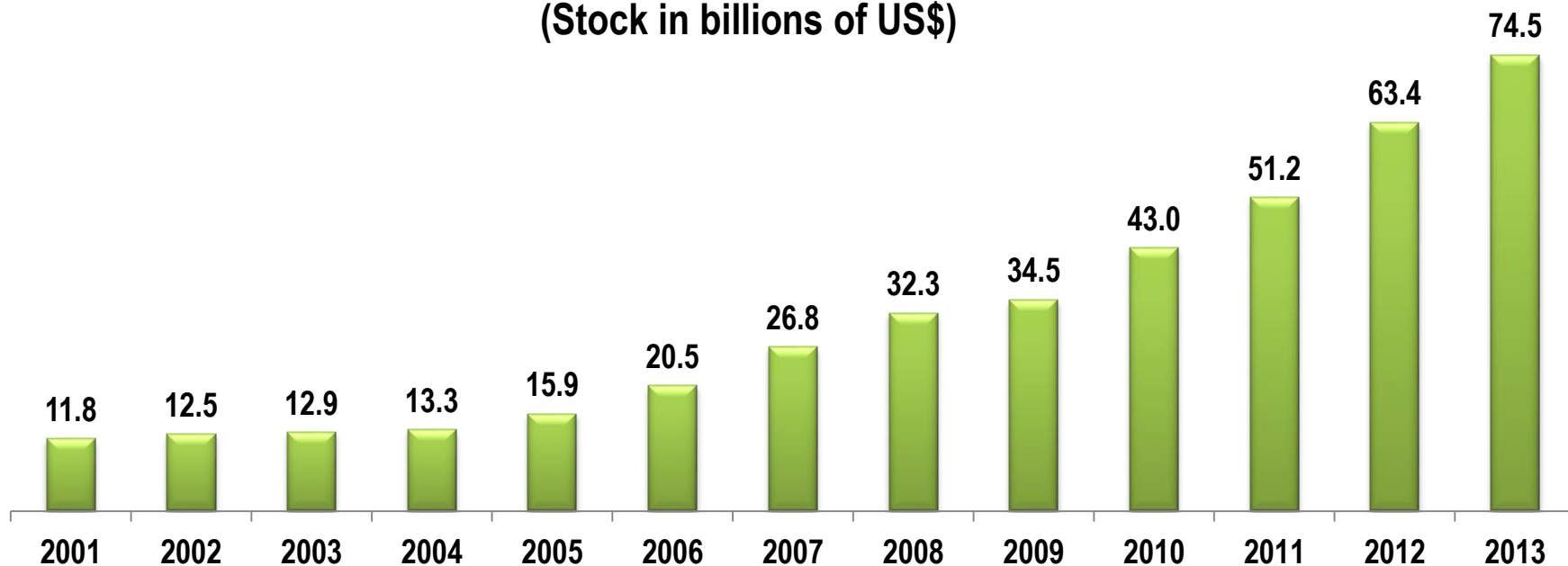
Total Investment: 2013 *
(percentage of GDP)



* Forecast
Source: WEO – IMF

Foreign direct investment increased by 6 times in the last decade

Foreign Direct Investment
(Stock in billions of US\$)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual growth rate	7,0	6,0	2,6	3,4	19,4	28,9	30,9	20,6	6,7	24,5	19,2	23,9	17,4

In 2012, FDI flows increased by 49 percent, whereas they increased 27 percent in the first half of 2013

Foreign Direct Investment Flows by Country

(in billions of US\$)

Countries	2012	I Sem. 2013	Growth rate	
			2012	I Sem. 2013
Peru	12,2	6,9	49%	27%
Chile	30,2	10,4	32%	-26%
Argentina	12,6	5,2	27%	-32%
Paraguay	0,3	n.a.	27%	-
Bolivia	1,1	n.a.	23%	-
Colombia	15,8	8,3	18%	5%
Uruguay	2,7	1,6	8%	8%
Brazil	65,3	39,0	-2%	-10%
Ecuador	0,4	n.a.	-13%	-
Venezuela	3,2	2,7	-15%	44%
Mexico	15,5	23,8	-34%	158%

Higher FDI flows mainly in the mining and hydrocarbon sectors

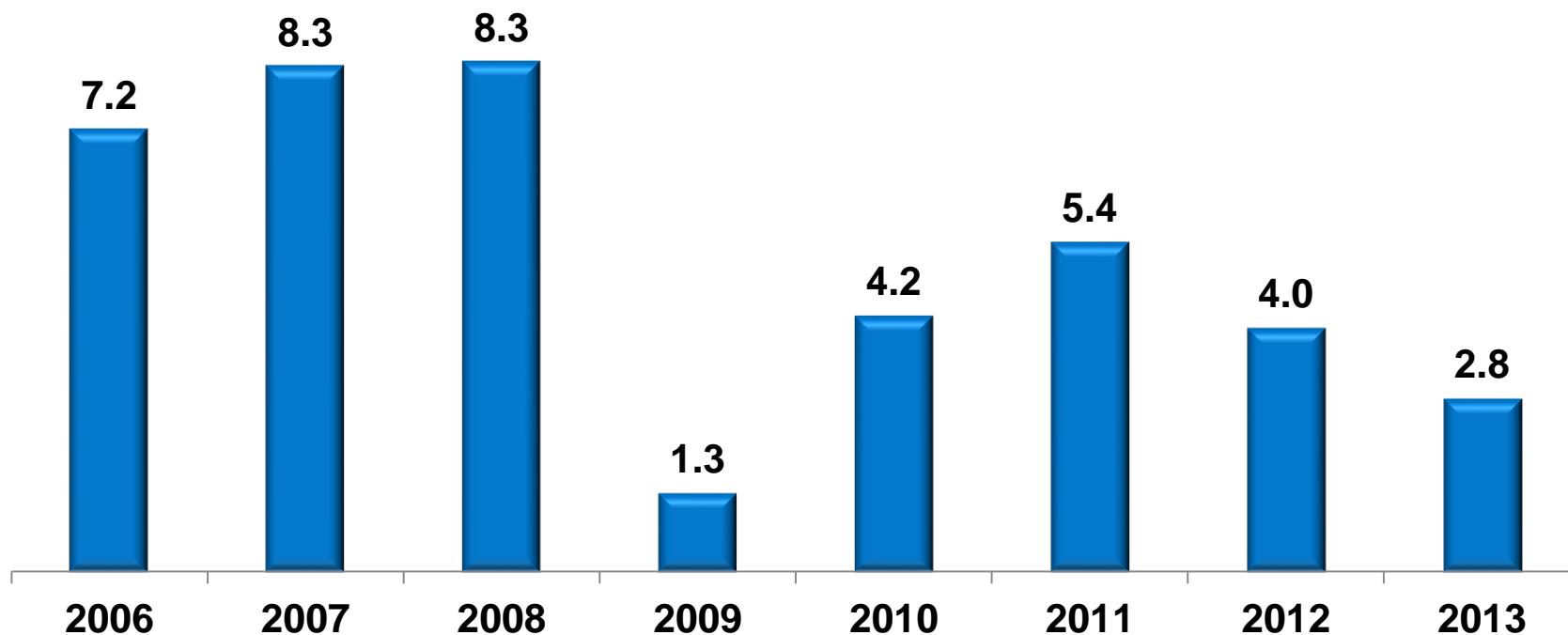
Foreign Direct Investment Flows by Sector

(millions of US\$)

Sector	2001	2013	Number of times
Hydrocarbon	22	1 254	57
Mining	134	4 981	37
Financial sector	162	851	5
Non-financial services	323	2 548	8
Manufacturing	184	122	1
Energy and others	320	417	1
TOTAL	1 144	10 172	9

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

Urban Employment^{1/} (Percentage change)

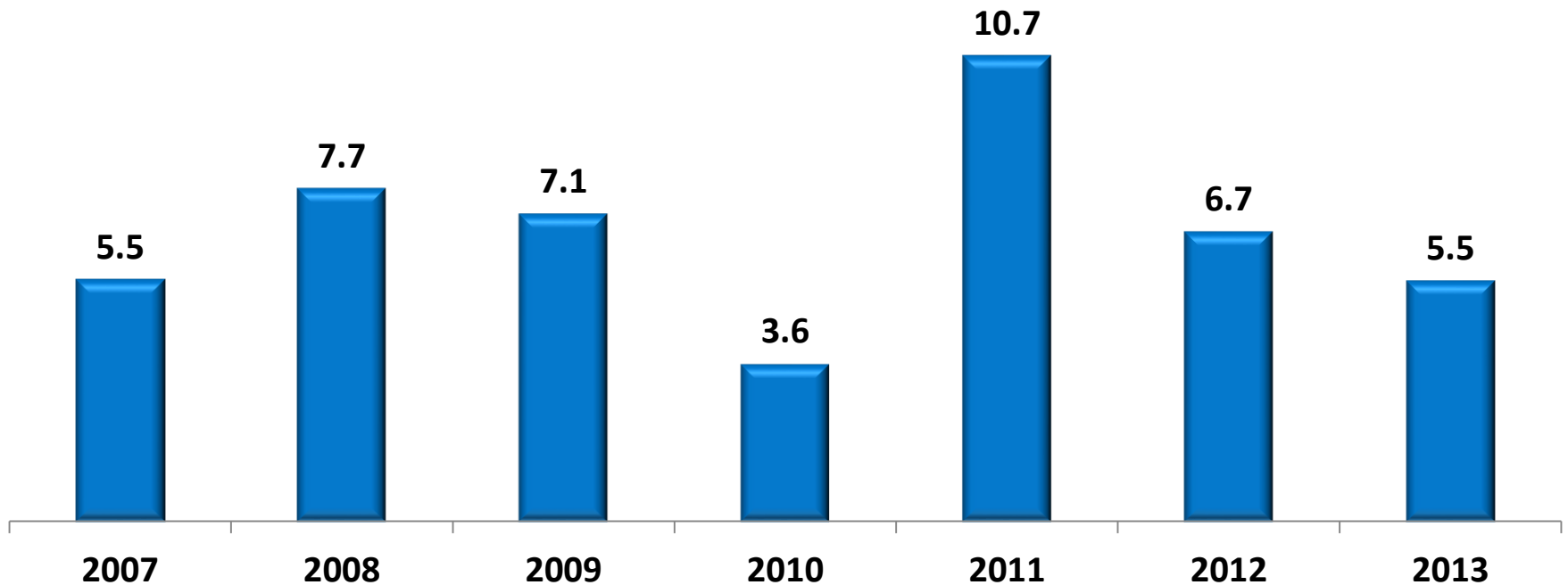


^{1/} Enterprises with 10 or more workers

Source: Ministry of Labor and Promotion of Employment

Permanent increase in payroll due to sustained economic growth

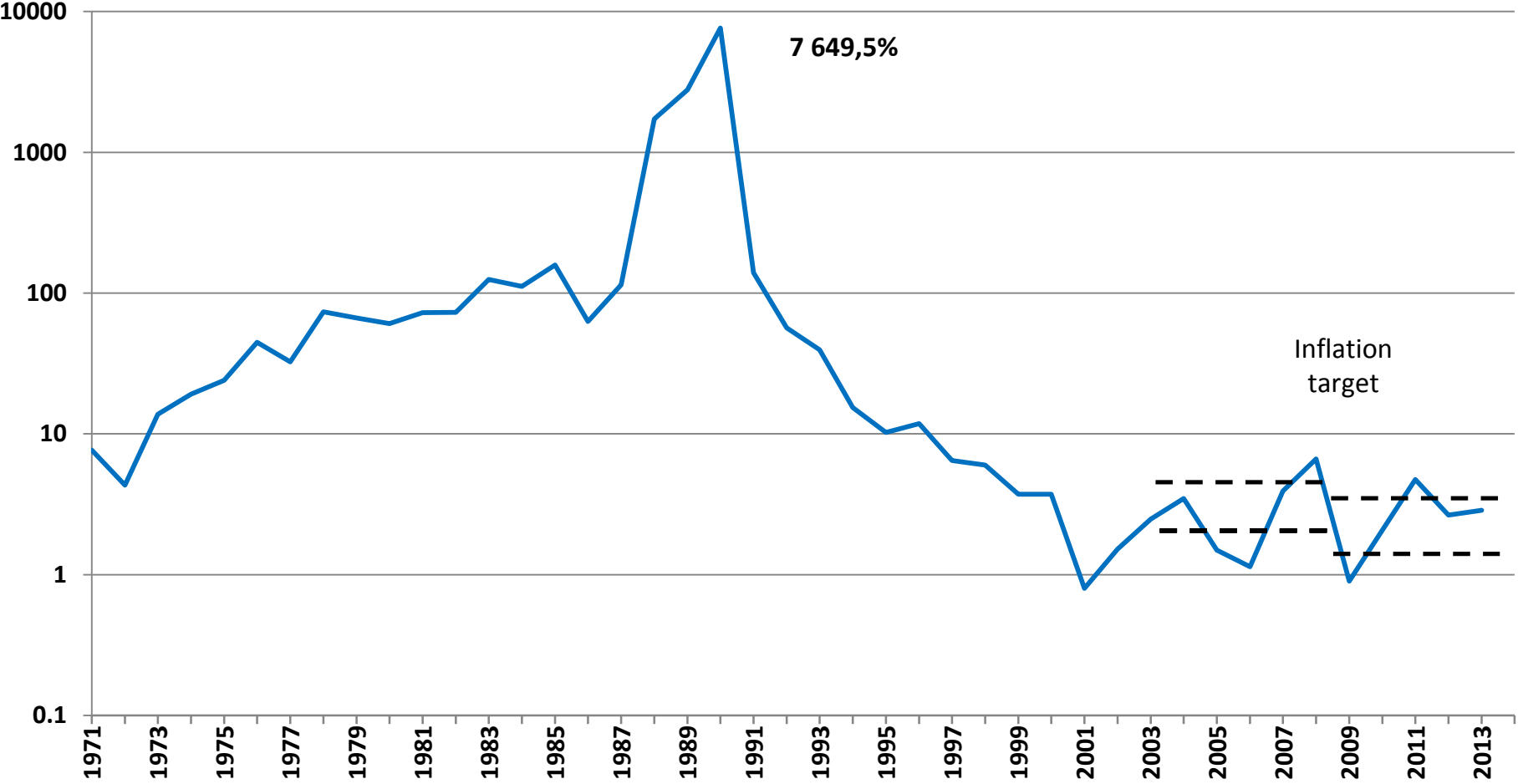
Payroll – Lima
(Real % change)



Source: INEI

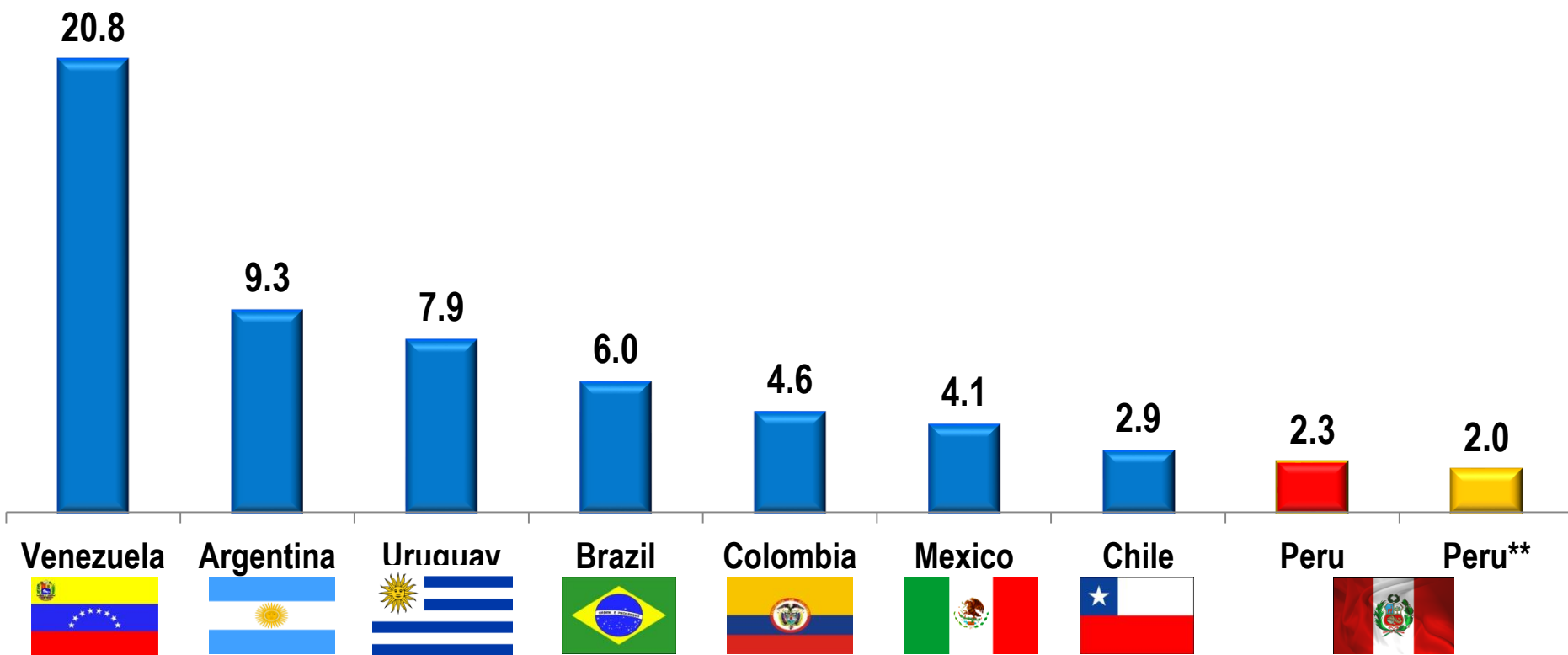
After hyper-inflation in 1990, monetary policy was reformed and inflation was reduced

Inflation Rate 1970 – 2013 (End of period)



Average inflation of 2,3 percent in the last 13 years

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



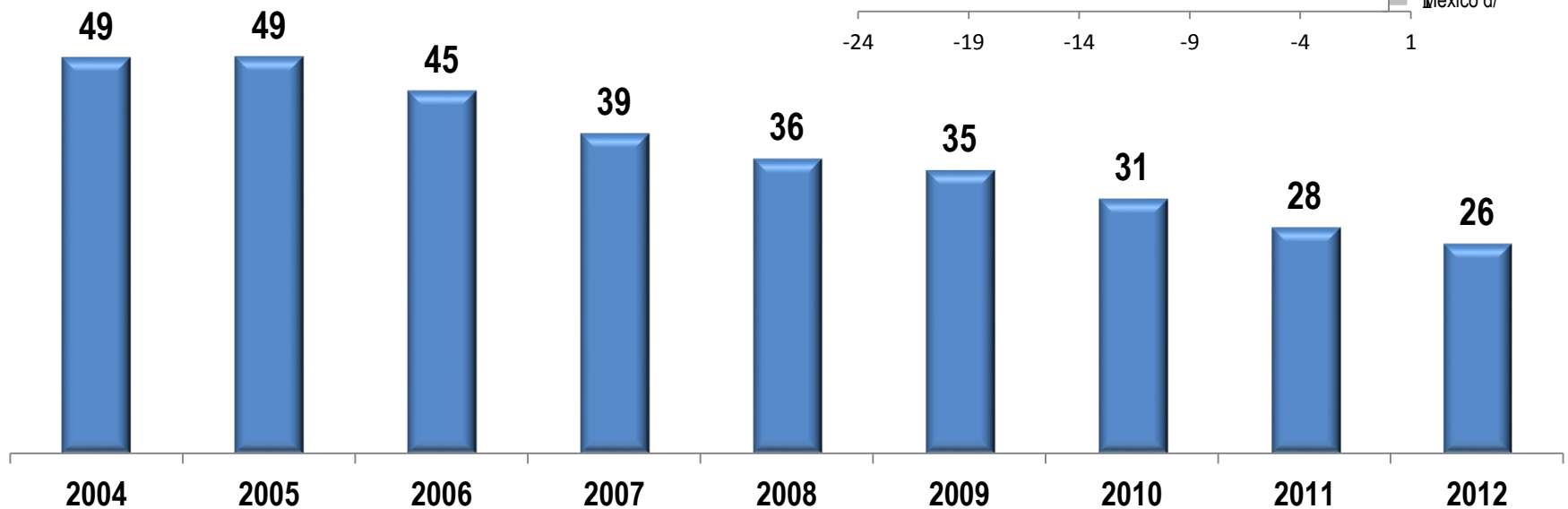
Source: WEO – IMF

* Inflation, consumer price index, end of period

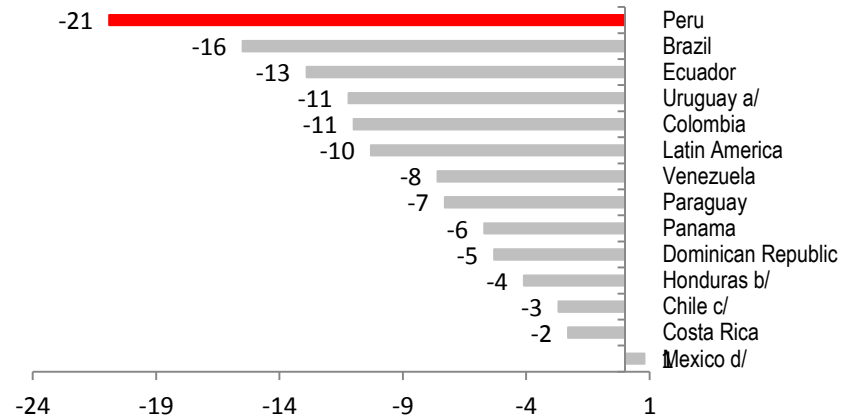
** Excludes food and energy

Poverty is at its lowest level of the last 25 years

Peru: Poverty Rate
(as percentage of population)



Latin America: Poverty reduction 2005-2011
(in percentage points)

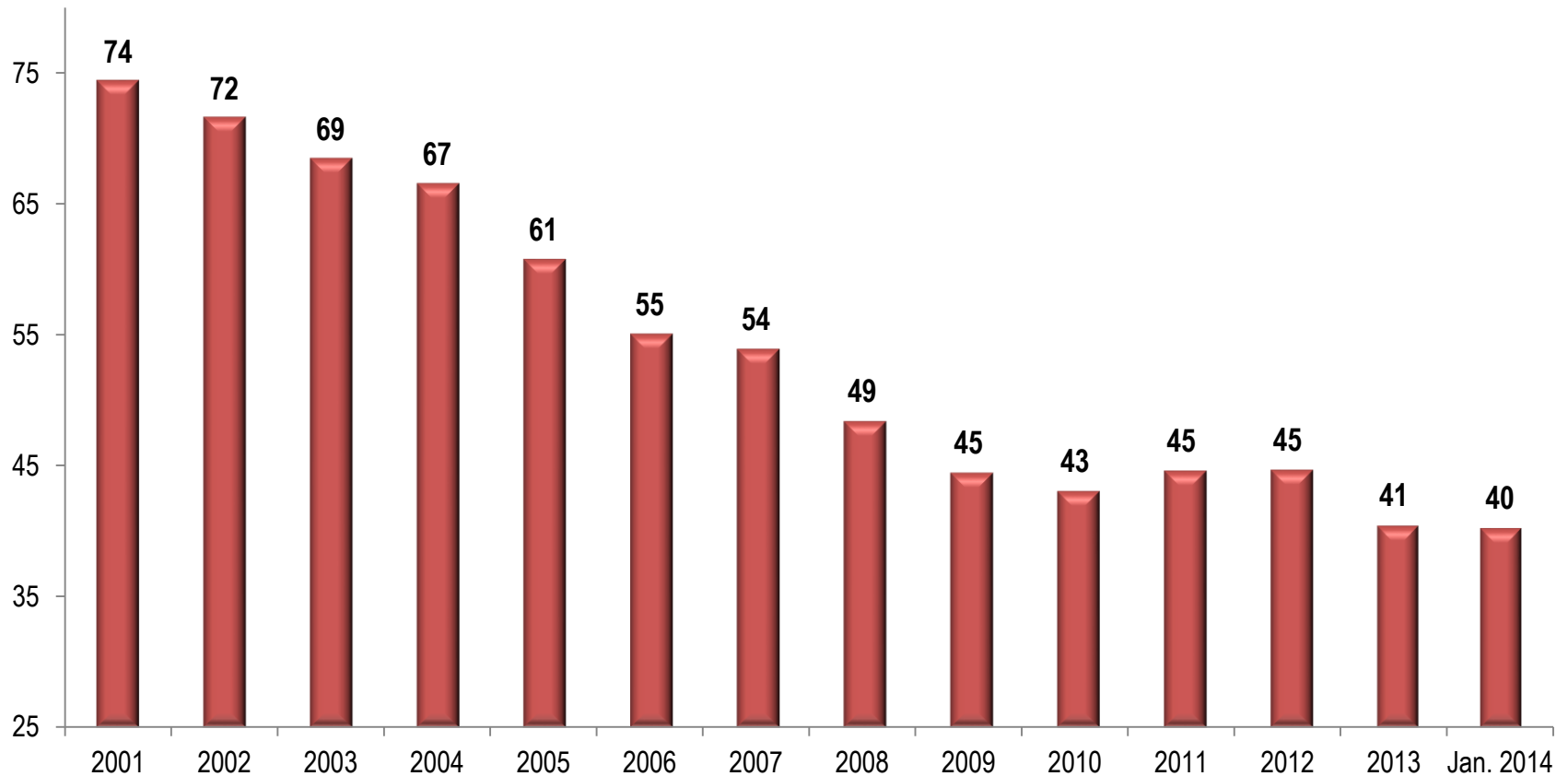


Source: ECLAC

a/ Percentage change 2007-2011, b/ Percentage change 2006-2010, c/ Percentage change 2006-2011, d/ Percentage change 2005-2010

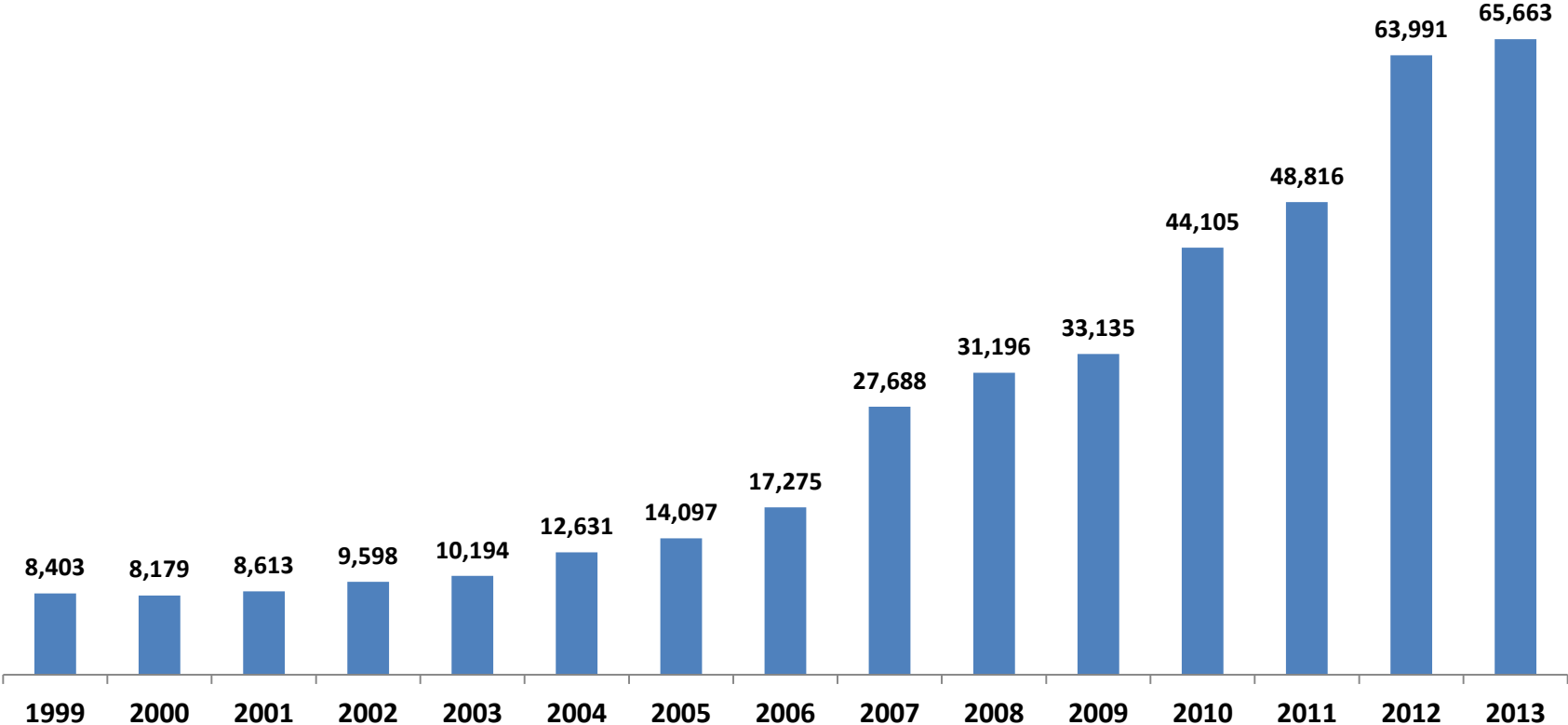
Significantly lower financial dollarization, despite still being an important source of risk for the financial sector

Credit to the private sector: Dollarization ratio (%)



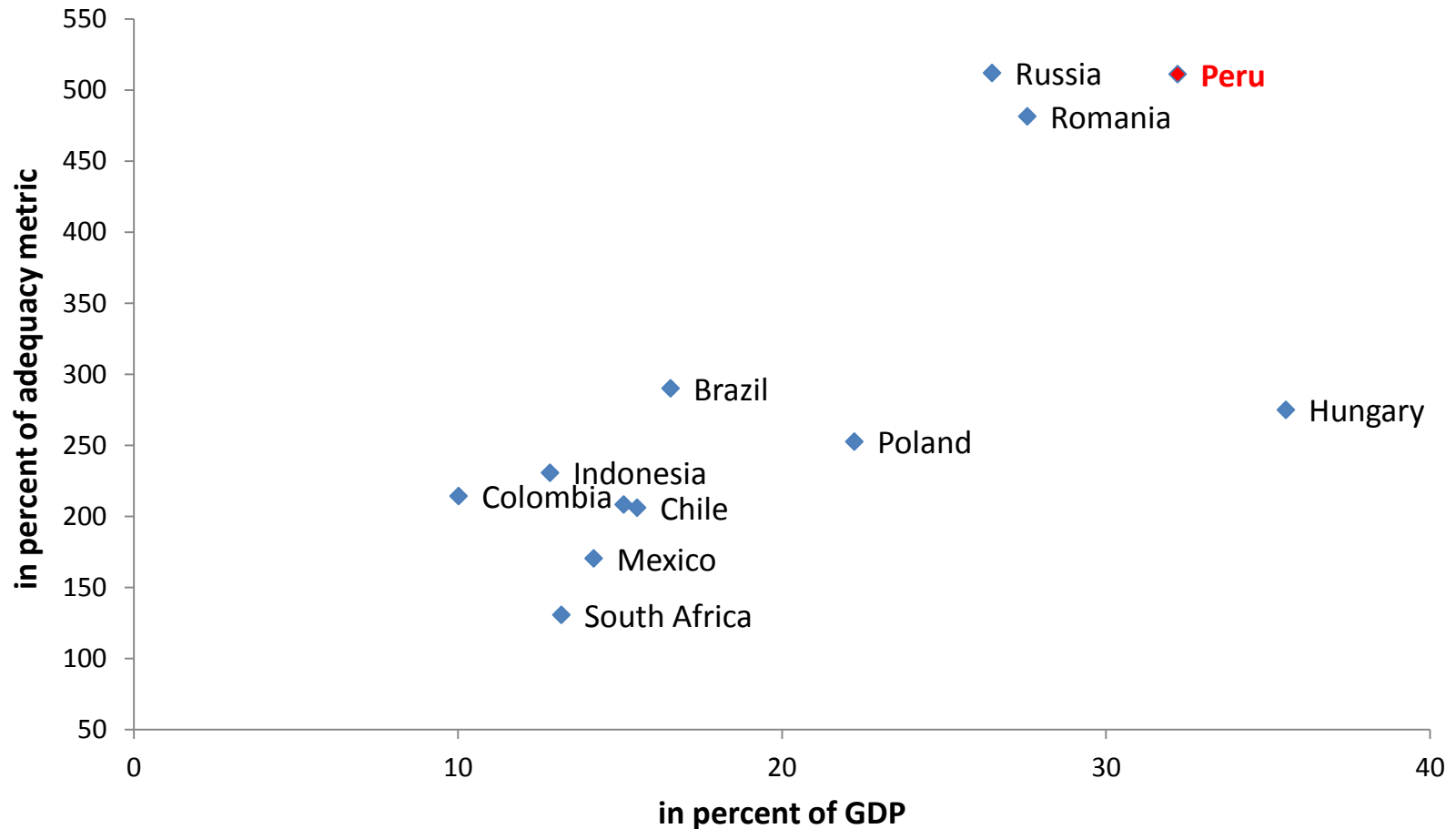
Preventive accumulation of international reserves is fundamental to reduce the risks of financial dollarization

Peru: Net foreign exchange reserves
(in millions of US\$)



High reserve adequacy ratio compared to other emerging economies ...

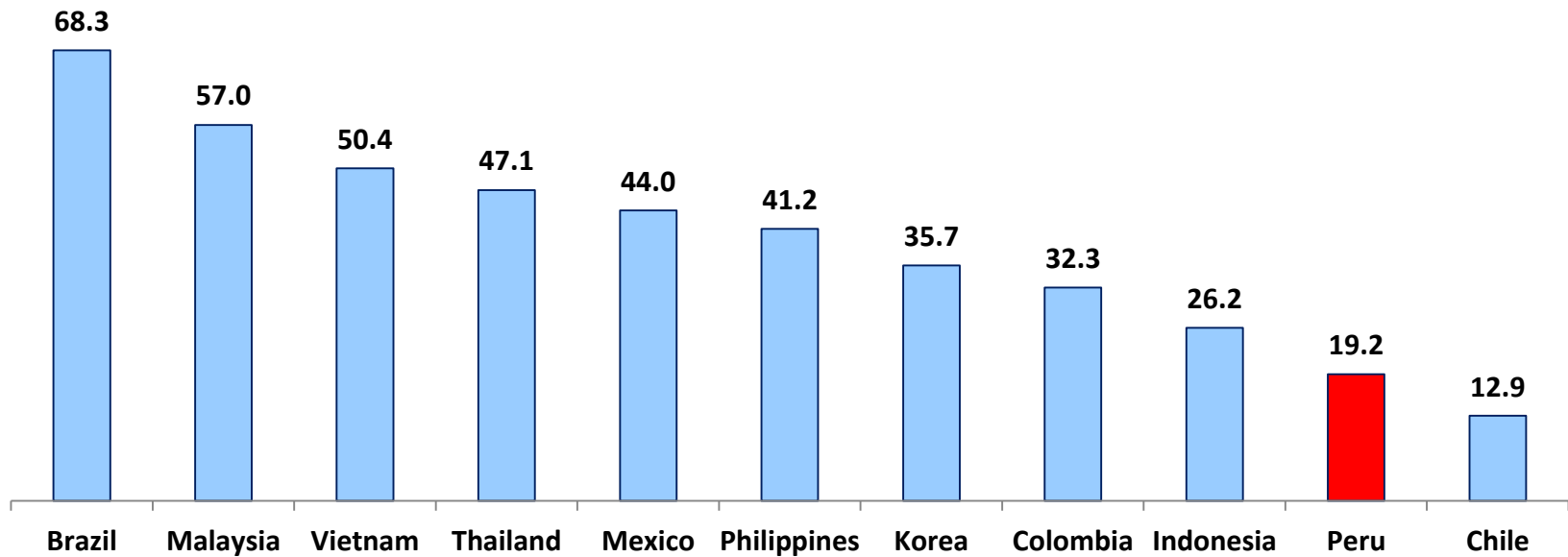
Reserves relative to other emerging economies ^{1/}



^{1/} The composite adequacy metric is a weighted sum of exports, short-term debt, portfolio liabilities, and broad money (FMI, 2011).

... and its public debt stock is among the lowest in the region

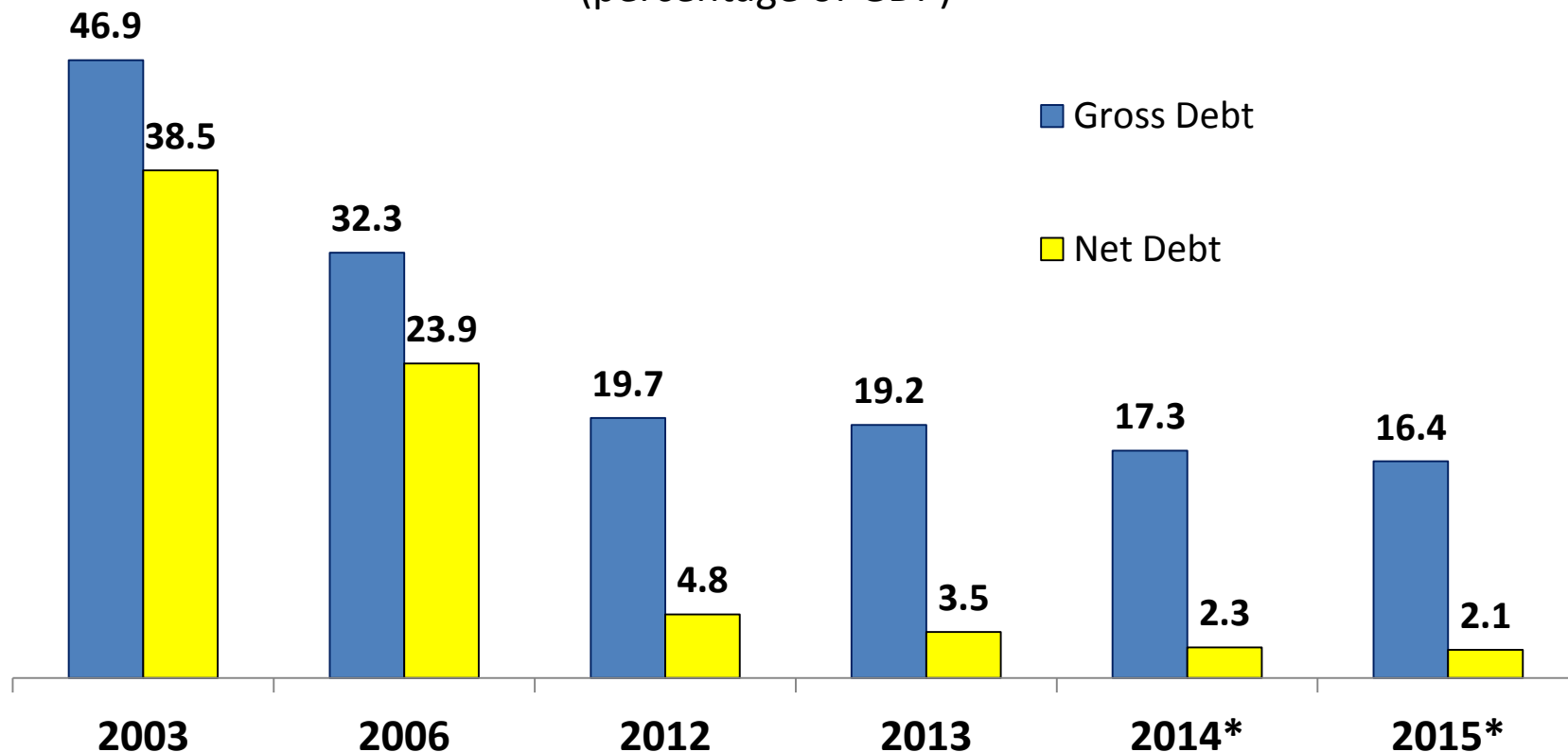
Gross public debt: 2013*
(% GDP)



* Forecast

Net public debt is expected to fall to 2,1% in 2015

NON FINANCIAL PUBLIC SECTOR DEBT STOCK: GROSS AND NET DEBT (percentage of GDP)



* Forecast

Agenda

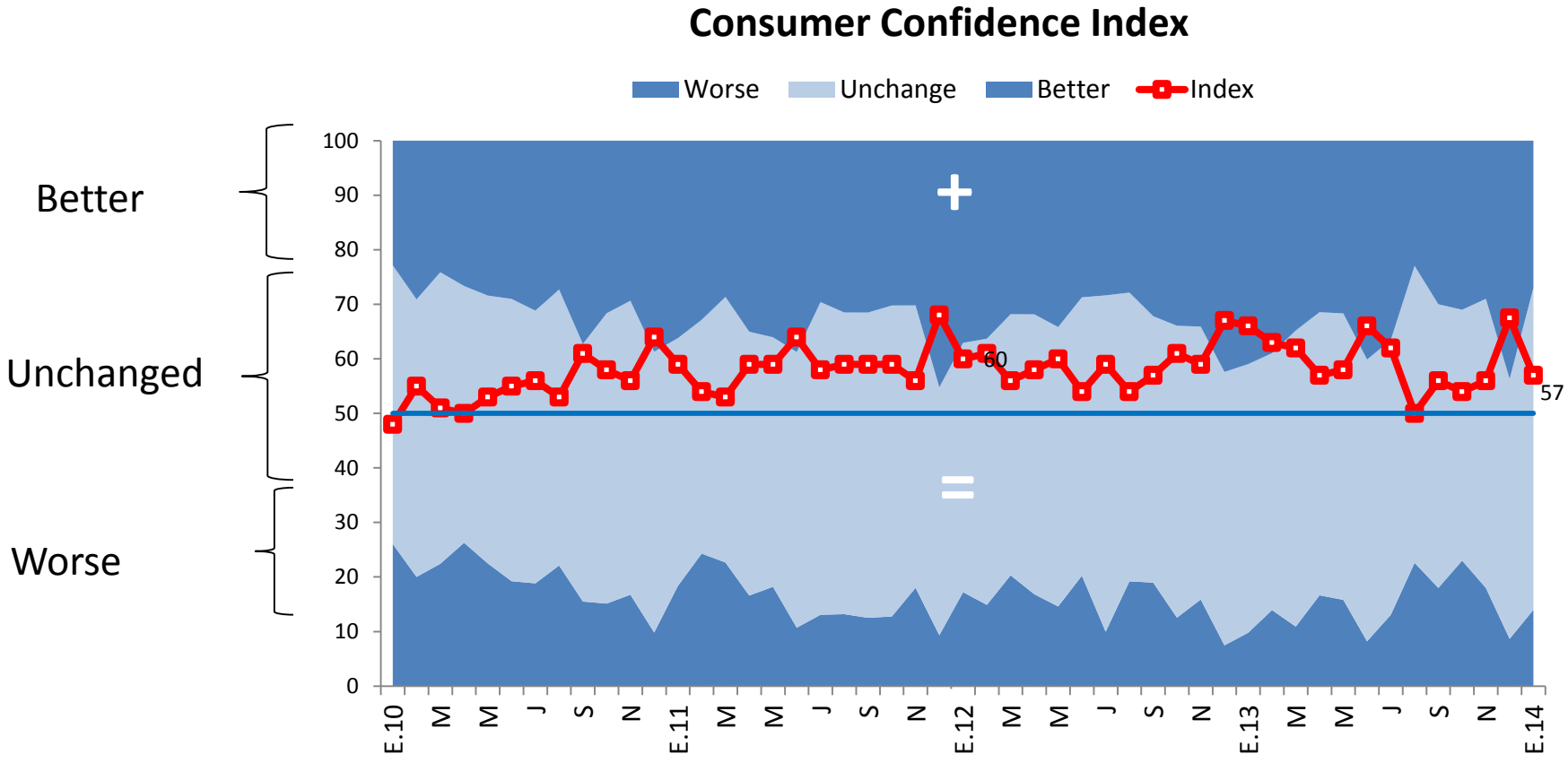
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Improvement in the majority of indicators of macroeconomic expectations

MACROECONOMIC EXPECTATIONS SURVEY RESULTS

	November	December	January 2014	
1. CURRENT BUSINESS SITUATION	60	61	62	↑
2. SALES	56	57	54	↓
3. INVENTORIES (COMPARED TO PREVIOUS MONTH)	55	53	50	↓
4. SALE ORDERS (COMPARED TO PREVIOUS MONTH)	56	55	50	↓
5. FINANCIAL SITUATION	61	62	65	↑
6. ACCESS TO CREDIT	65	65	68	↑
7. 3 MONTH FINAL PRODUCT DEMAND EXPECTATIONS	59	61	62	↑
8. 3 MONTH NEW HIRINGS EXPECTATIONS	52	53	54	↑
9. 3 MONTH MACROECONOMIC EXPECTATIONS	54	59	59	↑
10. 3 MONTH INDUSTRY EXPECTATIONS	58	59	61	↑

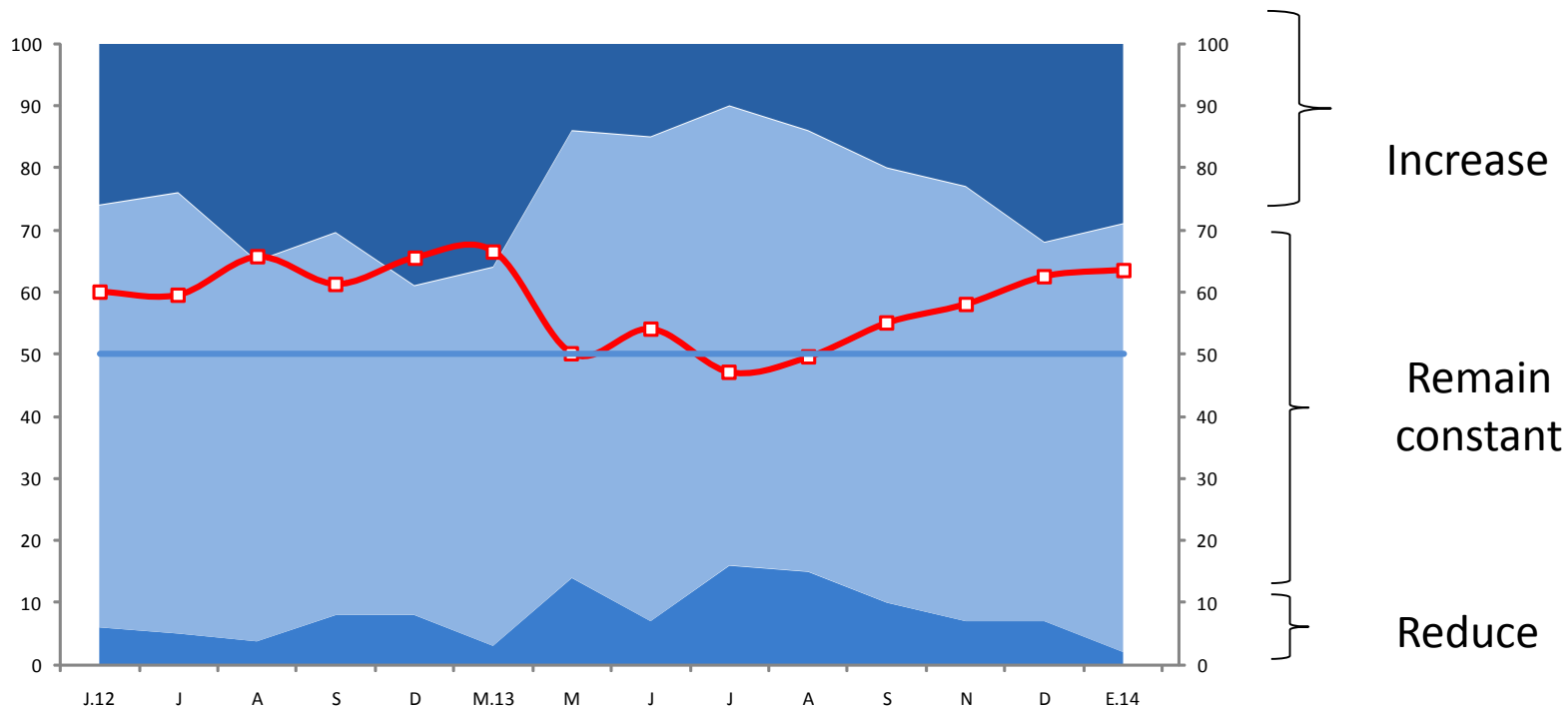
Consumer Confidence Index showed an optimistic level of 57 points in January.



January 2013 (Index value: 57)	Percentage %
Better	27
Unchanged	59
Worse	14

Investors Confidence Index increased to 64 points in January

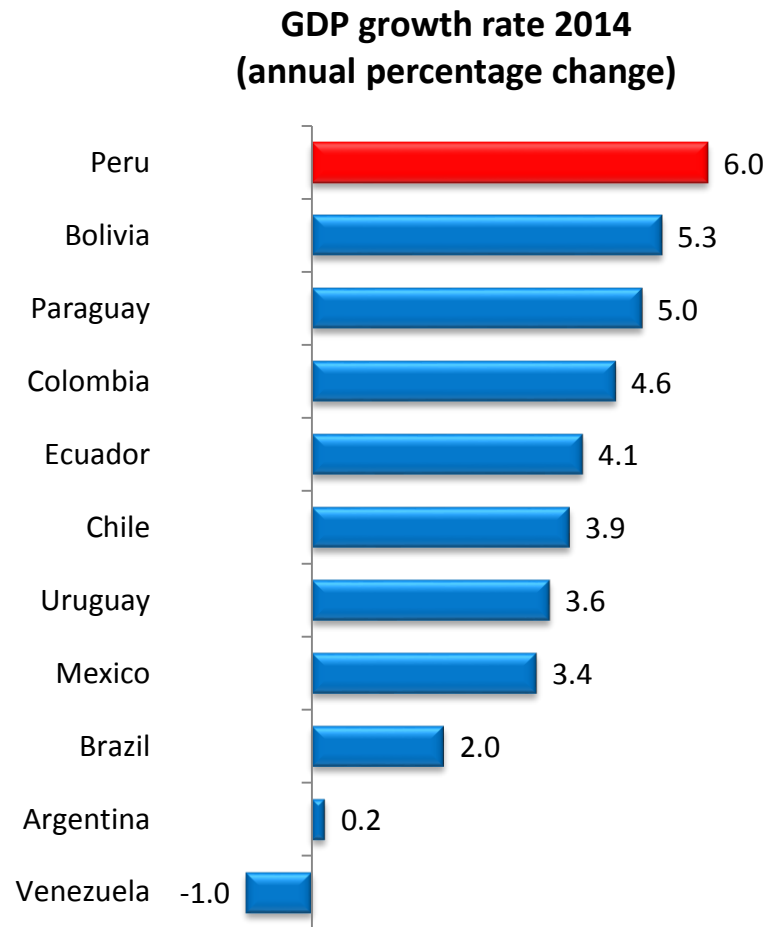
Investor's Confidence Index



Source: Apoyo Consultoría

January 2013 (Index value: 64)	Percentage %
Increase investment	29
Remain constant	69
Reduce	2

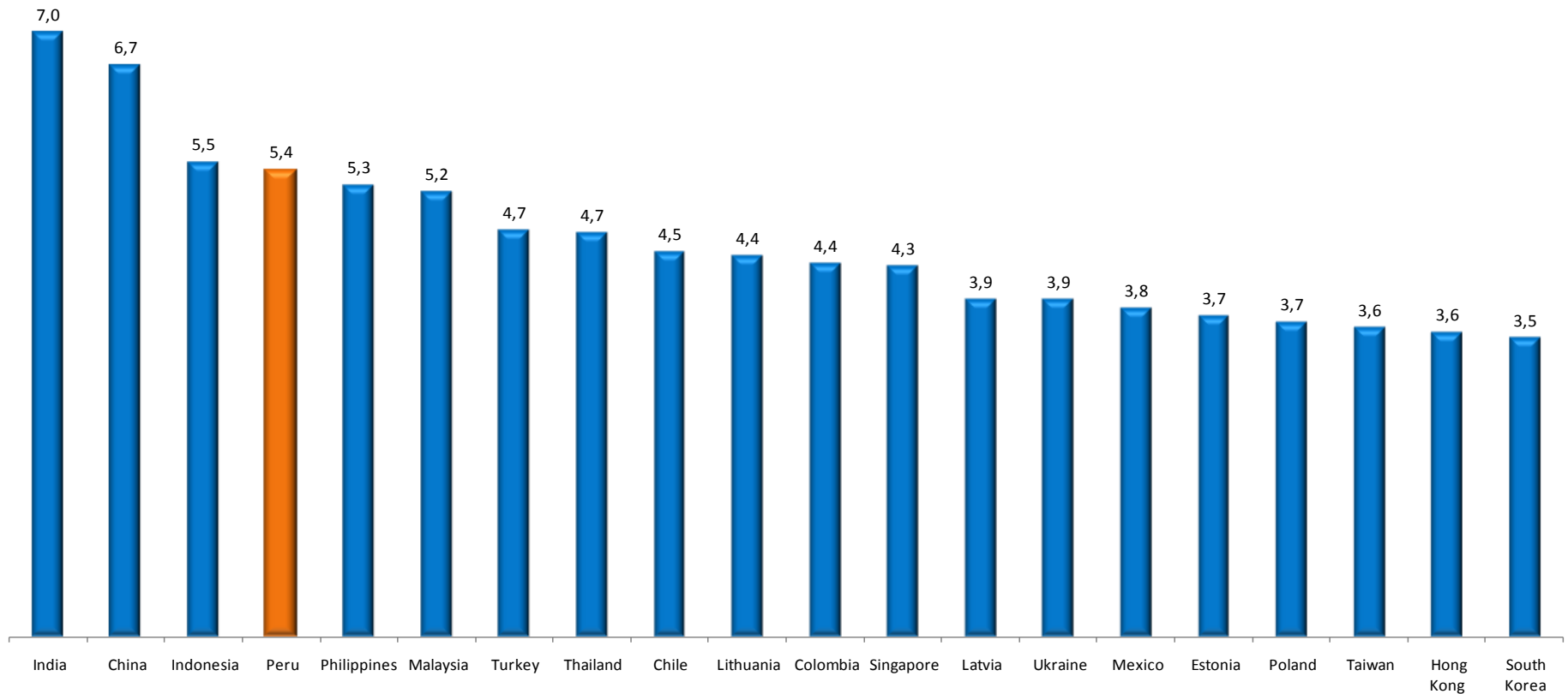
Peru's GDP is expected to grow 6,0 percent in 2014



Source: Consensus Forecast, February 2014 and BCRP

GDP growth in Peru is expected to be among the highest in the world in the next 10 years

GDP Growth 2014-2023
(Annual average, %)



Source: Consensus Forecasts (Oct. 2013).

The recovery of the primary sectors will be associated with the start-up of investment projects ...

GDP Growth (Real % change)

	2008-2013	2014 – 2016*
Agriculture and livestock	4,4	3,7
Fishing	1,5	4,4
Mining and hydrocarbons	2,0	11,9
Manufacturing	3,9	5,0
Electricity and water	5,8	6,0
Construction	11,0	7,6
Commerce	7,2	6,1
Other services	6,8	6,4
GDP	6,2	6,3

*Forecast

... consistent with the behavior of private investment

GDP Growth (Real % change)

	2008-2013	2014 – 2016*
Private Consumption	5,8	5,3
Private fixed investment	9,3	6,7
Public expenditure	10,5	8,8
Exports	3,5	10,3
Imports	7,6	7,0
GDP	6,2	6,3

*Forecast

US\$ 28,5 billion of private investment announcements for the next two years

PRIVATE INVESTMENT PROJECTS ANNOUNCEMENTS (in millions of US\$)

	2014 - 2015		%
	September IR	December IR	
Mining	13 880	14 110	49
Hydrocarbons	3 797	4 036	14
Electricity	2 813	3 293	12
Industrial	1 671	1 991	7
Infraestructure	1 133	1 133	4
Other Sectors	3 431	3 952	14
Total	26 725	28 515	100

Source: Specialized Media and Newspapers

Stock of Announced Investment Projects (in millions of US\$)

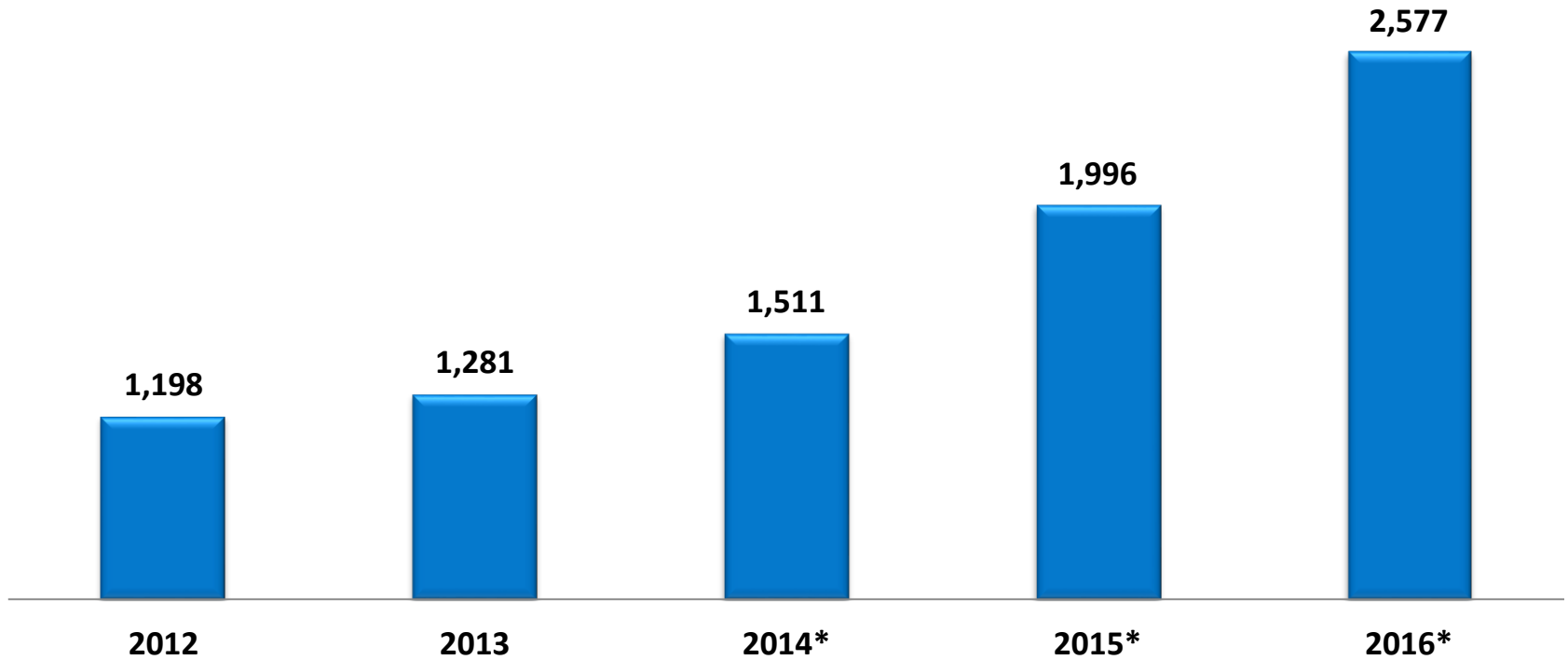
	September IR	December IR
Total	67 383	69 684

Source: Specialized Media and Newspapers

Copper production would double in 2015

COPPER PRODUCTION

(in thousands of metric tons)



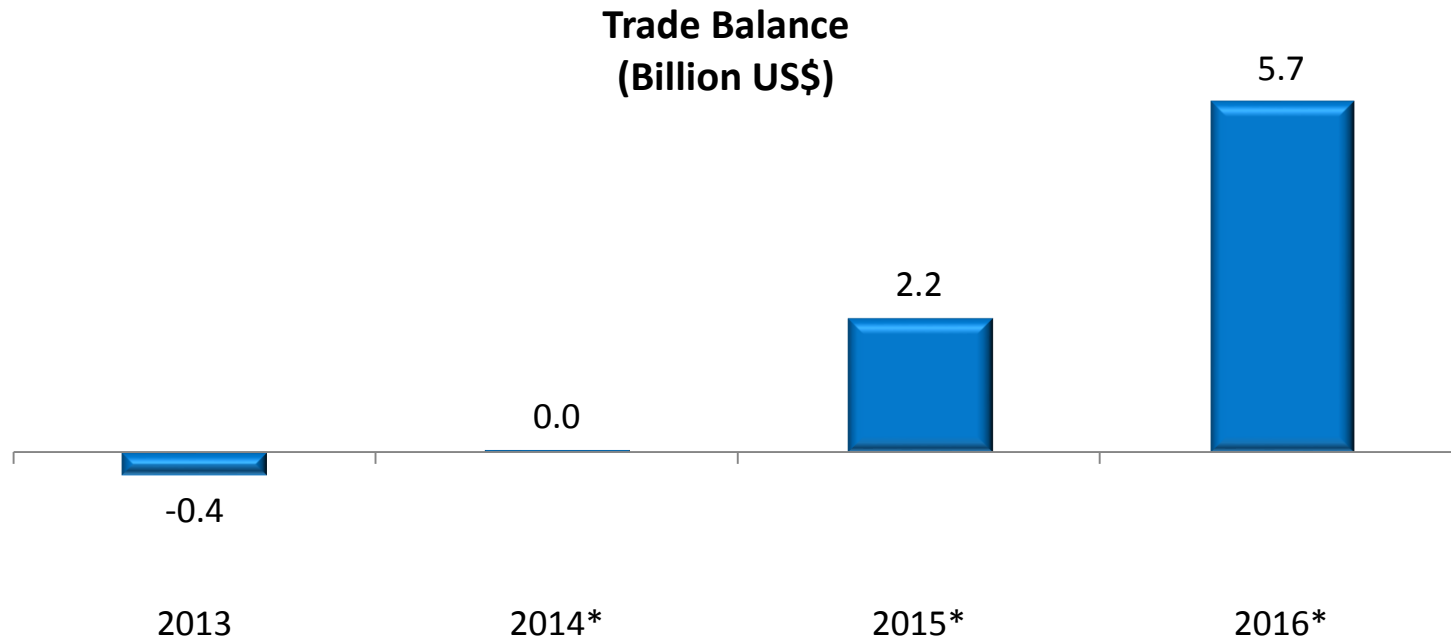
*Forecast

Investment in the mining sector increased 14,3% in 2013

INVESTMENT IN THE MINING SECTOR: JANUARY - NOVEMBER (in millions of US\$)

PROJECT	FIRM	JANUARY - NOVEMBER		
		2012	2013	Var. %
Las Bambas	XSTRATA LAS BAMBAS S.A.	880	1 590	81
Cerro Verde	SOCIEDAD MINERA CERRO VERDE S.A.A.	516	926	80
Toromocho	MINERA CHINALCO PERÚ S.A.	949	919	-3
Antapaccay	COMPAÑIA MINERA ANTAPACCAY S.A.	348	537	54
Antamina	COMPAÑIA MINERA ANTAMINA S.A.	575	462	-20
Constancia	HUDBAY PERU S.A.C.	5	429	8 031
Toquepala / Cuajone	SOUTHERN PERU COPPER CORPORATION SUCU	113	330	192
Conga	MINERA YANACOCHA S.R.L.	984	285	-71
La Arena	LA ARENA S.A.	229	182	-20
Planta de Óxidos	EMPRESA ADMINISTRADORA CERRO S.A.C.	43	175	302
Pindo y Parcoy	CONSORCIO MINERO HORIZONTE S.A.	130	155	19
Colquijirca	SOCIEDAD MINERA EL BROCAL S.A.A.	78	151	93
Quellaveco	ANGLO AMERICAN QUELLAVECO S.A.	19	149	697
Lagunas Norte	MINERA BARRICK MISQUICHILCA S.A.	159	144	-10
Río Tinto	RIO TINTO MINERA PERU LIMITADA SAC	53	120	127
Others		2 383	1 979	-17
TOTAL		7 466	8 532	14

Trade balance would be positive due to new mining projects starting in 2014

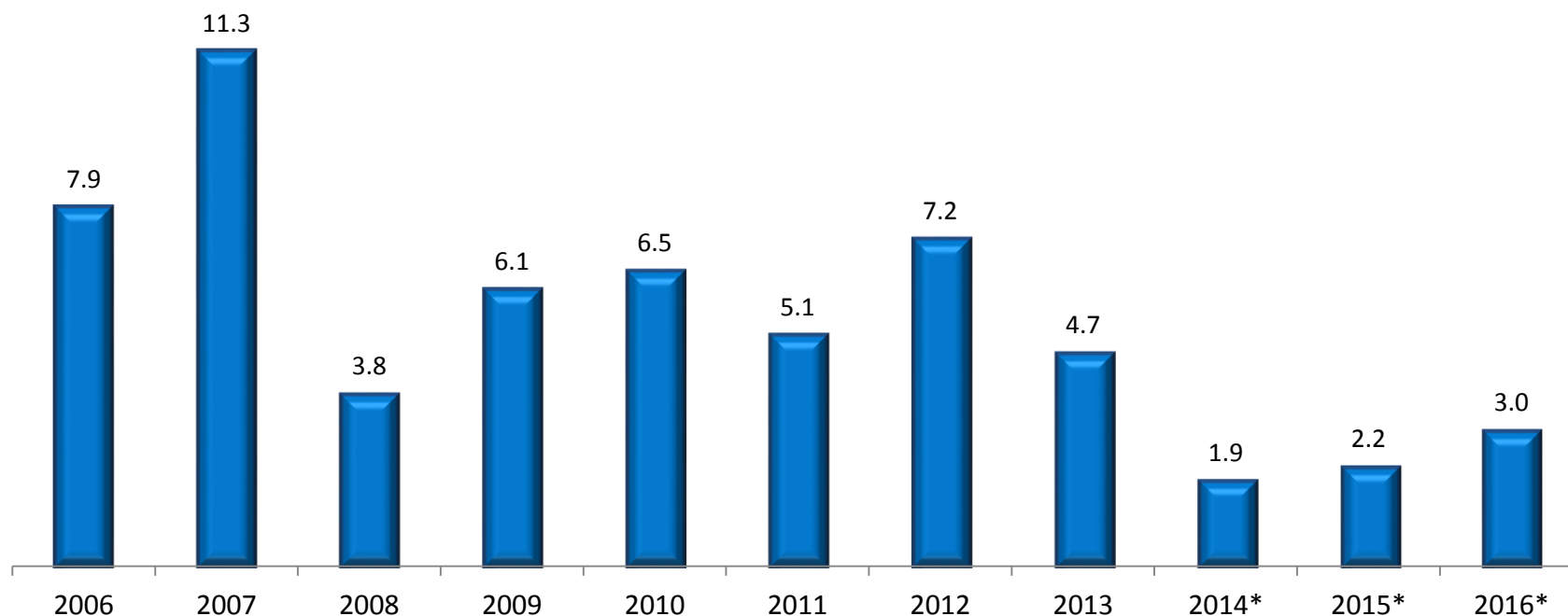


	2013	2014*	2015*	2016*
% Change Volume				
Exports	-2,1	8,0	12,9	14,6
Imports	5,5	4,4	7,7	7,2
% Change Price				
Exports	-7,3	-5,1	0,0	0,9
Imports	-2,7	-2,8	0,2	1,6

* Forecast

Current account deficit financed by long-term capital inflows

CURRENT ACCOUNT PLUS LONG - TERM EXTERNAL CAPITAL INFLOWS OF PRIVATE
SECTOR 1/ : 2006-2016
(% GDP)



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

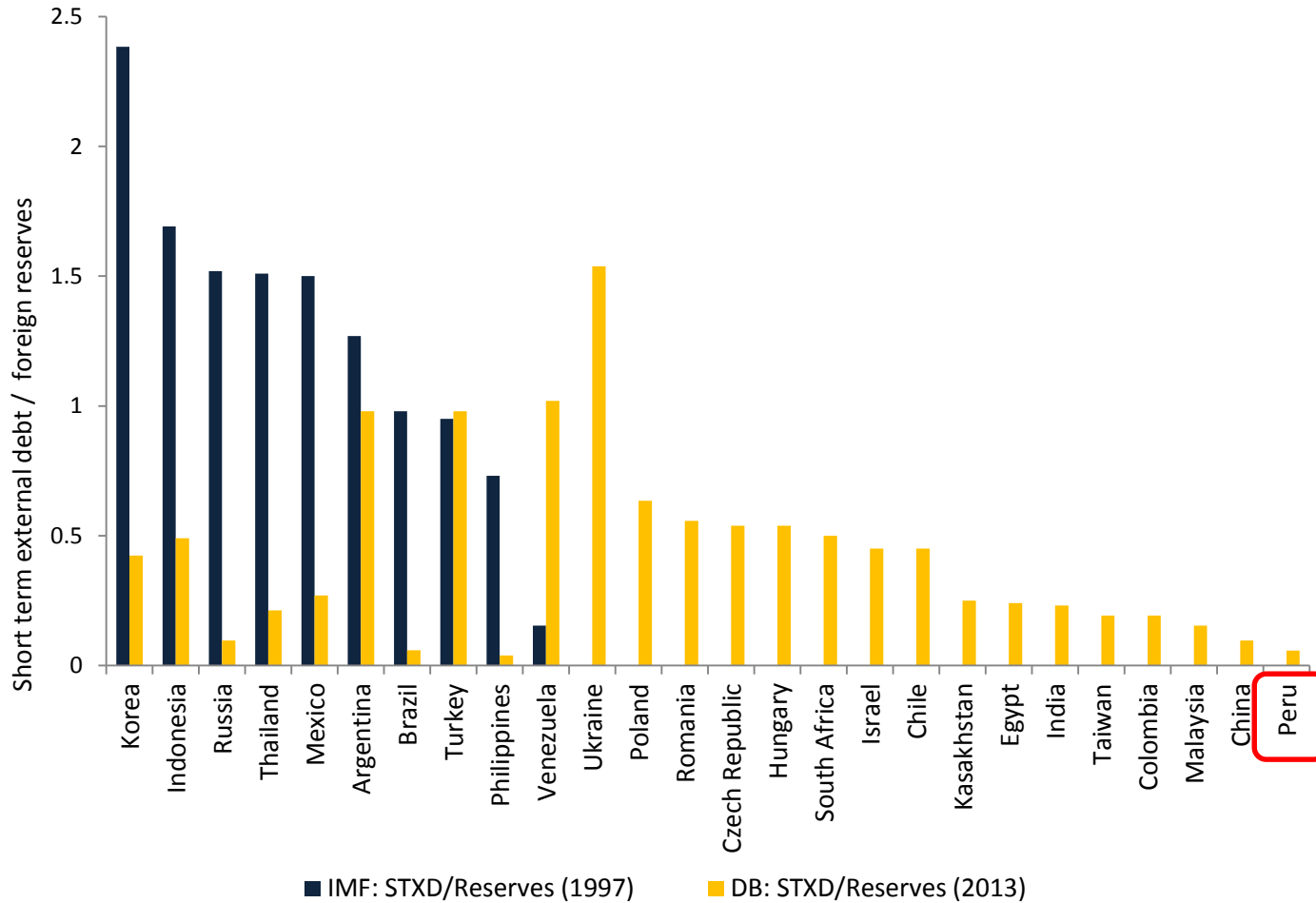
* Forecast

Indicators of Financial Vulnerability

Indicators of Financial Vulnerability

	Unit	2003	2008	2013
1 Dollarization of credit to the private sector	%	69	49	41
2 Dollarization of public debt	%	85	62	44
3 NIR/ST liabilities + amortization on external debt	times	7,4	3,7	7,9
4 ST banks' foreign liabilities/banking credit	%	4,9	5,3	2,7
5 ST banks' liabilities (deposits + credit lines)/RRs	times	3,1	2,5	1,7
6 Non-residents holdings of local public debt/Public sector deposits	%	0,0	11,9	21,5
7 Average maturity of the public debt	years	7,6	11,2	12,5
8 NIR/GDP	%	16,6	24,5	31,6
9 Domestic Currency Deposits/CB FX Position	%	0,6	0,6	0,9

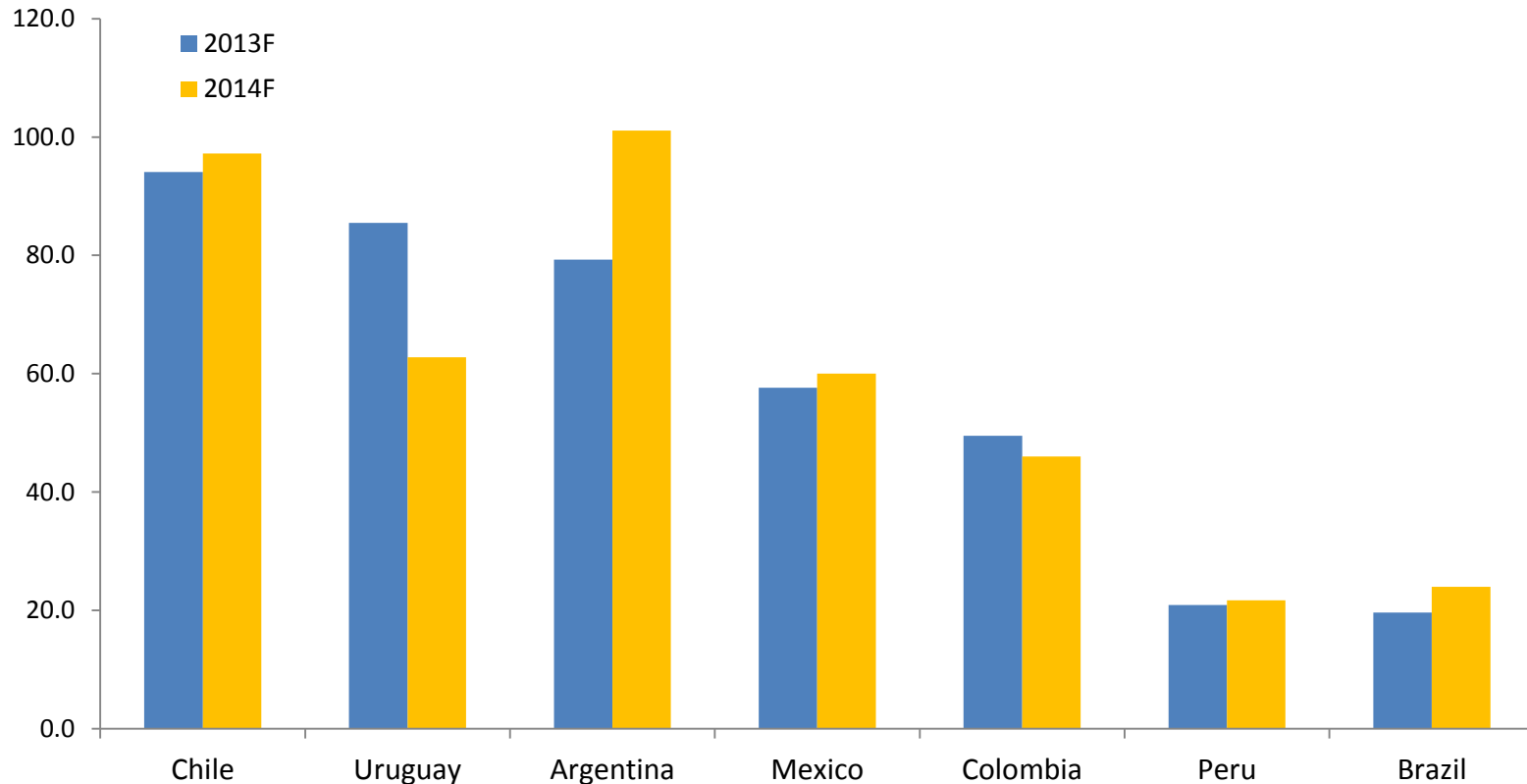
EM stress metric: short - term debt / reserves



Source: IMF, Haver Analytics, Deutsche Bank

Peru has a low level of external vulnerability compared to the region

Moody's External Vulnerability Indicator

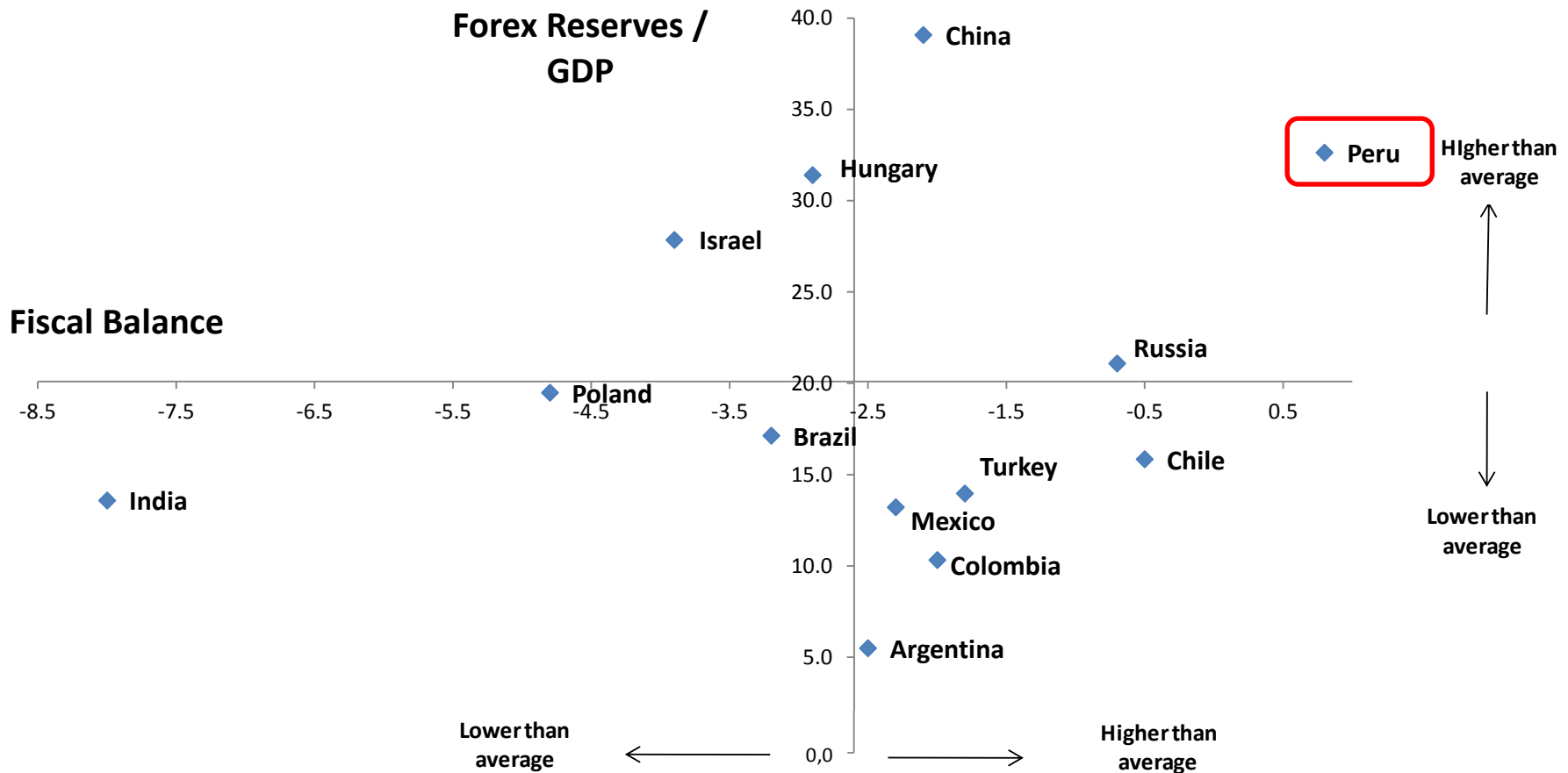


Source: Moody's, November 2013.

The indicator is calculated as (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

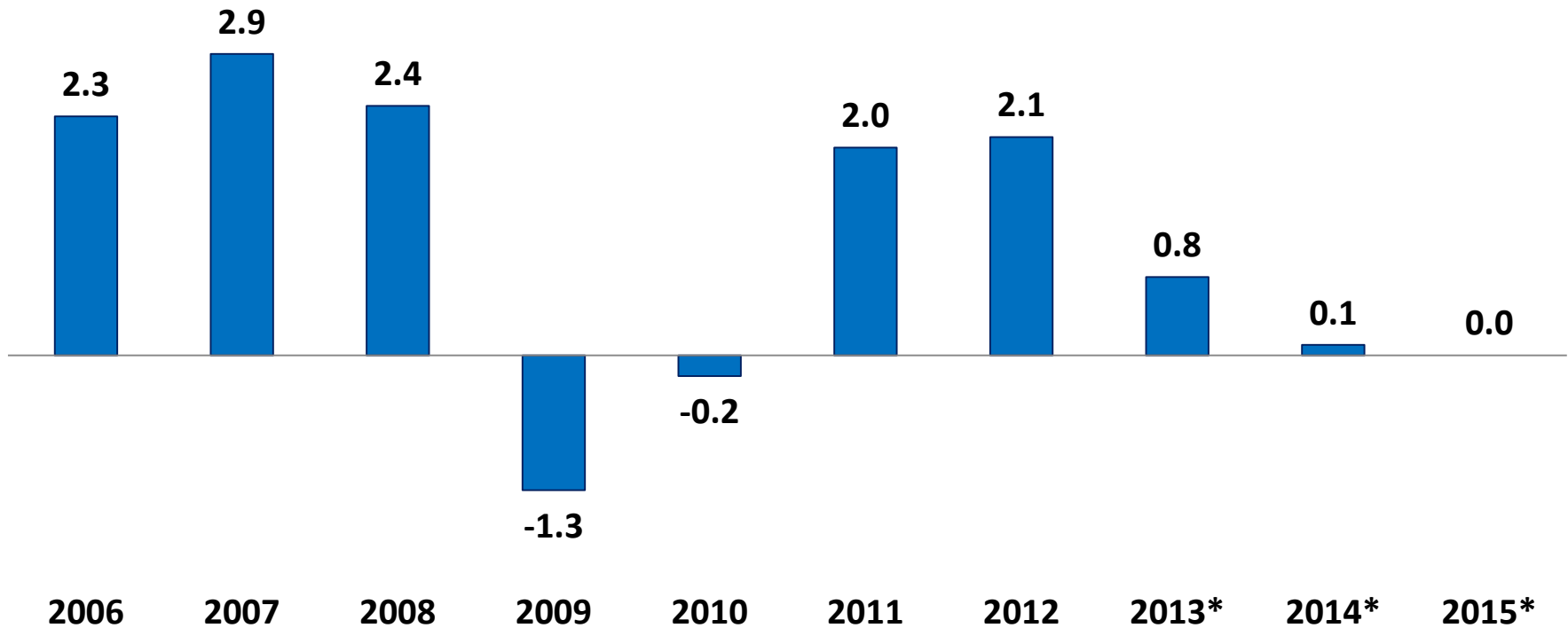
Peru is among the least vulnerable emerging economies with a high level of foreign exchange reserves and fiscal surplus

Economic Indicators for Emerging Countries



The fiscal balance is expected to be near zero in 2014 and 2015

FISCAL SURPLUS
(as percentage of GDP)

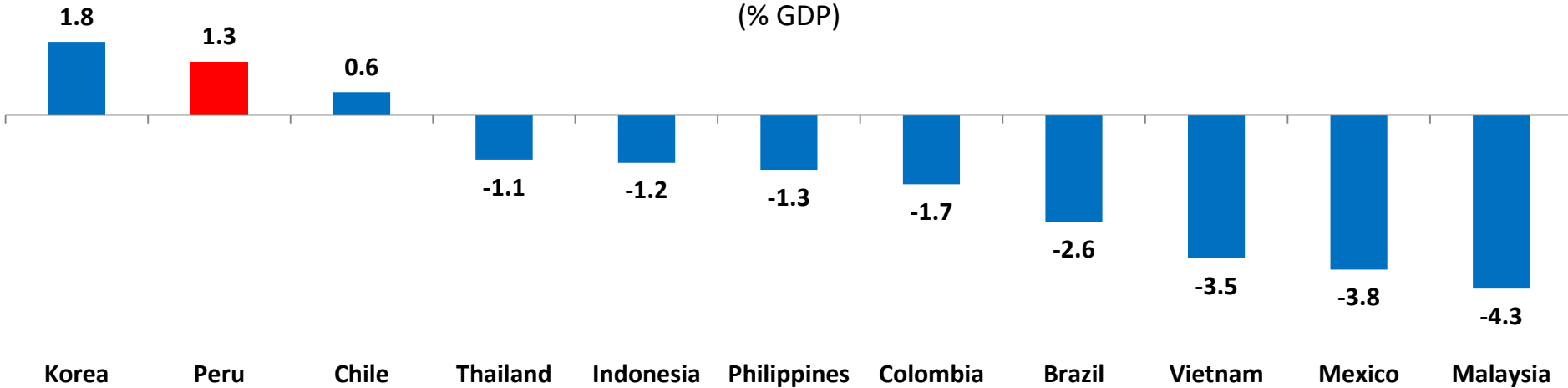


* Forecast

Peru's fiscal surplus is among the highest in the region

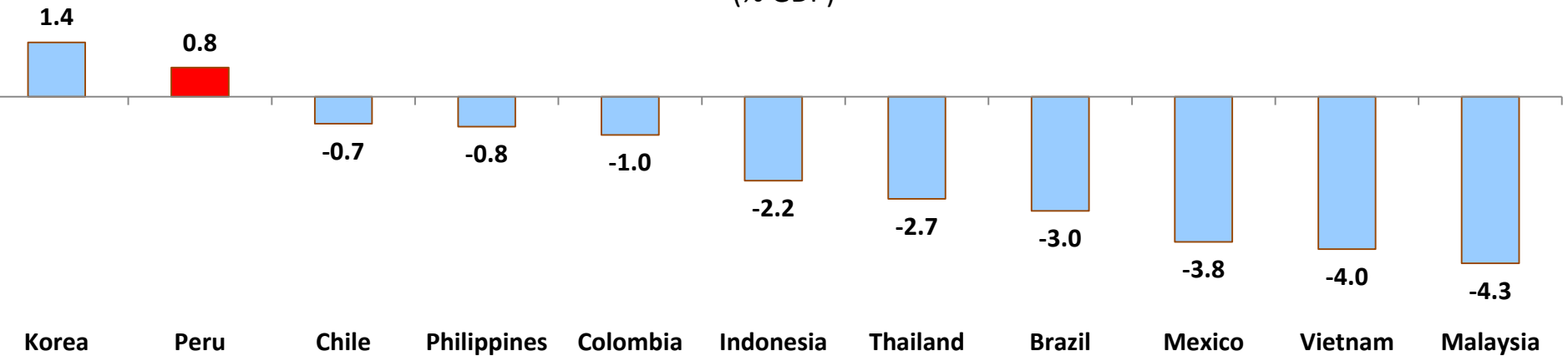
Overall balance: *average 2010 - 2012*

(% GDP)



Overall balance: 2013*

(% GDP)

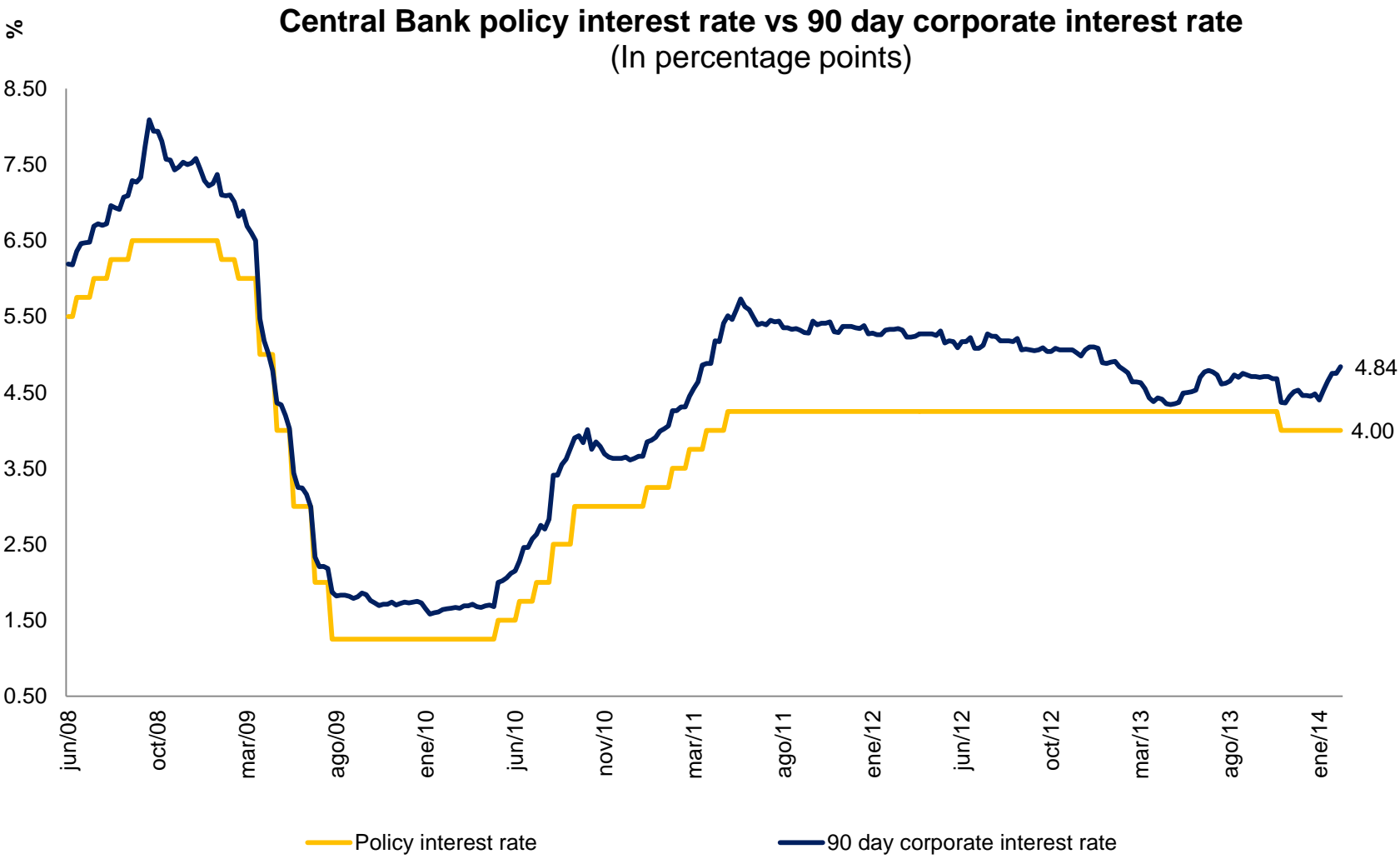


* Forecast

Agenda

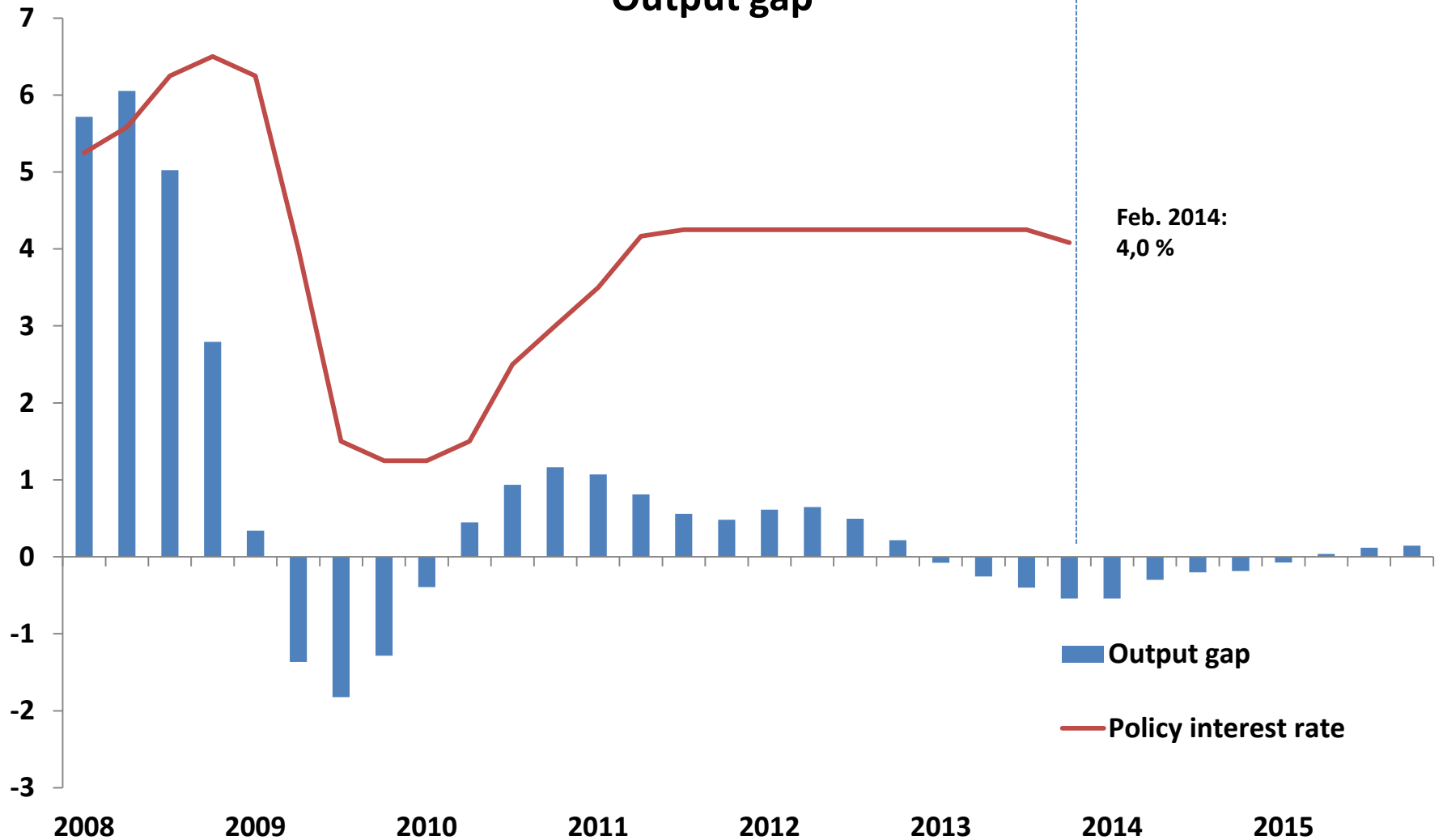
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The Central Bank of Peru lowered its monetary policy interest rate to 4,0 percent in November



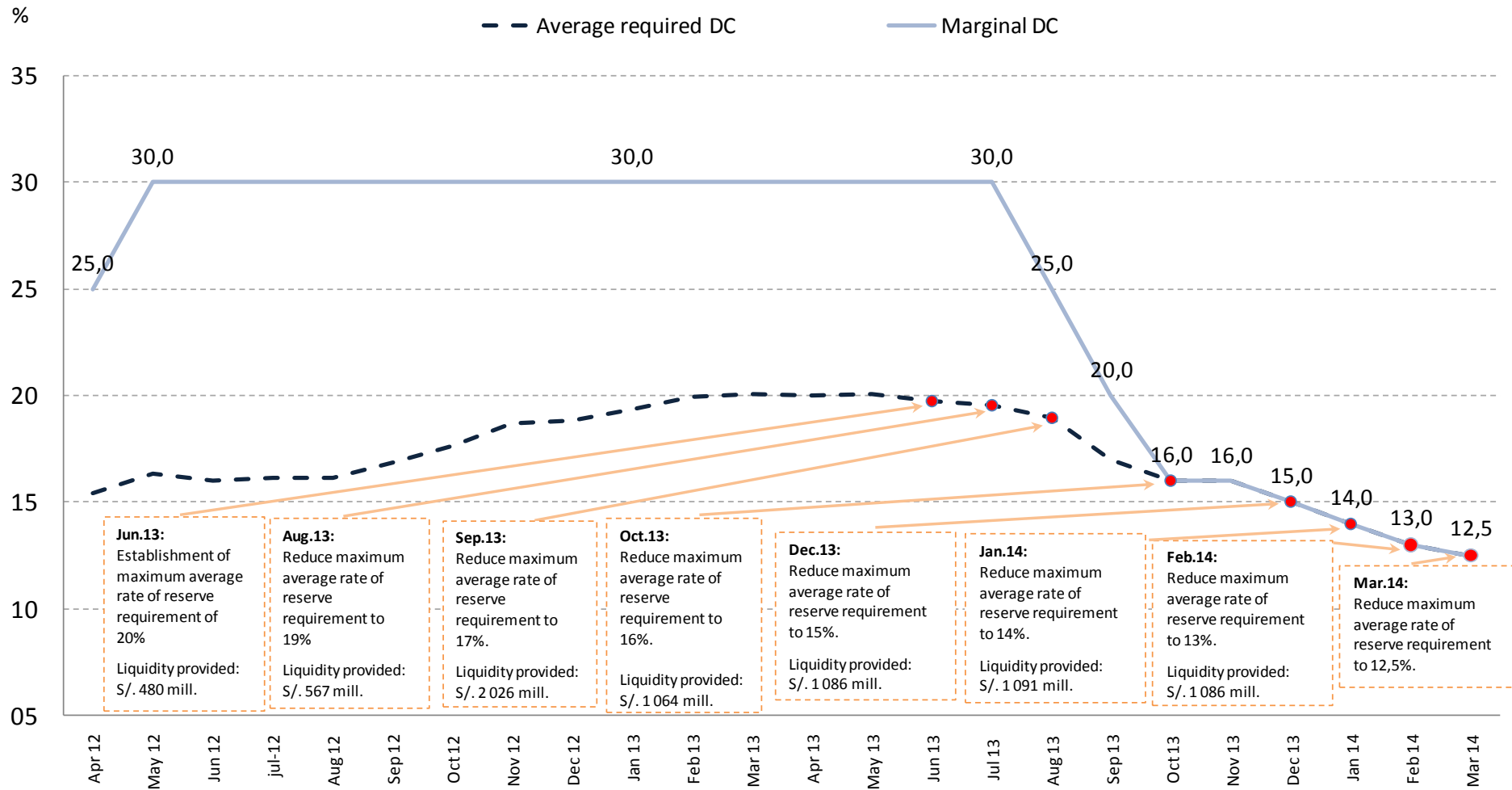
Output growth is expected to remain close to its potential level

Output gap



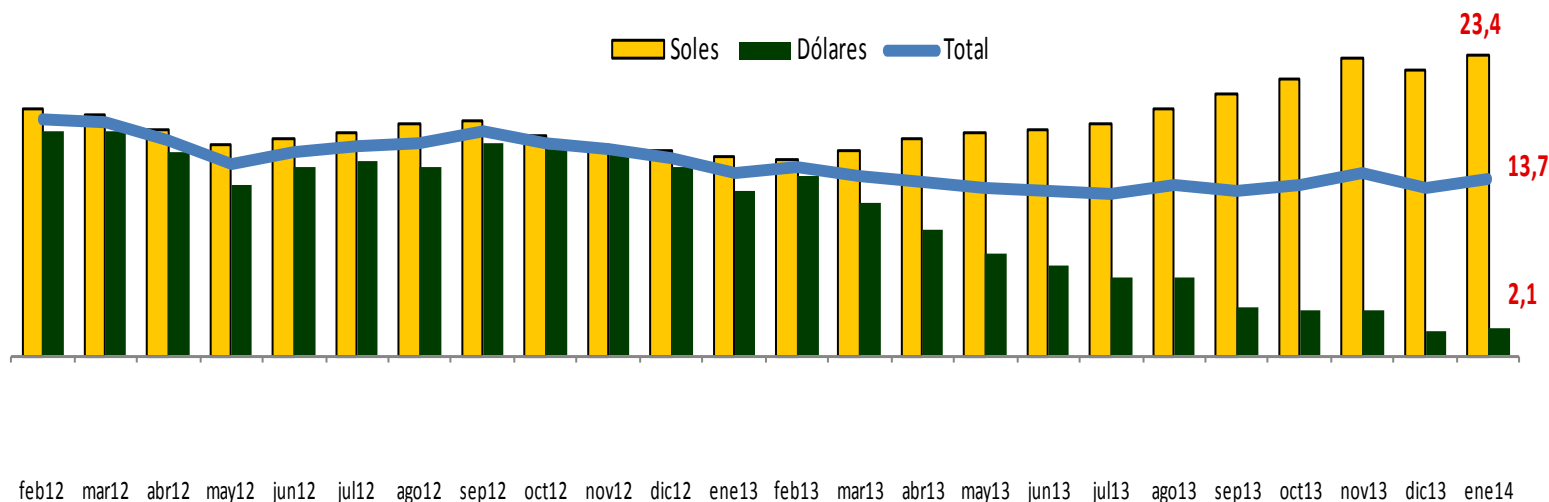
Macroprudential policies to keep sustainable credit growth and to support the dedollarization process

Domestic Currency Reserve Ratio
(As percentage of total obligations subject to legal requirements)



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

CREDIT TO THE PRIVATE SECTOR (yoy percentage change)



	feb-13	mar-13	apr-13	may-13	jun-13	jul-13	aug-13	sep-13	oct-13	nov-13	dec-13	jan-14
Annual percentage change	14,8	14,1	13,6	13,1	12,8	12,7	13,3	12,8	13,4	14,2	13,1	13,7
Soles	15,4	15,9	16,8	17,3	17,6	18,2	19,2	20,3	21,6	23,1	22,4	23,4
Dollars	14,0	11,8	9,8	8,0	7,1	6,2	6,1	3,8	3,5	3,5	2,0	2,1

Mortgages and credit to households reduced their pace of growth, whereas credit to firms keeps its dynamism

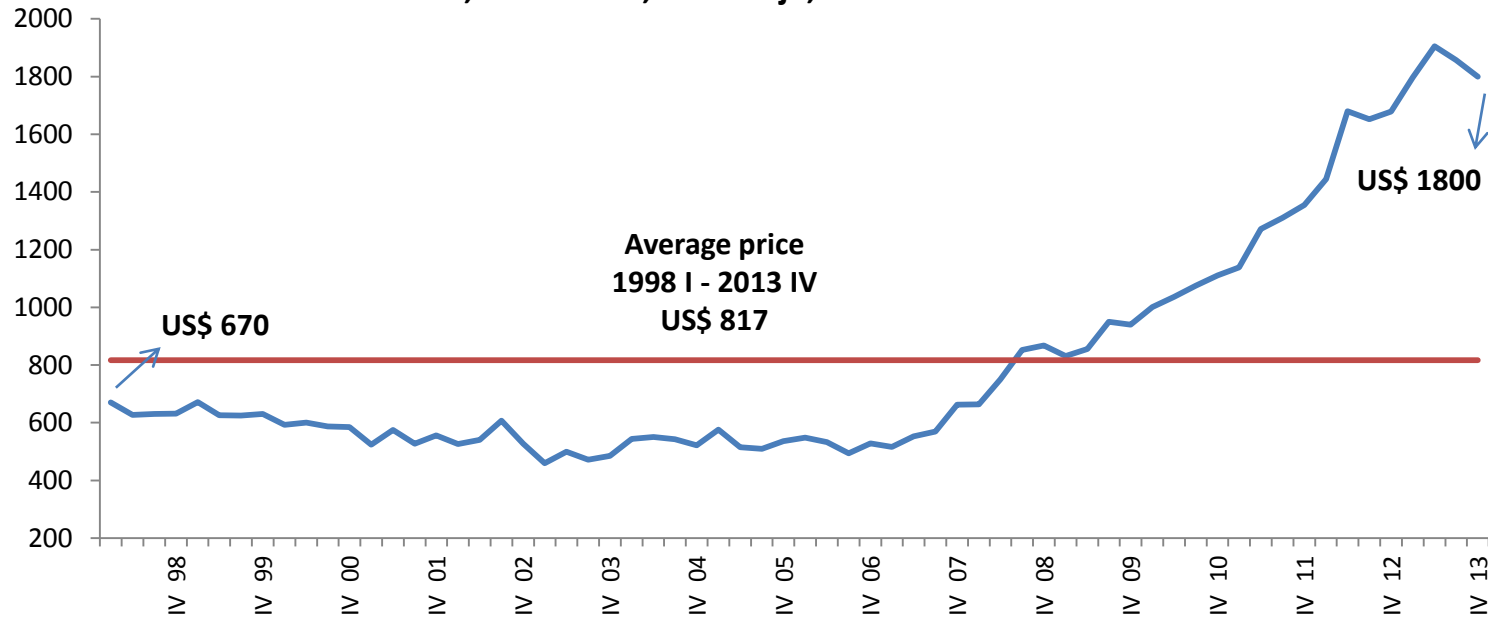
Credit to the Private Sector

(Annual growth rates)

	Dec. 12	Dec. 13	Jan. 14
Credit to Firms	13,3	13,0	14,0
Credit to Households	19,4	13,4	13,3
Consumption	15,3	11,4	11,6
Car Loans	25,2	14,5	12,9
Credit cards	13,4	8,2	8,8
Others	15,6	12,9	13,0
Mortgage	25,7	16,2	15,6
TOTAL	15,1	13,1	13,7

Housing prices increased by 14 percent in 2013

Median sale price of apartments by m2
La Molina, Miraflores, San Borja, San Isidro and Surco



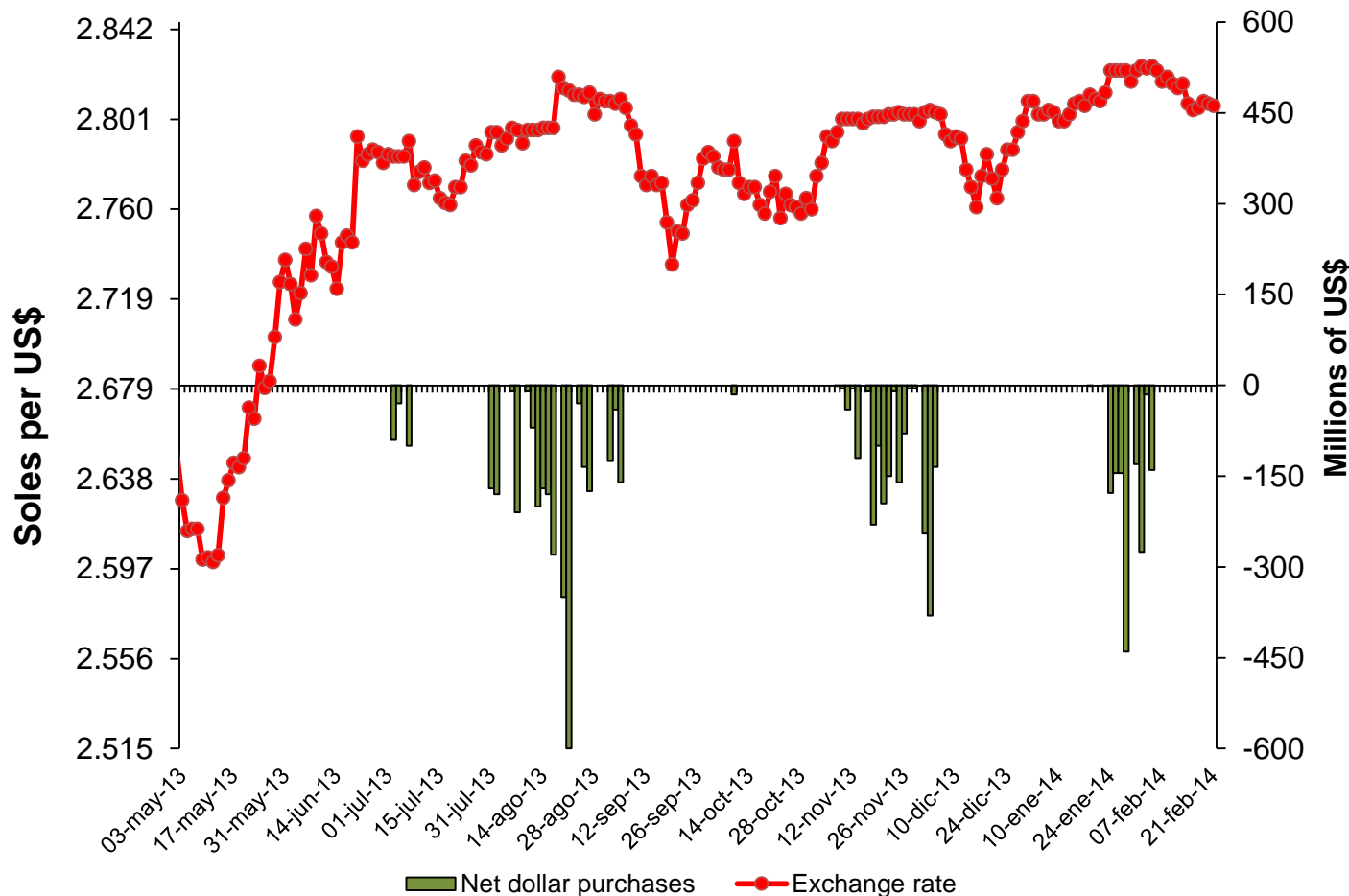
PER: SALE PRICE / ANNUAL RENT IN US\$ by m2 ^{1/}

	2010 - IVT	2011 - IVT	2012 - IVT	2013 - IVT
La Molina	16,1	15,8	11,6	16,4
Miraflores	13,3	15,7	15,0	15,9
San Borja	14,7	17,2	18,2	16,7
San Isidro	13,8	16,7	18,4	17,7
Surco	14,7	16,3	15,0	16,6
<i>Average</i>	14,1	15,2	15,8	16,1

1/ These ratios were calculated using the median of sale prices in each district.

Since May 2013, the Central Bank intervened to reduce volatility in the foreign exchange market

Exchange rate and foreign exchange intervention



Millions of US\$	Net Purchases
2010	8 963
2011	3 537
2012	13 179
2013	5
Jan – Apr 2013	5 210
May – Dec 2013	-5 205
2014*	-1 470
2010 – 2014	24 214

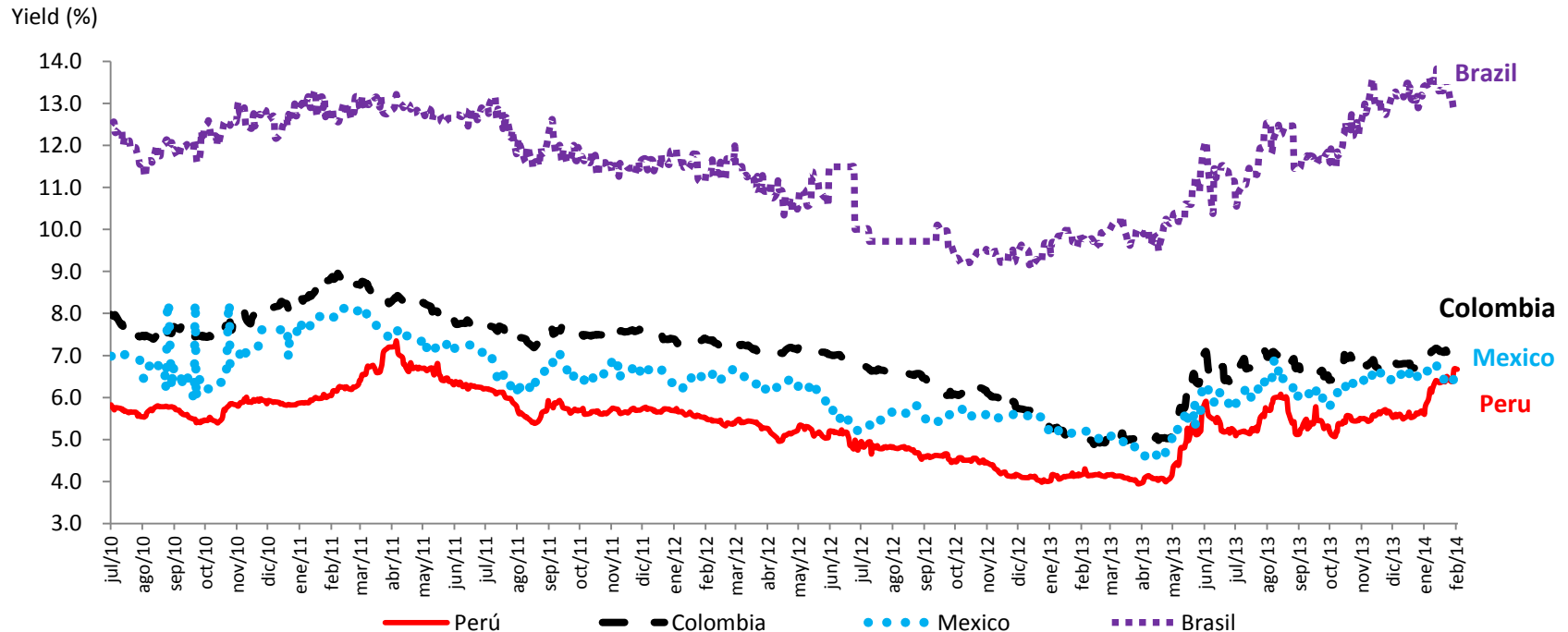
* As of February 21.

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

10-year Treasury bond yield

Country	Tasa (%)				Policy Rate
	Dec 12	Apr 13	Dec 13	Feb 24 2014	
Brazil 2023	9,57	9,70	13,21	12,79	10,50
Colombia 2024	5,73	4,91	6,79	7,29	3,25
Mexico 2023	5,55	4,59	6,54	6,38	3,50
Peru 2023	4,10	4,11	5,60	6,67	4,00

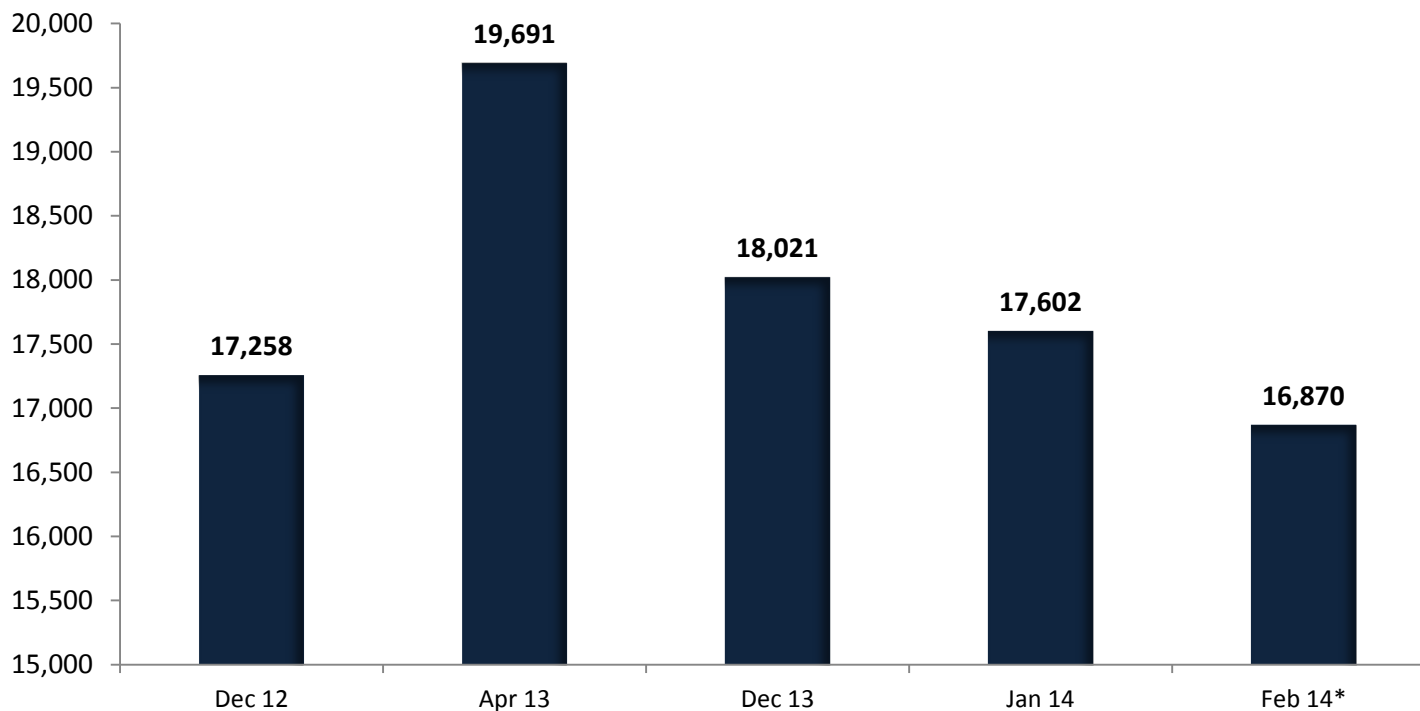
LATAM 10-year Treasury Bond Yield



Source: Bloomberg

Non-resident Treasury bond holdings

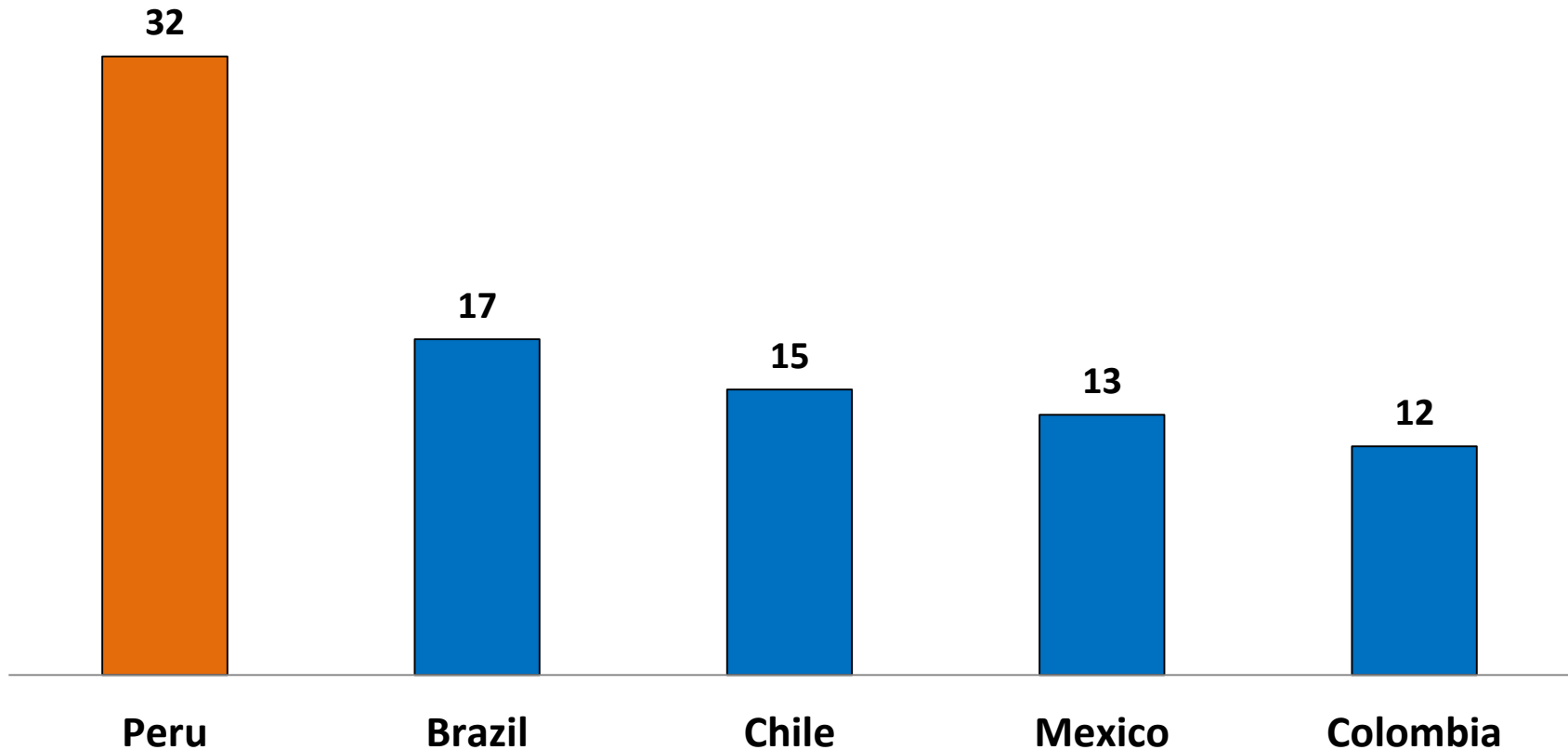
Non-resident Treasury bond holdings (in millions of S/.)



* As of February 24

Prudential accumulation of foreign exchange reserves in order to lower exposure to financial dollarization risks

International Reserves* (as percentage of GDP)

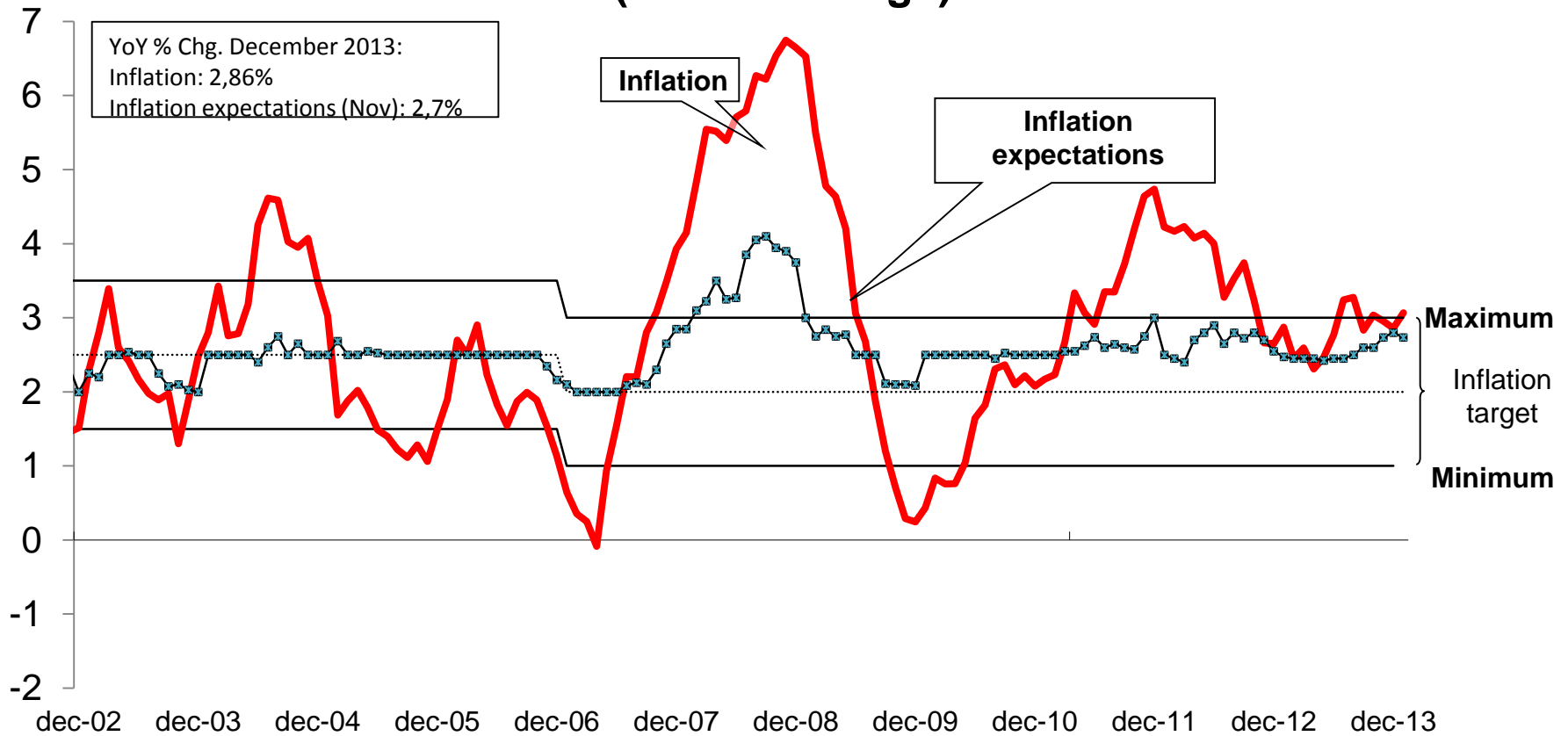


* Information as of December 2013.

Source: Central banks and IMF – World Economic Outlook 2013.

Inflation rate fell to 2,86 percent in December

INFLATION AND INFLATION EXPECTATIONS (YoY % Change)



Inflation expectations are below 3 percent for 2014 and 2015

MACROECONOMIC EXPECTATIONS SURVEY

END OF PERIOD INFLATION RATE

(in percentage)

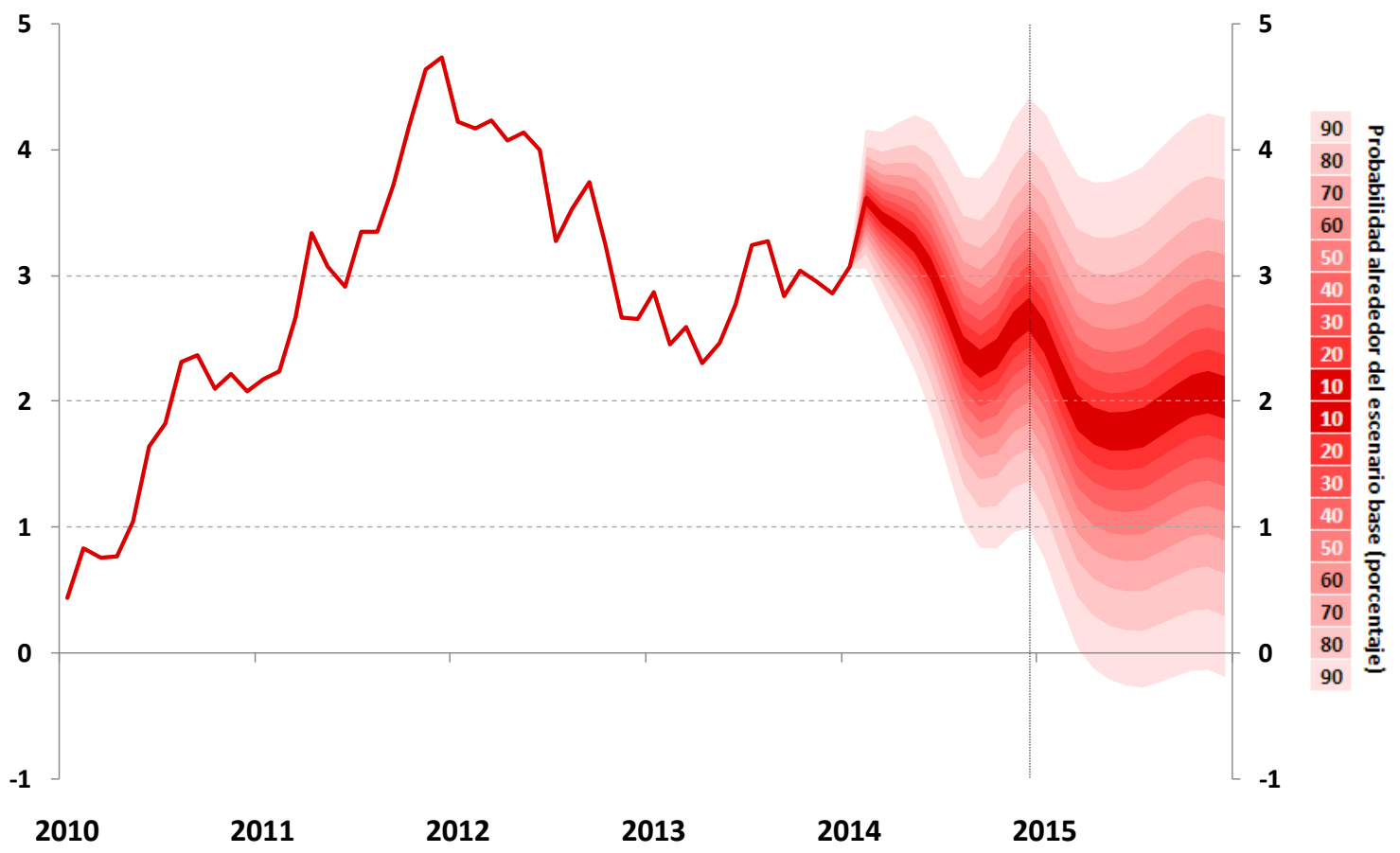
		Expectations from		
		Sep. 13 IR*	Dec. 13 IR*	Jan. 14
Financial System				
	2014	2,5	2,6	2,6
	2015	2,5	2,6	2,5
Economic Analysts				
	2014	2,5	2,6	2,7
	2015	2,4	2,5	2,6
Non-financial Sector				
	2014	3,0	3,0	2,9
	2015	3,0	3,0	3,0

* IR: Inflation Report

Inflation is expected to stay in the inflation target range throughout 2014-2015.

Inflation forecast, 2014 - 2015

(annual percentage change)



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Closing Remarks

- End of cyclical deceleration and beginning of economic recovery in the global economy.
- Despite uncertainty about the speed of the *tapering* process, this occurs amidst a gradual recovery of the American economy.
- Peru's good economic position among emerging economies due to strong macroeconomic fundamentals and fast reaction ability.
- Opportunity to move forward through an agenda of structural reforms to boost potential output growth.



BANCO CENTRAL DE RESERVA DEL PERÚ



Peru's fundamentals and economic perspectives

**Julio Velarde
Governor
Central Bank of Peru**

March 2014