

Peru

1. General trends

Peru's GDP grew by 0.9% in 2009, showing a marked slowdown in economic activity compared with 2002-2008, when the country's economy grew at an annual average rate of 6.8%. The impact of the international economic and financial crisis on the national economy resulted in a steep drop in external demand, which in turn led to a decline in industrial production, heavy inventory adjustments and a marked decrease in private investment because of lower demand and the uncertainty as to the course of the world economy that prevailed in late 2008 and throughout 2009. To temper the impact of the global crisis on the domestic economy, the government implemented a set of measures geared towards sustaining internal demand.

Economic activity began to recover in the third quarter of 2009, bolstered by the completion of inventory adjustments, a fiscal stimulus package, expansionary monetary policy and the improving expectations of economic agents. Economic activity continued to recover during the first four months of 2010, as the monthly indicator of economic activity expanded 6.9% over the same period in 2009 as consumption and public investment picked up.

GDP is expected to grow by about 6.7% in 2010 thanks to rising private consumption, recovering private investment as investment projects that were put on hold in 2009 are resumed and increasing external demand. The authorities have announced that exports of natural gas from the Camisea gasfield will begin in 2010.

Regional government elections will be held in October 2010, and presidential elections are slated for April 2011.

2. Economic policy

(a) Fiscal policy

In late 2008, to mitigate the impact of the international crisis on internal economic activity, at year-end 2008 the government announced a major economic stimulus package, emphasizing measures to expand and accelerate public investment and others targeting specific sectors. The implementation of the package took place mostly in the

latter part of the year; as of December 2009 approximately 69% of the public investments that were budgeted had been executed. The public investment programme has continued into 2010; by May some 26% of the budgeted resources had been committed.

With regard to the central government's fiscal revenues in 2009, nominal current revenue was down by 10.7% on the previous year. Overall revenue was down 9.7%

because of falls in income tax revenue (down 15.7%), especially corporate income tax (24.8%) and the general tax on sales of imported goods (23%), as well as takings from non-tax sources (16.1%). The decline in non-tax receipts is due to the drop in revenue from petroleum royalties and the oil tax and surtax, caused by falling international oil prices.

In 2009, total central government spending rose by 13.4% owing chiefly to the increase in non-financial expenditure (15.1%), particularly capital spending (66.2%). The increase in current spending was due to growing procurement of goods and services (23.1%) and a 9.2% increase in government payroll costs. The rise in capital expenditure was, in turn, caused by higher spending on fixed capital formation (44.5%) and the significant jump in capital transfers (145%), mostly from the central government to the local governments. The total increase in expenditure was moderated by lower debt interest payments, mainly for external debt, which fell 5.2% overall. In 2009, the central government thus posted a total fiscal deficit of 1.8% (0.6% primary deficit) compared with a 2.2% surplus in 2008 (3.6% primary surplus). The non-financial public sector posted a 0.6% primary deficit and a total deficit of -1.9%.

In January to April 2010, compared with the same period in 2009, central government nominal current revenue had risen steeply (23.6%), with rises in tax and non-tax revenue of 21.8% and 35.7%, respectively. Total spending was up 18.9% over the same interval, as a result of which the economic outturn was once again in surplus.

To cover financing needs for 2009 and 2010, the government issued, first in March 2009, the 10-year, US\$ 1 billion Bono Perú 19, bearing a coupon rate of 7.125%; then in July, Bono Perú 25 for the same amount, maturing in 16 years with a coupon rate of 7.35%. In April 2010 the government replaced or partially bought back global dollar bonds 2012, 2015 and 2016 and global euro bond 2014 in order to reduce total debt and improve the public debt maturity profile and amortization payments. In February 2010 the government issued 550 million new soles in 32-year sovereign bonds that were placed at a rate of 6.85%. The proceeds of these issues will be used to finance public investment projects.

A financial transaction tax cut will take effect in 2010, with the rate going from 0.06% in 2009 to 0.05% in 2010. In the second half of 2010 a tariff drawback decrease will take effect; the rate will fall from 8% to 6.5%. In view of the significant recovery of private sector economic activity in the closing months of 2009 and first few months of 2010, in May 2010 the government introduced an urgent decree imposing measures to curb fiscal expenditure. This restricted fiscal expenditure

growth in 2010 to no more than 3% of the nominal amount executed in 2009 (with some exceptions defined in the decree), held down to 25% the execution of public investment projects that, although budgeted, had not begun by May, limited the use of funds from the contingency reserve; and suspended new public borrowing even where it had been previously authorized.

(b) Monetary and exchange rate policy

In response to the international financial crisis, the monetary authorities initially took policy measures to ensure liquidity in the local financial market, both in new soles and in dollars, in order to stabilize both the money and currency markets.

Monetary policy was expansionary throughout 2009. Between January and August 2009 the central bank cut the monetary policy benchmark interest rate from 6.5% to 1.25% and held it unchanged for several months. Because of the sharp drop in interest rates throughout 2009, the banking system's average fixed local-currency lending rate fell from 17.2% in December 2008 to 14.95% in December 2009 and then to 14.39% in April 2010. The average fixed lending rate in dollars decreased over the same period, from 10.1% to 8.61% and subsequently to 8.1% in April 2010. As economic activity gained traction, the authorities took the preventive measure of increasing the benchmark rate to 1.5% in May 2010 and then to 1.75% in June.

The central bank also announced that from July, the legal minimum reserve rates in both national and foreign currency would be raised from 6% to 7%, and the marginal reserve rate for foreign-currency reserves would go up from 30% to 35% (which implies returning to pre-financial crisis levels).

Despite the economic situation, lending by the financial system to the private sector grew slowly throughout 2009, albeit more slowly than in 2007 and 2008, when bank lending to the private sector had soared by nearly 40%. Local-currency lending rose 17.6% between December 2008 and October 2009, spurred by increased lending to micro-enterprises and mortgage lending. Dollar-denominated lending to the private sector increased by only 2.4% during the same period. As a result, total lending was up 5.6% in 2009. With local-currency lending rising faster, the dollarization ratio dropped from 52% in December 2008 to 46% in December 2009. The percentage of non-performing loans rose from 1.3% to 1.6% between December 2008 and December 2009, with the greatest increase in loans to micro-enterprises.

Total lending picked up during the first four months of 2010: dollar lending in April was up 9.4% over the same

month in 2009, and local-currency lending was 13.5% higher. Total lending expanded 8.9% during the period. As of March 2010, the non-performing loan portfolio accounted for 1.7% of total lending.

As for exchange rate policy, the central bank continued to intervene in the currency market throughout 2009, buying and selling dollars in order to curtail exchange-rate volatility. Liquidity injection mechanisms were used, such as repo operations for up to one year, currency swaps and deposit certificate buybacks. In January and March 2010, the central bank intervened in the foreign exchange market by purchasing a total of US\$ 2.34 billion.

To boost external financing with long-term funds from financial institutions, in January 2010 the authorities implemented a 35% reserve rate for new and renewed foreign loans with terms of less than two years. Furthermore, profits from non-residents' transactions

with financial derivatives maturing in less than 60 days with the underlying asset linked to the rate of exchange between the local currency and a foreign currency were to be subject to a 30% income tax starting in 2010. This measure seeks to equalize the tax treatment of residents and non-residents.

Between December 2008 and December 2009, the new sol appreciated in nominal terms by 8.7% against the dollar, whereas the real bilateral exchange rate appreciated less (6.3%). The real effective exchange rate depreciated by 0.8% over the same period.

(c) Trade policy

The free trade agreement with China entered into effect on 1 March 2010, and a free trade agreement with the European Union was signed in May.

3. The main variables

(a) Economic activity

Peru's GDP grew by 0.9% in 2009, a significant slowdown compared with previous years. This result reflected, above all, contractions in non-primary manufacturing (-8.5%), fisheries (-7.9%) and commerce (-0.4%). The construction sector, by contrast, was the fastest-growing, at 6.1%, thanks to the public investment programmes.

On the spending side, internal demand shrank as a result of the sharp drop in investment (down 18.1%), despite a 3.9% increase in consumption. Declining private investment and the notable decrease in inventories contributed considerably to the drop-off in investment. Public investment grew by over 25%. Public investment projects targeted the transportation and communication sector and, to a lesser extent, education and agriculture. Both private and public consumption increased in 2009, by 2.4% and 16.5%, respectively. Net exports contributed positively to GDP performance: the exported volume of goods and services fell 3.9%, and the volume of imported goods and services was down 16.2%. The significant drop in the volume of goods imported reflects the decline in gross fixed private investment and the inventory adjustments that the economy underwent in the first three quarters of 2009.

Economic activity continued to recover in the first four months of 2010, with a 6.9% increase over the same period in 2009 spurred by construction (17.9%), commerce (8.9%) and manufacturing (9.5%), particularly that based on the non-primary sector. In the first quarter of 2010, compared with the first quarter of 2009, internal demand increased 8.1% thanks to a strong recovery in investment (19.9%) and consumption (3.9%). The volume of goods and services exports remained relatively stagnant (0.2%), while the volume of goods and services imports rose (10.6%), owing to the recovery of internal demand.

(b) Prices, wages and employment

The inflation rate as measured by the Lima consumer price index declined significantly in 2009 compared with 2008, standing at 0.2% for the 12 months to December 2009 (6.7% in 2008). This reflected the drop in international food and hydrocarbon prices, which helped lower the prices of transport, domestic fuels and electric power. The 12-month cumulative inflation rate was 1.04% as of May 2010.

The average unemployment rate for 2009 was 8.4%, the same as in 2008. Expressed as annual averages, urban employment in companies with more than 10 employees was 1.3% higher in 2009 than in 2008, while overall urban

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9
Per capita gross domestic product	-1.2	3.6	2.6	3.6	5.5	6.4	7.6	8.5	-0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.1	6.1	2.3	0.1	5.3	8.0	3.5	7.2	1.7
Mining	9.9	12.0	5.5	5.3	8.4	1.4	2.7	7.6	0.6
Manufacturing	0.7	5.7	3.6	7.4	7.5	7.5	11.1	9.1	-7.2
Electricity, gas and water	1.6	5.5	3.7	4.5	5.6	6.9	8.5	7.8	1.2
Construction	-6.5	7.7	4.5	4.7	8.4	14.8	16.6	16.5	6.1
Wholesale and retail commerce, restaurants and hotels	0.7	3.2	2.9	5.9	6.0	10.3	9.5	12.4	0.2
Transport, storage and communications	-0.4	3.7	4.9	6.4	8.5	9.2	18.9	10.0	0.4
Financial institutions, insurance, real estate and business services	-1.2	4.9	4.1	3.9	6.5	7.5	9.4	10.2	5.1
Community, social and personal services	-0.0	3.7	5.0	3.8	5.3	5.8	4.5	5.1	6.8
Gross domestic product, by type of expenditure									
Consumption	1.2	4.4	3.4	3.7	5.1	6.6	7.9	8.0	3.9
General government	-0.8	-0.0	3.9	4.1	9.1	7.6	4.3	2.1	16.5
Private	1.5	4.9	3.4	3.6	4.6	6.4	8.3	8.7	2.4
Gross capital formation	-7.1	3.0	4.7	4.5	8.9	26.5	26.3	29.5	-18.1
Exports (goods and services)	6.8	7.5	6.2	15.2	15.2	0.8	6.1	9.9	-3.9
Imports (goods and services)	2.9	2.3	4.2	9.6	10.9	13.1	21.3	26.2	-16.2
Percentages of GDP									
Investment and saving^c									
Gross capital formation	18.8	18.4	18.4	18.0	17.9	20.0	22.9	27.2	22.5
National saving	16.5	16.4	16.9	18.0	19.3	23.2	24.2	23.6	22.7
External saving	2.2	2.0	1.5	-0.0	-1.4	-3.1	-1.3	3.7	-0.2
Millions of dollars									
Balance of payments									
Current account balance	-1 203	-1 110	-949	19	1 148	2 872	1 363	-4 723	247
Goods balance	-179	321	886	3 004	5 286	8 986	8 287	3 090	5 873
Exports, f.o.b.	7 026	7 714	9 091	12 809	17 368	23 830	27 882	31 529	26 885
Imports, f.o.b.	7 204	7 393	8 205	9 805	12 082	14 844	19 595	28 439	21 011
Services trade balance	-963	-994	-900	-732	-834	-737	-1 191	-1 962	-1 112
Income balance	-1 101	-1 457	-2 144	-3 686	-5 076	-7 562	-8 359	-8 774	-7 371
Net current transfers	1 040	1 019	1 209	1 433	1 772	2 185	2 626	2 923	2 856
Capital and financial balance ^d	1 626	2 078	1 473	2 397	223	310	8 961	8 179	1 660
Net foreign direct investment	1 070	2 156	1 275	1 599	2 579	3 467	5 425	6 188	4 364
Other capital movements	556	-78	198	798	-2 356	-3 156	3 536	1 991	-2 704
Overall balance	423	968	525	2 417	1 371	3 183	10 324	3 456	1 907
Variation in reserve assets ^e	-275	-852	-516	-2 443	-1 471	-3 210	-10 391	-3 512	-1 943
Other financing	-148	-116	-9	26	100	27	67	57	36
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	98.2	95.9	99.9	100.0	101.1	104.0	104.1	100.4	98.6
Terms of trade for goods (index: 2000=100)	95.6	98.4	102.2	111.3	119.4	152.1	157.6	136.7	129.1
Net resource transfer (millions of dollars)	377	505	-679	-1 262	-4 753	-7 224	669	-539	-5 674
Total gross external debt (millions of dollars)	27 195	27 872	29 587	31 244	28 657	28 897	32 894	34 838	35 629
Average annual rates									
Employment									
Labour force participation rate ^g	65.5	62.9	63.2	62.3	62.5	64.0	63.5	66.4	68.5
Open unemployment rate ^h	9.3	9.4	9.4	9.4	9.6	8.5	8.4	8.4	8.4
Visible underemployment rate ⁱ	12.8	11.8	9.8	9.6	9.5	9.4	9.5	8.9	9.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2
Variation in wholesale prices (December-December)	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-5.1
Variation in nominal exchange rate (Annual average)	0.5	0.3	-1.1	-1.9	-3.4	-0.7	-4.4	-6.5	2.9
Variation in average real wage	-0.9	4.6	1.6	1.1	-1.9	1.2	-1.8	2.2	0.3
Nominal deposit rate ^j	...	3.2	2.9	2.4	2.7	3.4	3.5	3.3	2.9
Nominal lending rate ^j	26.1	23.3	20.2	18.7	17.9	17.1	16.5	16.7	16.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Central government									
Total revenue	14.5	14.5	15.0	15.0	15.8	17.6	18.2	18.1	15.6
Current revenue	14.3	14.3	14.8	14.9	15.7	17.4	18.1	18.0	15.5
Tax revenue	12.4	12.1	12.8	13.1	13.6	15.0	15.6	15.4	13.4
Capital income	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	17.3	16.6	16.7	16.2	16.5	16.1	16.4	15.9	17.4
Current expenditure	15.0	14.6	14.8	14.4	14.7	14.1	14.2	13.6	13.6
Interest	2.1	2.0	2.0	1.8	1.8	1.8	1.6	1.4	1.2
Capital expenditure	2.2	2.0	1.9	1.8	1.9	2.0	2.1	2.4	3.8
Primary balance	-0.6	-0.2	0.2	0.6	1.1	3.2	3.5	3.5	-0.6
Overall balance	-2.8	-2.1	-1.7	-1.3	-0.7	1.5	1.8	2.2	-1.8
Central government public debt									
Domestic	34.5	43.2	43.4	40.1	36.9	30.1	26.2	24.1	23.4
External	...	6.7	6.4	6.3	7.7	6.9	8.3	8.1	8.2
	34.5	36.5	36.9	33.7	29.2	23.2	17.9	16.0	15.2
Money and credit^k									
Domestic credit	14.8	13.4	13.2	12.9	13.9	14.6	17.8	14.7	18.5
To the public sector	-4.4	-4.8	-4.1	-4.3	-3.4	-3.6	-5.3	-7.1	-5.7
To the private sector	30.4	30.1	28.7	27.0	28.7	28.6	33.1	33.6	35.5
Others	-11.2	-11.8	-11.4	-9.9	-11.3	-10.5	-10.0	-11.7	-11.3
Liquidity (M3)	26.1	26.1	24.7	24.0	25.8	24.3	26.8	29.9	30.4
Currency outside banks and local-currency deposits (M2)	8.7	9.1	9.4	10.8	11.7	12.0	14.5	15.9	16.9
Foreign-currency deposits	17.4	17.1	15.3	13.2	14.1	12.4	12.4	14.0	13.4

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1994 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, Lima metropolitan area.

^h Percentage of the economically active population, Lima metropolitan area.

ⁱ Percentage of the working population, Lima metropolitan area.

^j Fix-weighted average interest rate.

^k The monetary figures are end-of-year stocks.

employment rose from 62.4% in 2008 to 62.7% in 2009. Average employment income improved in 2009, and was 7.8% up on 2008. To stimulate household demand, workers in the formal economy were temporarily allowed to use seniority compensation funds in 2009, and withholdings on twice-yearly bonuses paid to formal wage earners were waived. The recovery of economic activity had a positive effect on labour indicators in the first quarter of 2010 as compared with the first quarter of 2009: the unemployment rate fell slightly, from 9.3% to 9.2%; the employment rate increased from 61.8% to 65.0%, and average employment income rose 4.7% during the period.

(c) The external sector

Exports of goods slumped by 14.7% during 2009 (down 12.5% in prices and 2.5% in volume), owing to falling international prices for the country's main export commodities (crude oil and its by-products, and metals and minerals) and to the decline in the volume of exports of fishmeal and non-traditional products. This is despite the rising value of gold exports, resulting from increases

in both prices and the volume exported. Imports of goods were affected by the decline in domestic demand and fell by 26.1% (7.4% in prices and 20.2% in volume). As a result, the goods balance rose in 2009 (from US\$ 3.09 billion in 2008 to US\$ 5.873 billion in 2009). This, combined with a lower income balance deficit (US\$ 1.112 billion in 2009 compared with US\$ 1.962 billion in 2008) translated into a US\$ 247 million current account surplus (US\$ 4.723 billion in 2008), equivalent to 0.2% of GDP.

The trade balance for 2009 reflected the sharp drop in the terms of trade, which averaged 12.5% lower than in 2008. A reversal of this decline is expected in 2010; the country's terms-of-trade index for the first quarter of the year was up 44% over the same period in 2009 and 22% higher than the average for 2009.

Foreign direct investment flows, which had grown by 26% in 2008, fell by approximately 30% in 2009 compared with the previous year. This was due primarily to the marked decrease in contributions and other capital transactions, which were down 76% from 2008.

Exports and imports of goods in the first quarter of 2010 reflected the recovery of internal economic activity

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	10.3	11.7	10.7	6.4	1.9	-1.2	-0.6	3.4	6.0	...
Goods exports, f.o.b. (millions of dollars)	7 771	8 470	8 814	6 474	5 396	6 161	7 169	8 159	7 832	4 984 ^c
Goods imports, c.i.f. (millions of dollars)	6 265	7 550	7 976	6 648	4 883	4 827	5 330	5 971	6 321	4 324 ^c
International reserves (millions of dollars)	33 608	35 550	34 732	31 233	30 961	30 822	32 163	33 175	35 305	35 382
Real effective exchange rate (index: 2000=100) ^d	101.2	100.6	101.4	98.3	99.8	97.9	98.7	98.1	94.5	93.6 ^c
Unemployment rate	9.3	7.9	8.5	7.8	9.3	8.5	7.8	7.9	9.2	...
Consumer prices (12-month percentage variation)	5.5	5.7	6.2	6.7	4.8	3.1	1.2	0.2	0.8	1.0 ^c
Average nominal exchange rate (nuevos soles per dollar)	2.9	2.8	2.9	3.1	3.2	3.0	3.0	2.9	2.9	2.8
Average real wage (variation from same quarter of preceding year)	...	2.7	...	1.7	...	-0.4
Nominal interest rates (annualized percentages)										
Deposit rate ^e	3.5	3.2	3.1	3.3	3.5	3.2	2.6	2.1	1.7	1.7 ^c
Lending rate ^e	16.5	16.5	16.7	17.1	17.2	16.3	15.6	15.0	14.6	14.3 ^c
Interbank interest rate	4.9	5.5	6.2	6.6	6.4	4.2	1.6	1.2	1.1	1.3 ^c
Sovereign bond spread (basis points) ^f	223	199	310	509	425	272	205	165	149	215
Stock price index (national index to end of period, 31 December 2000=100)	1 439	1 348	931	583	764	1 081	1 253	1 172	1 252	1 172
Domestic credit (variation from same quarter of preceding year)	27.3	11.4	9.0	-7.1	-12.5	7.0	18.0	30.6	37.7	36.8 ^c
Non-performing loans as a percentage of total credit	1.4	1.2	1.2	1.3	1.4	1.6	1.6	1.6	1.7	1.7 ^g

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1994 prices.

^c Data to May.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Fix-weighted average interest rate.

^f Measured by JP Morgan's EMBI+ index to end of period.

^g Data to April.

and greater external demand. Exports of goods rose by 43.2% compared with the same period in 2009 (a 44% increase in prices and a 0.6% decrease in volume) as the international prices of metals, minerals and petroleum and its by-products increased sharply over the levels posted in early 2009. Imports for the same period were up 29.4% (13.6% in prices and 13.9% in volume), spurred

by rising imports of consumer and intermediate goods and of transport equipment.

The central bank's net international reserves stood at US\$ 35.049 billion in April 2010 (US\$ 33.135 billion in December 2009). In December 2009, external public and private debt totalled US\$ 35.629 million (equivalent to 28% of GDP).