

Peru

Major Business Sectors

Compiled by:

Swiss Chamber of Commerce in Peru

Lima, May 2019

OVERVIEW AND TRENDS

Peru, one of the best performing economies and the fourth largest in Latin America, has experienced notable structural changes in the last three decades¹.

The economy sustained its growth in 2018 (4.0%) on solid macroeconomic fundamentals despite the increase in commercial tensions in an adverse international environment, given its effects on world trade, the confidence of economic agents and the volatility of financial markets and of commodities².

Despite the moderation in economic growth due to an environment of falling commodity prices, lower mining and hydrocarbon production associated with supply factors, and domestic uncertainty, Private Investment continued to be the engine of the economy, driven mainly by a greater mining investment, due to the start of construction of new projects such as Quellaveco, Mina Justa and the expansion of Toromocho³.

Public investment also increased in 2018 due to the execution of works on Line 2 of the Lima Metro, the Panamerican Games and the Integral Plan for Reconstruction with Changes.

International panorama⁴: the global economy went through a slowdown caused by external factors. Perhaps the most important of all was the commercial war unleashed between the United States and China, through the

¹ Ministry of Economics and Finance of Peru, 2019

² Ministry of Economics and Finance of Peru, 2019

³ Ministry of Economics and Finance of Peru, 2019

⁴ ESAN University, 2018

imposition of tariffs on the important products and materials of both countries, which reduced the price of metals and the level of exports.

Increases in the interest rate of the US Federal Reserve increased the cost of loans globally. At the same time, the Central Reserve Bank of Peru (BCRP) responded with the increase in its rates. In this type of situation, the capitals went to the United States, the supply of dollars contracted, the exchange rate went up and all this had a somewhat deleterious effect on the economy. The downward trend in the price of metals generated a high volatility of the Peruvian stock market. Likewise, there was a deterioration of pension funds and mutual funds of pension fund administrators (AFPs).

Local situation and exposure to natural disasters⁵: this year's governmental management received was affected by the arrival of the El Niño phenomenon and the Odebrecht corruption uncovers which came from the last three governments. The constant political noise caused the execution of expenses to be minimal. The country needed an expansive fiscal policy for its recovery and, although it has the necessary resources, the fiscal political debt limited any possibility of action.

The recent phenomenon of coastal El Niño did not have an impact as strong as that registered in 1983, since it did not generate a contraction in the economy. However, despite the fact that the most recent was harder, there were less victims than at that time. Likewise, future phenomena are projected to be worse due to global warming, although it seems that we are more prepared to face it.

Mining performance⁶: Mining production in Peru remained limited during the year, with a notable lack of projects for copper extraction. When the price of metals is reduced, then larger volumes are exported to offset low costs. It is expected that this situation will not deteriorate with a mining blockade. The current government did not stand out in 2018 for the execution of new public investment projects and preferred to continue those that began during the efforts of the last two governments. Better mining performance and larger public investment projects are expected to improve this situation during the next year.

At the end of 2018, a flow of Direct Foreign Investment of US\$ 25,930 million were reported. The countries that invested the most were Spain (17.61%), United Kingdom (16.83%), Chile (14.81%), United States (10.63%) and Netherlands (6.08%). Together, these five countries accounted 65.96% of investment in Peru in the last year (US\$17,103 million). The sectors receiving most investment are mining (22.03%), communications (20.53%), finance (18.11%), energy (13.29%) and industry (12.40%) together making up 86.36%⁷.

⁵ ESAN University, 2018

⁶ ESAN University, 2018

⁷ Proinversion 2018

GDP SECTOR DATA

The Peruvian Gross Domestic Product (GDP) registered a growth of 3.99% in 2018 and accumulated 113 months of continuous expansion. Domestic production was mainly driven by the sectors of Fisheries, Agriculture, Manufacturing and Services (Financial and Insurance, among others).

GDP PER SECTORS 2018⁸

Sectors	MM USD 2017 ⁹	MM USD 2018 ¹⁰	Var. 2018 / 2017 (%)	% of GDP
Agriculture and Livestock	8,094	8,705	7.54	5.48
Agriculture	4,764	5,191	8.96	
Livestock	2,199	2,318	5.41	
Fishing	570	797	3.98	0.50
Mining and Hydrocarbons	21,313	21,037	-1.29	13.25
Metallic mining	15,086	14,863	-1.48	
Hydrocarbons	2,253	2,252	-0.04	
Manufacture	19,001	20,171	6.16	12.70
Primary	4,234	4,791	13.15	
Not primary	14,734	15,286	3.75	
Electricity and water	2,793	2,916	4.40	1.84
Building	8,827	9,308	5.45	5.86
Trade	16,548	16,986	2.65	10.70
Services	75,559	78,885	4.40	49.67
GDP (by sectors)	152,706	158,804	3.99	100.00
Primary sectors	34,211	35,329	3.27	
Non-primary sectors	118,495	123,476	4.20	

In 2018, the Peruvian economy reversed the negative impact generated by the coastal El Niño and the political crisis of 2017, which led it to grow below its potential rate. Nevertheless, it managed to grow at a rate of 4% expected by the Ministry of Economy and Finance (MEF) and the Central Reserve Bank (BCR), but with some adjustments.

⁸ BCRP 2018

⁹ Exchange rate of 29th December 2018 (arithmetic average purchase and sale): S/. 3.37. Source: BCRP

¹⁰ Exchange rate of 29th December 2018 (arithmetic average purchase and sale): S/. 3.37. Source: BCRP

The agricultural activity grew 7.54% and this growth was the highest of the last five years.

Mining and hydrocarbons was the only sector that decreased its production, non-primary activities had a greater impact on growth. The mining and hydrocarbons sector lost the brightness of the last three years, due to the fall of metallic mining, which fell by 1.48% in the year.

The non-primary sector grew 4.20% between January and December 2018, driven by the construction, non-primary manufacturing and services sectors. Meanwhile, the primary sector grew 3.27%.

Manufacturing grew 6.16%, reaching a positive rate for the first time in four years. The expansion of manufacturing activity was mainly explained by the dynamism of fishing, which boosted primary manufacturing.

Inflation in 2018 was 2.48%, a rate that falls within the fixed range of between 1% and 3%, set by the Central Bank of the Reserve of Peru (BCRP).

Peru's country risk is 1.10 percentage points, according to the investment bank JP Morgan, at the close of the session of 04.03.2019; it is the lowest country risk in the region, followed by Chile (1.31 points), Colombia (1.91 points) and Mexico (2.07 points).

Peru is the leader in Climate to do Business in Latin America, with 35.5 points, followed by Colombia with 16.5, Paraguay 9.8 points and Chile 4.6 points, according to the report of last April of the Getulio Vargas Foundation of Brazil.

GDP OUTLOOK

According to the Ministry of Economy and Finance (MEF), the average expansion for the period 2019 – 2022 is estimated at 4.7%. The inflation rate would be 2.5% and the exchange rate (soles per US\$ dollar) would be 3.35 as projected by the BCR¹¹. In this context of optimism, the MEF argues that the fiscal deficit should not exceed 3.5% of GDP in 2018, 2019 in 2.7%, in 2020 it would be reduced to 1.9% to reach 1.0% of GDP in 2021 and finally, in 2022 the tax pressure would reach 15.5% of our Gross Domestic Product. However, according to the MEF, all estimates are difficult to meet due to a set of factors that cannot be taken into account with the rigor nor the breadth that it requires.

For instance, corruption is the most problematic factor to do business in Peru. Corruption is especially harmful to economic growth because it discourages investment, by damaging the predictability of the legal system, and, in this way, makes business ventures more risky and less productive. It also reduces the creation of employment because it generates legal uncertainty, political instability and public insecurity, etc. According to the Ombudsman, corruption reaches 10% of the annual public budget.

¹¹ Central Reserve Bank of Peru

The International Monetary Fund (IMF) projects slightly higher growth of 4.1% for Peru in the following years, being the engine of this expansion the recovery of domestic demand. The IMF, in its recent assessment of the stability of the Peruvian financial system, concludes that the greatest strength of the system is the adequate capital level maintained by financial institutions, as well as the high degree of profitability they have achieved in recent years. However, the IMF warns that the Peruvian financial sector is highly concentrated and dominated by financial conglomerates.

EXTERNAL TRADE

Peru's total imports in 2018 reached US\$ 43,156 million, with an increase in 8.45% in comparison to the previous year. The sectors that had a greater positive variation compared to 2017 are: Traditional Mining (23.3%), followed by Siderurgical – Metallurgical (25.44%) and, Oil and natural gas (21.83%). The only sector that decreased in imports in 2018 was Traditional farming (-35.92%)¹².

In 2018, Peruvian exports accounted US\$ 47,921 million, increasing by 8.9% because of the increasing in the value of mining products. Traditional products (72.35% of total exports) continue to represent the greater part of Peruvian exports due to mining products (over 57% of all exports). The non - traditional products sector shows an increase of 14.53%.

The Fishing sector grew 28.32%, reaching US\$ 1,344 million, the Oil and natural gas sector grew 21.19%, reaching US\$ 4,216 million and the Farming and agroindustry sector grew 16.92%, reaching US\$ 5,891 million.

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

¹² SUNAT 2018

- Government procurement
- Institutional affairs
- Dispute settlement

EXPORTS 2018¹³

Business Sector	% of Exports	Var. 2018 / 2017 (%)	Value FOB in MM USD
1. Traditional products	72.35%	6.89%	34,672
Mining	57.92%	5.21%	27,757
Fishing	4.04%	9.99%	1,938
Oil and natural gas	8.8%	21.19%	4,216
Farming	1.59%	-6.52%	761
2. Non-traditional products	27.65%	14.53%	13,250
Farming and agroindustry	12.29%	16.92%	5,891
Textiles	0.92%	12.43%	440
Clothing	2.01%	11.16%	962
Fishing	2.8%	28.32%	1,344
Chemicals	3.25%	14.5%	1,557
Metal-mechanical	1.26%	13.8%	602
Siderurgical – Metallurgical	2.49%	4.75%	1,195
Wood	0.26%	4.74%	125
Non-metallic minerals	1.31%	8.99%	630
Other	1.05%	0.95%	504
3. TOTAL EXPORTS	100%	8.9%	47,921

¹³ SUNAT, 2019

IMPORTS 2018¹⁴

Business Sector	% of Imports	Var. 2018 / 2017 (%)	Value CIF in MM USD
1. Traditional products	16.57%	18.31%	7,149
Mining	0.33%	23.3%	144
Fishing	0.03%	34.3%	13
Oil and natural gas	15.65%	21.83%	6,752
Farming	0.56%	-35.92%	240
2. Non-traditional products	83.43%	6.68%	36,006
Farming and agroindustry	10.75%	5.24%	4,639
Textiles	2.75%	11.01%	1,186
Clothing	1.75%	16.08%	754
Fishing	0.77%	4.88%	331
Chemicals	18.06%	9.25%	7,795
Metal-mechanical	33.62%	0.76%	14,509
Siderurgical – Metallurgical	6.04%	25.44%	2,605
Wood	0.87%	18.97%	376
Non-metallic minerals	1.77%	16.22%	765
Other	7.06%	11.8%	3,047
3. TOTAL IMPORTS	100%	8.45%	43,156

¹⁴ SUNAT 2019

Date: May 2019
Author: Swiss Chamber of Commerce in Peru
Author's Address: Av. Salaverry 3240
Lima 27
Peru
Tel.: +51 1 264 35 16
Fax: +51 1 264 35 26
info@swisschamperu.org