

## PERU

### 1. General trends

Peru's gross domestic product (GDP) grew by 2.4% in 2014, compared with 5.8% in 2013. This slowdown was due mainly to the cooling of private investment, against a backdrop of falling mineral prices, particularly for gold and copper. GDP is expected to grow by 3.6% in 2015, driven by increases in mining output and, to a lesser extent, the expansion of public spending and the monetary stimulus created by lower interest rates and increased availability of credit.

The balance-of-payments current account deficit narrowed slightly in 2014, as —despite the deteriorating trade balance— lower mining sector profits drove down factor income payments. However, the fall in exports has eroded the current account balance in 2015, despite the slowdown of imports caused by weaker economic growth.

In 2014 and the first quarter of 2015, the fiscal balance worsened, owing to the combination of higher current expenditure and the slower expansion of tax revenues as overall growth slowed and tax cuts came into effect at the end of 2014.

Inflation was low in 2014 and early 2015, and stood at 3.4% year-on-year in May 2015.

Despite the economic slowdown, unemployment remained low, underemployment was down and the quality of employment improved.

### 2. Economic policy

#### (a) Fiscal policy

As a result of the expansion of public expenditure, the non-financial public sector posted an overall deficit of 0.1% of GDP in 2014, compared with an overall surplus of 0.9% in 2013. The primary surplus of the non-financial public sector stood at 0.9% of GDP in 2014, down from 2% in 2013. The overall central government deficit was equivalent to 0.4% of GDP, compared with a 0.5% surplus in 2013, while the central government primary surplus narrowed from 1.6% of GDP in 2013 to 0.5% of GDP in 2014. Other entities of the non-financial public sector posted a primary surplus of 0.4% of GDP in 2014, compared with 0.5% of GDP in 2013.

Central government current revenues increased by 6.1% in nominal terms to stand at 19% of GDP. The 10% rise in income tax receipts, particularly from corporations, accounted for over half of the increase in central government current revenues in 2014. At 5.3%, the rate of growth in the general sales tax take was slower than in 2013.

Central government non-financial expenditure surged by 11.6% to stand at 18.6% of GDP and included growth in current expenditure, which climbed by 13.1% to reach 13.8% of GDP (thanks largely

to an 18.2% increase in payroll spending), and capital expenditure, which rose by 7.4% to stand at 4.8% of GDP. Central government spending on interest increased by 0.9% between 2013 and 2014.

The non-financial public sector debt was equivalent to 20.1% of GDP in December 2014, up slightly on 19.6% of GDP in 2013, as domestic debt crept up from 10.8% to 11.3% of GDP between 2013 and 2014, while external debt decreased slightly, from 8.8% to 8.7% in the same period.

Faced with slowing growth in 2014, the government introduced a series of short-term measures to stimulate the economy and promote investment. The package adopted in November included fiscal stimulus measures, changes to facilitate the procurement of licences and permits for investment projects, including modifications to the way environmental permits are processed in order to streamline the paperwork required and reduce costs, and tax relief measures, such as cuts to corporate and personal income tax, excise tax on fuel and tariffs, and a change with respect to the advance payment of general sales tax.

In the first five months of 2015, the fiscal balance of the non-financial public sector posted a primary surplus of 12.166 billion nuevos soles, 21% lower than in the same period in 2014. As interest payments rose by 8.8%, the overall surplus narrowed by 27.4% over the year-earlier period and stood at 9.228 billion nuevos soles. In the same period, the central government primary surplus contracted by 49.3% and the overall surplus fell by 62.9%.

Central government current revenues fell by 6.9% in the first five months of 2015, compared with the same period in 2014. Lower corporate income tax receipts accounted for over a third of the total drop, as mining companies reported a reduction in profits. A further fifth was attributable to the fall in general sales tax receipts on imported goods as growth in consumption and imports slowed.<sup>1</sup> Central government non-financial expenditure rose by 9.4% in the same period, as the wage bill went up by 9.9% and spending on goods and services by 18.1%. Notably, central government gross capital formation fell by 19.1%, as a 17.5% expansion at the national government level was unable to offset declines of 30.6% and 40.9% at the regional and local levels, respectively.

## **(b) Monetary policy**

Peru pursued an expansionary monetary policy in 2014 and early 2015, in response to falling mineral prices, particularly for gold and copper, and slowing economic growth. The benchmark interest rate was lowered several times, from 4% to 3.75% in July 2014, then further to 3.5% in September and finally to 3.25% in January 2015, where it remained (as of June 2015).

The central bank also gradually reduced the reserve rate for nuevos soles in order to encourage lending from 15% at the end of 2013 to 7.5% in April 2015. Foreign currency lending was disincentivized by introducing measures such as imposing an additional reserve requirement.

Lending from credit institutions to the private sector in nuevos soles increased by 18.2% between December 2013 and December 2014, while dollar-denominated loans rose by only 0.3% in the same period. Growth in mortgage lending denominated in nuevos soles (23.8%) was strong, but slowed a little in the second half of the year, while domestic-currency corporate lending expanded by 19.8%. The dollarization ratio of private sector credit went from 40.6% in December 2013 to 38.2% in December 2014.

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<sup>1</sup> In November 2014, as part of its stimulus measures, the Government slashed import duties to zero on 1,085 products.

Private sector lending in nuevos soles continued to grow rapidly in the first four months of 2015, expanding by 22.1% year-on-year in April 2015, on the back of increased business lending. By contrast, dollar-denominated credit fell by 7.4% in the same period as measures were implemented by the central bank to raise the dollar reserve requirement and discourage dollar-denominated lending.

The nominal nuevo sol-dollar exchange rate depreciated by 5% on average in 2014, as investor interest in emerging market assets and capital inflows waned. At the same time, and despite the drop in value of the currencies of other trading partners, the real effective exchange rate depreciated by 2.3% on average in 2014, compared with 2013. The nuevo sol continued to depreciate against the dollar in 2015, as the dollar strengthened further against other currencies and Peru's growth expectations deteriorated. This resulted in a nominal depreciation of 6.3% in the nuevo sol-dollar exchange rate between December 2014 and May 2015 and a total effective exchange rate depreciation of 2.1% in the same period.

Net international reserves shrank from US\$ 65.663 billion in December 2013 to US\$ 62.308 billion in December 2014. The central bank sold reserves worth US\$ 4.228 billion over the year, particularly in the fourth quarter, in order to mitigate exchange-rate volatility. In the first five months of 2015, net international reserves depleted further, to stand at US\$ 60.413 billion at the end of May, as the central bank sold reserves worth US\$ 4.682 billion, despite the fact that financial intermediaries increased their dollar deposits by US\$ 3.970 billion.

### 3. The main variables

#### (a) The external sector

In 2014, the balance-of-payments current account deficit stood at US\$ 8.031 billion (4% of GDP), narrowing slightly from US\$ 8.474 billion (4.2% of GDP) in 2013. Despite the worsening of the trade balance, as the value of exports fell by more than that of imports, the current account improved because lower mining sector profits drove down factor income payments and income from transfers rose.

The value of exports slumped by 7.8%, compared with 2013, owing to the lower value of gold, copper and natural gas exports. The value of gold exports fell sharply by 21.2%, as a result of both the 10.5% drop in price and the 12% reduction in export volumes. Natural gas exports plummeted by 42.7%, owing mainly to the fall in its export price. Exports of non-traditional agricultural products, notably fruit, rose by 22.8%.

Imports slid by 3.4% in value in 2014, owing to two main factors. First, imports of inputs were down by 3.6% in value terms mainly because of the fall in the price of hydrocarbons and hydrocarbon derivatives. Second, capital goods imports declined by 5.5%, as investment slowed, which resulted in lower imports of transport equipment. Imports of consumer goods grew by only 0.6%.

Capital inflows under the balance-of-payments financial account amounted to US\$ 6.828 billion (3.4% of GDP) in 2014, down by 40.2% from 2013. Foreign direct investment stood at US\$ 7.885 billion, falling by 15.2% in relation to the 2013 figure. Reinvested earnings held steady, while capital contributions and loans from parent companies fell. Short-term capital inflows—which had turned into outflows in 2013 in response to a shift in United States monetary policy—totalled only US\$ 354 million

in 2014. Lastly, private sector portfolio investment abroad more than doubled from US\$ 1.291 billion in 2013 to US\$ 4.548 billion in 2014.

The current account deficit stood at US\$ 2.623 billion in the first quarter of 2015, 19.3% wider than in the first quarter of 2014, owing to the 17.3% fall in the value of exports, mainly of traditional products, and despite a 7.8% drop in imports caused by the economic slowdown. In the fishing sector, exports of fishmeal and fish oil experienced a sharp drop in volume (83.8% and 68.6%, respectively) as adverse weather conditions resulted in a smaller catch. The prices of mineral exports were down, with copper, iron and silver falling by 25.5%, 54.4% and 22.4%, respectively. Lower oil prices also resulted in a drop in the value of oil and gas exports by 46.5% and 41.2%, respectively.

In the first quarter of 2015, the balance-of-payments financial account surplus reached US\$ 3.052 billion (as against US\$ 962 million in the first quarter of 2014). Foreign direct investment, which rose by 9.9% over the first quarter of 2014 to total US\$ 2.818 billion, accounted for most of this increase. By contrast, capital inflows from portfolio investment plunged by 90.2%, owing to the deterioration of external financial conditions, lower commodity prices and slower growth in Peru.

#### **(b) Economic activity**

Peru's GDP grew by 2.4% in 2014, down from 5.8% in 2013. The fishing sector's output fell by 27.9% as the El Niño phenomenon hit the sector hard and reduced anchovy catches. A contraction was also seen in manufacturing (-3.3%), particularly in primary manufacturing, owing to a fall in the production of fishmeal and fish oil. Mining and hydrocarbons fell by 0.8% and growth in the construction sector slowed drastically, expanding by only 1.7% against the backdrop of weak subnational public spending. The mining sector's performance was negatively affected by the lower-grade output at Antamina and the repercussions of the efforts to shut down unregulated gold mines in the Madre de Dios region.

On the spending front, private consumption grew by 4.1%, sustained by credit growth and high levels of employment, while public consumption increased by 6.4%. Gross private fixed capital investment decreased by 1.6% in 2014, due to delays in the implementation of ongoing and planned mining projects. Public investment fell by 3.6%, owing mainly to the slow pace of investment project implementation at the subnational level.

Growth of 3.6% is projected for 2015, on the strength of increases in gold and copper mining production, stronger private consumption, fuelled by an expansionary monetary policy, and higher public spending against the backdrop of the stimulus measures announced by the government at the end of 2014. In the first quarter of 2015, GDP grew by 1.7%, compared with the first quarter of 2014. However, weak investment continued to have a negative impact on growth. Gross fixed investment fell by 7.1% owing to a 3.9% decline in private investment, which was hit by factors such as lower investment in the mining sector due to low prices, and a 26.5% decrease in public fixed investment caused by poor budget implementation by regional and local governments. Private consumption rose by 3.6% and public consumption by 5%.

#### **(c) Prices, wages and employment**

Measured using the Lima consumer price index, inflation stood at 3.2% between December 2013 and December 2014. Meals outside the home, food and electricity were among the sectors with the highest price increases. In May 2015, cumulative 12-month inflation was 3.4%, owing primarily to

services such as food, education and meals outside the home. In the first five months of the year, accumulated inflation reached 2.2%.

In 2014, the average unemployment rate in Lima remained unchanged from 2013 at 5.9%. The number of people in full employment went up by 5.1%, while the number of underemployed fell by 5.7%. Unemployment increased slightly among young people in 2014, rising from 13.4% to 13.8%. Average monthly income increased by 6.6% between 2013 and 2014.

As a result of the concurrent decline in participation and employment rates in the first quarter of 2015, average unemployment was 7%, almost unchanged from the rate of 6.9% recorded in the first quarter of 2014. The number of people in full employment rose by 3.4%, while the number of underemployed fell by 5.3%, compared with the first quarter of 2014. Lastly, average monthly incomes saw a return to growth, rising by 10.6% over the first quarter of 2014.

Table 1  
PERU: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	7.5	8.5	9.1	1.0	8.5	6.5	6.0	5.8	2.4
Per capita gross domestic product	6.3	7.4	8.0	0.0	7.3	5.3	4.7	4.5	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.4	3.9	7.5	0.8	1.9	8.0	1.6	2.7	1.4
Mining and quarrying	1.9	4.2	8.1	1.0	1.3	0.6	2.8	4.9	0.8
Manufacturing	7.3	10.6	8.6	-6.7	10.8	8.6	1.5	5.7	-3.3
Electricity, gas and water	7.6	9.2	8.1	1.1	8.1	7.6	5.8	5.5	4.9
Construction	15.0	16.6	16.8	6.8	17.8	3.6	15.8	9.1	1.7
Wholesale and retail commerce, restaurants and hotels	10.4	10.0	10.9	-0.2	11.5	9.4	7.9	6.0	4.4
Transport, storage and communications	8.3	16.9	11.5	2.7	11.2	11.7	9.0	7.3	4.9
Financial institutions, insurance, real estate and business services	16.7	14.0	9.7	4.5	11.1	9.6	8.7	8.0	4.9
Community, social and personal services	5.4	4.3	4.8	6.0	4.9	3.8	5.6	4.9	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.4	8.0	8.4	4.3	8.2	5.8	6.4	5.5	4.5
Government consumption	7.6	4.3	5.4	13.0	5.6	4.8	8.1	6.7	6.4
Private consumption	6.2	8.6	8.9	2.8	8.7	6.0	6.1	5.3	4.1
Gross capital formation	34.6	28.6	31.0	-20.4	36.8	10.1	11.7	11.5	-3.9
Exports (goods and services)	1.2	6.7	7.8	-3.2	3.1	10.9	3.9	-3.1	-0.3
Imports (goods and services)	12.7	21.3	25.0	-16.0	26.5	13.0	10.4	2.1	-1.4
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	19.7	22.0	26.2	19.6	23.6	24.8	25.9	27.2	23.3
National saving	22.9	23.5	21.8	19.1	21.2	23.0	23.2	22.9	19.3
External saving	-3.3	-1.5	4.4	0.5	2.4	1.9	2.7	4.2	4.0
Balance of payments	<b>Millions of dollars</b>								
Current account balance	2,912	1,521	-5,285	-614	-3,545	-3,177	-5,237	-8,474	-8,031
Goods balance	8,986	8,503	2,569	6,060	6,988	9,224	6,276	613	-1,276
Exports, f.o.b.	23,830	28,094	31,018	27,071	35,803	46,376	47,411	42,861	39,533
Imports, f.o.b.	14,844	19,591	28,449	21,011	28,815	37,152	41,135	42,248	40,809
Services trade balance	-737	-1,192	-2,056	-1,176	-2,353	-2,244	-2,420	-1,801	-1,800
Income balance	-7,522	-8,299	-8,742	-8,385	-11,205	-13,357	-12,399	-10,631	-9,328
Net current transfers	2,185	2,508	2,943	2,887	3,026	3,201	3,307	3,346	4,374
Capital and financial balance d/	-186	8,067	8,398	1,621	14,717	7,829	20,025	11,376	5,843
Net foreign direct investment	3,467	5,425	6,188	6,020	8,189	7,518	11,840	9,161	7,785
Other capital movements	-3,653	2,642	2,210	-4,399	6,529	312	8,185	2,215	-1,946
Overall balance	2,726	9,588	3,112	1,007	11,173	4,653	14,788	2,902	-2,188
Variation in reserve assets e/	-2,753	-9,654	-3,169	-1,043	-11,192	-4,686	-14,806	-2,907	2,178
Other financing	27	67	57	36	19	33	19	5	10
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	101.9	102.6	99.5	97.8	94.4	96.5	90.1	90.5	92.7
Terms of trade for goods (index: 2010=100)	99.7	103.4	89.6	84.7	100.0	112.7	107.2	102.1	96.6
Net resource transfer (millions of dollars)	-7,681	-165	-288	-6,728	3,531	-5,495	7,644	749	-3,475
Total gross external debt (millions of dollars)	28,387	33,239	34,997	35,157	43,674	47,977	59,376	60,823	64,512
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	67.4	68.9	68.1	68.4	70.0	70.0	69.1	68.9	68.4
Open unemployment rate	8.5	8.4	8.4	8.4	7.9	7.7	6.8	5.9	5.9
Visible underemployment rate	16.4	16.5	15.6	15.4	14.5	12.4	12.0	11.6	11.3

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	1.1	3.9	6.7	0.2	2.1	4.7	2.6	2.9	3.2
Variation in producer prices (December-December)	1.3	5.2	8.8	-5.1	4.6	6.3	-0.6	1.6	1.5
Variation in nominal exchange rate (annual average)	-0.7	-4.4	-6.5	2.9	-6.2	-2.5	-4.2	2.5	5.0
Variation in average real wage	1.2	-1.8	2.2	3.1	-3.0	8.4	2.4	3.3	2.8
Nominal deposit rate h/	3.2	3.2	3.5	2.8	1.5	2.3	2.5	2.3	2.3
Nominal lending rate h/	23.9	22.9	23.7	21.0	19.0	18.7	19.2	18.1	15.7
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue	18.4	19.1	19.4	16.9	18.2	18.8	19.2	19.2	18.8
Tax revenue	15.8	16.4	16.5	14.5	15.5	16.0	16.5	16.5	16.3
Total expenditure	16.8	17.5	17.2	18.4	18.1	17.8	17.9	18.7	19.3
Current expenditure	14.7	15.2	14.6	14.4	13.5	13.4	13.5	14.0	13.8
Interest	1.9	1.7	1.5	1.3	1.1	1.1	1.0	1.1	1.0
Capital expenditure	2.1	2.3	2.5	4.0	4.6	4.3	4.4	4.7	4.8
Primary balance	3.5	3.4	3.7	-0.2	1.3	2.1	2.4	1.6	0.5
Overall balance	1.6	1.7	2.2	-1.5	0.1	1.0	1.3	0.5	-0.4
Central government public debt	29.8	25.8	23.1	22.8	20.7	18.4	18.2	17.3	17.9
Domestic	8.0	9.1	8.3	8.8	9.5	8.9	8.4	8.5	9.4
External	21.8	16.7	14.8	14.0	11.2	9.5	9.8	8.8	8.5
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	16.2	19.8	17.0	21.4	22.8	21.8	22.5	22.1	25.0
To the public sector	-2.2	-4.3	-6.1	-4.4	-5.4	-7.7	-10.0	-10.5	-8.7
To the private sector	28.8	33.9	35.2	37.8	39.6	39.8	42.0	44.4	47.2
Others	-10.4	-9.8	-12.1	-11.9	-11.4	-10.3	-9.4	-11.8	-13.5
Monetary base	4.8	5.6	6.3	6.5	8.2	8.5	10.4	9.6	9.4
Money (M1)	6.7	7.9	8.5	9.4	10.7	10.9	12.0	12.1	12.4
M2	12.4	15.2	17.1	18.3	21.4	21.4	25.0	24.8	25.0
Foreign-currency deposits	12.7	12.9	14.9	14.4	13.6	13.1	11.9	15.4	14.7

**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 2007 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

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

g/ Metropolitan Lima.

h/ Market rate, average for transactions conducted in the last 30 business days

Table 2  
PERU: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	5.1	5.5	4.4	5.2	4.8	1.7	1.8	1.0	1.7	...
Gross international reserves (millions of dollars)	67,587	67,290	67,096	66,162	65,131	64,733	64,994	63,074	62,003	61,093 c/
Real effective exchange rate (index: 2005=100) d/	87.5	89.4	92.2	93.1	92.6	92.3	92.6	93.2	93.2	94.9 c/
Open unemployment rate e/	6.4	5.8	5.9	5.7	6.9	5.7	5.6	5.6	7.0	...
Employment rate e/	64.6	64.7	64.8	65.2	64.8	64.1	63.8	64.6	63.7	...
Consumer prices (12-month percentage variation)	2.6	2.5	3.1	3.0	3.4	3.5	2.9	3.2	3.0	3.4 c/
Wholesale prices (12-month percentage variation)	-1.0	-1.0	1.9	1.6	2.5	2.6	0.8	1.5	1.3	1.8
Average nominal exchange rate (nuevos soles per dollar)	2.6	2.7	2.8	2.8	2.8	2.8	2.8	2.9	3.1	3.1
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2 g/
Lending rate f/	19.3	18.9	18.1	16.3	15.8	15.7	15.8	15.6	16.1	16.0 c/
Interbank rate	4.2	4.2	4.4	4.2	4.1	4.0	3.8	3.7	3.4	3.5 g/
Monetary policy rates	4.3	4.3	4.3	4.1	4.0	4.0	3.7	3.5	3.3	3.3 g/
Sovereign bond spread, Embi + (basis points to end of period) h/	145	200	181	159	163	150	162	181	180	181
Risk premia on five-year credit default swap (basis points to end of period)	98	144	148	133	112	84	107	115	134	140
International bond issues (millions of dollars)	2,845	2,530	150	315	1,600	355	1,250	2,739	2,002	1,155
Stock price index (national index to end of period, 31 December 2005 = 100)	414	324	332	328	298	347	338	308	259	273
Domestic credit (variation from same quarter of preceding year)	10.2	6.2	3.9	4.7	9.9	17.2	20.8	20.4	17.7	18.3 c/
Non-performing loans as a percentage of total credit	1.9	2.1	2.1	2.2	2.3	2.4	2.4	2.5	2.6	2.6 c/

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/ Figures as of May.

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

e/ Metropolitan Lima.

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

g/ Figures as of April.

h/ Measured by J.P.Morgan.