

Fiscal stimulus will support growth

General Information



GDP	USD202.35 bn (World ranking 52, World Bank 2013)
Population	30.38 mn (World ranking 42, World Bank 2013)
Form of state	Constitutional Republic
Head of government	Ollanta HUMALA Tasso (nationalist party)
Next elections	2016, presidential and legislative



Strengths

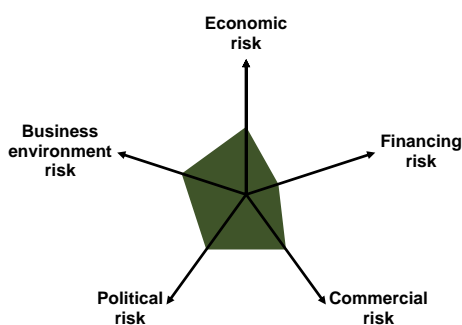
- Natural resource rich (minerals: copper, silver, gold, zinc, energy and fishing)
- Prudent macroeconomic policies, independent central bank
- Fiscal surpluses and low public debt
- Strong FX reserve position and low external debt

Weaknesses

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

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	18% 1	21% China
United States	16% 2	21% United States
Switzerland	7% 3	5% Brazil
Canada	7% 4	5% Mexico
Brazil	4% 5	4% Ecuador

By product (% of total)

Exports	Rank	Imports
Non Ferrous Ores	29% 1	8% Crude Oil
Non-Monetary Gold	12% 2	7% Refined Petroleum
Non Ferrous Metals	11% 3	5% Commercial Vehicles
Refined Petroleum	7% 4	5% Plastic Articles
Other Agricultural Prod	7% 5	5% Cars And Cycles

Source: ITC, Chelem

Economic Overview

Growth to recover in 2015-2016

2014's real GDP growth slowed to +2.4%, after +5.7% in 2013. Exports were hit by a double whammy with weaker demand from major trading partners (notably China) and from lower metal and energy prices (over 70% of exports). Coupled with temporary supply disruptions in mining, fishing, and agriculture sectors, this led to a contraction in investment, the main engine of growth of past years. Private consumption also debilitated, expanded at its slowest pace since 2009.

We expect real GDP to recover to +3.5% in 2015 and +4.5% in 2016, still one of the fastest paces of the region. Resuming investment programs and supportive economic policies will drive growth. The government announced a vast fiscal stimulus package, including tax cuts, public spending increases, and measures to support investment. Consequently, the public deficit is expected to deteriorate sharply to -2% of GDP in 2015, after 5 years of fiscal balance or surplus. However, this will not be a major source of concern as public and external debts are relatively low. Monetary policy will continue to be expansive, as the surge in consumer prices come mainly from supply shocks. Inflation anticipations remain well-anchored close to the Central Bank target (2% +/-1pp).

External financing risks are also low as the current account deficit, despite widening, is more than completely covered by FDI inflows (driven by infrastructure projects and new mine streams) and FX reserves cover above 15 months of imports. However, with the Fed tapering, currency downward pressures and volatility will be a major area of concern this year.

Strong fundamentals

Peru has succeeded in improving significantly its macroeconomic fundamentals and business environment over the past years. In addition to the fiscal rule which prevents the deficit to go beyond -1% of GDP, a new macro-fiscal framework is being implemented. The latter (i) sets medium-term fiscal targets; (ii) focus on structural balances (iii) implements counter-cyclical measures in case of a wide output gap (positive or negative) and (iv) limits local governments' debt.

Among Latin American economies, Peru is the second best-ranked in the in the 2015 World Bank's Doing Business Survey (35th out of 189), one below Colombia at 34. However, shortcomings remain regarding registering enforcing contracts and starting a business. Rule of law and control of corruption are also important areas of concern, while social inequalities remain important. Moreover, dollarization of the economy is still high.

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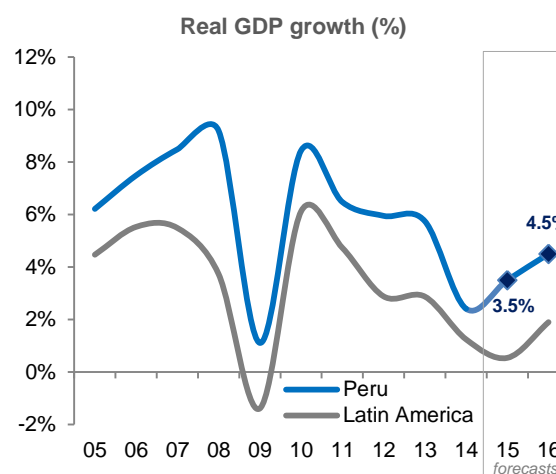
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Key economic forecasts

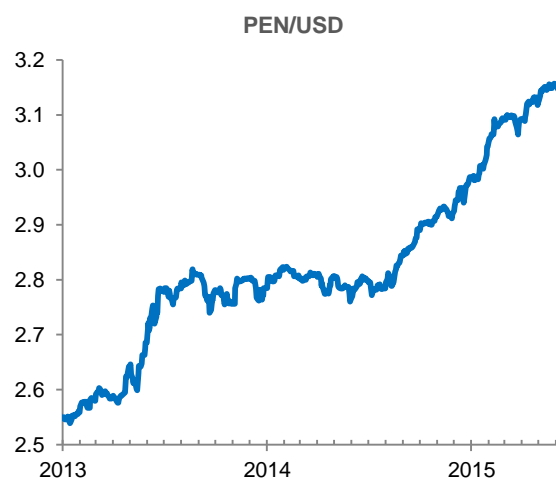
	2013	2014	2015	2016
GDP growth (% change)	5.7	2.4	3.5	4.5
Inflation (% , yearly average)	2.8	3.2	3.2	2.7
Fiscal balance* (% of GDP)	0.7	-0.1	-2.0	-1.0
Public debt* (% of GDP)	20.3	20.7	21.8	22.6
Current account (% of GDP)	-4.5	-4.8	-4.8	-4.0
External debt (% of GDP)	28.0	26.5	29.0	28.3

*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



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