Peru: Economic and Social Outlook

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Peru – Key Investment Highlights

- Highest growth in the region with moderated inflation
- Economic dynamism across sectors
- Exports at record levels and increasing its diversification
- Healthy external debt levels
- Sound fiscal position allows countercyclical policy
- Reduced unemployment and poverty
- Outstanding economic perspectives

Moody's Investors Service	Baa3 / Baa3 (1)	Positive outlook
STANDARD &POOR'S	BBB / BBB+	Stable outlook
FitchRatings	BBB / BBB+	Stable outlook

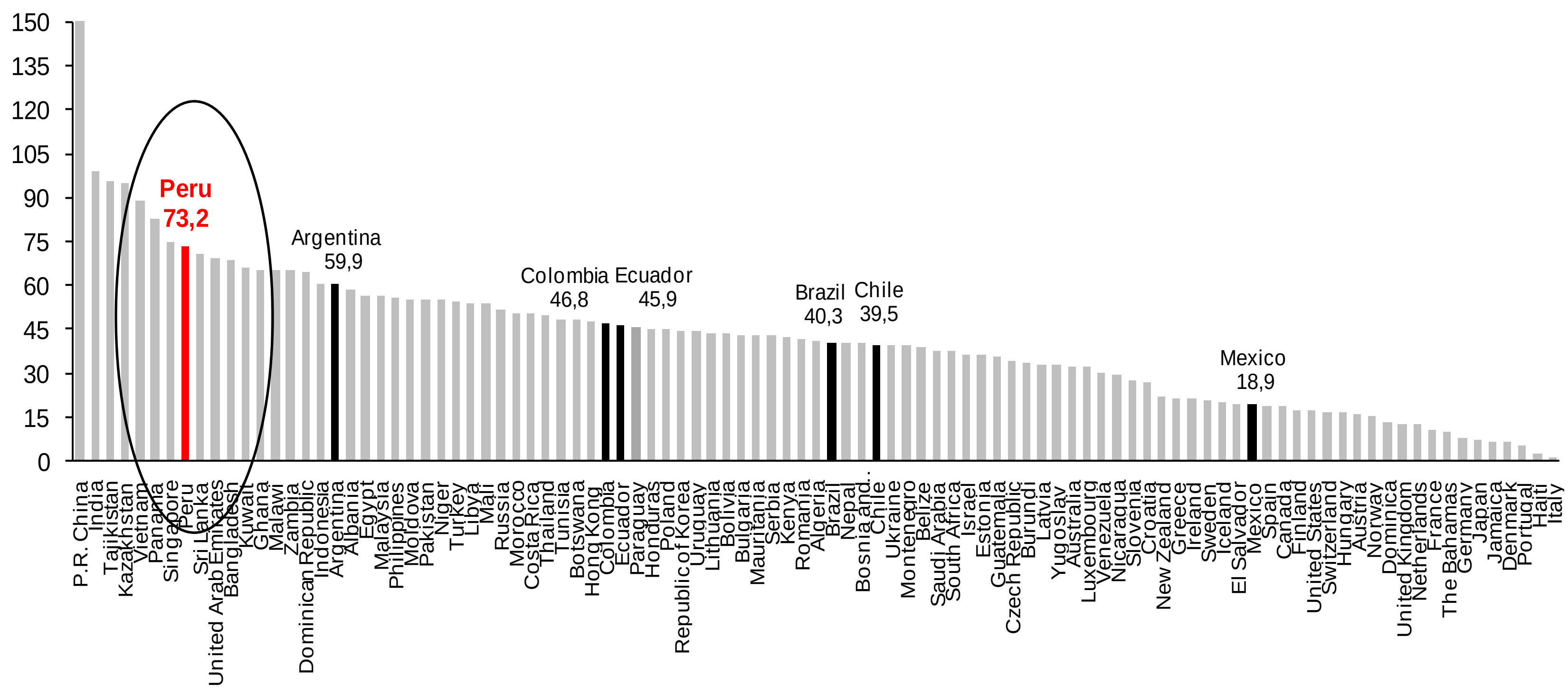
(1) Foreign Currency rating / Local Currency rating

Sound Macroeconomic Performance

In recent years, Peru has been among the fastest growing economies in the world

World's GDP 2002-2010

(Accum. % Change)

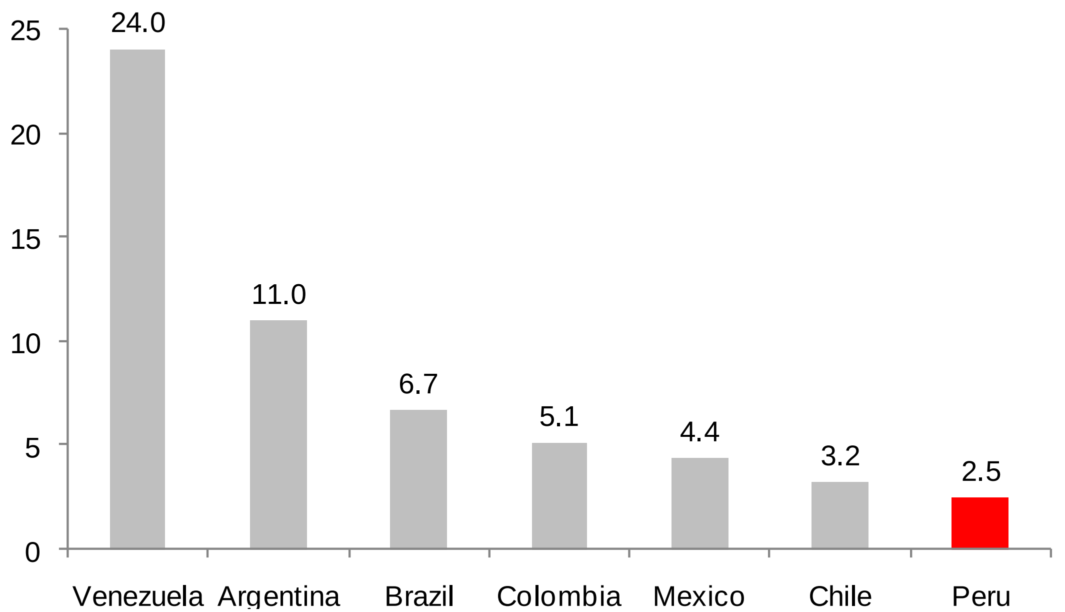


Source: IMF .

Peru achieved the lowest inflation rate of the region between 2002-2011

Average Inflation in Latin America 2002-2011[1]

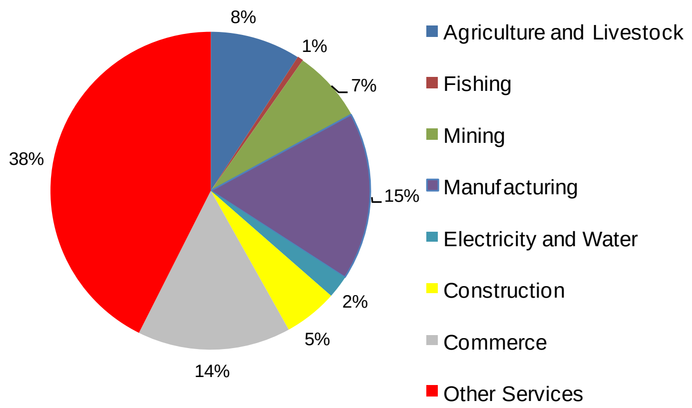
(%)



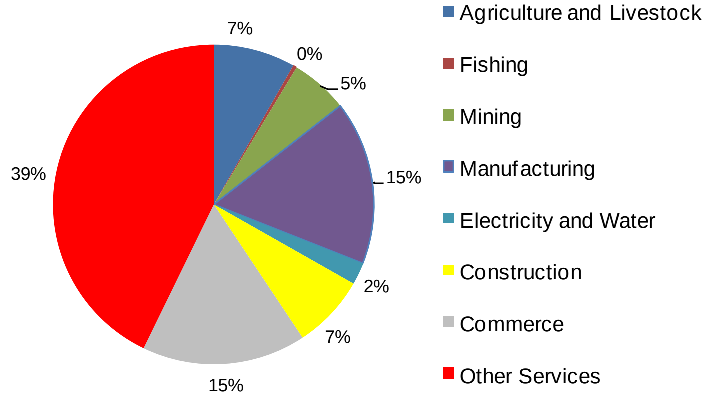
1/ Average inflation of Argentina and Mexico up to November, 2011.
Source: IMF, Bloomberg.

Peru – Key Investment Highlights

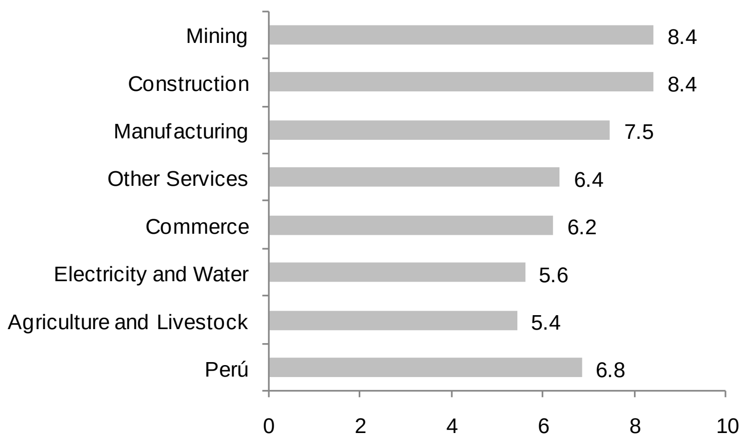
GDP Breakdown by sector 2005



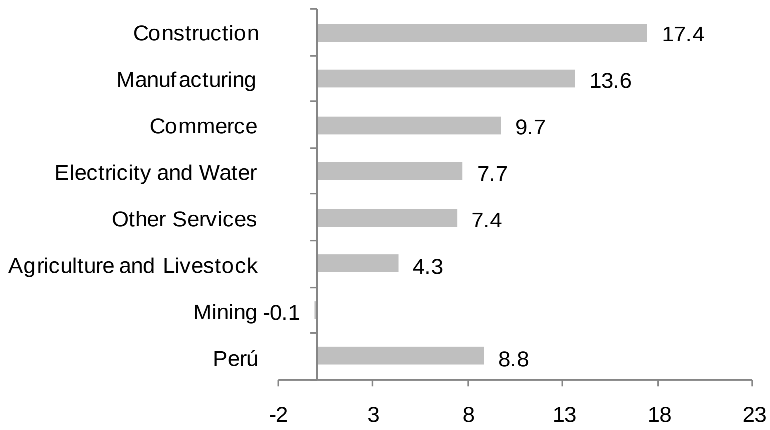
GDP Breakdown by sector 2010



GDP Breakdown per Sector 2005
(Annual % change)



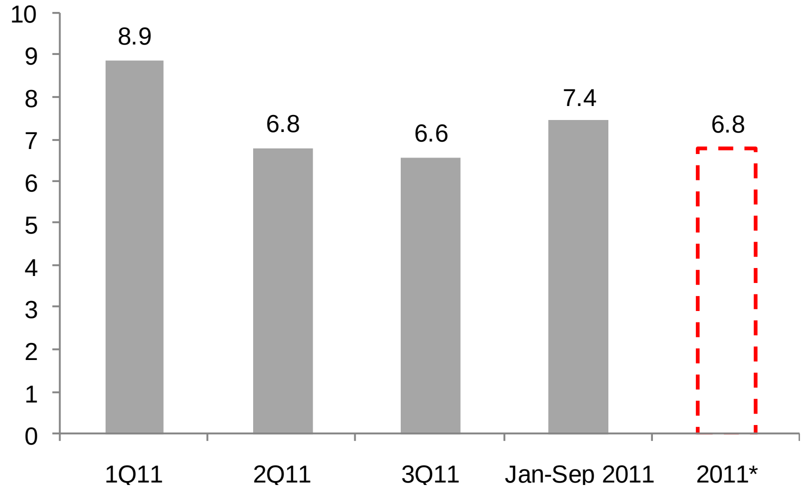
GDP Breakdown per Sector 2010
(Annual % change)



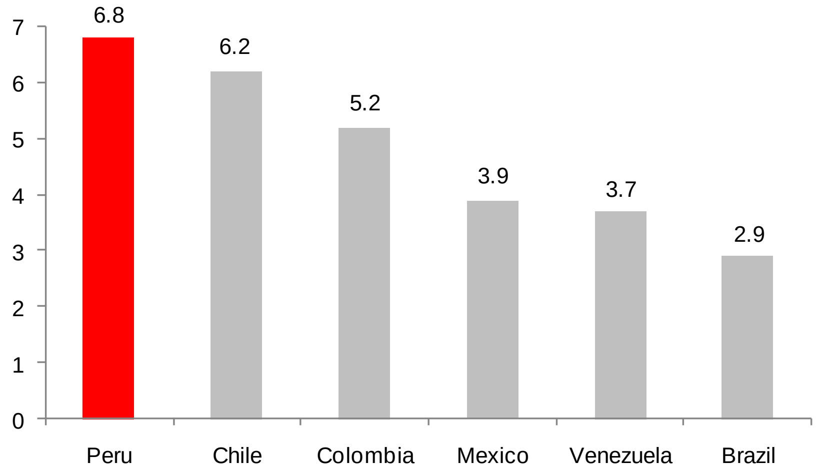
Source: IMF .

In 2011 Peru grew close to 7% and continues to be one the most dynamic economies of the region

Peru: GDP 2011
(Annual % change)



LATAM: GDP 2011
(Annual % change)

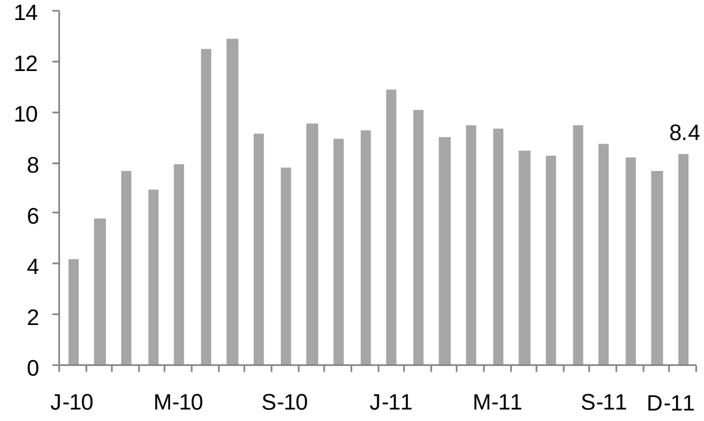


- Nominal GDP accounted for USD 153,919 millions in 2010.
- Cumulative GDP to 3Q11 is around US$ 130,248 million.

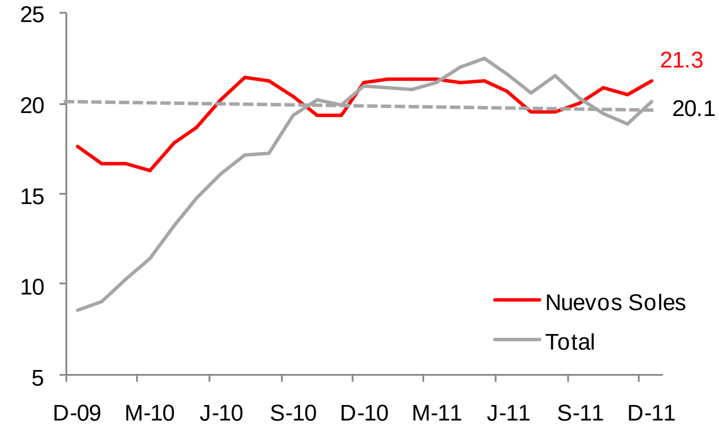
Source: MEF, IMF, Consensus Forecasts.

Economic dynamism prevails

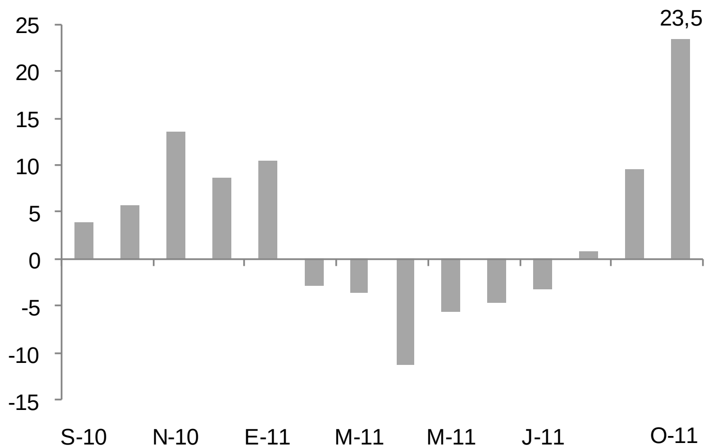
Electricity Production
(Annual % change)



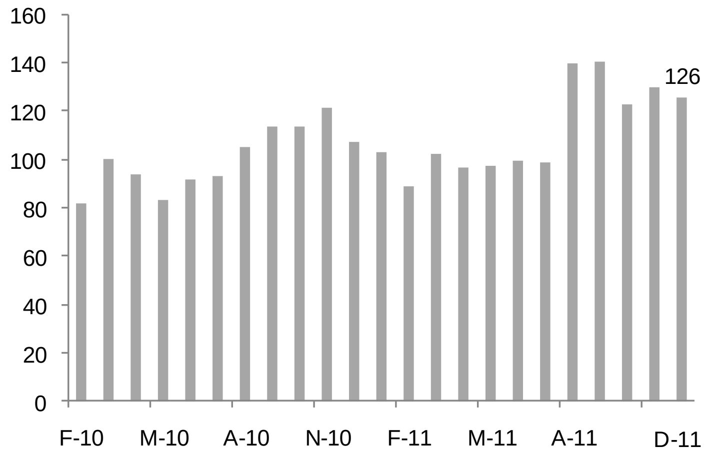
Credit to Private Sector
(Annual % change)



Construction
(annualized % change rolling quarter, seasonally adjusted)



Private Vehicles Imports
(Millions of US$)

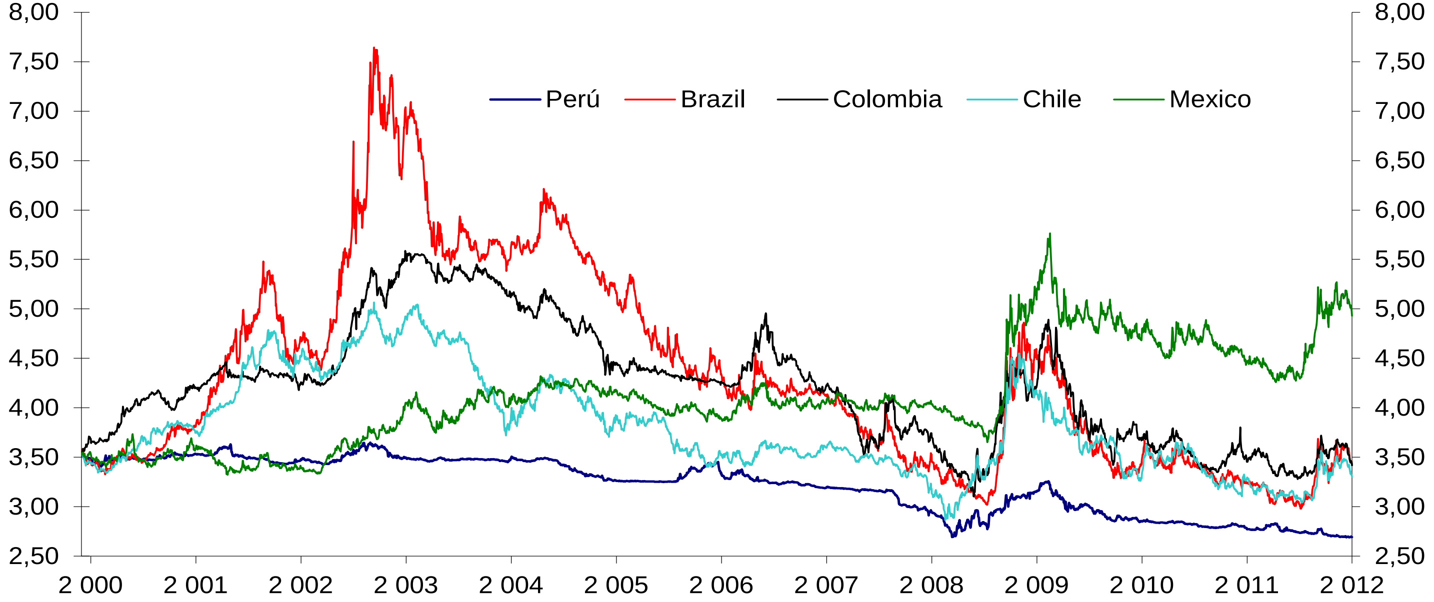


Source: BCRP, SUNAT.

And the exchange rate of the Peruvian Nuevo Sol is one of the less volatile currencies in the region

Relative volatility of some Latin American currencies

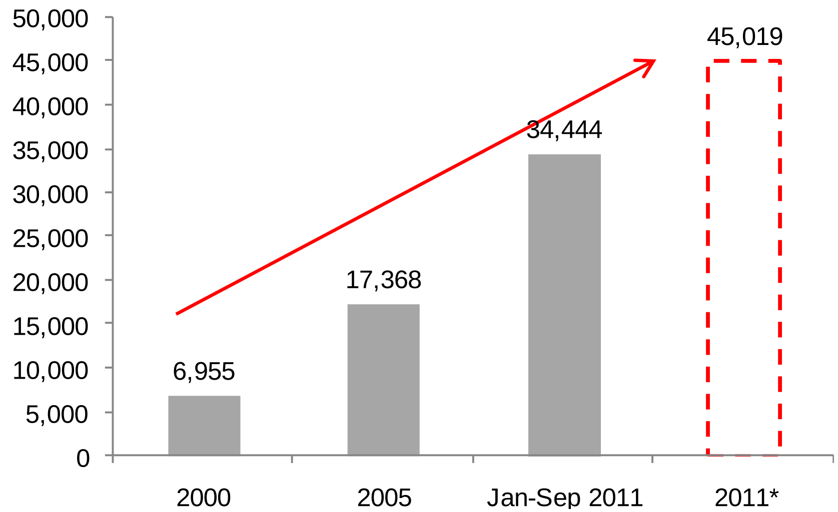
(Base: January 03, 2000 = 3,509 Nuevos soles/USD)



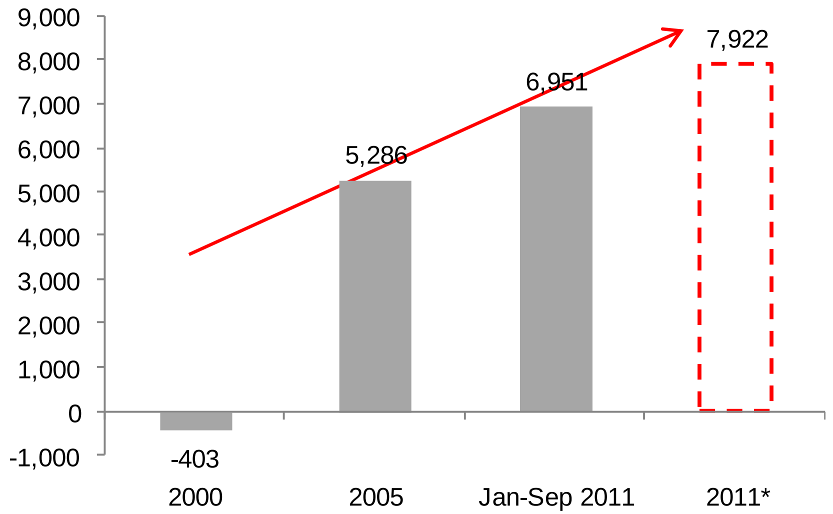
Source: Bloomberg, MEF

In 2011 exports achieved record levels

Total Exports
(Millions of US$)



Trade Balance
(Millions of US$)

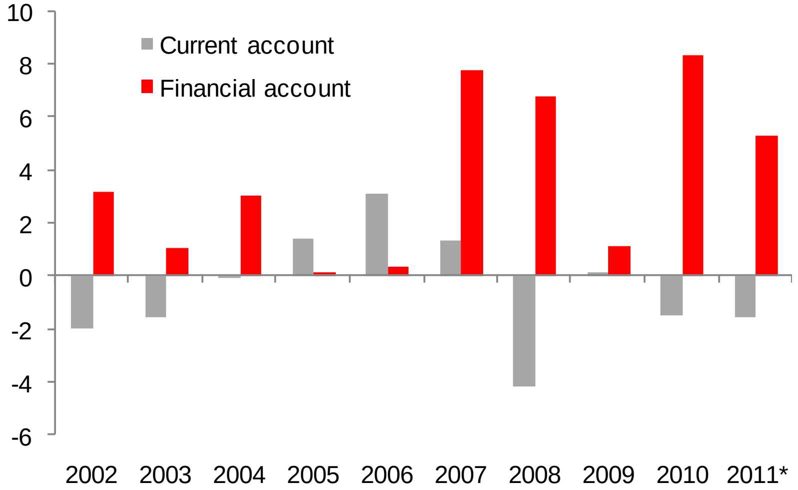


• Preliminary estimates.
Source: BCRP.

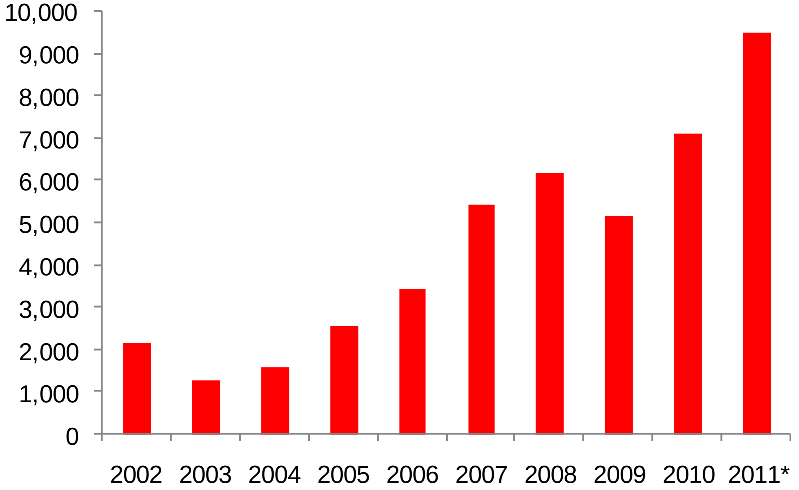
- In 2011 exports surpassed US$ 45 billion, a historical record.
- The trade balance reached a surplus of around US$ 8 billion.

Current account deficit is sustainable

Current Account & Financial Account
(% of GDP)



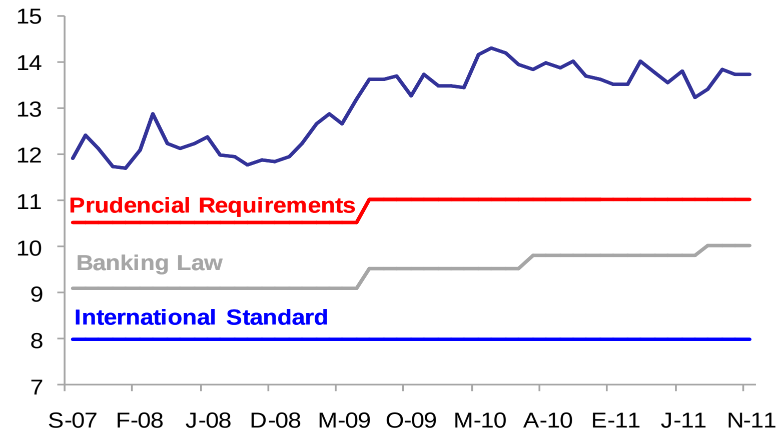
Net foreign direct investment
(Millions of US$)



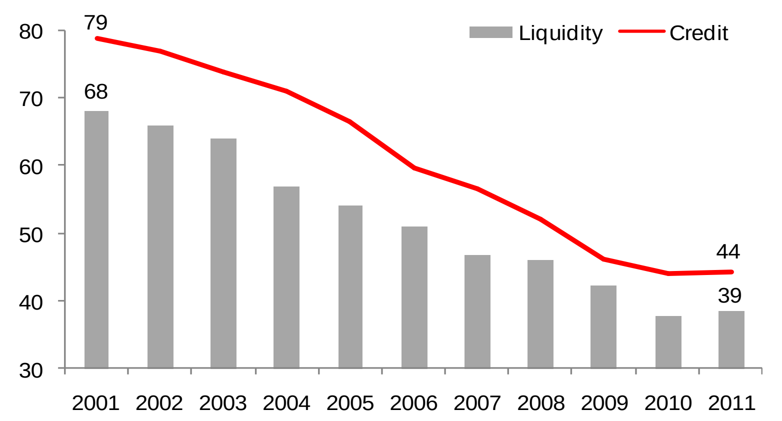
• *Preliminary estimates.*
Source: BCRP.

Solid banking system and low exposure to European banks

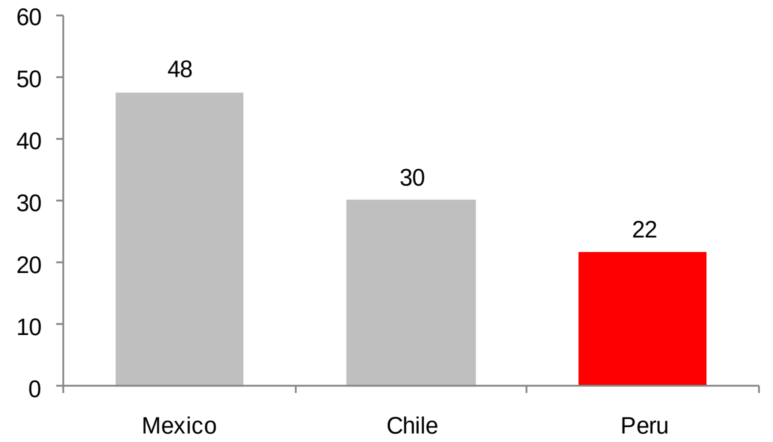
Solvency indicator of banking[1]
(%)



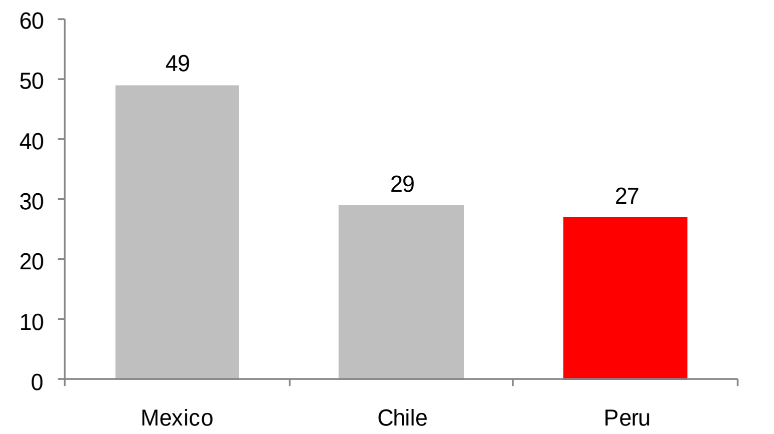
Dollarization Ratio[2]
(%)



Participation of European Banks in LATAM Financial System (% of bank capital)



European Banks as a Share of Total Bank Credit
(% of total loans)

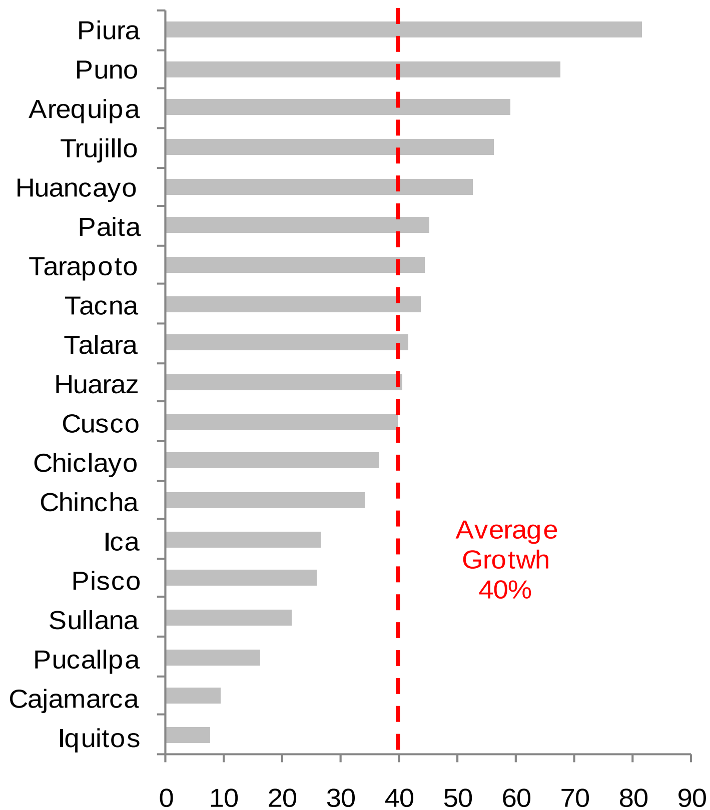


1/ Capital Adequacy Ratio: risk weighted assets and contingent loans to regulatory capital.
Source: BCRP, Goldman Sachs.

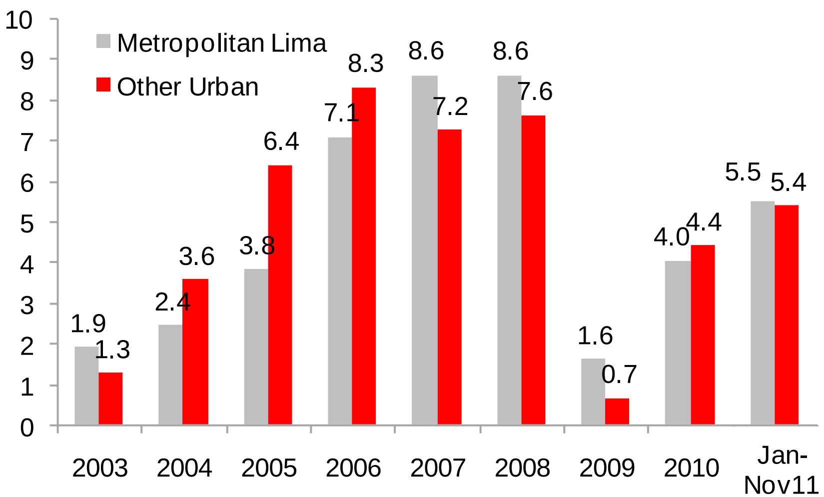
2/. As of November, 2011.

More decentralized employment

Employment in companies with 10 or more employees – Main Cities
(Accumulated % change Jan-Nov 2011/Jan–Nov 2005)



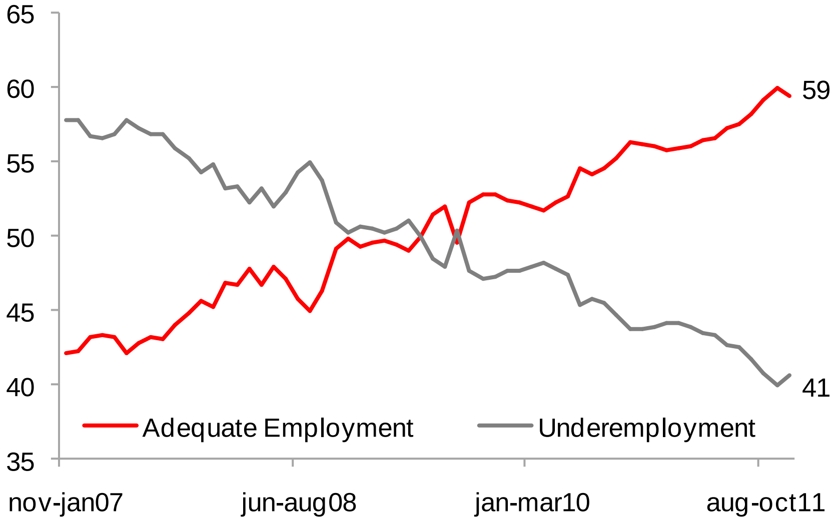
Urban Employment
(Annual % change)



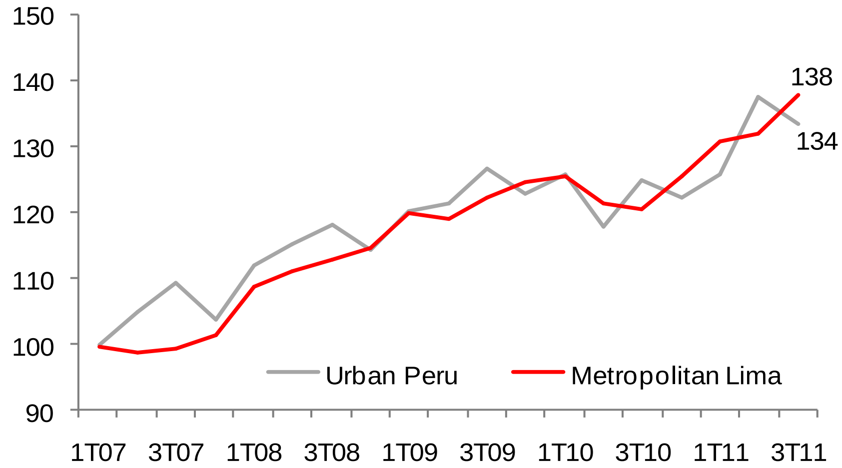
Source: INEI, MINTRA.

Increase in adequate employment and income

Employment in Metropolitan Lima by type
(% of total EAP[1])



Average Quarterly Income Index
(Jan. 2007=100)



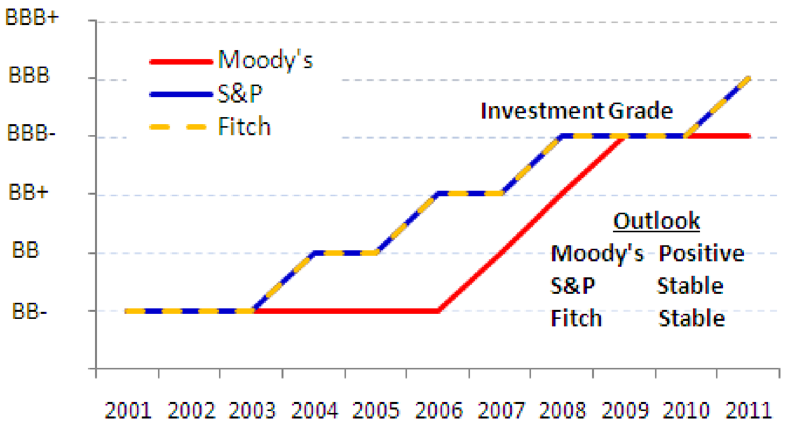
1/ EAP: Economically Active Population.
Source: INEI.

Peru is an investment-grade Latam country

Foreign Country Sovereign Ratings

Country	S&P	Fitch	Moodys
Chile	A+	A+	Aa3
Peru	BBB	BBB	Baa3
Mexico	BBB	BBB	Baa1
Brazil	BBB	BBB	Baa2
Panama	BBB-	BBB	Baa3
Colombia	BBB-	BBB-	Baa3
Bolivia	B+	B+	B1
Venezuela	B+	B+	B2
Argentina	B	B	B3
Ecuador	B-	B-	Caa2

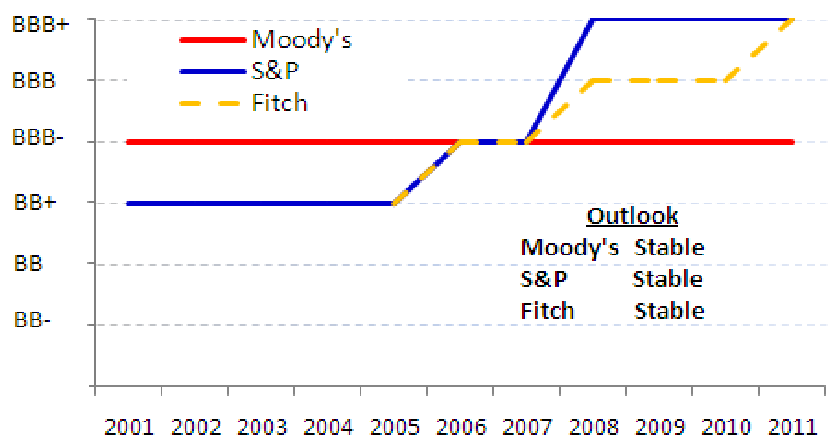
Peru's Foreign Sovereign Rating



Local Country Sovereign Ratings

Country	S&P	Fitch	Moodys
Chile	AA	AA-	Aa3
Peru	BBB+	BBB+	Baa3
Mexico	A-	BBB+	Baa1
Brazil	A-	BBB	Baa2
Panama	BBB-	NR	NR
Colombia	BBB+	BBB	Baa3
Bolivia	B+	B+	B1
Venezuela	B+	B+	B1
Argentina	Bu	B	B3
Ecuador	B-	NR	WR

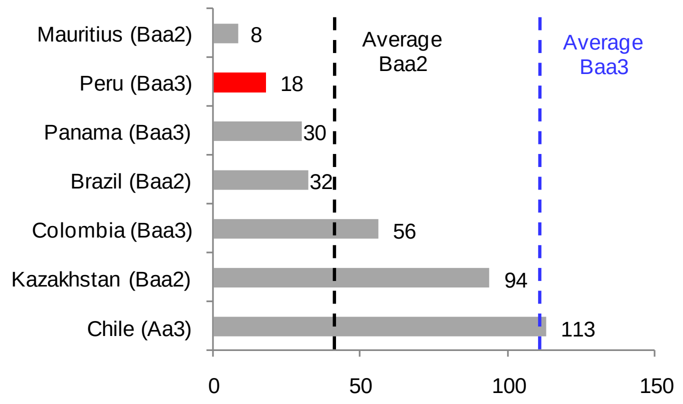
Peru's Local Sovereign Rating



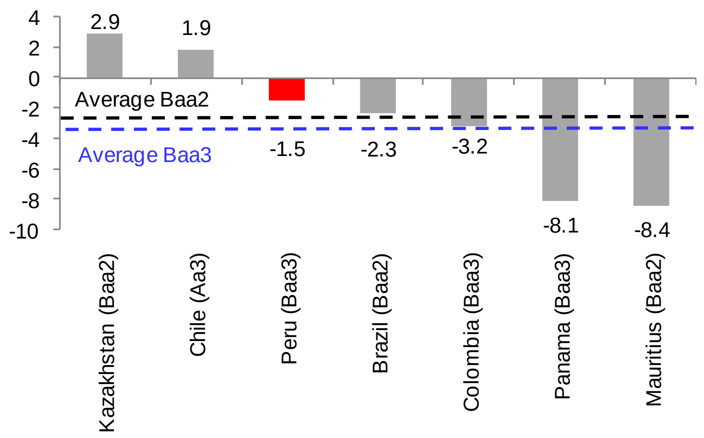
Source: Standard & Poor's, Fitch, Moody's.

Solid external accounts and lower external vulnerability versus Baa2 and Baa3 countries

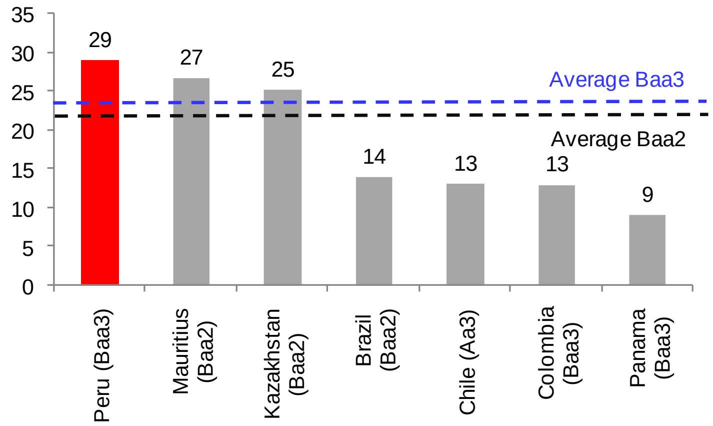
External vulnerability indicator[1]



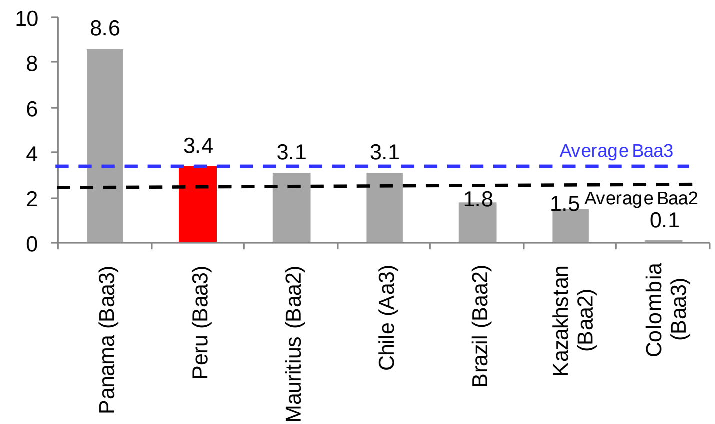
Current account balance 2010
(% of GDP)



Official Forex Reserves 2010
(% of GDP)



Net Foreign Direct Investment 2010
(% of GDP)

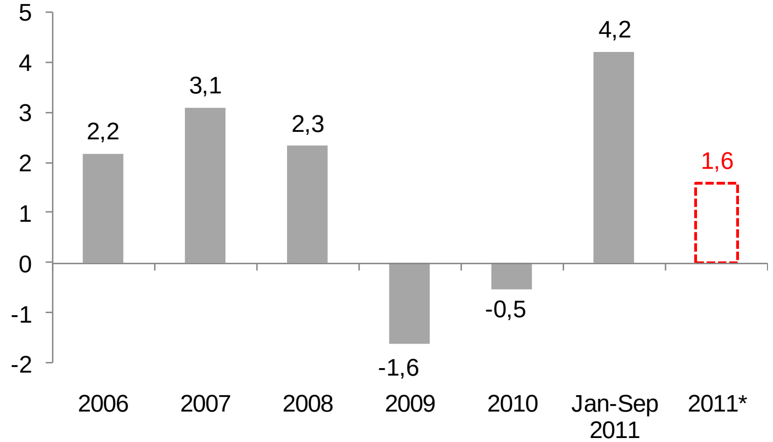


1/ (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves.
Source: Moodys, Central Banks.

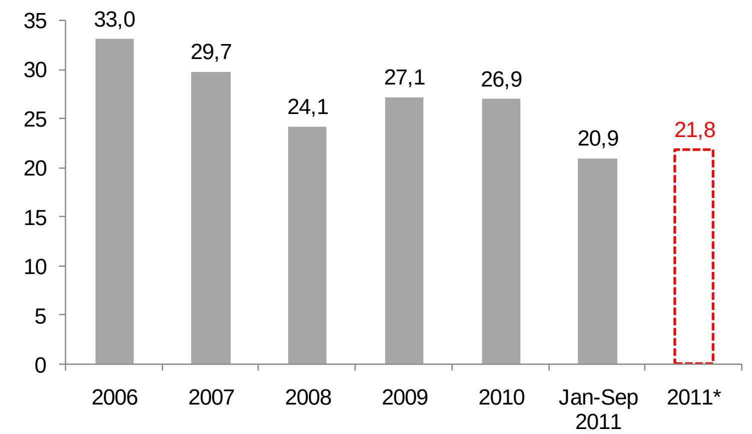
Solid Fiscal Accounts

Solid Public Finances and Fiscal Commitment

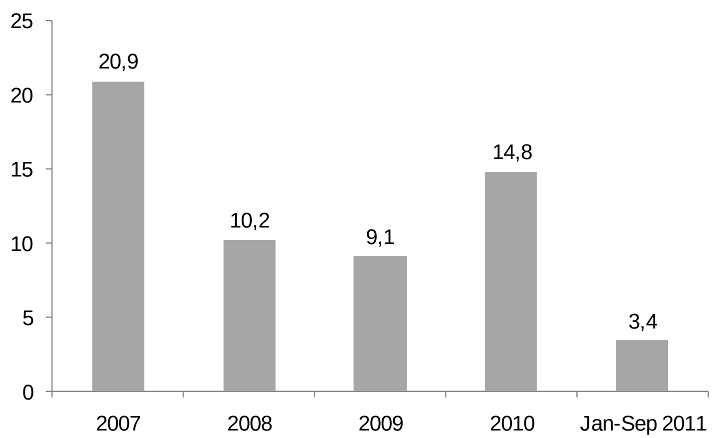
Non-Financial Public Sector Result
(% of GDP)



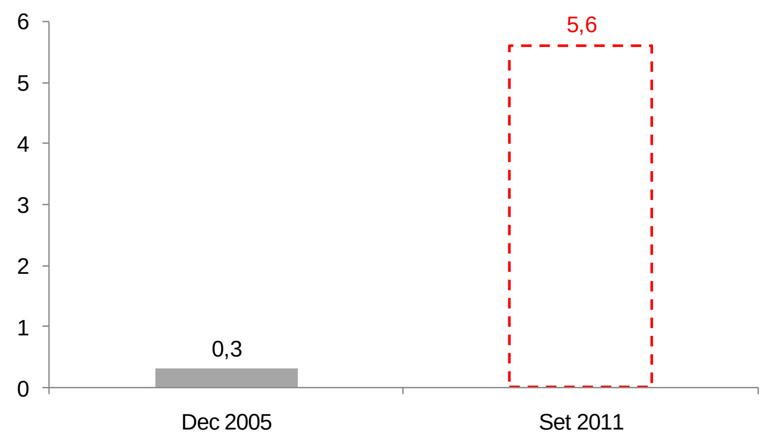
Total Gross Public Sector Debt
(% of GDP)



Total External Debt Service
(% of exports of goods and services)



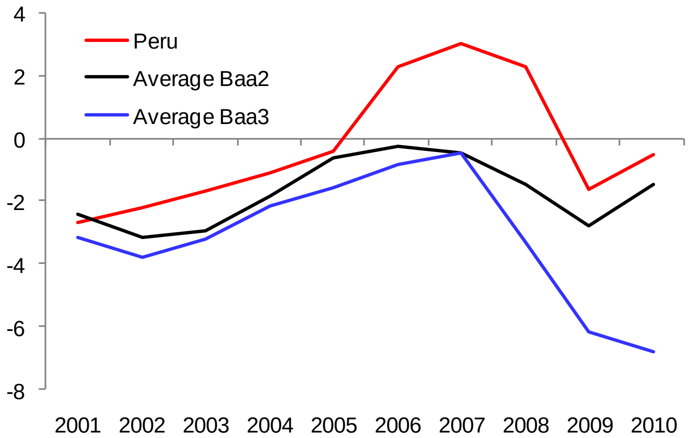
Fiscal Stabilization Fund 2011
(Billions of US$)



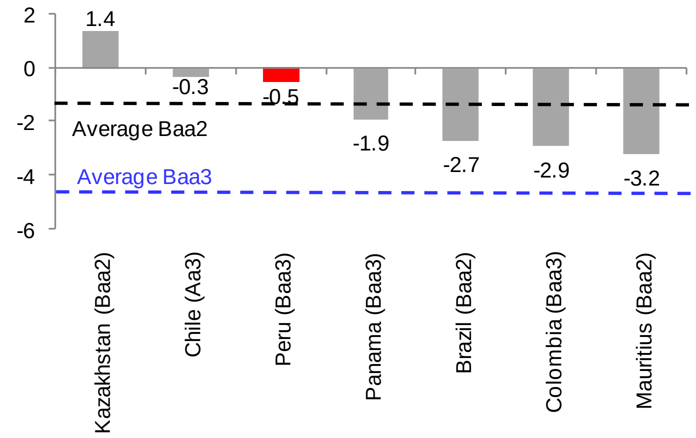
** Preliminary estimates.*
Source: BCRP, MEF, MMF 2012-2014 Revised.

Strong fiscal position and better performance than the average Baa2 and Baa3 countries in a decade

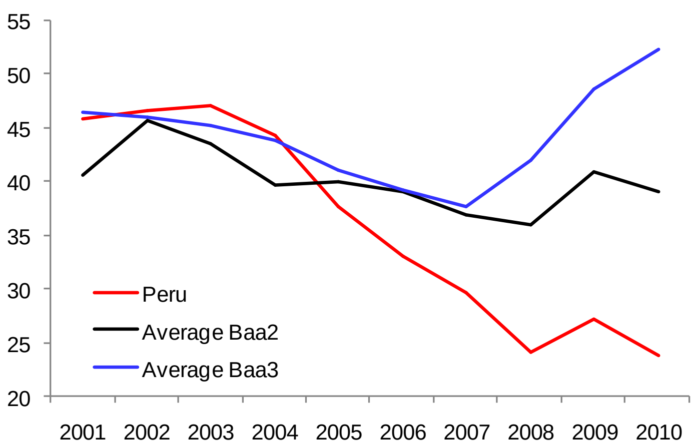
Financial Balance 2001 - 2010
(% of GDP)



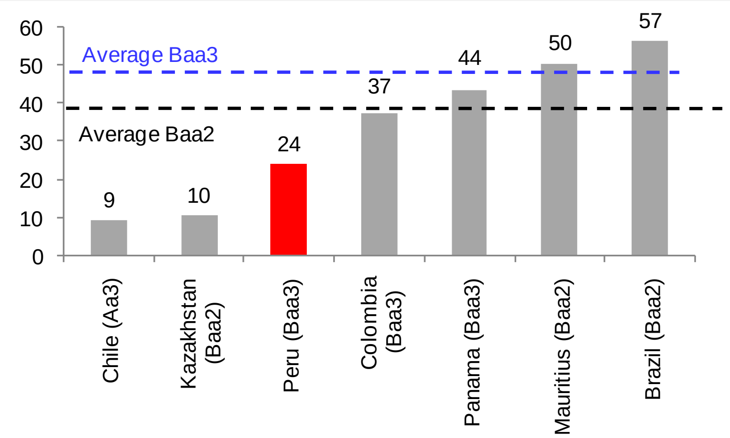
Financial Balance 2010
(% of GDP)



Public Debt 2001 - 2010
(% of GDP)

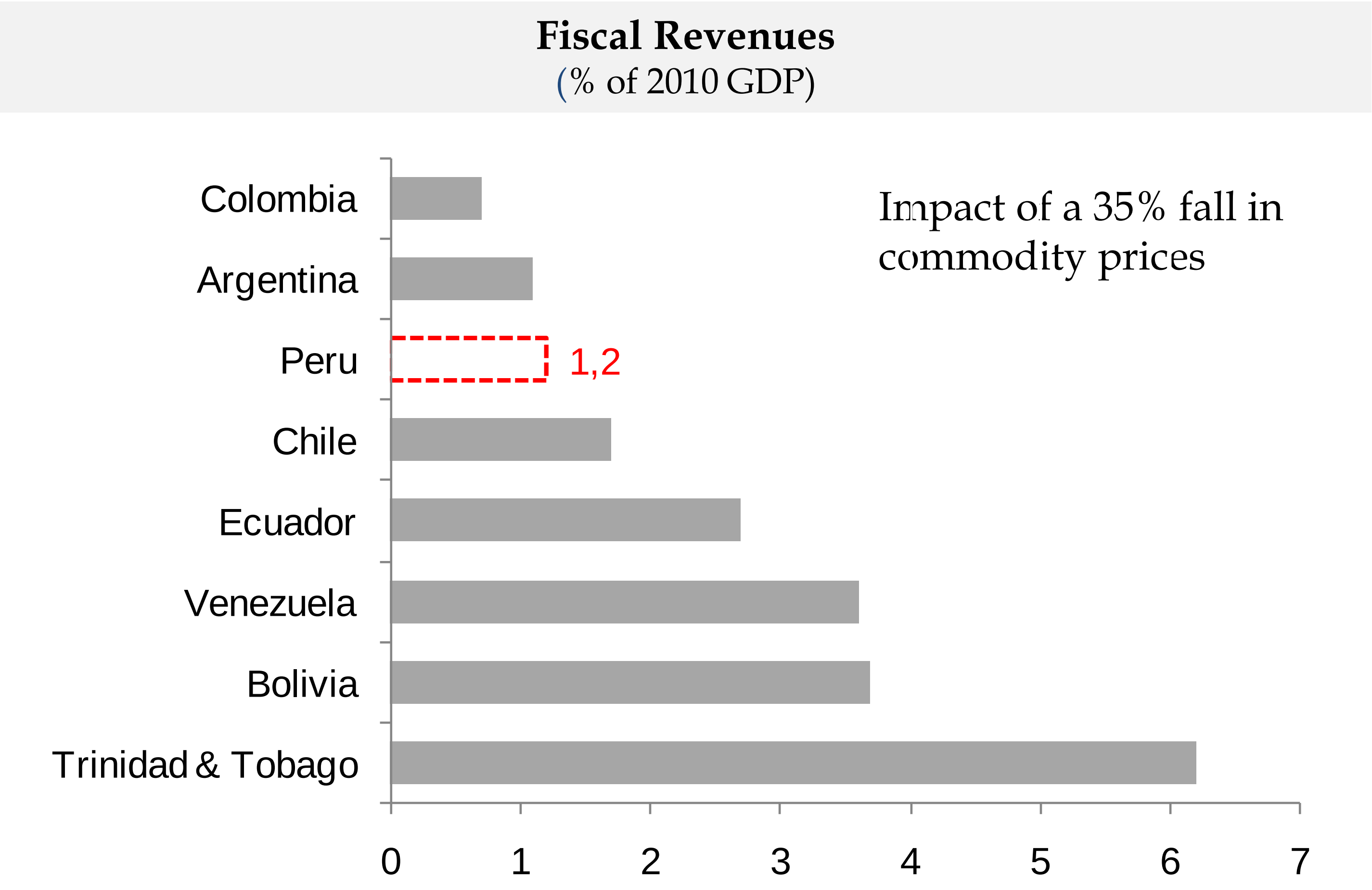


Public Debt 2010
(% of GDP)



Source: Moody´s, Central Banks.

Impact on fiscal revenues of a 35% decline in commodity prices

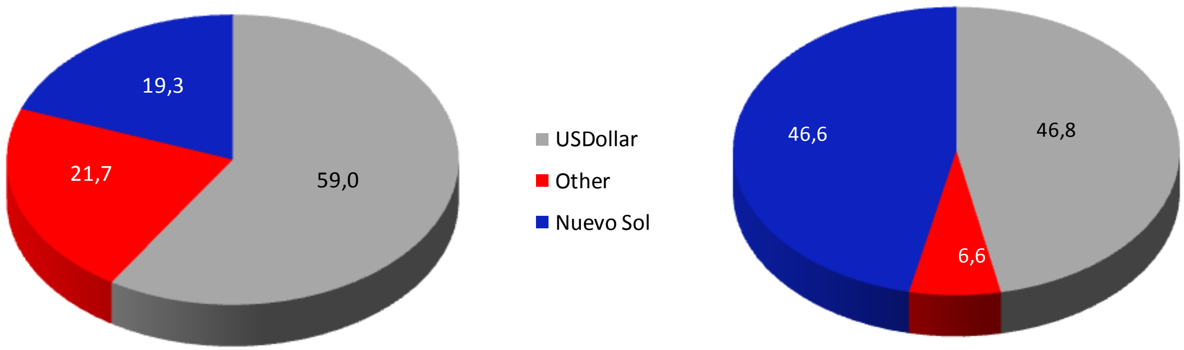


Source: IMF Staff estimates

Debt profile: exchange and interest rate exposure

Public Debt Structure by Currencies
(%)

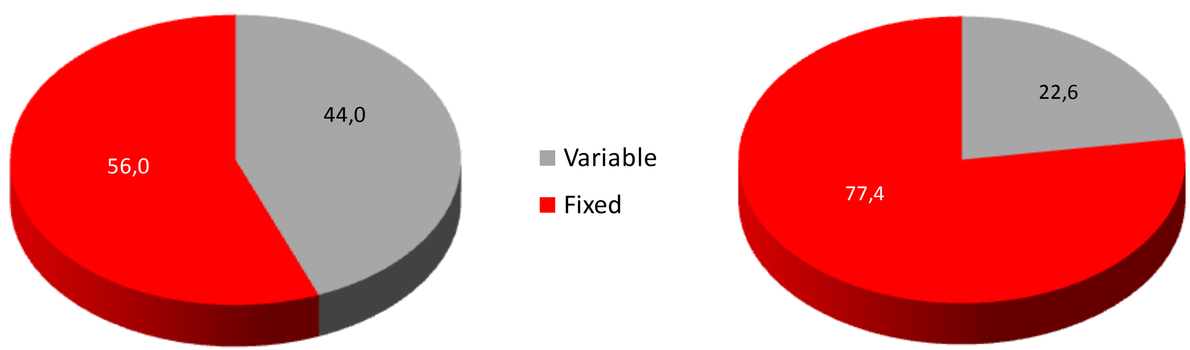
September 2006 | September 2011



Debt denominated in local currency has more than doubled in the last 5 years

Public Debt Structure by Interest Rate
(%)

September 2006 | September 2011



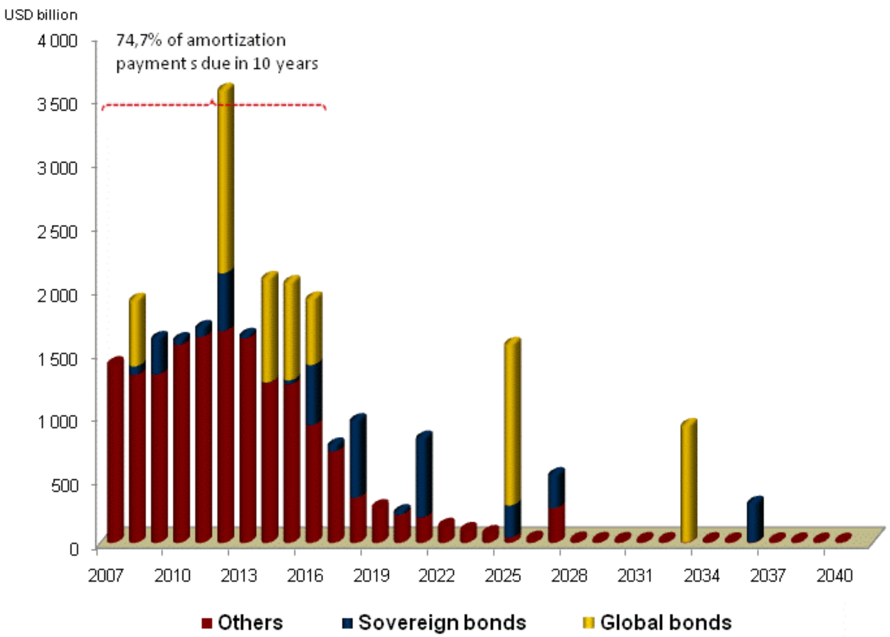
Source: MEF

Sharply decrease in debt attached to variable rates

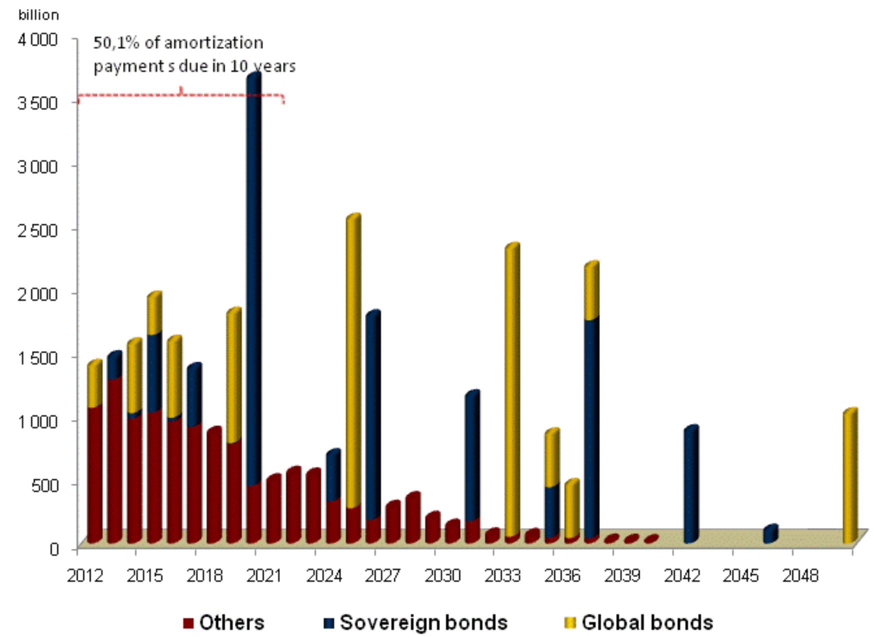
Debt profile: amortization payments exposure

Public Debt profile by type

September 2006



September 2011



Pressure in amortization payments has been reduced by 24.6% over the past five years.

Source: MEF

Fiscal policy main guidelines of the new administration

1. To reach a fiscal balance in the structural accounts.

2. To hold a countercyclical fiscal position.

3. To increase permanent fiscal revenues.

4. To assure a decreasing tendency of the national debt as a percentage of GDP ratio (from 23.4% in 2010 to a 17.7% in 2014).

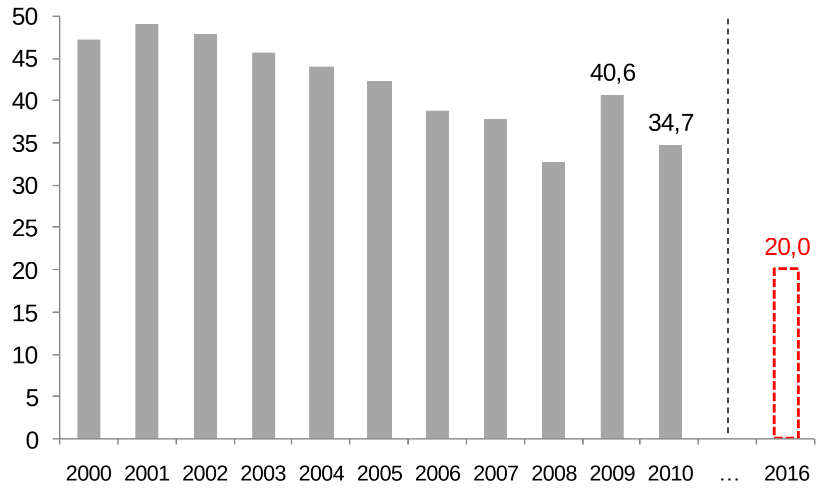
5. A conservative Budget for 2012 (surplus of almost 2% of GDP in 2011), but covers main priorities of the government: (i) social inclusion, (ii) human capital, (iii) citizen security, among others.

6. Designing and implementing a Contingency Plan.

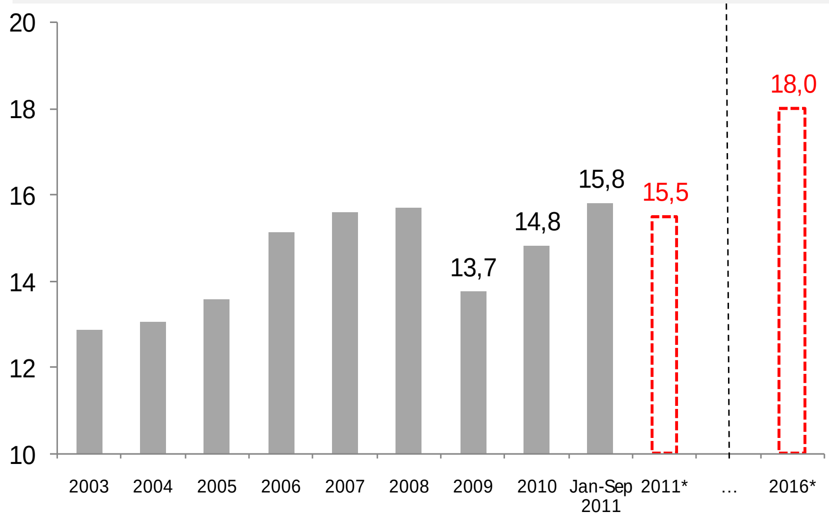
Strategy to increase permanent fiscal revenues

- Fight against tax evasion.
- Fight against smuggling and undervaluation.
- Tax debt recovery.
- Tax crime and customs fraud detection and effective sanctions.
- Case for tax payment and custom facilitation.
- Tax expenditure rationalization.

Tax Evasion
(%VAT)



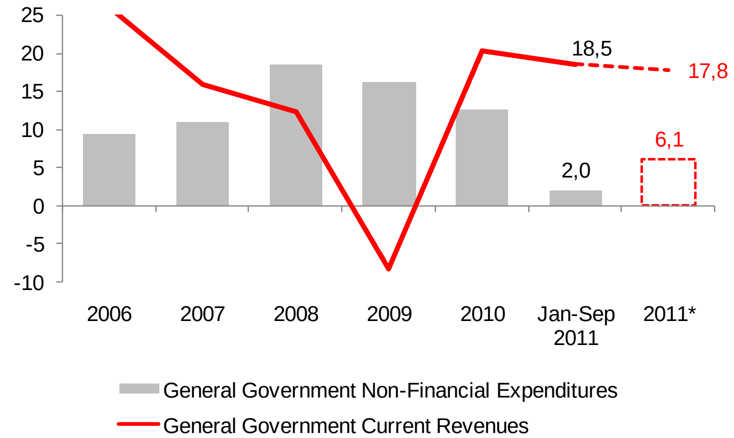
Tax Burden[1]
(% of GDP)



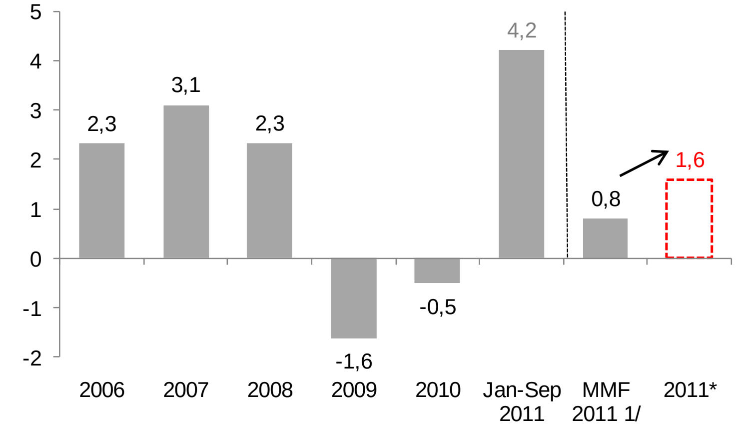
1/ Central Government Revenues / GDP.
Source: SUNAT.

Sound fiscal position allows to countercyclical policy stance

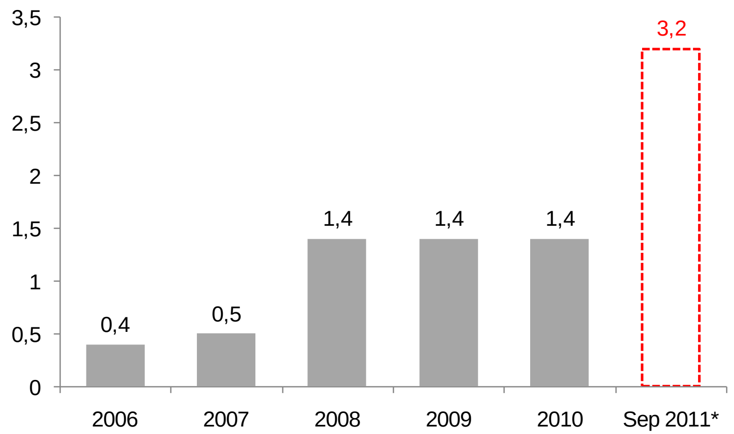
Non-Financial Expenditures and Current Revenues
(Annual % Change)



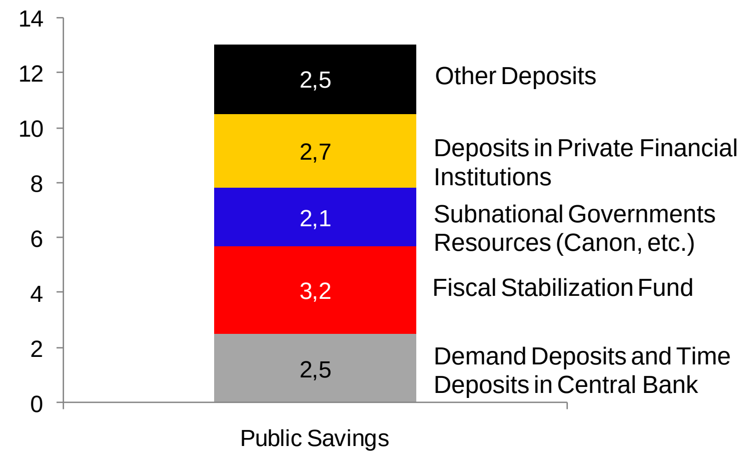
Non-Financial Public Sector Overall Balance
(% of GDP)



Fiscal Stabilization Fund
(% of GDP)



Public Savings up to September 2011
(% of GDP)



Public Savings accounts 13,1% of GDP

** Preliminary estimates.*
1/ Multiannual Macroeconomic Framework Revised 2012-2014
Source: MEF.

Contingency Fiscal Plan

- Timely, temporary and aggressive.

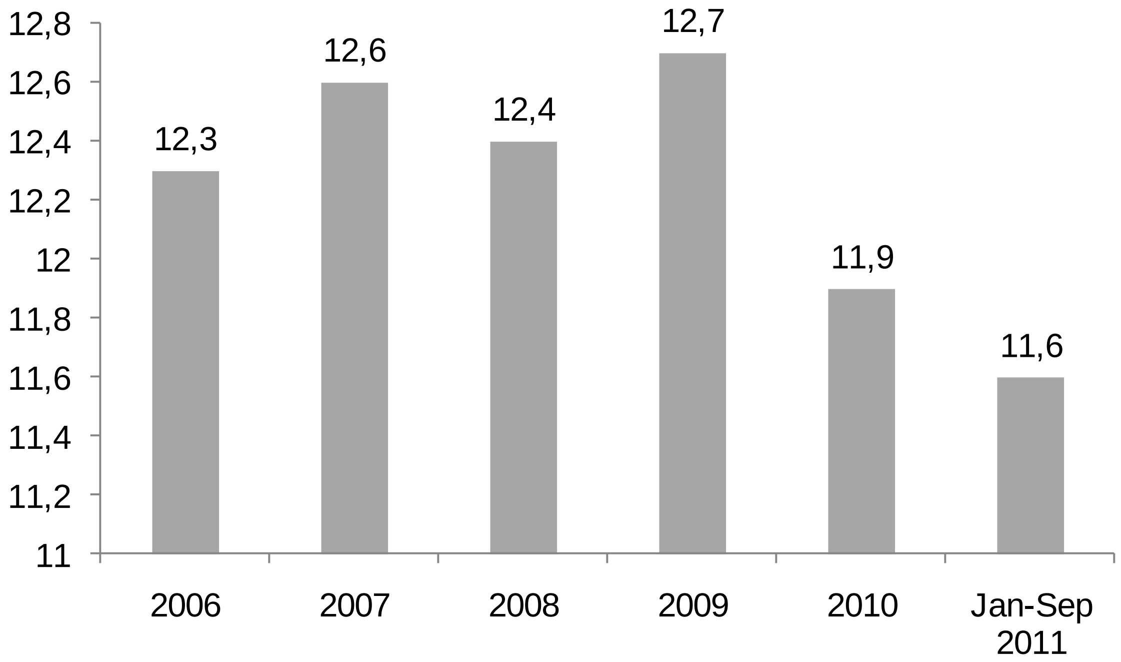
- Combines short-run actions (transitory fiscal impulse) and long-run actions (reducing infrastructure gap, improving productivity and potential GDP).

- Emphasis on poor areas:
  - Infrastructure projects.
  - Infrastructure maintenance.
  - Small and medium enterprise procurement (SMEs).
  - Guarantee Fund for SMEs and non-traditional exporters.
  - Enabling feasibility studies.
  - Temporary Employment Program.

- Since september 2011, precautionary measures have been taken to boost fiscal impulse (1.5%-2% of GDP).

Fiscal Impulse in 2012

Total Current Non-Financial Expenditures : 2006-2011
(% of GDP)



- Public Investment will grow above 30% in 2012 (after falling 6% in 2011).
- Fiscal Surplus will reach around 0.8% of GDP in 2012.

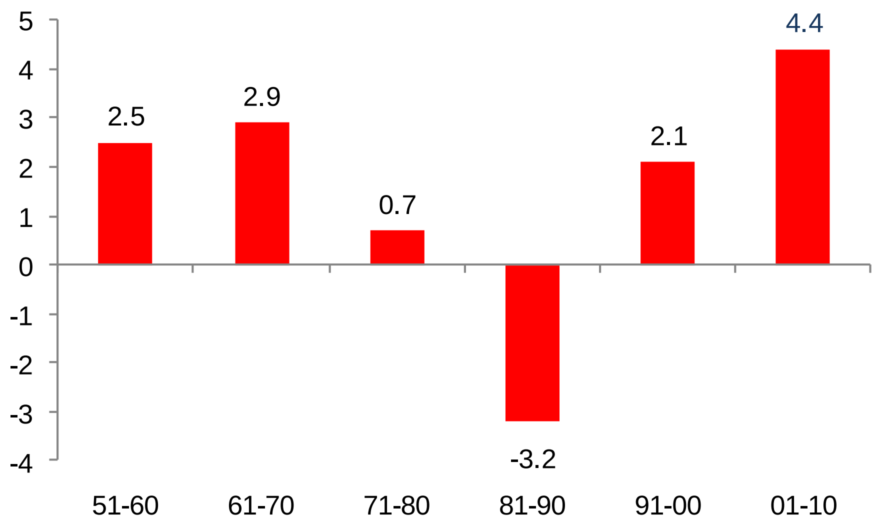
Source: MEF

Social Outlook

Peru has grown steadily over the recent years and poverty has been reduced

- GDP tripled in 2010 compared to 2000.
- Fastest per capita GDP growth since the 1950's.
- Per Capita GDP levels catching up after 3 lost decades.
- Poverty has reduced from 50% to 30%.
- Population has grown in the last 10 years at an average rate of 1.26%, and in 2010, it reached a total of 29.5 million persons.

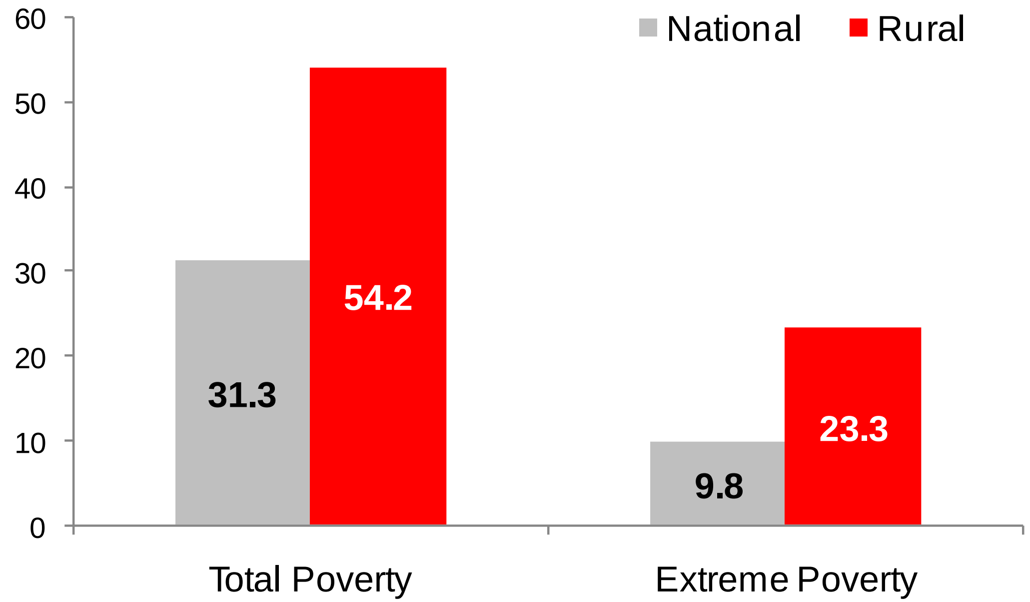
Per Capita GDP
(10-yr.-average, % change)



Source: BCRP.

However, the challenge remains to achieve a broad based development and further social inclusion

Total Poverty and Extreme Poverty 2010: National vs. Rural
(% of population)



Rural poverty doubles the national average.

Source: INEI.

In the coming years, Peru's main goals are further poverty reduction and social inclusion

Variable		Base Line 2010	Target 2016
1.	Poverty	31.3%	Poverty less than 20%
2.	Extreme poverty	9.8%	Extreme poverty less than 5%
3.	Child chronic malnutrition	17.9%	Child chronic malnutrition less than 10%

Source: MEF; ENAHO and ENDES 2010 - INEI.

The government strategy is based on social programs that follow a "Life Cycle Approach"

Public Programs (Millions of Nuevos Soles)

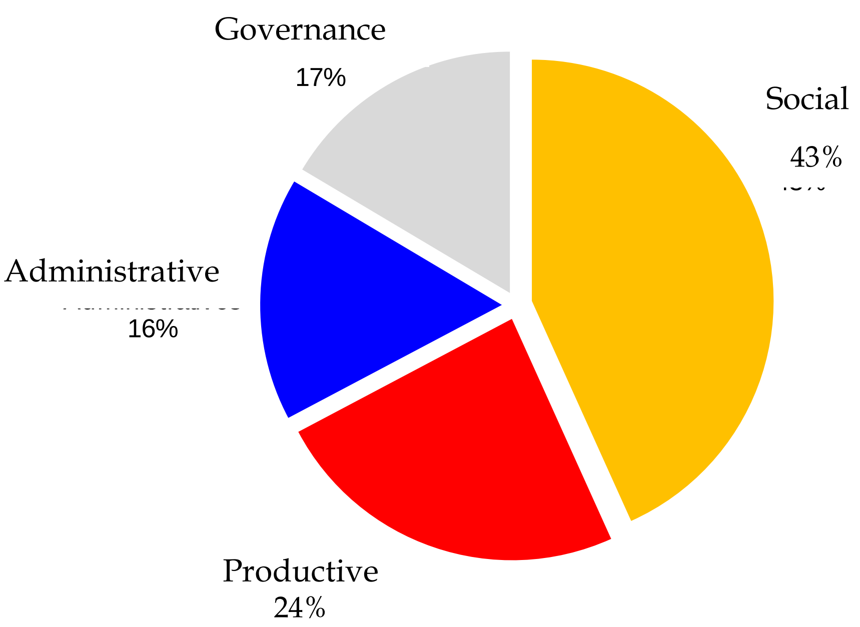
Pregnancy	0 – 2 years	3 – 5 years	6 – 12 years	13 – 17 years	17 – 24 years	+ 65 years
SAMU: S/. 40	PAN: S/. 1 607				*Jóvenes a la obra*: S/. 34	
SMN: S/. 1 400	Cuna Más: S/. 190	PELA Elementary school: S/. 2 195	PELA Primary school: S/. 4 251	PELA Secondary school: S/. 2 833	*Beca 18*: S/. 136	*Pensión 65*: S/. 241
Maternal mortality Neonatal mortality	Chronic malnutrition Infant mortality Cognitive and Emotional development	Learning achievements Elementary school Coverage	Learning achieve-ments	Secondary Coverage Learning achieve-ments No dropout	Access to quality higher education Relevant education for the labor market	Ensure the basic conditions for subsistence
JUNTOS: S/. 822 Millions						

The 2012 Public Budget reflects the priorities of the Government related to social issues

The 2012 Public Budget by type of intervention
(Millions of Nuevos Soles)

Expenses	Amount
Social	32,666
Productive	18,113
Administrative	12,310
Governance and Public Order	12,422
Subtotal	**75,511**
Debt Service	9,492
Pension Duties	9,375
Contingency Reserve	1,157
Total	**95,535**

Distribution of the 2012 Public Budget [1]
(%)

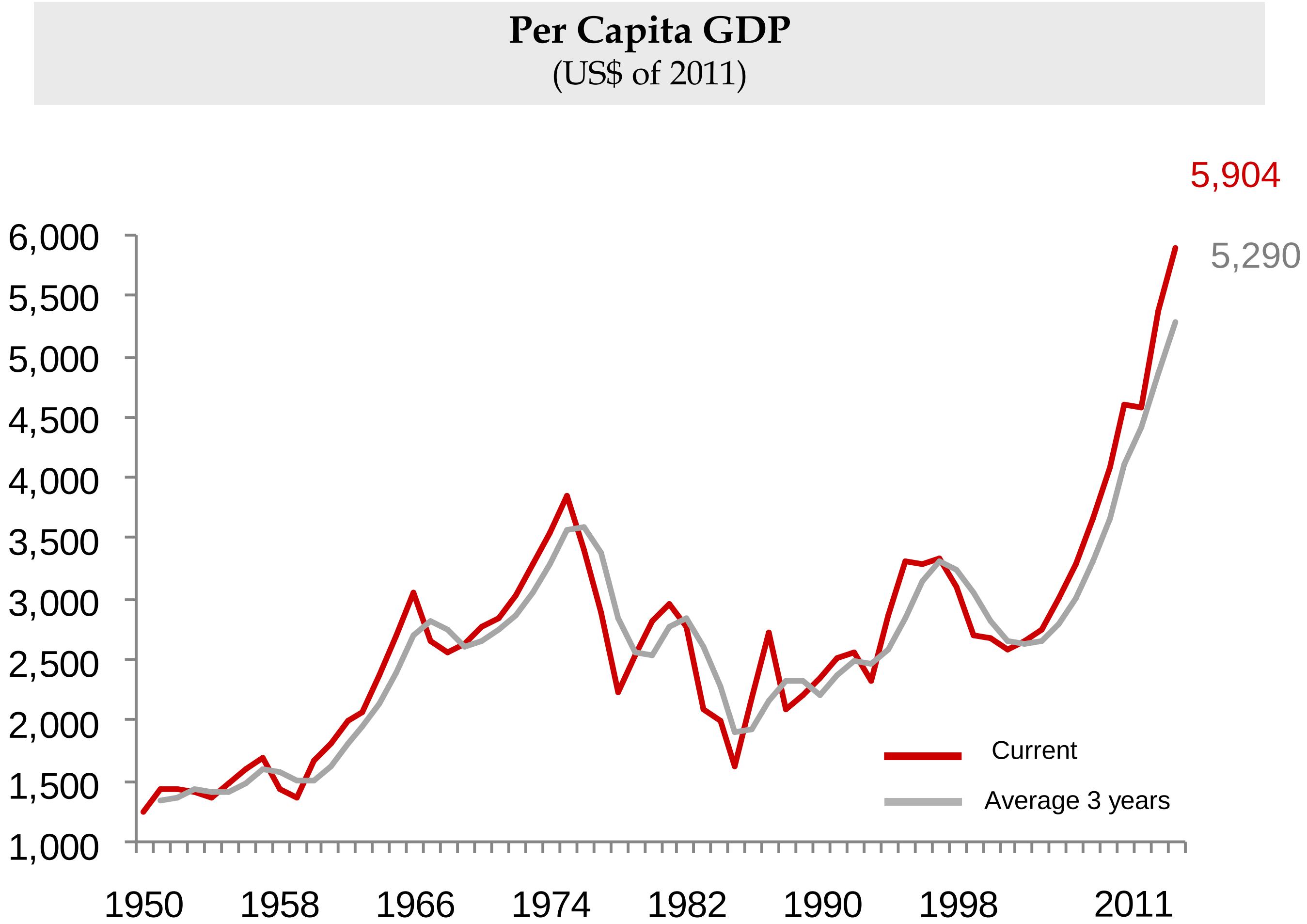


2012 social sector budget allocation has increased by approximately 20% with respect to the 2011.

1/ Out of debts service, pension duties and contingency reserves.
Source: MEF

Perspectives

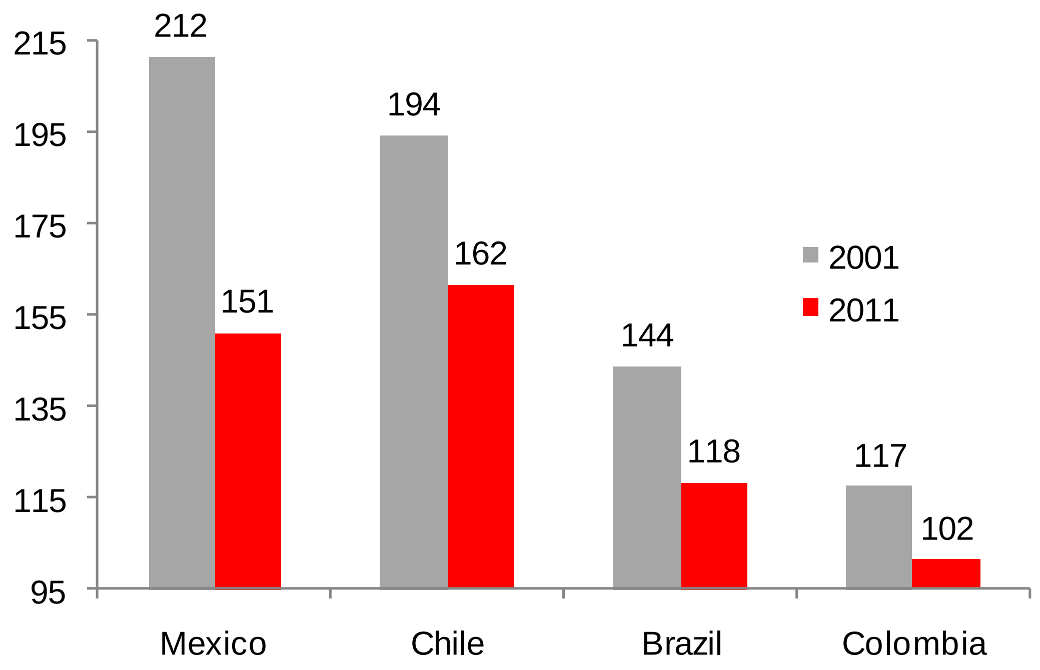
Per Capita GDP: Upward trend



Sharp reduction in Per Capita GDP gaps: Peru vs. Other Latam countries

	GDP per capita PPP ($ PPP)		
	2001	2011	Var. %
Peru	5,116	10,001	95.5
Colombia	6,010	10,155	69.0
Chile	9,939	16,172	62.7
Brazil	7,358	11,846	61.0
Mexico	10,821	15,121	39.7

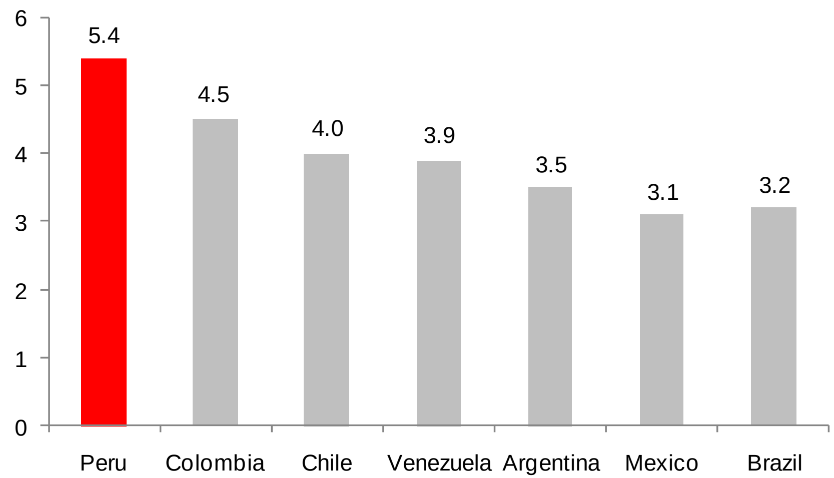
PPP Per Capita GDP Gap [1]
(Peru=100)



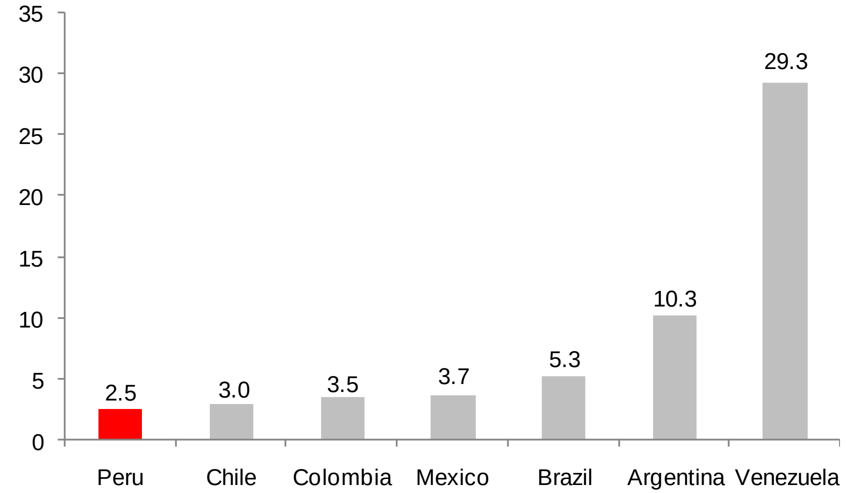
1/ Each country's GDP per capita PPP divided by Peru's GDP per capita PPP.
Source: IMF-WEO Setember 2011

In 2012 Peru is expected to be the economy with the fastest growth and lowest inflation in the region

LATAM: GDP 2012
(Annual expected % change)



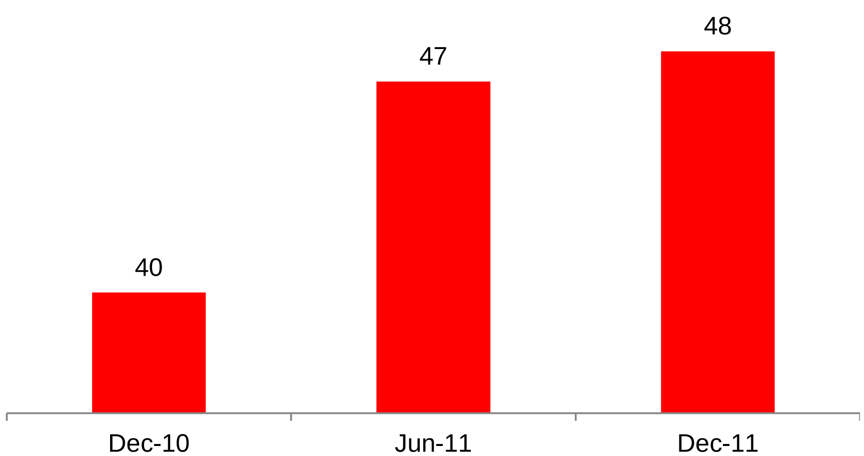
LATAM: Inflation 2012
(Anual expected % change)



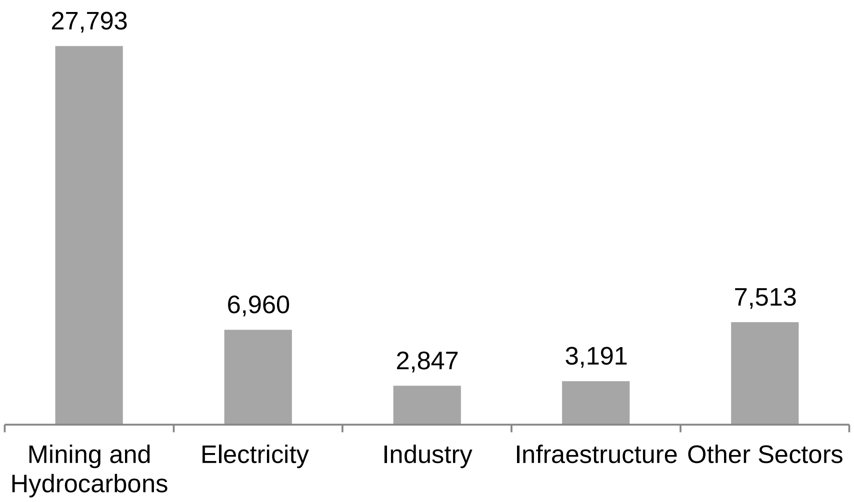
Source: MEF, Consensus Forecasts.

Continue to promote private investment as the engine of growth

Announcement of Private Investments Projects in the next 3 years (Billions of US$)



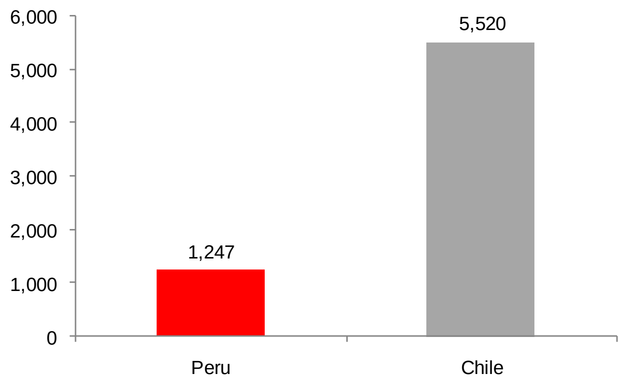
Private Investment Projects 2011-2013 (Millions of US$)



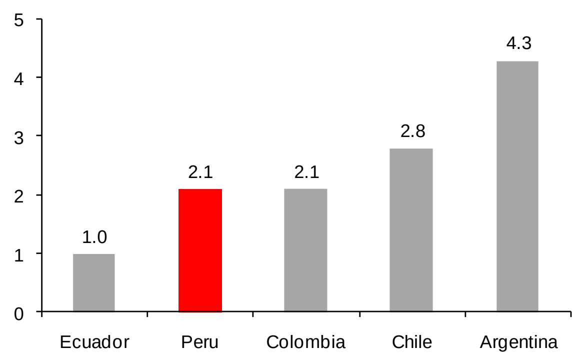
Source: BCRP.

Ample growth and investment opportunities

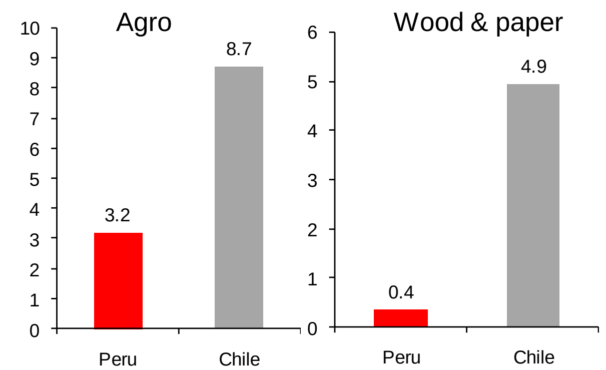
Copper Production 2010
(Thousands of Fine Metric Tons)



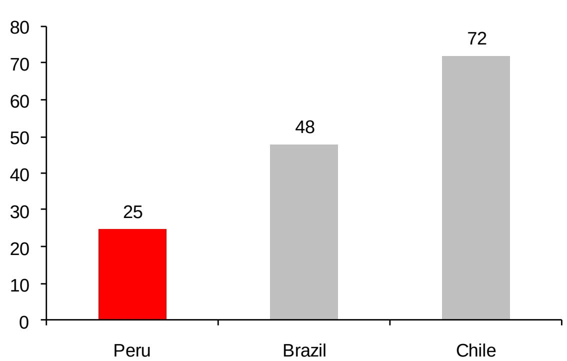
Tourist arrivals 2010
(Millions of persons)



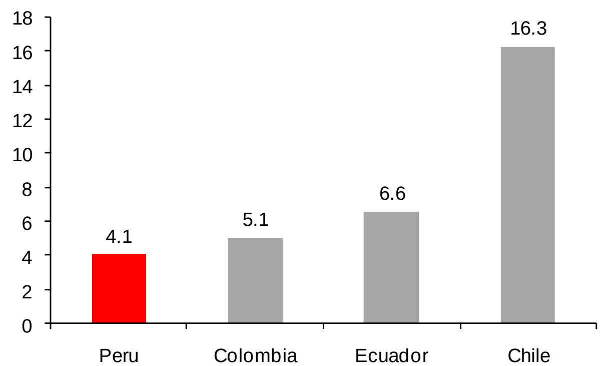
Exports 2010
(Billions US$)



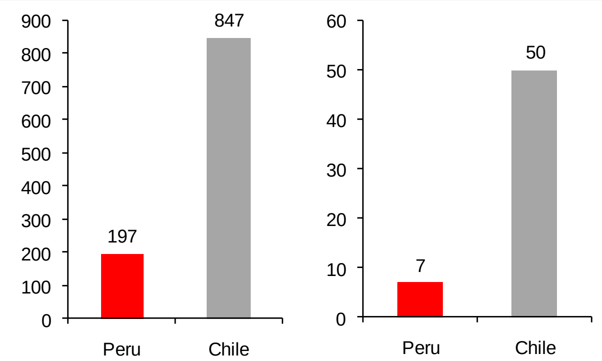
Banking System Credit 2010
(% of GDP)



Vehicle sales per capita 2010
(Vehicles per 1,000 inhabitants)



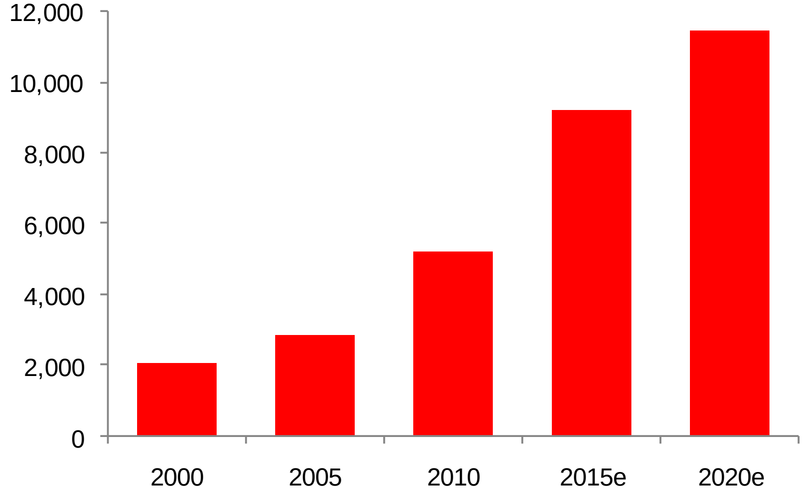
Sale surface in department stores
(Thousand of sq.mts.) (Sq. mts per inhabitant)



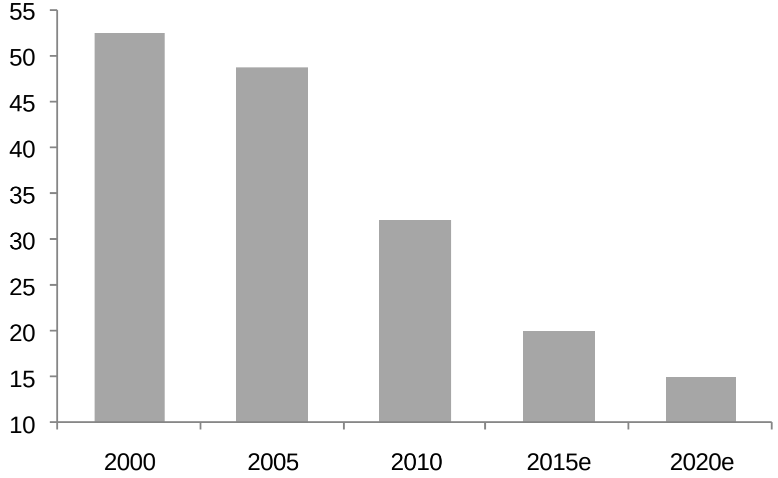
Source: Sunat, UNWTO, Geological Service of USA, AEADE, ARAPER, ASBANC, FELABAN, CAVEM, ASOPARTES, CCL, Ripley FELABAN, SBS, Superinterdency of Banks and Financial Institutions (Chile).

In conclusion, Peru should continue in the path of growth and social inclusion

Per Capita GDP
(US$)



Total Poverty Rate
(% total population)



Source: MEF.

Peru: Economic and Social Outlook

Luis Miguel Castilla
Minister of Economy and Finance

January, 2012