



Summary Inflation Report

March 2022

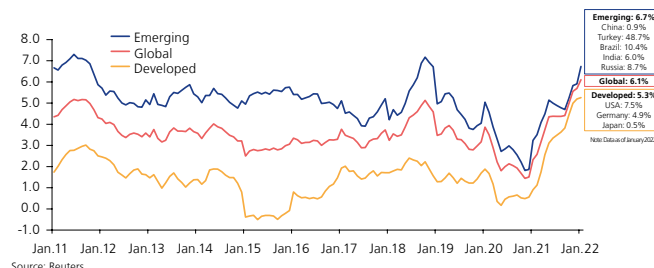
This **Inflation Report** has been prepared using data on the balance of payments and the gross domestic product as of the fourth quarter of 2021, data on the trade balance, monthly GDP, and monetary accounts as of January 2022, and data on the operations of the non-financial public sector, inflation, financial markets and the exchange rate as of February 2022.

Since the end of 2021, activity in most of the world's major economies has been less dynamic due to constraints associated with increased contagion from the omicron variant of COVID and rising inflation. Supply chain disruptions and high energy prices are expected to persist during the year, and a more accelerated withdrawal of monetary stimulus is expected in the main developed economies. The conflict between Russia and Ukraine has heightened uncertainty regarding the evolution of the global economy, which is already having a direct impact on the prices of oil, natural gas and grains. In view of this, the **world economy** is expected to grow at 3.8 and 3.2 percent in 2022 and 2023, respectively, lower rates than projected in the previous Report (4.3 and 3.4 percent).

In 2021 the **terms of trade** grew by 11.8 percent in a scenario where export prices continued to benefit from the global economic recovery, while import prices increased due to the shocks that have been affecting the fuel and energy markets, in addition to problems in the supply chain. The terms of trade would remain at high levels, showing moderate percentage changes in 2022 (-1.4 percent) and 2023 (0.6 percent). However, higher increases in export (6.6 percent) and import (8.1 percent) prices would be observed in 2022, the latter component generating upward pressures on inflation. On the other hand, although a gradual recovery in gas supply and a reduction in oil prices compared to the previous year are expected In 2023, international food input prices are expected to remain high.

The **current account of the 2021 balance of payments** recorded a deficit of 2.7 percent of GDP, equal to the historical average deficit of the last 40 years (-2.7 percent).

GLOBAL INFLATION
(12-month % change)



GLOBAL GDP GROWTH
(Annual % change)

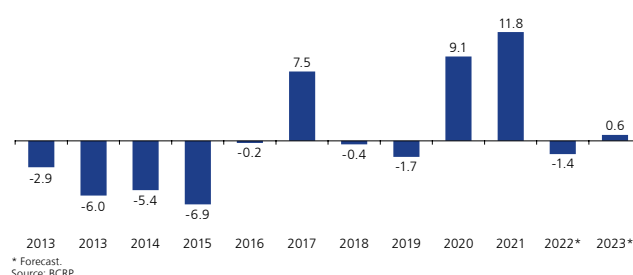
	PPP*	2020	2021**	2022		2023	
				IR Dec.21	IR Mar.22	IR Dec. 21	IR Mar.22
Developed economies	42.2	-4.7	5.1	4.0	3.4	2.2	2.2
Of which							
1. USA	15.9	-3.4	5.7	4.0	3.2	2.2	2.4
2. Eurozone	12.0	-6.4	5.3	4.3	3.7	2.1	1.9
3. Japan	3.9	-4.5	1.7	3.0	2.8	1.4	1.7
4. United Kingdom	2.3	-9.4	7.5	5.0	4.4	1.4	1.0
5. Canada	1.4	-5.4	4.8	4.1	4.0	2.7	2.8
6. Others	6.8	-4.1	4.8	3.3	3.1	2.6	2.6
Emerging economies	57.5	-2.2	6.2	4.6	4.1	4.3	4.0
Of which							
1. China	18.7	2.2	8.1	5.2	5.0	5.3	5.2
2. India	7.0	-6.6	8.3	6.9	8.0	6.3	6.3
3. Russia	3.1	-2.7	4.2	2.6	-5.0	2.1	-0.3
4. Latin America and the Caribbean	7.3	-7.0	4.5	2.3	1.9	2.4	2.3
Argentina	0.7	-9.9	10.0	2.3	2.3	2.0	1.8
Brazil	2.4	-3.9	4.6	1.0	0.5	2.0	2.0
Chile	0.4	-5.8	12.0	2.6	2.5	2.0	1.5
Colombia	0.6	-7.0	10.6	3.8	4.0	3.5	3.1
Mexico	1.9	-8.2	4.8	3.0	2.5	2.0	2.0
Peru	0.3	-11.0	13.3	3.4	3.4	3.2	3.2
5. Others	17.9	-4.0	5.0	4.7	4.6	4.6	4.3
World Economy	100.0	-3.3	5.7	4.3	3.8	3.4	3.2

* Base 2021.

** Preliminary data.

Source: IMF and Consensus Forecast.

TERMS OF TRADE: 2012-2023
(Annual average % change)



BALANCE OF PAYMENTS (Million US\$)

	2021	2022*		2023*	
		IR Dec.21	IR Mar.22	IR Dec.21	IR Mar.22
I. CURRENT ACCOUNT BALANCE	-6,148	-3,182	-3,955	-2,154	-1,533
% GDP	-2.7	-1.3	-1.6	-0.8	-0.6
1. Trade Balance	14,800	15,592	16,395	16,320	17,847
a. Exports	63,106	66,836	71,104	70,324	74,671
Of which:					
i) Traditional	46,541	49,028	52,729	51,093	54,916
ii) Non-Traditional	16,372	17,618	18,151	19,043	19,569
b. Imports	48,307	51,244	54,709	54,004	56,824
2. Services	-6,874	-6,995	-8,054	-6,102	-6,716
3. Primary income (alike investment income)	-18,178	-15,879	-16,683	-16,620	-16,931
4. Secondary income (Current transfers)	4,104	4,100	4,387	4,248	4,267
Of which: Remittances	3,592	3,704	3,735	3,853	3,885
II. FINANCIAL ACCOUNT 1/	-16,002	-3,183	-3,954	-2,154	-1,534
1. Private Sector	-409	-301	-875	-577	42
a. Long-term	-16,861	-301	-875	-577	42
b. Short-term	16,451	0	0	0	0
2. Public Sector 2/	-15,592	-2,882	-3,079	-1,577	-1,575
III. NET ERRORS AND OMISSIONS	-5,443	0	0	0	0
IV. TOTAL	4,410	0	0	0	0
IV = (I+III) - II = (1-2)					
1. Change in Central Bank reserves	3,789	0	0	0	0
2. Valuation changes	-622	0	0	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).

GDP BY PRODUCTION SECTOR (Real % change)

	2021	2022*			2023*	
		Enero	IR Dec.21	IR Mar.22	IR Dec.21	IR Mar.22
Primary GDP	5.5	1.7	5.3	5.3	5.8	5.8
Agriculture and livestock	3.8	5.0	2.7	2.7	2.8	2.8
Fishing	2.8	-30.3	4.4	4.4	4.4	4.4
Metallic mining	9.7	3.6	5.9	5.9	8.4	8.4
Hydrocarbons	-4.6	9.8	13.4	13.4	4.0	4.0
Based on raw materials	1.9	-6.8	4.1	4.1	3.5	3.5
Non-Primary GDP	15.6	3.2	2.9	2.9	2.5	2.5
Non-primary industries	24.6	0.5	1.4	1.4	3.3	3.3
Electricity and water	8.6	3.1	1.7	2.3	5.0	5.0
Construction	34.9	-0.6	0.5	0.5	2.5	2.5
Commerce	17.8	2.3	2.4	2.4	2.5	2.5
Services	11.8	4.3	3.7	3.7	2.3	2.3
Gross Domestic Product	13.3	2.9	3.4	3.4	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*	
		IR Dec.21	IR Mar.22	IR Dec.21	IR Mar.22
Domestic demand	14.4	3.0	3.0	3.0	3.0
Private consumption	11.7	4.0	4.1	3.5	3.5
Public consumption	10.7	1.5	1.5	2.0	2.0
Private investment	37.6	0.0	0.0	2.0	2.0
Public investment	23.7	4.5	4.0	1.6	1.6
Change on inventories (contribution)	-2.4	0.0	0.0	0.0	0.0
Exports	14.0	7.5	7.5	7.6	7.6
Imports	18.8	5.6	5.6	6.7	6.7
Gross Domestic Product	13.3	3.4	3.4	3.2	3.2

Memo:

Public expenditure

Domestic demand excluding inventories

13.8

16.6

2.2

2.9

2.1

2.9

1.9

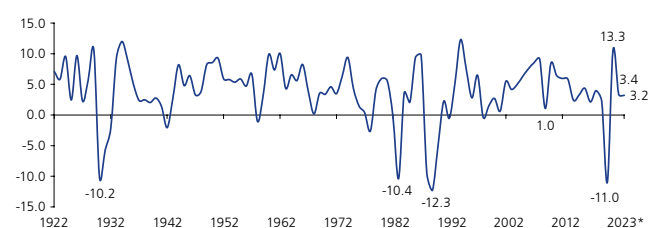
1.9

IR: Inflation Report.

* Forecast.

Source: BCRP.

TOTAL GDP, 1922-2023 (Annual % change)



* Forecast.

Source: BCRP.

The deficit balance for the year resulted from: (i) higher imports of goods, reflecting higher input prices and the recovery of domestic demand; (ii) higher profits of companies with foreign direct investment in the country. and (iii) higher payments abroad for international freight. In 2022 the current account deficit is projected to decrease to 1.6 percent of GDP due to a higher trade surplus in goods –driven by higher export prices– and by lower profits of companies with foreign direct investment (FDI). In 2023, the deficit would continue to narrow further, reaching 0.6 percent of output, following the start of the correction in freight prices –which would reduce the services deficit– as well as the continued increase in the goods trade surplus.

Economic activity increased by 13.3 percent in 2021, exceeding the level observed in 2019 by 0.8 percent. This result is explained by the easing of health restrictions and the progress achieved in mass vaccination of the target population, in a context of fiscal stimulus and an expansionary monetary policy. During the second half of the year, activity slowed down due to a lower statistical effect and greater political uncertainty, which deteriorated expectations about the future of the economy. As a result, private investment grew at a slower pace, while public expenditure contracted in the last quarter, mainly due to lower investment execution.

Growth rates of 3.4 and 3.2 percent are expected in 2022 and 2023, respectively, with a higher relative contribution from net exports, in contrast with 2021 where a higher relative growth of domestic demand was observed. These projections assume a favorable environment for business activity, in which macroeconomic and financial stability is preserved, which would contribute to boost the execution of investment projects and the creation of new jobs. The central scenario also considers a lower monetary stimulus at the local and global levels, a recovery of business and consumer confidence, the normalization of spending habits, and the recovery of the economic sectors with the highest degree of physical interaction after the massive vaccination of the population and the improvement seen in the pandemic scenario.

In February 2022 the **fiscal deficit** accumulated in the last twelve months was equivalent to 2.4 percent of GDP, reflecting twelve consecutive months of reduction in the fiscal deficit after the increasing trend associated with the pandemic observed in 2020. This lower deficit

reflects the increase in current revenues of the General Government due to the recovery of economic activity and higher commodity prices, as well as lower non-financial expenditure due to the end of the extraordinary spending measures adopted to face the health emergency and for economic reactivation purposes. In 2022, the deficit is estimated to close at 2.5 percent of GDP, before falling to 2.2 percent in 2023.

The **gross debt** of the Non-Financial Public Sector would fall from 36.1 to 35.2 percent of GDP between 2021 and 2022, showing a level of 34.8 percent at the end of the projection horizon. On the other hand, the **debt net** of deposits of the Non-Financial Public Sector would increase from 21.9 to 22.4 percent of GDP in the same period and would represent 23.0 percent of output in 2023.

During the first months of 2022, the BCRP Board of Directors continued with the normalization of the monetary policy stance initiated in August 2021. As a result, the BCRP Board has raised the benchmark **monetary policy interest rate** to 4.00 percent as of March 2022, accumulating so far eight increases in total. Thus, after reaching a historic low in August 2021, the benchmark real interest rate is slightly positive today (0.25 percent in March 2022).

In addition, the balance of liquidity injection operations in domestic currency was reduced from S/ 56.7 billion at the end of December 2021 to S/ 50.5 billion as of March 14, 2022. This balance of liquidity injection operations is equivalent to 5.8 percent of GDP, of which S/ 34.8 billion corresponds to the settled amount of government-guaranteed credit portfolio repo transactions. In comparative terms, the total balance of these operations is 6.4 times higher than the maximum balance reached 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 an expansion rate of 2.8 percent in September 2021 to a year-on-year rate of 6.2 percent in January 2022. After showing a significant increase in the credit-to-GDP ratio in 2020 and a similar drop in 2021 due to a strong recovery in economic activity, credit to the private sector is expected to moderate its growth to 4.5 and 5.5 percent in 2022 and 2023, respectively.

NON-FINANCIAL PUBLIC SECTOR (% GDP)

	2021	2022*		2023*	
		IR Dic.21	IR Mar.22	IR Dic.21	IR Mar.22
1. General government current revenues	21.0	20.6	20.7	20.6	20.7
Real % change	37.7%	2.0%	1.1%	3.6%	3.8%
2. General government non-financial expenditure	22.3	21.8	21.8	21.4	21.3
Real % change	5.0%	0.7%	0.5%	1.7%	2.0%
Of which:					
Current expenditure	17.2	16.8	16.6	16.5	16.3
Real % change	-0.6%	-0.7%	-0.9%	1.5%	2.1%
Gross capital formation	4.2	4.4	4.4	4.3	4.4
Real % change	30.6%	8.5%	7.9%	2.1%	2.5%
3. Other 1/	0.1	0.1	0.2	0.1	0.2
4. Primary balance (1-2+3)	-1.1	-1.2	-0.9	-0.7	-0.5
5. Interests	1.5	1.6	1.5	1.6	1.6
6. Overall Balance	-2.6	-2.8	-2.5	-2.4	-2.2

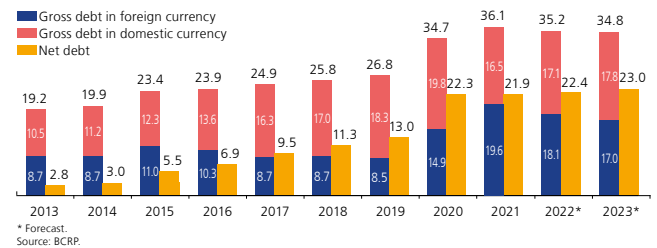
1/ Includes capital income of the general government and primary balance from state-owned companies.

* Forecast.

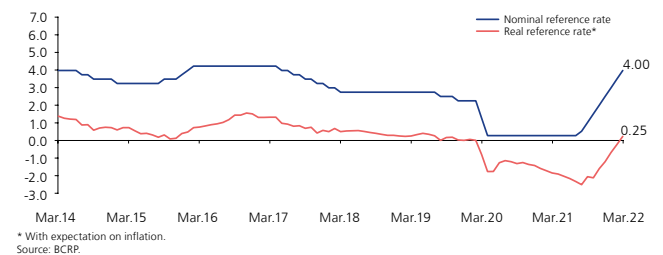
IR: Inflation Report

Source: BCRP.

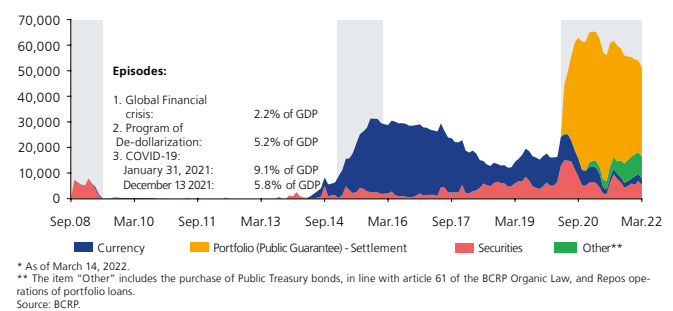
DEBT OF THE NON-FINANCIAL PUBLIC SECTOR: 2013-2023 (% GDP)



REFERENCE INTEREST RATE (%)



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

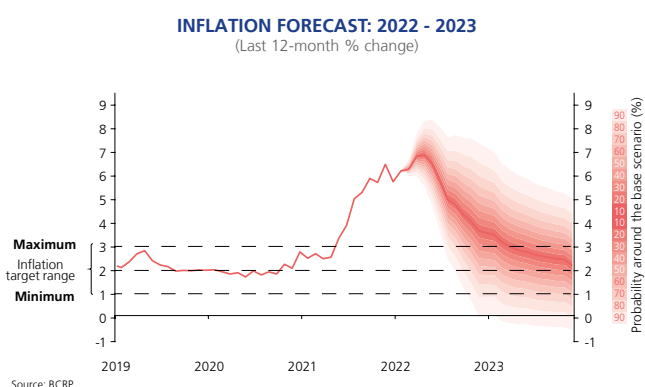
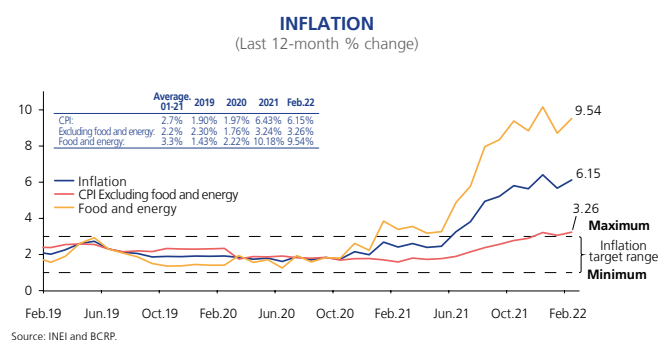


CREDIT TO THE PRIVATE SECTOR 1/ (Annual growth rate)

	Dec.19	Mar.20	Jun.20	Sep.20	Dec.20	Mar.21	Jun.21	Sep.21	Dec.21	Jan.22
Businesses	4.2	6.6	20.0	24.6	21.7	18.6	8.1	3.2	3.8	5.9
Corporate and large companies	4.4	9.6	21.8	14.2	8.3	3.3	-1.8	2.6	7.7	12.0
Medium-sized enterprises, small and micro business	4.1	3.0	17.8	37.0	37.4	37.6	19.9	3.8	0.2	0.4
Individuals	11.3	9.3	2.8	-1.3	-3.1	-4.5	-0.4	2.1	5.4	6.7
Consumer	12.8	10.2	1.6	-4.2	-7.1	-10.6	-5.7	-2.0	3.8	6.3
Car loans	11.9	6.9	0.9	-3.1	-2.5	-8.3	-0.4	3.1	8.0	10.2
Rest	12.9	10.3	1.7	-4.2	-7.3	-10.6	-5.9	-2.1	3.7	6.2
Mortgage	9.0	8.0	4.6	3.1	3.2	4.8	7.5	7.8	7.6	7.3
TOTAL	6.9	7.6	13.2	14.3	11.8	9.5	5.0	2.8	4.4	6.2
Memo:										
TOTAL WITHOUT REACTIVA PERU	6.9	7.6	3.8	-2.5	-5.1	-6.9	-1.4	5.4	9.4	12.1

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

Source: BCRP.

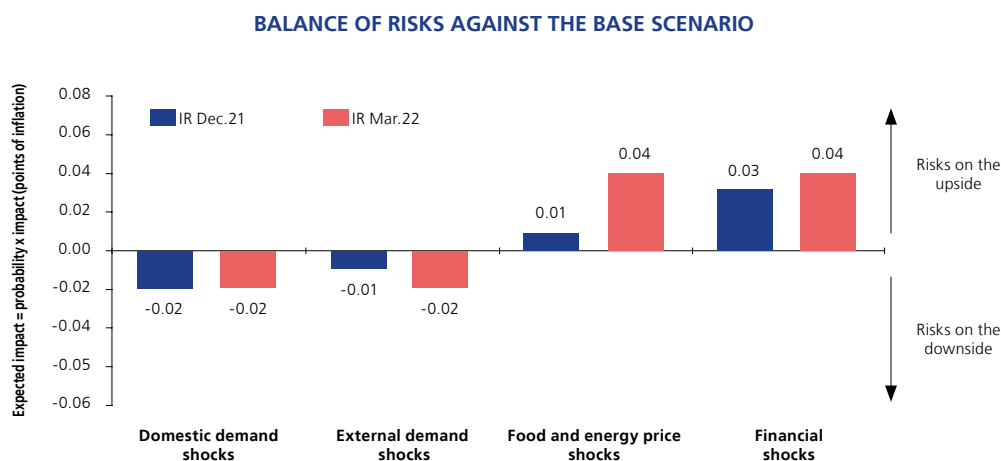


Year-on-year **inflation** rose from 5.66 percent in November to 6.15 percent in February, driven by the higher prices of food with high imported content, fuels, and by the depreciation of the sol. Inflation excluding food and energy rose from 2.91 to 3.26 percent in the same period, above the target range. The different indicators of trend inflation are above the target range, although there has been some moderation in their pace of growth between January and February.

Based on the information available today and taking into account the gradual recovery of economic activity, year-on-year inflation is projected to return to the target range by the beginning of the second quarter of 2023 and to converge to its central value by the end of the projection horizon. This projection assumes the reversal of the effect of transitory factors on the inflation rate (exchange rate, the international prices of fuel and grains) in a context in which the output gap will gradually close, while the gradual withdrawal of monetary stimulus continues and inflation expectations return to the center of the target range in the following months.

Balance of risk

Given the recent international conflict events, the upward bias in the inflation projection has been raised. 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) persistent 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 (iv) upward pressures on the exchange rate and greater volatility in financial markets due to episodes of capital outflows in emerging economies or increased political uncertainty.



SUMMARY OF INFLATION REPORT FORECAST

		2021	2022 ^{1/}		2023 ^{1/}	
			IR Dec.21	IR Mar.22	IR Dec.21	IR Mar.22
Real % change						
1.	Gross Domestic Product	13.3	3.4	3.4	3.2	3.2
2.	Domestic demand	14.4	3.0	3.0	3.0	3.0
	a. Private consumption	11.7	4.0	4.1	3.5	3.5
	b. Public consumption	10.7	1.5	1.5	2.0	2.0
	c. Fixed private investment	37.6	0.0	0.0	2.0	2.0
	d. Public investment	23.7	4.5	4.0	1.6	1.6
3.	Exports (good and services)	14.0	7.5	7.5	7.6	7.6
4.	Imports (good and services)	18.8	5.6	5.6	6.7	6.7
5.	Global economic growth	5.7	4.3	3.8	3.4	3.2
Memo:						
	Output gap ^{2/} (%)	-3.7	-5.5 ; 0.5	-5.5 ; 0.5	-5.0 ; 1.0	-5.0 ; 1.0
% change						
6.	Inflation	6.4	2.9	3.6	2.1	2.1
7.	Expected inflation ^{3/}	3.5	3.5	3.9	2.9	3.0
8.	Expected depreciation ^{3/}	12.1	2.7	-3.5	1.6	-0.3
9.	Terms of trade	11.8	-1.5	-1.4	-0.7	0.6
	a. Export prices	30.3	2.1	6.6	-0.6	-0.9
	b. Import prices	16.6	3.6	8.1	0.0	-1.5
Nominal % change						
10.	Currency in circulation	16.0	3.0	3.0	1.5	1.5
11.	Credit to the private sector	4.4	3.5	4.5	5.5	5.5
% GDP						
12.	Gross fixed investment	25.3	24.3	24.6	24.0	24.1
13.	Current account of the balance of payments	-2.7	-1.3	-1.6	-0.8	-0.6
14.	Trade balance	6.6	6.6	6.7	6.4	6.8
15.	Long-term external financing of the private sector ^{4/}	-7.5	-0.1	-0.4	-0.2	0.0
16.	Current revenue of the general government	21.0	20.6	20.7	20.6	20.7
17.	Non-financial expenditure of the general government	22.3	21.8	21.8	21.4	21.3
18.	Overall balance of the non-financial public sector	-2.6	-2.8	-2.5	-2.4	-2.2
19.	Balance of total public debt	36.1	35.9	35.2	35.6	34.8
20.	Balance of net public debt	21.9	23.7	22.4	24.4	23.0

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.