

Country Insight Snapshot

Peru

August 2017



Written 25 August 2017

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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 already-precious freshwater resources.

KEY DEVELOPMENT

The government declares a state of emergency to address protest action as labour unrest escalates, causing significant transport disruptions and driving down its approval ratings.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable 

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 positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

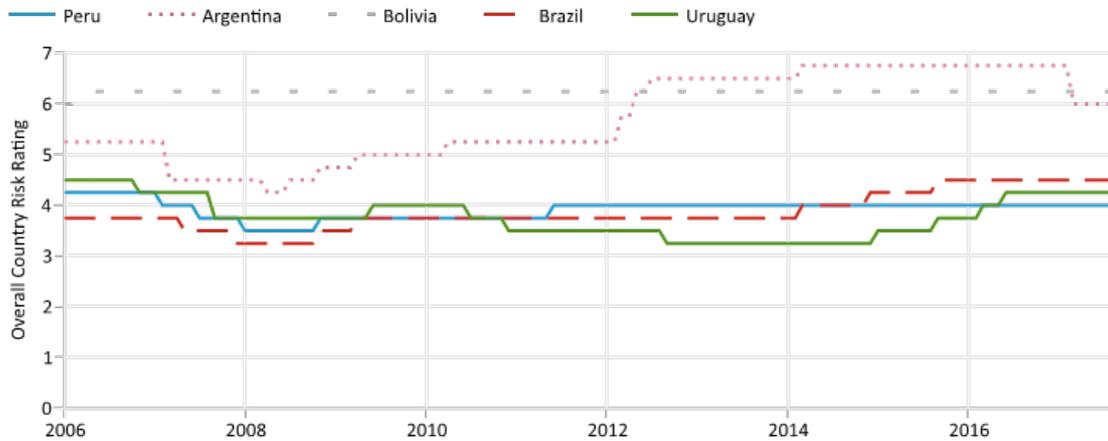
Trend: Stable 

Key Development has had a negative impact on the outlook.



KEY INDICATORS

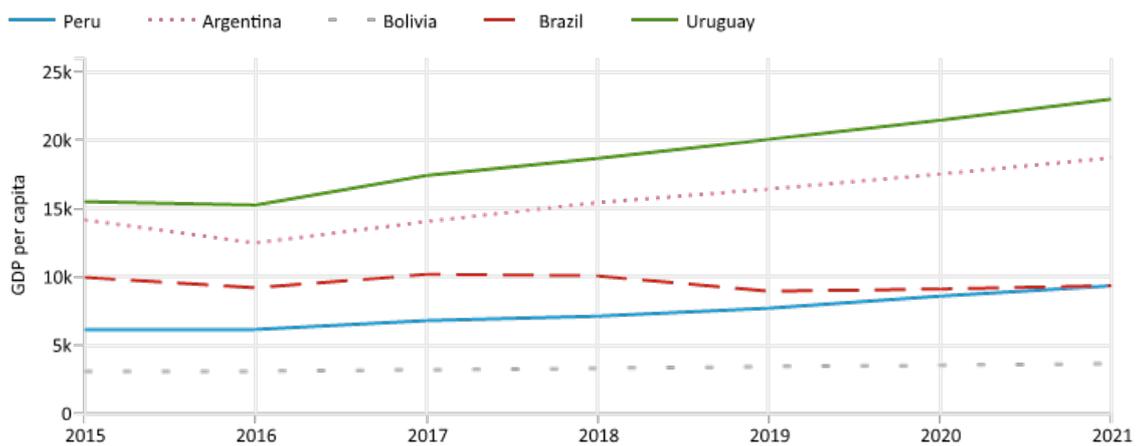
Rating History and Comparison



Source : Dun & Bradstreet

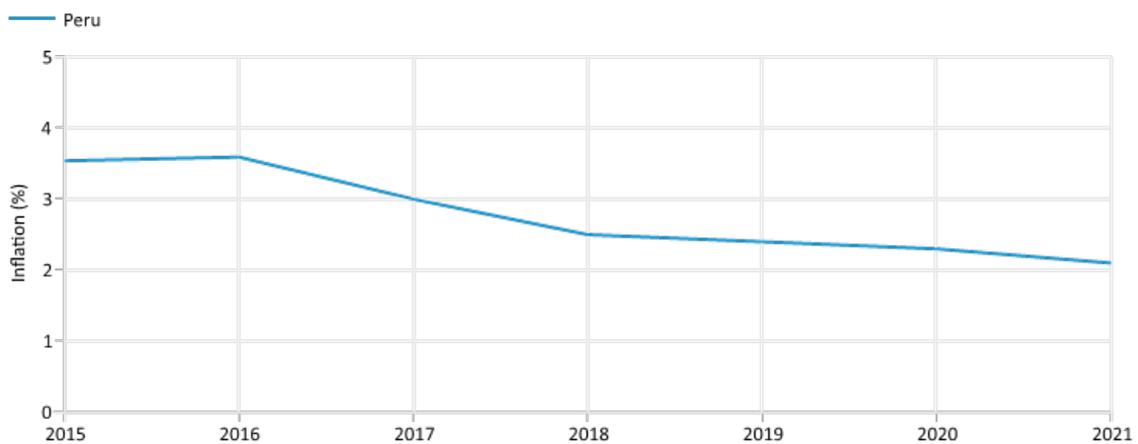
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Inflation (%)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-4.4	-4.9	-2.8	-2.2	-2.6	-3.0	-2.8	-2.8
External Debt, % GDP	34.1	38.1	38.2	37.8	37.6	36.9	36.1	35.4
Govt balance, % GDP	-0.3	-2.1	-2.6	-2.9	-3.4	-2.3	-1.6	-1.0
Inflation, annual avge %	3.2	3.5	3.6	3.0	2.5	2.4	2.3	2.1
Real GDP Growth, %	2.4	3.3	3.9	2.9	4.0	4.2	4.4	4.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Net international reserves stood at USD61.9bn at end-July, up from USD59.8bn 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 2017-18, 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

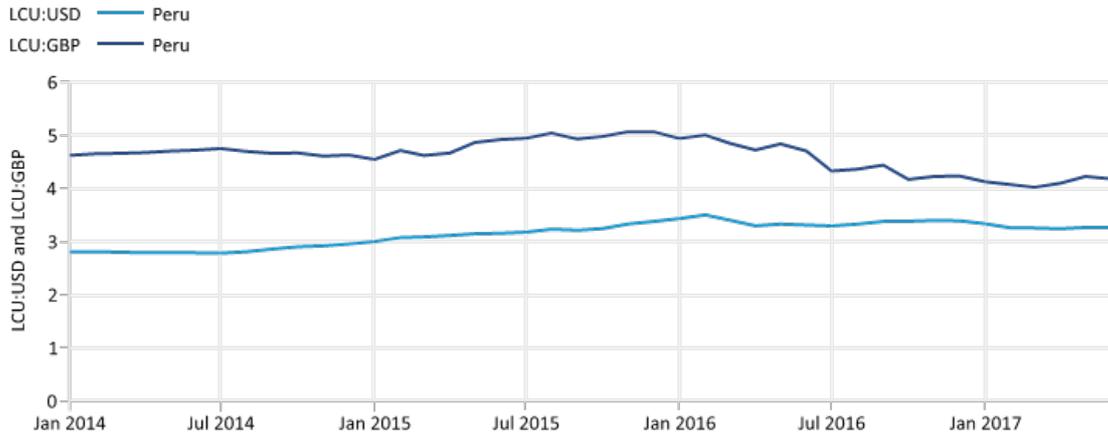
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



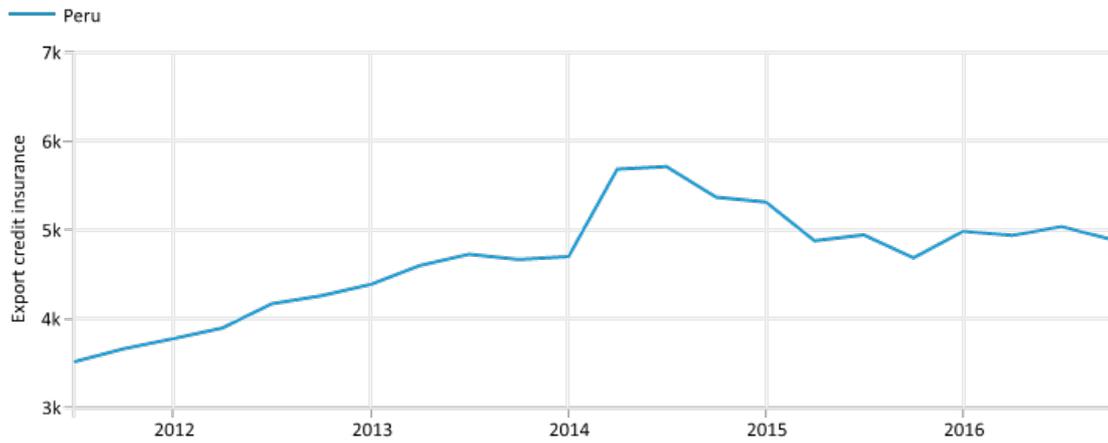
Exchange Rate



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

Labour unrest escalates

The government of President Pedro Pablo Kuczynski recently declared a 30-day state of emergency in three districts in the southeastern Apurimac region to end a protest by local residents: demonstrators had blocked a road used by China-backed miner MMG to transport copper concentrates from its mine Las Bambas, demanding payment for its usage. This is the second time in a month that the government has declared a state of emergency to address protest action amid the escalating labour unrest that is causing or threatening significant transport disruptions. Worryingly, the rash of labour strikes, coupled with disillusionment at the first year of his administration, has caused Kuczynski's approval rating to sink to an all-time low in August (29%, according to a recent poll published by Ipsos Peru), while his disapproval rating rose six points to 64%, opening his government to new attacks from the main opposition (fujimorista) Fuerza Popular (FP) party. Indeed, the FP-controlled Congress already summoned Education Minister Marilu Martens to account for the measures taken to put an end to a two-month old teachers' strike, while one part of the left-wing opposition has even called for her resignation. Governance challenges will persist given the obstructive opposition and as the president strives to improve the economy, but the growing division within the FP could help him govern more effectively during the remainder of his term.

Market Potential

The Promotion of Export Services Act becomes law

President Kuczynski recently signed into law the Promotion of Export Services Act, which is expected to give an important boost to the sector, especially to the country's tourism and travel industry. In particular, the legislation, which will take effect on 1 September, is intended to foment investment and technological innovation, promote changes to generate greater added value, and formalise entrepreneurship with a view to positioning Peru as a services hub in the region. To this end, it includes, among other things, significant tax incentives, including a VAT and Special Consumption Tax exemption, while it broadens the list of activities that can fall within its scope.

Short-Term Economic Outlook

Economy enters recovery path

Latest official data confirm that Peru has entered a path to recovery, and that domestic sentiment is gradually being restored. The National Production Index (a proxy of GDP) recorded annual growth of 3.6% in June (and of 2.4% in Q2, compared with 1.9% in the previous quarter). This was largely fuelled by a robust expansion in the mining, agriculture, telecommunication, fishing and construction sectors, while business confidence edged up to a six-month high in July and consumer sentiment moved closer to the 100- point threshold that separates optimism from pessimism. Economic recovery should gather momentum in H2 and over 2018, underpinned by a boost in public investment and the initiation of key mining projects, but growth will remain below potential and could be further undermined by weaker-than-anticipated investment due to capacity constraints on execution.



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.)	94.4
Surface area (sq km)	1,285,220

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	6.0	5.9	2.4	3.3	3.9
Nominal GDP in USDbn	193	202	203	192	195
Nominal GDP in local currency (bn)	508	546	576	612	658
GDP per Capita in USD	6,391	6,612	6,565	6,151	6,167
Population (year-end, m)	30.2	30.6	30.9	31.2	31.6
Exchange rate (yr avge, USD-LCU)	2.6	2.7	2.8	3.2	3.4
Current Account in USDbn	-5.2	-8.8	-8.9	-9.4	-5.5
Current Account (% of GDP)	-2.7	-4.4	-4.4	-4.9	-2.8
FX reserves (year-end, USDbn)	62.3	64.4	61.2	60.4	60.6
Import Cover (months)	15.4	15.4	15.0	15.9	16.8
Inflation (annual avge, %)	3.7	2.8	3.2	3.5	3.6
Govt Balance (% GDP)	2.1	0.7	-0.3	-2.1	-2.6

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	2.9	4.0	4.2	4.4	4.0
Nominal GDP in USDbn	218	231	252	284	312
Nominal GDP in local currency (bn)	714	773	829	886	946
GDP per Capita in USD	6,817	7,143	7,720	8,607	9,363
Population (year-end, m)	31.9	32.3	32.6	33.0	33.4
Exchange rate (yr avge, USD-LCU)	3.3	3.4	3.3	3.1	3.0
Current Account in USDbn	-4.8	-5.9	-7.6	-7.9	-8.9
Current Account (% of GDP)	-2.2	-2.6	-3.0	-2.8	-2.8
FX reserves (year-end, USDbn)	62.1	63.4	64.6	65.9	67.2
Import Cover (months)	16.6	16.5	16.4	16.3	16.1
Inflation (annual avge, %)	3.0	2.5	2.4	2.3	2.1
Govt Balance (% GDP)	-2.9	-3.4	-2.3	-1.6	-1.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Peru	Argentina	Bolivia	Brazil	Uruguay
Income per Capita (USD)	6,817	14,074	3,212	10,196	17,444
Country Population (m)	31.9	44.3	11.1	211.0	3.5
Internet users (% of population)	40.9	69.4	45.1	59.1	64.6
Real GDP Growth (% p.a., 2017 - 2026)	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



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Email: countryinsight@dnb.com

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Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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