



Summary Inflation Report

March 2023

This **Inflation Report** has been prepared using data on the balance of payments and the gross domestic product as of the fourth quarter of 2022, data on the monetary accounts as of February 2023, data on the monthly GDP rate as of January 2023, and data on the operations of the non-financial public sector, inflation, financial markets and the exchange rate as of February 2023.

Global economic activity has shown a recovery since the third quarter of 2022 that has continued through the beginning of this year, outweighing the expectations of the December Inflation Report. World growth is projected at 2.4 percent, above the 2.3 percent previously estimated, supported by the partial reversal of supply shocks, strong labor markets and the recovery of China after the lifting of its sanitary restrictions. Global growth forecasts for 2024 remain unchanged at 2.9 percent.

The **terms of trade** declined 10.4 percent in 2022, although they remained above pre-pandemic levels. This took place in a scenario in which the withdrawal of monetary stimulus and the slowdown in global economic growth negatively affected the prices of our export products, while geopolitical conflicts and supply chain disruptions generated upward pressures on import prices.

GLOBAL GDP GROWTH (Annual % change)

	PPP*	2022**	2023		2024	
			IR Dec.	IR Mar.	IR Dec.	IR Mar.
Developed economies	42.2	2.6	0.6	0.7	1.4	1.4
Of which						
1. USA	15.9	2.1	0.6	0.8	1.2	1.2
2. Eurozone	12.0	3.5	0.0	0.4	1.3	1.3
3. Japan	3.9	1.4	1.2	1.2	1.2	1.1
4. United Kingdom	2.3	4.1	-0.5	-0.8	0.7	0.7
5. Canada	1.4	3.5	1.1	1.0	1.9	1.6
6. Others	6.8	2.4	1.4	1.4	2.4	2.4
Emerging economies	57.8	3.9	3.6	3.7	4.0	4.1
Of which						
1. China	18.7	3.0	4.8	5.2	4.8	5.0
2. India	7.0	6.7	6.0	6.0	5.5	6.0
3. Russia	3.1	-2.2	-2.9	-2.9	1.8	1.6
4. Latin America and the Caribbean	7.3	3.9	1.5	1.2	2.3	2.0
Argentina	0.7	5.4	0.5	0.0	2.0	1.8
Brazil	2.4	2.9	0.9	0.9	2.0	1.8
Chile	0.4	2.4	-0.5	-1.0	2.0	2.0
Colombia	0.6	7.5	1.8	0.5	2.8	1.5
Mexico	1.9	3.1	1.3	1.1	2.1	1.9
Peru	0.3	2.7	2.9	2.6	3.0	3.0
5. Others	21.7	4.6	3.8	3.8	3.8	3.8
World Economy	100.0	3.3	2.3	2.4	2.9	2.9

* Base 2021

** Preliminary data.

Source: IMF and Consensus Forecast.

TERMS OF TRADE: 2022 - 2024

	2022	2023*		2024*	
		IR Dec.22	IR Mar.23	IR Dec.22	IR Mar.23
Terms of Trade					
Annual average % chg.	-10.4	-4.2	3.9	1.0	0.9
Price of exports					
Annual average % chg.	1.8	-6.6	-0.7	0.9	1.2
Copper (US\$ cents per pound)	400	358	400	355	397
Zinc (US\$ cents per pound)	158	129	137	120	131
Lead (US\$ cents per pound)	98	92	95	86	81
Gold (US\$ cents per ounce)	1,801	1,743	1,857	1,819	1,942
Price of imports					
Annual average % chg.	13.7	-2.4	-4.4	-0.2	0.3
Oil (US\$ per barrel)	95	81	76	74	72
Wheat (US\$ per ton)	370	335	309	306	286
Maize (US\$ per ton)	273	259	248	238	226

* Forecast.

Source: BCRP.

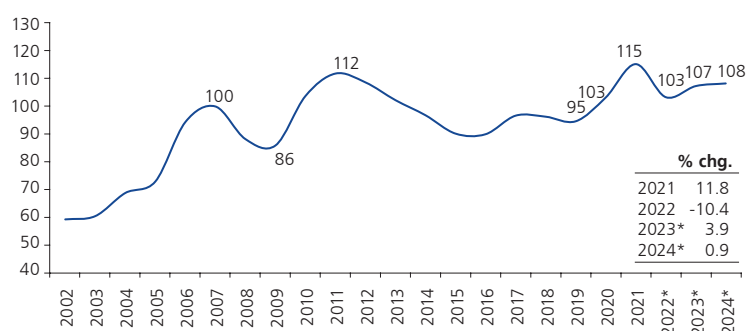
The terms of trade are foreseen to recover by 3.9 percent in 2023 and 0.9 percent in 2024. In 2023, industrial metal prices are expected to be higher than in the previous report due to better prospects for China's economy, while the prices of oil and foodstuffs, such as wheat and maize, are expected to be lower. In addition, higher gold prices are expected by 2024, in a context of high interest rates at the global level, which would boost the average price of exports.

The **current account** went from a deficit of 2.3 percent of GDP in 2021 to a deficit of 4.3 percent in 2022, mainly due to a deterioration in the terms of trade. The current account deficit is projected to narrow to 1.4 percent of GDP in 2023, mostly as a result of a recovery in the terms of trade, higher volumes of mining exports, and a correction in freight costs. The deficit is expected to continue to narrow to 0.8 percent of GDP in 2024. Compared to the previous Report, the current forecasts for 2023 and 2024 incorporate a higher trade surplus due to the revision of the terms of trade on the upside.

In 2022, **economic activity** in the country recorded a growth rate of 2.7 percent driven by the dynamism of private consumption, which was reflected in the expansion of the trade and services sectors.

TERMS OF TRADE: 2002-2024

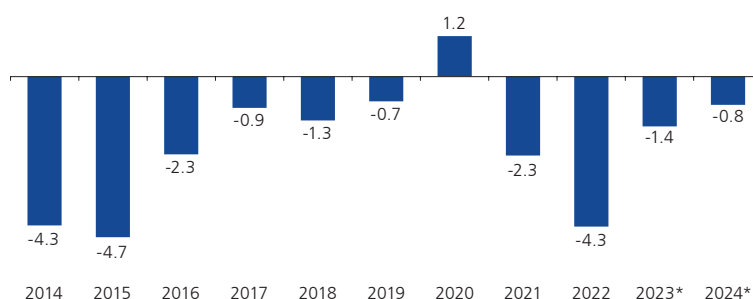
(Index 100 = 2007)



* Forecast.
Source: BCRP.

CURRENT ACCOUNT: 2014-2024

(% GDP)



* Forecast.
Source: BCRP.

BALANCE OF PAYMENTS

(Million US\$)

	2022	2023*		2024*	
		IR Dec.22	IR Mar.23	IR Dec.22	RI Mar.23
I. CURRENT ACCOUNT					
BALANCE	-10,644	-7,026	-3,898	-5,772	-2,343
% GDP	-4.3	-2.7	-1.4	-2.0	-0.8
1. Trade Balance	9,565	7,538	13,844	7,812	14,233
a. Exports	65,835	65,125	68,179	67,027	70,327
Of which:					
i) Traditional	47,348	44,901	48,600	45,119	49,289
ii) Non-Traditional	18,232	19,977	19,351	21,682	20,820
b. Imports	56,269	57,587	54,334	59,215	56,094
2. Services	-8,295	-6,831	-6,847	-5,538	-5,388
3. Primary income (investment income)	-17,367	-13,277	-16,515	-13,555	-16,700
4. Secondary income (Current transfers)	5,452	5,545	5,620	5,509	5,513
Of which: Remittances	3,724	3,869	3,873	3,985	3,989
II. FINANCIAL ACCOUNT ^{1/}	-8,562	-7,026	-6,699	-7,172	-4,843
1. Private Sector	-9,527	-4,861	-4,512	-4,837	-2,524
a. Long-term	-14,055	-4,861	-4,512	-4,837	-2,524
b. Short-term	4,528	0	0	0	0
2. Public Sector ^{2/}	965	-2,165	-2,187	-2,335	-2,319
III. NET ERRORS AND OMISSIONS	-3,007	0	0	0	0
IV. TOTAL	-5,089	0	2,801	1,400	2,500
IV = (I+III) - II = (1-2)					
1. Change in Central Bank reserves	-6,612	0	2,801	1,400	2,500
2. Valuation changes	-1,523	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.

Source: BCRP.

Activity is projected to grow 2.6 percent in 2023, less than estimated in the December Report, considering the economic impact of social conflicts mainly on the growth of the mining and tourism sectors, as well as the adverse effect of climate on the agriculture and fisheries sector. After the moderation of social conflicts at the beginning of the year, economic activity is expected to become more dynamic in an environment of socio-political stability and recovery of business confidence. In 2024, the economy is expected to grow at a rate of 3.0 percent, driven mainly by domestic demand. GDP is expected to be close to its potential level over the projection horizon, without significant inflationary pressures being anticipated from the demand side.

The cumulative **fiscal deficit** over the last twelve months increased from 1.6 to 1.8 percent of GDP between December 2022 and February 2023, reflecting lower current income and higher capital expenditures, mainly by the National Government. The deficit is projected at 1.6 percent of output in 2023 and at 1.5 percent in 2024.

Debt net of non-financial Public Sector deposits is expected to remain around 21.2 percent of GDP over the forecast horizon. The **gross debt** is expected to

GDP BY PRODUCTION SECTOR

(Real % change)

	2021	2022	2023*			2024*	
			January	IR Dec.22	IR Mar.23	IR Dec.22	IR Mar.23
Primary GDP	6.4	0.6	1.2	6.3	5.1	2.8	3.0
Agriculture and livestock	4.6	4.3	1.9	2.4	2.2	2.7	2.7
Fishing	9.9	-13.7	33.0	11.6	5.0	3.5	3.5
Metallic mining	10.5	-0.2	-3.6	8.6	7.0	2.8	3.1
Hydrocarbons	-4.6	4.0	-3.5	4.7	4.7	4.9	4.9
Based on raw materials	3.2	-2.9	13.3	6.9	5.3	2.0	2.0
Non-Primary GDP	15.7	3.2	-1.8	2.0	1.9	3.1	3.1
Non-primary industries	25.2	2.3	-3.3	2.0	1.0	3.0	3.0
Electricity and water	8.5	3.9	3.3	5.0	4.6	3.9	3.9
Construction	34.9	3.0	-11.7	1.3	1.0	3.2	3.2
Commerce	17.8	3.3	1.2	2.4	2.2	3.5	3.5
Services	11.9	3.4	-1.2	2.0	2.1	2.9	2.9
Gross Domestic Product	13.6	2.7	-1.1	2.9	2.6	3.0	3.0

IR: Inflation Report.

* Forecast.

Source: BCRP.

DOMESTIC DEMAND AND GDP

(Real % change)

	2021	2022	2023*		2024*	
			IR Dec.22	IR Mar.23	IR Dec.22	IR Mar.23
Domestic demand	14.7	2.3	2.5	2.1	3.1	2.9
Private consumption	12.4	3.6	3.0	2.8	3.0	3.0
Public consumption	10.6	-3.4	2.0	2.0	3.0	3.0
Private investment	37.4	-0.5	1.0	-0.5	2.5	1.8
Public investment	24.9	7.1	0.0	1.0	4.0	4.0
Change on inventories (contribution)	-2.5	0.2	0.0	0.0	0.0	0.0
Exports	13.7	5.4	6.4	3.9	2.5	3.5
Imports	18.4	4.0	4.6	1.9	2.9	2.9
Gross Domestic Product	13.6	2.7	2.9	2.6	3.0	3.0

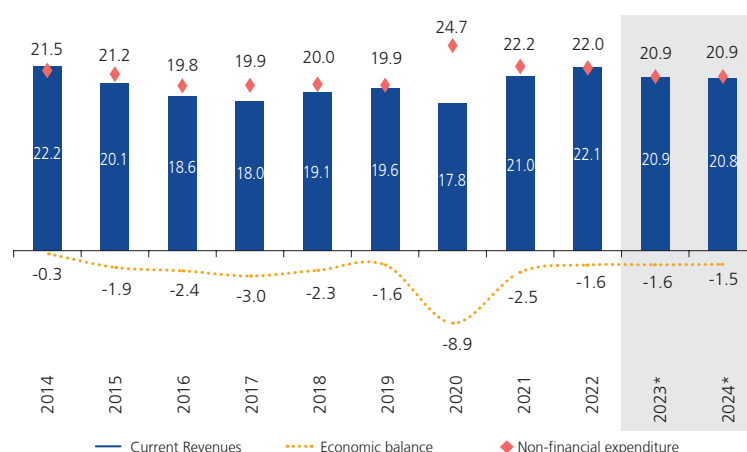
IR: Inflation Report.

* Forecast.

Source: BCRP.

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2014-2022

(Accumulated last 12 months - % GDP)



Memo: The economic balance is calculated as current income - non-financial expenses + others (capital income and primary result of public companies) - debt service payment.

* Forecast.

Source: MEF, SUNAT, and BCRP.

continue its downward trend and would record 32.1 percent in 2024.

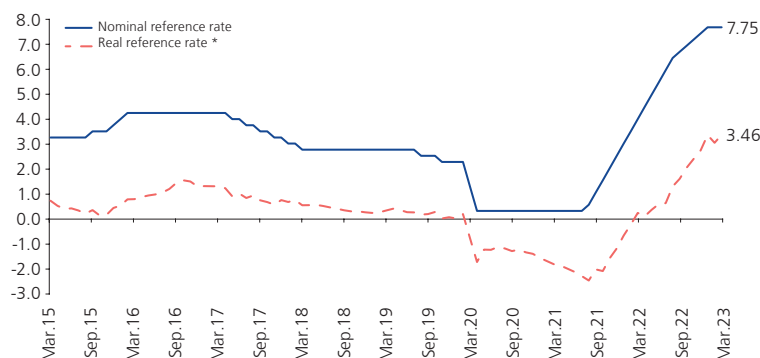
In January 2023, the Board of Directors of BCRP decided to raise the BCRP benchmark rate by 25 basis points to 7.75 percent. Subsequently, between February and March 2023, the Board maintained the reference rate unchanged. The Bank communicated that this pause does not necessarily imply the end of the hike cycle and that it remains attentive to new information on the evolution of inflation and its determinants.

In terms of GDP, the balance of **liquidity injection operations** is equivalent to 3.9 percent of GDP as of March 1 (4.2 percent of GDP as of December 2022), of which S/ 15.1 billion correspond to government-secured loan portfolio repos (S/ 18.7 billion as of December 2022).

Credit to the private sector grew 4.5 percent in 2022 and showed a slight slow down in its growth rate as of February 2023 (2.8 percent year-on-year). February's result was supported by the increase in the component of credit to individuals, mainly consumer loans. With this, the growth rate of credit to the private sector is projected to increase by 4.5 and 6.0 percent in 2023 and 2024, respectively.

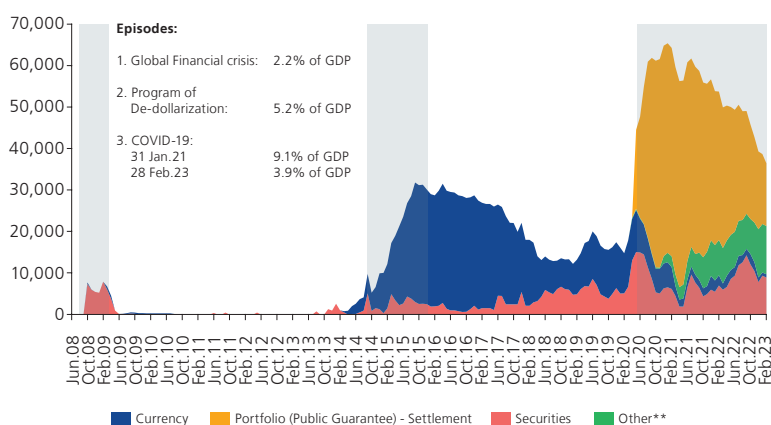
The year-on-year **inflation** rate increased from 8.45 to 8.65 percent between

NOMINAL AND REAL REFERENCE INTEREST RATE (%)



* With expectations on inflation.
Source: BCRP.

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



* As of February 28, 2023.

** 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	Dec.21	Mar.22	Jun.22	Sep.22	Dec.22	Feb.23
Business	4.2	19.7	3.9	5.0	1.2	0.3	-1.3	-3.6
Corporate and large companies	4.3	6.4	8.0	10.7	4.2	3.8	1.3	-2.8
Medium-sized enterprises, small and micro business	4.2	35.6	-0.0	-0.6	-1.8	-3.1	-4.0	-4.5
Individuals	11.4	-3.2	5.3	11.6	15.8	17.1	15.7	14.6
Consumer	13.3	-7.2	3.9	15.1	21.7	23.6	21.4	19.9
Car loans	12.0	-2.2	7.3	13.4	12.3	17.6	15.9	17.3
Rest	13.4	-7.3	3.8	15.1	22.0	23.8	21.6	20.0
Mortgage	8.6	2.9	7.2	7.2	8.2	8.8	7.9	7.3
TOTAL	6.9	10.7	4.4	7.2	6.1	6.0	4.5	2.8
Memo:								
BUSINESSES WITHOUT REACTIVA PERU	4.2	-7.0	11.8	15.4	11.5	10.4	8.4	5.7
TOTAL WITHOUT REACTIVA PERU	6.9	-5.5	9.2	13.9	13.2	13.0	11.2	9.1

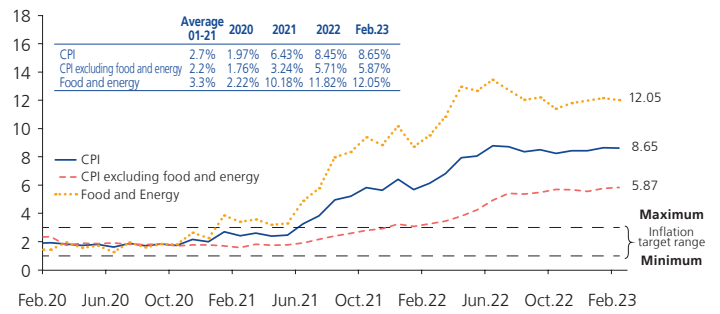
^{1/} Balances are valued at constant exchange rate on December 2022.
Source: BCRP.

December 2022 and February 2023, a lower rate than the peak of 8.81 percent registered in June 2022. Inflation excluding food and energy prices rose from 5.71 to 5.87 percent in the same period, remaining above the target range. The different trend inflation indicators continued to be above the target range.

The inflation rate is projected at 3.0 percent for this year and at 2.4 percent for 2024, within the target range. This forecast assumes the reversal of the effect of transitory factors on the inflation rate (exchange rate, international fuel and grain prices) in a context in which inflation expectations return to the target range and economic activity is around its potential level.

INFLATION

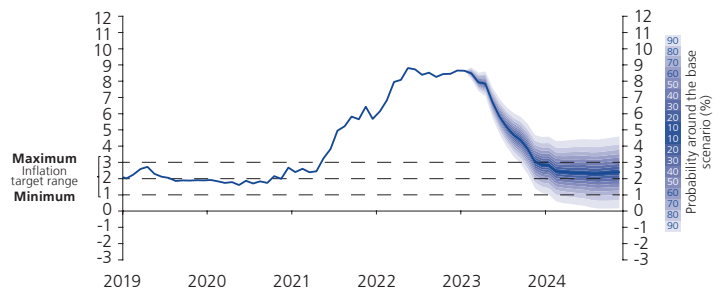
(Last 12-month % change)



Source: BCRP.

INFLATION FORECAST: 2023 - 2024

(Last 12-month % change)



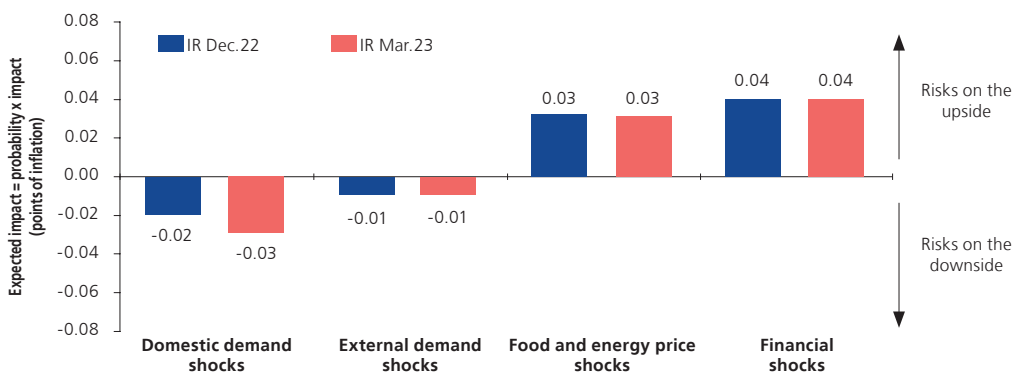
Memo: This Fanchart presents the distribution of the possible values of the inflation forecasts along the horizon projection. Its central line is the mode of the distribution and shows the forecast of the baseline scenario presented in this Inflation Report. Each pair of bands in the fan (each tone or shade) accumulates a 10% probability, and indicates the possible values for the evolution of inflation in the horizon projection associated with this confidence level.

Source: BCRP.

Balance of risks

The balance of **Risks to the inflation projection** maintains an upward bias, although with a lower magnitude than in the December Report. The risks in the forecasts mainly consider the following contingencies: (i) lower demand should business and consumer confidence not recover due to persistent political instability; (ii) a slowdown in global growth, which would imply lower demand for our exports; (iii) intensification of geopolitical tensions, which could exacerbate and prolong the current energy and food crisis and the possibility of climatic events with high adverse impact on the economy, 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 growth, or a tightening of international financial conditions.

BALANCE OF RISKS AGAINST THE BASE SCENARIO



Source: BCRP.

SUMMARY OF INFLATION REPORT FORECAST

	2022	2023*		2024*	
		IR Dec.22	IR Mar.23	IR Dec.22	IR Mar.23
Real % Change					
1. Gross Domestic Product	2.7	2.9	2.6	3.0	3.0
2. Domestic demand	2.3	2.5	2.1	3.1	2.9
a. Private consumption	3.6	3.0	2.8	3.0	3.0
b. Public consumption	-3.4	2.0	2.0	3.0	3.0
c. Fixed private investment	-0.5	1.0	-0.5	2.5	1.8
d. Public investment	7.1	0.0	1.0	4.0	4.0
3. Exports (good and services)	5.4	6.4	3.9	2.5	3.5
4. Imports (good and services)	4.0	4.6	1.9	2.9	2.9
5. Global economic growth	3.3	2.3	2.4	2.9	2.9
Memo:					
Output gap ^{1/} (%)	0.0	-0.5 ; 0.5	-0.5 ; 0.5	-0.5 ; 0.5	-0.5 ; 0.5
% change					
6. Inflation	8.5	3.0	3.0	2.4	2.4
7. Expected inflation ^{2/}	6.3	4.2	4.5	3.3	3.3
8. Expected depreciation ^{2/}	-5.1	-0.5	0.4	-0.4	0.9
9. Terms of trade	-10.4	-4.2	3.9	1.0	0.9
a. Export prices	1.8	-6.6	-0.7	0.9	1.2
b. Import prices	13.7	-2.4	-4.4	-0.2	0.3
Nominal % change					
10. Currency in circulation	-3.8	1.2	-1.0	0.0	0.0
11. Credit to the private sector	4.5	5.2	4.5	6.0	6.0
% GDP					
12. Gross fixed investment	25.4	25.0	24.2	24.9	24.0
13. Current account of the balance of payments	-4.3	-2.7	-1.4	-2.0	-0.8
14. Trade balance	3.9	2.9	5.1	2.8	5.0
15. Long-term external financing of the private sector ^{3/}	5.7	1.8	1.7	1.7	0.9
16. Current revenue of the general government	22.1	21.2	20.9	21.0	20.8
17. Non-financial expenditure of the general government	22.0	21.2	20.9	21.1	20.9
18. Overall balance of the non-financial public sector	-1.6	-1.6	-1.6	-1.5	-1.5
19. Balance of total public debt	34.0	33.1	32.8	32.1	32.1
20. Balance of net public debt	21.2	21.6	21.4	21.6	21.2

RI: IR: Inflation Report

* Forecast.

1/ Differential between GDP and Potential GDP (in % of Potential GDP).

2/ 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 2022, and the average of expectations throughout year in case of inflation has been considered.

3/ Includes net direct investment, foreign assets investment from residents (AFP), foreign net portfolio investment, and private sector's long term disbursement. Positive sign indicates net inflow of foreign capital.