



Ministry of Economy and Finance

# **Peru in the Current Market Environment**

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Minister of Economy and Finance

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## Peru is a global investment hub

### Vibrant economy: 2008 GDP growth: 9.3%

- Sustainable growth since 2002 and forecast around 7% annually 2008-11.
- Exports have tripled in 5 years.
- Investment is growing by 20% annually.

### Vast Natural Resources:

- Ores, hydrocarbons, available lands having proper climates, forests, 2,500 km of coast, thousands of lakes and snowcapped mountains.

### Regional Hub/ APEC 2008 Venue

- Third largest country in South America / 28 million inhabitants.
- Located in the center of the South American Pacific Coast.

### Economy committed to the commercial integration process :

- Preferential access to CAN, MERCOSUR, USA and the EU.
- 32 agreements on investment .

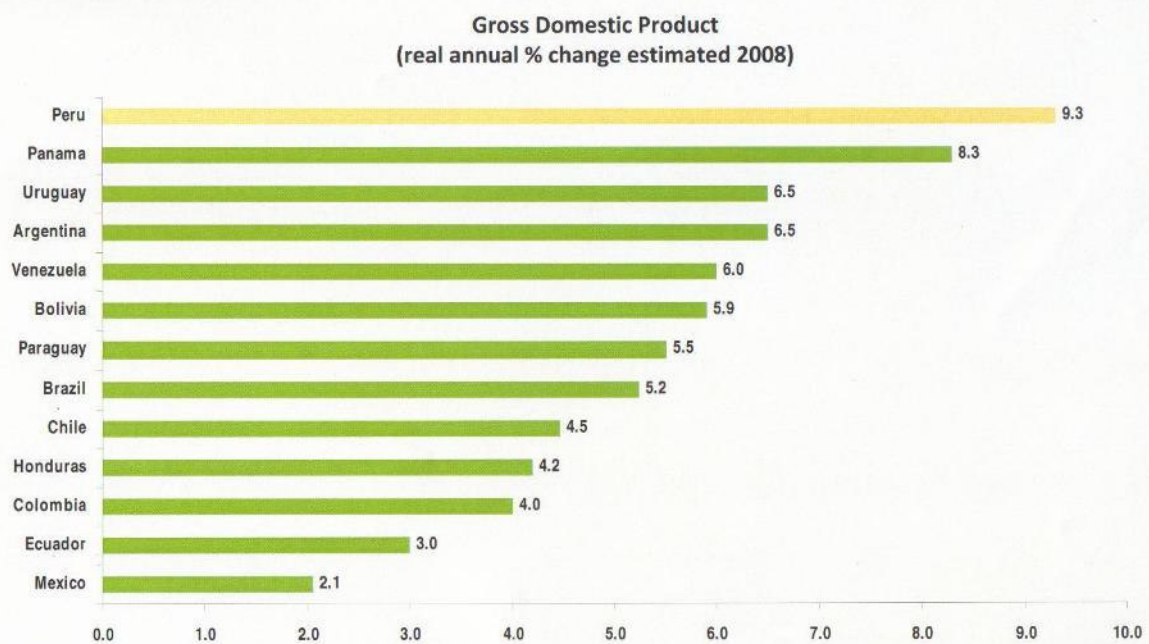
### Favorable climate for investment:

- Stable and attractive legal framework for Foreign Direct Investment, based on freedom and equality.
- First place in Latin America regarding the State's receptiveness to investment (WEF).
- Second place in Latin America for protecting Foreign Direct Investment (WB).
- Adhered to the OECD Declaration on International Investment and Multinational Enterprises

### Country risk below the Latin American average

- One of the lowest inflation rates in Latin America and a very stable exchange rate (floating).
- Investment Grade ratings from S&P and Fitch
- Sound Domestic Financial System and growing capital market.

## Highest economic growth among the countries of the region



Source: Peru, forecasted by MEF; the other countries, forecasted by IMF.

## Investment plays an important role in the country's economic growth

	2004	2005	2006	2007	2008*
<b>GDP (% change)</b>	5.1	6.4	7.6	8.9	9.3
<b>Private Investment (% change)</b>	8.1	12.0	20.1	23.4	28.0
<b>Public Investment (% change)</b>	5.7	12.2	13.0	10.0	55.0
<b>CPI (% change)</b>	3.5	1.5	1.1	3.9	6.5
<b>Jobs in companies with 10 or more workers (% change)</b>	3.6	5.7	8.7	8.9	8.4

	2004	2005	2006	2007	2008*
<b>Exports (% change in US\$)</b>	40.9	35.3	36.9	17.5	14.0
<b>Capital goods imports (% change in US\$)</b>	19.6	29.6	35.4	41.9	56.0
<b>Construction GDP (% change)</b>	4.7	8.4	14.7	16.6	17.0
<b>Tax revenue (% change)</b>	13.6	14.3	27.8	15.3	11.6

Sources: Central Reserve Bank of Peru, Ministry of Economy and National Institute of Statistics and Information

\* Estimated by MEF

## Investment plays an important role in the country's economic growth

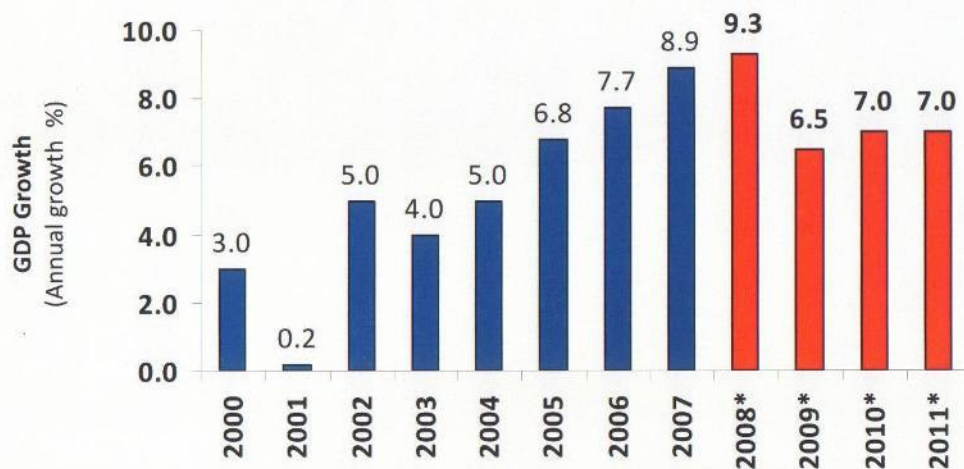
	2009*	2010*	2011*
<b>GDP</b> (% change)	6.5	7.0	7.0
<b>Private Investment</b> (% change)	10.0	12.0	12.0
<b>Public Investment</b> (% change)	27.0	20.0	20.0
<b>CPI</b> (% change)	3.0	2.5	2.0
<b>Jobs in companies with 10 or more workers</b> (% change)	5.8	6.2	6.3

	2009*	2010*	2011*
<b>Exports</b> (% change in US\$)	-15.8	11.6	14.0
<b>Capital goods imports</b> (% change in US\$)	11.0	14.0	15.0
<b>Construction GDP</b> (% change)	12.5	12.0	12.5
<b>Tax revenue</b> (% change)	5.1	9.0	11.5

Source: MEF

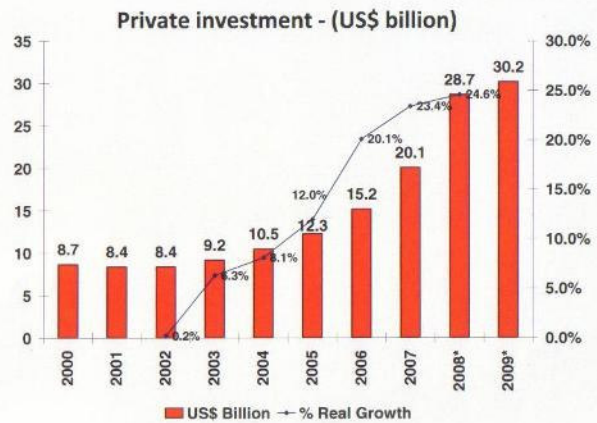
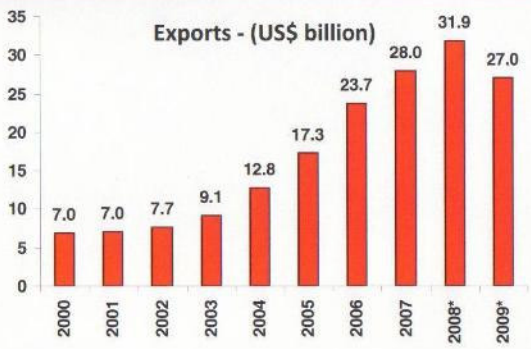
**We expect GDP growth to be sustained at an annual average rate close to 7% for 2009 – 2011**

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Source: INEI, \* estimated figures by MEF.

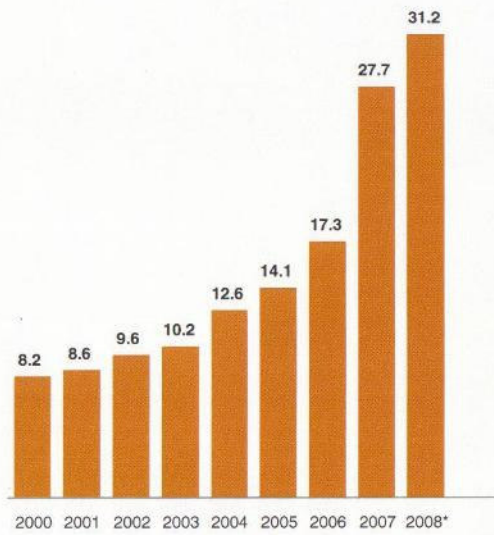
# Dynamic export and investment growth have driven GDP growth



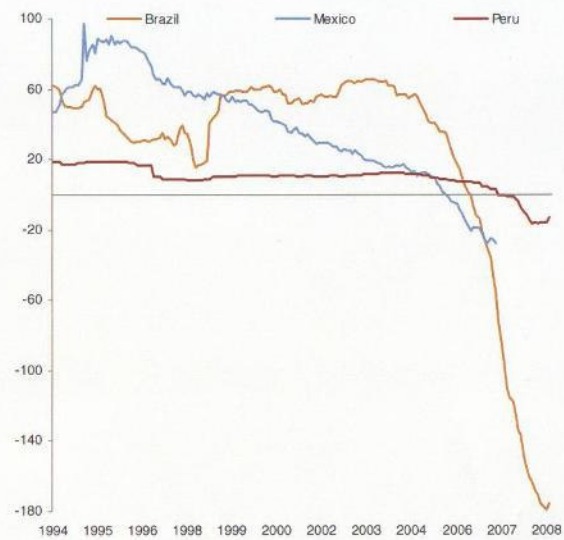
Source: Central Reserve Bank of Peru and Ministry of Economy  
\* Figures estimated in December 2008

## On the strength of trade and FDI, net international reserves have increased steadily

Net International Reserves (US\$ Billion)



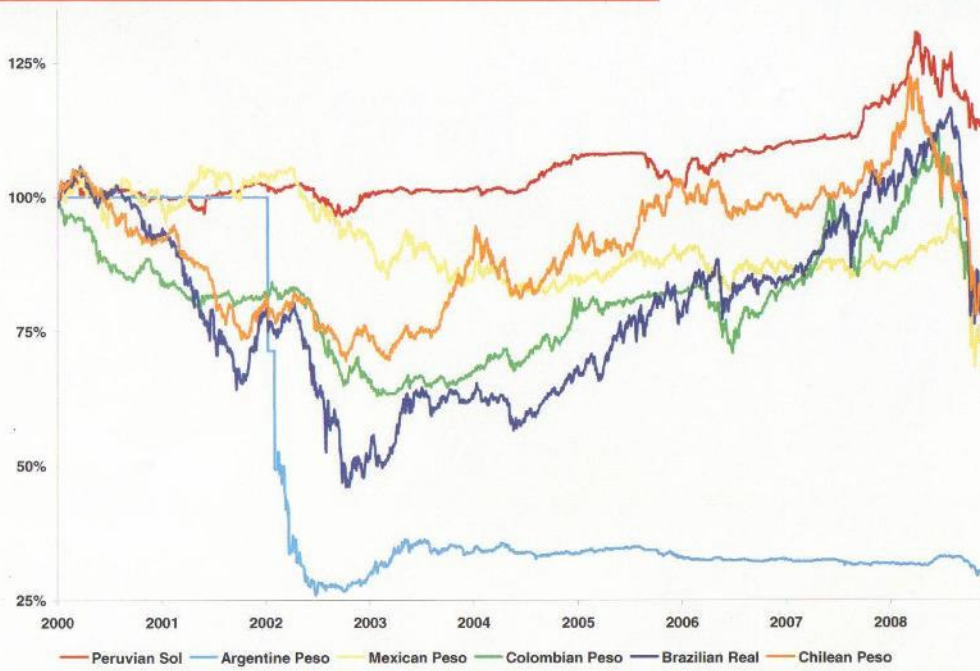
Net External Creditor Status (US\$ Billion)



Source: Central Reserve Bank of Peru  
\* Figure of November 11th 2008

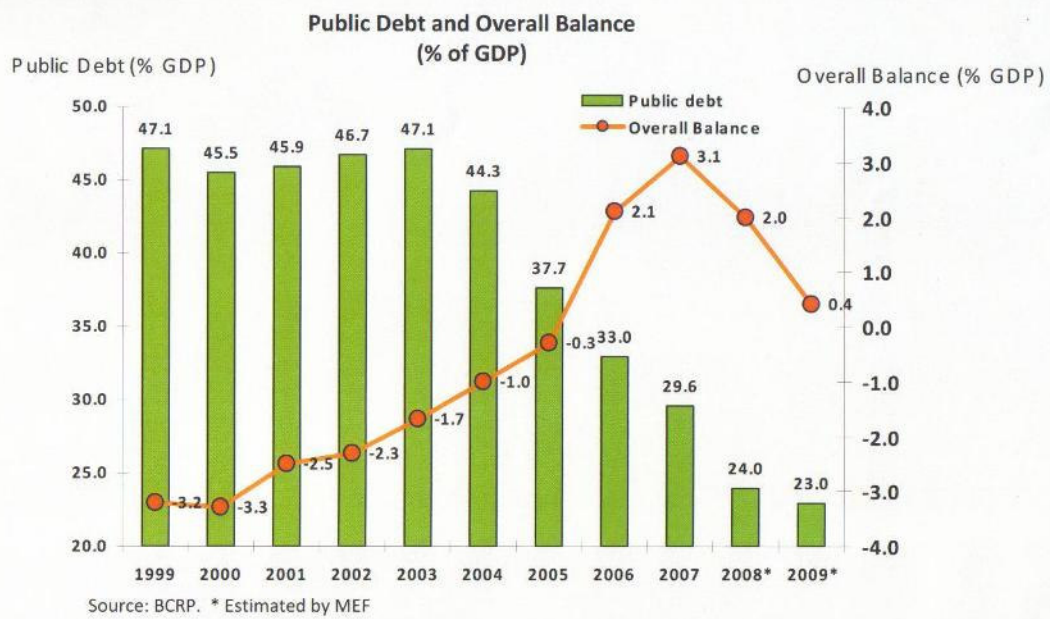
## The Peruvian Sol has been the most stable currency in the region

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Source: Bloomberg  
Currencies indexed to 100% as of 1/3/2000

## Improvements in our fiscal position has been key in reducing the burden of public debt



Fiscal consolidation with reduction in debt to GDP ratio from 50% to 25% since 2002.

## Recently announced economic stimulus package

### Objectives

- Guarantee a 5.5% minimum floor of GDP growth and aim to 6.5% growth with fiscal stimulus.
- Avoid liquidity or credit crunches, keep the current dynamic growth.
- Sustain domestic demand and create more jobs.
- Strengthen access to capital markets.
- Foster private investment furthermore.

### The Plan

- Increase and accelerate government expenditure by US\$3.2 billions.
- Half of that in investment projects.
- Enhanced government spending backed by large fiscal savings.
- Reduce bank's reserve requirements and interest rates for mortgages.
- Extend credit lines to small and medium sized businesses with an emphasis to export oriented firms.
- Reduce queue time for private investments requests awaiting government approval.

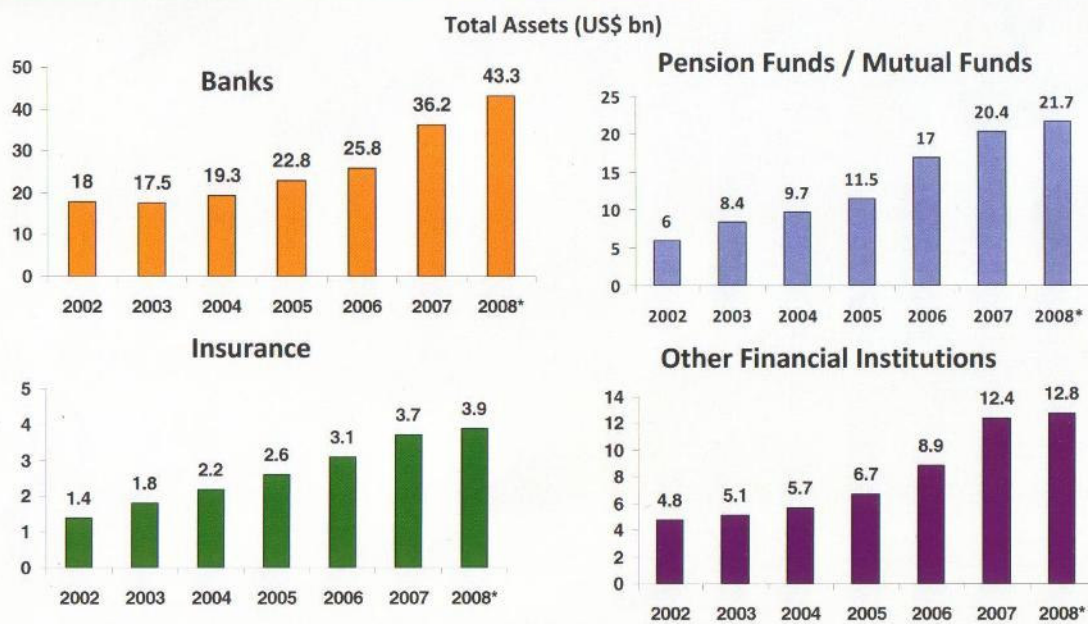
### Key Fiscal Stimulus Areas (US\$ bn)

- Construction \$1.01, SMEs and Exports \$0.43, Additional investments \$1.61, Social / workforce support \$0.18

### Contingent Financial Backup Lines (US\$ bn)

- Committed: \$3.00, Rapid Access \$6.25 (IADB, World Bank, CAF, FLAR, IMF)

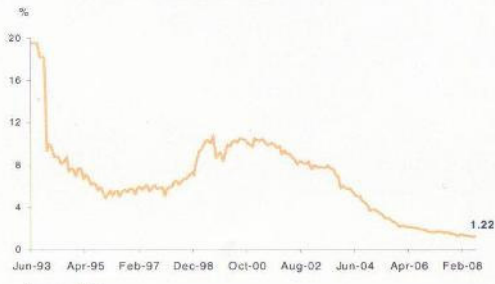
## The financial system has been growing rapidly



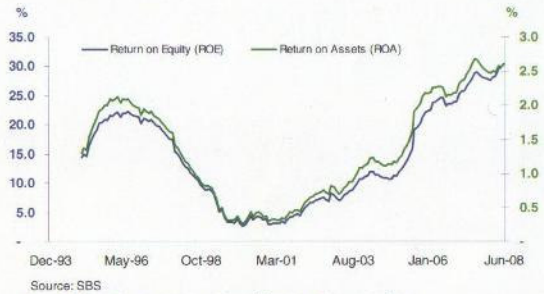
Source: Peruvian Banking and Insurance Superintendence (SBS). \* June 2008.

# Low vulnerability, robust profit and high potential for growth

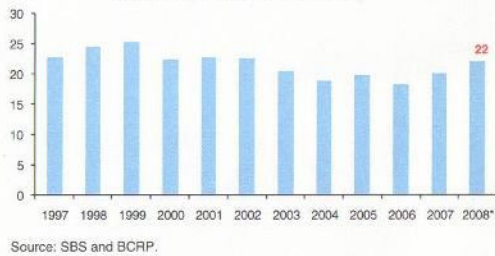
**Non – Performing Loans (% Total Loans)**



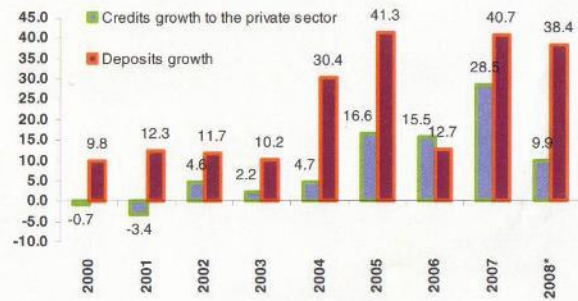
**Profit Indicators**



**Ample Room for Growth in the Financial Sector-(Deposits % GDP)**



**Funding Sources - Credits vs Deposits**



## Peru's 2009 financing plan (US\$ Million) \*/

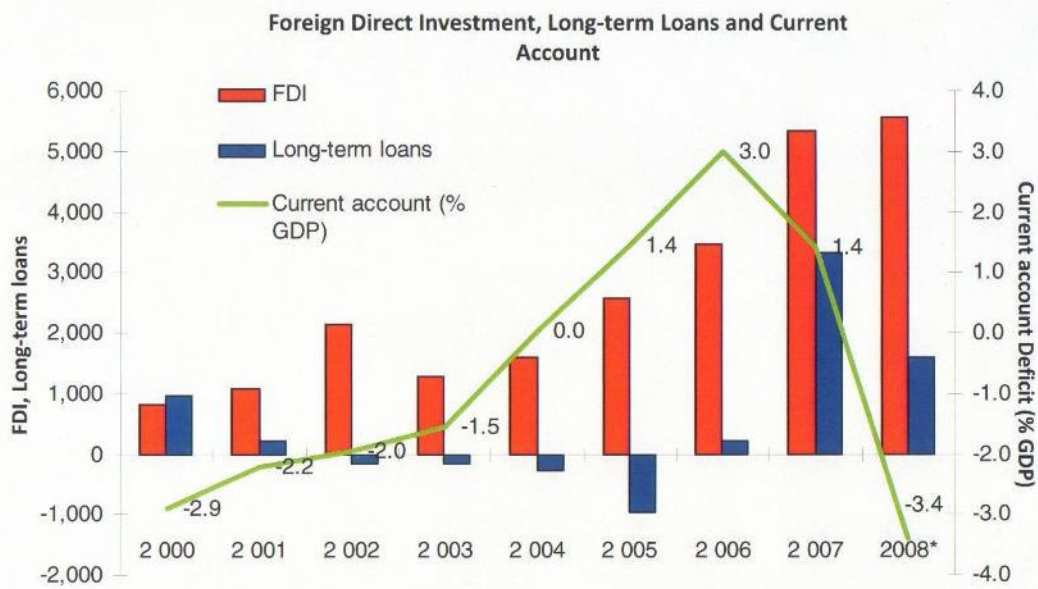
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<b>TOTAL REQUIREMENTS</b>	<b>657</b>
Amortization	1,207
- External	942
- Domestic	265
Fiscal Balance	(550)
<b>TOTAL SOURCES</b>	<b>657</b>
External	1,327
- Free Disposal	700
- Investment	600
- Other	27
Internal	(670)
- Privatization	10
- Bonds	500
- Deposits	(1,180)

\*/ Preliminary and subject to changes

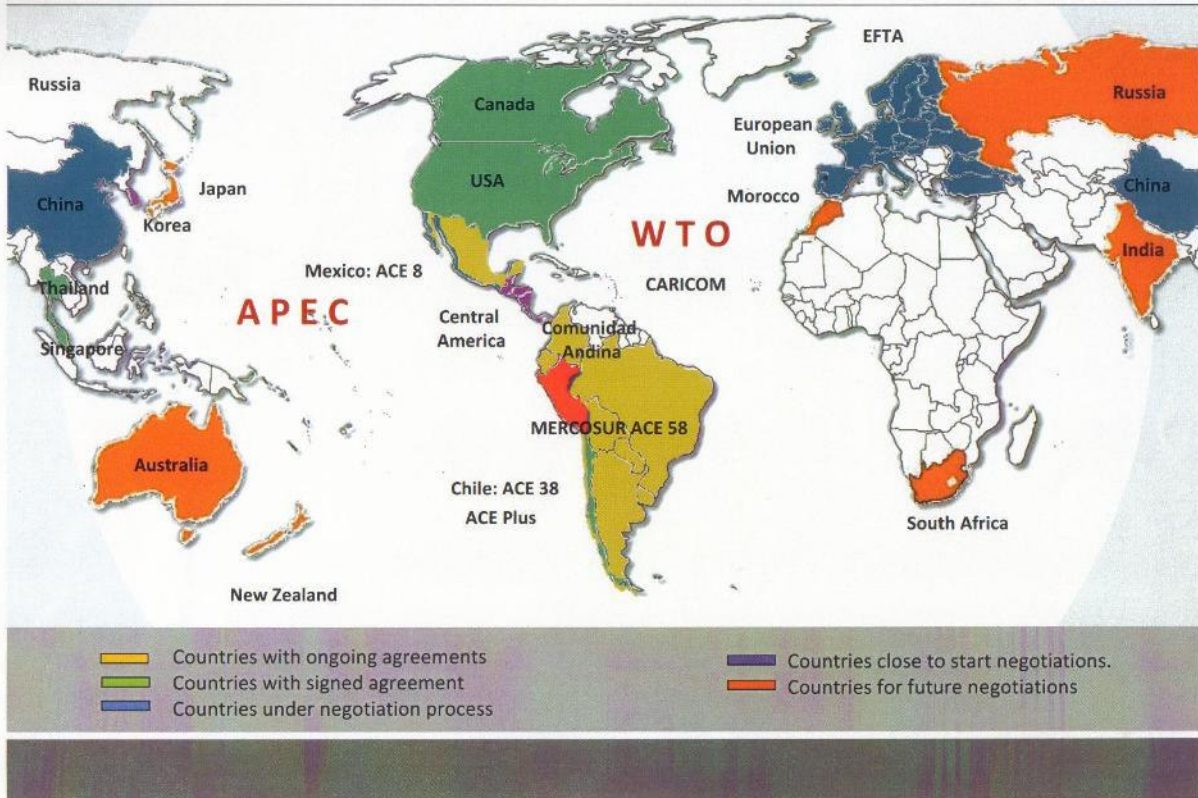
Source: MEF

## In 2009, FDI will cover the current account deficit



Source: BCRP

# Access to several markets



## Bilateral investment agreements



\* Free Trade Agreements

\*\*To be signed

## Recognition of a favorable investment environment

Peru stands first in the Latin America region in protecting investors



Source: Doing Business 2009.

Peru is first in the region for government readiness for private investment

Position	Country	Points
1	Peru	5.8
2	Colombia	5.6
3	Chile	5.5
4	Uruguay	4.8
5	El Salvador	4.6
6	Bolivia	4.5
7	Brazil	4.2
8	Dominic. Rep.	4.2
9	Mexico	4.1
10	Guatemala	4.0
11	Venezuela	3.2
12	Argentina	3.1

Source: World Economic Forum, Benchmarking National Attractiveness for Private Investment in LA Infrastructure. 2007

## Positive trend in private investment with consistent outlook

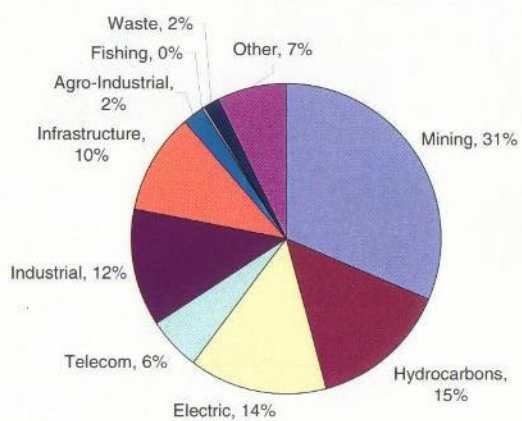
### Investment projects for 2008 - 2010

Industry	Total		Current		In Pipeline	
	Number of Projects	Investment (USD mm)	Number of Projects	Investment (USD mm)	Number of Projects	Investment (USD mm)
Industry						
Mining	18	11,100	9	7,739	9	3,361
Hydrocarbons	9	5,168	2	1,933	7	3,235
Electric	17	5,128	13	2,676	4	2,452
Telecom	4	1,953	2	1,560	2	393
Industrial	14	4,343	10	2,383	4	1,960
Infrastructure	16	3,711	8	2,092	8	1,619
Agro-Industrial	11	752	4	400	7	352
Fishing	4	160	2	30	2	130
Waste	3	561	1	77	2	484
Other	22	2,574	15	795	7	1,779
Total	118	35,450	66	19,685	52	15,765

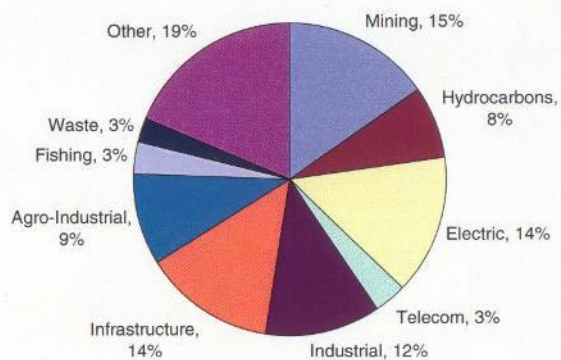
Source: BCRP, Proinversión

## Private projects in diverse sectors (2008-2010)

Investments breakdown by sector – US\$ volume



Investments breakdown by sector – # of projects



## Main investment opportunities by sector

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## Main investment opportunities by sector

### Agribusiness

- Dry tropical weather and vertical sun radiation enhance crop productivity.
- Specialized in growing high-value fruits and vegetables.
- Access to "Seasonal windows" in the most important markets permitting a rise in prices.
- 5 million hectares of land, many of them with possibility to schedule crops periods due to optimum climate conditions.

### Fishing & Aquaculture

- 1st world exporter of fishmeal and fish oil.
- Great hydro-biological richness: catch 6 million MT of annual exploitable biomass (mainly anchovy).
- A long fishing coastline (3,080 km) and hundreds of lakes and lagoons that offer ideal conditions to develop continental and marine aquaculture.
- Incentives for the aquaculture industry.

### Mining

- First world producer of silver.
- Announced investments for more than US\$ 23 billion.
- Only 10% of the territory with mining potential has been
- In Latin America:
  - Leading producer of gold, zinc, tin and lead.
  - Second producer of copper and molybdenum.
- High potential in non metallic mining

### Forestry

- 2nd largest natural forest areas of Latin America (Amazon forest).
- 78.8 million hectares of natural forests and more than 10 million hectares of lands appropriate for reforestation.
- Great bio-diversity and high-commercial valued woods.
- Potential to export annually US\$3 billion in woods and by-products.
- Investment opportunities in lumber industrial complexes.

### Textile

- 1st world producer of Alpaca and Vicuna fiber.
- High quality of Peruvian Pima cotton.
- Textile exports of US\$ 1 456 millions.
- Peru is garment supplier for renown brands in the world
- Recognized quality as "full package" supplier of the best international brands of knitted cotton fabrics.

### Tourism

- Machu Picchu among the New World Wonders.
- Cultural destination featuring Inca and Pre-Inca civilizations' archaeological sites.
- Scenic diversity.
- A great diversity of ecosystems as Peru boasts 84 of the planet's 114 life zones.
- Rich gastronomy.

