

Peru

In a context of a change in government,¹ the Peruvian economy grew by 7.0% in 2011, driven by robust growth in both external and domestic demand (in particular private consumption and investment). This strong economic performance was accompanied by a rise in inflation, a fiscal surplus and, despite improved terms of trade, a widening current account deficit. Economic activity is expected to continue to expand in 2012, albeit at a more moderate pace, with an estimated growth rate of close to 5.0%.

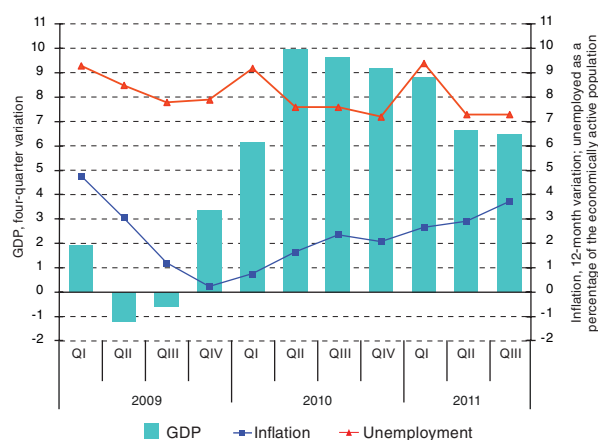
The upsurge in domestic demand led the authorities to reduce public spending in early 2011 by crediting US\$ 2 billion to the Fiscal Stabilization Fund, which contributed to a significant slowdown in public investment. Nevertheless, public spending resumed its upward trend over the course of the year. During the first nine months of 2011 central government non-financial expenditure grew by 11.2% with respect to the year-earlier period (current expenditure by 12.5% and capital expenditure by 7.1%). An 18.3% climb in capital transfers produced most of the expansion in capital expenditure, given that gross capital formation edged up just 1.8%. Current revenues surged 18.7% over the same period, driven by a sharp increase (19.8%) in tax revenues largely thanks to higher receipts from income tax (up 45.6%) and general sales tax (up 15.0%). Non-tax revenue rose by 14.9%. In consequence, the authorities expect the central government to post a primary surplus of around 1.5% and the non-financial public sector, of around 2.0% (a positive overall balance of 0.7% and 0.8% of GDP for the central government and non-financial public sector, respectively).

Some changes were made to taxation in 2011. The tax on financial transactions was reduced from 0.05% to 0.005% and the general sales tax was lowered from 19% to 18%. Both changes took effect on 1 March. The government also reduced tariffs for 3,401 items, bringing down the tariff average for 2011. In September the rates applicable to mining royalties were amended and a special tax and levy on mining were introduced, all of which will be levied on companies' operating profit rather than their sales volume. The new government expects these measures to bring in an additional 250 million nuevos soles per month.

Gross public debt maintained a downward trend throughout 2011. In September it stood at 20.9% of GDP (as opposed to 23.5% in December 2010), while domestic debt and external debt were equivalent to 9.2% and 11.8% of GDP, respectively.

The Central Reserve Bank of Peru gradually raised the reference rate, at monthly intervals, from 2.5% in August 2010 to 4.25% in May 2011, after which it remained constant. The average effective prime rate on corporate loans in domestic currency rose in annualized terms from 3.8% in January 2011 to 5.4% in November (2.2% for foreign-currency loans) and the 30-day deposit rate went up from 2.6% to 4.1% (while rates for foreign-currency loans dropped from 0.8% to 0.6%).

PERU: GDP, INFLATION AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

¹ The new President of the Republic took office in July 2011.

In the first half of 2011 the central bank continued to implement administrative measures to regulate the massive inflows of capital into the economy. In the first quarter, the average legal reserve requirement for both domestic and foreign currency was raised by 0.25% in February and again in March, and the requirement was extended to include the liabilities of foreign branches of banks operating in the local market. The rate applicable to short-term external debt was reduced from 75% to 60% and the rate for non-residents was maintained at 120%. Since May no further changes have been made to the reserve requirements, which stand at 25% for domestic currency and 55% for foreign currency. The dollarization ratio of the financial system remained relatively stable at 45.6%. In the 12 months to September 2011, credit in the financial system soared by 20.6% as lending activity increased in both nuevos soles and foreign currency.

The central bank intervened in the foreign-exchange market throughout 2011 in order to mitigate exchange-rate volatility. The domestic currency appreciated steadily during the year, with the exception of a few months when this trend was reversed. Between December 2010 and October 2011 the nuevo sol appreciated by 3.2% against the dollar while the real effective multilateral exchange rate declined by 3.0%.

Peru signed a free trade agreement with the Republic of Korea in March 2011 and, in April, another with the European Union and Colombia, which will enter into force in 2012. Also in April, Mexico and Peru concluded their negotiations for a trade integration agreement. Negotiations for a free trade agreement between Peru and Japan are still under way.

During the first nine months of the year, GDP grew by 7.4% compared with the same period in 2010, driven by a good performance by the transport and communications sector, commerce, business and other services. On the demand side, private consumption continued to expand strongly (6.3%) over the same period, while public consumption slackened (4.7%), as did investment (5.8%), owing to a 24.2% contraction in the public component. Private investment meanwhile increased by 13.1%. Buoyant domestic demand drove a 23.8% surge in imports over this period. In contrast to the other components of aggregate demand, goods and services exports grew more vigorously in 2011 and were up by 8.5% in the first three quarters.

The 12-month inflation rate to October 2011 was 4.2% (6.4% for food and beverages). Cumulative inflation is expected to stand at around 4.3% in 2011, above the ceiling of the central bank's target range (2% with a margin of 1% either side). The authorities expect inflation to fall back within the target range in 2012.

In the first nine months of 2011 unemployment remained relatively unchanged from the year-earlier

PERU: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	0.9	8.8	7.0
Per capita gross domestic product	-0.3	7.5	5.8
Consumer prices	0.2	2.1	4.6 ^b
Real average wage ^c	3.1	2.6	...
Money (M1)	14.4	30.6	20.4 ^d
Real effective exchange rate ^e	-0.4	-3.5	3.5 ^f
Terms of trade	-5.5	18.1	4.3
Annual average percentages			
Open urban unemployment rate	8.4	7.9	7.7 ^g
Central government overall balance / GDP	-1.7	0.0	0.1
Nominal deposit rate ^h	2.8	1.5	2.3 ⁱ
Nominal lending rate ^h	16.0	19.0	18.6 ⁱ
Millions of dollars			
Exports of goods and services	30 607	39 521	50 048
Imports of goods and services	25 800	34 809	44 019
Current account balance	211	-2 315	-3 246
Capital and financial balance ^j	1 696	13 271	7 861
Overall balance	1 907	10 956	4 615

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Private-sector workers in the Lima metropolitan area.

^d Twelve-month variation to October 2011.

^e A negative rate indicates an appreciation of the currency in real terms.

^f January to October average, year-on-year variation.

^g Estimate based on data from January to October.

^h Market lending rate, average for transactions conducted in the last 30 business days.

ⁱ January-November average.

^j Includes errors and omissions.

period (8% and 8.1%, respectively), although patterns varied by gender: among men the rate fell from 6.7% to 6.1% while among women it rose from 9.8% to 10.2%. Average monthly income registered a rise of 11.5% over the same period. Having been held constant at 550 nuevos soles since January 2008, the minimum living wage rose throughout 2011, increasing from 580 nuevos soles per month in January to 675 nuevos soles in October.

Merchandise exports increased by 35.7% in the first nine months of the year (25.1% by price and 8.4% by volume), while imports of goods were up by 32.4% (15.4% by price and 14.8% by volume). In this period the overall trade surplus climbed to US\$ 6.951 billion (as against US\$ 4.626 billion over the same period in 2010), while the current account deficit remained at similar levels (US\$ 1.816 billion versus US\$ 1.784 during the same period of 2010). Compared to the year-earlier period, the terms of trade gained 8.5% on average in the first three quarters. External debt stood at 25.4% of GDP in September 2011 (versus 26.4% in December 2010). Net international reserves built up steadily during 2011 to reach US\$ 48.696 billion in October, equivalent to around 28% of GDP.