CENTRAL RESERVE BANK OF PERU

Summary
Inflation Report

December 2021

This ***Inflation Report*** has been prepared using data on the balance of payments and the gross domestic product as of the third quarter of 2021, data on monthly GDP, the trade balance, and monetary accounts as of October 2021, and data on the operations of the non-financial public sector, inflation, financial markets and the exchange rate as of November 2021.

The world economy continues to recover, albeit at a somewhat slower pace than expected due to the persistence of supply shocks linked to international trade and labor, the increase in energy prices, and the rise in COVID-19 cases following the expansion of the delta variant and, more recently, the new omicron variant. In this context, **global growth** projections have been revised slightly down, from 5.8 to 5.7 percent for 2021 and from 4.4 to 4.3 percent for 2022. Supply conditions are expected to normalize as from the second half of 2022. The gradual withdrawal of monetary stimulus in view of rising global inflation and the implementation of fiscal packages in the major developed economies are anticipated as well. In 2023, the world economy would grow 3.4 percent, recording a growth rate similar to that observed before the pandemic.

The international scenario continues to be highly favorable for the Peruvian economy. The **terms of trade** grew 14.6 percent in the January to September 2021 period, driven mainly by high prices for copper because of the low level of world inventories observed and the increase in energy prices. In 2021, on the other hand, the terms of trade would grow 11.1 percent –less than projected in the September Report (11.7 percent)–, this downward revision being supported by higher fuel and food prices, while in 2022 and 2023, the terms of trade would fall slightly, in a context influenced by an energy crisis and a slight reduction in commodity prices.

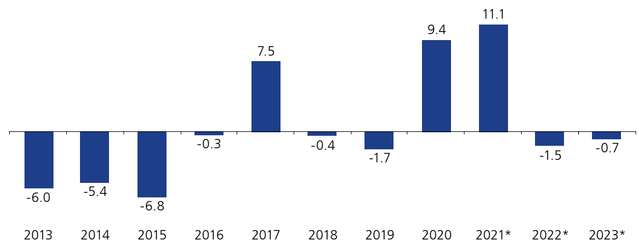
As of the third quarter of 2021, the **current account of the balance of payments** registered an accumulated deficit of 1.2 percent of GDP year-on-year, a result below the average deficit of the last 10 years (2.6 percent). Factors accounting for this deficit included (i) the

GLOBAL GDP GROWTH
(Annual % change)

	PPP*	2020	2021		2022		2023
			IR Sep.	IR Dec.	IR Sep.	IR Dec.	IR Dec.
Developed economies	**42.5**	**-4.7**	**5.4**	**4.9**	**4.1**	**4.0**	**2.2**
Of which							
1. USA	16.0	-3.5	6.5	5.5	4.4	4.0	2.2
2. Eurozone	12.0	-6.6	4.8	5.0	4.6	4.3	2.1
3. Japan	4.0	-4.8	3.0	2.2	2.7	3.0	1.4
4. United Kingdom	2.3	-9.9	6.6	6.9	5.2	5.0	1.4
5. Canada	1.4	-5.4	6.1	5.1	4.2	4.1	2.7
6. Others	6.8	-4.1	4.9	4.7	3.4	3.3	2.6
Emerging economies	**57.5**	**-2.2**	**6.1**	**6.2**	**4.5**	**4.6**	**4.3**
Of which							
1. China	18.6	2.3	8.5	8.0	5.6	5.2	5.3
2. India	6.7	-8.0	9.5	9.5	6.5	6.9	6.3
3. Russia	3.1	-3.1	3.5	4.2	2.7	2.6	2.1
4. Latin America and the Caribbean	7.3	-7.0	5.4	5.9	2.7	2.3	2.4
Argentina	0.6	-9.9	5.8	7.0	2.2	2.3	2.0
Brazil	2.4	-4.1	5.0	5.0	2.1	1.0	2.0
Chile	0.4	-5.8	8.4	10.3	3.0	2.6	2.0
Colombia	0.6	-6.8	6.3	8.0	3.7	3.8	3.5
Mexico	1.9	-8.3	5.6	5.8	3.0	3.0	2.0
Peru	0.3	-11.0	11.9	13.2	3.4	3.4	3.2
5. Others	17.9	-4.0	4.9	5.0	4.5	4.7	4.6
Sub-saharan Africa	3.1	-1.9	3.3	3.7	3.9	3.8	3.6
World Economy	**100.0**	**-3.3**	**5.8**	**5.7**	**4.4**	**4.3**	**3.4**

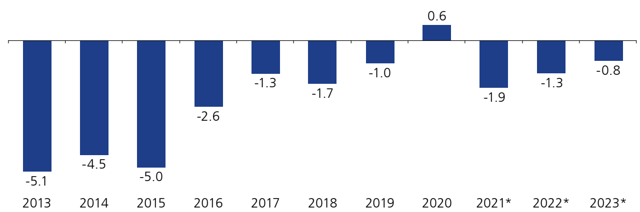
* Base 2020.
Source: IMF and Consensus Forecast.

TERMS OF TRADE: 2013-2023
(Annual average % change)



* Forecast.

CURRENT ACCOUNT: 2013-2023
(% GDP)



* Forecast.

BALANCE OF PAYMENTS
(Million US$)

	2020	2021*			2022*		2023*
		Jan.-Sep.21	IR Sep.21	IR Dec.21	IR Sep.21	IR Dec.21	IR Dec.21
I. CURRENT ACCOUNT BALANCE	**1,321**	**-3,896**	**-3,806**	**-4,325**	**420**	**-3,182**	**-2,154**
% GDP	*0.6*	*-2.4*	*-1.7*	*-1.9*	*0.2*	*-1.3*	*-0.8*
1. Trade Balance	7,966	10,021	14,969	14,656	17,635	15,588	16,315
a. Exports	42,680	45,050	60,658	61,899	64,346	66,836	70,324
Of which:							
i) Traditional	*29,788*	*33,510*	*44,486*	*45,545*	*46,716*	*49,028*	*51,093*
ii) Non-Traditional	*12,770*	*11,412*	*15,981*	*16,162*	*17,312*	*17,618*	*19,043*
b. Imports	-34,713	-35,029	-45,689	-47,243	-46,712	-51,248	-54,008
2. Services	-4,170	-4,554	-5,834	-6,377	-5,240	-6,776	-5,928
3. Investment income	-6,546	-12,314	-16,775	-16,544	-15,998	-16,094	-16,789
4. Current transfers	4,071	2,951	3,833	3,941	4,023	4,100	4,248
Of which: Remittances	2,939	2,658	3,455	3,562	3,627	3,704	3,853
II. FINANCIAL ACCOUNT 1/	**5,070**	**5,213**	**2,058**	**8,118**	**1,005**	**3,182**	**2,154**
1. Private Sector	-2,073	361	-8,057	-4,380	-1,877	301	577
a. Long-term	-1,096	15,135	5,892	12,235	-1,876	301	577
b. Short-term	-977	-14,774	-13,950	-16,615	0	0	0
2. Public Sector 2/	9,818	10,821	10,437	16,443	2,882	2,882	1,577
3. Errors and net omissions 3/	-2,675	-5,969	-322	-3,946	0	0	0
III. CHANGE ON NIRs	**6,391**	**1,317**	**-1,748**	**3,793**	**1,425**	**0**	**0**

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

GDP BY PRODUCTION SECTOR
(Real % change)

	2020	2021*				2022*		2023*
		Jan.-Oct.21 respect to: Jan.-Oct.20	Jan.-Oct.19	IR Sep.21.	IR Dec.21	IR Sep.21.	IR Dec.21	IR Dec.21
Primary GDP	**-7.7**	**7.6**	**-2.6**	**6.2**	**5.3**	**5.9**	**5.3**	**5.8**
Agriculture and livestock	1.4	3.0	4.6	2.0	2.8	2.7	2.7	2.8
Fishing	4.2	4.9	-2.5	5.4	0.0	4.4	4.4	4.4
Metallic mining	-13.8	13.7	-4.7	10.8	9.6	6.9	5.9	8.4
Hydrocarbons	-11.0	-5.5	-15.6	-3.8	-4.6	13.4	13.4	4.0
Based on raw materials	-2.0	6.0	-0.4	5.6	3.4	4.9	4.1	3.5
Non-Primary GDP	**-12.0**	**18.5**	**1.5**	**13.6**	**15.5**	**2.7**	**2.9**	**2.5**
Non-primary industries	-16.4	28.9	3.8	21.1	24.8	1.4	1.4	3.3
Electricity and water	-6.1	9.8	1.8	7.7	8.2	1.7	1.7	5.0
Construction	-13.9	52.0	17.2	30.6	34.7	0.0	0.5	2.5
Commerce	-16.0	21.5	-1.5	17.8	17.5	1.4	2.4	2.5
Services	-10.3	13.3	-0.1	9.9	11.7	3.6	3.7	2.3
Gross Domestic Product	**-11.0**	**16.0**	**0.6**	**11.9**	**13.2**	**3.4**	**3.4**	**3.2**

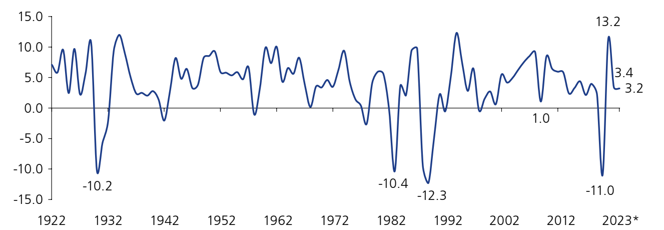
IR: Inflation Report.
* Last two columns correspond to the annual forecast of the previous and current Inflation Report. For 2023, only the forecast is listed of the present IR.

DOMESTIC DEMAND AND GDP
(Real % change)

	2020	2021*				2022*		2023*
		Jan.-Sep.21 respect to: Jan.-Sep.20	Jan.-Sep.19	IR Sep.21	IR Dec.21.	IR Sep.21	IR Dec.21	IR Dec.21
Domestic demand	**-9.4**	**18.5**	**2.9**	**12.5**	**13.9**	**3.0**	**3.0**	**3.0**
Private consumption	-9.8	14.0	0.1	9.2	11.2	4.0	4.0	3.5
Public consumption	7.6	18.0	19.2	9.0	10.9	1.5	1.5	2.0
Private investment	-16.5	54.9	14.3	24.5	36.0	0.0	0.0	2.0
Public investment	-15.5	70.1	12.5	20.0	21.9	4.5	4.5	1.6
Change on inventories (contribution)	0.2	-4.2	-2.4	0.0	-2.2	0.0	0.0	0.0
Exports	**-21.0**	**18.0**	**-9.6**	**11.9**	**13.3**	**6.4**	**7.5**	**7.6**
Imports	**-15.6**	**22.2**	**-1.1**	**14.5**	**16.3**	**4.9**	**5.6**	**6.7**
Gross Domestic Product	**-11.0**	**17.5**	**0.5**	**11.9**	**13.2**	**3.4**	**3.4**	**3.2**
Memo:								
Public expenditure	1.1	27.9	17.4	11.6	13.5	2.2	2.2	1.9
Domestic demand excluding inventories	-9.4	22.8	5.3	12.2	15.9	2.9	2.9	2.9

IR: Inflation Report.
* Last two columns correspond to the annual forecast of the previous and current Inflation Report. For 2023, only the forecast is listed of the present IR.

TOTAL GDP, 1922-2023
(Annual % change)



* Forecast.

increase in imports following the recovery of domestic demand, (ii) the increase in the factor income deficit due to higher profits of companies with foreign direct investment; (iii) the contraction of the services account, due to the gradual recovery of inbound tourism and the high price of international freight in a context of crisis in maritime transport and problems in the logistics chain. Because of all of these factors, the current account deficit in 2021 is projected at 1.9 percent. On the other hand, a lower deficit of 1.3 percent of GDP is expected for 2022 due to the positive impact of the normalization of local production and global demand on export volumes, while a deficit of 0.8 percent of GDP is projected for 2023 due to the expected recovery of exports of services after the end of the pandemic scenario.

Economic activity increased by 16.0 percent year-on-year in the January-October 2021 period (0.6 percent compared to the same period in 2019), driven mainly by dynamism in non-primary sectors and a low comparative base. The pace of growth is expected to slow down in the fourth quarter of the year as a result of the deterioration in business confidence as well as due to a lower comparison base effect given the progress in the recovery from the pandemic recorded in the fourth quarter of last year. Thus, GDP would grow 13.2 percent in 2021, registering a higher rate than that estimated in the previous Report (11.9 percent) associated with a better-than-expected result in the third quarter. In addition, it is worth mentioning that activity would have surpassed pre-pandemic levels since the third quarter of this year.

The projection scenario assumes continued vaccination of the target population during the first quarter of 2022 with the application of booster doses, an expansionary monetary stance, albeit at a lower magnitude, and highly favorable terms of trade. On the other hand, should a third wave of COVID-19 infections occur, it is assumed that it would not have significant economic impacts.

The normalization of spending habits and the gradual lifting of current health restrictions would boost non-primary activity and the labor market, which, together with the recovery of primary production, would translate into a growth rate of 3.4 percent in 2022. The economy is expected to continue recovering in 2023 with a rate of 3.2 percent, in a context of preservation of macroeconomic and financial stability in which an adequate business environment is promoted to boost household and corporate consumption and investment decisions, as well as job creation.

The cumulative **fiscal deficit** over the last twelve months continued its downward trend and recorded 3.3 percent of GDP as of November 2021, marking nine consecutive months of fiscal deficit reduction in a context of strong recovery of fiscal revenues due to high commodity prices, the evolution of economic activity, and the collection of extraordinary revenues. After the deficit represented 8.9 percent of GDP in 2020, the current downward trend in the deficit is expected to continue in the forecast horizon. Thus, the deficit is estimated at 3.1 percent of GDP in 2021 and to decrease thereafter to 2.8 percent and 2.4 percent in 2022 and 2023, respectively.

In 2021, the **gross debt** of the Non-Financial Public Sector would be equivalent to 36.8 percent of GDP and would then decrease to 35.6 percent in 2023. The evolution of the fiscal deficit and the expected management of Non-Financial Public Sector deposits would explain the evolution of net debt, which would register 23.0 percent of GDP in 2021 and increase to 24.4 percent in 2023.

In August 2021, the Board of Directors of BCRP began the **withdrawal of monetary stimulus** after having maintained the benchmark monetary policy interest rate at its historical minimum of 0.25 percent between March 2020 and July 2021. The benchmark interest rate was raised from 0.25 percent in July to 2.5 percent in December, with increases of 50 basis points being decided in the Board meetings of September, October, November, and December. Given that the benchmark real interest rate remains at negative levels (-1.2 percent in December) after having reached a historic low of -2.5 percent in August, these decisions have implied maintaining an expansionary monetary policy stance.

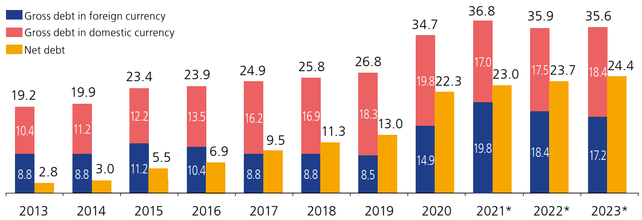
The balance of liquidity injection operations in soles decreased from S/ 58.7 billion at the end of September to S/ 56.6 billion as of December 13. This balance is equivalent to 6.7 percent of GDP, of which S/ 39.8 billion corresponds to government-secured repos of credit portfolio (Reactiva Peru program). In comparative terms, the total balance of liquidity injection operations is 7.2 times higher than the balance of these operations during the 2008-2009 international financial crisis (S/ 7.9 billion) and 1.8 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2020	2021*			2022*		2023*
		Jan.-Nov.21.	IR Sep.21	IR Dec.21.	IR Sep.21	IR Dec.21	IR Dec.21
1. General government current revenues	**17.8**	**21.1**	**20.1**	**20.8**	**20.0**	**20.6**	**20.6**
Real % change	-17.4%	40.5%	30.1%	35.7%	3.7%	2.0%	3.6%
2. General government non-financial expenditure	**24.7**	**20.7**	**22.6**	**22.4**	**21.9**	**21.8**	**21.4**
Real % change	12.8%	8.4%	5.3%	5.4%	1.3%	0.7%	1.7%
Of which:							
Current expenditure	20.2	16.3	17.8	17.5	16.7	16.8	16.5
Real % change	19.4%	2.0%	1.2%	0.6%	-1.3%	-0.7%	1.5%
Gross capital formation	3.8	3.8	4.1	4.2	4.2	4.4	4.3
Real % change	-13.2%	50.5%	25.0%	28.5%	8.2%	8.5%	2.1%
3. Other 1/	**-0.4**	**0.2**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**
4. Primary balance (1-2+3)	**-7.3**	**0.5**	**-2.4**	**-1.5**	**-1.8**	**-1.2**	**-0.7**
5. Interests	**1.6**	**1.6**	**1.5**	**1.5**	**1.6**	**1.6**	**1.6**
6. Overall Balance	**-8.9**	**-1.1**	**-4.0**	**-3.1**	**-3.4**	**-2.8**	**-2.4**

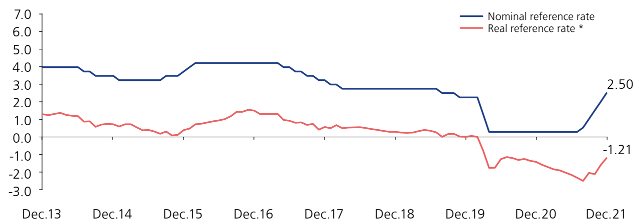
1/ Includes capital income of the general government and primary balance from state-owned companies.
* Forecast.
IR: Inflation Report.

DEBT OF THE NON-FNANCIAL PUBLIC SECTOR: 2013-2023
(% GDP)



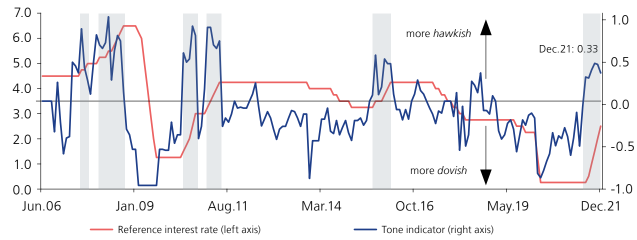
* Forecast.

REFERENCE INTEREST RATE
(%)



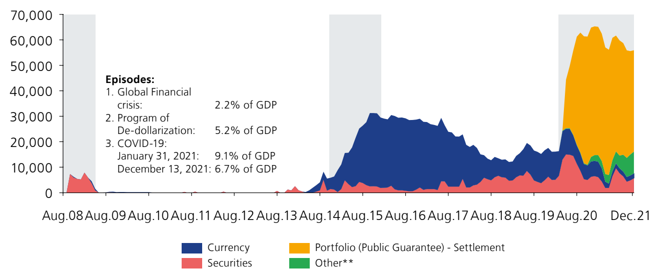
* With expectation on inflation.

REFERENCE INTEREST RATE AND MONETARY POLICY TONE INDICATOR
(% and index value)



* For the monetary policy tone indicator, the positive values of the index mean a tone in favor of a contractionary position (hawkish), while negative values imply communication with an expansive position (dovish). Shaded areas correspond to periods of rising interest rates.

BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP*
(In mill. S/)



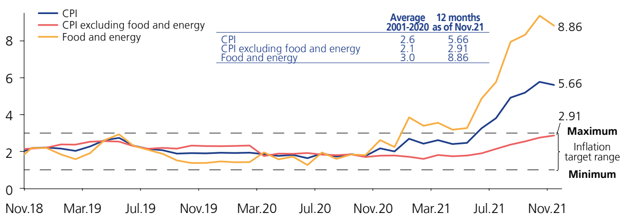
* As of December 13.
** The item "Other" includes the purchase of Public Treasury bonds, in line with article 61 of the BCRP Organic Law, and Repos operations of portfolio loans.

CREDIT TO THE PRIVATE SECTOR 1/
(Annual growth rate)

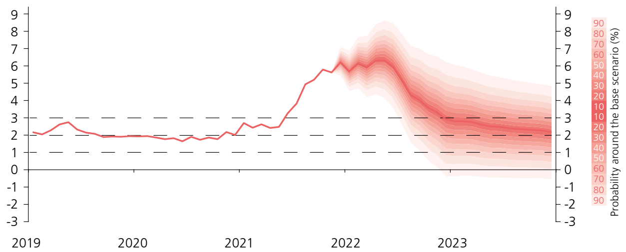
	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Jun.21	Sep.21	Oct.21
Businesses	**4.2**	**6.6**	**20.0**	**24.6**	**21.7**	**18.6**	**8.1**	**3.2**	**3.5**
Corporate and large companies	4.4	9.6	21.8	14.2	8.3	3.3	-1.8	2.6	4.9
Medium-sized enterprises, small and micro business	4.1	3.0	17.8	37.0	37.4	37.6	19.9	3.8	2.1
Individuals	**11.3**	**9.3**	**2.8**	**-1.3**	**-3.1**	**-4.5**	**-0.4**	**2.1**	**2.8**
Consumer	12.8	10.2	1.6	-4.2	-7.1	-10.6	-5.7	-2.0	-0.6
Car loans	11.9	6.9	0.9	-3.1	-2.5	-8.3	-0.4	3.1	6.1
Rest	12.9	10.3	1.7	-4.2	-7.3	-10.6	-5.9	-2.1	-0.9
Mortgage	9.0	8.0	4.6	3.1	3.2	4.8	7.5	7.8	7.6
TOTAL	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**9.5**	**5.0**	**2.8**	**3.2**

1/ Balances are valuated at constant exchange rate on December 2019.

INFLATION
(Last 12-month % change)



INFLATION FORECAST: 2021 - 2023
(Last 12-month % change)



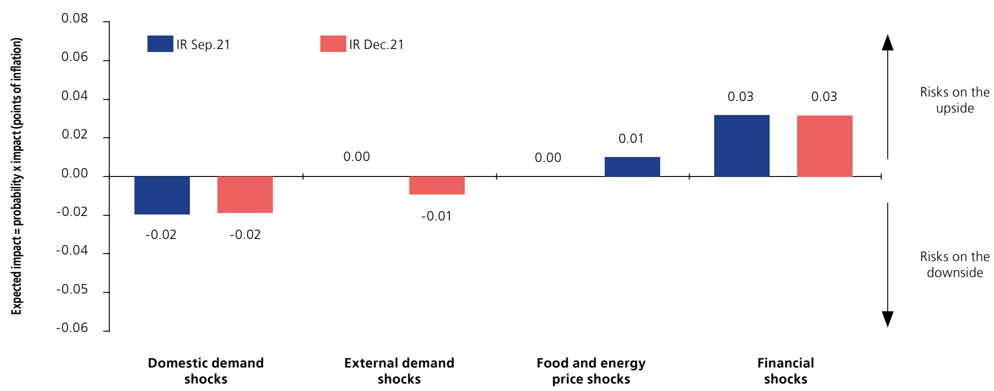
The pace of growth of **credit to the private sector** slowed from an expansion rate of 5.0 percent in June 2021 to a year-on-year rate of 3.2 percent in October 2021. After a significant increase in the credit-to-GDP ratio in 2020, private sector demand for credit in the projection horizon is expected to moderate its growth and increase at a slower pace than nominal GDP: 3.3 percent in 2021 and 3.5 percent in 2022, while in 2023, credit is expected to grow at a rate close to that of nominal GDP (5.5 percent). This would bring the ratio of credit to the private sector to GDP to 42 percent at the end of the forecast horizon.

Year-on-year **inflation** rose from 4.95 percent in August to 5.66 percent in November, driven by the higher prices of food with high imported content and fuels; as well as by the depreciation of the sol. In this context, 12-month inflation expectations rose from 3.1 percent to 3.7 percent, inflation excluding food and energy (core inflation) rose from 2.4 percent to 2.9 percent over the same time period, while trend inflation indicators rose above the target range. Year-on-year inflation is projected to return to the target range by the end of 2022 showing a clear downward trend during the second half of the year as the effects of higher fuel, food and exchange rate prices on inflation fade. This projection considers that inflation expectations would gradually decrease towards the target range, in a context of a gradual closing of the output gap and the withdrawal of monetary stimulus.

Balance of risks

The balance of **inflation risk factors** remains skewed to the upside. The risks in the projection consider mainly the following contingencies: (i) a lower level of local activity if business and consumer confidence do not recover; (ii) upward pressures on the exchange rate due to episodes of capital outflows in emerging economies or delay in the normalization of recent volatility in local financial markets; and (iii) persistently high international fuel and food prices due to continued supply problems, coupled with weather factors.

BALANCE OF RISKS AGAINST THE BASE SCENARIO



SUMMARY OF INFLATION REPORT FORECAST

	2020	2021[1/]		2022[1/]		2023[1/]
		IR Sep.21	IR Dec.21	IR Sep.21	IR Dec.21	IR Dec.21
Real % change						
1. Gross Domestic Product	-11.0	11.9	13.2	3.4	3.4	3.2
2. Domestic demand	-9.4	12.5	13.9	3.0	3.0	3.0
a. Private consumption	-9.8	9.2	11.2	4.0	4.0	3.5
b. Public consumption	7.6	9.0	10.9	1.5	1.5	2.0
c. Fixed private investment	-16.5	24.5	36.0	0.0	0.0	2.0
d. Public investment	-15.5	20.0	21.9	4.5	4.5	1.6
3. Exports (good and services)	-21.0	11.9	13.3	6.4	7.5	7.6
4. Imports (good and services)	-15.6	14.5	16.3	4.9	5.6	6.7
5. Global economic growth	-3.3	5.8	5.7	4.4	4.3	3.4
Memo:						
Output gap [2/] (%)	-13.3	-9.0 ; -2.0	-5.5 ; -0.5	-6.0 ; 0.0	-5.5 ; 0.5	-5.0 ; 1.0
% change						
6. Inflation	2.0	4.9	6.2	2.6	2.9	2.1
7. Expected inflation [3/]	1.5	3.7	5.8	2.8	3.5	2.9
8. Expected depreciation [3/]	7.4	13.7	12.3	0.6	2.7	1.6
9. Terms of trade	9.4	11.7	11.1	3.3	-1.5	-0.7
a. Export prices	3.9	27.2	29.0	0.9	2.1	-0.6
b. Import prices	-5.0	13.9	16.1	-2.4	3.6	0.0
Nominal % change						
10. Currency in circulation	37.3	12.5	12.5	3.0	3.0	1.5
11. Credit to the private sector	11.8	3.0	3.3	3.0	3.5	5.5
% GDP						
12. Gross fixed investment	21.1	23.2	25.0	22.3	24.3	24.0
13. Current account of the balance of payments	0.6	-1.7	-1.9	0.2	-1.3	-0.8
14. Trade balance	3.9	6.8	6.5	7.5	6.6	6.4
15. Long-term external financing of the private sector [4/]	-0.5	2.7	5.5	-0.8	0.1	0.2
16. Current revenue of the general government	17.8	20.1	20.8	20.0	20.6	20.6
17. Non-financial expenditure of the general government	24.7	22.6	22.4	21.9	21.8	21.4
18. Overall balance of the non-financial public sector	-8.9	-4.0	-3.1	-3.4	-2.8	-2.4
19. Balance of total public debt	34.7	34.9	36.8	34.7	35.9	35.6
20. Balance of net public debt	22.3	24.3	23.0	25.4	23.7	24.4

IR: Inflation Report
1/ Forecast.
2/ Differential between GDP and trend GDP (in % of trend GDP).
3/ Survey on expectations to the analysts and financial entities carried out at the time of publication of the respective Inflation Report. Data observed in the case of depreciation for 2020, and the average of expectations throughout year in case of inflation has been considered.
4/ Includes net direct investment, foreign assets investment from residents (AFP), foreign net portfolio investment, and private sector's long term disbursement.