

Peru

Major Business Sectors

Compiled by:

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OVERVIEW AND TRENDS

Peru, being one of the best-performing economies and the seventh largest in Latin America, has experienced notorious structural change over the last three decades. The economy has built on solid growth fundamentals. Domestic demand has been the main driver of growth as an overall improvement in confidence in the economy has boosted domestic consumption and investment. Moreover, the steady fiscal consolidation that led to a number of budget surpluses in the past decade has increased confidence in the public finances and allowed for productive public expenditures.

A period of relatively stable inflation and the progressive appreciation of the national currency, the Peruvian Sol (S/), have helped the economy to overcome periods of volatility until the end of 2014, when the US dollar began to appreciate. The world economy is beginning to recover after some years of decline and stagnation and, the price of products such as gold and copper has increased, which led exports to grow by 22.66% in 2017 compared to 2016. This year, the main detractor from the external sector's contribution to growth has stemmed from increasing imports, although capital goods imports have remained at healthy levels, which bodes well for the country's productive capacity, economic growth and employment in the coming years¹.

At the end of 2017, a flow of Direct Foreign Investment of US\$ 25,684 million was reported; the countries that invested most were Spain (17.61%), the United Kingdom (16.88%), Chile (14.95%), United States (10.73%), and Netherlands (5.97%). Together, these five countries accounted 66.14% of investment in Peru in the last year (US\$16,987 million). The sectors receiving most investment are mining (21.99%), communications (20.73%), finance (18.28%), energy (13.42%) and industry (12.53%) together making up 86.95%²

¹ Focus Economics 2017

² Proinversion 2017

Sound macroeconomic policies and the substantial wealth of commodities along with economic modernization, the abundance of natural resources and continuous improvements in economic governance generated a GDP that could have been greater if there was no political noise. However, Peru is emerging as one of the most stable economies in Latin America. Peru's prospects remain positive, backed by government stimulus, the implementation of large new infrastructure projects and minor megaprojects in the coming years³.

It is very clear that Peru will once again recover the speed of the highest growth rates. In the first months of 2017 Peru was hit by the El Niño Phenomenon, which strongly affected the infrastructure of the north coast of the country. In the last months of 2017, due to political noise, there was an attempt to vacate President Pedro Pablo Kuczynski. However, all this has not changed the country risk rating and observes the growth of the most important sectors of the economy although less than expected but it is very clear that Peru will once again recover the speed of the highest growth rates⁴.

GDP SECTOR DATA

Between 2010 and 2017, the country's economy has been growing by an average rate of 4.9%. This growth was driven mostly by prudent macroeconomic policies, ease to do business, friendly market policies and the government's policy in trade liberalization strategies. Therefore, the Peruvian economy grew 2.5% in 2017, 4.0% on 2016 and 3.3% on 2015. The decrease in the economy is in part due to the decrease in manufacturing (-0.25%) and the lower growth in mining, manufacturing, construction, trade and services. However, the agriculture showed an increase of 5.30%⁵.

GDP 2016

Business Sector	% of GDP	Growth 2016 / 2017	Value in MM USD ⁶
Agriculture	5.30%	2.62%	8,419.46
Fishing	0.37%	4.67%	593.04
Mining	13.92%	3.19%	22,117.07
Manufacturing	12.43%	-0.25%	19,757.04
Electricity and Water	1.83%	1.14%	2,905.14
Construction	5.79%	2.18%	9,194.01
Trade	10.83%	1.03%	17,212.08
Services	49.54%	1.03%	78,730.16
Global GDP	100.00%	-37.8%	158,927.99

³ World Bank 2017

⁴ El Comercio Perú

⁵ BCRP 2018

⁶ Exchange rate of 30th December 2017 (arithmetic average purchase and sale): S/. 3.24. Source: BCRP

GDP OUTLOOK

In the Multi-annual Macroeconomic Framework for 2017-2019, the Ministry of Economy and Finance (MEF)⁷ predicts a 3.7% average annual GDP increase. This forecast is linked to the following factors:

- a) There will be an expansion of mining production and increased investment in infrastructure; this, in a context of electoral political noise dissipation, which will consolidate the recovery initiated of the economic agents.
- b) Projects that are already licensed and those waiting to be concessioned, will give sustainability to economic growth.
- c) Recovery of the expectations of economic agents to the long-term measures implemented.
- d) Toromocho, Cerro Verde and Las Bambas copper projects became operational (both projects would contribute in about 1% to the country's GDP growth). The Michiquillay copper mine expects to start production in 2025.
- e) The Metro Line 2 construction and the modernization of the Talara refinery.

However, due to natural disasters registered at the beginning of 2017, the projections might be quite less optimistic.

EXTERNAL TRADE

Peru's total imports in 2017 reached US\$ 44,288 million, with an increase in 23.3% in comparison to the previous year. The sectors that had a greater positive variation compared to 2016 are: Traditional Mining (75%), followed by Traditional agro (53.46%) and, Oil and natural gas (39.03%). The only sector that decreased in imports in 2017 was Traditional fishing (42.39%)⁸.

In 2017, Peruvian exports accounted US\$39,774 million, increasing by 10% because of the increasing in the value of mining products. Traditional products (73.8% of total exports) continue to represent the greater part of Peruvian exports due to the inclusion of mining products (over 59% of all exports). The non - traditional products sector shows an increase of 10.43%. The Metal-Mechanic sector grew 18.27%, reaching US\$ 531 million, the Fishing sector grew 17.46%, reaching US\$ 1,058 million and, the Agricultural and agro industrial sector grew 10.85%, reaching US\$ 5,120 million⁹.

In 2015 was reported a downfall in the Peruvian trade balance mainly as a result of the effects of the global crisis; however a recovery has been shown in 2016 and the same tendency is expected for 2017.

⁷ Ministry of Economics and Finance of Peru

⁸ SUNAT 2018

⁹ SUNAT 2018

PERU-EFTA FREE TRADE AGREEMENT

In 1996, Peru initiated negotiations with the European Free Trade Association (EFTA) member states with a view to the conclusion of a free trade agreement. This agreement entered into force in July 2011 with Switzerland and Liechtenstein.

Given the agreement's stated objective of promoting and creating conditions for the growth of trade and investment in goods and services, the prospects for companies representing both parties are likely to be boosted. It will also increase the supply of existing products. The agreement covers the following areas:

- Access to industrial and agricultural goods
- The application of sanitary and phytosanitary measures
- Regulations of origin
- Customs procedures and trade facilitation
- Competency policies
- Investments
- Government procurement
- Institutional affairs
- Dispute settlement

EXPORTS 2017

Business Sector	% of Exports	Growth 2016 / 2017 (%)	Value FOB in MM USD
1. Traditional products	73.5	28.71	32,550
Mining	59.72	26.59	26,449
Fishing	4.04	41.8	1,788
Oil and natural gas	7.88	54.11	3,491
Farming	1.86	-5.52	822
2. Non-traditional products	26.5	10.43	11,738
Farming and agroindustry	11.56	10.85	5,120
Textiles	0.9	15.8	397
Fishing	2.39	17.46	1,058
Chemicals	3.12	4.64	1,382
Metal-mechanical	1.2	18.27	531
Siderurgical – Metallurgical	2.6	16.99	1,151

Wood	0.28	-3.68	122
Non-metallic minerals	1.33	-4.39	588
Other	1.14	14.69	503
3. TOTAL EXPORTS	100.00	23.3	44,288

Source: SUNAT 2018

IMPORTS 2017

Business Sector	% of Imports	Growth 2016 / 2017 (%)	Value CIF in MM USD
1. Traditional products	15.19	40.08	6,041
Mining	0.29	75.8	115
Fishing	0.03	-42.39	10
Oil and natural gas	13.93	39.03	5,541
Farming	0.94	53.46	374
2. Non-traditional products	84.81	5.92	33,733
Farming and agroindustry	11.08	12.6	4,408
Textiles	2.68	6.95	1,066
Fishing	0.76	20.7	303
Chemicals	17.93	8.93	7,133
Metal-mechanical	36.2	3.09	14,398
Siderurgical – Metallurgical	5.22	1.35	2,077
Wood	0.79	1.78	316
Non-metallic minerals	1.66	6.39	659
Other	6.85	5.14	2,725
3. TOTAL IMPORTS	100.00	10.00	39,773

Source: SUNAT 2018

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