



BANCO CENTRAL DE RESERVA DEL PERÚ



Peru's fundamentals and economic outlook
Julio Velarde
Governor
Central Bank of Peru

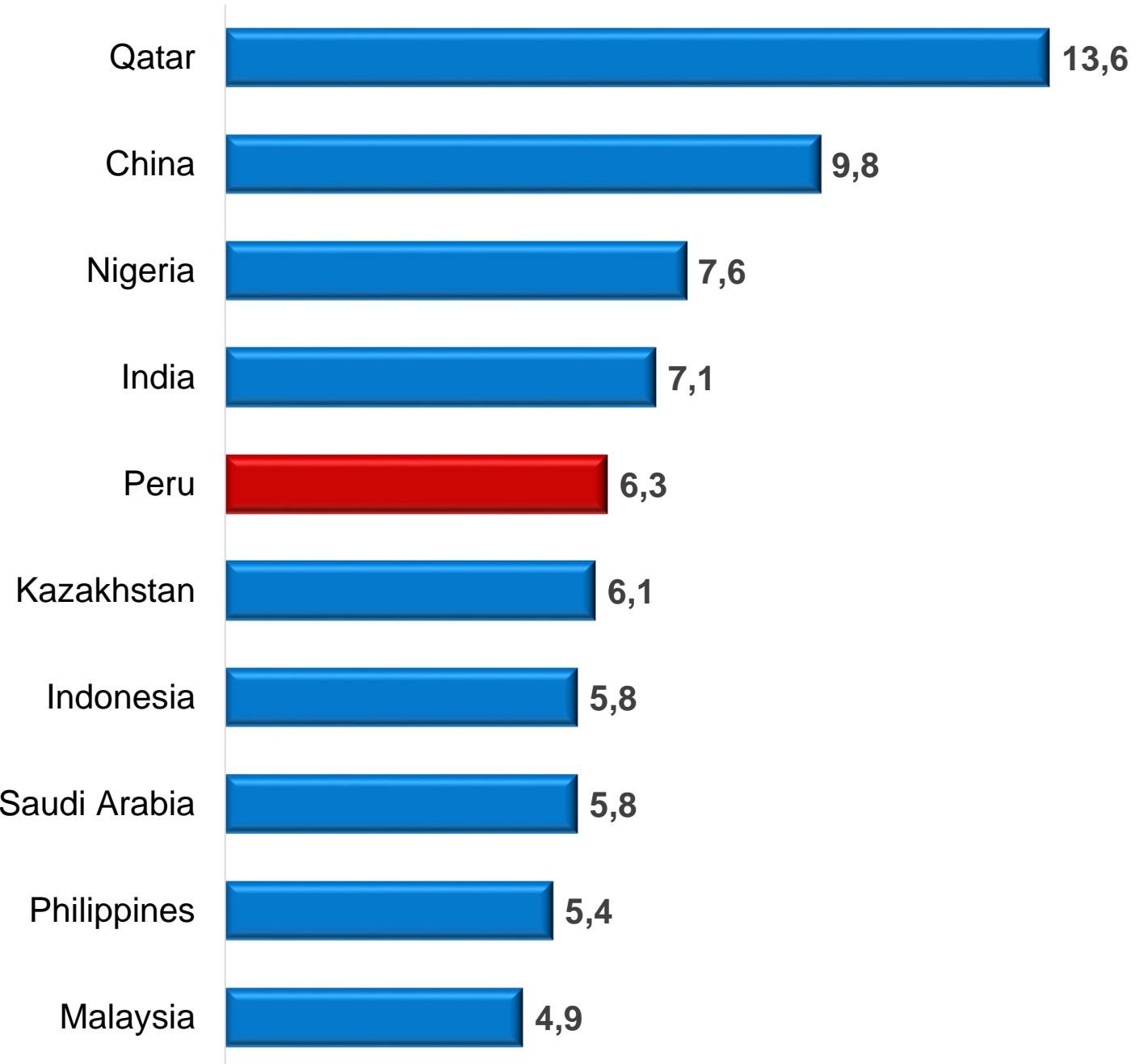
March 2015

Agenda

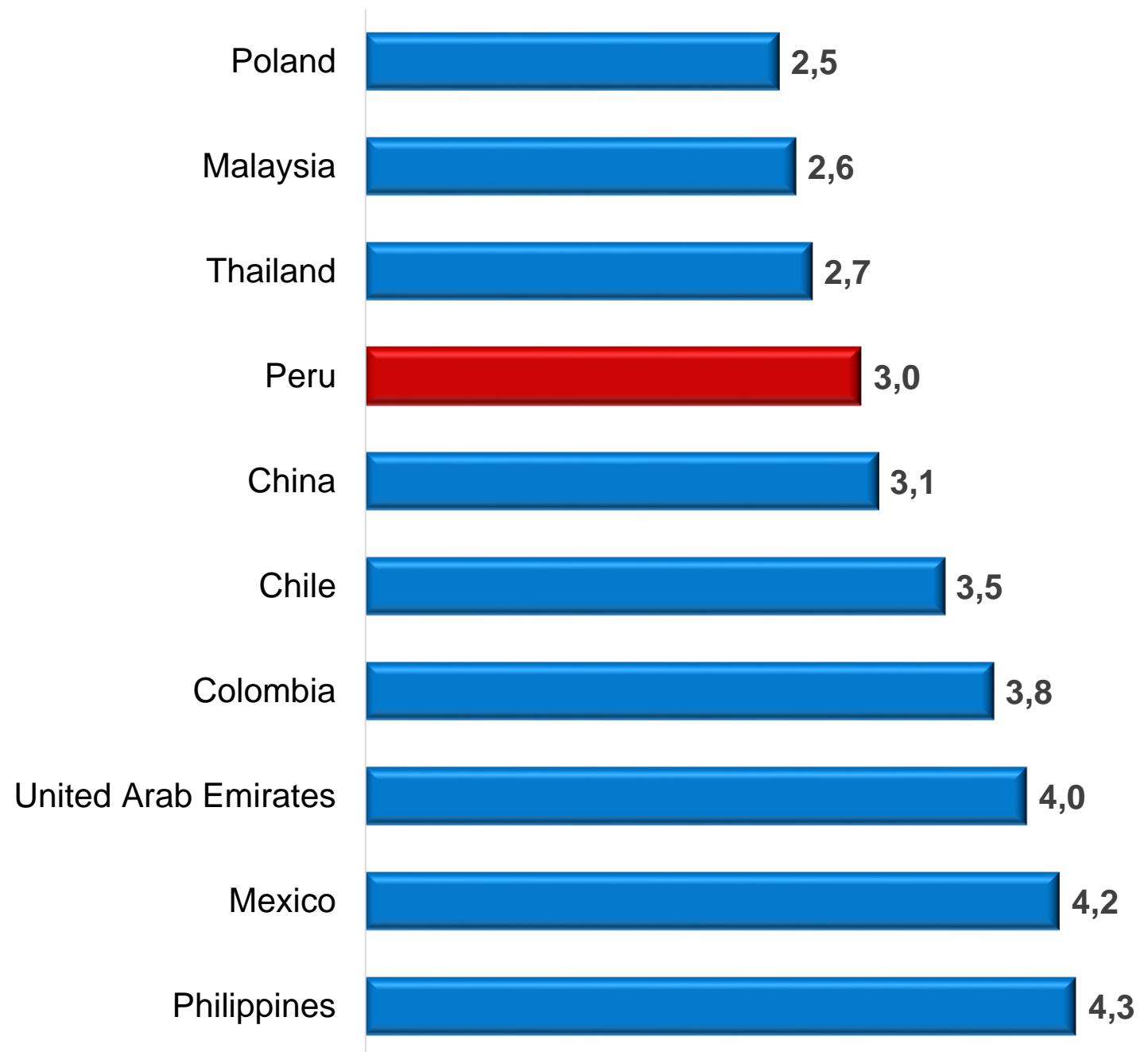
- 1. Peru's growth is based on strong fundamentals**
- 2. Recent economic developments and prospects**
- 3. Policy Framework**

Peru's performance in the last 9 years

Average GDP growth: 2006-2014

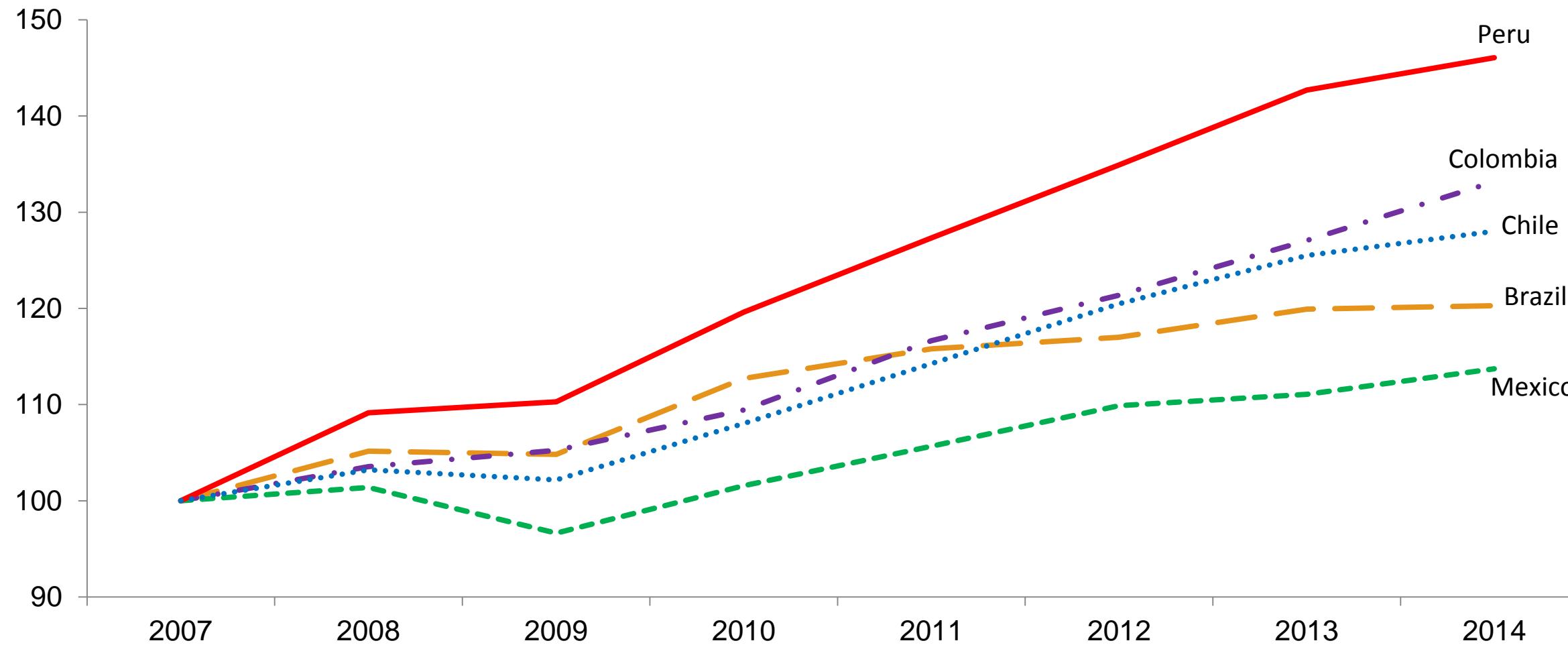


Average inflation: 2006-2014



Peru was the country with the fastest recovery and highest growth in the region after the 2008-2009 financial crisis

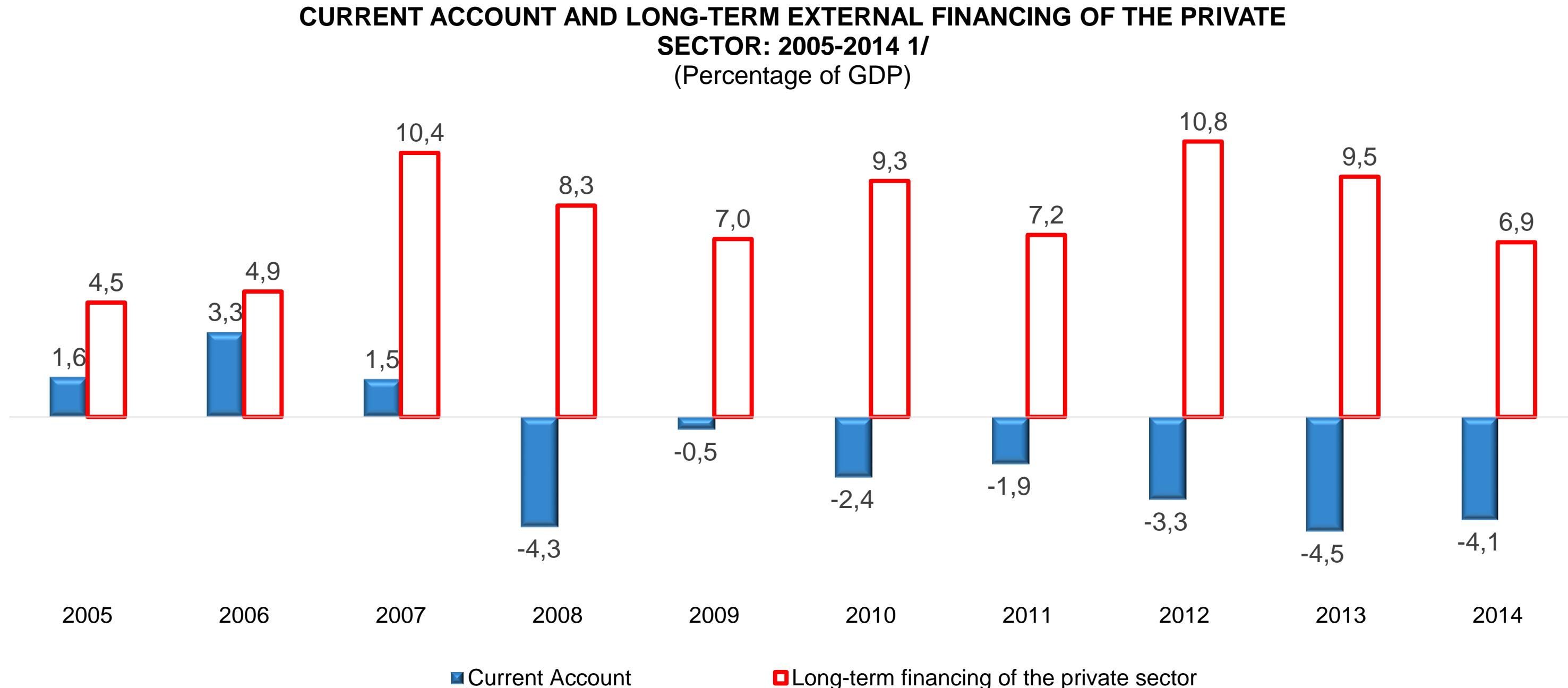
GDP of selected countries (2007-2014)
(Index 2007=100)



	Average GDP Growth 2010-2014
Brazil	2,8
Colombia	4,8
Chile	4,6
Mexico	3,3
Peru	5,8
Average LATAM	3,5

Source: WEO (October 2014) and BCRP.

The current account deficit is financed by long-term private capital inflows

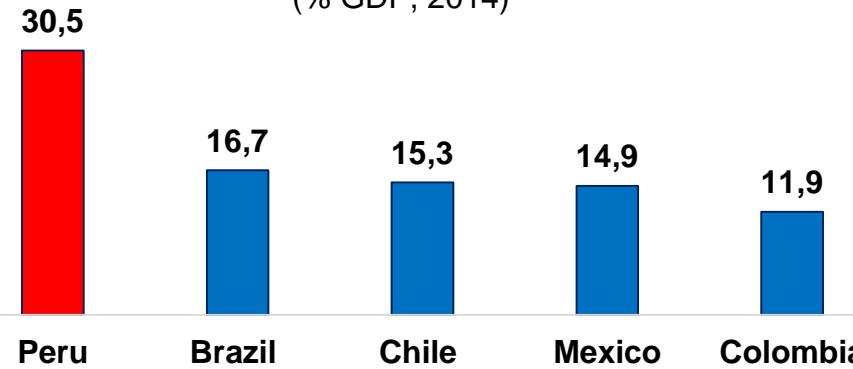


1/ Includes net foreign investment, portfolio investment and private sector's long-term disbursement.

International reserves are equivalent to 31 percent of GDP

International Reserves

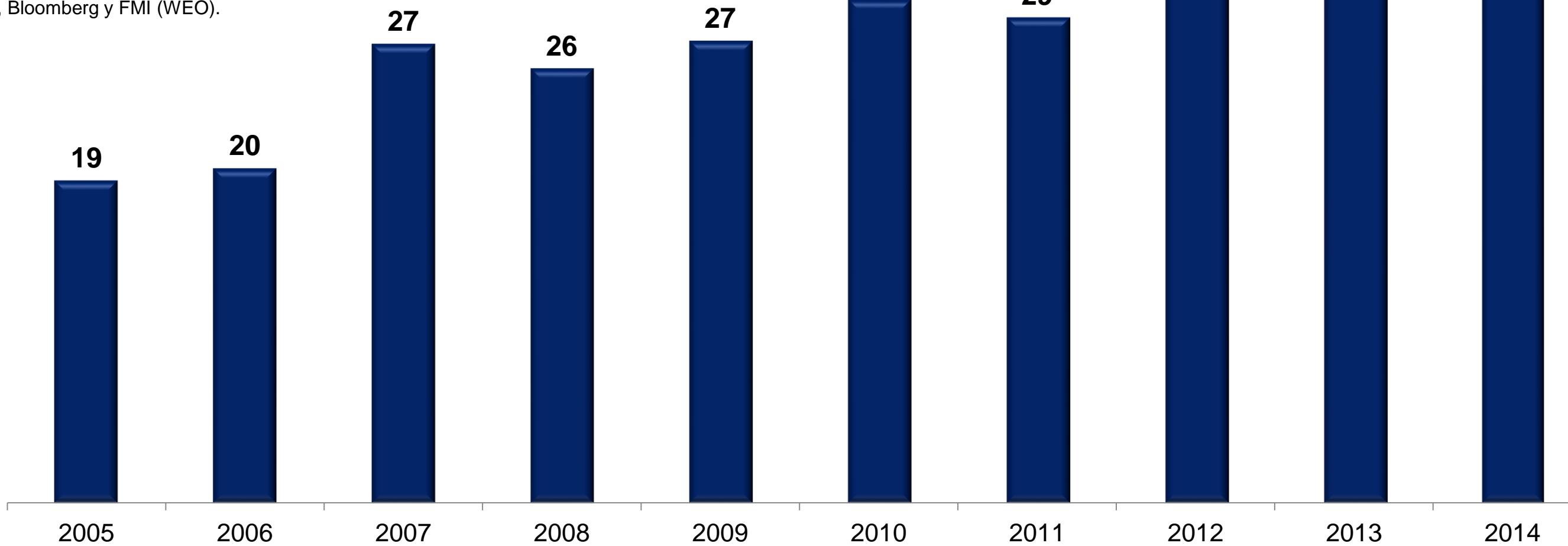
(% GDP, 2014)



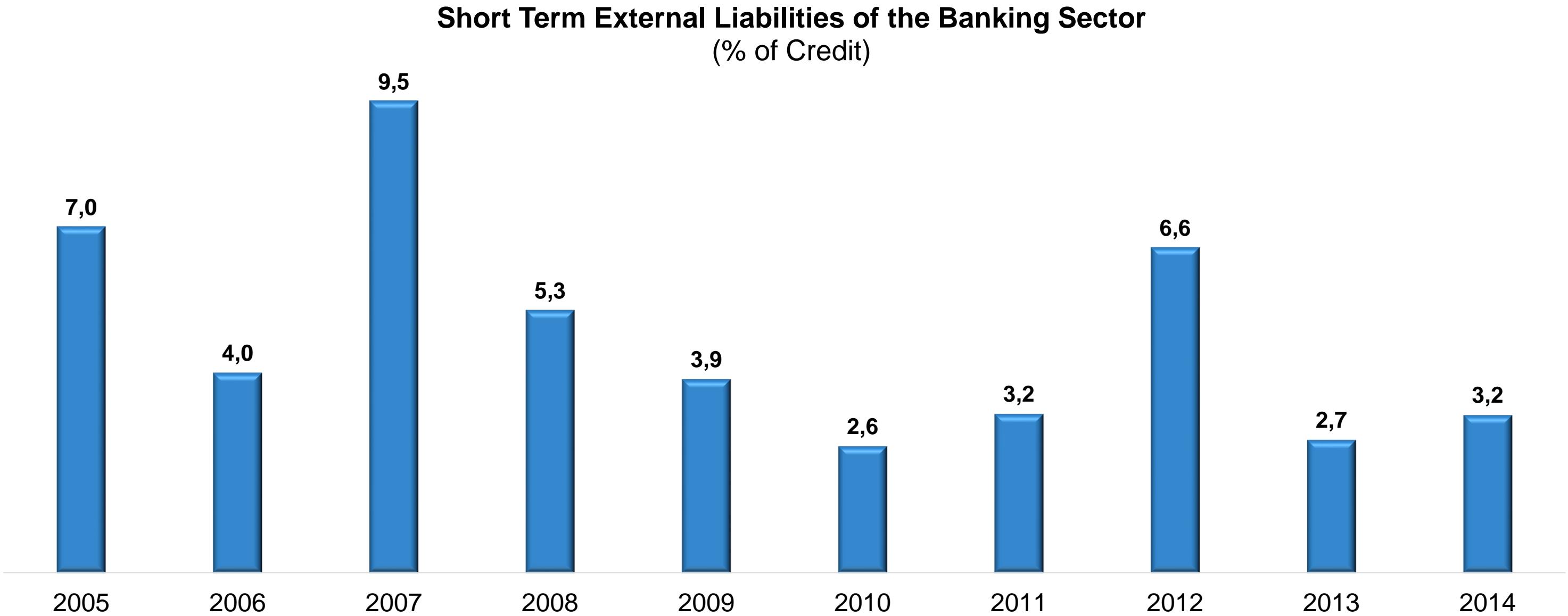
Source: BCRP, Bloomberg y FMI (WEO).

International Reserves: 2001-2014

(% GDP)

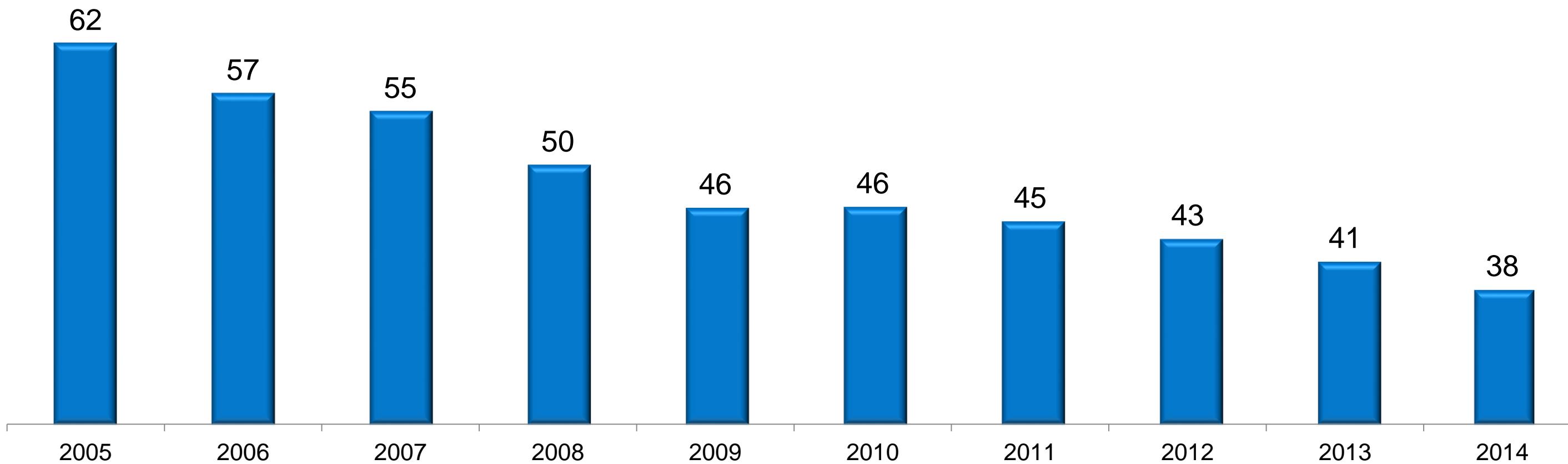


Banking system has a low exposure to external liabilities

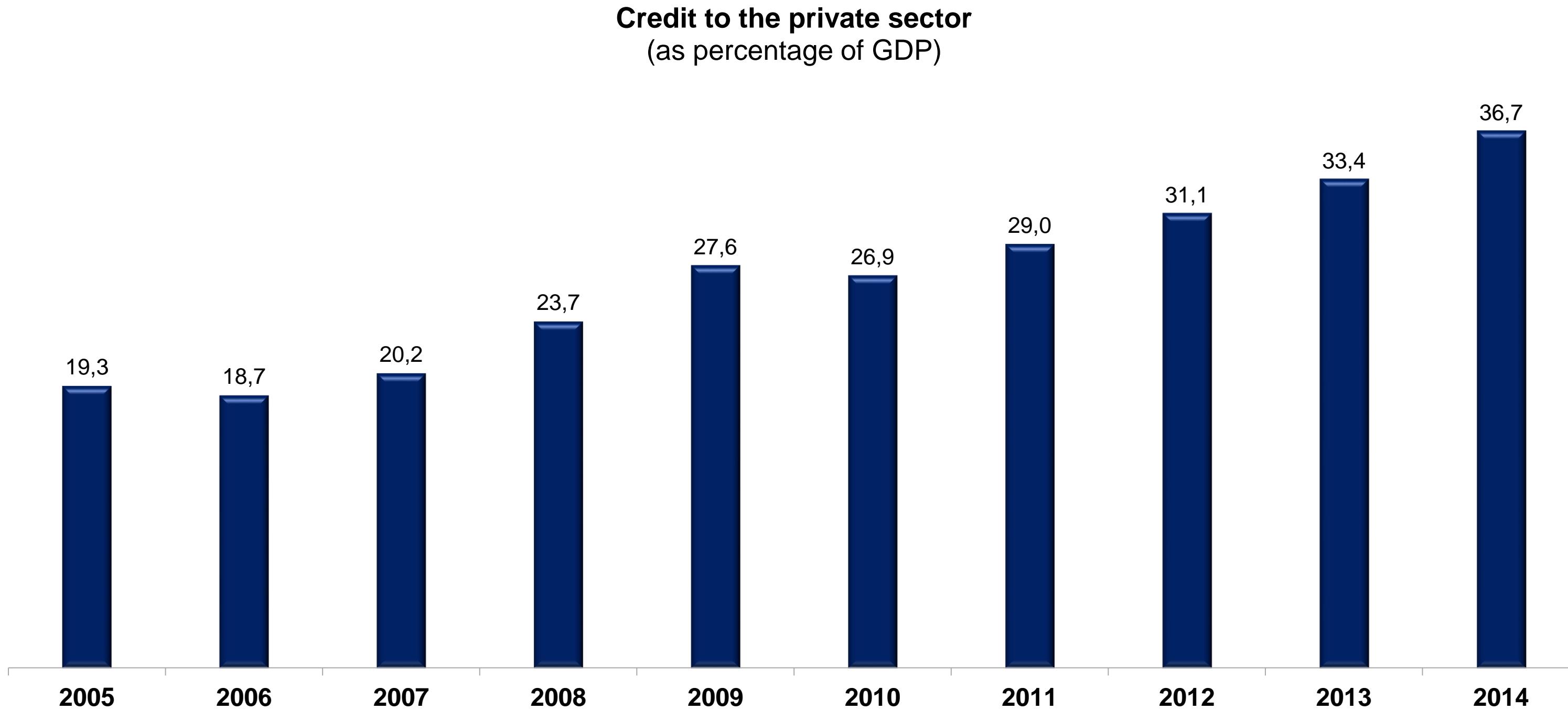


Dollarization dropped 40 percent since 2005

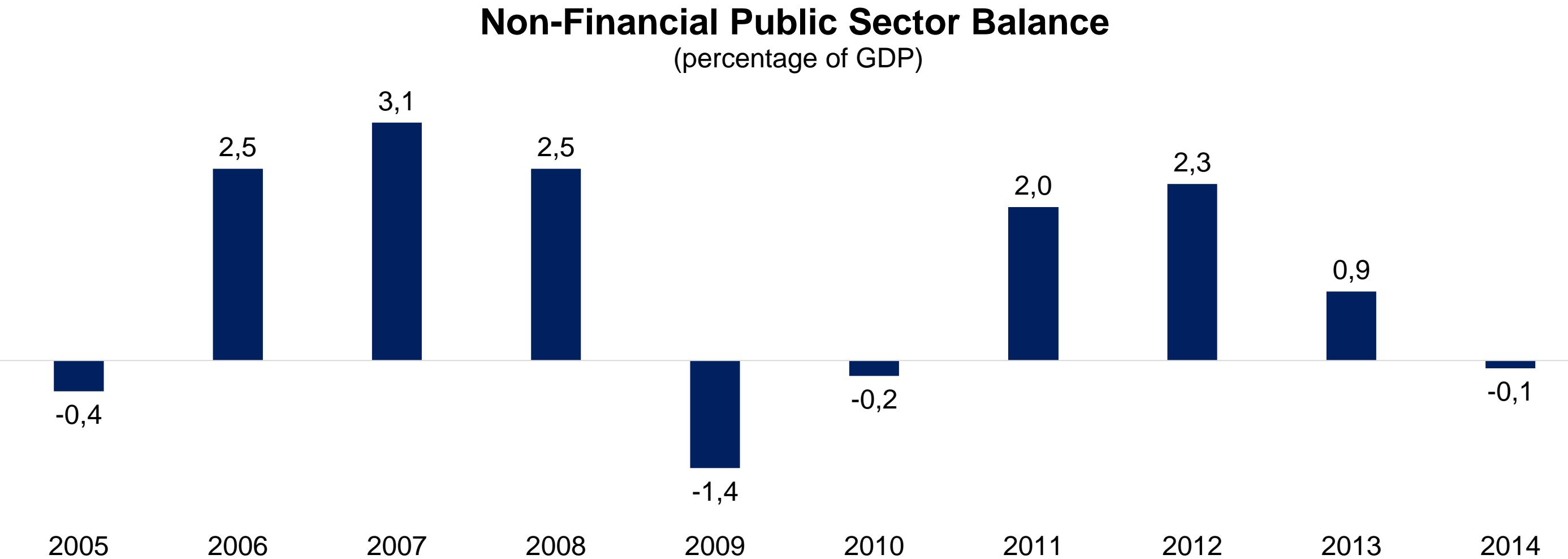
Dollarization Ratio of Credit to the Private Sector



Greater financial deepening: Credit to GDP almost doubled since 2005

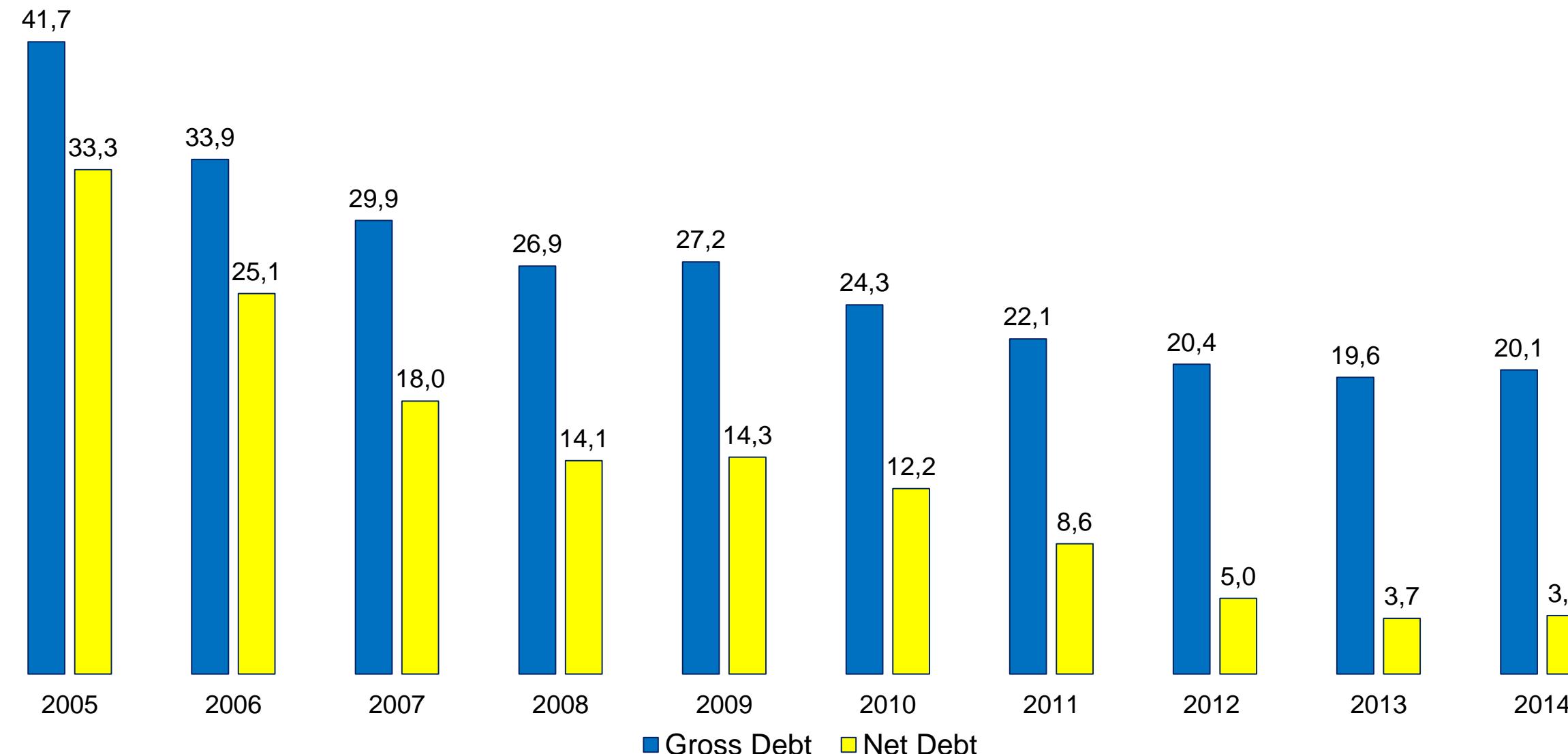


Fiscal surplus has allowed to accumulate important resources during the period of high commodity prices

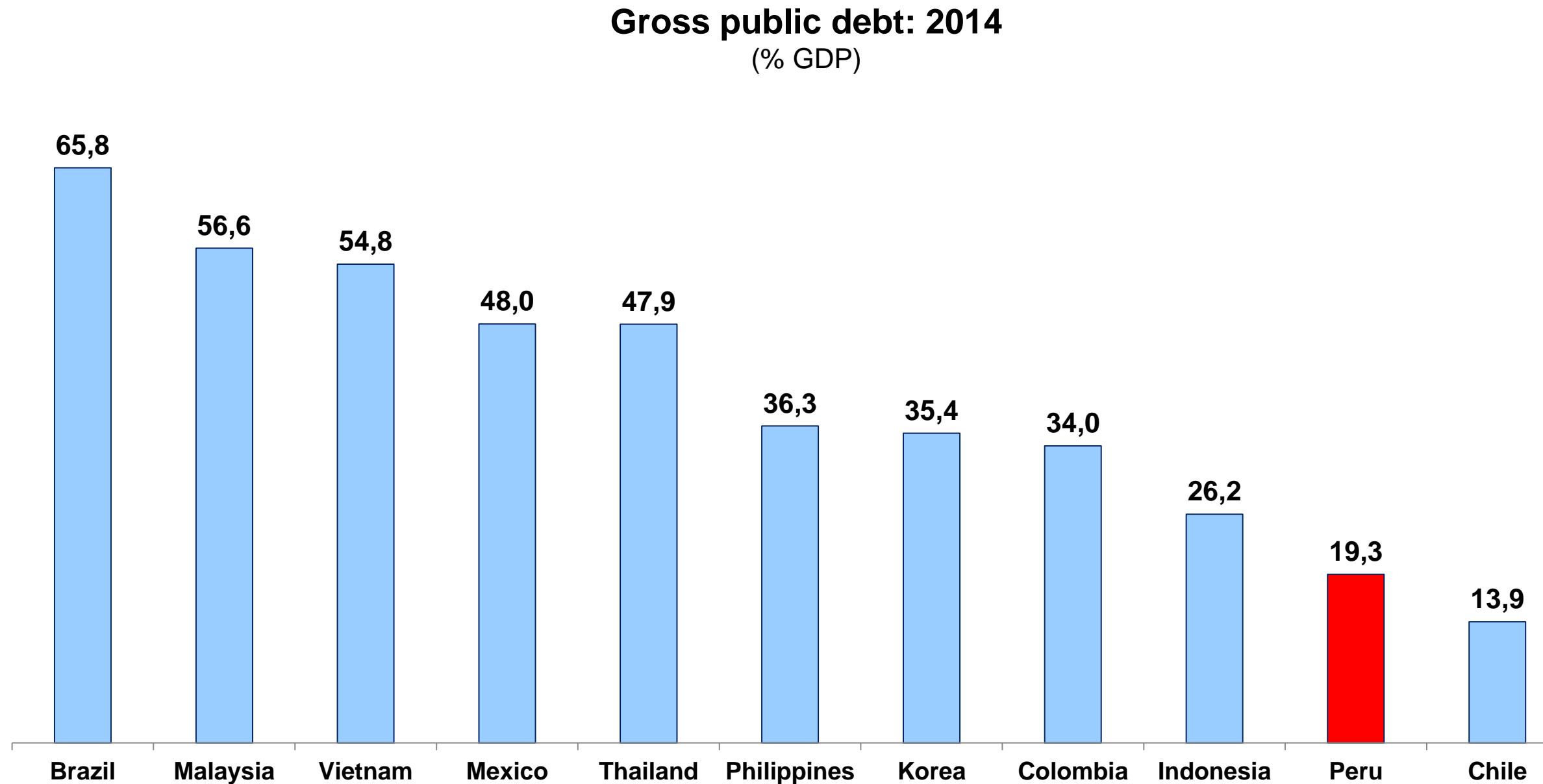


Gross non-financial public sector debt has shown a downward trend in the last 10 years

NON FINANCIAL PUBLIC SECTOR DEBT STOCK: GROSS AND NET DEBT (percentage of GDP)

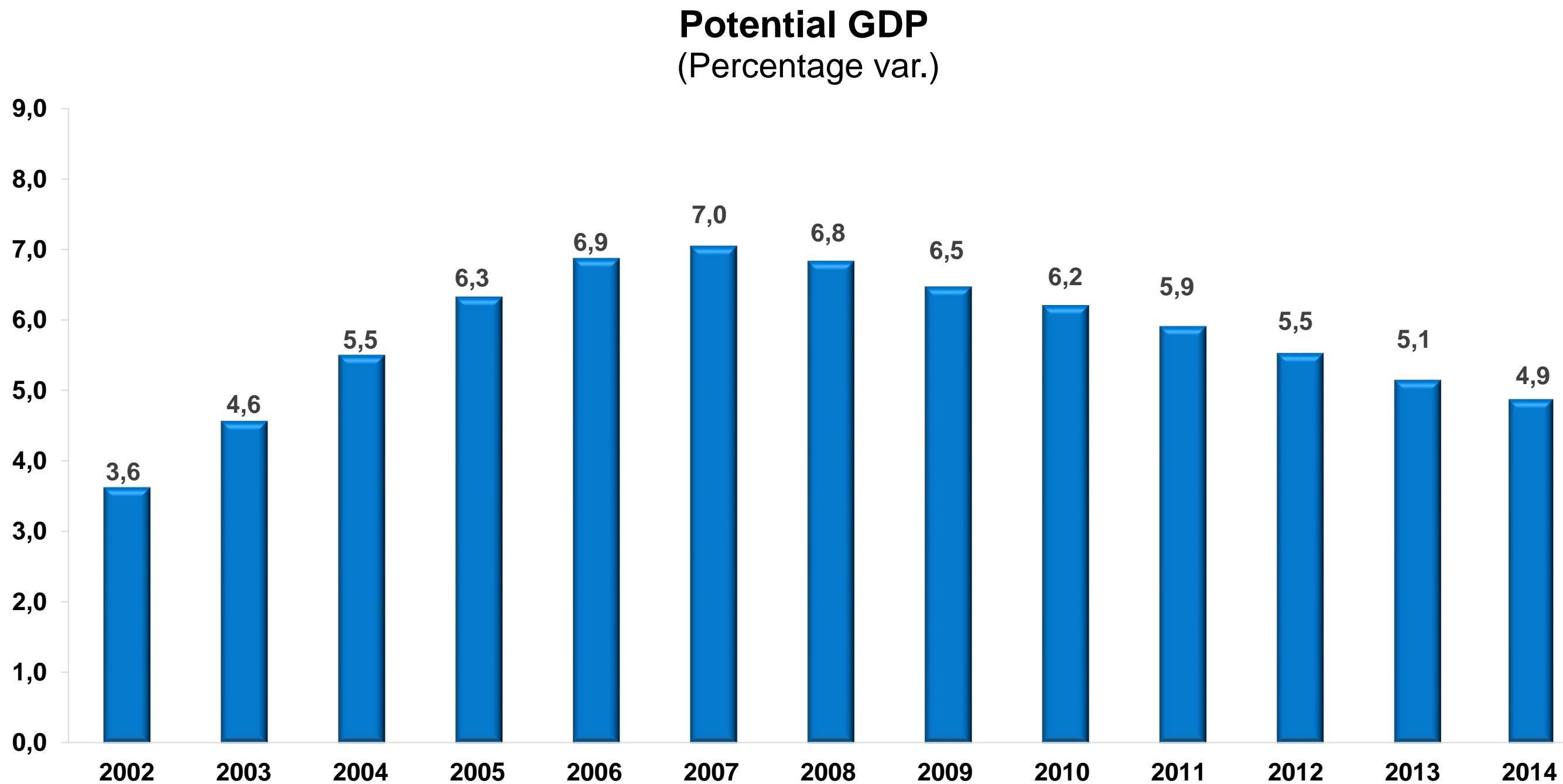


Public debt is among the lowest in the region



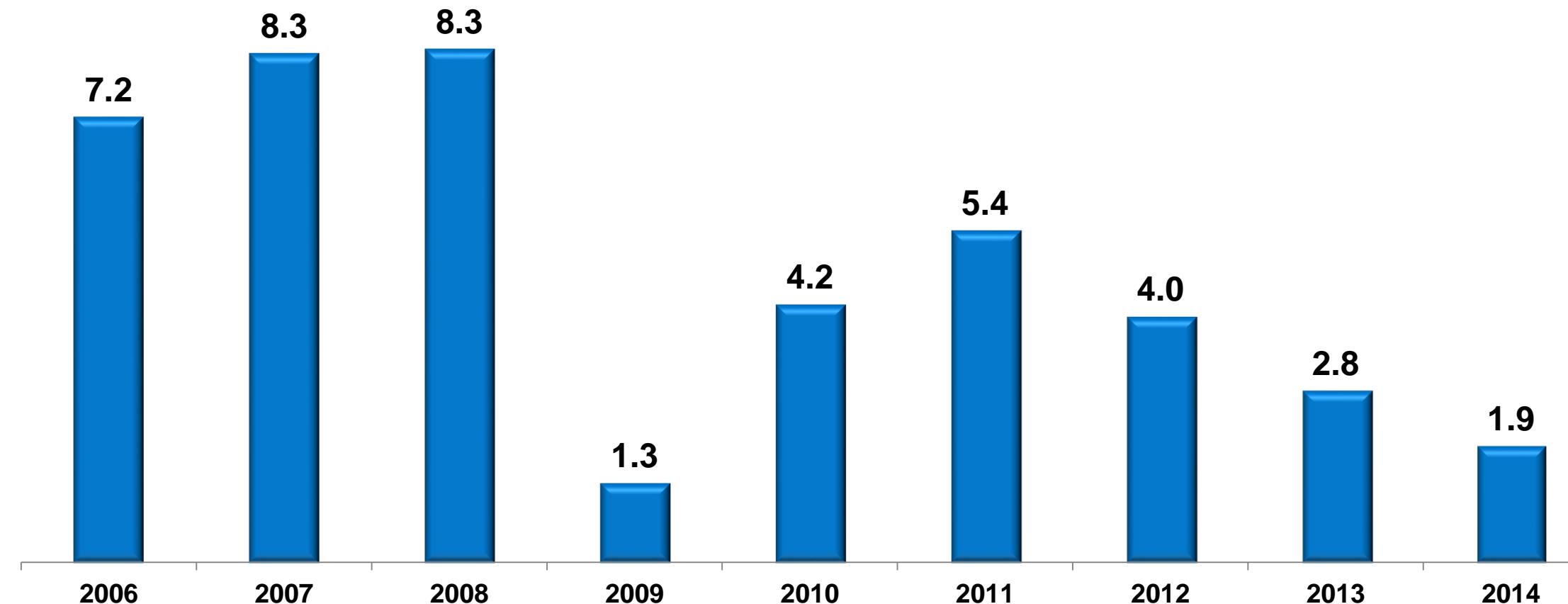
Source: FMI (WEO).

Productivity improvements are expected to have a positive impact on potential output growth in the following years



Continuous increase in employment rates, even during the 2008-2009 financial crisis

Urban Employment^{1/}
(Percentage change)

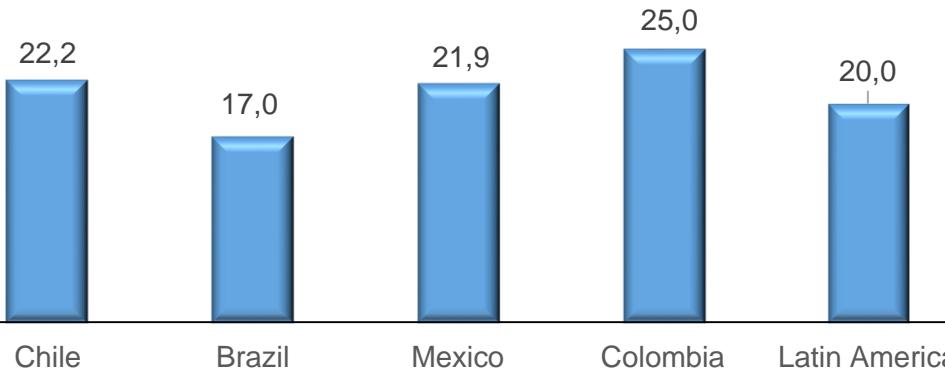


^{1/}Enterprises with 10 or more workers

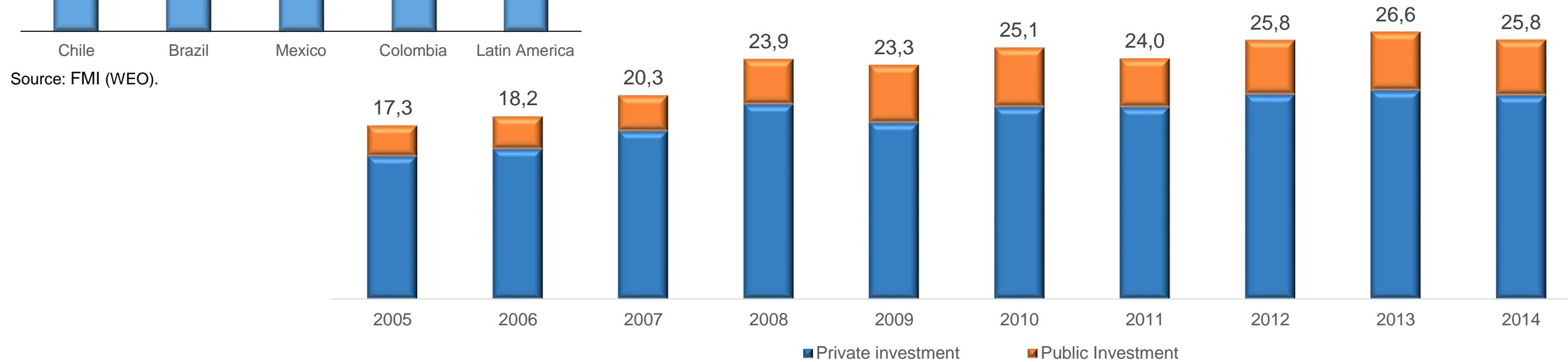
Source: Ministry of Labor and Promotion of Employment

Gross fixed investment...

Total investment
(as percentage of GDP)



Gross fixed investment
(as percentage of GDP)

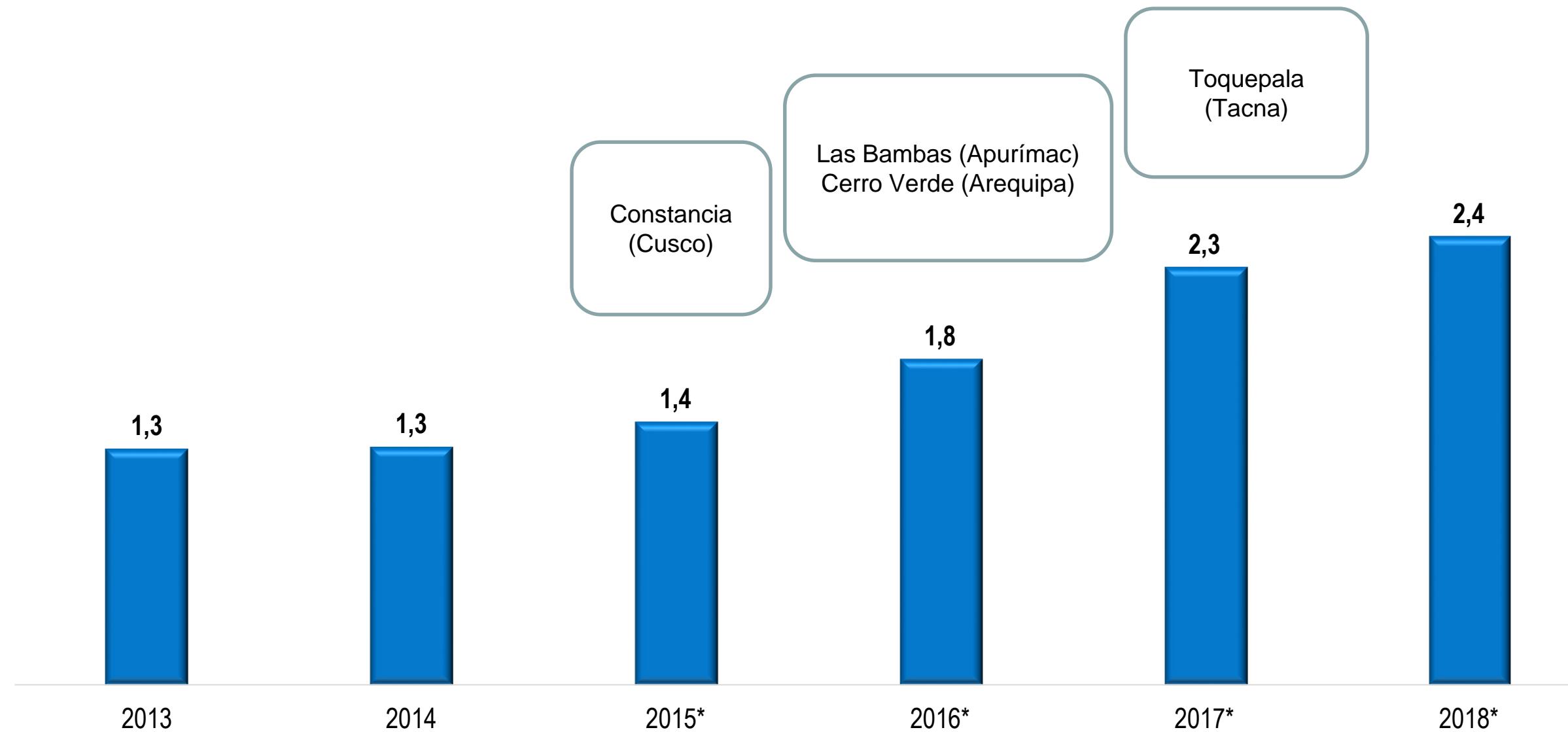


% GDP	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Private	14,3	15,0	16,8	19,4	17,6	19,2	19,2	20,4	20,8	20,3
Public	3,1	3,2	3,5	4,5	5,7	5,9	4,8	5,4	5,8	5,5

Copper production would increase 70 percent in 2018

COPPER PRODUCTION

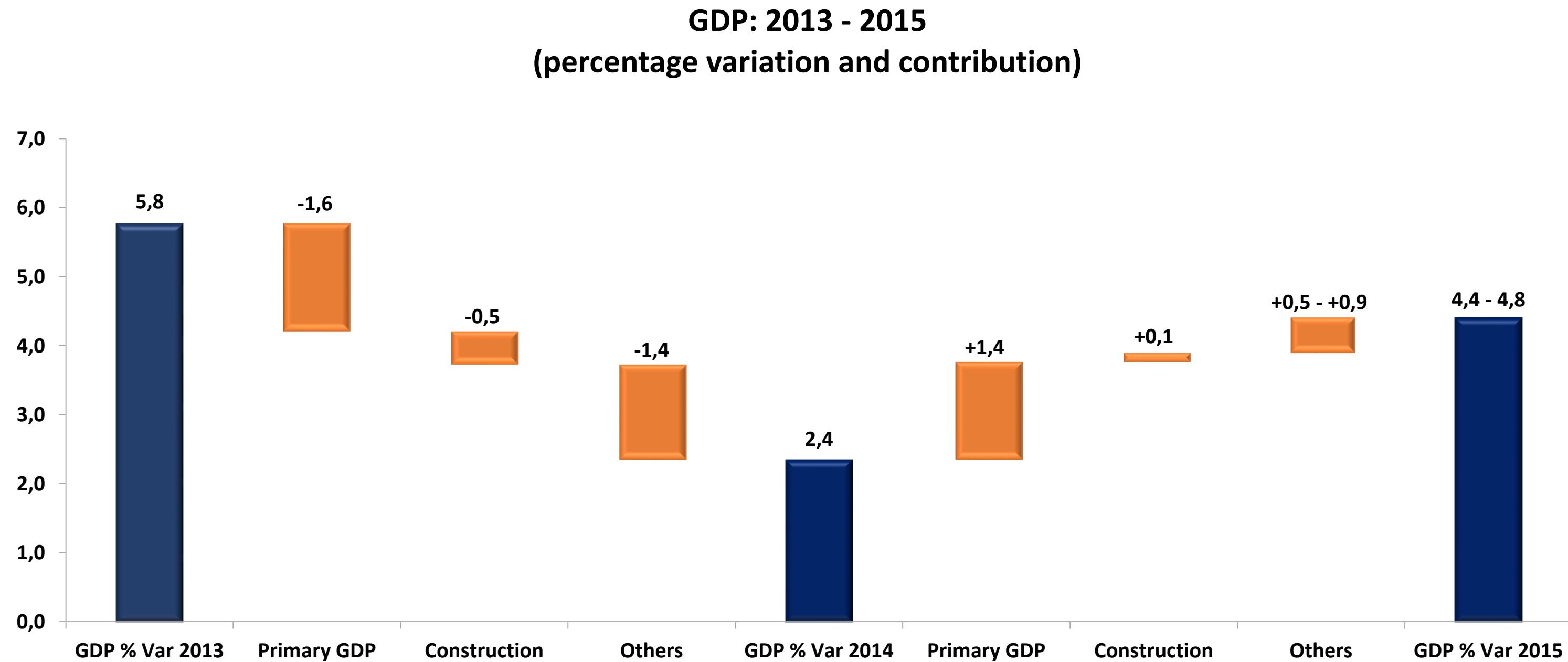
(million of tons)



Agenda

1. Peru's growth is based on strong fundamentals
2. Recent economic developments and prospects
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Lower GDP growth due to negative supply shocks that affected primary sectors



Negative shocks affected economic growth in 2014

Gross Domestic Product (yoY % var)			
	2013	2014	
		Forecast Dic 2013	2014
I. Supply shocks			
Rice	0,1	2,7	-5,6
Anchovies	28,7	21,2	-52,6
Fishmeal	44,3	37,5	-63,0
Gold	-3,3	1,4	-10,4
Copper	7,4	17,3	0,7
Zinc	5,4	4,8	-2,4
II. Demand shocks			
Construction	8,9	7,3	1,7
Inventories	1,3	-0,1	-0,6
III. GDP			
Primary GDP	5,0	5,2	-2,3
Non-Primary GDP	6,0	6,1	3,6

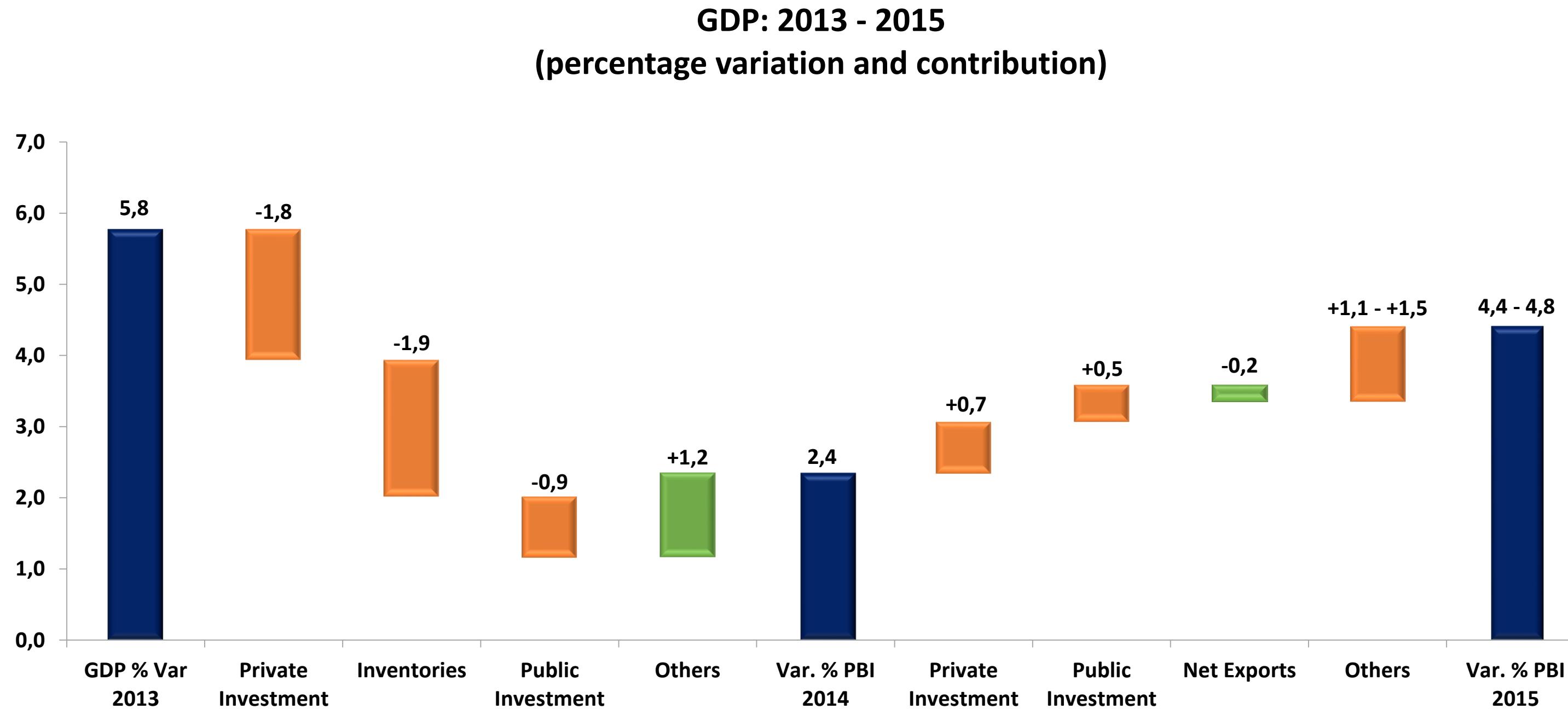
Economic recovery in 2015 would be based on mining, manufacturing and construction

GDP BY ECONOMIC SECTOR
(yoY % var)

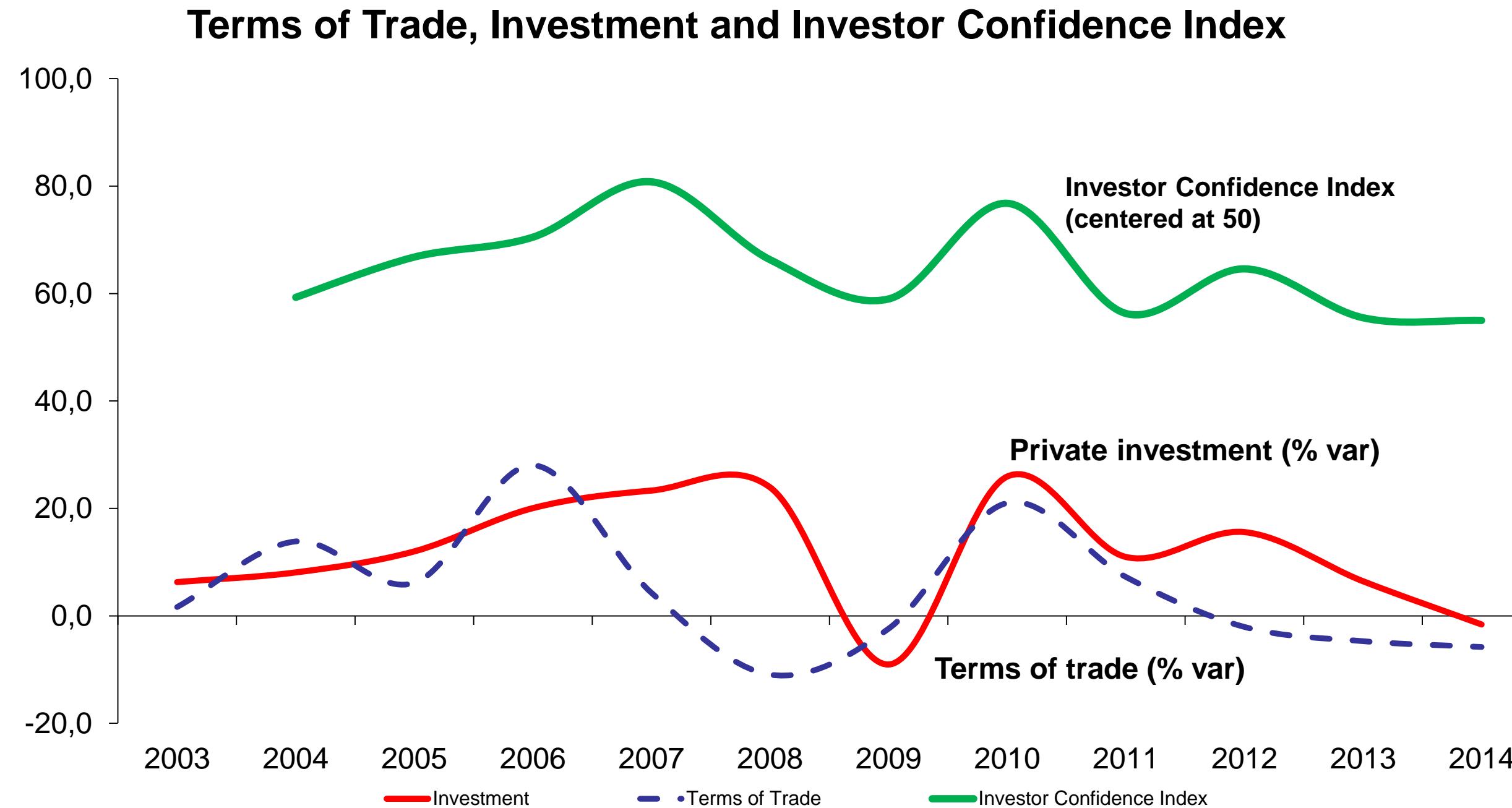
	2014	2015*	2016*
Primary GDP	-2,3	4,7	8,1
Agriculture	1,4	1,8	3,5
Fishing	-27,9	17,2	18,6
Mining and oil	-0,8	5,2	10,6
Manufacturing based on raw materials	-9,7	6,3	4,5
Non-primary GDP	3,6	4,5	5,5
Non-primary manufacturing	-1,0	2,6	4,5
Construction	1,7	3,7	7,0
Electricity and water	4,9	5,1	6,1
Commerce and services	4,8	4,9	5,5
GDP	2,4	4,4 - 4,8	5,5 - 6,0

*Forecast

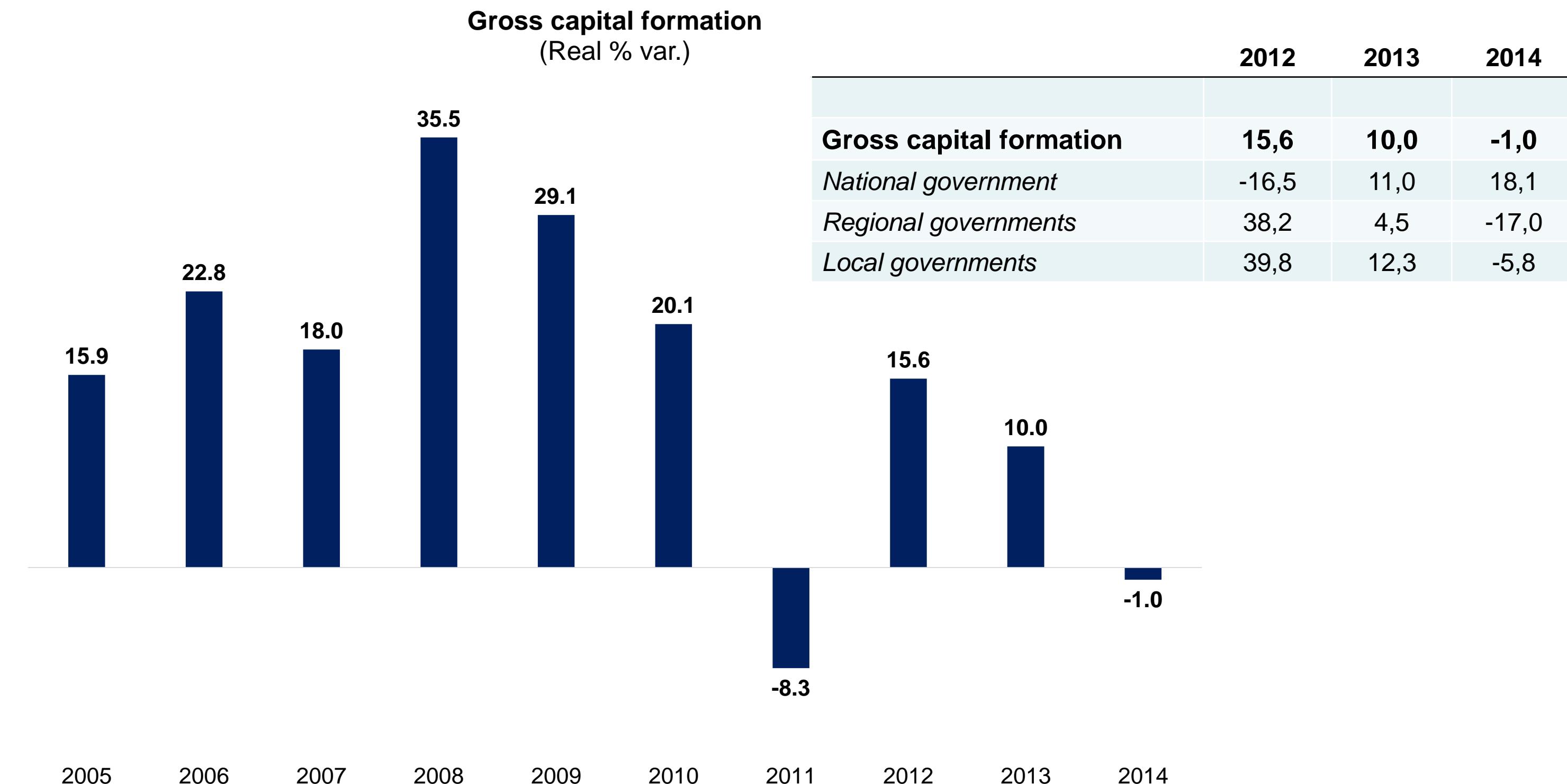
Lower GDP growth in 2014 due to a reduction in private and public investment.



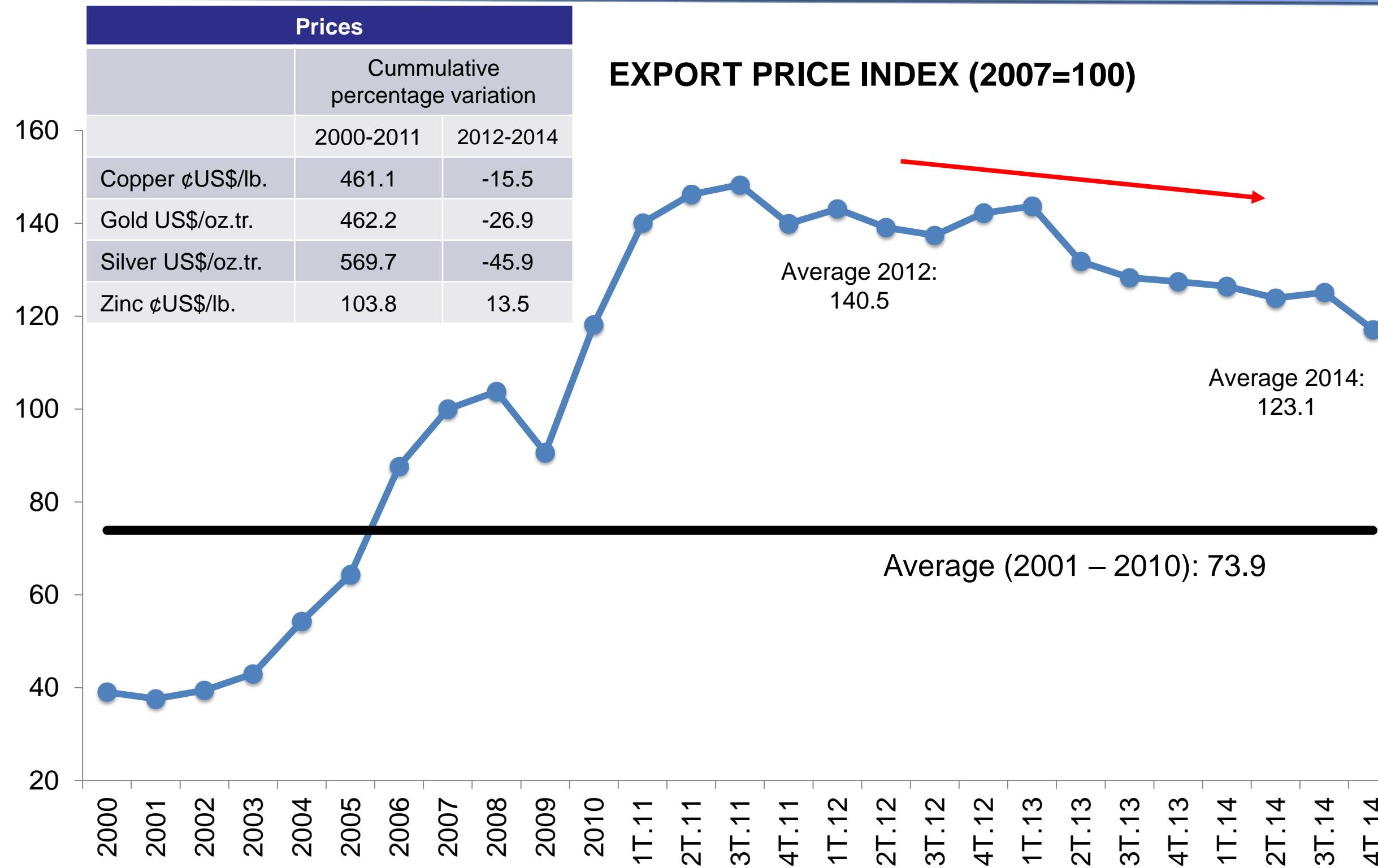
Institutional and internal factors have restrained investment and have affected investor confidence



Negative effect on investment due to lower regional and local government spending



**Compared to the average price of 2012, export prices dropped 12,4 percent in 2014.
However, they still remain above the 10-year average**

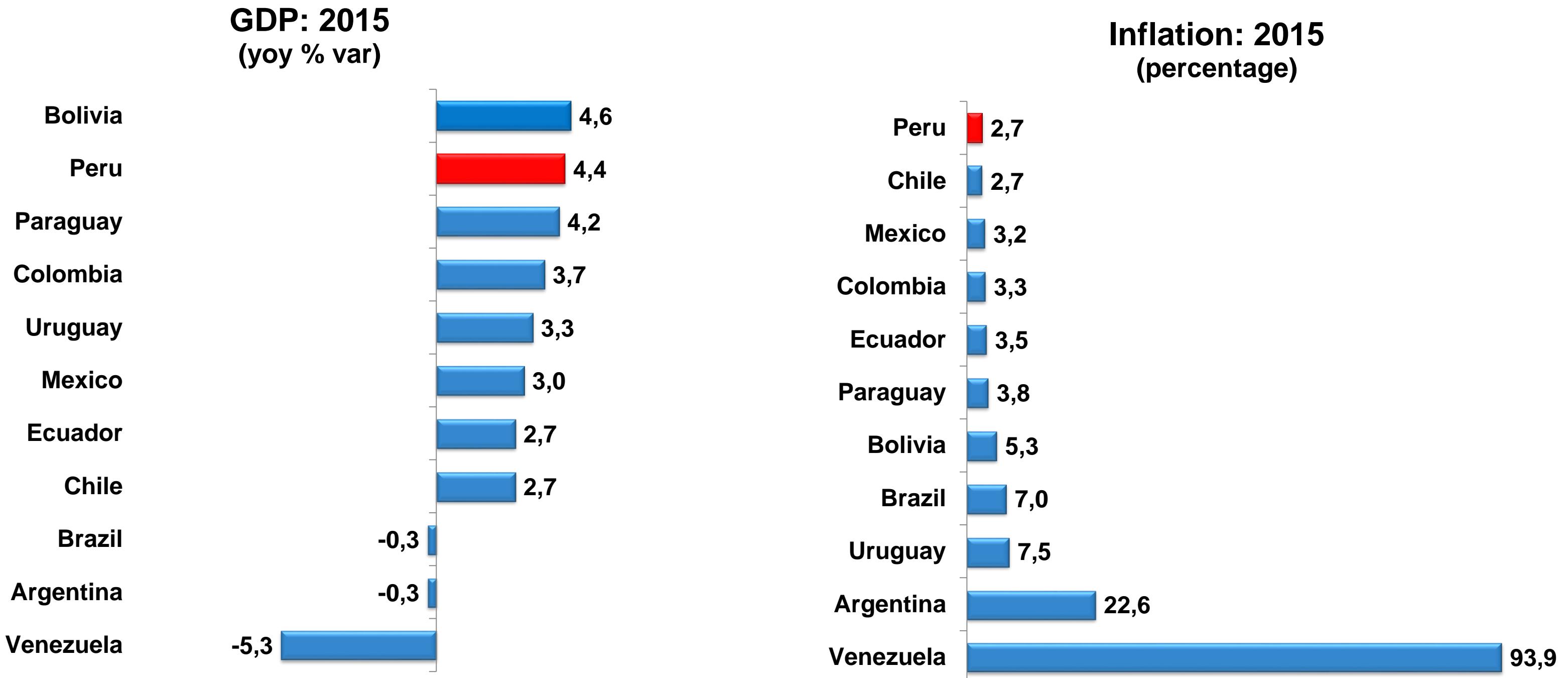


Higher GDP growth in 2015 would be associated with a recovery of private investment and exports.

Gross Domestic Product (Real % change)			
	2014	2015*	2016*
Private spending	1,8	3,9	5,0
Private consumption	4,1	4,4	4,8
Private fixed investment	-1,6	1,6	5,1
 Public spending	 3,0	 6,0	 8,2
public consumption	6,4	5,7	6,1
Public investment	-3,6	6,5	12,6
 Exports	 -0,3	 3,0	 3,0
Imports	-1,4	2,1	6,0
 GDP	 2,4	 4,4-4,8	 5,5-6,0

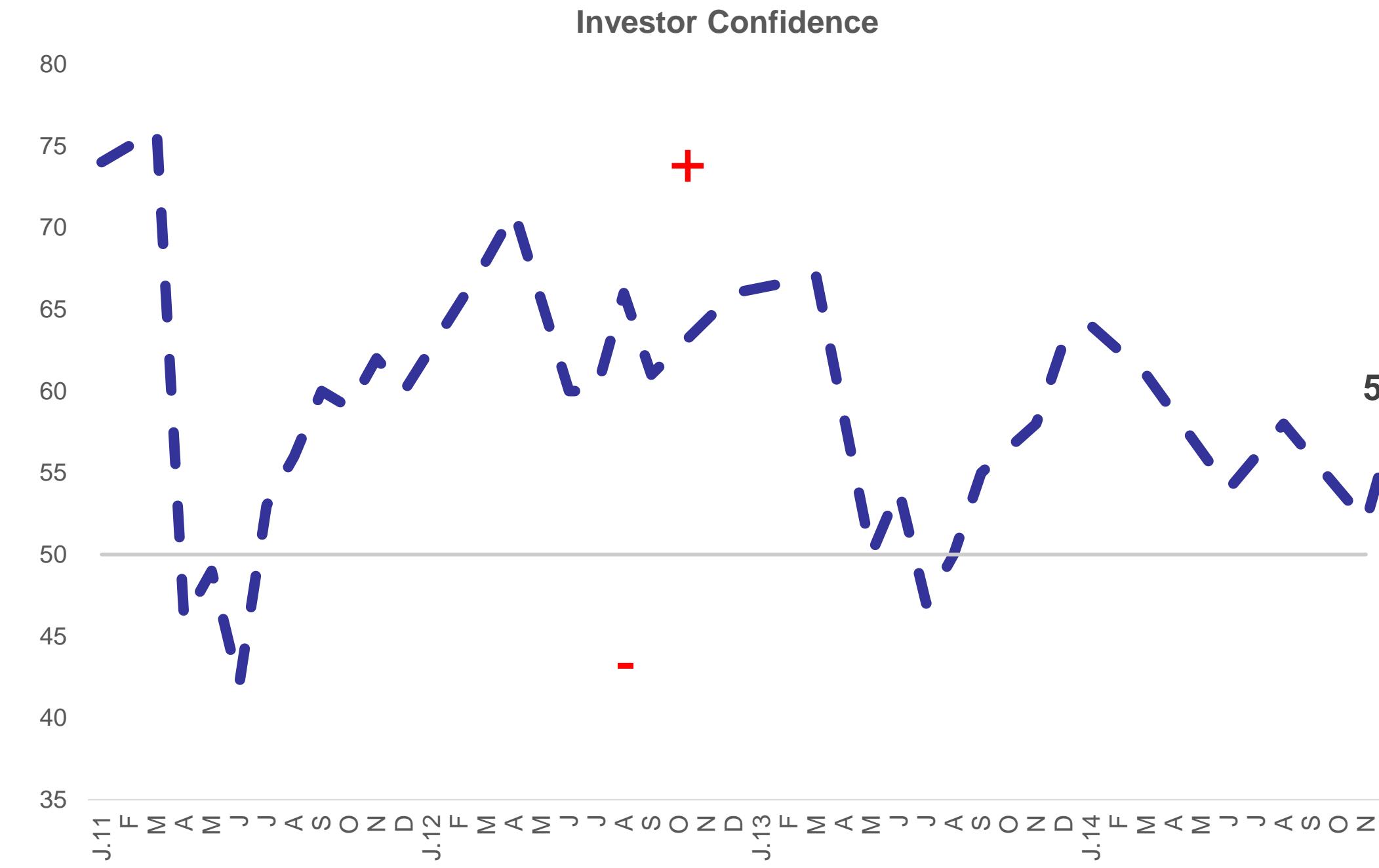
*Forecast

Peru's growth expectation is one of the highest in the region, whereas inflation is expected to be the lowest

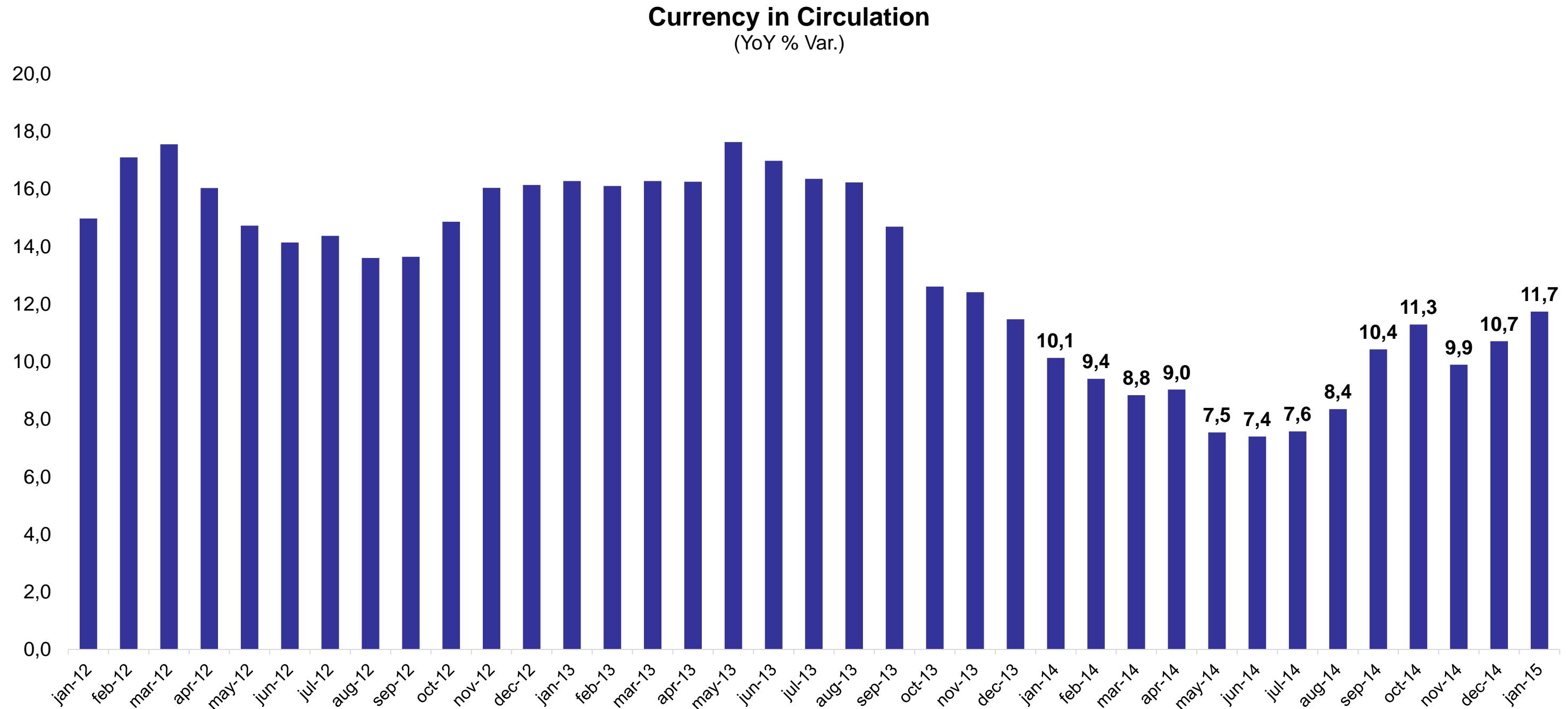


Source: Latin American Consensus Forecast (February 2015).

Investor confidence also remains in the optimistic region.

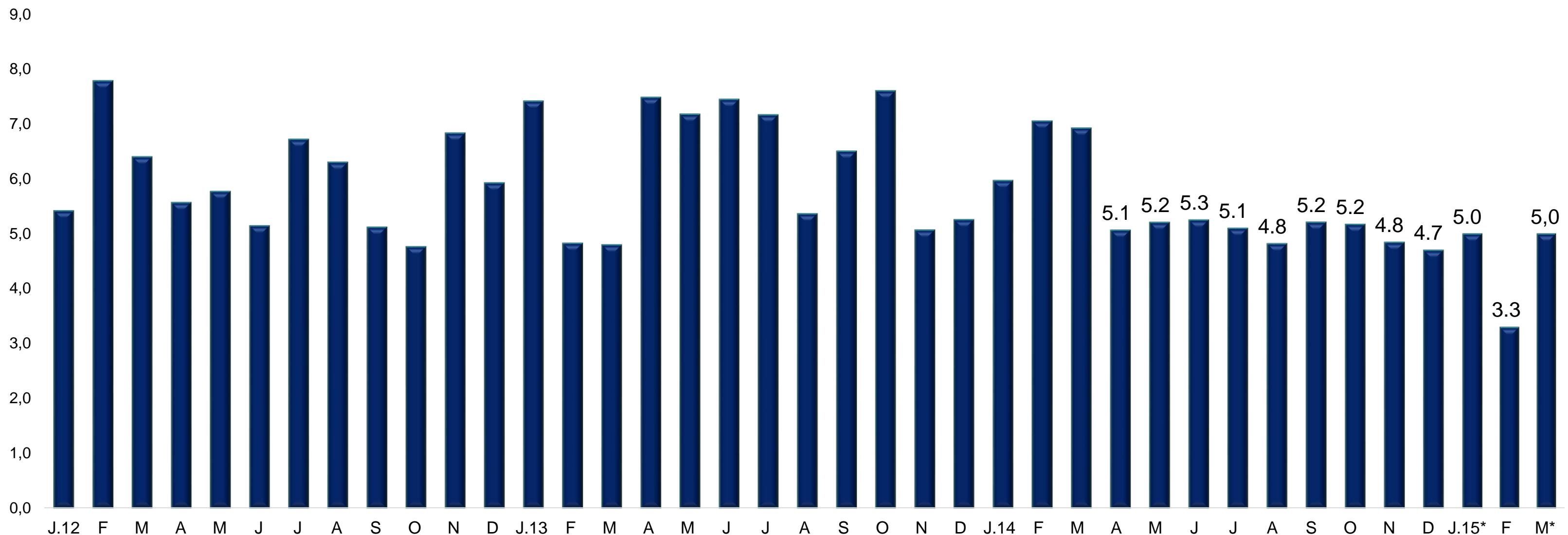


Recovery in currency growth rates due to higher purchases of mass consumption products and smaller firms



Production of electricity showed a steady growth rate throughout the year

Production of Electricity: 2012 – 2015
(YoY % var.)



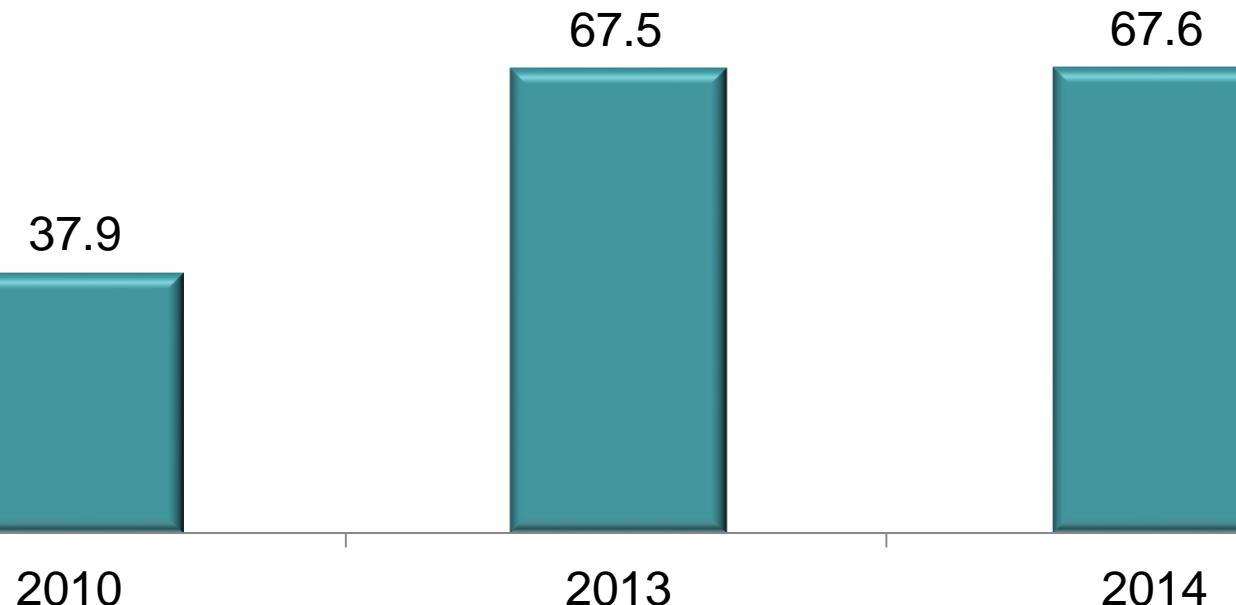
* Preliminary

Source: COES

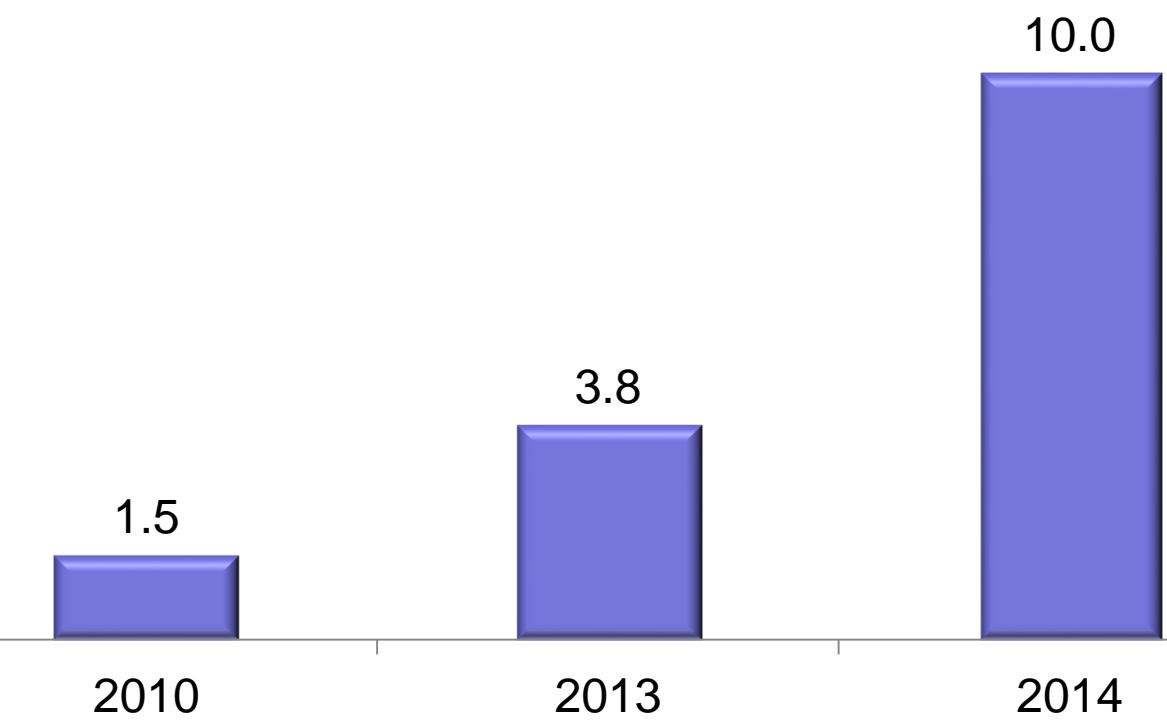
Announced private investment projects amount to US\$ 67.6 billion

PRIVATE INVESTMENT PROJECT STOCK

(Billion of US\$)

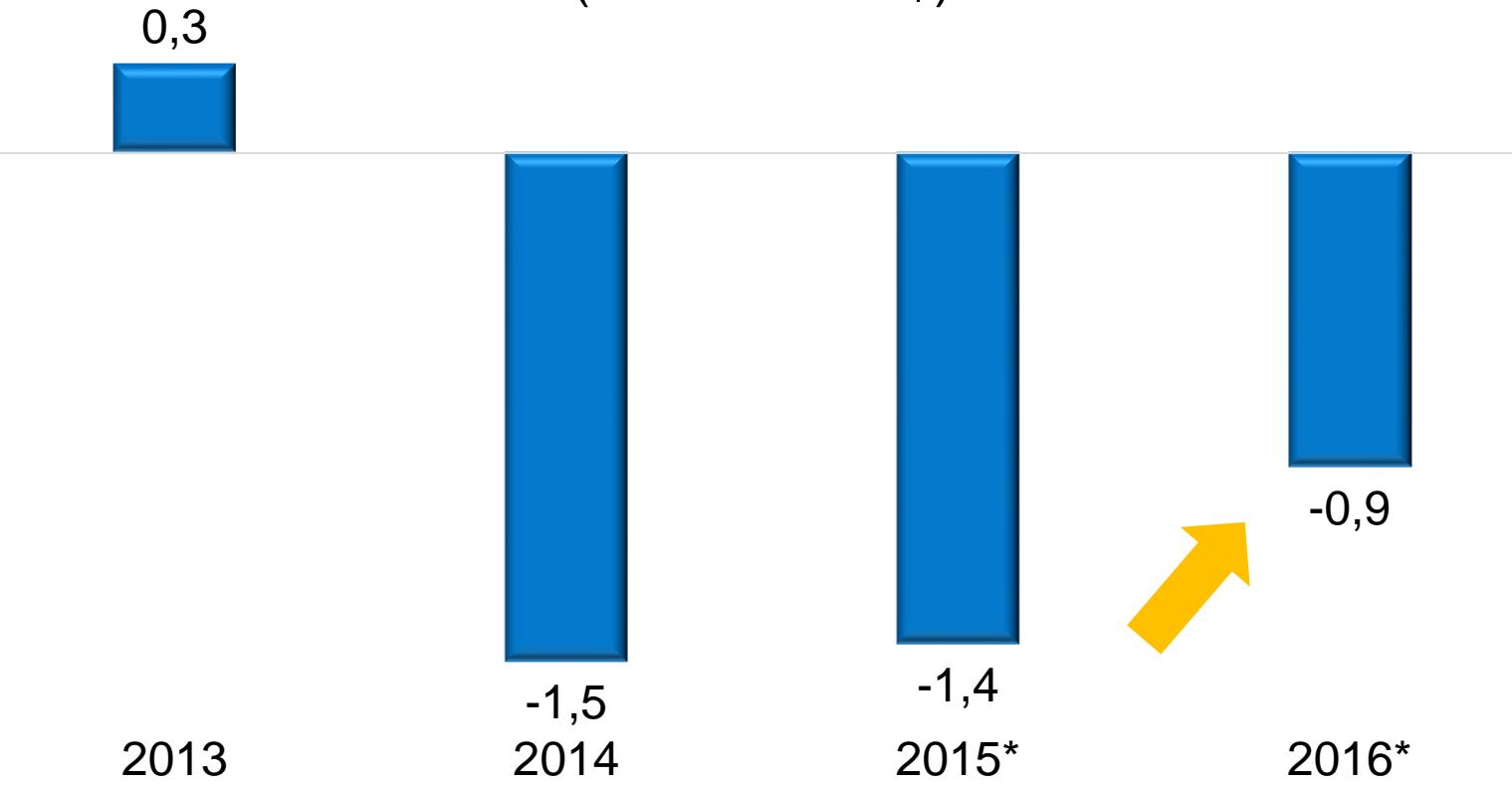


CONCESSIONS
(Million of US\$)



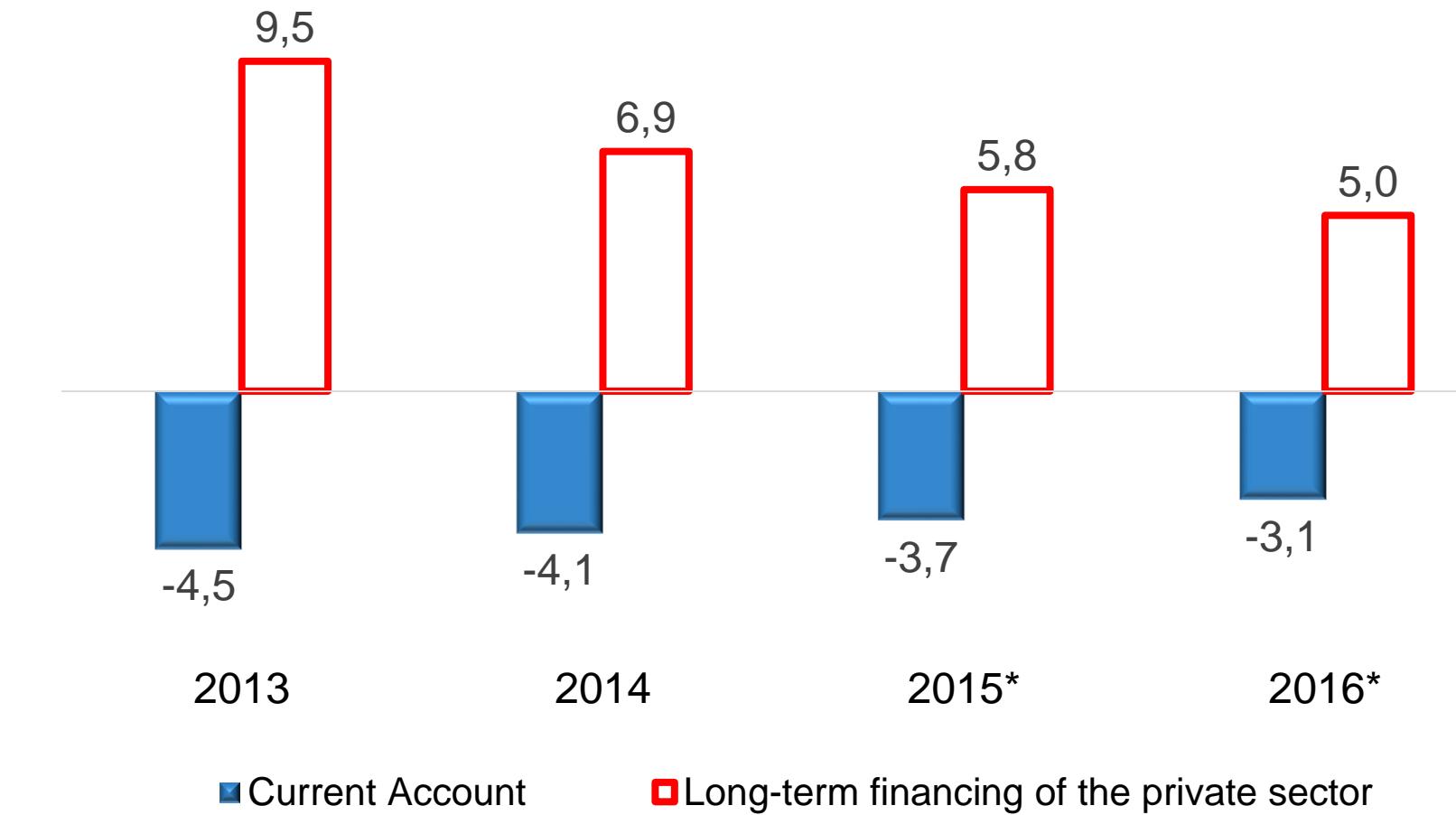
The onset of new mining projects will contribute to improve in the trade balance in the coming years

Trade Balance: 2011 - 2016
(Billion of US\$)



*Forecast

CURRENT ACCOUNT AND LONG-TERM EXTERNAL FINANCING OF THE PRIVATE SECTOR: 2005-2014 1/
(Percentage of GDP)

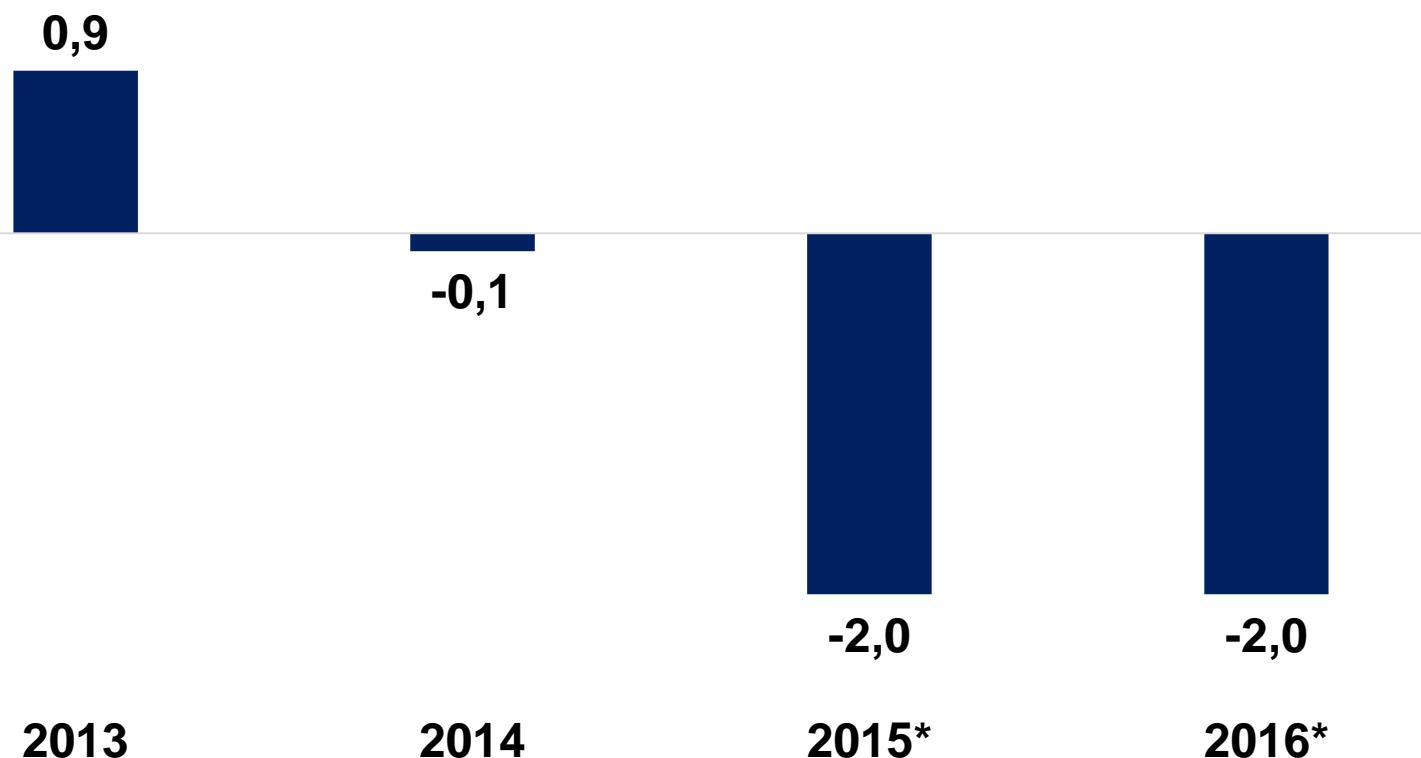


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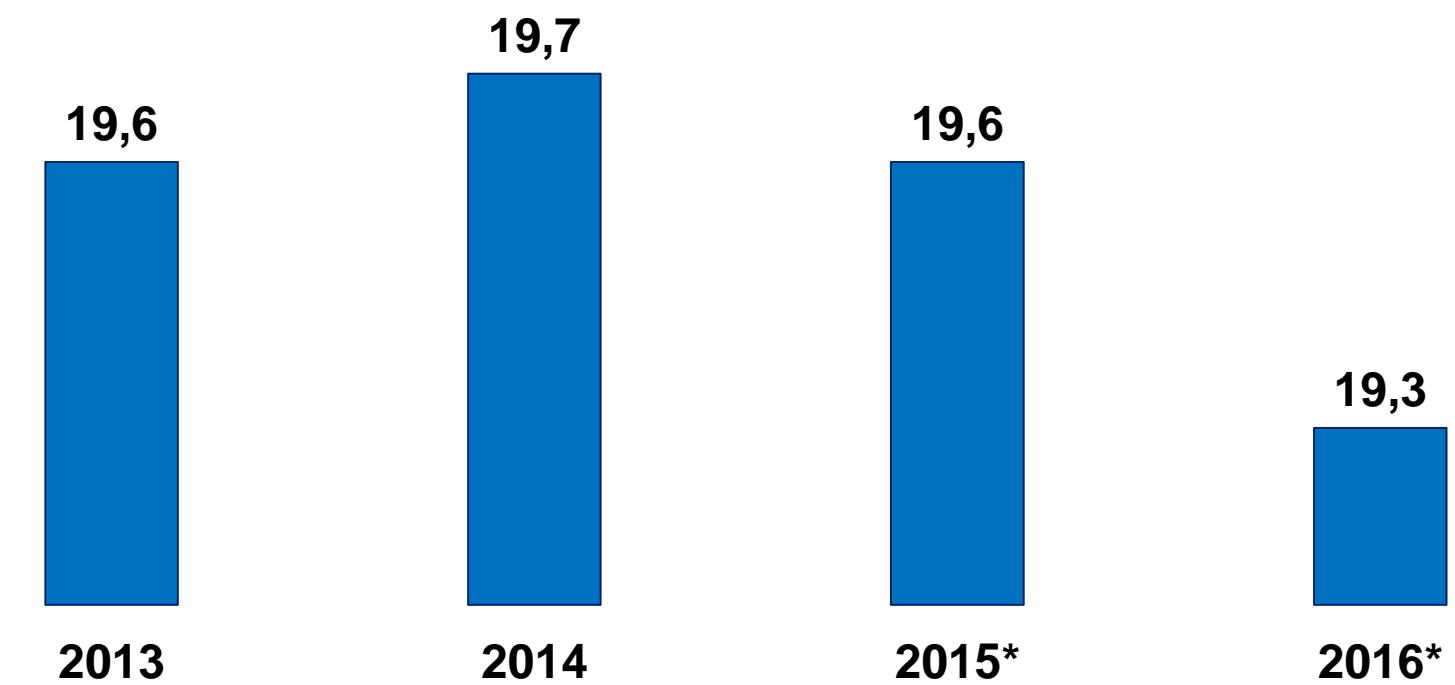
Non-Financial Public Sector Balance and Gross non-financial public sector debt

Non-Financial Public Sector Balance
(percentage of GDP)



* Forecast

GROSS NON-FINANCIAL PUBLIC SECTOR DEBT STOCK
(percentage of GDP)



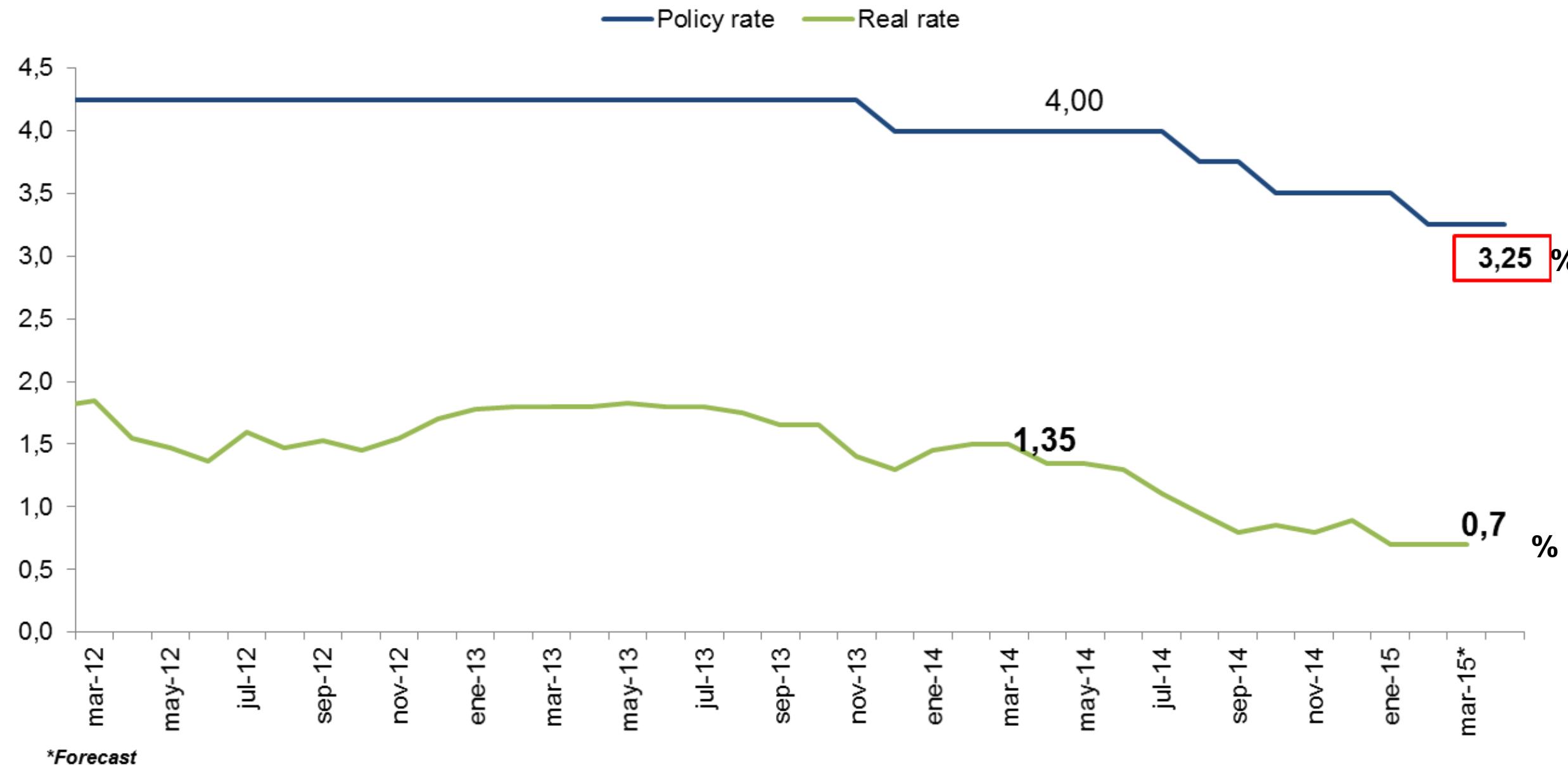
* Forecast

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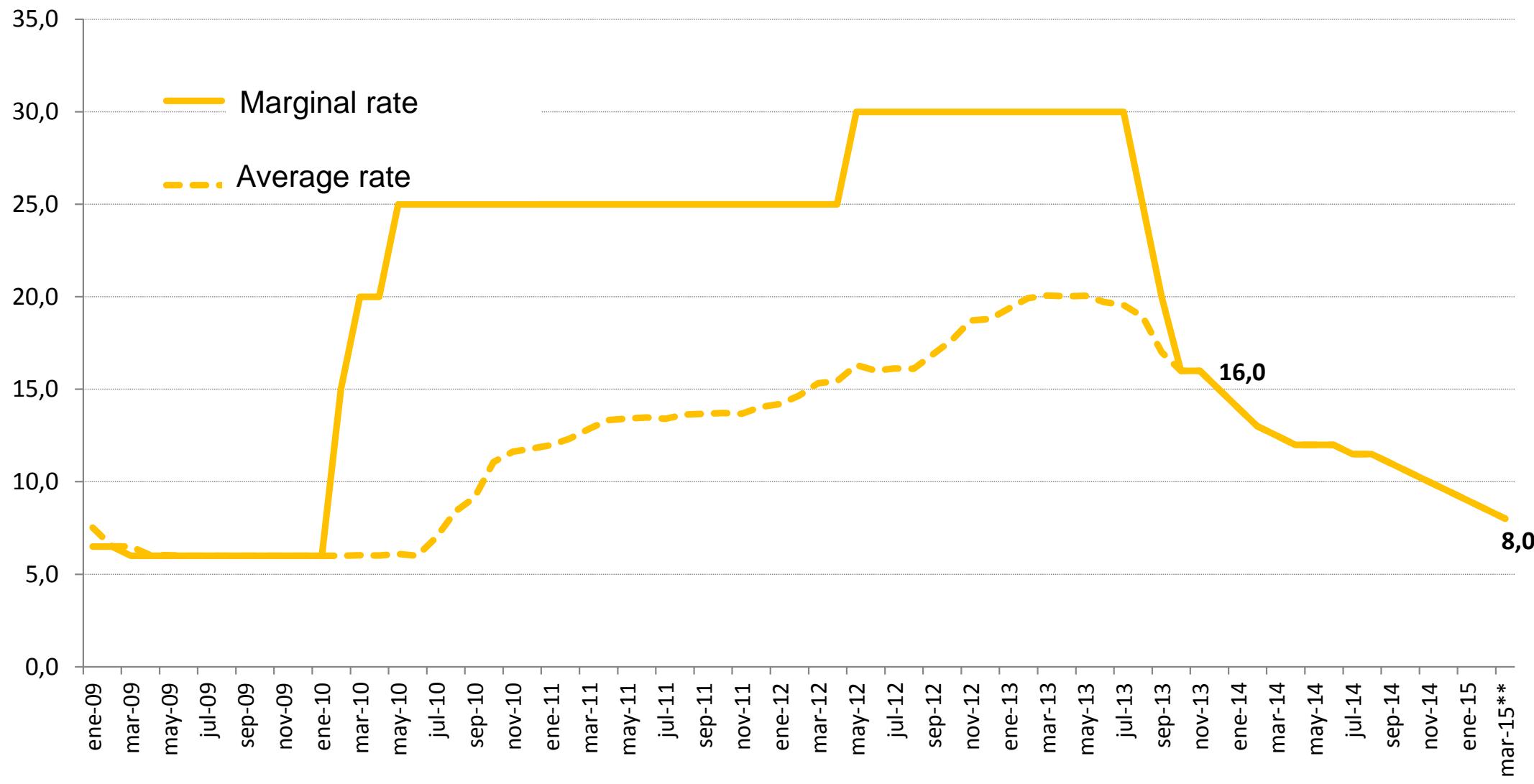
The Central Bank of Peru lowered its monetary policy interest rate 4 times since November 2013

Monetary policy and real interest rate
(As Percentage)



Macro-prudential measures aim at securing sustainable credit growth and contributing to de-dollarization

Domestic currency reserve requirement rate (As percentage of total obligations subject to reserve requirements)

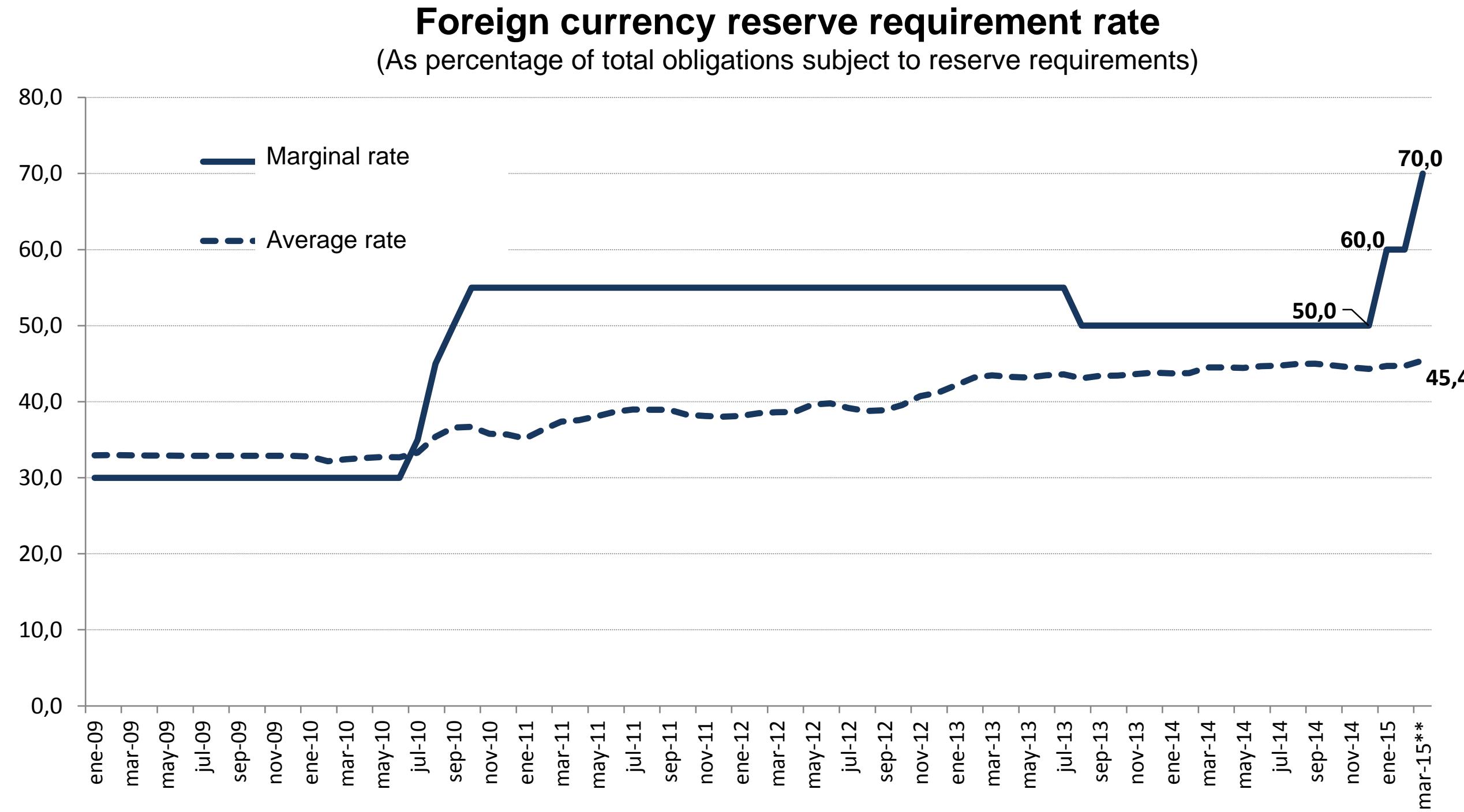


Liquidity injection by reducing the rate of reserve requirements in domestic currency

(Millions of S.)

Month	Liquidity
Jun-13	480
Aug-13	567
Sep-13	2 026
Oct-13	1 064
Dec-13	1 086
Jan-14	1 091
Feb-14	1 086
Mar-14	533
Apr-14	540
Jul-14	543
Sep-14	562
Oct-14	561
Nov-14	349
Dec-14	555
Jan-15	565
Feb-15	576
Mar-15	572
Total	12 756

Macro-prudential measures aim at securing sustainable credit growth and contributing to de-dollarization



Higher preference for credit in domestic currency since the second quarter of 2013

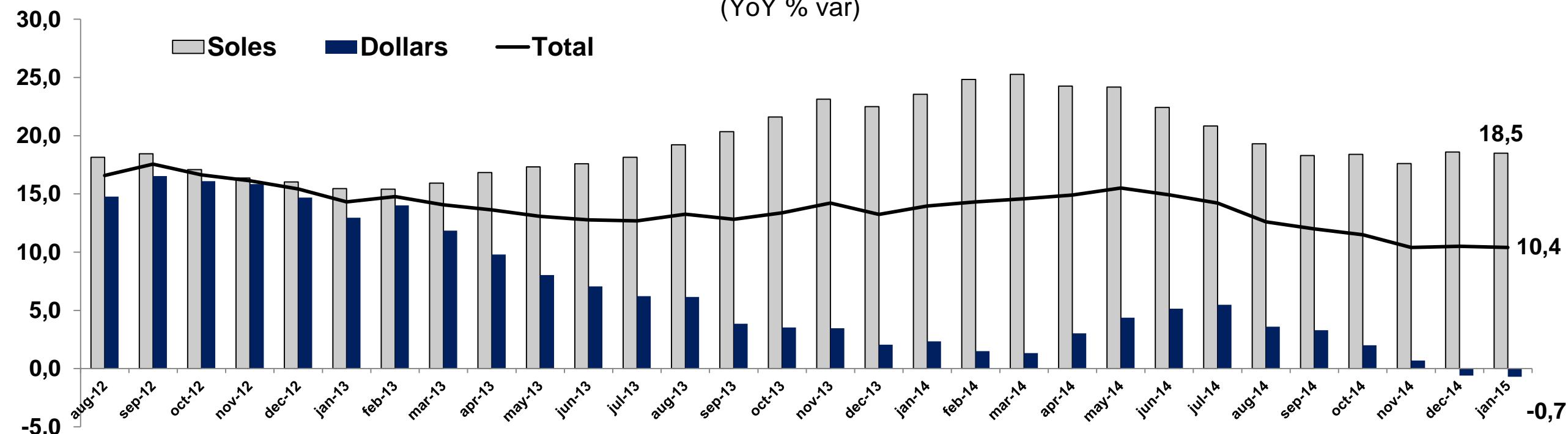
**Credit to the private sector
(yoY % var)**

	December 2013	January 2014
Domestic Currency	22.3	18.5
Foreign Currency	2.1	-0.7
Total	<u>12.9</u>	<u>10.4</u>

Credit growth rates Jan.15 / Jan.14	Domestic Currency	Foreign Currency	Dollarization (%)
<u>1. Credit to enterprises</u>	<u>20.5</u>	<u>-0.1</u>	<u>48.7</u>
<u>2. Credit to households</u>	<u>16.3</u>	<u>-3.5</u>	<u>20.1</u>
a.Consumer loans	13.0	0.8	9.6
Car loans	38.7	-5.0	68.2
Credit cards	16.1	4.8	6.7
Other loans	10.8	5.0	6.0
b. Mortgage loans	22.9	-5.0	34.0
Total	<u>18.6</u>	<u>-0.7</u>	<u>37.9</u>

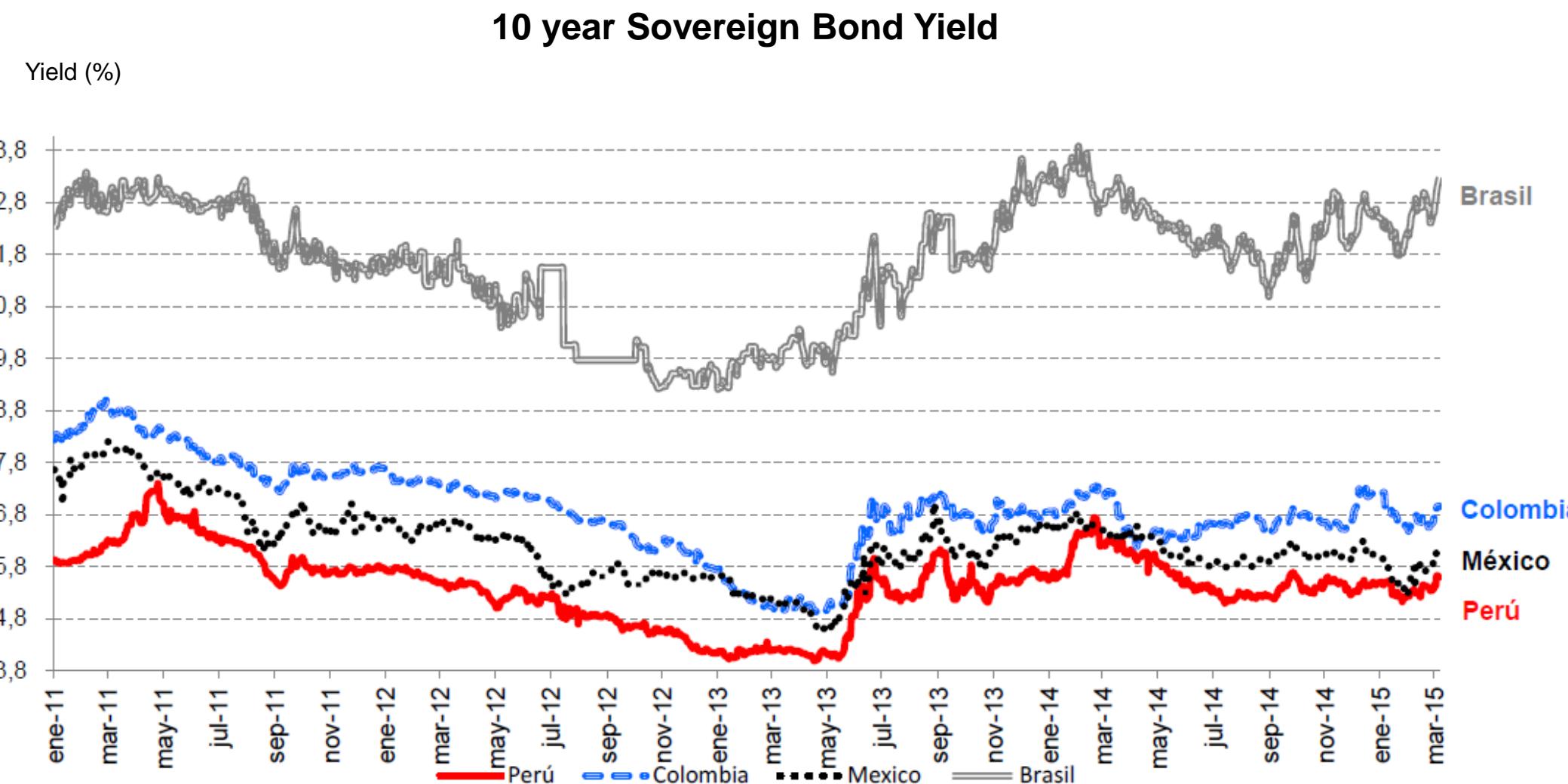
CREDIT TO THE PRIVATE SECTOR

(YoY % var)



Long term interest rates are consistent with recent developments in the world economy and with macroeconomic fundamentals.

Country	Yield (%)		Mar.15 - Dec. 13 (in bps)	Policy Rate
	Dec. 13	Mar.15		
Brazil 2023	13,21	13,23	2	12,25
Colombia 2024	6,79	6,91	12	4,50
Mexico 2023	6,53	6,14	-39	3,00
Peru 2023	5,60	5,55	-5	3,25



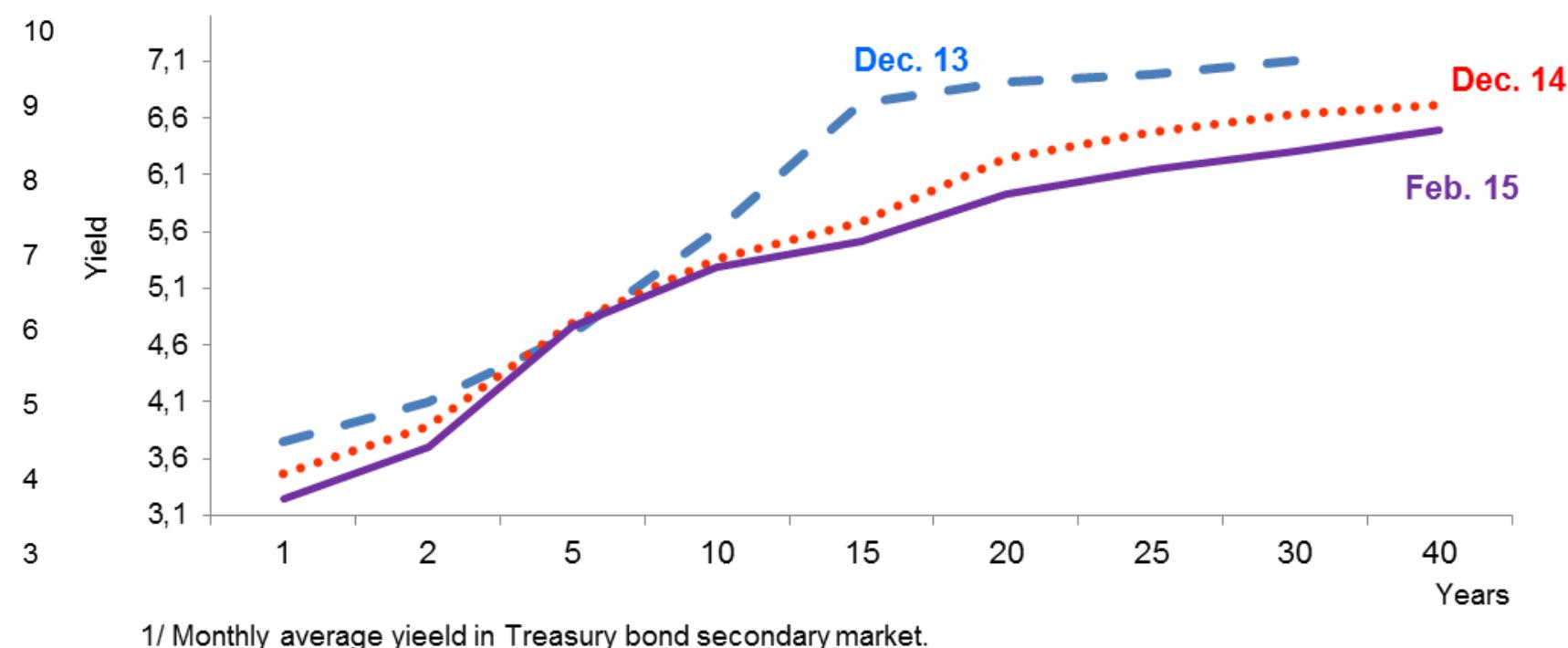
Source: Bloomberg

Non-resident agents have reduced their holdings of domestic bonds, but bond yields have not increased

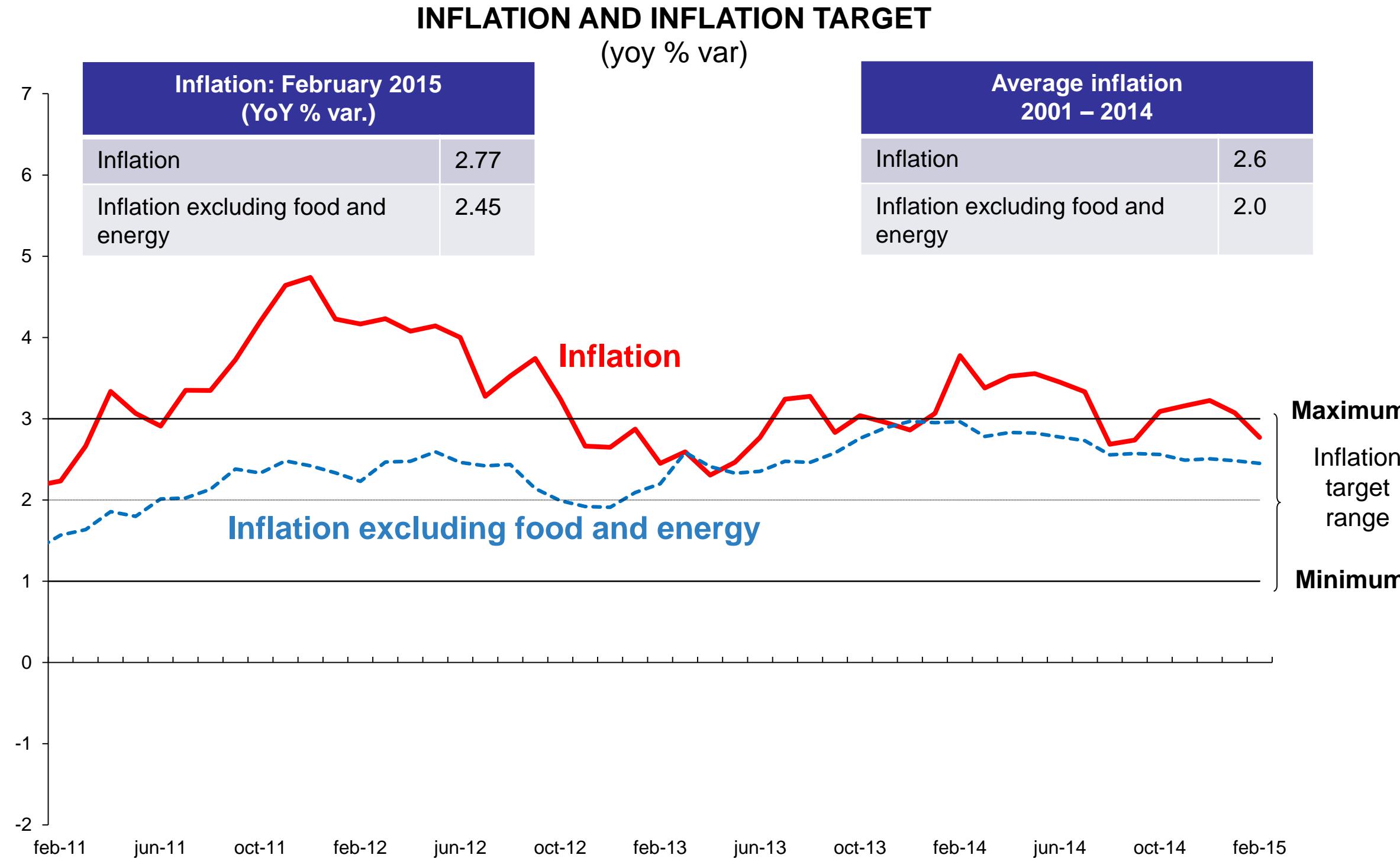
Non-Resident Treasury Bond Holdings and 10 year yield (%)



Treasury Yield Curve ^{1/}



Inflation returned to the inflation target range in February





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