CENTRAL RESERVE BANK OF PERU

# Summary Inflation Report

June 2019

The pace of **global GDP growth** is expected to slow down from 3.6 percent in 2018 to 3.3 percent in 2019 (3.4 percent was estimated in the March Inflation Report) and 3.4 percent in 2020 (3.5 percent estimated in the previous Report) as a result of the uncertainty caused by commercial tensions. However, this slower pace of global economic activity will be accompanied by more favorable external financial conditions associated with more expansionary monetary positions in the central banks of the advanced economies.

The **terms of trade** of exports have been deteriorating due to uncertainty about global activity and investment. As a result, after showing a rate of -0.2 percent in 2018, they are projected to register -2.8 percent in 2019 (vs. 1.3 percent projected in the March Report) and -0.7 percent in 2020 (vs. 0.4 percent in the previous Report). An average annual copper price of US$ 2.76 per pound is projected in this report (vs. US$ 2.86 in the previous report and US$ 2.97 projected as the average price of the previous year).

The projected **deficit in the current account of the balance of payments** has been revised up (from 1.3 to 1.6 percent of GDP in 2019 and from 1.3 to 1.9 percent in 2020) due to the lower prices of exports compared to those projected in March. Because of this reason, the trade balance surplus has also been revised from US$ 8.03 billion in the March Report to US$ 6.27 billion. On the other hand, countering these trends in the trade of goods, the financial account flows show favorable trends, so capital inflows are expected to be higher than those projected in March. At the aggregate level of the

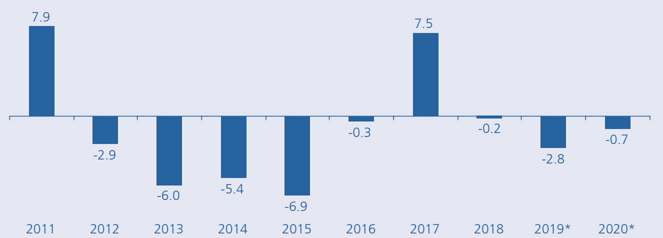
This ***Inflation Report*** was prepared using data on the balance of payments and the gross domestic product as of the first quarter of 2019; data on monetary accounts and the operations of the non-financial public sector as of May 2019, and data on inflation, financial markets, and the exchange rate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

**GLOBAL GDP GROWTH**
(Annual % change)

| | PPP %1/ | Trading Peru %1/ | 2018 | 2019* | | 2020* | |
|---|---|---|---|---|---|---|---|
| | | | | IR Mar.19 | IR Jun.19 | IR Mar.19 | IR Jun.19 |
| **Developed economies** | **40.8** | **42.9** | **2.2** | **1.8** | **1.7** | **1.7** | **1.6** |
| *Of which:* | | | | | | | |
| 1. USA | 15.2 | 20.2 | 2.9 | 2.1 | 2.1 | 1.9 | 1.8 |
| 2. Eurozone | 11.4 | 12.8 | 1.9 | 1.3 | 1.2 | 1.5 | 1.3 |
| Germany | 3.2 | 2.7 | 1.5 | 1.2 | 0.8 | 1.5 | 1.3 |
| France | 2.2 | 0.8 | 1.5 | 1.3 | 1.2 | 1.5 | 1.3 |
| Italy | 1.8 | 1.8 | 0.9 | 0.3 | 0.1 | 0.8 | 0.7 |
| Spain | 1.4 | 4.0 | 2.5 | 2.2 | 2.2 | 1.9 | 1.9 |
| 3. Japan | 4.1 | 4.0 | 0.8 | 0.9 | 0.7 | 0.4 | 0.4 |
| 4. United Kingdom | 2.2 | 1.3 | 1.4 | 1.3 | 1.2 | 1.5 | 1.4 |
| 5. Canada | 1.4 | 2.6 | 1.8 | 1.8 | 1.6 | 1.8 | 1.8 |
| **Developing economies** | **59.2** | **57.1** | **4.6** | **4.6** | **4.5** | **4.8** | **4.8** |
| *Of which:* | | | | | | | |
| 1. Emerging and developing Asia | 33.3 | 34.9 | 6.4 | 6.3 | 6.2 | 6.4 | 6.3 |
| China | 18.7 | 27.9 | 6.6 | 6.2 | 6.1 | 6.2 | 6.1 |
| India | 7.8 | 3.8 | 7.1 | 7.5 | 7.3 | 7.6 | 7.6 |
| 2. Commonwealth of Independent States | 4.4 | 0.5 | 2.8 | 2.1 | 2.0 | 2.1 | 2.0 |
| Russia | 3.1 | 0.5 | 2.3 | 1.5 | 1.3 | 1.5 | 1.3 |
| 3. Latin America and the Caribbean | 7.7 | 21.6 | 1.0 | 1.3 | 0.8 | 2.4 | 2.4 |
| **World Economy** | **100.0** | **100.0** | **3.6** | **3.4** | **3.3** | **3.5** | **3.4** |
| Memo: | | | | | | | |
| Peru's trading partners1/ | 65.9 | | 3.7 | 3.4 | 3.3 | 3.4 | 3.3 |

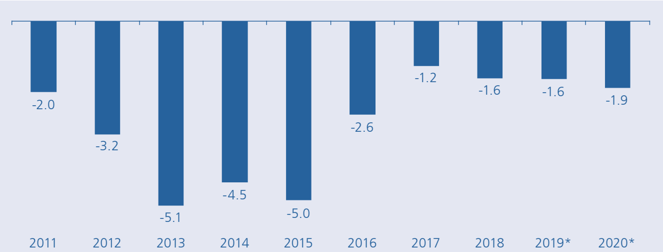
* Forecast.
1/ The weightings corresponds to 2018. Top 20 are considered for trading partners.
Source: Bloomberg, IMF, Consensus Forecast.

**TERMS OF TRADE: 2011-2020**
(Annual average % change)




* Forecast.
Source: BCRP.

**CURRENT ACCOUNT: 2011-2020**
(% GDP)



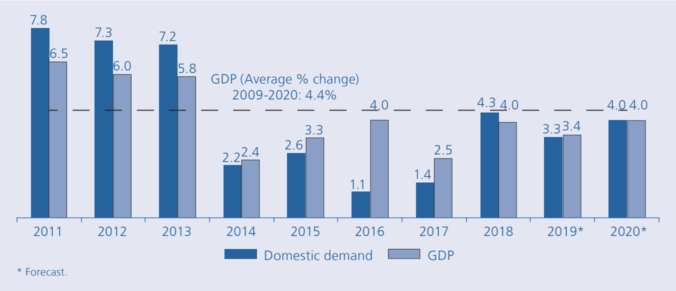

* Forecast.

**GDP BY ECONOMIC SECTOR**
(Real % change)

| | 2018 | 2019* | | | 2020* | |
|---|---|---|---|---|---|---|
| | | Q1 | IR Mar.19 | IR Jun.19 | IR Mar.19 | IR Jun.19 |
| **Primary GDP** | **3.3** | **-1.3** | **3.0** | **1.3** | **3.4** | **3.6** |
| Agriculture and Livestock | 7.8 | 4.9 | 4.5 | 4.5 | 4.0 | 4.0 |
| Fishing | 39.7 | -20.5 | -4.5 | -14.6 | 2.0 | 9.0 |
| Metallic mining | -1.5 | -2.2 | 3.3 | 2.1 | 4.3 | 4.0 |
| Fuel | 0.0 | 9.5 | 3.0 | 2.6 | -0.5 | 0.3 |
| Primary industries | 13.2 | -13.0 | 0.5 | -5.9 | 1.2 | 2.1 |
| **Non-primary GDP** | **4.2** | **3.3** | **4.2** | **4.0** | **4.2** | **4.1** |
| Non-primary industries | 3.7 | 3.1 | 4.0 | 3.2 | 3.8 | 3.8 |
| Electricity and water | 4.4 | 6.0 | 4.5 | 4.3 | 4.5 | 4.0 |
| Construction | 5.4 | 1.8 | 6.5 | 5.4 | 7.5 | 6.9 |
| Commerce | 2.6 | 2.4 | 3.4 | 3.2 | 3.5 | 3.5 |
| Total Services | 4.4 | 3.7 | 4.2 | 4.1 | 4.0 | 4.0 |
| **TOTAL** | **4.0** | **2.3** | **4.0** | **3.4** | **4.0** | **4.0** |

* Forecast.
IR: Inflation Report.

**DOMESTIC DEMAND AND GDP: 2011-2020**
(Real % change)

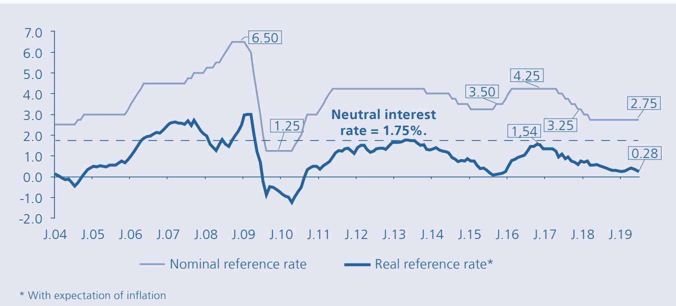



**NON-FINANCIAL PUBLIC SECTOR**
(% GDP)

| | 2018 | 2019* | | | 2020* | |
|---|---|---|---|---|---|---|
| | | Q1 | IR Mar.19 | IR Jun.19 | IR Mar.19 | IR Jun.19 |
| **1. General government current revenues** | **19.3** | **21.7** | **19.3** | **19.6** | **19.4** | **19.5** |
| *Real % change* | *11.2%* | *7.0%* | *4.0%* | *4.6%* | *5.1%* | *3.3%* |
| **2. General government non-financial expenditure** | **20.2** | **16.2** | **20.2** | **20.2** | **20.0** | **20.0** |
| *Real % change* | *5.3%* | *-4.4%* | *3.2%* | *2.9%* | *3.2%* | *3.0%* |
| *Of which:* | | | | | | |
| *Current expenditure* | *15.3* | *13.7* | *15.6* | *15.5* | *15.4* | *15.4* |
| *Real % change* | *4.5%* | *-1.9%* | *4.8%* | *4.6%* | *2.9%* | *2.7%* |
| *Gross capital formation* | *4.3* | *2.2* | *4.1* | *4.1* | *4.1* | *4.1* |
| *Real % change* | *10.6%* | *-13.9%* | *-2.4%* | *-1.0%* | *4.9%* | *3.9%* |
| **3. Other** | **0.0** | **0.4** | **-0.1** | **-0.1** | **-0.1** | **-0.1** |
| **4. Primary balance (1-2+3)** | **-0.9** | **6.0** | **-1.0** | **-0.7** | **-0.7** | **-0.6** |
| **5. Interests** | **1.4** | **2.4** | **1.4** | **1.4** | **1.4** | **1.5** |
| **6. Overall Balance** | **-2.3** | **3.6** | **-2.3** | **-2.1** | **-2.1** | **-2.1** |
| *Flow of gross debt* | *2.3* | *-1.2* | *2.2* | *2.0* | *1.6* | *1.9* |
| *Flow of public deposits* | *0.0* | *-1.3* | *0.3* | *0.4* | *0.4* | *0.2* |
| *Other* | *0.0* | *-1.2* | *-0.1* | *-0.3* | *0.2* | *0.0* |

* Forecast.
IR: Inflation Report.

**NOMINAL AND REAL* REFERENCE INTEREST RATE**
(%)




balance of payments, the increase in net international reserves has been revised up from US$ 4.34 billion in March to US$ 6.04 billion in this report.

In the first quarter of 2019, Peru's **GDP** showed a slowdown due to the lower output registered in the primary sectors of fishing and mining compared to the first quarter of 2018, which added onto lower growth in the non-primary sectors (3.3 percent). A partial reversal of the fall observed in the first quarter in the primary sectors is expected for the rest of the year, so an annual GDP growth rate of 3.4 percent is projected for 2019 (a lower rate than that projected in the March Report) and a rate of 4.0 percent is projected for 2020 (the same rate as that estimated in the March Report).

The lower dynamism of GDP is associated with the lower growth of exports and **domestic demand**, particularly in terms of private sector investment spending, which has been revised down from 6.5 percent (projected in March) to 3.8 percent in this report. This lower growth projection reflects the lower pace of growth observed so far this year in a context of lower terms of trade and lower business confidence.

The **fiscal deficit** projected for this year has been revised down from 2.3 percent of GDP in the March Report to 2.1 percent of GDP due to the higher current revenues estimated –up from 19.3 to 19.6 percent of GDP–, mainly as a result of the payment of tax obligations resulting from resolutions favorable to Sunat. The deficit projected for 2020 remains at 2.1 percent of GDP, in line with the deficit rule set out in the Fiscal Responsibility and Transparency Framework.

The Board of BCRP has maintained the **benchmark interest rate** at 2.75 percent since March 2018 –in line with an expansionary monetary policy stance (a real rate of 0.3 percent in the year)–, in a context in which inflation and inflation expectations are within the target range and the output gap is expected to close in the forecast horizon, although in a more gradual way than the one anticipated in the March Inflation Report.

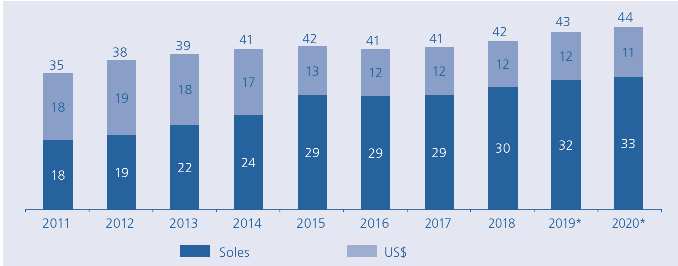
In line with the expansionary monetary stance, **credit to the private sector** grew 7.9 percent year-on-year in May, as reflected in all the credit segments, especially in the segment of personal loans. In the forecast horizon, credit to the private sector as a percentage of GDP would increase from 42 percent in 2018 to 44 percent in 2020. The latter projection considers flexible monetary conditions and the recovery of the demand's rate of growth.

Remaining within the **inflation** target range, year-on-year inflation rose from 2.0 percent in February to 2.3 percent in June 2019, while inflation expectations –which remain within the target range since March 2017– were between 2.4 and 2.5 percent in June and are expected to decrease gradually as inflation converges to the center of the target range.

**CREDIT TO THE PRIVATE SECTOR**
(Annual % change)

| | Mar.18 | Jun.18 | Sep.18 | Dec.18 | Mar.19 | May.19 |
|---|---|---|---|---|---|---|
| Domestic currency | 7.4 | 9.3 | 10.1 | 11.6 | 11.7 | 10.5 |
| Foreign currency | 8.6 | 8.7 | 6.0 | 1.9 | 0.6 | 1.7 |
| **Total** | **7.8** | **9.1** | **8.9** | **8.7** | **8.4** | **7.9** |

**RATIO CREDIT/GDP**
(%)




* Forecast.

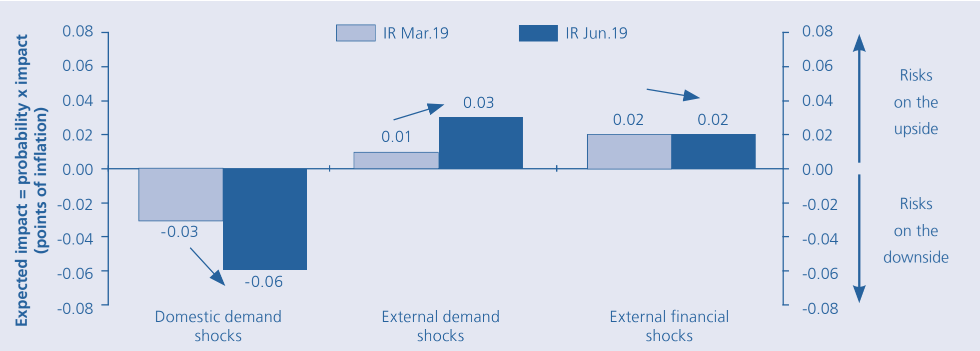
**INFLATION FORECAST: 2015-2020**
(Last 12-month % change)


* Forecast.

## Balance of risk

The balance of **inflation risk factors** considered in this Report –domestic demand shocks, external demand shocks, and international financial shocks– translates into a bias on the downside in the inflation forecast. This bias considers a greater relative risk of a possible lower inflation resulting from a lower pace of growth in the demand.

**BALANCE OF RISKS AGAINST THE BASE SCENARIO**




IR: Inflation Report.

## SUMMARY OF INFLATION REPORT FORECAST

| | 2017 | 2018 | 2019[1/] | | 2020[1/] | |
|---|---|---|---|---|---|---|
| | | | IR Mar.19 | IR Jun.19 | IR Mar.19 | IR Jun.19 |
| **Real % change** | | | | | | |
| 1. Gross Domestic Product | 2.5 | 4.0 | 4.0 | 3.4 | 4.0 | 4.0 |
| 2. Domestic demand | 1.4 | 4.3 | 3.9 | 3.3 | 4.1 | 4.0 |
| a. Private consumption | 2.6 | 3.8 | 3.8 | 3.5 | 3.9 | 3.7 |
| b. Public consumption | 0.5 | 2.0 | 2.5 | 2.0 | 2.2 | 2.5 |
| c. Fixed private investment | 0.2 | 4.4 | 6.5 | 3.8 | 6.0 | 5.5 |
| d. Public investment | -1.8 | 6.8 | 1.0 | 1.0 | 5.0 | 5.0 |
| 3. Exports (good and services) | 7.6 | 2.5 | 4.6 | 2.6 | 5.7 | 5.4 |
| 4. Imports (good and services) | 4.0 | 3.4 | 4.4 | 2.1 | 6.2 | 5.5 |
| 5. Economic growth in main trading partners | 3.7 | 3.7 | 3.4 | 3.3 | 3.4 | 3.4 |
| **Memo:** | | | | | | |
| Output gap [2/] (%) | -0.9 | -0.5 | -0.6 ; 0.2 | -1.0 ; -0.3 | -0.5 ; 0.5 | -0.7 ; 0.2 |
| **% change** | | | | | | |
| 6. Inflation | 1.4 | 2.2 | 2.0 | 2.1 | 2.0 | 2.0 |
| 7. Expected inflation [3/] | - | - | 2.4 | 2.5 | 2.5 | 2.5 |
| 8. Expected depreciation [3/] | - | - | -1.6 | -1.2 | 0.9 | 0.8 |
| 9. Terms of trade [4/] | 7.5 | -0.2 | 1.3 | -2.8 | 0.4 | -0.7 |
| a. Export prices | 13.4 | 6.3 | -0.5 | -4.0 | 2.6 | 0.7 |
| b. Import prices | 5.4 | 6.5 | -1.8 | -1.3 | 2.1 | 1.5 |
| **Nominal % change** | | | | | | |
| 10. Currency in circulation | 6.7 | 7.9 | 8.1 | 6.0 | 8.5 | 6.0 |
| 11. Credit to the private sector [5/] | 6.7 | 8.7 | 9.0 | 8.1 | 9.0 | 9.0 |
| **% GDP** | | | | | | |
| 12. Gross fixed investment | 21.9 | 22.5 | 22.7 | 22.3 | 23.1 | 22.7 |
| 13. Current account of the balance of payments | -1.2 | -1.6 | -1.3 | -1.6 | -1.3 | -1.9 |
| 14. Trade balance | 3.1 | 3.2 | 3.4 | 2.6 | 3.4 | 2.5 |
| 15. Long-term external financing of the private sector [6/] | 1.8 | 2.0 | 3.1 | 2.7 | 2.2 | 2.1 |
| 16. Current revenue of the general government | 18.1 | 19.3 | 19.3 | 19.6 | 19.4 | 19.5 |
| 17. Non-financial expenditure of the general government | 20.0 | 20.2 | 20.2 | 20.2 | 20.0 | 20.0 |
| 18. Overall balance of the non-financial public sector | -3.0 | -2.3 | -2.3 | -2.1 | -2.1 | -2.1 |
| 19. Balance of total public debt | 24.9 | 25.7 | 26.3 | 26.5 | 26.4 | 26.9 |
| 20. Balance of net public debt | 9.5 | 11.3 | 13.2 | 13.1 | 14.3 | 14.5 |

IR: Inflation Report.
1/ Forecast.
2/ Differential between GDP and potential GDP (%).
3/ Survey on expectations to the analysts and financial entities.
4/ Average.
5/ Includes loans made by banks' branches abroad.
6/ Includes net direct investment, portfolio investment and private sector's long term disbursement.