Peru

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First Citizens
Research & Analytics

COUNTRY	
Real GDP growth (%) 2015	3.00%
Real GDP growth (%) 2016	4.30%
Exchange Rate (USD/SOL)	3.4300
FX Direction	depreciating

CREDIT RATING	
S&P Foreign Currency	BBB+ (S)
Fitch Foreign Currency	BBB+ (S)
Moody's Foreign Currency Debt	A3 (S)

TRADE	
Partners:	US 18.4%, China 17.8%, Canada 7%, Japan 5.2%
Exports	Copper, gold, lead, zinc, tin, iron ore, molybdenum
Foreign Reserves	US$ 61 billion
Reserve Direction	Decreasing
Import Cover	15.4 months
Direction	Decreasing

INFLATION	
Target Rate	1% - 3%
Current Month (y/y) Dec	4.40%
Direction	
Forecast 2015	

POLICY INTEREST RATE	
Target Rate	
Current	4.00%
Direction	Increasing
Last Year 2014	

FISCAL	
Budget Deficit (%) 2015	2.7
Deficit Trend	
Debt/GDP	23%
Debt Direction	

POLITICAL	
Last Election	Apr-11
Next Election	Apr-16
Term	5 years
Other	

ELECTIONS IN APRIL 2016

ECONOMIC OUTLOOK
Aug-15

The Peruvian economy grew by 2.9% during the third quarter of 2015, following 3.0% in the second quarter. The nationally important mining sector expanded by 8.5% while manufacturing contracted by 2.3%. The authority lowered currency reserve requirements in February 2015 in a bid to spur lending. Growth in 2015 is forecast at 3.0% (lower than previous estimate) before a 5.3% expansion in 2016. Fitch projects growth at 2.8% in 2015 and 3.8% in 2016 (Sep 2015). The government had indicated in August 2015 that it expected 2016 growth at 4.3%

Peru is the world's third biggest producer of copper and silver and the fifth biggest gold producer. Mining accounts for almost 15% of GDP. As a result of the importance of commodities, Peru has a cyclical economy, influenced by international demand and supply forces.

INFLATION
MONETARY POLICY
Sep-15

The Central Bank of Peru (BCP) started targeting inflation in 2002 and is now committed to keeping inflation between 1.0% and 3.0%. Inflation was reported at 4.4% in December 2015 but was expected to fall to within the target range in 2016. The bank began a cycle of lowering its policy rate in 2014, driving the rate down from 4.00% in 2014 to 3.25% in January 2015 in an attempt to support economic activity. The rate had been maintained at 3.25% up to August but was incrementally raised to 4.00% by January 2016, primarily in response to the uptick in inflation.

The BCP conducts a managed floating currency regime for the exchange rate of the PEN versus the USD.

TRADE BALANCE/ BOP
May-15

Ores and minerals exports make up over 60% of total exports, food accounts for 21% and mineral fuels account for 12%. Peru's balance of payments therefore is subject to commodity price/demand swings. Gold and copper prices have declined over 2014 and the central bank expects a current account deficit for 2014 of 3.9% of GDP.

Foreign reserves are estimated at US$61 billion in 2015, providing a substantial 15.4 months of import cover.

FISCAL ACCOUNTS
Sep-15

A fiscal deficit of 2.7% of GDP is expected for 2015 (revised in Sep 2015 from an initial estimate of 0.3% of GDP). The 2014 deficit was estimated at 0.1% of GDP.

Prudent management and a fiscal responsibility law has allowed Peru to significant reduce its debt exposure, with general government debt estimated at 23% of GDP.

According to S&P, while approximately 47% of total debt is denominated in local currency, about 62% of government debt is held by nonresident investors. The average maturity of Peru's government debt, currently 12.7 years, is likely to remain high, underpinning the sovereign's relatively low financing needs which Moody's forecasts will average 1% of GDP over the next three years. The government has outlined a debt management strategy for the next four years with the aim of increasing the share of local currency debt and extending the average life of the debt.

Peru has benefited from successive credit rating upgrades from the main rating agencies over the years with the last upgrade coming from Moody's who raised their rating to A3/Stable in July 2014 based largely on the continued strengthening of the government's balance sheet and the continuing momentum for structural reform.

POLITICAL

Humala's approval rating has remained below 30% since mid-2013 and will likely remain near all-time lows throughout the rest of his administration. His popularity has been affected by corruption-related scandals, several cabinet reshuffles and sharp deceleration in economic growth.

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 though 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.

KEY ISSUES

>Commodity prices, in particular copper, silver and other metals.

BUSINESS ENVIRONMENT

Peru offers competitive power, raw material and fuel prices, which lower operational risk and costs for logistics supply chains. Investors benefit from no constraint on size or sector for foreign investor ownership.

However, relatively high levels of corporate income tax increase costs to businesses. Peru's transport network is limited in terms of quality and extent, which increases the risk of supply chain disruptions.

Corruption, the drug trade and militant activity increases risks.

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.