

## Peru

Peru's GDP grew by an estimated 5.2% in 2013, driven by trade, construction and services, although private investment slowed. Growth of 5.5% is projected for 2014 on the back of expanded mining output, growth in services due to domestic demand and additional election-year public spending. The current account deterioration observed in the first three quarters of the year is expected to reverse in 2014 as the volume of mining exports expands.

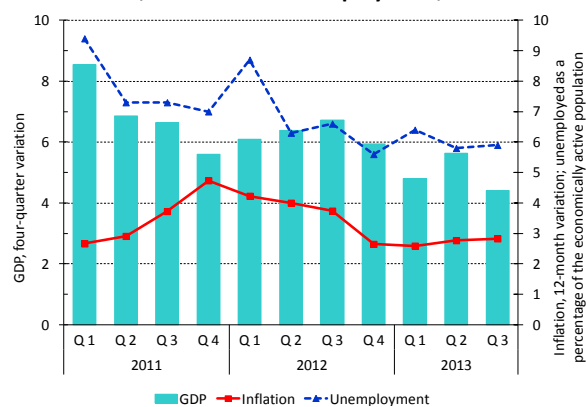
The general government's overall and primary surplus contracted in 2013 as spending outpaced revenue. In the first 10 months of the year, the primary surplus shrank by 23.2% (5.6 billion nuevos soles), while the overall surplus contracted by 31.9% (6.2 billion nuevos soles). Current revenue increased by 5.8%, while total spending swelled by 14.7%. General sales tax receipts posted strong expansion, due to growth in consumption over the year, in social contributions and to a lesser extent, in transfers of tax withholdings and in collections from the excise tax on fuels. Income tax revenue fell by 2.9% in the first 10 months of the year, owing first and foremost to weaker regularization collections and secondly to a decline in the take from the mining sector, even as personal income tax receipts increased. On the spending side, the general government's non-financial current expenditures were up by 12.9%, with wage increases accounting for over half of that figure. Capital spending increased in nominal terms by 20.6%, and gross capital formation accounted for nearly one third of the increase in general government non-financial spending during the period.

At the end of the third quarter of 2013, total gross public debt stood at 17.1% of GDP, below the level posted a year earlier (18.4%). Around 52% of total public debt was denominated in nuevos soles in 2013.

In October 2013, the Fiscal Responsibility and Transparency Strengthening Law was enacted, changing the country's fiscal rules and regulations. For 2014, the new law replaces the macrofiscal regulations of the previous Fiscal Responsibility and Transparency Law and stipulates that the government must not run a deficit.

Monetary policy was expansionary in 2013, although the pace of growth of monetary aggregates slowed during the third quarter of 2013. M1 and M2 monetary aggregates grew by 10.6% and 14.4%, respectively, between September 2012 and September 2013, which represented a sharp decline in growth over June 2013, when both aggregates were logging annual growth of 14.9% and 21.5%, respectively. Meanwhile, dollar deposits behaved in exactly the opposite way, growing at low rates during the first months of the year (as the central bank took measures to promote de-dollarization) but gaining momentum in the second quarter on expectations that the United States Federal Reserve would soon scale back its asset purchases and the nuevo sol would depreciate. Thus, dollar deposits and M3 grew by 28.8% and 19.2%, respectively, between September 2012 and September 2013.

**Peru: GDP, Inflation and unemployment, 2011-2013**



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

Private lending accelerated, with growth at 15.6% between September 2012 and September 2013. Specifically, sol-denominated credit was strong, while dollar-denominated credit weakened. In May 2013, the central bank began to introduce measures to boost liquidity, such as gradually reducing reserve requirements. As of October 2013, the maximum average and marginal reserve requirements in nuevos soles had come down to 16%, from 20% and 30%, respectively, in June. In order to bolster expectations about the slant of monetary policy, in November 2013 the benchmark rate was cut to 4% from 4.25%, where it had stood since May 2011.

With respect to the exchange rate, the nuevo sol depreciated in nominal terms against the dollar by 2.1% on average during the first 10 months of the year but by 7% between October 2012 and October 2013. This occurred against a backdrop of deteriorating investor expectations around concerns that international liquidity would tighten following expected action by the United States Federal Reserve to gradually withdraw asset purchases. In order to temper exchange rate volatility, the central bank reversed the direction of its exchange market interventions and went from purchasing US\$ 3.4 billion in reserves during the first four months of the year to selling US\$ 5.3 billion between May and September 2013. Thus, the central bank's foreign exchange position stood at US\$ 43.7 billion in September 2013, while net international reserves totaled US\$ 66.4 billion. As a result of the nominal devaluation of the nuevo sol, the effective real exchange rate depreciated by 4.8% between October 2012 and October 2013.

The balance-of-payments current account is estimated to have run a larger deficit for the duration of 2013 than in 2012. In the first nine months of 2013, the current account deficit stood at US\$ 8.4 billion, 71% more than the year-earlier figure. The value of exports slid by 9.4% over the same period in 2012, mainly due to the diminished value of mining exports and to a lesser extent fishery exports, which contracted by 11.4% and 31.1%, respectively. The drop in value of mining exports reflected the lower prices fetched during the period for products such as copper (-7.4%) and gold (-11.9%). Imports expanded by 4.2%, and imports of capital goods, which grew by 3.6%, represented 28.1% of that increase during the first nine months of the year. During the same nine-month period, the financial account recorded US\$ 12 billion in capital inflows, a 20.6% year-on-year decline. These inflows corresponded primarily to flows to the private sector, especially foreign direct investment and medium- and long-term borrowing. In the third quarter of 2013, US\$ 2.3 billion in short-term capital outflows were posted in the context of the abovementioned exchange-rate movements and volatile expectations concerning future international liquidity.

GDP grew by 4.9% in the first nine months of 2013. The most vigorous sectors were construction and finance and insurance, which expanded by 10.5% and 8.2%, respectively. Growth in trade and services was also above average. Meanwhile, the fishery sector remained stagnant, and other sectors, like mining and hydrocarbons, manufacturing and agriculture, grew at rates below 2%. Domestic demand rose by 6.1% year-on-year in the first nine months of 2013. Private consumption was up by 5.4%, and

#### Peru: main economic indicators, 2011-2013

	2011	2012	2013 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	6.9	6.3	5.2
Per capita gross domestic product	5.7	5.1	4.0
Consumer prices	4.7	2.6	3.0 <sup>b</sup>
Money (M1)	19.9	18.9	16.4 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	1.9	-7.2	-0.3 <sup>b</sup>
Terms of trade	12.7	-4.9	-5.9
	<b>Annual average percentage</b>		
Open urban unemployment rate	7.7	6.8	6.0 <sup>b</sup>
Central government			
Overall balance / GDP	1.0	1.2	0.0
Monetary policy rate	4.0	4.3	4.3 <sup>b</sup>
Nominal lending rate <sup>e</sup>	18.7	19.2	18.5 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	50 633	51 063	47 607
Imports of goods and services	43 464	48 501	51 118
Current account balance	-3 341	-6 842	-11 690
Capital and financial balance <sup>f</sup>	8 032	21 650	14 094
Overall balance	4 691	14 808	2 404

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

<sup>a</sup> Estimates.

<sup>b</sup> Figures as of October.

<sup>c</sup> Figures as of September.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Market lending rate, average for transactions conducted in the last 30 business days.

<sup>f</sup> Includes errors and omissions.

government consumption by 7.1%. Gross fixed investment climbed 6% during the same period. Robust domestic demand was reflected in a 3.8% jump in import volumes, as compared with a 3.5% decline in export volumes.

Up to October 2013, annual inflation as measured by the Lima consumer price index was 3%, with a cumulative 2.9% for the first 10 months of the year.

In the first three quarters of 2013, the adequate employment rate increased on average by 3.1 percentage points over the year-earlier period, and pay-based underemployment fell by 1.7 percentage points. Lastly, the average unemployment rate in Lima improved from 7.2% in the first three quarters of 2012 to 6% in the same period in 2013.