

Pro-business policies to be pursued by the new President

General Information



GDP	USD202.903bn (World ranking 52, World Bank 2014)
Population	30.77mn (World ranking 42, World Bank 2014)
Form of state	Constitutional Republic
Head of government	Pedro Kuczynski (center-right)
Next elections	2021, presidential and legislative



Strengths

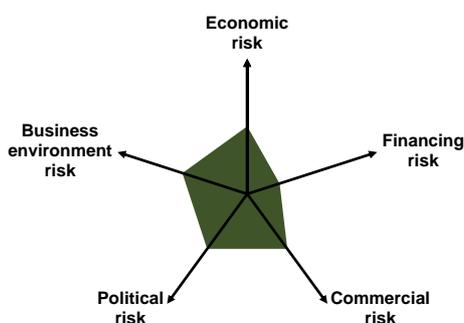
- Natural resource rich (minerals: copper, silver, gold, zinc, energy and fishing)
- Prudent macroeconomic policies, independent central bank
- Low public debt
- Strong FX reserve position and low external debt

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	19% 1	22% United States
United States	14% 2	20% China
Canada	7% 3	5% Brazil
Switzerland	6% 4	5% Mexico
Brazil	5% 5	5% Chile

By product (% of total)

Exports	Rank	Imports
Non Ferrous Ores	27% 1	7% Crude Oil
Non-Monetary Gold	13% 2	7% Refined Petroleum
Non Ferrous Metals	10% 3	5% Plastic Articles
Agricultural Prod	9% 4	5% Telecom. Equipment
Refined Petroleum	8% 5	5% Cars And Cycles

Source: ITC, Chelem

Economic Overview

Growth: on the path of recovery

Real GDP expanded by +3.2% in 2015, after +2.4% in 2014, but remained below 2010-2013 average of +5.8% per year. Exports were hit by a weaker demand from major trading partners, notably China and from the lower prices of metal and gas (over 70% of exports). Private consumption and investment also decelerated significantly.

Growth is expected to strengthen to +3.6% in 2016 and +4.5% in 2017, largely outperforming Latin American peers. Activity will be notably driven up by the execution of new mining programs projects (which could allow mining production to double in 2017 from 2014 levels) and major public investment programs, notably in infrastructure. Accordingly, the public deficit is expected to widen to -2.7% in 2016 after -2.2% in 2015 putting an end to a 5-year positive or balanced fiscal accounts. However, this should not be an issue as public debt and external debt, although increasing, remain relatively low.

The current account deficit widened to -4.4% of GDP in 2015 due to lower commodity export revenues. It is expected to narrow somewhat to -3.8% in 2016 and -3% in 2017 thanks to a gradual recovery in metal prices and new mining streams. Financing the external deficit should not be a problem since Peru enjoys from strong investor confidence, easy access to capital markets and more than comfortable FX reserves levels (above 15 months of imports). It is to be noted however that FDI inflows, which have strongly diminished since mid-2015, anymore. After depreciating strongly against the USD in 2014 and 2015, the PEN has strengthened since the beginning of 2016. However, a new depreciation and high volatility cannot be ruled out if the FED raises interest rates.

Strong fundamentals

The monetary policy is framed against inflation targeting, currently at 3% (+/-1%), and the fiscal management is built on a rule which prevents the deficit to go beyond -1% of GDP. In addition, a new macro-fiscal framework is being implemented that (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 countries, Peru is the second best-ranked in the 2015 World Bank's Doing Business Survey. However, shortcomings remain regarding enforcing contracts and starting a business. Rule of law and control of corruption are also important areas of concern.

The new President to pursue pro-business policies

Pedro Kuczynski won (center-right) won the Presidential elections on June 5th with 50.1% of the vote. The results were well welcomed by investors as Mr. Kuczynski, former Finance Minister and former economist for the World Bank, is perceived as likely to pursue the business-friendly reforms that had already been launched by the former President Humala. However, given the tied results, social tensions cannot be ruled out as geographical and income gaps remain main issues for the country.

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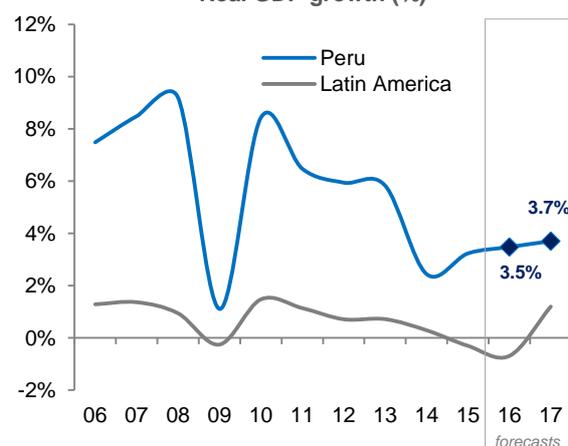
Key economic forecasts

	2014	2015	2016	2017
GDP growth (% change)	2.4	3.2	3.5	3.7
Inflation (% , yearly average)	3.2	3.5	3.9	3.0
Fiscal balance* (% of GDP)	-0.3	-2.2	-2.6	-2.3
Public debt* (% of GDP)	20.7	23.1	25.7	28.0
Current account (% of GDP)	-4.0	-4.4	-3.8	-3.0
External debt (% of GDP)	29.3	32.5	34.9	35.4

*Estimates of the new government. The figure does not match with the initial data published by the former government. Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

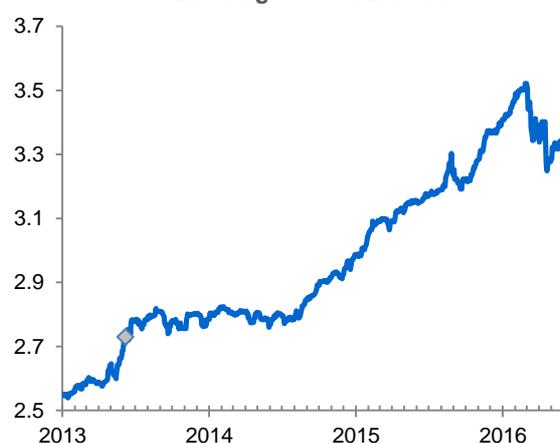
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Sources: IHS, Euler Hermes

Exchange rate : PEN/USD



Sources: IHS, Euler Hermes