



2006 Latin American Cities Conferences
Event Summary – “Peru: Investment and Development with Social Equity”
July 7, 2006

Introduction

On Friday, July 7, the Americas Society and Council of the Americas, in collaboration with the Peruvian Ministry of Foreign Affairs, brought together over 200 high level government officials and representatives of the private sector to Lima to focus on Peru’s economic outlook and prospects for increasing private investment. Speakers at the conference included: President-elect Alan García of Peru; President Alejandro Toledo of Peru; H.E. Curt Struble, United States Ambassador to Peru; H.E. Pedro Pablo Kuczynski, Prime Minister of Peru; Oscar Dancourt, President of Peruvian Central Bank; Juan Alberto González Esparza, Regional Director for the Andean Region of Microsoft; José Antonio Ríos, Chief Administrative Officer, International President and Chairman, Global Crossing; Oswald Cano, Vice President of PSEG; and Bruce Neil, President, The Doe Run Company. This summary provides an overview of the broader themes discussed in the context of the country’s economic future.

Background

Fiscal prudence, political transparency, monetary discipline and improvements in Peru’s trade balance with the rest of the world have elevated Peru to that of a solid regional economic performer. Since his June 4 victory in the second round of elections, President-elect García has promised to guarantee strong commercial relationships with its neighbors and major trading partners and to foster more foreign investment, increase technological capabilities and ensure sustainable growth. Peru and the United States have successfully negotiated the US-Peru Trade Promotion Agreement, which has passed in the Peruvian Congress and is now awaiting US Congressional approval. Recognizing Peru’s potential, the Americas Society and Council of the Americas, in partnership with the Peruvian Ministry of Foreign Affairs, brought its *Latin American Cities Conferences* to Lima for the first time to discuss Peru’s prospects for increasing international investment and development while improving social equality in the country.

Summary

Our speakers presented various points of views on how to increase investment with social equality. Balancing these two factors will be of critical near-term importance if a new trade environment is created under the auspices of the US-Peru Trade Promotion Agreement. The day’s discussion touched on issues such as poverty, upward mobility, workers’ rights, international trade, macroeconomic conditions, and regional stability and cooperation. The following is a summary outlining the economic outlook for Peru, as presented by members of our first panel.

Peruvian Current Account and Balance of Trade

Improvements in the current account have been a driving force behind Peru’s recent economic growth. According to Luis Oganés of JPMorgan, Peru has turned around the country’s current account from a net deficit in 2000 to a net surplus in 2006. This current account surplus, as explained by Sebastian Briozzo of Standard & Poor’s, has substantially aided the reduction of Peru’s net

external public debt, falling from 104% to 42% in the past four years. Contributing to this improved current account, the price and demand for metal have been particularly important in recent years. Metals make up 55% of Peru's commodity exports, a higher proportion than that of other Latin American countries.

Oganes stated that economic growth in Latin America is more dependent on demand for Latin American exports than on the inflow of foreign direct investment (FDI). He contended that less dependence on investment is better for Latin American countries, including Peru, because it reduces potential shocks from exchange rate fluctuations.

Monetary Policy

Peru's stable and sound monetary policy has contributed to its attraction as an investment destination. Sebastian Briozzo explained that Peru's currency, the *Nuevo Sol*, continues to appreciate gradually, remaining stable and affirming observers' confidence in macroeconomic fundamentals. While Standard & Poor's rates the *Nuevo Sol* as a BB (defined as "more prone to changes in the economy"), Peru's currency still ranks as one of the region's highest rated currencies after Chile (A), Mexico (BBB), and El Salvador (BB+).

Central Bank President Oscar Dancourt said that the Peruvian Central Bank (BCRP) has received several acknowledgements of its discipline and good management in recent years. In 2005, the Fraser Institute of Canada, rated the BCRP third in the world with a score of 9.7 out of 10. Latin Finance rated the BCRP the best central bank in Latin America.

Roberto Melzi of Deutsche Bank provided some overall conclusions on Peru's financial situation. Complementing Oganes' statements about Federal Reserve fluctuations, Melzi cited Peru's increasingly strong macroeconomic fundamentals as key to the country's stability. However, he warned that political uncertainty, as existed in Peru before this year's elections, can generate global financial market jitters.

Fiscal Policy and Employment

It was posited that the government will have an incentive to maintain the Toledo government's austere fiscal policies to ensure growth and stability. Infrastructure, social problems, and the Peruvian educational system should be the focus of future fiscal expenditures. Achievements can be possible, as Briozzo showed, with high levels of economic growth in Peru's GDP per capita, which will rise from approximately US \$2,000 to US \$3,000 between 2002 and 2007. The growth in the Peruvian economy, as shown by Oganes, can be partially attributed to the 9.9% growth in domestic demand.

While Dancourt highlighted employment growth throughout Peru's urban areas, he also recognized that the government has been less successful in developing rural employment opportunities. For Alan García, increasing employment in rural areas while reducing rural poverty will be one of the cornerstones of his administration's economic strategy.

Upcoming Events

The Americas Society and Council of the Americas are working with regional partners to host the remaining 2006 Latin American Cities Conferences in August and September:

- São Paulo, Brazil: August 4. “Brazil: Creating New Global Opportunities”
- Montevideo, Uruguay: August 9. “Uruguay in the Global Economy”
- Buenos Aires, Argentina: August 10. “Argentina: Growth and Investment Opportunities”
- Mexico City, Mexico: September. “Mexico’s Role in the Global Context: Challenges for the New Administration”

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