

PERU

1. General trends

Peru posted GDP growth of 3.3% in 2015, compared with 2.4% in 2014. In 2015, metal mining output rose owing primarily to strong yields from at the Antamina, Antapaccay, Cerro Verde and Toromocho mines, as well as the launch of operations at the Las Bambas project. Nonetheless, private investment diminished significantly. GDP is expected to grow by 3.9% in 2016, driven by the increase in mining production (above all at Las Bambas). While private consumption is expected to continue growing, private investment is set to continue contracting.

The current account deficit increased to 4.4% of GDP in 2015 (compared with 4% in 2014), owing to the deterioration in the trade balance and in income from current transfers, which offset the reduction in factor income payments.

The fiscal balance deteriorated in 2015 as the overall public sector deficit rose by 1.8 percentage points of GDP, owing mainly to an 8.3% increase in current spending by the central government and a 5% decline in overall tax revenues stemming mainly from lower corporate earnings in 2015. The central government's gross fixed capital formation fell by 9.1% in 2015, reflecting mainly to the reduction in fixed investment of 20.9% by local governments and, to a lesser extent, by regional governments, which together more than offset the increase in the central government's investment.

Inflation accelerated to 4.4% year-on-year at the end of 2015, leading to tighter monetary conditions from the third quarter onwards. This affected growth in lending, particularly from the start of 2016.

Despite the improvement in growth, unemployment grew slightly in 2015 and in the first quarter of 2016.

2. Economic policy

(a) Fiscal policy

Between 2014 and 2015, the non-financial public sector's overall deficit deteriorated from 0.3% of GDP to 2.1%, at the same time as its primary position shifted from a surplus of 0.7% of GDP in 2014 to a deficit of 1.1% in 2015. The central government posted an overall deficit of 2.9% of GDP in 2015, compared with 0.5% in 2014, while the primary result shifted from a surplus of 0.5% of GDP in 2014 to a deficit of 1.9% in 2015. This deterioration in the public accounts stemmed from a smaller tax take and higher public spending, which continued to grow in 2015.

Between 2014 and 2015 the government's current income fell 7% in nominal terms, from 19% of GDP to 16.6%. About 60% of this decline stemmed from lower corporate tax income, which fell by 17.9% against a backdrop of weaker mining company earnings owing to falling international prices for commodities such as copper. Revenue from the general sales tax rose by 2.6% despite slowing economic growth, while the excise tax take increased by 7%. Non-tax income declined by 17.7% during the period.

The central government's non-financial spending rose by 6.7% to 18.6% of GDP at the end of 2015. Within this category, current spending increased by 6.9%, less than in 2014, and came to 13.9 percentage points of GDP. The main contributor to the increase in spending was procurement of goods and services, which was up by 21.4%. The government spent 1.3% more on interest during the year, with the payments on domestic debt rising by 11.7% (as that category of debt expanded), while the payments on external debt fell by 9.3%.

Non-financial public sector debt was equivalent to 23.3% of GDP at the end of 2015, compared with 20.0% of GDP at the end of 2014. This reflects the increase both in domestic debt, which grew from 11.3% to 12.2% of GDP between 2014 and 2015, and in external debt, which rose from 8.7% of GDP to 11.1% over the same period.

During the first three months of 2016, the non-financial public sector's fiscal balance deteriorated year-on-year, posting a primary surplus of 5.354 billion soles, which was 43.8% less than the year-earlier period. Given that interest payments also increased (by 20.5%), the overall surplus fell by 61.8% in the first three months of 2016, compared with the same period in 2015, to 2.840 billion soles. During that time, the government's primary surplus contracted by 40.6%, while the overall surplus was down by 90.5% to 233 million soles in the first quarter of 2016.

The central government's current income declined by 1.8% year-on-year in the first quarter of 2016. The 5.4% improvement in the tax take —mainly reflecting higher corporate tax revenue thanks to stronger mining production— was more than offset by a surge in tax rebates. The central government's non-financial costs rose by 4.1% during the period, particularly spending on goods and services, which increased by 22.7%. Lower international mineral prices led to a 29% decline in mining tax transfers in the first quarter of 2016. During that period, the central government increased its spending on gross fixed capital formation by 23.9%, driven mainly by the increase in local government spending, which jumped by 71.5% in that category.

(b) Monetary policy

The central bank changed its monetary policy stance in 2015. In January, it began lowering its benchmark interest rate, from the 3.5% set in September 2014 to 3.25%, while continuing to reduce the reserve requirement in soles in order to encourage lending in local currency, until June 2015, when it stood at 6.5%. However, from the third quarter onwards, monetary policy began tightening in light of rising inflation (which had exceeded the central bank's target) and in anticipation of the spillover effects of the depreciation of the sol versus the dollar. Hence, the monetary policy rate was raised to 3.5% in September 2015, 3.75% in December 2015, 4% in January 2016 and 4.25% in February 2016; as at April 2016 this rate remained unchanged.

Lending from credit institutions to the private sector in soles increased by 28.6% between December 2014 and December 2015, while dollar-denominated loans fell by 20.7%, leading to a decline in the dollarization ratio. Business lending in soles showed particularly strong growth, at 36%, while mortgage lending in soles rose by 24.4% and consumer credit grew by 17.6%.

Growth in M3 accelerated throughout 2015 and 2016, from 5.3% in the first quarter of 2015 to 12.6% in the first quarter of 2016. This stemmed almost exclusively from the increase in dollar deposits against a backdrop of exchange-rate depreciation and a level of inflation higher than the central bank's target.

Local-currency lending to the private sector decelerated gradually in the first four months of 2016, reflecting the tighter monetary conditions, and as a result grew by 20.7% in April 2016 compared with the year-earlier period. During this time, lending in soles in all categories slowed, though business lending slowed the most, up by 23.9% year-on-year in April 2016 compared with 36% in December 2015. Lending in dollars continued falling in 2016, and stood at -15.5% year-on-year in April 2016.

In 2015, the nominal sol exchange rate versus the dollar depreciated by 12.2% on average, owing to the sharp decline in commodity export prices along with investors' weaker appetite for emerging market assets against a backdrop of an economic slowdown and interest rate hikes in the United States. At the same time, and despite the nominal depreciation of other trading partners' currencies, the real effective exchange rate depreciated by 2.3% on average in 2015 compared with 2014. In the first quarter of 2016 the level of the sol versus the dollar remained high.

Peru's net international reserves fell from US\$ 62.308 billion in December 2014 to US\$ 61.485 billion in December 2015. The central bank sold reserves of US\$ 8.064 billion during the year, but the decline in net international reserves was partly offset by the increase in deposits by financial intermediaries, which came to US\$ 6.911 billion. Net international reserves continued to decline in the first four months of 2016, albeit more slowly, and stood at US\$ 61.273 billion at the end of April. The central bank sold reserves of about US\$ 1.304 billion during the period, which was partly offset by the increase in public deposits in the bank.

3. The main variables

(a) The external sector

In 2015 the balance-of-payments current account deficit was US\$ 8.373 billion (4.4% of GDP), higher than the deficit of US\$ 8.196 billion (4.0% of GDP) seen in 2014. Although factor income payments fell by 26.9% against the backdrop of weaker earnings for mining companies, the current account deteriorated as the trade balance doubled in size owing to a larger decline in the value of exports than of imports, and income from current transfers declined by 23.8%.

The value of exports decreased by 13.4% in 2015 compared with 2014, owing mainly to weaker exports of oil and natural gas exports, and to a lesser extent of mining products, particularly copper. Oil and oil product exports declined by 9.5% in volume, but their value took the heaviest hit from the 45.8% fall in prices. Although the price of copper fell by 26.2% on average during the year, export volumes rose 24.9% owing to the increase in production at mines such as Toromocho and Antamina, as well as the launch of Las Bambas.

Imports contracted by 8.9% in 2015, notably including a 15.3% decline in imports of intermediate goods, particularly fuel and lubricants (down 36.2%) owing to lower prices, and to a lesser extent, weaker imports for the industrial sector (down 5.9%). Capital goods imports also contracted, by 7%, owing mainly to the deceleration in investment in industry.

The balance-of-payments financial account saw capital inflows of US\$ 10.219 billion in 2015 (5.3% of GDP), almost 50% higher than in 2014. The increase stemmed mainly from the rise in public sector liabilities, which were US\$ 3.173 billion higher than in 2014, and from the shift in asset operations. In 2015 the private sector sold assets and reduced liabilities, resulting in greater net capital inflows totalling US\$ 806 million. During this period net short-term capital inflows moved from a positive

US\$ 354 million to a negative US\$ 1.034 billion, reflecting the economic slowdown, falling commodity prices and the depreciation of the sol.

Foreign direct investment in Peru in 2015 stood at US\$ 6.861 billion, reflecting a 13% decline compared with 2014. While capital contributions almost doubled, loans from parent companies abroad fell by 64.7%, and reinvestment declined by 25.9%.

In the first quarter of 2016, the balance-of-payments current account posted a deficit of US\$ 2.099 billion, 22.4% less than in the year-earlier period. This improvement stemmed mainly from the decline in imports (by 9.7%) in light of the slowdown and the depreciation of the sol, and a greater number of current transfers. The balance-of-payments financial account posted a surplus of US\$ 1.392 billion, 44.5% less than that generated in the first quarter of 2015. This result reflects mainly the decline in foreign direct investment, particularly in the form of loans from parent companies abroad, which was offset only partly by the increase in public debt using global bonds.

(b) Economic activity

In 2015, Peru's GDP grew by 3.3%, higher than the 2.4% seen in 2014. By sector, growth in metal mining stood out at 16.2%, owing to the above-mentioned increase in production at the Toromocho, Constancia and Antamina mines, as well as the launch of Las Bambas, which led to increases in the production of copper and other minerals, as well as growth in commerce (6.2%) and other services (8%), and the improvement in fishing (15.9%), which had been affected by El Niño in 2014, resulting in a decline in anchovy catches. The sectors in which performance deteriorated were hydrocarbon production (down 19.4%), construction (down 5.9%) and manufacturing (down 1.7%).

In terms of spending, private consumption grew by 3.4%, below the 2014 rate of 4.1%, while public consumption grew by 9.5% despite the decline in public revenue. Exports were the third driving factor in 2015, up by 3.5% owing to the launch of mining projects, particularly in the last quarter of the year. Gross private fixed capital investment fell by 7.5%, owing mainly to the limited implementation of investment projects at the subnational level, as in 2014, and the delay of some large-scale investment projects.

GDP is expected to grow by 3.9% in 2016, supported by the increase in gold and copper mining production for export, which is also set to boost metal export volumes and growth in private consumption. Faster deterioration in investment, in line with the recent trend, is a significant risk factor.

In the first quarter of 2016 GDP grew by 4.4% compared with the year-earlier period. Private consumption was up by 3.6%, and public consumption by 11.6%, reflecting public spending growth. Exports rose by 42.8% in real terms owing to the increase in copper production. Gross fixed private investment continued to contract, falling by 4.7% during the period. Conversely, public investment grew by 32.4%, as noted in the section on public spending. Output increases across the various sectors in the first quarter of 2016 were driven mainly by knock-on effects of the continued expansion in metal mining production.

(c) Prices, wages and employment

Inflation stood at 4.4% between December 2014 and December 2015, as measured by the Lima consumer price index, and exceeded the central bank's target. Prices rose fastest in the categories of

public services, food, meals outside the home, health and education. Inflation in the 12 months to April 2016 stood at 3.9%, with a cumulative rate of 1.2% in the first four months of the year.

Average unemployment in Lima stood at 6.5% in 2015, higher than the 5.9% seen in 2014, while the employment rate grew more slowly (1%) than the economically active population (1.6%). The unemployment rate was 7.2% in the first quarter of 2016. Youth unemployment increased from 13.8% to 14.8% in 2015, and to 15.6% in the first quarter of 2016.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	8.5	9.1	1.1	8.3	6.3	6.1	5.9	2.4	3.3
Per capita gross domestic product	7.2	7.8	-0.1	7.0	4.9	4.7	4.5	1.0	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.9	7.4	0.3	1.0	8.1	1.8	2.8	-1.0	3.6
Mining and quarrying	4.2	8.1	0.6	1.4	0.3	1.8	4.8	-0.5	9.2
Manufacturing	10.6	8.5	-6.5	10.1	8.3	1.3	5.3	-3.2	-1.7
Electricity, gas and water	9.2	8.0	1.0	8.7	8.2	5.9	5.0	5.1	6.2
Construction	16.6	16.9	6.5	17.0	3.6	15.9	9.6	1.8	-5.9
Wholesale and retail commerce, restaurants and hotels	10.0	10.6	-0.5	10.9	9.2	9.0	6.1	4.5	3.8
Transport, storage and communications	16.9	11.8	2.4	12.0	11.4	9.0	8.0	4.2	5.2
Financial institutions, insurance, real estate and business services	14.0	9.8	4.8	10.9	9.9	8.2	7.9	9.3	7.5
Community, social and personal services	4.3	4.8	6.3	4.7	4.0	5.6	4.7	4.8	4.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	8.0	8.3	4.4	8.3	7.2	7.6	5.6	4.6	3.8
Government consumption	4.3	4.8	12.1	3.9	7.4	8.3	7.4	7.1	5.8
Private consumption	8.6	8.9	3.1	9.1	7.2	7.4	5.3	4.1	3.4
Gross capital formation	28.6	31.1	-20.2	35.8	12.2	9.5	10.3	-0.2	-0.7
Exports (goods and services)	6.7	7.8	-3.3	3.2	5.5	3.1	-1.8	-4.6	1.6
Imports (goods and services)	21.3	25.0	-15.9	26.6	13.6	10.0	2.3	-0.9	-0.8
Investment and saving c/	Percentajes of GDP								
Gross capital formation	22.0	26.2	20.0	23.8	24.2	24.6	25.6	25.2	24.5
National saving	23.5	21.8	19.5	21.4	22.4	21.9	21.3	21.2	20.1
External saving	-1.5	4.4	0.5	2.4	1.8	2.7	4.3	4.0	4.4
Balance of payments	Millions of dollars								
Current account balance	1,521	-5,285	-614	-3,545	-3,177	-5,120	-8,582	-8,196	-8,373
Goods balance	8,503	2,569	6,060	6,988	9,224	6,393	504	-1,509	-3,150
Exports, f.o.b.	28,094	31,018	27,071	35,803	46,376	47,411	42,861	39,533	34,236
Imports, f.o.b.	19,591	28,449	21,011	28,815	37,152	41,018	42,356	41,042	37,385
Services trade balance	-1,192	-2,056	-1,176	-2,353	-2,244	-2,420	-1,801	-1,730	-1,732
Income balance	-8,299	-8,742	-8,385	-11,205	-13,357	-12,399	-10,631	-9,328	-6,823
Net current transfers	2,508	2,943	2,887	3,026	3,201	3,307	3,346	4,372	3,331
Capital and financial balance d/	8,067	8,398	1,621	14,717	7,829	19,907	11,484	6,008	8,446
Net foreign direct investment	5,425	6,188	6,020	8,189	7,518	11,840	9,161	7,785	7,786
Other capital movements	2,642	2,210	-4,399	6,529	312	8,067	2,323	-1,777	660
Overall balance	9,588	3,112	1,007	11,173	4,653	14,788	2,902	-2,188	73
Variation in reserve assets e/	-9,654	-3,169	-1,043	-11,192	-4,686	-14,806	-2,907	2,178	-73
Other financing	67	57	36	19	33	19	5	10	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	102.6	99.5	97.8	94.4	96.6	90.1	90.6	92.7	94.8
Terms of trade for goods (index: 2010=100)	95.0	84.6	82.6	100.0	107.2	104.4	99.0	93.6	87.8
Net resource transfer (millions of dollars)	-165	-288	-6,728	3,531	-5,495	7,527	857	-3,310	1,623
Total gross external debt (millions of dollars)	33,239	34,997	35,157	43,674	47,977	59,376	60,823	64,512	68,244
Employment g/	Average annual rates								
Labour force participation rate	68.9	68.1	68.4	70.0	70.0	69.1	68.9	68.4	68.3
Open unemployment rate	8.4	8.4	8.4	7.9	7.7	6.8	5.9	5.9	6.5
Visible underemployment rate	16.5	15.6	15.4	14.5	12.4	12.0	11.6	11.3	10.4

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	3.9	6.7	0.2	2.1	4.7	2.6	2.9	3.2	4.4
Variation in producer prices (December-December)	5.2	8.8	-5.1	4.6	6.3	-0.6	1.6	1.5	2.6
Variation in nominal exchange rate (annual average)	-4.4	-6.5	2.9	-6.2	-2.5	-4.2	2.5	5.0	12.2
Variation in average real wage	-1.8	2.2	3.1	-3.0	8.4	2.4	3.3	2.8	-0.3
Nominal deposit rate h/	3.2	3.5	2.8	1.5	2.3	2.5	2.3	2.3	2.3
Nominal lending rate h/	22.9	23.7	21.0	19.0	18.7	19.2	18.1	15.7	16.1
Central government	Percentajes of GDP								
Total revenue	19.1	19.4	16.9	18.1	18.7	19.2	19.2	19.1	16.7
Tax revenue	16.4	16.5	14.5	15.5	16.0	16.5	16.4	16.6	14.7
Total expenditure	17.5	17.2	18.4	18.0	17.7	17.9	18.7	19.6	19.6
Current expenditure	15.2	14.6	14.4	13.5	13.4	13.5	14.0	14.8	14.8
Interest	1.7	1.5	1.3	1.1	1.1	1.0	1.1	1.0	1.0
Capital expenditure	2.3	2.5	4.0	4.5	4.3	4.4	4.7	4.8	4.8
Primary balance	3.4	3.7	-0.2	1.3	2.1	2.4	1.5	0.5	-1.9
Overall balance	1.7	2.2	-1.5	0.1	1.0	1.3	0.5	-0.5	-2.9
Central government public debt	25.8	23.1	22.8	20.7	18.4	18.3	17.3	18.1	19.5
Domestic	9.1	8.3	8.8	9.5	8.9	8.4	8.5	8.6	9.0
External	16.7	14.8	14.0	11.2	9.5	9.8	8.8	9.5	10.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	19.8	17.0	21.4	22.7	21.7	22.5	22.1	25.0	26.1
To the public sector	-4.3	-6.1	-4.4	-5.4	-7.7	-10.0	-10.5	-8.7	-8.5
To the private sector	33.9	35.2	37.6	39.5	39.6	42.0	44.3	47.1	50.0
Others	-9.8	-12.1	-11.9	-11.4	-10.3	-9.4	-11.7	-13.5	-15.4
Monetary base	5.6	6.3	6.5	8.2	8.4	10.4	0.1	9.4	8.5
Money (M1)	7.9	8.5	9.4	10.7	10.8	12.0	12.2	12.4	12.1
M2	15.2	17.1	18.3	21.4	21.4	24.8	25.0	25.3	24.5
Foreign-currency deposits	12.9	14.9	14.4	13.6	13.1	11.9	15.4	14.9	18.6

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

	2014				2015				2016	
	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/	4.7	1.7	2.0	1.4	1.8	3.1	3.2	4.7	4.4	...
Gross international reserves (millions of dollars)	65,131	64,733	64,994	63,074	62,003	60,753	60,645	61,995	60,587	61,058 c/
Real effective exchange rate (index: 2005=100) d/	92.6	92.4	92.6	93.2	93.3	95.2	94.4	96.3	97.7	96.3 c/
Open unemployment rate e/	6.9	5.7	5.6	5.6	7.0	6.8	6.4	5.7	7.2	...
Employment rate e/	64.8	64.1	63.8	64.6	63.7	63.2	63.3	65.1	64.0	...
Consumer prices (12-month percentage variation)	3.4	3.5	2.7	3.2	3.0	3.5	3.9	4.4	4.3	3.5 c/
Wholesale prices (12-month percentage variation)	2.6	2.1	0.4	1.5	1.6	2.1	1.9	2.6	1.8	1.0
Average nominal exchange rate (soles per dollar)	2.8	2.8	2.8	2.9	3.1	3.1	3.2	3.3	3.4	3.3
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.4	2.6	2.7 c/
Lending rate f/	15.8	15.7	15.8	15.6	16.1	16.0	16.2	16.1	16.1	16.0 c/
Interbank rate	4.1	4.0	3.8	3.7	3.4	3.5	3.6	3.6	4.5	4.5 c/
Monetary policy rates	4.0	4.0	3.7	3.5	3.3	3.3	3.3	3.6	4.2	4.3
Sovereign bond spread, Embi + (basis points to end of period) g/	163	150	162	181	180	181	261	246	231	203
Risk premia on five-year credit default swap (basis points to end of period)	112	84	107	115	134	140	195	188	163	139
International bond issues (millions of dollars)	1,600	355	1250	2739	2,002	1,155	2,050	1,200	1,110	550
Stock price index (national index to end of period, 31 December 2005 = 100)	298	347	338	308	259	273	209	205	251	289
Domestic credit (variation from same quarter of preceding year)	9.9	17.2	20.8	20.4	17.7	18.1	16.8	12.8	11.7	13.3 c/
Non-performing loans as a percentage of total credit	2.3	2.4	2.4	2.5	2.6	2.7	2.7	2.6	2.7	2.8 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 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/ Measured by J.P.Morgan.