BBVA | RESEARCH

Peru Economic Outlook

Third quarter 2015
Peru Unit

- Global output growth will reach 3.4% in 2015, similar to the previous year, and 3.8% in 2016. All eyes, especially those in the commodity-exporting emerging markets, will be on the Fed's imminent monetary policy adjustment and developments in China's economy.
- We forecast that the Peruvian economy will grow by 2.5% in 2015 and 3.8% in 2016. Increased copper production and construction work on major infrastructure projects will be the mainstays of GDP growth.
- The PEN will continue to depreciate. Uncertainty over the Fed adjustment, China, soft commodity prices and, in a more structural sense, increased fundamentals weakness, will lead to further currency depreciation.
- Inflation will remain above the target range until the first half of 2016. Conflicting impacts from the exchange rate and demand weakness.
- The central bank faces a dilemma: demand weakness, on the one hand, and the exchange rate and inflation, on the other. We do not foresee changes in the policy rate until late 2016.
- Peru's economy will face an assortment of risks in the coming months. On the external side, China and the impending Fed adjustment could complicate the outlook. Risk elements are also apparent locally: further deterioration of business confidence and a more severe *El Niño* weather phenomenon.

Index

Closing date: 30 July 2015

1. Overview

In the past few months the global context has been marked by the materialisation of some of the risks that we anticipated, among these greater weakness in China's economy. In such circumstances, and in combination with the uncertainty over the Fed's impending policy rate moves, financial jitters have increased worldwide, above all in the form of greater volatility in stock and currency markets, and commodity prices have been buffeted, with the emerging economies the worst affected. **Our baseline forecast scenario factors in this initial external context and, looking ahead, assumes global output growth of 3.4% in 2015, which is similar to last year, and 3.8% in 2016**. This is consistent with i) US growth of 2.5% in 2015, which is not so very different from last year, and then something closer to 3% in 2016, ii) a further slowdown of activity in China, which will grow by less than 7% in 2015 and then only a little over 6% in 2016, iii) a virtual standstill in Latin America in 2015, with an improvement the following year to slightly over 1%, and iv) a somewhat brighter outlook for the prices of those commodities that are most important to the Peruvian economy, which will mean that, while there will be a decline in the terms of trade in 2015 (on average), these will hold relatively stable from next year onwards.

Given these exogenous elements arising on the external front, **we forecast that economic activity in Peru will grow by around 2.5% in 2015**, picking up in the second half with the growth rate moving closer to 3% (between 2% and 2.5% in the first half of the year). Sector-wise, the added boost will come from construction and fisheries. With respect to construction, the strongest growth rates will come from work on major infrastructure projects, such as Line 2 of the Lima Metro, Peru's Southern Gas Pipeline, and the Energy Node, on top of which there will be an acceleration of spending on modernising the Talara refinery and a step-up in execution of the funds budgeted by local and regional governments as the new authorities will have had more time to settle in and thus speed up the capital expenditure process. On the fisheries side, our baseline scenario assumes a moderate to strong *El Niño* weather phenomenon, which will not have too severe an impact on activity (not just fishing, but also farming, trade and construction). In this context there will be a second anchovy fishing season in the fourth quarter of the year, which will be an improvement on the situation of a close season over the same period last year, even with a quota on the catch of only half of the amount in previous years. Here it should also be pointed out that metal mining will continue to provide support for growth, especially from increased copper production, which we estimate will rise by over 20% YoY in the second half. On the expenditure side, all of this will be reflected in higher gross fixed investment and exports.

Certain key drivers of economic growth in 2H15 will continue to perform this role in 2016, in particular higher copper production and construction work on major infrastructure projects. In the case of copper, we predict that extraction will rise by 22% in 2016. This will be affected by the coming on-stream of Las Bambas and the Cerro Verde expansion, while Toromocho and Antamina will operate at full capacity. On the infrastructure construction side, outlays will be increased for projects such as the Lima Metro's Line 2, Peru's Southern Gas Pipeline and the Talara refinery. Overall, the increased copper production and the greater amount of construction work on major infrastructure projects will account for about two percentage points of growth for the economy the next year. We therefore **anticipate that in 2016 GDP will advance by 3.8% and speed up with respect to 2015, although this will still be at below the potential growth rate** (which we estimate to be around 4.5%). On the demand side, this forecast scenario is consistent with a recovery for exports (in the mining, fisheries and non-traditional product segments, owing to stronger growth in both the region and the world), as well as public and private investment, which will mean that these will come to grow again after the setback in 2015. This situation and the likely improvement in the confidence of economic agents (after the local political hue and cry has quietened down when the 2016 election process ends) will pave the way for job-creation and therefore a gradual upturn in private consumption activity over next year, above all in the second half.

Turning to the **fiscal accounts**, we estimate that these will **deteriorate from 2015**, mainly due to the lasting personal and business income tax cuts, lower commodity prices (which have an adverse effect on business profits) and the weakness of the economic cycle. The larger fiscal deficits, which we forecast will henceforward be between 2% and 2.5% of GDP in our baseline scenario, **will lead to a rising, though manageable, trend for public sector debt as a percentage of GDP.**

Depreciation pressures are still pushing down on the PEN in the currency markets, and these will not let up over the rest of the year. An expected depreciation arises from uncertainty over the imminent monetary policy adjustment in the United States, the delicate position of China's economy, and lower commodity prices. On a more structural level, the fundamentals of the Peruvian economy have become more shaky, which is mirrored in the value of the PEN: the terms of trade have weakened by more than 15% over the past three years and are not set to recover going forward, the fiscal situation is less encouraging, and the current account deficit in the balance of payments has widened. Given these factors, we forecast that at around the end of this year the dollar exchange rate will stand at close to PEN3.30 and approximately PEN3.35 in late 2016 (it is likely to be a bit higher over the first half of that year on election uncertainty). This prediction assumes that the transition towards a higher exchange rate will be relatively gradual since the central bank will continue to soften movements in this variable by exchange-rate intervention.

Turning to prices, inflation currently stands at 3.6% and we estimate that it will hold up above the target band in the next few months and close the year at 3.7%. There will continue to be pass-through of PEN depreciation to prices, added to which will be an expected rise in the oil price and the inertia that high inflation expectations (close to 3% a year out) exert upon the price formation process, all of which will cancel out the downward effect of the economy's cyclical weakness. For 2016 we foresee depreciation of the PEN being more limited and output continuing to move ahead at below its potential rate, which will serve to draw inflation back within its target band, especially from the second half.

The central bank continues to face a challenging macroeconomic landscape, in which private-sector spending is weak, but on the other hand there are considerable depreciation pressures on the PEN and inflation has once again strayed above its target band. This limits the options for monetary policy action, even more so if we consider that loan dollarisation (decreasing but still at a high level) implies the risk that a sharp depreciation of the PEN (brought about by a rate cut) could disrupt private-sector spending even more. In such a situation we **do not envisage any policy rate moves over the remainder of 2015 or in 2016**, either downwards, in an attempt to stimulate spending, or upward, to contain PEN weakness and inflation.

Finally, the Peruvian economy will face challenges over the coming months, both from without and from within. Chief among these are, externally, **China's lower rate of growth** and the **monetary normalisation process in the United States**, while at home there is the ***El Niño*** weather phenomenon (which could even be more severe than forecast, with a strong rating) and the **deterioration of business confidence** (due to the weakness of the economy and increased political ructions). Our baseline scenario assumes a specific course of events for both of these. Any deviations from this would mean a macroeconomic picture which could be more or less promising than that painted.

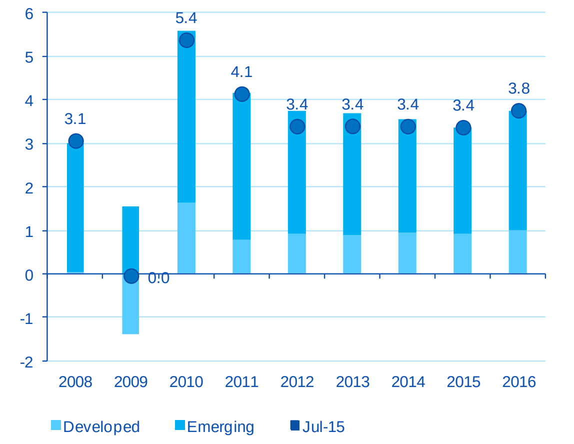
2. Subsiding world growth and a marked slowdown among the emerging economies

World growth is being revised downwards for 2015, to 3.4%. This should rally to 3.8% in 2016

After its first quarter setback, world growth seems to be showing more vitality in the second quarter, following on from the upturn in the United States, euro area strength and China's growth holding at 7% YoY. All in all, world GDP is likely to have grown at under 3% YoY in the first half of the year, which warrants the downward revision of our growth forecast for 2015 as a whole (3.4%, 0.1pp below the level foreseen in April). In 2016, world growth could gather pace and reach a rate of 3.8% (see Figure 2.1).

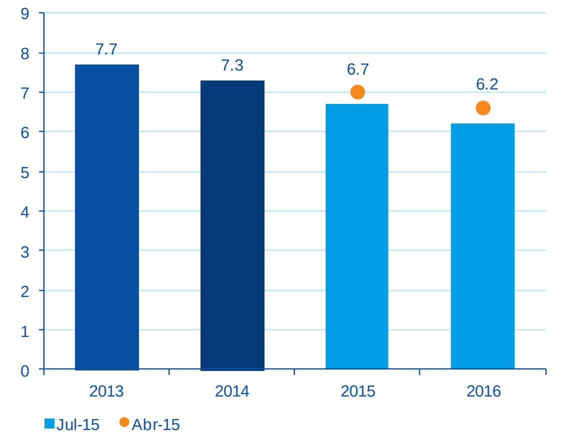
The set of developed countries continues to share promising growth prospects, which will help to mitigate the impact of the deceleration in the key emerging economies on world activity and trade. Indeed, while the developed nations could grow in 2015 at their fastest pace since 2010, at just over 2% YoY, the emerging group should lose growth momentum for the fifth successive year.

Figure 2.1
World GDP: annual growth (%). 2015-16 forecasts



Source: BBVA Research and Haver

Figure 2.2
China: GDP growth (% YoY)



Source: BBVA Research

Besides the downward revision of economic growth forecasts, in the past quarter the global situation has been notable for the materialisation of some of the risk events which we sketched out three months ago and might bring world recovery to a halt if they intensify. The first of these lies with the bout of financial instability in China that has been sparked by the dramatic correction in its stock market, within a scenario of a trend decline in growth (accompanied by very intensive recourse to borrowing) and a process of financial liberalisation underway. The second, though equally significant, is the Greek crisis and the problems in arriving at a deal that might, in the short run, ensure fulfilment of the country's financial obligations as well as, in the longer run, the sustainability of its debt based on reforms that enhance economic growth capacity. The concurrence of both risk events at a time when the first Fed rate hike is approaching (which we still see happening in September) has heightened financial turmoil worldwide, particularly in its manifestation of high volatility in stock and currency markets, this being most acute in the euro area and Asia.

The first half downturn in growth justifies lowering the 2015 forecast for this in the United States …

GDP in the United States fell back in the first quarter and showed timid progress in the second based on the available indicator readings for activity and confidence. This makes a case for revising the growth forecast downwards for 2015 as a whole, which could be 2.5%, 0.4pp below the April estimate. Uncertainty over how the economic cycle will shape up in the next few quarters is now greater if we factor in the impact of the dollar's stubborn appreciation on exports, private investment weakness and the deterioration in the global outlook. Even so, US GDP could grow at 2.8% in 2016.

… while the financial volatility in China also brings down growth forecasts for the country in 2015 and 2016

With respect to China, its pace of economic growth is likely to slow down in the next two quarters due to the impact of the recent financial upheaval. In addition to the negative effect on the confidence of private economic agents, there could also be potential for pulling out of consumption decisions as a result of the fall in household wealth. Yet above all there is likely to be a deterioration in business funding conditions, which would be linked to both the suspension of new stock market share offerings and the loss in value of collateral used in obtaining bank loans. It is on the basis of these two factors that forecast growth for China in 2015 and 2016 is being revised downwards to 6.7% and 6.2% respectively (0.3pp and 0.4pp below the April scenario, see Figure 2.2). The revision to the course taken by forecast growth is only not more drastic because of the battery of stimulus measures which the Chinese authorities have applied to head off worse contagion to the activity cycle.

Euro area growth is still recovering, in spite of the Greek crisis

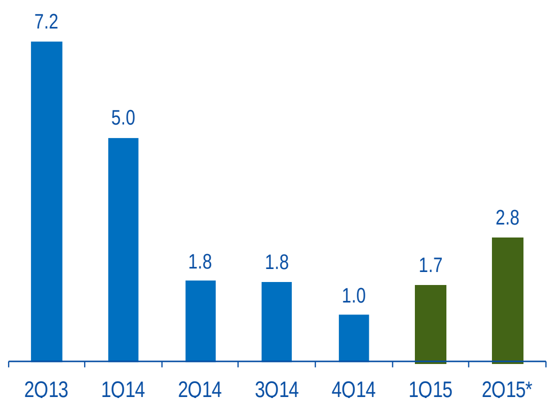
The euro area is still displaying a pattern of sustained recovery, with quarterly GDP growth rates of the order of 0.4% in the first two quarters of the year. The pick-up in France and Italy has combined with the strength of Germany and the progress made by Spanish GDP, at rates of close to 1% QoQ. The emergence of one or two risk flash-points with varying effects on the region could bring down expected growth for 2015 and 2016 slightly but, even so, forecasts remain positive (+1.4% in 2015 and +1.9% in 2016, 0.1pp and 0.3pp below those in April). Overall, the most significant challenge is to dispel any doubts over the irreversible nature of the monetary union project.

3. Peru: growth will be around 2.5% in 2015, a similar rate to last year, and 3.8% in 2016

The boost from the extractive sectors, which are the key drivers of the GDP growth expected this year, intensified in the second quarter…

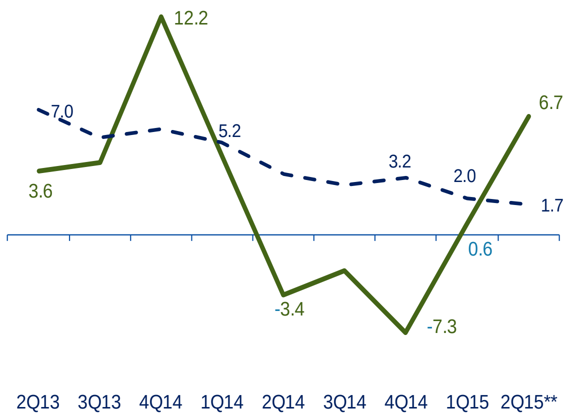
In our previous reports we have said that the reversal of the adverse supply shocks which affected extractive activities such as fisheries and metal mining in 2014 would be one of the main pillars of growth in 2015. This process began timidly in the first quarter of the year then became more apparent in the second, and should have left GDP growth for this period at around 2.8% YoY (see Figure 3.1).

Figure 3.1
GDP
(% var. YoY)



* Own estimate.
Source: BCRP and BBVA Research

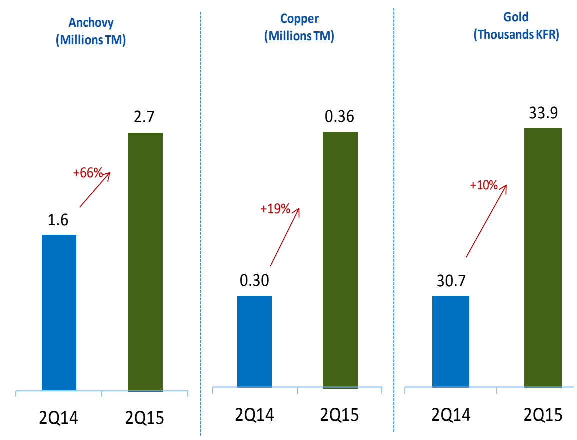
Figure 3.2
Primary and non-primary GDP*
(% var. YoY)



* Includes the agriculture and livestock, fisheries, and mining and hydrocarbons sectors, as well as primary manufacturing (the processing industry for the resources extracted in the three previous areas of activity). ** Own estimate.
Source: BCRP and BBVA Research

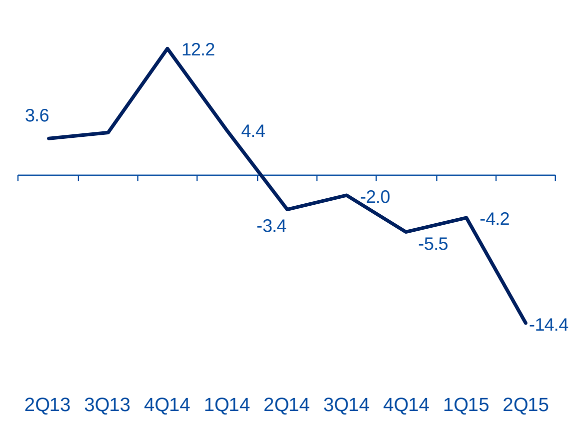
Growth for the extractive activities overall should have been over 6.5% in the second quarter (see Figure 3.2) and with this the primary sectors ought to have become leaders in terms of economic growth, with fisheries and metal mining the most notable. In the case of fisheries, even though the quota set for the first anchovy-catching season of the year (which usually runs from April to July) was relatively similar to that in 2014, on this occasion it was almost fully used up over the second quarter, whereas last year only around 60% was landed in this period (and by the time the season had ended, only 70% of the set quota had been achieved). Bringing forward the opening of the first catching season by fifteen days had a positive impact here, which was intended to mitigate the risk of greater sea warming. On the other hand, metal mining also performed positively, growing by 13.5% in the second quarter. This bore witness to consolidation of the copper extraction levels at Toromocho and Constancia, as well as a restoration of those at Antamina, as a result of which copper production rose 19% in 2Q15 (see Figure 3.3). The fine performances by fisheries and metal mining had beneficial knock-on effects for the industry which processes the resources extracted in these two activities, which we estimate should have grown by around 9% over the quarter, the first positive reading in over a year.

Figure 3.3
Anchovy, copper and gold extraction (in million tonnes and thousand FMT)



Source: BCRP, INEI, MINEM, PERUPETRO and BBVA Research

Figure 3.4
Hydrocarbons production (% var. YoY)



Source: BCRP, INEI and BBVA Research

It should be pointed out that, within the extractive activities, a negative element was provided by the hydrocarbons sub-sector, which went into an even more pronounced retreat in the second quarter (see Figure 3.4), with oil production in particular coming off the pace. Extraction levels dropped by over 20% YoY in Q2 at Block 192, for example, in a downward trend that has in fact been observed since midway through last year, as this well requires greater investment to expand its operating capacity, but the incentives to provide this are minimal, given that the production agreement between the Peruvian state and the operating company is about to expire. Production in Block 67, on the other hand, fell off significantly because the current world crude price is unattractive. Natural gas followed the example of lower oil extraction, as in April and May (there was a recovery in June) operations in Blocks 56 and 88 were affected by transport problems to consumer markets, given that a gas pipeline used for transporting natural gas liquids (NGLs) broke, maintenance work was being carried out on the reinjection pipeline system at the San Martín field, and strong sea-swells off the Peruvian coast complicated sea transport to the country's capital.

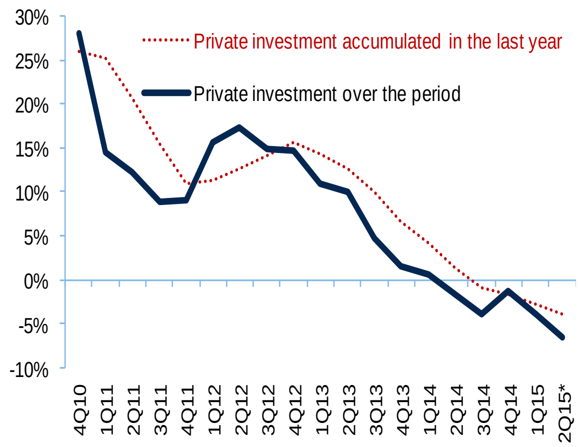
… but the productive activities most closely linked to domestic demand continued to show weakness

As regards the non-primary sectors of economic activity, i.e. those not associated with extracting natural resources, but instead which closely shadow trends in domestic demand, growth remained poor, at under 2% YoY (see Figure 3.2). Key activities for job-creation even showed substantial deterioration. For example, construction fell back by around 11% over April and May (and we estimate that this should have been close to 9% in Q2) due to low execution of public investment, the increased caution in markets such as real estate, and the fact that the construction phase in some of the larger mining projects is nearing its end. The decline in non-primary manufacturing was also significant, at over 5% YoY over April and May. This is symptomatic of both the weakness of domestic demand and lower sales abroad, especially within the region, which is the prime export market for Peruvian manufactured products (with a share of approximately 40% of the total).

On the demand side, there was a more marked deterioration in private investment in the second quarter…

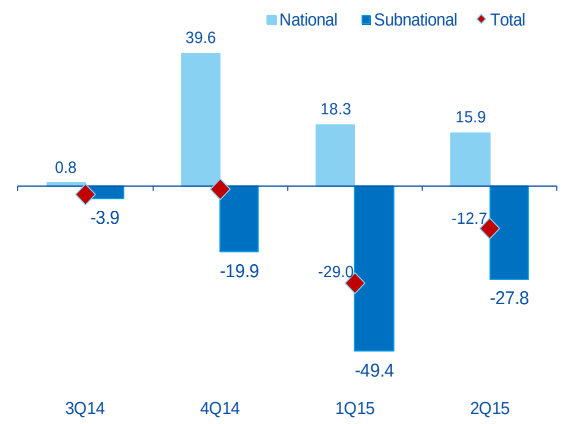
After falling back by around 4% in Q1, we estimate that private investment contracted by more than 6% YoY in Q2 (see Figure 3.5). The decline in business confidence, which hit a low in Q2 with the volatility on international markets, disappointing local activity figures, and increased political ructions, was influential in this pattern. Besides the ebbing confidence level, private investment activity was again hampered by the sustained contraction of mining investment (in the past few years this has represented about 20% of overall private investment and for Q2 it had been showing a YoY fall of over 13%). The slump in mining investment is not a phenomenon exclusively attributable to local factors, but is rather due to the apparent slowdown in new projects being carried out worldwide by the major mining corporations given the less appealing prospects for metal prices.

Figure 3.5
Private investment (% var. YoY)



* Own estimate.
Source: BCRP and BBVA Research

Figure 3.6
Public sector investment (general government) (% var. YoY)



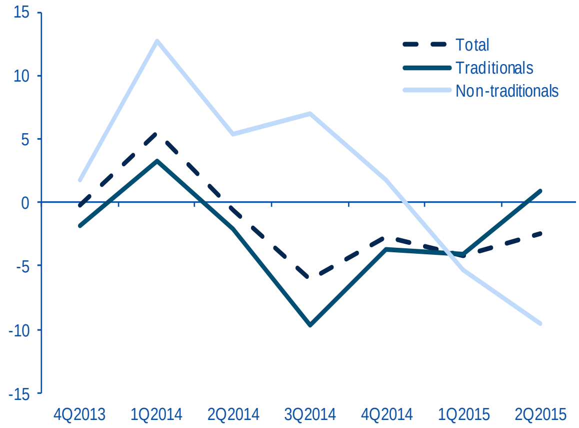
Source: BCRP and BBVA Research

… while public-sector investment and exports continued to fall away, though less sharply than at the start of the year

On top of the investment carried out by the private sector, public investment also performed poorly in Q2 as local and regional governments continued to experience problems in executing expenditure, particularly as regards its capital component. Public-sector investment should therefore have dropped back again (see Figure 3.6), although this time at a slower pace than over the first three months of the year (a fall of more than 26%), which suggests that the regional and municipal authorities are starting to settle into the office they took up last January and that it is increasingly likely that expenditure execution on this level of government will perform respectably in the second half of the year.

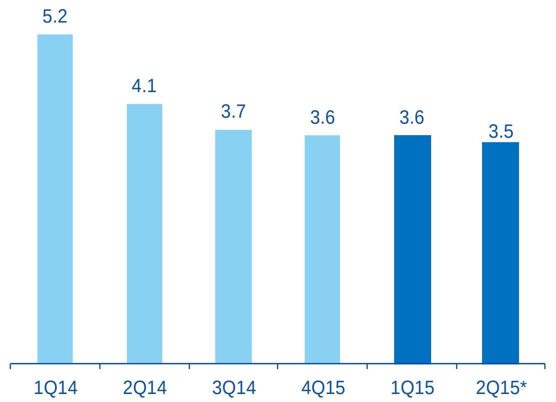
Finally, we estimate that export volumes should have continued to come down in Q2 (see Figure 3.7) after falling by a little over 3% in Q1. It seems to be a bit of a contradiction that, on the one hand, a high degree of buoyancy is being observed in primary activities (fisheries and metal mining), which are geared to the external market, while, on the other hand, exports have dropped (traditional exports have a 75% share of the total). This is partly because of the natural lag that exists between the time when natural resources are extracted and when they are later shipped abroad. In the case of fisheries, for example, landed anchovy (by far the most important area of fishing in Peru) is processed into fish flour and oil afterwards, and the lag can be two to three months. In other words, the robust activity among the primary segments has still not been fully echoed by traditional exports. A second element that accounts for the setback for exports in the second quarter is the lower level of activity among the countries in the region, which has affected traditional exports, as has already been mentioned. For example, textile exports to Venezuela, which is a market that represented 15% of total exports in 2014, plunged by over 70% in Q2, while those to Brazil (which represented 7% of overall textile exports in 2014) came down by around 30%.

Figure 3.7
Exports
(% var. YoY)



Source: BCRP and BBVA Research

Figure 3.8
Private consumption
(% var. YoY)

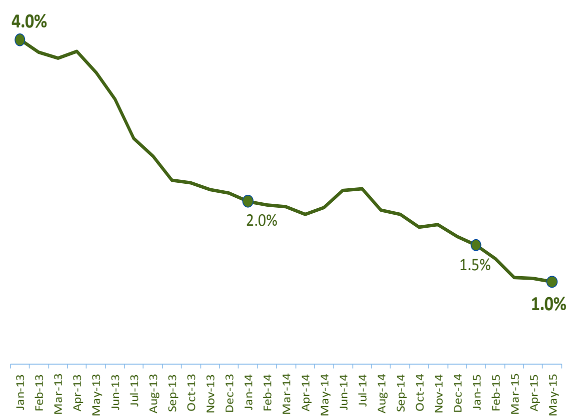


* Own estimate.
Source: BCRP and BBVA Research

The positive aspect on the demand side was the sustained growth in private- and public-sector consumption

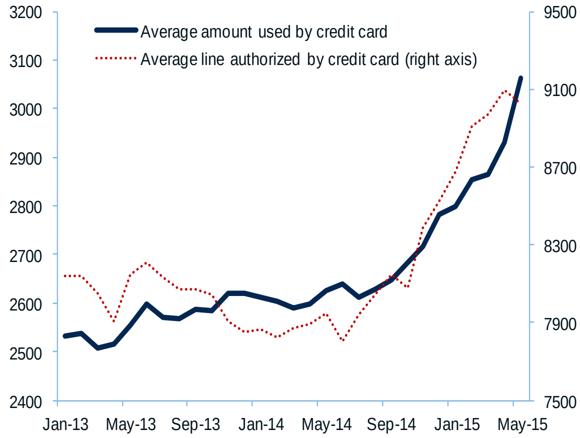
Consumption growth provided the positive element in Q2, with acceleration by the public sector and resilience shown by households (see Figure 3.8). In this last case, we estimate that a growth rate is likely to have been kept up on a par with that in the two preceding quarters, despite the fact that the labour market has still been cooling down (see Figure 3.9). We believe that one element which has been propping up family spending has been higher bank borrowing. Consumer loans have sustained growth rates of over 12% since the beginning of 2014 and have gathered pace in the YtD, reaching nearly 15%, which is interesting given the economy's cyclical weakness. We nonetheless see this rate of growth for consumer loans tending to ease up in the coming months, both because there is evidence that this has been associated with a step-up in credit card usage (see Figure 3.10) and because various surveys suggest that a by no means insignificant percentage of households say they are experiencing problems in paying off their borrowings.

Figure 3.9
Urban job-creation (% var. YoY, moving average for the past three months)



Source: BCRP and BBVA Research

Figure 3.10
Credit card usage to fund consumption (banking sector, PEN)



Source: Asbanc and BBVA Research

Finally, we estimate that inventory accumulation, which accounted for close to 2 percentage points of economic growth in Q1 this year (1.7%, meaning that, without the increase in inventory accumulation, YoY GDP growth would have been virtually non-existent) is likely to have made a considerably smaller contribution in Q2. We forecast that in the next few quarters inventories will tend to normality (decumulation), which will hinder GDP growth to some extent.

The economy will perform better from the second half, which means that GDP will move ahead by around 2.5% in 2015 and 3.8% in 2016

Our baseline forecast scenario factors in the following exogenous elements for the next few quarters:

1. on the external front, i) uncertainty over the imminent policy rate moves by the Fed (when this process will begin and, above all, how aggressive the adjustment path will be, ii) growth for China of below 7% for this year and only a little over 6% in 2016 (these figures imply a cut with respect to our forecast of three months ago) and iii) terms of trade that, on average, will decrease in 2015 but which will hold relatively stable from next year (see Box 3.1 on commodity prices).

2. on the domestic side, i) an *El Niño* weather phenomenon that is of an intensity classed as between moderate and strong, which will not impact very severely on economic activities such as fishing, agriculture, trade (road infrastructure) or construction, ii) and which relates to the last point, a second anchovy fishing season, with a quota of 1 million tonnes, iii) mining production that will remain substantially buoyant, especially with respect to copper in the next two years, iv) infrastructure projects which will have a more notable impact from the second half of the year that will intensify over the next two years, v) business confidence, which will not suffer further significant deterioration, and will show a trend of recovery after the general elections in the first half of 2016, and vi) a gradual adjustment in inventories.

In this context we predict that economic activity will perform better in the second half, picking up by a little over half of a percentage point compared to the first half of the year to around 3%. In sectoral terms, the additional lift will come from construction and fisheries, while metal mining will continue to provide substantial support, particularly copper production. On the expenditure side, this will be reflected in greater gross fixed investment and exports, which will mean both variables showing positive growth rates again after contracting in Q1.

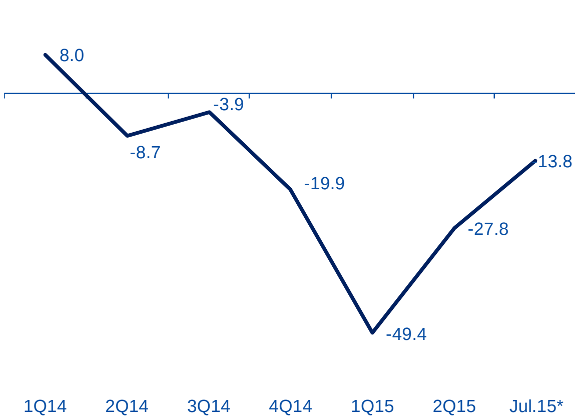
With respect to the construction sector, a better second half performance will be associated with the major infrastructure projects. Line 2 of the Lima Metro, Peru's Southern Gas Pipeline, and the Energy Node (Arequipa), projects in which a total of USD11bn is set to be invested (see Table 3.1), will see more substantial progress in related construction from the second half of the year. On the expenditure side, this will boost public and private investment. A second element that will have a positive impact on the construction sector will be the acceleration of spending on modernising the Talara refinery. According to the Multi-Annual Macroeconomic Framework (MMM in its Spanish acronym) which the Ministry of Economy and Finance draws up, there will be an outlay of some PEN2bn on this project in 2015. Our baseline forecast scenario incorporates execution of about 80% of this sum. The work is moving ahead and we estimate that the lion's share of disbursements for construction will come in the second half. On the expenditure side, the modernisation of the Talara refinery will be reflected in greater public-sector investment. Finally, we forecast an upturn in capital expenditure execution by local and regional governments since the incoming authorities will have had enough time to settle into office and make a start on managing the funds in their charge with more despatch. The first figures from the third quarter (July) for public investment at this level of government suggest that the situation is beginning to improve (see Figure 3.11). It should be noted that the improved dynamics in the construction sector will have a positive impact on non-primary manufacturing, particularly the industry which caters for the demand for materials for this activity.

Table 3.1
Major infrastructure projects where construction work will start in 2015 and 2016 (USD mn)

Proyect	Financing Method	Investment amount	Participation Public	Private
Longitudinal de la Sierra - Tramo 2	Cofinanced	552	552	
Nodo Energético del Sur	Self-sustaining	900		900
Talara	Cofinanced	3,500	2700	800
Línea 2 del Metro	Cofinanced	5,658	4000	1,658
Aeropuerto Chincheros	Cofinanced	658	264	394
Terminal Portuario San Martín	Self-sustaining	182		182
Gaseoducto	Self-sustaining	4,300		4,300
TOTAL		15,750	7,516	8,234

Source: Apoyo Consultoria and BBVA Research

Figure 3.11
Public sector investment by local and regional governments (% var. YoY)

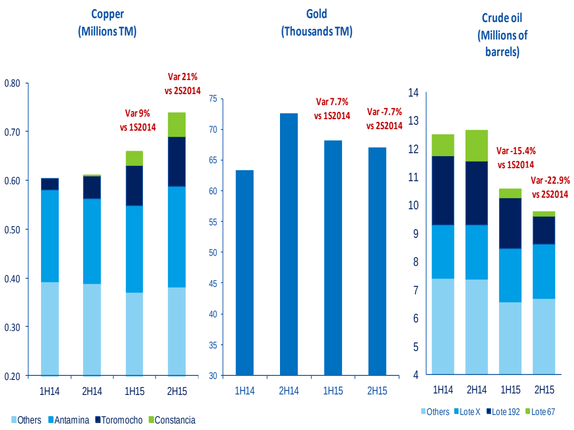


*According to SIAF- MEF.
Source: BCRP, MEF and BBVA Research

With respect to fisheries, the impact of *El Niño* will be moderate to strong in our baseline scenario. In such a situation we have assumed that around 1 million tonnes of anchovy will be landed over the remainder of 2015, which will be an improvement on the close season in the same period last year. To give this some context, in the four years up to 2014 the average quota for the north central zone for the second annual anchovy catching season was close to 2 million tonnes. Fisheries will therefore provide an additional fillip for economic activity in the second half, which we estimate will have an impact of a little under 0.5pp on the GDP growth rate for this period if we also take into account the positive impact on the fish flour and oil industry. On the expenditure side, this will subsequently be reflected by higher exports.

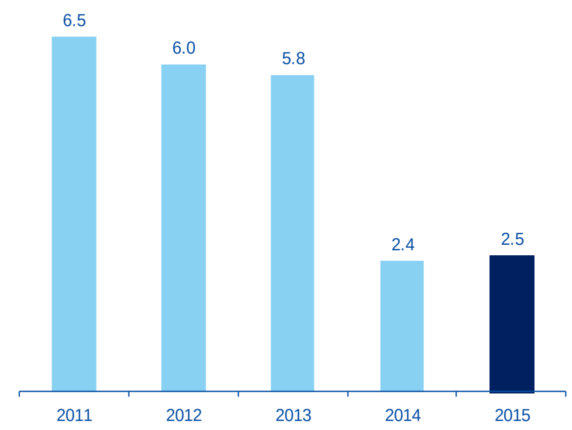
Finally, for 2H15 we include a higher rate of copper extraction, which will rise by 21% YoY over this time (9% in H1). For example, we forecast that production levels at Antamina will gradually increase in the coming months and that it will regain full operating capacity towards the end of the year, meaning that in H2 it will extract about 20% more copper than in the same period in 2014. This implies that it will produce a little over 34,000 FMT as a monthly average over the rest of the year (in H1 this was 30,000 FMT and in June this peaked at 35,000 FMT). On the other hand, Constancia has already hit full production capacity and will maintain this going forward, whereas Toromocho will be close to achieving this toward the end of the year, according to our baseline scenario (extraction will rise steadily in the coming months, having shown a monthly average of c.14,000 FMT in H1). The impact of this greater activity in copper production, which, on the expenditure side will be reflected in higher exports, will contribute 1.2 percentage points to GDP growth in H2. Nonetheless, in terms of the mining and hydrocarbons sector the impact will be more limited (only a little over one quarter of this) because, although we predict that molybdenum and iron ore extraction will also see a useful YoY rise in H2, the same will not be true for gold (the percentage increase in H1 was chiefly due to the fact that the base used in making YoY comparison was low, but production levels have been falling in recent months), zinc, lead, silver, tin or hydrocarbons (see Figure 3.12).

Figure 3.12
Copper, gold and oil production (in thousand FMT and thousand barrels)



Source: BCRP, MINEM, INEI, Perú Petro and BBVA Research

Figure 3.13
GDP (% var. YoY)



Source: BCRP and BBVA Research

Given this scenario for the second half, growth for the year in 2015 will be around 2.5% (see Figure 3.13), which is a similar growth rate to that of last year but which masks a six-monthly performance that suggests that GDP is gradually regaining buoyancy.

Some of the key drivers of growth over the remainder of 2015 will continue in such a role next year, particularly the higher copper production level and the construction work on major infrastructure projects. In the case of copper, we forecast that extraction will increase by 22% in 2016, having risen by 15% in 2015. Three quarters of this increase is due to the coming on stream of the Las Bambas and Cerro Verde expansion projects, while Toromocho and Antamina will be operating at full capacity. On the infrastructure construction front, there will be greater outlays on projects such as the Lima Metro's Line 2, Peru's Southern Gas Pipeline, and the Talara refinery. For the Metro, for example the MMM assumes that, compared to 2015, capital expenditure will be lifted by USD700mn, to which is likely to be added an acceleration of the private investment counterpart, so that overall these sums will represent 0.4pp of GDP. Our baseline scenario also includes sizeable increases in private- and public-sector capital expenditure in the cases of the gas pipeline and the Talara refinery. The increased copper production and the step-up in construction work on major infrastructure projects account for around 0.2pp of the economy's growth next year. As a result, we anticipate that in 2016 GDP will move ahead by 3.8%, gathering pace with respect to 2015, although still below potential growth rate (which we estimate to be around 4.5%).

On the demand side, this forecast for 2016 is consistent with a recovery for exports, which will be mainly associated with higher mining and fisheries production, and increased shipping abroad of non-traditional products in an environment where growth for both the region and the world will be more robust. It is also compatible with a recovery of public-sector and private investment, which falls within the above-mentioned construction work on major infrastructure projects. It is important to point out here that within private investment we are assuming that the decline in the portion directed at the mining sector will persist, although this will be rather more limited (this type of investment has had a share of 20% of the total in recent years). The end of the Las Bambas construction work and the expansion of Cerro Verde, and a scenario in which metal prices will remain depressed and the cost of borrowing in international markets will rise, support this outlook, while on the other hand for the rest of private investment we forecast an accelerating trend as the political hubbub dies down (which is likely to happen after the general elections in the second quarter of 2016), business confidence shows a rising pattern as a result of this, and construction work on infrastructure projects gains traction. In summary, after the setback in 2015, exports and both public sector and private investment will grow again next year. In such circumstances, the pace of job-creation is also likely to be more positive, which will encourage a steady rise in private consumption throughout 2016, above all in the second half.

After 2016, the economy will grow at an average annual rate of about 4.5%, in line with potential GDP

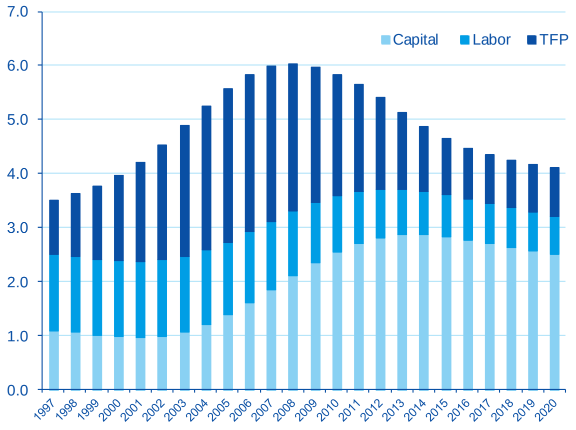
The slowdown which has been affecting Peru's economy has brought out the need to implement measures to enable a return to a path of rapid growth. Any slower growth rate will make it hard to achieve sustainable reductions in poverty and create decent jobs.

To put this into context, Peru has ceased to be a rapid-growth economy, with annual rates at an average of close to 6.5%. We estimate that in the medium term activity will grow at a more sedate average annual rate, of around 4.5%, which is similar to the potential rate, as a result of not enough action having been taken to prevent a deterioration in the country's productivity and competitiveness.

According to our estimates, Peru's potential GDP grew at an average rate of 5.5% in 2003-12. This was a time of rapid and sustained progress for Peru's economy, which led to a sharp drop in poverty, a burgeoning middle class, better household incomes, and quality job-creation, among other outcomes. If we decompose this potential GDP growth into the contributions made by capital and labour factors of production and total factor productivity (TFP)[1], we find that the biggest input, in average terms, came from this last element, which accounted for a little over 40% of growth (see Figure 3.14). The contribution of capital was also notable, which reflects the high rates of investment seen over the past decade. From 2013, however, we observe a drop in the potential growth rate, which we estimate will average around 4.5% YoY over the next five years. The breakdown of growth by component reveals that the loss of momentum will mainly be due to a slowdown in the contribution from TFP of between 1 and 1.5 percentage points (see Figure 3.15). Our estimates also show that over the coming years the joint contribution made by capital and labour to potential growth will not experience any substantial downward correction. Thus the trend slowdown of Peru's economy which has become more apparent since 2012 is slightly over 1 percentage point and almost entirely reflects the smaller contribution from TFP. This reduced potential growth will mean that, in the future, improvement in the Peruvian population's quality of life will take more time than before, while something similar will happen as regards the rate at which poverty will be reduced over time.

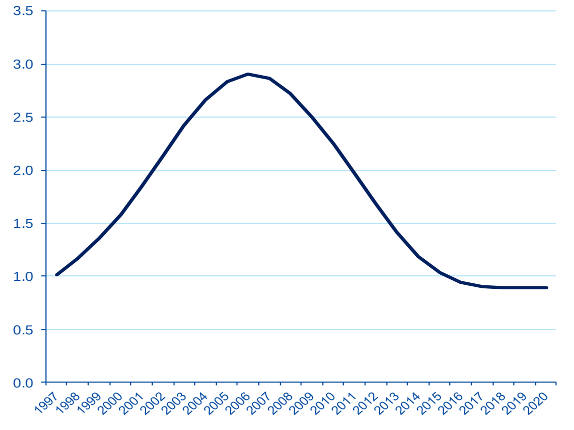
[1] TFP encompasses aspects such as technological advance, process and product innovation, institutional development etc., which help to raise efficiency in the use of the factors of production such as capital and labour.

Figure 3.14
Potential GDP and contributions to growth (percentage points)



Source: BCRP and BBVA Research

Figure 3.15
Contribution of total factor productivity to potential growth (percentage points)



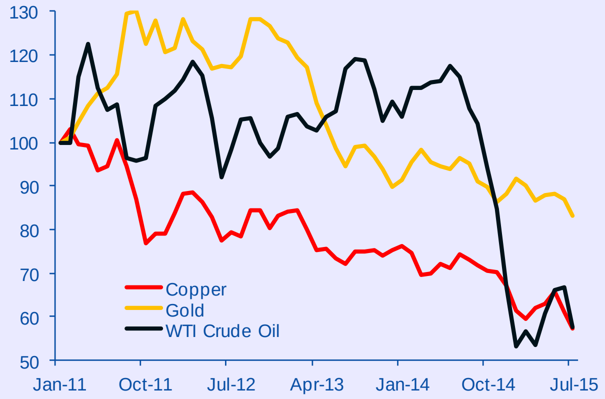
Source: BCRP and BBVA Research

In this context, the State could implement policies to stimulate progress in total factor productivity. For example, to promote innovation and research programmes, which is already starting to be done under the national production diversification plan. It will also be important to strengthen the institutional framework, which is the one that defines incentives for economic agents, so that they ensure private business initiative is encouraged. For example, a judicial system which guarantees the fulfilment of contracts and property rights, information transparency, and that markets are not over-regulated, so that their normal functioning is not affected, as well as one which ensures that corruption and a lack of public safety are effectively tackled (both of these detract from the profit that can be expected from enterprising activity) and labour market flexibility, among others. There is also margin for promoting a bigger contribution from labour and capital. In the case of labour, this can be achieved by boosting education and healthcare, and providing information on the skill-sets and qualifications that Peru's labour market requires, which has already started to be done. As regards capital, it is important for capital accumulation to be maintained via investing in infrastructure (the country is significantly wanting in this aspect) and developing financial markets.

Box 1. Commodity prices: copper, gold and oil

In the current international situation, which is bound in with expectations of a Fed rate hike, and uncertainty over China and Europe, among other aspects, significant corrections are being observed in commodity prices. For example, so far this year, there have been heavy cumulative falls in the average market prices of copper, oil and gold (see Figure B.1.1).

Figure B.1.1
International market prices of copper, gold and oil (January 2011=100)



Source: Bloomberg and BBVA Research

Copper

In the second quarter, the copper price sank to lows not seen since the 2008-09 international financial crisis began to bite. The fall came within a context of stock market turbulence in China, expectations regarding the forthcoming start of the normalisation process for the Fed's monetary policy rate and dollar appreciation (a stronger dollar moving inversely in relation to metal prices). At the start of the third quarter, the copper price seems to have stabilised at around USD2.40/lb thanks to the support it has found from certain supply shocks which suggest lower than expected production for the rest of the year. These include i) energy problems in Zambia, ii) a standstill in activity on account of a strike at Chilean state-owned mining company Codelco, which could mean that production is cut by 10,000 tonnes and, finally, iii) also in Chile, the fact that mining company Antofagasta has cut its forecast annual production level by 30,000 tonnes owing to delays to one of its projects.

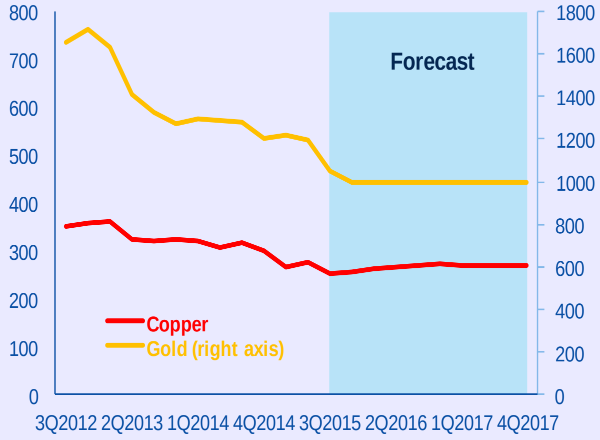
Looking ahead, from more of a trend perspective, we forecast a gradual recovery in copper's market price which will take it towards its long term level, which we currently estimate to be USD2.70/lb. This course would reflect a better balance between the lower demand (mainly from China) and supply. With regard to the latter, we predict that it will slow down in a situation where some of the major copper mining companies are coming around to the possibility of cutting production to bring down costs and save on resources given a likely improvement in market conditions in the future. Thus, in a context of low prices, to the point where the heavyweights among the mining companies are mulling a decrease in their future production and spending levels, as well as an unusually high number of interruptions to extraction activity in the short term, we could see times where supply temporarily falls short of demand in the coming quarters (which will give rise to inventory drawdown) and, with this, a rally in copper's market price.

Gold

So far this year we have seen a marked downward trend in the gold price, from USD1,249/oz.tr. in January to USD1,133/oz.tr. in July. Among the reasons behind this, we find: i) lower demand from China, ii) uncertainty over the Fed's monetary adjustment, and iii) low inflation rates worldwide, among others.

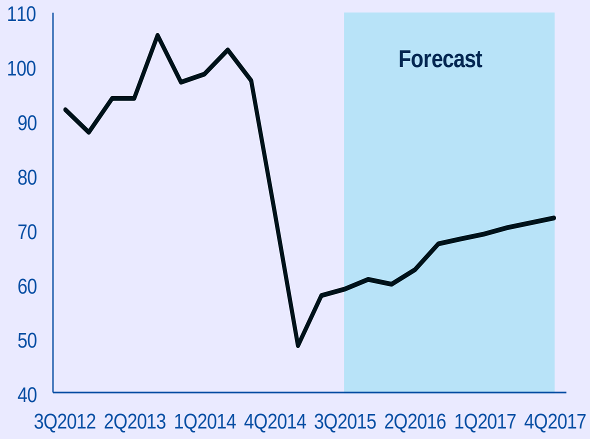
Although there are factors which partly offset this outlook, such as the uncertainty in Europe, everything points to the downward trend continuing in line with the persistence of the above-mentioned factors. In this scenario, we expect the price to converge towards USD1,000/oz.tr. in a situation characterised by a dollar going stronger and less call for gold as a safe-haven (see Figure B.1.2)

Figure B.1.2
Price of copper and gold on world markets (USD cents/lb and USD/oz.tr.)



Source: Bloomberg and BBVA Research

Figure B.1.3
Oil price on world markets (USD/bbl)



Source: Bloomberg and BBVA Research

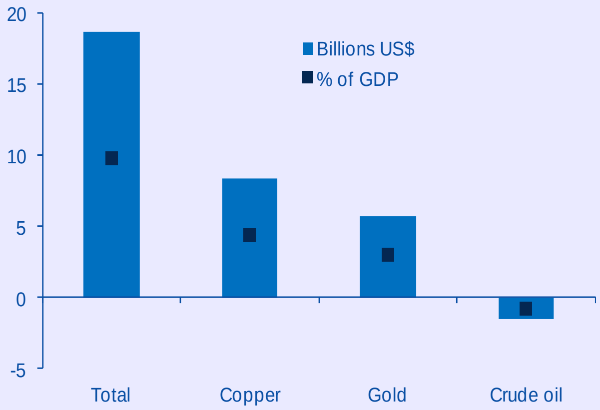
Oil

The oil price showed a rising trend in the second quarter of the year, moving up from USD48/bbl in March to USD60/bbl (WTI) in June. This related to supply-side factors (lower production and low inventory levels in the United States) and the prospect of higher world demand. Crude prices have, however, recently reversed this trend, faced with the greater risk from slowdown in China (the turbulence on its stock market) and the Greek crisis. On top of this, an eventual end to sanctions on Iran leads us to predict that the supply will rise (an increase of 200-800mbd according to various analysts). As a result, the market price fell to USD51/bbl in July.

We foresee the price recovering from now onwards. There are growing fears of a cut in the supply from the Middle East and North Africa due to geo-political conflicts (and those which could arise from the deal with Iran). Moreover, there is uncertainty regarding estimates of worldwide reserves. From a long term perspective, taking stock of all of these factors leads us to predict a conservative path for prices, where we see the crude price holding at low levels (compared to previous years), though rising slowly but surely (see Figure B.1.3).

Even though this scenario of low prices, especially those of gold and copper, is already built into our forecasts, any further deterioration in the international environment is certain to add bias to our forecasts. This is due to the fact that Peru is exposed to changes in developments in the world economy given that it is a small, open economy and a net commodity exporter (10% of GDP, see Figure B.1.2).

Figure B.1.4
2014: Net commodity exports (USD bn, % of GDP)



Source: BCRP and BBVA Research

There is likely to be a deterioration in the public-sector accounts which will lead to a rising trend in the public-sector debt to GDP ratio going forward

In the first half of the year, tax revenues fell 8.2% in real terms, mainly due to lower income tax receipts (-10.8%, see table 3.2). As of the first six months, the drop in tax revenues by way of this item had been sharp (we estimate that in H1 it is likely to have been equal to 0.6% of GDP), owing to the tax cuts which came into effect from this year, cyclical weakness of the economy and lower prices of those commodities which Peru exports (lower prices have an adverse effect on the financial performances of the mining corporations). It should be added that tax collection was also affected by the changes to the system of withholding tax, receipts and deductions, as well as by increased tax rebates.

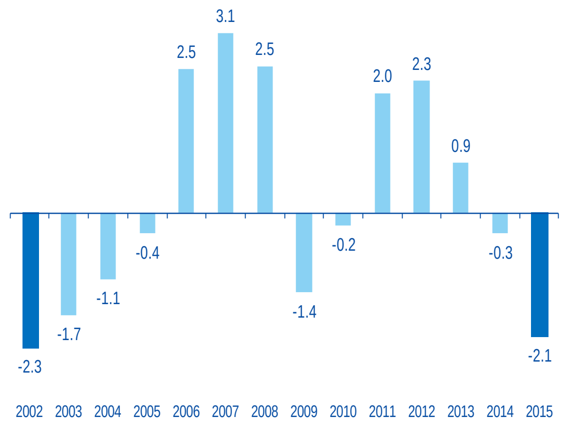
Given our forecasts for public-sector revenue and expenditure for the rest of the year, we estimate that the fiscal result will show a deficit equal to 2.1% of GDP in 2015 (see Figure 3.16), which is the highest since 2002 (2.3% of GDP).

Table 3.2
Central government tax revenues

	Millions Soles			% Var.
	Jan-Jun		Difference	
	2014	2015	2015-2014	2015/2014
Tax Revenue	48,328	45,740	-2,588	-8.2
Income tax	21,179	19,473	-1,705	-10.8
- Natural persons	5,968	5,906	-61	-4.0
- Legal persons	11,712	10,437	-1,275	-13.6
- Regularization	3,499	3,130	-370	-13.3
Duty	816	814	-2	-3.3
GST	25,055	25,300	245	-2.1
SCT	2,602	2,699	97	0.6
Other tax revenue	3,809	3,382	-427	-13.9
Tax returns	-5,133	-5,927	-795	12.0

Source: BCRP, SUNAT and BBVA Research.

Figure 3.16
Fiscal Balance
(% of GDP)



Source: BCRP and BBVA Research

For the 2016-19 period we forecast that the tax burden will be even further reduced, moving from 15.0% to 14.6% of GDP. This development assumes additional cuts in corporate income tax rate, which will continue up to 2019 (after this process has ended, the rate will have come down from 30% in 2014 to 26% in 2019), which we estimate will have an average annual cost of 0.7% of GDP.

For the purposes of forecasting public spending, in a first exercise (initial scenario) the course of the structural deficits announced by the government early this year was incorporated, with 2.0% for 2016, 1.5% for 2017 and 1.0% for 2018 (a gradual return towards the structural deficit established under the current fiscal rule). Likewise, to calculate the public sector's structural revenues, this exercise assumed the natural resource revenue adjustment that was projected by the government in the last (MMM) which was published last April (according to this adjustment, structural natural resource revenues are smaller than conventional ones). For the economic cycle revenue adjustment we have used our own forecasts (although, in general, the differences for this adjustment with respect to the official calculations are minor). Finally, we have assumed that the proportion of the government's current spending to investment is the same as envisaged in the MMM.

Table 3.3
General government expenditure (Real % var. YoY)

	Average 2013-2015	Initial Stage* Average 2016-2018	Baseline Stage** Average 2016-2018
Total expenditure	**6.5**	**1.1**	**3.6**
Current	**8.2**	**0.7**	**3.4**
Remunerations	11.0	3.7	3.7
Good and Services	6.9	0.6	3.1
Transfers	5.9	-5.4	3.5
Investment	**1.6**	**3.3**	**5.5**

* Uses the structural deficits from the last MMM. Similarly, to calculate the public sector's structural revenues, the natural resource revenue adjustment in the MMM is assumed. For the economic cycle revenue adjustment we have used our own estimates. Finally, it is assumed that the proportion of the government's current expenditure to investment is the same as in the MMM. **The difference with respect to the previous scenario is that a constant structural deficit of 2.5% is used from 2016. The other assumptions are maintained. Source: BCRP, MEF and BBVA Research.

Table 3.4
General government consumption and investment (% of GDP)

	Average 2013-2015	Initial Stage Average 2016-2018	Baseline Stage Average 2016-2018
Consumption Expenditure *	11.8	11.8	12.1
Investment Expenditure	5.4	5.1	5.3

*includes expenditure on salaries and goods and services. Source: BCRP and BBVA Research.

Thus, given the size of the structural deficit and structural revenues, the difference is in the upper limits on public spending in this exercise (strictly speaking, the upper limit is for general government expenditure, where the definition of government does not include state-owned companies). As a result, we find that government expenditure ought to expand at very low rates in the coming years (see table 3.3).

On the current expenditure side, this course is hard to reconcile with the current civil service reform (which implies a major effort in terms of spending on salaries over the coming years), unless spending on goods and services, as well as on transfers (which include social programmes) is reined in considerably. This situation can actually be seen in the official figures (which are somewhat more optimistic) from the last MMM, where, on average for 2016-18, spending on salaries rises by 4.7% in real terms, but spending on goods and services and transfers remains at a virtual standstill (see table 3.5).

Table 3.5
General government expenditure under the 2016-18 MMM (Real % var. YoY)

	Average 2013-2015	MMM* Average 2016-2018
Total Expenditure	7.5	2.7
Current	8.3	2.0
Remunerations	11.1	4.7
Goods and Services	7.2	0.4
Transfers	6.0	-0.3
Investment	4.6	5.1

*2016-18 Multi-annual Macroeconomic Framework (published on 28 April).
Source: MEF and BBVA Research.

On the side of general government investment, in this exercise (initial scenario) we observe that the relevant indicator should come down in the next few years, which might clash with the objective of carrying out swift improvements of the country's infrastructure.

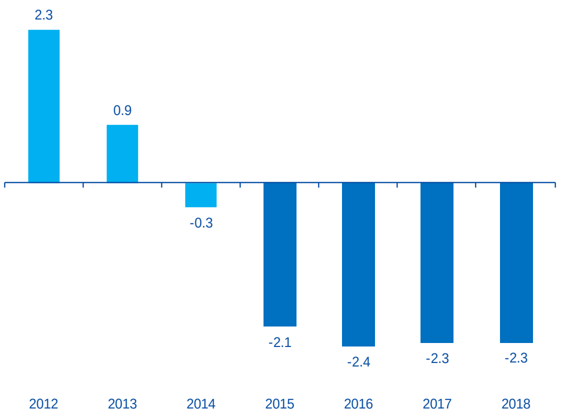
As an alternative, in our baseline scenario we assume fiscal expenditure growth that enables the current levels of public sector consumption and investment as a percentage of GDP to be maintained. This would mean that the structural deficit (as the government currently calculates it) would be held at 2.5% of GDP between 2016 and 2019. This deficit is nonetheless likely to be smaller, as we consider that the official methodology for measuring the natural resource revenue adjustment is excessively harsh on the structural prices of metals and leaves them at under those actually observed (this brings down the government's structural revenues and, given the scale of expenditure, pushes up the estimated structural deficit). It should be pointed out here that official estimation of structural natural resource prices assumes forward extrapolation of the commodity "super cycles" that have been observed in the past, which, in the downturn, have exhibited persistent falls that have gone on for several years. The problem with such methodology is that it does not reflect the structural changes (in supply and demand) which could provide some support for commodity prices in the coming years (in fact our forecasts factor-in a slight recovery for prices of metals such as copper. See Box 1).

Thus, to keep growth rates for public-sector expenditure steady over the next few years, greater flexibility of the structural rule is likely to be required. It will also be important to revise the methodology used to calculate structural revenues.

Finally, it should be noted that under our baseline scenario conventional deficits will be maintained at over 2.0% of GDP, which leads to a gently rising trend for the ratio of public-sector debt to GDP (this projection contrasts with the falling pattern which we were predicting a year ago, before the income tax cuts and the sharper slowdown in the economy). If the ratio actually describes a rising trend in the next few years, it will be harder to improve the credit rating for government debt (see Figure 3.18).

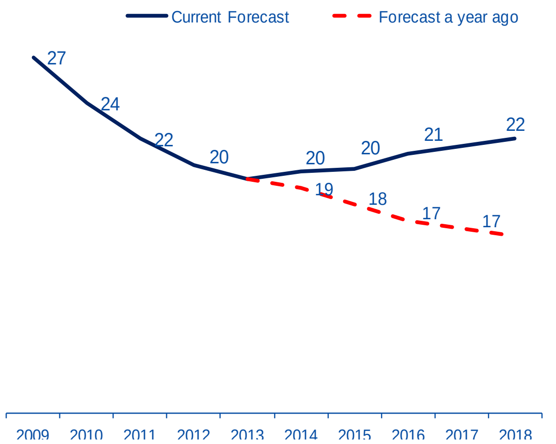
It would of course be possible to embark on a process of fiscal consolidation that involves a slowdown in the growth rate of public-sector expenditure (with more conservative budgets in the future), which would stop the ratio of government debt to GDP from rising. In this option, the authorities would have to define what items of public expenditure would have to be cut back: salaries? investment? social welfare programmes? It is highly likely that these dilemmas will have to be faced by the incoming administration starting next year.

Figure 3.17
Fiscal Balance
(% of GDP)



Source: BCRP and BBVA Research

Figure 3.18
Gross public sector debt
(% of GDP)

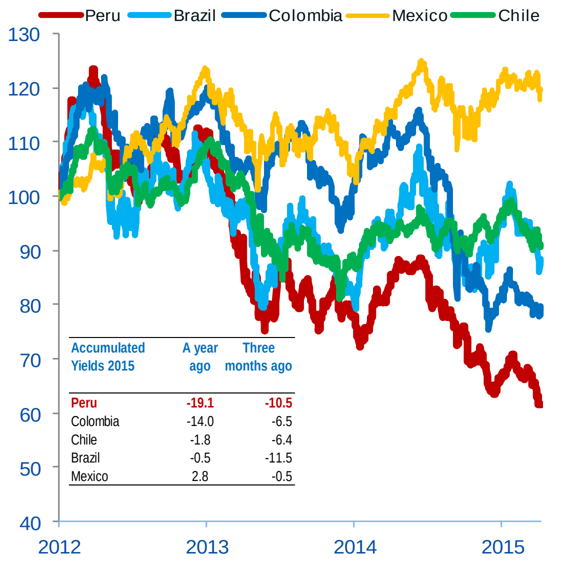


Source: BCRP and BVA Research

4. Financial markets are still sliding and we predict further depreciation of the PEN looking ahead

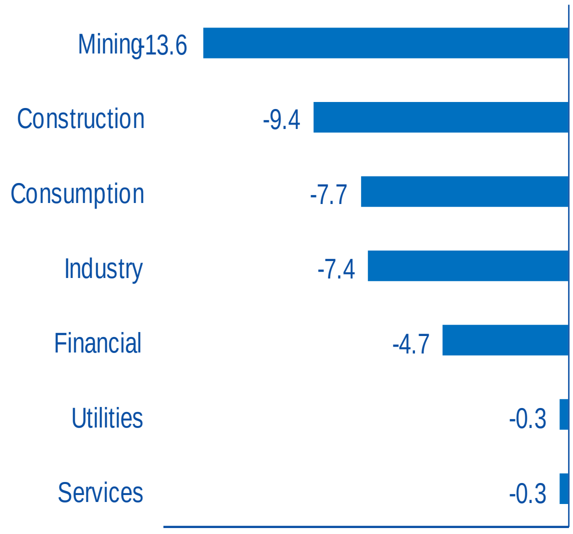
Over the past three months, from the end of April to July, the Lima stock exchange shed 10.5% (see Figure 4.1). The fall became particularly marked in July (-8.7%) with an across-the-board retreat in share prices over all sectors, due to the weakness of economic activity and low metal prices (see Figure 4.2).

Figure 4.1
LatAm Stock Exchanges (100=January 2012)



Source: BVL and BBVA Research

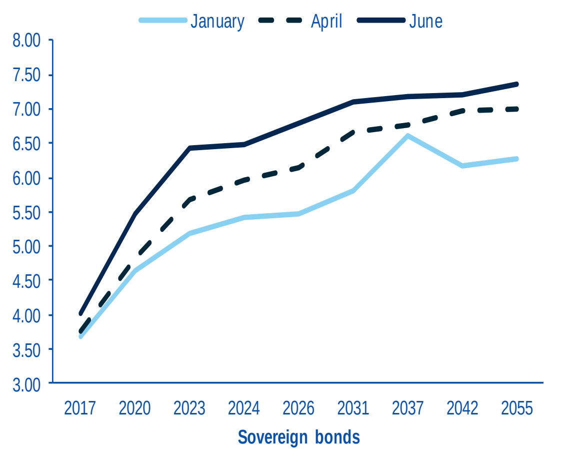
Figure 4.2
Sector indexes in July (% var. MoM)



*These are the index variations as of 30 July relative to 30 June.
Source: BVL and BBVA Research

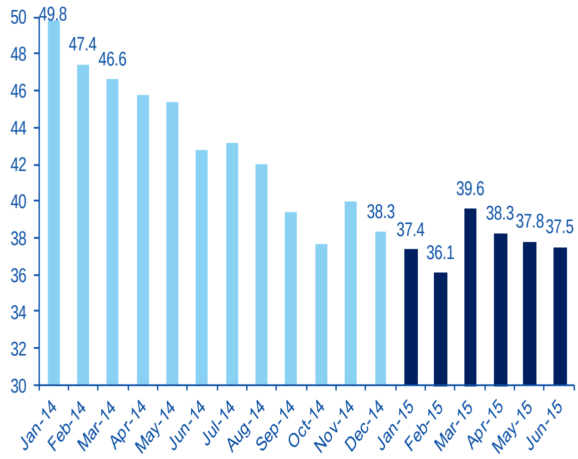
On the other hand, the sovereign bond yield curve kept to a rising trend over the past three months, especially over the medium-term and longer tenors (see Figure 4.3). The yield required of sovereign bonds due 2023 and 2026 thus rose by 70 basis points between April and July. This reflected a readjustment of portfolios worldwide and the currency depreciation (which brings down the yield expressed in foreign currency). The perceived risk attaching to Peruvian securities has risen, by 13% according to the EMBI between April and July, and by 5.0% for 5-year CDS. In this context, sovereign bonds held by non-residents have been gradually decreasing, from around 40% in March to 37.5% at the close of June (see Figure 4.4).

Figure 4.3
Peruvian sovereign bond yields (%)



Source: Bloomberg and BBVA Research

Figure 4.4
Sovereign bonds held by non-residents (% of total)



Source: Bloomberg and BBVA Research

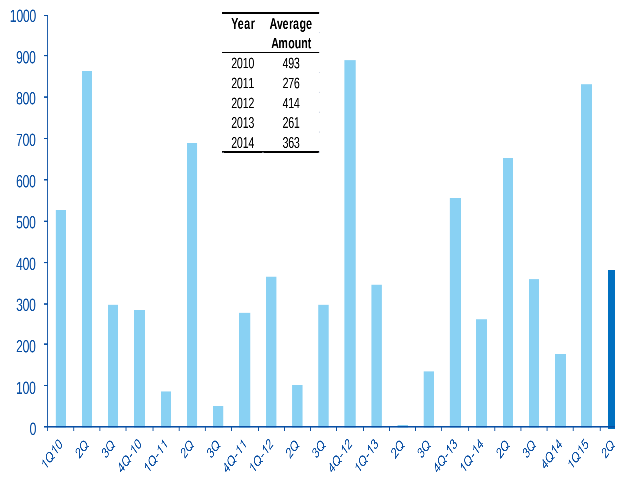
With regard to borrowing by non-financial companies on the Peruvian bond market, activity was limited. Bond issuance in the second quarter amounted to PEN380mn (see Figure 4.5), which was down by PEN450mn on the previous quarter amid weak economic activity. Conversely, there was an upturn in fund-raising by financial institutions, which in the second quarter issued PEN1.395bn in bonds, up PEN949mn on the previous quarter. It is worth noting that the volatility in the currency market has prompted companies to issue debt in PEN, so in Q2 around 70% of total securities were issued in PEN-denominated bonds.

Table 4.1
Corporate bond issuance in 2Q15

	Issuer	Outstanding Amount Mill. S/.	Outstanding Amount US$	Outstanding Amount Total Mill. S/.	Interest Rate	Term Years
I. Financial Companies						
14-Apr-15	Financiera Uno	12	0	12	5.2	1.0
15-Apr-15	Fideicomiso Redesur-Transur	0	70	219	5.0	15.0
16-Apr-15	Fideicomiso Redesur-Transur	0	40	125	5.8	28.0
16-Apr-15	BIF	63	0	63	4.7	1.0
21-Apr-15	Andino Investment Holding	0	8	25	3.0	1.0
24-Apr-15	Financiera Confianza	37	0	37	5.5	1.0
24-Apr-15	Patrimonio de Tic Tiana	0	31	96	-	2.0
24-Apr-15	Patrimonio de Tic Tiana	0	15	46	-	3.6
28-Apr-15	Banco Ripley	43	0	43	6.5	2.5
29-Apr-15	COFIDE	50	0	50	4.9	1.0
07-May-15	Leasing Total		10	32	5.0	5.0
13-May-15	Edpyme Inversiones La Cruz	4	0	4	6.0	0.8
21-May-15	Scotiabank	536	0	536	7.4	10.0
02-Jun-15	Edpyme Inversiones La Cruz	9	0	9	6.3	1.0
11-Jun-15	BIF	26	0	26	5.3	10.0
16-Jun-15	Banco Ripley	34	0	34	5.3	1.0
24-Jun-15	Patrimonio de Tic Tiana	0	13	40	-	3.5
	Total Financial Companies	**812**	**186**	**1,395**		
II. Non Financial Companies						
17-Apr-15	Los Portales	0	6	19	2.9	1.0
28-Apr-15	Agrícola y Ganadería Chavin de Huantar	0	1	2	5.0	0.7
05-May-15	Yura	200	0	200	7.9	25.0
28-May-15	Tekton Corp	0	1	2	4.5	0.8
12-Jun-15	Tekton Corp	0	1	2	4.9	0.8
16-Jun-15	A. Jaime Rojas Representaciones Generales	0	1	3	5.0	1.0
24-Jun-15	Gloria	153	0	153	6.6	5.0
	Total Non Financial Companies	**353**	**9**	**380**		
	(I+II) Total of Outstanding Instruments	**1,165**	**194**	**1,775**		

Source: BCRP and BBVA Research

Figure 4.5
Bond issuance by non-financial companies (PEN mn)



Source: BCRP and BBVA Research

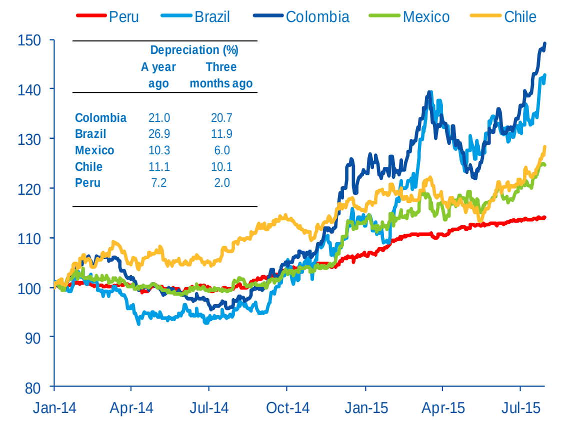
On the other hand, issuance on the international market totalled USD3.155bn in Q2, compared to a figure of over USD2.6bn in the previous quarter. Notable here was the USD1.5bn issue by Southern Peru Copper

Corporation maturing in 30 years with a coupon of 5.88%, as well as that to raise USD1.155bn by the New Lima Metro Consortium to fund the Lima Metro's Line 2, which is one of the major infrastructure projects that will prop up growth over the next few quarters.

The PEN is overvalued and we forecast that exchange rate pressures will persist in the coming months in a situation of greater weakness on fundamentals with bouts of high volatility due to external factors

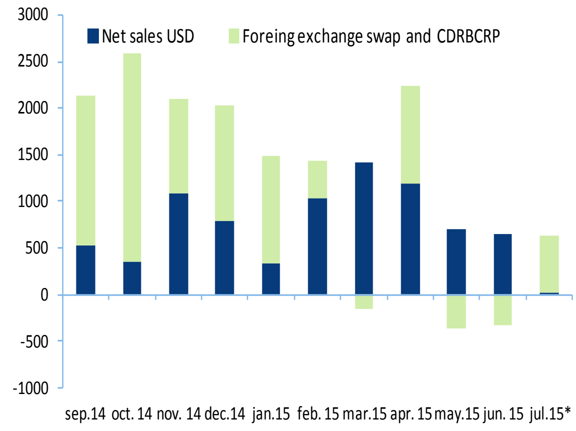
The exchange rate has continued to climb over the past three months (the PEN depreciated by approximately 2%). The PEN's decline has been associated with external factors, such as uncertainty over the MPR normalisation process (the timing of the commencement and how aggressive the adjustment process will be), the slowdown and financial turmoil affecting China's economy, and the sharper fall in prices of the metals (copper and gold) which Peru exports. This all led the central bank to remain active in the currency market, intervening with dollar sales in the spot market and offering dollar-denominated hedging instruments, such as currency swaps and, to a lesser extent, exchange rate linked certificates of deposit. So far this year, dollar sales by the central bank have amounted to over USD5.3bn, which outstrips the volume sold over the whole of 2014 (USD4.2bn) and represents as much as over 18% of the central bank's currency position and 9% of net international reserves.

Figure 4.6
Exchange rate (January 2014=100)



Source: Bloomberg and BBVA Research

Figure 4.7
Central bank exchange rate intervention (USD mn)



*As of 30 July.
Source: BCRP and BBVA Research

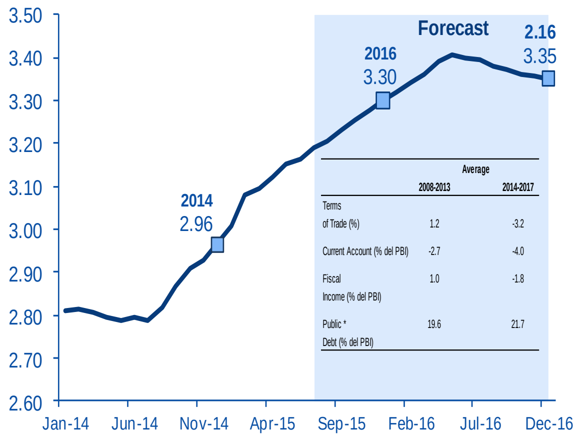
We will see greater PEN depreciation in future

According to our estimates using a model to find the equilibrium exchange rate (that where the external liabilities/GDP ratio is held at a constant percentage in the medium term), the PEN is still overvalued, by 4.5-8.5%. The overvaluation can also be verified by comparing the moving average of the real effective exchange rate for the last 10 years (which approximates the equilibrium level) with the observed level. The PEN, however, has corrected less than other currencies in the region since May 2013 (when the start of tapering was announced), which suggests that it has a lag which could lead to a loss of external competitiveness.

The greater weakening than we were expecting for the PEN in the coming months is consistent with the deterioration in the economy's fundamentals: i) a current account deficit which will remain relatively high and will not be fully financed by long-term private capital inflows in the next two years, ii) low export prices, iii) a less robust fiscal position, and iv) lower productivity gains. Besides these trend elements, the exchange rate will continue to be pushed upwards by the same external factors which have been influencing it in recent months (Fed adjustment and China). Added to this in the first half of 2016 will be the general elections, which will be moving into its final phase and could potentially worsen exchange rate volatility temporarily. Finally, it is noticeable that the central bank is allowing the exchange rate to "run" more in a situation where the dollarisation of credit is falling fast so that there is no upward pressure on interest rates (a high level would be illogical in an environment of weak output).

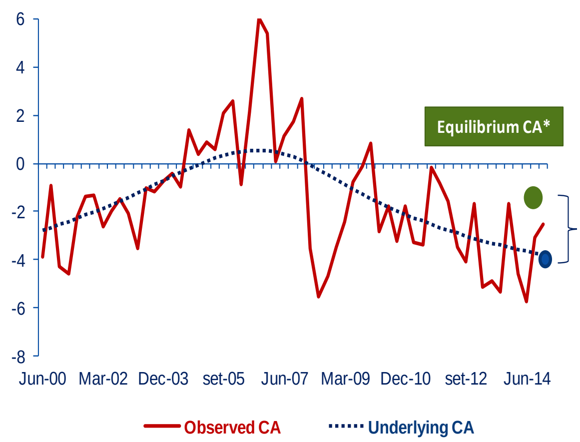
In this scenario we forecast that the dollar exchange rate will close this year at around PEN3.30 and could reach a high of PEN3.40 in the first half of next year.

Figure 4.8
Exchange rate (USD/PEN)



*Uses the ratio of 2013 public sector debt to the 2017 level.
Source: BCRP and BBVA Research

Figure 4.9
Current account measurements* (% of GDP)

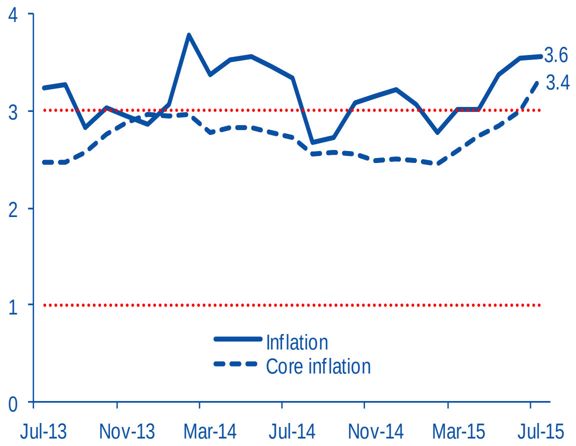


*Equilibrium current account is the level where the economy's net external liabilities are stabilised at their current level. The underlying CA stands at below the level in such a scenario, which suggests that the PEN needs to depreciate.
Source: BCRP and BBVA Research

5. Inflation will stay above the target band up until the first half of 2016

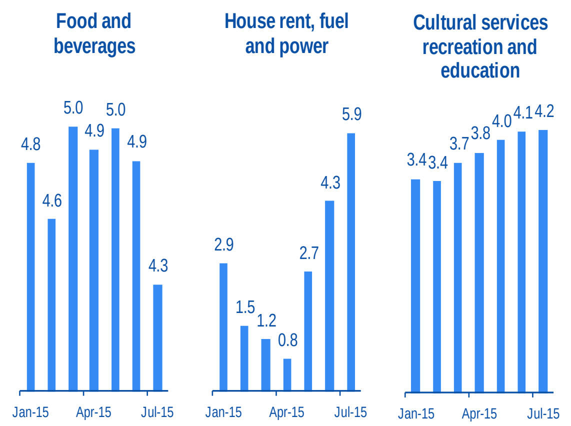
At the July close YoY inflation stood at 3.6% (see Figure 5.1). Prices of foods and certain services, such as dining out, education and healthcare, which are still describing an upward trend (see Figure 5.2), have left their mark on this development.

Figure 5.1
Inflation (%, YoY)



Source: BCRP and BBVA Research

Figure 5.2
Inflation by key consumption groups (%, YoY)



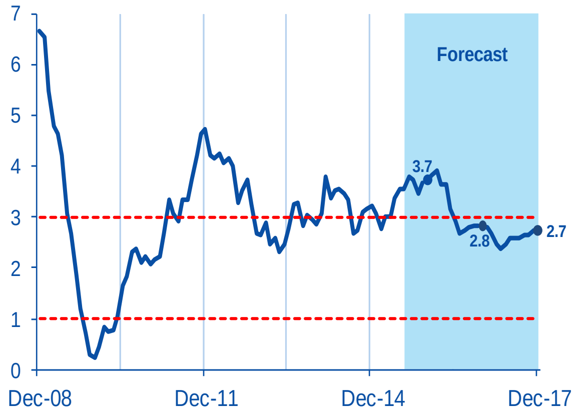
Source: BCRP and BBVA Research

Even so, the chief element which has made it hard to keep inflation within the target band (in the past 24 months inflation has been within this range on six occasions, never for more than two months in a row) in spite of the absence of demand pressure has been the depreciation of the PEN (14% in the past year). With respect to this, we have found evidence that the pass-through from a higher exchange rate to prices is between 10% and 20% (see Box 2 exchange rate pass-through to prices).

For the rest of the year we forecast that inflation will hold above the upper limit of the target range, in spite of the economy's cyclical weakness (see Figure 5.3). The PEN's depreciation will continue to push prices of tradables or goods that are directly priced in dollars on an upward path, added to which we expect the oil price to rise. [2]

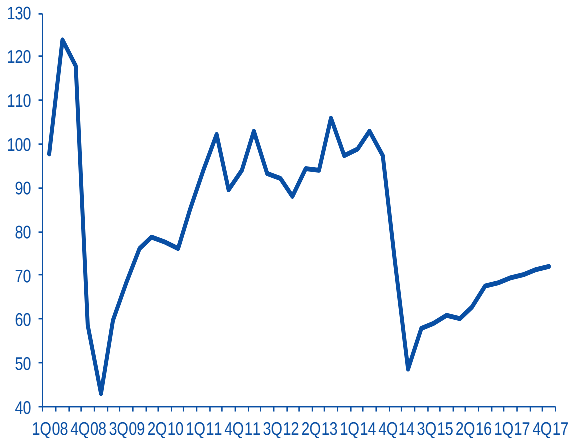
[2] Our forecast also factors-in a turnaround of adverse supply shocks, especially as regards foods.

Figure 5.3
Inflation
(%, YoY)



Source: BCRP and BBVA Research

Figure 5.4
Forecast oil price (WTI)
(USD/bbl)



Source: Bloomberg and BBVA Research

The lack of demand pressure (we forecast that the output gap will stay negative over 2015 and 2016) should help inflation to come back within the target band. However, inflation expectations, which are still at close to 3% one year out, will cause inflation to fall back only very gradually, for which reason it will not be earlier than the second half of next year when we start to see a clearer downward trend[3].

[3] It should be pointed out that there are factors which might delay convergence, including an increase in the intensity of the *El Niño* weather phenomenon, greater exchange rate depreciation or a swifter oil price rally.

Box 2. Has there been an increase in exchange rate pass-through to prices in Peru?[1]

In recent months inflation has surprised on the high side in Peru, in spite of the cyclical weakness which economic activity has been showing. YoY inflation at the close of 2Q15 was in fact higher than was expected a year before, and, contrary to expectations, it has remained above the central bank's target range (2.0% +/- 1 percentage point) for most of the time (in the past 24 months YoY inflation has been within this band on six occasions, though never for longer than two months in a row).

The greater inflation pressure can be partly explained by supply shocks which have hit food prices, as well as movements in the prices of certain services, such as education or healthcare, which have been showing YoY increases of around 5.0% for some time. Contrary to expectations these have not relented (this arises from a structural surge in demand over recent years due to the swelling of the middle class and has not been accompanied by any similar supply growth).

Beyond the factors mentioned in the previous paragraph, the fact that inflation has strayed from the estimate of a year ago can also be accounted for, via two channels, by the movements exhibited by exchange rates over the past two years. The first derives from a greater than expected depreciation of the PEN, while the second comes from an increase in the pass-through to domestic prices from a specific level of exchange rate depreciation. Why should pass-through of this kind have risen? One likely explanation is that in circumstances where depreciation is expected to be strong and sustained, firms adjust their prices more aggressively to avoid their profit margins dropping due to the fact that their costs rise as imported inputs become dearer (when valued in the local currency). Obviously, such price-correcting ability depends on the market structure (the less competitive it is, the bigger will be the price correction).

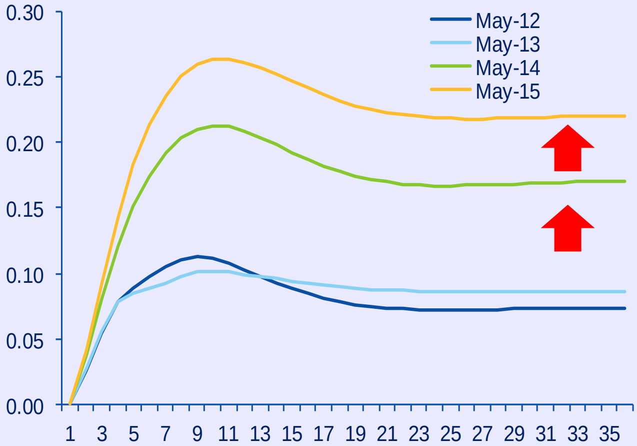
With the aim of examining what the contribution of the exchange rate is to the recent inflation surprises and checking for empirical evidence of whether there has been a recent increase in the pass-through coefficient, our team at BBVA Research Latam estimated a time-varying coefficient vector auto-regression model (TVC-VAR) for the period from January 2000 to May 2015 using monthly data[2]. The estimates using data up to May 2015 were compared to those from a year beforehand, as of May 2014. The results indicate that annual inflation's response to depreciation has increased in Peru over the past year (Figure B.2.1), although the change is not statistically significant. Even so, the differences are indeed marked in the case of values for pass-through coefficients that were estimated using samples up to 2012 and 2013[3]. On the other hand, updating the model proposed by McCarthy (1999)[4] for Peru reveals that in the past year the coefficient has held relatively stable, at around 10%.

1/ This box synthesises the results for Peru of the analysis carried out by BBVA Research Latam. A box featuring a similar analysis for other countries in the region can be found in our Latin America Economic Outlook, third quarter 2015.

2/ The following were included as endogenous variables: an economic activity index, the benchmark interest rate, the USD/PEN exchange rate, and the general price index. Included as exogenous variables are the US industrial production indicator, the Fed rate, the US consumer price index, and the international commodity price index calculated by the IMF. Estimation is performed using Time-Varying Coefficient VAR (TVC-VAR) because at any given time this method estimates the coefficients which are most appropriate for the model at that moment rather than a sample average as in a traditional VAR exercise. TVC-VAR allows estimated coefficients to vary over time. The thinking underlying this estimation method is that economies carry out changes which affect the structural relationship of the series. The pass-through effect is calculated as the cumulative response in the first year of inflation to a 1% variation in the NER.

3/ It should be added that this estimation revealed a positive relationship between the pass-through coefficients and the size of the exchange rate depreciation in the period, which suggests asymmetries in exchange rate pass-through to prices in Peru (greater in times of depreciation than with exchange rate appreciation).

Figure B.2.1
Pass-through of Exchange Rate to Prices (time-varying coefficients)



Conclusions

From the two estimations described we conclude that the current coefficient for exchange rate pass-through to prices is likely to be between 10% and 20%. We also infer that there is little evidence of a change in the value of this coefficient in the past year, although it is likely to have risen relative to the values it showed two years ago. In the light of this evidence, the inflation surprises probably do not arise from an increase in the pass-through of exchange rate variations to prices, but instead from a greater than expected depreciation, food price supply shocks, and inflation in education and healthcare prices which, unexpectedly, has not come down (it is sticking at a rate of 5.0% YoY). These are all elements that are mitigated by the sharper fall in the oil price and more intense cyclical weakness.

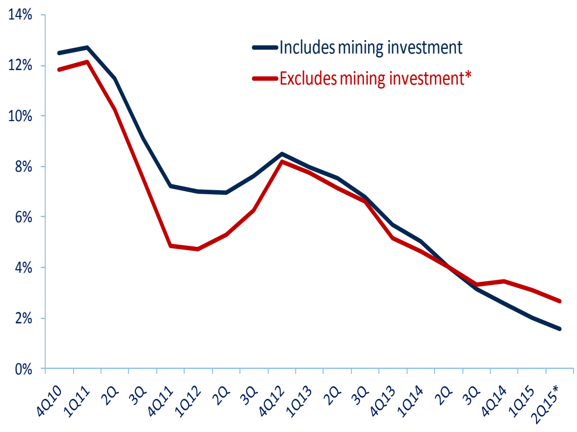
4/ McCarthy (1999): Pass-Through of Exchange Rate and Import Prices to Domestic Inflation in Some Industrialized Economies", BIS Working Paper No. 79, Bank for International Settlements. This same article is what Winkelried (2012) bases himself on in "Exchange rate pass-through and inflation targeting in Peru". *Revista de Estudios Económicos N° 23,9-2*. Central Reserve Bank of Peru. This paper shows that adopting an inflation-targeting regime is likely to have contributed significantly to the reduction of the pass-through effect, which dropped from a level of 60% in the 90s to one of close to 10% at the end of the sample (2011).

6. Monetary policy: a challenging macro setting for the central bank has persisted

Private sector spending continues to flag…

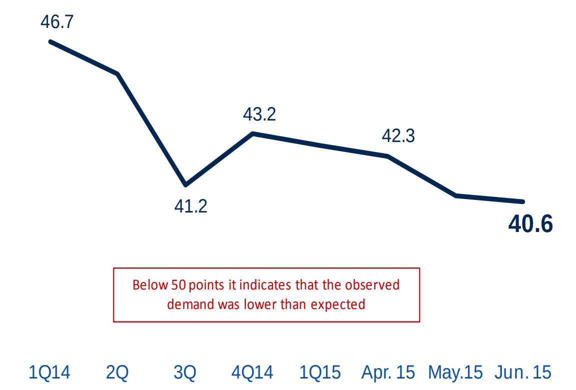
Monetary policy over recent months has, in our view, centred on three variables: private-sector spending, the exchange rate, and inflation. The first of these continued to slow down in 2015 and, while a year ago it was moving ahead at a rate of 4% YoY (around 7.5% in mid-2013), now it is doing so at only a fraction over 1.5% (see Figure 6.1). The trend is similar if private investment in mining activity is stripped out, where monetary policy has no impact. The flatness of demand generally, and that of businesses and households in particular, is consistent with the deterioration of several spending indicators, both coincident and leading (business and consumer optimism), and has been even more pronounced than was predicted, judging by the monthly surveys held by the central bank (see Figure 6.2). This situation suggests that an MPR cut is required. Yet this has not been done since early this year. Why not?

Figure 6.1
Private sector spending, ex inventories
(cumulative over the past year, % var. YoY)



* Own estimate.
Source: BCRP and BBVA Research

Figure 6.2
Demand level vs. business expectations
(index)

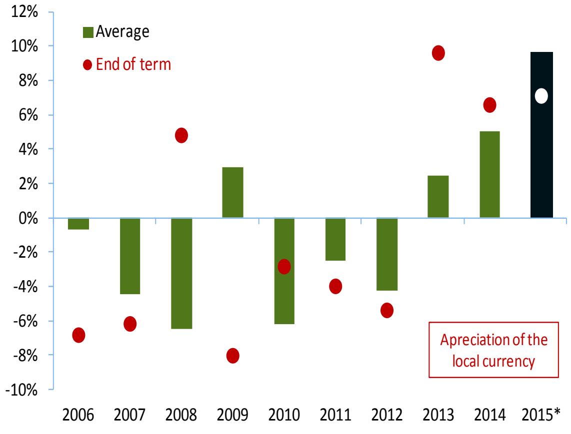


Source: BCRP and BBVA Research

… but exchange rate pressure still lurks…

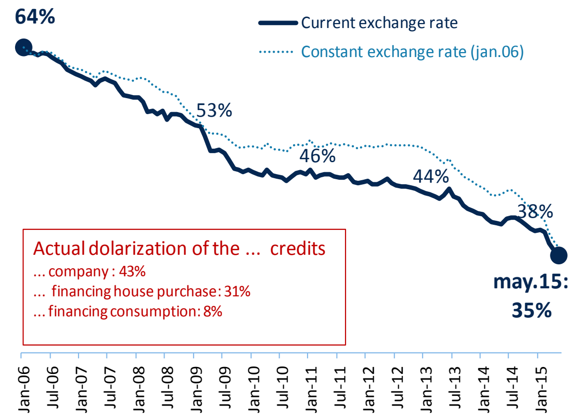
The chief factor which has held back any MPR cut has been the exchange rate. So far this year the PEN has weakened by 7% (see Figure 6.3), while in YoY terms the depreciation was more than double this. The higher exchange rate came about in spite of the central bank deploying over USD7bn in the market via an array of different instruments (selling dollars, currency swaps, securities with a yield linked to PEN depreciation), due to which the monetary authority's currency position was whittled down by close to 20%. In other words, the central bank is concerned over the PEN's depreciation.

Figure 6.3
Exchange rate
(USD/PEN, % var. YoY)



* Compares the figure as of/for July 2015 with that for 2014.
Source: BCRP and BBVA Research

Figure 6.4
Dollarisation of bank loans
(% of loans denominated in USD)



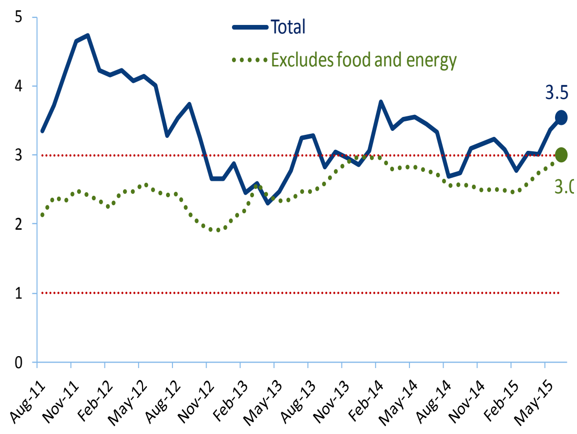
Source: Asbanc and BBVA Research

This is fairly reasonable when we bear in mind that the dollarisation of loans to businesses and households is still high (see Figure 6.4): the currency mismatch on balance sheets entails exchange-rate risk, meaning that any sharp and sudden depreciation can have a systemic impact and harm activity. Concern over exchange rate pressures, however, leaves monetary policy with less room to act counter-cyclically. If the central bank cuts the MPR to boost private-sector spending (via transmission to the other interest rates in the financial system, especially short-term and low-risk rates), this will fuel exchange-rate pressure. But then it could use its abundance of net foreign exchange reserves to limit depreciation, as it has done since the middle of last year, yet exchange rate intervention of this kind would drain PEN from the system and push up interest rates (an element of which was seen in certain months of the year) and this is inconsistent with the original wish to implement a counter-cyclical stimulus. These then are the circumstances in which the central bank has made no further policy rate cuts since January.

… and inflation has overshot the central bank's target level…

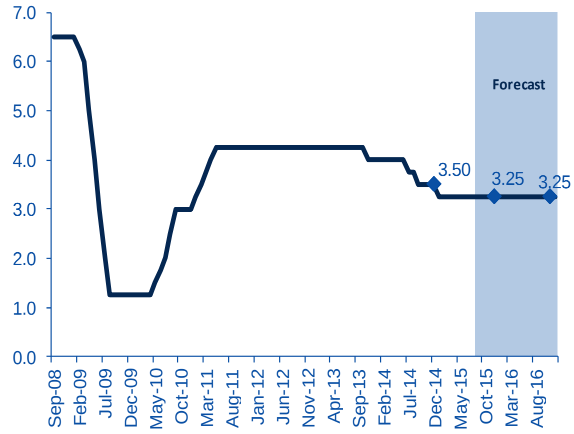
Inflation currently stands at over the target band (1% to 3%) and has trended upwards in recent months, from 2.8% in February to 3.5% in June. This is in fact not a recent problem and has been a constant worry over the past four years (see Figure 6.5). Over this time (except for the first half of 2013) there have not been more than two months in a row where inflation has been within the target range, and in 70% of months it stood at above this. Consequently, in YoY terms, inflation averaged 3.3% over this period. While it is true that in certain cases it strayed off-target due to supply shocks, this tends to be reversed over long time horizons (four years for example), so that on average inflation should have stood at around the middle of the target band. But this was not so. Even if we strip out food and energy from total inflation, what we can see is that the trend has been a rising one since 2011: 2.0% on average in 2011, with 2.3% in 2012, 2.5% in 2013, and 2.7% in 2014, while the latest reading (June 2015) shows 3.0%.

Figure 6.5
Inflation
(%, YoY)



Source: BCRP and BBVA Research

Figure 6.6
Reference rate
(%)



Source: BCRP and BBVA Research

Why has the price scenario become more problematic in recent months if the economy has been growing at well below its potential rate for over a year and the oil price has dropped 10% so far in 2015 (and by more than 50% YoY, which has partly been passed on to domestic prices)? Primarily because of the weaker exchange rate. In the past year the PEN has depreciated by 14%. According to our estimates, exchange rate pass-through to prices is around 15% over this time horizon, which means that the exchange rate effect on inflation has been a little over 2 percentage points in the past 12 months. In other words, if the exchange rate had held relatively stable, inflation would even stand at below the target (2%), thus reflecting the cyclical weakness of output and the lower oil price on world markets. The price scenario is likely to remain troublesome for the rest of the year and in the first half of 2016, since we expect a further depreciation of the PEN of around 3.5% up to the end of the year (and 3% in the first half of 2016) as well as a rise for the oil price of over 5% over the same time (with an additional 3% in the first half of next year). Moreover, the inflation expectations of the business community and analysts (who cover the economy and the financial system) for the next two years are bordering on the upper limit of the target range. The only factor which will exert any depressing effect on the pace at which prices are advancing in the next few months will be the negative GDP gap. Added to this is the latent risk that the *El Niño* weather phenomenon might be more severe than expected. In short, inflation does not offer any scope for a rate cut either.

Given this situation, what will the central bank do with the reference rate over the coming months?

We forecast that the MPR will remain stable over the rest of 2015 and in the first half of 2016 (see Figure 6.6). On the one hand, exchange rate pressures (in combination with the still high dollarisation of loans) and above-target inflation (in conjunction with inflation expectations that are close to the upper limit and rising) do not allow for a rate cut. The likelihood of a cut is even less when we consider that the current account deficit in the balance of payments is set to widen in 2015 (to 4.3% of GDP) and will continue to be high (4.0% of GDP) in 2016 at a time when the Fed will tighten borrowing conditions globally. On the other hand, increasingly weak private-sector spending, which is advancing at a rate well below its potential level, makes any MPR hike in an attempt to support the PEN and ease pressure on prices highly unlikely. First, because the central bank itself is allowing the exchange rate to climb (it is only intervening half-heartedly), and second, because the upward pressure on prices is not attributable to excess demand, so it makes no sense to spoil the brittle recovery of activity that is forecast for the second half by raising the rate.

Further ahead, from the second half of 2016, in an environment where the general election will be over and the political disruption will be dying down (which will buoy private-sector spending), and when the take-off of mining production will be clearer, little by little more latitude will appear to start guiding the reference rate towards a more neutral level. We estimate that such an adjustment process will begin in early 2017, which will also help exchange rate and inflation pressures to ease.

7. Peru's economy will face an assortment of risks in the coming months

Deviations from the course of events assumed in our baseline scenario for several key variables on the external and domestic fronts could create a more challenging environment for Peru's economy in the coming months. It is nonetheless important to point out that Peru has areas of strength that might limit the potential impacts of more adverse scenarios.

On the external side, China and the imminent Fed adjustment could make the outlook harder to negotiate

As we have mentioned in our last two Outlooks, a sharper slowdown of growth in China would have an adverse impact on activity in Peru. We can report that the trend of weakness in China's economy has continued, in spite of the monetary stimulation measures that China's central bank has used in recent months. At the moment, the risk of greater growth deceleration in China is associated with its sharp stock market correction and the fallout from this on the real economy, namely i) a deterioration of borrowing conditions for businesses due to the suspension of share issuance and the loss in value of collateral (falls in share prices), and ii) a negative wealth effect, which could affect consumption. Lower growth in China would have a negative effect on Peru's economy because it would imply weaker demand from abroad, lower prices for Peru's export metals (which would hit the profits of mining companies and their reinvestment levels, as well as fiscal revenues) and an upturn in global risk aversion, which would diminish investment appetite in emerging economies such as Peru's.

The second risk element in an external sense is a more aggressive adjustment to monetary conditions by the Fed. A faster rise in the federal funds rate, which is not ruled out, will lead to a new round of portfolio readjustment worldwide, which will favour switching into dollar assets. In this scenario more upward pressure on the exchange rate could be expected (which might be especially strong on the PEN, given that Peru has a relatively sizeable current account deficit), as well as higher risk premiums, and therefore a higher cost of borrowing. Additionally within this scenario, we cannot rule out added dollar appreciation giving rise to further downward pressure on commodity prices in the short term.

Elements of risk are also noticeable on the domestic front: a greater deterioration of business confidence and a more severe *El Niño* phenomenon

Business confidence has languished in the doldrums, having been at its lows for several years, within pessimistic territory, of 45 points in May (the lowest figure previously was in April 2009, with a reading of 39, during the toughest times of the international financial crisis), before rallying to 51 points in June. The weakness of business confidence in recent months has been linked to disappointing activity figures and increased political disturbance. Our baseline scenario assumes that business confidence will stick at around the level of the June reading for the rest of the year and over a large part of 2016, which is only just inside optimistic territory. However, any worsening of the political situation or increase in uncertainty from outside could hurt business confidence, which would affect private sector investment spending and therefore job-creation and family consumption, which in turn would make cyclical recovery of Peru's economy more sluggish.

Another risk factor on the domestic side is that the *El Niño* phenomenon might prove more severe than expected. Our baseline scenario assumes that this will be moderate, without very harsh effects on the fisheries and agriculture sectors and with no major damage to infrastructure. Nonetheless, the chances of a strong *El Niño* have risen in recent weeks, for which reason there is a risk that its effects on economic activity could be more significant than those we envisage in our baseline scenario.

The risk factors which bring in bias to the downside are: i) a sharper deceleration in China and the fallout that this could have on the prices of Peru's export metals, ii) a further decline in business confidence, and iii) a more severe El Niño with more substantial effects on activities such as fishing and agriculture, as well as infrastructure damage. These factors are offset by: i) a delay in making a start on raising the policy rate and a more gradual approach by the Fed, and ii) greater mining production growth.

8. Tables

	2013	2014	2015p	2016p
GDP (% , YoY)	5.8	2.4	2.5	3.8
Inflation (%, YoY, fdp)	2.9	3.2	3.7	2.8
Exhange rate (vs. USD, fdp)	2.79	2.96	3.30	3.35
Interest rate policy (%,fdp)	4.00	3.50	3.25	3.25
Private Consumption (%, YoY)	5.3	4.1	3.5	3.7
Public Consumption (%, YoY)	6.7	6.4	6.6	2.2
Investment (%, YoY)	7.4	-1.8	-3.4	3.3
Fiscal Balance (% of GDP)	0.9	-0.3	-2.1	-2.4
Current Account (% of GDP)	-4.2	-4.0	-4.3	-4.1

Source: Central Banck and BBVA Research

	GDP (%, YoY)	Inflation (%, YoY,fdp)	Exchange Rate (vs.USD,fdp)	Interest rate policy (%, fdp)
1T12	6.0	4.2	2.67	4.25
2T12	5.7	4.0	2.67	4.25
3T12	6.8	3.7	2.60	4.25
4T12	5.4	2.6	2.57	4.25
1T13	4.4	2.6	2.59	4.25
2T13	6.2	2.8	2.75	4.25
3T13	5.2	2.8	2.78	4.25
4T13	7.2	2.9	2.79	4.00
1T14	5.0	3.4	2.81	4.00
2T14	1.8	3.4	2.80	4.00
3T14	1.8	2.7	2.87	3.50
4T14	1.0	3.2	2.96	3.50
1T15	1.7	3.0	3.09	3.25
2T15	2.8	3.5	3.16	3.25
3T15	2.8	3.7	3.23	3.25
4T15	2.8	3.7	3.30	3.25
1T16	3.4	3.6	3.36	3.25
2T16	3.9	2.9	3.40	3.25
3T16	4.0	2.8	3.37	3.25
4T16	4.0	2.8	3.35	3.25

Source: Central Banck and BBVA Research

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called “BBVA”) to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The content of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates’ proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the “financial promotion order”), (ii) are persons falling within article 49(2) (a) to (d) (“high net worth companies, unincorporated associations, etc.”) Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.

BBVA, S.A. is a bank supervised by the Bank of Spain and by Spain’s Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

This report has been produced by the Peru Unit:

Chief Economist
Hugo Perea
hperea@bbva.com

Francisco Grippa
fgrippa@bbva.com

Yalina Crispin
yalina.crispin@bbva.com

Marlon Broncano
marlon.broncano@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech Vilariño
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

LATAM Coordination
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Oswaldo López
oswaldo.lopez@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Strategy
José Carlos Pardo
josecarlos.pardo@bbva.com

Global Coordination
Matías Viola
matias.viola@bbva.com

Global Areas

Economic Scenarios
Julián Cubero Calvo
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo Delgado
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas Sánchez-Caro
oscar.delaspenas@bbva.com

Contact details:

BBVA Research Peru
Av. República de Panamá 3055
San Isidro
Lima 27 - Peru
Tel: + 51 1 2112042
E-mail: bbvaresearch_peru@bbva.com
www.bbvaresearch.com