

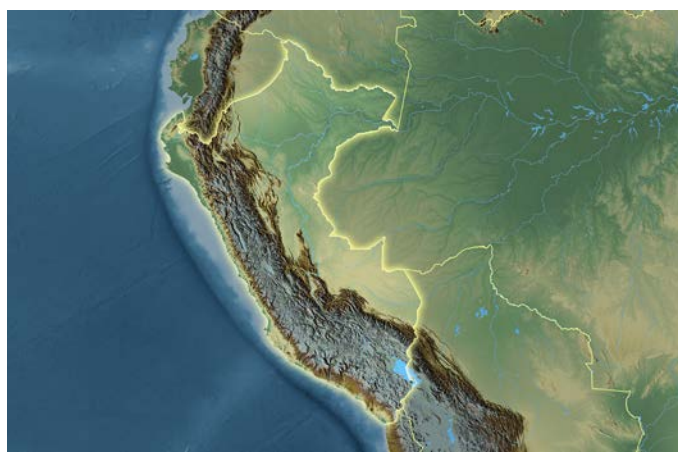
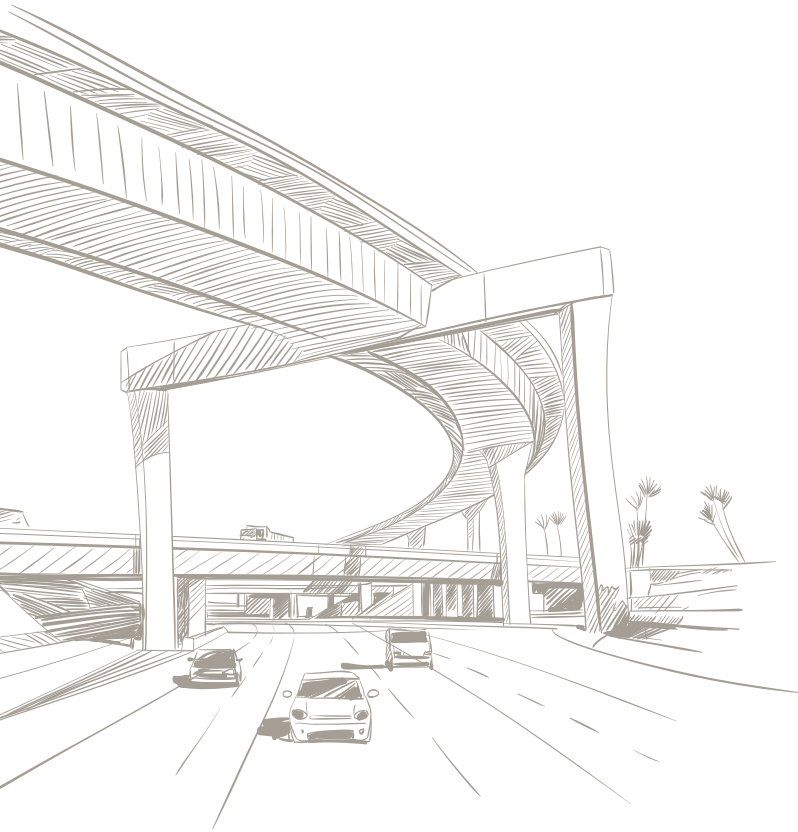
# Infrastructure Outlook Peru 2023



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# 1 General Overview

In the rapidly evolving global business arena, Latin America emerges as a region of immense potential coupled with some complex challenges. While some sectors highlight impressive infrastructure projects representing progress and modernity, others languish due to a stark lack of development. However, for discerning investors and corporate leaders, infrastructure goes beyond mere structures—it forms the foundation of commerce and trade. Latin America’s diverse geography, encompassing bustling cities and remote hinterlands, highlights infrastructure’s pivotal role in fostering sustainable growth and competitive advantage.

While investment in the region is on the rise, a tangible gap remains between available financing and soaring demand.

Regulatory landscapes marked by fluidity create additional hurdles for multinational corporations and local enterprises alike. Within these challenges, however, lie boundless opportunities. The new millennium has brought a renewed commitment to infrastructure development in Latin America. The advent of Public-Private Partnerships (PPPs) signifies a paradigm shift, combining private sector efficiency with the reach of public initiatives. Additionally, the global push for sustainability is reshaping infrastructure projects to align with long-term environmental goals.

This comprehensive report provides executives and policymakers with insights crucial for informed decision making.

## **Paving the Way: Infrastructure Investment in Latin America**

Latin Americas and Caribbean economies are dedicated to bridging a substantial infrastructure

gap to achieve Sustainable Development Goals by 2030, with governments currently allocating about 3% of the region’s GDP to infrastructure. For comparison, East Asia and Pacific countries dedicate around 8%, and the Inter-American Development Bank estimates investments in infrastructure should be between 4–8% of the region’s GDP in order to close the existing infrastructure gap of USD 150 billion per year in Latin America.

With regards to private investment, with USD 18.6 billion (+22% YoY) across 56 projects, Latin America was the region with the second-largest commitment in infrastructure, behind East Asia and the Pacific’s USD 28.1 billion, according to World Bank’s 2021 report. Brazil alone received USD 15.7 billion of private investment commitments across 36 projects, accounting for 84% of the region’s PPPs for that year. In contrast, Mexico secured USD 1.1 billion in PPP investment commitments across six projects.

Water and electricity infrastructure are areas of relative strength for the region. More than 94% of the population have access to drinking water, but 20 million households still lack this essential service. Electricity access is also widely extended, with

primarily due to fossil fuels and hydroelectric sources.

Transportation infrastructure, however, remains a significant challenge as the region lacks a dense transportation network, and its paved road density is low. Urban transportation has seen investments in recent decades, with cities like Medellin and Santiago boasting efficient public transportation systems. Yet, the region's airports and ports need more attention to meet the demands of a growing

middle class and increased trade volumes.

Latin America's infrastructure journey highlights sector-specific progress but underscores the need for substantial private investments. Collaborative efforts, transparent partnerships, and strategic resource allocation are crucial as the region pursues its infrastructure goals to fuel economic expansion.



Inter-American Development Bank estimates investments in infrastructure should be between **4-8% of the region's GDP** in order to close the existing infrastructure gap of USD 150 billion per year in Latin America.

Water and electricity infrastructure are areas of relative strength in the region, while **transportation remains a significant challenge** as the region lacks a dense road and highway network

Latin America was the region with the **second-largest private investment commitment (USD 18.6 Bn, +22% YoY)** in infrastructure in 2021.

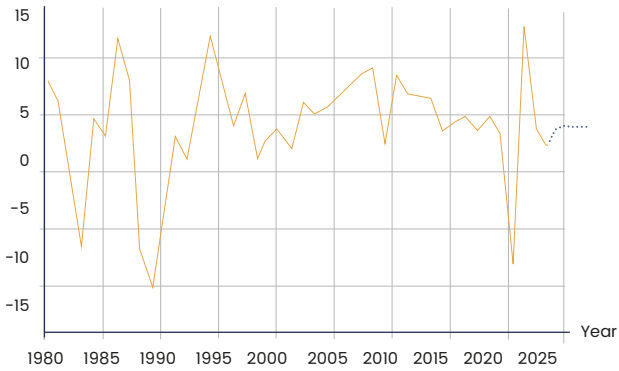


## 2 Peru in Numbers

	Country	Peru
Macro	Population (Million)	34.049.588 (2022)
	% urban population	78.0% (2022)
	GDP (USD)	\$242.63 Bn USD (2022)
	GDP CAGR (2022-30)	2.7%
	Government debt as a % of GDP	35% (2022)
	Currency	Sol S/
	USD/Local currency, change LTM	4.47%
Infra	Infrastructure quality	62/100
	Current investment	5% Bn USD
	Gap	0.9% Bn USD
	Public investment in infrastructure	30 Bn USD (2022)
	# of live infrastructure projects	396
ESG	Energy transition index	56/100 (2021)
	Air and GHG emissions per capita	1.4 t CO <sub>2</sub> /capita (2019)
	Level of water stress: freshwater withdrawal as a proportion of available freshwater resources	2%
	Renewable energy consumption (% of total final energy consumption)	31.62%

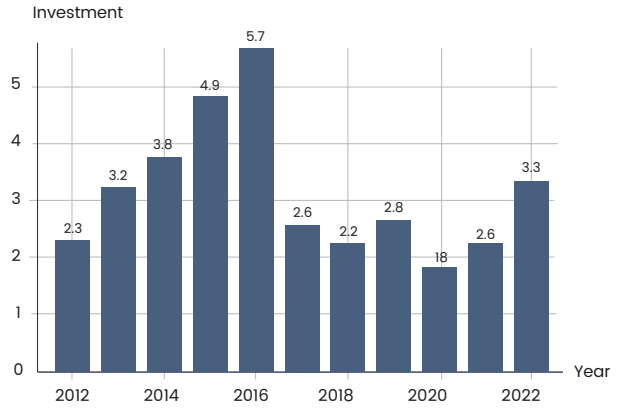
Source: World Bank, OECD, Google Finance, Global Infrastructure Hub, World Economic Forum.

### Real GDP growth (Annual percent change)



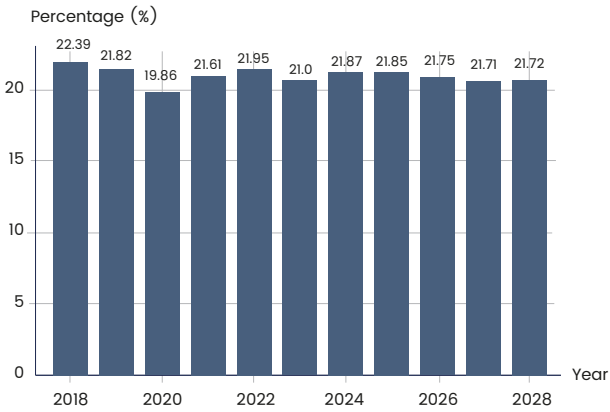
Source: Statista.

### Infrastructure investment (in USD Billions)



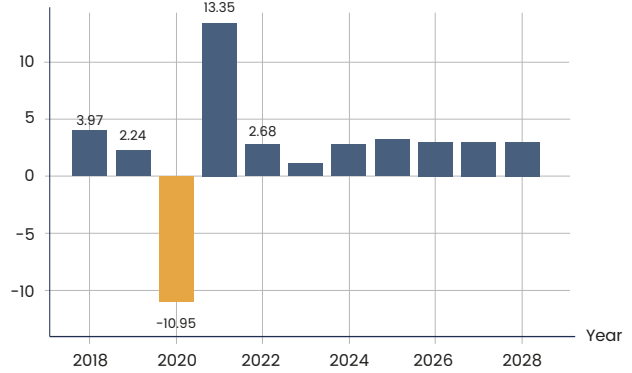
Source: Statista.

### Total investment as a share of the GDP in Peru

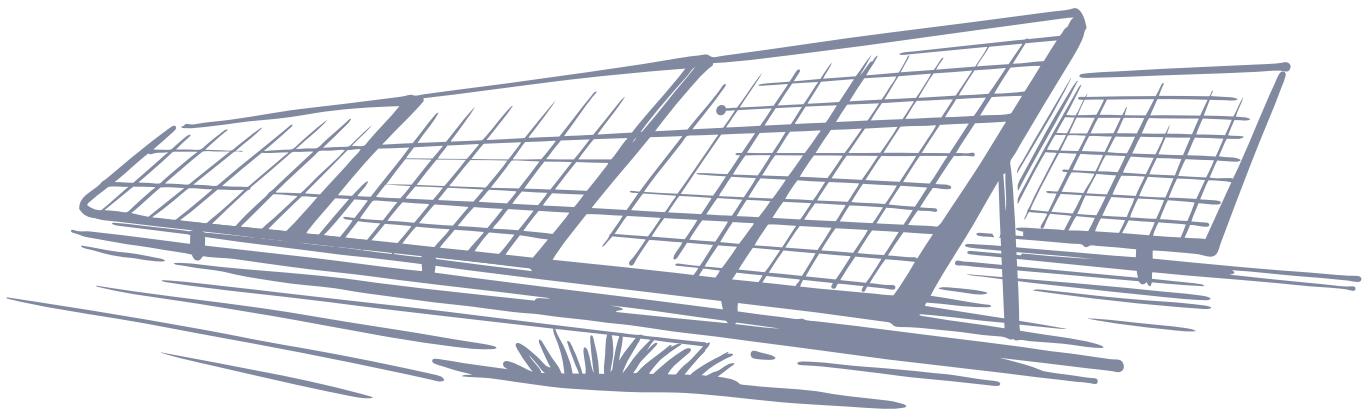


Source: Statista.

### Peru: Growth rate of the real gross domestic product (GDP)



Source: Statista.





## 3 Peru Zoom In

Peru, known for its significant advancements in economic growth and poverty reduction over the two decades preceding the COVID-19 pandemic, stands as a solid performer in the Latin American economic landscape. Bolstered by macroeconomic stability, open trade policies, and a favorable international environment, the country achieved a transition to a high-middle-income economy, with per capita income rising from US\$2,040 in 2002 to US\$7,126 in 2023.

However, persistent threats loom over the nation's quest for further development and prosperity. Challenges include the impact of climate change, enduring inequalities, and an economic structure heavily reliant on natural resources. Unaddressed structural limitations hinder the creation of formal employment, economic diversification, and the pace of poverty and inequality reduction.

Key catalysts for more inclusive and robust growth in Peru encompass improved public services, stronger governance, a conducive business environment, and political stability. The first half of 2023 showcased positive signs with increased exports from Quellaveco, contributing over 10% to national copper production and driving growth. The labor market exhibited signs of recovery, witnessing a 4% increase in employment in companies with over 50 workers, coupled with a slight rise in average real wages.

Despite these positive indicators, the country faced economic challenges during the same period,

marked by a 0.5% contraction in GDP due to political uncertainty, social unrest, and natural disasters. Stricter financial conditions contributed to a slowdown in private spending, and the recovery pace fell below expectations. Public investment execution was hampered by climatic events and internal conflicts, affecting key sectors such as agriculture, fishing, and tourism.

In August, annualized government revenues were 1.8 percentage points of GDP lower than in 2022, primarily due to reduced corporate income tax and VAT collection. The annualized public deficit increased to 2.6% of GDP, 0.2 percentage points above the revised fiscal target for 2023. Notably, public debt (34% of GDP) and sovereign risk differentials remain among the lowest in the region.

From December 2022 to August 2023, inflation decreased from 8.5% to 5.6% but remains above the 1-3% target range. Excluding volatile food and energy prices, inflation stood at 3.8%, with inflation expectations declining to 3.4%.

### **Infrastructure Investment Surge:**

Infrastructure investment in Peru witnessed a remarkable 28% growth until April 2023, surpassing US\$247 million. Major contributors to this upswing were the dynamic developments in ports and the second line of the Lima Metro.

During the first four months of 2023, airport infrastructure investment rose by \$21.8 million, while ports recorded \$127.7 million, marking a significant 122.3% increase from 2022. The Metro de Lima Line 2 contributed \$77.8 million, a notable 18.9% growth compared to the previous period. However, road investments experienced a 70% decline, reaching \$20.3 million.

In April alone, concessionaires drove investments of \$17.4 million. Key highlights included investments in regional airports, the expansion of port facilities in Callao, and advancements in the construction of tunnels and stations for Metro Line 2.

Cumulatively, since the inception of concession contracts until April 2023, total infrastructure investment amounted to \$10.794 billion, representing 62.8% of the total committed investments by concessionaire companies.

### Energy Sector Challenges:

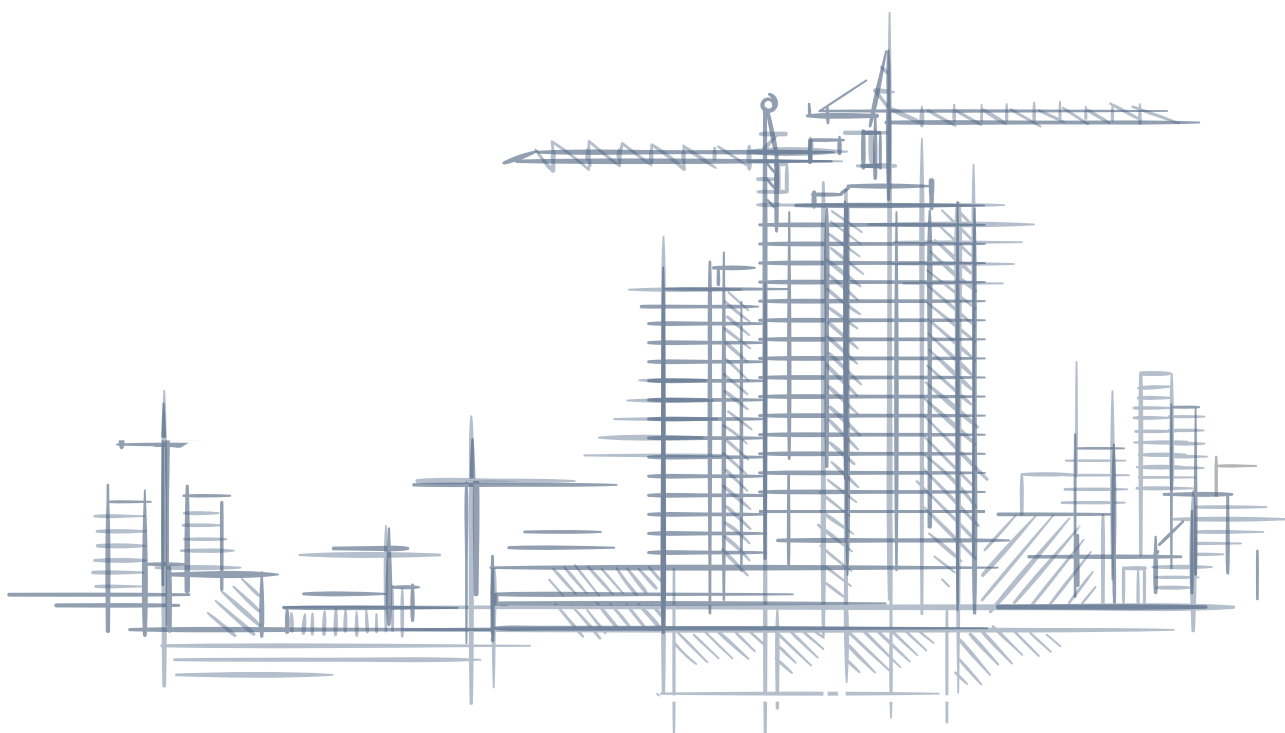
The energy sector in Peru faces headwinds as social conflicts, regulatory risks, and low business confidence are poised to impede investments. This trend follows a similar retreat in the mining

sector. The recent political crisis has led to a decline in business confidence to levels not seen since the Global Financial Crisis of 2008–2009.

Economic activity in the metals and mining sector contracted by 3.5% YoY in the first five months of 2022, leading to a downward revision of the 2022 GDP growth forecast to 2.3%. Tighter fiscal and monetary policies, higher oil prices, declining copper prices, and social unrest are anticipated to weigh on growth.

Despite a potential recovery in the labor market, informal work has increased relative to pre-pandemic levels, and real wage growth remains weak. Policy uncertainty may lead companies to scale back growth capital expenditures beyond 2024, impacting the build-out of natural gas and electric transmission networks, as well as renewables projects critical for Peru's energy security and decarbonization goals.

While the near-to-medium-term outlook suggests challenges in addressing instability and restoring confidence for higher energy investment, prudent government policy execution and community collaboration remain crucial for sustained development.





## SWOT Analysis

### Strengths

- **Infrastructure Investment Opportunities:** Peru's National Infrastructure Plan (PNIC), recognizing a \$110 billion long-term gap, highlights substantial opportunities, especially in sectors like transport, sanitation, and healthcare.
- **Government Investment Mechanisms:** The Peruvian government employs diverse investment mechanisms, including Public-Private Partnerships (PPPs), Works for Taxes (Oxl), and Government-to-Government (G2G) agreements, fostering collaboration between the public and private sectors.
- **Growing Oxl Projects:** In 2021, Oxl projects surged, totaling \$50 million, indicating increased interest and growth compared to previous years, driven by regional and local governments' engagement.
- **PPP Project Pipeline:** A robust PPP project pipeline, encompassing 22 projects across sectors like transport, water and sanitation, education, and energy, represents a total estimated investment of \$6 billion.

### Weaknesses

- **Implementation Challenges:** Regulatory hurdles, land-access constraints, and weak government capacity pose challenges to project implementation, raising concerns about meeting PNIC goals by 2025.
- **Ministerial Turnover:** High turnover in ministerial positions hampers progress on infrastructure projects, contributing to delays and uncertainties in the sector.
- **Incomplete Projects:** Peru has experienced instances of half-finished infrastructure projects, increasing the risk of mid-construction abandonment, potentially leading to degradation, legal processes, and financial strain.
- **Procurement Requirements:** International firms bidding on public tenders must register with the National Registry of Suppliers, necessitating audited financial statements, which might differ from practices in other countries.

## Infrastructure SWOT

### Opportunities

- **Diverse Investment Mechanisms:** Peru's government is keen on increasing both public and private investment in infrastructure, providing opportunities through various mechanisms such as traditional Public Works, PPPs, Oxl, and G2G agreements.
- **Expanding Road Infrastructure:** With a total of 175,053 km of roads, Peru has opportunities for private investment in road infrastructure, addressing the need for both national and local connectivity.
- **Telecommunications Sector Growth:** Peru's telecommunications sector shows promise, with plans for a 5G spectrum auction in the future, offering opportunities for private investment in advanced telecommunication infrastructure.
- **Water and Sanitation Initiatives:** The government's strategy to streamline processes in the water and sanitation sector, aiming to close a \$15 billion infrastructure gap, presents investment opportunities for private entities.

### Threats

- **Regulatory and Bureaucratic Hurdles:** Regulatory challenges, land-access issues, and bureaucratic hurdles may impede project implementation, posing threats to the successful execution of infrastructure initiatives.
- **Political and Ministerial Instability:** Political and ministerial turnover adds uncertainty to the infrastructure landscape, potentially affecting the continuity and progress of ongoing and future projects.
- **Potential Mid-construction Abandonment:** Incomplete projects increase the risk of mid-construction abandonment, leading to potential financial losses, legal complications, and disruptions in the infrastructure development process.
- **International Procurement Challenges:** Stringent registration requirements for international firms may act as a barrier, necessitating compliance with the National Registry of Suppliers, including submission of audited financial statements.



4

**Sectors &  
Key Projects**



## Power and Utilities

In the heart of South America, Peru is rapidly becoming a beacon of progress in the global shift towards sustainable energy solutions. Fueled by a confluence of factors, including a surging energy demand, environmental consciousness, and a proactive regulatory framework, Peru is making remarkable strides in harnessing the power of renewable resources, particularly in the realms of wind and solar energy.

The surge in investments in Peru's renewable energy sector is emblematic of the country's commitment to a cleaner and more sustainable energy future. Bolstered by a regulatory environment that encourages innovation and growth, the nation is setting the stage for a transformative shift away from conventional energy sources.

### Unleashing Hydroelectric Potential

Peru's geographic advantage is underscored by its immense potential in hydroelectric power. With a staggering capacity potential of 70,000 Megawatts (MW), predominantly untapped, the nation is positioned to leverage its natural resources for sustainable energy generation. Current utilization, hovering around 7,000 to 7,500 MW annually, represents just a fraction of the available hydroelectric capacity.

While hydroelectric power remains a cornerstone, Peru is actively diversifying its renewable energy portfolio. Embracing a comprehensive approach, the country is tapping into wind, solar, biomass, geothermal, and mareomotriz (tidal energy) sources. This diversified strategy ensures a resilient and balanced energy mix, mitigating risks associated with dependence on a single source. The share of non-conventional renewable energy in Peru's electricity matrix has witnessed a commendable rise, escalating from 3.4% in 2016 to a notable 5.5% in 2022. This progressive shift is driven by the growing contributions of wind power (3.2%), solar power (1.4%), and biomass (0.9%).

Peru's focus on wind and solar power is not merely an environmental stance; it is also an economic strategy. These renewable sources are emerging as highly competitive, not only reducing carbon footprints but also actively contributing to the reduction of electricity tariffs for consumers.

Beyond energy production, Peru's renewable energy sector has become a significant driver of employment. Operational projects in wind, solar, and biomass have created approximately 7,000 direct jobs, fostering social development alongside economic growth.

With 33 operational non-conventional renewable energy facilities, representing a cumulative investment of around \$2 billion, Peru is making substantial strides. Further amplifying this trajectory, 12 projects, under development, are poised to bring an additional 1,944 MW of capacity, with investments nearing \$1.573 billion. The Central Eólica Punta Lomitas, a wind energy project currently under construction with an estimated investment of \$300 million, is a testament to Peru's commitment to future ventures.



## Power and Utilities

### Power Transmission Reinforcement

Recognizing the need for a robust energy infrastructure, Peru is investing over \$1.13 billion in expanding and reinforcing its power transmission capabilities by 2032. This includes both immediate projects, such as transmission links and substations, and long-term endeavors focused on the metropolitan Lima area.

Peru is actively exploring energy interconnections with neighboring countries, with a particular emphasis on reliability and capacity. Initiatives with Ecuador and Chile are underway, acknowledging the importance of meeting both domestic and international energy demands.

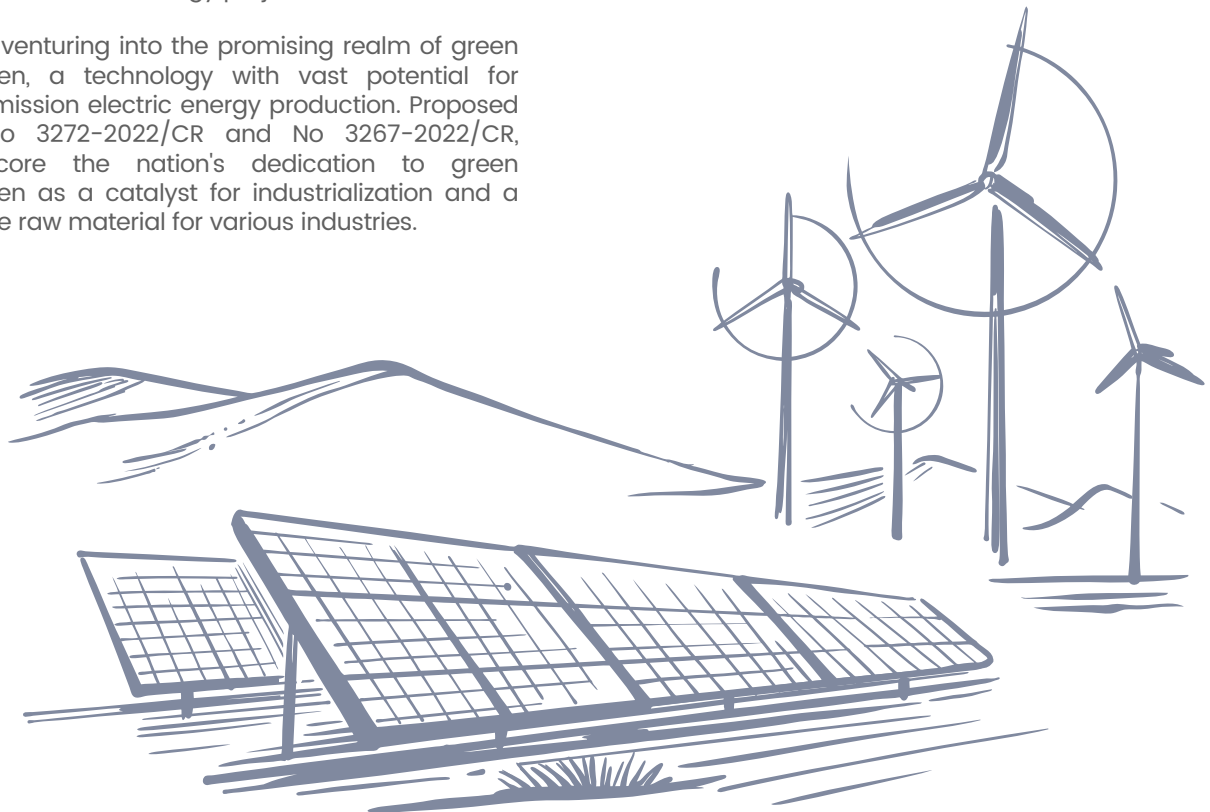
Since 2008, Peru has been a trailblazer in promoting non-conventional renewable energy, and legislative initiatives, such as Bill No 4565, are indicative of ongoing efforts. This bill aims to enhance competitiveness by enabling the separate sale of capacity and energy, fostering a more level playing field for renewable energy projects.

Peru is venturing into the promising realm of green hydrogen, a technology with vast potential for zero-emission electric energy production. Proposed bills, No 3272-2022/CR and No 3267-2022/CR, underscore the nation's dedication to green hydrogen as a catalyst for industrialization and a versatile raw material for various industries.

### Challenges and Forward-Thinking Strategies

As Peru charts its course towards a cleaner energy future, challenges include the imperative for ongoing regulatory enhancements, ensuring the security of electricity supply, and addressing the intermittent nature of renewable energy sources. The nation's proactive stance in mitigating these challenges underscores its commitment to sustainable growth.

In essence, Peru is not just adapting to the global call for renewable energy; it is actively shaping the narrative. With a harmonious blend of geographic advantages, regulatory support, and visionary investments, Peru stands as a testament to the transformative power of sustainable energy in propelling nations towards a greener and economically vibrant future.

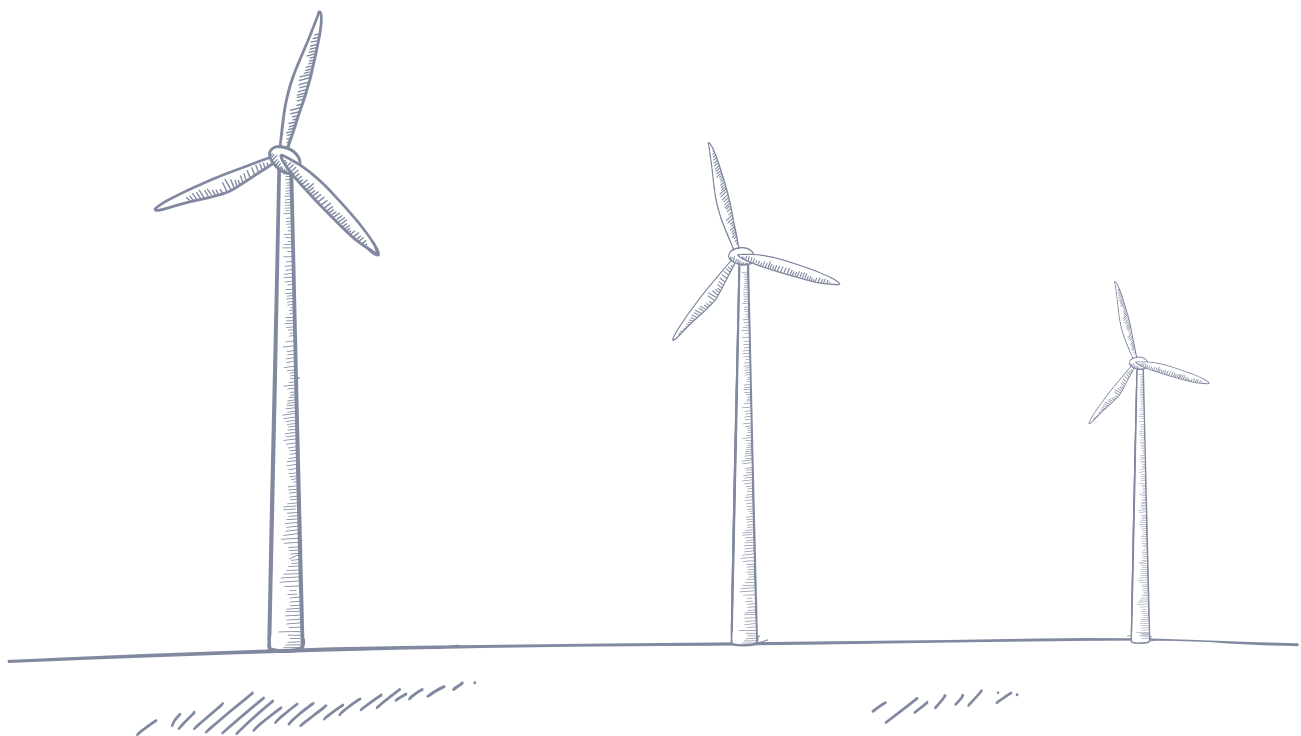




## Power and Utilities

### Power and utilities Active Projects:

Name	Capex (US\$ mn)	State	Capacity
Andean electrical interconnection system (SINEA)	1500	NA	500 kV
Lares and Yanatile I, II and III hydro plant	230	Cusco	91 MW
Sunny solar photovoltaic plant (CSF Sunny)	220	Arequipa	2 km
Huacho Sur wind farm	215	Lima	168 MW
Punta Cherrepe wind farm	150	Lambayeque	100 MW
Arica - Tacna Transmission Line (Parinacota Substation - Los Héroes Substation)	131	Tacna	57 km
Mistisol solar plant	108,75	Arequipa	150 MW
Lupi solar park	105	Moquegua	220 kV
Almirante Grau wind farm	93,54	Piura	76 MW
Pampa Gallinazos Photovoltaic Plant	80,21	Tacna	33 kV
Hiperion solar station	72,5	Arequipa	100 MW
Doña Josefina Hydroelectric Plant	53,12	Cusco	24 MW





## Transportation

Peru is currently at a crucial juncture in its economic development, marked by a significant push towards public-private partnerships and infrastructure projects aimed at revitalizing the economy. The government's announcement of more than 30 public-private projects worth nearly \$9 billion underscores its commitment to stimulate economic growth, particularly in the wake of anti-government protests and the ousting of Former President Pedro Castillo.

### Public-Private Partnership Focus

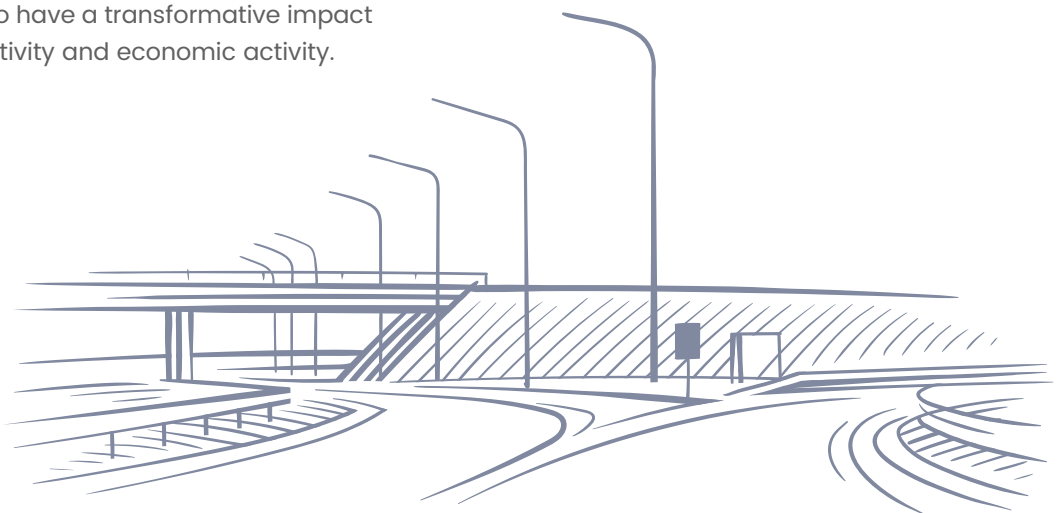
Peru's emphasis on public-private partnerships (PPPs) supports a strategic approach to economic development. The constitutional framework, allowing foreign investment in various sectors, provides a conducive environment for collaborative initiatives. This commitment to PPPs serves as a key driver for infrastructure projects, ensuring a combination of public and private resources to fuel economic growth.

Within the PPP framework, the transport sector emerges as a pivotal focus area with three projects in the pipeline, collectively representing a substantial investment of \$6 billion. The standout project, the Peripheral Ring Road around Lima and Callao, not only addresses critical transportation needs but also demonstrates a commitment to significant urban infrastructure development. This initiative is poised to have a transformative impact on regional connectivity and economic activity.

### Infrastructure Development in Peru:

Infrastructure in Peru began to develop rapidly thanks to the economic growth that the country had at the beginning of the 90's. By giving many of the ports and airports under concession to private companies, these concession companies greatly improved the infrastructure and the quality of services. Bringing them to international standards regarding services as well as new technology and machinery.

In the part of air infrastructure or airport network of Peru, it is made up of 97 aerodromes, 11 of which are international and 86 are national or private. The airport concessionaires have the following distribution: Lima Airport Partner 1, Aeropuertos Del Peru 12, Aeropuertos Andinos 5, Corpac 29, other domestic and/or private operators 50.





# Transportation

## Airports Active Projects:

Name	Capex (US\$ mn)	Area	Capacity
Jorge Chávez International Airport Expansion - Land side	700	Callao (Peru)	180 m2
Chincheru - Cusco international airport (AICC)	681,8	Cusco (Peru)	35,800 m2
Jorge Chávez International Airport expansion - Air side	400	Callao (Peru)	10 km
Modernization of the Chiclayo International Airport	400	Lambayeque (Peru)	40,000 m2
Piura airport modernization	287,39	Piura (Peru)	NA
Tumbes Airport Modernization	243	Tumbes (Peru)	2,500 m
Second group of Provincial Airports in Peru	157	Puno (Peru)	NA
Construction, improvement and rehabilitation of the Cusco - Chincheru - Urubamba highway - Section No. 1 Access to the Chincheru airport	105	Cusco (Peru)	8 km
Santa Rosa bridge, entrances, roundabout and overpass to Jorge Chávez airport	89,2	Callao (Peru)	160 m
Rehabilitation of the Air Side of Iquitos Airport	85	Loreto (Peru)	2,500 m
Rehabilitation of the Air Side of Pucallpa Airport	85	Ucayali (Peru)	2,800 m
Chiclayo Airport Airside Rehabilitation	48,9	Lambayeque (Peru)	2,500 m
Rehabilitation of the Air Side of Pisco Airport	48	Department of Ica (Peru)	
Rehabilitation of the Air Side of the Piura Airport (RMLA)	45,2	Piura (Peru)	2,500 m
Expansion of the Passenger Terminal at the Piura Airport	35,67	Piura (Peru)	NA
Rehabilitation of the Air Side of Cajamarca Airport (General FAP Armando Revoredo Iglesias Airport)	21	Cajamarca (Peru)	2,500 m





# Transportation

## Roads

It is important to highlight that Peru manages to connect the Pacific and Atlantic oceans through a series of land and river routes. Currently, it has 62 ports, 45 of which are maritime, 11 river and 6 in lake.

The existing National Road Network consists of a total of 27,109.6 km (21,434.0 km of Paved Roads and 5,675.5 km of Unpaved Roads). The Departmental Highway Networks have a total of 27,505.6 km of Roads (They are 3,623.1 km Paved and 23,882.5 km Not Paved). The Neighbourhood Roads Networks have a total of 113,857.9 km (They are 1,858.9 km Paved and 111,999 km Not Paved).

### Roads Active Projects:

Name	Capex (US\$ mn)	Area	Capacity
Lima Peripheral Road Ring	2380	Callao (Peru)	6 lanes
Upgrade of Sullana - Tumbes - Turn-off to the International Bypass Road to a four-lane road	472	Tumbes (Peru)	269 km
Road Network N° 4: Pativilca-Santa-Trujillo and Puerto Salaverry	460	Libertad (Peru)	356 km
IV Amazonas Road Axis	321	Loreto (Peru)	214 km
Rehabilitation and Improvement of Huallanca - Caraz Road	148	Ancash (Peru)	2 lanes
Costa Verde del Callao road project	142	Callao (Peru)	6 lanes
Ayacucho - Condorcocha - Cangallo - Huancapi Road (Bicentennial Road)	90,6	Ayacucho (Peru)	62 km
Tacna - La Paz road integration project (Tacna - Collpa section) Subsection II	40,7	Tacna (Peru)	50 km

## Trains

The Railway Network in Peru consists of a total of 1,939.7 km. Of which we have 188.7 km of the Public Network, 1,512.4 km of the Public Concession Network, and the Private Network 238.6 km. The 33.1 km of the Lima Metro is not considered since it is not interconnected to any network, it only fulfills the role of mass transport and depends on the Autonomous Electric Train Authority.

The Barranca-Ica suburban train, also known as the Tren Grau: Lima-Barranca and Lima-Ica, is a significant infrastructure project in Peru. Initially

proposed during Pedro Pablo Kuczynski's presidential campaign in 2016-2021, the project aims to enhance transportation and quality of life in the region. Despite initial momentum, progress was stalled due to various political and economic challenges, including the COVID-19 pandemic. As of 2022, studies on the project, led by China Railways, resumed. The project is included in Peru's "Programa multianual de inversiones 2023-2025". The planned route will include stops at Callao, Lima, Lurín, Chilca, Asia, Cañete, Chincha, Pisco, and Ica. The train, once operational, is expected to reduce informal transport and traffic accidents along the Panamericana Sur, while also being environmentally friendly due to its electric nature.

### Trains Active Projects:

Name	Capex (US\$ mn)	Area	Capacity
Barranca-Ica suburban train	5600	Department of Ica (Peru)	246 km
Lima metro line No. 3	9170	Lima	28 stations
Lima-Ica railway (Cercanías railway)	3263	Lima	324 km





# Transportation

## Ports

Conceptual outline of development. The diagnosis of the Peruvian logistics system has shown that although the needs of domestic logistics chains are important, the Peruvian system is currently positioned –and effectively serving– global logistics chains. In particular, the logistics and port supply of El Callao stands out.

The size of the hinterland, the country's significant efforts to modernize port infrastructure, and the way demand and supply have reacted have made Callao a second-ranking port hub in the Pacific. In summary, Peru's current functional model presented in the diagnostic phase is as follows:

Regarding the first-tier logistics nodes, the Lima-Callao node is predominant in the national logistics context. This center organizes the trunk distribution activity to the south and north of Peru, in addition to acting as a capillary distribution node for the central regional area.

The new port infrastructure of Lima-Callao has consolidated its role as a secondary maritime hub in the Pacific, and this trend is likely to continue. In the north of the country, there are three second-tier nodes: Trujillo, Chiclayo – which serves as a hub for the logistics axis to Yurimaguas and Iquitos – and the Paita-Piura nodal pair, mainly linked to the port. In the southern region, the main node is Arequipa, which operates as a regional distribution center for goods to Juliaca-Puno, Cusco, Moquegua-Ilo, Tacna, etc.

The eastern region of the country has strong Amazonian-trans-Andean links, particularly from Iquitos to Yurimaguas and Pucallpa, and from there to Tingo María-Huánuco and Lima; also, from Puerto Maldonado to Cusco and Juliaca-Puno.

Finally, there are areas of cross-border trade based on foreign trade operations with neighboring countries by road (Tumbes, Tacna, Desaguadero, and Iñapari).

All of the above translates into the existence of four logistic basins: the Central Logistics Macro-area, which includes the activity of the Lima-Callao node and the activity of the Sierra-Centro with the former; the Southern Peru Logistics Macro-area, centered on the Arequipa node and with the complementary nodes of Juliaca-Puno, Cuzco, and Tacna, which include links with Brazil, Bolivia, and Chile through the border centers of Iñapari, Desaguadero, and Santa Rosa.

The North-West Logistics Macro-area includes the Paita-Piura logistics axis and the border relationship with Ecuador; and finally, the North-East Logistics Macro-area, with the center of gravity in the Chiclayo node as the main articulator, and which includes relations with Trujillo and towards the East with Yurimaguas and Iquitos, from where the fluvial relationship with Brazil is organized.

Finally, there are two national structuring axes focused on Lima-Callao, which organizes activity towards the north coast and along the south coast to Arequipa, parallel to the coast along the Pan-American Highway by road. There is no complementarity with the railroad mode despite its high traffic rates. There are also secondary consolidated logistics corridors and others with consolidation potential that could improve efficiency in Peru's logistics chains.



# Transportation

## Ports Active projects

Name	Sector	Capex (US\$ mn)	Status	Area	Capacity
Chancay Multipurpose Port Phase 1	Infrastructure	3600	Active	Lima (Peru)	2 km
New Port Terminal of San Juan de Marcona (Megaport)	Infrastructure	410	Active	Department of Ica (Peru)	34,000,000 t/y
Modernization of El Callao Port Phase 2 (New Container Dock) (Bicentenario Dock)	Infrastructure	350	Active	Callao (Peru)	400 m
Pucusana Port Terminal	Infrastructure	90,7	Active	Lima (Peru)	2,000,000 t/y
Expansion of the Paita port terminal dock	Infrastructure	8,7	Active	Piura (Peru)	60 m

## Outlook for 2023 and Beyond

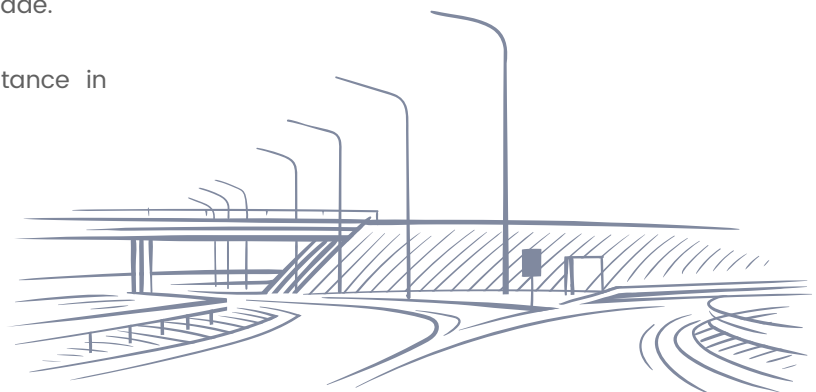
The neutral outlook for the Latin American transportation sector in 2023, as projected by Fitch Ratings, suggests resilience amid potential challenges. The surpassing of 2019 traffic levels in toll roads and satisfactory airport performance indicates a sector that is adapting and overcoming hurdles. Peru's transportation landscape, embedded within this broader regional context, is positioned for stability and potential growth.

The anticipation of a surge in construction investment in port and waterway infrastructure, driven by projects like the Chancay Multipurpose Terminal, signals a strategic focus on enhancing maritime capabilities. As global trade dynamics evolve, these investments position Peru to capitalize on increased demand for efficient and advanced port facilities, potentially boosting economic activities tied to international trade.

The Peruvian government's proactive stance in

launching more than 30 public-private projects, particularly amid economic challenges and social unrest, reflects a commitment to rapid economic revival. The emphasis on regaining confidence through simplified processes, standardized contracts, and close collaboration with the private sector underscores a comprehensive strategy to attract investments. The government's target of a 3% increase in private investment in the current year signals a concerted effort to overcome recent economic setbacks.

Peru's economic landscape is characterized by a proactive and strategic approach to infrastructure development, with an emphasis on public-private partnerships. The nation is navigating challenges through targeted investments, and the outlined initiatives in transportation and other sectors lay the foundation for sustained economic growth and resilience.





## Non-Residential Building

The Peruvian construction industry faces a challenging year, expecting a contraction of 2.3% in real terms due to political instability and social unrest since December 2022. The construction companies' operations declined by 3.7% year-on-year in the first two months of 2023, reflecting the industry's weakness. The value of construction activity in GDP terms decreased by 10.9% year-on-year in the same period, with internal cement consumption falling by 15.6%.

Despite these challenges, the Peruvian government is committed to completing significant infrastructure projects. In its 2023 Budget, the government pledged to finalize the construction of over 350km of national highways, 199km of regional roads, and 2,160 bridges by 2023, aiming to boost the industry's output.

The construction industry in Peru is anticipated to contract by 5.1% in real terms this year, following a 3% growth in 2022. Economic challenges, including high inflation, construction costs, and interest rates, contribute to this decline. The Peruvian Institute of Economics reported slow real growth of 0.2% year-on-year in public investment in construction during the first nine months of 2023.

### Sector-Specific Analysis:

#### Commercial Construction:

The commercial construction sector is expected to face a contraction of more than 3% this year due to political crises and social unrest affecting tourist arrivals and investor confidence. However, there is optimism for a rebound in tourism activities and investment following the implementation of the new National Strategy for the Reactivation of the Tourism Sector 2022-25.

#### Industrial Construction:

The industrial construction sector is projected to contract this year due to economic constraints causing an industrial slowdown and suspending major projects. However, a gradual rebound in manufacturing, mining, and export activities, coupled with a robust pipeline of mining projects, is expected to support sector growth in the forecasted period.

#### Infrastructure Construction:

The infrastructure construction sector, covering rail and road infrastructure, is poised for growth, supported by increased public works spending, particularly in roads and railways, and the implementation of the National Infrastructure Plan (PNIC).

#### Energy and Utilities Construction:

The energy and utilities construction sector is expected to contract by more than 1% this year but shows promise with an annual average rate of more than 3% between 2024 and 2027. This growth is supported by increased investment and development in renewable energy projects.

#### Institutional Construction:

The institutional construction sector is expected to slow down by less than 1% this year but is projected to rebound with an annual average rate of more than 2% between 2024 and 2027. This growth is



## Non-Residential Building

driven by government investments in healthcare and education infrastructure.

### Residential Construction:

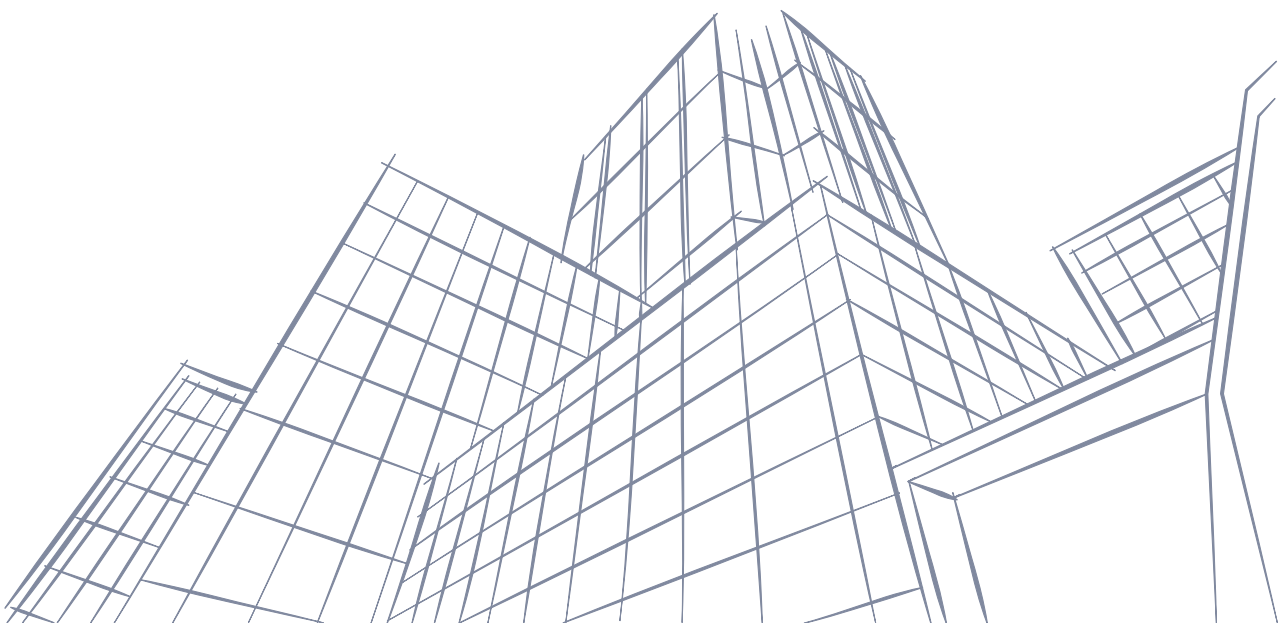
The residential construction sector is expected to decline by more than 4% this year due to subdued consumer and investor confidence amid political conflicts and social unrest. However, medium to long-term prospects look promising with consistent progress in implementing public and private housing projects.

### Key Players in Peru's Construction Market:

Leading contractors in the Peru construction market include Actividades de Construcción y Servicios SA, Cosapi SA, Webuild SpA, China Communications Construction Group Ltd, COSCO Shipping Ports Ltd, Sacyr SA, Ecopetrol SA, AENZA

SAA, Acciona SA, and JJC Contratistas Generales SA. Notable consultants include Egis Group, Ghenova Ingenieria SLU, GEODATA SpA, Geocontrol SA, Dohwa Engineering Co Ltd, Alpha Consult, Metropolitana Milanese SpA, Enel SpA, Ositran, and TYPESA Group.

While the current challenges impact Peru's construction industry, government initiatives and commitments to infrastructure development signal a positive outlook. Despite the contraction in 2023, the industry is expected to rebound from 2024 onwards, with a focus on mining, housing, electricity, and transport infrastructure projects. The government's emphasis on green energy and renewables aligns with global sustainability goals, presenting opportunities for growth and investment in the construction sector.





## Residential Building

The Residential Building sector in Peru is confronting challenging times amid a backdrop of political instability and economic uncertainties. In 2023, the construction industry is expected to contract by 5.1%, following a modest growth of 3% in the previous year. The political landscape, coupled with economic challenges, including elevated inflation, construction costs, and high-interest rates, has significantly dampened investment activities in the sector.

According to the Instituto Nacional de Estadística e Informática (INEI), the average construction material price index saw a year-on-year increase of 1.2% in the first nine months of 2023, following a substantial 11.5% surge in 2022. Public investment in construction projects has slowed down, with only a 0.2% year-on-year growth in the first nine months of 2023, in stark contrast to the 9% growth recorded in 2022.

Despite the current challenges, there is optimism for a recovery in the construction industry from 2024 onwards. GlobalData expects an annual average growth of 3.7% between 2024 and 2027, driven by investments in mining, housing, electricity, and transport infrastructure projects. The government's focus on promoting green hydrogen and increasing the share of renewable energy in the power mix aims to achieve a mix of 60% renewable energy and 40% gas by 2025.

### Market and Real Estate Analysis

The Residential Construction sector, which includes single-family and multi-family housing, is expected to decline by more than 4% in 2023 due to subdued consumer and investor confidence amid political conflicts and social unrest. However, in the medium to long term, the sector's output is expected to improve with consistent progress in implementing public and private housing projects aimed at addressing the housing gap of 1.8 million units.

Key players in the Peru construction market include Actividades de Construcción y Servicios SA, Cosapi SA, Webuild SpA, China Communications Construction Group Ltd, and

others. Actividades de Construcción y Servicios SA leads the market.

Peru's residential property market faces headwinds, with the hedonic property price index rising by a mere 0.1% in the year to Q3 2022. The continuing political crisis, coupled with economic slowdown, has impacted property prices, dropping by 6.2% in real terms in Q3 2022 compared to the previous year.

Demand for residential properties is weakening, with a 12.8% quarter-on-quarter decrease in sales of newly-built homes in Metropolitan Lima during Q3 2022. This is a notable contrast to the 44% annual growth recorded in 2021. House price growth in Peru has been modest since 2014,



## Residential Building

mainly due to economic challenges.

The market dynamics are shifting, with a notable demand shift to coastal areas outside central Lima due to limited buildable land and rising prices in urban areas. Middle-income Peruvians are a driving force in Lima's housing market, showing more confidence than wealthy buyers despite political uncertainties.

Gross rental yields on prime residential property in central Lima have been on a declining trend, ranging from 3.03% to 6.46%. Lima's rental prices,

usually set in US dollars, have been affected by the depreciation of the Peruvian Nuevo Sol. Mortgage interest rates, despite a surge in the benchmark rate, remain relatively steady.

Peru's economy is expected to slow down in 2023, with a projected real GDP growth rate of 2.7%, following the strong expansion of 13.6% in 2021. The country grapples with deepening political crises, with President Pedro Castillo making significant cabinet reshuffles. Construction activity, as of early 2023, has seen a 10.9% year-on-year decrease.





## Water & Waste

In Peru, water management is a key focus, with significant initiatives planned by the Agency for the Promotion of Private Investment (PROINVERSIÓN). They intend to allocate nearly \$1.3 billion to nine water and sanitation projects between 2023 and 2024. This is part of a broader effort, totaling over \$1.5 billion, aimed at benefiting 4.8 million Peruvians across 12 regions. These projects encompass wastewater treatment plants (PTAR) in various regions, with individual investments ranging from \$44 million to \$340 million.

To achieve universal access to sanitation services by 2026, the sector estimates an investment of approximately S/ 41,000 million is required.

PROINVERSIÓN's portfolio of 13 water and sanitation projects, valued at over US\$ 1,550 million, is aligned with the state's strategy to use various investment modalities to bridge gaps in the water and sanitation sector, including Public-Private Partnerships (APP), Tax-for-Works, Public Works, or government-to-government agreements. The investment required by 2026 to contribute to achieving universal access to sanitation services is approximately S/ 41,000 million, according to the sector.

The projects planned for adjudication by 2024 include PTAR Puerto Maldonado (awarded in 2023 for US\$ 86 million), Headworks - Phase 1 (US\$ 340 million), PTAR Cusco (US\$ 44 million), PTAR Chinchá (US\$ 70 million), PTAR Cajamarca (US\$

56 million), PTAR Huancayo (US\$ 172 million), PTAR Tarapoto (US\$ 106 million), Desalination Plant Ilo (US\$ 110 million), and PTAR Trujillo (US\$ 312 million).

PROINVERSIÓN is committed to closing gaps in the sanitation sector through APPs, ensuring infrastructure and services' sustainability with high-quality standards. This approach has proven successful, as seen in Lima Metropolitana and Callao, where sewage treatment increased from 21% in 2012 to over 90% in 2020, thanks to APP-operated plants. PROINVERSIÓN's projects aim to replicate this success across 11 more departments.

The investments in awarded sanitation APP projects amount to S/ 2,541 million. Completed projects include PTAR Taboada, PTAR La Chira, PROVISUR, and PTAP Chillón, with a total investment of S/ 1,341 million. The execution of PTAR Titicaca (S/ 1,200 million) is pending. These 13 APP projects, totaling US\$ 1,690 million (over S/ 6,000 million in local currency), play a crucial role in achieving Sustainable Development Goals by 2023 in water and sanitation (SDG 6).

The Minister of Housing, Hania Pérez de Cuéllar, emphasizes that access to water and sanitation is a fundamental human right. Collaborating with PROINVERSIÓN, the ministry works not only to unlock seven projects but also to initiate new projects through public-private partnerships.



## Water & Waste

In addition to the PROINVERSIÓN projects, the Ministry of Housing, Construction, and Sanitation, through the National Rural Sanitation Program (PNSR), reports that three water and sanitation projects in Moquegua, Cusco, and Cajamarca, executed through the Tax-for-Works mechanism, will conclude in the first half of 2023. These projects

represent an investment of more than S/ 16 million, benefiting local communities in those regions. Through the Tax-for-Works mechanism, private companies can finance and execute public projects, recovering their investment through certificates issued by the Public Treasury, which can be used to offset their income tax.

### Water and waste Active Projects:

Name	Sector	Capex (US\$ mn)	State	Capacity
Wastewater treatment plant in Trujillo (PTAR Trujillo)	Water & Waste	368	Libertad	NA
Chonta dam	Water & Waste	155	Cajamarca	7,400 Ha
Desalination and sewerage systems of Talara and Paita (Paita y Talara desalination plant, Talara WWTP)	Water & Waste	150	Piura	541 l/s
Wastewater treatment for final disposal or reuse, province of Chincha (WWTP Chincha)	Water & Waste	70	Department of Ica	6,000 l/s
Drinking Water Service Through Seawater Desalination in Lambayeque (Lambayeque Desalination Plant)	Water & Waste	49	Lambayeque	510 l/s
Wastewater treatment for final disposal or reuse, Cusco province (San Jerónimo WWTP)	Water & Waste	46,1	Cusco	NA







## Telecommunications

The Information Technology (IT) sector in Peru is experiencing significant growth and investment. As of 2022, the Peru ICT market was valued at US\$ 9.18 billion and is expected to grow at a compounded annual growth rate (CAGR) of 12.65%, reaching a value of US\$ 16.64 billion by 2027. This growth is driven by increasing adoption of data analytics, artificial intelligence (AI), automation, and cloud computing. The cumulative revenue generation opportunities for ICT providers in Peru is estimated at US\$ 74.53 billion between 2022 to 2027.

Peru's has witnessed significant growth between 2002 and 2023, marked by the implementation of 14 projects under the Public-Private Partnership (APP) model, with a total investment of US\$ 3.664 billion. Additionally, 25 projects were executed through Asset Projects, amounting to a combined investment and transaction value of US\$ 1.753 billion.

Anticipated to surpass S/ 20,000 million in both 2022 and 2023, Peru's telecommunications sector revenue is poised for sustained growth, reflecting the restoration of connectivity to pre-pandemic levels.

In 2022, key players in Peru's telecommunications sector demonstrated increased investment, notably with Claro witnessing a remarkable 13.8% surge and Wow experiencing an exceptional growth of 262.2%. Both Claro and Movistar secured the highest operating revenues within the sector.

### Entel's \$150 Million Investment in Peru's Mobile Network Projects for 2023

Telecommunications giant Entel has announced plans to invest US\$150 million in the Peruvian market during 2023, reinforcing its presence in mobile, home, and corporate sectors. This investment represents a slight increase from the US\$142 million disbursed in 2022.

Entel's General Manager, Antonio Buchi, outlined that the allocated budget aims to propel the development of the mobile network, responding to the growing customer base in mobile services.

Entel reported a 27.5% increase in revenues and triple-digit annual profit growth in 2022, supported by the divestiture of data centers. In Peru, the organic EBITDA reached US\$201.9 million, showcasing a 12.8% increase, compensating for the decline in the Chilean market.

### Telecom Investments Surge in 2022: Claro and Wow Lead the Way

Osiptel reported a notable 9.7% growth in telecommunications investments in Peru in 2022, totaling S/3.552 billion. Claro led with a 13.8% increase, closely followed by Wow, registering an impressive growth of 262.2%. Entel and Viettel (Bitel) also recorded growth rates of 11.1% and 22.2%, respectively, while Telefónica experienced a contraction of 13.9%.

Wow's emergence as a key investor is attributed to the surge in fiber optic deployment, constituting 37.4% of total fixed internet connections in 2022.

Claro dominated investment participation with a 36% share, followed by Telefónica (16.6%), Entel (14%), Wow (6.4%), and Viettel (6.3%).



# Telecommunications

## Revenue and Market Dynamics

Telecommunications sector revenues in Peru reached S/21.134 billion in 2022, marking a 3.1% increase from the previous year. Significant growth was observed in mobile services (8.1%) and fixed internet (7.9%). Despite a 5.5% contraction, equipment sales remained a substantial contributor, constituting 20.3% of sector revenues.

Telefónica and Claro maintained their positions as revenue leaders, experiencing growth in mobile services of 10.2% and 7.9%, respectively. Entel and Viettel saw variations of -1% and +1.1%, while DirectTV recorded a 0.5% revenue increase.

## Entel's Strategic Investment Plan for 2022

Entel's President, Juan Hurtado, unveiled a comprehensive investment plan for 2022, exceeding US\$665 million, primarily focused on the mobile business, 4G, 5G, and fiber-to-home development. Approximately US\$515 million will be allocated to Chile, with an additional US\$150 million earmarked for Peru.

Entel's 5G network deployment will receive over US\$350 million in the next three years, aiming to meet the infrastructure demands of this transformative technology. The company has already invested US\$60 million, deploying more than 50% of the committed 5G base stations.

## Performance Highlights and Future Prospects

Despite global challenges, Entel reported positive outcomes in 2021, emphasizing their commitment

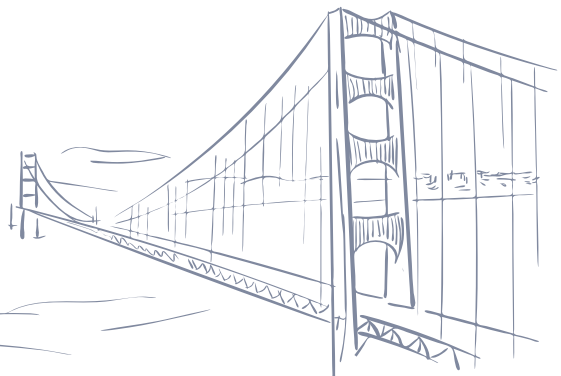
to meeting customer expectations in the evolving era of connectivity and digitization.

Entel continues to dominate the mobile market in Chile, with a 39.2% share of mobile service industry revenues. The total mobile customer base in Chile reached 10.1 million in 2021, a 9% increase from 2020, with a noteworthy lead in subscription portability.

The residential segment in Chile experienced growth in fiber optic connections, reaching 234,000 RGU by the end of 2021, a 66% increase from 2020.

In Peru, Entel sustained an 11% customer base growth in 2021, contributing significantly to the consolidated results. The company aims to strengthen its position in Peru, expand fiber optic services, and enhance services for corporations and enterprises.

As Entel pursues growth in Peru and solidifies its role in the evolving market, the company remains focused on delivering superior technology and experiences across various business segments.





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