

Peru Business Forecast Report Q1 2015

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Abstracts

Core Views

The Peruvian economy will expand at lower average rates in the coming years as a decline in metals prices weighs on private investment into mining and results in slower export growth.

However, private consumption and public investment will remain relatively resilient in the coming years due to a rising middle class and an extensive infrastructure project pipeline.

Major Forecast Changes

Real GDP growth fell below our expectations in the first three quarters of 2014, driven by weak exports and investment, prompting us to downgrade our growth forecast. We now project real GDP growth of 3.0% in 2014 and 3.7% in 2015, compared with our previous projections of 3.8% and 4.0% for 2014 and 2015 respectively.

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Domestic Politics

PNP Increasingly Vulnerable To 2016 Defeat

Slowing economic growth will continue to weigh on the popularity of Peruvian President Ollanta Humala in the coming months, leaving his centre-left Partido Nacionalista Peruano vulnerable to defeat in the 2016 presidential elections.

Table: Political Overview

Long-Term Political Outlook

Mining Disputes Main Threat To Stability

Peru's long-term political stability is undermined by key structural risks, most prominently associated with mining and hydrocarbons exploration in the country's Amazon region.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Economic Growth To Remain Subdued In 2015

Weak metals prices will weigh on investment in Peru in 2015. While loose monetary policy and expansionary fiscal policies will buoy private consumption, it will not be enough to see headline growth return to the robust 5.0%-plus rates seen between 2010 and 2013.

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BCRP To Maintain Loose Monetary Policy In 2015

The Banco Central de Reserva del Peru (BCRP) will keep its reference rate unchanged at 3.50% through 2015. The BCRP's main tool to stimulate lower trending economic growth will continue to be a lowering of the reserves requirement ratio for commercial

banks in the coming months.

Table: Monetary Policy

Fiscal Policy

Budget Surplus To Narrow Further On High Spending

The Peruvian government's nominal budget surplus will narrow further in 2015, driven primarily by an uptick in public spending. Indeed, slowing economic growth and the declining approval rating of President Ollanta Humala will encourage the government to increase both current and capital spending.

Table: Fiscal Policy

Balance Of Payments

Weak Trade Dynamics To Keep Current Account Deficit Wide

Unfavourable trade dynamics will keep Peru's current account deficit near its largest levels over the past decade in 2015. An ongoing contraction in mining exports, amid falling industrial metals prices and slowing Chinese demand will be the main driver of another large trade shortfall in 2015. However, a strong reserves position will ensure relative balance of payment stability.

Table: Current Account

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PEN: Record Trade Deficit To Drive Depreciation

The Peruvian sol will continue its depreciatory trajectory in the coming quarters, driven by weakening trade dynamics and a strengthening US dollar. Intervention by the Banco Central de Reserva del Peru will curb the magnitude of currency weakness, but the depreciatory direction of the unit will remain in place.

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Regional Private Consumption Outlook

No Major Upside In 2015

Real private consumption growth in most of Latin America will trend lower in the next few years, driven by currency weakness and unfavourable labour market dynamics. Mexico and Colombia are the only two major economies in which we expect faster average real private consumption growth over the next three years.

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