

Country Insight Snapshot

Peru

April 2018






OVERVIEW

OVERALL COUNTRY RISK RATING: DB4a

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

- + The upward trend in Peruvian per capita income is likely to continue over the next decade.
- + Peru has made notable progress in trade liberalisation recently, progressively reducing tariff barriers and other trade-distorting measures.

- Poor education quality, infrastructure constraints, weak institutions and capacity issues are the main challenges facing Peru.
- Pollution from extractive industries, unsustainable practices and intensive agriculture threaten fresh-water resources.

KEY DEVELOPMENT

Martin Vizcarra's ascension to the presidency might help ease tensions and restore some much-needed stability, improving governance prospects in the short term.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

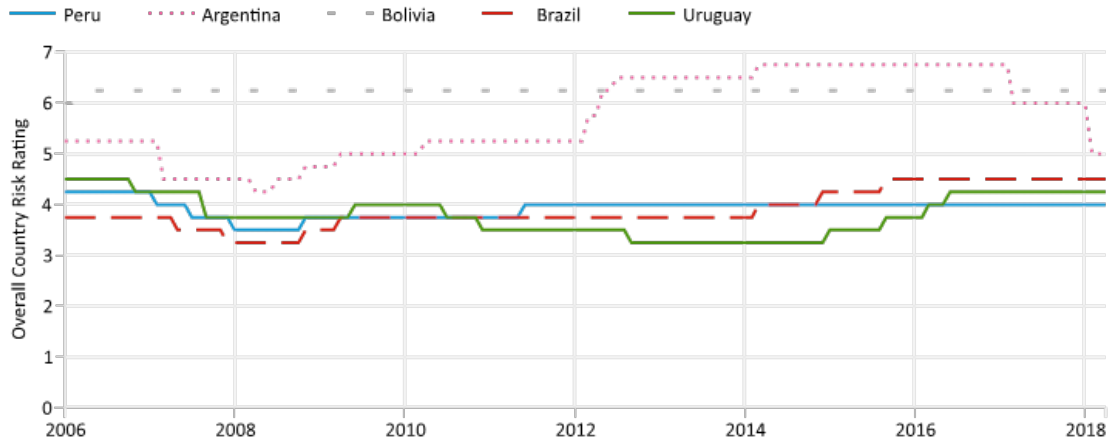
Trend: Deteriorating 

Key Development has had a positive impact on the outlook.



KEY INDICATORS

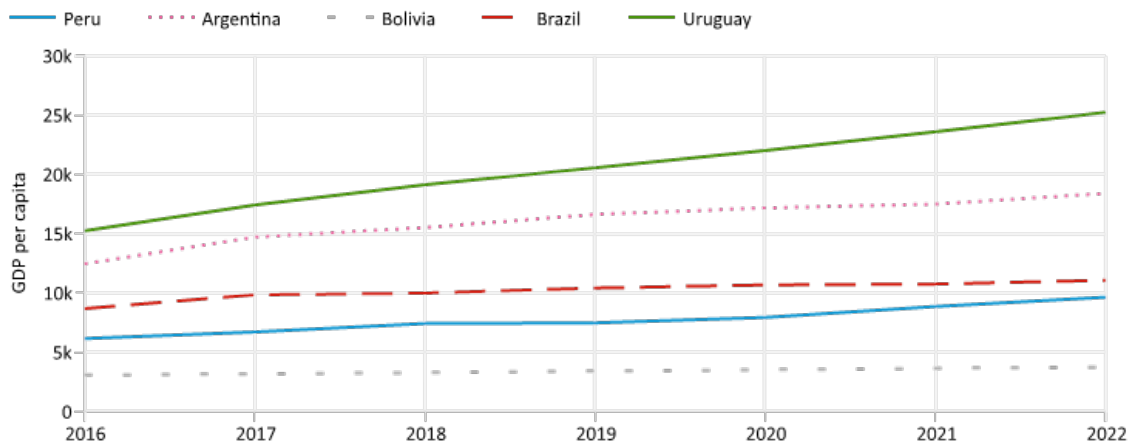
Rating History and Comparison



Source : Dun & Bradstreet

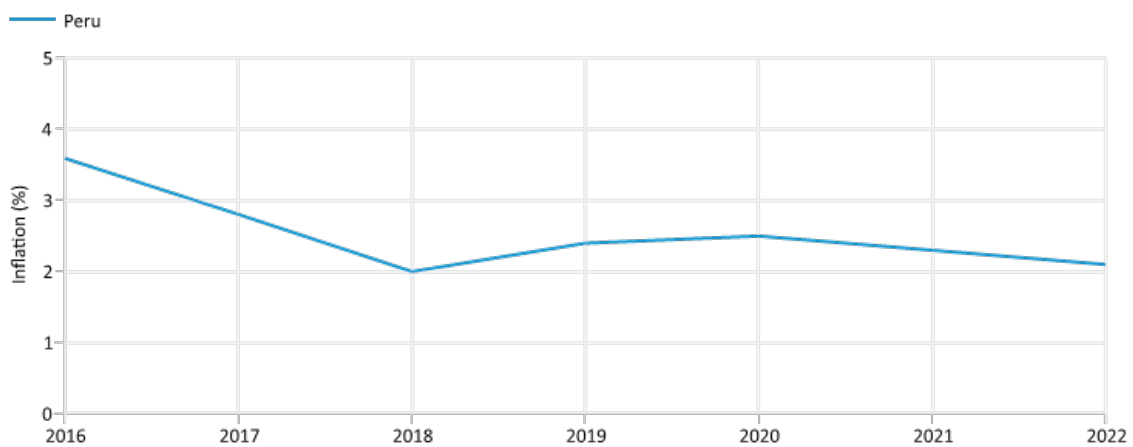
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Inflation (%)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-4.8	-2.7	-1.3	-1.2	-1.4	-2.1	-2.1	-1.9
External Debt, % GDP	38.1	38.1	35.7	35.9	35.7	35.0	34.3	33.6
Govt balance, % GDP	-2.1	-2.6	-3.1	-3.4	-2.3	-1.6	-1.2	-0.8
Inflation, annual avge %	3.5	3.6	2.8	2.0	2.4	2.5	2.3	2.1
Real GDP Growth, %	3.3	3.9	2.5	3.6	3.8	3.9	3.8	3.7

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Net international reserves stood at USD60.8bn at end-February, down from USD61.2bn in the corresponding period in 2017. Even if downward pressure on the currency resumes and triggers a renewed erosion of FX stocks, we expect FX reserves to remain reasonably robust over 2018-19, supporting a positive credit risk environment; import cover will exceed 12.0 months' worth of goods and services. Meanwhile, systemic risk within Peru's financial sector is relatively low, given robust capital adequacy ratios, low levels of leverage and sufficient provisions for non-performing loans. Local banks' exposure to a tightening of external financing is limited and direct exposure to the commodity sector is rather low.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

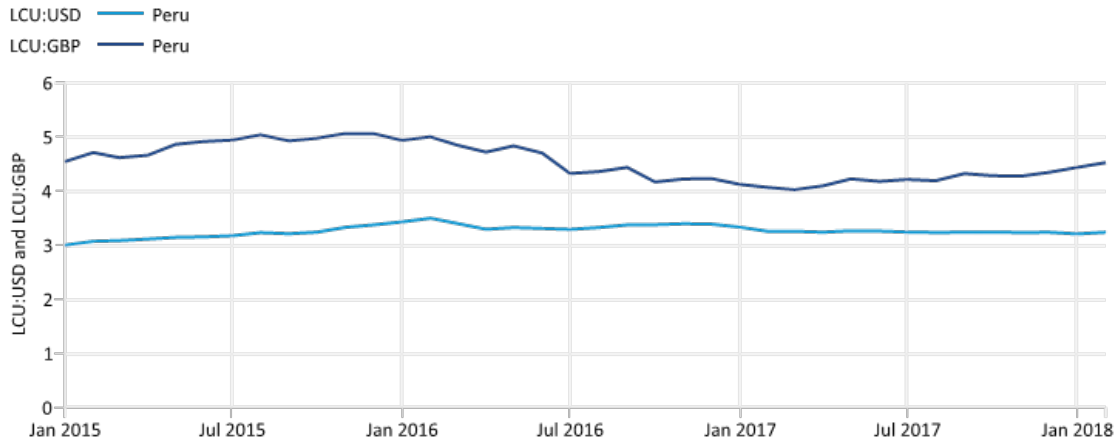
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



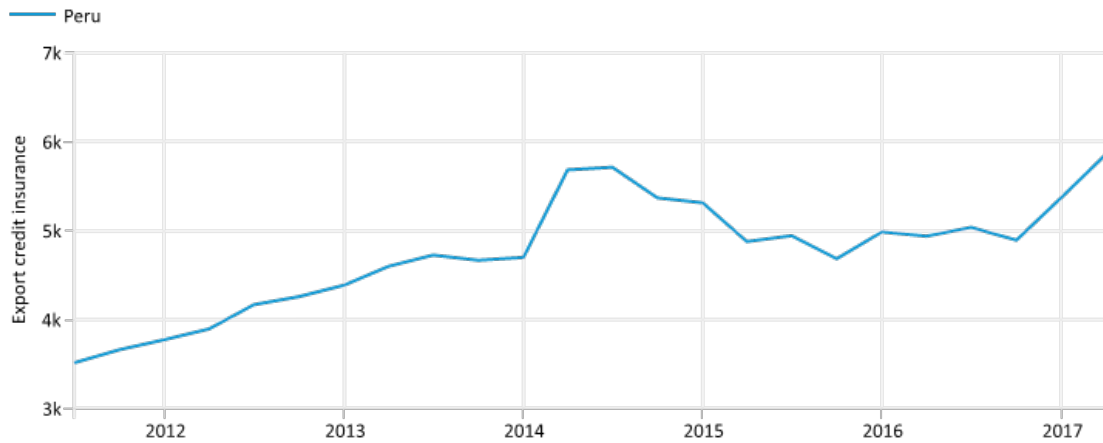
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Peruvian nuevo sol

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Vizcarra sworn in as new president

Martin Vizcarra, who was serving as Peru's ambassador to Canada, has been sworn in as the country's new president, replacing Pedro Pablo Kuczynski who resigned in late March amid a vote-buying scandal. Despite his scarce political experience, Vizcarra has gained a reputation as a consensus-builder, and his ascension to the presidency might help ease tensions and restore some much-needed stability. However, with power dynamics within the legislature having changed following the recent developments, and with public anger at Peru's political class growing, he will have to perform an extremely difficult balancing act - and much will depend on the choice of his cabinet members. The fact that the new president does not have a party of his own affords him with a great deal of flexibility in forging alliances with legislators from across the political spectrum and, should he manage to avoid partisanship in his ministerial appointments, governance prospects will improve, at least in the short term. Indeed, most opposition parties currently appear willing to offer Vizcarra support and work with him through the remainder of the current five-year presidential term that ends in July 2021, although substantive policy reforms are unlikely to transpire.

Moreover, it remains to be seen how the main opposition fujimorista Fuerza Popular party's (FP) renewed influence in Congress will play out. During Kuczynski's presidency, FP blocked most of his proposals and harassed and forced out several of his cabinet members, including Vizcarra himself (in May 2017, when he held the post of the transport and communications minister); with its internal stability now being recovered and its splinter group discredited, it is highly likely that the FP will once again prioritise political opportunism over policy objectives, leading to renewed legislative dysfunction and policy-making paralysis.

Short-Term Economic Outlook

Central bank lowers policy rate again

The Central Bank of Peru (BCRP) eased its monetary policy stance further in mid-March, lowering its benchmark interest rate by 25 basis points (to 2.75%). The move to cut rates for the second time in three months was prompted by declining inflation (and inflation expectations) and still below-potential growth, and is likely to mark the end of the loosening cycle. The National Production Index (a proxy for GDP) recorded annual growth of 2.8% in January (largely fuelled by a robust expansion in the construction, agriculture, transport, financial services and telecommunication sectors), but key economic indicators over the remainder of Q1 were mixed, with public investment execution, credit growth and the unemployment rate having accelerated, and car sales and business and consumer sentiment having dropped. Economic recovery should become more broad-based and stable in the coming quarters, benefitting from a turnaround in investment growth, greater mining production and accommodative monetary conditions, but governability challenges remain a key downside risk to the outlook.



COUNTRY PROFILE AND STATISTICS

Overview

Peru is situated on the western coast of South America, and shares land borders with Brazil, Chile, Colombia and Ecuador. Its terrain is varied, with an arid coastal plain, a mountainous interior and tropical deep interior.

Peru has abundant mineral resources, the exploitation of which has been a vital factor in recent strong GDP growth. However, poverty levels are high and income distribution is uneven. Consequently, the poor majority have become increasingly resentful of international investors (many of whom took advantage of economic liberalisation in the 1990s by moving in to develop the country's natural resources), with resource nationalism having significant potential for socio-political instability.

Peru's modern political history has been turbulent: the widespread violent insurgency of the late 1980s was quelled in the 1990s, but tough government measures resulted in human rights abuses; key political figures continue to become embroiled in human rights abuse investigations.

Key Facts

Key Fact	Detail
Head of state	President Martin VIZCARRA
Capital	Lima
Timezone	GMT -05-00
Official languages	Spanish, Quechua, Aymara
Population (millions)	31.9
GDP (USD billions)	215.2
GDP per capita (USD)	6,739
Life expectancy (years)	74.6
Literacy (% of adult pop.)	94.2
Surface area (sq km)	1,285,220

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	5.9	2.4	3.3	3.9	2.5
Nominal GDP in USDbn	198	203	192	195	215
Nominal GDP in local currency (bn)	535	577	613	660	702
GDP per Capita in USD	6,475	6,572	6,159	6,187	6,739
Population (year-end, m)	30.6	30.9	31.2	31.6	31.9
Exchange rate (yr avge, USD-LCU)	2.7	2.8	3.2	3.4	3.3
Current Account in USDbn	-9.4	-8.9	-9.2	-5.3	-2.7
Current Account (% of GDP)	-4.7	-4.4	-4.8	-2.7	-1.3
FX reserves (year-end, USDbn)	64.4	61.2	60.4	60.5	62.4
Import Cover (months)	15.4	15.0	15.9	16.7	15.8
Inflation (annual avge, %)	2.8	3.2	3.5	3.6	2.8
Govt Balance (% GDP)	0.7	-0.3	-2.1	-2.6	-3.1

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	3.6	3.8	3.9	3.8	3.7
Nominal GDP in USDbn	241	245	263	297	326
Nominal GDP in local currency (bn)	758	809	865	926	989
GDP per Capita in USD	7,452	7,514	7,970	8,894	9,675
Population (year-end, m)	32.3	32.6	33.0	33.4	33.7
Exchange rate (yr avge, USD-LCU)	3.2	3.3	3.3	3.1	3.0
Current Account in USDbn	-2.9	-3.5	-5.6	-6.1	-6.2
Current Account (% of GDP)	-1.2	-1.4	-2.1	-2.1	-1.9
FX reserves (year-end, USDbn)	63.7	65.0	66.1	67.1	68.1
Import Cover (months)	15.2	14.9	14.2	13.7	13.4
Inflation (annual avge, %)	2.0	2.4	2.5	2.3	2.1
Govt Balance (% GDP)	-3.4	-2.3	-1.6	-1.2	-0.8

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Peru	Argentina	Bolivia	Brazil	Uruguay
Income per Capita (USD)	7,452	15,545	3,317	10,019	19,160
Country Population (m)	32.3	44.7	11.2	209.2	3.5
Internet users (% of population)	45.5	70.2	39.7	59.7	66.4
Real GDP Growth (% p.a., 2018 - 2027)	3.9 - 8.5	1.5 - 2.8	2.0 - 5.8	1.0 - 2.0	1.2 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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