Atradius
Managing risk, enabling trade

Atradius Country Report

South America – April 2019

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Contents

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South American Countries:
Atradius STAR Political Risk Rating*:

Argentina:	**6 (Moderate-High Risk) - Stable**
Brazil:	**5 (Moderate Risk) - Positive**
Chile:	**3 (Moderate-Low Risk) - Positive**
Colombia:	**4 (Moderate-Low Risk) - Stable**
Peru:	**4 (Moderate-Low Risk) - Stable**

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk', 'Moderate-Low Risk', 'Moderate Risk', 'Moderate-High Risk' to 'High Risk', with a separate grade reserved for 'Very High Risk.'

In addition to the 10-point scale, rating modifiers are associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please click here.

Argentina

Main import sources (2017, % of total)	
Brazil:	26.7 %
China:	18.4 %
USA:	11.4 %
Germany:	4.8 %
Mexico:	3.1 %

Main export markets (2017, % of total)	
Brazil:	15.9 %
USA:	7.7 %
China:	7.4 %
Chile:	4.5 %
Vietnam:	3.9 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	-1.8	2.9	-2.6	-1.4	3.3
Inflation (y-on-y, % change)	39.1	24.6	34.3	41.6	23.1
Real private consumption (y-on-y, % change)	-1.0	3.5	-1.3	-4.6	3.0
Real government consumption (y-on-y, % change)	0.3	2.2	-3.2	-1.1	1.4
Industrial production (y-on-y, % change)	-4.5	2.0	-3.1	-2.7	3.2
Real fixed investment (y-on-y, % change)	-4.9	11.0	-4.2	-11.1	10.3
Unemployment rate (%)	8.4	8.4	9.0	10.1	10.0
Fiscal balance (% of GDP)	-5.7	-5.8	-4.9	-3.6	-3.4
Public debt (% of GDP)	51.9	53.3	77.8	71.3	67.5
Real exports of goods and services (y-on-y, % change)	5.3	0.4	-1.8	9.0	4.6
Current account (% of GDP)	-2.8	-5.0	-5.3	-2.6	-2.5

* forecast Source: Oxford Economics

Argentina industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

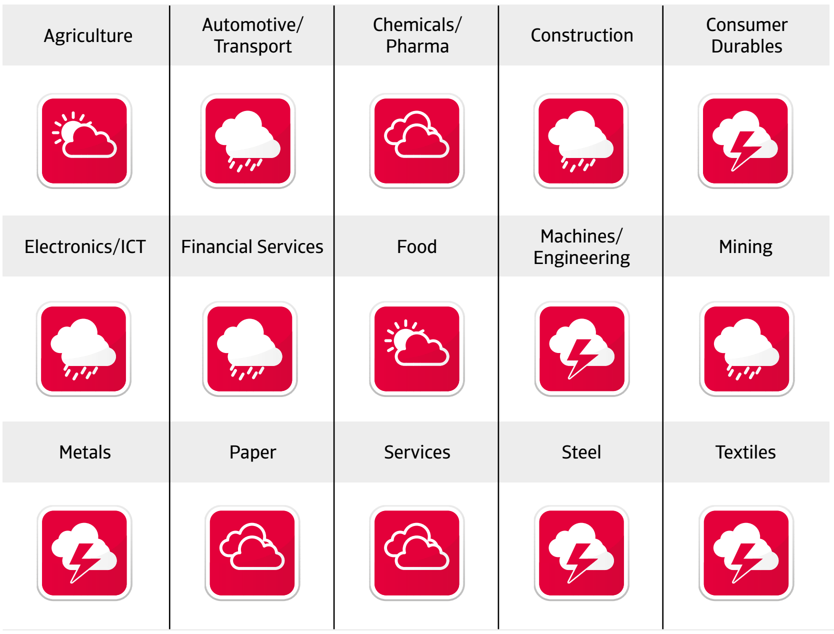

Good:
The credit risk situation in the sector is benign /business performance in the sector is above ist long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / busness performance in the sector is below long-term trend.


Bleak:
The cedit risk situation in the sector is poor /business performance in the sector is weak compared to its long-term trend.

April 2019



Political situation

Head of state/government:
President Mauricio Macri
(since December 2015)

Government type:
Republic

Population:
45.2 million (est.)

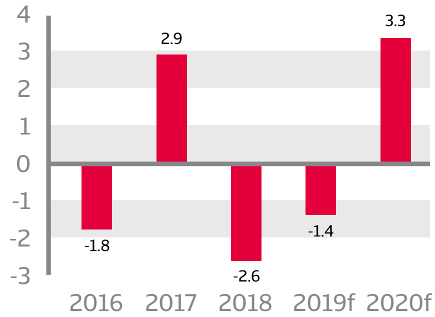
Increasing uncertainty ahead of the October 2019 presidential elections

Soon after taking office President Mauricio Macri addressed the important economic issues left by the former government (e.g. debt default and highly interventionist policies) by cutting energy subsidies, abolishing export taxes, lifting capital and currency controls and floating the (overvalued) Argentinian peso. In early 2016, Argentina negotiated a debt deal with the remaining holdout creditors, which enabled the country to exit default and return to international capital markets.

However, a currency crisis in 2018 and subsequent austerity measures, high inflation and economic contraction have decreased the administration´s approval ratings. The absence of a rebound and inflation reduction in H2 of 2019 could prompt social unrest and diminish the chances of Macri´s re-election in October 2019. This has increased uncertainty about the continuation of his economic adjustment policy. Investors are wary of a government change after the presidential election, especially of a return to the populist economic policies by Macri´s predecessor.

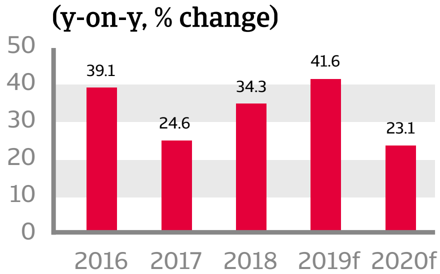
Economic situation

Real GDP growth (y-on-y, % change)



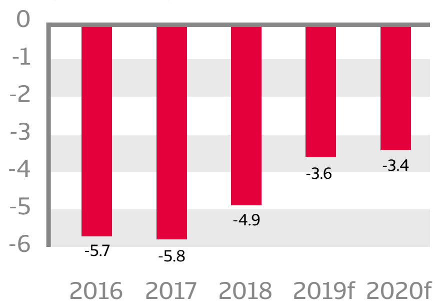
Source: Oxford Economics

Inflation (y-on-y, % change)



Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

A rebound in late 2019 at the earliest

After a short-lived rebound in 2017, Argentina's high vulnerability to US monetary policy normalisation and to shifts in financial market sentiment became evident in 2018, as rising yields on US Treasury bonds hit the peso with investors starting to sell risky assets in April. The exposure was due to persistently high fiscal and current account deficits, along with a high share of foreign currency-denominated debt (about 70%).

Argentina was hit by a major confidence crisis after several poorly communicated policy steps, and concerns about its ability to cover its high financing needs. Despite an IMF programme installed in July 2018 capital flight by both foreign and domestic investors continued, resulting in a 50% depreciation of the currency last year and dwindling official reserves. Attempts to stem the outflows by raising interest rates to a record high of more than 60% and tightening fiscal policy failed, as concerns about the high financing needs persisted.

To address those concerns, in September 2018 the IMF increased Argentina´s credit line from USD 50 billion to USD 57 billion and accelerated loan disbursements in order to secure the government's financing needs in 2019. This has reduced the probability of Argentina´s default for the time being, but in return, the government had to agree to balance the budget in 2019. In order to eliminate the primary fiscal deficit (i.e. before interest payments) public spending on infrastructure, transfers to provincial governments and subsidies for energy and public transport were cut and a temporary tax was levied on exports.

Coupled with the high interest rates of more than 60% the austerity measures will deepen and lengthen the economic contraction. After upward pressure on the peso in late 2018 and early 2019, allowing the central bank to build reserves, the peso has depreciated again since end of February, following concerns over Macri's chances to win the October 2019 elections. However, developments remain in line with the trajectory implied by the central bank's non-intervention band (which is adjusted each month to allow for peso depreciation in order to maintain competitiveness). That said, inflation has increased above 50% as a result of the sharp depreciation in 2018 and continued price adjustments. Unemployment is rising, increasing the risk of social unrest.

A rebound is expected in late 2019 at the earliest, mainly driven by exports benefiting from the weak peso and a normal harvest. An increase in farm goods exports (agricultural products account for 50% of exports) would provide an inflow of hard currency and, together with import compression, narrow the current-account deficit. Inflation is expected to decrease in the course of the year, as the extremely tight monetary policy will start to take effect.

Brazil

Main import sources (2017, % of total)	
China:	18.1 %
USA:	16.7 %
Argentina:	6.3 %
Germany:	6.1 %
South Korea:	3.5 %

Main export markets (2017, % of total)	
China:	21.8 %
USA:	12.5 %
Argentina:	8.1 %
Netherlands:	4.2 %
Japan:	2.4 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	-3.3	1.1	1.1	1.7	2.7
Inflation (y-on-y, % change)	8.7	3.4	3.7	3.6	4.1
Real private consumption (y-on-y, % change)	-3.9	1.3	1.9	2.1	2.8
Real government consumption (y-on-y, % change)	0.2	-0.9	0.0	0.0	0.0
Industrial production (y-on-y, % change)	-6.6	2.9	1.0	1.6	2.9
Real fixed investment (y-on-y, % change)	-12.2	-2.6	4.1	2.9	4.0
Unemployment rate (%)	11.5	12.7	12.3	11.5	10.0
Fiscal balance (% of GDP)	-8.9	-7.8	-7.1	-6.3	-5.7
Public debt (% of GDP)	69.9	74.1	77.2	79.6	80.2
Real exports of goods and services (y-on-y, % change)	0.7	5.7	3.4	3.3	3.9
Current account (% of GDP)	-1.4	-0.3	-0.8	-1.1	-1.3

* forecast   Source: Oxford Economics

Brazil industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign /business performance in the sector is above ist long-term trend.

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April 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Financial Services**	**Food**	**Machines/ Engineering**	**Metals**
				
Oil/gas	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state/government:
President Jair Bolsonaro
(since January 2019)

Population:
211.1 million (est.)

A business-friendly new administration in charge with major reform plans

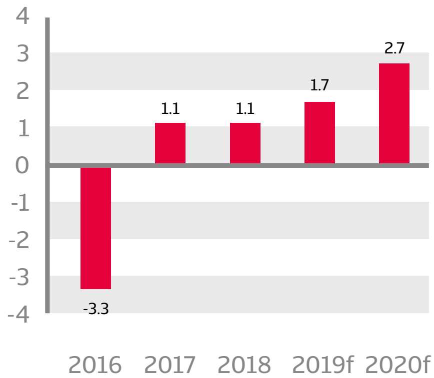
Jair Bolsonaro of the Partido Social Liberal (PSL) won the October 2018 run-off presidential election with 55% of the votes. The election outcome underlined popular disillusion over high crime rates as well as cronyism and corruption associated with the political establishment (more than half of Congress members and even former President Michel Temer have been implicated in the massive "Lava Jato" corruption scandal).

The new administration pursues free-market and socially conservative reform policies, welcomed by the Brazilian business community and building on the market-oriented policies of the previous government. A team of orthodox economists led by the new Minister of the Economy Paolo Guedes has set out an ambitious reform agenda to boost the economy and to restore government finances by overhauling the costly social security system and privatising state-owned companies.

However, economic policymaking could be hampered by a highly fragmented and polarised Congress, with 30 parties in the lower house and 21 in the Senate, with the ruling PSL having just 10% of the seats in the lower house. President Bolsonaro needs to build and manage working coalitions in order to pass major reforms, particularly those requiring constitutional changes (such as the pension reform recently proposed to Congress).

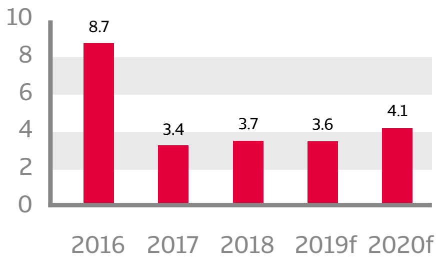
Economic situation

Real GDP growth (y-on-y, % change)



Source: Oxford Economics

Inflation (y-on-y, % change)



Source: Oxford Economics

Emerging from recession and decreasing insolvencies

A modest economic rebound is set to continue in 2019 after Brazil's longest and deepest recession in 2014-2016, when GDP shrank by almost 9%. The 2018 economic performance was impacted by business and consumer uncertainty ahead of the elections, a truckers' strike and subdued household spending (hampered by high unemployment of more than 12%).

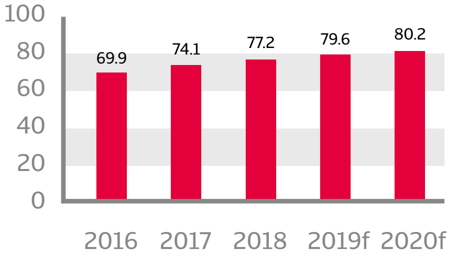
While consumer and business confidence have increased after the elections, exports are still impacted by the ongoing economic problems in Argentina, Brazil´s third largest export market. In 2019 and in 2020 inflation is expected to remain within the Central Bank's target band of 3%-6%, enabling it to leave the official interest rate unchanged at a record low of 6.5% for the time being. This supports both investment and lending.

Business insolvencies increased significantly in 2015 and 2016 (in particular judicial recovery cases rose about 45% year-on-year in 2016). After levelling off in 2018 business insolvencies are expected to decrease 5% in 2019, but to remain on elevated levels compared to pre-crisis years.

Fiscal consolidation is essential to preserve public debt sustainability

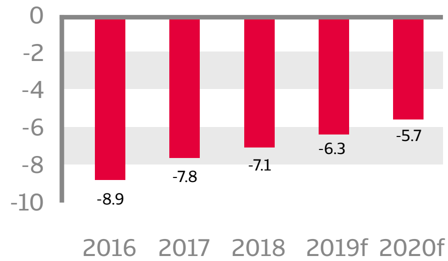
Despite the rebound, the economic environment remains challenging, and investors as well as consumers will remain reluctant until there is greater clarity about the tackling of fiscal woes and the adoption of a pension reform. A higher than expected growth rate would require increased risk appetite by banks and borrowers and higher capital investment, especially in infrastructure.

Public debt (% of GDP)



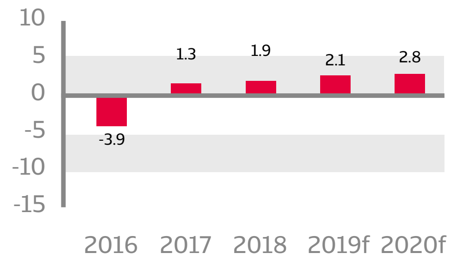
Source: Oxford Economics

Fiscal balance (% of GDP)



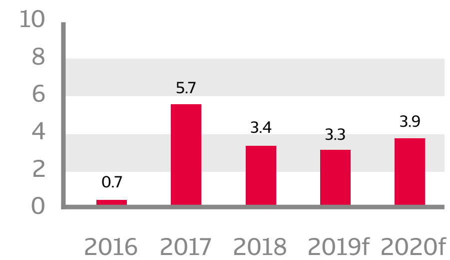
Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

The sizeable fiscal deficit remains Brazil´s major economic weakness, with government debt expected to increase from 56% of GDP in 2014 to 85% of GDP in 2023. While a 2016 constitutional amendment to eliminate automatic budget spending growth in line with rising inflation is a crucial step to curb spending, the effect will only materialise in the medium-term. The real issue is pensions, as expenses for pensioners currently amount to one third of the federal budget before interest payments, or 9% of GDP, crowding out higher infrastructure investment among others. Without a pension reform, the budget deficit would increase to 14% of GDP in 2022, and debt sustainability would come under threat. For the time being the fact that most of the debt is financed domestically (87%) in local currency (95%) and the government's net-external creditor position serve as risk-mitigating factors.

In February 2019 President Bolsonaro proposed a major pension overhaul to Congress, aimed at savings of up to 1.2 trillion reais (USD 310 billion) over the next 10 years. The proposal includes lifting the minimum retirement age and increasing contributions among other things. It is more ambitious than those made by the previous administration. However, any pension reform requires a constitutional amendment, which must be approved by a three-fifths majority in both houses of Congress. Given parliamentary fragmentation and opposition from labour unions, it seems most likely that even a compromise reform package won´t pass before the second half of 2019.

In any case, the adoption of a pension reform that provides savings of at least 600-700 billion reais is essential to keep public debt sustainable and to sustain invertors' confidence in the long-term. Together with tax reforms and measures to improve competitiveness it would help to increase economic growth.

Still vulnerable to changing investor sentiment, but resistant to major shocks

Due to a relatively high level of portfolio investment inflows (more than 130% of international reserves) Brazil remains vulnerable to shifts in investor sentiment. However, a strong financial sector, sizeable official reserves and relatively low external refinancing needs enable the flexible exchange rate to act as a shock absorber. While the real depreciated 15% in total against the USD last year, it started to rebound again in autumn 2018. Major currency volatility is not expected in 2019, but renewed depreciation cannot be ruled out should substantial pension reform not materialise.

Brazil´s external financial situation is expected to remain robust, keeping transfer and convertibility risks low. Liquidity is more than sufficient to cover imports (more than 20 months in 2019) and external refinancing needs. The current account deficit remains low, and fully financed by foreign direct investment.

Corporate external debt has increased, but remains manageable. While businesses have become somewhat more exposed to refinancing risk, this exposure remains generally low. Most externally indebted businesses have either hedged their currency risk or have access to large foreign currency reserves. Additionally declining interest rates on domestic debt and a large share of debt at fixed rates (about 60%) mitigate the impact of any further US monetary tightening on debt service.

Brazil´s banking sector is well regulated and sufficiently capitalised. The system is only modestly dollarized and dependency on external wholesale financing is low, shielding the banking system from adverse shocks. The share of non-performing loans has decreased in 2018 compared to 2017 (to 3.1% in Q4 of 2018).

Chile

Main import sources (2017, % of total)	
China:	23.8 %
USA:	18.0 %
Brazil:	8.6 %
Argentina:	4.5 %
Germany:	4.1 %

Main export markets (2017, % of total)	
China:	27.6 %
USA:	14.4 %
Japan:	9.3 %
South Korea:	6.2 %
Brazil:	5.0 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	1.2	1.6	4.0	3.0	2.9
Inflation (y-on-y, % change)	3.8	2.2	2.3	2.2	2.9
Real private consumption (y-on-y, % change)	2.1	2.5	3.8	3.1	2.9
Real government consumption (y-on-y, % change)	6.3	4.1	2.7	2.6	2.6
Industrial production (y-on-y, % change)	-0.8	-1.1	2.9	2.5	3.4
Real fixed investment (y-on-y, % change)	-0.7	-1.1	6.1	4.3	2.8
Unemployment rate (%)	6.5	6.7	7.0	6.3	6.3
Fiscal balance (% of GDP)	-2.7	-2.7	-1.7	-1.6	-1.4
Public debt (% of GDP)	21.0	23.6	24.0	22.5	21.2
Real exports of goods and services (y-on-y, % change)	-0.2	-1.0	4.9	2.2	2.8
Current account (% of GDP)	-1.4	-1.5	-2.9	-3.3	-2.0

* forecast   Source: Oxford Economics

Chile industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
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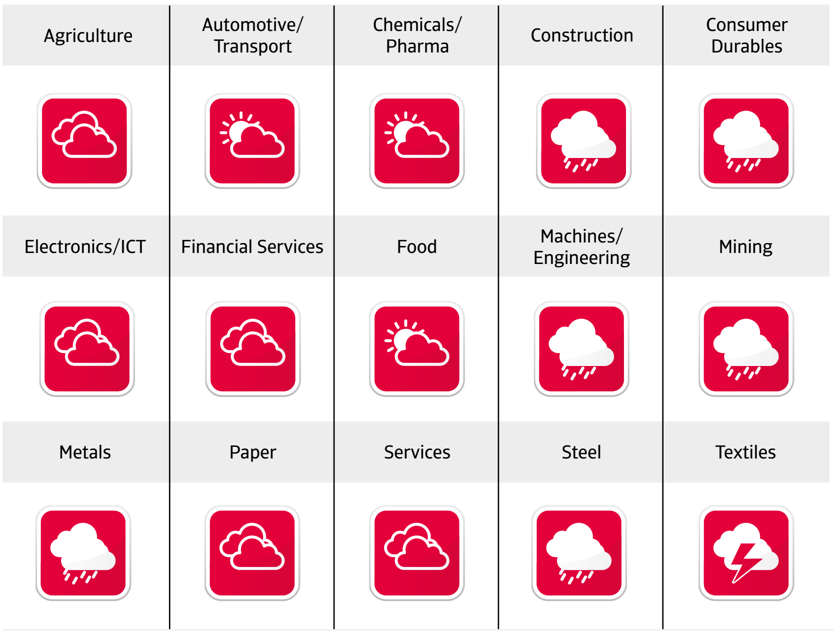
April 2019



Political situation

Head of state/government:
President Sebastián Piñera
(since March 2018)

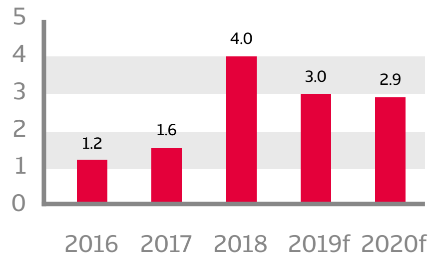
Population:
18.4 million (est.)

High political stability

Political stability remains high, supporting Chile´s creditworthiness and positive financial markets sentiment. After winning the 2017 presidental elections Sebastián Piñera of the centre-right "Chile Vamos" coalition took over from centre-left Michelle Bachelet in March 2018. "Chile Vamos" has no majority in Congress, which makes it harder to pass a proposed tax reform in order to modernise and simplify the current tax and pension systems. Addressing bottlenecks in human capital and social inequality are persisting challenges for the administration.

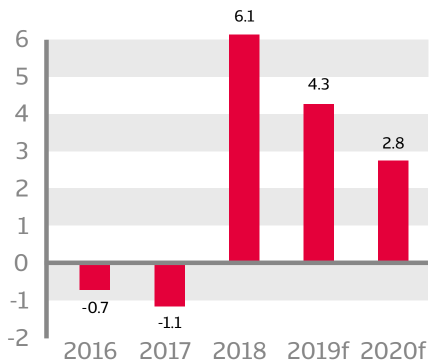
Economic situation

Real GDP growth (y-on-y, % change)



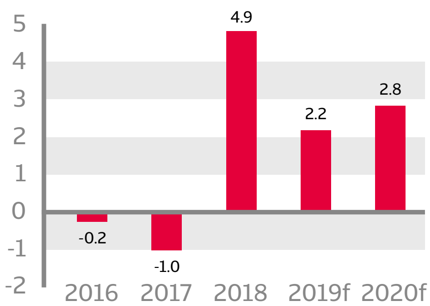
Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Robust economic growth in 2019 and 2020

Chile´s economy remains dependent on copper exports (accounting for more than 40% of export earnings and 10% of GDP) and subsequent demand from China. However, dependence of government revenues on copper earnings has decreased from more than 25% in the past to about 10%, and more diversified export destinations have mitigated trading risks. Meanwhile, the service sector accounts for more than 60% of GDP.

GDP growth rebounded in 2018, driven by higher prices for copper as well as increased exports and investments. In 2019 and in 2020 economic expansion is expected to remain robust at about 3% p.a. Inflation is forecast to remain within the Central Bank´s target range, reflecting a strong macroeconomic policy framework. Chile´s banking sector is healthy, well-regulated and sufficiently capitalised, with low non-performing loans (about 2% on average). The Chilean business environment remains one of the best in the region and the government continues to stimulate foreign investment. Good access to foreign and domestic capital by local companies reduce refinancing risks.

Central government debt, while still low at 24% of GDP in 2018, has sharply increased over the past 10 years (in 2008 government debt was at 4.9% of GDP). Its structure remains low risk: most of it is peso-denominated (95%) and domestically held (70%; i.e. pension funds), mitigating currency and refinancing risks. The government has cut the fiscal deficit from 2.7% of GDP in 2017 to 1.7% in 2018, and plans to decrease it further in 2019 and 2020.

The economy´s shock resistance remains strong, given prudent macroeconomic and financial policies. A flexible exchange rate serves as an effective shock absorber, mitigating the impact of copper prices and external demand volatility on Chile´s current account. External debt is sustainable (with ratios expected to decrease to about 60% of GDP in 2019) and liquidity remains sufficient with more than six months of import cover. Sovereign wealth funds amounting to some USD 24 billion provide an additional cushion against external shocks.

The trade dispute between the United States and China has not yet hurt the economy, due to Chile's relatively solid finances and the flexible exchange rate. However, any serious disturbance of global trade flows by additional protectionist measures would definitely affect Chilean exporters, despite the fact that the country has bilateral and multilateral free trade agreements with more than 60 countries.

Print this article

Colombia

Main import sources (2017, % of total)	
USA:	26.3 %
China:	19.0 %
Mexico:	7.5 %
Brazil:	5.0 %
Germany:	4.1 %

Main export markets (2017, % of total)	
USA:	29.2 %
Panama:	6.8 %
China:	5.3 %
Netherlands:	4.1 %
Mexico:	4.1 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	2.1	1.4	2.7	3.0	3.3
Inflation (y-on-y, % change)	7.5	4.3	3.2	3.0	3.0
Real private consumption (y-on-y, % change)	1.6	2.1	3.5	2.7	3.0
Real government consumption (y-on-y, % change)	1.8	3.8	5.9	3.0	2.5
Industrial production (y-on-y, % change)	4.1	-0.5	2.9	3.9	3.3
Real fixed investment (y-on-y, % change)	-2.9	1.9	1.1	5.0	4.0
Unemployment rate (%)	9.2	9.4	9.7	9.2	8.8
Fiscal balance (% of GDP)	-3.8	-3.3	-3.0	-2.5	-2.4
Public debt (% of GDP)	49.8	49.8	50.0	49.5	48.9
Real exports of goods and services (y-on-y, % change)	-0.2	1.5	1.2	2.2	3.1
Current account (% of GDP)	-4.3	-3.3	-3.8	-3.8	-3.6

* forecast Source: Oxford Economics

Colombia industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
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April 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Consumer Durables
				
Electronics/ICT	**Financial Services**	**Food**	**Machines/ Engineering**	**Metals**
				
Oil/gas	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state/government:
President Ivan Duque Marquez
(since August 2018)

Population:
49.8 million (est.)

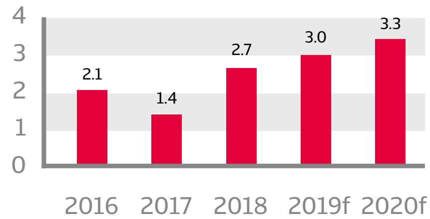
The peace process faces major challenges

After several years of negotiations, in December 2016 a peace accord between the Colombian government and the main guerrilla group FARC was finally signed. In August 2017 most FARC rebels demobilised and handed over their last weapons to UN representatives, and the government declared the 52 year-old armed-conflict formally over. However, the peace process faces major challenges, as the former FARC guerrillas struggle to integrate into society, and some parts of the peace accord remain controversial (e.g. impunity for former FARC members). President Duque takes a tougher stand on those issues than his predecessor, while the government in early 2019 suspended talks with the smaller Ejército de Liberación Nacional (ELN) guerrilla group after several bomb attacks.

The relationship with the Maduro government in Venezuela remains strained, and over the past two years more than one million Venezuelans have fled to Colombia.

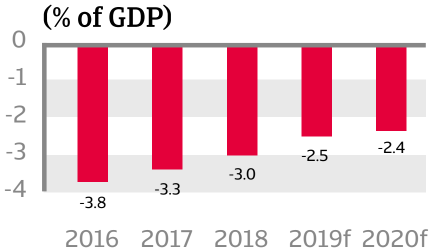
Economic situation

Real GDP growth
(y-on-y, % change)



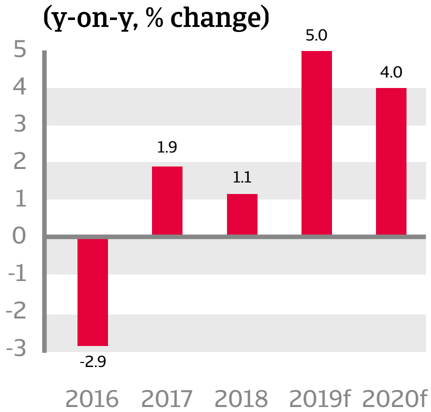
Source: Oxford Economics

Fiscal balance
(% of GDP)



Source: Oxford Economics

Real fixed investment
(y-on-y, % change)



Source: Oxford Economics

Print this article

Solid growth rates, but fiscal deficit issues remain

In 2019 and in 2020 the economy is forecast to grow about 3% annually, driven by higher oil prices, investments and consumption. The mining industry should see steady growth over the coming years, supported by competitive coal exports and growth in gold production. In recent years, sound economic policies have contributed to higher earnings capacity and economic resilience, and the new government under President Duque has continued with a business-friendly policy agenda. Inflation is expected to remain stable at around 3% in 2019 and in 2020, firmly within the central bank's target range.

Concerns about Colombia´s fiscal deficit and narrow revenue base remain an issue, and led some major rating agencies to revise their rating outlook for Colombia in 2018. In December 2018, Congress passed legislation increasing income taxes on high earners, reducing corporate taxes and taking additional measures against tax evasion. However, a politically controversial increase in value-added tax on basic food was opposed, and it remains to be seen if the government can meet its fiscal targets, which aim to cut the deficit to 2.4% of GDP in 2019 and finally to 1% of GDP by 2027.

Colombia's external economic position remains solid. Stable investment grade ratings and an excellent payment record allow Colombia to easily access international capital markets. The international liquidity position remains sound, with international reserves amounting to about 10 months of import cover, fully covering the external financing requirement. Official reserves are underpinned by a precautionary IMF Flexible Credit Line, which provides stronger insurance against heightened external risks, as Colombia remains vulnerable to adverse investor sentiment due to a relatively large stock of inward portfolio investments. Additionally the flexible exchange rate serves as a shock absorber, supported by limited dollarisation of the economy and modest external debt.

Despite significant economic progress in recent years, Colombia still has high rates of poverty and inequality, especially in rural areas. In order to achieve sustainable long-term economic growth, job growth promotion, social reforms and infrastructure improvement would be necessary.

Peru

Main import sources (2017, % of total)	
China:	22.3 %
USA:	20.3 %
Brazil:	6.2 %
Mexico:	4.5 %
Ecuador:	3.9 %

Main export markets (2017, % of total)	
China:	26.3 %
USA:	15.7 %
Switzerland:	5.3 %
South Korea:	4.8 %
India:	4.4 %

Key indicators	2016	2017	2018	2019*	2020*
Real GDP growth (y-on-y, % change)	4.1	2.5	4.0	4.0	3.8
Inflation (y-on-y, % change)	3.6	2.8	1.3	2.2	2.3
Real private consumption (y-on-y, % change)	3.3	2.5	3.8	4.2	3.7
Real government consumption (y-on-y, % change)	2.0	-0.4	2.0	-0.9	3.4
Industrial production (y-on-y, % change)	5.8	2.9	3.6	3.4	3.6
Real fixed investment (y-on-y, % change)	-4.2	-0.6	5.3	-1.4	3.1
Unemployment rate (%)	6.7	6.9	6.7	6.2	6.1
Fiscal balance (% of GDP)	-2.3	-3.2	-2.0	-2.8	-2.6
Public debt (% of GDP)	24.5	25.5	26.0	26.8	27.8
Real exports of goods and services (y-on-y, % change)	9.4	8.0	2.6	4.9	4.5
Current account (% of GDP)	-2.7	-1.2	-1.5	-0.7	-0.6

* forecast   Source: Oxford Economics

Peru industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

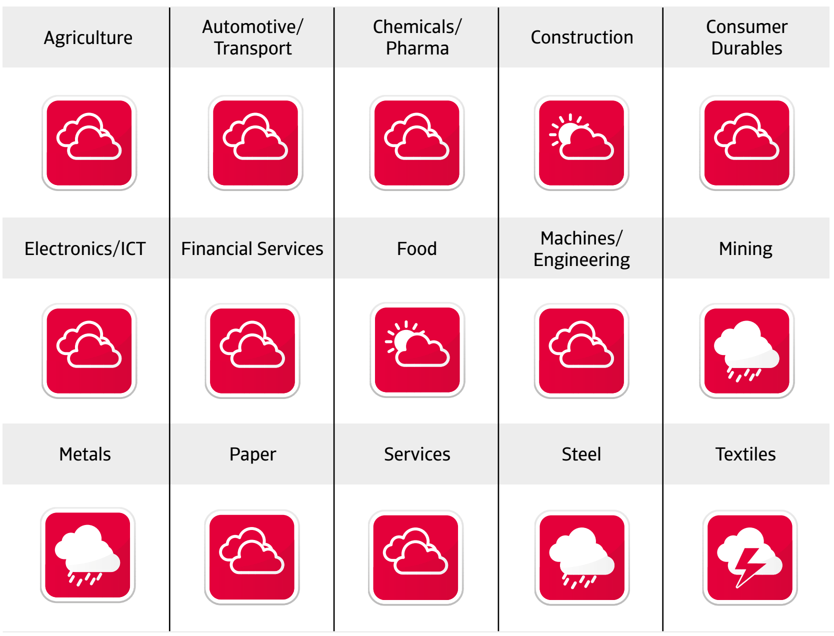
Good:
The credit risk situation in the sector is benign /business performance in the sector is above ist long-term trend.

Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.

Poor:
The credit risk situation in the sector is relatively high / busness performance in the sector is below long-term trend.

Bleak:
The cedit risk situation in the sector is poor /business performance in the sector is weak compared to its long-term trend.

April 2019



Political situation

Head of state/government:
President Martin Alberto Vizcarra (since March 2018)

Government type:
Republic

Population:
32.9 million (est.)

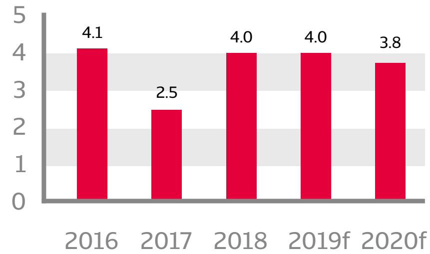
Institutional weaknesses and social conflicts persist

Vice president Martin Vizcarra took over presidency in March 2018 after incumbent Pedro Kuczynski resigned in order to avoid impeachment over a conflict-of-interest scandal. Vizcarra has launched some reform initiatives in order to improve the persistent institutional weaknesses and fight endemic corruption. Most of them (regulating financing of political parties, an overhaul of the appointment system for judges and prosecutors, banning immediate re-election of members of parliament) were approved in a December 2018 referendum.

Despite remarkable economic progress made in the last few years, the country still has to cope with high poverty and very large income inequality, especially between the coastal and the heartland regions. There are still social conflicts flaring up, mainly in the vital mining sector.

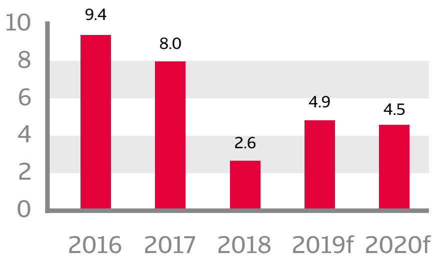
Economic situation

Real GDP growth (y-on-y, % change)



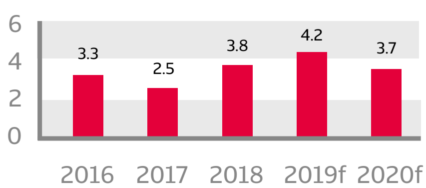
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Robust GDP growth expected in 2019 and in 2020

Peru's small, open economy is highly dependent on minerals (copper, gold, oil and gas), which account for more than 60% of exports. The country has established trade agreements with the US, EU and China, among other markets. It is also a member of the Pacific Alliance as well as the new CPTPP and recently signed a new free-trade agreement with Australia.

Annual GDP growth rates in 2019 and 2020 are forecast to be around 4%, sustained by higher commodity prices and robust domestic demand. Private companies are developing new mines. This is boosting private sector investment. Private consumption is growing on the back of rising household incomes and elevated consumer confidence. In 2019 and 2020, inflation is expected to remain within the Central Bank´s target rate of 1%-3%.

The government has a strong track record of prudent, business-friendly policymaking. The business environment is further supported by investment grade sovereign credit ratings, strong institutions, and a sound external environment.

To sustain high growth rates going forward, the government needs to continue with structural reforms, such as reducing state bureaucracy, strengthening the judicial system, reducing the rigidity of the labour market, and improving infrastructure/education.

Peru's liquidity situation is very strong, with international reserves amounting to 19 months of import cover, which is more than sufficient to cover external financing needs. Solvency is under control and the current account deficits are moderate. The solid liquidity and solvency ratio bolster Peru´s resilience against external economic shocks.

Main risks to Peru´s economic outlook are a hard landing of the Chinese economy and growing social unrest in the mining sector, which would negatively affect the investment climate. At the same time, Peru's small, but well-capitalised and supervised financial sector is highly dollarised (i.e. the US dollar is preferred in large transactions and in savings), leaving it exposed to potential currency risks.

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