



Peru

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COUNTRY	
Real GDP growth (%) 2016	3.70%
Real GDP growth (%) 2015	3.30%
Exchange Rate (USD/SOL)	3.5200
FX Direction	Depreciating

INFLATION	
Target Rate	1% - 3%
Current Month (y/y) Sep	3.90%
Direction	
Forecast 2015	

FISCAL	
Budget Deficit (%) 2015	2.2
Deficit Trend	
Debt/GDP	25.9%
Debt Direction	

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

POLICY INTEREST RATE	
Target Rate	
Direction	Decreasing
Last Year 2015	3.75%

POLITICAL	
Last Election	Apr-16
Next Election	Apr-21
Term	5 years
Other	

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	Increasing
Import Cover	16.2 (Approximate)
Direction	Increasing

ECONOMIC OUTLOOK
 Peru measured growth of 3.3% in 2015. Weak external demand, production bottlenecks and low public investment constrained growth throughout the year but was tempered by a surge in 4Q15 due to an uptick in mining production as long-planned mining projects became active as well as growth in the fishing sector. There was also a partial recovery in services and commerce. Growth in the coming years is expected to be led by the mining sector and rising public investment and measured 4.4% in 1Q16. Growth is forecast at 3.7% and 4.0% for 2016 and 2017 respectively.

INFLATION MONETARY POLICY
 Inflation measured 3.34% in June 2016 continuing its recent decline since February. Energy prices and recent currency appreciation have helped to stem inflationary pressures. The Central bank of Peru has reaffirmed its expectation that inflation will fall within its target range of 1%-3% before year-end. The Central Bank also left the policy rate unchanged from 4.25% in July (fifth consecutive month) citing the gradual diminishing of inflation expectations, PEN/USD appreciation, domestic growth close to its potential, lower financial market volatility and mixed signals of recovery in production and employment in the global economy.

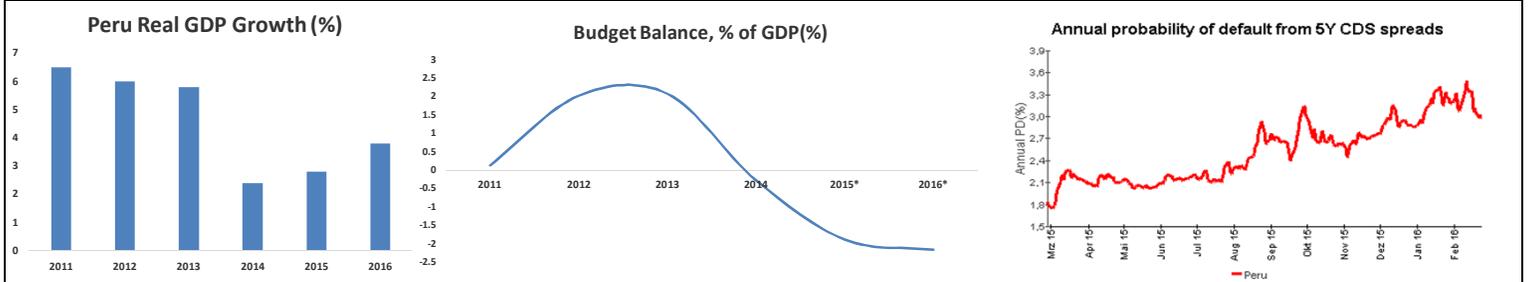
TRADE BALANCE/ BOP
 Peru posted a record USD2.86 billion trade deficit in 2015 as mineral exports sank on slumping global prices, but was able to achieve its first monthly trade surplus in 11 months in December. Exports contracted by 13.6% in 2015 due to weakening demand from its main trading partner, China. Imports fell by 9.3% in 2015 mainly due to low commodity prices. Peru's current account deficit is expected to narrow in 2016 due to stronger exports associated with the increased mining production. The current account deficit is forecasted at 3.4% in 2016 from 4.4% in 2015. Copper exports have grown by 40.7% y-o-y for 1Q16 offsetting the effects of the global decline in prices. Imports are also expected to be boosted by increased consumer demand as well as imports of capital goods from firms in the mining, construction and consumer sectors. The recent appreciation of the Peruvian Sol will also support consumer demand.

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. On the 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. Public fixed investment grew 32.4% in 1Q16 after seven consecutive quarters of contracting or no growth. Peru's fiscal deficit is expected to widen to 2.6% of GDP in 2016 from 2.2% of GDP in 2015 due to elevated infrastructure investment. Peru maintains a relatively low debt stock measuring 24% of GDP in 2015. More than 50% of Peru's debt is issued domestically and is long-term. A marginal increase is expected in the coming years as the government finances its deficits. Debt to GDP is forecasted at 25.9% of GDP in 2016.

POLITICAL
 As predicted by analysts Peru's general election on April 10, 2016 resulted in a run off after centre-right opposition candidate Keiko Fujimori failed to win outright. There will be a run-off election on June 5 where Fujimori will face economist Pedro Pablo Kuczynski. Both candidates are considered pro-business but differ in socioeconomic issues. Fujimori's focus is on rising crime and people's sense of insecurity while Kuczynski proposes higher health spending and education standards. Pedro Pablo Kuczynski won the run-off vote by 50.12% compared to Fujimori's 49.88% on June 5. Despite Kuczynski's victory, Fujimori's party controls 73 of the 130 seat in congress which will complicate efforts to carry out the new president's policies. President Kuczynski has stated intention to lower sales taxes (especially for small businesses that are now outside the tax system with the intent of luring them in), allow small business to borrow from banks rather than at the high rates of the informal economy and create the conditions for credit expansion. His plan will also create jobs in the private sector, he says and encourage diversification away the mining-based economy toward farming and tourism and persuade coca growers and dealers to switch to legitimate crops and pursuits. (Peru is one of the world's largest producers of cocaine).

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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