

## Commodity sensitive

### General Information



<b>GDP</b>	USD176,9bn (World ranking 51, World Bank 2011)
<b>Population</b>	29.4 million (World ranking 42, World Bank 2011)
<b>Form of state</b>	Constitutional Republic
<b>Head of government</b>	Ollanta HUMALA Tasso (nationalist party)
<b>Next elections</b>	2016, presidential and legislative



### Strengths

- Natural resource base (minerals—copper, silver, gold, zinc— energy and fishing)
- Prudent macroeconomic policies, independent central bank
- Fiscal surpluses and low public debt
- Strong FX reserve position and low external debt.
- Above average Structural Business Environment

### Weaknesses

- Sensitive to commodity prices.
- Highly skewed income distribution and high, if reducing, poverty levels.
- High dollarization of financial system
- Rule of Law and control of corruption are below average

### Country Rating

BB1

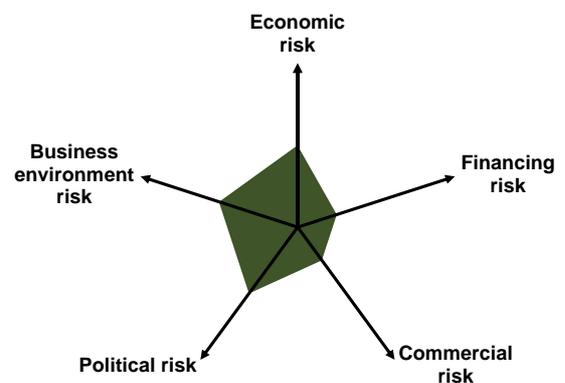
#### Country Grade



#### Country Risk Level



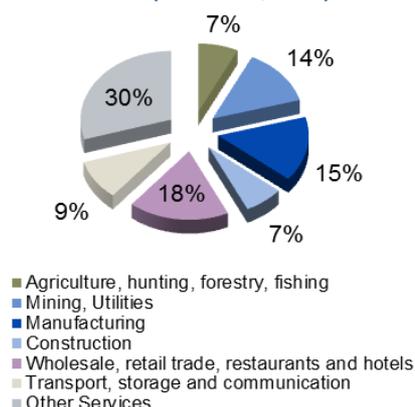
### Risk Dimensions



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## Economic Structure

### GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

### Trade structure (% of total, 2010)

By destination/origin

Exports	Rank	Imports
China	18%	1
United States	16%	2
Canada	12%	3
Japan	6%	4
Germany	5%	5

By product

Exports	Rank	Imports
Non Ferrous Ores	33%	1
Non Ferrous Metals	13%	2
Non-Monetary Gold	10%	3
Other Edible Agricultural Proc	7%	4
Refined Petroleum Products	6%	5

## Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	5.6	0.9	8.8	6.9	6.3	4.9	5.5
Inflation (% end-year)	2.6	0.3	2.1	4.7	2.7	2.5	2.6
Fiscal balance (% of GDP)	-0.1	-2.1	-0.3	1.8	2.0	0.5	0.3
Public debt (% of GDP)	38.3	28.4	24.6	22.0	19.8	18.4	17.2
Current account (% of GDP)	-0.8	-0.6	-2.5	-1.9	-3.6	-4.0	-3.9
External debt (% of GDP)	41.8	27.7	28.4	27.2	29.5	28.8	27.9

Sources: IHS Global Insight, National sources, Euler Hermes

## Economic Growth

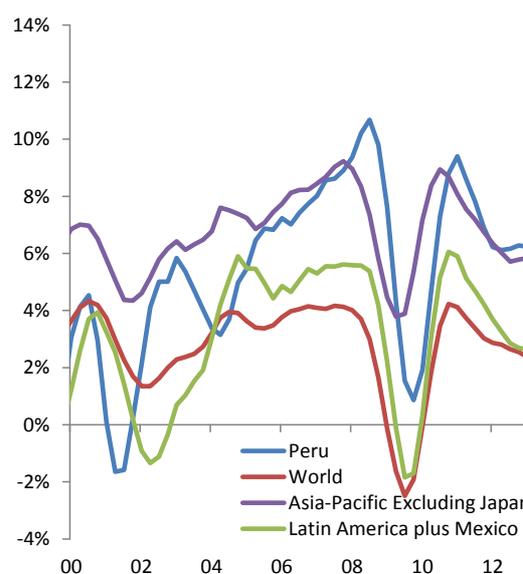
### Strong medium-term growth

Annual average growth of GDP over the past ten years was a strong 6.5%, boosted by strong commodity demand and prices in the context of sound economic policies and a more stable political environment. In the same period growth of per capita income was 4.8%. While this has contributed to a reduction in poverty levels, incomes remain highly skewed, geographically as well as across income groups. As mining accounts for 14% of GDP and 57% of exports, the economy is highly sensitive to commodity prices and demand. Medium-term growth will also depend on the development of key mining projects, some of which have run into problems with environmentalists and indigenous groups.

### 2013-14, adjusting to commodity demand

After an increase of +6.3% in 2012, weaker demand for commodities (notably from China, Peru's largest export market) is likely to lead to a slower pace of GDP growth in 2013. In Q1 GDP grew by +4.8% y/y and the monthly indicator of economic activity pointed to slower growth at the end of the quarter than the beginning. Domestic demand remains robust, however, led by private consumption, although investment growth will be dampened by weaker prospects for commodities. The highly negative net export contribution in Q1 should improve, leading to full year 2013 growth of 4.9%, with the risks to the downside. Growth should pick up to 5.5% in 2014 as global demand strengthens.

### GDP growth (y/y, 4 qtrs cumulated %)



Sources: IHS Global Insight, Euler Hermes

## Economic Policies

Macroeconomic policies are prudent, with fiscal surpluses and low inflation. Overall, policies are pro-business, though successive governments face strong social pressures towards a more interventionist stance to close the income gap. The current administration of President Ollanta Humala, elected on a leftist, nationalist platform has to juggle the evident benefits of monetary and fiscal policies thus far against the need to satisfy his poorer constituents. So far he has leaned towards policy continuity, announcing measures to encourage infrastructure and investment projects in response to the weaker Q1 growth 2013, but an extended period of flat or lower commodity prices may test this approach, as previous governments having been associated with "trickle down" policies have lost popularity. Humala does not have a majority in congress, however, so will need to find consensus.

### Inflation falls

The central bank is independent and operates monetary policy around inflation targets, currently 2% +/-1%, though it also needs to intervene in the exchange rate as the financial system is still highly dollarised. Inflation has fallen sharply and is back within the target range, having been outside the upper bound for much of 2012 owing to food and energy price rises.

With domestic demand strong and inflation above target the policy interest rate has remained on hold since the first half of 2011. Inflation is expected to end 2013 within the target range. A likely reversal of the recent exchange rate appreciation, reflecting commodity price trends, will constrain monetary policy, though this will improve the real exchange rate, which is well into overvalued territory.

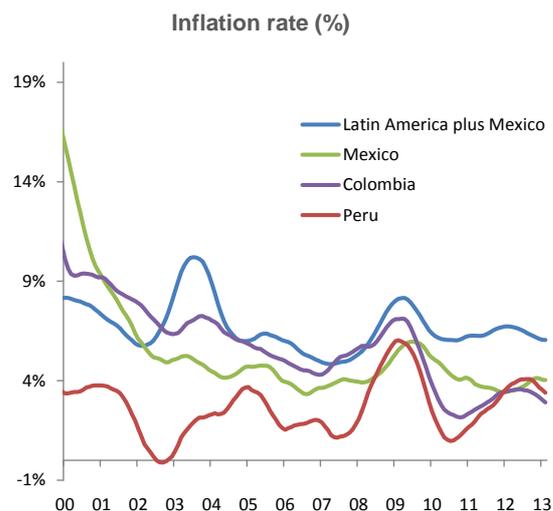
In the banking system, Tier 1 capital ratios are 10.9%, non-performing loans are 3.2%, stable and fully covered by provisions and the deposit loan ratio is high. However, foreign currency loans remain relatively high.

### Fiscal surplus to shrink

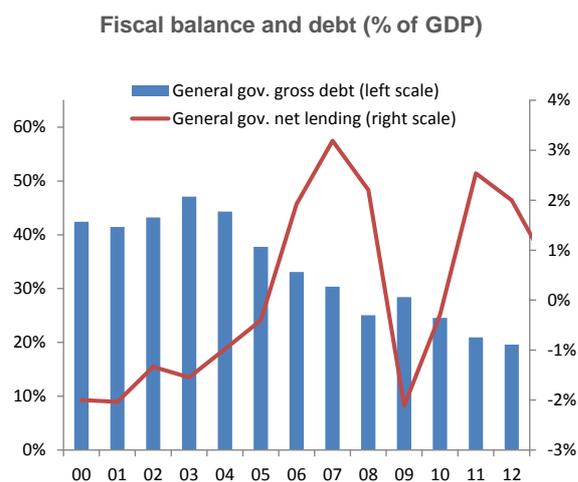
The fiscal balance swung into surplus in 2011, after two years of deficit in 2009-10, and remained in surplus in 2012 at 2.0% of GDP, largely the result of surge in central government revenues as expenditure remained largely unchanged as a proportion of GDP on 2009, when spending was increased to offset the sharp downturn in output during the global recession. The fiscal surplus (economic balance) is planned to decrease in 2013 to 0.7% of GDP and could shrink more, but the expansionary impulse will help near-term growth prospects.

Fiscal policy is guided by a fiscal transparency Law which sets parameters of a deficit less than 1% of GDP and limits the rise of real consumption spending to 4% spending. In 2013, however, this is replaced by a fiscal equilibrium act that requires the fiscal balance to show no deficit. Fiscal surpluses are retained in a stabilisation fund.

The public-debt to GDP ratio is low at 19.8% at end-2012 and is on a downward trend. The public sector is also in a net creditor position.



Sources: IHS Global Insight, Euler Hermes



Sources: IHS Global Insight, Euler Hermes

### Current account balance widens

The current account deficit widened to -3.6% of GDP in 2012 from -1.9% in 2011, as exports declined slightly (commodity prices and demand). Import growth moderated but was still relatively strong. With commodity prices not providing a cushion in 2013 either export growth will be limited, but import growth should moderate further and the current account deficit should be limited to -4% of GDP, narrowing to -3.9% in 2014 as exports regain some momentum.

FDI flows are strong (mainly into the mining sector). In 2012 net flows more than covered the current account deficit and should be close to full cover in 2013-14, limiting the need for external debt financing.

Peru would be well placed to access international finance support should the need arise, provided policies continue in a pragmatic vein.

### External debt moderate

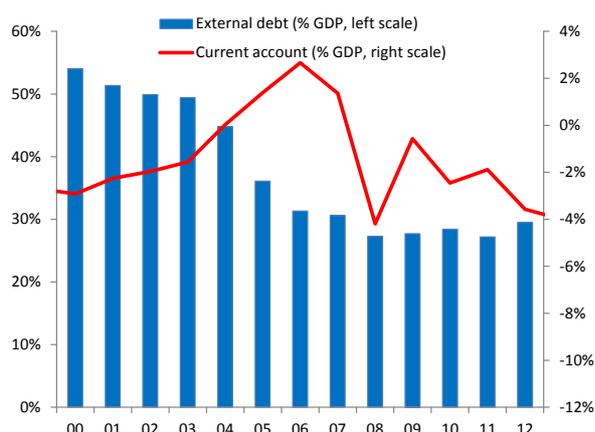
External debt ratios are moderate. External debt is 30% of GDP, 109% of exports of goods and services and interest payments are 4% of exports of goods and services.

### Foreign exchange reserves increase

There has been a rapid increase in FX reserves in recent years to USD66bn. This level provides more than 15 months import cover and is more than four times the amount of external debt (ST and medium term principal) falling due in 2013. M2/FX reserves is also low.

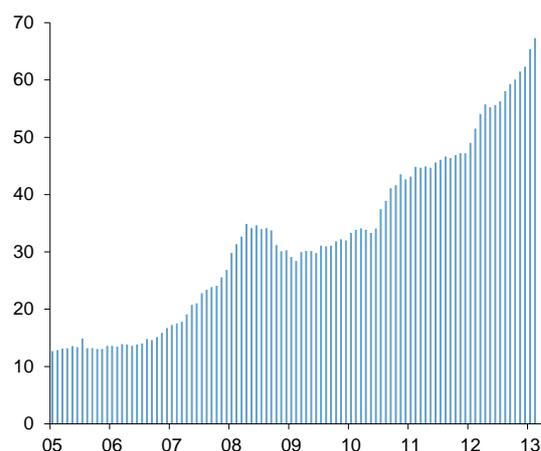
Overall, the external balance is sound.

### Current account and external debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

### FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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