

Country Insight Snapshot

Peru

December 2017






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: Stable 

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

New evidence implicating the president in the Odebrecht scandal puts his administration in a tight spot, further straining political stability.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a neutral 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 positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

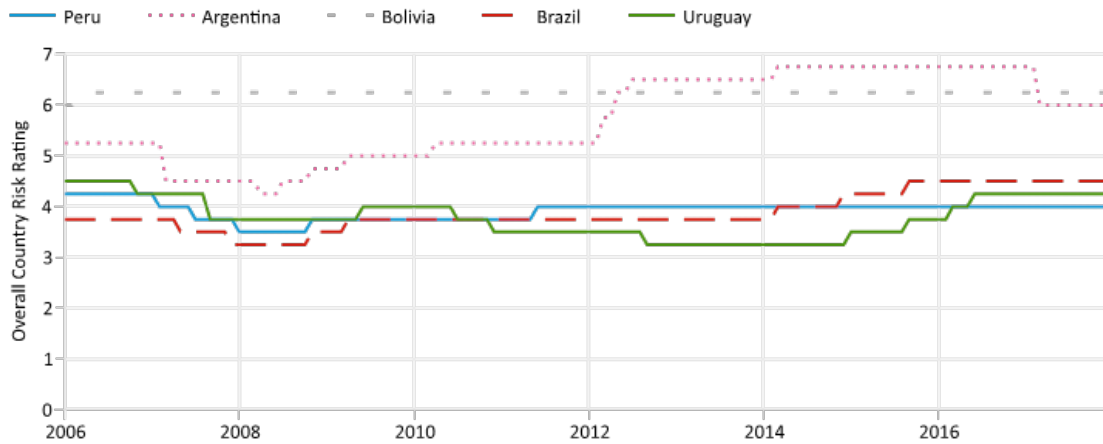
Trend: Stable 

Key Development has had a negative impact on the outlook.



KEY INDICATORS

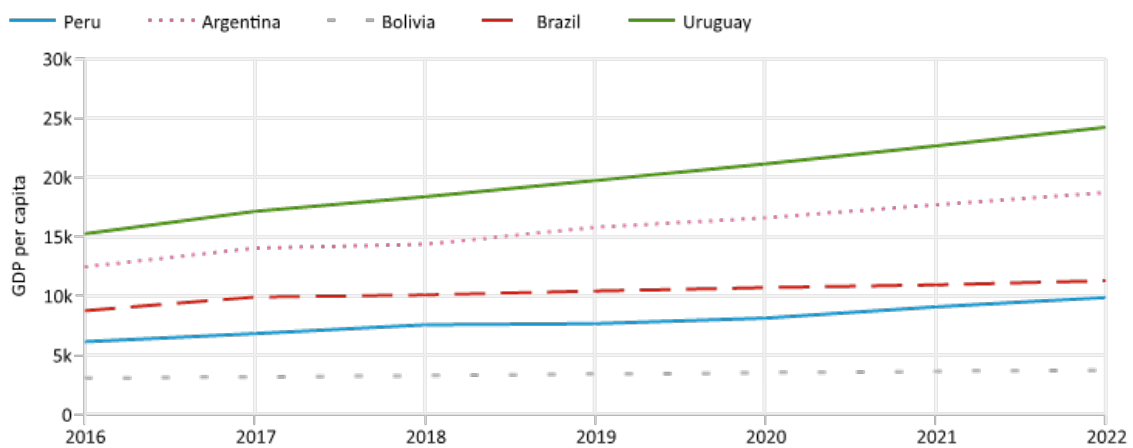
Rating History and Comparison



Source : Dun & Bradstreet

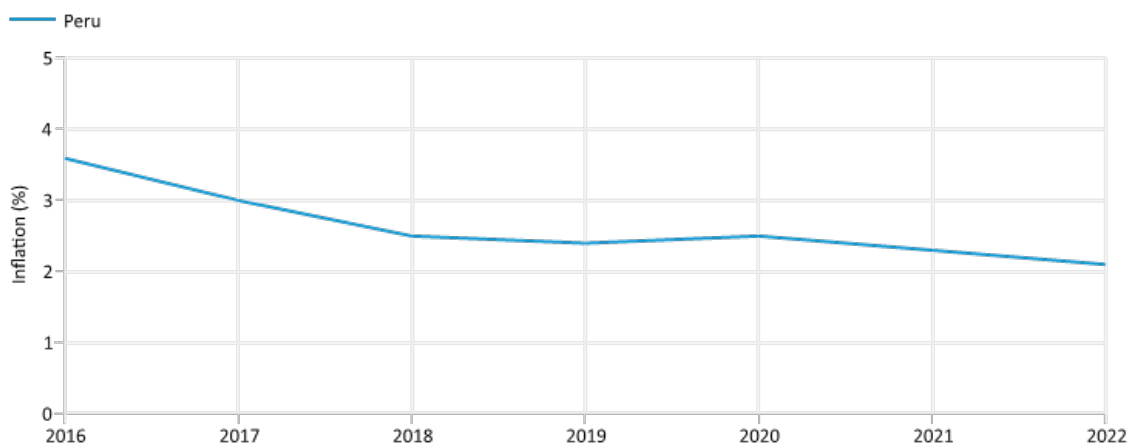
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Inflation (%)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-4.8	-2.7	-1.6	-1.7	-2.0	-2.4	-2.3	-2.2
External Debt, % GDP	38.1	38.2	38.4	38.6	38.4	37.6	36.9	36.1
Govt balance, % GDP	-2.1	-2.6	-2.9	-3.4	-2.3	-1.6	-1.2	-0.8
Inflation, annual avge %	3.5	3.6	3.0	2.5	2.4	2.5	2.3	2.1
Real GDP Growth, %	3.3	3.9	2.7	3.8	4.0	3.9	3.8	3.7

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Net international reserves stood at USD62.1bn at end-October, up from USD60.5bn in the corresponding period in 2016. 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

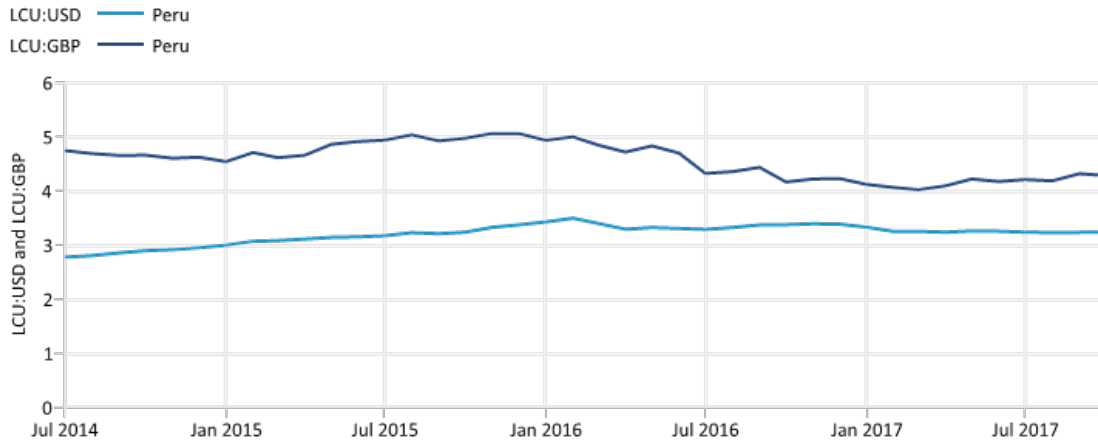
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



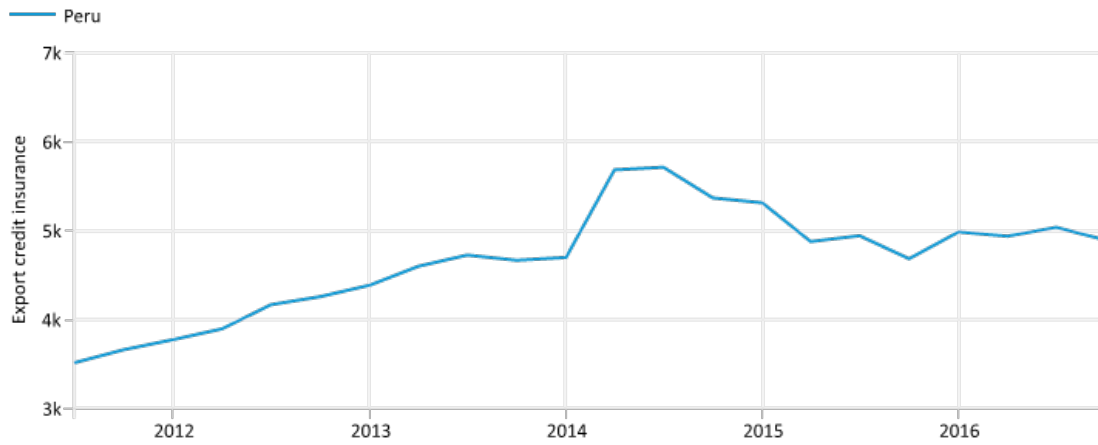
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Peruvian nuevo sol

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

President implicated in Odebrecht scandal

Peru's risk outlook remains under downward pressure as the still-unfolding Odebrecht scandal increasingly strains political stability. Local prosecutors investigating the region-wide government corruption scheme recently gathered new incriminating evidence confirming the direct involvement of President Pedro Pablo Kuczynski in the wrongdoing, putting his administration in a tight spot. Kuczynski will now be likely forced to testify before a congressional committee over the allegations linking him to the case, which could prove highly damaging given the ruling Peruanos Por el Kambio party's minority position in the legislature. The main opposition fujimorista Fuerza Popular party will be particularly keen to highlight any potential transgression on the president's part in order to divert attention away from Keiko Fujimori's own implication in the scandal and could even go so far as to push for his ouster should more evidence against him comes to light. Meanwhile, these developments closely follow Congress' approval of two constitutional complaints against Attorney General Pablo Sanchez for his alleged mismanagement of the Odebrecht investigation (a move widely viewed as retaliation for the advancing probes against Fujimori and her associates), risking a new institutional clash between the executive and the legislature.

Market Potential

TPP moves forward under new name

The remaining 11 signatories to the Trans-Pacific Partnership (TPP), including Peru, recently agreed on a framework to push ahead with the largest trade pact to date - without the US. The new deal (rebranded the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP) incorporates all of TPP agreement terms except for 20 provisions that will be (temporarily) suspended. These mostly cover articles related to intellectual property rights (such as patentable subject matter, biologics, copyright terms of protection, and technological protection measures) and certain aspects of the original accord's investment chapter, including its investor-state dispute settlement mechanism. There are still four items that remain outstanding, but none of these seems impossible to resolve and a deal could be signed by end-March 2018. Upon ratification by national legislatures (possibly in 2019), the new pact will create one of the largest free-trade areas in the Asia-Pacific region, comprising about 14% of global GDP and 16% of all trade, with other countries, such as South Korea, Taiwan, Indonesia and the Philippines, having expressed an interest in joining in the future. With the implementation of the CPTPP, Peru will have direct access to new markets (such as Australia, Malaysia and Vietnam) and improve its market access, which will help increase its (non-traditional) exports to the member countries with whom it already trades and, thus, alleviate the impact of China's economic slowdown. Services trade and FDI will also receive a boost, while diversification and innovation opportunities will be created.



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 Pedro Pablo KUCZYNSKI
Capital	Lima
Timezone	GMT -05-00
Official languages	Spanish, Quechua, Aymara
Population (millions)	31.6
GDP (USD billions)	194.8
GDP per capita (USD)	6,167
Life expectancy (years)	74.4
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	2017f
Real GDP growth (%)	5.9	2.4	3.3	3.9	2.7
Nominal GDP in USDbn	202	203	192	195	219
Nominal GDP in local currency (bn)	546	576	612	658	714
GDP per Capita in USD	6,612	6,565	6,151	6,167	6,859
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	-3.6
Current Account (% of GDP)	-4.6	-4.4	-4.8	-2.7	-1.6
FX reserves (year-end, USDbn)	64.4	61.2	60.4	60.6	63.0
Import Cover (months)	15.4	15.0	15.9	16.7	16.8
Inflation (annual avge, %)	2.8	3.2	3.5	3.6	3.0
Govt Balance (% GDP)	0.7	-0.3	-2.1	-2.6	-2.9

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	3.8	4.0	3.9	3.8	3.7
Nominal GDP in USDbn	245	251	269	304	334
Nominal GDP in local currency (bn)	773	829	886	948	1,013
GDP per Capita in USD	7,597	7,696	8,162	9,109	9,909
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	-4.1	-5.1	-6.6	-7.1	-7.5
Current Account (% of GDP)	-1.7	-2.0	-2.4	-2.3	-2.2
FX reserves (year-end, USDbn)	62.4	63.6	64.8	65.8	66.7
Import Cover (months)	15.8	15.4	14.7	14.2	13.9
Inflation (annual avge, %)	2.5	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)	6,859	14,066	3,209	9,951	17,172
Country Population (m)	31.9	44.3	11.1	207.7	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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