

Macroeconomic environment

ECONOMY¹

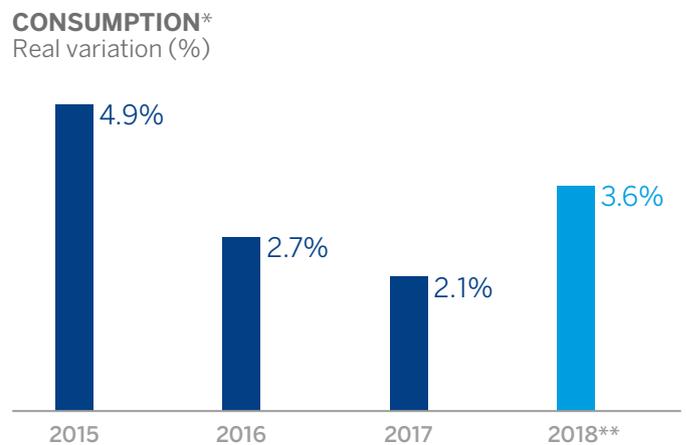
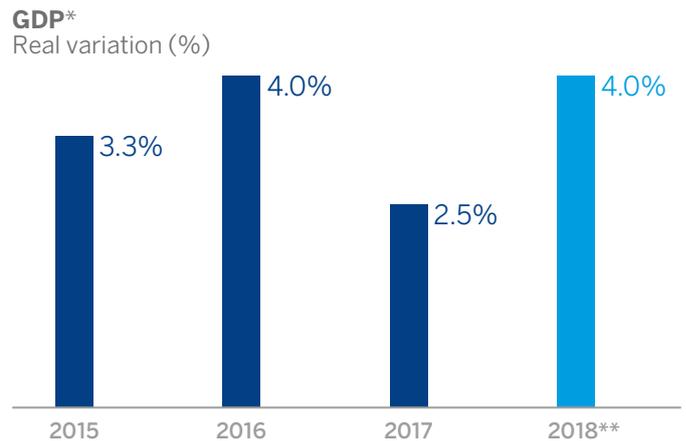
The Peruvian economy grew by 4% in 2018, recovering the rhythm it enjoyed prior to 2017. In that year, due to climate and political factors, expansion moderated to 2.5%. The recovery is linked to greater momentum in non-primary sectors, which grew by 4.2%, particularly construction, services and non-primary manufacturing, which expanded by 5.4%, 4.42% and 3.7% respectively.

Primary activities picked up by 3.3%, led by fisheries, which surged by 39.8%. This was down to the return to normal conditions in the sector, with bigger landings of Pacific anchoveta for industrial use, following on from the suspension of the second fishing season at the end of 2017. This in turn had an impact on the recovery of primary manufacturing, which jumped by 13.1% in 2018, driven by the improvement in fishmeal and oil production.

On the demand side, consumption recovered strongly, growing by 3.6%, compared to 2.1% in 2017. Private consumption was the real driver of annual growth, accounting for 63% of growth over the year, a result of solid employment and the availability of financing.

After three years of dips in private investment (2014–2016), and a modest recovery in 2017, private investment began to expand again in 2018, rallying by 4.4%. The same was true in public-sector investment; after contracting by 2.3% in 2017 because of delays in execution associated with the political crisis, this item surged by 8.4% in 2018. The steady improvement in domestic demand will continue to have an impact on greater growth in non-primary activity.

The adjustment to commodity prices in the second half of the year, which triggered a fall in the terms of trade, was a contributing factor to the reduction in traditional exports, offset by stronger growth in non-traditional exports. This allowed the balance of trade to stay fluid and enabled the current account deficit to remain at sustainable levels, financed by long-term capital, mitigating exchange rate volatility.



¹ All data from Peru's central reserve bank. Estimates to end of 2018 by BBVAMF Research.

* Peruvian central bank.
** BBVAMF Research estimate.

The annual inflation rate, meanwhile, posted at 2.2%. This is accounted for by a reversal of the negative shock that affected agricultural supply during 2017 because of the Coastal Niño phenomenon. This meant that since June it has been running very close to the central bank's target range (1%–3%), offsetting the growth in fuel and lubricant prices and the rise in May of the Selective Consumer Tax, which taxes the most polluting fuels.

Inflation's convergence with the target range allowed the central bank to keep its benchmark interest rate unchanged since March at 2.75%, in a negative product gap environment, transferring this performance and these expectations on to the remaining interest rate curves.

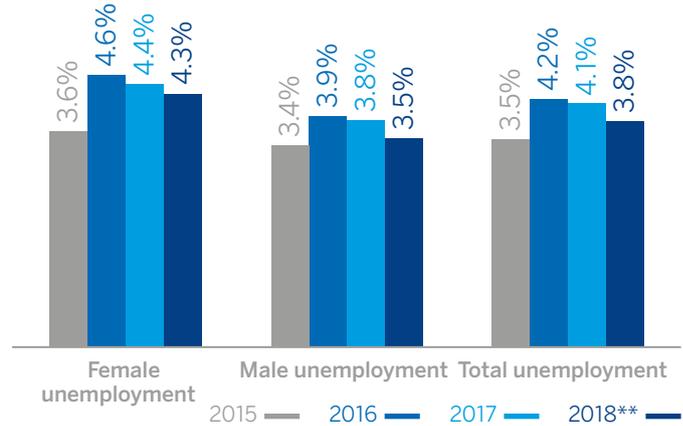
EMPLOYMENT, WELFARE AND POVERTY²

The recovery in economic activity manifested itself in an improvement in private-sector employment in the formal economy; from April onwards it enjoyed growth rates of 4% similar to those in total employment figures. This allowed the national activity rate, that is, the ratio between the economically active population (the population either in work or looking for work) and the working-age population (14 years and above) to rise by 0.2p.p., from 72.4% in 2017 to 72.6% in 2018.

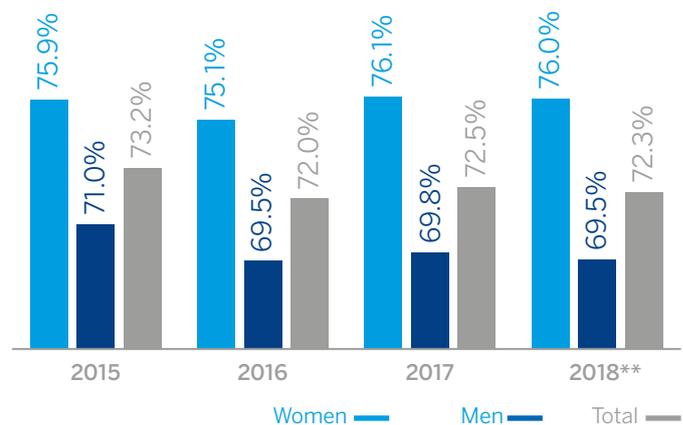
The activity rate in urban areas was 71%, whereas in rural areas it was 79.2%. This difference in favor of rural areas is conditioned by the lower activity rate in the coastal region [Costera], whereas the Sierra region has retained its higher activity rate.

There were clear differences, however, between these regions in terms of the quality of employment. While the coastal region had an informal employment rate of 62.8%, in the Sierra it was as high as 84.3%, similar to the Jungle region [Selva], where it was 84.5%. Nationally, the rate of informal employment improved slightly in 2018, edging down from 72.5% in 2017 to 72.3% in 2018.

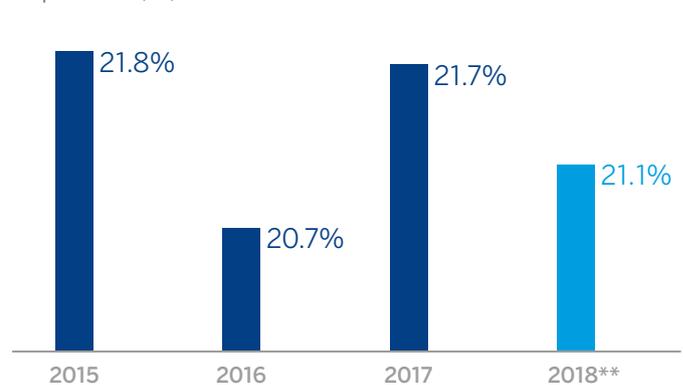
LABOR MARKET*
(%)



INFORMAL SECTOR*
(%)



MONETARY POVERTY*
Population (%)



² Data from INEI.
BBVAMF Research estimate.

* INEI.
** BBVAMF Research estimate.

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There is a significant gender gap in the Peruvian labor market. Whereas the activity rate for men is 81%, for women it is 64%. So, on average, women are less likely to take part in the labor market, with a participation deficit compared to men of 17p.p. They work mainly in the informal economy, with the female informal job rate reported as 76%. Men are ahead in terms of formal employment by 6.5p.p., with an informal job rate of 69.5%.

The economy's stronger performance was reflected in a 0.3p.p. fall in the unemployment rate, down to 3.8% in 2018.

4.3% of women are unemployed, whereas for men the figure is 3.5%, widening the gender gap, which rose from 0.6 to 0.8p.p. in 2018. In the case of young people, the unemployment rate was 3.5 times higher than that of adults between 25 and 44, and 5.7 times higher than people aged 45 or more.

In 2017 the number of Peruvians in poverty went up by 375,000 people, to 6.9 million. In other words: 21.7% of the population was in poverty, as classified by income. The deterioration in the poverty indicators was linked to lower growth in activity, particularly in the sectors that generate most employment, as well as the uptick in the informal sector.

In 2018, better economic performance, mainly in the non-primary sector, the improvement in employment and less informality led to a 0.6p.p. fall in the poverty rate, which was recorded as 21.1%. This means that 120,000 people escaped poverty, while 6.78 million people remain poor.

These results were accompanied by very little variation in national inequality levels. However, the results over the last 10 years show a reduction in inequality across the nation and in all regions, with the Gini ratio (in which a value of 0 means total equality and a value of 1 is maximum inequality) falling from 0.50 in 2007 to 0.43 in 2017. The greatest drop in inequality was on the urban coast, followed by the metropolitan area of Lima, the urban Selva region and the urban Sierra region.

FINANCIAL INCLUSION

According to World Bank figures³, 42.6% of adults in Peru are banked, and this percentage has doubled since 2011. As is the case with most countries in the region, there is a noticeable gender gap in financial inclusion, with men ahead of women by 16.6p.p., the latter having an inclusion rate of 34.4%.

Only 27% of adults in the category of the 40% poorest households are banked, compared to 53% of adults in the 60% richest households. This inclusion gap by income differentiation, 26p.p., is a stronger differentiating factor than gender.

As adult educational attainment levels fall, the likelihood that they are not banked rises. In Peru, just 31% of adults with primary education or less are financially included, whereas in the case of those who have completed secondary education or higher, the figure is 45%.

On aggregate, the ratio of adults with an account but are not in the labor force is 25%. Among the unbanked, women are less likely than men to be in the labor force.

Looking at the reasons for not having a bank account, 47% of adults said that the main reason was insufficient funds. 31% gave the main reason as the distance from financial institutions, 29% pointed to difficulties as a result of not having the necessary documents, and 59% claimed that the main motive for exclusion was that financial services are "very expensive".

40% of adults had saved some money over the previous year. Only 9% of those with the least resources had done so, and just 8% of all adults had put these savings into a financial institution. This ratio fell to 2% for those adults in the category of the 40% poorest households.

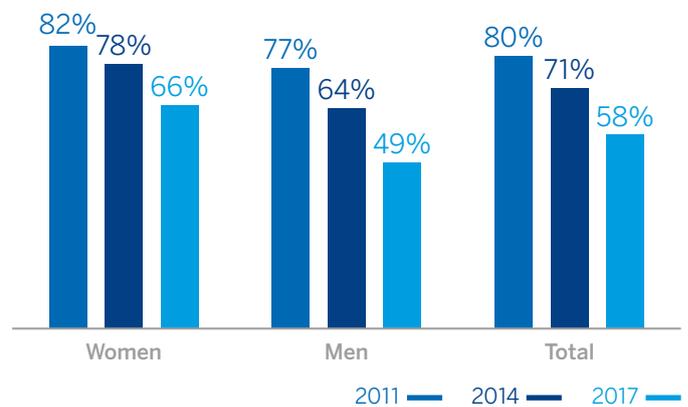
14% of adults overall saved some money in order to start or expand a productive activity, whereas only 4% of adults with primary education or less did so. Among those completing secondary studies or higher, the percentage was 16%.

³ Global Findex 2017, World Bank.

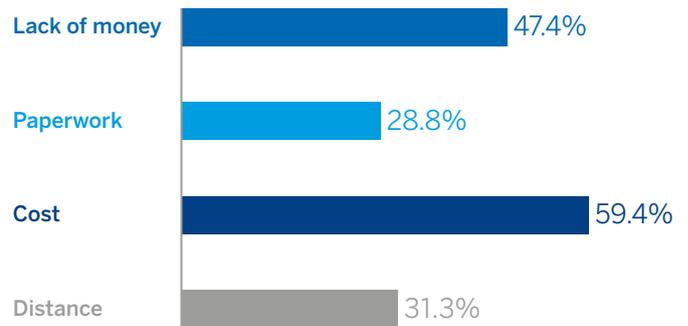
Meanwhile, 36% had taken a loan of some kind, although only 19% had obtained it from a financial institution. 16% had received it from family members or friends. Among those with the lowest incomes, although 30% had received some sort of loan, only 7% had obtained it from financial institutions and 13% from family members and friends.

According to local sources⁴, in the last five years 1.2 million borrowers have joined the financial system, bringing to 6.8 million the number of individuals with a loan as of June 2018. As a result, the percentage of the adult population with a loan rose from 29% in June 2013 to 33% in June 2018. Over the same period, 524,000 micro and small entrepreneurs (MSMEs) joined the financial system, reaching around 2.4 million MSME borrowers by June 2018. Over this five-year period the number of service points (branch offices, ATMs, banking agents and establishments for basic transactions) has increased, rising from 240 to 867 service points for every 100,000 adults.

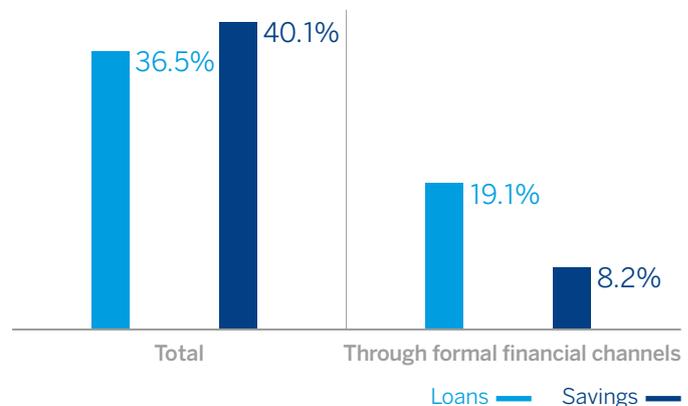
UNBANKED ADULTS*
Total over 15 years old (%)



EXCLUSION FACTORS*
Excluded adults (%)



PRODUCTS IN DEMAND
Adults (%)



⁴ Banking, Insurance & Pension Fund Management Authority (SBS) of the Republic of Peru.

* Global Findex 2017, World Bank.