



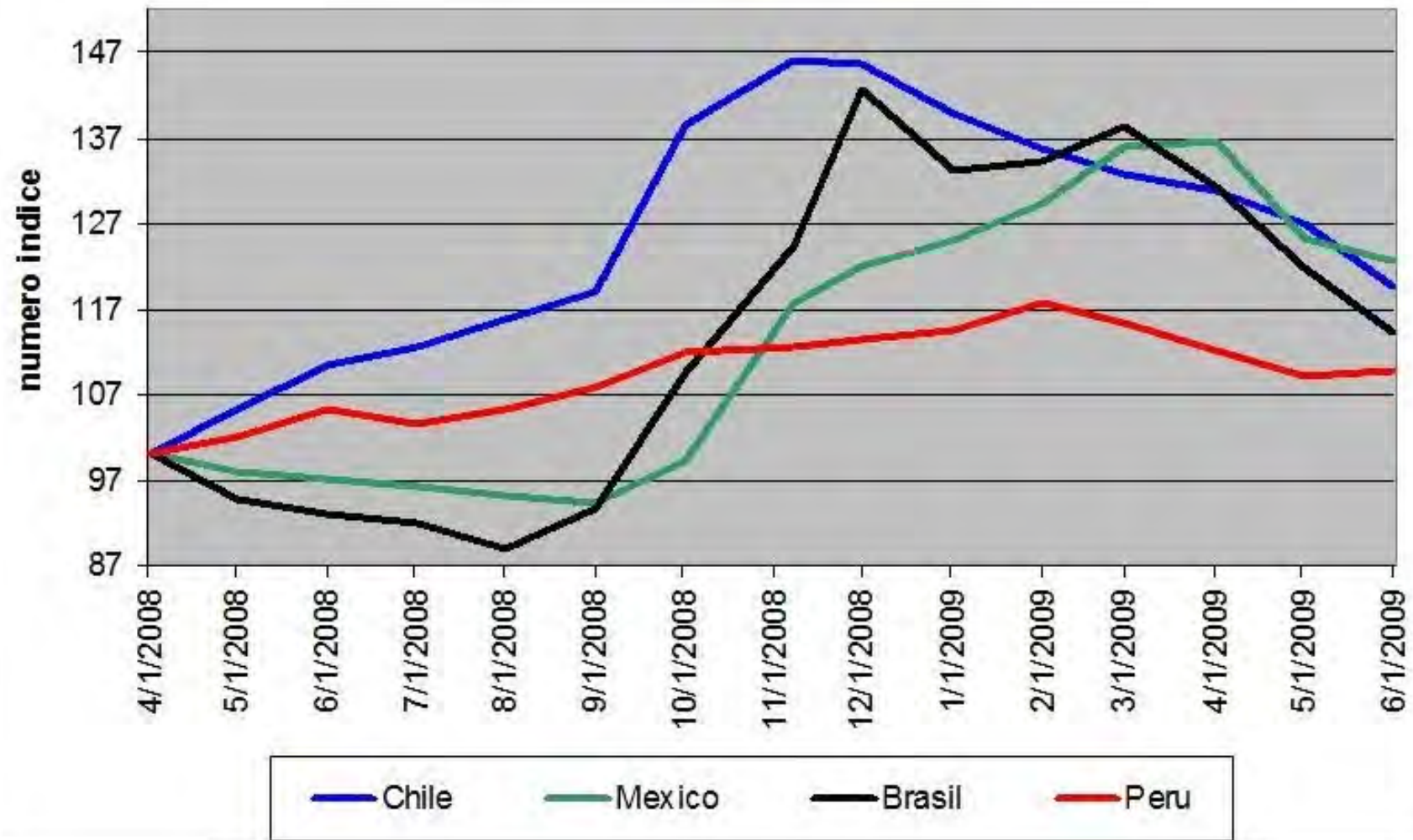
**Where is Global Finance heading?
Emerging Economies: The way forward
*Cuzco 13-14 July ,2009***

**PERU UNSCATHED: IDENTIFYING THE
FACTORS OF STRENGTH**

Ricardo V. Lago



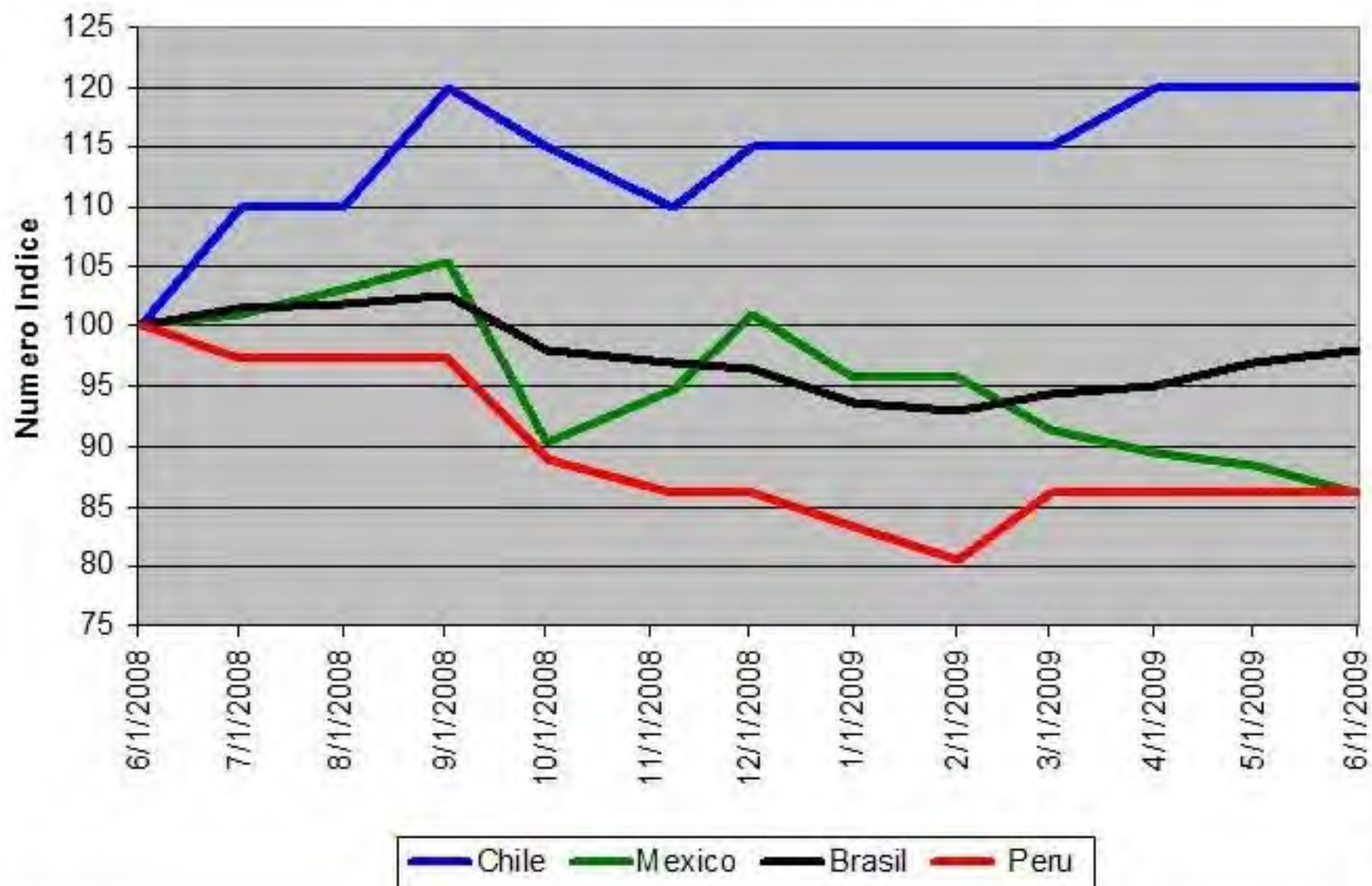
TIPOS DE CAMBIO (Unidades de moneda local / US\$)



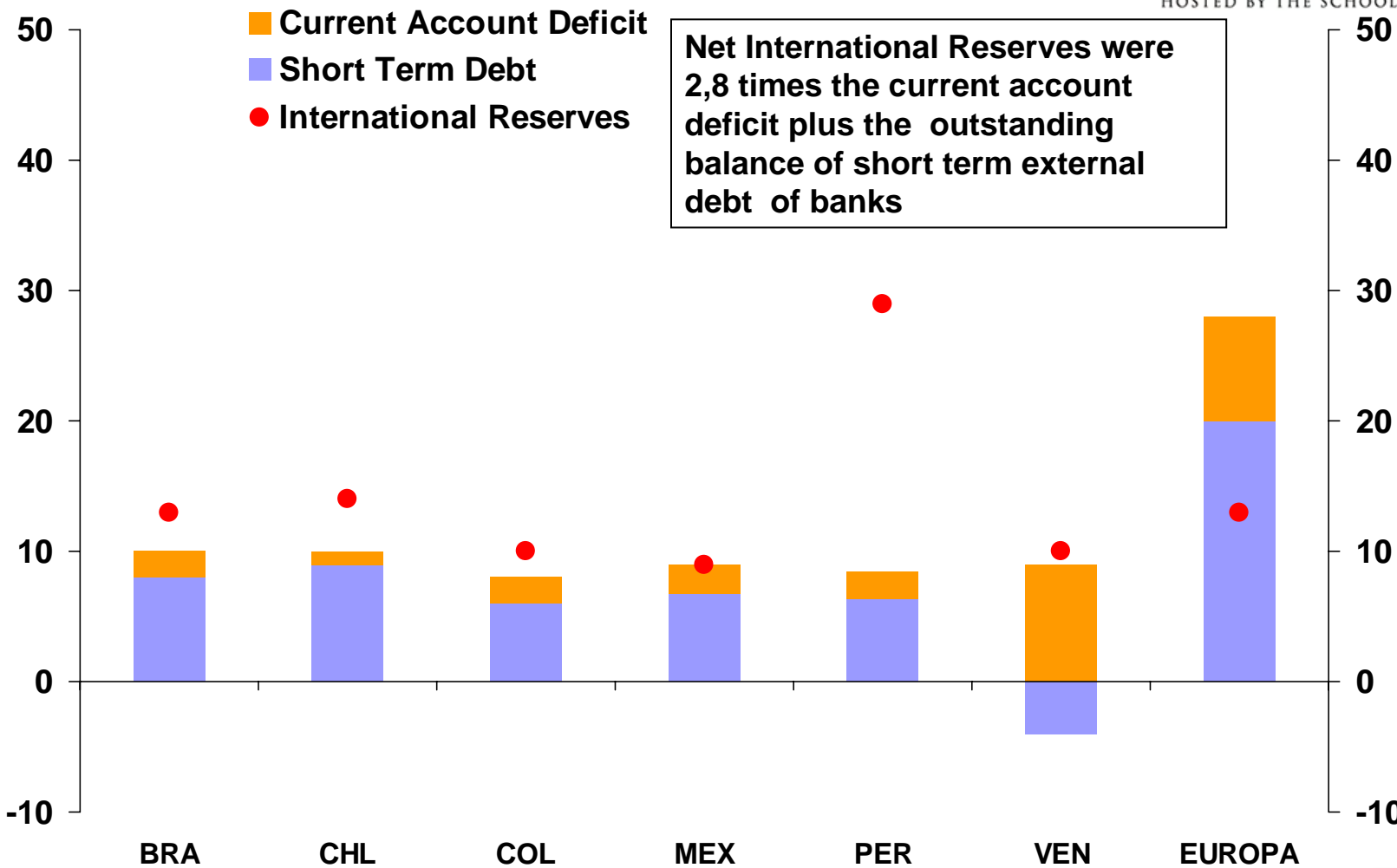
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RESERVAS INTERNACIONALES



COVER OF EXTERNAL FINANCING REQUIREMENTS (SHARES OF GDP)



Fuente: Regional Economic Outlook, FMI



The Stone of Twelve Angles

Hatunrumiyoc (Cuzco)

 GLOBAL
BUSINESS
FORUM
UNIVERSITY OF MIAMI
HOSTED BY THE SCHOOL OF BUSINESS



STRUCTURE OF THE PRESENTATION

- I. POINT OF DEPARTURE IN 1990
- II. WHERE IS THE ECONOMY HEADING
- III. STRONG INITIAL CONDITIONS IN 2008
- IV. MONETARY POLICY DURING THE CRISIS



SECTION I : POINT OF DEPARTURE IN 1990





LIMA AND PERU IN “THE WEALTH OF NATIONS”



- I was a student of **Harold Demsetz** at UCLA .He used to start the first class by saying that the “The Wealth of Nations” was the first rigorous book of Economics andalso the last one .
- In his book of 1776, Adam Smith refers to:
 - México in 11 paragraphs
 - Boston or New York or Philadelphia – either of the three - in 12 paragraphs
 - Lima or Peru in 27 paragraphs
 - London in 82 paragraphs
- It is clear that from the XVI to the XVIII centuries Lima was the most important city of The Americas and one of the most important in the world .



200 Hundred Years of Solitude

- I leave to historians the identification of the causes of the 200 - plus years of decline

- But in 1990 , **Lima** looked like **Phnom Penh** on the eve of the arrival of the **Khmer Rouge** .

- Outright economic chaos :
 - Hyper - inflation (13,000 % per annum)
 - Hyper - depression (30 % cumulative GDP decline)
 - Massive debt arrears even with the IFIs
 - Negative Net International Reserves
 - A failed State facing the imminent risk of a take-over by the terrorist group “Shinning Path”



SECTION II : WHERE IS THE ECONOMY HEADING



THE PERUVIAN ECONOMY: 2009

- PERU ESCAPED THE RECESSION :
 - GDP Growth in 2009 : 1% (my projection) to 3% (Goldman Sachs and Government)

- EXCHANGE RATE AND MONETARY STABILITY

- NO BANK OR ENTERPRISE BAIL - OUTS

- LIMITED NEED FOR MAJOR FISCAL OR MONETARY STIMULUS : AUTHORITIES COULD AFFORD TO TAKE TIME TO ANALYSE AND DECIDE

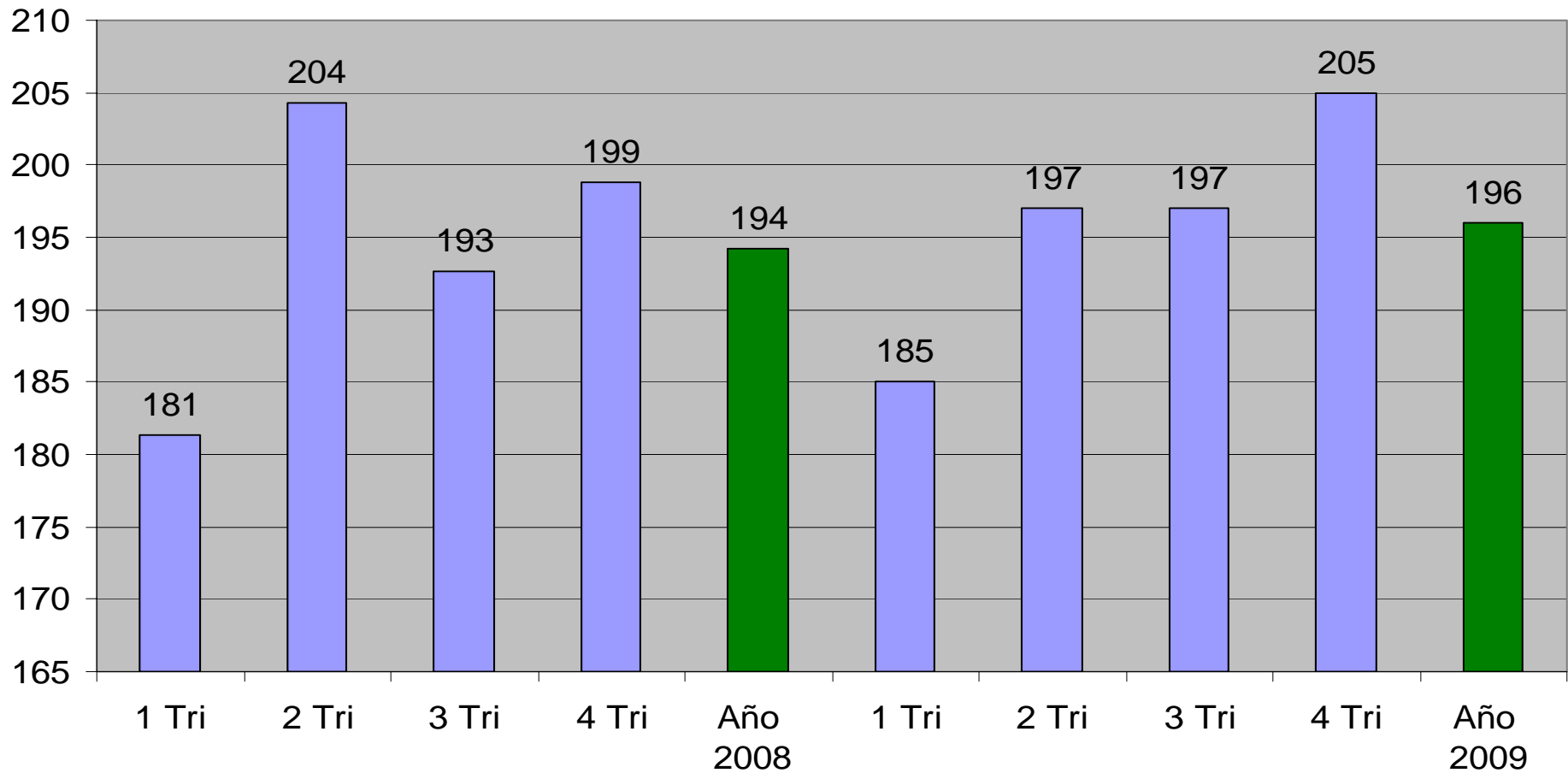
- RESUMPTION OF GROWTH IN THIRD QUARTER AND GROWTH AT 5% IN 2010 .



Peru PBI 2009 : Segundo Calculo

Resultado : Crecimiento Annual PBI =1%

Supuesto : fuerte recuperacion en 3er y 4to Trimestre
1er Tri(2008/2009) = 2% ; 2Tri = -3% ; 3Tri =2% ; 4Tri = 3%



BOLSA DE VALORES DE LIMA



El minimo se registra el 28.10.08

El 01.03.09 no rebasa dicho minimo



PRECIOS DEL COBRE

GRAFICA 3
PRECIO INTERNACIONACIONAL DEL COBRE

Precio el 14-04-09

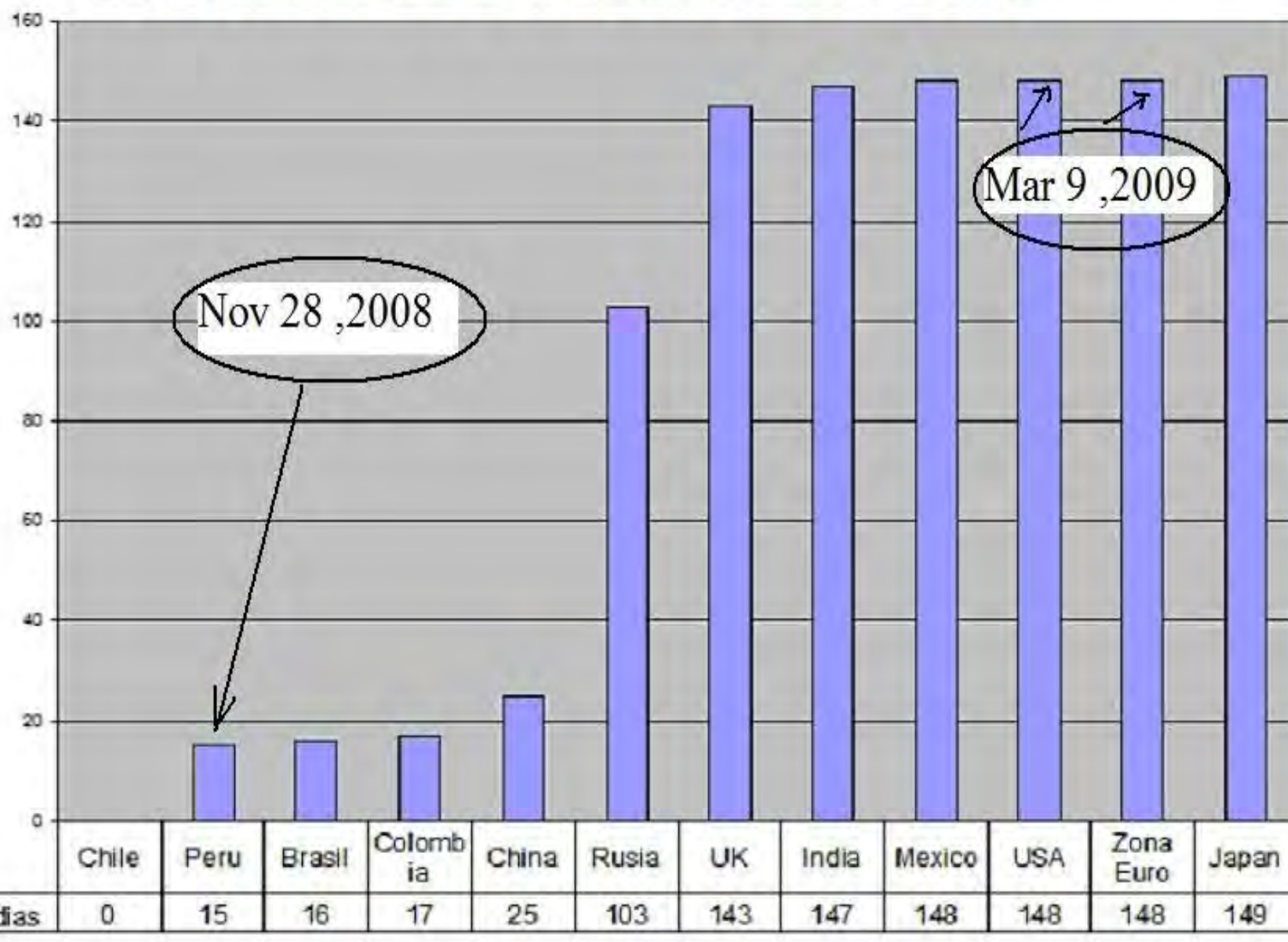


El precio minimo se registro el 28-12-08



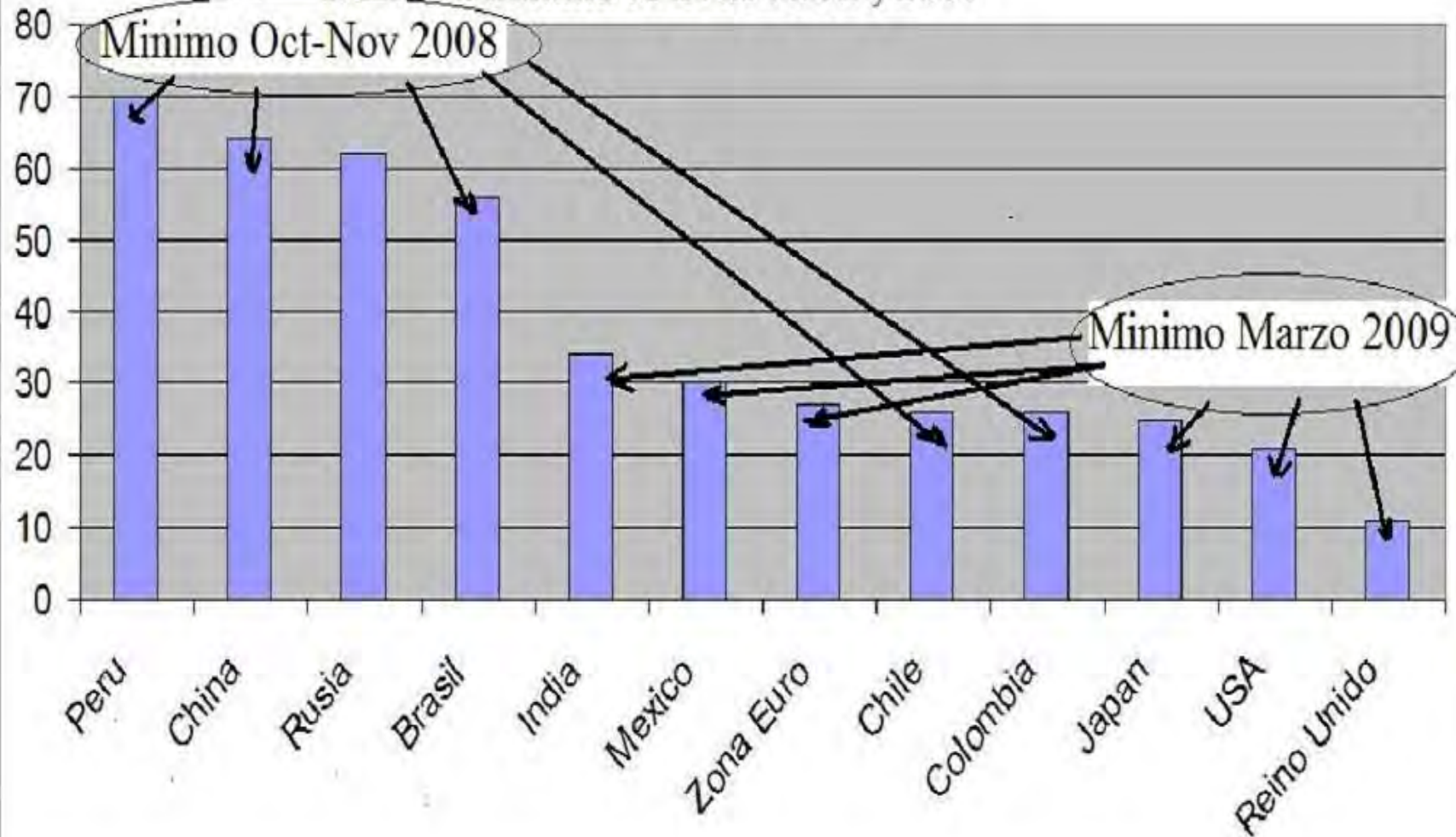
GRAFICA 1

SECUENCIA DE RECUPERACION DE LAS BOLSAS DE DIFERENTES PAISES
(La Chilena es la primera en retomar el ascenso y la Japonesa la ultima)



GRAFICA 2 RENDIMIENTO DE LAS BOLSAS DE VALORES En relacion al punto minimo registrado en la caida)

Desde el minimo al 21 de Abril , 2009



SECTION III : STRONG INITIAL CONDITIONS IN 2008



FACTORS OF STRENGTH

- 1. CENTRAL BANK INTERNATIONAL RESERVES
- 2. CONSOLIDATED PUBLIC SECTOR IS NET INTERNATIONAL CREDITOR
- 3. BANKING SECTOR :
SMALL AND LIQUID ,WELL CAPITALIZED AND SUPERVISED
- 4 . UNDER-MORTGAGED BANKING SYSTEM
- 5. SCOPE FOR COUNTER-CYCLICAL POLICIES
- 6. CREDIBILITY OF ECONOMIC TEAM
- 7. PORTFOLIO DIVERSIFICATION OF MINERAL EXPORTS
- 8. MOVING PIPELINE OF FOREIGN DIRECT INVESTMENT
- 9. TRACK RECORD OF ECONOMIC REFORM
- 10. SUSTAINED REDUCTION OF POVERTY
- 11. SUPPORT OF POPULATION FOR ECONOMIC MODEL
- 12. LOW RISK OF RETURN TO POPULISM



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FACTOR 1 : CENTRAL BANK INTERNATIONAL

RESERVES



- ❖ AS OF AUGUST 2008 : US\$ 36 BILLION , NOW US\$ 31 BILLION AND BACK IN THE UPSWING

- ❖ INTERNATIONAL RESERVES EXCEEDED M4 AS OF AUGUST 2008

- ❖ WHOLE BANKING SYSTEM IS :
 - ✓ LIKE A “BROAD CURRENCY BOARD”
 - ✓ AND ONE WITHOUT THE RIGIDITY OF A FIXED EXCHANGE RATE



FACTOR 2. CONSOLIDATED PUBLIC SECTOR IS NET INTERNATIONAL CREDITOR




- ❖ PUBLIC EXTERNAL DEBT : US\$ 18 BILLION
- ❖ NET EXTERNAL POSITION OF PUBLIC SECTOR : US\$ 13 BILLION OR 11 % OF GDP

{ = RESERVES (US\$ 31 BILLION) – EXTERNAL DEBT (US\$18 BILLION) }

- ❖ NET FOREIGN EXCHANGE POSITION OF PUBLIC SECTOR : US\$ 7 BILLION – OR 6% OF GDP

{ = NET EXTERNAL POSITION (US\$13 BILLION) - DOMESTIC DOLLAR LIABILITIES OF CENTRAL BANK (US\$ 6 BILLION) }





FACTOR 3. BANKING SECTOR : SMALL AND LIQUID ,WELL CAPITALIZED AND SUPERVISED



- ❖ BALANCE SHEET : 1/3 OF GDP
- ❖ UK IS MORE THAN 3 TIMES GDP
- ❖ BOOK VALUE CAPITAL BASE OF BANKS , US\$ 4 BILLION WHEREAS TREASURY'S LIQUID DEPOSITS AT THE CENTRAL BANK AMOUNT TO US\$ 10 BILLION .
- ❖ TWO PERUVIAN BANKS FIRST TO ISSUE DEBT IN THE INTERNATIONAL MARKES
- ❖ ABOUT 40% OF ASSETS OF BANKS IN RESERVE REQUIREMENTS OR CENTRAL BANK PAPER



THE TALE OF TWO BONDS :

GOLDMAN SACHS vs BANCO DE CREDITO DEL PERU





November 24th , 2008



Goldman Sachs to Sell Bonds in First FDIC-Backed Offering

- **November 24, 2008 (Bloomberg)**- New York-based Goldman is selling notes, which will mature in June 2012 , covered by the FDIC guarantee , with a rating of AAA .
- The rating reflects that the FDIC guarantee is “unconditional and irrevocable and backed by the full faith and credit of the AAA rated United States government”



December 11, 2008

Banco de Credito del Peru sells \$150million Series 2008-B Notes

- **CHICAGO, Dec 11, 2008 (BUSINESS WIRE)**- - Fitch Ratings assigned a 'A 'rating to Banco de Credito del Peru \$150 million series 2008-B, 10-year notes. The issuance is expected to add \$150 million to a program with approximately \$1 billion outstanding .
- The program's notes are backed by the collections generated from future and existing U.S. dollar denominated export remittances, workers remittances, foreign direct investment, etc). originated by Banco de Credito del Peru (BCP).



FACTOR 4 . UNDER-MORTGAGED BANKING SYSTEM

- ❖ TOTAL 110,000 MORTGAGES FOR US\$ 3.5 BILLION
- ❖ OR 7% OF TOTAL BANKING SECTOR BALANCE SHEET
- ❖ IN FACT , THERE IS AN UNSATISFIED EXCESS DEMAND BY INSURANCE COMPANIES AND PENSION FUNDS FOR LOCAL CURRENCY DENOMINATED LONG TERM MORTGAGE – BACKED SECURITIES AND COVERED BONDS





FACTOR 5. SCOPE FOR COUNTER-CYCLICAL POLICIES

- ❖ TREASURY AND CENTRAL BANK WITH STRONG BALANCE SHEETS AND LIQUIDITY

- ❖ BIG SCOPE FOR PROMOTION
 - ❖ FOR RESIDENTIAL CONSTRUCTION AND MORTGAGES FOR THE POOR
 - ❖ FOR PUBLIC INVESTMENT IN INFRASTRUCTURE
 - ❖ FOR SOCIAL PROGRAMS



FACTOR 6. CREDIBILITY OF ECONOMIC TEAM

- ❖ THE CENTRAL BANK GOVERNOR , **JULIO VELARDE** ,
MANAGED THE CENTRAL BANK IN AUGUST –
SEPTEMBER 1990 WHEN HIPERINFLATION WAS
STOPPED
- ❖ MINISTERS OF ECONOMY : CARRANZA , THEN
VALDIVIESO AND LATER BACK TO CARRANZA HAD
STRONG CREDENTIALS





FACTOR 7. PORTFOLIO DIVERSIFICATION OF MINERAL EXPORTS

- ❖ TWO LARGEST EXPORTS COPPER AND GOLD : $\frac{1}{4}$ OF TOTAL EXPORTS EACH
- ❖ HISTORICAL CORRELATION BETWEEN THEIR PRICES(1970 - 2008) : 0.17





FACTOR 8. MOVING PIPELINE OF FOREIGN DIRECT INVESTMENT

- ❖ PIPELINE OF PROJECTS FOR US\$ 25 BILLION (OR ONE YEAR OF TOTAL PRIVATE INVESTMENT) UNDER EXECUTION
- ❖ PIPELINE OF ADDITIONAL US\$ 25 BILLION UNDER TENDER , FOR CONCESSION , OR UNDER NEGATIATION





FACTOR 9. TRACK RECORD OF ECONOMIC REFORM

- ❖ 20 YEARS OF BROADLY BASED REFORM , NO REVERSALS , FOUR SUCCESIVE GOVERNMENTS OF DIFFERENT POLITICAL ORIENTATIONS
- ❖ ONE OF THE STRONGEST AND FASTEST REFORM PROCESS , EVEN COMPARED TO CHILE , EASTERN EUROPE , CHINA , AND INDIA .



FACTOR 10. SUSTAINED REDUCTION OF POVERTY

- ❖ IN SIX YEARS ABOUT 18 % OF THE POPULATION OR ABOUT 5 MILLION PERUVIANS (OUT OF 28 MILLION) HAVE GRADUATED FROM THE POVERTY LINE
- ❖ GROWING CONSTITUENCY IN FAVOR OF PRO MARKET POLICIES



FACTOR 11. SUPPORT OF POPULATION FOR ECONOMIC MODEL

- ❖ **POLLS ABOUT FREE TRADE AGREEMENTS (e.g. FTA WITH THE USA) SHOW 70% OF SUPPORT OF THE POPULATION**



FACTOR 12. LOW RISK OF RETURN TO POPULISM

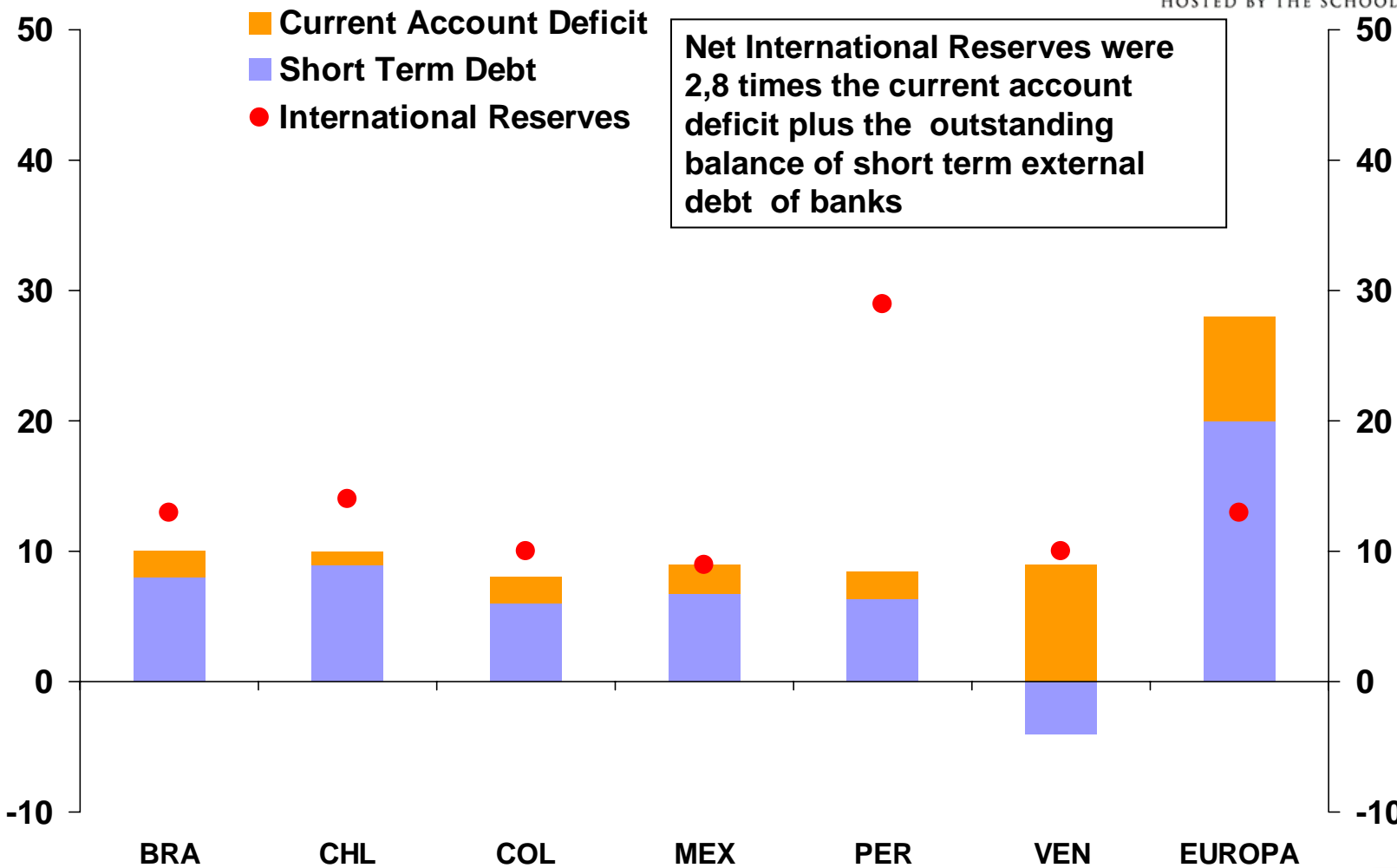
- ❖ AGREEMENT ON MARKET - BASED ECONOMIC POLICIES AMONG PARTIES REPRESENTING 65% OF THE POPULATION : FROM THE RIGHT TO THE SOCIAL -DEMOCRATS (APRA)
- ❖ TWO - ROUND PRESIDENTIAL ELECTIONS ARE A FILTER AGAINST POPULIST CANDIDATES
- ❖ ONLY RISK IN PERU IS EXPANSIONIST PROPAGANDA OF VENEZUELA'S HUGO CHAVEZ TO TARGETED MINORITY GROUPS



SECTION IV : MONETARY POLICY DURING THE CRISIS

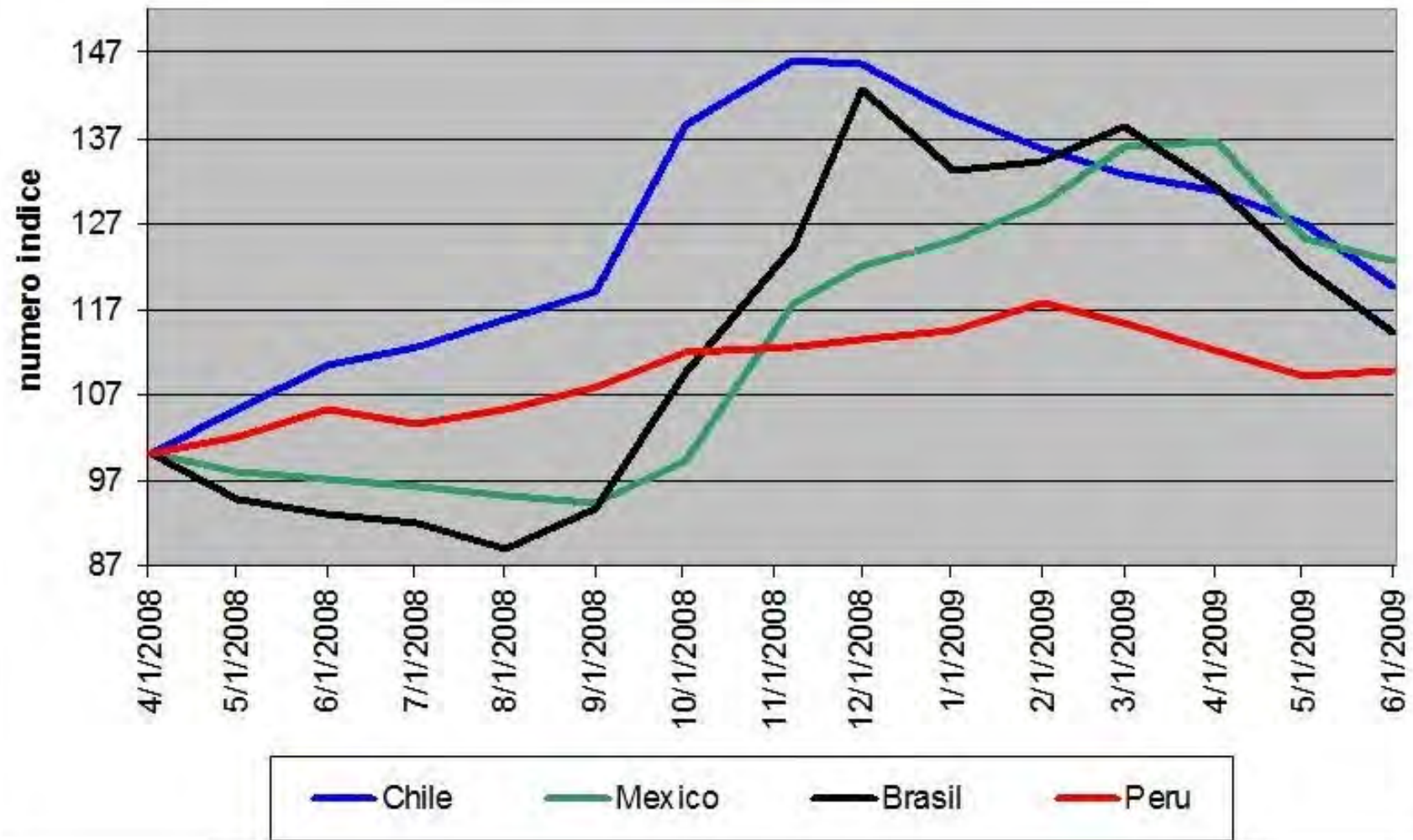


COVER OF EXTERNAL FINANCING REQUIREMENTS (SHARES OF GDP)



Fuente: Regional Economic Outlook, FMI

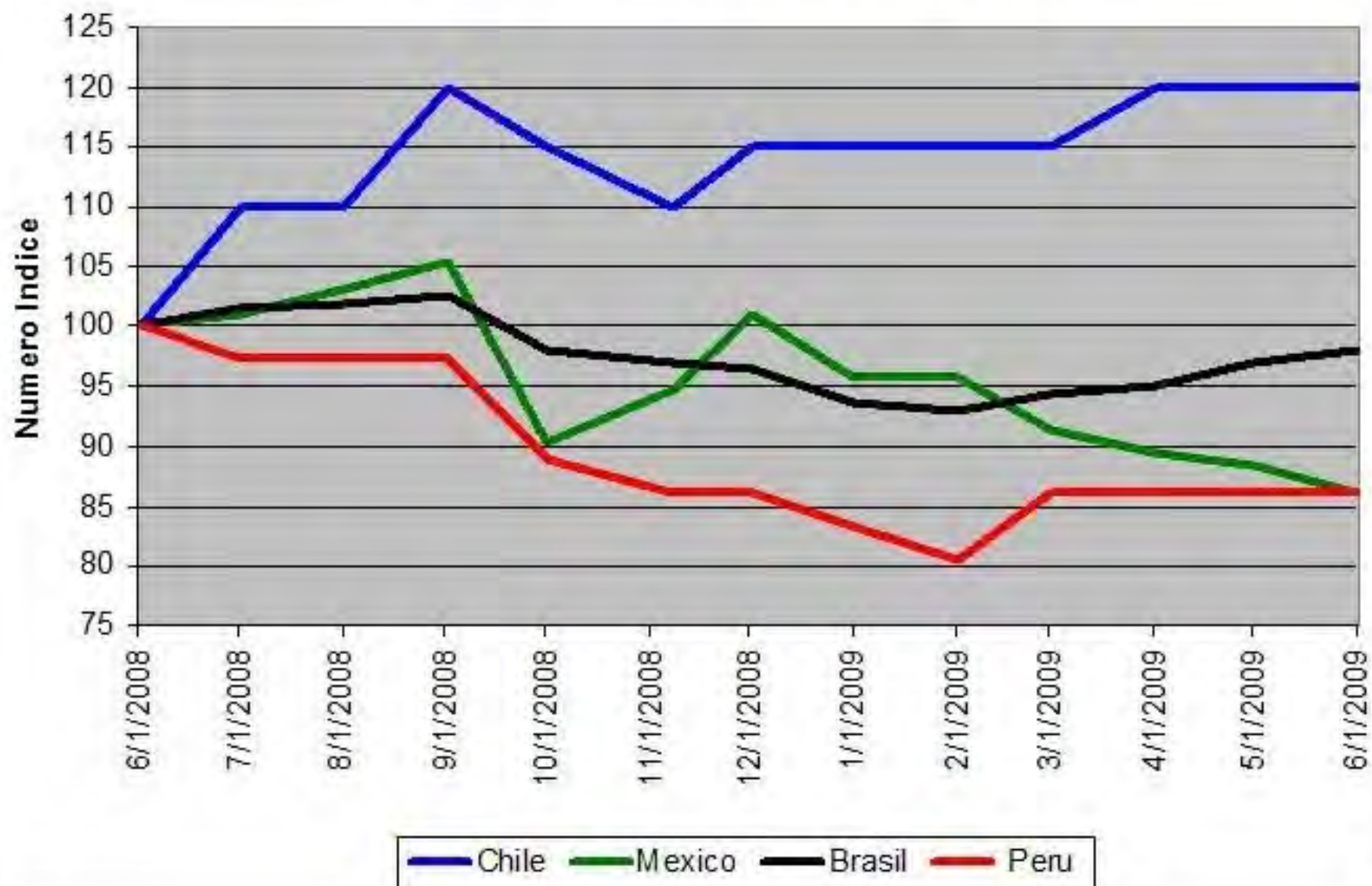
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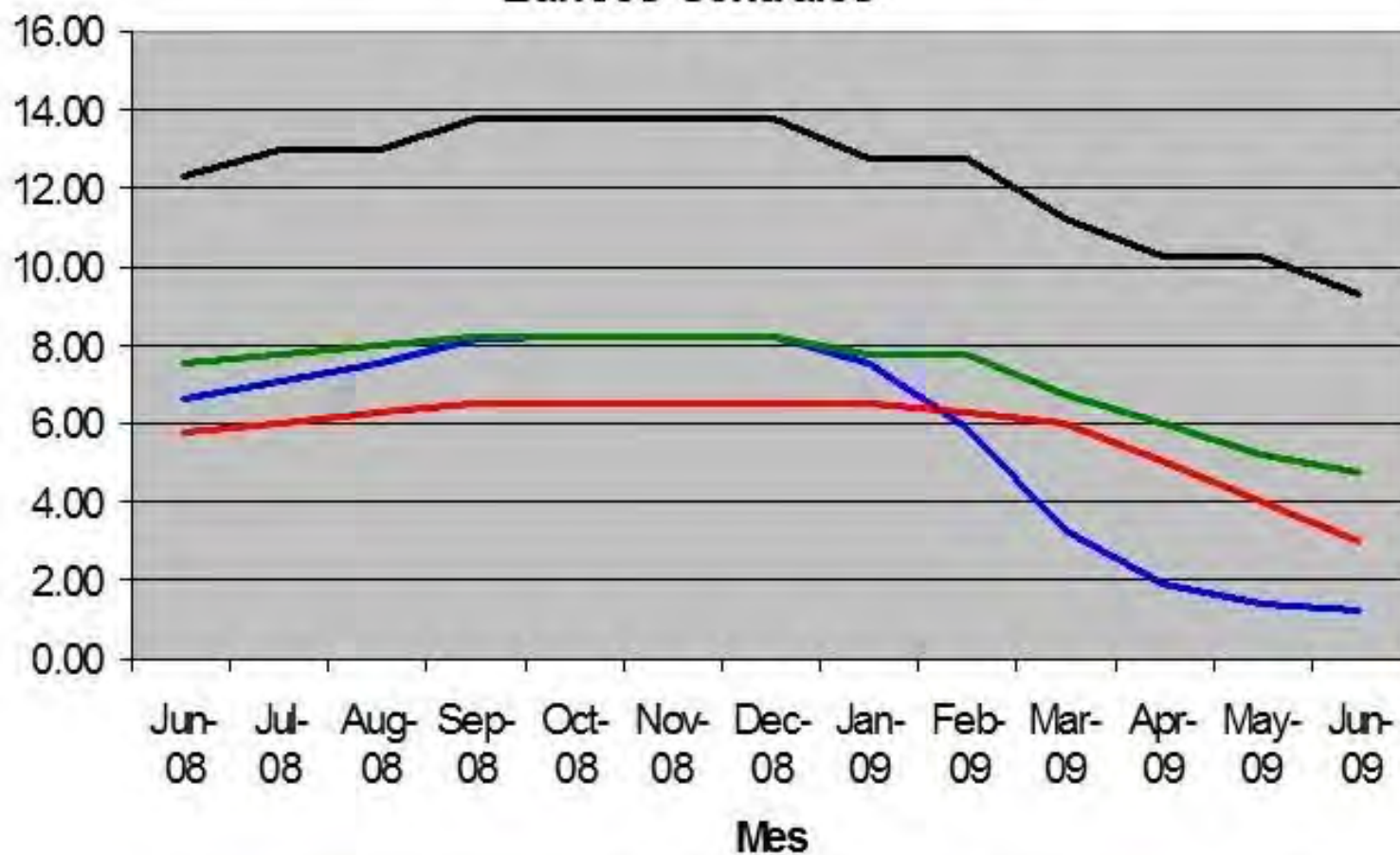
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RESERVAS INTERNACIONALES



TASAS DE INTERES REFERENCIA (% Annual) Bancos Centrales



— Chile — Mexico — Brasil — Peru



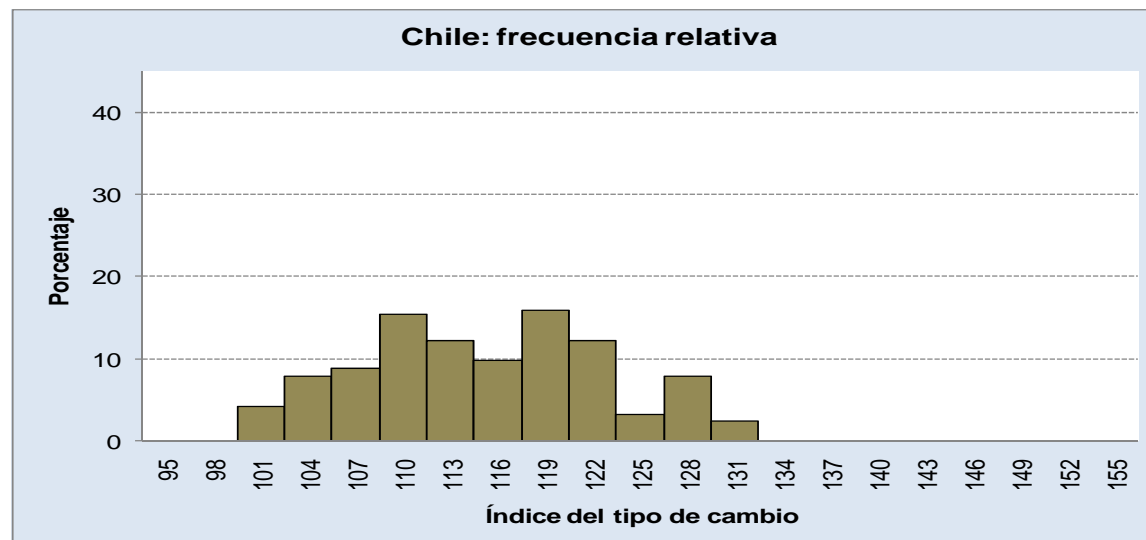
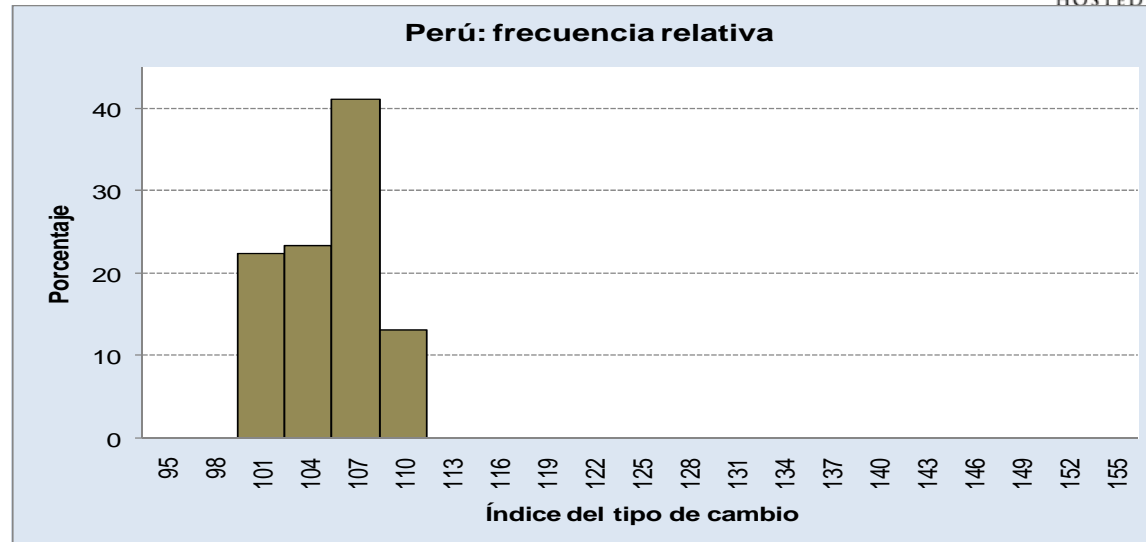


FREQUENCY OF DISTRIBUTION OF LEVEL OF EXCHANGE RATE

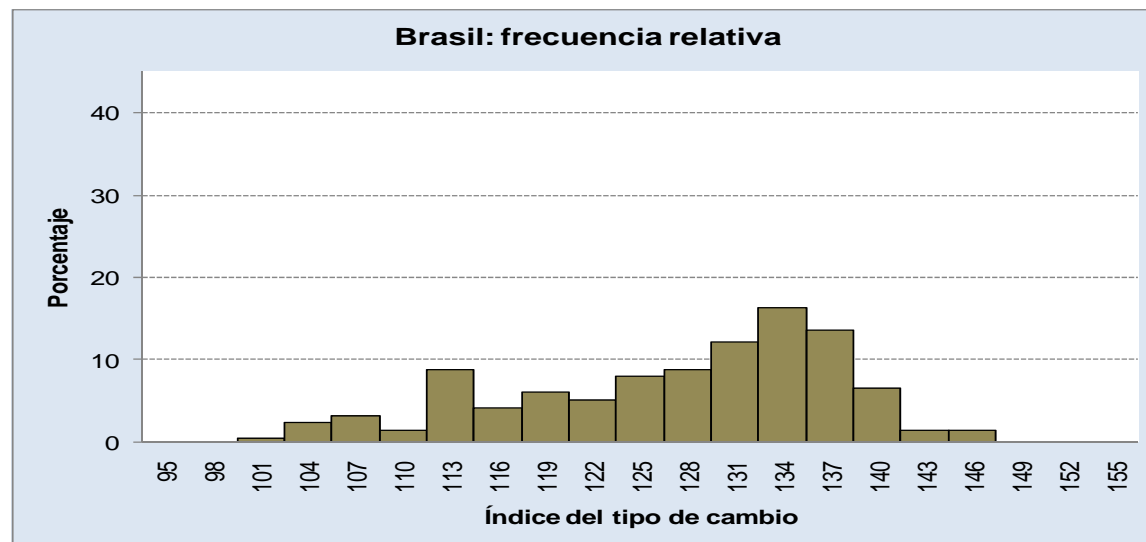
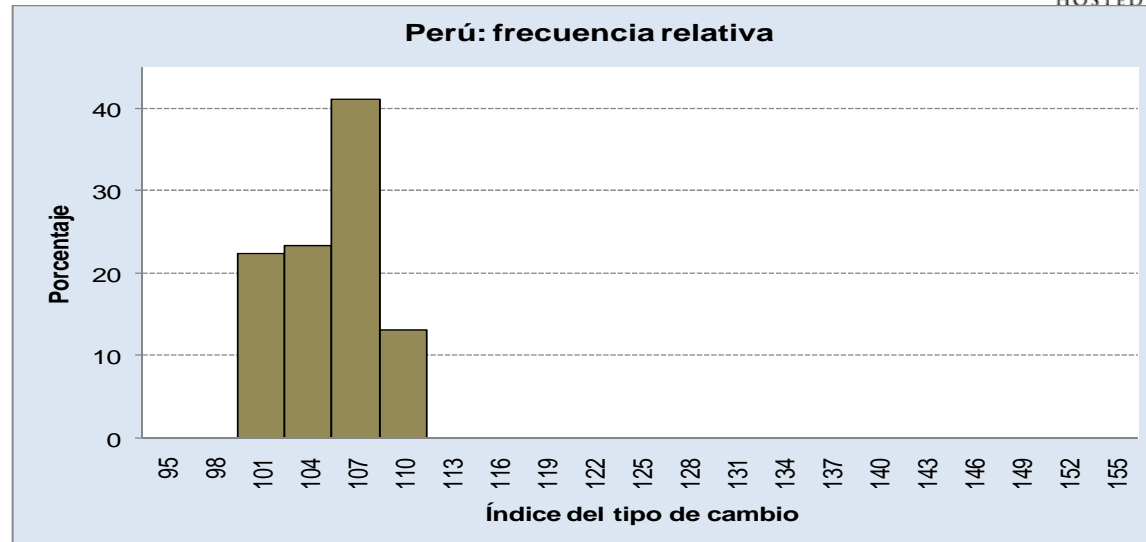
- Period Sept 7th, 08 (Fannie and Freddy)
to March 06 , 2009 (T
rough of US Stock Market)
- Exchange rates for 4 countries normalized
at 100 on Sept 7th , 08



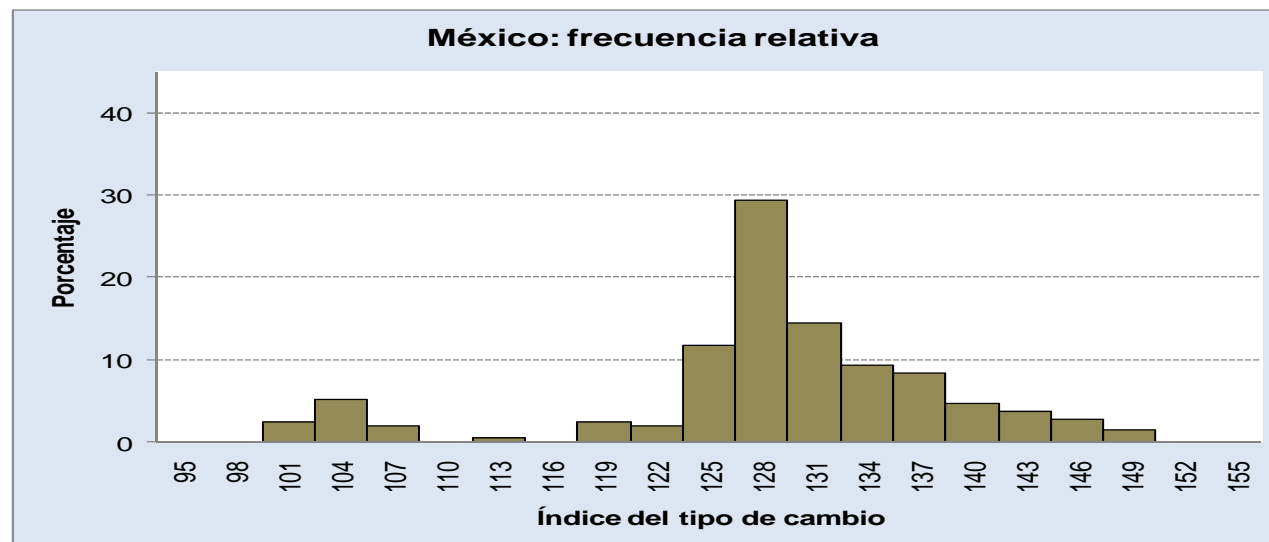
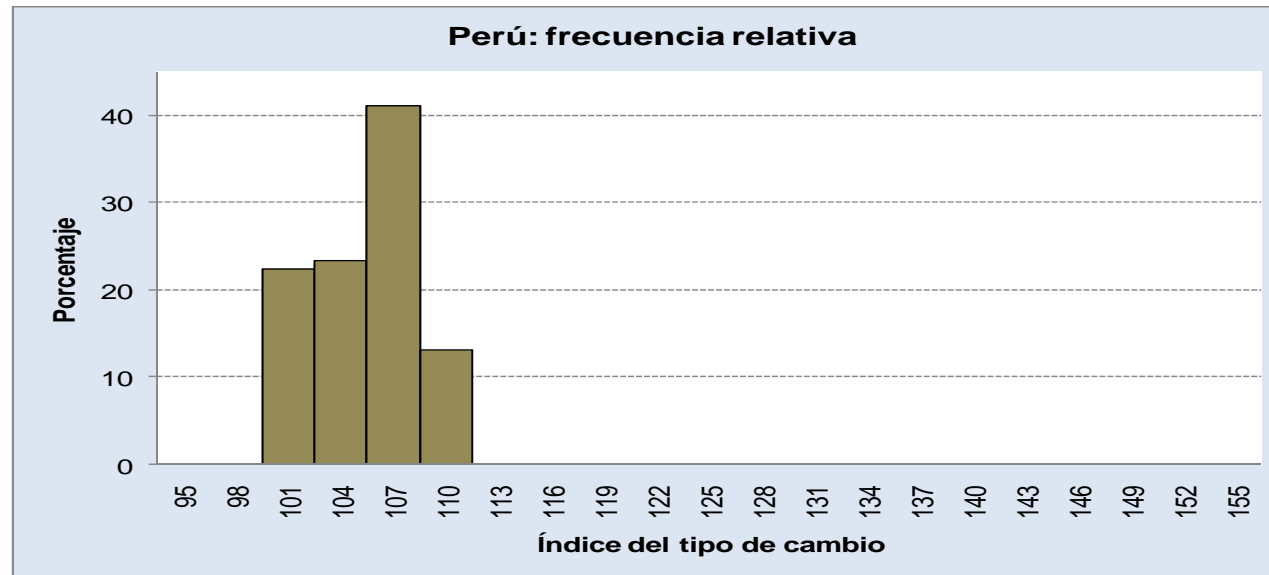
versus Chile



versus Brazil



versus Mexico



STATISTICS OF THE DISTRIBUTIONS OF LEVEL OF EXCHANGE RATE

Estadísticos del índice del tipo de cambio*: 7 de setiembre de 2008 al 6 de marzo de 2009**.

	Brasil	Chile	Mexico	Perú
Promedio del índice del TC	128,63	117,26	125,99	104,79
Desviación estándar	10,73	7,52	11,99	2,78
Coefficiente de asimetría	-1,24	-0,75	-0,75	-0,20
Curtosis	3,60	3,00	2,94	2,62



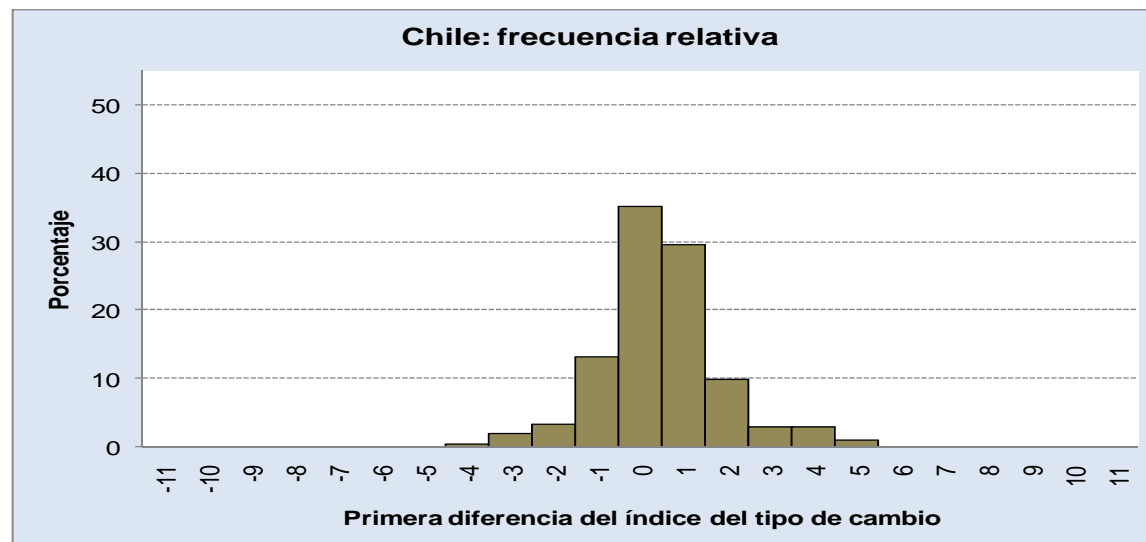
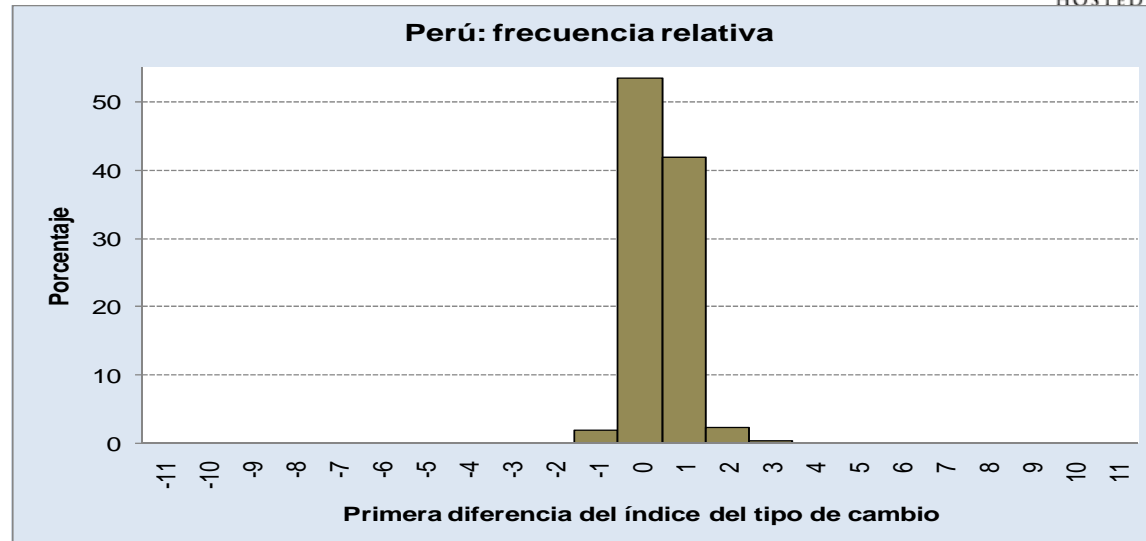


FREQUENCY OF DISTRIBUTION OF CHANGES IN THE EXCHANGE RATE (FIRST DIFFERENCES)

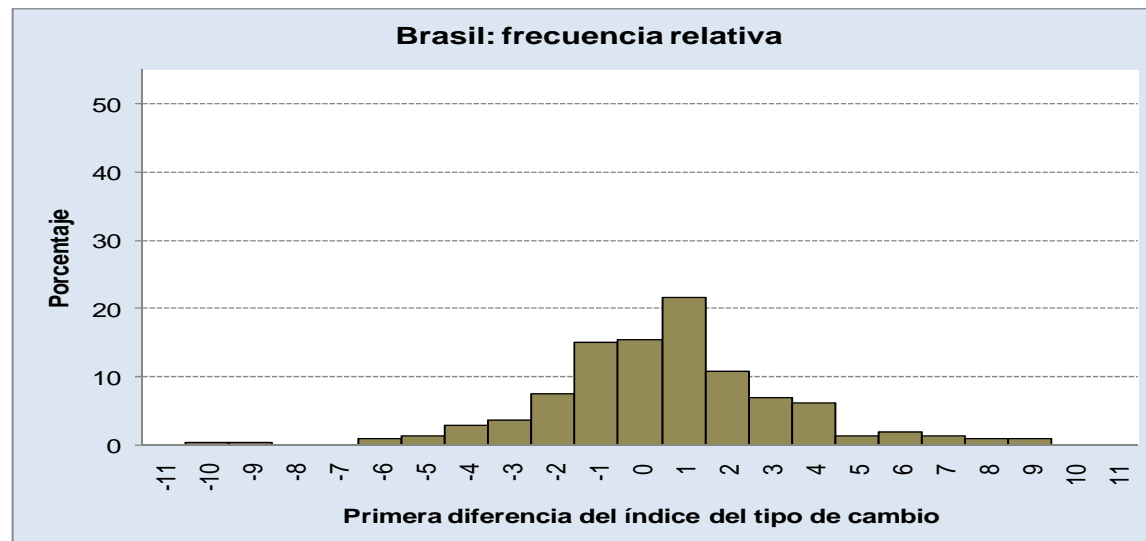
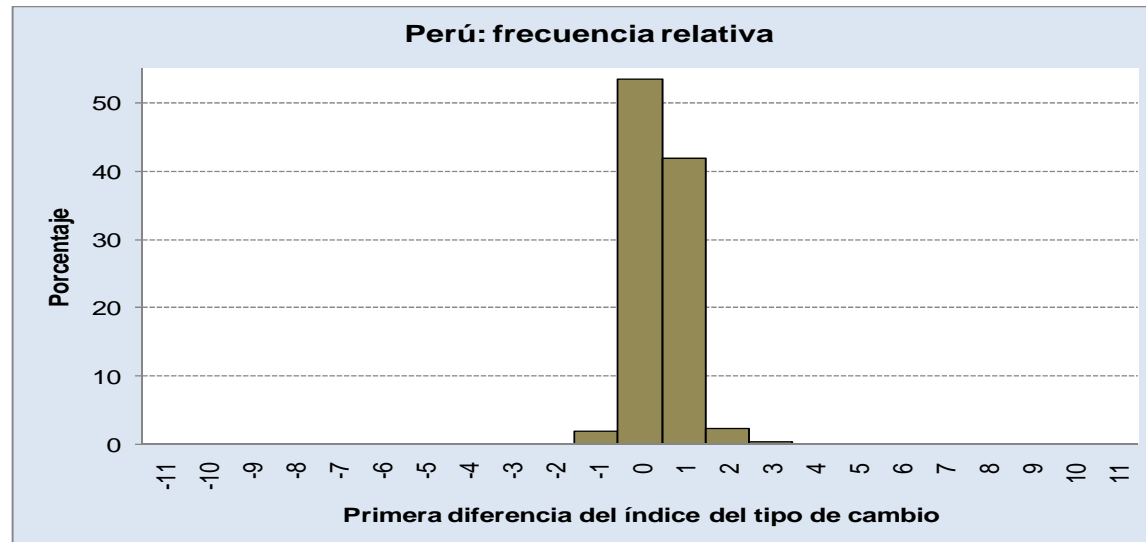
- Period Sept 7th, 08 (Fannie and Freddy) to March 06 , 2009 (Through of US Stock Market)
- Exchange rates for 4 countries normalized at 100 on Sept 7th , 08



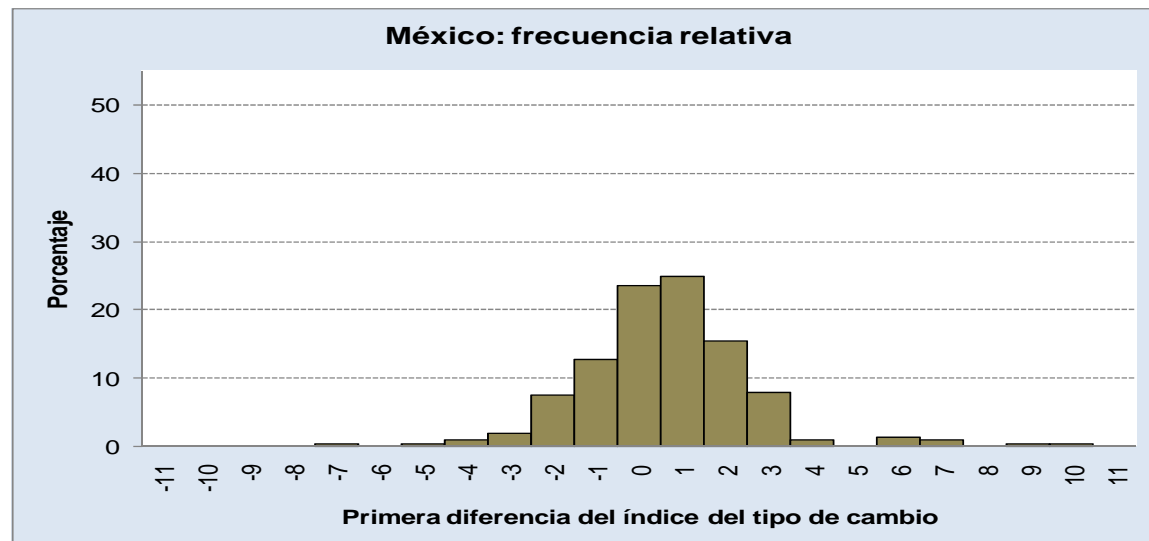
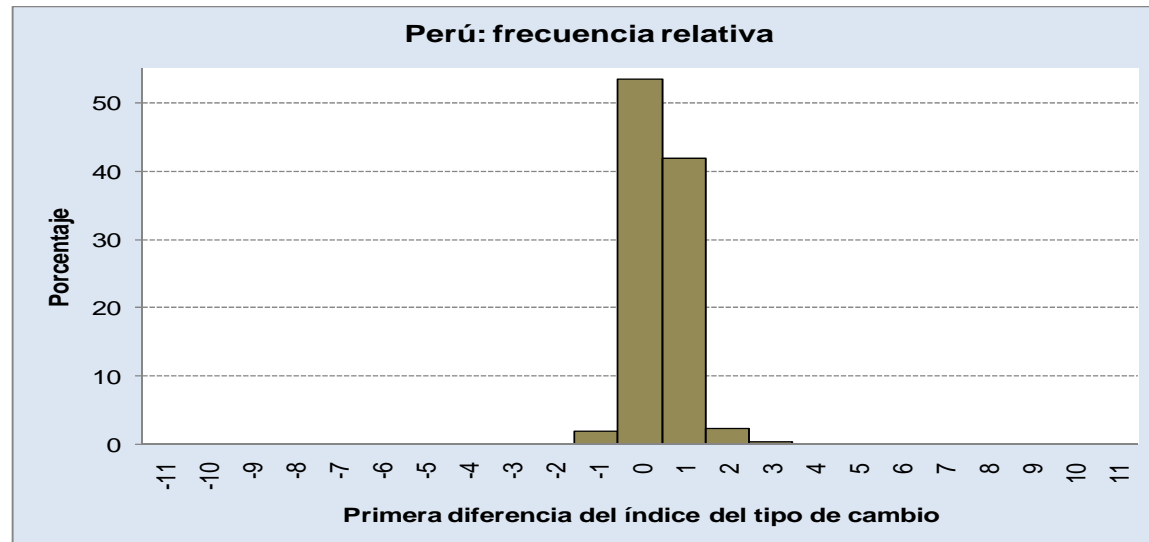
versus Chile



versus Brazil



versus Mexico



STATISTICS OF THE DISTRIBUTIONS OF THE CHANGE OF EXCHANGE RATE

Estadísticos de la primera diferencia del índice del tipo de cambio*: 7 de setiembre de 2008 al 6 de marzo de 2009**.

	Brasil	Chile	Mexico	Perú
Promedio de la primera diferencia del índice del TC	0,28	0,12	0,35	0,07
Desviación estándar	3,35	1,57	2,26	0,45
Coefficiente de asimetría	-0,12	0,28	0,68	0,71
Curtosis	3,83	3,70	6,78	10,81





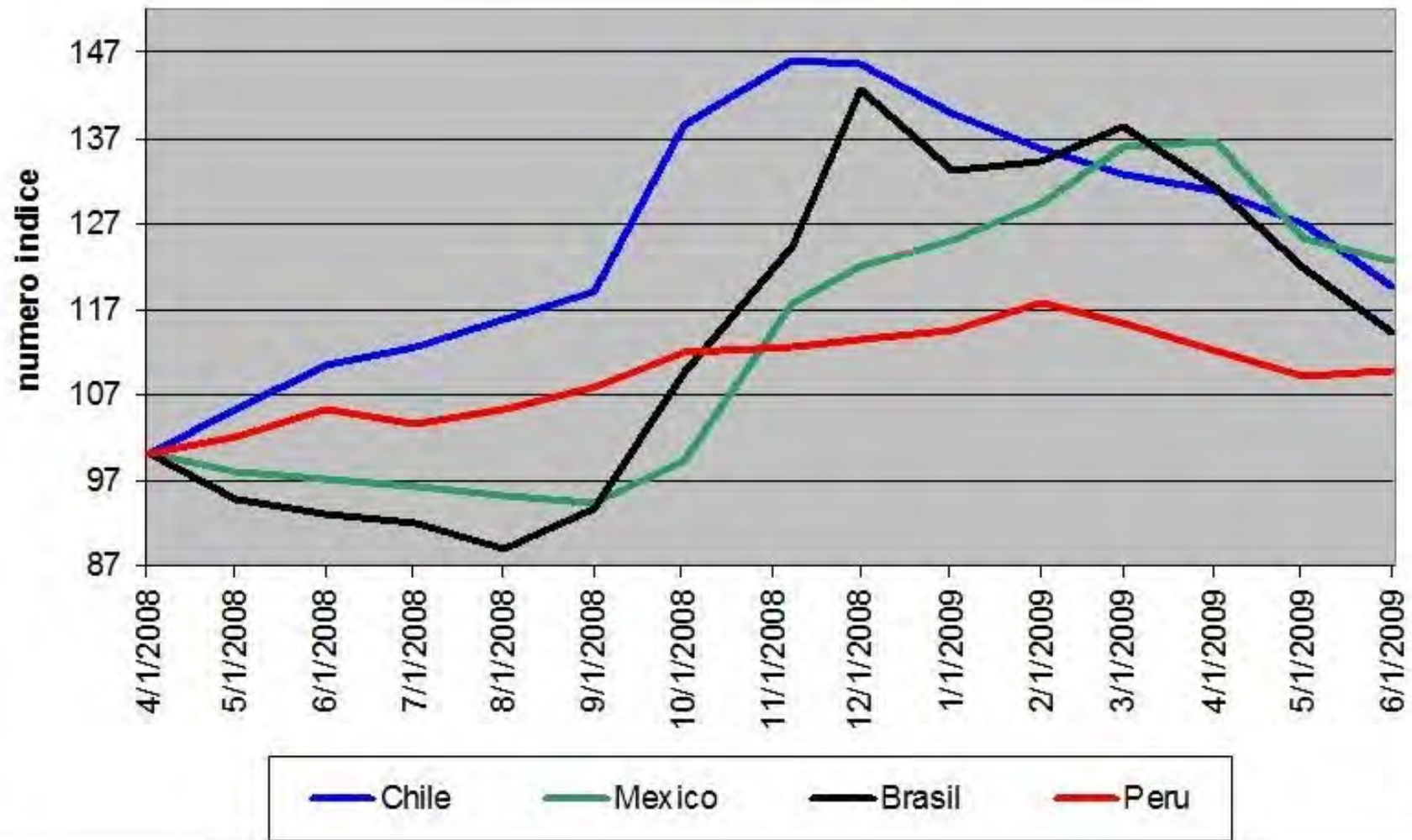
FREQUENCY OF DISTRIBUTIONS OF LEVEL OF THE INTEREST RATE

Period Sept 7th, 08 (Fannie and Freddy) to most devalued level of the exchange rate for each country :

- Peru : Sept 7th , 08 through March 5th , 09
- Chile : Sept 7th ,08 through Nov 21st , 08
- Brazil : Sept 7th ,08 through Dec 8th , 08
- Mexico: Sept 7th ,08 through March 5th , 09



TIPOS DE CAMBIO (Unidades de moneda local / US\$)

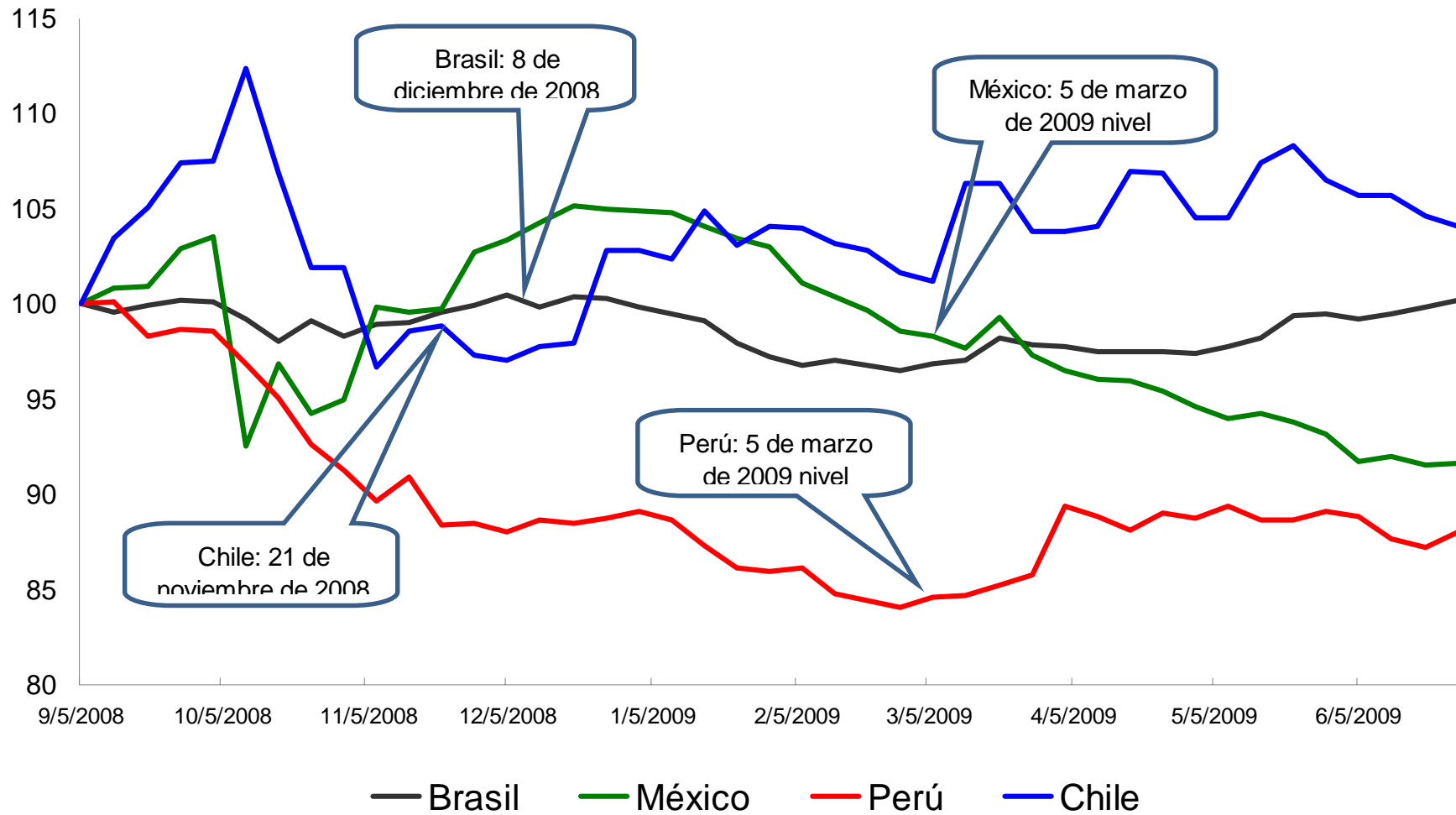


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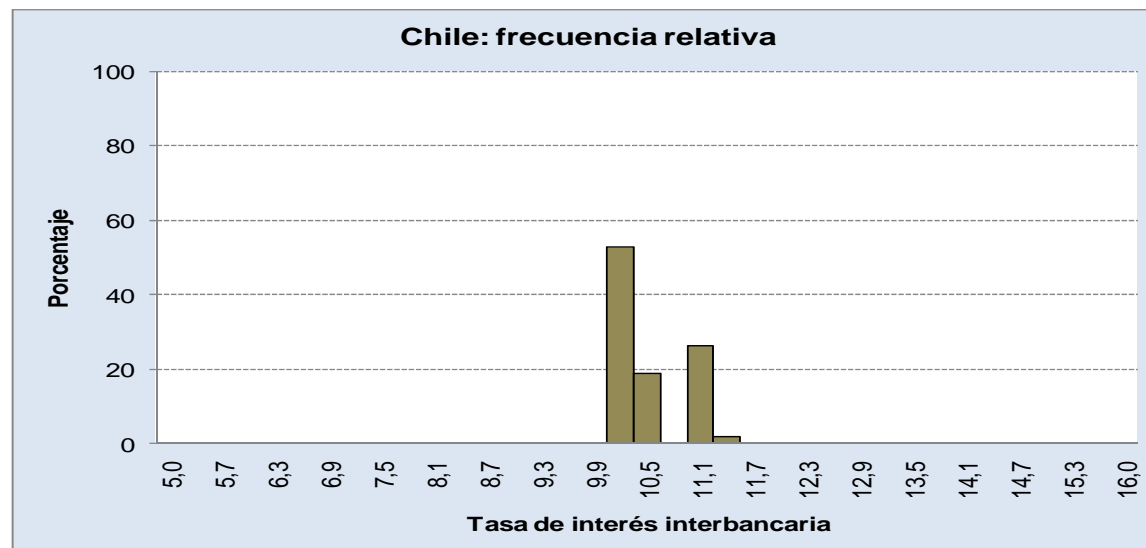
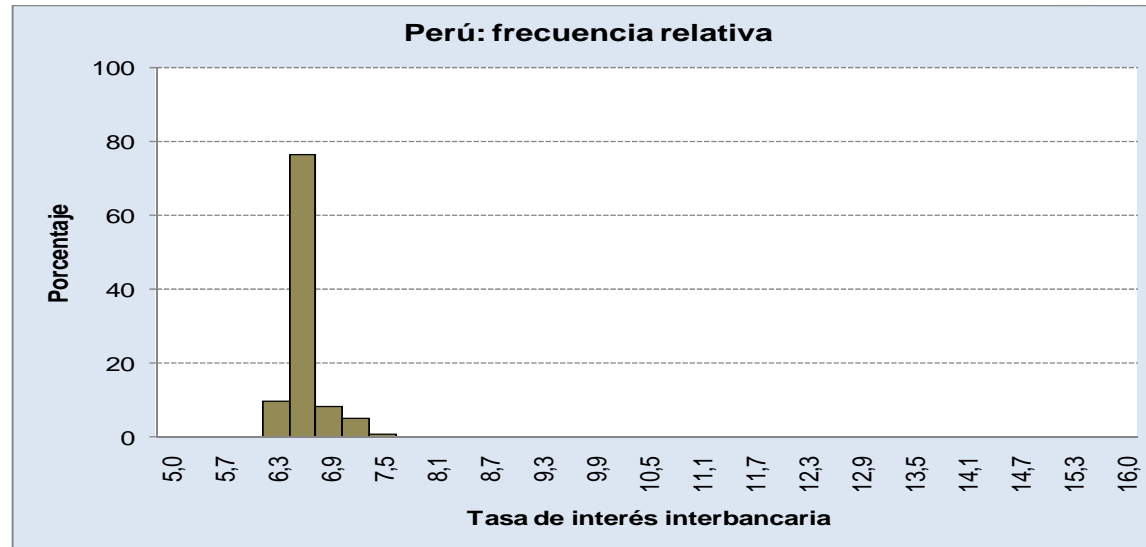
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Índice de las Reservas Internacionales Netas

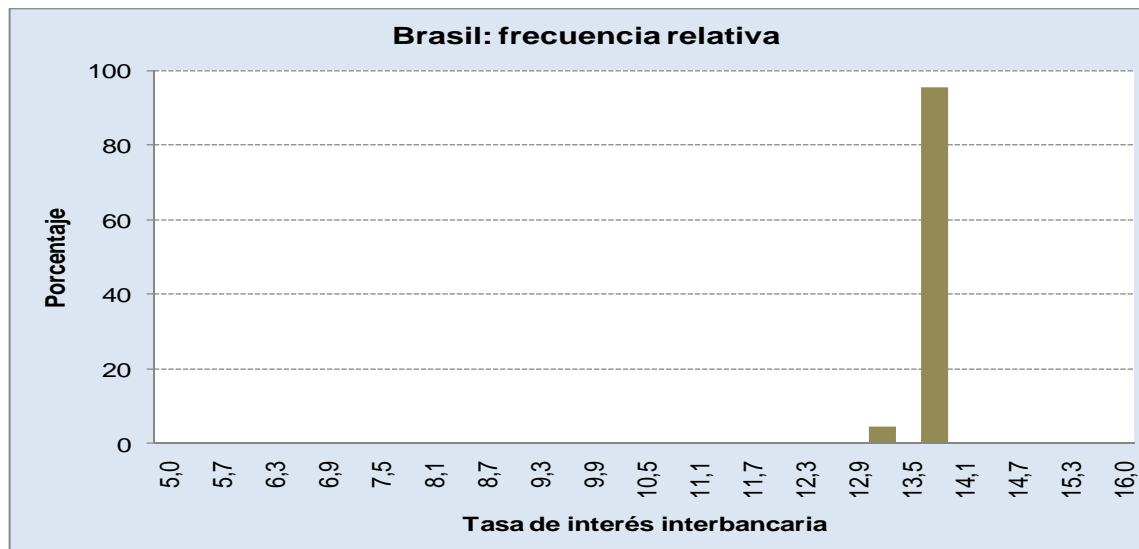
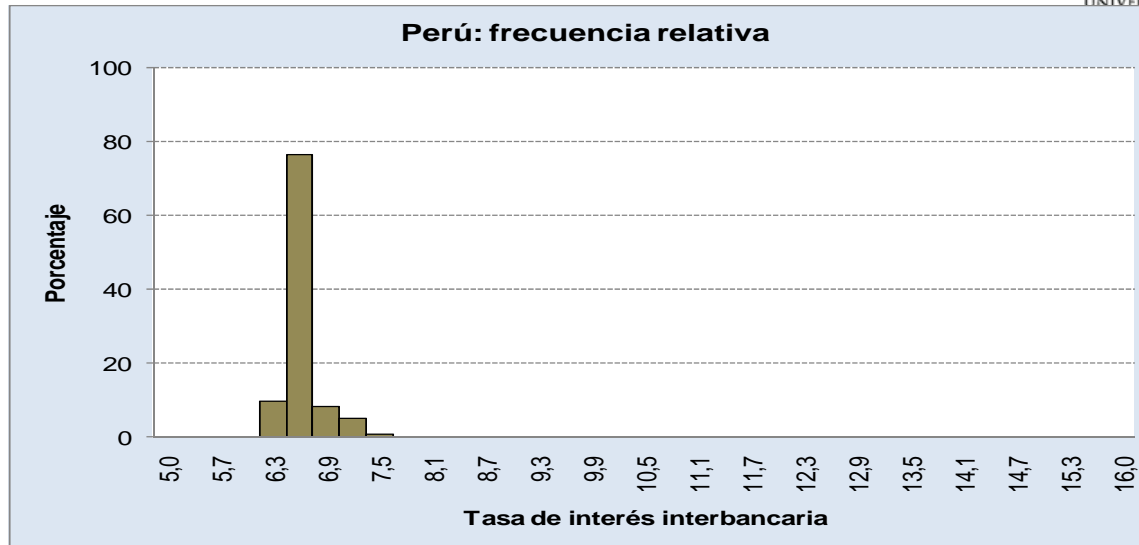
(5 de setiembre 2008=100)



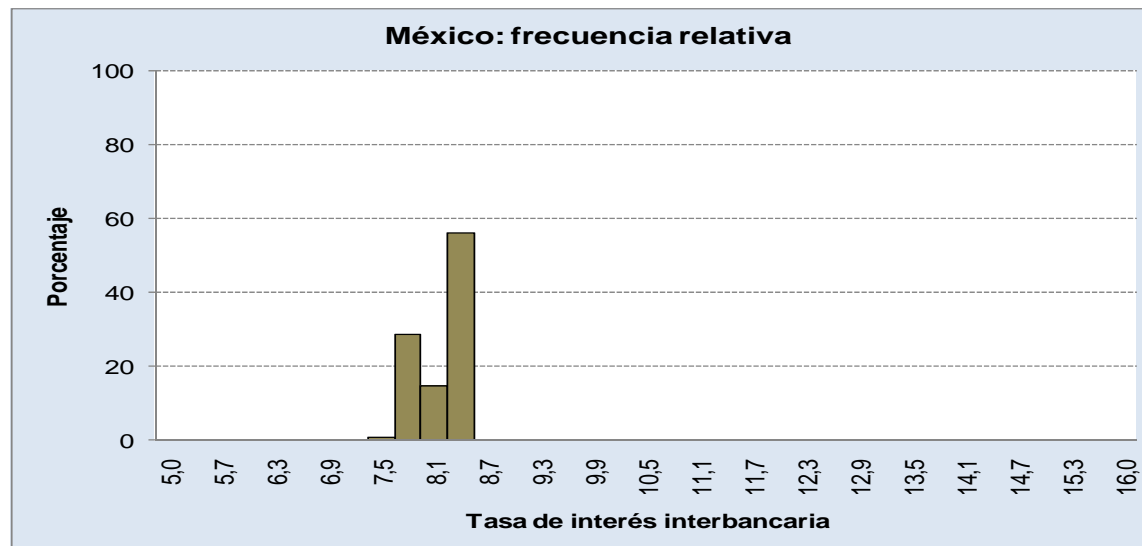
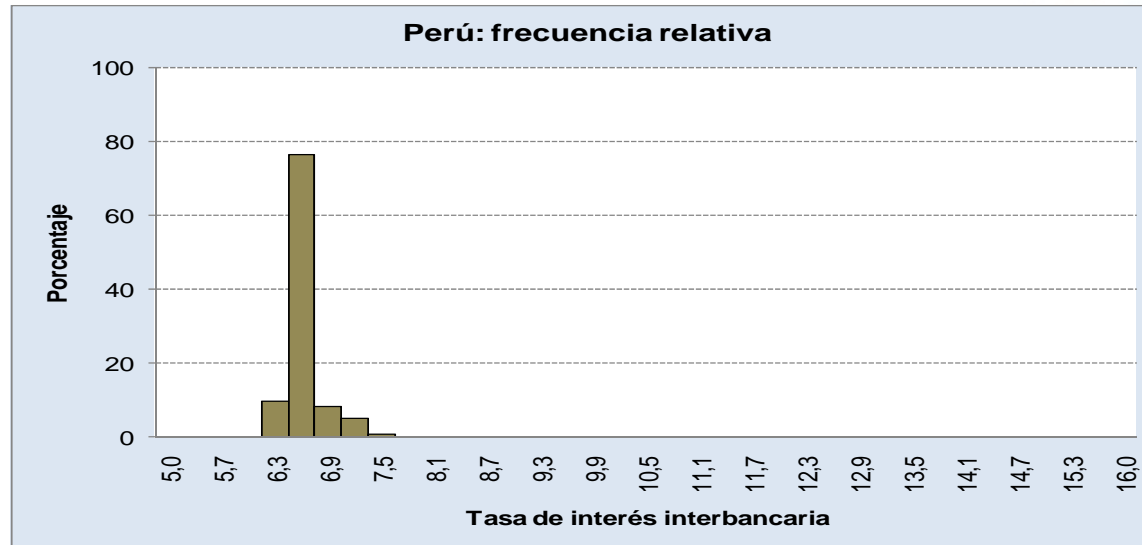
versus Chile



versus Brazil



versus Mexico



STATISTICS OF THE DISTRIBUTIONS OF THE INTEREST RATE

Estadísticos del tasa de interés interbancaria

	Brasil ^{1/}	Chile ^{2/}	Mexico ^{3/}	Perú ^{4/}
Tasa interbancaria promedio	13,62	10,38	8,04	6,53
Desviación estándar	0,16	0,37	0,27	0,18
Coefficiente de asimetría	-4,32	-0,35	-0,69	1,80
Curtosis	19,82	8,22	2,07	8,38

1/ del 7 de setiembre al 8 de diciembre de 2008.

2/ del 7 de setiembre al 21 de noviembre de 2008.

3/ del 7 de setiembre al 5 de marzo de 2009.

4/ del 7 de setiembre al 5 de marzo de 2009.





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