Inflation Report

June 2021

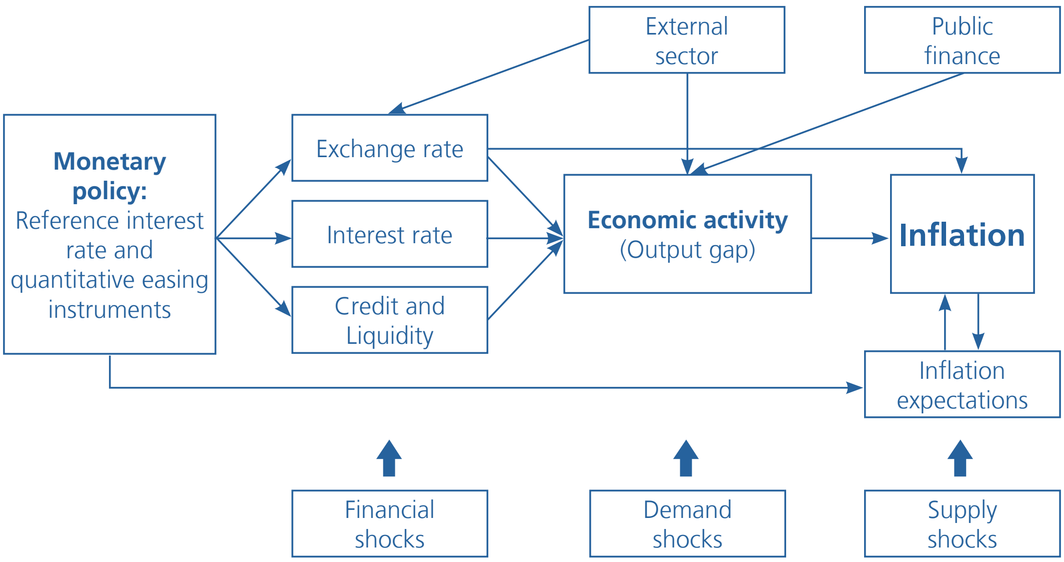
Recent trends and macroeconomic forecasts 2021-2022

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2021 - 2022

June 2021



Central Reserve Bank of Peru
441-445 Santa Rosa. Lima 1
Telephone: 613-2000 - Fax: 613-2525
Mail: webmaster@bcrp.gob.pe

INFLATION REPORT
Recent trends and macroeconomic forecasts

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT:

Recent Trends and Macroeconomic Forecasts 2021 - 2022

June 2021

CONTENT

Page

BOXES

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

Foreword

- According to the Constitution of Peru, the Central Reserve Bank of Peru (BCRP) is a public autonomous entity whose role is to preserve monetary stability. Its main functions are regulating the money supply and credit in the financial system, managing the country's international reserves, and reporting on the nation's finances.

- In order to consolidate this goal, the Bank's monetary policy is based on an inflation targeting scheme, with an inflation target between 1 and 3 percent. The Central Bank's inflation target is aimed at anchoring inflation expectations at a similar level to the inflation rate observed in developed economies and reflects the BCRP's permanent commitment with monetary stability.

- Since 2003, the Board of BCRP sets a benchmark rate for the interbank lending market each month, according to a previously announced schedule. In March and April of 2020, the benchmark rate was modified outside of this schedule due to the economic contraction generated by the confinement measures taken because of the COVID-19 pandemic. Since this interest rate, which is the monetary operational target, affects the rate of inflation through several channels with time lags, this rate is set on the basis of forecasts of inflation and inflation determinants.

- Inflation may transitorily deviate from the target range due to shocks that may temporarily affect the supply of goods and services. It should be pointed out that the effectiveness of monetary policy is also assessed in terms of the success in maintaining inflation expectations within the target range and in returning them to this range within a reasonable timeframe if deviations are observed as a result of some economic shock.

- Additionally, the Central Bank implements preventive actions to preserve financial stability and monetary policy transmission mechanisms. Thus, the mechanism of the benchmark interest rate is complemented through other instruments such as injection and sterilization operations, reserve requirements, and interventions in the foreign exchange market to ensure the proper operation of markets, reduce excessive volatility in the exchange rate, and prevent excessive variations in the volume and composition of credit in the financial system by currencies and terms.

- In the exceptional case of the economic crisis caused by COVID-19, the benchmark rate is close to zero and the use of repo operations with different types of collateral and at longer terms has been significantly expanded.

- This Report includes the macroeconomic projections that support the monetary policy decisions of BCRP as well as an analysis of the risk factors that can modify such projections.

- This Inflation Report was approved by the Board of Directors of BCRP on June 10, 2021.

- The following Inflation Report will be published on Friday, September 17, 2021.

Summary

i. **Global economic activity** has evolved better than expected in recent months, boosting an optimistic growth outlook for the second half of 2021. These positive expectations have been reinforced by the rapid progress of the vaccination process in developed economies, increased fiscal stimulus in the United States, and excess private savings generated during the pandemic. The projection of global growth is therefore revised up from 5.8 to 5.9 percent for 2021 and from 4.0 to 4.2 percent for 2022.

ii. The **terms of trade** increased by 17.3 percent in the first quarter of 2021, driven by the strong increase in copper prices following the progress of the global vaccination process and the recovery of the world economy. Because of this, the growth of terms of trade projected for 2021 in this report (13 percent) is expected to be higher than the rate estimated in the previous Report (6.4 percent). Moreover, the terms of trade would continue to grow in 2022, showing an expansion rate of 2.8 percent (2.2 percent in the previous Report).

iii. The **current account** of the balance of payments recorded a deficit of US$ 1,674 million in the first quarter of 2021, this deficit being associated with higher imports and a larger deficit in services. The current account projection for 2021 is revised up from zero to a surplus of 0.2 percent of GDP, reflecting the higher increase in the terms of trade and the favorable evolution of non-traditional exports so far this year. In 2022, the current account would register a surplus of 1.8 percent of GDP considering a continued positive impact of the terms of trade on the value of exports.

iv. **Economic activity** registered a year-on-year growth rate of 3.8 percent in the first quarter of 2021, a higher than expected result. However, the pace of recovery moderated with respect to the previous quarter due to the implementation of a targeted quarantine in February. The projection for the 2021-2022 horizon assumes a massive vaccination process in the second half of this year, a context of political and social stability, a favorable environment for business development and the creation of productive employment, the maintenance of monetary and fiscal impulses, the recovery of external demand, and the maintenance of highly favorable terms of trade. The projection also assumes that there will be no new waves of high-impact COVID-19 infections.

Under these conditions, the economy would continue to recover over the projection horizon, with growth of 4.5 percent in 2022, associated with the normalization of spending habits and the recovery of the services sector following the immunization of the population, which would boost employment and domestic demand. As a result, economic activity would return to pre-pandemic levels in the first half of 2022.

v. The **fiscal deficit,** which decreased from 8.9 to 6.7 percent between February and May 2021, is likely to continue declining in the rest of the year and reach 4.5 percent of GDP in 2021, as a result of the recovery of current revenues associated mainly with higher export prices and the recovery of activity. On the other hand, non-financial expenditure would slow its growth rate due to lower spending because of the COVID-19 health crisis, although it would still be higher than projected in the March report. In 2022, the fiscal deficit would continue to decline and would reach 3.1 percent of GDP.

The **gross debt of the non-financial public sector** would represent 34.4 percent of GDP in 2021 and maintain the same level in 2022, while the net debt would increase to 24.3 percent of output in 2021 and reach 25.4 percent in 2022. The projected trajectory of gross debt is opposite to that of the net debt, which would be explained by the use of non-financial public sector deposits.

vi. BCRP has maintained a **benchmark interest rate** of 0.25 percent since April 2020, which in June 2021 is equivalent to a negative real rate of 2.18 percent. Both the nominal and the real rates are at their historical lows. Given the magnitude of the shock associated with the pandemic, the monetary impulse has been amplified through other monetary policy instruments.

The balance of liquidity injection operations in local currency decreased from S/ 64.1 billion at the end of February to S/ 60.4 billion on June 16. Of this balance of liquidity injection operations equivalent to 8.2 percent of GDP as of June 16, 2021, S/ 48.4 billion corresponds to the amount liquidated from repos of the government-guaranteed credit portfolio (Reactiva Peru program). In comparative terms, this total balance resulting from liquidity injection operations is 7.6 times higher than the maximum balance reached during the 2008-2009 international financial crisis (S/ 7.9 billion) and 1.9 times the balance recorded during the 2013-2016 commodity price slump period and the de-dollarization program (S/ 31.8 billion).

vii. In line with the expansionary monetary stance, **credit to the private sector** had a clearly countercyclical behavior, counterbalancing the negative effects of the pandemic on economic activity and thereby facilitating its recovery. Thus, the year-on-year growth rate of credit accelerated from 6.9 percent in 2019 to 9.3 percent in April 2021, driven mainly by the loans associated with the Reactiva Peru program granted between May and December of last year. Taking into account the significant expansion of credit in 2020 and the beginning of the amortization of the loans granted under the Reactiva program, a more subdued credit growth of 3.0 percent is projected in 2021 and 2022. With this, the ratio of credit to the private sector relative to GDP would register 43 percent at the end of the forecast horizon.

viii. Year-on-year **inflation** increased from 2.40 percent in February to 2.45 percent in May, driven by the depreciation of the PEN, higher fuel prices, and the higher prices of food products with high imported contents. In this context, 12-month inflation expectations rose from 2.11 percent to 2.43 percent in the same period. Trend inflation indicators remain in the lower part of the target range. Inflation in 2021 would register 3.0 percent due to temporary supply effects (increase in fuel prices and some food goods, as well as in the foreign exchange rate) and would then remain within the target range during 2022. This projection considers that inflation expectations will gradually decline towards the middle of the target range (2.0 percent), in a context in which the output gap will gradually close as the aggregate economy continues to recover.

ix. The balance of **inflation risk factors** in this report is neutral, but the variance of the inflation projection is high. The risks in the projection consider mainly the following contingencies: (i) a slower level of local activity if private spending decelerates due to lower consumer and business confidence or due to a significant new wave of COVID-19 infections, and (ii) upward pressures on the exchange rate due to higher international interest rates associated with higher external inflation or a delay in the normalization of the recent volatility observed in local financial markets. A positive scenario likely to materialize is the progress in the vaccination process in the world and its favorable impact on the economies of Peru's trading partners.

SUMMARY OF INFLATION REPORT FORECAST

	2019	2020	2021[1/]		2022[1/]	
			IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
Real % change						
1. Gross Domestic Product	2.2	-11.1	10.7	10.7	4.5	4.5
2. Domestic demand	2.3	-9.7	9.6	10.3	4.6	4.0
a. Private consumption	3.0	-8.7	8.5	8.5	4.8	4.8
b. Public consumption	2.2	7.4	3.5	7.0	3.0	1.0
c. Fixed private investment	4.5	-16.6	15.5	15.5	4.5	2.5
d. Public investment	-1.5	-15.5	15.0	19.0	4.5	4.5
3. Exports (good and services)	0.7	-20.1	13.9	13.5	6.5	6.4
4. Imports (good and services)	1.2	-15.7	9.2	11.8	7.3	4.4
5. Global economic growth	2.8	-3.3	5.8	5.9	4.0	4.2
Memo:						
Output gap 2/ (%)	-0.6	-13.6	-11.0;-2.0	-11.0;-2.0	-9.0;0.0	-9.0;0.0
% change						
6. Inflation	1.9	2.0	2.0	3.0	1.6	2.0
7. Expected inflation [3/]	2.3	1.5	2.1	2.5	2.2	2.3
8. Expected depreciation [3/]	-0.3	7.4	-2.1	-0.2	-1.4	0.3
9. Terms of trade	-1.8	8.2	6.4	13.0	2.2	2.8
a. Export prices	-3.4	2.7	17.8	26.3	0.5	1.0
b. Import prices	-1.7	-5.1	10.7	11.8	-1.7	-1.7
Nominal % change						
10. Currency in circulation	4.7	37.3	10.0	10.0	3.0	3.0
11. Credit to the private sector	6.9	11.8	3.0	3.0	3.0	3.0
% GDP						
12. Gross fixed investment	22.7	21.1	21.8	21.8	21.7	21.2
13. Current account of the balance of payments	-1.2	0.7	0.0	0.2	0.1	1.8
14. Trade balance	2.9	3.8	6.4	7.4	6.3	8.0
15. Long-term external financing of the private sector [4/]	1.9	-0.7	-1.3	0.7	-0.4	-1.4
16. Current revenue of the general government	19.7	17.9	19.0	19.3	19.9	20.1
17. Non-financial expenditure of the general government	20.0	24.8	21.8	22.3	21.1	21.7
18. Overall balance of the non-financial public sector	-1.6	-8.9	-4.4	-4.5	-2.8	-3.1
19. Balance of total public debt	26.8	34.8	34.4	34.4	34.3	34.4
20. Balance of net public debt	13.0	22.4	24.1	24.3	25.3	25.4

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 2019 and 2020, and the average of expectations throughout year in case of inflation have been considered.
4/ Includes net direct investment, portfolio investment and private sector's long term disbursement.

I. External Sector

1. Growth projections for the world economy have continued to be revised up, this time from 5.8 to 5.9 percent for 2021 and from 4.0 to 4.2 percent for 2022. This upward revision is explained mainly by the evolution of economic indicators in April and May, which reflect the lifting of mobility restrictions and expectations of higher growth in the second half of the year due to greater fiscal stimulus in the United States and the progress made in the vaccination process in the main developed economies, among other factors.

    These factors have had a positive influence on commodity markets. However, the increase in inflation –associated in part with the recovery of economic activity– and inflationary expectations has generated episodes of correction in financial markets due to the possibility that the U.S. Federal Reserve (Fed) will begin the gradual withdrawal of monetary stimuli earlier than expected.

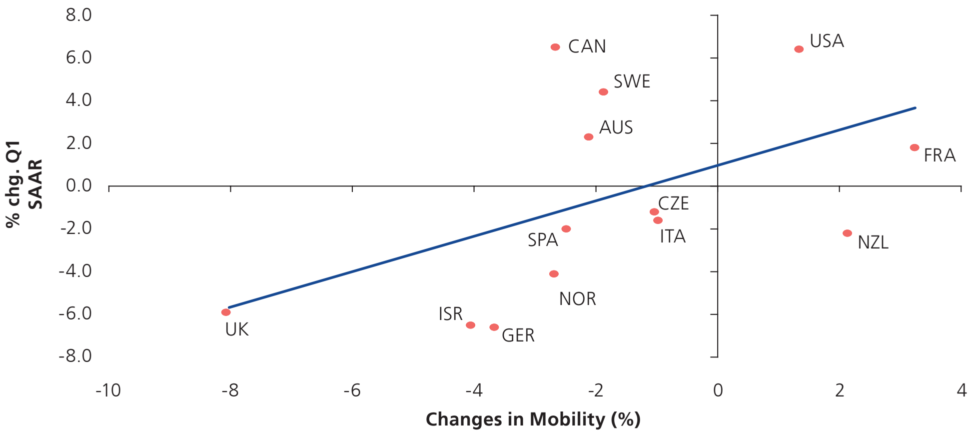
Recent developments in global economic activity

2. After overcoming the impact of social immobility restrictions in the first quarter, global activity indicators showed a significant recovery in April and May.

    In the first quarter of 2021, economic activity continued to be affected by the measures adopted in response to the increase in COVID-19 infections, especially in some European countries, Japan and Latin America.

    In the **developed economies**, these mobility restrictions accentuated the economic slowdown observed in the fourth quarter of 2020, particularly in Germany, the United Kingdom, and Japan, which recorded a contraction in the level of activity In the first quarter of 2021.

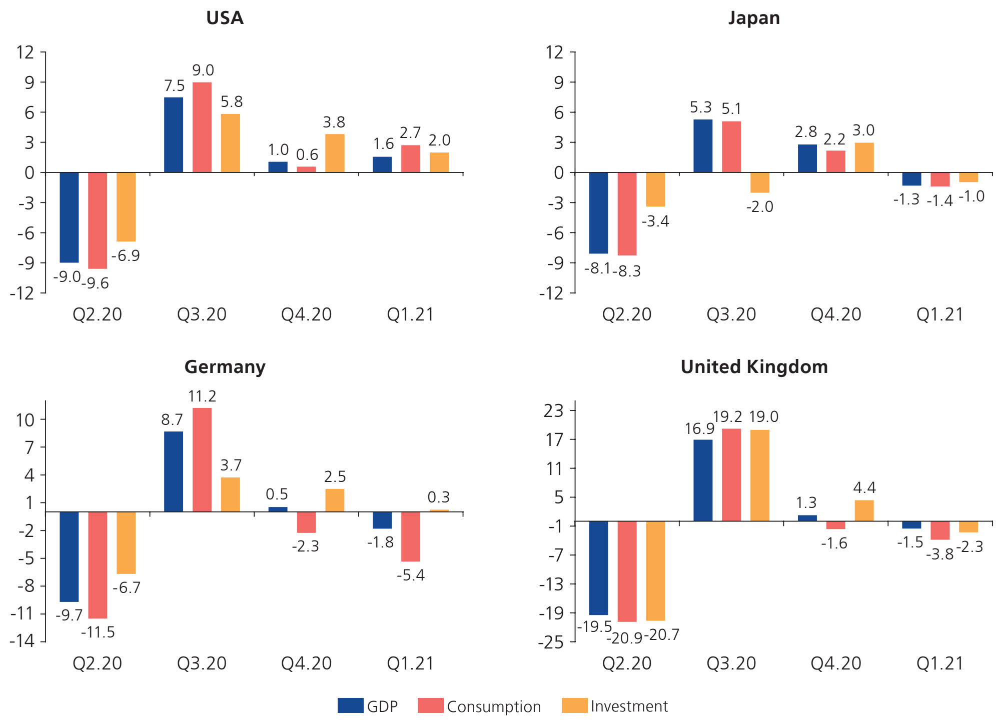
Graph 1
DEVELOPED ECONOMIES: MOBILITY VS GROWTH IN Q12021
(%)



Source: Google Mobility, JP Morgan and statistical institutes of each country.

At the sector level, the impact on the services sector in countries where mobility restrictions were greater during most of the first quarter is noteworthy. In terms of expenditure components, the fall in consumption stands out, particularly in the case of Germany.

Graph 2
DEVELOPED ECONOMIES: SPENDING INDICATORS
(Quarterly % change*)



* Corresponds to the change of the quarter against the previous quarter, without annualization.
Source: OCDE.

On the other hand, the United States recorded an annualized rate of change of 6.4 percent in the first quarter, a higher rate than in the previous quarter (4.3 percent). Activity in the sector of real estate and the consumption of durable goods have been supported by low interest rates. With this expansion, gross output in the first quarter registers a level similar to that observed prior to the pandemic.

Table 1
USA: GROWTH RATES
(Annualized seasonally adjusted % change)

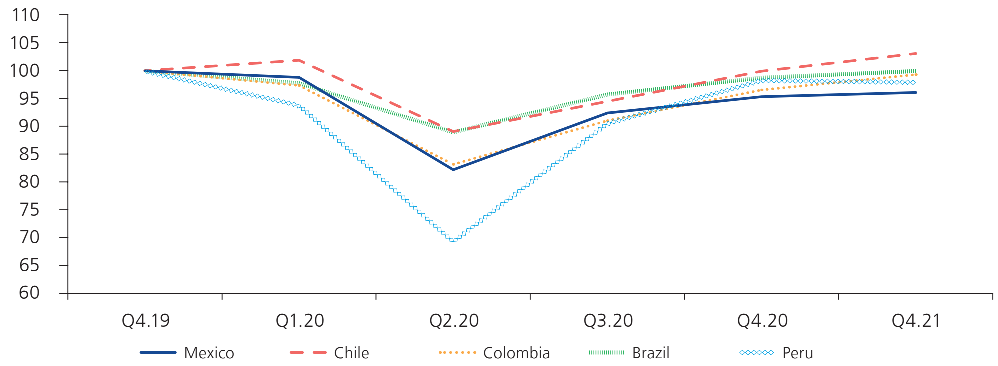
	Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21 1st rev.	Q1.21 2nd rev.
GDP	**2.9**	**1.5**	**2.6**	**2.4**	**-5.0**	**-31.4**	**33.4**	**4.3**	**6.4**	**6.4**
Personal consumption	1.8	3.7	2.7	1.6	-6.9	-33.2	41.0	2.3	10.7	11.3
Durable	1.0	12.7	6.3	3.1	-12.5	-1.7	82.7	-1.1	41.4	48.6
Non-Durable	3.3	5.3	3.1	-0.7	7.1	-15.0	31.1	-1.6	14.4	14.0
Services	1.5	1.9	2.0	2.0	-9.8	-41.8	38.0	4.3	4.6	4.6
Gross Investment	3.9	-5.8	1.8	-3.7	-9.0	-46.6	86.3	27.8	-5.0	-4.7
Fixed Investment	2.9	-0.4	2.4	1.0	-1.4	-29.2	31.3	18.6	10.1	11.3
Non-Residencial	4.2	0.0	1.9	-0.3	-6.7	-27.2	22.9	13.1	9.9	10.8
Residencial	-1.7	-2.1	4.6	5.8	19.0	-35.6	63.0	36.6	10.8	12.7
Exports	1.8	-4.5	0.8	3.4	-9.5	-64.4	59.6	22.3	-1.1	-2.9
Imports	-2.1	1.7	0.5	-7.5	-15.0	-54.1	93.1	29.8	5.7	6.7
Government expenditure	2.5	5.0	2.1	2.4	1.3	2.5	-4.8	-0.8	6.3	5.8
Memo										
Contribution on inventories	0.2	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	1.4	-2.6	-2.8

Source: Bureau of Economic Analysis (BEA).

Among the emerging economies, **China** recorded a reduction in its growth rate due, among other factors, to lower external demand from developed economies. This slowdown was reflected in lower growth in the production of computers, electronic equipment, machinery, and textiles. On the other hand, following the easing of restrictions imposed by the pandemic, India recorded a significant recovery in the first quarter of the year: all components of domestic demand, both public and private, expanded. However, towards the end of March, social distancing measures were resumed in the country's largest cities after a significant increase in COVID-19 cases.

In **Latin America**, most economies were affected during the first quarter of the year by the restrictions introduced following the resurgence of COVID-19 infections and by idiosyncratic shocks, mostly of a political nature. These factors offset the impact of expansionary fiscal and monetary policies and favorable external conditions (reflected in higher commodity prices). All of the region's major economies registered lower growth rates the first quarter of 2021 than in the preceding period.

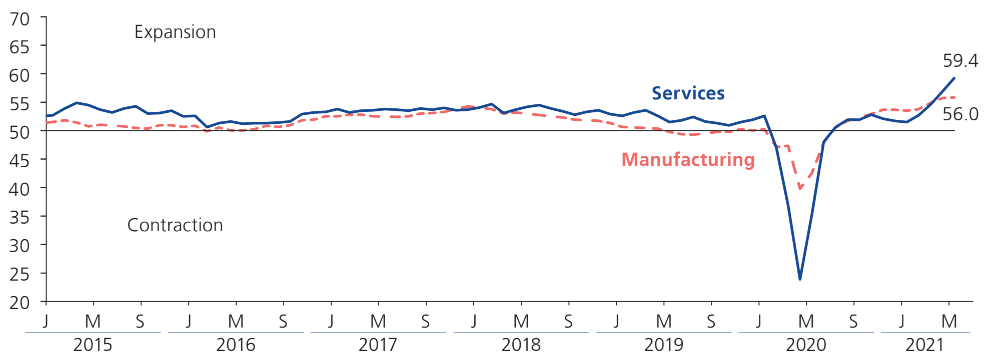
Graph 3
LATIN AMERICA: QUARTERLY GDP*
(Index 100 = Q4.19)



* Seasonally adjusted series.
Source: Statistical institutes and central banks.

3. **So far in the second quarter, activity has shown a greater and more uniform pace of recovery in the major economies.** Monthly frequency indicators show that manufacturing and services had a significant increase at the global level in March, April, and May. This indicator includes both production-related items (new orders, production, employment, exports) and indicators related to prices and input costs, the latter two showing above-average levels. Moreover, companies in several countries have reported delays in the supply of inputs and problems in the supply chain.

Graph 4
PMI GLOBAL MANUFACTURING AND SERVICES
Dissemination Index

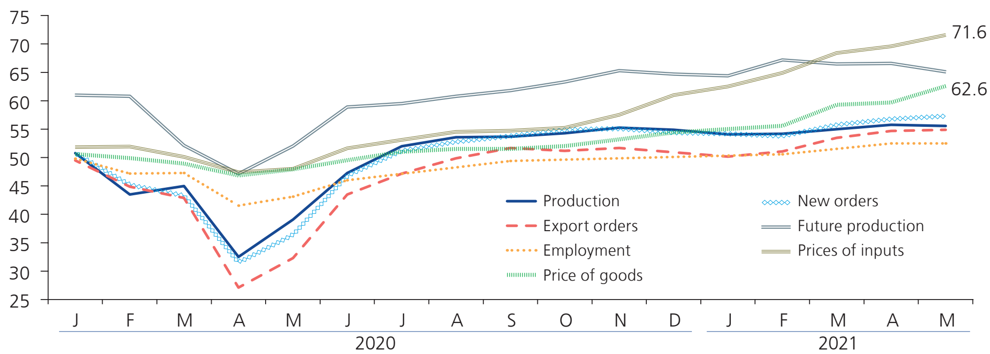


Source: JP Morgan.

At the level of the main countries and regions, manufacturing indices reached record levels in the United States and the Eurozone, recovering from the declines of the first months of the year and showing higher levels than those observed in December 2020.

The exception to this upward trend is India, where the mobility restrictions introduced at the end of March after the increase observed in COVID-19 infections have continued to be in effect during the second quarter of the year.

Graph 5
MANUFACTURING PMI COMPONENTS, 2020-2021
Dissemination Index



Source: JP Morgan.

Table 2
GLOBAL ACTIVITY INDEX (JP MORGAN)

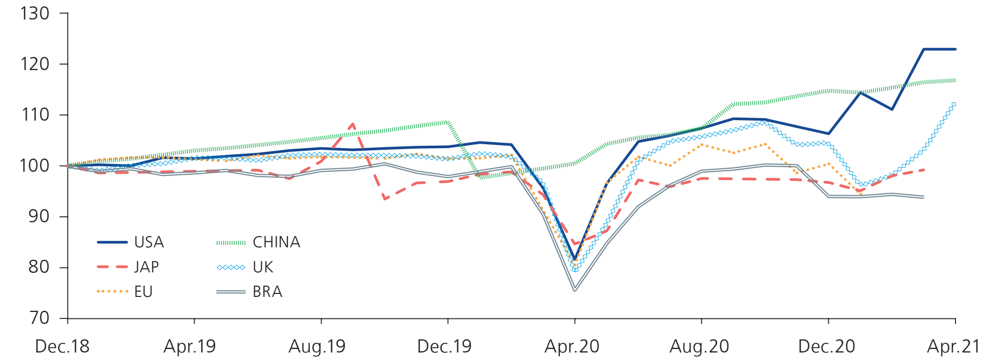
I. Services	**Mar.20**	**Jun.20**	**Sep.20**	**Dec.20**	**Jan.21**	**Feb.21**	**Mar.21**	**Apr.21**	**May.21**
Global	36.8	48.1	52.0	51.8	51.6	52.8	54.7	57.0	59.4
USA (ISM)	52.5	57.1	57.8	57.7	58.7	55.3	63.7	62.7	64.0
China (official)	52.3	54.4	55.9	55.7	52.4	51.4	56.3	54.9	55.2
Eurozone	26.4	48.3	48.0	46.4	45.4	45.7	49.6	50.5	55.2
United Kingdom	34.5	47.1	56.1	49.4	39.5	49.5	56.3	61.0	62.9
Japan	33.8	45.0	46.9	47.7	46.1	46.3	48.3	49.5	46.5
India	49.3	33.7	49.8	52.3	52.8	55.3	54.6	54.0	46.4

II. Manufacturing	**Mar.20**	**Jun.20**	**Sep.20**	**Dec.20**	**Jan.21**	**Feb.21**	**Mar.21**	**Apr.21**	**May.21**
Global	47.3	47.9	52.4	53.8	53.6	53.9	55.0	55.9	56.0
USA (ISM)	49.1	52.6	55.4	60.5	58.7	60.8	64.7	60.7	61.2
China (oficial)	52.0	50.9	51.5	51.9	51.3	50.6	51.9	51.1	51.0
Eurozone	44.5	47.4	53.7	55.2	54.8	57.9	62.5	62.9	63.1
United Kingdom	47.8	50.1	54.1	57.5	54.1	55.1	58.9	60.9	65.6
Japan	44.8	40.1	47.7	50.0	49.8	51.4	52.7	53.6	53.0
India	51.8	47.2	56.8	56.4	57.7	57.5	55.4	55.5	50.8

Source: JP Morgan.

In the same vein, retail sales evolved in a positive way in April. It is worth pointing out that this indicator showed a 9.2 percent increase in the United Kingdom, which was the third highest rate and whose level, as in the case of the United States and China, was above that observed prior to the pandemic (February 2020).

Graph 6
RETAIL SALES
(Index, December 2018 = 100)

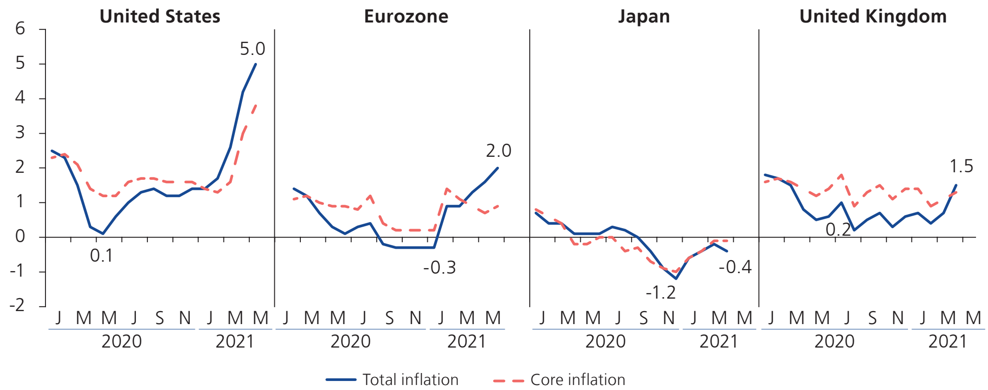


Source: Investing and Trading Economics.

4. **This higher growth has been accompanied by an increase in inflationary pressures in most developed and emerging economies**.

Upward pressures on inflation in developed countries reflect the expansion of domestic demand associated with economic reopening, the low level of prices during the initial months of the pandemic, higher commodity prices, and some supply constraints (due to supply shortages in some sectors). In the United States, inflation has reached its highest levels since September 2008 and the price increase in the Eurozone has been the highest in 24 months. On the other hand, core inflation rates in most of these economies are lower than total inflation.

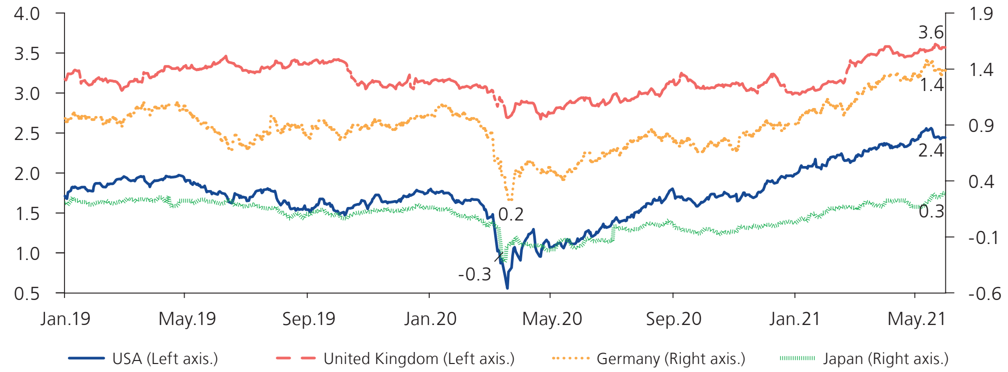
Graph 7
INFLATION IN DEVELOPED ECONOMIES 2020-2021
(%)



Source: Trading Economics.

Similarly, inflation expectations have continued to rise in recent months. In the United States, breakeven inflation, which compares the evolution of nominal yields with yields indexed to inflation, rose from 2.60 percent in March to 2.67 percent in May for a 5-year horizon and from 2.37 to 2.50 percent for a 10-year horizon. A moderate upward trend has also been observed in the Eurozone, the United Kingdom, and Japan.

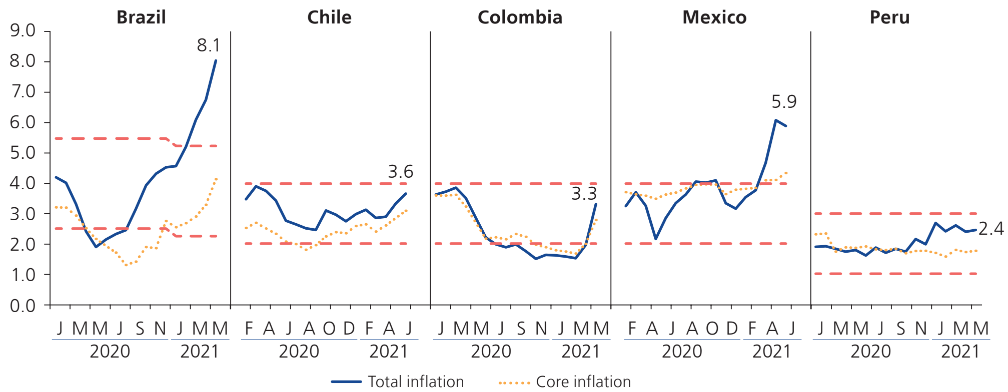
Graph 8
BREAKEVEN INFLATION (10 YEARS)



Source: Reuters.

In the emerging economies, inflationary pressures have also increased in most countries. In Latin America, this has been particularly noteworthy in the cases of Brazil and Mexico, where this variable has shown levels above the target range. A significant part of the upward pressures have come from the increase in food and energy prices, influenced by the upward trend registered in international prices. In line with this, core inflation –which excludes these items– shows a lower rate than total inflation in these economies.

Graph 9
INFLATION IN LATIN AMERICA 2020-2021
(%)



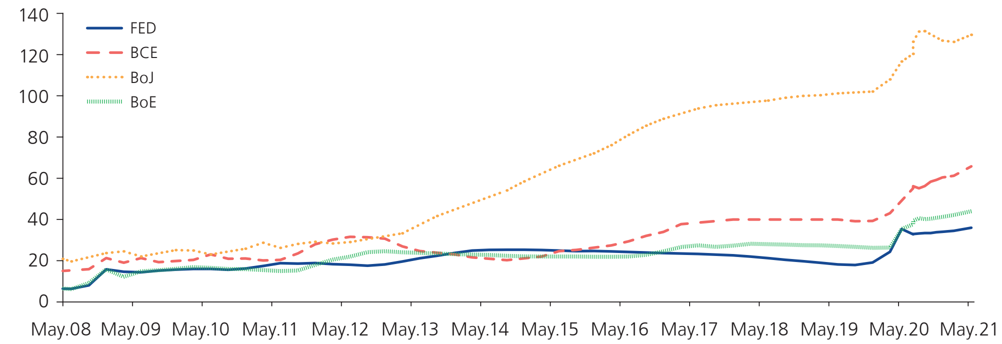
Source: Trading Economics.

5. Inflationary pressures and upward inflation expectations have not been reflected in a change in the monetary policy stance of the main developed economies.

Since the last Inflation Report, the central banks of the main developed economies have reiterated that they will maintain expansionary monetary policies, both in terms of interest rates and in terms of asset purchase programs. The exception was Iceland, which raised its interest rate from a historic low of 0.75 percent to 1.0 percent.

In the United States, the Fed has indicated that, despite the improvement in economic activity and the upward pressures on prices, it has not considered a reduction in the asset purchase program (currently at US$ 120 billion per month). However, at the June 15-16 meeting, the Fed left open the possibility of evaluating the program in future meetings according to the development of the economy.

Graph 10
CENTRAL BANKS: TOTAL ASSETS
(% GDP)



Source: Central Banks.

Table 3
FED PROJECTIONS*

	2021		2022		2023		Long-term	
	Mar.21	Jun.21	Mar.21	Jun.21	Mar.21	Jun.21	Mar.21	Jun.21
Growth	6.5	7.0	3.3	3.3	2.2	2.4	1.8	1.8
Unemployment rate	4.5	4.5	3.9	3.8	3.5	3.5	4.0	4.0
Inflation (PCE)	2.4	3.4	2.0	2.1	2.1	2.2	2.0	2.0
Core Inflation (core PCE)	2.2	3.0	2.0	2.1	2.1	2.1	-	-
Memo: Core PCE excluding food and energy.								
Interest rate (%)	0.1	0.1	0.1	0.1	0.1	0.6	2.5	2.5
Range of interest rate (%)	0.1	0.1	0.1-0.6	0.1-0.6	0.1-1.1	0.1-1.6	2.0-3.0	2.0-3.0

* Adds 18 data from individual Fed member projections at the end-of-period.
Source: Fed.

Similarly, most central banks in emerging economies have maintained their interest rates. Only in the cases of Brazil, Russia, and Ukraine has there been an increase in rates from the minimum levels reached during 2020. Inflation has risen steadily to above the target in the first two countries and above the midpoint of the range and close to the upper limit in the case of Ukraine. It should be pointed out that, with the exception of Turkey, the rate levels are lower than those observed prior to the pandemic.

Table 4
MONETARY POLICY INTEREST RATES
(%)

	Interest rates				Change respect to:		
	Dec.19	Dec.20	Mar.21	May.21*	Mar.21	Dec.20	Dec.19
Ukraine	13.50	6.00	6.50	7.50	100	150	-600
Brazil	4.50	2.00	2.75	3.50	75	150	-100
Russia	6.25	4.25	4.50	5.00	50	75	-125
Iceland	3.00	0.75	0.75	1.00	25	25	-200
Turkey	12.00	17.00	19.00	19.00	0	200	700
Serbia	2.25	1.00	1.00	1.00	0	0	-125
Pakistan	13.25	7.00	7.00	7.00	0	0	-625
South Africa	6.50	3.50	3.50	3.50	0	0	-300
Colombia	4.25	1.75	1.75	1.75	0	0	-250
Peru	2.25	0.25	0.25	0.25	0	0	-200
Philippines	4.00	2.00	2.00	2.00	0	0	-200
Czech Republic	2.00	0.25	0.25	0.25	0	0	-175
Canada	1.75	0.25	0.25	0.25	0	0	-150
Norway	1.50	0.00	0.00	0.00	0	0	-150
United States	1.75	0.25	0.25	0.25	0	0	-150
Poland	1.50	0.10	0.10	0.10	0	0	-140
Chile	1.75	0.50	0.50	0.50	0	0	-125
Malaysia	3.00	1.75	1.75	1.75	0	0	-125
India	5.15	4.00	4.00	4.00	0	0	-115
South Korea	1.25	0.50	0.50	0.50	0	0	-75
Thailand	1.25	0.50	0.50	0.50	0	0	-75
New Zealand	1.00	0.25	0.25	0.25	0	0	-75
United Kingdom	0.75	0.10	0.10	0.10	0	0	-65
Australia	0.75	0.10	0.10	0.10	0	0	-65
China	4.15	3.85	3.85	3.85	0	0	-30
Mexico	7.25	4.25	4.00	4.00	0	-25	-325
Indonesia	5.00	3.75	3.50	3.50	0	-25	-150
Romania	2.50	1.50	1.25	1.25	0	-25	-125
Hungary	0.90	0.60	0.60	0.60	0	0	-30
Taiwan	1.38	1.13	1.13	1.13	0	0	-25
Israel	0.25	0.10	0.10	0.10	0	0	-15
Eurozone	0.00	0.00	0.00	0.00	0	0	0
Japan	-0.10	-0.10	-0.10	-0.10	0	0	0
Sweden	0.00	0.00	0.00	0.00	0	0	0
Switzerland	-0.75	-0.75	-0.75	-0.75	0	0	0

Source: Central Banks and Reuters.

6. As for fiscal policy, some developed economies have been implementing measures that imply a greater stimulus than that expected in the March Inflation Report.

As discussed in the previous Inflation Report, high fiscal deficits are expected to persist during 2021, mainly because of the extensions of the tax and spending measures implemented as a result of the pandemic. In terms of countries and regions, the fiscal deficits are expected to be higher than estimated in March, particularly in the United States and in some Eurozone economies. In the United States, in addition to the package of measures approved in March, the government has announced an infrastructure program that would be financed in part with an increase in taxes on profits and wealth, in addition to a program to support families. At the time of writing this report, both projects were being discussed in the U.S. Congress.

In the Eurozone, progress has been made in the implementation and execution of the resources considered in the Recovery and Resilience Plan approved in July 2020, which would grant loans and subsidies for a total of 750 billion euros. The consent of the countries authorizing the European Commission to issue joint debt to finance the plan was completed with the approval of the plan by the Austrian and Polish parliaments. On the other hand, member countries submitted their multi-year budgetary plans to the European Commission: of particular note is the package of fiscal measures announced by Italy, which would have an additional impact of approximately 2 percentage points of GDP in 2021 with respect to what was considered in the March Report.

Global economic outlook

7. Global growth in 2021 and 2022 is estimated to be slightly higher than forecast in the March Inflation Report, with growth rates of 5.9 percent in 2021 and 4.2 percent in 2022.

This upward revision is supported not only by the better-than-expected evolution of activity in recent months, but also by the better outlook for growth from the second half of this year. This outlook has been reinforced by the rapid progress in the vaccination process in developed economies, greater fiscal stimulus in the United States, and the excess private savings generated during the pandemic, which, in a context of less uncertainty, is likely to be allocated to spending.

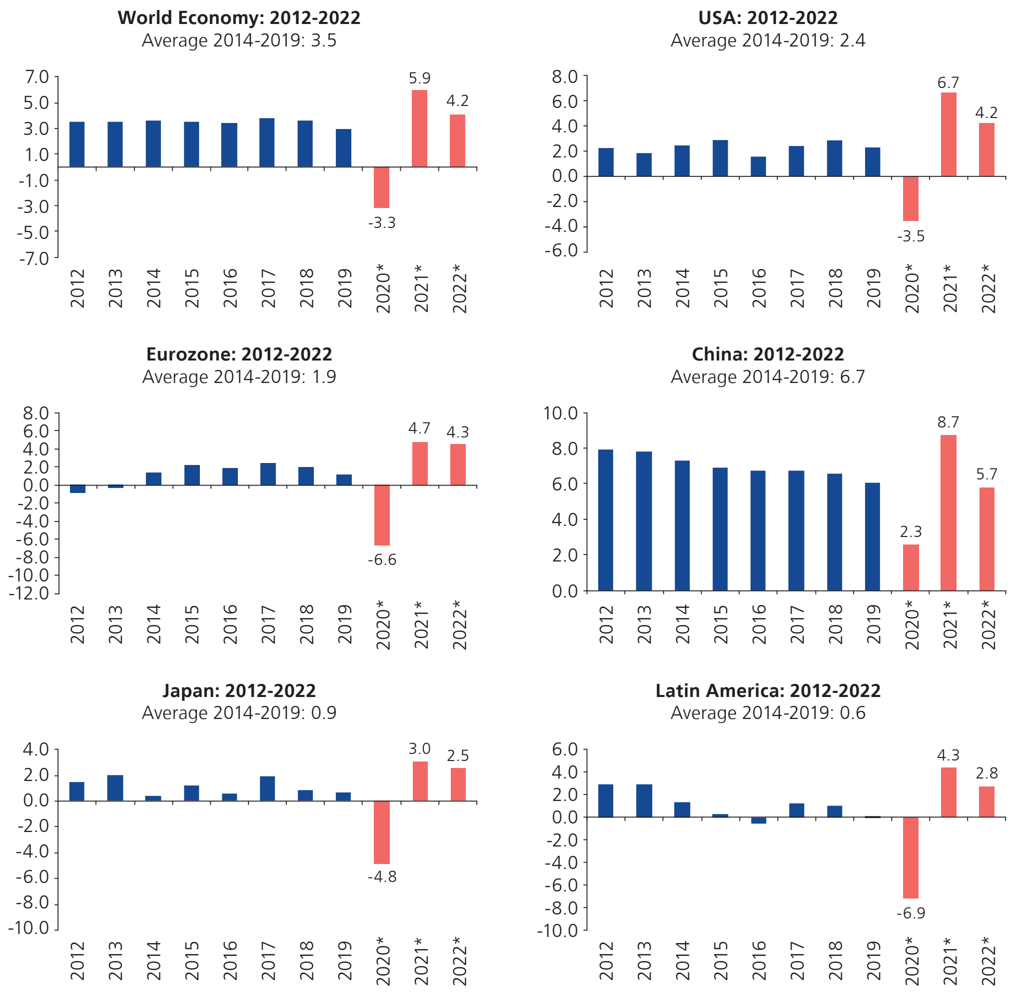
Table 5
GLOBAL GDP GROWTH
(Annual % change)

	PPP*	2020	2021		2022	
			IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
Developed economies	**42.5**	**-4.7**	**5.2**	**5.4**	**3.3**	**3.9**
Of which						
1. USA	16.0	-3.5	6.5	6.7	3.3	4.2
2. Eurozone	12.0	-6.6	4.7	4.7	3.8	4.3
3. Japan	4.0	-4.8	2.7	3.0	2.2	2.5
4. United Kingdom	2.3	-9.9	4.5	6.0	3.3	4.9
5. Canada	1.4	-5.4	4.9	6.1	3.8	4.1
6. Other	6.8	-4.1	4.6	4.9	3.1	3.2
Developing economies	**57.5**	**-2.2**	**6.2**	**6.2**	**4.5**	**4.5**
Of which						
1. China	18.6	2.3	8.4	8.7	5.7	5.7
2. India	6.7	-8.0	11.0	10.5	6.5	6.5
3. Russia	3.1	-3.1	3.4	3.4	2.7	2.7
4. Latin America and the Caribbean	7.3	-6.9	4.1	4.3	2.7	2.8
Argentina	0.6	-9.9	4.8	5.1	2.2	2.2
Brazil	2.4	-4.1	3.5	3.5	2.1	2.1
Chile	0.4	-5.8	5.0	5.4	3.5	3.5
Colombia	0.6	-6.8	4.9	4.9	3.9	3.7
Mexico	1.9	-8.2	3.9	4.5	3.0	3.3
Peru	0.3	-11.1	10.7	10.7	4.5	4.5
5. Other	17.9	-4.0	4.8	4.9	4.5	4.5
World Economy	**100.0**	**-3.3**	**5.8**	**5.9**	**4.0**	**4.2**

* Base 2020.
Source: IMF, Consensus Forecast and BCRP.

Moreover, the upward revision is mainly explained by the developed economies –the growth projection for this block has been revised by 0.2 percentage points for 2021 and by 0.6 points for 2022 – where fiscal stimuli would be greater than those considered in the March Inflation Report. In addition, mobility restriction measures in most of these economies have been lifted in a context of significant progress in the vaccination process. In the emerging economies, the upward revision of the growth rate projected in China for 2021 is offset by lower projected growth in India due to the impact that the increase in COVID-19 infections would have on growth in the second quarter.

Graph 11
GDP GROWTH
(Real % change)



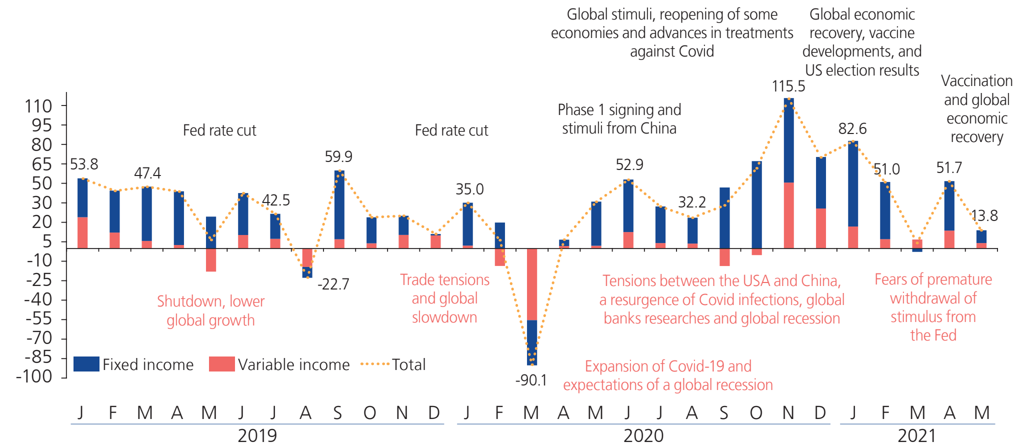
* Forecast.
Source: FMI and Consensus Forecast.

International financial markets

8. **Between April and May, financial markets were favored by the improvement in global economic activity, greater fiscal stimulus in the United States, and the publication of better-than-expected corporate results for the first quarter.** On the epidemiological front, progress in controlling the pandemic and in the vaccination process in the United States and Europe also played a role. These market developments were reinforced by statements from their respective central banks regarding the maintenance of accommodative monetary policy, both in terms of low interest rates and in terms of the asset purchase programs in place.

In this context, there was an increase in demand for riskier assets and a reduction in demand for assets perceived as safe. Moreover, capital flows to emerging economies remained positive, although with a lower magnitude than that observed during the first quarter of 2021. As in previous months, flows oriented to fixed-income markets stood out.

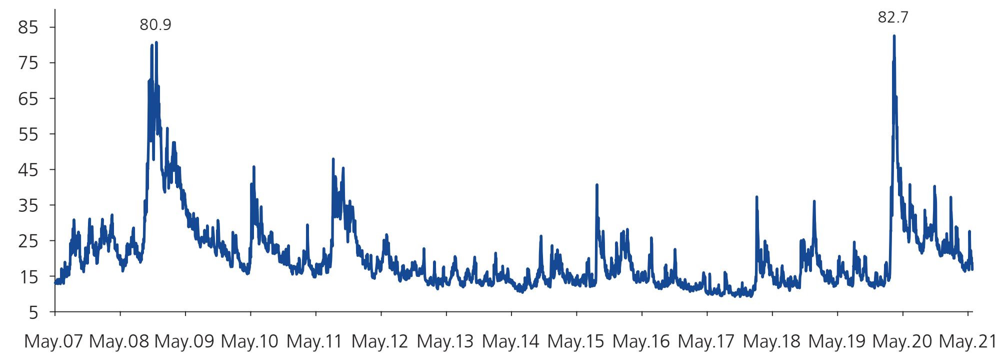
Graph 12
FLOW OF CAPITAL TO THE EMERGING ECONOMIES
(Billion US$)



Source: IIF.

However, some factors have limited this trend. On the epidemiological side, the increase in cases and the emergence of new variants of COVID-19, mainly in Asia, led to the reinstatement of temporary mobility restrictions, raising doubts about economic recovery in several emerging economies. On the economic front, upward pressures on inflation have raised expectations of an earlier withdrawal of monetary stimulus by the main central banks. In the particular case of the Fed, towards the end of May, some officials recommended an early start of the discussion on the reduction of stimulus in view of the persistence of inflationary pressures and the possible overvaluation in the price of several assets.

Graph 13
VIX INDEX
(Volatility of the US stock market)

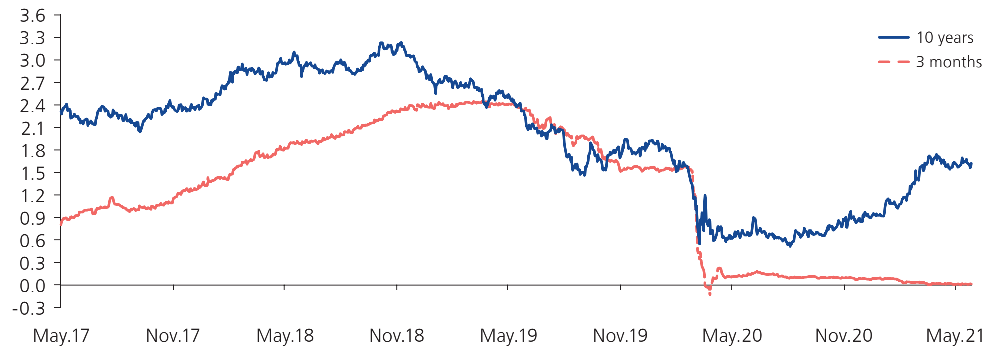


Source: Reuters.

9. **In fixed-income markets, the yields on U.S. long-term sovereign bonds corrected in part the substantial increases recorded during the first quarter of 2021**. This trend is explained by the Fed's maintenance of an expansionary monetary policy stance and by labor data in April, which showed lower job creation. These factors have offset expectations of a higher fiscal deficit and reduced global risk aversion associated with progress in the vaccination process and economic reopening.

In Europe, the yields on the main long-term sovereign bonds rose, influenced by the economic recovery, progress in the management of the pandemic, and the easing of mobility restrictions towards the end of May. The upward trend was limited by ECB's comments indicating that it will maintain its expansionary stance.

Graph 14
YIELD ON THE US SOVEREIGN BONDS
(2017-2021)



Source: Reuters.

Table 6
YIELDS ON 10-YEAR SOVEREIGN BONDS

	Dec.20	Mar.21	Jun.21*	Change Jun./Mar. 2021 (bps.)	Accumulated change 2021 (bps.)
USA	0.92	1.74	1.58	-16	66
Germany	-0.57	-0.29	-0.25	4	32
France	-0.34	-0.05	0.13	18	48
Italy	0.54	0.67	0.78	11	24
Spain	0.04	0.34	0.40	6	35
Greece	0.62	0.86	0.74	-13	12
United Kingdom	0.19	0.84	0.74	-11	55
Japan	0.02	0.09	0.05	-4	3
Brazil	6.90	9.28	9.14	-15	224
Colombia	5.39	6.96	6.94	-2	156
Chile	2.65	3.50	4.42	92	177
Mexico	5.53	6.84	6.75	-9	122
Peru	**3.51**	**4.95**	**5.42**	**47**	**191**
South Africa	8.74	9.48	9.11	-37	38
India	5.87	6.17	6.05	-12	18
Turkey	12.54	18.61	17.50	-111	496
Russia	5.92	7.04	7.21	18	130
China	3.15	3.19	3.16	-2	2
South Korea	1.72	2.06	2.07	1	35
Indonesia	5.86	6.76	6.40	-36	53
Thailand	1.32	1.97	1.81	-16	49
Malaysia	2.65	3.26	3.28	2	63
Philippines	2.94	4.31	3.77	-54	83

* Prepared on June 16, 2021.
Source: Reuters.

On the other hand, most yields fell in the emerging economies, influenced by global risk appetite, the depreciation of the dollar, and rising commodity prices. However, yields rose in those countries that faced idiosyncratic shocks such as social tensions, political noise, or downgrades in country risk ratings, among other factors.

10. In the **equity markets**, most stock markets rose and in some cases returned to record highs. This is mainly associated with better-than-expected first quarter corporate results, the economic recovery, and the expansionary stance of the main central banks.

In the case of developed countries, there was also optimism due to the reopening of business after controlling the pandemic and accelerating the vaccination process. It is worth pointing out that stock markets in countries such as the United States and Germany are at historic levels, while Japan's stock market has reached its highest level since 1990, France's stock market has reached it highest level since 2000, and the United Kingdom's has reached it highest level since the pandemic started.

In the emerging economies, most stock markets have also posted gains, benefiting from high risk appetite and higher commodity prices. However, this positive trend has been limited – and in some cases reversed– by new waves of COVID-19, the reintroduction of mobility restrictions, and idiosyncratic noise.

Table 7
STOCK EXCHANGE

		Dec.20	Dec.21	Jun.21*	Change Jun./Mar. 2021 (%)	Accumulated change 2021 (%)
VIX**	S&P 500	22.75	19.40	18.15	-1.3	-4.6
USA	Dow Jones	28,538	33,875	34,034	0.5	19.3
USA	S&P,500	3,756	3,973	4,224	6.3	12.4
Germany	DAX	13,719	15,008	15,711	4.7	14.5
France	CAC 40	5,551	6,067	6,653	9.6	19.8
Italy	FTSE MIB	22,233	24,649	25,768	4.5	15.9
Spain	IBEX 35	8,074	8,580	9,202	7.3	14.0
Greece	ASE	809	865	912	5.4	12.7
United Kingdom	FTSE 100	6,461	6,714	7,185	7.0	11.2
Japan	Nikkei 225	27,444	29,179	29,291	0.4	6.7
Brazil	Ibovespa	119,017	116,634	129,260	10.8	8.6
Colombia	COLCAP	1,438	1,317	1,251	-5.0	-13.0
Chile	IPSA	4,177	4,898	4,357	-11.1	4.3
Mexico	IPC	44,067	47,246	50,579	7.1	14.8
Argentina	Merval	51,226	47,982	67,576	40.8	31.9
Peru	Ind. Gral.	20,822	21,372	18,965	-11.3	-8.9
South Africa	JSE	59,409	66,485	67,311	1.2	13.3
India	Nifty 50	13,982	14,691	15,768	7.3	12.8
Turkey	XU100	1,477	1,392	1,431	2.8	-3.1
Russia	RTS	1,387	1,477	1,679	13.7	21.0
China	Shangai C.	3,473	3,442	3,518	2.2	1.3
South Korea	KOSPI	2,873	3,061	3,279	7.1	14.1
Indonesia	JCI	5,979	5,986	6,079	1.6	1.7
Thailand	SET	1,449	1,587	1,625	2.4	12.1
Malaysia	KLCI	1,627	1,574	1,578	0.3	-3.0
Philippines	Psei	7,140	6,443	6,973	8.2	-2.3

* Prepared on June 16, 2021.
** Data and changes are expressed in basis points.
Source: Reuters.

11. On the other hand, in the **foreign exchange markets**, the dollar reversed the appreciation trend observed in the first quarter of the year and depreciated across the board in a context of optimism about global economic recovery and the maintenance of monetary stimuli by the Fed. The dollar depreciated against the euro (due to the Eurozone's economic recovery and the reduction of mobility restrictions) and against the pound sterling (due to greater activity in the United Kingdom).

Table 8
EXCHANGE RATE

		Dec.20	Mar.21	Jun.21*	Change Jun./Mar. 2021(%)**	Accumulated change 2021(%)**
Dollar Index***	US Dollar Index	89.94	93.23	91.13	-2.3	1.3
Euro	Euro	1.221	1.173	1.199	2.3	-1.8
United Kingdom	Pound sterling	1.367	1.378	1.399	1.5	2.3
Japan	Yen	103.24	110.70	110.69	0.0	7.2
Brazil	Real	5.194	5.632	5.055	-10.2	-2.7
Colombia	Peso	3415	3659	3672	0.3	7.5
Chile	Peso	710	720	730	1.3	2.8
Mexico	Peso	19.87	20.42	20.40	-0.1	2.7
Argentina	Peso	84.08	91.98	95.31	3.6	13.4
Peru	Sol	3.620	3.747	3.910	4.4	8.0
South Africa	Rand	14.69	14.77	14.01	-5.1	-4.6
India	Ruppe	73.04	73.14	73.27	0.2	0.3
Turkey	Lira	7.43	8.24	8.60	4.3	15.7
Russia	Ruble	73.79	75.59	72.60	-4.0	-1.6
China	Yuan (onshore)	6.525	6.552	6.397	-2.4	-2.0
South Korea	Won	1084	1127	1133	0.5	4.4
Indonesia	Rupee	14040	14520	14235	-2.0	1.4
Thailand	Bath	30.04	31.24	31.28	0.1	4.1
Malaysia	Ringgit	4.020	4.145	4.116	-0.7	2.4
Philippines	Peso	48.01	48.57	48.24	-0.7	0.5

* Prepared on June 16, 2021.
** An increase (fall) in the index means an appreciation (depreciation) of the US dollar, except in the euro and the pound.
*** An increase (fall) in the index means an appreciation (depreciation) of the US dollar against a currency basket (made up by the euro, yen, the pound, the Canadian dollar, Swedish krona and the Swiss franc).

Moreover, although several emerging currencies appreciated, particularly Asian currencies following evidence of a recovery in economic activity, uncertainty still persists due to the resurgence of COVID-19 infections in India and other countries. In the region, some currencies also appreciated, benefiting from higher commodity prices, while others depreciated mainly due to idiosyncratic events.

Commodity prices

12. The prices of most commodities were boosted by higher activity in April and May and by prospects that this pace of growth will continue during the second half of the year as the vaccination process in the main consumer countries consolidates. The global depreciation of the dollar and some supply shocks also played a role. This upward trend was offset by the Chinese government's announcements to avoid increases in raw material prices that are not associated with market fundamentals.

It is worth pointing out that the prices of copper and soybean oil reached record highs during the second quarter of the year.

Copper

13. The pound of copper reached a monthly average price of US$ 4.61 in May, 13 percent higher than in March and 31 percent higher than in December 2020. On May 10, the price of copper reached an all-time high of US$ 4.86 the pound.

Since the March Inflation Report, upward pressures on the price of copper have intensified due to the rapid recovery of demand from China and the main developed economies. Apart from the recovery of the global economy, the price has been supported by the consumption of goods in high demand since the beginning of the pandemic, such as computer equipments, household appliances, and communication equipments, among others.

Supply has been restricted by delays in shipments from Chile due to bad weather conditions and strikes in mines related to the resurgence of COVID-19 as well as blockades due to environmental lawsuits. In addition, concerns of a more restricted supply in the medium term also increased due to possible changes in legislation related to mining activity in the main producing countries.

Table 9
SUPPLY AND DEMAND FOR REFINED COPPER
(Thousand metric tons)

	2017	2018	2019	2020 2/	2021 2/	2022 2/	% chg. 2021/2020	% chg. 2022/2021
Global Mining Production	20,067	20,579	20 ,572	20,598	21,321	22,100	3.5%	3.7%
Global Refining Production (Primary + Secondary)	23,557	24,075	24,041	24,436	25,167	25,937	3.0%	3.1%
Global Use of Refined Copper	23,705	24,484	24,429	25,041	25,088	25,829	0.2%	3.0%
Refined Balance 1/	-148	-409	-388	-605	79	109	---	--

1/ Balance is calculated using the total production of refined products minus the use of refining.
2/ ICSG report for May 2021 and ICSG report projection for April 2021.
Source: The International Copper Study Group (ICSG).

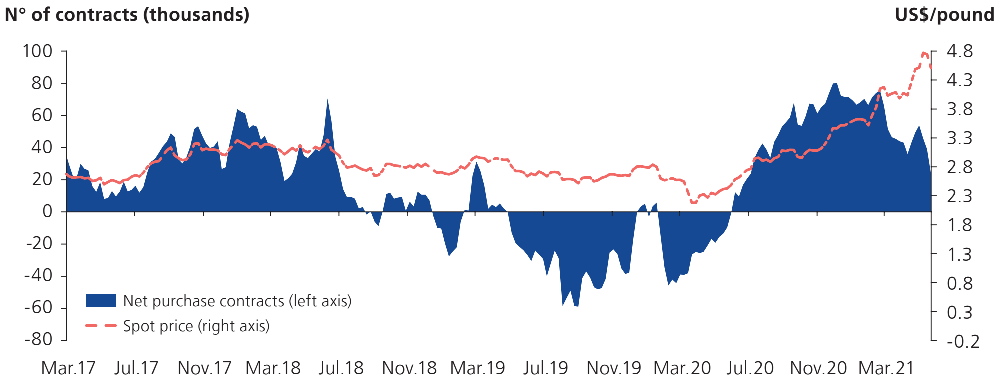
In contrast to what was observed in other bullish episodes, non-commercial copper positions decreased in the last two months despite high levels of global liquidity and dollar depreciation. Between the end of March and the end of May, the net buying position on Comex fell from 43.9 to 23.7 thousand contracts.

This higher growth scenario is consistent with an upward revision in the projection of the copper price with respect to the one considered in the March Inflation Report. This scenario assumes higher demand, in line with higher world growth, and a new supply linked to investment projects currently underway.

A number of factors introduce uncertainty on the future evolution of the price of copper, including developments in the electric car industry and other green and renewable energy projects, possible measures taken by China to curb rising commodity prices, and potential supply constraints in producing countries. Furthermore, any additional measures that China may take to restrict imports of recycled copper is another factor that could influence the market.

Graph 15

COPPER: NON-COMERCIAL CONTRACTS

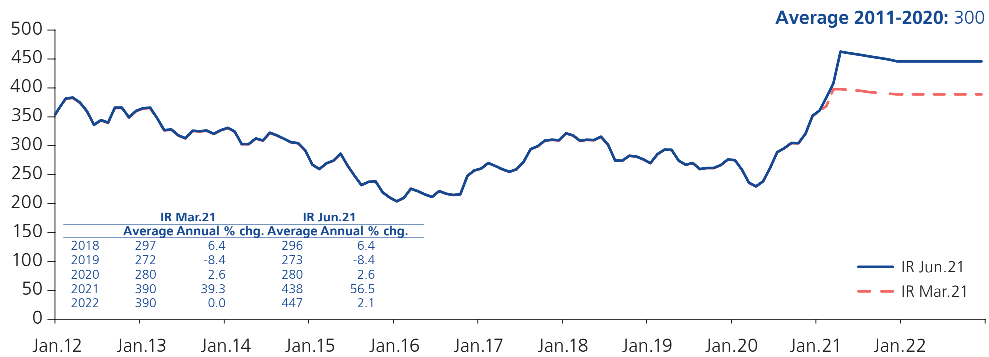


Note: The Copper Speculative Net Positions of the Commodities Futures Trading Commission are reported weekly and reflect the difference between the total volume of the long position (or purchase) and short position (or sale) in the market and opened by non-commercial operators (speculative). This report only includes the future markets in the USA (Chicago and New York Stock Exchanges). Source: Bloomberg.

Graph 16

COPPER: JANUARY 2012 - DECEMBER 2022

(US$. cents/pd.)



	IR Mar.21		IR Jun.21	
	Average Annual	% chg.	Average Annual	% chg.
2018	297	6.4	296	6.4
2019	272	-8.4	273	-8.4
2020	280	2.6	280	2.6
2021	390	39.3	438	56.5
2022	390	0.0	447	2.1

Source: Reuters and BCRP.

Zinc

14. The international price of zinc showed an average of US$ 1.35 in May, the highest price level observed since June 2018 and a price level 6 percent higher than that recorded in the March Inflation Report.

As in the case of copper, the increase in the zinc price in the last two months is explained by a greater than expected recovery in the global economy. The price increase has also been supported by supply factors, particularly by the fact that the production of refined zinc in China has been limited in the first months of the year due to the shortage of concentrates as well as due to environmental inspections. Despite this, however, the outlook remains that the global market will record its second consecutive annual surplus in 2021.

Table 10

SUPPLY AND DEMAND FOR REFINED ZINC

(Thousand metric tons)

	2017	2018	2019	2020	2021 2/	% chg. 2021/2020
Global Mining Production	12,681	12,810	12,856	12,236	12,920	5.6%
Global Refining Production	13,486	13,101	13,480	13,700	14,133	3.2%
Global Use of Refined Zinc	13,944	13,663	13,737	13,212	13,780	4.3%
Refined Balance 1/	-457	-562	-257	488	353	--

1/ Balance is calculated using the total production of refined products minus the use of refining.
2/ ILZSG report for May 2021 and ILZSG report projection for April 2021.
Source: ILZSG.

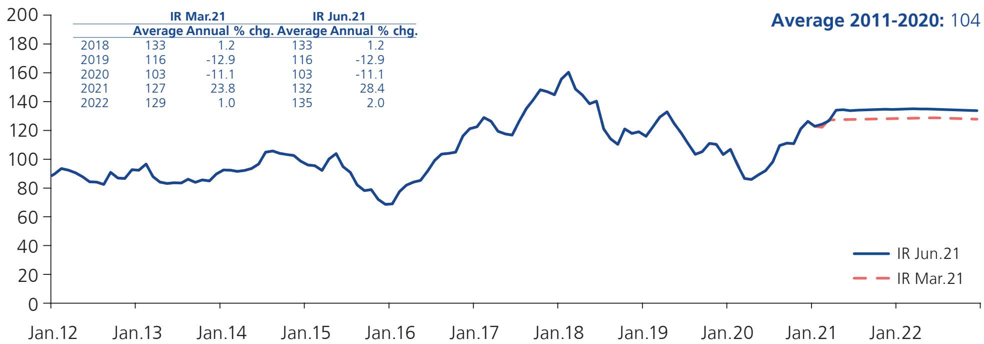
In line with these developments, the price of zinc has been revised slightly up from the price forecast in the previous report. Upward pressures from higher demand would be offset by high inventories of products that use galvanized steel (the main consumer of zinc).

A factor of uncertainty in this projection is the degree of implementation of infrastructure investment programs in the United States and Europe, as these programs require a high consumption of zinc through the use of galvanized steel. There is also an upside risk in the event that the expected increase in mine supply does not materialize.

Graph 17

ZINC: JANUARY 2012 - DECEMBER 2022

(US$. cents/pd.)



Source: Reuters and BCRP.

Gold

15. Reversing the decline seen in the first quarter of the year, the average price of gold in May was US$ 1,851 the troy ounce, 8 percent higher than in March 2021.

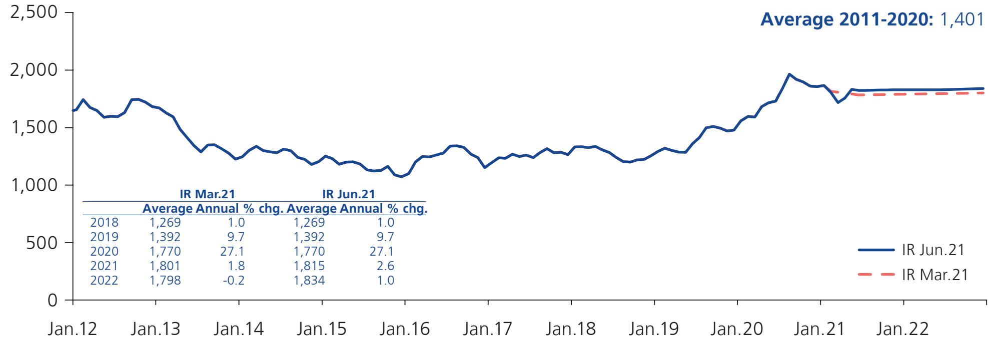
The gold price has increased in the last two months due to heightened concerns about a rise in inflation (and inflationary expectations) and the depreciation of the dollar. In addition, physical demand for gold has picked up in the first few months of the year, favored by demad from the jewelry industry in the first quarter which, in value terms, registered the highest level since the first quarter of 2013.

In line with these developments, the gold price projection has been revised up from that estimated in the previous report, with the Fed's accommodative monetary policy and inflation concerns being expected to continue to support the price. The main risk factors in this projection are associated with the possibility of an early withdrawal of monetary stimulus by the Fed and by the evolution of the pandemic in the main gold-demanding economies, particularly in India.

Graph 18

GOLD: JANUARY 2012 - DECEMBER 2022

(US$/tr. ounce)



	IR Mar.21		IR Jun.21	
	Average	Annual % chg.	Average	Annual % chg.
2018	1,269	1.0	1,269	1.0
2019	1,392	9.7	1,392	9.7
2020	1,770	27.1	1,770	27.1
2021	1,801	1.8	1,815	2.6
2022	1,798	-0.2	1,834	1.0

Source: Reuters and BCRP.

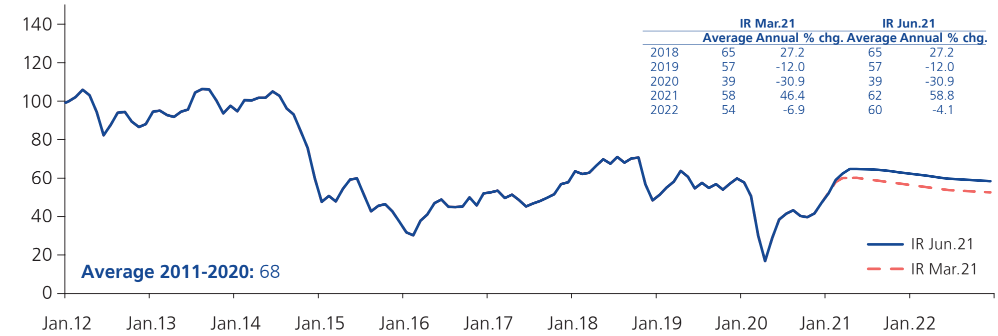
Oil

16. In May 2021, the average price of **WTI oil** increased 5 percent compared to March and reached a monthly average of US$ 65 the barrel. With this increase, the price of oil has accumulated an increase of 39 percent since December 2020.

The oil price has been supported by positive indicators activity and by the lifting of the restrictions adopted in several developed economies as a result of the new wave of COVID-19 contagions. These restrictions affected particularly the demand for fuel during the first quarter. Another factor that supported the rise in oil prices, especially during the first four months of the year, has been the high compliance of the OPEC+ countries (OPEC plus Russia) with the production cuts committed by these countries, which have decided to reduce their production cuts only gradually as demand recovery consolidates.

In line with these developments, oil prices are expected to stabilize around current levels, i.e., above the price levels projected in the previous Inflation Report. Downside risks are associated with the possibility and intensity of a third wave of the pandemic that will affect demand for fuel again and with the possible return of Iranian exports to the market due to the potential easing of U.S. sanctions. Upside risks are concentrated around a faster than expected recovery of the global economy.

Graph 19
WTI OIL: JANUARY 2012 - DECEMBER 2022
(US$/bl)



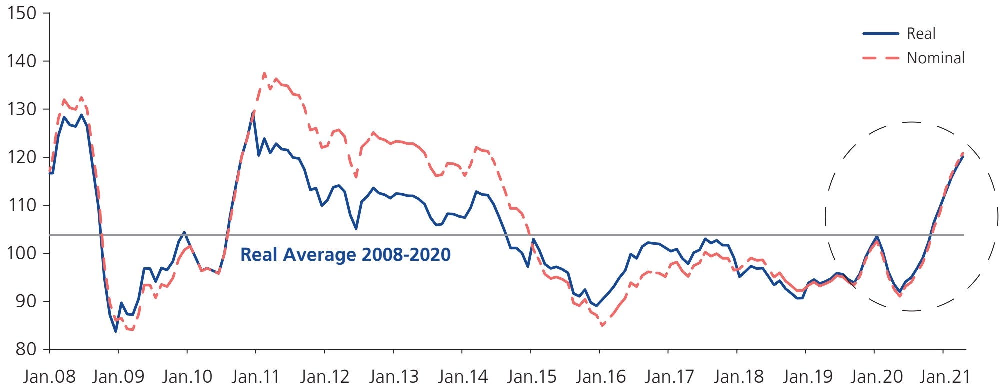
	IR Mar.21		IR Jun.21	
	Average Annual	% chg.	Average Annual	% chg.
2018	65	27.2	65	27.2
2019	57	-12.0	57	-12.0
2020	39	-30.9	39	-30.9
2021	58	46.4	62	58.8
2022	54	-6.9	60	-4.1

Source: Reuters and BCRP.

Food

17. The international prices of **food products** increased to a maximum not seen since September 2011, according to the UN Food and Agriculture Organization (FAO) index. In the case of grains, the year-to-date increase of 14.8 percent and the 7.7 percent increase observed since March 2021 are explained by: (i) the recovery of global growth following the lifting of social mobility restrictions, (ii) China's strong demand for grains for human and animal consumption, and (iii) the growing demand from the biofuels industry in the United States. This has also been accompanied by supply restrictions due to adverse weather conditions and a reduction in world inventories of the main grains, as well as by other factors such as higher oil prices and higher transportation costs.

Graph 20
FAO MONTHLY FOOD PRICE INDEX **
(Base 2014-2016 = 100)



* The real price index is the nominal price index deflated by the World Bank Manufacturing Unit Value Index.
Source: FAO.

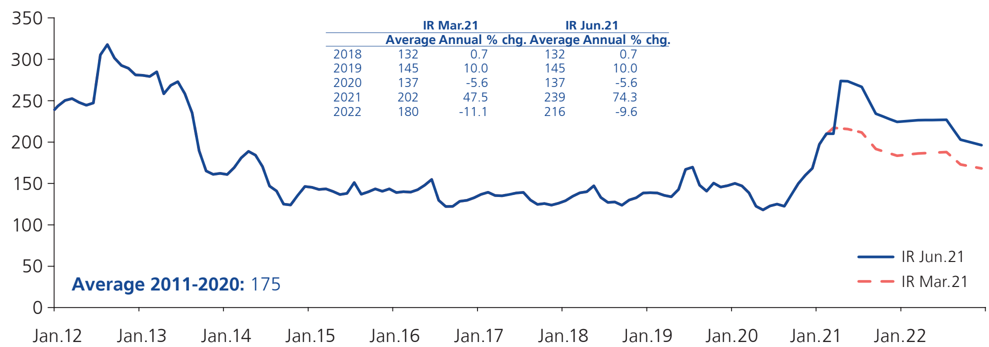
(a) The price of **maize** has continued to show its upward trend: in the last two months, the price of this grain increased 28 percent and reached a monthly average price of US$ 269 per metric ton, accumulating an increase of 61 percent in the year.

This sharp price increase has been associated with a tighter global market than that anticipated in the March Inflation Report. It is estimated that inventories at the end of the current 2020/2021 season will fall to their lowest level in six seasons, recording their fourth consecutive annual decline.

The global market of maize has been adjusted by several factors: a strong increase in maize consumption by China's pork industry (which is expected to reach record highs in 2021), demand from the biofuels industry (ethanol and other alcohols), and demand for the grain as animal feed in the United States. This higher global demand has coincided with an adverse supply shock: fears of drought in some areas of the U.S. Midwest and Brazil have increased expectations of lower world production this season.

In line with these developments, the average price of maize projected for the 2021-2022 period has been revised up. A normalization of weather conditions and an increase in planted areas are expected as a consequence of the recent increase in prices.

Graph 21
MAIZE: JANUARY 2012 - DECEMBER 2022
(US$/ton)



	IR Mar.21		IR Jun.21	
	Average Annual	% chg.	Average Annual	% chg.
2018	132	0.7	132	0.7
2019	145	10.0	145	10.0
2020	137	-5.6	137	-5.6
2021	202	47.5	239	74.3
2022	180	-11.1	216	-9.6

Source: Reuters and BCRP.

(b) Since our last Inflation Report was published in March, the price of wheat has increased 10 percent, bringing the price of wheat to a monthly average price of US$ 253 per ton in May 2021 and to a price level 16 percent higher than in December 2020.

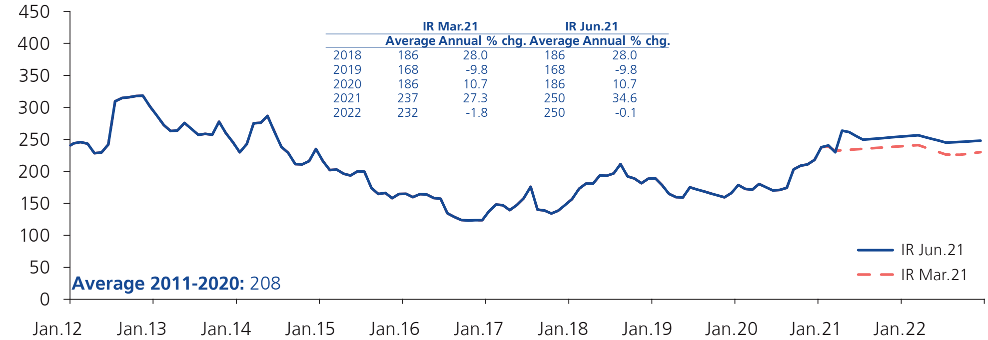
Wheat prices rose on concerns about the impact of adverse weather on crops in the northern hemisphere, particularly in the regions of the United States where spring wheat is grown and, to a lesser extent, in some countries in Europe and Russia. The sharp rise in the prices of maize also contributed to increase the demand for wheat as a substitute grain for livestock feed.

The price of wheat is expected to remain under upward pressure due to higher demand, relatively tight inventories, and the high prices of maize and soybean, so the wheat price projection is revised up from the previous Inflation Report. The USDA estimates that world wheat inventories in the major exporting countries of this crop will be adjusted during this 2020/2021 season and will remain low in the next season.

Graph 22

WHEAT: JANUARY 2012 - DECEMBER 2022

(US$/ton)



Source: Reuters and BCRP.

(c) The average price of **soybean oil** was US$ 1,644 per ton in May, 31 percent higher than in March 2021, as a result of which soybean oil prices have accumulated an 82 percent increase so far this year. On May 25, the ton of soybean oil reached an all-time high price of US$ 1,713.

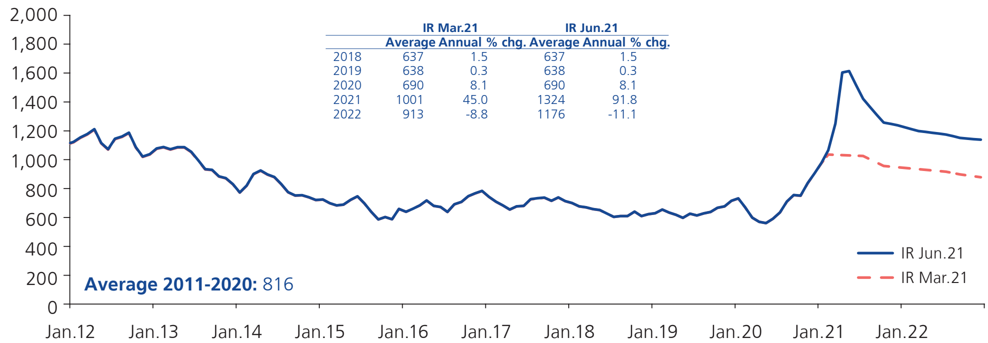
The price of soybean oil rose sharply due to the recovery in demand (particularly the demand from hotels and restaurants, as this sector was especially affected by the restrictions on mobility in previous months) and by growing demand from the biofuels sector, as well as by increased external demand driven by the rapid economic recovery recorded in Asia. In addition, this environment of growing demand coincided with reduced supply in the United States and Brazil and with higher prices for other oils, particularly palm oil.

Taking into account these recent developments, the prices of soybean oil are projected to be higher than estimated in the previous Inflation Report.

Graph 23

SOYBEAN OIL: JANUARY 2012 - DECEMBER 2022

(US$/ton)



Source: Reuters and BCRP.

II. Balance of Payments

Current account

18. The deficit in the **current account** of the balance of payments was equivalent to 3.1 percent of GDP in the first quarter of 2021 (US$ 1,674 million). This balance, which is 2.1 percentage points higher than that recorded in the same period of 2020 and similar to that of 2019, is explained by the increase in imports following the recovery of domestic demand and the increase in profits of companies with foreign direct investment in the country. Likewise, the deficit in services rose mainly due to higher spending on transportation and the contraction of travel revenues, which were affected by high international freight rates and the slow recovery of inbound tourism, respectively. On the other hand, the trade balance showed positive results, with a significant increase in the value of exports that reflected high commodity prices, and higher volumes of fishery exports. In addition, current transfers increased slightly due to improved activity in the main countries where remittances to the country originate.

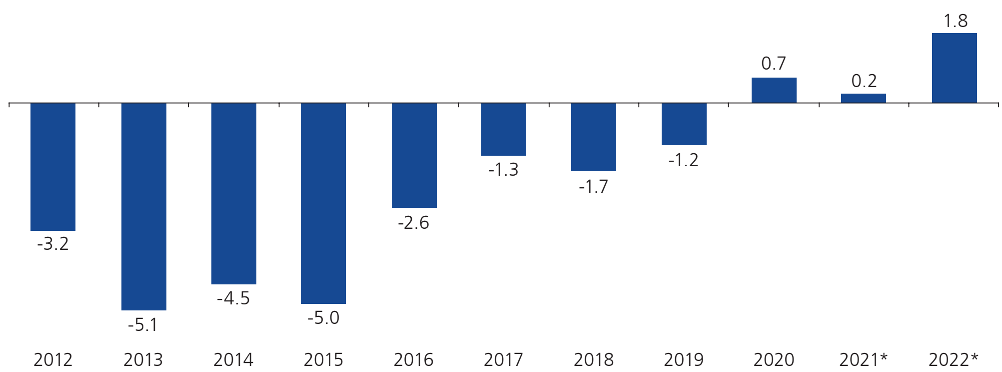
Favorable conditions are seen in the external environment following the progress of mass vaccination against COVID-19 and the improved performance of global activity, despite new variants of the virus and new waves of infections. In addition, fiscal stimulus in the United States and the high prices of industrial metals would contribute to foster a positive international environment. On the local side, the economy is expected to evolve along a similar recovery path to that anticipated in the previous report.

Global growth is expected to be positive and sustained in 2022, after the end of the pandemic scenario, with higher terms of trade than those projected in the March Report. Other factor that would contribute to this include the easing of the immobility measures, which would generate better conditions for private spending, and the normalization of monetary and fiscal policies. The projection in this Report considers the recovery of mining production and weather conditions that favor fishing.

In this scenario, the current account balance is expected to register a surplus of 0.2 of GDP in **2021** and a surplus of 1.8 percent of GDP in **2022** (versus 0.0 and 0.1 percent of GDP, respectively, estimated in the previous Report). The upward revision of this balance in 2021 would reflect the favorable evolution of the terms of trade and its positive impact on exports, as well as the greater volume of non-traditional exports so far this year, all of which would translate into a higher trade balance than that projected in the March Report. Moreover, other factors contributing to this favorable trend would include the continued acceleration of remittances from other countries and the lower deficit in services. On the other hand, the profits and dividends of foreign direct investment companies in the country would increase, supported by the high terms of trade and the recovery of local activity, which would result in a higher factor income deficit than projected in March.

In 2022, the current account would register a surplus considering a moderation in the growth of domestic demand and, therefore, in the volume of imports, as well as the sustained positive impact of the terms of trade on the value exported and stable factor income following the normalization of mining production and local activity in general.

Graph 24
CURRENT ACCOUNT: 2012-2022
(% GDP)



* Forecast.

19. The **financial account** (excluding net errors and omissions) was equivalent to 16.8 percent of GDP (US$ 8,952 million) in the first quarter of 2021, a balance higher by 13.0 and 11.2 percentage points of GDP than the balances in the same period of 2020 and 2019, respectively. The increase with respect to 2020 is explained by the recovery of net foreign direct investment and the higher external indebtedness of the public sector.

The projection of the financial account in **2021** incorporates the greater liquidity requirements of the AFPs (to meet the fund withdrawals of their members), a greater reinvestment of profits, as well as the continuity of public sector financing and short-term capital outflows, amid an international environment with lower global risk aversion following the recovery of the world economy and the progress of vaccination. All of this is likely to favor the demand for emerging market assets as well as international financial conditions.

On the other hand, greater portfolio investment abroad is projected for **2022**, with AFP's return to asset purchases and the continuity of mutual fund investments, in an international scenario of normalization after mitigating the impact of COVID-19 on the world economy, together with less uncertainty and a gradual increase in longer-term interest rates.

Table 11
BALANCE OF PAYMENTS
(Million US$)

	2020	2021*			2022*	
		Q1	IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
I. CURRENT ACCOUNT BALANCE	**1,504**	**-1,674**	**29**	**410**	**132**	**4,441**
% GDP	*0.7*	*-3.1*	*0.0*	*0.2*	*0.1*	*1.8*
1. Trade Balance	7,750	2,587	14,480	16,630	15,707	19,741
a. Exports	42,413	13,288	56,110	60,254	59,404	64,143
Of which:						
i) Traditional	*29,405*	*9,666*	*41,102*	*44,346*	*43,153*	*46,857*
ii) Non-Traditional	*12,887*	*3,579*	*14,911*	*15,795*	*16,067*	*17,006*
b. Imports	-34,663	-10,700	-41,630	-43,625	-43,697	-44,401
2. Services	-4,170	-1,257	-5,069	-5,040	-5,114	-4,632
3. Investment income	-6,146	-3,849	-12,841	-14,761	-14,004	-14,422
4. Current transfers	4,071	845	3,458	3,582	3,542	3,754
Of which: Remittances	2,939	751	3,129	3,227	3,181	3,388
II. FINANCIAL ACCOUNT	**4,887**	**6,888**	**4,696**	**-1,117**	**868**	**-1,879**
1. Private Sector	-4,932	1,531	-3,149	-8,302	-861	-3,759
a. Long-term	*-1,496*	*6,095*	*-2,849*	*1,566*	*-896*	*-3,359*
b. Short-term 1/	*-3,436*	*-4,563*	*-299*	*-9,868*	*35*	*-401*
2. Public Sector 2/	9,818	5,357	7,845	7,185	1,729	1,880
III. CHANGE ON NIRs	**6,391**	**5,215**	**4,725**	**-707**	**1,000**	**2,562**

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.

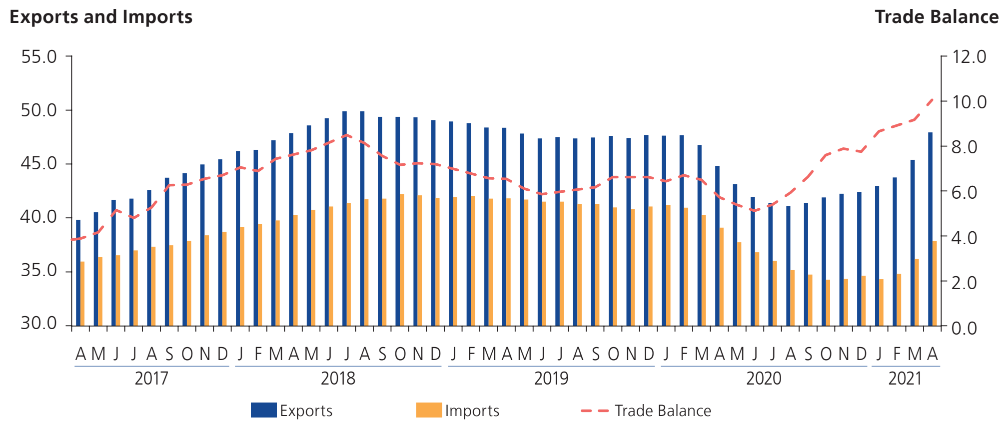
20. In the first quarter of 2021, the surplus in the trade balance amounted to US$ 2,587 million, a balance US$ 1,429 million higher than that recorded in the same period of 2020 (US$ 1,159 million) and US$ 1,304 million higher than the one recorded in the same period of 2019 (US$ 1,284 million). This higher balance is explained by the increase in exports from US$ 10,322 million in the first quarter of 2020 to US$ 13,288 million in the period under analysis, associated in turn with the higher prices of industrial metals (copper and zinc) and the higher volume of fishing exports, following the positive results of the recent anchovy fishing season.

Moreover, maintaining the upward trend observed since July 2020, the trade balance in April 2021 showed an accumulated twelve-month balance of US$ 10,066 million.

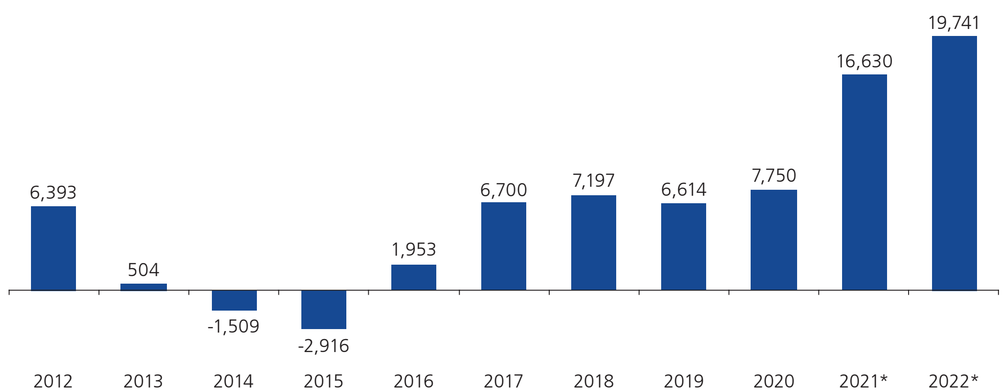
With this trajectory, the trade balance is projected to reach a surplus of US$ 16,630 million in **2021** –a balance US$ 2.149 billion higher than that estimated in the previous Report–, supported by the higher average export prices observed mainly in traditional mining exports. In addition, the greater expansion of shipments of non-traditional products would also contribute to this trend, offsetting the upward revision in the volumes of imported goods. In **2022**, the trade surplus would amount to US$ 19,741 million, reflecting a higher expansion rate than previously projected due mostly to the positive impact of higher terms of trade.

The projection of export volumes in 2021 and 2022 reflects the favorable performance of primary production after the reactivation of foreign trade in our main trading partners. The expected recovery of domestic demand will boost the demand for imports in 2021, especially the demand for capital goods and consumer durables, while imports in 2022 would be supported by imports of capital goods and non-durable consumer goods, although showing a moderate pace of growth. Average export prices would be supported by the high prices of industrial commodities, while import prices would decrease over the projection horizon, mainly due to the stabilization of oil prices.

Graph 25
TRADE BALANCE, EXPORTS AND IMPORTS
(Accumulated 12 months - Billion US$)



Graph 26
TRADE BALANCE
(Million US$)



* Forecast.

21. **Exports** amounted to US$ 13,288 million in the first quarter of 2021, which represents an increase of US$ 2,966 million (28.7 percent) with respect to the amount registered in the same period of 2020. This increase is explained by higher exports of traditional products (33.3 percent), with higher exports of fishmeal and copper standing out, and also, but to a lesser extent, by higher exports of non-traditional products (18.1 percent), such as agricultural, iron and steel, non-metallic mining, fishing, and textile products.

In **2021**, the value of exports would improve mainly due to higher prices for traditional mining products. This is explained by the set of preventive actions taken in the face of global warming, which would favor the production of goods and infrastructure with clean and renewable energy technology. This positive trend would be reinforced by the projected volumes of exports, the increase in shipments of non-traditional products standing out. The current projection for 2021 is higher than in the previous report due to the sustained increase in the prices of the main industrial metals.

Exports in **2022** are expected to show greater growth in terms of value than forecast in the March Report in a context of higher terms of trade, a sustained recovery of local production, and the normalization of foreign trade once the massive vaccination process against COVID-19 has been implemented.

22. **Imports** totaled US$ 10,700 million in the first quarter of 2021, which implies an increase of US$ 1,537 million (16.8 percent) with respect to the same period of 2020. This result is explained by the acceleration of local demand, stimulated by the growth of public and private investment, as well as by the recovery of oil and food prices.

The recovery in the value of imports in 2021 is mainly explained by the higher volume of imports of capital goods, which reflects the better performance of the construction sector, and also by the projected increase in oil prices. On the other hand, a slower recovery of domestic demand is expected for **2022**, which would translate into a slower growth rate of import volumes, particularly of non-durable consumer and capital goods. The fall in input prices (main foodstuffs such as maize, wheat, and soybeans) would explain the reduction in average import prices.

Table 12
TRADE BALANCE
(% change)

	2020	2021*				2022*	
		Q1 respect to:		IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
		Q1.20	Q1.19				
1. Value:							
Exports	-11.1	28.7	18.1	32.3	42.1	5.9	6.5
Traditional products	*-12.9*	*33.3*	*21.7*	*39.8*	*50.8*	*5.0*	*5.7*
Non-traditional products	*-6.5*	*18.1*	*9.6*	*15.7*	*22.6*	*7.8*	*7.7*
Imports	-15.6	16.8	7.3	20.1	25.9	5.0	1.8
2. Volume:							
Exports	-13.4	3.6	-5.8	12.3	12.4	5.4	5.4
Traditional products	*-17.7*	*0.0*	*-10.8*	*12.9*	*11.6*	*5.7*	*5.9*
Non-traditional products	*-1.5*	*13.6*	*8.4*	*11.4*	*15.2*	*5.0*	*5.0*
Imports	-11.1	10.2	4.2	8.5	12.6	6.7	3.6
3. Price:							
Exports	2.7	24.3	25.3	17.8	26.3	0.5	1.0
Traditional products	*5.9*	*33.3*	*36.4*	*23.8*	*35.1*	*-0.7*	*-0.2*
Non-traditional products	*-5.1*	*3.9*	*1.2*	*3.9*	*6.4*	*2.6*	*2.5*
Imports	-5.1	5.9	3.0	10.7	11.8	-1.7	-1.7

* Forecast.

Terms of Trade

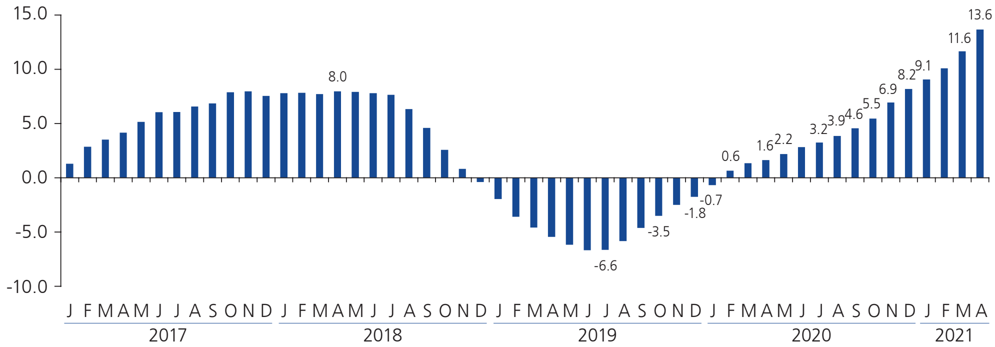
23. The terms of trade increased by 17.3 percent in the first quarter of 2021, driven by the maximum values reached by copper prices following the progress of the global vaccination process and the recovery of the world economy.

In 2021 the terms of trade would record a strong expansion of 13.0 percent (higher than the 6.4 percent expansion projected in the March Report). This upward revision is mostly explained by the higher increase anticipated in the export prices of metals such as copper, zinc, lead, and gold, which would offset the upward correction in import prices, particularly in the prices of oil, wheat, and maize.

The price of copper reached record highs, boosted by the high demand associated particularly with the "green" investment drive that will address climate change, a scenario that could further increase copper demand in the following years. The projection in this Report incorporates an upward correction with respect to the average copper price forecast in the March Report, from US$ 3.9 to US$ 4.4 the pound.

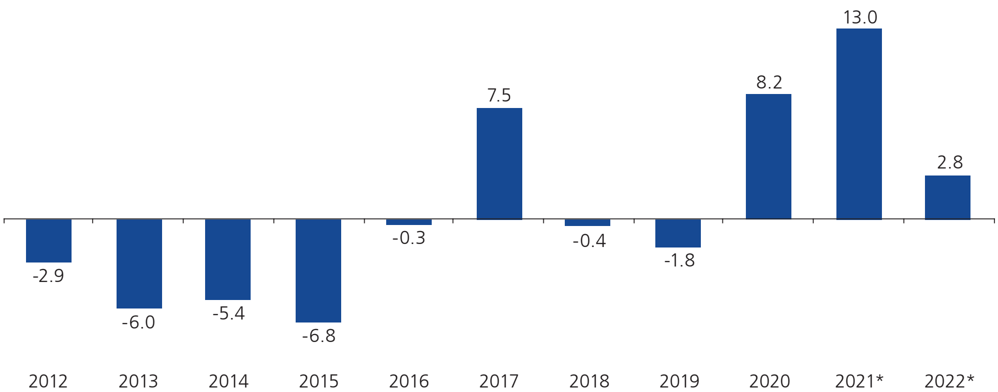
Moreover, the growth rate in the terms of trade is expected to stabilize in 2022 with an expansion rate of 2.8 percent –a rate slightly higher than that observed in the March Report. The positive outlook for copper prices and an upward trend in the rest of the industrial metals would be maintained by a favorable commodity cycle, while a drop in the price of oil and maize compared to the average prices of the previous year is incorporated in the projection for 2022. With this evolution, the terms of trade would accumulate three consecutive years of increase.

Graph 27
TERMS OF TRADE
(Accumulated 12 months % change)



* Forecast.

Graph 28
TERMS OF TRADE: 2012-2022
(Annual average % change)



* Forecast.

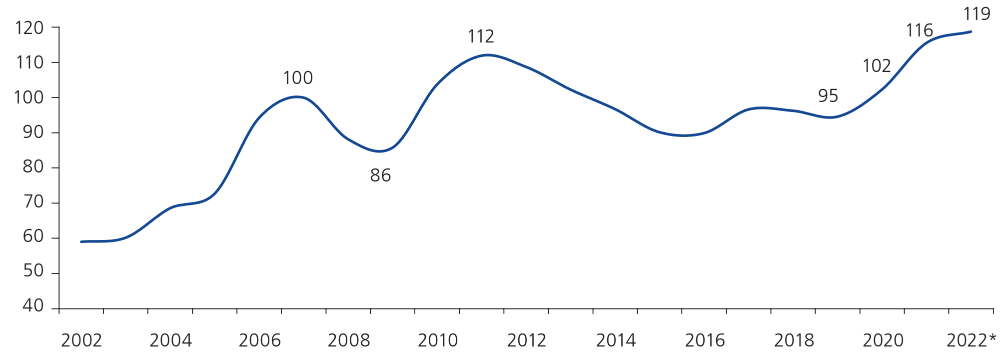
Table 13
TERMS OF TRADE: 2020 - 2022

	2020	2021*			2022*	
		Q1.20	IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
Terms of Trade						
Annual average % chg.	**8.2**	**17.3**	**6.4**	**13.0**	**2.2**	**2.8**
Price of exports						
Annual average % chg.	**2.7**	**24.3**	**17.8**	**26.3**	**0.5**	**1.0**
Copper (US$ cents per pound)	280	384	390	438	390	447
Zinc (US$ cents per pound)	103	125	127	132	129	135
Lead (US$ cents per pound)	83	92	95	97	97	100
Gold (US$ per troy ounce)	1,770	1,798	1,801	1,815	1,798	1,834
Price of imports						
Annual average % chg.	**-5.1**	**5.9**	**10.7**	**11.8**	**-1.7**	**-1.7**
Oil (US$ per barrel)	39	58	58	62	54	60
Wheat (US$ per ton)	186	236	237	250	232	250
Maize (US$ per ton)	137	205	202	239	180	216

* Forecast.

Thus, incorporating the current projection, the level of the terms of trade in 2021 and 2022 would be the highest in the last 20 years, surpassing the level reached in 2011.

Graph 29
TERMS OF TRADE, 2002-2022
(Index 100 = 2007)



* Forecast.

External financing

24. In the first quarter of 2021, **long-term external financing in the private sector account** totaled US$ 6,095 million, a figure US$ 6,174 million higher than that recorded in the same period of 2020 and US$ 5,723 million higher than the one recorded in the same quarter of 2019. This result is explained by higher foreign direct investment in the country, by the sale of foreign portfolio assets (especially by AFPs), and by non-

residents' higher portfolio investment in the country. On the other hand, **short-term capital inflows** were negative by US$ 2.5 billion in the first quarter of the year, mainly due to the increase in foreign assets of the non-financial sector.

The current projection for **2021** incorporates an upward revision of the private sector's long-term external financing, associated with the increase in foreign direct investment in the country (FDI) and with the reduction of portfolio investment abroad. Both factors would offset lower foreign portfolio investment in the country. On the other hand, the short-term financial account in 2021 would reflect the outflow of capital in the accounts of the non-financial corporate sector, in a context marked by uncertainty associated with the development of the electoral process.

FDI in 2021 would show a positive trend due to the higher net loans with parent companies observed in the first quarter and a slight increase in reinvestment: the high momentum in the terms of trade would take profits to a record level not seen since 2012. On the other hand, the reduction in portfolio investment abroad is explained by the sale of financial assets by the AFPs, given their liquidity requirements to meet the fund withdrawals of their members. This flow of foreign financing would offset the greater purchase of foreign assets by mutual funds and the lower disbursements expected for the remainder of the year, in a more favorable context for growth in developed economies –than in the emerging economies– and non-residents' greater liquidation of local assets, particularly equities. Higher capital inflows would also offset short-term capital outflows.

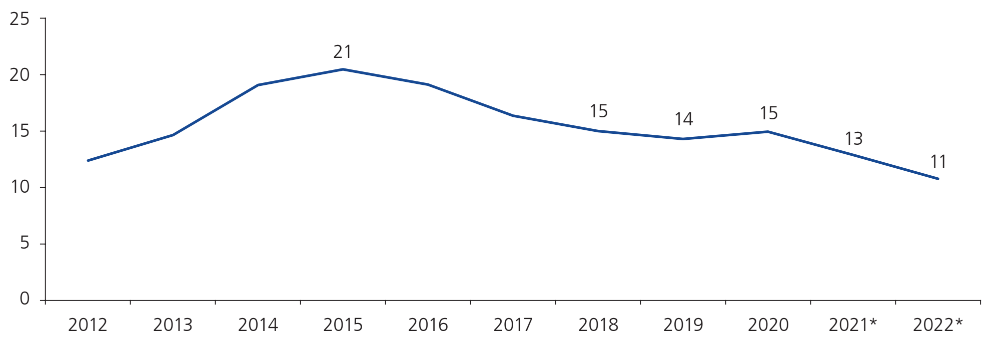
The projection scenario assumes a gradual recovery of non-residents' portfolio investment in the country and a reduction in short-term capital outflows in an environment of political and social stability, encouraged by progress in the vaccination process in the country. Lower net disbursements are also expected, mainly due to higher amortizations, and increased investment in foreign assets, particularly by the AFPs. This expected evolution implies a downward revision of long-term external financing of the private sector in 2022, compared to what was foreseen in the March Report.

Table 14
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR
(Million US$)

	2020	2021*			2022*	
		Q1	IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
Private Sector (A + B)	-4,932	1,531	-3,149	-8,302	-861	-3,759
% GDP	-2.4	2.9	-1.4	-3.7	-0.3	-1.5
A. Long-term	-1,496	6,095	-2,849	1,566	-896	-3,359
1. ASSETS	175	1,859	-3,116	907	-4,022	-3,727
2. LIABILITIES	-1,670	4,236	266	659	3,126	368
Foreign direct investment in the country	982	3,370	3,863	5,236	4,059	4,162
Long-term loans	-3,367	-389	-3,087	-2,613	-2,802	-4,318
Portfolio investment	715	1,255	-509	-1,964	1,869	523
B. Short-term 1/	-3,436	-4,563	-299	-9,868	35	-401

1/ Includes net errors and omissions, and NIR's effect valuation.
* Forecast.

Graph 30
SALDO DE DEUDA EXTERNA PRIVATE DE MEDIANO AND LONG-TERM: 2012-2022
(% GDP)



* Forecast.

25. The **public financial account** showed a positive balance of US$ 5,357 million in the first quarter of 2021. It is worth mentioning that this balance is US$ 4,471 million higher than that recorded in the first quarter of 2020 and US$ 1,575 million higher than the one recorded in the same period of 2019. The issuance of 10-year, 20-year, and 30-year global bonds at the beginning of March 2021, for a total of US$ 4 billion, stands out in the first quarter of 2021, with these operations offsetting non-residents' sales of sovereign bonds for a total of US$ 918 million. In addition, Petroperú placed US$ 1 billion in early February 2021 through the reopening of the bond maturing in 2047, in order to finance the Talara refinery modernization project.

The projection of the 2021 public financial account has been revised down due to the sale of sovereign bonds, especially in the first two quarters of the year, a recovery being foreseen thereafter towards the end of the projection horizon. On the other hand, disbursements would remain at a similar level to that projected in the March Report. Lower external financing requirements are expected towards the end of the projection horizon, in line with the gradual reversal of the expansionary fiscal policy in a global scenario of lower uncertainty and higher growth of world activity, after overcoming the negative impact of COVID-19.

Table 15
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR
(Million US$)

	2020	2021*			2022*	
		Q1	IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
I. Disbursements 1/	**9,977**	**6,089**	**8,137**	**8,137**	**710**	**710**
II. Amortization	**-935**	**-106**	**-550**	**-560**	**-908**	**-1,165**
III. Net external assets	**-288**	**18**	**-113**	**-86**	**-140**	**-140**
IV. Other transactions with Treasury Bonds (IV = a - b)	**1,064**	**-645**	**370**	**-306**	**2,067**	**2,475**
a. Sovereign Bonds held by non-residents	1,565	-918	720	-580	2,067	2,475
b. Global Bonds held by residents	501	-273	350	-273	0	0
V. TOTAL (V = I+II+III+IV)	**9,818**	**5,357**	**7,845**	**7,185**	**1,729**	**1,880**

1/ Includes bonds.
* Forecast.

26. The soundness of the balance of payments to face negative external events is reflected in the position of Peru's international reserves relative to the balance of its short term external liabilities or comparing the total of these liabilities with the country's current account deficit. In addition to the high levels of financial backing it enjoys thanks to the precautionary accumulation of international reserves, Peru has an automatic freely available credit line (FCL) from the IMF for approximately US$ 11.6 billion to face possible contingencies.

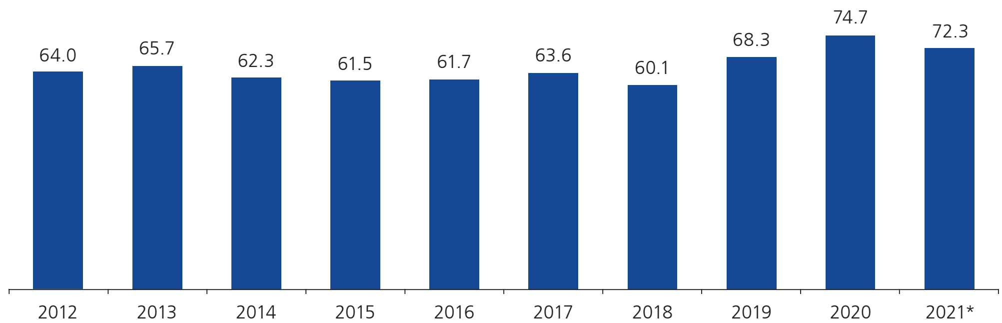
Table 16
NIR INDICATORS

	2017	2018	2019	2020*	2021*	2022*
NIR as a % of:						
a. GDP	29.7	26.7	29.6	36.5	32.7	30.9
b. Short-term external debt 1/	414	343	498	556	499	516
c. Short-term external debt plus current account deficit	351	281	417	626	514	737

1/ Includes short-term debt balance plus redemption (1-year) of private and public sector.
* Forecast.

27. As of June 15, the country's **net international reserves** (NIRs) have decreased by US$ 2,367 million to US$ 72,340 million compared to the end of 2020. This is explained by the reduction of US$ 477 million in public sector deposits at BCRP.

Graph 31
NET INTERNATIONAL RESERVES: 2012 - 2021
(Billion US$)



* As of June 15.

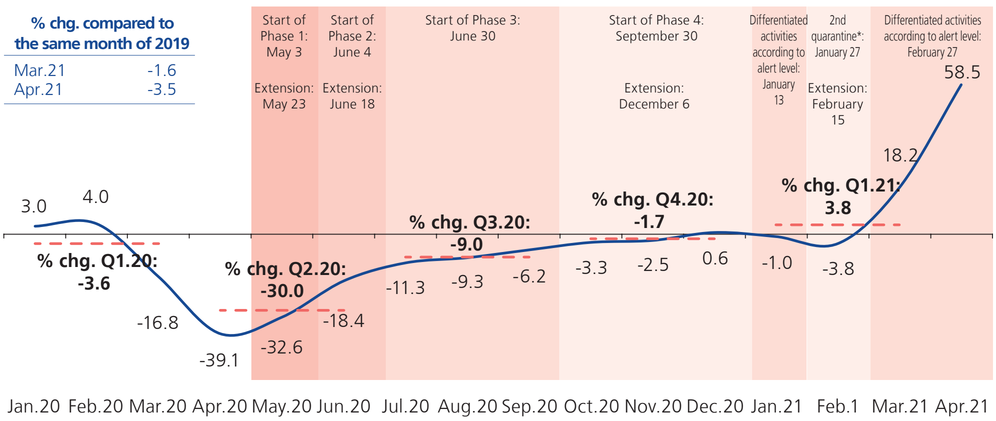
III. Economic Activity

Sector GDP

28. By December 2020, monthly economic activity showed a rapid recovery compared to other countries in the region. However, this recovery was interrupted, first in February, due to the targeted quarantine, and then in April due to electoral uncertainty and to the peak observed in the second wave of COVID-19.

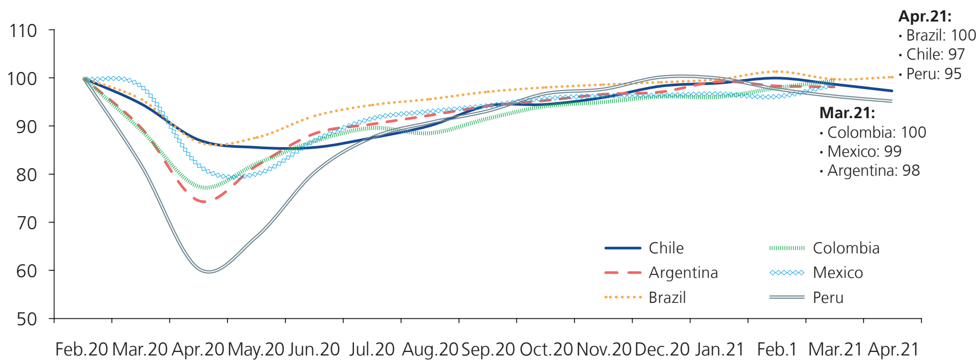
Thus, economic activity in the first quarter of 2021 registered a year-on-year increase of 3.8 percent. With respect to the previous quarter, and compared to the same period of 2019, GDP showed a deceleration in its recovery pace. In the first half of March, the restriction measures were eased, which included the lifting of mandatory immobility and allowed consumers' access to more businesses in regions with extreme epidemiological alert.

Graph 32
REAL GDP
(Annual % change)



* Strict quarantine for departments with extreme epidemiological alert.
Note: The beginning of the phases is based on the publication of the corresponding Supreme Decree. Extension refers to the date on which other activities came into operation.

Graph 33
ECONOMIC REACTIVATION OF LATIN AMERICA, 2020-2021
Seasonally adjusted GDP index, Feb-20 = 100



Source: Central banks and statistical institutes of each country.

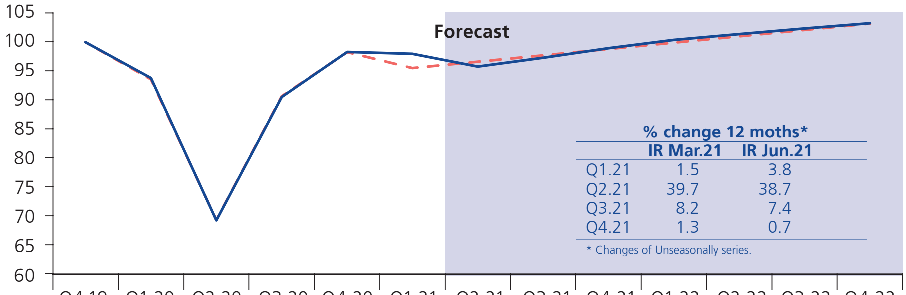
Table 17
GDP REAL
(Annual % chg.)

	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Germany	0.4	-2.2	-11.3	-3.8	-3.3	-3.1
France	1.0	-5.5	-18.4	-3.5	-4.6	1.2
Italy	-0.2	-5.8	-18.2	-5.2	-6.6	-0.8
Spain	1.7	-4.3	-21.6	-8.6	-8.9	-4.3
Netherlands	1.6	-0.2	-9.3	-2.4	-2.8	-2.8
United Kingdom	1.2	-2.2	-21.4	-8.5	-7.3	-6.1
USA	2.3	0.3	-9.0	-2.8	-2.4	0.4
Argentina*	-1.1	-5.2	-19.0	-10.1	-4.3	2.4
Brazil	1.6	-0.3	-10.9	-3.9	-1.1	1.0
Chile	-2.0	0.2	-14.3	-9.0	0.0	0.3
Colombia	3.2	0.7	-15.8	-8.5	-3.6	1.1
Mexico	-0.7	-1.3	-18.7	-8.7	-4.5	-3.6
Peru	1.8	-3.6	-30.0	-9.0	-1.7	3.8

* Data for the first quarter of 2021 are estimated from monthly activity indices.
Source: Central banks and statistical institutes of each country.

29. As projected in the previous Report, economic activity is expected to register a growth rate of 10.7 percent in 2021. Greater dynamism was observed in the first quarter of the year in non-primary sectors, such as services, trade, and construction, causing GDP to grow at a higher rate than expected despite the temporary implementation of a targeted quarantine. However, this factor is likely to be offset by the weakening of agents' expectations about the future of the economy as a result of electoral uncertainty. Activity is expected to return to a path of gradual recovery in the following quarters of the year, following the progress in the massive vaccination process in the second half of 2021 and the high prices of export metals. Additionally, it is assumed that there will be no new future waves of COVID-19 infections that have a strong impact. In line with this, in the fourth quarter of 2021 GDP is projected to remain 1.0 percent below pre-pandemic levels (fourth quarter of 2019).

Graph 34
FORECAST OF GDP, 2019-2022
(Seasonally adjusted index 2019.Q4=100)



	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21	Q1.22	Q2.22	Q3.22	Q4.22
IR Mar.21	100	94	69	91	98	96	97	98	99	100	101	102	103
IR Jun.21	100	94	69	91	98	98	96	97	99	100	101	102	103

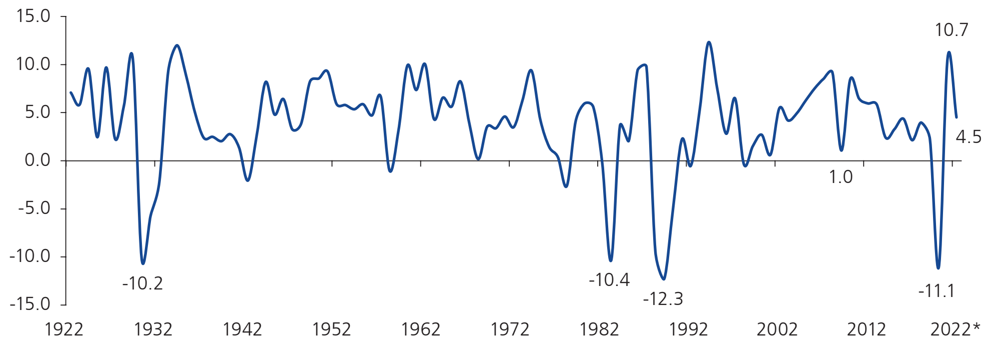
30. In the forecast horizon, the economy would reach a growth rate of 4.5 percent in 2022. The massive vaccination process in the second half of 2021 would allow for a rapid recovery of economic activity in the following year, through the normalization of spending habits that would boost activity in non-primary sectors and generate a recovery in employment. Moreover, private savings, which reached an all-time high of 24.0 percent of GDP in 2020, would continue to finance the recovery of private consumption. At this pace of recovery, economic activity would reach pre-pandemic levels during the first quarter of 2022. However, tourism and restaurant-related economic activities would reach pre-crisis levels in 2023.

Table 18
GDP BY PRODUCTION SECTOR
(Real % change)

	2020	2021*				2022*	
		Q1 compared to:		IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
		Q1.20	Q1.19				
Primary GDP	**-7.9**	**2.7**	**-0.5**	**7.4**	**7.4**	**5.7**	**5.7**
Agriculture and livestock	1.3	0.2	3.9	1.8	2.0	3.0	3.0
Fishing	2.1	38.6	13.6	7.2	7.2	4.7	4.7
Metallic mining	-13.9	3.0	-4.0	11.0	11.4	6.9	6.9
Hydrocarbons	-11.0	-15.8	-15.6	6.5	4.0	9.0	9.0
Based on raw materials	-2.6	14.7	13.8	6.7	6.7	5.1	5.1
Non-Primary GDP	**-12.0**	**4.1**	**0.3**	**11.7**	**11.7**	**4.2**	**4.2**
Non-primary industries	-16.7	15.9	1.9	18.1	18.1	2.0	2.0
Electricity and water	-6.1	2.7	0.8	7.5	7.5	2.3	2.3
Construction	-13.9	41.5	24.5	17.4	17.4	3.8	3.0
Commerce	-16.0	-0.5	-7.6	18.0	18.0	3.3	3.3
Services	-10.3	-0.2	-0.9	8.9	8.9	4.8	4.9
GDP	**-11.1**	**3.8**	**0.1**	**10.7**	**10.7**	**4.5**	**4.5**

IR: Inflation Report.
*Forecast.

Graph 35
TOTAL GDP, 1922-2022
(Annual % change)



* Forecast.

a) In the first quarter of 2021, the **agricultural sector** accumulated a growth rate of 0.2 percent due to a higher export-oriented production of grapes and blueberries. This recovery was offset by a slowdown in the demand for poultry in the context of the pandemic and by lower rice production due to the delay in plantings following the water deficit recorded in 2020.

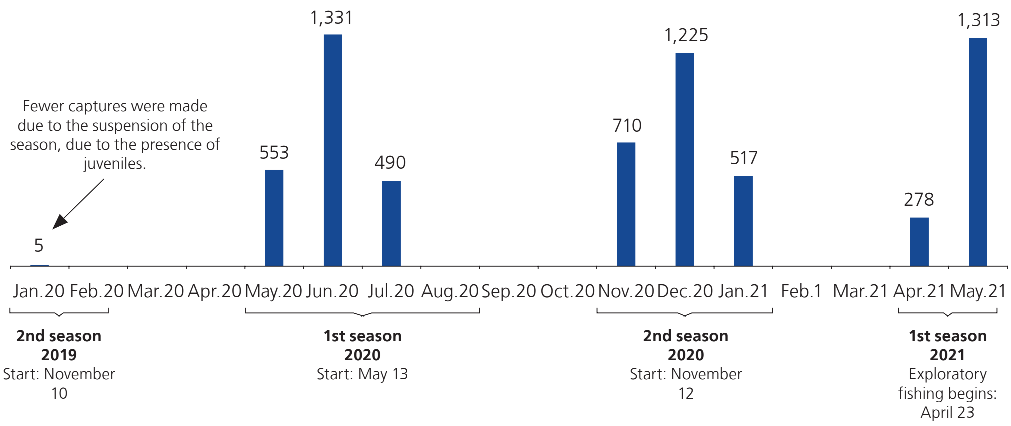
Agro-export activity placed Peru as a world pantry of high quality fresh fruits, the country ranking first as a world exporter of blueberries and second as exporter of grapes and avocados in 2020. Agricultural production in the first quarter of 2021 grew 3.9 percent compared to 2019. This result was influenced by the continued growth in the production of agro-exports (blueberries, grapes, avocados, and tangerines) and rice, which had been affected in 2019 by anomalies in weather temperatures that caused sanitary problems.

The sector is expected to show a slight contraction in this rate of growth in the second quarter of the year due to lower rice and potato production as a result of low water availability in the last quarter of 2020. However, since water conditions are anticipated to normalize later in the year, a lesser negative impact on the production of these products is foreseen. Therefore, the growth projection for the agricultural sector in 2021 has been revised up from 1.8 to 2.0 percent. The sector's momentum in the year will be supported by the continued dynamism of agro-exports (grapes, blueberries, and avocados) with larger cultivation areas and better yields in young plantations, as well as by the dynamism of poultry associated with the base effect of the pandemic scenario.

The projected growth of 3.0 percent in the sector in 2022 is maintained since rice production is foreseen to recover after the water deficit issue is overcome, the production of poultry meat is expected to recover once the pandemic scenario is overcome, and blueberry production is foreseen to grow further due to the increase in harvested areas.

b) Output in the **fisheries sector** grew 38.6 percent in the first quarter of 2021 due to higher anchoveta catch for industrial consumption, given that the second anchoveta season in the North-Central zone of 2019 was suspended in January, earlier than usual[1]. Compared to 2019, production in the first quarter recorded an expansion of 13.6 percent, explained mainly by the higher anchoveta catch at the end of the second fishing season, given the higher biomass recorded at the end of 2020.

Graph 36
ANCHOVY EXTRACTION FOR INDUSTRIAL CONSUMPTION NORTH-CENTER ZONE
(Thousands of tons)



Source: IMARPE.

Exploratory fishing for the first fishing season in the North-Central 2021 zone began on April 23, with a quota of 2.5 million metric tons, about 63 percent of the quota (1.6 million MT) having been caught by May 31, according to IMARPE. Compared to the first 39 days of the previous year's season, this represents an increase of 13 percent due to a greater availability of biomass (last year's quota was 2.4 million MT).

A 7.2 percent growth in fish production is expected for **2021**, while in **2022** the sector is projected to grow by 4.7 percent, this rate being consistent with normal weather conditions.

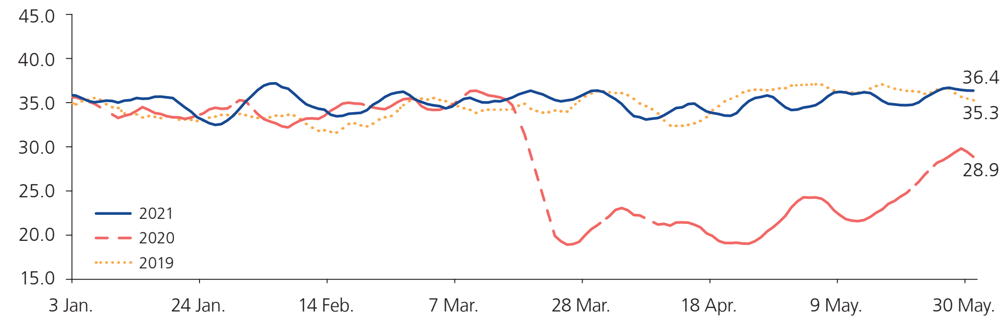
c) The **metal mining** sector grew 3.0 percent in the first quarter of 2021, due to a base effect with respect to the previous year, as mining companies were only allowed to carry out essential activities during the period March 15 to April 30, 2020. Compared to the same period in 2019, output in the sector declined 4.0 percent mainly due to lower production of copper (-9.6 percent) and gold (-28.5 percent). Large and medium mining production was affected by several factors, especially lower metal grades, restrictions on operational capacities to avoid COVID-19 contagions, and conflicts with communities. Gold production was also influenced by lower artisanal mining records. Despite this, however, metal mining

1 The second anchovy fishing season in the North-Central Zone usually extends until the first months of the following year.

production at Chinalco and Southern increased with respect to 2019 due to the Toromocho and Toquepala expansion projects.

During the first months of the second quarter of 2021, mining companies' consumption of electricity continued its recovery gradually. It is worth pointing out that the large mining companies gradually restarted operations in April 2020, in accordance with Phase 1 of the economic reopening plan. Phase 2 began in June, when medium and small formal mining companies were allowed to resume operations, and Phase 3 authorized the reactivation of the rest of mining activities in July.

Graph 37
MINING COMPANIES' DAILY ELECTRICITY CONSUMPTION
(12-months % change of 7-days moving average)



	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21
% change to the same period to the previous year	-18.9	-40.1	-30.1	-11.9	-4.3	-1.5	-0.4	1.1	1.1	1.1	1.0	2.9	25.9	63.1	41.5

The metal mining sector is expected to grow 11.4 percent in **2021** due to higher production in large and medium mining companies as well as due to the beginning of operations at Mina Justa and at the expansion of Toromocho. In addition, production in the metal mining sector is expected to increase 6.9 percent in 2022 due to higher production from Toromocho, Mina Justa, Las Bambas (Chalcobamba), and Constancia (Pampacancha), as well as due to the onset of operations at the Quellaveco project.

d) Activity in the **hydrocarbons sector** dropped 15.8 percent in the first quarter of 2021. This result is due to lower oil production (-39.2 percent) associated with the halt in the extraction of jungle lots (192, 8 and 67), influenced in turn by lower international prices and the termination of contracts. Likewise, the production of natural gas and natural gas liquids fell by 0.2 and 5.7 percent, respectively, due to various maintenance works carried out at the NGL fractionation plant and the Las Malvinas Separation Plant, as well as due to lower domestic demand generated by the sanitary restrictions in February.

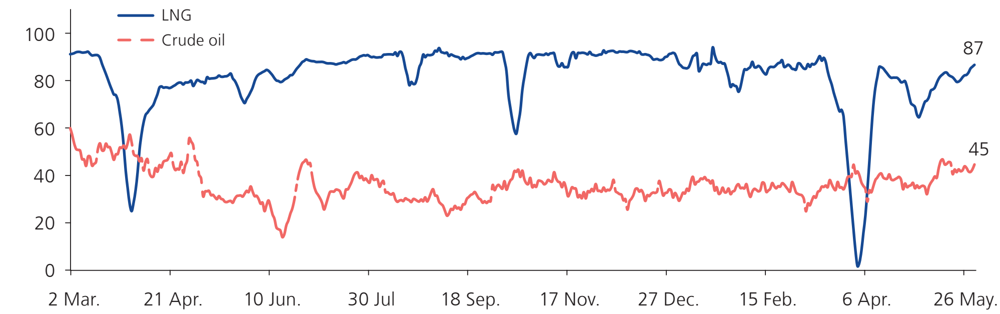
Moreover, the sector's production has decreased 15.6 percent compared to 2019 due to the reasons mentioned above.

In addition, during the second quarter of the year (April and May), the sector's output was affected by lower oil production. Operations at Lots 192 and 8 continue to be paralyzed –Lot 67 resumed operations on March 26–, while the extraction of natural gas and natural gas liquids fell due to maintenance at Las Malvinas Separation Plant and the shutdown of the Melchorita Plant, which generated no production at all from Lot 57 during the period of April 28 to May 25.

Graph 38

LIQUID HYDROCARBON PRODUCTION

(Thousands of barrels per day, 7-day moving average)

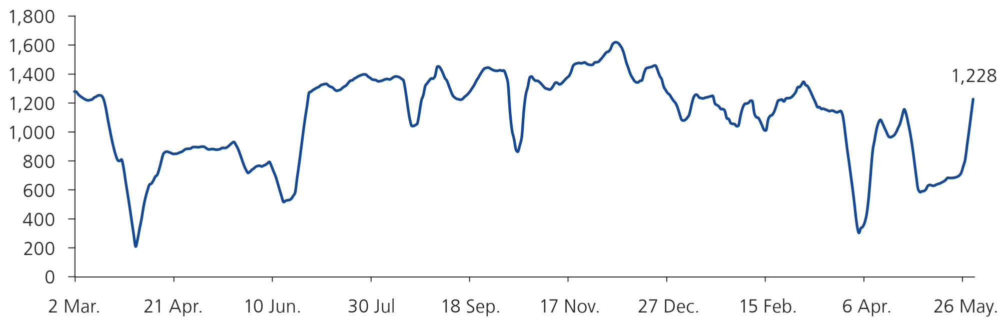


	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21
LNG (% chg.)	-18.5	-3.0	-0.8	-3.3	0.6	2.7	0.7	2.6	1.6	6.1	-1.5	-8.7	-7.2	-7.2	1.8
Crude oil (% chg.)	-1.6	-14.8	-44.2	-40.1	-20.9	-44.6	-50.7	-32.5	-47.5	-47.1	-40.8	-44.7	-31.1	-20.4	30.4

Graph 39

PRODUCTION OF NATURAL GAS

(Millions of cubic feet per day, 7-day moving average)



	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20	Nov.20	Dec.20	Jan.21	Feb.21	Mar.21	Apr.21	May.21
% chg.	-24.4	-29.4	-22.1	-25.7	0.4	-13.9	-13.7	-11.6	5.1	9.5	-5.1	-9.4	18.2	10.3	-7.7

A growth rate of 4.0 percent is expected in **2021**. The previous projection has been corrected due to the lower activity registered during the first half of the year. On the other hand, in **2022** the sector is expected to grow 9.0 percent due to higher oil production following higher activity in the lots located in Loreto.

e) Activity in the **primary manufacturing** subsector accumulated an increase of 14.7 percent in the first quarter of 2021, this increase resulting mainly from higher fish catch to manufacture fishmeal, and canned and frozen fish products. In the second quarter of 2021, the subsector would grow 16.2 percent due to the recovery of oil refining, as well as due to a higher production of fishmeal and canned and frozen fish products.

The sub-sector's growth projection in **2021** remains at 6.7 percent as activity is foreseen to be favored by the reopening of the Talara refinery, higher fishmeal production, and the gradual recovery of the branches affected by the lockdown. In 2022, the subsector is projected to grow 5.1 percent.

f) Activity in the **non-primary manufacturing** subsector increased 15.9 percent in the first quarter of 2021, despite the targeted quarantine established in February. This increase in activity was due to higher production of goods oriented to investment and domestic consumption, the increased output recorded in the branches of metallic products, iron and steel industry, and cement standing out within the former, while the higher production observed in the branches of furniture and toiletries and cleaning products standing out within the latter. Production is expected to recover In the second quarter (88.2 percent), especially in the manufacturing branches that fell the most due to the lockdown in 2020 (manufacturing of inputs and investment-oriented goods).

Non-primary manufacturing would continue to show a recovery in **2021**, with a rate of 18.1 percent, but without reaching pre-pandemic levels yet. In **2022** the subsector is projected to grow 2.0 percent.

g) The **construction sector** grew 41.5 percent in the first quarter of 2021, mainly due to self-construction projects and the continuation of public and private construction works. The activity of the sector as a whole is reflected in the domestic consumption of cement, which increased 42.8 percent during the first quarter of 2021.

In 2021, construction is expected to continue its recovery recording a rate of 17.4 percent, driven by higher public and private investment, and in 2022 activity in this sector is expected to increase 3.0 percent.

h) Activity in the sector of **commerce** decreased 0.5 percent in the first quarter of 2021 due to lower retail trade (-3.4 percent) following the closure of shopping malls in February and the capacity restrictions imposed on stores and shopping centers as a measure to prevent the spread of COVID-19. In contrast, wholesale sales and vehicle sales and repair increased 0.6 and 1.6 percent, respectively.

In **2021**, given the boost from e-commerce, the sector is expected to grow 18.0 percent, supported by higher domestic demand and a gradual recovery in vehicle sales, while in **2022**, activity in the sector is expected to increase 3.3 percent.

i) Activity in the **services** sector declined 0.2 percent in the first quarter of 2021, due to lower dynamism in the branches of (i) accommodation and restaurants (-30.5 percent), one of the most affected service branches due to the paralysis of the tourism sector and the high degree of interaction between people required by the sector, (ii) transportation and storage (-14.6 percent), and (iii) services provided to businesses (-5.3 percent).

The high degree of people-to-people interaction that much of the sector requires would hinder its recovery, especially during the first quarter of **2021** due to targeted health measures. Therefore, it is estimated that the sector would not reach its 2019 levels and that it would register a rate of 8.9 percent in the year. This projection considers a more prolonged impact of the pandemic on tourism-linked branches (i.e. transportation, restaurants and accommodation) than in the other subsectors. On the other hand, in **2022** the sector is expected to grow 4.9 percent.

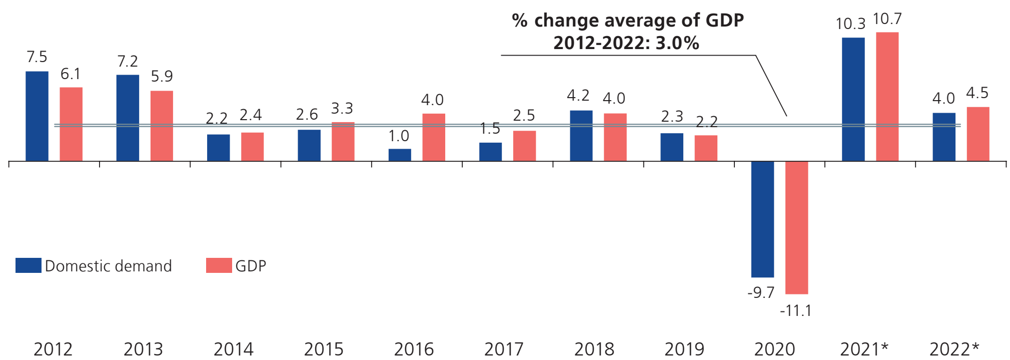
Expenditure-side GDP

31. The tightening of health measures in February temporarily halted the recovery of the labor market, interrupted the improvement recorded in economic agents' confidence, and slowed the dynamism of economic activity observed at the end of 2020. Despite this, there was higher growth in domestic demand than in the same period of the previous year, favored by the execution of different public and private investment projects. On the external front, even though our exports increased due to the recovery of global demand, exports of services fell due to restrictions on international passenger flows.

In the forecast horizon, activity is expected to return to a progressive recovery path, supported by expansionary fiscal and monetary policies, a greater execution of investment projects, better labor market conditions, and the recovery of external demand and terms of trade. This projection assumes a scenario of mass vaccination of the target population during the second half of 2021.

The pace of economic recovery projected for 2021 remains unchanged with respect to the projection of the previous Report. This is explained by the fact that the strong acceleration of private spending –which led to higher-than-expected economic growth in the first quarter of the year– is likely to be offset by the deterioration in economic agents' confidence regarding the electoral process. Consequently, the growth projections for 2021 and 2022 remain at 10.7 and 4.5 percent, respectively.

Graph 40
DOMESTIC DEMAND AND GDP: 2012-2022
(Real % change)



* Forecast.

Table 19
DOMESTIC DEMAND AND GDP
(Real % change)

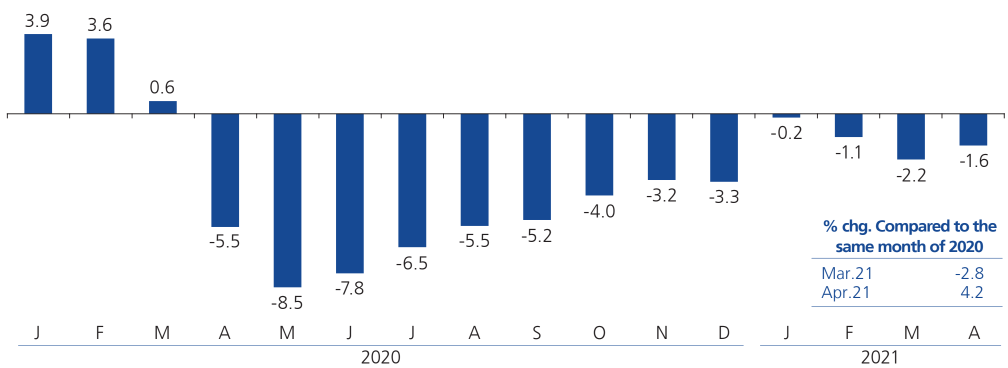
	2020	2021*				2022*	
		Q1 compared to:		IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
		Q1.20	Q1.19				
Domestic demand	**-9.7**	**5.2**	**3.0**	**9.6**	**10.3**	**4.6**	**4.0**
Private consumption	-8.7	2.0	0.2	8.5	8.5	4.8	4.8
Public consumption	7.4	9.4	16.5	3.5	7.0	3.0	1.0
Private investment	-16.6	36.9	16.8	15.5	15.5	4.5	2.5
Public investment	-15.5	24.0	42.7	15.0	19.0	4.5	4.5
Change on inventories (contribution)	-0.9	-4.0	-3.1	0.0	0.0	0.0	0.0
Exports	**-20.1**	**-2.1**	**-12.5**	**13.9**	**13.5**	**6.5**	**6.4**
Imports	**-15.7**	**3.2**	**-2.8**	**9.2**	**11.8**	**7.3**	**4.4**
Gross Domestic Product	**-11.1**	**3.8**	**0.1**	**10.7**	**10.7**	**4.5**	**4.5**
Memo:							
Public expenditure	0.9	12.6	22.0	6.2	9.9	3.4	1.9
Domestic demand excluding inventories	-8.7	9.4	6.2	9.3	10.0	4.5	3.9

IR: Inflation Report.
* Forecast.

32. Indicators of **private consumption**, specifically those related to the labor market, deteriorated temporarily in February as a result of the implementation of a targeted quarantine. Since March, however, they have shown a recovery, in line with the easing of sanitary measures. Other leading indicators, such as imports of consumer durables, credit to individuals and electronic vouchers, reflect a positive gradual advance year-to-date.

a) The recovery of formal employment was interrupted in February due to the restrictions on mobility and the temporary closure of businesses in some regions of the country. In April, employment contracted 1.6 percent with respect to the same month of 2019, showing a smaller reduction than in March.

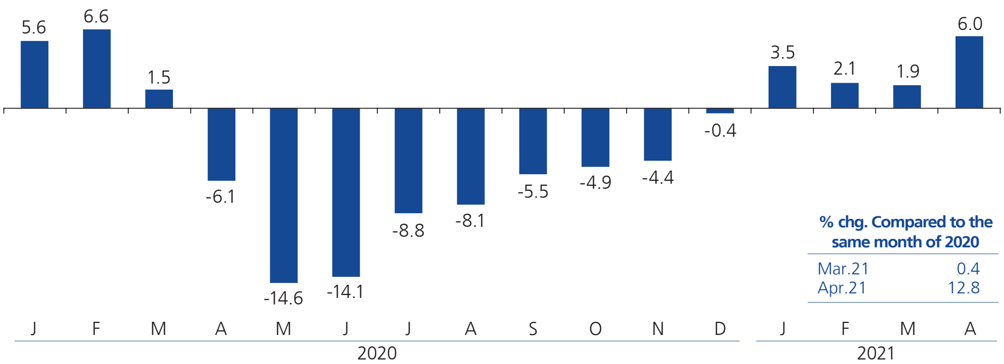
Graph 41
FORMAL EMPLOYMENT
(% chg. compared to the same month of 2019)



Source: SUNAT- Payroll.

b) The formal wage bill has increased so far this year compared to the same period of 2019, supported by the increase in workers' average remuneration and the recovery of jobs.

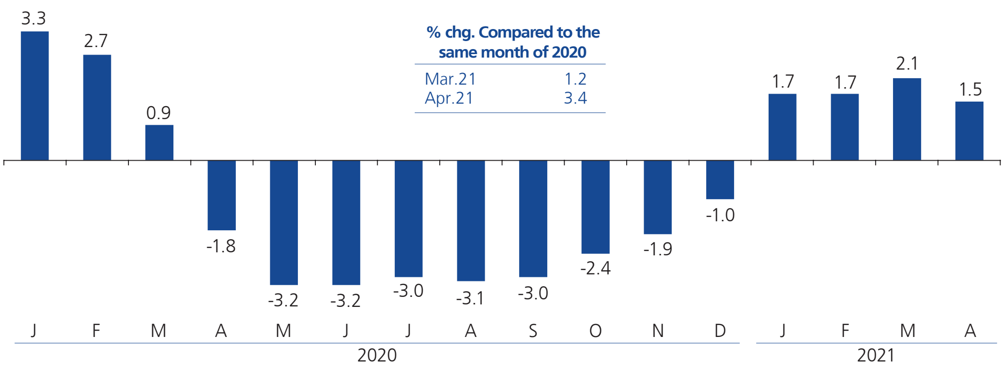
Graph 42
FORMAL WAGE MASS
(% chg. compared to the same month of 2019)



Source: SUNAT- Payroll.

c) In April, 314 thousand private companies reported employment information, as a result of which the number of companies grew 1.5 percent compared to the same month of 2019 (3.4 percent compared to the same period of 2020). The largest increases in the number of firms were recorded in the trade and construction sectors.

Graph 43
PRIVATE SECTOR COMPANIES REPORTING FORMAL EMPLOYMENT
(% chg. compared to the same month of 2019)



Companies	**A.19**	**A.20**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**	**J.21**	**F**	**M**	**A**
Total in thousand	310	304	301	302	304	305	306	309	310	311	311	312	315	314

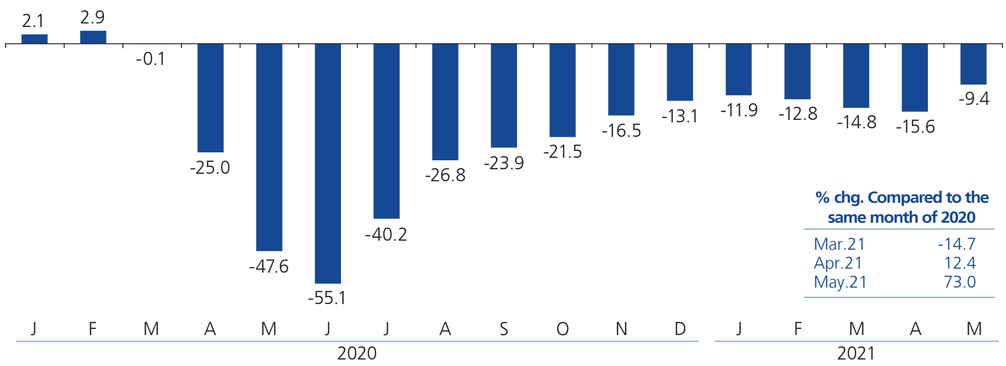
Source: SUNAT- Payroll.

d) According to the Permanent Employment Survey, the employed workforce of Metropolitan Lima was affected due to the inclusion of Lima as a region under extreme alert during February. A lower contraction (9.4 percent) was observed In May with respect to the same month of 2019. Thus, as of May, 458 thousand people are still out of work compared to the same month of 2019.

Graph 44

EMPLOYED POPULATION OF METROPOLITAN LIMA, MOVING QUARTER

(% chg. compared to the same month of 2019)



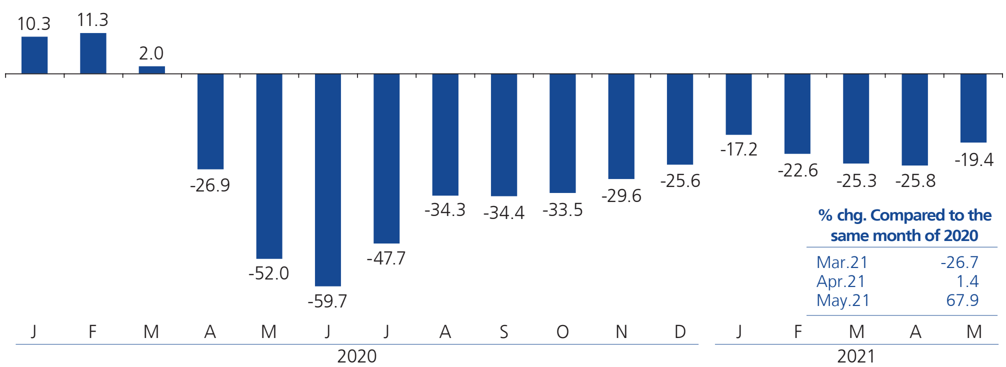
Source: INEI.

e) The lower contraction in the number of workers and the recovery of their income have led to a reduction in the contraction of the nominal wage bill in Metropolitan Lima, which recorded a rate of -19.4 percent in the quarter to May compared to the same period of 2019.

Graph 45

WAGE MASS

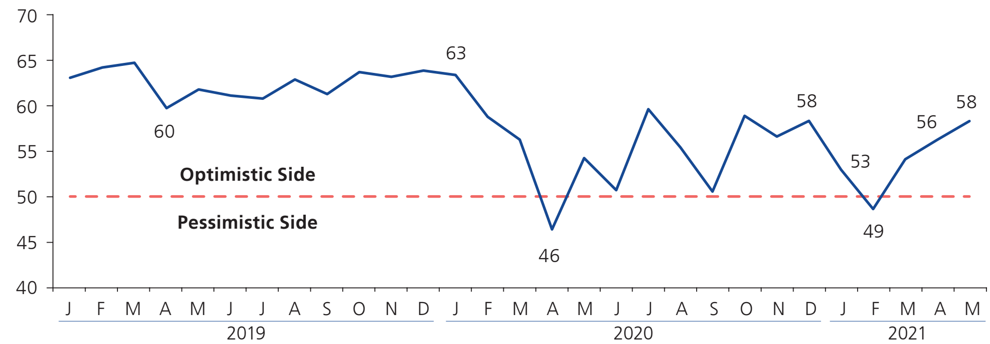
(% chg. compared to the same month of 2019)



Source: INEI.

f) Consumer confidence, measured as agents' expectations about their household economic situation in the next 12 months, returned to the optimistic side after the end of February's targeted quarantine, and has continued to strengthen in recent months.

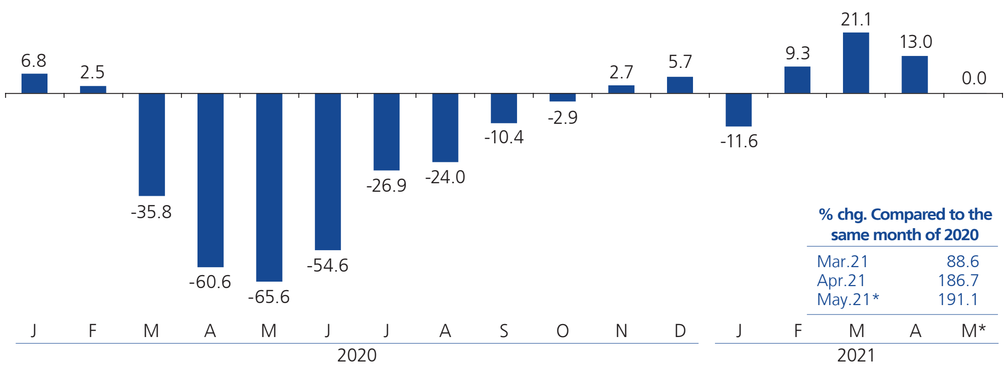
Graph 46
EXPECTATION ABOUT ECONOMIC SITUATION OF THE HOUSEHOLD IN 12 MONTHS, INDICCA METROPOLITAN LIMA
(Diffusion index)



Source: Apoyo.

g) The volume of imports of consumer durables remained unchanged in May compared to the same month of 2019, growing 191.1 percent year-on-year. In April, this indicator grew 13.0 percent compared to the same period of 2019 and 186.7 percent year-on-year.

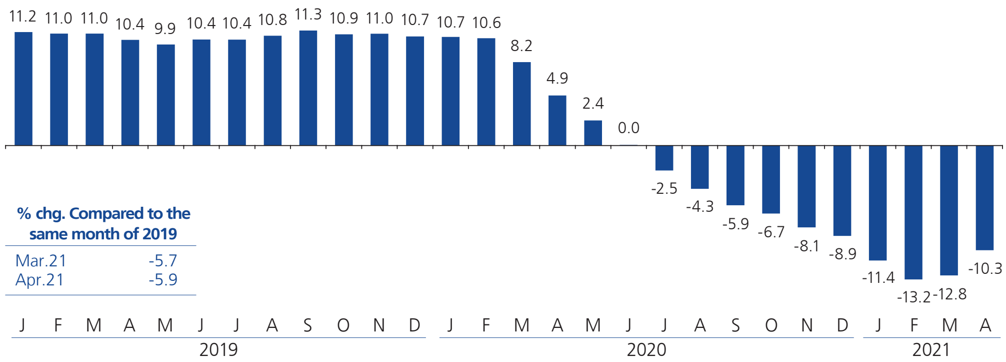
Graph 47
VOLUME OF IMPORTS OF DURABLE CONSUMER GOODS
(% chg. compared to the same month of 2019)



* Preliminary.
Source: SUNAT - Customs.

h) Consumer loans in real terms recorded a lower contraction rate and decreased 10.3 percent year-on-year in April. This slight reversal is explained by the recovery of car loans and the use of credit cards. Moreover, the real amount of consumer credit is still 5.9 percent below its pre-crisis level (April 2019).

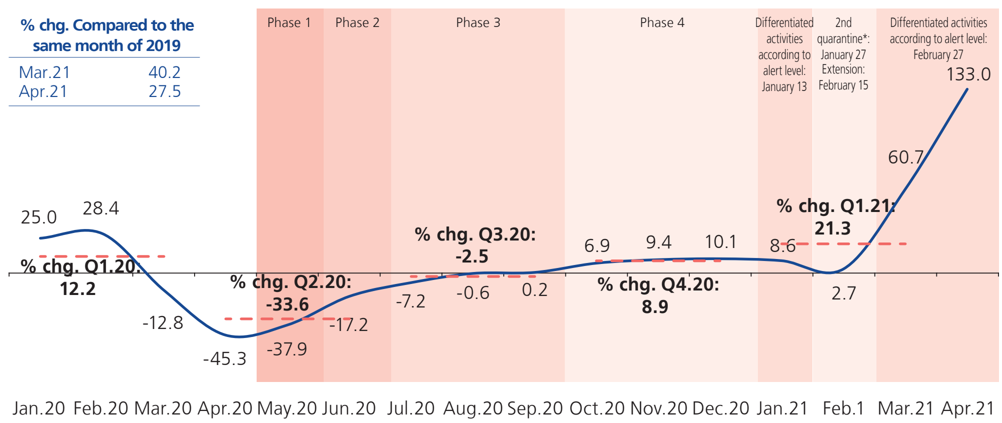
Graph 48
REAL CONSUMER LOANS
(Annual % change)



Source: BCRP.

i) The value of electronic vouchers in real terms in the sectors of commerce and services –a high-frequency indicator of private consumption– continued to accelerate its growth rate in April, recording an increase of 133.0 percent year-on-year and an increase of 27.5 percent with respect to the same month of 2019. Greater access to goods and services, the use of digital channels and the stimuli implemented by the Government have contributed to make sales in sectors linked to private consumption more dynamic in recent months.

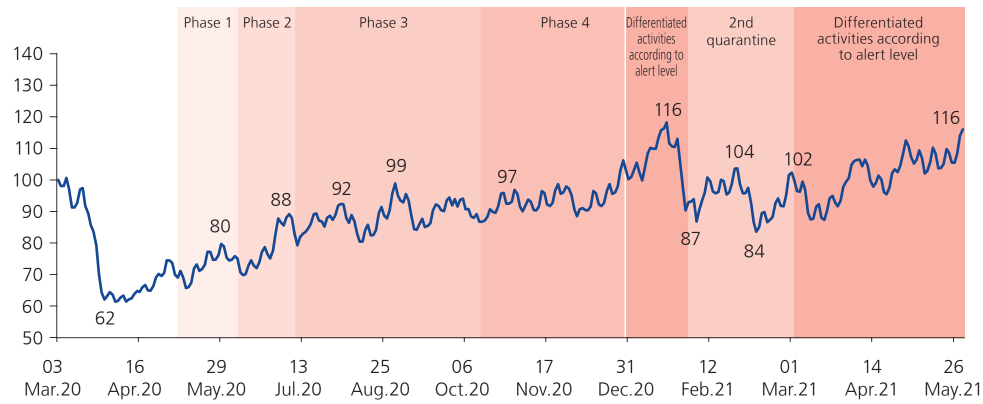
Graph 49
VALUE OF ELECTRONIC RECEIPTS IN THE COMMERCE AND SERVICES SECTOR
(Real annual % change)



Source: SUNAT.

j) The number of customer transactions carried out through the Real-Time Gross Settlement System (RTGS system) declined in February and remained at an average level of 8 percent below the levels recorded prior to the beginning of the pandemic. However, a positive trend has been observed since March due to the dynamism of economic activity. As a result, this indicator as of May 31, 2021, is 16 percent above the levels recorded at the beginning of March 2020.

Graph 50
NUMBER OF CUSTOMER TRANSACTIONS IN THE LBTR
(7-day moving average, index 100 = March 3)

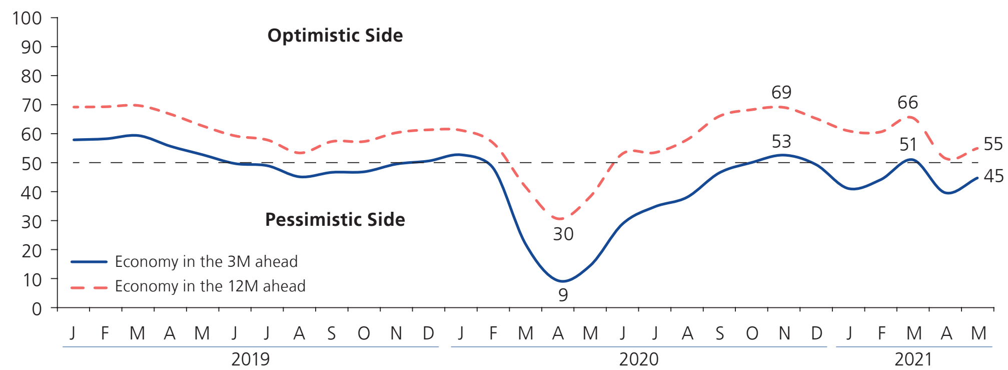


Source: BCRP.

33. Most of the leading private investment-related indicators have become more dynamic in recent months, although, on the other hand, business expectations have deteriorated due to the uncertainty regarding the electoral process.

a) Business expectations about the future of the economy recovered in March after the end of the targeted quarantine. However, uncertainty over the presidential elections led to a deterioration in investor confidence.

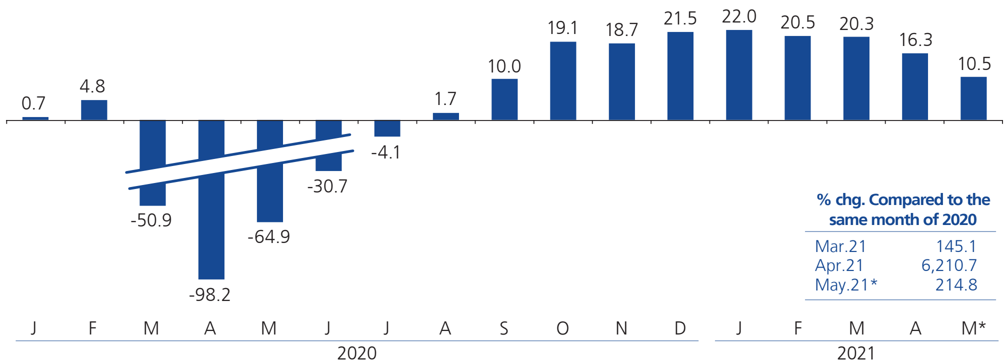
Graph 51
EXPECTATIONS ABOUT THE ECONOMY IN 3 AND 12 MONTHS AHEAD
(Index)



Source: BCRP.

b) Domestic consumption of cement, an indicator related to construction investment, has continued to grow at high rates during the last months and reached levels above those observed in 2019. This increased consumption of cement is associated with households' higher allocation of spending to self-construction projects and with the increased execution of investment projects.

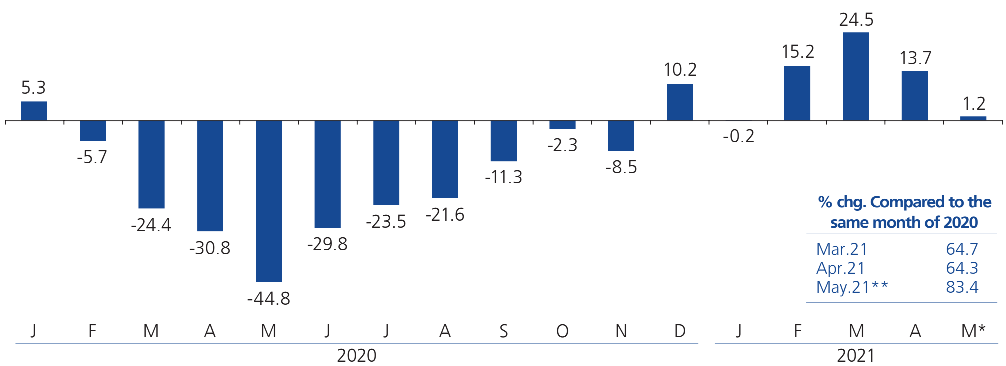
Graph 52
DOMESTIC CONSUMPTION OF CEMENT
(% chg. compared to the same month of 2019)



* Preliminary.
Source: Cement companies.

c) In May, the volume of imports of capital goods, excluding construction materials and cell phones, is estimated to have increased 1.2 percent compared to the same month of 2019 and 83.4 percent year-on-year.

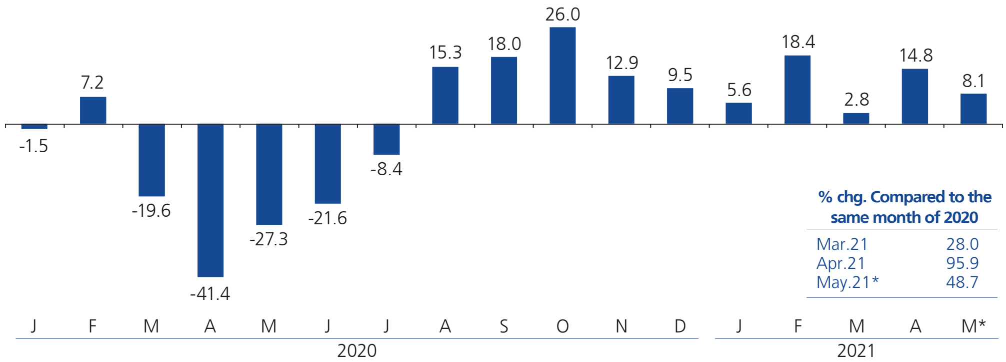
Graph 53
VOLUME OF IMPORTS OF CAPITAL GOODS*
(% chg. compared to the same month of 2019)



* Excluding materials of construction and mobile phones.
** Preliminary.
Source: SUNAT-Customs.

34. The volume of non-traditional exports has continued to grow and is estimated to have registered an expansion rate of 8.1 percent in May compared to the same month of 2019 (48.7 percent year-on-year). This increase is due to higher exports of agricultural, fishing, chemical, textile, and non-metallic mining products.

Graph 54
VOLUME OF NON TRADITIONAL EXPORTS
(% chg. compared to the same month of 2019)



* Preliminary.
Source: SUNAT-Customs.

35. Private expectations on GDP growth have been updated in line with the development of the electoral process. According to the latest **Survey on Macroeconomic Expectations**, agents project a recovery of activity between 4.5 and 8.5 percent for this year and a growth rate of between 4.0 and 4.6 percent for 2022.

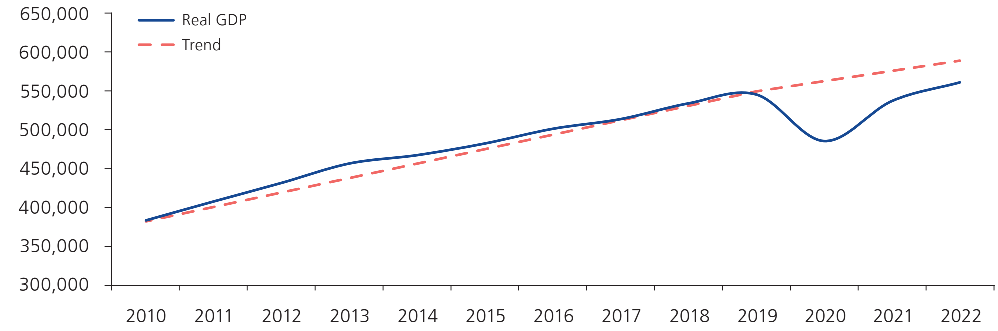
Table 20
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(% change)

	IR Dec.20	IR Mar.21	IR Jun.21*
Financial entities			
2021	9.0	8.8	8.5
2022	4.0	4.2	4.0
Economic analysts			
2021	9.0	8.9	8.5
2022	4.5	4.3	4.6
Non-financial firms			
2021	4.0	4.1	4.5
2022	4.0	4.0	4.0

* Survey conducted on May 31.
Source: BCRP.

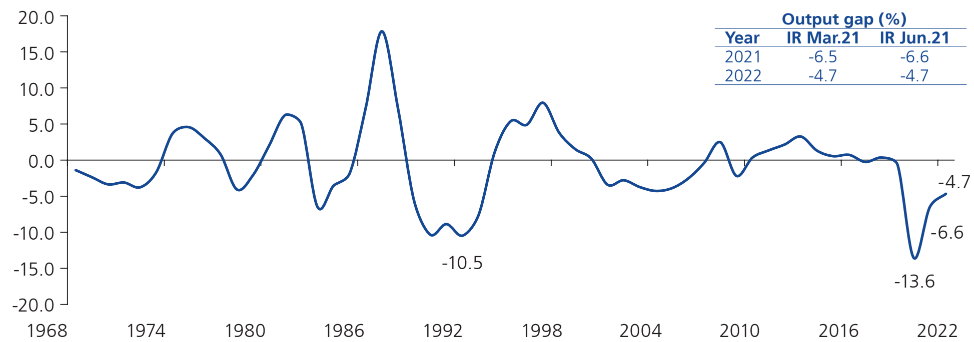
36. The output gap –calculated as the difference between the GDP observed and trend (or long-term) GDP after the COVID-19 shock, would be negative by around 6.5 percent in 2021, recovering partially compared to 2020. This result takes into account the higher accumulation of capital originating from the 15.5 percent increase in private investment and the 19.0 percent increase in public investment, which account for 2.7 and 0.8 percentage points, respectively, of GDP growth in 2021. Moreover, production will continue to recover as health protocols become more flexible. However, this will weigh on productivity levels which are likely to be lower after the reallocation of human resources from pandemic-affected sectors to other sectors, due to their lack of the experience and skills needed for their new jobs. Additionally, the growth rate of capital accumulation will be constrained by the average deterioration of corporate balance sheets.

Graph 55
REAL GDP AND TREND*
(Millions Soles 2007)



* Long-term trend of GDP is calculated using Hodrick-Prescot filter in annual frecuency.

Graph 56
OUTPUT GAP*
(As a percentage of trend GDP)



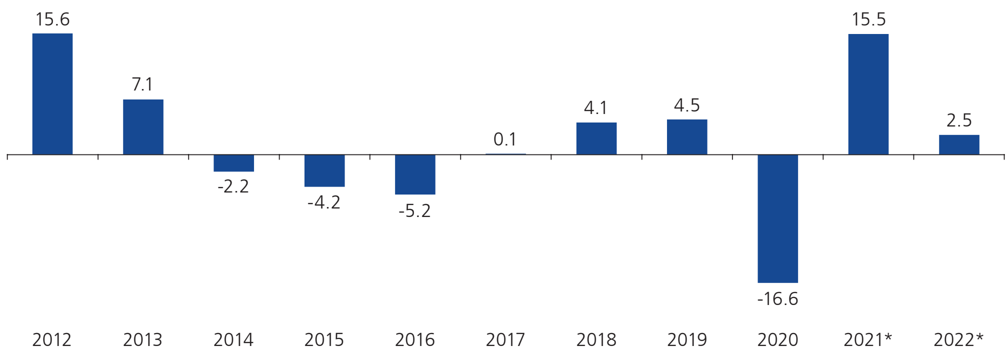
* Long-term trend of GDP is calculated using Hodrick-Prescot filter in annual frecuency.

37. **Private consumption** in the first quarter of 2021 grew 2.0 percent, this growth rate being explained by greater access to goods and services compared to the same period of the previous year and by the positive effect of government stimulus. Household spending is expected to continue to recover in the following quarters of the year, driven by more favorable labor market conditions and by greater access to goods and services that were previously restricted. In addition, households are expected to resume their pre-pandemic spending habits as the vaccination process progresses, supported by the strong increase observed in private savings in the previous year. Thus, private consumption is projected to show an average growth rate of 8.5 percent in 2021.

In 2022, private consumption is estimated to grow by 4.8 percent, in a context of improved terms of trade and a recovering labor market following the normalization of economic activity.

38. **Private investment** grew 36.9 percent in the first quarter of 2021 –a higher rate than that expected in the previous Report–, mainly as a result of a higher execution of different investment projects and the continued dynamism of self-construction projects. A greater execution of large mining and infrastructure projects is expected in the following quarters as COVID-19 vaccines are distributed and sanitary measures are eased. Despite this, however, the pace of investment recovery in 2021 would be the same as forecast in the previous Report (15.5 percent) due to greater investor uncertainty following the development of the electoral process. The projected growth of investment in 2022 has been revised down from 4.5 to 2.5 percent due to lower business expectations.

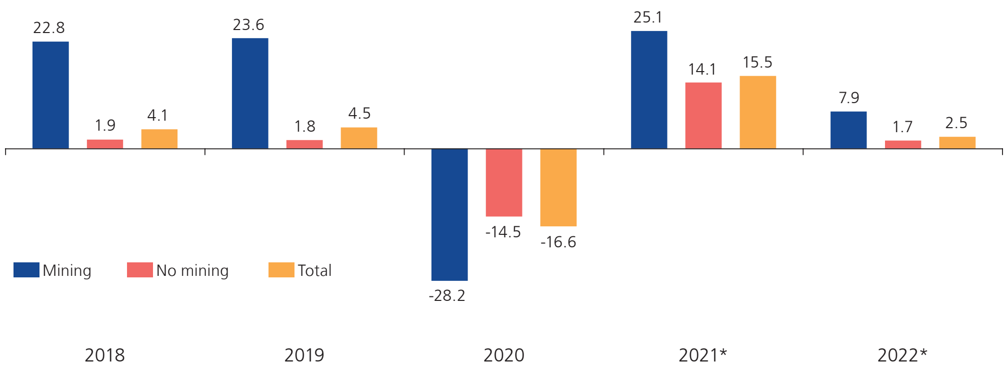
Graph 57
PRIVATE INVESTMENT: 2012 - 2022*
(Real % change)



* Forecast.

a. Investments in the **mining sector** totaled US$ 1,298 million in the January to April 2021 period, with investments by Anglo American Quellaveco (US$ 342 million), Antamina (US$ 120 million) and Marcobre (US$ 95 million) standing out. The projection for the 2021-2022 period considers the completion of the construction projects of Quellaveco (with a total investment of US$ 5.3 billion), Mina Justa (US$ 1.6 billion), and the Toromocho Expansion (US$ 1.3 billion) projects. Additionally, projects such as Corani (US$ 0.6 billion), San Gabriel (US$ 0.4 billion), and Yanacocha Sulfuros (US$ 2.1 billion) are expected to start construction in 2022.

Graph 58
PRIVATE INVESTMENT
(Annual Real % change)



* Forecast.

b. With the recovery of private investment, **investment in infrastructure** continues with the construction of the main projects. Line 2 of the Lima Metro stands out, with a 36 percent progress in its implementation in April according to OSITRAN. Moreover, the first stage of Line 2 (between Mercado Santa Anita and Evitamiento) is expected to start operating commercially in October. As for the expansion of the Jorge Chávez International Airport, the earthworks required for the construction of the second landing runway are currently underway and the first paving works, which will begin in June of this year, should be completed in 2022. On the other hand, regarding the Marcona Port Terminal, Shougang submitted the Modification of the Environmental Impact Study (MEIA) of the project to SENACE in February and expects the project to be completed by the end of 2022. Regarding the modernization of the Callao North Pier, the company expects to sign the addendum to the concession contract (which would increase the investment amount by US$ 250 million) for the development of stage 3 of the project. Finally, DP World has annnounced that the Expansion project of Muelle Sur will now be called Muelle Bicentenario and that the investment amount has been increased from US$ 300 million to US$ 350 million according to the last addendum signed this year.

Table 21

MAIN ANNOUNCEMENTS OF PRIVATE INVESTMENT PROJECTS: 2021-2022

SECTOR	PROJECTS	Total Investment (US$)	Put in Operation*	Investment 2021-2022 (US$)
MINING	Quellaveco	,5,300	2022	2,400
	Justa Mine	1,600	2021	76
	Expansion of Toromocho Mine	1,355	2022	252
	Yanacocha Sulfuros	2,100	2024	1,300
	Corani	579	2024	300
	San Gabriel	422	2023	320
HYDROCARBONS	Wide-Scale Use of Natural Gas in Central ad South Region	1,400	2022	280
	Wide-Scale Use of Natural Gas in Piura	230	2024	190
ELECTRICTY	500 kV Mantaro - Carapongo	500	2023	300
	Solar plant in Arequipa	300	2022	280
	Punta Lomitas wind power plant	350	2025	100
INDUSTRY	Phosphate plant	800	2024	250
	Cement manufacturing improvement project	200	2022	200
	Cement and lime plant	200	2023	150
INFRASTRUCTURE	Line 2 of the Metro network of Lima and Callao	2,054	2024	1,150
	Terminal Portuario de Chancay	1,300	2023	900
	Expansion of International Airport (Jorge Chavez)	1,500	2024	840
	Marcona Port Terminal	309	2022	309
	Modernization of Muelle Norte	850	2023	345
	Expansion of Muelle Sur	350	2024	214
	Salaverry Port	229	2021	199
	Pucusana-Ica road network	294	2022	110

Source: Information on companies, newspaper and specialized media.

c. **Proinversión** reports that investment projects of more than US$ 7.2 billion would be awarded under concession contracts in the 2021-2022 period.

Table 22

MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2021-2022

(Million US$)

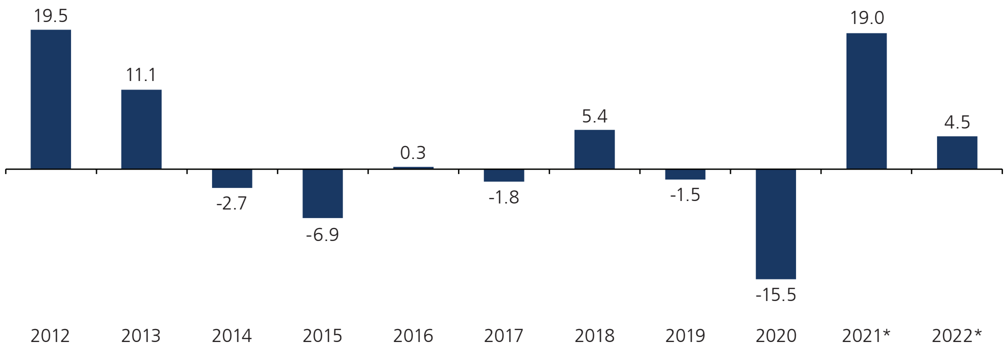
	Estimated investment
To be called	**7,193**
Peripheral Ring Road	1,965
Ancon Industrial Park	750
New San Juan de Marcona Port Terminal	637
Headworks and Conduction for the Drinking Water Supply in Lima	480
Broadband AWS-3 and 2.3 GHz	291
Huancayo - Huancavelica Railway	263
Improvement of Tourist Services in the Choquequirao Archaeological Park	260
National Hospital Hipólito Unanue	250
Schools in risk: Metropolitan Lima	227
Wide-Scale Use of Natural Gas in Central ad South Region	200
Treatment system for wastewater Huancayo	172
EsSalud Piura	170
500 kV Transmission Line and Piura Nueva - Frontera Substation	163
Schools in Risk: Ate-San Juan de Lurigancho	148
Essalud Chimbote	130
IPC- Wastewater Treatment for effluent dumping or reuse - Trujillo	129
Modernization of the Regional Electricity Company Electro NOROESTE	123
Central Military Hospital	115
Schools at Risk: Comas - San Martín de Porres	95
Wastewater treatment for final disposal or reuse - Chincha	92
Schools at Risk: Villa María del Triunfo	75
High Performance Schools: COAR Centro	66
IPC -Wastewater Treatment System for Puerto Maldonado	55
Improvement and enlargement of the sewage and wastewater treatment system in Cajamarca	55
138 kV Puerto Maldonado - Iberia Transmission Line and Valle del Chira Substation of 220/60 /22.9 kV	47
IPC- Wastewater Treatment for effluent dumping or reuse, Cusco province	42
Ilo desalination plant	37
Solid Waste Management of Health Establishments Minsa	35
IPC - Wastewater treatment for effluent dumping or reuse, Cañete province	34
Rural sanitation in Loreto	28
IPC - Wastewater Treatment Plant for the city of Tarapoto	26
IPC Cusco	19
Tourist Project Cable Car Historic Center Lima-San Cristobal	14
Longitudinal de la sierra tramo 4	*
SITGAS *	
Reque Nueva Carhuaquero	*

* There is currently no estimated investment amount.
Source: Proinversión.

39. **Public investment** increased 24.0 percent in the first quarter of 2021, driven by the execution of all groups of projects, including the projects carried out under the Reconstruction program (under the Government-to-Government Agreement with the United Kingdom), the response projects to the COVID-19 pandemic, Arranca Peru, and the rest of the projects.

Public investment in 2021 and 2022 is expected to grow 19.0 and 4.5 percent, respectively, as a result of higher spending on reconstruction works (under the Government-to-Government Agreement with the United Kingdom), response to the COVID-19-related projects, and reactivation projects (Arranca Perú), as well as those included in the National Infrastructure Plan for Competitiveness (e.g., Line 2 of the Lima and Callao Metro and the international airport of Chinchero in Cusco), road infrastructure (Bellavista-Mazán-El Estrecho, Huánuco-Conococha highways, the Northern Section of COSAC I, and the Cusco expressway), and sanitation projects (drinking water and sewerage in Chorrillos).

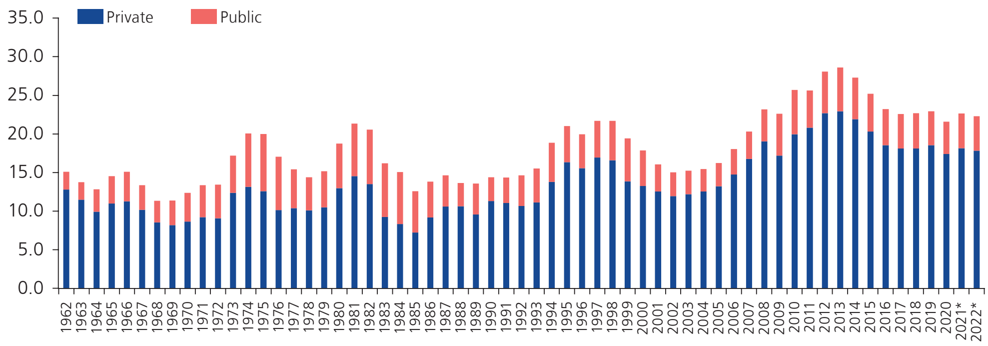
Graph 59
PUBLIC INVESTMENT: 2012-2022
(Real % change)



* Forecast.

40. **Gross fixed investment**, as a percentage of real GDP, would decline by 0.6 percentage points in 2022 from its 2019 level, bringing it down to 22.3 percent of output. Once the economy recovers to pre-pandemic levels of economic activity, reforms to shore up the economy's productivity are required for investment to continue to grow in the following years.

Graph 60
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2022
(% of real GDP)



* Forecast.

41. Domestic savings are projected to increase from 19.4 percent of GDP in 2020 to 19.8 percent in 2021, as the recovery in public savings is foreseen to outweigh the fall in private savings. Public savings would increase by 4.6 percentage points of GDP between 2020 and 2021 due to the lower use of government resources to face the pandemic and due to the increase in revenues collected after the resumption of economic activities. On the other hand, private sector savings would fall to 19.8 percent of GDP as a result of higher growth of consumption and the return of spending habits to those observed prior to the pandemic. Moreover, the resumption and increased execution of public and private projects would raise the gross domestic investment ratio by 0.9 percentage points with respect to the previous year. In sum, the external gap would narrow to 0.2 percent of GDP in 2021.

In 2022, following the normalization of the global health scenario and the recovery of economic activity, public savings would continue on a positive trend due to a lower fiscal deficit, while private savings would decrease by 0.2 percentage points. Thus, the external gap would represent 1.8 percent of nominal GDP.

Table 23
SAVING-INVESTMENT GAP
(% of nominal GDP)

		2020	2021*			2022*	
			Q1	IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
1	**Domestic Gross Investment 1/**	**18.7**	**21.5**	**19.8**	**19.6**	**19.8**	**19.2**
2	**Domestic Saving**	**19.4**	**18.4**	**19.8**	**19.8**	**19.9**	**21.0**
	External Gap (=2-1)	0.7	-3.1	0.0	0.2	0.1	1.8
	1.1 Private Domestic Gross Investment 1/	14.4	17.8	15.5	15.2	15.6	14.8
	1.2 Private Saving	24.0	14.9	20.0	19.8	18.4	19.6
	Private Gap (=1.2-1.1)	9.6	-2.9	4.4	4.6	2.8	4.9
	2.1 Public Investment	4.3	3.7	4.3	4.5	4.3	4.4
	2.2 Public Saving	-4.6	3.5	-0.1	0.0	1.5	1.4
	Public Gap (=2.2-2.1)	-8.9	-0.3	-4.4	-4.5	-2.8	-3.1

* Forecast.
1/ Includes change on inventories.
Source: BCRP.

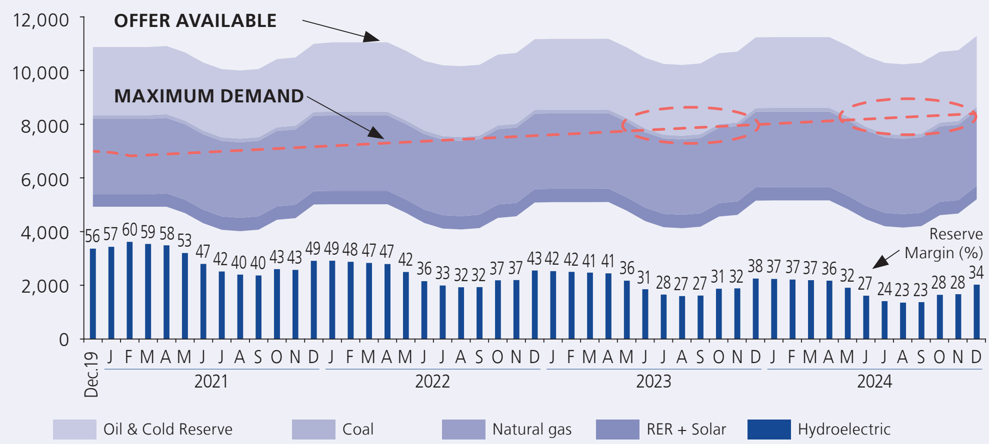
BOX 1
ESTIMATES OF THE SUPPLY-DEMAND BALANCE IN THE ELECTRICITY SECTOR 2021-2024

Having a secure and continuous electricity supply is a necessary condition to mitigate potential constraints to sustained economic growth. The supply-demand balance of the electricity sector is a projection of the reserve margin[2] made to estimate whether there is a risk of insufficient future electricity generation that could lead to power outages or rationing.

In 2020, the **available supply** of the national electricity generation system –Sistema Eléctrico Interconectado Nacional (SEIN)– **was 10,867 MW**. For the purpose of the supply-demand balance, the available supply of electricity generation is lower than the effective power (12,708 MW)[3] due to supply restrictions resulting from various factors, such as weather conditions that reduce the hydroelectric supply in the low water period (May - November), limitations in the transportation capacity of natural gas, and maintenance, among other factors. In 2020, the **maximum demand for electricity was 6,960 MW**, **which implies a reserve margin of 56 percent**.

For the purpose of projecting a baseline scenario for this balance until 2024 –(2024 vs. 2020)–, we consider an expected growth in available supply of an annual average of 0.9 percent, which is equivalent to a cumulative increase of 408 MW. This increase considers the 21 generation projects reported by the SEIN Economic Operation Committee (COES) that would come into operation in this period: 17 hydroelectric plants, 2 oil-fired plants, and 2 wind power plants, and a correction for the aforementioned supply restrictions. On the other hand, we consider an expected growth of the maximum demand in the electricity sector of an annual average of 4.9 percent, which is equivalent to an accumulated increase of 1,467 MW, including the demand of mining and non-mining projects, as well as an annual average growth rate of 5.8 percent[4] in the economy.

ESTIMATE OF THE SUPPLY-DEMAND BALANCE OF THE ELECTRICITY SECTOR 2020-2024
(MW)



Source and Elaboration: BCRP.

---

2 The reserve margin is calculated as the available supply of generation minus the maximum demand, expressed as a percentage of the maximum demand.

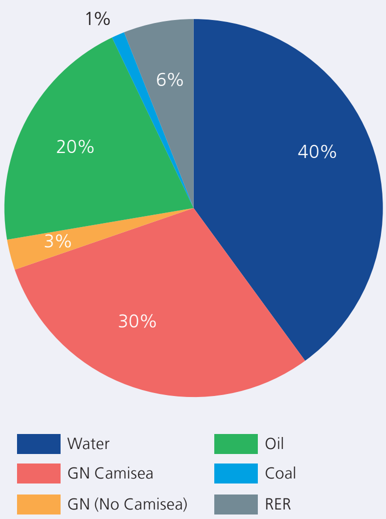
3 Effective power is the maximum supply of electric power at a given time under optimal operating conditions.

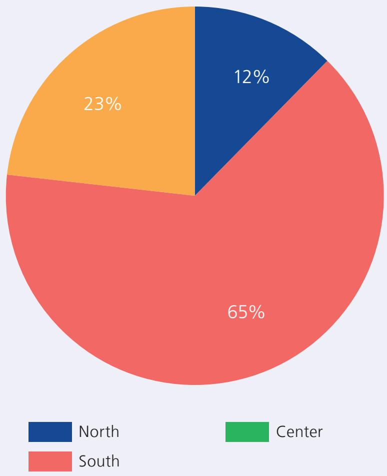
4 The GDP growth projections of this Inflation Report are considered herein: 10.7 percent in 2021 and 4.5 percent in 2022. On the other hand, a GDP growth rate of 4 percent is considered for 2023 and 2024 for this analysis.

Under these assumptions, it is estimated that the reserve margin would decrease from 56 percent in 2020 to 34 percent in 2024, because the expected growth in demand would be greater than the growth in supply. This trajectory implies that, unless there are interruptions in the supply, transportation or distribution of natural gas or restrictions in transmission lines, no risk of interruption or rationing is foreseen during this period. However, it is estimated that in the dry months of 2023 and 2024 it may be necessary for demand to be met by oil-fired thermal power plants, which would mean that the spot price would increase in those months.

The electricity generation pool is mainly made up of hydro sources (40 percent) and thermal sources based on natural gas (NG) from Camisea (30 percent). In addition, since 65 percent of the power generation supply is concentrated in the center of the country, it is important to invest in transmission infrastructure to mitigate the risk of service interruptions in other areas of the country whose demand grows faster than the supply of nearby plants. In this regard, it is worth mentioning that about 50 transmission infrastructure units are foreseen to start operations until 2024, including 21 transmission lines, the largest capacity of which are located in the central and northern areas of the country. The later include the 500 kV Mantaro-Nueva Yanango-Carapongo connection and associated substations, the 500 kV Nueva Yanango-Nueva Huánuco connection and associated substations, and the 500 kV La Niña-Piura connection, substations, lines and associated extensions.

SEIN: 2020 GENERATOR PARK EFFECTIVE POWER
(By energy source and geographic location)





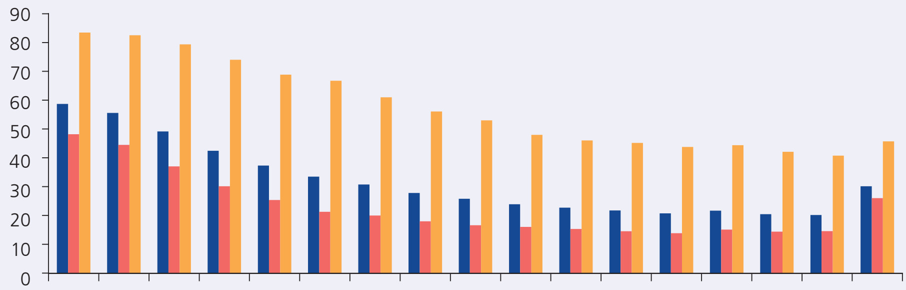
Source: COES. Elaboration: BCRP.

Box 2
EVOLUTION OF POVERTY

This box examines the evolution of the incidence of monetary poverty, and describes its quarterly dynamics in 2020 to elucidate patterns that are hidden if only the annual average rate is viewed.

Between 2004 and 2019, the rate of monetary poverty declined by 38.5 percentage points (Figure 1), the main period of reduction being observed between 2004 and 2011, with a drop of 30.9 percentage points. This period of time coincides with a period marked by high GDP per capita growth at the national level (with an average real growth of 6.0 percent) in a context of macroeconomic stability and a commodity price boom that peaked precisely in 2011. On the other hand, between 2011 and 2019, the pace of poverty reduction slowed down and fell 7.6 percentage points, which coincides with a real GDP per capita that varied only 2.4 percent on average per year. Given this high correlation between aggregate income growth and poverty decline, it was feasible to estimate a 12.4 percent drop in GDP per capita[5] along with a 9.9 percentage point increase in the poverty rate in 2020.

INCIDENCE OF MONETARY POVERTY IN PERU, 2004 - 2020
(%)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
National	58.7	55.6	49.1	42.4	37.3	33.5	30.8	27.8	25.8	23.9	22.7	21.8	20.7	21.7	20.5	20.2	30.1
Urban	48.2	44.5	37.0	30.1	25.4	21.3	20.0	18.0	16.6	16.1	15.3	14.5	13.9	15.1	14.4	14.6	26.0
Rural	83.4	82.5	79.3	74.0	68.8	66.7	61.0	56.1	53.0	48.0	46.0	45.2	43.8	44.4	42.1	40.8	45.7

Note: Own elaboration based on information from the National Household Survey (ENAHO).

Graph 1 also highlights that the incidence of monetary poverty increased in both rural and urban areas in 2020, but especially in the latter, due to the nature of the economic shock caused by the pandemic. Indeed, the agricultural sector continued to operate even under the most stringent containment measures, whereas operations in the sectors of services and commerce –the major employers in urban areas– were more restricted. The 2020 pandemic brought a significant setback in household welfare, in both urban and rural areas, returning households to a level not seen in aggregate since 2010.

It should be pointed out, however, that the poverty rate shown in Graph 1 is the result of an annual average. In other words, the indicator is calculated on the basis of observations that are collected

5 The 12.4 percent change in GDP per capita incorporates a fall of 11.1 percent in GDP and a population growth rate of 1.5 percent between 2019 and 2020. The latter corresponds to INEI projections as of June 30, 2020, but the population figure is likely to be lower due to the fall in the birth rate and to the deaths caused by the pandemic.

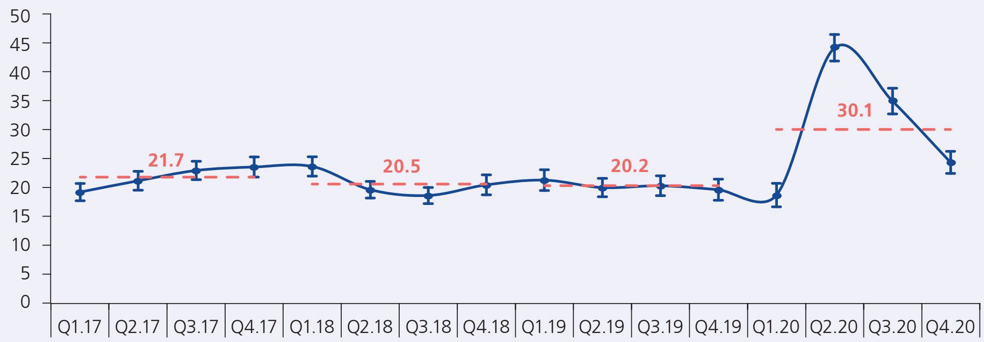
in roughly equal proportions during the four quarters of the year as part of the National Household Survey (ENAHO) conducted each year by Instituto Nacional de Estadísticas (INEI). In 2020, there is marked heterogeneity in the poverty levels between quarters because the intensity of the economic shock was stronger in the second quarter of the year (-30.0 percent year-on-year change in real GDP) due to the strict immobility measures established at the national level. These measures were partially eased towards the end of the year, bringing down the year-on-year GDP contraction rate to 9.0 and 1.7 percent in the third and fourth quarters of the year, respectively.

Between 2017 and 2019, the coefficient of variation of the quarterly poverty rate was 8 percent (poverty rates were 8 percent above or below the mean for that time horizon, on average). In contrast, the coefficient of variation was 37 percent in 2020.

Graph 2 shows the percentage of households that were interviewed for the ENAHO survey each quarter between 2017 and 2020, and which reported annualized per capita expenditure below the poverty line.[6] Clearly, the quarterly values emulate the annual average in the 2017-2019 period, while in 2020 the incidence of poverty is much higher in the second quarter than in the rest of the year.

In fact, at end 2020 the percentage of households with a reported annualized expenditure below the poverty line was between 22.4 and 26.2 percent, with a confidence level of 95 percent. This means that by the fourth quarter of 2020, following the strong, albeit partial economic recovery and the delivery of cash bonuses to households, poverty was substantially lower than the rate expressed by the annual average. In the third and fourth quarters, monetary support to households was substantially extended with the expansion of the Bono Familiar Universal and with a second transfer of cash to households benefiting from previous bonuses through the Bono Universal (which began to be delivered in October).

PERCENTAGE OF HOUSEHOLDS IN A POVERTY SITUATION, 2017 - 2020
(%)



Note: Own elaboration based on information from the National Household Survey (ENAHO).
Confidence intervals are calculated at 95 percent confidence.

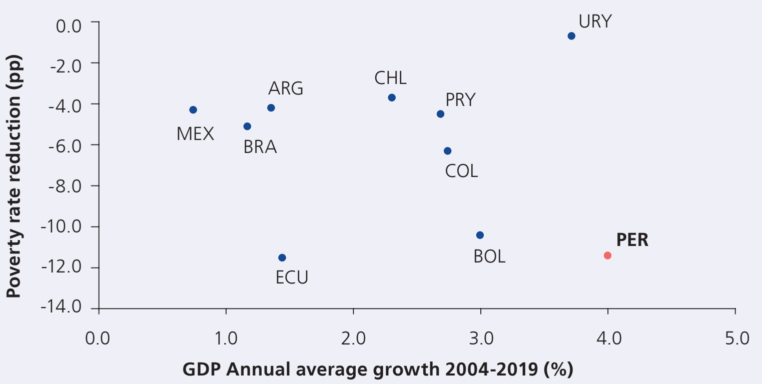
Graph 3 compares GDP per capita growth between 2004 and 2019 with the reduction in monetary poverty over the same period for 10 countries in the region, including Peru. Because each country

6 The expenditure and income figures reported in the ENAHO survey correspond to amounts for the weeks prior to the day of the survey. For example, the data on expenditures on food and beverages are the ones reported by the household when asked about expenditures in the last 15 days. Therefore, these variables do not necessarily reflect the average annual behavior of household consumption, as they may be influenced by the time at which the survey is conducted.

uses different approaches to measure poverty, the comparison is made using data from the World Bank, which measures the incidence of poverty as the percentage of the population living on less than US$1.90 per day.

The comparison shows an inverse relationship between the level of GDP per capita growth and the variation in the poverty rate for the selected countries. In addition, it should also be pointed out that Peru was one of the countries with the highest growth and the greatest reduction in poverty during this period.

PERCENTAGE OF HOUSEHOLDS IN A POVERTY SITUATION, 2017 - 2020
(%)



Poverty (%)

	2004	2019
ARG	5.7	1.5
BRA	13.6	3.2
BOL	9.7	4.6
CHL	4.0 *	0.3 *
COL	11.2	4.9
ECU	15.1	3.6
MEX	6.0	1.7 **
PER	13.6	2.2
PRY	5.4	0.9
URY	0.8	0.1

Poverty Reduction (US $ 1.90 (PPP) per day)

Country	ARG	BOL	BRA	CHL	COL	ECU	MEX	PER	PRY	URY
GDP per capita										
(Average% Var 2004-19)	1.4	3.0	1.2	2.3	2.7	1.4	0.7	4.0	2.7	3.7
Poverty (Var. 2004-19)	-4.2	-10.4	-5.1	-3.7	-6.3	-11.5	-4.3	-11.4	-4.5	-0.7
Poverty 2004	5.7	13.6	9.7	4.0	11.2	15.1	6.0	13.6	5.4	0.8
Poverty 2019	1.5	3.2	4.6	0.3	4.9	3.6	1.7	2.2	0.9	0.1

Note: Own elaboration based on World Bank data (https://data.worldbank.org/).
GDP per capita is expressed in PPP at constant 2017 international dollars.
The poverty rate is measured as the percentage of the total population that lives on less than US $ 1.90 (PPP) per day.
* The values of 2004 and 2019 of Chile are imputed: they correspond to the value of 2003 and 2017 (last value registered in the database), respectively.
** The 2019 value of Mexico is imputed, it corresponds to the 2018 value (last value on record).

In conclusion, the average poverty rate in 2020 hides a particular quarterly dynamic, where household per capita expenditure recovered strongly towards the end of the year. Second, there is a positive correlation between poverty reduction and GDP per capita growth when the variables are compared to those of other countries in the region. In fact, per capita GDP growth (which usually translates into higher labor income and employment) is one of the main drivers of poverty reduction, but it is also important that it is complemented by an adequate public social security policy.

Box 3
EMPLOYMENT IN COMPANIES THAT RECEIVED REACTIVA PERÚ LOANS

The evolution of formal employment in companies that received credit under the Reactiva Peru program is analyzed in this box.

The Reactiva Peru program has had a significant impact on employment. The group of companies that accessed the program generated 2.8 million jobs in March 2021, of which approximately 2 million are formal jobs included in the electronic payroll (52.8 percent of private formal employment). On the other hand, it is estimated that 401 thousand companies generate 832 thousand jobs not registered in the electronic payroll[7].

By number of workers, firms with up to 10 workers not only have participated the most in the Reactiva program (representing 96.2 percent of the total number of companies and 40.7 percent of the total amount of loans), but have also generated 1.1 million jobs (38.9 percent of the total). Companies with more than 500 workers generate 30.2 percent of the jobs, and have the lowest participation in the program (0.1 percent of the total number of companies and 7.4 percent of the total amount of loans).

REACTIVE CREDITS BY COMPANY SIZE

	Amount of credits		Number of companies		Job positions	
	(Million S/)	Participation (%)	(Units)	Participation (%)	(Thousands)	Participation (%)
Less than 10 workers	23,629	40.7	482,366	96.2	1,092	38.9
Between 11 and 50 workers	14,611	25.2	14,449	2.9	290	10.3
Between 51 and 100 workers	5,371	9.3	2,114	0.4	150	5.3
Between 101 and 500 workers	10,127	17.5	2,182	0.4	429	15.3
More than 500 workers	4,271	7.4	526	0.1	848	30.2
Total	**58,010**	**100.0**	**501,637**	**100.0**	**2,809**	**100.0**

Source: Sunat.

Formal Employment

Of the 501 thousand companies that accessed the Reactiva program, 98.7 thousand firms registered information in the March 2021 electronic payroll. This group represents 31.4 percent of private sector companies that report employment and generate 52.8 percent of formal employment. By economic sector, companies in the sectors of manufacturing, commerce, and services were the ones that registered the greater access to the Reactiva Peru program.

7 These businesses are mainly micro and small companies that do not report workers in the payroll. The median number of jobs of micro and small companies that do register this information in the payroll (2 and 5 jobs, respectively) has been used for these micro and small companies.

COMPANIES IN REACTIVA PERÚ AND FORMAL POSITIONS 1/
(Number of companies and thousands of jobs)

	Companies			Job positions		
	Total	Reactiva Companies	%	Total	Reactiva Companies	%
Total	**314,749**	**98,715**	**31.4**	**3,741**	**1,977**	**52.8**
Primary Sector 2/	10,393	2,339	22.5	626	320	51.2
Manufacturing	34,115	13,416	39.3	470	376	79.9
Construction	18,780	4,615	24.6	232	99	42.6
Commerce	96,536	37,148	38.5	639	323	50.6
Services	147,744	40,975	27.7	1,744	859	49.2
Not specified	7,181	222	3.1	30	0	1.3

1/ Includes natural persons with dependent workers.
2/ Includes agricultural sector, mining, fishing and processing and conservation of fruits and vegetables.
Source: Sunat- Electronic Worksheet as of March 2021.

One of the sectors most affected by the measures taken to address the COVID-19 crisis was the sector of services, which was also the one that registered the largest number of formal companies that accessed the Reactiva Program. More particularly, the companies in Reactiva were mainly those that perform activities involving high direct interpersonal contact, such as transportation services, restaurants, and personal services.

COMPANIES IN THE SERVICES SECTOR IN REACTIVA PERÚ AND FORMAL POSITIONS 1/
(Number of companies and thousands of jobs)

	Companies			Job positions		
	Total	Reactiva Companies	%	Total	Reactiva Companies	%
Total	**147,744**	**40,975**	**27.7**	**1,744**	**859**	**49.3**
Business services	47,757	12,397	26.0	505	268	53.1
Transport	25,406	10,977	43.2	218	137	62.8
Restaurants	13,196	4,137	31.4	108	65	60.1
Personal services	13,760	2,874	20.9	65	26	40.2
Health Services	11,336	2,541	22.4	99	47	47.8
Education	7,770	1,801	23.2	187	99	52.9
Hotels and lodgings	5,620	1,565	27.8	28	13	46.8
Travel agencies	4,518	1,436	31.8	59	34	57.0
Telecommunications	3,115	1,067	34.3	45	19	42.2
Labor Intermediation Services	1,336	569	42.6	184	115	62.2
Financial Sector	1,714	247	14.4	119	6	4.8
Other services	12,216	1,364	11.2	126	31	24.3

1/ Includes natural persons with dependent workers.
Source: Sunat.

Evolution of Formal Employment

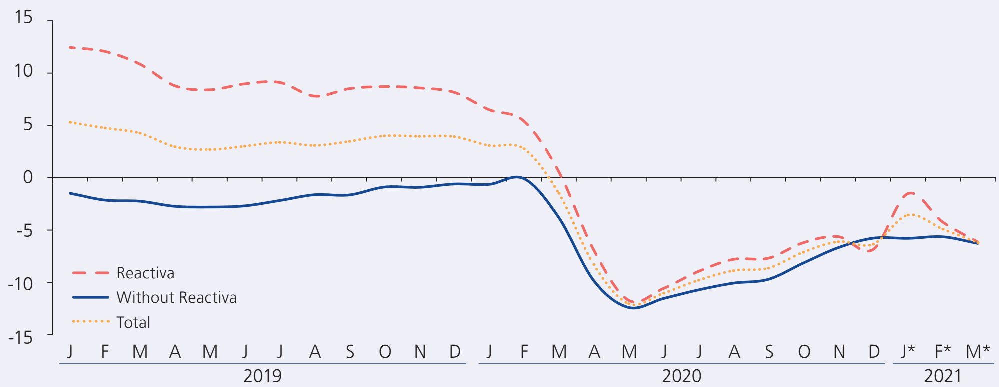
Based on the information from the electronic payroll and the list of companies that received loans from the Reactiva program[8], private formal employment has been divided between jobs generated

8 List of companies included in the Reactiva Peru program as of January 5, 2021.

by companies that accessed Reactiva and formal jobs in companies that did not access the program.

Formal jobs in companies that received loans from the Reactiva program showed a smaller reduction after the COVID-19 measures were initiated. Employment in this group of firms recorded a 5 percent drop in 2020, whereas in the firms that did not access the program it dropped 7.4 percent. However, since November 2020, and possibly as a result of the start of the payroll subsidy[9], the firms that didnot access the program show a significant recovery in employment. In 2019, companies in Reactiva recorded a higher growth of formal employment on average.

FORMAL JOBS
(12-month percentage change)



* Percentage change compared to the same period in 2019.

Number of jobs	M.19	M.20	A	M	J	J	A	S	O	N	D	J.21	F	M
Total	**3,988**	**3,929**	**3,521**	**3,253**	**3,277**	**3,361**	**3,440**	**3,529**	**3,629**	**3,693**	**3,674**	**3,566**	**3,449**	**3,741**
a. In Reactiva	2,106	2,119	1,868	1,690	1,706	1,765	1,821	1,887	1,952	1,990	1,967	1,895	1,804	1,977
b. Without Reactiva	1,882	1,811	1,652	1,562	1,571	1,597	1,619	1,643	1,677	1,703	1,707	1,671	1,645	1,764

Source: Sunat.

By company size, companies with less than 10 workers in the Reactiva program recorded an increase in employment in 2020, while those of the same size that did not access the program registered a 3.3 percent drop in employment. Moreover, firms with 11 to 50 workers also recorded a smaller drop in employment (3.0 percent versus 11.9 percent in firms without Reactiva). Finally, it should be pointed out that this was also the case in large companies, although the differences in the drop of employment between the two groups of firms were smaller.

By economic sector, a smaller drop in employment was observed in 2020 in those companies that accessed Reactiva in all sectors of activity, partly because they registered higher growth rates between January and March 2020. It is worth pointing out that the greatest difference was observed in the construction sector (6.0 percentage points), the primary sector (2.1 percentage points), and commerce (1.8 percentage points).

9 Emergency Decree No. 127-2020 established subsidies to companies that had lost 20 percent of their revenues in the April-May 2020 period to support the recovery of formal employment.

FORMAL POSITIONS IN THE PRIVATE SECTOR 1/
(Thousands of jobs)

	Reactiva Companies				Companies without Reactiva				Dif. p.p.
	2019	2020	Chg. Thousands	% chg.	2019	2020	Chg. Thousands	% chg.	
Total	**2,000**	**1,900**	**-100**	**-5.0**	**1,805**	**1,671**	**-134**	**-7.4**	**2.4**
a. Less than 10	267	280	13	4.8	494	478	-16	-3.3	8.1
b. Betweeen 11 and 50	299	290	-9	-3.0	257	226	-31	-11.9	9.0
c. More than 50	1,434	1,330	-104	-7.3	1,054	967	-87	-8.3	1.0

1 / Includes natural persons with dependent workers.
Source: Sunat.

FORMAL POSITIONS IN THE PRIVATE SECTOR 1/
(Thousands of jobs)

	Reactiva Companies				Companies without Reactiva				Dif. p.p.
	2019	2020	Chg. Thousands	% chg.	2019	2020	Chg. Thousands	% chg.	
Total	**2,000**	**1,900**	**-100**	**-5.0**	**1,805**	**1,671**	**-134**	**-7.4**	**2.4**
Primary Sector 2/	307	318	11	3.6	200	203	3	1.5	2.1
Manufacturing	359	347	-11	-3.2	186	178	-8	-4.5	1.3
Construction	90	80	-10	-10.9	132	110	-22	-16.9	6.0
Commerce	315	304	-11	-3.5	314	297	-16	-5.3	1.8
Services	930	851	-79	-8.5	963	867	-96	-10.0	1.5

1/ Includes natural persons with dependent workers.
2/ Includes processing and preservation of fruits and vegetables.
Source: Sunat.

In conclusion, the companies that generate formal employment and that received loans from the Reactiva Peru program belong to branches of activity that registered a significant reduction in their income. Compared to companies that did not access Reactiva, these companies recorded a smaller drop in formal employment during 2020, this being particularly noteworthy in small and medium-sized businesses, and in companies of the construction, primary sector, and commerce sectors.

IV. Public Finances

42. Since the COVID-19 pandemic started in March 2020 until December 2020, the fiscal deficit increased from 2.7 to 8.9 percent of GDP in annual terms. The economic outcome remained at this level until February 2021, declining thereafter to 6.7 percent in May. This decline compared to February 2021 was due to higher current revenues and to lower non-financial expenditures of the General Government in terms of output, as well as to a higher primary balance of state-owned enterprises.

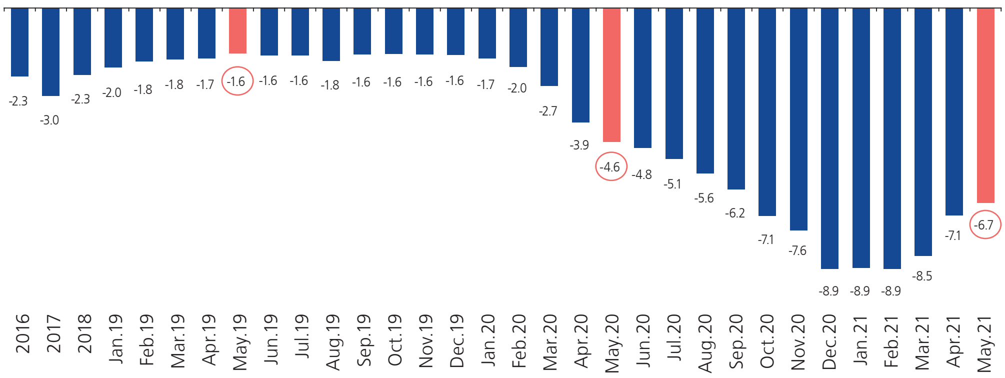
The higher current revenues of the General Government reflected a more favorable international context, the recovery of economic activity, and higher revenues from the regularization of income tax payments for FY 2020. By components, the higher revenues came mainly from income tax, due to the aforementioned regularization, and from the value added tax (VAT), both from the domestic VAT and the external VAT. Moreover, higher revenues from the excise tax and from other taxes, including the temporary tax on net assets (ITAN), the special mining tax (IEM) and fines, also contributed to the increase. Within non-tax revenues, an increase in revenues from own resources, social contributions, royalties and oil canon and mining royalties was also observed.

Although there was a reduction in the General Government's non-financial expenditures as a percentage of GDP, they increased in nominal terms, this increase reflecting mostly the growth of gross capital formation and, to a lesser extent, higher current expenditures. All three levels of government registered an increase in gross capital formation, with higher investment standing out in local governments' spending related to sanitation, housing and urban development, transportation and education, as well as in the expenditure of the National Government. The increase in current expenditures was mainly associated with the acquisitions of goods and services and, to a lesser extent, to spending on salaries, and partially offset by lower current transfers, which were reduced by the lower level of subsidies to households compared to what was observed in 2020.

Graph 61

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2016 - 2021

(Accumulated last 12 months - % GDP)

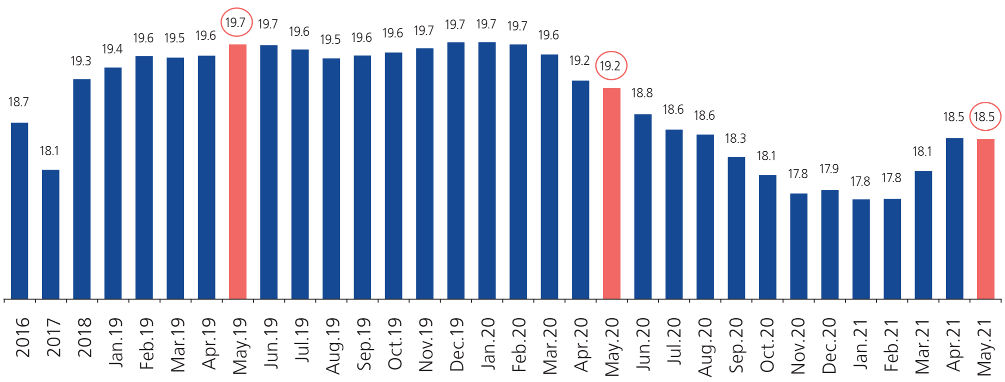


Source: MEF, SUNAT and BCRP

Graph 62

CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2016 - 2021

(Accumulated last 12 months - % GDP)

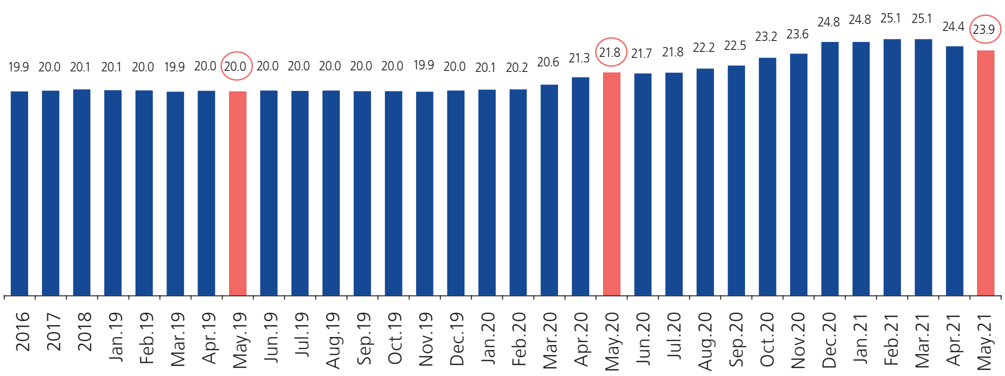


Source: SUNAT and BCRP.

Graph 63

NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2016 - 2021

(Accumulated last 12 months - % GDP)



Source: MEF and BCRP.

43. The fiscal deficit is expected to fall from 8.9 percent of GDP in 2020 to 4.5 percent of GDP in 2021, with factors contributing to this fall including the recovery of current revenues, mainly due to higher export prices and the recovery of economic activity. Non-financial spending would slow its growth rate due to lower outlays to address COVID-19. This scenario assumes mass vaccination of the target population in the second half of 2021 and the consequent easing of sanitary restriction measures. Moreover, the process of consolidation of public finances would continue in 2022, with the fiscal deficit standing at 3.1 percent of GDP.

Compared to the March Report, the fiscal deficit projection has been increased from 4.4 percent to 4.5 percent of GDP in 2021 and from 2.8 to 3.1 percent of GDP in 2022. The increase in the former is explained by an increase in non-financial expenditures of the General Government, mostly due to the acceleration of public investment observed in recent months and, to a lesser extent, due to the current component. This would be offset in part by higher current revenues, associated with higher international prices, and by the higher revenues from the income tax and VAT foreseen.

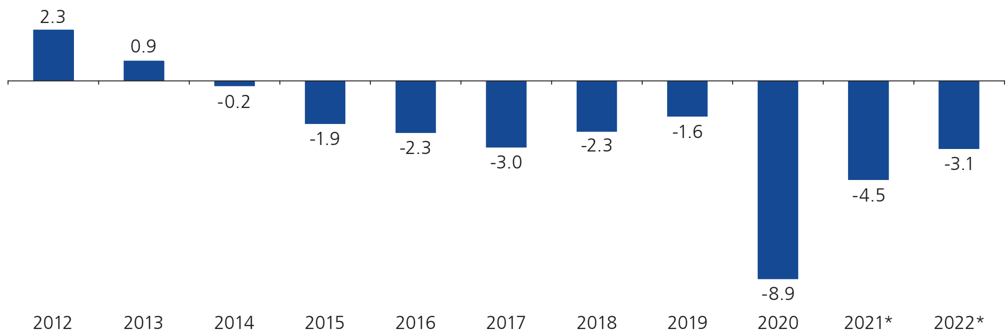
The upward revision of the deficit in 2022 is explained by higher non-financial expenditure than projected in March, mainly due to the expected higher expansion of current expenditures and gross capital formation, which would offset the increase in current revenues.

Table 24
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2020	2021	2021*		2022*	
			IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
1. General government current revenues	**17.9**	**21.5**	**19.0**	**19.3**	**19.9**	**20.1**
Real % change	*-17.4%*	*11.6%*	*19.0%*	*23.7%*	*10.4%*	*9.8%*
2. General government non-financial expenditure	**24.8**	**20.3**	**21.8**	**22.3**	**21.1**	**21.7**
Real % change	*12.8%*	*18.4%*	*-1.1%*	*2.7%*	*1.5%*	*2.7%*
Of which:						
Current expenditure	20.3	16.0	17.2	17.3	16.3	16.7
Real % change	*19.4%*	*12.5%*	*-4.8%*	*-2.2%*	*-0.1%*	*1.8%*
Gross capital formation	3.8	3.3	3.9	4.1	3.9	4.2
Real % change	*-13.2%*	*39.4%*	*18.1%*	*23.9%*	*7.3%*	*7.7%*
3. Other 1/	**-0.4**	**1.1**	**0.0**	**0.0**	**0.0**	**0.1**
4. Primary balance (1-2+3)	**-7.3**	**2.3**	**-2.8**	**-2.9**	**-1.1**	**-1.5**
5. Interests	**1.6**	**2.6**	**1.6**	**1.6**	**1.6**	**1.6**
6. Overall Balance	**-8.9**	**-0.3**	**-4.4**	**-4.5**	**-2.8**	**-3.1**
Memo:						
Structural primary balance 2/	-3.5	3.8	-1.1	-1.3	-0.1	-0.6
Weighted fiscal impulse 2/	1.8	0.8	-1.3	-0.8	-0.4	-0.3

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

Graph 65
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2022
(% GDP)



* Forecast.

Current revenues

44. **Current revenues** in 2021 would grow at a higher rate than estimated in the previous Report and register a real growth rate of 23.7 percent,. This upward correction is in line with higher growth in tax revenues, mainly due to higher revenues from the regularization of income tax payments for FY 2020, higher ratios of payments on account from the mining sector, and higher VAT revenues, in line with the recovery of domestic demand and the favorable revision of export prices.

Table 25
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

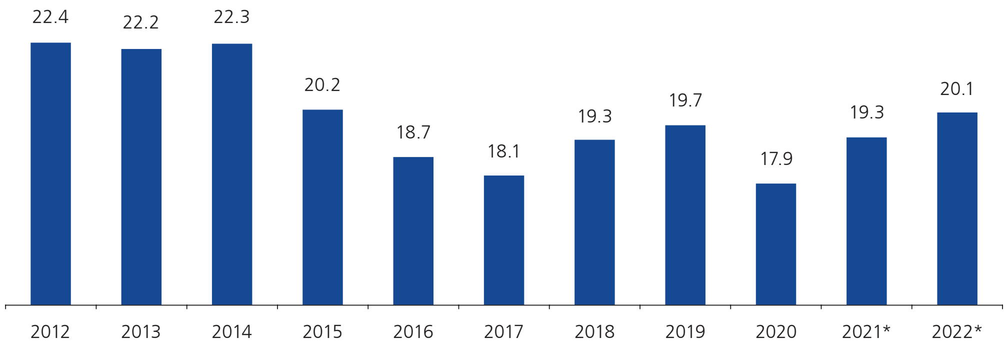
	2020	2021 IT	2021*		2022*	
			IR Mar.21	IR Jun21	IR Mar.21	IR Jun.21
TAX REVENUES	**13.3**	**16.8**	**14.4**	**15.0**	**15.3**	**15.7**
Income tax	5.3	7.1	5.5	5.8	6.1	6.4
Value Added Tax	7.7	9.2	8.2	8.5	8.4	8.5
Excise tax	1.0	1.2	1.0	1.0	1.0	1.0
Import duties	0.2	0.2	0.2	0.2	0.2	0.2
Other tax revenues	1.5	1.3	1.8	1.8	1.8	1.8
Tax returns	-2.4	-2.3	-2.2	-2.2	-2.2	-2.2
NON-TAX REVENUES	**4.5**	**4.7**	**4.6**	**4.4**	**4.6**	**4.5**
Contributions to social security	2.2	2.3	2.2	2.1	2.2	2.2
Own resources and transfers	1.6	1.3	1.4	1.3	1.5	1.4
Royalties and likely	0.5	0.8	0.7	0.7	0.6	0.7
Other	0.2	0.3	0.3	0.2	0.3	0.2
TOTAL	**17.9**	**21.5**	**19.0**	**19.3**	**19.9**	**20.1**

* Forecast.
IR: Inflation Report.

In 2022, current revenues would record a real growth rate of 9.8 percent, supported by revenues from the income tax of mining projects that started operations in the middle of the last decade, by a favorable impact of metal prices on mining profits, as well as by the higher level of economic activity.

Given the growth rates projected for 2021 and 2022, current revenues would represent 20.1 percent of GDP by the end of the projection horizon, a level close to that reached in 2015.

Graph 65
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



* Forecast.

Non-financial expenditure

45. **Non-financial expenditures**, which would grow 2.7 percent in 2021, would represent 22.3 percent as a percentage of GDP, a lower ratio than the 24.8 percent recorded in 2020. This level of expenditure estimated for 2021 is consistent with the expected reduction of 3.0 percentage points of GDP in current spending with respect to the previous year, due to lower spending to address the health crisis.

Compared to the March projection, the rate of expansion of non-financial expenditures has been revised up from -1.1 to 2.7 percent for 2021, considering a higher level of current spending, mainly on goods and services and transfers, as well as higher gross capital formation, the latter due to the execution observed between March and May 2021.

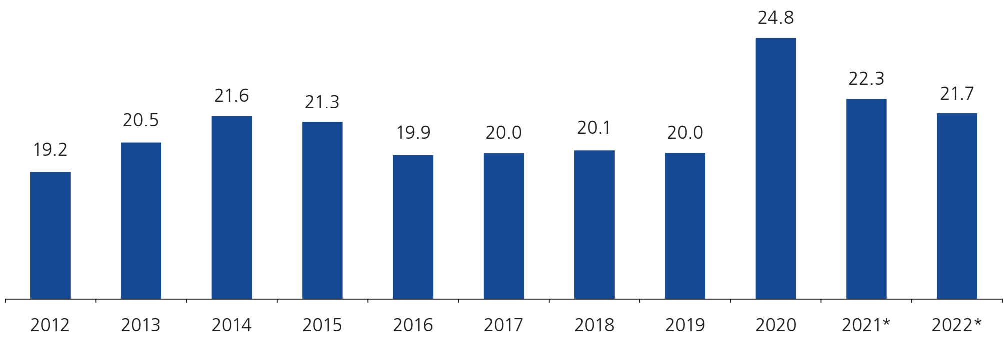
Table 26
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(% GDP)

	2020	Q1.2021	2021*		2022*	
			IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
Current expenditure	**20.3**	**16.0**	**17.2**	**17.3**	**16.3**	**16.7**
National Government	13.9	11.1	11.5	11.5	10.8	11.2
Regional Governments	4.2	3.4	3.7	3.8	3.6	3.6
Local Governments	2.2	1.5	2.0	2.1	1.9	1.9
Capital expenditure	**4.5**	**4.2**	**4.6**	**4.9**	**4.7**	**4.9**
Gross capital formation	**3.8**	**3.3**	**3.9**	**4.1**	**3.9**	**4.2**
National Government	1.4	1.3	1.5	1.5	1.5	1.5
Regional Governments	0.8	0.6	0.8	0.9	0.9	0.9
Local Governments	1.6	1.4	1.6	1.7	1.6	1.8
Other	**0.7**	**1.0**	**0.7**	**0.8**	**0.8**	**0.8**
Total	**24.8**	**20.3**	**21.8**	**22.3**	**21.1**	**21.7**
National Government	16.0	13.4	13.6	13.8	13.0	13.4
Regional Governments	5.1	4.0	4.6	4.6	4.5	4.5
Local Governments	3.7	2.9	3.6	3.9	3.6	3.7

* Forecast.
IR: Inflation Report.

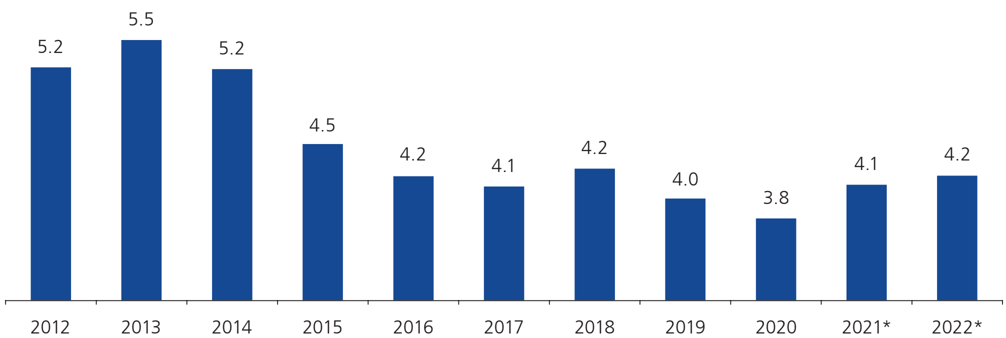
In 2022, non-financial expenditures would register a real increase of 2.7 percent, and in GDP terms they would stand at 21.7 percent, a level close to that recorded in 2014 and 3.1 percentage points of GDP lower than the level observed in 2020, in line with the consolidation of spending in public finances and with a level closer to those observed before the pandemic.

Graph 66
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



* Forecast.

Graph 67
GROSS CAPITAL FORMATION OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



* Forecast.

Fiscal stance

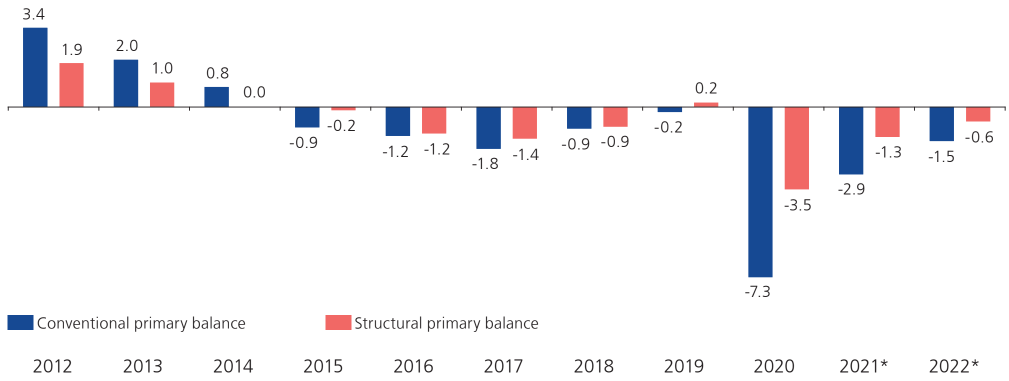
46. The **structural primary balance** is an indicator that identifies the impact of fiscal policy decisions on fiscal accounts, by isolating the transitory or cyclical components of fiscal accounts, components related with the business cycle and price fluctuations that affect tax revenues, such as the prices of minerals and hydrocarbons. The structural primary deficit is estimated at 3.5 percent of trend GDP in 2020 and is expected to be equivalent

to 1.3 percent of trend GDP in 2021, reflecting the expansionary position of fiscal policy in these twoyears. On the other hand, a structural primary deficit of 0.6 percent of trend GDP is expected at the end of the forecast horizon.

Graph 68

CONVENTIONAL AND STRUCTUTRAL PRIMARY BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2021

(% GDP and Trend GDP)



* Forecast.

47. The **fiscal impulse** measures the primary balance of the Government resulting from variations in public spending and tax policies. The **weighted fiscal impulse** is an alternative indicator used to measure the fiscal stance of a year in comparison with the preceding year, weighing with differentiated multipliers the changes in structural income, current expenditure and capital expenditure. This indicator registers an expansionary fiscal policy in 2020, estimated at 1.8 percentage points of trend GDP, which together with the expansionary monetary policy stance, offset the negative shock of COVID-19 on the economy in 2020.

Although the fiscal stimulus will be declining in the coming years, the fiscal stance would still be expansionary in comparison to that registered in 2019, mainly through a temporary increase in current spending. This expansionary stance is observed **comparing the structural primary deficits** of 2020, 2021, and 2022 with respect to 2019, the variations being estimated at 3.7 percent of trend GDP for 2020, at 1.5 percent of trend GDP for 2021, and at 0.8 percent of trend GDP for 2022.

Financing and Debt

48. **Financing requirements** for 2021 and 2022 are projected to be higher than those estimated in the March Report since the nominal fiscal deficits estimated for these two years are foreseen to be higher. This deficit would be financed mainly with higher issuances of local bonds and a lower use of deposits.

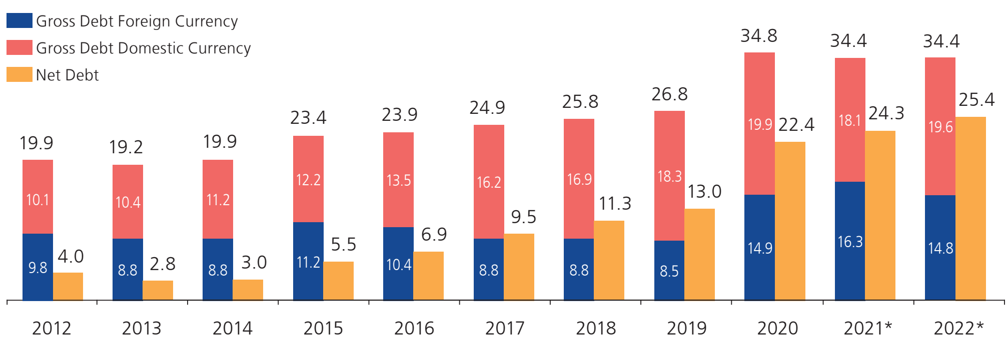
Table 27
FINANCIAL REQUIREMENT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR
(Million Soles)

	2020	Q1.2021	2021*		2022*	
			IR Mar.21	IR Jun.21	IR Mar.21	IR Jun.21
I. USES	**66,511**	**1,202**	**39,140**	**40,403**	**27,643**	**32,303**
1. Amortization	2,761	652	2,886	2,960	3,499	4,511
a. External	1,024	326	1,850	1,948	2,602	3,600
b. Internal	1,738	325	1,036	1,012	897	911
Of which: recognition bond	498	90	531	498	550	550
2. Economic balance	63,749	551	36,253	37,443	24,144	27,792
(negative sign indicates surplus)						
II. SOURCES	**66,511**	**1,202**	**39,140**	**40,403**	**27,643**	**32,303**
1. Disbursements and others	36,255	24,730	38,224	40,470	21,814	28,594
a. External	8,762	4,014	7,793	7,939	2,514	2,608
b. Bonds	27,492	20,716	30,431	32,530	19,300	25,985
2. Variation in deposits and others 1/	30,256	-23,528	915	-67	5,829	3,710
Note:						
% GDP						
Gross public debt balance	34.8	36.5	34.4	34.4	34.3	34.4
Net public debt balance	22.4	22.9	24.1	24.3	25.3	25.4
Balance of public deposits	12.5	13.6	10.2	10.1	9.0	9.0

1/ Positive sign indicates reduction of deposits.
* Forecast.
IR: Inflation Report.

The **gross debt** of the non-financial public sector would decrease from 34.8 to 34.4 percent of GDP between 2020 and 2021, remaining at this level at the end of the forecast horizon. On the other hand, the **debt net** of public sector financial assets would increase from 22.4 to 24.3 percent of GDP between 2020 and 2021 and would reach 25.4 percent of output in 2022.

Graph 69
NON-FINANCIAL PUBLIC SECTOR DEBT: 2012 - 2022
(% GDP)



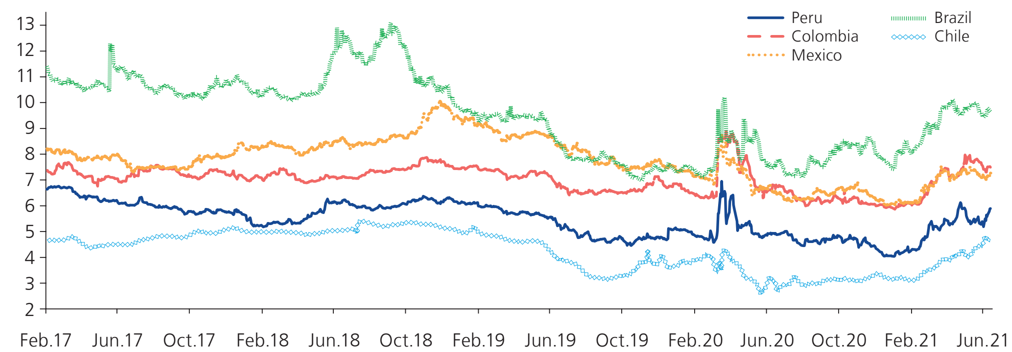
* Forecast.

49. The emerging economies' government bond market recovered in the second quarter compared to the first quarter, influenced by the better economic outlook for growth in the United States, the flattening of the US Treasury bond curve, and the progress in the global vaccination process. In the region, local factors have influenced the dynamics of yields in local currency bonds. On the one hand, Chile and Colombia, which have

experienced high political uncertainty, show higher interest rates at the 10-year term, registering increases of 76 and 4 basis points, respectively. On the other hand, in Brazil and Mexico, interest rates have decreased by 7 and 10 basis points, respectively. In both countries, the yields on government bond have benefited from a context of lower risk aversion in global financial markets due to the increase in commodity prices.

In Peru, the higher political risk associated with the presidential elections has influenced the level and volatility of government bond rates in soles. Thus, the interest rate of the 10-year bond increased from 4.97 to 5.42 percent, and its volatility in the second quarter to June 17 was higher than in the first quarter (8.0 versus 14.0 percent), as was the case with most of its regional peers.

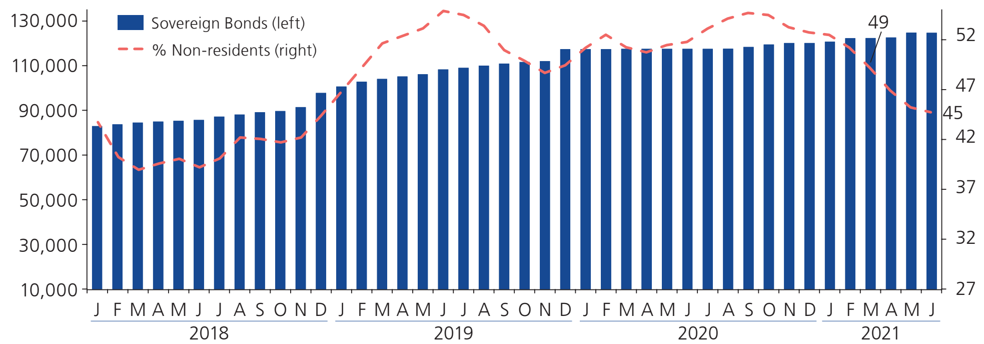
Graph 70
10 YEAR SOVEREIGN BONDS YIELD IN LOCAL CURRENCY
(%)



Source: MEF and Reuters.

The balance of sovereign bonds amounted to S/ 124.7 billion as of June 16, 2021. In this scenario of rising yields, non-resident investors reduced their holdings of sovereign bonds. Thus, the share of non-resident investors fell from 49 to 45 percent of the bond balance between March and June 2021. As a result, these holdings decreased from S/ 60.2 billion to S/ 55.7 billion.

Graph 71
SOVEREIGN BOND BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS
(Amounts in millions of soles and participation in %)



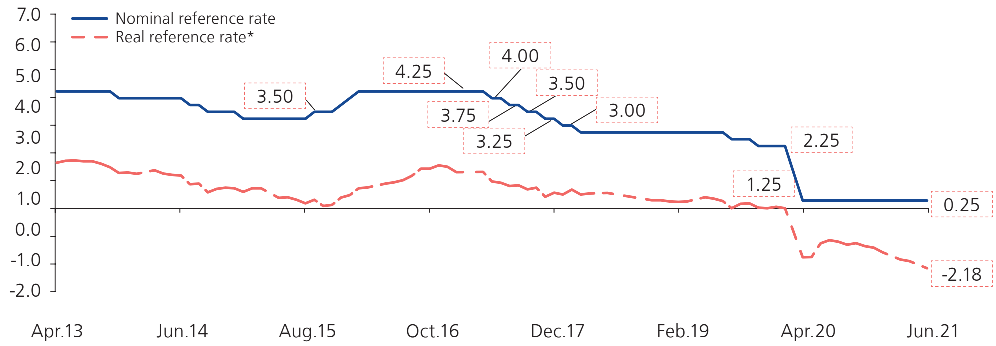
Note: Until February excludes inflation-indexed bonds and GDN and transactions in Euroclear of non-residents. As of March, it includesnominal sovereign bonds and VAC and GDN is excluded.
Source: BCRP. CAVALI. MEF and SBS.

V. Monetary Policy and Financial Conditions

Monetary Policy Actions

50. Since April 2020, BCRP has maintained a minimum historical benchmark interest rate of 0.25 percent, which in June 2021 was equivalent to a negative real rate of 2.18 percent. Both rates, the nominal rate and the real rate, register their minimum historical levels. Given the magnitude of the shock associated with the pandemic, BCRP has expanded monetary impulse through other monetary policy instruments.

Graph 72
REFERENCE INTEREST RATE
(%)



* With expectation of inflation.

51. Recent monetary decisions have been made in light of the following factors:

- Twelve-month total inflation was around 2.5 percent between March and May due to specific supply factors such as the increase in some food prices and the rise in the exchange rate.
- Trend inflation indicators continued to show values at the lower end of the target range. Twelve-month inflation excluding food and energy ranged between 1.7 and 1.8 percent.

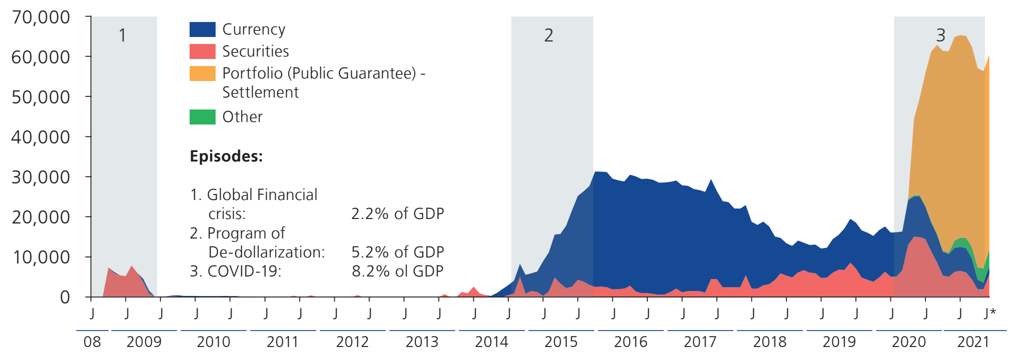
- Inflation is expected to remain within the target range throughout 2021 and 2022, showing rates at the lower end of this range during the next year, as economic activity is still expected to remain below its potential level.
- One-year ahead inflation expectations increased to 2.4 percent, but are expected to decline to 2.0 percent in the projection horizon once the transitory effect of supply factors on inflation fades.

52. In terms of communication, the Board of Directors of BCRP has emphasized that *"It considers it appropriate to maintain a strongly expansionary monetary stance while the negative effects of the pandemic on inflation and its determinants persist".* The Board has also said that *"the Central Bank will continue to carry out all the necessary actions to sustain the payment system and the flow of credits in the economy and that it is stands ready to expand monetary stimulus under different modalities".*

Additional BCRP actions in response to the COVID-19 pandemic

53. The balance of liquidity injection operations in domestic currency decreased from S/ 64.2 billion at the end of February to S/ 60.4 billion on June 16 due to the maturity of currency repos (S/ 3,791 million), security repos (S/ 3,260 million) and the amortization of repos from the Reactiva program (S/ 1,872 million). The new liquidity injection operations in soles carried out in recent months correspond to the repo program conditional on the rescheduling of the loan portfolio (S/ 245 million), the purchase of sovereign bonds at terms between 10 and 20 years to offset upward pressure on long-term interest rates (S/ 757 million), and securities repo operations (S/ 3,760 million).

Graph 73
BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP
(Balance in mill. S/)



*As of June 16.

This balance of liquidity injection operations is equivalent to 8.2 percent of GDP as of June 16, 2021, of which S/ 48.4 billion corresponds to the amount liquidated of the government-guaranteed credit repos (Reactiva Perú program).

Moreover, in comparative terms, this total balance reached from liquidity injection operations is 7.6 times higher than the maximum balance of these operations during the

2008-2009 international financial crisis (S/ 7.9 billion) and 1.9 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

Table 28

BALANCE OF INJECTION OPERATIONS OF BCRP*

(Million S/)

Episode	Date	Values	Currency (Regular)	Currency (Expansion)	Currency (Substitution)	Portfolio (Government-backed)-Settlement	Other**	Total
Financial crisis 2008-2009	Oct-08	7,383	300	0	0	0	0	7,683
	Nov-08	5,959	30	0	0	0	0	5,989
	Dec-08	5,412	0	0	0	0	0	5,412
	Jan-09	5,239	0	0	0	0	0	5,239
	Feb-09	7,877	0	0	0	0	0	7,877
	Mar-09	5,989	735	0	0	0	0	6,724
De-dollarization program	Dec-14	1,300	8,600	0	0	0	0	9,900
	Mar-15	4,900	8,600	2,200	1,500	0	0	17,200
	Jun-15	2,631	11,500	5,100	4,305	0	0	23,536
	Sep-15	3,034	16,050	7,900	4,805	0	0	31,789
	Dec-15	2,500	14,900	7,900	4,805	0	0	30,105
Covid-19 crisis	Feb-20	5,100	9,650	0	0	0	0	14,750
	Mar-20	6,675	11,150	0	0	0	0	17,825
	Apr-20	13,015	10,030	0	0	0	250	23,295
	May-20	15,060	10,145	0	0	19,017	260	44,482
	Jun-20	14,947	8,095	0	0	24,338	260	47,640
	Jul-20	14,452	7,195	0	0	33,090	154	54,891
	Aug-20	11,379	6,895	0	0	42,363	250	60,886
	Sep-20	8,604	5,895	0	0	47,002	304	61,805
	Oct-20	5,359	5,695	0	0	49,798	295	61,146
	Nov-20	5,059	5,970	0	0	50,246	269	61,543
	Dec-20	6,309	5,970	0	0	50,729	1,785	64,793
	Jan-21	6,554	6,030	0	0	50,497	2,258	65,339
	Feb-21	6,179	5,230	0	0	50,242	2,598	64,249
	Mar-21	4,454	2,430	0	0	49,907	2,812	59,603
	Apr-21	1,929	1,657	0	0	49,661	2,999	56,246
	May-21	1,929	1,922	0	0	49,118	3,569	56,538
	Jun-21**	5,689	1,922	0	0	48,370	4,408	60,389

* As of June 16.
** The item "Others" includes the purchase of Public Treasury bonds, in line with article 61 of the Organic Law of the BCRP, and Repo operations of loan portfolio.

54. On March 22, 2021, BCRP modified the reserve requirement regime in foreign currency regarding the rate of additional reserves required based on the evolution of total credit and vehicle and mortgage loans in foreign currency (Circular No. 005-2021-BCRP). The purpose of these measures, effective as from May 2021, is to continue promoting a gradual process of de-dollarization of credit in the long term. This requirement had been previously suspended until the reserve requirement period of December 2020 and then postponed until April 2021, within the framework of the measures adopted by BCRP in the context of COVID-19.

55. In addition, on May 13, 2021, BCRP announced the creation of Repos of Credit Portfolio with Government Guarantee to support liquidity (Circular No. 011-2021-BCRP), within the framework of Legislative Decree 1508 of May 2020, which created the Government Guarantee Program for the Credit Portfolio in order to provide financial institutions with the necessary liquidity to maintain the flow of credit to the most affected sectors and thereby maintain the flow of payments in the economy. Under this program, financial institutions will be able to use their loan portfolio to obtain a guarantee from the National Government to carry out repo operations with BCRP. The amount of the program is S/ 7 billion, which may be extended up to an additional 20 percent. Previously, in April 2021, the MEF had approved the granting of guarantees by COFIDE[10].

56. Amid a context of high uncertainty in local financial markets, in which non-resident investors made net sales of S/ 4,085 million between March and June, BCRP announced on May 27 that it would purchase Sovereign Treasury Bonds (BTP) maturing between 2031 and 2040 in the secondary market, through the auction mechanism, to offset upward pressures on long-term interest rates. Thus, auctions were held between May 28 and June 16 for the purchase of sovereign bonds maturing between 2031 and 2040, a total of S/ 757 million being acquired.

    It should be pointed out that article 61 of the BCRP's Organic Law establishes that BCRP is empowered to purchase securities issued by the Public Treasury in the secondary market, provided that the annual increase in the holdings of such securities, valued at their acquisition price, does not exceed 5 percent of the balance of the monetary base at the end of the preceding year. The limit for these acquisitions for the year 2021 is S/ 4,299 million.

    Likewise, as of the same date, BCRP has decided to automatically accept requests for direct security repo transactions in exchange for local currency up to an amount of S/ 100 million in overnight terms. Both measures have been established in response to the need to provide financial institutions with an adequate level of liquidity.

    The balance of loan rescheduling has continued to decline. In fact, the total balance of rescheduled loans as of April is S/ 71 billion lower than that observed in June 2020 (S/ 128 billion, equivalent to 35.6 percent of the portfolio), which is explained by the repayment of the rescheduled loans, in line with the reopening of economic activities.

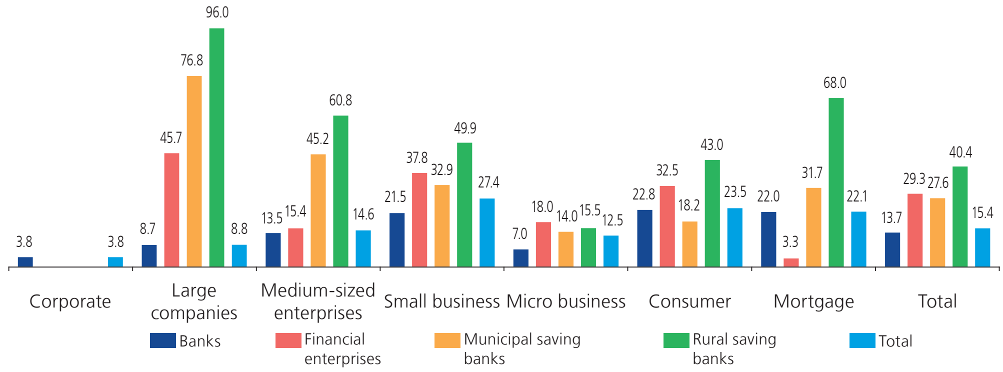
    As of April 30, 2021, the depository corporations (which include banks, financial companies, municipal savings banks, and rural savings banks) have rescheduled loans for around S/ 57 billion, a sum equivalent to 15 percent of depository corporations' the total portfolio. Moreover, at April 2021, 27 percent of the small business portfolio, 13 percent of the microenterprise portfolio, and 24 percent of the consumer portfolio had been rescheduled. In addition, entities specializing in microfinance have rescheduled at least 28 percent of their portfolios.

10 Supreme Decree N° 063-2021-EF dated April 9, 2021.

Graph 74

RESCHEDULED CREDITS OF DEPOSITARY COMPANIES:1/ APRIL 2021

(As % of total credits)



1/ Banks, Financial enterprises, Municipal savings bank and Rural savings banks.
Source: Financial statement of depository companies.

57. On the other hand, since July 15, 2020, BCRP has been carrying out repo operations with the rescheduling of credit portfolios. Through these operations, financial institutions obtain liquidity with long terms and under favorable conditions when they reschedule their clients' loans in terms ranging between 6 and 48 months and at interest rates lower than those initially agreed. As of June 16, 2021, the net outstanding balance of rescheduling repos amounted to S/ 2,364 million, of which S/ 2,330 million corresponds to portfolio repos and S/ 34 million corresponds to security repos.

58. It is also worth mentioning with respect to loan rescheduling under the Reactiva Perú Program, that the maximum amount of rescheduling was increased on April 29 from S/ 16 billion to S/ 19.5 billion and that conditions were modified (Emergency Decree No. 039-2021). Prior to this modification, beneficiaries had to have loans amounting up to S/ 90 thousand or show a year-on-year drop in sales of 10 percent in the fourth quarter of 2020 for credits between S/ 90 thousand and S/ 750 thousand, or a drop in sales of 20 percent for credits between S/ 750 thousand and S/ 5 million. The modification allowed the rescheduling of loans amounting to up to S/ 10 million.

Additionally, the Equity Strengthening Program for Microfinance Specialized Institutions was created on April 15 (Emergency Decree No. 037-2021) in order to protect the savings of families and contribute to support the continuity of the flow of payments by strengthening the equity of such institutions. The Ministry of Economy and Finance was authorized to carry out a debt operation through the internal issuance of bonds by the National Government for up to S/ 1,679 million, in one or several tranches, to finance the program. Likewise, some prudential requirements were exceptionally relaxed by the same regulation until March 31, 2022, particularly those regarding the causes of intervention or surveillance regime and the operating limits that refer to the definition of effective equity.

As for the capital of financial entities, it is also worth mentioning that, in addition to the SBS's exhortation for financial entities to capitalize their 2019 profits[11], the Executive Power stipulated in February 2021[12] that the Cajas Municipales de Crédito Popular and the Cajas Municipales de Ahorro y Crédito had to adopt a capitalization agreement for the full amount of the profits obtained in 2020 after complying with the minimum capital and legal reserve requirements.

BCRP Monetary Operations

59. Between December and May, the **Central Bank's operations** continued to ensure adequate levels of liquidity in the interbank market. To do so, BCRP injected liquidity through the net maturity of term deposits and overnight deposits (S/ 15,550 million), increasing the auctions of Public Treasury funds (S/ 3,121 million) and the net liquidation of portfolio repos (S/ 1,597 million). These operations were offset in part by the net maturity of securiy repos (S/ 4,380 million) and currency repos (S/ 4,048 million), the early maturity of Government guaranteed portfolio repos (S/ 1,611 million), and the increase in the balance of BCRP CDs (S/. 1,529 million) and BCRP CDRs (S/ 316 million).

As a result, the balance of repo transactions decreased from S/ 63,472 million in December 2020 to S/ 55,030 million at the end of May 2021, while the balance of CD BCRP and CDR BCRP rose from S/ 47,459 million in December to S/ 49,304 million in May.

Table 29
BALANCE OF BCRP MONETARY OPERATIONS

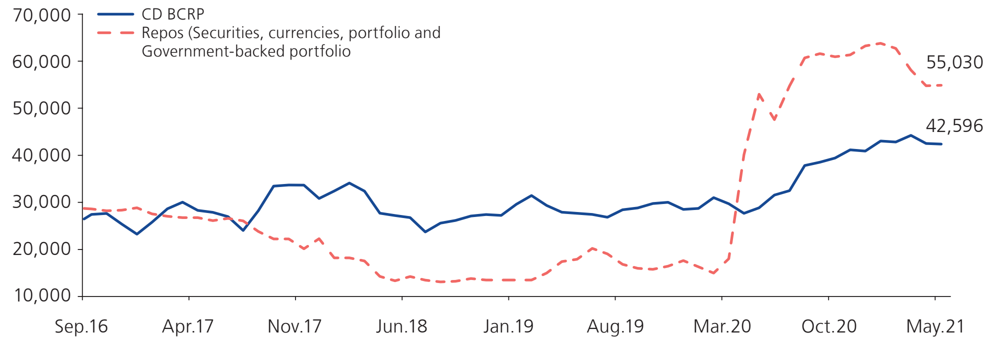
	Balance (Mill. S/)			Average interest rate of the balance (%)		
	Dec.19	Dec.20	May.21	Dec.19	Dec.20	May.21
Monetary sterilization						
1. CDBCRP	28,365	41,067	42,596	2.50	0.74	0.45
2. CDRBCRP	0	6,392	6,708	1.00	0.18	0.24
3. Term and overnight deposits	2,115	43,714	28,164	1.00	0.23	0.23
Monetary injection						
4. Currency repos	11,050	5,970	1,922	3.85	2.80	1.78
5. Security repos 1/	6,350	6,309	1,929	3.31	1.09	1.41
6. Portfolio repos	0	464	2,061	n.d.	0.50	0.50
7. Government-backed portfolio repos *	0	50,729	49,118	n.d.	1.40	1.40
8. Public Treasury fund auctions	4,100	200	3,321	3.85	3.18	0.60

* The disbursed amount of the instrument to date is considered.
1/ Not consider the Securities Repo to provide foreign currency.

11 Oficio múltiple N° 11220-2020-SBS dated March 26, 2020.

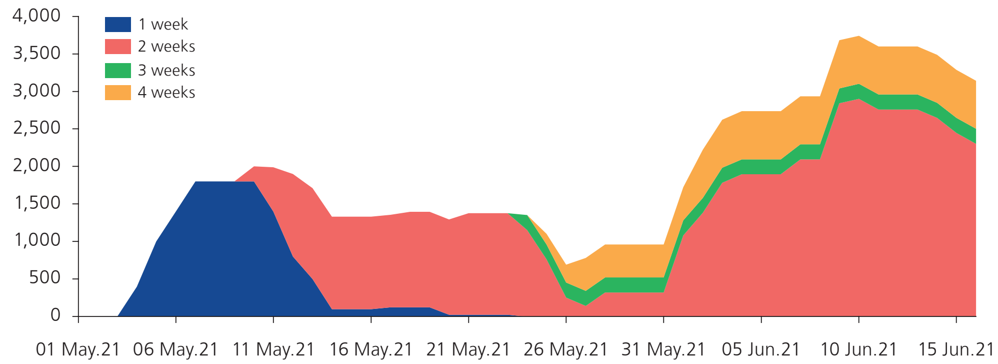
12 Emergency Decree N° 018-2021.

Graph 75
BALANCE OF REPO OPERATIONS AND CDBCRP
(Million S/)



As an additional measure to meet liquidity requirements in dollars, BCRP reinitiated in May 2021 security repo operations in exchange for foreign currency, which had previously been carried out in December 2020[13]. The maturity term of these operations was gradually increased from 1 to 4 weeks. On June 16, 2021, the balance of these operations amounted to US$ 3,142 million.

Graph 76
BALANCE OF SECUTITY REPOS - FOREIGN CURRENCY*
(Million US$)



* As of June 16.

13 The instrument was created in April 2011. Circular No. 050-2013-BCRP, dated December 27, 2013, is currently in effect.

Thus, as of May 31, 2021, the balance of repo operations decreased to 16.4 percent of BCRP's net assets from 18.9 percent in December 2020. On the side of BCRP liabilities, Public Sector deposits increased their share to 22.8 percent in May 2021 from 20.8 percent in December 2020. On the other hand, BCRP instruments (CD-BCRP, CDR BCRP, and term and overnight deposits) decreased their share in BCRP net liabilities to 23.2 percent in May 2021 from 27.3 percent in December 2020, as a result of which the latter remained as the BCRP's most important liability.

Table 30
SIMPLIFIED BALANCE SHEET OF THE BCRP*
(As % of Net Assets)

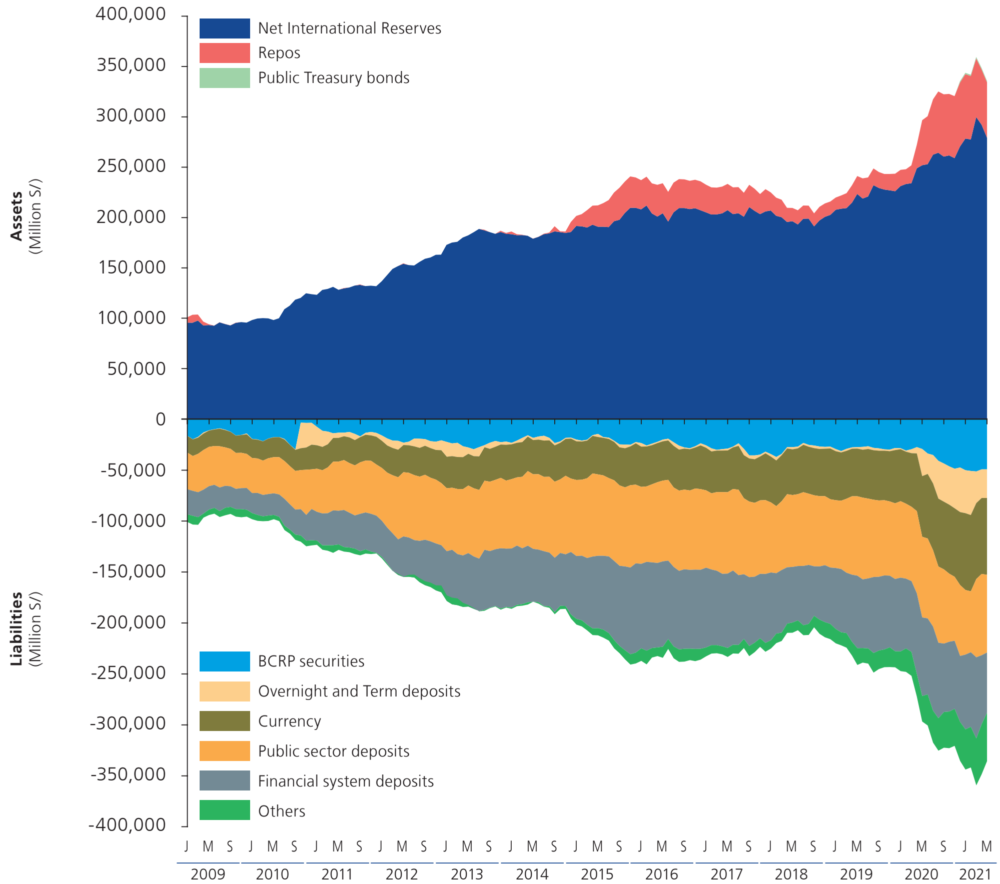
	Dec.19	Dec.20	31 May.21
I. Net assets	**100%**	**100%**	**100%**
Net International Reserves	**92.9%**	**80.7%**	**83.2%**
	(US$ 68,315 mills.)	*(US$ 74,706 mills.)*	*(US$ 73,069 mills.)*
Repos	**7.1%**	**18.9%**	**16.4%**
Sovereign bonds	**0.0%**	**0.4%**	**0.4%**
II. Net liabilities	**100%**	**100%**	**100%**
1. Total public sector deposits	**30.5%**	**20.8%**	**22.8%**
In domestic currency	18.8%	17.5%	19.8%
In foreign currency	11.7%	3.3%	3.0%
2. Total financial system deposits	**29.1%**	**19.4%**	**17.7%**
In domestic currency	5.1%	4.3%	3.7%
In foreign currency	24.0%	15.1%	13.9%
3. BCRP instruments	**12.5%**	**27.3%**	**23.2%**
CD BCRP	11.6%	12.3%	12.7%
CDR BCRP	0.0%	1.9%	2.0%
Term deposits	0.0%	10.7%	6.8%
Overnight deposits	0.9%	2.4%	1.6%
4. Currency	**21.4%**	**21.4%**	**22.5%**
5. Other*	**6.5%**	**11.1%**	**13.9%**

* Includes assets and other accounts.

The result of these operations is reflected in the change in the size and composition of the Central Bank's balance sheet. As of May 2021, BCRP assets amounted to S/ 335,407 million, a figure equivalent to 45.6 percent of GDP and higher than that observed in 2015 during the de-dollarization program (39.3 percent of GDP). The greater injection of liquidity in recent months is reflected in the growing contribution of repo operations in BCRP assets, mainly in foreign currency assets.

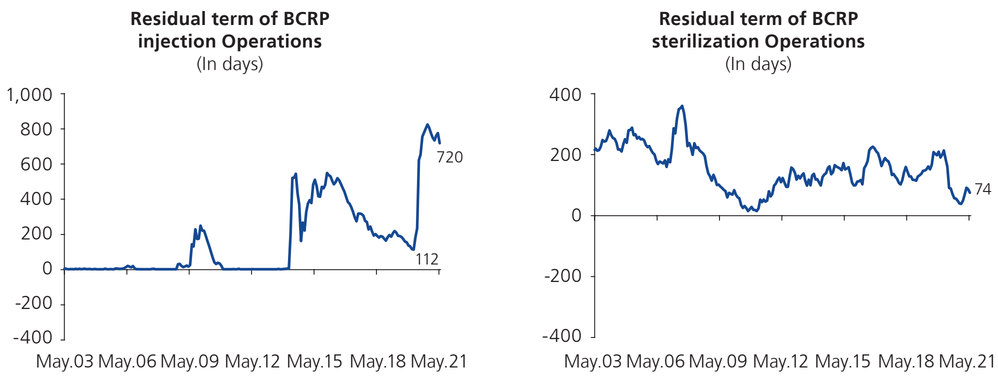
Graph 77

EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2021



The higher term injection is reflected in the increase in the residual term of these operations, from 112 days in February 2020 to 720 days in May 2021. Likewise, BCRP has been conducting sterilization operations at shorter maturity terms. Thus, the residual term of sterilization operations has decreased from 214 days in February 2020 to 74 days in May 2021.

Graph 78

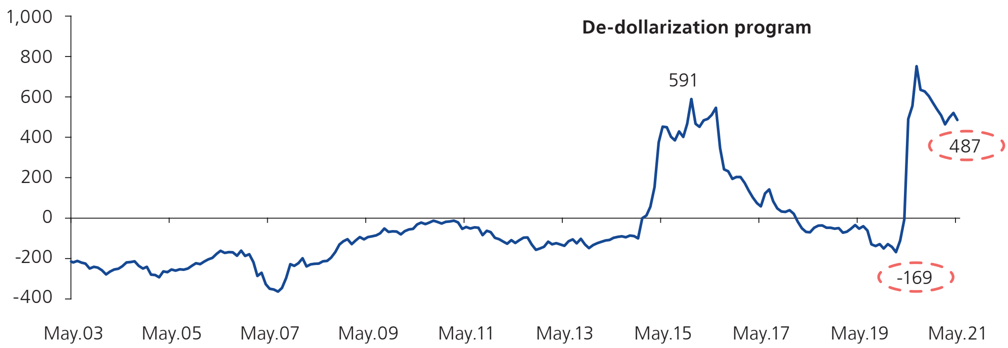


The net residual term of BCRP[14] operations captures the BCRP's expansionary stance in the yield curve. Injecting liquidity at longer maturities and sterilizing it at short maturities contributes to flatten the yield curve and the net residual term is higher. Thus, a high net residual term denotes greater liquidity in the financial system since there are liquid assets close to maturity (BCRP CD) and there is the obligation of repurchasing the repo assets in the long term. At the end of May 2021, the weighted net residual term of BCRP operations was 487 days.

Graph 79

NET WEIGHTED RESIDUAL TERM OF BCRP OPERATIONS

(In days)



Financial Markets

60. The easing of financial conditions that began in March 2020 continues to be reflected in interest rates, especially in the credit market. In the second quarter of 2021, the largest reductions in interest rates are observed in credit to the segments of the medium-sized, large, and small businesses (329, 133 and 48 basis points, respectively). On the other hand, the average interest rate on mortgage loans decreased slightly, from 5.90 to 5.88 percent, influenced by the devaluation of bonds in the long section of the sovereign debt yield curve.

The rates on overnight to twelve-month term prime lending and deposit operations have increased by an average of 49 and 26 basis points between March and June 2021.

On the other hand, the interest rates on deposits paid by banking companies to individuals and companies have increased on average by 6 and 22 basis points at terms between 30 and 180 days. Moreover, between March and June 2021, the average interest rate on CTS deposits has decreased from 2.47 to 2.29 percent.

---

14 The net residual term is the difference between the residual term of injection and sterilization operations, weighted by the balance of each instrument. It is calculated according to the following formula: $Net\ residual\ term = \frac{Injection\ balance}{Sterilization\ balance} * RT\ injection - RT\ sterilization$, where RT refers to the residual terms of the injection and sterilization operations, respectively.

Table 31

INTEREST RATE IN DOMESTIC CURRENCY

(%)

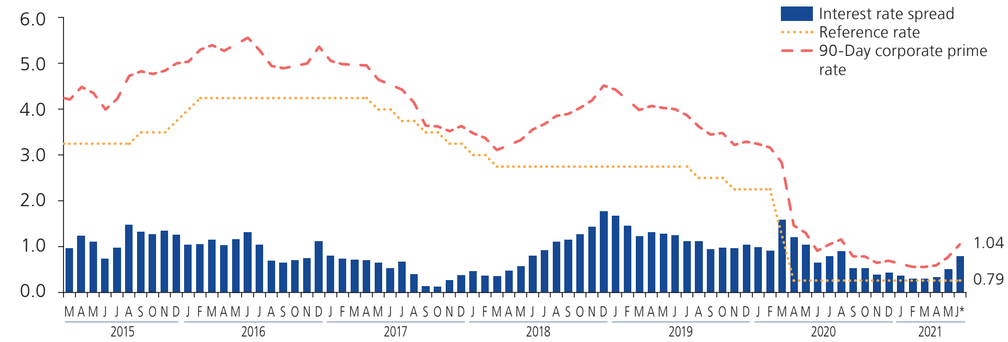
		Dec.18	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21	May.21	Jun.21
	Deposits up to 30-day	3.1	2.3	2.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1
	Individuals	2.4	1.6	1.7	0.3	0.1	0.2	0.1	0.1	0.2	0.2
	Business	3.1	2.3	2.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1
	On 31 to 180-day term deposits	4.0	2.8	2.6	0.9	0.3	0.3	0.2	0.2	0.3	0.4
	Individuals	4.1	2.9	2.7	0.8	0.2	0.3	0.2	0.2	0.2	0.4
Pasive	Business	4.1	2.9	2.7	0.8	0.2	0.3	0.2	0.2	0.2	0.4
	On 181 to 360-day term deposits	4.2	3.3	3.0	1.8	1.1	0.7	0.7	0.8	0.7	0.7
	Individuals	3.5	3.3	2.9	2.5	1.6	1.3	1.3	1.4	1.3	1.3
	Business	4.4	3.3	3.1	1.3	0.7	0.4	0.5	0.4	0.5	0.6
	CTS	3.0	2.2	3.7	2.8	3.0	1.9	2.5	2.9	2.3	2.3
	90-day corporate prime	4.5	3.3	2.8	0.9	0.8	0.7	0.5	0.6	0.8	1.0
	Corporates	4.9	3.8	3.6	3.0	2.5	2.5	2.2	1.8	1.5	1.6
	Large companies	6.4	6.0	5.9	2.6	4.1	4.6	3.9	3.8	2.5	2.6
Active	Medium-sized enterprises	9.8	9.3	8.9	3.9	4.2	6.1	8.0	8.0	4.8	4.7
	Small business	18.5	18.0	18.1	4.3	6.2	17.2	18.2	18.0	17.4	17.7
	Micro business	32.7	31.3	32.6	3.8	10.7	30.1	32.8	31.6	31.6	32.7
	Consumer	44.9	40.9	39.3	38.6	38.3	39.5	38.6	38.4	38.7	38.9
	Mortgage	7.6	7.0	6.7	6.8	6.7	6.4	5.89	5.88	5.92	5.88

Memo: Annual rates for operations in the last 30 working days.
As of June 16.
Source: BCRP and SBS

Graph 80

INTEREST RATE IN S/: 90-DAY CORPORATE PRIME AND REFERENCE RATE

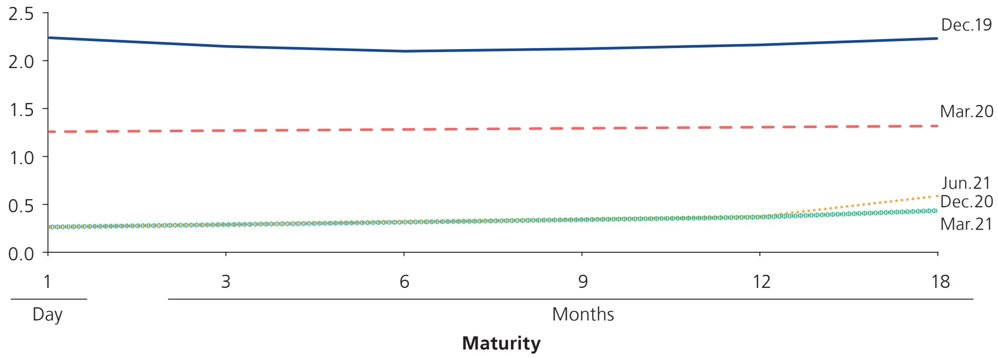
(%)



* As of June 16.
Source: BCRP and SBS.

61. The yield curve of BCRP securities continues to show a greater steepening, which could be associated with higher uncertainty in international financial markets due to the electoral context. For example, the interest rate on the 18-month term has risen by 15 basis points.

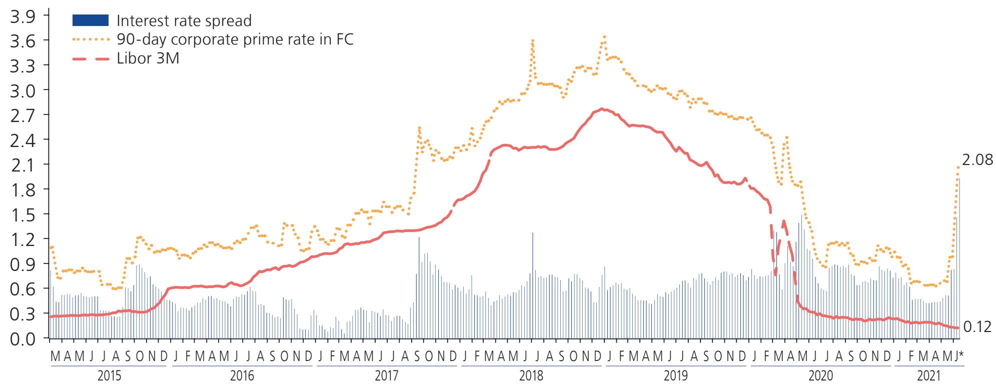
Graph 81
YIELD CURVE OF CENTRAL BANK SECURITIES 1/
(%)



1/ Yield rate in the primary and secondary market.
As of June 17.
Source: BCRP.

62. In the case of interest rates on operations in dollars, the high demand for dollars has made money market rates more expensive. In the second quarter of 2021, the interbank rate in foreign currency increased from 0.25 to 0.62 percent, while the prime lending rates charged to the main clients increased by an average of 143 basis points for terms between 1 and 6 months, whereas the prime deposit rates increased but less (61 basis points). The spread between the prime lending rate and the Libor rate increased from 44 basis points in March 2021 to 196 basis points in June 2021 (the maximum high since July 2013). On the other hand, the spread between the deposit rate and the 3-month Libor rate increased from 3 to 63 basis points in the second quarter (maximum high since May 2013).

Graph 82
INTEREST RATE IN US$: 90-DAY CORPORATE PRIME AND LIBOR 3-MONTH
(%)



* As of June 16.
Source: BCRP.

Interest rates for term deposits registered mixed behaviors, with rates on 30-day terms increasing by 20 basis points, while the interest rates for terms between 31 and 360 days decreased by an average of 1 basis point. In the dollar-denominated credit market, the behavior was similar to the one observed in soles, with most segments showing lower interest rates. The exceptions were the mortgage sector and credit to micro and small enterprises.

Table 32
INTEREST RATE IN FOREIGN CURRENCY
(%)

		Dec.18	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21	May.21	Jun.21
Pasive	Deposits up to 30-day	1.9	1.5	1.0	0.1	0.0	0.1	0.0	0.0	0.0	0.2
	On 31 to 180-day term deposits	2.0	1.3	1.1	0.5	0.2	0.3	0.3	0.3	0.3	0.3
	On 181 to 360-day term deposits	1.9	1.4	1.0	0.8	0.4	0.3	0.3	0.3	0.3	0.3
Active	90-day corporate prime	3.6	2.7	1.9	1.0	0.9	1.0	0.6	0.7	1.0	2.1
	Corporates	4.0	3.2	2.7	2.8	2.3	2.0	1.8	1.8	1.7	1.5
	Large companies	5.5	5.5	4.8	5.2	4.7	4.5	4.3	4.1	4.3	4.1
	Medium-sized enterprises	6.9	6.6	6.7	6.3	6.7	5.9	5.9	5.1	5.2	5.8
	Small business	9.9	8.8	7.7	4.8	6.1	5.3	7.1	6.8	8.9	9.1
	Micro business	7.1	11.0	12.3	15.6	6.9	8.5	4.4	6.2	7.2	12.7
	Consumer	36.1	36.1	36.1	36.6	34.4	35.1	34.7	33.3	33.0	32.1
	Mortgage	6.1	5.6	5.9	6.0	5.9	5.4	5.0	5.2	5.3	5.1

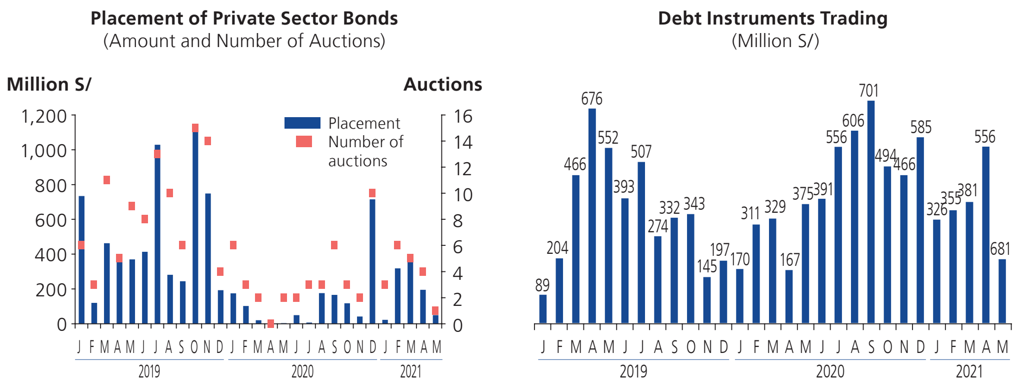
Memo: Annual rates for operations in the last 30 working days.
* As of June 16.
Source: BCRP and SBS

Fixed-income market

63. The electoral situation has caused uncertainty and the consequent increase in interest rates in the government debt market have discouraged Peruvian companies from borrowing in the local and foreign capital markets. Public offer placements by private sector companies in the local capital market between March and May 2021 amounted to S/ 246 million, a lower amount than that recorded in the first quarter of 2021 (S/ 714 million). Most placements were in soles (85 percent of the total).

Debt securities trading in the secondary market of the Lima Stock Exchange (BVL) between April and May 2021 increased by S/ 25 million compared to the monthly average of the first quarter of 2021.

Graph 83
FIXED INCOME MARKET OF THE PRIVATE SECTOR



Source: SMV.

Moreover, showing a behavior similar to that observed in other emerging economies, Peruvian private companies did not place securities to obtain financing in the external market between April and June, with which financing in international markets slowed down to a six-year low. Similarly, international placements by non-resident entities in soles decreased in the second quarter of the year, a total of two issuances for a total of S/ 330 million with maturities between 3 and 5 years having been made. It is worth pointing out that, encouraged by the low cost of hedging, the amount issued in 2020 is the maximum historical level observed (S/ 1,801 million).

In the case of institutional investors, the Administrators of Private Pension Funds (AFP) continue to show a recovery in the value of their managed portfolios due to the recovery in the value of external and local financial assets. This was in part offset by the members' extraordinary withdrawals of funds approved in 2020, which had an impact of around S/ 33.3 billion. A new withdrawal from the AFP's Individual Capitalization Accounts for a potential amount of S/ 40.2 billion was authorized on May 7, 2021 (Law No. 31192).

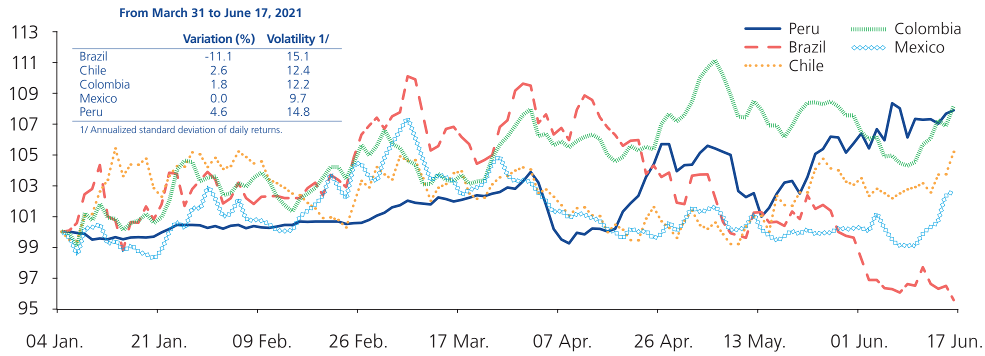
The facilities granted by BCRP during the first withdrawals prevented undesirable impacts on interest rates and the stability of financial markets as a result of the liquidation of securities in significant amounts in a short period of time. Between March and June 2021, the value of the AFP portfolio increased by S/ 3,780 million. In the case of mutual funds, the assets under management and the number of participants have decreased by 15.2 and 4.1 percent, respectively, between March and May, influenced by political uncertainty.

Foreign exchange market

64. Since April 2021, exchange rate volatility has been at one of the highest levels observed since the 2008 international financial crisis, mainly due to electoral uncertainty. In this context, the exchange rate reached its highest historical level on June 7, 2021 (S/. 3.938 per dollar).

In the external arena, the risk perception about the region has increased significantly in 2021, which has been reflected in local financial markets. Between January and May 2021, Latin American currencies showed a worse performance than other emerging economies due to the following factors: i) economic growth in the first quarter of 2021 was lower than in the fourth quarter of 2020; ii) the increase of positive COVID-19 cases; iii) the slowness in the vaccination process, and iv) domestic problems. However, the increase in the price of the main commodities has mitigated to some extent the negative impact of the greater political risk in the region, and this has affected the region's currencies differently.

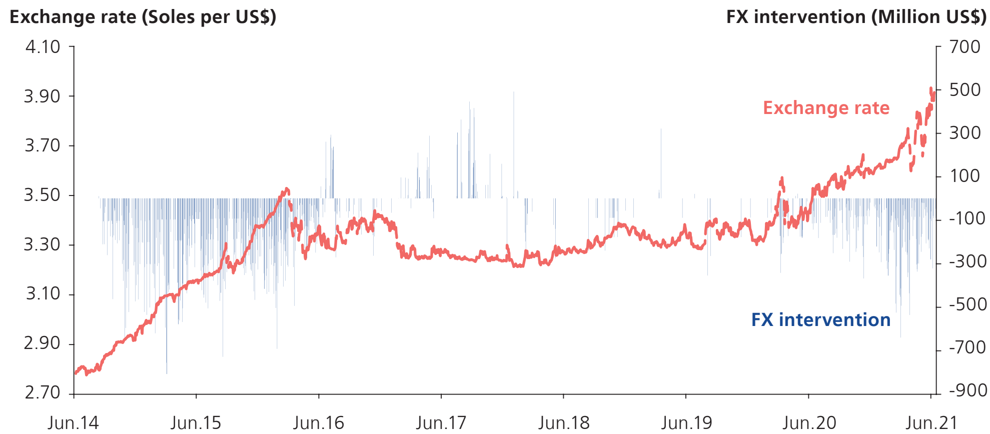
Graph 84
EXCHANGE RATE INDEX 1/
(31 Dec.20 = 100)



1 / An index increase indicates the depreciation of the currency. Data as of June 17.
Source: BCRP and Reuters.

On the other hand, the recent dynamics of the PEN has been affected by the greater volatility that usually characterizes electoral processes, but this year the effect has been greater than in previous episodes. The dollar/sol exchange rate has accumulated a depreciation of 8.3 percent as of June 17, 2021.

Graph 85
EXCHANGE RATE AND FX INTERVENTION 1/



1/ Includes Net purchases of US$ in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
As of June 17.
Source: BCRP.

In this context of high external and local uncertainty, BCRP has intervened in the foreign exchange market through the auction of FX swaps, the placement of Indexed Certificates of Deposits (CDR BCRP), and sales of foreign currency in the spot market to minimize volatility in the price of the PEN and preserve financial stability while ensuring the proper functioning of the markets. Thus, between April and June, BCRP placed FX swaps for a total of S/ 7,151 million (US$ 1,912 million) at maturity terms between 2 and 12 months, while swaps amounting to S/ 5,956 million (US$ 1,621 million) matured, as a result of which the balance of foreign exchange swap-sales on June 17 was S/ 29,798 million (US$ 8,065 million). In the case of BCRP CDRs, certificates amounting to S/ 6,884 million (US$ 1,829 million) were placed for terms between 2 and 3 months, while certificates for a total of S/ 6,599 million (US$ 1,811 million) matured, bringing the balance to S/ 7,154 million (US$ 11,902 million) on June 17.

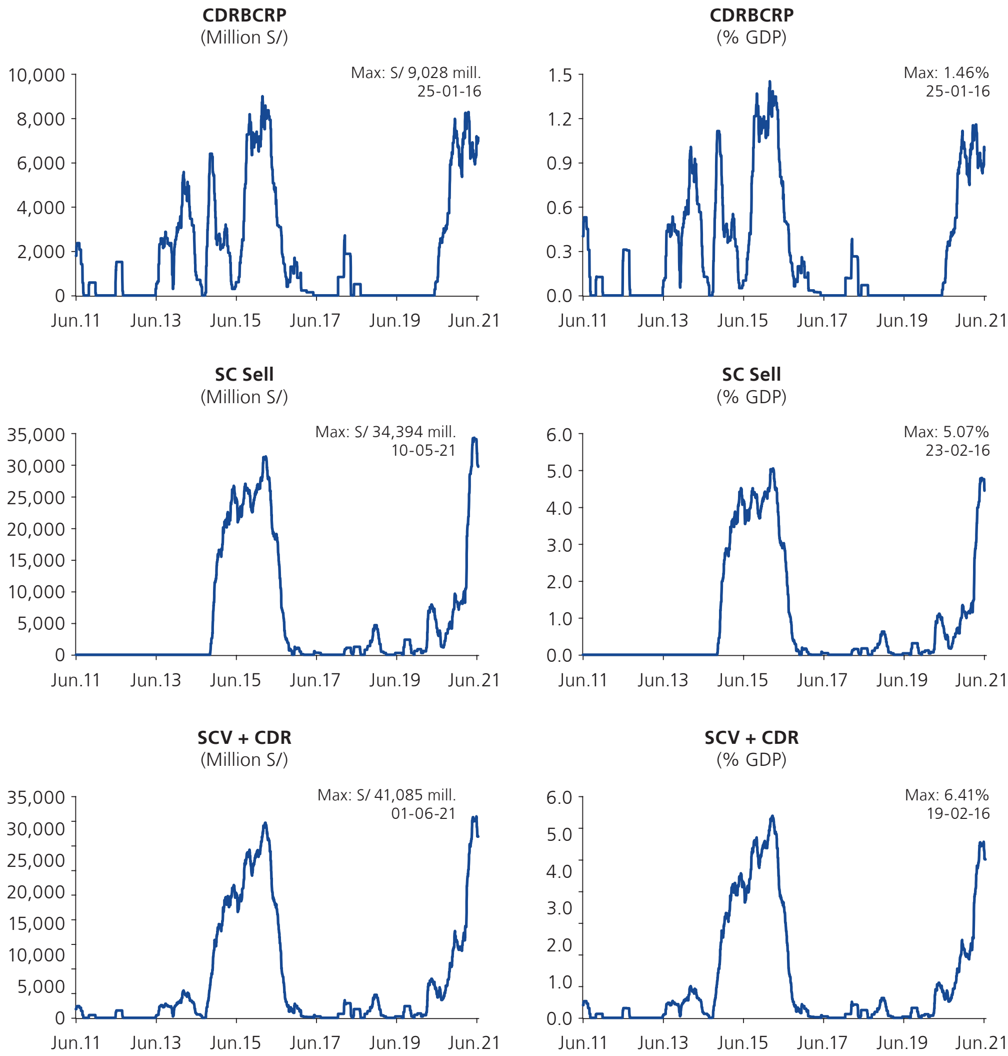
Table 33
NUMBER OF DAYS OF INTERVENTION

	Trading days	Número de días de intervención						SD of the Exchange Rate
		Spot Market	Placement of derivatives and indexed instruments	Total (*spot* and/or placement)	% of days with intervention			
					Spot	Instruments	Total	
2016	250	50	118	133	20%	47%	53%	7.3%
2017	249	55	26	64	22%	10%	26%	4.5%
2018	245	4	27	30	2%	11%	12%	3.4%
2019	249	4	6	10	2%	2%	4%	4.4%
2020	254	13	97	100	5%	38%	39%	7.4%
2021 1/	117	60	88	95	51%	75%	81%	10.3%

* As of March 18, 2021.

The accumulated balance of FX swaps and CDR BCRP totaled S/ 37.0 billion (5.2 percent of GDP) and the number of days in which foreign exchange intervention actions were carried out is at similar levels to those recorded in 2016. The increase in the average maturities of the instruments was associated with the demand for hedging over a longer horizon. In the case of FX swaps for sale, the average term has increased from 107 to 263 days between December 2019 and June 2021.

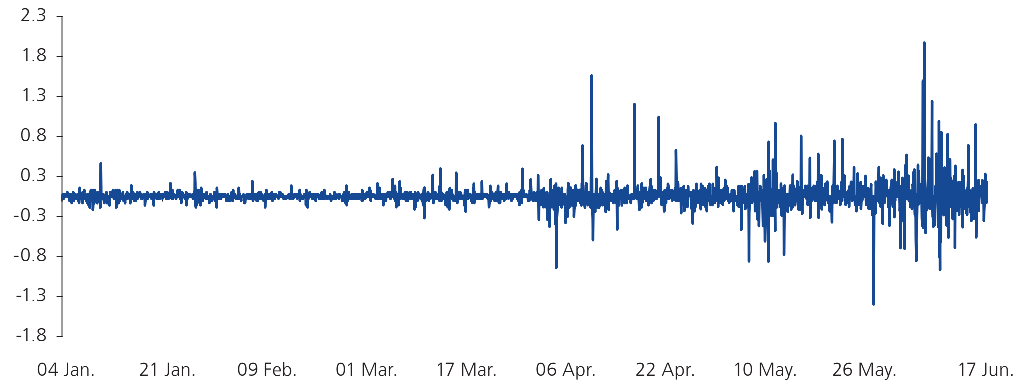
Graph 86
EXCHANGE INSTRUMENTS BALANCE



As of June 17.
Source: BCRP.

In terms of volatility, the PEN shows levels of variability not observed since the 2008 international financial crisis. The annualized daily percentage variation of the foreign exchange rate in April and May (14.0 and 14.6 respectively) reflected the high level of uncertainty perceived by economic agents. Moreover, if we look at the exchange rate evolution every 10 minutes between 9:30 a.m. and 1:30 p.m., the intraday variation fluctuated between a depreciation of 1.93 percent (June 7, 2021) to an appreciation of 1.35 percent (May 28, 2021). Furthermore, after the first round of the elections (April 11), the intraday variation was more persistent and more sensitive to new information on electoral preferences, as reflected in the graph below.

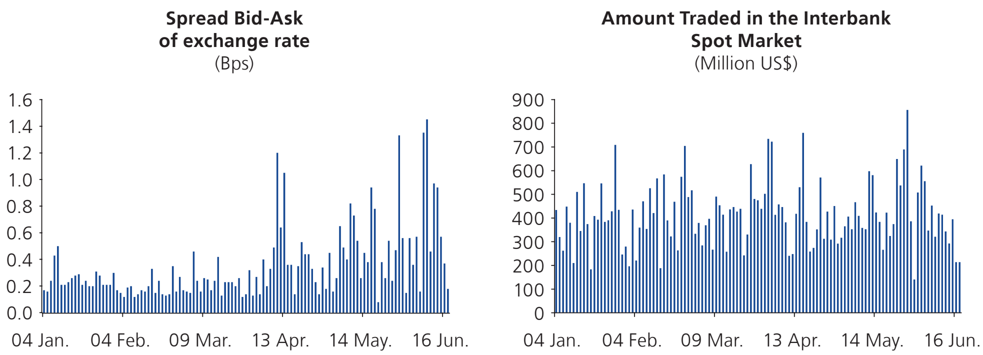
Graph 87
INTRADAY VARIATION OF EXCHANGE RATE
(%)



% change every 10 minutes in the exchange rate between 9:00 a.m. and 1:30 p.m. A positive variation indicates depreciation of Sol.
Data as of June 17.
Source: Reuters.

This higher volatility was also reflected in the exchange rate bid-ask spreads. The increase occurred since the second week of April, and until the latest available data, it had not returned to the levels prior to the first round of the presidential elections. Trading in the interbank spot exchange market has remained relatively stable.

Graph 88
SPREAD AND EXCHANGE RATE NEGOTIATION

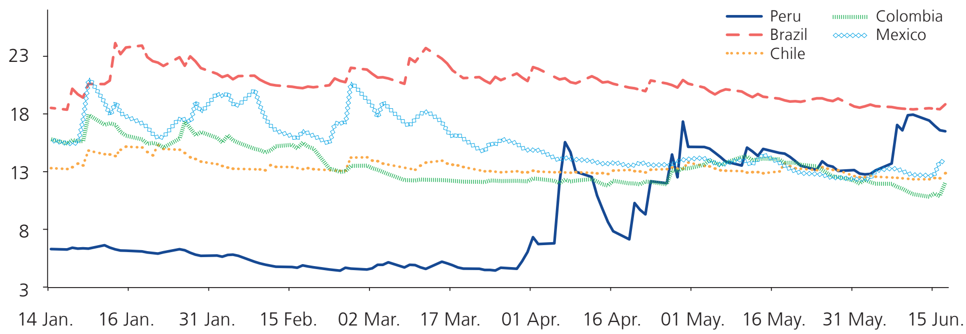


Source: Reuters.

Source: BCRP.

Comparatively speaking, the historical volatility of the Peruvian exchange rate in 30-day moving periods between January and March 2021 has been consistently the lowest in the region. However, an upward trend has been observed since April (with a peak level of 18.0 percent on June 11). In addition, a similar increase in the variability of the PEN with respect to that recorded between January and March 2021is seen using three alternative definitions of exchange rate volatility for daily data in recent months (historical, implied and GARCH-based).

Graph 89
1-MONTH ANNUALIZED HISTORICAL VOLATILITY



Annualized standard deviation in the last 30 days.
Data as of June 17.
Source: Reuters.

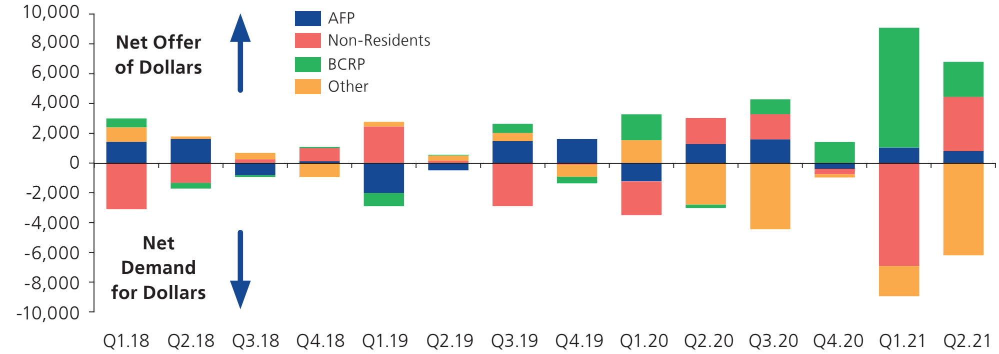
Table 34
LATAM VOLATILITY

	Historical (S.D.) 1/					Implicit 2/					GARCH(1.1) 3/				
	Brazil	Chile	Colombia	Mexico	Peru	Brazil	Chile	Colombia	Mexico	Peru	Brazil	Chile	Colombia	Mexico	Peru
Jan.21	22.60	17.23	14.49	14.38	2.60	21.47	13.76	13.63	15.35	6.47	21.98	13.89	16.48	18.09	5.67
Feb.21	13.67	11.17	10.93	14.76	1.81	19.18	12.30	13.36	17.13	4.97	22.01	14.24	13.48	20.86	4.56
Mar.21	20.03	13.21	12.54	14.12	4.30	18.82	13.36	14.19	14.81	4.17	20.83	12.92	12.11	14.73	6.00
Apr.21	17.30	11.06	9.86	8.89	13.98	16.95	11.96	13.80	12.46	7.37	20.60	13.78	13.25	13.98	15.18
May.21	15.33	13.68	12.49	8.93	14.87	16.13	13.39	14.78	11.97	11.60	18.58	12.56	12.19	12.24	13.16
Jun.21	17.16	13.02	12.14	12.31	10.30	15.52	12.35	14.87	12.30	10.68	18.78	12.84	11.94	13.82	13.27

1/ Annualized standard deviation of daily returns. As of June 17.
2/ Corresponds to the resulting variable in the Black Scholes option pricing model. It measures the market's expectations of the exchange rate for one month.
3/ The model GARCH (1,1) applies a stochastic process to historical time series of the exchange rate to predict its future volatility. The concept is similar to applying exponential moving averages to volatility where the current exchange rate has the greatest impact on the forecast.
Source: BCRP and Reuters.

This increased intervention in the foreign exchange market has sought to offset the high demand for dollars in the local market, particularly in the months of March and April. In 2021 the foreign exchange market shows a net demand of US$ 10,194 million (US$ 5,715 million in March 2021, the highest level since 2010) coming mainly from non-resident investors and non-financial sector participants, such as retailers and the corporate sector.

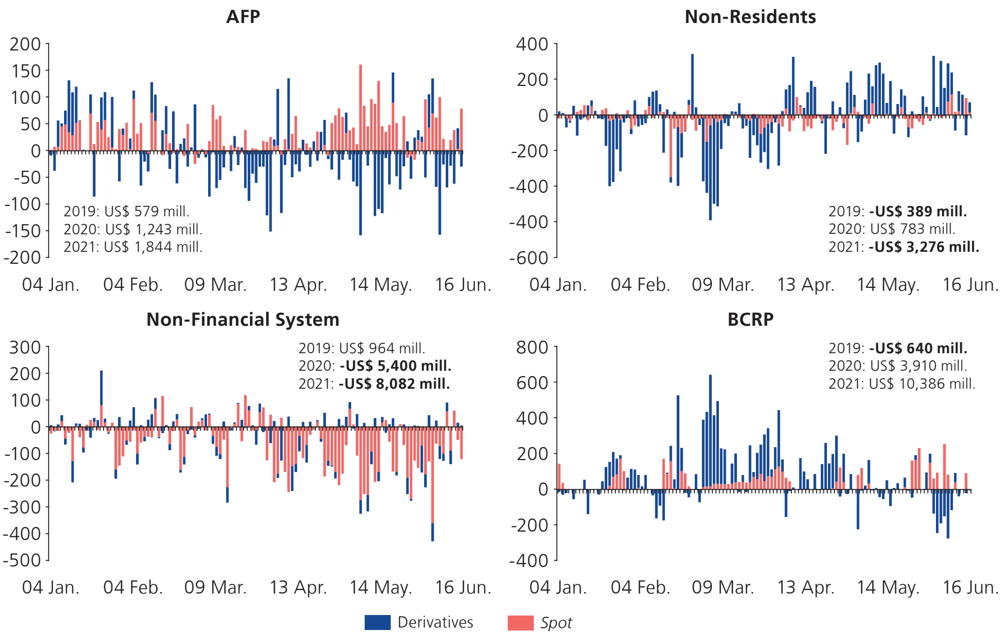
Graph 90
FLOWS TO THE FOREIGN EXCHANGE MARKET (SPOT AND DERIVATIVES)
(Million US$)



As of June 16.
Source: BCRP.

On the one hand, non-resident investors have reacted to the higher risk perceived in the country by reducing their investments in local government bonds (US$ 2,073 million in 2021) and demanding dollars in the spot market (US$ 2,151 million) and the derivatives market (US$ 1,125 million), due to changes in their expectations regarding the evolution of the exchange rate and their expected return. Additionally, on the other hand, they have traded non-deliverable forwards at the highest levels registered since 2010 in the off-shore market.

Graph 91
EXCHANGE FLOWS BY INVESTORS: SPOT AND DERIVATIVES
(Million US$)

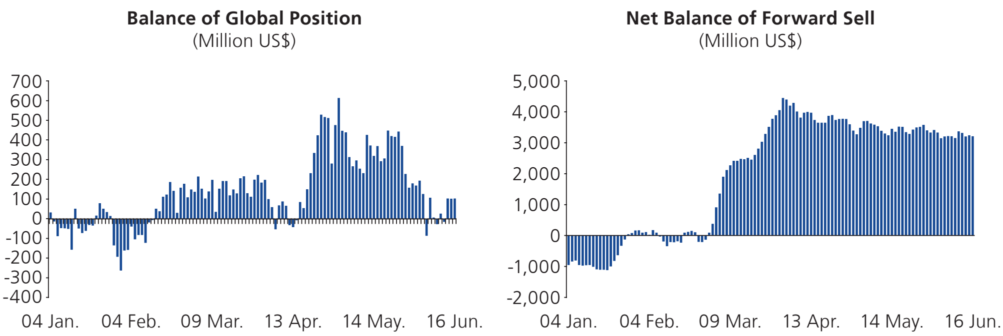


1/ Postiive signs means supply and negative signs means demand.
*As of June 16.
Source: BCRP.

In addition, Pension Fund Administrators (AFPs) offered US$ 3,397 million in the spot market, as a result of the liquidation of their investments abroad (US$ 4,291 million in 2021) in order to make the payment of extraordinary withdrawals. Moreover, they have demanded US$ 1,553 million in the derivatives market.

In this context of high demand for dollars in the foreign exchange market, BCRP has offered dollars to banks through sales in the spot market and through placements of BCRP CDR and FX swaps (net total of US$ 10,386 million).

Graph 92
BANKS



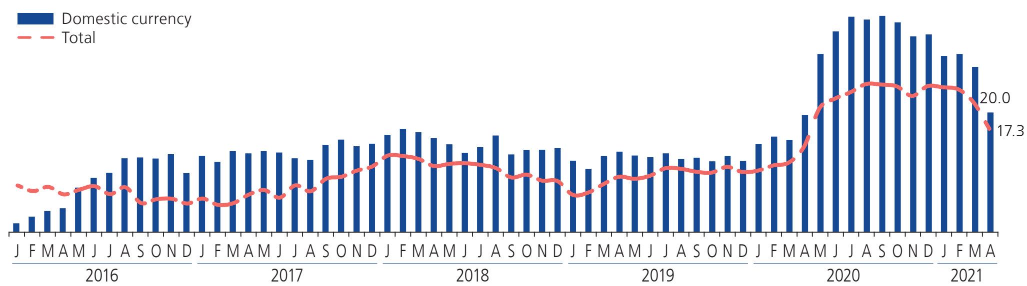
Data as of June 16.
Source: BCRP.

Despite the facts and events described above, the sol is still one of the most stable currencies in the region in annual terms in 2021[15]. In addition to the adequate level of international reserves it has, BCRP enjoys high credibility and has access to credit lines such as the IMF's Flexible Credit Line (FCL), which only countries with very solid macroeconomic fundamentals can have access to. Furthermore, the increased intervention of BCRP in the foreign exchange market to offer dollars in the spot market, and mainly in the derivatives market, has contributed to offset the extraordinary upward pressures on the exchange rate that have arisen in recent months.

Liquidity

65. The year-on-year growth rate of private sector deposits was 17.3 percent in April. By currency, deposits in soles grew 20.0 percent year-on-year, while deposits in dollars grew 12.2 percent in the last 12 months, although a greater preference for savings in foreign currency was observed recently due to uncertainty associated with the elections.

Graph 93
DEPOSITS OF THE PRIVATE SECTOR BY CURRENCY
(Annual % change)



Source: BCRP.

15 The standard deviation of the annualized daily returns in the region between January and June 2021 was the following: Brazil (17.2), Chile (13.0), Colombia (12.1), Mexico (12.3) and Peru (10.3).

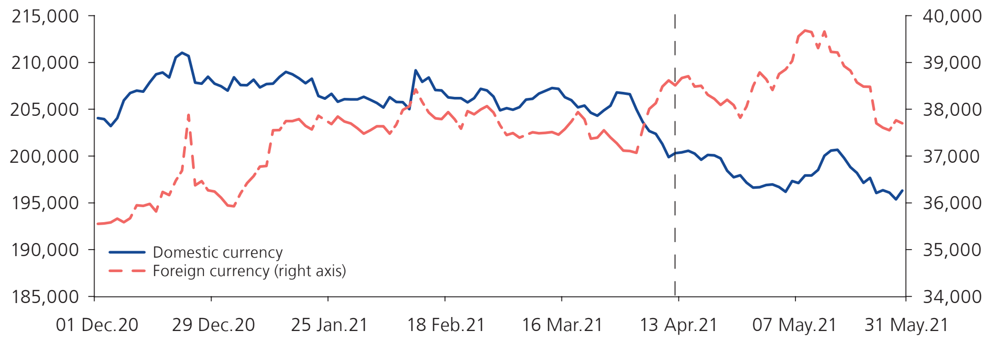
The dollarization ratio of deposits rose from 31.4 percent in 2020 to 32.7 percent in April 2021, this higher rate being explained by an increase in the dollarization ratio of personal deposits (from 26.7 to 27.8 percent) and corporate deposits (from 38.9 to 40.7 percent).

A significant drop was observed in banks' total obligations subject to reserve requirements in local currency in April and May (S/ 9,690 million), while total obligations subject to reserve requirements in foreign currency increased by US$ 697 million, the latter being accompanied by a reduction of US$ 4,516 million in the financial system's deposits at BCRP.

Graph 94

TOTAL OBLIGATIONS SUBJECT TO RESERVE REQUIREMENTS OF BANKS

(In millions of S/ and US$)



In the rest of the year, deposits are expected to return to show a higher rate of growth than credit to the private sector.

Table 35

MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS (END-OF-PERIOD)

(Annual % change)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21	Dec.21*	Dec.22*
Currency in circulation (End-of-period)	4.7	10.1	33.5	36.3	37.3	42.5	31.8	10.0	3.0
Deposits in domestic currency	11.9	15.4	33.6	36.2	33.1	27.6	20.0	5.1	7.1
Total deposits 1/	10.0	11.6	22.5	24.8	24.6	21.7	17.3	4.0	5.4
Broad money in domestic currency	10.2	13.3	32.1	34.7	32.3	29.3	21.5	6.2	6.1
Total broad money 1/	9.4	10.9	24.1	26.3	25.9	24.3	19.2	5.0	5.0
Credit to the private sector in domestic currency	9.8	9.4	18.9	23.1	19.7	17.5	17.4	3.8	3.4
Total credit to the private sector 1/	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**9.5**	**9.3**	**3.0**	**3.0**

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

66. **Currency in circulation** would grow 10 percent in 2021 and 3 percent in 2022, these rates of growth being estimated due to people's precautionary greater accumulation of banknotes and coins since the beginning of the state of emergency[16]. This increase

16 Precautionary cash savings would have been driven mainly by transfers to families through bonds granted by the Government.

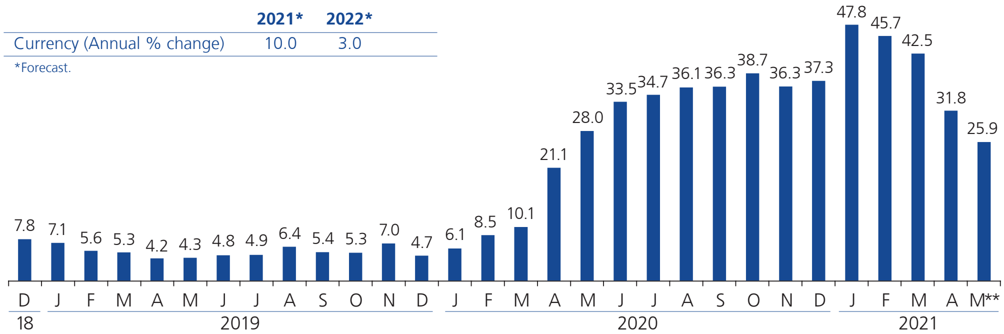
would be associated with the greater transactional and precautionary demand originated by the effects of the state of emergency because of the COVID-19 pandemic, these effects being expected to remain during this year. Restrictions on economic activity and the implementation of monetary subsidies for low-income social sectors to cover their basic needs would have led a significant segment of the population to use cash in their transactions and also to keep it for precautionary reasons in the current context.

Although the behavior of currency has normalized since June 2020 after the economic recovery phases started, its rate of growth accelerated again transitorily in January 2021.

Graph 95
CURRENCY
(Annual % change)

	2021*	2022*
Currency (Annual % change)	10.0	3.0

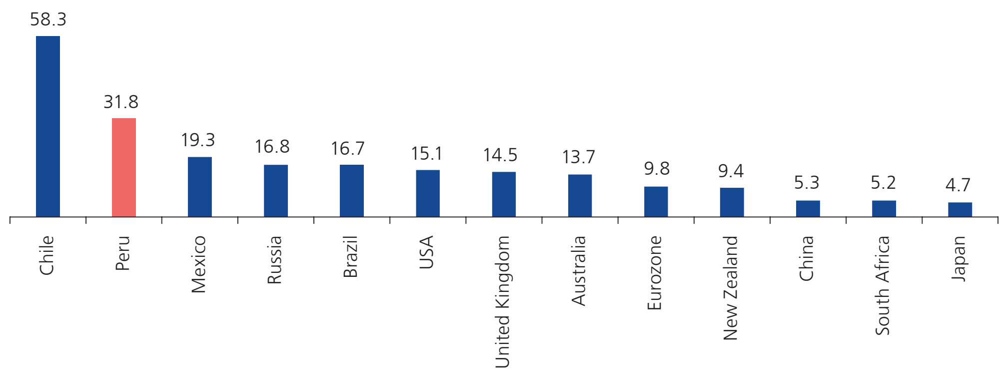
*Forecast.



** Preliminary.
Source: BCRP.

67. The annual growth rate of currency in circulation in May 2021 was 25.9 percent, higher than the growth rate observed in March 2020 (10.1 percent) and lower than the rate observed in December 2020 (37.3 percent).

Graph 96
CURRENCY GROWTH BY COUNTRIES: APRIL 2021
(% change)

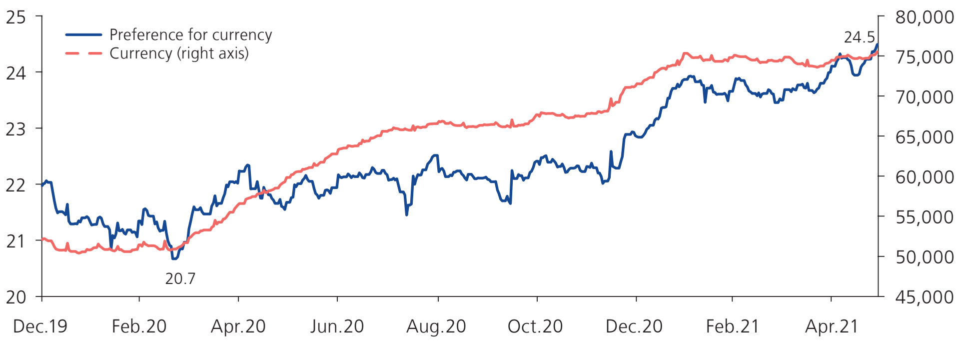


Source: Central banks.

These increases in the availability of cash are explained by the precautionary increase in demand for currency (the annual growth rate of the speed of money in circulation in the first quarter of 2021 was -18.2 percent, lower than the growth rate of -12.0 percent registered in the first quarter of 2020). Therefore, despite the growing use of alternative payment methods (as a result of technological improvements), the demand for cash has been exceptionally high. In addition, the delivery during the months of February and May of the new *Bono Universal Familiar* (which represented a total of S/ 2,520 million) also contributed to this increase in demand.

68. At the beginning of the lockdown in March 2020, the preference for currency had reached historical minimum levels (20.7 percent). Currency then showed a sustained level of growth until the first week of May, after which it remained slightly above 22 percent. However, since the second half of December, the preference for currency in circulation grew, remaining thereafter at around 23.6 percent since the second half of February until mid-February. In May 2021, it started to grow again and reached 24.5 percent.

Graph 97
CURRENCY AND PREFERENCE FOR CURRENCY
(In millions soles and %)



Credit to the Private Sector

69. The rate of growth of **credit to the private sector** slowed from 11.8 percent in 2020 to a year-on-year rate of 9.3 percent in April 2021. By segments, credit to businesses grew 16.7 percent, a lower rate than that observed in December 2020 (21.7 percent). On the other hand, credit to individuals went from showing a contraction of 3.1 percent in 2020 to a contraction of 2.6 percent in April 2021. Moreover, the latter registered a fall of 4.4 percent in terms of Car loans and credit cards registered a decline of 33.3 percent, while mortgage loans increased by 6.0 percent. On the side of loans to companies, the segments that showed higher growth rates were loans to medium-sized companies (58.5 percent), followed by loans to small and micro-enterprises (20.8 percent), while loans to corporations and large companies showed a decline in credit (0.7 percent).

Table 36
CREDIT TO THE PRIVATE SECTOR 1/
(Annual growth rate)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21
Business	**4.2**	**6.6**	**20.0**	**24.6**	**21.7**	**18.6**	**16.7**
Corporate and large companies	4.4	9.6	21.8	14.2	8.3	3.3	-0.7
Medium-sized enterprises, Small business and Micro business	4.1	3.0	17.8	37.0	37.4	37.6	39.5
Individuals	**11.3**	**9.3**	**2.8**	**-1.3**	**-3.1**	**-4.5**	**-2.6**
Consumer	12.8	10.2	1.6	-4.2	-7.1	-10.6	-8.2
Car loans	11.9	6.9	0.9	-3.1	-2.5	-8.3	-4.4
Rest	12.9	10.3	1.7	-4.2	-7.3	-10.6	-8.3
Mortgage	9.0	8.0	4.6	3.1	3.2	4.8	6.0
TOTAL	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**9.5**	**9.3**

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

70. During 2020 and in early 2021, there were reclassifications in the business and consumer credit segments[17]. Therefore, the indicator of the growth rates of corporate credit and consumer credit not only takes into account the effect of greater or lesser credit activity, but also reflects the effect of the changes in base associated with any reclassifications.

Thus, excluding the reclassification effect of companies for April 2021, credit in the corporate segment would have decreased its growth by 3.4 percent, while credit in the segments of medium-sized companies and small and micro businesses would have expanded by 42.3 and 43.8 percent, respectively.

Table 37
TOTAL CREDIT TO THE PRIVATE SECTOR BY TYPE OF BUSINESS 1/

	Balance (Million S/)	Annual growth rate							
		Jan.21/Jan.20		Feb.21/Feb.20		Mar.21/Mar.20		Apr.21/Apr.20	
	Apr.21	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.
Business	**244,178**	**19.1**	**19.1**	**20.4**	**20.4**	**18.6**	**18.6**	**16.7**	**16.7**
Corporate and large companies	117,848	4.4	0.6	7.5	3.9	3.3	-0.0	-0.7	-3.4
Medium-sized enterprises	71,169	51.1	38.3	50.5	37.3	56.1	40.7	58.5	42.3
Small business and Micro business	55,161	21.8	42.8	20.7	41.6	19.8	42.9	20.8	43.8

1/ Balances are valuated at constant exchange rate on December 2019.
Source: RCC and bank account.

As for consumer loans, credit in the segment of credit cards would have contracted 4.9 percent, while other consumer loans would have shown no growth, but a fall of 9.5 percent.

17 The reclassification of companies is discussed in greater detail in Nota de Estudio del BCRP N° 37-2021.

Table 38
TOTAL CREDIT TO THE PRIVATE SECTOR BY TYPE OF CONSUMER 1/

	Balance (Million S/)	Annual growth rate							
		Jan.21/Jan.20		Feb.21/Feb.20		Mar.21/Mar.20		Apr.21/Apr.20	
	Apr.21	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.	With Reclass.	Without Reclass.
Consumer	**72,553**	**-9.0**	**-9.0**	**-11.1**	**-11.1**	**-10.6**	**-10.6**	**-8.2**	**-8.2**
Vehicles	2,240	-4.3	-4.3	-10.1	-10.1	-8.3	-8.3	-4.4	-4.4
Credit card	13,350	-46.0	-24.1	-48.7	-27.4	-48.9	-27.3	-33.3	-4.9
Rest	56,963	10.0	-1.3	8.2	-2.8	8.8	-2.2	0.5	-9.5

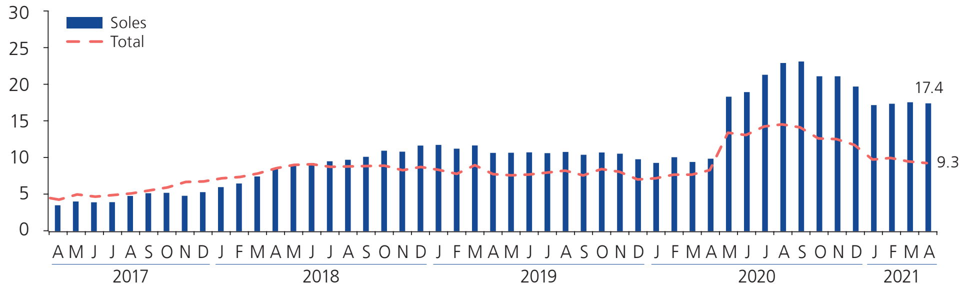
1/ Balances are valuated at constant exchange rate (3.31).
Source: RCC and bank account.

Thus, in the case of corporate loans, the segment most affected by the reclassification was that of micro and small companies (loans amounting to S/ 256 million were classified as loans to corporate and large companies, and loans amounting to S/ 10,714 million as loans to medium-sized companies).

71. Credit in soles continues to grow at two-digit rates, driven mainly by the Reactiva Peru program, although its pace of growth has slowed slightly since September 2020. On the other hand, the growth of credit in dollars has been decreasing since June 2020 due to the greater preference for local funding and interest rates in soles, which remain below their historical averages. Thus, as of April 2021, credit in soles has grown 17.4 percent, while credit in dollars has fallen by 13.6 percent in the same period.

72. The measures taken by BCRP have favored that credit continue to show an anti-cyclical behavior, counterbalancing the negative effects of the pandemic on economic activity.

Graph 98
CREDIT TO THE PRIVATE SECTOR
(Annual % change)



Source: BCRP.

73. After remaining above its long-term trend for several months in the context of the Reactiva Peru program, in April the balance of total credit to the private sector would be below its long-term trend given the moderation observed in credit growth since September 2020.

Graph 99
UNSEASONALLY CREDIT TO THE PRIVATE SECTOR AND TREND
(Billion S/)

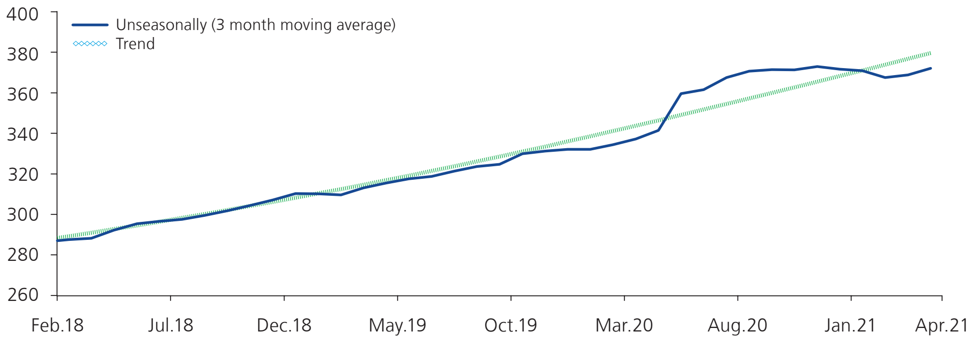


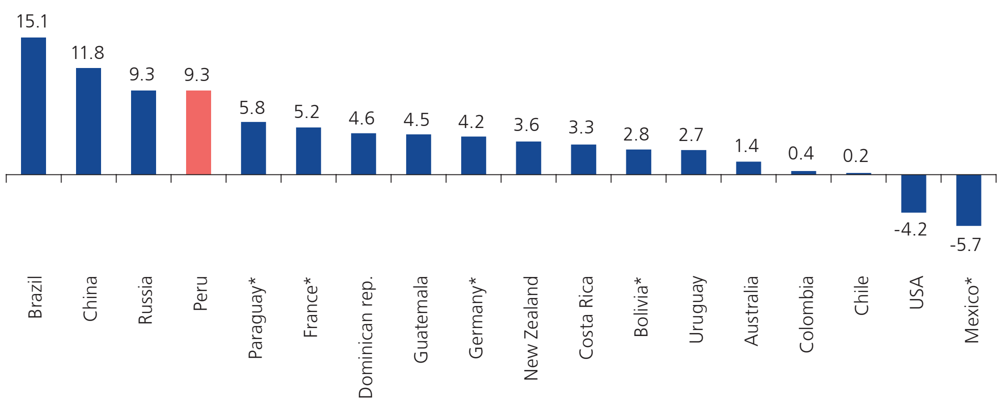
Table 39
CREDIT TO THE PRIVATE SECTOR 1/
(Annual % change)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21
Domestic Currency	9.8	9.4	18.9	23.1	19.7	17.5	17.4
Foreign Currency	-0.4	2.8	-2.1	-9.8	-10.6	-13.4	-13.6
Total	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**9.5**	**9.3**

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

74. At the global level, credit to the private sector has responded to the monetary stimulus measures adopted by central banks worldwide. In April 2021, Peru shows annual growth rates of total credit to the private sector and to business that are among the higher rates observed today (9.3 percent and 16.7 percent, respectively).

Graph 100
GROWTH OF CREDIT TO THE PRIVATE SECTOR: APRIL 2021
(Annual % change)

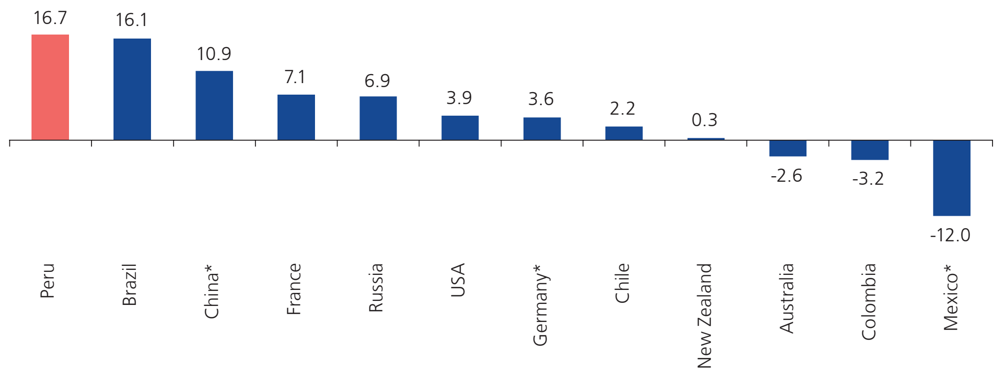


* As of March 2021.
Source: Central banks.

Graph 101

GROWTH OF CREDIT TO PRIVATE COMPANIES: APRIL 2021

(Annual % change)



* As of March 2021.
Source: Central banks.

75. With information as of the first quarter of 2021, the BCRP survey of credit conditions shows that supply conditions have not continued to be restrictive as in the previous quarter, with improvements being observed for lending to all of the business segments. Moreover, in credit to individuals, an improvement is observed in consumer loans and credit cards, while conditions for mortage loans remain the same.

Table 40

RESULTS OF THE SURVEY OF CREDIT CONDITIONS 2019 - 2021

(Current situation indicators)

	Q4.19	Q2.20	Q3.20	Q4.20	Q1.21	Average Q4.11 - Q4.20
Large companies						
Offer (banks)	50.0	29.2	41.7	42.5	50.0 ⇧	45.8
Demand (customers)	45.8	55.0	35.7	47.2	47.2 ⇨	52.9
Medium-sized enterprises						
Offer (banks)	53.6	35.7	44.4	40.0	50.0 ⇧	46.4
Demand (customers)	62.5	37.5	42.9	50.0	52.5 ⇧	54.9
Small businesses and Microbusinesses						
Offer (banks)	54.2	46.4	32.1	40.6	56.3 ⇧	45.3
Demand (customers)	54.2	37.5	41.7	37.5	57.1 ⇧	51.7
Consumer						
Offer (banks)	50.0	39.3	43.8	45.0	54.5 ⇧	47.5
Demand (customers)	62.5	16.7	42.9	55.6	57.5 ⇧	55.8
Mortgage						
Offer (banks)	50.0	42.9	46.9	50.0	50.0 ⇨	48.4
Demand (customers)	58.3	8.3	53.6	57.1	62.5 ⇧	54.6
Credit cards						
Oferta (bancos)	50.0	33.3	36.1	44.4	52.5 ⇧	46.0
Demand (customers)	62.5	25.0	31.3	46.9	41.7 ⇩	54.0

Own elaboration.

1 The survey includes commercial banks.

2 The index of evolution of the credit supply conditions is constructed from the difference between the percentage of entities that have credit approval criteria "relaxed" minus the percentage of companies that have "restricted" it. This index fluctuates between 0 and 100; of in this way, values greater than 50 indicate a "relaxation" of credit conditions, while values below 50 indicate a tightening of credit conditions. Likewise, an index value equal to 50 reflects a neutral position, without changes in conditions.

76. On the other hand, the perception of demand for corporate loans is no longer restrictive for all segments, with the exception of corporate and large companies. In the case of personal loans, there is a recovery in the outlook for demand. However, a drop in demand conditions is observed in the case of credit cards. The latter is associated with the drop in credit in this segment during 2020 and in the first months of 2021.

Dollarization of Credit and Liquidity

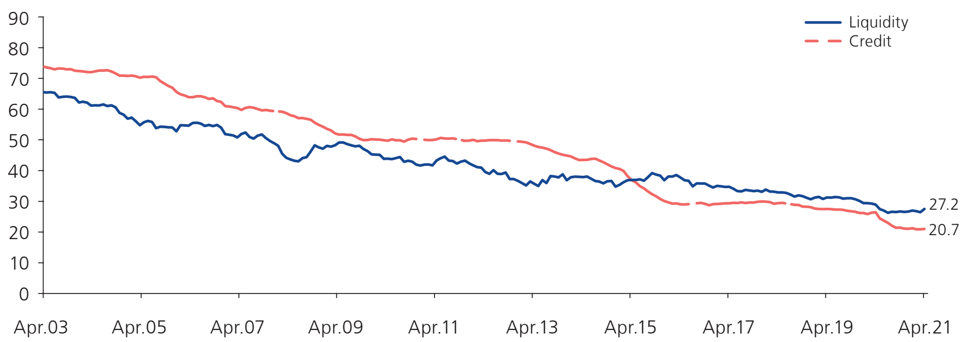
77. In April 2021, the ratio of dollarization of credit measured at a constant exchange rate was 20.7 percent, the same level as that recorded in December 2020. A reduction was observed in the dollarization ratio of credit to businesses, which decreased from 27.4 to 27.3 percent in this period, while the dollarization ratio of credit to individuals remained stable in April 2021. Moreover, the dollarization ratio in the segment of mortgage loans fell from 11.6 percent in December 2020 to 10.8 percent in April 2021, while the dollarization ratio of consumer loans increased from 5.5 percent to 5.8 percent in the same period.

Table 41
RATIO OF DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR 1/
(%)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21
Business	**37.3**	**37.5**	**31.8**	**27.8**	**27.4**	**27.2**	**27.3**
Corporate and large companies	50.5	50.0	43.4	41.4	42.4	41.8	41.8
Medium-sized enterprises	38.5	38.7	30.0	24.4	22.0	21.2	21.5
Small business and Micro business	5.7	5.6	4.9	3.8	4.0	4.1	4.1
Individuals	**8.9**	**8.5**	**8.3**	**8.2**	**8.0**	**7.9**	**8.0**
Consumer	6.0	5.7	5.5	5.4	5.5	5.5	5.8
Car loans	14.8	14.9	14.9	16.0	16.7	16.8	16.6
Credit cards	7.1	6.6	5.6	5.3	5.7	8.3	9.8
Rest	5.0	4.9	5.0	5.0	4.8	4.4	4.4
Mortgage	13.3	12.7	12.5	12.1	11.6	11.0	10.8
TOTAL	**25.9**	**26.0**	**23.4**	**21.1**	**20.7**	**20.6**	**20.7**

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

Graph 102
RATIO OF DOLLARIZATION OF CREDIT AND LIQUIDITY: 2003 - 2021
(%)



Non-Performing Loans

78. In April 2021, the NPL ratio registered 3.83 percent, a level 0.16 percentage points lower than that recorded in December 2020 (3.99 percent), mainly due to the lower delinquency rates of loans to individuals, particularly those associated with credit cards. On the other hand, the NPL ratio of corporate loans increased in all of the business segments, with the increase in the segment of micro and small businesses standing out.

Table 42
NON-PERFORMING LOANS INDEX
(%)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Apr.21
Business	**3.57**	**3.68**	**3.49**	**3.52**	**3.72**	**4.02**	**4.03**
Corporate and large companies	0.62	0.63	0.66	0.84	1.03	1.08	1.09
Medium-sized enterprises	8.24	9.00	7.53	6.81	6.26	6.44	6.39
Small business and Micro business	7.13	7.41	6.24	5.54	6.10	7.18	7.30
Individuals	**3.15**	**3.33**	**3.43**	**3.72**	**4.93**	**4.20**	**3.80**
Consumer	3.27	3.47	3.38	3.95	5.95	4.70	3.99
Credit cards	5.47	5.79	6.05	8.03	12.70	11.75	9.74
Car loans	3.75	3.86	4.78	5.58	5.85	5.74	5.68
Rest	1.68	1.83	2.05	2.03	3.10	2.96	2.57
Mortgage	2.98	3.15	3.51	3.39	3.52	3.57	3.54
Average	**3.28**	**3.41**	**3.34**	**3.47**	**3.99**	**3.96**	**3.83**

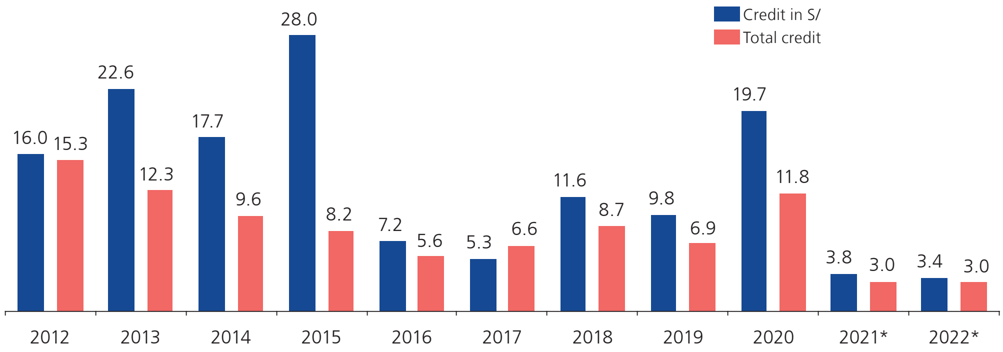
79. On the other hand, it should be pointed out that the financial system has been taking measures to mitigate the impact of the pandemic on the financial system's solvency, including strengthening the equity base, improving the control of operating and financial expenses, and establishing voluntary provisions.

Projection of Credit to the Private Sector

80. After showing a significant increase in the credit-to-GDP ratio in 2020, credit to the private sector in the forecast horizon (2021-2022) is expected to moderate its growth and grow at a slower pace than nominal GDP. The ratio to GDP would decrease from 52 percent in 2020 to 43 percent in 2022. This projection also assumes the recovery of economic activity to pre-pandemic levels in 2022.

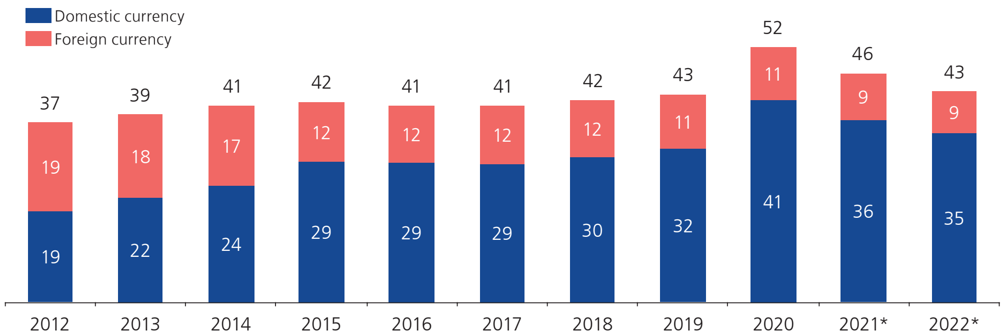
Credit to the private sector in domestic currency is projected to grow 3.8 percent in 2021 and 3.4 percent in 2022, taking into account the statistical effect of the strong increase of credit in 2020 and the beginning of the amortization of loans granted under the Reactiva Perú program. Thus, total credit would grow 3.0 percent in both 2021 and in 2022. As a result, the dollarization ratio of credit would continue to decrease, reaching a level of 19.8 percent by the end of 2022.

Graph 103
CREDIT TO THE PRIVATE SECTOR
(% change)



* Forecast.

Graph 104
RATIO CREDIT/GDP
(%)



Memo: calculated with constant exchange rate (December 2019).
* Forecast.

Box 4
COUNTERCYCLICAL MONETARY POLICY IN PERU

Monetary policy is **countercyclical** when it smoothes fluctuations in economic activity. The lower volatility of output induced by countercyclical economic policies favors higher long-term growth, since it provides a suitable environment for job creation and economic agents' investment decisions.

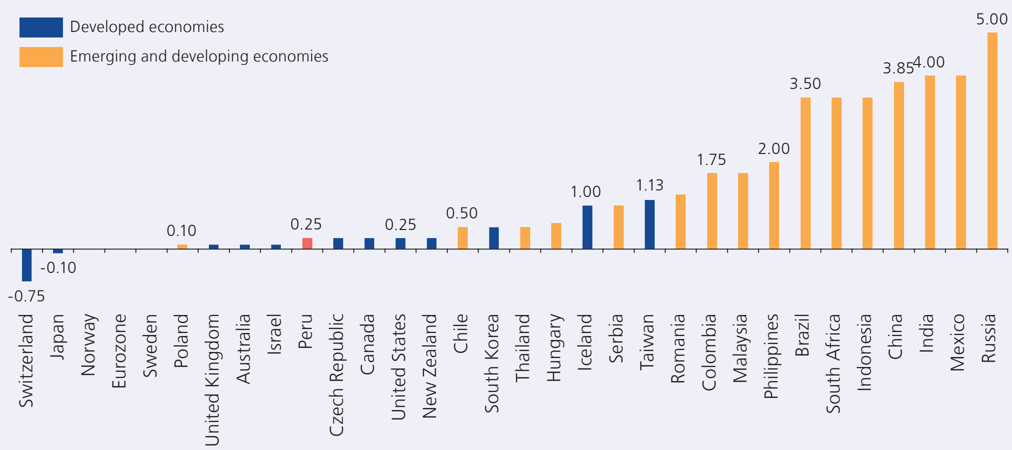
Upward pressures on inflation are generated in circumstances in which economic activity is above its potential level, and the greater the overheating of economic activity, the greater the subsequent fall in output and loss of employment. A countercyclical monetary policy seeks to prevent this by raising the benchmark interest rate above its neutral level, avoiding in this way both high inflation and an overheated economy.

On the contrary, in episodes of recession or economic slowdown and downward pressures on inflation, the central bank maintains an expansionary stance by reducing the benchmark rate to avoid a situation of deflation; that is, a very low inflation rate below the target range or falling prices with a low level of economic activity.

Therefore, a countercyclical monetary policy is functional to the inflation targeting scheme[18]. It should be pointed out that the central bank's credibility in terms of meeting the inflation target is key for the central bank to be able to effectively carry out the countercyclical monetary policy. Inflation expectations anchored around the target allow policy interest rate movements to have the desired impact on the economy's aggregate demand and, therefore, on inflation.

At the beginning of the pandemic, BCRP reduced its benchmark interest rate by 200 basis points with respect to December 2019, bringing this rate to its historical minimum level (0.25 percent), the lowest rate observed in the economies in the region. Moreover, compared to monetary policy interest rates in emerging economies, only the Central Bank of Poland currently has a lower interest rate (0.1 percent).

MONETARY POLICY INTEREST RATE: MAY 2021
(%)



18 Other papers that support this view include: Thornton, J. and C. Vasilakis (2017), "Inflation targeting and the cyclicality of monetary policy", Finance Research Letters, 20, 296-302; McGettigan et al (2013), "Monetary Policy in Emerging Markets: Taming the Cycle", Working Paper #96, IMF; and Chon and Rhee (2012), "An Assessment of Inflation Targeting in Quantitative Monetary Business Cycle Framework", Korea Institute for International Economic Policy.

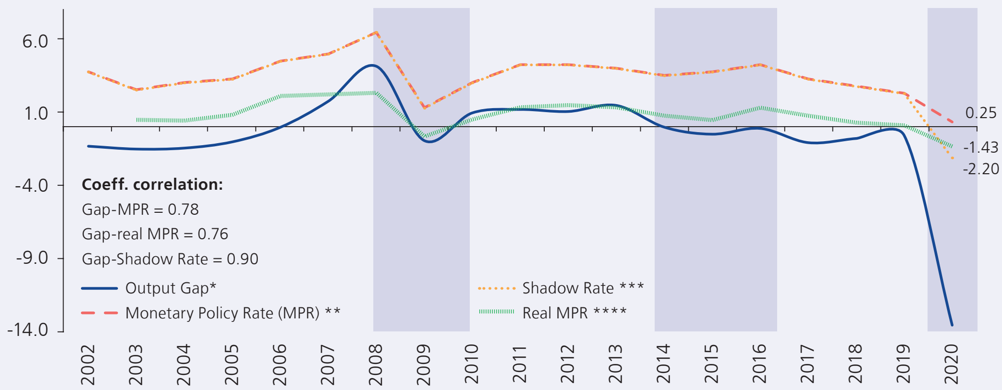
Countercyclical Monetary Policy in Peru

The following graph shows the countercyclical behavior of BCRP's monetary policy. Note that this countercyclical behavior implies a positive correlation between the policy interest rate and the output gap. For example, an expansionary monetary policy stance is observed in the adoption of inflation targeting in 2002, when negative inflation and a weak rate of expansion of economic activity were observed.

An expansionary stance was also adopted in response to (i) the global financial crisis (2008-2009), (ii) the end of the commodity boom period and the Taper Tantrum episode (2013)[19] and (iii) the recent COVID-19 pandemic crisis (2020 onwards). On the contrary, in circumstances in which the economy was growing at high rates given the favorable international context of the commodity boom, BCRP sought to modulate such expansion through a less flexible monetary policy stance.

The concept of shadow interest rate has also been included for the year 2020, this concept being defined as the negative rate that captures the equivalent impact of the different modalities to expand monetary stimulus, including unconventional measures (it can have negative values). Considering the 2020 shadow rate, the correlation between the output gap and the monetary policy rate is 0.90.

TREND OUTPUT GAP AND MONETARY POLICY RATE IN PERU: 2002-2020
(Output gap as a % of trend GDP)

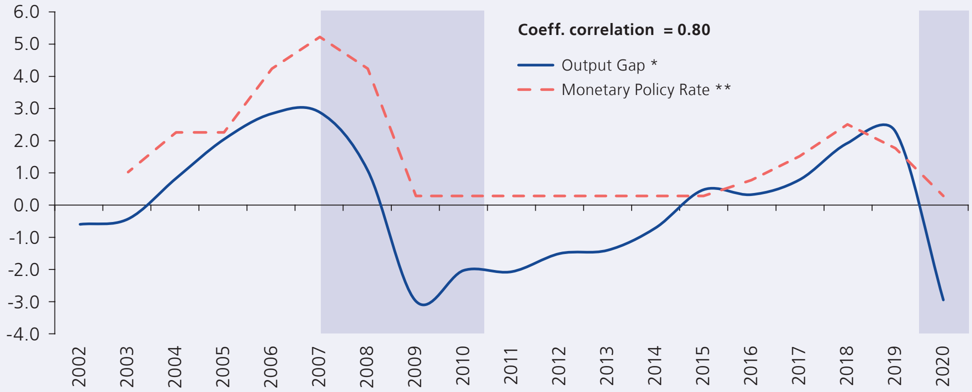


*BCRP
** End of period.
*** MPR equivalent to the monetary stimulus generated by all injection modalities, including non-conventional measures (it may have negative values).
**** Real ex ante MPR (calculated with the inflation expectation from the BCRP's Survey of Macroeconomic Expectations).

The central banks of developed economies such as the US and the Eurozone also implement a countercyclical monetary policy. As can be seen in the following graphs, the main adverse episodes that both central banks have had to face have been the global financial crisis and the COVID-19 crisis.

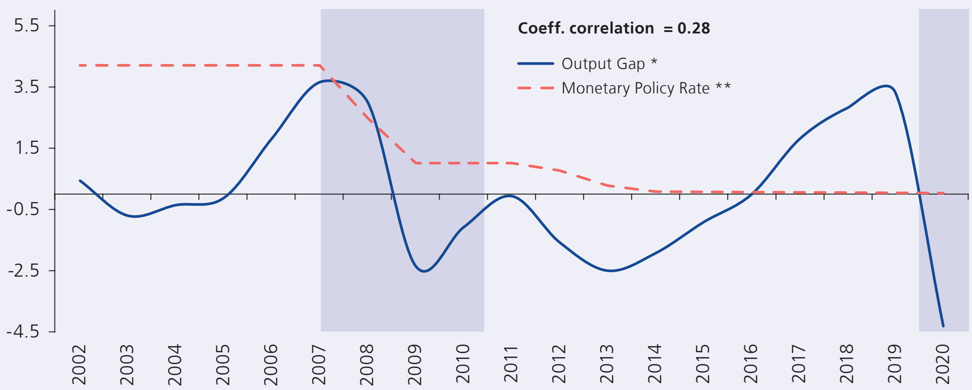
19 The expression Taper Tantrum describes the sudden rise in the yields of U.S. Treasury bonds in 2013 as a result of the Fed's announcement of its future intention to gradually reduce its quantitative easing policy. The Fed announced that it would slow the pace of its Treasury bond purchases to reduce the amount of money it was injecting into the economy.

OUTPUT GAP AND MONETARY POLICY RATE IN THE USA: 2002-2020
(Output gap as a % of potential GDP)



* Calculated using the Hodrick-Prescott (HP) filter.
** Federal funds interest rate (end of period).

OUTPUT GAP AND MONETARY POLICY RATE IN THE EUROZONE: 2002-2020
(Output gap as a % of potential GDP)



* Calculated using the Hodrick-Prescott (HP) filter.
** Interest rate of the main refinancing operations (end of period).

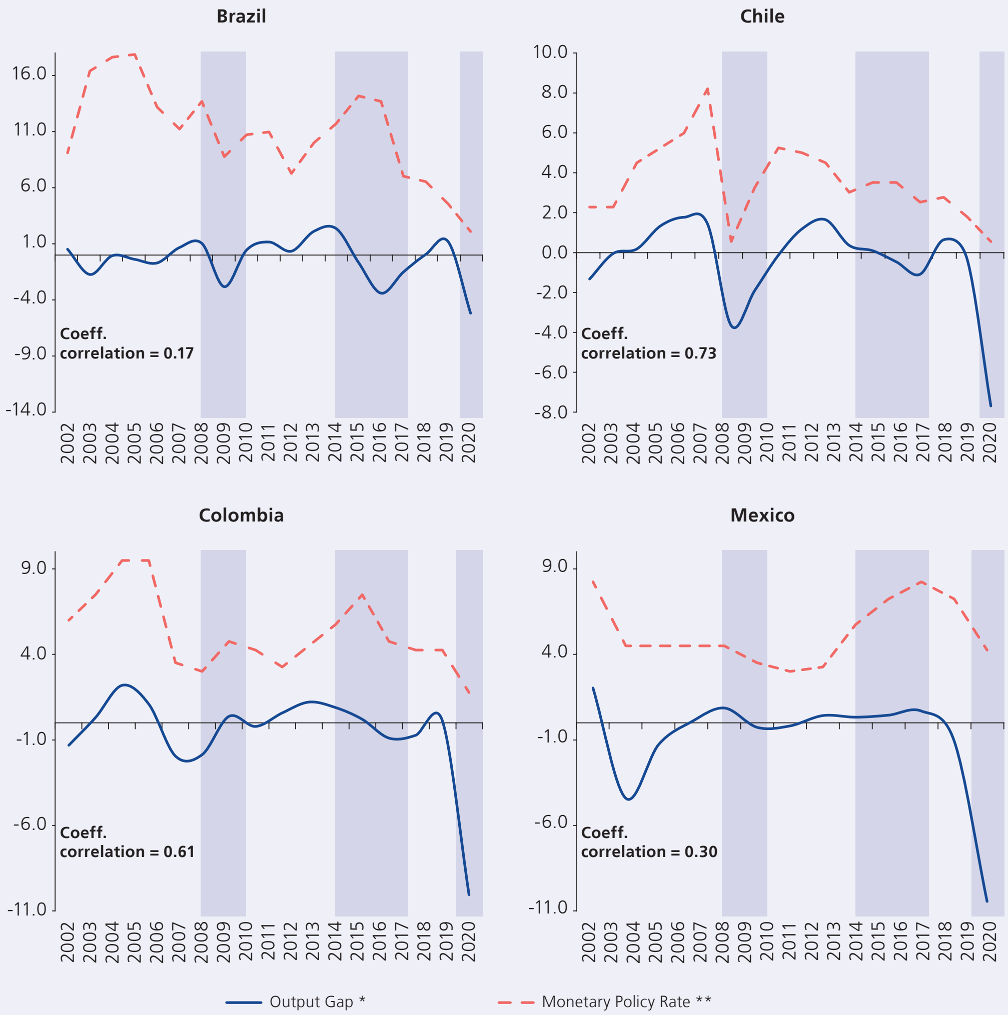
Countercyclical Monetary Policy in Emerging Economies[20]

International evidence from central banks in the region (Mexico, Colombia, Chile, Brazil), using the same metric used to measure the BCRP's countercyclical policy, shows that most of them have also adopted this type of countercyclical behavior. This behavior is particularly observed in response to

20 The output gap calculated using the Hodrick-Prescott (HP) filter is compared. The policy interest rate is used in each case to measure the monetary policy stance. The GDP series was obtained from the database of FRED (St. Louis Federal Reserve), while the monetary policy interest rate series was obtained from Reuters.

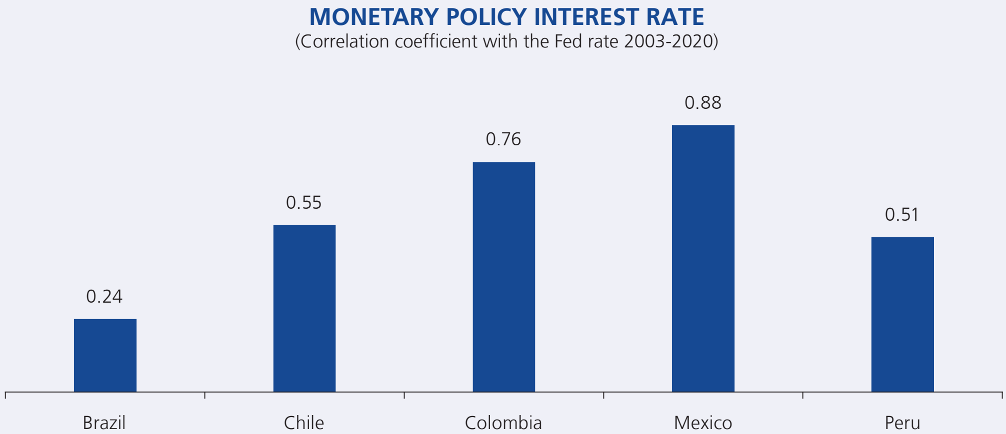
negative shocks similar to the ones faced by the Peruvian economy, such as the global financial crisis, the Taper Tantrum and the COVID-19 crisis.

OUTPUT GAP AND MONETARY POLICY RATE : 2002-2020
(Output gap as a % of potential GDP)



* Calculated using the Hodrick-Prescott (HP) filter.
** Interest rate of the main refinancing operations (end of period).

An important aspect of the application of countercyclical monetary policy is that the policy interest rate responds to the economic cycle itself and therefore would generally be expected to behave independently of the evolution of interest rates in advanced economies, such as the interest rate of the Federal Reserve (Fed). The following graph shows the correlation coefficients between the monetary policy interest rates of five Latin American countries and the Fed funds rate. Peru's policy rates have one of the lowest correlations with the Fed rate.



In conclusion, evidence shows that the monetary policy implemented in Peru and by central banks in other emerging economies has been countercyclical, in line with the nature of the shocks they have faced. The future course of monetary policy will depend on central banks' assessment of the expected evolution of inflation and its determinants.

Box 5
CAPS ON LENDING RATES

On March 18, 2021, the Peruvian government enacted Law 31443 (“Law for the protection of consumers against financial usury”), which among other provisions establishes that BCRP has the power to set the ceilings of lending interest rates for consumer loans, low amount consumer loans (loans of less than 2 tax units), and loans to micro and small enterprises (MSE) in the financial system.

Through Circular 0008-2021-BCRP dated April 29, 2021, BCRP determined that this maximum interest rate is equivalent to twice the average interest rate of consumer loans in the financial system. This maximum rate, which is in effect since May for new loans from banks, will come into effect for credit from the Cajas Municipales in June and for credit from the rest of financial entities (Financieras, Cajas Rurales, Edpymes, Cooperativas) in July. Moreover, the maximum interest rate for revolving credits, as in the case of credit cards, will be in effect as of the billing cycles starting on June 1, 2021.

The maximum interest rate will be calculated semi-annually based on the rates of consumer loans in the financial system between two and seven months prior to its effective date. For example, the maximum rate in domestic currency for the period May-October 2021 amounts to 83.4 percent per annum, while the maximum rate in foreign currency is 68.38 percent per annum[21]. BCRP has established these caps based on information about the distribution of interest rates for the different types of loans in the financial system and with the objective of minimizing their negative effects.

MAXIMUM CONVENTIONAL COMPENSATORY INTEREST RATE
(%)

		Active Operations of the Financial System	
		Previous 1/	**In force**
Domestic currency	Consumer, low-value consumer, micro and small business	Free competition	83.40
	Rest		Free competition
Foreign currency	Consumer, low-value consumer, micro and small business	Free competition	68.38
			Free competition

1 / Before of circular No. 008-2021-BCRP of April 29, 2021.
Note: The maximum compensatory interest rate for active operations between people outside the financial system is 83.40% in currency national and 68.38% in foreign currency.
Source: BCRP.

In the case of moratorium interest rates, BCRP has determined that the maximum moratorium interest rate for consumer loans, low amount consumer loans, and loans to MSE is 12.51 percent in local currency and 10.26 percent in foreign currency, which is equivalent to 15 percent of the maximum rate in local currency (83.40 percent) and in foreign currency (68.38 percent), respectively.

21 The maximum rates will be updated again on November 1 using information for the April-September 2021 period.

MAXIMUM MORATORY INTEREST RATE
(%)

<table>
<tr><th></th><th></th><th colspan="2">Active Operations of the Financial System</th></tr>
<tr><th></th><th></th><th>Previous 1/</th><th>In force</th></tr>
<tr><td rowspan="2">Domestic currency</td><td>Consumer, low-value consumer, micro and small business</td><td rowspan="2">Free competition</td><td>12.51</td></tr>
<tr><td>Rest</td><td>Free competition</td></tr>
<tr><td rowspan="2">Foreign currency</td><td>Consumer, low-value consumer, micro and small business</td><td rowspan="2">Free competition</td><td>10.26</td></tr>
<tr><td>Rest</td><td>Free competition</td></tr>
</table>

1 / Before of circular No. 008-2021-BCRP of April 29, 2021.
Note: The maximum moratory interest rate for active operationsbetween people outside the financial system is 12.51% in currency national and 10.26% in foreign currency.
Source: BCRP.

The interest rate has been defined as a factor of the average of a market rate (the consumer credit rate in the financial system), in order to capture current financial conditions and thus minimize potential distortions that a maximum rate could generate.

The factor of 2 times has been determined taking into account the negative factors of the interest rate cap in terms of financial inclusion. According to the current distribution of interest rates, it is estimated that around a quarter of consumer and MSE loans, mostly granted by financial institutions specialized in consumer and microfinance loans, would be excluded from formal credit.

The greatest exclusion is estimated to occur in the segment of consumer loans of less than one tax unit (S/ 4,400), which concentrates a greater number of clients with recent access to formal credit and has the highest interest rates because they are short term operations, and extends to clients with higher credit risk, which incorporate fixed costs of evaluation and follow-up of the client's credit.

Moreover, the most affected financial institutions will be those specialized in consumer loans and microfinances, including banks specialized in microcredit, finance companies, rural banks and Edpymes[22], which is the reason why it has been established that the regulation will be implemented gradually. The first entities to implement it will be the banks in May, followed by the Cajas Municipales in June, and by the rest of financial entities (Financieras, Cajas Rurales, Edpymes, Cooperativas) in July.

For example, the 83.40 percent cap leads to the exclusion from the formal financial system of 16.7 percent of consumer and MSE loans of specialized banks' consumer and MSE credit portfolio (with information as of March 2021), and to the exclusion of 15.9 percent of the consumer and MSE credit balance of financial companies' portfolio.

22 In addition, other factors that may also affect the situation of financial institutions are the withdrawal of CTS deposits (Compensation for Time of Services) and higher delinquency resulting from the pandemic.

IMPACT OF INTEREST RATE CAPS IN THE MARKET FOR CONSUMER LOANS AND MYPE IN DOMESTIC CURRENCY

(Single cap of 83.40% 1/)

Entities	Balance of consumer and MYPE (mill. S/)	% balance of consumer and MYPE excluded	N° of consumer loans and MYPE (thousands)	% N° of consumer loans and MYPE excluded
Financial system	**99,165**	**3.1**	**11,054**	**24.7**
Banks	**70,439**	**2.1**	**6,440**	**16.8**
Large Banks	45,535	1.5	3,709	11.3
Medium Banks	20,854	0.4	1,283	3.8
Specialized Banks	4,050	16.7	1,448	42.4
Non-bank entities	**28,726**	**5.4**	**4,614**	**35.7**
Financial	8,469	15.9	2,784	52.1
Municipal savings	17,586	0.4	1,408	2.8
Rural savings	1,473	3.9	262	35.2
Edpymes	1,197	8.0	160	41.7
Memo: Impact by segments				
Consumer	**56,028**	**2.3**	**8,036**	**21.5**
Of which: Consumer less than 1 UIT	5,790	1.6	6,018	20.8
Microbusinesses	**12,015**	**0.7**	**2,171**	**3.1**
Small companies	**31,121**	**0.0**	**847**	**0.1**

1 / Monthly average from October 2020 to March 2021 of the average interest rate of the financial system for consumer loans published by the SBS; credit balance and number of debtors as of March 2021 based on a sample of 44 financial entities.
Source: Annex of interest rates of Letter 002-2021-BCRP.

In the region, other countries such as Chile and Colombia also calculate the maximum interest rate as a percentage of the average market rate. However, these countries allow the deduction of a fee for the calculation of the maximum interest rate in the case of low amount loans to microenterprises, this fee taking into account the fixed costs associated with the evaluation and monitoring of the loan[23]. For example, in Chile, if the fee were included in a loan with a rate of 34 percent, the effective annual rate would increase to 85 percent if it were a 12-month loan and to 263 percent if it were a 3-month loan.

CHILE: IMPACT OF A DEDUCTION OF THE TEA COMMISSIONS 1/

Interest rate	Term	TEA including commissions
34%	3 months	263%
34%	6 months	139%
34%	12 months	85%

1/ Corresponds to a non-adjustable credit to microbusiness of 10 UF (S/ 1,500). The deduction is equivalent to the minimum between 1.5 UF (S/ 225) and 20% of the credit value.

23 In Chile, in order to reduce the negative impact of interest rate caps, a fee was introduced since 2013 for low amount loans to microenterprises, which is not considered as interest rate to calculate the limit. In particular, in non-adjustable credit operations in local currency for amounts equal to or less than 40 Unidades de Fomento (around US$ 1,600) and terms of more than 90 days, the fees charged for the evaluation and monitoring of loans, which do not exceed the lesser figure between 1.5 UF (around US$ 60) per operation and 20 percent of the amount of the respective operation, are not considered interest (Law 18.010, art. 19 bis). In the case of Colombia, financial institutions are authorized to charge fees and commissions for loans to microenterprises (of less than 25 minimum monthly salaries, equivalent to US$ 7,125), in accordance with the rates authorized by the Consejo Superior de Microempresa, without counting such charges as interest (Law 590, Article 39). If the loans amount to less than 4 minimum monthly salaries, these fees and commissions may not exceed 7.5 percent per annum of the loan balance. For loans over 4 minimum monthly salaries, these fees and commissions may not exceed 4.5 percent per annum of the loan balance (Resolution 01 of 2007, Consejo Superior de Microempresa).

On the other hand, one of the factors that has allowed more and more debtors to join the Peruvian financial system has been the freedom to determine interest rates in it. Thus, at the end of 2019, 7.4 million people had direct loans in the financial system, which represented an increase of about 3.2 million people in the last decade. It is also worth pointing out that 665 thousand of these borrowers belonged to the 2 poorest quintiles and that these two quintiles showed the highest average annual growth rates.

The establishment of caps on lending rates generates credit rationing for those economic agents whose credit risk is above the ceiling. The lower the maximum interest rate, the more potential borrowers will not be able to access formal credit, delaying the process of financial inclusion. Economic agents excluded from the formal financial system tend to be those with lower incomes or new entrepreneurs with no credit history or no collateral to offer. In a context of uncertainty and economic recession, the credit rationing generated by the caps is greater than in normal times because lending is perceived as riskier. Economic agents with rates above the cap but close to it and who have complied with the repayment of their loans are expected to be able to maintain their access to credit, while other agents without these conditions are likely to be excluded.

The high degree of informality in our economy entails a strong asymmetry of information in the credit market, so the credit risk and the operational costs of evaluating and monitoring a loan are high. According to the Survey conducted by the BCRP Branch Offices in July 2020, informal loans to MSEs in nine cities of the country are characterized by: daily installments; debt amounts between S/ 100 and S/ 10,000; average monthly nominal interest rates of 20 percent (792 percent annual), up to 30 percent (2,230 percent annual); a high presence of foreign creditors and request for collateral or references, and the target audience is small traders in *bodegas* and markets. In the case of a 20 percent monthly nominal rate loan with daily payments, the usual repayment term is 28 days for drop-by-drop loans, the effective monthly rate (EMR) is 47.48 percent, and the effective annual rate (EAR) is 10,448 percent.

INFORMAL LOANS TO MYPES

City	Monthly interest rate	Amount of loans	Frequency of payments	Target clients	Foreign lenders	Guarantee
Piura	20-30%	S/ 500-2,000	Daily	Groceries, markets, motorcycle taxi drivers	Most	No
La Libertad	20%	S/ 100-10,000	Daily	Markets and shops	70-80%	No
Cajamarca	20%	S/ 100-10,000	Daily	Markets and shops	70-80%	No
Iquitos	20%	-.-	Daily	Groceries and shops	Most	No
Cusco	2-8%	-.-	Daily	-.-	Nothing	Objects and references
Huancayo	8-10%	S/ 500-10,000	Daily	-.-	Nothing	Objects and references
Ica	10-15%	S/ 100-10,000	Daily	-.-	Yes, less	Objects and references
Puno	10-30%	S/ 100-10,000	Daily	Shops	Nothing	Objects and references
Arequipa-Tacna-Moquegua	10-20%	-.-	Daily	Shops	Nothing	Objects and references

Source: BCRP Branch Survey of July 2020.

Sectors with no credit history tend to start their participation in the financial system with higher interest rates, but as they demonstrate their capacity to pay and generate credit history, these rates are significantly reduced. For example, according to a study prepared by the Superintendency of Banking, Insurance Companies and AFP[24], the average interest rate of a new low-income borrower is reduced by half after two years, once he has built up a credit history. This occurs because debtors

24 See Informe N°009-2020-SAEE/ N°041-2020-SABM/ N°013-2020-SAS/ N°130-2020-SAAJ/ N°016-2020-SACMIF of August 2020 at: https://www.sbs.gob.pe/Portals/0/jer/opinion_proy_leg/Oficio-N-23881-2020-SBS.pdf

who show a good payment history can voluntarily migrate to another company in the financial system that serves debtors with a lower level of risk, or because companies in the financial system campaign to buy the debt of individuals in other companies by offering them lower rates and better conditions.

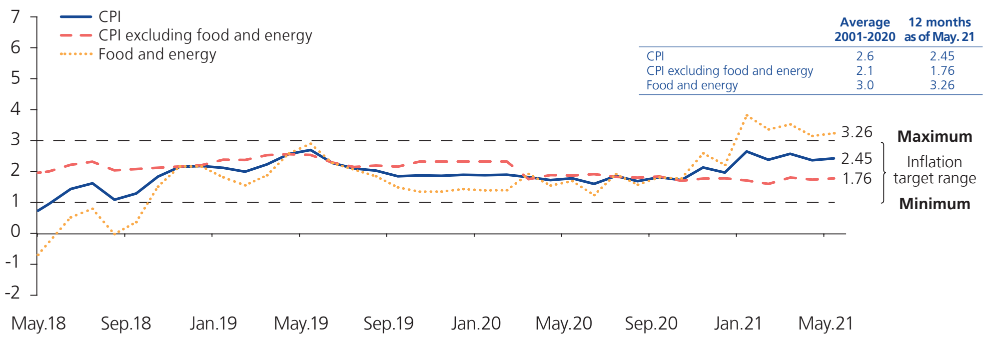
In general, interest rate caps are not the most appropriate mechanism to improve the financial conditions of loans, neither in terms of interest rates and maturity terms nor in terms of expanding the financial deepening process. Rather, appropriate mechanisms are those that generate an environment of greater competition in the financial system. This may be effectively achieved incorporating new technologies to provide financial services; for example, through the development of virtual banking, fintechs and open banking, which can generate greater access to banking information and client credit history, thus lowering the risk premium of loans. It is also necessary to develop the micro-insurance market to reduce dependence on credit in the event of adverse situations, as well as to promote financial literacy among citizens and improve the efficiency of consumer protection mechanisms.

VI. Inflation and Balance of Inflation Risks

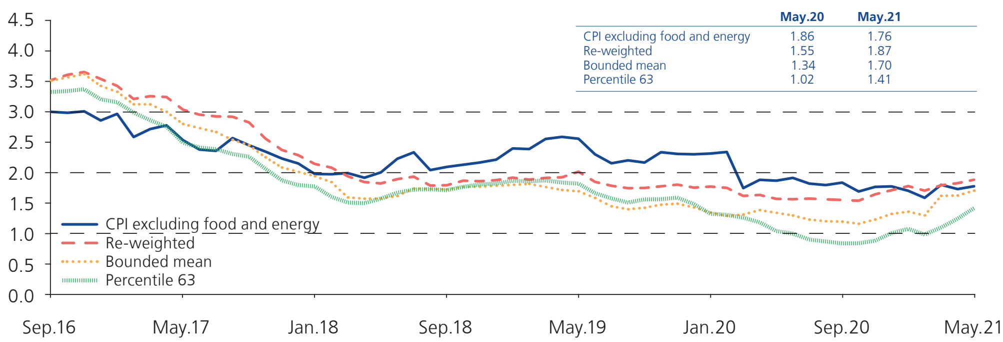
Recent inflation trends

81. Year-on-year **inflation** increased from 2.40 percent in February to 2.45 percent in May, driven by the depreciation of the PEN, the higher prices of fuels, and the higher prices of foodstuffs with a high imported content. On the other hand, the core inflation rate increased from 1.57 to 1.76 percent in the same period, but remained in the lower part of the target range. This result is consistent with the different inflation trend indicators that also show levels in the lower part of the target range.

Graph 105
INFLATION
(Last 12-month % change)



Graph 106
MEASUREMENTS OF THE INFLATIONARY TREND
(Last 12 months % change)



Memo:
1. CPI excluding food and energy: CPI excluding food, fuel and electricity.
2. 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.
3. Bounded mean: Weighted average of the percentage change of prices between the 34th and 84th percentiles.
4. Percentile 63: Corresponds to the percentage changes of the item located in the 63th percentile

In the last twelve months –from June 2020 to May 2021–, the demand and supply of a series of goods was affected mainly by social immobility and lower activity as a result of the measures adopted due to the health emergency. Other factors that weighed on demand and supply as well were the rise in the international prices of somo food commodities and in the price of oil, and the depreciation of the sol.

Table 43
INFLATION
(% change)

	Weight	2019	2020	2021	
				Jan.-May.	12 months
CPI	**100.0**	**1.90**	**1.97**	**1.63**	**2.45**
1. CPI excluding food and energy	**56.4**	**2.30**	**1.76**	**0.95**	**1.76**
a. Goods	21.7	1.39	1.52	0.79	1.82
b. Services	34.8	2.86	1.91	1.04	1.72
2. Food and energy	**43.6**	**1.43**	**2.22**	**2.42**	**3.26**
a. Food and beverages	37.8	1.00	2.24	1.86	2.06
b. Fuel and electricity	5.7	4.32	2.13	6.02	11.30
Fuel	2.8	-0.39	-4.20	17.45	18.62
Electricity	2.9	8.04	6.73	-1.46	6.20

82. The services with the highest price increases in the last twelve months were health services (2.6 percent) and education (1.6 percent), although they recorded lower rates than their annual averages for the last twenty years (2.8 and 4.0 percent, respectively). Food outside the home also showed lower rates than those observed in the 2001-2020 period. On the other hand, other personal services, which includes the services of household employees and cleaning services, registered a similar variation to the long term variation.

Table 44
INFLATION
(Annual % change)

	Weight	2019	2020	May.21	2021-20 Annual Average
CPI	**100.0**	**1.90**	**1.97**	**2.45**	**2.56**
Education	**9.1**	**5.22**	**1.98**	**1.60**	**4.03**
Health	**1.1**	**1.47**	**1.20**	**2.61**	**2.75**
Meals outside the home	**11.7**	**1.69**	**1.00**	**1.22**	**3.40**
Other personal services	**3.3**	**1.35**	**0.99**	**1.48**	**1.49**
Of which:					
Household employees	2.1	0.81	0.57	0.91	0.69
Housekeeping	0.2	1.45	-0.04	-0.03	1.61
Various repair	0.1	0.52	-0.37	0.09	2.14
Home repair and maintenance services	0.0	0.00	0.88	3.49	2.02

83. In the January to May 2021 period, the general price level increased 1.63 percent. The CPI excluding food and energy grew 0.95 percent in the same period, while the food and energy prices grew at a higher rate of 2.42 percent. Moreover, food and beverage prices increased by 1.86 percent, while energy prices rose by 6.02 percent,

reflecting the 17.45 percent rise in fuel prices as well as a 1.46 percent drop in electricity rates.

84. At a disaggregate level, the items with the highest positive contribution to inflation in the January-May period were gasoline, education (tuition and fees), gas, chicken meat and eggs, while the items with the highest negative contribution were electricity rates, avocados, tangerines, lemons and grapes.

Table 45
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: JANUARY -MAY 2021

Positive	Weight	% chg.	Contribution	Negative	Weight	% chg.	Contribution
Gasoline and lubricants	1.3	23.7	0.25	Electricity	2.9	-1.5	-0.05
Tuition and tuition fees	8.8	1.6	0.17	Avocado	0.1	-23.7	-0.05
Gas	1.4	13.7	0.17	Tangerine	0.2	-21.4	-0.05
Chicken meat	3.0	6.1	0.16	Lemon	0.2	-21.0	-0.05
Eggs	0.6	25.0	0.12	Grape	0.1	-20.0	-0.03
Potato	0.9	10.0	0.09	National transportation	0.3	-6.7	-0.02
Meals outside the home	11.7	0.6	0.08	Onion	0.4	-5.4	-0.02
Oils	0.5	14.9	0.07	Internet services	0.8	-1.1	-0.01
Tickets to shows	1.7	4.0	0.06	Orange	0.1	-6.8	-0.01
Water consumption	1.6	3.2	0.06	Urban fare	8.5	-0.1	-0.01
Total			**1.23**	**Total**			**-0.30**

Food

Price increases in products with a high imported content, such as chicken meat, eggs, and oils, were particularly noteworthy in the January-May period.

The increase in the price of chicken meat was related to the increase in the cost of production associated with the rise in the exchange rate and the international price of hard yellow maize (up 24 percent in the January-May period and 51 percent in the last twelve months), the main input for poultry feed. This increase took place in a context of some recovery in demand, which was influenced by the lifting of some restrictions on restaurant activity in March, as well as by the lower availability of jack mackerel, the main substitute for chicken meat.

The rise in the price of eggs was mainly due to an increase in demand in view of their lower price compared to substitute protein foodstuffs (chicken and fish). In addition, the increase in production costs, which, as in the case of chicken meat, includes imported hard yellow maize, weighed on this price rise as well.

The increase in the price of vegetable oil was mainly due to the higher international price of imported soybean oil –the main input for its production– and variations in the foreign exchange rate. In the January-May period, soybean oil prices rose approximately 83 percent (188 percent in the last twelve months).

The increase in the price of potatoes was especially noteworthy among agricultural products. This price rise was mainly associated with anomalous weather conditions in the central highlands, which resulted in a lower supply of the best quality potatoes. In addition, there was also greater demand from restaurants due to the lifting of some restrictions as of March.

Services

The increase in "education - tuition and fees" reflected the 5 percent increase registered in private school fees in March, offset in part by a 11.6 percent reduction in tuitions. On the other hand, private universities increased tuitions by 0.6 percent and fees by 0.5 percent. Despite these increases, the overall increase was lower than in the same period of the previous year (2.0 percent), when remote/online classes were introduced.

As regards drinking water services, the increase was in line with current legislation, which establishes an automatic increase in the rate of this service if the wholesale price index (WPI) reaches an accumulated variation of 3 percent since the last rate adjustment, which occurred in November 2020.

Fuel

Gasohol and diesel oil prices rose in line with the average variation of ex-plant prices set by local refineries. The international price of WTI oil increased 38 percent in the January-May period and 126 percent in the last twelve months.

As for the reference prices of the regulatory agency Osinergmin, their evolution followed the increases of the international marker, e.i. the price of the Gulf Coast gasoline.

The evolution of the price of the domestic gas cylinder was largely associated with the increase in the international marker, which is the price of gas at Mont Belvieu (bottled LPG was withdrawn from the Stabilization Fund in April 2020). Influenced in part by the number of intermediaries in the marketing process, subsequent price reductions in the international market were not passed on to the domestic market to their full extent..

Domestic Transportation

The negative variation in domestic transportation reflected a decrease in demand associated with the current sanitary emergency. In March, the reduction in interprovincial bus fares responded to lower demand due to the negative COVID-19 test required in the first two weeks of that month. Despite the subsequent relaxation of sanitary measures, demand did not increase, which may have been influenced by greater risk of COVID-19 infection perceived due to bus travel.

Electricity Rates

Electricity rates reflected mainly the rate reduction approved by Osinergmin in May, following the revision of rate components, particularly generation and distribution costs. The generation component was updated in response to the quarterly settlement made to compensate the differences between the price at the generation level and the prices of the contracts signed between generation and distribution companies. Similarly, the values associated with electricity distribution, e.i. the Energy Price Weighting Factor and the Power Balance Factor at Peak Hours, were updated.

Forecasts

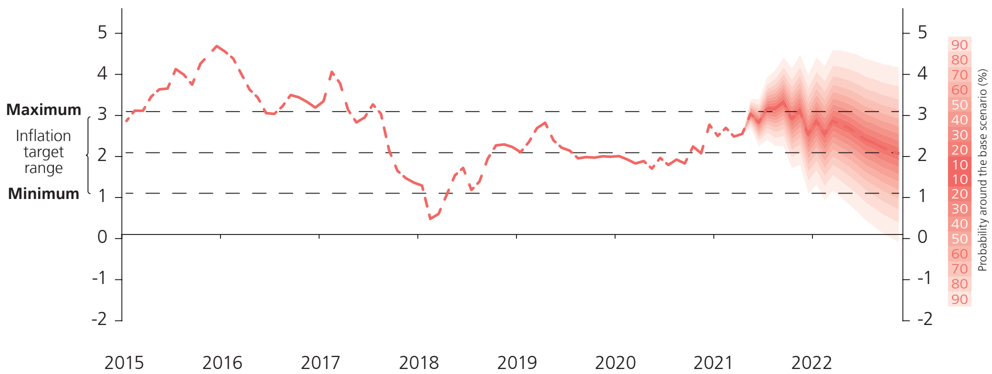
85. BCRP monetary policy actions are taken on the basis of inflation forecasts and projections of its determinants, taking into account all macroeconomic and financial information available at the time of decision making. Key determinants of inflation include inflation expectations, imported inflation (which comprises the effect of the exchange rate), and inflationary pressures on both demand and supply.

86. Based on available information and taking into account the gradual normalization of economic activity, year-on-year inflation at the end of the forecast horizon is expected to lie around the middle of the target range (2 percent). This projection has been determined by the convergence of inflation expectations to the middle value of the target range in a context in which the output gap is foreseen to gradually close as the aggregate economy recovers its pre-pandemic level. The determinants that would keep inflation above the central value of the target range include the increase in the prices of imported goods and the impact of executed depreciation on prices through the imported component of inflation.

Graph 107

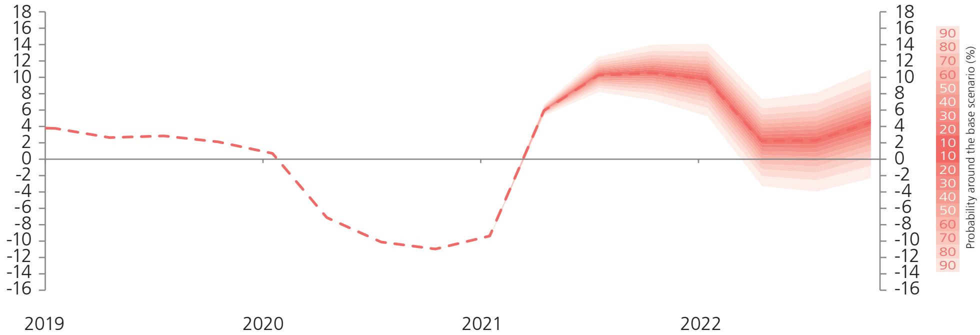
INFLATION FORECAST: 2021 - 2022

(Last 12-month % change)



87. A sustained recovery in activity is expected in 2021 and 2022, supported by the gradual recovery of growth in the economies of our main trading partners and the terms of trade, as well as by the strengthening of business confidence. A gradual but sustained recovery in the level of economic activity is therefore anticipated.

Graph 108
GDP GROWTH FORECAST: 2021 - 2022
(Last 12-month % change)



88. Inflation expectations, calculated on the basis of surveys carried out with economic analysts and representatives of financial and non-financial companies, reveal that inflation is expected to be between 2.39 and 2.5 percent in 2021, and between 2.2 and 2.45 percent in 2022, which indicates that expectations remain within the target range. It should be pointed out that twelve-month inflation expectations in May 2021 registered a rate of 2.43 percent.

Graph 109
EXPECTATION OF INFLATION FOR THE NEXT YEAR
(% points)

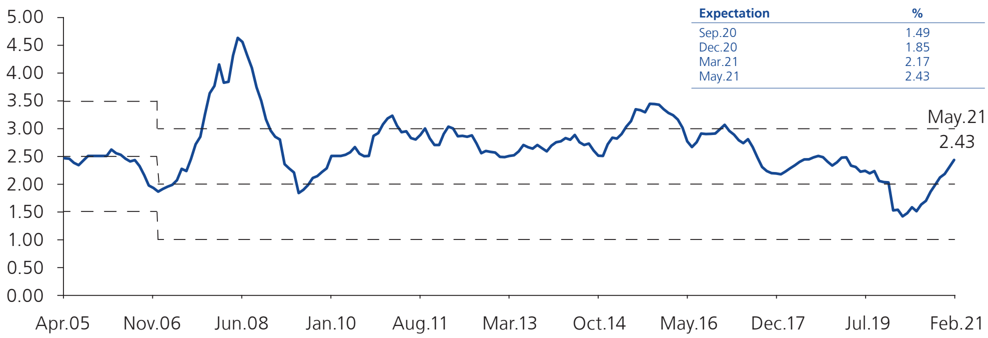


Table 46
SURVEY ON INFLATION EXPECTATIONS
(%s)

	IR Sep.20	IR Dec.20	IR Mar.21	IR Jun.21*
Financial entities				
2021	1.55	1.50	2.00	2.50
2022		2.00	2.00	2.20
Economic analysts				
2021	2.00	1.90	2.20	2.50
2022		2.00	2.30	2.45
Non-financial firms				
2021	2.00	2.00	2.00	2.39
2022		2.00	2.20	2.30

* Survey conducted as of May 31.
IR: Inflation Report.

89. Another determinant of inflation is the imported component, which combines the effect of the international prices of goods our country imports –e.g. crude, wheat, soy, and maize, among other products– with the effect of exchange rate variations (US dollar-PEN exchange rate).

Thus, average import prices are projected to increase by 11.8 percent in 2021, mainly due to increases in the price of oil and some foodstuffs such as maize, wheat and soy. A correction of these prices is expected in 2022, so the price of imports would decrease by 1.7 percent. On the other hand, the surveys on the expected exchange rate show that, as of May, the US dollar/PEN exchange rate is estimated at between S/ 3.50 and S/ 3.70 per dollar for 2021 and between S/ 3.50 and S/ 3.72 per dollar for 2022.

Table 47
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(S/ per US$)

	IR Sep.20	IR Dec.20	IR Mar.21	IR Jun.21*
Financial entities				
2021	3.40	3.43	3.50	3.50
2022		3.40	3.43	3.50
Economic analysts				
2021	3.50	3.54	3.56	3.70
2022		3.50	3.53	3.72
Non-financial firms				
2021	3.46	3.50	3.60	3.70
2022		3.50	3.55	3.60

* Survey conducted as of May 31.
IR: Inflation Report.

The effect of the aforementioned aspects would contribute to inflation remaining around the center of the target range, even though the output gap is expected to register negative values over the forecast horizon.

Balance of Risks of the Inflation Forecast

90. The balance of **inflation risk factors** in this Report is neutral but the variance of the inflation projection is high. The risks in the projection consider the following shocks:

- **Domestic demand shocks**

  The baseline scenario assumes massive vaccination of the population in the second half of this year without a significant resurgence of COVID-19 infections, together with an environment of political and social stability, a favorable environment for business development, and the creation of productive jobs. In the absence of these conditions, there would be lower growth or stagnation of consumption and private investment. The impacts of these episodes on the short and medium-terms would translate into a contraction of domestic demand and weigh negatively on inflation through a reduction in the output gap.

- **External demand shocks**

Progress in the vaccination process in the world and the implementation of the fiscal stimulus package approved in the United States at the beginning of this year could stimulate higher growth in the economies of Peru's trading partners. The greater external stimulus would boost aggregate demand and have a positive effect on inflation through an increase in the output gap.

- **Financial shocks**

In the context of an increase in long-term inflation in advanced economies, there could be a sudden and sharp rise in international interest rates. These events are likely to produce an outflow of portfolio capital from emerging economies with an increase in financial costs (due to higher international interest rates and a higher country risk premium) and a weakening of emerging countries' currencies (such as the Peruvian sol) against the dollar. The strengthening of the dollar, and higher external inflation, would also put upward pressure on domestic inflation through higher imported inflation.

The baseline scenario also considers the normalization of the high volatility recently observed in local financial markets. Should such normalization take longer, the effect of the exchange rate on inflation would be greater.

Graph 110
BALANCE OF RISKS AGAINST THE BASE SCENARIO