

General Political Environment: On 4 June 2006, former president Alan García was re-elected after garnering approximately 53% of votes in a presidential run-off against radical leftist candidate Ollanta Humala. García was first president from 1985-1990, at a time of social and economic turmoil within Peru. Two years into his current term, the landscape is markedly different with the government pursuing prudent macroeconomic policy and investor-friendly market policies.

García's Aprista Party for Peru (APRA) holds only a minority position in the 120-seat Congress. This requires that the president build political alliances within the legislature to ensure policy progress. In an attempt to do so, President García has sought to have diversified cabinets comprised of moderate and pro-market individuals.

Despite Peru's 10-year economic boom, Peru still lacks basic infrastructure in most parts of its territory and it continues to experience high poverty rates. As a result, there is growing public discontent over the government's perceived inability to ensure a wider distribution of wealth at a time of rapid economic growth, and Peru is witnessing an increase in protest and strike activity. This, added to the negative effects that the global economic downturn is having on the country's economic stability, may be paving the way for the resurgence of radical populist and former presidential candidate Ollanta Humala for the 2010 regional and 2011 presidential elections. The government has attempted to address the issue through an increase in public investment in infrastructure across the country.

In July 2009, President Garcia undertook the third reshuffle of his cabinet since he came to power, following the recent political crisis in the Peruvian Amazon where 23 policemen and 9 civilians were killed. Speaker of Congress Javier Velásquez Quesquén was named Chief Minister following Yehude Simon's resignation. Simon announced that he intends to contest the 2011 presidential election.

Investment Environment: The government remains committed to pursuing an investor-friendly business climate. Peru's Foreign Investment Law offers automatic investment authorization and national treatment to foreign investors.

Foreign currency may be used to acquire goods abroad or cover financial obligations so long as the operator is in compliance with the relevant Peruvian tax legislation. There are no barriers to profit remittances and capital repatriation. Although the government has recognized the problem of allegations of judicial corruption and is taking steps to reform the judiciary, progress on this front is expected to take some time.

Under Garcia, Peru has maintained an aggressive trade policy that has allowed it to sign Free Trade Agreements (FTA) with the US, Chile, Singapore, Thailand, China and Canada, which has already been ratified by Canadian Parliament and has come into effect on 1 August 2009. Peru is currently negotiating similar agreements with the EU and South Korea.

Building on the procedural protections included in the Canada-Peru Foreign Investment Promotion and Protection Agreement (FIPA), the Canada-Peru FTA is expected to influence the development of national laws through the promotion of good governance (e.g. respect for rule of law, transparency), which generally leads to a better investment climate.

Political Violence: Groups involved in violence for political ends, including the Shining Path (Sendero Luminoso, SL), were weakened by the counter-insurgency campaigns of the 1990s. Although there is evidence of their involvement in drug trafficking and kidnapping, insurgent activity poses little risk to foreign firms operating in the country, unless they are operating in remote rural areas where some groups remain active, specifically in the VRAE region.

In June 2009, a clash between Peruvian police and indigenous protesters in Peru's northeastern Amazon region over a series of decrees issued by President Garcia seeking to boost the government's ability to grant concessions for private projects in the extractive, forestry and hydroelectric sectors in the Amazon region, resulted in fatalities on both sides, as 25 policemen and 9 indigenous were killed.

Political

Political Structure

Presidential Republic

President

Alan García (APRA)

Prime Minister

Javier Velásquez Quesquén (APRA)

Legislative Bodies

- National: Congress (120 seats)
- Local: 24 departments – divided into provinces and municipalities

Major Parties (seats in Congress)

- Union for Peru (UP): 45
- Aprista Party for Peru (APRA): 36
- National Union (UN): 17
- Alliance for the Future (AF): 13
- Other parties: 9

Last Elections

- Presidential: 4 June 2006
- Legislative: 9 April 2006

Next Elections

- Regional elections: 2010
- General elections: April 2011

Press Freedom Survey:

- 2008 Score: 44 Partly Free (0: Free; 100: Not Free)
- freedomhouse.org

Control of Corruption Index:

- 2008 Score: -0.26 (-2.5: Worst; +2.5: Best)
- worldbank.org

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Political Outlook

Following the June 2009 Amazon crisis, President Garcia undertook a third Cabinet reshuffle since he came to power in 2006. The crisis proved that the Garcia administration's ability to deal with indigenous demands is questionable, and this is therefore expected to have important implications for the country's political and investment environment. In the short to medium term, private investors interested in the extractive sector in Peru are likely to face significant legal, reputational and operational risks.

Economy

Nominal GDP (2008)
127.6 bil USD

Population (2008)
29.8 million

Total Trade/GDP (2008)
47 %

Currency
Nuevo Sol (PEN)

Exchange regime
Managed float

Merchandise imports from Canada (2008)
290.7 million

Main sources of foreign exchange (excl. FDI)
Mineral exports

Largest merchandise export destination (2008)
US (18.5 %)

Main imports
Intermediate goods
Capital goods

Sovereign Ratings
MLT external debt

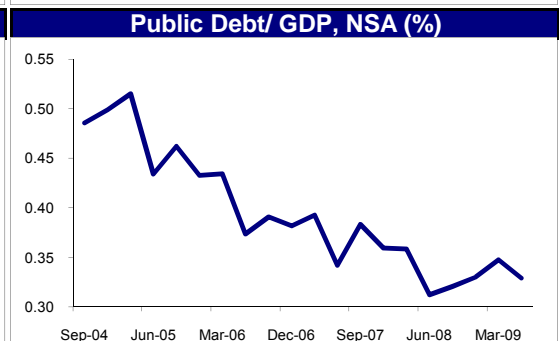
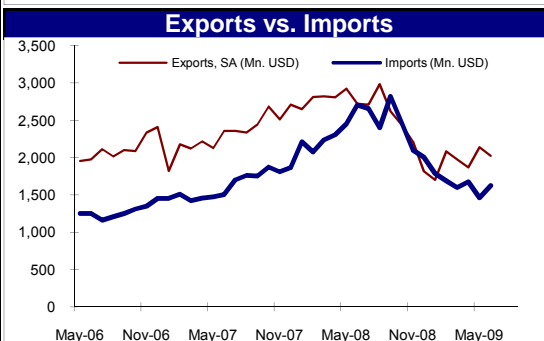
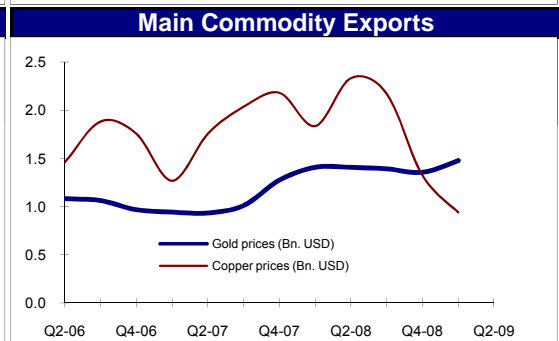
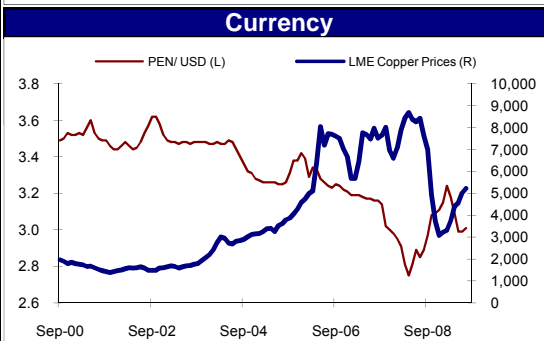
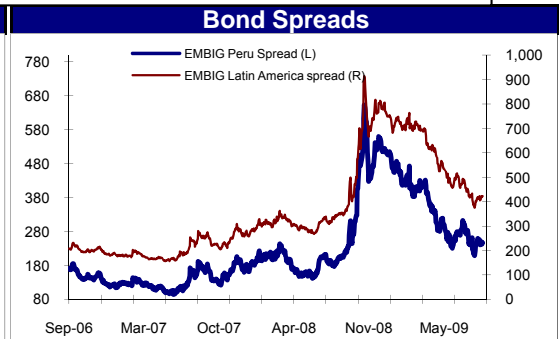
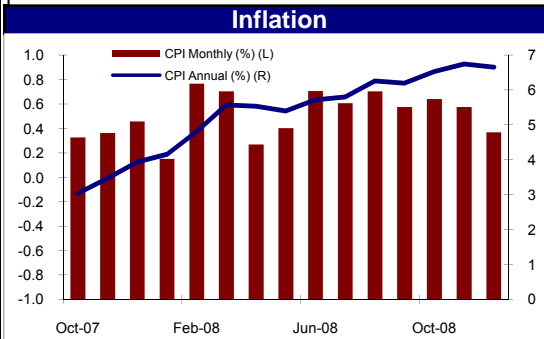
Fitch BBB-
S&P BBB-
Moody's Ba1

Risks to the outlook

- Sustained FDI inflows
- Sustained fall in metal prices

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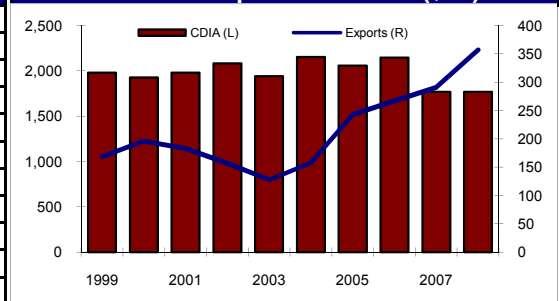
- **Real economy:** Weak external demand, lower metal prices and tighter international credit conditions will drive GDP growth dramatically this year. Nevertheless, Peru is expected to grow at a rate that will be well above the Latin American average. We forecast GDP to expand 1.4% this year and 4% in 2010.
- **External sector:** As metal prices converge towards historical averages and import growth slows down, the CA deficit is expected to narrow moderately. Although increasing at a slower pace, FDI should remain solid.
- **Fiscal:** Even though the implementation of the USD 3.2bn stimulus package has been slow, we expect public spending to accelerate in response to an increasing number of social demonstrations and in face of a slowing economy.
- **Monetary:** Inflation has fallen below the Central Bank target (2%) and is expected to remain there for the rest of this year and well into the next. The CB has cut rates aggressively this year to a record low, so despite the easing in price pressures, we expect it will keep rates on hold over the first half of 2010.



Economic Indicators

	04-08 avg.	2008	2009	2010
GDP (% growth, real)	6.5	9.8	1.4	4.0
Inflation (% chg, pa avg.)	2.3	5.8	3.0	3.5
Fiscal Balance (% of GDP)	0.4	2.2	-1.8	-1.5
Exports (% comp. annual growth)	29.3	13.1	-30.3	12.0
Imports (% comp. annual growth)	21.4	45.1	-31.7	10.0
Current Account (% of GDP)	0.8	-3.3	-2.1	-2.0
Reserves (months of curr. debits)	8.5	8.3	10.9	10.8
External Debt (% of GDP)	38.0	27.4	24.6	23.5
Debt Service Ratio (due)	16.2	13.6	17.8	13.2
Exchange Rate (to USD; eoy)	3.3	3.1	3.0	2.8

Canadian exports and CDIA (\$-M)



Sources: Haver Analytics, Statistics Canada, EIU, Bloomberg