



Peru

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COUNTRY		CREDIT RATING		TRADE	
Real GDP growth (%) 2016	3.70%	S&P Foreign Currency	BBB+ (S)	Partners:	US 18.4%, China 17.8%, Canada 7%, Japan 5.2%
Real GDP growth (%) 2015	3.30%	Fitch Foreign Currency	BBB+ (S)	Exports	Copper, gold, lead, zinc, tin, iron ore, molybdenum
Exchange Rate (USD/SOL)	3.5200	Moody's Foreign Currency Debt	A3 (S)	Foreign Reserves	US\$ 61 billion
FX Direction	Depreciating			Reserve Direction	Increasing
				Import Cover	16.2 (Approximate)
				Direction	Increasing
INFLATION		POLICY INTEREST RATE			
Target Rate	1% - 3%	Target Rate			
Current Month (y/y) Sep	3.90%				
Direction		Direction	Decreasing		
Forecast 2015		Last Year 2015	3.75%		
FISCAL		POLITICAL			
Budget Deficit (%) 2015	2.7	Last Election	Apr-11		
Deficit Trend		Next Election	Apr-16		
Debt/GDP	23%	Term	5 years		
Debt Direction		Other			

ECONOMIC OUTLOOK
 Increased copper and anchovy production drove Peru's GDP growth in December to 6.39%, bolstering growth to a higher-than-expected 3.26% to finish 2015. Moreover, Peru's agriculture sector grew 2.8%, driven by strong growth in grapes, corn, rice, coffee, avocado and cacao. The month of December saw production increases in poultry, pork, eggs and dairy products to offset declines in potato, asparagus and sugar due to El Niño weather conditions. The unexpected surge in December, beat expectations, which had been repeatedly revised down throughout 2015 as commodity prices slumped and early indications pointed to an extraordinary El Niño climate phenomenon. Growth fell short of the government's initial forecast of 4.2% but was able to meet the revised target of 3%. The IMF has set a projected 3.7% growth for Peru in 2016.

INFLATION MONETARY POLICY
 Inflation increased from 4.4% in December to 4.6% in January, which marked the highest reading since December 2011. Consequently, inflation moved further above the upper limit of the Central Bank's target of 2% plus/minus 1%. The monthly rise was mainly attributable due to higher prices for rentals, fuels and electricity. The weak Peruvian sol is also contributing to inflationary pressures. The level of the policy rate is in response to expectations that inflation will converge to the target range in 2016, but took into account that inflation expectations are above the inflation target range, economic activity has been recovering as well international indicators show mixed signals of global economic recovery, as well as volatility in external financial and foreign exchange markets.

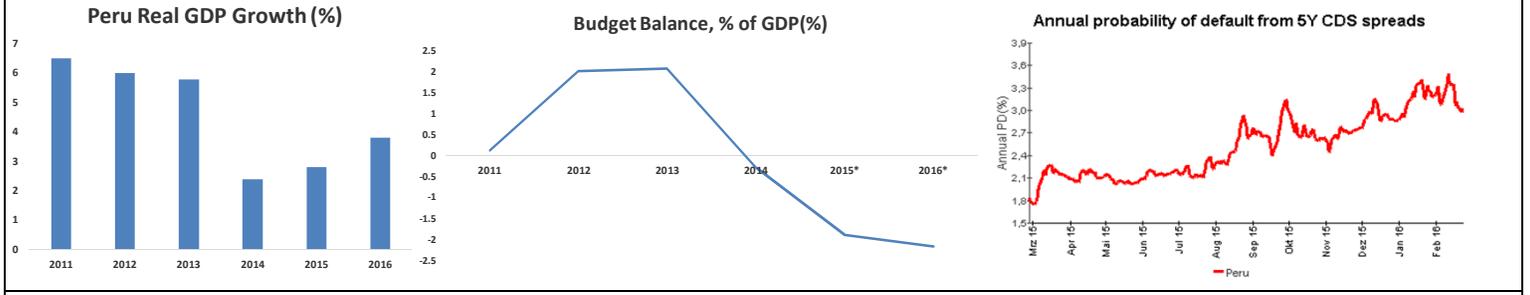
TRADE BALANCE/ BOP
 Peru posted a record USD2.86 billion trade deficit in 2015 as mineral exports sank on slumping global prices, but was able to achieve its first monthly trade surplus in 11 months in December. Exports contracted by 13.6% in 2015 due to weakening demand from its main trading partner, China. Imports fell by 9.3% in 2015 mainly due to low commodity prices. Peru's current account deficit will narrow modestly in 2016 as import declines outpace continued export weakness. It is expected that Peruvian exports will continue to decline in 2016 as copper prices struggle to find stability, although robust production growth will pave the way for growth in 2017 as prices rebound.

FISCAL ACCOUNTS
 Government revenues contracted by 7% y-o-y in 2015, which was largely driven by tax cuts implemented in 2014, which reduced corporate and some personal income tax rates. As the effects of these cuts fade, revenue growth will improve. Further, the Peruvian economy is expected to strengthen in 2016, although external factors will weigh in heavily on revenue generation. Peru is heavily exposed to China through trade and investment channels, and it is expected an increasingly steep downturn will weigh on Chinese demand for Peruvian goods. On expenditure side, there is expected to be an acceleration slightly in 2016 as the government continues to pursue stimulus measures. With many government agencies modestly under-spending their budgets in 2015, central government expenditure expanded by just 6.5%, below government's expectation for 9% growth. At the same time, central government consumption of goods and services expanded 21.3%. In 2016, it is expected that government consumption will remain elevated.

POLITICAL
INSURGENCY ACTIVITY
 The Shining Path collapsed in 1999 but has resurfaced in a weakened form. The group has been linked to the drug trade for years, however the guerrilla group is not believed to be directly involved in cocaine production or trafficking. Rather, the Shining Path charges a protection tax on drug shipments that move through its stronghold. The group continues to operate in the VRAEM and Huallaga regions and has been responsible for attacks on construction and mining businesses. Peru has become the largest producer of cocaine in the world, which could attract more drug syndicates from across the globe.

CDS Outlook
 CDS levels are expected to remain relatively stable and with less probability of default, that even despite export-led boom years are coming to an end, given Peru's substantial commodity wealth will still drive average relatively robust real GDP growth over the 10-year forecast period. Also, Peru's international reserves remain robust, and the country's investment grade status should remain intact giving support for stable 5- year CDS spreads in the short-medium term.

OUTLOOK
 Despite the cyclical nature of demand for Peru's chief exports, the country benefits from prudent debt management, low deficits and substantial foreign reserves. While international demand for copper has undoubtedly slowed alongside the Chinese economy, demand will remain robust given the widespread usage of the metal, providing long term support for the economy. China currently accounts for 18.3% of exports and is Peru's most important export market, the downturn can have negative effects on exports. Positively the country's largest new copper mine, Las Bambas, made its first shipment in Jan 2016 and is expected to become the world's third largest copper mine at full production in Q216. The expectation is for Peru to surpass China as the second largest producer of copper globally in the near future.
First Citizens Research and Analytics holds a stable view on Peru due to strength of the country's mining sector, strong fiscal framework and low debt.



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