

Perú and MILA

How do we become the financial hub of the region?



Tokyo, September 2015

What's going on in Colombia, Perú and Chile?

Our economies have become more dependant on commodities in the past decade

Relative importance of *commodities* in Colombia, Chile y Perú

	COLOMBIA (Petróleo)	CHILE (Cobre)	PERU (Minería)
Porcentaje de los ingresos del Gobierno Central provenientes del sector 1/	25%-30%	19%	7%
Participación del sector en el total de las exportaciones	55%	50%	50%
Grado de apertura de la economía (Exportaciones totales/PIB)	17%	30%	17%
Participación del sector en el PIB 2/	6% (8% con minería)	11%	9.5%
Participación del sector en la inversión bruta de capital fijo 3/	15%	22%	18%
Empleo directo del sector sobre el total	1%	3%	1%
Participación del sector en la IED	33%	45%	49%

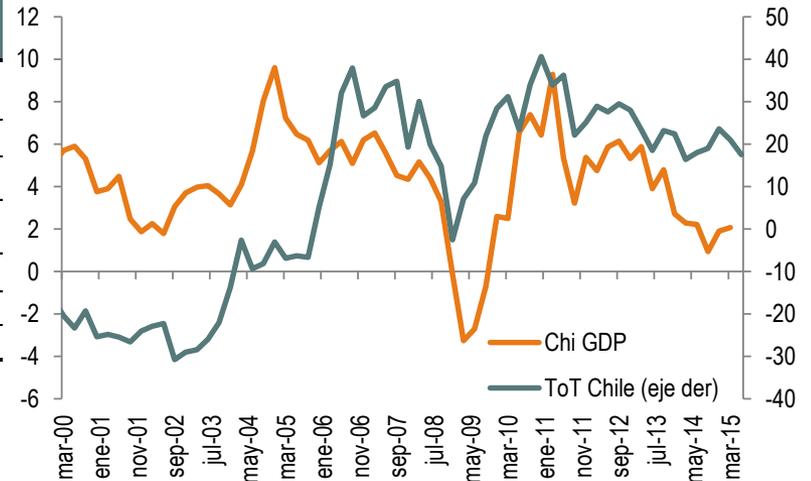
Fuente: Credicorp Capital.

1/ Incluye regalías en el caso de Colombia. Para el caso de Perú corresponde al Gobierno General.

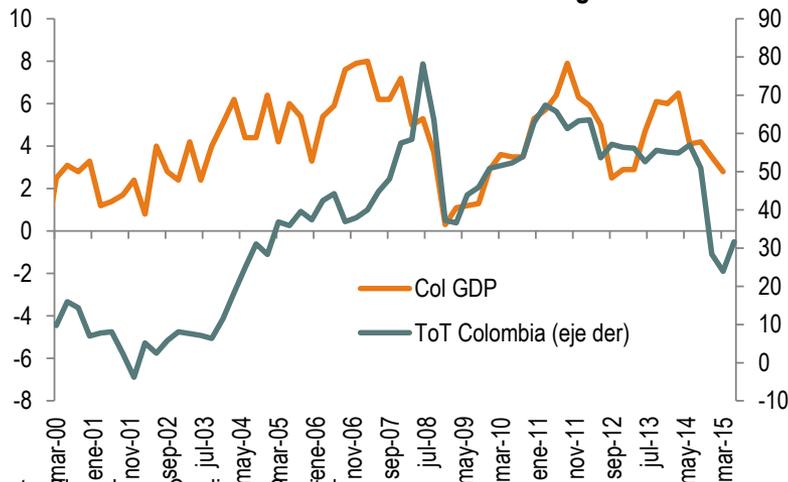
2/ Para Chile corresponde al sector minero total

3/ Para Colombia corresponde al sector minero-petrolero

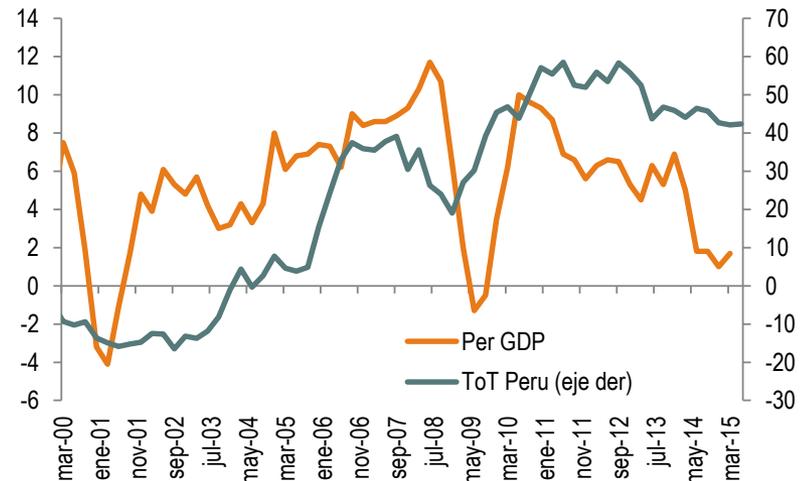
Chile: terms of trade and GDP growth



Colombia: terms of trade and GDP growth



Perú: terms of trade and GDP growth



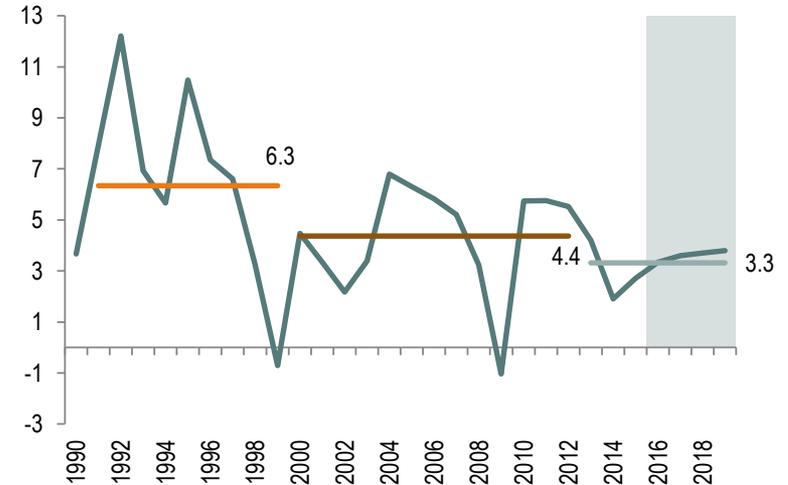
Fuente: Bloomberg, Credicorp Capital

Part of the commodity price change is permanent, therefore growth in coming years should be lower

Commodity Price Forecast (concensus)

	Spot	2015	2016	2017	2018	2019
WTI	41	62	66	70	71	73
Brent	46	65	70	73	74	75
Cobre	2.3	2.8	2.8	3.0	2.9	3.0
Oro	1,140	1,170	1,222	1,225	1,320	1,035
Plata	15	16	17	18	19	18

Chile: Real GDP Growth



Colombia: Real GDP Growth



Perú: Real GDP Growth

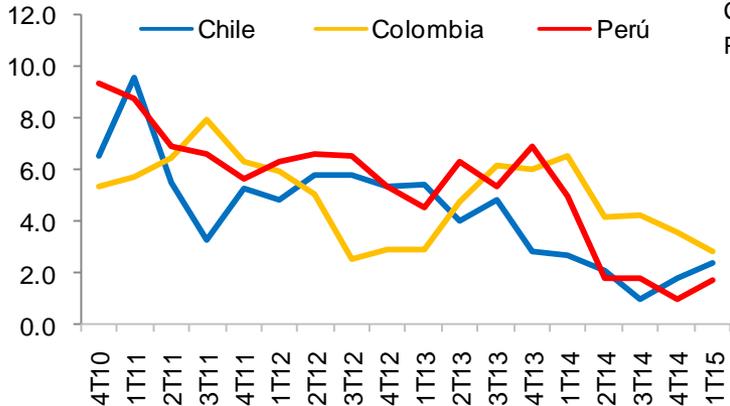


Fuente: Bloomberg, FMI, Credicorp Capital

MILA: Main Figures

Gross Domestic Product

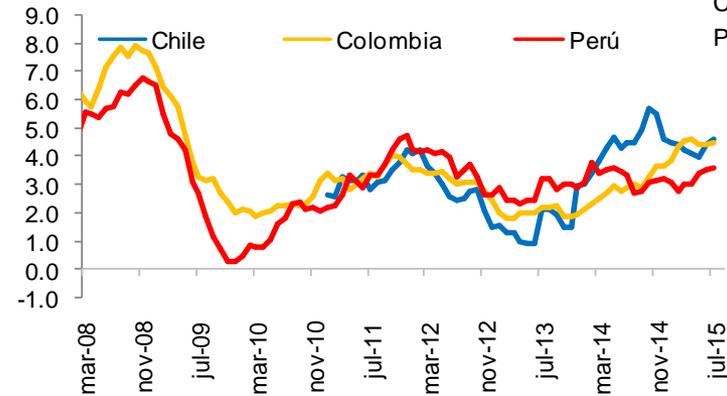
(Var. % a/a)



Proyección 2015 *	
Chile	2.4%
Colombia	3.2%
Perú	3.0%

Inflation

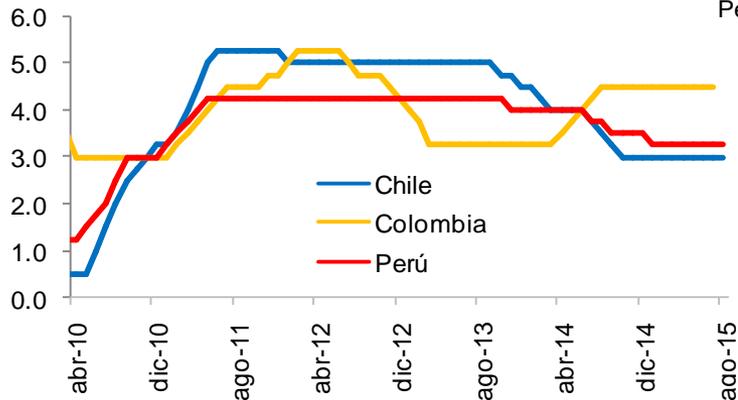
(Var. % a/a)



Proyección 2015 *	
Chile	3.8%
Colombia	4.0%
Perú	3.3%

Monetary Policy Interest Rate

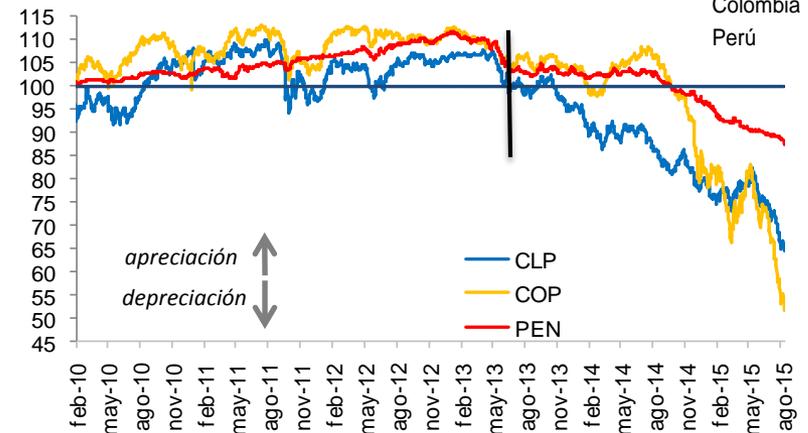
(%)



Proyección 2015 *	
Chile	3.00%
Colombia	4.50%
Perú	3.25%

Nominal Exchange Rate

(Índice, ene-10 = 100)



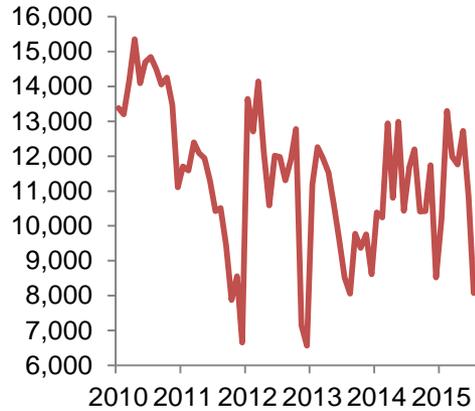
Tipo de cambio (YTD)	
Chile	-9.94%
Colombia	-18.46%
Perú	-7.66%

Capital Markets have been showing reduced volumes, both in Fixed Income and Equities

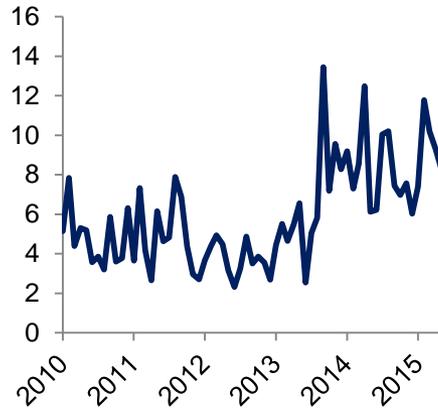
Colombia – COP MMM



Renta Fija



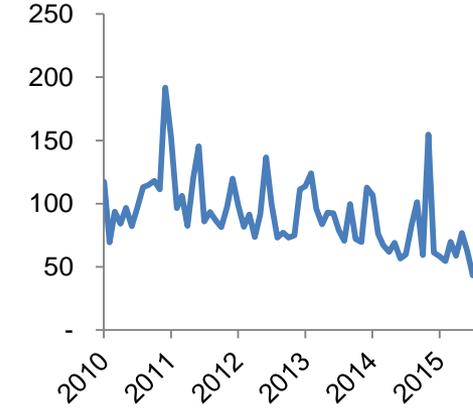
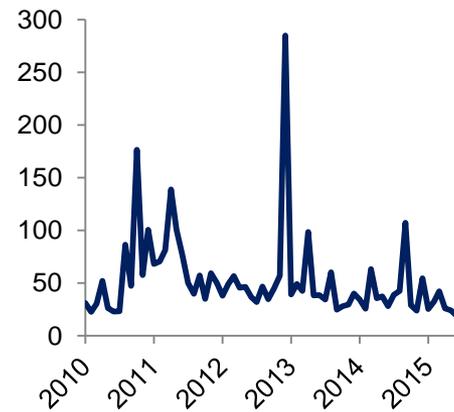
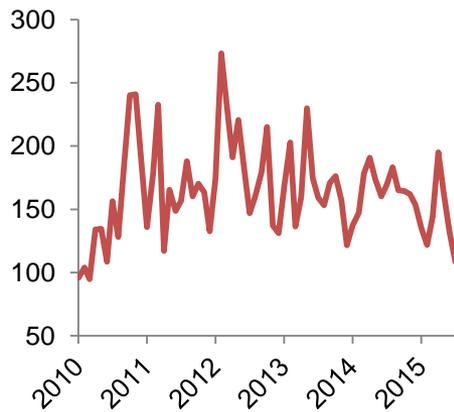
Perú – PEN MMM



Chile – CLP MMM

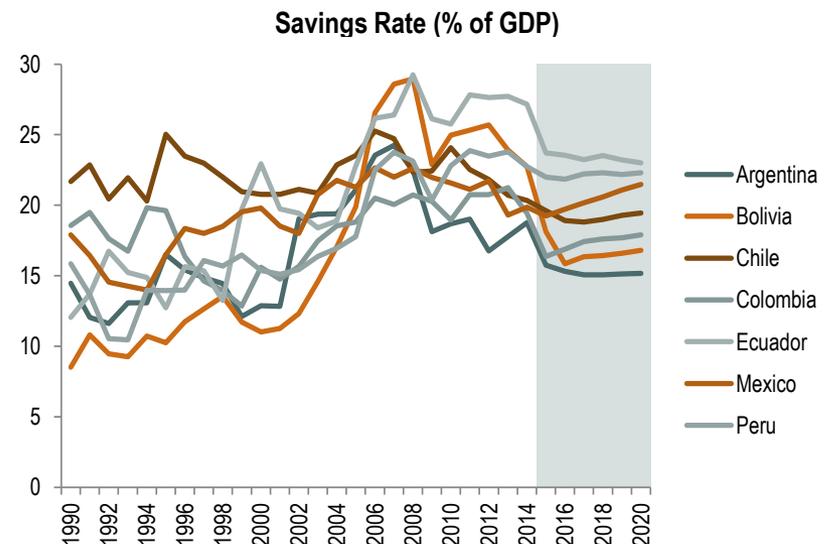
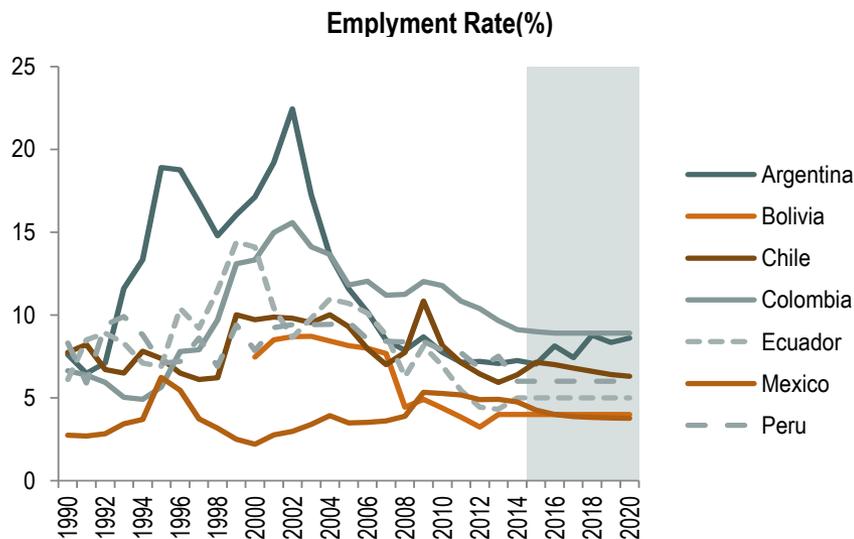


Renta Variable



We expect lower employment growth as well as lower savings growth

- Growth of Chinese Economy is closely linked with commodity prices.
- Several countries have a large exposure to China (exports):
 - Argentina: 7.4%
 - Brasil: 19%
 - Chile: 25%
 - Colombia: 8.7%
 - Perú: 17.5%
- There is high uncertainty regarding the potential effects of the first rate increase by the FED after 10 years of expansive monetary policy.
- Global liquidity should be ample in coming years. This should help the lower prices of commodities



Challenges of Andean Economies

	CHILE (AA-/AA3/A+)	COLOMBIA (BBB/BAA2/BBB)	PERÚ (BBB+/A3/BBB+)
Actividad	<ul style="list-style-type: none"> ▪ We expect a slow economic recovery in the coming years.. ▪ The end of discussions regarding reforms (labor and constitutional) should end uncertainty and boost investment and growth. 	<ul style="list-style-type: none"> ▪ We expect less growth and welfare in the coming years because of lower oil prices. 	<ul style="list-style-type: none"> ▪ Economy growing less because of external shocks. Activity is bouncing back and accelerating ▪ Big challenge is reducing social conflicts that affect the development of projects in the country.
Factores Clave Futuro	<ul style="list-style-type: none"> • Reforms keep uncertainty at high levels 	<ul style="list-style-type: none"> • Infrastructure will be determinant in the coming years. • More than US\$30BB in projects have already been awarded 	<ul style="list-style-type: none"> • The development of Mining Projects is key for the growth of next years. • Infrastructure is a major opportunity in every sector of the economy.
Riesgos	<ul style="list-style-type: none"> ▪ The biggest challenge for the chilean economy is the price of copper and its future path. 	<ul style="list-style-type: none"> ▪ A new tax reform will be needed in order to replace the income that has been lost from declining oil prices.. 	<ul style="list-style-type: none"> ▪ Further slowdown of China could affect trade terms and growth ▪ El Niño Phenomenon

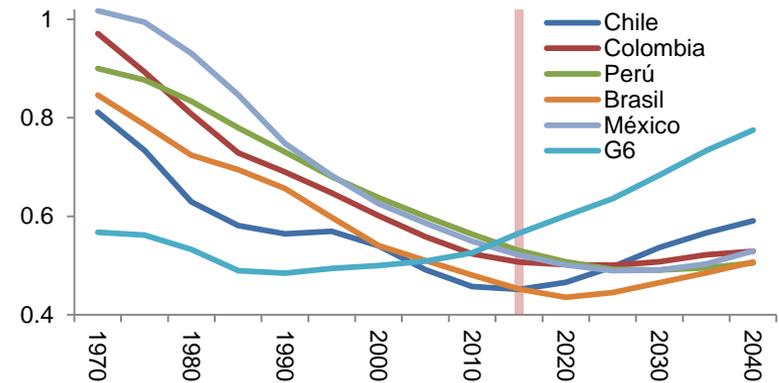
Is the dream over?

Latin America

Positive Long Term Perspectives

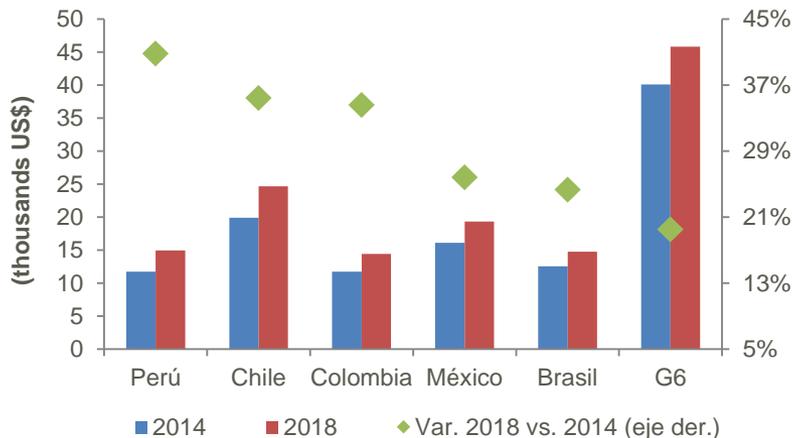
- Demographics are favorable for the next decades and help sustain long term growth.
- Although growth in the region is slowing, IMF expects the GDP growth for the countries of the Pacific Alliance to be the highest in the region.

Dependency Rate (%)



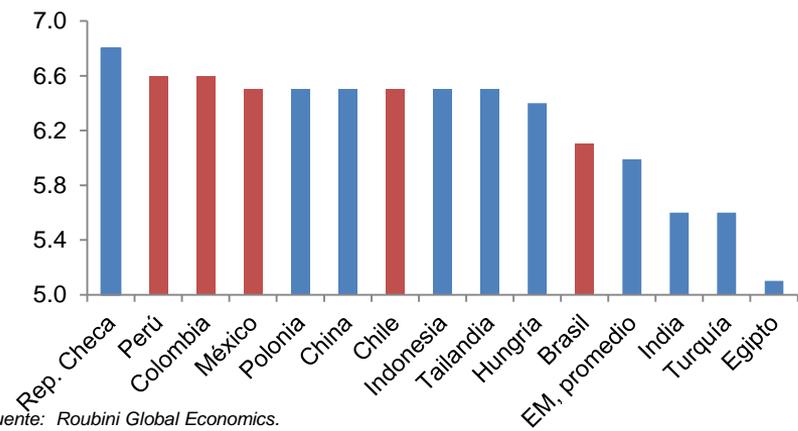
Fuente: Naciones Unidas
Nota: La Tasa de Dependencia se define como las personas dependientes (suma de individuos entre 0 y 14 años más las personas de 65 o más), dividido entre las personas en edad laboral (entre 15 y 64 años).

Per Capita GDP



Fuente: FMI.
Nota: Valores representan el nivel promedio del periodo.

Investment Attraction Index



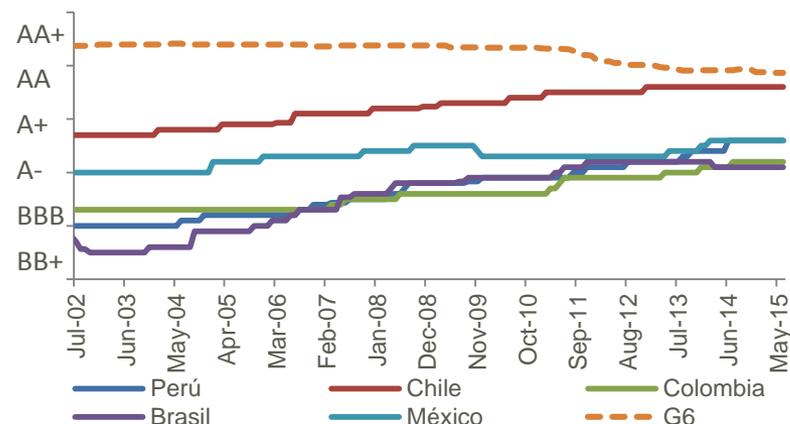
Fuente: Roubini Global Economics.
Nota: El índice de Atracción en Inversiones es una medida de la fortaleza macroeconómica, la estabilidad política y el crecimiento potencial a mediano plazo de un país.

Latin America

Sovereign Debt: Solid Financial System and Low Public Debt

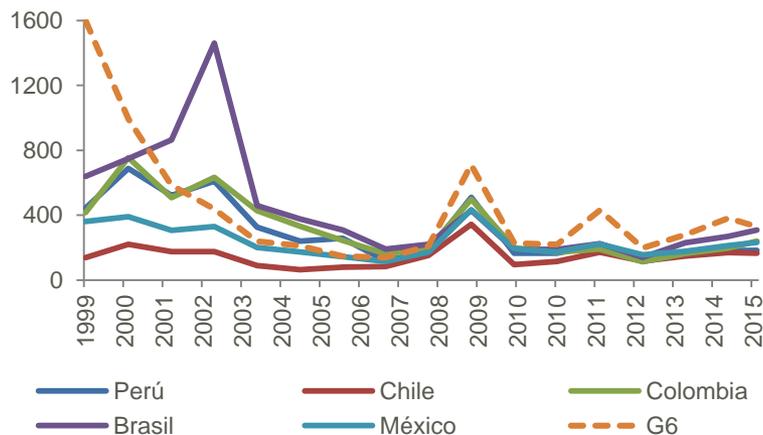
- Macroeconomic Stability has derived in a better risk perception.
- In the past decade, the region has seen credit ratings improvements in comparison with reductions in developed countries. Credit Risk Premiums has reduced dramatically in the past 15 years.
- The reduction on foreign and public debt in the Latam Region has allowed for additional flexibility on the management of fiscal and monetary policies.

Credit Ratings



Fuente: Elaboración propia basada en el promedio de las calificaciones de Moody's, Standard & Poor's y Fitch

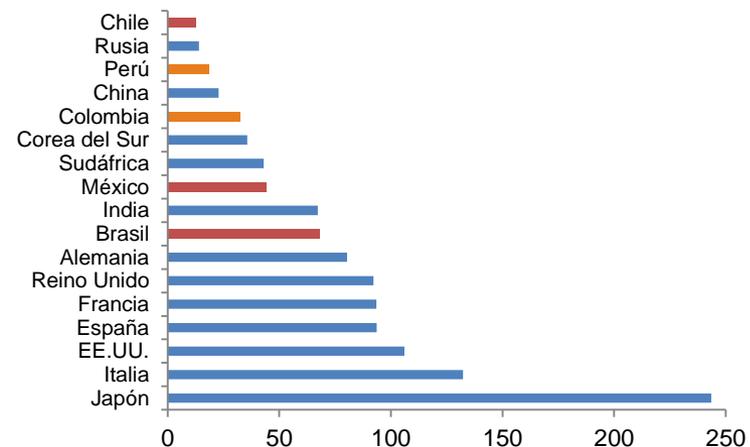
Country Risk (EMBI)



Fuente: JPMorgan.

Nota: Últimas observaciones correspondientes a Mayo 2015

Public Debt (% of GDP)



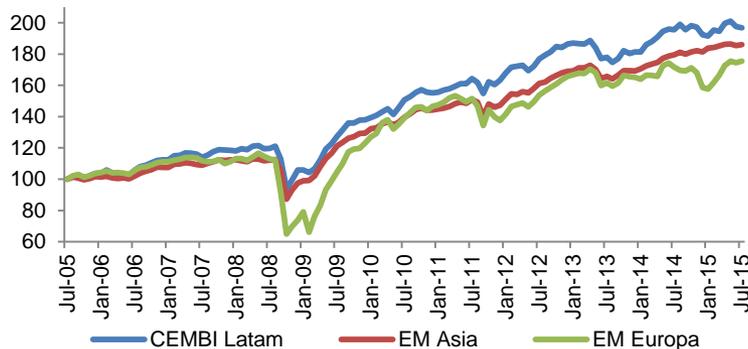
Fuente: Bloomberg, OECD.

Latin America

Attractive Returns in comparison with other Regions

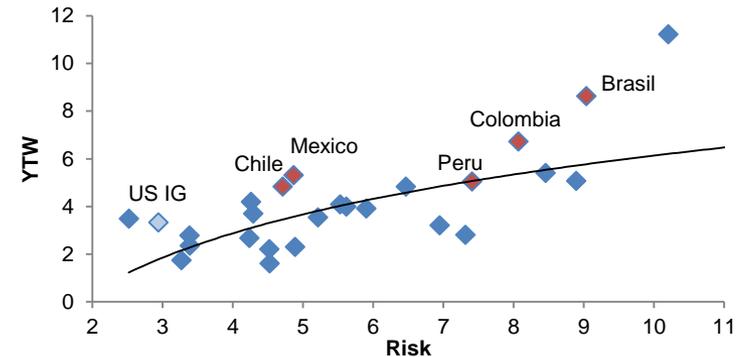
- In a context of low rates and look for yield, corporate Latam Bonds offer a great risk-return alternative among investment grade corporations.
- In the past 10 years, corporate Latam Bonds have shown better returns than corporates from other emerging regions.
- Por otro lado, el diferencial de rendimiento respecto a bonos corporativos de EE.UU. se encuentra por encima de sus niveles históricos, sugiriendo espacio al alza en términos de compresión de tasas.

Performance (%)



Fuente: Bloomberg. Nota: Índice Base = Jul-2005

Risk & Return (%)



Fuente: JP Morgan, Bloomberg, Credicorp Capital. Riesgo es medido como la desviación estándar de los retornos mensuales desde el 2012, multiplicado por la raíz cuadrada de 12. Los países seleccionados representan 95% de los países IG del Cembi Broad Diversified Index. Retornos y riesgos han sido ajustados a una duración equivalente de US IG (6.9).

Spread between CEMBI Latam rates and US Corporates (bps)



Fuente: Bloomberg. Nota: Las tasas corporativas de EE.UU. son calculadas como la suma ponderada de US IG (58%) y US HY (42%), ajustada por la duración de Cembi Latam (5.8).

Andean Region

Chile, Colombia, Perú



	Chile	Colombia	Perú
GDP 2015E (BB USD PPP)	373	595	397
Average Real GDP Growth (last 10 years)	4.6%	4.8%	6.5%
Population (MM)	17.8	48.2	31.9
Per Capita GDP 2015E (PPP)	20,877	12,325	12,444
Average Inflation (last 10 years)	3.2%	4.1%	2.9%
S&P Rating	AA-	BBB	BBB+

Population: 96 MM.
GDP 2015E (USD BB): 1,203
Per Capita GDP (USD): 12,578

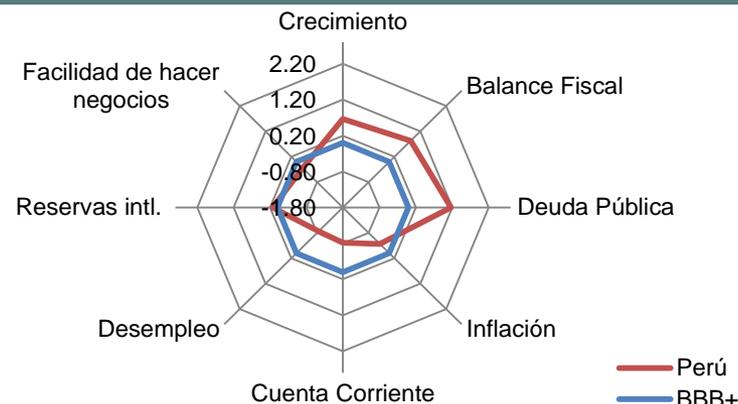
- Strong Institutional and Legal Framework
- Strong and stable Financial System and Capital Markets. High growth in Investment
- Disciplined and proactive approach for a changing world environment

Andean Region

Sound Macroeconomic Fundamentals

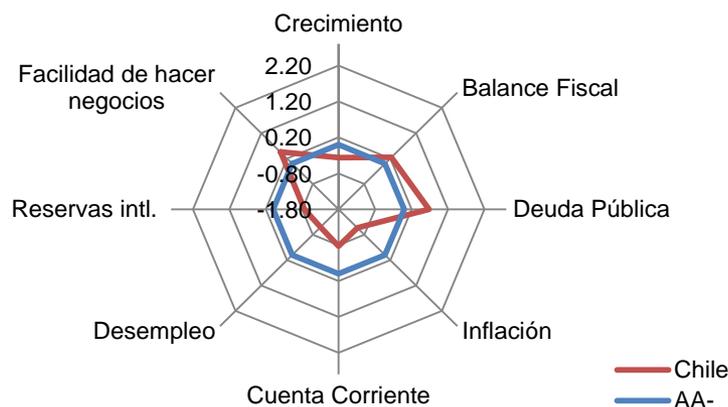
- Perú, Chile and Colombia shine for strong macroeconomic figures in comparison with countries with the same credit ratings.
- Perú shows a better fiscal balance, and high GDP growth figures. International Reserves are approx. 30% of GDP and very low debt compared to GDP. Unemployment and current account deficit are challenges to Perú compared to peers. However, growth prospects and the depreciation of the currency will help with these indicators.
- Chile shines for its fiscal balance and very low level of public debt.
- Colombia shows low debt levels and easeness to do business.

Perú vs BBB+ Countries



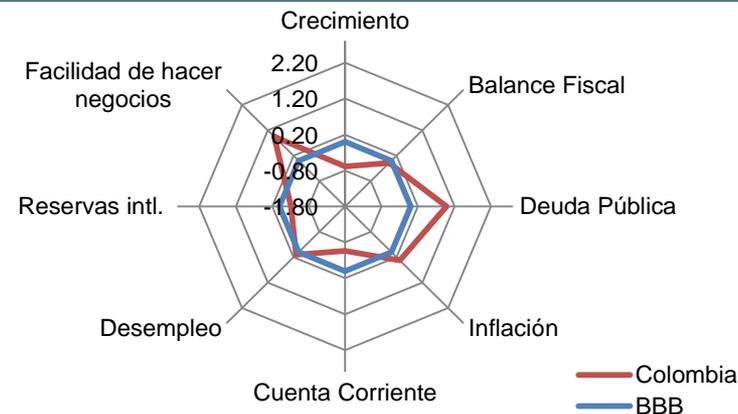
Fuente: Bloomberg. Variables estandarizadas respecto a otros países con calificación BBB+ por S&P. La data de reservas internacionales es del 2013, la tasa de desempleo es del 2014 y el resto de variables son predicciones para el 2015.

Chile vs AA- Countries



Fuente: Bloomberg. Variables estandarizadas respecto a otros países con calificación AA- por S&P. La data de reservas internacionales es del 2013, la tasa de desempleo es del 2014 y el resto de variables son predicciones para el 2015.

Colombia vs BBB Countries



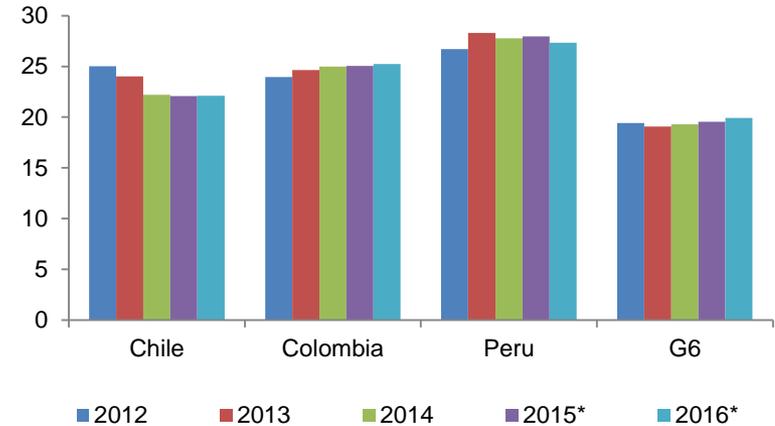
Fuente: Bloomberg. Variables estandarizadas respecto a otros países con calificación BBB por S&P. La data de reservas internacionales es del 2013, la tasa de desempleo es del 2014 y el resto de variables son predicciones para el 2015.

Andean Region

Exchange Rate, Inflation and Investments

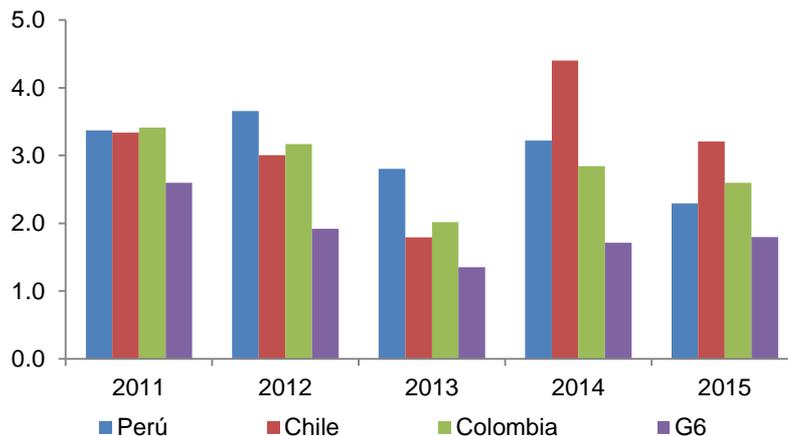
- Macro and Political Stability has allowed for strong and stable investment growth. Growth rates are currently under pressure but levels are very high and should continue growing as high GDP growth resumes.
- Inflation in the region is under control and not a problem as it was in the past.
- Our currencies have been appreciating since 2002. Current depreciation is the adjustment to commodity prices and the expected normalization of the FED monetary policy.

Investment (% GDP)



Fuente: FMI.

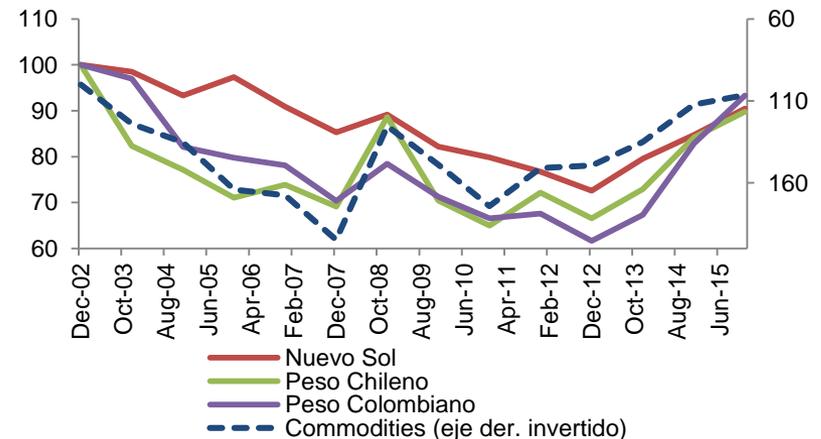
Inflation



Fuente: FMI.

Nota: Inflación de los países G6 ponderada por el tamaño de su PBI.

Exchange Rate and Commodity Indexes



Fuente: Bloomberg.

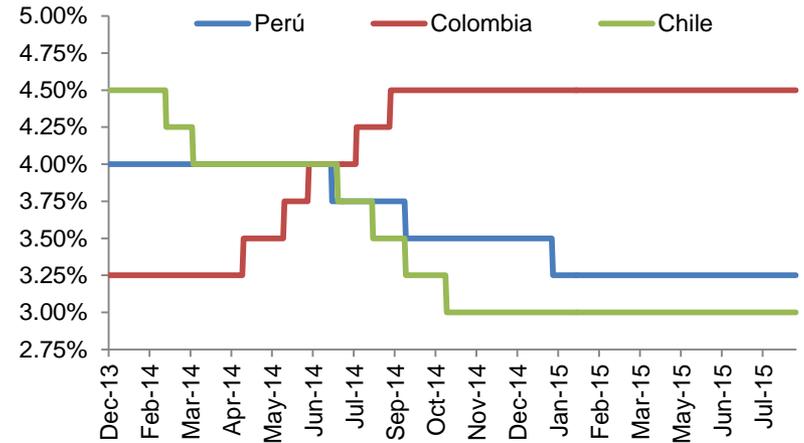
Nota: Índice Base=Dic-2002. El índice corresponde al Commodity Total Return Index de Bloomberg.

Andean Region

Economic Cycle

- Chile and Perú have cut rates in response to GDP deacceleration and Colombia has kept them higher. Colombia should have an expansionary policy because of the falling oil prices.
- To reduce their vulnerability to external shocks, countries in the Andean Region have implemented reforms. Examples are: the 4G infrastructure plan in Colombia, the Strategic National Plan in Perú (Education, reduction on Infrastructure Gap and Productive Diversification Plan), and Institutional Strengthening and non Traditional Exports Development in Chile.
- We expect internal demand to continue growing and helping on GDP growth in this countries. We expect strong growth in Perú because of strong figures in Public and Private Investments

Monetary Policy Rates



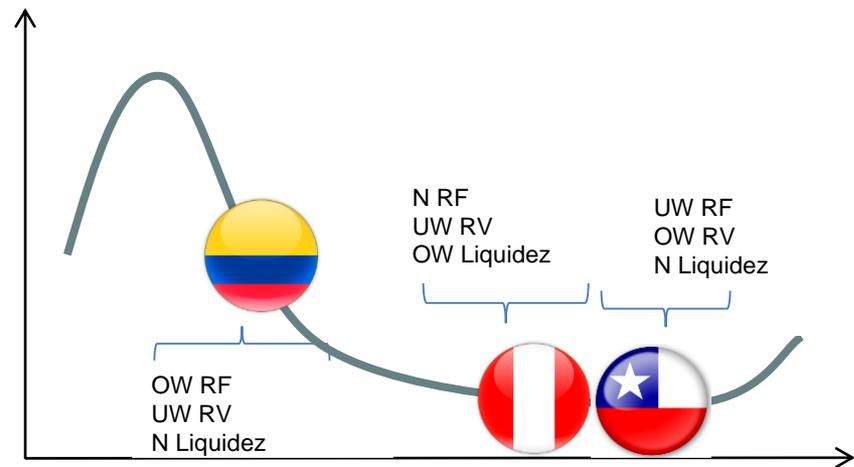
Fuente: Bloomberg.

Private Investment Projects in Perú: 2015-2017

Private Investment Projects in Perú: 2015-2017 (USD MM)		
	Total Investment	
	RI May.15	N° Proyectos
Mining	14408	34
Hydrocarbons	7224	22
Electricity	4617	34
Industry	2408	14
Infraestructure	4057	24
Other sectors	7370	109
Total	40084	237

Fuente: Reporte de Inflación de BCRP, Mayo 2015.

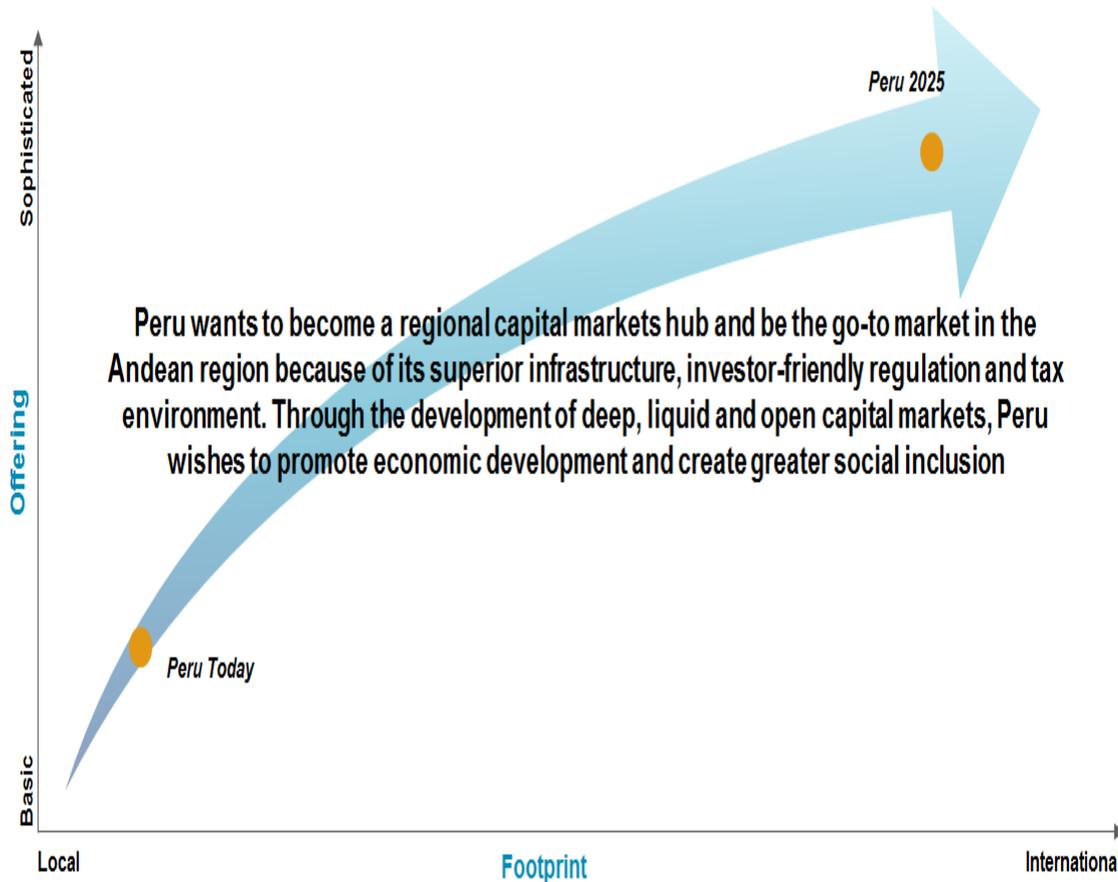
Economic Cycles in Andean Region



Where are we as Perú's Capital Markets? What have we done and what is ahead?

Can we become the Financial Center of the Region?

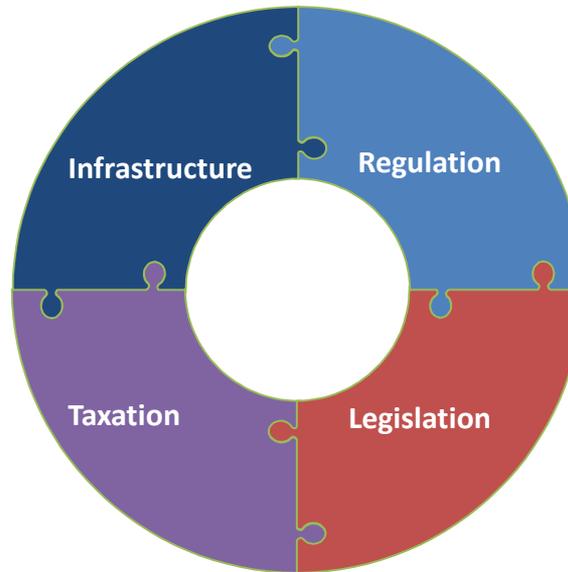
- Vision de desarrollo del mercado



Phases:

- 1. Build the base for the development and depth of local capital markets**
- 2. Increase the depth and sophistication of the local capital markets**
- 3. Increase links with regional and global markets**

- Broad base of investors, issuers and intermediaries
- Broad range of products and services
- State of the art market technology and infrastructure
- Strategic anchor to clear competitive advantage (e.g. trade, access to China)
- Tax Regime that incentivizes market participation
- Competitive conditions within the region



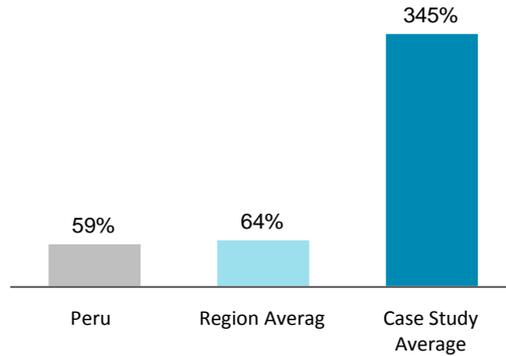
- Strong government support for Capital Markets Development
- Light and simple regulation (non bureaucratic)
- Enforcement of laws and property rights
- Good Corporate Governance

- Regional Integration– MILA – Colombia, Chile and recently México
- State of the art Trading infrastructure
 - New trading platform from London Stock Exchange (MILLENNIUM)
- Trading Cost Reduction
 - +50% Reduction in Trading Costs (Change on Business Model).
- New Products and Services
 - DMA (Direct Market Access)
 - Market Makers
 - Treasury Bills
 - Listing of Foreign Securities on the Lima Stock Exchange Platform

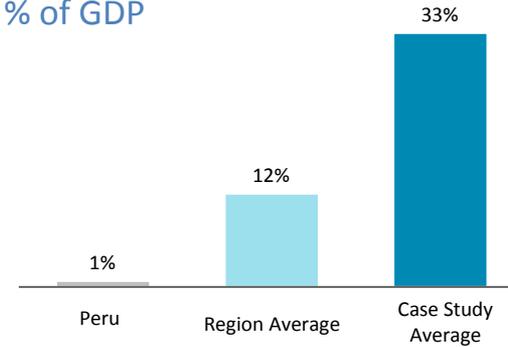
- Support to Small Companies in accessing capital markets
 - Alternative Securities Market (MAV in Spanish)
- Corporate Governance: Divulgación, Promoción y Asistencia – La Voz del Mercado (Asociación con EY)
- New Indexes for BVL. In association with S&P
- Corporate Integration with CAVALI. Our local Depository.

We need to make significant efforts to reach the development levels of advanced emerging markets

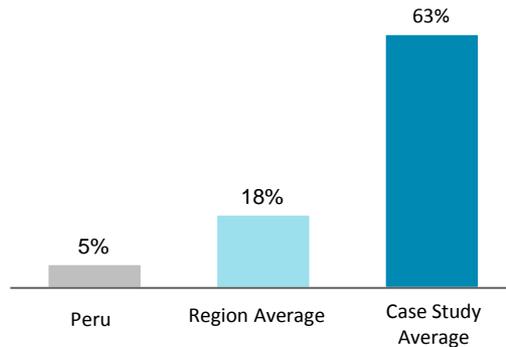
Market Capitalization % of GDP



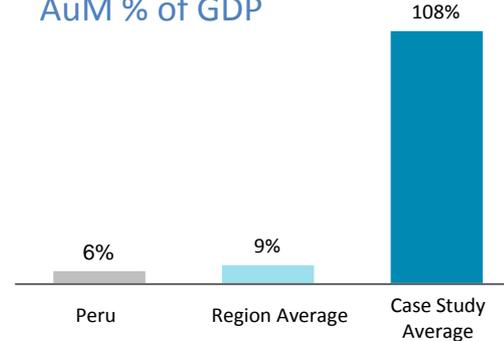
Government Bond Issuance % of GDP



Equities Trading Speed %



Mutual Funds AuM % of GDP



Legend:

- Perú Today** (Grey bar)
- Aspiración in 5 years:** average of Chile, Colombia and México (Light Blue bar)
- Aspiration in 10 – 15 yares:** Average of Hong Kong, Singapur, EAU, Sudáfrica y Brasil (Dark Blue bar)

What is missing in the short / medium term?

1. Development of new fixed income and equity products: invoices and REITS **OK**
2. Increase Market Making Activities for equities and fixed income securities, securities loans and short selling **In Process**
3. Strengthening Broker Dealers and Investment Banks **Pending**
4. Mutual Fund Development **In Process**
5. Promote Public Offerings of State owned companies **Pending**
 - Sedapal / Electroperú / Petroperú
6. Competitive Taxation on Capital Markets **In Process**
 - Competitive inside MILA
7. Solve regulatory frictions **Permanent Process**
8. Further develop Government Debt **Pending**

Perú should become the Financial Center of the region in the next 10 years.

**We need to work with Japanese Investors to make this happen.
We invite you to be part of this success story.**

Final Remarks on the Seminar

Perú and MILA



Tokyo, September 2015