

PERU

1. General trends

Peru's gross domestic product (GDP) grew by 3.9% in 2016, compared with 3.3% the previous year, primarily on higher production of copper exports at mines such as Las Bambas and Cerro Verde. GDP is expected to grow by 2.5% in 2017, pulled along by higher output in the mining sector as domestic demand cools in both the private and the public sectors.

The current account deficit contracted to 2.7% of GDP in 2016 (4.8% in 2015), owing to a significant improvement in the trade balance brought about by the expansion in mineral exports.

Monetary policy in 2016 was constrained by an annual inflation rate (3.2% as of December) that exceeded the central bank's target, whereas fiscal policy was expansionary. In 2016, the non-financial public sector (NFPS) posted an overall deficit equal to 2.6% of GDP, compared with 2.1% of GDP in 2015.

2. Economic policy

(a) Fiscal policy

The overall deficit of the NFPS grew during the period, from 2.1% of GDP in 2015 to 2.6% of GDP in 2016, while the primary deficit rose from 1.0% to 1.5% of GDP. This result is explained by a 0.6% decrease in the current revenue of the general government, by a 1% increase in non-financial expenditure—the result, in turn, of the offsetting effects of a 3.8% increase in current spending and a 7.3% cut in capital spending—and above all by the deterioration in the primary outturns of State-owned enterprises and the capital revenue of the general government. It bears mentioning that the decrease in NFPS capital spending was due to less capital spending on items other than gross capital formation, with the latter remaining stable over the period. This, in turn, was the result of the offsetting effects of an increase in spending on capital formation by local governments and a decrease in this category of spending by the national government. The growth in the deficit over the year prompted the new administration to take steps to control spending, which sparked the dramatic decline in growth seen during the final quarter of 2016.

Meanwhile, the central government trimmed its overall deficit from 2.9% of GDP in 2015 to 2.6% of GDP in 2016 by making spending cuts that outpaced the losses in current revenue.

From 2015 to 2016, the central government's current revenue fell by 1.4% in nominal terms, from 16.6% to 15.2% of GDP. This erosion can be attributed primarily to a 40.1% increase in tax refunds, despite the recovery that occurred in important categories such as corporate income tax, which saw an 8.3% increase in receipts, and smaller gains in other taxes, including sales tax and individual income tax. Non-tax revenue tumbled by 5.1% during the period.

With respect to central government expenditure, non-financial spending was down by 2.3% and fell from 18.7% of GDP in 2015 to 17.0% of GDP in 2016. Current spending rose slightly (0.1%) as a result of the offsetting effects of an 11.1% increase in wages, a 6.1% drop in spending on transfers

(mainly due to the cuts in transfers for mining royalties) and a 4.8% decrease in spending on goods and services. Meanwhile, capital spending fell by 9.2% between 2015 and 2016, and central government spending on interest was up by 13.9% in 2016.

At the close of 2016, non-financial public debt stood at 23.8% of GDP, compared with 23.3% of GDP in 2015. From 2015 to 2016, the NFPS external debt shrank from 11.1% to 10.3% of GDP, while domestic debt climbed from 12.2% to 13.5% of GDP as more Treasury bonds were issued to finance the public deficit.

In the first quarter of 2017, the NFPS fiscal balance deteriorated with respect to the same period in 2016. A primary surplus equivalent to 3.0% of GDP was posted, slightly less than the surplus of 3.1% of GDP from the year-earlier period. In tandem with an increase in interest payments from 1.6% to 1.9% of GDP, the overall surplus was down from 1.5% of GDP in the first quarter of 2016 to 1.1% of GDP in the first quarter of 2017. Over the same period, the primary surplus of the central government weakened from 1.8% to 1.2% of GDP, while the overall balance moved from a surplus of 0.2% of GDP to a deficit of 0.6% of GDP.

In the first three months of 2017, central government current revenue climbed 4.3% over the same period in 2016, as a result of an increase in non-tax revenue and a smaller decrease in tax revenue. The drop in tax revenue was primarily due to a 19.6% increase in tax refunds coupled with a 10.5% erosion in receipts from corporate income tax, and in spite of the fact that receipts from individual income tax and general sales tax were up by 3.9% and 2.2%, respectively. Meanwhile, the central government increased its non-financial spending by 10.2% over the period, mainly on a sharp hike in spending on capital items other than gross capital formation. Current spending contracted by 0.9% in this period, and within this category, cuts in spending on goods and services easily offset higher spending on wages and, to a lesser extent, transfers.

The fiscal deficit is expected to increase in 2017 and 2018 as a result of reconstruction efforts that are under way to repair damage caused by climate-related events associated with El Niño (rains and mudslides) that hit Peru in February and March 2017.

(b) Monetary policy and exchange-rate policy

In 2016, monetary policy was focused on steering inflation expectations back to the target range, following supply shocks and other factors that had driven inflation beyond the upper limit of the range. After raising the monetary policy interest rate to 4% in January 2016 and 4.25% in February 2016, the central bank held the rate steady for the rest of the year. In May 2017, in response to slower inflation in a context of weak domestic demand, the central bank lowered the benchmark rate to 4.0%. That same month, as an additional liquidity measure, the central bank lowered the lending and borrowing rates for transactions in Peruvian soles with the financial system.

In 2016, the growth of broad money (M3) slowed significantly, from an annual rate of 13% in December 2015 to 1.7% in December 2016. This rate of growth continued in the first months of 2017 and climbed to 2.0% in April.

Total credit by depository institutions to the private sector, measured in terms of the current exchange rate, increased by 5.2% between December 2015 and December 2016, a sharp decline compared with the growth of 13.9% recorded between December 2014 and December 2015. Sol-

denominated credit rose by 7.2% in 2016, whereas dollar-denominated credit increased by 2.1%, in line with the credit de-dollarization trend in Peru.

In April 2017, total credit to the private sector, measured in current exchange rate terms, grew at an annual rate of 4.8%, which reflects slower growth in credit in soles (5.0%) and faster growth in credit in dollars (5.5%), with the sol appreciating against the dollar. Although sol-denominated credit slowed in all categories during the period, business credit logged the weakest performance of all, posting annual gains of 2.3% in April 2017, down from 34.7% in December 2015. During the first four months of 2017, growth in dollar-denominated credit was up, led by lending to businesses.

In nominal terms, the sol depreciated against the dollar at an average rate of 6% in 2016, although the year-on-year loss in value was just 0.3% between December 2015 and December 2016. Many factors contributed to this depreciation, including stabilization in the price of Peruvian commodity exports (such as copper), movements in interest rates, the accommodative monetary policy employed by developed countries during the first half of the year and uncertainty related to the elections in the United States, which dampened the dollar in the second half of the year. During this period, as the sol gained value in real terms against the currencies of major trading partners such as China and Europe, the real effective exchange rate appreciated by 0.6%. In the first quarter of 2017, the sol gained 3.9% in nominal terms over its value in December 2016, as the price of metals improved, against a backdrop of uncertainty around the dollar, while the effective exchange rate appreciated by 3.8%.

Peru's net international reserves increased from US\$ 61.485 billion in December 2015 to US\$ 61.686 billion in December 2016. The central bank intervened in the foreign currency market with sales in the first quarter and net purchases in the second and third quarters of 2016, as well as with other instruments (such as foreign currency swaps), for the purpose of reducing exchange rate volatility affecting the sol. As a result, it became a net buyer over the course of the year, a position that was partially reversed by a reduction in deposits by financial intermediaries. In the first four months of 2017, net international reserves grew by US\$ 1.312 billion alongside the appreciating value of the sol, foreign currency purchases were made by the central bank (through direct purchases and the non-renewal of foreign currency swaps) and deposits by financial intermediaries fell.

3. The main variables

(a) The external sector

The deficit on the current account of the balance of payments shrank from US\$ 9.169 billion (4.8% of GDP) in 2015 to US\$ 5.303 billion (2.7% of GDP) in 2016, a development that can be attributed to a 7.6% increase in the value of exports and a 5.9% decrease in the value of imports. The resulting improvement in the trade balance easily offset the 21.7% uptick in factor payments generated by stronger earnings of foreign companies.

The increase in the value of exports that took place in 2016 was primarily due to a 24.5% rally in the volume of copper exports that occurred on stronger production, mainly at the Cerro Verde and Las Bambas mines—and despite a drop in the average price of the commodity over the course of the year, notwithstanding the recovery seen in the last quarter of 2016—and, to a lesser extent, to an increase in both the average price of gold and the volume exported. As in 2015, the value of exports of petroleum and petroleum products slid on falling prices (-16.5% on average). Climate-related factors that hit the country's anchovy catch particularly hard drove down fishery exports during the period. By volume,

fishmeal and fish oil exports fell by 9.3% and 20%, respectively. Farm exports rose, mainly on a 30% surge in coffee export volume.

The declining value of imports in 2016 can be explained primarily by a 7.4% drop in the value of imports of capital goods, especially for manufacturing purposes, brought about by the completion of investment projects, fewer imports of inputs, especially raw materials for manufacturing, and slower private investment over the period. Imports of consumer goods were down by 1.6%.

Capital entries valued at US\$ 6.418 billion (3.3% of GDP) were recorded on the financial account of the balance of payments in 2016, which was 32.1% less than in 2015 (4.9% of GDP). Firstly, long-term loans to the private sector fell, and smaller disbursements and larger amortizations were recorded than in 2015. Secondly, public sector liabilities held by non-residents climbed in a context of deficit on the public accounts. Lastly, entries under foreign direct investment declined, especially contributions and other capital operations, as a number of projects were completed. Foreign direct investment in Peru totaled US\$ 6.863 billion in 2016, down 17% from 2015.

In the first quarter of 2017, a deficit of US\$ 961 million was recorded on the current account of the balance of payments, smaller by 60% than the deficit posted for the same period in 2016. This improvement came on the continuation of an upward trend in export values (30.4%), which far surpassed the jump in import values (7.2%). There were notable price and volume increases in copper exports, a larger volume of fishmeal exports and price and volume increases in exports of petroleum, petroleum products and natural gas during the period. In the first three months of 2017, the financial account of the balance of payments was in surplus by US\$ 556 million, around one third of the US\$1.722 billion surplus posted in the first quarter of 2016. This result primarily reflects an increase in public sector liabilities held by non-residents and a decrease in long-term loan disbursements to the private sector, while foreign direct investment in Peru rose and foreign portfolio investment fell with respect to the first quarter of 2016.

(b) Economic growth

Peru's GDP grew by 3.9% in 2016, compared with 3.3% in 2015. This performance was led by the mining and hydrocarbons sector, which expanded by 16.3% on an increase in copper production, mainly at the Cerro Verde and Las Bambas mines, and to a lesser extent by sectors that saw growth, but at a slower pace than in 2015, like the services sector (3.9%). Sectors that posted negative growth included the fishing sector (-10.1%), which was affected by climate-related factors, and the construction sector, which faced low growth in domestic demand.

On the expenditure side, exports were the main engine of growth, expanding by 9.7% on an increase in copper production at mines such as Cerro Verde and Las Bambas. In 2016, private consumption grew by 3.4%, the same rate as in 2015, whereas public consumption contracted by 0.5% in 2016, mainly owing to the sharp slowdown seen in the fourth quarter of the year. Meanwhile, gross private investment in fixed capital tumbled by 6.1% as mining projects were completed. Fixed public investment contracted by 0.5%, mainly due to implementation problems with infrastructure projects.

Growth is projected at 2.5% AT 2017 based on an increase in mining output over 2016, against a backdrop of weak private investment and slower private and public consumption. Specifically, mining investments are not expected to rise much, and there is ongoing uncertainty regarding the future of the projects by the Brazilian company Odebrecht, such as the Olmos project, that were put on hold in the first quarter of 2017. Public investment should benefit from the government's efforts to get public investment

projects under way (such as Invierte.pe), but the actual impact that such measures will have is not yet clear.

During the first quarter of 2017, GDP growth was up by 2.1% over the first quarter in 2016. This positive turn was mainly propelled by exports, which surged at a rate of 12.2% during the period, whereas growth in private consumption slowed to just 2.2%. Meanwhile, public consumption contracted by 9.5%, private investment by 5.6% and public investment by 16%. From a sector standpoint, in the first quarter of 2017, GDP growth was catalysed, above all, by a carry-over effect in metal production (copper, especially) and the recovery of fisheries activity with respect to the first quarter of 2015. Notably, the rains and mudslides that hit during the first quarter of the year depressed growth and had an adverse impact on agriculture and other sectors.

(c) Prices, wages and employment

Year-on-year inflation was 3.2% in December 2016, as measured by the Lima consumer price index. Although inflation remained above the central bank's target, it trended downwards over the year. In May 2017, cumulative 12-month inflation stood at 3.0%, having climbed 1.2% in the first five months of the year.

The unemployment rate in Lima rose for the second year running, to 6.7% on average (6.5% in 2015). The higher unemployment particularly affected young people, since the youth unemployment rate rose from an average of 14.8% in 2015 to 15.8% in 2016. As in 2015, the number of employed rose more slowly (1.8%) than the economically active population (2.1%). In the first quarter of 2017 unemployment was around 7.7%, higher than the 7.2% in the year-earlier period, reflecting the economy's loss of momentum.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	9.1	1.1	8.3	6.3	6.1	5.9	2.4	3.3	3.9
Per capita gross domestic product	7.8	-0.1	7.0	4.9	4.7	4.4	1.0	1.9	2.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.4	0.3	1.0	8.1	1.8	2.6	-1.1	3.7	1.0
Mining and quarrying	8.1	0.6	1.4	0.3	1.8	5.1	-1.6	9.5	16.3
Manufacturing	8.5	-6.5	10.1	8.3	1.3	5.2	-1.1	-1.7	-1.6
Electricity, gas and water	8.0	1.0	8.7	8.2	5.9	3.4	5.2	6.0	7.3
Construction	16.9	6.5	17.0	3.6	15.9	9.4	1.8	-5.8	-3.1
Wholesale and retail commerce, restaurants and hotels	10.6	-0.5	10.9	9.2	9.0	5.3	2.6	3.8	2.0
Transport, storage and communications	11.8	2.4	12.0	11.4	9.0	7.4	4.7	5.4	5.4
Financial institutions, insurance, real estate and business services	9.8	4.8	10.9	9.9	8.2	8.3	8.2	7.0	3.7
Community, social and personal services	4.8	6.3	4.7	4.0	5.6	4.3	4.5	4.4	4.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	8.3	4.4	8.3	7.2	7.6	6.0	4.6	3.8	2.8
Government consumption	4.8	12.1	3.9	7.4	8.3	7.5	8.3	5.8	-0.5
Private consumption	8.9	3.1	9.1	7.2	7.4	5.7	3.9	3.4	3.4
Gross capital formation	31.1	-20.2	35.8	12.2	9.5	8.5	-1.2	-0.8	-4.6
Exports (goods and services)	7.8	-3.3	3.2	5.5	3.1	-0.6	-3.8	1.6	9.5
Imports (goods and services)	25.0	-15.9	26.6	13.6	10.0	2.9	-1.0	-0.8	2.2
Investment and saving c/	Percentajes of GDP								
Gross capital formation	26.2	20.0	23.8	24.2	24.6	25.6	24.7	24.0	...
National saving	21.8	19.5	21.3	22.5	21.8	20.9	20.2	19.2	...
External saving	4.4	0.5	2.4	1.7	2.8	4.7	4.4	4.8	...
Balance of payments	Millions of dollars								
Current account balance	-5 285	-614	-3 569	-2 990	-5 388	-9 387	-8 925	-9 169	-5 303
Goods balance	2 569	6 060	6 988	9 224	6 393	504	-1 509	-2 916	1 888
Exports, f.o.b.	31 018	27 071	35 803	46 376	47 411	42 861	39 533	34 414	37 020
Imports, f.o.b.	28 449	21 011	28 815	37 152	41 018	42 356	41 042	37 331	35 132
Services trade balance	-2 552	-1 163	-2 410	-2 815	-3 147	-2 919	-2 022	-2 336	-2 050
Income balance	-8 742	-8 385	-11 230	-13 171	-12 592	-11 215	-9 893	-7 544	-9 184
Net current transfers	2 943	2 887	3 026	3 201	3 307	3 346	4 372	3 331	3 967
Capital and financial balance d/	8 466	1 665	14 768	7 683	20 221	12 311	6 770	9 248	5 472
Net foreign direct investment	6 188	6 020	8 189	7 194	11 710	9 663	3 640	8 144	6 560
Other capital movements	2 278	-4 355	6 580	489	8 511	2 648	3 130	1 104	-1 088
Overall balance	3 112	1 007	11 173	4 653	14 788	2 902	-2 188	73	168
Variation in reserve assets e/	-3 169	-1 043	-11 192	-4 686	-14 806	-2 907	2 178	-73	-168
Other financing	57	36	19	33	19	5	10
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	99.5	97.8	94.4	96.6	90.1	90.5	92.7	94.8	96.3
Terms of trade for goods (index: 2010=100)	84.6	82.6	100.0	107.2	104.4	99.0	93.6	87.8	87.1
Net resource transfer (millions of dollars)	-219	-6 684	3 557	-5 455	7 648	1 100	-3 112	1 704	-3 712
Total gross external debt (millions of dollars)	34 997	35 157	43 674	47 977	59 376	60 823	69 215	73 274	74 651
Employment g/	Average annual rates								
Labour force participation rate	68.1	68.4	70.0	70.0	69.1	68.9	68.4	68.3	68.5
Open unemployment rate	8.4	8.4	7.9	7.7	6.8	5.9	5.9	6.5	6.7
Visible underemployment rate	15.6	15.4	14.5	12.4	12.0	11.6	11.3	10.4	11.3

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.7	0.2	2.1	4.7	2.6	2.9	3.2	4.4	3.2
Variation in producer prices (December-December)	8.8	-5.1	4.6	6.3	-0.6	1.6	1.5	2.6	1.9
Variation in nominal exchange rate (annual average)	-6.5	2.9	-6.2	-2.5	-4.2	2.5	5.0	12.2	6.0
Variation in average real wage	2.2	3.1	-3.0	8.4	2.4	3.3	2.8	-0.3	2.0
Nominal deposit rate h/	3.5	2.8	1.5	2.3	2.5	2.3	2.3	2.3	2.6
Nominal lending rate h/	23.7	21.0	19.0	18.7	19.2	18.1	15.7	16.1	16.5
Central government	Percentages of GDP								
Total revenue	22.4	20.0	21.1	21.7	22.4	22.4	22.5	20.5	19.1
Tax revenue	18.8	16.8	17.7	18.3	19.0	19.0	19.3	17.7	16.6
Total expenditure	19.9	21.5	21.2	19.7	20.3	21.7	22.8	22.7	21.5
Current expenditure	15.5	15.6	14.9	14.5	14.6	15.5	16.7	17.1	16.7
Interest	1.6	1.3	1.2	1.1	1.1	1.1	1.1	1.0	1.1
Capital expenditure	4.4	5.9	6.3	5.1	5.7	6.2	6.0	5.5	4.8
Primary balance	4.2	-0.2	1.1	3.2	3.1	1.8	0.8	-1.1	-1.3
Overall balance	2.5	-1.5	-0.1	2.0	2.1	0.7	-0.3	-2.2	-2.4
Central government public debt	23.1	22.8	20.7	18.4	18.3	17.3	18.2	20.1	21.1
Domestic	8.3	8.8	9.5	8.9	8.4	8.5	8.6	9.2	11.3
External	14.8	14.0	11.2	9.5	9.8	8.8	9.6	10.9	9.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	17.0	21.4	22.7	21.7	22.7	22.3	25.6	26.3	27.5
To the public sector	-6.1	-4.4	-5.4	-7.7	-10.1	-10.5	-8.7	-8.6	-6.9
To the private sector	35.2	37.6	39.5	39.6	42.0	44.3	47.3	50.3	49.8
Others	-12.1	-11.9	-11.4	-10.3	-9.3	-11.5	-13.1	-15.5	-15.4
Monetary base	6.3	6.5	8.2	8.4	10.4	0.1	9.4	8.5	8.2
Money (M1)	8.5	9.4	10.7	10.8	12.0	12.2	12.5	12.2	11.7
M2	17.1	18.3	21.4	21.4	24.8	24.9	25.5	24.6	25.5
Foreign-currency deposits	14.9	14.4	13.6	13.1	11.9	15.4	15.0	18.7	15.4

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 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

	2015				2016				2017	
	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/	2.0	3.2	3.2	4.6	4.3	3.7	4.5	3.0	2.1	...
Gross international reserves (millions of dollars)	62 003	60 753	60 645	61 995	60 587	60 575	61 536	61 750	62 561	63 336 c/
Real effective exchange rate (index: 2005=100) d/	93.7	95.5	94.4	96.1	97.4	95.8	96.3	95.8	91.9	92.0 c/
Open unemployment rate e/	7.0	6.8	6.4	5.7	7.2	7.0	6.5	6.2	7.7	...
Employment rate e/	63.7	63.2	63.3	65.1	64.0	63.6	63.1	64.6	63.3	...
Consumer prices (12-month percentage variation)	3.0	3.5	3.9	4.4	4.3	3.3	3.1	3.2	4.0	3.0 c/
Wholesale prices (12-month percentage variation)	1.6	2.1	1.9	2.59	1.8	1.0	1.5	1.92	1.8	1.4
Average nominal exchange rate (soles per dollar)	3.1	3.1	3.2	3.3	3.4	3.3	3.3	3.4	3.3	3.3
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.2	2.2	2.3	2.4	2.6	2.7	2.7	2.7	2.7	2.7 g/
Lending rate f/	16.1	16.0	16.2	16.1	16.1	16.1	16.6	17.1	17.3	16.8 g/
Interbank rate	3.4	3.5	3.6	3.6	4.5	4.4	4.2	4.3	4.2	4.3 g/
Monetary policy rates	3.3	3.3	3.3	3.6	4.2	4.3	4.3	4.3	4.3	4.1
Sovereign bond spread, Embi + (basis points to end of period) h/	180	181	261	246	231	203	160	175	136	136 c/
Risk premiia on five-year credit default swap (basis points to end of period)	134	140	195	188	163	139	103	108	102	86
International bond issues (millions of dollars)	2 002	1 155	2 050	1 200	1 110	550	-	300	605	550
Stock price index (national index to end of period, 31 December 2005 = 100)	259	273	209	205	251	289	319	324	328	336
Domestic credit (variation from same quarter of preceding year)	16.2	16.3	14.2	10.4	11.7	13.4	12.1	12.0	9.8	7.2 g/
Non-performing loans as a percentage of total credit	2.6	2.7	2.7	2.6	2.7	2.8	2.9	2.9	3.0	3.0 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 2007 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.