



Peru: Investment Opportunities

Ministry of Economy and Finance

March , 2014



PERÚ

Ministerio
de Economía y Finanzas



Outline

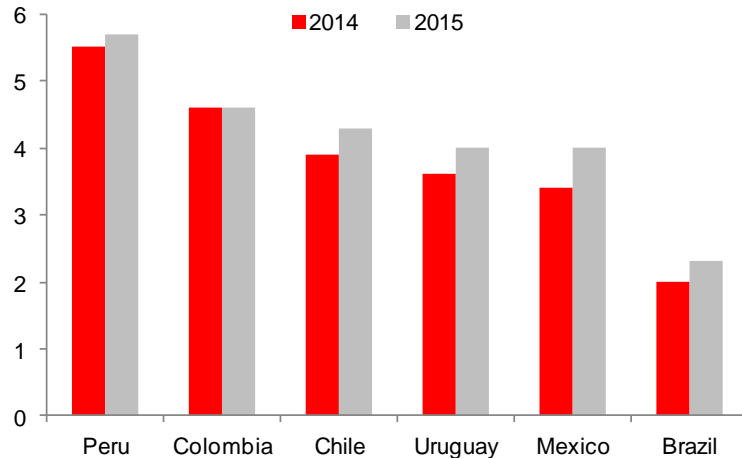
- Peruvian Outlook
- The future is based on today's sound foundations
- Investment opportunities
- Strong macroeconomic buffers to come through external shocks
- Challenges & Reforms

>> Peruvian Outlook

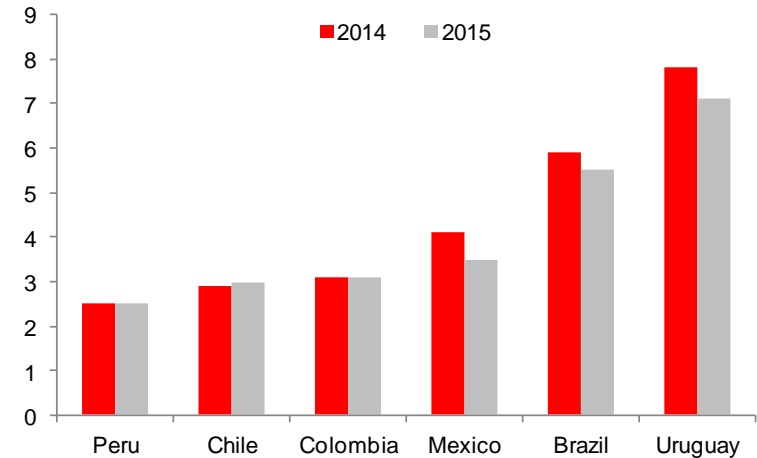


Peru will continue leading macroeconomic performance among LA6^{1/} economies in 2014-2015

Consensus Forecasts: LA6 GDP 2014-2015
(Annual % change)



Consensus Forecasts: LA6 Inflation 2014-2015
(% change, Dec/Dec)



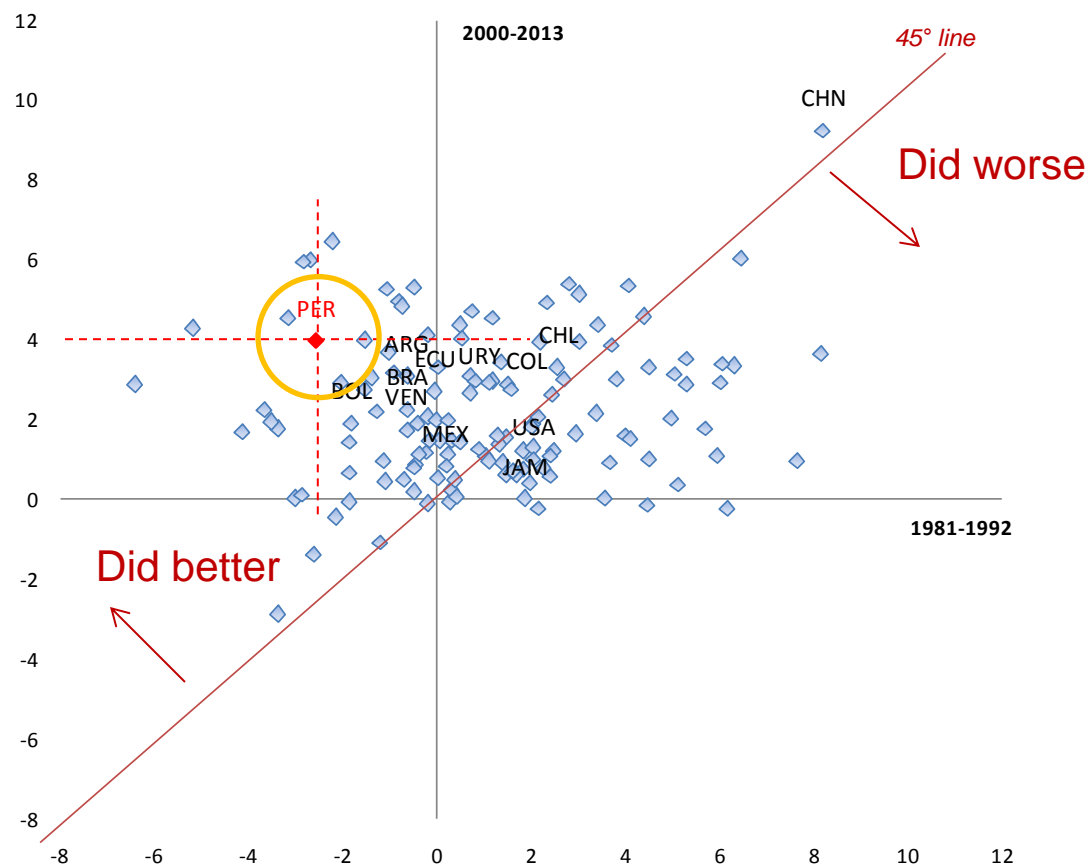
1/ The LA6 countries refers to the six Latin American countries that have adopted a formal inflation targeting framework and have relatively more developed domestic capital markets. The list includes: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Source: Consensus Forecasts, February 2014.



Past mistakes have helped us set up sounder policies in order to speed up economic growth...

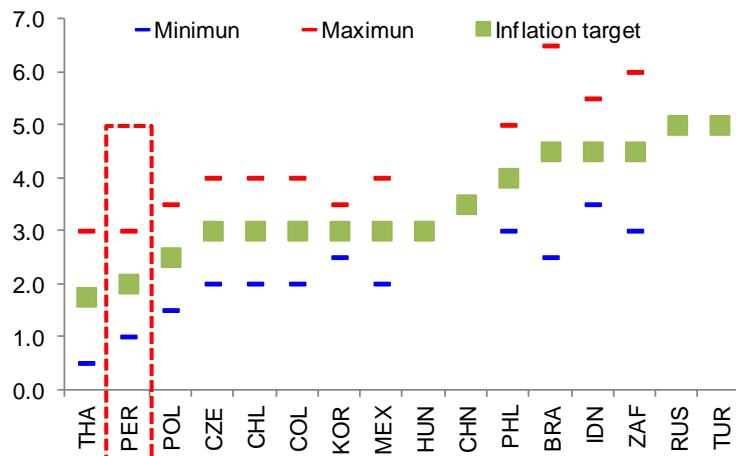
Per Capita Real GDP Growth in the World (% Change)



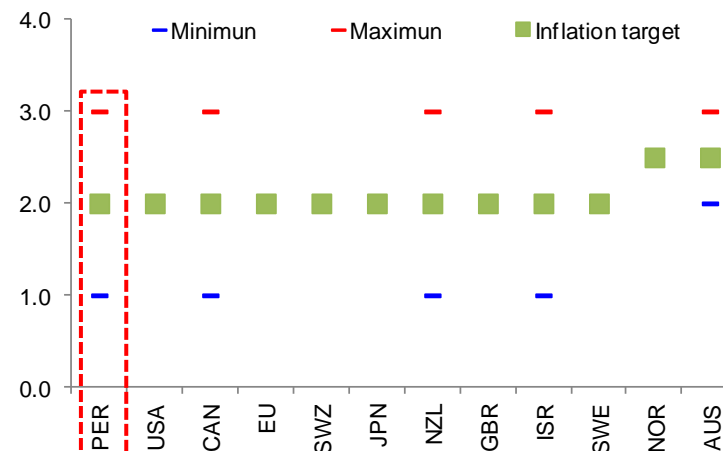


Today, Peru has one of the lowest inflation targeting rates similar to advanced economies

**Emerging Economies
with Inflation Targeting Regimes^{1/} (%)**



**Advanced Economies
with Inflation Targeting Regimes^{1/} (%)**



- **Peru adopted the “inflation targeting regime” for the first time in 2002**
- Inflation target allows low and stable inflation expectations
- Low inflation permits de-dollarization of the economy
- Low inflation keeps the consumer’s purchasing power
- The capital market development requires a strong currency

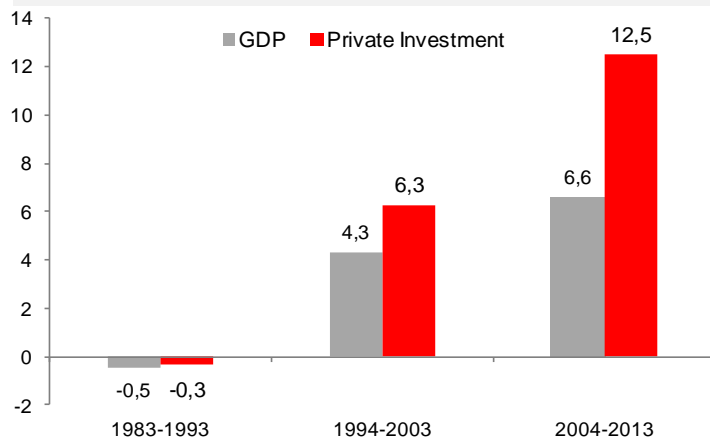
^{1/} Inflation target of Indonesia, Thailand, Israel and Australia is calculated as average of minimum and maximum value.

Source: Bloomberg.



Investment has been a fundamental factor to explain economic growth in the last two decades

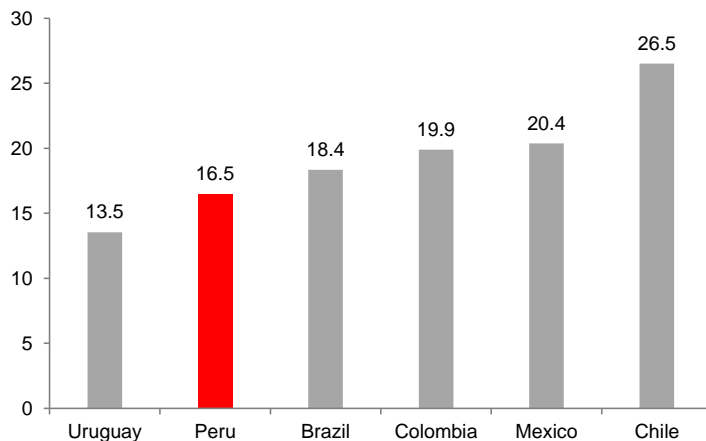
GDP and Private Investment
(Average % change)



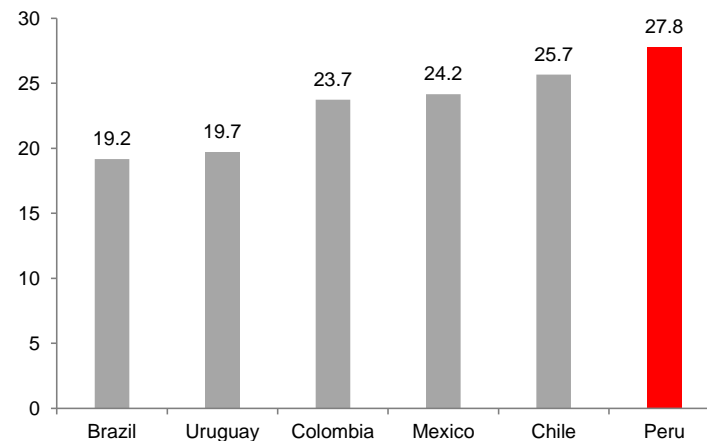
Growth after investment reached 25% of GDP
(Annual % change)

Country	Year when Investment to GDP reached 25%	Avg. Growth of the 5 next years	World avg. Growth of the next 5 years
Peru	2012	6,0	3,4
Chile	1989	7,3	2,6
Taiwan	1980	6,4	2,9
Singapore	1980	5,9	2,9

Total Investment LA6¹: 1990
(% GDP)



Total Investment LA6¹: 2013
(% GDP)

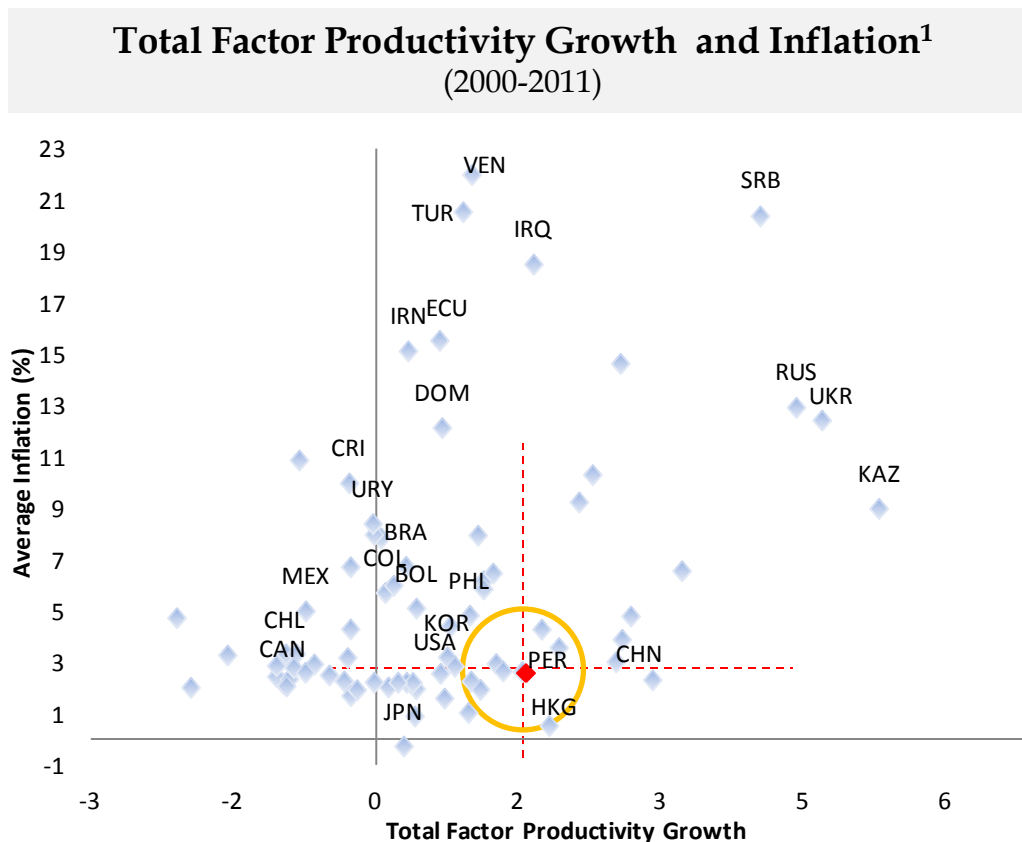


1/ The LA6 countries refers to the six Latin American countries that have adopted a formal inflation targeting framework and have relatively more developed domestic capital markets. The list includes: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Source: BCRP, MEF, IMF – WEO October 2013.



And the absence of inflationary pressures have resulted in high productivity gains

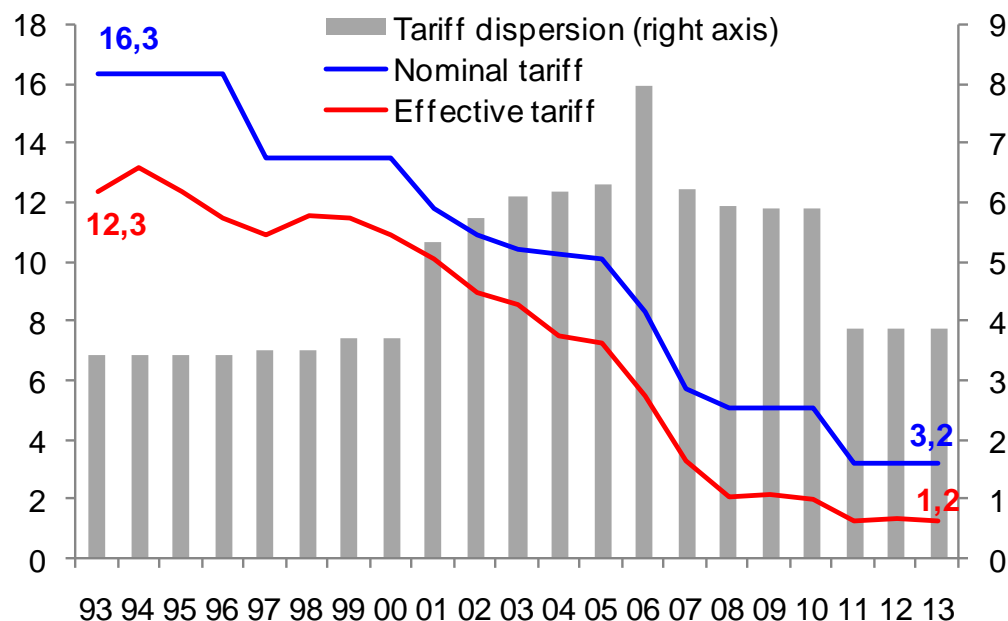


During 2000-2011, Total Factor Productivity grew at an average annual rate of 1.6% (among the highest in Latin America), with an average annual inflation rate of 2.6% (among the lowest in Latin America).



Peru has a market-oriented macroeconomic policy

Evolution of Nominal, Effective and Dispersion Tariff ^{1, 2}



A sustained trade liberalization policy.

1/. Effective tariff = (value of total revenue Ad Valorem CIF / total CIF import value) * 100.

2/. Tariff dispersion = standard deviation.

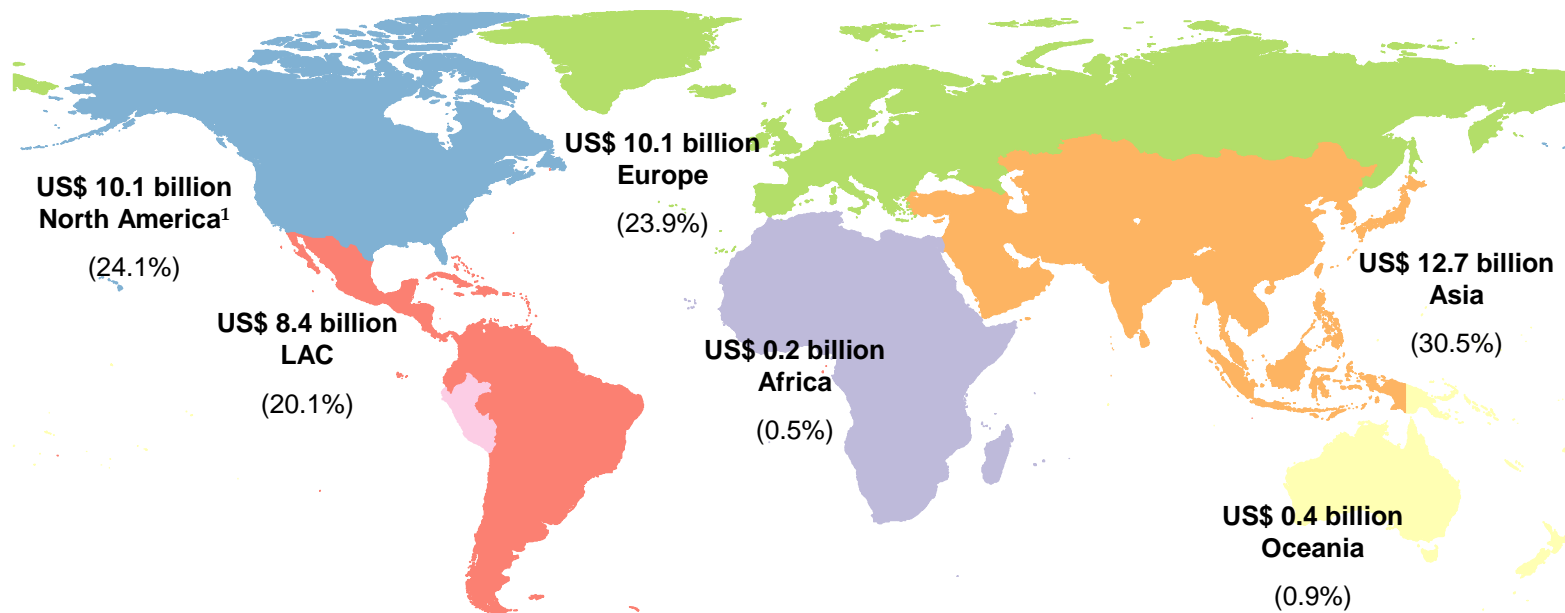
Source: MEF.



International integration with the rest of the world fosters trade and investment

Peru: Over US\$ 41 billion of Total Exports to the World in 2013

(US\$, % of total exports 2013)



Trade agreements foster investment and business

- Peru has implemented trade agreements with USA, UE, People's Republic of China, Republic of Korea, Mexico, Canada, Chile, Singapore, Costa Rica and Panama.
- Peru has signed agreements with Japan and Thailand.
- Peru is under negotiation with: Honduras, El Salvador, Turkey and others.
- Peru has some form of preferential access to 73% of the world GDP (92% of world trade), and after signing the TransPacific Partnership it will be 75% of the world GDP (93% of world trade).

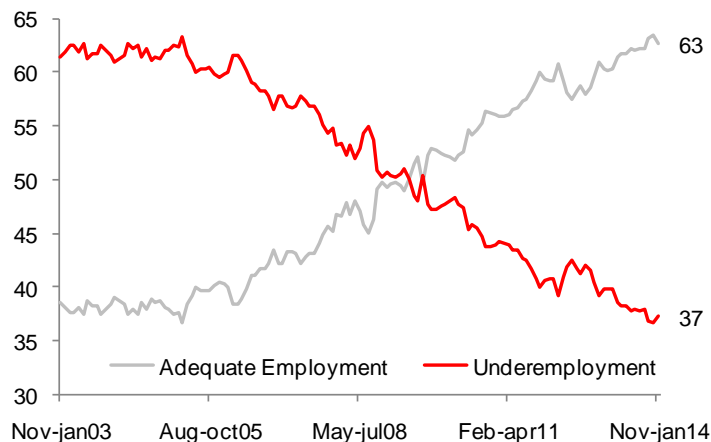
^{1/} Without Mexico.

Source: BCRP, MEF, MINCETUR.

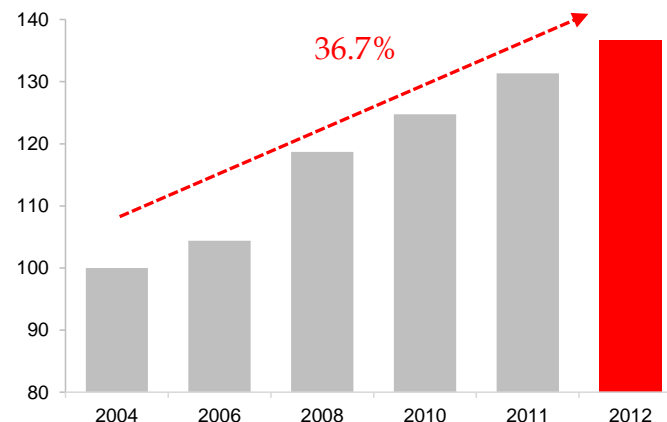


Economic growth has generated greater upward social mobility and smaller social gaps

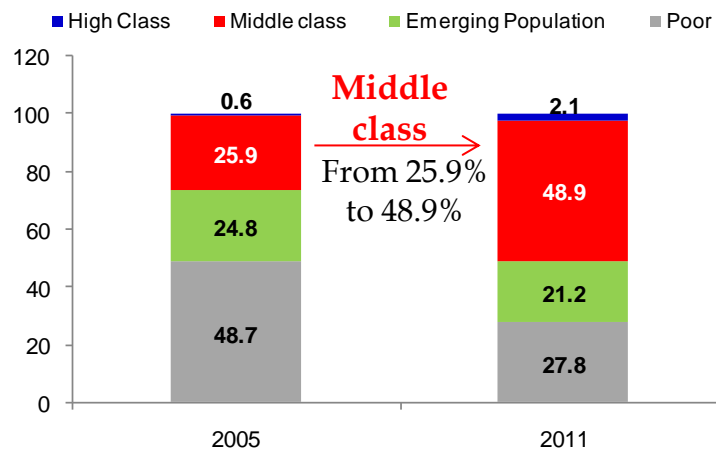
More adequate employment
(Metropolitan Lima, % of total employment)



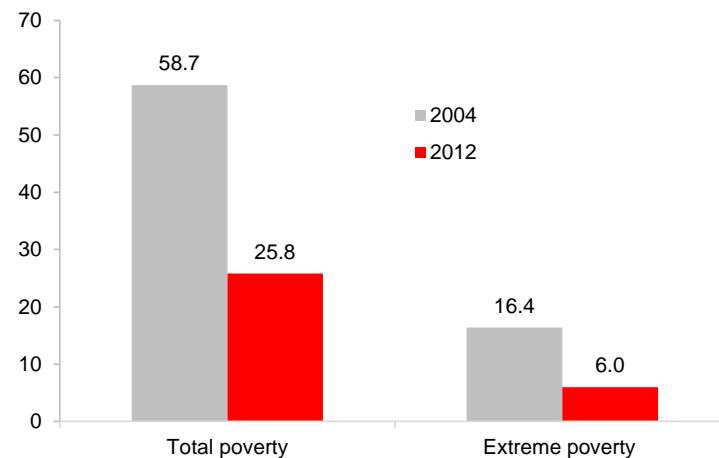
Peru: Real Income
(Index 2004=100)



Peru: Middle class and Emerging middle
(% of population)



Poverty and Extreme Poverty
(% of population)



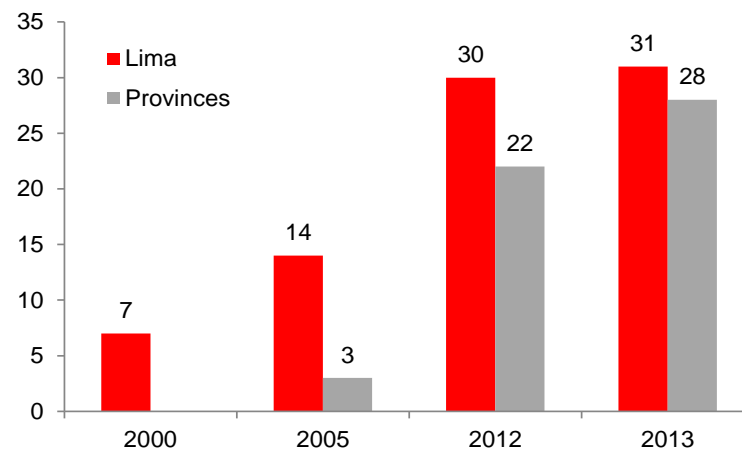


... which have boosted household consumption throughout the country

Shopping Center Expansion by Cities
2000-2016



Shopping Centers 2000-2013
(Number by region)

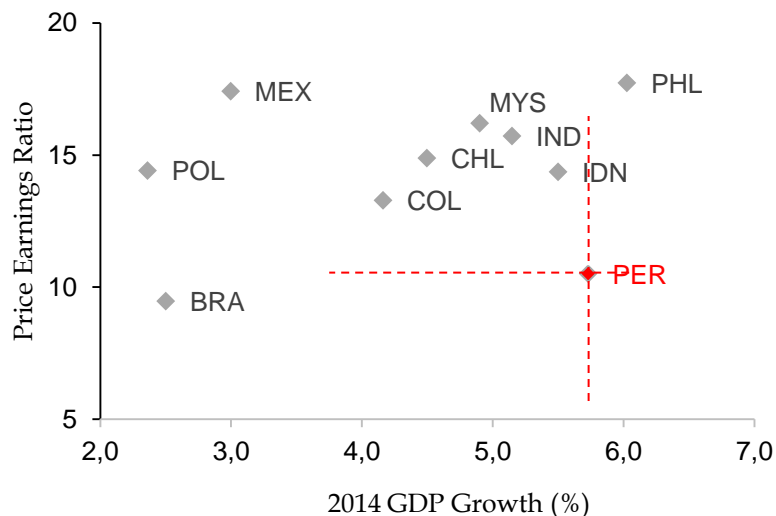


2000	2012	2013-2016
Lima	Chimbote	Ayacucho
	Arequipa	Cusco
	Trujillo	Iquitos
	Cajamarca	Moquegua
	Chincha	Tarapoto
	Huánuco	Tacna
	Huancayo	Pucallpa
	Chiclayo	Cañete
	Piura	Huaral
	Juliaca	Pisco
		Barranca

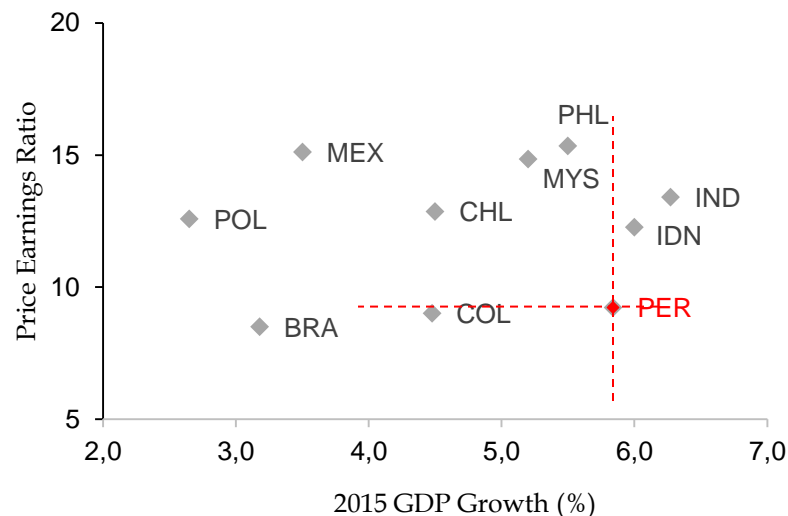


However, high growth is not yet reflected in Price to Earnings ratios

Estimated Equity Price Earnings Ratio 2014



Estimated Equity Price Earnings Ratio 2015



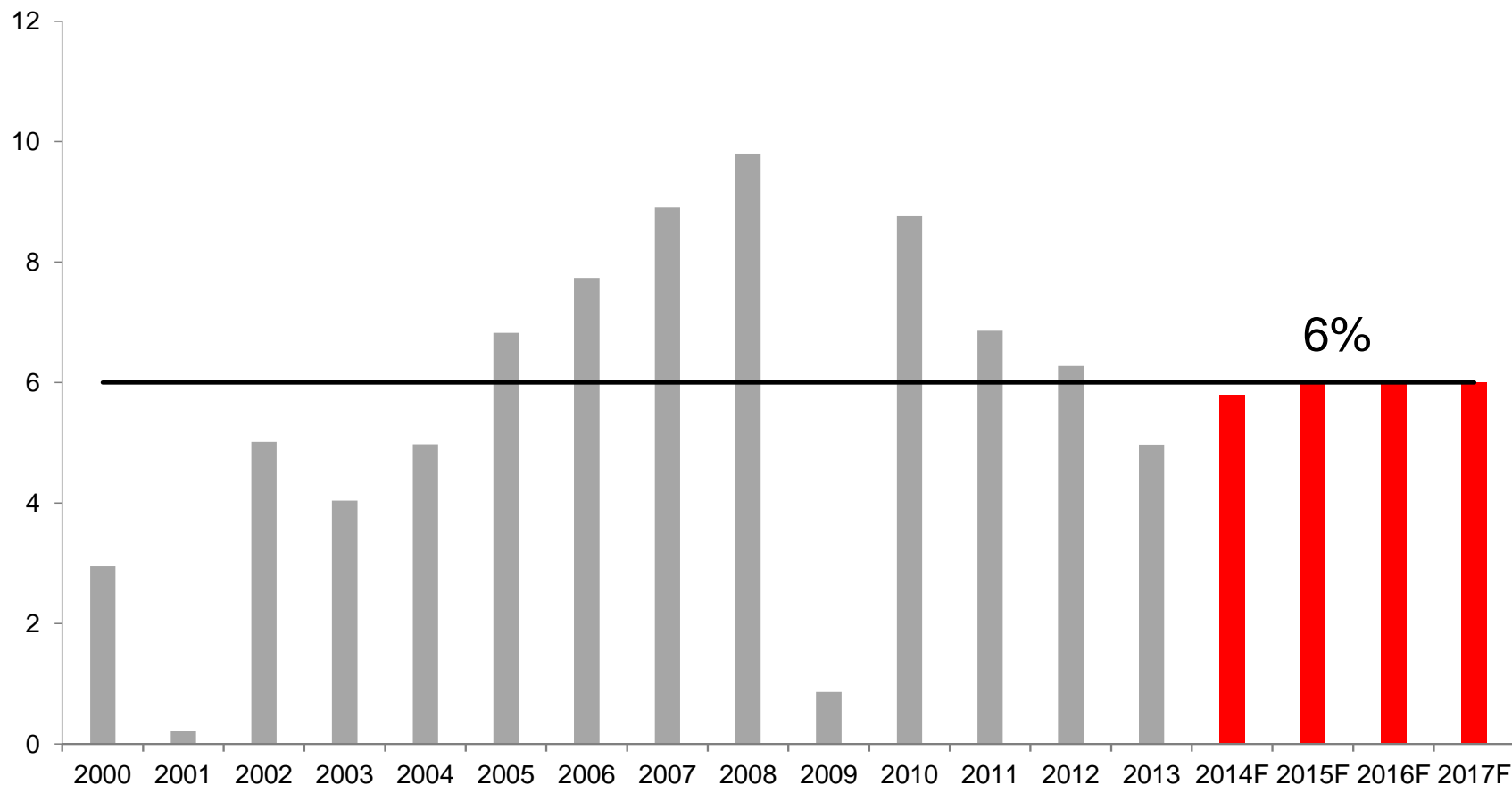
- Projected Price Earnings ratios for the Peruvian equity market index are lower than that of other emerging market economies.
- High growth is not yet reflected into prices.
- Opportunity for local and foreign investors.

**>> The future is based on today's sound
foundations**



Peru will converge to its potential growth rate of 6.0% in the coming years

Gross Domestic Product
(Annual % change)



F: Forecast
Source: BCRP, MEF.



Copper production will double by 2017

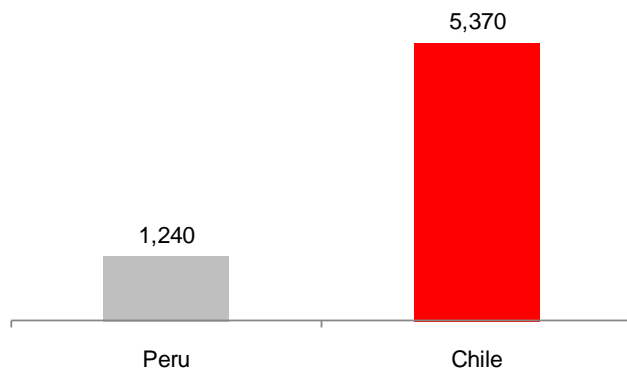
Estimated Copper Production to 2017¹

(Thousands of MT)

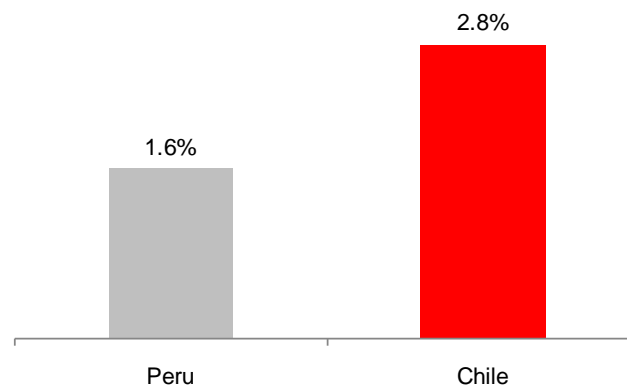
Projects	Start Date (e)	Investment (MM US\$)	2011	2012	2013	2014	2015	2016	2017
A. Extension									
Antamina	12Q4	1,200			20	175	175	175	175
Cerro Verde	16Q2	4,400						170	200
B. New									
Antapaccay	12Q4	1,473			70	160	160	160	160
Toromocho	14Q3	3,500				135	220	275	275
Constancia	15Q2	1,708					50	80	90
Las Bambas	15Q2	5,200					255	315	315
Quellaveco	17Q1	3,300							90
Extensions and New Projects Production					90	470	860	1,175	1,305
Total Production			1,235	1,299	1,389	1,769	2,159	2,474	2,604

Copper Production 2012²

(Thousands of MT)



Copper: Production to Reserves Ratio 2012²



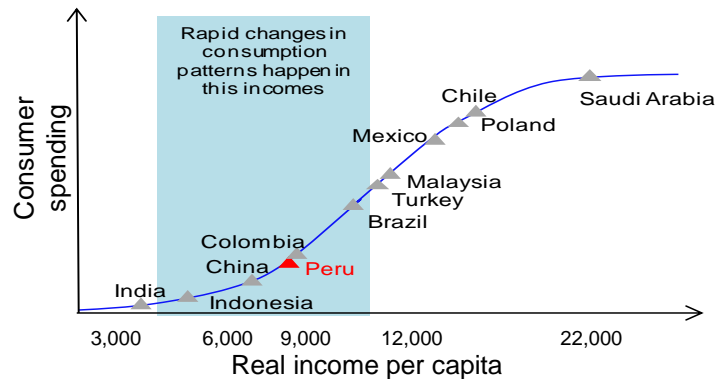
1/ Production includes leaching. 2/ Estimates by U.S. Geological Survey, Mineral Commodity Summaries, 2013.

Source: MEF Forecast.

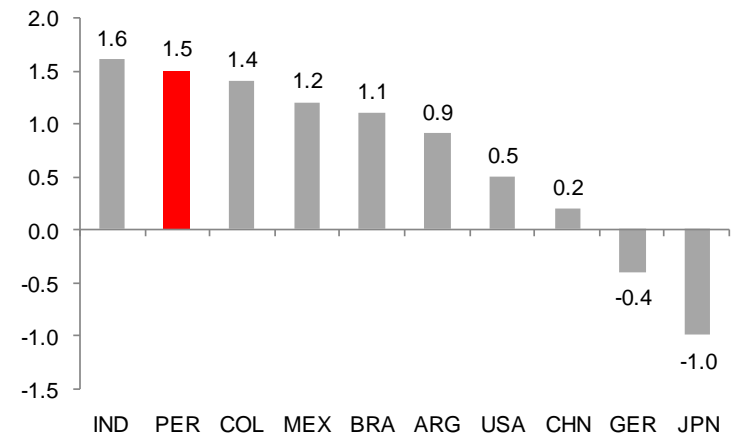


Positive feed-back loop through a stronger middle class and a favorable "demographic window" ...

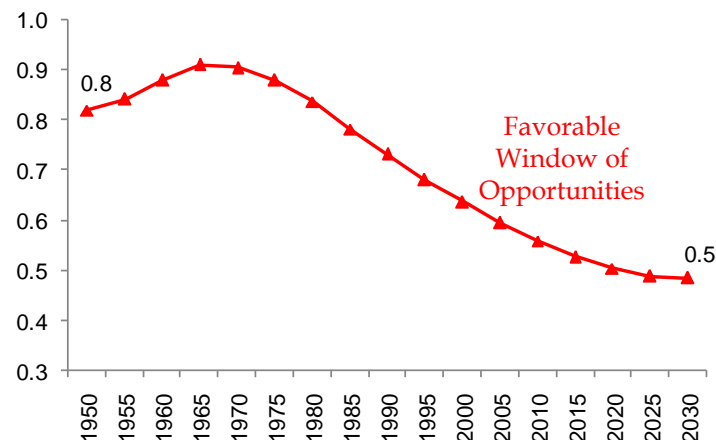
Per capita real income Vs. consumer spending - 2011
(US\$ constant 2005 PPP)



Increase in working age population
(Change % average annual, 2010-2020)



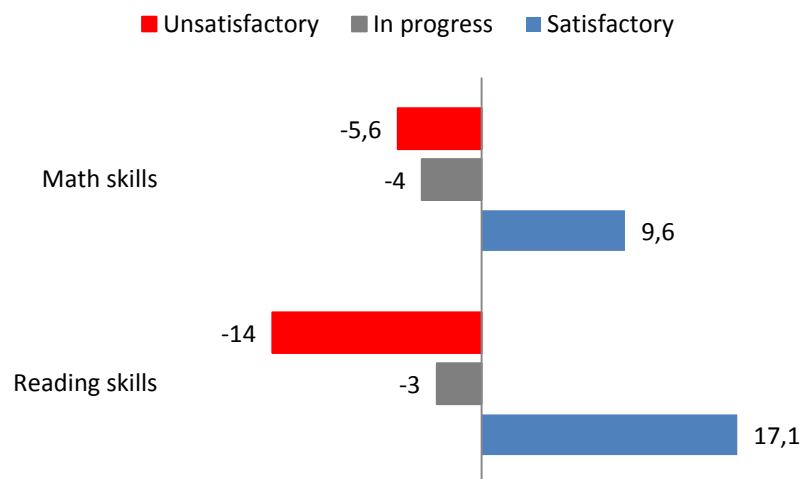
Rate of child and elderly dependency
(%)



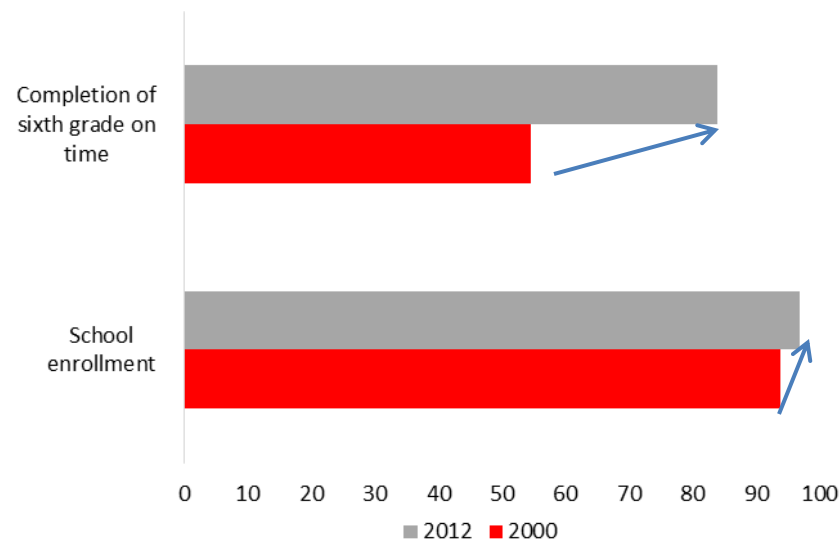


... with a better educated labor force to accelerate productivity growth

Improvements in elementary school performance 1/
(cumulative change 2007-2013, % points)



Human Opportunities Index (HOI) 2/
(Index)

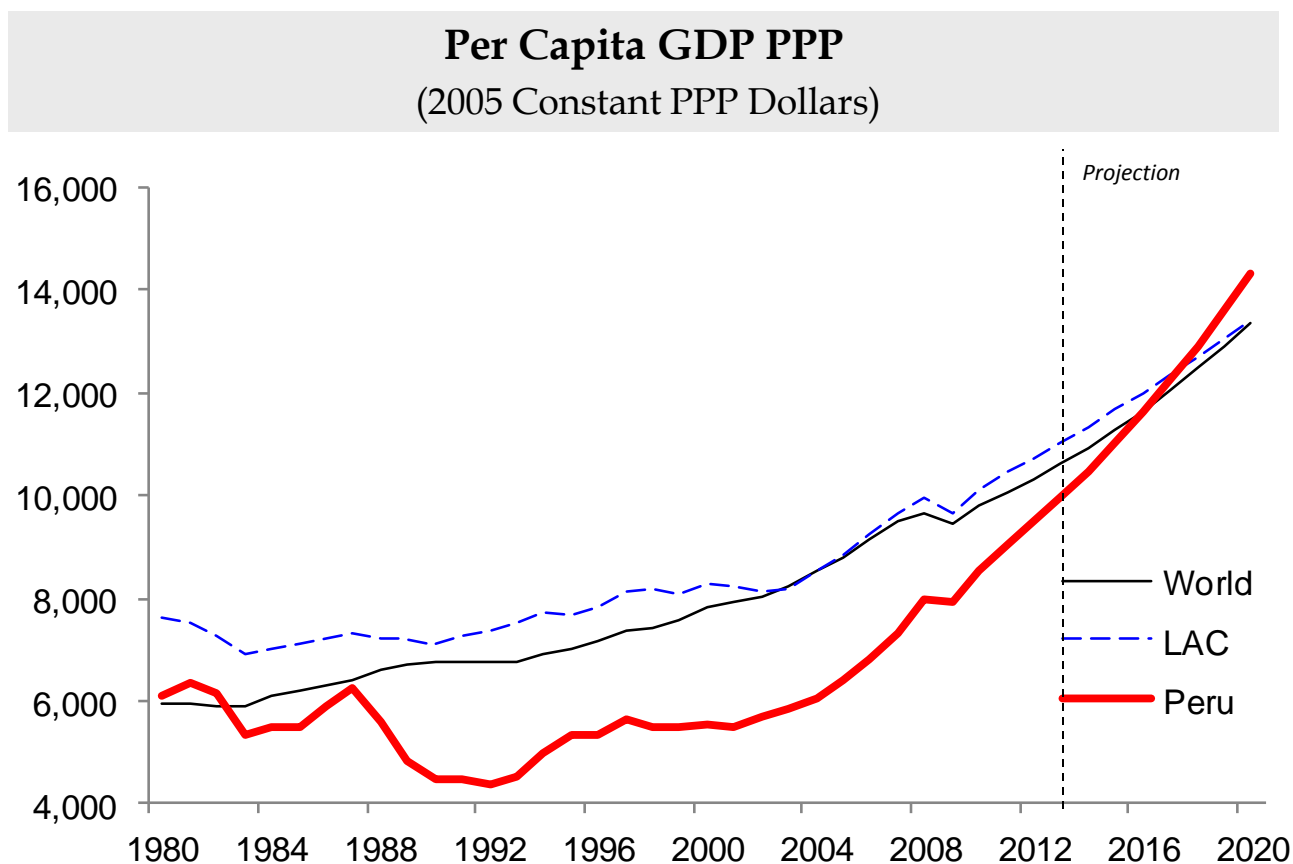


1/ Based on 2° grade students. Source: MINEDU.

2/ Source: World Bank, 2014. "Social gains in the balance. A fiscal policy challenge for America Latina & the Caribbean", February. The Human Opportunities Index measures how individual circumstances can affect a child's access to basic goods and services, in this case, education.



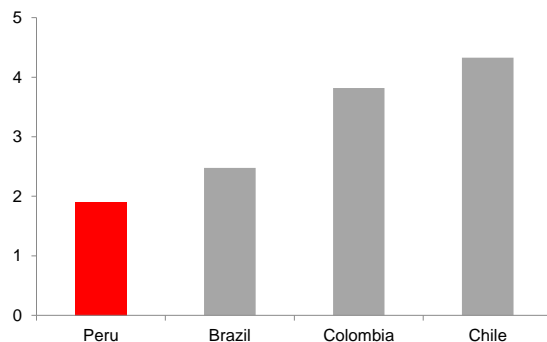
... that will support a faster income growth...



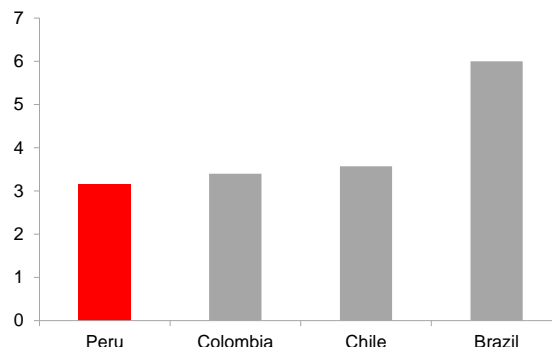


... and speed up the catching up process

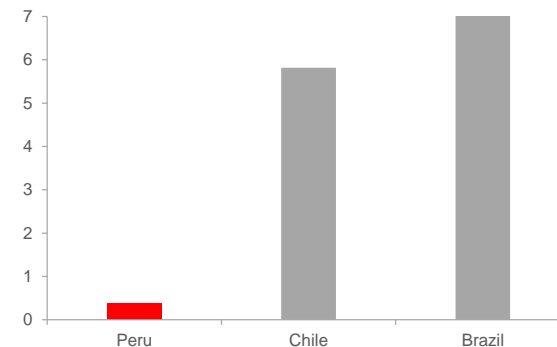
Shopping Centers 2013
(per million of inhabitants)



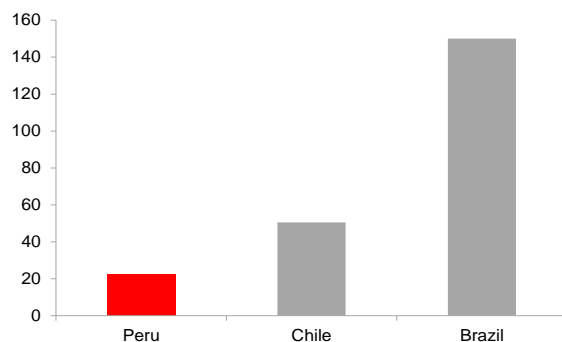
Tourist Arrivals 2013
(Million of people)



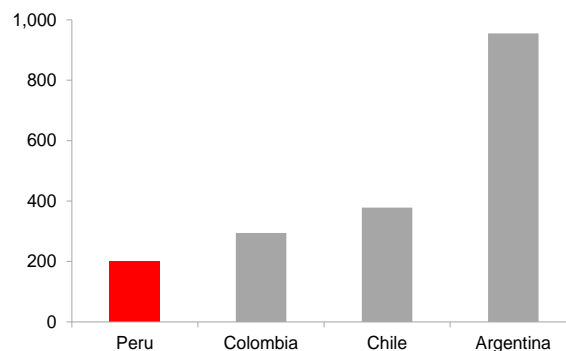
Exports of Wood and Paper 2013
(US\$ Billion)



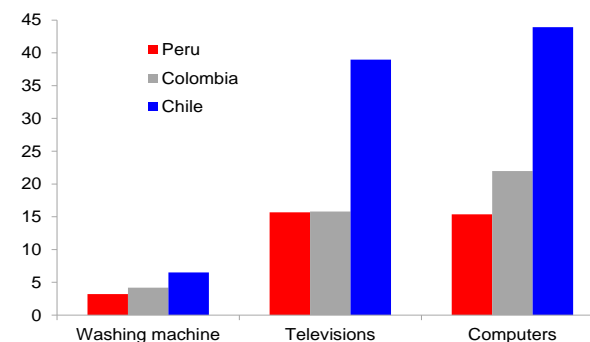
Manufacturing Exports 2013
(US\$ Billion)



Vehicle sales 2013
(Thousands of units)



Imports of Major Appliances 2013
(US\$ per capita)



>> Investment opportunities



Friendly environment for doing business (2nd place in the region)

Doing Business 2014 (Ranking)



Position	Country
1	Chile
2	Peru
3	Colombia
4	Uruguay
5	Paraguay



Wide range of investment opportunities



Agroindustry

Lands with world-leading returns. Agricultural lands are going to increase by 350 000 ha the following years.



Forest

Presence of high biologic diversity and high value timber. 78.8 million ha. of natural forest.



Tourism

Important cultural destination, great potential for ecotourism and adventure tourism with 8 prioritized destinations.



Real State

The housing deficit affects 25% of households (over to 2 million). There are various financing house programs



Energy

Great energetic potential: Ample availability of water resources and natural gas have allowed to meet the growing electricity demand.



Fishing – aquaculture

Long fishing coastline (3,080 Miles) and “water mirrors” which offer favorable conditions for the development of marine and inland aquaculture.



Textile - clothing

Recognized quality of pima cotton. 1st worldwide producer of South-American camelid fiber: alpaca and vicuña. “Full package” producer.



Mining

A polymetallic mining country. Peru is one of the most important metal reserve worldwide. 13.6% of the land is subject to mining concessions, and only 1.1% of the land is taken for mining exploration and exploitation



Technology Services

The lowest labor costs per operator, US\$ 270, in Latin America, which accounts for 60% of operating costs in call centers.



Petrochemical

Peru is the only sustainable source of natural gas in the South American Pacific area. Peru has oil fields that have not been explored yet (26.6 million ha).



Measures to speed up private investment

Creation of a Special Committee on Public Investment Projects in Proinversion

- Structuring and development of a project portfolio with high economic and social impact.

Creation of a Specialized Investment Monitoring Team that depends only of the MEF

- It is of national interest and priority the promotion and streamline of private investment.

Certification of non-existence of archeological objects

- Adjusts the term of issuance of the Certificate of Absence of Archaeological Remains, authorizations of water use and easement rights.

Expropriations

- Declares the execution of 69 infrastructure projects that are of national interest and great public importance and speeds up the acquisition of land for executing projects declared of public interest

One-stop-shop for environmental impact studies (EIS)

- Streamlines administrative procedures in environmental matters and reduces time for the approval of environmental impact studies.

Measures to facilitate investment, and tax reductions for investment in public goods

- Adoption of measures to strengthen competition and to penalize public entities and officials who generate bureaucratic obstacles, while at the same time providing incentives for speeding up projects as a part of the program to modernize municipalities, and
- Reduces tax liabilities in return for companies *investing in public goods* .



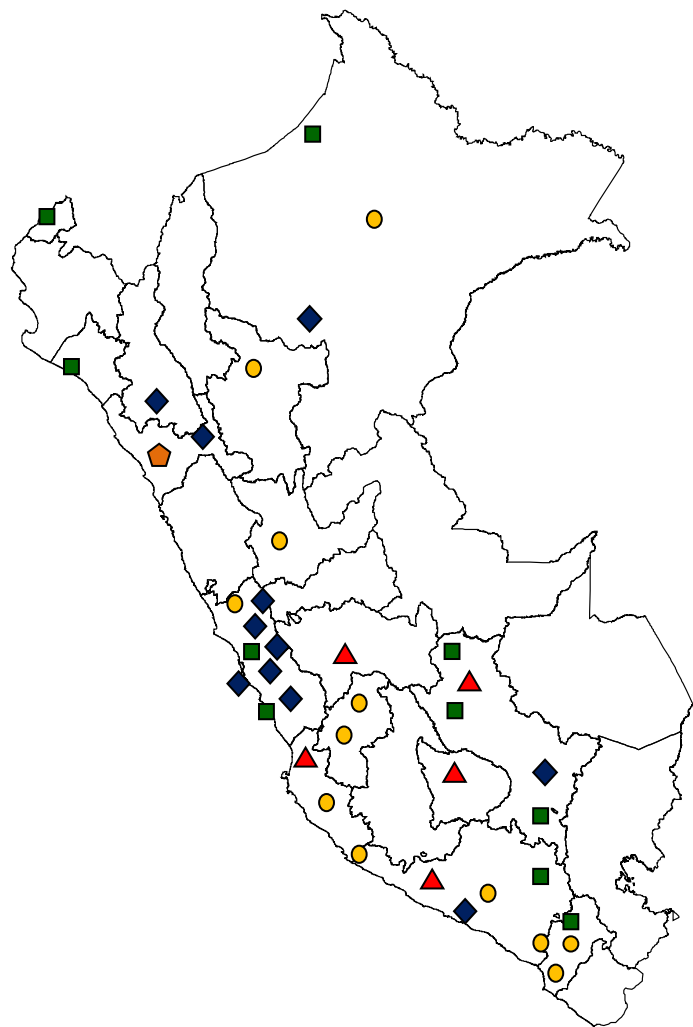
Improving PPP framework to promote investment

Modification of the former Law on Public-Private Partnership (PPP) that seeks principally to:

- **Extend coverage:** The amendment extends PPP's coverage to a broader set of projects, specially to those related to applied research, technology and services.
- **Unclog processes:** The amendment also reduces bureaucratic barriers with the aim of speeding up the development of new PPP projects.
- **Increase Support:** The MEF and PROINVERSION will support Public Entities in the identification of PPP projects.
- **Strengthen Transparency:** The amendment creates a National Registry Office that will store all PPP contracts and their modifications.



Broad investment pipeline for the short and medium term



	Mining	Region
▲	Las Bambas (Xstrata Copper)	Apurimac
	Cerro Verde extension (Freeport-MacMoran Copper)	Arequipa
	Toromocho (Chinalco)	Junin
	Constancia (Hudbay)	Cusco
	Marcona extension (Shougang)	Ica
	Hydrocarbons	
■	Block 67 (Perenco Peru Petroleum Limited)	Loreto
	Block Z-2B (Savia Peru)	Piura
	Block 88 (Pluspetrol Peru Corporation)	Cusco
	Block Z-1 (BPZ)	Tumbes
	Energy security and southern gas pipeline (Called)	Cusco, Arequipa, Moquegua
	Gas distribution system extension (Calidda)	Lima, Callao
	NGL & gas pipeline extension (TGP)	Cusco
	LNG Supply System for the Domestic Market (Called)	Lima
	Mass use of natural gas (Gas Natural Internacional/ Consorcio Promigas - Surtigas)	Nationwide
	Electricity	
●	Chaglla Hydroelectric – 406MW (Odebrecht)	Huanuco
	South energy node of Peru (Samay I and Enersur)	Arequipa, Moquegua
	Cerro del Aguila Hydroelectric – 402MW (Inkia Energy)	Huancavelica
	Molloco Hydroelectric – 300MW (Corsan /Engevix/Enex)	Arequipa
	220 kV Moyobamba – Iquitos transmission line (Called)	Loreto, San Martin
	Cheves Hydroelectric – 168 MW (SN Power)	Lima
	500 kV Mantaro – Marcona – Socabaya – Montalvo transmission line (Electrical Interconnection - ISA)	Huancavelica, Ica, Arequipa, Moquegua
	Infrastructure	
◆	Metro of Lima & Callao – Section 2 (Called)	Lima, Callao
	Muelle Norte port modernization (APM Terminals)	Lima
	New international airport of Chinchero (Called)	Cusco
	Longitudinal de la Sierra road – Section 2 (Consierra Section 2)	Cajamarca, La Libertad
	Via Parque Rimac (OAS S.R.L.)	Lima
	Vias Nuevas de Lima, rehabilitation of highways (Odebrecht)	Lima
	Main works and conduction of drinkable water supply for Lima (Not called)	Lima, Junin
	WWTP & Outfall La Chira (Acciona Agua/GYM)	Lima
	Matarani port extension (Tisur)	Arequipa
	Yurimaguas port terminal (Hidalgo and Hidalgo)	Loreto
	Agriculture	
⬠	Chavimochc irrigation project (Called)	La Libertad
	Telecommunications	
	1710 - 1770 MHz and 2110 - 2170 MHz (Blocks A and B) Band (Movistar and Americatel)	Nationwide
	National Optical Fiber Backbone Network (TV Azteca-Tendai)	Nationwide

Source: BCRP, MINEM, PROINVERSION, Apoyo Consultoria, PERUPETRO.



Investment projects aim to reduce infrastructure gap and increase productivity

Airports



- Cusco International Airport : estimated investment of US\$ 420 millions.

Transportation



- Transcontinental Railroad Brazil-Peru (Atlantic-Pacific): US\$ 280 millions.
- Road Panamericana Sur: Ica-Frontier with Chile: US\$ 60 millions.

Ports



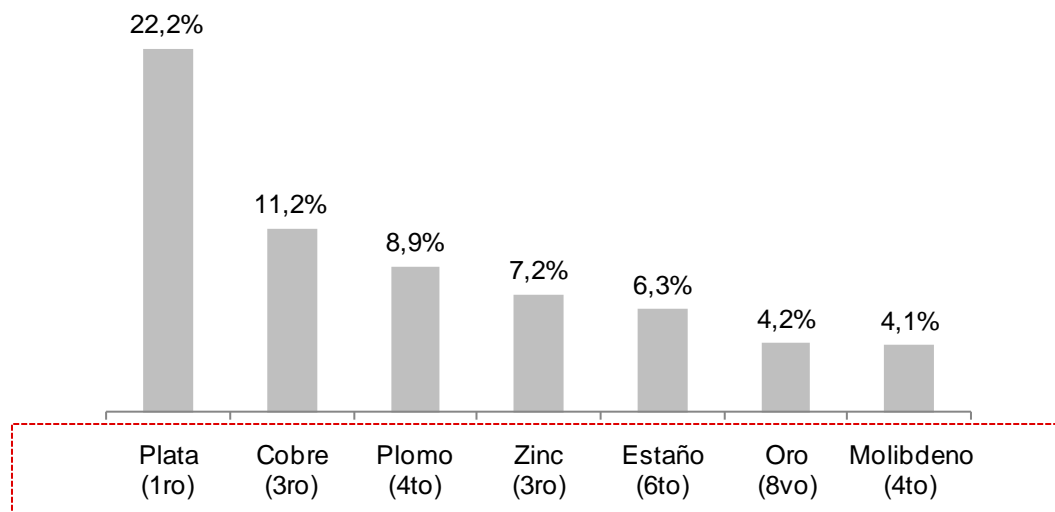
- Salaverry Port Terminal: US\$ 130 millions.
- San Juan de Marcona Port Terminal: US\$ 139 millions.
- General San Martin Port Terminal: US\$ 110 millions.



Peru, an investment destination for miners

- Only 20% of the potential mining territory has been exploited.
- Peru is a polymetallic country , with proven mineral reserves (gold, copper, silver); besides there are also non-metallic mineral deposits to exploit.

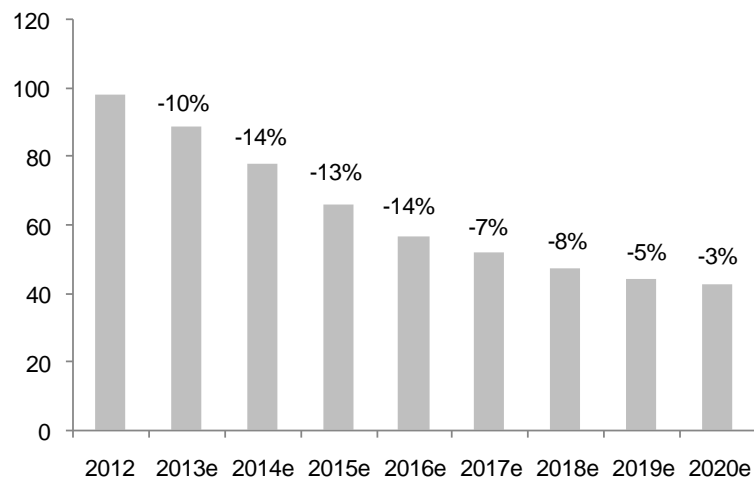
Peru 2012: Share of global mining production
(Rank)



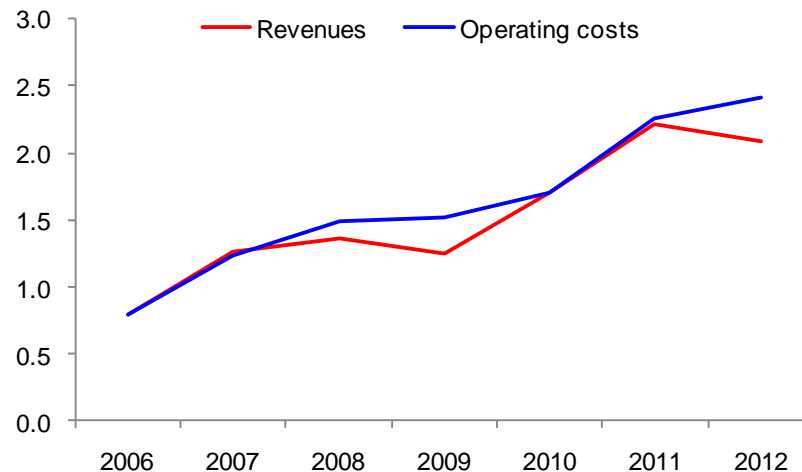


In a global context of decreasing metal prices and increasing costs ...

Global Mining Capital Expenditure 2012/2020e
(US\$ billion)



PwC Index of Revenues and Operating Costs
(2006=100)

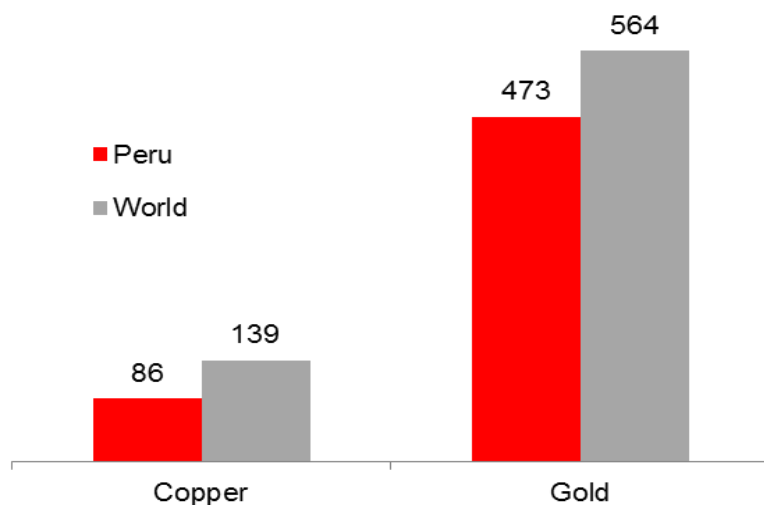




... Peru exhibits important business opportunities

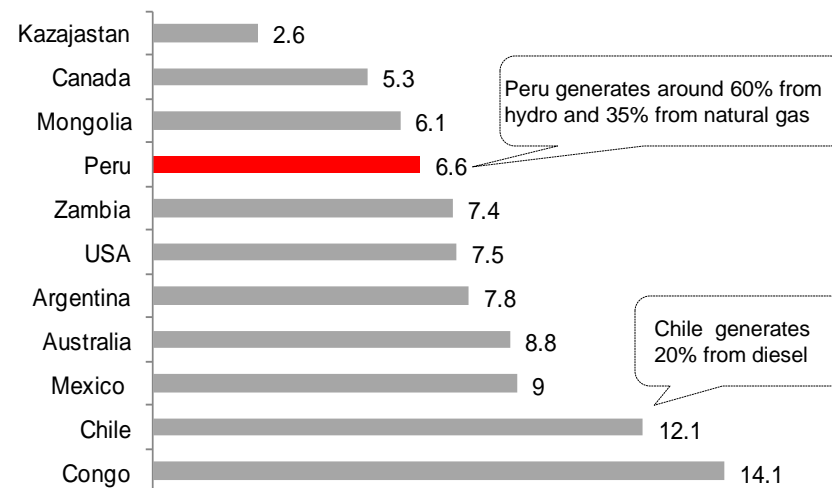
Copper and Gold Cash Cost 2012

(cUS\$/lb & US\$/oz)



Electricity Cost for 2020

(cUS\$/kWh)



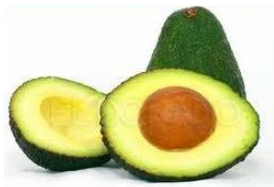


Other potential sectors to invest

Agrobusiness

Seasonal windows in the most important markets.

The current cultivated hectares used for agroexports are expected to double as a consequence of large irrigation projects in portfolio.



Main projects

- Chavimochic Project (3rd stage): US\$ 500 millions.
- Hydroelectric Exploitation of Majes-Siguas: US\$ 800 millions.

Hydrocarbons

There are proven and potential reserves until 2028 of around 35 000 Cubic Feet.



Main projects

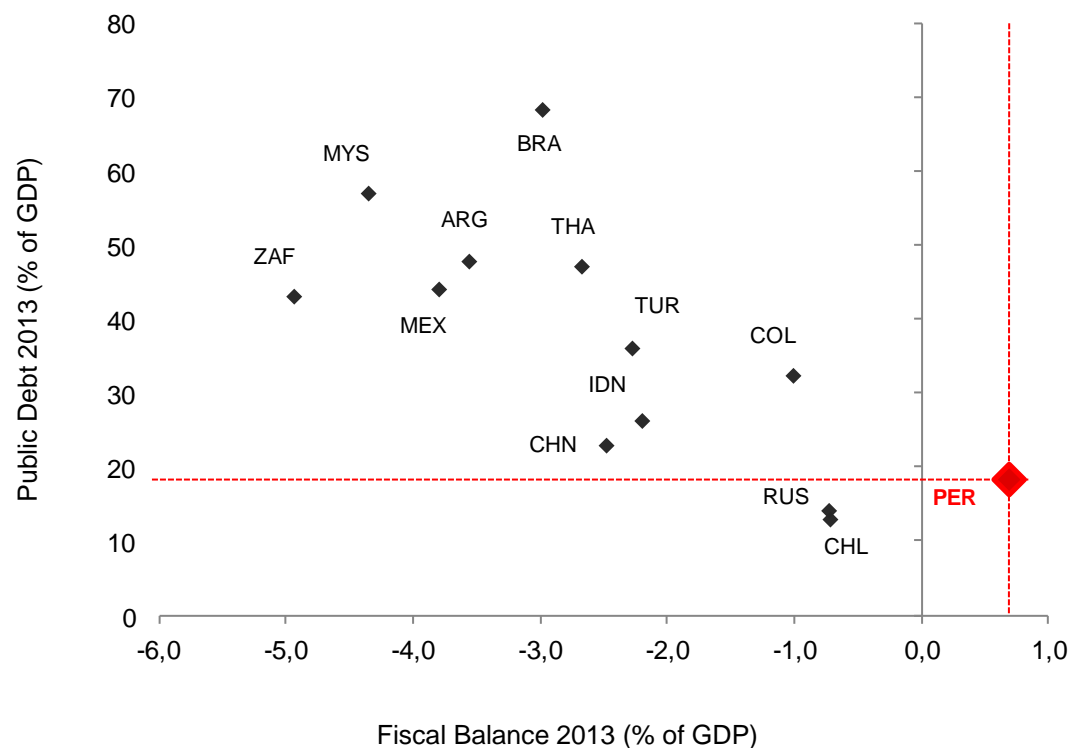
- Gas pipeline to Trujillo (Natural Gas): US\$ 1 770 millions.
- South energy node: US\$ 1 534 millions.

**>> Strong macroeconomic buffers
to come through external shocks**



Sounder fiscal policy, relative to LATAM and EM

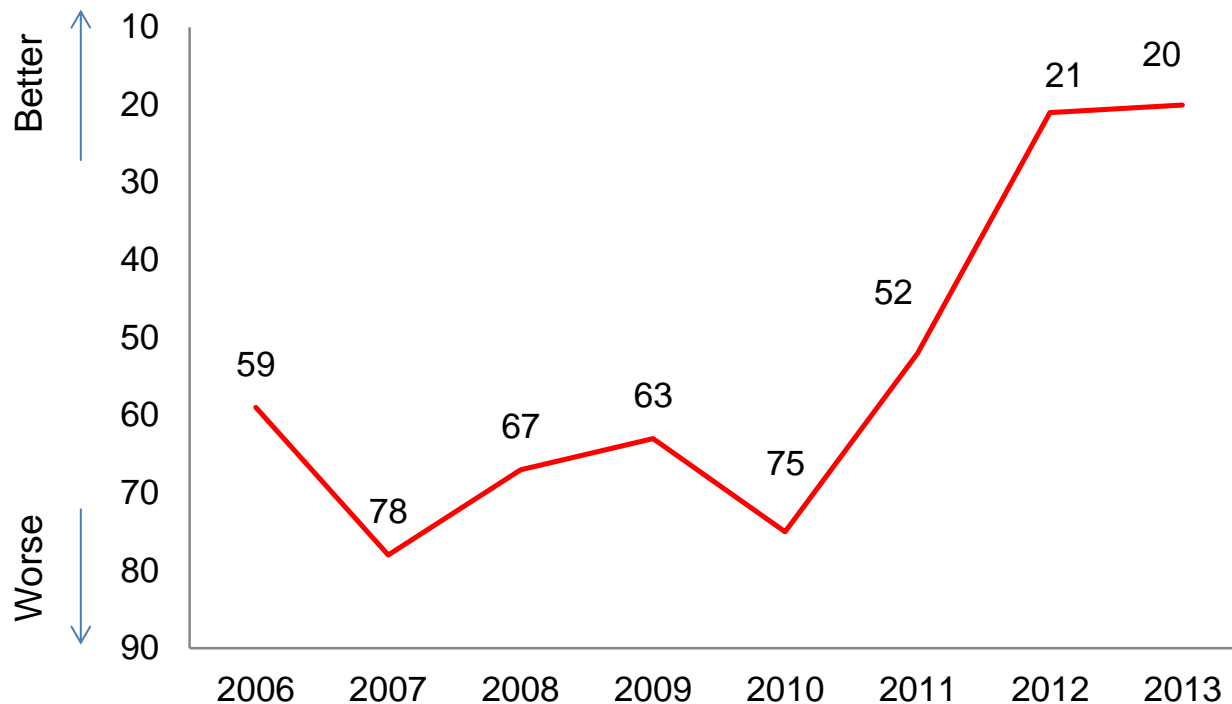
2013: Fiscal Balance and Public Debt (% GDP)





Better macroeconomic environment (among the top 20 in the world)

Peru: Ranking in the WEF Macroeconomic Environment pillar

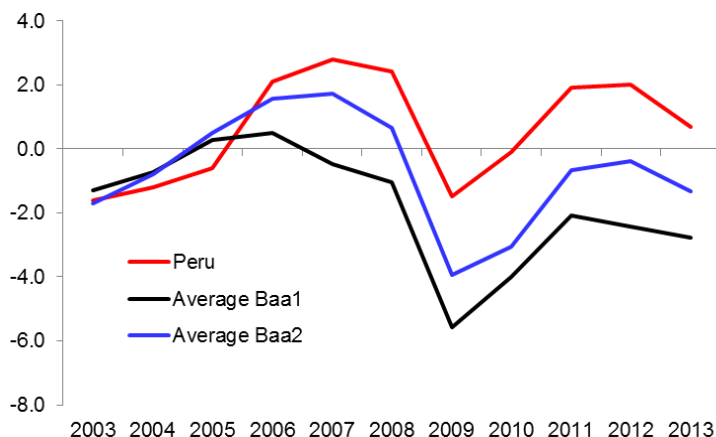


- This position in the ranking is due mainly to improvements in **key macroeconomic variables** such as:
 - Government Budget Balance
 - General Government Debt
 - Gross National Savings
 - Inflation

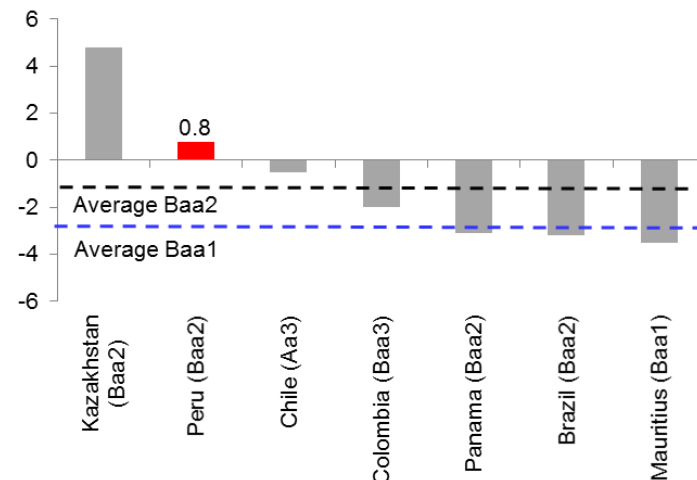


Better fiscal performance than the average Baa1 and Baa2 countries in the last decade

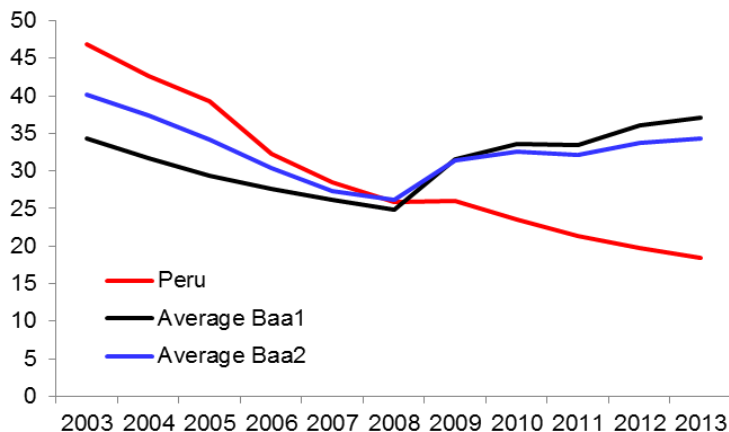
Overall Fiscal Balance 2003-2013
(% of GDP)



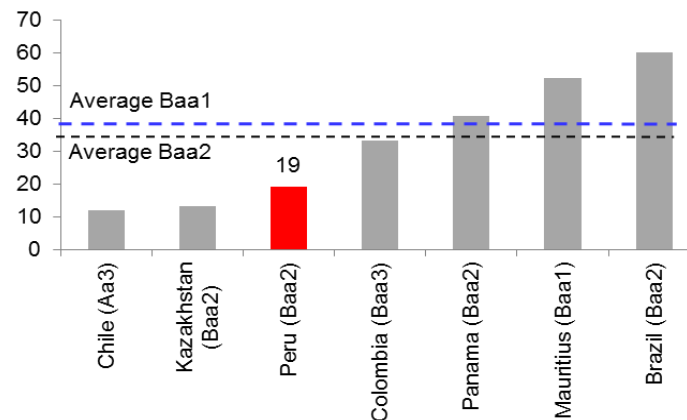
Overall Fiscal Balance 2013
(% of GDP)



Public Debt 2003-2013
(% of GDP)



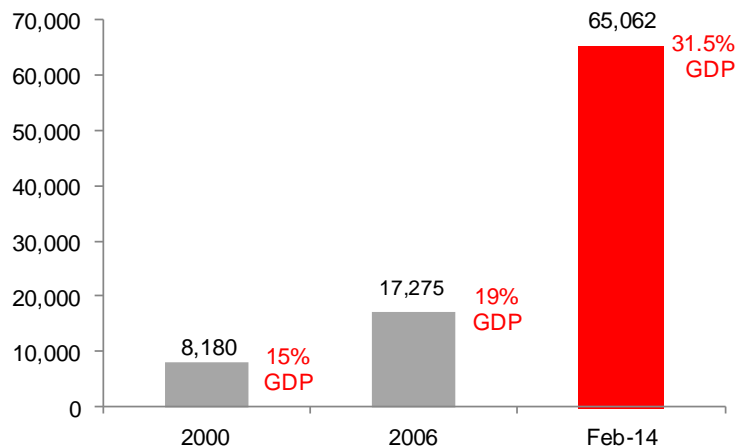
Public Debt 2013
(% of GDP)



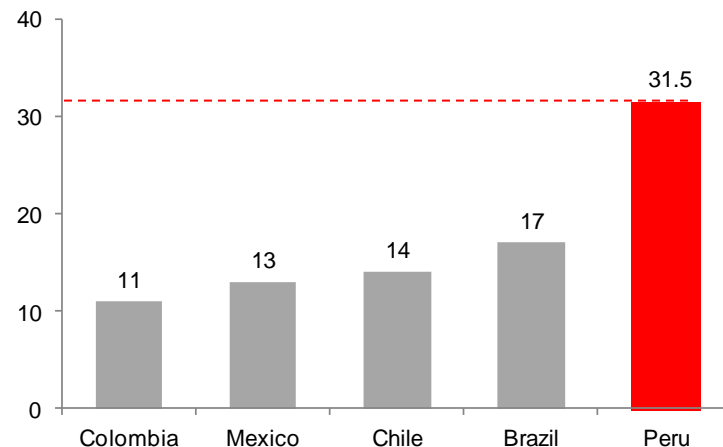


...allowed us to build up strong Macroeconomic buffers

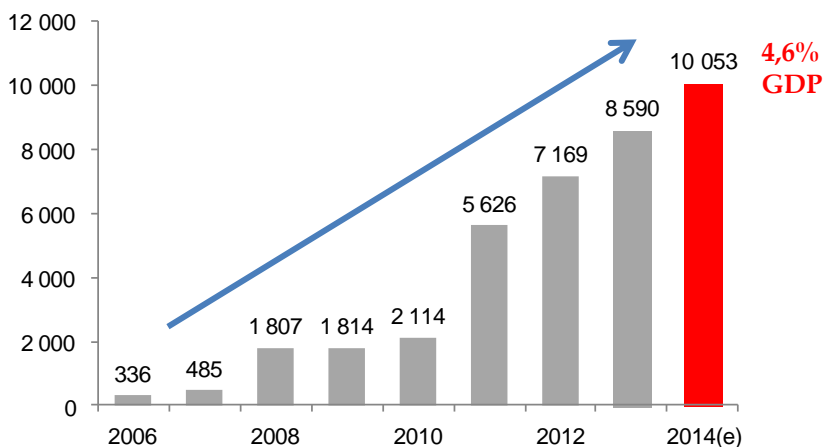
Peru: Net International Reserves^{1/}
(US\$ Million)



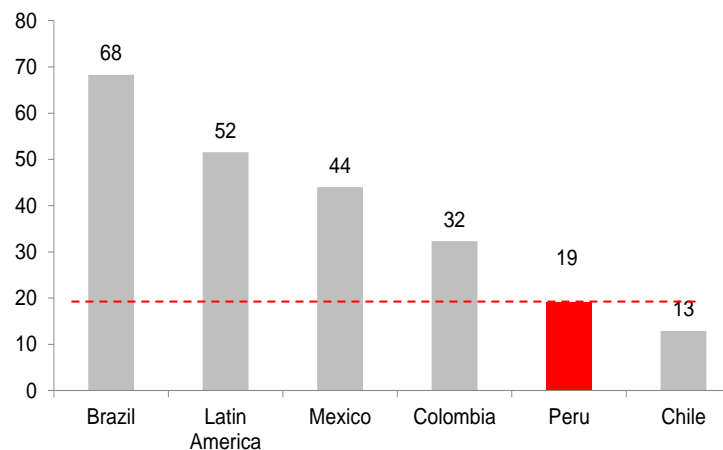
Net International Reserves 2013^{1/}
(% of GDP)



Peru: Fiscal Stabilization Fund^{2/}
(US\$ Million)



LATAM: Public Debt 2013
(% of GDP)



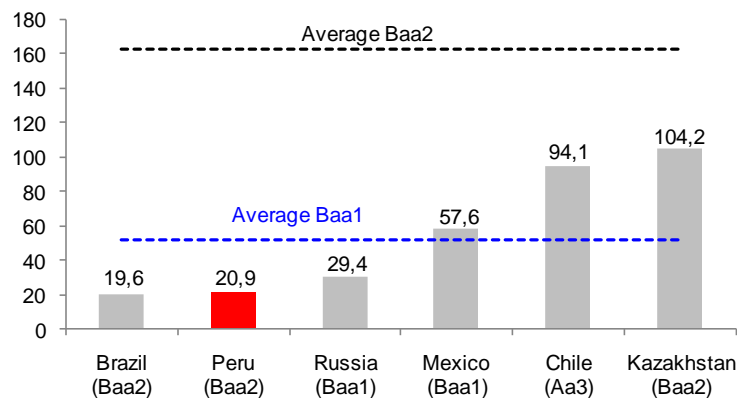
1/ In the case of Peru, updated to February 21, 2014. 2/ As of February 2014.

Source: BCRP, IMF, Central Banks.

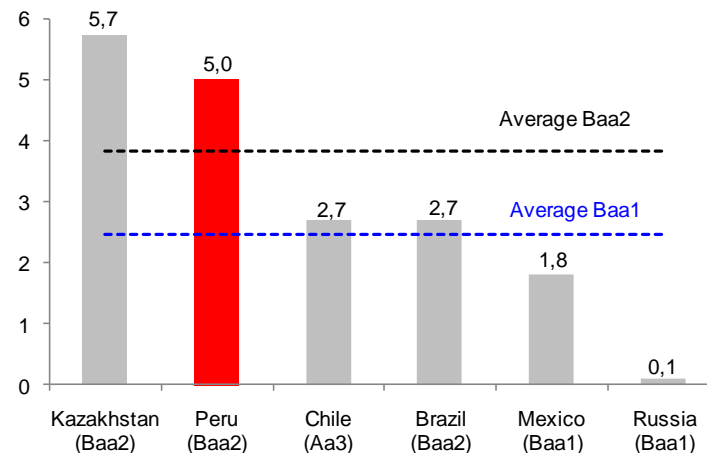


Capital flows are mainly long term and aim to finance investment

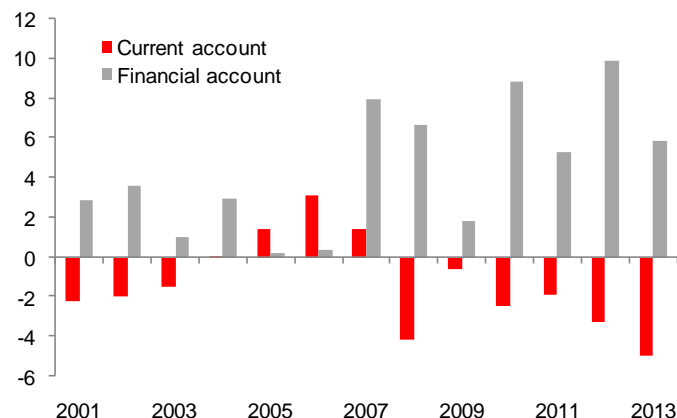
External Vulnerability Indicator 2013¹
(% of Total External Debt to Foreign Int'l Reserves)



Net Foreign Direct Investment 2013
(% of GDP)



Peru: Balance of Payments
(% of GDP)



Peru: Annual Inflow of Capital
(% of GDP)



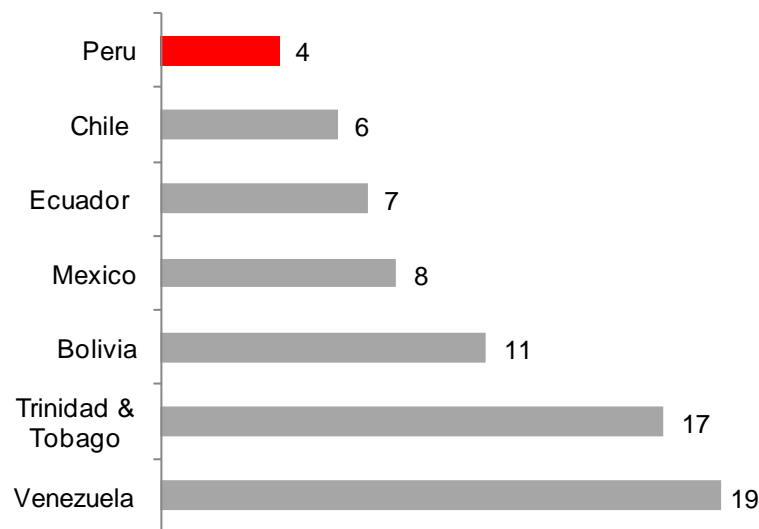
1/ (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves

Source: Moody's, BCRP.

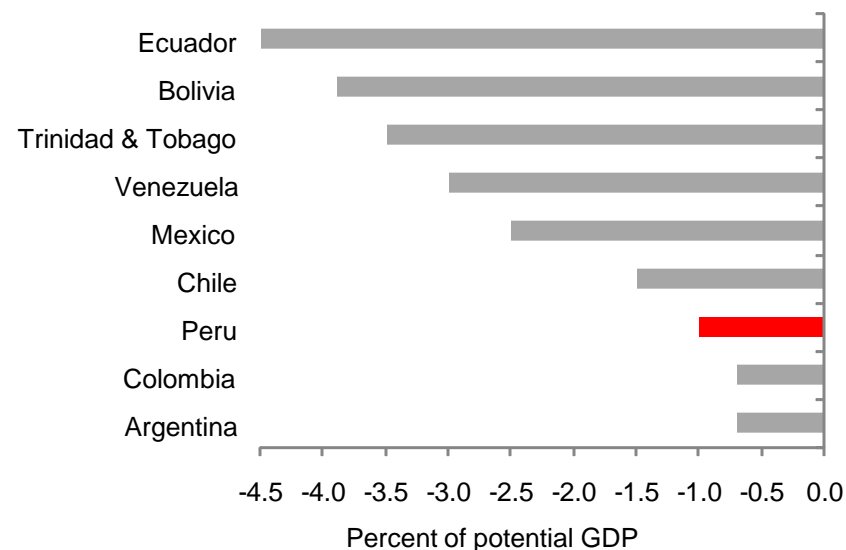


Less exposure to volatility in commodity prices

Commodity Revenue
(% of total GDP, Average 2006-2010)



Estimated impact on total revenue caused by a fall of 25% in commodity prices

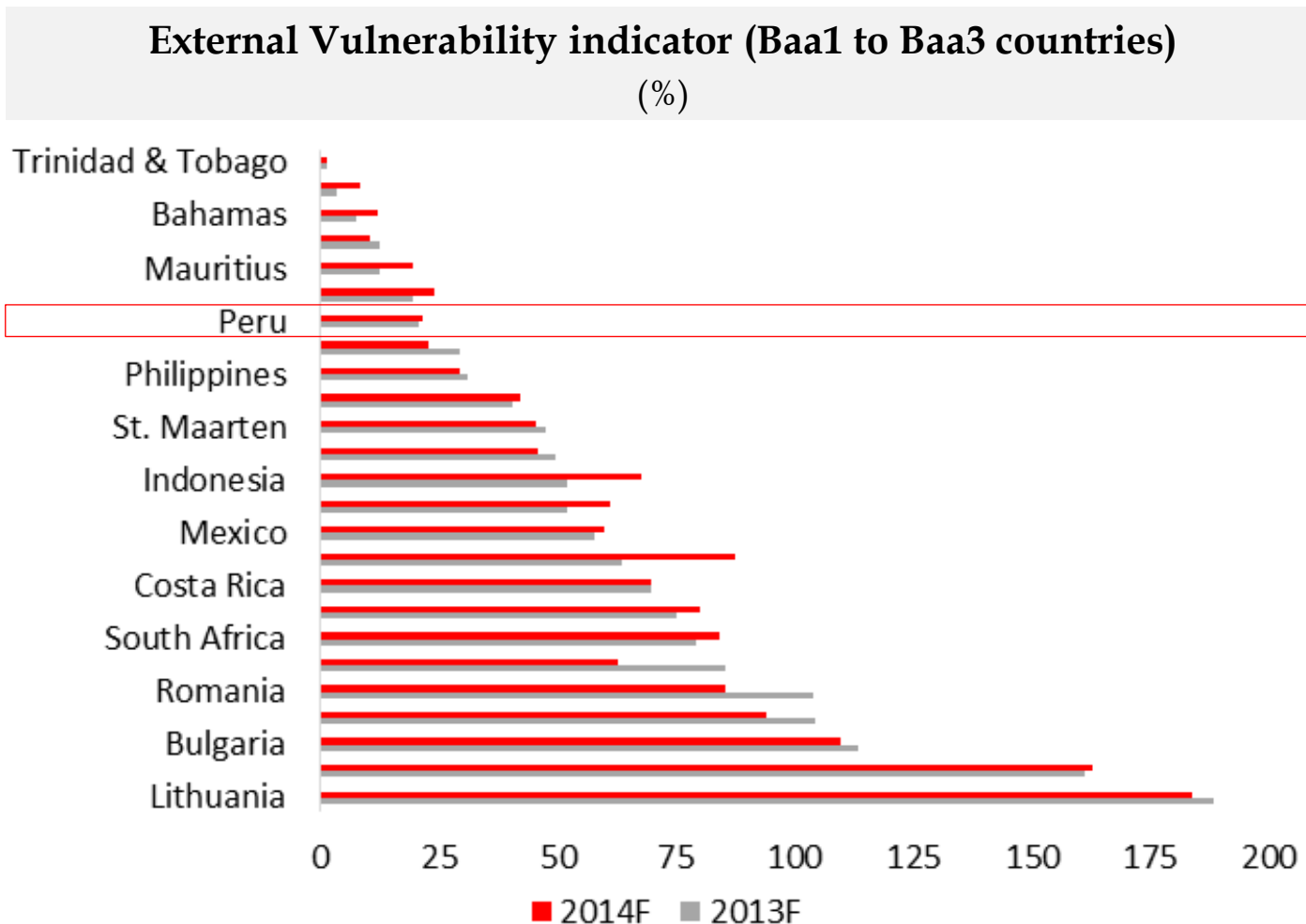


Sources: IMF, 2012, "Fiscal Frameworks for Resource Rich Developing Countries", May.

IDB, 2013, "Rethinking reforms, How Latin America and the Caribbean Can Escape Suppressed World Growth", March.



Which make us less vulnerable to disruptions in foreign capital flows

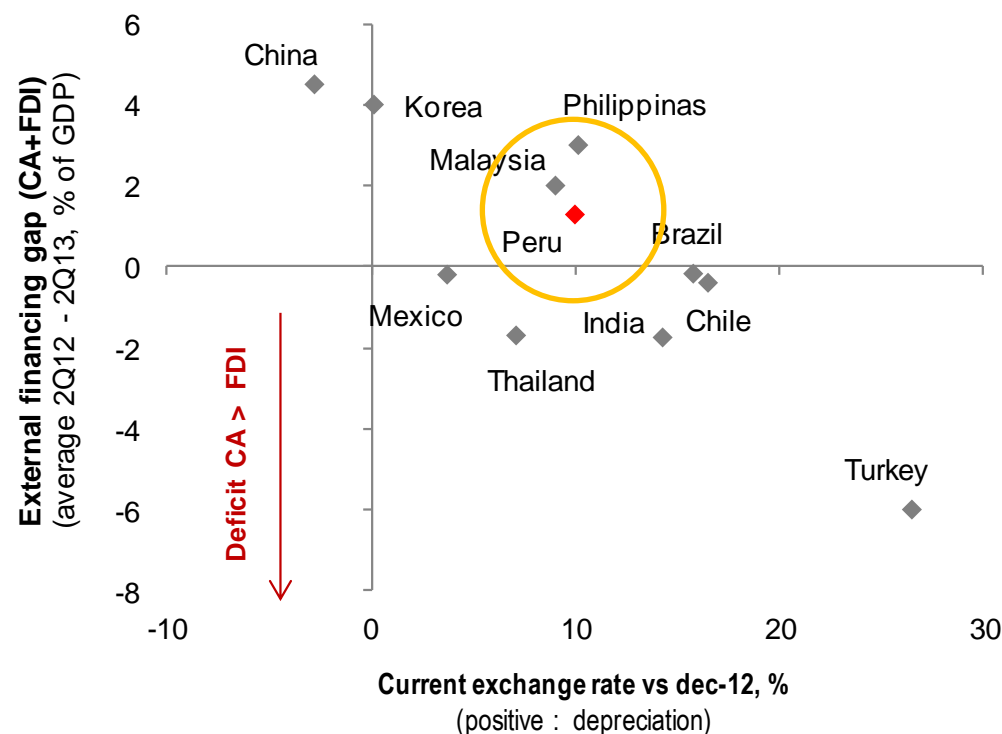


*Note: Index consists of : (Short-term external debt + Currently maturing long-term external debt + Total nonresident deposits over one year) / Official foreign exchange reserves.
Source: Moody's Sovereign Statsbook (November 2013).*



Releasing external accounts from funding pressures

Emerging Countries: Dependence on short-term capital vs. exchange rate depreciation



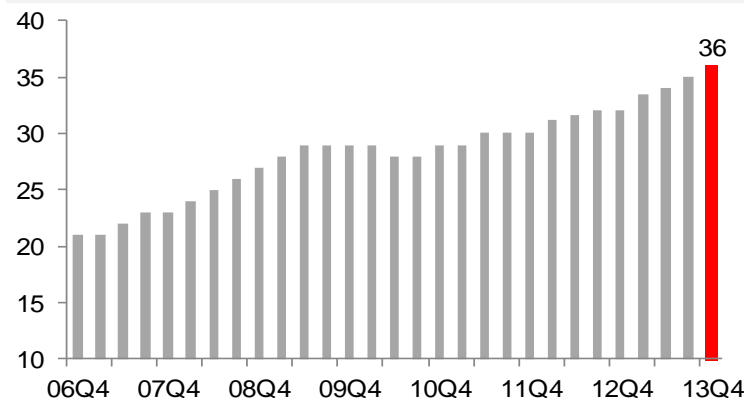


Commitment to follow international banking standards strengthens the financial system

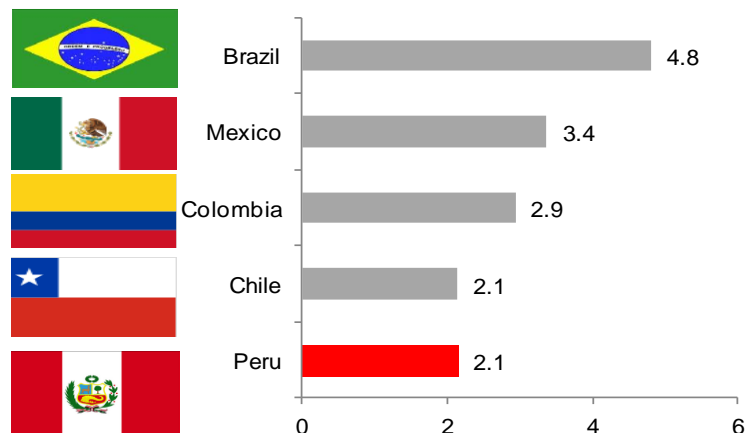
Bank Solvency: Total Capital Ratio (%)



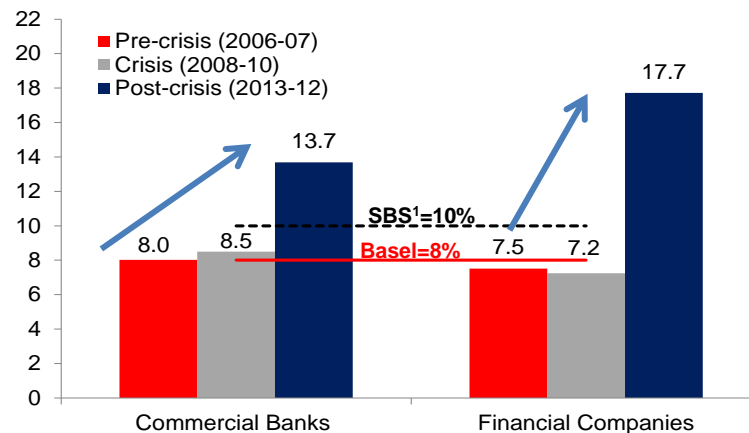
Liquidity of the banking system (% of GDP)



Non-Performing Loan Ratio - December 2013 (%)



Global capital ratio¹ (%)



^{1/} In Article 199 of the Banking law (Law 26702) indicates that the effective equity of the companies must be greater than or equal to 10% of the Assets and Contingent Total Risk-Weighted.

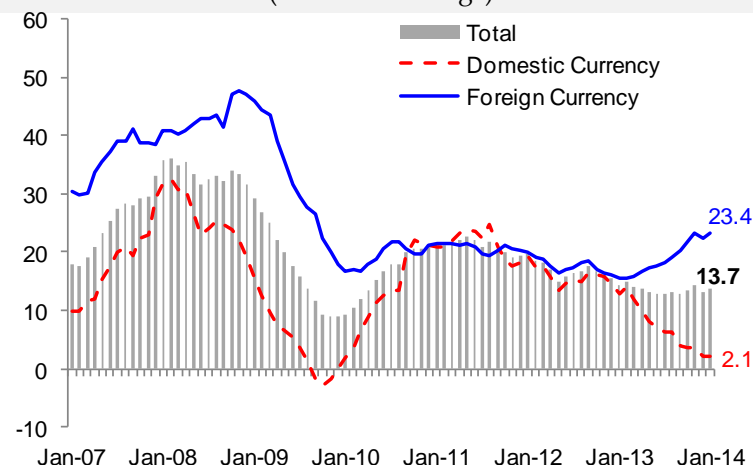
Source: BCRP, SBS.



Prudential macro policies moderated credit expansion

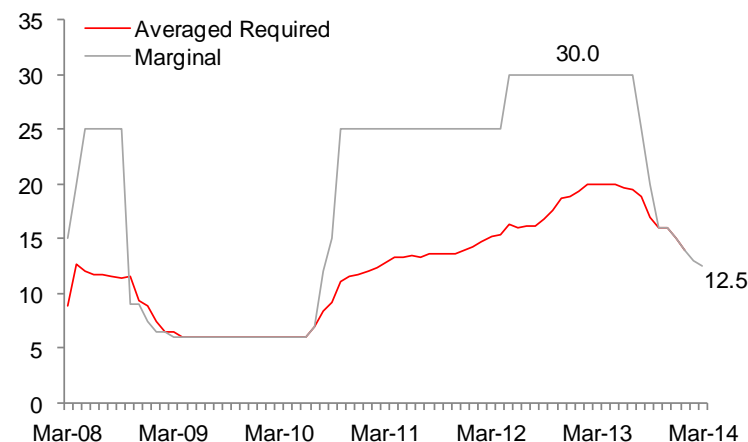
Credit to the Private Sector

(Annual % change)



The Central Bank (BCRP) and the Superintendency of Banks (SBS) have actively applied macro-prudential policies to limit the expansion of loans in U.S. dollars and encourage their substitution by Nuevos Soles.

BCRP: Reserve Requirement Ratio in Domestic Currency (%)



SBS: Prudential Loan-to-Value Ratio (%)

Mortgage type	Loan-to-Value Ratio	
	Domestic currency	Foreign currency
First residency (fixed rate)	90	80
First residency (variable or mixed rate)	80	70
Other mortgages	70	65

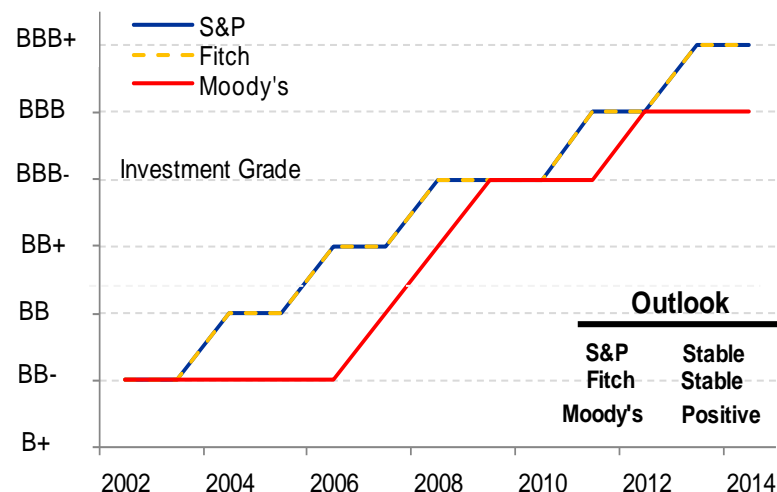


As a consequence, financial costs goes down due to higher credit ratings

LATAM: Sovereigns Rating¹ (Long term debt in foreign currency)

Country	Moody's	S&P	Fitch
Chile	Aa3	AA-	A+
Mexico	A3	BBB+	BBB+
Peru	Baa2	BBB+	BBB+
Brazil	Baa2	BBB	BBB
Panama	Baa2	BBB	BBB
Colombia	Baa3	BBB	BBB
Bolivia	Ba3	BB-	BB-
Argentina	B3	CCC+	CC
Ecuador	Caa1	B	B
Venezuela	Caa1	B-	B+

Peru: Sovereigns Rating (Long term debt in foreign currency)



“Peru's upgrade is underpinned by the strength of the sovereign's external and fiscal balance sheets, continued growth outperformance in relation to 'BBB' peers and a long track record of macroeconomic and financial stability. Peru's established track record of policy coherence and credibility as well as the sovereign's fiscal and external financing flexibility underpin its strong shock absorption capacity.” **Fitch. October 23, 2013.**

1/ Sorted by Moody's rating.
Source: S&P, Fitch, Moody's.

>> Challenges & Reforms



Challenges ahead

1. Economic growth with social inclusion.
2. Quality human capital accumulation in order to achieve greater productivity:
 - Education
 - Health
 - Nutrition
 - Gap closing
3. Diversify and add value to the extraction of natural resources.
4. Public Sector Modernization.
 - Avoiding over regulation and regulatory uncertainty.
 - Effective public policy, administrative simplification and accountability.
5. Priority reforms:
 - Effectiveness of decentralization
 - Labor informality
 - Security
6. Consolidating a long term vision: Peru 2050.



Major Reforms

SUNAT (Tax Collection Agency) Strengthening Act (Act No. 29816)

- Allows broader powers to better enable it to fight tax evasion and avoidance and to broaden the tax base.

Private Pension System reform Act (Act No. 29903)

- Revamps investment regulations to allow for better fund performance, as well as other regulations to expand coverage, competition and quality of service, in order to lower fees and increase pensions.

Securities Market Promotion Act (Act No. 30050)

- Reduces transaction costs in order to broaden the investor base and promote capital markets access for small and medium sized issuers.

Civil Service Act (Act No. 30057)

- Introduces merit based evaluations for promotions and salary increases throughout the public sector in order to create a modern Civil Service.

Government Procurement Act

(SD No. 138-2012-EF, SD No. 16-2013-EF)

- Aimed at strengthening the Government Procurement Agency (OSCE) and to improving hiring procedures for public sector institutions.

New Fiscal Responsibility Act

- Introduces a expenditure rule based on cyclically-adjusted fiscal balance, sets new rules for subnational governments and improves transparency.



Pipeline of further structural reforms

Labor Market Reform

- **Tools for improving the quality of human capital:** Qualification system, improvements of the quality of the educational supply, improvement of human capital financing.
- **Flexibility on costs of formality:** Vacation period at the regional average, moderate severance pay and the compensation for working time at the regional average.
- **Institutional improvement of the National Superintendence of Labor Control.**

Stabilization Funds for Canon and Mining Royalty

- **(FOCAR)** intended to mitigate the volatility in the transfers to the Subnational Governments in order to improve the multiannual planning and the predictability of investments.

Normative Productive Package

- **Technical Standards.** Peru is reinforcing its National System for Quality. The purpose of this policy is to promote and ensure that Peruvian made products can meet international standards. One of the main objectives is to increase our products access to trade partner's markets, who require compliance with these standards and technical requirements.
- **Movable Collaterals.** A Law Proposal for Movable Collaterals. It will enhance access to financing for companies whose main assets are movable collaterals (guarantees on machinery and equipment, etc).

Improvements in Public Acquisition Act

- Has the purpose to enforce the efficient use of the public resources through *management by results*.

Customs Agency Modernization

- Simplifies customs operations and cut down on time and costs for the foreign trade operators.



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