

Peru

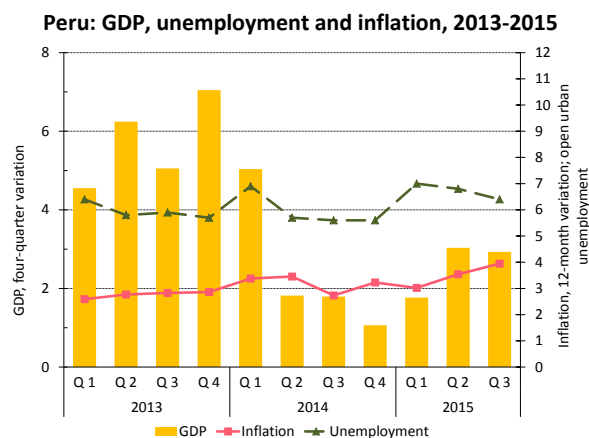
ECLAC projects that Peru will post GDP growth of 2.8% in 2015, somewhat higher than the 2.4% recorded in 2014. Towards the end of the year, inflation breached the ceiling of the target range set by the monetary authorities. The fiscal position deteriorated in the face of falling public revenues and rising expenditure, while the balance-of-payments current account improved slightly, despite a larger trade balance deficit.

The central government primary surplus of 9.344 billion soles, recorded during the first 10 months of 2014, became a deficit of 1.637 billion soles during the same period of 2015, while the overall surplus of 4.262 billion soles turned into a deficit of 6.688 billion soles. Current revenues contracted by 7.2% during this time, and current expenditure swelled by 6.5%, as a result of goods and services purchases and, to a lesser extent, higher spending on wages, which increased by 5.6%. Lower revenues from mining translated into lower expenditure on mining tax transfers, which were down 28%. Capital spending, by contrast, surged by 13.5%, although gross fixed capital formation expanded by just 1.3%. Late in the third quarter of 2015, total gross public debt represented 21.2% of GDP, some 2.7 percentage points higher than its level during the same quarter of 2014.

The central bank continued to lower the reserve requirement for soles in the first half of 2015 in order to encourage lending in the domestic currency, with the latest reduction (to 6.5%) being implemented in June. The monetary policy rate, which had been cut to 3.25% in January 2015 (from 3.5% set in September 2014), was raised to 3.5% in September 2015 and to 3.75% in December 2015 to counter the rise in inflation over the target range and in parallel with the depreciation of the sol against the dollar.

Lending from credit institutions to the private sector in soles increased by 29.3% between October 2014 and October 2015, while dollar-denominated loans fell by 18.3%. If the prevailing exchange rate for the period is used to set a value for all lending in soles, it may be determined that lending in both currencies has expanded by 14.8%, versus 14% in 2014.

During the first 10 months of 2015, the nominal exchange rate reflected a depreciation of 11.8% against the dollar, amid falling mineral prices and expectations of an interest rate rise by the United States, which affected the demand for domestic financial assets. The central bank sold US\$ 6.986 billion in reserves during the first 10 months of the year.¹ However, thanks to an increase in dollar deposits by financial intermediaries and in public deposits, net international reserves dipped by only US\$ 136 million during this period, to US\$ 62.172 billion. The combination of a slight acceleration in inflation and marked currency depreciation among Peru's trading partners meant that, despite two-digit nominal depreciation of the sol, the real effective exchange rate depreciated by



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

¹ Other instruments are also used by the central bank to intervene in the foreign-exchange market. In August 2015, it introduced a new instrument denominated in soles, called readjustable deposit certificates (CDR), to reduce the demand for dollars by allowing investors such as financial institutions to take a position (in soles) so as to benefit from dollar depreciation.

only 1.7% during the first 10 months of 2015 compared with the year-earlier period.

Estimates indicate that the balance-of-payments current account will post a slightly smaller deficit than in 2014, when it stood at 4% of GDP. The deficit for the first nine months of 2015 was US\$ 6.473 billion, representing a reduction of 3.7% in relation to the same period of 2014. This improvement is attributable to lower payments for factors of production by the private sector, which amounted to US\$ 2.449 billion, primarily owing to smaller profits earned by foreign enterprises, especially mining companies, amid low commodity prices. The trade balance deficit, in contrast, widened by US\$ 1.569 billion. Exports dropped by 16.3% in value terms, mainly because of lower prices for exports of oil, oil products and minerals. Imports were down 10.5%. Half of this decline is explained by the reduced value of fuel and lubricant imports, owing to lower international prices. The economic slowdown, and the drop in investment in particular, was reflected in fewer imports of industrial capital goods, which shrank by 12.7%, and industrial raw materials, which contracted by 6.5%; this, together with the lower value of fuel imports, accounted for almost all of the fall in imports.

The financial account ran a surplus of US\$ 8.012 billion during the first nine months of 2015, down 60.2% compared with the year-earlier period. Private sector portfolio investment experienced a reversal: while a net US\$ 3.511 billion was invested abroad during the first nine months of 2014, a net US\$ 255 million was received in portfolio investment in 2015. Foreign direct investment in Peru also rose, although it was outstripped by Peruvian direct investment abroad. Public liabilities increased by US\$ 2.258 billion.

GDP expanded by 2.6% during the first nine months of 2015 in relation to the year-earlier period. The most dynamic sectors were two that had contracted in 2014: metal mining, which was supported by an expansion of production, especially of copper and gold, and fishing, chiefly thanks to more favourable environmental conditions which led to larger catches of anchovies. These two sectors grew by 12.3% and 9.1%, respectively. The manufacturing sector, however, contracted by 2.5%, principally owing to a slowdown in public and private consumption and to a sharp decline in investment. The latter also negatively affected the construction sector, which shrank by 7.7% during the same period.

Higher aggregate demand over the first nine months of the year is essentially explained by a marked increase in inventories (211%), as a result of which gross domestic investment fell by much less (-0.4%) than gross fixed investment (-6.8%). Private fixed investment declined by 5.5% in 2015 owing to lower prices for the commodities exported by Peru and to a poorer growth outlook; public fixed investment was down 13.4%, probably due to a lower rate of execution of public investment projects, especially at the subnational level, following a changeover of teams at that level of government. Private consumption grew by 3.4% and public consumption by 6.3%, both of which represent a slowdown on the

Peru: main economic indicators, 2013-2015

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	5.9	2.4	2.8
Per capita gross domestic product	4.5	1.0	1.5
Consumer prices	2.9	3.2	3.7 ^b
Real average wage	3.3	2.8	0.1
Money (M1)	14.0	4.5	5.8 ^b
Real effective exchange rate ^c	1.0	2.6	2.0 ^b
Terms of trade	-5.7	-5.4	-4.3
	Annual average percentage		
Open urban unemployment rate	5.9	6.0	6.5
Central government			
Overall balance / GDP	0.5	-0.5	-2.6
Nominal deposit rate ^e	2.3	2.3	2.3 ^d
Nominal lending rate ^f	18.1	15.7	16.1 ^d
	Millions of dollars		
Exports of goods and services	48,674	45,407	39,369
Imports of goods and services	49,863	48,483	44,730
Current account balance	-8,474	-8,031	-8,201
Capital and financial balance ^g	11,376	5,843	8,061
Overall balance	2,902	-2,188	-140

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

a Estimates.

b Figures as of October.

c A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

d Figures as of November.

e Market deposit rate, average for transactions conducted in the last 30 business days.

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

g Includes errors and omissions.

year-earlier period. Lastly, the slowdown in domestic demand was reflected in a rise of just 1.3% in imports, while stronger growth in the mining sector prompted a 0.8% uptick in exports.

The annual inflation rate in October 2015, as measured by the Lima consumer price index, was 3.7%, above the central bank's target range, while core inflation stood at 4.1% for the same period.

The average unemployment rate in Lima for the first three quarters of 2015 was 6.8%, higher than the 6.1% recorded during the same period of 2014. The employed population rose by 0.6%, while the economically active population increased by 1.3%. During the same period, underemployment in hourly terms decreased, but underemployment in income terms went up.

GDP growth of 3.4% is projected for 2016, on the basis of improvements in mining production and fishing, which should drive goods exports, against a backdrop of a gradual slowdown in private consumption and the stagnation of private investment.