INFLATION REPORT

March 2021

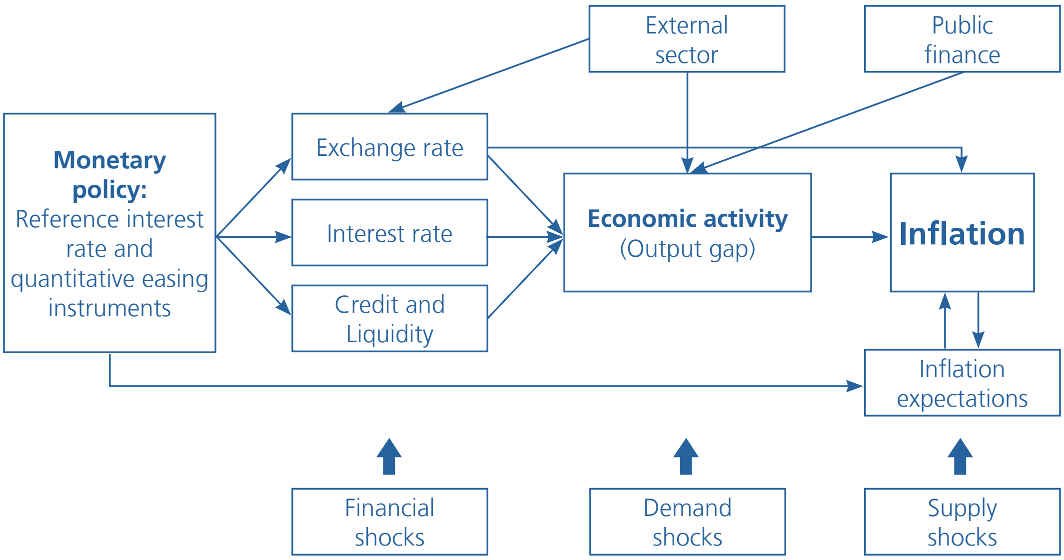
Recent trends and macroeconomic forecasts 2021-2022

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2021 - 2022

March 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

March 2021

CONTENT

This ***Inflation Report*** has been prepared using data on the balance of payments and the gross domestic product as of the fourth quarter of 2020, data on the operations of the non-financial public sector, inflation, financial markets, and the exchange rate as of February 2021, and data on the monthly GDP, the trade balance, and monetary accounts as of January 2021.

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 March 11, 2021.
- The following Inflation Report will be published on Friday, June 18, 2021.

Summary

i. The advance of vaccination at a global level and the contained impact of the virus, despite the new COVID-19 strains, would drive a recovery in **world growth**. As a result, the growth projection for 2021 is revised up from 5.4 to 5.8 percent and a rate of 4.0 percent is projected for 2022. This will favor the outlook for external demand in the forecast horizon.

ii. The progress achieved in vaccines against COVID-19, the outlook for economic recovery, particularly in China and the United States, and expectations of higher demand amid announcements of increased spending on infrastructure have led to an increase in the prices of commodities. The price of copper has reached its highest levels since 2011. Therefore, the **terms of trade** are revised up and are estimated to increase 6.4 percent this year and 2.2 percent in 2022.

iii. The **current account** of the balance of payments registered a surplus of 0.5 percent in 2020 due to the impact of the contraction of local production on the profits of foreign direct investment companies, the effect of weak domestic demand on imports, and the positive impact of the terms of trade on exports. The current account is expected to register a null result in 2021 and a positive balance of 0.1 percent of GDP in 2022, supported by the positive balance of the trade balance.

iv. After 21 consecutive years of growth, **economic activity** contracted 11.1 percent in 2020 due to the strict sanitary measures adopted to contain the spread of COVID-19 in the first half of 2020. Even though the first half of the year was marked by the interruption of activities considered non-essential and by compulsory social immobility, the easing of sanitary measures, together with the progressive resumption of activities and fiscal and monetary stimuli, contributed to a greater-than-expected recovery of activity during the fourth quarter. It should be pointed out that the magnitude of the GDP contraction rate registered in 2020 had not been observed since 1989 (-12.3 percent).

In 2021 GDP is projected to grow 10.7 percent, in a context marked by a mass vaccination process, political and social stability, the maintenance of monetary and fiscal impulses, and the normalization of external demand. The projection has been revised down with respect to the previous Report (11.5 percent) and takes into account the effect of the second wave of COVID-19 infections and the new targeted measures aimed to stop it.

The economy would continue its recovery path in the forecast horizon, with a growth rate of 4.5 percent in 2022, associated with the normalization of spending habits and recovery of the service sector after the massive vaccination of the

population. This, in a favorable context of economic and financial conditions, would boost employment and domestic demand, reaching with this pre-pandemic levels in the first half of 2022.

v. Since the publication of the last Report, spending measures have been expanded to face the second wave of COVID-19. Reflecting higher non-financial spending, the **fiscal deficit** has increased from 7.6 to 9.1 percent of GDP between November 2020 and February 2021. With respect to what was estimated in December, the projection of the fiscal deficit for 2021 remains at 4.4 percent of GDP, because higher spending to face the second wave of infections would be offset by higher current income as a result of the upward cycle in mineral prices. On the other hand, the projection of the deficit in 2022 has been lowered from 3.0 to 2.8 percent of GDP due to higher projected income as a result of the improvement in international metal prices and a greater recovery of economic activity in 2022.

vi. BCRP has maintained a historical minimum **benchmark interest rate** of 0.25 percent since April 2020, which in March 2021 is equivalent to a negative real rate of 1.86 percent. Given the magnitude of the shock associated with the pandemic, monetary impulse has been expanded through other monetary policy instruments.

BCRP has recently incorporated Operations Conditional on the Expansion of Long-Term Credit to its monetary instruments with the aim of strengthening the transmission of its monetary policy towards long-term interest rates.

In addition, BCRP has continued carrying out the necessary actions to sustain the payment system and the flow of credit in the economy. In line with this, the balance of liquidity injection operations through repos increased from S/ 61.5 billion at the end of November to S/ 62.9 billion on March 17. This total balance of liquidity injection operations is 8 times higher than the maximum balance of these operations during the international financial crisis of 2008-2009 (S/ 7.9 billion) and 2 times the balance reached during the period of decline of commodity prices (2013-2016) 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 11.6 percent in January 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 increase from 43 percent in 2019 to 45 percent in 2022.

viii. Year-on-year **inflation** increased from 2.14 percent in November to 2.40 percent in February, driven by supply factors of some food goods, the rise in the exchange rate, and higher fuel prices. In this context, 12-month inflation expectations rose from 1.68 percent to 2.11 percent in the same period. The trend indicators of inflation remain in the lower part of the target range. Inflation in 2021 would register 2.0 percent due to temporary supply effects (increase in fuel prices and some food goods) and then would lie in the lower part of the target range during 2022. This projection considers that inflation expectations will remain around the average value of the target range (2.0 percent), in a context in which the output gap will gradually close as the aggregate economy recovers its pre-pandemic level.

ix. The balance of **inflation risk factors** in this report is neutral, which means that the probability of occurrence of a downward or an upward deviation of inflation is the same. The risks in the projection consider the contingency of a slower-than-expected recovery of local activity if some of the following adverse scenarios should occur: (i) greater persistence in the duration of the second wave or a new wave of infections later (due to new virus variants, for example); (ii) delays in the vaccination process; and (iii) a weak recovery in consumer and business confidence and a possible delay in the execution of public investment if situations of political uncertainty should arise. Due to the recent increase in the international price of food, the pass-through of this factor to domestic inflation is considered an upside risk to inflation in this Report.

The probability that the risks linked to COVID-19 will materialize has decreased in the last month due to the progress made in the vaccination process at the global level.

SUMMARY OF INFLATION REPORT FORECAST

	2019	2020	2021[1/]		2022[1/]	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Real % change						
1. Gross Domestic Product	2.2	-11.1	11.5	10.7	4.0	4.5
2. Domestic demand	2.4	-9.8	10.2	9.6	4.1	4.6
a. Private consumption	3.0	-8.7	8.8	8.5	4.7	4.8
b. Public consumption	2.1	7.5	5.7	3.5	-0.8	3.0
c. Fixed private investment	4.0	-16.5	17.5	15.5	4.5	4.5
d. Public investment	-1.4	-17.7	14.0	15.0	4.0	4.5
3. Exports (good and services)	0.7	-20.0	15.3	13.9	5.1	6.5
4. Global economic growth	1.2	-15.6	10.1	9.2	5.5	7.3
5. Crecimiento del PBI Mundial	2.9	-3.3	5.4	5.8	4.0	4.0
Memo:						
Output gap [2/] (%)	-0.6	-13.6	-11.0;-1.0	-11.0;-2.0	-9.0;0.0	-9.0;0.0
% change						
6. Inflation	1.9	2.0	1.5	2.0	1.7	1.6
7. Expected inflation [3/]	2.3	1.5	1.7	2.1	2.0	2.2
8. Expected depreciation [3/]	-0.3	7.4	-2.0	-2.1	-1.0	-1.4
9. Terms of trade	-1.8	8.2	5.3	6.4	0.1	2.2
a. Export prices	-3.4	2.7	9.3	17.8	1.0	0.5
b. Import prices	-1.7	-5.1	3.8	10.7	0.9	-1.7
Nominal % change						
10. Currency in circulation	4.6	37.3	4.0	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	22.6	21.1	21.3	21.8	21.3	21.7
13. Current account of the balance of payments	-1.5	0.5	0.1	0.0	0.0	0.1
14. Trade balance	2.9	3.8	5.8	6.4	5.6	6.3
15. Long-term external financing of the private sector [4/]	2.4	0.3	-1.3	-1.3	-0.5	-0.4
16. Current revenue of the general government	19.7	17.9	18.8	19.0	19.7	19.9
17. Non-financial expenditure of the general government	20.1	24.9	21.6	21.8	21.0	21.1
18. Overall balance of the non-financial public sector	-1.6	-8.9	-4.4	-4.4	-3.0	-2.8
19. Balance of total public debt	26.8	35.0	34.4	34.4	34.4	34.3
20. Balance of net public debt	13.0	22.4	24.0	24.1	25.7	25.3

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 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.

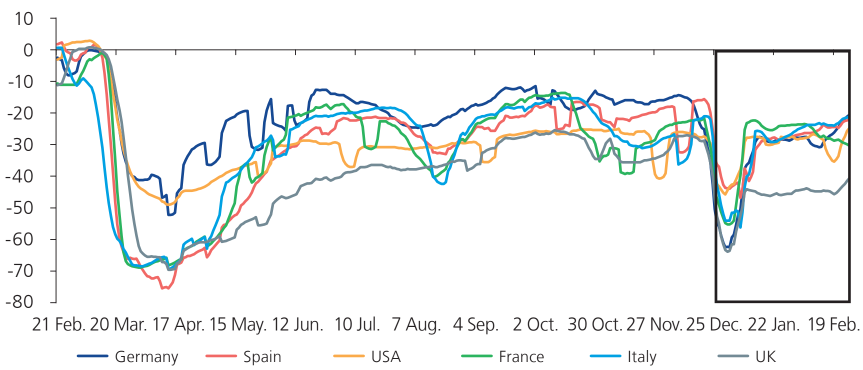
I. External Sector

1. In recent months, economic activity lost dynamism as a result of the new restriction measures adopted in response to the increase in COVID-19 cases, particularly in Europe. In line with this, global growth in the first quarter of 2021 is estimated to be lower than projected in the December 2020 Report. However, these developments would be offset, among other factors, by advances in the application of the vaccine (which would allow a recovery in activity in the second half of the year), the implementation of a fiscal stimulus package in the United States (estimated at approximately US$ 1.9 trillion), and higher-than-expected growth in some emerging economies (i.e. China and India). In line with this, the growth projection for 2021 is revised up, from 5.4 to 5.8 percent, and the growth projection for 2022 remains at 4.0 percent.

Recent developments in global economic activity

2. **After showing a strong recovery in the third quarter of 2020**, **economic activity slowed down in the fourth quarter**. The slowdown is partly explained by the increase in COVID-19 cases, particularly in Europe, where restrictions on mobility that affected a series of activities (in particular, services) were re-imposed. Similar, although less intense measures were taken in other developed economies, such as the United States, for instance.

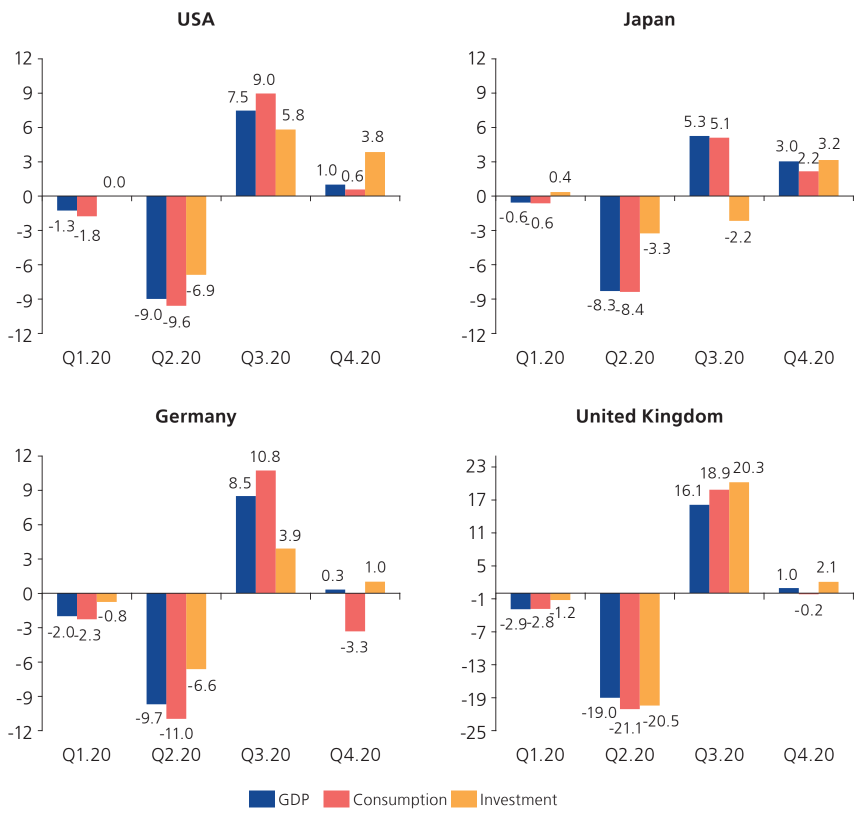
Graph 1
CHANGES IN MOBILITY (%)
Work places



Source: Google Mobility.

Thus, in seasonally adjusted terms, GDP in the fourth quarter registered lower growth rates than expected in many countries and even recorded a contraction in the level of activity, like in France, for example. Consumption, the most important component of spending, showed a significant reduction in its growth rates and even lower rates than investment.

Graph 2
DEVELOPED ECONOMIES: SPENDING INDICATORS
(Quaterly % change)



Source: OCDE.

3. In the **United States**, the economy grew not only at a lower rate than expected (4.1 percent) in the fourth quarter, but also significantly less than in the third quarter. The impact of mobility restrictions due to the upsurge of COVID-19 and lower transfers from the public sector explain the lower growth in consumption in this period. This was offset by the dynamism of the construction sector, which –as pointed out in the December Report– was supported by low mortgage

interest rates and by the population's relocation to areas less exposed to the pandemic.

Table 1
USA: GDP
(Annualized seasonally adjusted % change)

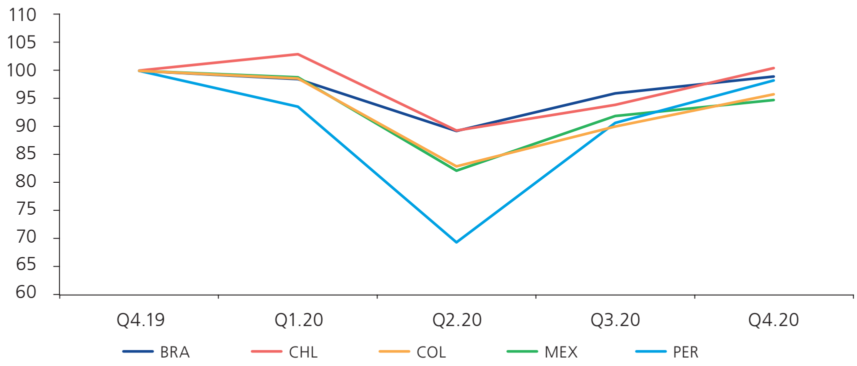
	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20 2nd rev.
GDP	**3.8**	**2.7**	**2.1**	**1.3**	**2.9**	**1.5**	**2.6**	**2.4**	**-5.0**	**-31.4**	**33.4**	**4.1**
Personal Consumption	2.0	3.2	2.7	1.6	1.8	3.7	2.7	1.6	-6.9	-33.2	41.0	2.4
Durable	4.0	7.1	3.2	2.5	1.0	12.7	6.3	3.1	-12.5	-1.7	82.7	-0.6
Non-Durable	1.1	2.8	2.7	2.6	3.3	5.3	3.1	-0.7	7.1	-15.0	31.1	-1.1
Services	2.0	2.7	2.6	1.1	1.5	1.9	2.0	2.0	-9.8	-41.8	38.0	4.0
Gross Investment	11.0	-1.1	10.2	3.9	3.9	-5.8	1.8	-3.7	-9.0	-46.6	86.3	26.5
Fixed Investment	8.5	4.4	0.8	2.6	2.9	-0.4	2.4	1.0	-1.4	-29.2	31.3	19.1
Non-Residencial	12.2	6.2	2.6	5.0	4.2	0.0	1.9	-0.3	-6.7	-27.2	22.9	14.0
Residencial	-3.3	-1.7	-5.4	-5.2	-1.7	-2.1	4.6	5.8	19.0	-35.6	63.0	35.8
Exports	2.7	1.9	-5.2	2.8	1.8	-4.5	0.8	3.4	-9.5	-64.4	59.6	21.8
Imports	0.3	-0.1	8.0	4.1	-2.1	1.7	0.5	-7.5	-15.0	-54.1	93.1	29.6
Government expenditure	1.5	2.9	2.5	-0.9	2.5	5.0	2.1	2.4	1.3	2.5	-4.8	-1.1
Memo												
Contribution on inventories	0.4	-0.9	1.6	0.2	0.2	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	1.1

Source: Bureau,of,Economic,Analysis,(BEA).

China's growth stands out among the **emerging-market economies**, its GDP showing three consecutive quarters of recovery in the fourth quarter of 2020 after having registered a contraction in the first three months of the year. With this, it recorded a higher-than-expected expansion of 2.3 percent in the year (its lowest rate since 1976). In addition to the recovery in consumption and investment, the Chinese economy also saw a growth in exports (particularly medical equipment and technology related to remote work) and public spending.

On the other hand, **Latin American economies** also registered a positive evolution in the fourth quarter, although at a somewhat slower pace than in the previous quarter. Activity in the region continues to be favored by economic reopening and the gradual normalization of activities, as well as by the recovery of the global economy. Despite the recovery in the second semester, however, GDP in most cases is below pre-pandemic levels.

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



Source: Bank of America, BCRP.

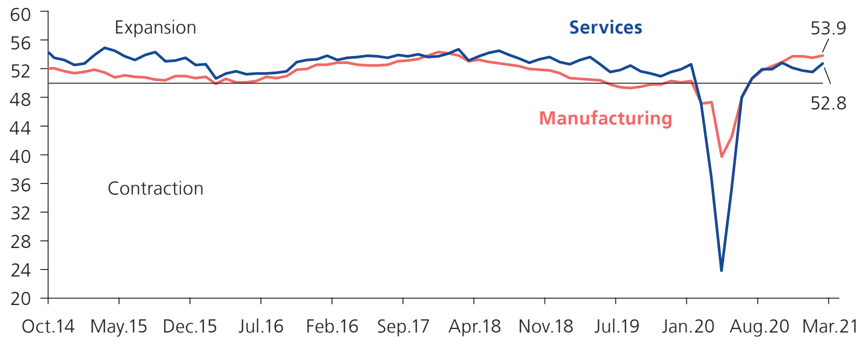
4. **Monthly frequency indicators show that this slowdown has continued in the first quarter of 2021**. The activity most affected has been the consumption of services, as services are more sensitive to these restrictions. After falling in January, the global services index –the Eurozone, Japan, and the United Kingdom being part of the contraction zone– has recovered slightly in February. The global manufacturing index, on the other hand, shows a more positive evolution (especially, in terms of new orders and production) despite facing some disruptions in the supply chain and a rise in the prices of inputs.

Table 2
GLOBAL ACTIVITY INDEX (JP MORGAN)

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21
I. Services							
Global	52.0	36.8	48.1	52.0	51.8	51.6	52.8
USA Markit	52.8	39.8	47.9	54.6	54.8	58.3	59.8
China Caixin	52.5	43.0	58.3	54.8	56.3	52.0	51.5
Eurozona	52.8	26.4	48.3	48.0	46.4	45.4	45.7
United Kingdom	50.0	34.5	47.1	56.1	49.4	39.5	49.5
Japan	49.4	33.8	45.0	46.9	47.7	46.1	46.3
II. Manufacture							
	Dec-19	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Jan-21**	**Feb-21**
Global	50.1	47.3	47.9	52.4	53.8	53.6	53.9
USA Markit	52.4	48.5	49.8	53.2	57.1	59.2	58.6
China Caixin	51.5	50.1	51.2	53.0	53.0	51.5	50.9
Eurozona	46.3	44.5	47.4	53.7	55.2	54.8	57.9
United Kingdom	47.5	47.8	50.1	54.1	57.5	54.1	55.1
Japan	48.4	44.8	40.1	47.7	50.0	49.8	51.4

Source: Bloomberg and JP Morgan.

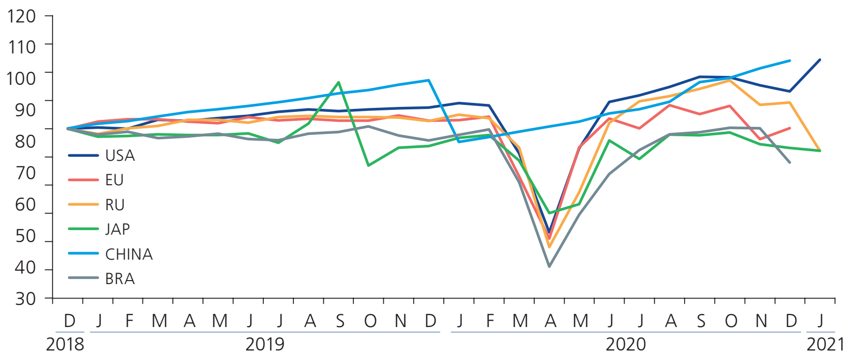
Graph 4
PMI GLOBAL MANUFACTUIRNG AND SERVICES



Source: JPMorgan.

Retail sales is another indicator that reflects the slowdown in economic activity, particularly in consumption and the services sector. The fall observed in the United Kingdom and Japan during the first month of the year stands out.

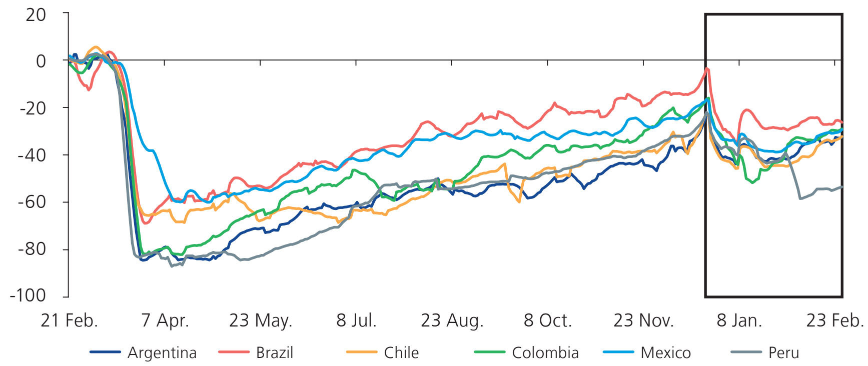
Graph 5
RETAIL SALES
(Index, December 2018 = 100)



Source: Investing and Trading Economics.

Within the emerging economies, Latin America is another of the regions most affected by the greater restrictions introduced across most countries as from January. Monthly frequency indicators suggest that economic activity in most countries will contract in the first quarter.

Graph 6
CHANGES IN MOBILITY (%)
Shops and entertainment venues

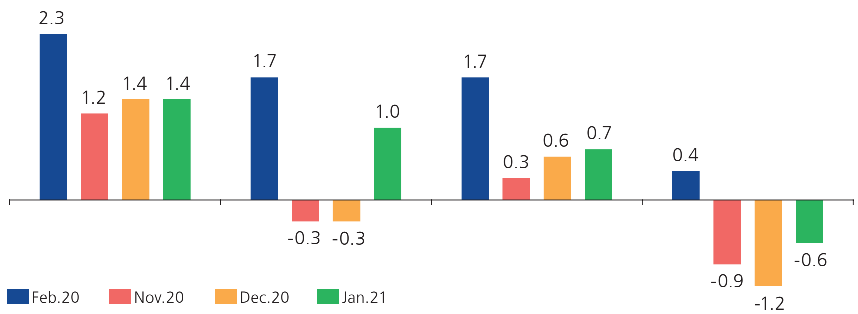


Source: Google Mobility.

5. **In contrast with what was observed in previous reports, inflation has shown an upward trend in the majority of developed economies and in several emerging economies**. Although these developments have been influenced in some cases by specific measures (i.e. the reestablishment of the VAT rate in Germany), the upward pressures are explained by the gradual closing of the output gap and by the increase in commodity prices (particularly oil and food), among other factors.

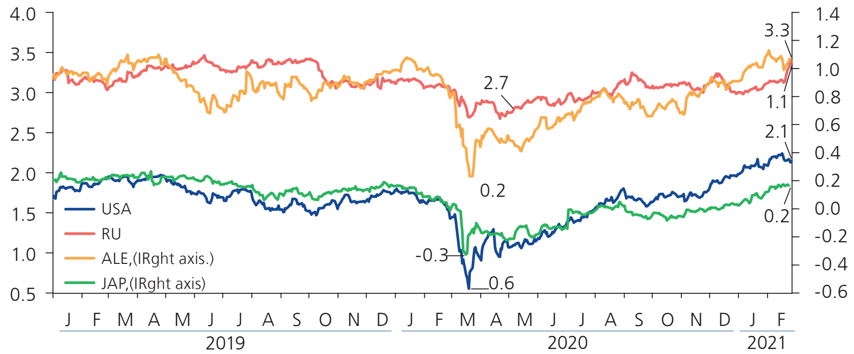
   Inflation expectations also showed an upward trend. Breakeven inflation –which measures the difference between the yield of an unindexed bond and the yield of an indexed bond– shows a moderate and sustained upward trend since the last Report.

Graph 7
DEVELOPED ECONOMIES: INFLATION (%)



Source: Trading Economics.

Graph 8
BREAKEVEN INFLATION (10 YEARS)



Source: Reuters.

In the region, with the exception of Uruguay, Chile, and Colombia, inflation showed also a moderate upward trend in the first months of the year, in line with the recovery in economic activity and some supply shocks (i.e. the increase in food prices). Despite this upward trend, the inflation rate is within the target range, except in Colombia (where inflation is below the target range) and Uruguay (where it is above).

Table 3
LATIN AMERICA: ANNUAL INFLATION
(%)

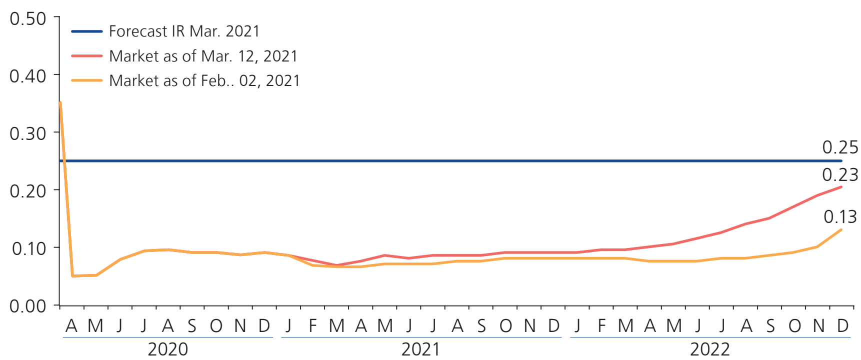
	Brazil	**Chile**	**Colombia**	**Mexico**	**Paraguay**	**Peru**	**Uruguay**
Target Range:	**2.25-5.25**	**2.0-4.0**	**2.0-4.0**	**2.0-4.0**	**2.0-6.0**	**1.0-3.0**	**3.0-7.0**
Dec.19	4.31	3.00	3.80	2.83	2.81	1.90	8.79
Jan.20	4.19	3.46	3.62	3.24	2.81	1.89	8.71
Feb.20	4.01	3.89	3.72	3.70	2.41	1.90	8.32
Mar.20	3.30	3.74	3.86	3.25	2.50	1.82	9.16
Apr.20	2.40	3.42	3.51	2.15	2.02	1.72	10.86
May.20	1.88	2.75	2.85	2.84	0.67	1.78	11.05
Jun.20	2.13	2.63	2.19	3.33	0.48	1.60	10.36
Jul.20	2.31	2.50	1.97	3.62	1.05	1.86	10.13
Aug.20	2.44	2.45	1.88	4.05	1.63	1.69	9.79
Sep.20	3.14	3.09	1.97	4.01	1.62	1.82	9.92
Oct.20	3.92	2.95	1.75	4.09	1.71	1.72	9.74
Nov.20	4.31	2.73	1.49	3.33	2.18	2.14	9.59
Dec.20	4.52	2.97	1.61	3.15	2.17	1.97	9.41
Jan.21	4.56	3.12	1.60	3.54	2.64	2.68	8.89
Feb.21	5.20	2.85	1.56	3.76	2.54	2.40	9.12

Source: Central banks and statistical institutes.

6. **In this context, central banks have maintained their expansionary monetary and fiscal policies**. The central banks of the main developed economies have maintained their rates at historic lows and have continued with credit support and asset purchase programs.

The US Federal Reserve (Fed) decided to maintain its rates at 0-0.25 percent and its balance sheet expansion program through purchase programs and credit facilities. In the meetings of January 26-27 and March 16-17, the Fed confirmed that it will maintain an expansionary stance until significant improvements are observed in its new employment and inflation targets. The meeting minutes also said that economic activity has moderated, that temporary increases are foreseen in inflation, and that the economic recovery path will depend on the course of the pandemic. In addition, the Fed does not foresee premature withdrawals of stimuli. Despite this, the futures market projects a less accommodative monetary policy as from 2023.

Graph 9
FED RATE PROJECTIONS AND MARKET EXPECTATIONS



Source: Fed,BCRP and Reuters.

At its last meeting, the Fed released an update on its macroeconomic projections for the United States. Economic growth in 2021-2022 has been revised up (downwards in 2023), the unemployment forecast for the next few years has been lowered, including the projection for the long-term level, and inflation in 2021-2023 has been revised up. All of these projections are based, in part, on recent fiscal stimuli and the higher rate of vaccination.

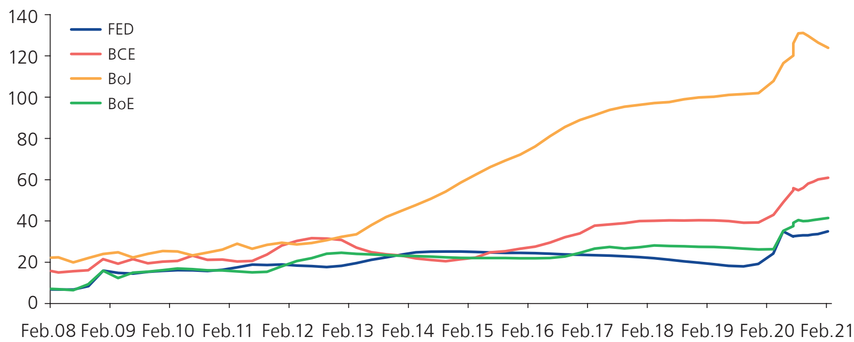
Table 4
FED PROJECTIONS*

	2021		2022		2023		Long-term	
	Dec. 20	Mar. 21	Dec. 20	Mar. 21	Dec. 20	Mar. 21	Dec. 20	Mar. 21
Growth	4.2	6.5	3.2	3.3	2.4	2.2	1.8	1.8
Unemployment rate	5.0	4.5	4.2	3.9	3.7	3.5	4.1	4.0
Inflation (PCE)	1.8	2.4	1.9	2.0	2.0	2.1	2.0	2.0
Core Inflation (core PCE)	1.8	2.2	1.9	2.0	2.0	2.1	-	-
Memo: Core PCE excluding food and energy								
Interest rate (%)	0.1	0.1	0.1	0.1	0.1	0.1	2.5	2.5
Range of interest rate (%)	0.1	0.1	0.1-0.4	0.1-0.6	0.1-1.1	0.1-1.1	2.0-3.0	2.0-3.0

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

On the other hand, the European Central Bank (ECB) has maintained the policy interest rate and the emergency asset purchase program against the pandemic (PEPP) of €1.85 trillion, and reiterated that it will be in effect until March 2022. In the same vein, the Bank of England (BoE) unanimously agreed to maintain the interest rate and the non-financial corporate bond purchase program to up to ₤20 billion and the sovereign debt purchase program up to a total of ₤875 billion.

Graph 10
CENTRAL BANKS: TOTAL ASSETS
(% GDP)



Source: Central Banks.

As for **fiscal policy**, the change in the composition of the US Congress –with a Democratic majority in both houses– has favored greater progress in negotiations about a new fiscal stimulus package that would amount to US$ 1.9 trillion. The expansionary fiscal policy, together with expectations of higher inflation in the medium term, have pushed up the sovereign yields of the United States and other economies. In Europe, Parliament reached consensus on the multi-year budget and recovery plan, and in Japan, a third fiscal package equivalent to 13.7 percent of GDP was approved by the end of 2020.

Global economic outlook

7. In 2021, the world economy is expected to grow 5.8 percent, a rate slightly higher than that estimated in the December Report. On the other hand, the projected growth rate in 2022 remains at 4.0 percent.

Table 5
GLOBAL GDP GROWTH
(Annual % change)

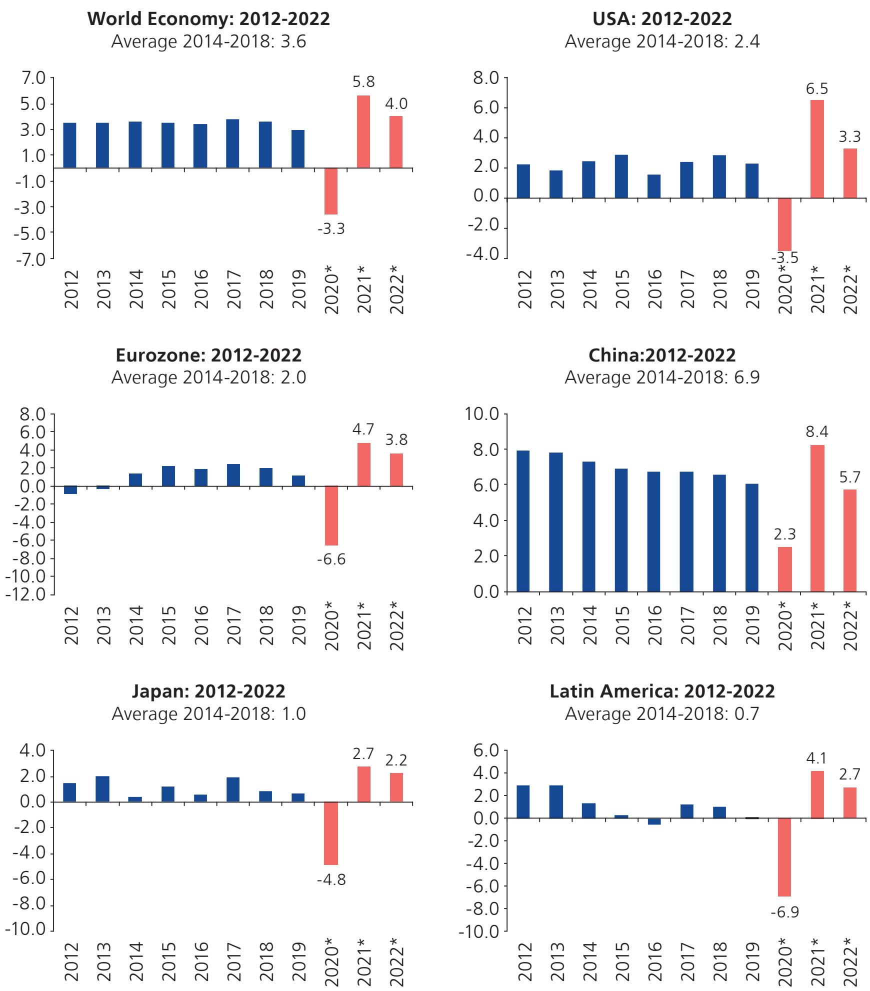
	PPP*	2020	2021		2022	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Developed economies	**42.5**	**-4.7**	**4.6**	**5.2**	**3.1**	**3.3**
Of which						
1. USA	16.0	-3.5	4.0	6.5	3.3	3.3
2. Eurozone	12.0	-6.6	5.8	4.7	3.3	3.8
3. Japan	4.0	-4.8	2.4	2.7	2.0	2.2
4. United Kingdom	2.3	-9.9	5.7	4.5	2.2	3.3
5. Canada	1.4	-5.4	4.0	4.9	3.5	3.8
6. Others	6.8	-4.1	4.6	4.6	3.1	3.1
Developing economies	**57.5**	**-2.2**	**5.9**	**6.2**	**4.5**	**4.5**
Of which						
1. China	18.6	2.3	8.1	8.4	5.7	5.7
2. India	6.7	-8.0	10.5	11.0	6.5	6.5
3. Russia	3.1	-3.1	3.2	3.4	2.4	2.7
4 Latin America and the Caribbean	7.3	-6.9	3.8	4.1	2.7	2.7
5. Others	17.9	-4.0	4.2	4.8	4.5	4.5
World Economy	**100.0**	**-3.3**	**5.4**	**5.8**	**4.0**	**4.0**

* Base 2020 for IR March.
Source: IMF and Consensus Forecast.

The growth projection for 2021 in some economies has been revised down. This would be the case of the United Kingdom and Germany due to lower growth in these countries in the first quarter of the year as a result of the restriction measures adopted against the spread of COVID-19. In contrast, growth in the United States has been revised up, in line with recent data, new fiscal stimulus, and developments in the real estate sector.

In the emerging economies, the upward revision of growth projections in China and India stands out, in line with the trend observed since the fourth quarter of 2020. The estimated growth of Latin America in 2021 has also been revised up (from 3.8 to 4.1 percent). Although less dynamism is expected in the first quarter –in line with the measures adopted against the outbreak of COVID-19–, this would be offset by a faster pace of activity in the following quarters, explained in part by a significant rise in commodity prices (basic metals, oil, and grains). A growth rate of 2.7 percent is estimated for 2022.

Graph 11
GDP GROWTH
(Real % change)



* Forecast.
Source: FMI and Consensus Forecast..

The risk factors to this central scenario are neutral. The factors to the downside include the following:

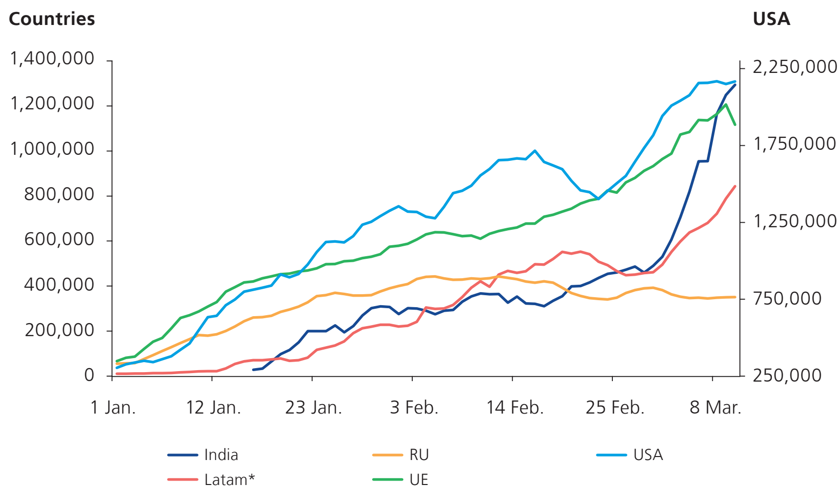
a. Delays in the application of the vaccines (or lower efficacy against new strains) could affect the prospects for strong growth in the second half of the year.

b. Escalation in trade tensions between the United States and China. Despite the change of administration in the United States, tensions remain over the technology war and the treatment of ethnic minorities in China.

c. Sudden correction in the price of some assets or increase in defaults in highly indebted agents.

Factors to the upside include the possibility of higher-than-expected growth, particularly in developed economies, if the vaccination process generates an earlier and stronger recovery in domestic demand, and the fiscal policies announced in the major economies (particularly the United States) are implemented more quickly and additional infrastructure plans are implemented.

Graph 12
AVERAGE DAILY DOSES OF VACCINES



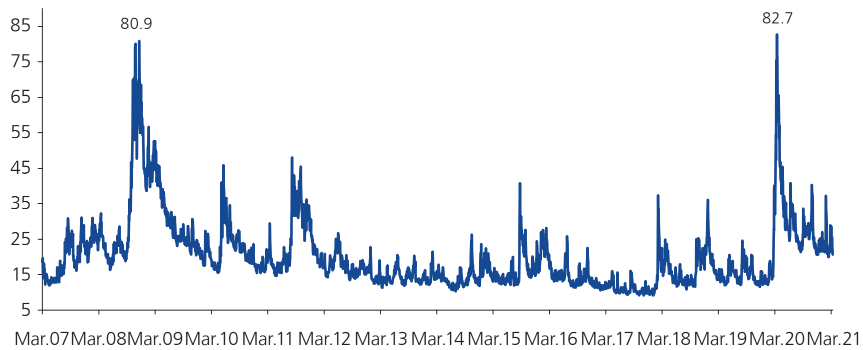
* Argentina, Brazil, Chile, Colombia, Mexico, Peru.
Information as of March 10. 7-day moving average.
Source: Our World in Data, Oxford University.

International financial markets

8. **Year-to-date, financial markets have been favored by signs of global recovery, progress in vaccination programs, the new fiscal stimulus in the United States, and higher-than-expected corporate results**. This trend has been reinforced by the the maintenance of an accommodative monetary policy by the main central banks (their policy statements have emphasized that they will maintain low interest rates and their current asset purchase programs). In this context, equity markets in both developed and emerging-market economies have posted gains.

However, so far in 2021, some factors have limited this trend. In the epidemiological arena, the appearance of new variants of COVID-19 have raised doubts about the effectiveness of the vaccines already developed and the resurgence of infections has led to new restrictions on mobility in several developed and emerging economies. On the other hand, towards the end of February, the increase in inflation expectations and concerns regarding possible overvaluations in asset markets have raised expectations of an early withdrawal of stimulus by the Fed and led to a correction in the asset prices, particularly in fixed income markets.

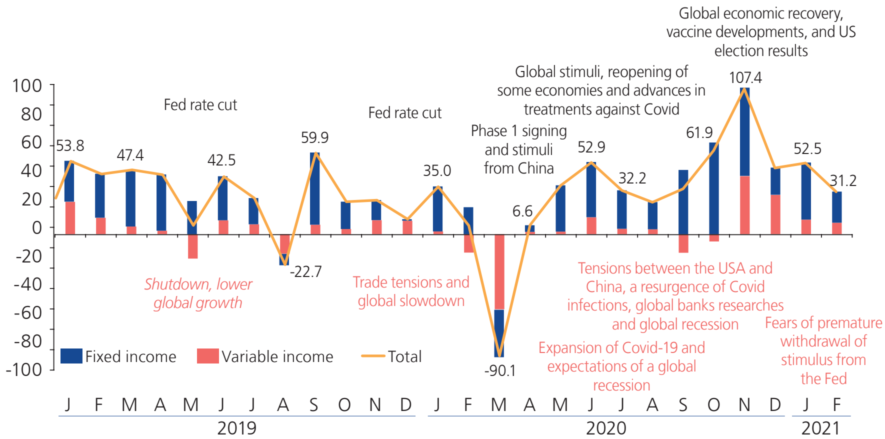
Graph 13
VIX INDEX
(Volatility of USA)



Source: Reuters.

In this context, capital flows to emerging economies have maintained positive balances (with flows oriented to fixed income markets standing out), but to a lesser extent than those registered at the end of last year.

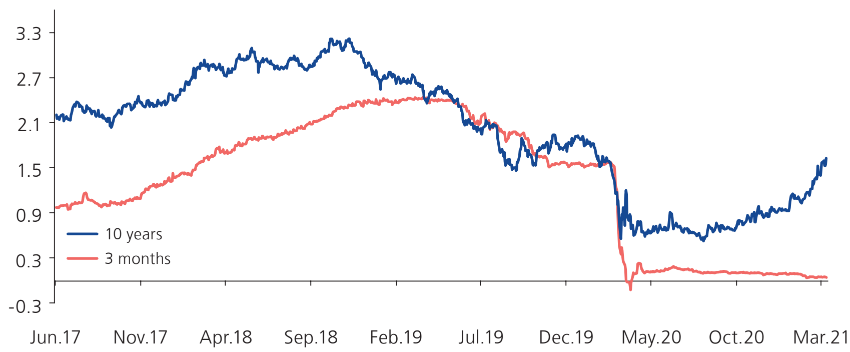
Graph 14
FLOW OF CAPITAL TO THE EMERGING ECONOMIES
(Billion US$)



Source: IIF.

9. **In fixed income markets, the yields on sovereign US bonds registered substantial increases in the first months of 2021**. This trend is explained by the recovery of economic activity, the negotiation of new fiscal stimuli, the improvement of health data, and the expansion of vaccine distribution. The upward trend in the 10-year yield increased towards the end of February, when greater expectations of higher inflation (and an increase in the probability of an early withdrawal of monetary stimulus by the Fed) led to a correction in the prices of these assets, despite the fact that the Fed reiterated, on several occasions, that it would maintain its expansionary position for a long period of time.

Graph 15
YIELD ON THE US SOVEREIGN BONDS
(2017-2020)



Source: Reuters.

Yields rose in Europe as well, although the rise was limited by the extension of lockdown measures in some countries and by comments of ECB and BoE staff stating that they would maintain their accommodative monetary position.

In the emerging economies, yields rose across countries, following the global trend. The rise was also influenced in some cases by growing expectation of an increase in rates during 2021 and idiosyncratic shocks, as in the case of Brazil (where discussions about fiscal management, the persistence of political noise, and an increase in COVID-19 cases) also played a role.

Table 6
YIELDS ON 10-YEAR SOVEREIGN BONDS

	Dec.19	Dec.20	Mar.21*	Accumulated change 2020 (pbs.)
USA	1.92	0.92	1.63	71
Germany	-0.19	-0.57	-0.31	27
France	0.12	-0.34	-0.07	28
Italy	1.41	0.54	0.62	8
Spain	0.46	0.04	0.33	28
Greece	1.43	0.62	0.82	20
United Kingdom	0.82	0.19	0.82	63
Japan	-0.02	0.02	0.12	10
Brazil	6.79	6.90	8.68	179
Colombia	6.34	5.39	6.39	100
Chile	3.17	2.65	3.10	45
Mexico	6.89	5.53	6.37	84
Peru	**4.62**	**3.51**	**4.70**	**119**
South Africa	9.02	8.74	9.33	60
India	6.56	5.87	6.23	37
Turkey	11.97	12.54	14.01	147
Russia	6.36	5.92	6.77	85
China	3.14	3.15	3.26	11
South Korea	1.67	1.72	2.11	38
Indonesia	7.04	5.86	6.71	84
Thailand	1.47	1.32	1.97	65
Malaysia	3.31	2.65	3.38	73
Philippines	4.53	2.94	4.22	128

* Prepared on March 12, 2021.
Source: Reuters.

10. In **equity markets**, most stocks rose and in some cases returned to historic levels. This was largely due to the economic recovery, the expansionary position of central banks, and corporate results above estimates for the fourth quarter of the year.

Optimism about the distribution of vaccines also contributed to this rise in the developed countries. It should be pointed out that the indices of stock markets of countries such as the United States and Germany are at historical levels, while the stock market of Japan has registered a maximum not observed since 1990 and the UK stock market shows a record high not observed since 2019. These levels have contributed to generate fears of a price correction in these markets.

Most stock markets also rose in the emerging economies, also benefiting from higher commodity prices. Nonetheless, this improvement was limited by the increase in COVID-19 cases and the reintroduction of restrictions on mobility and on the development of economic activities.

Table 7
STOCK EXCHANGE

		Dec.19	Dec.20	Mar.21*	Accumulated change 2021 (%)
VIX*	S&P 500	13.78	22.75	20.69	-2.1
USA	Dow,Jones	28,538	29,983	32,812	9.4
USA	S&P 500	3,231	3,756	3,943	5.0
Germany	DAX	13,249	13,719	14,502	5.7
France	CAC 40	5,978	5,551	6,047	8.9
Italy	FTSE MIB	23,506	22,233	24,113	8.5
Spain	IBEX 35	9,549	8,074	8,645	7.1
Greece	ASE	917	809	850	5.0
United Kingdom	FTSE 100	7,542	6,461	6,761	4.7
Japan	Nikkei 225	23,657	27,444	29,718	8.3
Brazil	Ibovespa	115,645	119,017	114,160	-4.1
Colombia	COLCAP	1,662	1,438	1,354	-5.9
Chile	IPSA	4,670	4,177	4,893	17.1
Mexico	IPC	43,541	44,067	47,770	8.4
Argentina	Merval	41,671	51,226	49,071	-4.2
Peru	**Ind. Gral.**	**20,526**	**20,822**	**22,767**	**9.3**
South Africa	JSE	57,084	59,409	68,210	14.8
India	Nifty 50	12,168	13,982	15,031	7.5
Turkey	XU100	1,144	1,477	1,557	5.5
Russia	RTS	1,549	1,387	1,520	9.5
China	Shangai C.	3,050	3,473	3,453	-0.6
South Korea	KOSPI	2,198	2,873	3,054	6.3
Indonesia	JCI	6,300	5,979	6,358	6.3
Thailand	Sep	1,580	1,449	1,568	8.2
Malaysia	KLCI	1,589	1,627	1,616	-0.7
Philippines	Psei	7,815	7,140	6,729	-5.8

Data and variation in basis points.
* Prepared on March 12, 2021.
Source: Reuters.

11. In foreign exchange markets, after registering a sustained depreciation during 2020, the dollar appreciated across countries, particularly during episodes of increased risk aversion. The appreciation of the dollar was particularly noteworthy against the euro (as a result of the ECB statements regarding the expansionary position of monetary policy and restrictions on mobility due to the increased spread of COVID-19 infections) as well as against the yen (due to the slow economic recovery of Japan and expectations of low inflation for a prolonged

period of time). On the other hand, however, the dollar depreciated against the pound sterling due to the significant progress in the vaccination process and after the UK's orderly exit from the European Union (Brexit).

Table 8
EXCHANGE RATES

		Dec.19	Dec.20	Mar.21*	Accumulated change 2021 (%)**
Dollar Index***	US Dollar Index	96.39	89.94	91.68	1.9
Euro	Euro	1.121	1.221	1.195	-2.1
United Kingdom	Pound sterling	1.326	1.367	1.392	1.8
Japan	Yen	108.61	103.24	109.00	5.6
Brazil	Real	4.019	5.194	5.552	6.9
Colombia	Peso	3,285	3,415	3,574	4.7
Chile	Peso	752	710	724	2.0
Mexico	Peso	18.93	19.87	20.73	4.3
Argentina	Peso	59.86	84.08	90.78	8.0
Peru	**Sol**	**3.315**	**3.620**	**3.711**	**2.5**
South Africa	Rand	13.99	14.69	14.93	1.7
India	Ruppe	71.35	73.04	72.68	-0.5
Turkey	Lira	5.95	7.43	7.56	1.7
Russia	Ruble	61.92	73.79	72.96	-1.1
China	Yuan (onshore)	6.962	6.525	6.508	-0.3
South Korea	Won	1,154	1,084	1,136	4.8
Indonesia	Rupee	13,880	14,040	14,380	2.4
Thailand	Bath	29.76	30.04	30.67	2.1
Malaysia	Ringgit	4.089	4.020	4.116	2.4
Philippines	Peso	50.65	48.01	48.48	1.0

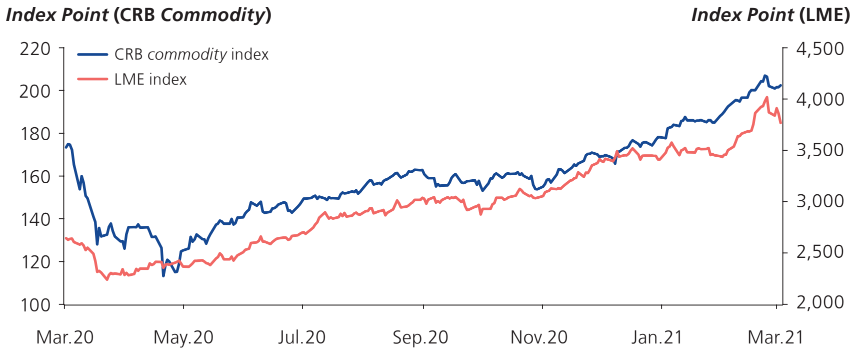
* Prepared on March 12, 2021.
** An increase (fall) in the index means an appreciation (depreciation) of the US dollar, except in the euro and pound.
*** An increase (fall) of the index means an appreciation (depreciation) of the US dollar against currency basket (made up by the euro)
Source: Reuters.

In addition, various emerging currencies depreciated as well, particularly towards the end of February, when expectations of a premature withdrawal of stimulus by the Fed increased. This behavior was also observed during the Taper Tantrum period in 2013, but this trend was offset by a sustained rise in most commodity prices.

12. So far this year, **most commodity prices** have accentuated the upward trend of the previous months, reaching in February record levels not observed for several years. This rise is largely explained by expectations of higher demand given announcements of higher spending on infrastructure, the recovery in global demand, particularly from China, as well as supply shocks in the case of agricultural products.

    As a result, commodity price indices –such as the Reuters Core Commodity index and the London Metal Exchange index– show levels higher than those observed prior to the start of the pandemic.

Graph 16
COMMODITIES INDEX (CRB AND LME)



Source: Trading Economics-Bloomberg

Table 9
QUOTES, MONTHLY AVERAGE

	Feb.20	Dec.20	Feb.21	Feb.21/ Dec.20 (%)	Feb.21/ Feb.20 (%)
Copper (cUS$/lb.)	258	352	384	9.0	48.7
Zinc (cUS$/lb.)	96	126	124	-1.5	29.8
Gold (US$/oz.tr.)	1,597	1,860	1,808	-2.8	13.2
Oil (US$/bl.)	51	47	59	25.5	16.7
Wheat (US$/tm)	201	244	270	11.0	34.9
Maize (US$/tm)	143	167	210	25.3	46.3
Soybean oil (US$/tm)	671	888	1,065	19.9	58.9

Source: Reuters.

a. Copper

In February, maintaining the upward trend pointed out in the December Report and rising 9 percent from its price in December 2020, the pound of **copper** reached a monthly average price of US$ 3.84. It is worth highlighting that the price of copper reached a maximum high of US$ 4.36 a pound on February 25, a level not seen since August 2011.

The upward pressures intensified in February, after the end of the national holiday of China, this country accounting for about 50 percent of global consumption. There are also expectations that copper-intensive activities –e.g. activities related to the infrastructure projects in the United States, to electric cars, and to other activities — will show a sustained rebound during the year.

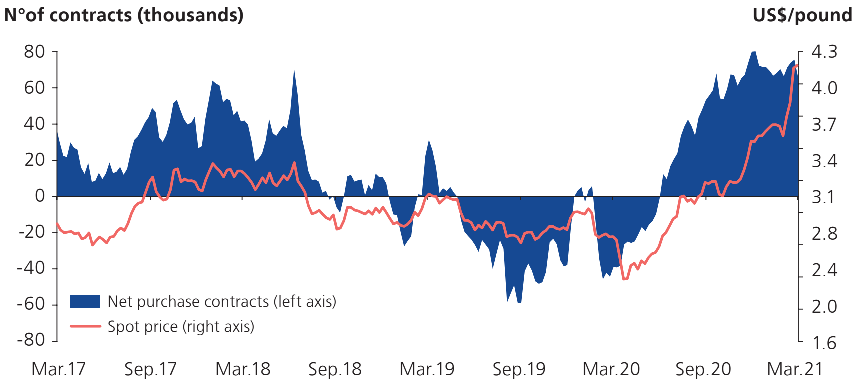
Table 10
SUPPLY AND DEMAND FOR REFINED COPPER
(Thousand metric tons)

	2016	2017	2018	2019 2/	2020 2/	2021 2/	Var.% 2021/2020
Global Mining Production	20,393	20,058	20,565	20,528	20,223	21,151	4.6%
Global Refining Production (Primary + Secondary)	23,356	23,548	24,058	24,045	24,434	24,815	1.6%
Global Use of Refined Copper	23,487	23,705	24,484	24,427	24,486	24,745	1.1%
Refined Balance 1/	-131	-157	-426	-382	-52	70	--

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

This upward trend was offset by the normalization of production, particularly in Zambian refineries. In addition, unlike the behavior mentioned in the December Report, non-commercial positions did not register significant increases, but remain at historically high levels.

Graph 17
COPPER: NON-COMERCIAL CONTRACTS



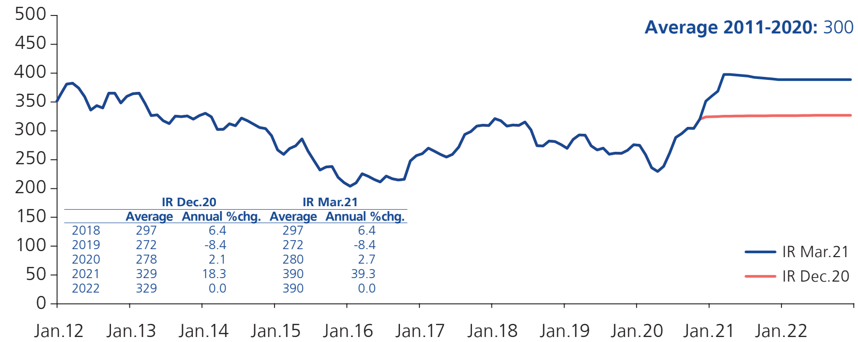
Note: The Copper Speculative Net Positions of the Commodities Futures Trading Commission are reported weekly and reflect the difference between the total volume of the long position (or purchase) and short position (or sale) in the market and opened by non-commercial operators (speculative). This report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

In this context, and in line with the rising path observed in the last two months, prices are expected to correct slightly in the forecast horizon, but reaching higher levels than those projected in the December Report. This scenario assumes a subdued pace of growth of Chinese demand (consistent with credit restrictions in that country) and a gradual increase in supply, in line with the entry of investment projects.

Graph 18

COPPER: JANUARY 2012 - DECEMBER 2022

(US$ cents/pd.)



Source: Reuters and BCRP.

b. Zinc

The price of **zinc** continued with the upward trend of the previous months, but showed a fall in January due to a slowdown in the growth of manufacturing in China and fears of less monetary stimulus in that country. Because of this, the average monthly price of zinc in February was 1.5 percent below the price in December.

After the fall in January, the price of zinc increased in February, driven by the same factors that supported the rise in the price of copper. The rise was lower, however, due to the excess supply in that market, as reflected in the high global inventories.

Table 11

SUPPLY AND DEMAND FOR REFINED ZINC

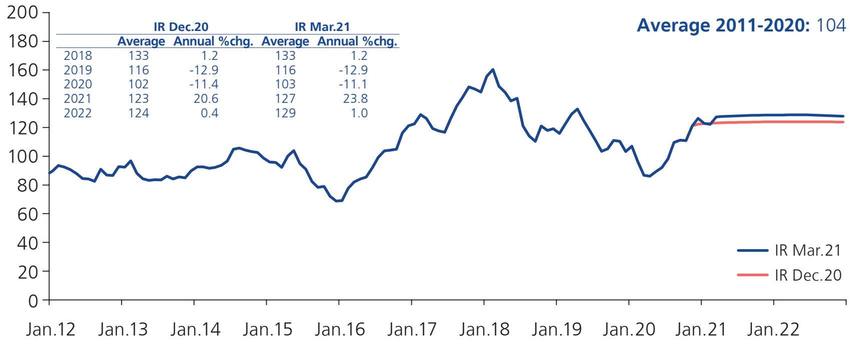
(Thousand metric tons)

	2016	2017	2018	2019	2020	2021
Global Mining Production	12,668	12,681	12,820	12,894	12,136	13,140
Global Refining Production	13,560	13,486	13,102	13,480	13,641	13,988
Global Use of Refined Zinc	13,665	13,953	13,658	13,707	13,108	13,524
Refined Balance (in thousands)	-105	-467	-556	-227	533	464

Source: ILZSG, Report for November 2020 and forecast for October 2020.

With this, the price of zinc is estimated to be slightly above the level foreseen in the previous report. The downside risks to this projection are associated with the expected entry of new global production and refining capacity, as well as with less monetary stimulus in China, one of the main buyers globally. Part of this increased capacity would reflect Chinese foundries' compliance with new government environmental regulations, which will allow the global market of refined zinc to start to register a supply surplus after four years of deficit.

Graph 19
ZINC: JANUARY 2012 - DECEMBER 2022
(US$ cents/pd.)



Source: Reuters and BCRP.

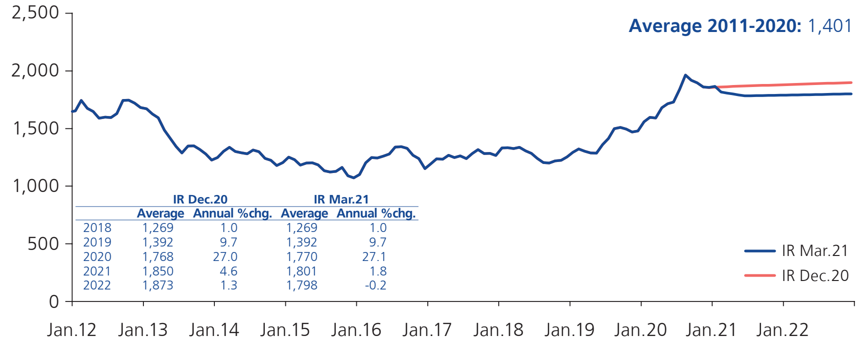
c. Gold

Year-to-date, the price of **gold** has accentuated the downward trend mentioned in the December Report. In February, the average price of gold (US$ 1,808 the troy ounce) decreased 2.8 percent compared to December.

The downward trend observed at the end of the year –due to the drop in global risk aversion, the progress developed in the COVID-19 vaccine, and the result of the elections in the United States– has continued so far in 2021, in line with lower demand for gold as a safe haven asset given the favorable outlook for economic recovery. The relative stability of the dollar against the major currencies also played a role, in contrast with the sustained depreciation observed during 2020.

In line with this recent trend, the price of gold projected is revised slightly down with respect to the December Report. The main risk factors in this scenario continue to be the Fed's monetary policy and geopolitical risks (particularly those associated with tensions between China and the United States).

Graph 20
GOLD: JANUARY 2012 - DECEMBER 2022
(US$/tr. ounce)



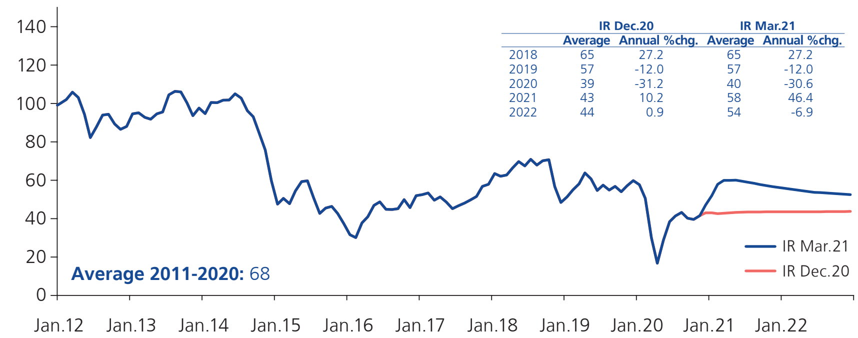
	IR Dec.20		IR Mar.21	
	Average	Annual %chg.	Average	Annual %chg.
2018	1,269	1.0	1,269	1.0
2019	1,392	9.7	1,392	9.7
2020	1,768	27.0	1,770	27.1
2021	1,850	4.6	1,801	1.8
2022	1,873	1.3	1,798	-0.2

Source: Reuters and BCRP.

d. Crude oil

In the first two months of the year, the price of **WTI oil** increased by 25.5 percent compared to December 2020 and reached an average price of US$ 59.07 in February. This increase has accentuated the upward trend observed since November 2020.

Graph 21
WTI OIL: JANUARY 2012 - DECEMBER 2022
(US$/bl)



	IR Dec.20		IR Mar.21	
	Average	Annual %chg.	Average	Annual %chg.
2018	65	27.2	65	27.2
2019	57	-12.0	57	-12.0
2020	39	-31.2	40	-30.6
2021	43	10.2	58	46.4
2022	44	0.9	54	-6.9

Source: Reuters and BCRP.

The price increase was supported by supply restrictions associated with the OPEC+ agreements. In January, Saudi Arabia announced a voluntary cut of one million barrels per day in its production during the months of February and March as part of an agreement by which the majority of OPEC+ members agreed to maintain their production at current levels. On the other hand, demand has been boosted by global growth expectations, although it was subject to downward pressures while mobility restriction measures were in force in some developed economies (which reduced fuel consumption).

In line with these developments, the projection of oil prices has been revised up. The main factor of uncertainty in this projection is linked to the evolution of the COVID-19 pandemic. On the one hand, the effects that the new variants of the virus could cause in the economy represent a downward bias. On the other hand, advances in the vaccination process and particularly, the effects of vaccines on these variants, could lead to an earlier normalization of a series of highly energy-demanding activities.

e. Prices of grains

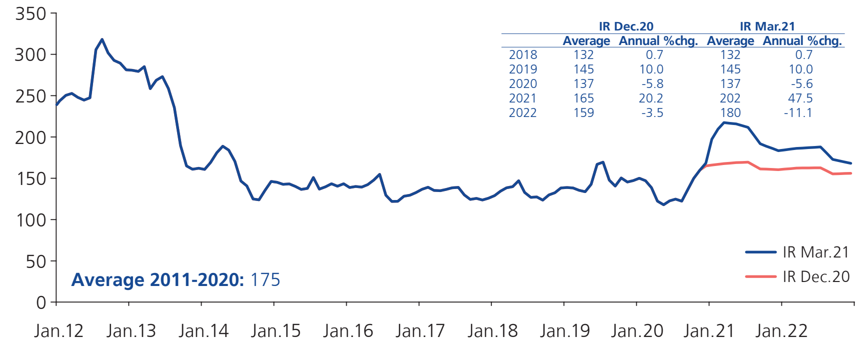
Grain prices rose in the first two months of the year due to increased demand (particularly from China), fears about the impact of weather conditions on supply, and the rise in the price of oil. The prices of grains are expected to show a slightly downward correction (in line with the normalization of supply), but are estimated to be above the levels projected in December.

Continuing with the trend described in the December Report, the price of **maize** increased 25.3 percent in the first two months of 2021 and reached an average price of US$ 209.76 the ton in February.

Factors contributing to the increase in the price of maize included an increased Chinese demand for maize (particularly, for North American maize) to be used as pig feed, concerns about the impact of weather conditions on crops (particularly in Argentina and Brazil), and downward revisions of projections of US inventories.

In line with these developments, the projection of the price of maize has been increased with respect to the December Report. One factor of uncertainty for the projection is the effect of the implementation of mega pig farms in China, which despite encouraging the demand for this grain, could have the opposite impact should an epidemiological outbreak occur as a result of overpopulation. Another factor to be considered is uncertainty regarding the trade agreement between the United States and China, which did not meet the goals established in 2020, given that no agreement has been reached regarding what will happen with the remainder to be commercialized. A significant downside risk is a possible upsurge of COVID-19 (due to new variants) that would keep demand depressed, particularly the demand from the ethanol industry.

Graph 22
MAIZE: JANUARY 2012 - DECEMBER 2022
(US$/ton)

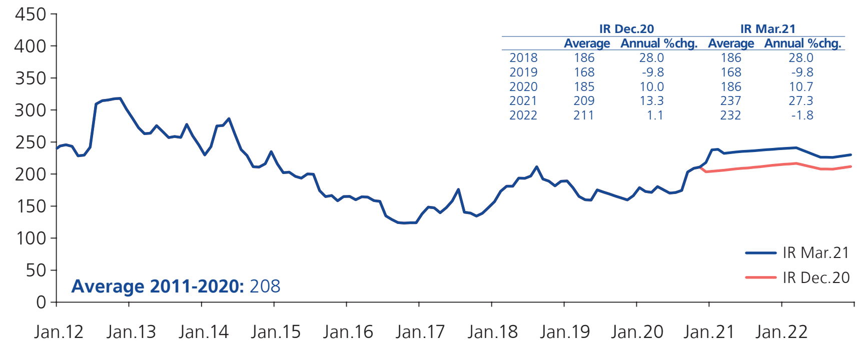


Source: Reuters and BCRP.

Continuing with the upward trend pointed out in the Inflation Report of December, the metric ton of **wheat** reached a monthly average price of US$ 270.46 in February, a price 11 percent higher than that registered in December 2020.

The price of wheat increased in a context of growing global demand and supply restrictions in Europe and in the United States. Crops in the former were affected by drought and, in the particular case of Russia, by the imposition of an export tax. In the latter, the impact of the La Niña event on yields and the reduction of planted areas led to a downward revision in production and inventory projections (inventories are estimated to reach minimum levels in six crop periods).

Graph 23
WHEAT: JANUARY 2012 - DECEMBER 2022
(US$/ton)

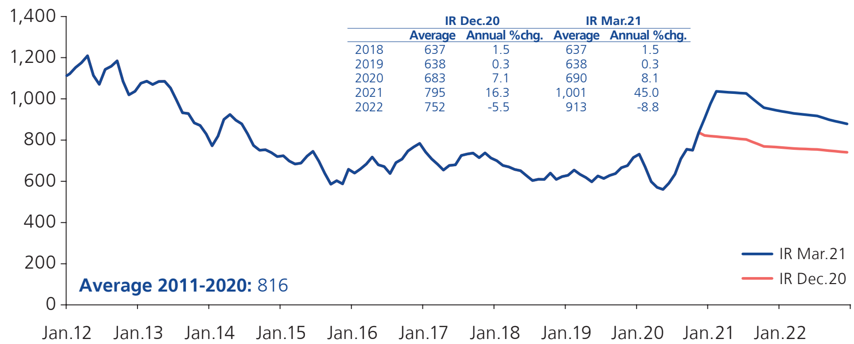


Source: Reuters and BCRP.

In this context, the projections for wheat prices have been revised up assuming that high global demand will continue. One factor to consider as a possible risk to the projection is the better weather conditions observed in the United States and in the producing countries of the European Union and the Black Sea area, which have improved above expectations.

Showing a similar trend to that of grains, the price of **soybean oil** increased 20 percent in the first two months of the year and reached levels not observed since 2012. The price of soybean oil increased in line with the rise in oil prices, higher global demand, fears of a reduction in production in Brazil (as a result of La Niña event), and the rise in palm oil prices. Considering these recent developments, it is foreseen that prices will be above those estimated in the previous Report.

Graph 24
SOYBEAN OIL: JANUARY 2012 - DECEMBER 2022
(US$/ton)



	IR Dec.20		IR Mar.21	
	Average	Annual %chg.	Average	Annual %chg.
2018	637	1.5	637	1.5
2019	638	0.3	638	0.3
2020	683	7.1	690	8.1
2021	795	16.3	1,001	45.0
2022	752	-5.5	913	-8.8

Source: Reuters and BCRP.

II. Balance of Payments

Current account

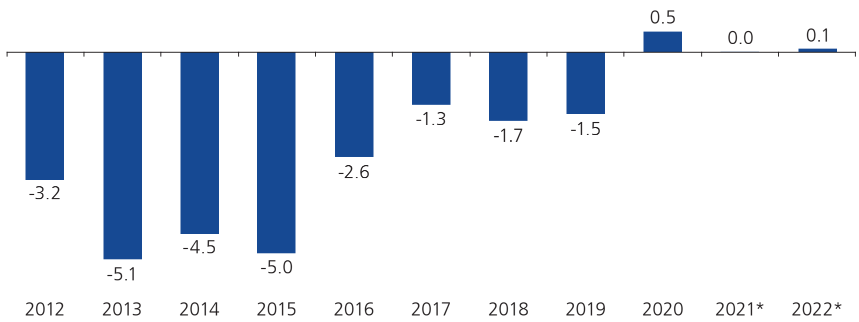
13. The **current account** of the balance of payments registered a surplus of 0.5 percent of GDP in 2020, the first surplus balance in 12 years. This balance, which contrasts with the deficit of 1.5 percent in 2019, is explained by the impact of the COVID-19 crisis on local activity and on domestic demand, which implied lower profits of companies with foreign direct investment in the country and a drop in imports of goods.

    External conditions in 2021 seem favorable with the global vaccination program against COVID-19, higher commodity prices, and the increase in the terms of trade. On the other hand, a lower rate of growth is expected in local activity relative to that considered in the previous Report, due to the targeted measures recently adopted to contain the spread of the virus in the second wave and due to the more gradual recovery of primary activity.

    In 2022, once much of the impact of COVID-19 has been overcome, solid global growth is expected with terms of trade at higher levels than those projected in the December Report. The normalization of primary activity after the recovery of mining production and weather conditions that favor fishing are also foreseen to contribute to this.

    Under these assumptions, the current account balance is expected to register a zero result in **2021** and a surplus of 0.1 percent of GDP in **2022** (surpluses of 0.1 and 0.0 percent of GDP, respectively, were estimated in the previous Report). The slight downward revision of the 2021 balance would reflect, on the one hand, the greater deficit in factor income due to the better evolution of company profits after the increase in the terms of trade, and on the other hand, a higher deficit in services due to higher freight rates. These factors would be offset in part by a higher trade balance given better relative export and import prices, as well as by growing remittances from the United States after the higher rate of recovery projected for that country. In 2022, the current account would also register a surplus due to the higher outturn of the trade balance as a result of the normalization of mining production and local activity in general.

Graph 25
CURRENT ACCOUNT: 2012-2022
(GDP)



* Forecast.

14. The **financial account** in 2020 registered a positive balance of US$ 9.51 billion, equivalent to 4.7 percent of GDP. This balance reflected mainly a higher net portfolio investment in public assets due to greater financial requirements to reverse the negative impact of COVID-19 on the economy, and a lower net portfolio investment by the AFPs abroad due to the sale of their external assets to meet the withdrawals of affiliates' funds that was approved.

Table 12
BALANCE OF PAYMENTS
(Million US$)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
I. CURRENT ACCOUNT BALANCE	**987**	**207**	**29**	**37**	**132**
% GDP	*0.5*	*0.1*	*0.0*	*0.0*	*0.1*
1 Trade Balance	7,750	13,253	14,480	13,722	15,707
a. Exports	42,413	51,961	56,110	54,904	59,404
Of which:					
i) Traditional	*29,405*	*36,901*	*41,102*	*38,631*	*43,153*
ii) Non-Traditional	*12,887*	*14,969*	*14,911*	*16,182*	*16,067*
b. Imports	-34,663	-38,707	-41,630	-41,183	-43,697
2. Services	-4,091	-4,203	-5,069	-4,347	-5,114
3. Investment income	-6,688	-12,202	-12,841	-12,879	-14,004
4. Current transfers	4,017	3,358	3,458	3,542	3,542
Of which: Remittances	2,884	3,029	3,129	3,181	3,181
II. FINANCIAL ACCOUNT	**5,404**	**2,218**	**4,696**	**963**	**868**
1. Private Sector	-4,404	-2,942	-3,149	-1,267	-861
a. Long-term	*543*	*-2,942*	*-2,849*	*-1,267*	*-896*
b. Short-term 1/	*-4,946*	*0*	*-299*	*0*	*35*
2. Public Sector 2/	9,808	5,161	7,845	2,230	1,729
III. CHANGE ON NIRs	**6,391**	**2,425**	**4,725**	**1,000**	**1,000**

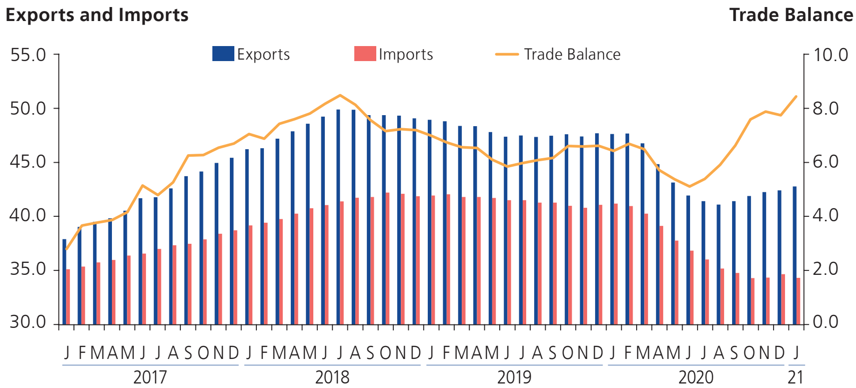
1/ Includes net errors and omissions, and NIR's effect valuation.
2/ Includes portfolio investment in sovereign bonds by non-residents.
* Forecast.
IR: Inflation Report.

Thus, in a context of favorable international financial conditions and high global liquidity, the financial account in **2021** incorporates greater public sector financing to cover the fiscal deficit and to maintain expansionary policies until economic recovery is consolidated. On the other hand, lower disbursements and an increase in capital flows are projected for **2022** amid less uncertainty in the international scenario once the negative impact of COVID-19 on the world economy has been overcome.

15. The surplus in the **trade balance** amounted to US$ 7.75 billion in 2020 –the highest balance recorded in the last 9 years– due to the greater contraction observed in the value of imports compared to exports as a result of the impact of the COVID-19 crisis. The volume of exports and imports decreased 13.4 and 11.1 percent, respectively, reflecting lower local production and the severe contraction in domestic demand. On the other hand, the prices of exports increased by 2.7 percent, favored by higher prices in commodity markets, while the prices of imports decreased by 5.1 percent as a result of the slowdown in the international demand for crude.

Maintaining the upward trend observed since July 2020, the trade balance records a cumulative twelve-month balance of US$ 8.45 billion in January 2021.

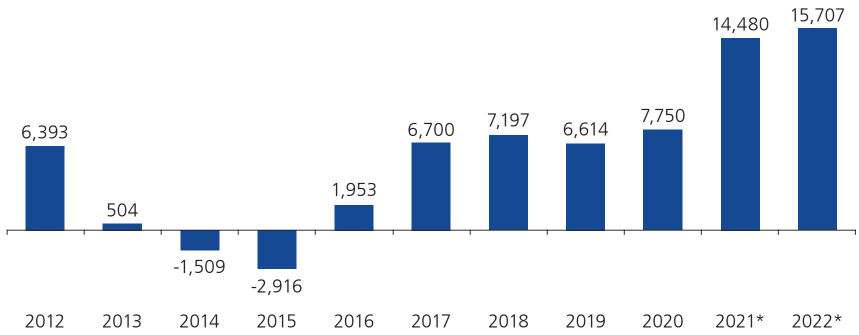
Graph 26
TRADE BALANCE, EXPORTS AND IMPORTS
(Accumulated 12 month - Billion US$)



Based on this trend, the trade balance is projected to register a surplus of US$ 14.48 billion in 2021, a balance US$ 6.73 billion higher than that observed in the previous year, supported by higher average export prices of traditional mining products mainly. In **2022**, the trade surplus would amount to US$ 15.71 billion, moderating its growth rate with respect to that projected for 2021 and showing increases in both export and import volumes. The recovery of primary production and favorable conditions of the economic activity of our trading partners will explain the higher volumes of exports, while the expected acceleration in domestic demand will boost the volume of imports.

The upward revision of the trade surplus with respect to the previous Report reflects the increase in the terms of trade, mainly due to the increase in the international price of copper to a maximum high in a 10-year period.

Graph 27
TRADE BALANCE
(Million US$)



* Forecast.

16. **Exports**, which totaled US$ 42,413 million in 2020, were US$ 5.28 billion lower (-11.1 percent) than in 2019 due to the lower prices of both the exports of traditional and non-traditional products. Although there was a general drop in the volumes of exports, the average increase in traditional exports, particularly metals such as copper and gold, offset partially the fall in export prices.

In **2021**, the value of exports would improve mainly due to the higher prices of traditional mining products, in a context of greater international trading that would favor demand for our exports. The current projection for 2021 is higher than that estimated in the previous Report due to the recent increase in the prices of the main metals exported.

A more limited growth in export volumes is expected in **2022** in a scenario of recovery of domestic production, once most of the negative impact of COVID-19 has been overcome.

17. **Imports** in 2020 totaled US$ 34.66 billion, US$ 6.41 billion (-15.6 percent) less than in 2019. This outturn is mainly explained by lower prices and by the lower volumes of imports of consumer goods, inputs, and capital goods resulting from the contraction of domestic demand, as well as by a significant reduction in the price of oil to historical lows.

The recovery foreseen in the value of imports in **2021** is mainly explained by the increase in the price of oil and, to a lesser extent, by higher grain prices. In **2022**, with the estimated projection of recovery in domestic demand, import volumes would be higher than foreseen in the previous Report.

Table 13
TRADE BALANCE
(% change)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
1. Value:					
Exports	-11.1	23.6	32.3	5.7	5.9
Traditional products	*-12.9*	*27.5*	*39.8*	*4.7*	*5.0*
Non-traditional products	*-6.5*	*15.5*	*15.7*	*8.1*	*7.8*
Imports	-15.6	13.1	20.1	6.4	5.0
2. Volume:					
Exports	-13.4	13.2	12.3	4.7	5.4
Traditional products	*-17.7*	*14.1*	*12.9*	*4.4*	*5.7*
Non-traditional products	*-1.5*	*11.9*	*11.4*	*5.3*	*5.0*
Imports	-11.1	8.9	8.5	5.5	6.7
3. Price:					
Exports	2.7	9.3	17.8	1.0	0.5
Traditional products	*5.9*	*11.7*	*23.8*	*0.3*	*-0.7*
Non-traditional products	*-5.1*	*3.2*	*3.9*	*2.7*	*2.6*
Imports	-5.1	3.8	10.7	0.9	-1.7

* Forecast.

Terms of trade

18. Driven by the record high values that the price of copper reached after the advance of the vaccination against COVID-19 and the better outlook for global economic recovery, the terms of trade registered an average increase of 8.2 percent in 2020.

The same trend in the terms of trade is expected for 2021, so the projection is revised upwards (6.4 percent) compared to the previous Report (5.3 percent). Factors explaining this revision include a greater increase in the export prices of metals such as copper, zinc, and lead, which would offset the upward correction in import prices, particularly oil and, to a lesser extent, wheat and corn.

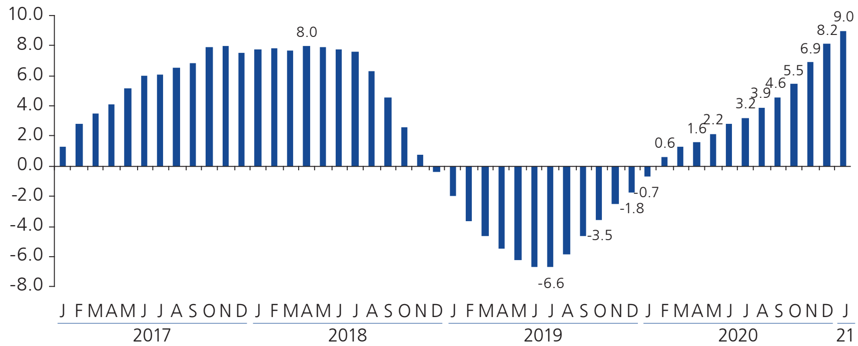
The price of copper reached new levels not observed since 2011, favored by China's greater demand which reflected its rapid recovery in activity. The current projection incorporates an upward correction with respect to the average copper price forecast in the previous Report (from US$ 3.3 a pound to US$ 3.9 a pound). Moreover, the recovery in the price of oil would be higher than expected in December (US$ 58 the barrel, 46 percent higher than that registered in 2020) also due to the increase in world demand for crude oil.

The growth pace of the terms of trade would stabilize in 2022 with an expansion rate of 2.2 percent. The extension of the positive cycle of commodities supports a copper price similar to that recorded in 2021. A slight downward correction is also incorporated, although the same upward trend is maintained for food prices at the end of the projection horizon amid higher expectations of external inflation after the extension of the monetary and fiscal stimuli at the global level. With this, the terms of trade would accumulate three consecutive years of increase.

Graph 28

TERMS OF TRADE

(Accumulated 12 month % change)

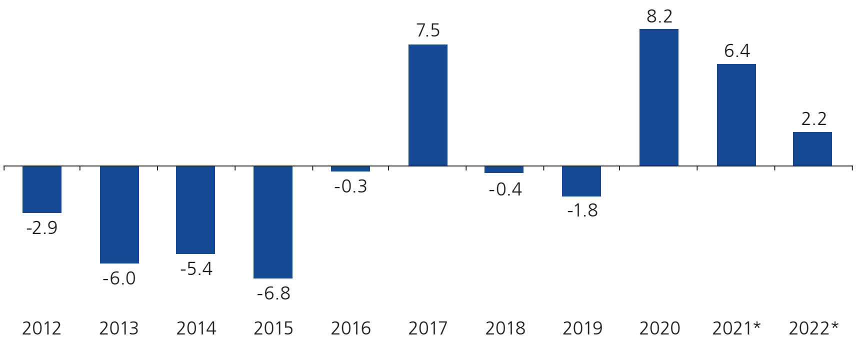


* Forecast.

Graph 29

TERMS OF TRADE: 2012-2022

(Annual average % change)



* Forecast.

Table 14
TERMS OF TRADE: 2020 - 2022

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Terms of Trade					
Annual average % chg.	8.2	5.3	6.4	0.1	2.2
Price of exports					
Annual average % chg.	2.7	9.3	17.8	1.0	0.5
Copper (US$ cents per pound)	280	329	390	329	390
Zinc (US$ cents per pound)	103	123	127	124	129
Lead (US$ cents per pound)	83	90	95	91	97
Gold (US$ per troy ounce)	1770	1850	1801	1873	1798
Price of imports					
Annual average % chg.	-5.1	3.8	10.7	0.9	-1.7
Oil (US$ per barrel)	40	43	58	44	54
Wheat (US$ per ton)	186	209	237	211	232
Maize (US$ per ton)	137	165	202	159	180

* Forecast.

External financing

19. In 2020, external financing in the **private financial account** amounted to US$ 543 million, US$ 4.97 billion less than in 2019, due to lower direct and portfolio investment in the country, as well as due to lower loan disbursements, in line with the lower dynamism of private investment, greater uncertainty associated with COVID-19, and a greater preference for domestic credit. On the asset side, there was also an inflow of resources associated mainly from the AFPs' sale of their portfolio assets abroad to meet their affiliates' withdrawals of funds. On the other hand, the flow of **short-term capital** was negative by US$ 839 million in 2020 –which contrasted with the inflow of US$ 618 million registered in 2019– due to the increase in banks and the non-financial sector's assets abroad.

    The continuity of expansionary fiscal and monetary policies, which have led to an increase in liquidity and a cycle of low interest rates, would determine the international context in 2021. Another factor determining this situation is the recovery in activity and the boost in the terms of trade, which would imply higher profits. Because this is associated with greater foreign direct investment (FDI) in the country, **external financing for the private sector** is revised up in 2021.

This report considers a scenario of risk reduction around the negative impact on the global economy of the COVID-19 crisis due to the start of the vaccination process and due to lower political tensions after the result of the elections in the United States, which would increase optimism and boost demand for risky assets from emerging economies. Despite this reduction in global uncertainty, however, the lower interest rate differential between the emerging and the developed economies would imply a gradual recovery of portfolio investment in the country by 2022. In this scenario of greater preference for domestic financing and in local currency, together with the evolution of investment, long-term net amortizations are expected to remain high in the forecast horizon.

Therefore, long-term capital would remain one of the main sources of financing the balance of payments in the projection horizon, mainly with higher net portfolio investment in public assets, especially in the first quarter of 2021. FDI would show a positive evolution, in line with profits and internal investment. Mining investment in the projection horizon include the projects of Mina Justa and the Expasion of Toromocho, as well as investments in infrastructure projects, such as Line 2 of the Lima Metro, the expansion of the Jorge Chávez Airport, the San Martín Port Terminal, and the North Pier of Callao, among others. In additon, the completion of the Quellaveco project and the start of Yanacocha Sulfuros are expected in 2022.

Table 15

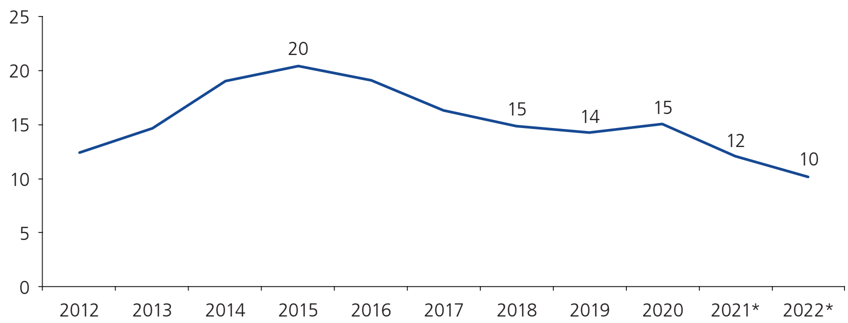
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR

(Million US$)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
PRIVATE SECTOR (A + B)	**-4,404**	**-2,942**	**-3,149**	**-1,267**	**-861**
% GDP	*-2.2*	*-1.3*	*-1.4*	*-0.5*	*-0.3*
A. LONG-TERM	**543**	**-2,942**	**-2,849**	**-1,267**	**-896**
1. ASSETS	**319**	**-2,800**	**-3,116**	**-3,736**	**-4,022**
2. LIABILITIES	**224**	**-142**	**266**	**2,470**	**3,126**
Foreign direct investment in the country	3,141	2,738	3,863	4,909	4,059
Long-term loans	-3,377	-2,843	-3,087	-2,939	-2,802
Portfolio investment	459	-37	-509	500	1,869
B. SHORT-TERM 1/	**-4,946**	**0**	**-299**	**0**	**35**

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

Graph 30
BALANCE OF MEDIUM- AND LONG-TERM PRIVATE EXTERNAL DEBT: 2012 - 2022
(% GDP)



* Forecast.

20. The **public financial account** showed a positive balance of US$ 9.81 billion in 2020 as a result of issuances of global bond for a total of US$ 7.00 billion, the use of credit lines with international organizations to finance the higher spending associated with the health emergency (US$ 2.13 billion), and non-residents' higher purchases of sovereign bonds (US$ 1.57 billion), especially during the third quarter of the year.

    Moreover, the public financial account for 2021 has been revised up due to the issuance of global bonds. A greater participation of non-resident investors in the purchases of sovereign assets is envisaged by the second half of 2021, after the elections in the country and the easing of global monetary conditions. In addition, 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 less uncertainty and greater growth in world activity after overcoming the supply shock of COVID-19 .

Table 16
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR
(Million US$)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
I. Disbursements1/	**9,977**	**2,054**	**8,137**	**710**	**710**
II. Amortization	**-935**	**-551**	**-550**	**-908**	**-908**
III. Net external assets	**-291**	**-140**	**-113**	**-140**	**-140**
IV. Other transactions with Treasury Bonds (IV = a - b)	**1,057**	**3,797**	**370**	**2,567**	**2,067**
a. Sovereign Bonds held by non-residents	1,565	3,797	720	2,567	2,067
b. Global Bonds held by residents	508	0	350	0	0
V. TOTAL (V = I+II+III+IV)	**9,808**	**5,161**	**7,845**	**2,230**	**1,729**

1/ Includes bonds.
* Forecast.

21. 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. The Peruvian economy shows high-levels in these indicators thanks to the preemptive accumulation of international reserves.

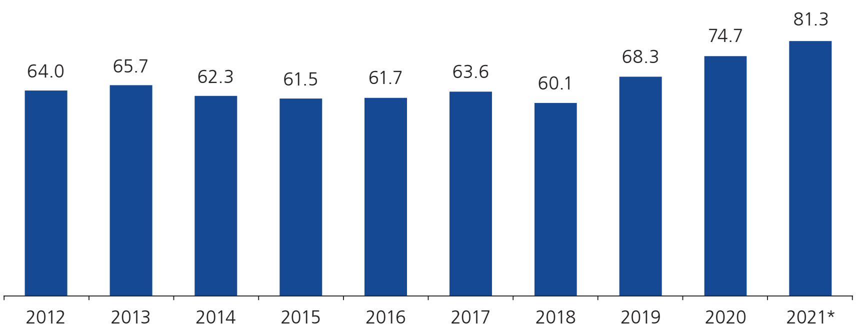
Table 17
NIR INDICATORS

	2017	2018	2019	2020*	2021*	2022*
NIR as a % of:						
a. GDP	29.7	26.7	29.6	36.7	34.9	32.5
b. Short-term external debt 1/	405	347	501	545	573	579
c. Short-term external debt plus current account deficit	344	285	398	587	574	585

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

22. As of March 15, the country's **net international reserves** (NIRs) have increased by US$ 6.57 billion to US$ 81.28 billion compared to the end of 2020. This is explained by the increase of US$ 3.49 billion in financial entities' deposits in foreign currency at BCRP and by the increase of US$ 3.55 billion in public sector deposits.

Graph 31
NET INTERNATIONAL RESERVES: 2012 - 2020
(Billion US$)



* As of March 15.

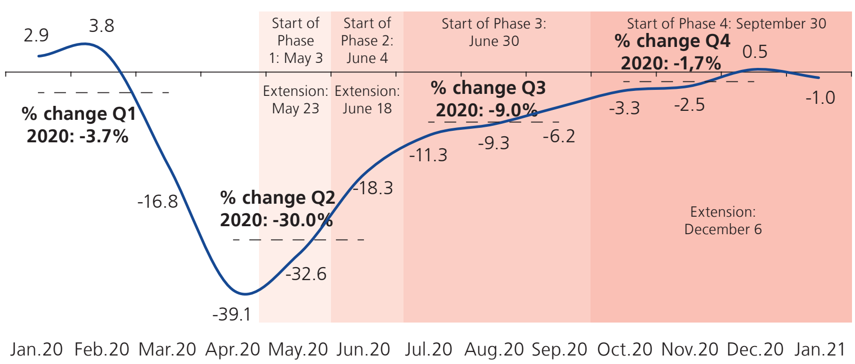
III. Economic Activity

Sector GDP

23. After 21 years of continued growth in the Peruvian economy, the establishment of one of the strictest quarantines in the world caused a contraction of 11.1 percent in 2020, a rate of economic decline not seen since 1989 (-12.3 percent). After the first cases of COVID-19 were detected in the country in March, a lockdown was imposed on most production sectors, leaving in operation only those considered essential.

Economic recovery in the second half of the year took place at a faster rate than expected, with the gradual resumption of operations in the locked down sectors and the easing of mandatory immobility. Fiscal and monetary policies also played a crucial role for economic reactivation, the role of the former being essential through transfers, subsidies and guarantees for credit programs. Monetary policy, on the other hand, became highly expansionary, encouraging private credit through a rapid reduction of the benchmark interest rate to historical lows, as well as through the implementation of a wide range of liquidity injection measures to help businesses meet their short-term financial requirements and incentivize in this way economic recovery.

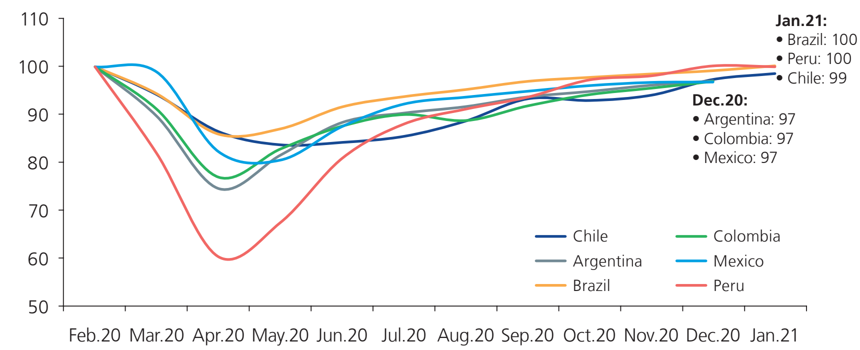
Graph 32
REAL GDP
(Annual % change)



Memo: 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.

24. As a result of the strict lockdown, economic activity in Peru contracted at a higher rate than the economies of its peers in the region in the second quarter of 2020, registering therafter a relatively rapid recovery compared to other countries. Thus, in seasonally adjusted terms, the GDP index in January remained unchanged with respect to the level prior to the pandemic, with which activity has recovered more quickly than the economic activity of our neighbors in the region.

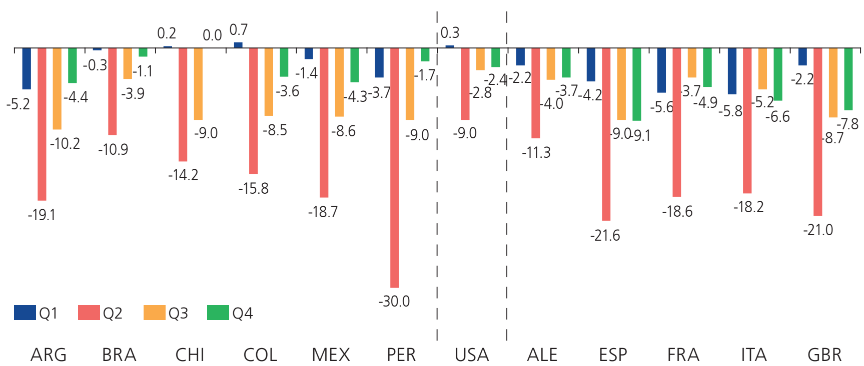
Graph 33
ECONOMIC REACTIVATION OF LATIN AMERICA, 2020
Seasonally adjusted GDP index, Feb-20 = 100



Source: Central banks and statistical institutes of each country.

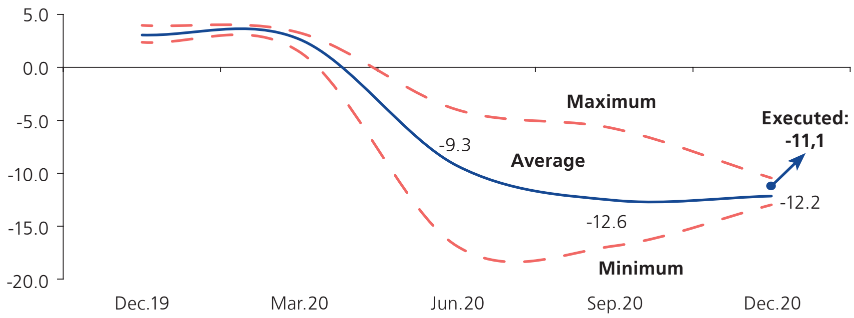
In quarterly terms, the Peruvian economy in the last quarter of 2020 was 1.7 percentage points below the level it recorded in the same period in 2019, showing the highest rate of recovery after Chile and Brazil. Along the same lines, several analysts gradually corrected up their expectations regarding the evolution of GDP in 2020 in the last months of the year, reversing the pessimism registered in mid-2020.

Graph 34
GLOBAL ECONOMIC REACTIVATION, 2020
Gross Domestic Product, Annual Real % change



Source: Central banks and statistical institutes of each country.

Graph 35
CONSENSUS FORECASTS: REAL GDP FORECAST OF PERU, 2020
(Annual % change)

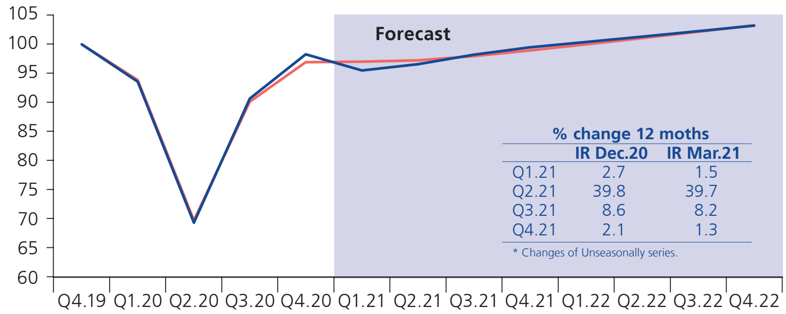


Source: Consensus Forecasts.

25. New targeted health measures were adopted in the face of a second wave of COVID-19 infections. On January 27, the government announced that, as from the last day of the January 2021, a new focused quarantine would begin based on the number of infections and the availability of ICU beds in each region of the country. Regions were classified into three different levels of risk: high, very high and extreme. The restriction measures of this quarantine were relaxed in the first half of March.

26. Economic activity would register an increase of 10.7 percent in 2021. A lower rate of growth of local activity is expected in comparison to that foreseen in the previous Report due to the targeted measures recently adopted to contain the spread of the virus in the second wave and due to the more gradual recovery of primary activity. This factor would be concentrated in the first quarter of the year, normalizing thereafter throughout the projection horizon, favored by an environment of macroeconomic stability and massive vaccination of the population as from the second half of 2021. Thus, in the fourth quarter of 2021, GDP would remain 1.0 percent below its pre-pandemic level (Q4-2019).

Graph 36
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 Dec.20	100	94	70	90	97	97	97	98	99	100	101	102	103
IR Mar.21	100	94	69	91	98	96	97	98	99	100	101	102	103

27. The growth projection for 2021 has been revised down from 11.5 to 10.7 percent, considering a slower recovery in domestic demand as a result of a less favorable evolution of activities in the services sector. In general, GDP growth during this year would be supported by the recovery of both the primary and non-primary sectors, amid a context of political and social stability. This scenario assumes a massive distribution of vaccines during 2021 as well as a decreasing trend in the rate of infections in the country.

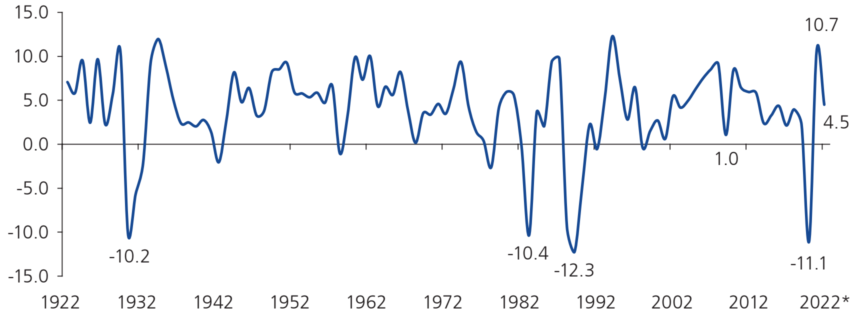
Table 18
GDP BY PRODUCTION SECTOR
(Real % change)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Primary GDP	**-7.7**	**9.5**	**7.4**	**4.6**	**5.7**
Agriculture and livestock	1.3	2.7	1.8	3.0	3.0
Fishing	2.1	8.5	7.2	4.7	4.7
Metallic mining	-13.5	14.4	11.0	4.8	6.9
Hydrocarbons	-11.0	6.8	6.5	9.0	9.0
Based on raw materials	-2.6	8.0	6.7	4.8	5.1
Non-Primary GDP	**-12.1**	**12.0**	**11.7**	**3.8**	**4.2**
Non-primary industries	-17.3	16.9	18.1	2.0	2.0
Electricity and water	-6.1	7.9	7.5	2.3	2.3
Construction	-13.9	17.4	17.4	3.8	3.8
Commerce	-16.0	18.4	18.0	3.3	3.3
Services	-10.3	9.5	8.9	4.3	4.8
GDP	**-11.1**	**11.5**	**10.7**	**4.0**	**4.5**

IR: Inflation Report.
* Forecast.

In the forecast horizon, the economy would continue to grow at a rate of 4.5 percent in 2022. The mass vaccination process in the second half of 2021 is expected to allow a rapid recovery of economic activity in 2022, contributing to the normalization of spending habits that will reactivate activity in the services sector and generate a recovery in employment. Furthermore, private saving, which reached a historical high of 24.0 percent of GDP in 2020, would allow financing the recovery of private consumption. A scenario with an adequate business environment and macroeconomic stability is assumed in the projection horizon. With this pace of recovery, economic activity would reach pre-pandemic levels during the first quarter of 2022, although economic activities related to tourism and restaurants are estimated to reach pre-crisis levels in 2023.

Graph 37
TOTAL GDP, 1922-2022
(Annual % change)



* Forecast.

a) The **agricultural sector** grew 1.3 percent in 2020 due to the fact that its operations continued because the sector is linked to the supply of basic goods. Accumulating sixteen years of continuous growth, the sector's growth in 2020 was supported by the recovery of rice production in the north –favored by better weather conditions than in the previous season– and by larger cultivation areas for grapes, avocados, and blueberries. This result was offset by a slowdown in the demand for poultry in the context of the pandemic.

The sector's projected growth rate has been revised from 2.7 to 1.8 percent. This correction is due, on the one hand, to the lower dynamism of poultry activity, due to the quarantine in February, while activity in the agricultural subsector would be affected by weather variability in potato production (drought, frost, and excess rain) and by the water deficit at the beginning of the season in products cultivated in the north coast (rice, lemons, hard yellow maize, and mangos). The impact of these factors on agricultural production would be offset by favorable expectations of higher coffee and cocoa harvests, driven by better prices for these crops, and by greater harvests of grapes, avocados, and blueberries, due to the increase in areas and yields.

Output in this sector is projected to grow 3.0 percent in 2022 due to the recovery of the production of the north coast after the water deficit of 2021, to continuity in the increase in agricultural yields of export-oriented production (grapes, avocados, and blueberries), and improvements in poultry meat production.

b) Activity in the **fishing sector** grew 2.1 percent in 2020 due to a higher catch of anchovy for industrial consumption (27.6 percent). This growth was partially offset by lower fishing for indirect human consumption (-16.1 percent), which is explained by lower activity in restaurants a as well as by mobility restrictions, especially during the second quarter of 2020. In the fourth quarter the fishing sector grew 35.0 percent –a rate higher than the 11.8 percent year-on-year growth of the previous quarter– due to greater anchovy catch (industrial consumption) after the cancellation of the second anchovy fishing season in the north-central zone in the same month of 2019. The second season of 2020 anchovy fishing season in the north-central zone ended on January 25, with a catch of 88 percent of the quota.

Growth rates of 7.2 percent and 4.7 percent are expected in 2021 and 2022, respectively, in line with normal weather conditions and historically average anchovy catches.

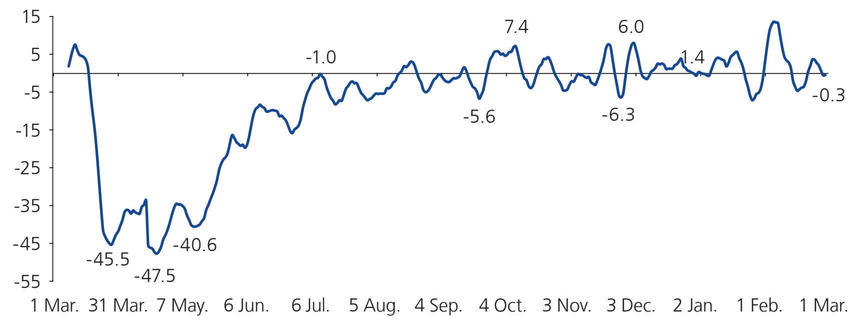
c) The **metal mining sector** contracted 13.5 percent in 2020, due to lower copper and gold production. The production of copper was affected by the restrictions imposed by the government since March 2020, which had an impact on the extraction of most of the mines. Southern and Chinalco increased their production, compared to the previous year, due to the expansion plans of Toquepala and Toromocho-phase 1, respectively. On the other hand, a general drop was observed in gold production due to lower extraction in most large and medium-sized mining companies, the lower production of Yanacocha, Buenaventura, and Hochschild standing out. The lower output in these two metals was partially offset by an increase in molybdenum due to the higher production of Toromocho and Southern –associated with the higher production of copper–, as well as in Las Bambas as a result of a process carried out between December 2019 and February 2020 to increase efficiencies (debottlenecking process).

The gradual recovery of the sector since April, due to the gradual restart of large-scale mining operations during Phase 1 of the resumption of activities, is reflected in mining companies' electricity consumption. Moreover, the operations of medium and small formal mining companies were resumed in Phase 2 in June, while the rest of mining activities were reactivated in July, with Phase 3.

Graph 38

MINING COMPANIES' DAILY ELECTRICITY CONSUMPTION

(12-months % change of 7-days moving average)



	1-15 Mar.*	16-31 Mar.*	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.21
% change to the same period to the previous year	3.3	-39.3	-58.3	-30.2	-11.9	-4.3	-1.5	-0.5	1.1	1.1	1.1	1.6

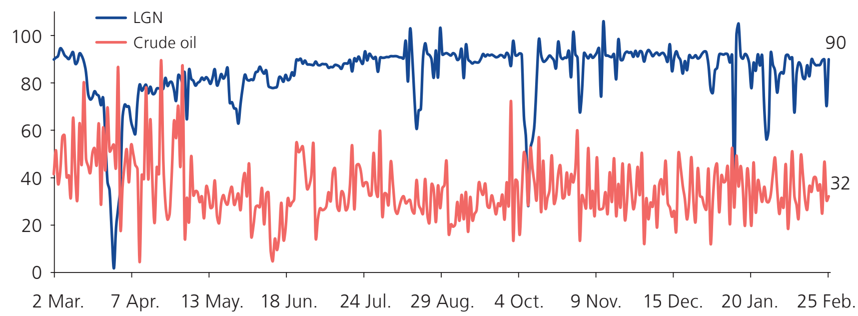
* Calculated respect to the comparable days of the previous year.

In **2021** the sector is expected to grow 11.0 percent due to the higher production of large and medium-sized mining companies and the entry into operation of Mina Justa and the expansion of Toromocho. The projection has been corrected with respect to the previous report due to the lower production plans announced by the main mining companies. In **2022**, the metal mining production would increase 6.9 percent due to the higher production of Toromocho, Mina Justa, Las Bambas (Chalcobamba) and Constancia (Pampacancha), in addition to the entry into operation of Quellaveco project.

d) Activity in the **hydrocarbon sector** decreased 11.0 percent in 2020. Factors explaining this result include the lower internal demand generated by the quarantine imposed in March, the stoppage of operations of the North Peruvian Pipeline, and social conflicts. Oil production dropped 24.9 percent due to the lower extraction of the lots located in Loreto after the operation of the Norperuano Pipeline was suspended and due to operation disruptions as a result of problems with the communities. In addition, the production of natural gas decreased 10.4 percent due to lower activity in lot 88 in response to lower domestic demand, while the production of natural gas liquids decreased 1.8 percent.

Hydrocarbon production has remained below its normal levels during the state of heath emergency. In April, Petroperú announced the suspension of oil transportation through the North Peruvian Pipeline as from May 1. Oil production in the period between May and December has averaged 32 thousand barrels per day (which represents a drop of 41.7 percent compared to the same period of the previous year), mainly due to the stoppage of operations in lots 8, 67, 192 and 95. Moreover, lot 95, which resumed operations at the end of September, has been producing an average rate of 6 thousand barrels per day since then until December 31. Problems with the communities in station 5 of the North Peruvian Pipeline affected production in November and December, but an agreement with the communities was reached on December 23.

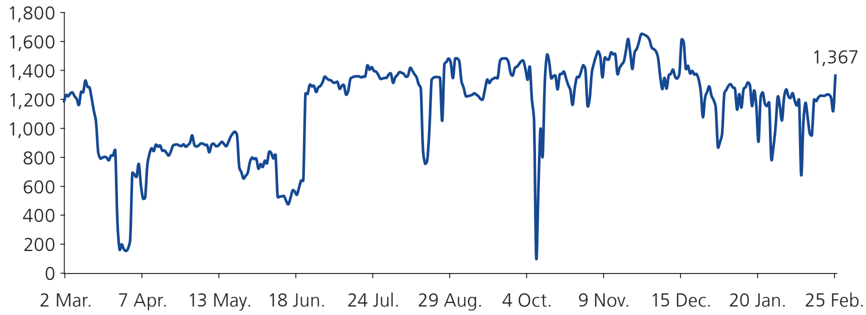
Graph 39
LIQUID HYDROCARBON PRODUCTION
(Thousand of barrels)



	1-15 Mar.*	16-31 Mar.*	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.21
LNG (% chg.)	2.9	-38.5	-3.0	-0.8	-3.3	0.6	2.7	0.7	2.6	1.6	6.1	-1.5
Crude oil (% chg.)	-5.4	2.0	-14.8	-44.2	-40.1	-20.9	-44.6	-50.7	-32.5	-47.5	-47.1	-40.8

* Calculated with respect to the monthly average of the month.

Graph 40
PRODUCTION OF NATURAL GAS
(Milion of cubic feet)



	1-15 Mar.*	16-31 Mar.*	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.21
% chg.	3.0	-50.0	-29.4	-22.1	-25.7	0.4	-13.9	-13.7	-11.6	5.1	9.5	-5.1

* Calculated with respect to the monthly average of the month.

Although the production of natural gas and natural gas liquids has decreased during the quarantine, mainly due to the lower activity in lot 88 (production for the domestic market), it has recovered progressively until December, when the sector registered a 10.9 percent drop.

A growth rate of 6.5 percent is expected in **2021** due to a recovery in domestic demand compared to the previous year. In **2022**, the sector is expected to grow 9.0 percent due to the increase in oil production resulting from increased activity in the lots located in Loreto.

e) Activity in the **primary manufacturing** subsector accumulated a fall of 2.6 percent in 2020, mainly due to lower production of refined petroleum products associated with the closing of the Talara refinery in order to modernize it, as well as due to the lower production of the other refineries because of the pandemic. Oil production has been recovering since the third quarter of the year. The drop in primary ,anufacturing was in part offset by an increase in fishmeal production, in line with a higher anchovy catch during the first fishing season in the north-central zone.

It is estimated that the subsector will grow 6.7 percent in **2021**, favored by the reopening of the Talara refinery, by higher fishmeal production and by the gradual recovery of the branches affected by the lockdown. A growth rate of 5.1 percent is expected in **2022**.

f) **Non-primary manufacturing** fell 17.3 percent in 2020, this contraction being explained by a lower production of investment-oriented and export-oriented goods. The drop in the former was due to negative growth rates in the branches of machinery and equipment, construction materials, and electrical machinery, while the lower production of clothing was noteworthy in the latter. On the other hand, the impact was lower in the case of consumer goods, since essential activities were allowed to operate, which mitigated the impact of the pandemic on the production of these goods. Positive variations standing out in consumer goods included alcoholic beverages, furniture, toiletries and cleaning products, and pharmaceutical products.

Non-primary manufacturing would continue to recover in **2021** with an increase of 18.1 percent, although pre-pandemic levels would not yet be reached. A growth rate of 2.0 percent is projected in **2022**.

g) The **construction sector** fell 13.9 percent in 2020 mainly due to the 66.1 percent drop registered in the second quarter of the year as a result of the lockdown of non-essential activities. As from the third quarter, the progressive recovery of the construction sector has been associated mainly with self-construction projects as people’s spending habits have changed during the pandemic and a greater percentage of their income has been allocated to home improvements and repairs. Activity in the construction sector as a whole is reflected in the domestic consumption of cement, which fell 13.0 percent during 2020.

Recovery in the construction sector is expected to continue in 2021 with a projected rate of 17.4 percent, driven by greater public and private investment projects. In addition, in 2022 activity in the construction sector is expected to increase 3.8 percent.

h) The activity of the **commerce** sector dropped 16.0 percent in 2020 due to lower wholesale and retail sales, and lower sales of motor vehicles. However, the sector has been showing a recovery from the third quarter of 2020 due to economic reopening.

In **2021**, the sector is expected to grow 18.0 percent, in line with higher domestic demand and with a gradual recovery in vehicle sales, driven by the development of e-commerce. Similarly, activity in the sector in **2022** is expected to increase 3.3 percent.

i) Activity in the **services sector** fell 10.3 percent in **2020**, due to less dynamism in the branches of (i) accommodation and restaurants (-50.5 percent) –which were the most affected activities due to the lockdown of the tourism sector and due to the high degree of interaction between people required by the sector, (ii) transportation and storage services (-26.8 percent), and (iii) services provided to companies (-19.7 percent).

The high degree of personal interaction required by most activities in this sector would hinder its recovery in **2021**, especially during the first quarter of the year due to targeted health measures, so the sector would not reach its 2019 levels during this year and would register a growth rate of 8.9 percent. This projection considers a more prolonged impact of the pandemic on the branches related to tourism (e.g. transport, restaurants and accommodation) than in the other subsectors. A growth rate of 4.8 percent is expected in **2022**.

Expenditure-side GDP

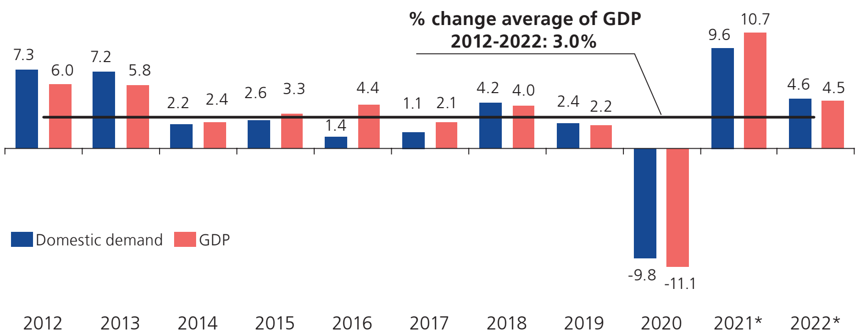
28. Economic lockdown and the immobility decreed by the Government in March 2020 led to a deterioration in the labor market, postponed investment projects, and restricted much of the access to goods and services. Lower local activity translated into fewer exports and expectations became pessimistic due to the advance of infections both locally and globally.

Domestic demand began a gradual process of recovery towards mid-2020, with the resumption of production and the easing of many restriction measures. Since June there has been a reversal in labor market indicators, together with better expectations about the future of the economy, and a resumption of investment projects. Exports have also resumed, in line with the recovery of local and global activity. As a result of all of this, the country's GDP in 2020 registered a fall of 11.1 percent compared to 2019, a contraction rate not observed since 1989 (-12.3 percent).

Activity is expected to gradually recover its pre-crisis level in the projection horizon, driven by the positive effect of fiscal and monetary stimuli on private spending, a greater execution of investment projects, better labor market conditions, higher consumer and business confidence, as well as by the recovery of external demand and the terms of trade. This projection assumes a scenario of macroeconomic stability and mass vaccination of the target population during the second half of 2021.

The pace of economic recovery in 2021 would be slower than expected in the previous report, which is explained by the new targeted restrictions adopted to face the second wave of COVID-19 infections and its negative impact on the dynamics of sales during the first quarter of the year. Consequently, the growth rate projected for 2021 has been revised down from 11.5 percent to 10.7 percent, whereas the rate estimated for 2022 has been revised up from 4.0 to 4.5 percent.

Graph 41
DOMESTIC DEMAND AND GDP: 2012-2022
(Real % change)



* Forecast.

Table 19
DOMESTIC DEMAND AND GDP
(Real % change)

	2020	2021*		2022*	
		IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Domestic demand	**-9.8**	**10.2**	**9.6**	**4.1**	**4.6**
Private consumption	-8.7	8.8	8.5	4.7	4.8
Public consumption	7.5	5.7	3.5	-0.8	3.0
Private investment	-16.5	17.5	15.5	4.5	4.5
Public investment	-17.7	14.0	15.0	4.0	4.5
Change on inventories (contribution)	-0.9	0.0	0.0	0.0	0.0
Exports	**-20.0**	**15.3**	**13.9**	**5.1**	**6.5**
Imports	**-15.6**	**10.1**	**9.2**	**5.5**	**7.3**
Gross Domestic Product	**-11.1**	**11.5**	**10.7**	**4.0**	**4.5**
Memo:					
Public expenditure	0.3	7.7	6.2	0.4	3.4
Domestic demand excluding inventories	-8.8	10.0	9.3	4.0	4.5

* Forecast.
Public expenditure

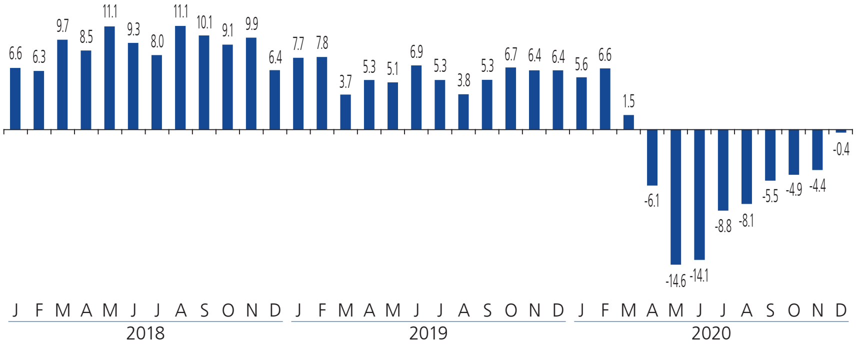
29. Indicators of **private consumption**, specifically those related to the labor market, have shown a consistent evolution with the gradual reopening of the economy. However, other indicators such as imports and household expectations have been affected by the new immobility measures implemented in February in the extreme alert areas.

a) The formal sector wage bill –which is obtained from the universe of formal companies– continued to show lower contraction rates since June and fell 0.4 percent in December. This is associated with the increase in the average remuneration of workers and with the recovery of jobs.

Graph 42

FORMAL WAGE MASS

(Nominal annual % change)



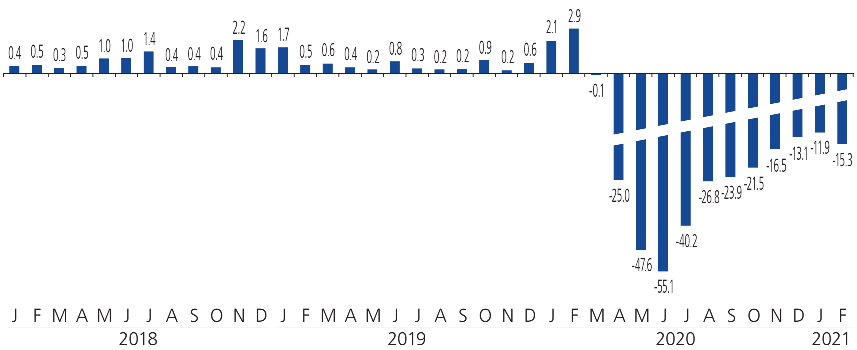
Source: SUNAT- Payroll.

b) In line with the gradual reopening of the economy, the rate of decline in the employed workforce of Metropolitan Lima has progressively decreased from June to January, according to the Permanent Employment Survey. However, the new restrictions decreed to combat the second wave of COVID-19 cases have caused the rate of contraction to register -15.3 percent in the moving quarter to February, which represents a loss of close to 762 thousand jobs compared to the same period of the previous year.

Graph 43

EMPLOYED POPULATION OF METROPOLITAN LIMA, MOVING QUARTER

(Annual % change)



Source: INEI.

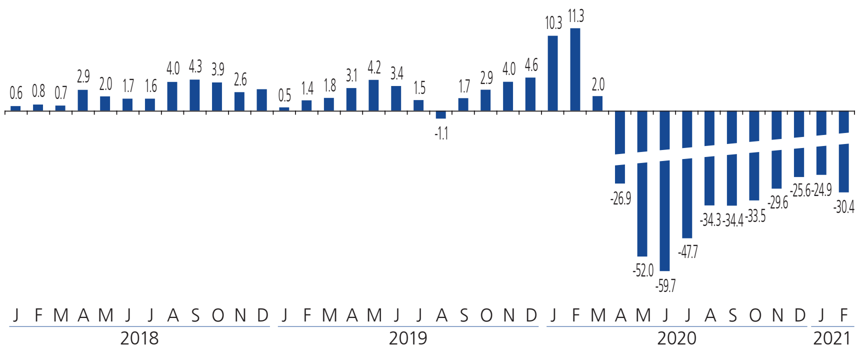
c) The lower number of jobs and the decrease in income compared to the previous year have led the nominal wage bill of Metropolitan Lima to contract by 30.4 percent year-on-year in the moving quarter to February.

Like in the employed workforce, the rate of decline in the wage bill has worsened in the last month as a result of the new restriction measures adopted to contain the pandemic.

Graph 44

WAGE MASS OF METROPOLITAN LIMA, MOVING QUARTER

(Nominal annual % change)



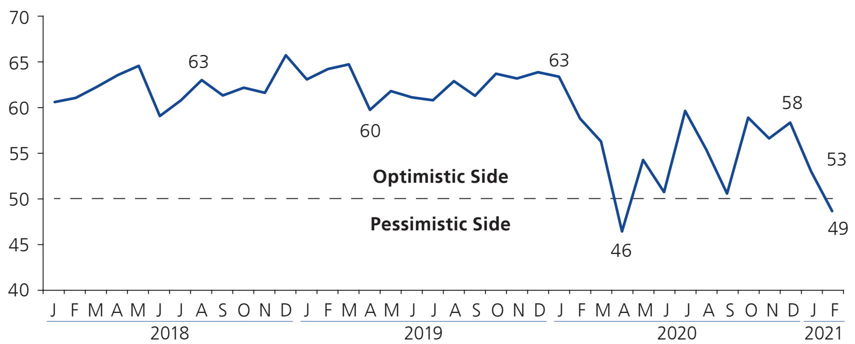
Source: INEI.

d) Consumer confidence, measured as agents' expectations regarding their family economic situation in the next 12 months, decreased for the second consecutive month and fell to the pessimistic side due to the new targeted measures adopted to contain the second wave of infections. Such a decline had not been observed since April 2020.

Graph 45

EXPECTATION ABOUT ECONOMIC SITUATION OF THE HOUSEHOLD IN 12 MONTHS, INDICCA METROPOLITAN LIMA

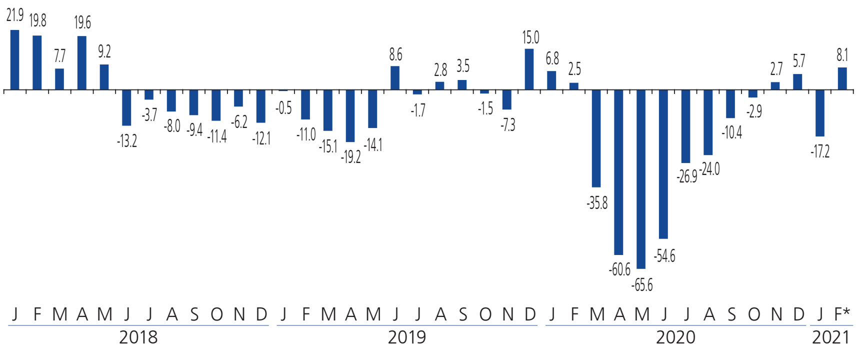
(Diffusion index)



Source: Apoyo.

e) The volume of imports of durable consumer goods recovered in February (8.1 percent), after having contracted 17.2 percent in January.

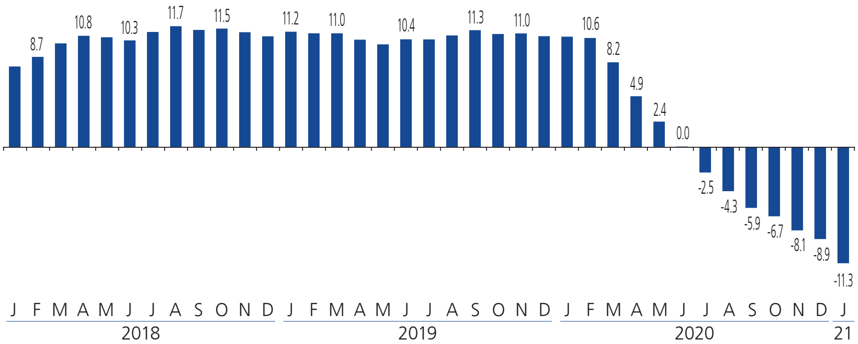
Graph 46
VOLUME OF IMPORTS OF DURABLE CONSUMER GOODS
(Annual % change)



* Preliminary.
Source: SUNAT - Customs.

f) Real consumer credit continued with its contraction and dropped 11.3 percent in January. This drop is explained by a decline in the use of credit cards and by a reduction in car loans.

Graph 47
REAL CONSUMER LOANS
(Annual % change)



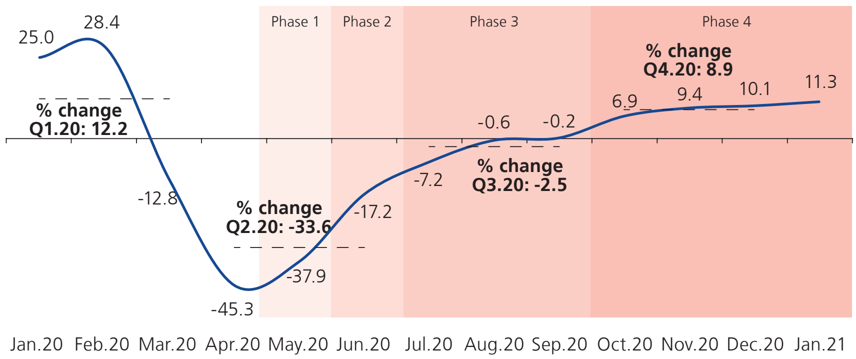
Source: BCRP.

g) The value of electronic receipts in the commerce and services sector in real terms –a high-frequency indicator of private consumption– continued to accelerate its growth rate in January and recorded an increase of 11.3 percent. The reopening of most sectors, together with the stimuli implemented by the government, led the sales of the sectors linked to private consumption to register positive growth rates as from September.

Graph 48

VALUE OF ELECTRONIC RECEIPTS IN THE COMMERCE AND SERVICES SECTOR

(Real annual % change)



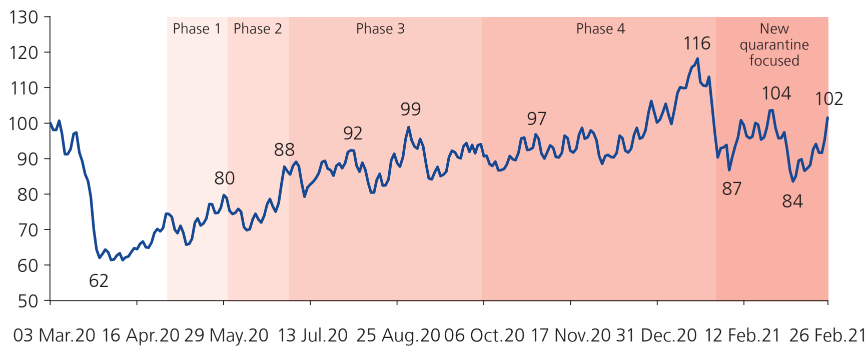
Source: SUNAT.

h) Compared to the levels registered since the beginning of the pandemic, the number of customer transactions carried out through the Real Time Gross Settlement System (RTGS) reached its highest levels around mid-January. However, a decrease has been observed since February due to the new immobility measures. As a result, at the end of February 2021 this indicator was 2.0 percent above the levels observed at the beginning of March 2020.

Graph 49

NUMBER OF CUSTOMER TRANSACTIONS IN THE LBTR

(7-day moving average, index 100 = March 3)



Source: BCRP.

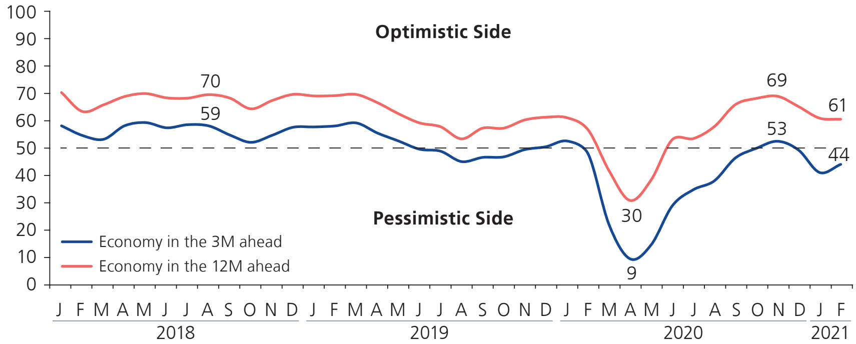
30. After showing a positive evolution since May of last year, most of the leading private investment-related indicators have deteriorated in the last two months due to increased uncertainty associated with the second wave of COVID-19 and the new measures implemented by the Government to face the pandemic.

a) In a context marked in February by the second wave of COVID-19 infections and the new targeted quarantine measures, business expectations about future economic conditions weakened between December and January, with which expectations about conditions in 3 months' time returned to the pessimistic side. Despite this, the announcement of the easing of restrictions allowed a slight recovery of the 3-month indicator in February, while the 12-month indicator remained practically unchanged.

Graph 50

EXPECTATIONS ABOUT THE ECONOMY IN 3 AND 12 MONTHS AHEAD

(Index)



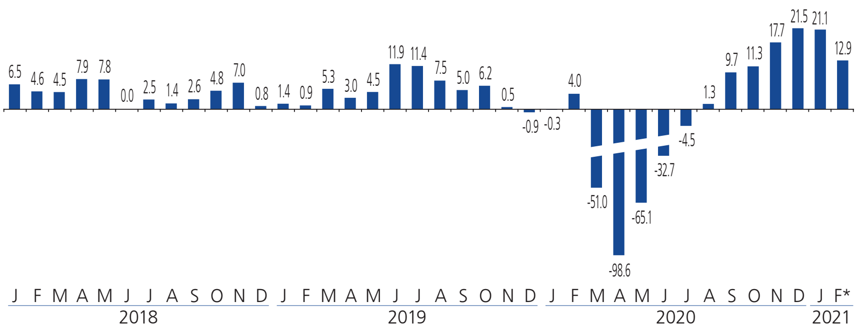
Source: BCRP.

b) Domestic consumption of cement, an indicator related to investment in construction, has continued to grow at high rates in recent months, showing a growth rate of 21.5 percent in December –the highest rate since April 2013 (24.4 percent)– and decreasing thereafter to 21.1 percent in January. This growth rate is estimated to have subdued then to 12.9 percent in February. This behavior is explained, in part, by households' higher allocation of expenses to construction.

Graph 51

DOMESTIC CONSUMPTION OF CEMENT

(Annual % change)



* Preliminary.

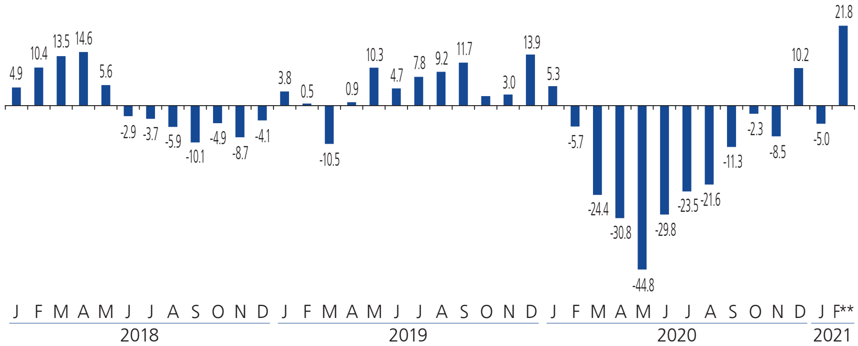
Source: Cement companies.

c) Excluding construction materials and cell phones, the volume of imports of capital goods would have increased 21.8 percent in February.

Graph 52

VOLUME OF IMPORTS OF CAPITAL GOODS*

(12 month % change)



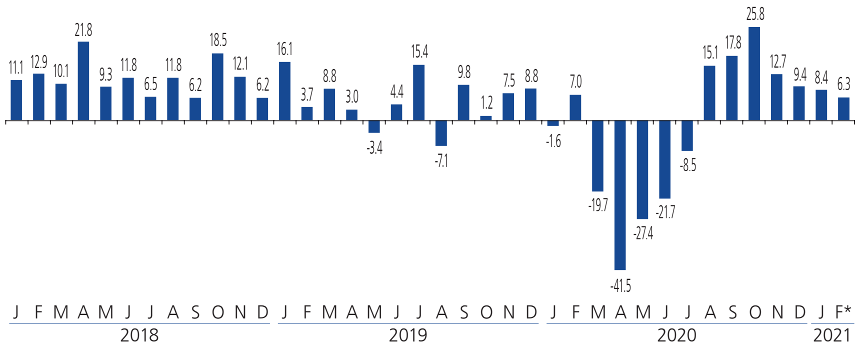
* Excluding materials of construction and mobile phones.
** Preliminary.
Source: SUNAT - Customs.

31. The volume of non-traditional exports continued to register sustained growth and would have recorded a rate of 6.3 percent in February. This increase is explained by higher exports of agricultural, fishing, chemical, textile, and non-metallic mining products.

Graph 53

VOLUME OF NON TRADITIONAL EXPORTS

(12 month % change)



* Preliminary.
Source: SUNAT - Customs.

32. Private expectations regarding GDP growth have been updated in line with economic performance in the first months of the year. The latest **Survey of Macroeconomic Expectations** indicates that agents project a recovery of between 4.1 and 8.9 percent for this year and a stable rate of growth of between 4.0 and 4.3 percent in 2022.

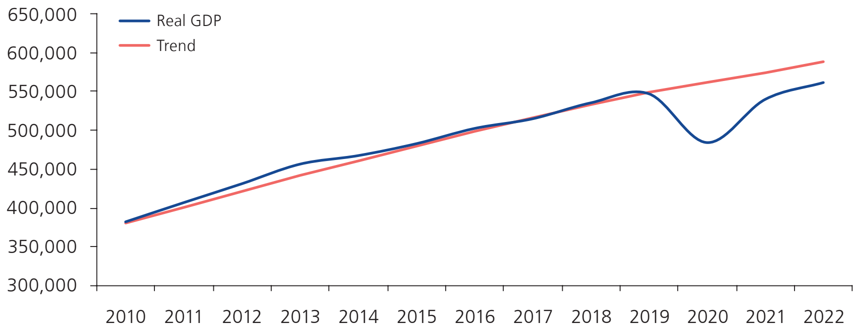
Table 20
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(% change)

	IR,Sep.20	IR Dec.20	IR Mar.21*
Financial entities			
2021	8.0	9.0	8.8
2022	-	4.0	4.2
Economic analysts			
2021	8.0	9.0	8.9
2022	-	4.5	4.3
Non-financial firms			
2021	3.8	4.0	4.1
2022	-	4.0	4.0

* Survey conducted on February 28.
Source: BCRP.

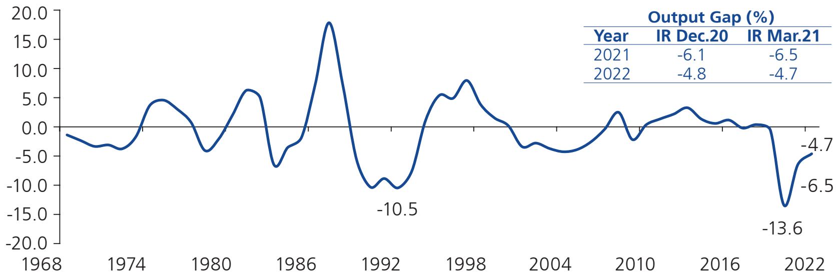
33. The output gap –calculated as the difference between the GDP observed and its (long-term) trend after the COVID-19 shock, would be negative by around 6.5 percent in 2021, recovering partially compared to 2020. This result takes into account the higher accumulation of capital caused by the 15.5 percent increase in private investment and the 15.0 percent increase in public investment, which account for 2.7 and 0.6 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 levels of productivity after human resources are reallocated from the sectors affected by the pandemic 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 companies' financial balance sheets.

Graph 54
REAL GDP AND TREND*
(Millions Soles 2007)



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

Graph 55
OUTPUT GAP
(As a percentage of trend GDP)



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

34. **Private consumption** fell 8.7 percent in 2020 due to the deterioration of the labor market, to restrictions on the access to some goods and services, and to lower consumer confidence compared to the pre-crisis levels. Furthermore, as a result of the new targeted quarantine, the rate of recovery in private consumption would weaken in the first quarter of 2021, this weakening being slightly offset by the 600 Bond granted by the government to the families most affected by the pandemic.

In the following quarters of the year, household spending is expected to resume its recovery pace, driven by better conditions in the labor market, greater access to previously restricted goods and services, and by households' better expectations about the economy in the future. In addition, families are expected to resume their previous spending habits as the vaccination process progresses, supported by the strong increase in private savings registered in the previous year. Thus, private consumption is estimated to show an average growth rate of 8.5 percent in 2021.

In 2022, private consumption would grow 4.8 percent, supported by a context with better terms of trade and a recovery of the labor market, the normalization of economic activity, and a favorable business environment that encourages investment and employment.

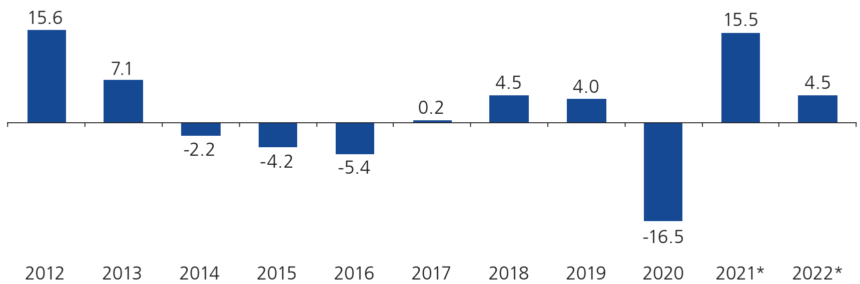
35. **Private investment** fell 16.5 percent in 2020, affected mainly by the lockdown of different investment projects during the first semester and the collapse of business confidence due to the health emergency. Despite this, however, private investment showed a better than expected evolution linked to activity in the construction sector in the second half of the year.

Since the new containment measures decreed during the first quarter of 2021 would have partially halted the progress of some projects, private investment in the first quarter is estimated to grow at limited rates. However, the execution rates of large projects in the mining and infrastructure sectors are expected to accelerate with the easing of restriction measures, the distribution of vaccines against COVID-19, and the recovery of investors' expectations. Thus, private investment would grow

15.5 percent in 2021, a lower rate than that projected in the previous Report (17.5 percent). This scenario assumes a stable social and political environment, with continuity in terms of macroeconomic stability guidelines.

Investment in 2022 is expected to grow 4.5 percent, supported by greater business confidence, favorable long-term financial conditions, and the end of the pandemic scenario.

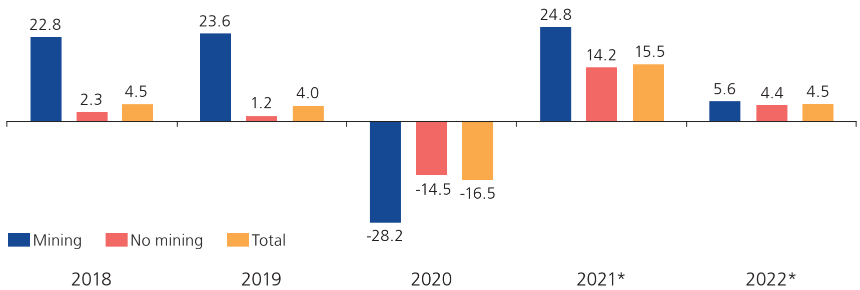
Graph 56
PRIVATE INVESTMENT: 2012 - 2022*
(Real % change)



* Forecast.

a. **Mining investments** in 2020 totaled US$ 4.33 billion, explained mainly by the investment of the mining companies Anglo American Quellaveco (US$ 1.31 billion), Marcobre (US$ 497 million), and Antamina (US$ 319 million). 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 Expansion of Toromocho (US$ 1.3 billion). Additionally, projects such as Corani (US$ 0.6 billion) and San Gabriel (US$ 0.4 billion) are expected to start construction works in 2021, while Yanacocha Sulfuros (US$ 2.1 billion) would do so in 2022.

Graph 57
PRIVATE INVESTMENT
(Annual Real % change)



* Forecast.

b. Investment in **infrastructure** would continue in different projects with the gradual restart of activities in the construction sector. The project of Lima Metro's Line 2 stands out as it continues to advance on 30 fronts simultaneously and, according to OSITRAN, registers a global advance of 35 percent in January 2021. On the other hand, the earthworks required for the expansion of the Jorge Chávez International Airport culminated in December. The company is currently implementing the second phase of the project, which includes the control tower, and expects to start works for the second runway in July 2021. As for the Marcona Port Terminal, Shougang submitted the Modification of the Environmental Impact Study (MEIA) of the project to SENACE 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 for the development of stage 3 in the second quarter of 2021 to continue execution.

Table 21

MAIN ANNOUNCEMENTS OF PRIVATE INVESTMENT PROJECTS: 2021-2022

SECTOR	INVESTOR	PROJECTS
MINING	Angloamerican	Quellaveco
	Marcobre	Justa Mine
	Chinalco	Expansion of Toromocho Mine
	Bear Creek	Corani
	Buenaventura	San Gabriel
	Yanacocha	Yanacocha Sulfuros
HYDROCARBONS	Cálidda Gas Natural del Peru	Wide-Scale Use of Natural Gas in Central ad South Region
	Promigas Surtigas	Wide-Scale Use of Natural Gas in Piura
ELECTRICTY	ISA Peru	500 kV Mantaro - Carapongo
	Engie	Punta Lomitas wind power plant
	CSF Continua Misti	Solar plant in Arequipa
	GAZ Janrgie	Thermal plant in Ica
	Energy Development Corp	Geothermal power plant
INDUSTRY	Fospac	Phosphate plant
	Corporación Aceros Arequipa	Expansion of Pisco Plant
INFRASTRUCTURE	Consorcio Nuevo Metro de Lima	Line 2 of the Metro network of Lima and Callao
	Lima Airport Partners	Expansion of International Airport (Jorge Chavez)
	Consorcio Transportadora Salaverry	Salaverry Port
	Grupo Volcan	Chancay Port Terminal
	Shougang Hierro Perú	Marcona Port Terminal
	APM Terminals	Modernization of Muelle Norte
	DP World Callao	Expansion of Muelle Sur
	Covi Perú	Pucusana-Ica road network

Source: Information on companies, newspaper and specialized media.

c. **Proinversión** reports that investment projects for over US$ 7.1 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$)

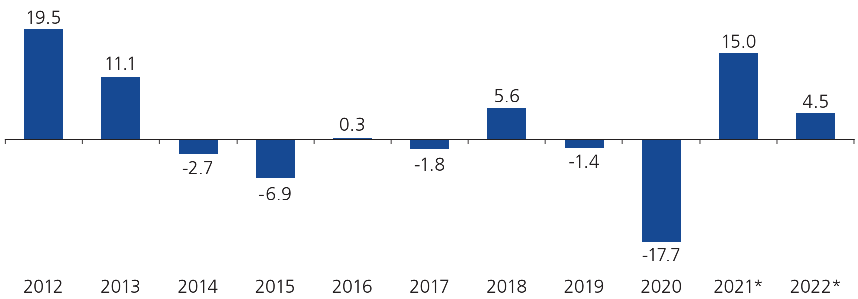
	Estimated investment
To be called	**7,143**
Peripheral Ring Road	1,965
Ancon Industrial Park	750
New San Juan de Marcona Port Terminal	637
Headworks and Conduction for the Drinking Water Supply in Lima	480
Broadband AWS-3 and 2.3 GHz	291
Huancayo - Huancavelica Railway	263
Improvement of Tourist Services 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	158
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	99
Schools at Risk: Villa María del Triunfo	75
High Performance Schools: COAR Centro	60
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, Chincha province	34
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
SITGAS	*
Reque Nueva Carhuaquero	*
Longitudinal of the Sierra road project, Section 4	*

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

36. **Public investment** decreased 17.7 percent in 2020, with the disruption of the execution of projects due to quarantine declared in mid-March accounting mainly for this decline. However, a strong reversal was observed in public investment in the second half of the year due to the higher execution of projects related to the reconstruction of the north, the Arranca Peru program, and other projects after they were authorized to restart their execution.

In 2021 and 2022 public investment is expected to grow 15.0 and 4.5 percent, respectively, as a result of higher spending on Reconstruction works, mainly within the framework of the Government-to-Government Agreement with the United Kingdom, projects of the Arranca Perú program and projects in response to the COVID-19 pandemic, as well as projects included in the National Infrastructure Plan for Competitiveness (e.g. Line 2 of the Lima Metro), important highways (Huánuco-Conococha and Lima-Canta-La Viuda-Unish), the beginning of the execution of projects (northern section of COSAC I and the expressway of Cusco), and other projects that are in the process of overcoming obstacles that affect their restart, among others.

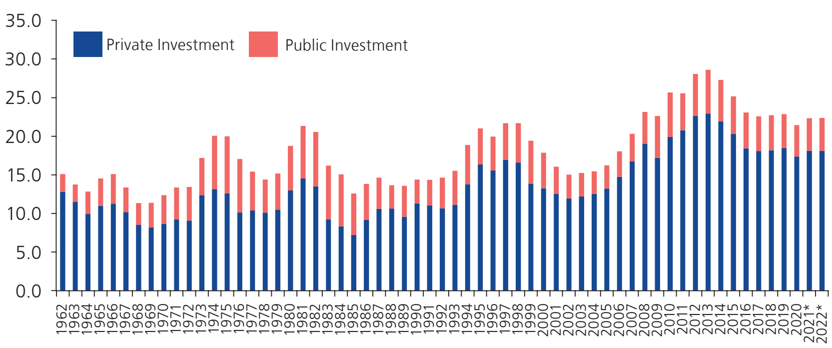
Graph 58
PUBLIC INVESTMENT: 2012-2022
(Real % change)



* Forecast.

37. **Gross fixed investment**, as a percentage of real GDP, would fall 0.5 percentage points of output in 2022 –compared to its level of 2019– and register a level slightly lower than in 2017. Investment is expected to continue growing in the following years, once the economy recovers the levels of economic activity prior to the crisis, which requires preserving economic and financial stability, consolidating an adequate business environment, and carrying out reforms that support productivity in the economy.

Graph 59
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2022
(% of real GDP)



* Forecast.

38. Domestic saving is projected to increase from 19.3 percent of GDP in 2020 to 19.8 percent in 2021 since the increase in public savings would outweigh the decline in private savings. Public savings would increase by 4.6 percentage points of GDP between 2020 and 2021 due to the lower use of State 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 20.0 percent of GDP as a result of higher growth in consumption and the return of spending habits to those observed prior to the pandemic. Moreover, the resumption and greater execution of public and private projects would increase the ratio of gross domestic investment by 1.0 percentage points compared to the previous year. In sum, contrasting with the negative external saving rate of the previous year (0.5 percent of GDP), the external gap would close in 2021.

In 2022, after the normalization of the global health scenario and the recovery of economic activity, public saving would reverse its negative trend due to a lower fiscal deficit, while private saving would decrease 1.6 percentage points. As a result, the external gap would be equivalent to 0.1 percent of GDP.

Table 23

SAVING-INVESTMENT GAP

(% of nominal GDP)

	2019	2020	2021*		2022*	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
1 Domestic Gross Investment 1/	21.5	18.8	19.9	19.8	19.9	19.8
2 Domestic Saving	19.9	19.3	20.0	19.8	20.0	19.9
External Gap (=2-1)	-1.5	0.5	0.1	0.0	0.0	0.1
1.1 Private Domestic Gross Investment 1/	16.8	14.6	15.6	15.5	15.7	15.6
1.2 Private Saving	16.9	24.0	20.2	20.0	18.7	18.4
Private Gap (=1.2-1.1)	0.1	9.4	4.5	4.4	3.0	2.8
2.1 Public Investment	4.6	4.2	4.2	4.3	4.2	4.3
2.2 Public Saving	3.0	-4.7	-0.2	-0.1	1.2	1.5
Public Gap (=2.2-2.1)	-1.6	-8.9	-4.4	-4.4	-3.0	-2.8

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

Box 1
RESIDENTIAL CONSTRUCTION AND THE REAL ESTATE MARKET

Housing construction has experienced significant growth in recent years. According to the Peruvian Chamber of Construction (Cámara Peruana de la Construcción - CAPECO), supply amounted to 37.1 thousand homes in Metropolitan Lima and Callao in 2020, which represents an average annual growth of 10.3 percent since 2000. However, this supply has been insufficient to meet demand. In fact, the demand for housing has been growing faster than supply and there is an estimated housing deficit of at least 1.6 million homes in the country. Some of the possible explanations for this include the following factors:

(i) Lack of mortgage credit, particularly for low-income segments and for those with high labor participation in the informal sector.

(ii) Lack of adequate land. According to Espinoza and Fort (2019), Peru's 43 cities with more than 50 thousand inhabitants have grown by about 50 percent between 2000 and 2018, but more than 93 percent of this urban expansion has been informal, without adequate services and infrastructure[1].

(iii) The sector's potential to attract investment is reduced by inadequate regulations and administrative procedures that are not complied with or are interpreted discretionally by different authorities.

Greater dynamism in residential construction could contribute significantly to economic reactivation, while improving the welfare of the population (the construction sector not only represents almost 6 percent of GDP, but is also an important generator of employment and income). A set of proposals to this end are discussed below.

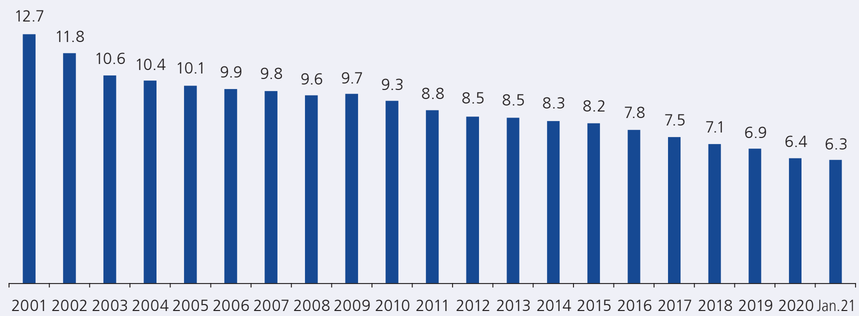
Greater scope of mortgage credit

In general, the mortgage market has shown significant progress in recent years. For example, the balance of mortgage loans has increased from S/ 3.1 billion in 2000[2] (1.8 percent of GDP) to S/ 53.9 billion in 2020 (7.6 percent of GDP, or 14.4 percent of total credit to the private sector), which implies an average annual growth rate of 15.3 percent. Moreover, 88.4 percent of mortgage loans are denominated in domestic currency. In addition, interest rates on mortgage loans are at historically low levels: the average interest rate for this type of loan fell from 12.7 percent in December 2001 to 6.3 percent in January 2021.

1 Espinoza, A. and R. Fort (2019): Mapeo y tipología de la expansión urbana en el Perú. Grade and ADIPerú.

2 Balance in January 2001.

INTEREST RATE ON MORTGAGE CREDITS IN NATIONAL CURRENCY
(%)



Source: SBS.

The government has made significant efforts to reduce the housing deficit by promoting mortgage credit through **Fondo Mivivienda** over the last two decades. Mivivienda programs have been designed to facilitate access to housing with the participation of real estate developers and builders, while families receive support as a reward for their savings efforts. This fund targets the middle class (Mivivienda program) and low-income sectors (Techo Propio program) and their programs have expanded significantly over the last two decades[3]. In 2020, Fondo Mivivienda (FMV) made its programs more flexible to boost mortgage lending and address the effects of the pandemic. The actions taken included, for example, reducing the minimum down payment from 10 to 7.5 percent; increasing the financing term from 20 to 25 years; increasing the Bono del Buen Pagador (BBP); rescheduling the loans; exempting family groups applying for the Bono Familiar Habitacional (BFH, family housing bond) from the minimum savings, and giving a special increase in the BFH for the modalities offered by the New Home Acquisition and Construction on Own Site programs. As a result, the supply increased to 76.8 thousand housing units. Additionally, 49.7 thousand BFH were disbursed between March and June –the third highest disbursement in the entire history of Fondo MiVivienda– despite the lockdown imposed due to the pandemic

Despite this pace of growth, however, mortgage credit in Peru as a proportion of GDP is still relatively low compared to other countries in the region (7.6 percent versus 27 percent in Chile, for instance). On the one hand, **more long-term funding** should be channeled to these operations, taking advantage, for example, of the fact that private sector savings

3 Between 2000 and 2020, the number of loans granted and the amount disbursed of Mivivienda products grew at an average annual rate of 16.3 percent and 21 percent, respectively. As for the Techo Propio program, the number of loans granted (44 thousand in 2020) and the amount disbursed of the Bono Familiar Habitacional (S/ 1.2 billion, a subsidy for beneficiary families as a complement to their savings) grew at annual rates of 21.7 and 27.9 percent, respectively, between 2004 and 2020.

reached record levels in 2020 (24.0 percent of GDP)[4]. In Peru, mortgage loans are financed with deposits and issuances of long-term corporate bonds with good credit ratings. Covered mortgage bonds can help obtain more long-term financing. These bonds are very popular instruments in the European Union as they allow issuers to raise funds in the capital markets at reduced costs, with which they can finance the construction of housing and commercial properties at stable interest rates for borrowers. Although the respective regulations were established in Peru in 2010, their use has not yet become widespread. It is expected that financial institutions will find it more attractive to match the terms and interest rates of their mortgage loans with covered mortgage bond financing as their mortgage portfolios grow.

On the other hand, the growth of the mortgage market requires **greater progress in the segment of low income sectors and people with informal jobs**. Some proposals aimed to improve financing involve incorporating informality into the business models of financial institutions and real estate project developers through the following actions, for example: (i) facilitating the entry of other stakeholders specialized in housing finance (using technology and Big Data to structure viable financing alternatives for people with informal jobs)[5], eliminating inequities and regulatory hurdles; (ii) expanding financial institutions' placement capacity through regulation that encourages the purchase of mortgage portfolios; or (iii) promoting the residential rental market as an alternative to ownership to provide housing for the population that requires it.

Formal urban land with adequate services

Land is another element of any real estate project. However, weaknesses in territorial organization and the lack of instruments prevent the development of a formal supply of adequate land and reduce the capacity to control land invasions. Palomino and Wong (2011) say that the main problem to increase the formal supply of low-cost housing lies in the absence of land suitable for large-scale projects (i.e., oriented to socio-economic levels C and D)[6]. Along the same line, Iberico (2016) states that the cost and size of available land significantly limit the construction of social housing, and that the increase in the price of land in recent years has exceeded the increase in the cost of inputs and labor for construction[7]. It is worth pointing out that while the prices of construction materials rose 40 percent and the cost of labor increased 86 percent[8] between December 2006 and December

4 This figure reflects in part the increase in the balance of savings deposits in the financial system, which grew 22.8 percent in 2020, from S/ 277 billion in 2019 to S/ 342 billion in 2020.

5 For example, successful experiences of housing finance for informal workers have been developed in India using Big Data to identify client typologies and predict their income without having to have documentation of these clients (Universal Housing Project, implemented since 2015). Gwinner, B. (2021) International Housing Trends.

6 Palomino, M. and Wong, R. (2011). "Housing Finance in Perú: What is Holding Back?" Inter-American Development Bank.

7 Iberico, J. (2018). Vivienda social en Lima Metropolitana: el problema de escasez de terrenos. Moneda N° 173. Banco Central de Reserva del Perú.

8 The minimum living wage increased from S/ 500 to S/ 930.

2020, the price of real estate rose 182 percent, driven mainly by the increase in the cost of land.

There is a number of measures that can be implemented in both the short and medium term to solve the problems associated with land. For instance, (i) an urban operator (public, private, or mixed) with administrative, financial autonomy and legal personality could be in charge of the provision of sanitized land fit for the development of social housing projects, and fulfill the functions of a public land bank, a real estate bank and a real estate manager; (ii) investment in basic infrastructure (water and sanitation) and improve the quality of public utilities; (iii) include in the management instruments those that allow a better use of land through a change in urban form; (iv) introduce urban planning obligations in exchange for a better use of land; (v) introduce new methods of land valuation (reference appraisals); (vi) enhance the value of underutilized State land in urban areas; or (vii) introduce mechanisms to facilitate the management and acquisition of private land by public and private agents and improve the financial viability of social housing projects[9].

Regulation and procedures to promote investment in the real estate sector

Investors in the real estate sector encounter a series of regulatory obstacles or excessive bureaucracy that make it difficult to accelerate projects. Rules and procedures that are not complied with or that are interpreted in a discretionary manner by the authorities generate delays in projects, which reduces their profitability and, therefore, diminishes the sector's potential for attracting investment.

Therefore, making adjustments to the regulatory framework for housing construction and financing would allow for greater dynamism in the sector. The following main measures could be adopted to do so: (i) revise the National Building Regulations and general regulations to make them more explicit and clear, so as to avoid subjective interpretation and speed up license approval deadlines; (ii) simplify and digitalize municipal administrative processes so that subjective interpretations are avoided and license approval deadlines are accelerated; (iii) standardize urban planning parameters and make zoning changes more flexible; (iv) promote a greater variety of real estate development products (rental projects, second homes, products for a specific niche), with favorable financial conditions; or (v) mitigate project risk with alternatives to capital contributions (trusts, pre-sales, guarantees, etc.).).

In sum, the impulse to mortgage credit and housing construction in different segments of the population would contribute to a faster recovery of the economy and to greater potential growth in the medium term with the timely and effective implementation of improvements in the funding and scope of financing instruments for housing demand and supply, as well as with improvements in the sector's regulations and in the management of adequate formal urban land.

9 Triveño (2021), La generación de suelo urbano, la hermana perdida de la formalización predial y la nueva generación de proyectos inmobiliarios. Rey de Castro, E. (2021). Inversión en desarrollos inmobiliarios.

Box 2
COVID-19 IN PERU AND AROUND THE WORLD: NEW TARGETED MEASURES

The new confinement measures recently implemented in several countries, including Peru, are outlined in this box. These measures, which consist mainly of mobility restrictions for people and capacity restrictions for certain economic activities, are now applied in a targeted manner in some areas, in contrast to the strict general containment measures applied at the beginning of the pandemic in March 2020. This would imply a lower negative effect on economic activity compared to what was observed last year.

Targeted quarantines as containment measures in several countries

An appropriate combination of Non-Pharmaceutical Interventions (NPIs) can be successful in containing the spread of COVID-19. NPIs are those measures that do not involve the use of drugs or vaccines to contain a pandemic. These interventions include measures that households can take, such as hand washing or voluntary isolation of the sick, as well as social distancing policies, such as the implementation of teleworking, contact tracing for isolation of the sick, restrictions on public gatherings, or even confinement or quarantine, their most extreme form.

On the one hand, although contact tracing has had different results, its effectiveness is greater when there is a low level of community transmission of the virus, so that incipient outbreaks can be controlled. For example, South Korea implemented an aggressive contact tracing system, monitoring its inhabitants through mobile applications, making calls, reviewing security videos, and other measures. In addition to its tracking system, Korea maintains restrictions targeted on economic activities, but has increased mobility restrictions since December due to a third wave of infections. In other countries, however, contact tracing measures have faced obstacles such as a lack of budget, lack of personnel and suitable technology, mistrust of the population to share personal data, and also difficulties in maintaining isolated people who have been in contact with confirmed cases. The ineffectiveness of tracing all contacts in a context of high levels of community transmission has generated criticism due to its high cost (United Kingdom) or the suspension of its use (Ireland)[10].

With respect to quarantine, the targeting of restrictions favors the minimization of economic losses, as opposed to generalized and strict quarantines, which are extremely costly. This approach, on the one hand, mitigates the "COVID-19 fatigue" effect, whereby people become more reluctant to comply with health measures, and, on the other hand, is particularly important in developing countries where the social support

10 Unlike what happens in Korea, contact tracing in the United Kingdom and other Western countries only consists of querying infected persons about their recent personal contacts.

of the State is precarious or insufficient. Because of this, quarantines have been used with relatively successful results, for short periods of time and in a targeted manner, in countries facing a second or third wave of COVID-19 infections, complementing other INFs.

Some research on the impact of the first quarantines of 2020 has provided more information on how to implement them in a way that maximizes their health impact and minimizes their negative effect on the economy. For example, a study developed in the United States[11] highlights two important lessons: (i) the magnitude of the reduction in mobility is almost as important as the timing of when restrictions are imposed; and (ii) a small group of locations cause the most contagion.

However, there is still limited knowledge about the virus and its variants, so there are differences between the containment policies implemented in different countries. For example, developed countries such as Canada, France, and the United Kingdom, have imposed different types of quarantine to curb the "third wave" of Covid-19. **Canada** has established a targeted quarantine in some provinces, allowing mobility to carry out essential activities (work that cannot be carried out remotely, shopping in supermarkets, pharmacies and health services, mainly), restaurant services with delivery and pick-up on the premises, but has suspended in-person classes. In addition, a curfew with different schedules by province has been established and companies must encourage remote work when feasible, under penalty of fines or imprisonment for up to one year. In **France**, there have been delays in the gradual deconfinement process, which was scheduled to take place between December and January, and a curfew has been imposed in some regions since December. The activities of restaurants, gymnasiums, cinemas, theaters and museums are limited (the operating permit was postponed to February), together with the activities of schools in closed environments, theme parks, bars, and discotheques. On the other hand, a national lockdown was announced as of January 4 in the **United Kingdom**, with restrictions on mobility, except for essential purchases, health services, physical exercise and childcare, mainly. Visits between pairs of households helping each other to care for children and people with disabilities were allowed.

In **Colombia**, targeted quarantines have been in place since January 2021. A total mobility restriction was imposed in Bogota at the beginning of January and then extended in the following weeks. These measures may have contributed to slow down the growth of the number of confirmed cases.

11 Chang, S., Pierson, E., Koh, P.W. et al (2020). Mobility network models of COVID-19 explain inequities and inform reopening. Nature. https://doi.org/10.1038/s41586-020-2923-3

QUARANTINES IN SELECTED COUNTRIES

Country	Kind	Date from beginning	Cases totals for million of inhabitants Until March 10, 2021	Thousands of active cases per million inhabitants: Days since the start of the quarantine				Percentage change with respect to the quarantine start date		
				15 days before	As of the start date	15 days later	30 days later	15 days before	15 days later	30 days later
United Kingdom	Total	6 Jan	62,158	15.4	20.8	27.4	28.5	35.1	31.7	4.0
Germany	Total	16 Dec	30,164	3.7	4.3	4.6	4.0	15.7	7.0	-12.3
France	Focused	15 Dec	60,624	30.7	33.0	35.9	39.4	7.3	8.8	9.9
Colombia	Focused	7 Jan	44,600	1.9	2.2	2.4	1.4	12.6	11.9	-41.6
Chile	Focused	10 Dec	45,138	0.5	0.5	0.8	1.1	18.3	39.4	45.8
Panama	Focused	31 Dec	79,281	6.9	10.9	12.6	9.1	59.3	14.7	-27.8
Argentina	Focused	8 Jan	47,706	3.2	3.6	3.7	3.4	13.2	2.8	-9.8
Mexico	Focused	19 Dec	16,463	1.5	1.7	1.7	2.1	14.8	1.8	23.0
Nota:										
Peru	Focused	31 Jan	41,459	1.3	1.4	1.4	1.4	8.1	5.1	-0.2

With data as of March 10, 2021.
Source: World Health Organization and journalistic media.

New targeted measures in Peru

As a result of the increase in the number of COVID-19 cases and deaths in Peru, new mobility restrictions have been implemented since January 15, 2021. These restrictions are based on a classification of the country's areas into zones of moderate, high, very high, and extreme risk, which determine differences in mandatory social immobility and in the capacity of stores and public spaces. Before this, the restrictions on mobility and economic activity were imposed mainly at the national level. The classification of provinces at each risk level and the permitted capacities according to economic activities are reviewed periodically. During February 2021, the measures involved confinements in some regions of extreme risk, including Metropolitan Lima, but some of these restrictions have been gradually reduced since the beginning of March, with mandatory social immobility during night hours only.

The restrictions, including confinement for extreme risk areas in February 2021, follow a targeted quarantine model applied in other countires, with a broader spectrum of essential activities being allowed than between March and April 2020. As a result, only the operation of face-to-face activities that may be sources of contagion is limited, which allows the economy to function more smoothly.

Confinement only in some regions implies that the impact on economic activity would be lower than that of the first quarantine in 2020, since many provinces and departments of the country have allowed the operation of almost all economic activities, but with restricted capacities. **This means that, at the aggregate level, the current restrictions are much less than those applied at the beginning of the pandemic** (March - April 2020), when only a limited number of essential activities were allowed and people's confinement in their homes was much stricter. So the new approach is reflected in greater relative mobility.

RESTRICTIONS ON MOBILITY IN PERU: DECEMBER 2020 VS. FEBRUARY AND MARCH 2021

	December 2020		From Feb 15, 2021 to Feb 28, 2021	From Mar 15, 2021 to Mar 28, 2021
Geographical scope (by risk level)	**To national level**	**In risk areas**	**Extreme**	**Extreme**
Regions o Provinces	Rest of the country	Tumbes, Piura, Lambayeque, La Libertad, Provincia de Santa (Ancash), Lima Metropolitana y Callao	Metropolitan Lima and Callao and some provinces a / in the departments of: Amazonas, Ancash, Arequipa, Apurímac, Ayacucho, Cajamarca, Cusco, Huancavelica, Huánuco, Ica, Junín, Lima, Loreto, Moquegua, Pasco, Puno and Tacna.	Callao and some provinces b / in the departments of: Apurímac, Arequipa, Ancash, Ayacucho, Cajamarca, Cusco, Ica, Junín, Lambayeque, La Libertad, Lima, Loreto, Mother of God, Moquegua, Tacna and Ucayali.
Mobility restrictions				
Social immobilization mandatory: People in their addresses	00:00 a 04:00 hrs	22:00 to 04:00 hrs (For Metropolitan Lima and Callao: 23:00 to 04:00 hrs)	00:00 to 23:59 hrs	21:00 to 04:00 hrs and on Sundays 24 hours
Prohibition of use of Private vehicles	None (except during Christmas and Year New)		Every day	Sundays
Capacity				
Casinos and slots, gyms, cinemas and arts scenic in spaces closed	40%		0%	0%
Performing Arts in open spaces	40%		0%	20%
Shopping centers and general stores	60%	40%	0%	20%
First-class stores need			40%	40%
Restaurants (internal area)	60%		0%	30%
Restaurants (external area)	70%		0%	30%
Places of worship	33%		0%	0%

a / The regions or provinces of Utcubamna in Amazonas; Santa in Ancash; Arequipa, Camaná, Islay and Caylloma in Arequipa; Abancay in Apurímac; Huamanga in Ayacucho; Cutervo in Cajamarca; Canchis and La Convencion in Cusco; Huancavelica in Huancavelica; Huánuco in Huánuco; Ica, Chincha and Pisco in Ica; Huancayo, Tarma, Yauli and Chanchamayo in Junín; Huaura, Cañete, Barranca and Huaral in Lima; Maynas and Ramón Castilla in Loreto; Ilo in Moquegua; Pasco in Pasco; Puno in Puno; and Tacna in Tacna.
b / The regions or provinces of Abancay in Apurímac; Caylloma in Arequipa; Huaráz and Casma in Ancash; Huamanga, Cangallo and La Mar in Ayacucho; Cajamarca and Cajabamba in Cajamarca; Cusco and La Convencion in Cusco; Chincha and Pisco in Ica; Jauja, Chupaca and Chanchamayo in Junín; Lambayeque in Lambayeque; Trujillo in La Libertad; Barranca, Huaral and Huaura in Lima; Maynas in Loreto; Tambopata in Madre de Dios; Mariscal Nieto in Moquegua; Tacna in Tacna; and Coronel Portillo in Ucayali.

According to Google's mobility indicator, with the targeted restrictions implemented in February 2021, there was a smaller drop in mobility to shopping centers and workplaces, compared to April 2020 (-55.1 versus -83.4 percent for shopping centers, and -38.4 versus -73.8 percent for workplaces, compared to the pre-pandemic baseline scenario). The greater flexibility for carrying out economic activities in the first quarter of 2021 allows for better economic performance.

Comparison of economic indicators

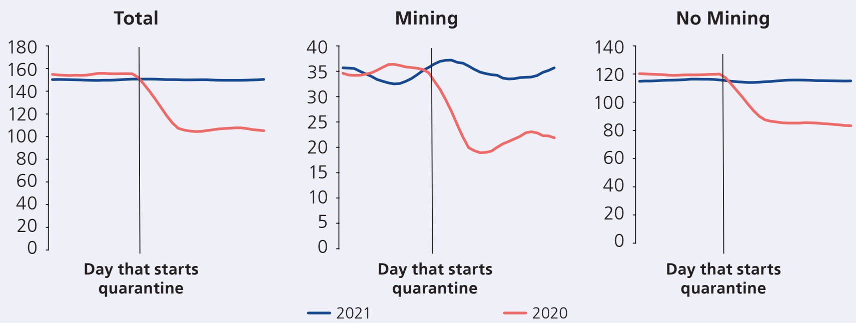
The quarantine implemented in February 2021 would have a lower economic impact than that implemented in March 2020, because the former allowed more activities, such as restaurant and department store deliveries. This is reflected in the main high-frequency economic indicators, which show a smaller drop than in March 2020.

Electricity demand

In the first 23 days of the March 2020 quarantine, the daily electricity demand was 114 GWh, lower than in the first days of the February 2021 quarantine, when demand was 150 GWh. This represents an increase of 31.8 percent compared to March 2020.

Similarly, mining demand for electricity showed levels similar to those recorded before the announcement of the February 2021 quarantine, because mining companies were allowed to continue with their activities, in contrast with what happened in March 2020 when mining companies were only allowed to carry out crucial activities.

ELECTRICITY DEMAND *
(GWh - Average 7 days)



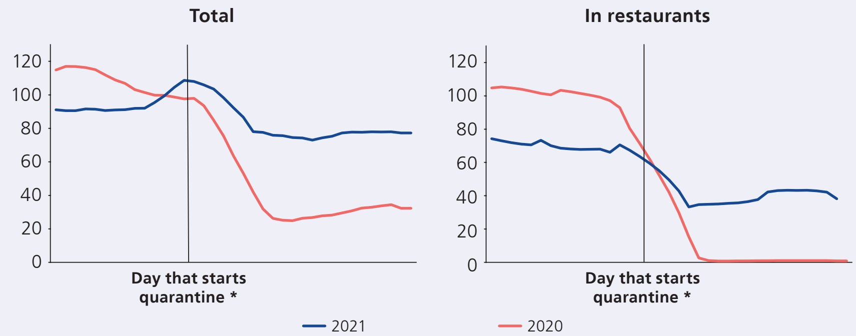
* Quarantine started in 2021 on January 31, and in 2020 on March 15. Data is displayed 15 days before and 23 days after the quarantine started.

Card transactions

The value of total transactions and restaurant transactions decreased significantly more during the 2020 quarantine than during the 2021 quarantine. The total value of transactions declined by a maximum of 75 percent from the day before the 2020 quarantine, whereas the maximum contraction in the 2021 quarantine was only 32 percent from the day before it started, considering that the total transaction value was already above the pre-pandemic level before the quarantine was announced. This smaller drop was due to the fact that restrictions were looser and that retailers developed online sales strategies.

Moreover, the drop in the value of restaurant transactions was greater in the 2020 quarantine than in the 2021 quarantine, the reduction in 2020 being 99 percent while in 2021 it was 50 percent. It is worth mentioning that, in contrast to what is observed in the case of the total value of transactions, restaurant transactions prior to the start of the 2021 quarantine had not yet reached pre-pandemic levels and had been falling due to previous measures (restriction to use cars on Sundays). Another reason explaining the lower drop would be that restaurant delivery services were not allowed at the beginning of the 2020 quarantine, whereas this is an option that restaurants have been developing during the pandemic and that has attenuated its drop in the 2021 quarantine.

TOTAL VALUE OF CARD TRANSACTIONS
(In indices; base period: January 1-March 15 = 100; 7-day moving averages)

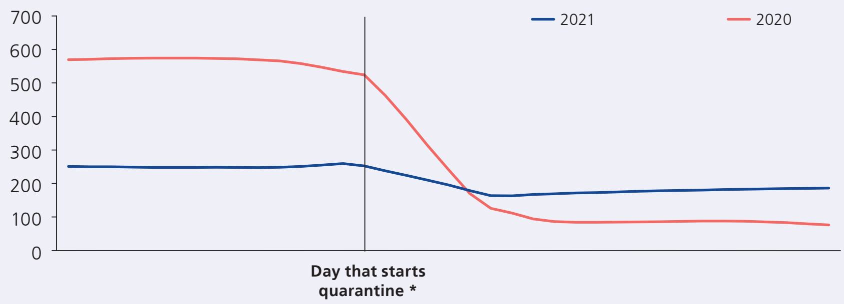


* Quarantine started in 2021: January 31. 2020: March 15.
Last data: 2021-02-22.

Validations of Metropolitano bus tickets

An indicator of the use of public transportation services is the daily number of validations of Metropolitano bus tickets. In 2020, 238 thousand validations were recorded per day on average (which represents a drop of 59.3 percent from the previous year). Furthermore, validations per day dropped to 139 thousand in the 21 days following the announcement of the quarantine on March 15, 2020. In contrast, the validations recorded 21 days after the start of the 2021 quarantine (on January 31) averaged around 183 thousand, a number below the validations in the days prior to the start of the quarantine, but above the levels recorded 21 days after the start of the 2020 quarantine.

DAILY VALIDATIONS OF THE METROPOLITAN
(Thousands of validations; 7-day moving averages)



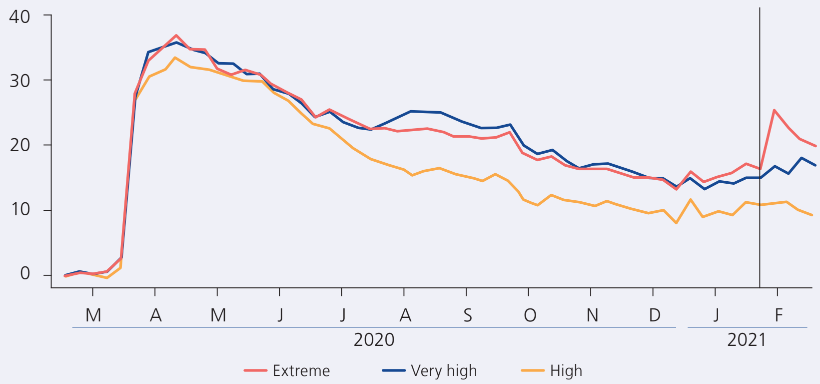
* Quarantine started in 2021: January 31. 2020: March 15.
Last data: 2021-02-22.

Mobility restrictions and Covid-19

The potential positive impact of quarantines would lie in their reduction of people's mobility and therefore, in the number of infections and deaths. The Google mobility indicator has been used to measure the mobility of people. This indicator can be considered a reasonable approximation of how much the population moves around the territory, taking into account that three quarters of the population had a smartphone in Peru in 2019, according to Osiptel. Google's reports point out the variations with respect to a reference period[12] and are subdivided into 6 categories: stores and places of leisure, supermarkets and pharmacies, parks, bus stops, workplaces, and residential areas. It should be pointed out that these indicators have national coverage.

The indicators show that, in the extreme risk regions, where a focused confinement was recently implemented, people stayed longer in their homes, which was reflected in the increase in the mobility index around residential areas, according to information as of February 28. In line with the restrictions indicator, this increase is much lower than that recorded at the beginning of the first quarantine. In the regions with high and very high risk, no significant change was observed, because no general confinement measures were applied, although the curfew start time was brought forward.

MOBILITY INDEX IN RESIDENTIAL AREAS
(By type of risk, from Monday to Sunday)



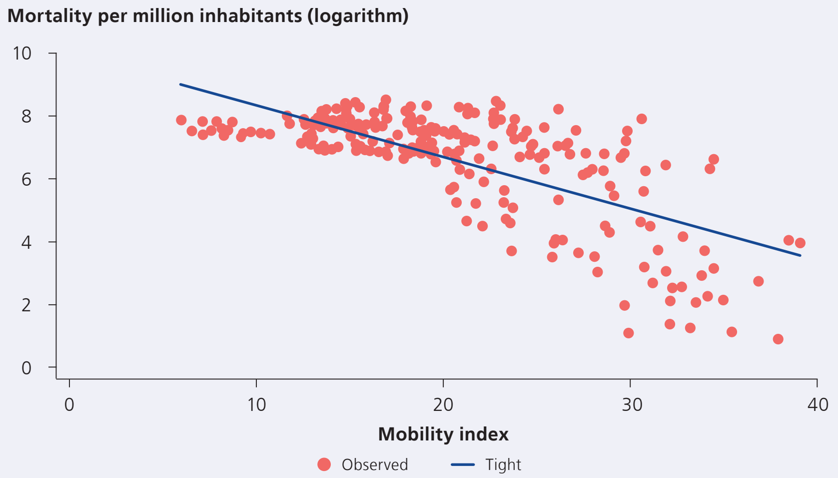
Note: Weighted average according to the population of each region.
Source: Google Mobility.

There is also a negative relationship between staying at home (greater mobility in residential areas) and the number of deaths due to COVID-19, as the following graph reflects. This finding coincides with the results of an initial econometric analysis that uses weekly data from

12 The baseline is the median value for the corresponding day of the week during the 5-week period (from January 3 to February 6, 2020).

the 25 regions of Peru, which found a direct relationship between people's greater mobility to their workplaces and the rate of positivity –the probability of being infected–, the latter being associated with higher levels of mortality. Conversely, when people stay at home more often, the positivity rate and deaths decrease.

RELATIONSHIP BETWEEN MOBILITY AT HOME AND ACCUMULATED DEATHS



Nota: Datos expresados como promedios mensuales desde abril de 2020.
Fuente: Google Mobility y SINADEF.

Box 3
REGIONAL EPIDEMIOLOGICAL TRAFFIC LIGHTS: THE R REPRODUCTION NUMBER AND THE FLOW OF DEATHS

A number of indicators are available to track the evolution of the COVID-19 pandemic, including the *R* reproduction number and the number of deaths per million inhabitants. Since the dynamics of these indicators is not necessarily the same throughout the country, it is useful to monitor them on a daily basis and in real time by region through indicators such as the speed of reproduction of the COVID-19 virus and the intensity of the mortality rate.

R by region

The reproduction number (R) measures the transmission capacity of a disease; in other words, how contagious the disease is. The basic R measures the degree of natural contagiousness of a disease at its onset, while the effective R measures the average number of people who can become infected at time "t" by a secondary case of contagion. If R > 1, the number of new cases increases over time and the disease proliferates, whereas if R < 1, the number of new cases decreases over time and the virus becomes manageable.

The estimation of the effective R for each region is based on the estimated effective R for each department of Peru. The estimation method is the one described in Lahura and Vega[13], which uses real-time daily information on the number of people infected and the number of deaths. Five alternative R numbers, which differ in the number of new infections they use, are estimated for each department. The following table summarizes the main characteristics of the estimates of the actual reproduction number and the sources of information used:

REPRODUCTION NUMBER ESTIMATES R AND FLOW INFORMATION OF INFECTED USED

R	Definition of series of infected	Source
R1	Official number of new infected who were identified with any type of test.	Situation Room MINSA
R1*	Official number of new infected who were identified only with PCR tests.[14]	Open Data MINSA
R2,	Number of new infected estimated from official death figures.	Situation Room MINSA
R3	Number of new infected estimated from excess deaths.	SINADEF
R3*	Number of new infected estimated from excess deaths adjusted for end-of-sample bias correction.	SINADEF

The following table shows an example of the epidemiological traffic light that can be constructed with the regional information of R1* and R3* for the days July 1, July 31, and December 1,

13 Lahura, E and Vega, M. (2020). Estimación del número de reproducción R en tiempo real para el Perú. Revista Moneda 184.

14 PCR stands for "Polymerase Chain Reaction". The PCR test is a diagnostic test that allows the detection of a fragment of the genetic material of a pathogen or microorganism.

2020, and January 15, 2021. The table is called a traffic light because the effective R values are associated with three colors: green if R < 1, which implies that infections are falling; orange if 1 < R < 2, implying that the virus is still multiplying itself, but not doubling; and red if R >2, meaning that the virus continues to spread at a high rate. R>2values are usually observed only at the beginning of an epidemic. The information on all the departments is grouped into four regions: (i) North region: Cajamarca, La Libertad, Lambayeque, Piura and Tumbes; (ii) Central region: Ancash, Callao, Huancavelica, Huánuco, Ica, Junin, Lima, and Pasco; (iii) South region: Apurimac, Arequipa, Ayacucho, Cusco, Moquegua, Puno, and Tacna; and (iv) East region: Amazonas, Loreto, Madre de Dios, San Martin and Ucayali.

Between July 1 and July 31, 2020, which was the period prior to the peak of the first national wave, the reproduction number measured as R1* or R3* increased or remained above 1, which implied that infections were still increasing. The behavior of Covid infections by region was heterogeneous in this first wave. On the one hand, in July, the rate of infection in the North and East regions showed a decreasing trend, while in the South and Central regions it was still increasing.

The table also shows the behavior of this indicator towards the beginning of the second wave. The R1* indicator based on PCR tests shows that at the beginning of December 2020, the R number was already higher than 1, but also that, by the second half of January of this year, it was 1.45, which confirms the second wave. On the other hand, the R3* indicator, based on the number of deaths suspected to have been caused by COVID-19 in SINADEF figures, also shows an increase in the reproduction number from a value of less than 1 to a value of 1.3. in contrast with the first wave, this second wave shows a more homogeneous behavior between regions.

DEPARTMENTAL ESTIMATES OF REPRODUCTION NUMBER BASED IN TESTS AND MORTALITY SINADEF

	Rate of infections based on molecular tests (R1 *)				Rate of infections derived from the rate of mortality (R3 *)			
Region	**1-Jul-20**	**31-Jul-20**	**1-Dec-20**	**15-Jan-21**	**1-Jul-20**	**31-Jul-20**	**1-Dec-20**	**15-Jan-21**
North	0.64	0.82	1.10	1.33	1.04	0.96	1.10	1.10
Central	0.88	1.01	1.09	1.41	1.06	1.02	0.98	1.34
South	1.06	1.15	1.08	1.47	1.07	1.24	0.88	1.42
East	1.21	0.94	0.90	1.59	0.83	0.88	0.85	1.45
Peru	**0.88**	**1.01**	**1.07**	**1.45**	**1.02**	**1.03**	**0.97**	**1.29**

Source: MINSA and SINADEF.,

Mortality by region

Another key indicator in COVID-19 monitoring is the daily mortality rate. The following table shows a regional traffic light based on the increase in the number of deaths per million inhabitants recorded in SINADEF. In the traffic light, red denotes an increase of more than 4 in the number of deaths per million people between the two adjacent dates. Amber denotes a growth in the number of deaths per million inhabitants between 0 and 2 (slight increase), while green denotes a fall in the number of deaths. For example, the traffic light at the country level on July 31, 2020, was amber as deaths per million inhabitants increased from 13.5 at the beginning of the month to 15.5 on July 31.

As shown by the reproduction number indicators, the mortality rate is also heterogeneous in the first wave of the outbreak. While mortality in the North and East regions is already in decline, it is increasing in the central and South regions. Towards the beginning of December 2020, all the traffic lights turn green, which shows that mortality reached minimum values at the national and regional levels compared to the levels observed at the end of July 2020.

The traffic lights for the first two weeks of January of this year show that mortality increased uniformly in all regions compared to December 1, 2020. Like the information provided by the reproduction number estimates, the mortality rate in this perod of January shows the homogeneous start of the second wave of Covid-19 in the country.

DAILY MORTALITY PER MILLION INHABITANTS BY DEPARTMENT

Department	1-Jul-20	31-Jul-20	1-Dec-20	15-Jan-21
North	12.2	10.2	3.2	5.7
Center	17.2	19.7	2.3	9.0
South	6.1	18.0	1.4	4.9
East	10.3	6.2	1.0	1.2
Peru	**13.5**	**15.7**	**2.1**	**6.9**

Memo: Mortality is measured as the 7-day moving average of the flow of deaths per million inhabitants.
Source: MINSA and SINADEF.

Conclusion

The dynamics of the pandemic can be clearly seen combining the regional traffic light for the R number with the mortality traffic light. These indicators reflect that the dynamics of the pandemic was heterogeneous in the first wave, with the East and North regions reaching peaks earlier than the Central and South regions. On the other hand, the onset of the second wave of the pandemic is more homogeneous across regions.

IV. Public Finances

39. The fiscal deficit increased from 7.6 to 9.1 percent of GDP between November 2020 and February 2021. This increase in non-financial expenditure reflected the measures taken to face the increase in COVID-19 infections and also include the new measures adopted in 2021 in response to the second wave of COVID-19. On the other hand, current income as a percentage of GDP remained relatively stable.

    The higher non-financial expenditure resulted mainly from current expenses, among which the following stand out: fund transfers for the second universal bond and the electricity bond in 2020 and the 600 Bond this year; expenses in goods and services, such as the acquisition of supplies and the hiring of health personnel, as well as the local governments' expenses in the maintenance of neighborhood roads; and expenses in salaries and wages due to the economic reactivation bonus granted to public sector workers and bonuses for health personnel in the framework of the health emergency.

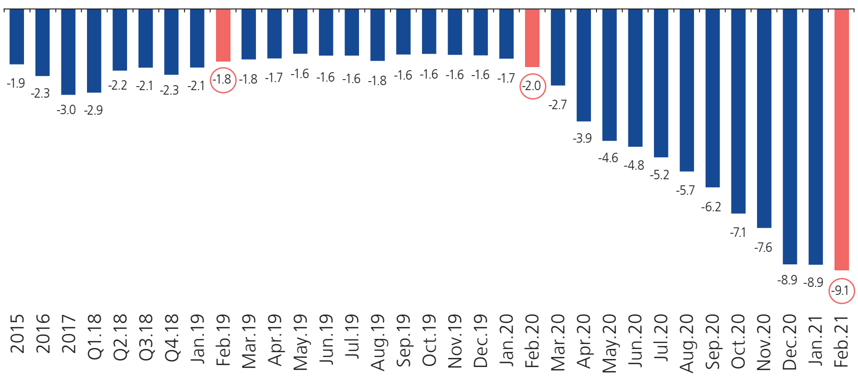
    Capital expenditures standing out include the transfer to the Mivivienda Fund for the Family Housing Bonus and the Good Payer Bonus, and the transfer from the Autoridad de Transporte Urbano para Lima y Callao (ATU) to private operators, associated with the release and reorganization of areas for the execution of Lima Metro's Line 2 project. Similarly, the following stand out in terms of expenditure on gross capital formation: expenditure associated with the execution of projects within the framework of the Reconstruction Program, with actions to face COVID-19, and with the program Arranca Peru in charge of local governments, as well as large-scale projects such as Lima Metro's Line 2, among others.

    As for current revenues, the increase in tax revenues stands out. This increase reflected economic reopening and the recovery of domestic demand as well as the increase in international metal prices. By components, the increase seen in revenues from the VAT, from the regularization of the Income Tax, the Special Mining Tax, and the excise tax was noteworthy, while the increase in revenues from the oil canon and oil royalties and from mining royalties stand out among the non-tax revenues, together with higher transfers of profits from public entities.

Graph 60

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015 - 2021

(Accumulated last 12 months - % GDP)

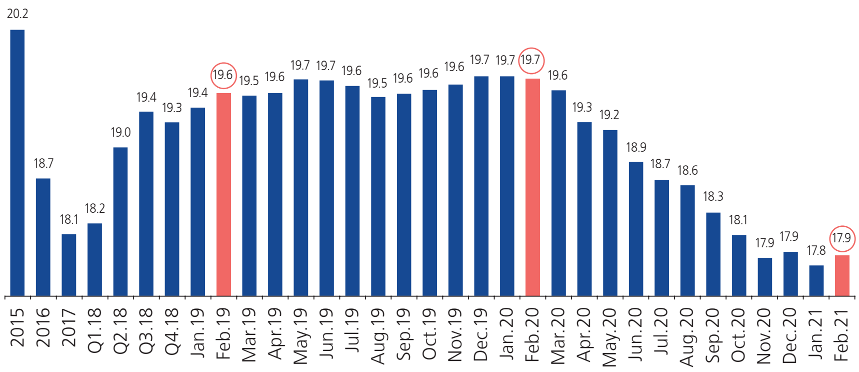


Source: MEF, Sunat and BCRP.

Graph 61

CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2015 - 2021

(Accumulated last 12 months - % GDP)

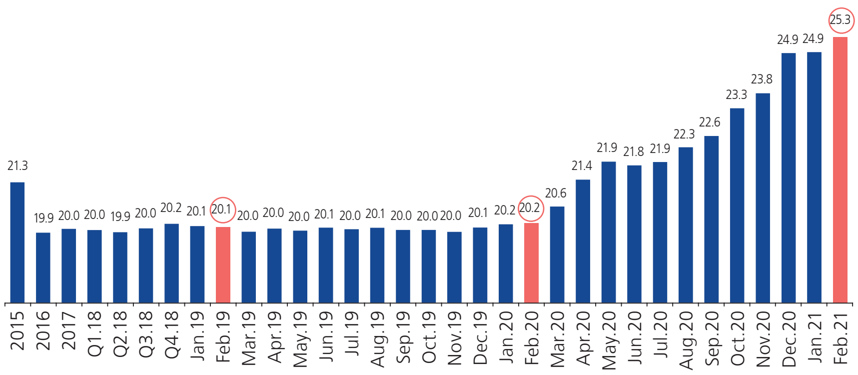


Source: Sunat and BCRP.

Graph 62

NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2015 - 2021

(Accumulated last 12 months - % GDP)



Source: MEF and BCRP.

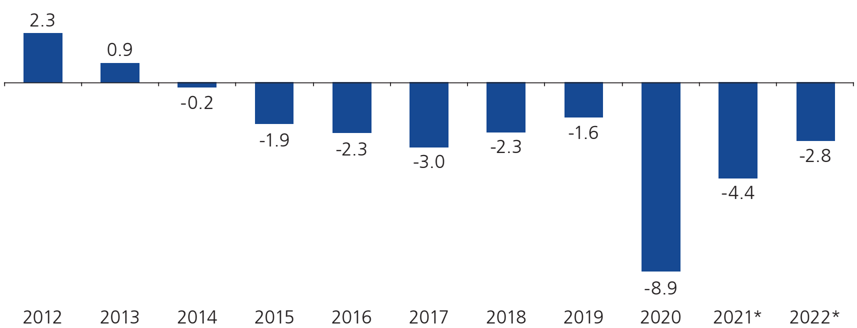
40. The **fiscal deficit** of 4.4 percent of GDP projected for 2021 in our last report is maintained in this report, while the projection for 2022 has been lowered from 3.0 to 2.8 percent. The projection for 2021 considers higher current income associated with higher export prices, which would offset the increase in non-financial expenses to face the second wave of COVID-19.

Table 24
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2019	2020	2021*		2022*	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
1. General government current revenues	**19.7**	**17.9**	**18.8**	**19.0**	**19.7**	**19.9**
Real % change	*4.3%*	*-17.4%*	*17.4%*	*19.0%*	*9.3%*	*10.4%*
2. General government non-financial expenditure	**20.1**	**24.9**	**21.6**	**21.8**	**21.0**	**21.1**
Real % change	*1.3%*	*12.5%*	*-1.1%*	*-1.1%*	*1.6%*	*1.5%*
Of which:						
Current expenditure	15.5	20.4	17.1	17.2	16.4	16.3
Real % change	*3.3%*	*19.3%*	*-4.7%*	*-4.8%*	*0.0%*	*-0.1%*
Gross capital formation	4.0	3.7	3.8	3.9	3.9	3.9
Real % change	*-4.7%*	*-15.8%*	*16.8%*	*18.1%*	*6.8%*	*7.3%*
3. Others[1/]	**0.1**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**
4. Primary balance (1-2+3)	**-0.2**	**-7.3**	**-2.8**	**-2.8**	**-1.3**	**-1.1**
5. Interests	**1.4**	**1.6**	**1.6**	**1.6**	**1.7**	**1.6**
6. Overall Balance	**-1.6**	**-8.9**	**-4.4**	**-4.4**	**-3.0**	**-2.8**
Memo:						
Structural primary balance [2/]	-0.1	-3.6	-1.0	-1.1	0.2	-0.1
Weighted fiscal impulse [2/]	-0.8	1.8	-1.0	-1.3	-0.3	-0.4

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 63
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2022
(% GDP)



* Forecast.

The reduction of the fiscal deficit in 2022 with respect to the projection in the previous report is mainly due to the increase in current income, supported by higher international prices and by economic recovery.

Current income

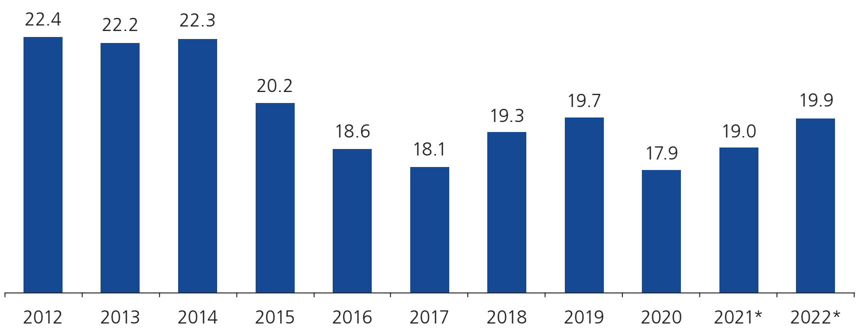
41. The growth rates of **current income** expected in 2021 and 2022 (19.0 and 10.4 percent in real terms, respectively) would be higher than those projected in the December Report. This upward correction is explained by higher tax revenues in both years, in line with the increase in export prices and a faster pace of economic recovery in 2022.

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

	2019	2020	2021*		2022*	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
TAX REVENUES	**14.8**	**13.4**	**14.1**	**14.4**	**15.0**	**15.3**
Income tax	5.7	5.4	5.3	5.5	5.9	6.1
Value Added Tax	8.2	7.8	8.0	8.2	8.2	8.4
Excise tax	1.1	1.0	1.0	1.0	1.1	1.0
Import duties	0.2	0.2	0.2	0.2	0.2	0.2
Other tax revenues	1.9	1.6	1.8	1.8	1.9	1.8
Tax returns	-2.3	-2.4	-2.2	-2.2	-2.2	-2.2
NON-TAX REVENUES	**5.0**	**4.5**	**4.7**	**4.6**	**4.7**	**4.6**
Contributions to social security	2.2	2.2	2.3	2.2	2.3	2.2
Own resources and transfers	1.7	1.6	1.6	1.4	1.6	1.5
Royalties and likely	0.6	0.5	0.5	0.7	0.5	0.6
Other	0.5	0.2	0.3	0.3	0.3	0.3
TOTAL	**19.7**	**17.9**	**18.8**	**19.0**	**19.7**	**19.9**

* Forecast.
IR: Inflation Report.

Graph 64
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



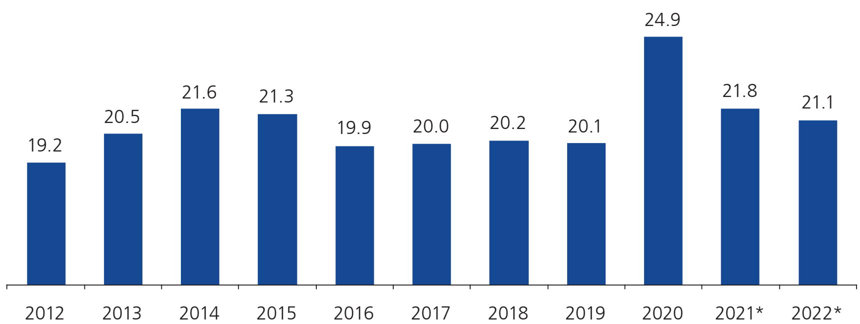
* Forecast.

Non-financial expenditure

42. **Non-financial expenses** would decrease by 1.1 percent in real terms in 2021 and register 21.8 percent as a percentage of GDP, a lower rate than the 24.9 percent recorded in 2020, which would reflect the gradual withdrawal of extraordinary spending policies to face COVID-19. Moreover, the higher non-financial expenses projected in this report in comparison with the previous one are explained by transfers to families due to the new targeted quarantine measures decreed by the Government as from January 31. In addition, higher expenses in the acquisition of supplies and hiring of health personnel are considered in this report.

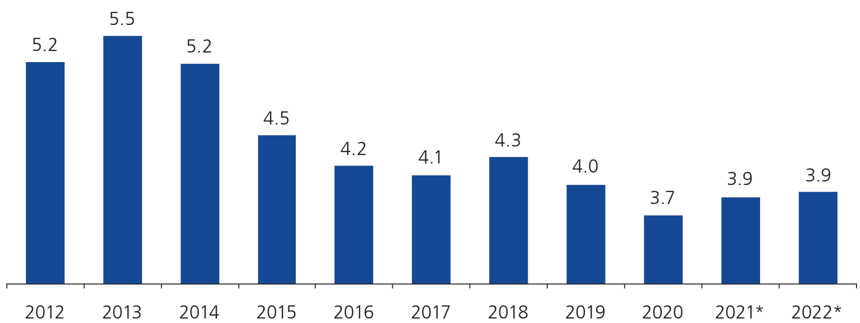
In 2022, non-financial expenses would register a real growth rate of 1.5 percent (less than the 1.6 percent forecast in the last report) and in line with fiscal consolidation, would register a rate of 21.1 percent in GDP terms.

Graph 65
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



* Forecast.

Graph 66
GROSS CAPITAL FORMATION OF THE GENERAL GOVERNMENT: 2012 - 2022
(% GDP)



* Forecast.

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

	2019	2020	2021*		2022*	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
Current expenditure	**15.5**	**20.4**	**17.1**	**17.2**	**16.4**	**16.3**
National Government	10.5	13.9	11.4	11.5	11.0	10.8
Regional Governments	3.5	4.3	3.8	3.7	3.7	3.6
Local Governments	1.6	2.2	1.8	2.0	1.7	1.9
Capital expenditure	**4.6**	**4.5**	**4.5**	**4.6**	**4.7**	**4.7**
Gross capital formation	**4.0**	**3.7**	**3.8**	**3.9**	**3.9**	**3.9**
National Government	1.5	1.3	1.4	1.5	1.4	1.5
Regional Governments	0.8	0.8	0.8	0.8	0.9	0.9
Local Governments	1.6	1.5	1.6	1.6	1.6	1.6
Other	**0.6**	**0.8**	**0.7**	**0.7**	**0.7**	**0.8**
TOTAL	**20.1**	**24.9**	**21.6**	**21.8**	**21.0**	**21.1**
National Government	12.6	16.1	13.4	13.6	13.1	13.0
Regional Governments	4.3	5.1	4.7	4.6	4.6	4.5
Local Governments	3.2	3.7	3.5	3.6	3.4	3.6

* Forecast.
IR: Inflation Report.

Expenditure projections for 2021 consider the delivery of S/ 600 (the new Bono 600) to households in the regions and provinces of the country classified as areas of extreme levels of COVID-19 infections. The Government approved a transfer of up to S/ 2,433.7 million to the Ministry of Development and Social Inclusion (Emergency Decree No. 010-2021), of which S/ 2,390.2 million corresponds to the payment of the bonus which will be delivered between February 17 and May 31.

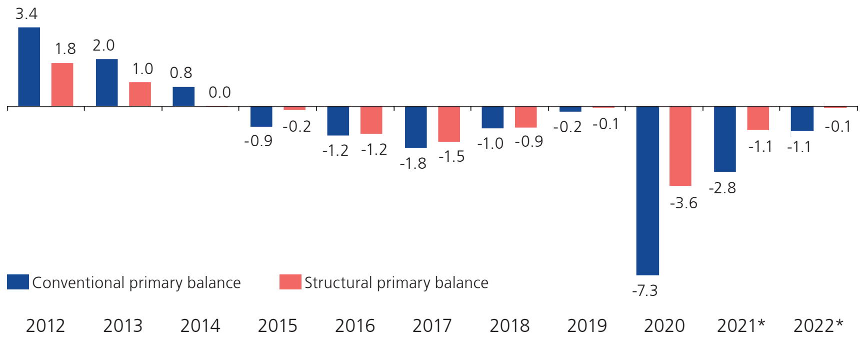
Fiscal stance

43. The **structural primary balance** is an indicator that makes it possible to identify the effect of fiscal policy decisions on fiscal accounts, particularly on tax revenues, by isolating the factors outside government control, such as export prices or the stage of the business cycle. The structural primary deficit is estimated at 3.6 percent of trend GDP in 2020 and is expected to be equivalent to 1.1 percent of trend GDP in 2021 (both rates above the structural primary deficit in 2019, the year before the pandemic), which would reflect the expansionary position of fiscal policy in these years. On the other hand, a structural primary deficit of 0.1 percent of trend GDP is expected at the end of the forecast horizon, in line with the consolidation of public finances foreseen

Graph 67

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

(% GDP and Trend GDP)



* Forecast.

44. The **fiscal impulse** measures the change in the primary balance of the Government resulting from variations in public spending and tax policies. The **weighted fiscal impulse** is an alternative indicator to measure the expansionary or contractionary 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 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 when the **structural primary deficits** of 2020 and 2021 are compared with respect to 2019, the variations being estimated at 3.5 percent of trend GDP for 2020 and at 1.0 percent of trend GDP for 2021.

Financing and Debt

45. The **financing requirements** projected for 2021 have been slightly increased with respect to those estimated in the December Report since the nominal fiscal deficit is now estimated to be higher. This deficit would be financed mainly with higher bond issuance and, to a lesser extent, with external disbursements. On the other hand, the financing requirements for 2022 have been revised down, mainly due to the lower nominal fiscal deficit expected.

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

	2019	2020	2021*		2022*	
			IR Dec.20	IR Mar.21	IR Dec.20	IR Mar.21
I. USES	**32,022**	**66,216**	**38,827**	**39,140**	**29,452**	**27,643**
1. Amortization	19,491	2,761	2,935	2,886	3,495	3,499
a. External	4,524	1,024	1,835	1,850	2,599	2,602
b. Internal	14,967	1,738	1,100	1,036	897	897
Of which: recognition bond	*622*	*498*	*550*	*531*	*550*	*550*
2. Economic balance	12,531	63,454	35,892	36,253	25,956	24,144
(negative sign indicates surplus)						
II. SOURCES	**32,022**	**66,216**	**38,827**	**39,140**	**29,452**	**27,643**
1. Disbursements and others	36,704	36,255	34,655	38,224	19,911	21,814
a. External	3,709	8,762	7,327	7,793	2,511	2,514
b. Bonds	32,995	27,492	27,328	30,431	17,400	19,300
2. Variation in deposits and others 1/	-4,682	29,961	4,172	915	9,540	5,829
Note:						
Percentage of GDP						
Gross public debt balance	26.8	35.0	34.4	34.4	34.4	34.3
Net public debt balance	13.0	22.4	24.0	24.1	25.7	25.3
Balance of public deposits	13.8	12.6	10.3	10.2	8.7	9.0

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

Recently, the Peruvian government has made global bond placements in the international market in two tranches for an amount of US$ 4,990 million (US$ 4,000 million in dollars and € 825 million in euros).

In the first tranche, global bonds in dollars with maturities in 2031, 2041, and 2051 were placed on March 3, 2021. These bonds obtained coupon rates of 2.78, 3.30 and 3.55 percent, respectively and lower spreads than other global bond placements in the region with similar maturities. At the auction, the bid book reached US$ 10 billion, while at the close of the auction the demand totaled US$ 8 billion. This demand came from investors in the United States (71 percent), Europe (21 percent), Asia (4 percent), and Latin America (4 percent). The reopening of 2031 global bond was placed above par and the 2041 and 2051 bonds were sold below par. With these new placements, the global bond yield curve would increase from 17.8 to 22.5 years in its average residual term. Moreover, as of March 3, the balance of global bonds in dollars increased from US$ 16,132 to US$ 20,132 million.

In the second tranche, €825 million of global bonds were placed in euros with a 12-year term and a coupon rate of 1.25 percent on March 4, 2020. The bond was sold below par with a yield of 1.274 percent (the lowest among previous Peruvian bond placements in euros) and spread over the German bond maturing in 2031 (159 basis points). Demand, which was close to twice the supply, came from Europe (66 percent), the United States (28 percent), Asia (3 percent), and other investors (3 percent). With this placement, the euro global bond yield curve would increase its average residual term from 6.95 to 8.43 years. As of March 4, the euro-denominated global bond balance has increased from € 2.1 billion to € 2.925 billion.

Table 28

PLACEMENT OF GLOBAL BONDS IN THE INTERNATIONAL MARKET

(Million soles)

	Global 2031	Global 2041	Global 2051	Global 2033
Auction Date	3-Mar-21	3-Mar-21	3-Mar-21	4-Mar-21
Date of issue	10-Mar-21	10-Mar-21	10-Mar-21	11-Mar-21
Date of expiration	23-Jan-31	11-Mar-41	10-Mar-51	11-Mar-33
Time	10 years	20 years	30 years	12 years
Currency	US Dollar	US Dollar	US Dollar	US Dollar
Amount	$1,750	$1,250	$1,000	825
Cupon rate	2.78	3.30	3.55	1.25
Price	100.412	96.316	96.609	99.734
Yield	2.735	3.559	3.739	1.274
Spread over the benchmark	127	144	150	159
Credit Rating				
- Moodys		A3		
- Fitch		BBB+		
- S&P		BBB+		

	Global 2031	Global 2041	Global 2051	Global 2033
Guide Rate *	Treasury + 160 b.p.	Treasury + 175 b.p.	Treasury + 180 b.p.	Mid Swap + 135 b.p.
Treasury rate / Germany	1.47	2.12	2.24	-0.31
Global Bond Rate US Dollars	2.62	3.43	3.66	2.74
Global Bond Rate Euros				0.80
Sovereign Bond Rate	4.57	5.84	5.80	4.75
Spread				
Spread over the benchmark	127	144	150	159

* The initial guide rate or Initial Price Talk (IPT) is the rate that the issuer considers that investors should offer. It is the maximum rate that the issuer is willing to pay. It can be expressed as a rate or an spread.

Source: MEF and Reuters.

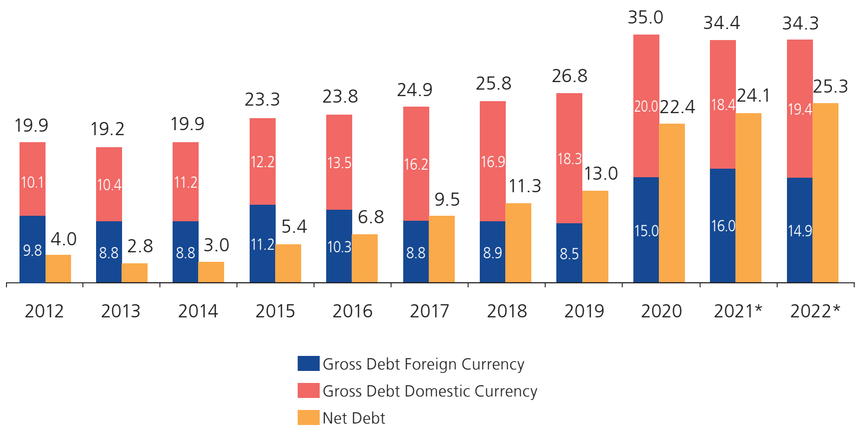
In addition to the placement of global bonds in March, sovereign bonds for S/ 2,134 million were also placed in the January-February period. Of this amount S/ 911 million corresponded to BTP 2028 (coupon rate of 6.35 percent), S/ 526 million to BTP 2034 (coupon rate of 5.40 percent), S/ 499 million to BTP 2029-E (coupon rate of 5.94 percent), S/ 169 million to BTP 2032 (coupon rate of 6.15 percent), and S/ 80 million to BTP 2040 (coupon rate of 5.35 percent).

Moreover, on February 11, PetroPerú issued bonds for US$ 1.0 billion through an external debt operation, without a guarantee from the national government, through the reopening of the bond maturing in 2047 at a coupon rate of 5.625

percent. This bond issuance is intended to finance the Talara refinery modernization project.

The **gross debt** of the non-financial public sector would increase from 35.0 to 34.4 percent of GDP between 2020 and 2021 and stand at 34.3 percent at the end of the forecast horizon, in line with the expected fiscal consolidation. On the other hand, the **debt net** of non-financial public sector deposits would increase from 22.4 to 24.1 percent of GDP between 2020 and 2021 and would reach 25.3 percent of output in 2022, following the evolution of the balance of non-financial public sector deposits.

Graph 68
NON-FINANCIAL PUBLIC SECTOR DEBT: 2012 - 2022
(% GDP)



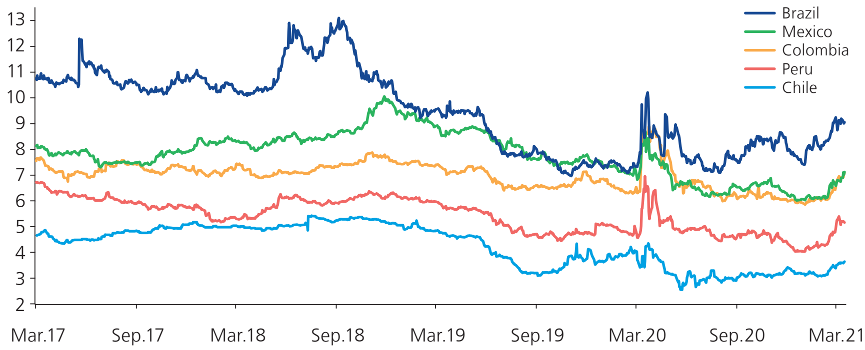
* Forecast.

46. Interest rates in domestic currency of the government fixed income market in emerging economies incorporated the steepening of the yield curve of US Treasuries associated with higher inflationary expectations after the expected effect of the fiscal stimulus package on economic activity. Thus, between December 2020 and March 2021, the region's 10-year interest rates increased on average 88 basis points (35 basis points in Chile and 155 basis points in Brazil), while US bonds with terms between 2 and 30 years rose 47 basis points on average in the same period. Greater risk aversion and volatility in the debt market also pushed Peruvian interest rates up. Thus, in the first quarter of 2021, the rates of bonds in soles, dollars, and euros have increased on average 91, 90, and 27 basis points, respectively.

Graph 69

10 YEAR SOVEREIGN BONDS YIELD IN LOCAL CURRENCY

(%)



Source: Reuters.

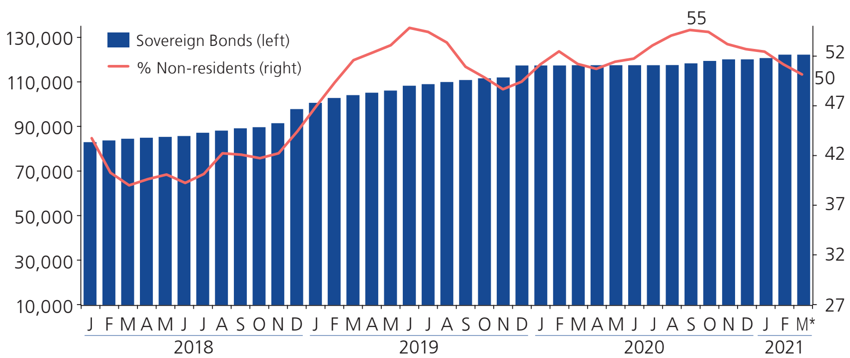
So far in the first quarter of 2021, Chile, Colombia, Mexico, and Peru have placed bonds in the international market in dollars and euros to finance economic support plans to alleviate the effects of COVID-19.

The balance of sovereign bonds amounted to S/ 122,252 million[15] as of March 12, 2021. In this scenario of upward pressure on yields, non-resident investors reduced their holdings of sovereign bonds. Thus, the share of non-resident investors fell from 53 to 50 percent of the bond balance between December 2020 and March 12, 2021. As a result, these holdings decreased from S/ 63,425 million to S/ 61,388 million.

Graph 70

SOVEREIGN BOND BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS

(Amounts in millions of soles and participation in %)



* As of March 12.
Note: Excludes inflation-indexed bonds and GDNs and transactions in Euroclear from residents.
Source: BCRP, CAVALI, MEF, and SBS.

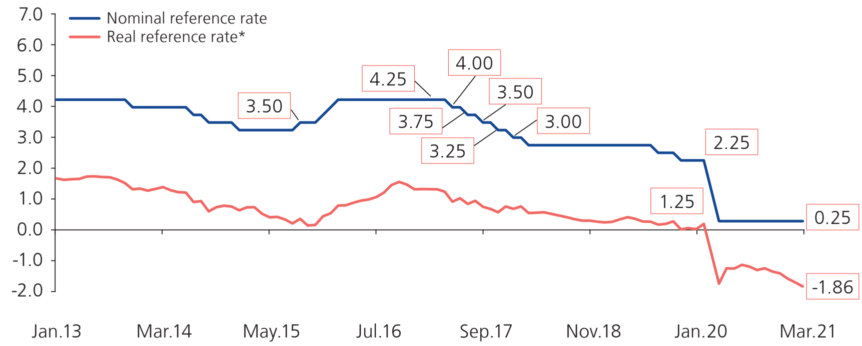
15 This amount includes only fixed rate bonds and excludes the 2026 redeemable bond.

V. Monetary Policy and Financial Conditions

Monetary Policy actions

47. Since April 2020, BCRP has maintained a minimum historical benchmark interest rate of 0.25 percent, which in March 2021 was equivalent to a negative real rate of 1.86 percent. Given the magnitude of the shock associated with the pandemic, BCRP has been expanding the monetary impulse through other monetary policy instruments.

Graph 71
REFERENCE INTEREST RATE
(%)



* With expectation of inflation

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

- Inflation will remain within the target range in 2021 and 2022, and will lie in the lower part of the target range during 2022 since economic activity will still be below its potential level.

- One-year ahead inflation expectations are between 1.9 and 2.1 percent.

- The trend indicators for inflation showed values in the lower part of the target range. The twelve-month inflation rate excluding food and energy fluctuated between 1.6 and 1.8 percent.

- The twelve-month headline inflation rate temporarily increased above 2.0 percent in January and February due to specific supply factors such as the increase in the prices of some food and fuel products.

- Leading indicators moderated their recovery in January and partially recovered in February. Most of the indicators of business expectations regarding GDP growth remain in the pessimistic side.

- Global economic activity has been improving and a stronger recovery is expected in the coming quarters as the global vaccination process and significant fiscal stimulus programs in the United States continue.

49. In terms of communication, the Board of Directors of BCRP has emphasized that "It considers it appropriate to maintain a strongly expansionary monetary stance for a prolonged period and while the negative effects of the pandemic on inflation and its determinants persist." In this way, the BCRP has given guidance on the future monetary policy stance, which is also a relevant signal for the market. 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 is attentive to expanding the monetary stimulus under different modalities."

50. In recent years, and especially during 2020, several central banks around the world have implemented the so-called Forward guidance, which is the information included in the monetary policy statement to signal their future actions in the forecast horizon. For example, in their recent monetary policy statements, central banks of developed economies such as the Fed or the European Central Bank (ECB) have stated that they will maintain monetary stimulus as long as certain macroeconomic conditions persist or certain reference levels are reached.

Table 29
FORWARD GUIDANCE OF CENTRAL BANKS [1/]

Central bank	Date	Rate (%)	Decision	*Forward,Guidance*	Next Meeting
Federal Reserve	17/03/2021	0.25	Hold	The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.	27/04/2021
European Central Bank	11/03/2021	0.00	Hold	The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.	22/04/2021
Bank of England	18/03/2021	0.10	Hold	The MPC will continue to monitor the situation closely. If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.	06/05/2021
Bank of Japan	21/01/2021	-0.10	Hold	The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.	19/03/2021
Bank of Canada	10/03/2021	0.25	Hold	While economic prospects have improved, the Governing Council judges that the recovery continues to require extraordinary monetary policy support. We remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. In the Bank's January projection, this does not happen until into 2023. To reinforce this commitment and keep interest rates low across the yield curve, the Bank will continue its QE program until the recovery is well underway. As the Governing Council continues to gain confidence in the strength of the recovery, the pace of net purchases of Government of Canada bonds will be adjusted as required. We will continue to provide the appropriate degree of monetary policy stimulus to support the recovery and achieve the inflation objective.	21/03/2021
Central Bank of Brazil	17/03/2021	2.75	Increase	The Copom decided to start a process of partial normalization by reducing the extraordinary degree of monetary stimulus. For all the aforementioned reasons, the Committee considered appropriate an adjustment of 0.75 p.p. in the Selic rate. In the Committee's evaluation, a swifter adjustment has the benefit of reducing the probability of not meeting the inflation target in 2021, as well as of keeping longer horizon expectations well anchored. Additionally, the broad set of information available to the Committee suggests that this strategy is consistent with meeting the 2022 inflation target, even if social distancing increases temporarily.	05/05/2021
Central Bank of Chile	27/01/2021	0.50	Hold	The Council reiterates that it will maintain a highly expansionary monetary policy, combining a MPR at its minimum of 0.5% and unconventional measures. In particular, the MPR will remain at that level for much of the policy horizon two-year monetary policy and the Central Bank will maintain the reinvestment policy of the Bank bond stock program announced in December. Regarding the FCIC, the Council agreed to open a third stage that contemplates an amount of US$ 10 billion and a term of six months. This new stage responds to the current financial needs of companies, complementing the Fogape- Reactiva recently approved, especially in its refinancing line.	30/03/2021
Banxico	11/02/2021	4.00	Reduce (0.25)	The Governing Board will take the necessary actions based on the information additional, so that the reference rate is congruent with the convergence orderly and sustained headline inflation to the target of 3% in the term in the that operates monetary policy. It is necessary to safeguard the institutional environment, strengthen macroeconomic fundamentals and take necessary actions in the monetary and fiscal spheres, to promote a better adjustment of the markets national financial institutions and the economy as a whole.	25/03/2021
Central Reserve Bank of Peru	11/03/2021	0.25	Hold	The Board considers it appropriate to maintain a strong expansionary monetary stance for as long as the negative effects of the pandemic on inflation and its determinants persist. The BCRP will continue to take the necessary steps to sustain the payments system and credit flows, and stands ready to expand monetary stimulus using a range of instruments.	08/04/2021

1/ As of March 18.

- The **Fed** Committee "seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longerterm inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."

- The Governing Council of the **ECB** expects "the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics."

- Among the region's central banks, the **Central Bank of Brazil** decided to start the partial withdrawal of monetary stimulus, which it did by increasing its policy rate from 2.0 to 2.75 percent: "The Monetary Policy Committee (Copom) decided to start a process of partial normalization by reducing the extraordinary degree of monetary stimulus. For all the aforementioned reasons, the Committee considered appropriate an adjustment of 0.75 p.p. in the Selic rate. In the Committee's evaluation, a swifter adjustment has the benefit of reducing the probability of not meeting the inflation target in 2021, as well as of keeping longer horizon expectations well anchored. Additionally, the broad set of information available to the Committee suggests that this strategy is consistent with meeting the 2022 inflation target, even if social distancing increases temporarily."

Additional BCRP actions in response to the COVID-19 pandemic

51. From December to February, BCRP continued to carry out the actions required to sustain the payment system and the flow of credit in the economy. Thus, the balance of liquidity injection operations through repos increased from S/ 61.5 billion at the end of November to S/ 62.9 billion on March 17. This balance of liquidity injection operations is 8 times higher than the maximum balance that these operations reached during the 2008-2009 international financial crisis (S/ 7.9 billion) and 2 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

52. As of March 17, 2021, the aforementioned BCRP injection operations registered a balance of S/ 62.9 billion, a sum equivalent to 8.8 percent of GDP, of which S/ 11.5 billion correspond to security repos, currency repos, and credit portfolio repos, while S/ 50.0 billion correspond to the amount liquidated of repos of credit portfolio with government guarantee (Reactiva Peru program).

Table 30

BALANCE OF INJECTION OPERATIONS OF BCRP

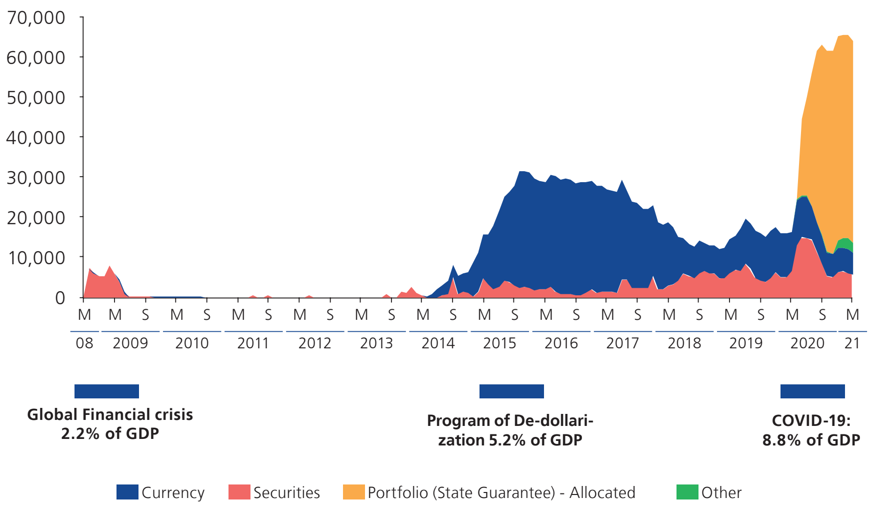
(Million S/)

Episode	Date	Values	Currency (Regular)	Currency (Expansion)	Currency (Substitution)	Portfolio (General and alternative)	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**	5,804	4,430	0	0	50,045	2,589	62,868

* 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.

* As of March 17.

Graph 72
BALANCE OF REPO OPERATIONS*
(Million soles)



The item "other" includes the purchase of Public Treasury bonds, in line with article 61 of the Organic Law of the BCRP, and credit portfolio reporting operations.

53. As part of its monetary instruments, BCRP has recently incorporated *Operaciones Condicionadas a la Expansion del Crédito a Largo Plazo* (Operations Conditioned to the Expansion of Long-Term Credit) in order to enhance the transmission of its monetary policy towards long-term interest rates. Taking into account that the private savings rate has increased significantly during the pandemic, this measure may boost the growth of mortgage credit in particular. The balance of security repos under this program stands at S/ 245 million for a 3-year term.

54. Through credit repos guaranteed by the National Government within the framework of the Reactiva Perú program, BCRP injected liquid resources to financial institutions, allowing the expansion of credit to the business sector by 22 percent in 2020. The implementation of this program was carried out under exceptional conditions of abrupt contraction of both supply and aggregate demand due to the pandemic, which made it necessary to inject liquidity quickly to avoid a disruption in the flow of payments in the economy and to encourage the recovery of production.

55. Following the initial implementation of the Reactiva Peru program, pandemic containementl restrictions have been in place for a longer period of time.

Although the economy has recovered significantly, several sectors have been particularly affected by the containment measures, especially the sectors that had a late reopening of activities during 2020 and have recently seen their operations restricted again by the prevention measures adopted since January of this year. Because of this, a loan rescheduling program focused on those business sectors whose revenues have been most affected by the health restrictions was approved in March 2021.

56. The program for rescheduling loans granted under the Reactiva Perú program (E.D. N° 026-2021) is aimed at companies that are solvent –i.e., viable in the long term–, but require rescheduling of their loans due to liquidity problems resulting from a temporary drop in sales. The objective is to provide the beneficiary businesses with sufficient time to recover their capacity to generate income and thus meet their debt obligations, thereby reducing their probability of bankruptcy and maintaining access to the financing they require for their activities.

    The scheme seeks to ensure that companies that are already in a position to pay their obligations continue to do so. This favors not only the recovery of production and employment, but also reduces the potential fiscal cost of the program, through a lower expected call on the guarantees.

57. The new scheme will allow the rescheduling of loans with Government guarantees under the Reactiva Perú program for a maximum amount of S/ 16 billion of the more than S/ 50 billion of guaranteed loans in force. The requirements and conditions to access this scheme will be associated to the size of the original loan and to the drop in the level of sales recorded in the fourth quarter of 2020, compared to the same period of the previous year. The Government guarantees given in the rescheduling scheme will be for the same percentage of coverage agreed in the initial conditions of the Reactiva Perú program.

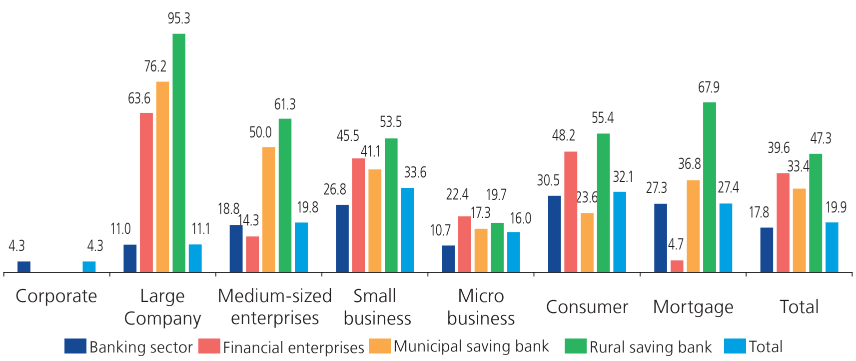
    Businesses accessing the scheme will be granted a one-time grace period of up to 12 months in addition to the original grace period, during which such companies will only pay the corresponding interest. The interest rate of the new rescheduled loan will be the interest rate of the original program and may include an additional margin associated with the operating cost of the rescheduling and the longer term and funding cost of the financial institution. The program will be in effect until July 15, 2021.

58. In this scenario, in the exercise of its functions and taking into account its constitutional independence, BCRP will be able to carry out the liquidity injection operations it considers necessary to preserve monetary stability, including the possibility of government-backed portfolio repos. However, the new program also considers the possibility that financial institutions may use their own resources to finance the rescheduling, if the granting of the guarantees is dissociated from the granting of the portfolio repo operation by BCRP.

59. Taking into account the greater and longer impact of the pandemic, other countries have implemented rescheduling schemes for their guaranteed credit programs. For example, Chile approved in January 2021, the FOGAPE Reactiva program, whereby companies with annual sales of no more than US$ 40 million (1 million *Unidades de Fomento*) may refinance the state-guaranteed loans granted at the beginning of the pandemic until December 31, 2021, and extend the payment term by an additional year to the current FOGAPE-COVID loans, although with higher interest rates –between 3.5 and 7.7 percent– due to the longer term and higher risk of the operations.

60. In 2020, the credit rescheduling mechanism authorized by the SBS made it possible to contain the eventual increase in the financial system's delinquency rate. As of January 31, 2021, the depository corporations (which include banks, financial companies, municipal savings banks, and rural savings banks) have rescheduled loans for around S/ 73 billion, which represents 20 percent of depository corporations' total portfolio. Moreover, 34 percent of the small business portfolio, 16 percent of the microenterprise portfolio, and 32 percent of the consumer portfolio have been rescheduled as of January 2021. In addition, entities specializing in microfinance have rescheduled at least 33 percent of their portfolios.

Graph 73
RESCHEDULED CREDITS OF DEPOSITARY COMPANIES:1/ JANUARY 2021
(As % of total credits)



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

It is worth mentioning that the total balance of rescheduled loans as of January is S/ 55 billion lower than that observed in June 2020 (S/ 128 billion, equivalent to 35.6 percent of the loan portfolio), which is explained by the payment of rescheduled loans, in line with the reopening of economic activities.

61. 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 entities obtain liquidity at long terms and with favorable conditions when they reschedule the loans to their clients in terms between 6 and 48 months and at lower interest rates than those initially agreed upon. The reduction in the interest rates on rescheduled loans must be at least 20 percent or 200 basis points of the original interest rate of the loan (whichever is higher). On March 17, 2021, the net outstanding balance of rescheduling repos amounted to S/ 1,302 million, of which S/ 1,268 million correspond to portfolio repos under the alternative scheme and S/ 34 million correspond to security repos.

62. Additionally, the PAE-MYPE program created on February 12 (ED 019-2021) stands out among the actions taken by the Executive to support credit. The main objective of this program is to guarantee credit for the production sectors that have been most affected by the COVID-19 pandemic. The program has a S/ 2 billion fund to promote working capital loans for up to 36 months, and grants a grace period of 12 months for repayment within the 36-month term. The government will guarantee 98 percent of the loan repayment for loans of up to S/ 20 thousand and 90 percent for loans of up to S/ 60 thousand. MSEs will have access to the benefits of this program until June 30, 2021. Corporación Financiera de Desarrollo (COFIDE) is in charge of the administration and supervision of the PAE-MYPE program.

63. In addition to the Reactiva Perú program, since March 2020 the government has launched other government-guaranteed credit programs such as FAE-MYPE (in effect until December 31, 2020), FAE-Agro, and FAE Turismo (both in effect until June 30, 2021). It is worth mentioning that the FAE-MYPE program has also included the possibility of rescheduling the repayment of loans (ED 029-2021), like in the case of the Reactiva Perú loans, and that this facility will remain in force until July 15, 2021.

64. Furthermore, the government has also established measures to reschedule the repayment of loans granted to individuals and MSEs affected by the COVID-19 crisis. These measures basically consist of granting Government guarantees for personal, consumer, mortgage, car, and MSE loans through the COVID-19 Guarantee Program. The maximum amount of these guarantees is S/ 5,500 million. As of March 1, loans for S/ 128 million have been rescheduled trhough the COVID-19 Guarantee Program, which is in effect until March 31, 2021.

65. On February 5, 2021, the SBS issued complementary prudential measures related to the State of Emergency (Oficio Múltiple No. 06302-2021) and established, first, that in the context of the pandemic, financial institutions may continue to reschedule loans, subject to an individual evaluation of the client's payment capacity. Second, it established that unilateral modifications of credit operations

may only be made as long as the client has paid at least one installment including principal and interest, and the modified payment schedule may not be extended for more than 3 months in total. Thirdly, it established that refinanced loans may be subject to contractual modifications after individual evaluation, maintaining the last risk classification recorded at the time of the contractual modification provided that they are up to date in their payments. In no case may the new schedule be extended for more than 3 months in total. In order to comply with the requirement of being up to date in payments, the loan repayment must not be more than 30 calendar days in actual arrears at the time of the contractual modification.

BCRP Monetary Operations

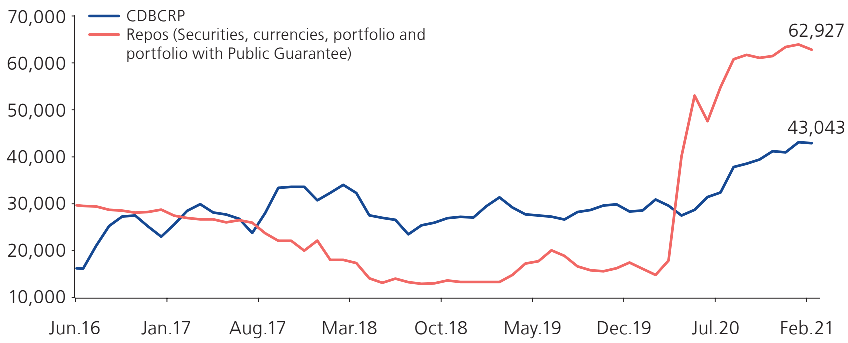
66. The **operations of the Central Bank** continued to focus on ensuring adequate levels of liquidity in the interbank market between December and February. To do so, BCRP sterilized liquidity through the net expiration of currency repos (S/ 740 million) and security repos (S/ 130 million), the increase in the balances of CD BCRP (S/ 1.976 million) and CDR BCRP (S/ 1.419 million), and the early maturity of state guaranteed portfolio repos (S/ 488 million). These operations were in part offset by the net liquidation of portfolio repos (S/ 813 million) and the net maturity of time and overnight deposits (S/ 417 million). As a result, the balance of repo transactions went from S/ 63,472 million in December 2020 to S/ 62,927 million at the end of February 2021, while the balance of CD BCRP and CDR BCRP went from S/ 47,459 million in December to S/ 50,854 million in February.

Table 31
BALANCE OF BCRP MONETARY OPERATIONS

	Balance (Mill. S/)			Average interest rate of the balance (%)		
	Dec.19	Dec.20	Feb.21	Dec.19	Dec.20	Feb.21
Monetary sterilization						
1. CDBCRP	28,365	41,067	43,043	2.50	0.74	0.49
2. CDRBCRP	0	6,392	7,811	1.00	0.18	0.24
3. Term and overnight deposits	2,115	43,714	43,296	1.00	0.23	0.24
Monetary injection						
4. Currency repos	11,050	5,970	5,230	3.85	2.80	2.77
5. Security repos	6,350	6,309	6,179	3.31	1.09	1.06
6. Portfolio repos	0	464	1,277	n.d.	0.50	0.50
7. Government-backed portfolio repos *	0	50,729	50,242	n.d.	1.40	1.40
8. Public Treasury fund auctions	4,100	200	200	3.85	3.18	3.18

* The disbursed amount of the instrument to date is considered.

Graph 74
BALANCE OF REPO OPERATIONS AND CDBCRP
(Balance in mill. S/)



Thus, the balance of repo transactions decreased to 19.0 to 18.5 percent of the BCRP's net assets between December 2020 and February 2021. On the side of the BCRP liabilities, the share of public sector deposits decreased from 20.8 percent to 17.5 percent, while the share of BCRP instruments (CD BCRP, CDR BCRP, and time deposits and overnight deposits) increased their share in the net liabilities of BCRP from 27.3 percent to 27.7 percent in this period.

Table 32
SIMPLIFIED BALANCE SHEET OF THE BCRP*
(As % of Net Assets)

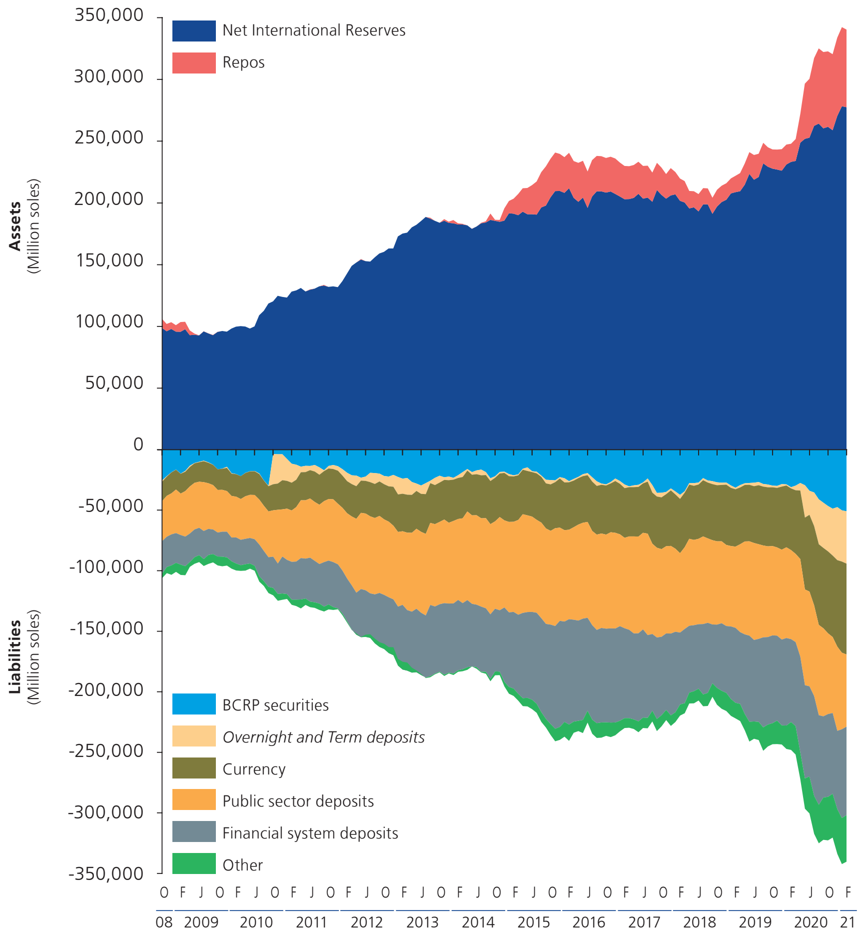
	Dec.19	Dec.20	28,Feb.21
I. Net assets	**100%**	**100%**	**100%**
Net International Reserves	**92.9%**	**81.0%**	**81.5%**
	(US$ 68,315 mills.)	*(US$ 74,706 mills.)*	*(US$ 76,28 mills.)*
Repos	**7.1%**	**19.0%**	**18.5%**
II. Net liabilities	**100%**	**100%**	**100%**
1 Total public sector deposits	**30.5%**	**20.8%**	**17.5%**
In domestic currency	18.8%	17.5%	15.6%
In foreign currency	11.7%	3.3%	1.9%
2. Total financial system deposits	**29.1%**	**19.4%**	**21.5%**
In domestic currency	5.1%	4.3%	3.5%
In foreign currency	24.0%	15.1%	18.0%
3. BCRP instruments	**12.5%**	**27.3%**	**27.7%**
CD BCRP	11.6%	12.3%	12.6%
CDR BCRP	0.0%	1.9%	2.3%
Term deposits	0.0%	10.7%	11.3%
Overnight deposits	0.9%	2.4%	1.4%
4. Currency	**21.4%**	**21.4%**	**22.0%**
5. Others*	**6.5%**	**11.1%**	**11.3%**

* Includes assets and other accounts.

The result of these operations is reflected in the change observed in the size and composition of the BCRP's balance sheet. Thus, as of February 2021, the BCRP assets amounted to S/ 340.432 million, a sum equivalent to 47.9 percent of GDP and higher than that observed in 2015 during the de-dollarization program (39.3 percent of GDP). The increased liquidity injection carried out in recent months is reflected in the growing contribution of repo operations to the BCRP assets.

Graph 75

EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2021

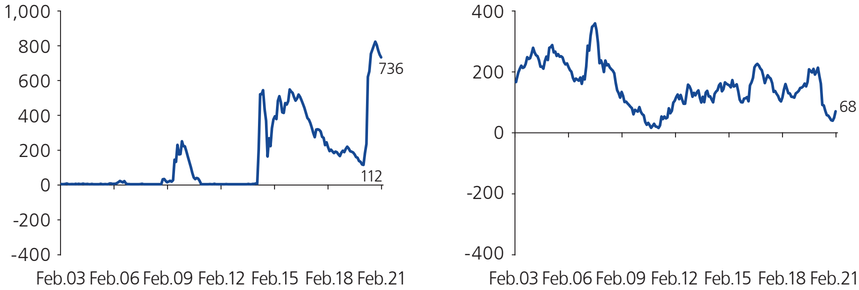


The higher term injection is reflected in the increase in the residual term of these operations, from 112 days in February 2020 to 736 days in February 2021. Along the same lines, BCRP has been carrying out sterilization operations at shorter terms. Thus, the residual term of sterilization operations has decreased from 214 days in February 2020 to 68 days in February 2021.

Graph 76

Residual term of BCRP injection Operations
(In days)

Residual term of BCRP sterilization Operations
(In days)



The net residual term of BCRP operations[16] captures the expansionary stance of BCRP in the yield curve. When liquidity is injected at longer terms and is sterilized at short-terms, the flattening of the yield curve is boosted and the net residual term increases. Thus, a high net residual term denotes greater liquidity in the financial system since there are liquid assets close to maturity (CD BCRP) and there is the obligation of repurchasing the repo assets in the long term. As of February, the net residual term of the BCRP operations is 465 days.

Graph 77
NET WEIGHTED RESIDUAL TERM OF BCRP OPERATIONS
(In days)

16 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: $Plazo\ Residual\ Neto = \frac{Saldo\ Inyección}{Saldo\ Esterilización} * PR\ Inyección - PR\ Esterilización$, where RT refers to the residual terms of the injection and sterilization operations, respectively.

Financial Markets

67. The liquidity injected by BCRP into the financial system at the beginning of the health emergency continues to be reflected in some money market interest rates. However, with the completion of the Reactiva Peru program, credit market interest rates have been increasing, although in the first quarter of 2021 they are still below their historical averages. Prime lending and deposit rates for overnight and twelve-month terms decreased by an average of 23 and 4 basis points between December 2020 and March 2021, respectively, reaching new historical lows from those observed until September 2010. In the interbank market, there was a slight reversal of the trend of low transaction levels observed since May 2020, which is associated with the high liquidity of the banking system due to the repo operations of the Reactiva Peru program.

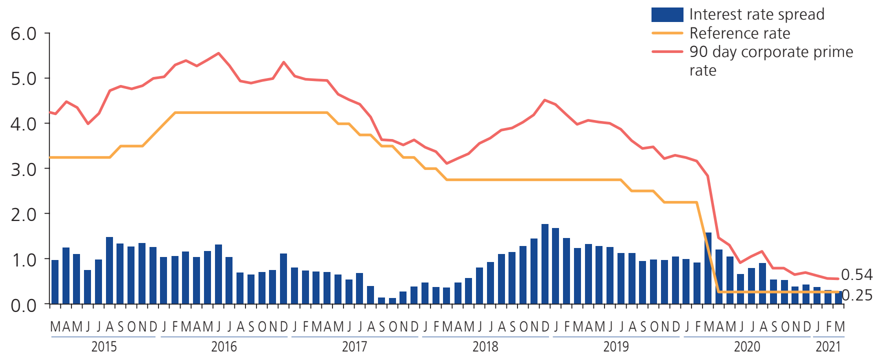
    In the lower credit risk segments (corporations and large companies), interest rates decreased by an average of 16 and 60 basis points, respectively, in the first quarter of the year. Similarly, the mortgage interest rate dropped from 6.4 to 5.9 percent, and now shows a historic low. On the other hand, higher interest rates are observed in the segments of medium, small, and micro businesses, but they are still lower than the levels existing prior to the start of the Reactiva Peru program and lower than their historical averages.

Table 33
INTEREST RATE IN DOMESTIC CURRENCY
(%)

		Dec.18	Dec.19	Mar.20	Apr.20	May.20	Jun.20	Sep.20	Dec.20	Feb.21	Mar.21
Deposit	Deposits up to 30-day	3.1	2.3	2.0	1.3	0.2	0.1	0.1	0.0	0.0	0.1
	On 31 to 180-day term deposits	4.0	2.8	2.6	2.4	1.5	0.9	0.3	0.3	0.2	0.4
	On 181 to 360-day term deposits	4.2	3.3	3.0	3.0	2.4	1.8	1.1	0.7	0.8	0.7
Lending	90-day corporate prime	4.5	3.3	2.8	1.5	1.3	0.9	0.8	0.7	0.5	0.5
	Corporates	4.9	3.8	3.6	4.0	2.9	3.0	2.5	2.5	2.2	2.4
	Large companies	6.4	6.0	5.9	5.6	2.0	2.6	4.1	4.6	4.4	4.0
	Medium-sized enterprises	9.8	9.3	8.9	8.1	2.4	3.9	4.2	6.1	8.5	8.2
	Small business	18.5	18.0	18.1	18.2	2.0	4.3	6.2	17.2	18.2	18.4
	Micro business	32.7	31.3	32.6	33.1	3.2	3.8	10.7	30.1	32.4	33.3
	Consumer	44.9	40.9	39.3	41.4	40.4	38.6	38.3	39.5	38.5	38.8
	Mortgage	7.6	7.0	6.7	6.8	6.9	6.8	6.7	6.4	6.0	5.9

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

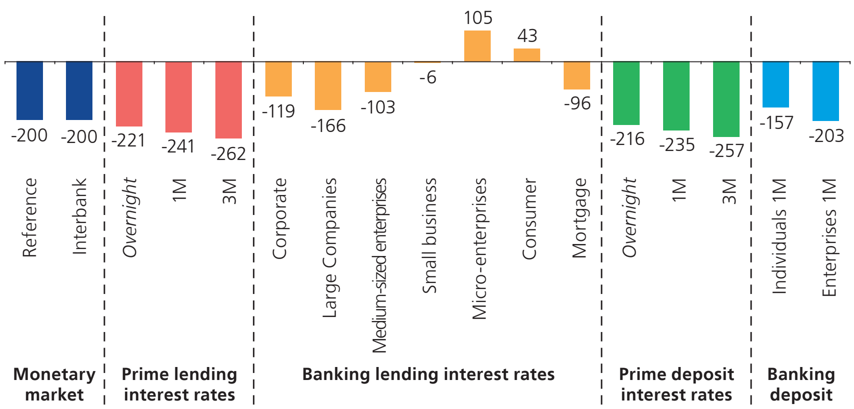
Graph 78
INTEREST RATE IN S/: 90-DAY CORPORATE PRIME AND REFERENCE RATE
(%)



*As of March 17.
Source: BCRP and SBS.

In 2020, the easing of monetary conditions in soles through liquidity injection operations in local currency to the financial system (for terms of up to 3 years), the reserve requirement reduction measures, the reduction of the benchmark interest rate, the portfolio repo operations with Government guarantee, and the loan rescheduling repo operations have boosted credit to the private sector and accelerated the pass-through of the reduction of the benchmark interest rate to the rest of the financial system's rates.

Graph 79
CHANGE OF INTEREST RATES IN SOLES: FEB.2020 TO MAR.2021
(Basis points)

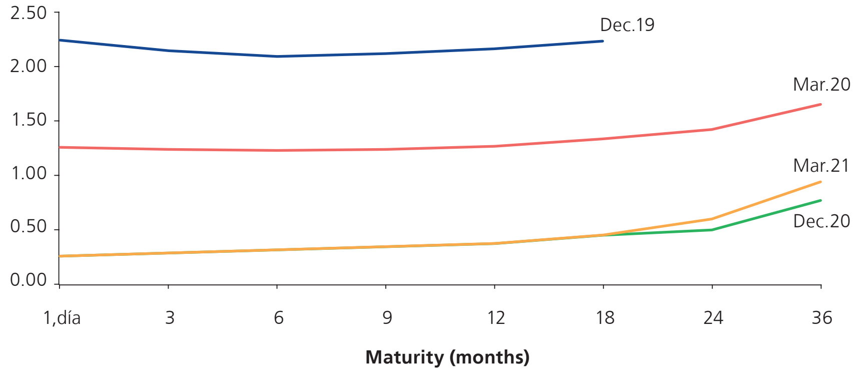


* As of March 17.
Source: BCRP and SBS.

68. The yield curve of BCRP securities shows a greater steepening at 2-year and 3-year terms in March 2021, in line with the expectations of economic agents who expect the benchmark rate to remain stable until the second half of 2022. Thus, for terms of 24 and 36 months, rates have increased by 10 and 17 basis points, respectively.

Graph 80

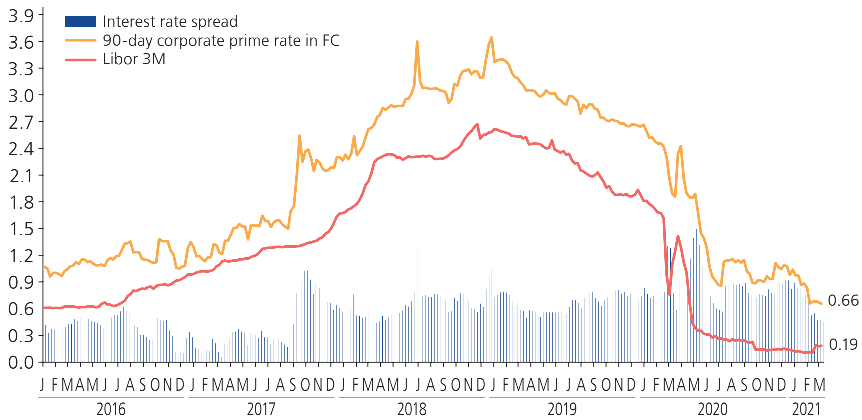
YIELD CURVE OF CENTRAL BANK SECURITIES 1/



1/ Yield rate in the primary and secondary market.
* As of March 18
Source: BCRP.

69. In the case of interest rates in dollars, the upward trend observed in the money market in previous months declined. So far in the first quarter of 2021, rates remain relatively stable and with a downward trend. Thus, between December 2020 and March 2021, the interbank rate in foreign currency has decreased from 0.28 to 0.25 percent, while the prime lending rates charged to major customers decreased by an average of 31 basis points for terms between 1 and 6 months and the prime deposit rates decreased as well, but to a lesser extent (3 basis points). The spread between the prime lending rate and the Libor rate decreased from 84 basis points in December 2020 to 47 basis points in March 2021. On the other hand, the spread between the deposit rate and the 3-month Libor rate remained stable, but increased slightly in the first quarter (from 3 to 5 basis points).

Graph 81
INTEREST RATE IN US$: 90-DAY CORPORATE PRIME AND LIBOR 3-MONTH
(%)



* As of March 17.
Source: BCRP.

Similarly, interest rates on term deposit decreased by an average of 3 basis points between December 2020 and March 2021. A similar behavior to that observed in soles is seen in the credit market, with those segments with higher credit risk showing higher interest rates. Moreover, a considerable reduction continues to be observed in credit in dollars (with a 10 percent year-on-year drop in October 2020).

Table 34
INTEREST RATE IN FOREIGN CURRENCY
(%)

		Dec.18	Dec.19	Mar.20	Apr.20	May.20	Jun.20	Sep.20	Dec.20	Feb.21	Mar.21*
Deposit	Deposits up to 30-day	1.9	1.5	1.0	0.6	0.2	0.1	0.0	0.1	0.1	0.0
	On 31 to 180-day term deposits	2.0	1.3	1.1	1.2	0.9	0.5	0.2	0.3	0.2	0.3
	On 181 to 360-day term deposits	1.9	1.4	1.0	1.2	1.2	0.8	0.4	0.3	0.4	0.3
Lending	90-day corporate prime	3.6	2.7	1.9	1.9	1.5	1.0	0.9	1.0	0.7	0.7
	Corporates	4.0	3.2	2.7	3.1	3.1	2.8	2.3	2.0	1.9	1.9
	Large companies	5.5	5.5	4.8	4.7	5.3	5.2	4.7	4.5	4.4	4.3
	Medium-sized enterprises	6.9	6.6	6.7	6.6	6.6	6.3	6.7	5.9	6.1	6.1
	Small business	9.9	8.8	7.7	8.3	6.0	4.8	6.1	5.3	7.5	7.7
	Micro business	7.1	11.0	12.3	9.8	16.8	15.6	6.9	8.5	9.4	4.0
	Consumer	36.1	36.1	36.1	37.3	37.1	36.6	34.4	35.1	34.7	34.8
	Mortgage	6.1	5.6	5.9	5.6	5.5	6.0	5.9	5.4	4.9	5.0

Memo: Annual rates for operations in the last 30 working days.
* As of March 17.
Source: BCRP and SBS.

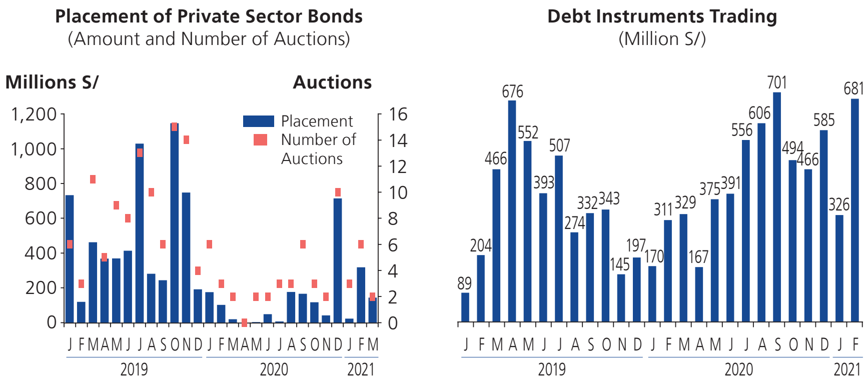
Fixed-income market

70. Peruvian companies' indebtedness in local and external capital markets shows a slight deceleration with respect to the fourth quarter of 2020. This deceleration is associated to the increase in the cost of financing in external markets due to the steepening of the yield curve on US Treasury bonds in February and March 2021. Despite this, the outlook remains positive due to central banks' commitment to maintaining liquidity injection policies, as well as due to the increase in the price of raw materials.

Public offerings by Peruvian private sector companies in the local capital market between January and March 2021 was lower than in the fourth quarter of 2020 (S/ 430 million versus S/ 875 million). It is worth mentioning that 88 percent of the securities auctioned were denominated in soles and that issuers's preference is for short-term securities.

On the other hand, the trading of debt securities in the secondary market on the Lima Stock Exchange (BVL) increased by 17 percent in January and February 2021 compared to the monthly average of the fourth quarter of 2020. The participation of non-resident investors in local securities in soles and dollars remained stable in the first quarter of 2021.

Graph 82
FIXED INCOME MARKET OF THE PRIVATE SECTOR



Source: SMV.

As for Peruvian private company's financing in the external market, so far this year Volcan and Inretail Consumer have placed securities for US$ 475 million and US$ 600 million, respectively. Volcan has issued bonds with a maturity term of

5 years, a coupon rate of 4.38 percent, and a spread of 392 basis points with respect to the 5-year US Treasury bond and a spread of 326 basis points with respect to the Peruvian global bond. This placement will be combined with a capital injection to refinance the repurchase of the bond maturing in February 2022. On the other hand, Inretail Consumer issued a 7-year bond with a coupon rate of 3.25 percent, and a spread of 206 basis points with respect to the 7-year US Treasury bond and 107 basis points with respect to the Peruvian global bond. As regards public companies, Petroperu reopened the bond maturing in 2047 and placed US$ 1 billion. The funds obtained through this operatio will be used to complete the construction works of the Talara Refinery during 2021, which currently show a progress of 93 percent.

On the other hand, international placements in soles by non-resident entities continued in the first quarter, with four bond issuances for a total of S/ 330 million at terms between 2 months and 5 years. The amount placed in 2020 –the highest ever recorded (S/ 1,801 million)– was encouraged by the low cost of hedging, investors' demand for securities in soles that offer higher coupons than other emerging countries, confidence in the strength of the sol, and expectations of a recovery of the Peruvian economy this year.

Moreover, institutional investors continue to show a recovery in the value of their managed portfolios after the fall recorded in March 2020 due to the beginning of lockdown and the extraordinary withdrawals of the AFPs.

On the one hand, the value of the AFP portfolio in 2020 decreased by S/ 9.95 billion, recording an annual drop of 6 percent (the lowest since 2011) associated with the devaluation of assets in February and March 2020, and the disbursements made to cover the withdrawal of funds authorized by Emergency Decrees 034-2020 and 038-2020, Law 31017 and Law 31068, which amounted to S/ 32.7 billion as of February 2021. Therefore, between April and July 2020, and then again between December 2020 and February 2021, the AFPs generated liquidity to make payments to members by liquidating their investments abroad and their local investments (mainly sovereign bonds) carrying out repos with BCRP, with sales of sovereign bonds and dollars to BCRP, and with the reduction of their deposits in the local financial system. It should be pointed out that the facilities granted by BCRP allowed the liquidation of securities in significant amounts in a short period of time to have undesired impacts on interest rates and on stability in financial markets.

Foreign Exchange Market

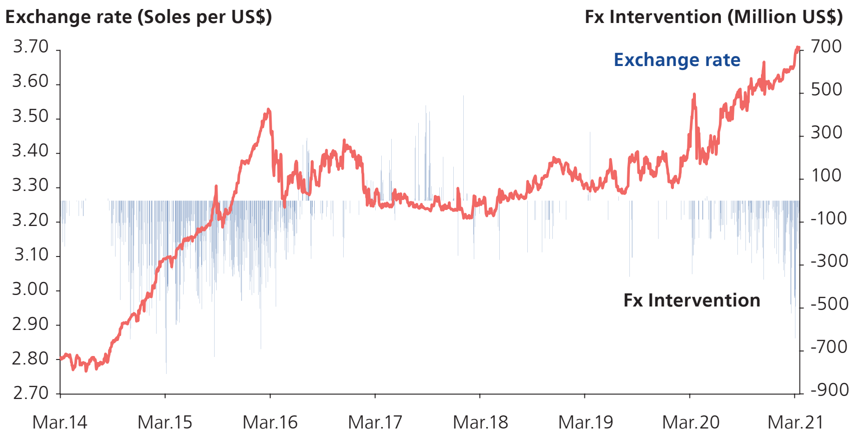
71. In the first quarter of 2021, the region's currencies depreciated as a result of the increase that inflation expectations registered in the main developed economies, in line with optimism about global economic performance in 2021 and new fiscal stimuli. Moreover, volatility in foreign exchange markets remains high given the

new containment measures established due to the increase in COVID-19 cases and the variants of the virus, uncertainty regarding the speed of vaccination in the region, and the elections that will take place in the coming months.

An appreciation of the sol is expected during the year after the presidential elections in April due to the positive perspectives regarding the external sector and the price of copper.

Graph 83

EXCHANGE RATE AND FX INTERVENTION 1/



1/ Includes Net purchases of US$ in the spot market and placement of CDLD BCRP, and FX swaps.
As of March 18, 2021.

Amid a context of high external and local uncertainty, where the US/PEN exchange rate reached the historical record of S/ 3.711 per dollar on March 12, the BCRP intervened in the foreign exchange market through the auction of foreign exchange swaps, the placement of CDR BCRP, and sales of foreign currency in order to minimize volatility in the price of the sol, and thus preserve the stability of the financial system while ensuring the proper functioning of the markets. Thus, between January and March, BCRP placed FX Swaps-sale for a total of S/ 20,480 million with maturity terms of 2 and 9 months, while the maturity term of FX Swaps-sale amounting to S/ 6,798 million expired on a regular basis. As a result, the balance of this instrument as of March 18 was S/ 21,817 million. In addition, CDR BCRP for a total of S/ 6,749 million was placed at a 3-month term and S/ 4,832 million matured, bringing the balance to S/ 8,309 million as of March 18. The accumulated balance of FX swaps-sale and CDR BCRP totals S/ 30.1 million (4.2 percent of GDP), a lower level than that recorded in the first quarter of 2016 (S/ 39.8 billion, equivalent to 6.4 percent of GDP). Additionally, BCRP intervened directly in the spot market through sales of foreign currency for a total of US$ 1,663 million.

Table 35
NUMBER OF DAYS OF INTERVENTION

	Trading days	Number of intervention days						SD of the exchange Rate (Annual % change)
		Spot Market	Placement of derivatives and indexed instruments	Total (spot and/or placement)	% of days with intervention			
					Spot	Instruments	Total	
2016	250	50	117	132	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*	54	29	43	44	54%	80%	81%	2.5%

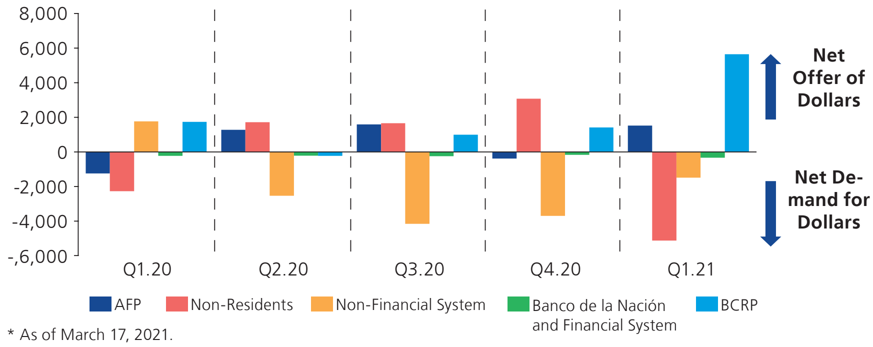
* As of March 18, 2021.

In the first quarter of 2021, the foreign exchange market registered a net demand for dollars of US$ 5,429 million, broken down as follows: (i) a net demand in the spot market for US$ 1,668 million that comes mainly from companies in the non-financial system (mainly the corporate sector) and non-resident investors, who decreased their holdings of Public Treasury Bonds (BTP) by S/ 2,210 million[17]; while the AFPs stand out with a net supply of dollars (US$ 1,247 million) after having liquidated their investments abroad to have the liquidity they required to cover the second withdrawal of funds approved by Law No. 31068; and (ii) a net demand in the Derivatives market for a total of US$ 3,776 million (with the purchase of dollars by non-resident investors standing out), while on the supply side, the net sales of the AFPs are associated with the management of hedging the exchange risk of their investment portfolio. Moreover, pension funds usually represent net spot demand due to the proportion of monthly contributions they allocate to investments in foreign currency.

Thus, the high demand for dollars from the private sector has been covered by the participation of BCRP in the foreign exchange market (net dollar supply of US$ 5,640 million), mainly through net placements of FX swaps-sale (US$ 3,545 million).

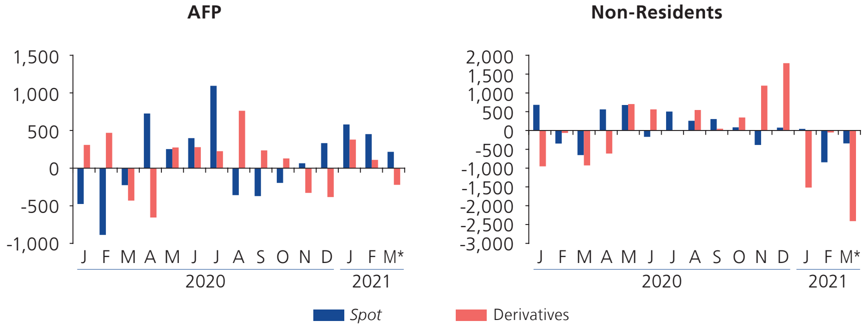
17 Generally, these investors offer dollars (spot) when they invest in BTPs. Depending on their expectations about the evolution of the exchange rate and its expected return, they hedge (exchange demand) through long positions in derivatives (forwards).

Graph 84
FLOWS TO THE FOREIGN EXCHANGE MARKET (SPOT AND DERIVATIVES)
(Million US$)



* As of March 17, 2021.
Source: BCRP.

Graph 85
EXCHANGE FLOWS
(Million US$)



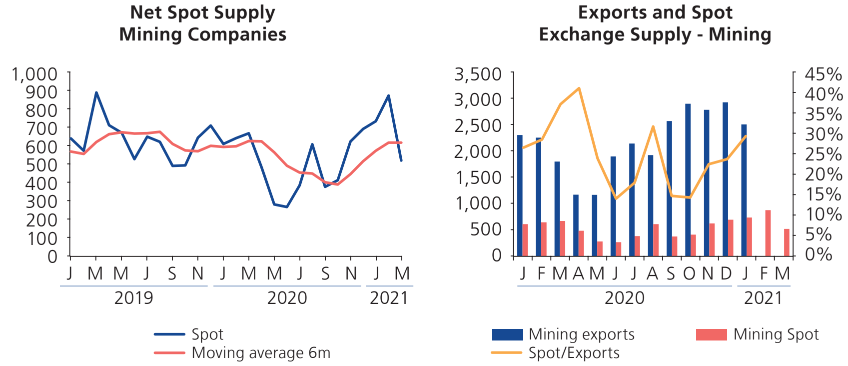
* As of March 17, 2021.

The net dollar supply of the mining sector in the first quarter of the year (US$ 2,129 million) was higher than that registered in the fourth quarter of 2020 (US$ 1,728 million). This higher mining dollar supply is associated with the recovery of mining exports after the restrictions due to the pandemic, and with their significant increase in recent months. The proportion of this dollar supply over mining exports ranges approximately between 20 and 40 percent, and in January 2021 it was 29 percent. Furthermore, considering that the level of exports remains constant as of February, this proportion would increase to around 35 percent.

Graph 86

NET SPOT SUPPLY OF MINING COMPANIES AND EXPORTS

(Values in Million US$ and ratio in %)



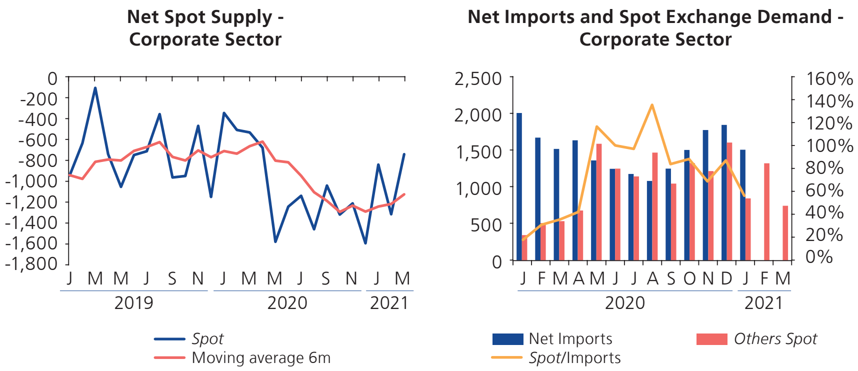
As of March 17, 2021.

On the other hand, net demand from the corporate sector (US$ 2,891 million) was lower than in the fourth quarter of 2020 (US$ 4,392 million), these foreign exchange flows corresponding usually to a net demand for dollars (mainly in the spot market). In 2019, the monthly average of net demand was around US$ 750 million. After the impact of the pandemic, this average rose to around US$ 1.2 billion in March 2020. The proportion of this net demand over net imports (imports minus non-mining exports) varies widely as it includes companies not linked to foreign trade operations as well.

Graph 87

NET SPOT SUPPLY OF CORPORATE SECTOR AND NET IMPORTS

(Values in Million US$ and ratio in %)



As of March 17,2021.

72. Greater exchange rate volatility is usually observed during periods with presidential elections –as what is observed today–, this being associated with an increase in non-resident investors' risk perception regarding the Peruvian economy. However, this higher exchange rate volatility is usually transitory and dissipates after the election results are known. The BCRP intervention in the foreign exchange market has also contributed to reduce exchange rate volatility during these election periods, as the following episodes reflect:

Table 36
EXCHANGE INTERVENTION IN PERIODS OF PRESIDENTIAL ELECTIONS

	Instruments and Spot 1/	Days of Interv.	USDPEN 2/			Dollar DXY Index 3/		
			% change	Min	Max	% change	Min	Max
First Round 2006	59	5	1.57	3.281	3.385	0.20	88.63	90.85
Second Round 2006	3	2	-2.01	3.254	3.345	-4.38	83.91	89.65
First Round 2011	445	6	1.16	2.767	2.816	-2.60	75.07	78.61
Second Round 2011	-1,172	9	-1.46	2.749	2.831	-0.35	72.93	76.10
First Round 2016	-6,841	39	-2.50	3.318	3.530	-4.82	94.24	99.01
Second Round 2016	-4,259	34	0.58	3.243	3.378	-0.05	92.63	95.89

1/ Negative indicates dollar sales.
2/ A positive change in the exchange rate indicates a depreciation of the Peruvian sol and an appreciation of the dollar (DXY Index).
3/ It measures the value of the US dollar against a basket of six currencies (euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc).
Source: BCRP and Reuters.

i. 2006 Elections (April 9 and June 4): Between February 1 and April 7, 2006, the exchange rate increased 1.6 percent, from S/ 3.311 to S/ 3.363 per dollar. After the results of the first round of elections were known, the exchange rate fell 2.0 percent to S/ 3.262 per dollar. The volatility of the sol –measured as the standard deviation of the daily percentage variation of the exchange rate– rose in the first and second round to 5.8 and 5.5 percent, respectively, dropping after the results of the second round were known to 1.2 percent. During this episode, BCRP purchased foreign currency in the spot market for a total of US$ 59 million in 5 days in the first round and US$ 3 million in 2 days in the second round. External financial markets showed a stable behavior during this electoral episode.

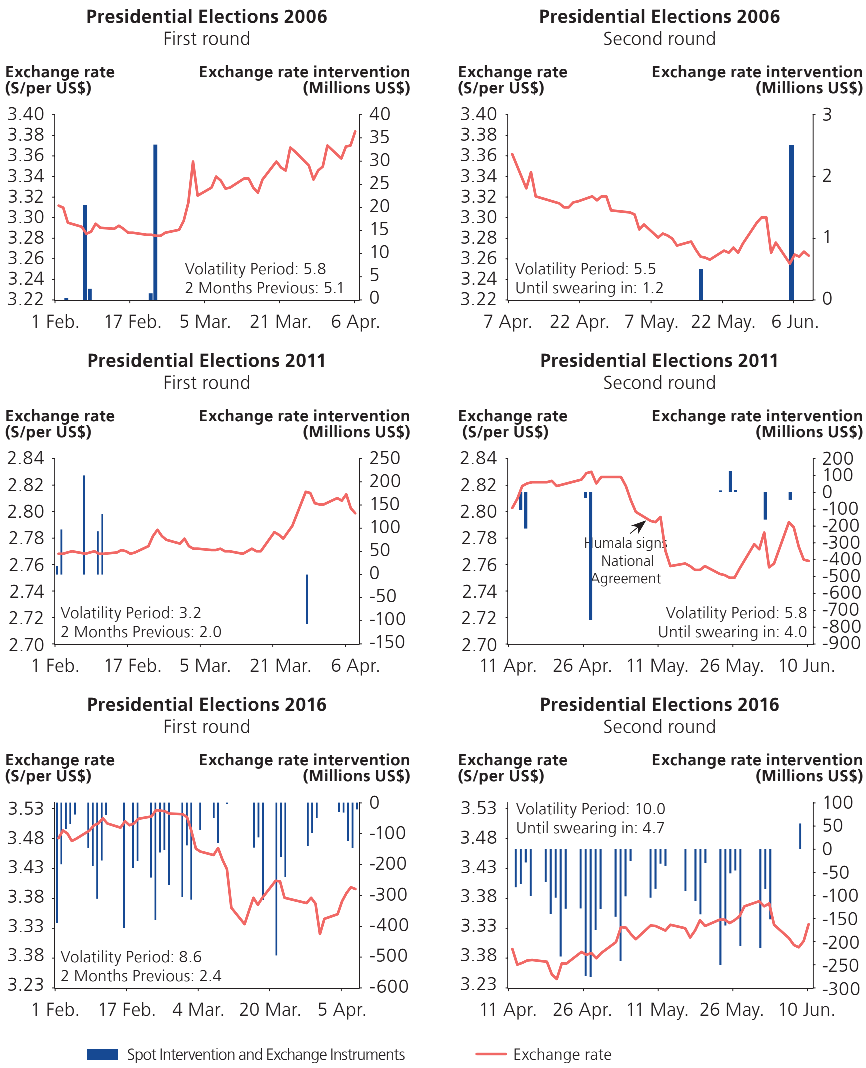
ii. 2011 Elections (April 10 and June 5): During these elections, the exchange rate rose 1.1 percent, from S/ 2.767 to S/ 2.799 per dollar between February 1 and April 7. Immediately after the results of the first round were known, the sol depreciated for seven consecutive days, between April 10 and April 19. The upward trend of the previous days subsided after one of the candidates made commitments that calmed down the markets. After the announcement of the election results and until the new head of the Executive was sworn in, the sol appreciated 1.8 percent. In this case, BCRP intervened in the foreign exchange market between February 1 and April 8, purchasing US$ 497 million in the spot market, and placing CDLD BCRP for a total of US$ 54 million and CDR BCRP for a total of US$ 107 million. In the second round, BCRP intervened in the foreign exchange market on nine occasions, making net dollar sales for a total of US$ 1,172 million (sales in the spot market for US$ 583 million and placements of BCRP CDR for US$ 737 million, as well as purchases for US$ 149 million in the spot market).

Volatility in the second round was significantly higher than in the first round (5.8 and 3.2 percent, respectively). It should be pointed out that external financial markets were highly volatile due to the debt problems in Europe and the risk of a recession in the United States during the time of the second round of the 2011 elections.

iii. 2016 Elections (April 10 and June 5): Between February and July 2016, the sol showed high volatility associated with both the electoral process and the external context, characterized by uncertainty about the pace of growth in China and a significant drop in commodity prices observed in February that decreased thereafter. Thus, in the first round (between February 1 and April 8) the exchange rate decreased by 2.5 percent, from S/3.482 to S/ 3.395 per dollar (maximum of S/ 3.530). In the second round, the exchange rate appreciated by 2.95 percent, from S/ 3.395 per dollar on Friday, April 8 to S/ 3.295 on Monday, April 11 (the highest daily appreciation observed between June 1992 and March 2021). In terms of intervention, BCRP operations in the first and second rounds amounted to US$ 6,841 and US$ 4,529 million, respectively, of which close to 91 percent was placements of BCRP CDRs and FX swaps-sale in 73 days of intervention (76 percent of the total number of intervention days).

Graph 88

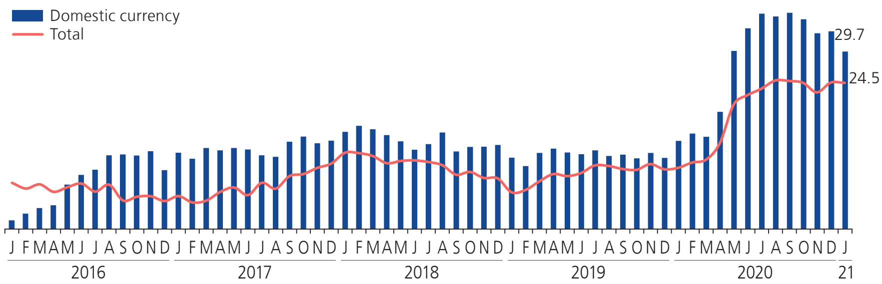
EXCHANGE RATE VOLATILITY IN PERIODS OF PRESIDENTIAL ELECTIONS



Liquidity

73. The year-on-year growth rate of private sector deposits was 24.5 percent in January. By currency, deposits in soles grew 29.7 percent year-on-year, while deposits in dollars grew 14.8 percent, reflecting the public's greater preference for savings in local currency.

Graph 89
DEPOSITS OF THE PRIVATE SECTOR BY CURRENCY
(Annual % change)



The dollarization ratio of deposits fell from 35.8 percent in 2019 to 32 percent in January 2021, this fall being explained by a decrease in the dollarization ratio of both personal deposits (from 30.1 to 26.5 percent) and corporate deposits (from 45.9 to 39.2 percent).

Deposits are expected to moderate their rate of growth in the rest of the year and in 2022, but to continue to grow at a higher rate than credit to the private sector.

Table 37
MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS (END-OF-PERIOD) 1/
(Annual % change)

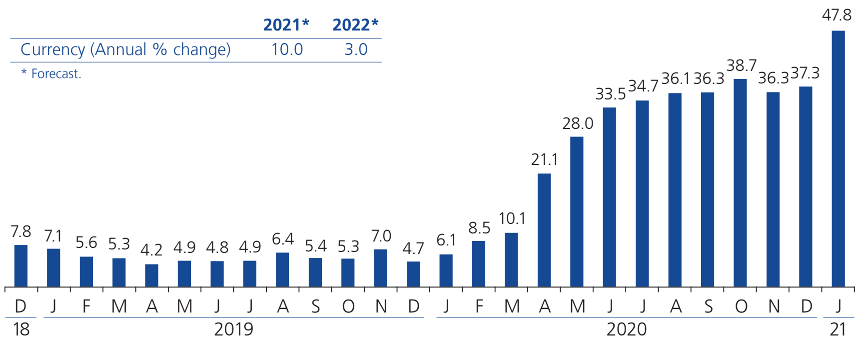
	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Jan.21	Dec.21*	Dec.22*
Currency in circulation (End-of-period)	4.7	10.1	33.5	36.3	37.3	47.8	10.0	3.0
Deposits in domestic currency	11.9	15.4	33.6	36.2	33.1	29.7	5.1	7.1
Total deposits 1/	10.0	11.6	22.5	24.8	24.6	24.5	5.2	5.4
Broad money in domestic currency	10.2	13.3	32.1	34.7	32.3	31.9	6.2	6.1
Total broad money 1/	9.4	10.9	24.1	26.3	25.9	27.4	5.0	5.0
Credit to the private sector in domestic currency	9.8	9.4	18.9	23.1	19.7	19.5	3.8	3.4
Total credit to the private sector 1/	6.9	7.6	13.2	14.3	11.8	11.6	3.0	3.0

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

74. **Currency in circulation** would grow 10 percent in 2021 and 3 percent in 2022, these rates of growth being explained by people's precautionary greater accumulation of banknotes and coins since the beginning of the state of emergency.[18] This increase 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 as the economic recovery phases started, its growth rate accelerated again in January 2021. Moreover, the delivery of Bono 600 is expected to have an upward impact on the growth of currency in the first quarter of 2021.

Graph 90
CURRENCY
(Annual % change)

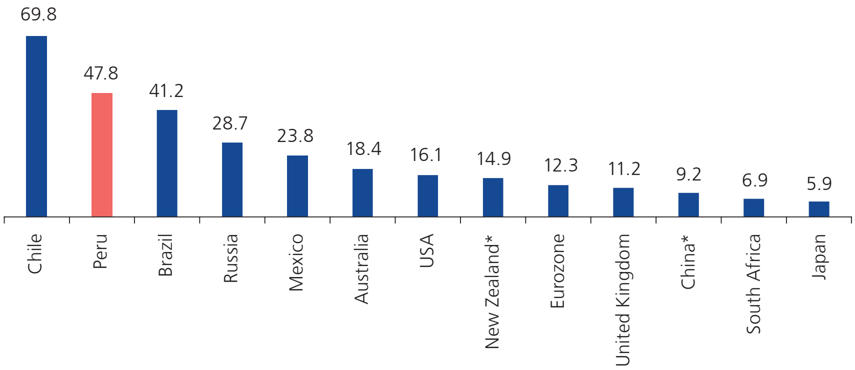


75. The annual growth rate of currency in circulation in January 2021 was 47.8 percent, higher than the growth rate observed in March 2020 (10.1 percent) and in December 2020 (37.3 percent).

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 circulation in the fourth quarter of 2020 was -21.9 percent, lower than the growth rate registered in the first quarter (-12.1 percent). In this sense, despite the growing use of alternative payment methods (as a result of technological improvements), the demand for cash has been exceptionally high.

18 Precautionary cash savings would have been driven mainly by transfers to families through bonds granted by the Government and by cash withdrawals from the CTS and AFP accounts.

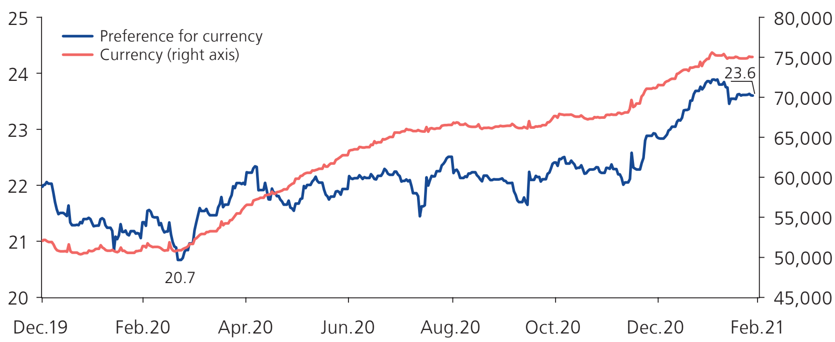
Graph 91
CURRENCY GROWTH BY COUNTRIES: JANUARY 2021
(% change)



* As of December 2020.
Source: Central Banks.

76. At the beginning of the lockdown in March 2020, the preference for currency had reached historical minimum levels (20.7 percent). A sustained level of growth was then observed until the first week of May, after which it remained slightly above 22 percent. However, since the second half of December, the preference for circulating currency has risen again and remained at around 23.6 percent since the second half of February.

Graph 92
CURRENCY AND PREFERENCE FOR CURRENCY
(In millions of soles and in %)



* Preliminary.

Credit to the Private Sector

77. **Credit to the private sector** accelerated its rate of growth from 6.9 percent in 2019 to a year-on-year rate of 11.6 percent in January 2021, mainly driven by the loans associated with the Reactiva Peru program that were granted between May and December 2020. By segments, credit to businesses grew 22.1 percent, recording a higher than the rate observed in December 2019 (4.2 percent). On the other hand, credit to individuals slowed down, from 11.3 percent in 2019 to 4.1 percent in January 2021. Car loans and credit cards registered a decline (4.3 percent and 44.8 percent, respectively) while the rest of consumer loans and mortgage loans increased by 9.5 and 3.3 percent, respectively. On the side of loans to companies, on the other hand, the segments that showed higher growth rates were loans to medium-sized companies (51.1 percent), followed by loans to small and micro-enterprises (21.8 percent), and by loans to corporations and large companies (10.1 percent).

Credit in soles continues to grow at two-digit rates, driven mainly by the Reactiva Peru program, even though its pace of growth has slowed down slightly since September 2020. On the other hand, the growth of credit in dollars has been declining since June 2020 due to the greater preference for local funding and for interest rates in soles, which remain below their historical average levels. Thus, as of January 2021, credit in soles has grown 19.5 percent, while credit in dollars has dropped by 10.9 percent in the same period.

78. The measures taken by BCRP and continued year-to-date, have contributed to ease financial conditions in different modalities and have led credit to continue to show an anti-cyclical behavior, counterbalancing the negative effects of the pandemic on economic activity.

Graph 93
TOTAL CREDIT TO THE PRIVATE SECTOR AND IN DOMESTIC CURRENCY
(Annual growth rate)

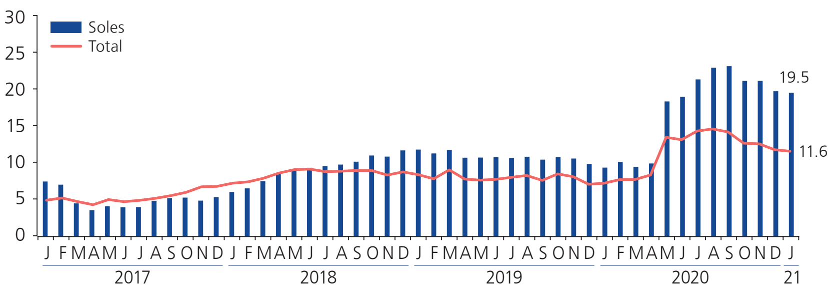


Table 38
CREDIT TO THE PRIVATE SECTOR [1/]
(Annual growth rate)

	Dec.18	Mar.19	Jun.19	Sep.19	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Jan.21
Businesses	**7.0**	**7.3**	**5.3**	**4.9**	**4.2**	**6.6**	**20.0**	**24.6**	**21.7**	**22.1**
Corporate and large companies	9.1	8.9	6.3	6.4	4.4	9.6	21.8	14.2	8.3	10.1
Medium-sized enterprises, Small business and Micro business	4.8	5.4	4.3	3.3	4.1	3.0	17.8	37.0	37.4	36.1
Individuals	**11.5**	**11.7**	**11.4**	**11.7**	**11.3**	**9.3**	**2.8**	**-1.3**	**-3.1**	**-4.1**
Consumer	13.1	13.5	13.0	13.4	12.8	10.2	1.6	-4.2	-7.1	-8.9
Car loans	-3.5	2.7	6.9	8.5	11.9	6.9	0.9	-3.1	-2.5	-4.3
Rest	13.7	13.9	13.2	13.5	12.9	10.3	1.7	-4.2	-7.3	-9.0
Mortgage	9.0	9.1	9.1	9.1	9.0	8.0	4.6	3.1	3.2	3.3
TOTAL	**8.7**	**9.0**	**7.6**	**7.5**	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**11.6**

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

79. After several months of remaining above its long-term trend in the context of the Reactiva Peru program, in January the balance of total credit to the private sector was below its long-term trend, given the moderation in credit growth since September last year.

Graph 94
UNSEASONALLY CREDIT TO THE PRIVATE SECTOR AND TREND
(Billion soles)

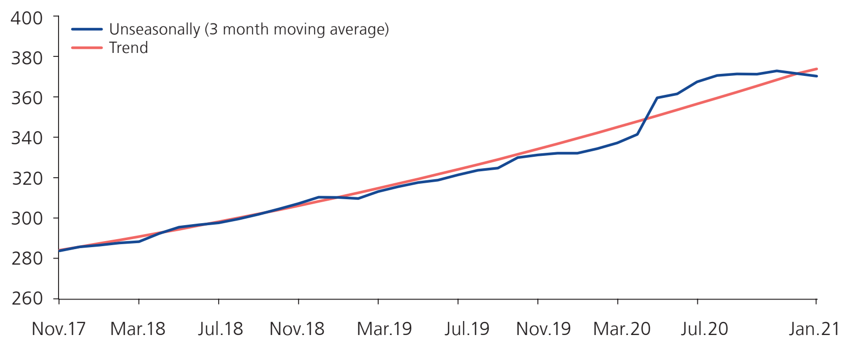


Table 39
CREDIT TO THE PRIVATE SECTOR [1/]
(Annual % change)

	Dec.18	Mar.19	Jun.19	Sep.19	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Jan.21
Domestic Currency	11.6	11.7	10.7	10.4	9.8	9.4	18.9	23.1	19.7	19.5
Foreign Currency	1.9	2.4	0.2	0.3	-0.4	2.8	-2.1	-9.8	-10.6	-10.9
Total	**8.7**	**9.0**	**7.6**	**7.5**	**6.9**	**7.6**	**13.2**	**14.3**	**11.8**	**11.6**

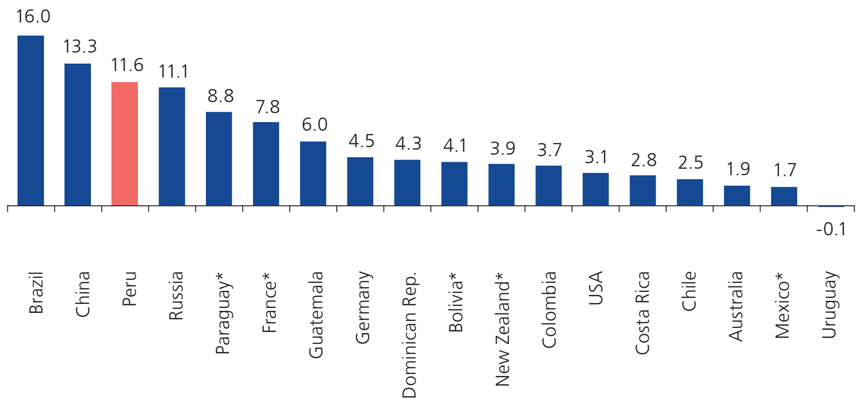
1/ Balances are valuated at constant exchange rate on December 2019.

80. At the global level, credit to the private sector has responded to the monetary stimulus measures adopted by central banks worldwide. In January 2021, Peru shows annual growth rates of total credit to the private sector and to business (11.6 percent and 22.1percent, respectively) that are among the higher rates observed today.

Graph 95

ANNNUAL GROWTH OF CREDIT TO THE PRIVATE SECTOR: JANUARY 2021

(% change)

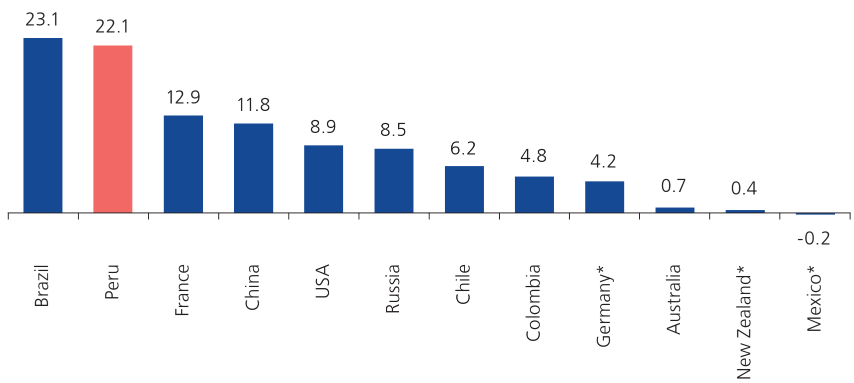


* As of December 2020.
Source: Central banks.

Graph 96

ANNUAL GROWTH OF CREDIT TO PRIVATE COMPANIES: JANUARY 2021

(% change)



* As of December 2020.
Source: Central banks.

81. With information as of the fourth quarter of 2020, the BCRP survey of credit conditions shows that supply conditions continue to be restrictive with respect to the last quarter, although the indices reflect improvements for loans to

corporations, large companies, and small and micro-enterprises. The opposite is the case for medium-sized companies. On the other hand, the indicator of loans to individuals continues to show an improvement in the three types of loans.

82. Moreover, the perception of the demand for loans in the case of companies remains restrictive for all segments. An improvement is observed in the case of corporations, large and medium-sized companies, whereas, on the contrary, a deterioration is observed in the case of small and micro companies. In the case of credit to individuals, the recovery in demand prospects continues in the three types of credit after the drastic fall observed in the second quarter of 2020. Additionally, while the demand for credit cards is still perceived as restrictive, consumer and mortgage loans show an improvement in demand conditions.

Table 40
RESULTS OF THE SURVEY OF CREDIT CONDITIONS 2019 - 2020
(Current situation indicators)

	Q3.19	Q4.19	Q2.20	Q3.20	Q4.20	Average Q4.11 - Q3.20
Large companies						
Offer (banks)	50.0	50.0	29.2	41.7	42.5,⇧	45.9
Demand (customers)	41.7	45.8	55.0	35.7	47.2,⇧	53.0
Medium-sized enterprises						
Offer (banks)	50.0	53.6	35.7	44.4	40.0,⇩	46.6
Demand (customers)	50.0	62.5	37.5	42.9	50.0,⇧	55.1
Small businesses and Microbusinesses						
Offer (banks)	45.0	54.2	46.4	32.1	40.6,⇧	45.4
Demand (customers)	54.2	54.2	37.5	41.7	37.5,⇩	52.1
Consumer						
Offer (banks)	54.2	50.0	39.3	43.8	45.0,⇧	47.6
Demand (customers)	70.8	62.5	16.7	42.9	55.6,⇧	55.8
Mortgage						
Offer (banks)	50.0	50.0	42.9	46.9	50.0,⇧	48.3
Demand (customers)	61.9	58.3	8.3	53.6	57.1,⇧	54.6
Credit cards						
Offer (banks)	50.0	50.0	33.3	36.1	44.4,⇧	46.1
Demand (customers)	62.5	62.5	25.0	31.3	46.9,⇧	54.4

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.

Dollarization of Credit and Liquidity

83. In January 2021, the ratio of dollarization of credit measured at a constant exchange rate was 20.7 percent, lower than in December 2019 (25.9 percent). This reduction results mainly from a lower dollarization of credit to companies,

which decreased from 37.3 to 27.4 percent in this period, while the dollarization of credit to individuals continued to show its downward trend. The dollarization ratio in the segment of mortgage loans fell from 13.3 percent in December 2019 to 11.4 percent in January, while the dollarization ratio of consumer loans decreased from 6.0 percent to 5.4 percent in the same period.

Table 41

RATIO OF DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR [1/]

(%)

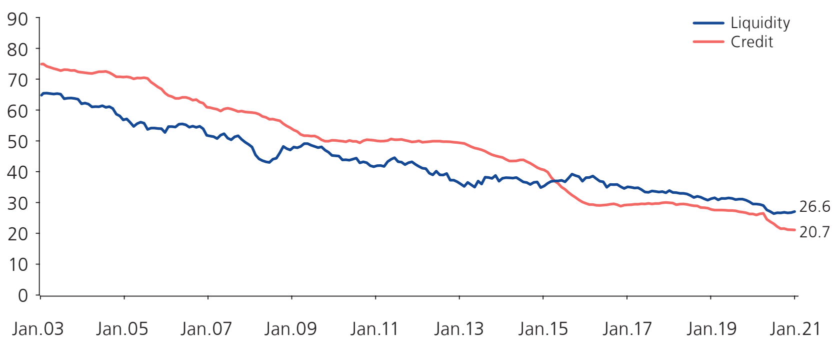
	Dec.18	Mar.19	Jun.19	Sep.19	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Jan.21
Businesses	**38.7**	**38.2**	**38.4**	**38.1**	**37.3**	**37.5**	**31.8**	**27.8**	**27.4**	**27.4**
Corporate and large companies	51.9	51.2	51.8	51.3	50.5	50.0	43.4	41.4	42.4	42.3
Medium-sized enterprises	40.1	39.9	39.7	39.4	38.5	38.7	30.0	24.4	22.0	21.5
Small business and Micro business	6.2	5.9	5.7	5.7	5.7	5.6	4.9	3.8	4.0	4.1
Individuals	**10.4**	**10.0**	**9.7**	**9.4**	**8.9**	**8.5**	**8.3**	**8.2**	**8.0**	**8.0**
Consumer	6.4	6.2	6.2	6.2	6.0	5.7	5.5	5.4	5.5	5.4
Car loans	13.9	13.4	14.2	14.8	14.8	14.9	14.9	16.0	16.7	16.8
Credit cars	7.1	7.2	7.4	7.4	7.1	6.6	5.6	5.3	5.7	7.7
Rest	5.6	5.4	5.3	5.1	5.0	4.9	5.0	5.0	4.8	4.4
Mortgage	16.3	15.5	14.9	14.2	13.3	12.7	12.5	12.1	11.6	11.4
TOTAL	**27.8**	**27.2**	**27.1**	**26.7**	**25.9**	**26.0**	**23.4**	**21.1**	**20.7**	**20.7**

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

Graph 97

RATIO OF DOLLARIZATION OF CREDIT AND LIQUIDITY: 2003-2021

(%)



Non-Performing Loans

84. In January 2021, the NPL ratio was 4.06 percent, 0.78 percentage points higher than this ratio in December 2019 (3.28 percent), mainly due to the higher delinquency rates of loans to individuals, particularly those associated with credit cards. On the other hand, the increase in the NPL ratio of corporate loans was

more moderate, with only the ratios of credit to corporations and large companies showing an increase. This would be reflecting the fact that the loan rescheduling and government-guaranteed credit programs include grace periods, as well as the fact that these credit programs have contributed to the expansion of credit to businesses, which has also contributed to subdue the increase in the NPL ratio.

Table 42
NON-PERFORMING LOANS INDEX
(%)

	Dec.18	Mar.19	Jun.19	Sep.19	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Jan.21
Businesses	**3.59**	**3.66**	**3.68**	**3.70**	**3.57**	**3.68**	**3.49**	**3.52**	**3.72**	**3.78**
Corporate and large companies	0.58	0.61	0.64	0.57	0.62	0.63	0.66	0.84	1.03	1.09
Medium-sized enterprises	7.84	8.10	8.25	8.67	8.24	9.00	7.53	6.81	6.26	6.39
Small business and Micro business	7.60	7.52	7.57	7.52	7.13	7.41	6.24	5.54	6.10	6.18
Individuals	**3.18**	**3.10**	**3.24**	**3.17**	**3.15**	**3.33**	**3.43**	**3.72**	**4.93**	**4.98**
Consumer	3.32	3.19	3.37	3.28	3.27	3.47	3.38	3.95	5.95	6.00
Credit cards	5.32	5.27	5.52	5.49	5.47	5.79	6.05	8.03	12.70	13.61
Car loans	4.45	3.92	3.97	3.97	3.75	3.86	4.78	5.58	5.85	5.74
Rest	1.54	1.56	1.59	1.66	1.68	1.83	2.05	2.03	3.10	4.00
Mortgage	3.01	2.98	3.07	3.02	2.98	3.15	3.51	3.39	3.52	3.61
Average	**3.44**	**3.46**	**3.52**	**3.50**	**3.28**	**3.41**	**3.34**	**3.47**	**3.99**	**4.06**

85. 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

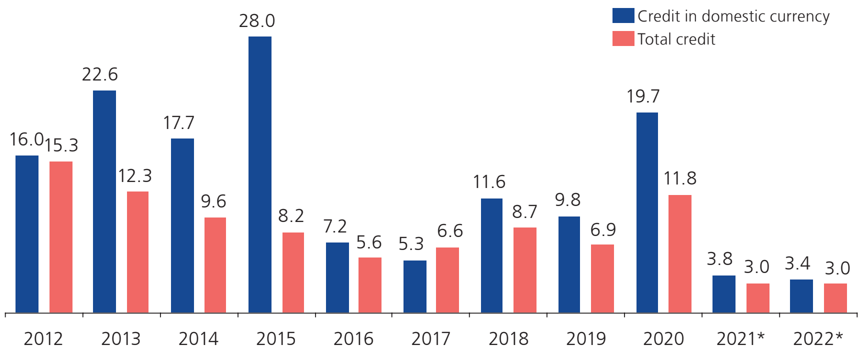
86. After showing a significant increase in the credit-to-GDP ratio in 2020, credit to the private sector is expected to moderate its growth and grow at a slower pace than nominal GDP in the forecast horizon (2021-2022). The ratio to GDP would decrease from 52 percent in 2020 to 45 percent in 2022. This 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 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 98

CREDIT TO THE PRIVATE SECTOR

(% change)

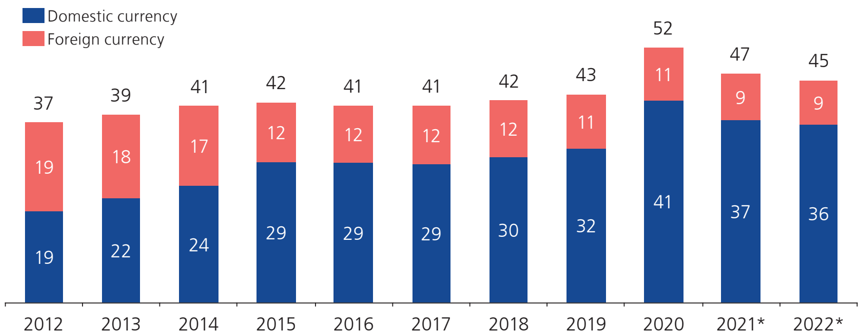


* Forecast.

Graph 99

RATIO CREDIT/GDP

(%)



* Forecast.

Box 4
NEW GOVERNMENT-BACKED LENDING PROGRAMS TO SUPPORT BUSINESS IN THE NEW PHASE OF COVID-19 AND CENTRAL BANK LIQUIDITY FACILITIES

Because of the spread of the COVID-19 pandemic in the early months of 2020, many governments decided to establish mandatory lockdown and social confinement to try to contain the spread of infections. In such a context, it became evident that many businesses would require government-guaranteed credit programs in order to have access to financing and cover working capital, given the increase in their credit risk (due to the abrupt drop in their revenues). In some cases, these programs were backed by liquidity support from countries' respective central banks.

New credit programs or program extensions to support businesses with guaranteed loans

In view of the emergence of new waves of infections worldwide from the fourth quarter of 2020, several countries have increased the list of state-guaranteed credit support programs or extended existing programs. The table below offers a list of new programs or program extensions worldwide as from the fourth quarter of 2020, the cases of the Netherlands, Israel, and Chile standing out in terms of the loan amounts.

In Chile, the FOGAPE[19] Reactiva program, which will be in force from March 1 to December 31, 2021, will allow the rescheduling of state-guaranteed loans previously granted under the FOGAPE COVID program in 2020. In Colombia, the program Unidos por Colombia, established in April 2020 and administered by the Fondo Nacional de Garantías (FNG), will be in effect until September 2021. This program has been oriented not only to small microenterprises but also to large companies and the guarantees have even been extended to the issuance of corporate bonds. Rescheduling of loans guaranteed by the FNG has been possible since 2017 in the case of microenterprises (through a facility called *Alivio a Microempresarios*), which has continued under the Unidos por Colombia program. Some additional facilities were approved in September 2020, including a 1-year grace period for the payment of the fee to the FNG for granting the guarantee, within the framework of the rescheduling facility.

19 FOGAPE is Chile's Guarantee Fund for Small Entrepreneurs. In the context of the COVID-19 crisis, in April 2020 it received government capitalization funds equivalent to US$ 3 billion to support the FOGAPE COVID guarantee program. Morover, including FOGAPE Reactiva –the second phase of the program–, guarantees for loans of up to approximately US$ 25 billion are estimated.

RECENT MEASURES OF CREATION OR EXTENSION OF PROGRAMS SUPPORTING CREDIT WITH STATE GUARANTEE

From the fourth quarter of 2020

Country	Announce-ment Date	Extension	Institución responsable	Amount	Description
Philippines	2/21/2021	9/30/2021	Dept. of Finance		Philippine Guarantee Corp (PhilGuarantee) extended its guarantee lines credit until September 2021 and made them available for more types of business. It expanded the eligible institutions to include microenterprises,small and medium-sized enterprises (MSMEs), manufacturing, housing, agriculture and other areas of the economy to support businessesduring the COVID-19 pandemic.
Indonesia	2/5/2021		Min. From Finance		The Indonesian Export Finance Agency (LPEI) and the Infrastructure Guarantee Fund (PT PII) signed an Agreement of Cooperation with Banco BTN, a commercial bank, to promote loans to corporate business sectors affected by COVID-19, especially to the non-export sector. PT PII is a company state-owned managed by the Ministry of Finance.
Netherlands	2/3/2021	6/30/2021	Min. Of Finance	€ 12 thousand millions	The Ministry of Finance extended the reinsurance of loans for 6 months of suppliers of small and medium-sized companies. All insurers that participated in 2020 participate again.
Chile	27/01/2021	31/12/2021	Min. Of Hacieda, FOGAPE (background of guarantees state)	US$ 25 thousand millions (FOGAPE total)	The bill establishing the second program of FOGAPE credit with state guarantee (FOGAPE Reactiva), which was promulgated into law on January 27, 2021. The FOGAPE guarantee is granted by the Ministry of Finance, financial entities grant the credits with their resources and can obtain liquidity from the Central Bank of Chile, using state-guaranteed credits as collateral in repo operations. The FOGAPE Reactiva program expands access to credit with state guarantee and extends its term until the year 2028. credits from the FOGAPE Reactiva program may be used to finance investment and refinance credits from FOGAPE Covid, in addition to capital of job. The Program will be valid until December 31, 2021.
Croatia	1/11/2021		Commission European	€ 202 millions	The European Commission has approved a state aid plan for Croatia of approximately 202 million euros to support companies in all sizes active in the sports and tourism sectors (and in directly related sectors, such as accommodation, restaurants) and affected by the coronavirus outbreak.
Poland	1/8/2021	6/30/2021	Bank Gospodarstwa Krajowego (Bank of growth)		Until the end of June 2021, entrepreneurs can use the guarantees of Bank Gospodarstwa Krajowego, which are part of the aid package for companies.
France	1/7/2021		European Investment Bank	€ 515 millions	The EIB Group, made up of the European Investment Bank (EIB) and the Fund European Investment Fund (FEI), and BNP Paribas have announced the signing of a synthetic securitization to support small and medium-sized enterprises (SMEs) affected by the consequences of the pandemic crisis. The operation consists of a guarantee from the EIB Group on an existing portfolio of loans to SMEs and mid-caps. This protection Credit allows BNP Paribas to release part of the allocated regulatory capital to this portfolio and deploy new loans to SMEs and companies of mid-cap in France for the next two years.
Philippines	12/29/2020	6/30/2021	Dept. of Finance	PHP 12.5 billion (approx. US$ 256 million)	Capital was injected into the Development Bank of the Philippines (DBP), which provides additional funding for response programs COVID-19: soft loans for transport sectors, attention medical and education, together with micro, small and medium enterprises (SMEs) and other affected industries. DBP will also act as a bank wholesaler that will buy loans from banks, cooperatives and institutions smaller to free up more credit and recover industries.
Slovakia	12/17/2020		European Investment Bank	€ 49 million	The European Investment Bank (EIB) and the European Investment Fund (FEI) signed a guarantee with Slovenská sporiteľňa (SLSP), the institution largest financial institution in Slovakia, to support SMEs and companies mid-cap companies affected by the COVID-19 pandemic.
Israel	10/22/2020	6/30/2021	Bank of Israel, Ministry of Finance	NIS 10 thousand millions (approx. US$ 3 000 million)	Program to facilitate credit conditions for small and microenterprises, which will be in force until the end of June 2021. The Bank of Israel will provide the bank loans for a term of 4 years, against loans that banks grant to small and micro-enterprises.
Argentina	10/13/2020		Ministry of Developing Productive	ARS 3 thousand millions	The Government announced a credit line for tourism SMEs with one year of grace and zero rate in the first 12 installments and 100% guarantee. The Applicant companies must have a MSME certificate.
Germany	10/1/2020		European Investment Bank	€ 125 millions	The EIB Group, made up of the European Investment Bank (EIB) and the European Investment Fund (EIF), has provided a guarantee from a Commerzbank AG. The guarantee will free up regulatory capital for Commerzbank and will allow you to grant new loans of up to 500 million euros to SMEs and mid-caps in Germany on favorable terms.

Source: COVID-19 Financial Response Tracker (CFRT) 2.3. Yale School of Management.

In Peru, in addition to the Reactiva Perú program, since March 2020 the government has launched other business support programs: FAE-MYPE (valid until December 31, 2020), FAE-Agro, and FAE Turismo. Furthermore, in February 2021, it also launched the PAE-MYPE Program. The objective of all of these programs is to provide support both to MSEs and to the sectors affected by the COVID-19 crisis (i.e, business in the agricultural and tourism sectors) through guarantees. These programs will be in effect until June 30, 2021.

In addition, the government issued measures to reschedule the payment of loans to individuals and SMEs affected by the COVID-19 crisis. These measures are basically the guarantees granted by the National Government through the COVID-19 Guarantee Program for personal loans, consumer loans, mortgage loans, car loans and loans to SME, the maximum amount of these guarantees being S/ 5.5 billion. The COVID-19 Guarantee Program is in effect until March 31, 2021 and according to Corporación Financiera de Desarrollo (COFIDE), the repayment of loans rescheduled until March 1, 2021, amounted to S/ 128 million.

BUSINESS SUPPORT PROGRAMS IN PERU

	FAE-TUIRSMO		FAE-AGRO		PAE-MYPE
Law	DU N° 076-2020	DU N° 018-2021	DU N° 082-2020	DU N° 089-2000, DU N° 096-2020 and DU N° 140-2020	DU N° 019-2021
Beneficiary	MYPE Tourism	MYPE Tourism	Family farming (Law N ° 30355)	Family farming (Law N ° 30355)	MYPE affected by the health emergency 1/
Objective	Guarantee credit for MYPE Tourism	Guarantee ESF and COOPAC to finance credits for MYPE tourism	Guarantee credit to small producers agrarian for campaign agricultural 2020-2021	Guarantee credit revolving to small producers agricultural	Guarantee credit
Assignment warranty state	COFIDE determines the line assignment credit in frame of the FAE-TURISMO in function to benefits or reduction of rates that the ESF or COOPAC apply to final beneficiary. The ESF and COOPAC celebrate with COFIDE a contract of channeling resources.	COFIDE determines the assignment of guarantees within the framework of FAETURISM based on to benefits or reduction of rates that the ESF or COOPAC apply to final beneficiary. The ESF and COOPAC celebrate with COFIDE a contract of channeling resources and / or a contract of guarantee.	COFIDE determines the assignment of lines credit in frame of the FAE-AGRO in function to benefits or reduction of rates that the ESF or COOPAC apply to final beneficiary. The ESF and COOPAC celebrate with COFIDE a contract of channeling resources.	COFIDE determines the assignment of lines risk coverage credit based on benefits and / or TCEA that the ESF or COOPAC apply to the final beneficiary. The ESF or COOPAC assign linesrevolving credit for working capital at final beneficiary. The ESF and COOPAC celebrate with COFIDE a contract of channeling resources.	COFIDE determines the allocation of guarantees and lines frame credit of the PAE-MYPE in function to benefits or reduction of rates that the ESF or COOPAC apply to the beneficiary final. The ESF and COOPAC that they access credit of COFIDE celebrate a pipeline contract of resources.
Destination of warranty state	Working capital	Working capital	Working capital for the agricultural season 2020-2021	Working capital for transient crops and permanent and promotion of livestock activity	Working capital
Maximum Credit	S/ 750 thousand	S/ 750 thousand	S/ 30 thousand	S/ 30 thousand	S/ 60 thousand
Validity	December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021	June 30, 2021
Term maximum of credit	60 months, 18 months of grace	60 months, 18 months of grace	<= 12 months, with 1 or more grace periods, always and when they do not exceed the credit term	<= 12 months, with 1 or more grace periods, always and when they do not exceed the credit term	<= 36 months, with 12 months of grace
Limit warranty state	S/ 500 million	S/ 200 million (modified by DU N ° 135-2020)	S/ 2 billion	S/ 2 billion	S/ 2 billion
Coverage; percentage warranty	Less than S/ 90,000; 98% Between S/ 90 001 and S/ 750,000; 95%	Less than S/ 90,000; 98% Between S/ 90 001 and S/ 750,000; 95%	Less than S/ 15,000; 98% Between S/ 15 001 and S/ 30,000; 95%	Less than S/ 15,000; 98% Between S/ 15 001 and S/ 30,000; 95%	Less than S/ 20,000; 98% Between S/ 20 001 to S/ 60,000; 90%

1 / MYPE that have been more affected by the recent closures of activities or have had a later or late restart of activities.
Note: ESF is a financial system company; COOPAC is a savings and credit cooperative.

Furthermore, the government has recently established the possibility of rescheduling loans granted under the Reactiva Perú and the FAE MYPE programs until July 15, 2021 (ED 026-

2021 and ED 029-2021, respectively). In the case of Reactiva Perú loans, a maximum amount of S/ 16 billion has been established for rescheduling, together with stricter conditions for access to rescheduling. Beneficiaries must have loans up to S/ 90 thousand or show a 10 percent year-on-year drop in sales in the fourth quarter of 2020 if they have credits between S/ 90 thousand and S/ 750 thousand, and a 20 percent year-on-year drop in sales if they have credits between S/ 750 thousand and S/ 5 million.

REPROGRAMMING PROGRAMS

	COVID-19 Guarantees	Reprogramming of Reactiva Perú	Reprogramming of FAE MYPE
Creation of the Rule	Law N° 31050	DU N° 026-2021	DU N° 029-2021
Beneficiary	Natural persons and MYPE	Enterprises	MYPE 1/
Objective	Guarantee of Reprogramming credits	Reprogramming of credits	Reprogramming of credits
Public Guarantee Assignment	Reprogramming of consumer loans, personal loans, mortgage loans, vehicle and MYPE loans.	Reprogramming of credits under the Reactiva Peru program	Reprogramming of credits under the FAE MYPE program
State Guarantee Allocation	The guarantees only apply if the cost of credit is reduced, either by reducing interest rates (in a range between 15% and 25%), the forgiveness of one or more installments or a combination of both.	The National Government Guarantee extends its term in accordance with the new payment schedules.	The guarantees granted by FAE MYPE extend their term in accordance with the new payment schedules.
Maximum Credit	Amounts of Credit Origin: S / 10,000 consumption, S / 20,000 MYPE, S / 50,000 vehicular, S / 250,000 mortgage.	Beneficiaries must have credits up to S/ 90 thousand or show a year-on-year drop in sales in the four quarter of 2020: 10% for credits between S/ 90 thousand and S/ 750 thousand, and 20% for credits between S/ 750 thousand and S/ 5 million.	
Validity	March 31, 2021	July 15, 2021	July 15, 2021
Maximum Reprogramming Term	Minimum reprogramming term: 9 months for home mortgages loans and 6 months for other loans; and a maximum term of 36 months including grace period.	It will be established in the Operating Rules of Procedures (pending). A grace period of up to 12 months should be established for the beneficiaries of rescheduling.	It will be established in the Operating Rules of Procedures (pending). A grace period of up to 12 months should be established for the beneficiaries of rescheduling.
State Guarantee Limit and/or Reprogramming	S/ 5.5 billion	S/ 16.0 billion	
Hedge; Guarantee Percentage	If 2/3 or more of the installments were paid, the guarantee is 80%. On the other hand, if between 1/3 and 2/3 of the installments were paid, the guarantee fluctuates between 40 and 60% by type of credit.	The guarantee of the National Government maintains the same hedge percentage agreed in the initial conditions.	The guarantees granted by FAE MYPE maintain the same hedge percentage agreed in the initial conditions.

1/ MYPE that have been more affected by the recent closures of activities or have had a later restart of activities.
Memo: ESF is a financial system enterprise; while COOPAC is a credit union.

Measures taken by central banks in the region to support liquidity and credit

In response to the COVID-19 crisis, central banks have taken measures to prevent the disruption of the payments system and the credit chanel in their economies. A first line of measures consisted of ensuring adequate levels of liquidity in their financial systems (at historic low levels in some cases) as a complement to monetary stimulus via interest rate reductions, through unconventional monetary policy instruments, even to a greater extent than during the 2008-2009 global financial crisis. Subsequently, monetary and fiscal authorities coordinated in some cases to inject liquidity through repos of government-guaranteed loan portfolios to finance working capital for companies affected by mandatory lockdown and the consequent increase in their credit risk.

Central banks in the region were no strangers to this process. The measures taken can be grouped into the following (not all measures have been applied by all central banks in the region):

- Increase in the amounts and terms of injection operations through previously existing auctions.
- Easing of the conditions for accessing the central bank's window facilities.
- Expansion of the range of collateral that can be used in injection operations: sovereign bonds, corporate bonds, credit portfolio, government-guaranteed credit portfolio.
- Inclusion of secondary market purchases of public or private securities as part of central bank injection operations.
- Expansion of the set of financial intermediaries that may participate in central bank injection operations (repos, outright purchases, windown operations).
- Relaxation of reserve requirements.

Most countries have dealt with foreign exchange volatility by means of interventions in their foreign exchange markets, opting in some cases to give greater impulse to derivatives (e.g., foreign exchange swaps). In addition, some central banks, such as the Central Bank of Brazil, for example, also act as banking regulators and supervisors, so the list of measures includes the relaxation of provisions and capital requirements (which in other countries have been applied by their respective banking regulators[20]).

The measures adopted by four central banks in the region (Brazil, Chile, Colombia, and Peru) are summarized in the following table, which shows that, in general, the four central banks have not applied the same set of measures. For example, the Central Bank of Chile had already implemented the repurchase of its own promissory notes prior to the onset of the pandemic, but its regulations did not yet consider asset purchases or repos with credit portfolios. Colombia had not implemented portfolio repos either.

MEASURES OF CENTRAL BANKS OF THE REGION TO SUPPORT LIQUIDITY AND CREDIT [1/]

	Brazil	Chile	Colombia	Peru
Increase in existing injection operations:				
Amounts			X	X
Terms	X		X	X
Collaterals	X	X		X
Counterparts			X	X
New injection operations (Includes Credit with state guarantee)		X	X	X
Exchange of government securities (different terms)			X	
Direct purchases				
Government securities			X	X
Private securities	X	X	X	
Emergency credit programs for enterprises	X			
Reserve requirement easing	X		X	X

1/ Measures implemented as of March 2020.
Source: Central banks and BIS.

20 In fact, in the case of government-guaranteed repo loans, many banking regulators have taken measures to relax provisioning and capital requirements.

In Chile, although the Credit Facility Conditional on the Increase of Placements (*Facilidad de Crédito Condicional al Incremento de las Colocaciones* - FCIC) has not been associated only with the previously mentioned FOGAPE programs, in chronological terms the two FCIC phases implemented have been closely linked to the FOGAPE COVID program, just as the FCIC 3 phase will be closely linked to the second phase of the guarantee program (FOGAPE Reactiva), which came into effect on March 1, 2021.

MEASURES OF CENTRAL BANKS OF THE REGION TO SUPPORT LIQUIDITY AND CREDIT

	Brazil	Chile	Colombia
March 2020	Reduction of the reserve requirement rate for term deposits from 3% to 17% until December 2020.	Purchase of bank bonds.	Increase in amounts and expansion of counterparties for repo auctions with private securities.
	New term deposits with special guarantees (DPGE).	Conditional Credit Facility to Increase Loans (FCIC 1) and Liquidity Credit Line.	Extension of terms up to 90 days for repos with corporate debt and 60 days for public debt.
	Repos backed by obligations and reserve requirements.		Expansion of counterparties that have access to auctions and the liquidity window with public debt.
	1-year repos backed by federal securities.		New programs for the purchase of corporate debt and sovereign debt.
April 2020	Loans backed by financial notes guaranteed by credit operations (LFG).		Decrease from 3 pp to 8% of the reserve requirement on current accounts and savings accounts. Decrease from 1 pp to 3.5% of the reserve requirement on CDTs of less than 18 months.
			The purchase of TES (public debt securities administered by the Banco de la República) in the secondary market was authorized. Banco de la República was also authorized to intervene in the TES forward market.
May 2020			The BR was authorized to carry out repos with portfolio securities for an amount of up to 6.3 trillion pesos.
			The BR carried out a public debt swap with the Government. In the operation, the BR delivered TES due 2021, and received longer-term TES.
June 2020	Deduction of 30% of the reserve requirements of savings deposits conditional on loans to micro and small companies.	Special asset purchase program.	It was decided to hold the repos with portfolio securities indefinitely. It was also established that repos with public debt for 1 year and 9 months will be carried out, every 2 weeks.
	Purchase of private securities in the secondary market.		
July 2020	Emergency program for financing the payroll of small and medium-sized enterprises (PESE).	Conditional Credit Facility to Increase Placements 2 (FCIC 2).	
August 2020		Cash purchase forward sale.	
		Purchase of promissory notes or certificate of deposit.	
September 2020			
October 2020	Extension of the reduction of the reserve requirement rate for term deposits until March 2021 (before December 2020).		
November 2020			
December 2020			
January 2021		Repo operations in dollars (valid until May 2021).	
February 2021			
March 2021		Conditional Credit Facility to Increase Loans 3 (FCIC 3).	

Source: Central banks and BIS.

Since the end of 2020, the countries of the region have been facing new challenges. The increase in COVID-19 infections –the so-called "second wave" that has occurred worldwide–

has determined new confinement measures, which would imply revisions in the growth outlook and potential problems of credit debtors' compliance with payments, including the loans with state guarantees. Despite this, the central banks that appear in the table below implemented almost all of their measures until the third quarter of 2020. From October to the present, however, only the Central Bank of Chile has announced FCIC 3.

Measures of other central banks

The response of the European Central Bank (ECB) stands out among those given by the central banks of developed countries in the context of the second wave of COVID-19 contagions. In light of the economic consequences from the resurgenc of the pandemic in the fourth quarter of 2020, the ECB's Governing Council said in its monetary policy communication of December 10, 2020, that it would recalibrate its monetary policy instruments, in addition to maintaining key monetary policy interest rates at their current levels.

According to the ECB, these policy measures "would contribute to preserving favourable financing conditions over the pandemic period, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability. At the same time, uncertainty remained high, including with regard to the dynamics of the pandemic and the timing of vaccine roll-outs".

The main measures included the following:

- **Pandemic Emergency Purchase Program (PEPP)**. The ECB expanded the PEPP envelope by €500 billion to a total envelope of €1.85 trillion and extended the net purchase horizon at least until the end of March 2022. In addition, it extended the reinvestment of the principal payments from maturing securities purchased under the PEPP until at least the end of 2023.

- **Targeted Longer-Term Refinancing Operations (TLTRO III)**. The ECB recalibrated the conditions on operations under the third series of TLTROs. Specifically, it extended the lower interest rate period by 12 months (to June 2022). It also added three additional operations to those to be carried out between June and December 2021. In addition, the total amount that counterparties would be entitled to borrow in TLTRO III operations was raised from 50 percent to 55 percent of their stock of eligible loans**.**

- **Collateral Easing measures**. The ECB extended to June 2022 the duration of the set of collateral easing measures adopted on April 7 and April 22, 2020. The Governing Council will reassess the collateral easing measures before June 2022, ensuring that the participation of Eurosystem counterparties in TLTRO III operations was not adversely affected.

- **Pandemic Emergency Longer-Term Refinancing Operations (PELTROs)**. The ECB's Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which aim to continue to provide effective liquidity backstop.

- **Asset Purchase Program (APP).** Net purchases under the Asset Purchase Program (APP) will continue at a monthly pace of €20 billion. The Governing Council also intended to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time after the date when it started to raise the key ECB interest rates and, in any case, for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation.

- The **Eurosystem Repo Facility** (EUREP) **and swap lines**. The Governing Council also said that this facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022.

MEASURES OF THE EUROPEAN CENTRAL BANK ON DECEMBER 2020

Purchase of Assets	**PEPP expansion**	Increase of the total amount by € 500 billion to € 1.85 trillion. Extension until March 2022 Reinvestments until December 2023
Credit Facilities	**Four additional PELTROs in 2021**	Facilities of being used as liquidity backup
	Collateral requirements	More favorable borrowing rates until June 2022 3 additional operations in 2021. Debt rights increased to 55% of eligible loans.
	Collateral requirements	Easing was extended until June 2022. The procedures for full allocation at a fixed rate continued
Swap/repo lines	**EUREP and swap/repo lines with non-Eurozone central banks**	They last until March 2022.

In summary, monetary and fiscal authorities have so far played a very active role in providing liquidity to their financial system and in supporting access to financing for businesses affected by the COVID-19 crisis. This stance will continue as long as it is necessary to maintain monetary and fiscal stimulus to their respective economies. Once the indicators of infections and deaths from the pandemic fall significantly due to effective and timely vaccination programs, a gradual withdrawal of these stimuli is expected, in line with the objectives of monetary stability and fiscal solvency.

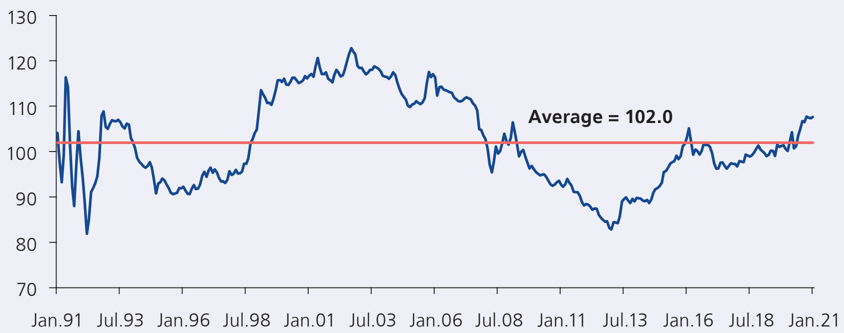
Box 5
FOREIGN EXCHANGE INTERVENTION AND THE REAL EXCHANGE RATE

BCRP carries out interventions in the foreign exchange market with the aim of reducing exchange rate volatility in order to: (i) limit the balance sheet effects associated with financial dollarization; (ii) smooth the credit cycle associated with fluctuations in capital flows; and (iii) allow the preemptive accumulation of reserves as an insurance against future episodes of financial turbulence.

Even though dollarization has decreased significantly in the last 20 years, the Peruvian economy continues to be exposed to the risks that abrupt exchange rate fluctuations may have on the solvency of firms and households that hold debts in dollars. This risk is mitigated through foreign exchange intervention, which is carried out without affecting the long-term trend of the real exchange rate, and is rather determined by macroeconomic fundamentals.

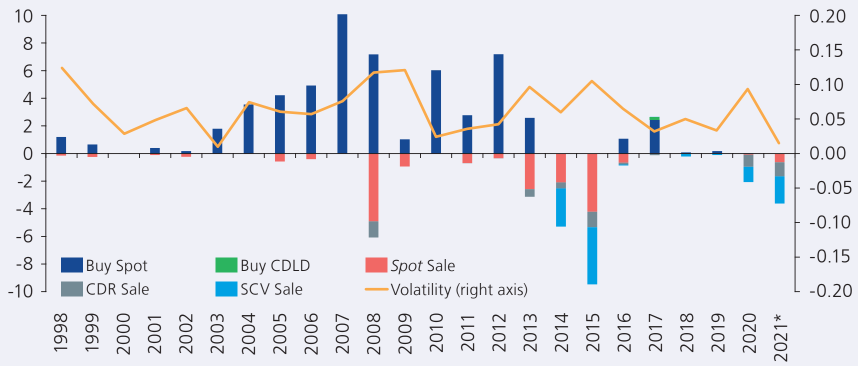
The following graph shows the evolution of the Bilateral Real Exchange Rate Index (Dollar-PEN) over the last 30 years. Beyond the volatility recorded in 1991-1992, fluctuations around the historical average of the dollar-sol exchange rate can be observed with some level of persistence, but ultimately there is a stable behavior in the long term.

BILATERAL REAL EXCHANGE RATE INDEX: 1991 - 2021



By avoiding situations of extreme exchange rate volatility with severe effects on corporate and household balance sheets, BCRP portects the monetary policy transmission mechanisms and the ability to implement a counter-cyclical monetary policy. That is why there are high levels of exchange rate intervention in periods of global uncertainty that lead to greater exchange rate volatility, such as the 2008 global financial crisis, the 2015 Chinese stock market turbulence, and the COVID-19 pandemic in 2020-2021.

FX INTERVENTION OF THE BCRP
(% GDP)

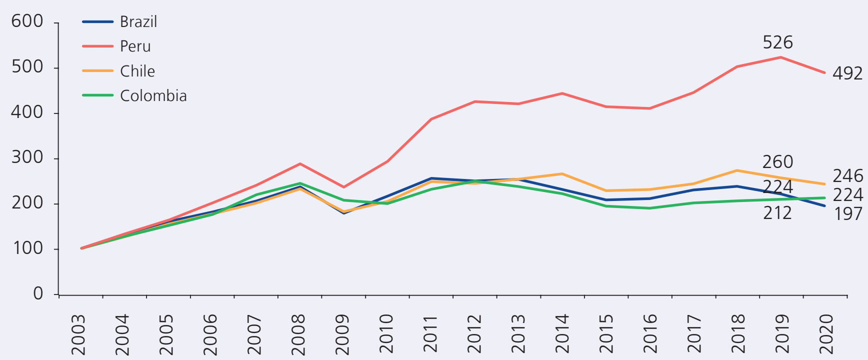


* As of March 3.

Moreover, foreign exchange intervention aimed at reducing the volatility of the nominal exchange rate allows for a better signal of the real exchange rate as the relevant relative price of the economy for export activities. Of course, there are other key factors for the development of the export sector, such as the quality of infrastructure, access to markets through trade integration agreements, clear and stable rules, etc.

It is worth pointing out that non-traditional exports have been growing steadily since the 1990s. Between 1994 and 2019, the value of exports increased at an annual rate of approximately 10 percent. At the sector level, exports of agricultural goods have shown the greatest dynamism (with an average annual rate of 14 percent in the period) and currently represent approximately 50 percent of total non-traditional exports. The dynamism of these exports is one of the highest observed in the region.

NON-TRADITIONAL EXPORTS*
Index 2003=100



* It considers Non-traditional Exports for Peru and Exports without commodities for the rest of the countries.

The BCRP's foreign exchange intervention fulfills the objective of reducing the risks associated with financial dollarization, thus generating a favorable and more stable environment, which at the same time allows for the healthy evolution of macroeconomic fundamentals and the expansion of various sectors, as in the case of non-traditional exports. By way of conclusion, it is worth highlighting that, without having a target exchange rate level, these BCRP actions have contributed to generate a more stable macroeconomic context, reducing the risks inherent to financial dollarization, such as the balance sheet effect, while reinforcing the foundations for the financial stability required for long-term growth.

Box 6
THE MANDATE OF
BANCO CENTRAL DE RESERVA DEL PERÚ

Central banks contribute to society's welfare by issuing a currency that fully complies with the fundamental functions of money in a market economy: to be a means of transaction, a unit of account, and a store of value. When this does not occur and there is inflation, economic transactions are hindered, and speculation on savings, investment and production activities is encouraged, causing a greater detriment to lower income groups. It is therefore common that the mandate established by society for a central bank is precisely to preserve monetary stability.

Preserving monetary stability consists of maintaining the real value of money, i.e. preserving its purchasing power in terms of people's consumption basket. Since inflation is a monetary phenomenon[21], it is necessary to control the amount of money in circulation to achieve price stability and, therefore, monetary policy is the natural instrument to control inflation. For this reason, central banks are the institutions in charge of achieving this price stability objective.

Countercyclical Policy

Monetary policy also contributes to society' welfare when it can be countercyclical. The reason is that this favors a less volatile evolution of economic activity, which in the long run favors investment and potential GDP growth.

The monetary stability mandate is also consistent with a countercyclical monetary policy. In other words, the central bank can take actions to support the recovery of the economy in times of recession and avoid overheating in times of unsustainable spending growth. These demand stabilization actions are consistent with inflation control, since a prolonged economic recession can lead to deflation (falling prices due to lack of demand) and unsustainable demand growth can lead to an inflationary spiral, causing the central bank to fail to meet its target of low and stable inflation.

Therefore, in practice, central banks with monetary stability mandates also behave in a countercyclical manner, which is consistent with their mandate. For example, all central banks with inflation targeting schemes in the region (Brazil, Chile, Colombia, Mexico, and Peru) lowered their monetary policy interest rates to historic lows last year in the wake of Covid-19, with the monetary policy rate of Banco Central de Reserva del Perú (BCRP) being the lowest in the region (0.25 percent per annum).

Conducting a counter-cyclical monetary policy requires central banks to have credibility to keep inflation expectations anchored. Not all central banks can conduct a countercyclical

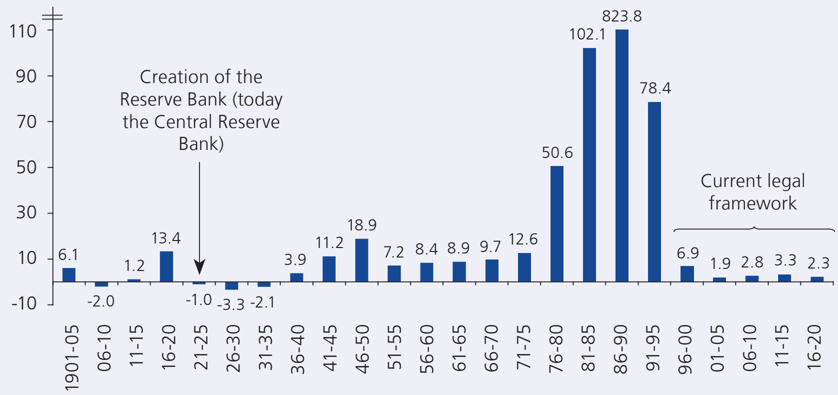
21 Friedman, M., and A. Schwartz (1971), A Monetary History of the United States, 1867-1960; NBER Studies in Business Cycles N° 12, Princeton University Press.

monetary policy because it is extremely important that they have a high degree of credibility in the responsible use of monetary instruments and it takes time to obtain this credibility, especially when there has been an experience of high inflation in the past.

Central bank mandates have changed over time. In the 1970s it was common for central banks to have broad mandates that included multiple goals, the fulfillment of which could conflict with each other. However, a lesson from the high inflation observed in the 1970s and 1980s is that central banks should focus on meeting a single precise objective: price stability.

The Peruvian case was no exception to this. Between 1962 and 1992 there was a period when the central bank had multiple mandates, which included promoting economic development and growth. Since financing the Public Treasury was also allowed, this resulted in extremely high and volatile inflation levels.

INFLATION
(Average of the period, in %)



Memo: The graph has not been made to scale in the period 1986-1990.
Source: INEI and BCRP.

The mandate of the Central Reserve Bank of Peru

The BCRP's mandate is established in the Peruvian Constitution and is limited to preserving monetary stability[22]. The Constitution also establishes the prohibition to grant financing to the Public Treasury in order to avoid the repetition of situations that imply fiscal dominance for

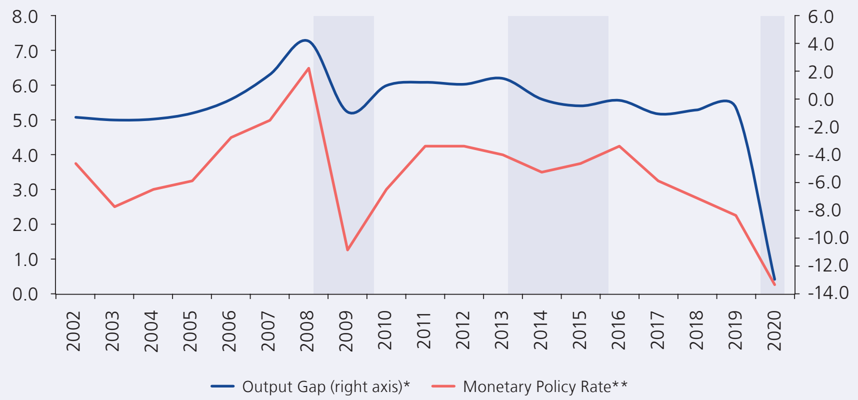
22 Article 84 of the Peruvian Constitution states that "The purpose of the Central Bank is to preserve monetary stability. Its functions are: to regulate the currency and credit in the financial system, to manage the international reserves under its charge, and the other functions indicated in its Organic Law." In addition, Article 2 of the Organic Law of BCRP states that "Its functions are to regulate the quantity of money, manage international reserves, issue banknotes and coins and report on national finances."

the central bank, with high welfare costs for the entire population. Under the same principle, the Central Bank is forbidden to grant indirect financing under any modality, such as through guarantees[23]. These prohibitions ensure that the Central Bank may have the independence to carry out its monetary operations in order to fulfill its purpose of preserving monetary stability.

Furthermore, the Peruvian Constitution and the Central Bank's Organic Law establish that the functions of the Central Bank are to regulate the currency and credit of the financial system, to manage the international reserves under its responsibility, to issue banknotes and coins, and to report on national finances. The exercise of these functions is subordinated to the bank's mandate of preserving monetary stability. The Central Bank regulates the currency (liquidity) and credit in the financial system through its monetary policy instruments and operations. For example, it may expand or contract the capacity of financial institutions to provide credit to the economy through instruments such as the benchmark interest rate, the rates of reserve requirement, and open market operations, thus stabilizing excess demand and controlling inflation.

This current regulatory framework has allowed the Peruvian economy not only to have low and stable inflation levels, but also to conduct a countercyclical monetary policy, persistently fulfilling its goal of price stability. As a result, the country's economy has one of the lowest inflation rates in the region.

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



* BCRP.
** End of period.

Why a single mandate?

The Central Bank's single mandate allows the monetary authority to focus on the objective of controlling inflation, protecting it from political pressures that could go against price

23 Article 80 of the BCRP's Organic Law establishes that "The Bank is prohibited from extending guarantees, letters of guarantee or other guarantees and from using any other form of indirect financing, as well as from granting insurance of any kind."

stability and eliminating what is known as the inflationary bias problem[24]: price stability can be compromised by short-term political pressures, such as the desire to generate an expansionary economic cycle, generating higher levels of inflation systematically. This also increases long-term inflation and generates an economic recession as the growth of demand beyond productive capacities becomes unsustainable.

The single mandate of price stability also mitigates the problem known as temporary inconsistency[25]: after having committed to a low and stable inflation level, if the monetary authority had other policy objectives such as economic activity targets, it could deviate ex post from its low inflation commitment, expanding aggregate demand over potential GDP and generating higher inflation. In the face of a dynamic inconsistency problem, the central bank would lose credibility, which would make it more difficult to control inflation and would eliminate its ability to conduct a counter-cyclical monetary policy.

Experiences in other countries

There are some central banks in developed countries where the monetary authority has multiple mandates due to historical reasons. This is the case of the US Federal Reserve, for example. The reason why the Fed has a dual mandate while central banks in Latin America and the European Central Bank have a stable price mandate is related to their respective economic histories. History reflects that over the last 60 years the peak inflation of the countries that currently have a single price stability mandate is significantly higher than that of the countries that have a dual mandate. However, the single mandate has allowed for a significant reduction in inflation rates over the last two decades.

In the case of the Federal Reserve, which has the objectives of price stability and maximum employment[26], the credibility of this central bank has allowed it to follow a low and stable inflation target in practice, without going through hyperinflationary episodes such as those observed in other economies (e.g. Peru). In the United States, since the creation of the Federal Reserve in 1913, there has never been a traumatic experience of very high inflation, except for the period 1974-1981 when inflation reached a maximum annual rate of 13.5 percent in 1980. On the contrary, the most serious episode in its history was the Great Depression, which began in 1929 and lasted many years, and where the Federal Reserve was criticized for not providing sufficient liquidity to the economy.

The history of Latin America, on the other hand, has been one of episodes of very high inflation rates in almost all countries (with annual inflation rates above 30 percent) and with periods of hyperinflation in some of them. Similarly, countries such as Germany and Hungary in Europe

24 See for example: Barro, Robert J., and Gordon, David B. (1983). "A Positive Theory of Monetary Policy in a Natural-Rate Model" (PDF). Journal of Political Economy. 91 (4): 589–610.

25 Kydland, F., and E. Prescott (1977), "Rules Rather than Discretion: The Inconsistency of Optimal Plans," Journal of Political Economy, 85, pp. 473-91.

26 See https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm

were also affected by hyperinflation due to a complete lack of control in the expansion of money in the economy.

Conclusions

Monetary stability is a fundamental pillar for achieving long-term economic growth insofar as it generates a favorable environment for economic activity and development. BCRP, which follows an inflation targeting regime to achieve this goal, has set an inflation target range between 1 and 3 percent with the aim of anchoring inflation expectations at a level similar to that of developed economies and establishing a permanent commitment to currency stability.

The Central Bank must have independence and credibility to meet the objective that inflation expectations remain anchored, which contributes to generate greater confidence among economic agents and boosts long-term growth.

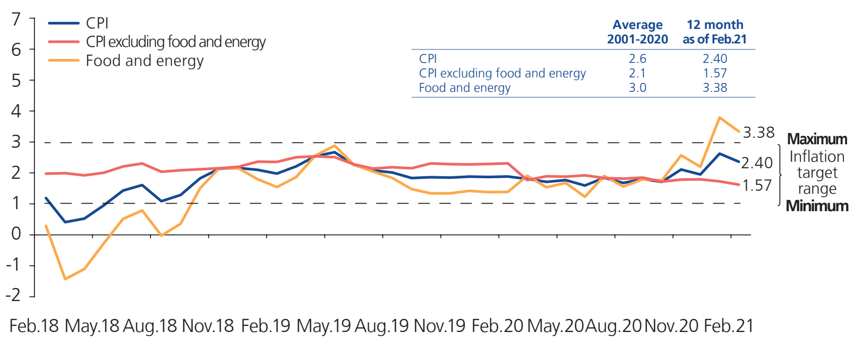
The monetary stability mandate is compatible with active monetary policy responses to different adverse shocks because they seek to prevent disruptions in the payments system and to reduce high volatility in financial markets. Empirical evidence shows that BCRP actions have contributed to subdue abrupt changes in economic and credit cycles as well as to recover economic agents' confidence in the national currency.

VI. Inflation and Balance of Inflation Risks

Recent Inflation Trends

87. Year-on-year **inflation** increased from 2.14 percent in November to 2.40 percent in February, driven by supply factors in some food prices, the increase in the foreign exchange rate, and the higher prices of fuels. On the other hand, the core inflation rate decreased from 1.75 to 1.57 percent in the same period, remaining in the lower part of the target range and registering its lowest level since February 2011. This result is consistent with the different inflation trend indicators that also show levels in the lower part of the target range.

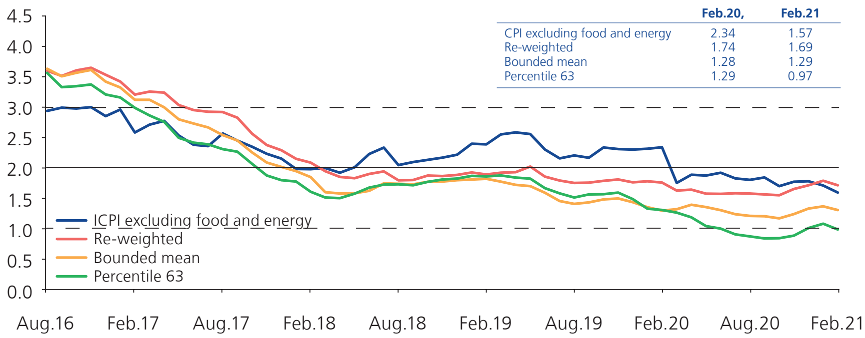
Graph 100
INFLATION
(Last 12-month % change)



Graph 101

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.

88. In the last twelve months –from March 2020 to February 2021–, the demand and supply of a series of goods was affected by social immobility and lower activity as a result of the measures adopted due to the health emergency. In addition, weather disturbances resulted in a lower supply of some foodstuffs, while fuel prices rose due to the increase in international oil prices and electricity rates. The increase in electricity rates is explained by the quarterly adjustment settlement to compensate for differences in contracts between energy generation and distribution companies, as well as by the collection of tolls for some transmission lines and the increase in the exchange rate.

Table 43

INFLATION

(% change)

	Weight	2019	2020	2021	
				Jan.-Feb.	12 months
CPI	**100.0**	**1.90**	**1.97**	**0.62**	**2.40**
1. CPI excluding food and energy	**56.4**	**2.30**	**1.76**	**0.03**	**1.57**
a. Goods	21.7	1.39	1.52	0.17	1.42
b. Services	34.8	2.86	1.91	-0.06	1.66
2. Food and energy	**43.6**	**1.43**	**2.22**	**1.31**	**3.38**
a. Food and beverages	37.8	1.00	2.24	0.79	2.71
b. Fuel and electricity	5.7	4.32	2.13	4.64	7.77
Fuel	2.8	-0.39	-4.20	11.84	8.03
Electricity	2.9	8.04	6.73	-0.07	7.58,

89. The services with the highest price increases in the last twelve months were health services (1.7 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). The prices of other services, such as outside the home and other personal services, which includes the services of household employees and cleaning services, among others, also showed lower rates than those registered in the 2001-2020 period.

Table 44
INFLATION
(Annual % change)

	Weight	2019	2020	Feb.21	2001-20 Annual average
CPI	**100.0**	**1.90**	**1.97**	**2.40**	**2.56**
Education	**9.1**	**5.22**	**1.98**	**1.55**	**4.03**
Health	**1.1**	**1.47**	**1.20**	**1.67**	**2.75**
Meals outside the home	**11.7**	**1.69**	**1.00**	**0.85**	**3.40**
Other personal services	**3.3**	**1.35**	**0.99**	**0.95**	**1.49**
Of which:					
Household employees	2.1	0.81	0.57	0.64	0.69
Housekeeping	0.2	1.45	-0.04	-0.03	1.61
Various repair	0.1	0.52	-0.37	-0.11	2.14
Home repair and maintenance services	0.0	0.00	0.88	1.77	2.02

90. In the January-February 2021 period, the overall price level rose 0.62 percent. The CPI excluding food and energy prices grew 0.03 percent in the same period, while the food and energy price index grew at a higher rate of 1.31 percent. Food and beverage prices increased by 0.79 percent, while energy prices rose by 4.64 percent, reflecting the 11.84 percent rise in fuel prices.

91. At a disaggregate level, the items with the highest positive contribution to inflation in this period were vegetables, gas, gasoline, eggs, and potatoes, while the items with the highest negative contribution to inflation were chicken, fish, lemons, tuition and school fees, and urban fares.

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

Positive	Weight	% chg.	Contribution	Negative	Weight	% chg.	Contribution
Fresh legumes	0.2	100.7	0.24	Chicken meat	3.0	-2.8	-0.07
Gas	1.4	11.7	0.15	Fresh and frozen fish	0.7	-8.5	-0.05
Gasoline and lubricants	1.3	13.2	0.14	Lemon	0.2	-21.5	-0.05
Eggs	0.6	26.2	0.13	Tuition and tuition fees	8.8	-0.3	-0.03
Potato	0.9	5.1	0.04	Urban fare	8.5	-0.3	-0.03
Tickets to shows	1.7	2.6	0.04	Grape	0.1	-16.4	-0.02
Tangerine	0.2	8.5	0.02	Avocado	0.1	-10.3	-0.02
Meals outside the home	11.7	0.1	0.02	Onion	0.4	-5.4	-0.02
Olluco and similar	0.1	16.6	0.01	National transport	0.3	-4.3	-0.02
Papaya	0.2	7.6	0.01	Airfare	0.4	-3.4	-0.01
Total			**0.80**	**Total**			**-0.32**

Food

In the January-February period, there were increases in the prices of products such as green peas –the main component of fresh vegetables– and potatoes, especially in the "yellow potato" variety, due to lower supplies from the central highland areas. The plantings and yields of these products were affected by disturbances in weather conditions. Rainfall, which was scarce during most of the season, was followed by excess rainfall from December onwards and by a further decrease in rainfall in February. Hailstorms and frosts also affected crops in the high Andean areas.

The price of eggs increased due to higher demand and higher production costs associated with the restrictions on mobility imposed by the quarantine. It is worth mentioning that eggs are a product that can be purchased in bodegas, stores located closer to homes, as well as by the unit. Another factor that contributed to this price rise was the increase in the international price of hard yellow maize –the main component of the production cost–, with its average dollar price rising 7 percent with respect to January and 44 percent in the last twelve months.

In contrast, the price of chicken meat showed a negative variation, reflecting the discounts established at the end of January and in the first two weeks of February. During this period, supply exceeded demand as the latter was affected by the decrease in income and by the social immobility measures adopted in the context of the health emergency. In addition, the lower price of fish –the main substitute of chicken meat– also played a role due to an increase in its supply.

Another product whose price decreased was lemon. The quality of this product was affected by the water deficiency recorded in Piura at the end of 2020, which lowered its price in the market.

Services

The price increases registered in "Entertainment tickets" were due to the adjustment of cable television rates and to the increase in the price of internet services.

As for education services, in February private schools reduced their tuition and fees for this year due to the decrease in demand for their education services resulting from the transfer of students from private schools to public schools or to schools with lower tuition rates. Another reason for this reduction is the lower costs for schools that distance education classes will have compared to on-site classes, considering the continuity of the health emergency.

Fuels

The increase in fuel prices reflected mainly increases in international prices. The evolution in the price of domestic gas was associated mostly with an increase in the price of gas at Mont Belvieu, which is the international price marker (bottled LPG was withdrawn from the Stabilization Fund in April 2020). On the other hand, the prices of gasohol fuels were associated with increases in import parity prices. The international marker in this case is the Gulf Coast gasoline price.

Domestic Transportation

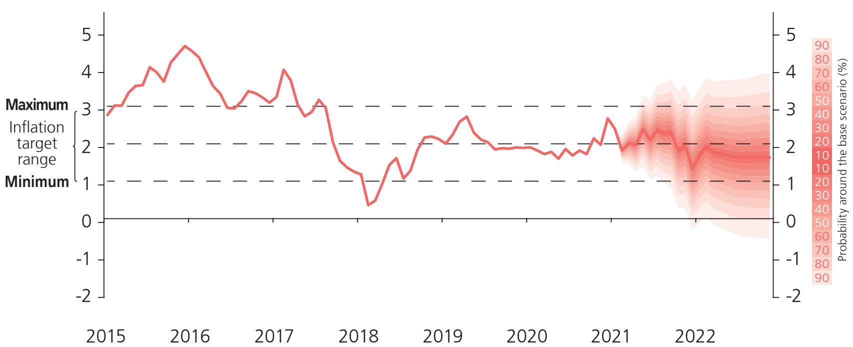
The negative variation in domestic transportation is associated with the normalization of fares after the higher demand for travel at the end of the year. This was partly offset by the increase in interprovincial bus fares in the last days of January. The announcement of restrictions on travels to the provinces due to the quarantine, as well as the decrease in commercial activities, led many people to return to their places of origin.

Forecasts

92. 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.

93. Based on available information, year-on-year inflation is expected to lie within the target range throughout the forecast horizon and in the lower part of the target range during 2022. This projection considers inflation expectations that remain around the middle of the target range, in a context in which the output gap will gradually close as the economy continues to recover after the second wave of COVID-19 infections. The determinants estimated to maintain inflation below the central value of the target range include a still negative output gap and the partial reversal of the factors that temporarily raised inflation in the quarantine period.

Graph 102
INFLATION FORECAST: 2021 - 2022
(Last 12-month % change)

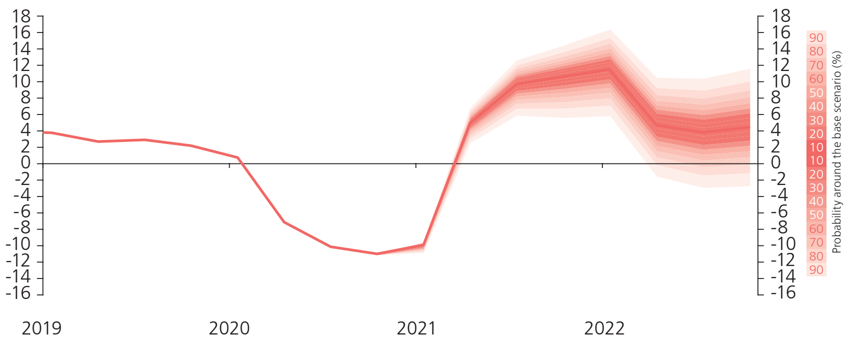


94. A sustained recovery is expected in activity in 2021 and 2022, supported by the highly expansionary stance of monetary policy, the normalization of local production, strong growth in the economies of our main trading partners and in the terms of trade, and by the recovery of consumer and business confidence.

Graph 103

GDP GROWTH FORECAST: 2021 - 2022

(Last 12-month % change)



95. In February 2021, twelve-month inflation expectations registered 2.11 percent. Inflation expectations, which are calculated on the basis of surveys conducted with financial and non-financial firms as well as with economic analysts, reveal that inflation is expected to show rates between 2.0 and 2.2 percent in 2021, and rates between 2.0 and 2.3 percent in 2022, which indicate that expectations remain around the central value of the target range.

Graph 104

EXPECTATIONS OF INFLATION FOR THE NEXT YEAR

(% points)

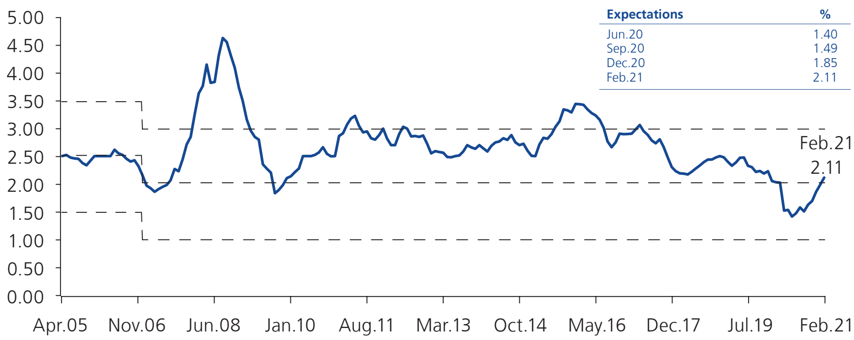


Table 46
SURVEY ON INFLATION EXPECTATIONS:
(%)

	IR Jun.20	IR Sep.20	IR Dec.20	IR Mar.21*
Financial entities				
2021	1.80	1.55	1.50	2.00
2022	-	-	2.00	2.00
Economic analysts				
2021	2.00	2.00	1.90	2.20
2022	-	-	2.00	2.30
Non-financial firms				
2021	2.20	2.00	2.00	2.00
2022	-	-	2.00	2.20

* Survey conducted as of February 28.
IR: Inflation Report.

96. 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 10.7 percent in 2021, mainly due to increases in the price of oil, oil-based inputs, and some foodstuffs, such as maize and wheat. A partial 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 levels between S/ 3.50 and S/ 3.60 for 2021, and between S/ 3.43 and S/ 3.55 for 2022.

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

	IR Jun.20	IR Sep.20	IR Dec.20	IR Mar.21*
Financial entities				
2021	3.37	3.40	3.43	3.50
2022			3.40	3.43
Economic analysts				
2021	3.40	3.50	3.54	3.56
2022			3.50	3.53
Non-financial firms				
2021	3.40	3.46	3.50	3.60
2022			3.50	3.55

* Survey conducted as of February 28.
IR: Inflation Report.

97. The balance of risks to the inflation projection in this Report is neutral, which means that there is the same probability of occurrence of a downward deviation of

inflation or an upward deviation of inflation. The main contingencies considered in the inflation projection are:

- **Domestic demand shocks**

  A recovery of the main economic activities is considered in the forecast horizon in a context of mass vaccination of the population and political, financial, and social stability that would favor consumption, private investment, and employment. However, delays in the mass vaccination process could delay the expected recovery of the economy. Another scenario of adverse contingency is one marked by greater uncertainty regarding political and social stability, which could reduce private and public spending on both consumption and investment. All of the above would imply a more negative output gap and, therefore, an expected negative impact on inflation.

- **External demand shocks**

  Logistic difficulties in transporting and storing vaccines in different countries generate uncertainty about the degree of immunization of the population as well as about the control of the pandemic and possible future outbreaks. However, this risk would be offset by the fiscal stimulus programs established in different economies, such as the one recently approved in the United States, and by the greater dynamism and recovery of the world's major economies. Therefore, the expected impact of this shock on inflation is now neutral, in contrast with what was estimated in the December 2020 Inflation Report.

- **External financial shocks**

  A significant increase in long-term interest rates has been observed in recent weeks due to higher inflation expectations in the medium and long term in developed countries, which has also been transmitted to emerging countries. Should these upward trends increase abruptly, and given the growing public and private indebtedness worldwide, this could lead to an increase in financial costs and to a weakening of the currencies of emerging countries. The strengthening of the dollar and higher external inflation would also put upward pressure on domestic inflation through higher imported inflation.

- **Food price shocks**

  International food prices have increased over the last year. If food prices were to increase more than estimated in this Inflation Report, domestic inflation would increase through the effect of higher imported inflation.

Graph 105
BALANCE OF RISKS AGAINST THE BASE SCENARIO