

Peru

ECLAC projects GDP growth of 3.9% for Peru in 2016, up from 3.3% in 2015. The fiscal deficit widened in 2016 as spending increased and public revenue shrank. The balance-of-payments current account improved over the period thanks to an improved trade balance that in turn was due to weaker imports of inputs and capital goods and stronger mining export volumes.

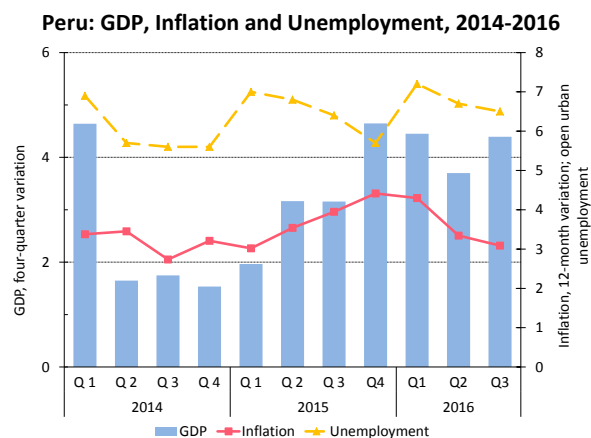
The overall non-financial public-sector surplus of 3.609 billion soles in the first nine months of 2015 became a deficit of 5.070 billion soles over the same period in 2016. Meanwhile, the central government primary surplus of 185 million soles in the first three quarters of 2015 fell to a deficit of 1.966 billion soles in the corresponding period in 2016, and the overall deficit of 4.771 billion soles in the first three quarters of 2015 deteriorated to 7.671 billion soles in the corresponding period in 2016. Current revenues were down in the period by 0.9%, with non-tax receipts in particular falling by 8.5%, while current spending rose 4.5%, largely because of an 11.2% increase in outlays on remuneration. Weaker mining commodity prices led to a 31.7% drop in mining tax transfers from the central government to regional and local governments. Meanwhile, central government capital spending declined by 5.9%, although gross fixed capital formation grew by 5.1%. The overall non-financial public-sector deficit was funded primarily by external borrowing, so that non-financial public-sector debt had risen to 22.7% of GDP by the end of the third quarter of 2016 from 21.1% in the third quarter of 2015.

The benchmark interest rate, after being raised gradually from 3.25% in August 2015 to 4.25% in February 2016, was kept unchanged until November 2016 as inflation dropped from the peak of 4.6% a year it had reached in January 2016 and the Central Reserve Bank of Peru identified improvements in inflation expectations.

Lending by depository institutions to the private sector grew by 9.2%, down from 14.2% in the first 10 months of 2015. Year-on-year credit growth slowed month after month in 2016, from 13.7% in January to 5.3% in October. The growth was in sol-denominated lending, while dollar-denominated credit fell.

Despite a nominal appreciation in February and March, the nominal exchange rate of the sol against the dollar depreciated by 7% on average in the first 10 months of 2016 amid lower mineral prices and a weaker appetite for emerging-market assets linked to commodity exports. The real effective exchange rate, meanwhile, depreciated by 2.1% on average during the first nine months of 2016 compared with the year-earlier period.

ECLAC estimates that the balance-of-payments current account deficit narrowed to 3.7% of GDP in 2016 from 4.8% in 2015, owing mainly to a healthier trade balance. This deficit was 30.7% smaller in the first nine months of 2016 than in the year-earlier period. The deficit on the factor income account rose by 18.2% amid stronger mining production and efforts by the parent companies of multinational mining firms to reduce their high debt levels. Imports declined by 7.7% in value over the period, with 80% of this drop stemming from lower imports of inputs (especially industrial raw



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

materials) and of capital goods as private investment weakened. Meanwhile, exports rose 2.8% in value, with mining exports posting the strongest growth, led by a 19.6% rise in the value of copper exports. Nonetheless, this performance reflects contrasting movements in prices, which dropped 19.3% over the period, and export volumes, which were up 47.6%.

The financial account posted a surplus of US\$ 4.459 billion in the first nine months of 2016, which was 41.5% less than in the year-earlier period. Foreign direct investment totalled US\$ 4.655 billion, a decline of US\$ 2.42 billion on the same period in 2015, with investment in mining hit the hardest. Net international reserves grew from US\$ 61.485 billion in December 2015 to US\$ 62.009 billion in October 2016.

GDP was 4.2% higher in the first three quarters of 2016 than in the year-earlier period, driven mainly by primary activities, which climbed 9.9%, while non-primary activities grew by 2.7%. Metal mining, copper in particular, posted the strongest growth thanks to the expansion of the Cerro Verde mine, the start of operations at Las Bambas and higher production at Antamina. Electricity and water (up 7.8%) and services (up 4.5%) were also dynamic. However, fisheries declined by 22.2%, affected mainly by environmental conditions which delayed the start of the fishing season. The manufacturing sector also contracted (by 2.9%), with activities linked to primary resources (such as anchovy for fishmeal) the hardest hit. Construction remained sluggish, declining by 0.4%.

On the spending side, GDP growth in the first nine months of the year was mainly driven by a 9.6% increase in exports as ongoing mining projects matured. This accounted for more than half the growth in the period. Private consumption rose 3.6%, while a 5.9% increase in public consumption was accompanied by a growing fiscal deficit. Gross domestic investment fell once again, due in the main to a 6.2% decline in gross fixed private investment and falling inventories. Particular factors were weaker mining investment, as some large projects came to an end and international metal prices fell, and the delayed implementation of certain major infrastructure projects such as line 2 of the Lima and Callao metro system. Imports also fell (by 2.9%), largely as a result of declining manufacturing output, which curbed demand for inputs, and of the general drop in private investment already mentioned, which led to weaker capital goods imports.

Year-on-year inflation in October was 3.4%, with cumulative price growth of 2.6% from December 2015.

Unemployment in Lima averaged 6.8% in the first 10 months of 2016, up from 6.5% in the year-earlier period, primarily because the economically active population increased by more (2.2%) than the employed population (1.9%). The rise in unemployment mainly affected workers over the age of 45 and young people.

Peru: main economic indicators, 2014-2016

	2014	2015	2016 ^a
Annual growth rate			
Gross domestic product	2.4	3.3	3.9
Per capita gross domestic product	1.0	1.9	2.6
Consumer prices	3.2	4.4	3.1 ^b
Real average wage	2.8	-0.3	1.7
Money (M1)	4.9	5.1	4.4 ^b
Real effective exchange rate ^c	2.3	2.3	2.6 ^b
Terms of trade	-5.4	-6.3	-2.3
Annual average percentage			
Open urban unemployment rate	5.9	6.5	6.7
Central government			
Overall balance / GDP	-0.3	-2.2	-2.9
Nominal deposit rate ^e	2.3	2.3	2.6 ^d
Nominal lending rate ^f	15.7	16.1	16.3 ^d
Millions of dollars			
Exports of goods and services	45,482	40,462	41,712
Imports of goods and services	48,722	45,343	43,540
Current account balance	-8,196	-9,210	-7,023
Capital and financial balance ^g	6,041	9,288	7,322
Overall balance	-2,188	73	299

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

a/ Estimates.

b/ Figures as of September.

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

d/ Figures as of October.

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.

GDP is projected to grow by 4% in 2017 thanks to improvements in mining and fishing production, which should continue to boost traditional exports. The downside risk to this growth projection is the possibility that fixed investment (particularly in the private sector) might not recover and that public spending (especially on investment) might be cut.