



BANCO CENTRAL DE RESERVA DEL PERÚ



Lima, Peru
December 6, 2018

THE ROLE OF THE
PRIVATE SECTOR
IN THE QUEST FOR
TRANSPARENCY

#PeruCOA



Economic Perspectives on Peru and the Region

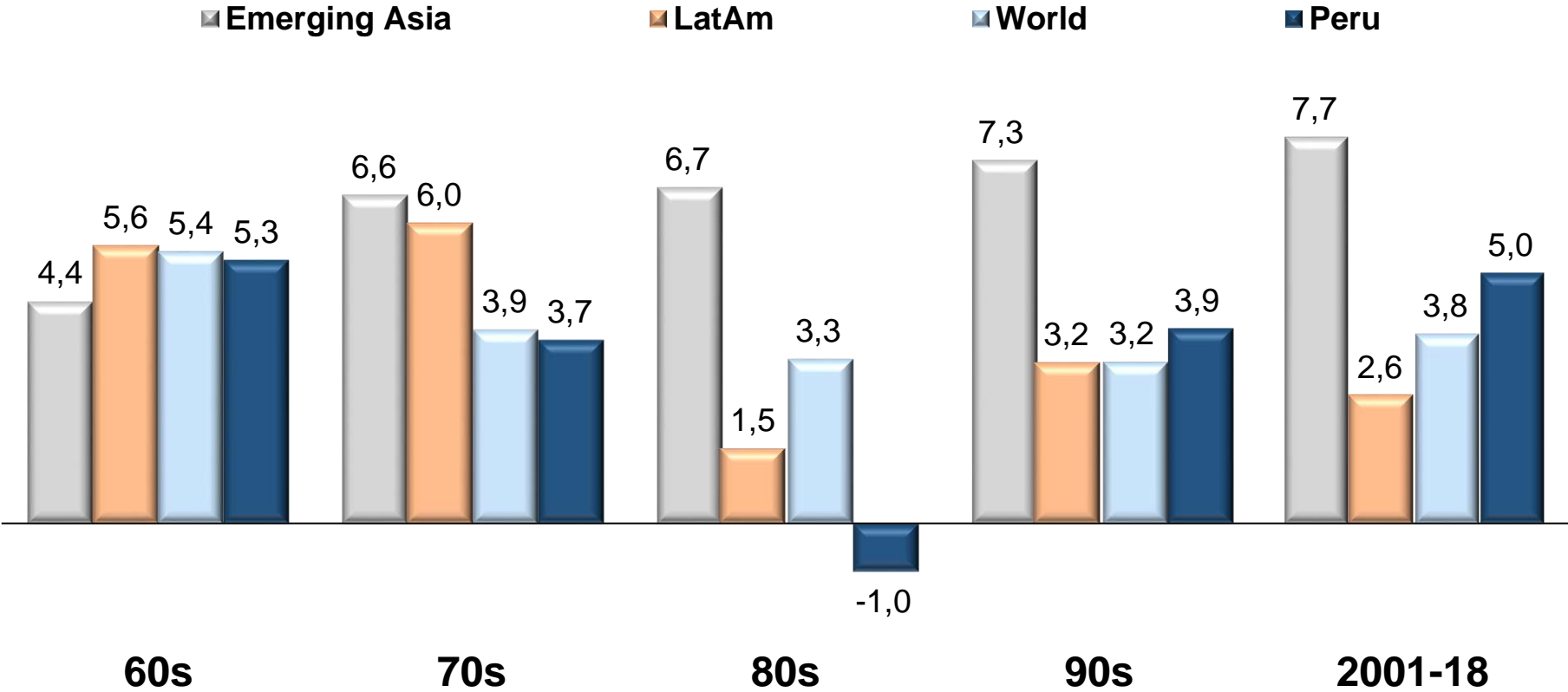
Julio Velarde
President
Central Bank of Peru

December 6, 2018



Since the 90s, Peru's growth rate was higher than the regional and world average.

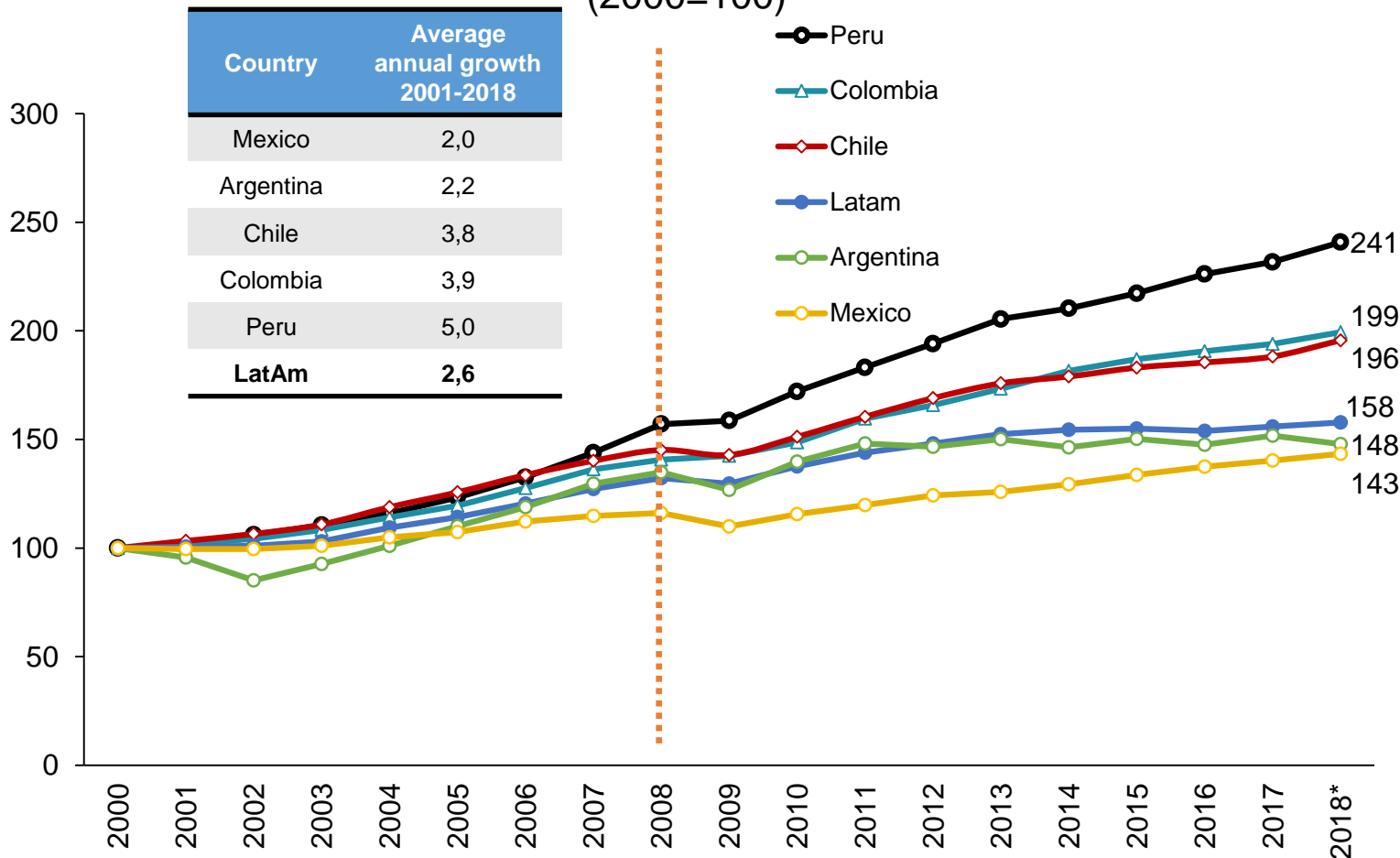
Average GDP growth by decades



* Emerging Asia for 60s and 70s only considers Emerging East Asia & Pacific.
Source: World Bank (for 60s and 70s), WEO (80s, 90s and 2001-18) and BCRP–Inflation Report (Peru).

Since 2008, Peru GDP growth rate has been leading the region.

Latin America and the Caribbean: real GDP index (2000=100)

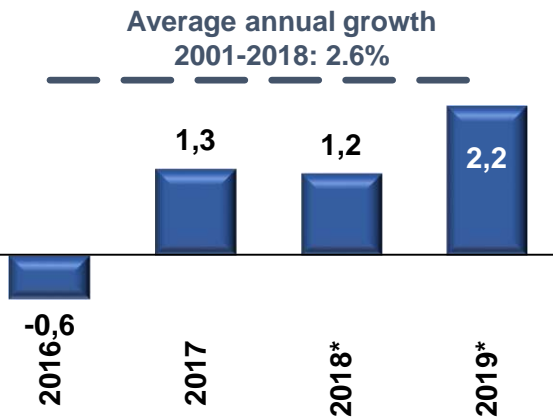


*Forecast.

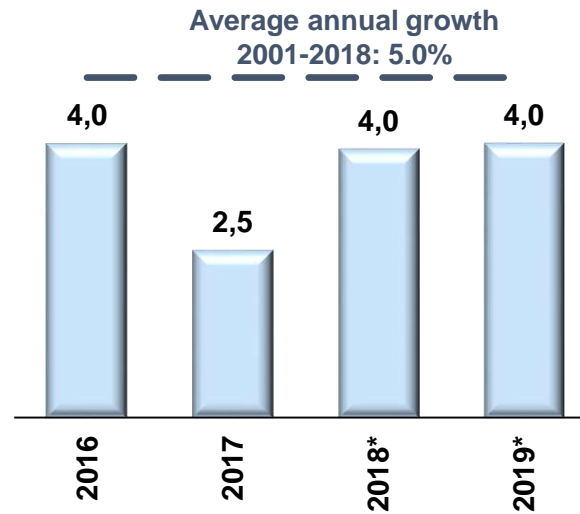
Source: WEO and BCRP–Inflation Report (Peru).

In 2018 and 2019, Peru's growth will be among the highest in the region.

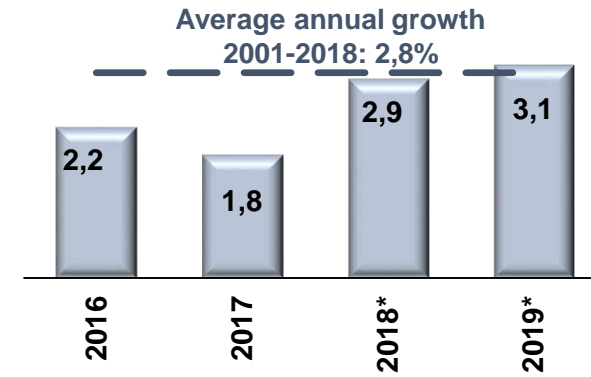
LatAm



Peru



Pacific Alliance Countries ¹

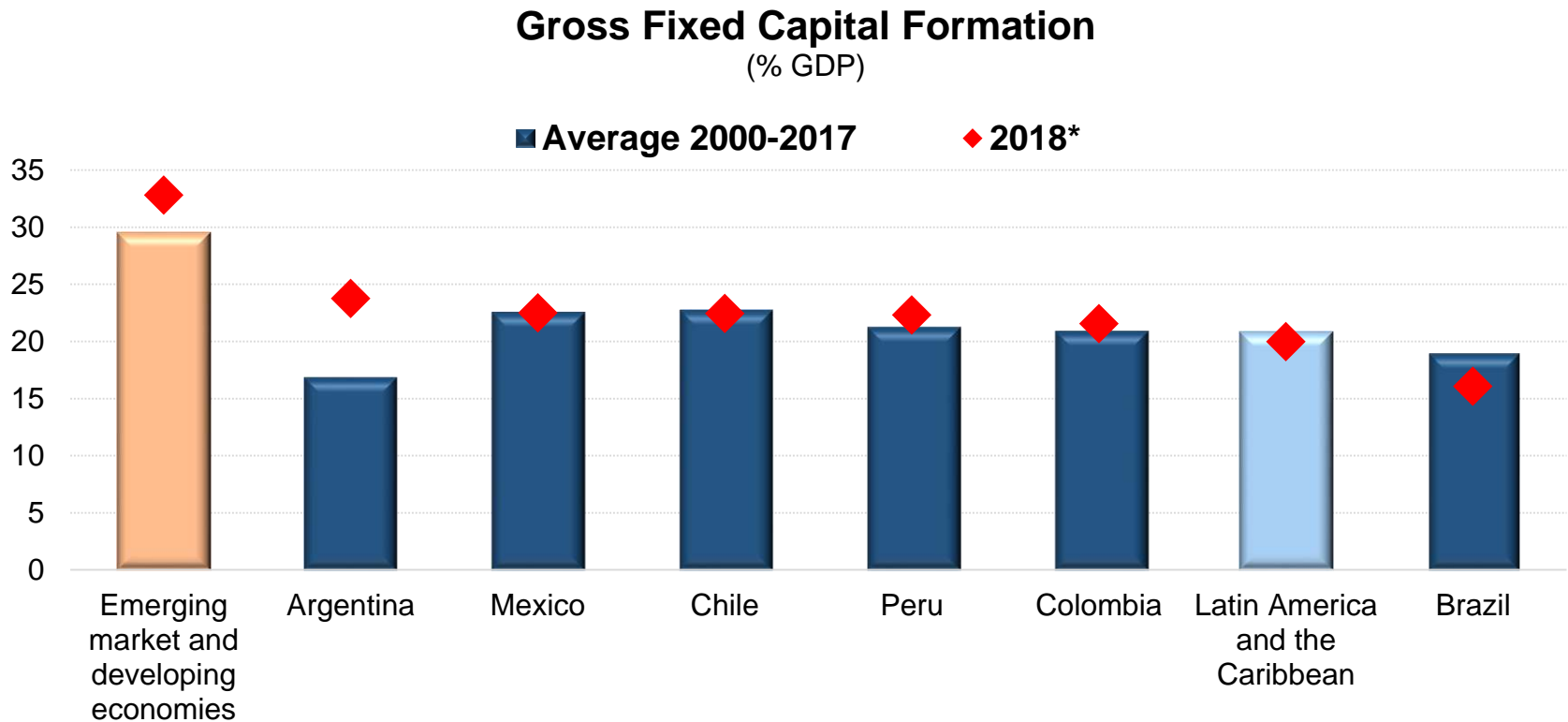


*Forecast.

¹/ Excludes Peru

Source: IMF (WEO, Oct. 2018) and BCRP–Inflation Report (Peru).

Investment in Latin American countries is expected to maintain its average value.

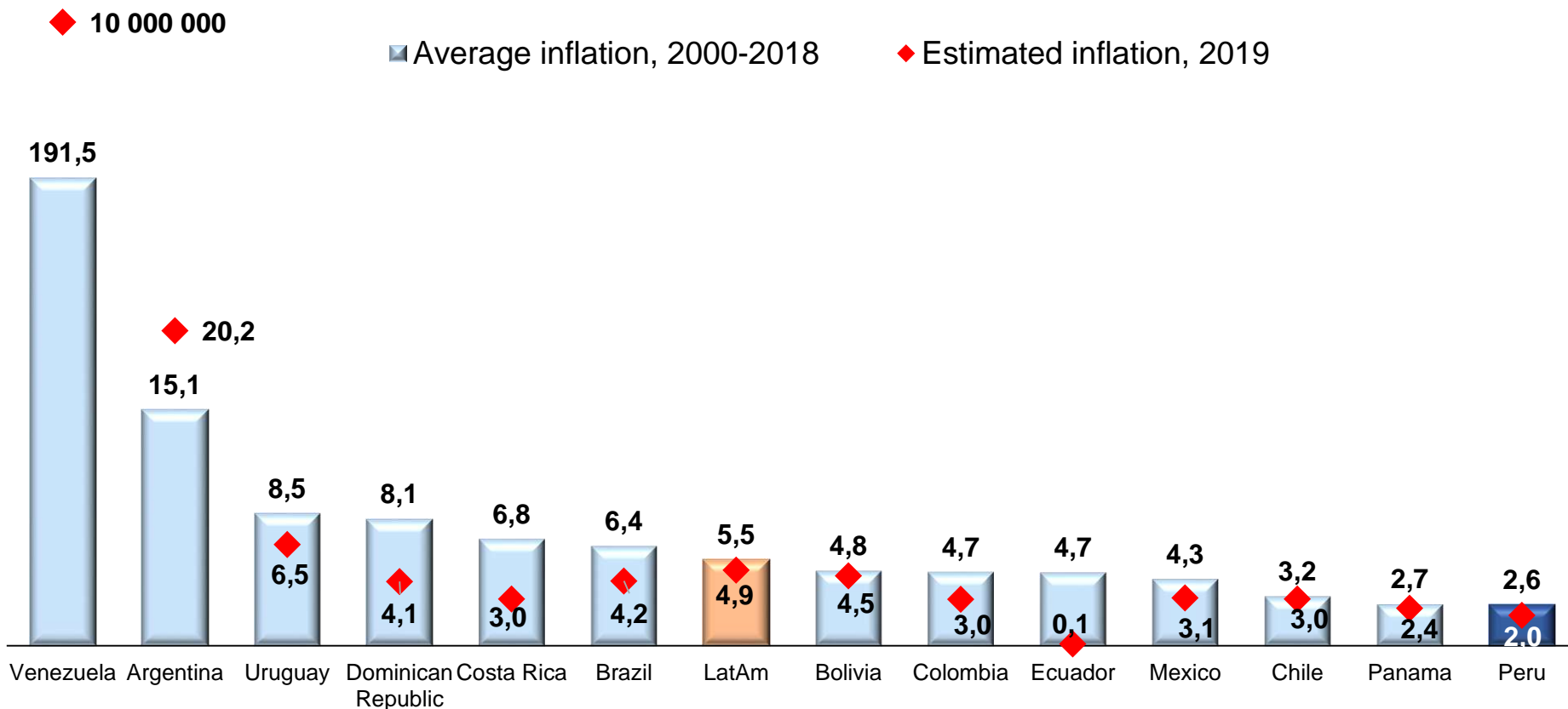


* Forecast

Source: IMF (WEO, October 2018) and BCRP–Inflation Report (Peru).

Peru's annual inflation is among the lowest in the region and will converge towards the target center in 2019.

Latin America: 2000-2018 average annual inflation* and estimated 2019 inflation

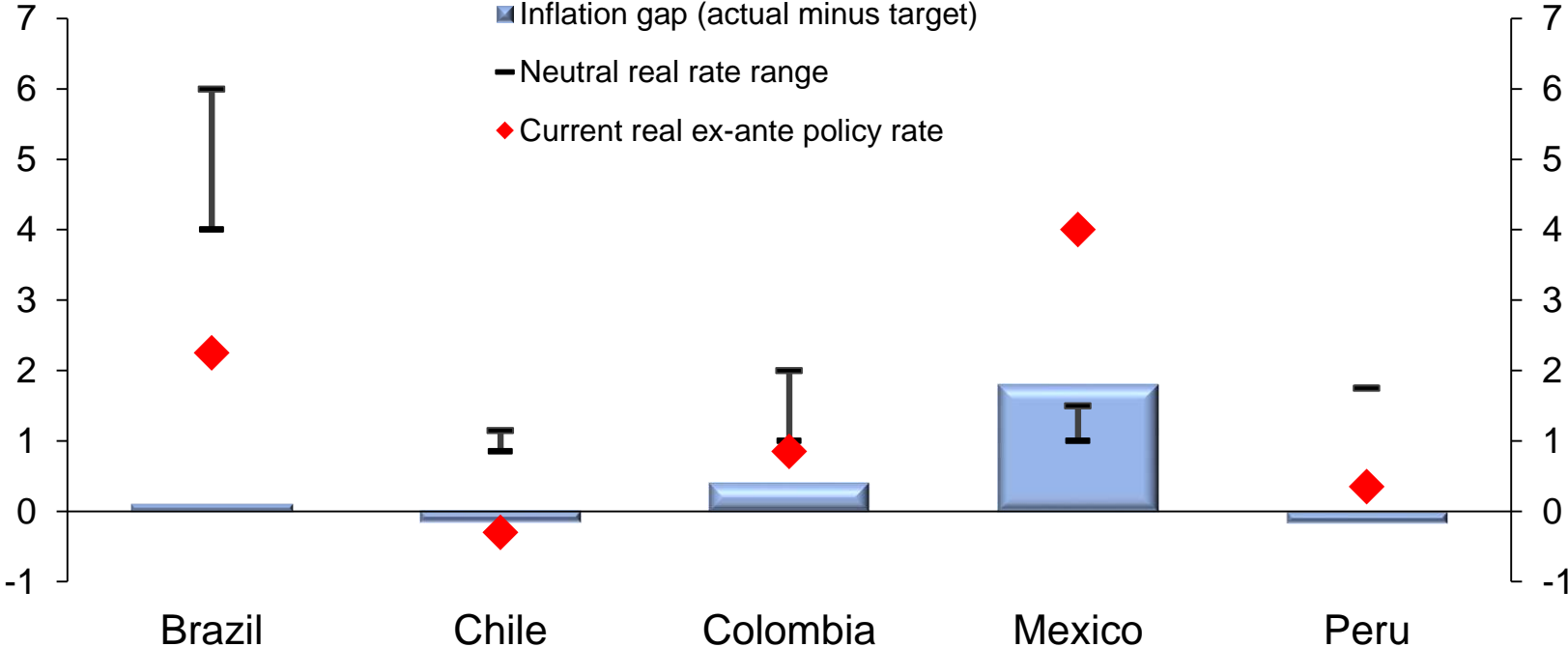


* End of period inflation.

Source: WEO and BCRP–Inflation Report (Peru).

Next year, Latam-5 central banks may begin with the withdrawal of the monetary stimulus

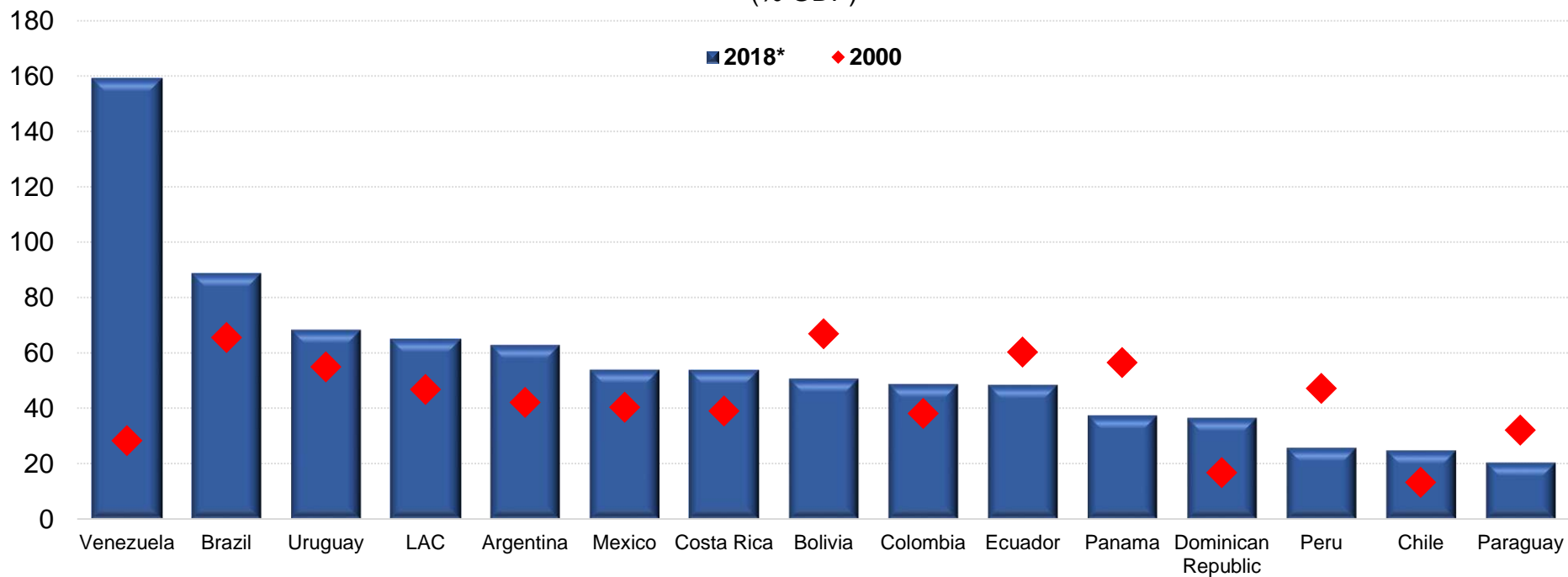
Monetary conditions: inflation gap, neutral interest rate and policy rate



Source: Goldman Sachs and BCRP (Peru).

A group of Latin American countries has promoted government debt reduction in the last 20 years. The other group should reduce its debt in order to achieve fiscal consolidation.

General Government Gross Debt (% GDP)

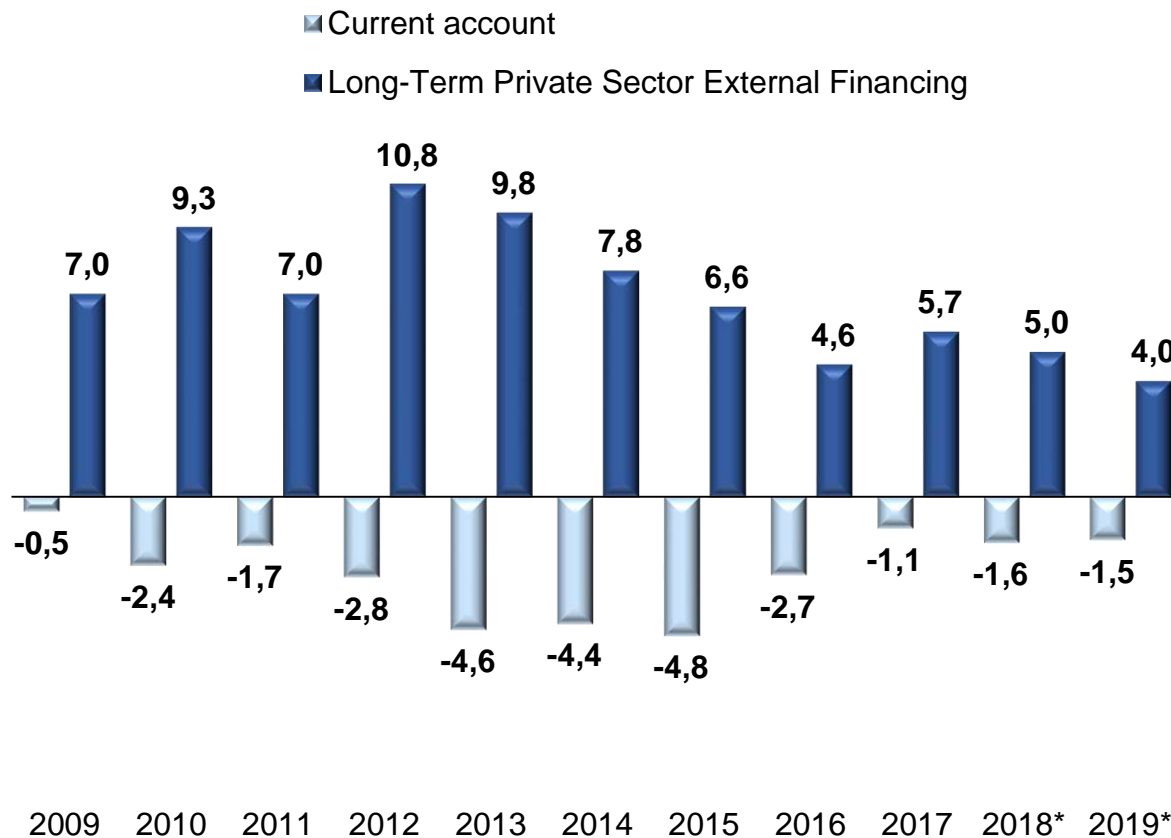


* Forecast

Source: IMF (WEO, October 2018) and BCRP–Inflation Report (Peru).

The current account deficit is expected to remain at sustainable levels (and among the lowest in the region), and will continue to be covered mostly by long-term private sector external financing.

CURRENT ACCOUNT AND LONG-TERM PRIVATE SECTOR EXTERNAL FINANCING^{1/} (% GDP)



% GDP	Current Account Balance		
	2017	2018*	2019*
Argentina	-4,9	-3,7	-3,2
Chile	-1,5	-2,5	-2,7
Colombia	-3,3	-2,4	-2,4
Brazil	-0,5	-1,3	-1,6
Peru	-1,1	-1,6	-1,5
Mexico	-1,7	-1,3	-1,3

* Forecast
Source: IMF (WEO, October 2018) and BCRP (Peru).

1/ Includes net foreign investment, portfolio investment, and private sector long-term disbursements.

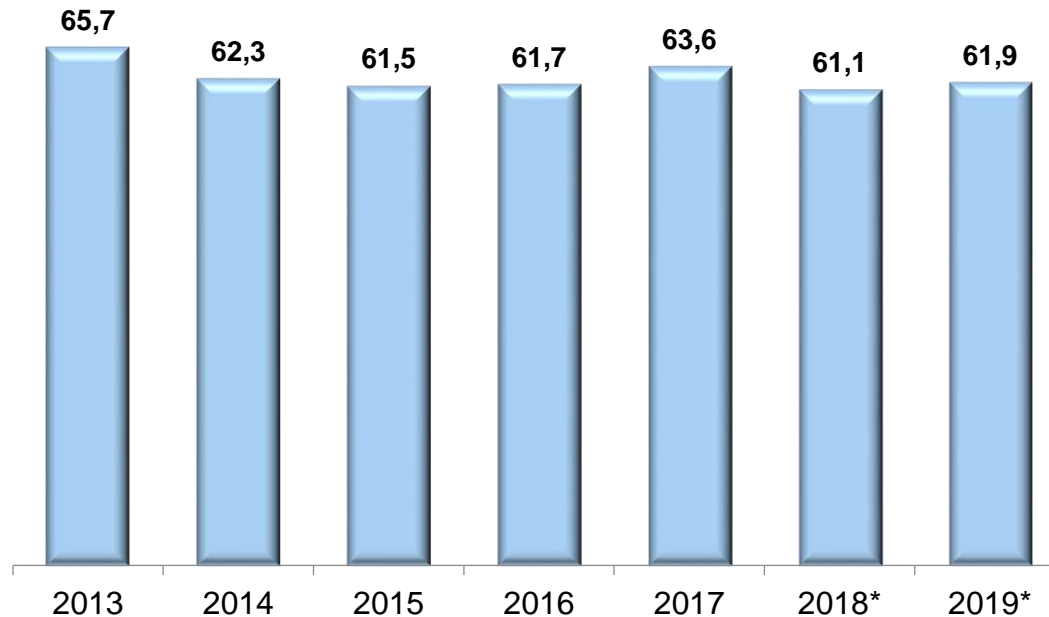
* Forecast.
Source: BCRP – Inflation Report.

Peru's international reserves will be around 26 percent of GDP and will represent 4 times the short-term external debt.

INTERNATIONAL COVERAGE INDICATORS	2013	2014	2015	2016	2017	2018*	2019*
<u>NIR as a % of:</u>							
a. GDP	32,5	30,8	32,1	31,7	29,7	26,9	26,2
b. Short-term external debt ^{1/}	572	550	460	316	453	397	445
c. Short-term external debt plus current account deficit	315	308	273	249	386	322	356

1/ Includes short-term debt balance plus redemption (1-year) of private and public sector.

Net International Reserves
(US\$ billons)

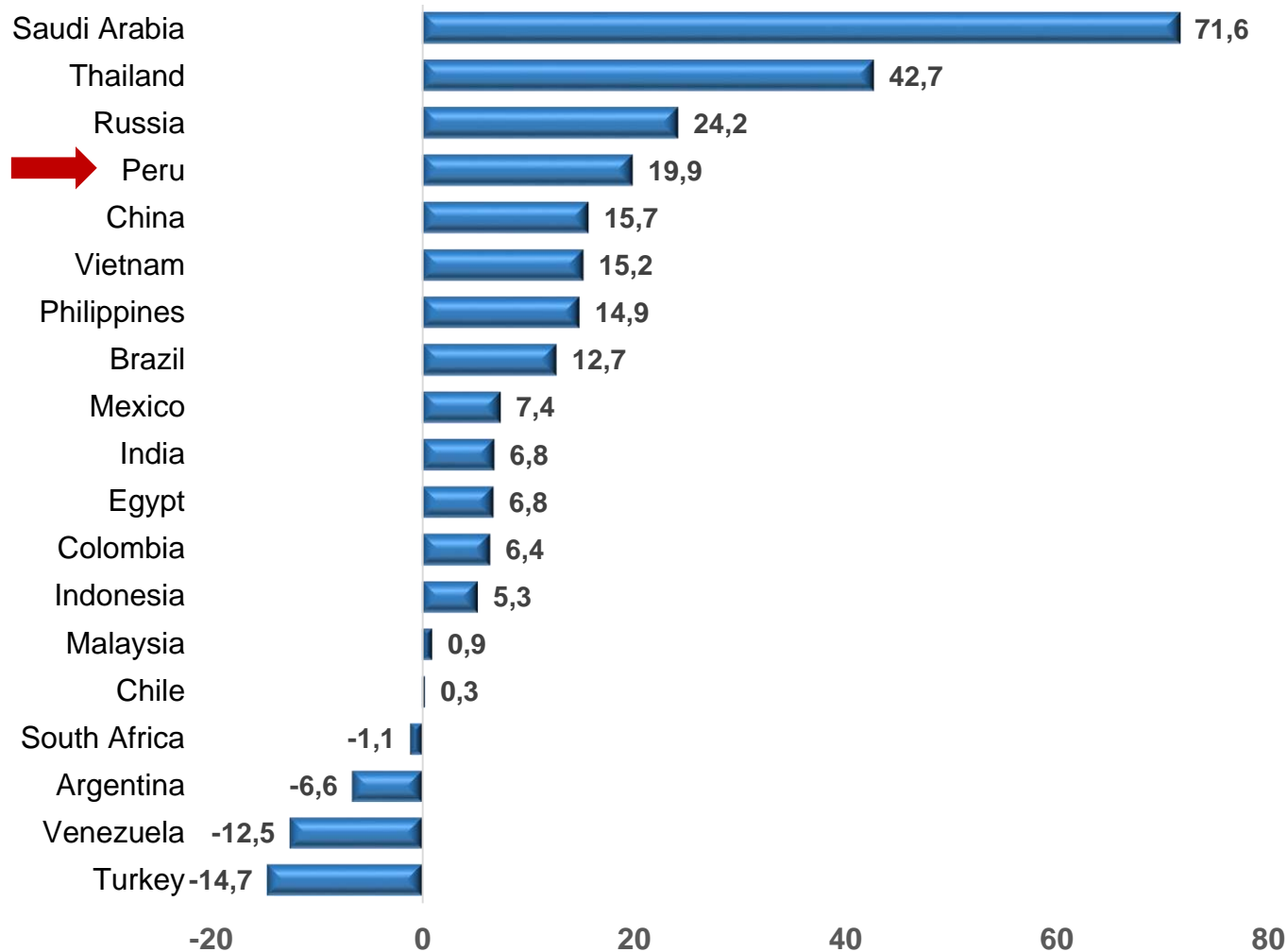


* Forecast.

Source: BCRP – Inflation Report.

The high NIR, a sustainable current account and a low short-term external debt guarantee external soundness...

External Vulnerability Indicator: 2018 (% GDP)

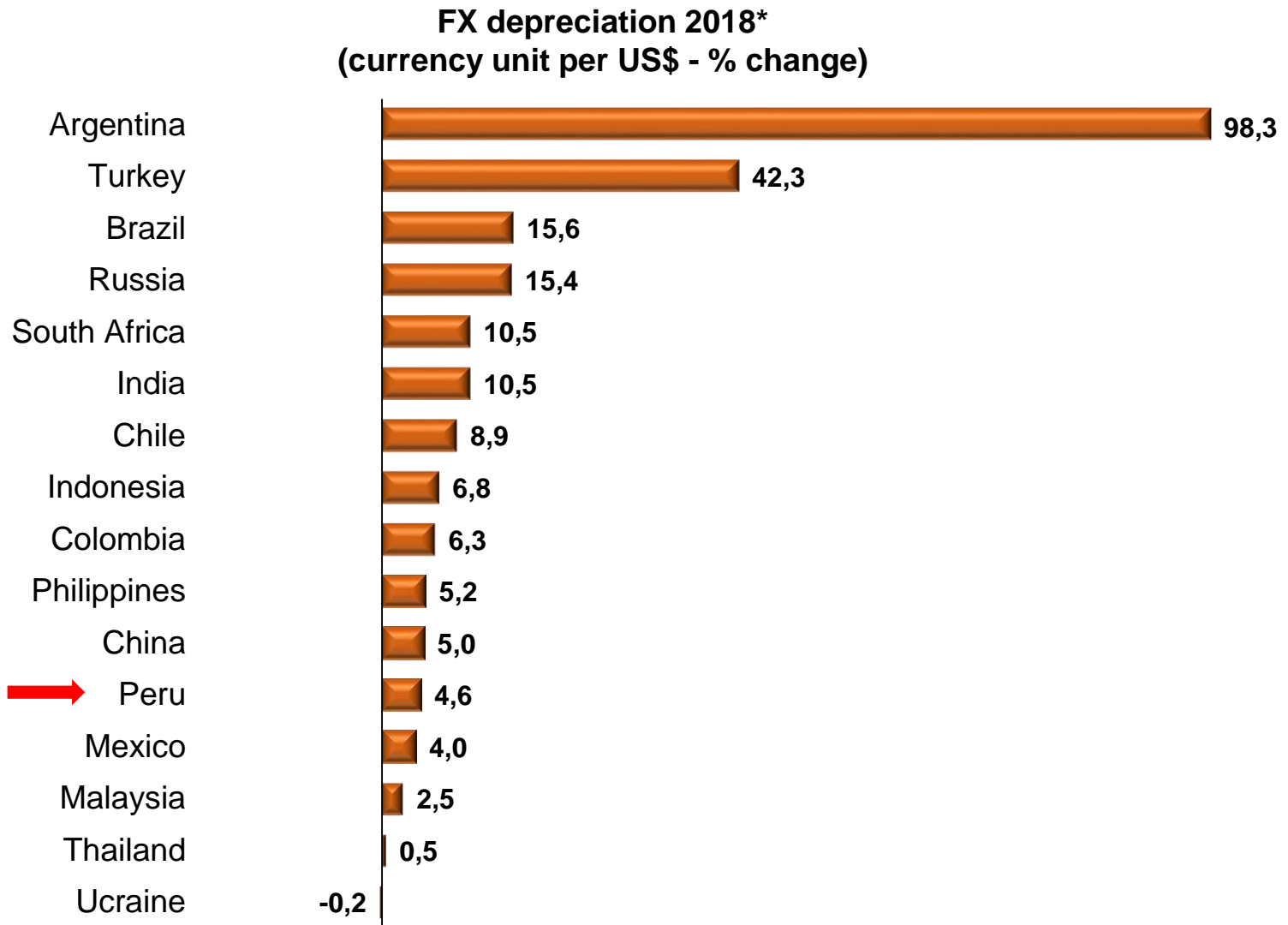


Higher external soundness

Lower external soundness

Note: Indicator = [Official Foreign Exchange Reserves - Short-term External Debt + Current Account Balance] / GDP.
Source: Moody's and BCRP.

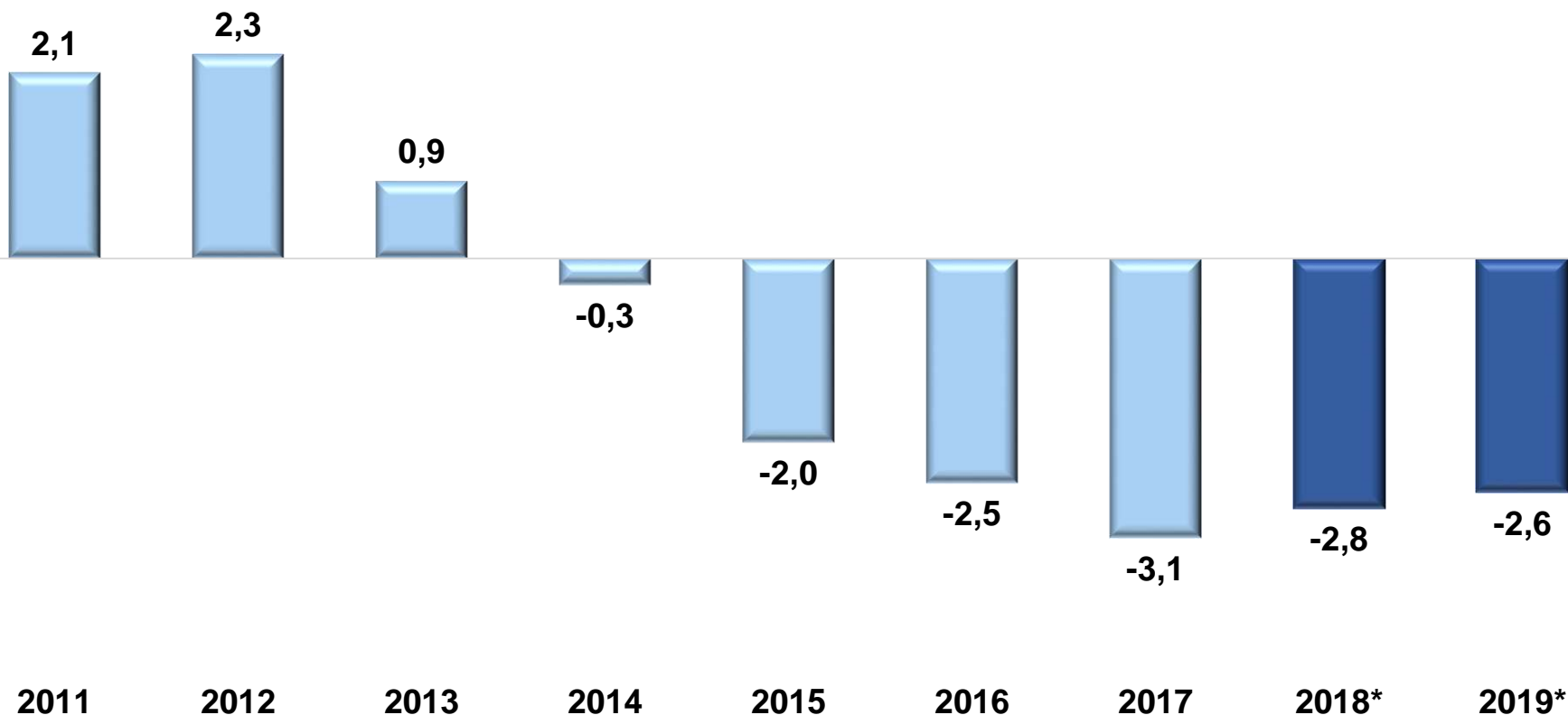
... and allows Peru to soften the impact of external financial shocks.



* Percentage change as of December 4 of 2018 with respect to December 31 of 2017.
Source: Bloomberg and Reuters.

Fiscal deficit will decrease due to higher tax collection and lower tax refunds.

NON-FINANCIAL PUBLIC SECTOR SURPLUS/DEFICIT: 2011 - 2019 (% GDP)



*Forecast.

Source: BCRP- Inflation Report.

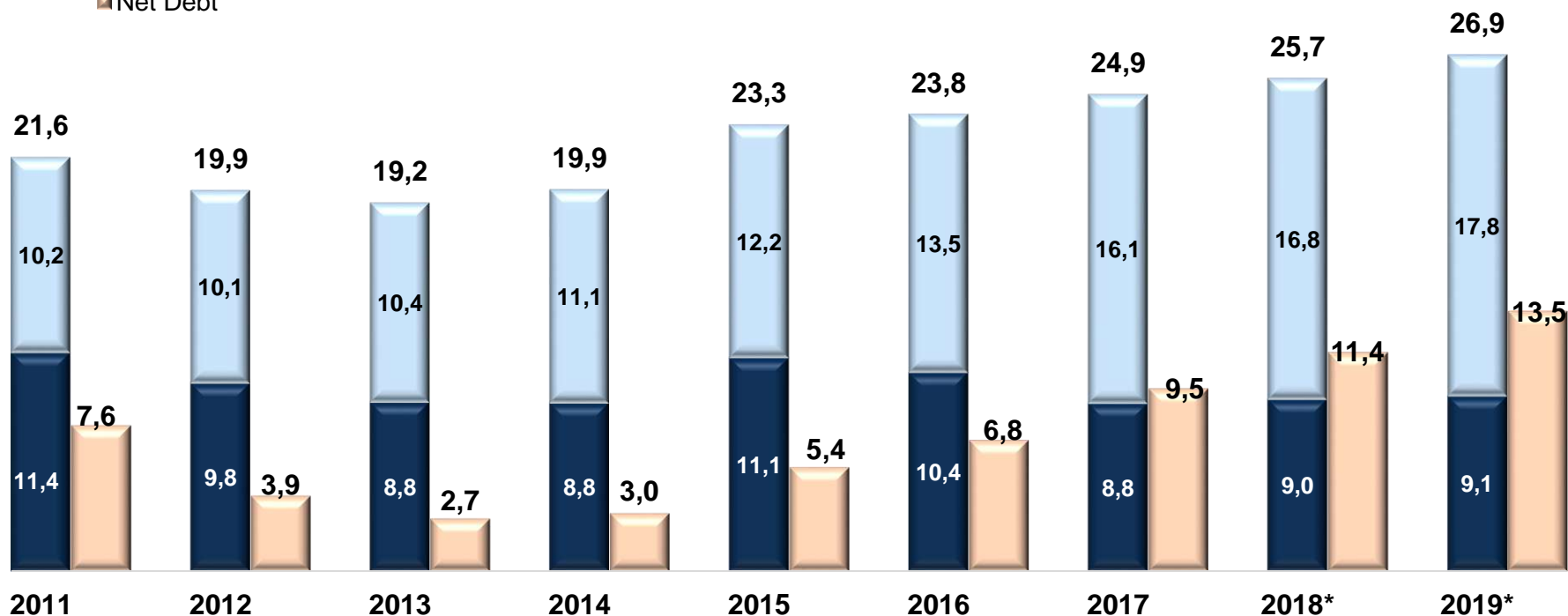
Fiscal deficit path will lead to an increase in the gross debt, but up to sustainable levels.

NON FINANCIAL PUBLIC SECTOR DEBT: 2011 - 2019 (% GDP)

March 2018

- Gross Debt in foreign currency
- Gross Debt in local currency
- Net Debt

Average maturity of debt (years)	12,1
Share of debt in foreign currency (%)	65

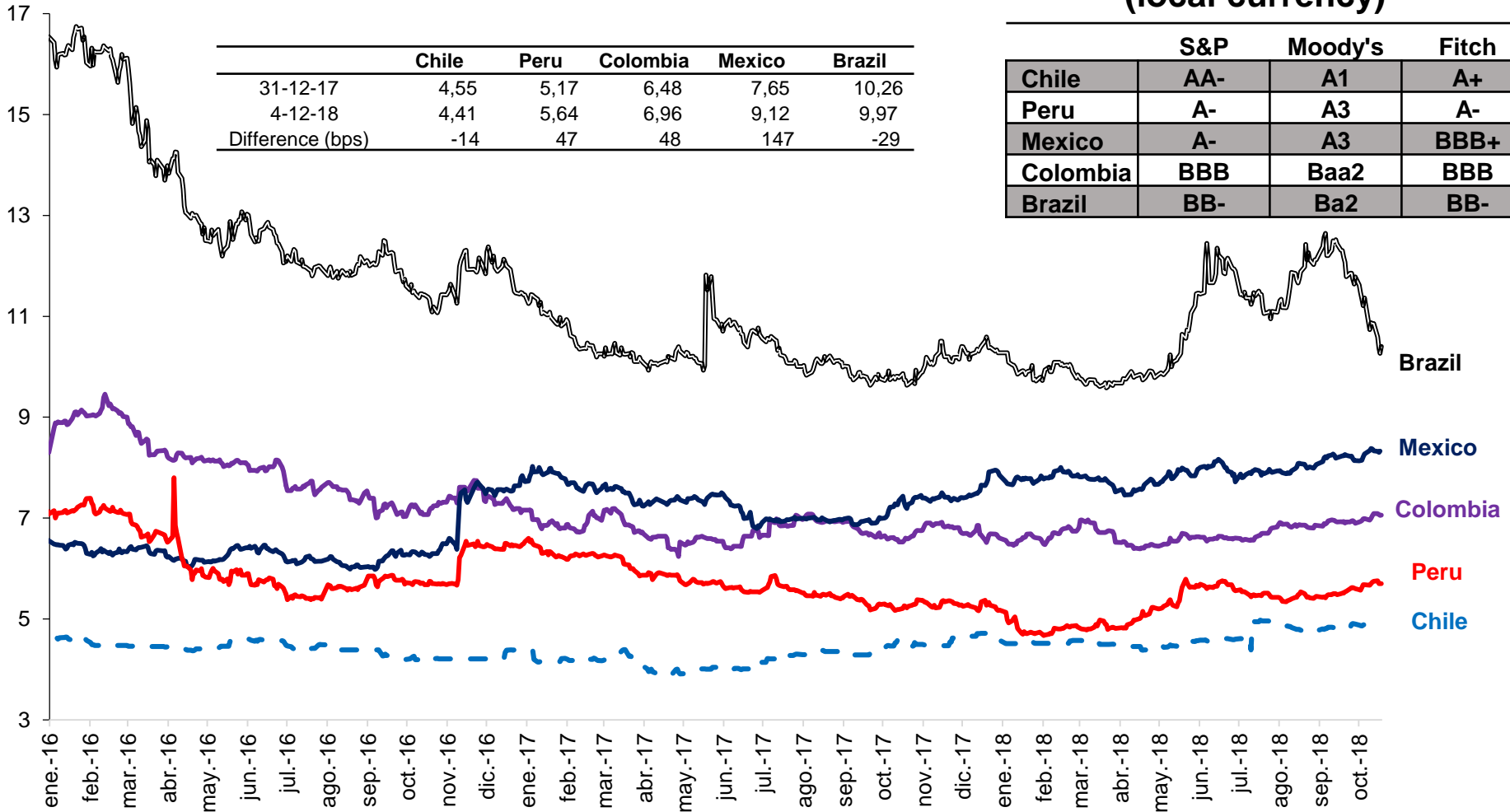


*Forecast.

Source: BCRP – Inflation Report.

Sovereign yields reflect a positive investor sentiment towards Peru's financial position. Peru's solid macroeconomic indicators provide assurances of a sound economic performance.

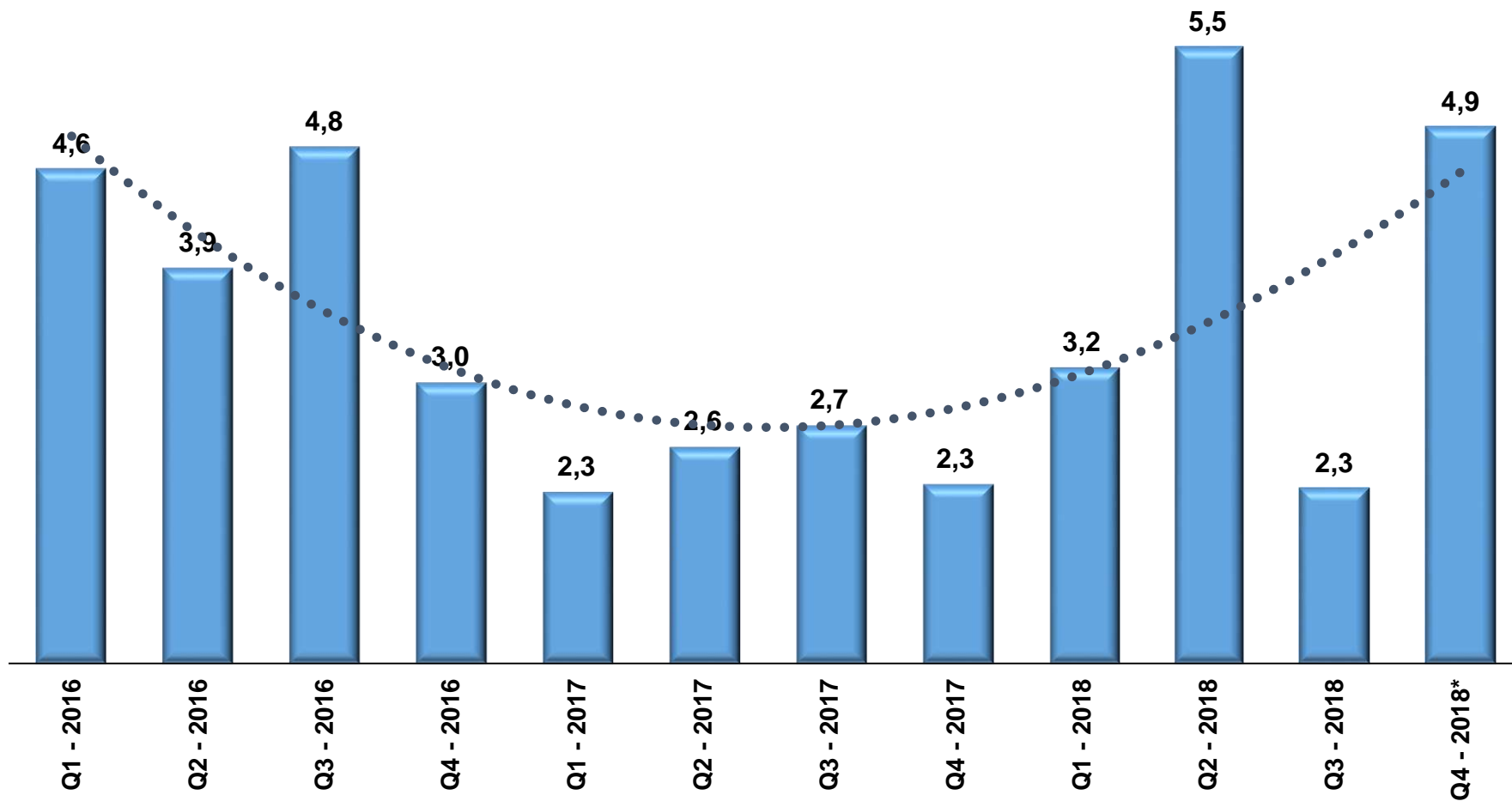
10-Year Sovereign Yields in Local Currency



Source: Bloomberg and Ministry of Economic and Finance (MEF).

Economic activity has been recovering since the second quarter of 2017.

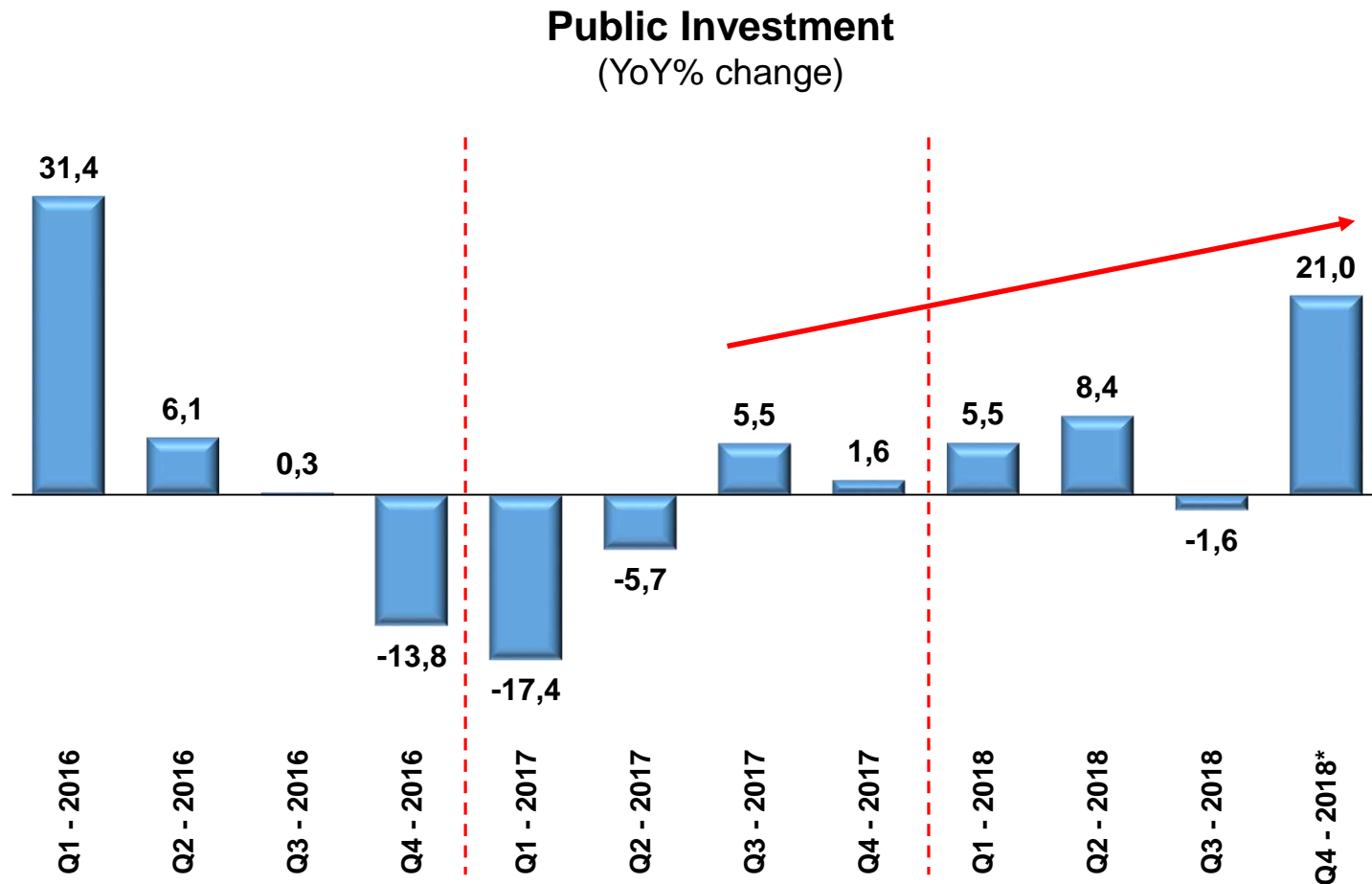
GDP growth
(YoY% change)



*Forecast.

Source: BCRP – Inflation Report.

Public investment has increased in line with progress of the works on the Pan American Games and the El Niño Reconstruction program.

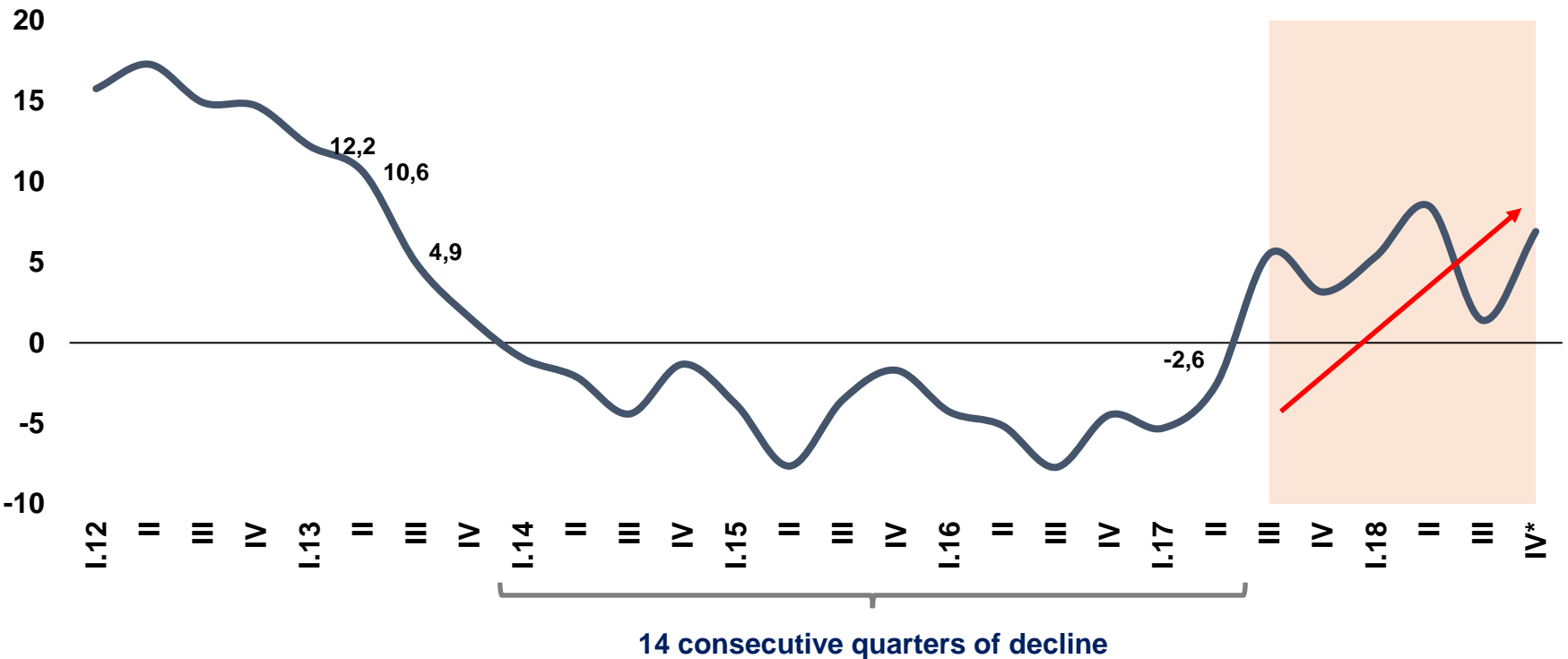


*Forecast.

Source: BCRP – Inflation Report.

After 14 consecutive months of decrease, private investment has recovered since the second half of 2017.

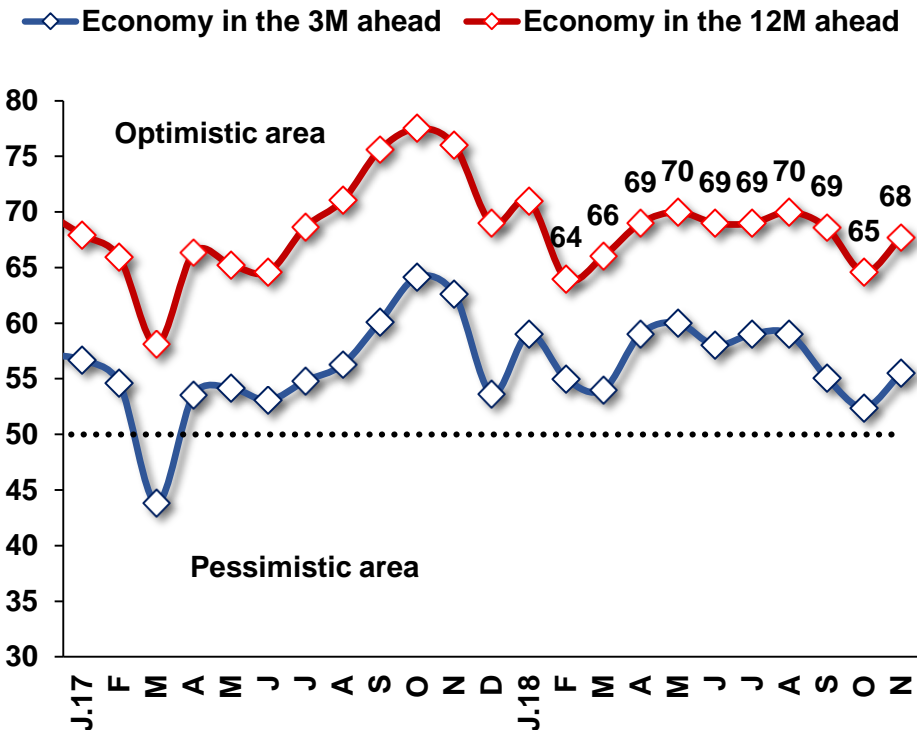
Private Investment
(YoY% change)



*Forecast
Source: BCRP – Inflation Report.

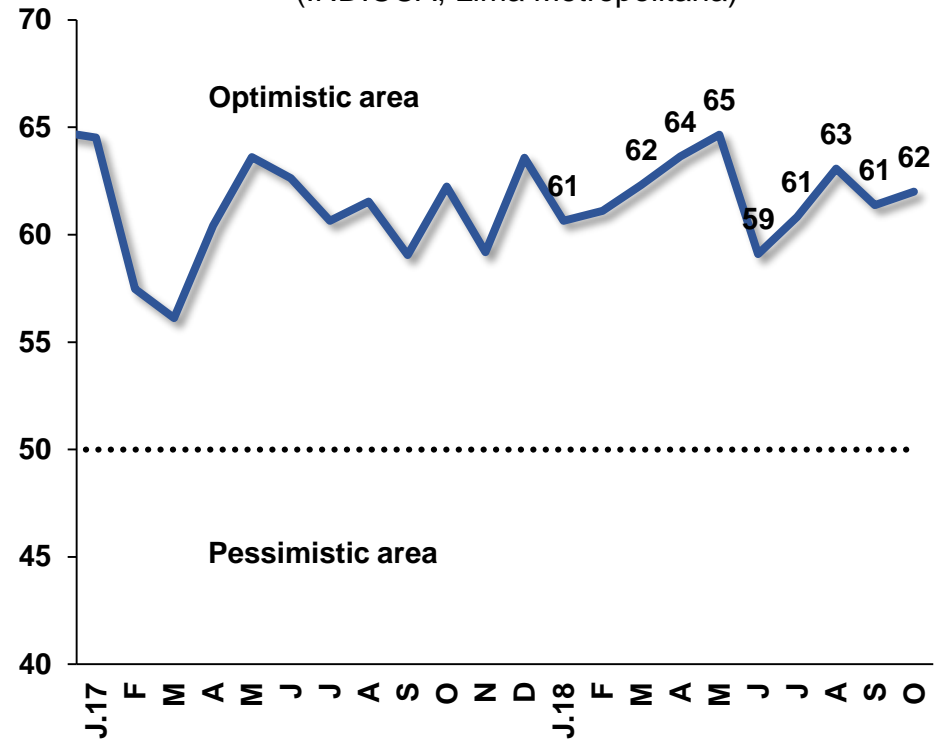
Private sector confidence remains high.

Business expectations on the economic situation for the three and twelve months ahead



Business expectations on the familiar economy situation for the twelve months ahead

(INDICCA, Lima Metropolitana)



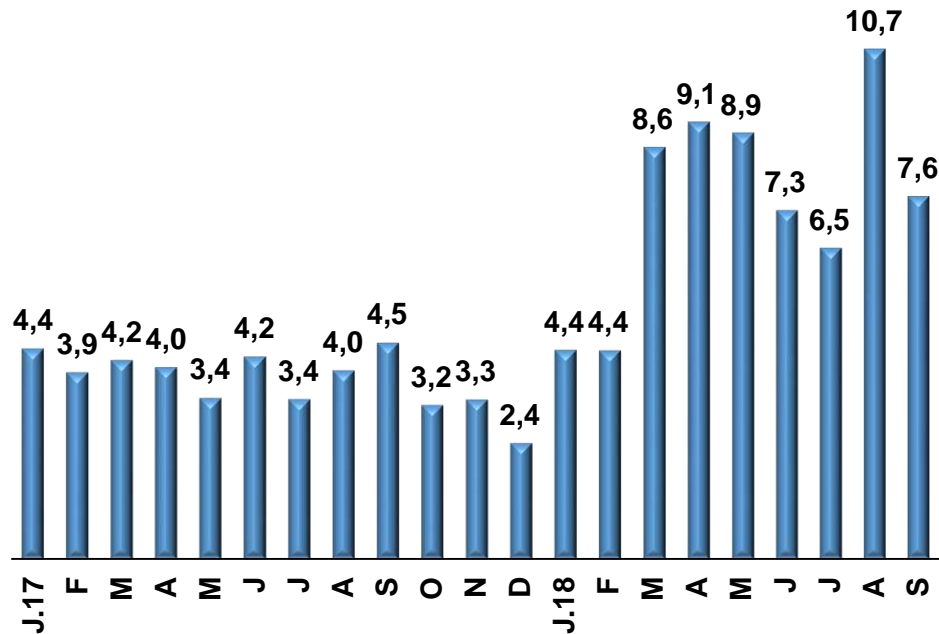
Source: Apoyo, BCRP.

Expected investment 2019-2021: over US\$ 28 billion.

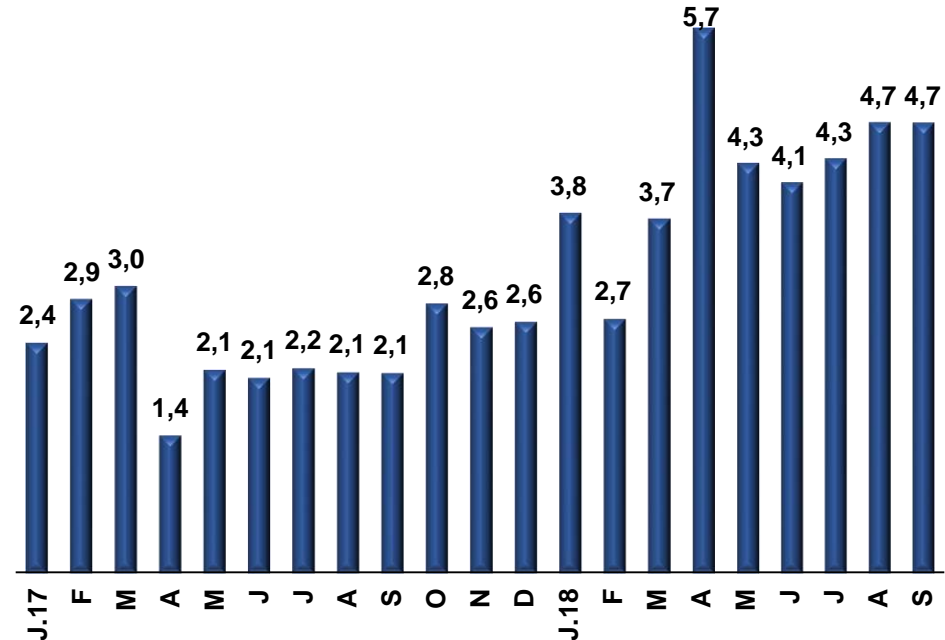
SECTORS (US\$ millions)	2019-2021: MAIN INVESTMENT PROJECTS (US\$ millions)	
Mining (14 690)	<ul style="list-style-type: none"> • Quellaveco (3 450) • Pampa del Pongo (1 800) • Mina Justa (1 230) 	<ul style="list-style-type: none"> • Zafranal (895) • Michiquillay (700)
Infrastructure (6 026)	<ul style="list-style-type: none"> • Lima Metro Line 2 (1 450) • Expansion of Lima's Jorge Chavez International Airport (1 000) • Port terminals – Arequipa, Salaverry, Chancay, Paita, Ica y Loreto (1 118) • Highways (955) 	
Hydrocarbons (2 213)	<ul style="list-style-type: none"> • Block 39 exploration (730) • Block Z-2B exploration and drilling (400) 	
Electricity (1 592)	<ul style="list-style-type: none"> • Santa Teresa II Hydroelectric expansion (450) • Majes I and Majes II Hydroelectric (350). 	
Industrial (806)	<ul style="list-style-type: none"> • Mitsubishi Phosphate Processing Plant (430) 	
Other sectors (2 732)	<ul style="list-style-type: none"> • Intercorp Shopping Center (EX-San Martin quarter) Lima (650) 	

Private consumption has been driven by better labor market conditions.

Total Income of Private Formal Employment
(YoY % nominal change)



Private Formal Employment
(YoY % change)



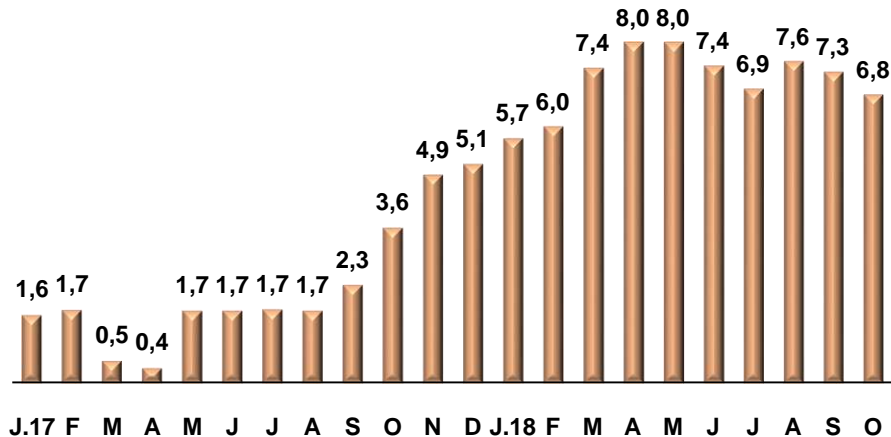
Jan-Set. 2018

Total	4,2
Agricultural exports	17,1
Agriculture and livestock	17,4
Mining	3,5

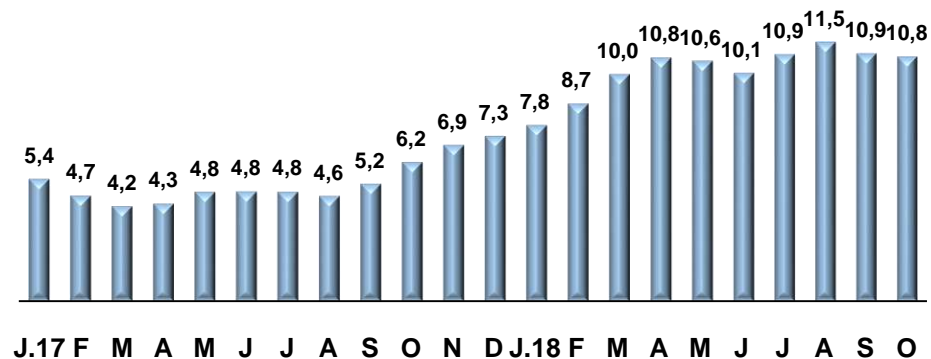
Source: SUNAT

Financial Sector indicators show clear signs of greater dynamism.

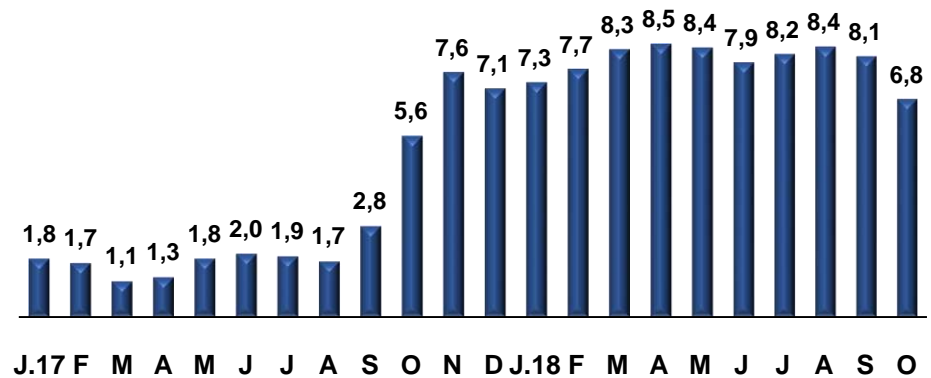
Credit to the Private Sector (YoY % change)



Consumption (YoY % change)

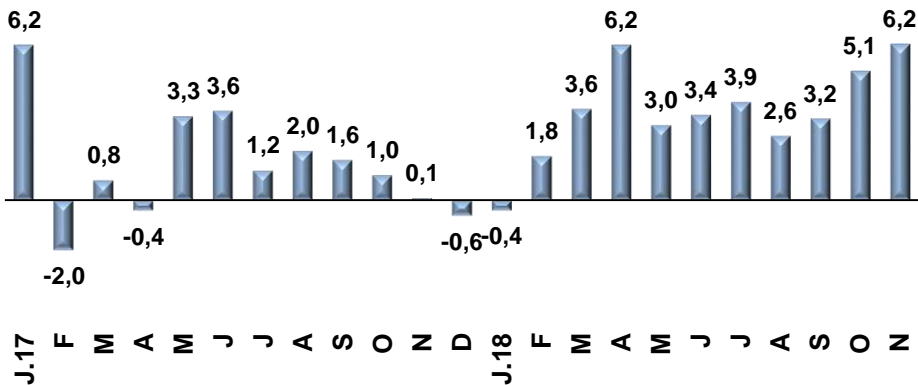


Mortgages (YoY % change)

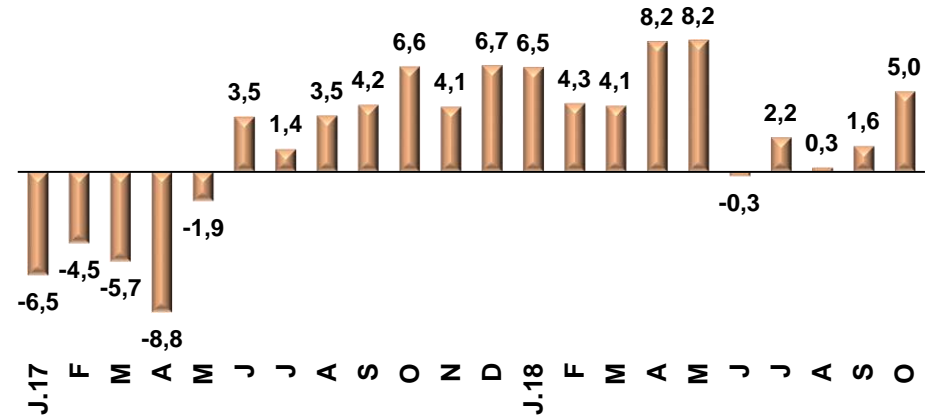


Electricity and cement consumption has accelerated

Electricity
(YoY % Chg.)



Cement consumption
(YoY % Chg.)



Source: BCRP.

Consequently, GDP is expected to grow 4% in the next two years, driven by domestic demand, particularly investment and private consumption.

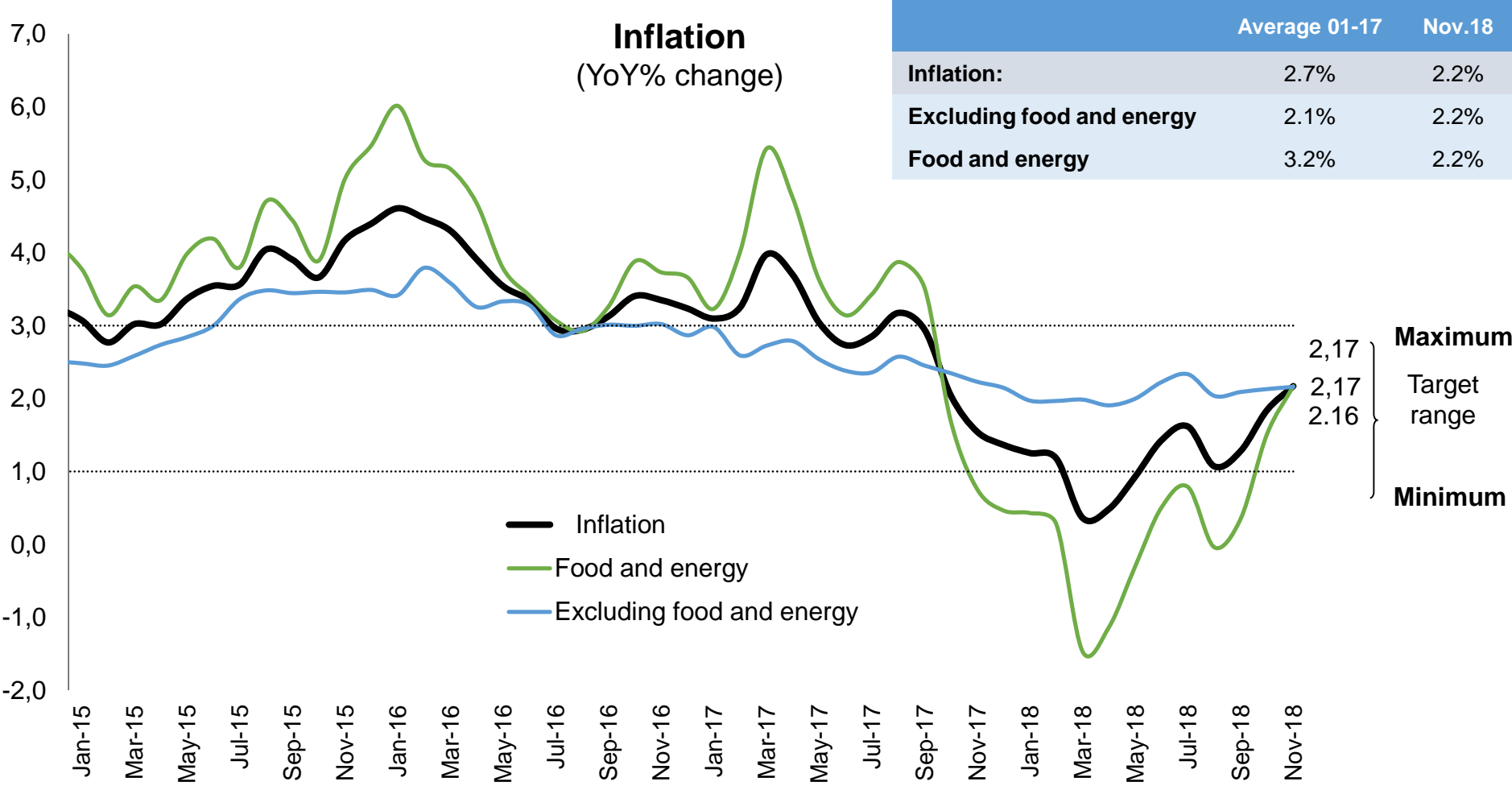
GDP
(YoY % Chg.)

	Average 2007-2016	2017	2018*	2019*
Domestic Demand	6,4	1,4	4,4	4,0
Private consumption	6,1	2,5	3,8	3,6
Public consumption	6,3	0,2	3,4	3,2
Private investment	7,9	0,2	5,5	6,5
Public investment	9,1	-2,3	9,9	2,8
Exports	4,0	7,8	3,5	4,6
Imports	7,2	4,1	5,0	4,7
GDP	5,5	2,5	4,0	4,0
<i>Memo:</i>				
Primary GDP	3,6	3,1	2,6	4,2
Non-primary GDP	6,1	2,3	4,3	4,0

*Forecast.

Source: BCRP – Inflation Report.

Inflation has remained in the target range since June.

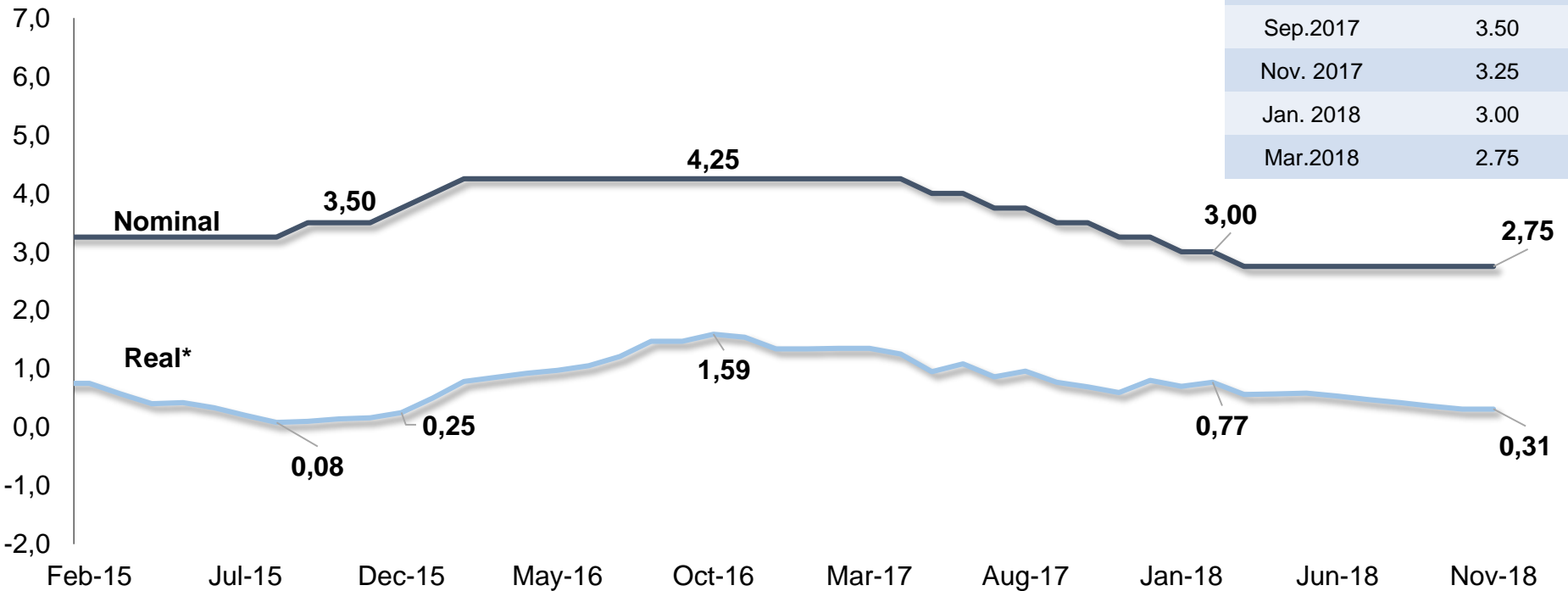


Source: BCRP.

Since March, the Central Bank has maintained its interest rate at 2.75%.

Nominal and Real Reference Rate (%)

	Reference rate (%)
Dec. 2016	4.25
May. 2017	4.00
Jul. 2017	3.75
Sep. 2017	3.50
Nov. 2017	3.25
Jan. 2018	3.00
Mar. 2018	2.75

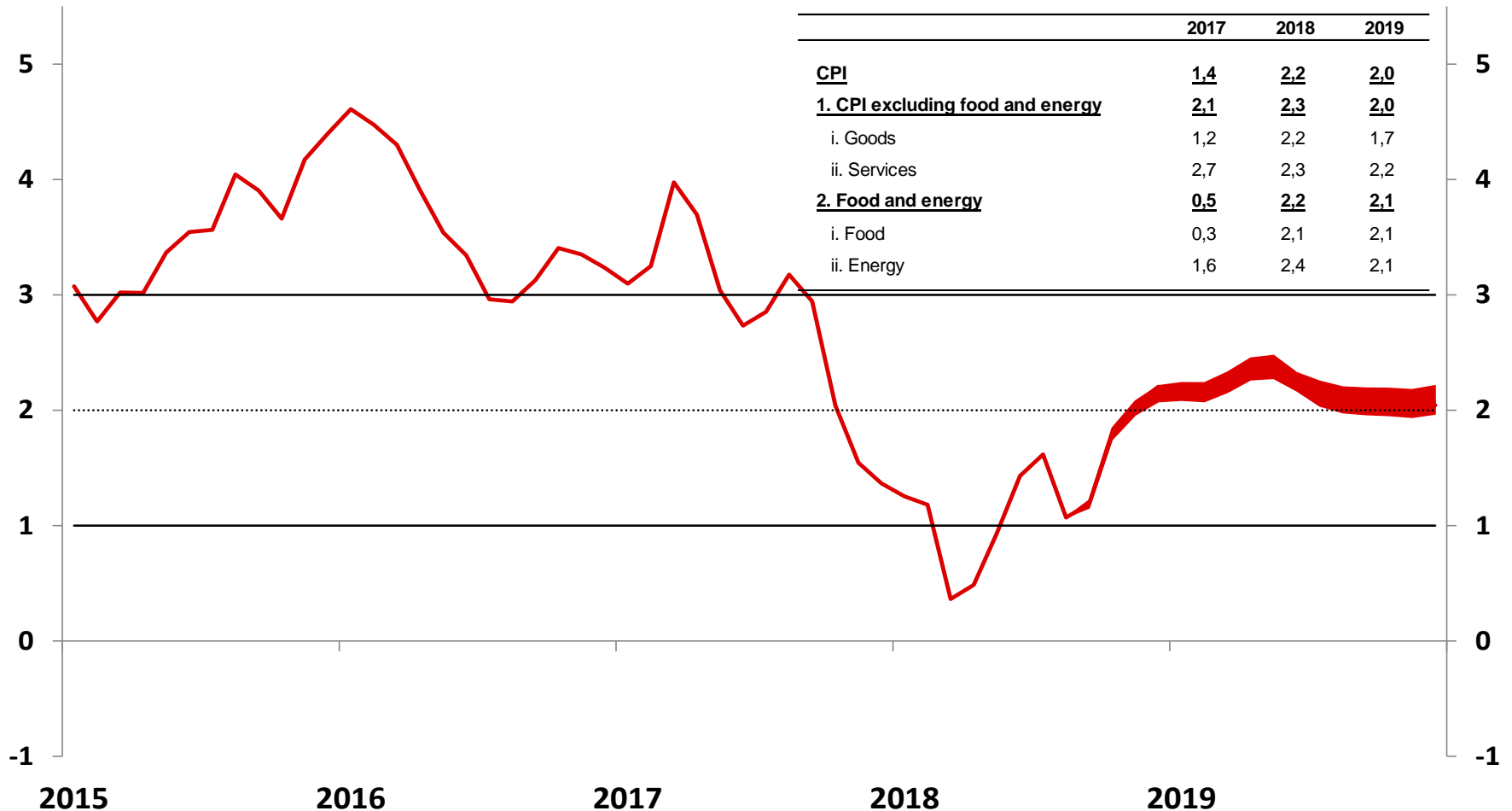


*Ex-ante (with the inflation expectation one year ahead)

Source: BCRP.

Inflation is expected to converge towards the target center in 2019.

Inflation Forecast 2018 – 2019



Source: BCRP – Inflation Report.



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