



Economics Group

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Peruvian Economy Beating the Odds in 2016

The Peruvian economy grew 3.9 percent in 2016. Personal consumption expenditures increased 3.5 percent while exports of goods and services were up 12.9 percent during the year.

Strong External Sector Drives Growth in 2016

The Peruvian economy, helped by a strong external sector, has achieved a feat that very few countries in the world could sustain: growing for 18 consecutive years. This time, the Peruvian economy grew by an impressive 3.9 percent. Impressive not because 3.9 percent is a very strong growth rate for a developing economy like Peru, but rather because the environment in which this growth happened could not have been more stacked against an export oriented country. Brazil, Argentina, Ecuador, and even Mexico and Chile are good examples of the perils of depending too much on the global economy.

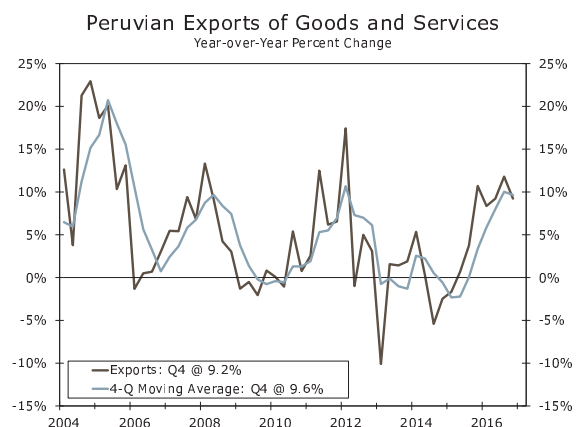
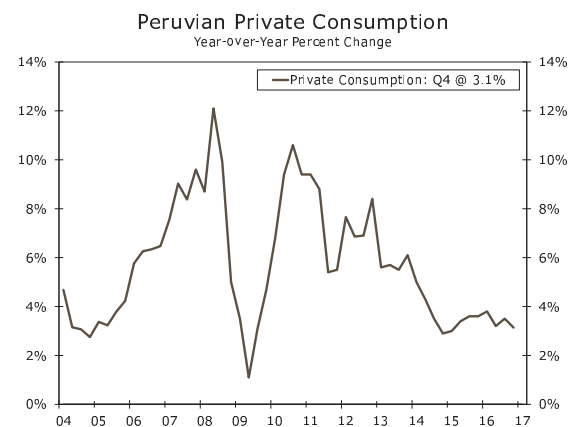
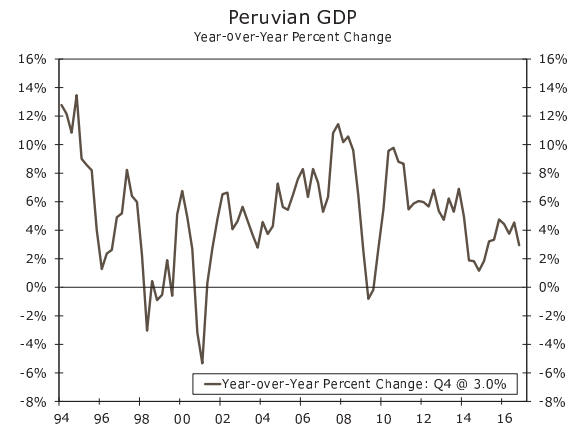
However, the Peruvian economy managed to grow despite this weak global demand environment. What was more impressive was that real exports of goods and services led the way, with a growth rate of 12.9 percent during the year. Furthermore, the fact that real imports of goods and services inched up only 0.3 percent (recall that imports enter GDP with a negative sign) meant that the contribution of net exports to economic growth was very strong. Personal consumption expenditures (PCE) grew 3.5 percent while government consumption did so by 4.9 percent.

Not all was so positive in the GDP release. One of the reasons real imports of goods and services was so weak was because real gross fixed investment dropped 4.2 percent. Peru is a net importer of machinery and equipment and the weakness in this sector partially explains the lack of growth in imports. Furthermore, the weakness in gross fixed investment will reduce the ability of the country to grow in the future.

Supply Side Results Mostly Positive

With the exception of fisheries, manufacturing and construction, which fell 10.1 percent, 1.6 percent, and 3.2 percent, respectively, the rest of the supply sectors posted relatively strong growth during the year. The leading growth sector was mining and hydrocarbons, a sector that represents about 14.4 percent of economic activity, and grew an impressive 16.3 percent in real terms during the year. Meanwhile, commerce, about 10.2 percent of the economy, grew only 1.8 percent during the year, which tends to show some weakness in personal consumption expenditures and was, perhaps, the reason why PCE grew at a slower pace than the economy as a whole. Another strong sector was telecommunications and IT services, which posted a growth rate of 8.1 percent while public utilities grew 7.3 percent.

Although there are some clouds in the Peruvian economy's horizon the economy remains one of the best managed economies in Latin America and we expect the Peruvian economy to continue to lead growth in the region.



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