Politics and the economy in Peru: Beyond the coming elections

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)

LATAM: INFLATION 1/
(Annual % change)

Source: IMF

1/ End of period.
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)
- 2004: 4
- 2014: 11
- Increase: x3

**PERU: RETAIL SALES**
(S/ Million from 2007)
- 2004: 5,230
- 2014: 17,900
- Increase: x3.5

**PERU: NON-TRADITIONAL AGRICULTURAL AND LIVESTOCK EXPORTS**
(US$ FOB Million)
- 2004: 800
- 2014: 4,400
- Increase: x5

**PERU: NEW VEHICLE SALES**
(Thousand units)
- 2004: 16
- 2014: 187
- Increase: x12

Sources:
- INEI
- SMV, companies, BCR, APOYO Consultoria
- Veritrade
- Araper
Economic growth across sectors

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)

WEIGHTED FISCAL STIMULUS 1/
(% of potential GDP)

FISCAL BALANCE
(% of 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, LatinFocus
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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 (%)

NUMBER OF PRESIDENTIAL CANDIDATES

Source: Jurado Nacional de Elecciones (JNE)
Result: Political fragmentation of authorities

- 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

<table>
<thead>
<tr>
<th>Front runners</th>
<th>Vote intention (March 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keiko Fujimori</td>
<td>35%</td>
</tr>
<tr>
<td>(Fuerza Popular)</td>
<td></td>
</tr>
<tr>
<td>Julio Guzmán</td>
<td>17%</td>
</tr>
<tr>
<td>(Todos Por el Peru)</td>
<td></td>
</tr>
<tr>
<td>Pedro P. Kuczynski</td>
<td>7%</td>
</tr>
<tr>
<td>(Peruanos Por el Kambio)</td>
<td></td>
</tr>
<tr>
<td>Alfredo Barnechea</td>
<td>5%</td>
</tr>
<tr>
<td>(Accion Popular)</td>
<td></td>
</tr>
<tr>
<td>Alan García</td>
<td>4%</td>
</tr>
<tr>
<td>(Alianza Popular)</td>
<td></td>
</tr>
</tbody>
</table>

Source: GFK
Voting intentions up to March 2016

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

Front runners

2015

November: 35%
December: 17%
January: 7%
March: 4%

2016

November: 17%
December: 4%
January: 4%
March: 2%

Other candidates

2015

November: 5%
December: 4%
January: 4%
March: 2%

2016

November: 4%
December: 4%
January: 2%
March: 5%

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)
VOTING INTENTION SCENARIOS FOR THE SECOND ROUND

Second round scenarios up to March 2016

Source: GFK
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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)

PERU: PRIVATE INVESTMENT
(Real. % change)

Source: Survey made to APOYO Consultoria’s SAE clients

Source: BCR
Other factors seem to be more important for investment plans

FEBRUARY 2016: MAIN CONCERNS REGARDING CURRENT INVESTMENT PLANS 1/

(%)  

- Domestic demand: 54%  
- World economy: 50%  
- Exchange rate: 36%  
- Financing cost: 28%  
- Elections: 18%

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
Institutional arrangements prevent significant changes to the economic model

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.

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\(^1\) Constitution of 1993: fourth final disposition.
What people think about the economic model

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

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

RADICAL CHANGES

- Fight crime effectively: 54%
- Improve education services: 51%
- Increase effectiveness in fighting corruption: 48%

July 2014

- Continue with the current economic model: 15%
- Make moderate changes: 41%
- Make radical changes: 36%
- N/A: 8%

Source: Ipsos Peru, Encuesta Nacional Urbana Rural, July 2014
Vote intention and the economic model

PRESIDENTIAL ELECTIONS: RESULTS AND VOTE INTENTION 1/

First round 2006

- 31% for candidates proposing radical changes
- 48% for candidates proposing adjustments

First round 2011

- 32% for candidates proposing radical changes
- 59% for candidates proposing adjustments

March 2016

- 85% for candidates proposing adjustments

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.

Source: ONPE, GFK
Voting intentions for Congress up to March 2016

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

- Acción Popular: 10
- Alianza Para el Progreso: 13
- Alianza Popular: 14
- Peruanos Por el Kambio: 15
- Todos Por el Perú: 17
- Fuerza Popular: 62

1/ Simulation over valid votes.

Source: GFK, APOYO Consultoria
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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)

LATAM: PUBLIC FINANCING NEEDS 2016 (% of GDP)

Source: LatinFocus, APOYO Consultoria
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.

   - Smartphone penetration, 2014: 30%
   - Pay-TV penetration, 2014: 20%

2. E-commerce is barely used.

   - E-commerce sales, 2013 (US$ million):
     - Peru: 800
     - Colombia: 2,500

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

   - Infrastructure investment through PPP (US$ billion):
     - 2015: 5.2
     - 2020: 10.0

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

   - International tourist arrivals, 2014 (Million tourists):
     - Peru: 3.0
     - Brazil: 3.5
     - Argentina: 5.1
     - Mexico: 9.6

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

   - Chinese imports, 2014 (US$ billion):
     - Blueberries: 1.4
     - Peruvian participation: 4%

6. Peru has room for more fast fashion stores.

   - Number of fast fashion stores, 2016:
     - Peru: 8
     - Colombia: 19
     - Chile: 21

Source: companies, UNWTO, Trademap, Osiptel, eMarketer, Euromonitor, Veritrade, Ositran, Osinergmin, APOYO Consultoría
Challenges ahead
A good macroeconomic environment is necessary, yet insufficient.

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

- Macroeconomic environment: 23
- Financial market development: 30
- Judicial independence: 112
- Quality of infrastructure: 112
- Business cost of crime and violence: 129
- Efficiency of legal framework in settling disputes: 130
- Quality of the higher education system: 130
- Burden of government regulation: 133
- Hiring and firing practices: 133

Source: WEF
Challenges ahead

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.

Pending reforms need:

• Political dialogue and leadership.

• Political consensus.

• Continuity in the implementation and a long term approach.

Source: OECD
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