



Summary

Inflation Report

September 2023

This **Inflation Report** has been prepared with information as of the second quarter of 2023 for the balance of payments and gross domestic product; and as of August 2023 for the inflation, non-financial public sector operations, the monetary accounts, financial markets, and the exchange rate.

Global economic activity experienced higher growth during the second quarter of the year than predicted in the June Inflation Report, mainly due to the evolution of the services sector in the main developed economies. As a result, the global growth forecast for 2023 has been revised upward, from 2.5 to 2.8 percent. In contrast, global growth for 2024 is projected at a slightly lower rate, from 2.8 to 2.7 percent, mostly due to a slower pace of expansion in China.

The **terms of trade** fell 0.7 percent year-on-year in the first half of the year, although they remain at favorable levels and above pre-pandemic levels. This decline occurred against a backdrop of lower-than-expected growth in China's real estate sector and deteriorating domestic demand outlook, as well as a more restrictive policy by central banks, which affected the price of the main industrial metals.

Compared to the previous Report, a lower rise in the terms of trade is expected in 2023 (from 3.7 percent to 3.0 percent)

GLOBAL GROWTH

(Annual percentage changes)

	PPP*	2022	2023		2024	
			IR Jun.	IR Sep.	IR Jun.	IR Sep.
Developed economies	41.7	2.7	0.8	1.5	1.2	1.1
<i>Of wich</i>						
1. USA	15.5	2.1	1.0	1.8	1.0	1.0
2. Eurozone	12.0	3.5	0.5	0.5	1.1	0.9
3. Japan	3.8	1.1	1.0	1.2	1.1	0.9
4. United Kingdom	2.3	4.0	-0.2	0.3	0.7	0.4
5. Canada	1.4	3.4	1.0	1.4	1.3	1.1
Dveloping economies	58.3	4.0	3.7	3.7	4.0	3.9
<i>Of wich</i>						
1. China	18.6	3.0	5.4	4.9	5.0	4.8
2. India	7.2	6.8	6.0	6.0	6.0	6.0
3. Russia	2.9	-2.2	-2.0	0.1	1.3	1.3
4. Latin America and the Caribbean	7.2	3.9	1.1	1.6	1.9	1.7
Argentina	0.7	5.2	-0.5	-2.0	1.8	0.6
Brazil	2.3	2.9	0.9	2.0	1.7	1.5
Chile	0.4	2.4	-0.8	-0.5	2.0	2.0
Colombia	0.6	7.5	0.5	1.0	1.7	1.7
Mexico	1.8	3.1	1.3	2.5	1.6	1.4
Peru	0.3	2.7	2.2	0.9	3.0	3.0
World Economy	100.0	3.4	2.5	2.8	2.8	2.7

*Percentage share of each country or region in 2022 Purchasing Power Parity (PPP) World GDP.
Source: IMF, Consensus Forecasts.

TERMS OF TRADE: 2022-2024

	2022	2023*		2024*		
		51.23	IR Jun.23	IR Sep.23	IR Jun.23	IR Sep.23
Terms of Trade						
Annual average % chg.	-10.5	-0.7	3.7	3.0	2.5	1.3
Price of exports						
Annual average % chg.	1.8	6.9	-3.1	-3.6	1.9	2.2
<i>Copper (US\$ cents per pound) 400</i>	395	388	386	383	380	
<i>Zinc (US\$ cents per pound) 158</i>	129	124	119	117	109	
<i>Lead (US\$ cents per pound) 98</i>	97	96	96	96	96	
<i>Gold (US\$ per troy ounce) 1,801</i>	1,933	1,999	1,933	2,126	2,007	
Price of imports						
Annual average % chg.	13.7	-6.2	6.6	-6.5	0.6	0.9
<i>Oil (US\$ per barrel)</i>	95	75	73	78	68	78
<i>Wheat (US\$ per ton)</i>	370	331	317	308	288	274
<i>Maize (US\$ per ton)</i>	273	262	235	230	205	199

* Forecasts.
Source: BCRP.

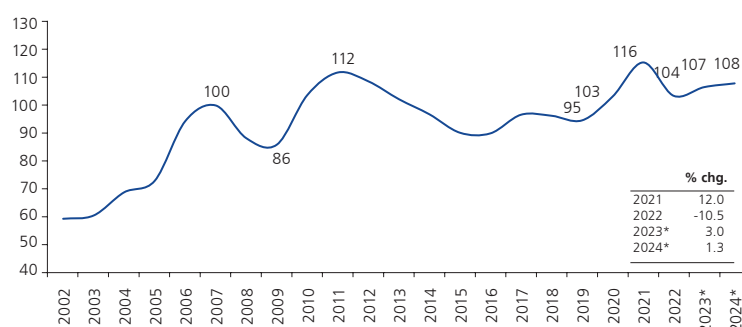
and 2024 (from 2.5 percent to 1.3 percent). The 2023 revision is explained by a fall in the expected growth rate of export prices -mainly for metals such as copper, zinc and gold-, in line with China's growth prospects and higher expectations that the Federal Reserve will keep its monetary policy rate at higher levels over the projection horizon. Meanwhile, for 2024, the correction is due to higher import prices, mainly for oil, reflecting production cuts during the year.

The **current account** of the balance of payments decreased from a deficit of 4.0 percent of GDP in 2022 to an accumulated deficit of 1.9 percent in the last four quarters to June 2023. The evolution responded to lower value of imports, associated with shrinking domestic demand and falling food prices, lower profits of companies receiving foreign direct investment, and higher foreign remittances. Given these developments and lower forecast domestic demand and terms of trade, the current account deficit is revised downward from 1.9 to 1.3 percent of GDP by 2023 and from 1.3 to 1.2 percent by 2024.

National economic activity contracted 0.5 percent in the first half of 2023, a result mainly characterized by contracting private investment and a steep slowdown in private consumption, in a context of social conflicts and low consumer and business confidence. Reduced private spending affected activity in the manufacturing, construction, and services sectors, with simultaneous drawdown of stocks, mainly by mining

TERMS OF TRADE, 2002-2024

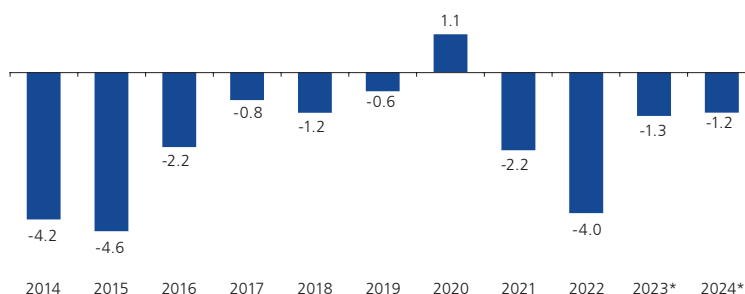
(Index 100 = 2007)



* Forecasts.
Source: BCRP.

CURRENT ACCOUNT: 2014-2024

(Percentage of GDP)



* Forecasts.
Source: BCRP.

BALANCE OF PAYMENTS

(US\$ millions)

	2022	2023*		2024*		
		51.23 3/	IR Jun.23	IR Sep.23	IR Jun.23	IR Sep.23
I. CURRENT ACCOUNT BALANCE	-9,908	-4,872	-5,274	-3,430	-3,760	-3,375
% GDP	-4.0	-1.9	-1.9	-1.3	-1.3	-1.2
1. Trade Balance	10,333	12,953	14,260	15,771	15,659	16,402
a. Exports	66,235	65,382	66,131	65,438	68,824	68,301
Of which:						
i) Traditional	47,760	46,648	46,929	47,190	48,297	48,946
ii) Non-Traditional	18,221	18,489	18,993	18,032	20,329	19,138
b. Imports	55,902	52,429	51,872	49,667	53,165	51,899
2. Services	-8,642	-8,253	-6,626	-7,685	-5,403	-6,548
3. Primary income (factor income)	-17,373	-15,796	-18,980	-18,126	-20,035	-19,770
4. Secondary income (transfers)	5,773	6,224	6,072	6,610	6,018	6,540
Of which: Remittances	3,708	3,980	3,894	4,169	4,028	4,294
II. FINANCIAL ACCOUNT 1/	-9,246	-10,175	-6,614	-4,124	-7,260	-6,875
% GDP	-3.8	-4.0	-2.4	-1.5	-2.5	-2.4
1. Private Sector	-10,203	-11,383	-5,828	-3,087	-4,460	-3,689
a. Long-term	-14,587	-9,806	-5,828	-3,087	-4,460	-3,689
b. Short-term	4,385	-1,577	0	0	0	0
2. Public Sector 2/	957	1,208	-786	-1,037	-2,800	-3,186
III. NET ERRORS AND OMISSIONS	-4,427	-6,042	0	0	0	0
IV. BALANCE OF PAYMENTS	-5,089	-739	1,339	695	3,500	3,500
IV= (I+III) - II = (1.2)						
1. Change in NIR balance	-6,612	-392	2,101	1,268	3,500	3,500
2. Valuation effect	-1,523	347	762	573	0	0

1/ The financial account and its components (private and public sector) are expressed as assets net of liabilities. Therefore, a negative sign implies an inflow of external capital.

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

3/ Shows the accumulated last two semesters to the first half of 2023.

IR: Inflation Report.

* Forecasts.

Source: BCRP.

and manufacturing companies. Weather-related factors also had a direct impact on production in the agriculture and fishing sectors and associated manufacturing.

The supply shocks that affected production in the first half of the year had a greater impact than expected. In addition, business confidence has not recovered as expected, which would reduce the dynamism of non-primary activity. In addition, the persistence of strong warm conditions would have a negative impact on agriculture and fishing production for the remainder of the year. As a result, the 2023 growth forecasts are revised significantly downward, from 2.2 to 0.9 percent.

Economic activity is expected to recover in 2024 and grow by 3.0 percent, supported by the partial reversal of supply shocks and recovering domestic demand and non-primary sectors, in a scenario of socio-political and macroeconomic stability with low inflation that favors business and consumer confidence. The forecasts in this Report assume strong warm conditions until December 2023 and a moderate global and coastal El Niño event in the first quarter of 2024.

The **fiscal deficit** increased from 1.7 percent in 2022 to 2.6 percent of cumulative GDP over the last 12 months to August 2023, due to deteriorating current income. Given a lower economic growth outlook and lower export prices, the fiscal deficit is revised upward to the fiscal rule mandated limits of 2.4 and 2.0 percent of GDP in 2023 and 2024, respectively.

GDP BY ECONOMIC SECTOR
(Real percentage changes)

	2022	2023*			2024*	
		S1	IR Jun.23	IR Sep.23	IR Jun.23	IR Sep.23
Primary GDP	0.9	3.0	4.0	2.5	2.9	2.8
Agriculture and livestock	4.5	-3.4	0.4	-2.0	2.7	2.6
Fishing	-11.4	-31.7	-15.0	-26.4	10.5	10.5
Metallic mining	0.0	11.9	8.3	8.8	2.4	2.4
Hydrocarbons	4.0	-1.5	4.7	2.2	4.9	3.6
Manufacture	-2.5	-2.0	0.0	-4.2	3.3	3.2
Non-Primary GDP	3.2	-1.4	1.7	0.4	3.1	3.1
Manufacture	2.0	-7.7	0.0	-3.5	3.0	2.9
Electricity and water	3.9	5.2	4.3	4.3	3.9	3.9
Construction	3.0	-9.0	0.0	-3.7	3.2	3.2
Commerce	3.3	2.7	2.5	3.0	3.5	3.5
Services	3.4	-0.4	1.9	1.0	2.9	2.9
GDP	2.7	-0.5	2.2	0.9	3.0	3.0

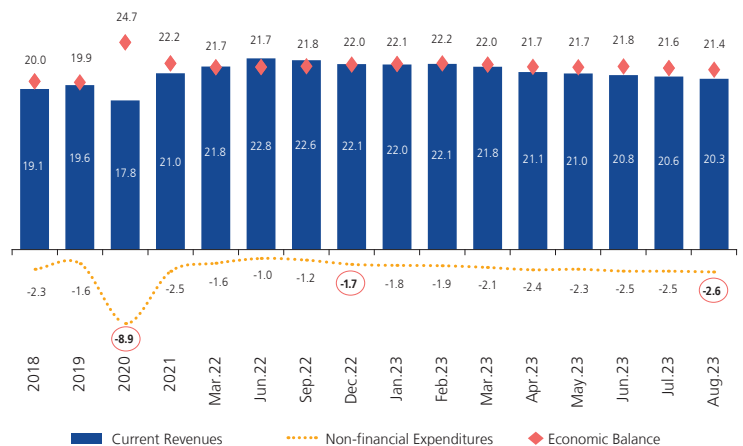
IR: Inflation Report.
* Forecasts.
Source: BCRP.

EXPENDITURE-SIDE GDP BY EXPENDITURE TYPE
(Real percentage changes)

	2022	2023*			2024*	
		S1	IR Jun.23	IR Sep.23	IR Jun.23	IR Sep.23
Domestic demand	2.3	-2.5	1.5	-0.3	2.9	3.0
Private consumption	3.6	0.3	2.6	1.2	3.0	3.0
Public consumption	-3.4	-1.6	2.0	2.0	3.0	2.0
Private investment	-0.4	-10.1	-2.5	-5.3	1.8	1.8
Public investment	7.7	2.1	1.5	1.5	4.0	4.0
Change on inventories (contribution)	0.1	-0.5	0.0	-0.3	0.0	0.2
Exports	6.1	5.0	3.4	2.8	3.3	3.3
Imports	4.4	-3.1	0.8	-2.0	2.9	3.4
GDP	2.7	-0.5	2.2	0.9	3.0	3.0

IR: Inflation Report.
* Forecasts.
Source: BCRP.

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2018-2023
(Cumulative last 12 months - Percentage of GDP)



Note: The economic balance is calculated as current income - Non-financial expenditure + other (capital income and primary result of state-owned enterprises) - interest payment on debt.
Source: MEF, SUNAT and BCRP.

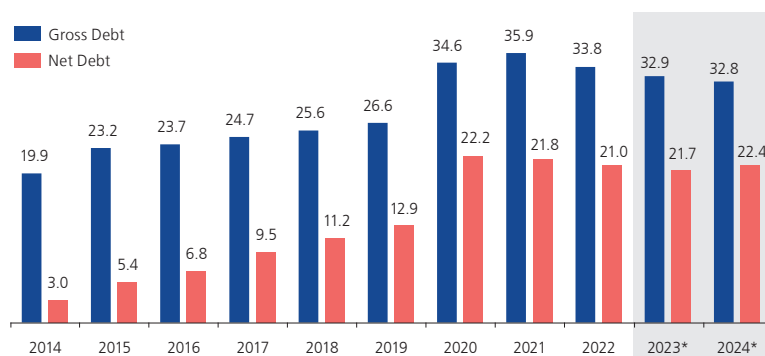
Debt net of non-financial Public Sector deposits is expected to increase from 21.0 to 21.7 percent of GDP between 2022 and 2023, eventually settling at 22.4 percent of GDP by the end of the projection horizon. **Gross debt** is projected to continue its downward trend and stand at 32.8 percent in 2024.

In September 2023, the BCRP Board of Directors decided to cut the **benchmark rate** by 25 bps. to 7.50 percent, while underscoring this decision does not necessarily imply entering a cycle of successive interest rate reductions. Future adjustments in the reference rate will depend on new information on inflation and its determinants. Previously, the BCRP Board of Directors agreed to raise the benchmark rate by 25 basis points to 7.75 percent in January 2023 and then, between February and August, decided to keep it unchanged. In August, the BCRP removed its statement that this decision does not necessarily imply the end of the interest rate hike cycle.

Credit to the private sector recorded an expansion of 0.2 percent in annual terms in July 2023 (4.6 percent in 2022), mainly reflecting the evolution of economic activity. Going forward, such demand is expected to recover in line with projected GDP growth in the second half of 2023 and in 2024. Thus, the growth rate of credit to the private sector is projected to stand at 1.0 and 4.0 percent in 2023 and 2024, respectively.

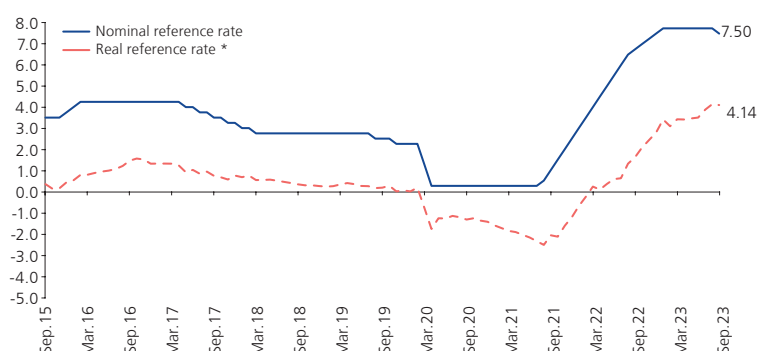
The year-on-year **inflation** rate slipped more rapidly in recent months, as it dropped from 7.89 percent in May to

NON-FINANCIAL PUBLIC SECTOR DEBT: 2014-2024
(Percentage of GDP)



* Forecast
Source: BCRP and WEO (April 2023).

REFERENCE INTEREST RATE
(Percentage)



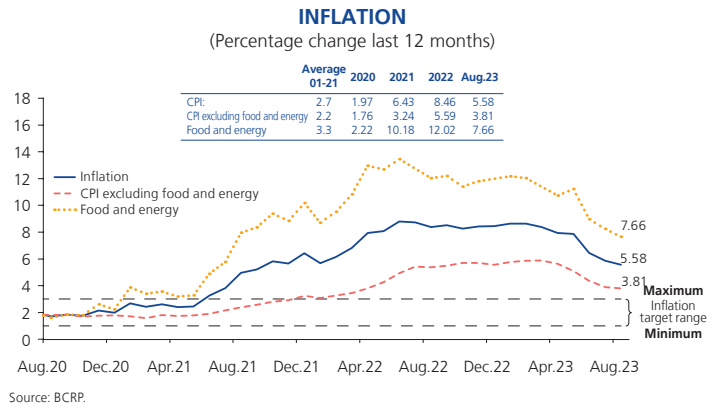
* With expectations of inflation.
Source: BCRP.

CREDIT TO THE PRIVATE SECTOR TOTAL 1/
(Annual growth rates)

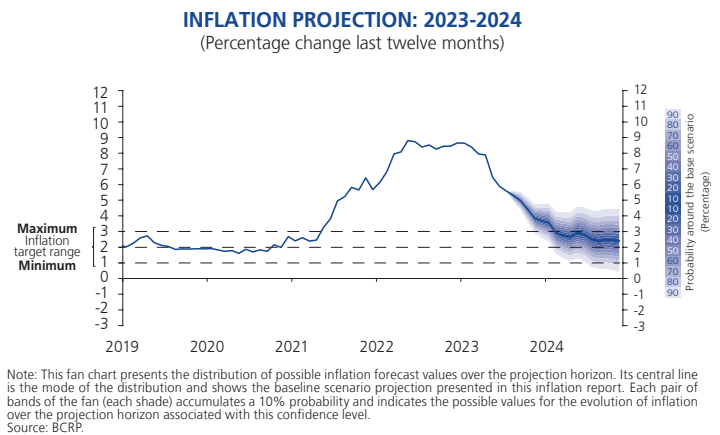
	Dec.19	Dec.20	Dec.21	Dec.22	Mar.23	Jun.23	Jul.23
Businesses	4.2	19.7	3.6	-1.4	-3.1	-4.4	-5.4
Corporate and large companies	4.3	6.4	8.0	1.2	-2.2	-3.6	-4.7
Medium-sized enterprises	0.3	47.2	0.0	-13.7	-13.1	-14.9	-15.6
Small business and Micro business	8.4	24.0	-1.1	7.7	5.7	5.0	3.6
Individuals	11.4	-3.2	4.8	15.9	13.1	10.2	9.9
Consumer	13.3	-7.2	3.1	21.8	17.7	13.7	13.4
Car loans	12.0	-2.2	7.3	15.9	18.7	18.4	16.2
Credit cards	13.4	-20.3	-41.0	32.6	28.9	20.9	21.4
Rest	13.3	-0.5	21.4	19.8	15.4	12.0	11.5
Mortgage	8.6	2.9	7.1	8.0	6.7	5.2	4.9
TOTAL	6.9	10.7	4.0	4.6	2.6	1.0	0.2
Memo:							
Businesses without Reactiva	4.2	-7.0	11.5	8.4	6.2	4.7	2.9
Total without Reactiva Peru	6.9	-5.5	8.8	11.3	8.9	6.9	5.6

Note: The criteria for classifying loans to companies by credit segment follows the SBS definition valid until June 2023. In July 2023, SBS Resolution No. 02368-2023 changed this classification.
Corporate: Annual sales in excess of S/ 200 million (idem)
Large companies: Annual sales between S/ 20 million and S/ 200 million (Annual sales between S/ 20 million and S/ 200 million; or maintaining issues in the capital market in the last year).
Medium-sized companies: Annual sales between S/ 5 million and S/ 20 million (Total indebtedness greater than S/ 300 thousand or annual sales under S/ 20 million).
Small companies: Annual sales under S/ 5 million and total indebtedness above S/ 20 thousand (Total indebtedness between S/ 20 thousand and S/ 300 thousand).
Microenterprises: Annual sales of less than S/ 5 million and total indebtedness of less than S/ 20 thousand (Total indebtedness under S/ 20 thousand).
1/ Constant exchange rate as of December 2022.
Source: BCRP.

5.58 percent in August. The drop is due to the correction in some food prices such as poultry, fresh fish and potatoes, the year-on-year fall in energy prices and lower non-food and energy inflation (from 5.11 to 3.81 percent over the same period). Trend inflation indicators maintained a downward trajectory, although they are still above the target range.

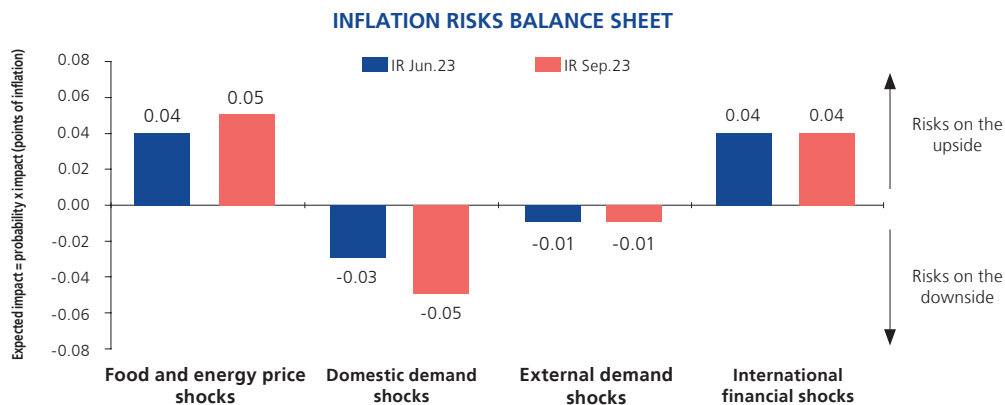


An inflation rate of 3.8 percent is expected by the end of 2023, a revision on the upside from expectations in the June Report (3.3 percent). This revision is due to adverse weather events that temporarily affect food prices. Trend inflation, measured by the year-on-year change excluding food and energy prices, is expected to return to the target range by the end of this year. Thus, inflation will decline over the forecast horizon and close at 2.4 percent in 2024.



Balance of risks

The upward bias of the **balance of risks for the inflation projection** is reduced compared to the previous report. Risks to the projection include mainly the following contingencies: (i) the occurrence of a strong or severe El Niño in the summer of 2024, which could affect the supply of perishable agricultural products and therefore their prices; (ii) the advent of new episodes of socio-political instability, which would deteriorate the outlook for private spending and moderate the expected downward trend in inflation; (iii) slower global growth due to tighter financial conditions, lower growth in China and renewed supply chain problems that would imply lower demand for exports; (iv) intensified geopolitical tensions that could exacerbate and prolong the current energy and food crisis; and (v) upward pressures on the exchange rate, capital outflows and greater volatility in international markets due to episodes of greater political uncertainty or tighter international financial conditions.



SUMMARY OF INFLATION REPORT FORECAST

	2022	2023*		2024*	
		IR Jun.23	IR Sep.23	IR Jun.23	IR Sep.23
Real % change					
1. Gross Domestic Product	2.7	2.2	0.9	3.0	3.0
2. Domestic demand	2.3	1.5	-0.3	2.9	3.0
a. <i>Private consumption</i>	3.6	2.6	1.2	3.0	3.0
b. <i>Public consumption</i>	-3.4	2.0	2.0	3.0	2.0
c. <i>Fixed private investment</i>	-0.4	-2.5	-5.3	1.8	1.8
d. <i>Public investment</i>	7.7	1.5	1.5	4.0	4.0
3. Exports (good and services)	6.1	3.4	2.8	3.3	3.3
4. Imports (good and services)	4.4	0.8	-2.0	2.9	3.4
5. Global economic growth	3.4	2.5	2.8	2.8	2.7
Note:					
Output gap ^{1/} (%)	0.2	-0.7 ; 0.0	-1.5 ; -0.5	-0.5 ; 0.5	-1.0 ; 0.0
% change					
6. Inflation	8.5	3.3	3.8	2.4	2.4
7. Expected inflation ^{2/}	6.3	4.9	4.1	3.3	3.0
8. Expected depreciation ^{2/}	-5.1	0.4	-3.1	0.9	0.9
9. Terms of trade	-10.5	3.7	3.0	2.5	1.3
a. <i>Export prices</i>	1.8	-3.1	-3.6	1.9	2.2
b. <i>Import prices</i>	13.7	-6.6	-6.5	-0.6	0.9
Nominal % change					
10. Currency in circulation	-3.8	-3.5	-5.0	-1.0	-1.0
11. Credit to the private sector	4.6	4.0	1.0	5.0	4.0
% GDP					
12. Gross fixed investment	25.3	23.8	23.3	23.4	22.8
13. Current account of the balance of payments	-4.0	-1.9	-1.3	-1.3	-1.2
14. Trade balance	4.2	5.2	5.8	5.3	5.7
15. Long-term external financing of the private sector ^{3/}	6.0	2.1	1.1	1.5	1.3
16. Current revenue of the general government	22.1	20.7	20.2	20.7	20.3
17. Non-financial expenditure of the general government	22.0	21.0	20.9	21.0	20.8
18. Overall balance of the non-financial public sector	-1.7	-1.9	-2.4	-1.8	-2.0
19. Balance of total public debt	33.8	32.1	32.9	31.6	32.8
20. Balance of net public debt	21.0	20.9	21.7	21.4	22.4

IR: Inflation Report

* Forecasts.

1/ Differential between GDP and trend GDP (in % of trend 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.