

## Peru

In 2009, Peru experienced a sharp slowdown in economic activity in the wake of the international financial crisis. GDP growth fell from 9.8% in 2008 to 0.8% in 2009, owing mainly to a steep drop in external demand, which in turn led to a decline in industrial production, heavy inventory adjustments and significantly less private investment because of lower demand and uncertainty of the outcome of the international economic crisis that held sway in late 2008 and throughout 2009.

Economic activity began to recover in the third quarter of 2009, bolstered by the completion of inventory adjustments, the implementation of a fiscal stimulus package, expansionary monetary policy and the improving expectations of economic agents. This economic recovery is expected to continue into 2010, with GDP growth projected to be between 4.5% and 5%.

As a result of the abrupt slowdown in GDP at the end of 2008, the government announced a major economic stimulus package, with some measures aimed at expanding and accelerating public investment and others targeting specific sectors. However, execution of public investment has fallen short of expectations. Through October 2009, only about half of the public investments that were budgeted had been executed.

As for the central government's fiscal receipts, for the period January-September 2009, current revenues decreased by 17.7% compared with the same period in 2008, because of a downturn in takings from both income tax and non-tax sources. Non-financial expenditures rose by 6.2% reflecting an increase in capital expenditures (70%). For the year as a whole, economic authorities estimate the general government's deficit to be about 2.4%, with a non-financial public sector (NFPS) deficit of the same proportion.

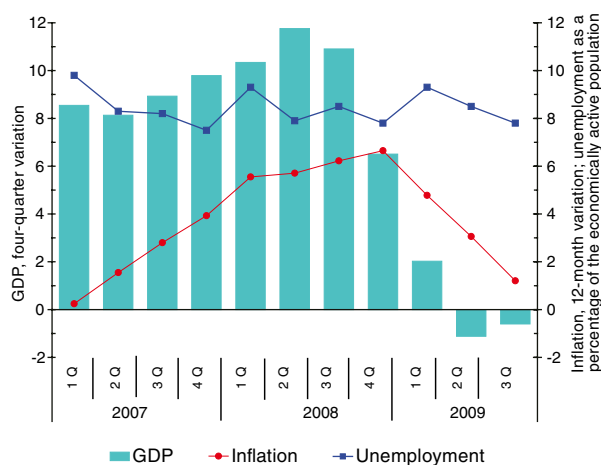
To cover financing needs for 2009 and 2010, the government issued two global bonds; the first, in March 2009 for US\$1 billion with a 10-year maturity, and the second, in July, for US\$1 billion with a 16-year maturity.

In response to the international financial crisis, the authorities took steps to ensure liquidity in the local financial system, both in national currency and in dollars, in order to stabilize both the money and currency markets. Next, they began to lower the benchmark interest rate; between January and August 2009 the rate came down

from 6.5% to 1.25%, and has since remained unchanged. Consequently, the average local-currency lending rate decreased from 17.2% in December 2008 to 15.1% in October 2009. The average foreign-currency lending rate decreased from 10.1% to 8.9% over the same period.

However, despite the economic situation, lending by the financial system to the private sector continued to grow slowly throughout 2009. Between December 2008 and October 2009, lending in national currency expanded by around 21%, with an increase in mortgage lending in new soles. Lending in dollars remained, through October 2009, at levels similar to those of December 2008. As a result, total lending rose by 6.6% for the period (11.6% with respect to October 2008). With local-currency lending rising faster than foreign-currency lending, the dollarization ratio dropped from 52% in December 2008 to 46% in

PERU: GDP, INFLATION AND UNEMPLOYMENT



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

October 2009. The percentage of non-performing loans rose from 1.3% to 1.6% between December 2008 and October 2009, with the greatest increase in the portfolio of loans to micro-enterprises.

Between December 2008 and October 2009, the new sol appreciated in nominal terms by 7.8% against the dollar, whereas the real bilateral exchange appreciated less (5.3%). The real effective exchange rate depreciated by 0.5% over the same period.

As for trade policy, in February 2009 the free trade agreement with the United States entered into force, as did the economic complementarity agreement with Chile in March. A free trade agreement was also signed with China.

During the first three quarters of 2009, GDP grew by 0.1% compared with the year-earlier period. This result reflected the contractions in non-primary manufacturing (-9.1%), fishing (-7%) and commerce (-1.2%). The construction sector, by contrast, was the fastest-growing, with 3% growth for the period.

By type of expenditure—and compared with the result for 2008, when domestic demand surged by 12.3%—domestic demand shrank by 3.9% in January-September 2009 because of a drop in gross fixed investment (-9.9%). This was due, to slacker private investment (-14.9%), despite a rise in public investment (21.6%). Aggressive inventory adjustments led to a 22.2% slump in gross domestic investment. Private consumption continued to edge up (2.4%), but did not rise fast enough to offset declining investments. Goods and services export volumes dipped by 3.1%, whereas goods and services import volumes slid by 20.3%.

Throughout 2009, the inflation rate, as measured by the Lima consumer price index, declined significantly, reaching a cumulative 0.04% for the first 10 months of the year (0.7% over 12 months), owing to the drop in international fuel and food prices, which lowered the prices of transport, domestic fuels and electricity.

As for labour indicators, the average unemployment rate for the first 10 months of 2009 was 8.4%, similar to that of 2008. Urban employment in companies with more than 10 employees rose by 1.9% for the period January-August 2009, as compared with the same period in 2008. The average employment rate for the first 10 months of 2009 was 62.3%, and average job-related income was

#### PERU: MAIN ECONOMIC INDICATORS

	2007	2008	2009 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	8.9	9.8	0.8
Per capita gross domestic product	7.6	8.5	-0.3
Consumer prices	3.9	6.6	0.7 <sup>b</sup>
Average real wage	-1.8	2.2	0.3 <sup>c</sup>
Money (M1)	30.7	16.5	10.0 <sup>b</sup>
Real effective exchange rate <sup>d</sup>	0.2	-3.7	-2.3 <sup>e</sup>
Terms of trade	3.6	-13.3	-10.8
<b>Annual average percentages</b>			
Urban unemployment rate	8.4	8.4	8.3 <sup>f</sup>
Central government overall balance/GDP	1.8	2.2	-1.4
Nominal deposit rate	3.5	3.3	3.0 <sup>g</sup>
Nominal lending rate	16.5	16.7	16.3 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	31 041	35 166	28 353
Imports of goods and services	23 942	34 005	25 480
Current account balance	1 220	-4 180	-1 224
Capital and financial account balance <sup>h</sup>	8 368	7 292	3 676
Overall balance	9 588	3 112	2 452

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2009.

<sup>c</sup> Figure for June.

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

<sup>e</sup> Year-on-year average variation, January to October.

<sup>f</sup> Estimate based on data from January to October.

<sup>g</sup> Average from January to October, annualized.

<sup>h</sup> Includes errors and omissions.

up on the fourth quarter of 2008. Throughout 2009, the situation gradually improved as compared with the first quarter. To invigorate household demand, in 2009 workers in the formal economy were temporarily allowed to use time-in-service compensation funds and withholdings for twice-yearly bonuses paid to formal wage earners were waived.

Exports of goods slumped by 25.9% during the first three quarters of 2009 (-22.6% in prices and -4.3% in volume), and goods imports declined by 30.8% (-10.3% in prices and -22.9% in volume) in the same period, leading to a trade surplus of US\$ 3.58 billion. In the first three quarters of 2009, the average terms of trade fell by 9.5% compared with the average for 2008. Net international reserves stood at US\$ 32.92 billion in October 2009, compared with US\$ 31.196 billion in December 2008.