



BANCO CENTRAL DE RESERVA DEL PERÚ

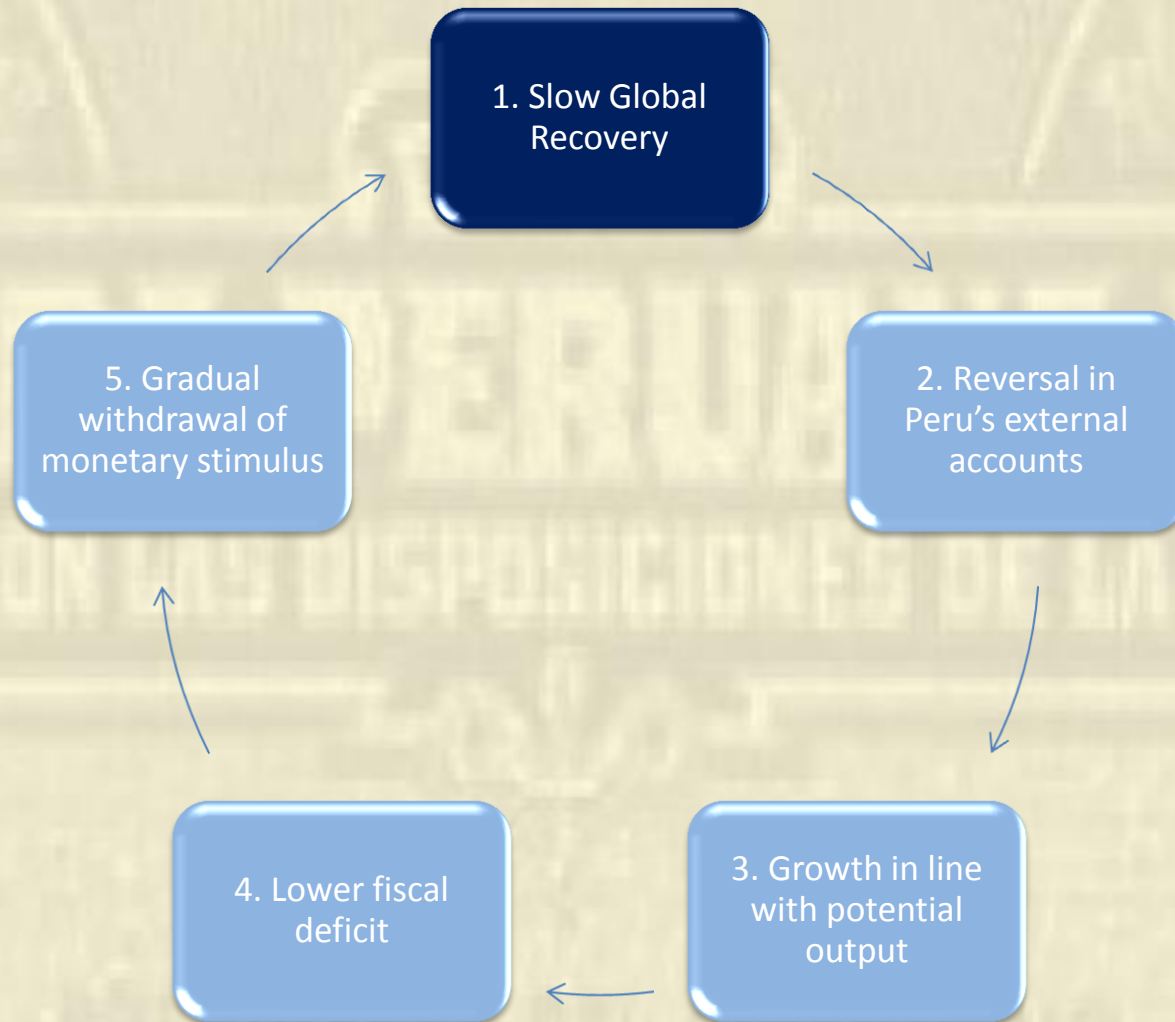


Peru's Fundamentals and Economic Outlook

Julio Velarde
Governor
Central Bank of Peru

October 2016

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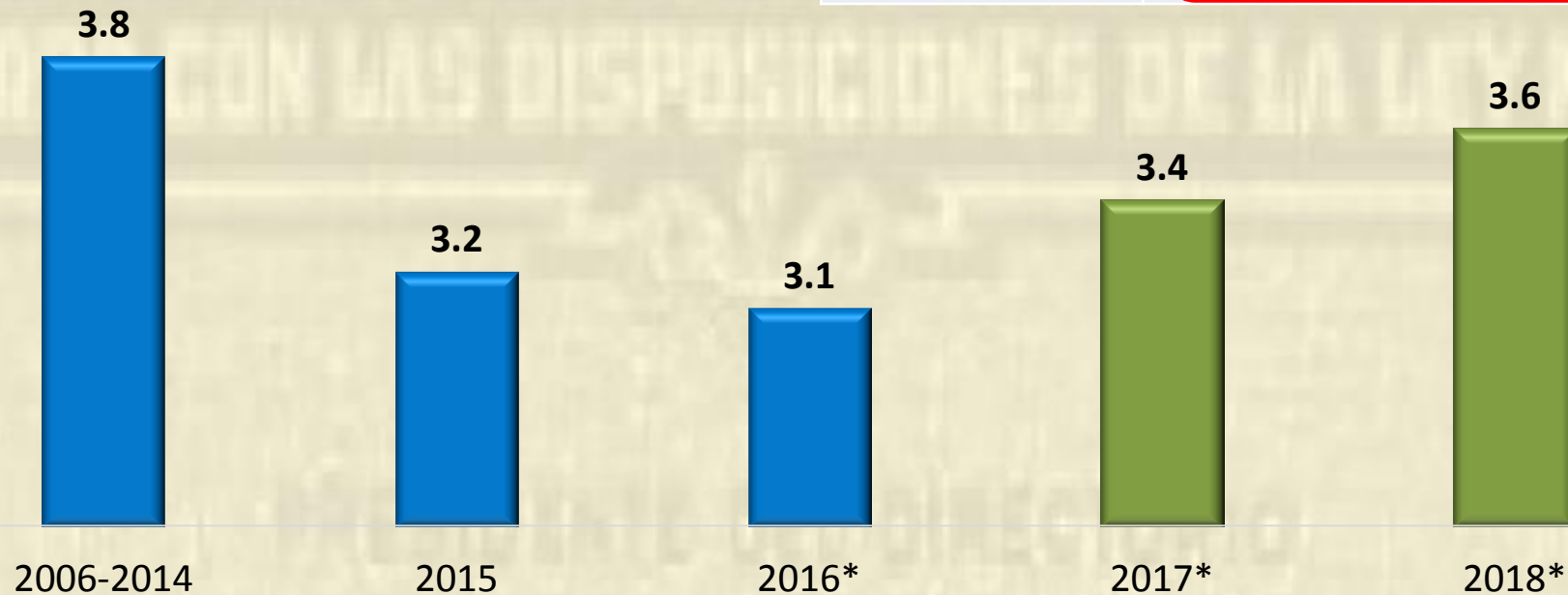


Gradual recovery of global growth with financial risks associated with expected tightening of U.S. monetary policy.

World Output

	2015	2016*	2017*	2018*
World	3,2	3,1	3,4	3,6
Advanced Economies	2,1	1,6	1,8	1,8
Emerging Markets and developing countries	4,0	4,2	4,6	4,8
Latin America and the Caribbean	0,0	-0,6	1,6	2,1

GLOBAL GDP (Annual % Change)



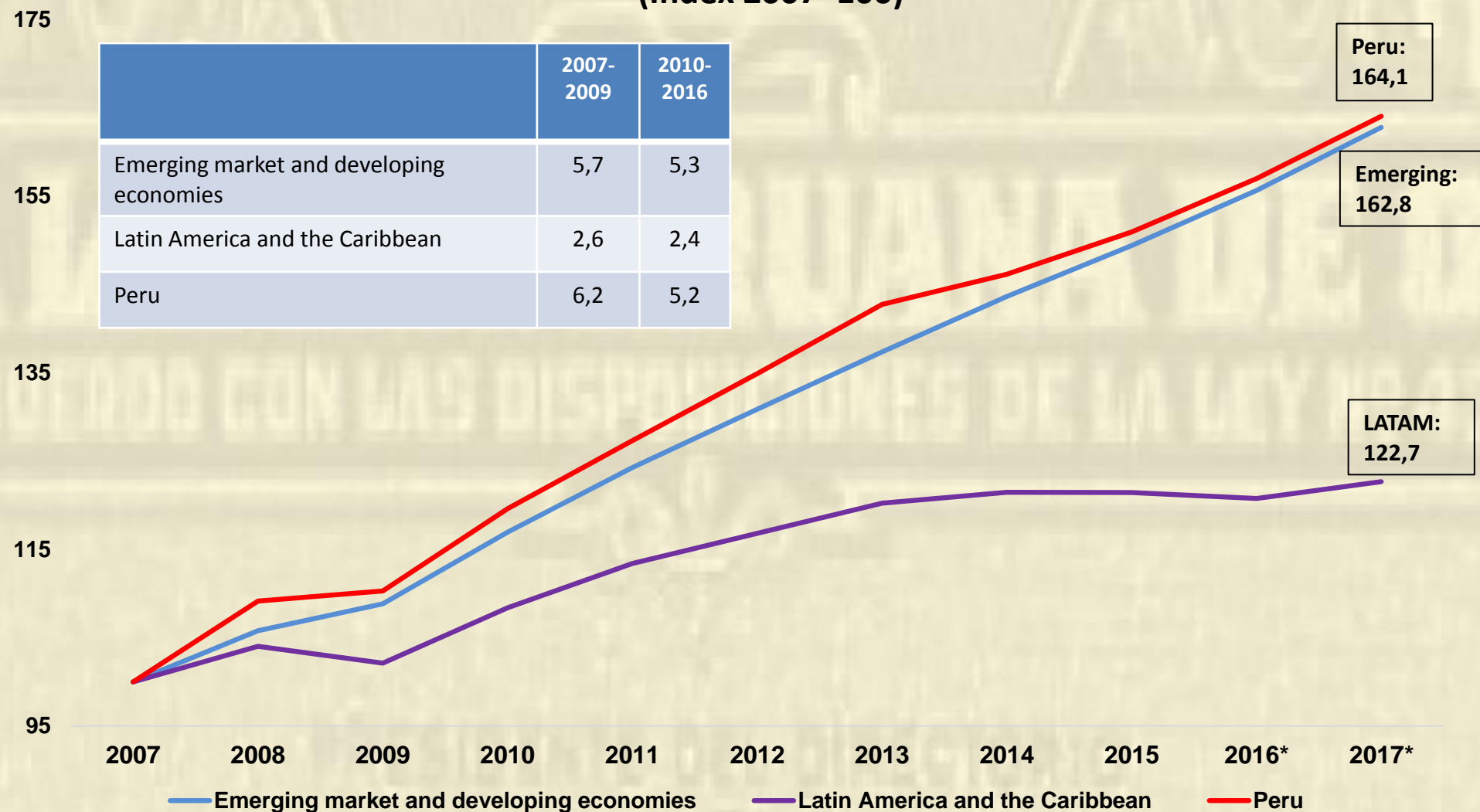
Source: World Economics Outlook, oct 2016, IMF and Peru's Inflation Report, Sep. 2016

* Forecast.

Peru was the country with the fastest recovery and highest growth among the main emerging market economies

**GDP of selected economies
(Index 2007=100)**

	2007-2009	2010-2016
Emerging market and developing economies	5,7	5,3
Latin America and the Caribbean	2,6	2,4
Peru	6,2	5,2

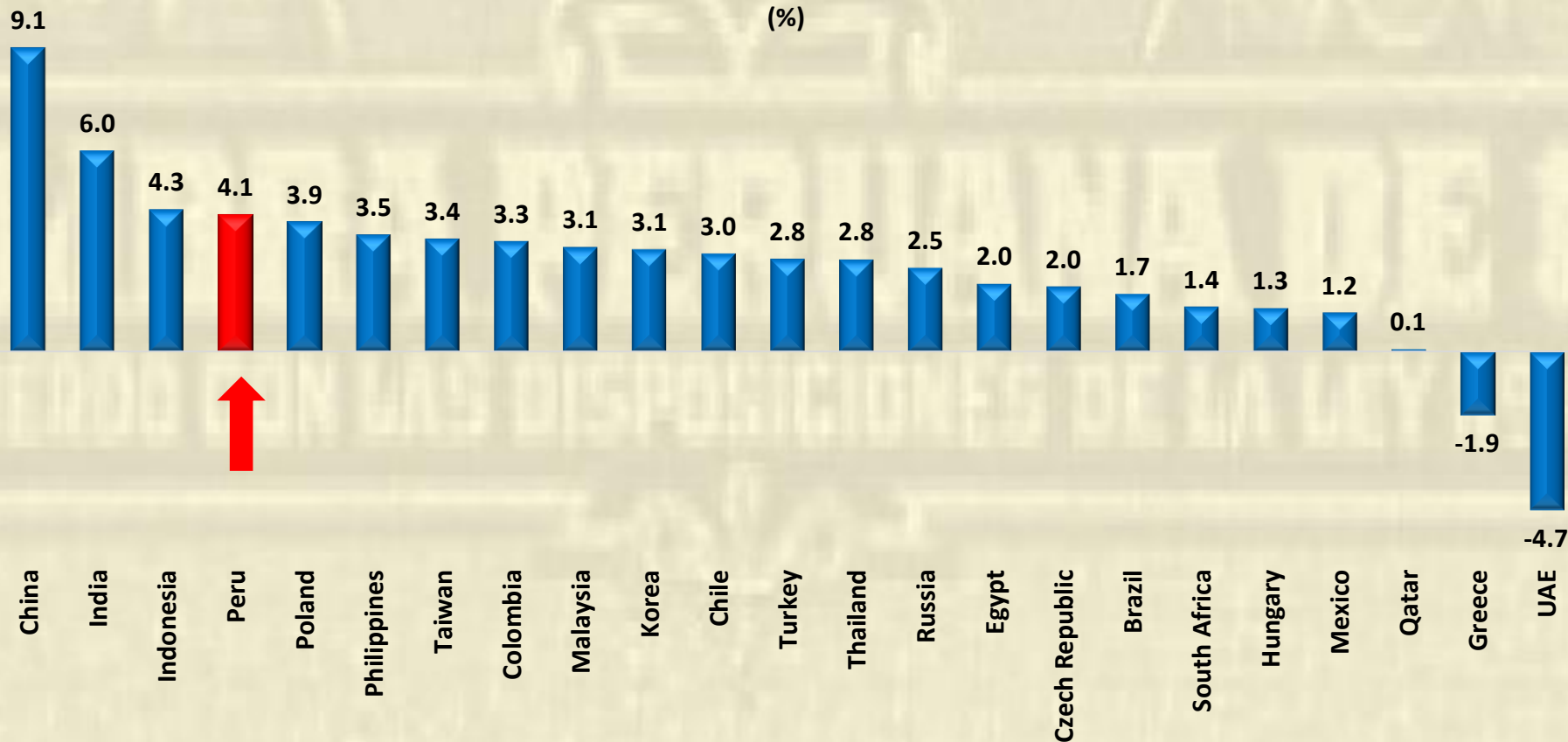


Source: World Economics Outlook, oct 2016, IMF and Peru's Inflation Report, Sep. 2016

* Forecast.

In the last 10 years, Peru's growth ranks fourth among emerging economies

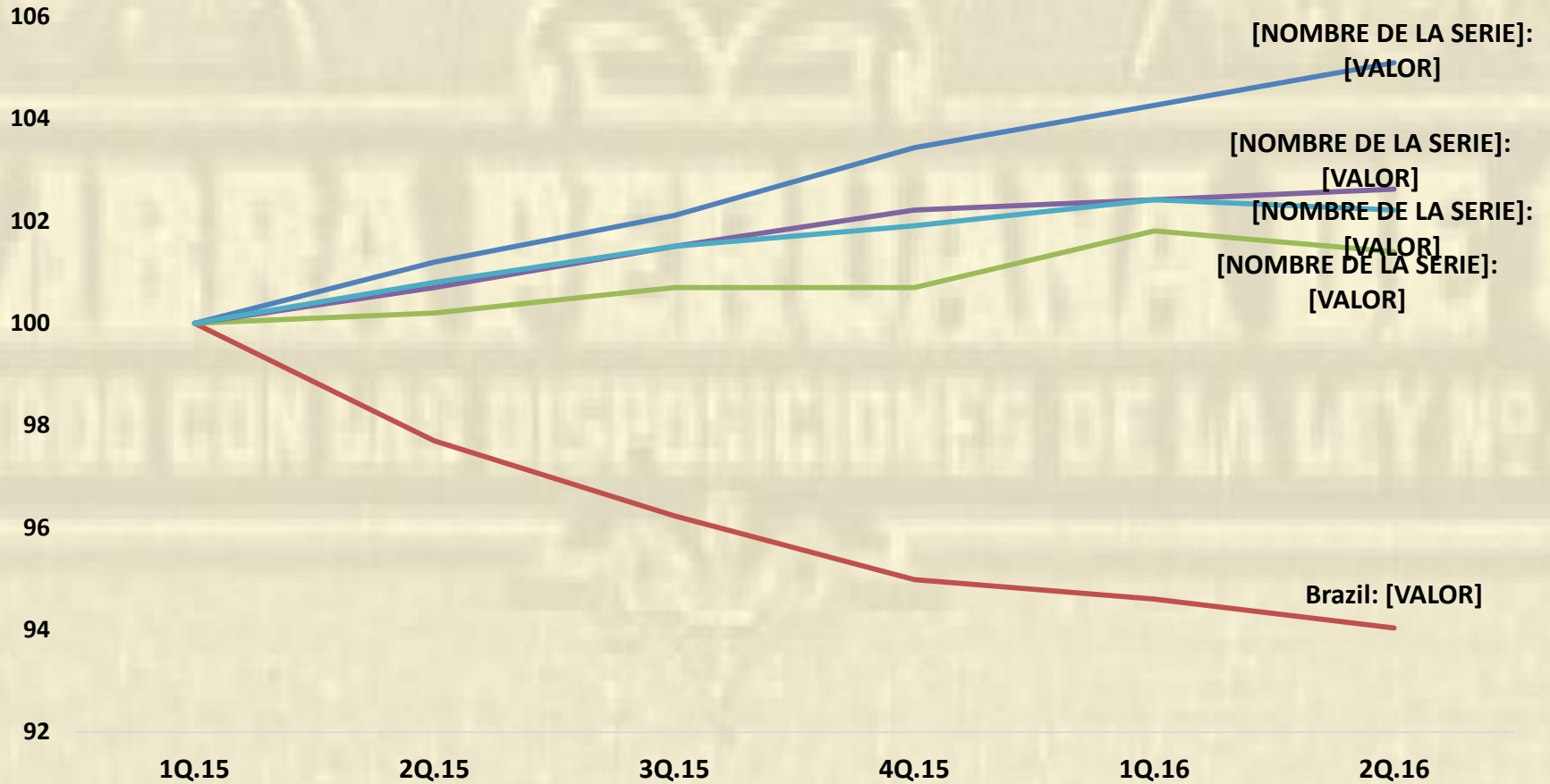
Average GDP per capita growth: 2005-2015 ^{1/}
(%)



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

Peru is the country with the highest growth among the main Latin American countries.

Latin America: Evolution of GDP (Seasonally adjusted data, 1Q.15=100)



Source: Peru's Inflation Report, Sep. 2016

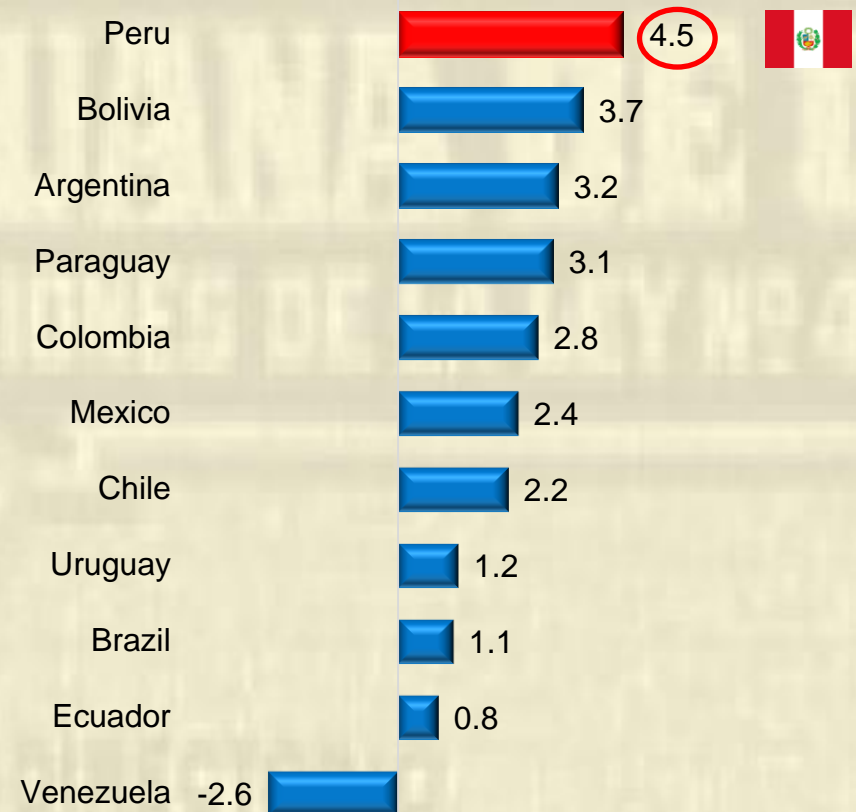
Economic activity in the region is expected to recover next year in a context of stable commodity prices. Peru is likely to achieve the highest growth in 2016 and 2017.

Latin America: GDP Growth (% change)

2016

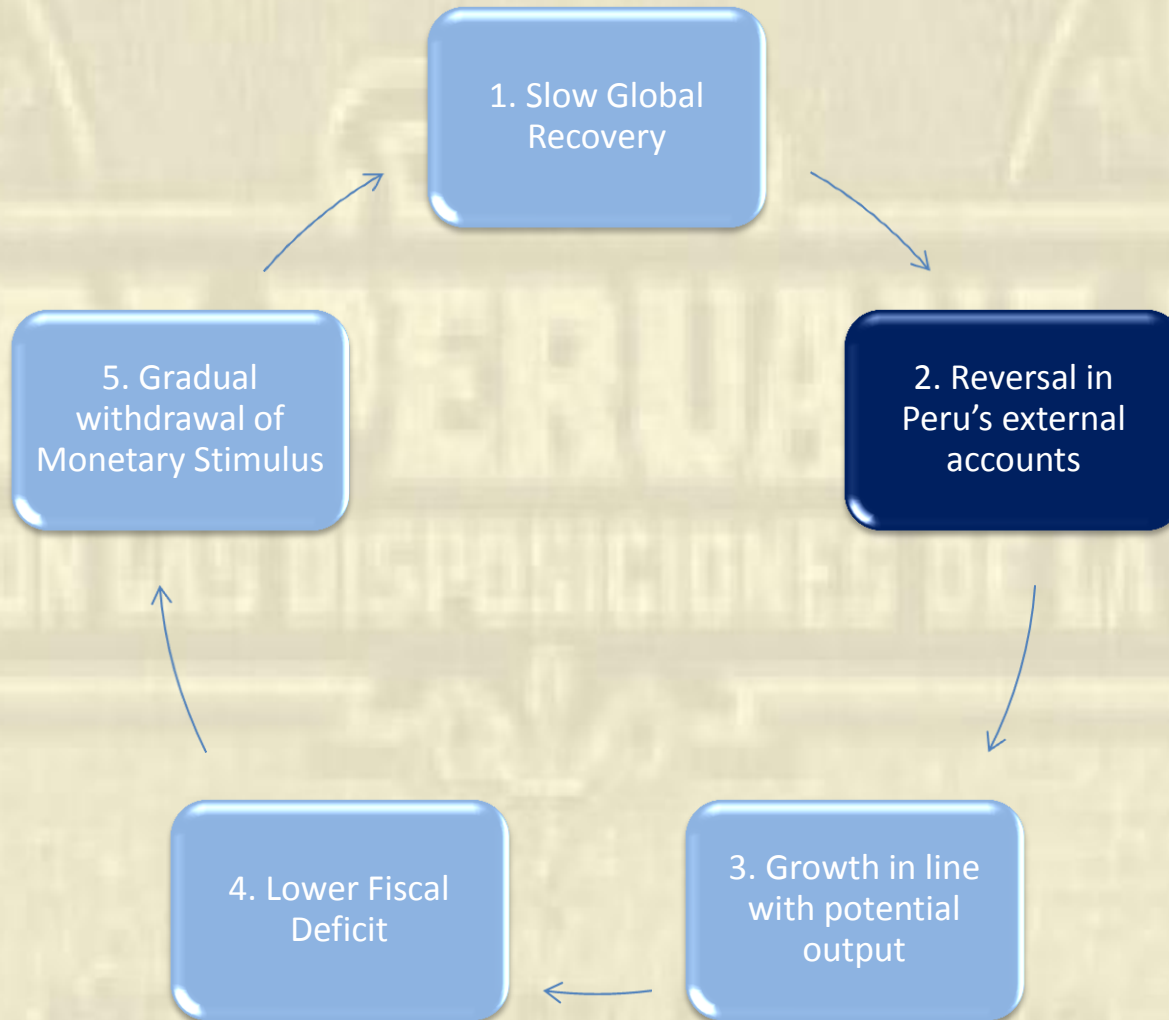


2017



Source: Latin America Consensus Forecast (September, 2016) and BCRP (Peru).

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Commodity prices began to fall in 2011. However, the stabilization of export prices is expected to have a positive impact on Peru's external accounts from 2017.

**TERMS OF TRADE:
Positive Variation Episodes
(YoY%)**

Episode	Years
1954-1956	3
1962-1966	5
2004-2007	4
2010-2011	2

**TERMS OF TRADE:
Negative Variation Episodes
(YoY%)**

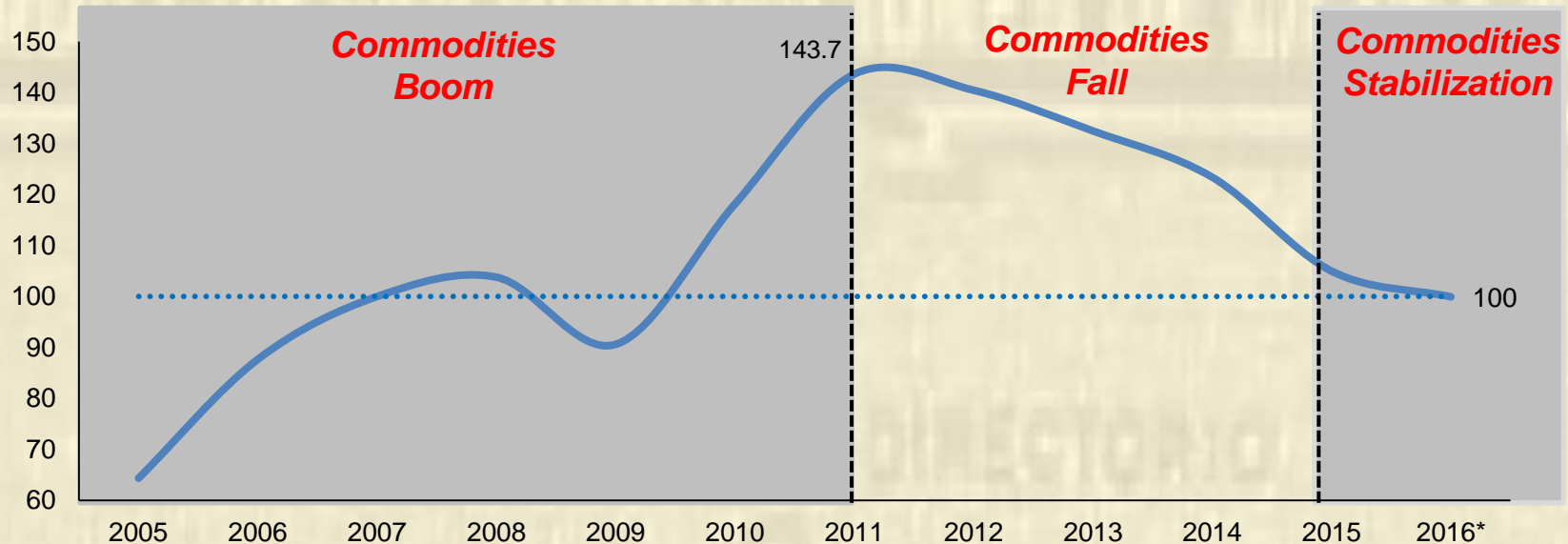
Episode	Years
1975-1978	4
1984-1987	4
1989-1993	5
1998-2001	4
2012-2016*	5

**TERMS OF TRADE
(YoY%)**

	2011-2015	2016*
Terms of trade	-2,6	-2,2
Export prices	-2,3	-4,8
Import prices	0,2	-2,6

* Forecast.

**Export price index
(annual average, 2007= 100)**



* Forecast

Export volumes will be boosted by higher cooper production

PERU: CASH COST OF MAIN MINING UNITS IN OPERATION

Company	2015
COPPER	US\$/lb
Toromocho	0,684
Constancia	1,150
Antamina	0,900
Las Bambas	1,100
Antapaccay	0,800
Southern	1,120
Cerro Verde	1,150
Quellaveco	1,000

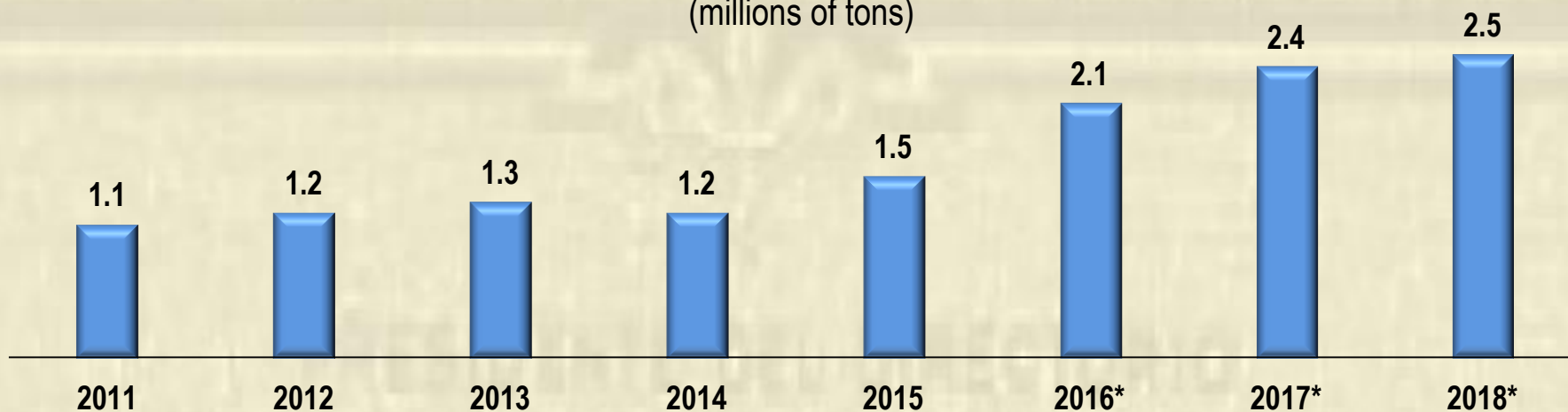
Source: Companies' reports

CASH COST OF MAIN MINING UNITS IN OPERATION AND DEVELOPMENT

Company	Country	2015
COPPER		US\$/lb
Codelco	Chile	1,4
Yamana Gold (2016 IIQ)	Canada	1,8

Source: Companies' Reports

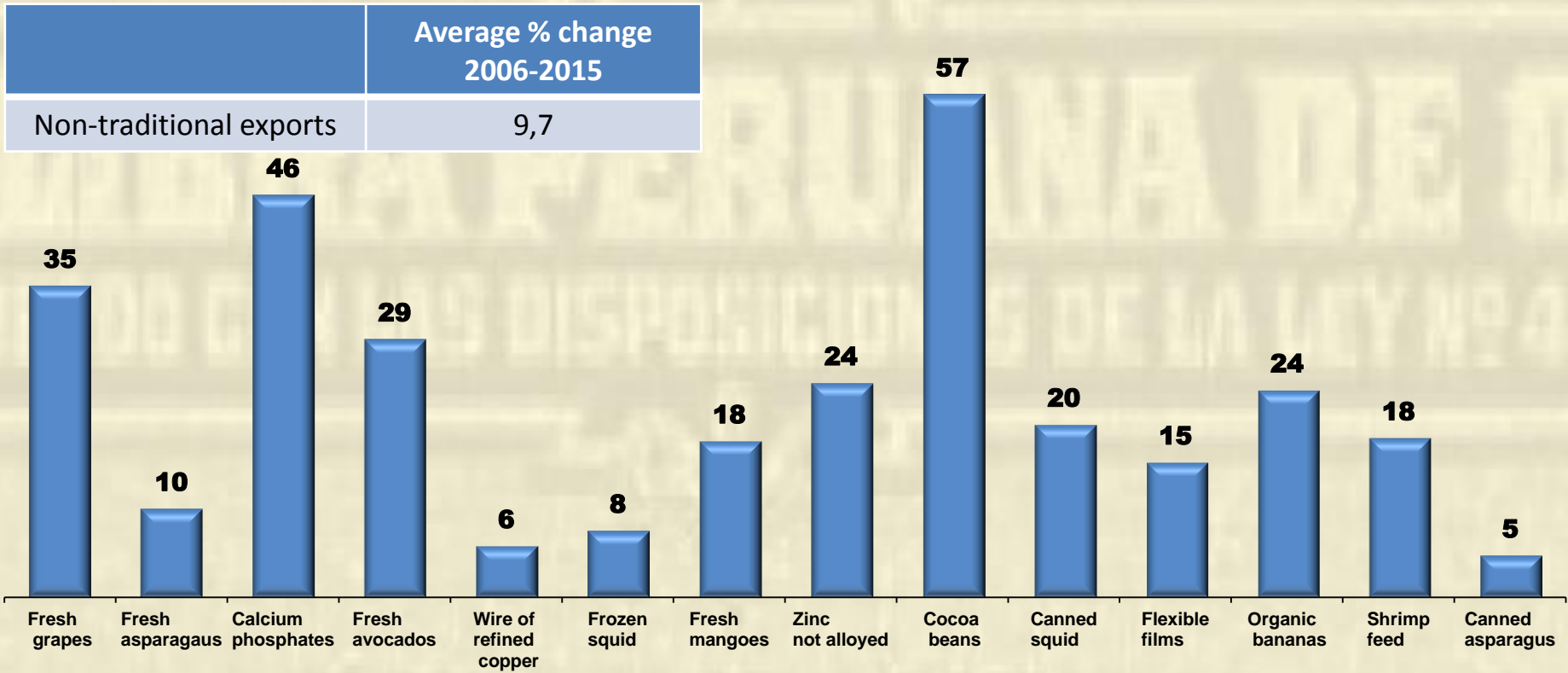
COPPER PRODUCTION (millions of tons)



* Forecast

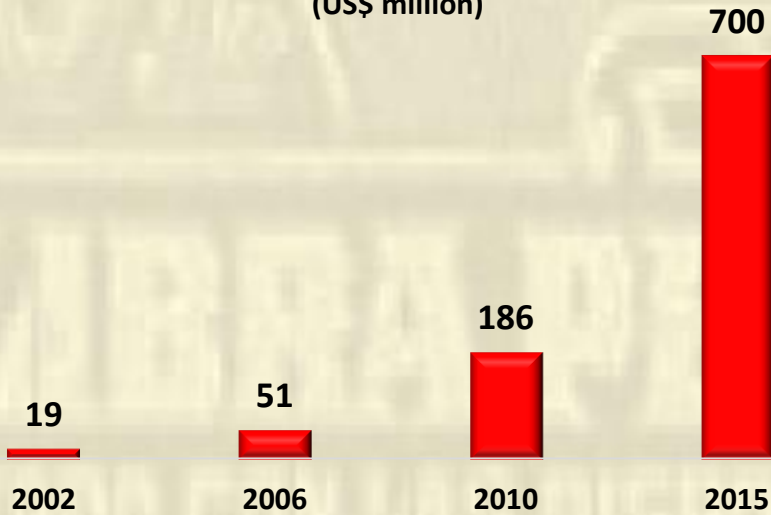
Agricultural exports have increased considerably, at average annual rate of 9,7 percent.

PERU: NON-TRADITIONAL EXPORTS (Average % change 2006-2015)

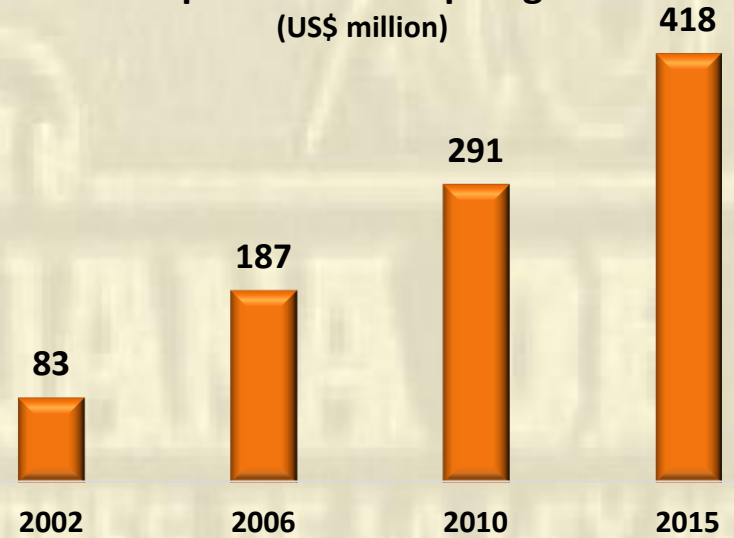


Since 2002, agricultural exports have increased by 17,9 percent in average.

Exports: Grapes
(US\$ million)



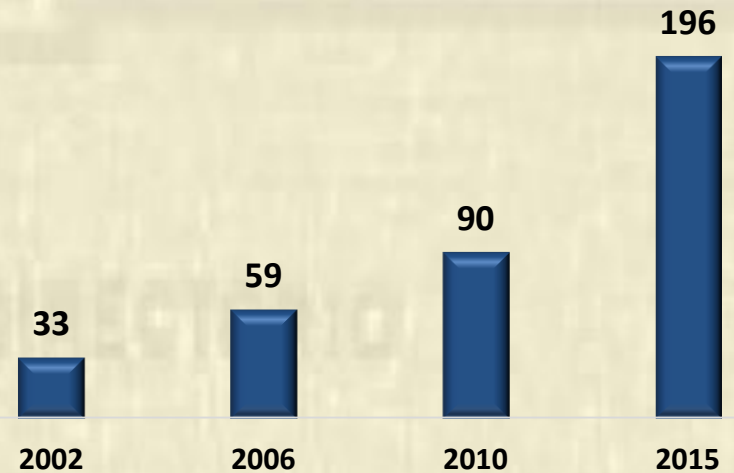
Exports: Fresh Asparagus
(US\$ million)



Exports: Avocados
(US\$ million)



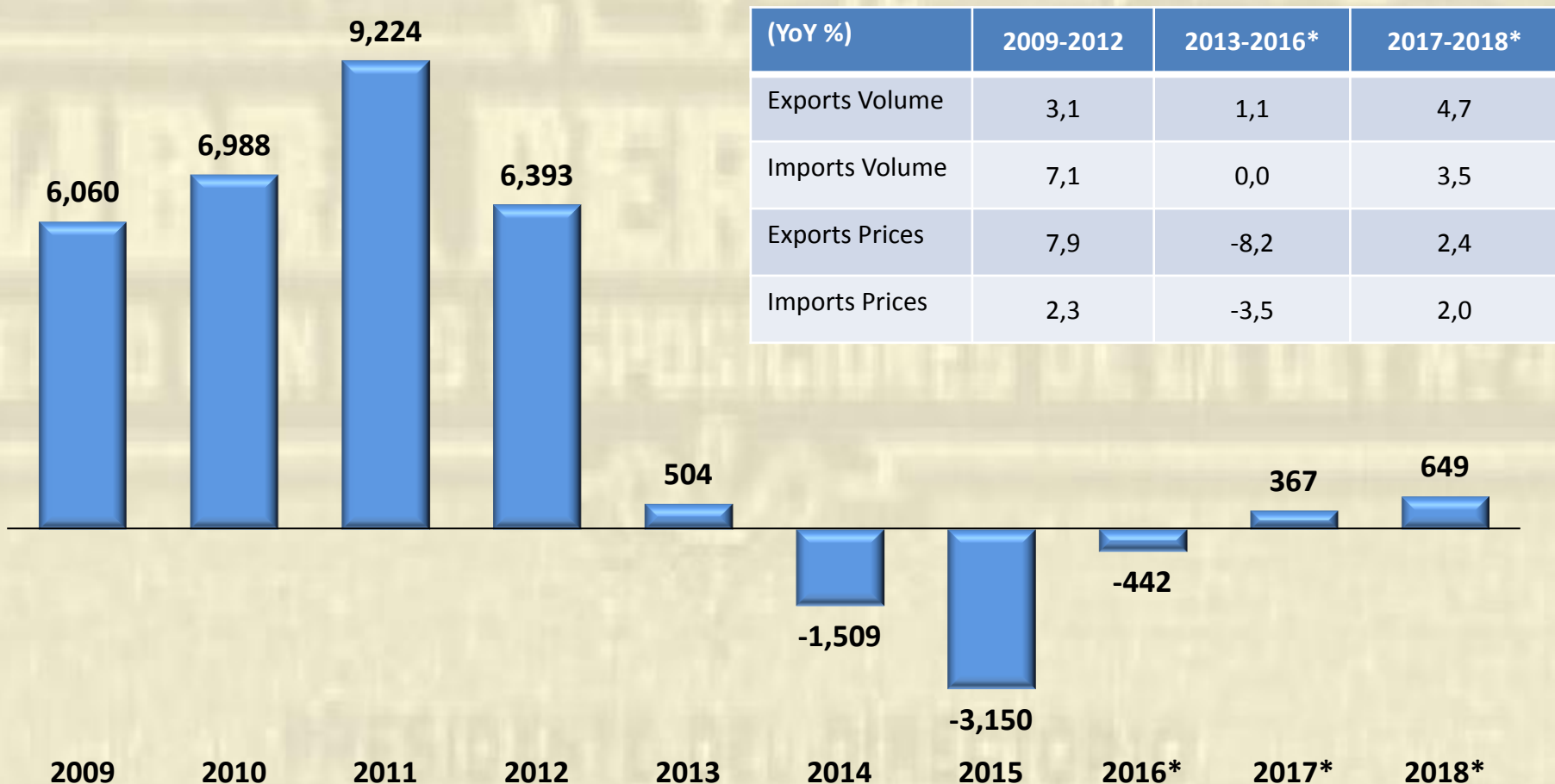
Exports: Mangos
(US\$ million)



Reversal of trade deficit since 2017.

Trade Balance

(US\$ Millions)

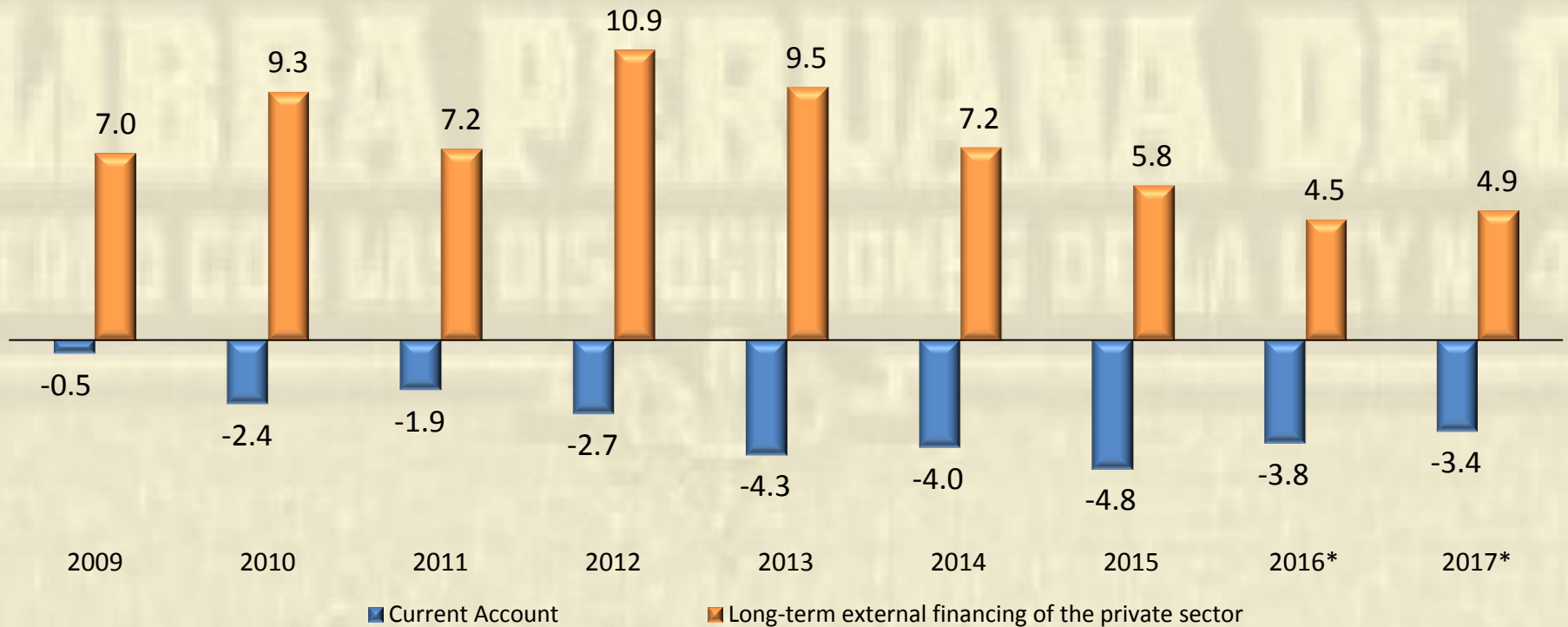


(YoY %)	2009-2012	2013-2016*	2017-2018*
Exports Volume	3,1	1,1	4,7
Imports Volume	7,1	0,0	3,5
Exports Prices	7,9	-8,2	2,4
Imports Prices	2,3	-3,5	2,0

* Forecast

The reduction in the current account deficit strengthens the long-term sustainability of the balance of payments.

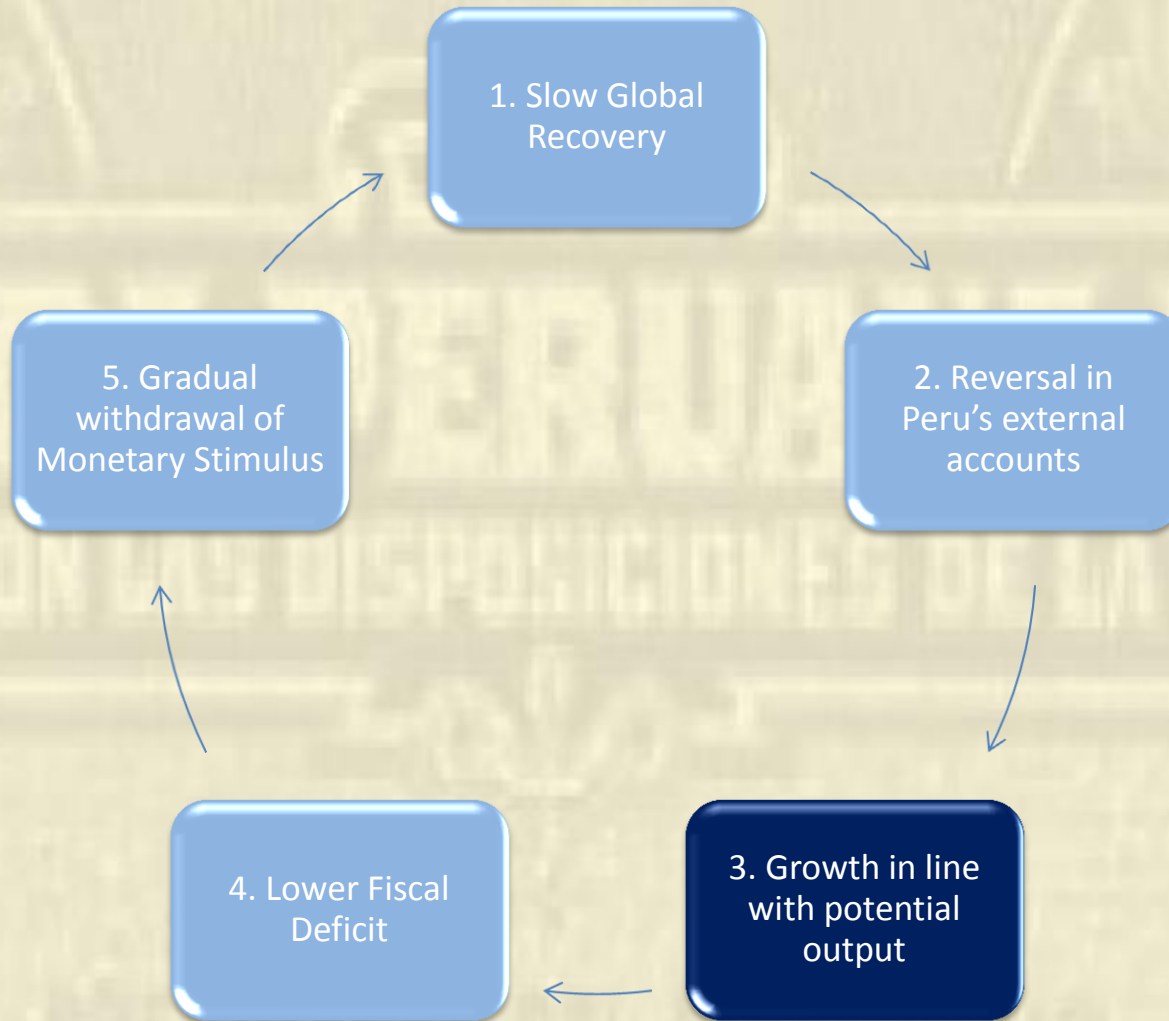
**CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR:
2009-2017^{1/}
(%GDP)**



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

*Forecast

Content



The growth forecast for 2017 (4,5%) is based mainly on the performance of the primary sectors.

GDP BY PRODUCTION SECTOR				
(Real % change)				
	Average 2006-2014	2015	2016*	2017*
Agriculture and livestock	4,3	3,3	1,4	3,8
Fishing	-1,9	15,9	-2,4	24,8
Mining and hydrocarbons	2,6	9,5	14,7	8,2
Metalic mining	1,0	15,5	19,0	8,7
Hydrocarbons	6,7	-11,5	-4,6	5,9
Manufacturing	4,5	-1,7	-1,6	3,2
Based on raw materials	-0,3	1,7	-0,1	7,7
Non-primary industries	6,2	-2,7	-2,0	2,0
Electricity and water	6,4	6,1	7,9	5,5
Construction	11,3	-5,8	-0,8	4,0
Commerce and services	7,2	4,1	3,7	3,8
GDP	6,1	3,3	4,0	4,5
Memo:				
Primary GDP	2,4	6,8	8,9	7,4
Non-primary GDP	7,3	2,4	2,6	3,7

* Forecast.

The growth forecast for 2017 is 4.5%. On the expenditure side, this is expected to be driven mainly by private consumption and investment.

GDP AND DOMESTIC DEMAND				
(Real % change)				
	Average 2006-2014	2015	2016*	2017*
<u>I. Domestic demand</u>	<u>8,0</u>	<u>2,9</u>	<u>1,8</u>	<u>4,0</u>
1. Private expenditure	7,8	2,7	0,7	4,1
Consumption	6,3	3,4	3,5	3,8
Private Fixed investment	12,1	-4,5	-4,3	5,0
Change of inventories**	0,9	1,6	0,9	0,9
2. Public expenditure	8,8	4,2	7,0	3,4
Consumption	7,2	9,5	5,7	3,0
Investment	13,3	-7,5	10,3	4,5
<u>II. Net external demand</u>				
1. Exports	2,8	3,5	6,9	5,5
2. Imports	9,5	2,1	-1,7	3,6
<u>III. GDP</u>	<u>6,1</u>	<u>3,3</u>	<u>4,0</u>	<u>4,5</u>

* Forecast.
** % GDP

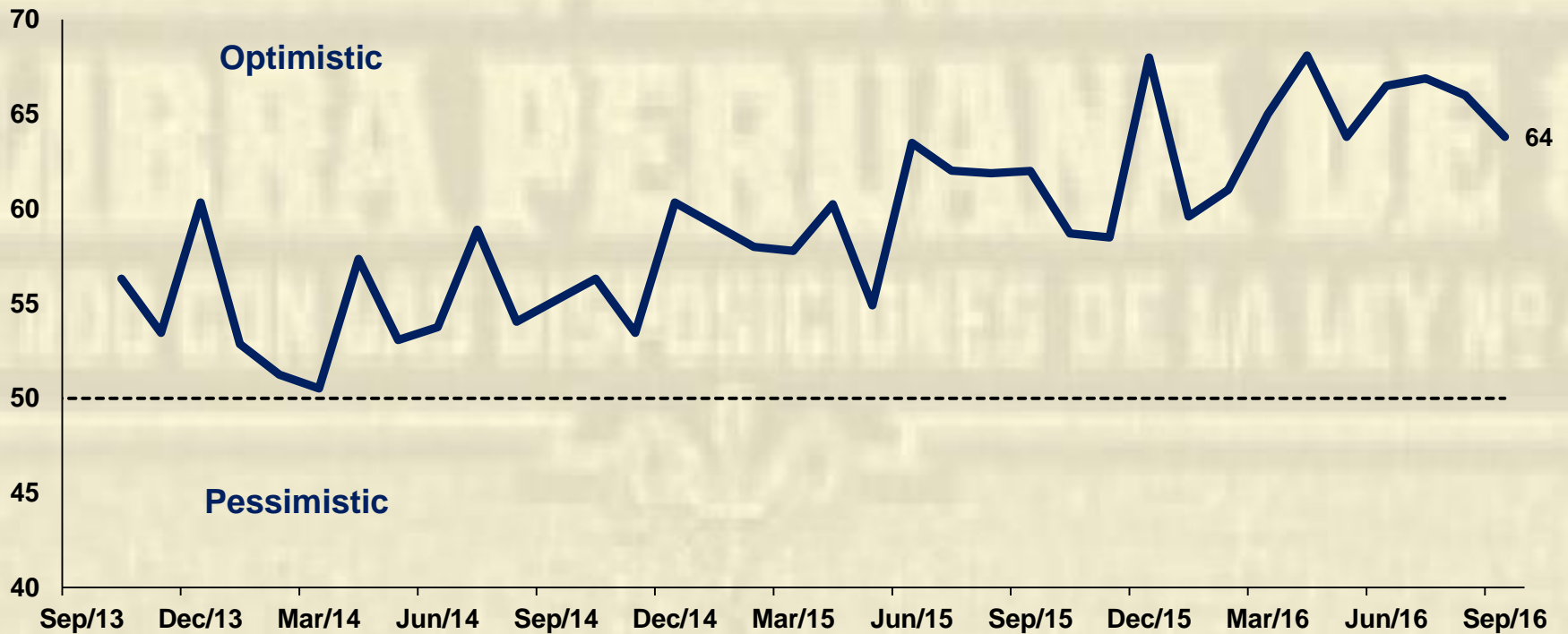
Recovery of private consumption strengthens domestic demand.

Private Consumption
(yoy %)



Consumer optimism high relative to previous years.

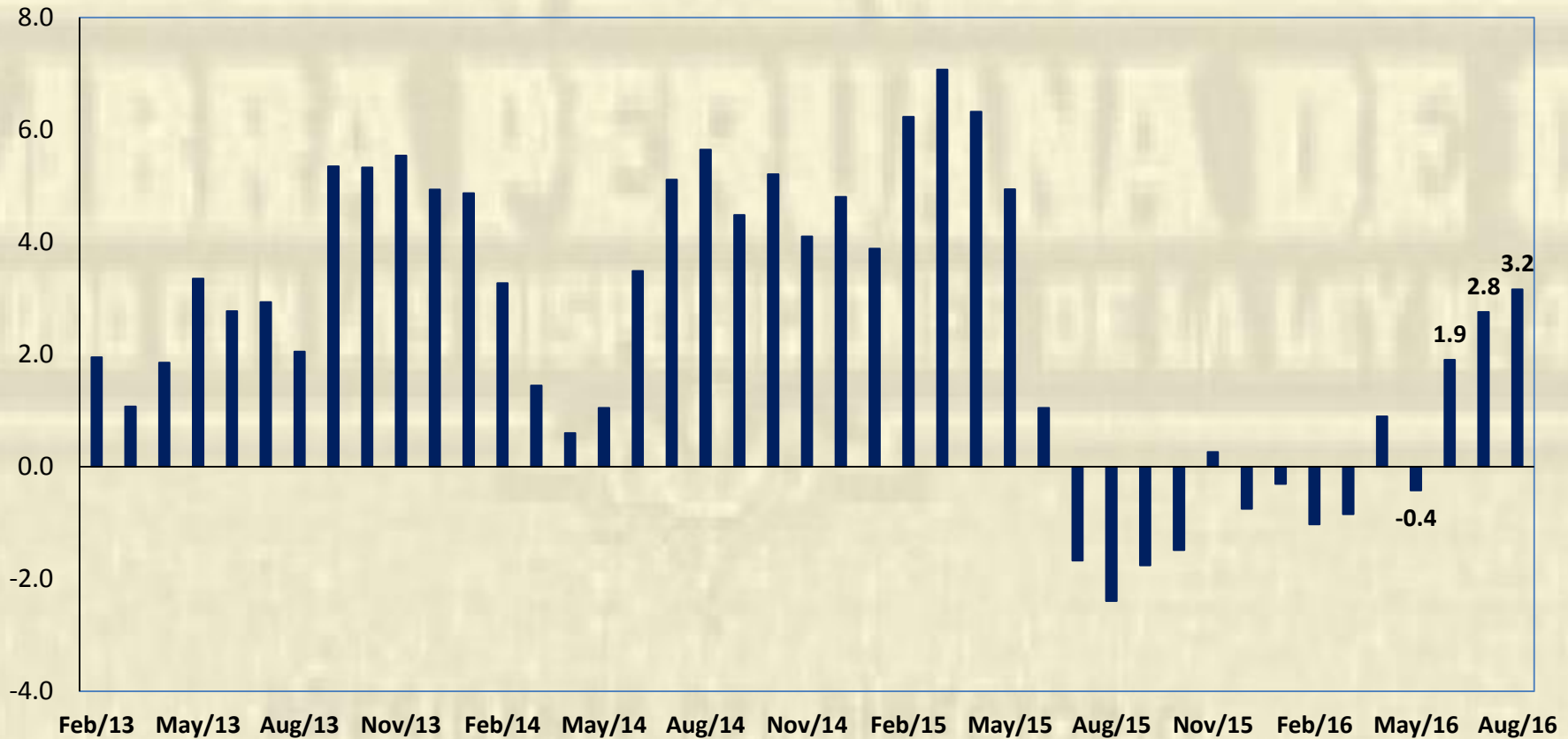
Consumer Confidence Index
Households' economic situation



Source: APOYO

Gradual recovery of household income

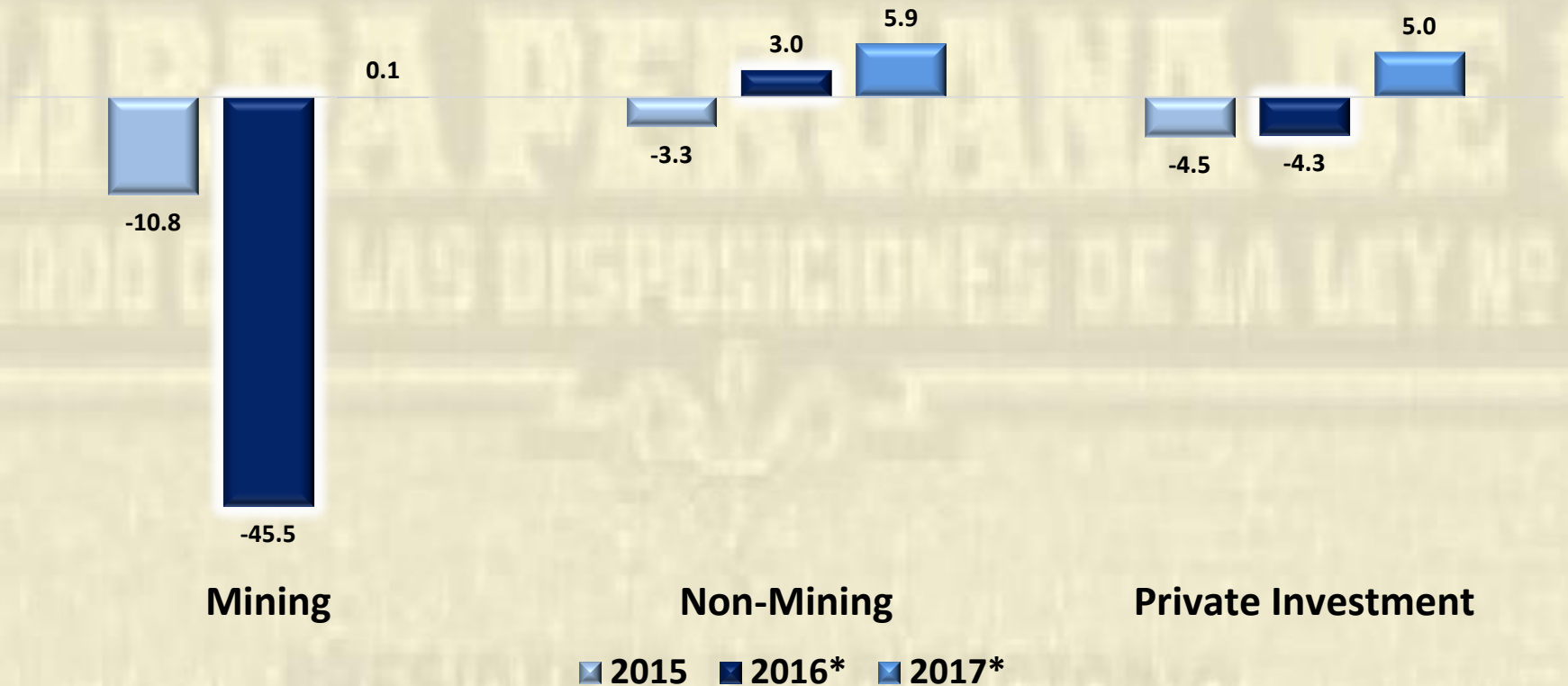
Real income of total employed labor (12-month % change-quarterly moving)



Fall of private investment due to the completion of some mining projects. Non-mining investment is expected to be driven mainly by projects in sectors such as transportation, communications, and electricity.

Private Investment

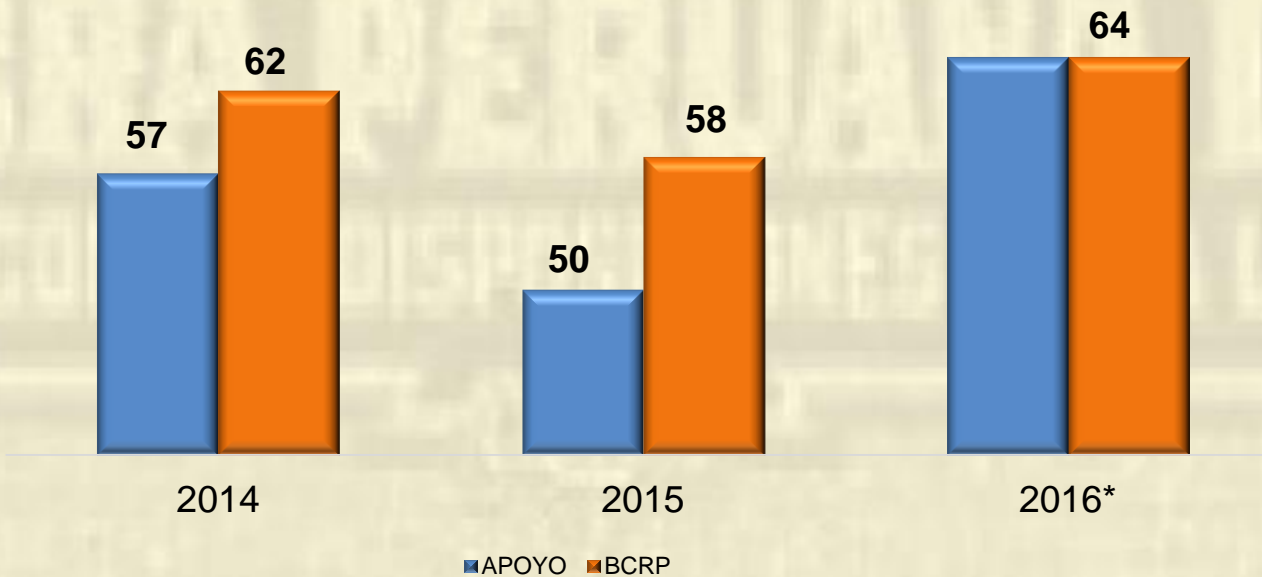
(Real % change)



* Forecast.

The improvement of investor optimism will be key to investment growth.

Investor Confidence Index
(Average)

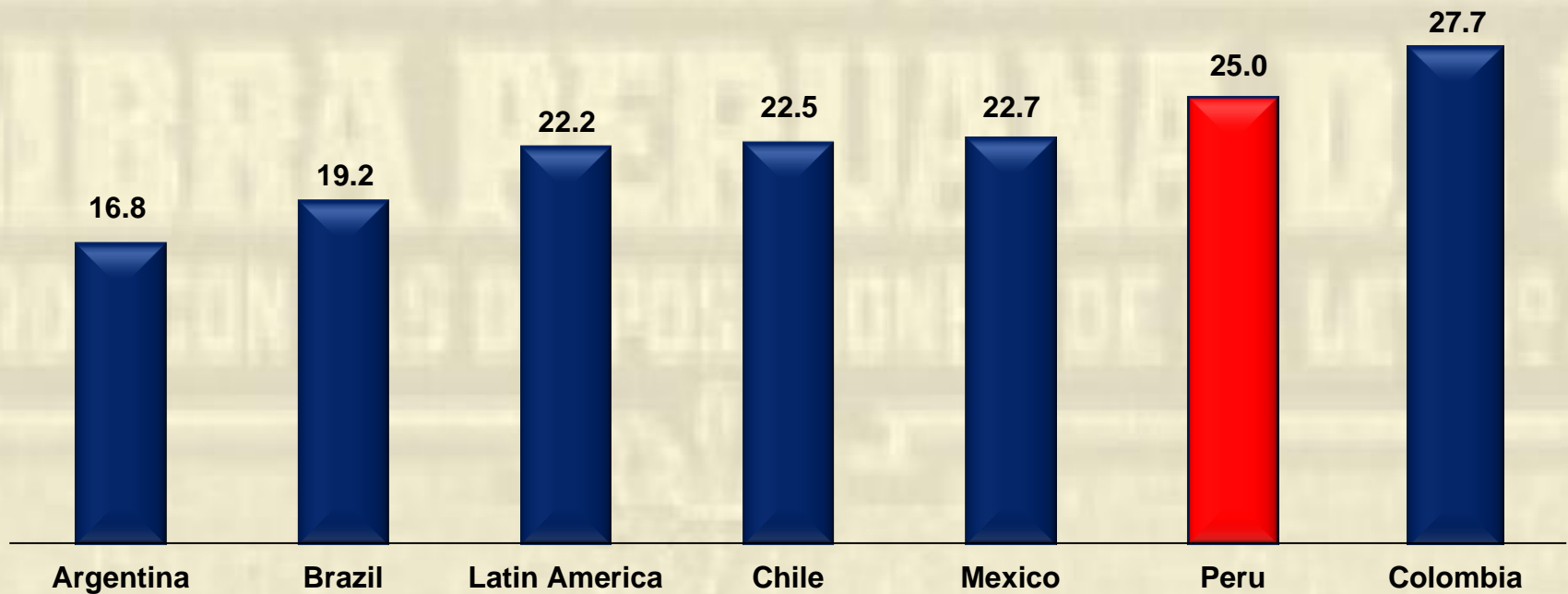


Source: APOYO and BCRP

* August

Peru has one of the highest investment rates in the region.

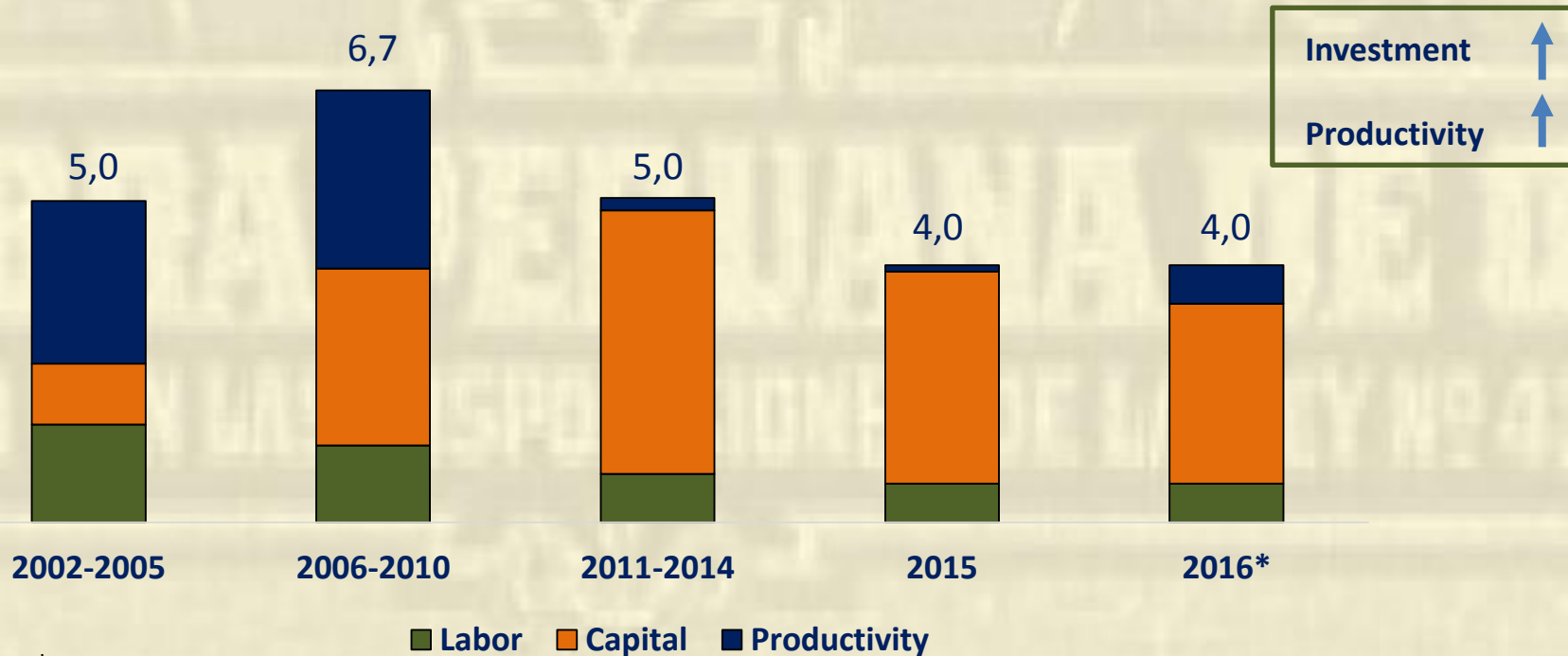
Total investment: 2015
(% of GDP)



Source: FMI - WEO – October 2016

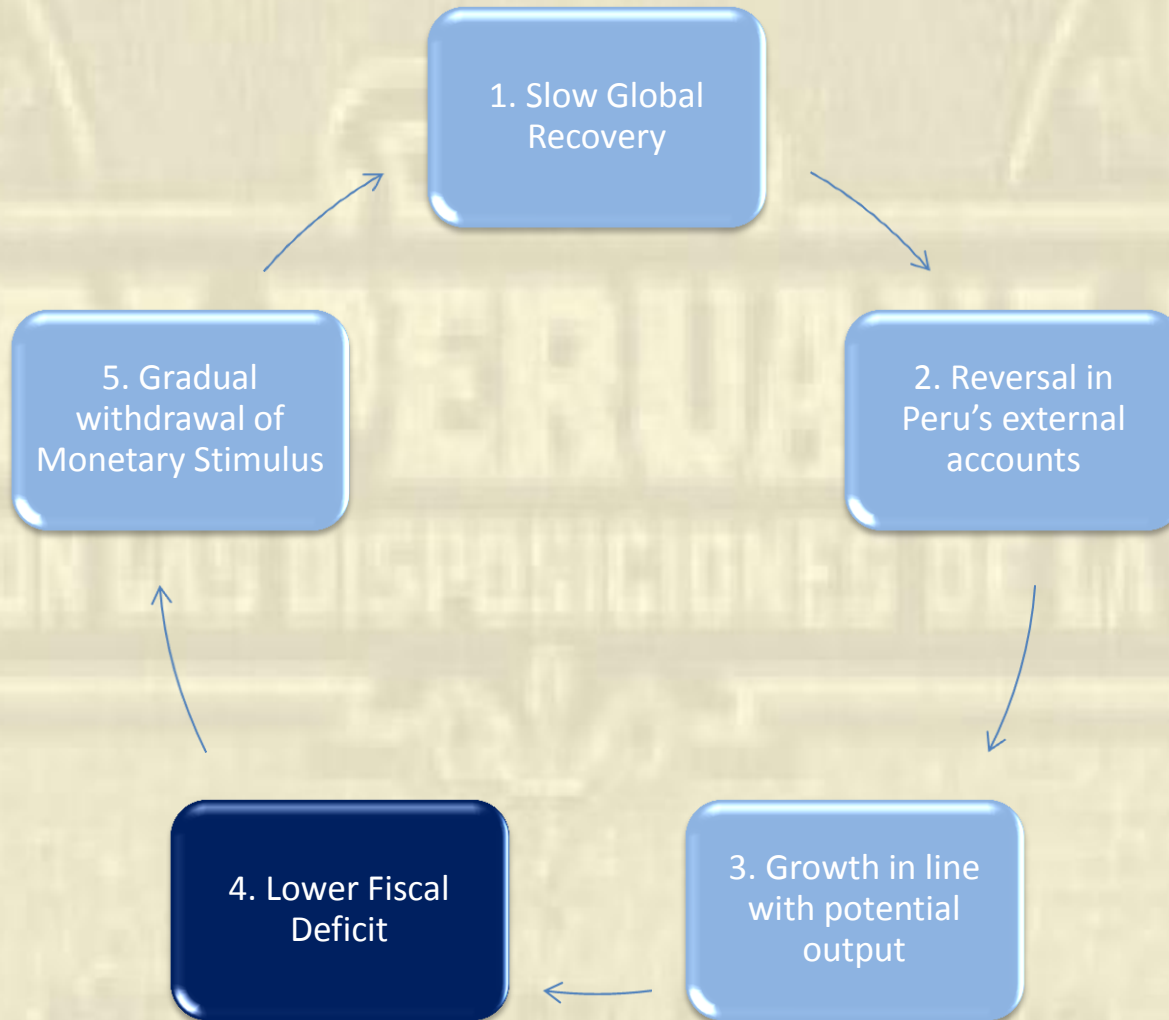
Measures on the supply side are needed to boost economic growth.

Potential GDP growth sources (% change)



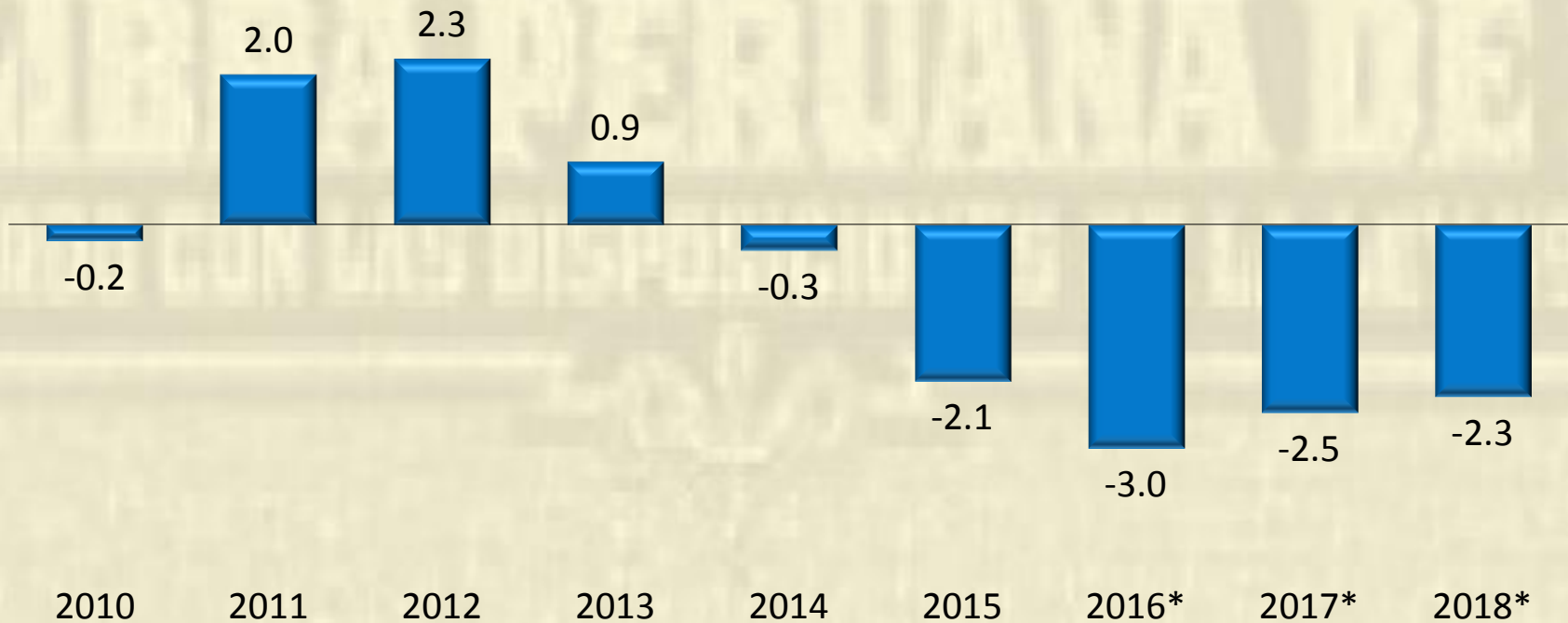
	POTENTIAL GDP	LABOR	CAPITAL	PRODUCTIVITY
2002-2005	5,0	1,5	0,9	2,5
2006-2010	6,7	1,2	2,8	2,8
2011-2014	5,0	0,8	4,1	0,2
2015	4,0	0,6	3,3	0,1
2016*	4,0	0,6	2,8	0,6

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Moderation of the expansionary fiscal stance.

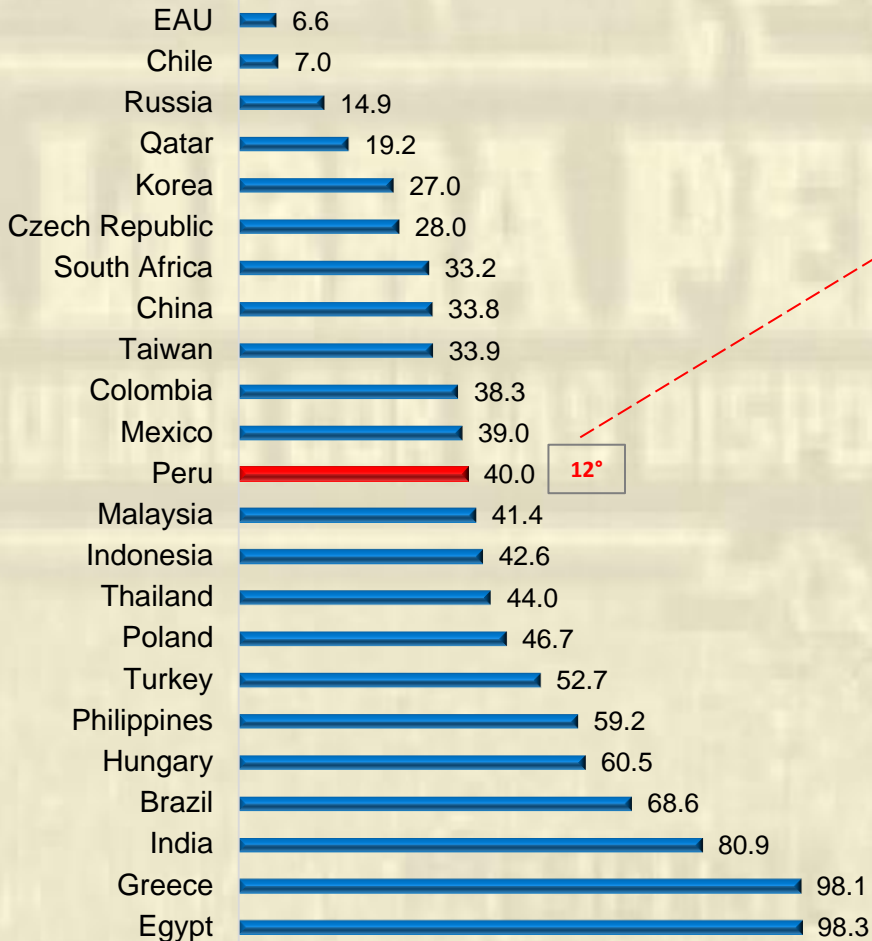
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2010-2018
(% GDP)



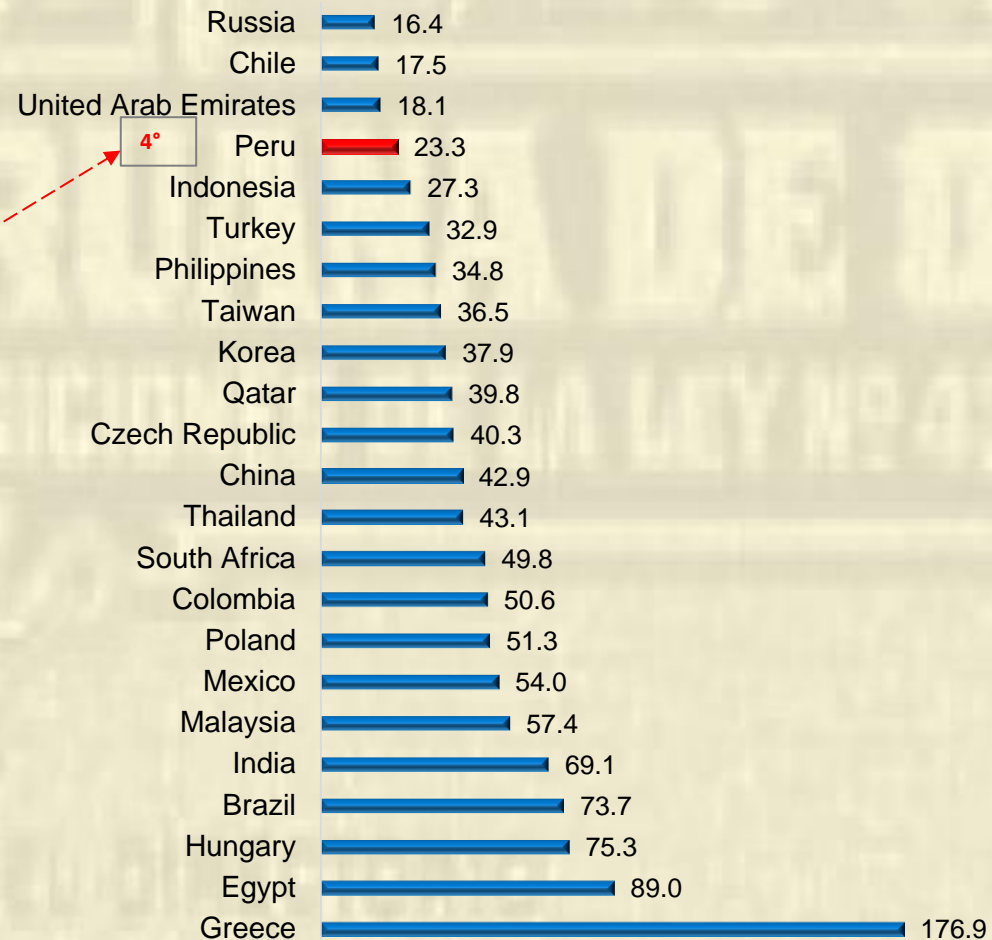
* Forecast

Peru has a relatively low public debt.

Gross Public Debt 2005
(% GDP)

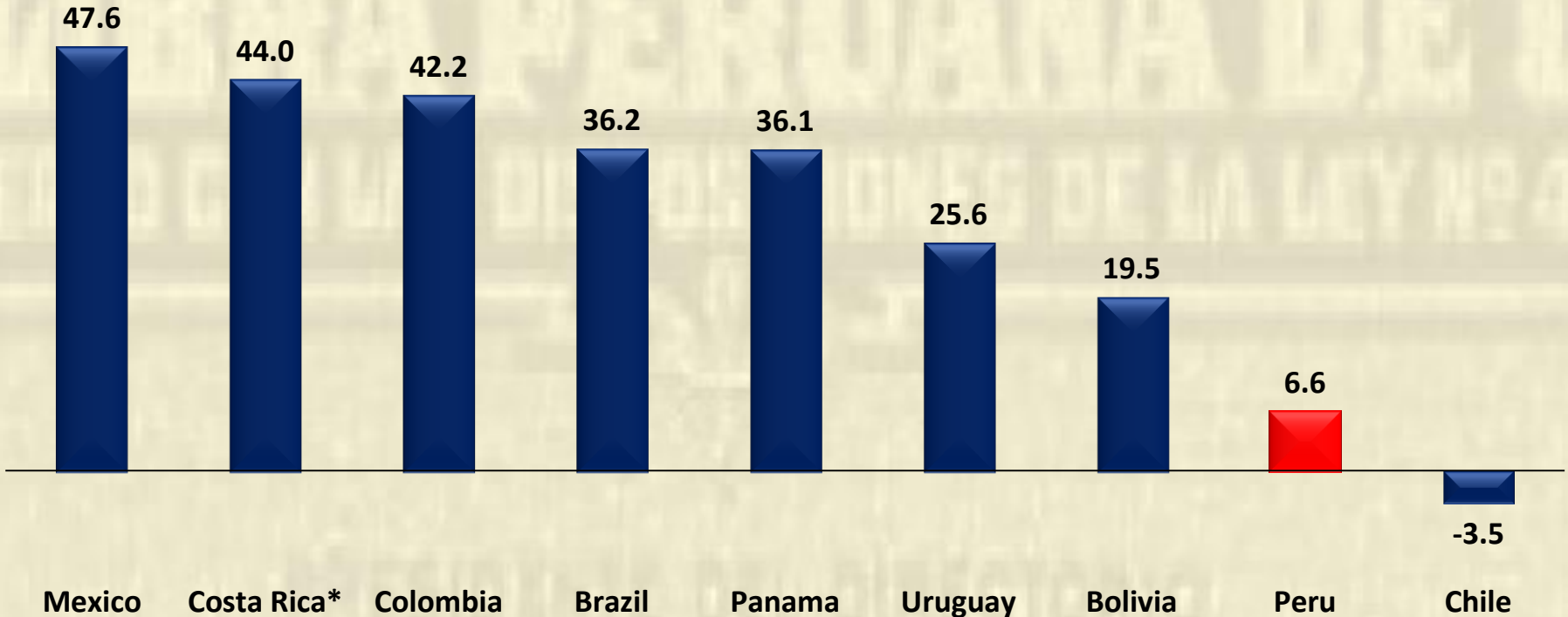


Gross Public Debt 2015
(% GDP)



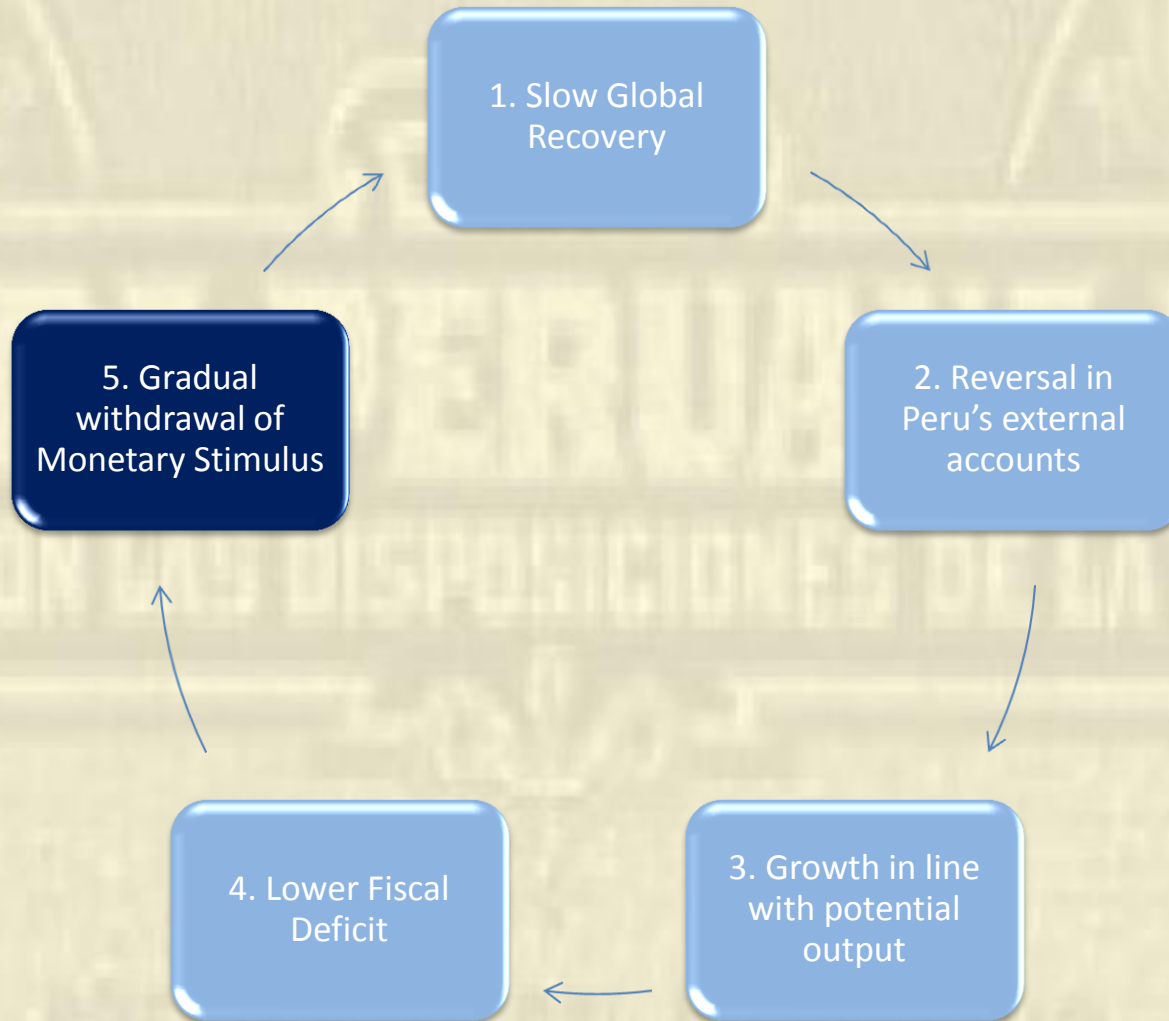
In 2015 the net public debt amounted to 6.6 percent of GDP, considerably below the debt burden of other Latin American countries.

LATAM: NET DEBT IN 2015 (% GDP)



Source: World Economic Outlook (October 2016), IMF and BCRP (Peru).

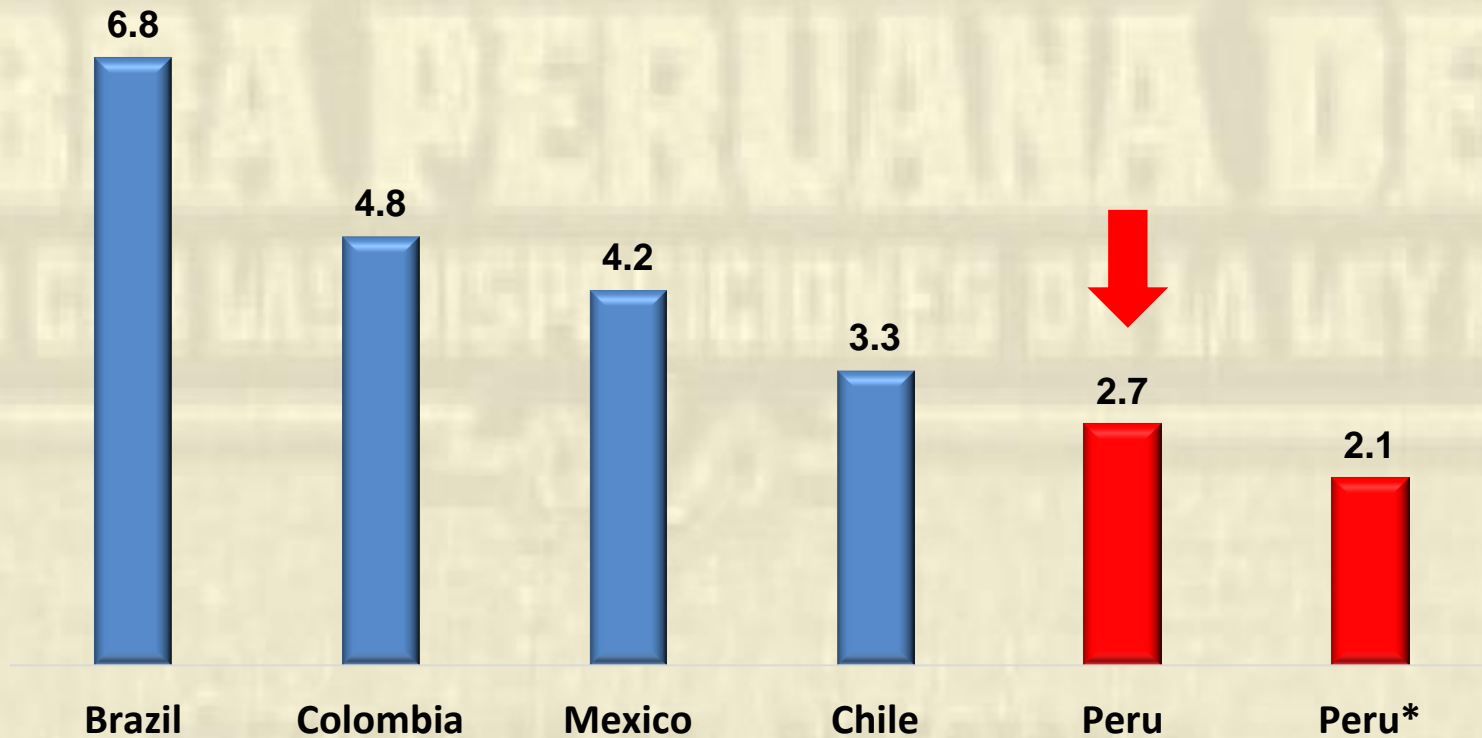
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Average inflation in Peru has been the lowest in the region during the last 15 years.

Average Inflation: 2001-2015

(%)



Source: OECD

* Excludes food and energy

Inflation is expected to remain one of the lowest in the region.

Inflation (Dec./Dec.)

2016



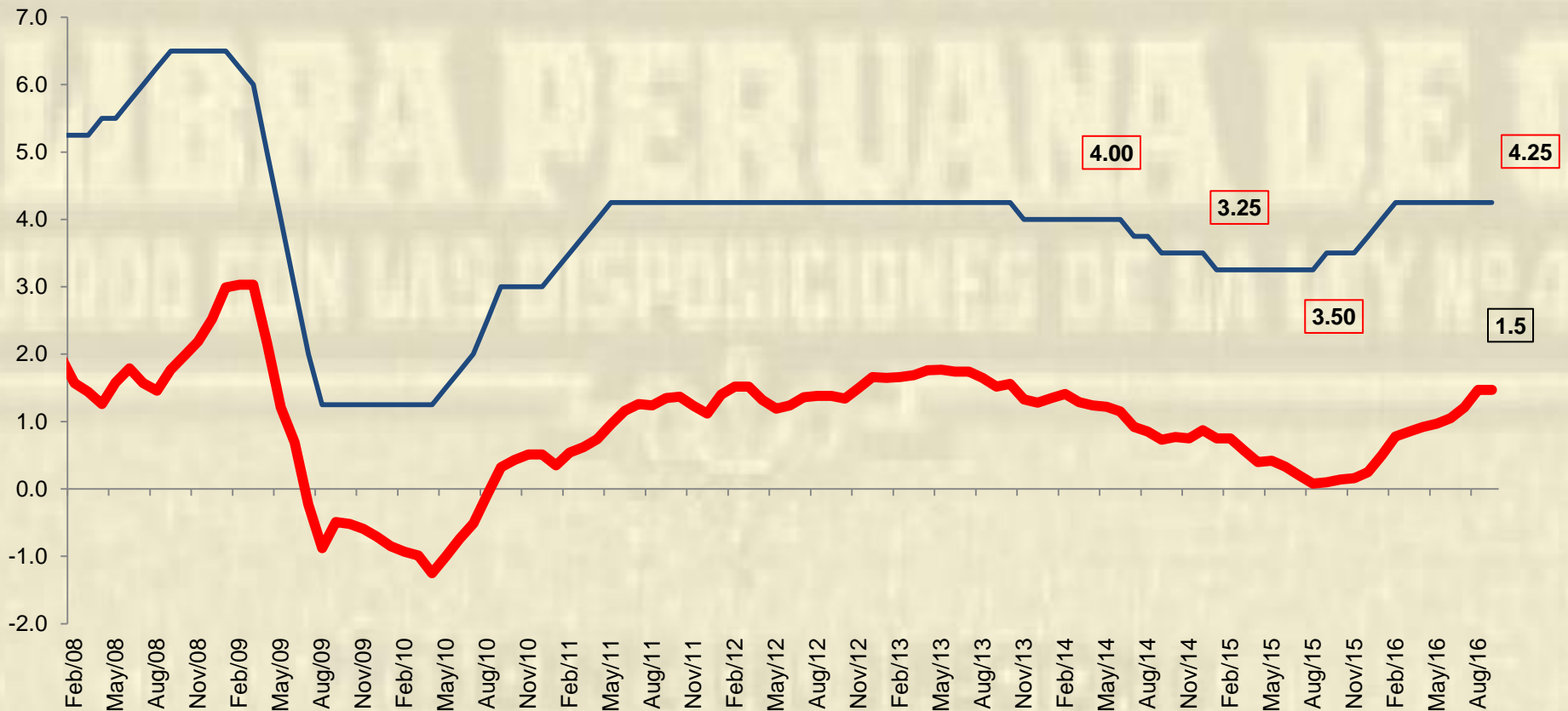
2017



Peru: Gradual reversal of monetary stimulus.

Nominal and real* reference interest rate (%)

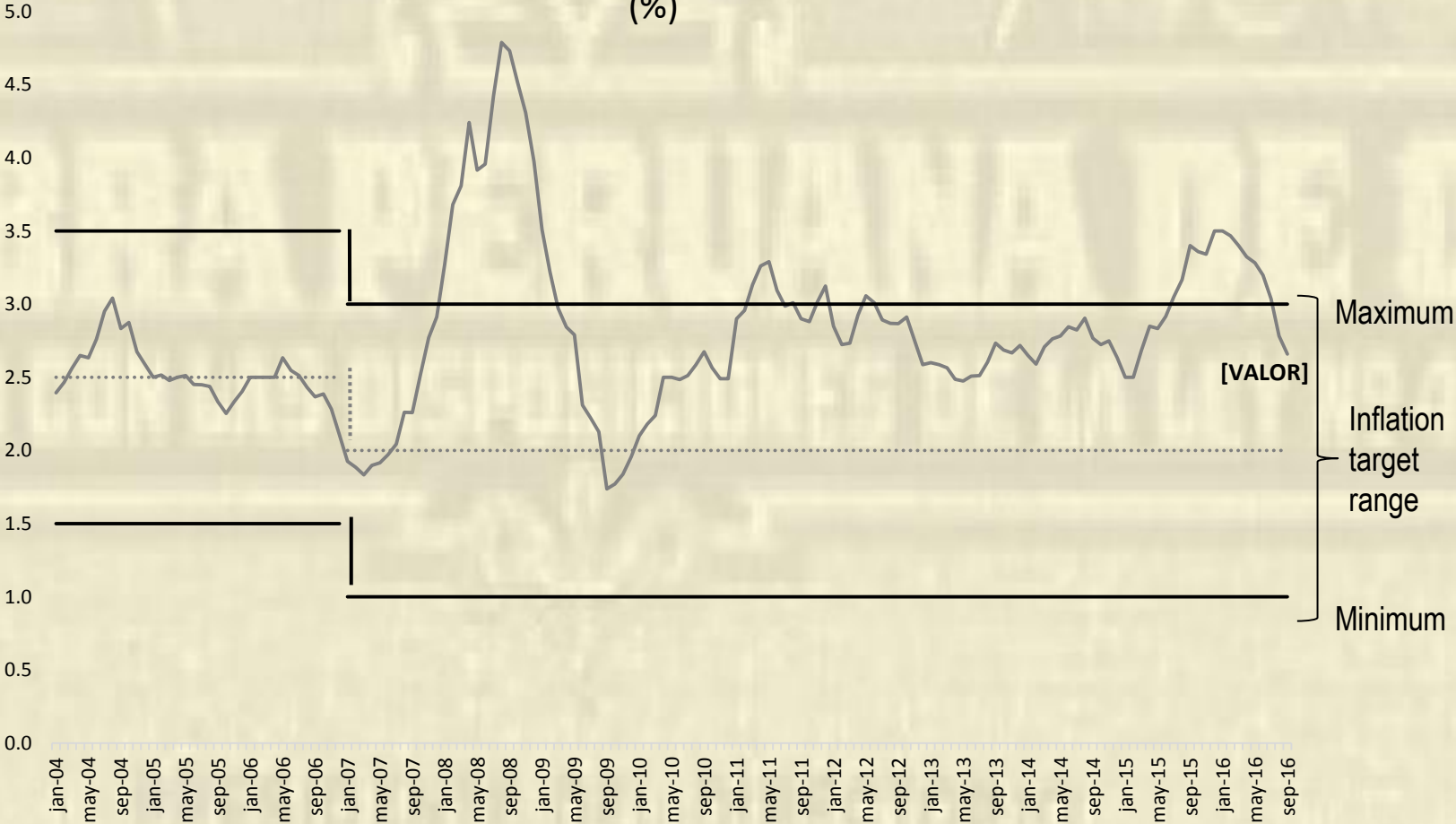
— Nominal reference rate — Ex ante real reference rate



* Ex ante: takes into account expected inflation

In September inflation expectations declined again.

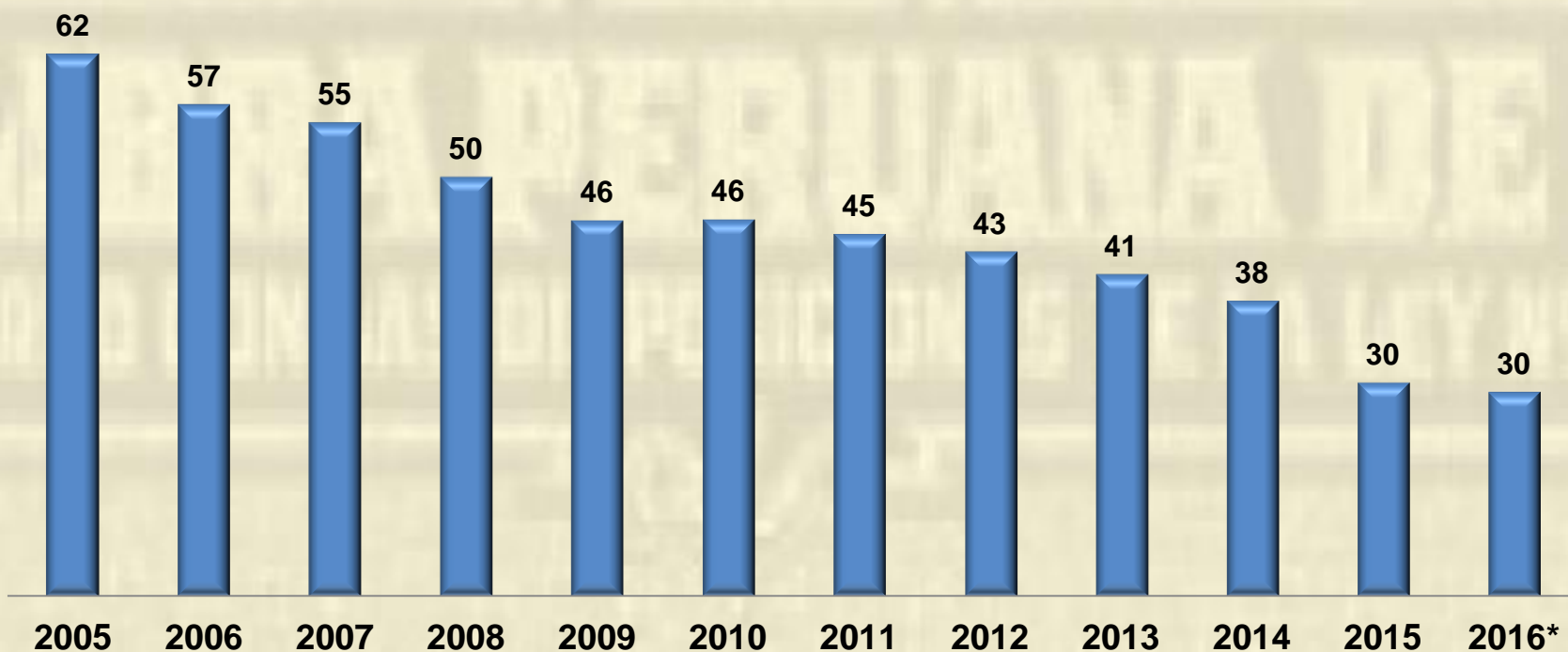
Inflation Expectations 12 Months Ahead* (%)



* Average of the expectations of financial and economic analysts.

Credit dollarization has dropped by more than half since 2005.

Dollarization ratio of private sector credit (%)



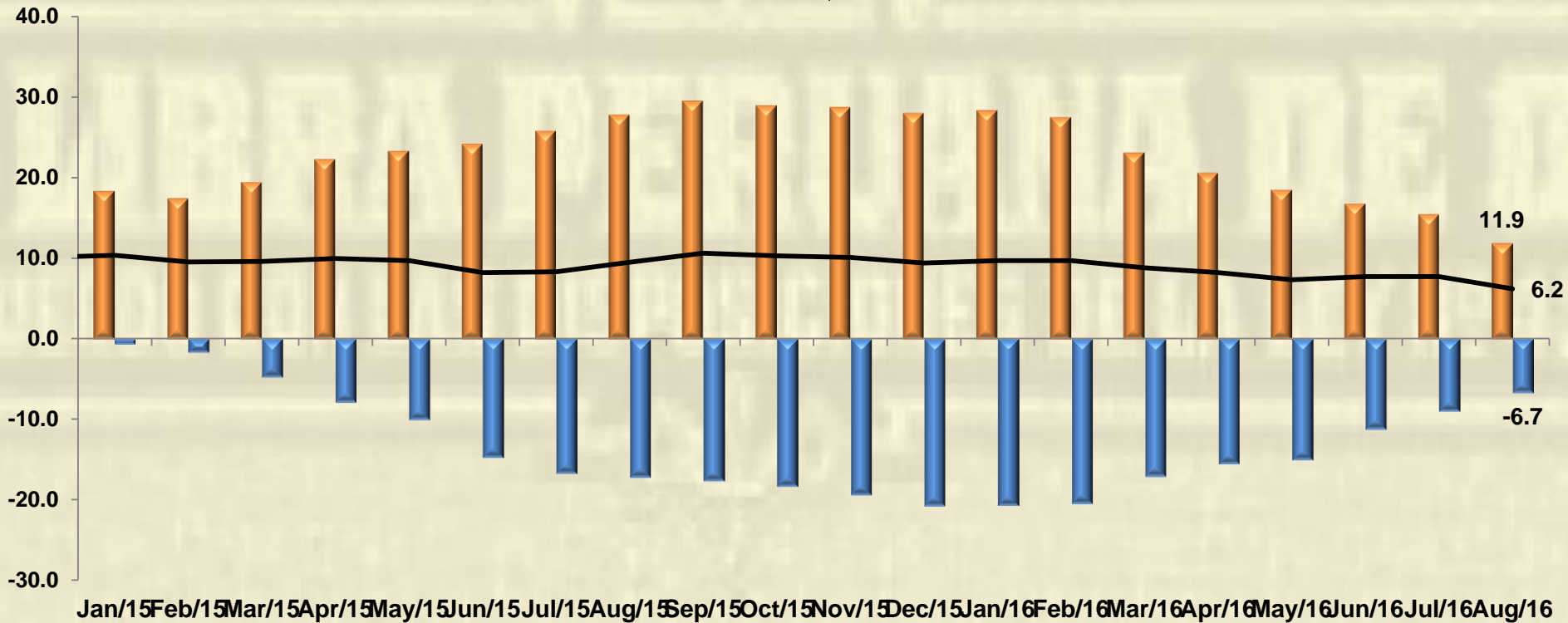
Source: BCRP

* As of August

Total credit to the private sector grew 6,2 percent in August.

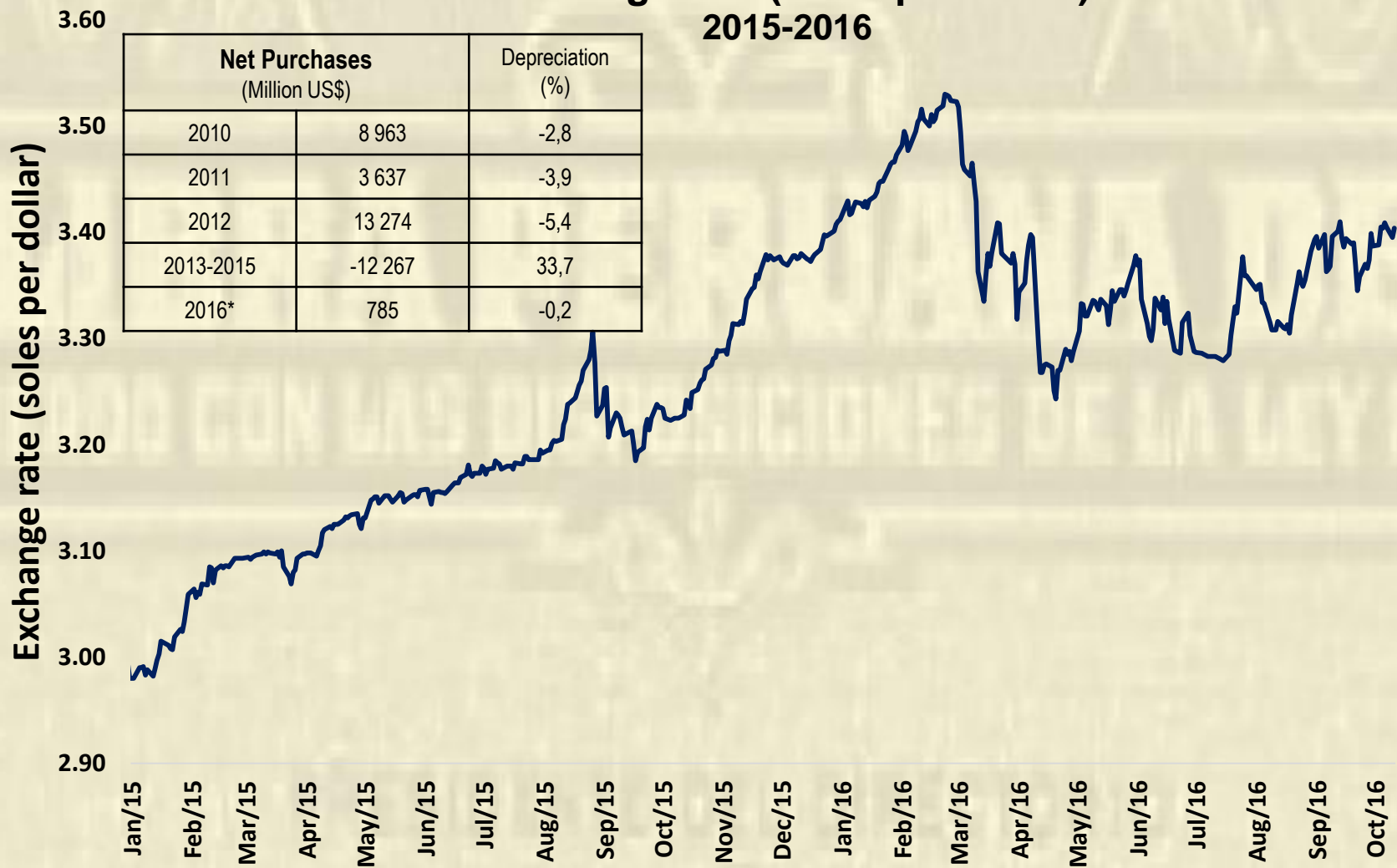
CREDIT TO THE PRIVATE SECTOR (% change)

Soles US\$ Total



In order to reduce exchange rate volatility, the central bank sold US\$ 1,304 million between January and April and bought US\$ 2,089 million between June and July.

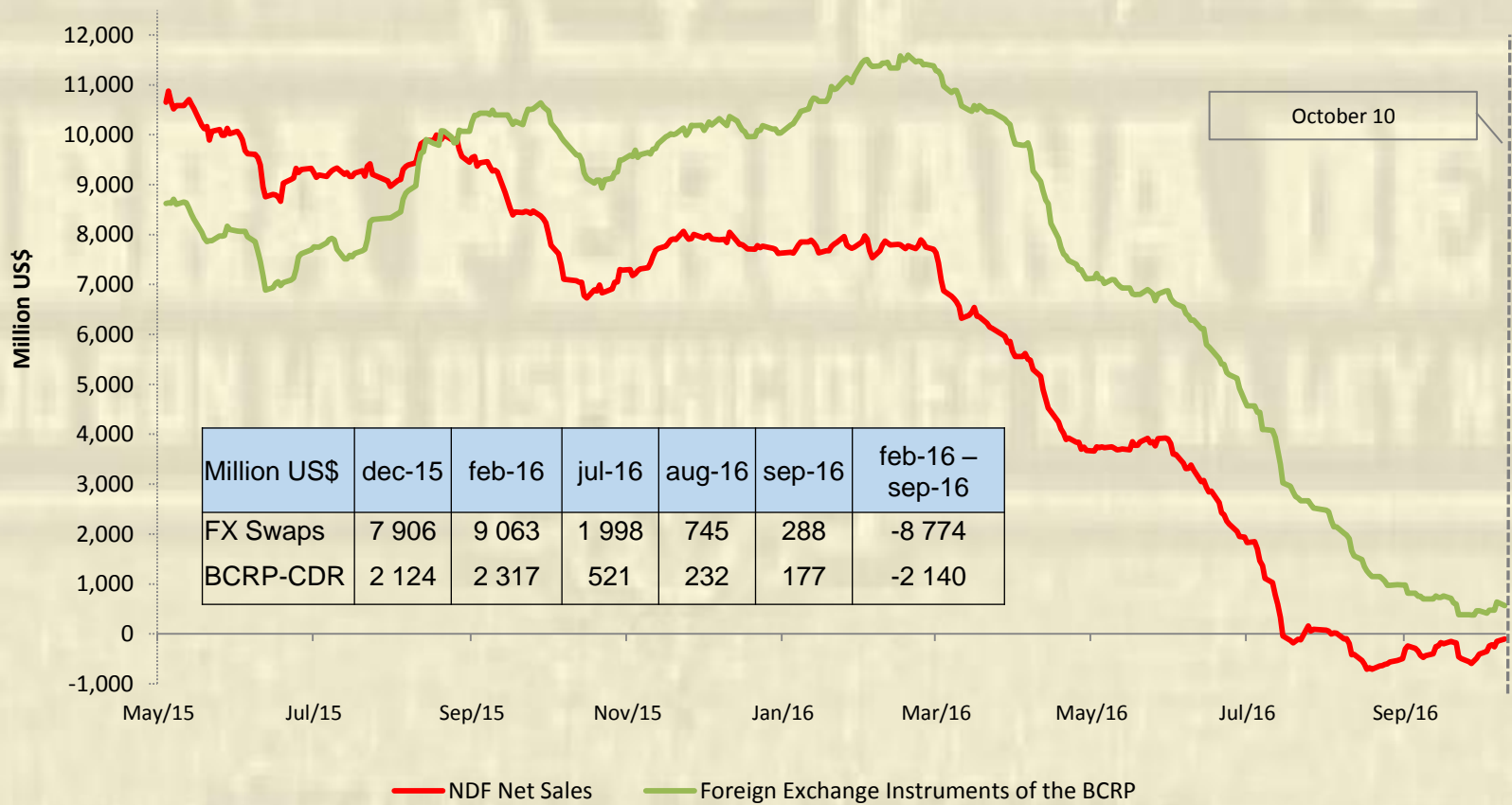
Exchange rate (soles per dollar) 2015-2016



Source: BCRP.
* As of October 11th.

Moderation of exchange rate volatility since March.

Net Sales of NDF and other FX intervention instruments (BCRP)



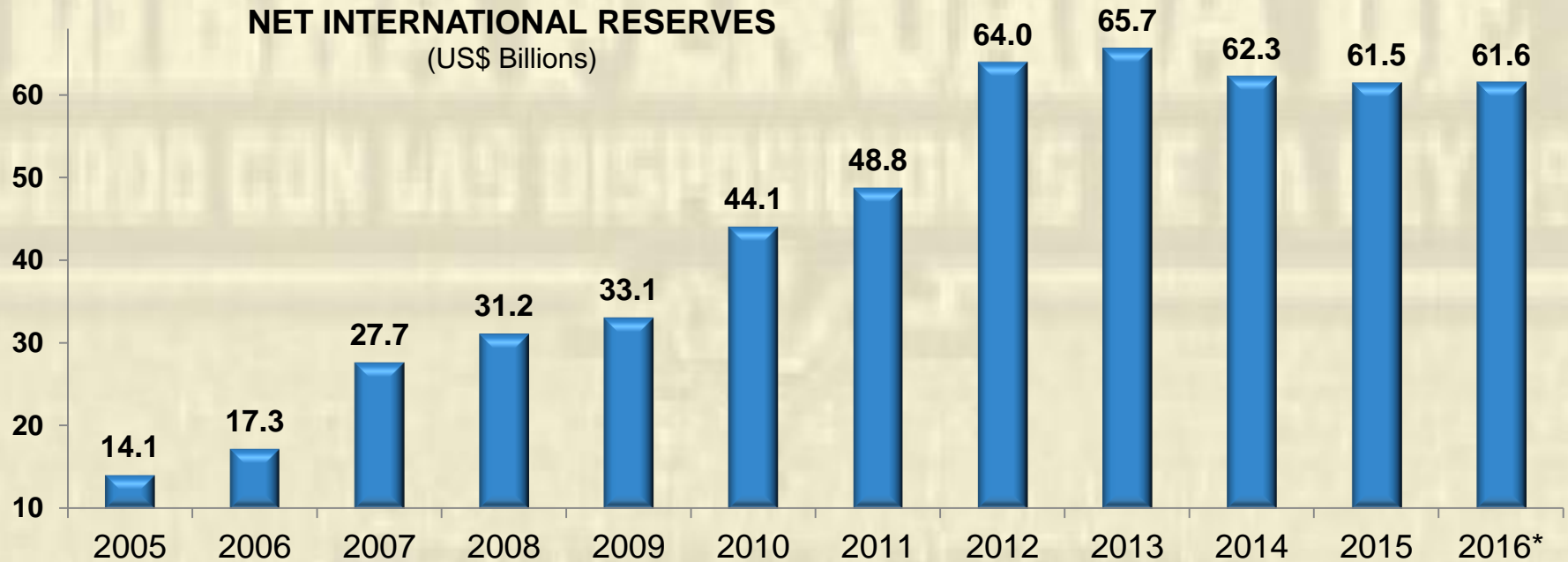
The central bank carried out a precautionary accumulation of international reserves during the period of high commodity prices and capital inflows

NIR INDICATORS

As a % of:	2016*
GDP	32,5
Short-term external debt 1/	555
Short-term external debt plus current account deficit	320

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

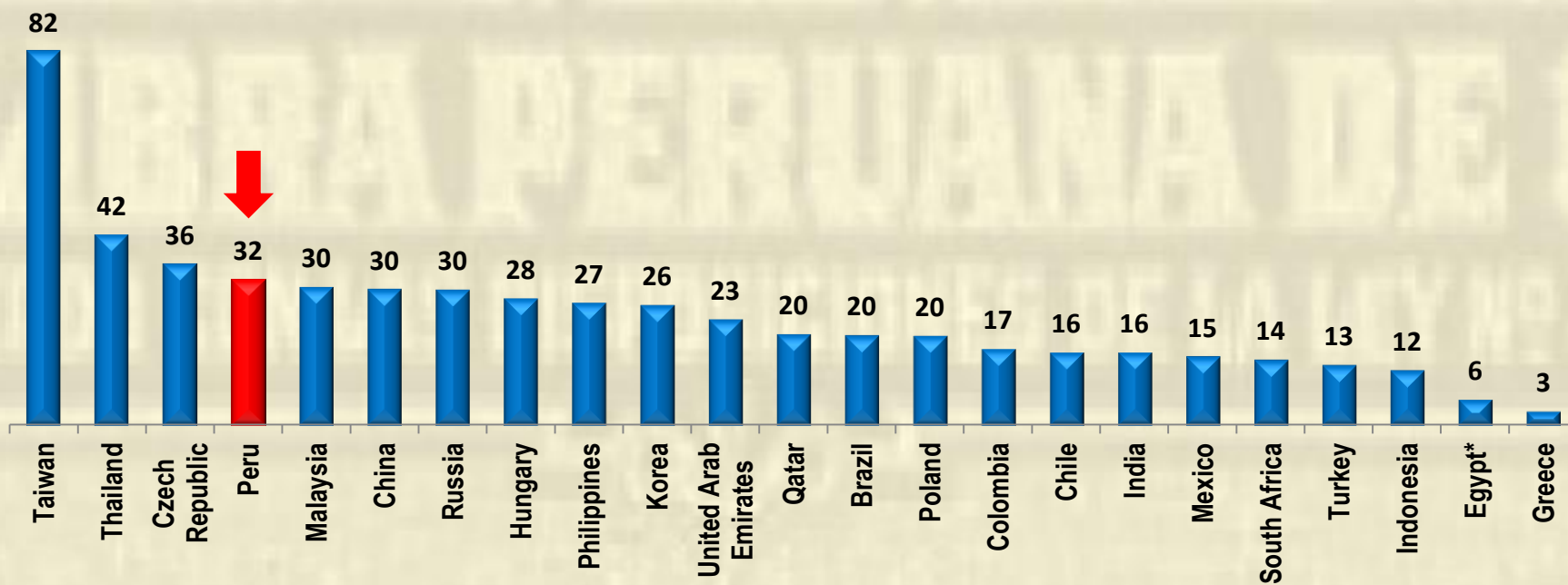
NET INTERNATIONAL RESERVES (US\$ Billions)



* As of October 11th.

Peru ranks fourth in the NIR-to-GDP ratio among emerging markets economies

International Reserves: 2015
(% GDP)



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



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