Economic Research Department

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Peru

GDP Observatory

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4Q09 macro data confirms upturn in activity

- **The GDP grew 3.4% yoy in the last quarter of 2009, after two consecutive periods of decline. The positive effects of public expenditure (+4.2pp) and private consumption (+1.9pp) on the stronger growth in activity are noteworthy. Consequently, the GDP rose 0.9% in 2009.**
- **In the public balances, the fiscal deficit increased to 8.5% of the GDP (2.1% in 2009). This not only includes the growth in spending related to the Economic Stimulus Plan (PEE), it also covers the fall in tax revenues, especially those related to imports.**
- **The balance of payments current account recorded a 0.8% surplus of the GDP (0.2% in 2009), which is higher than previous quarters due to a better trade balance result.**

Economic Activity

Public expenditure (consumption and investment) continued to buoy activity in 4Q09, which reflected the boost in the PEE. It accounted for 4.2pp of the GDP, which is higher than previous quarters.

As regards private expenditure, the increased growth in consumption was noteworthy, which had a positive effect on activity (1.9 pp). These results come from a situation of early recovery in employment and Government measures aimed at temporarily increasing disposable personal income. Secondly, the less negative effect that investment and inventories recorded must be mentioned. This could be a reflection of a better business outlook for the coming quarters.

At the sector level, GDP growth was due to the improved performance in Construction and Other Services, sectors on which public expenditure had a strong impact. The rate of decline in non-primary manufacturing activity also slowed down. This trend is related to a climate of recovery in household spending, greater demand for construction materials and more stable external conditions.

The 4Q results reveal that the Peruvian economy recorded 0.9% growth in 2009, which is positive considering the extent of the external shocks that it faced.

Public sector

Between 4Q09 and 4Q08, the percentage of non-financial public sector accounts in the GDP recorded a 5.8pp drop (they went from a 2.7% to an 8.5% deficit in the GDP). This is largely due to the greater impact of the PEE (the percentage of non-financial expenditure in the GDP rose by 3.7pp) and the fall in current income (2.1pp of the GDP), in light of fewer

Table 1: GDP, expenditure
(real, yoy % var.)

Components	2009		
	III	IV	Year
I. Internal Demand	-5.0	0.4	-2.9
a. Private Consumption	1.0	2.8	2.4
b. Public Consumption	14.3	21.5	16.5
c. Private Investment	-22.0	-17.0	-15.2
d. Public Investment	25.2	33.1	25.9
II. Exports	-4.5	-1.6	-2.5
III. Imports	-22.4	-13.9	-18.4
GDP	**-0.6**	**3.4**	**0.9**

Source: BCRP
Prepared by: BBVA Banco Continental ERD

Table 2: Contribution to yoy GDP growth (percentage points)

Components	2009		
	III	IV	Year
I. Private Expenditure	-4.7	-2.1	-1.9
a. Consumption	0.7	1.9	1.6
b. Investment	-5.4	-4.0	-3.5
II. Public Expenditure	2.3	4.2	2.5
a. Consumption	1.2	2.0	1.3
b. Investment	1.1	2.2	1.1
III. Inventories	-2.8	-1.6	-3.6
IV. External	4.6	3.0	3.8
GDP	**-0.6**	**3.4**	**0.9**

Source: BCRP
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revenues from sales taxes (especially foreign revenues, linked to the decline in imports) and from income tax (corporate).

The increased requirements to fund this deficit were largely covered by internal sources, including public sector deposit withdrawals in the local financial system and debt issue in the domestic market.

The fourth quarter result means that the fiscal balance ended 2009 with a deficit, something that had not been seen since 2005. This is linked to the Government policies to curb the impacts of the global recession and to the fall in revenues due to the cyclical adjustment. Against this background, the percentage of public debt in the GDP rose by 2.6pp last year, from 24.0% of the GDP in 2008 to 26.6% in 2009.

External sector

The current account surplus (0.8% of the GDP) was due to the positive result in the trade balance (6.2% of the GDP, linked to the improvement in terms of trade and fewer imports, especially capital goods) and current transfers (2.2% of the GDP). This was partly offset by the net factor income (-6.7% of the GDP, mainly due to mining company utility remittances which increased due to high metal prices).

As regards long-term capital, Foreign Direct Investment (FDI) rose to US$0.3 billions. This inflow is significantly less than previous quarters and was due to net payments that foreign companies made to their parent companies abroad. The inflow of short-term capital was positive for the first time since mid-2008 (US$1.8 billions), which reveals a fall in non-financial company deposits abroad and an increase in foreign bank debt.

The balance of payments current account therefore recorded another surplus in 2009 (0.2% of the GDP), mainly due to the considerable drop in imports during the year (especially consumables and capital goods).

Appraisal

The activity results for 4Q09 show that the economy started to recover towards the end of the year, mainly due to the boost from public expenditure. However, it also reveals the improved performance in private consumption during that quarter. We expect this trend to continue in 1Q10, as early activity indicators suggest (upturn in employment and better expectations of increased household income). It is also worth mentioning the slowdown in the rate of decline in private investment, linked to high business expectations for the coming quarters. With this boost in demand and inventory levels that changed significantly in 2009, the GDP growth outlook is favorable for the current year.

Table 3: GDP by sectors
(real, yoy % var.)

Sectors	2009		
	III	IV	Year
Agrilculture and Livestock	2.3	1.9	2.3
Agriculture	0.4	0.8	0.9
Livestock	4.7	3.2	4.4
Fishing	-6.1	-14.6	-7.9
Mining and Fuels	0.1	-1.6	0.6
Metals	-2.0	-3.2	-1.4
Fuels	18.4	3.4	16.1
Manufacturing	-10.3	-2.3	-7.2
Based on raw materials	0.7	-6.3	0.0
Non-Primary	-12.1	-1.6	-8.5
Electricity and Water	-0.3	3.4	1.2
Construction	4.9	14.8	6.1
Commerce	-1.8	2.2	-0.4
Other Services	1.8	5.2	3.1
GDP	**-0.6**	**3.4**	**0.9**

Source: BCRP
Prepared by: BBVA Banco Continental ERD

Table 4: Non-financial Public Sector result (% of GDP)

	2009		
	III	IV	Year
Current Income CG	18.0	17.4	18.5
Non-Financial Expenditure CG	19.6	24.9	19.6
Capital Income CG	0.1	0.1	0.1
Primary Balance CG	-1.6	-7.4	-1.0
Primary Balance SC	0.1	-0.1	0.3
Primary Balance	**-1.5**	**-7.5**	**-0.8**
Interest	1.6	1.0	1.3
Economic Balance	**-3.0**	**-8.5**	**-2.1**
Net Financing	3.0	8.5	2.1
External	0.6	1.4	1.1
Internal	2.4	7.1	1.0

Source: BCRP
Prepared by: BBVA Banco Continental ERD

Table 5: Balance of payments
(US$ million)

	2009		
	III	IV	Year
I. Current Account	264	267	247
1. Trade Balance	1,838	2,188	5,873
2. Services	-236	-322	-1,112
3. Factor Rents	-2,067	-2,367	-7,371
4. Transfers	728	768	2,856
II. Financial Account	-610	1,688	1,012
1. Private Sector	299	-305	1,655
2. Public Sector	99	203	1,032
3. Short-Run Capitals	-1,008	1,790	-1,675
III. Exceptional Financing	3	4	36
IV. Errors and Net Omissions	556	-790	-250
V. Balance of Payments	**212**	**1,168**	**1,045**

Source: BCRP
Prepared by: BBVA Banco Continental ERD