

Economy

Nominal GDP (2009)
127 bil USD

Population (2009)
29 million

Total Trade/GDP (2009)
44 %

Currency
Nuevo Sol (PEN)

Exchange regime
Managed float

Merchandise imports from Canada (2009)
CAD 393 million

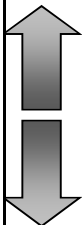
Main sources of foreign exchange (excl. FDI)
Mineral exports

Largest merchandise export destination (2009)
U.S. (18 %)

Main imports
Intermediate goods
Capital goods

Sovereign Ratings
MLT external debt
Fitch BBB-
S&P BBB-
Moody's Baa3

Risks to the outlook



Sustained FDI inflows

Sustained fall in metal prices

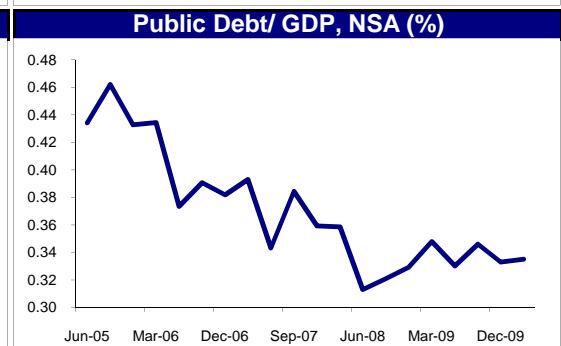
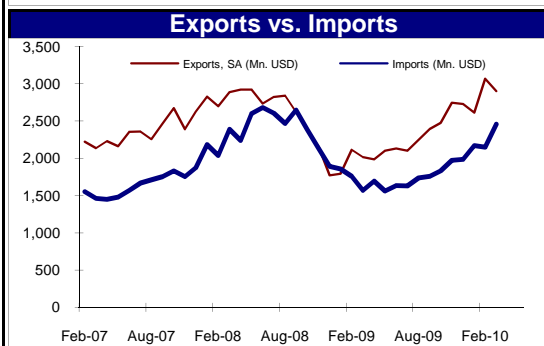
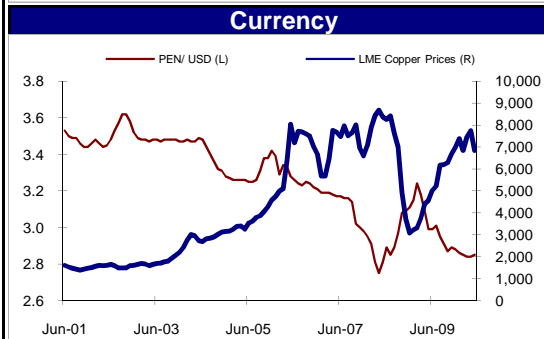
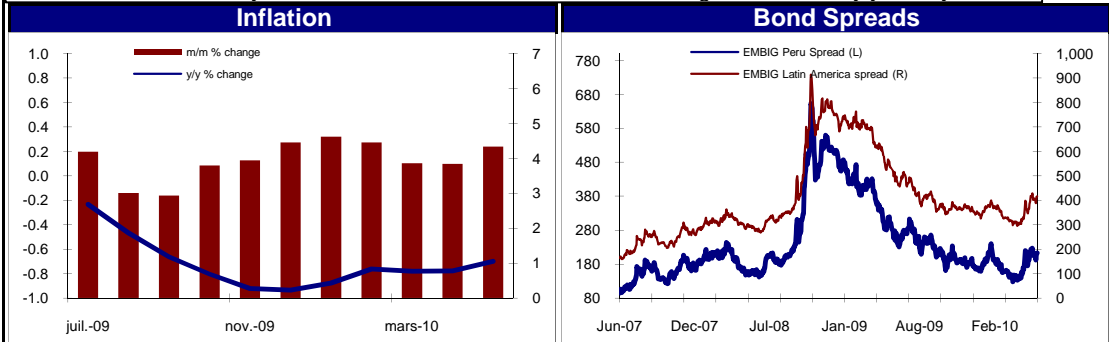
June/10
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Real economy: On the back of strong domestic investment and export growth, GDP expanded 6% y/y in Q1 2010. An upsurge in consumer confidence is anticipated to increase domestic demand and but also diminish the trade surplus as imports demand grows. Our forecast calls for GDP to grow 5.6% y/y in 2010 and 5.1% y/y in 2011.

External sector: High mineral prices as well as enhanced trade agreements with China and domestic demand will help Peru's growth. Imports will progressively rise and surpass export rate of growth leading to a diminished CA surplus.

Fiscal sector: The government is expected to moderately diminish public spending aimed at fiscal prudence. The predominant objective is to set up a contingency fund to counter potential economic shocks due to the Europe crisis. Also, a 10-year tax exemption in the Andes has been proposed by the government, aimed at creating new jobs in the remainder of 2010.

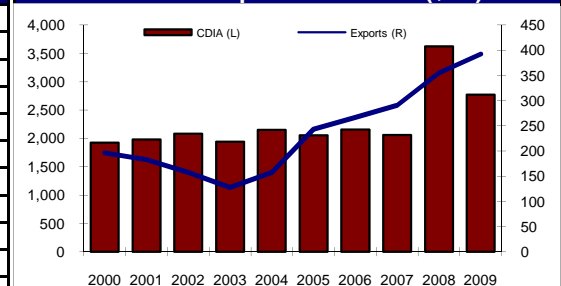
Monetary sector: The Central Bank interest rate has recently been increased by 25 bps in light of livened economic activity. Inflation sits in the lower end of the CB's target band at 1% y/y in May.



Economic Indicators

	05-09 avg.	2009	2010	2011
GDP (% growth, real)	7.6	0.9	5.6	5.1
Inflation (% chg, pa avg.)	3.0	2.9	2.0	2.5
Fiscal Balance (% of GDP)	1.2	-2.1	-1.2	-0.3
Exports (% comp. annual growth)	28.2	-14.7	19.0	14.6
Imports (% comp. annual growth)	28.1	-26.1	19.6	12.5
Current Account (% of GDP)	0.5	0.4	-0.4	-0.1
Reserves (months of curr. debits)	8.4	11.3	10.5	10.0
External Debt (% of GDP)	33.8	26.4	24.8	23.6
Debt Service Ratio (due)	16.4	16.1	11.9	10.5
Exchange Rate (to USD; eoy)	3.2	2.9	2.9	2.8

Canadian exports and CDIA (\$-M)



General Political Environment: In 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. Nearly four 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 came 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*), 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 operate in remote rural areas.

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 resulted in the death of 25 policemen and 9 indigenous. A similar case also occurred in April 2010, when six people died after police and a group of small-scale gold miners clashed. The latter demand the repeal of a emergency decree issued to control illegal mining in the Madre de Dios region.

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 (second round): 4 June 2006
- Legislative: 9 April 2006

Next Elections

- Regional elections: October 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

April 2010
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Political Outlook

Following the June 2009, President Garcia undertook a third Cabinet reshuffle since he came to power in 2006. The recent April 2010 crisis suggests that the Garcia administration's ability to deal with community demands is questionable, and this is expected to have important implications for the country's political and investment environment in the short to medium term. Therefore, private investors interested in the extractive sector in Peru are likely to face significant legal, reputational and operational risks. Garcia's declining popularity, added to the slow progress shown by the dialogue process with the country's Amazonian natives will continue to dominate domestic politics for most 2010.