

Peru

Peru's GDP grew by 2.8% in 2014, substantially less than the 5.8% posted in 2013, against a backdrop of falling private and public investment. GDP is expected to expand by 5% in 2015 on the strength of rising mining and fisheries output, private consumption and public and private investment. The current account recorded a deficit in 2014 as international mineral prices and export volume dropped.

The central government primary surplus shrank by 25.3% (3.263 billion soles) during the first 10 months of 2014; the overall surplus fell 41.4%. Current revenues increased 6.4% during the period while current spending grew by 11.7%, owing above all to rising salaries and wages (which contributed 44% to the increase) and an uptick in purchasing of goods and services (accounting for 31.4% of the increase). The wage bill was driven up by a series of stimulus measures rolled out by the government, such as payment of a special bonus in July and wage hikes for some groups of public-sector workers. Capital spending rose 7.3%, but gross fixed capital formation grew by just 2.1%.

During 2014, public sector investment was affected by administrative measures taken to improve expenditure review. Execution of subnational spending was the hardest hit despite it being an election year.

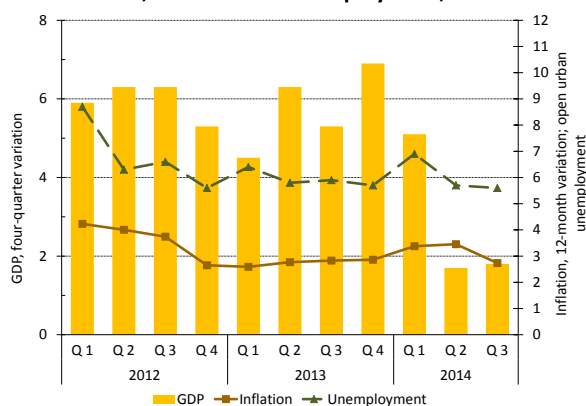
At the close of the third quarter of 2014 total gross public debt stood at 18.5% of GDP —the same as at the close of the third quarter of 2013. The ratio of domestic public debt to total debt rose from 51.5% to 53% during the period. On 30 October 2014 the Government of Peru issued 8.585 billion soles in bonds denominated in dollars or soles and bought back or swapped global bonds maturing in 2015, 2016 and 2019 and sovereign bonds maturing in 2015 and 2020. This increased the local-currency share of total debt, improved the debt maturity profile and helped pre-finance the 2015 budget.

Faced with slowing growth in 2014, the Government implemented a set of short-term stimulus initiatives along with others aimed at promoting investment. In November several short-term fiscal stimulus measures were approved; according to Ministry of Economy and Finance estimates, their annual impact would be to expand GDP by 0.25%. Changes were introduced to make it easier to obtain licenses and permits for investment projects and revise the way environmental permits are processed in order to streamline the paperwork required for investment projects and cut the costs involved. Pro-employment measures were announced, including creation of a special regime to promote formal hiring of young people aged 18 to 24 and provide incentives for entry-level jobs in micro- and small enterprises and youth training.

During 2014 the Central Reserve Bank of Peru adopted measures to promote liquidity and ease monetary policy in general in order to address the gap between observed and potential GDP as well as expectations of future inflation within the policy range. The benchmark interest rate was lowered twice, from 4% to 3.75% in July and to 3.5% in September 2014. In order to promote lending, the central bank also gradually reduced reserve requirements in soles, from 15% at year-end 2013 to 10% in November 2014.

Despite these stimulus measures, growth of monetary aggregates during the year was slow.

Peru: GDP, Inflation and unemployment, 2012-2014



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

Between September 2013 and September 2014, aggregates M2 and M3 rose 2.4% and 4%, respectively.

Lending to the private sector climbed 12.1% between September 2013 and September 2014. Lending in in soles jumped 14.4%. Dollar-denominated lending rose as well, but by just 4.6%.

During the first nine months of 2014, the nominal sol-dollar exchange rate reflected a depreciation of 4.9% on average as capital inflows and investor interest in emerging market assets waned. In the first quarter and in September and October 2014 the central bank sold US\$ 2.351 billion in foreign currency, bringing net international reserves at the close of October 2014 to US\$ 63.530 billion, which is 4.3% below the level seen a year earlier. Along with the nominal depreciation of the sol (and despite the loss in value of the currencies of other trading partners), the real effective exchange rate depreciated 3% on average during the first nine months of 2014 compared with the same period in 2013.

According to estimates, the current account of the balance of payments posted a larger deficit in 2014 than in 2013. During the first nine months of the year, the deficit amounted to US\$ 8.334 billion, 3.8% more than in the same period in 2013. During that period, exports slumped 10.7% overall, mainly due to the decline in mineral exports. The export value of gold and copper declined 37.4% and 10.3%, respectively, during the first nine months of 2014. Prices for these minerals dropped by 11.7% and 8.5%, on top of which gold export volume fell 29.4%. Meanwhile, total imports slid 3.1% during the first nine months of 2014, and imports of capital goods fell by 5.6% as investment cooled. During the first nine months of 2014 the financial account saw inflows amounting to US\$ 5.042 billion dollars —down by 56.2% compared with the same period in 2013. This decline is attributable to greater prudence on the part of international investors regarding emerging market assets and to the withdrawal of monetary stimulus in the United States, which had a negative impact on portfolio investment in Peru. Foreign direct investment fell off as well, even in the mining industry.

During the first nine months of 2014, GDP grew by 2.8% over the same period in 2013. The sharp slowdown in the economy was largely due to the decline in metal mining (down by 1.8%), fishing (off 5.2%) and manufacturing (down by 1.7%) and slower growth in construction, which expanded only 1% in the first three quarters of the year. Mining industry performance was affected above all by lower-grade output at Antamina and the repercussions of the fight against unregulated gold mines in the department of Madre de Dios.

On the spending side, domestic demand expanded 2.9% in the first nine months of the year. Private consumption grew by 4.4%; public consumption jumped 7.7%. In contrast, gross private fixed-capital investment decreased by 2% during the period, due in part to delays in mining projects, both ongoing and planned. Public investment fell 0.7%, owing primarily to the slow pace of investment project implementation at the subnational level. The slowdown in domestic demand was reflected in a 2.3% slide in imports. Exports were down by 3.4%.

Peru: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	6.0	5.8	2.8
Per capita gross domestic product	4.7	4.5	1.6
Consumer prices	2.6	2.9	3.1 ^b
Real average wage	2.4	3.3	3.2 ^c
Money (M1)	18.9	14.0	3.7 ^b
Real effective exchange rate ^d	-7.5	1.2	2.4 ^b
Terms of trade	-4.9	-4.7	-5.7
	Annual average percentage		
Open urban unemployment rate	6.8	5.9	6.0
Central government			
Overall balance / GDP	1.3	0.5	0.2
Nominal deposit rate	2.5	2.3	2.3 ^e
Nominal lending rate ^f	19.2	18.1	15.8 ^e
	Millions of dollars		
Exports of goods and services	51,282	47,991	43,297
Imports of goods and services	48,470	49,831	48,962
Current account balance	-6,281	-9,126	-12,401
Capital and financial balance ^g	21,069	12,028	9,896
Overall balance	14,788	2,902	-2,505

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

a/ Estimates.

b/ Figures as of October.

c/ Figures as of September.

d/ A negative rate indicates an appreciation of the currency in real terms.

e/ Figures as of November.

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

g/ Includes errors and omissions.

In October 2014, the annual inflation rate measured by the Lima consumer price index was 3.1%, similar to the 3.2% core inflation for the period.

During the first three quarters of 2014 the average unemployment rate in Lima held steady at 6.1%, virtually unchanged from the same period in 2013. The reason was simultaneous declines in employment and participation rates. The number of employed increased by 5%; the number of underemployed fell by 5.3%.