

**COUNTRY PROFILE:****REPUBLIC OF PERU****DATED:****OCTOBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restrictions

*Recent Political Highlights*

- ❑ President Alan Garcia took office in July 2006 for a five-year term. His main challenge will be to maintain social stability after deep social and regional divisions became apparent during the 2006 election campaign. With only 36 seats in the 120-seat Congress, Mr Garcia will have to work to build consensus and will have to rely on often shaky alliances to pass legislation in a fragmented and often ill-disciplined campaign.
- ❑ After a devastating earthquake hit Peru's central coast on the 15<sup>th</sup> of August, the president Alan Garcia, appears to have emerged a winner. His public approval ratings have recovered after months of decline, thanks to the perception that the government responded swiftly to the disaster. A nationwide poll showed a dramatic jump in his approval rating to 44% in September from 35% the previous month. The gains maybe fragile as his popularity could dip again if reconstruction of the affected areas lags, or if broader efforts to address income inequality do not meet expectations.

*Recent Economic Highlights*

- ❑ Peru is the world's second-largest exporter of silver, the third largest of copper and zinc, and fifth largest of gold. Mineral exports have consistently accounted for the most significant portion of Peru's export revenue, averaging around 50% of total earnings from 1998-2005 and 62% in 2006.
- ❑ Growth is forecast to slow down to 7.3% this year after an 8% expansion in 2006 due to domestic political developments, which saw the rise of a new opposition in the form of independent regional movements that may affect the government's ability to pursue its reform agenda. Recent economic expansion has been driven by construction, mining, export growth, investment and private consumption growth. The second phase of the Camisea natural-gas project and other major mining projects underpin the positive outlook.
- ❑ The robust economic growth of recent years has begun to reduce poverty. The government says that the poverty level fell by more than 4.2% to 44.5% last year compared with 2005. However progress has been uneven and rural areas have not benefited with underemployment and poverty still rife.
- ❑ Annual inflation was 2.1% in 2006, the lowest in Latin America and is forecast to remain under 2% in 2007.
- ❑ A boom in global commodity prices has fuelled growth in the value of Peru's mineral exports, which has helped double the value of overall exports since 2001. The EIU expects total exports to increase by more than 10% in 2007 to \$26.2bn. The current account surplus reached 2.6% of GDP in 2006 and is forecast to decline to 1.5% of GDP this year as import growth remains strong. Exports of agriculture, textiles, manufacturing and other goods have also expanded; agricultural and textile exports are benefiting from preferential access to the US market.
- ❑ A new law called the 'Urban Construction Law' will facilitate the paperwork for construction projects that cost between \$200-300 million. The new law now permits the construction of several buildings which had been halted because of municipal paperwork. It was reported that bureaucratic ties had not permitted the construction of several buildings. Due to the new legislation, construction is forecast to grow by 18% this year. Meanwhile about 8,000 jobs will be created as the government moves to rebuild homes and infrastructure that were destroyed by the earthquake. This will drive up demand for bricks and steel, and should offset much of the damage to export crops in the coastal area, notably asparagus.
- ❑ According to the Central bank, Peru's external debt to GDP ratio fell from 50% in 2002 to 29% at the end of March 2007. To reduce debt further the government pre-paid \$1.5bn of its \$5.8bn debt to the Paris Club group of creditors in July and intends to pay off more debt in the short term. Mr Garcia announced that he aims to cut Peru's overall foreign debt level to just 10% of GDP. The international community has recognised Peru's progress in consolidating macroeconomic stability and growth. Credit rating agencies have upgraded their ratings for Peru's debt. S&P rates Peru's debt BB+, one level below investment grade status.
- ❑ India's largest listed firm, Reliance Industries Ltd, is expected to sign contracts for stakes in two oil blocks in Peru. Reliance had earlier this year signed a memorandum of understanding with Peru's state-run PetroPeru for collaboration in the oil and gas sector.

*Latest Trade Developments*

- ❑ Main exports: gold, copper, fishmeal, petroleum, zinc, textiles, apparel, asparagus and coffee.
- ❑ Main imports: machinery, vehicles, processed food, petroleum and steel.
- ❑ Major trade partners: US, China, EU, Chile, Canada, Switzerland, Spain, Netherlands, Brazil, Ecuador, Colombia and Japan.
- ❑ SA exports to Peru totalled R163.5m in 2006 and R433.6 in the year to July 2007. South African exports to Peru consist mainly of base metals and articles of base metals, paper making material, paper, and paper making board, capital equipment (mining equipment, mining services and ammonia nitrate for mining purposes).