

PERÚ

1. General trends

Peru's GDP expanded by 5.8% in 2013, slightly down on the 6% posted in 2012, against a backdrop of weakening private investment, consumption and exports. GDP growth of 5% is projected for 2014, driven by the entry into operation of a number of mining projects and the consequent increase in the volume of commodity exports.

The fact that both the current and capital components of public expenditure grew faster than income caused the non-financial public sector surplus to shrink to 0.5% of GDP during 2013. In early 2014, central government public expenditure continued to grow faster than income, prompting the primary and overall surpluses to narrow in comparison with the same period in 2013.

The balance-of-payments current account deteriorated in 2013 compared with 2012, especially owing to the falling value of exports and an increase in imports. The financial account also posted lower capital inflows during 2013. In the first quarter of 2014, capital inflows under the financial account were lower than those of the year-earlier period, amid lower investor risk propensity in relation to emerging-market assets and lower commodity price expectations, among other factors.

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary during 2013 and the overall surplus of the non-financial public sector narrowed to 0.9% (from 2.3% of GDP in 2012) as a result of smaller surpluses recorded by the central government and other entities. The central government's primary surplus was equivalent to 1.5% of GDP (compared with 2.4% in 2012), while the overall surplus was 0.5% of GDP (1.3% in 2012).

Central government current revenues rose by 6.1% in nominal terms and stood at 18.9% of GDP. Almost two thirds of this increase stemmed from an 8.6% rise in general sales tax receipts on the back of expanding consumption. Personal income tax revenues were up by 11.9%, while those from corporate income tax fell by 2.2%. Central government non-financial expenditure jumped 11.9% to stand at 17.5% of GDP, and included growth in current expenditure, which climbed 10.9% to reach 12.3% of GDP (largely thanks to a 16.8% increase in payroll spending), and capital expenditure, which rose 14.7% to stand at 4.7% of GDP, a 10-year high. Central government spending on interest increased by 9.4% between 2012 and 2013.

At year-end 2013, the non-financial public sector debt was about 19.6% of GDP, down from 20.4% at the end of 2012. This decrease is largely due to a reduction in external debt from 9.8% of GDP in 2012 to 8.8% in 2013, although domestic debt crept up from 10.6% to 10.8% of GDP in 2013.

In October 2013, the Fiscal Responsibility and Transparency Strengthening Act was passed, changing the country's fiscal rules and regulations. For 2014, the new law replaces the macrofiscal

regulations of the previous Fiscal Responsibility and Transparency Act and stipulates that the government must not run a deficit. From 2015, guidance on the structural fiscal balance of the non-financial public sector will permit a maximum deficit of 1% of GDP.

During the first quarter of 2014, the overall surplus of the non-financial public sector remained virtually constant in nominal terms compared with the year-earlier period, at 6% of GDP slightly lower than the 6.4% of GDP posted in the first quarter of 2013 owing to GDP growth. The central government primary surplus diminished by 7.2% in nominal terms, and was equivalent to 5.9% of GDP (compared with 6.4% of GDP in the first quarter of 2013), while the overall surplus was 4.4% of GDP (5% of GDP in the first quarter of 2013).

Between the first quarter of 2013 and the first quarter of 2014, central government current revenues surged by 10.4% on the back of the aforementioned increase in general sales tax receipts and higher income taxes. The corporate income tax take was up 5.9% during the first quarter of 2014, having registered declining yearly figures during in the preceding three quarters. Central government non-financial expenditure climbed 16.7% during the period, mostly driven by burgeoning current expenditure, which was up 13.5% on the first quarter of 2013. Capital expenditure continued to show rapid growth, surging by 27.4% during the period.

(b) Monetary policy

Monetary policy was expansionary in 2013, although monetary aggregates expanded at a slower rate from the third quarter. M1 and M2 monetary aggregates grew by 7.2% and 5.9%, respectively, between December 2012 and December 2013, which represented a sharp decline in growth compared with June 2013, when these aggregates were logging annual growth of 14.9% and 21.5%, respectively. Aggregates continued to post slower growth during early 2014; between April 2013 and April 2014, M1 rose by just 2.8%, while M2 contracted by 2.1%. Meanwhile, annual growth in total liquidity, reflecting the trend in dollar liquidity, weakened from 16.5% in December 2013 to 10.7% in April 2014.

Private-sector lending in nuevos soles posted accelerated annual growth during 2013, rising from 16% in December 2012 to 22.5% in December 2013. Conversely, private-sector lending in dollars slowed sharply during the year, from annual growth of 16.4% in December 2012 to 2.9% in December 2013, against a backdrop of tougher reserve requirements in foreign currency. Lending to the private sector in nuevos soles quickened in the first four months of 2014 and reflected annual growth of 24.1% in April 2014. Business and mortgage credit performed particularly strongly during 2013 and early 2014, whereas dollar lending expanded at a more modest pace, with an annual growth rate of 4.2% in April 2014. As such, private-sector lending continued to follow a process of de-dollarization, so that the dollarization ratio stood at 39.4% in April 2014.

In November 2013, the benchmark interest rate was cut from 4.25%, where it had stood since May 2011, to 4%. In May 2013, the central bank began to introduce measures to boost liquidity, such as gradually reducing reserve requirements, so that the maximum average and marginal reserve requirements in nuevos soles were at 15% from December 2013, down from 20% and 30%, respectively, in June. The central bank also toughened the conditions for reserve requirements in foreign currency during 2013, although in January 2014, the requirement for foreign trade debt was then reduced from 20% to 14%, while the reserve requirement in nuevos soles was gradually reduced to 11.5% between January and June 2014.

Between December 2012 and December 2013, the nuevo sol recorded an 8.3% nominal depreciation against the dollar. This was the result 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. During the same period, the nominal devaluation of the nuevo sol resulted in a 5.8% decrease in the real effective exchange rate. The nuevo sol fluctuated against the dollar during the first five months of 2014, first depreciating to the end of February, appreciating during March and then holding steady at a level above the 2013 average (depreciation).

Net international reserves swelled from about US\$ 64.0 billion in December 2012 to about US\$ 65.7 billion in December 2013. The central bank purchased reserves during the first half of the year, before selling them during the second half in order to combat the depreciation of the nuevo sol, with the result that net purchases amounted to just US\$ 5 million. International reserves were depleted somewhat as a result of public-sector operations, particularly an external public debt repayment of about US\$ 2.6 billion; however, a US\$ 4.3 billion increase in foreign currency deposits by financial intermediaries resulted in a net addition of reserves over the year.

In early 2014, international reserves shrank slightly, mostly owing to the sale of reserves by the central bank during January and February, and amounted to approximately US\$ 64.7 billion at the end of April 2014.

3. The main variables

(a) The external sector

The balance-of-payments current account deficit was larger in 2013 than in 2012, having widened from about US\$ 6.5 billion (3.3% of GDP) to about US\$ 10.2 billion (4.9% of GDP). This deterioration reflected a worsening trade balance, which slipped from a surplus in the region of US\$ 5.1 billion in 2012 to a deficit of around US\$ 300 million in 2013. The current account deficit was no wider because of lower factor income payments, which were down from about US\$ 12.7 billion in 2012 to about US\$ 11.2 billion in 2013 because of lower profits returned by foreign-owned mining companies, which in turn reflected lower prices for mineral exports and, in some cases (such as gold), lower export volumes. The value of non-traditional exports fell by US\$ 212 million.

The value of exports slid by 9.5% compared with 2012, mainly due to the diminished value of mining exports. The value of gold exports decreased by 18.2% owing to a 15.5% drop in prices and a 3.2% fall in export volume. Copper and lead prices tumbled by 8.3% and 6.2%, respectively, while the volume of lead exports plunged by 27.6% during the period. Taken together, the reduction in the value of gold and copper exports accounted for two thirds of the decrease in the value of exports in 2013.

Imports rose by 2.6% in value terms in 2013, as robust domestic demand fuelled a 7% increase in consumer goods imports. Fuel and lubricant imports were up by 9.9%, while capital goods imports remained buoyant, with particular growth in imports of transport materials and capital goods for industry.

Capital inflows worth about US\$ 12.0 billion (5.8% of GDP) were posted under the financial account in 2013, down 39.3% on those received during 2012 (9.9% of GDP). Short-term capital inflows reversed the trend during the year as inflows of about US\$ 2.2 billion in 2012 turned to outflows of roughly the same magnitude in 2013, affected by the prospect of stimulus withdrawal in the United

States, among other factors. As mentioned above, some public-sector external liabilities were paid off, while private sector borrowing decreased.

In the first quarter of 2014, the current account deficit was US\$ 2.9 billion, slightly higher than in the first quarter of 2013. The balance of trade deteriorated, since the value of exports continued to decline (down 9.7% compared with the first quarter of 2013), mainly owing to the diminished value of mining and energy exports (especially gold and natural gas). At the same time, imports slipped 2.7% in value terms as imports of capital goods and inputs and consumer durables tailed off, although non-durable consumer goods imports were up 10.2% over the first quarter of 2013. The improvement in the services balance, due to the fall in profits reported by mining enterprises during the period, was not enough to offset the deterioration of the balance of trade.

The surplus on the balance-of-payments financial account contracted sharply from around US\$ 6.2 billion in the first quarter of 2013 to just US\$ 900 million in the same period in 2014. One third of this reduction in capital inflows corresponds to falling foreign direct investment (especially loans from foreign-owned companies to their subsidiaries in Peru), while the decline in other long-term capital inflows accounted for another third. As a result, the balance of payments position slipped from a surplus of about US\$ 4.2 billion during the first quarter of 2013 to a deficit of US\$ 800 million in the first quarter of 2014.

(b) Economic activity

Peru's GDP grew by 5.8% in 2013, slightly down on the 6% posted in 2012.¹ Growth was spurred by the performance of the commerce, construction and services sectors.

On the expenditure side, domestic demand rose by 7% during 2013, albeit slowing over the course of the year. The main drivers of GDP growth during 2013 were a 5.4% rise in private consumption and a 7.6% increase in fixed gross investment, on the back of private investment that climbed 6.4% and public investment that jumped by 12.5%. Private investment lost some momentum over the year, with year-on-year growth of 8.8% for the first quarter of 2013 slowing to 2.5% for the fourth quarter. Conversely, and despite slackening growth during the final quarter, public investment did not follow a downtrend and was consistent with the rise in public expenditure during the year. Imports were up 3.6% in real terms; however, in parallel with cooling domestic demand and currency depreciation, the pace of annual growth gradually slowed over the course of the year, from 7.7% in the first quarter of 2013, to a 0.3% contraction in the final quarter. Meanwhile, exports dipped by 0.9% in real terms under the impact of diminishing gold and fishmeal export volumes.

Growth of 4.8% is projected for 2014, on the strength of burgeoning mining output, services growth fuelled by domestic demand, and rising public expenditure during an election year. In the first quarter of 2014, GDP was up 4.8% on the same period in 2013. Domestic demand slowed even more sharply, with annual growth of 4.5% reflecting a deceleration in private fixed investment, which grew by just 1.6% during the period. The services sector continued to perform strongly in early 2014, although mining and construction activity lost some momentum.

(c) Prices, wages and employment

¹ Peru altered the basis for the calculation of its national accounts, resulting in a change in series values.

The inflation rate between December 2012 and December 2013 was 2.9%, slightly higher than the 2012 figure of 2.65%. Services inflation was at 4.4%, with notable price rises in meals outside the home (5.2%), health (5%) and education (4.8%). Inflation quickened in the early part of 2014, so that cumulative 12-month inflation stood at 3.6% in May 2014, again with services to the forefront. Cumulative inflation stood at 2.1% in the first five months of the year.

The average unemployment rate in Lima came down from 6.8% in 2012 to 5.9% in 2013, as a result of economic growth and buoyant activity in the services and construction sectors. Falling unemployment was more striking among women, whose average unemployment rate dropped from 8.5% in 2012 to 7.2% in 2013. However, youth unemployment remained much higher, and the rate decreased only marginally from 13.5% to 13.4%. The percentage of the economically active population with proper employment rose by 7.7%, while the underemployment rate among the economically active population fell by 4.6%. Average monthly income grew by 5.4% between 2012 and 2013.

In the first quarter of 2014, the unemployment rate jumped to 6.9%, compared with 5.6% in the year-earlier period. Average monthly income continued to rise during this period and was 5% higher than in the first quarter of 2013.

Table 1
PERÚ: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	6.3	7.5	8.5	9.1	1.0	8.5	6.5	6.0	5.8
Per capita gross domestic product	5.0	6.3	7.4	8.0	0.0	7.3	5.3	4.7	4.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	3.6	8.4	3.9	7.5	0.8	1.9	8.0	1.6	2.7
Mining and quarrying	10.3	1.9	4.2	8.1	1.0	1.3	0.6	2.8	4.9
Manufacturing	6.6	7.3	10.6	8.6	-6.7	10.8	8.6	1.5	5.7
Electricity, gas and water	5.6	7.6	9.2	8.1	1.1	8.1	7.6	5.8	5.5
Construction	8.7	15.0	16.6	16.8	6.8	17.8	3.6	15.8	9.1
Wholesale and retail commerce, restaurants and hotels	5.2	10.4	10.0	10.9	-0.2	11.5	9.4	7.9	6.0
Transport, storage and communications	7.0	8.3	16.9	11.5	2.7	11.2	11.7	9.0	7.3
Financial institutions, insurance, real estate and business services	0.8	16.7	14.0	9.7	4.5	11.1	9.6	8.7	8.0
Community, social and personal services	5.1	5.4	4.3	4.8	6.0	4.9	3.8	5.6	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.4	6.4	8.0	8.4	4.3	8.2	5.8	6.4	5.5
Government consumption	9.1	7.6	4.3	5.4	13.0	5.6	4.8	8.1	6.7
Private consumption	3.7	6.2	8.6	8.9	2.8	8.7	6.0	6.1	5.3
Gross capital formation	6.2	34.6	28.6	31.0	-20.4	36.8	10.1	11.7	11.5
Exports (goods and services)	14.2	1.2	6.7	7.8	-3.2	3.1	10.9	3.9	-3.1
Imports (goods and services)	12.2	12.7	21.3	25.0	-16.0	26.5	13.0	10.4	2.1
Investment and saving c/	Percentajes of GDP								
Gross capital formation	17.3	19.7	22.0	26.2	19.6	23.6	24.8	25.9	27.2
National saving	18.8	22.9	23.5	21.8	19.1	21.2	23.0	22.7	22.6
External saving	-1.5	-3.3	-1.5	4.4	0.5	2.4	1.9	3.3	4.5
Balance of payments	Millions of dollars								
Current account balance	1,159	2,912	1,521	-5,285	-614	-3,545	-3,177	-6,281	-9,126
Goods balance	5,286	8,986	8,503	2,569	6,060	6,988	9,224	5,232	-40
Exports, f.o.b.	17,368	23,830	28,094	31,018	27,071	35,803	46,376	46,367	42,177
Imports, f.o.b.	12,082	14,844	19,591	28,449	21,011	28,815	37,152	41,135	42,217
Services trade balance	-834	-737	-1,192	-2,056	-1,176	-2,353	-2,244	-2,420	-1,801
Income balance	-5,065	-7,522	-8,299	-8,742	-8,385	-11,205	-13,357	-12,399	-10,631
Net current transfers	1,772	2,185	2,508	2,943	2,887	3,026	3,201	3,307	3,346
Capital and financial balance d/	369	-186	8,067	8,398	1,621	14,717	7,829	21,069	12,028
Net foreign direct investment	2,579	3,467	5,425	6,188	5,165	7,062	7,518	11,840	9,161
Other capital movements	-2,210	-3,653	2,642	2,210	-3,544	7,655	312	9,229	2,867
Overall balance	1,528	2,726	9,588	3,112	1,007	11,173	4,653	14,788	2,902
Variation in reserve assets e/	-1,628	-2,753	-9,654	-3,169	-1,043	-11,192	-4,686	-14,806	-2,907
Other financing	100	27	67	57	36	19	33	19	5
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	101.9	102.7	99.6	97.9	94.5	96.6	89.9	90.8
Terms of trade for goods (index: 2005=100)	100.0	127.3	132.0	114.4	108.1	127.7	143.9	136.9	130.4
Net resource transfer (millions of dollars)	-4,596	-7,681	-165	-288	-6,728	3,531	-5,495	8,688	1,402
Total gross external debt (millions of dollars)	28,657	28,897	32,894	34,838	35,157	43,674	47,977	59,376	60,823
Employment g/	Average annual rates								
Labour force participation rate	67.1	67.4	68.9	68.1	68.4	70.0	70.0	69.1	68.9
Open unemployment rate	9.6	8.5	8.4	8.4	8.4	7.9	7.7	6.8	5.9
Visible underemployment rate	17.8	16.4	16.5	15.6	15.4	14.5	12.4	12.0	11.6

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	1.5	1.1	3.9	6.7	0.2	2.1	4.7	2.6	2.9
Variation in producer prices (December-December)	3.6	1.3	5.2	8.8	-5.1	4.6	6.3	-0.6	1.6
Variation in nominal exchange rate (annual average)	-3.4	-0.7	-4.4	-6.5	2.9	-6.2	-2.5	-4.2	2.5
Variation in average real wage	-1.9	1.2	-1.8	2.2	3.1	2.6
Nominal deposit rate h/	2.6	3.2	3.2	3.5	2.8	1.5	2.3	2.5	2.3
Nominal lending rate h/	25.5	23.9	22.9	23.7	21.0	19.0	18.7	19.2	18.1
Central government	Porcentajes de GDP								
Total revenue	19.1	20.9	21.9	22.4	20.0	21.2	21.7	22.4	22.5
Tax revenue	16.1	17.6	18.4	18.8	16.8	17.8	18.3	19.0	19.0
Total expenditure	17.7	16.8	17.1	18.3	20.2	20.0	18.6	19.3	20.7
Current expenditure	14.8	13.6	13.7	13.8	14.3	13.7	13.4	13.6	14.5
Interest	2.0	1.9	1.8	1.6	1.3	1.2	1.2	1.1	1.1
Capital expenditure	2.9	3.2	3.5	4.4	5.9	6.3	5.2	5.7	6.2
Primary balance	3.4	6.0	6.6	5.8	1.1	2.3	4.3	4.2	2.9
Overall balance	1.4	4.1	4.8	4.2	-0.2	1.1	3.2	3.1	1.8
Central government public debt	38.4	31.4	27.4	25.6	25.2	22.9	20.1	18.8	18.3
Domestic	8.0	7.2	8.7	8.6	8.8	9.4	8.5	8.5	8.5
External	30.4	24.3	18.7	17.0	16.3	13.5	11.6	10.2	9.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	15.6	16.2	19.8	17.0	21.4	22.8	21.8	22.5	22.0
To the public sector	-2.4	-2.2	-4.3	-6.1	-4.4	-5.4	-7.7	-10.0	-10.6
To the private sector	28.7	28.8	33.9	35.2	37.8	39.6	39.8	42.0	44.3
Others	-10.7	-10.4	-9.8	-12.1	-11.9	-11.4	-10.3	-9.4	-11.7
Monetary base	4.7	4.8	5.6	6.3	6.5	8.2	8.5	10.4	9.6
Money (M1)	6.4	6.7	7.9	8.5	9.4	10.7	10.9	12.0	12.1
M2	12.1	12.4	15.2	17.1	18.3	21.4	21.4	25.0	24.8
Foreign-currency deposits	14.4	12.7	12.9	14.9	14.4	13.6	13.1	11.9	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 1994 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
PERÚ: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	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/	5.9	6.3	6.3	5.3	4.5	6.3	5.3	6.9	4.8	...
Gross international reserves (millions of dollars)	53,360	57,253	59,711	63,091	67,587	67,290	67,096	66,162	65,131	64,801 c/
Real effective exchange rate (index: 2005=100) d/	96.1	98.7	96.7	92.4	91.6	89.5	87.3	87.2	86.5	86.9 c/
Open unemployment rate e/	8.7	6.3	6.6	5.6	6.4	5.8	5.9	5.7	6.9	...
Employment rate e/	63.8	64.2	64.6	65.1	64.6	64.7	64.8	65.2	64.8	...
Consumer prices (12-month percentage variation)	4.2	4.1	3.5	2.9	2.6	2.5	3.1	3.0	3.4	3.5 c/
Wholesale prices (12-month percentage variation)	4.3	2.5	0.6	-0.3	-1.0	-1.0	1.9	1.6	2.5	2.9 c/
Average nominal exchange rate (nuevos soles per dollar)	2.7	2.7	2.6	2.6	2.6	2.7	2.8	2.8	2.8	2.8
Nominal interest rates (annualized percentages)										
Deposit rate f/	2.5	2.5	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3 g/
Lending rate f/	18.9	19.4	19.4	19.2	19.3	18.9	18.1	16.3	15.8	15.7
Interbank rate	4.2	4.2	4.2	4.2	4.2	4.2	4.4	4.2	4.1	4.1 g/
Monetary policy rates	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.1	4.0	4.0
Sovereign bond spread, Embi + (basis points to end of period) h/	157	174	125	114	145	200	181	159	163	146
Risk premiia on five-year credit default swap (basis points to end of period)	122	162	106	97	98	144	148	133	112	84
International bond issues (millions of dollars)	2,825	990	1,275	2,150	2,845	2,530	150	315	1,600	...
Stock price index (national index to end of period, 31 December 2005 = 100)	492	421	451	430	414	324	332	328	298	347
Domestic credit (variation from same quarter of preceding year)	8.6	8.7	8.9	11.7	10.2	6.2	3.8	4.5	9.9	17.0 g/
Non-performing loans as a percentage of total credit	1.6	1.7	1.7	1.8	1.9	2.1	2.1	2.2	2.3	...

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..