



Summary

Inflation Report

June 2022

This **Inflation Report** has been prepared using data on the balance of payments and the gross domestic product as of the first quarter of 2022, data on the trade balance, monthly GDP, and monetary accounts as of April 2022, and data on the operations of the non-financial public sector, inflation, financial markets and the exchange rate as of May 2022.

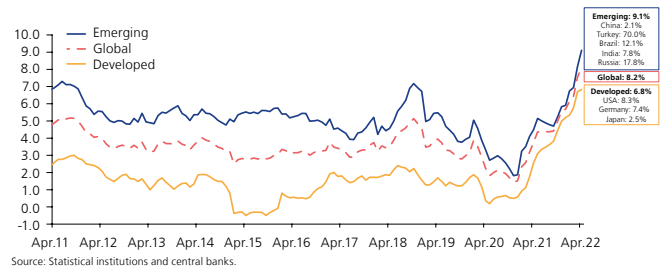
The risks outlined in the March Report, related to higher energy and food prices and difficulties in supply chains, have materialized due to the prolongation of the conflict between Russia and Ukraine and to strict confinement measures in China. These events are expected to imply **lower global growth**, particularly in the second quarter of the year, **as well as higher global inflation**, which may lead to further increases in monetary policy interest rates. Therefore, a global growth rate of 3.0 percent is forecast for 2022 and 2023 (previously, 3.8 percent and 3.2 percent, respectively).

The **terms of trade** remain high but declined 1.5 percent year-on-year in the first quarter of 2022 due to higher import prices –especially the prices of oil, industrial inputs, and food– relative to the increase in export prices. These events were associated with the contraction in the supply of some commodities and with increased uncertainty stemming from the conflict between Russia and Ukraine.

Compared to the previous Report, the terms of trade are expected to register a further contraction in 2022, from -1.4 to -6.3 percent, due to the persistent rise in fuel and food prices, which would be higher than the increase in export prices. On the other hand, a partial downward correction in average export and import prices is expected for 2023 once supply chain shocks and geopolitical events dissipate.

The **current account** balance accumulated in the last four quarters went from a deficit of 2.3 percent of GDP

GLOBAL INFLATION IN DEVELOPED AND EMERGING ECONOMIES
(12-month % change)

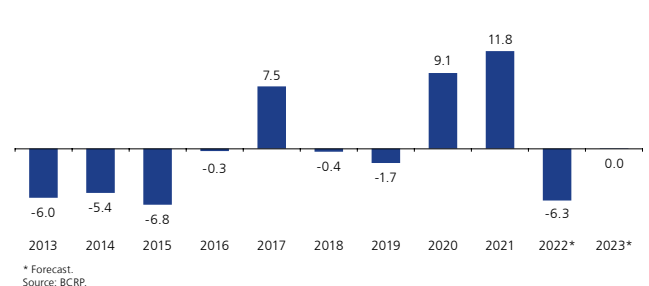


GLOBAL GDP GROWTH
(Annual % change)

| | PPP* | 2021** | 2022 | | 2023 | |
|------------------------------------|--------------|------------|------------|------------|------------|------------|
| | | | IR Mar. | IR Jun. | IR Mar. | IR Jun. |
| Developed economies | 42.2 | 5.2 | 3.4 | 2.6 | 2.2 | 1.8 |
| <i>Of which</i> | | | | | | |
| 1. USA | 15.9 | 5.7 | 3.2 | 2.3 | 2.4 | 2.0 |
| 2. Eurozone | 12.0 | 5.3 | 3.7 | 2.7 | 1.9 | 1.8 |
| 3. Japan | 3.9 | 1.6 | 2.8 | 2.0 | 1.7 | 1.7 |
| 4. United Kingdom | 2.3 | 7.4 | 4.4 | 3.7 | 1.0 | 1.0 |
| 5. Canada | 1.4 | 4.6 | 4.0 | 3.9 | 2.8 | 2.8 |
| 6. Others | 6.8 | 5.0 | 3.1 | 2.8 | 2.6 | 2.4 |
| Emerging economies | 57.5 | 6.7 | 4.1 | 3.3 | 4.0 | 4.0 |
| <i>Of which</i> | | | | | | |
| 1. China | 18.7 | 8.1 | 5.0 | 3.8 | 5.2 | 5.2 |
| 2. India | 7.0 | 8.9 | 8.0 | 7.6 | 6.3 | 6.2 |
| 3. Russia | 3.1 | 4.7 | -5.0 | -10.0 | -0.3 | -0.9 |
| 4. Latin America and the Caribbean | 7.3 | 6.0 | 1.9 | 2.0 | 2.3 | 2.1 |
| Argentina | 0.7 | 10.3 | 2.3 | 2.5 | 1.8 | 1.8 |
| Brazil | 2.4 | 4.6 | 0.5 | 0.8 | 2.0 | 1.4 |
| Chile | 0.4 | 11.7 | 2.5 | 2.0 | 1.5 | 1.0 |
| Colombia | 0.6 | 10.6 | 4.0 | 4.8 | 3.1 | 3.1 |
| Mexico | 1.9 | 4.8 | 2.5 | 2.0 | 2.0 | 1.9 |
| Peru | 0.3 | 13.3 | 3.4 | 3.1 | 3.2 | 3.2 |
| 5. Others | 17.9 | 5.3 | 4.6 | 4.7 | 4.3 | 4.4 |
| World Economy | 100.0 | 6.0 | 3.8 | 3.0 | 3.2 | 3.0 |

* Base 2021.
** Preliminary data.
Source: IMF, Consensus Forecast, and BCRP.

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



BALANCE OF PAYMENTS
(Million US\$)

| | 2021 | 2022* | | | 2023* | |
|---|----------------|---------------|---------------|---------------|---------------|---------------|
| | | Q1 | IR Mar.22 | IR Jun.22 | IR Mar.22 | IR Jun.22 |
| I. CURRENT ACCOUNT BALANCE | -5,273 | -3,235 | -3,955 | -8,571 | -1,533 | -3,025 |
| % GDP | -2.3 | -5.7 | -1.6 | -3.4 | -0.6 | -1.1 |
| 1. Trade Balance | 14,833 | 4,150 | 16,395 | 13,441 | 17,847 | 14,521 |
| a. Exports | 63,151 | 16,950 | 71,104 | 71,147 | 74,671 | 74,330 |
| Of which: | | | | | | |
| i) Traditional | 46,585 | 12,492 | 52,729 | 52,074 | 54,916 | 53,687 |
| ii) Non-Traditional | 16,373 | 4,402 | 18,151 | 18,813 | 19,569 | 20,427 |
| b. Imports | 48,317 | 12,801 | 54,709 | 57,707 | 56,824 | 59,810 |
| 2. Services | -7,347 | -2,151 | -8,054 | -8,993 | -6,716 | -7,609 |
| 3. Primary income (Investment income) | -18,127 | -6,551 | -16,683 | -18,354 | -16,931 | -15,507 |
| 4. Secondary income (Current transfers) | 5,367 | 1,317 | 4,387 | 5,336 | 4,267 | 5,571 |
| Of which: Remittances | 3,592 | 927 | 3,735 | 3,758 | 3,885 | 3,882 |
| II. FINANCIAL ACCOUNT 1/ | -15,627 | -1,127 | -3,954 | -7,223 | -1,534 | -3,025 |
| 1. Private Sector | -37 | -1,543 | -875 | -5,293 | 42 | -1,449 |
| a. Long-term | -16,675 | -5,811 | -875 | -6,957 | 42 | -1,449 |
| b. Short-term | 16,638 | 4,268 | 0 | 1,664 | 0 | 0 |
| 2. Public Sector 2/ | -15,590 | 416 | -3,079 | -1,931 | -1,575 | -1,575 |
| III. NET ERRORS AND OMISSIONS | -5,944 | -438 | 0 | 0 | 0 | 0 |
| IV. TOTAL | 4,410 | -2,547 | 0 | -1,347 | 0 | 0 |
| IV = (I+II) - III = (1-2) | | | | | | |
| 1. Change in Central Bank reserves | 3,789 | -3,172 | 0 | -1,972 | 0 | 0 |
| 2. Valuation changes | -622 | -625 | 0 | -625 | 0 | 0 |

1/ Financial account and its components (private and public sector) are expressed as net assets of liabilities. Thus, a negative sign means an inflow of foreign capital.

2/ Considers the sale and purchase between residents and non-residents of government bonds issued abroad or in the local market.

IR: Inflation Report.

* Forecast.

In this chart, the accounts of the Balance of Payments and the Position of Foreign Assets and Liabilities are presented in a new format, according to the adoption of the Sixth Edition of the IMF Balance of Payments Manual (reclassification of transactions, new items and changes in denomination of certain headings).

Source: BCRP.

GDP BY PRODUCTION SECTOR
(Real % change)

| | 2021 | 2022* | | | 2023* | |
|-------------------------------|-------------|-------------|------------|------------|------------|------------|
| | | Jan.-Apr. | IR Mar.22 | IR Jun.22 | IR Mar.22 | IR Jun.22 |
| Primary GDP | 5.8 | -0.6 | 5.3 | 3.4 | 5.8 | 5.8 |
| Agriculture and livestock | 4.2 | 4.0 | 2.7 | 2.4 | 2.8 | 2.4 |
| Fishing | 2.8 | -28.8 | 4.4 | 3.1 | 4.4 | 4.4 |
| Metallic mining | 9.8 | -1.6 | 5.9 | 2.9 | 8.4 | 8.4 |
| Hydrocarbons | -4.6 | 15.0 | 13.4 | 12.5 | 4.0 | 4.7 |
| Based on raw materials | 3.2 | -9.2 | 4.1 | 2.4 | 3.5 | 4.6 |
| Non-Primary GDP | 15.7 | 5.0 | 2.9 | 3.1 | 2.5 | 2.5 |
| Non-primary industries | 25.2 | 6.0 | 1.4 | 2.4 | 3.3 | 3.3 |
| Electricity and water | 8.5 | 3.2 | 2.3 | 2.3 | 5.0 | 5.0 |
| Construction | 34.5 | 0.9 | 0.5 | 0.5 | 2.5 | 2.5 |
| Commerce | 17.8 | 5.1 | 2.4 | 2.6 | 2.5 | 2.5 |
| Services | 11.9 | 5.3 | 3.7 | 3.7 | 2.3 | 2.3 |
| Gross Domestic Product | 13.5 | 3.8 | 3.4 | 3.1 | 3.2 | 3.2 |

IR: Inflation Report.

* Last two columns correspond to the annual forecast of the previous and current Inflation Report.

Source: BCRP.

DOMESTIC DEMAND AND GDP
(Real % change)

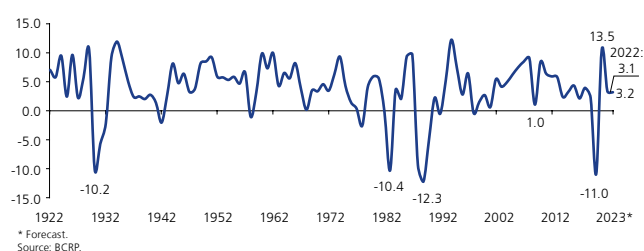
| | 2021 | 2022* | | | 2023* | |
|---------------------------------------|-------------|------------|------------|------------|------------|------------|
| | | Q1 | IR Mar.22 | IR Jun.22 | IR Mar.22 | IR Jun.22 |
| Domestic demand | 14.6 | 2.1 | 3.0 | 2.8 | 3.0 | 3.0 |
| Private consumption | 11.7 | 6.9 | 4.1 | 4.1 | 3.5 | 3.5 |
| Public consumption | 10.6 | 11.3 | 1.5 | 1.5 | 2.0 | 2.0 |
| Private investment | 37.4 | 0.8 | 0.0 | 0.0 | 2.0 | 2.0 |
| Public investment | 24.9 | -13.7 | 4.0 | 2.1 | 1.6 | 1.6 |
| Change on inventories (contribution) | -2.2 | -3.4 | 0.0 | -0.1 | 0.0 | 0.0 |
| Exports | 13.7 | 8.9 | 7.5 | 6.1 | 7.6 | 7.7 |
| Imports | 18.6 | 1.7 | 5.6 | 4.5 | 6.7 | 6.7 |
| Gross Domestic Product | 13.5 | 3.8 | 3.4 | 3.1 | 3.2 | 3.2 |
| Memo: | | | | | | |
| Public expenditure | 14.0 | 5.2 | 2.1 | 1.6 | 1.9 | 1.9 |
| Domestic demand excluding inventories | 16.6 | 5.3 | 2.9 | 2.8 | 2.9 | 2.9 |

IR: Inflation Report.

* Last two columns correspond to the annual forecast of the previous and current Inflation Report.

Source: BCRP.

TOTAL GDP, 1922-2023
(Annual % change)



* Forecast.
Source: BCRP.

in 2021 to a deficit of 3.0 percent in the first quarter of 2022, reflecting the increase in imports, higher profits of companies with foreign direct investment (FDI) in the country, and the high deficit in the services account (low exports of tourism services and high import freight rates). These factors are expected to lead to a current account deficit equivalent to 3.4 percent of GDP in 2022. In contrast, following a correction in freight rates and import prices, the deficit is expected to narrow to 1.1 percent of output in 2023, with a strong balance of payments position being maintained.

Economic activity in the first quarter of 2022 registered a year-on-year growth rate of 3.8 percent, this result being explained by a low comparative base due to the February 2021 quarantine, and the easing of sanitary measures following the progress achieved in the vaccination process, both locally and globally. These effects were offset in part by the contraction in public investment, lower mining production, and the slowdown in private investment due to low levels of business confidence.

The economy would grow 3.1 percent in 2022 and 3.2 percent in 2023, which implies a downward revision for 2022 with respect to the previous Report (3.4 percent). The main reasons for this revision are lower production in the primary sectors, especially in mining (due to the stoppage of operations at Las Bambas and Southern) and agriculture (due to the impact of higher fertilizer prices on production). On the expenditure side, this is expected to translate into lower growth in the volume of exports. In addition, the rate of expansion of public investment is also revised down given the lower execution observed so far this year.

An environment in which an adequate business environment is fostered, and macroeconomic and financial stability is preserved to stimulate the execution of private investment projects and the creation of new jobs is assumed for the rest of the forecast horizon. The projection also considers a scenario of continuity in the growth of public investment, taking into account an efficient training of the new sub-national authorities and a strong participation of infrastructure projects under the responsibility of the National Government.

Maintaining the downward trend that began in February 2021, the cumulative **fiscal deficit** over the last twelve months registered a rate equivalent to 0.9 percent of output in May 2022. This lower deficit reflects the increase in current revenues of the General Government and lower non-financial expenditures. The deficit is projected to stand at 1.9 percent of output at the end of 2022 and to decline to 1.8 percent in 2023.

The **gross debt** of the Non-Financial Public Sector is projected to fall from 35.9 to 34.3 percent of GDP between 2021 and 2022, and to 33.2 percent in 2023. Non-Financial Public Sector **debt net** of deposits is expected to decrease from 21.8 to 21.2 percent of GDP between 2021 and 2022, and then increase slightly to 21.3 percent of output in 2023, which is explained by a higher use of deposits.

From March to June 2022, the BCRP Board of Directors continued with the normalization of the monetary policy stance initiated in August 2021. Thus, the BCRP Board decided to raise the benchmark monetary policy interest rate to 5.50 percent in June 2022, accumulating eleven rate increases in total to date. After reaching a historic low in August 2021, the real benchmark interest rate is slightly positive today (0.61 percent in June 2022).

The balance of **liquidity injection operations** in domestic currency decreased from S/ 56.7 billion at the end of December 2021 to S/ 50.2 billion as of June 13, 2022. In comparative terms, the total balance is 6.4 times higher than the maximum balance of these operations registered during the 2008-2009 international financial crisis (S/ 7.9 billion) and 1.6 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

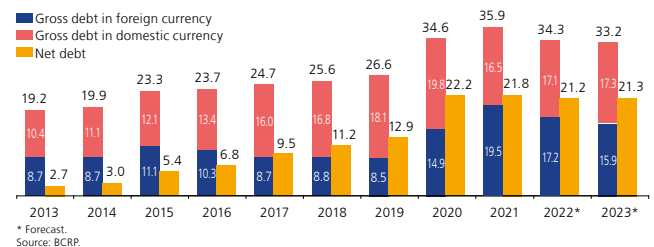
The growth of **credit to the private sector** accelerated from a year-on-year rate of 4.4 percent in December 2021 to 6.7 percent in April 2022. Moreover, credit to the private sector is expected to slow to 4.5 percent in 2022 and then to accelerate to 5.4 percent in 2023.

NON-FINANCIAL PUBLIC SECTOR
(% GDP)

| | 2021 | 2022* | | 2023* | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | | May '21 | IR Mar.22 | IR Jun.22 | IR Mar.22 | IR Jun.22 |
| 1. General government current revenues | 21.0 | 22.6 | 20.7 | 21.6 | 20.7 | 21.1 |
| Real % change | 38.1% | 32.1% | 1.1% | 4.1% | 3.8% | 1.2% |
| 2. General government non-financial expenditure | 22.2 | 21.7 | 21.8 | 22.0 | 21.3 | 21.4 |
| Real % change | 5.1% | -1.8% | 0.5% | 0.2% | 2.0% | 1.0% |
| Of which: | | | | | | |
| Current expenditure | 17.2 | 16.8 | 16.6 | 16.8 | 16.3 | 16.3 |
| Real % change | -0.6% | -4.0% | -0.9% | -1.1% | 2.1% | 0.8% |
| Gross capital formation | 4.2 | 4.1 | 4.4 | 4.5 | 4.4 | 4.4 |
| Real % change | 30.9% | 5.4% | 7.9% | 6.6% | 2.5% | 2.8% |
| 3. Others ^{1/} | 0.2 | -0.3 | 0.2 | 0.1 | 0.2 | 0.2 |
| 4. Primary balance (1-2+3) | -1.0 | 0.6 | -0.9 | -0.4 | -0.5 | -0.2 |
| 5. Interests | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 | 1.6 |
| 6. Overall Balance | -2.5 | -0.9 | -2.5 | -1.9 | -2.2 | -1.8 |

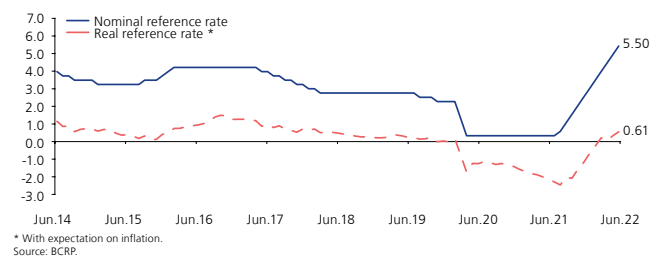
^{1/} Ratio in percentage of GDP and real percentage change represent last 12-months accumulated as of May.
^{2/} Includes capital income of the general government and primary balance from state-owned companies.
 * Forecast
 IR: Inflation Report
 Source: BCRP.

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



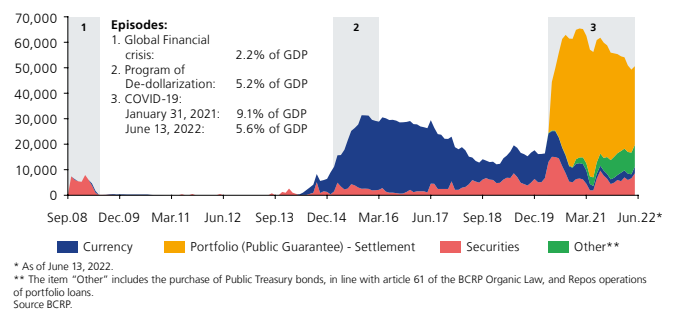
* Forecast.
Source: BCRP.

REFERENCE INTEREST RATE
(%)



* With expectation on inflation.
Source: BCRP.

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

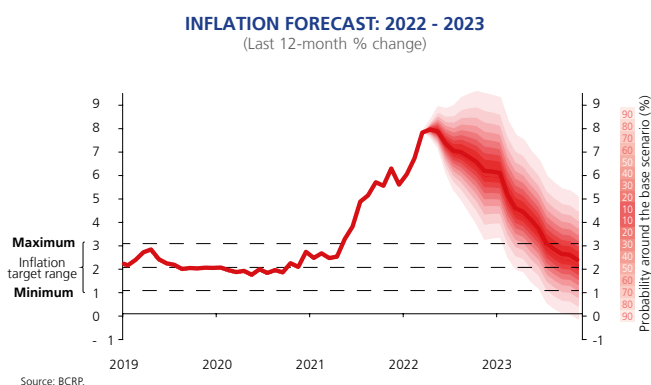
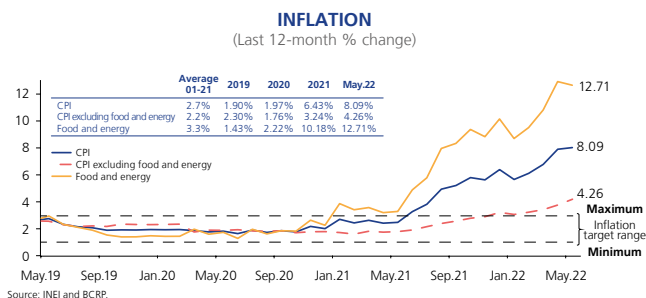


* As of June 13, 2022.
 ** The item "Other" includes the purchase of Public Treasury bonds, in line with article 61 of the BCRP Organic Law, and Repos operations of portfolio loans.
 Source: BCRP.

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

| | Dec.19 | Dec.20 | Mar.21 | Jun.21 | Sep.21 | Dec.21 | Mar.22 | Apr.22 |
|--|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|
| Businesses | 4.3 | 20.3 | 17.2 | 7.4 | 3.2 | 3.9 | 4.9 | 3.5 |
| Corporate and large companies | 4.4 | 6.8 | 2.0 | -2.5 | 2.7 | 8.1 | 10.6 | 9.1 |
| Medium-sized enterprises, small and micro business | 4.3 | 36.2 | 36.4 | 19.5 | 3.7 | 0.0 | -0.5 | -1.7 |
| Individuals | 11.5 | -3.1 | -4.5 | -0.3 | 2.1 | 5.4 | 11.7 | 12.8 |
| Consumer | 13.3 | -7.1 | -10.5 | -5.5 | -1.8 | 3.9 | 15.1 | 17.0 |
| Car loans | 12.0 | -2.3 | -8.1 | -0.3 | 3.0 | 7.6 | 13.8 | 12.6 |
| Rest | 13.4 | -7.3 | -10.6 | -5.7 | -1.9 | 3.8 | 15.1 | 17.1 |
| Mortgage | 8.8 | 3.0 | 4.6 | 7.3 | 7.6 | 7.4 | 7.3 | 7.5 |
| TOTAL | 7.1 | 11.0 | 8.7 | 4.7 | 2.8 | 4.4 | 7.2 | 6.7 |
| Memo: | | | | | | | | |
| TOTAL WITHOUT REACTIVA PERU | 7.1 | -5.4 | -7.3 | -1.6 | 5.3 | 9.4 | 14.0 | 13.7 |

^{1/} Balances are valuated at constant exchange rate on December 2020.
Source: BCRP.

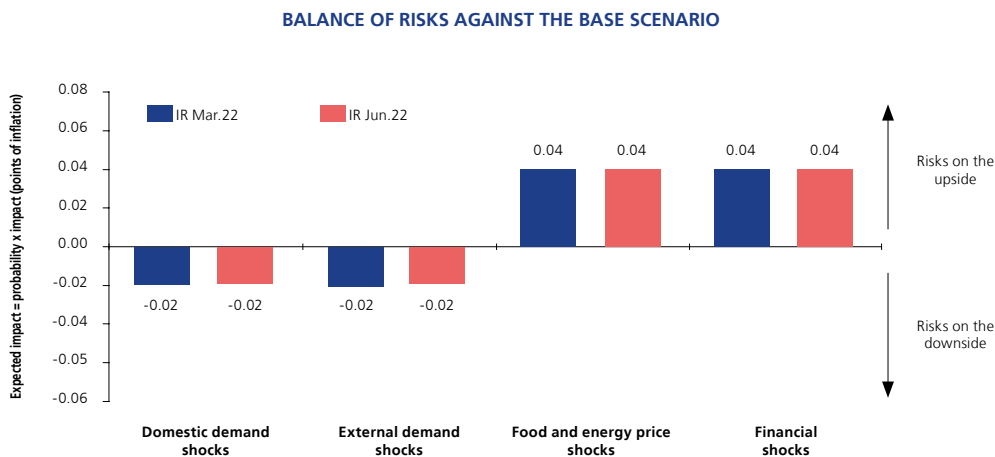


Year-on-year **inflation** rose to 8.09 percent in May from 6.15 percent in February, driven mainly by higher food and fuel prices. Inflation excluding food and energy rose from 3.26 to 4.26 percent in the same period, above the target range. The different indicators of trend inflation are also above the target range

Based on the information available today and taking into account the gradual recovery of economic activity and the persistence of rising international energy and food prices, year-on-year inflation is projected to return to the target range in the second half of 2023. This projection assumes the reversal of the effect of transitory factors on the inflation rate (exchange rate, the international prices of fuel, fertilizers and grains) in a context in which the output gap closes gradually while the gradual withdrawal of monetary stimulus continues and inflation expectations return to the target range in the following months.

Balance of risks

The **balance of risks in the inflation projection** maintains an upward bias. The following main risks and contingencies are considered in the projection: (i) increase in international food and fuel prices due to production and supply problems; (ii) persistence of global inflation and its possible impact on inflation expectations and global economic growth; (iii) a lower level of local activity if business and consumer confidence do not recover, and if there are delays in the execution of public spending, and (iv) upward pressures on the exchange rate, capital outflows and greater volatility in financial markets due to episodes of greater political uncertainty, disruptions in economic growth and indebtedness, or a faster withdrawal of monetary stimulus in developed countries.



SUMMARY OF INFLATION REPORT FORECAST

| | 2021 | 2022 ^{1/} | | 2023 ^{1/} | |
|--|------|--------------------|------------|--------------------|------------|
| | | IR Mar.22 | IR Jun.22 | IR Mar.22 | IR Jun.22 |
| Real % change | | | | | |
| 1. Gross Domestic Product | 13.5 | 3.4 | 3.1 | 3.2 | 3.2 |
| 2. Domestic demand | 14.6 | 3.0 | 2.8 | 3.0 | 3.0 |
| a. Private consumption | 11.7 | 4.1 | 4.1 | 3.5 | 3.5 |
| b. Public consumption | 10.6 | 1.5 | 1.5 | 2.0 | 2.0 |
| c. Fixed private investment | 37.4 | 0.0 | 0.0 | 2.0 | 2.0 |
| d. Public investment | 24.9 | 4.0 | 2.1 | 1.6 | 1.6 |
| 3. Exports (good and services) | 13.7 | 7.5 | 6.1 | 7.6 | 7.7 |
| 4. Imports (good and services) | 18.6 | 5.6 | 4.5 | 6.7 | 6.7 |
| 5. Global economic growth | 6.0 | 3.8 | 3.0 | 3.2 | 3.0 |
| Memo: | | | | | |
| Output gap ^{2/} (%) | -3.5 | -5.5 ; 0.5 | -3.5 ; 0.5 | -5.0 ; 1.0 | -3.0 ; 1.0 |
| % chg. | | | | | |
| 6. Inflation | 6.4 | 3.6 | 6.4 | 2.1 | 2.5 |
| 7. Expected inflation ^{3/} | 3.5 | 3.9 | 5.8 | 3.0 | 3.7 |
| 8. Expected depreciation ^{3/} | 12.1 | -3.5 | -5.4 | -0.3 | 0.7 |
| 9. Terms of trade | 11.8 | -1.4 | -6.3 | 0.6 | 0.0 |
| a. Export prices | 30.3 | 6.6 | 8.0 | -0.9 | -1.6 |
| b. Import prices | 16.6 | 8.1 | 15.3 | -1.5 | -1.6 |
| % chg. | | | | | |
| 10. Currency in circulation | 16.0 | 3.0 | 2.5 | 1.5 | 1.5 |
| 11. Credit to the private sector | 4.4 | 4.5 | 4.5 | 5.5 | 5.4 |
| % GDP | | | | | |
| 12. Gross fixed investment | 25.2 | 24.6 | 25.0 | 24.1 | 24.3 |
| 13. Current account of the balance of payments | -2.3 | -1.6 | -3.4 | -0.6 | -1.1 |
| 14. Trade balance | 6.6 | 6.7 | 5.4 | 6.8 | 5.3 |
| 15. Long-term external financing of the private sector ^{4/} | 7.4 | 0.4 | 2.8 | 0.0 | 0.5 |
| 16. Current revenue of the general government | 21.0 | 20.7 | 21.6 | 20.7 | 21.1 |
| 17. Non-financial expenditure of the general government | 22.2 | 21.8 | 22.0 | 21.3 | 21.4 |
| 18. Overall balance of the non-financial public sector | -2.5 | -2.5 | -1.9 | -2.2 | -1.8 |
| 19. Balance of total public debt | 35.9 | 35.2 | 34.3 | 34.8 | 33.2 |
| 20. Balance of net public debt | 21.8 | 22.4 | 21.2 | 23.0 | 21.3 |

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 2021, and the average of expectations throughout year in case of inflation has been considered.

4/ Includes net direct investment, foreign assets investment from residents (AFP), foreign net portfolio investment, and private sector's long term disbursement.