



Peru: Investment Opportunities

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PERÚ

Ministerio
de Economía y Finanzas



Outline

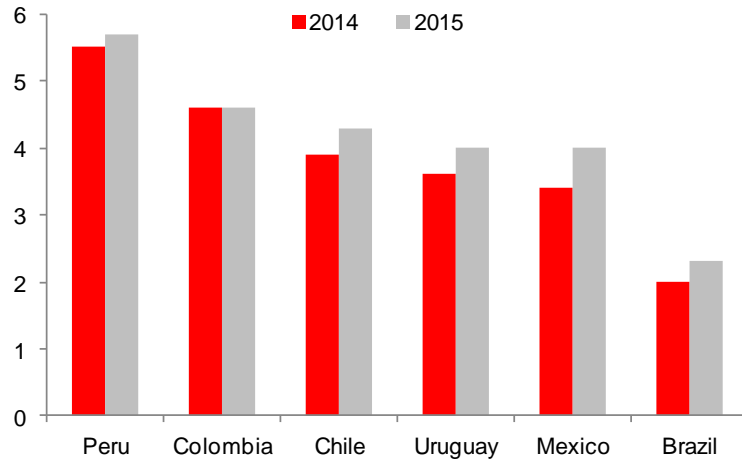
- Peruvian Outlook
- Strong macroeconomic buffers to face external shocks
- Investment opportunities
- Challenges & Reforms

>> Peruvian Outlook

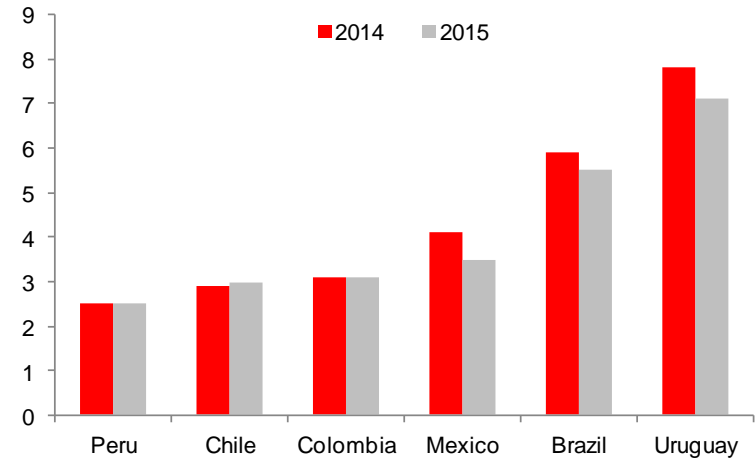


Peru will continue leading macroeconomic performance among LA6^{1/} economies in 2014-2015

Consensus Forecasts: LA6 GDP 2014-2015
(Annual % change)



Consensus Forecasts: LA6 Inflation 2014-2015
(% change, Dec/Dec)



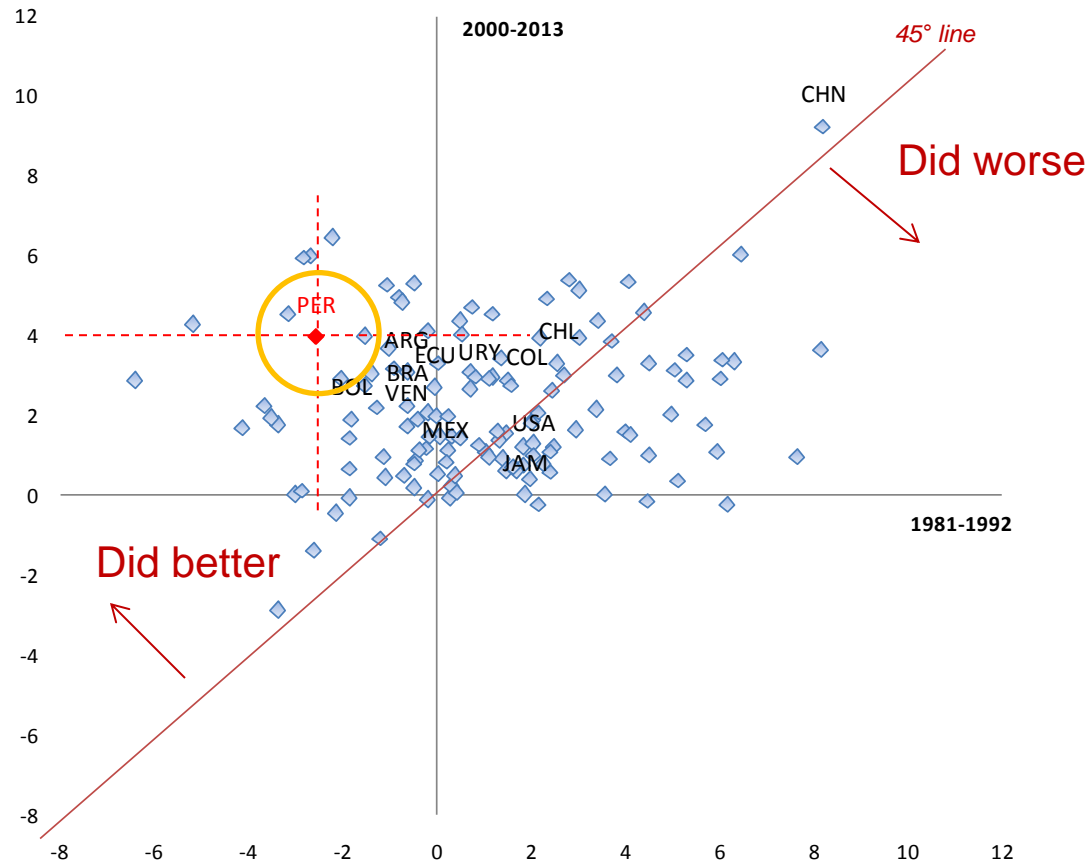
1/ The LA6 countries refers to the six Latin American countries that have adopted a formal inflation targeting framework and have relatively more developed domestic capital markets. The list includes: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Source: Consensus Forecasts, February 2014.



Structural reforms over last two decades have led to sustained high GDP growth

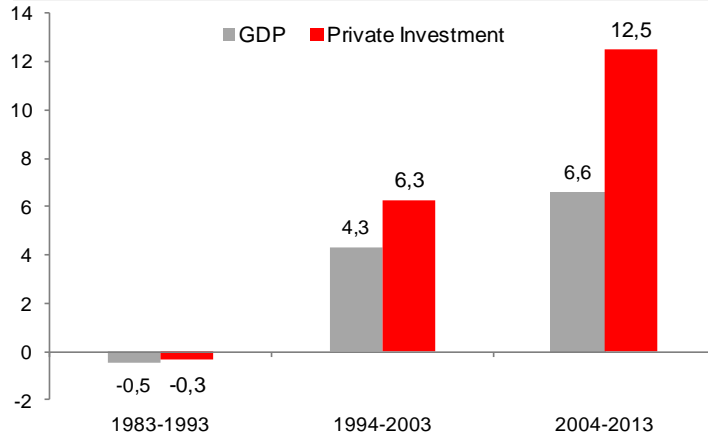
Per Capita Real GDP Growth in the World (% Change)





Investment has been a fundamental factor in explaining economic growth over the last two decades

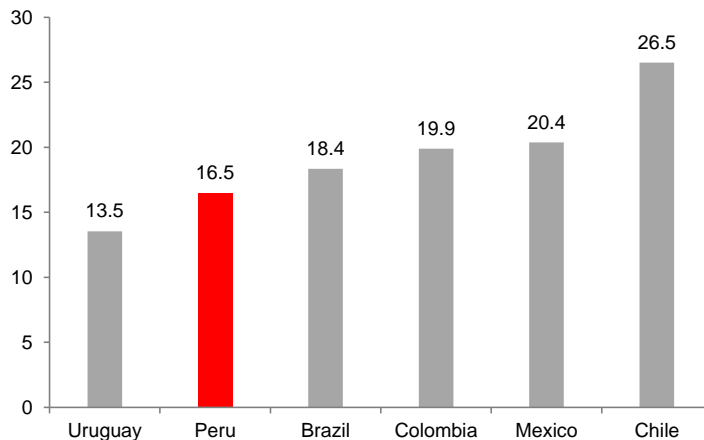
GDP and Private Investment
(Average % change)



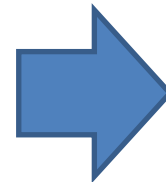
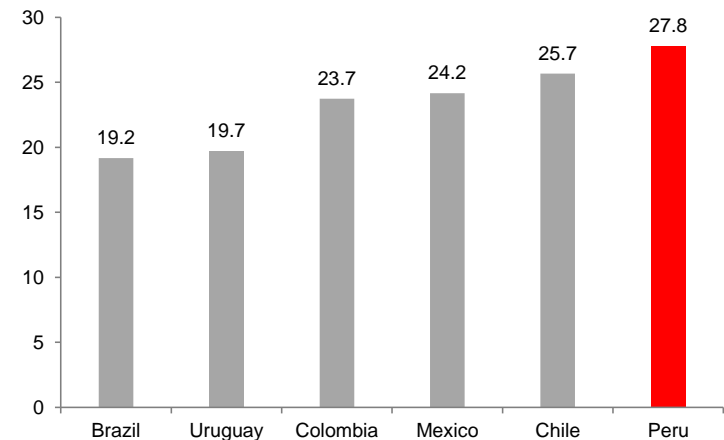
Growth after investment surpassed 25% of GDP
(Annual % change)

Country	Year when Investment to GDP reached 25%	Avg. Growth of the 5 next years	World avg. Growth of the next 5 years
Peru	2012	6,0	3,4
Chile	1989	7,3	2,6
Taiwan	1980	6,4	2,9
Singapore	1980	5,9	2,9

Total Investment LA6¹: 1990
(% GDP)



Total Investment LA6¹: 2013
(% GDP)



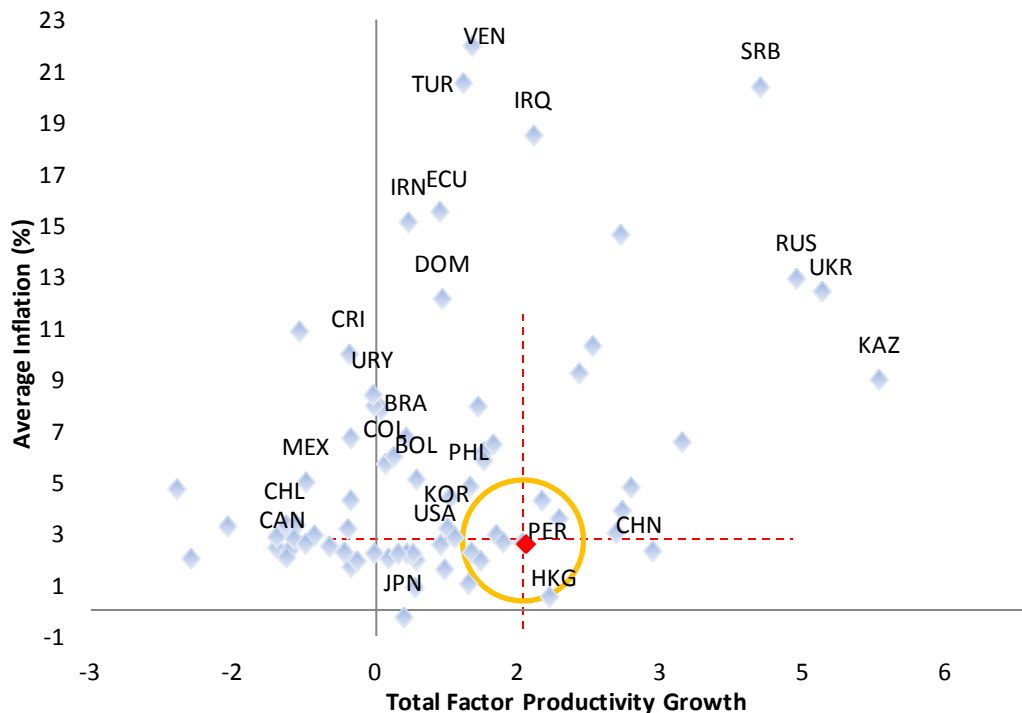
1/ The LA6 countries refers to the six Latin American countries that have adopted a formal inflation targeting framework and have relatively more developed domestic capital markets. The list includes: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Source: BCRP, MEF, IMF – WEO October 2013.



Supporting high productivity gains in a context of low inflation

Total Factor Productivity Growth and Inflation¹
(2000-2011)

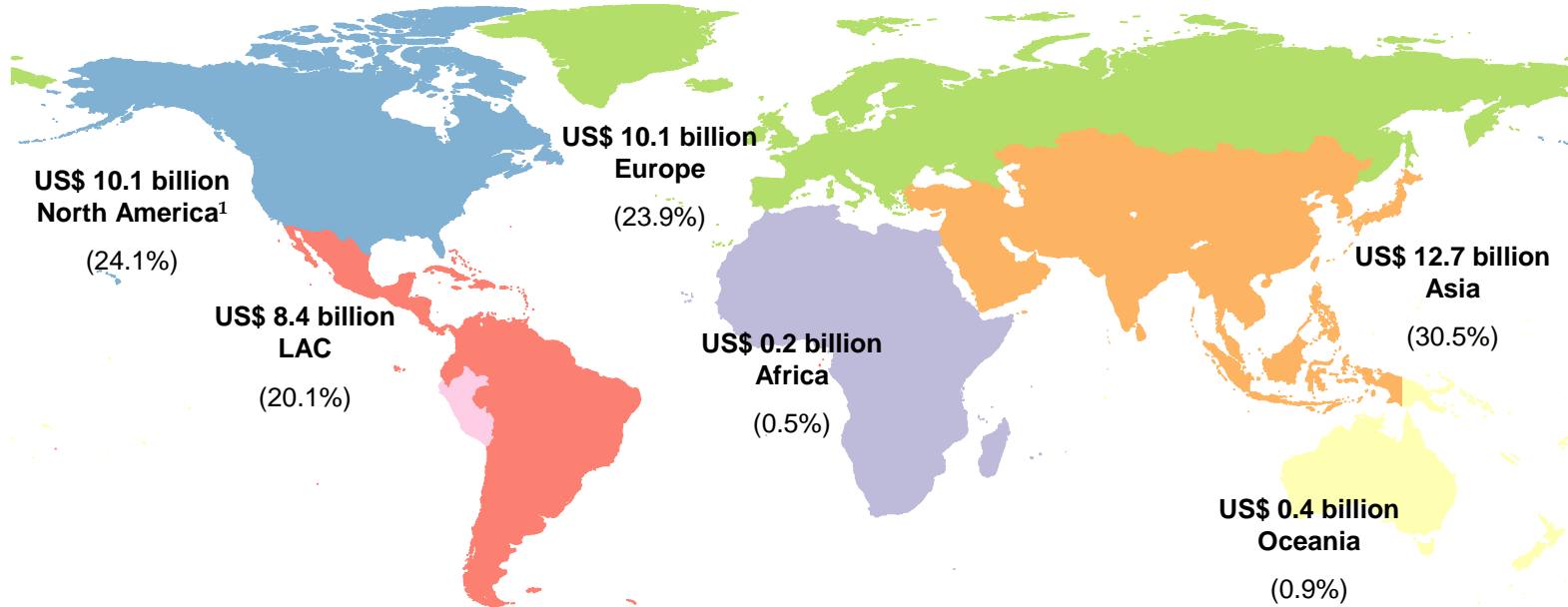


During 2000-2011, Total Factor Productivity grew at an average annual rate of 1.6% (among the highest in Latin America), with an average annual inflation rate of 2.6% (among the lowest in Latin America).



International integration with the rest of the world fosters trade and investment

Peru: Over US\$ 41 billion of Total Exports to the World in 2013
(US\$, % of total exports 2013)



Trade agreements foster investment and business

- Peru has implemented trade agreements with USA, UE, People's Republic of China, Republic of Korea, Mexico, Canada, Chile, Singapore, Costa Rica and Panama.
- Peru has signed agreements with Japan and Thailand.
- There are ongoing negotiations with Honduras, El Salvador, Turkey and others.
- Peru already has some form of preferential access to 73% of the world GDP (92% of world trade).

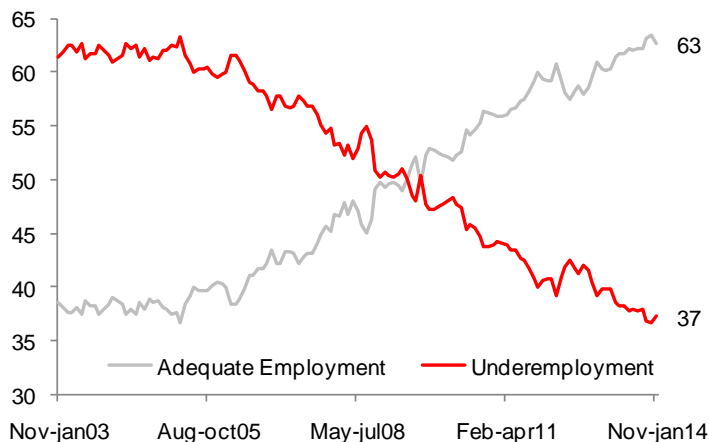
^{1/} Without Mexico.

Source: BCRP, MEF, MINCETUR.

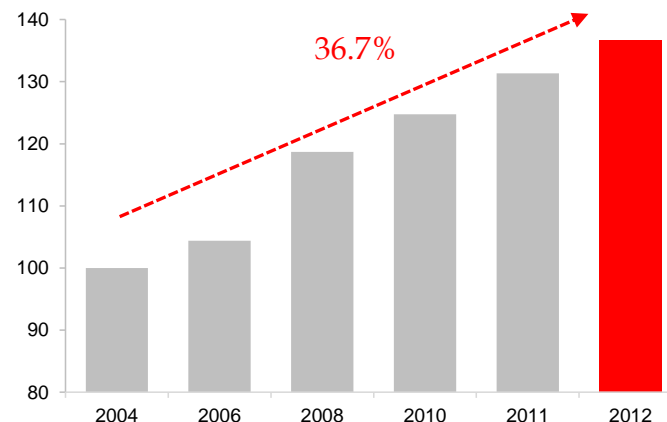


Economic growth has generated greater upward social mobility and smaller social gaps

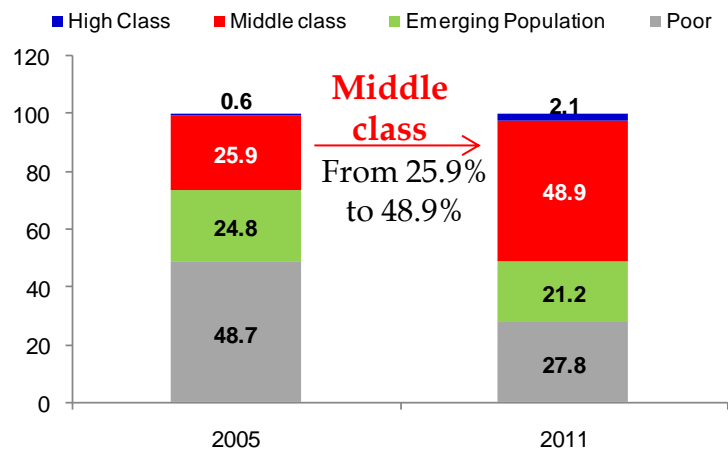
More adequate employment
(Metropolitan Lima, % of total employment)



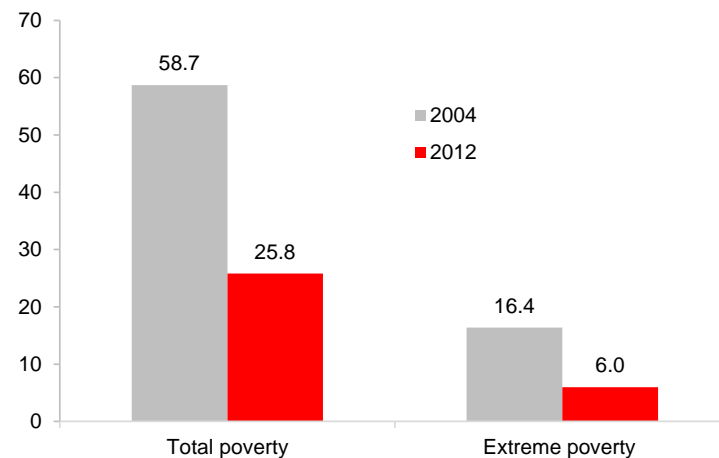
Peru: Real Income
(Index 2004=100)



Peru: Middle class and Emerging middle
(% of population)



Poverty and Extreme Poverty
(% of population)



Source: MTPE, INEI ENAHO, IDB - Technical note. Middle Class in Peru: quantification and recently evolution.

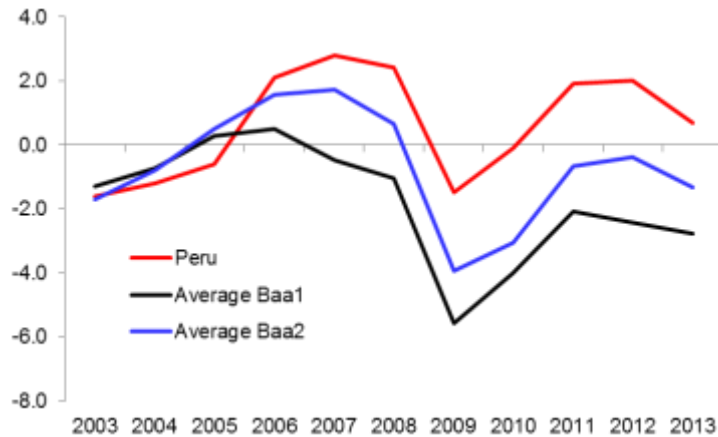


**Strong macroeconomic buffers
to face external shocks**

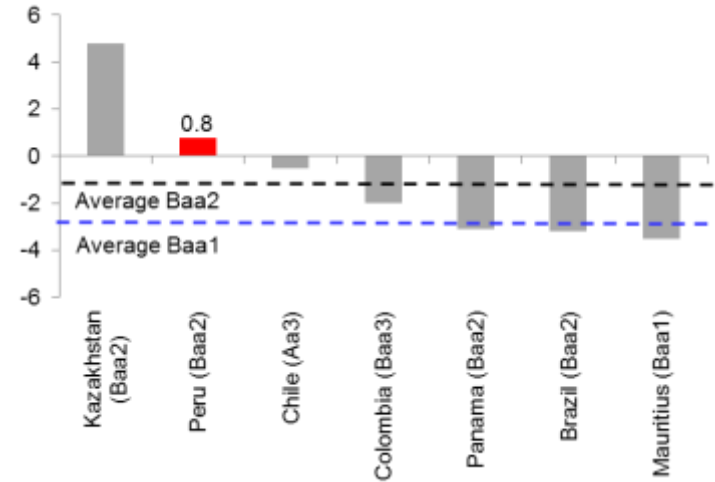


Stronger fiscal performance than the average Baa1 and Baa2 countries in the last decade

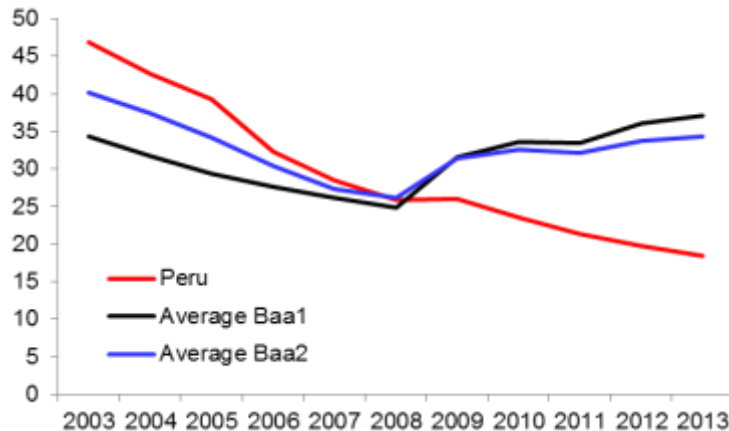
Overall Fiscal Balance 2003-2013
(% of GDP)



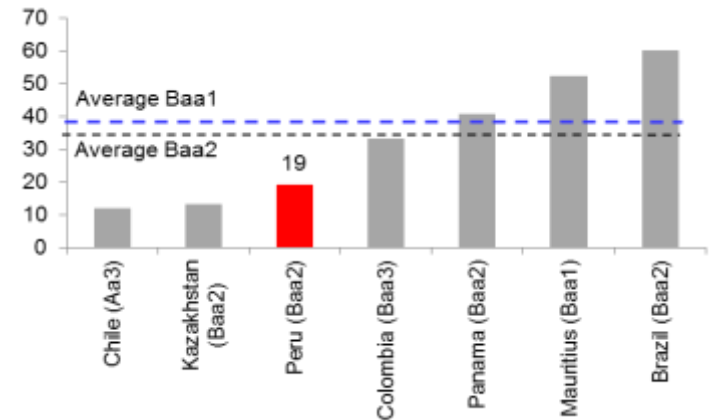
Overall Fiscal Balance 2013
(% of GDP)



Public Debt 2003-2013
(% of GDP)



Public Debt 2013
(% of GDP)

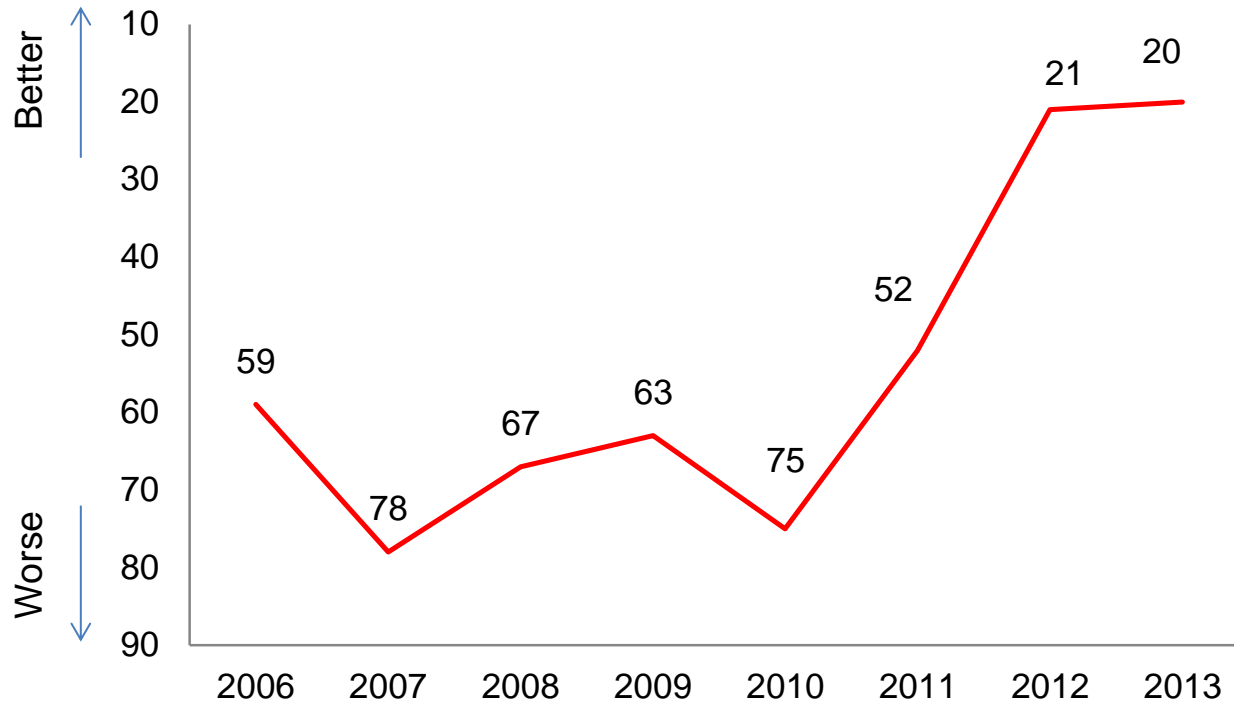


Source: Moody's.



Outstanding macroeconomic environment (among the top 20 in the world)

Peru: Ranking in the WEF Macroeconomic Environment pillar

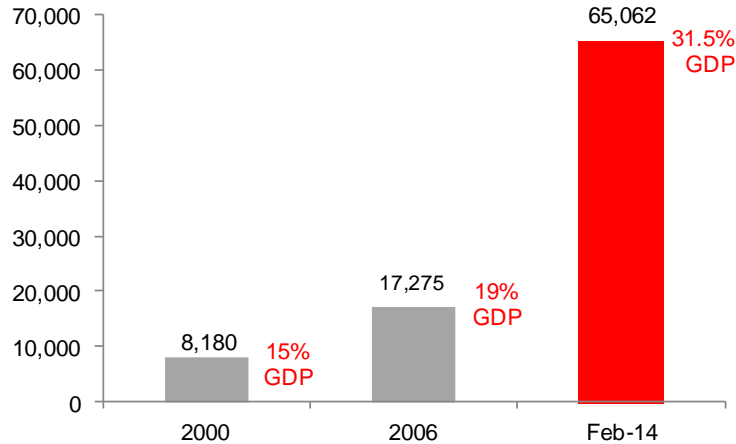


- This position in the ranking is due mainly to improvements in **key macroeconomic variables** such as:
 - Government Budget Balance
 - General Government Debt
 - Gross National Savings
 - Inflation

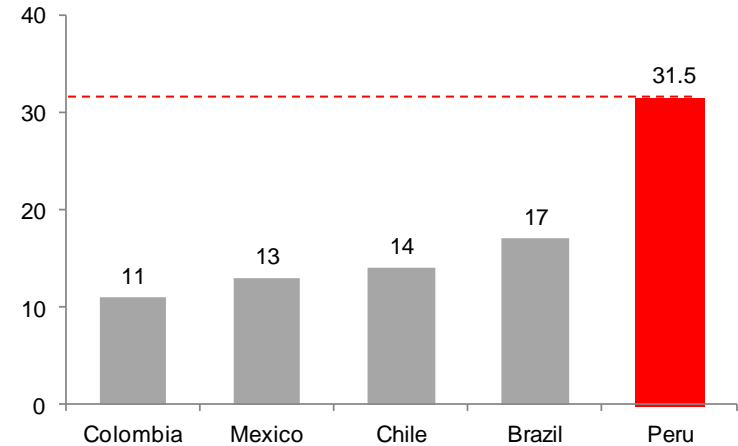


Solid macroeconomic buffers to shield against exogenous shocks

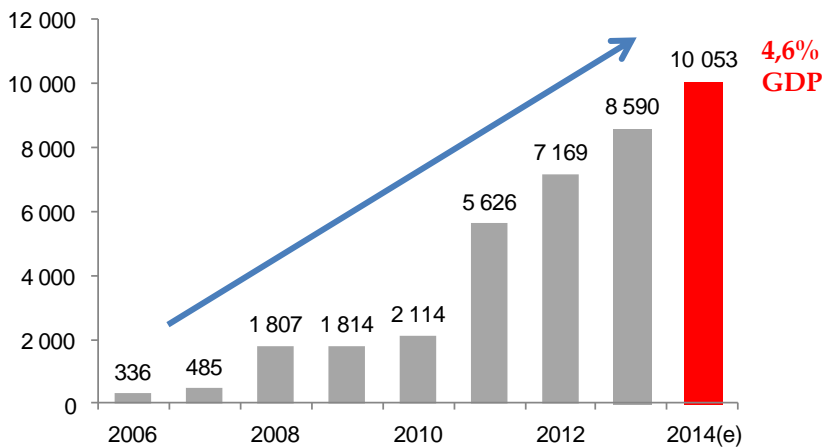
Peru: Net International Reserves^{1/}
(US\$ Million)



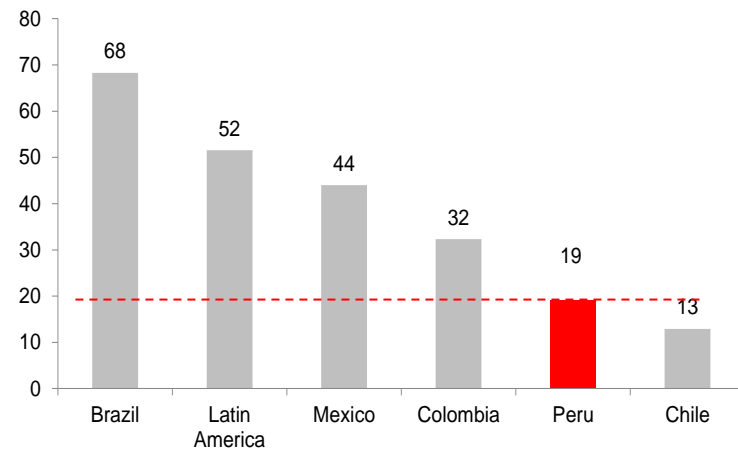
Net International Reserves 2013^{1/}
(% of GDP)



Peru: Fiscal Stabilization Fund^{2/}
(US\$ Million)



LATAM: Gross Public Debt 2013
(% of GDP)



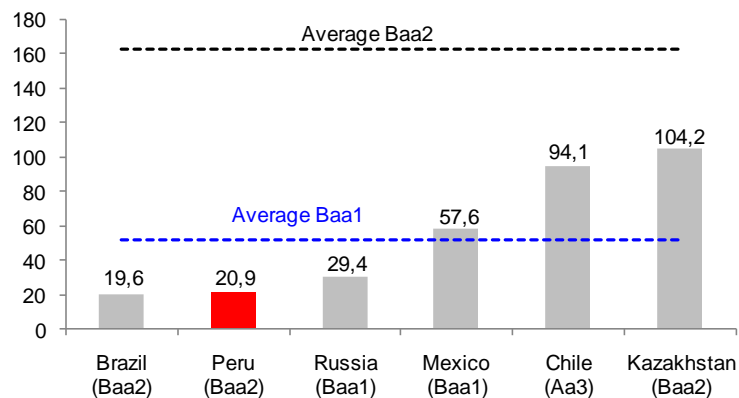
1/ In the case of Peru, updated to February 21, 2014. 2/ As of February 2014.

Source: BCRP, IMF, Central Banks.

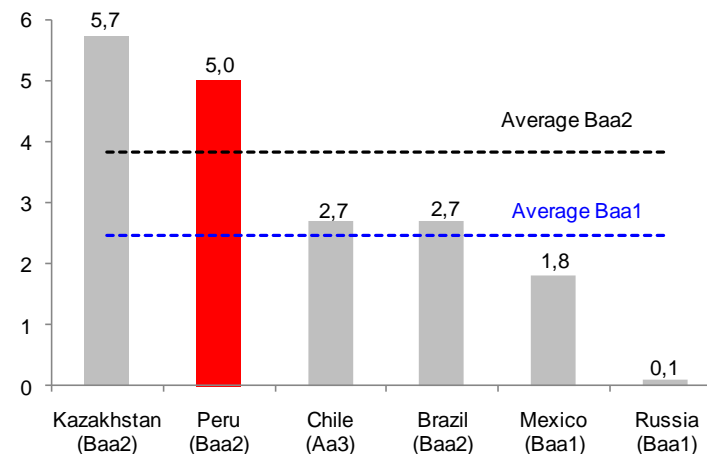


Capital flows are mainly long term and mostly finance physical investment

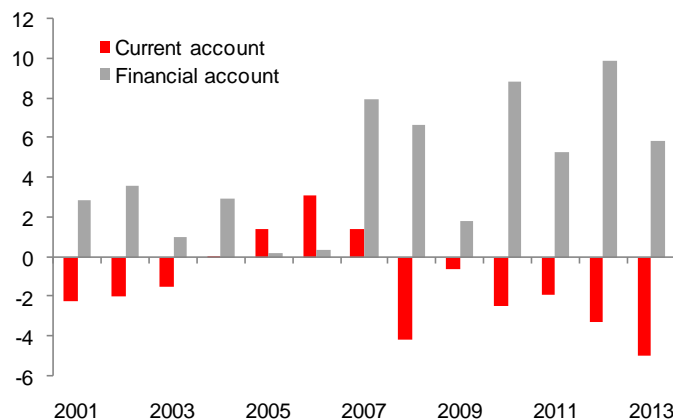
External Vulnerability Indicator 2013¹
(% of Total External Debt to Foreign Int'l Reserves)



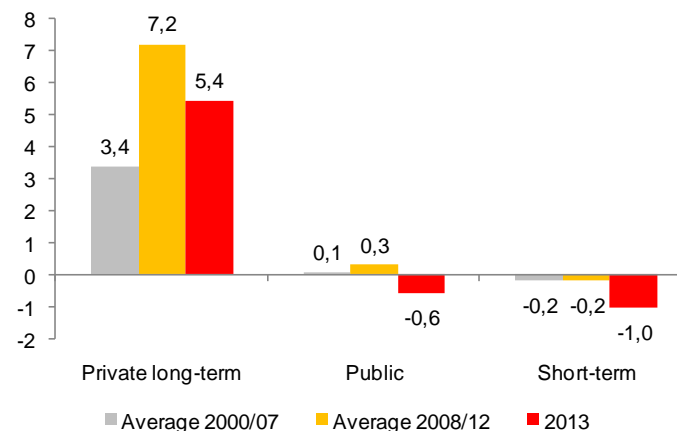
Net Foreign Direct Investment 2013
(% of GDP)



Peru: Balance of Payments
(% of GDP)



Peru: Annual Inflow of Capital
(% of GDP)



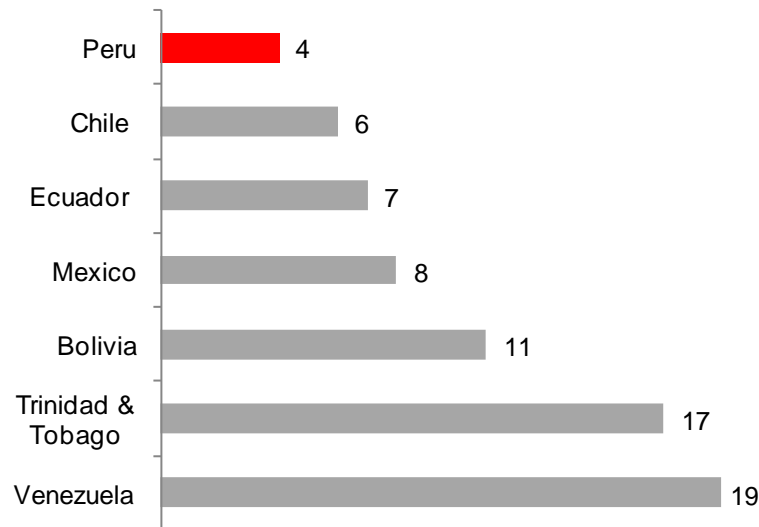
1/ (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

Source: Moody's, BCRP.

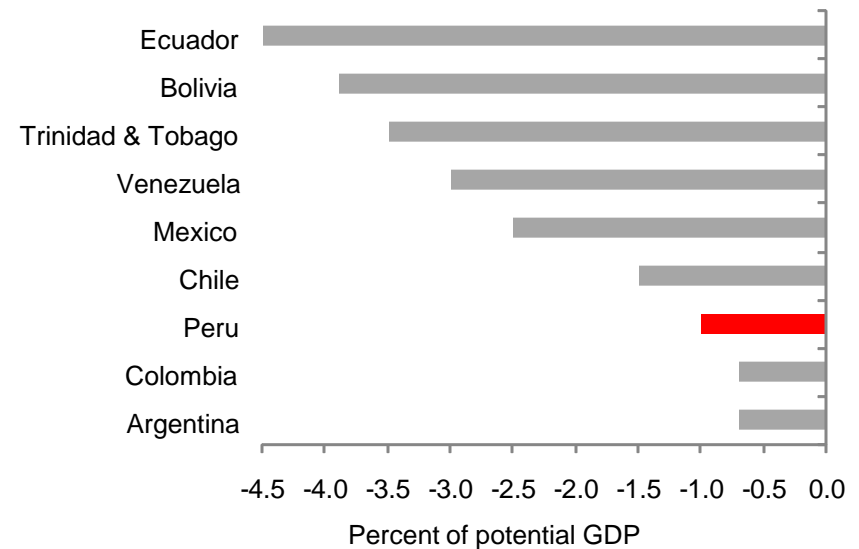


Lower fiscal exposure to volatility in commodity prices than peers

Commodity Revenue
(% of total GDP, Average 2006-2010)



Estimated impact on total revenue caused by a fall of 25% in commodity prices



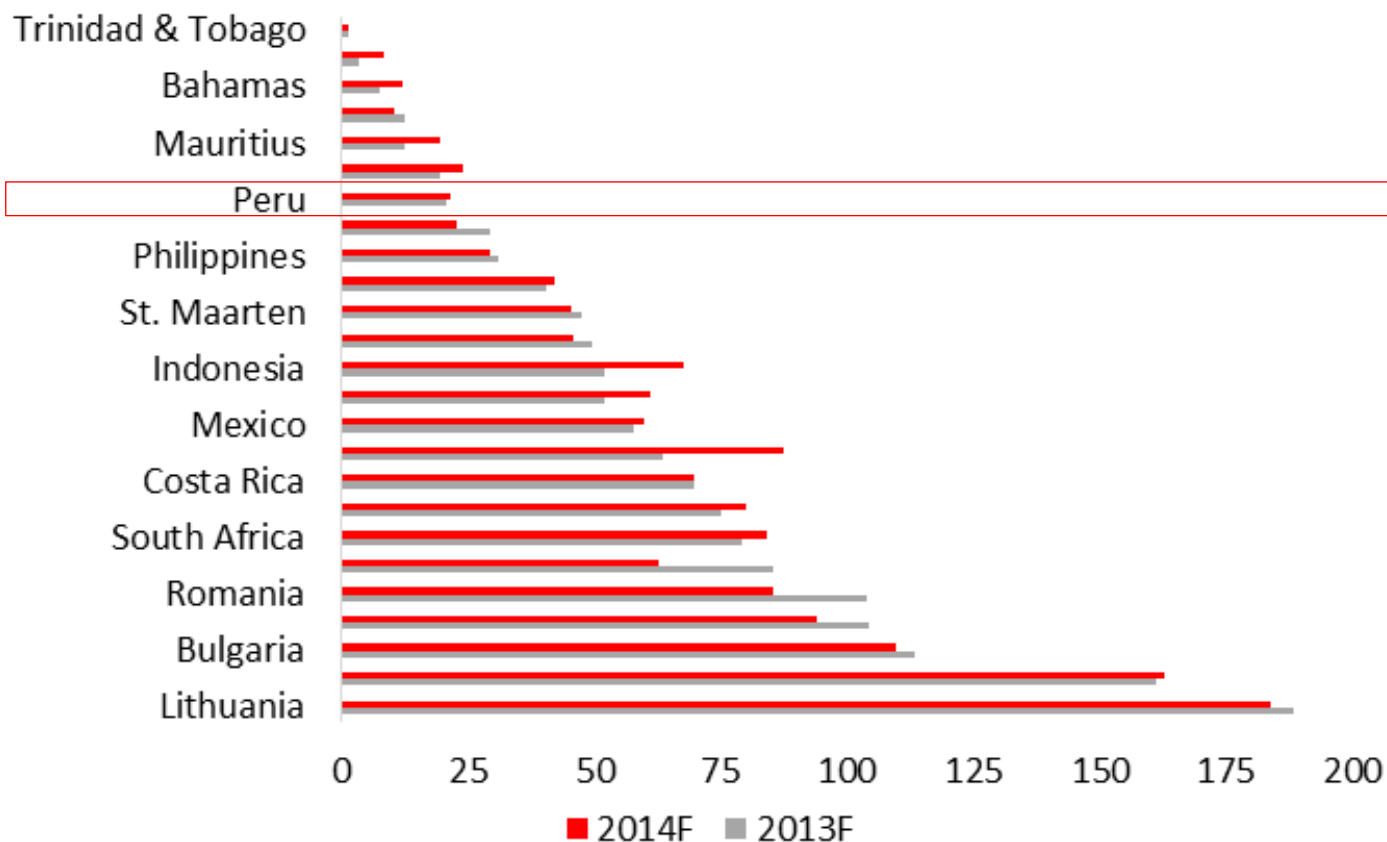
Sources: IMF, 2012, "Fiscal Frameworks for Resource Rich Developing Countries", May.

IDB, 2013, "Rethinking reforms, How Latin America and the Caribbean Can Escape Suppressed World Growth", March.



Which makes us less vulnerable to disruptions in foreign capital flows

External Vulnerability indicator (Baa1 to Baa3 countries)
(%)



Note: Index consists of : (Short-term external debt + Currently maturing long-term external debt + Total nonresident deposits over one year) / Official foreign exchange reserves.
Source: Moody's Sovereign Statsbook (November 2013).

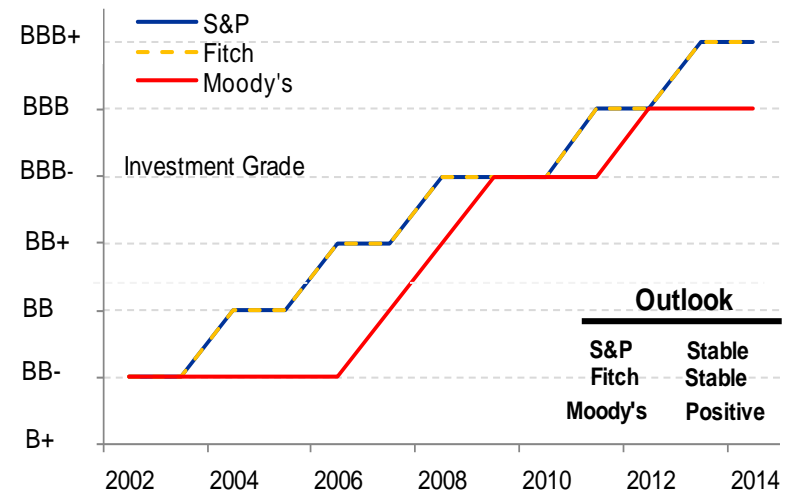


Upward trend in credit ratings attests to credibility and supports ample access to financing

LATAM: Sovereigns Rating¹ (Long term debt in foreign currency)

Country	Moody's	S&P	Fitch
Chile	Aa3	AA-	A+
Mexico	A3	BBB+	BBB+
Peru	Baa2	BBB+	BBB+
Brazil	Baa2	BBB	BBB
Panama	Baa2	BBB	BBB
Colombia	Baa3	BBB	BBB
Bolivia	Ba3	BB-	BB-
Argentina	B3	CCC+	CC
Ecuador	Caa1	B	B
Venezuela	Caa1	B-	B+

Peru: Sovereigns Rating (Long term debt in foreign currency)



“Peru's upgrade is underpinned by the strength of the sovereign's external and fiscal balance sheets, continued growth outperformance in relation to 'BBB' peers and a long track record of macroeconomic and financial stability. Peru's established track record of policy coherence and credibility as well as the sovereign's fiscal and external financing flexibility underpin its strong shock absorption capacity.” **Fitch. October 23, 2013.**

^{1/} Sorted by Moody's rating.
Source: S&P, Fitch, Moody's.

>> Investment opportunities



Friendly environment for doing business (ranked 2nd in the region)

Doing Business 2014 (Ranking)



Position	Country
1	Chile
2	Peru
3	Colombia
4	Uruguay
5	Paraguay



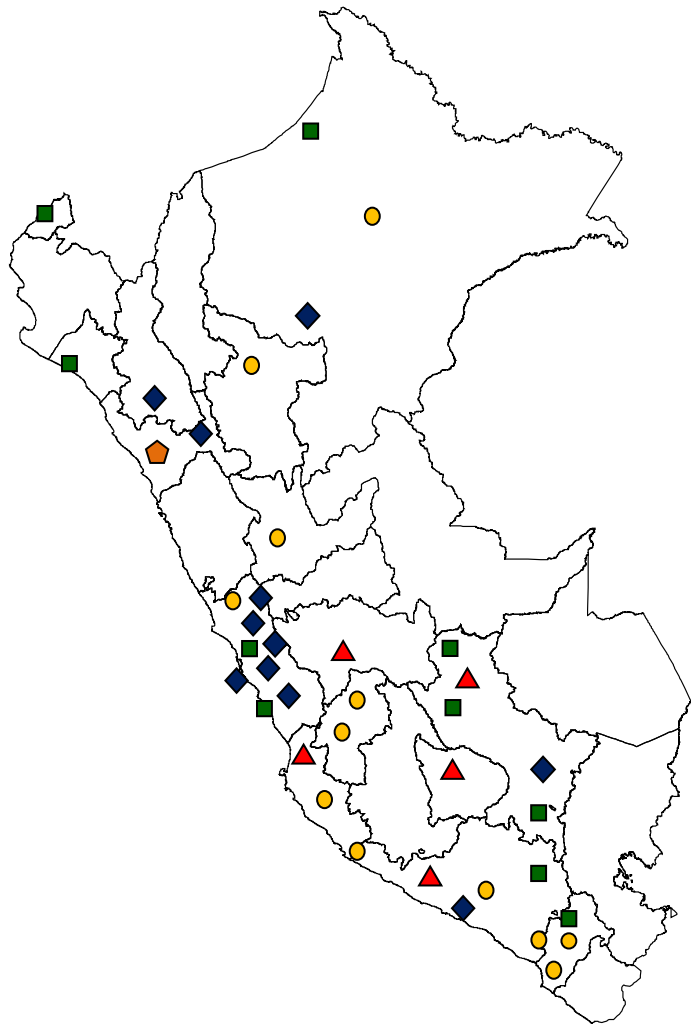
Goals in the investment agenda

- Streamlining the investment processes
- Enhancing efficiency in public administration
- Stimulating the economy through the promotion of PPPs
- Strengthening business confidence and boosting the investment climate
- Reducing public services and infrastructure gaps
- Improving competitiveness

Our goal: To further promote the economy's attractiveness to investments as a conduit to sustainable growth



Broad investment pipeline for the short and medium term



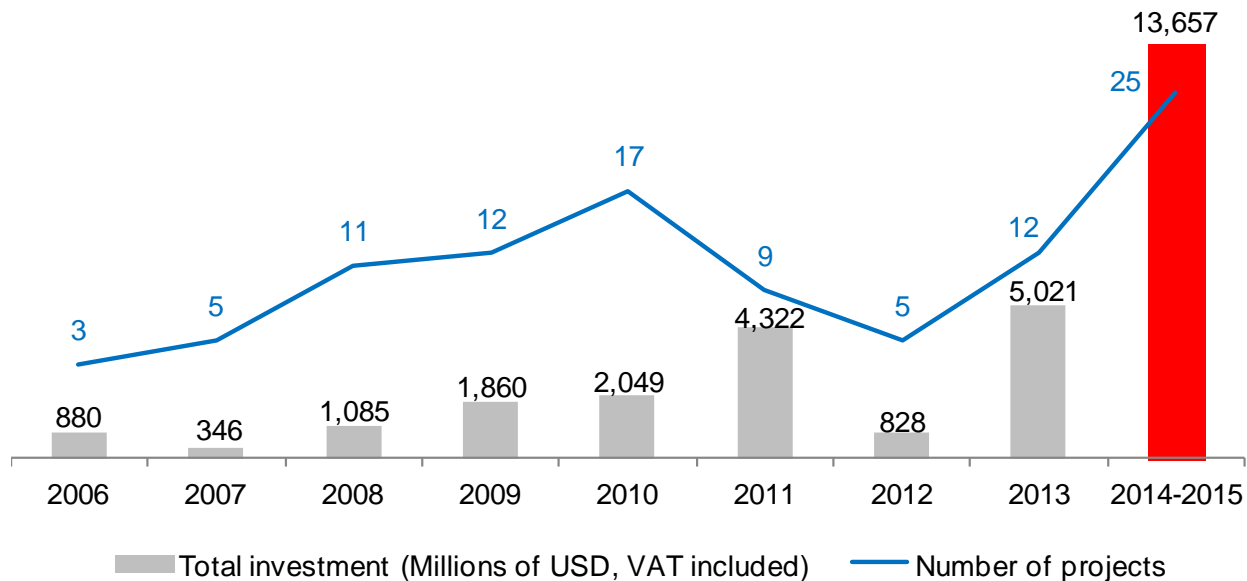
		Region
▲	Mining	
	Las Bambas (Xstrata Copper)	Apurimac
	Cerro Verde extension (Freeport-MacMoran Copper)	Arequipa
	Toromocho (Chinalco)	Junin
	Constancia (Hudbay)	Cusco
	Marcona extension (Shougang)	Ica
■	Hydrocarbons	
	Block 67 (Perenco Peru Petroleum Limited)	Loreto
	Block Z-2B (Savia Peru)	Piura
	Block 88 (Pluspetrol Peru Corporation)	Cusco
	Block Z-1 (BPZ)	Tumbes
	Energy security and southern gas pipeline (Called)	Cusco, Arequipa, Moquegua
	Gas distribution system extension (Calidda)	Lima, Callao
	NGL & gas pipeline extension (TGP)	Cusco
	LNG Supply System for the Domestic Market (Called)	Lima
	Mass use of natural gas (Gas Natural Internacional/ Consorcio Promigas - Surtigas)	Nationwide
●	Electricity	
	Chaglla Hydroelectric – 406MW (Odebrecht)	Huanuco
	South energy node of Peru (Samay I and Enersur)	Arequipa, Moquegua
	Cerro del Aguila Hydroelectric – 402MW (Inkia Energy)	Huancavelica
	Molloco Hydroelectric – 300MW (Corsan /Engevix/Enex)	Arequipa
	220 kV Moyobamba – Iquitos transmission line (Called)	Loreto, San Martin
	Cheves Hydroelectric – 168 MW (SN Power)	Lima
	500 kV Mantaro – Marcona – Socabaya – Montalvo transmission line (Electrical Interconnection - ISA)	Huancavelica, Ica, Arequipa, Moquegua
◆	Infrastructure	
	Metro of Lima & Callao – Section 2 (Called)	Lima, Callao
	Muelle Norte port modernization (APM Terminals)	Lima
	New international airport of Chinchero (Called)	Cusco
	Longitudinal de la Sierra road – Section 2 (Consierra Section 2)	Cajamarca, La Libertad
	Via Parque Rimac (OAS S.R.L.)	Lima
	Vias Nuevas de Lima, rehabilitation of highways (Odebrecht)	Lima
	Main works and conduction of drinkable water supply for Lima (Not called)	Lima, Junin
	WWTP & Outfall La Chira (Acciona Agua/GYM)	Lima
	Matarani port extension (Tisur)	Arequipa
Yurimaguas port terminal (Hidalgo and Hidalgo)	Loreto	
◆	Agriculture	
Chavimochc irrigation project (Called)	La Libertad	
	Telecommunications	
	1710 - 1770 MHz and 2110 - 2170 MHz (Blocks A and B) Band (Movistar and Americatel)	Nationwide
	National Optical Fiber Backbone Network (TV Azteca-Tendai)	Nationwide

Source: BCRP, MINEM, PROINVERSION, Apoyo Consultoria, PERUPETRO.



We expect to continue with the promotion of PPP investment during 2014

Adjudicated projects and for adjudication by Proinversión (2000 - 2014)



- In 2014, we estimate to adjudicate 22 projects for an amount of over US\$ 13 billion.

(*). Includes projects in different investment modalities.

Source: PROINVERSIÓN.



Investment projects aim to reduce infrastructure gap and increase productivity

Airports



- Cusco International Airport : estimated investment of US\$ 420 millions.

Transportation



- Transcontinental Railroad Brazil-Peru (Atlantic-Pacific): US\$ 280 millions.
- Road Panamericana Sur: Ica-Frontier with Chile: US\$ 60 millions.

Ports



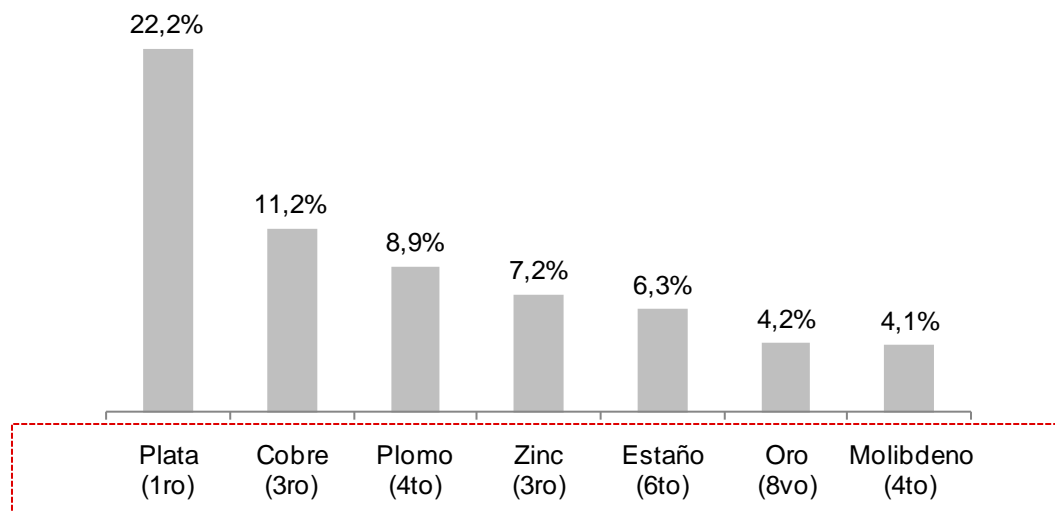
- Salaverry Port Terminal: US\$ 130 millions.
- San Juan de Marcona Port Terminal: US\$ 139 millions.
- General San Martin Port Terminal: US\$ 110 millions.



Peru, an investment destination for miners

- Only 20% of the potential mining territory has been exploited.
- Peru is a polymetallic country, with proven mineral reserves (gold, copper, silver); besides there are also non-metallic mineral deposits to exploit.

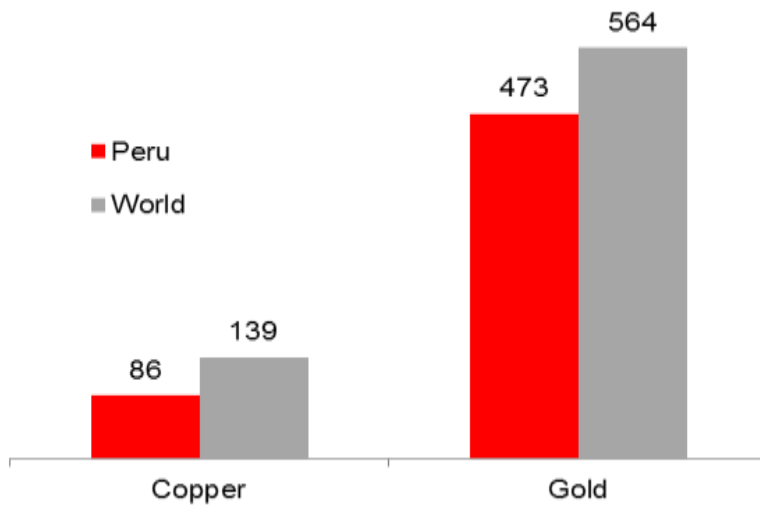
Peru 2012: Share of global mining production
(Rank)



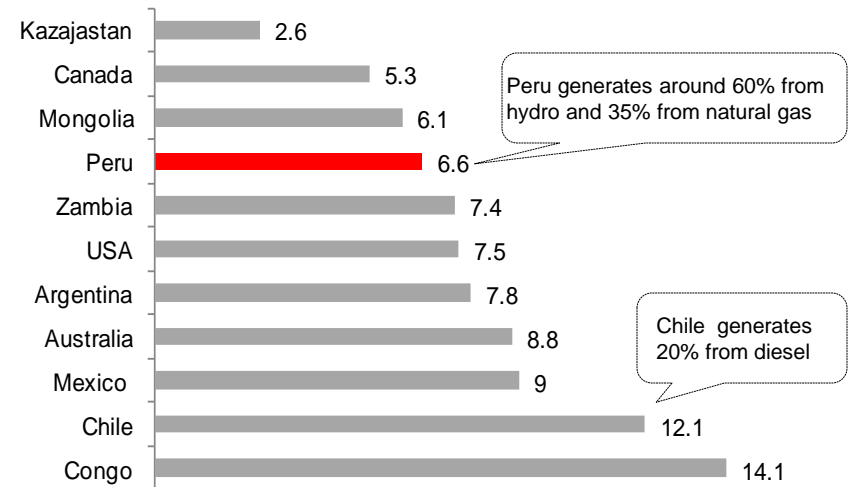


Peru has important competitive advantages due to lower cash and electricity costs

Copper and Gold Cash Cost 2012 (cUS\$/lb & US\$/oz)



Electricity Cost for 2020 (cUS\$/kWh)



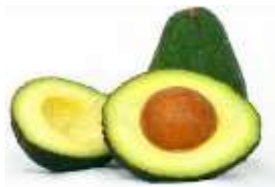


With strong potential in other sectors as well

Agrobusiness

Seasonal windows in the most important markets.

The current cultivated hectares used for agroexports are expected to double as a consequence of large irrigation projects in portfolio.



Main projects

- Chavimochic Project (3rd stage): US\$ 500 millions.
- Hydroelectric Exploitation of Majes-Siguas: US\$ 800 millions.

Hydrocarbons

There are proven and potential reserves through 2028 of around 35 000 Cubic Feet.



Main projects

- Gas pipeline to Trujillo (Natural Gas): US\$ 1 770 millions.
- South energy node: US\$ 1 534 millions.

>> Challenges & Reforms



Challenges ahead

1. Economic growth with social inclusion.
2. Quality human capital accumulation in order to achieve greater productivity:
 - Education
 - Health
 - Nutrition
 - Gap closing
3. Diversification and adding value to the extraction of natural resources.
4. Public Sector Modernization.
 - Avoiding over regulation and regulatory uncertainty.
 - Effective public policy, administrative simplification and accountability.
5. Priority reforms:
 - Effectiveness of decentralization
 - Labor informality
 - Security
6. Consolidating a long term vision: Peru 2050.



Major Reforms

SUNAT (Tax Collection Agency) Strengthening Act (Act No. 29816)

- Allows broader powers to better enable it to fight tax evasion and avoidance and to broaden the tax base.

Private Pension System reform Act (Act No. 29903)

- Revamps investment regulations to allow for better fund performance, as well as other regulations to expand coverage, competition and quality of service, in order to lower fees and increase pensions.

Securities Market Promotion Act (Act No. 30050)

- Reduces transaction costs in order to broaden the investor base and promote capital markets access for small and medium sized issuers.

Civil Service Act (Act No. 30057)

- Introduces merit based evaluations for promotions and salary increases throughout the public sector in order to create a modern Civil Service.

Government Procurement Act

(SD No. 138-2012-EF, SD No. 16-2013-EF)

- Aimed at strengthening the Government Procurement Agency (OSCE) and to improving hiring procedures for public sector institutions.

New Fiscal Responsibility Act

- Introduces a expenditure rule based on cyclically-adjusted fiscal balance, sets new rules for subnational governments and improves transparency.



Pipeline of further structural reforms

Labor market reform

- **Tools for improving the quality of human capital:** Qualification system, improvements of the quality of the educational supply, improvement of human capital financing.
- **Flexibility on costs of formality:** Vacation period at the regional average, moderate severance pay and the compensation for working time at the regional average.
- **Institutional improvement of the National Superintendence of Labor Control.**

Stabilization Funds for Canon and Mining Royalty

- **(FOCAR)** intended to mitigate the volatility in the transfers to the Subnational Governments in order to improve the multiannual planning and the predictability of investments.

Normative Productive Package

- **Technical Standards.** Peru is reinforcing its National System for Quality. The purpose of this policy is to promote and ensure that Peruvian made products can meet international standards. One of the main objectives is to increase our products access to trade partner's markets, who require compliance with these standards and technical requirements.
- **Movable Collaterals.** A Law Proposal for Movable Collaterals. It will enhance access to financing for companies whose main assets are movable collaterals (guarantees on machinery and equipment, etc).

Improvements in Public Acquisition Act

- Has the purpose to enforce the efficient use of the public resources through *management by results*.

Customs Agency Modernization

- Simplifies customs operations and cut down on time and costs for the foreign trade operators.



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