



# Summary Inflation Report

December 2019

The growth of **global GDP** in 2019 has been revised in this Report from 3.1 to 3.0 percent, this rate being the lowest growth rate observed since the global financial crisis of 2008. A recovery of growth is expected for 2020 and 2021 (3.2 and 3.4 percent, respectively), in line with the maintenance of monetary stimuli in the main developed economies and with the expansionary fiscal policies adopted in some countries, such as Germany and China. This scenario assumes that commercial tensions weaken in the forecast horizon.

The **terms of trade** have shown a recovery, increasing since July due to the depreciation of the dollar and to some progress achieved in the trade negotiations between the United States and China that have favored higher prices in some metals. As a result of this, the terms of trade forecast for 2019 has been revised on the upside, from -2.6 percent to -1.4 percent, a zero variation is expected in 2020, and a slight change is expected in 2021 (-0.9 percent).

The lower growth of imports has implied a downward revision of the previously estimated **deficit in the current account of the balance of payments** to a deficit of 1.6 percent of GDP in the period 2019-2021. This level of current account deficit would be financed with long-term capital, in a scenario in which the central banks of the developed economies maintain expansionary monetary policies.

This **Inflation Report** was prepared using data on the balance of payments and the gross domestic product as of the third quarter of 2019, and data on monetary accounts, the operations of the non-financial public sector, inflation, financial markets, and the exchange rate as of November 2019.

## WORLD ECONOMY: 2012 - 2021

(Annual average 2014-2018: 3.6%)



\* Forecast.  
Source: IMF and consensus forecast.

## TERMS OF TRADE: 2018 - 2021

	2018	2019*		2020*		2021*
		IR Sep.19	IR Dec.19	IR Sep.19	IR Dec.19	IR Dec.19
<b>Terms of Trade (Annual average % chg.)</b>	<b>-0.4</b>	<b>-2.6</b>	<b>-1.4</b>	<b>-1.1</b>	<b>0.0</b>	<b>-0.9</b>
<b>Price of exports (Annual average % chg.)</b>	<b>6.3</b>	<b>-3.6</b>	<b>-3.1</b>	<b>-0.2</b>	<b>0.7</b>	<b>0.2</b>
Copper (US\$ cents per pound)	297	271	273	262	277	280
Zinc (US\$ cents per pound)	133	114	116	103	103	103
Lead (US\$ cents per pound)	102	91	91	94	88	88
Gold (US\$ per troy ounce)	1,269	1,393	1,394	1,495	1,480	1,480
<b>Price of imports (Annual average % chg.)</b>	<b>6.7</b>	<b>-1.1</b>	<b>-1.7</b>	<b>0.9</b>	<b>0.7</b>	<b>1.1</b>
Oil (US\$ per barrel)	65	58	57	56	56	53
Wheat (US\$ per ton)	186	165	167	162	165	181
Maize (US\$ per ton)	132	146	145	146	150	159
Soybean oil (US\$ per ton)	637	628	636	642	697	724

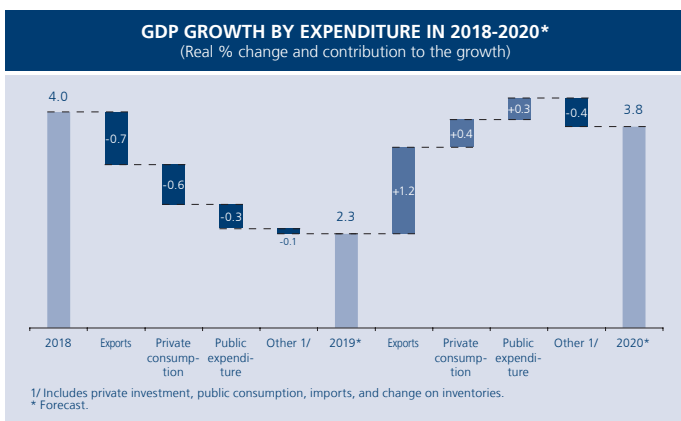
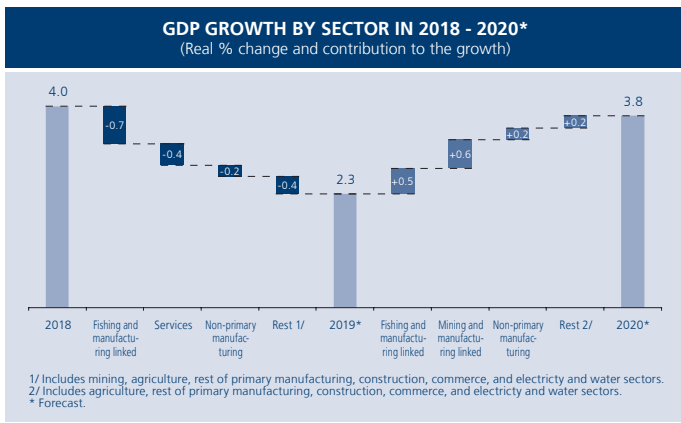
\* Forecast.  
IR: Inflation Report.

## BALANCE OF PAYMENTS

(Million US\$)

	2018	2019*		2020*		2021*
		IR Sep.19	IR Dec.19	IR Sep.19	IR Dec.19	IR Dec.19
<b>I. CURRENT ACCOUNT BALANCE</b>	<b>-3,594</b>	<b>-4,347</b>	<b>-3,756</b>	<b>-4,960</b>	<b>-3,845</b>	<b>-4,092</b>
% GDP	-1.6	-1.9	-1.6	-2.1	-1.6	-1.6
1. Trade Balance	7,197	5,722	6,560	5,784	7,004	7,086
a. Exports	49,066	47,450	47,422	50,148	49,761	52,149
Of which:						
i) Traditional	35,638	33,473	33,469	34,731	34,658	35,615
ii) Non traditional	13,240	13,813	13,786	15,258	14,945	16,378
b. Imports	-41,870	-41,728	-40,862	-44,364	-42,721	-45,063
2. Services	-2,532	-2,521	-2,653	-2,935	-2,809	-3,186
3. Investment income	-11,814	-11,322	-11,403	-11,685	-11,914	-11,984
4. Current transfers	3,556	3,774	3,739	3,876	3,838	3,992
Of which: Remittances	3,225	3,382	3,347	3,551	3,514	3,690
<b>II. FINANCIAL ACCOUNT</b>	<b>94</b>	<b>12,882</b>	<b>11,791</b>	<b>6,644</b>	<b>6,186</b>	<b>5,152</b>
1. Private Sector	-2,028	6,916	7,340	3,655	2,802	3,180
a. Long-term	917	6,612	5,075	3,633	2,752	3,180
b. Short-term 1/	-2,946	304	2,266	22	50	0
2. Public sector 2/	2,122	5,966	4,451	2,989	3,385	1,972
<b>III. CHANGE ON NIRs</b>	<b>-3,500</b>	<b>8,535</b>	<b>8,035</b>	<b>1,684</b>	<b>2,341</b>	<b>1,060</b>

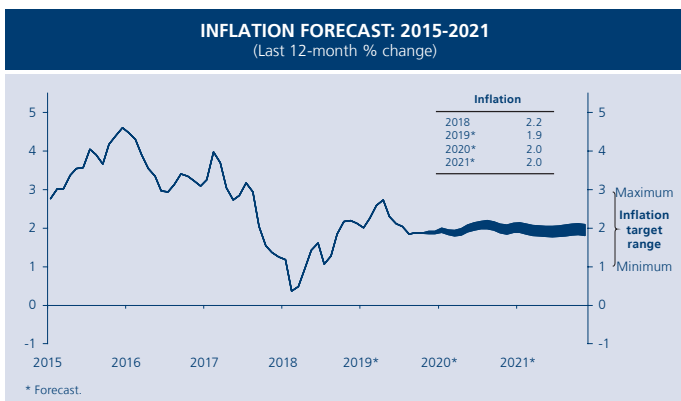
1/ Includes net errors and omissions, and NIR's effect valuation.  
2/ Includes portfolio investment in sovereign bonds by non-residents.  
\* Forecast.  
IR: Inflation Report.



### NON-FINANCIAL PUBLIC SECTOR (% GDP)

	2018	2019*		2020*		2021*
		IR Sep.19	IR Dec.19	IR Sep.19	IR Dec.19	IR Dec.19
<b>1. General government current revenues</b>	<b>19.3</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>	<b>20.0</b>	<b>19.9</b>
Real % change	11.2%	4.4%	4.4%	3.6%	5.3%	3.4%
<b>2. General government non-financial expenditure</b>	<b>20.2</b>	<b>20.2</b>	<b>20.1</b>	<b>20.1</b>	<b>20.3</b>	<b>20.3</b>
Real % change	5.3%	2.5%	1.5%	3.1%	4.8%	3.8%
Of which:						
Current expenditure	15.3	15.6	15.5	15.4	15.5	15.5
Real % change	4.5%	4.2%	3.2%	2.5%	4.4%	3.2%
Gross capital formation	4.3	4.1	4.1	4.2	4.2	4.3
Real % change	10.6%	-1.9%	-3.7%	4.9%	5.9%	6.4%
<b>3. Other</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.2</b>
<b>4. Primary balance (1-2+3)</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.2</b>
<b>5. Interests</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.5</b>
<b>6. Overall Balance</b>	<b>-2.3</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.6</b>
Flow of gross debt	2.0	1.8	1.9	2.1	2.1	1.5
flow of public deposits	0.3	0.4	-0.1	0.0	-0.3	0.2
Other	0.0	-0.2	-0.1	-0.1	0.0	0.0

Memo: The sum of the partials may not exactly match the totals due to rounding.  
\* Forecast.  
IR: Inflation Report.



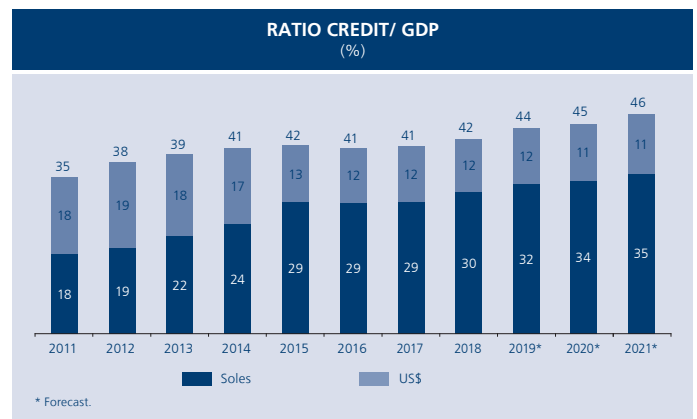
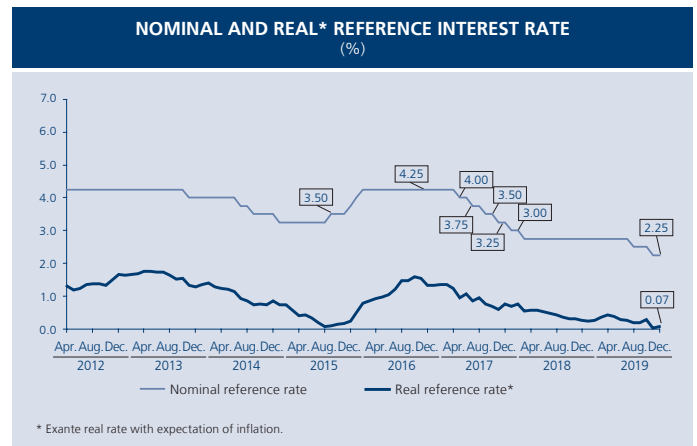
In January-October 2019, **economic activity** grew 2.2 percent, a rate below the 3.8 percent observed in the same period of 2018. This lower GDP growth is explained by lower exports—mainly mining and fishing exports—, by transitory supply shocks, as well as by the decline in public investment and the slowdown in private consumption. As a result, the projection of GDP growth in 2019 has been revised down from 2.7 to 2.3 percent. In 2020 and 2021, GDP would grow at a rate of 3.8 percent each year, supported mainly by the recovery of exports, by the reversal of the supply shocks that affected the primary sectors, and by the onset of operations of new mines, as well as by a greater impulse of public investment, in a context of more favorable external conditions.

The **fiscal deficit** projected for 2019 has been revised down from 2.0 to 1.7 percent of GDP in this report, due to the higher primary balance registered by the State-owned enterprises as well as due to lower public investment. The fiscal impulse would have been negative this year, while a positive impulse is expected for 2020 and a neutral fiscal impulse is estimated for 2021. The increase in public investment (6.0 percent) and the higher tax revenues anticipated would result in a fiscal deficit of 1.7 percent of GDP in 2020, a similar deficit to that projected for this year. In 2021, on the other hand, the fiscal deficit is estimated to decline to 1.6 percent of GDP, which considers the continuity of the Reconstruction with Changes projects.

Year-on-year **inflation** fell from 2.0 percent in August to 1.9 percent in November 2019, remaining close to the center of the target range. Inflation expectations, which remain within the inflation target range since March 2017, registered 2.2 percent in November and are estimated to decrease gradually, in a context in which inflation is expected to show levels of around 2 percent in the forecast horizon.

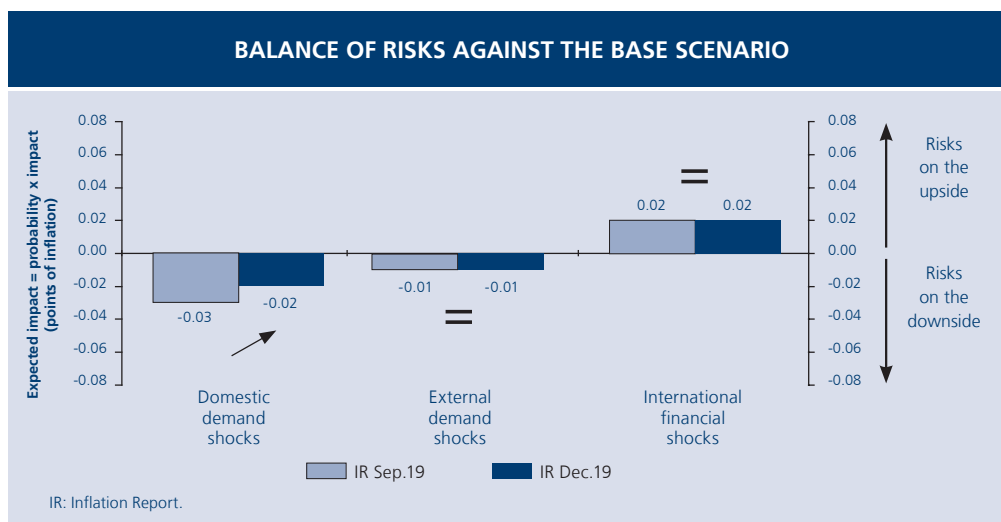
Considering the moderate downward bias observed in the inflation forecast due to a lower than potential economic growth, the Board of BCRP preventively lowered the **benchmark interest rate** by 25 basis points in November to 2.25 percent and maintained this level in December. With this, BCRP expands monetary stimulus, with a real interest rate close to zero.

In line with the expansionary monetary stance, **credit to the private sector** grew 8.0 percent year-on-year in November, this result reflecting mainly the growth of lending in the segment of personal loans, which grew 11.4 percent. In the forecast horizon, credit to the private sector as a percentage of GDP would increase from 42 percent in 2018 to 45 and 46 percent in 2020 and 2021, respectively. This projection considers flexible monetary conditions and the recovery of the pace of growth of economic activity.



### Balance of risk

The balance of **the inflation risk factors** considered in this Report –domestic demand shocks, external demand shocks, and international financial shocks– maintains a downward bias in the inflation forecast as in the last two Reports, although it is more moderate than that estimated in September. The impact of a possible lower inflation associated with a lower-than-projected pace of growth in the domestic demand has declined.



IR: Inflation Report.

## SUMMARY OF INFLATION REPORT FORECAST

	2018	2019 <sup>1/</sup>		2020 <sup>1/</sup>		2021 <sup>1/</sup>
		IR Sep.19	IR Dec.19	IR Sep.19	IR Dec.19	IR Dec.19
<b>Real % change</b>						
1. Gross Domestic Product	4.0	2.7	2.3	3.8	3.8	3.8
2. Domestic demand	4.2	3.0	2.5	3.7	3.7	3.8
a. Private consumption	3.8	3.0	3.0	3.7	3.5	3.7
b. Public consumption	0.8	2.0	2.0	2.5	2.5	2.5
c. Fixed private investment	4.2	4.4	4.2	4.5	3.8	4.0
d. Public investment	6.8	0.5	-0.5	5.0	6.0	4.0
3. Exports (good and services)	2.7	0.9	0.1	5.6	4.5	4.8
4. Imports (good and services)	3.2	1.8	0.5	5.6	4.0	4.8
5. Economic growth in main trading partners	3.7	3.1	3.0	3.2	3.1	3.3
<b>Memo:</b>						
Output gap 2/ (%)	-0.1	-1.4 ; -0.9	-1.4 ; -0.9	-1.3 ; -0.4	-1.3 ; -0.4	-0.9 ; 0.0
<b>% change</b>						
6. Inflation	2.2	2.0	1.9	2.0	2.0	2.0
7. Expected inflation 3/	2.1	2.2	2.0	2.4	2.2	2.4
8. Expected depreciation 3/	4.2	0.3	0.0	-0.3	0.1	-0.4
9. Terms of trade	-0.4	-2.6	-1.4	-1.1	0.0	-0.9
a. Export prices	6.3	-3.6	-3.1	-0.2	0.7	0.2
b. Import prices	6.7	-1.1	-1.7	0.9	0.7	1.1
<b>Nominal % change</b>						
10. Currency in circulation	7.9	5.7	5.2	6.0	6.0	6.0
11. Credit to the private sector	8.7	7.3	7.9	8.5	8.5	8.5
<b>% GDP</b>						
12. Gross fixed investment	22.4	22.6	22.5	22.8	22.5	22.7
13. Current account of the balance of payments	-1.6	-1.9	-1.6	-2.1	-1.6	-1.6
14. Trade balance	3.2	2.5	2.8	2.4	2.9	2.8
15. Long-term external financing of the private sector 4/	2.0	2.7	2.8	2.1	2.1	1.8
16. Current revenue of the general government	19.3	19.7	19.7	19.7	20.0	19.9
17. Non-financial expenditure of the general government	20.2	20.2	20.1	20.1	20.3	20.3
18. Overall balance of the non-financial public sector	-2.3	-2.0	-1.7	-2.0	-1.7	-1.6
19. Balance of total public debt	25.8	26.5	26.7	27.1	27.3	27.3
20. Balance of net public debt	11.3	13.0	12.6	14.4	13.7	14.6

IR: Inflation Report.

1/ Forecast.

2/ Differential between GDP and potential GDP (%).

3/ Survey on expectations to the analysts and financial entities.

4/ Includes net direct investment, portfolio investment and private sector's long term disbursement.