

Peru

Peru's economy expanded 6.2% in 2012 (6.9% in 2011), driven by still robust domestic demand—both consumption and investment components, and both public and private—contrasting with slackening external demand. The context was one of mounting fiscal surplus, a widening current account deficit and falling inflation. The outlook for 2013 is for continued economic growth at rates similar to those of 2012, on the back of rising investment in construction and mining and expanding private consumption.

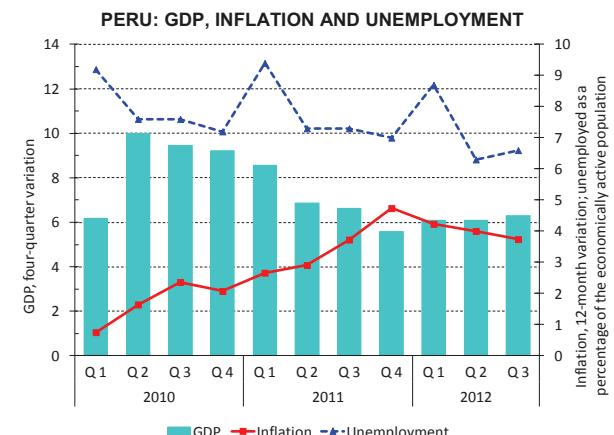
In the first nine months of 2012, non-financial spending by the central government rose by 0.7% in real terms, reflecting the combination of a fall in current expenditures (-0.5%) and a rise in capital spending (4.9%). The dip in current spending was due to lower transfer expenditures (-6.2%), since outlays on wage goods and services both rose (by 6.9% and 0.5%, respectively). Current revenues climbed 5.7% in real terms, driven by higher tax income (6.4%). Within tax income, the category of “other tax revenues” rose by a hefty 28.2%, mainly as a result of higher receipts in the wake of changes in mining taxes which took effect in 2011. However, the overall tax take for the year was down on 2011, owing largely to lower growth in corporate income tax as mineral prices slipped. For 2012, the central government is expected to post a surplus of 1.2% of GDP (1% of GDP, in the case of the non-financial public sector)

As part of tax reform, in July 2012 five decree laws were approved with the aim of reducing tax evasion and avoidance. The new legislation amended the income tax, the general sales tax, the excise tax, the wage regime, the tax code, the customs law and the law on customs offences. Throughout 2012 gross public debt continued to trend down and by September it stood at 19.4% of GDP (versus 21.2% of GDP in December 2011), while domestic debt and external debt were equivalent to 9% and 10.3% of GDP, respectively.

On the monetary policy front, in 2012 the Central Reserve Bank of Peru held the benchmark interest rate (which has been unchanged since May 2011) steady at 4.25%. The average legal reserve requirement was raised four times in a bid to slow domestic liquidity

expansion: by 0.5 percentage points in May, September and October, and by 0.75 points in November. In May the marginal reserve on local-currency deposits was raised from 25% to 30%, the reserve on short-term external liabilities was lengthened from two years to three (with the rate remaining at 60%) and a reserve of 20% was imposed on foreign liabilities with maturities of over three years for financial entities whose liability-to-asset ratio exceeds 2.5.

The average annual interest rate for local-currency loans of less than one year to corporations and large and medium-sized firms rose from 7.32% in 2011 to 8.1% in January-November 2012 (from 5.4% to 5.9% for foreign-currency loans). In the 12 months to October 2012, bank credit to the private sector rose 8.9% as lending activity increased in both nuevos soles



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

(9.8%) and dollars (13.1%). The increase in dollar credit was sharpest in the consumer lending segment. Throughout the year 2012, the financial system maintained a high dollarization ratio, at about 48%.

The trend towards currency appreciation which prevailed during much of 2011 continued throughout 2012. In the 12 months to October the average nominal exchange rate against the dollar dropped by 5.3%, while the real bilateral exchange rate fell 6.4%. The real multilateral exchange rate came down by 7.2%. In September 2012 the president of the central bank announced a change in the bank's strategy of intervention in the foreign-exchange markets: the bank will now buy and sell pre-determined amounts instead of variable sums as had been the practice hitherto, with the aim of allowing more exchange-rate volatility and discouraging dollar borrowing.

In March 2012, a task force coordinated by the Ministry of Economy and Finance began work on delivering proposals to enhance competition and efficiency and lower average commissions in the private pension system. The Superintendency of Banks and Insurance established additional capital requirements for financial institutions subject to the economic cycle, the systemic risk allocated, and risk propensity.

In January-September 2012 economic activity increased by a cumulative 6.3%, driven by construction (16.2%), commerce (6.8%) and other services (7.2%). The primary sectors posted an upturn of 2.1% in the same period. In the first three quarters of 2012 domestic demand climbed 7.4%, reflecting higher consumption, both public (5.6%) and private (5.9%) and public investment (29.2%), in particular by subnational governments, and private investment (14.6%). Exports rose by 5.2% in real terms, while imports, also in real terms, increased by 10.9% spurred by buoyant domestic demand.

Throughout 2012 inflation trended steadily downwards, as both food price rises and core inflation eased. In October 2012, cumulative 12-month inflation was 3.25% (5.2% for food products) compared to 4.7% in the 12 months to December 2011 (8% for food).

The average annual unemployment rate stood at 7.2% in January-September 2012 (7.7% in 2011). The unemployment rate fell for both men and women. Average monthly income was up by 10.4% in that

PERU: MAIN ECONOMIC INDICATORS

	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	8.8	6.9	6.2
Per capita gross domestic product	7.6	5.8	5.0
Consumer prices	2.1	4.7	3.2 ^b
Real average wage ^c	2.6
Money (M1)	28.0	19.9	18.6 ^d
Real effective exchange rate ^e	-3.6	1.9	-7.7 ^d
Terms of trade	18.1	12.7	-4.7
Annual average percentages			
Open urban unemployment rate	7.9	7.7	7.0
Central government			
overall balance / GDP	0.0	0.9	0.8
Monetary policy rate	4.2	6.4	6.1 ^f
Nominal lending rate ^g	19.0	18.7	19.2 ^f
Millions of dollars			
Exports of goods and services	39 258	50 633	50 473
Imports of goods and services	34 854	43 464	47 459
Current account balance	-3 782	-3 341	-6 133
Capital and financial balance ^h	14 955	8 032	18 371
Overall balance	11 173	4 691	12 238

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

^a Estimates.

^b Twelve-month variation to October 2012.

^c Private-sector workers in the Lima metropolitan area.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f January-October average.

^g Market lending rate, average for transactions conducted in the last 30 business days.

^h Includes errors and omissions.

period. The minimum monthly wage was raised in June, from 650 to 750 nuevos soles. In real terms, the minimum wage increased from by 11.9% in January-September 2012 over the prior-year period.

In the first nine months of the year goods exports were down by 2.6% in value terms (resulting from the combination of a 4.5% drop in price and a 2.6% rise in volume), while the value of goods imports rose by 11.4% (1.5% by price and 9.8% by volume), compared to the year-earlier period. As a result Peru's trade surplus narrowed from US\$ 7.298 billion in 2011 to US\$ 3.255 billion in 2012 and the current account deficit widened to 5.6% of GDP in the third quarter, as against 1.9% in 2011. Average terms of trade fell by 5.9% in the first nine months of 2012 compared to the average for 2011. As at September 2012, external debt stood at 29.5% of GDP (26.9% in December 2011), with increases in both public and private liabilities. Net international reserves grew steadily in 2012 and in September reached US\$ 61.24 billion, or about 31.7% of GDP. Both the public and private sectors were active in international financial markets during the year: in January, the government issued a sovereign bond for US\$ 1 billion, while the private sector issued bonds totalling US\$ 1.89 billion.