

8th

BBVA Latin America
Conference

BBVA

Corporate &
Investment Banking

Peru's Economic Outlook

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Governor

Central Reserve Bank of Peru

March 2022



BANCO CENTRAL DE RESERVA DEL PERÚ

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Economic activity



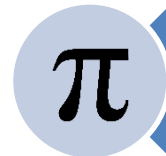
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Activity indicators in Peru have surpassed pre-pandemic levels. Their trend shows some mixed results in recent months.

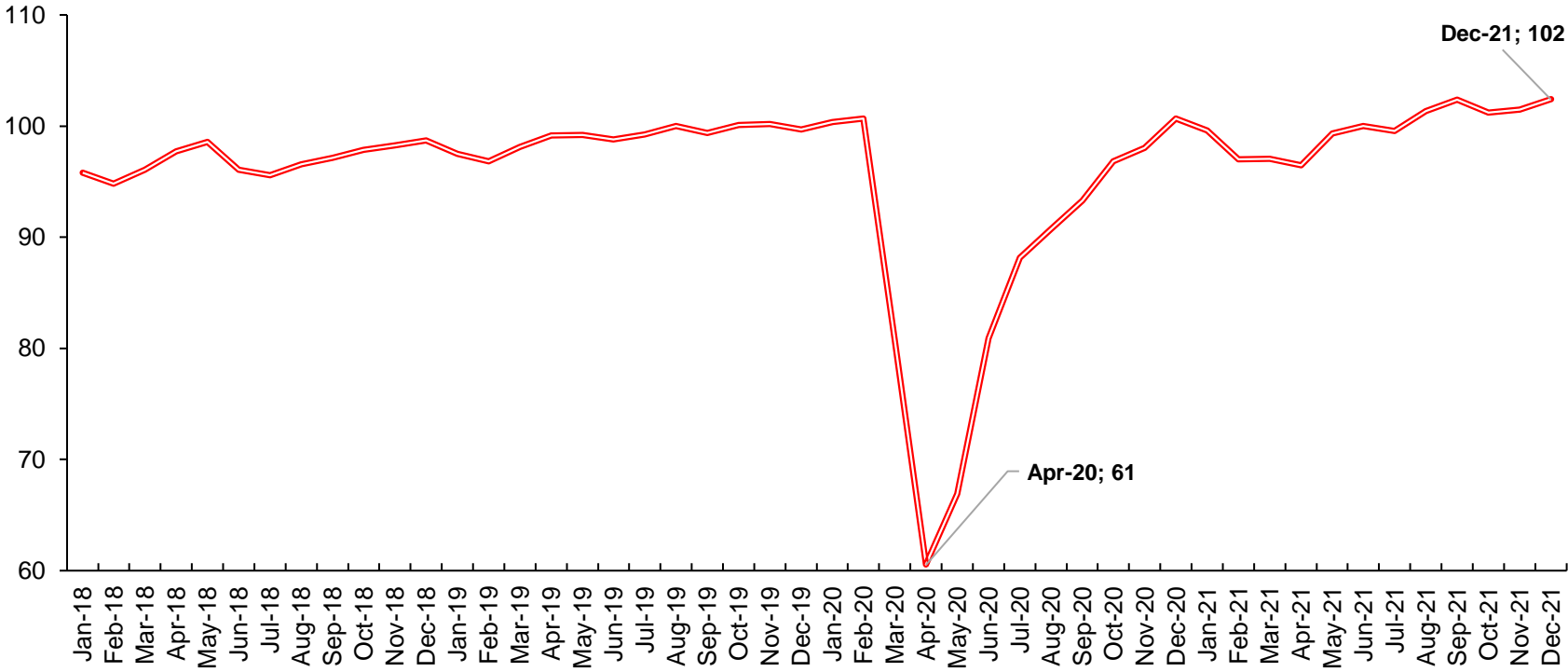


GDP forecasts for 2022 and 2023 are consistent with the expected trend growth of the economy.

Peru's economic activity showed a rapid recovery since the end of 2020, with a more gradual trend since the second semester of 2021.

SEASONALLY ADJUSTED INDEX OF ECONOMIC ACTIVITY
(Base 100 = 4Q 2019)

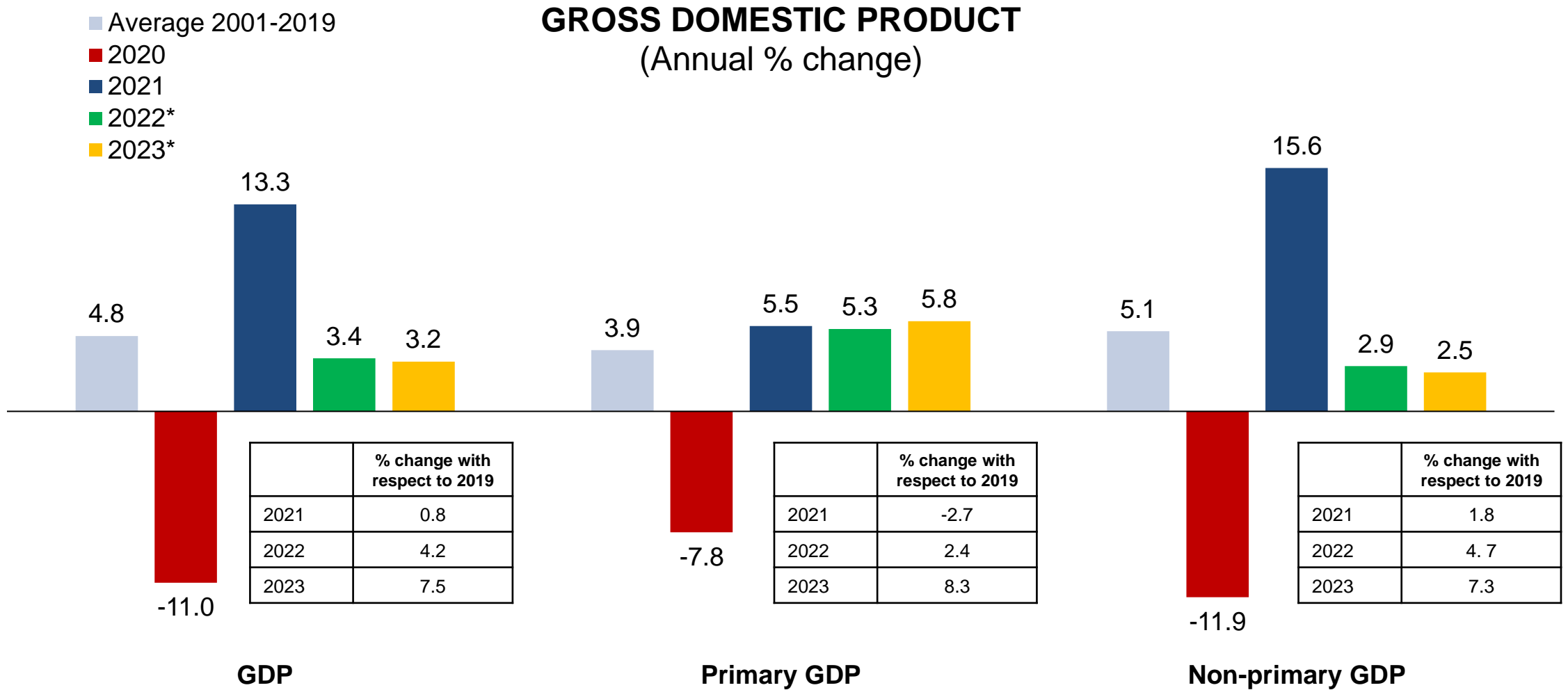
Peru: BCRP



	1Q21	2Q21	Jul.21	Aug.21	Sep.21	3Q21	Oct.21	Nov.21	Dec.21	4Q21
Peru	97.9	98.6	99.5	101.4	102.4	101.1	101.2	101.5	102.4	101.7

Source: INEI and BCRP

Recovery in 2021 was mainly driven by construction (34,9%) and manufacturing sector (24,6%)

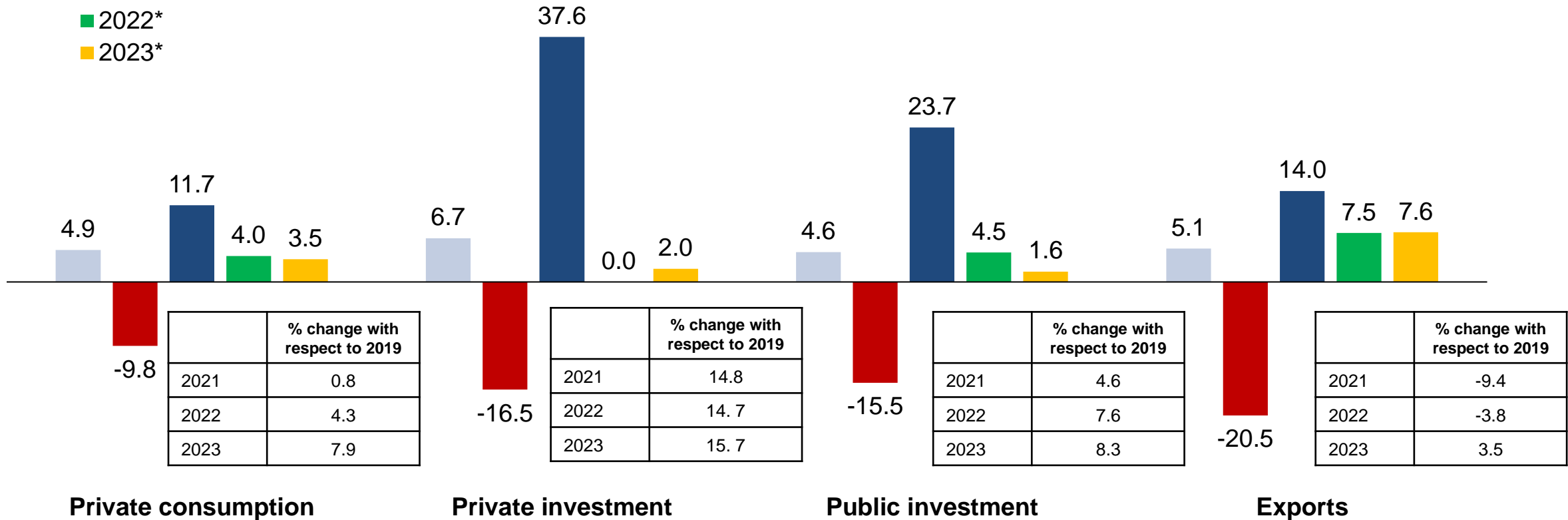


* Forecast IR Dec 2021
 Source: BCRP.

Domestic demand components, in particular investment, contributed to revert rapidly the drastic sharp of 2020.

GROSS DOMESTIC PRODUCT (Annual % change)

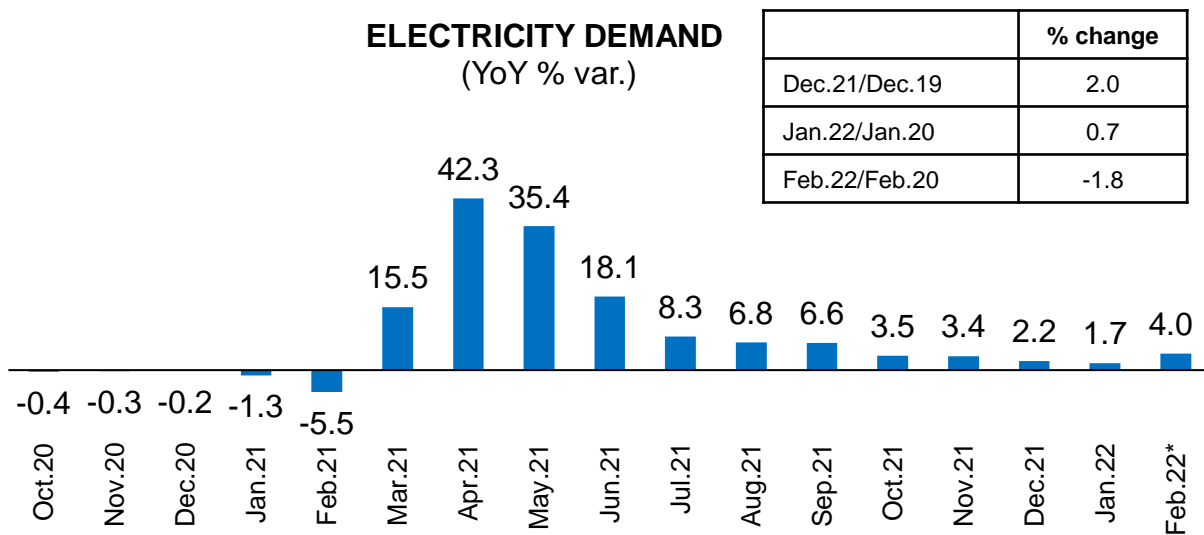
- Average 2001-2019
- 2020
- 2021
- 2022*
- 2023*



* Forecast IR Dec 2021
Source: BCRP.

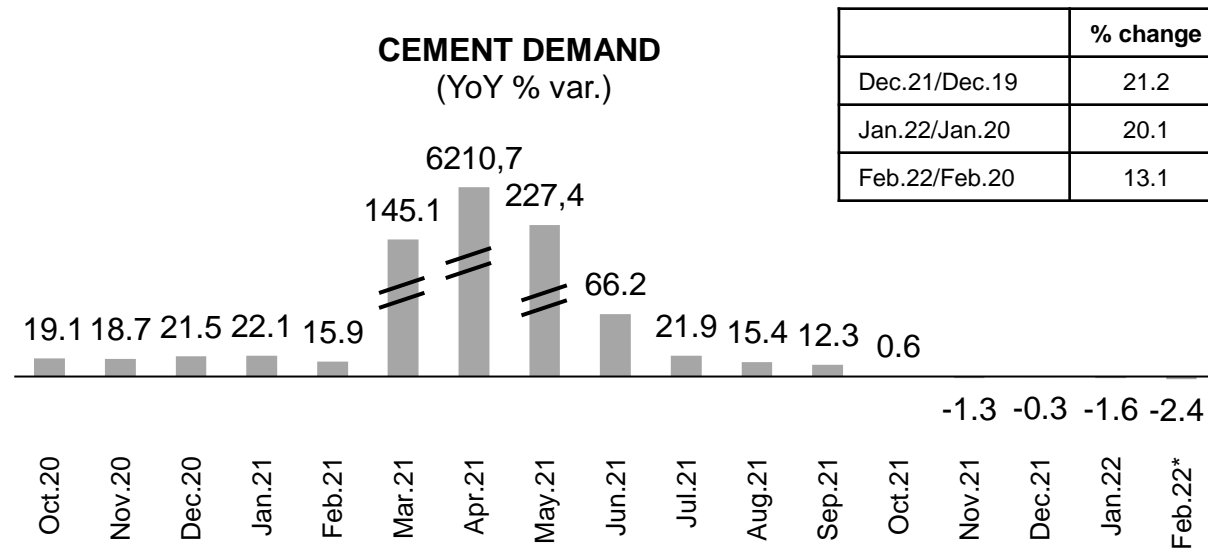
Economic indicators show mixed results in their recovery, with a stronger growth in indicators related to private consumption and a slowdown in those related to public investment.

ELECTRICITY DEMAND (YoY % var.)



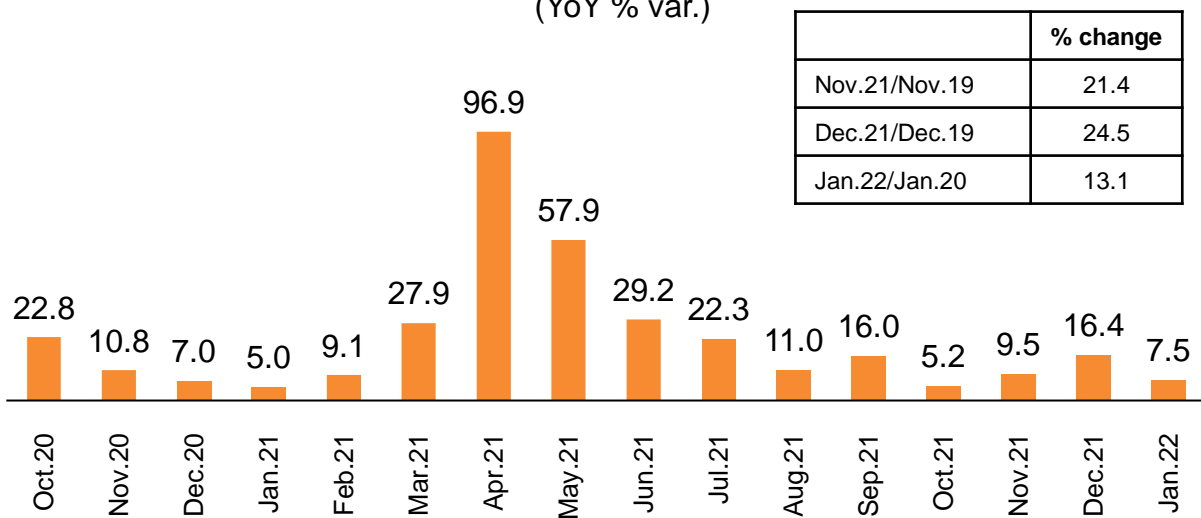
	% change
Dec.21/Dec.19	2.0
Jan.22/Jan.20	0.7
Feb.22/Feb.20	-1.8

CEMENT DEMAND (YoY % var.)



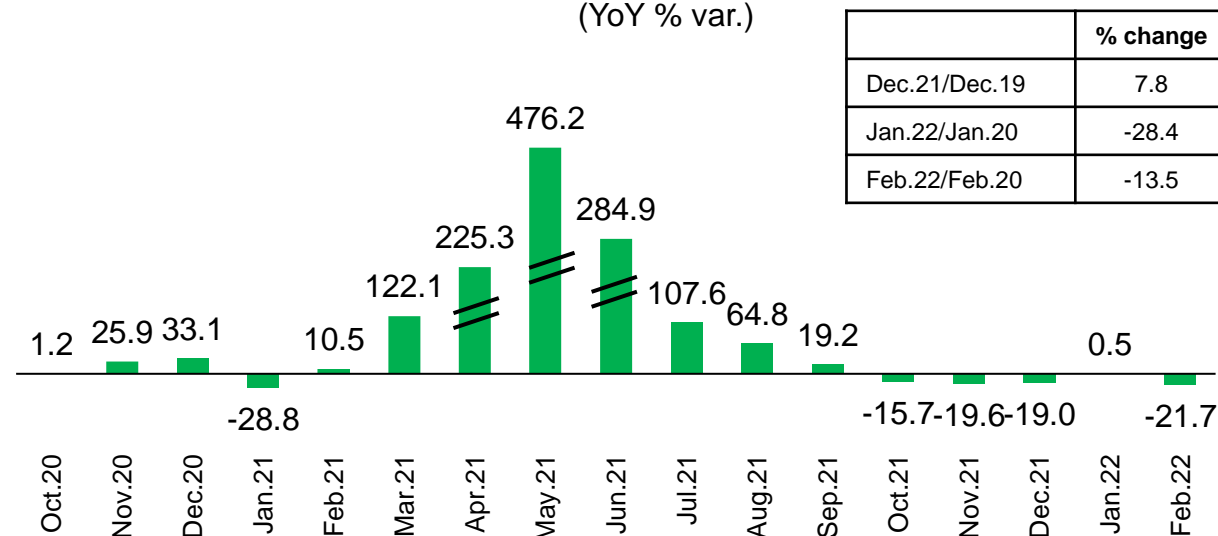
	% change
Dec.21/Dec.19	21.2
Jan.22/Jan.20	20.1
Feb.22/Feb.20	13.1

NON-TRADITIONAL EXPORT VOLUME (YoY % var.)



	% change
Nov.21/Nov.19	21.4
Dec.21/Dec.19	24.5
Jan.22/Jan.20	13.1

GENERAL GOVERNMENT INVESTMENT (YoY % var.)



	% change
Dec.21/Dec.19	7.8
Jan.22/Jan.20	-28.4
Feb.22/Feb.20	-13.5

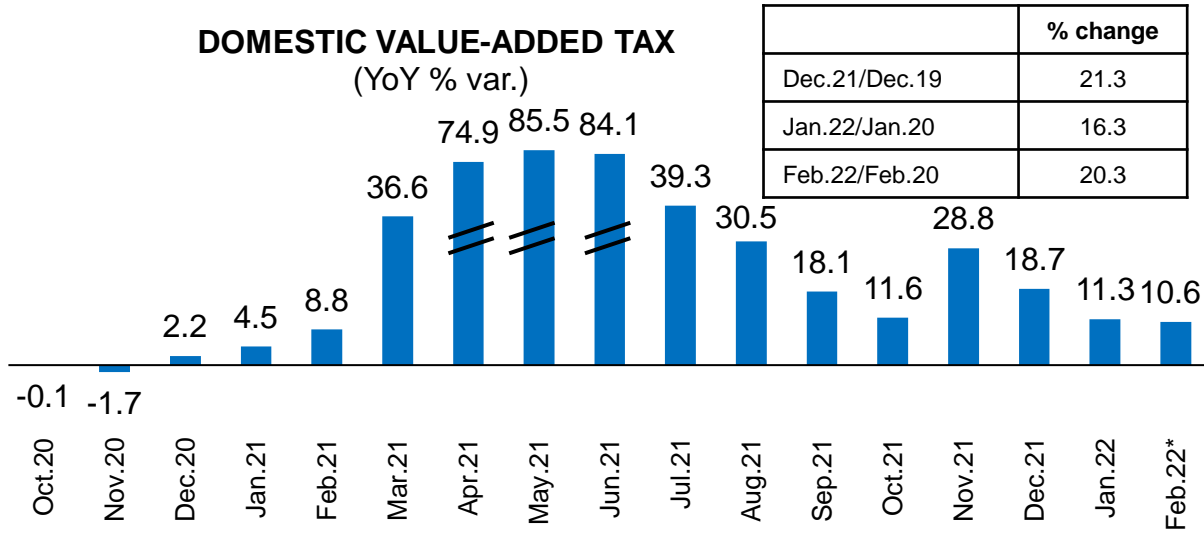
*Forecast.

Source: COES, cement companies, INEI, SUNAT-Aduanas, MEF.

Economic indicators show mixed results in their recovery, with a stronger growth in indicators related to private consumption and a slowdown in those related to public investment.

DOMESTIC VALUE-ADDED TAX

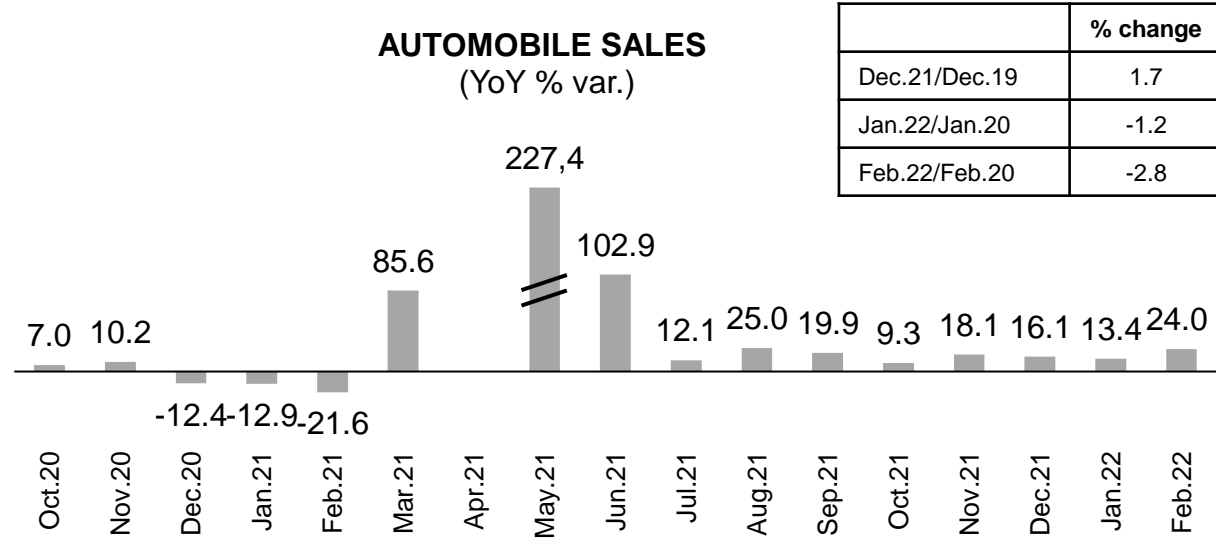
(YoY % var.)



	% change
Dec.21/Dec.19	21.3
Jan.22/Jan.20	16.3
Feb.22/Feb.20	20.3

AUTOMOBILE SALES

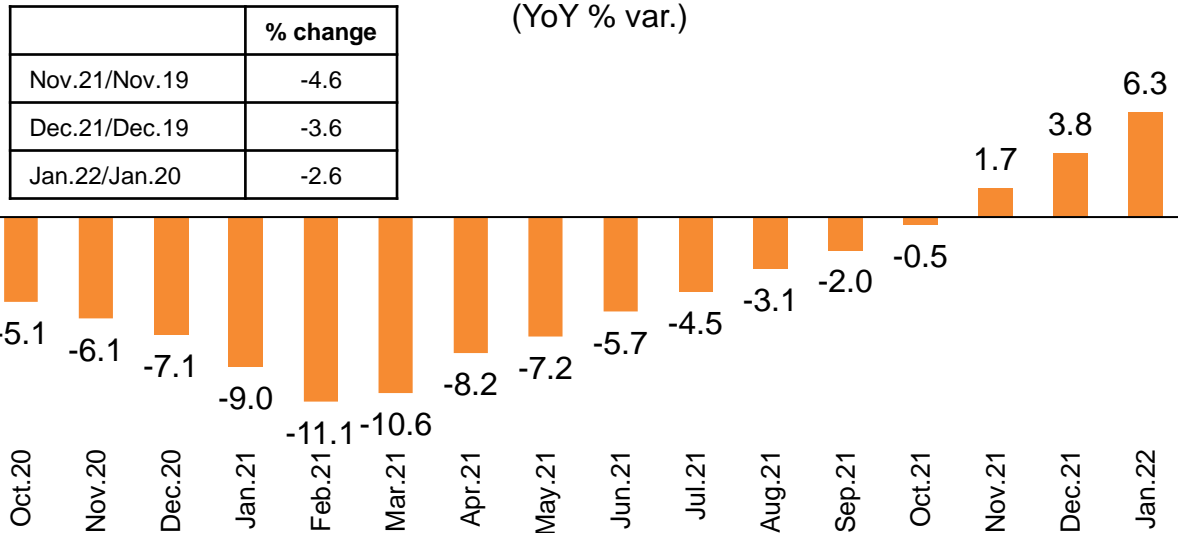
(YoY % var.)



	% change
Dec.21/Dec.19	1.7
Jan.22/Jan.20	-1.2
Feb.22/Feb.20	-2.8

CONSUMER CREDIT

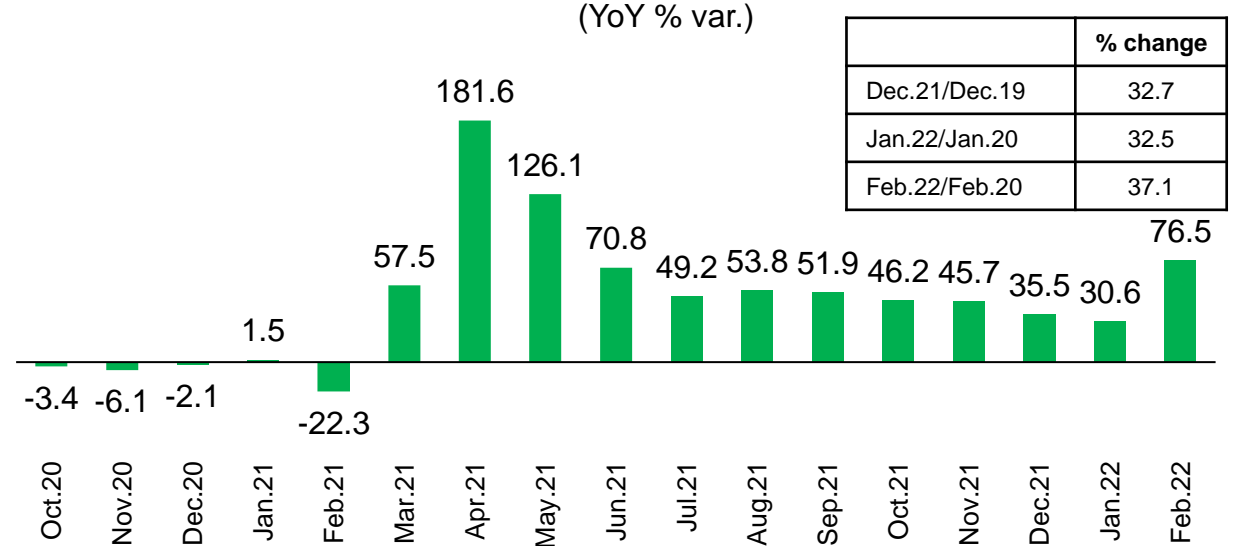
(YoY % var.)



	% change
Nov.21/Nov.19	-4.6
Dec.21/Dec.19	-3.6
Jan.22/Jan.20	-2.6

CREDIT/DEBIT CARD TRANSACTIONS

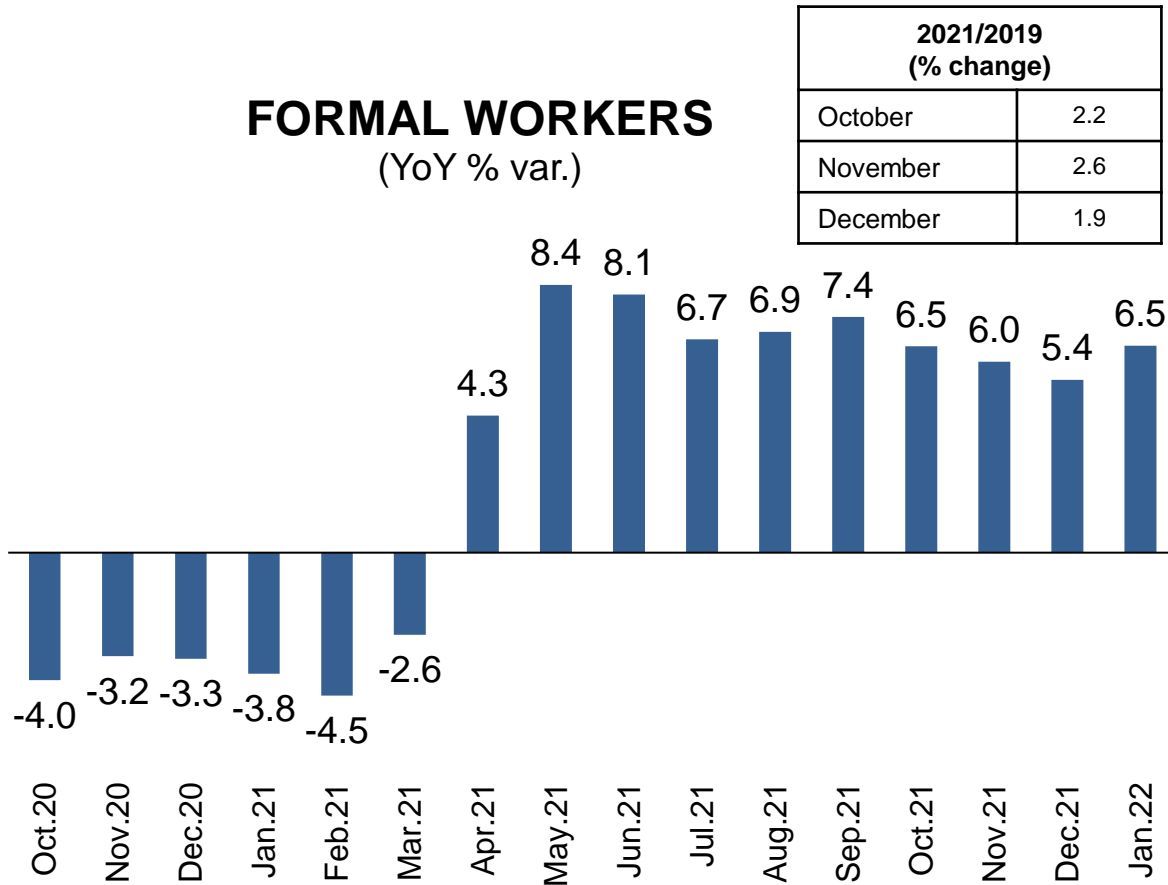
(YoY % var.)



	% change
Dec.21/Dec.19	32.7
Jan.22/Jan.20	32.5
Feb.22/Feb.20	37.1

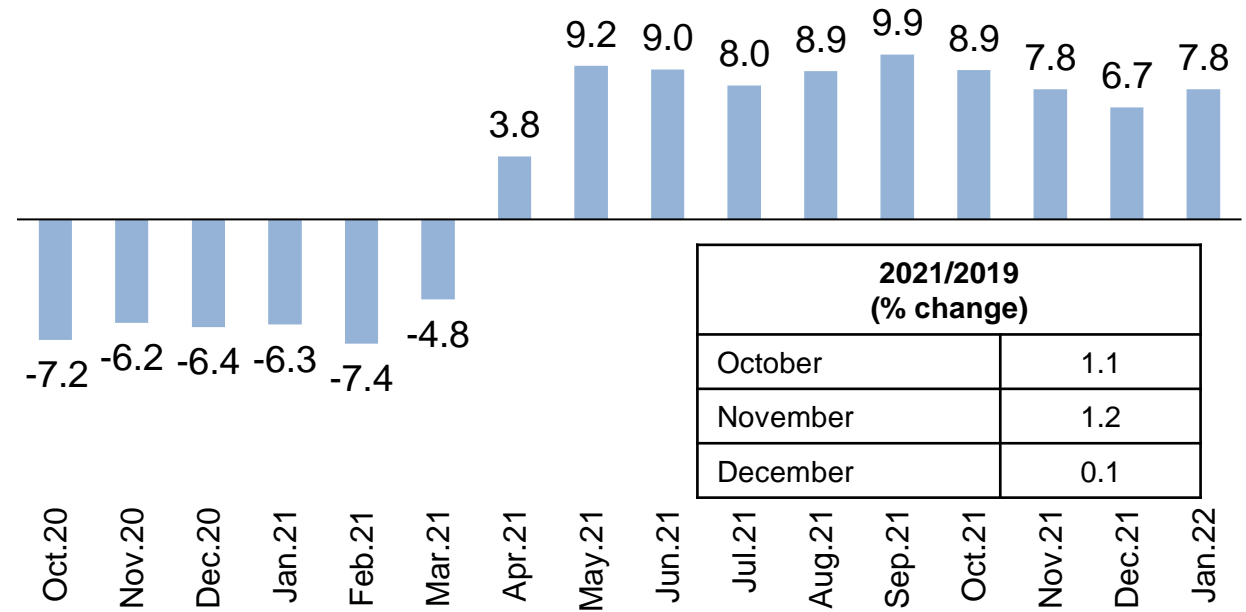
In January, the number of formal jobs increased 6.5 percent with respect to January 2021. The number of formal workers exceeds pre-crisis levels since August 2021.

FORMAL WORKERS (YoY % var.)



2021/2019 (% change)	
October	2.2
November	2.6
December	1.9

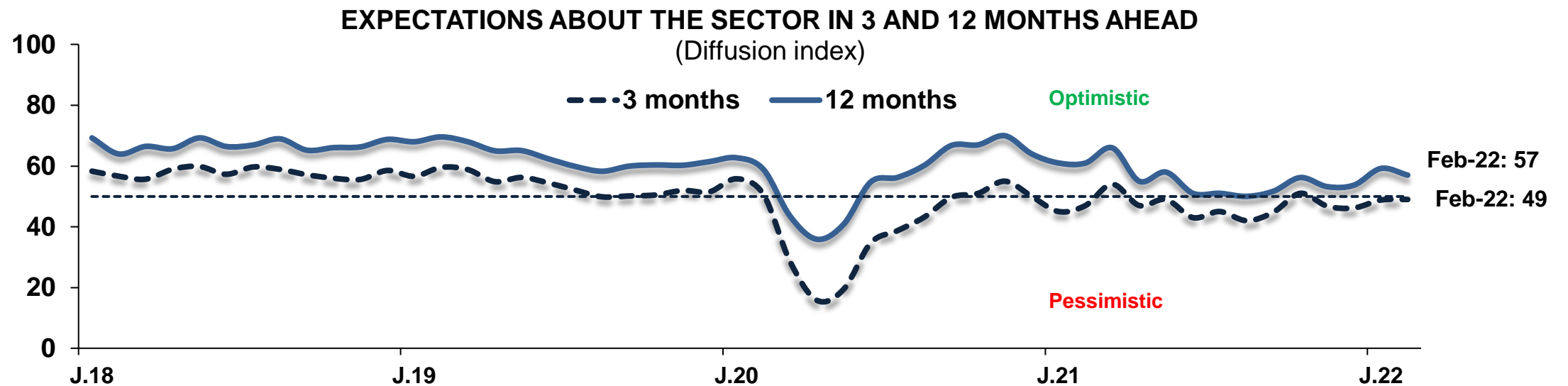
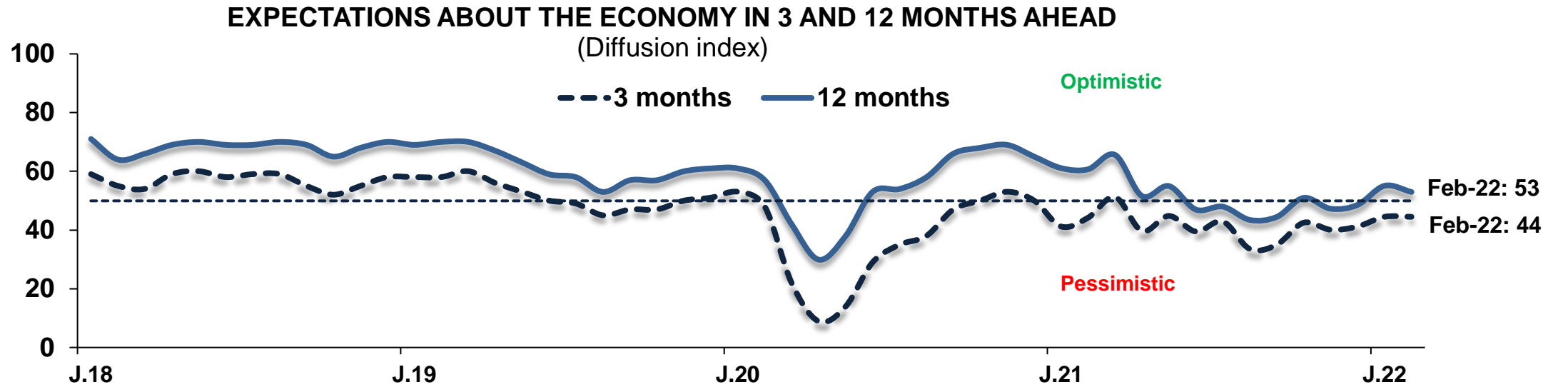
PRIVATE SECTOR WORKERS (YoY % var.)



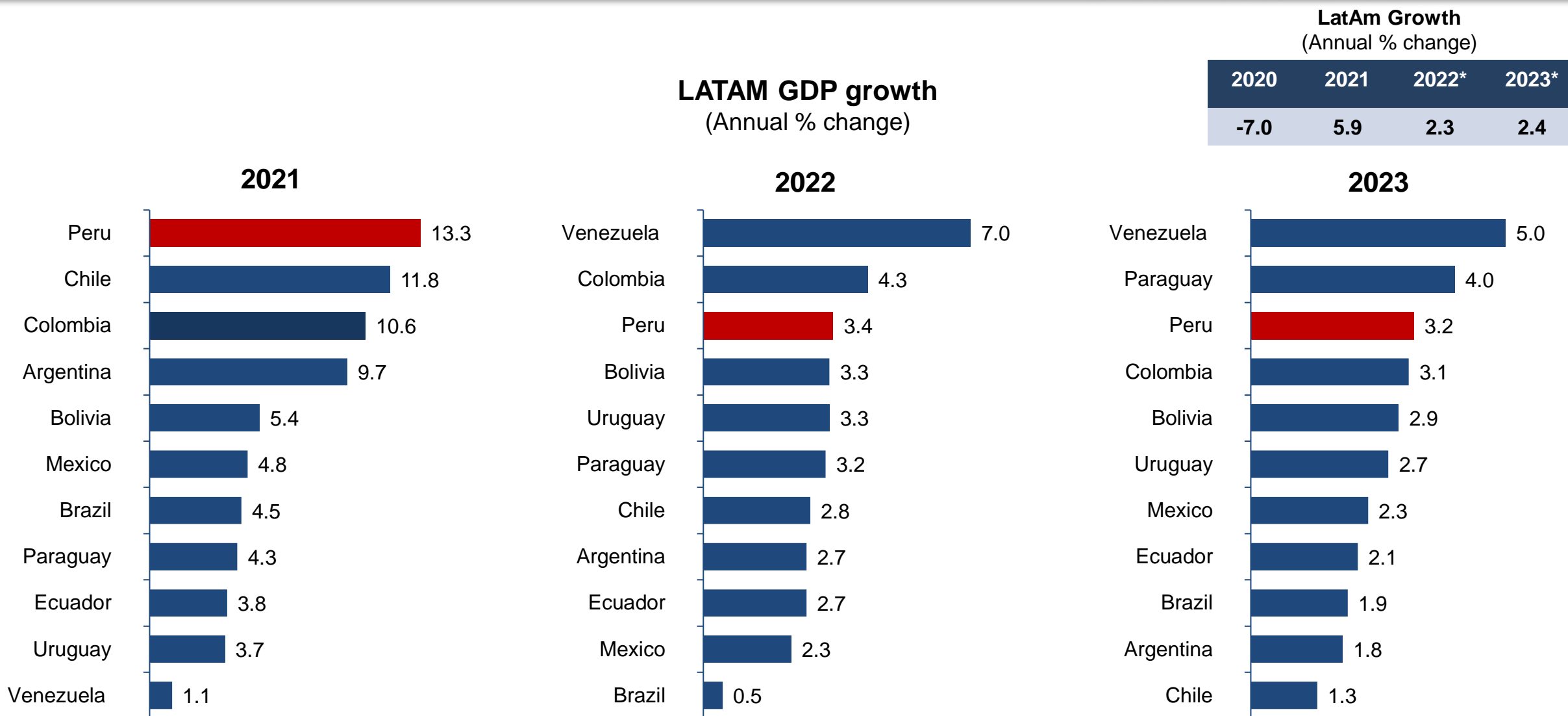
2021/2019 (% change)	
October	1.1
November	1.2
December	0.1

Source: SUNAT.

Expectations about the economy in 3 months ahead remain pessimistic. The one in 12 months ahead was lower with respect to the previous month but remains optimistic.



After the strong recovery of 2021, Peru is expected to grow at rates above 3 percent in the following years.



*Forecast (BCRP)
Source: Consensus Forecast (February 2022), and BCRP (Peru).

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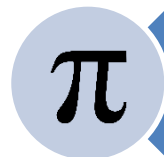
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Terms of trade and trade surplus at all-time records.



Export growth among the highest in the region.



Capital outflows during 2021 were exceptionally high. However, Peru's external position remains strong due to its considerable FX reserve buffer level.

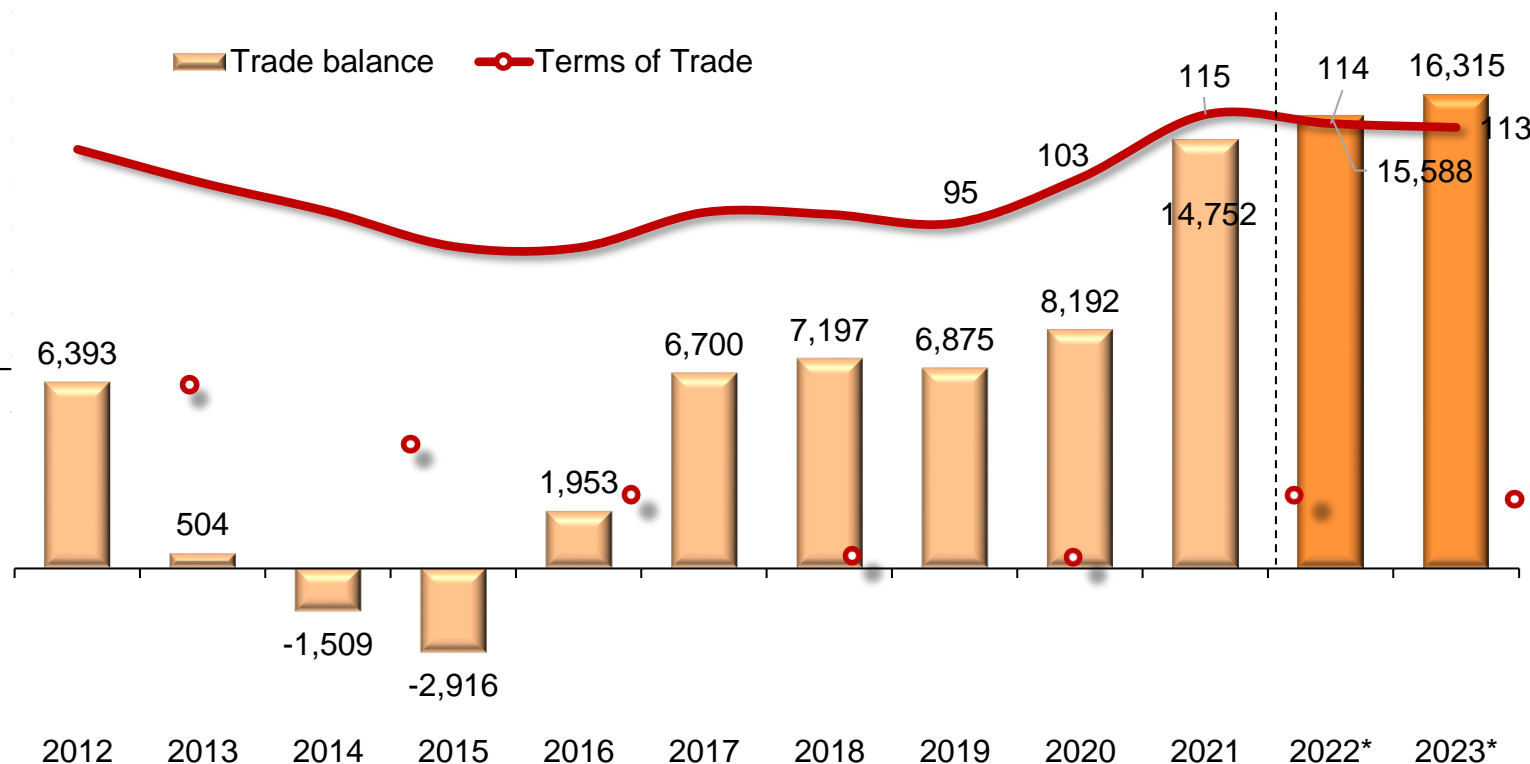
We expect a higher price for fuel and food, which would increase the value of imports in 2022. The trade surplus would increase in 2023 with the normalization of import prices and the recovery of primary production.

Annual % change	2020	2021	2022*	2023*
1. Value:				
Exports	-10.6	47.1	8.0	5.2
Imports	-15.6	39.3	8.5	5.4
2. Volume:				
Exports	-13.7	12.8	5.8	5.9
Imports	-11.1	19.5	4.7	5.4
3. Price:				
Exports	3.7	30.3	2.1	-0.6
Imports	-5.0	16.6	3.6	0.0

*Forecast IR Dec 2021.
Source: BCRP.

TRADE BALANCE AND TERMS OF TRADE, 2012-2022

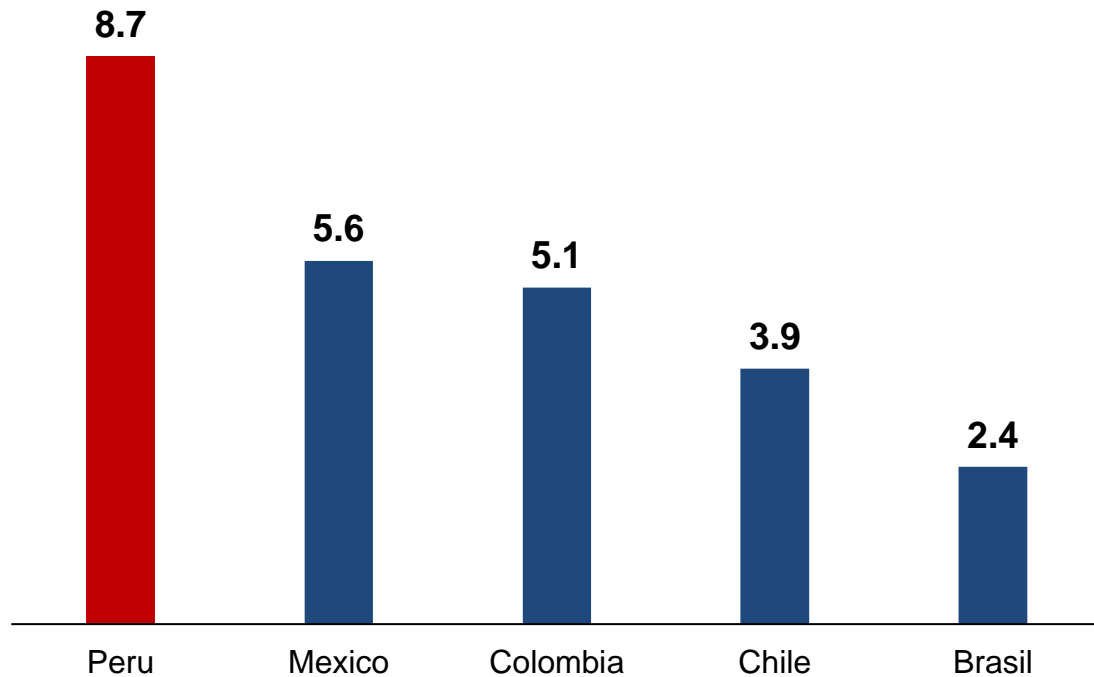
(Million US\$, Index 2007 = 100)



*Forecast IR Dec 2021.
Source: BCRP.

Non-commodity export growth was among the highest in the region in the last five years.

NON-COMMODITY EXPORTS
Jan 2016 – Dec 2021
(Average annual growth)



Chile: excludes mining exports

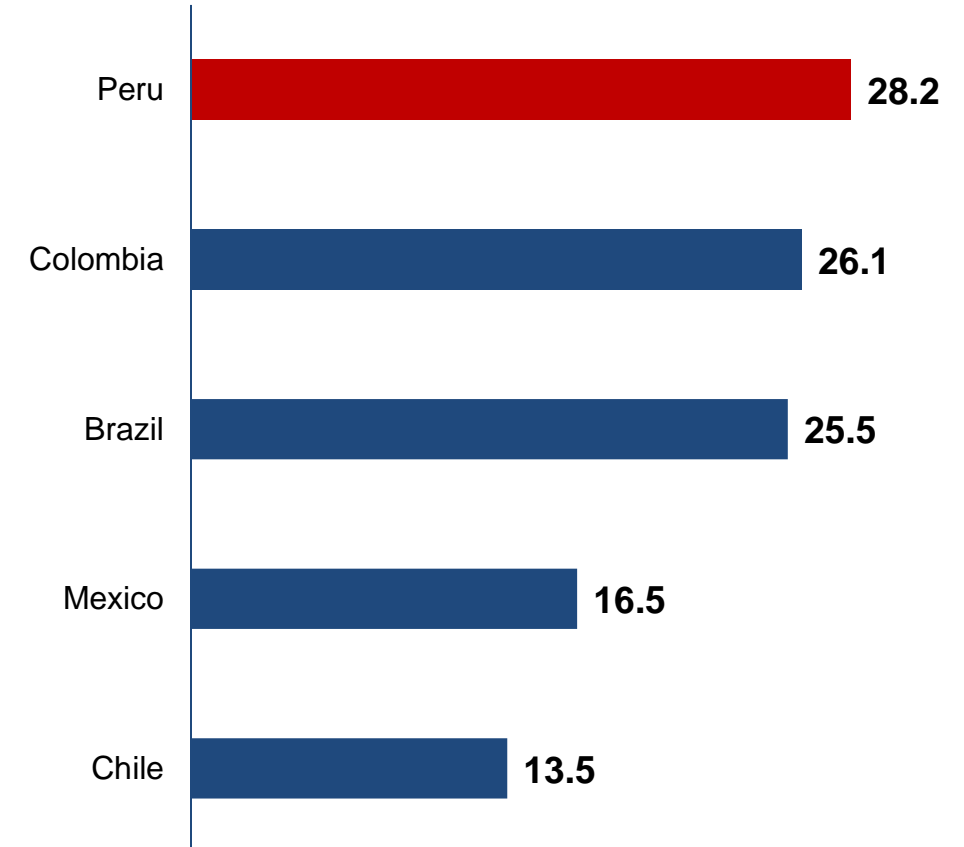
Colombia: corresponds to September-August and excludes coffee, coal, oil and derivatives, ferro-nickel and non-monetary gold.

Brazil: corresponds to industrial exports (semi-manufactured and manufactured)

Mexico: excludes oil exports.

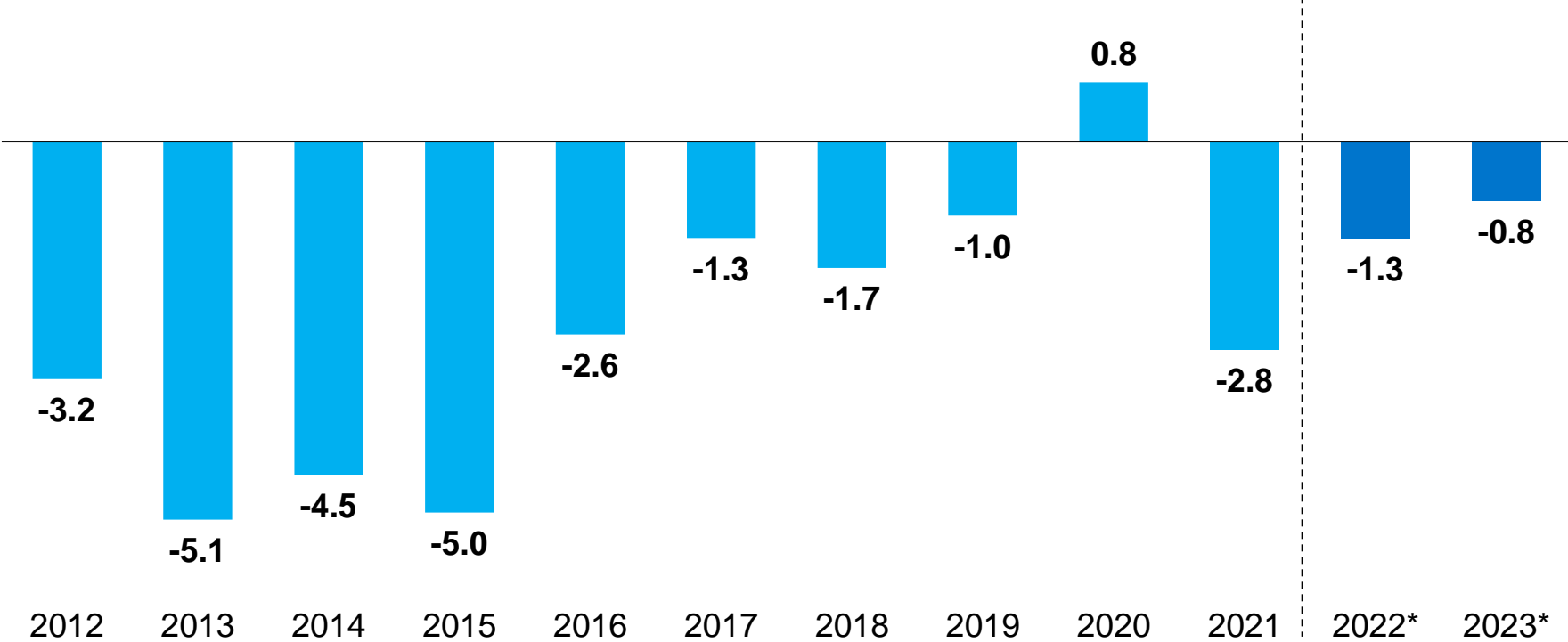
Source: SUNAT, Central Banks (Chile, Colombia, Mexico) and Minister of Finance (Brazil).

NON-COMMODITY EXPORTS
2021
(Annual growth)



A current account deficit of 1.3% of GDP is expected in 2022, due to higher profits of foreign firms, an increase in imports and higher transportation costs. In 2023, a 0.8% of GDP deficit is expected due to the recovery of service exports.

Current Account: 2012-2023
(Percentage of GDP)



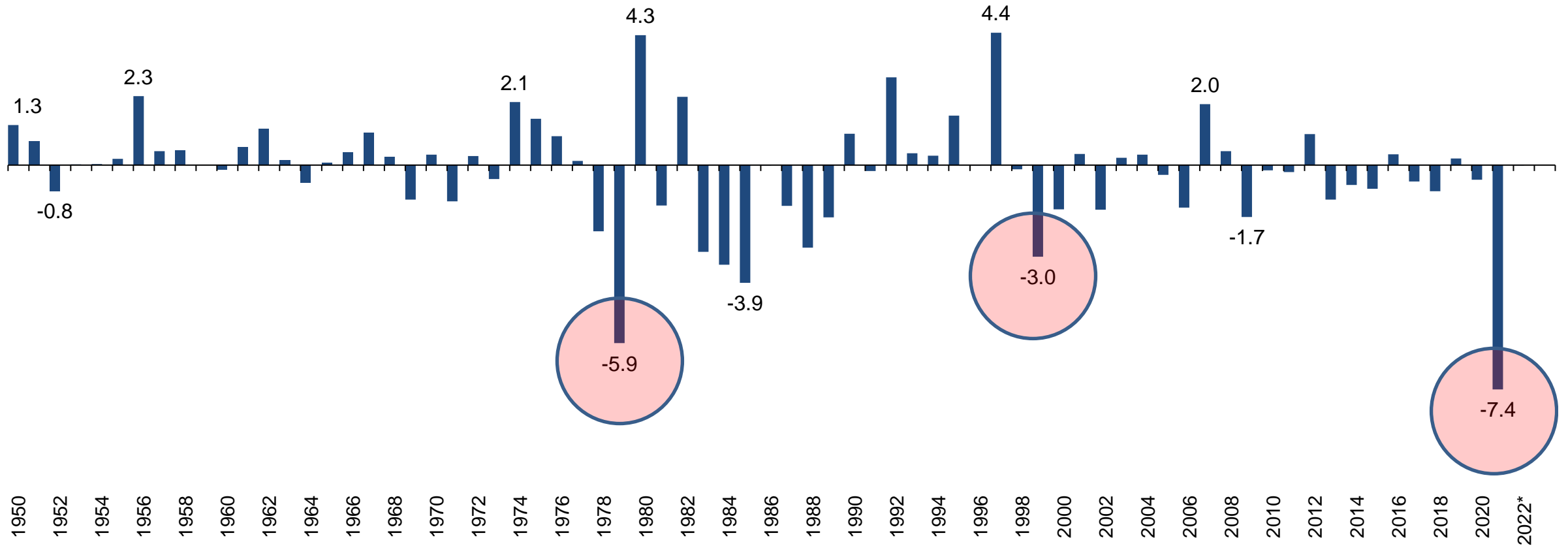
Current Account (% of GDP)	2021	2022*
Brazil	-0.5	-1.7
Uruguay	-1.3	-0.3
Colombia	-4.4	-4.0
Mexico	0.0	-0.3
Peru	-2.8	-1.3
Chile	-2.5	-2.2

*Forecast.
Source: IMF (WEO October 2021) and BCRP (Peru).

*Forecast IR Dec 2021.
Source: BCRP.

In 2021, capital outflows have been equivalent to 7.4 percent of GDP, reaching an all-time high.

SHORT-TERM CAPITAL FLOWS (% of GDP)



* Forecast
Source: BCRP

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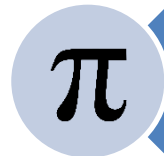
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The pandemic demanded a greater use of public resources, which reflected in higher fiscal deficits and debt levels.



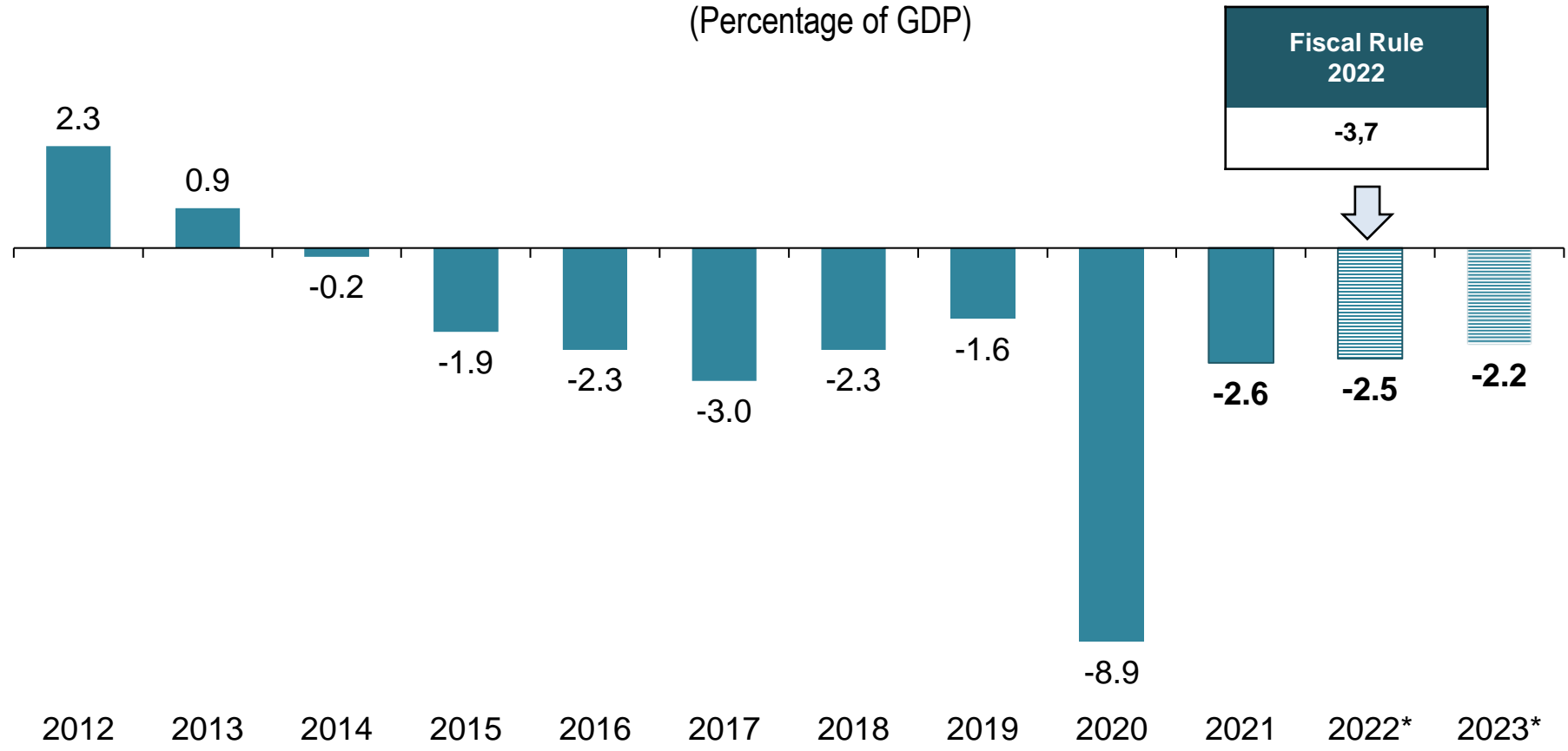
The fiscal deficit decreased from 8.9% of GDP in 2020 to 2.6% of GDP in 2021 and will continue its downward trend through the forecast horizon. The expected tax increase will improve the stance of public finances.



Non-resident holdings of Peruvian bonds remain at high levels.

The fiscal deficit is expected to decrease throughout the forecast horizon, to 2.2% of GDP in 2023, reflecting a recovery in current revenues and non-financial expenditure consolidation relative to 2020.

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



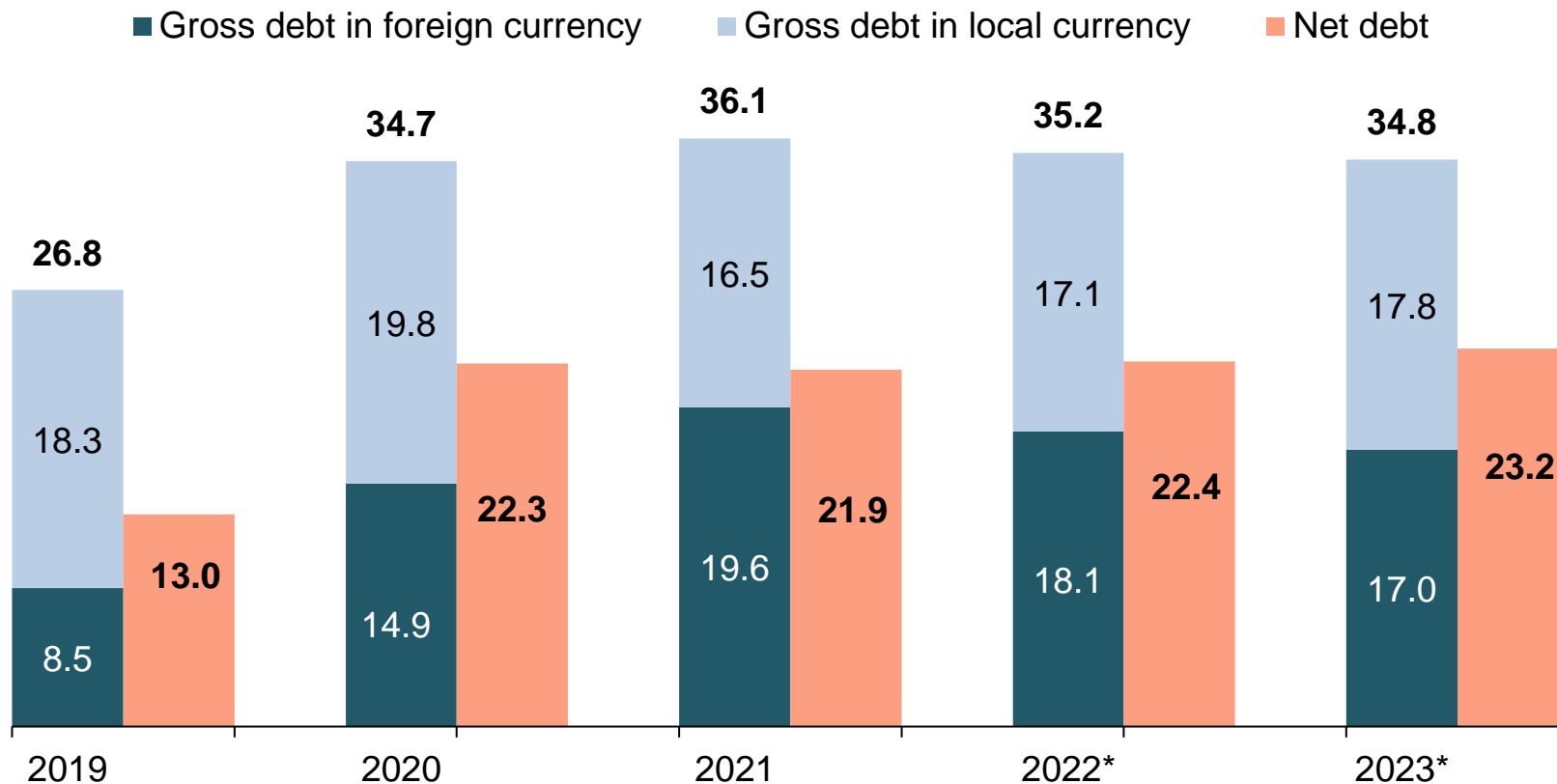
Overall balance (% of GDP)	2020	2021*
Brazil	-13.4	-6.2
Uruguay	-4.7	-4.2
Colombia	-6.9	-8.4
Ecuador	-6.1	-2.3
Mexico	-4.5	-4.2
Paraguay	-7.2	-5.2
Peru	-8.9	-2.6
Chile	-7.1	-7.9

* Forecast.
Source: BCRP

* Forecast
Source: IMF and BCRP (Peru)

Public gross debt will reach 34.8% of GDP by 2023. Net debt will increase to 23.2% of GDP in 2023.

NON-FINANCIAL PUBLIC SECTOR DEBT (Percentage of GDP)



Gross Debt (% of GDP)	2020	2021*
Brazil	98.9	90.6
Uruguay	68.1	67.5
Colombia	65.4	66.7
Ecuador	61.2	61.0
Mexico	61.0	59.8
Paraguay	36.7	38.4
Peru	34.7	36.1
Chile	32.5	34.4

Source: IMF-World Economic Outlook (October 2021) and BCRP (Peru).

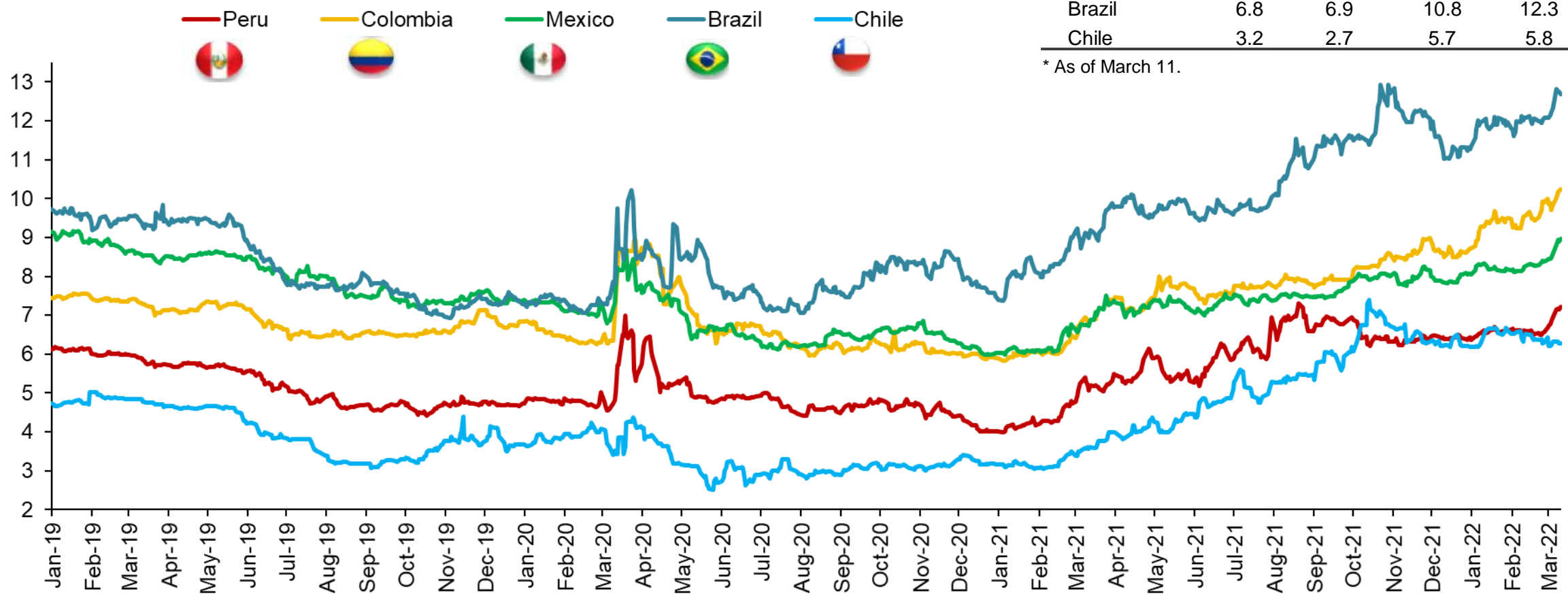
* Forecast.
Source: BCRP.

Higher political risk increased interest rates on Peruvian bonds between April and September of 2021. Recently sovereign yields have risen due to higher global risk.

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

	Dec. 19	Dec. 20	Dec. 21	Mar. 22*
Peru	4.2	3.5	5.9	6.7
Colombia	6.3	5.4	8.2	9.7
Mexico	6.9	5.5	7.6	8.5
Brazil	6.8	6.9	10.8	12.3
Chile	3.2	2.7	5.7	5.8

* As of March 11.



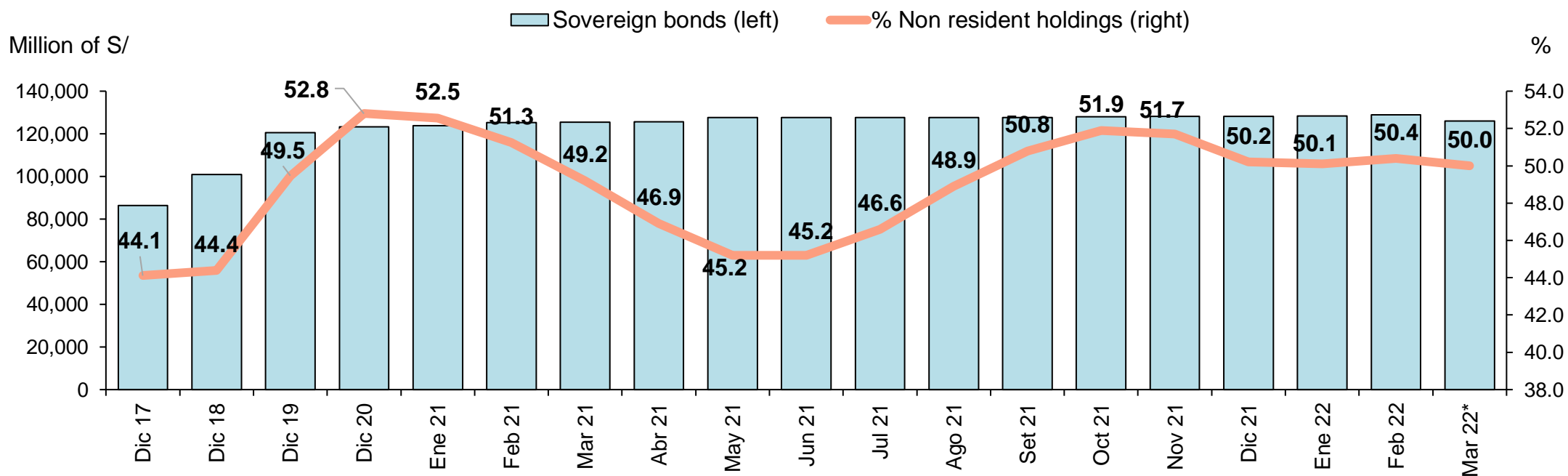
Source: Reuters.

Non-resident investors increased their share of Peruvian sovereign bond holdings, from 45.2% in June 2021 to 50.0% in March 2022.

STOCK OF SOVEREIGN BONDS AND NON-RESIDENT BOND HOLDINGS

(Stock in million of S/ and holdings in %)

Sovereign bond stock (In million of S/)	March 2022*
Non resident	63 012
Total	50.0



* Preliminary information. As of March 9.
Source: BCRP, CAVALI, MEF, SBS.

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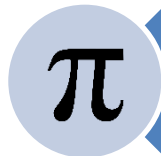
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Monetary Policy



The increase in the monetary policy rate seeks to anchor inflation expectations to the target range.



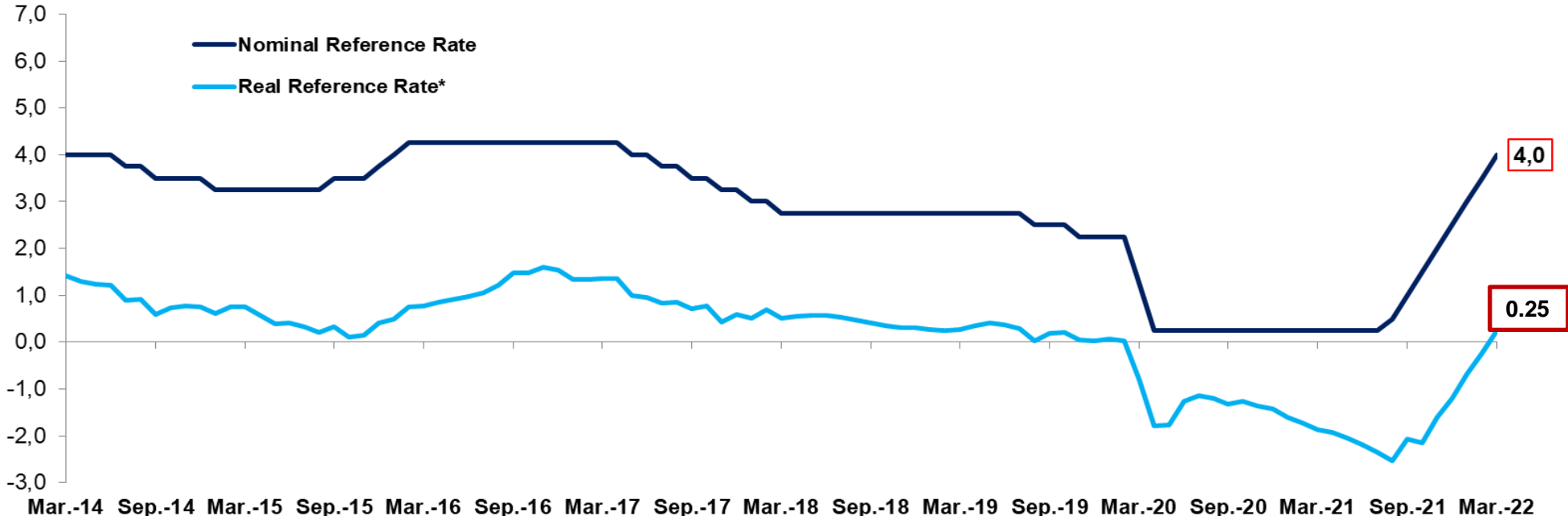
Central Bank raised its monetary policy rate 8 times since August 2021, from 0,25 to 4,0 in March 2022. With the normalization of monetary policy, the current real rate is 0.25 percent.



The current balance of liquidity operations of the Central Bank accounts for 5,9 % of GDP lower than the 9,0% of December 2020.

In its March 2022 session, the Board of Directors of the Central Reserve Bank of Peru (BCRP), decided to raise the reference interest rate by 50 bps to 4.00 percent, thus continuing to normalize its monetary policy stance.

NOMINAL AND REAL INTEREST RATE*
(In percentage)

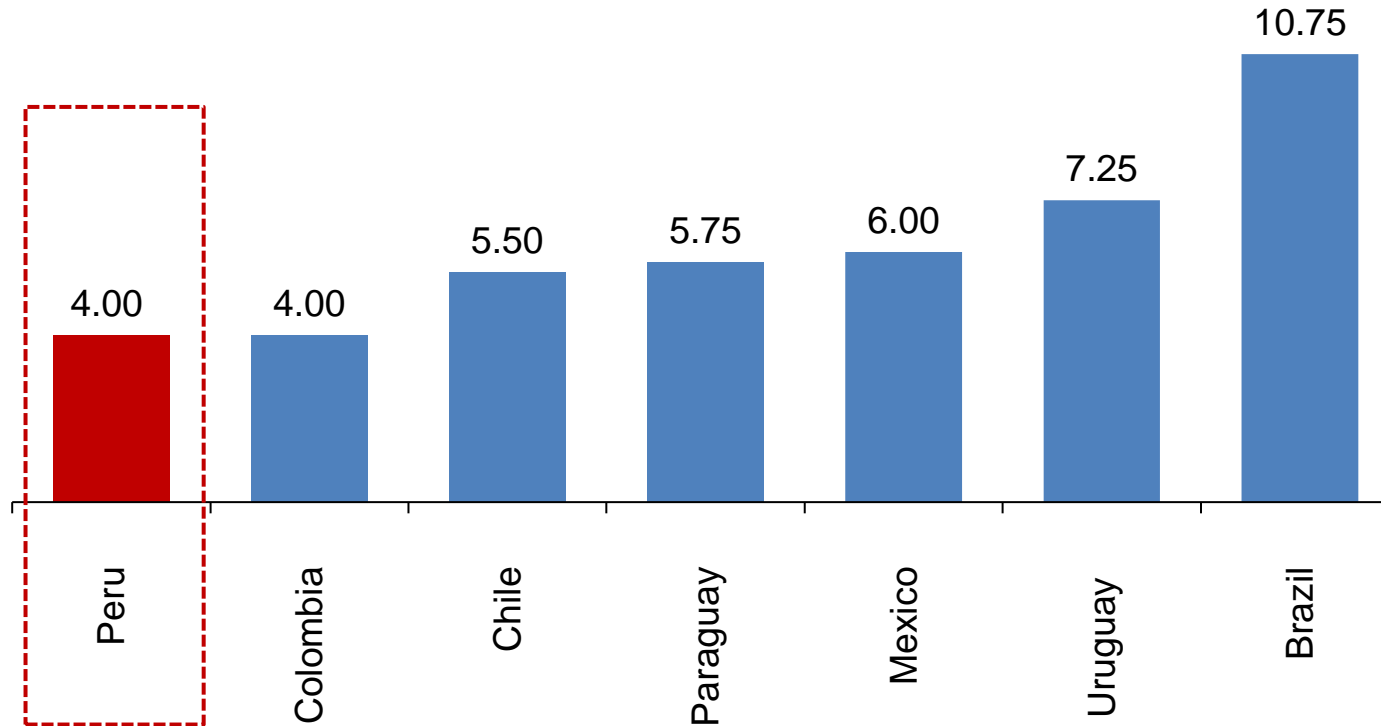


* With inflation expectations.

	Sep.20	Oct.20	Nov. 20	Dec. 20	Jan. 21	Feb. 21	Mar. 21	Apr. 21	May. 21	Jun. 21	Jul. 21	Aug. 21	Sep. 21	Oct. 21	Nov. 21	Dec. 21	Ene. 22	Feb. 22	Mar. 22
(I) Nominal Rate	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,50	1,00	1,50	2,00	2,50	3,00	3,50	4,00
(II) Inflation Expectations	1,57	1,51	1,62	1,68	1,85	1,98	2,11	2,17	2,30	2,43	2,60	3,03	3,07	3,64	3,61	3,71	3,68	3,73	3,75
(III) Real rate: (I)-(II)	-1,32	-1,26	-1,37	-1,43	-1,60	-1,73	-1,86	-1,92	-2,05	-2,18	-2,35	-2,53	-2,07	-2,14	-1,61	-1,21	-0,68	-0,23	0,25

Peru's 4.00 percent policy interest rate is one of the lowest among emerging economies, in a context where several central banks worldwide have raised their policy rates since August 2021.

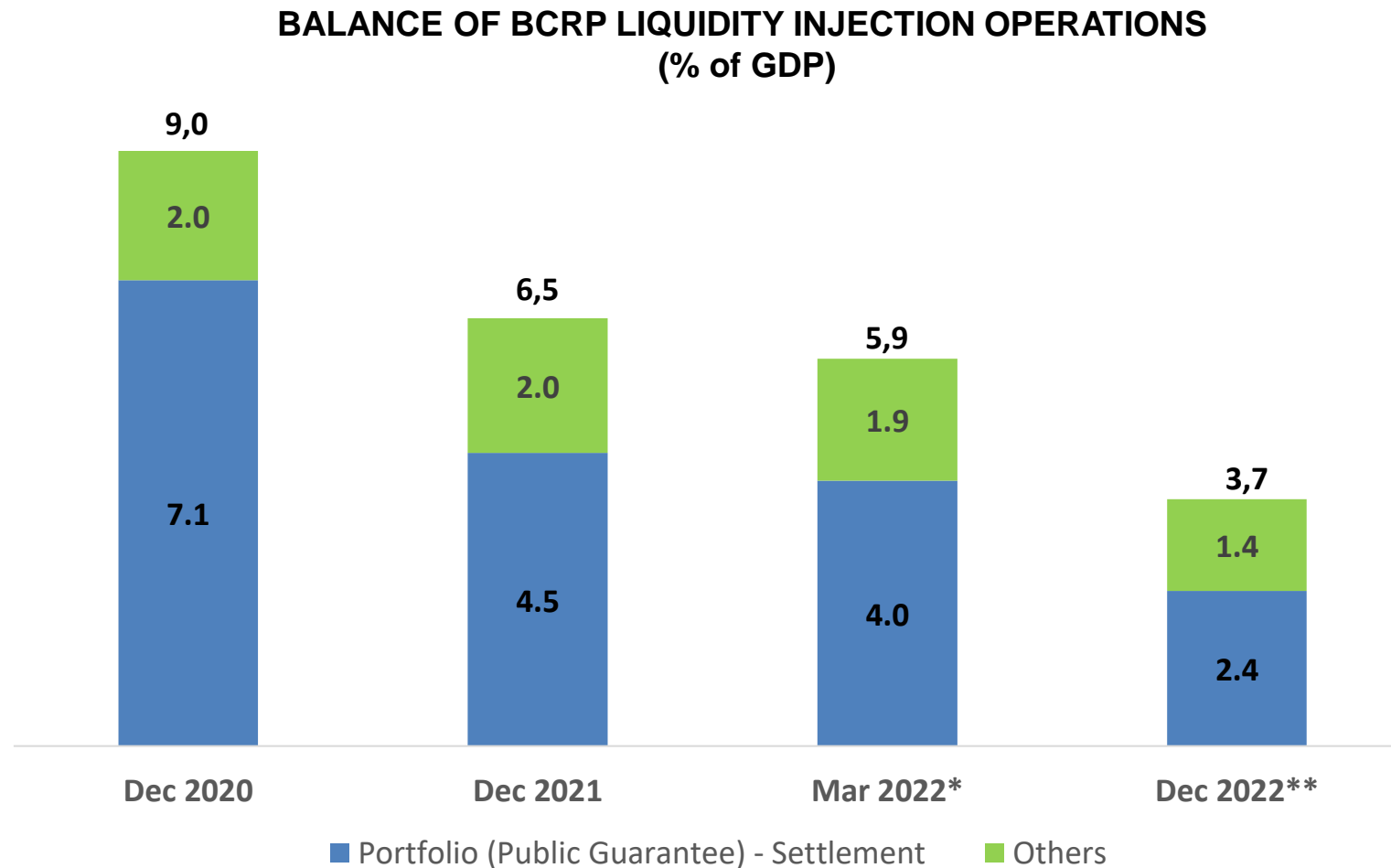
**MONETARY POLICY INTEREST RATE IN EMERGING ECONOMIES:
FEBRUARY 2022**
(In percentage)



Reference rate change in basic points, Mar-22 vs Dec-20	
Peru	+375
Colombia	+225
Chile	+500
Paraguay	+575
Mexico	+175
Uruguay	+725
Brazil	+875

Source: Central Banks.

Currently, the balance of liquidity operations is a third lower than the level at the end of 2020.



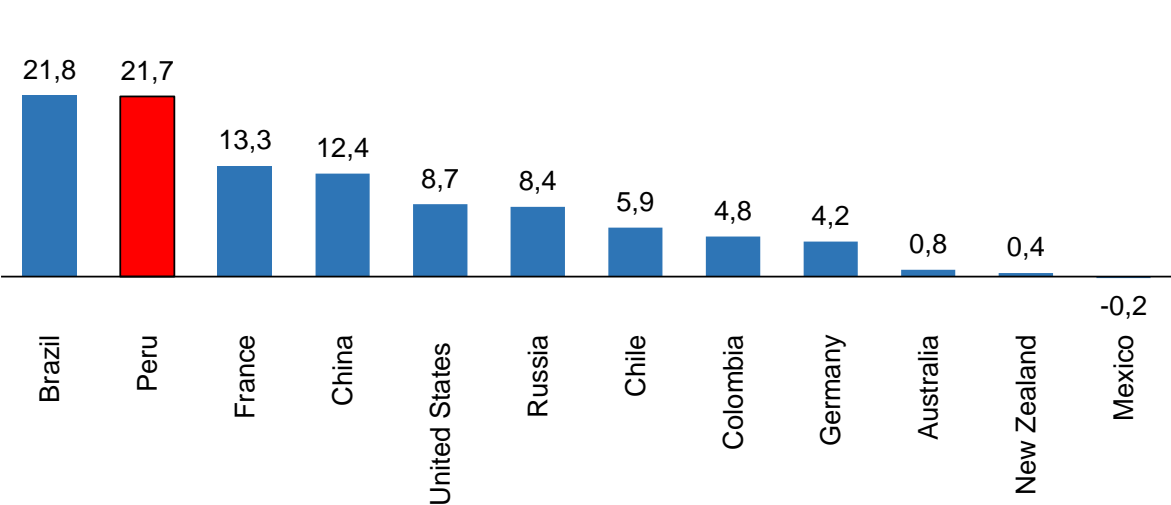
*As of March 11, 2022.

** Forecast

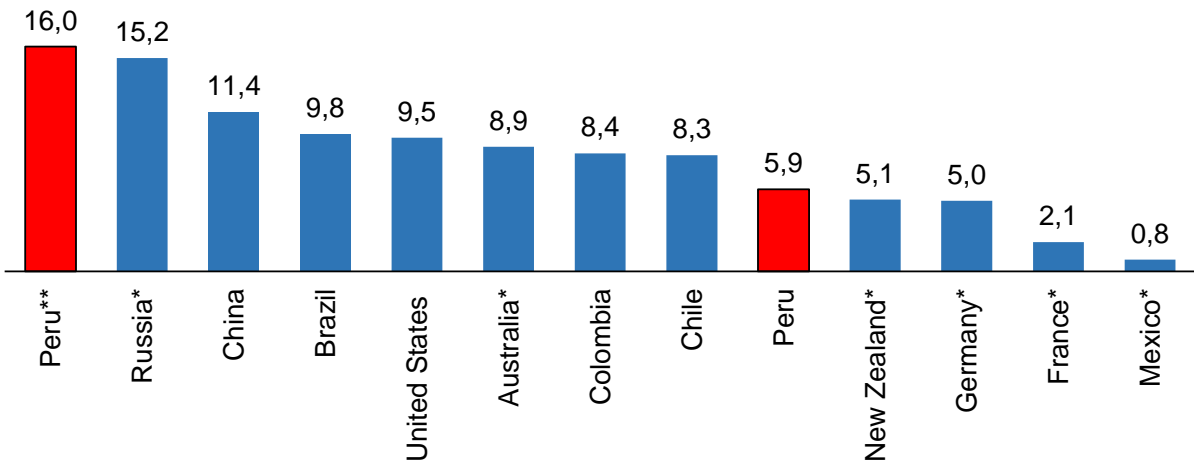
Source: BCRP.

Liquidity injection through BCRP operations, including under the *Reactiva Perú* government-guaranteed loan program, promoted countercyclical credit growth.

CREDIT TO FIRMS: DECEMBER 2020
(YoY % chg.)



CREDIT TO FIRMS: JANUARY 2022
(YoY % chg.)



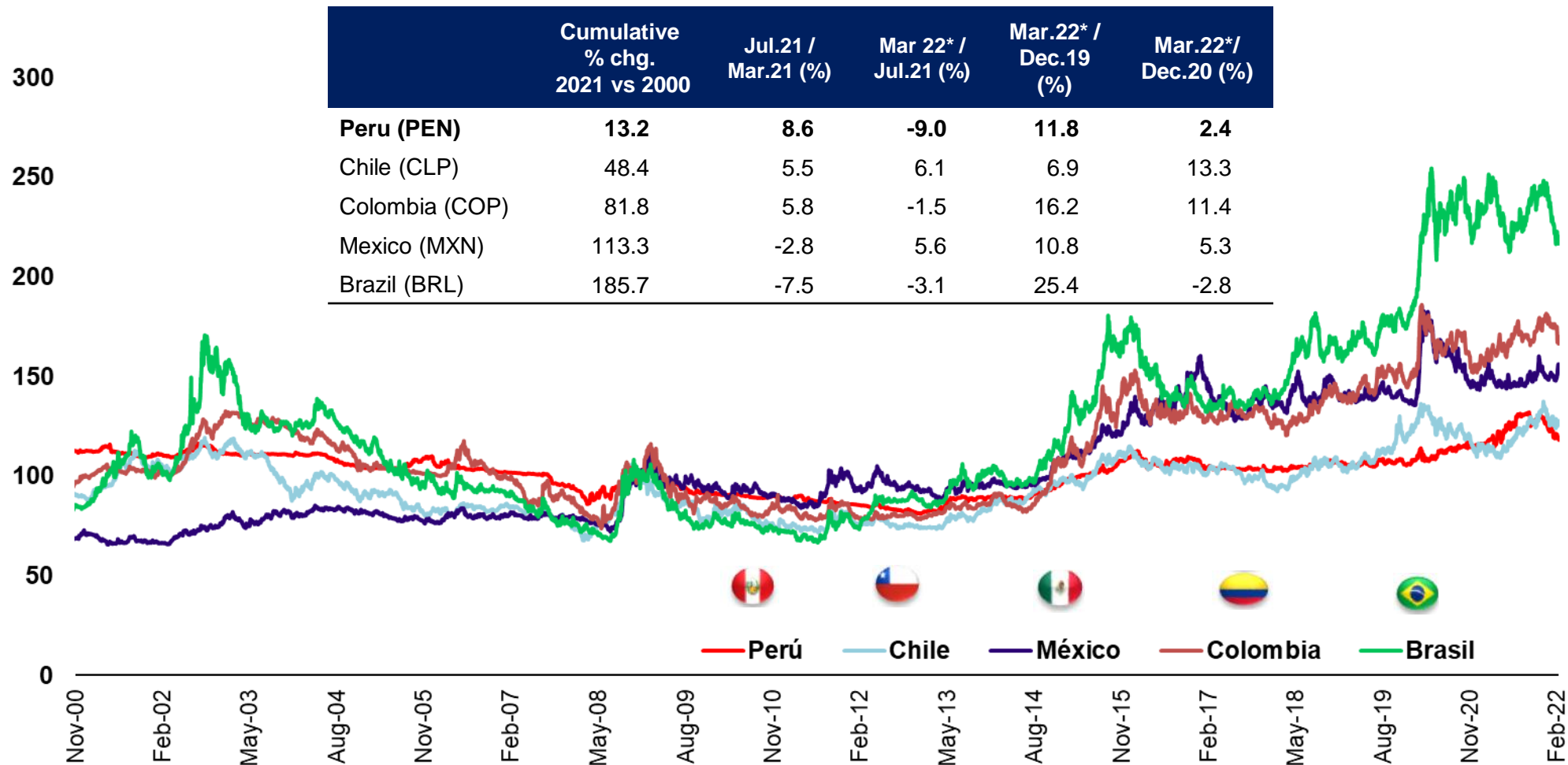
*As of December 2021.
 **Excluding *amortization payments of the Govm. Guarantee Loan Program*.
 Source: Central Banks.

Depreciation pressures on the PEN were stronger during Q2 2021. Since the beginning of the year, a significant appreciation has been observed.

LATAM: EXCHANGE RATE

Monetary unit per dollar

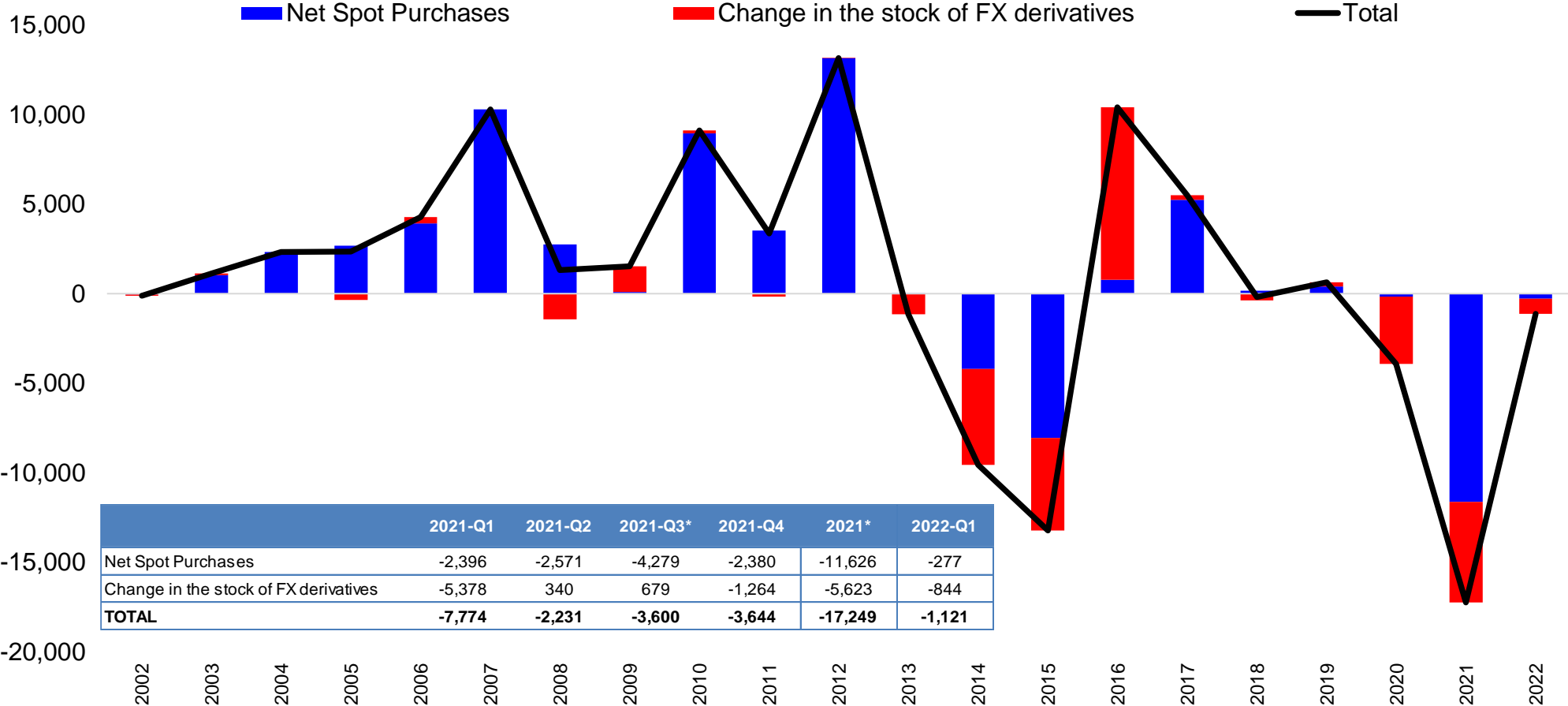
(Index 100=31 Dec 2008)



* As of March 11.
Source: Reuters.

In 2021, the BCRP supplied USD 17.2 billion to the FX market (a historic high) via spot market sales and sales of FX derivatives (USD 11.6 billion and USD 5.6 billion, respectively). In 2022 intervention via spot market and FX derivatives is 1,1 billion

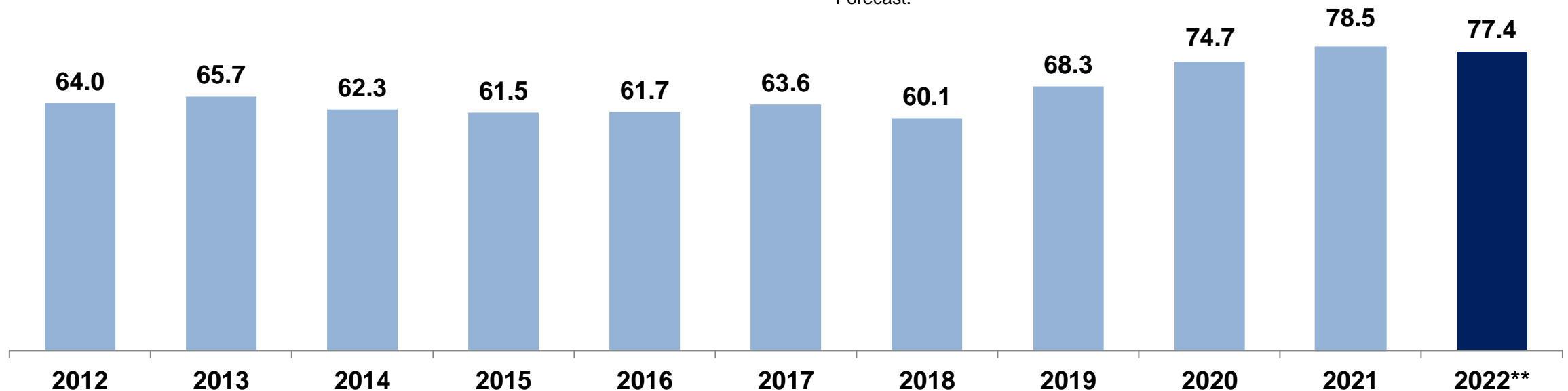
FX INTERVENTION BY SEMESTER
(USD millon)



*As of March 11.
Source: BCRP.

Peru's external position is strong due to a considerable FX reserve buffer; and has been reinforced by a precautionary US \$ 11.4-billion Flexible Credit Line (FCL) with the IMF.

FOREIGN EXCHANGE RESERVES (Billions of US\$)



INTERNATIONAL COVERAGE INDICATORS

	2019	2020	2021	2022*
NIR as percentage of:				
a) GDP	29,6	36,4	35,0	33,2
b) Short term external debt ^{1/}	498	532	485	481
c) Short term external debt + current account deficit	424	587	383	402

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

*Forecast.

**As of March 10.
Source: BCRP.

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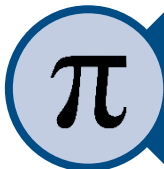
External sector



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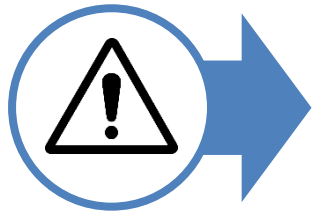


Monetary policy

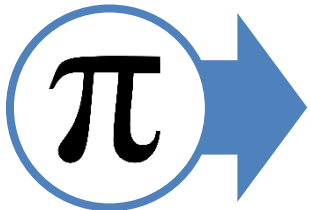


Inflation

Inflation



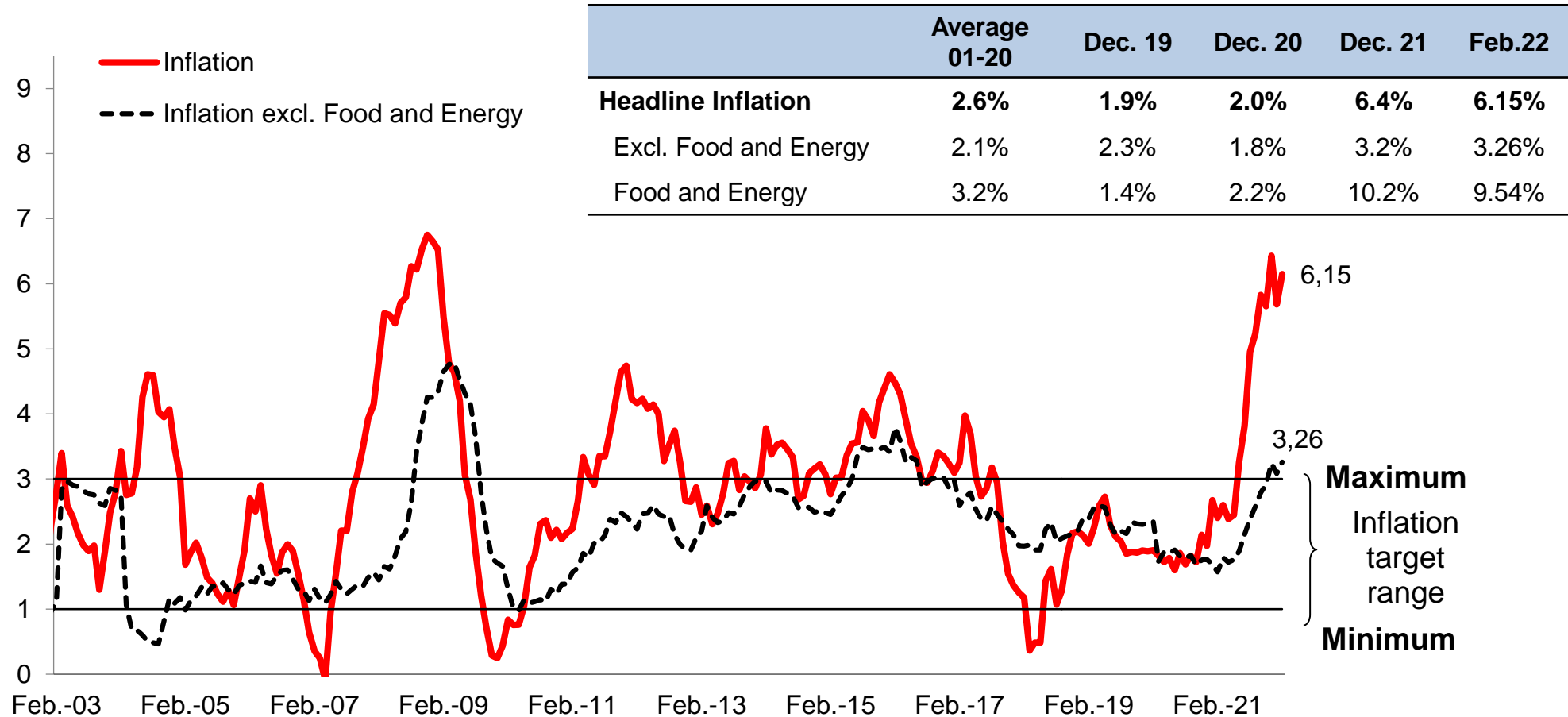
The dynamics of headline inflation in 2021 was highly affected by the external component: prices of food, oil and the exchange rate. The price of items related to the exchange rate, international prices and wholesale prices increased 11 percent in February 2022.



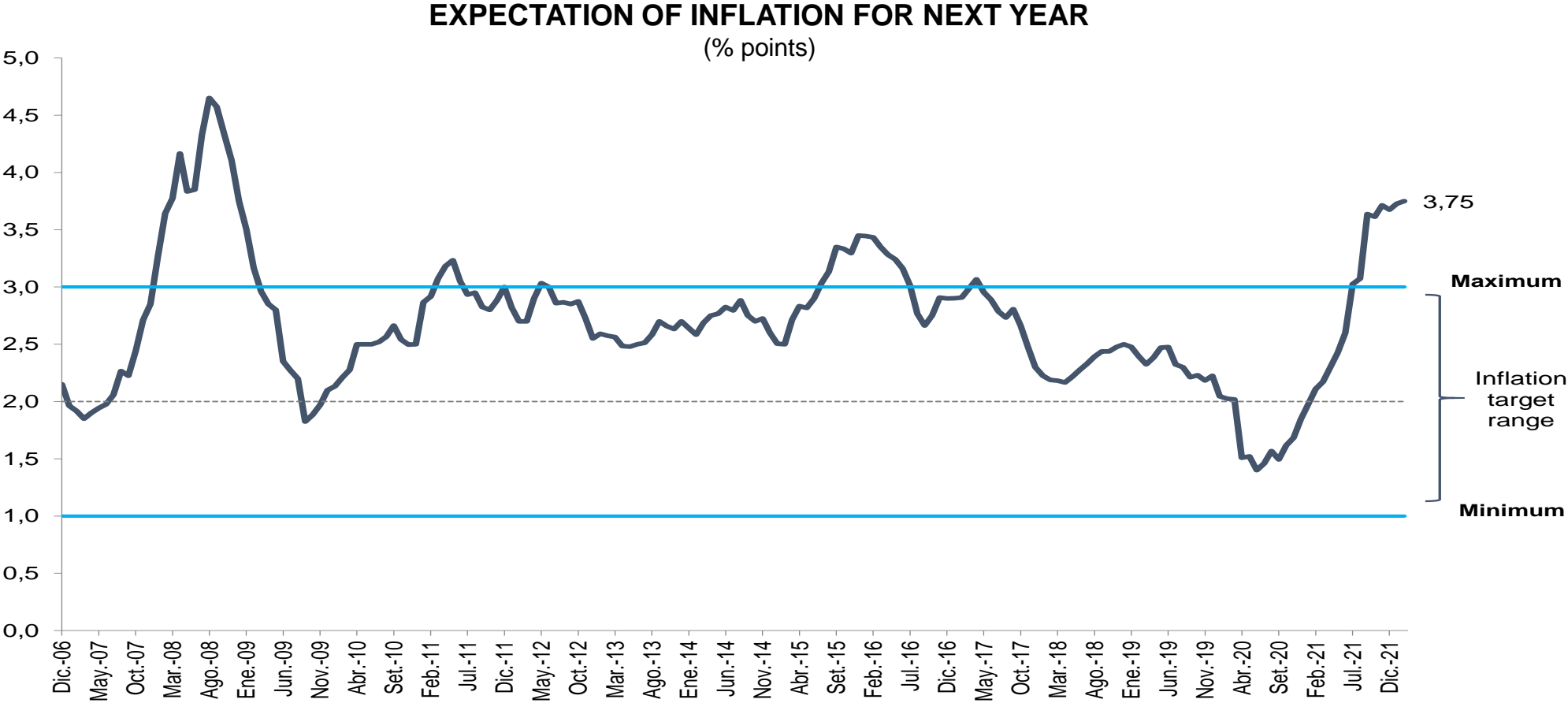
Inflation is expected to start its downward trend by July 2022 and converge towards the target range in the first semester of 2023.

Headline inflation was 6.15% in February, temporarily above the target range due to factors such as the increase in international prices of food supplies and fuel.

HEADLINE INFLATION, 2003 - 2022 (Annual % change)



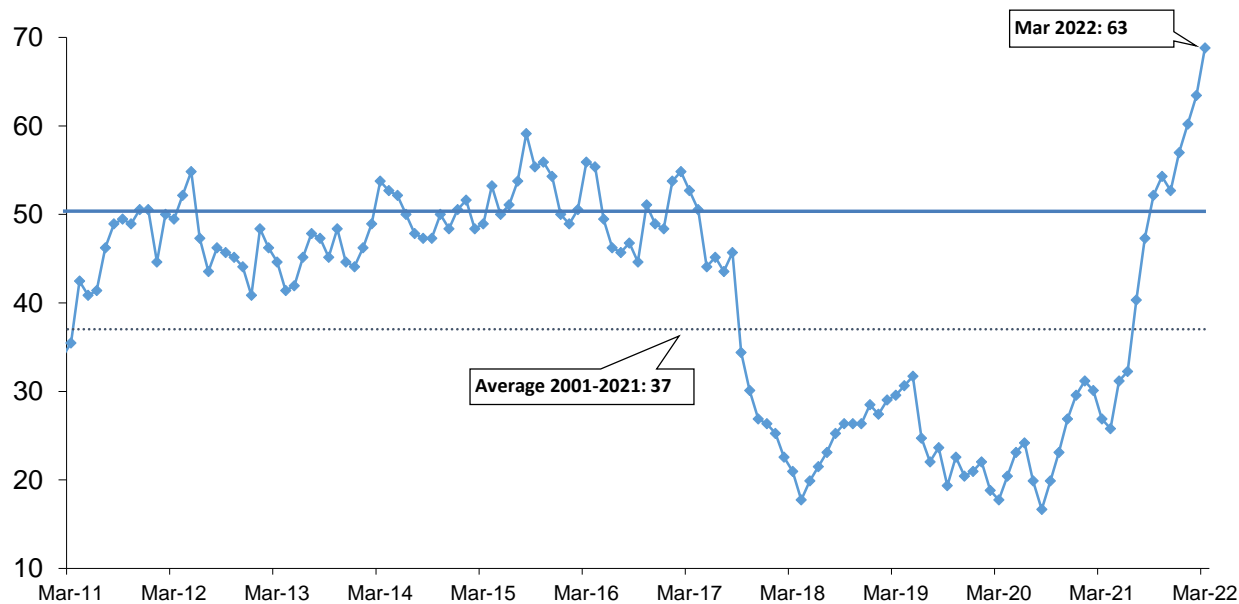
Inflation expectations for 2022 rose to 3.73 percent in February, from 3.68 percent in December last year.



Average expectations of the financial system and economic analysis.
 An estimate of the 12-month expectation is obtained by weighting the expectation for the 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.

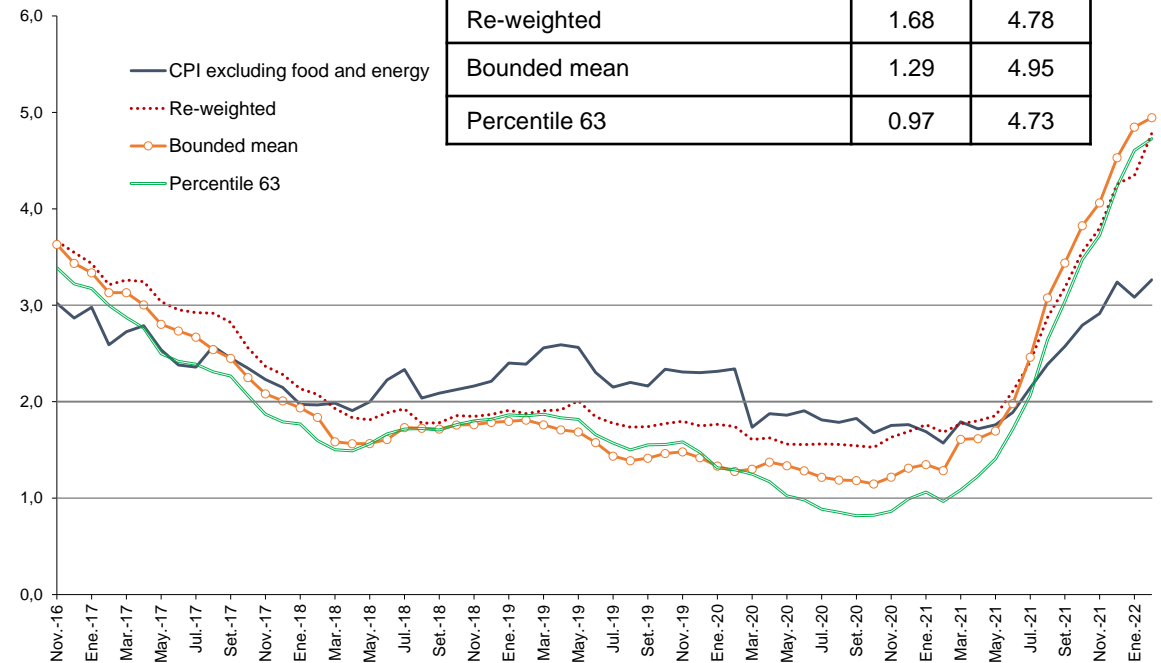
Different indicators of trend inflation are also above the target range.

PERCENTAGE OF CPI ITEMS WITH YEAR-ON-YEAR PRICE VARIATION GREATER THAN 3%



MEASUREMENTS OF THE INFLATIONARY TREND (Annual % change)

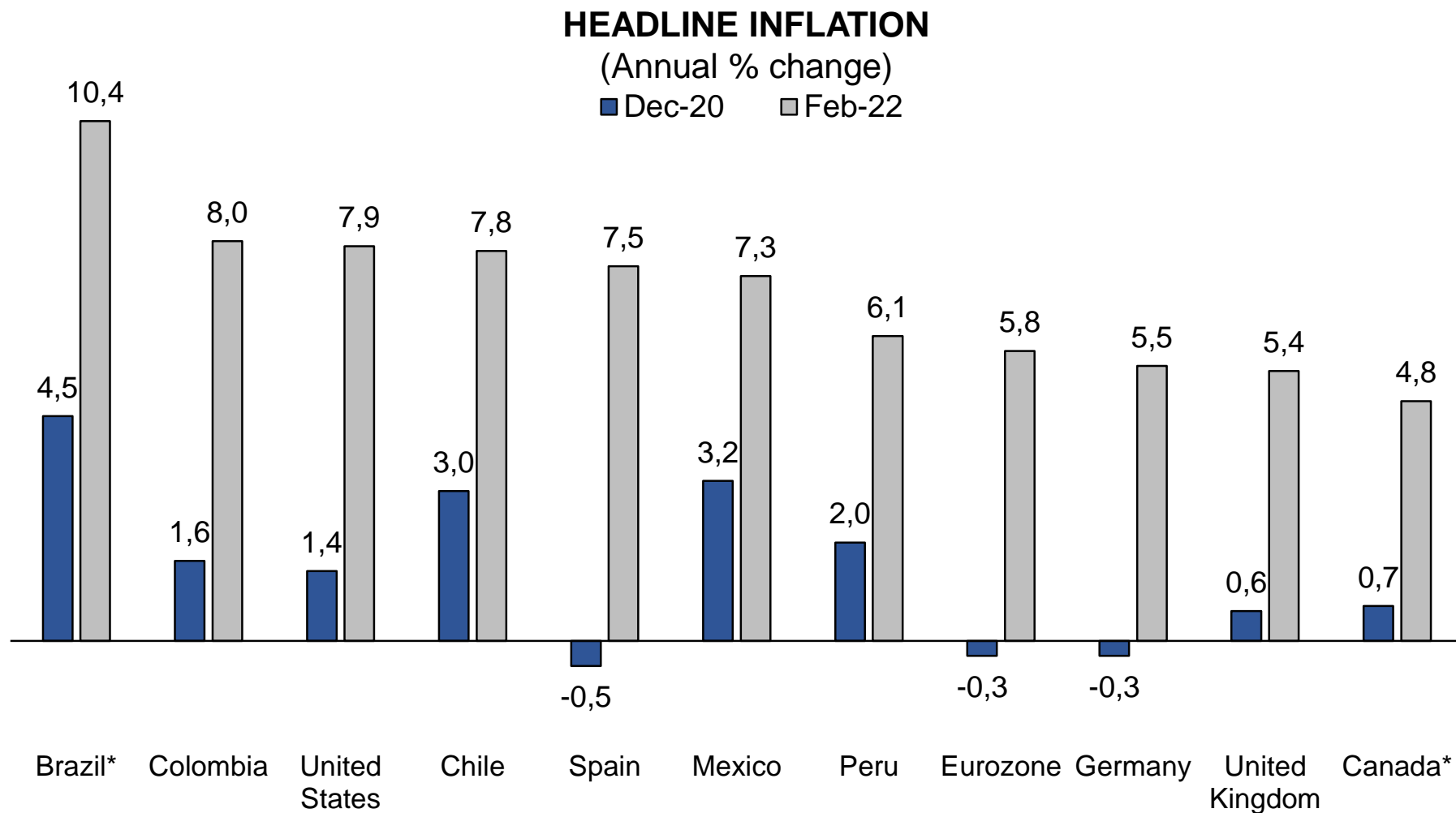
	Feb.21	Feb.22
CPI excluding food and energy	1.57	3.26
Re-weighted	1.68	4.78
Bounded mean	1.29	4.95
Percentile 63	0.97	4.73



Memo:

- CPI excluding food and energy:** CPI excluding food, fuel and electricity.
- Re-weighted:** Reduces the weight of items with greater volatility, considers the original weights of each item between the standard deviation of their monthly percentage changes.
- Bounded mean:** Weighted average of the percentage change of prices between the 34th and 84th percentiles.
- Percentile 63:** Corresponds to the percentage changes of the item located in the 63th percentile.

Inflation rates accelerated worldwide since mid-2021. This evolution is explained by both demand factors (public and private spending) and supply factors.



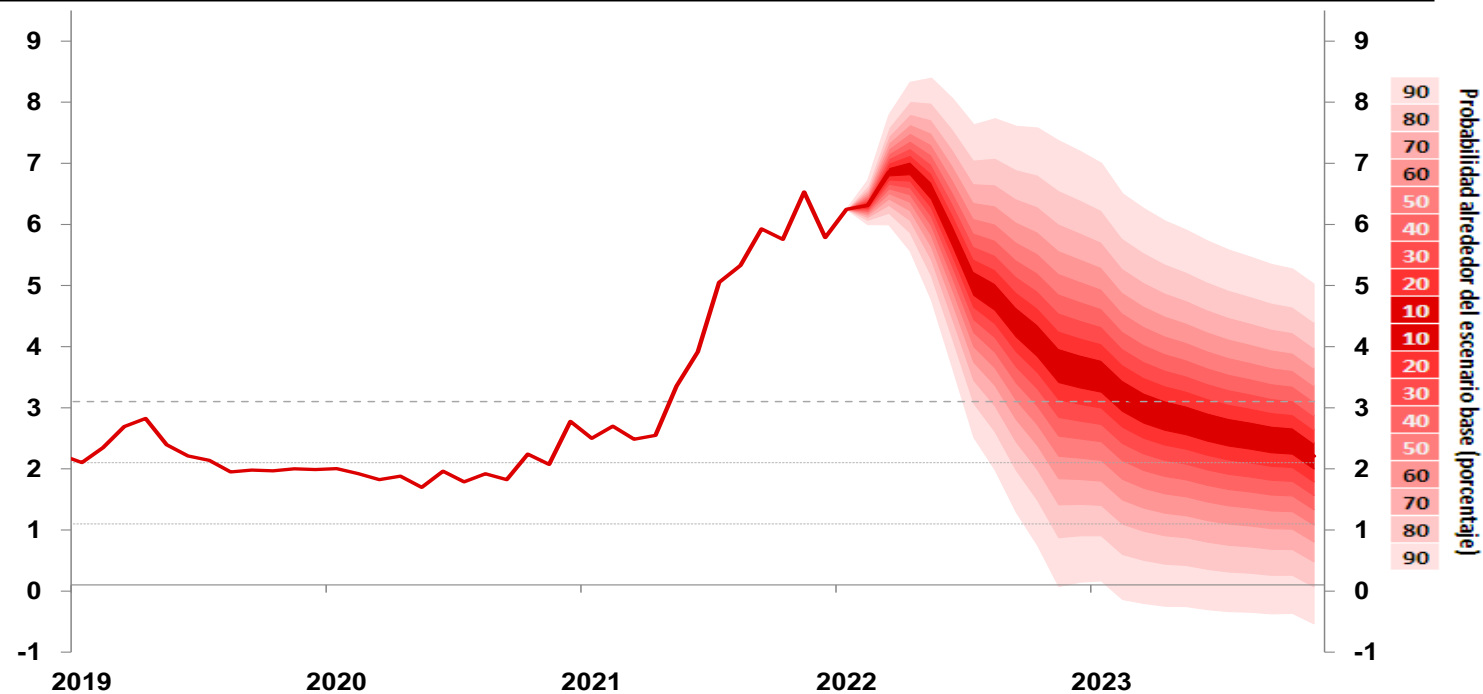
* As of January 2022

Source: National Institutes and central banks.

We expect inflation to return to the target range in the first semester of 2023. The Board remains especially vigilant on new information on inflation and its expectations and on the evolution of economic activity, to consider, if necessary, further changes in the monetary policy stance to guarantee that inflation returns to its target in the forecast horizon.

INFLATION FORECAST, 2022-2023 (YoY % chg.)

	Weight	2010-19	2018	2019	2020	2021	2022*	2023*
Inflation	100,0	2,9	2,2	1,9	2,0	6,4	3,6	2,1
1. Core inflation	55,3	2,4	2,2	2,3	1,8	3,2	3,2	2,0
2. Food and energy	44,7	3,4	2,2	1,4	2,2	10,2	4,0	2,2



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.

CLOSING REMARKS

- 1. The BCRP expects all economic sectors to recover to pre-crisis levels in 2023 and that headline inflation converges to the target inflation range in the first semester of 2023.**
- 2. The Central Bank will continue to monitor several global economy indicators and assess the magnitude of the risks that may affect emerging economies like ours in order to take action in a timely manner.**
- 3. It is crucial to preserve a stable and predictable economic and legal framework.**

8th

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Peru's Economic Outlook

Julio Velarde

Governor

Central Reserve Bank of Peru

March 2022



BANCO CENTRAL DE RESERVA DEL PERÚ