



Lima, Peru
December 5, 2019

**BUILDING THE FUTURE:
INFRASTRUCTURE
AND GROWTH IN PERU**

#PeruCOA

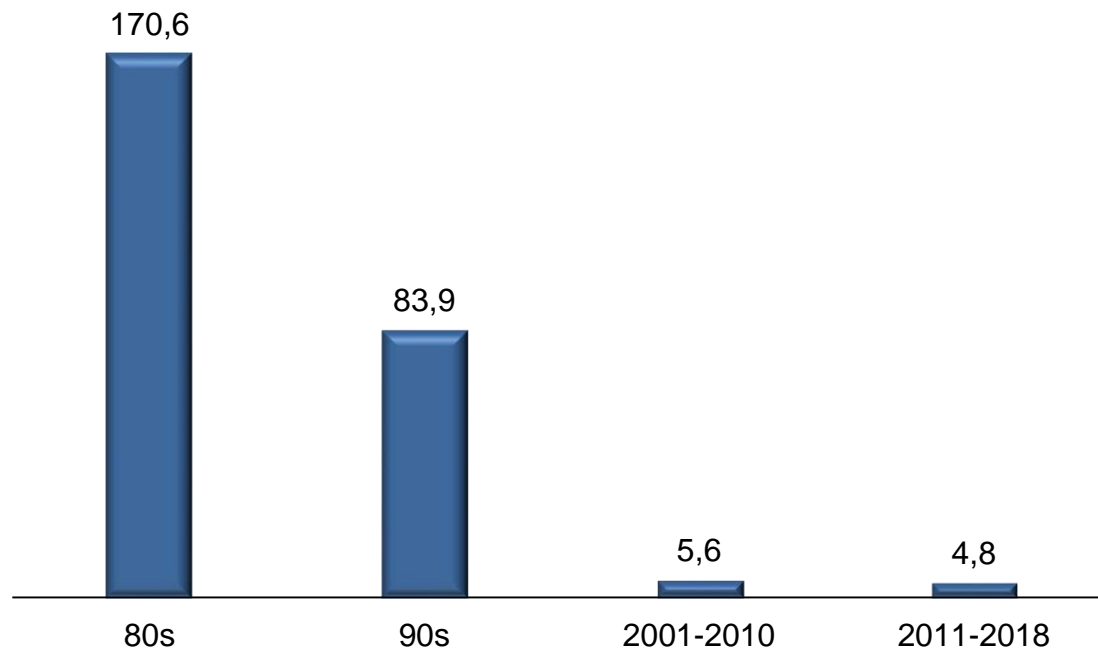
Economic Perspectives in Peru

**Julio Velarde
Governor
Central Bank of Peru**

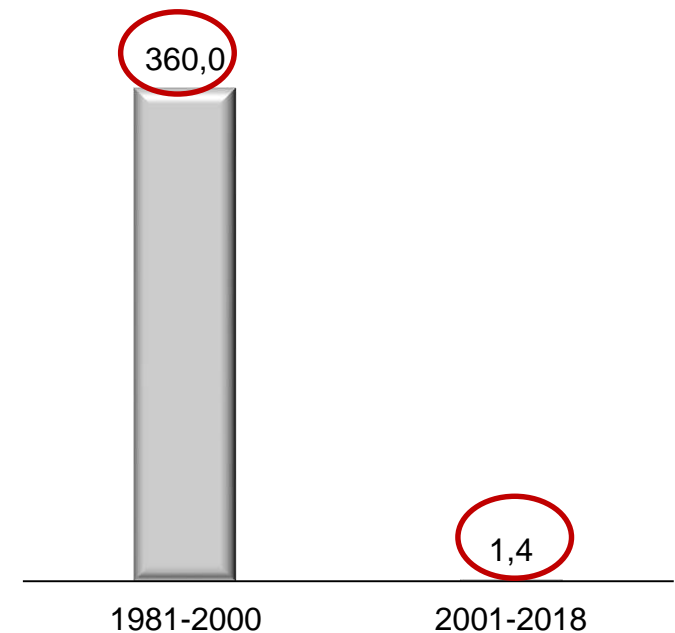
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Over the last two decades, IT LatAm countries have shown lower inflation rates and volatility that assure greater macroeconomic stability.

LatAm: Inflation rates in IT^{1/} countries
(Annual average)



LatAm: Inflation volatility in IT countries



Note: Average inflation by regime is calculated using 2018's GDP (PPP adjusted) share in the region and end-of-period CPI.

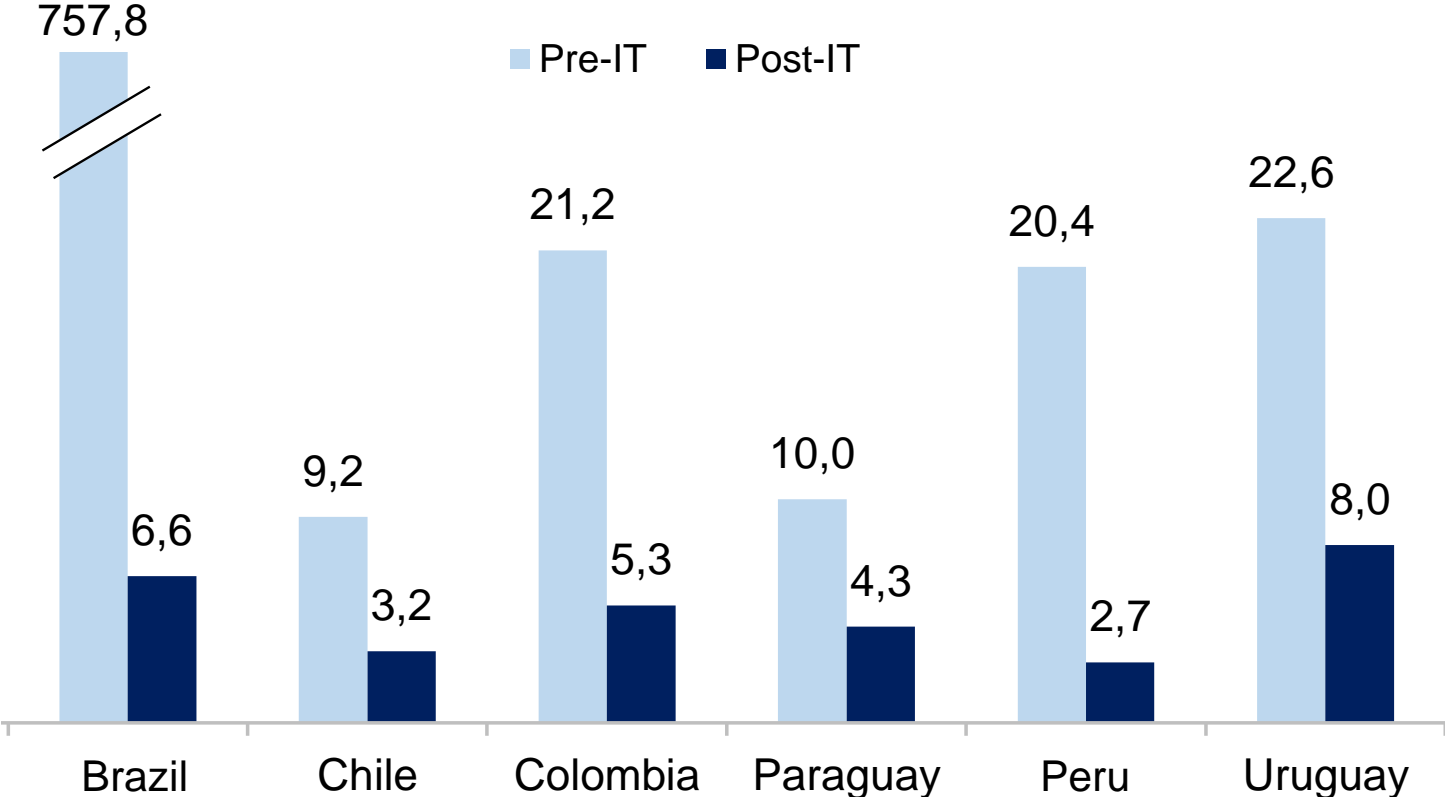
1/ IT countries include Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, Mexico, Paraguay, Peru, and Uruguay.

Source: IMF-WEO

Note: Volatility is measured using the standard deviation.
Source: IMF-WEO.

Among the main LaTam countries, IT allowed the consolidation of the price stability gains achieved in the early 2000s.

Average inflation rate before and after IT adoption (percentage)



Pre-IT: since January 1992.

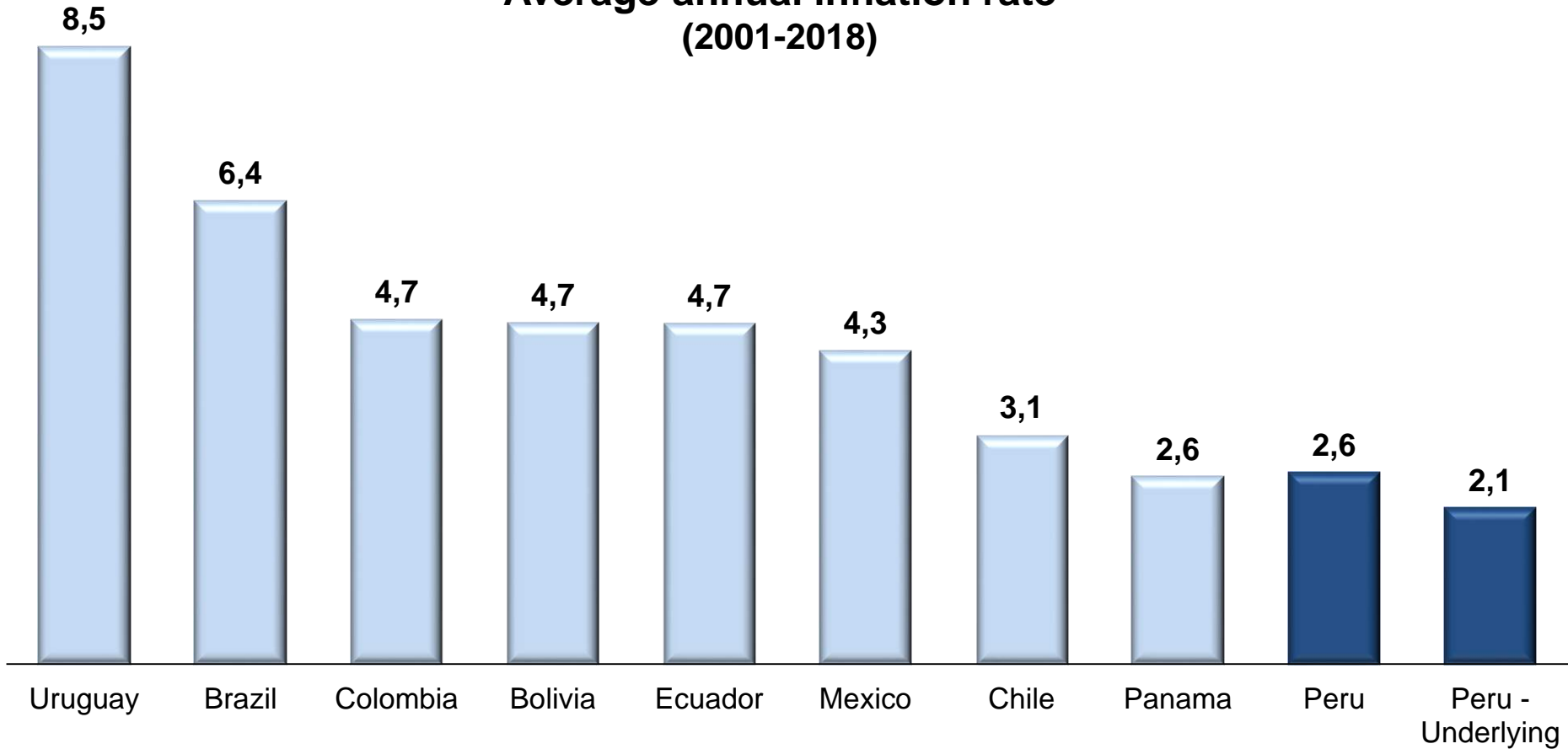
Post-IT: until June 2018.

Calculated using average CPI.

Source: Mercosur survey (2018).

Peru has achieved the lowest and less volatile inflation in the region since 2001.

**Average annual inflation rate
(2001-2018)**



Standard deviation

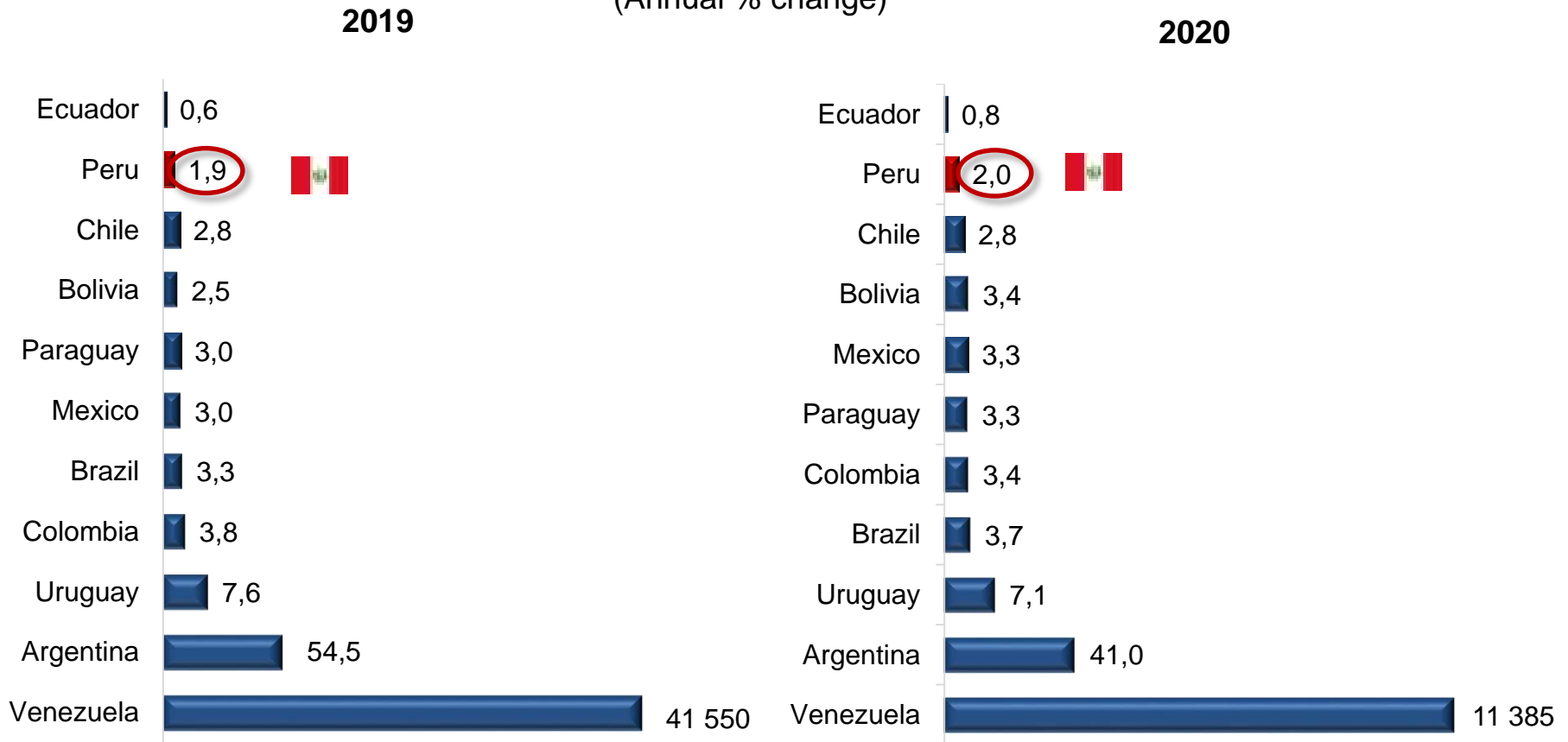
4,6	2,5	1,8	3,2	5,1	1,2	2,1	2,3	1,7	0,9
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Note: Calculated with the end-of-period CPI.

Source: IMF and BCRP (Peru).

Peru's inflation will remain among the lowest in the region.

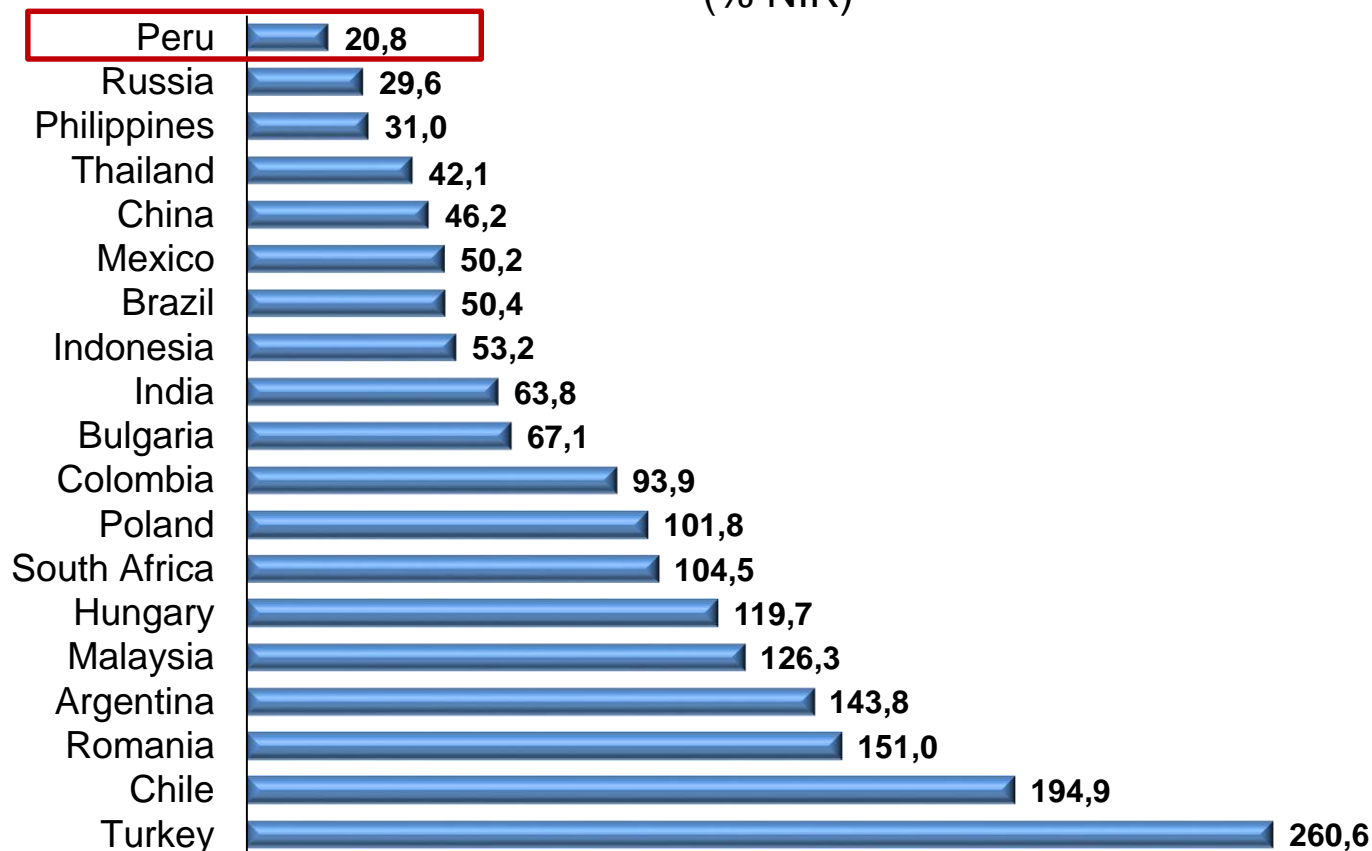
Inflation: Latin America (Annual % change)



Source: Consensus Forecasts (November 2019) and BCRP (Peru).

Peru also highlights because of its external financial strength to face potential capital outflows.

External financial vulnerability indicator: 2019* (% NIR)



Higher external
financial strength

Higher external
vulnerability

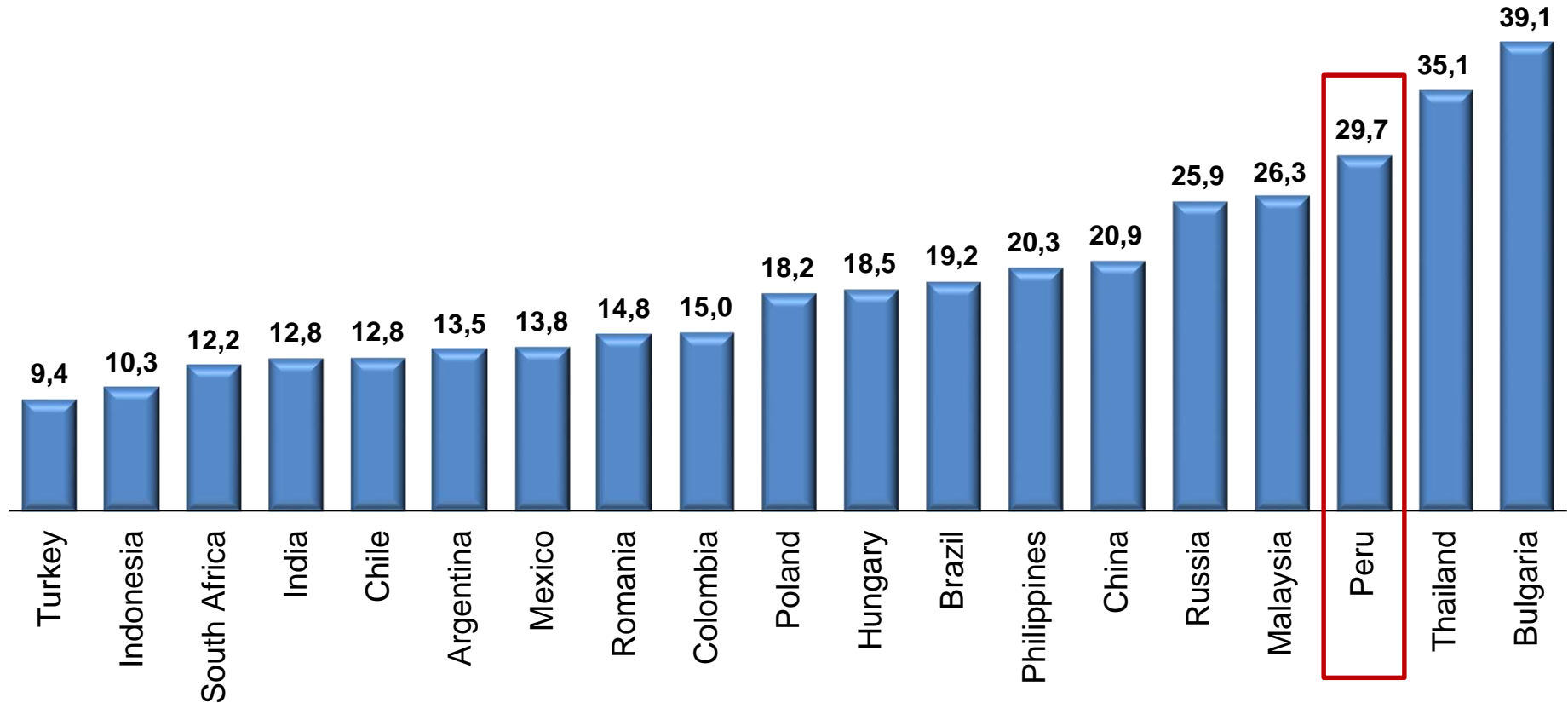
*Forecast.

Note: Indicator = [Short-term external debt + maturities of long-term external debt + more than 1 year non-resident deposits] / NIR x 100.

Source: Moody's and BCRP (Peru).

International Reserves – GDP ratio also shows Peru’s external financial strength.

Net International Reserves as a % of GDP: 2019*

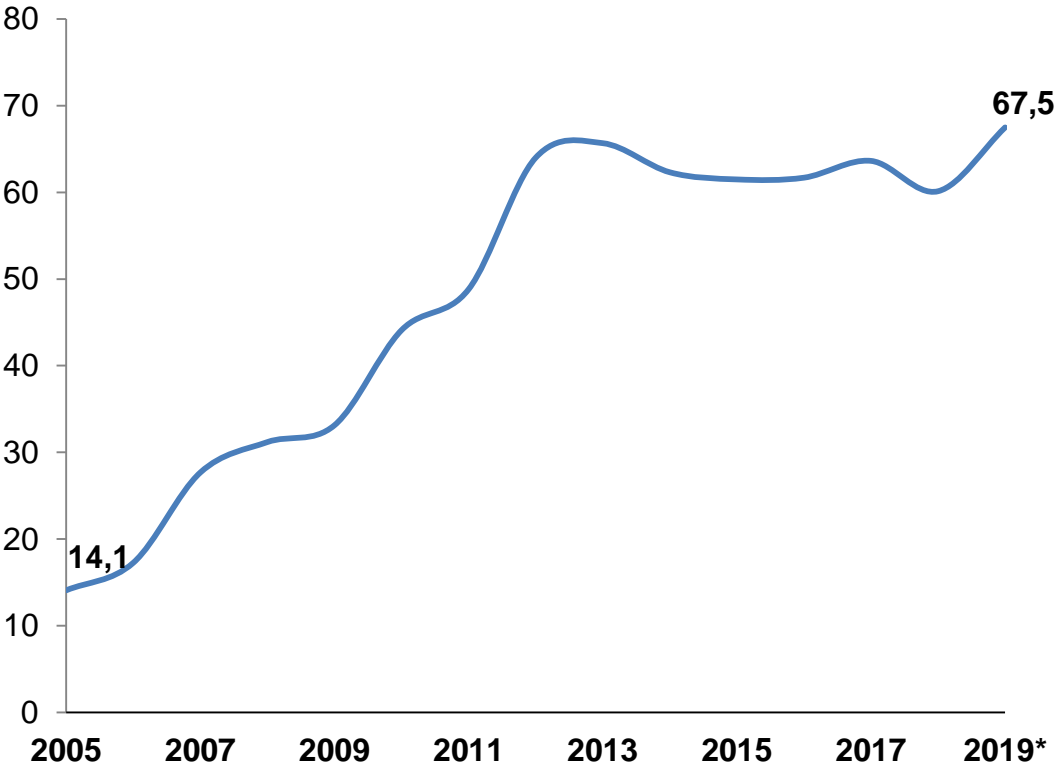


*Forecast.

Source: Moody's and BCRP (Peru).

International Reserves represent more than five times our short-term external obligations.

Net International Reserves (US\$ Billions)



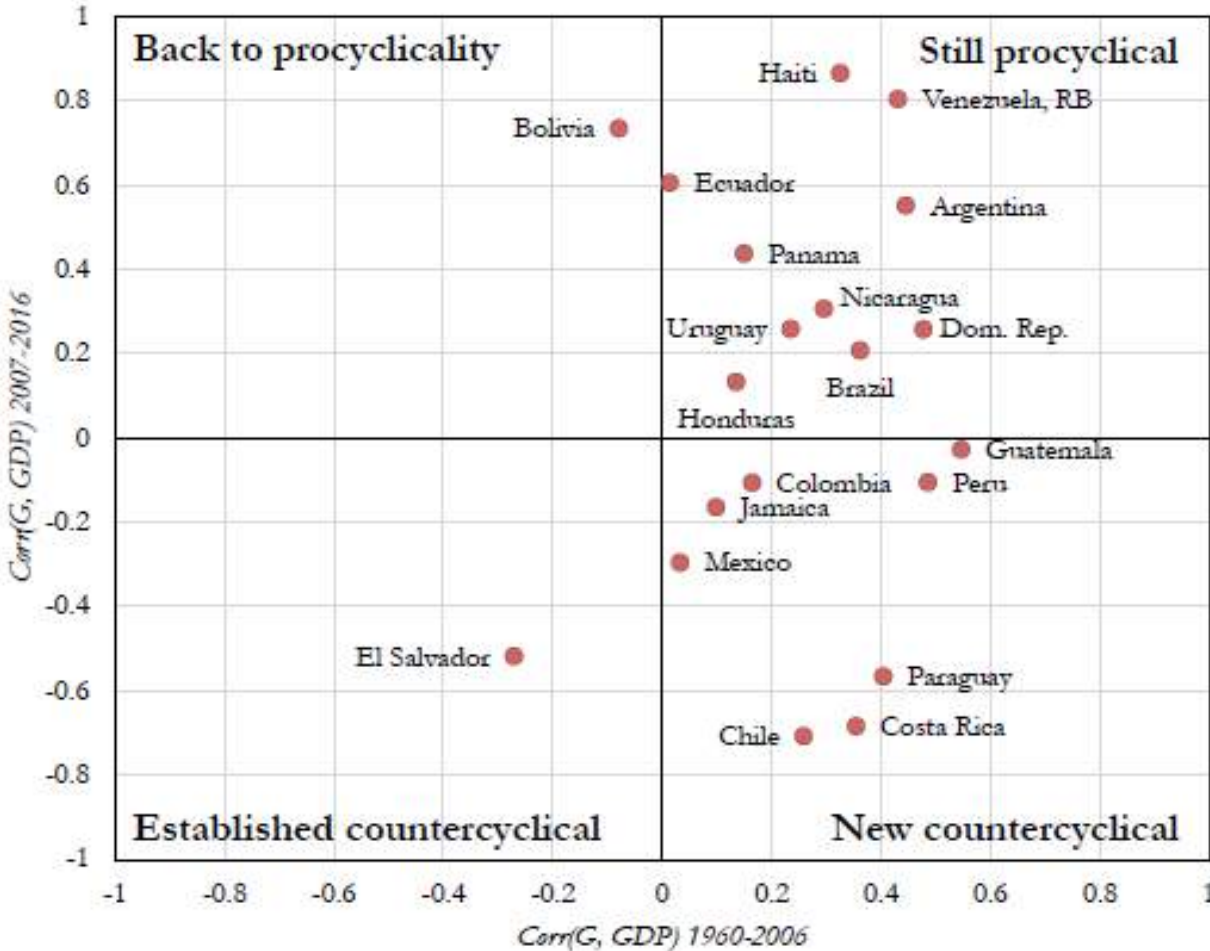
NIR	2018	2019*	2020*
As a % of:			
a) GDP	26,7	29,7	29,2
b) Short-term external debt^{1/}	395	552	559
c) Short-term external debt plus current account deficit	320	409	401

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

*Forecast.
Source: BCRP.

*As of November 27th, 2019.
Source: BCRP.

Fiscal procyclicality during boom periods has decreased in Latin America, although not enough to ensure adequate savings for downturns.



Source: "Leaning against the wind: fiscal policy in Latin America and the Caribbean in a historical perspective." World Bank (2017).

The level of Peruvian public debt consolidates fiscal solvency.

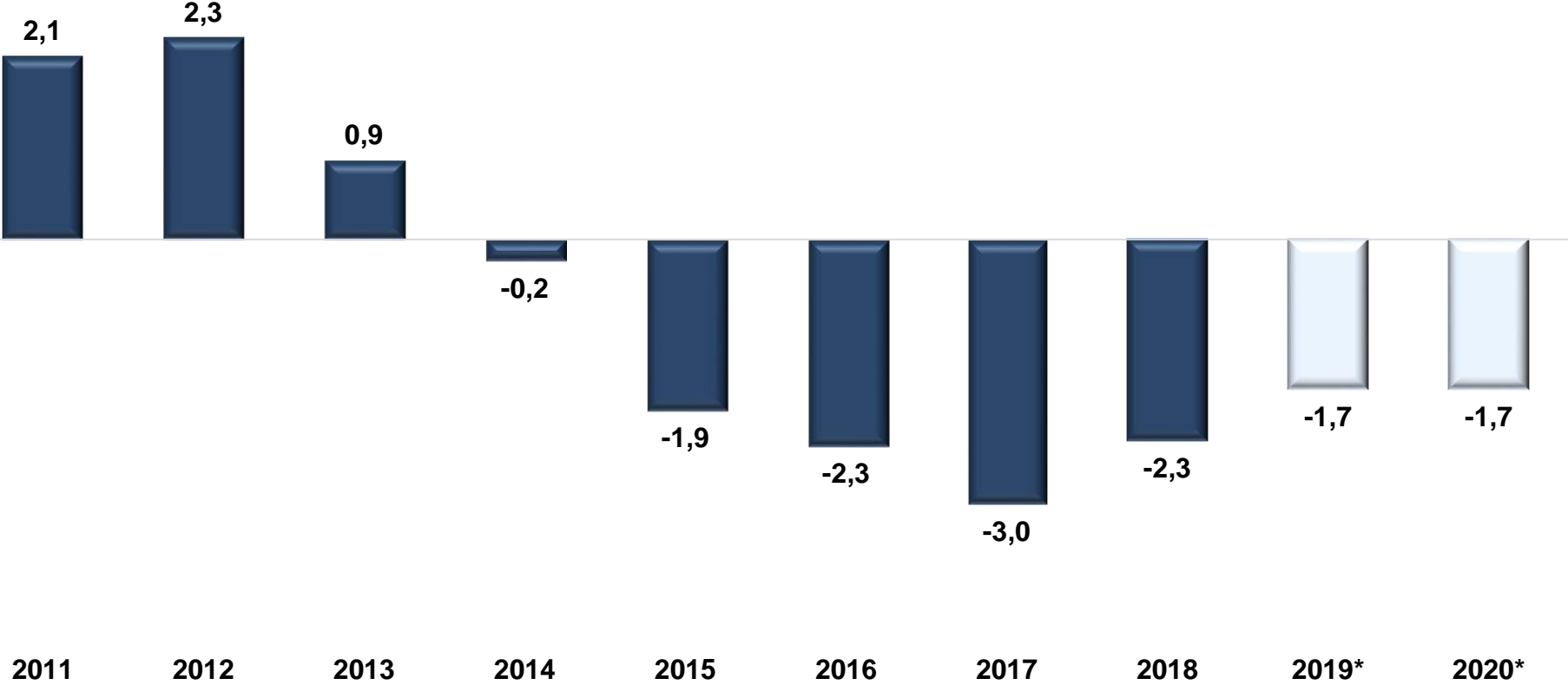
General Government Gross Debt (% GDP)

	2000	2008	2013	2018
Argentina	42	54	43	86
Brazil	66	62	60	88
Chile	13	5	13	25
Colombia	38	32	37	50
Mexico	40	42	46	54
Peru	44	28	20	26
Uruguay	54	60	60	70
Latin America	47	46	49	68

Source: MEF and IMF.

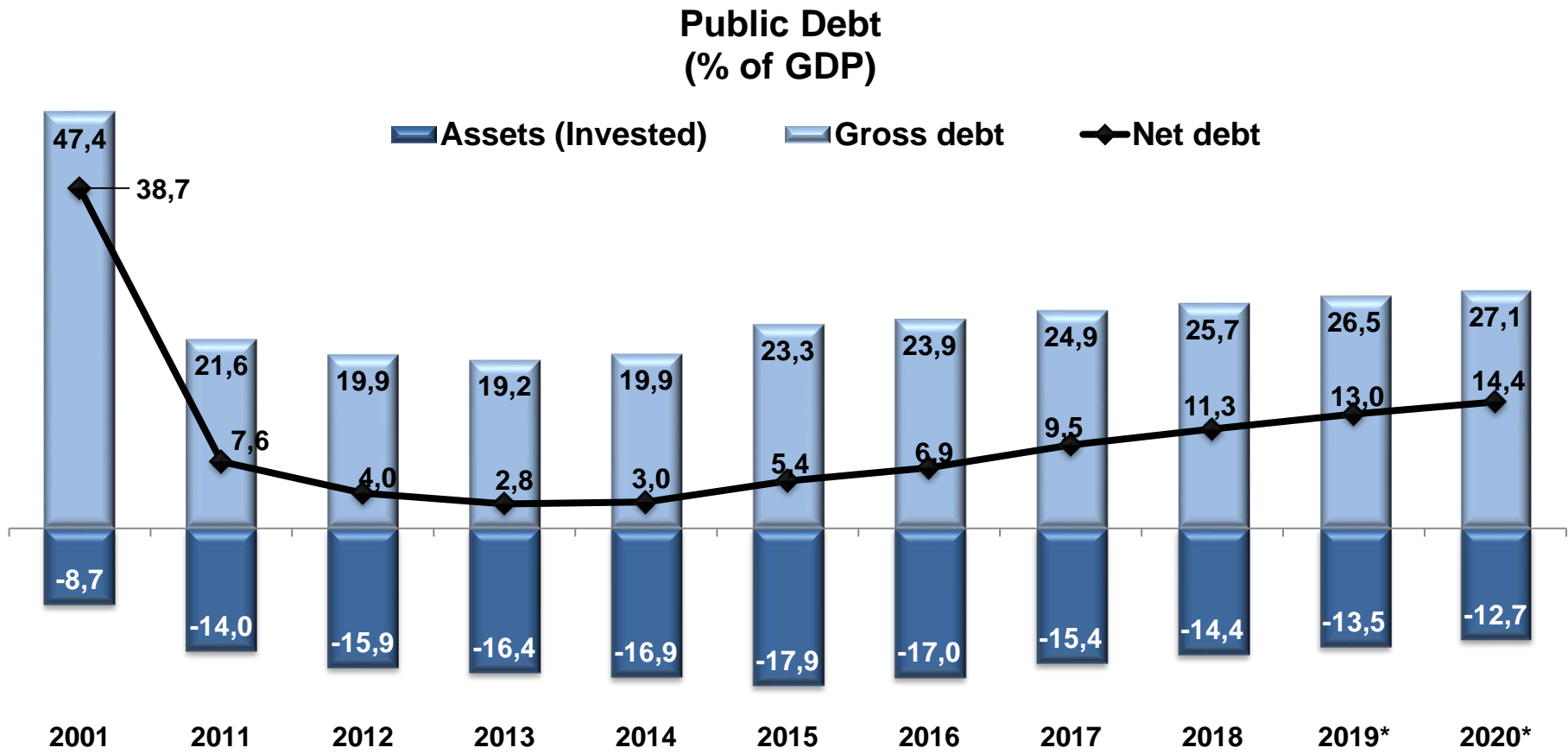
The fiscal deficit will be 1,7 percent of GDP in 2019 and 2020 due to the higher revenues observed so far this year and in line with the anticipated recovery of economic activity and public investment.

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2011 - 2020
(% of GDP)



*Forecast.
Source: BCRP.

It is projected that gross debt will increase by 1.3 percentage points of GDP to 27.1 percent in 2020 compared to the debt level in 2018. Its ratio is still one of the lowest in the region.



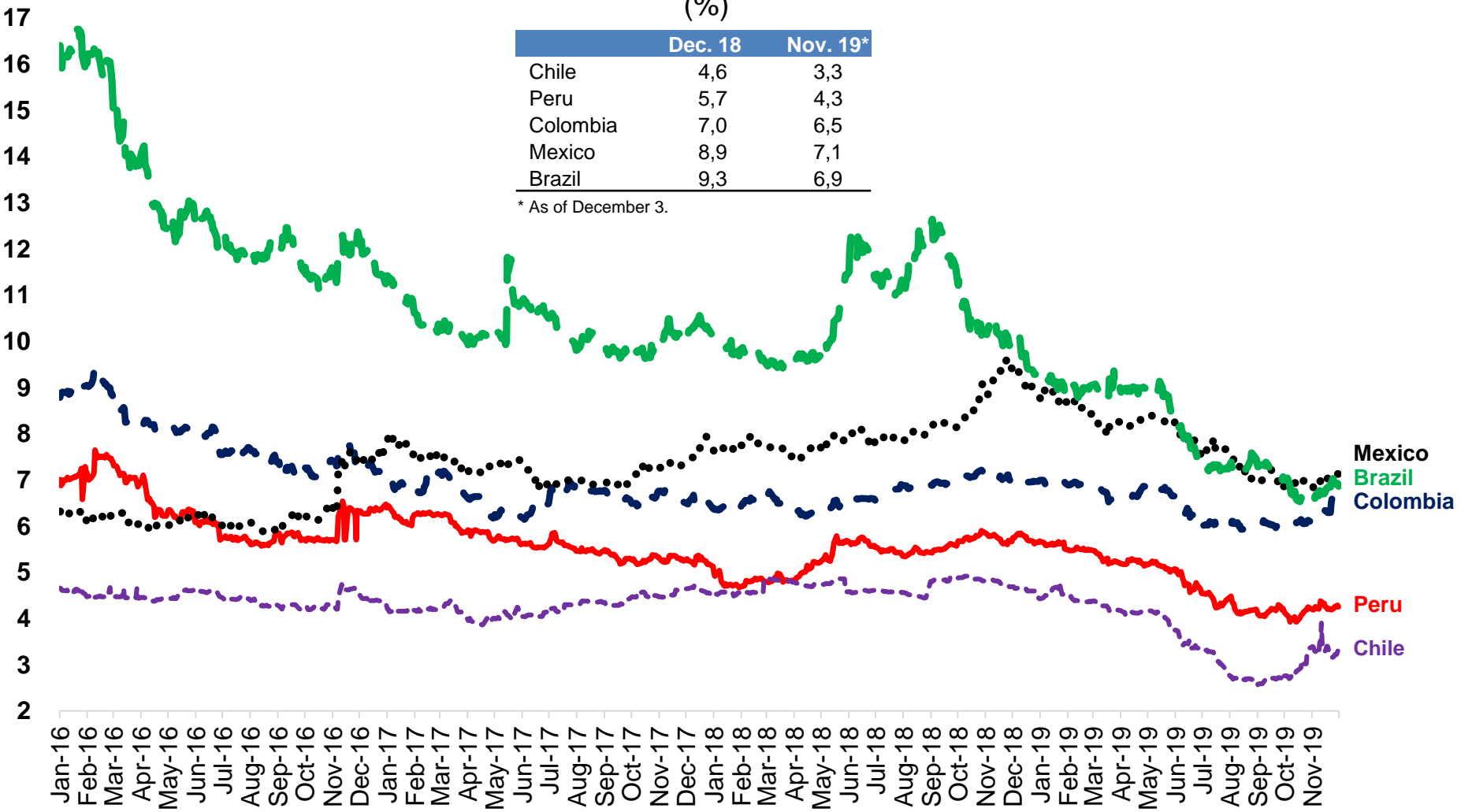
*Forecast.
Source: BCRP.

The higher demand of sovereign bonds and the positive perception about the financial position of Peru's economy explain the lower yields.

10-YEAR SOVEREIGN BONDS YIELDS (%)

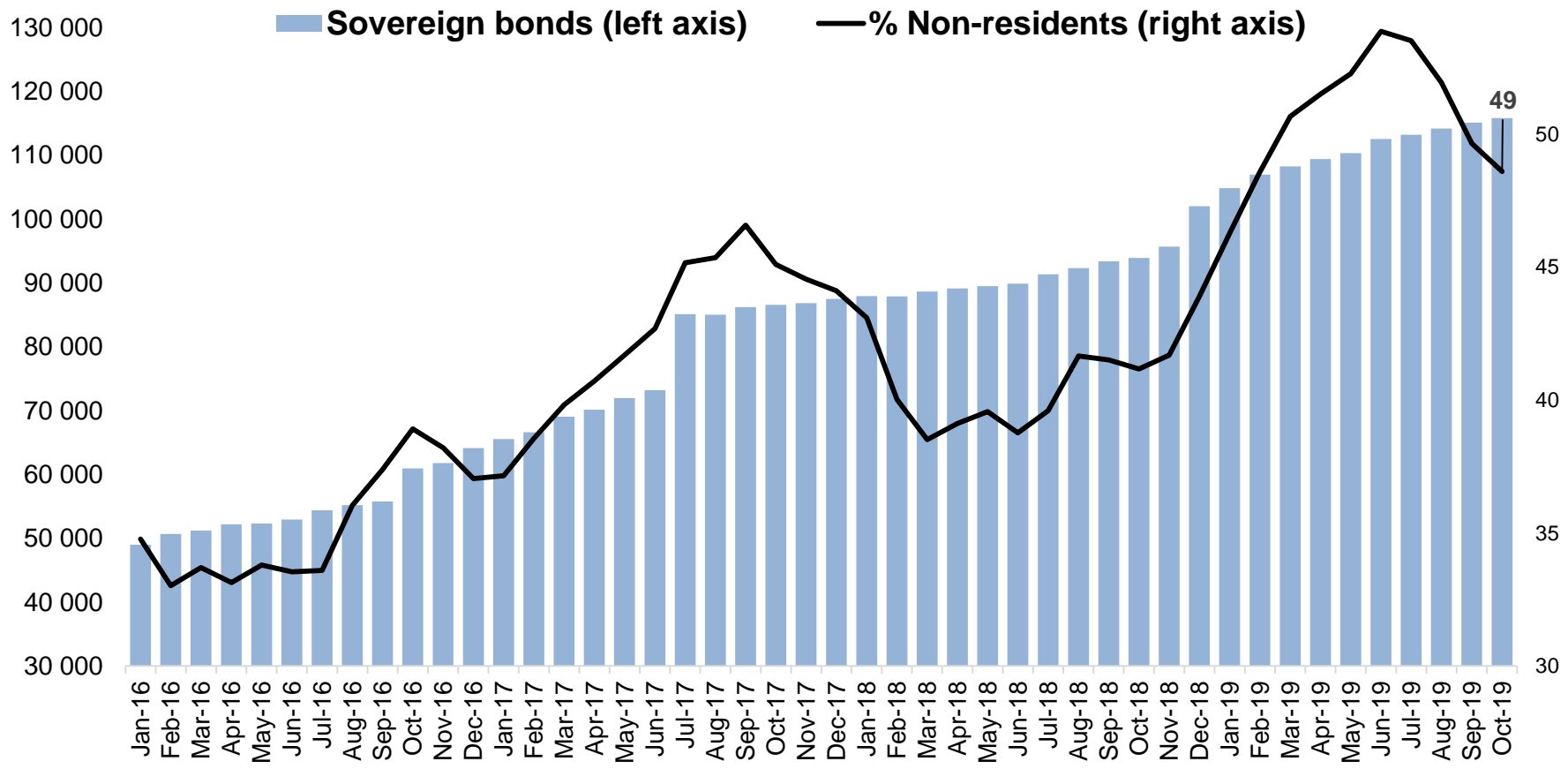
	Dec. 18	Nov. 19*
Chile	4,6	3,3
Peru	5,7	4,3
Colombia	7,0	6,5
Mexico	8,9	7,1
Brazil	9,3	6,9

* As of December 3.



As of October, non-resident investors hold 49 percent of the sovereign bonds.

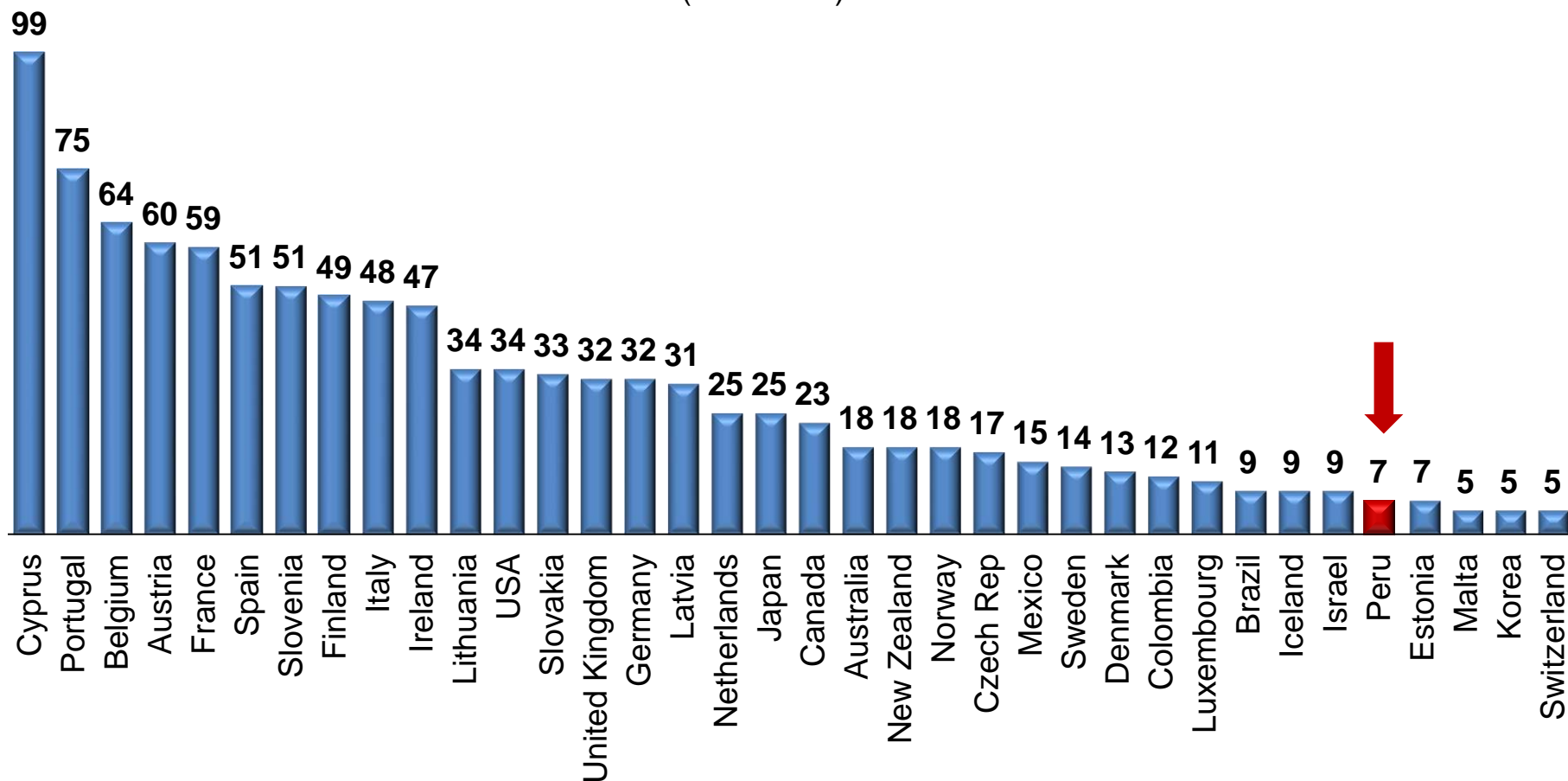
Balance of Sovereign Bonds and share of Non-resident Investors (Amounts in million S/ and shares in %)



Source: MEF.

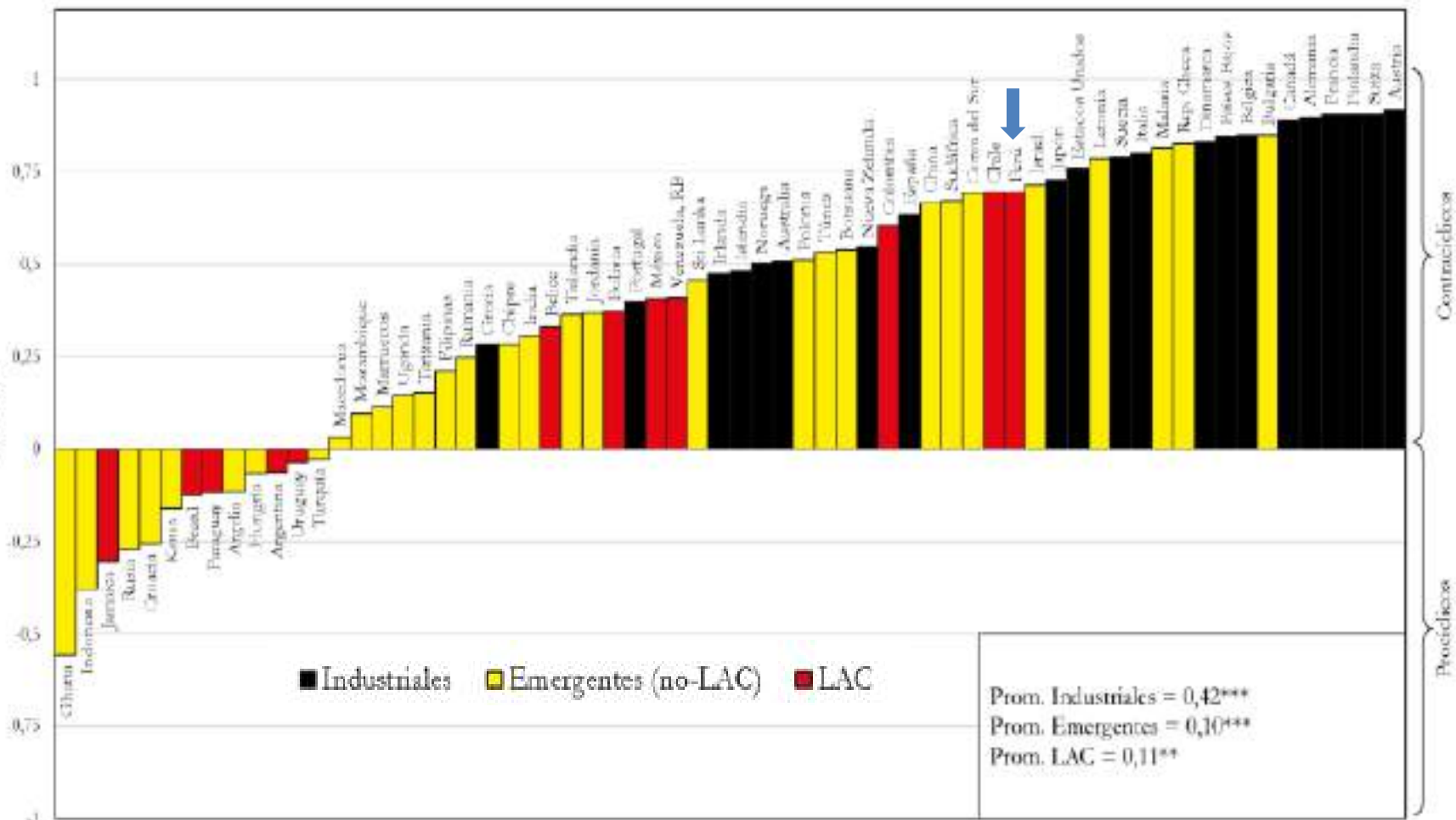
Non-resident holdings of sovereign debt in Peru are low.

Non-Resident Holdings of Sovereign Debt (% of GDP)



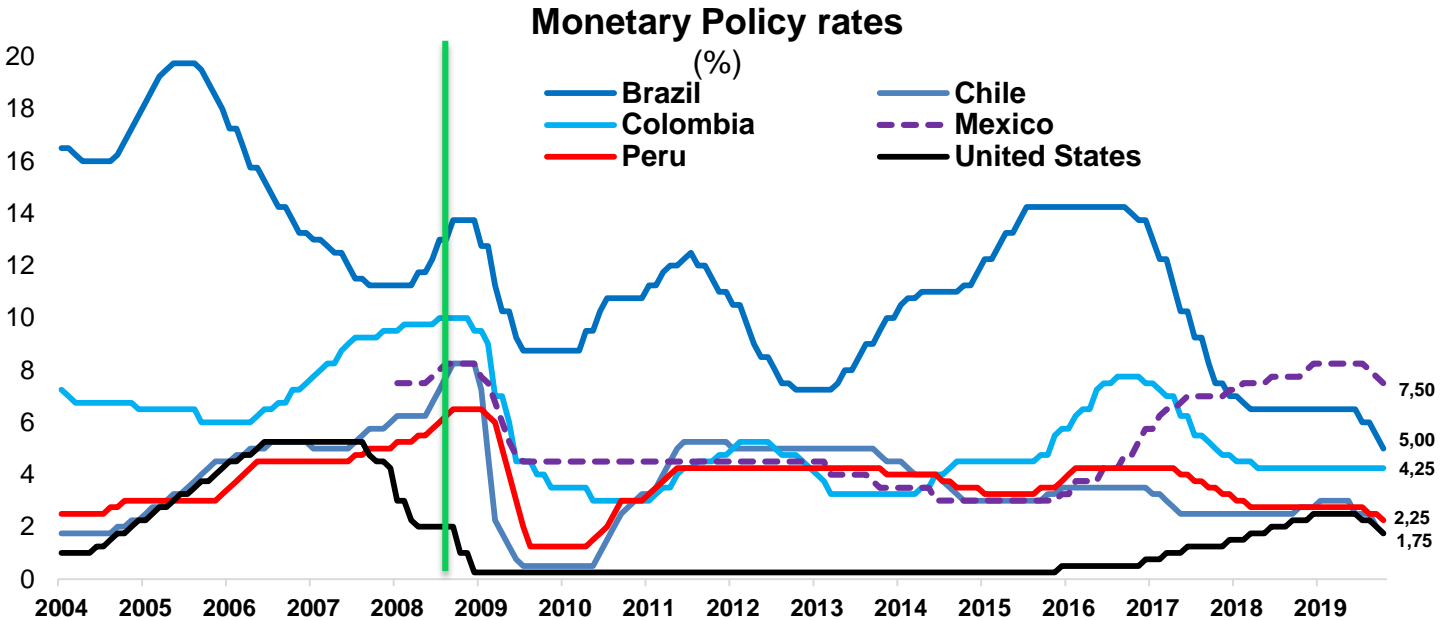
IT has contributed to increasing central banks' ability to implement counter-cyclical monetary policy under high international financial volatility.

Correlaciones por país entre crecimiento del PIB real y el PIB real 2007-2010



Source: "Between a rock and a hard place: the monetary policy dilemma in Latin America and the Caribbean." World Bank (2017).

Good macroeconomic fundamentals and a high level of international reserves have contributed to achieve effective countercyclical policies in Peru during the international financial crisis. This year, the Central Bank of Peru has reduced its monetary policy rate twice.



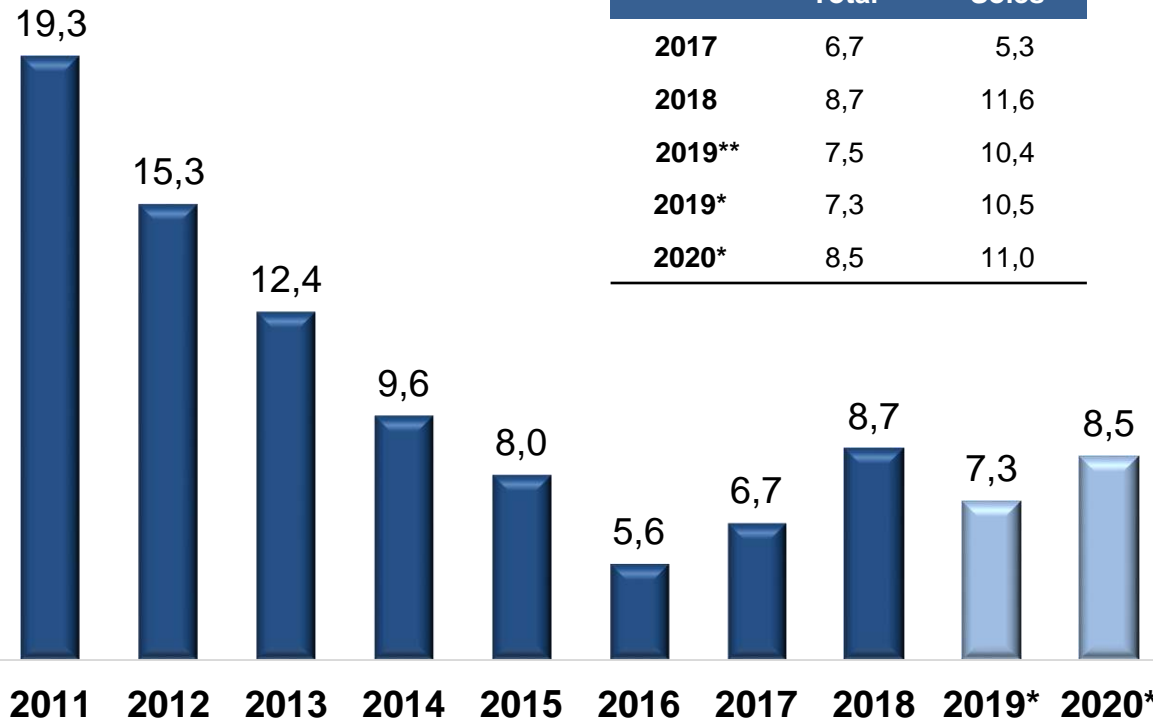
Monetary Policy rates (%)

	2008 Q3	2008 Q4	2009 Q1	2009 Q3	2019*
Brazil	13,75	13,75	11,25	8,75	5,00
Chile	8,25	8,25	2,25	0,50	1,75
Colombia	10,00	9,50	7,00	4,00	4,25
Mexico	8,25	8,25	6,75	4,50	7,50
Peru	6,50	6,50	6,00	1,25	2,25
FED	2,00	0,25	0,25	0,25	1,75

*As of November.

Credit to the private sector has expanded 7.5 percent in September, mainly because of the evolution of individuals credit. It is expected an expansion of 7,3 and 8,5 percent in 2019 and 2020, respectively.

Credit to the private sector (Nominal YoY % Chg)



	% chg. Total	% chg. Soles
2017	6,7	5,3
2018	8,7	11,6
2019**	7,5	10,4
2019*	7,3	10,5
2020*	8,5	11,0

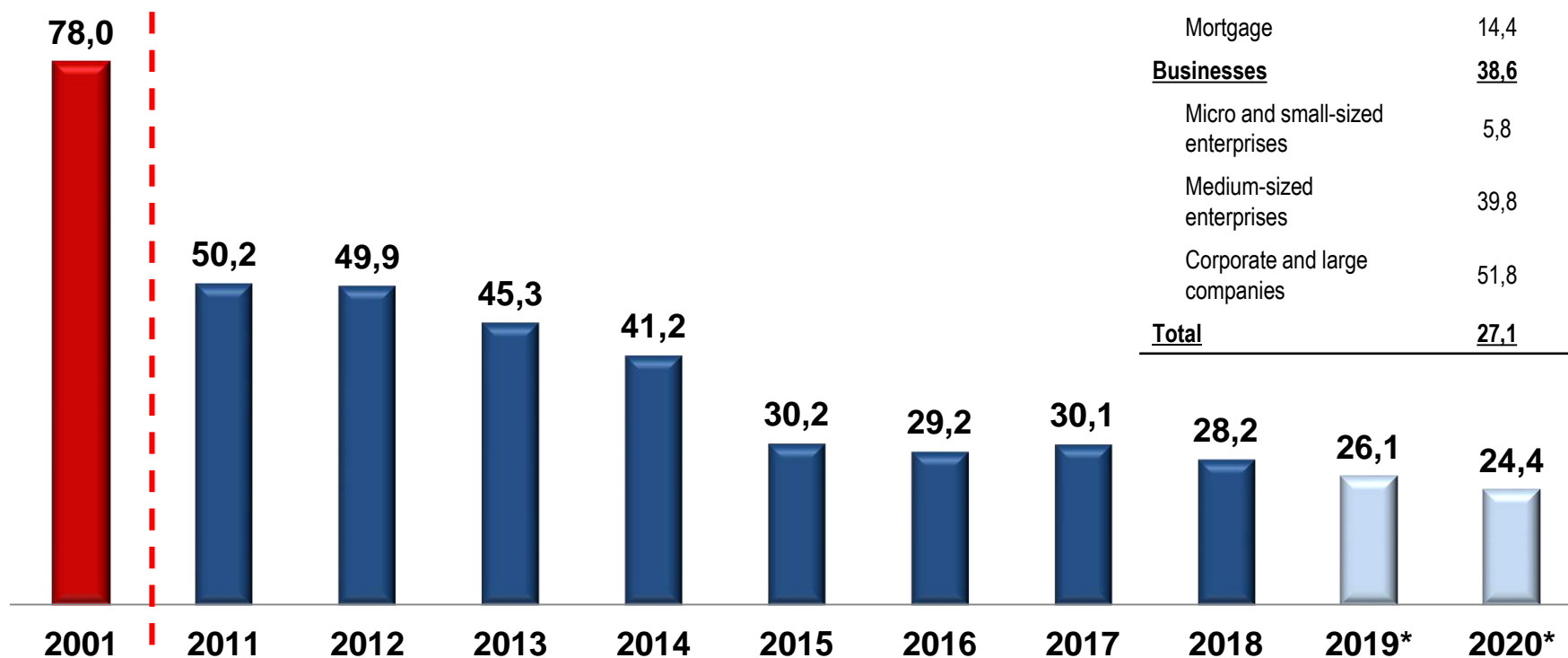
Business credit			
	2017	2018	2019**
Corporate and large companies	6,2	9,1	6,4
Medium-sized enterprises	0,6	3,8	0,1
Micro and small-sized enterprises	9,5	5,9	6,6
TOTAL	5,5	7,1	5,0

Individuals credit			
	2017	2018	2019**
Consumer	8,8	13,1	13,4
Mortgage	8,5	9,0	9,1
TOTAL	8,6	11,4	11,6

* Forecast.
**September.
Source: BCRP.

The downward trend in the degree of financial dollarization is expected to continue, thereby reducing the risk of currency mismatches.

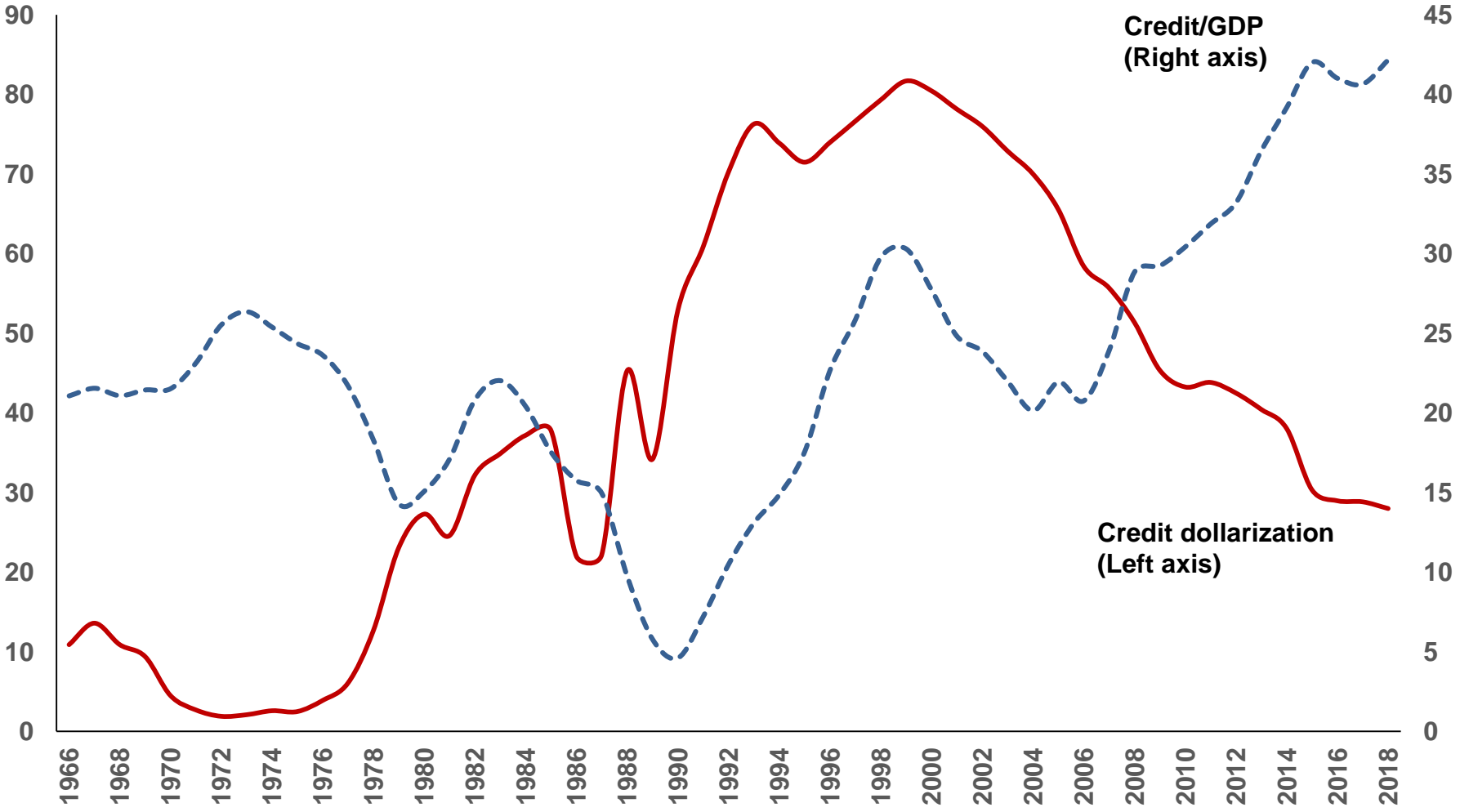
**Dollarization ratio of credit to the private sector
(Percentage)**



Dollarization Sep. 2019	%
Individuals	9,5
Consumer	6,3
Mortgage	14,4
Businesses	38,6
Micro and small-sized enterprises	5,8
Medium-sized enterprises	39,8
Corporate and large companies	51,8
Total	27,1

*Forecast.
Source: BCRP.

Financial deepening has increased in a context of reduction of dollarization.

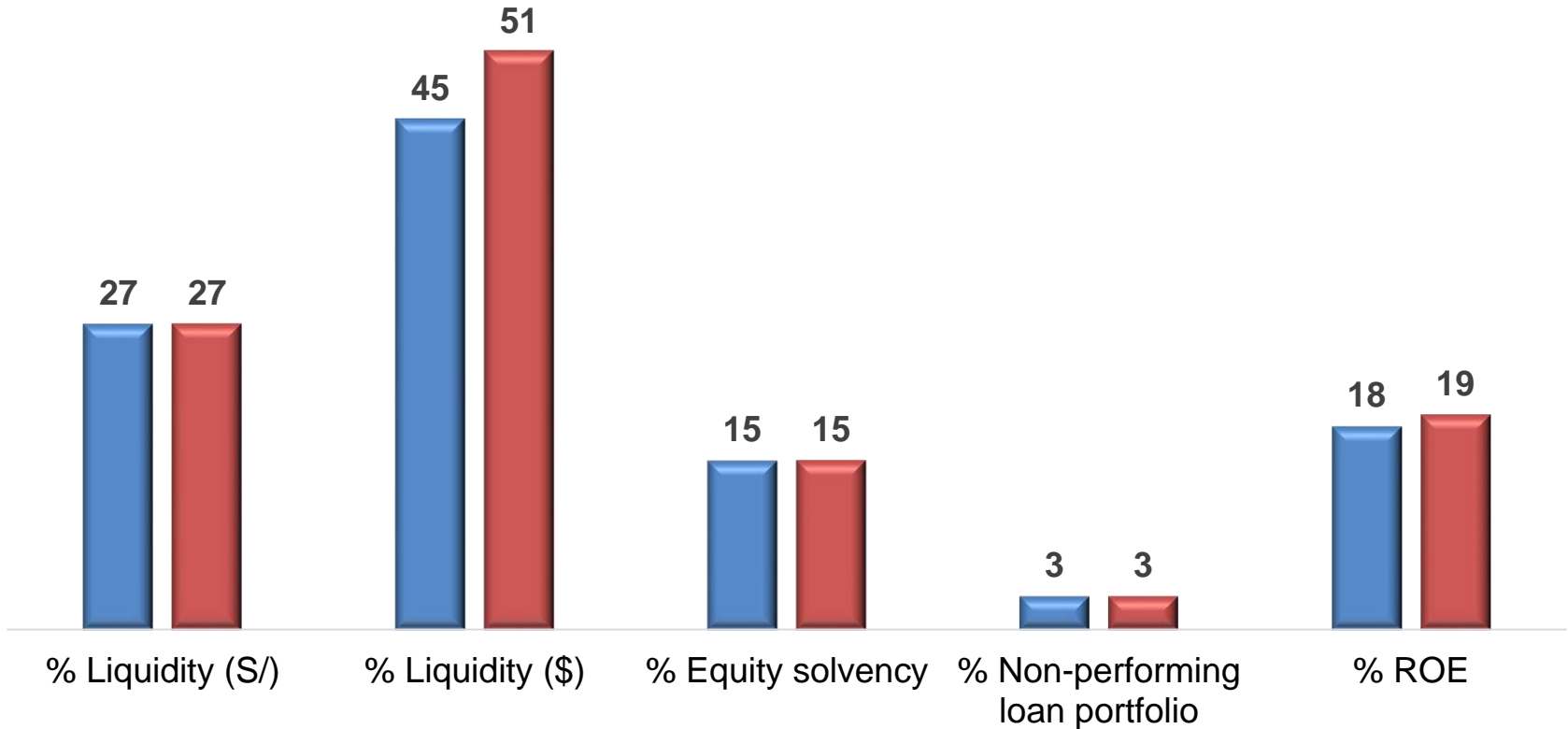


Source: BCRP.

Financial deepening has been accompanied by a healthy banking system.

Banking System Indicators

■ 2018-Dec. ■ 2019-Aug.



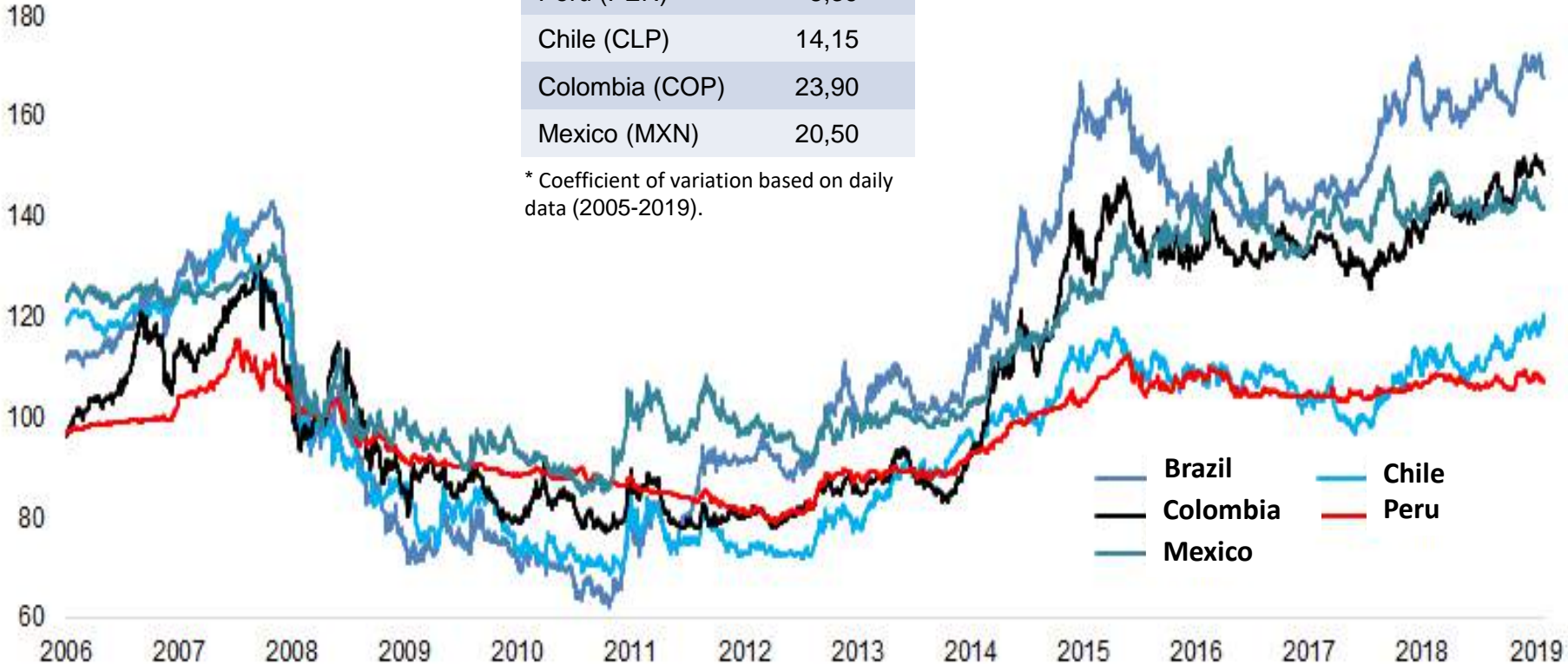
Source: SBS.

Effectiveness of exchange rate intervention: PEN follows the same trend as other currencies in the region but with less volatility.

LATAM: Exchange rates
(31 Dec. 2008 = 100)

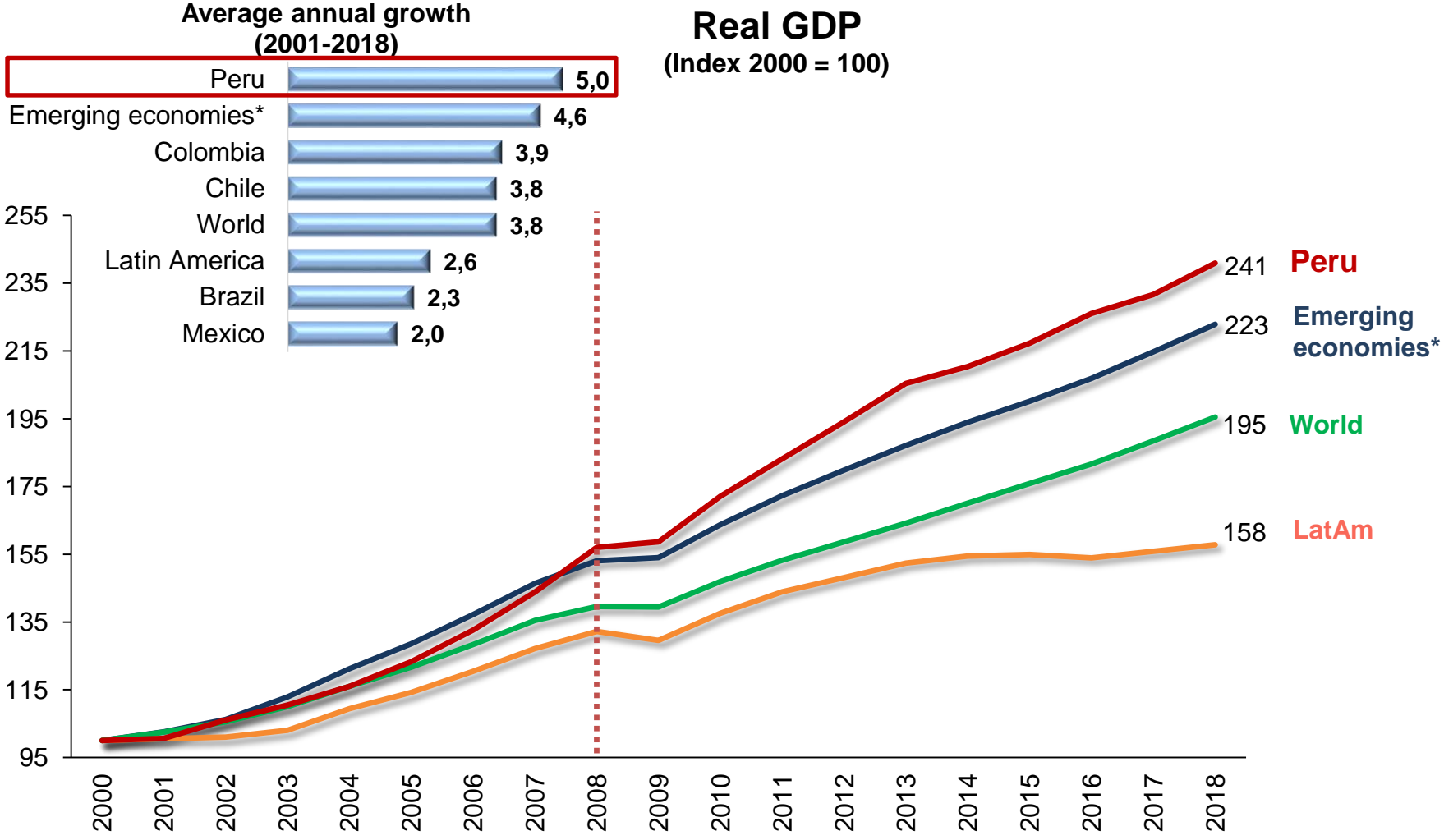
UM per US\$	C.V.* (%)
Peru (PEN)	8,39
Chile (CLP)	14,15
Colombia (COP)	23,90
Mexico (MXN)	20,50

* Coefficient of variation based on daily data (2005-2019).



Source: BCRP.

Peru grew 5.0% on average in the last two decades, the highest rate among LatAm countries and above the average of the emerging economies.

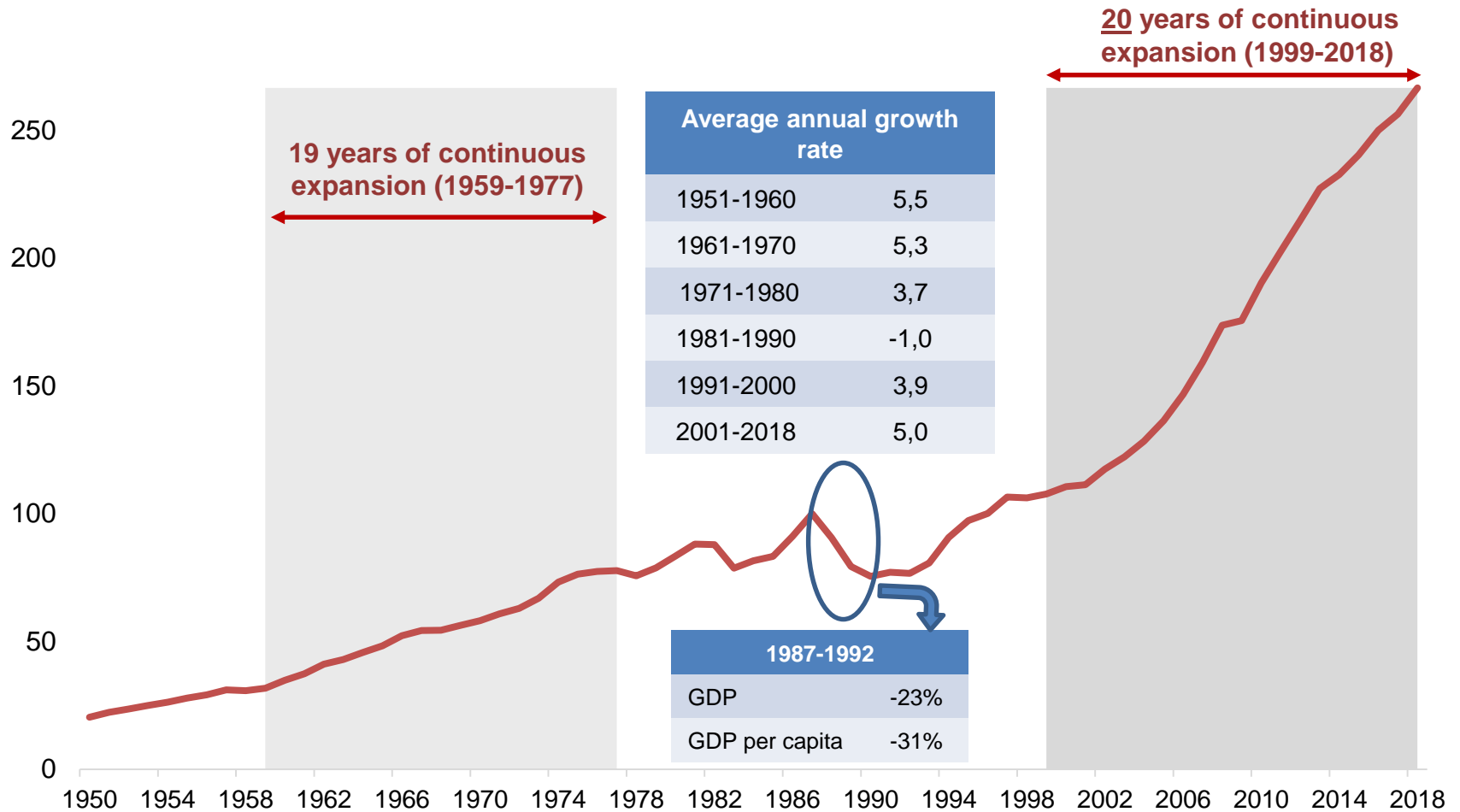


*Excludes China.
Source: IMF and BCRP (Peru).

Peru reaches 20 years of continuous expansion, the longest since 1921.

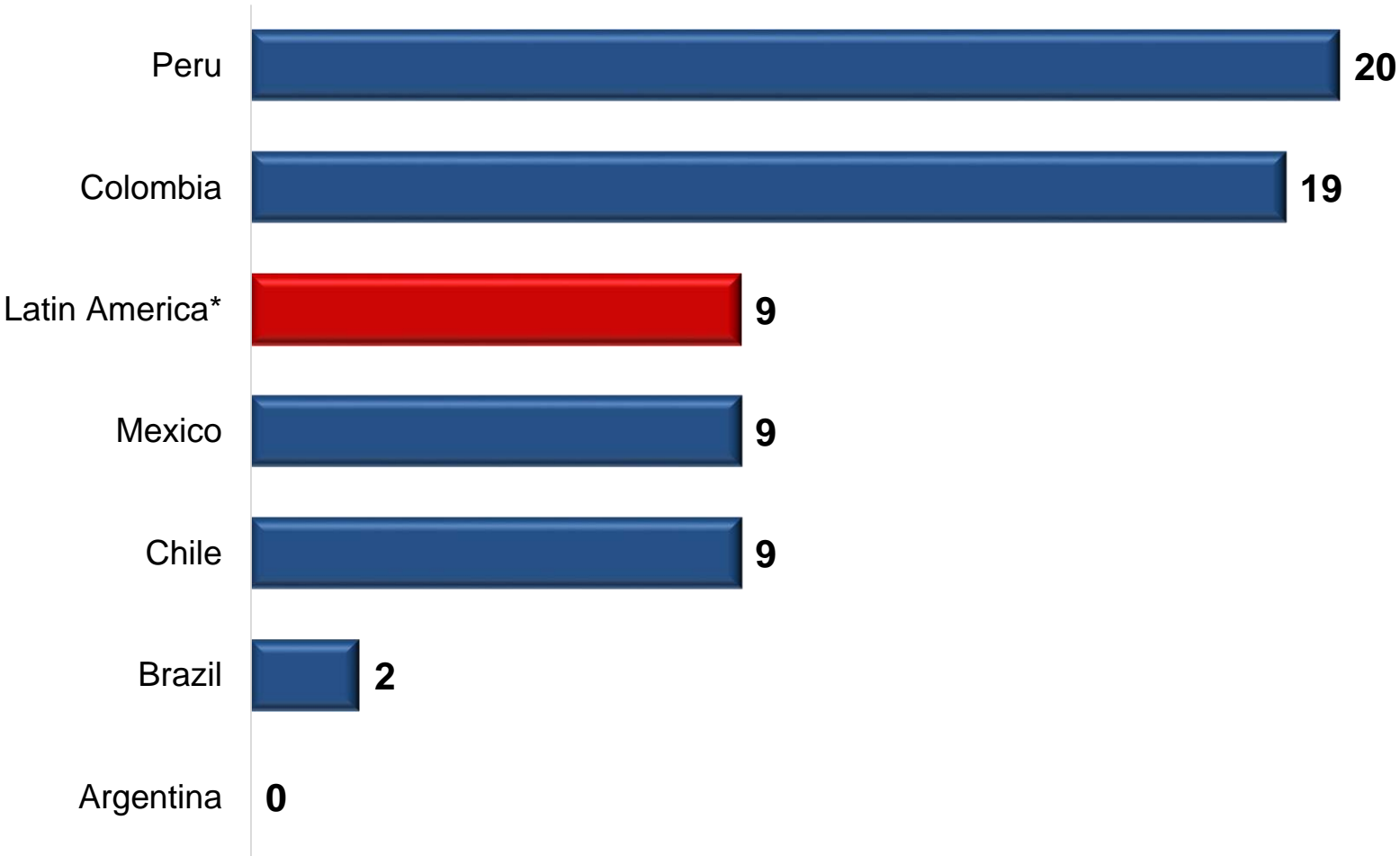
Peru: Real GDP, 1950-2018

Index 1987 = 100



In the region only Peru and Colombia have shown similar periods of prolonged expansion.

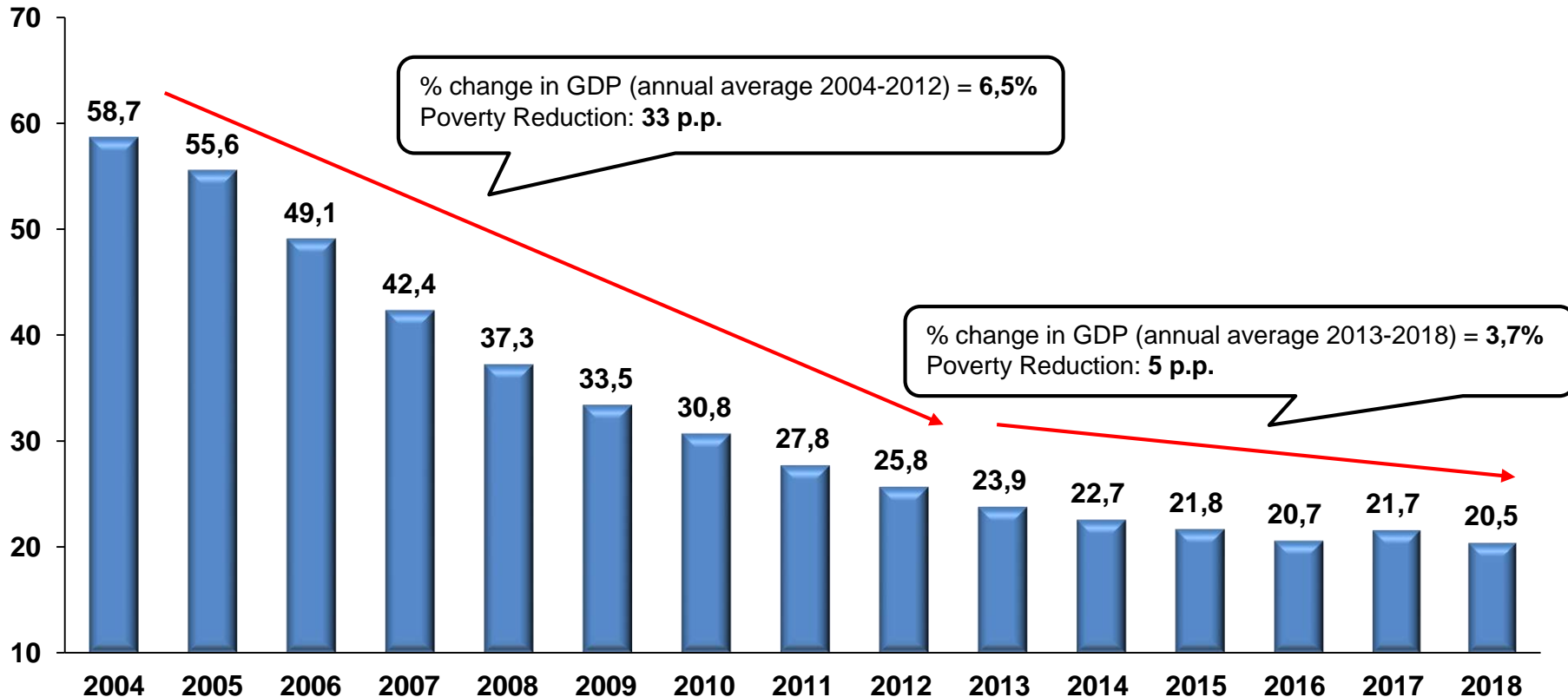
LatAm*: years of more recent continuous growth



*South America and Mexico.
Source: IMF and BCRP (Peru).

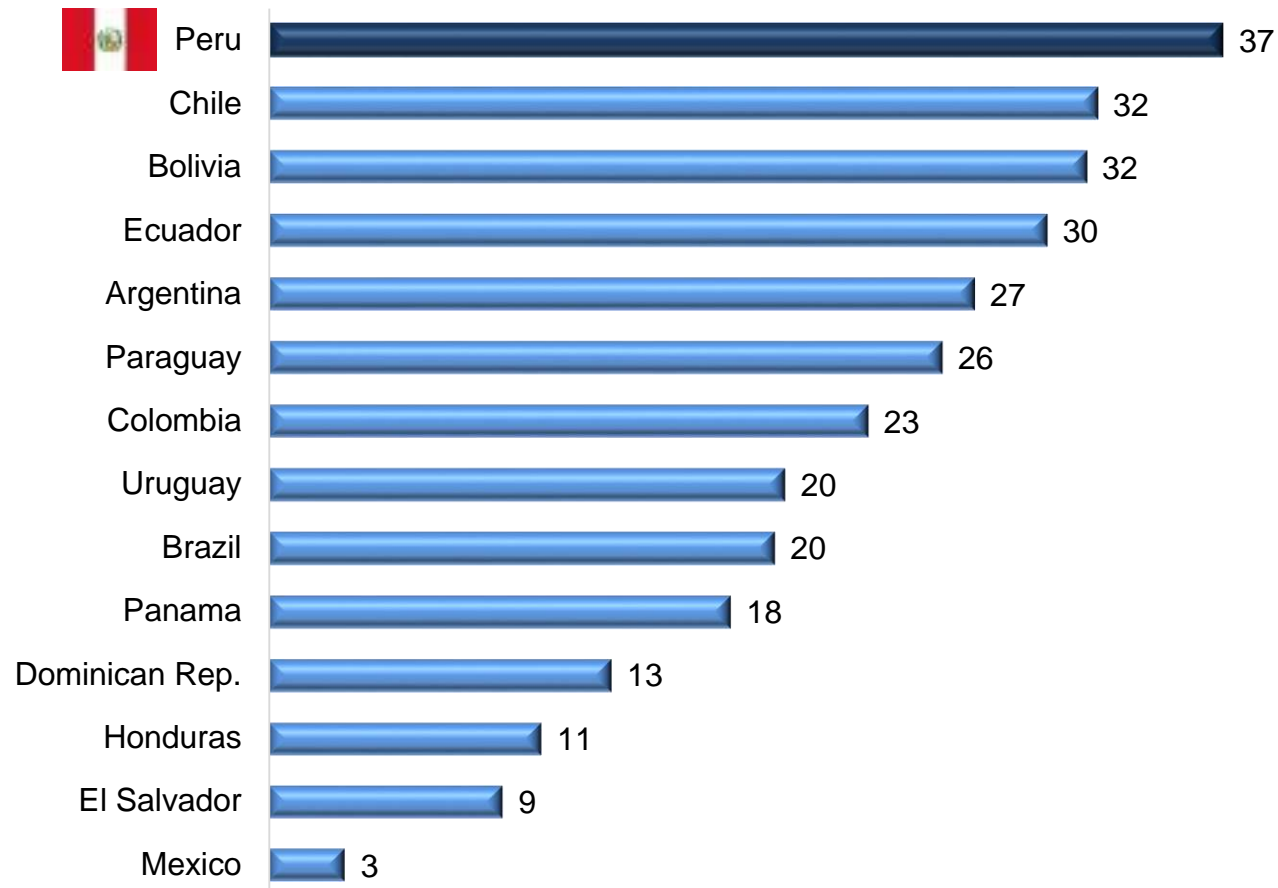
The improved macroeconomic environment (sustained growth and stable prices) has contributed to the reduction of poverty levels. The poverty level fell by more than half in seven years.

Peru: poverty rate, 2004-2018 (As percentage of total population)



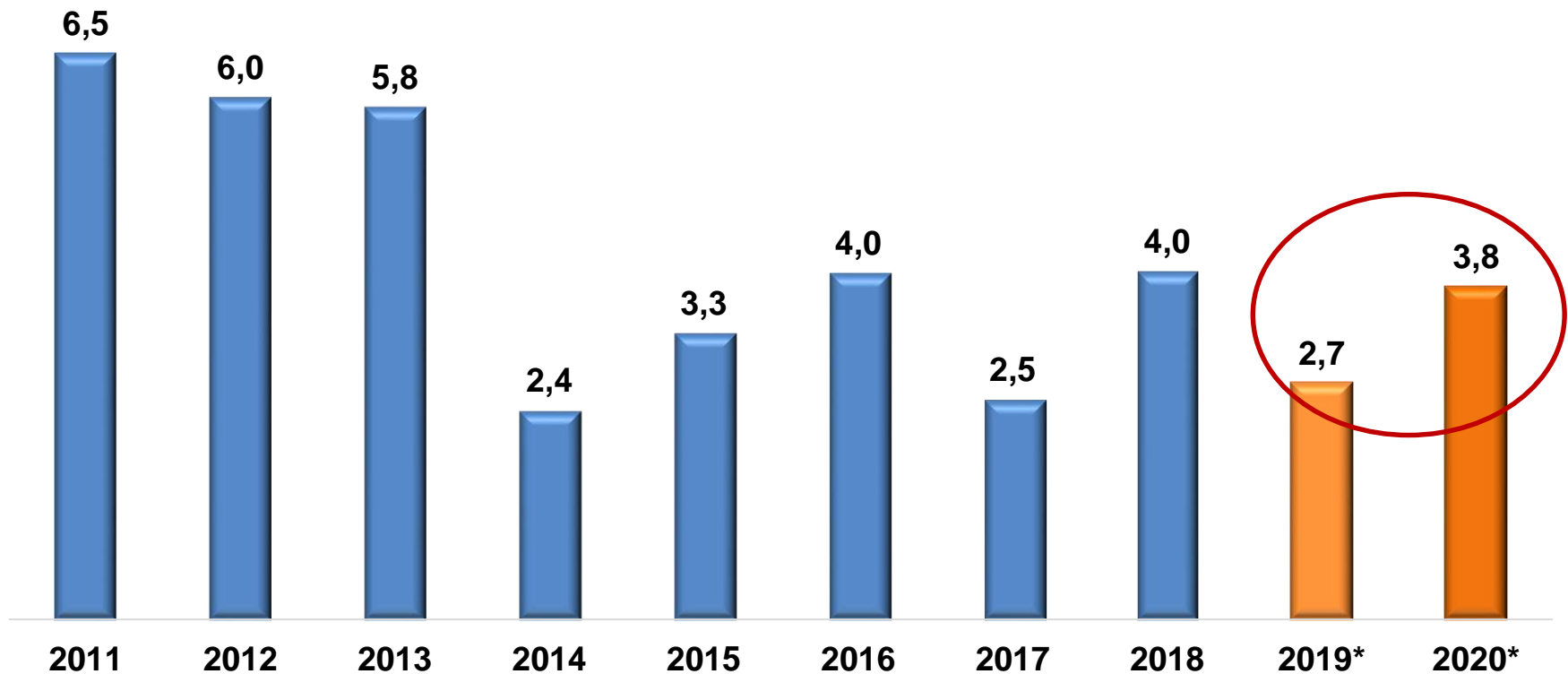
According to ECLAC, Peru was the country that reduced its poverty rate the most between 2002 and 2017 in the region: this correspond with one of the highest growth rates in the region.

Latin America: reduction in the poverty rate, 2002-2017 (Percentage points)



This year GDP growth decelerated due to temporary local factors. In 2020 it is projected that recovery will be driven by the normalization of primary activity and higher domestic demand growth, particularly investment.

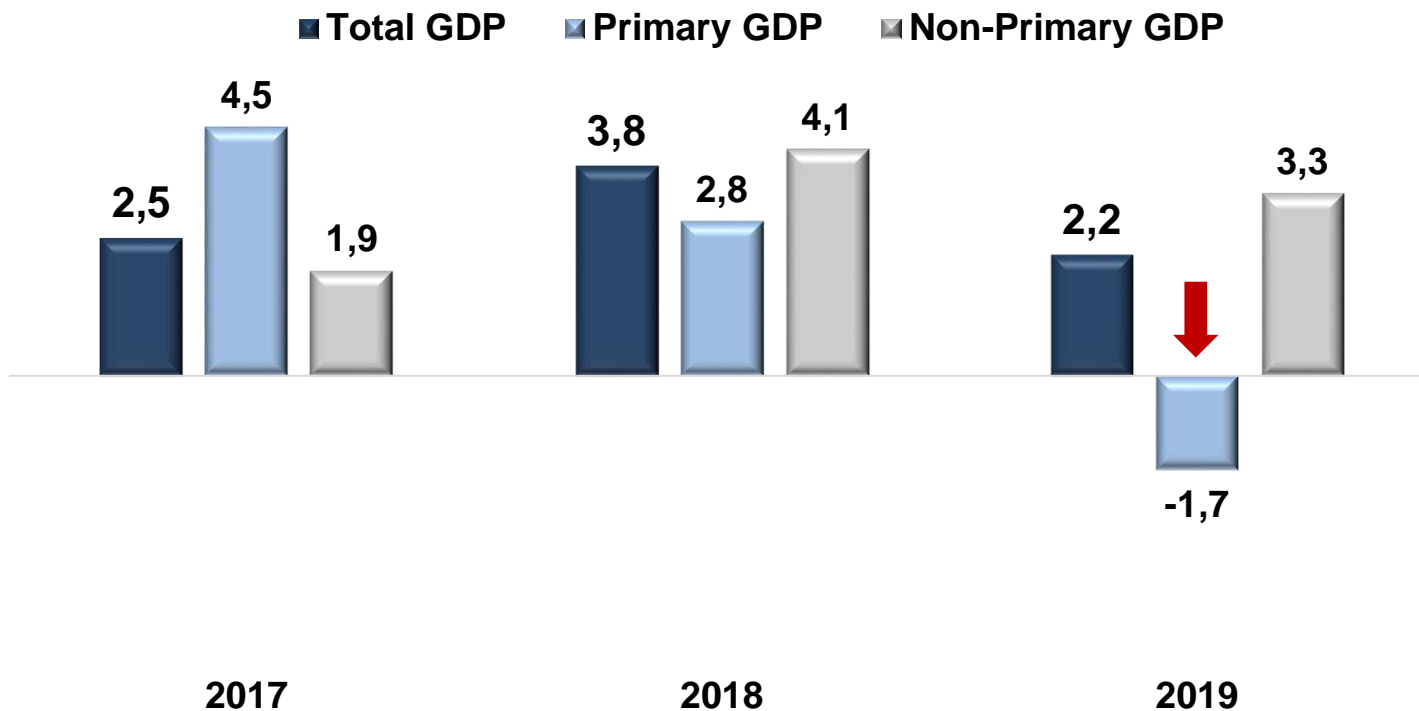
GDP growth
(Real % change)



*Forecast.
Source: BCRP.

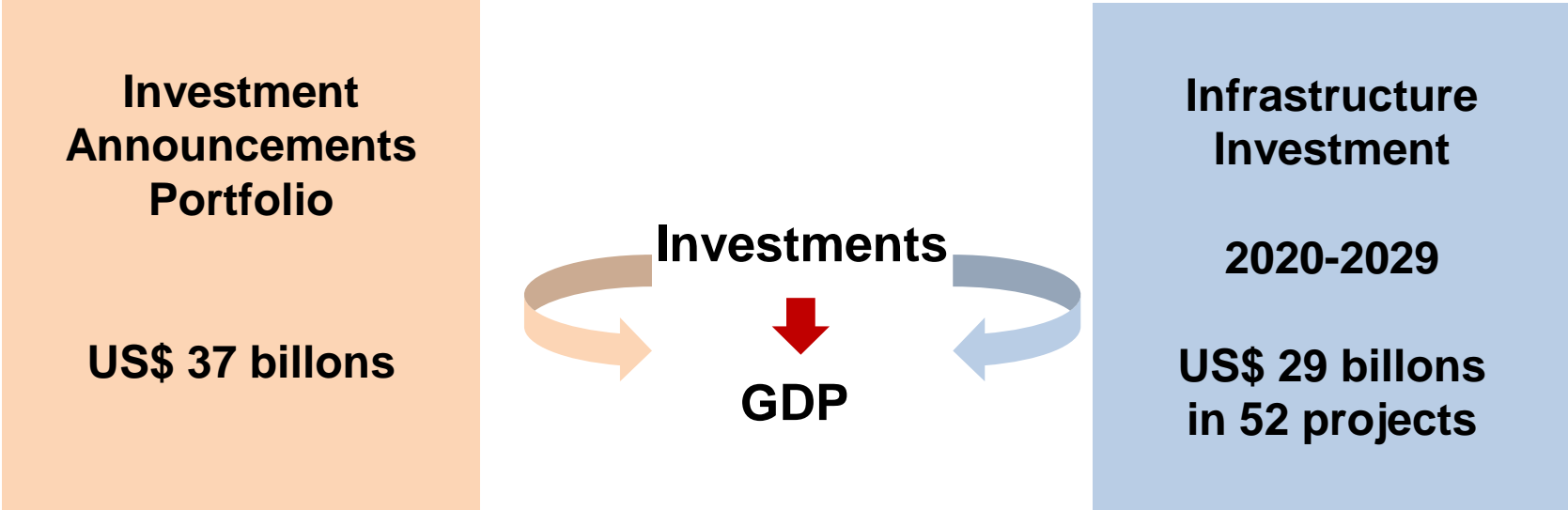
The slowdown observed during Jan-Sep. 2019 was caused by local supply shocks (to primary sectors), lower public investment and external factors (trade tensions).

GDP growth: Jan-Sep (Real % change)



Source: BCRP.

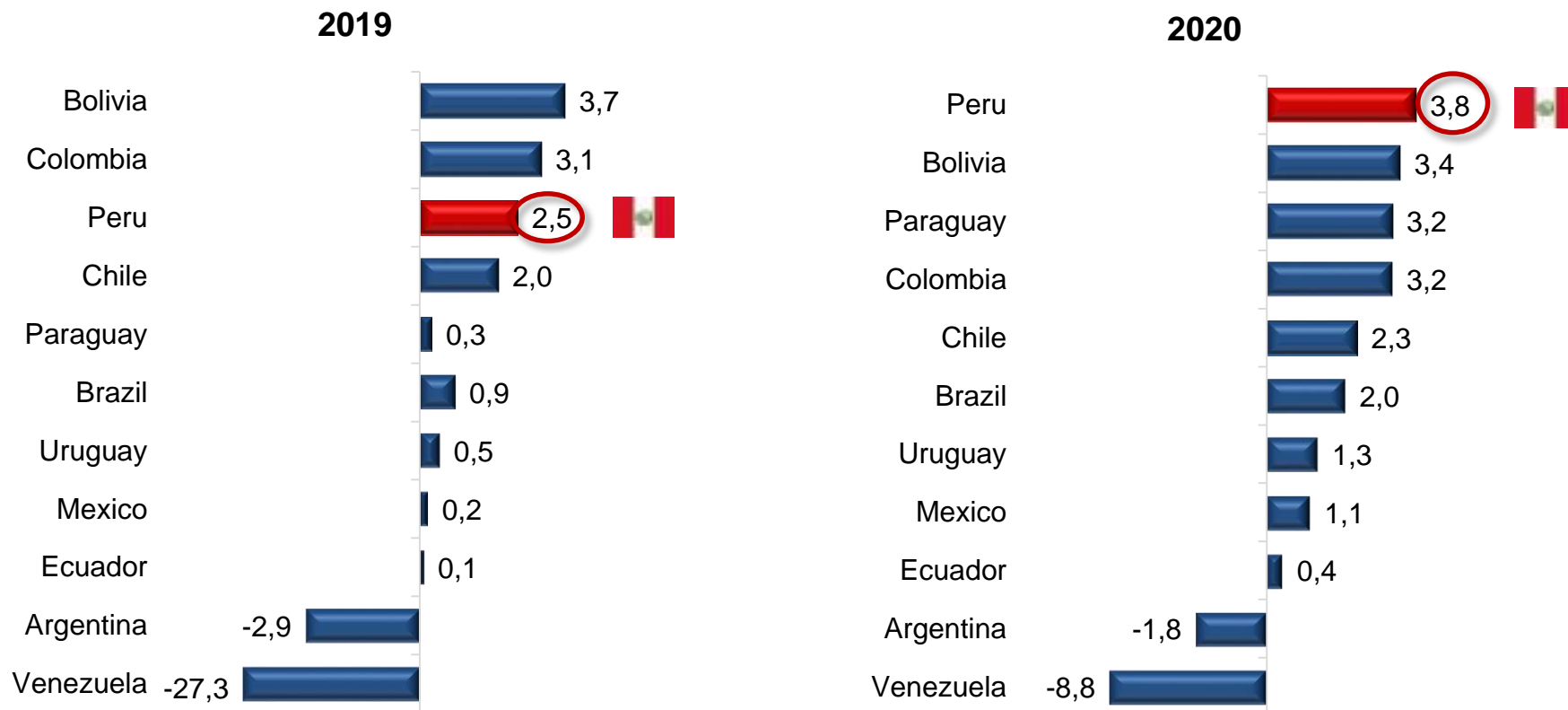
In 2019 investment has been driven by mining. In the next year infrastructure projects will support GDP growth.



Source: Firms and MEF (Infrastructure National Plan for Competitiveness).

This forecast for the 2019-2020 GDP growth implies that Peru will remain among the fastest-growing countries in the region.

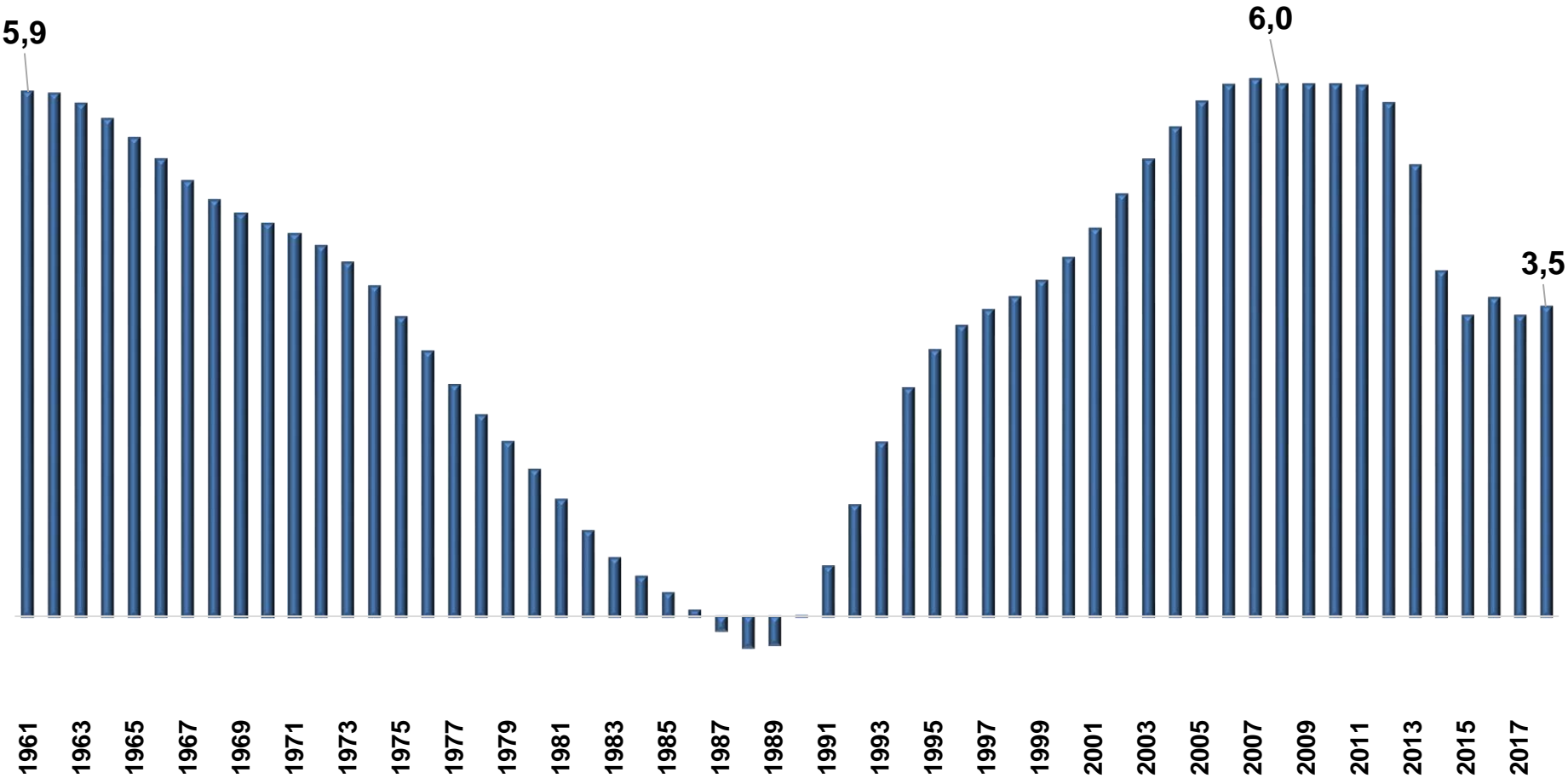
GDP growth in Latin America (Annual percent change)



Source: Consensus Forecasts (November 2019) and BCRP (Peru).

Reforms are required to raise the potential GDP growth

Potential GDP Growth (%)



Source: BCRP.

Challenges in the long run

Worst-performing components in the competitiveness ranking	Peru
1. Hiring and firing practices	134
2. Efficiency of legal framework in settling disputes	134
3. Burden of government regulation	128
4. Ease of finding skilled employees	114
5. Quality of road structure	110

Ranking based on 141 countries.
Source: World Economic Forum (2019).



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