Peru: Economic Outlook

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May, 2013

PERÚ Ministerio de Economía y Finanzas

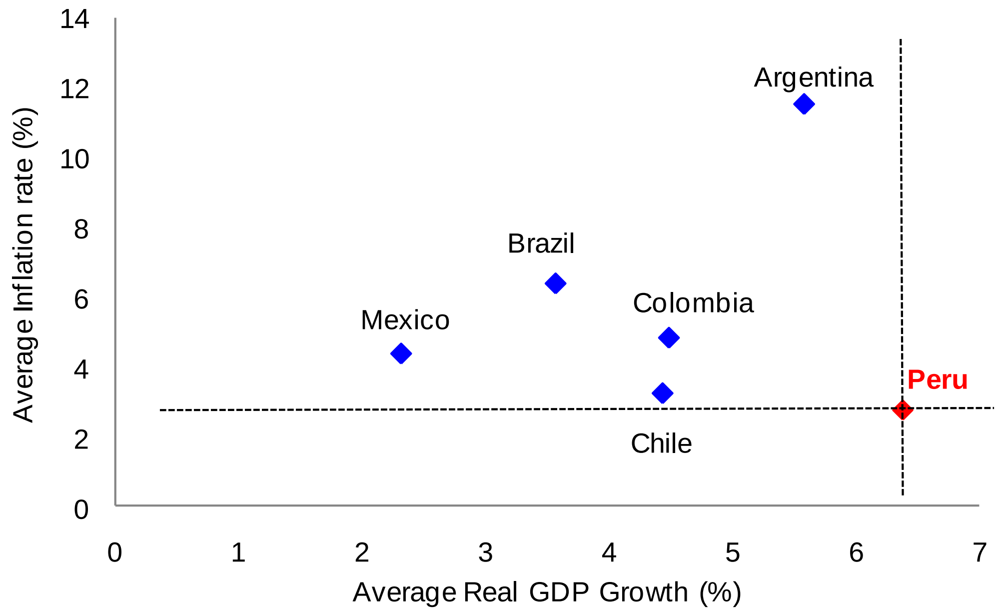
Peru is among the fastest growing economies with lowest inflation

- Peru's story of success is based on:
  - Sound economic policies
  - Sustained increases in productivity
  - Private investment as the engine for growth
  - Trade integration with the World

- Economic growth has led to a sustained reduction in poverty and an increase of the middle class.

Peru's macroeconomic performance over the past decade has been exceptional

LATAM: Real GDP Growth and Inflation
(2002-2012)



LATAM: GDP Growth and Inflation
(Average % change)

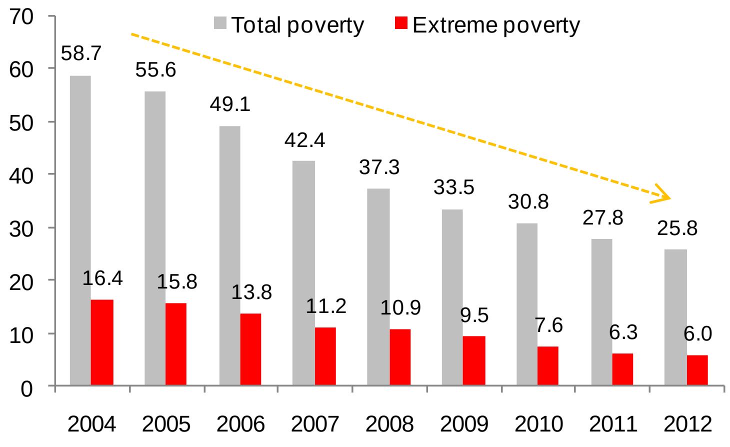
	GDP	Inflation
Peru	6.4	2.8
Chile	4.4	3.3
Mexico	2.3	4.4
Colombia	4.5	4.8
Brazil	3.6	6.4
Argentina	5.6	11.5

During 2002-2012, Real GDP grew at an average annual rate of 6.4 percent (the highest in Latin America), and the annual inflation rate fell to 2.8 percent on average (the lowest in Latin America).

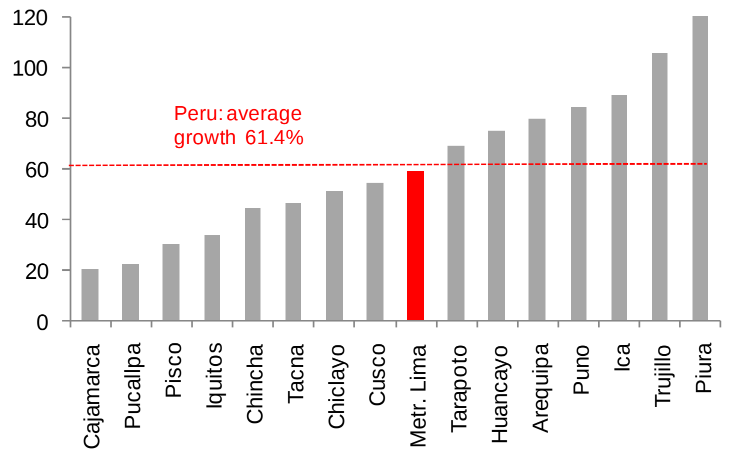
Source: MEF, IMF

Economic growth has reduced poverty

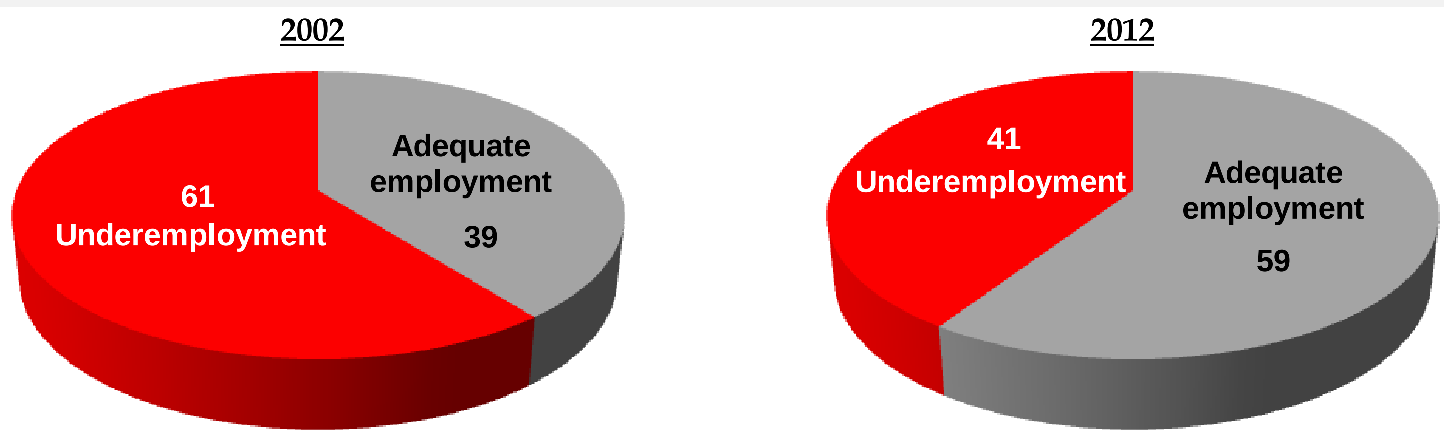
Reduction of Poverty and Extreme Poverty
(% of population)



More Decentralized Jobs
(Urban Peru firms with 10 or more employees)
(Accumulated% change Jan-Dec. 2012 / Jan-Dec. 2002)



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



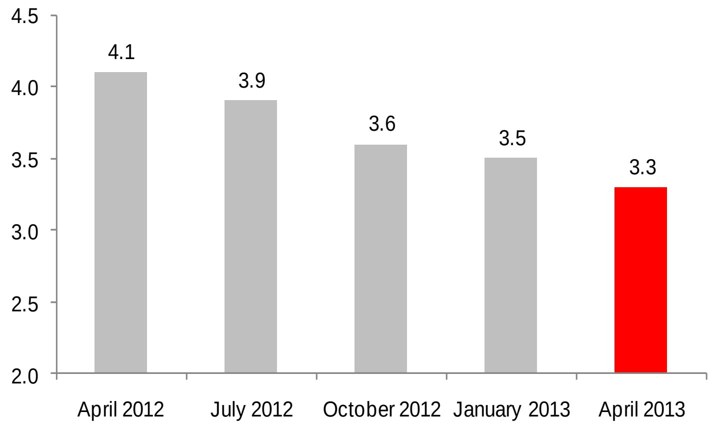
Source: INEI, MTPE.

Risk factors

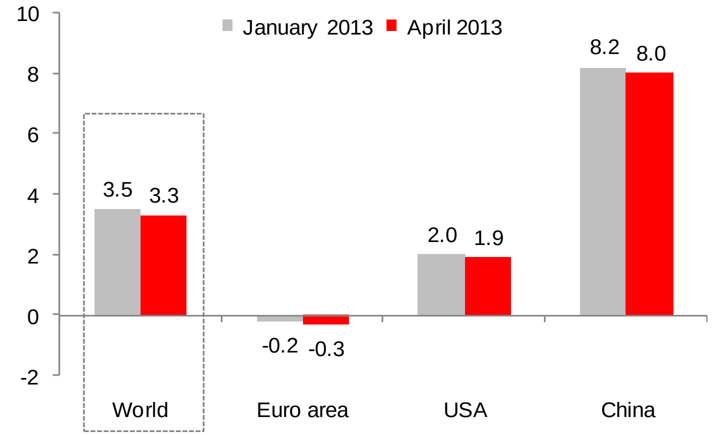
- Intensification of the Eurozone crisis.
- Slowdown in China's economic performance.
- Weaker U.S. growth.
- Plummeting commodity prices (60% of total exports).
- Less private investment due to a deterioration in expectations.

Slower world growth…

IMF: World GDP Forecast 2013
(Annual % change)



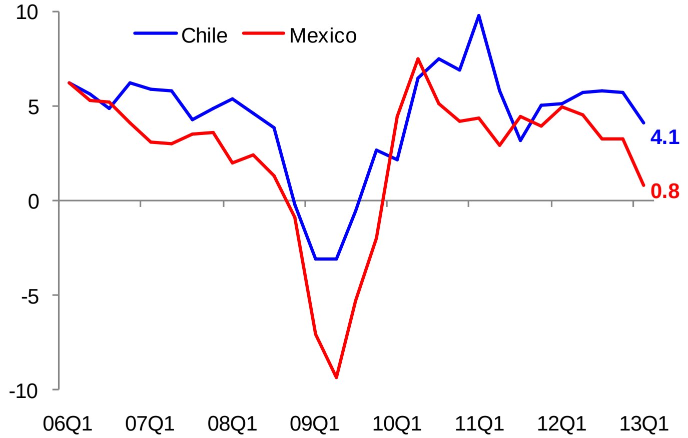
IMF: GDP Forecast 2013
(Annual % change)



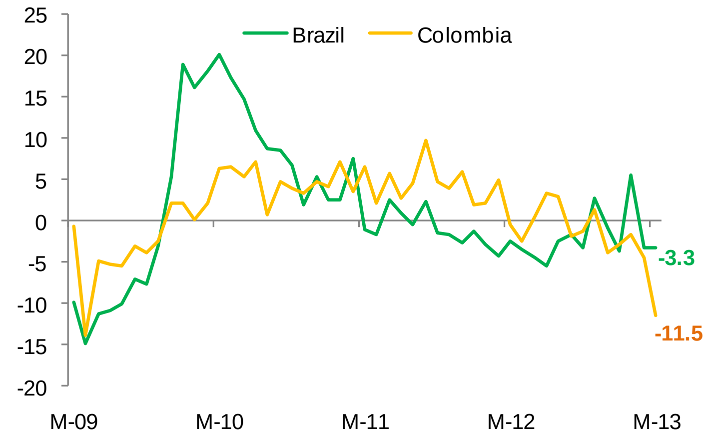
Source: IMF, Bloomberg.

... is affecting the economic performance of Latin America

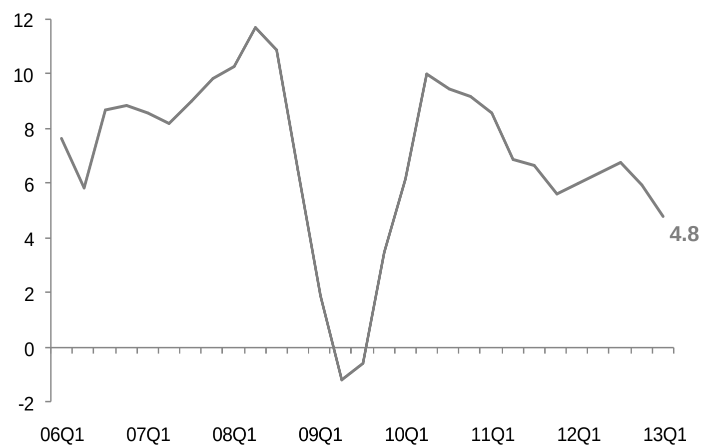
Chile and Mexico: GDP
(Annual % change)



Brazil and Colombia: Industrial Production
(Annual % change)



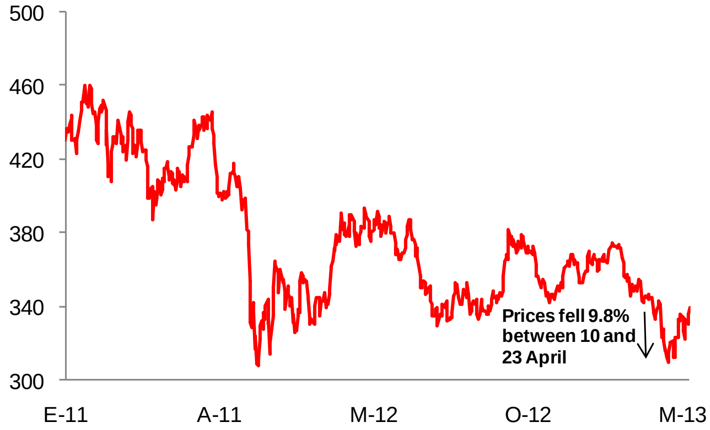
Peru: GDP
(Annual % change)



Source: IMF, Bloomberg.

Metals: Prices record strong downward corrections in short periods

Copper Price
(US$ cents/pound)



Gold Price
(US$/troy ounce)

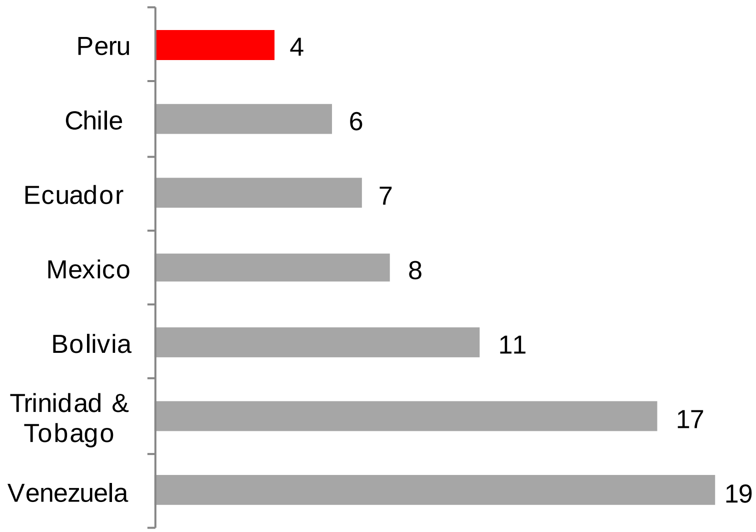
Metal Prices
(Prices, % change)

		Closing Price 22.05.13	% change vs. 31.12.12	% change vs. 22.05.12
Copper	US$ cents/pound	339	-5.5	-3.8
Gold	US$/troy ounce	1,409	-15.0	-11.0
Lead	US$ cents/pound	93	-12.2	6.5
Zinc	US$ cents/pound	83	-9.5	-3.1
Silver	US$/troy ounce	22	-26.5	-20.9

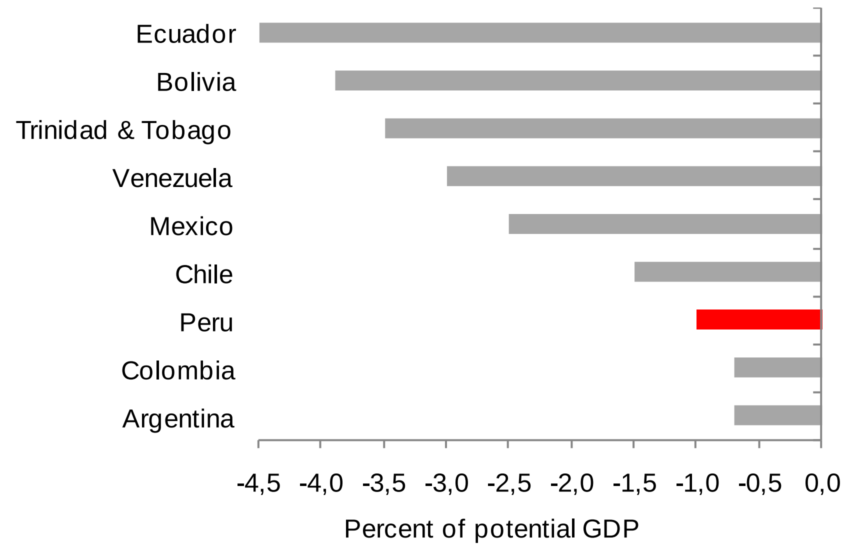
1/ Prices updated to May 22, 2013.
Source: Bloomberg.

The share of commodities in economic activity and fiscal revenues is less than in other peer countries

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



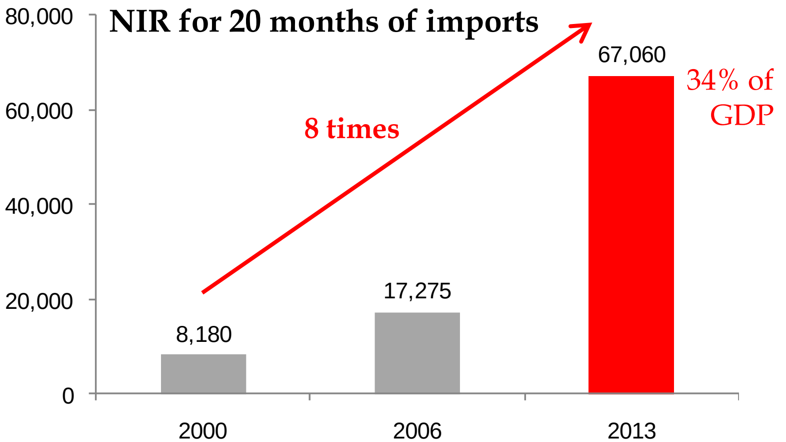
Estimated impact on total revenue caused by a fall of 25% in commodity prices



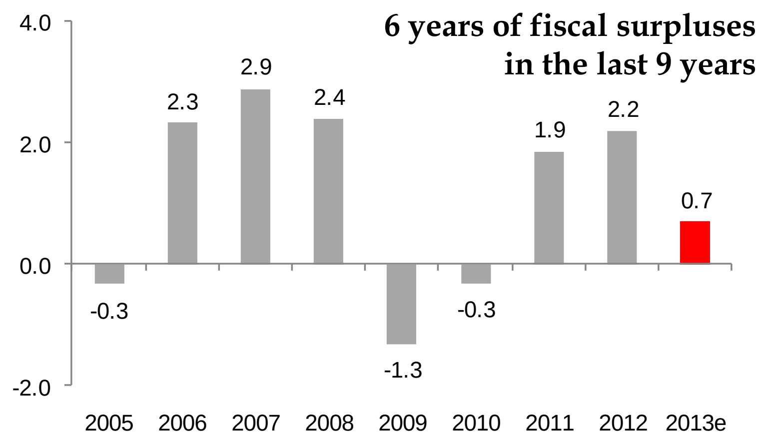
Sources: IMF, 2012, "Fiscal Frameworks for Resource Rich Developing Countries", May.
IDB, 2013, "Rethinking reforms, How Latin America and the Caribbean Can Escape Suppressed World Growth", March.

Peru has strong economic fundamentals to face external shocks

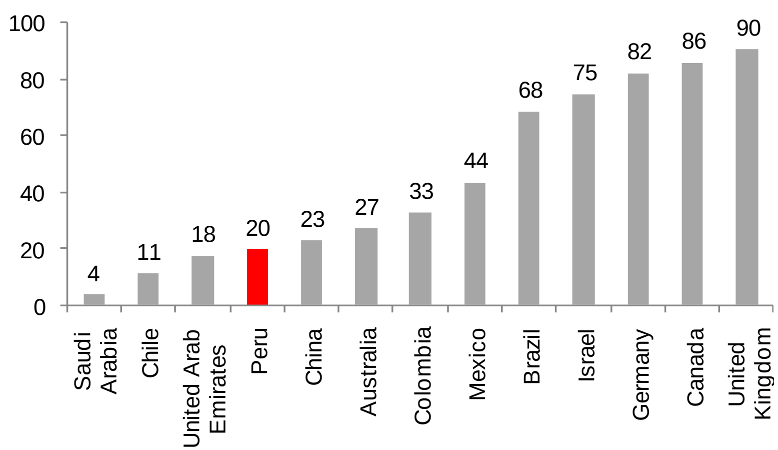
Peru: Net International Reserves (NIR)[1]
(US$ Million)



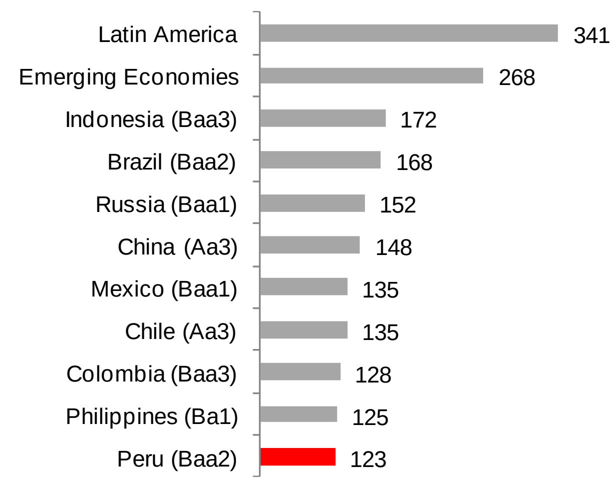
Peru: Overall Balance of Non-Financial Public Sector (% of GDP)



Public Debt
(% of GDP)



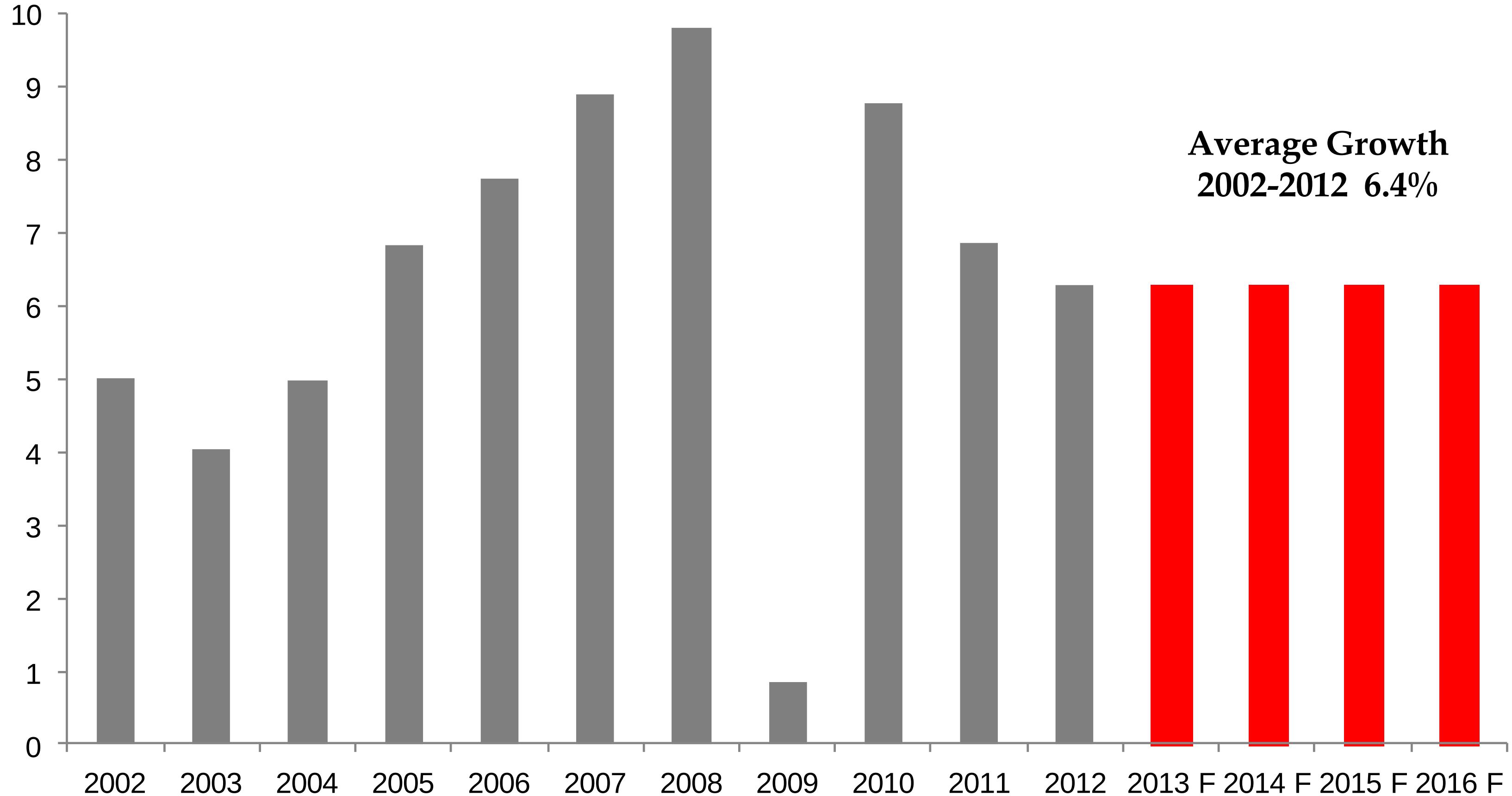
Country Risk[2]
(Basis points, average from May 1st to May 22nd, 2013)



1/ Updated on May 17th, 2013. 2/ Credit Rating by Moody's.
Source: BCRP,MEF, Bloomberg.

Peru can grow around its potential: 6.0-6.5%

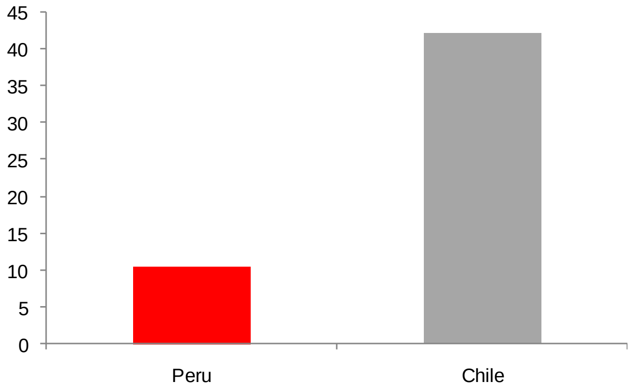
Gross Domestic Product
(Annual % change)



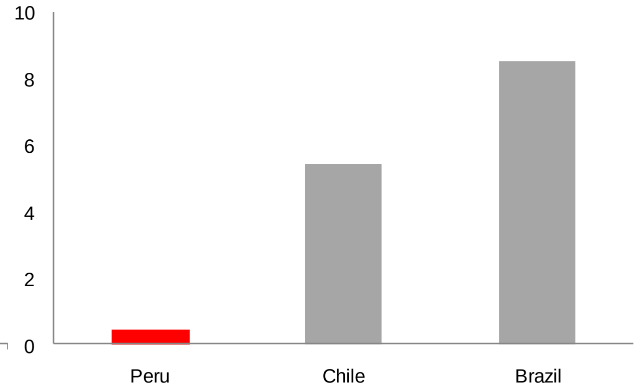
F: Forecast
Source: BCRP, MEF.

Ample potential for further economic growth and diversification

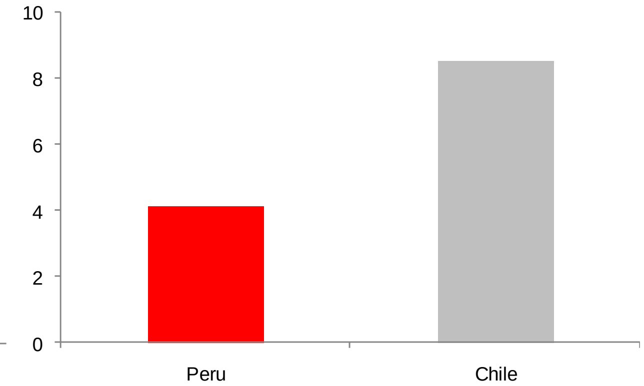
Exports of Copper 2012
(US$ Billion)



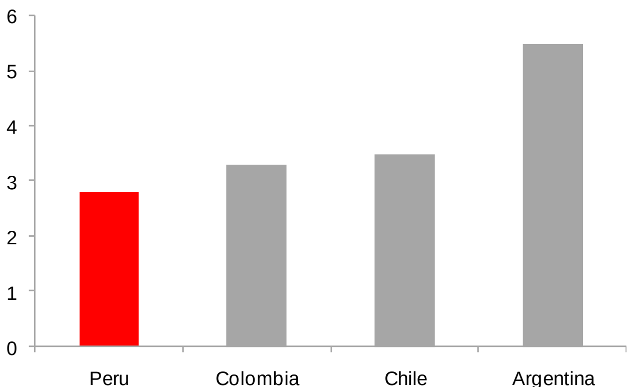
Exports of Wood and Paper 2012
(US$ Billion)



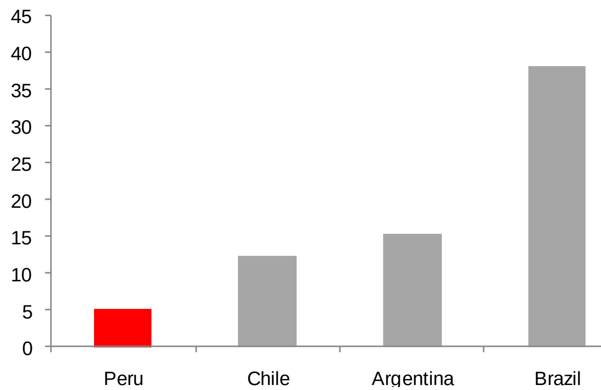
Agricultural Exports 2012
(US$ Billion)



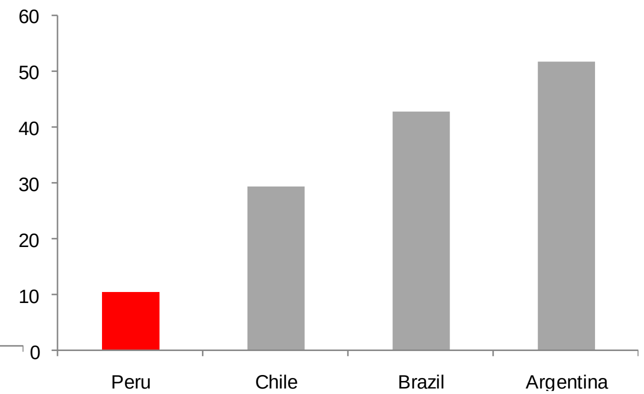
Tourist Arrivals 2012
(Million of people)



Exports of Services 2012
(US$ Billion)

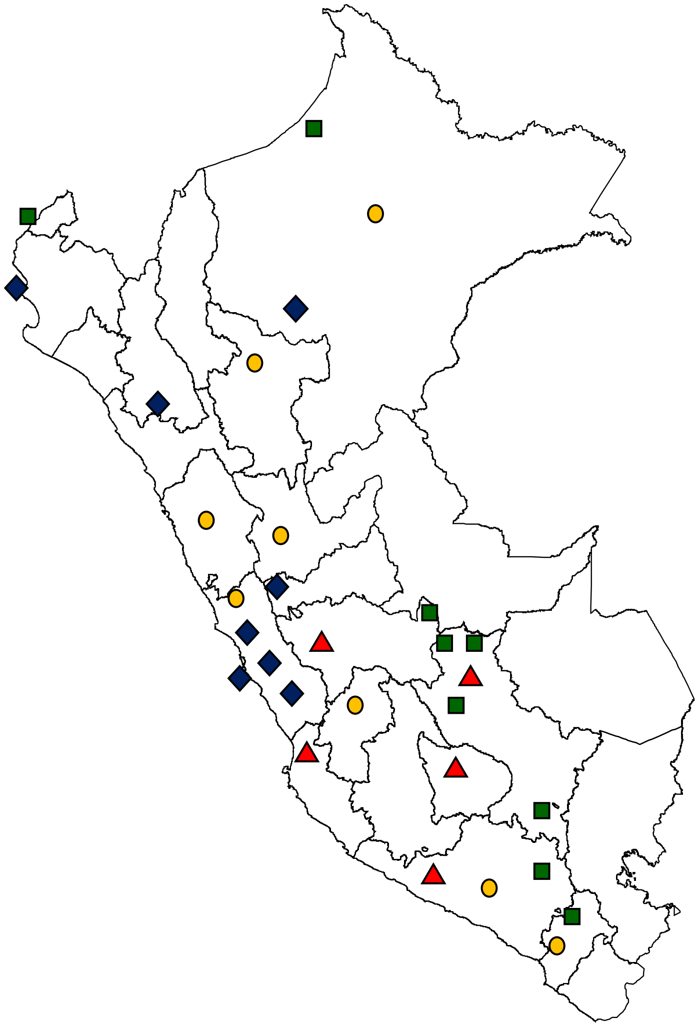


High-technology Exports 2011[1]
(US$ per capita)



1 / According to the World Bank, high-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments and electrical machinery.
Source: SUNAT, BCRP, ministries of commerce of countries, World Bank.

There are important investment projects that will reach maturity in the short and medium term



Mining	Region
Las Bambas – Cu (Xstrata Copper)	Apurimac
Cerro Verde extension – Cu (Freeport-MacMoran Copper)	Arequipa
Toromocho – Cu (Chinalco)	Junin
Constancia – Cu (Hudbay)	Cusco
Marcona extension – Fe (Shougang)	Ica

Hydrocarbons	
Energy security and southern gas pipeline (Called)	Cusco, Arequipa, Moquegua
Block 58 (Petrobras)	Cusco
NGL & gas pipeline extension (TGP)	Cusco
Block 56 & 88 extension (Pluspetrol)	Cusco
Block 57 (Repsol & Petrobras)	Junin, Cusco, Ucayali
Block 67 (Perenco & PetroVietman)	Loreto
Block Z1 (BPZ, Pacific Rubiales Energy)	Tumbes, Piura

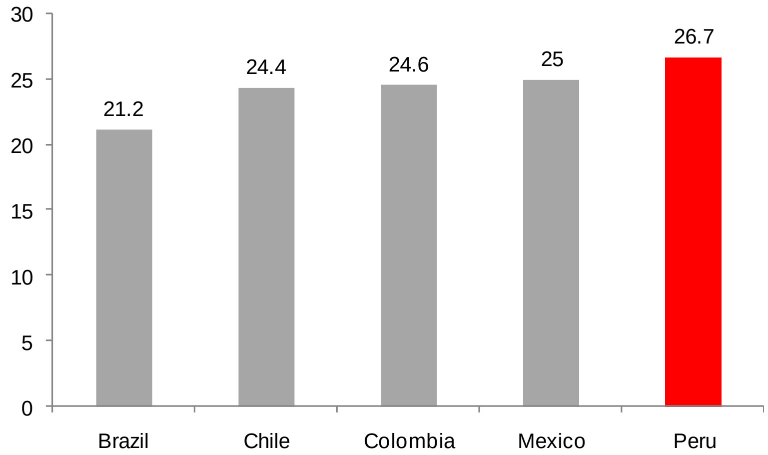
Electricity	
Chaglla Hydroelectric – 406MW (Odebrecht)	Huanuco
Cerro del Águila Hydroelectric – 402MW (Inkia Energy)	Huancavelica
Molloco Hydroelectric – 300MW (Corsan /Engevix/Enex)	Arequipa
Cheves Hydroelectric – 168 MW (SN Power)	Lima
Quitaracsa I Hydroelectric – 112MW (GDF Suez)	Ancash
Ilo Thermoelectric – 569MW (GDF Suez)	Moquegua
220 kV Moyobamba – Iquitos transmission line and associated substations (Called)	Loreto, San Martin

Infrastructure	
Metro of Lima & Callao – Section 2 (Called)	Lima
Vía Parque Rimac (OAS S.R.L.)	Lima
Muelle Norte port modernization (APM Terminals)	Lima
Paita port extension (Tertir Terminais/Cosmos/Translei)	Piura
Longitudinal de la Sierra road – Section 2 (Called)	Cajamarca, La Libertad
WWTP & Outfall La Chira (Acciona Agua, GYM)	Lima
IIRSA Centro Road – Section II (Deviandes)	Lima, Junin, Pasco
Yurimaguas port terminal (Hidalgo e Hidalgo)	Loreto

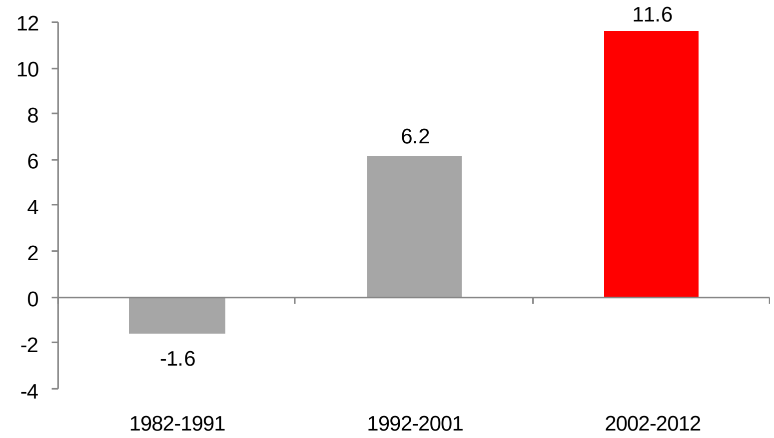
Source: BCRP, MINEM, MTC, PROINVERSION, OSINERGMIN, Apoyo Consultoria.

Sustained high private investment is key to ensure a GDP growth of about 6% per year

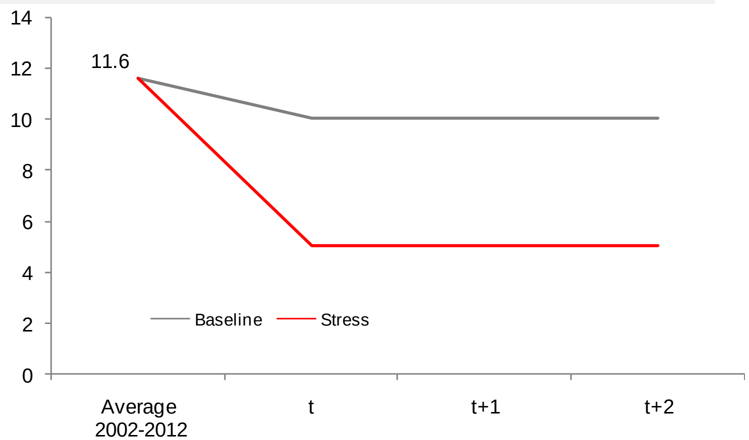
Total Investment: 2012
(% of GDP)



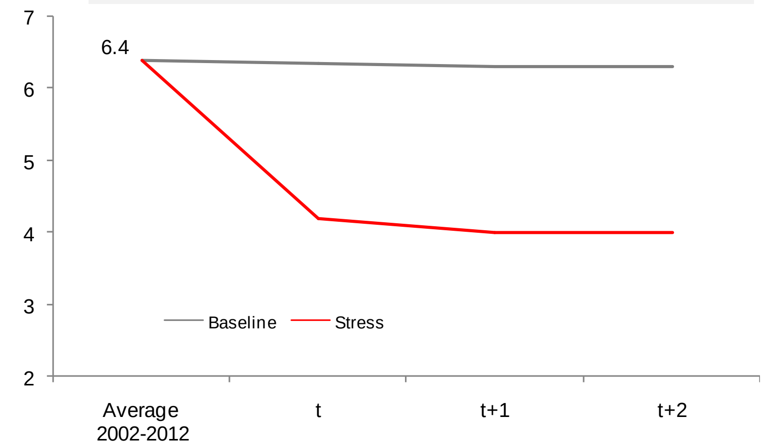
Private Investment
(Average % change)



Private Investment
(Annual % change)



GDP
(Annual % change)



Source: MEF, Apoyo Consultoría, BCRP, SUNAT, INEI.

Strategies to facilitate investment

Streamlining procedures and promotion of investment as a national priority

1. Generate results with immediate impact

Optimization and development of an adequate regulatory and administrative framework

Package of measures to align regulatory frameworks, simplify administrative procedures, reduce timelines, standarize criteria and define skills.

2. Develop abilities to unlock the execution of investments

Management and Monitoring

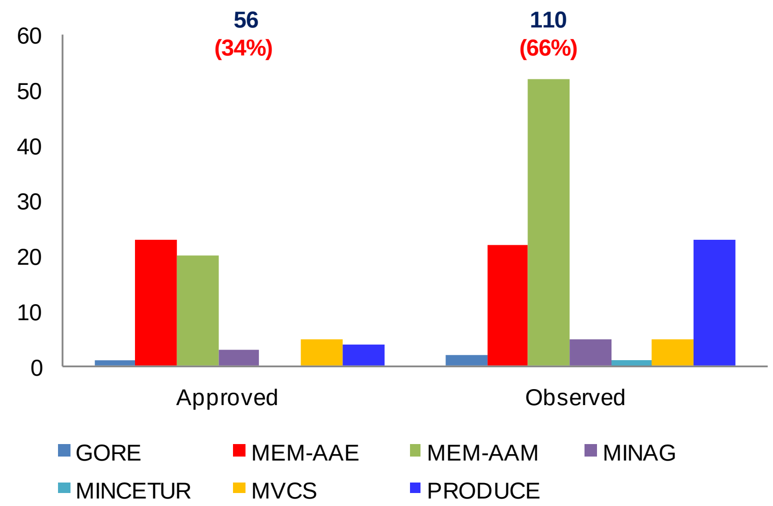
Create a special team for the monitoring of investment.

Effects of initial normative measures: the case of Environmental Impact Assessment (EIA)

The measures will double the execution of investment in the same period of time

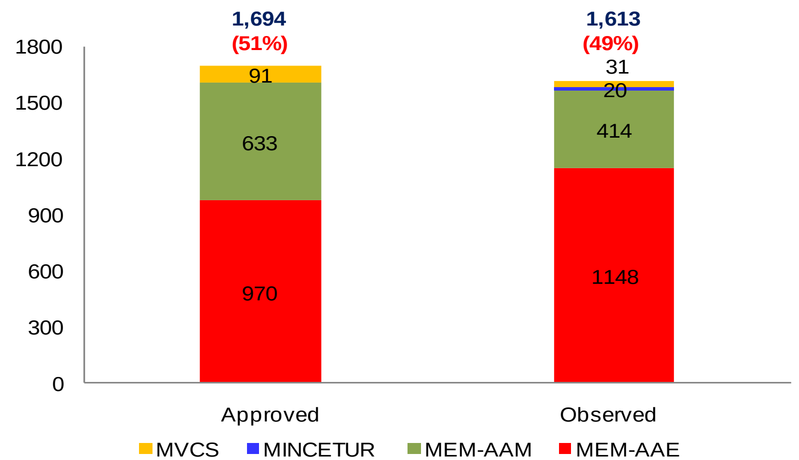
ANA: Environmental management instruments assessed 2013Q1
(Number of records)

166 projects



ANA: Investment of Environmental management instruments assessed 2013Q1
(US$ million)

US$ 3,307 million



Source: MEF, ANA (National Agency for Water)

Law 30025 to promote investment in infrastructure

Road

Highway of Sol (Trujillo - Chiclayo - Piura -Sullana).

Road sections multimodal axis Northern Amazon of "Plan de accion para la integracion de infraestructura regional sudamericana - IIRSA".

Section N° 1 South Interoceanic Highway Corridor, Peru Brazil (San Juan de Marcona - Urcos).

Section N° 2 South Interoceanic Highway Corridor, Peru Brazil (Urcos - Inambari).

Section N° 4 South Interoceanic Highway Corridor, Peru Brazil (Inambari - Azangaro).

Section N° 5 South Interoceanic Highway Corridor, Peru Brazil (Ilo - Puno - Juliaca, Matarani - Juliaca- Azangaro).

Road IIRSA Centro - Section N° 2 (Bridge Ricardo Palma- La Oroya - Huancayo & La Oroya - Cerro de Pasco).

Road section Nuevo Mocupe - Cayalti - Oyotun -Puente Las Delicias.

Road section Chancay /Variante Pasamayo - Huaral - Acos.

Red Vial N° 4: Section Pativilca - Santa - Trujillo & Puerto Salaverry - Empalme PN1N.

Red Vial N° 5: Section Ancon - Huacho - Pativilca, North Pan-American Highway.

Red Vial N° 6: Section Bridge Pucusana - Cerro Azul - Ica, South Pan-American Highway

Longitudinal de la Sierra road: Chiple -Cutervo - Cochabamba - Chota - Bambamarca- Hualgayoc - Yanacocha, Cajabamba -Sausacocha, Huamachuco - Shorey - Santiago de Chuco - Pallasca - Cabana - Tauca, Huallanca- Caraz, Huallanca - La Union - Huanuco, Izcuchaca - Mayocc - Huanta Ayacucho -Andahuaylas - Abancay.

Road Huancavelica-Santa Inés-Castrovirreyna - Pampano & Santa Ines-Rumichaca.

Road Imperial - Pampas - Mayocc.

Road Huancavelica - Lircay.

Longitudinal de la Selva road "Puente Integracion - San Ignacio - Perico, Juanjui - Campanilla - Pizana - Tocache - Von Humboldt- Puerto Bermudez - Villa Rica - Puente Reither- Satipo - Mazamari - Puerto Ocopa".

Road

Road Cusco - Quillabamba.

Road Trujillo - Shiran - Shorey.

Road Quinua - San Francisco.

Road Cajamarca - Celendin - Balzas, Soritor - La Calzada.

Road Pimentel - Chiclayo.

Road Lima - Canta - Huayllay - Vicco - Emp. PE-3N (Shelby).

Evitamiento Highway - Chimbote.

Road Chongoyape - Cochabamba.

Road La Tina - La Tina - Cachaquito.

Road Quilca - Matarani - Ilo.

Road Cañete - Lunahuana, Roncha -Chupaca - Puente Pilcomayo.

Road Tarata - Mazocruz - Ilave.

Road Huamachuco - Bridge Pallar – Abra Naranjillo.

Evitamiento Highway - Urcos.

Road Imata - Oscollo - Negromayo - San Genaro - Descanso - Sicuani & Negro Mayo- Ocoruro - Pallpata - Yauri.

Road Las Vegas - Tarma.

Road Rio Seco - El Ahorcado - Sayan.

Road Mala - Calango - La Capilla.

Linea Amarilla.

Southern Highway Project.

New Highway Projects, Lima city.

Arequipa La Joya Regional Road, Arequipa.

Construction of Trunk Road Interconectora: Miraflores, Alto Selva Alegre, Yanahuara, Cayma & Cerro Colorado - Arequipa.

Integrated Transport System SIT, Arequipa.

Rehabilitation and paving of the National Route Highway N° PE - 18, Section Oyon - Yanahuanca - Ambo.

Airport

"Capitan FAP Pedro Canga Rodriguez" Airport, Zarumilla, Tumbes.

"Capitan FAP Guillermo Concha Iberico" Airport, Castilla, Piura.

"Capitan FAP Victor Montes" International Airport, Talara, Piura.

"Capitan FAP José Abelardo Quiñones Gonzalez" Airport, Chiclayo, Lambayeque.

"Capitan FAP Carlos Martinez Pinillos" Airport, Trujillo, La Libertad.

"Mayor General FAP Armando Revoredo Iglesias" Airport, Baños del Inca, Cajamarca.

"Comandante FAP German Arias Graziani" Airport, Carhuaz, Ancash.

"Coronel FAP Francisco Secada Vignetta" International Airport, Iquitos city, Loreto.

"Cadete FAP Guillermo del Castillo Paredes" Airport, Tarapoto city, San Martin.

"Capitan FAP David Abensur Rengifo" Airport, Pucallpa city, Ucayali.

Pisco International Airport, Pisco city, Ica.

"Inca Manco Capac" International Airport, Juliaca city, Puno.

"Alfredo Rodriguez Ballon" International Airport, Arequipa city.

"Coronel FAPAlfredo Mendivil Duarte" Airport, Ayacucho city

"Padre Aldamiz" International Airport, Puerto Maldonado city, Madre de Dios.

"Coronel FAP Carlos Ciriani Santa Rosa" International Airport, Tacna city.

Aerodrome of Puerto Mayo - Pichari.

Port

Paita Port Terminal

San Martin Port Terminal.

Border

Relocation, construction and equipment of the border crossing in Inapari (Peru-Brasil), Madre de Dios.

Desaguadero Border Crossing (Peru-Bolivia).

Construction and equipment of the border complex in Tilali-Puerto Acosta.

Construction and equipment of border complex in El Alamor.

Construction and equipment of border complex in Saramiriza-Loja.

Railway

Line 1 & 2 of the Basic Network of the Metro of Lima and Callao.

Tourism

Gondolas System of Kuelap.

Others

Fishing complex La Puntilla.

Major reforms already in place

1. Tax Reform
   - To raise the tax burden from 15.5% of GDP in 2011 to 18% of GDP in 2016.
2. Private Pension System Reform
   - To generate better fund performance, coverage, competition and improved quality of service, in order to lower fees and increase pensions.
3. Capital Markets Reform
   - To broaden the investor base (small local investors and Peruvians with savings surpluses).
4. Wage Reform for Teachers, Armed Forces, Police Forces, and Civil Service
   - To reward meritocracy and productivity, establishing a career line, and organizing the payroll.
5. To accelerate infrastructure projects and PPPs.

To Sum Up

- Less favorable international environment:
  - Slower growth in the U.S., Europe, China and Latin America.
  - Fall in commodity prices.

- In an environment of global economic weakness, to grow at 6% is essential to maintain a favorable climate for private investment and to improve Peru's productivity and competitiveness:
  - Reducing infrastructure gap.
  - Substantial improvement of human capital.
  - Promotion of innovation and technology transfer.
  - Productive and export diversification.
  - Administrative simplification: "less red tape".

- Copper production is expected to double in the coming years.

- Peru will remain the fastest growing economy with the lowest inflation rate in the region and will continue to grow at around 6.0% to 6.5% for the following years.

www.mef.gob.pe