

El Niño impacted growth

General Information



GDP	USD189.111bn (World ranking 48, World Bank 2015)
Population	31.38mn (World ranking 42, World Bank 2015)
Form of state	Constitutional Republic
Head of government	Pedro Kuczynski (center-right)
Next elections	2021, presidential and legislative



Strengths

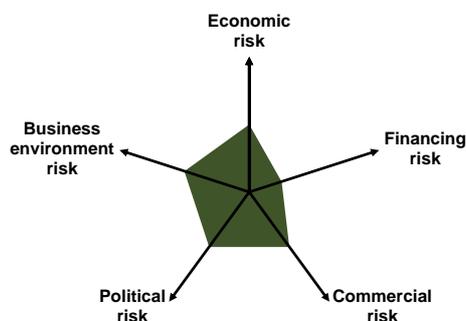
- Natural resource rich (minerals: copper, silver, gold, zinc, energy, and fishing)
- Agile macroeconomic policies, independent central bank
- Low public debt
- Strong FX reserve position and low external debt
- Among Latin American countries, third best-ranked in the 2016 World Bank's Doing Business Survey

Weaknesses

- Vulnerability to climatic phenomena
- Strong dependence on Chinese demand and commodity exports
- Highly skewed income distribution and high, though shrinking poverty levels
- Dollarization of the financial system
- Rule of Law and control of corruption are below regional average

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	23% 1	22% China
United States	14% 2	21% United States
Canada	7% 3	5% Brazil
Switzerland	7% 4	5% Mexico
Brazil	4% 5	5% Chile

By product (% of total)

Exports	Rank	Imports
Non Ferrous Ores	29% 1	6% Refined Petroleum Products
Non-Monetary Gold	15% 2	5% Cars And Cycles
Other Edible Agricultural Prod	11% 3	5% Plastic Articles
Non Ferrous Metals	9% 4	5% Telecommunications Equipment
Refined Petroleum Products	5% 5	5% Crude Oil

Source: Chelem 2015

Economic Overview

Growth dragged down by El Niño

After having grown by a strong +3.9% in 2016, Peru's economic outlook has darkened in the aftermath of the Coastal El Niño phenomenon, which resulted in devastating floods and landslides during the rainy season. The government estimates that reconstruction efforts could cost up to USD9bn, since the natural disaster has devastated the country's infrastructures and left hundreds of thousands of Peruvians homeless. Negative impacts are already seen in shrinking copper production while business confidence declined in March but recovered since. Base effects in the mining sector are also weighing on the investment dynamism, in a context of subdued commodity prices. Exports, of which more than a half comes from mining, will contribute to a lesser extent to economic growth. Yet brighter global demand will keep export growth on a stable footing. Finally, the corruption scandal involving Brazilian construction firm Odebrecht raised massive protests and delayed large infrastructure projects. Public and private consumption will however maintain growth resilience at +2.8% in 2017 – outperforming the Latin American average stands of +1.2% but far below the 2010-2015 average of +5.4% per year.

Appropriate countercyclical measures

Economic policies will support the economy in the reconstruction process, while preserving well-anchored inflation and fiscal balance. El Niño phenomenon induced shortages that will keep inflation above the target of 2% (+/-1%) in 2017, before it moderates within the target next year. The Central Bank adopted an expansionary stance and cut the policy rate by 25bps to 4% in May 2017. It also lowered reserve requirements four times since December 2016 and enabled banks to restructure retail debt in disaster-affected areas without affecting borrowers' credit ratings. This strategy goes together with the increase in government spending through a stimulus plan and emergency reconstruction funds of 1.3% of GDP. The plan will include labor tax easing, facilitate SME's access to financing and support housing investments. It will add to President Kuczynski structural reforms to modernize the economy by improving the business climate, cutting administrative procedures and implementing a more progressive tax regime for SMEs. Public debt will consequently rise to 26.1% of GDP in 2017, remaining thus moderate.

External risks remain low

The current account deficit should reach 2.8% in 2017 and remain rather stable thanks to the gradual recovery in commodity prices. Strong macroeconomic fundamentals and responsible management also guarantee the financing of this deficit. Peru still enjoys investor confidence and more than comfortable FX reserves levels (almost 20 months of imports). The external debt will increase temporarily in 2017 to 51.3% of GDP before softening next year to 47.5%. Fed tightening monetary policy is likely to trigger a depreciating trend for the PEN, but the impact on financial stability will be limited since the process of credit de-dollarization has well advanced.

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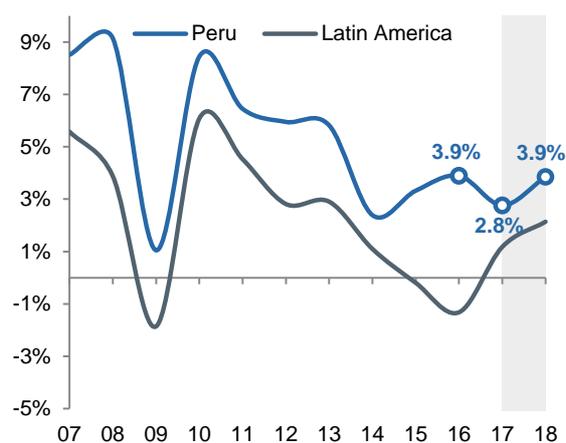
Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	3.3	3.9	2.8	3.9
Inflation (% , yearly average)	3.5	3.6	2.9	2.3
Fiscal balance* (% of GDP)	-2.2	-2.3	-2.4	-2.2
Public debt* (% of GDP)	24.0	24.8	26.1	26.7
Current account (% of GDP)	-4.9	-2.8	-3.0	-2.8
External debt (% of GDP)	45.6	49.8	51.3	47.5

* Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

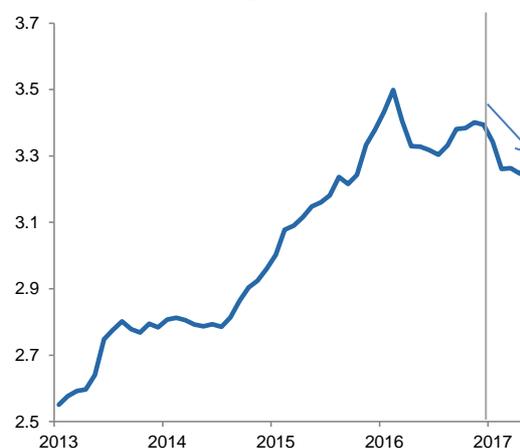
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Sources: IHS, Euler Hermes

Exchange rate : PEN/USD



Sources: IHS, Euler Hermes