



**APOYO  
CONSULTORIA**

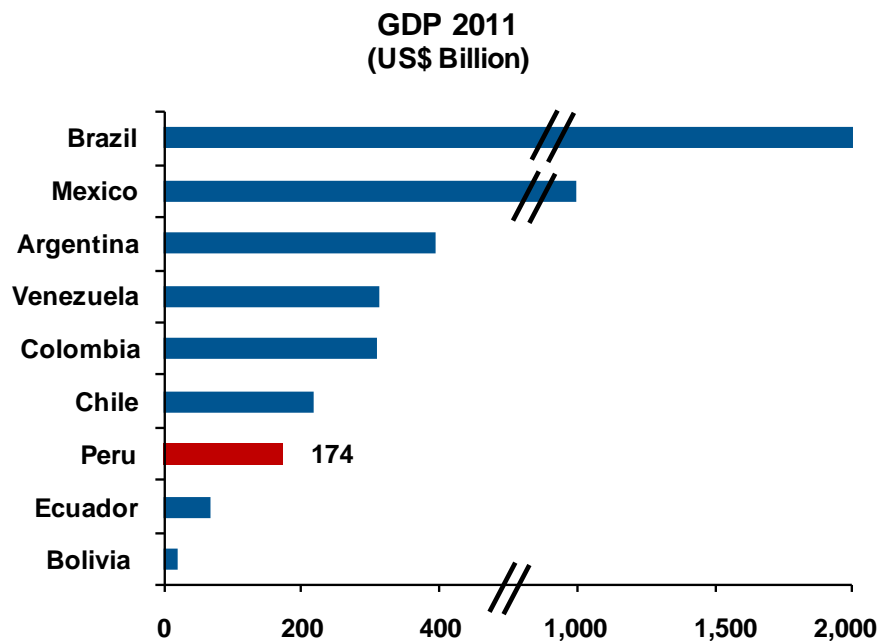
# **PERU: ECONOMIC OUTLOOK**

## **February 2012**

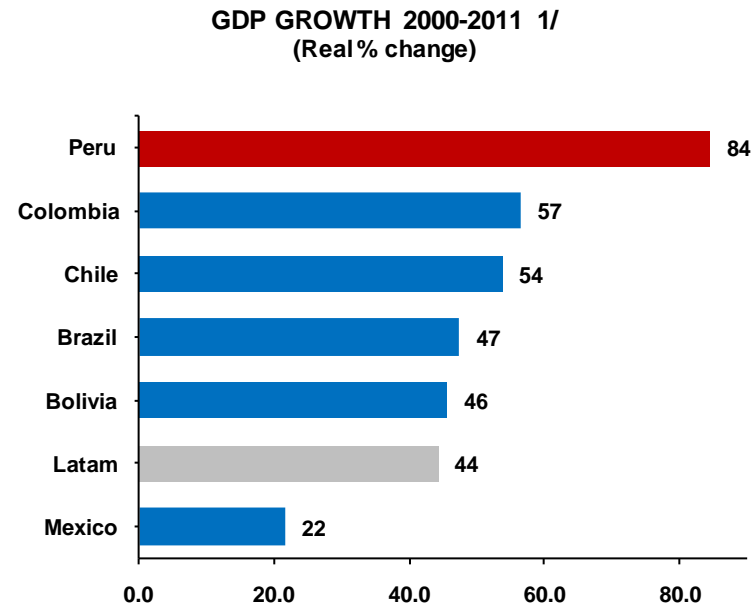
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# I. THE PERUVIAN ECONOMY

# The Peruvian economy in a regional context.



Source: IMF, APOYO Consultoría

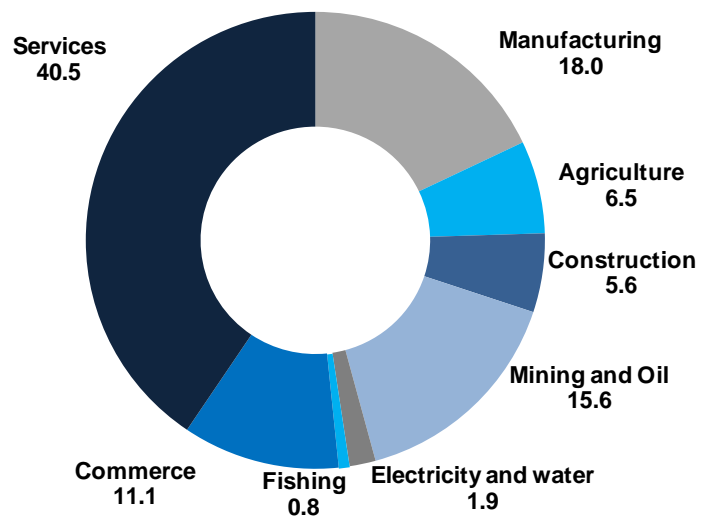


1/2011 is estimated.

Source: IMF, APOYO Consultoría

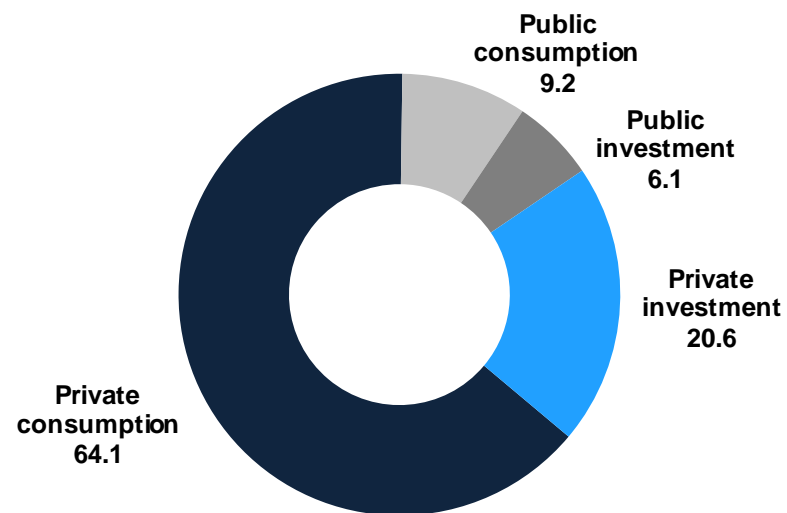
# Structure of the Peruvian economy.

PERU: COMPOSITION OF PRODUCTION, 2007  
(% of Gross Value Added)



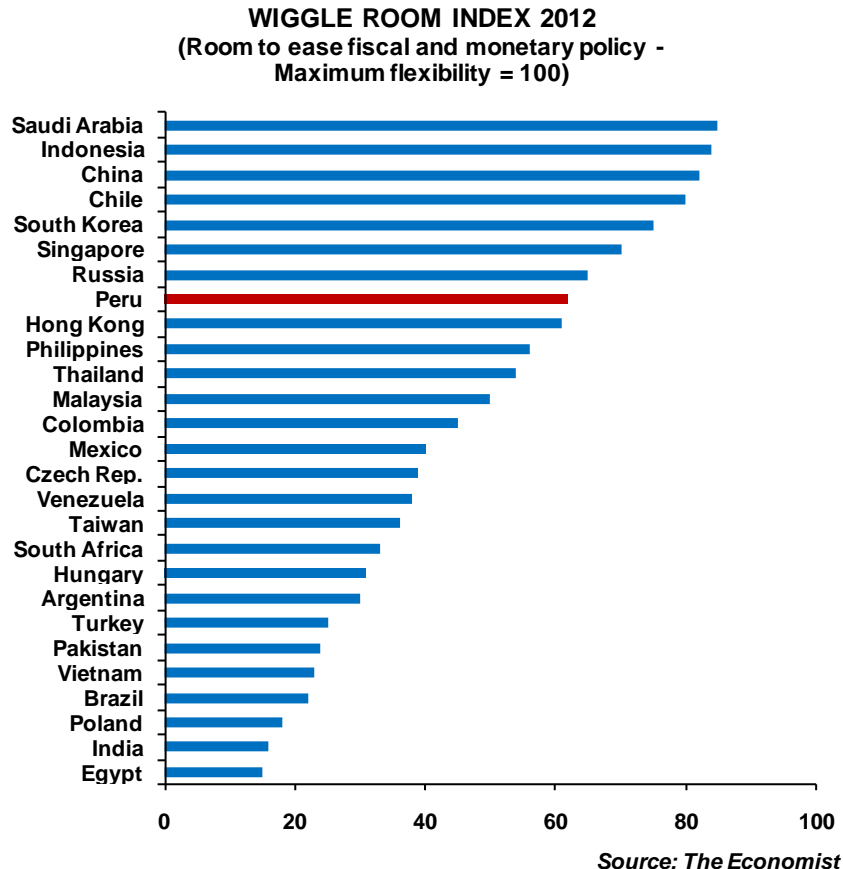
Source: INEI

PERU: DOMESTIC DEMAND STRUCTURE, 2010  
(%)



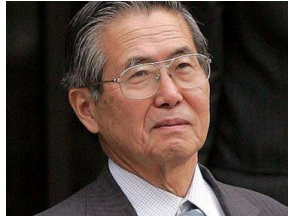
Source: BCR, APOYO Consultoría

## Sound macroeconomic policy.

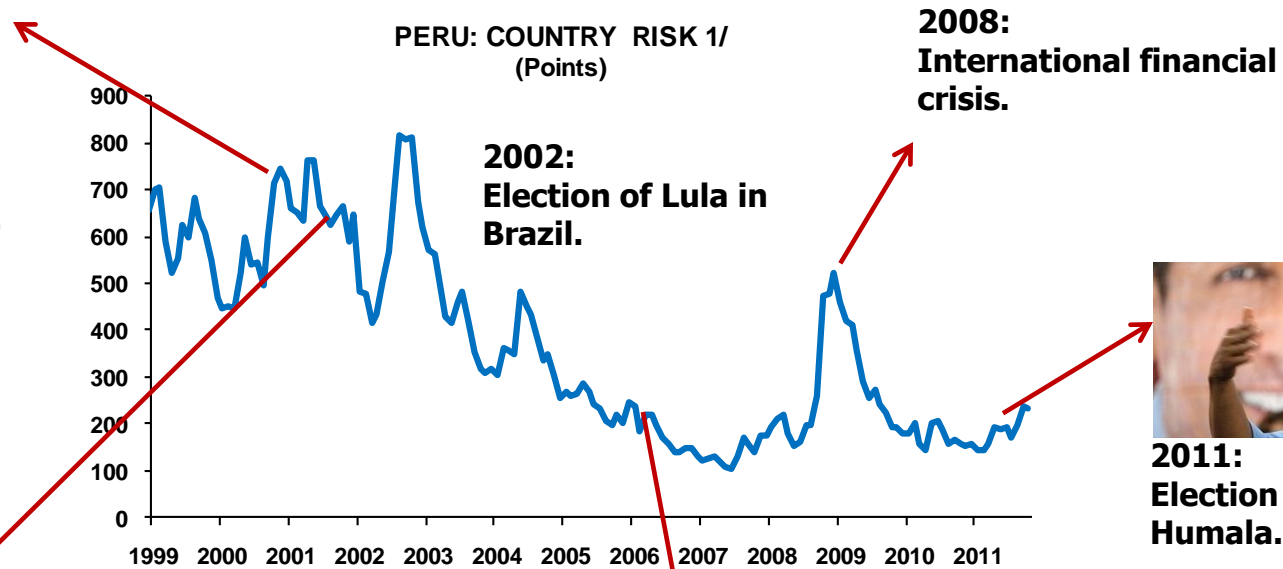


- **Peru ranks 8th among 27 emerging economies in adequacy of monetary and fiscal flexibility, according to The Economist.**
- **Inflation targeting: the average inflation in the last 10 years has been 2.5%.**
- **Fiscal discipline: ratio of public debt to GDP decreased from 45% to 20% in the last 10 years.**
- **Trade openness: average effective tariff rate of approx. 2% and FTAs with economies that represent 60% of world GDP.**

# Politics: as always, very complicated.



**End-2000:**  
Fujimori resigns  
from presidency.



**2011:**  
Election of Ollanta  
Humala.

1/EMBIG+ spread.

Source: JPMorgan, BCR



**2001:**  
Election of Alejandro  
Toledo. Alan García  
makes it into the 2nd  
round.



**2006:**  
Election of Alan García  
in ballottage against  
Ollanta Humala.

## **Despite shifting political situation, economic policy has been consistent. (1)**

- **Features of the Peruvian political environment:**
  - **Lack of strong political parties with national reach.**
  - **Lack of continuity in Congress: majorities change significantly with each election.**
  - **Political landscape is fragmented on the regional level: regional political movements do not have a national scope.**

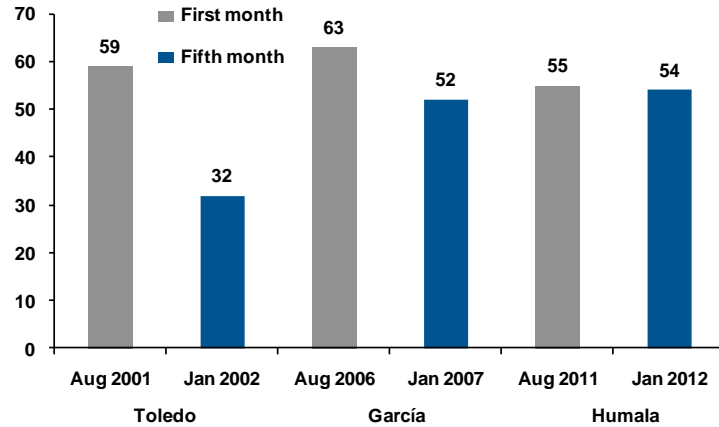
## **Despite shifting political situation, economic policy has been consistent. (2)**

- **Continuity in economic policy in the last 20 years.**
- **The current president of the Central Bank served under the previous administration of Alan Garcia and was reappointed by Ollanta Humala.**
- **The current Minister of Finance was vice-minister of Finance under the previous administration.**
- **Other key institutions: competition agency, tax collection, regulators of public utilities maintain a technical profile and independence.**



# Current political scenario.

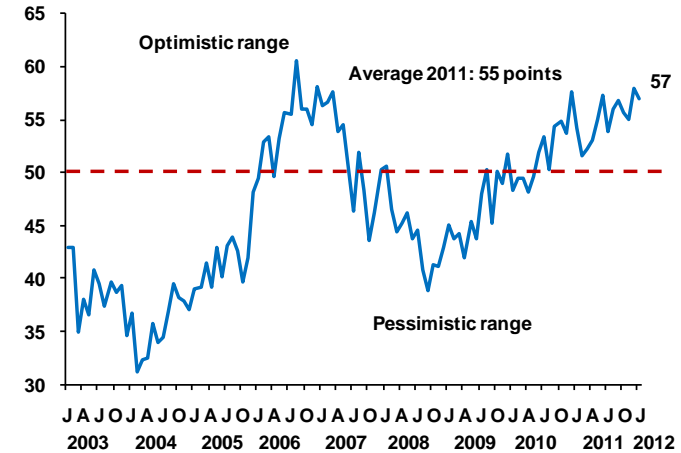
**PRESIDENTIAL APPROVAL IN THE FIRST AND FIFTH MONTHS OF EACH ADMINISTRATION 1/ (%)**



1/ In Peru urban areas.

Source: Ipsos APOYO

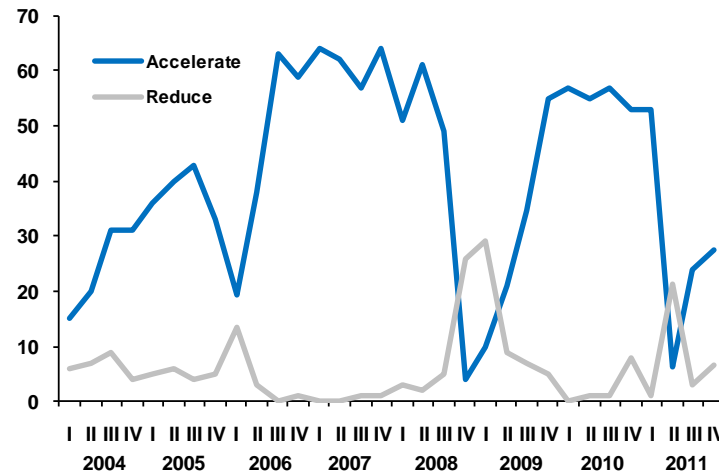
**CONSUMER CONFIDENCE IN LIMA 1/ (Points)**



1/ As of January 2012.

Source: APOYO Consultoría

**REGARDING INVESTMENT PROJECTS, WHICH MEASURES WILL YOUR COMPANY TAKE IN THE NEXT SEMESTER? (%)**



Source: surveys conducted on APOYO Consultoría's clients

## 2012 Forecasts – Base scenario

### BASE SCENARIO - MACROECONOMIC INDICATORS 1/ (% annual change)

	2010	2011	2012
<b>I. Real Sector (% change)</b>			
<b>GDP</b>	8.8	7.0	5.3
Private consumption	6.0	6.3	5.3
Private investment	22.1	11.9	4.0
Public investment	26.5	-16.9	30.0
Exports	2.5	7.6	4.0
Dependent employment 2/	4.2	5.4	4.0
<b>II. Macroeconomic balances</b>			
Fiscal balance (% of GDP)	-0.5	1.6	0.2
Trade balance (US\$ Millions)	5,873	6,750	7,849
Net international reserves (US\$ Millions)	44,105	48,816	51,500
<b>III. Monetary variables</b>			
Inflation, CPI (%)	2.1	4.7	3.0
Exchange rate, eof (S/. per dollar)	2.81	2.70	2.65

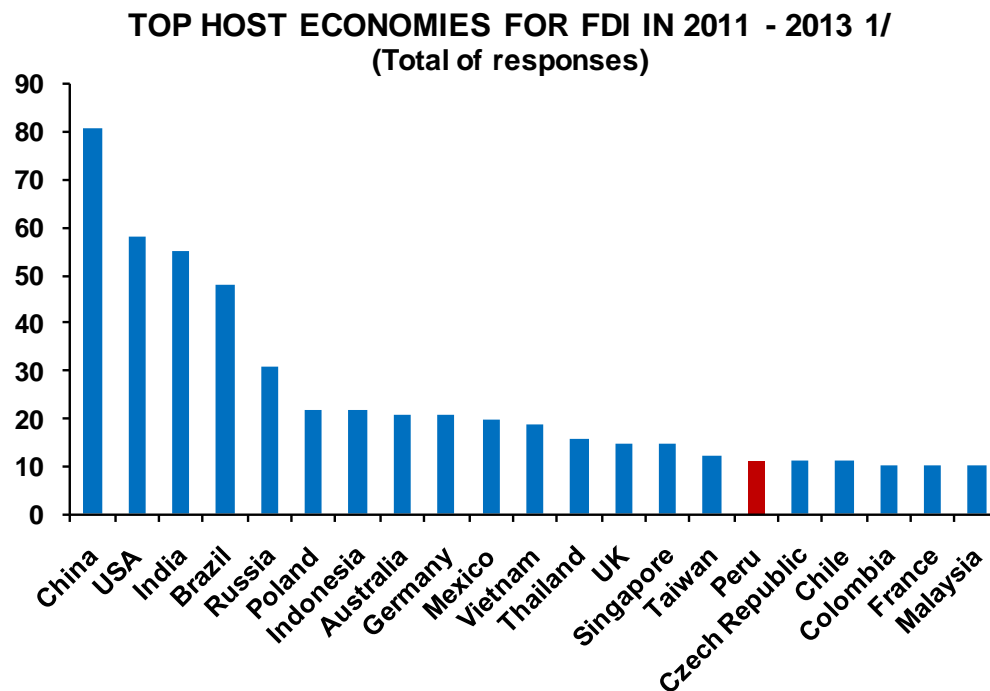
1/ Forecast from 2011 onwards. Forecasts made in December.

2/ Employment in companies with over 10 employees.

Source: BCR, APOYO Consultoría

## **II. INVESTMENT FRAMEWORK AND OPPORTUNITIES**

## Peru is among the 20 most attractive economies for foreign direct investment.



1/ Number of times the country is mentioned as a top FDI priority by respondent TNCs.

Source: UNCTAD

## **Framework for private investment.**

- **Local and foreign investment are subject to the same treatment.**
- **Tax stability contracts.**
- **Investment in public service infrastructure can be deducted from taxable income.**
- **No restrictions to profits remittances, dividends, and financial resources.**
- **Income tax rate: 30%.**
- **Value added tax rate: 19%.**

## Investment in Peru – recent large scale projects.

### Private-public partnerships

- Interoceánica sur (Peru-Brazil highway)
- 2006-2012
- US\$2,000 million



### Private investment

- Pampa Melchorita liquefied natural gas plant
- 2007-2010
- US\$3,000 million



### Concessions

- Southern Pier at Callao Port
- 2008-2010
- US\$360 million



# World-class companies already operating in Peru.

## Infrastructure

## Mining

## Others



**ODEBRECHT**

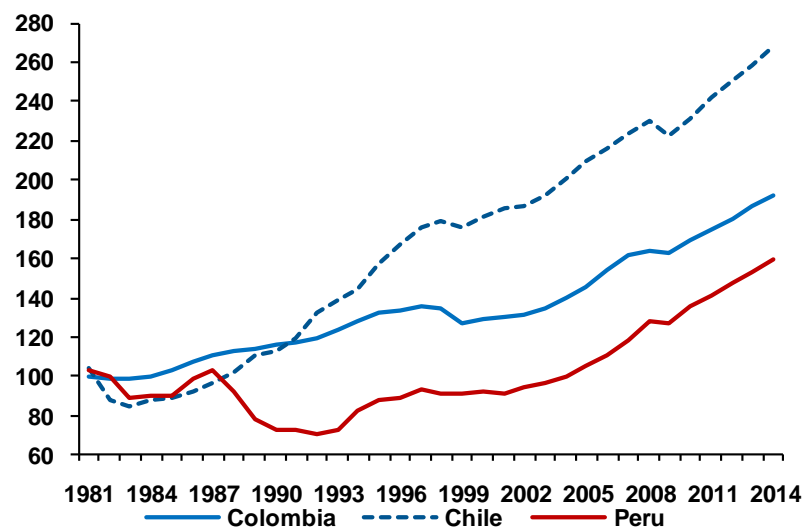


**Rio Tinto**



# Investment opportunities: the catch up effect.

REAL GDP PER CAPITA: PERU, COLOMBIA, AND CHILE 1/  
(1980 = 100)



1/2011 is estimated. 2012 and on are forecast.

Source: IMF, APOYO Consultoría

PER CAPITA GDP  
(US\$)

Country	2011	2015 1/	% chg.
Brazil	11,270	14,130	25.4
Chile	12,820	14,970	16.8
Colombia	6,810	9,240	35.7
Mexico	10,240	12,370	20.8
Peru	5,510	7,780	41.2
Ecuador	4,740	6,000	26.6
Bolivia	2,250	2,930	30.2

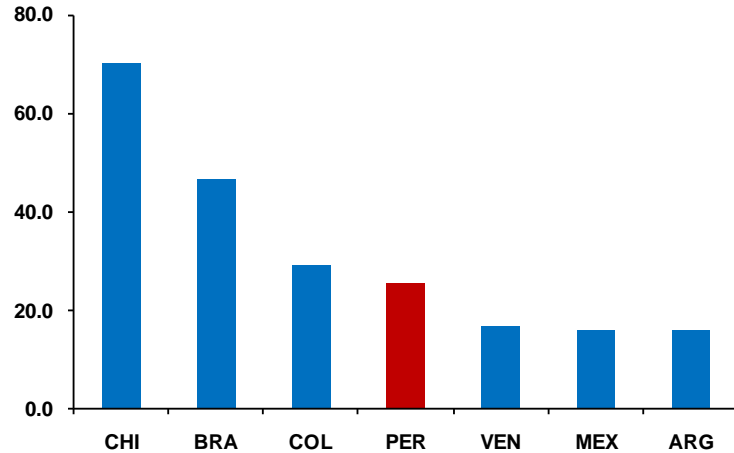
1/ Forecast.

Source: Latinfocus, IMF, APOYO Consultoría



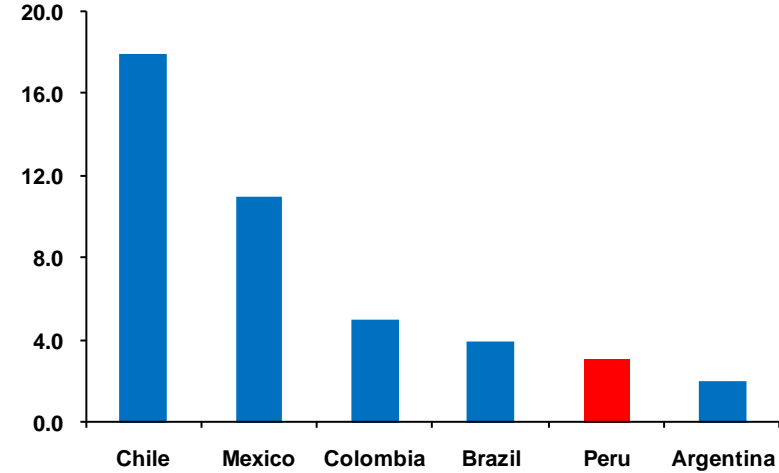
# Investment opportunities: catch up in various products and services.

**FINANCIAL INTERMEDIATION RATIO 1/ (%)**



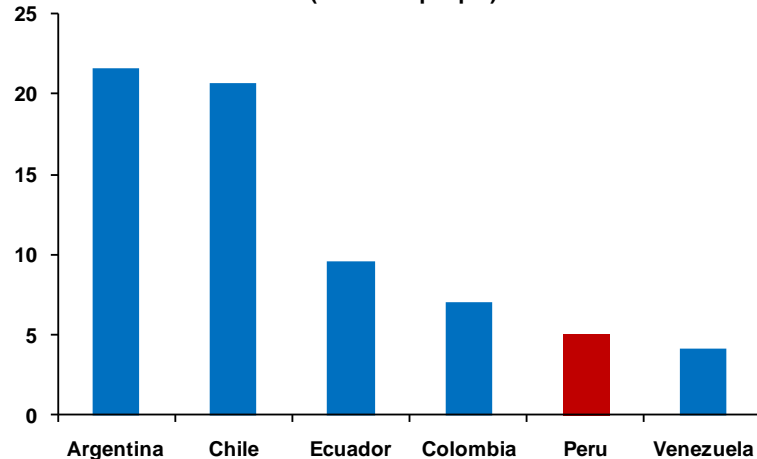
1/ Banks' loan volume / GDP. In 2010. Source: CEIC, regulatory agencies

**MORTGAGE LOANS IN LATAM- 2008 (% of GDP)**



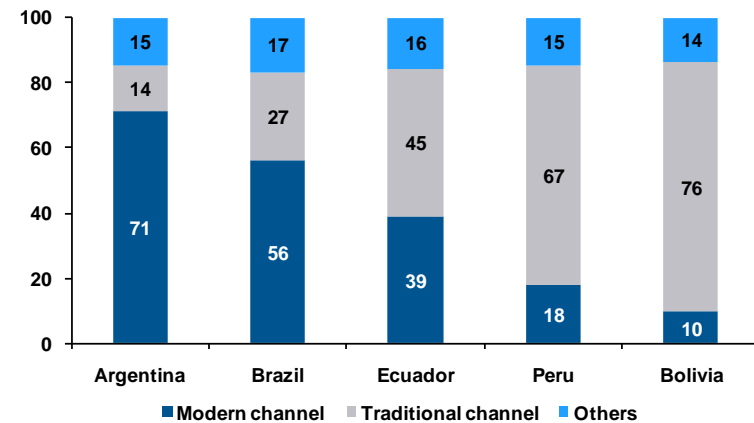
Source: Morris

**NEW VEHICLE SALES, 2011 (Per 1 000 people)**



Source: Araper, CEIC, media, public statistic institutions of each country

**CONSUMER GOODS RETAIL BY CHANNEL, 2010 1/ (%)**



1/ 2010 for Argentina, Brazil and Bolivia; 1S2011 for Ecuador and 3Q2011 for Peru.

Source: Kantar Worldpanel, APOYO Consultoría



## Investment opportunities: infrastructure gap.

INFRASTRUCTURE INVESTMENT GAP, 2008  
(US\$ millions)

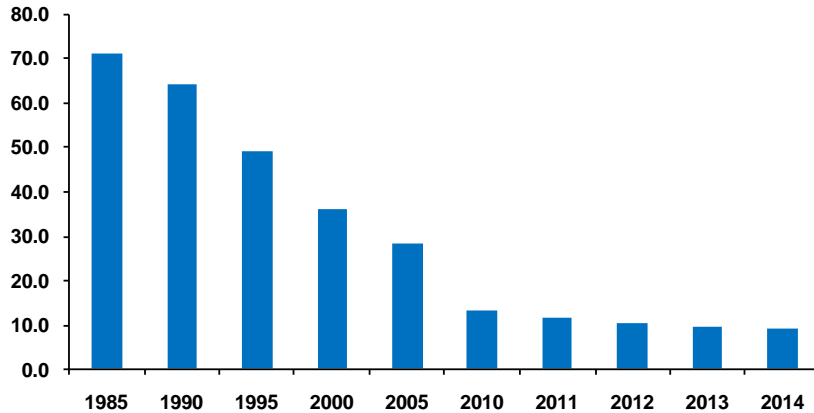
Sector	Gap 2008	%
Transportation	13,961	37.0
Water & sewage	6,306	16.7
Electricity	8,326	22.0
Natural gas	3,721	9.9
Telecom.	5,446	14.4
Total	37,760	100.0

Source: IPE

- **Current legislation promotes private investment in infrastructure: private-public partnerships, concession processes.**
- **Fiscal resources are available: public savings amount to US\$5,600 million.**
- **Access to external financing: low levels of public debt and investment grade.**

# The coming years: macroeconomic and financial stability.

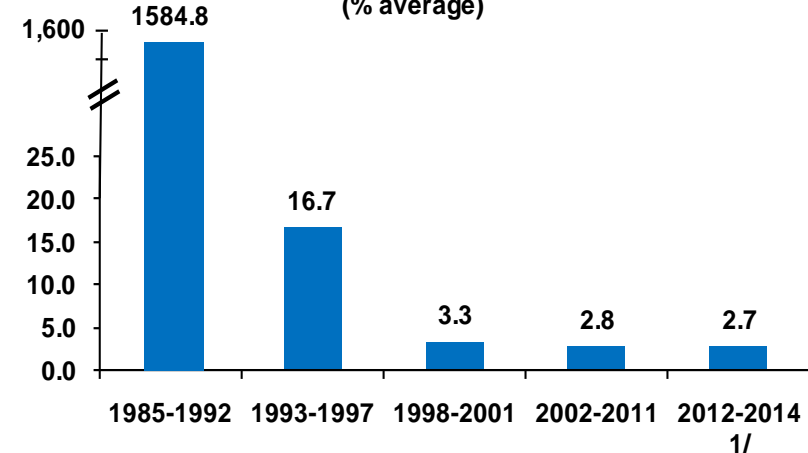
PERU: EXTERNAL PUBLIC DEBT 1/  
(% of GDP)



1/2011 onwards is forecast.

Source: BCR, MEF, APOYO Consultoría

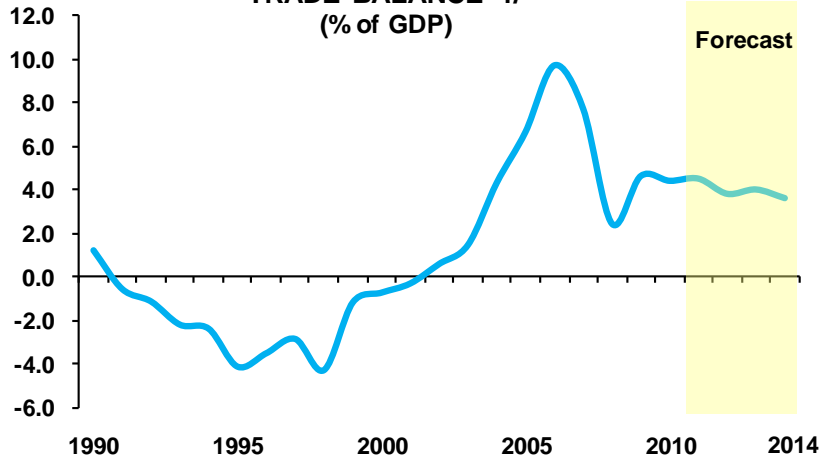
INFLATION RATE 1/  
(% average)



1/Forecast.

Source: BCR, APOYO Consultoría

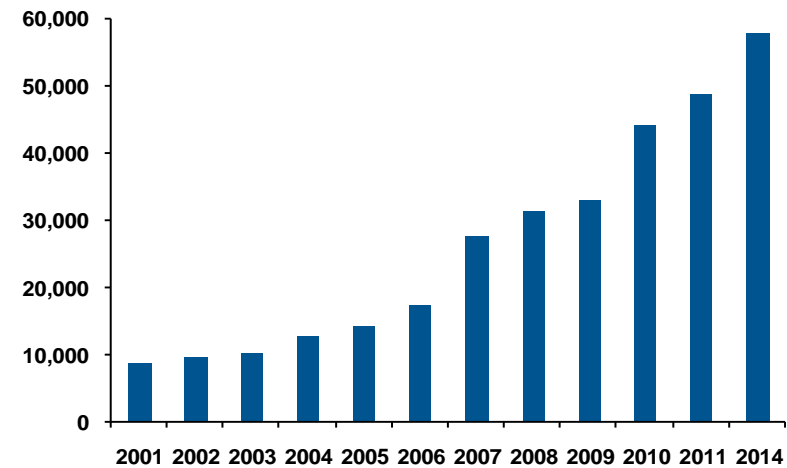
TRADE BALANCE 1/  
(% of GDP)



1/2011 onwards is forecast.

Source: BCR, APOYO Consultoría

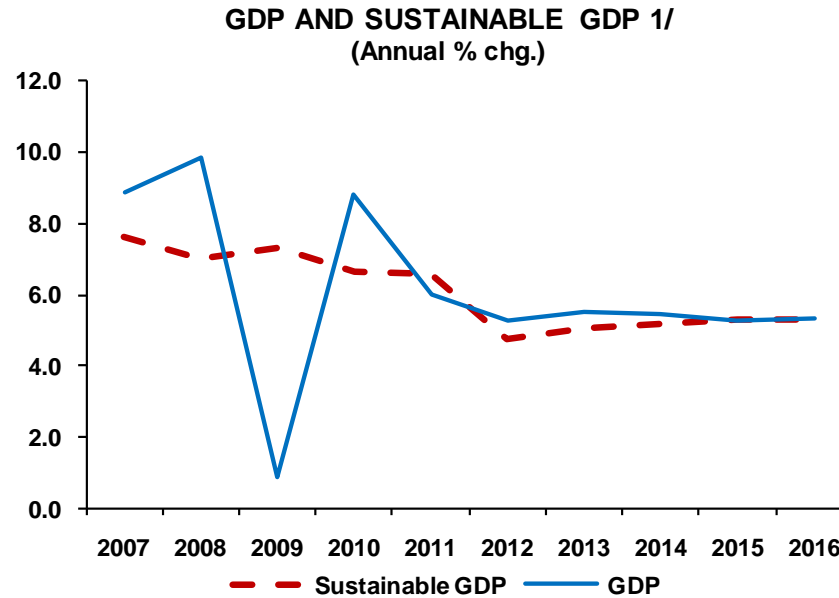
NET INTERNATIONAL RESERVES 1/  
(US\$ Billions)



1/2012 onwards is forecast.

Source: BCR, APOYO Consultoría

## The coming years: the Peruvian economy can sustain annual growth rates of 5.5%-6.5%.

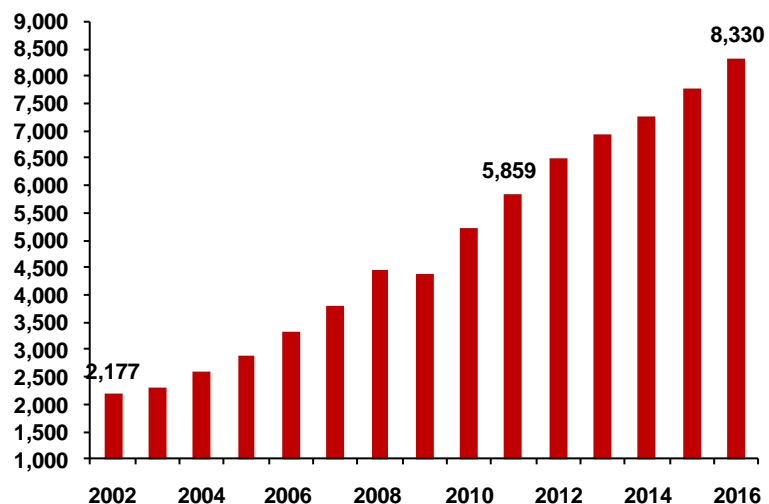


1/Sustainable GDP is estimated. GDP from 2012 onwards is forecast.

Source: BCR, APOYO Consultoría

# The coming years: growth in income and poverty reduction.

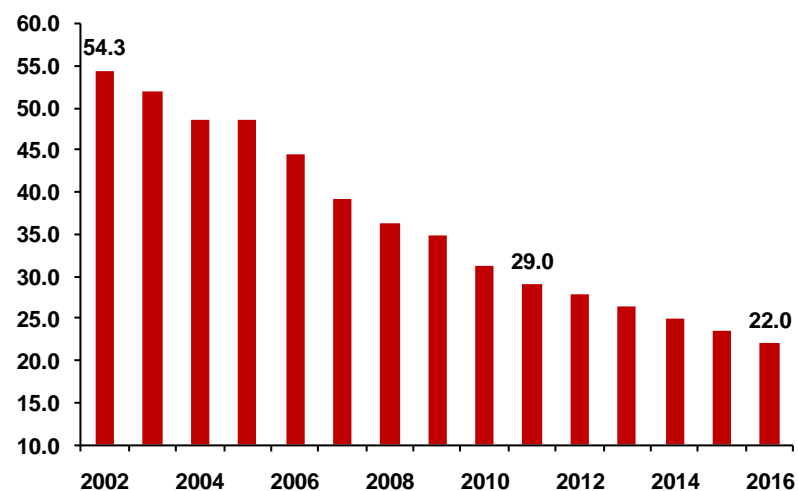
**PER CAPITA GDP 1/**  
(US\$)



1/2012 and onwards are forecast.

Source: BCR, APOYO Consultoría

**POVERTY RATE**  
(% of total population)



1/2012 and onwards are forecast.

Source: INEI, APOYO Consultoría



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