

Peru's Economic Outlook

Julio Velarde





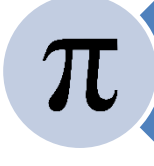
Governor

Central Reserve Bank of Peru

May 2023

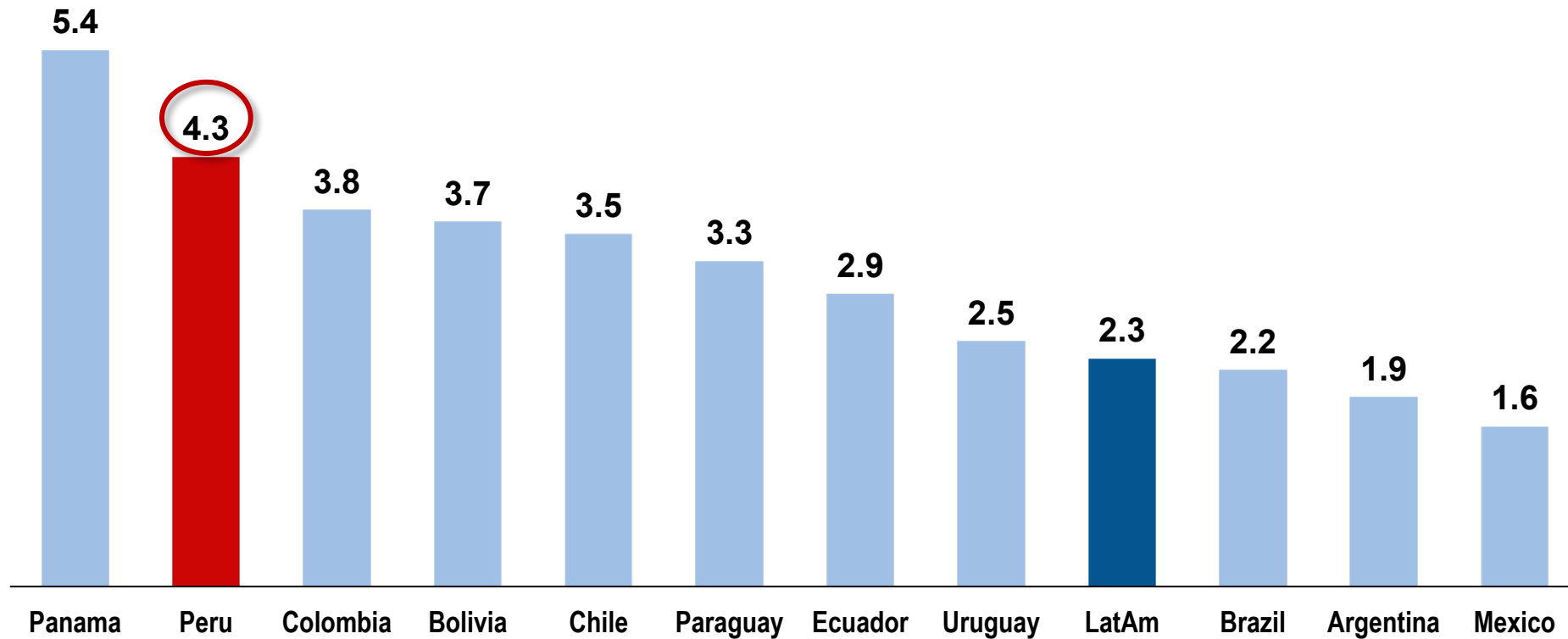


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-  **Economic activity**
-  **External sector**
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-  **Monetary policy**
-  **Inflation**

Peru has grown 4.3% on average over the last two decades (nearly twice the LatAm average).

REAL GDP AVERAGE ANNUAL GROWTH, 2001-2022 (%)



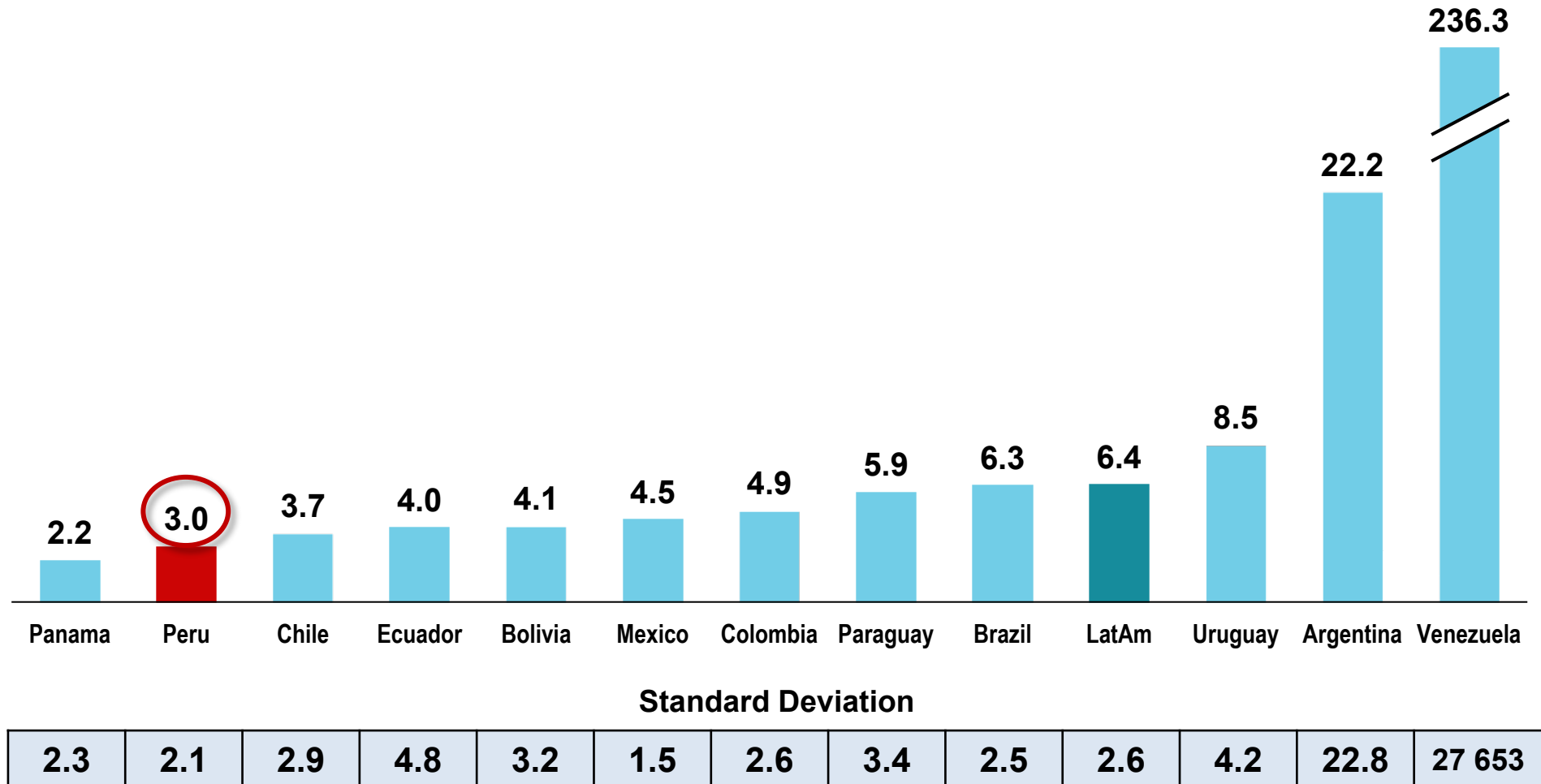
Standard Deviation

6.4	4.6	3.4	3.1	3.5	3.2	3.4	4.2	3.2	3.0	6.5	3.1
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Source: IMF (World Economic Outlook Database, April 2023).

Since 2001, Peru's inflation has been among the lowest and least volatile in LatAm.

AVERAGE ANNUAL INFLATION RATE, 2001-2022 (%)



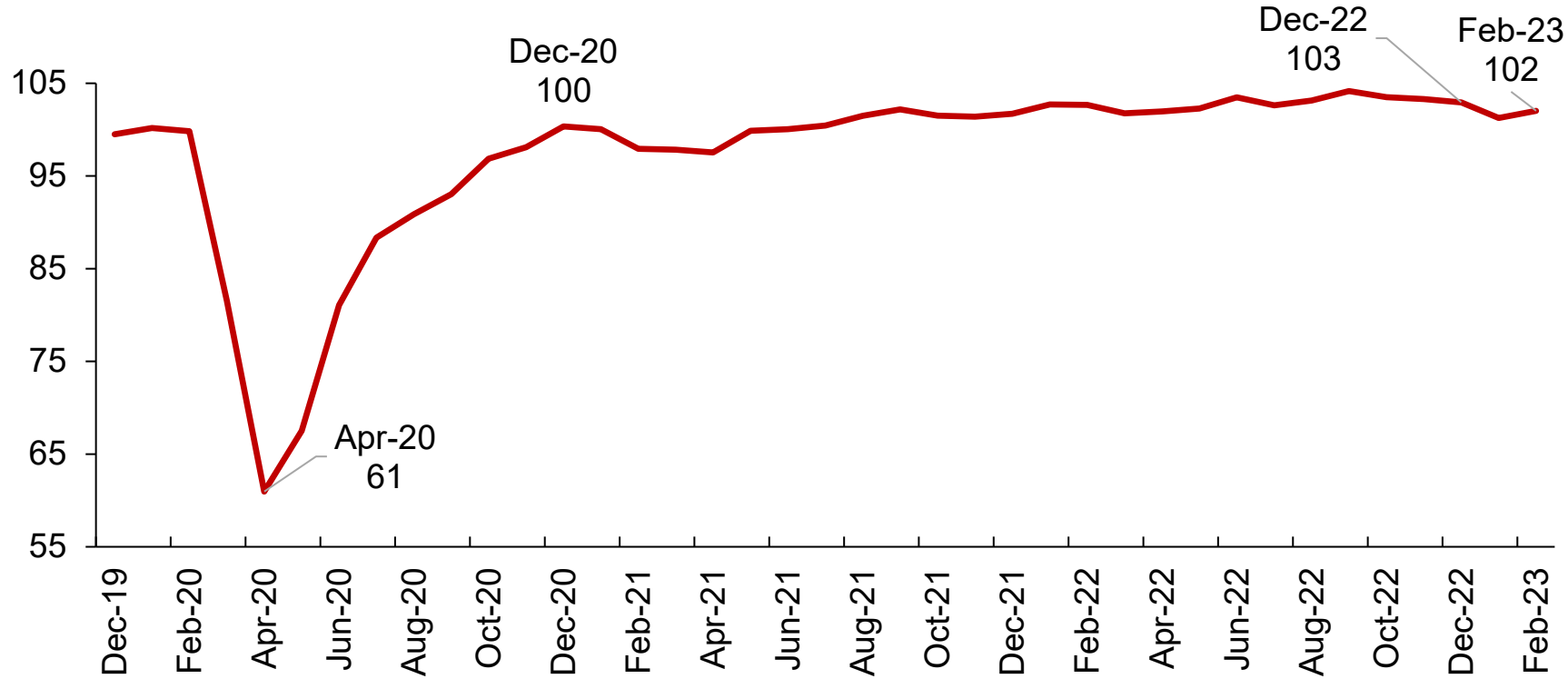
Note: Calculated with end-of-period CPI.

Source: IMF (World Economic Outlook Database, April 2023).

After one of the sharpest pandemic-related contractions worldwide, growth in Peru recovered rapidly in 2021, then moderated.

SEASONALLY ADJUSTED INDEX OF ECONOMIC ACTIVITY

(Index 100 = 4Q 2019)

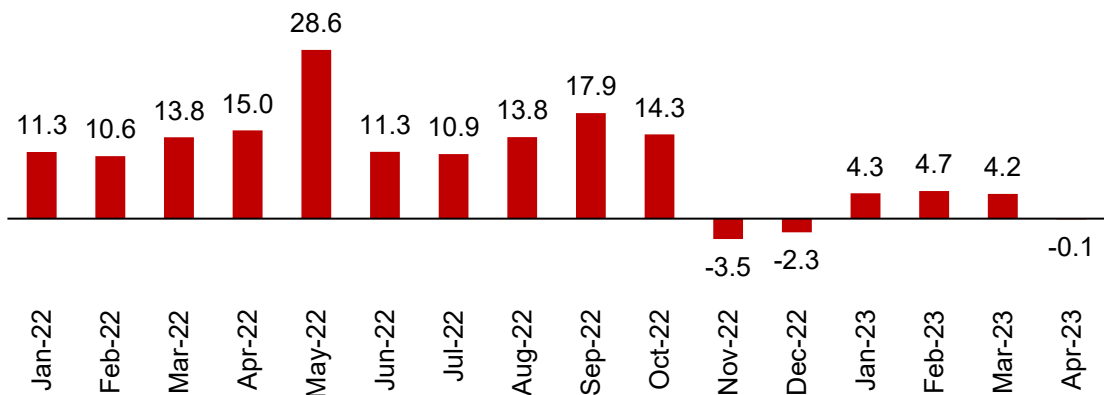


	Q2.2020	Feb. 2023
Primary	78	100
Agro	100	104
Mining	65	95
Manufacturing	79	113
Non-Primary	67	103
Construction	35	104
Manufacturing	54	100
Services	74	102
Accommodation & Restaurants	12	89
Financial Services	107	107
Total GDP	70	102

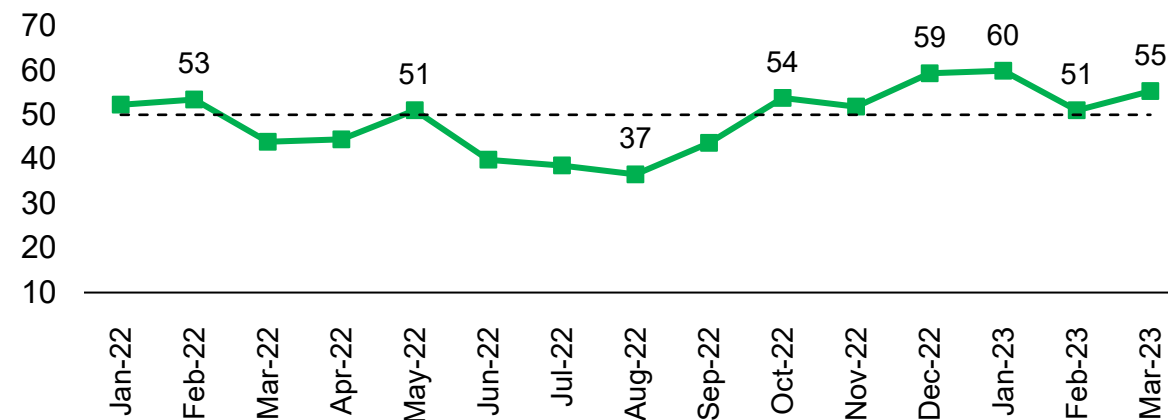
	4Q21	1Q22	2Q22	3Q22	Oct.22	Nov.22	Dec.22	4Q22	Jan.23	Feb.23
Peru	101.5	102.4	102.6	103.3	103.5	103.3	102.9	103.7	101.2	101.9

Leading indicators show a decreasing trend in consumption and investment, yet consumer expectations rebounded in March.

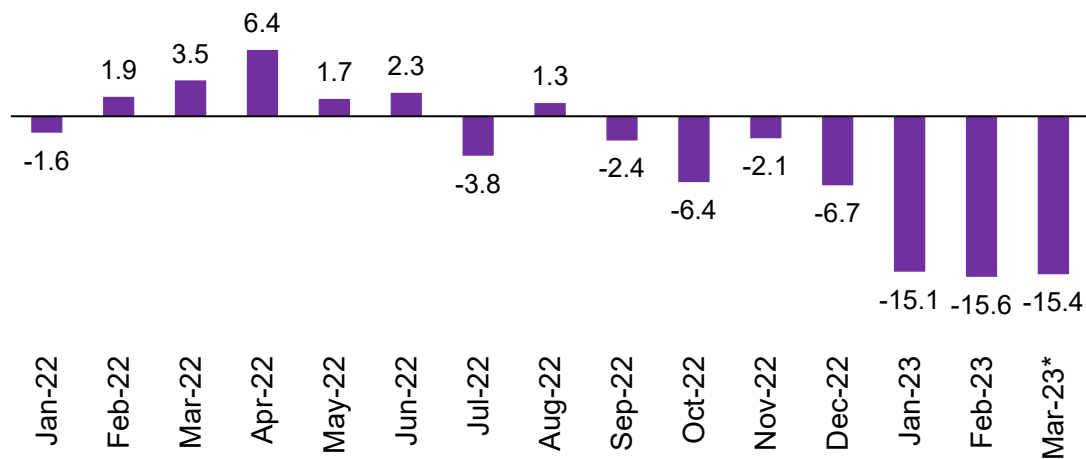
DOMESTIC VALUE-ADDED TAX
(YoY nominal % change)



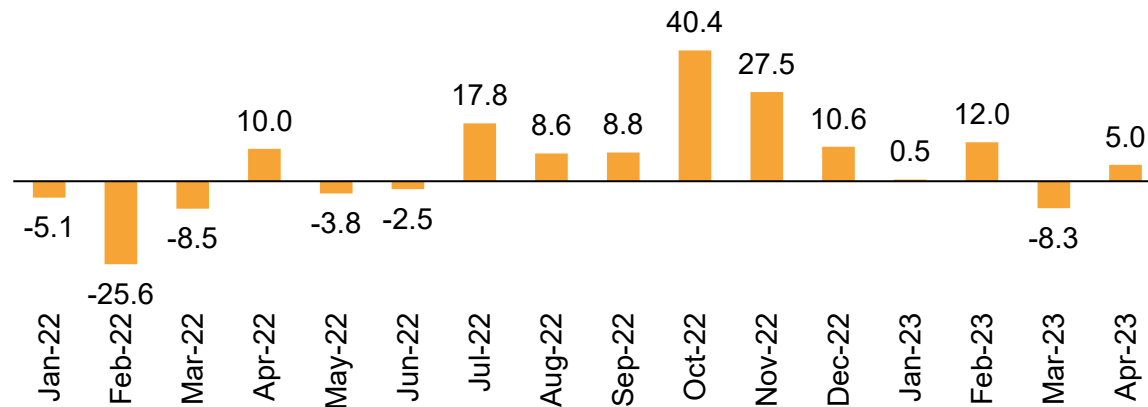
EXPECTATIONS REGARDING THE FAMILY SITUATION IN 12 MONTHS
(Diffusion index)



DOMESTIC CEMENT CONSUMPTION
(YoY % change)

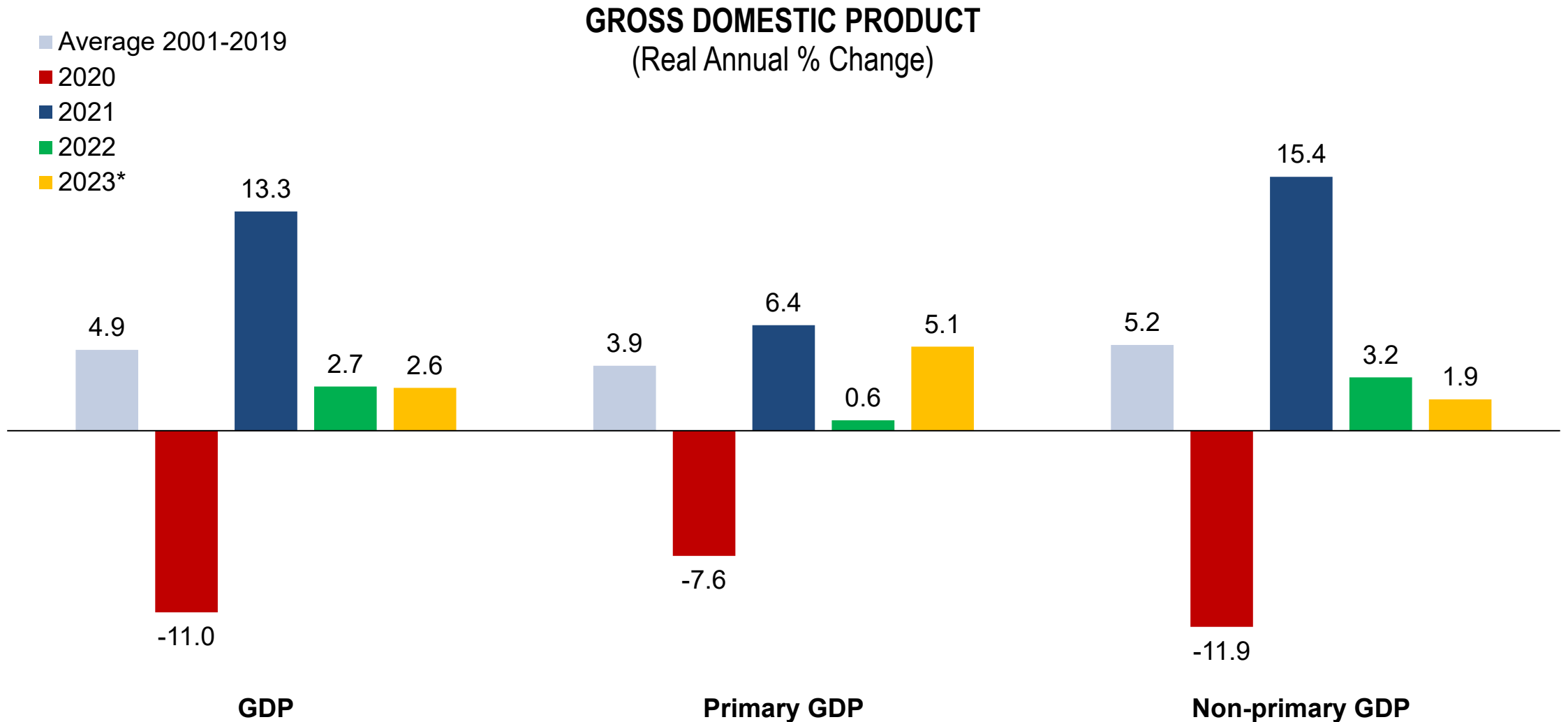


PUBLIC INVESTMENT
(YoY real % change)



* Preliminar.
Source: BCRP.

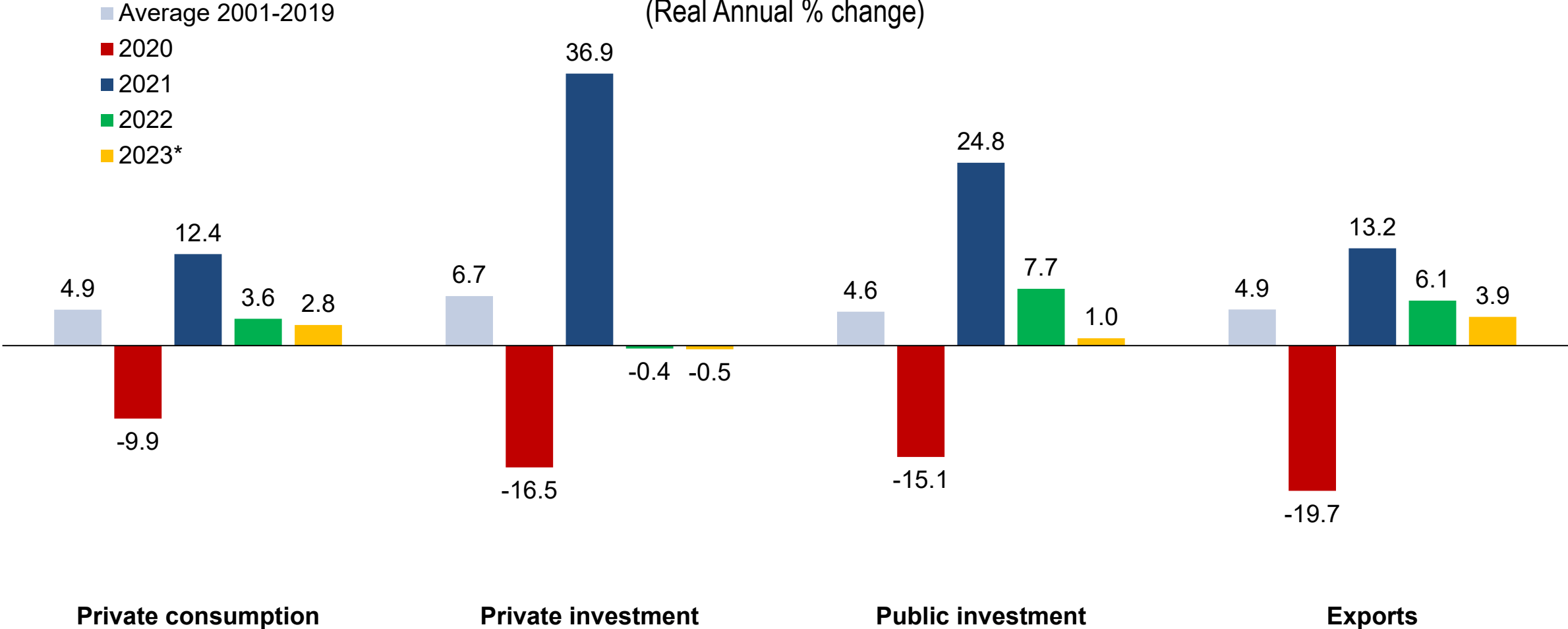
Mainly, growth in 2023 is expected to be driven by a recovery in primary sectors.



* Forecast.
Source: BCRP.

On the expenditure side, a slowdown in private consumption is forecast for 2023.

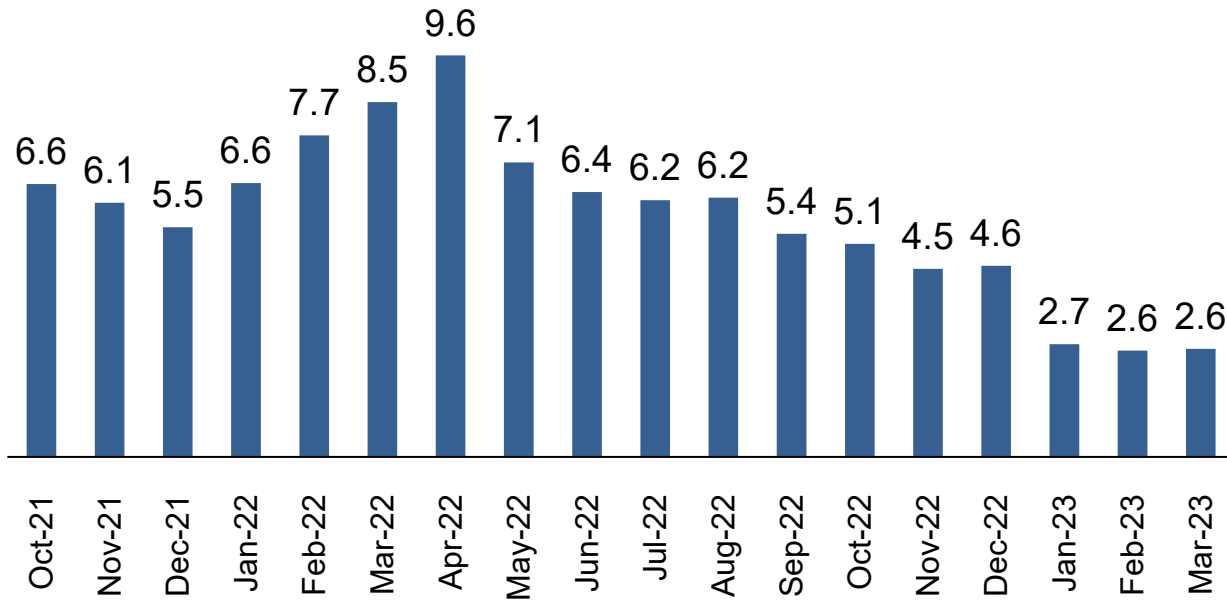
GROSS DOMESTIC PRODUCT
(Real Annual % change)



* Forecast.
Source: BCRP.

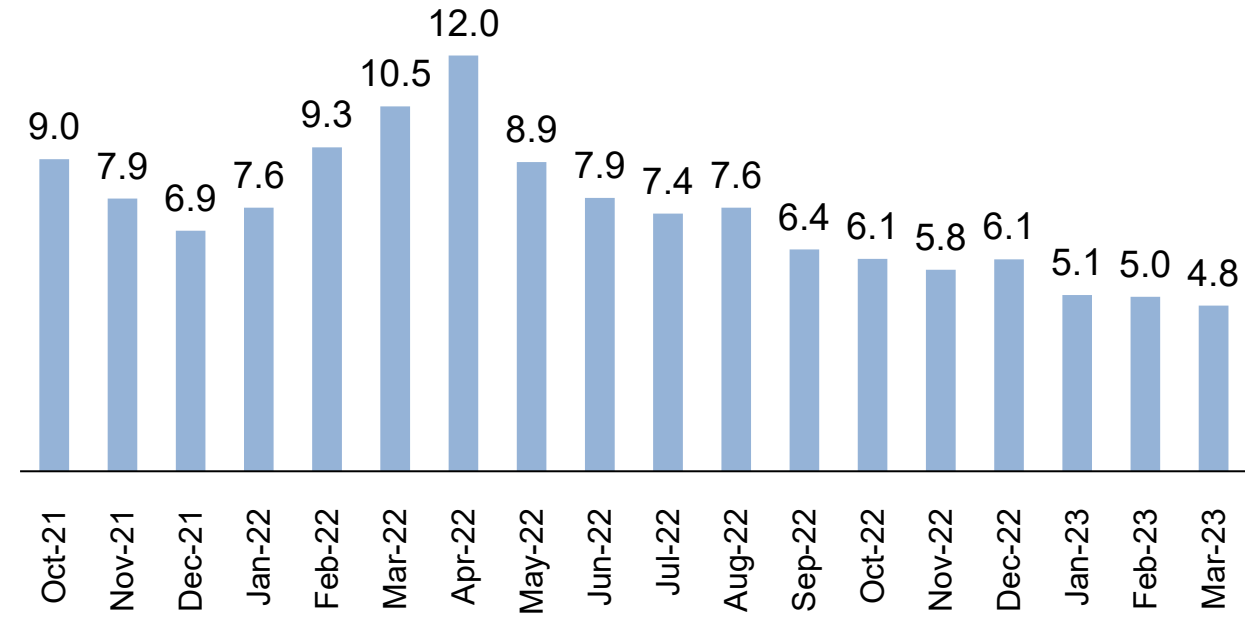
The number of formal workers has exceeded pre-crisis levels since August 2021.

FORMAL WORKERS (YoY % change)



Total	Dec.19	Dec.21	Mar.22	Dec.22	Jan.23	Feb.23	Mar.23
Jobs, thousands	5,447	5,556	5,717	5,797	5,559	5,501	5,865

PRIVATE SECTOR WORKERS (YoY % change)

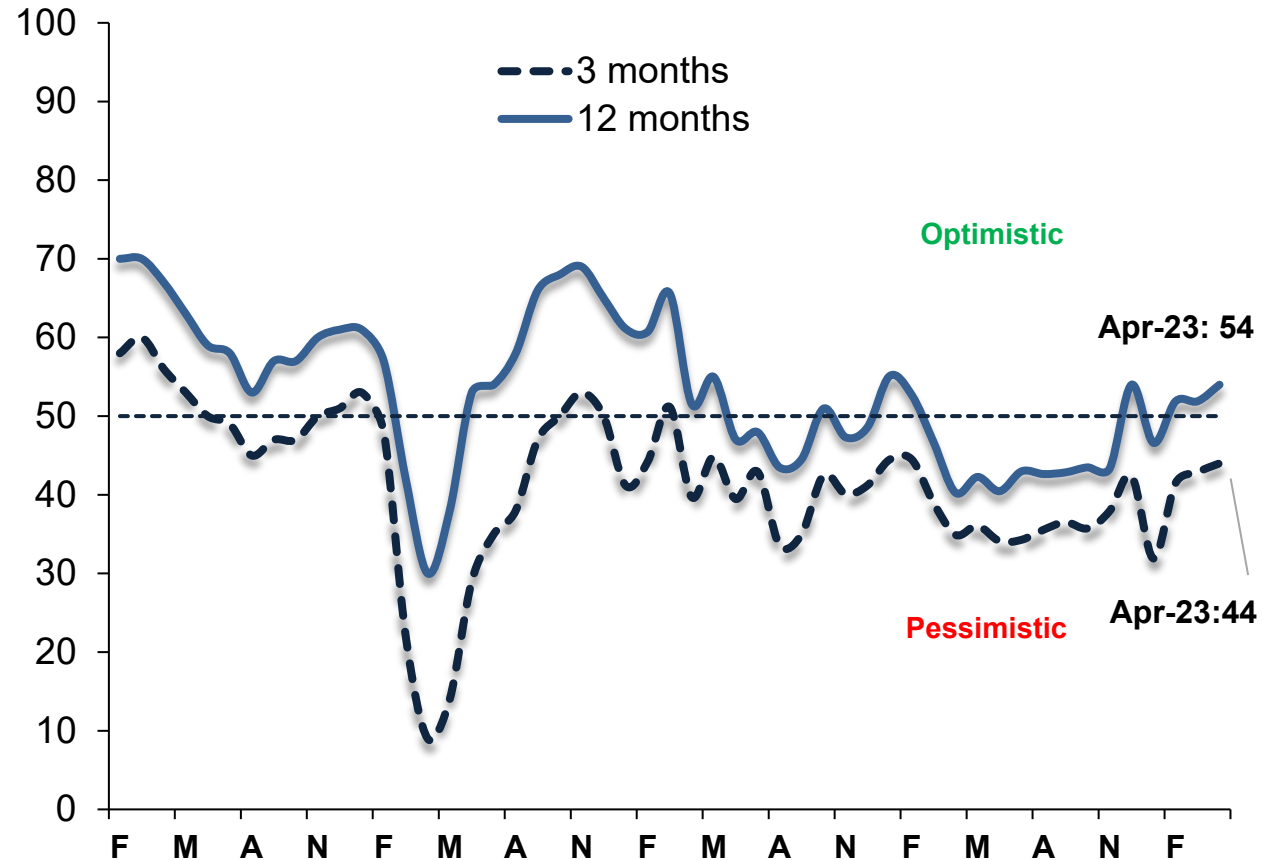


Private Sector	Dec.19	Dec.21	Mar.22	Dec.22	Jan.23	Feb.23	Mar.23
Jobs, thousands	3,921	3,923	4,131	4,163	4,036	3,960	4,328

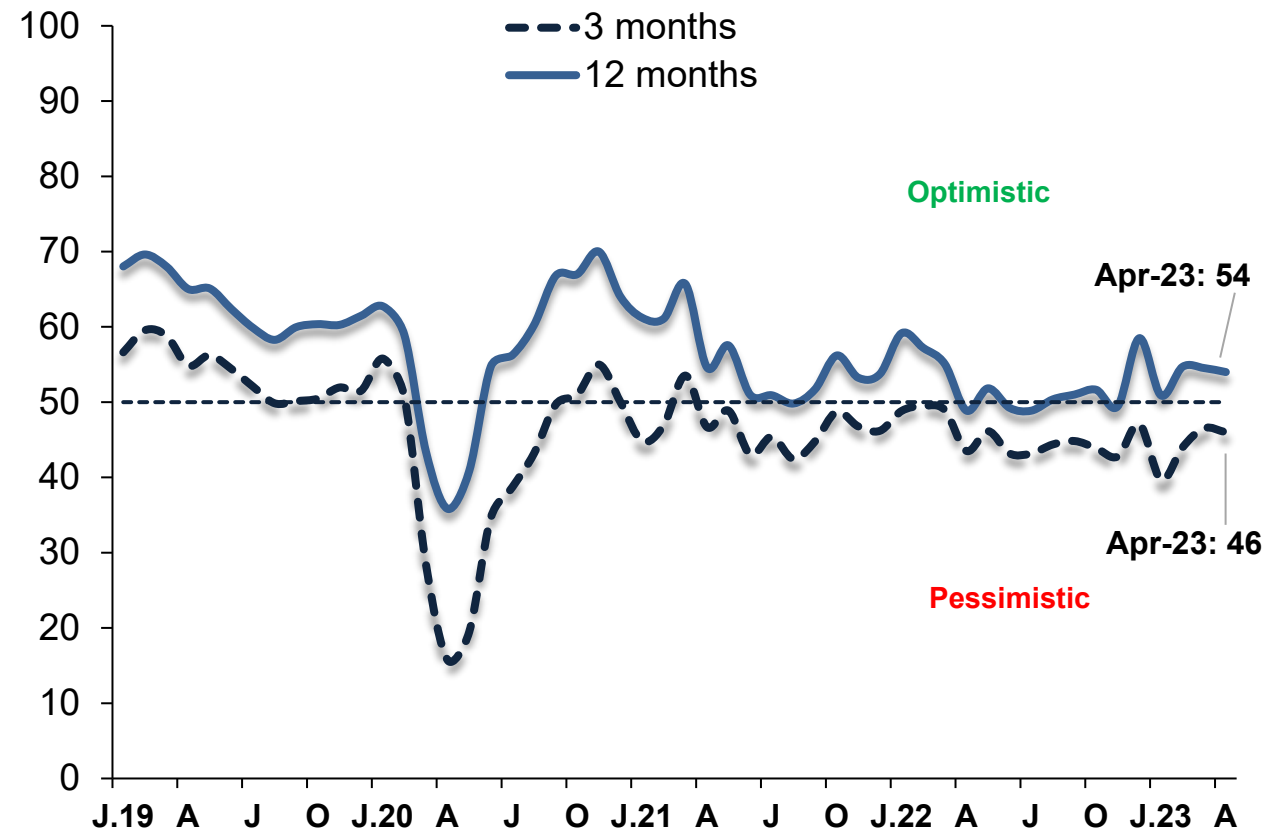
Business confidence, which fell in January amid political unrest, has recovered since February.

BUSINESS EXPECTATIONS ABOUT: (Diffusion Index)

OVERALL ECONOMY



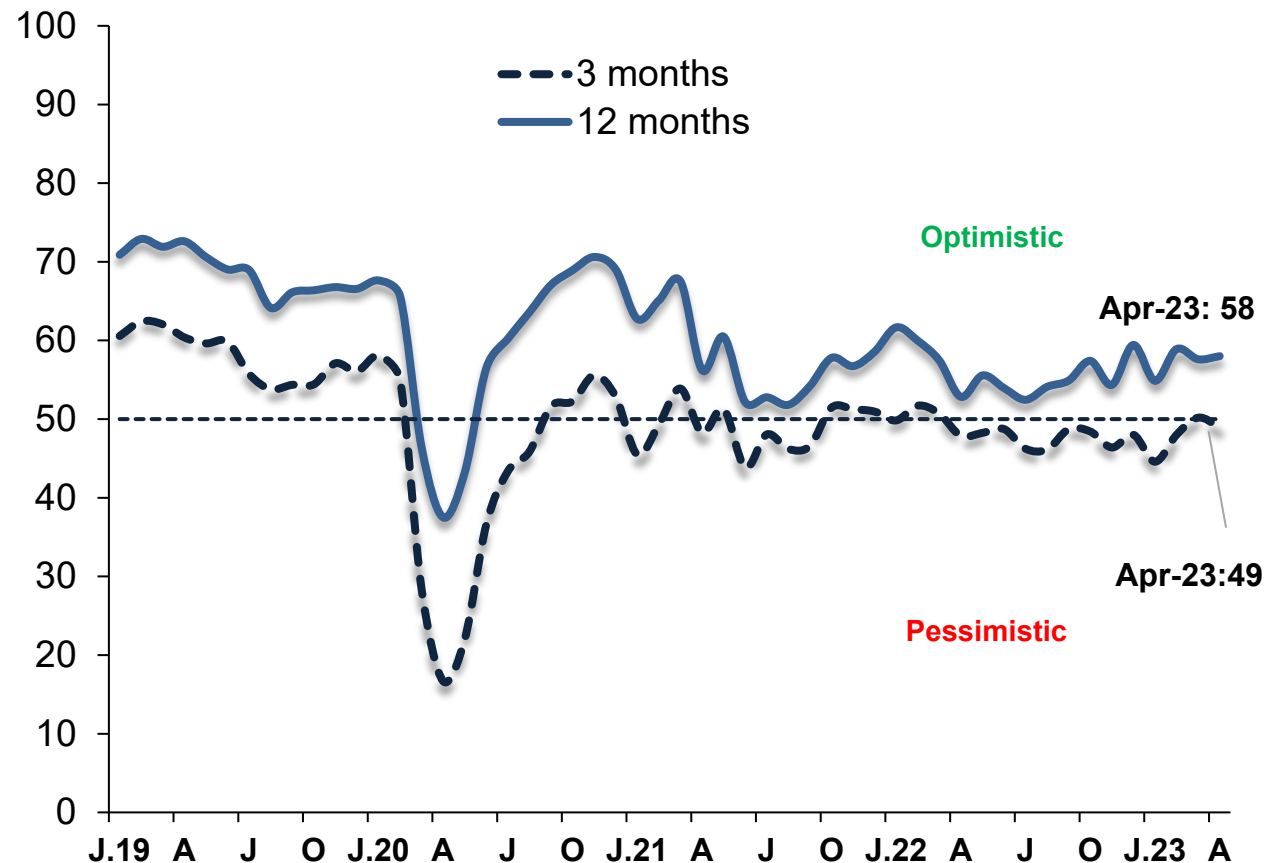
THEIR OWN SECTOR



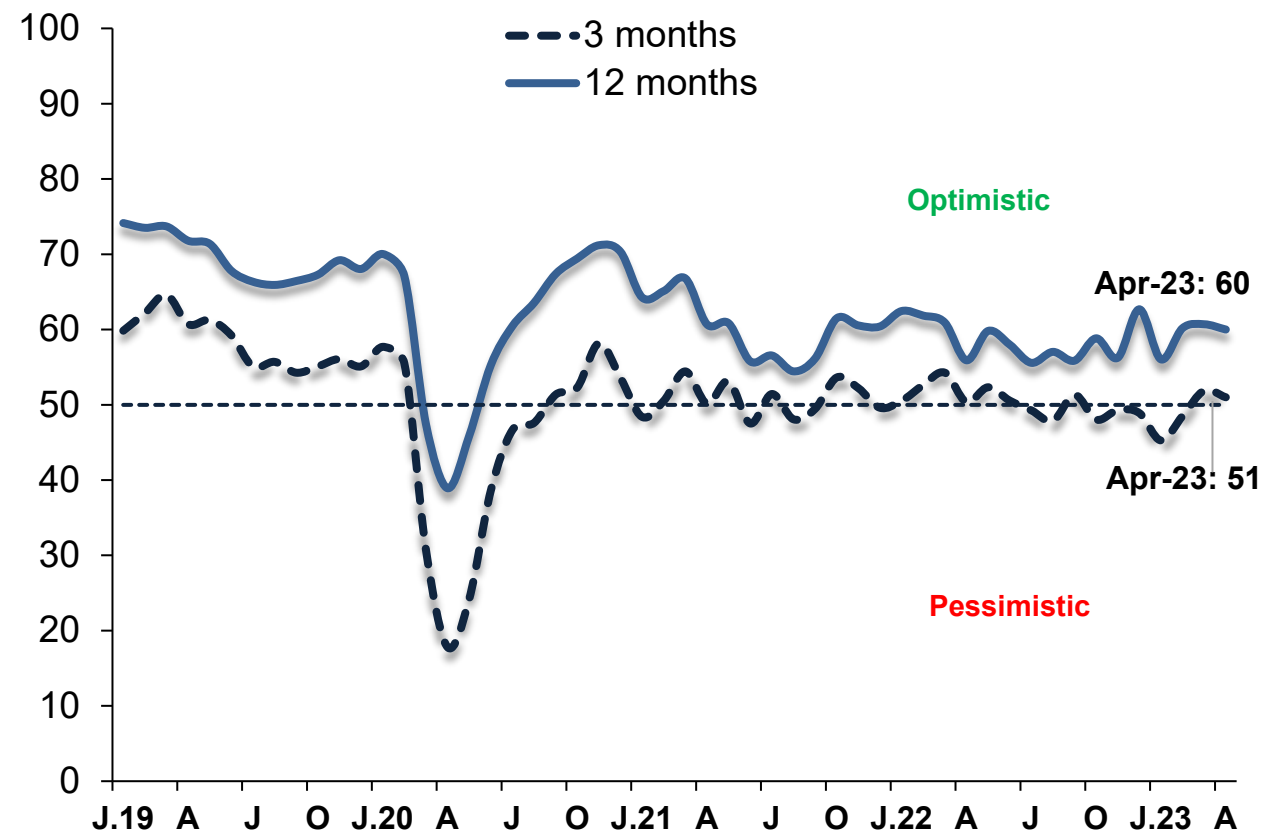
Expectations about company performance and product demand are the indices that have recovered the most.

BUSINESS EXPECTATIONS ABOUT: (Diffusion Index)

THEIR OWN COMPANY



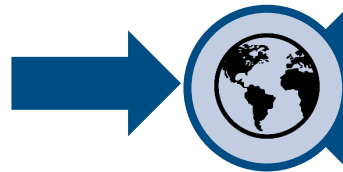
DEMAND OF THEIR PRODUCTS



Contents



Economic activity



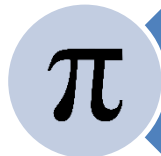
External sector



Fiscal accounts



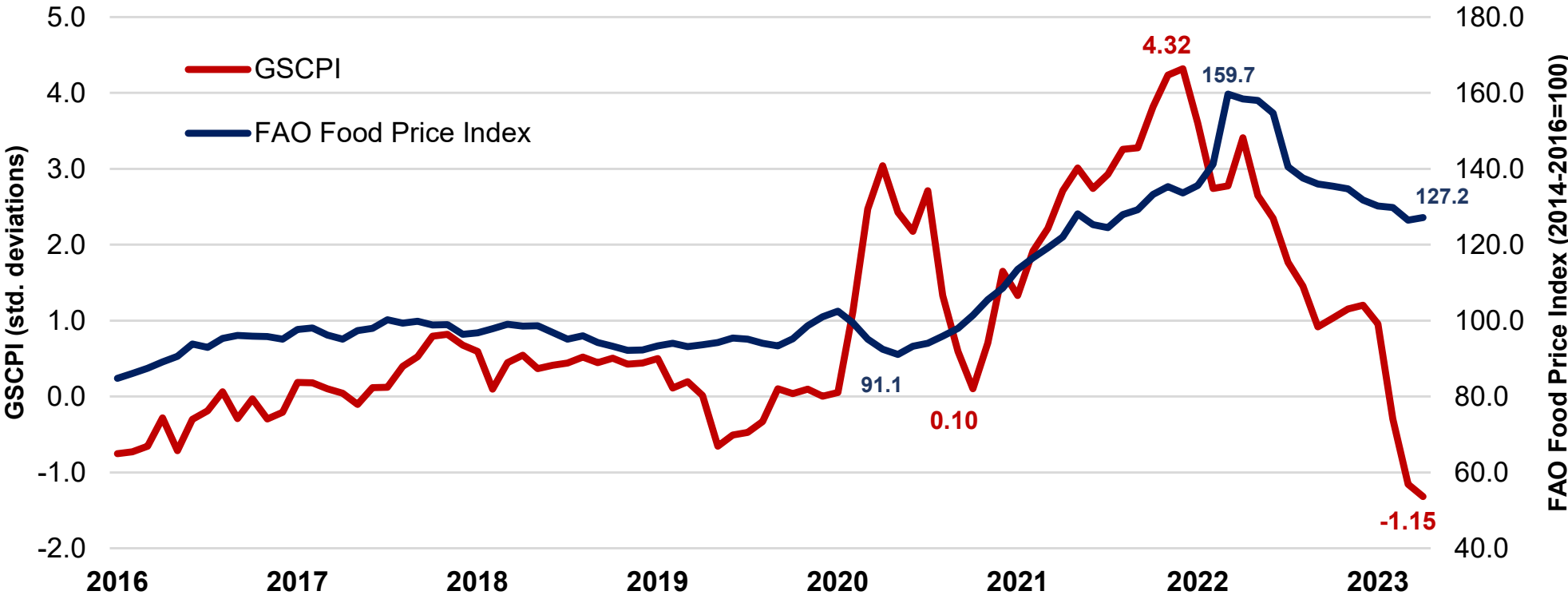
Monetary policy



Inflation

Some supply shocks, like freight rates and food prices, have lessened their impact on the global economy.

GLOBAL SUPPLY CHAIN PRESSURE INDEX & FAO FOOD PRICE INDEX

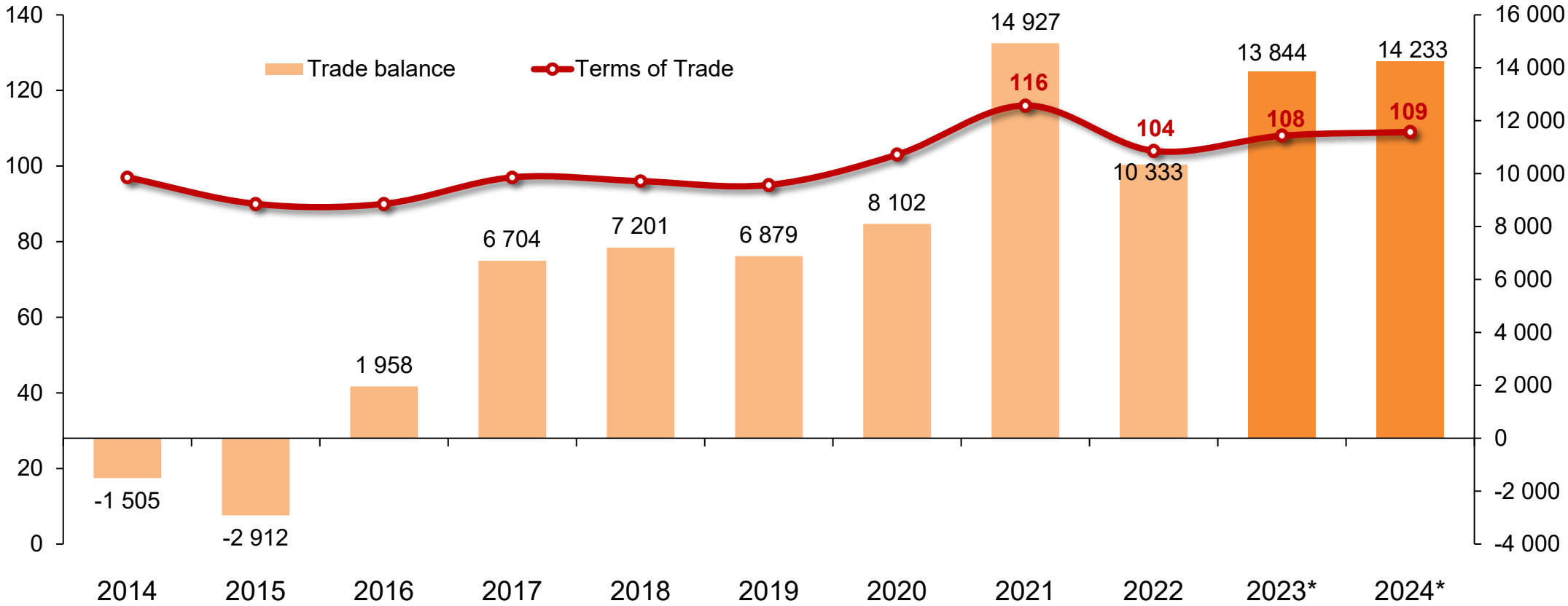


Note: Data as of April. GSCPI is computed from global transportation costs (Baltic Dry Index, Harpex Index, and airfreight costs index from U.S. BLS) and PMI components of the U.S., China, euro area, Japan, United Kingdom, South Korea, and Taiwan.
 Source: Federal Reserve Bank of New York, FAO.

A significant improvement in the terms of trade is expected to boost the trade surplus in 2023-2024.

TRADE BALANCE AND TERMS OF TRADE, 2014-2023

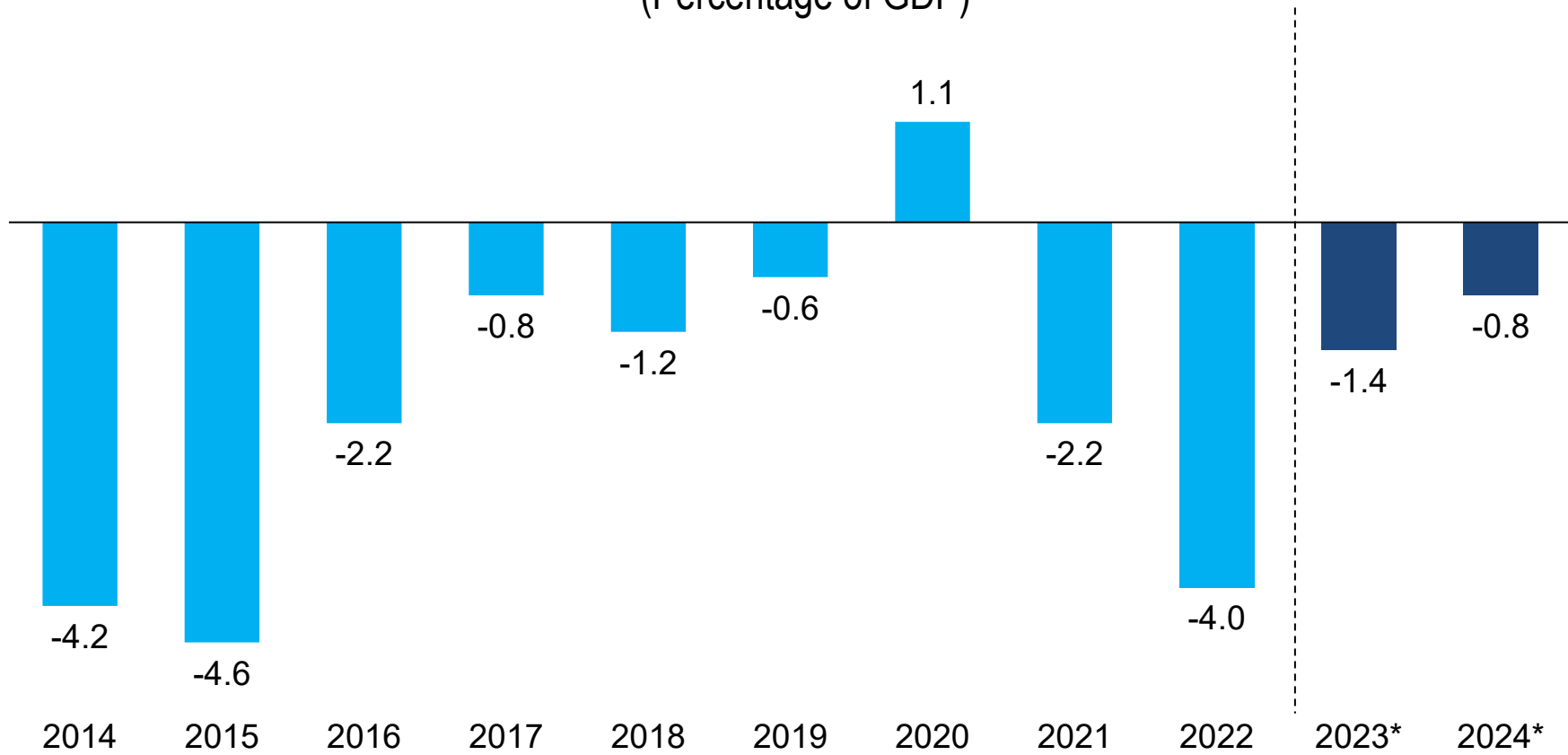
(Million USD, Index 2007 = 100, respectively)



*Forecast.
Source: BCRP.

The current account deficit is projected to decline due to a higher trade surplus and lower transportation costs.

CURRENT ACCOUNT, 2014-2024
(Percentage of GDP)



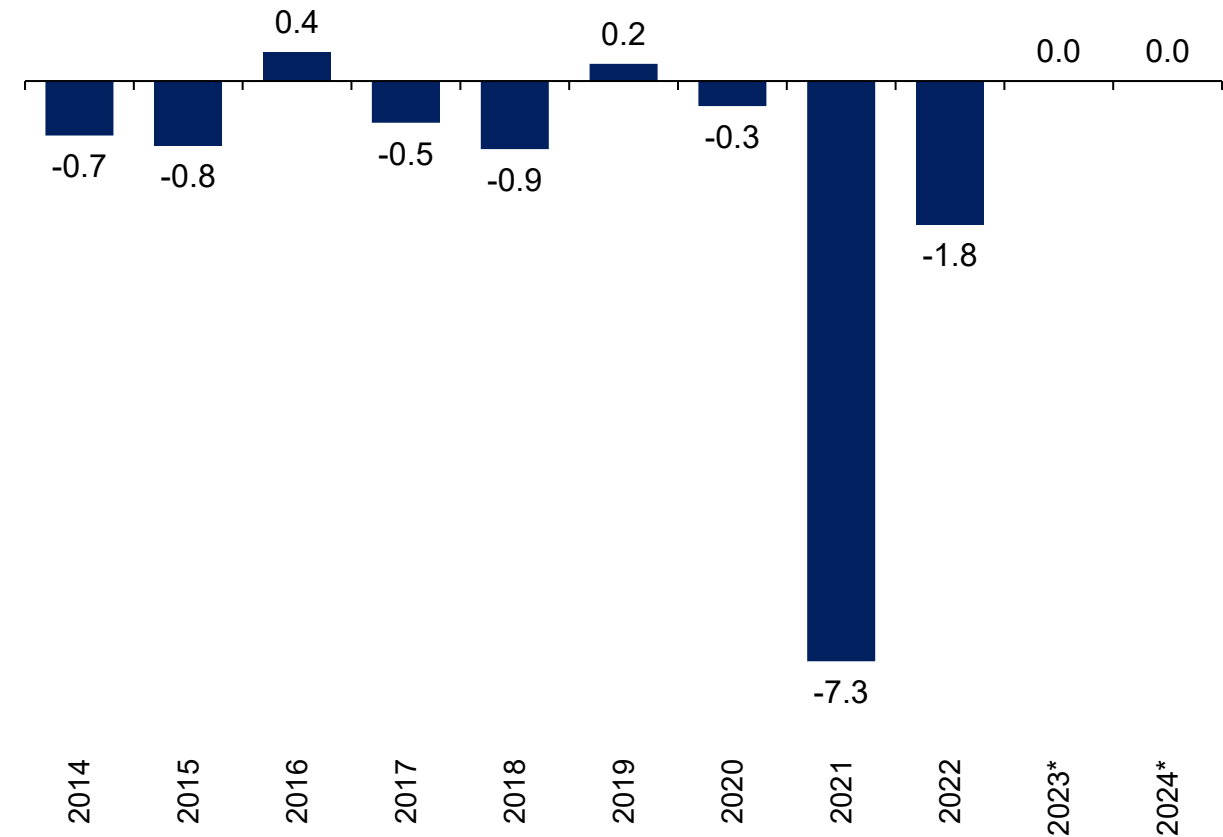
Current Account (% of GDP)	2020	2021	2022
Brazil	-1.9	-2.8	-2.9
Uruguay	-0.9	-2.7	-2.5
Colombia	-3.5	-5.6	-6.2
Mexico	2.1	-0.6	-0.9
Peru	1.1	-2.2	-4.0
Chile	-1.9	-7.3	-9.0

Source: IMF (WEO April 2023) and BCRP (Peru).

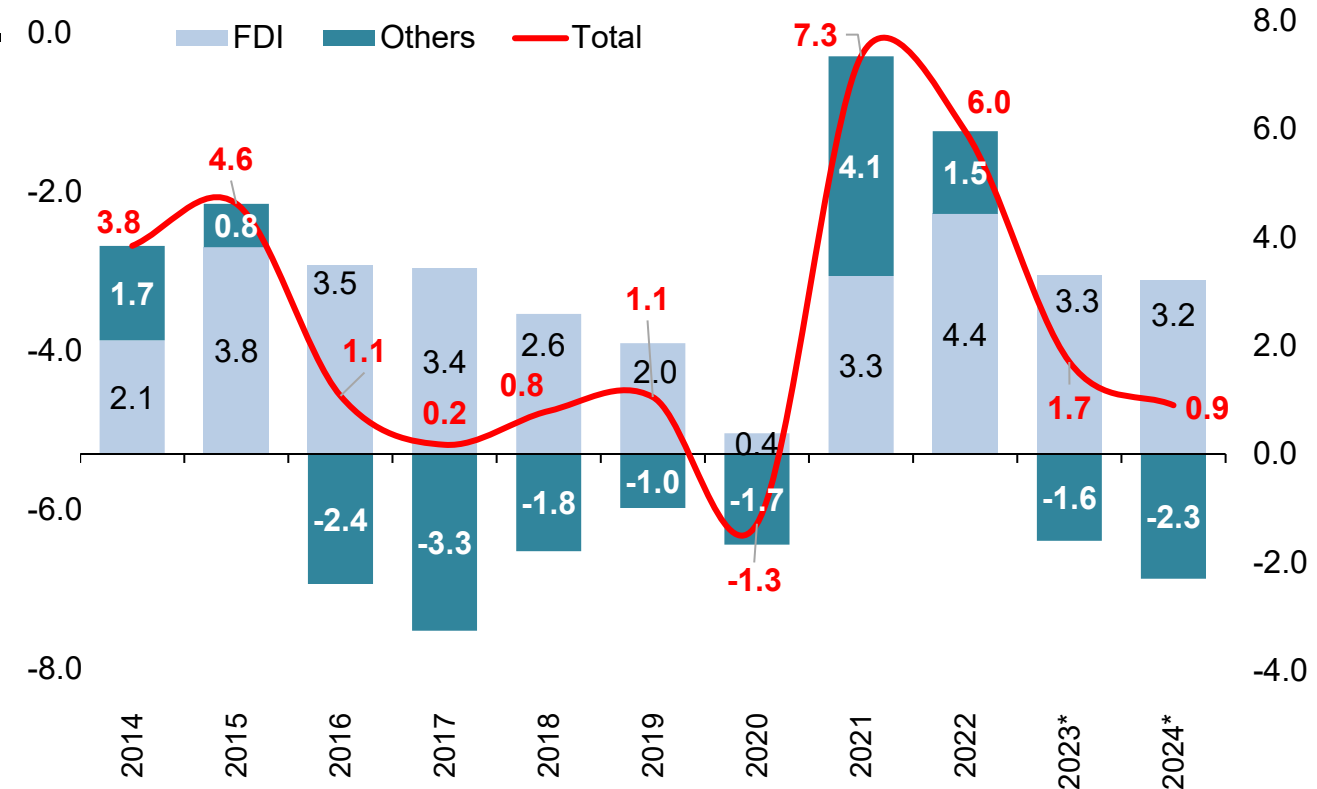
*Forecast.
Source: BCRP.

Short-term capital outflows fell from a peak in 2021. Long-term private capital is expected to continue financing the current account deficit.

SHORT-TERM CAPITAL FLOWS (% of GDP)



LONG-TERM PRIVATE CAPITAL FLOWS (% of GDP)



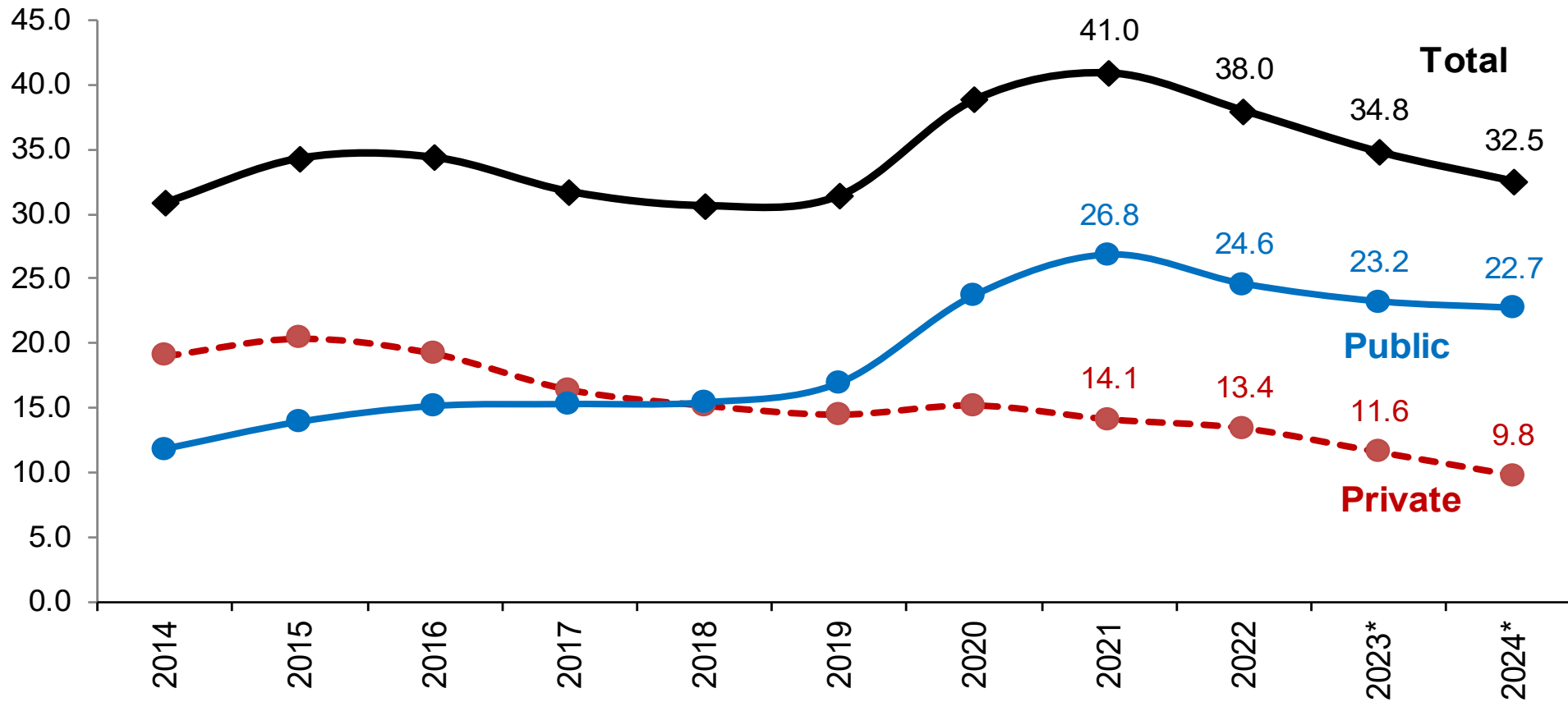
Minus (positive) sign implies net capital outflow (inflow).

* Forecast.

Source: BCRP.

Total external debt is projected to continue declining in the forecast horizon.

MEDIUM AND LONG-TERM GROSS EXTERNAL DEBT (% GDP)



Total Gross External Debt (% of GDP)	2022
Brazil	35.9
Peru	41.8
Colombia	53.5
Chile	77.2

Source: Trading Economics (total gross external debt), IMF-WEO (GDP, except for Peru), and BCRP (Peru's GDP). Includes Short-term liabilities.

* Forecast.
Source: BCRP.

Contents



Economic activity



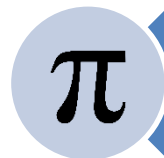
External sector



Fiscal accounts



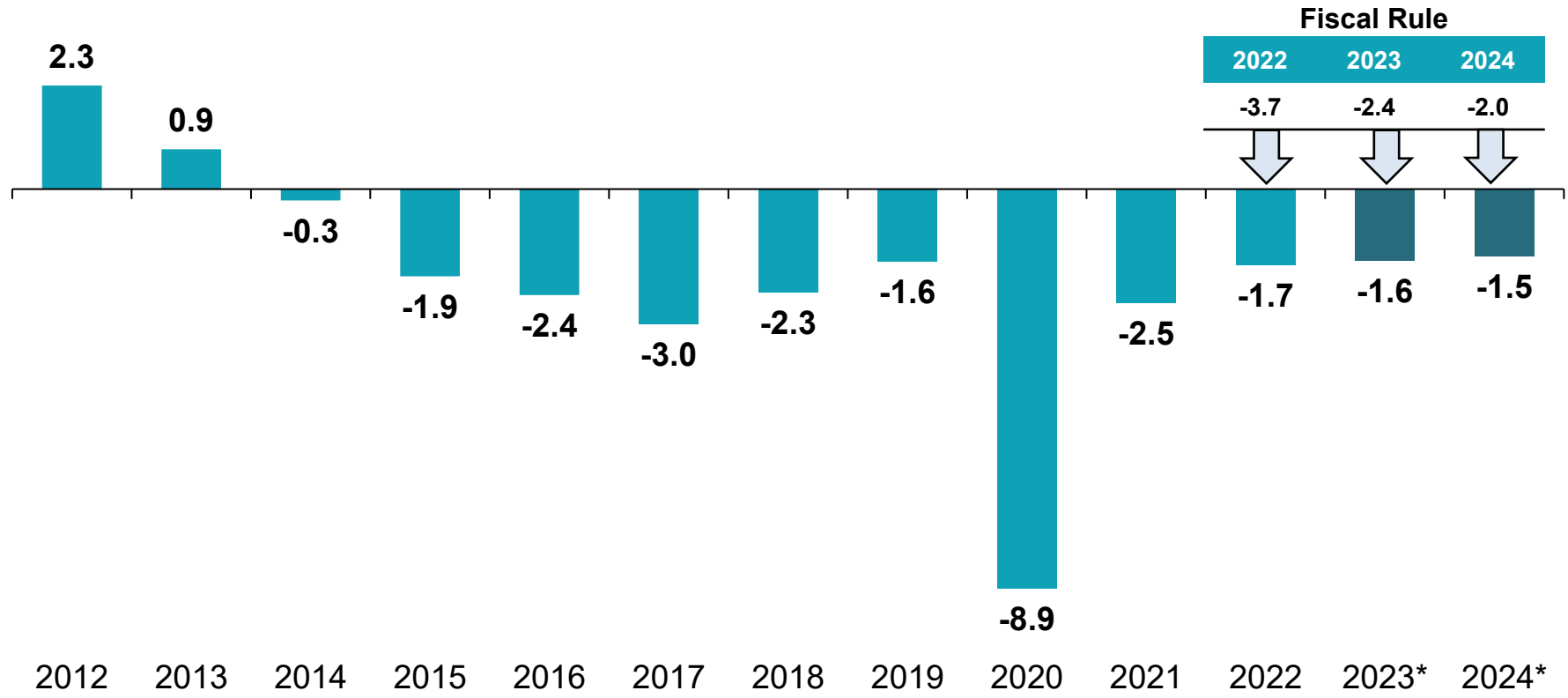
Monetary policy



Inflation

The fiscal deficit is likely to stay below 2.0% of GDP in the forecast horizon.

NON FINANCIAL PUBLIC SECTOR: OVERALL BALANCE (Percentage of GDP)



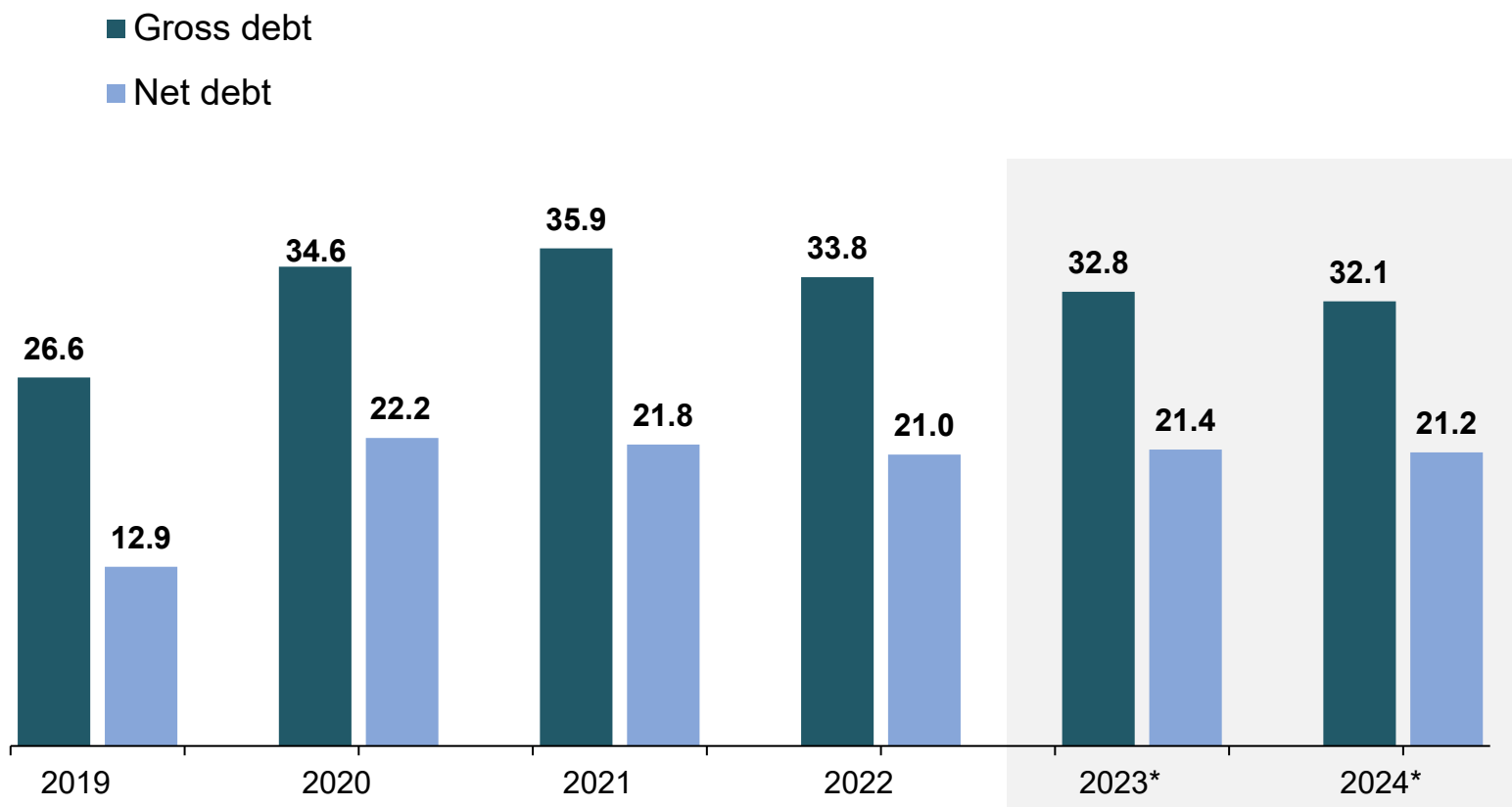
Overall balance (% of GDP)	2019	2020	2022*	2023**
Peru	-1.6	-8.9	-1.7	-1.6
Chile	-2.7	-7.1	1.3	-1.8
Uruguay	-2.8	-4.7	-2.5	-2.2
Paraguay	-3.8	-7.2	-4.5	-3.3
Colombia	-3.5	-7.0	-6.7	-4.0
Mexico	-2.3	-4.4	-4.4	-4.1
Brazil	-5.8	-13.3	-4.6	-8.8

* Forecast for Colombia and Paraguay.
 ** Forecast.
 Source: IMF-World Economic Outlook (April 2023) and BCRP (Peru).

* Forecast.
 Source: BCRP

Reduced fiscal deficits in Peru have resulted in the lowest public debt ratio in LatAm.

NON FINANCIAL PUBLIC SECTOR DEBT (Percentage of GDP)



* Forecast.
Source: BCRP.

Gross Debt (% of GDP)	2019	2020	2021	2022*	2023**
Peru	26.6	34.6	35.9	33.8	32.8
Chile	28.3	32.4	36.3	38.0	36.6
Paraguay	25.8	36.9	37.5	40.9	40.4
Mexico	53.3	60.1	58.7	56.0	55.6
Colombia	52.4	65.7	64.0	63.6	62.0
Uruguay	60.6	68.2	65.6	61.0	62.3
Brazil	87.9	96.8	90.7	85.9	88.4

* Forecast for Colombia and Paraguay.

** Forecast.

Source: IMF-World Economic Outlook (April 2023) and BCRP (Peru).

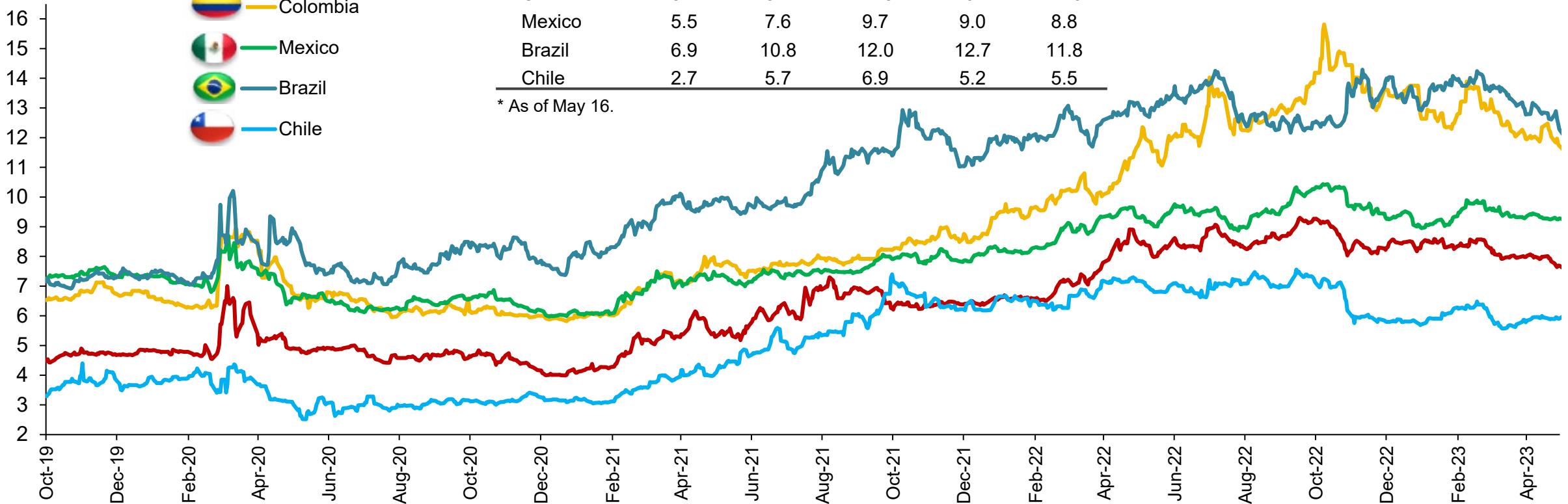
Peru's sovereign yield is the second-lowest in LatAm.

10 YEAR SOVEREIGN BOND YIELDS (Percentage, end of period)



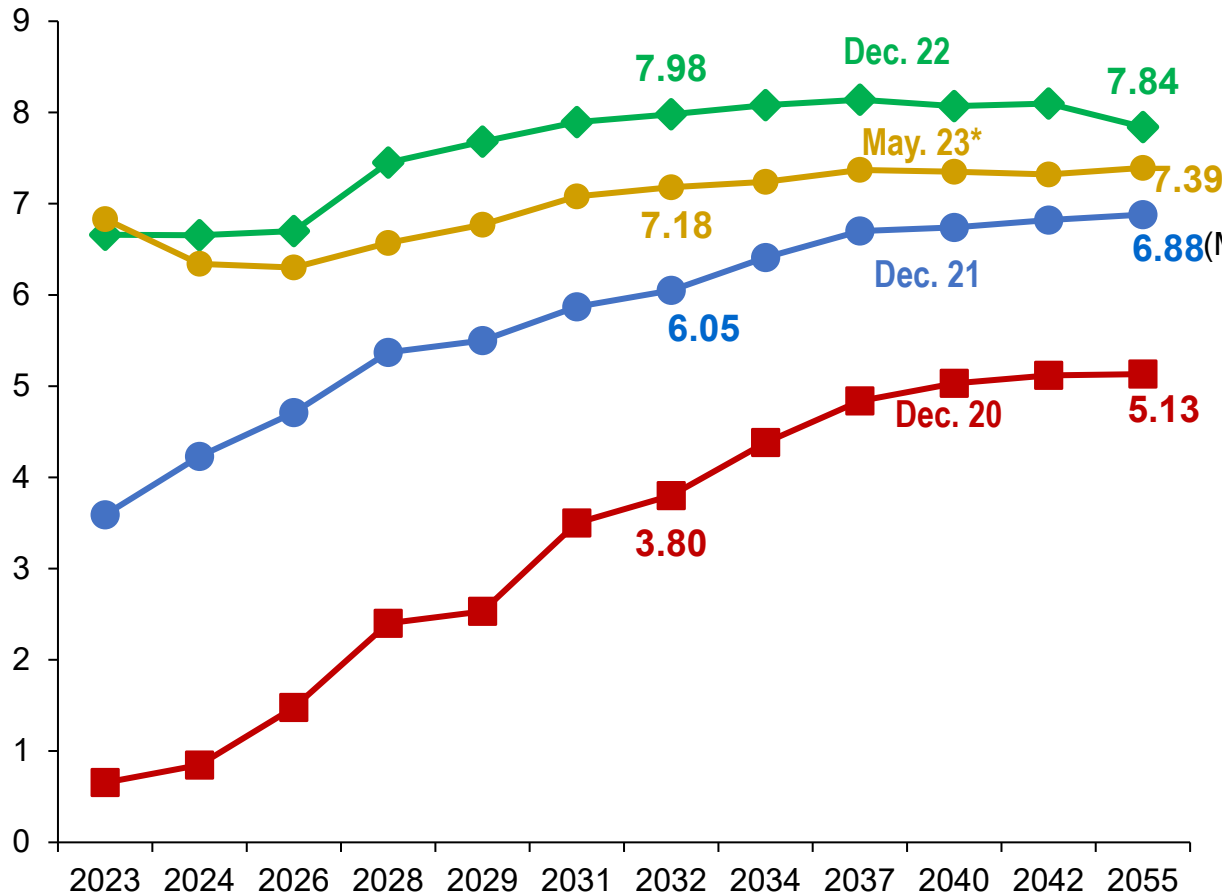
	Dec.20	Dec.21	Sep.22	Dec.22	May.23*
Peru	3.5	5.9	8.8	8.0	7.2
Colombia	5.4	8.2	12.8	13.1	11.0
Mexico	5.5	7.6	9.7	9.0	8.8
Brazil	6.9	10.8	12.0	12.7	11.8
Chile	2.7	5.7	6.9	5.2	5.5

* As of May 16.



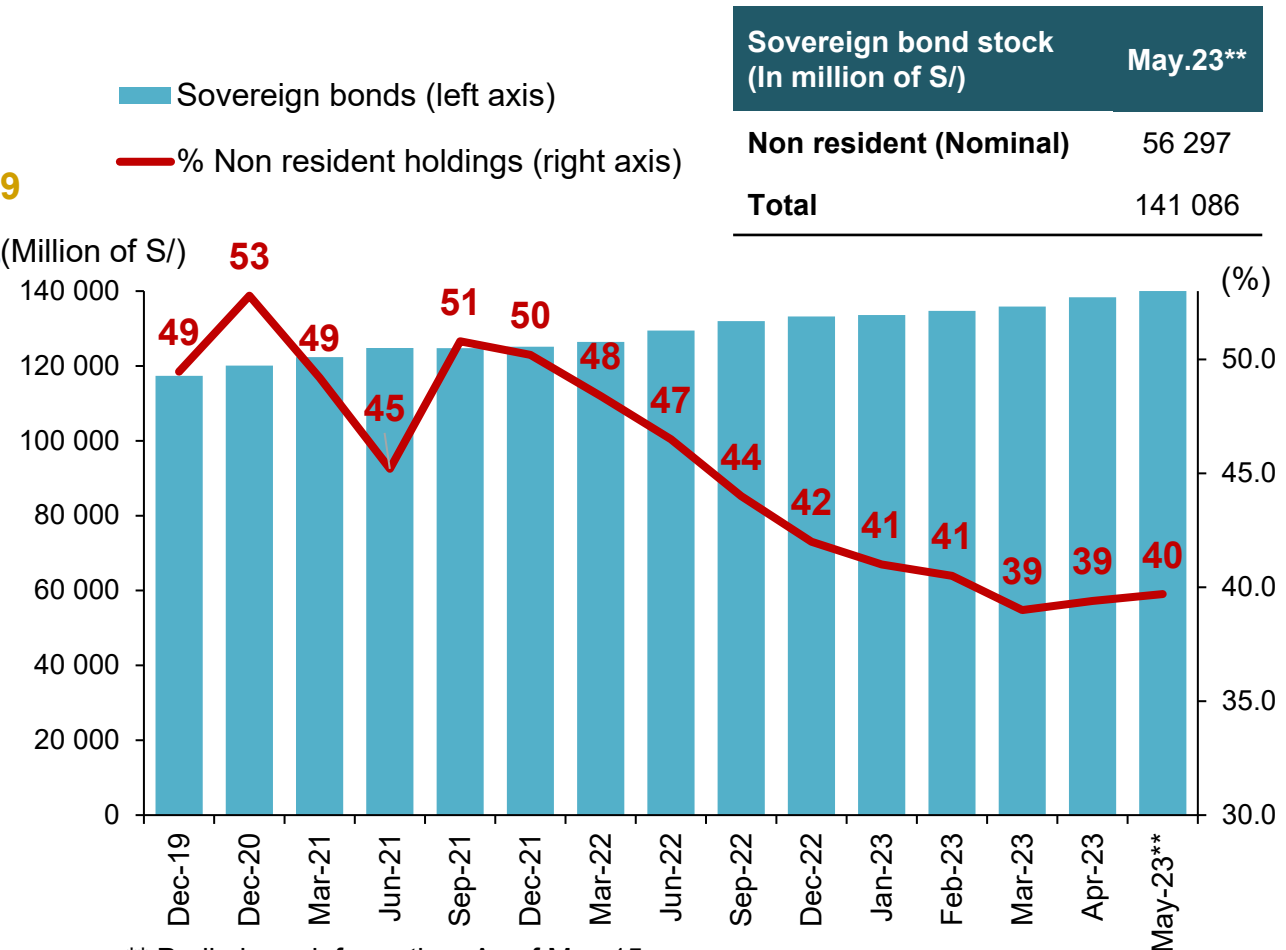
In May 2023, the yield curve of sovereign bonds shifted downwards compared with December 2022. Non-resident investors increased their share of sovereign bond holdings from 39% in March to 40% in May 2023.

PERU SOVEREIGN BONDS YIELD CURVE
(Percentage points, end of period)



*As of May 16.
Source: MEF.

STOCK OF SOVEREIGN BONDS AND NON-RESIDENT BOND HOLDINGS
(Stock in millions of S/ and holdings in %)



Sovereign bond stock (In million of S/)	
Non resident (Nominal)	56 297
Total	141 086

** Preliminary information. As of May 15.
Source: BCRP, CAVALI, MEF, SBS.

Contents



Economic activity



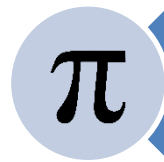
External sector



Fiscal accounts



Monetary policy

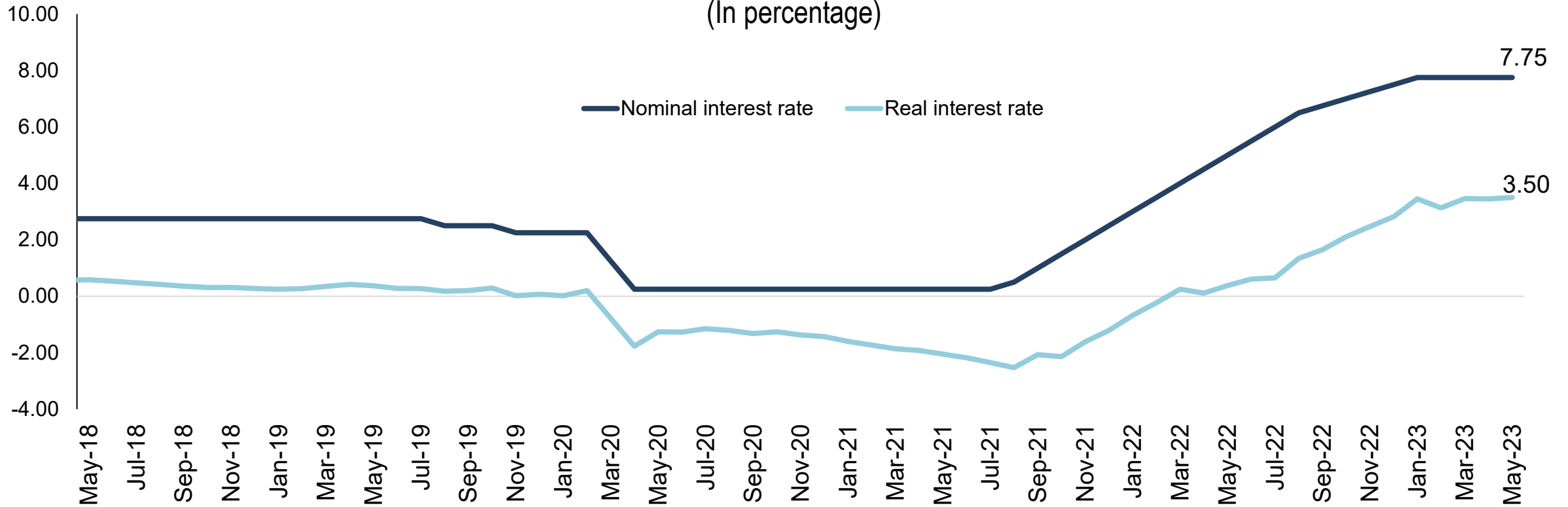


Inflation

The BCRP held the reference rate at 7.75% in May 2023, not signaling the end of the tightening cycle. Approach is data-dependent.

NOMINAL AND REAL INTEREST RATE*

(In percentage)



	Dec.20	Jul.21	Aug.21	Dec.21	Mar.22	Jun.22	Sep.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23
(I) Nominal Rate	0.25	0.25	0.5	2.5	4.000	5.500	6.75	7.50	7.75	7.75	7.75	7.75	7.75
(II) Inflation Expectations	1.68	2.6	3.03	3.71	3.75	4.89	5.10	4.68	4.30	4.62	4.29	4.30	4.25
(III) Real Rate: (I)-(II)	-1.43	-2.35	-2.53	-1.21	0.25	0.61	1.65	2.82	3.45	3.13	3.46	3.45	3.50

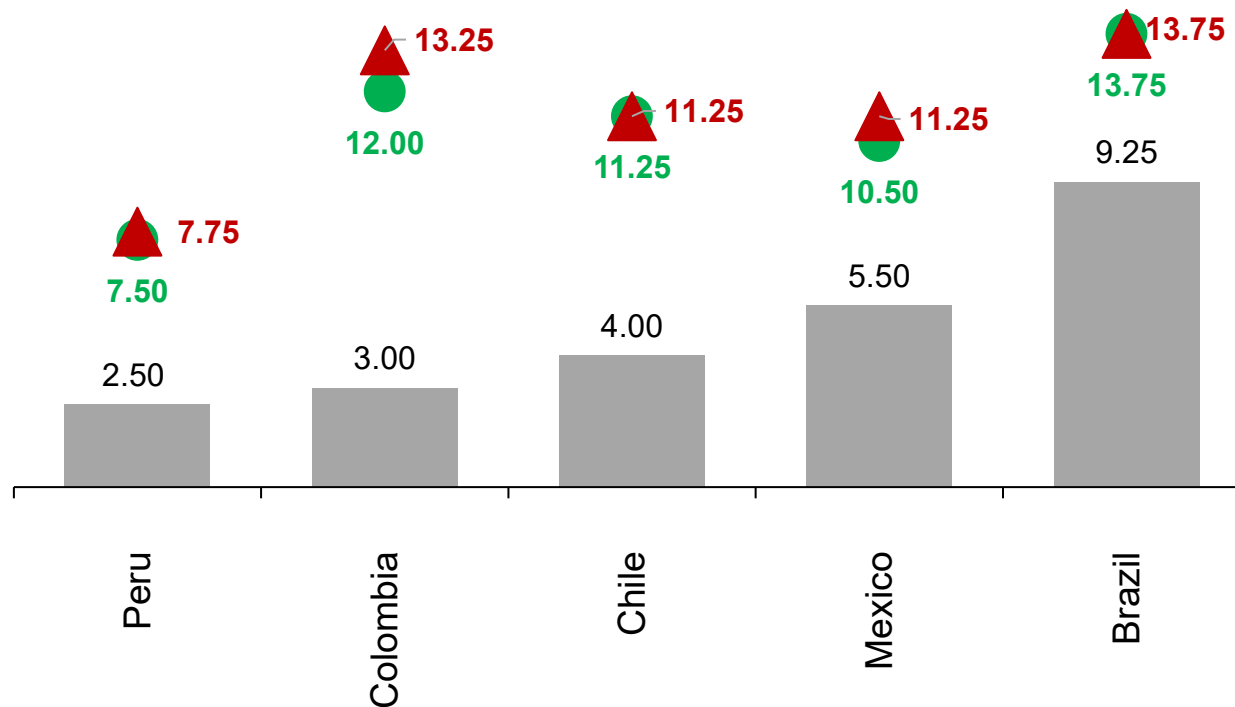
* Real interest rates are computed with 12-months-ahead inflation expectations (ex-ante real interest rates).

Source: BCRP.

Peru's policy rate is among the lowest in LatAm, with output near potential and lower inflation expectations.

MONETARY POLICY RATES IN LATAM (%)

■ Dec-21 ● Dec-22 ▲ May-23*



	12-M-Ahead Inflation Expectations**	Ex Ante Real Interest Rate
Peru	4,25	3,50
Colombia	7,00	6,25
Mexico	4,89	6,36
Chile	4,30	6,95
Brazil	5,74	8,01

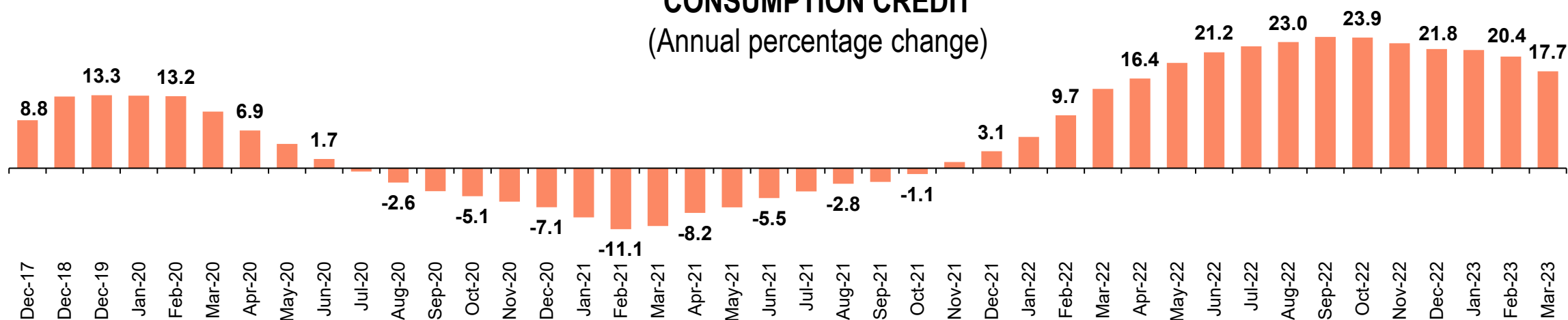
* As of May 11, 2023. Inflation expectations as of April 2023 (for Chile as of May).

**Obtained by interpolation based on December 2023 and 2024 forecasts for Brazil and Mexico (other central banks publish data directly)

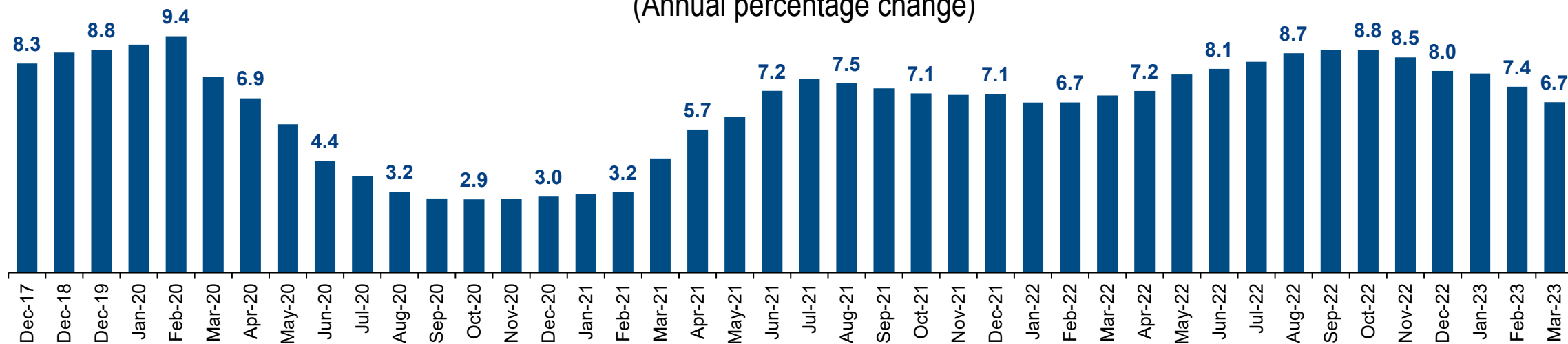
Source: Central Banks.

As of March 2023, growth in mortgage and consumer credit has moderated compared to 2022.

CONSUMPTION CREDIT (Annual percentage change)



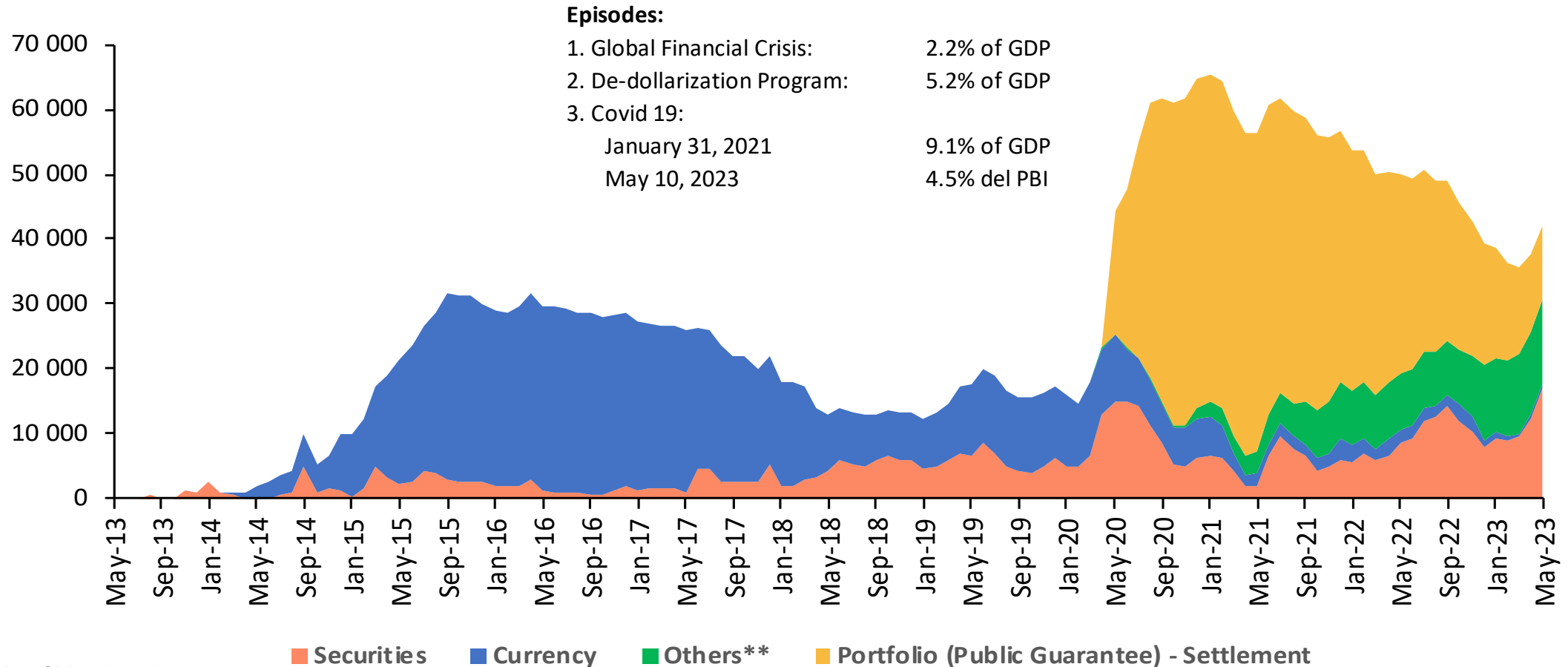
MORTGAGE CREDIT (Annual percentage change)



Source: BCRP.

The BCRP's liquidity operations balance reached a historical high in January 2021, but has since decreased due to reduced state-backed repo operations.

BALANCE OF LIQUIDITY OPERATIONS OF THE BCRP* (S/ million)



* As of May 10, 2023.

** The item "Others" includes the purchase of Public Treasury bonds, in line with article 61 of the BCRP Organic Law, and Repos operations of portfolio loans.

Source: BCRP.

The Peruvian Sol (PEN) has continued appreciating since 2022.

LATAM: EXCHANGE RATE

Monetary unit per dollar
(Index 100=31 Dec 2008)



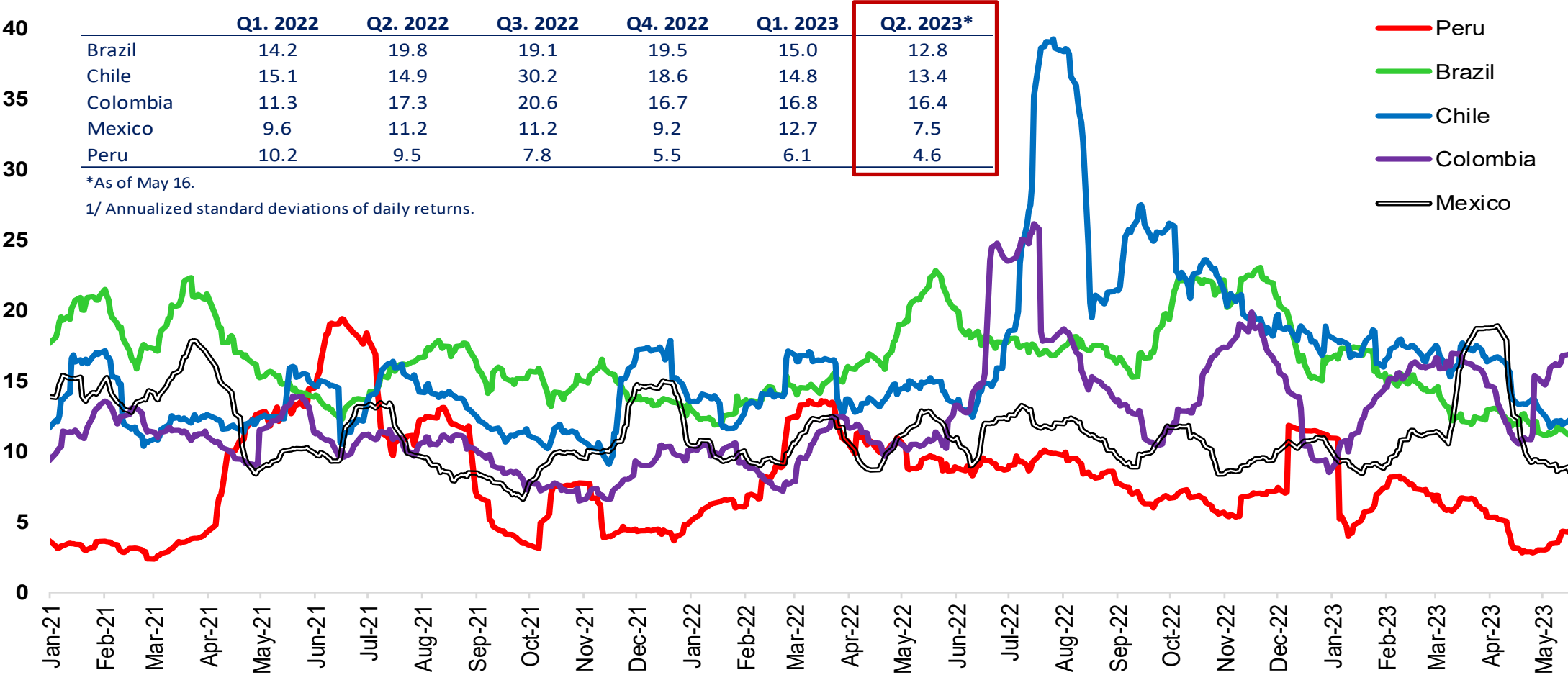
	Cumulative % chg. 2022 vs 2000	May.23* / Dec.20 (%)	May 23* / Dec.21 (%)	May 23* / Dec.22 (%)
Peru (PEN)	8.0	2.2	-7.3	-2.8
Chile (CLP)	48.2	12.5	-6.2	-6.1
Colombia (COP)	116.9	34.0	11.4	-6.7
Mexico (MXN)	102.6	-12.1	-14.7	-10.2
Brazil (BRL)	171.1	-4.9	-11.3	-6.5



* As of May 16.
Source: Reuters.

Peru has the lowest FX volatility in LatAm, thanks to its solid macroeconomic fundamentals.

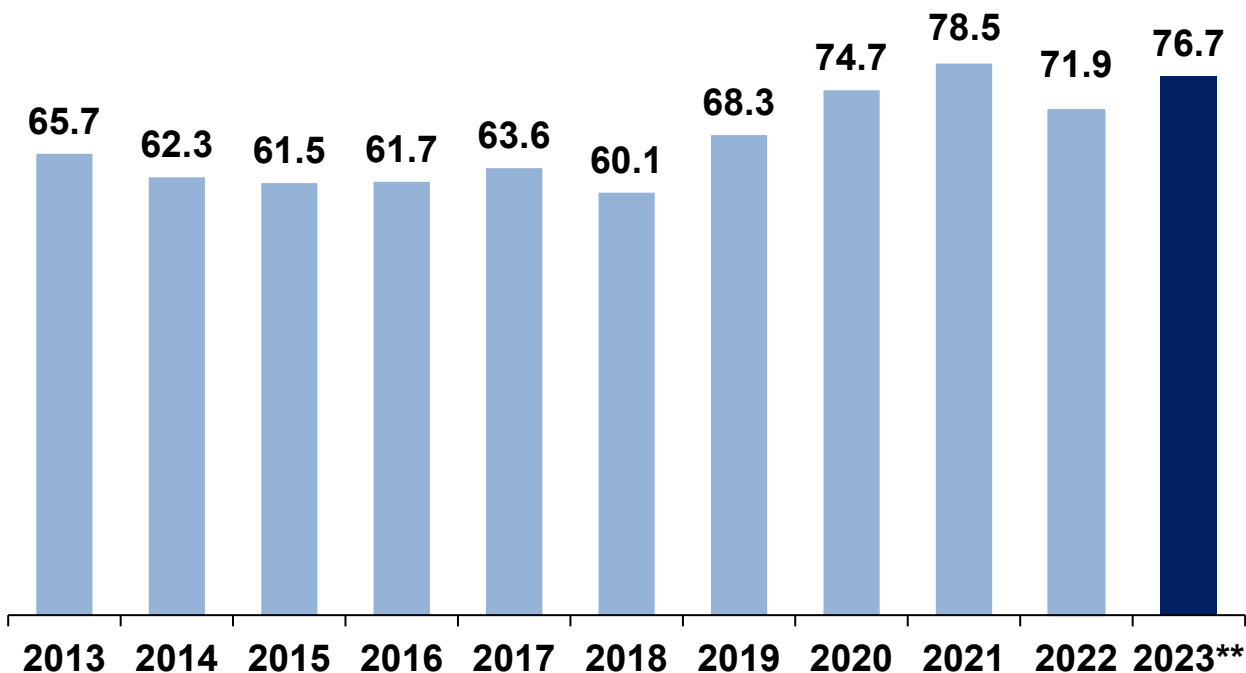
HISTORICAL VOLATILITY – 1 MONTH
(Standard Deviations of Daily FX Returns, Annualized)



*As of May 16.
Source: Reuters.

Peru's robust external position is backed by a considerable FX reserve buffer and a precautionary USD 5.4bn IMF FCL.

FOREIGN EXCHANGE RESERVES (Billions of USD)



**As of May 15.
Source: BCRP.

INTERNATIONAL COVERAGE INDICATORS

	2019	2020	2021	2022	2023*
NIR as percentage of:					
a) GDP	29.4	36.3	34.8	29.4	27.8
b) Short term external debt ^{1/}	498	543	492	430	512
c) Short term external debt + current account deficit	455	648	373	270	404

^{1/} Includes the stock of short-term debt plus 1 year ahead amortization of private and public debt.

*Forecast.

FX Reserves (% of GDP)	2022
Brazil	16.9
Colombia	16.7
Mexico	14.2
Peru	29.4
Chile	13.0
Argentina	5.6

Source: GDP is obtained from the IMF – WEO (April 2023), except for Peru (BCRP).

Contents



Economic activity



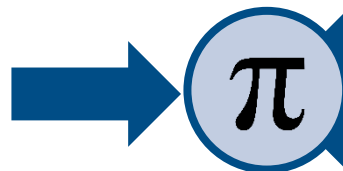
External sector



Fiscal accounts



Monetary policy

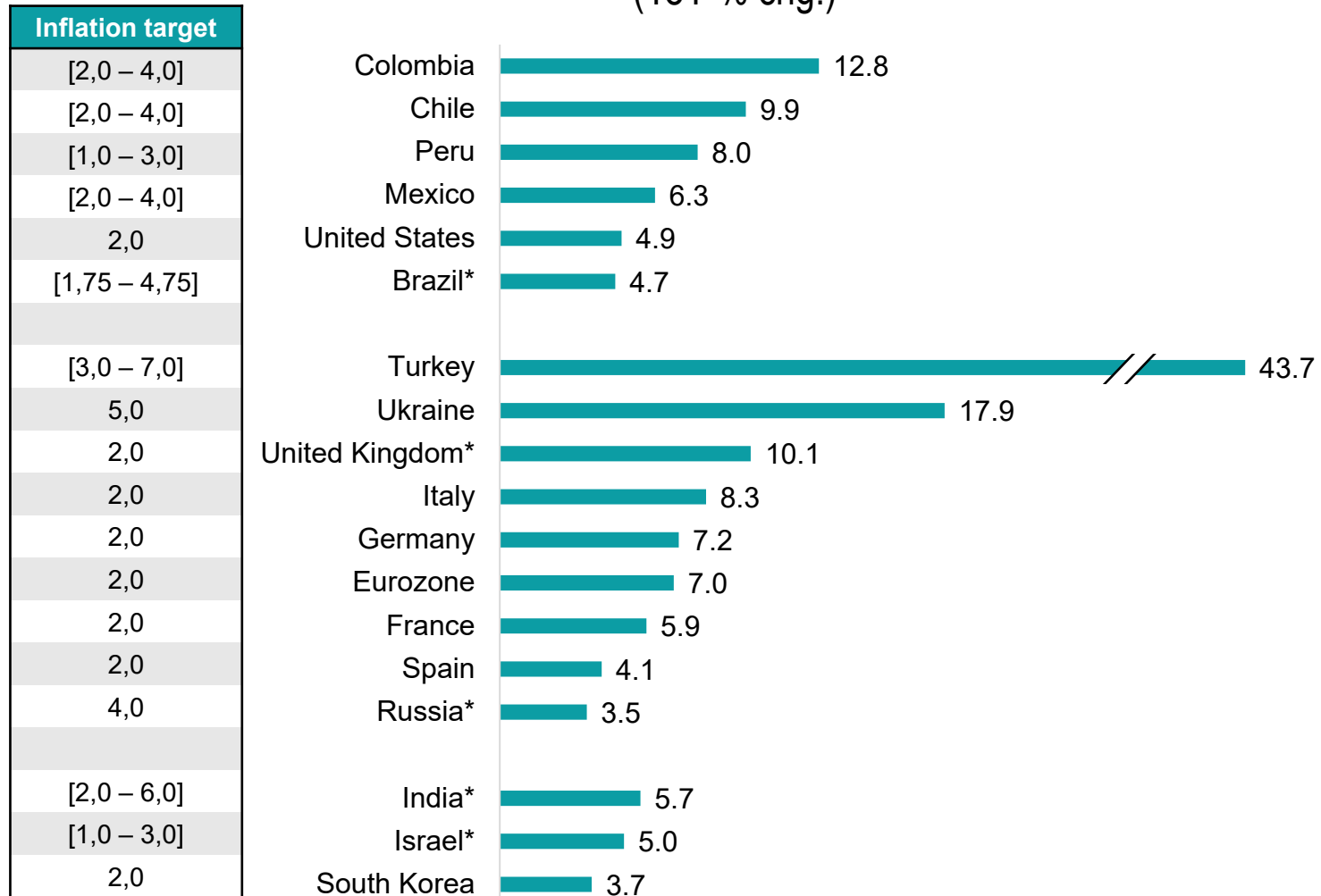


Inflation

Inflation momentum is decreasing in several countries.

INFLATION RATES AND INFLATION TARGETS – APRIL 2023

(YoY % chg.)

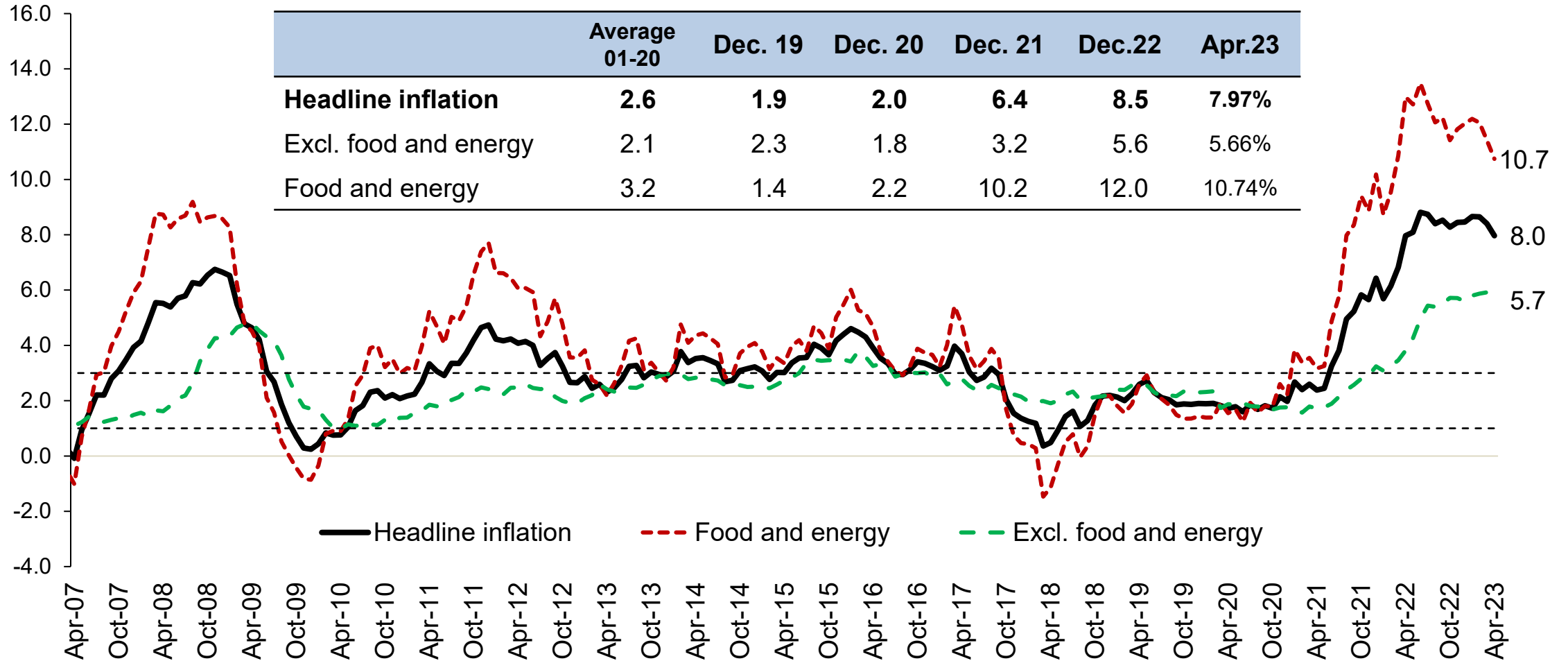


*As of March.

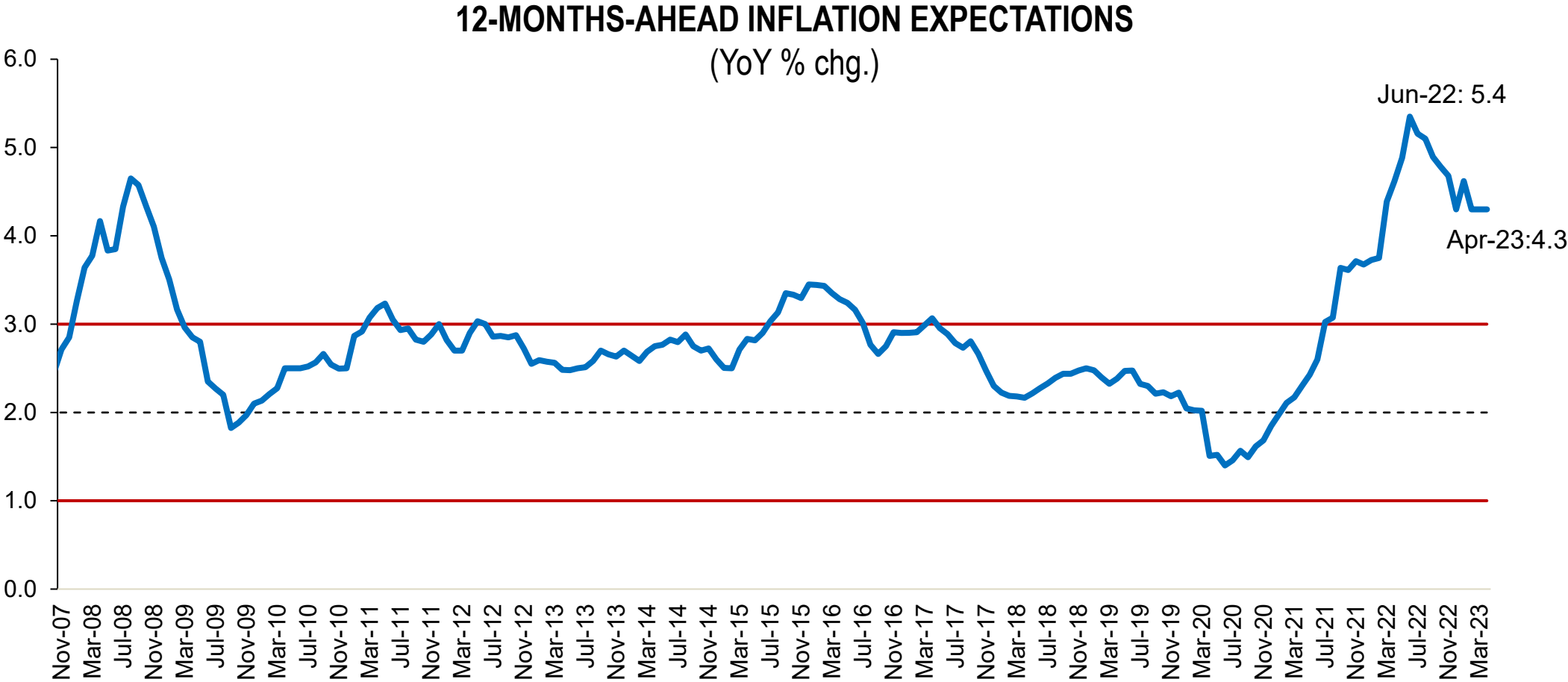
Source: Trading Economics.

After peaking at 8.81% in June 2022, headline inflation decreased to 7.97% in April 2023.

HEADLINE INFLATION, 2007 - 2023 (YoY % change)



Twelve-month-ahead inflation expectations are falling.

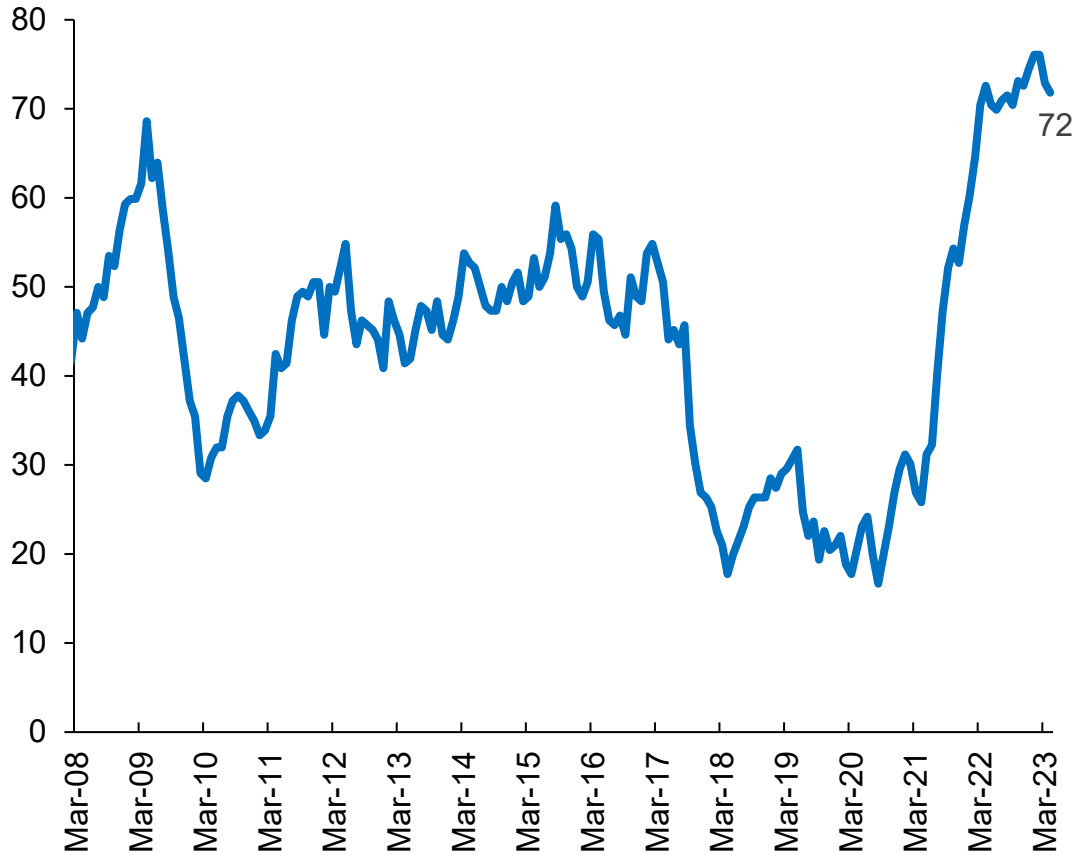


Average expectations of the financial system and economic analysis. An estimate of the 12-month expectation is obtained by weighting the expectation for the current year by the number of months remaining and the expectations for the following year by the number of months remaining to complete the 12 months.

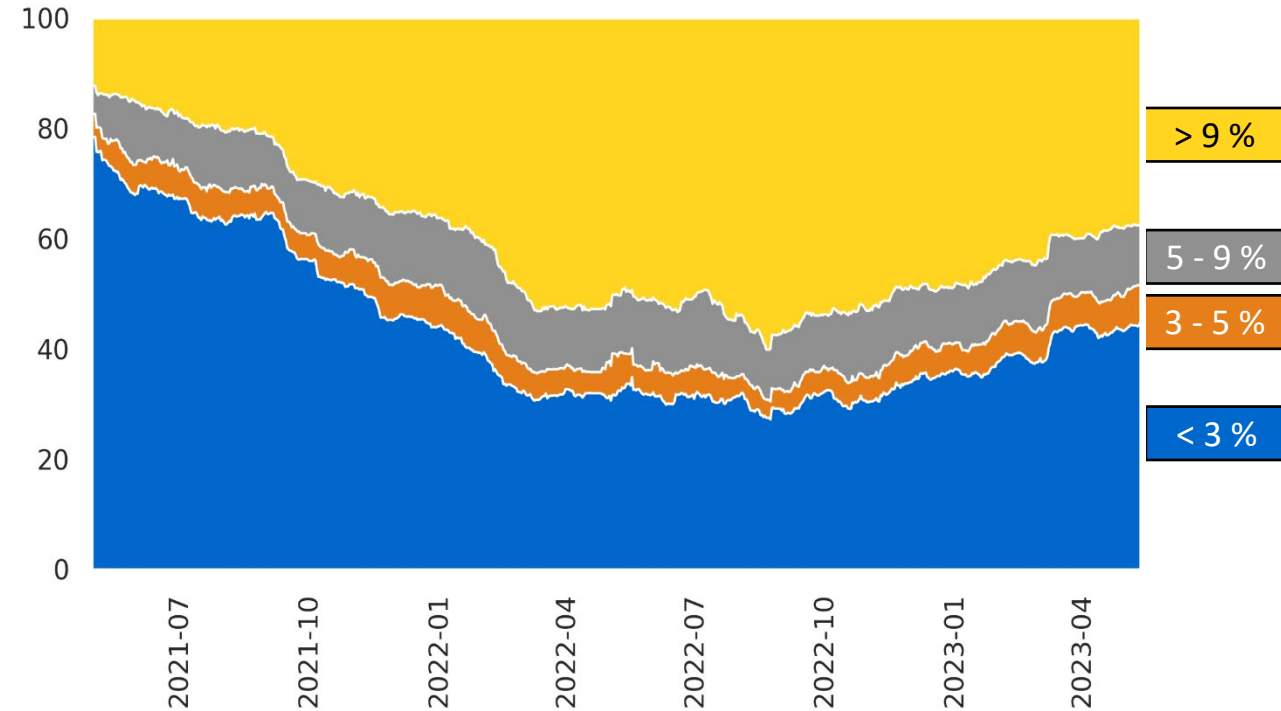
Source: BCRP.

As of May, the number of goods with YoY price changes above 3% has decreased.

% OF CPI ITEMS WITH YOY VARIATION GREATER THAN 3%



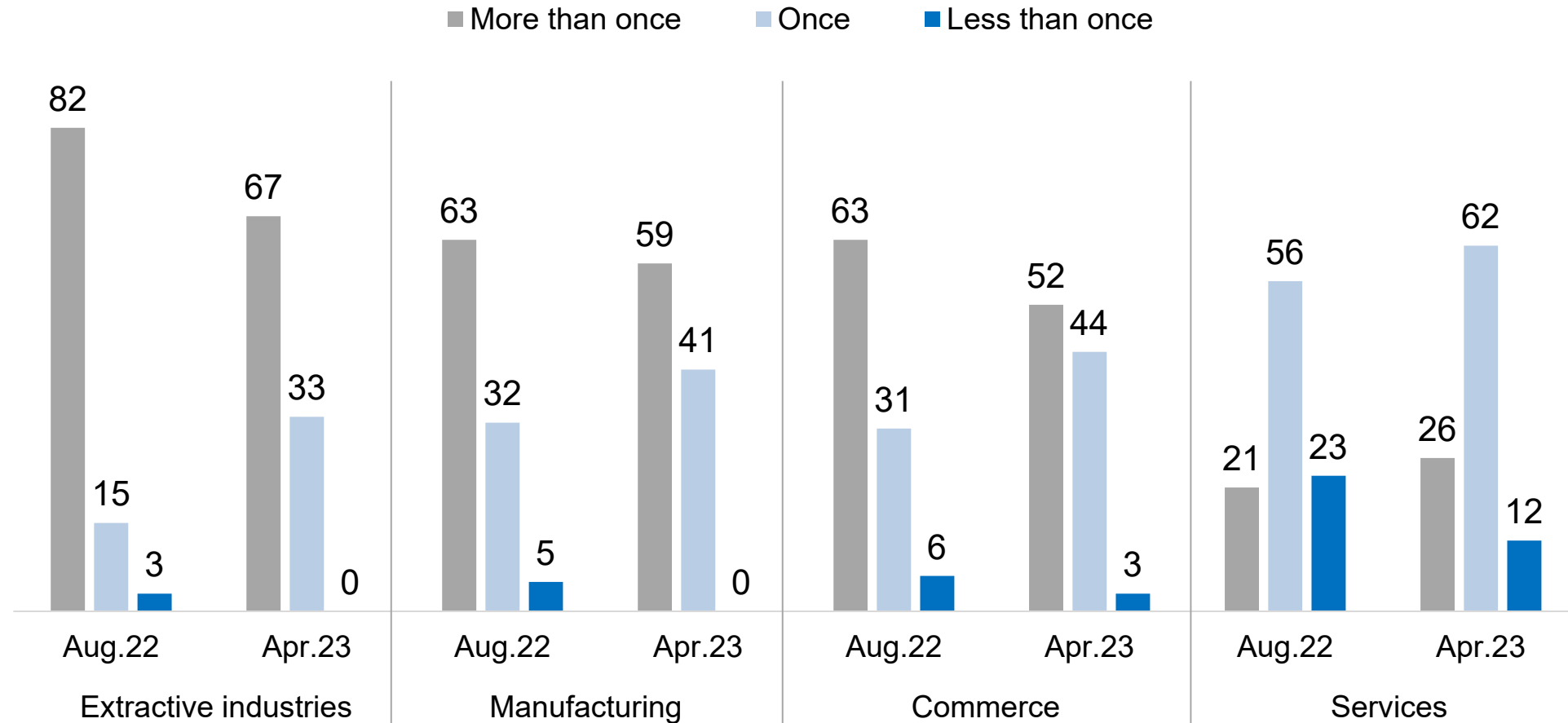
DISTRIBUTION OF YOY VARIATION OF RETAIL PRICES



Date	< 3 %	3% - 5%	5% - 9%	> 9%
Apr 30, 2021	78.5%	4.2%	5.1%	12.2%
Aug 21, 2022 (Maximum)	27.5%	3.3%	9.1%	60.1%
May 12, 2023	45.0%	6.5%	10.6%	37.8%

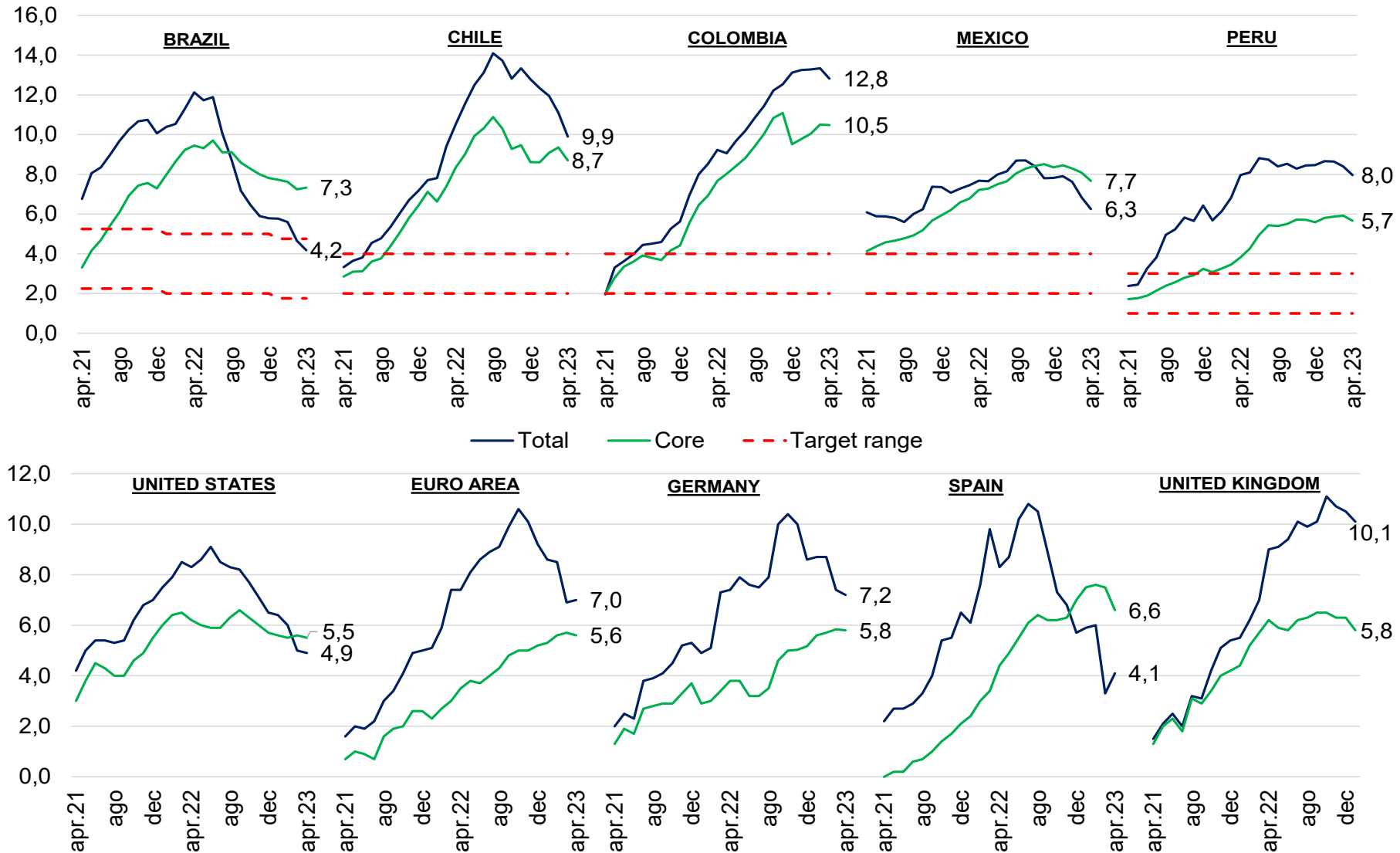
A smaller percentage of companies have increased their prices once or more within a year, except those in the services sector.

FREQUENCY OF PRICE ADJUSTMENTS IN A YEAR (% OF COMPANIES)



Peru's headline and core inflation rates are among the lowest in LatAm.

INFLATION IN LATAM AND DEVELOPED COUNTRIES, YoY % chg.

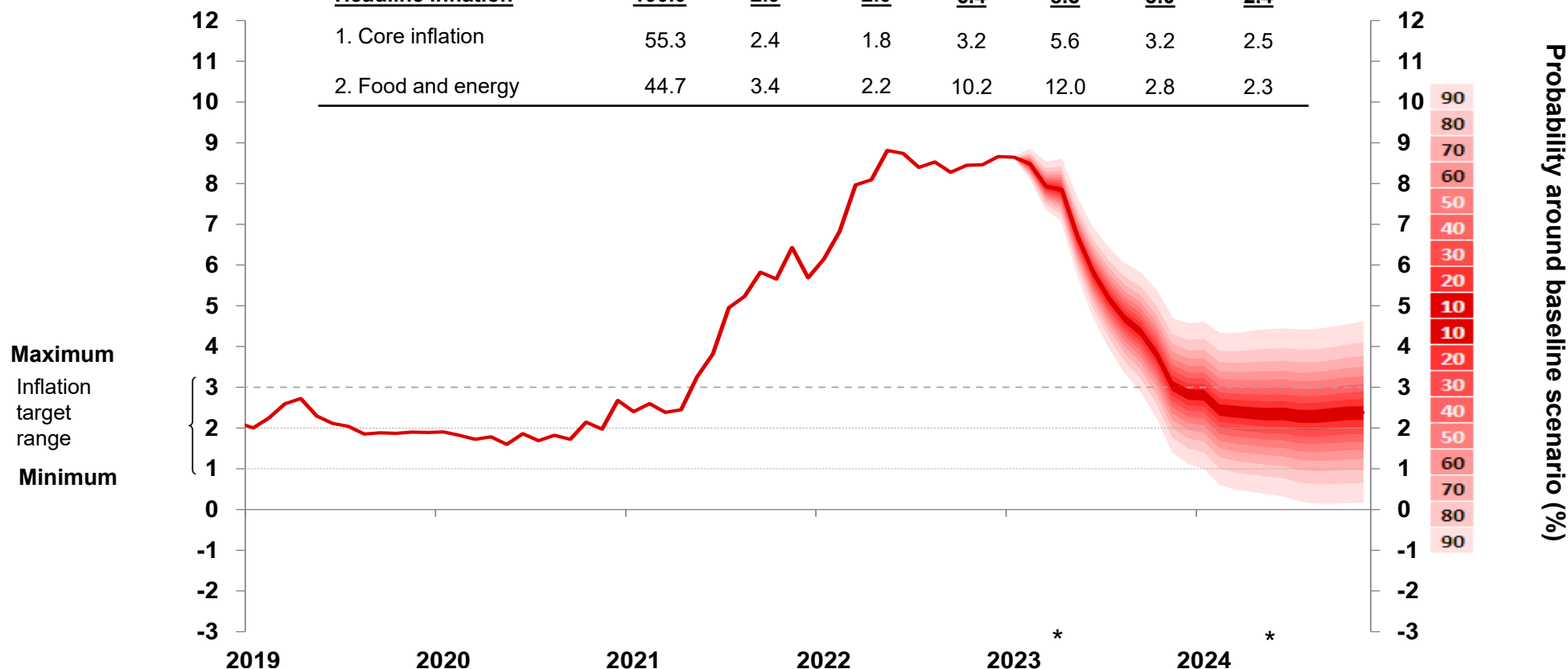


Note: Brazil's energy component refers to energy at home. Brazil and Peru food price indexes include the component of food-away-from-home. Source: Central Banks and national statistics offices.

Inflation is expected to return to target by end-2023 due to the reversal of global supply shocks, low inflationary demand pressures, and inflation expectations returning within the target band.

HEADLINE INFLATION FORECAST, 2023-2024 (YoY % change)

	Weight	2010-19	2020	2021	2022	2023*	2024*
Headline inflation	100.0	2.9	2.0	6.4	8.5	3.0	2.4
1. Core inflation	55.3	2.4	1.8	3.2	5.6	3.2	2.5
2. Food and energy	44.7	3.4	2.2	10.2	12.0	2.8	2.3



Note: The graph shows the probability of occurrence of inflation values in the future, according to the combination of statistical analysis and the balance of risks. Each band concentrates 5% of probability and the total of bands cover 90% of probability. The darkest bands contain the trajectory of the base scenario.

Peru's Economic Outlook

Julio Velarde

Governor

Central Reserve Bank of Peru

May 2023



Principales proyectos mineros postergados

Los proyectos mineros que se han venido postergando suman US\$ 25 mil millones.

PRINCIPALES PROYECTOS MINEROS CON ESTUDIO DE IMPACTO AMBIENTAL Y/O EN EXPLORACIÓN

PROYECTO	UBICACIÓN	INVERSIONISTA	INVERSIÓN (Mill. de US\$) *
CONGA	CAJAMARCA	Newmont/Buenaventura	4 800
EL GALENO	CAJAMARCA	China Minmetals Corp	3 500
HAQUIRA	APURÍMAC	First Quantum Minerals Ltd	2 500
PAMPA DEL PONGO	AREQUIPA	Jinzhao Mining	1 500
TÍA MARIA	AREQUIPA	Southern	2 400
ZAFRANAL	AREQUIPA	Teck Resources	1 500
LA GRANJA	CAJAMARCA	Rio Tinto (Conversaciones con First Quantum Metals)	5 000
PUKAQAQA	HUANCAVELICA	Nexa Resources Peru	706
CAÑARIACO	CAJAMARCA	Candente Copper Corp	1 500
MICHIQUILLAY	CAJAMARCA	Southern	2 000

* Estimado.

Fuente: BCRP y Ministerio de Energía y Minas