



Ministry of Economy and Finance

PERU: ECONOMIC & SOCIAL OUTLOOK

October 2010

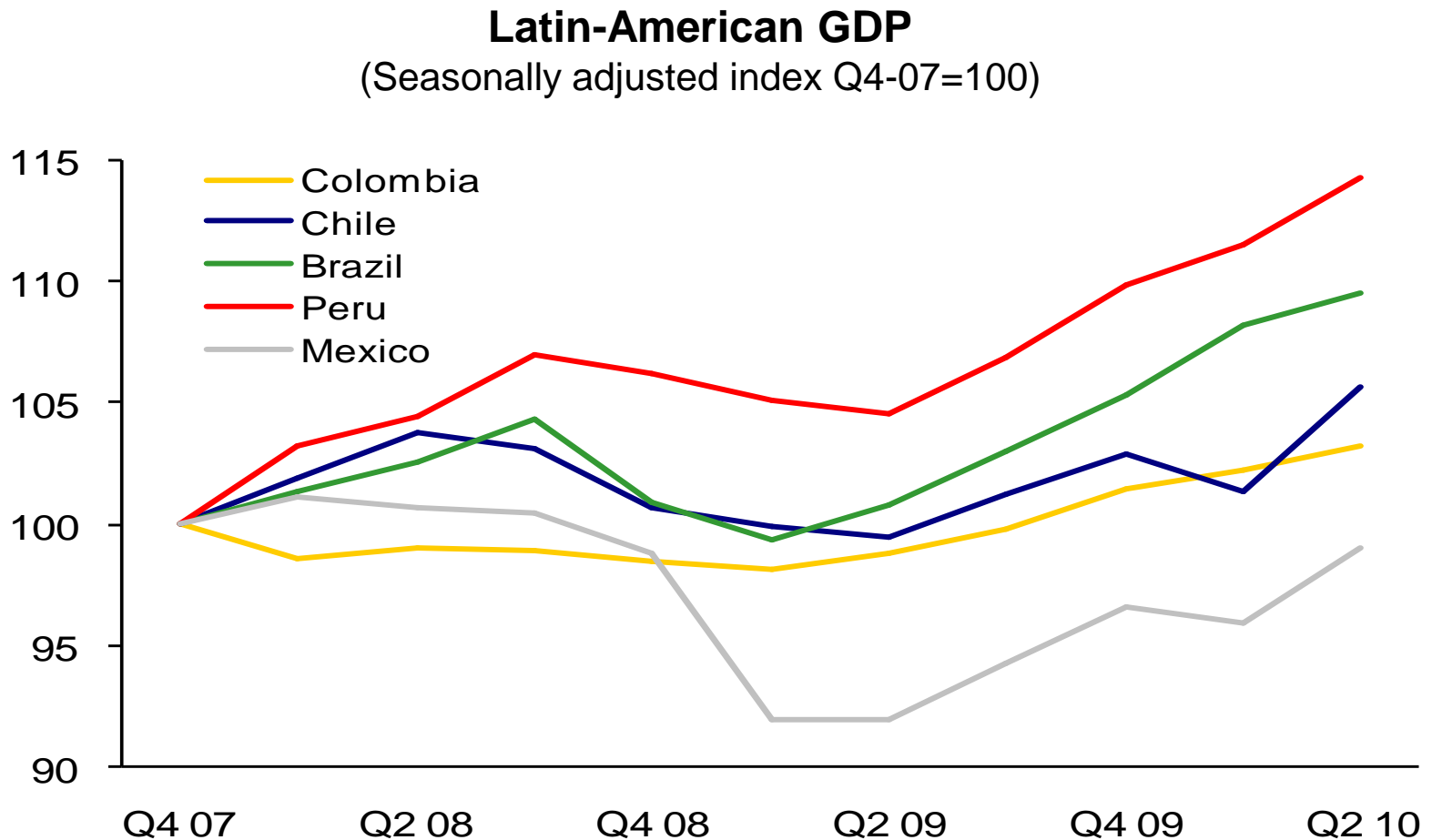
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3. Challenges and prospects

ECONOMIC OUTLOOK

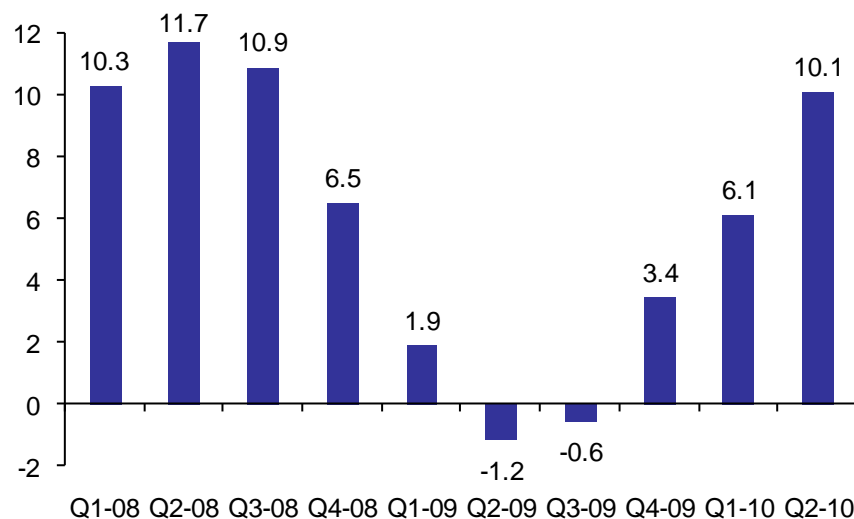
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- **Peru overcame the global financial crisis relatively unharmed, maintaining GDP growth, employment generation and poverty reduction**
 - **Key factors behind 2010 rebound:**
 - Confidence recovery
 - Effective countercyclical monetary and fiscal policy
 - High commodity prices
 - Sound balance sheets: Government, banks, firms and households

Peru: Better performance than its peers

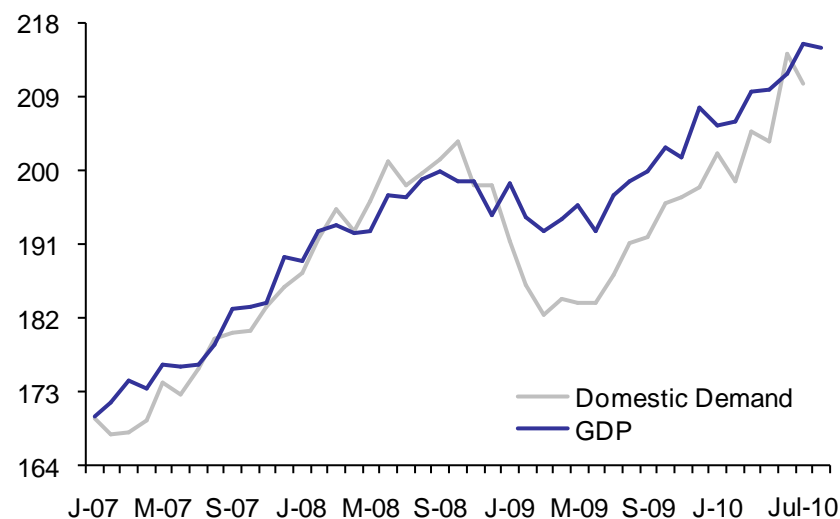


Growth back to pre crisis levels

Quarterly GDP Growth
(Annual % change)

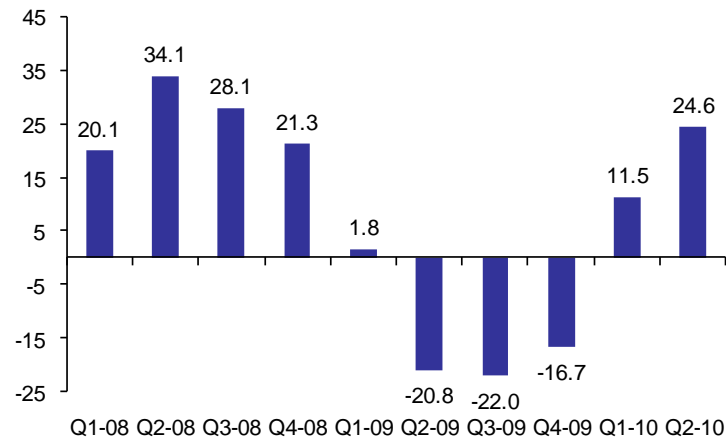


Seasonally Adjusted GDP and Domestic Demand
(Index 1994 = 100)

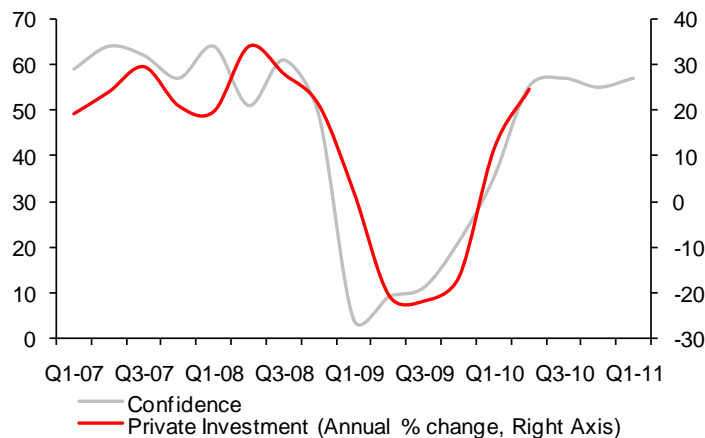


Private investment returns as the main driver of growth

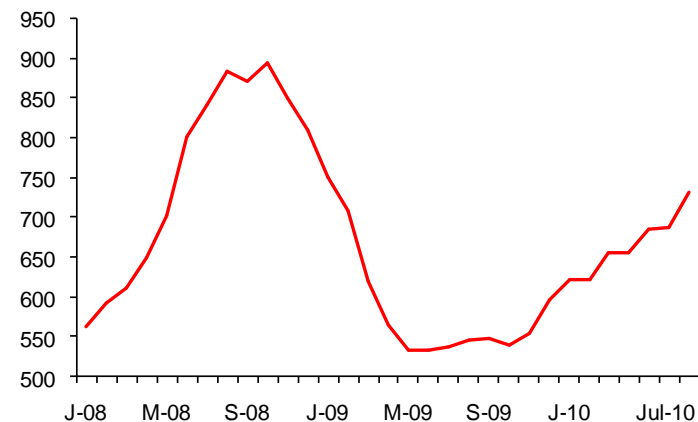
Private Investment
(Annual % change)



Business confidence
(%)



Capital goods imports
(\$ million, 3M moving average)

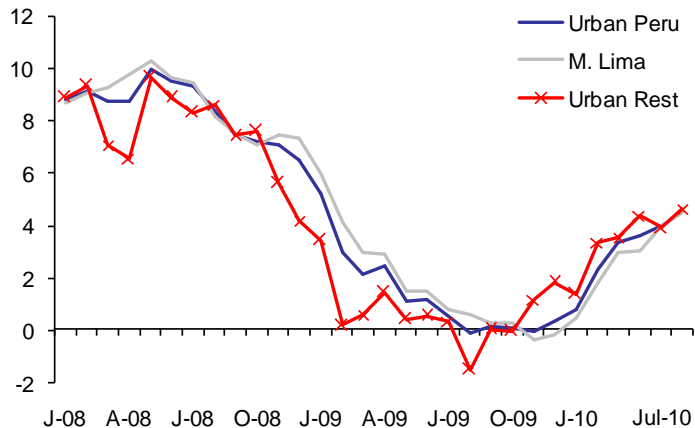


1/ Percentage of entrepreneurs who plan to accelerate their investment projects in the next 6 months.

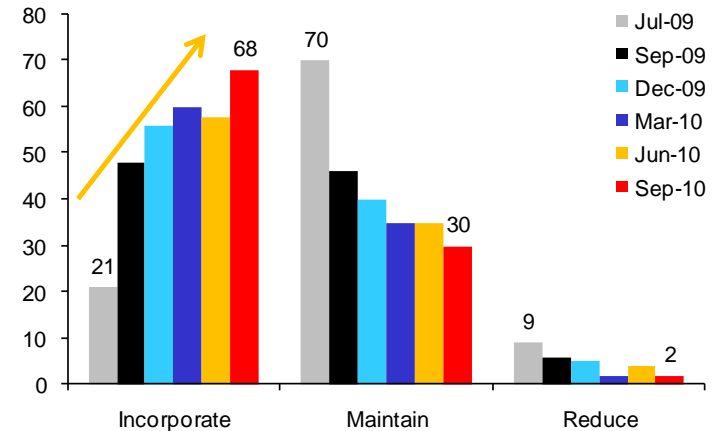
Source : APOYO, Central Bank of Peru.

Private consumption and employment resume growth

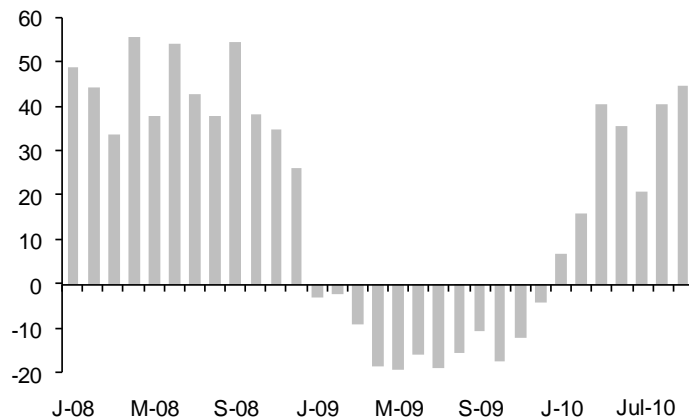
Urban Peru: Formal Employment
(Annual % change)



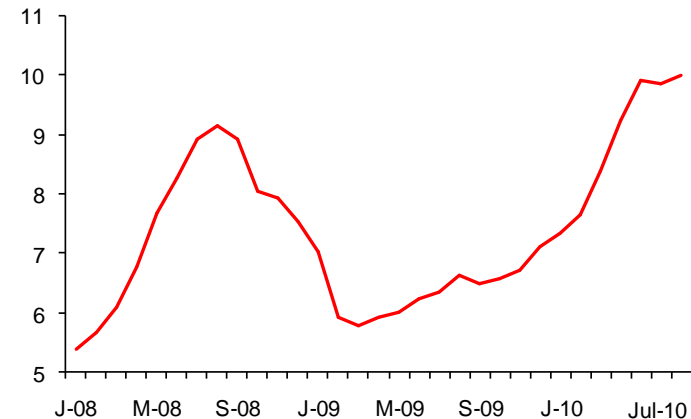
Regarding your employees, what measures will your company take in the next 6 months?
(%)



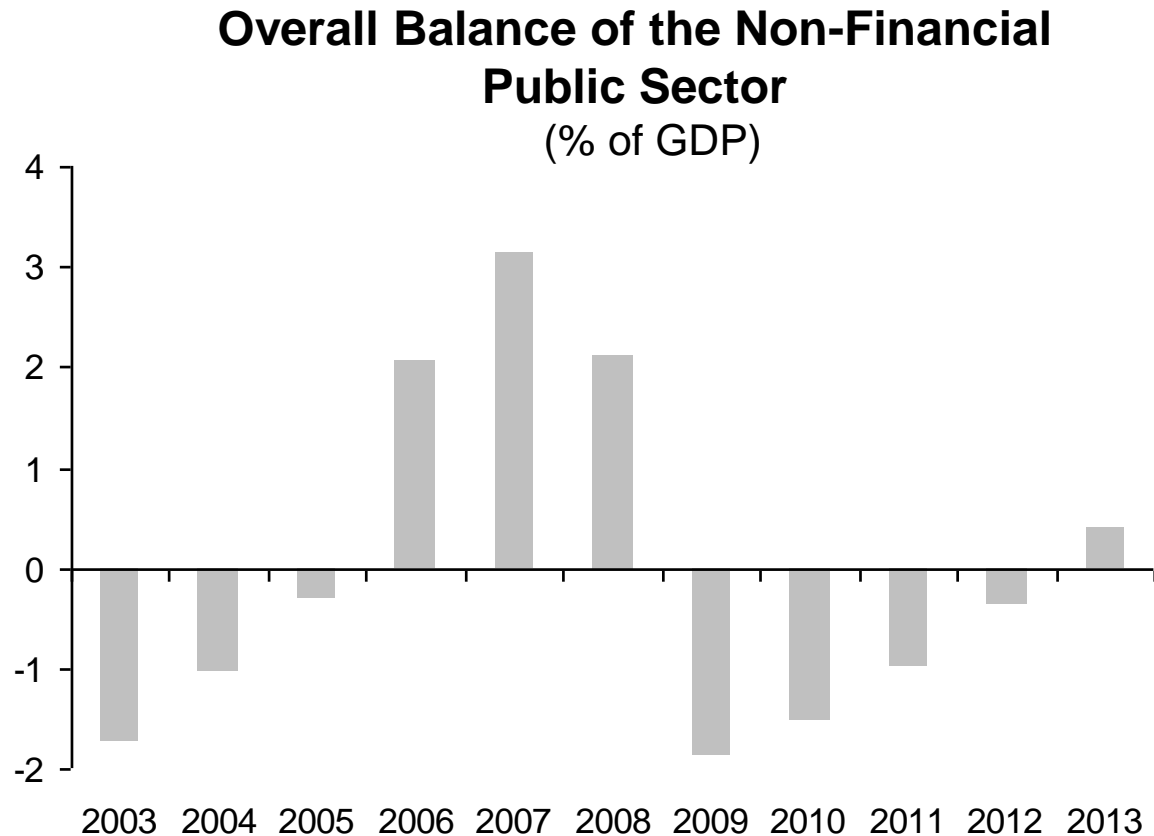
Consumer goods imports
(Annual % change)



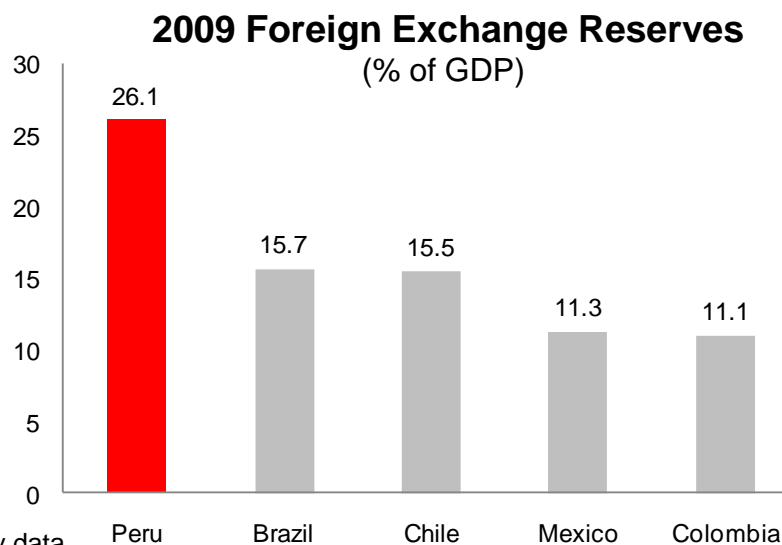
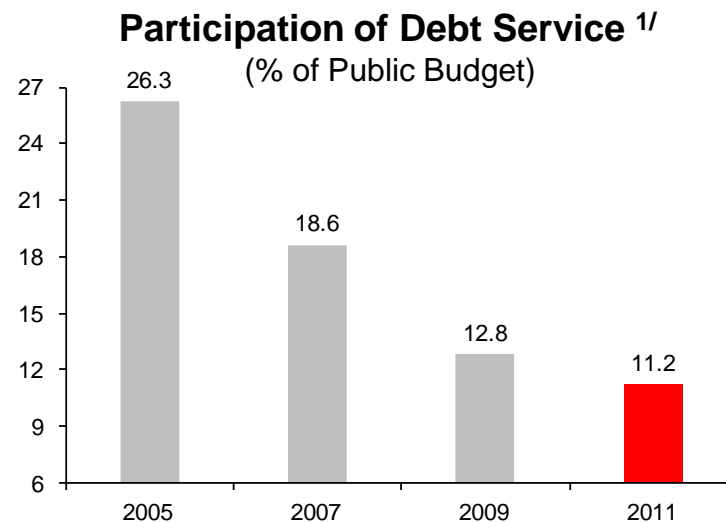
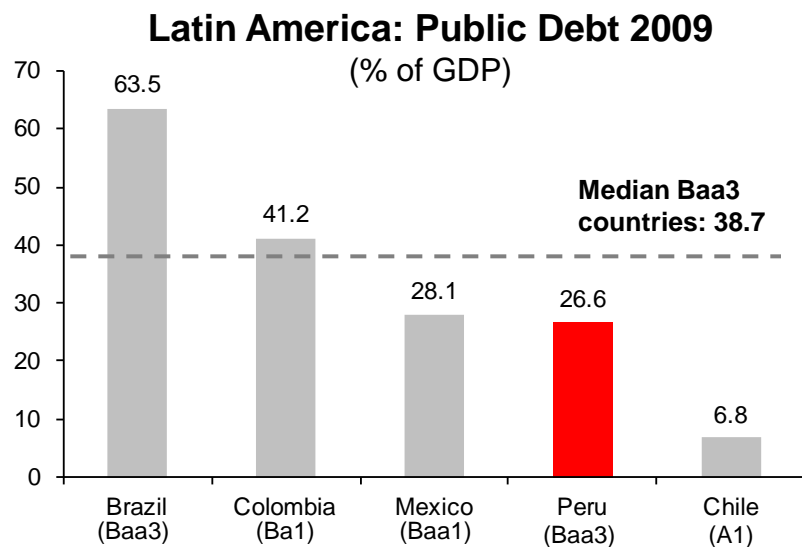
New vehicles sales
(Thousand of units, 3M moving average)



Countercyclical fiscal policy



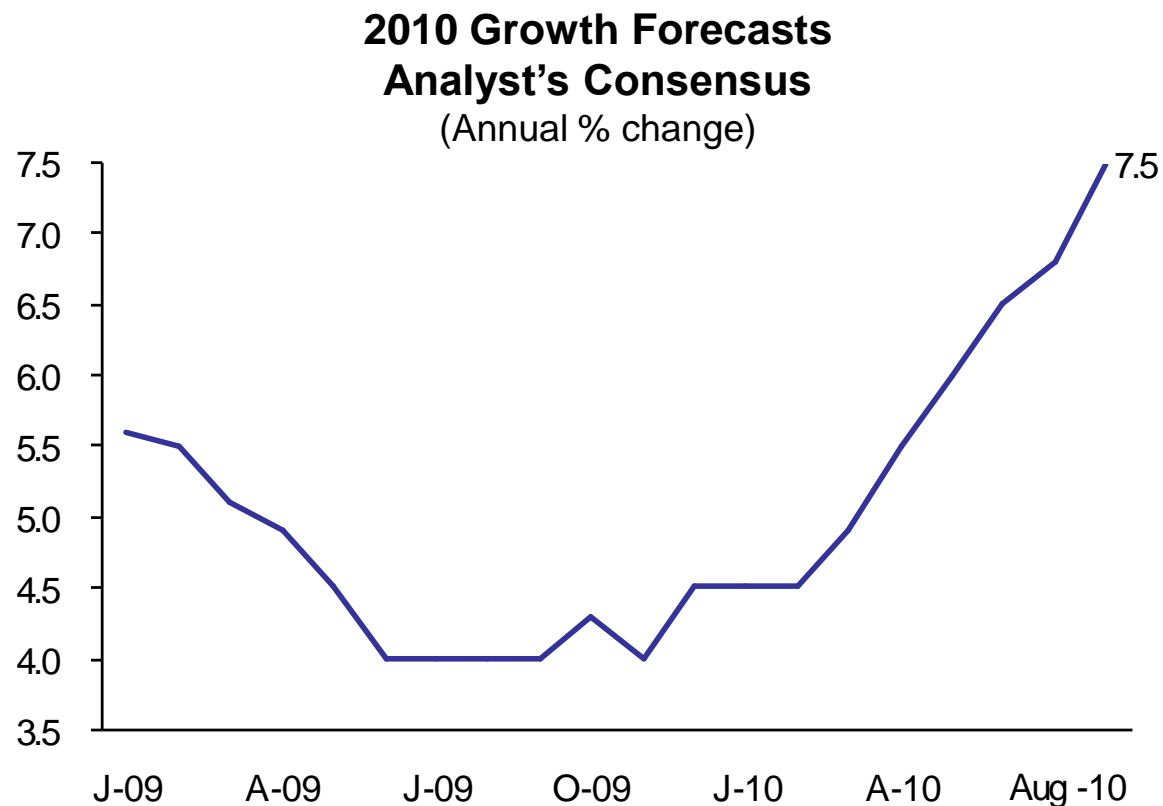
Favorable financial indicators



1/. Figure for 2011 corresponds to preliminary data.

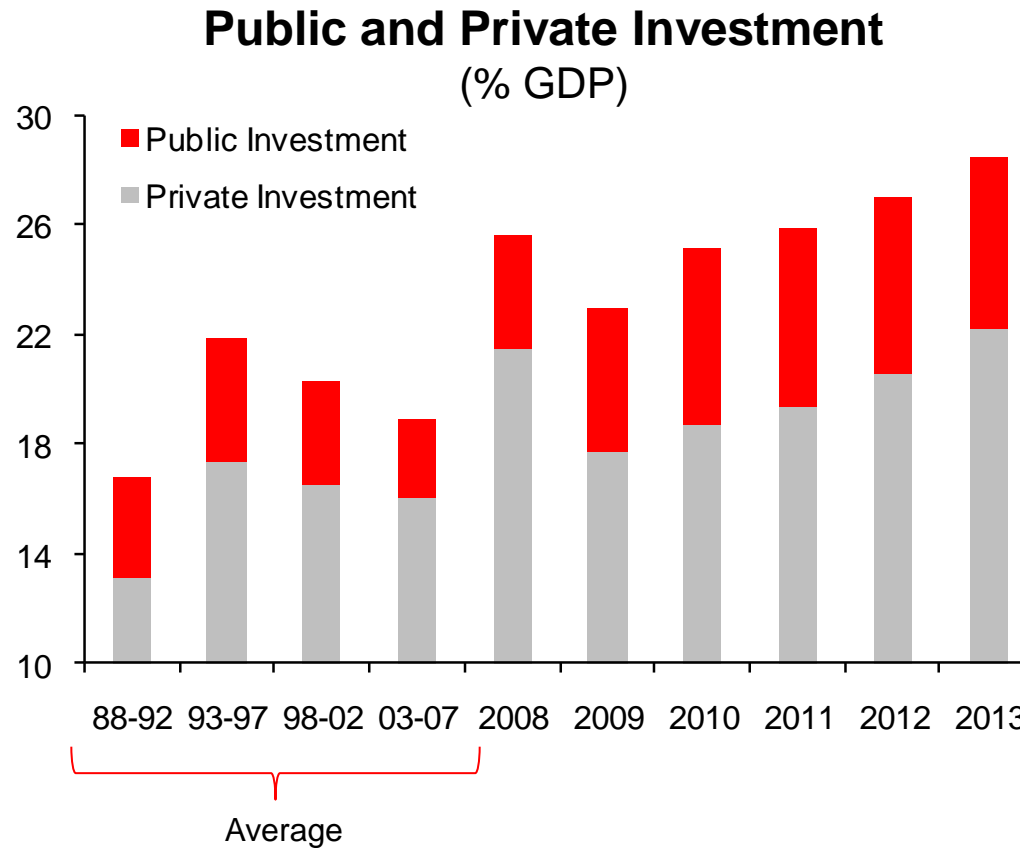
Source: Ministry of Economy and Finance.

2010 GDP Forecast was upwardly revised



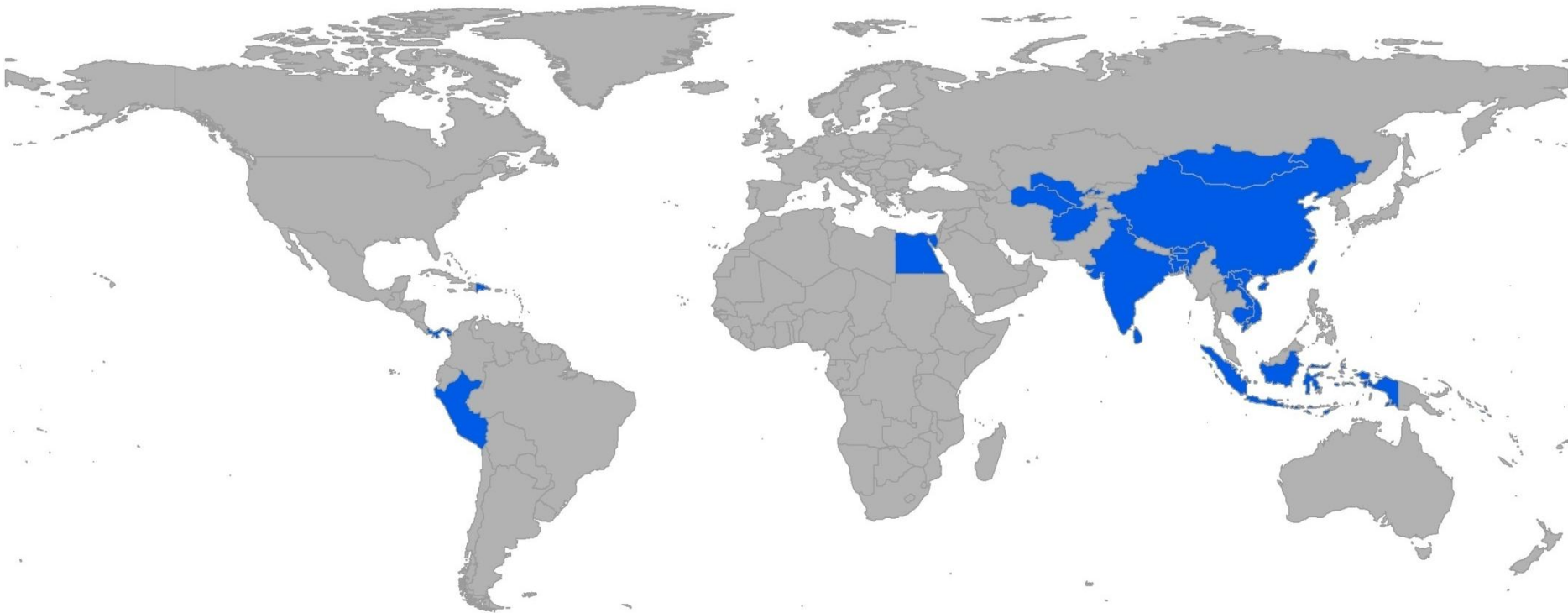
- Domestic Demand will grow around 10% due to the strong recovery of private consumption and investment.

Investment as % of GDP reaching the highest level in 30 years



Peru in the select group of emerging countries growing at least 6% during 2010-2013

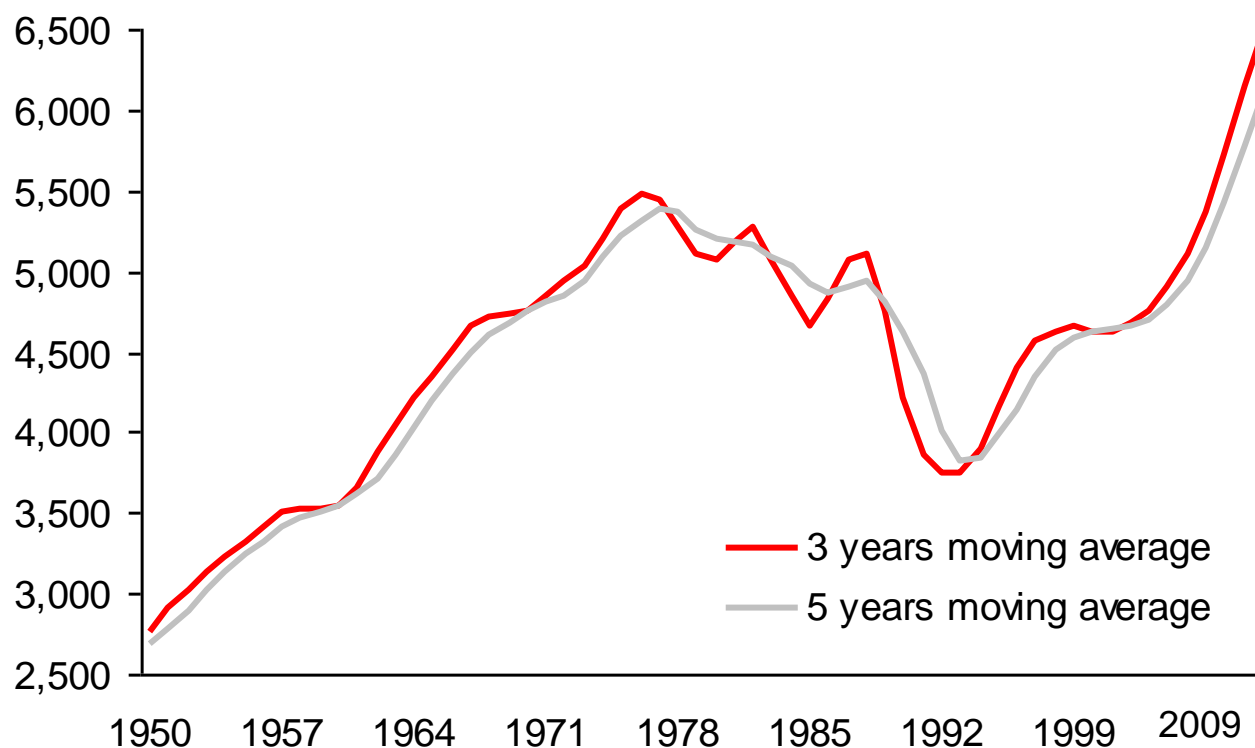
World GDP 2010-2013
(Average annual % change)



SOCIAL PROGRESS

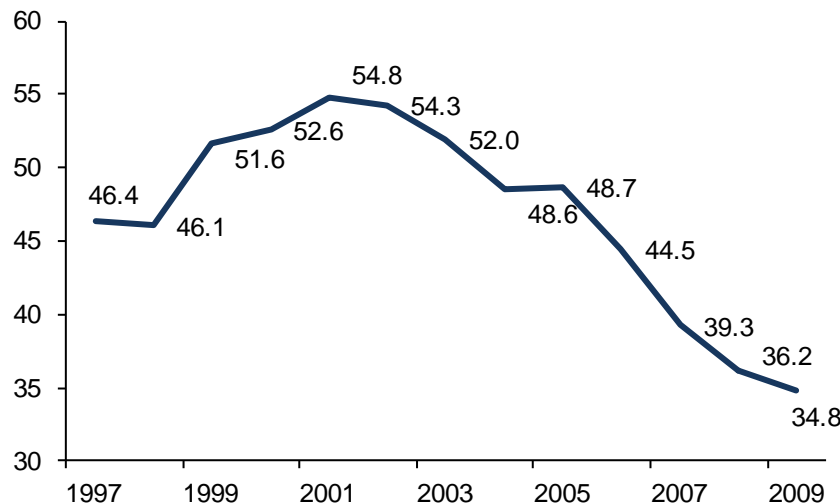
GDP per capita: Upward trend since 1992

Average GDP per capita 1950-2009
(1994 Nuevos Soles)

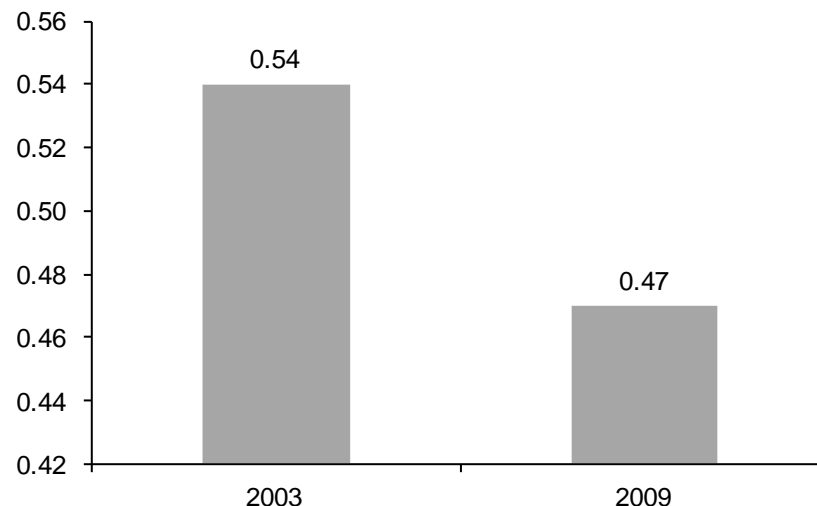


Sustained reduction of poverty and inequality

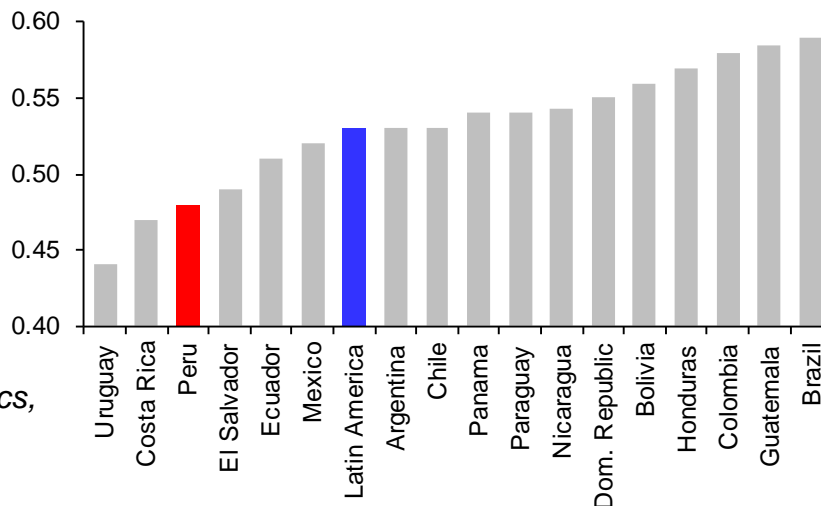
National Poverty Rate
(% of population)



Inequality
(Gini Index)



Inequality in America 2003-2008
(Gini Index)

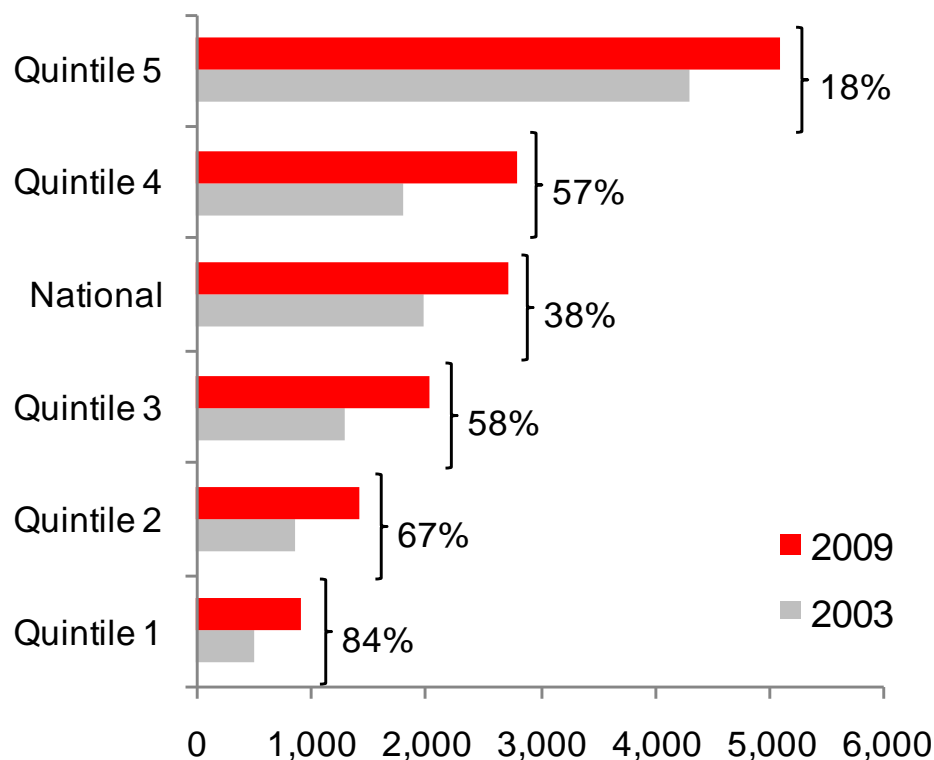


Source: Bureau of National Statistics,
Economic Commission for Latin
American and the Caribbean.

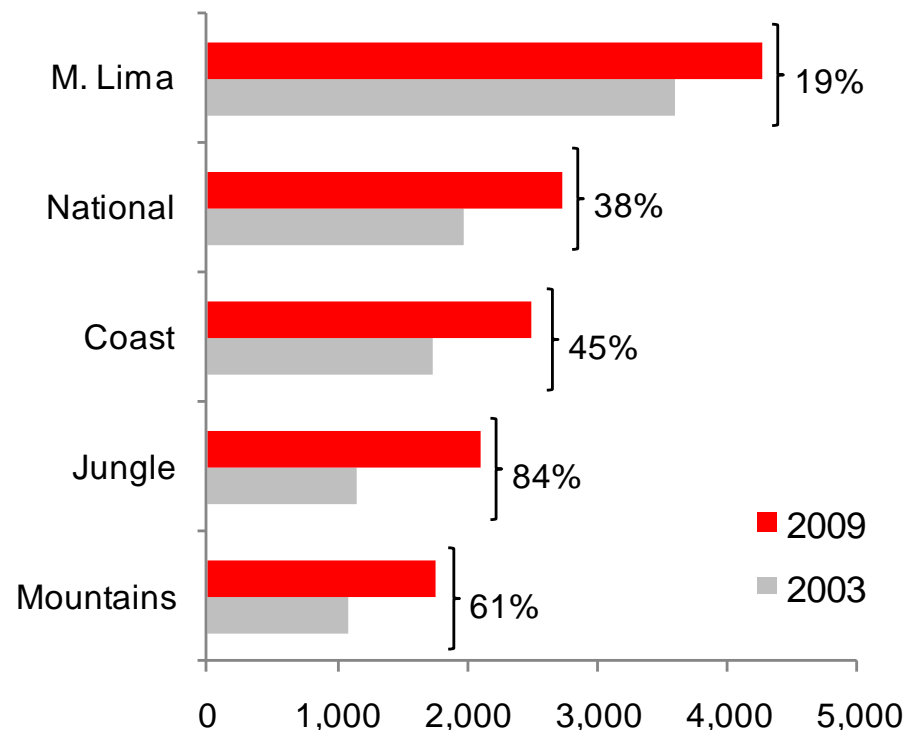
Pro-poor and Decentralized Growth

Average Monthly Income by Household (Current Nuevos Soles)

By Quintile



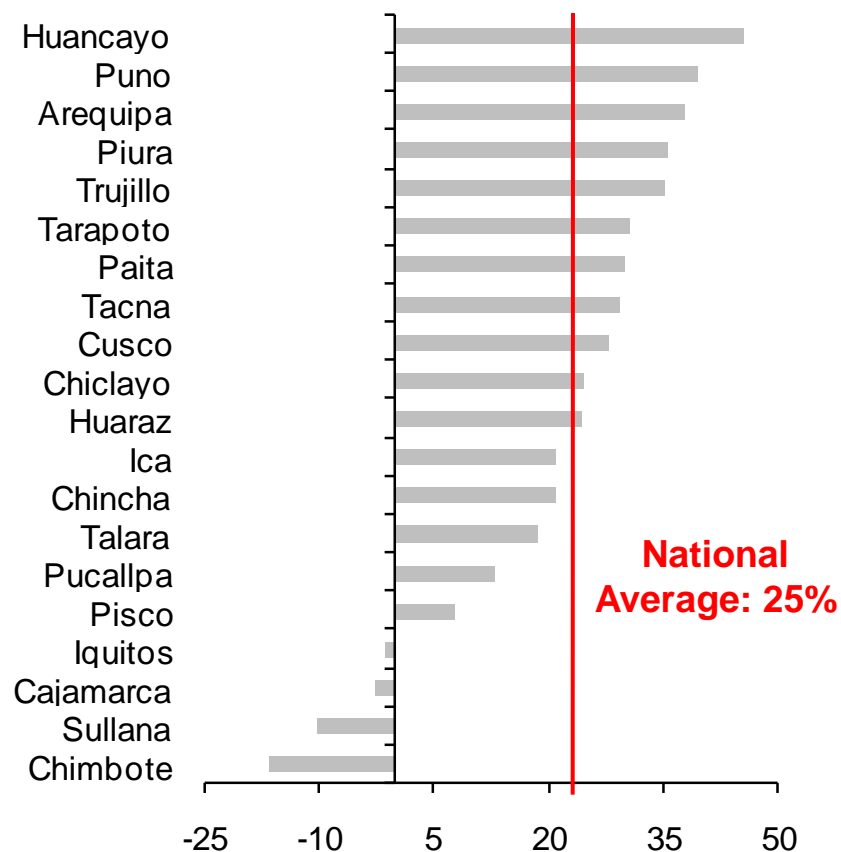
By Region



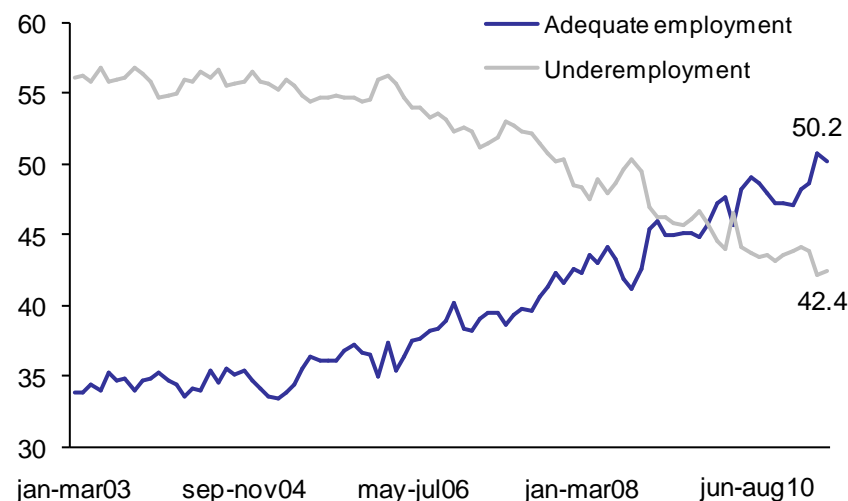
Decentralized Employment Generation

Formal Employment in Companies of 10 or more Workers by Main Cities

(Cumulative % change Jan.- May. 2010/2006)

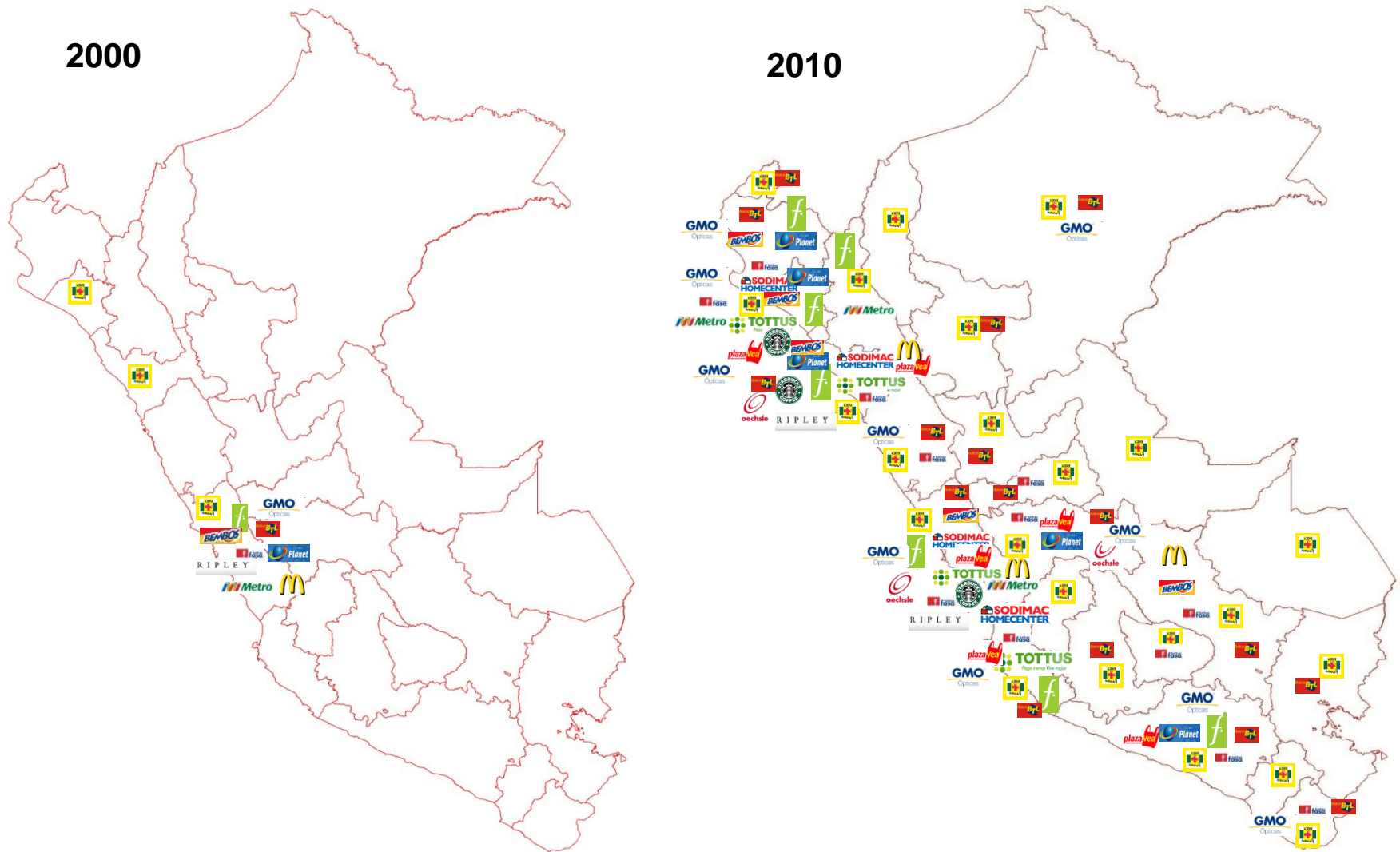


Lima: Economically Active Population (EAP)^{1/} by level (% of EAP)



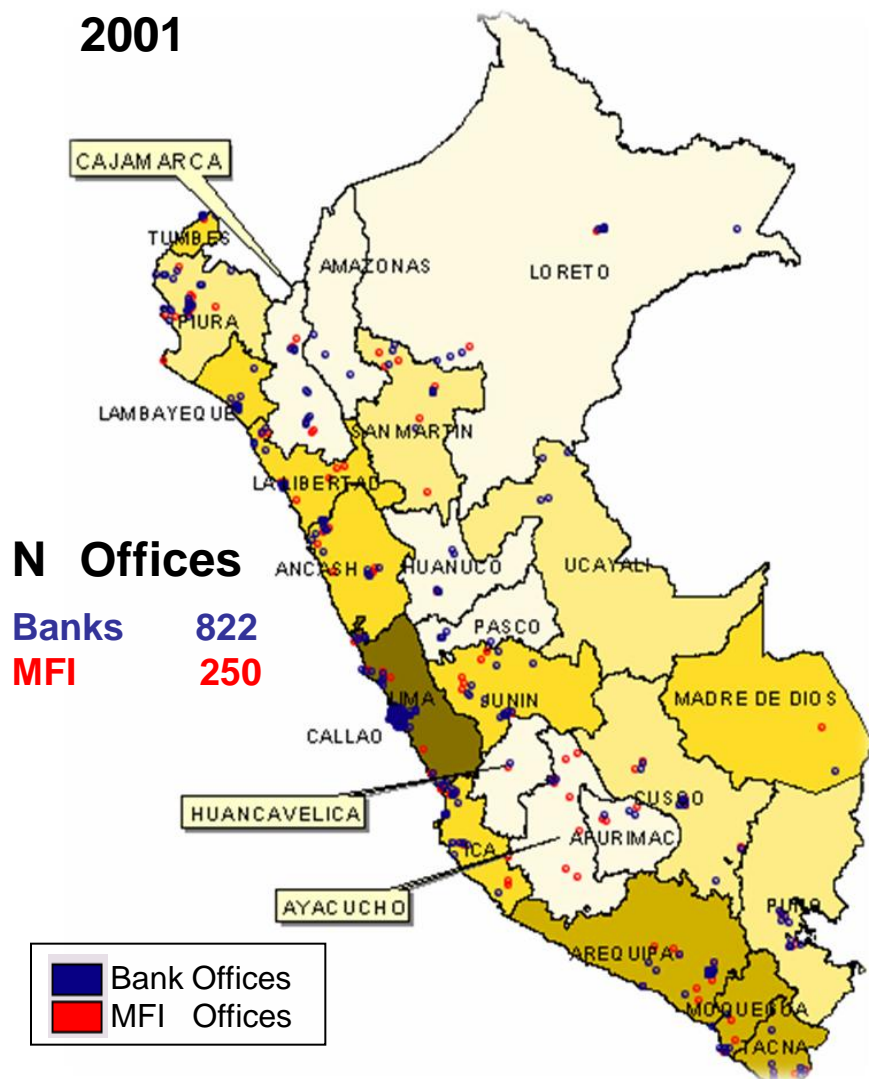
1/ Includes employment and unemployment.

Strong growth of markets outside Lima

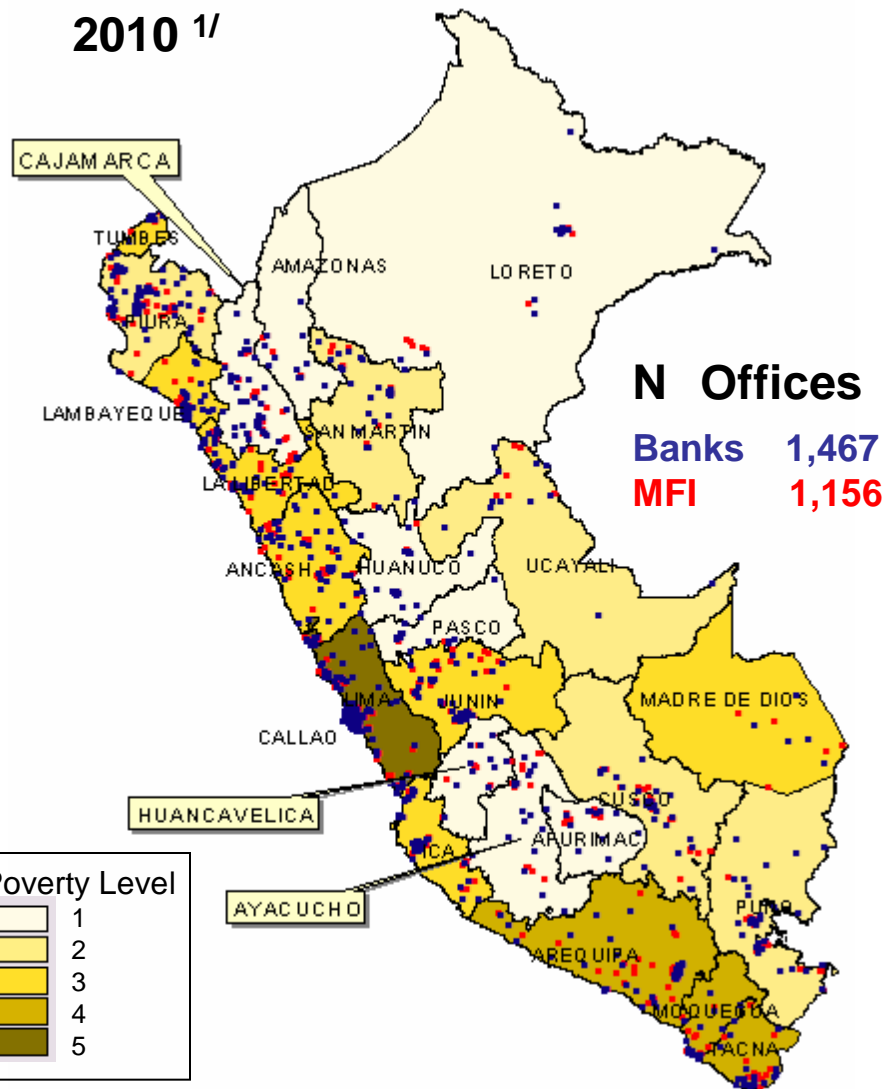


Expansion of micro-financial institutions

2001



2010 ^{1/}



CHALLENGES & PROSPECTS

Short term priorities

- **Economic policy continuity**
- **Sustain high rates of economic growth**
- **Continue with poverty reduction**
- **Enhance competitiveness**
- **Maintain a prudent fiscal policy framework and consolidate macro prudential framework**
- **Manage adequately capital inflows, mitigating exchange rate volatility**
- **Ensure a smooth democratic political transition**

Peru's prospects are positive due, mainly, to policy continuity during the past two decades and favorable external conditions. The main challenge going forward is to sustain high growth with social inclusion



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