



BANCO CENTRAL DE RESERVA DEL PERÚ



Monetary Policy: A Key Driver for Long Term Macroeconomic Stability

**Julio Velarde
Governor
Central Bank of Peru**

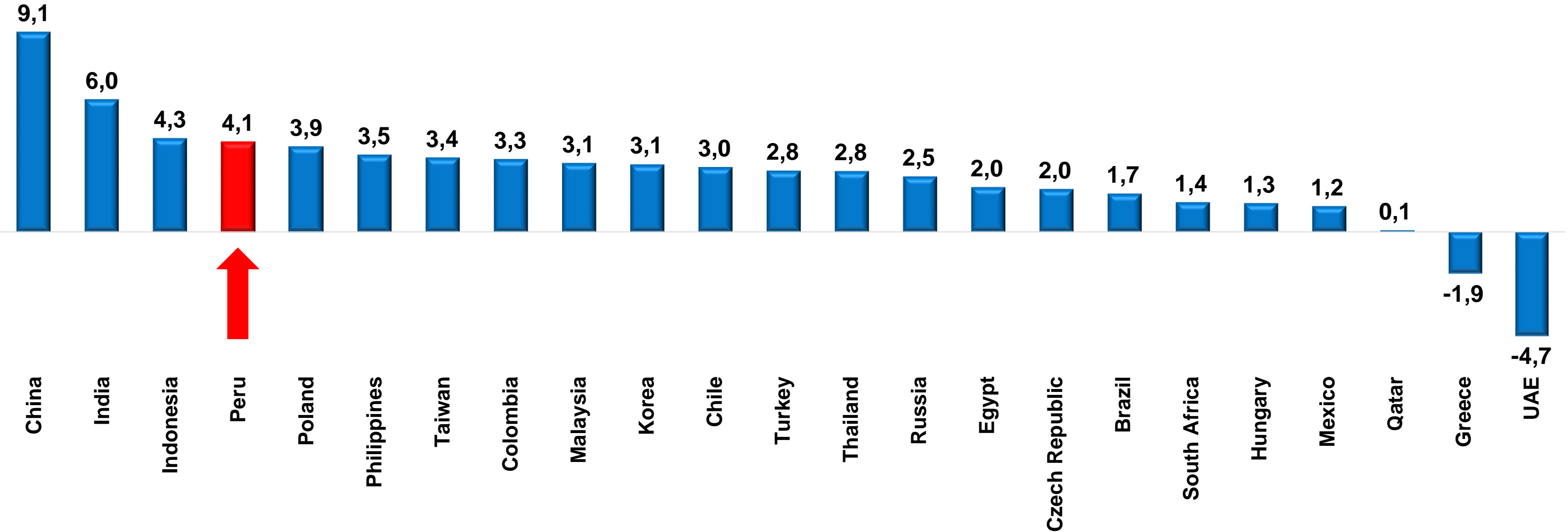
March 2016

Agenda

- 1. Peru's growth is based on strong fundamentals**
- 2. Recent economic developments and prospects**
- 3. Monetary policy framework**
- 4. Concluding remarks**

Peru's growth in the last decade ranks fourth place among emerging economies

Average GDP per capita growth: 2005-2015 ^{1/}

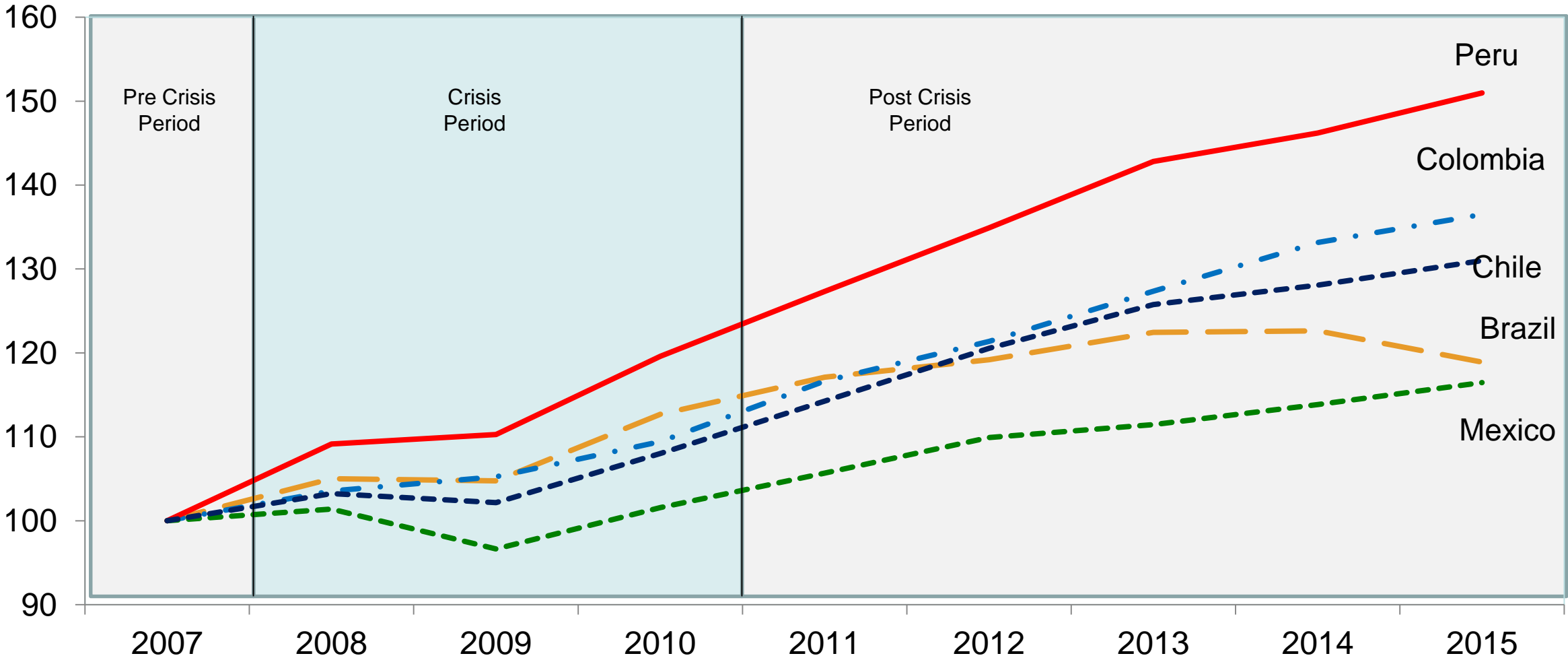


^{1/} Emerging countries with a GDP higher than US \$ 150 billion.
Source: IMF, World Economic Outlook and BCRP

After the 2008-2009 financial crisis, Peru reached an average growth of 5,3 percent, above the LATAM average of 2,6 percent

GDP of selected countries (2007-2015)

(Index 2007=100)

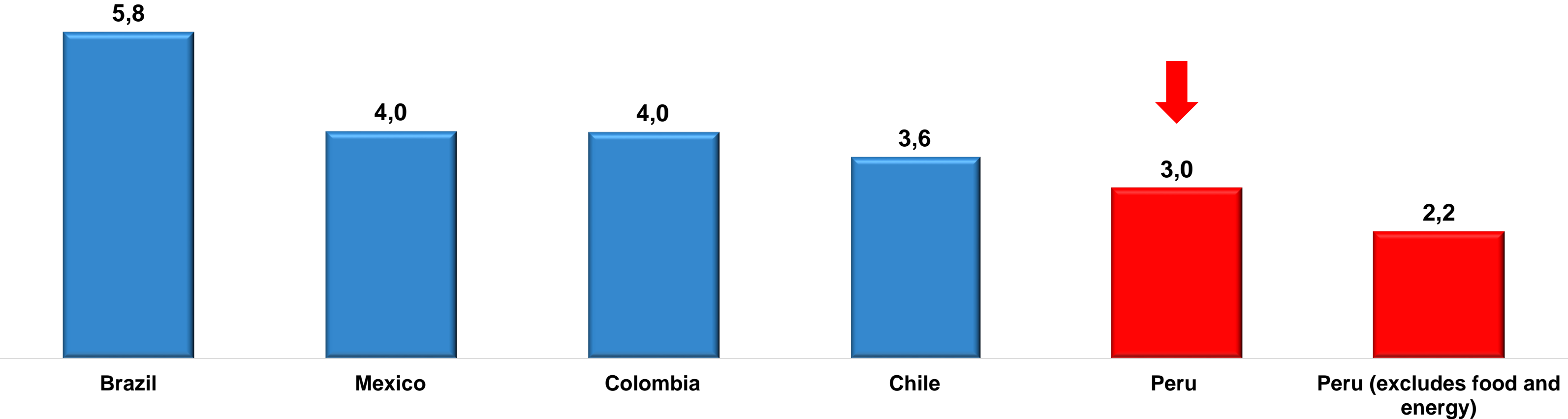


	Average GDP Growth 2007-2015
Brazil	2,2
Colombia	4,0
Chile	3,4
Mexico	1,9
Peru	5,3
Average LATAM	2,6

Source: WEO (October 2015) and BCRP.

Peru's average Inflation is around 3,0 percent

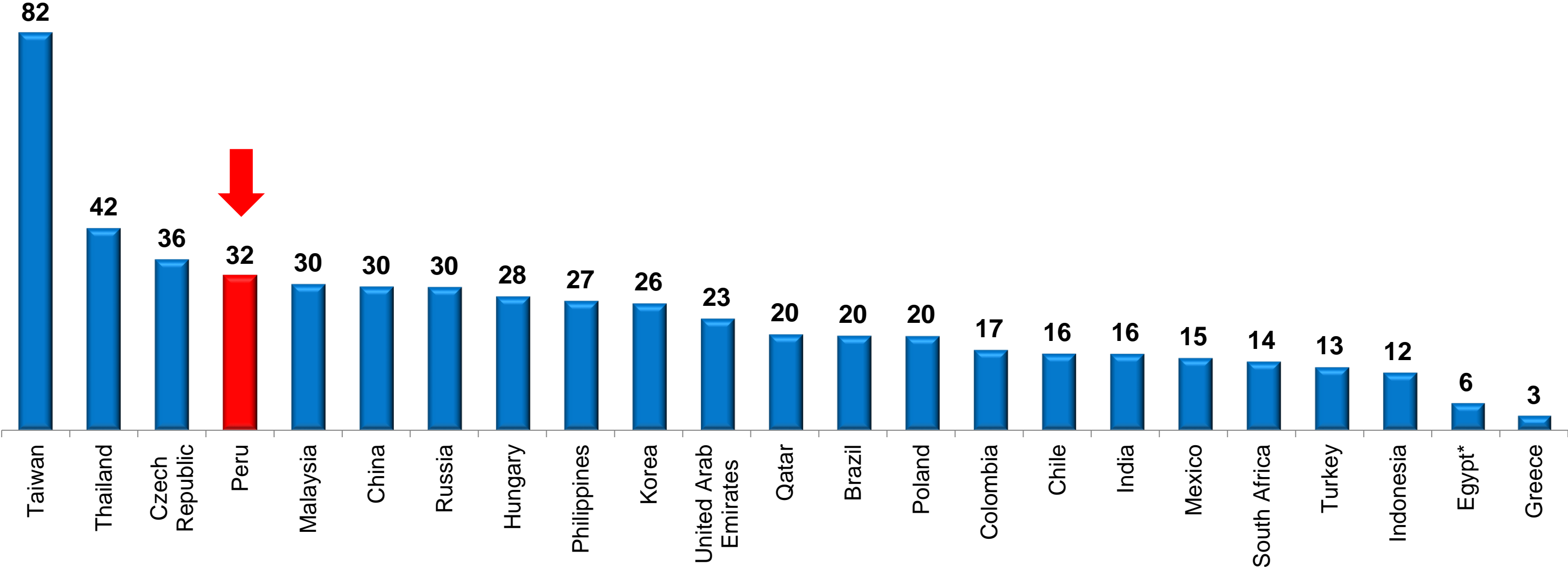
Average Inflation: 2005-2015



Source: IMF, World Economic Outlook and BCRP

International reserves are equivalent to 32 percent of GDP

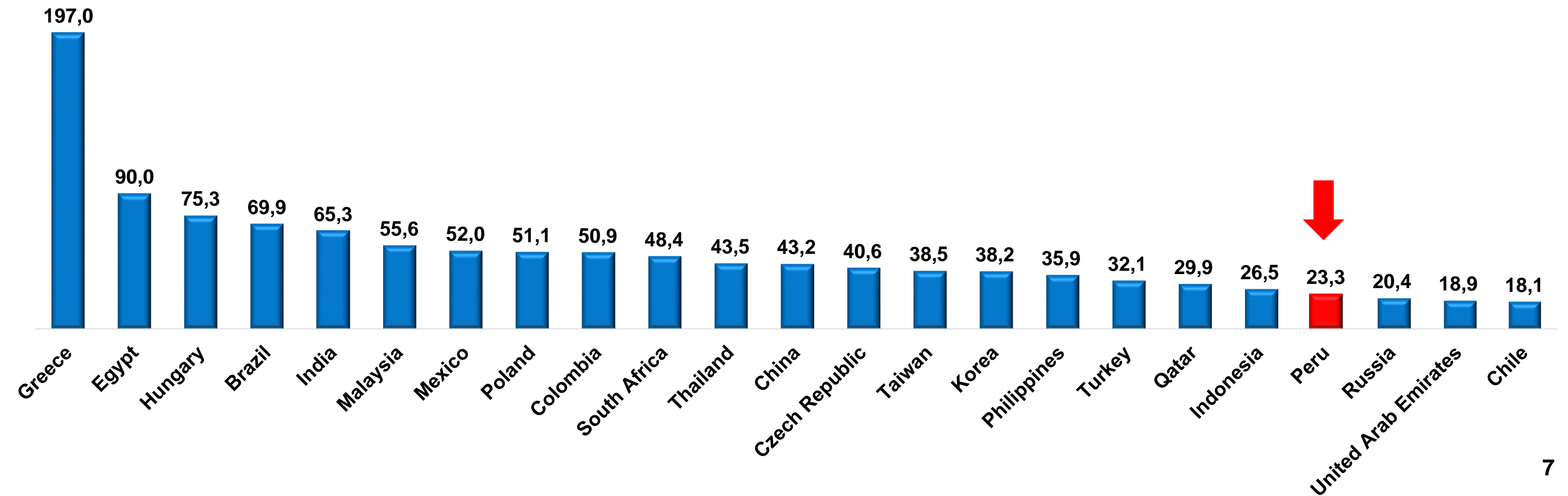
International Reserves: 2015 (% GDP)



* GDP to Egypt as of 2014
Source: IMF and Bloomberg

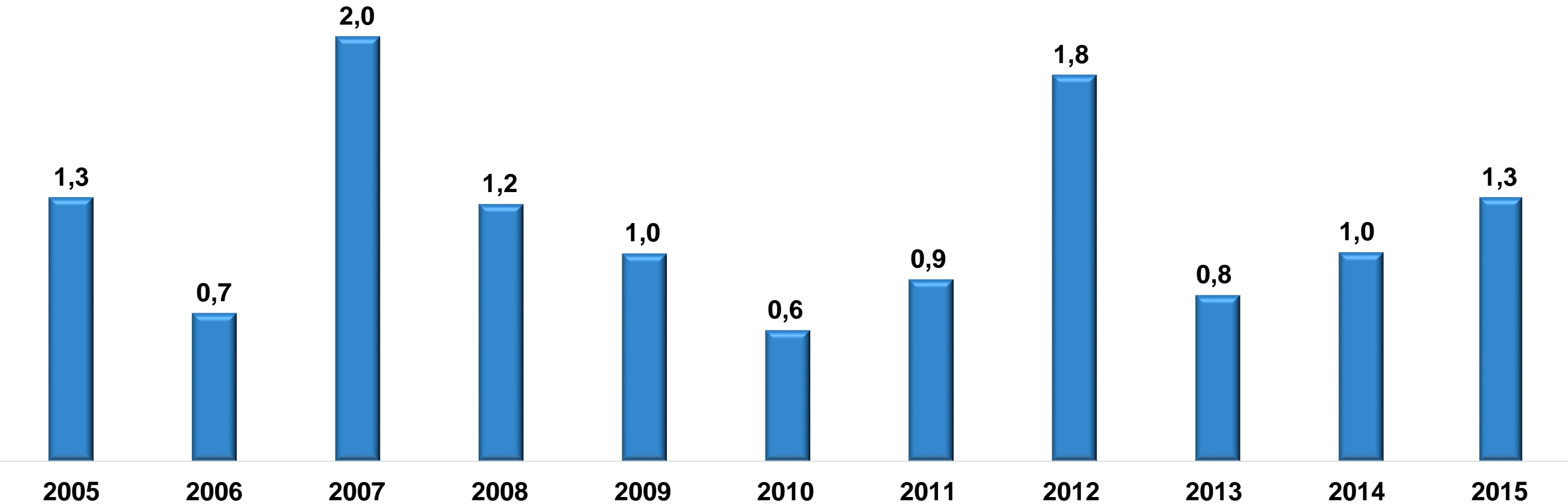
Public debt is equivalent to 23,3 percent of GDP

Gross public debt: 2015 (% GDP)



The banking system has a low exposure to external liabilities

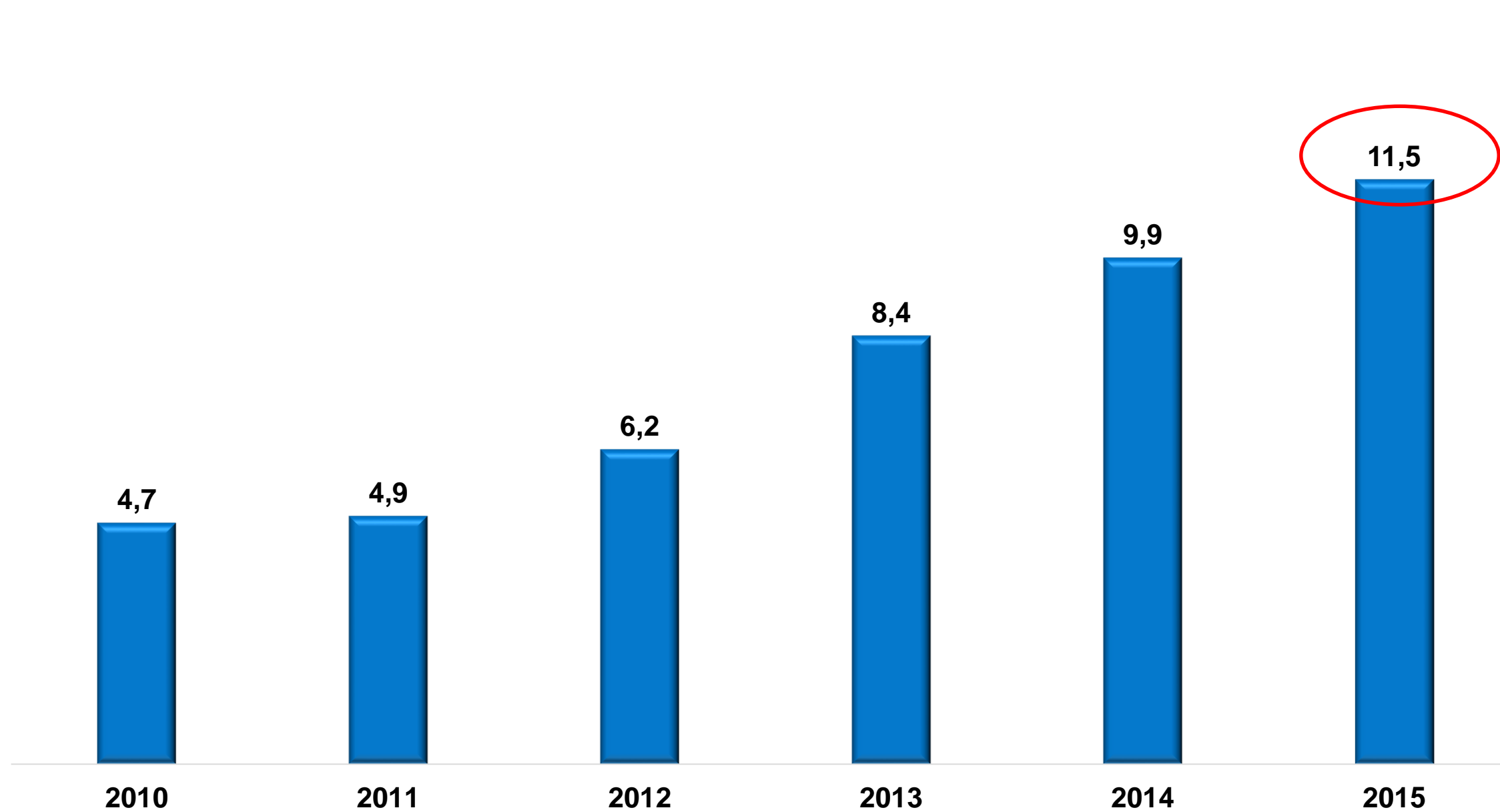
Short-Term External Liabilities of the Banking Sector
(% of GDP)



*Up to December 2015

Long-Term Corporate Debt

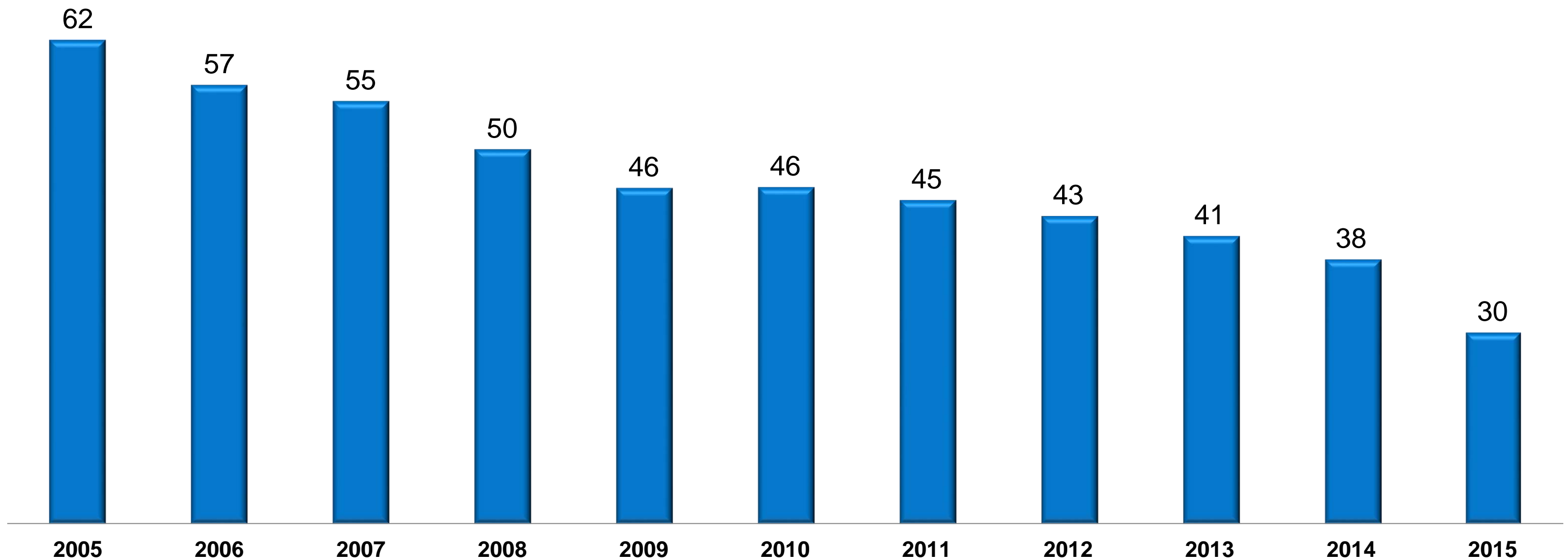
Total Long-Term Debt of Nonfinancial Firms
(As % of GDP)



1) Firms oriented to exports	6,3
2) Firms oriented to domestic markets	5,2

The dollarization ratio dropped by more than half since 2005

Dollarization Ratio of Credit to the Private Sector
(%)



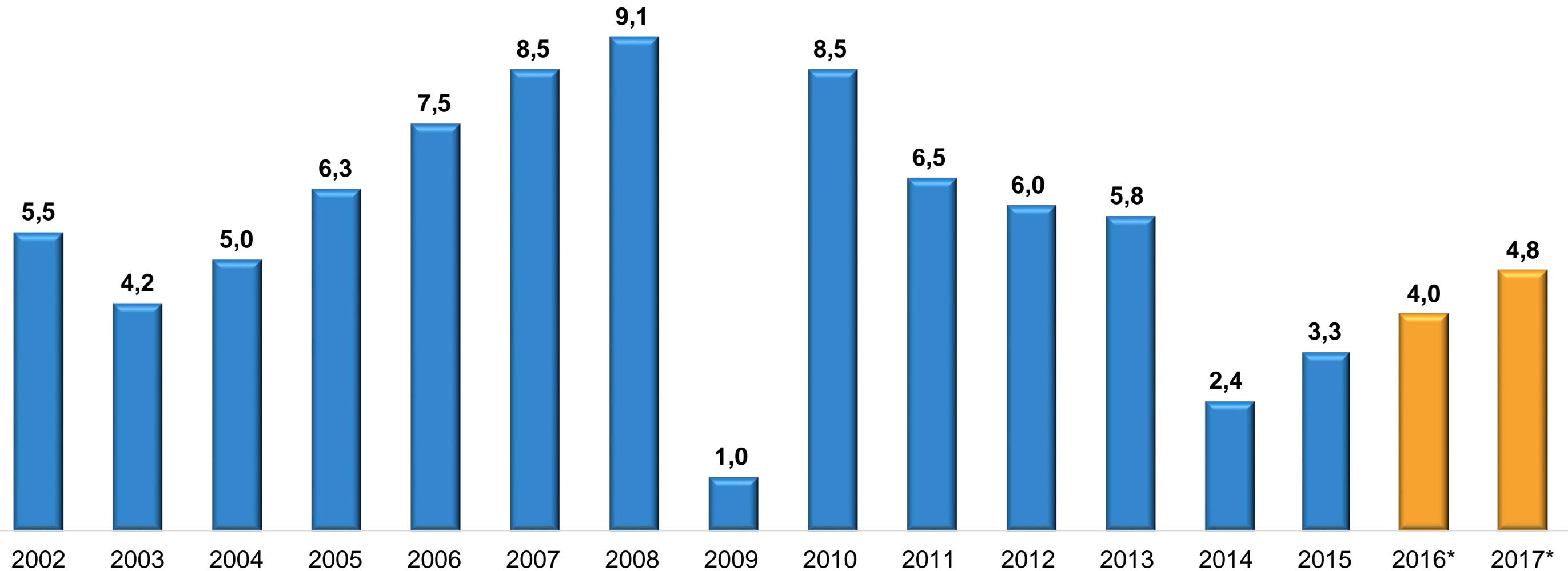
* Up to December 2015

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Growth is expected to recover over the next few years

Peruvian Annual GDP Growth
(in percentages)



* Forecast - Inflation Report, December 2015

Export growth and the recovery of investment will foster growth during the next two years

GDP and Domestic Demand (Real % change)

	2014	2015	2016*	2017*
Private Consumption	4,1	3,4	3,5	3,8
Private Fixed Investment	-2,1	-4,3	0,0	4,0
Public Consumption	10,1	9,5	5,3	4,0
Public Investment	-2,0	-7,5	10,9	5,0
Exports	-0,8	3,3	5,4	7,9
Imports	-1,5	2,4	1,3	4,0
GDP	2,4	3,3	4,0	4,8

* Forecast - Inflation Report, December 2015

Growth in 2016-2017 will be driven by mining and construction

GDP by Economic Sectors

(Real % change)

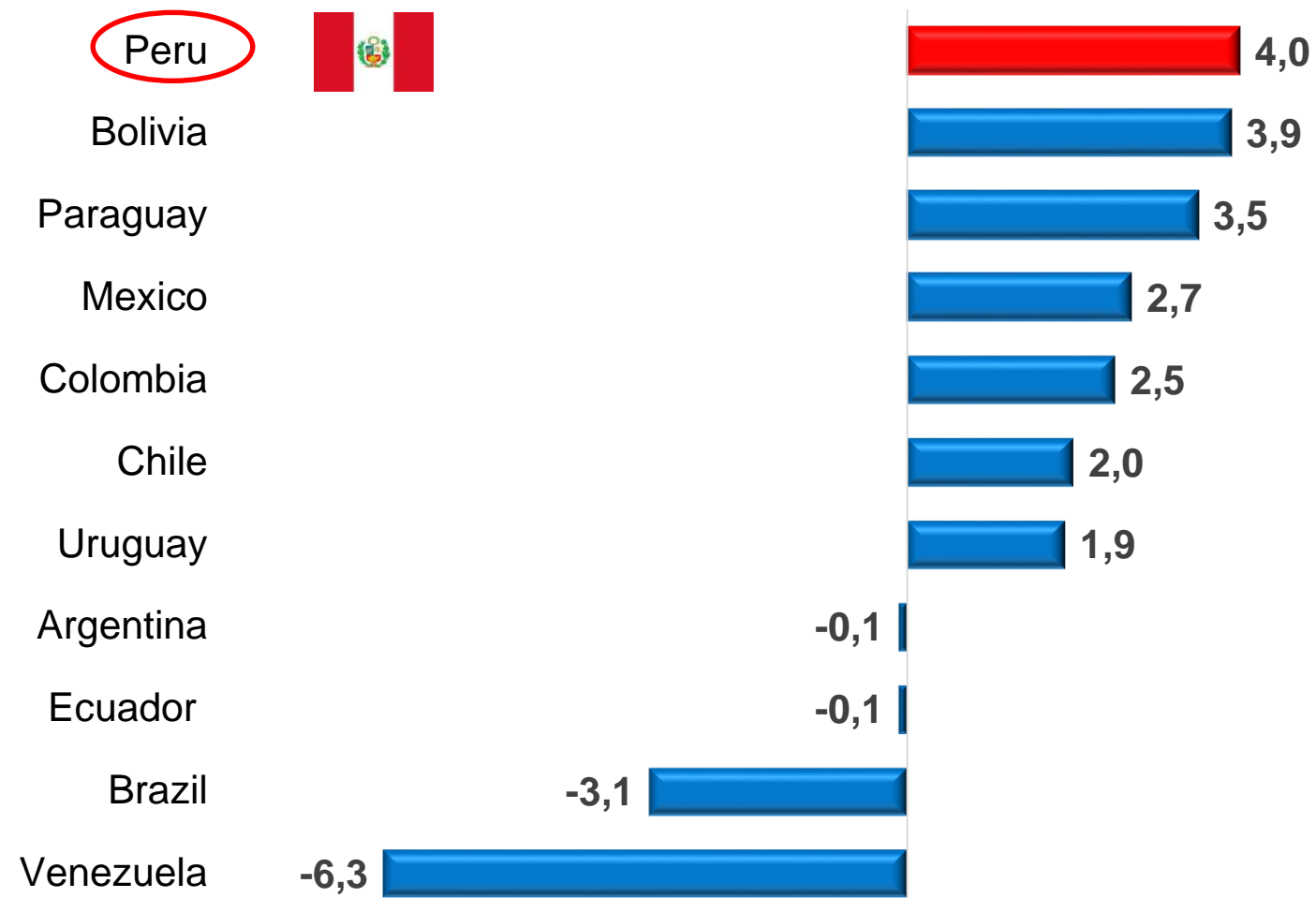
	2014	2015	2016*	2017*
Agriculture and Livestock	1,9	2,8	1,6	3,7
Fishing	-27,9	15,9	-1,2	27,9
Mining and hydrocarbons	-0,8	9,3	10,6	10,4
Manufacturing	-3,7	-1,7	1,1	4,2
Electricity and water	4,9	6,2	6,0	5,5
Construction	1,6	-5,9	2,5	3,5
Commerce and services	4,9	3,9	3,7	3,7
<u>GDP</u>	<u>2,4</u>	<u>3,3</u>	<u>4,0</u>	<u>4,8</u>
Memo:				
Primary-GDP	-2,1	6,6	6,5	9,1
Non-primary GDP	3,6	2,4	3,4	3,6

* Forecast - Inflation Report, December 2015

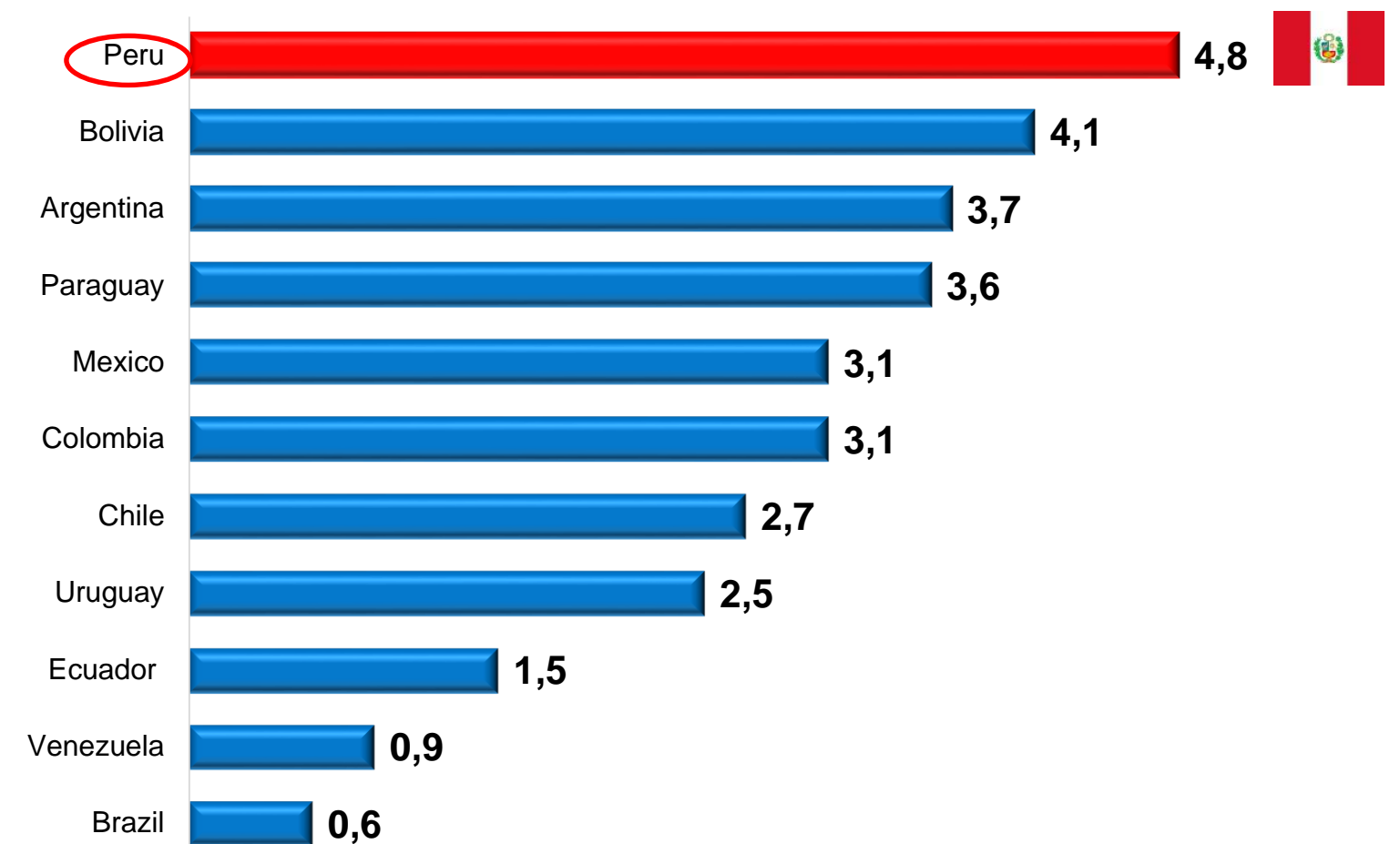
According to Consensus Forecast, a recovery in economic activity is expected for most of the countries in the region for 2016-2017.

GDP Growth in Latin America
Annual % change

2016



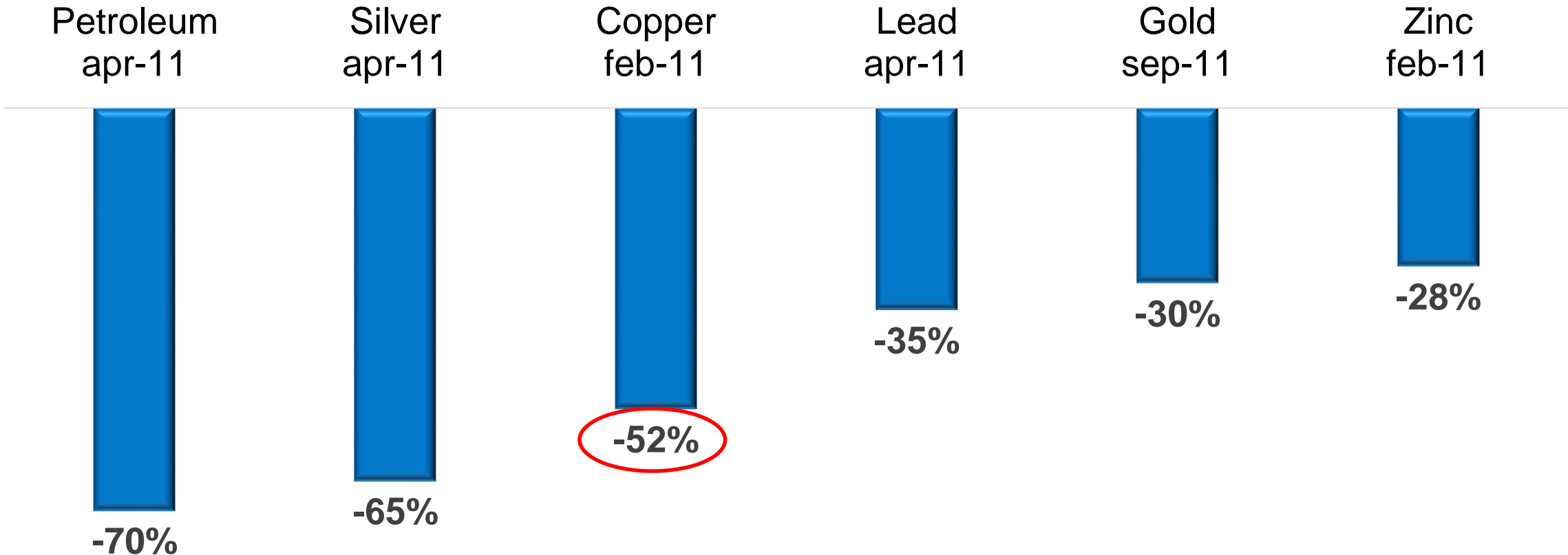
2017



Source: Latin American Consensus Forecast (February, 2016) and BCRP.

Commodity Prices: The price of copper has fallen 52 percent since 2011

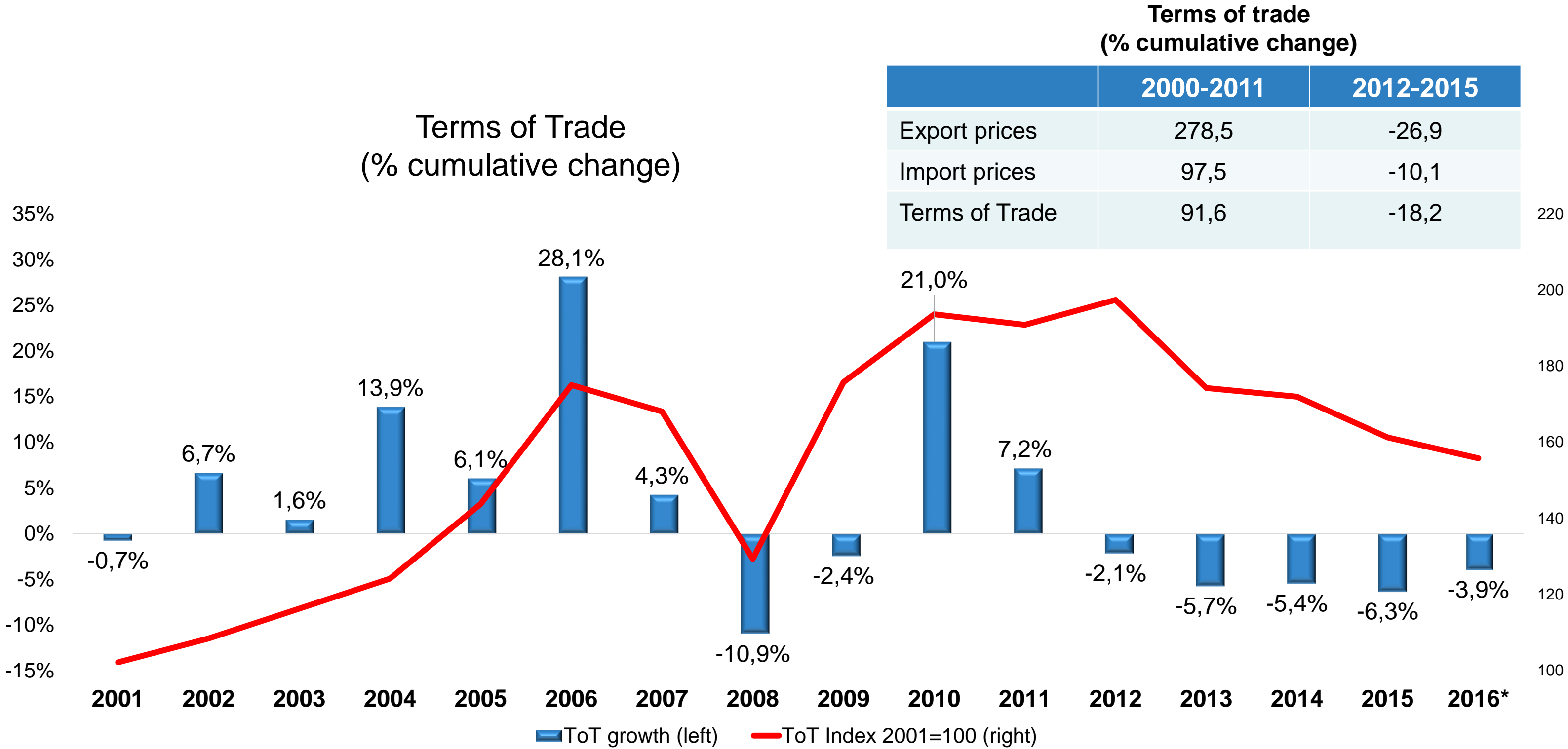
Cumulative Change of commodity prices respect to its highest level
(Percentage change)



	Petroleum	Silver	Gold	Copper	Lead	Zinc
Highest Price Date	Apr-11	Apr-11	Sep-11	Feb-11	Apr-11	Feb-11
Maximum Price	109,6	42,0	1772,7	447,6	124,3	111,8
Current Price*	33,0	14,8	1232,14	213,4	80,63	81,0

* As of February 29th

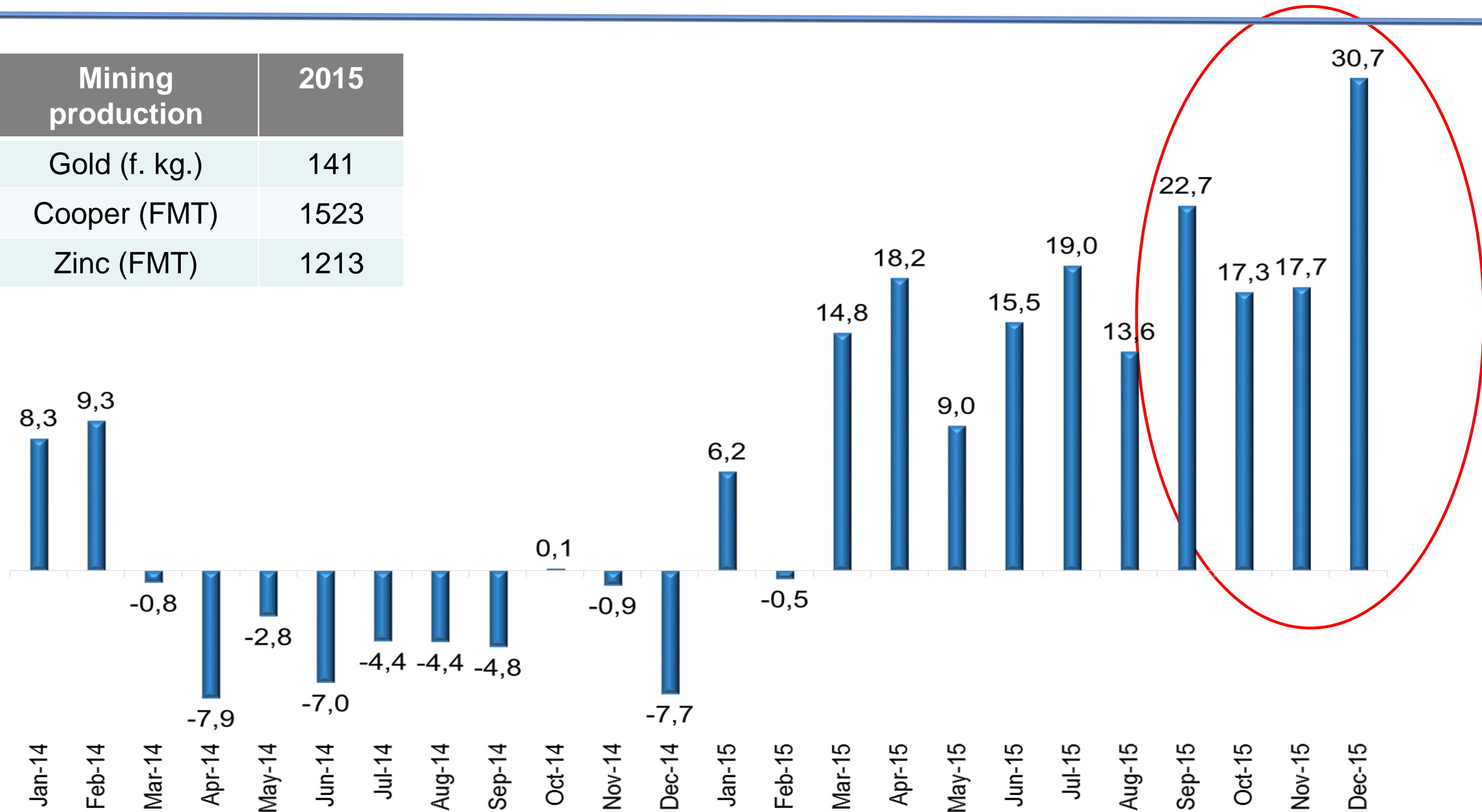
Peru has faced an external shock (a the decline in the terms of trade) since 2011. However, prices are still higher than in the previous decade.



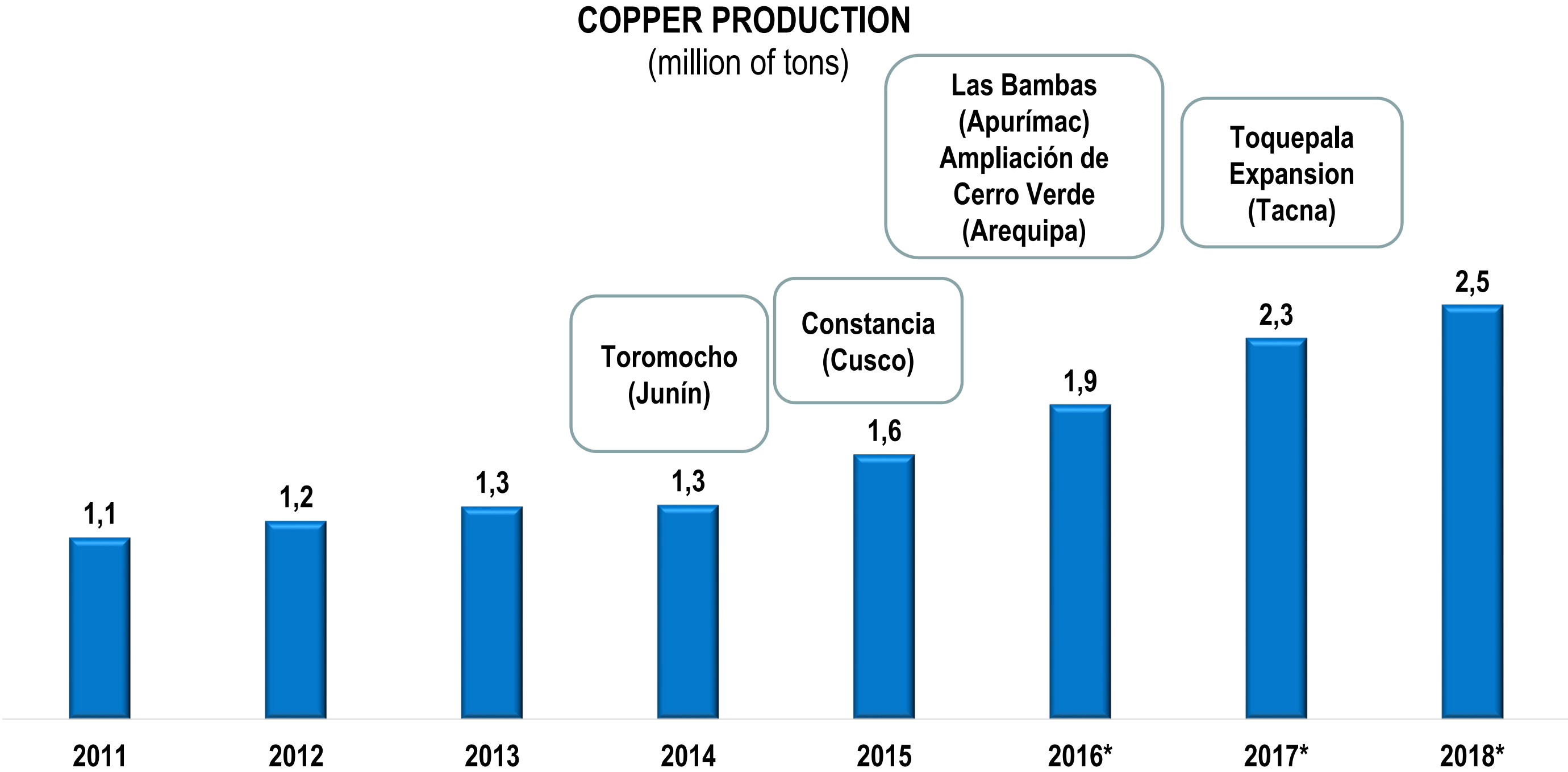
* Forecast - Inflation Report, December 2015

Since 2015, the mining sector has started to show higher growth rates

Mining production	2015
Gold (f. kg.)	141
Cooper (FMT)	1523
Zinc (FMT)	1213

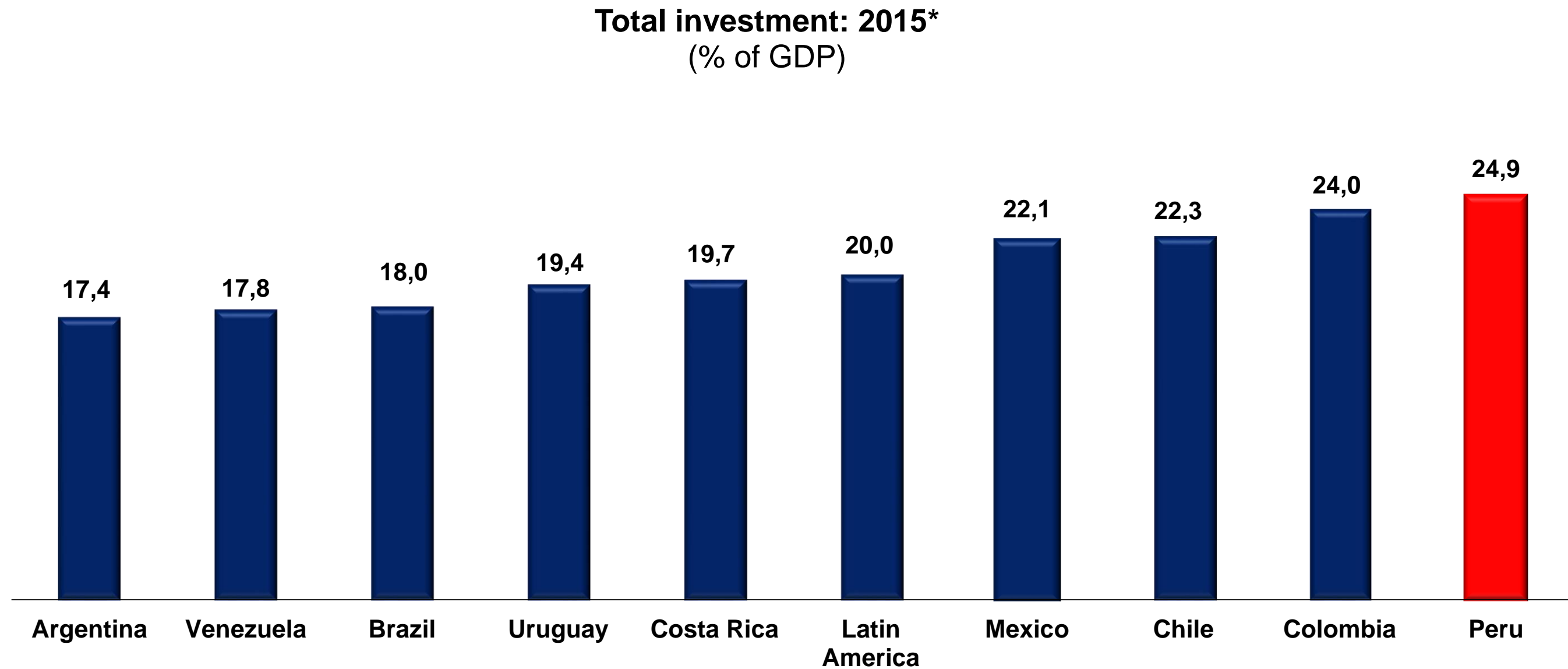


Copper production will increase by 95 percent in 2014-2018



* Forecast - Inflation Report, December 2015

Peru's gross fixed investment is about 24,9 percent of GDP

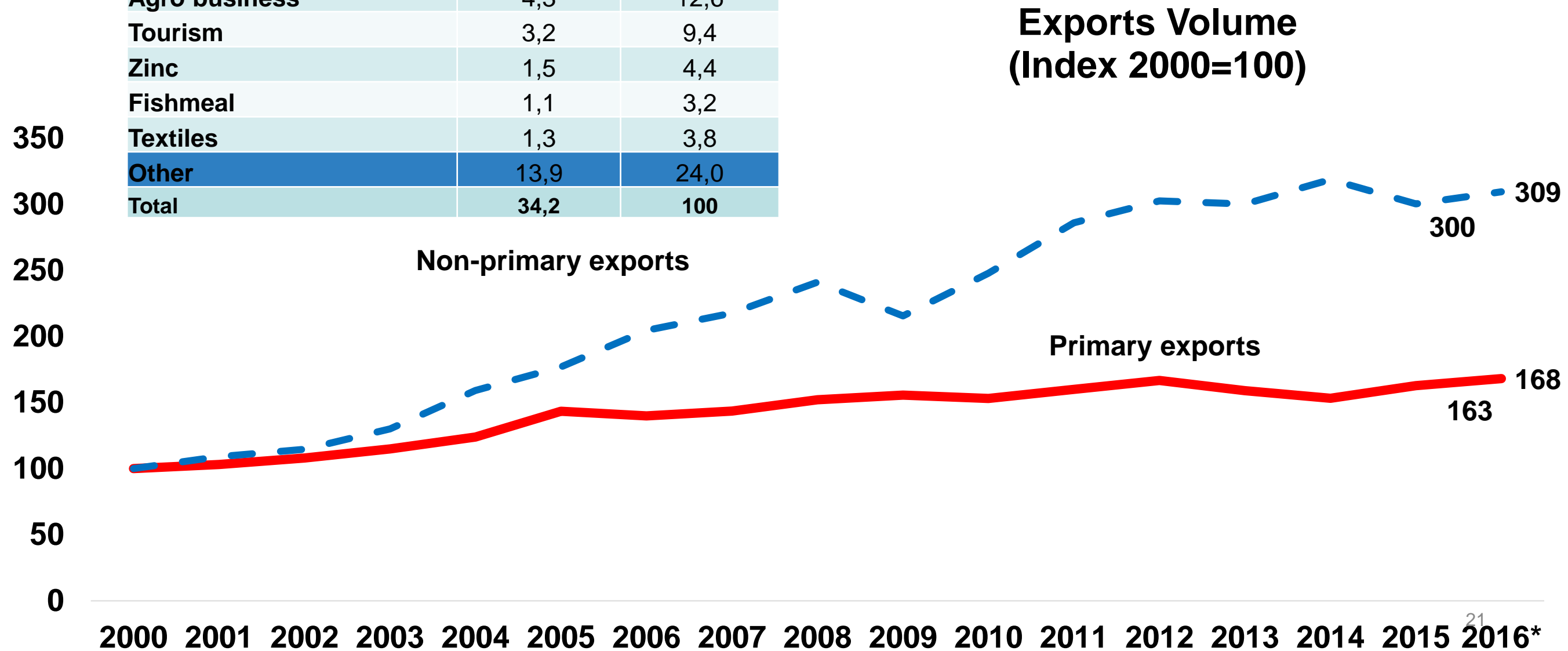


* Forecast

Source: IMF, World Economic Outlook and BCRP.

Non-primary exports in 2015 are three times the 2000 level

Exports of goods and services		
	US\$ (billion)	2015 % Total
Copper	8,1	23,7
Gold	6,5	19,0
Agro business	4,3	12,6
Tourism	3,2	9,4
Zinc	1,5	4,4
Fishmeal	1,1	3,2
Textiles	1,3	3,8
Other	13,9	24,0
Total	34,2	100



Non-primary exports

2016: % change	3,0
Agro business	6,1
Fishing	11,7

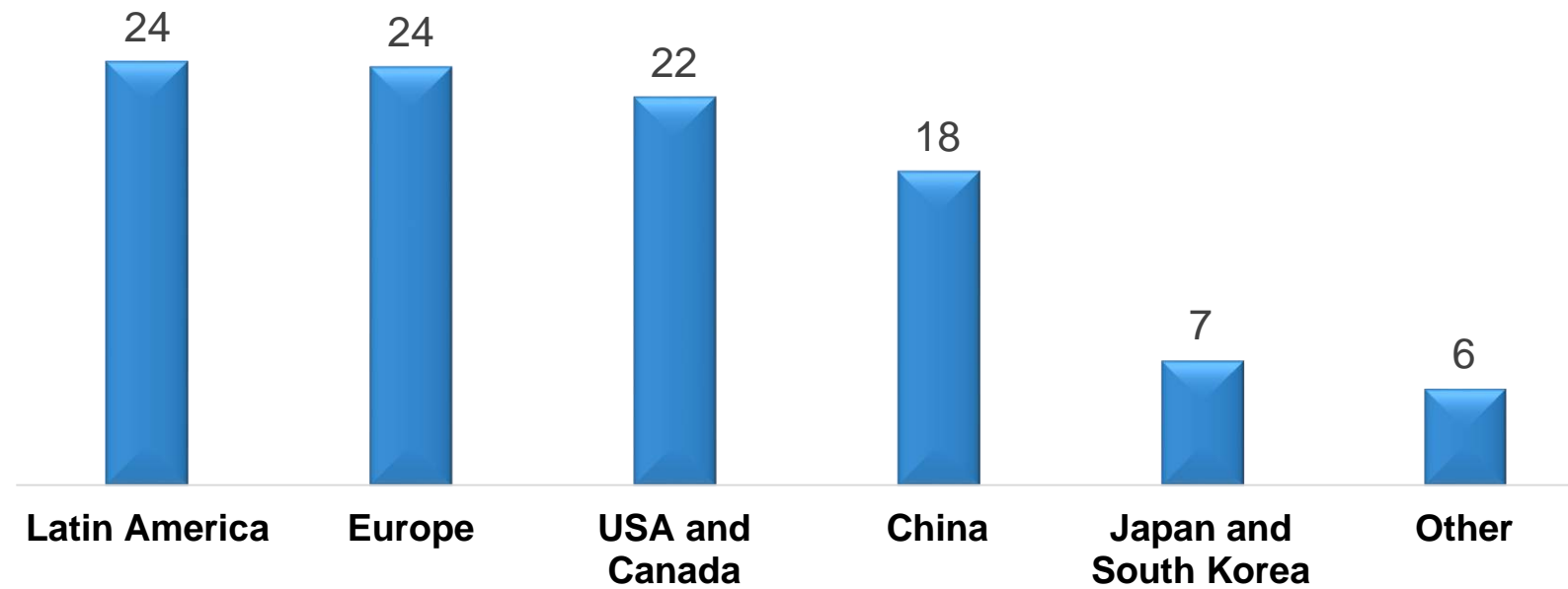
Primary exports

2016: % change	3,1
Copper	16,9
Zinc	6,2
Coffee	9,9

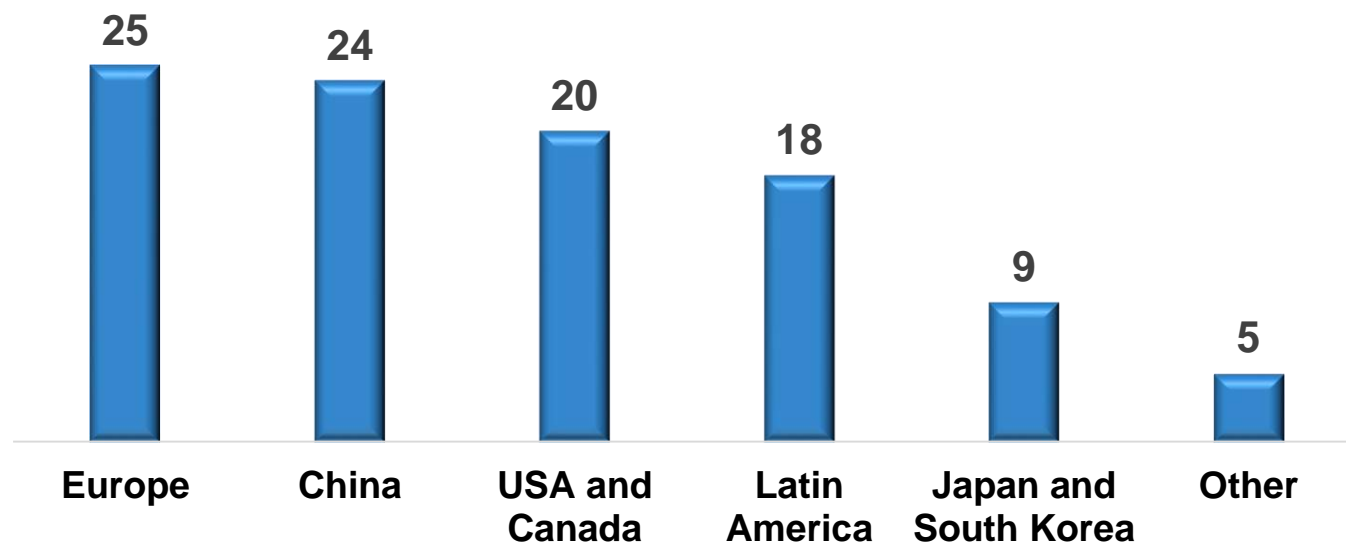
* Forecast - Inflation Report, December 2015

Diversification by destination

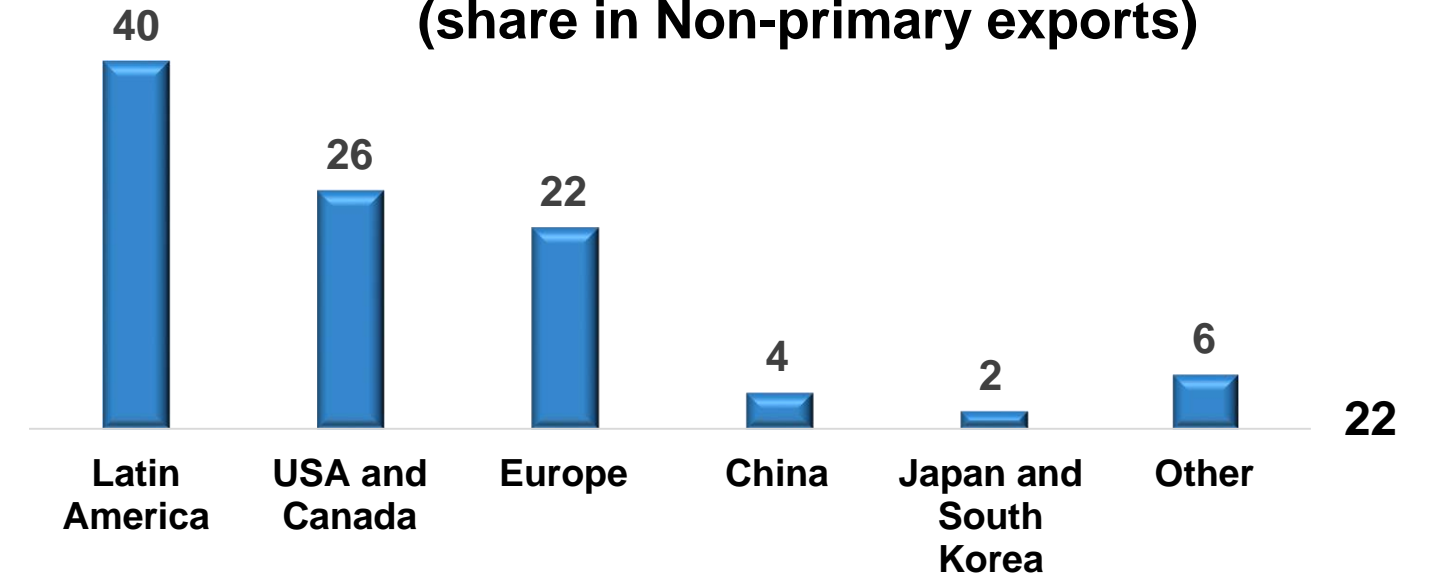
Total exports by destination (Share in total exports)



Primary exports (share in primary exports)

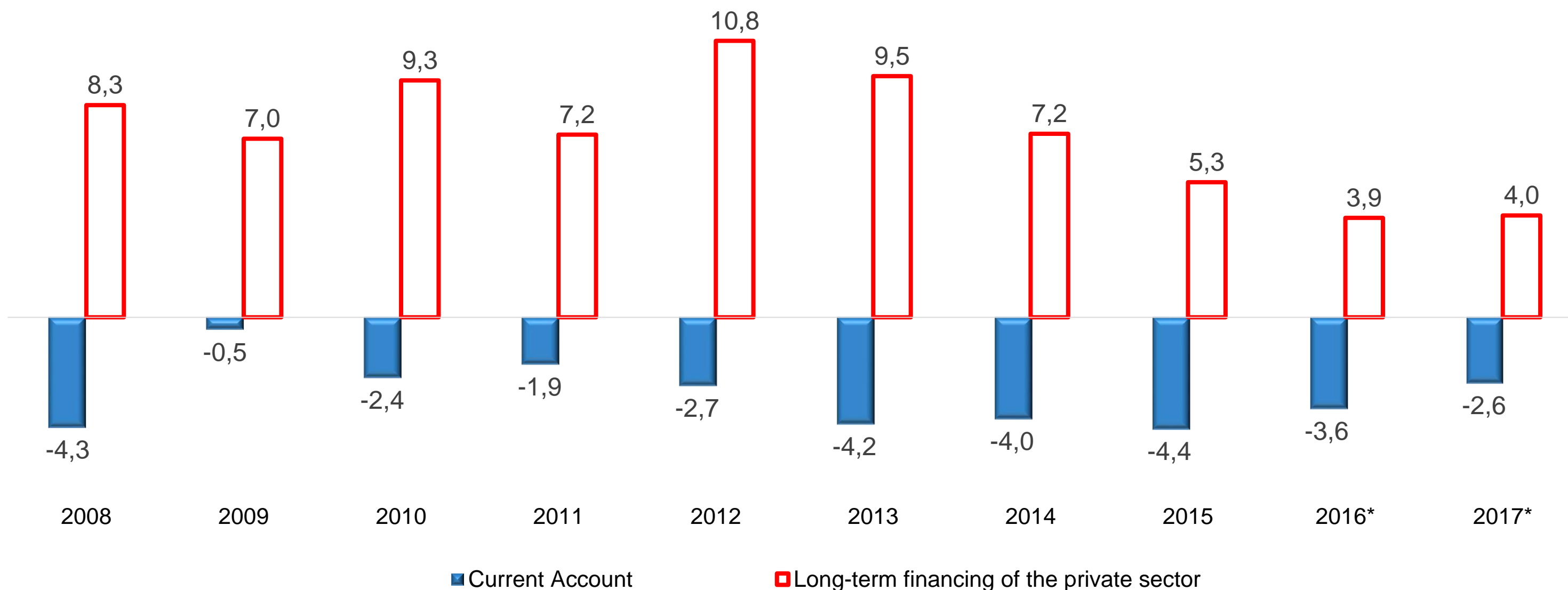


Non- primary exports (share in Non-primary exports)



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

CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR: 2005-2017 1/
(% of GDP)

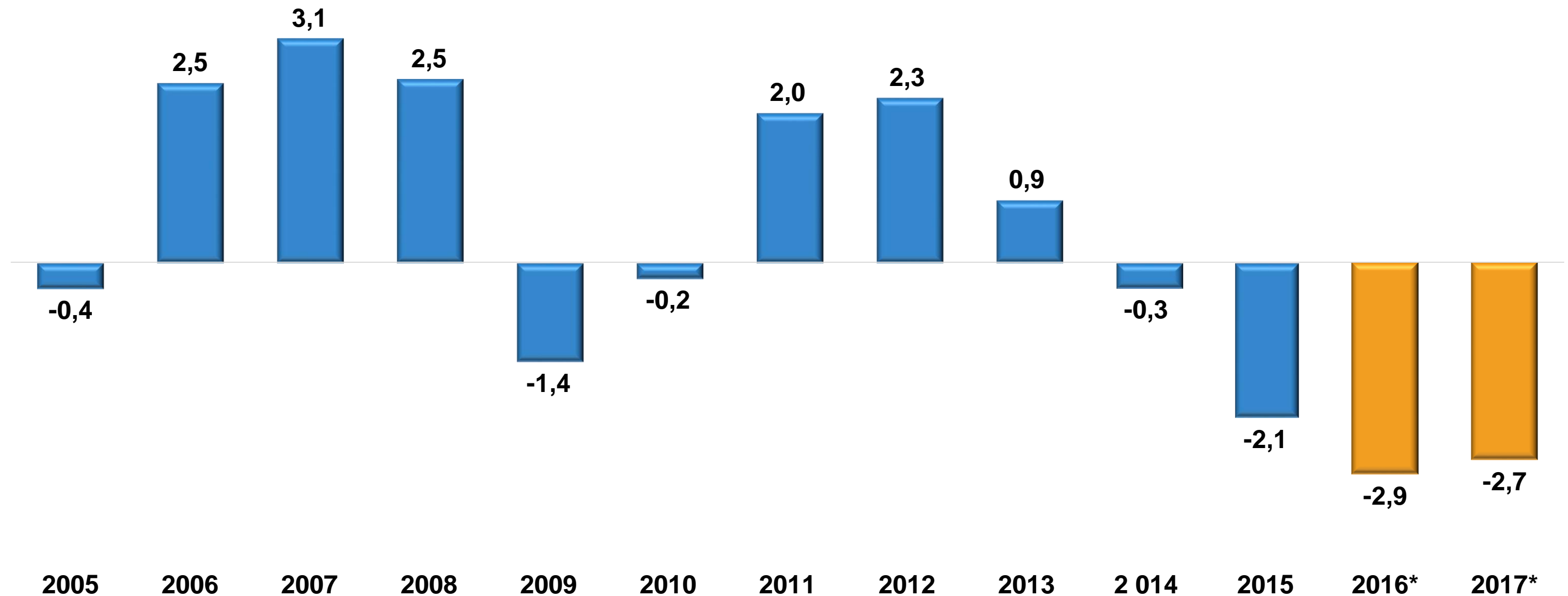


* Forecast-Inflation Report , December 2015

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

An expansionary fiscal stance is expected for the next two years

Fiscal Surplus
(% of GDP)



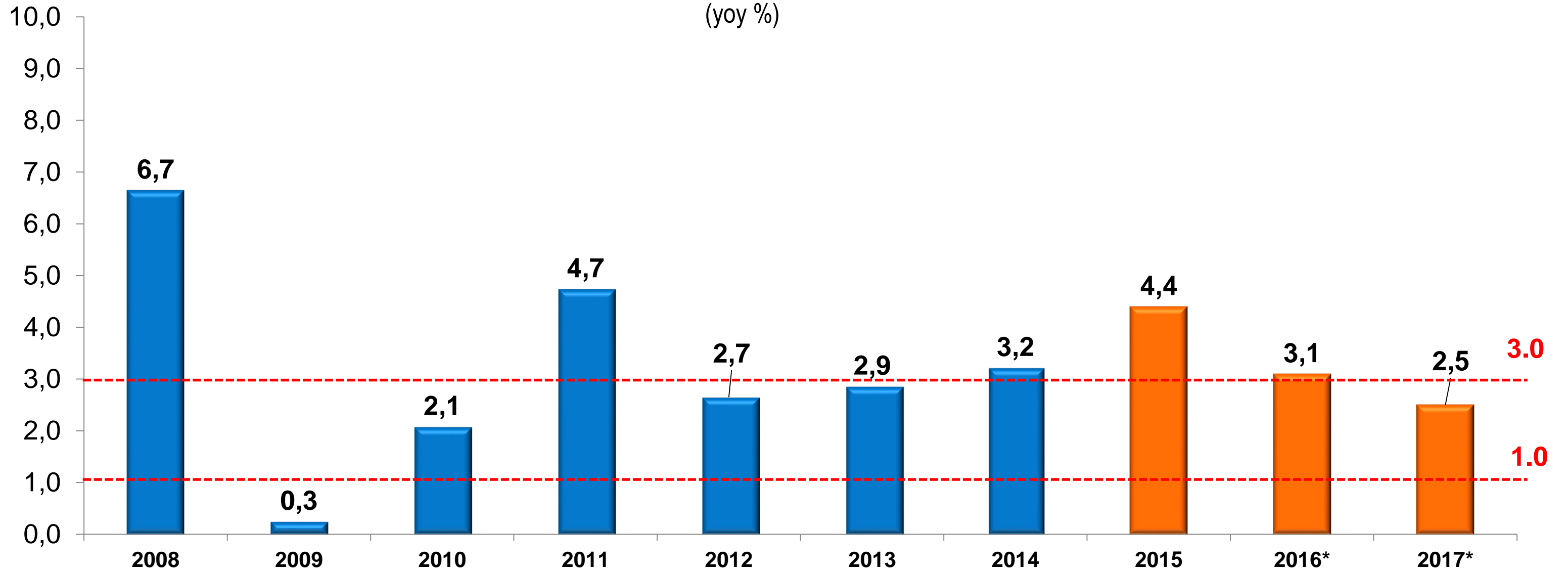
* Forecast - Inflation Report, December 2015

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12-month inflation will converge to the target range in 2016

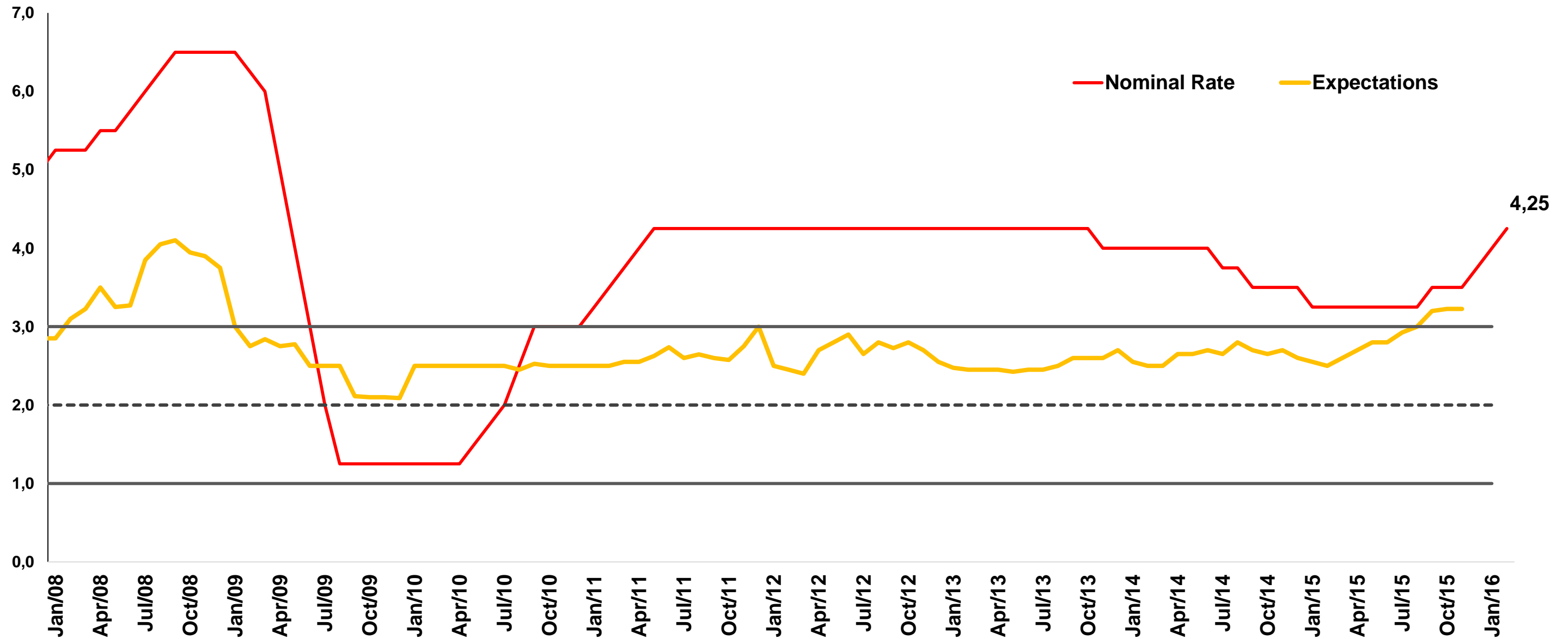
CPI inflation
(yoy %)



* Forecast - Inflation Report, December 2015

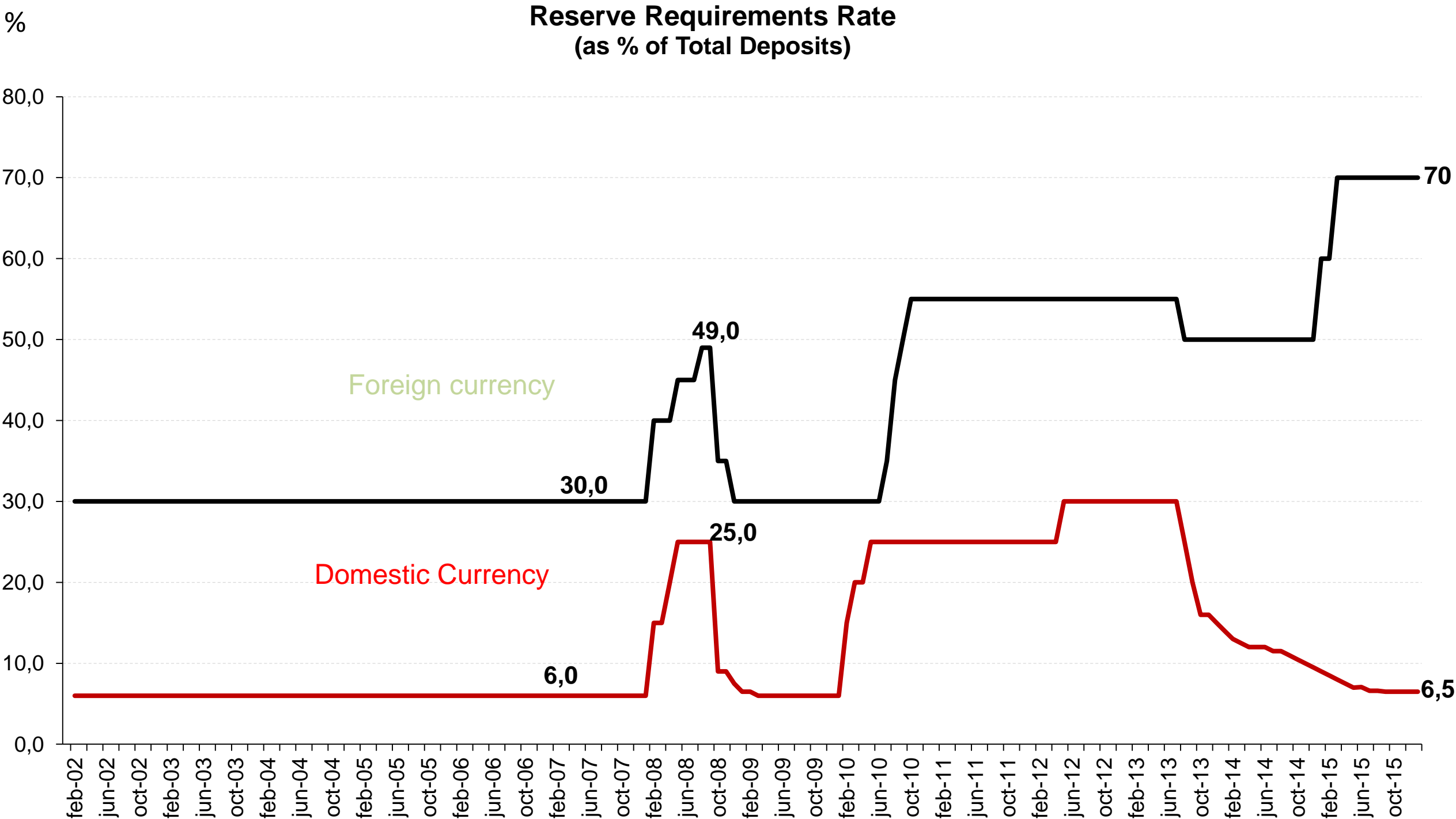
The BCRP raised the policy rate twice in 2015 and in January and February 2016 (from 4,0 to 4,25 percent) to anchor inflation expectations.

Monetary Policy Interest Rate and Inflation Expectations (%)



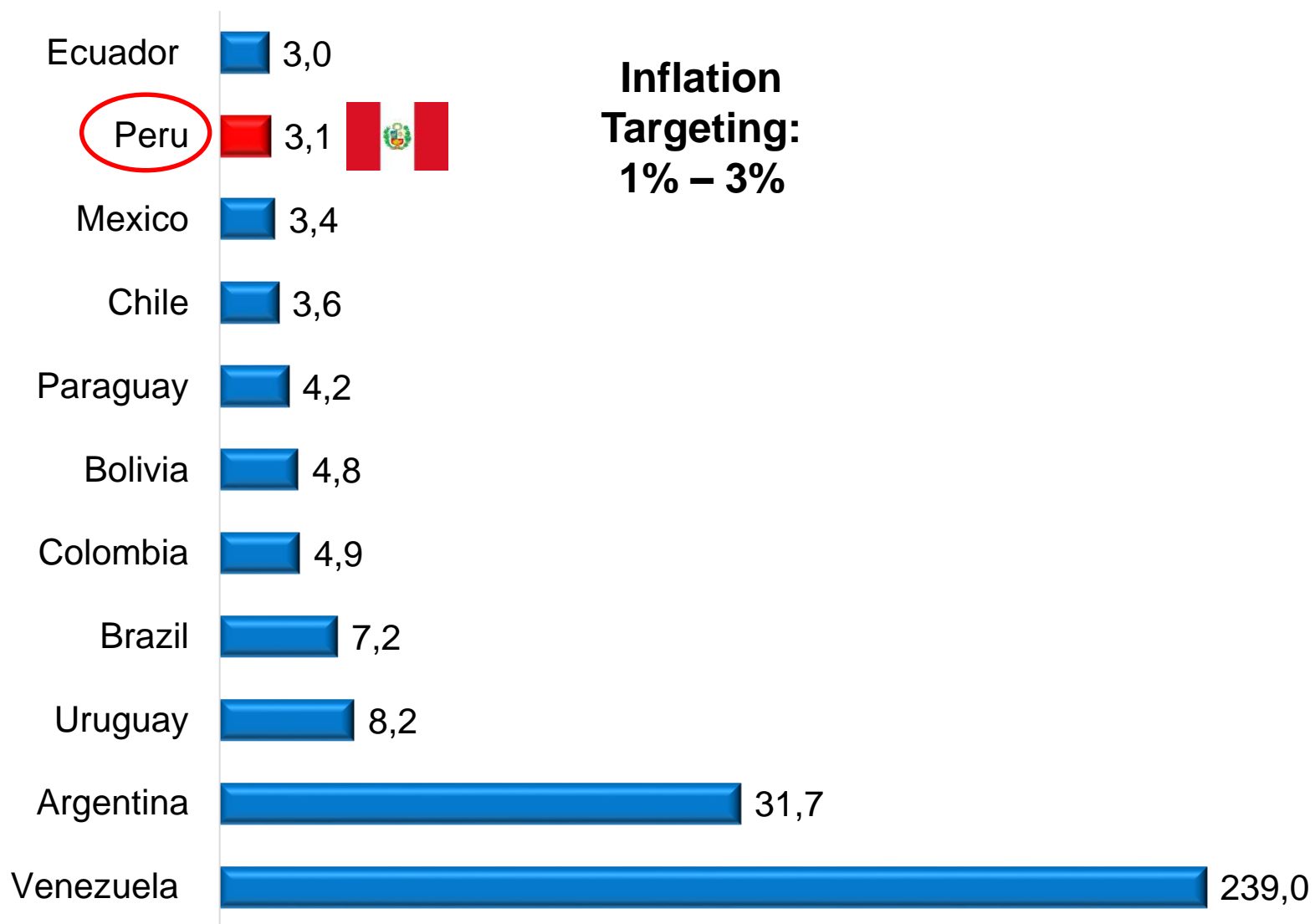
* Deflated using Inflation Expectations

Macro-prudential policies have the purpose of ensuring the sustained credit growth

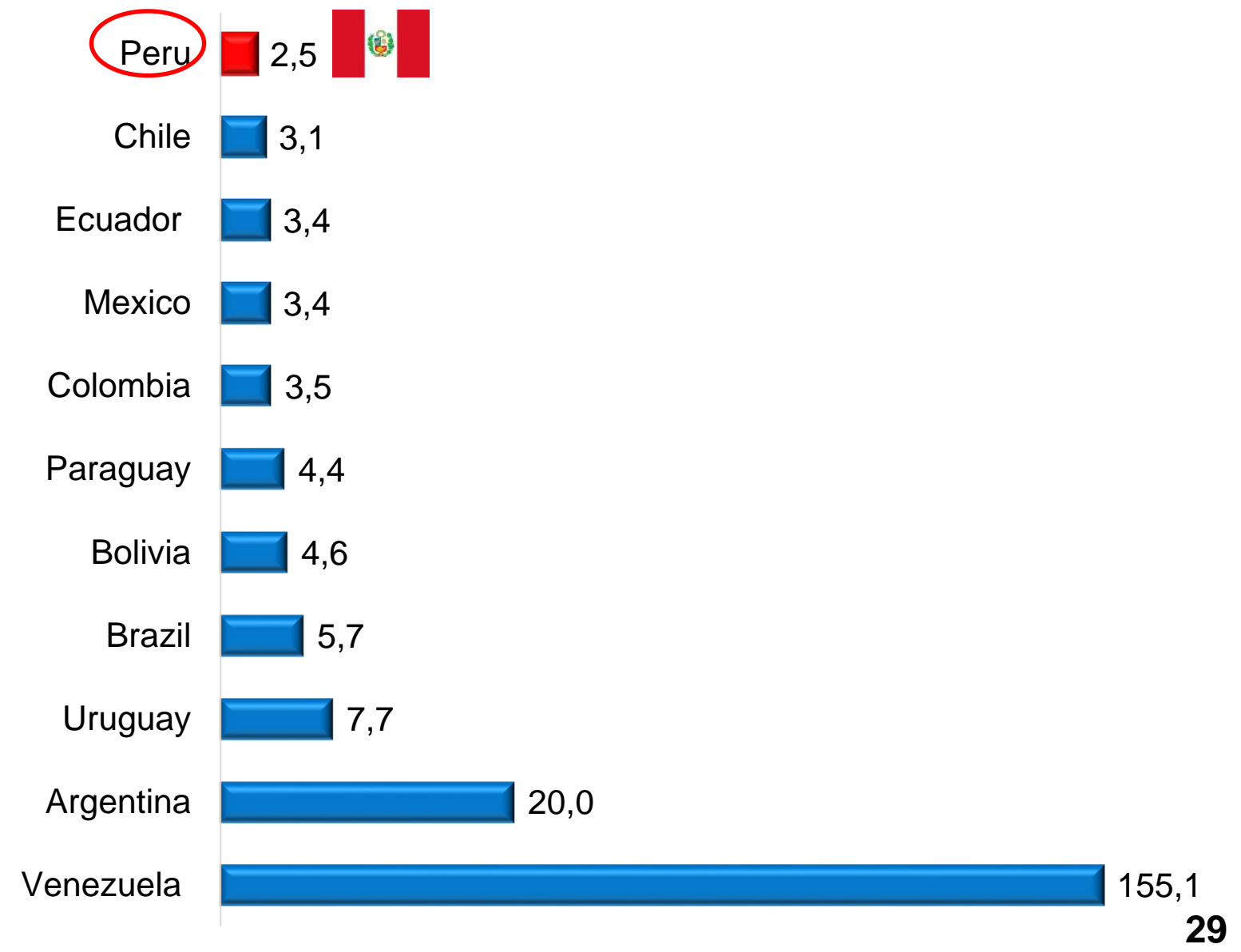


Peru's inflation is expected to remain within the target range for the next two years

Inflation rate: 2016

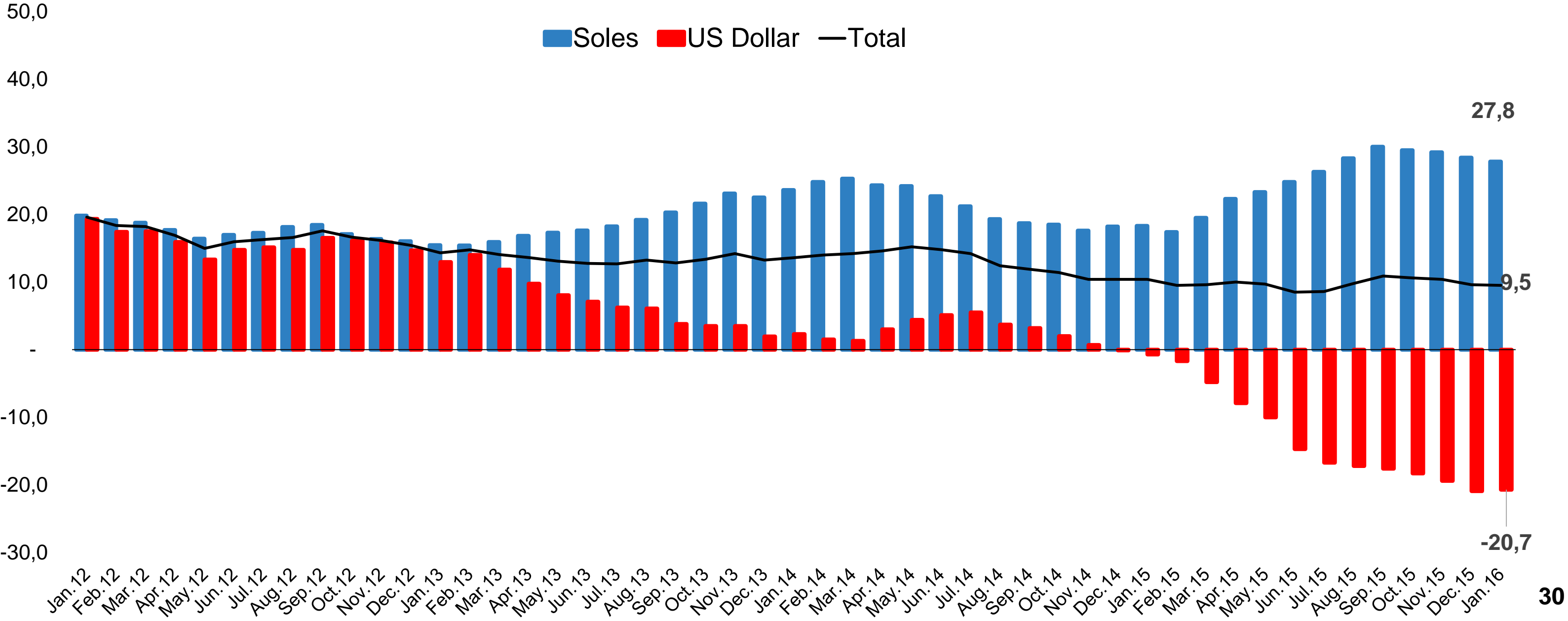


Inflation rate: 2017



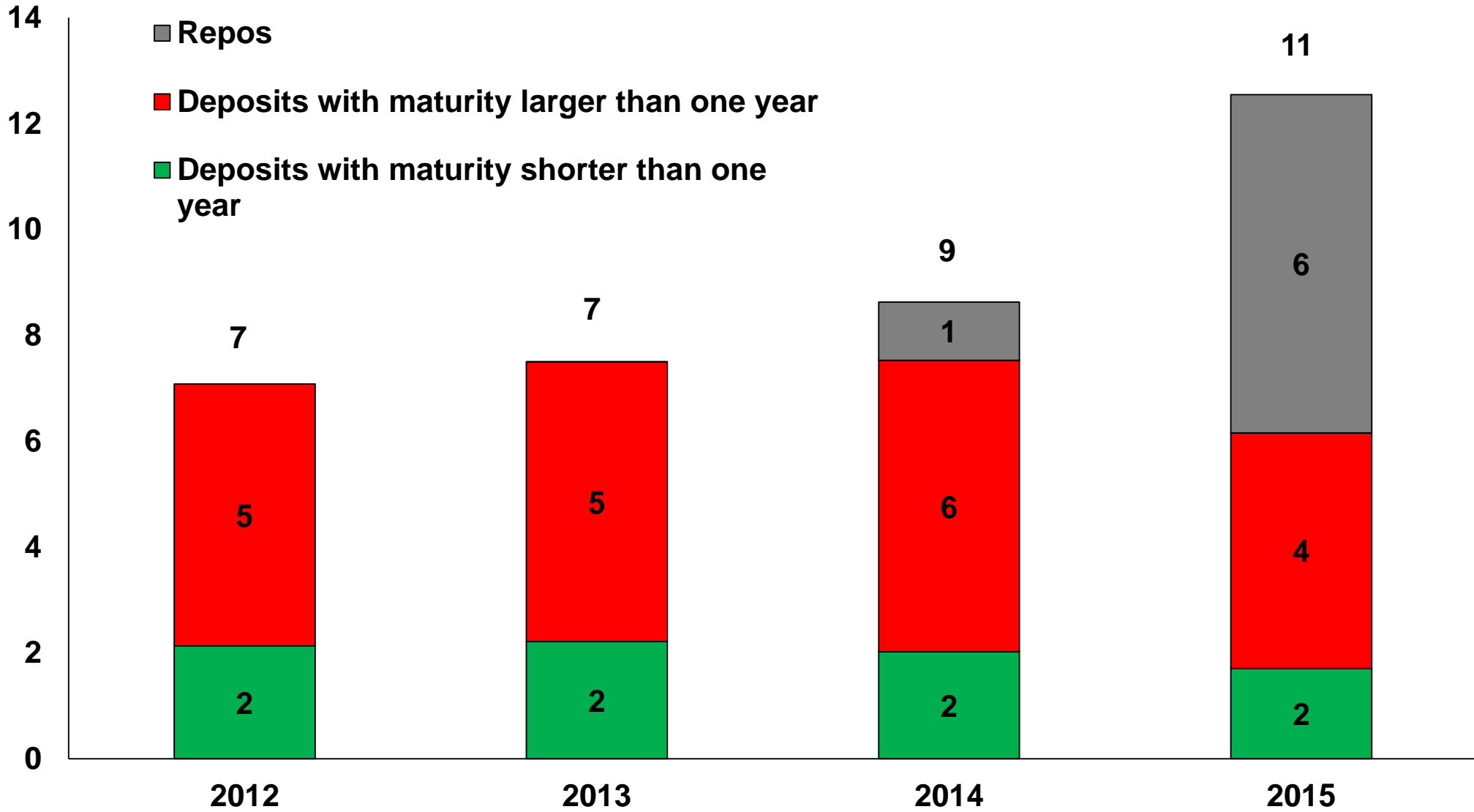
Central Bank has promoted a reduction in dollars loans through additional reserve requirements and providing local currency through FX repos

Growth of banking credit (YoY % Chg.)

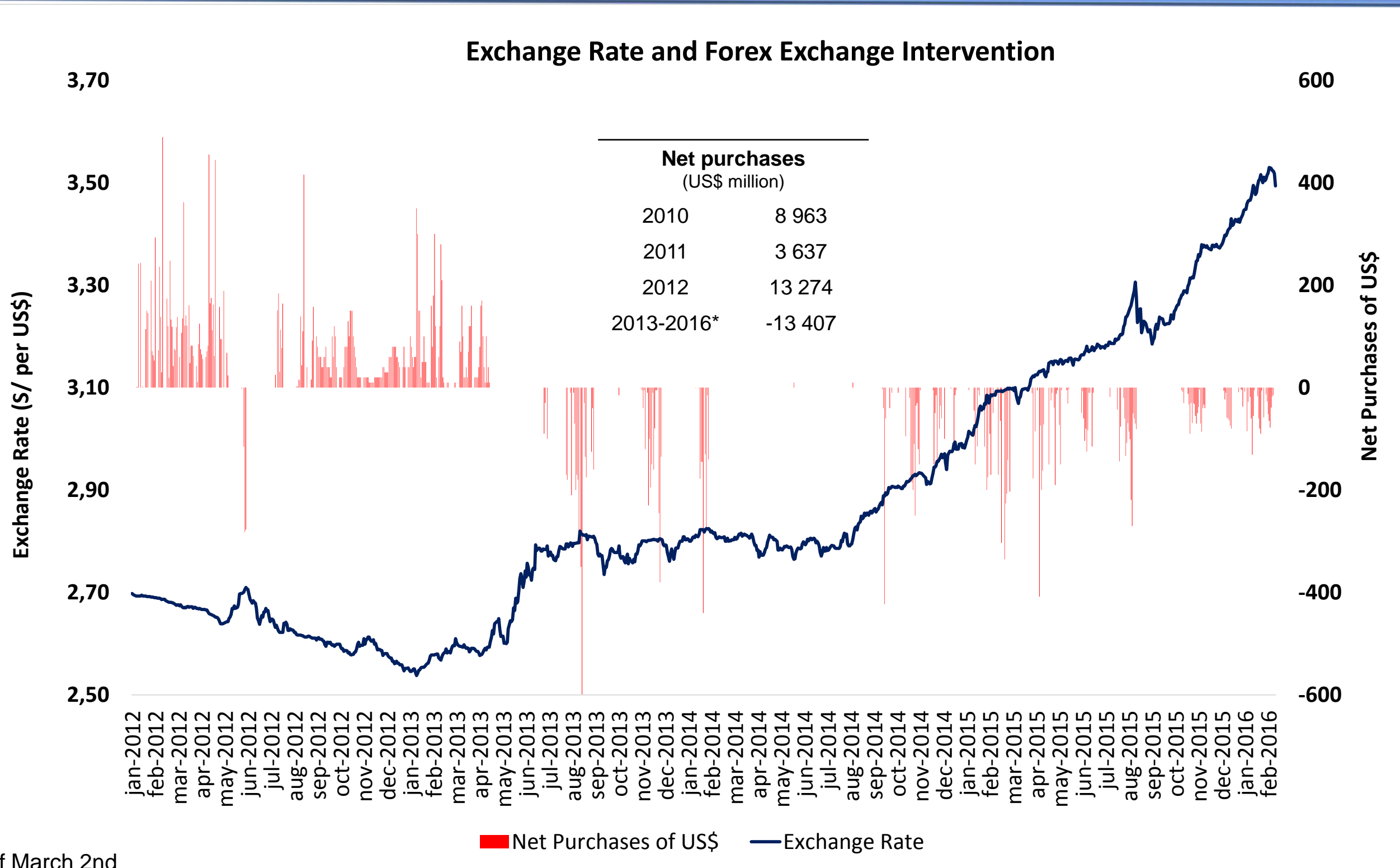


BCRP FX repos have increased the average maturity of private banks' liabilities.

Average Banks Liabilities Duration
(in months)

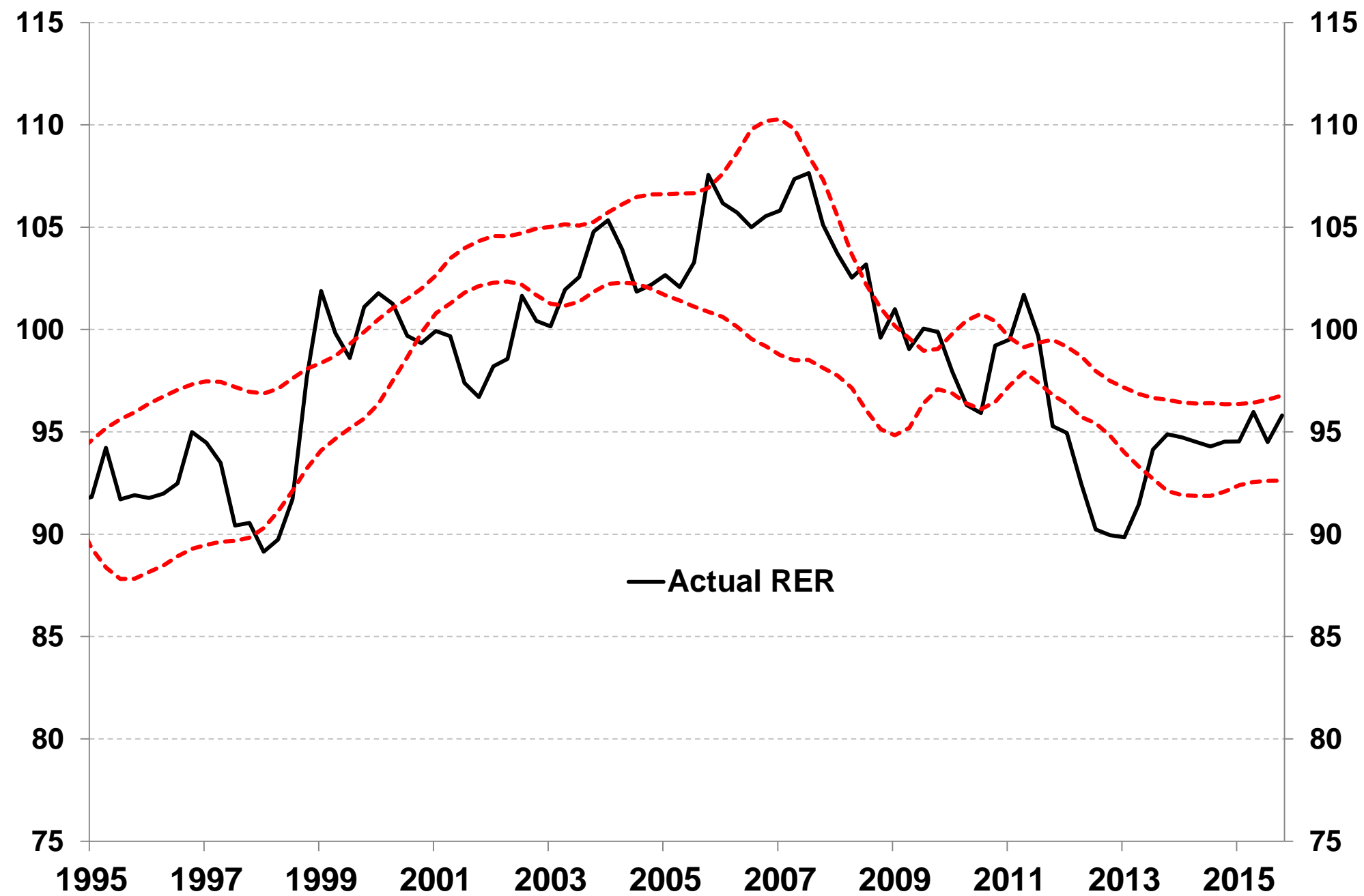


FX intervention aims at reducing volatility. The BCRP purchased US\$ 25 874 million in 2010-2012 and sold US\$ 13 407 million in the period 2013-2016.



* As of March 2nd

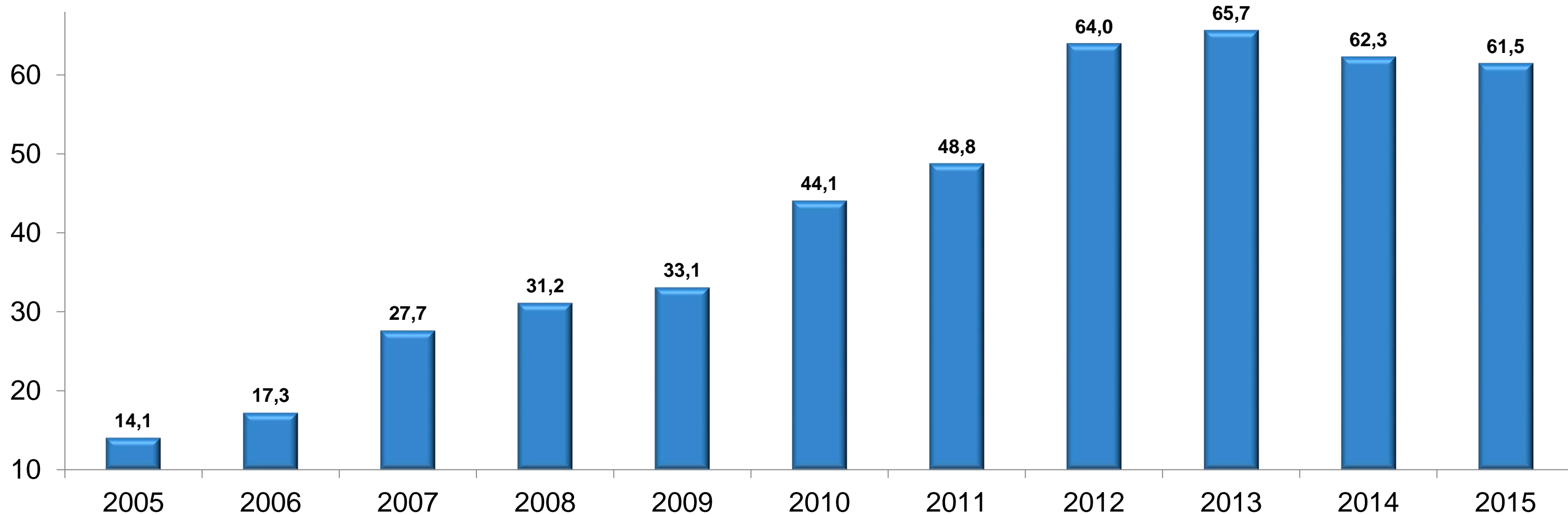
Real Equilibrium Exchange Rate



The Equilibrium Real Exchange Rate takes into account the Peruvian relative productivity with respect to its trade partners, the terms of trade, the net foreign assets, the openness degree and the fiscal position.

The BCRP carried out a precautionary accumulation of international reserves during the period of high commodity prices and capital inflows

INTERNATIONAL RESERVES (USD billions)



NET INTERNATIONAL RESERVES INDICATORS

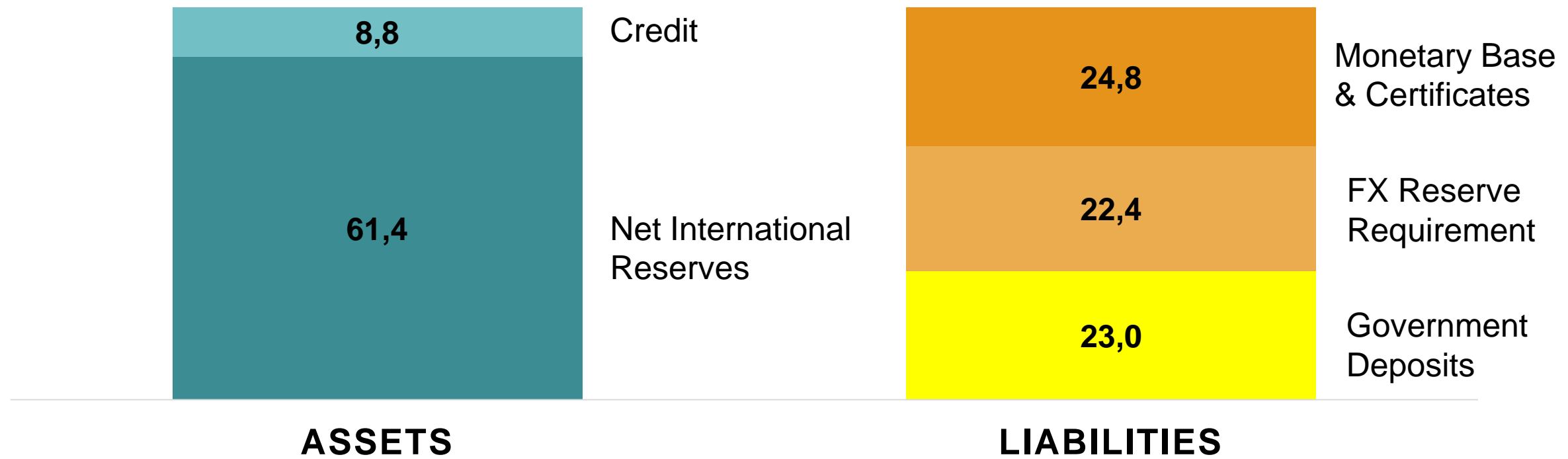
As a % of:	2015
GDP	32
Short-term external debt 1/	575
Short-term external debt plus current account deficit	335

1/ Includes short-term debt balance plus redemption (1-year) of private and public sector

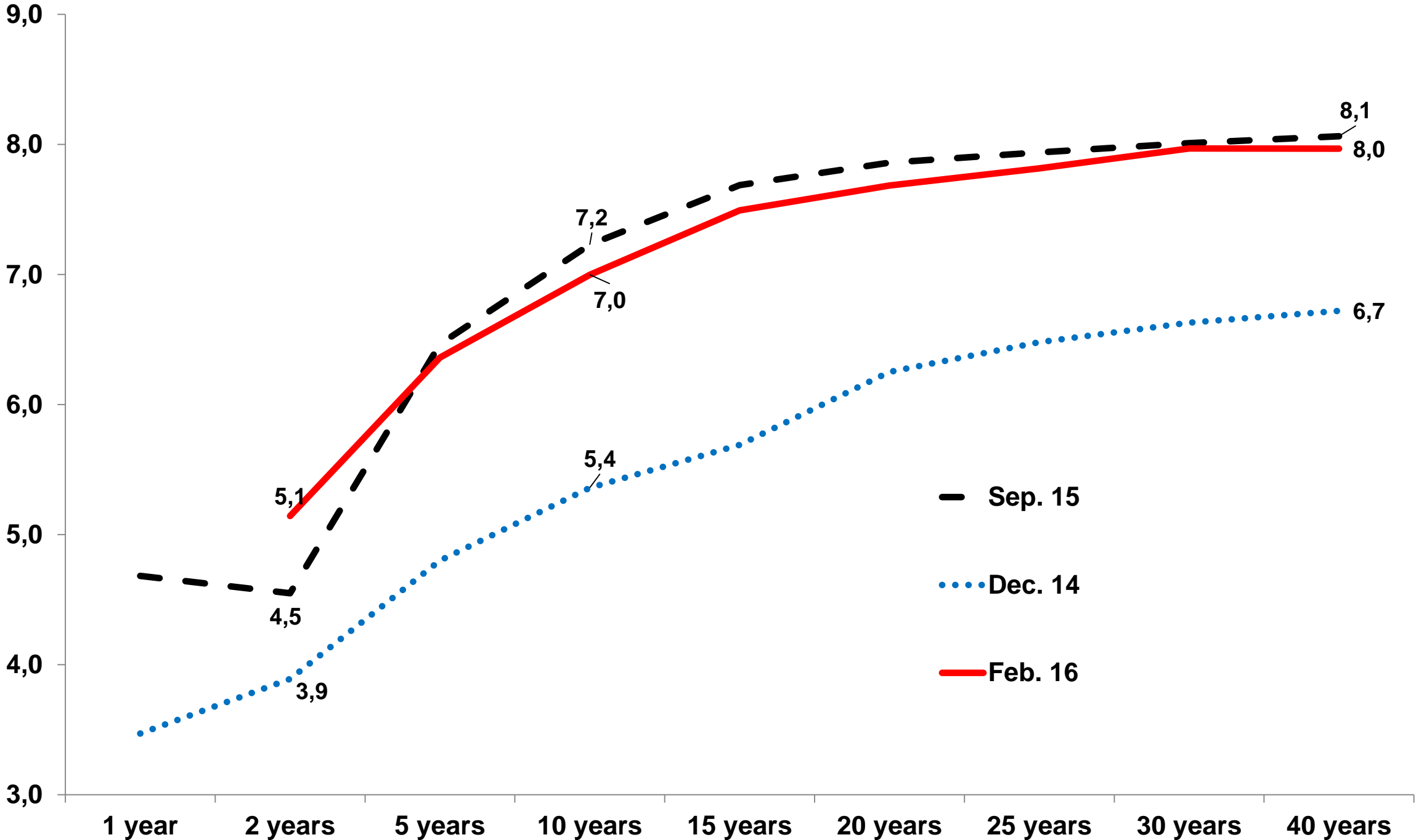
*Up to December 31, 2015

BCRP balance sheet

December 2015
(US\$ billion)



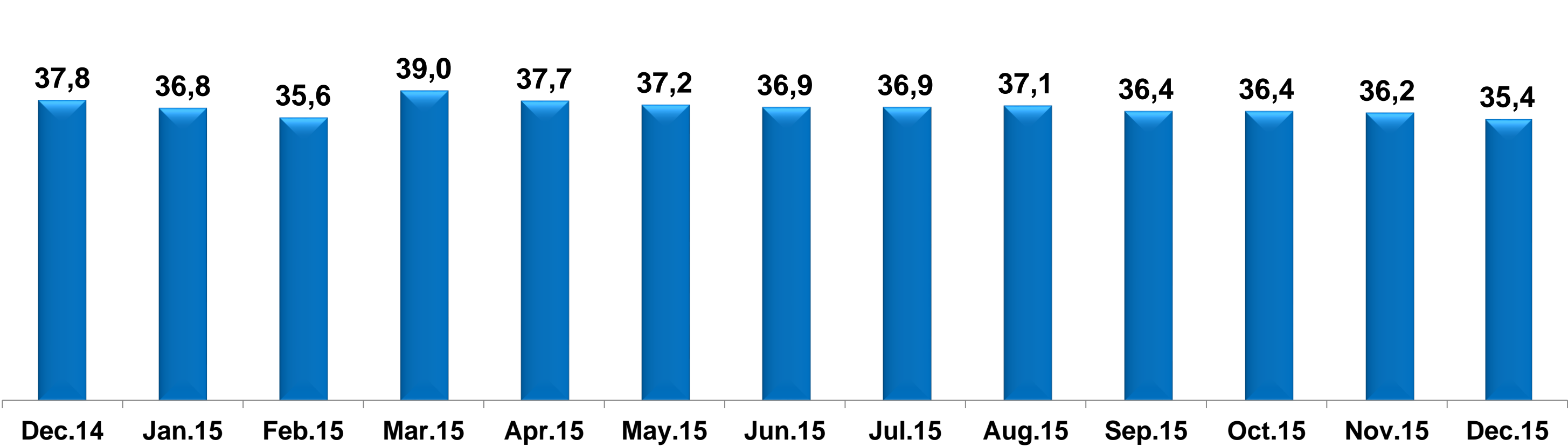
Peru: Yield curve for the Treasury Bonds in Local Currency



Source: Bloomberg

Non-resident Treasury bond holdings remained stable since the end of 2014

Non-resident Treasury Bond holdings (%)



Current holdings:
US\$ 5,0 billion

Ratio Non-resident
Treasury Bond
Holding regard
Public Deposits:
16,7 %

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Concluding Remarks

- Exogenous factors have been affecting the economic cycle; however, the Peruvian economy maintains strong fundamentals.
- Because of higher inflation expectations, the BCRP started raising its monetary policy rate to 4,25 percent in February.
- It is necessary to deepen structural measures to strengthen the recovery of potential growth.



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