INFLATION REPORT

March 2024

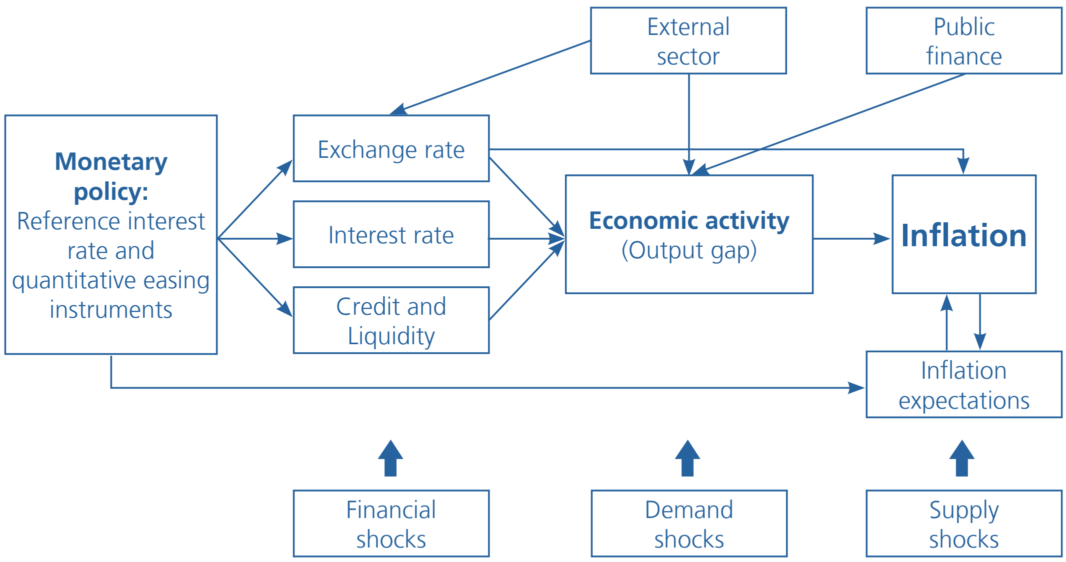
Recent trends and macroeconomic forecasts 2024-2025

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2024 - 2025

March 2024



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This ***Inflation Report*** has been prepared with information as of the fourth quarter of 2023 on the Balance of Payments and Gross Domestic Product; as of January 2024, on monthly GDP; and as of February 2024 on Non-Financial Public Sector operations, monetary accounts, inflation, financial markets and exchange rates.

Foreword

- The Central Reserve Bank of Peru (BCRP) is a constitutionally mandated public autonomous entity charged with preserving monetary stability. Its main functions are regulating the amount of money, managing international reserves, issuing notes and coins, and reporting periodically on the nation's finances.

- To fulfill this role, the Bank's monetary policy enforces an inflation targeting scheme. The inflation target (a range between 1 and 3 percent) seeks to anchor inflation expectations at a level similar to developed economies' and to establish a permanent commitment to monetary stability.

- Since 2003, the Board of Directors of BCRP decides every month, in an announced schedule, the level of the benchmark rate for the interbank lending market. This interest rate is the monetary operational target, which has an impact on the inflation rate through time lags and across different channels. Therefore, this interest rate is determined based on inflation forecasts and inflation determinants.

- Inflation may transitorily deviate from the target range due to shocks temporarily affecting the supply of goods and services. In addition, the effectiveness of monetary policy is evaluated in terms of its success in maintaining inflation expectations within the target range, and returning to said range within a reasonable timeframe if economic shocks result in range deviations.

- Additionally, preventive actions by BCRP seek to preserve macro-financial stability and monetary policy transmission mechanisms. The benchmark rate is thus complemented by other monetary policy instruments, such as injection and sterilization operations, reserve requirements and exchange rate interventions, to ensure proper market functioning, reduce excessive exchange rate volatility, and avoid significant variations in the volume and composition, by type of currency and terms, of credit in the financial system.

- The Inflation Report comprises the macroeconomic forecasts for the period 2024-2025, which support BCRP monetary policy decisions, as well as the risk factors that may result in deviations from these forecasts.

- This Inflation Report was approved at the Board of Directors' meeting held on March 7, 2024.

- The following Inflation Report will be released on Friday, June 21, 2024.

Summary

i. Tighter credit, shrinking private sector savings surpluses and certain supply shocks may slow down **global growth**, from 3.1 in 2023 to 2.8 percent in 2024. By 2025, growth is estimated at 3.1 percent, with global inflation under control and lower international interest rates.

ii. In 2023, **terms of trade** increased by 5.3% as a result of greater declines in import prices compared to declining export prices. Increased oil supplies, improved agricultural weather, and concerns about a slowing Chinese recovery during most of the year all contributed to this outcome.

A moderate decline in the terms of trade is anticipated in 2024 (-1.7 percent). Less pronounced than projected in the previous report, it is accounted for by estimated 0.5 percent lower import prices, in turn influenced by the downside revision of oil prices triggered by expectations of an oversupplied market. The terms of trade are projected to recover in 2025 (1.0 percent).

iii. The **current account** climbed from a 4.0 percent of GDP deficit in 2022 to a surplus of 0.6 percent in 2023 reflecting falling imports, declining freight costs, the positive impact of normal health conditions on tourism, higher yields on foreign assets, due to higher global interest rates, and lower profits of companies holding foreign direct investments in Peru.

A current account output deficit of 0.5 percent is forecast for 2024 and 0.9 percent in 2025. The 2024 deficit will be driven by the projected reduction in the terms of trade and the boost to imports, consistent with the recovery in domestic demand.

iv. Following several supply shocks, such as social unrest, bad weather, and the avian flu pandemic, which collectively reduced productive capacity and had a knock-on effect on private sector income and confidence, **domestic economic activity** fell by 0.6 percent in 2023. The decline in household spending power brought about by steady and notable rises in food costs, along with a decline in the market for non-traditional goods, primarily from North America, further exacerbated these circumstances.

The economic forecast for 2024 assumes that normal weather would return in the second quarter, propelling the recovery of the primary industries including agriculture, fisheries, and related manufacturing. Furthermore, once inflation returns to the target range, purchasing power should be less affected. Sociopolitical stability that encourages private investment could increase private spending and have a positive effect on non-primary sectors like manufacturing, services, and construction, all of which could contribute to an annual GDP growth of 3.0 percent.

A comparable GDP growth rate is projected for 2025, assuming normal weather conditions and a stable macroeconomic and socio-political climate to facilitate the ongoing recovery of private expenditure.

v. Between 2022 and 2023, the **budget deficit** increased from 1.7 to 2.8 percent of GDP due to a decrease in economic activity and a decline in imports and exports' quotes. The deficit experienced a rise to 3.0 percent in February 2024, primarily attributed to an increase in non-financial expenditure and, to a lesser degree, debt interest service. Based on the anticipated resurgence in economic activity and the anticipated increase in export prices during the forecast timeframe, it is anticipated that the budget deficit will be contained within the prescribed limitations of 2.0 and 1.5 percent of GDP in the years 2024 and 2025, correspondingly. This prediction presupposes that public expenditure is effectively managed, particularly in 2024, to attain the budgetary objectives established for that year.

The estimated increase in **debt**, after accounting for non-financial Public Sector deposits, is expected to rise from 22.4 to 24.7 percent of GDP during the period from 2023 to 2025. Simultaneously, it is anticipated that the **gross debt** will rise from 32.9 to 33.5 percent of GDP over the same timeframe. The disparity in the rise of net and gross debt can be attributed to the presumption of a heightened utilization of Public Sector deposits for the purpose of funding the fiscal deficit.

vi. During the period spanning from January to February 2024, the Board of Directors of BCRP made the decision to decrease the **benchmark rate** by 25 basis points on each occasion, resulting in a reduction of the benchmark rate from 6.75 to 6.25 percent. The transmission of these judgments underscored that this does not necessarily indicate a recurring pattern of consecutive reductions in interest rates. Additionally, it was noted that any modifications in the benchmark rate will be contingent upon novel data regarding inflation and its underlying factors.

vii. The rate of expansion for **credit to the private sector** decreased from 4.5 to 1.3 percent between 2022 and 2023. However, in January 2024, this variable had a year-on-year growth of 1.0 percent. The primary cause of this evolution is mostly attributed to a decrease in loan demand due to a decline in domestic demand. In the future, it is anticipated that there will be a resurgence in loan demand, aligning with the projected trends in domestic demand and output. Therefore, it is anticipated that the rate of loan expansion to the private sector will increase to 3.5 percent in 2024 and 5.0 percent in 2025.

viii. The year-on-year **inflation** rate continued to decrease between November 2023 and January 2024, as it went down from 3.64 to 3.02 percent driven by the correction in some food prices such as onions and lemons, meals away from home, and cheaper local transportation. Inflation net of food and energy price hikes fell from 3.09 to 2.86 percent in the same period, within the target range. In February and due to one-off supply factors (water rates and some food items), total and non-food and energy inflation rose to 3.31 and 3.10 percent, respectively.

The projected inflation rate for 2024 is 2.2 percent, indicating a downward revision compared to the earlier forecast of 2.3 percent. The adjustment is made in response to the decreased impact of meteorological phenomena on food prices in previous months. In the present setting, it is anticipated that inflation, excluding the categories of food and energy, will persist in its declining trend. Consequently, it is anticipated that the overall inflation rate will fall within the goal range of 2.0 percent by the year 2025.

ix. The upward bias in the **balance of risks to the inflation projection** relative to the December report is maintained. Risks to the forecasts include mainly the following contingencies: (i) relatively intense nature-related phenomena, which could disrupt global supply chains and domestic market supplies that would translate into higher food prices and transportation costs; (ii) financial shocks resulting from upward pressures on the exchange rate, capital outflows and greater volatility in financial markets due to episodes of greater political uncertainty or increased volatility in international financial markets; (iii) domestic demand shocks because of slow recovery of consumer and business confidence, which could deteriorate the outlook for private spending (the impact of this risk has been reduced with respect to December); and (iv) external demand shocks due to more sluggish global growth, implying lower demand for our export products.

SUMMARY OF INFLATION REPORT FORECAST

	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
Real % change					
1. Gross Domestic Product	-0.6	3.0	3.0	3.0	3.0
2. Domestic demand	-1.7	2.9	3.1	2.9	3.0
a. Private consumption	0.1	2.7	2.7	2.8	2.8
b. Public consumption	3.3	2.0	2.0	2.0	2.0
c. Fixed Private investment	-7.2	1.8	2.3	3.0	3.0
d. Public investment	1.4	4.0	4.0	4.5	4.5
3. Exports of goods and services	3.7	3.1	2.7	3.8	3.3
4. Imports of goods and services	-0.9	2.7	3.0	3.3	3.1
5. World GDP growth	3.1	2.7	2.8	3.0	3.1
Memo:					
Output gap 1/ (%)	-1.8 ; -0.8	-1.3 ; -0.3	-1.3 ; -0.3	-0.7 ; 0.3	-0.7 ; 0.3
% chg.					
6. Inflation (end of period)	3.2	2.3	2.2	2.0	2.0
7. Expected inflation 2/	4.4	3.1	2.7	2.5	2.5
8. Expected depreciation 2/	-2.5	0.4	1.0	0.9	-0.5
9. Terms of Trade	5.3	-1.8	-1.7	1.3	1.0
a. Export prices	-1.9	-1.0	-2.2	1.8	2.2
b. Import prices	-6.8	0.7	-0.5	0.5	1.2
Nominal % change					
10. Currency	-5.6	-2.5	-1.7	0.0	0.0
11. Credit to the private sector	1.3	3.5	3.5	5.0	5.0
% GDP					
12. Gross fixed investment	22.9	22.9	23.0	23.0	23.0
13. Current account of the balance of payments	0.6	-0.8	-0.5	-1.2	-0.9
14. Trade Balance	6.5	5.4	5.6	5.6	5.9
15. Long-term external financing of the private sector 3/	-0.1	0.8	0.7	1.6	1.4
16. Current revenue of the general government	19.7	20.3	20.2	20.5	20.7
17. Non-financial expenditure of the general government	20.9	20.7	20.5	20.5	20.5
18. Overall balance of the non-financial public sector	-2.8	-2.0	-2.0	-1.5	-1.5
19. Balance of total public debt	32.9	33.3	33.8	33.1	33.5
20. Balance of net public debt	22.4	23.5	24.4	23.9	24.7

IR: Inflation Report
* Forecast.
1/ Differential between GDP and potential GDP (as a percentage of potential GDP).
2/ Expectations survey to analysts and financial entities carried out at the time of publication of the respective Report on Inflation. For 2023, the information observed in the case of depreciation and the average of the expectations to throughout the year in the case of inflation.
3/ Includes net foreign direct investment, investment of residents' foreign assets (AFP), net foreign portfolio investment, and private sector net long-term disbursements and net long-term private sector disbursements. Positive sign indicates net inflow of foreign capital.

I. External sector

1. Although heterogeneous at country level, the world economy has shown moderate growth in aggregate terms. Dynamic United States and India economies and reduced fears of a sharp contraction in China have offset the unfavorable performance in Europe. In line with this performance, global growth for 2023 has been revised upward, from 3.0 to 3.1 percent.

   Parallel to these developments, inflation has moderated its downward trend largely due to resilient service industry prices. Consequently, the central banks of the main developed economies are expected to start a cycle of reference rate cuts in the second half of this year.

2. In 2024, the global economy is expected to gradually slowing down and grow more slowly than in the previous year (2.8 percent). As has been pointed out in previous issues of this Inflation Report, this slowdown responds adjusted credit conditions, lower private sector surpluses and certain supply shocks impacting global trade. A 3.1 percent growth rate is estimated for 2025.

3. The baseline scenario is vulnerable to several negative risks, mentioned in the previous Inflation Report. These risks include tighter monetary policy in the event that inflation slows down more slowly than anticipated or a worsening of geopolitical tensions impacting food and energy costs.

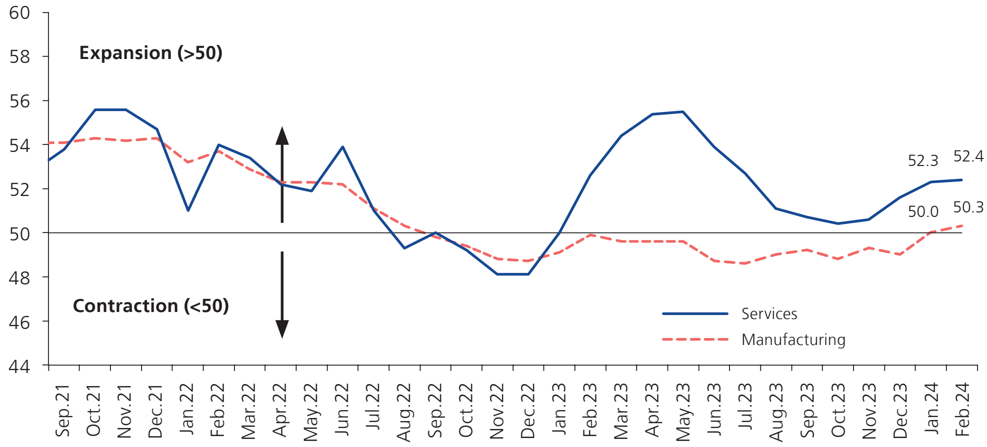
   The risks of a significant impact of the El Niño event (ENF) on food supply have been diminished compared to the prior study. Conversely, there exists a heightened susceptibility to supply chain disruptions linked to climatic variables, such as water scarcity impacting the Panama Canal, or geopolitical factors, such as tensions in the Red Sea and between China and the United States that may impede the regular provision of semiconductors.

Recent developments in global economic activity

4. **World growth** in 2023 has been revised upward from the previous report, from 3.0 to 3.1 percent, due to the better-than-expected performance of the United States, China and India, which offset the lower dynamism of other countries and regions such as the Eurozone and the United Kingdom. The services sector remains as the most dynamic.

5. So far in 2024, this country and sector level trend remains. February's global services PMI performed favorably, rising from 52.3 to 52.4. The sector's dynamism reflected increased new business inflows, post-pandemic demand resurgence and favorable labor market developments in major economies where unemployment rates remain near historic lows.

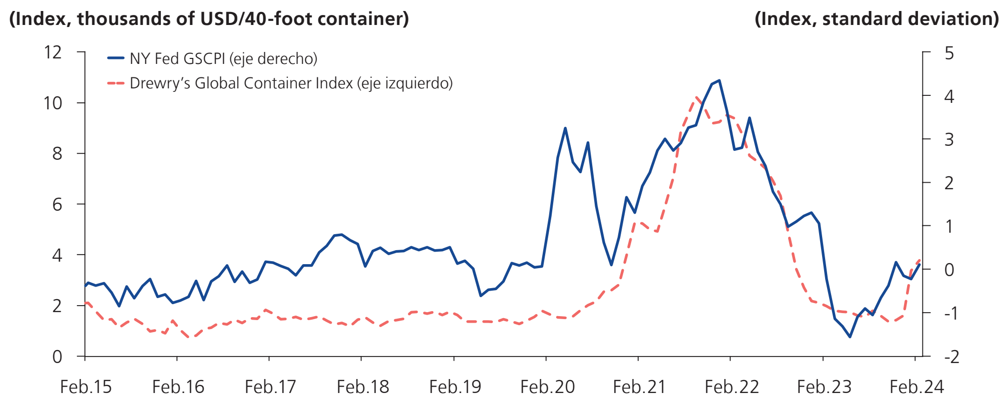
Graph 1
GLOBAL PMI: WORLD ECONOMIC ACTIVITY INDEX FOR THE MANUFACTURING AND SERVICES SECTORS
(Diffusion index)



Source: S&P Global.

6. Global manufacturing showed some signs of stabilization. After several months in the contraction zone, it rose from 50.0 in January to 50.3 in February. Output rose to its highest level since May 2023. By category, consumer goods increased robustly, while intermediate and capital goods increased only marginally.

Graph 2
TRANSPORT FREIGHT RATE AND GLOBAL SUPPLY CHAIN



Note: The monthly values of the Drewry index are calculated from the average of the weekly values.
Source: Drewry, NY Fed.

So far this year, the sector has continued to be affected by the weak dynamism of world trade, particularly trade in goods. In addition to the aforementioned factors -higher relative demand for services, high stocks in advanced economies and trade fragmentation- the impact of increased disruptions in maritime trade, which raised transportation costs, particularly for containers, was also felt.

On the one hand, the Panama Canal was affected by droughts, which led to restrictions and delays in transportation. On the other, Red Sea rebel attacks resulted in detours by major shipping lines, to replace passage through the Suez Canal and take alternative routes such as the circumnavigation of Africa via the Cape of Good Hope. Although at the close of this report these pressures have eased, they remain a risk factor for world growth.

Growth at country and regional level

7. At country level, PMI and other indicators continue to show differentiated behavior. In February 2024, only United States, China, India and Brazil show indicators in the positive range (above 50) for both the manufacturing and services sectors. At the other end, in countries such as Germany and France, both indicators remain in the contraction zone.

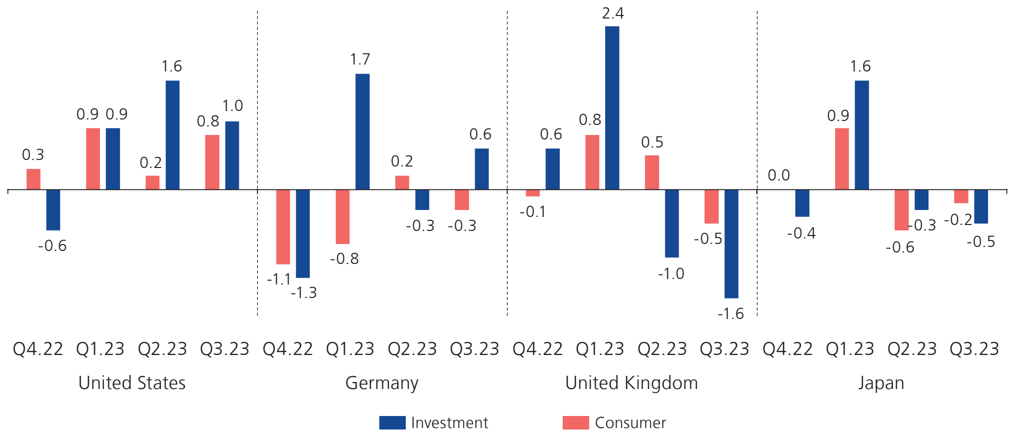
Table 1
MANUFACTURING AND SERVICES PMI
(Diffusion index)

	Dec.22	Mar.23	Jun.23	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24	Feb.24
PMI Manufacturing									
India	57.8	56.4	57.8	57.5	55.5	56.0	54.9	56.5	56.9
Japan	48.9	49.2	49.8	48.5	48.7	48.1	48.0	48.0	47.2
China	49.0	50.0	50.5	50.6	49.5	50.7	50.8	50.8	50.9
USA	46.2	49.2	46.3	49.8	50.0	49.4	47.9	50.7	52.2
Brazil	44.2	47.0	46.6	49.0	48.6	49.4	48.4	52.8	54.1
UK	45.3	47.9	46.5	44.3	44.8	47.2	46.2	47.0	47.5
France	49.2	47.3	46.0	44.2	42.8	42.9	42.1	43.1	47.1
Italy	48.5	51.1	43.8	46.8	44.9	44.4	45.3	48.5	48.7
Germany	47.1	44.7	40.6	39.6	40.8	42.6	43.3	45.5	42.5
PMI Services									
India	58.5	57.8	58.5	61.0	58.4	56.9	59.0	61.8	60.6
Japan	51.1	55.0	54.0	53.8	51.6	50.8	51.5	53.1	52.9
China	48.0	57.8	53.9	50.2	50.4	51.5	52.9	52.7	52.5
USA	44.7	52.6	54.4	50.1	50.6	50.8	51.4	52.5	52.3
Brazil	51.0	51.8	53.3	48.7	51.0	51.2	50.5	53.1	54.6
UK	49.9	52.9	53.7	49.3	49.5	50.9	53.4	54.3	53.8
France	49.5	53.9	48.0	44.4	45.2	45.4	45.7	45.4	48.4
Italy	49.9	55.7	52.2	49.9	47.7	49.5	49.8	51.2	52.2
Germany	49.2	53.7	54.1	50.3	48.2	49.6	49.3	47.7	48.3

Source: PMI S&P.   Expansion > 50   Contraction < 50

8. Among **developed economies**, United States growth has been stronger than expected in 2023, supported by strong private consumption and government spending. Private consumption was favored by dynamic demand for services and durable goods. Fiscal spending was supported by increased federal spending.

Graph 3
DEVELOPED ECONOMIES: CONSUMPTION AND INVESMENT
(Quaterly % Chg.)



Source: OCDE.

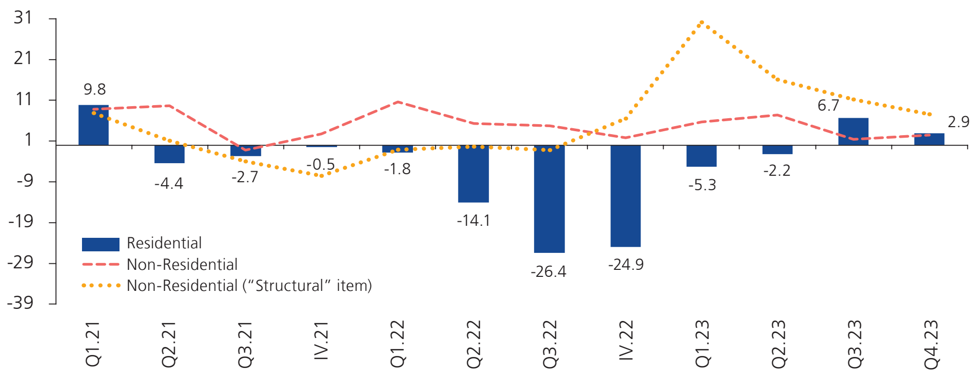
Table 2
MAJOR ECONOMIES: QUATERLY GROWTH
(% Chg. Seasonally adjusted series)

	Q1.22	Q2.22	Q3.22	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23
United States	-0.5	-0.1	0.7	0.6	0.6	0.5	1.2	0.8
Germany	1.0	-0.1	0.4	-0.4	0.1	0.0	0.0	-0.3
United Kingdom	0.5	0.1	-0.1	0.1	0.3	0.0	-0.1	-0.3
Japan	-0.6	1.1	-0.1	0.2	1.2	0.9	-0.8	0.1
China	0.8	-2.3	3.7	0.8	2.3	0.5	1.5	1.0

Source: OCDE and Trading Economics.

In addition, enhanced dynamism of non-residential investment, mainly in the first half of 2023, was a result of U.S. government's measures -Bipartisan Infrastructure Law; CHIPS and Science Act and the Inflation Reduction Act (2022)- to bring companies back and relocate their investments, particularly those linked to the technology and energy industries. In contrast, residential investment contracted during the year, in line with high mortgage interest rates and falling home prices.

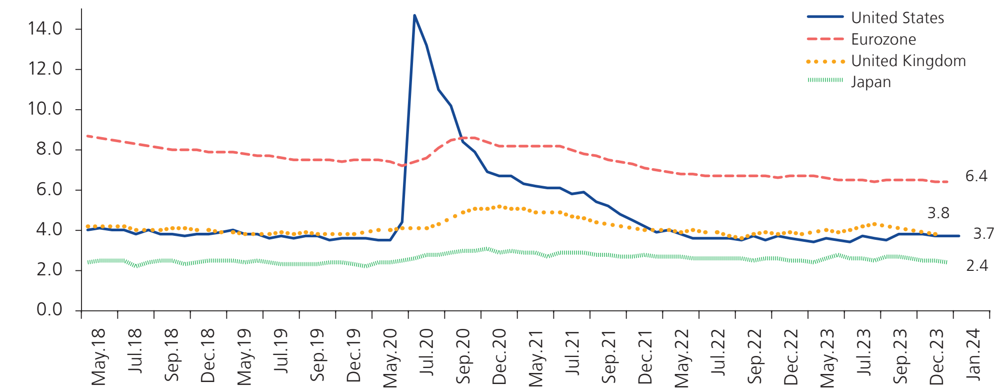
Graph 4
UNITED STATES: RESIDENTIAL AND NON-RESIDENTIAL INVESTMENT
(Annualized quaterly % chg.)



Source: BEA.

In the first months of 2024, U.S. monthly frequency indicators point to and expanding economy, albeit at a more moderate pace, with some recovery in the manufacturing sector and a slower services sector. Growth continues to be supported by a favorable labor market where job creation increased above expectations and unemployment remains near historic lows.

Graph 5
UNEMPLOYMENT RATE: 2018-2024
(%)



Source: OCDE.

9. As outlined in the previous Report, these developments contrast with the evolution in other developed economies, such as the Eurozone and the United Kingdom. In the **Eurozone**, GDP stagnated in the last months of the year after contracting in the third quarter, due to conditions in Germany and France. In the former, GDP slipped 0.3 percent in the fourth quarter, affected by high financial costs, weak external demand and a shrinking construction sector. Meanwhile, France recorded zero growth in the third and fourth quarters, mainly due to weak consumption. Once again, dynamic services sector -particularly tourism- offset slow growth in Italy and Spain. This trend towards lower growth in the region has continued so far in the first quarter.

The United Kingdom recorded two quarters in negative terrain. The services, manufacturing and construction industries contracted sharply. On the expenditure side, net exports and private consumption declined. In **Japan**, after a significant expansion in the first half of the year, the economy was hurt by declining private consumption and stagnant investment. In the third quarter, the economy slipped -0.8 percent and grew only 0.1 percent in the fourth quarter.

10. Among emerging economies, **China** recorded a growth rate of 5.2 percent in 2023, outweighing the target of approximately 5 percent. However, an uncertain outlook persists, reflected in weak demand for realty developments and low consumer and investor confidence. On the external front, the Chinese economy faced a decline in foreign investment flows (which recorded 30-year lows in 2023) and a series of trade restrictions amid trade tensions with the United States.

Persisting deflation risks resulted in January's contracting consumer price, the largest in 14 years, while the rebound recorded in February may be temporary, as it is due to a base effect (post-pandemic recovery) and the boost from tourism during the Lunar New Year holiday. Producer prices continued to decline and accumulated a 17 consecutive months' slip to February.

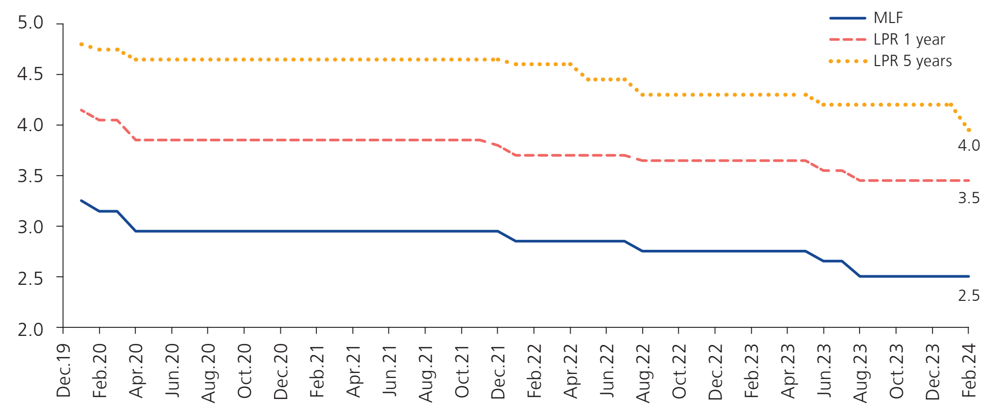
Table 3
CHINA: SELECTED INDICATORS

	2021	2022	2023 Mar.	2023 Jun.	2023 Sep.	2023 Oct.	2023 Nov.	2023 Dec.	2024 Jan.	2024 Feb.
PMI services - S&P 1/			57.8	53.9	50.2	50.4	51.5	52.9	52.7	52.5
PMI non-manufacturing - official 1/			58.2	53.2	51.7	50.6	50.2	50.4	50.7	51.4
Manufacturing PMI - official 1/			50.0	50.5	50.6	49.5	50.7	50.8	50.8	50.9
Manufacturing PMI - official 1/			51.9	49.0	50.2	49.5	49.4	49.0	49.2	49.1
Industrial Production 2/			3.9	4.4	4.5	4.6	6.6	6.8	--	--
Fixed asset investment 3/			5.1	3.8	3.1	2.9	2.9	3.0	-	--
Retail sales 2/			10.6	3.1	5.5	7.6	10.1	7.4	--	--
Exports 2/			14.8	-12.4	-6.2	-6.4	0.5	2.3	7.1	
Imports 2/			-1.4	-6.8	-6.2	3.0	-0.6	0.2	3.5	
Bank loans 2/			11.8	11.3	10.9	10.9	10.8	10.6	10.4	10.1
Consumer price index 2/			0.7	0.0	0.0	-0.2	-0.5	-0.3	-0.8	0.7
Housing price index 2/			-0.8	0.0	-0.1	-0.1	-0.2	-0.4	-0.7	-1.4
Producer price index 2/			-2.5	-5.4	-2.5	-2.6	-3.0	-2.7	-2.5	-2.7

1/ 50 neutral level
2/ annual % chg.
3/ annual acummulated % chg.
Source: Trading Economics.

The Chinese government announced greater stimulus to offset a slower pace and avoid deflation. Measures were announced to support the real estate and stock markets. The central bank announced a 50 bps. cut in the reserve requirement ratio to provide long-term liquidity. The benchmark mortgage rate was also cut by 25 bps, the largest cut since it was introduced. Other key interest rates remain unchanged, limited by the risk of yuan depreciation.

Graph 6
CHINA: INTEREST RATE
(%)



Note: The MLF (medium-term lending facility) rate is the policy rate at which the PBoC lends to large commercial banks. For their part, LPR rates (loan prime rates) serve as a reference for new loans: 1 year, for corporate and domestic loans; 5 years, for mortgages. These are based on a weighted average of the lending rates of 18 commercial banks.
Source: Trading Economics.

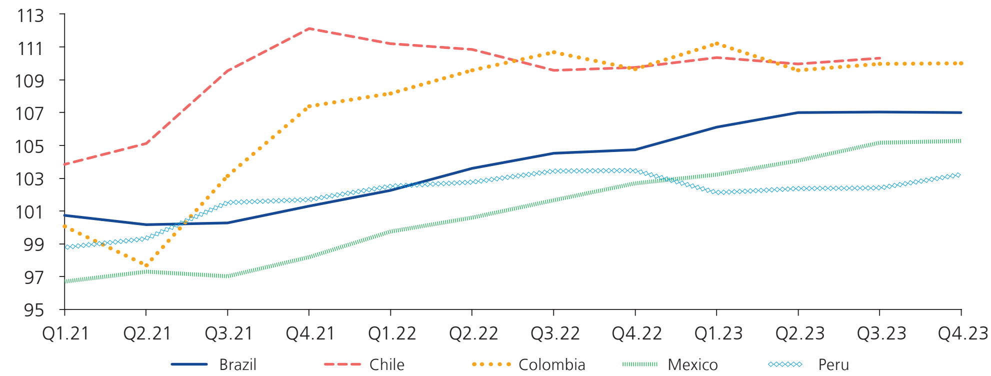
11. In **Latin America**, economic activity in the region's main economies has been sluggish in the last quarter of 2023. High interest rates have affected private consumption and

industrial and services activity, particularly in Brazil and Colombia. Elsewhere, a sluggish primary sector has offset growth in other sectors, as in Chile and Mexico. However, some monthly indicators - PMI indices, confidence and consumption indicators, among others - and the current easing of the monetary policy stance point to a recovery during the first months of this year.

Graph 7

LATIN AMERICA: QUATERLY GDP*

(Index 100 = Q4 2019)



* Seasonally adjusted series.
Source: Statistical institutes and central banks.

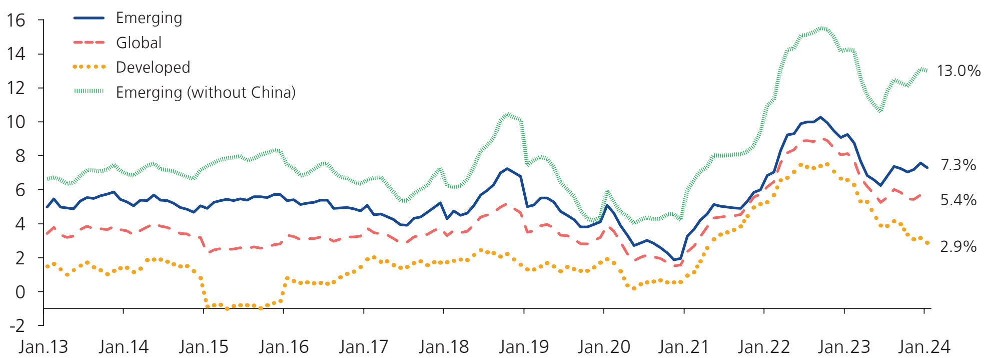
Recent inflation trends

12. With respect to the last Inflation Report, the downward **global inflation trends** moderated and even spiked temporarily in December. In the main economies, the slowdown in inflation fell short of market expectations. This, in turn, led to expectations that the cycle of interest rate reductions in the main economies will only begin in the second half of this year.

Graph 8

INFLATION: GLOBAL, DEVELOPED COUNTRIES AND EMERGING ECONOMIES

(12-month % chg.)



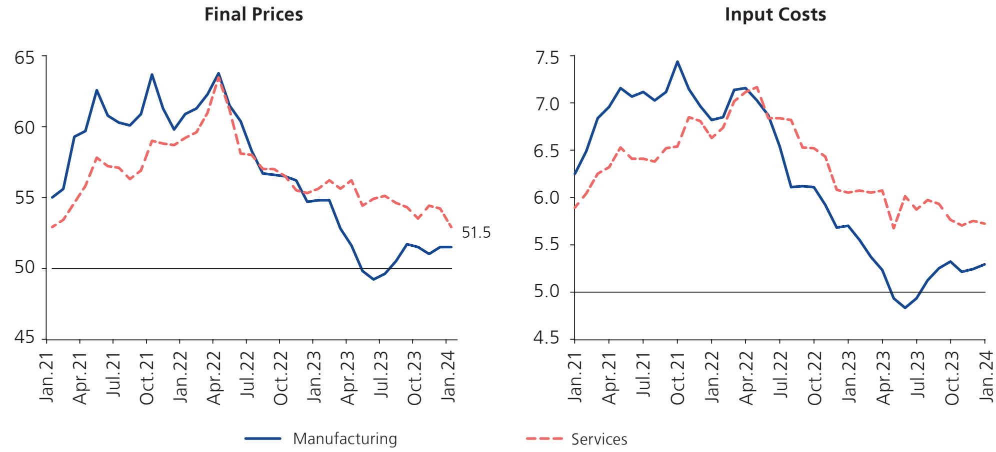
Inflation (12-month % chg.)

	Sep.22	Dec.22	Mar.23	Jun.23	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24
Global	**9.1**	**8.1**	**6.7**	**5.3**	**5.9**	**5.5**	**5.4**	**5.7**	**5.4**
Developed	7.4	6.7	5.3	3.9	4.0	3.4	3.1	3.2	2.9
Developed without USA	6.9	6.9	5.6	4.6	4.2	3.4	3.0	3.0	2.7
Emerging	10.3	9.1	7.7	6.3	7.2	7.0	7.2	7.6	7.3
Emerging without China	15.6	14.2	12.6	10.6	12.3	12.1	12.6	13.1	13.0

Source: Reuters.

Globally, the PMI price and cost sub-indices point to persisting inflationary pressures, most significantly in the services sector due to demand -particularly in travel and tourism- as well as wage pressures amid labor shortages.

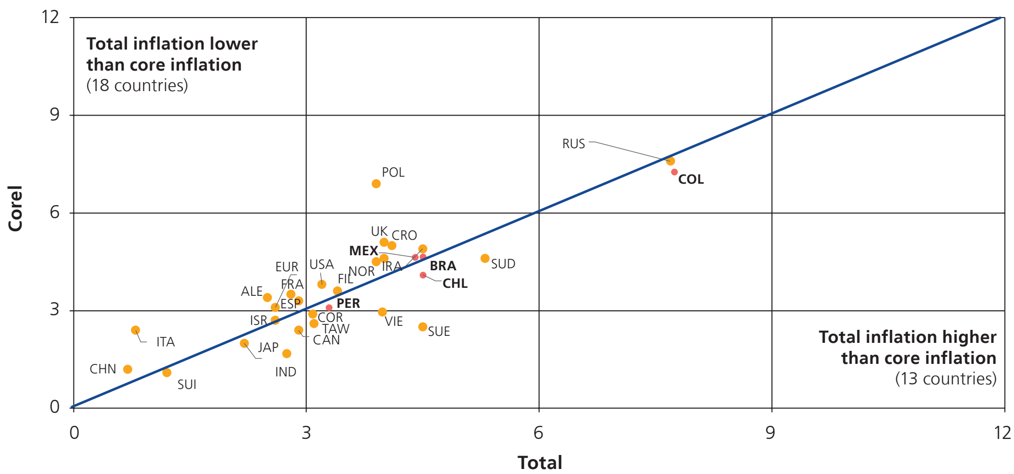
Graph 9
GLOBAL PMI: FINAL PRICES AND INPUT COSTS, 2021-2024



Source: S&P Global.

The greater reduction in goods prices, relative to services, is partly explained by the reversal of supply shocks, such as lower energy and food prices. This has also had a greater impact on the non-core component of inflation. Compared to September's figures, out of a sample of 31 countries, the percentage of countries where headline inflation is below core inflation has risen from 45 to 58 percent.

Graph 10
TOTAL AND CORE INFLATION, LATEST AVAILABLE DATA
(Annual % chg.)



	Dec.22	Mar23	Set23	Lastest data available
Total inflation higher than core inflation	24	18	17	13
Total inflation lower than core inflation	7	13	14	18

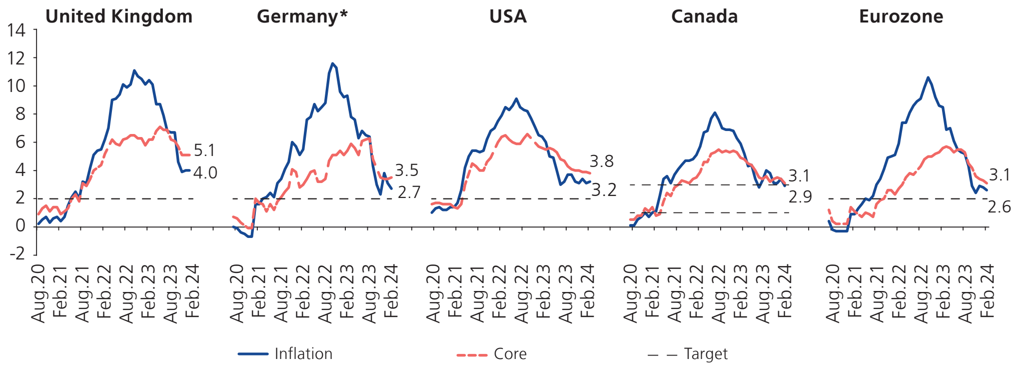
Source: Statistical institutes and central banks of each country.

Inflationary pressures in the services sector in **developed economies** have not trended downward trend as in the case of goods and, with the exception of Japan, remain at significantly higher levels, particularly health care, rentals, lodging and entertainment, among others.

Graph 11

INFLATION IN DEVELOPED COUNTRIES 2020-2024

(%)



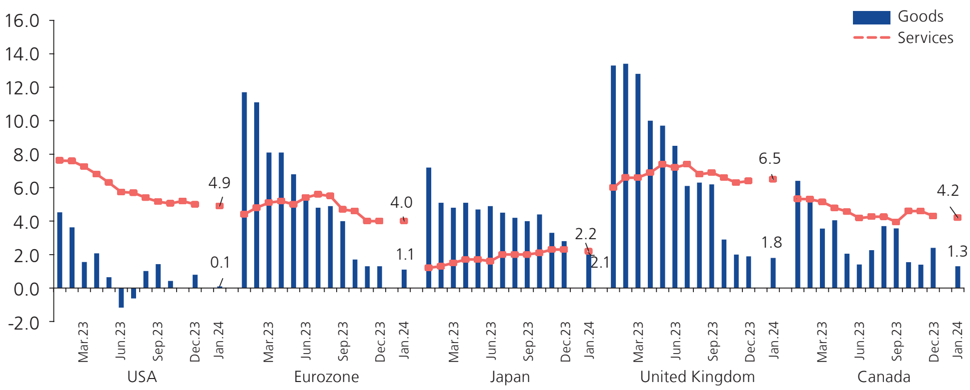
	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum
Total	4.0	4.0	11.1 (oct.22)	3.8	3.1	11.6 (oct.22)	3.4	3.1	9.1 (jun.22)	3.4	2.9	8.1 (jun.22)	2.9	2.8	10.6 (oct.22)
Core	5.1	5.1	7.1 (may.23)	3.4	3.4	6.3 (Aug.23)	3.9	3.9	6.6 (Sep.22)	3.4	3.1	6.2 (jul.22)	3.4	3.3	5.7 (mar.23)

* Harmonized.
Source: Statistical institutes and central banks.
Note: The graph shows the latest data (February 2024), except for United Kingdom and Canada (January 2024).

Graph 12

DEVELOPED ECONOMIES: PRICES OF GOODS AND SERVICES

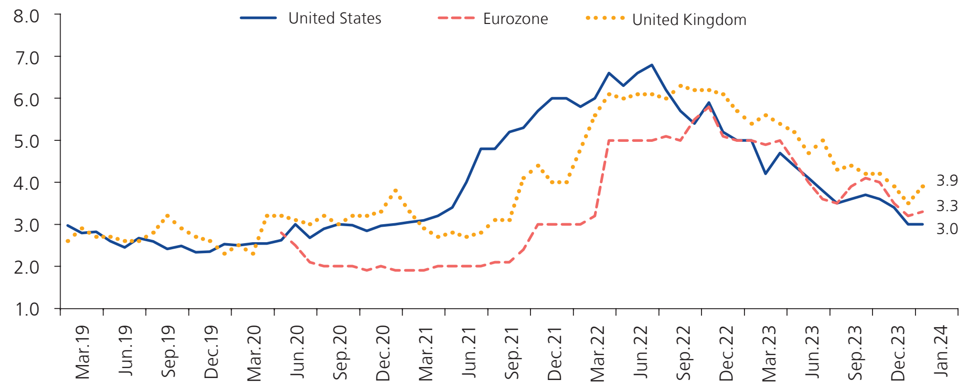
(%)



Source: Statistical institutes and central banks.

Downward inflation expectations for the next 12 months in developed countries moderated in recent months. In the United States, the expectation has remained at 3.0 percent in December and January, while in the Eurozone it rose from 3.2 to 3.3 percent and in the United Kingdom from 3.5 to 3.9 percent.

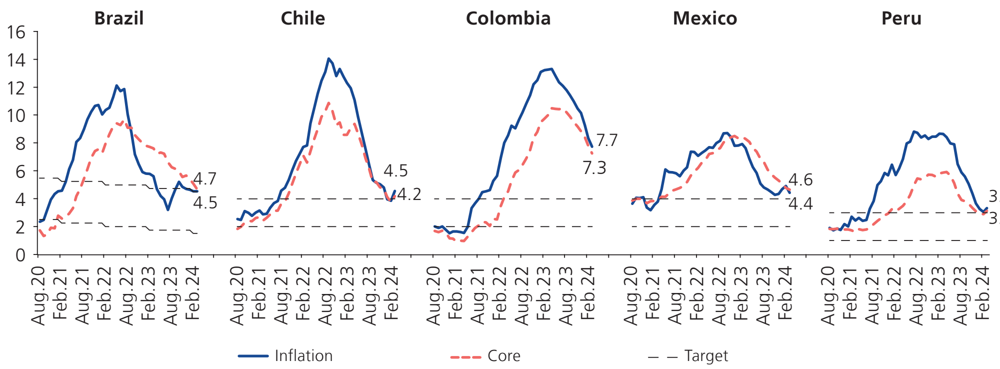
Graph 13
CONSUMER 12-MONTH INFLATION EXPECTATION
(% chg.)



Source: New York Fed, European Central Bank and Citi.

In **emerging economies**, inflationary pressures also continued to slip, albeit less sharply, in both headline and core inflation. Headline inflation declined, except for Chile and Peru (although in these countries inflation remains close to the target range). In **developed economies**, the services component remains tight due to a restricted labor market and wage growth. In Brazil and Mexico, core inflation remains above total inflation.

Graph 14
INFLACIÓN EN LATINOAMÉRICA,2020-2024
(%)

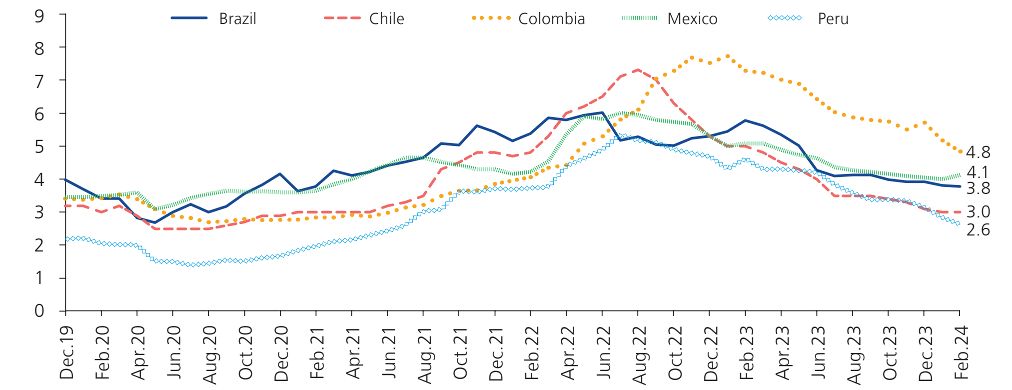


	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum	Dec.23	Jan.24	Maximum
Total	4.6	4.5	12.1 (Apr.22)	3.9	3.8	14.1 (Aug.22)	9.3	8.3	13.3 (mar.23)	4.7	4.9	8.7 (Sep.22)	3.2	3.0	8.8 (jun.22)
Core	5.4	5.1	9.7 (jun.22)	4.1	3.8	10.9 (Aug.22)	8.4	7.8	10.5 (mar.23)	5.1	4.8	8.5 (nov.22)	2.9	2.9	5.9 (mar.23)

Source: Statistical institutes and central banks.
Note: The graph shows the latest data (February 2024).

Inflation expectations for the next 12 months region-wide have remained on their downward trend, although at a slower pace and, in most cases, close to pre-pandemic expectations. In Brazil, Chile and Peru, expectations have returned to the target range.

Graph 15
INFLATION EXPECTATIONS 12 MONTHS
(% chg.)



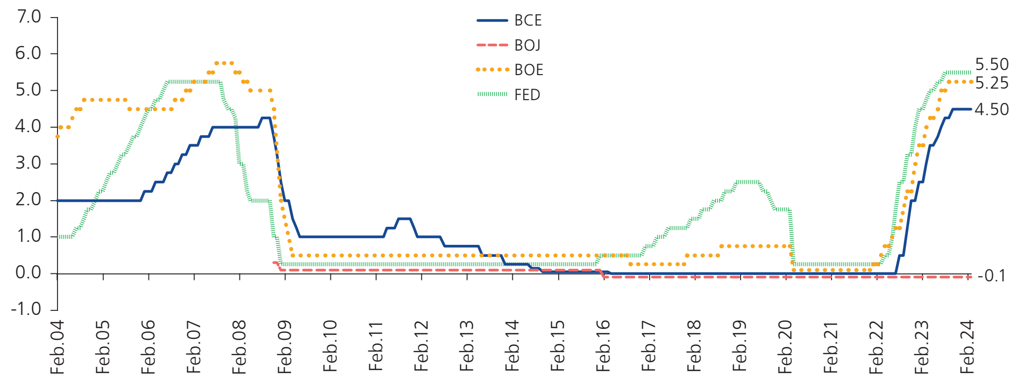
Note: For Brazil, corresponds to the 12-month average inflation expectation recorded in the reference month. For Mexico, it is obtained by interpolation based on expectations as of December 2024 and 2025.
Source: Central banks of each country.

Monetary and fiscal policy responses

13. Most **main developed economies' central banks** kept their interest rates at the maximum levels reached during the current tightening cycle, excepting Japan, which abided by the general guidelines of its expansionary monetary policy.

The main central banks -the Fed, the ECB and the BoE- are expected to start a rate-cutting cycle in the second half of this year, and confirmed rates will high as long as there is insufficient evidence of inflation convergence towards their targets and that, therefore, their decisions will depend on future economic information.

Graph 16
POLICY INTEREST RATE
(%)

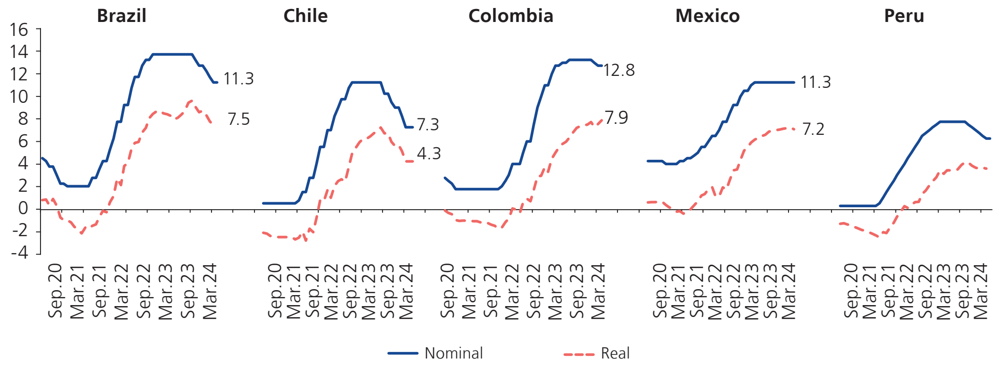


FED = Federal Reserve, ECB = European Central Bank, BOJ = Bank of Japan, BOE = Bank of England.
Source: Central banks.

Despite unchanging policy rates, long-term rates in the United States, and in other developed economies, inched upward. U.S. sovereign bond yields, after the fourth quarter 2023 slip, climbed (with a 37-bps increase) and 30-year mortgage rates recorded one-year highs with rates around 7 percent.

In the region's **emerging economies**, interest rates fell, except for Mexico. In Chile, Brazil, Peru and Colombia, they fell 100, 50, 50, 50 and 25 bps, respectively. Given tamed inflationary expectations, real rates in most countries show relative stability. These reductions have narrowed the interest rate differential with respect to the United States and other developed economies.

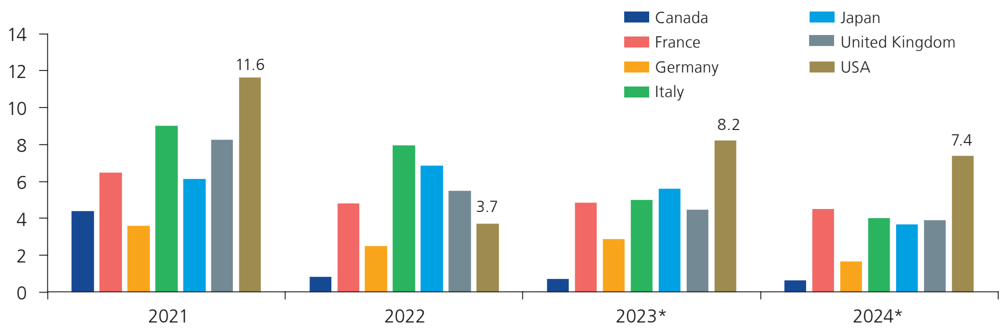
Graph 17
MONETARY POLICY INTEREST RATES IN LATIN AMERICA 2020-2024
(%)



Note: Real rates based on 12-month inflation expectations. For Brazil, Colombia and Mexico, the latest data corresponds to February.
Source: Statistical institutes and central banks.

14. In terms of fiscal policy, the United States continued with an expansionary policy and has the largest deficit among the main developed economies. This trend has led to an increase in the issuance of public debt that generates upward pressure on bond yields.

Graph 18
FISCAL DEFICITS IN DEVELOPED ECONOMIES
(% of GDP)



* Forecast.
Source: Fiscal Monitor - FMI.

In the eurozone, disbursements continued within the framework of the Next Generation plan established for the period 2021-2027. On the other hand, in Germany, the main economy of the eurozone, the government approved the reestablishment of the debt brake that contemplates a deficit of no more than 0.35 percent of GDP, a limit that had been lifted as a result of the pandemic. In the UK, the government announced it plans to cut taxes in its budget presentation next March; decision that is made in an election year and despite the high level of public debt (approximately 100 percent of GDP).

Global economic outlook

15. In line with better-than-expected data performance, particularly in the United States, the global growth figure for 2023 is again revised upward, this time from 3.0 to 3.1 percent. However, through 2024 the economy is forecast to grow at lower rates, consistent with a reduction in the global growth rate to 2.8 percent for that year.

The forecasts assume lower growth due to the lagged effect of the adjustment of monetary policies, a less dynamic labor market, lower private savings surpluses and a gradual cooling of tight labor market conditions, lower savings surpluses and the weakening of the real estate market in the main economies. In this sense, a somewhat higher growth (3.1 percent) is estimated for 2025.

Table 4
GLOBAL GROWTH
(Annual % chg.)

	PPP*	2022	2023		2024		2025	
			IR Dec.	IR Mar.	IR Dec.	IR Mar.	IR Dec.	IR Mar.
Developed economies	**41.7**	**2.7**	**1.7**	**1.6**	**1.1**	**1.4**	**1.9**	**1.8**
Of wich:								
1. United States	15.5	2.1	2.4	2.5	1.2	2.0	2.0	1.8
2. Eurozone	12.0	3.5	0.5	0.4	0.7	0.6	2.0	1.8
3. Japan	3.8	1.1	1.6	1.9	0.9	0.7	0.8	0.8
4. United Kingdom	2.3	4.0	0.5	0.1	0.4	0.3	1.5	1.2
5. Canada	1.4	3.4	1.4	1.1	0.9	0.9	2.3	2.0
Developing economies	**58.2**	**4.0**	**3.9**	**4.2**	**3.9**	**3.8**	**3.9**	**4.1**
Of wich:								
1. China	18.6	3.0	5.0	5.2	4.8	4.6	4.5	4.3
2. India	7.2	6.8	6.3	7.6	6.0	6.2	6.0	6.2
3. Russia	2.9	-2.2	2.0	3.6	1.3	1.3	1.0	1.0
4. Latin America and the Caribbean	7.2	3.9	2.0	2.2	1.7	1.5	2.4	2.5
Argentina	0.7	5.2	-2.5	-1.5	-1.0	-2.5	2.5	3.5
Brazil	2.3	2.9	3.0	2.9	1.5	1.5	2.0	2.0
Chile	0.4	2.4	-0.5	0.0	2.0	2.0	2.0	2.0
Colombia	0.6	7.5	1.3	0.6	2.0	1.6	3.0	3.0
Mexico	1.8	3.1	3.2	3.2	1.8	2.0	2.0	2.0
Peru	0.3	2.7	-0.5	-0.6	3.0	3.0	3.0	3.0
World Economy	**100.0**	**3.4**	**3.0**	**3.1**	**2.7**	**2.8**	**3.0**	**3.1**

* Base 2022.
Source: FMI, Consensus Forecast.

16. Although a sharp slowdown now seems less likely, several risk factors, already pointed to in the December Report, could affect growth:

- Global inflation has fallen from its peak levels in mid-2022. However, as noted above, this trend is basically explained by the evolution of goods inflation. A slower reduction in the price of services could delay the convergence of inflation towards its target and postpone, or moderate, the rate reduction cycle in the main developed economies.

- Credit and financial conditions could tighten in the event of new episodes of turbulence in the banking system; particularly due to the banks' exposure to the real estate sector (where non-performing loans have climbed in recent months) and high private debt.

- Uncertainty lurks in the United States due to the November presidential elections, the results of which may have an impact on the debt ceiling negotiations scheduled for early 2025.

- There is also a risk that supply shocks, such as those that initially affected inflation and growth in 2021 and 2022, could recur:

  (i) An escalation of the conflict in the Middle East could affect the price of oil and generate greater pressure on transportation costs as alternative routes to the Suez Canal are explored.

  (ii) Logistical difficulties may be accentuated by climatic factors (water deficit), as in the Panama Canal and other river routes in the northern hemisphere.

  (iii) Compared to the previous report, ENSO risks have significantly decreased, but there a La Niña event could strike in the second half of the year. Should this climate event extend to 2025, the supply of some foods could be affected.

  (iv) Geopolitical tensions, particularly between China and the United States, may affect global trade and accentuate trade segmentation, particularly for high-technology products (such as semiconductors).

International financial markets

17. Since the last Report, financial markets were strongly influenced by U.S. economic data reflecting resilient economic activity, a robust labor market and inflation's slight resistance to abate. This reinforced the Fed's stance of not cutting rates in the short term, which influenced the appreciation of the dollar and the increase in U.S. and major developed economies' sovereign bond yields.

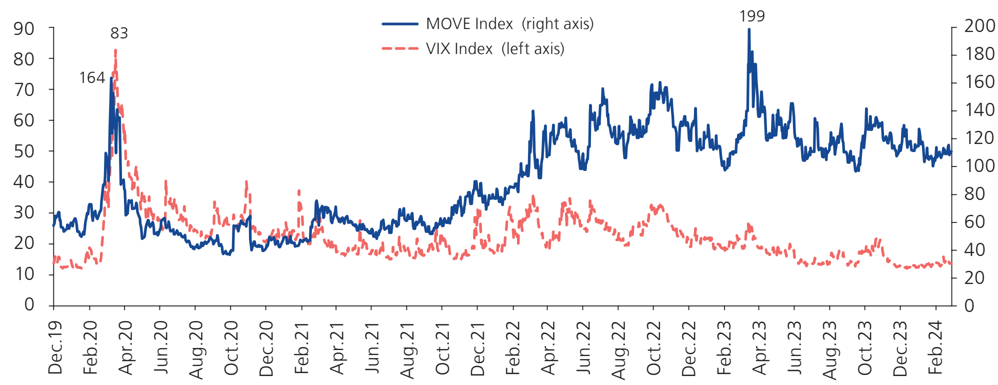
    Favorable economic indicators, together with the release of positive corporate results for the fourth quarter of 2023, led to a strong upward trend in equities globally. As a result, the main stock market indexes reached historic peaks towards the end of

February, in the United States, Europe, and Japan (in the latter case, also buttressed by the yen's depreciation).

Upward pressures on yields and stock markets were limited by the persistence and, in some cases, aggravation of military (Middle East and Ukraine) and geopolitical (US-China trade relations) tensions. On the economic front, fears regarding the Chinese real estate sector and some unfavorable activity indicators in the eurozone, the United Kingdom and Japan had a negative impact.

Graph 19

VOLATILITY INDICES: VIX (U.S. STOCK MARKET) AND MOVE (U.S. SOVEREIGN YIELDS)



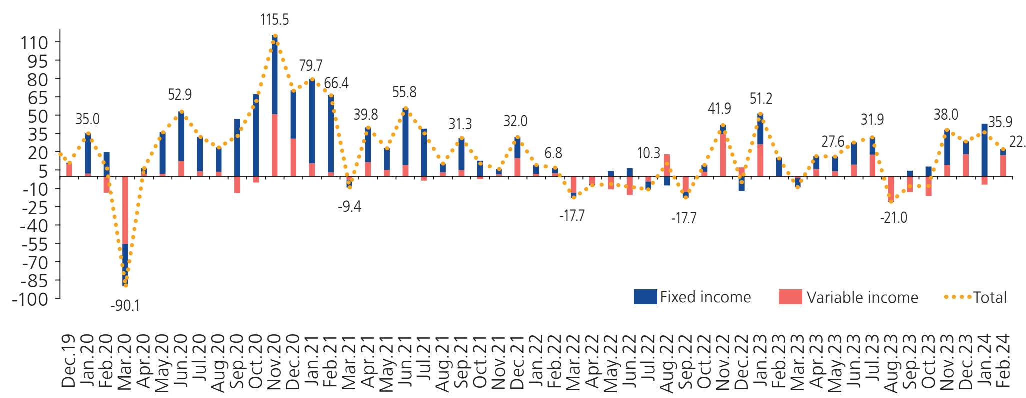
Source: Reuters.

18. These developments were reflected in a high degree of risk appetite in view of high cash holdings. The VIX index (U.S. stock market volatility) rose slightly -from 12.5 to 13.4 points- but remained however low, and the MOVE, which measures volatility in the U.S. bond market, declined from 114.6 to 109.1 points. Likewise, non-resident capital inflows to emerging economies were recorded in the first quarter.

Graph 20

NON-RESIDENT CAPITAL FLOWS TO EMERGING MARKETS

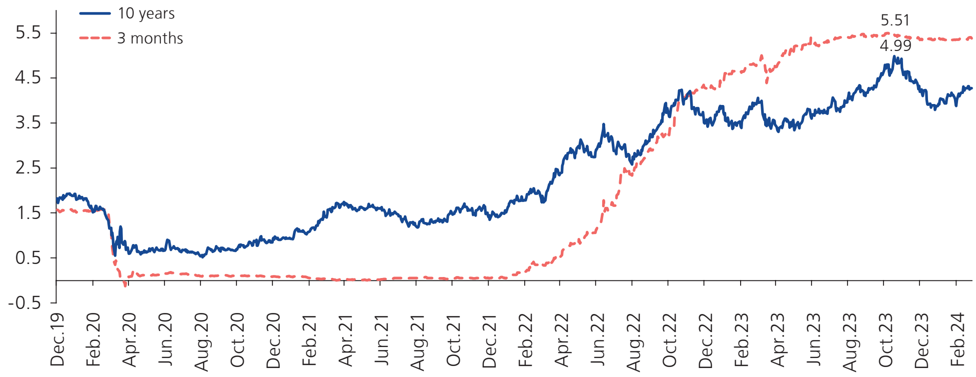
(Billions of USD)



Note: Positive (negative) data implies a net inflow (outflow) of capital to emerging markets.
Source: IIF.

19. In **fixed income markets**, U.S. sovereign yields rose reflecting a resilient U.S. economy, the gradual retreat in inflation and the Fed's stance in favor of delaying the interest rate cutting cycle.

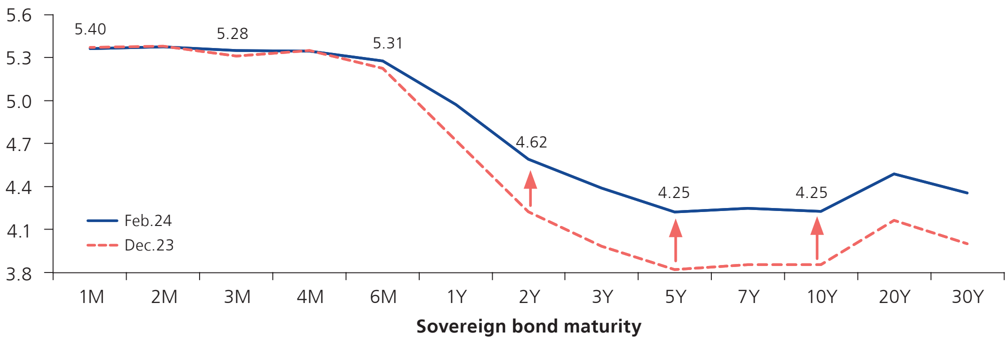
Graph 21
U.S. SOVEREIGN YIELDS
(%)



Source: Reuters.

Also, higher US Treasury debt issuances aimed at covering higher fiscal deficits were offset by strong demand. Highest rising yields were in the long tranches such as the 10-year, which increased 37 bps. to 4.3 percent in the period so far.

Graph 22
U.S. SOVEREIGN YIELD CURVE
(%)



Source: Reuters.

In Europe, yields also rose on the prospect that, like the Fed, central banks in the eurozone and the United Kingdom will maintain their tight monetary policy until there is more evidence that inflation has converged to the target range.

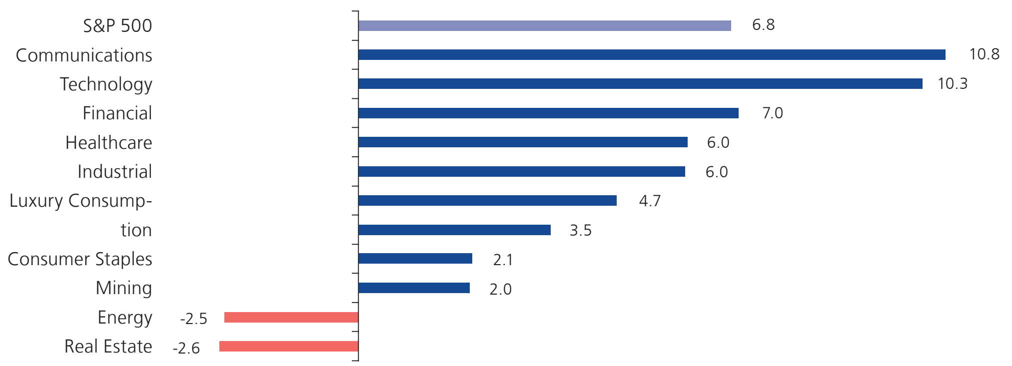
Table 5
10-YEAR SOVEREIGN BOND YIELDS (%)*
(%)

	Dec.22 (a)	Dec.23 (b)	Feb.24 (c)	Difference (pbs) (c) - (b)	Difference (pbs) (c) - (a)
United States	3.88	3.88	4.25	37	37
Germany	2.57	2.02	2.41	39	-16
France	3.11	2.56	2.88	33	-22
Italy	4.70	3.69	3.84	15	-86
Spain	3.65	2.98	3.29	31	-36
Greece	4.57	3.05	3.45	40	-111
United Kingdom	3.66	3.53	4.12	59	46
Japan	0.41	0.61	0.70	10	29
Brazil	12.69	10.37	10.85	49	-183
Colombia	13.01	9.96	9.99	4	-302
Chile	5.26	5.40	5.64	24	38
Mexico	9.02	8.94	9.16	22	13
Peru	**7.97**	**6.68**	**6.86**	**18**	**-111**
South Africa	10.79	11.37	11.67	30	88
India	7.33	7.17	7.08	-10	-25
Turkey	9.60	23.66	24.12	46	1452
Russia	9.28	10.95	11.51	56	223
China	2.84	2.56	2.35	-21	-49
South Korea	3.74	3.18	3.48	31	-26
Indonesia	6.92	6.45	6.59	14	-32
Thailand	2.64	2.68	2.55	-12	-8
Malaysia	4.04	3.73	3.87	14	-18
Philippines	6.67	5.94	6.22	29	-45

* Prepared as of February 29, 2024.
Source: Reuters.

20. In the **equity markets**, US stock markets advanced this quarter, supported by the resilience of the economy and the publication of better-than-expected corporate earnings, which also improved their outlook for 2024. By sector level, communications and technology stocks led the uptrend, driven by the development of artificial intelligence, which counterbalanced the poor performance of real estate stocks (affected by high interest rates and the weak evolution of the real estate sector). Notably, the S&P 500 index reached a historical high towards the end of February.

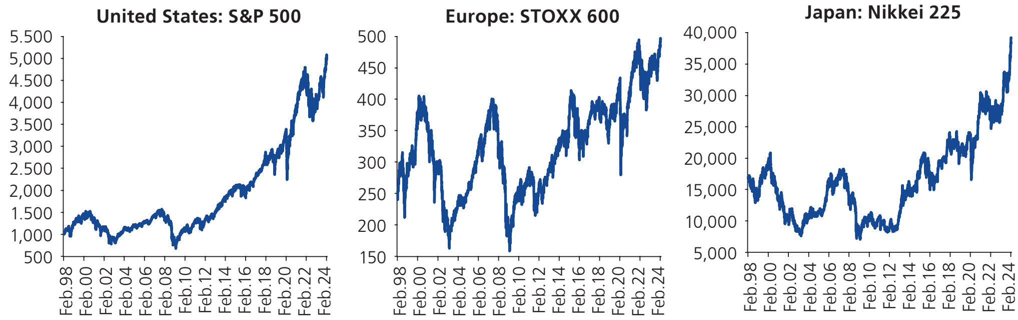
Graph 23
PERFORMANCE OF STOCK INDEX SECTORS S&P 500: FEB-24 / DEC-23



Source: Reuters.

European stock markets rose simultaneously, as did several Asian stock markets. The Euro Stoxx 600 (Europe) and Nikkei 225 (Japan) stock indexes also reached record highs. The latter surpassed its December 1989 peak level, against the backdrop of a depreciated yen (to the benefit of its exporting companies), low financing costs and price increases that assure their profit margins.

Graph 24
STOCK INDEXES



Source: Reuters.

The Latin American stock markets experienced an increase in value due to a willingness to take risks, periods of interest rate cuts in many economies, and the introduction of different measures by China to bolster its real estate industry. Commodity prices have also exerted an influence, as they continue to persist at historically elevated levels, notwithstanding the recent decline.

Table 6
WORLD STOCK EXCHANGES*
(In indexes)

		Dec.22 (a)	Dec.23 (b)	Feb.24 (c)	% chg. (c) / (b)	% chg. (c) / (a)
VIX**	S&P 500	21.67	12.45	13.40	1.0	-8.3
United States	Dow Jones	33,147	37,690	38,996	3.5	17.6
United States	S&P 500	3,840	4,770	5,096	6.8	32.7
United States	Nasdaq	10,466	15,011	16,092	7.2	53.7
Germany	DAX	13,924	16,752	17,678	5.5	27.0
France	CAC 40	6,474	7.543	7,927	5.1	22.5
Italy	FTSE MIB	23,707	30,352	32.581	7.3	37.4
Spain	IBEX 35	8,229	10,102	10,001	-1.0	21.5
Greece	ASE	930	1,293	1,425	10.2	53.2
United Kingdom	FTSE 100	7,452	7,733	7,630	-1.3	2.4
Japan	Nikkei 225	26,095	33,464	39,166	17.0	50.1
Brazil	Ibovespa	109,735	134,185	129,020	-3.8	17.6
Colombia	COLCAP	1,286	1,195	1,274	6.6	-0.9
Chile	IPSA	5,262	6,198	6,450	4.1	22.6
Mexico	IPC	48,464	57,386	55,414	-3.4	14.3
Argentina	Merval	202,085	929,704	1,014,712	9.1	402.1
Peru	**Ind. Gral.**	**21,330**	**25,960**	**28,232**	**8.8**	**32.4**
South Africa	JSE	73,049	76,893	72,730	-5.4	-0.4
India	Nifty 50	18,105	21,731	21,983	1.2	21.4
Turkey	XU100	5.509	7,470	9,194	23.1	66.9
Russia	RTS	971	1,083	1,127	4.0	16.1
China	Shangai C.	3,089	2,975	3,015	1.4	-2.4
South Korea	KOSPI	2,236	2,655	2,642	-0.5	18.2
Indonesia	JCI	6,851	7,273	7,316	0.6	6.8
Thailand	SET	1,669	1,416	1,371	-3.2	-17.9
Malaysia	KLCI	1,495	1,455	1.551	6.7	3.7
Philippines	Psei	6.566	6,450	6,945	7.7	5.8

* Prepared as of February 29, 2024.
** Data and variations are expressed in points.
Source: Reuters.

21. In **foreign exchange markets**, the dollar appreciated almost across the board against currencies following the release of U.S. economic data showing a resilient economy, a gradual decline in inflation and the Fed's stance of postponing the interest rate cutting cycle. In line with this global trend, several emerging currencies depreciated against the dollar. In Latin America, currencies were pressured by interest rate cuts by local economies.

Table 7
EXCHANGE RATES*
(In U.M. per dollar, except euro and pound)

		Dec.22 (a)	Dec.23 (b)	Feb.24 (c)	% chg. **	
					(c) / (b)	(c) / (a)
Dollar index DXY***	US Dollar Index	103.52	101.33	104.16	2.8	0.6
Euro	Euro	1.070	1.104	1.080	-2.1	0.9
United Kingdom	Pound	1.210	1.273	1.262	-0.8	4.3
Japan	Yen	131.11	141.06	149.98	6.3	14.4
Brazil	Real	5.286	4.852	4.972	2.5	-5.9
Colombia	Peso	4847	3873	3921	1.2	-19.1
Chile	Peso	848	881	965	9.6	13.9
Mexico	Peso	19.47	16.95	17.05	0.6	-12.5
Argentina	Peso	176.74	808.45	842.30	4.2	376.6
Peru	**Sol**	**3.807**	**3.707**	**3.781**	**2.0**	**-0.7**
South Africa	Rand	17.00	18.28	19.21	5.1	12.9
India	Rupee	82.72	83.19	82.90	-0.3	0.2
Turkey	Lira	18.69	29.48	31.19	5.8	66.9
Russia	Ruble	72.50	89.25	91.50	2.5	26.2
China	Yuan (onshore)	6.897	7.098	7.188	1.3	4.2
South Korea	Won	1261	1294	1335	3.1	5.9
Indonesia	Rupia	15565	15395	15710	2.0	0.9
Thailand	Bath	34.61	34.35	35.88	4.5	3.7
Malaysia	Ringgit	4.400	4.590	4.742	3.3	7.8
Philippines	Peso	55.67	55.39	56.20	1.5	1.0

* Prepared as of February 29, 2024.
** A rise (fall) in the index implies an appreciation (depreciation) of the dollar, except for the euro and the pound.
*** A rise (fall) in the index implies an appreciation (depreciation) of the dollar against the basket of currencies consisting of the euro, yen and the pound. The index is composed of the euro, the yen, the pound, the Canadian dollar, the Swedish krona and the Swiss franc.
Source: Reuters.

Graph 25
CURRENCY INDEXES: DXY* (CURRENCIES AGAINST THE DOLLAR) AND EMCI (EMERGING CURRENCIES AGAINST THE DOLLAR)**

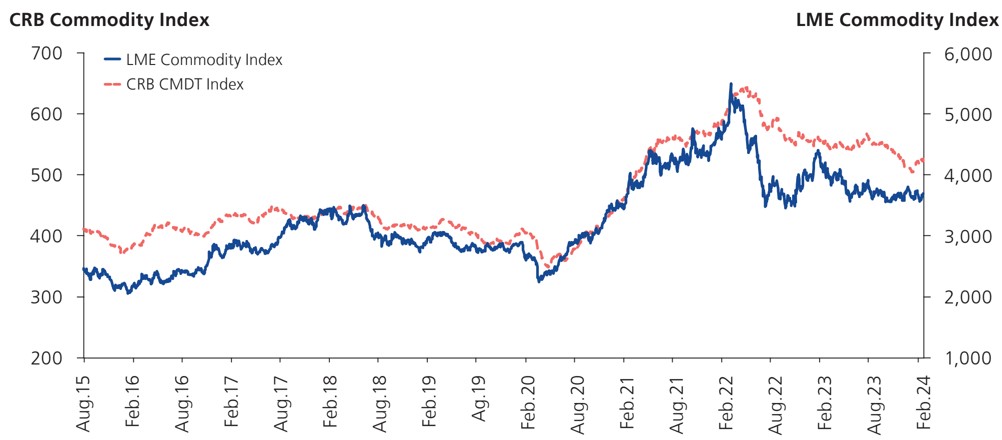
* An increase (fall) in the DXY index implies an appreciation (depreciation) of the US dollar against currencies.
** An increase (fall) of the EMCI index implies an appreciation (depreciation) of the US dollar against emerging currencies.
Source: Reuters and JP Morgan.

Commodity prices

22. **Industrial metals** continued to face downward pressures due to expectations that the central banks of the main economies will maintain their restrictive monetary policies for a longer period than initially expected. Furthermore, China saw a sluggish economic rebound, mostly impacted by issues in the real estate industry and surpluses in metal supplies, resulting in a surge in inventories. It is noteworthy to mention that the decline in demand is being counterbalanced by demand in the green sectors, specifically solar panel manufacturing sector in China, as well as the economic stimulus measures implemented by the Chinese government.

Oil prices rose, supported by a tight global market and amid fears of possible supply disruptions. These fears were associated with increased geopolitical risks in the Middle East and the implementation of OPEC+ production cuts, which had been agreed for the beginning of this year (mainly voluntary and unilateral cuts by Saudi Arabia and Russia). However, the increase was limited by higher-than-expected oil production in the United States.

Graph 26
LME AND CRB COMMODITY INDEXES



Source: Reuters.

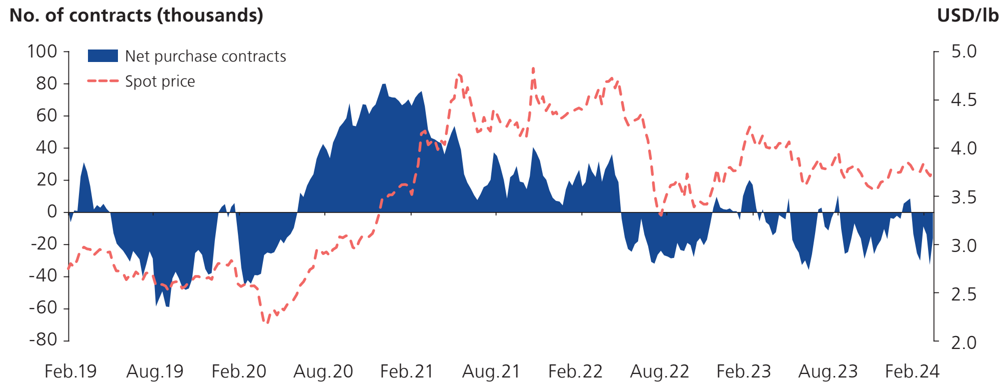
Copper

23. The average price of copper decreased slightly, from USD/lb. 3.81 in December 2023 to USD/lb.3.77 in February 2024. This drop follows a 1 percent increase in the price of copper in 2023.

The average price of copper has experienced downward pressures associated with slower global growth, particularly in the real estate market and in China's construction sector. Moreover, the strength of the US dollar and a restrictive monetary policy worldwide have contributed to the general slowdown in economic activity, including the construction sector, which has impacted copper demand.

Furthermore, these advancements have led to a decline in non-commercial demand. The value of copper was adversely impacted by speculative investment funds during this period. Negative values have been consistently observed in the number of non-commercial net purchase contracts for copper.

Graph 27
COPPER: NON-COMMERCIAL CONTRACTS



Note: The Commodity Futures Trading Commission's Net Speculative Copper Positions are a weekly report that reflects the difference between the total volume of long (or buy) and short (or of sales) existing in the market and opened by non-commercial operators (speculative). The report only includes the futures markets of the United States (Chicago and New York Stock Exchanges).
Source: Comex.

Nevertheless, the decrease in price was constrained by the worsening forecast for concentrate supply. The primary cause for this was the declaration of the Cobre Panama mine's closure and the anticipation of reduced production by Anglo American, Rio Tinto, and Vale. As a result, in 2023 the world refined copper market significantly reduced the global deficit of 2022 (434 thousand tons) and a surplus is expected for 2024.

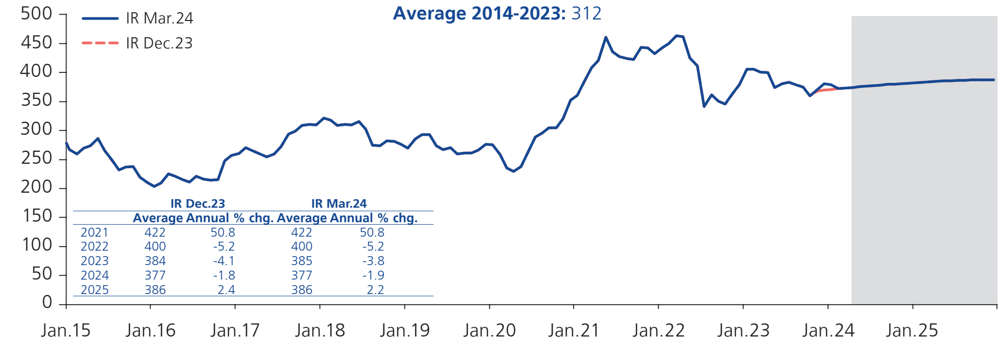
Table 8
SUPPLY AND DEMAND FOR REFINED COPPER 1/
(Thousands of metric tons of copper)

	2019	2020	2021	2022	2023
Global Mine Production	20,669	20,768	21,301	21,950	22,063
Global Refined Production (Primary and Secondary)	24,159	24,672	24,964	25,401	26,927
Global Refining Utilization	24,321	24,953	25,216	25,835	27,013
Refining Balance 2/	-162	-281	-252	-434	-87

1/ ICSG monthly report for November 2023 and projections report for October 2023.
2/ The balance of refined products is calculated as the subtraction between the global production of refined products (supply) and its use (demand).
Source: ICSG.

In this sense, and in line with the executed data, copper price forecasts have been maintained with respect to the December Report estimate. The projected prices, which are above the average for the last ten years, assume a gradual recovery of demand and persisting tight supply, particularly in the market for concentrate. Upside risks include mining supply disruptions and changes in economic and environmental policies that could lead to shortages in the global market, as well as a larger-than-expected expansion of renewable energy capacity in China.

Graph 28
COPPER: JANUARY 2015 - DECEMBER 2025
(ctv. USD/lb.)



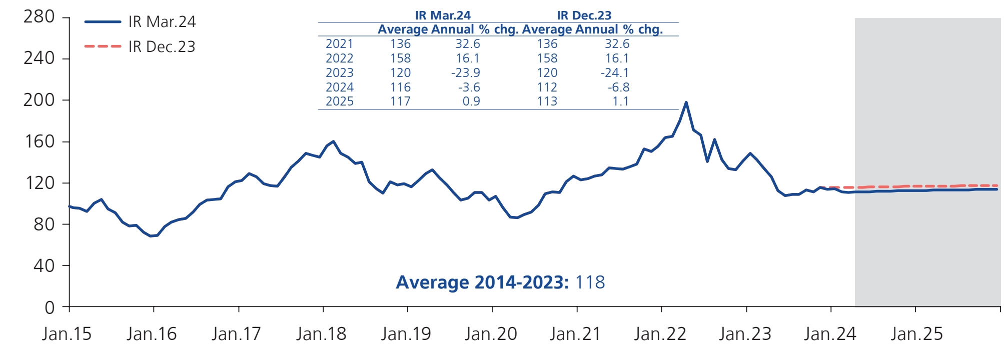
Source: Reuters and BCRP.

Zinc

24. The average international price of zinc fell to USD/lb. 1.1 in February 2024, a year-to-date 6 percent slide, in addition to the 19 percent drop between December 2022 and 2023.

As with copper, the price hurt from changes in expectations regarding global monetary policy, instability in the Chinese real estate market and adverse evolution of construction in the main developed economies. As a result, it is estimated that refined zinc production will outweigh consumption in 2024. Consequently, the market would maintain a surplus for the second consecutive year. The International Zinc and Lead Study Group (ILZSG) reported a global supply surplus of 205 thousand tons last year. This situation is reflected in zinc inventories on the LME, which in February of this year stood at levels not seen since June 2021.

Graph 29
ZINC: JANUARY 2015 - DECEMBER 2025
(ctv. USD/lb.)



Source: Reuters and BCRP.

In line with these developments, the price of zinc is revised slightly downward with respect to estimates in the December Inflation Report. On the supply side, world refined zinc output should continue to grow in 2024-2025, although this increase faces downside risks, as high production costs have affected the idle capacity of European smelters.

On the demand side, it is expected to grow slowly in 2024 due to the delayed start of the rate-cutting cycle in major economies. In contrast, in China, state investments in infrastructure and support for real estate developers are expected to contribute to reducing market oversupply.

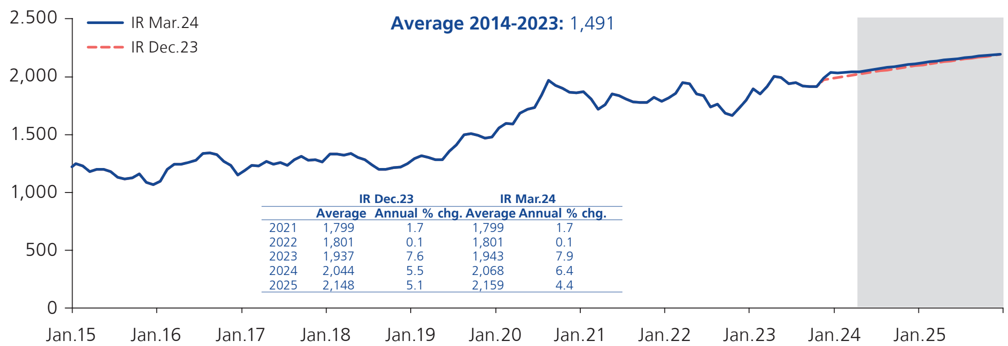
Gold

25. The average gold price was USD/oz.tr. 2026 in February 2024, slightly below the December 2023 quote, after gold prices' accumulated 13 percent increase to December 2023 over December 2022.

The price of gold has been under downward pressure due to expectations that interest rates of the main central banks will remain high for longer than initially expected. This factor, coupled with lower central banks' purchases, has offset increased demand for gold as a haven asset due to worldwide geopolitical tensions. In addition, demand for gold jewelry may increase in 2024 and 2025.

In line with the executed data, the gold price forecast is revised slightly upward with respect to the December Inflation Report. This revision reflects the increase in geopolitical risks and expectations of relative dollar stability, following the strong appreciation observed between 2021 and 2023.

Graph 30
GOLD: JANUARY 2015 - DECEMBER 2025
(USD/tr.oz.)



	IR Dec.23		IR Mar.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	1,799	1.7	1,799	1.7
2022	1,801	0.1	1,801	0.1
2023	1,937	7.6	1,943	7.9
2024	2,044	5.5	2,068	6.4
2025	2,148	5.1	2,159	4.4

Source: Reuters and BCRP.

Gas

26. So far this year, the average **Henry Hub natural gas** price has slipped 30 percent, above the reduction throughout 2023, when it fell 23 percent. The quotation for the European market (UK BNP) fell by 30 percent in the same period, in addition to the 67 percent drop experienced a year earlier. As noted in previous reports, prices in the European market are above the Henry Hub natural gas quotation.

The declines in natural gas prices, Henry Hub and UK BNP, are accounted for by the significant increase in global supply, resulting from increased natural gas production capacity in the United States and liquefied natural gas (LNG) at the global level, mainly in the United States and Qatar. This increase in supply has coincided with slower demand growth because of a milder than anticipated winter in the northern hemisphere and weak industrial demand, particularly in Europe. Inventories in both Europe and the United States remain at historically high levels.

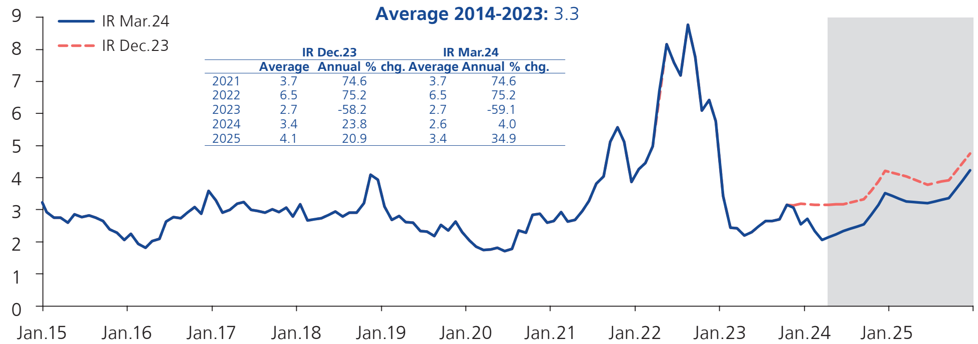
For the forecast horizon, the average Henry Hub natural gas price has been revised downward in light of the favorable outlook for U.S. production and high inventories. Although, after two years of contraction, global natural gas demand is expected to recover, persistent weakness in underlying demand in Europe and Asia will limit significant price increases. However, the decision by the United States to restrict the increase in LNG production capacity for export will provide some support for prices.

A significant risk factor lies in the influence of geopolitical events that could impact natural gas supply.

Graph 31

GAS NATURAL HENRY HUB: JANUARY 2015 - DECEMBER 2025

(USD/MBTU)



Source: Reuters and BCRP.

Oil

27. In the last two months, the average WTI **oil** price rose percent from USD/br. 72 in December 2023 to USD/br. 77 in February 2024, thus reversing the drop recorded in 2023, when it accumulated a year-on-year fall of 6 percent.

The increase in oil prices is explained by concerns regarding world supply, given geopolitical conflicts in the Middle East. In addition, the Organization of the Petroleum Exporting Countries (OPEC) and its allies (OPEC+) have confirmed reductions in production quotas for 2024, with additional voluntary cuts by major producers such as Saudi Arabia and Russia that would offset the current higher production of the United States and Brazil. Additionally, the International Energy Agency (IEA) and OPEC estimate that China would drive global demand.

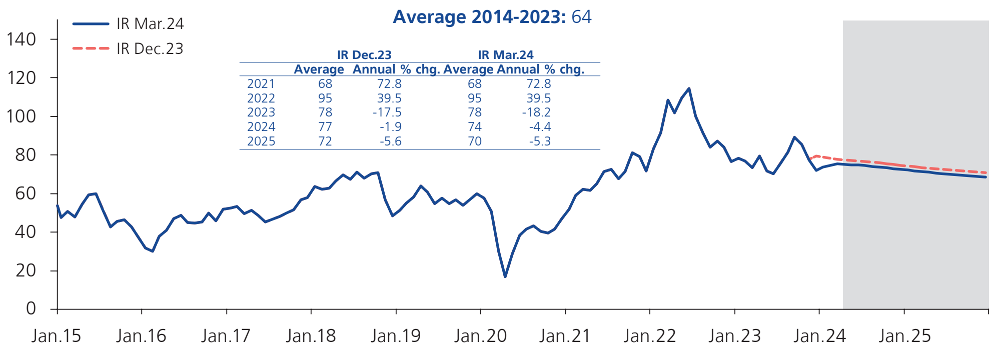
For the projection horizon, the average oil price has been revised downward with respect to the December Inflation Report, due to expectations of global market supply surpluses. However, this forecast assumes that the conflict in the Middle East would not escalate nor hurt output in the main producing countries. Likewise, U.S. production is expected to continue to grow and peak in 2024.

The main risks are associated with geopolitical factors and new OPEC+ decisions.

Graph 32

WTI OIL: JANUARY 2015 - DECEMBER 2025

(USD/bl)



	IR Dec.23		IR Mar.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	68	72.8	68	72.8
2022	95	39.5	95	39.5
2023	78	-17.5	78	-18.2
2024	77	-1.9	74	-4.4
2025	72	-5.6	70	-5.3

Source: Reuters and BCRP.

Food

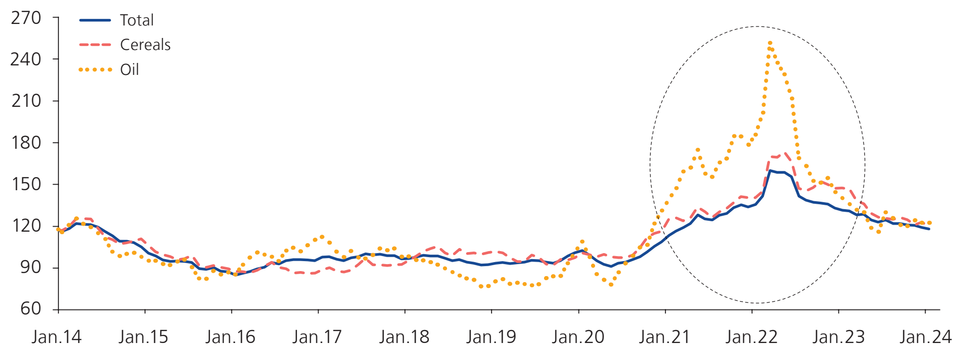
28. Prices of most foodstuffs have continued to slide due mainly to increased supply, driven especially by maize crops.

According to the FAO index - which includes cereals, sugar, oil, meat, and dairy products - food prices accumulated an 11 percent fall in 2023 and fell 1 percent in January 2024, although they remain above their historical averages. The drop in the price of vegetable oils stands out along with the correction in the price of grains.

Graph 33

FAO FOOD PRICE INDEX*

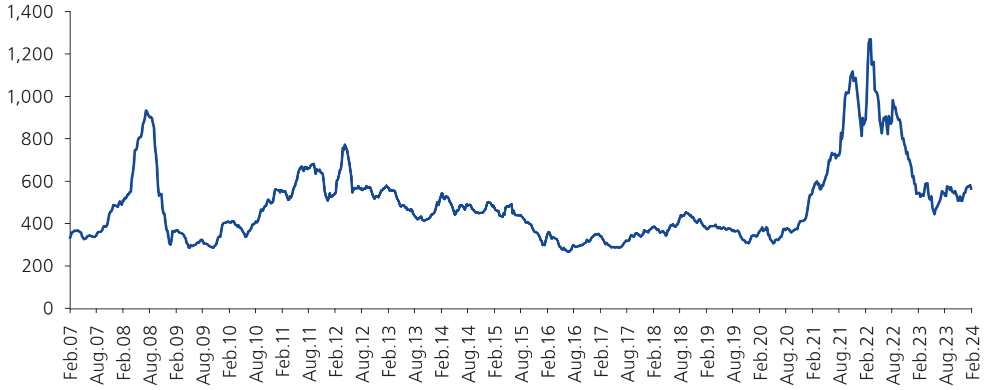
(Base 2014 - 2016 = 100)



* The real price index is the nominal price index deflated by the World Bank's manufacturing unit value index.
Source: FAO.

The forecasts for lower food prices are related to lower fertilizer costs, which despite the recent drop remain at levels unseen since 2014. Lower natural gas and rock phosphate prices have helped keep fertilizer costs low, although recent difficulties for shipping in the Red Sea have limited this decline.

Graph 34
GREEN MARKETS NORTH AMERICA FERTILIZER PRICE INDEX
(Index, Jan 07, 2002=100)



Source: Reuters.

In view of increased supply, the forecasts for most food prices are revised downward, although there is considerable uncertainty in the projection horizon.

The greatest uncertainty and risk factor lies in the forecast of a La Niña event in the middle of the year. Depending on its intensity and duration, this phenomenon would have an impact on basic food prices. In addition, there are other risks relevant to the forecasts. One of them is regulatory in nature, related to the possibility of Russia imposing more restrictive quotas on its exports. The other important factor is the adoption of protectionist measures by the European Union.

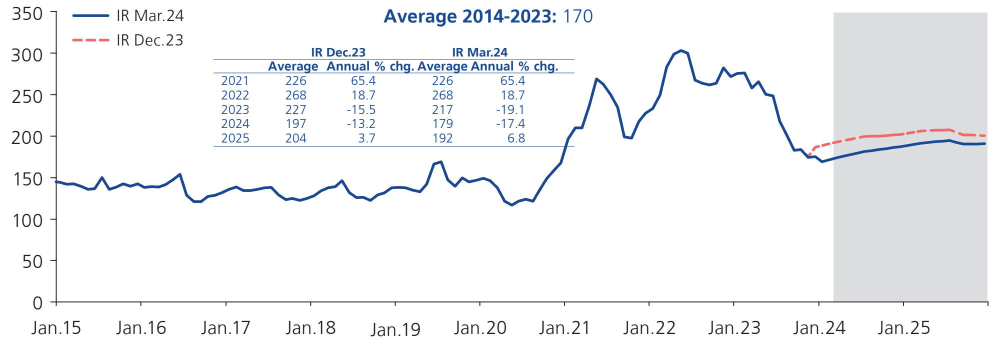
(a) The **soybean oil** price averaged USD/MT 1028 in February 2024, down 11 percent from USD/MT 1149 in December 2023. The soybean oil price accumulated a 24 percent drop between December 2023 and 2022.

The reduction in the price of maize is based on a well-supplied global market, with production reaching record levels in the 2023/24 season. Exceptional crops were recorded in the United States, Argentina and China. In addition, competition was further intensified by increased exports from Ukraine, along the new humanitarian corridor in the Black Sea through the territorial waters of Romania and Bulgaria.

Together, these factors created a market environment where abundant supply, intense competition and favorable prospects for future production have converged to drive a notable reduction in the price of maize. Against this backdrop, the price is revised downward on the forecast horizon on prospects for improved production in the U.S., Argentina and China for the 2023/2024 marketing year.

The main risks to this forecast are regulatory changes in the European Union that could lead to lower maize imports and the possible impact of a La Niña event, should it extend beyond 2024.

Graph 35
MAIZE: JANUARY 2015 - DECEMBER 2025
(USD/ton)



	IR Dec.23		IR Mar.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	226	65.4	226	65.4
2022	268	18.7	268	18.7
2023	227	-15.5	217	-19.1
2024	197	-13.2	179	-17.4
2025	204	3.7	192	6.8

Source: Reuters and BCRP.

(b) Since the last Report, **wheat** prices fell by 7 percent to USD/MT 232 in December 2023, adding to the drop recorded in 2023, when it accumulated a 26 percent reduction.

Wheat prices decreased due to estimates of higher production in the United States, Argentina and Ukraine in the 2023/24 season, together with the revision on the upside of production estimates for Russia, which will remain at levels close to the highs reached in the previous season.

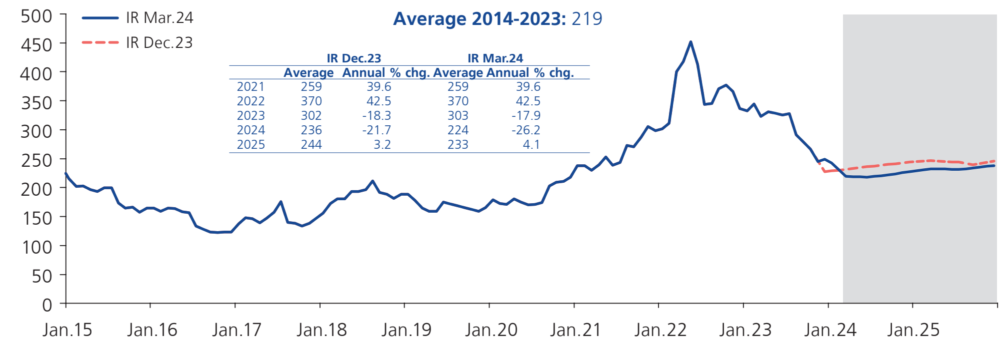
These estimates contributed to intensifying competition in the export market, accentuating the downward pressure on prices. In addition, Russia sought to secure business before the start of the grain quota, significantly increasing its exports. On the demand side, consumption fell in Asia and the United States, in the latter case, due to lower use as livestock feed.

Over the forecast horizon, wheat prices are revised downward from the forecasts in the December Inflation Report. Risks are skewed to the upside. Logistic and transportation problems, such as those related to shipping in the Red Sea, may disrupt the flow of wheat to international markets. Also, Russia's political and trade decisions are another factor fueling uncertainty. The impacts of these factors could be exacerbated by low levels of world inventories, now at a five-year low.

Graph 36

WHEAT: JANUARY 2015 - DECEMBER 2025

(USD/ton)



	IR Dec.23		IR Mar.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	259	39.6	259	39.6
2022	370	42.5	370	42.5
2023	302	-18.3	303	-17.9
2024	236	-21.7	224	-26.2
2025	244	3.2	233	4.1

Source: Reuters and BCRP.

(c) The **soybean oil** quotation averaged USD/MT 1 043 in February 2024, down 9 percent from the December 2023 quotation of USD/MT 1 149. The soybean oil price accumulated a 24 percent drop between December 2023 and 2022.

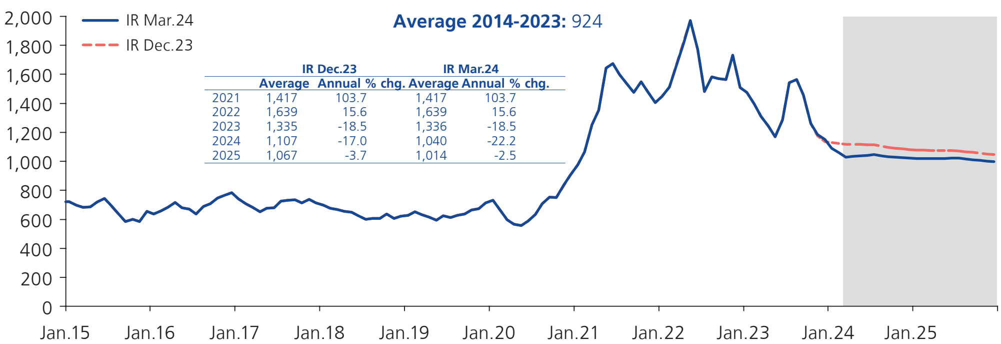
The average soybean oil price fell due to the prospect of an increase in U.S. soybean oil production and inventories, as well as a record crushing volume in the United States. Also contributing to explain the price drop was the greater supply in South America, where the prospects of an increase in Argentina's production in 2024 and the lower prospects of a sharp drop in Brazil's production seem relevant. On the other hand, there was a drop in demand from China, due to higher demand for substitute vegetable oils.

Considering these recent developments, prices are projected to trade below the previous Inflation Report estimate. The main source of uncertainty in this forecast is related to the variation in oil prices. In addition, there are risks associated with the concentration of the world soybean market in Brazil and the United States. This concentration, together with low inventory levels and unforeseen regulatory changes, makes the market vulnerable to possible interruptions in production.

Graph 37

SOYBEAN OIL: JANUARY 2015 - DECEMBER 2025

(USD/ton)



	IR Dec.23		IR Mar.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	1,417	103.7	1,417	103.7
2022	1,639	15.6	1,639	15.6
2023	1,335	-18.5	1,336	-18.5
2024	1,107	-17.0	1,040	-22.2
2025	1,067	-3.7	1,014	-2.5

Source: Reuters and BCRP.

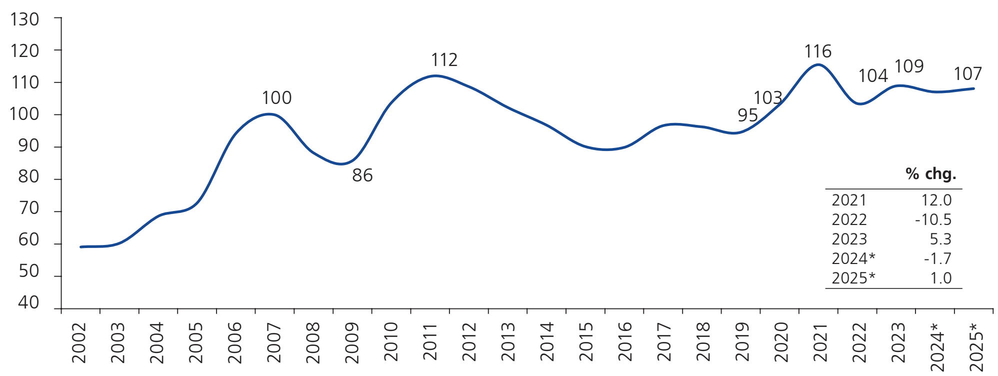
II. Balance of payments

Terms of trade and goods' trade balance

29. The **terms of trade** in 2023 increased by 5.3 percent with respect to 2022, due to a larger drop in import prices (-6.8 percent) -mainly crude oil and its byproducts, and industrial inputs such as plastic, iron, and steel- relative to sliding export prices (1.9 percent lower), basically metals such as zinc and copper, but also natural gas, and coffee. These developments are explained by a better-supplied oil market, better weather conditions for food production and fears of lower global demand associated with a slow recovery in China, mainly due to the slowdown in its real estate sector.

    The terms of trade are projected to fall by 1.7 percent in 2024, which incorporates a drop in the price of the industrial metals that Peru exports, consistent with the expected slowdown in world economic activity. The main difference with respect to the previous Report's projection lies in shrinking import prices, in contrast to the 0.7 percent growth estimated in December. The price of oil has been revised downwards, given the expectations of a market with supply surpluses and a Middle East conflict without major escalations. The price of exports has also been revised slightly downwards: the price of zinc has been revised on the downside, due to the expected expansion of supply, the tightening of credit conditions and weak world growth.

Graph 38
TERMS OF TRADE, 2002-2025
(Index 100 = 2007)



	% chg.
2021	12.0
2022	-10.5
2023	5.3
2024*	-1.7
2025*	1.0

* Forecast.
Source: BCRP.

In 2025, the terms of trade are expected to rebound by 1.0 percent, which is a slower rate compared to the estimated 1.3 percent in the December Report. The variation in the projection can be attributed to a more rapid resurgence of import prices, particularly for industrial inputs, against a backdrop of faster global economic expansion. Regarding export prices, the present projections indicate an elevated gold price, which aligns with its increased commercial demand and its status as a secure investment.

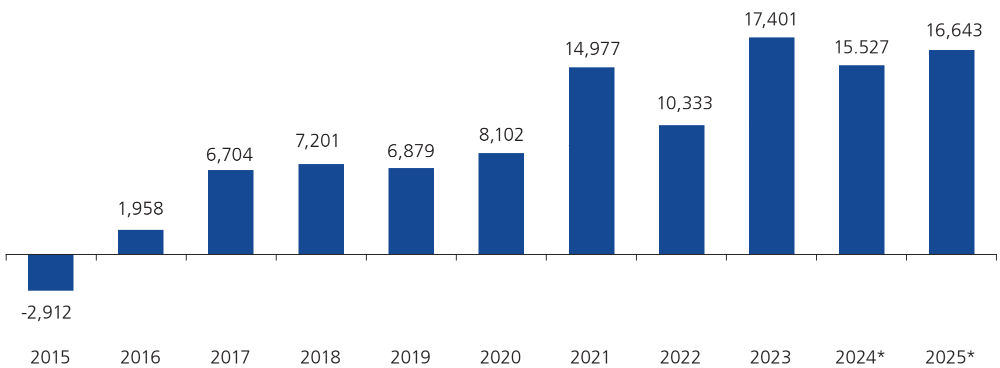
Table 9
TERMS OF TRADE: 2022 - 2024

	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
Terms of Trade					
Annual % chg. (average)	**5.3**	**-1.8**	**-1.7**	**1.3**	**1.0**
Price of exports					
Annual % chg. (average)	**-1.9**	**-1.0**	**-2.2**	**1.8**	**2.2**
Copper (USD cents per pound)	385	377	377	386	386
Zinc (USD cents per pound)	120	116	112	117	113
Lead (USD cents per pound)	97	100	96	100	98
Gold (USD per troy ounce)	1,943	2,044	2,068	2,148	2,159
Price of imports					
Annual % chg. (average)	**-6.8**	**0.7**	**-0.5**	**0.5**	**1.2**
Oil (USD per barrel)	78	77	74	72	70
Wheat (USD per ton)	303	236	224	244	233
Maize (USD per ton)	226	197	179	204	192
Soybean oil (USD per ton)	1,337	1,107	1,040	1,067	1,014

* Forecast.
Source: BCRP.

30. The **goods trade balance** surplus reached USD 17,401 million in 2023, USD 7,068 million higher than the amount reached in 2022. The year-on-year expansion was due to the fall in imports, both due to a price effect and to the contraction in the volume of imports of industrial inputs and capital goods. To a lesser extent, the increase in exports was due to higher volumes of traditional products and higher prices of non-traditional products.

Graph 39
BALANCE OF TRADE IN GOODS, 2015-2025
(Million USD)



* Forecast.
Source: BCRP.

The trade balance is projected to reach a surplus of USD 15,527 million in 2024 and USD 16,643 million in 2025. These figures are consistent with the expected economic recovery and lower terms of trade. The amounts projected in this edition are higher than those forecast in the December Report; the revision on the upside for both years responds to the lower annual base of import levels in 2023 and lower import prices in the current year.

31. **Exports amounted** to USD 67,241 million in 2023, or USD 1,006 million (1.5 percent) higher than in 2022. The expansion is explained by a higher volume of exports of traditional products (copper, zinc, and hydrocarbons). This dynamic was strengthened by higher prices for gold, fishmeal and non-traditional agriculture sector products.

Export value forecasts were revised downward for 2024 and 2025, reflecting lower expected volume growth -from 1.9 percent to 1.4 percent in 2024 and from 3.5 percent to 3.0 percent in 2025- and a larger projected drop in prices in 2024 -from -1.0 percent to -2.2 percent. The correction in export volumes for 2024 assumes lower exports of non-traditional products: (i) in the agricultural sector due to the expected effects of high temperatures in the first quarter of 2023; (ii) in textile products due to weak demand from the United States; and (iii) in fishery products due to the cooling of the sea, which would mainly affect the supply of squid. These conditions are expected to reverse by 2025.

32. **Imports** totaled USD 49.84 billion in 2023, representing a contraction of USD 6.062 billion (-10.8 percent) with respect to 2022. This drop is explained by both a lower volume effect (mainly industrial inputs and capital goods in view of lower manufacturing output and sliding private investment), and a lower price effect, largely associated with the downward correction of oil and oil by-products.

The value of imports for 2024 has been revised downward in the forecast horizon, mainly due to less imports in 2023 and lower oil and industrial input prices. Meanwhile, import volumes are expected to grow by 3.4 percent in 2025, in line with recovering domestic demand.

Results of external accounts

33. The 2023 **balance of payments** showed a current account surplus of USD 1,677 million, reflected in higher flow of net foreign assets in the financial account for USD 1,010 million.

The current account surplus is explained by a combination of external factors -better terms of trade, higher external demand for goods, high interest rates and increased remittances- and domestic factors, like less private spending. The change in the financial account from a debtor to a creditor position results from less private sector requirements, consistent with lower private spending, the resumption of purchases of foreign assets by AFPs and the interest rate differential between developed countries and emerging economies, induced by the monetary policy cycle.

Table 10
BALANCE OF PAYMENTS
(Million USD)

	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
I. CURRENT ACCOUNT BALANCE	**1,677**	**-2,213**	**-1,385**	**-3,419**	**-2,440**
% GDP	*0.6*	*-0.8*	*-0.5*	*-1.2*	*-0.9*
1. Trade Balance	17,401	14,994	15.527	16,392	16,643
a. Exports	67,241	66,771	66,720	70,383	70,254
Of wich:					
i) Traditional	48,600	47,802	47,316	49.577	48,944
ii) Non-Traditional	18,424	18,762	19,203	20,631	21,140
b. Imports	49,840	51,777	51,193	53,991	53,611
2. Services	-7,822	-6,884	-6,876	-6,008	-6,149
3. Primary income (factor income)	-14,686	-17,019	-16,921	-20,463	-19,745
4. Secondary income (transfers)	6,785	6,696	6,884	6,660	6,812
Of which: Remittances	4,446	4.505	4.580	4,640	4,717
II. FINANCIAL ACCOUNT 1/	**1,010**	**-4,913**	**-4,085**	**-5,959**	**-4,980**
% GDP	*0.4*	*-1.8*	*-1.5*	*-2.1*	*-1.8*
1. Private Sector	130	-2,241	-1,937	-4,747	-3,863
a. Long-term	*360*	*-2,241*	*-1 ,937*	*-4,747*	*-3,863*
b. Short-term	*-230*	*0*	*0*	*0*	*0*
2. Public Sector 2/	880	-2,672	-2,148	-1,213	-1,117
III. NET ERRORS AND OMISSIONS	-3,427	0	0	0	0
IV. BALANCE OF PAYMENTS	**-2,760**	**2,700**	**2,700**	**2.540**	**2.540**
IV= (I+III) - II = (1-2)					
1. Change in NIR balance	-850	2,700	2,700	2.540	2.540
2. Valuation effect	1,910	0	0	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/ Considers the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.
3/ Shows the cumulative last four quarters to the third quarter of 2023.
IR: Inflation Report.
* Forecast.

The financial account will reflect the inflow of long-term capital to finance private sector spending, consistent with the assumption of socio-political and price stability, as well as a lower interest rate differential.

Relative to the previous report, lower net capital inflows are projected for 2024 and 2025, in response to lower flows of FDI liabilities, less investment in private sector portfolio liabilities, and a more gradual recovery in the pace of purchases of sovereign bonds by non-residents. In addition, a lower current account deficit is expected for both 2024 and 2025, reflecting a higher projected trade surplus in 2024, as well as a lower primary income deficit and a better outcome of the secondary income account, expected for both years.

Current account

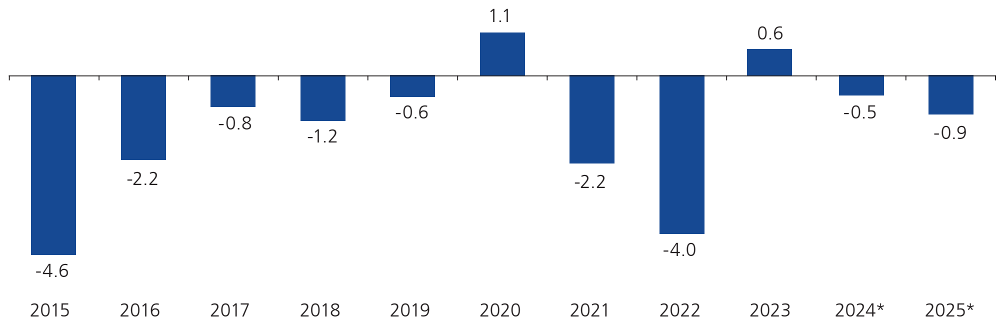
34. The **current account result** shifted from a deficit of 4.0 percent of GDP in 2022 to 0.6 percent surplus in 2023, reflecting (i) the improved performance of the trade balance, sustained by the fall in imports; (ii) a smaller deficit in the services balance, due to lower freight costs and the positive impact of returning to normal health conditions on tourism; (iii) a reduction in the primary income deficit (factor income), due to higher yields on public and private sector external assets and lower profits of companies

holding foreign direct investments (FDI) in the country; (iv) a higher secondary income surplus (transfers) due to greater remittances from the United States.

The current account is expected to record a deficit of 0.5 and 0.9 percent of GDP in 2024 and 2025, respectively. The current baseline scenario assumes the recovery of domestic demand, mainly private spending, which will boost imports of consumer and capital goods, while resuming normal manufacturing output and inventory replenishment will support purchases of industrial inputs. Likewise, the favorable impact of domestic demand on the expansion of non-primary activity will increase the profits of FDI companies in the country, which will increase the primary income deficit with respect to 2023.

Deficit pressures from imports and primary income are expected to be offset by a reduction in the services deficit in response to higher estimated tourist inflows, which would increase international travel receipts, and to a lesser extent, the impact of the gradual correction of freight costs on transport outflows. The current baseline scenario assumptions imply that tourist numbers and freight costs reach their pre-pandemic levels in 2025.

Graph 40
CURRENT ACCOUNT: 2015-2025
(% GDP)



* Forecast.
Source: BCRP.

Compared to the previous report, a lower deficit in the current account is expected over the forecast horizon. This correction is mainly due to a higher trade surplus in 2024 and a lower deficit in primary income in both years.

The projection of the primary income account (net factor income) is in line with the projection of international interest rates, local GDP growth, the evolution of mining exports and the terms of trade.

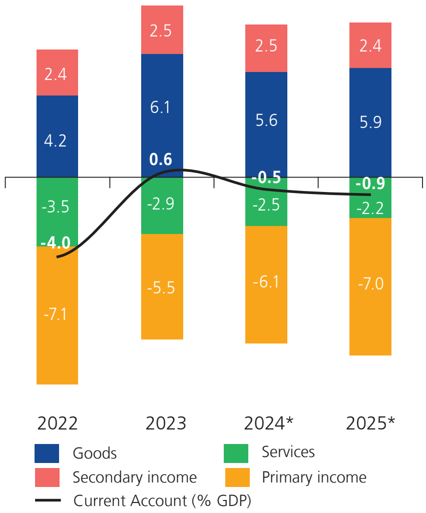
35. Changes in the current account result can be attributed to two main factors, namely domestic absorption (higher net nominal demand for goods and services from abroad)

and the return paid to the factors of production (capital) and to Peru's liabilities abroad (debt instruments).

In 2023, a strong surplus contribution of domestic absorption to the current account result was observed, equally balanced between the prices of goods and services (higher terms of trade and lower freight rates, respectively) and volumes of goods (higher net external demand due to a reduction in the volume of imports).

Table 11
DETERMINANTS OF THE VARIATION IN THE CURRENT ACCOUNT RESULT, 2021-2025

CURRENT ACCOUNT
(% of GDP)



VARIATION IN CC RESULT
(p.p. GDP)

	2023/ 2022	2024*/ 2023	2025*/ 2024*
A. Domestic absorption	**2.9**	**-0.4**	**0.6**
1. Price Effect	**1.5**	**-0.4**	**0.4**
1.1 Terms of Trade	0.9	-0.4	0.3
1.2 Freight	0.7	0.1	0.1
2. Volume effect	**1.3**	**-0.1**	**0.1**
2.1 Goods	-1.4	-0.4	-0.1
2.2 Services**	-0.1	0.3	0.2
B. Yield paid to external liabilities	**0.6**	**-0.8**	**-0.6**
1. Foreign Direct Investment	**1.0**	**-0.8**	**-0.7**
2. Medium- and long-term debt	**-0.4**	**0.0**	**0.1**
C. Rest* **	**1.2**	**0.1**	**-0.3**
TOTAL (A + B + C)	**4.7**	**-1.1**	**-0.4**

* Forecast.
** Includes changes in the volume of transportation and the volume and price of services that are not transportation.
*** Includes changes of current transfers and yield payed for external assets.
Source: BCRP.

The reversion in the current account surplus will be due, to a greater extent, to the increase in the yield paid on external liabilities (0.8 p.p.), particularly greater profits of companies holding FDI, and to a lesser extent, greater domestic absorption (0.4 p.p.), mainly resulting from falling terms of trade. The surplus impact of higher tourism on travel revenues would be fully offset by the recovery of imports.

The primary factor contributing to the expansion of the deficit in 2025 will be the rise in the yield paid on foreign liabilities. This is due to the expectation of higher profits resulting from GDP growth and the development of mining exports. This assertion would be further supported by a reduction in the yield applied to external assets. In the interim, the impact of these impacts would be partially mitigated by reduced domestic absorption, which can be attributed to elevated terms of trade and decreased freight costs.

36. According to data for the third and fourth quarters of 2023, the current account deficit of most countries in the region has narrowed. Only Peru recorded a surplus.

In all the countries under review, this contraction is explained chiefly by the strengthening of the trade balance. In Chile and Colombia, the evolution of trade in goods is explained by the fall in imports, in line with lower domestic demand; in Mexico, a smaller oil trade balance deficit is noteworthy. To a lesser extent, the increase in secondary income reinforced the trade effects, due to a rebound in tourism in Colombia and net transfers in Chile and Colombia.

Although a slight increase of the current account deficit is projected for 2024 in the region, these levels are low, and the external scenario remains favorable. A restructuring of the balance between savings and investment is expected, buttressed by recovering private savings.

Table 12
LATIN AMERICA: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Annualized, in % GDP)

	2020	2021	2022	Q1.2023	Q2.2023	Q3.2023	2023	2024*
Brazil	-1.9	-2.8	-2.5	-2.5	-2.3	-1.6	-1.3	-1.5
Chile	1.4	-7.5	-9.0	-6.8	-4.7	-3.5	-3.3	-4.0
Colombia*	-3.4	5.6	-6.2	-5.7	-5.1	-3.6	-2.8	-2.9
Mexico*	-0.3	2.5	-1.2	-1.7	-1.4	-0.9	-0.3	-0.9
Peru	1.1	-2.2	-4.0	-2.9	-1.8	-0.5	0.6	-0.5

* Projection for Mexico and Colombia in 2023. Projection for all countries in 2024.
Source: Central banks of each country.

Financial account

37. The **financial account** for 2023 had a favorable flow, namely a gain in net foreign assets, amounting to USD 1.01 billion, which is comparable to 0.4 percent of the Gross Domestic Product (GDP). This flow contrasts with net capital inflows in 2022 of USD 9,246 million and is the result of a lower level of business confidence that limited domestic investment -creating a positive savings-investment gap-, less pension fund withdrawals that favored the purchase of foreign assets by AFPs, amortization of the public sector's foreign debt and the impact of global monetary policy on the interest rate differential, which has affected foreign flows towards emerging economies liabilities.

External financing inflows of USD 4,085 million are expected in 2024, in contrast to the net financing provided from abroad in 2023 (USD 1,010 million). Net capital inflows are expected this year through purchases of sovereign bonds by non-residents and, secondly, through financing to the private sector through direct investment. External financing will consolidate in 2025, as private spending evolves over the projection horizon.

Compared to the previous report, lower net capital inflows are expected in 2024 and 2025. The revisions respond, in the case of the private sector, to lower flows of FDI liabilities and lower investment in portfolio liabilities, mainly in bonds; and in regards of the public sector, to a reduction in purchases of sovereign bonds by non-residents.

38. **Long-term external financing of the private sector** was in negative ground to the tune of USD 360 million in 2023, i.e., a net acquisition of foreign assets, which contrasts with the positive flow of USD 14,587 million in 2022. This evolution reflects larger purchases of external portfolio assets, mainly by AFPs and the non-financial sector, and reduced purchases of FDI liabilities due to reinvestment, capital withdrawals and repayment of loans to related companies.

Table 13
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR 1/
(Million USD)

	2023	2024*		2025*	
		Jan.-Sep.	IR Sep.23	IR Dec.23	IR Sep.23
Private Sector (A + B)	**130**	**-2,241**	**-1,937**	**-4,747**	**-3,863**
% GDP	*0.0*	*-0.8*	*-0.7*	*-1.6*	*-1.4*
A. Long-term (1 - 2)	**360**	**-2,241**	**-1,937**	**-4,747**	**-3,863**
1. ASSETS	**5,455**	**5,230**	**5,487**	**5,268**	**4,752**
Direct investment	1,445	1.573	1.515	1,607	1,436
Portfolio investment 2/	4,010	3,657	3,972	3,661	3,315
2. LIABILITIES 3/	**5,095**	**7,471**	**7,424**	**10,015**	**8,614**
Direct investment	4,153	9,414	8,615	11,411	9,716
Portfolio investment 4/	-272	-33	-246	255	59
Long-term loans	1,213	-1,910	-945	-1,651	-1,161
B. Short-term	**-230**	**0**	**0**	**0**	**0**

1/ Expressed in terms of assets net of liabilities. Therefore, an inflow of capital has a negative sign. An increase (a fall) in an external asset has a positive (negative) sign.
2/ Includes equities and other foreign assets of the financial and non-financial sector. Includes financial derivatives.
3/ A positive sign corresponds to an increase in external liabilities.
4/ Considers the net purchase of shares and others by non-residents through the Lima Stock Exchange (BVL), registered by CAVALI. Includes bonds and alike.
* Forecast.
Source: BCRP.

Compared to the previous year, the private sector will again record an estimated net capital inflow in 2024, as a result of an increase in FDI flows, mainly due to the recovery of the reinvestment of profits and the planned acquisitions of two important companies in the energy sector by foreign companies. To a lesser extent, another contribution may come from the slight recovery of portfolio investment and lower purchases of external assets by AFPs. Capital inflows would continue evolving in positive ground in 2025, supported by the greater profits reinvestment a recovering portfolio investment, given a more favorable local macroeconomic scenario and the decrease in interest rate differentials.

Compared to the previous report, the 2024 and 2025 long-term private financial account includes lower FDI liabilities, due to the downside earnings revision, and less portfolio investments, mainly in bonds.

39. After a negative flow of public sector net external borrowing from the debt management operation in 2023, positive net external financing may reach USD 2,148 million in 2024 and USD 1,117 million in 2025.

Table 14
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR 1/
(Million USD)

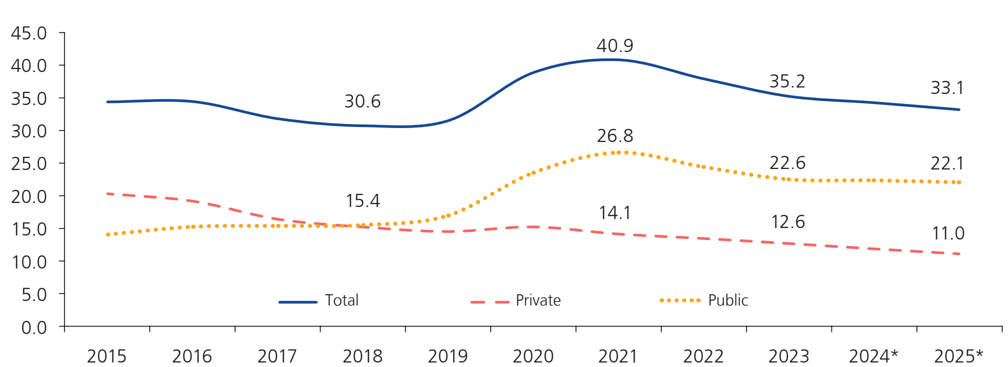
	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
I. ASSETS	**76**	**140**	**102**	**140**	**140**
II. LIABILITIES (1 + 2) 2/	**-804**	**2,812**	**2,250**	**1,353**	**1,257**
1. Portfolio investment	**-1,654**	**1,033**	**968**	**415**	**332**
Issuance	0	0	0	0	0
Amortizations	-1,801	-394	-397	-1,300	-1,300
Other operations (a - b) 3/	147	1,426	1,365	1,715	1,632
a. Sovereign bonds purchased by non-residents	16	1,426	1,352	1,715	1,632
b. Global bonds purchased by residents	-131	0	-12	0	0
2. Loans	**851**	**1,779**	**1,282**	**938**	**925**
Disbursements	1,955	2,842	2,342	2,262	2,262
Amortizations	-1,104	-1,063	-1,060	-1,324	-1,337
III. TOTAL (I - II)	**880**	**-2,672**	**-2,148**	**-1,213**	**-1,117**

1/ Medium- and long-term debt. An inflow of capital has a negative sign. An increase (a fall) in an external asset has a positive (negative) sign.
2/ A positive sign corresponds to an increase in external liabilities.
3/ For the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.
* Forecast.
Source: BCRP.

40. In terms of output, the stock of medium- and long-term external debt -mainly loans and bonds- declined by 2.7 percentage points between 2022 and 2023 to 35.2 percent, which was due to higher nominal GDP growth.

The medium- and long-term external debt stock is projected to fall to 33.1 percent of GDP, mainly due to a reduction in private sector debt from 12.6 percent of GDP in 2023 to 11.0 percent of GDP at the end of the projection horizon. This is in line with the forecasts for amortizations in 2024 and 2025.

Graph 41
BALANCE OF MEDIUM- AND LONG-TERM EXTERNAL DEBT
(% GDP)



* Forecast.
The balance of external public debt (definition of balance of payments) is the gross debt that the public sector maintains abroad (definition of public finances), to which is added the holding of BTP and local government bonds (such as those of the Municipality of Lima) by non-residents and less the holding of global bonds by residents.
Source: BCRP.

Net International Reserves

41. As of March 8, Net International Reserves (NIRs) grew USD 4,538 million with respect to the end of last year, to USD 75,571 million.

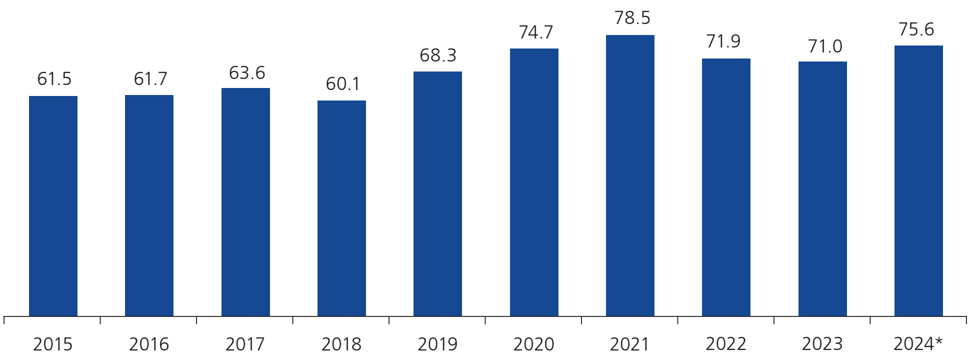
The estimated international reserves would represent 26.9 percent of GDP at the end of the projection horizon and cover over 4 times the balance of short-term external debt and almost 4 times the sum of these liabilities plus the current account deficit.

Table 15
INTERNATIONAL COVERAGE INDICATORS

	2021	2022	2023*	2024*	2025*
International Reserves as a percentage of:					
a. GDP	34.7	29.3	26.5	26.8	26.9
b. Short-term external debt 1/	578	466	433	431	446
c. Short-term external debt plus current account deficit	421	284	482	399	391

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

Graph 42
NET INTERNATIONAL RESERVES, 2015 - 2024
(Billion USD)



* As of march 8, 2024.
Source: BCRP.

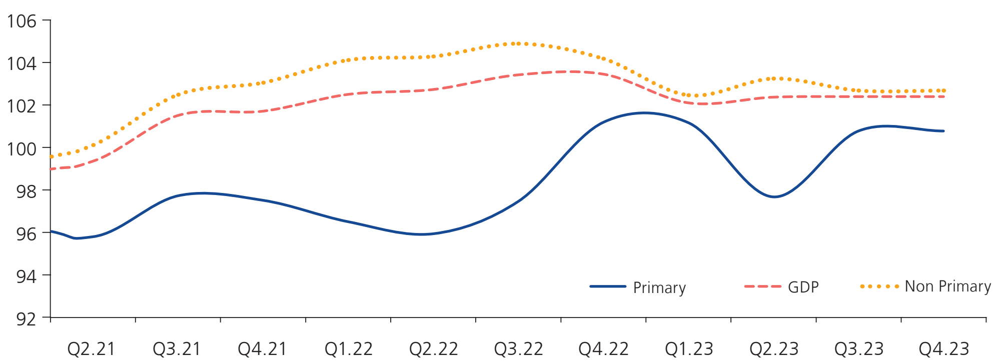
III. Economic activity

GDP by sectors

42. In 2023, the economy saw a contraction of 0.6 percent due to various supply shocks. These encompassed meteorological irregularities linked to the coastal El Niño-Southern Oscillation (ENSO) and droughts in the southern regions, the avian influenza epidemic, and societal unrest during the initial six months of the year. The primary sectors, including agriculture, fishing, and allied industries, suffered the direct adverse impact of these climate occurrences. Furthermore, a few of these shocks had subsequent impacts on both incomes and the confidence of agents. The combination of increased food costs and the subsequent decline in household spending power slowed economic activity in non-primary sectors, including non-primary manufacturing, commerce, construction, and services.

    Supply shocks hurt activity to a greater extent in the first quarter of 2023, when the estimated seasonally adjusted GDP indicator receded 1.3 percent, maintained similar levels in the second and third quarters, and advanced 0.5 percent in the fourth quarter, driven by the partial recovery of all sectors, except for non-primary manufacturing.

Graph 43
SEASONALLY ADJUSTED ECONOMIC ACTIVITY INDEXES
(Base 100 = 4Q-2019)



Source: BCRP.

43. The economy is projected to grow by 3.0 percent in 2024. This recovery will be supported, first, by the positive impact of the reversal of weather anomalies on fisheries, agriculture, and related industries. Secondly, the increase in real incomes and the

recovery of consumer and business confidence in private spending may also contribute, supported by a favorable socio-political and stable price environment. The greater dynamism of private consumption will lead to increased non-primary manufacturing, commerce, and services, while private investment will boost construction.

The growth projections for the year 2024 align with the estimations made in the preceding study. The statistics from December 2023 and the leading indicators from 2024 indicate that the economic recovery has been progressing as anticipated. Furthermore, the climatic conditions linked to El Niño resemble the estimated values observed in December. According to the most recent report from the National Study of the El Niño Phenomenon (ENFEN), the warm anomalies will last until March and will eventually return to a neutral state starting in April. In conclusion, the rise in private investment during the month of February is anticipated to result in an expansion of output in connected sectors of non-primary manufacturing. However, this expansion is projected to be counterbalanced by a decrease in textile production.

The economy is expected to continue expanding at the same pace in 2025, at a rate of 3.0 percent, the same as estimated in the December Report. This forecast assumes normal weather conditions for the development of agriculture, fishing and associated manufacturing, as well as an environment of socio-political and price stability that fosters agents' confidence, boosts private spending and the expansion of non-primary manufacturing activity.

Table 16
GDP BY ECONOMIC SECTORS
(Real % change)

	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
Primary GDP	**2.9**	**2.8**	**2.8**	**3.1**	**3.1**
Agriculture and livestock	-2.9	3.5	3.5	3.5	3.5
Fishing	-19.7	10.5	10.5	14.4	14.4
Metallic mining	9.5	2.0	2.0	2.2	2.2
Hydrocarbons	0.7	2.9	1.5	3.8	4.2
Manufacturing	-1.8	3.9	3.9	4.1	4.1
Non-Primary GDP	**-1.5**	**3.1**	**3.1**	**3.0**	**3.0**
Manufacturing	-8.2	3.1	3.1	3.0	3.0
Electricity and water	3.7	3.9	3.9	3.0	3.0
Construction	-7.9	3.2	3.2	3.4	3.4
Commerce	2.4	3.2	3.2	2.7	2.7
Services	-0.4	3.0	3.0	3.0	3.0
GDP	**-0.6**	**3.0**	**3.0**	**3.0**	**3.0**

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

44. The baseline scenario assumes the occurrence of a **global and coastal ENSO** in the summer of 2024. The behavior of the coastal ENSO, which has the greatest impact on Peru's economic activity, is expected to be like that assumed in the December report, i.e. warm anomalies during the 3 summer months that dissipate by April, giving way to neutral conditions.

The previous report was based on the information published on December 15 by the ENFEN committee according to which the most probable scenario in the Niño 1+2 region was the presence of moderate warm conditions in January, which effectively materialized. In addition, then as now, it was expected that the warm anomalies would extend throughout the summer, and then move to a scenario of neutral conditions in April. While the January releases predicted a less intense ENSO, even without anomalies in March (neutral), the February and March releases predicted again a scenario of warm anomalies throughout the summer, as in the December release. In addition, both the December 15 and March 1 bulletins indicate a likely transition to neutral conditions after the end of the event.

For its part, in the Central Pacific area, weak warm conditions are most likely to prevail through April.

Table 17

ENFEN: WARM ANOMALIES MORE LIKELY IN SUMMER 2024 IN THE REGION NIÑO 1+2

(%)

Date of communiqué ENFEN	Most likely intensity of the warm anomaly			
	Jan.24	Feb.24	Mar.24	Apr.24
15-Dec-2023	Moderate	Moderate	Weak	Neutral
29-Dec-2023	Moderate	Moderate	Weak	Neutral
12-Jan-2023	Weak	Weak	Neutral	Neutral
24-Jan-2024	n.d.	Weak	Neutral	Neutral
16-Feb-2024	n.d.	Moderate	Weak	Neutral
01-Mar-2023	n.d.	n.d.	Weak	Neutral
Observed	**Moderate**	**Moderate***	**n.d.**	**n.d.**

n.d.: Non disposable.
= projected start month of neutral conditions (neutral scenario has the highest probability).
* Estimate with the latest available projection of February 16.
Source: ENFEN, IGP.

45. Forecasts by economic sector:

a) **Agriculture sector activity** in 2023 declined by 2.9 percent, the largest percent annual drop since 1992, when ENSO also occurred. In 2023, the coastal region recorded warm anomalies and surplus rainfall due to the coastal El Niño, while the water deficit accentuated in the southern Andes .

Climate shocks have a direct influence on short growing season crops[1], particularly those aimed at the local market, such as potatoes, rice, and forage, during the initial six months of the year. Furthermore, long warm anomalies along the coast resulted in the shocks having a protracted impact throughout the latter half of the year. This was due to their influence on the blooming of fruit trees that were cultivated for international consumption, such as blueberries and mangoes.

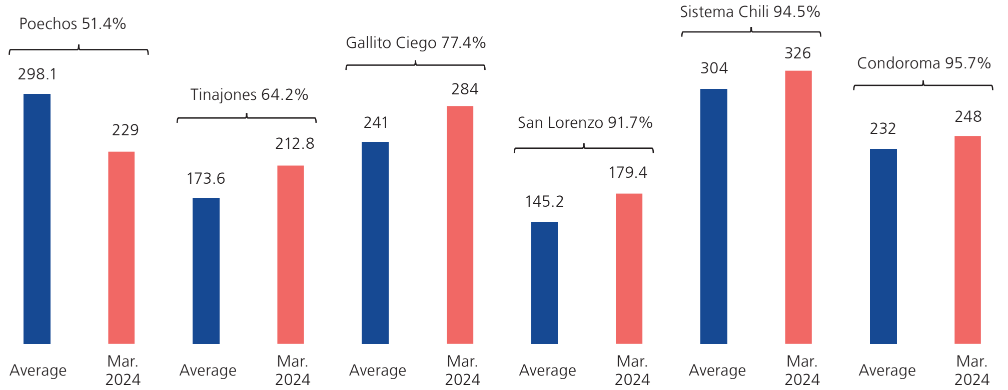
For 2024, the 3.5 percent growth forecast is maintained under a presumed weak to moderate El Niño scenario during the summer. This would imply fewer warm anomalies than in the previous year, which will result in better north coast crops, such as rice, and back to normal flowering of fruit crops, such as blueberries, avocado, olives, mangoes and lemons. In addition, this year's weather conditions will improve agricultural yields, bringing less soil moisture, which will boost organic banana production on the north coast. This forecast

1 About 5 months of vegetative period.

scenario also considers better water conditions in the Andes, which will allow recovered planting and yields of produce from this region such as potatoes, quinoa, maize, pasture and forage, and other Andean products.

As of March 13, water storage is higher in all reservoirs than the average of the last five years, except for Poechos. In terms of total usable volume, all exceed 50 percent.

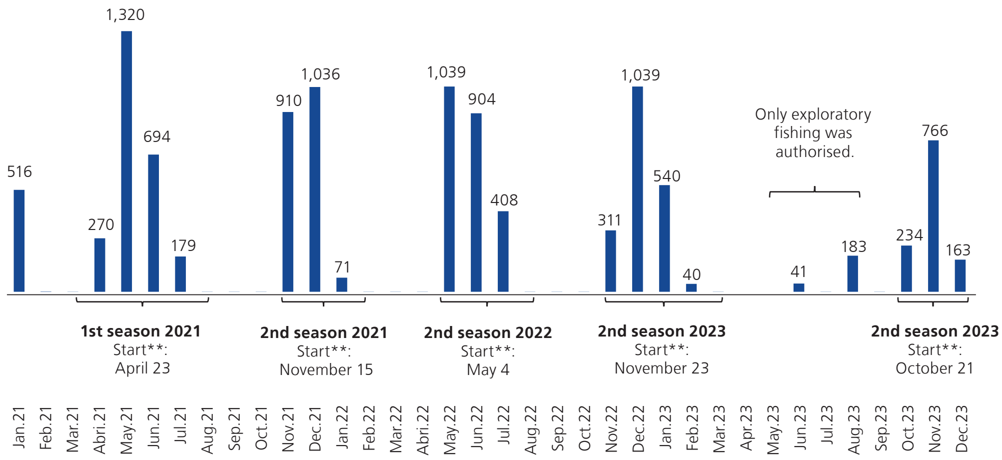
Graph 44
STORED VOLUME OF MAIN RESERVOIRS 1/
(In million cubic metres)



1/ The red bars correspond to the stored volume as of March 13, 2024, while the blue bars refer to the average of the last five years (2018-2022) of the same date. The percentage listed next to each name corresponds to the percentage of stored volume at the last available date respect to the total useful volume.
Source: Board of Users and Special Irrigation Projects.

b) Production in the **fisheries sector** declined by 19.7 percent in 2023, mainly due to the lower catch of anchoveta (Peruvian pilchard) for indirect human consumption (-50.7 percent), which was partially offset by the higher marine catch for direct human consumption (3.5 percent).

Graph 45
ANCHOVY CATCH FOR INDUSTRIAL CONSUMPTION IN NORTH-CENTRAL ZONE*
(Thousands tonnes)



* Information as of December 31.
** Date of start of exploratory fishing in the seasons that have taken place.
Source: Ministry of Production.

The lower catch of anchoveta was the result of suspension of the first fishing season in the north-central zone and a lower quota for the second season in the same zone. This was associated with the coastal ENSO since February 2023, which affected the distribution and biomass of this resource. However, the coastal ENSO also resulted in the largest marine fishery for direct human consumption with a significant increase in landings of species such as giant squid (35.8 percent), skipjack tuna (36.7 percent) and jack mackerel (31.4 percent), due to the positive anomalies in sea temperature during the year.

The sector's activity is expected to increase 10.5 percent in 2024 because of back to normal sea temperature towards the second quarter of the year, which will allow for the opening of a first anchoveta season. A larger drop is expected in the first quarter of the year, as the 2023 second season ended early in January, with only 75 percent of the quota caught; however, this is expected to be offset by an improved performance in the last quarter of the year. By 2025, the sector is expected to expand by 14.4 percent, due to the prevalence of neutral conditions and a higher recovery of anchoveta biomass.

c) In 2023, **metal mining** grew 9.5 percent, due to the higher extraction of most metals, particularly copper (12.8 percent), even before the Quellaveco mine's coming into operation at the end of the third quarter of 2022. Additionally, larger production was recorded at Las Bambas, due to lower social conflicts during the year, together with better ore grades at Cerro Verde and Antapaccay.

Similarly, larger molybdenum production (6.0 percent) was associated with Quellaveco, which began mining this mineral in May 2023, and Las Bambas. The year also saw higher zinc production (7.2 percent), due to increased processing by Antamina, Shouxin and Raura. Raura resumed operations in April 2022, after suspended operations since April 2020 due to the COVID-19 pandemic.

Likewise, larger gold output was recorded from Yanacocha and Minera Boroo Misquichilca. The latter was driven by the Carbonaceous Minerals Optimization Project, which aims to extend the mine's useful life.

By 2024, the sector is forecast to grow 2.0 percent driven mainly by higher molybdenum production at Quellaveco. In 2025, production in the sector will grow 2.2 percent due to higher production from Toromocho and Buenaventura.

d) Activity in the **hydrocarbons sector** increased 0.7 percent in the year, as higher natural gas extraction was in part offset by lower oil and natural gas liquids production. The higher natural gas extraction responded to an increase in domestic demand, served by block 88, and to a statistical effect, since maintenance and breakdowns affected output in blocks 56 and 57.

Oil production fell 4.5 percent, because since October 2022 social unrest brought block 67 to a standstill and due to the lower extraction in blocks XIII and VI-VII.

For 2024, the sector's forecasts are revised from 2.9 to 1.5 percent due to a delay in the expected restart of operations in block 192. Meanwhile, for 2025, 4.2 percent growth is expected, associated to a normalization of oil extraction in the Amazon rainforest blocks.

e) Activity in the **primary manufacturing subsector** declined 1.8 percent in 2023, mainly due to lower production of fishmeal and fish oil, consistent with the lower catch of Peruvian pilchard (anchoveta).

The sub-sector's growth projection for 2024 remains at 3.9 percent, including expanded fishmeal production, and the statistical effect of the previous year. An increase of 4.1 percent is expected in 2025.

f) **Non-primary manufacturing output** slipped 8.2 percent in the year. The branches that recorded the greatest losses were inputs, such as processed wood, plastics, glass and animal feed; and goods for exports, including canned food, apparel, and yarns and fabrics.

Non-primary manufacturing is projected to grow by 3.1 percent in 2023, bringing the sub-sector's output back to pre-pandemic levels. Likewise, year-on-year growth of 3.0 percent is expected in 2025.

g) The **construction sector** declined 7.9 percent in 2023 due to lower private and independent construction projects. Growth of 3.2 and 3.4 percent is expected for 2024 and 2025 as public and private investment recover.

h) In 2023, the **trade sector** grew 2.4 percent, due to higher wholesale (2.4 percent), retail (2.7 percent), and vehicle sales (0.9 percent). In 2024 and 2025, the sector's activity is expected to grow 3.2 and 2.7 percent, respectively.

i) The **services** sector contracted 0.4 percent In 2023, due to reduced financial services (-7.8 percent) associated with lower credit placements and less demand for telecommunications services (-5.8 percent) because of return to face-to-face activities. Growth of 3.0 percent is expected in 2024 and 2025.

Expenditure-side GDP

46. Deteriorating real incomes and agents' confidence affected private spending in 2023. Investment contracted for the second consecutive year (-7.2 percent) in an environment of weak business expectations, lower investment in independent construction and absence of new mining megaprojects. Private consumption slipped (0.1 percent), affected by the drop in household confidence and the impact of the cumulative increase in prices on consumers' purchasing power.

Other factors that contributed to a declining activity were contracting public investment by local governments, usual in administrations' first year in office; the disinvestment of inventories, because of an adjustment after the build-up of inventories at the end of 2022 and beginning of 2023; and the lower external demand for non-traditional products, especially textiles by the United States.

GDP's 3.0 percent expansion in 2024 will result from the recovery of business confidence, following the reversal of the supply shocks, and in an environment of socio-political and price stability that will boost private investment and employment, in turn boosting consumption. Household spending is expected to increase as lower interest rates and less uncertainty will discourage savings. In addition, companies are expected to replenish the inventories they cut in 2023.

While the estimated growth rate for 2024 is the same as in the December Report, the current forecast calls for stronger domestic demand, reflected in a revision on the upside in private investment in the first quarter. This revision is in line with the increase in imports of capital goods and domestic cement consumption. Nonethelses, lower textile production will translate into lower exports.

Growth of 3.0 percent is forecast for 2025, supported by growth in consumption and private investment in an environment of socio-political and macroeconomic stability that further contributes to the recovery of business confidence.

Table 18

DOMESTIC DEMAND AND GDP

(Real % change)

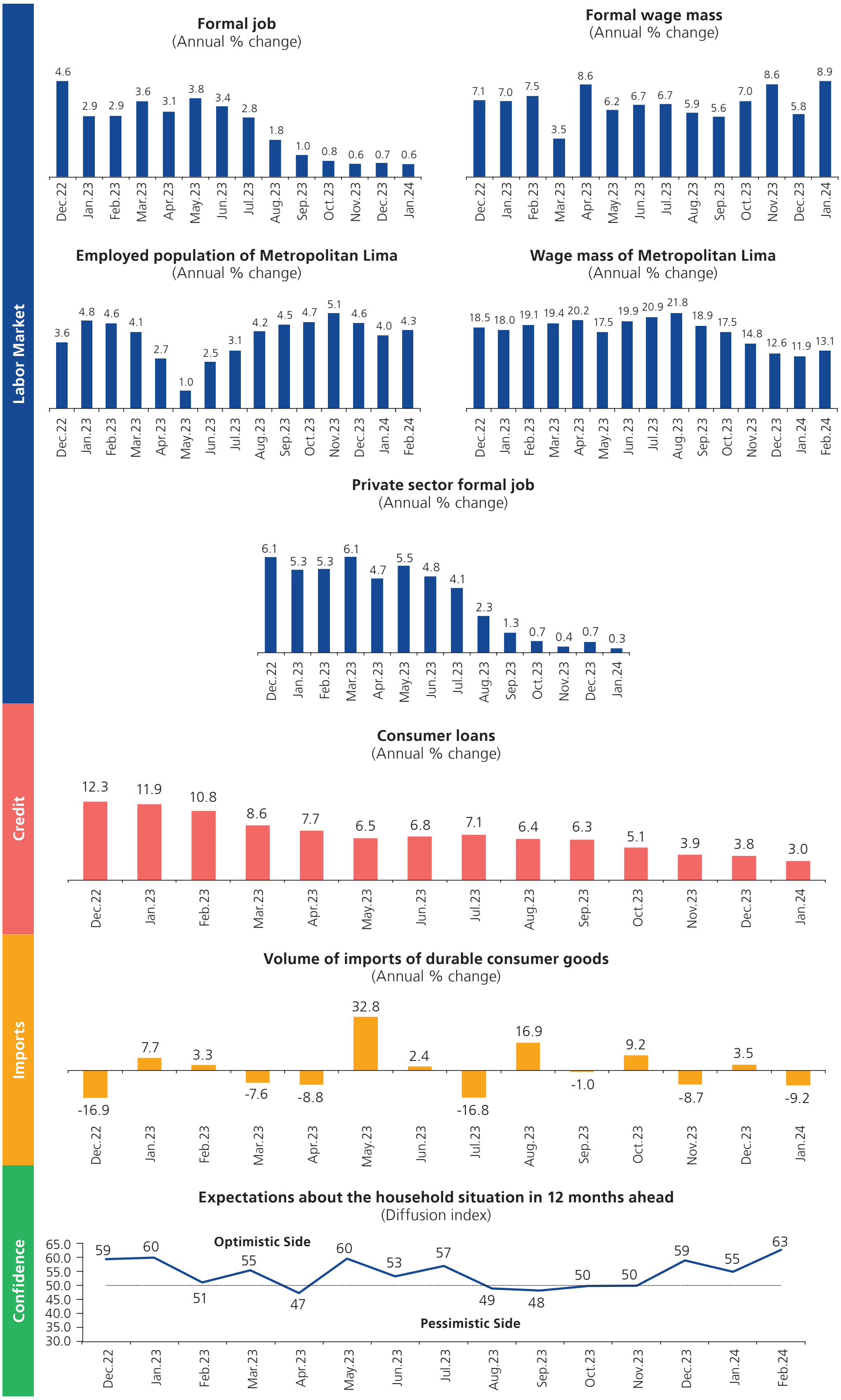
	2023	2024*		2025*	
		IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
Domestic demand	**-1.7**	**2.9**	**3.1**	**2.9**	3.0
Private consumption	0.1	2.7	2.7	2.8	2.8
Public consumption	3.3	2.0	2.0	2.0	2.0
Private investment	-7.2	1.8	2.3	3.0	3.0
Public investment	1.4	4.0	4.0	4.5	4.5
Change on inventories (contribution)	-0.8	0.3	0.4	0.0	0.0
Exports	**3.7**	**3.1**	**2.7**	**3.8**	**3.3**
Imports	**-0.9**	**2.7**	**3.0**	**3.3**	**3.1**
Gross Domestic Product	**-0.6**	**3.0**	**3.0**	**3.0**	**3.0**

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

47. Most **current and leading indicators pertaining to private consumption** exhibited inconsistent performance: household confidence increased in comparison to the preceding months, whereas labor market indicators declined in February after exhibiting a marginal recovery in December. In contrast, credit continued to decelerate, and imports of durable consumer goods exhibited a negative trend.

Formal employment's growth nationwide slowed down slightly in December after six consecutive months of deceleration linked to the loss of employment in the agriculture sector because of the coastal El Niño on agro-export products; however, in February it slowed down again. Consumer confidence, measured through agents' expectations about their future household financial standing recovered in December, moving optimistic ground and, although it fell slightly in January, it remained in the optimistic range.

Graph 46
INDICATORS RELATED TO PRIVATE CONSUMPTION

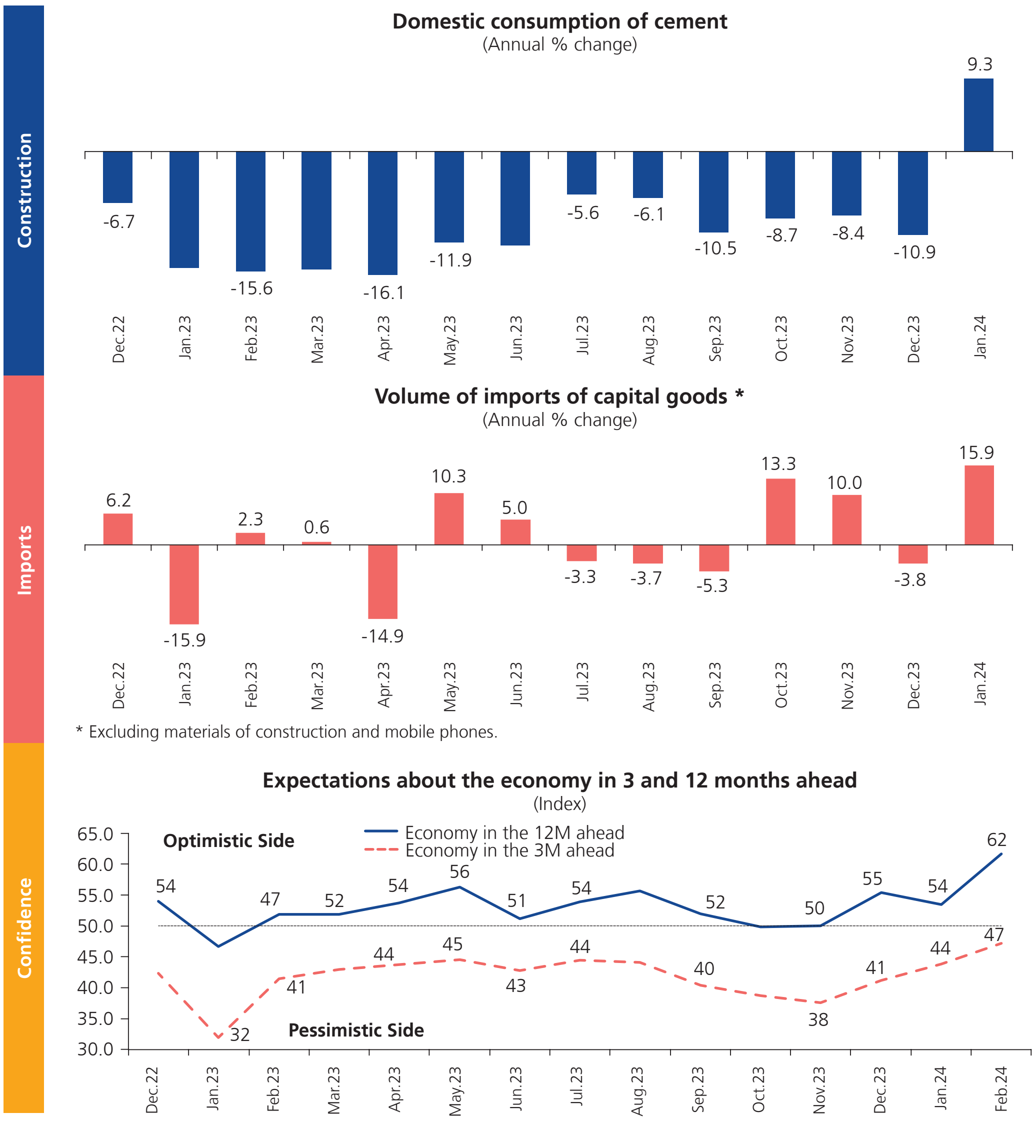


Source: BCRP, INEI, SUNAT, and Apoyo.

For its part, consumer credit remained slow in recent months, mainly due to the lower use of credit cards. Finally, the volume of consumer durables imports increased in December, although it declined in January.

48. **Contemporaneous and leading indicators on private investment** all point to improvements in the last month for which data is available. Domestic cement consumption increased in January, mainly in the bulk bag segment (mostly related company orders). Likewise, imports of capital goods -excluding construction materials and cell phones- rose in January. Three-month expectation index for the economy bounced back since December to 47 in February, its highest value since March 2021 and very close to the expansion zone; meanwhile, 12-month expectations have remained in optimistic ground since December. The improvement in short-term confidence concerns principally the mining and hydrocarbons, manufacturing and services sectors.

Graph 47
INDICATORS RELATED TO PRIVATE INVESTMENT



Source: BCRP, SUNAT, and cement companies.

49. The February **Survey on Macroeconomic Expectations** shows that agents project a rate of change in economic activity of between 2.3 and 2.5 percent for the current year and between 2.6 and 3.0 percent in 2025.

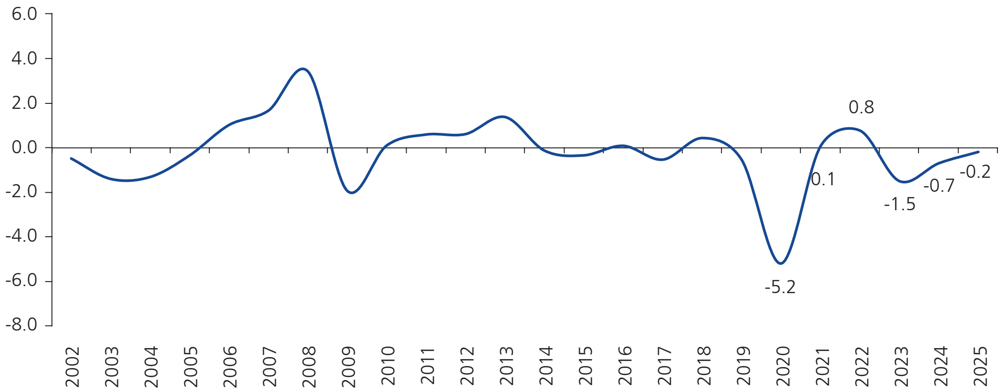
Table 19
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(% change)

		IR Sep.23	IR Dec.23	IR Mar.24*
Financial entities				
	2024	2.3	2.0	2.4
	2025		2.5	2.6
Economic analysts				
	2024	2.6	2.5	2.5
	2025		3.0	3.0
Non-financial firms				
	2024	2.6	2.3	2.3
	2025		3.0	3.0

* Survey conducted on February 29.
Source: BCRP.

50. The **output gap**, defined as the difference between GDP and potential GDP, is estimated at -1.5 percent in 2023. This negative gap was the result of supply shocks and their second-round impacts on income and business confidence, which have driven the observed GDP temporarily below its potential. With the partial reversal of these effects, the negative output gap is expected to narrow to 0.7 percent in 2024 while this trend is expected to continue in 2025 to reach -0.2 percent of potential GDP.

Graph 48
OUTPUT GAP
(% of potential GDP)



Source: BCRP.

51. Private consumption in 2023 increased by only 0.1 percent. The slower pace with respect to the previous year (3.6 percent) is explained by the impact of supply shocks and inflation on household confidence and real incomes. Likewise, adverse impacts on several productive activities during the year slowed down formal job creation nationwide, which increased by an average of 2.3 percent during the year (6.4 percent in 2022).

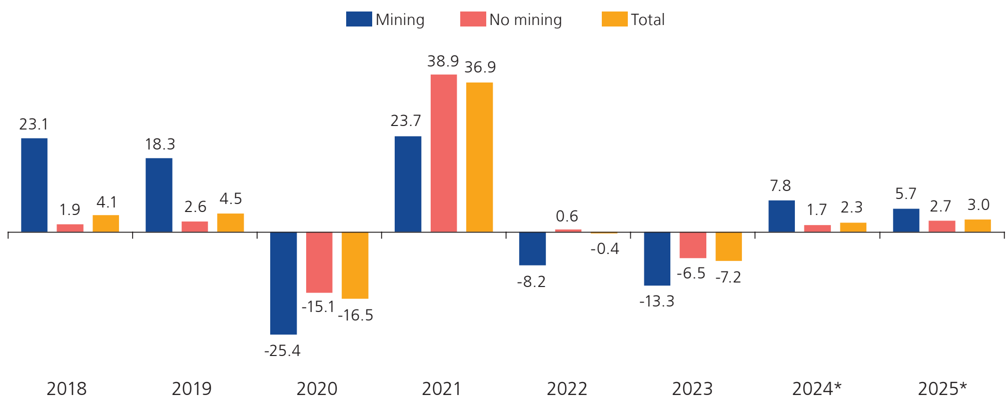
For the projection horizon, consumption is expected to recover in coming years and expand 2.7 and 2.8 percent in 2024 and 2025, respectively, considering the convergence of inflation to the target range and assuming an environment of socio-political and price stability that bolster private confidence, investment, and employment.

52. **Private investment** contracted -7.2 percent in 2023, recording two consecutive years of decline (-0.4 percent in 2022). The negative evolution was the result of sliding and stagnating business expectations during the year, due to social unrest and adverse weather events. In addition, lack of new mining megaprojects and lower residential investment played a role.

By 2024, private investment is expected to pick up and grow 2.3 percent, against a backdrop of social and political stability, reversal of the strong supply shocks and better financial conditions that encourage credit, which in turn will contribute to restoring business confidence. Compared to the December report, the forecast for private investment growth in 2024 was revised upward from 1.8 to 2.3 percent, due to the increase in capital goods' imports and domestic cement consumption in January.

Most of these favorable conditions are expected to continue in 2025 with private investment projected to grow 3.0 percent, at the same rate forecast in December.

Graph 49
PRIVATE INVESTMENT
(Real % change)



* Forecast.
Source: BCRP.

Table 20
PRIVATE INVESTMENT
(Real % change)

	Weight GDP 2022 1/	2019	2020	2021	2022	2023	2024* IR Dec.	2024* IR Mar.	2025* IR Dec.	2025* IR Mar.
Private investment	**20.3**	**4.5**	**-16.5**	**36.9**	**-0.4**	**-7.2**	**1.8**	**2.3**	**3.0**	**3.0**
Residential investment	6.6	4.7	-14.5	35.4	-0.3	-13.3	2.8	1.1	3.0	2.9
Non-residential investment	13.8	4.4	-17.5	37.7	-0.5	-4.4	1.3	2.8	3.0	3.1
Mining investment	2.1	18.3	-25.4	23.7	-8.2	-13.3	5.1	7.8	4.0	5.7
Non mining investment	11.6	1.3	-15.4	40.9	1.1	-2.7	0.7	2.0	2.8	2.6

1/ To price 2007.
* Forecast.
Source: BCRP.

a. In the **mining sector**, investments in 2023 reached USD 4,715 million, mainly from Antamina (USD 628 million), Anglo American Quellaveco (USD 391 million) and Southern Peru (USD 338 million). The projection for the 2024-2025 period includes Phase II of the Toromocho Expansion building project and the start of the Antamina, Zafranal and Corani Replacement projects.

b. Regarding **non-mining sectors**, the progress of works at Jorge Chávez International Airport stands out, where USD 2 billion have been invested. The second runway and the new control tower have been completed, while the construction of the new passenger terminal will be completed by the end of 2024.

   The first phase of the construction of the Chancay Port Terminal continues, and is expected to start operations in November 2024 at an investment of USD 1.3 billion. The expansion of the Callao South Pier (Bicentennial Pier) will also be completed this year at an investment of USD 350 million. Work continues on Line 2 of the Lima Metro. Meanwhile, Section I, linking Santa Anita district to the Evitamiento beltway, has been completed, and work has begun on a branch of Line 4. In addition, Viettel Peru won the concession of the 2.3 GHz and AWS-3 bands for mobile and internet connection in more than 3,800 locations (mainly in the interior of the country) after committing investments worth USD 600 million.

Table 21

MAIN ANNOUNCEMENTS OF PRIVATE INVESTMENT PROJECTS: 2024-2025

SECTOR	INVESTOR	PROJECTS
MINING	Antamina	Replacement of Antamina
	Zafranal	Zafranal
	Chinalco	Expansion of Toromocho Mine stage 2
	Bear Creek Mining	Corani
	Buenaventura	San Gabriel
HYDROCARBONS	Cálidda Gas Natural del Peru	Wide-Scale Use of Natural Gas
	Promigas Peru	Distribution of Natural Gas
ELECTRICTY	Huallaga Hydro	Hydropower plant Huallaga I
	Luz del Sur	Hydropower plant Santa Teresa II
	Hydro Global Peru	Hydropower plant San Gaban III
INDUSTRY	Siderperu	Plant capacity expansion
	Aceros Arequipa	Plant capacity expansion
	Unacem	Environmental Sustainability Program
	Arca Continental Lindley	Environmental Sustainability Program
TRANSPORT	Consorcio Nuevo Metro de Lima	Line 2 of the Metro network of Lima and Callao
	Cosco Shipping Ports Chancay	Chancay I Port Terminal
	Lima Airport Partners	Expansion of International Airport (Jorge Chavez)
	Shougang Hierro Peru	Marcona Port Terminal (Marcona)
	APM Terminals	Modernization of Muelle Norte
	DP World Callao	Expansion of Muelle Sur
TELECOMUNICATIONS	Viettel Peru	Mobile Services with 4G technology
	América Móvil Peru	Fibre optic networks

Source: Information on companies, newspaper and specialized media.

c. For the 2024-2025 period, **Proinversion** announces investment projects awards worth USD 12.3 billion as of March 2024.

Table 22
MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2024-2025+
(Million USD)

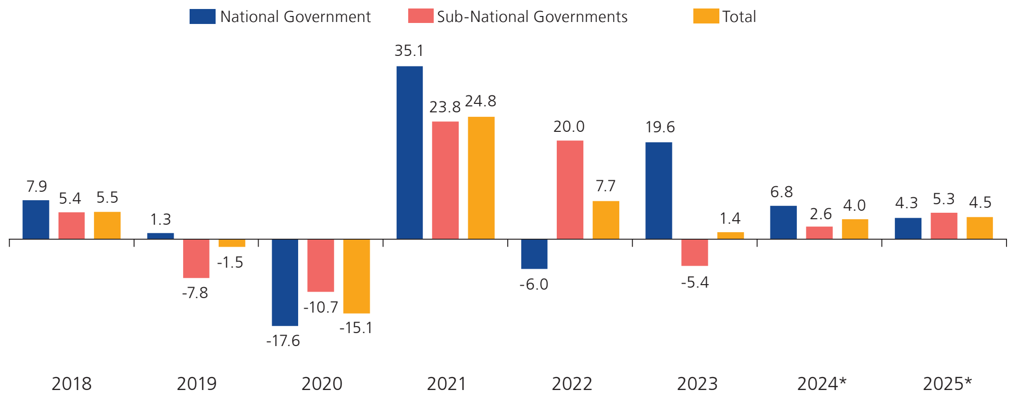
	Estimated investment
To be called	**12,339**
Peripheral Ring Road	3,396
Longitudinal of the Sierra road project, Section 4	914
Ancon Industrial Park	762
Chinecas Project.	650
Integral Water System Chancay Valley - Lambayeque	619
Mining project El Algarrobo	512
Marcona Port Terminal	405
Huancayo - Huancavelica Railway	394
Group 2: Transmission Plant Projects 2023 - 2032	374
Group 1: Transmission Plant Projects 2023 - 2032	337
Header works for water supply in Lima (1st stage)	330
IPC- Wastewater Treatment for effluent dumping or reuse - Trujillo	312
Chimbote International Terminal	288
Schools in risk: Metropolitan Lima	255
National Hospital Hipólito Unanue	250
New Central Military Hospital	230
Choquequirao Tourism Project	220
Maintenance of the Cajamarca hospital	179
Treatment system for wastewater Huancayo	172
Hospital Villa El Salvador - HEVES	154
Treatment System for wastewater - Desalination Plant Paita and Talara	150
Schools in Risk: Ate-San Juan de Lurigancho	140
Group 3: Transmission Plant Projects 2023 - 2032	133
Ilo desalination plant	106
Treatment system for wastewater - San Martin	105
Group 4: Transmission Plant Projects 2023 - 2032	93
IPC -Wastewater Treatment for effluent dumping or reuse, Chincha	92
Schools at Risk: Comas - San Martín de Porres	91
IPC -Wastewater Treatment System for Puerto Maldonado	89
Lima Convention Centre	78
Schools at Risk: Villa María del Triunfo	70
IPC- Wastewater Treatment System in Cajamarca	66
Wide-scale use of natural gas - Southwest Concession	60
Reinforcement of infrastructure, equipment and maintenance of Cusco School	59
IPC -Wastewater Treatment for effluent dumping or reuse, Cusco	53
Desalination Plant - Lambayeque	49
IPC -Wastewater Treatment for effluent dumping or reuse, Cañete	33
Operation and maintenance of the Instituto Nacional del Niño	31
Rural Sanitation Loreto	26
Management of solid waste treatment - GIRSE	24
Group 5: Transmission Plant Projects 2023 - 2032	23
Cable Car - Historic Centre of Lima - Cerro San Cristobal	16

Source: Proinversión.

53. **Public investment** grew 1.4 percent in 2023, due to momentum in the execution of projects by the national government, which outweighed the drop in local government investment. National government projects in 2023 most significantly regarded educational infrastructure (Bicentennial Schools); reconstruction projects through the Government-to-Government Agreement with the United Kingdom; and transportation projects, such as Line 2 of the Lima and Callao Metro.

Public investment is projected to grow 4.0 percent in 2024, driven by sustained national government investments (6.8 percent) and a recovery in subnational governments (2.6 percent). Public investment is estimated to increase 4.5 percent in 2025.

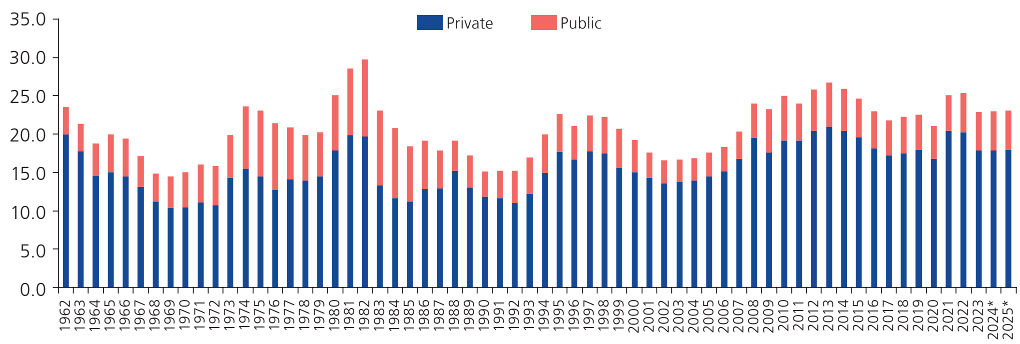
Graph 50
PUBLIC INVESTMENT
(Real % change)



Memo: Public investment is made up of investment by the National Government, Subnational Governments and investment by public companies.
*Forecast.
Source: BCRP.

54. **Gross fixed investment**, as a percentage of GDP, contracted from 25.3 to 22.9 percent between 2022 and 2023 due to the fall in private investment, and is estimated to account for 23.0 percent of output over the projection horizon. For investment to recover, preserving economic and financial stability, consolidating an adequate business environment, and carrying out reforms to support the economy's productivity and higher potential GDP growth.

Graph 51
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2025
(% of real GDP)



* Forecast.
Source: BCRP.

55. In 2023, a positive **external gap** of 0.6 percent of GDP, a rate not recorded since 2007 (1.5 percent of GDP), excluding the year of the pandemic. This was due to the fall in private investment, as well as a higher private savings rate, reflecting the fall in household consumption, greater uncertainty, and tighter financial conditions. By 2024 and 2025, the external gap is expected to turn negative again in line with the projected recovery in private spending for both years, lower interest rates and reduced uncertainty.

Table 23

GAP SAVINGS - INVESTMENT

(% GDP nominal)

		2023	2024*		2025*	
			IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
1	Domestic gross investment 1/	19.2	19.9	19.7	20.0	19.8
2	National savings	19.8	19.1	19.1	18.8	19.0
	External gap (=2-1)	0.6	-0.8	-0.5	-1.2	-0.9
	1.1 Private investment 2/	14.2	14.8	14.6	14.9	14.7
	1.2 Private savings	17.5	16.1	16.1	15.3	15.3
	Private gap (=1.2-1.1)	3.4	1.2	1.5	0.4	0.6
	2.1 Public investment	5.0	5.1	5.1	5.1	5.1
	2.2 Public savings	2.2	3.0	3.0	3.6	3.6
	Public gap (=2.2-2.1)	-2.8	-2.0	-2.0	-1.5	-1.5

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

Box 1
EVOLUTION OF SOCIAL UNREST AND ECONOMIC EXPECTATIONS

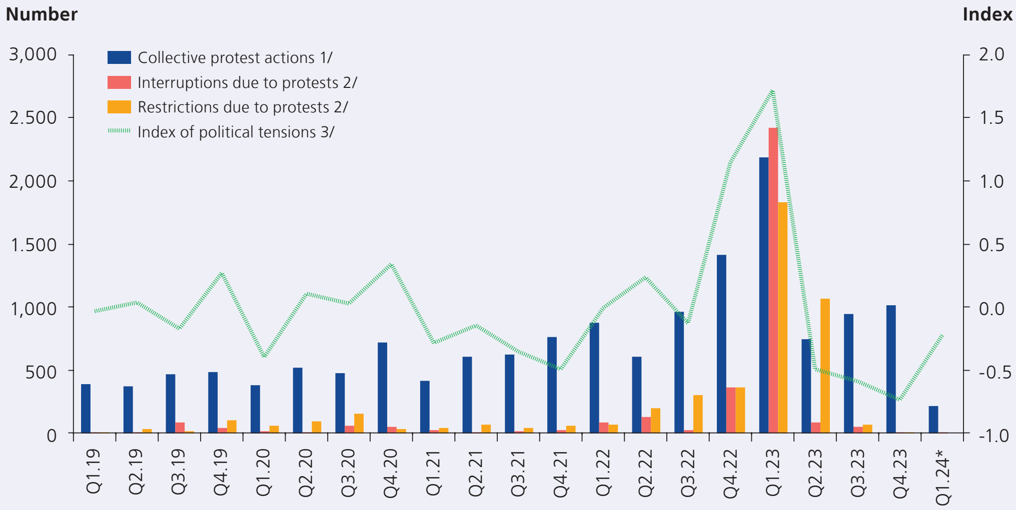
The political events of December 2022 triggered a climate of social instability in the country[2]. In this Box, we explore the evolution of social unrest, and indicators of expectations regarding economic activity.

Social unrest indicators

The various indicators of social conflict reached peak levels in December 2022 and the first months of 2023. For example, in the first quarter of 2023, 2,186 mass protest actions largely exceeded the 2019-2022 annual average of 630, including demonstrations, rallies, sit-ins, blockades, and others that recorded monthly by the Ombudsman's Office. Likewise, during this period, 2,419 interruptions and 1 834 restrictions of public roads due to protests were recorded by Provías Nacional. In this line, the Political Tensions Index[3] of BBVA also peaked in the first quarter of 2023.

However, these indicators began to slide in the second half of 2023 and, by the beginning of 2024, there social conflict was even lower than in the fourth quarter of 2022.

CONFLICT INDICATORS



* With information as of January.
1/ Collective protest actions include different measures, such as sit-ins, marches, road blockades, indefinite strikes, among others, and are registered by the Ombudsman's Office.
2/ Interruptions and restrictions in the national road network due to protests or actions by third parties are identified by Provías Nacional
3/ The Political Tensions Index is prepared by BBVA Research and tracks the national political environment, specifically frictions between political actors.
Sources: Ombudsman's Office, Provías Nacional, BBVA Research.

Greater social instability in 2023 matched increased active social conflicts. The Ombudsman's Office[4] defines social conflicts as complex processes where communities, the state and business have

2 Ombudsman's Office (2023). Political crisis and social protest: Ombudsman's assessment after three months of conflict. Ombudsman's Report N°190.

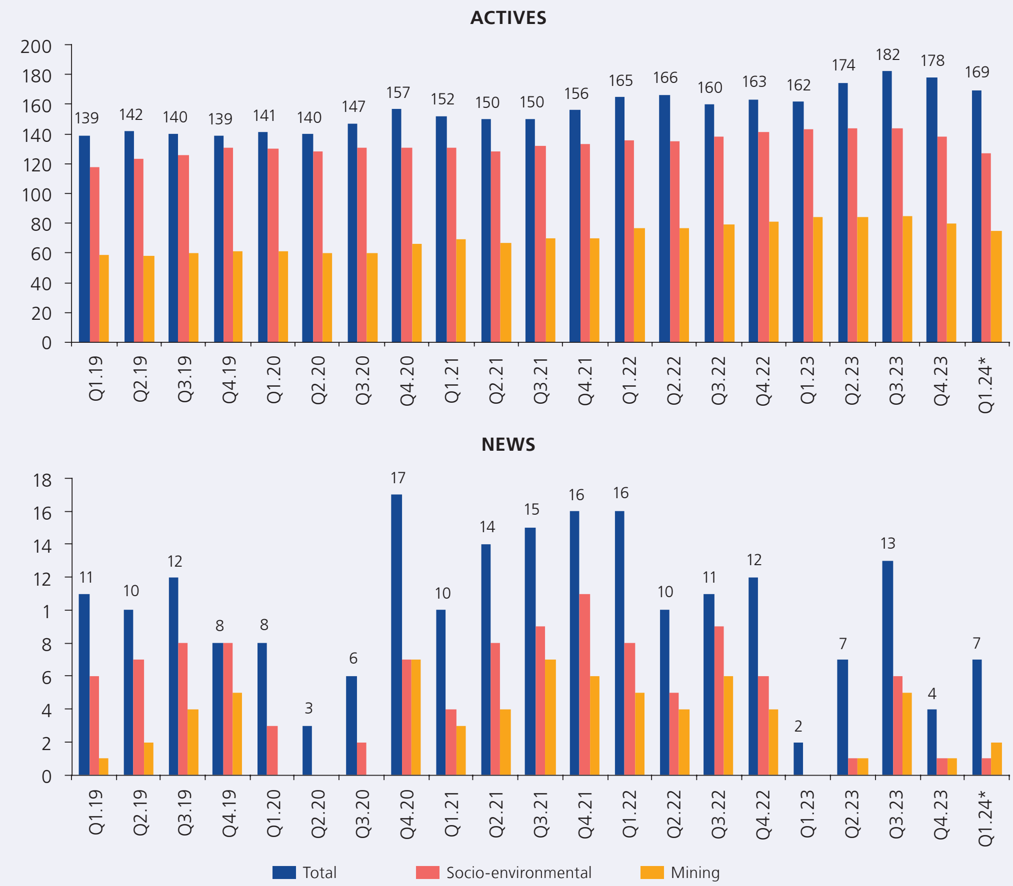
3 The indicator measures frictions between political actors at national level. Events such as clashes between political personalities, the emergence of ideas of radical change in the political environment, controversial changes in legislation or uncovering of corruption generate a tense political environment and are monitored by digital news media.

4 Ombudsman's Office (2024). Social Conflicts Report N°239: January 2024.

contradictory objectives and interests. Active conflicts are those where one of the parties takes a public stance. In 2023, the number of active conflicts peaked at 182 in the third quarter.[5] However, to January 2024 their number has decreased. In addition, this reduction has been accompanied by socio-environmental conflicts, the most frequent type of conflict in Peru, and a concomitant decrease in the number of mining-related conflicts.

Prior to this drop, the number of social conflicts had been on the rise since 2019.[6] Between 2021 and 2022, the higher number of conflicts was mainly explained by emerging socio-environmental and mining-related conflicts. Meanwhile, in the first half of 2023, fewer new social conflicts were reported. Consequently, the recorded increase in the number of social conflicts is explained by a lower proportion of previously existing conflicts being resolved in that period.

SOCIAL CONFLICTS, BY QUARTER



* With information as of January.
Source: Ombudsman's Office.

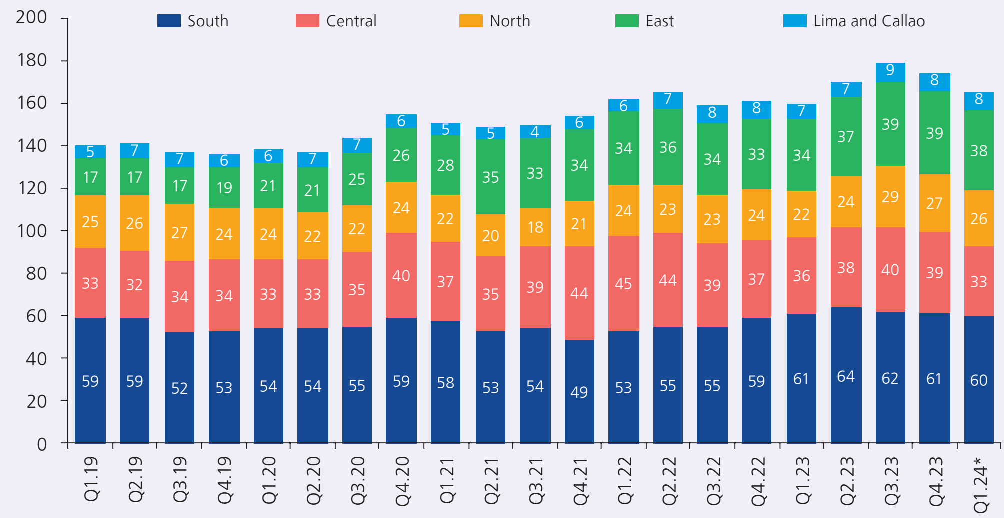
5 Refers to unique conflicts identified during the quarter. This number of conflicts in a given quarter is equivalent to the conflicts of the previous period, added to the new conflicts generated during the quarter, the conflicts that change from latent to active, less the conflicts that were resolved from one quarter to another and those that change from active to latent.

6 The peak in 2023 considers information since 2016. The increase dates back to the beginning of 2019.

Analysis by geographic area

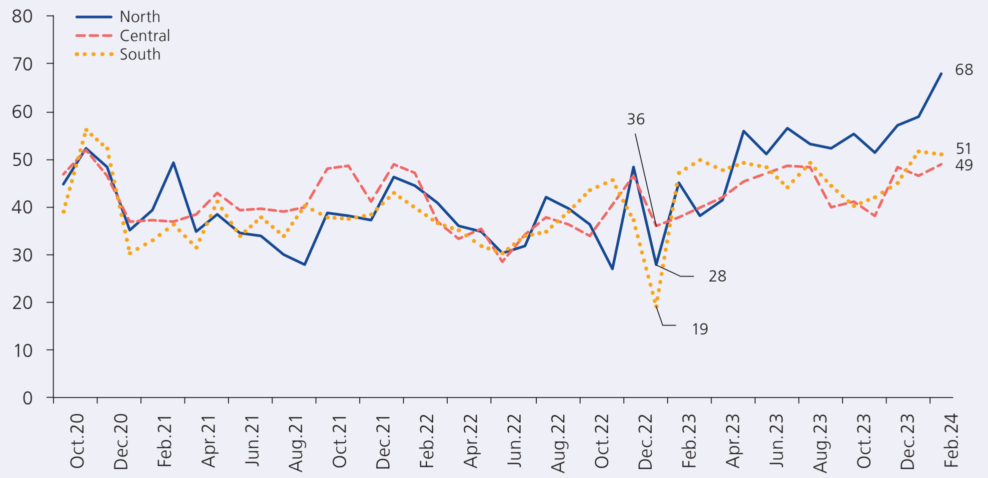
In geographic terms, most active social conflicts (37 percent) occur in southern Peru that concentrated protests, blockades and conflicts in general subsequent to the political crisis. In particular, 64 active social conflicts were recorded in the second quarter of 2023, 9 above the 2019-2022 average. Central and northern Peru recorded, during the same period, only one more active conflict than their respective 2019-2022 averages. However, less conflicts were reported in southern Peru in recent quarters, and reached 60 active social conflicts in January 2024.

ACTIVE SOCIAL CONFLICTS BY GEOGRAPHIC AREA



* With information as of January.
** **South:** Apurímac, Arequipa, Ayacucho, Cusco, Moquegua, Puno and Tacna. **North:** Amazonas, Cajamarca, La Libertad, Lambayeque, Piura and Tumbes. **Central**: Ancash, Huancavelica, Huanuco, Ica, Junin and Pasco. **East:** Loreto, Madre de Dios, San Martin and Ucayali. Does not consider multi-regional conflicts, which is why it does not coincide with the total number of active conflicts.
Source: Ombudsman's Office.

EXPECTATIONS ABOUT THE ECONOMY IN 3 MOTNHS AHEAD



Note: **Southern Zone:** Apurimac, Arequipa, Ayacucho, Cusco, Moquegua, Puno and Tacna. **Northern Zone:** Amazonas, Cajamarca, La Libertad, Lambayeque, Piura and Tumbes. **Central Zone:** Ancash, Huancavelica, Huanuco, Ica, Junin and Pasco.
Source: BCRP.

The lower unrest in southern Pery likely contributed to the recent recovery of business expectations, after their deterioration in 2023, when 3-month economic expectations in that zone plummeted. Specifically, a value of 19 points was reached in the January 2023 index, 24 points below the January 2022 figure. This drop outweighed the setbacks reported in the northern and central regions (18 and 13 points with respect to January 2022, respectively).

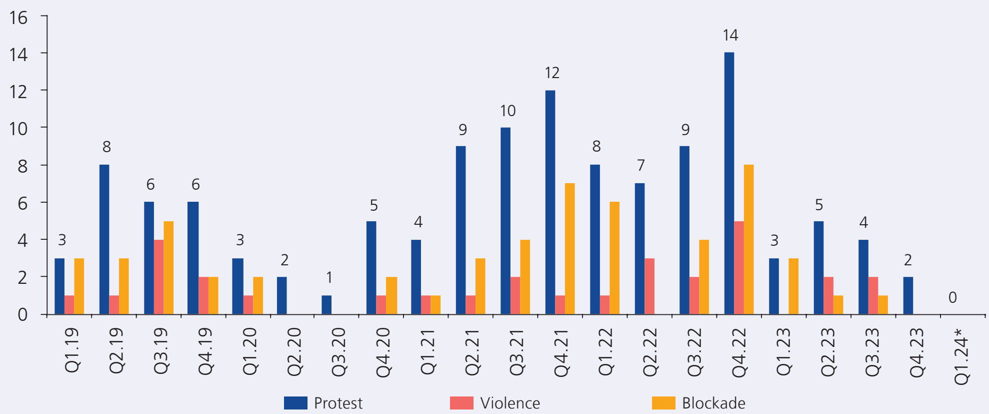
It is therefore possible that the lower level of unrest in the southern zone has recently favored the economic environment by improving the agents' expectations. Southern Peru's 3-month economic expectations indicator was in the positive range -above 50- in December 2023.

Mining-related social conflicts and their economic impact

Given their relevance in economic terms, mining social conflicts are of particular interest in periods of high conflict. An obvious concern following the increase in social instability is whether this has manifested itself in greater economic vulnerability.[7] From the description of social conflict events in the Ombudsman's Office reports, it is possible to identify which conflicts involved protests, violence or blockades.

Like other indicators of social unrest, the fourth quarter of 2022 hit a historical record in the number of protests, violent acts, and blockades related to mining. In 2023, the number of these events fell and, in the fourth quarter of that year, the figures had fallen below those observed in a similar period in 2019-2022, with only 2 mining conflicts involving protests were recorded, compared to 14 in 2022. Acts of violence and blockades were also well below the average of previous years.

PROTESTS, VIOLENCE AND BLOCKADES IN MINING CONFLICTS, BY QUARTER



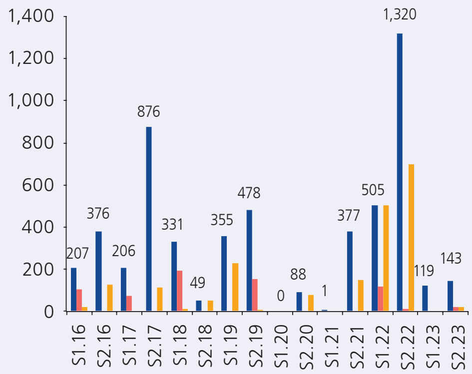
* With information as of January.
Source: Ombudsman's Office.
Prepared by: BCRP, based on the description of social conflicts in the Monthly Reports of Social Conflicts of the Ombudsman's Office.

Protests, violence, and blockades in mining areas have a potential impact on economic activity. The following graph shows how much production and how many jobs could be vulnerable to such

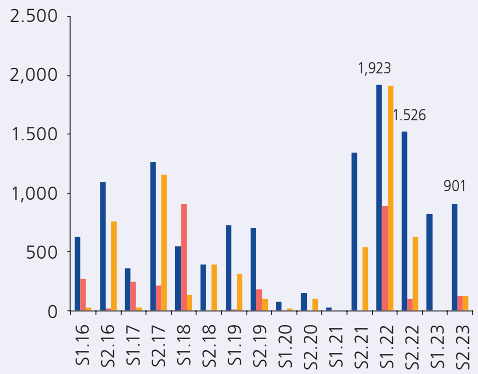
7 The Ombudsman's Office defines violence as the destructive manifestation of social conflict.

acts.[8] Events peaked in 2022, when 5.2 percent of mining GDP was exposed to mining-related protests during the second half of the year, while around 1,923 direct formal jobs could be affected in the first half of the year, on average (2.6 percent of mining employment). Conversely, in 2023, exposure fell, with around 0.5 percent of mining GDP exposed to protests and only 901 jobs were at risk in the second half of the year (1.1 percent of mining jobs).

POTENTIAL IMPACT ON MINING GDP, BY SEMESTER
(Millions of soles of 2007)



POTENTIAL IMPACT ON MINING EMPLOYMENT, BY SEMESTER
(Number of direct jobs)



Note: Semiannual production is aggregated by adding monthly production and semiannual employment is aggregated by averaging monthly mining jobs.
Source: Ombudsman's Office and BCRP.

Final Comments

The political events of December 2022 led to a climate of conflict from that month onwards. However, based on an analysis of conflict indicators, this period of instability assuaged towards the end of last year, with better prospects towards the beginning of 2024. There were not only less collective protest actions and road interruptions and restrictions due to human acts, but also a drop in the number of active social conflicts and in the vulnerability of mining activity to violent disruptions. Thus, the lower level of conflict should provide a more suitable environment for the recovery of investment, economic activity and employment across the country in 2024.

8 The mining companies involved in social conflicts are identified and the RUC of these companies is used to calculate the production (in constant 2007 Sol) reported to MINEM and the jobs declared in the electronic payroll (PLAME).

Box 2

ADVERSE WEATHER EVENTS FACED BY PERUVIAN HOUSEHOLDS

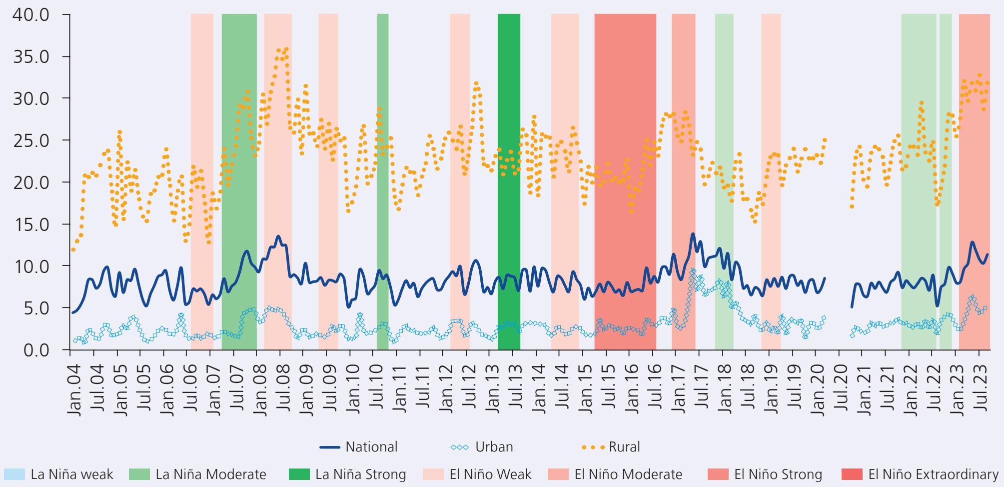
This box explores the exposure of Peruvian households to adverse natural events. Given its prominence, we also study whether this exposure is intensified by the occurrence of coastal La Niña and El Niño events. Then, the occurrence of these negative shocks is linked to economic vulnerability, highlighting their effects on the loss of income and assets, as well as the greater exposure of poor households to these natural phenomena.

In the National Household Survey (ENAHO), heads of household report whether their household was affected by at least one adverse natural event, such as drought, storm, plague, flood, among others, in the last 12 months. This question allows us to analyze the incidence of negative natural shocks on households and link it to their socioeconomic characteristics.[9]

At the national level, the incidence of adverse natural events is significant. Between 2004 and the third quarter of 2023, about 8.6 percent of households reported, on average, having experienced one of these shocks in the last 12 months. By geography, rural households are found to be the most vulnerable. On average, 23.7 percent of rural households reported experiencing adverse natural events in the last 12 months prior to the survey, compared to only 3.2 percent of urban households, during the analyzed period.

HOUSEHOLDS THAT FACED ADVERSE NATURAL EVENTS, BY GEOGRAPHICAL AREA

(As a percentage of total households in each area)



Note: No or incomplete information was published for this variable from April to September 2020. Therefore, this period is omitted. Data for 2023 are previews of the quarterly ENAHO and may change when the annual base is published. The ENFEN (http://met.igp.gob.pe/elnino/lista _ eventos.html) has not yet determined the level of intensity of the coastal El Niño that began in February 2023, but it is assumed to be moderate.

9 Although the annual ENAHO is only available for the period 2004 to 2022, it can be complemented with information from the quarterly survey for the first three quarters of 2023. The latter information is preliminary and may change when the annual base is published.

One of the most relevant climatic phenomena for Peru is El Niño-Southern Oscillation (ENSO), which in its warm phase implies an increase in sea surface temperature in the Pacific Ocean (El Niño), and in its cold phase brings a drop in this temperature (La Niña). In particular, the phenomenon is usually more insidious for Peru when the sea surface temperature changes off the country's coasts (Niño 1+2 region, in the eastern Pacific), such that there is special monitoring of the occurrence of coastal El Niño and La Niña events (which differ from global El Niño and La Niña events, which are associated with warming in the central Pacific, although both events may coincide, as happened during 2023).

The graph above highlights the coastal El Niño and La Niña periods according to their level of intensity (magnitude of change in sea surface temperature). A pattern is identified between the increase in households with adverse natural events and the occurrence of these phenomena. Thus, after certain moderate to strong coastal El Niño or La Niña events, there is an increase in the percentage of households reporting having faced negative shocks.

In particular, the first quarter of 2017[10] and the first half of 2023, periods of moderate coastal El Niño, stand out at the national level.[11] When comparing the incidence recorded in these periods with the rest of the analysis horizon, a significant increase in the average number of households reporting having experienced adverse natural events in the last 12 months is observed. This increase is more pronounced for rural households. On the other hand, the data reveal that the peaks of adverse natural events in urban areas coincide with two moderate coastal El Niño events (2017 and 2023). It is worth mentioning that although the 2016 El Niño was of strong magnitude, it did not end up manifesting itself with as many variations in the climate as the periods mentioned above.

HOUSEHOLDS THAT EXPERIENCED ADVERSE NATURAL EVENTS, BY GEOGRAPHIC AREA AND SELECTED COASTAL EL NIÑO EVENTS
(Percentage)

	El Niño 2016	El Niño 2017	El Niño 2023	Rest	Differences in p.p.		
	(A)	(B)	(C)	(D)	A-D	B-D	C-D
National	7.5	10.7	10.6	8.2	-0.7*	2.6*	2.4*
Urban	2.6	5.0	4.6	2.9	-0.3	2.1*	1.7*
Rural	20.9	26.1	30.7	22.6	-1.7	3.5*	8.1*

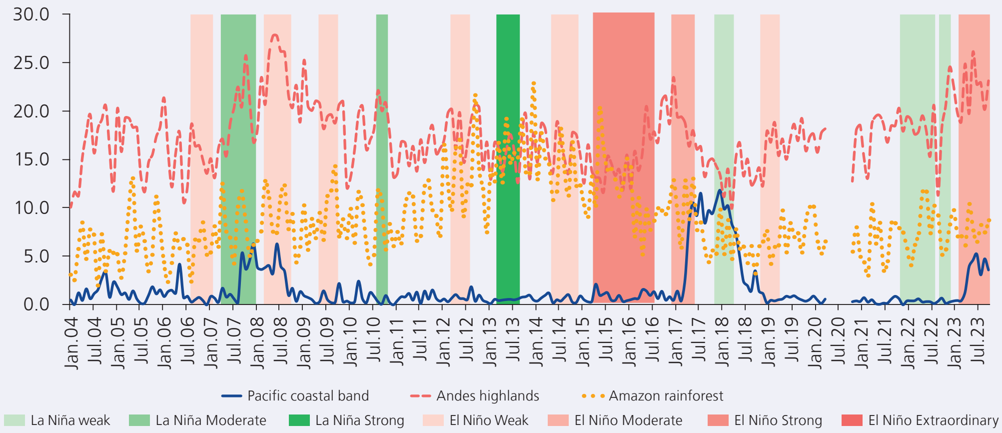
(*) Significant difference: $p < 0.05$.
Note: The analysis horizon is from 2004 to the third quarter of 2023. Data from April to September 2020 are not considered due to lack of information. The data for 2023 are advances from the quarterly ENAHO and may change when the annual base is published.
Source: INEI - ENAHO

A similar analysis by natural region (Pacific coastal band, Andes highlands and Amazon rainforest) evidence that households in the highlands and jungle show the highest level and variability in facing adverse natural events. On average, 17.9 percent of households in the highlands suffered adverse natural events in the last 12 months. In the Amazon, this percentage reached 8.8 percent for the period under review.

10 The 2017 coastal El Niño event was caused by an increase in sea surface temperature in the Niño 1+2 region of the Pacific Ocean (off the Ecuadorian and North Peruvian coasts) from December 2016 to April 2017. This brought anomalous rainfall during 2017, mainly in the first half of the year.

11 The other peak corresponding to the first half of 2008 cannot be said to have been strictly due to a moderate La Niña, since this period includes the occurrence of the earthquake of August 2007 (the question on natural events is asked for the last 12 months).

HOUSEHOLDS THAT FACED ADVERSE NATURAL EVENTS, BY NATURAL REGION
(As a percentage of total households in each region)



Note: No or incomplete information was published for this variable from April to September 2020. Therefore, this period is omitted. Data for 2023 are previews of the quarterly ENAHO and may change when the annual base is published. The ENFEN (http://met.igp.gob.pe/elnino/lista_eventos.html) has not yet determined the level of intensity of the coastal El Niño that began in February 2023, but it is assumed to be moderate.
Source: INEI - ENAHO

In the case of the coast, on a monthly average, the percentage of households that reported having suffered from adverse natural events in the last 12 months prior to the survey is only 1.7 percent. This can be attributed mainly to the fact that households in Metropolitan Lima -which are included in this region- are not very vulnerable to natural events. Despite this, the clear affectation of households in the region is noticeable following the coastal El Niño Phenomenon of 2017 and 2023, where both brought anomalous rains to the coast and high ambient temperatures.

In the case of the highlands, there is also an increase in the percentage of households affected by the occurrence of El Niño (El Niño Fuerte from April 2015 to June 2016) and La Niña (La Niña Fuerte from March to August 2013). For its part, in the case of the jungle, there is no clear relationship recorded between the occurrence of coastal El Niño and La Niña events and the percentage of households affected by adverse natural events, which would suggest that this region is more sensitive to other types of climate phenomena.

Thus, looking at the differences in the average percentage in periods with moderate occurrences of the El Niño event by geographic area reveals an increase in the average number of households reporting adverse natural events in the last 12 months in both the coast and Andes highlands. No significant changes were observed in the Amazon rainforest. Although the incidence during the strong El Niño of 2016 is higher than the average in other periods, the previous graph shows adverse shocks started to become more numerous already in previous periods, and rather begin to decline during this event.

HOUSEHOLDS EXPERIENCING ADVERSE NATURAL EVENTS, BY NATURAL REGION AND FOR SELECTED COASTAL EL NIÑO EVENTS
(Percentages)

	El Niño 2016	El Niño 2017	El Niño 2023	Rest	Differences in p.p.		
	(A)	(B)	(C)	(D)	A-D	B-D	C-D
National	7.5	10.7	10.6	8.2	-0.7*	2.6*	2.4*
Pacific coastal band	1.0	4.0	3.3	1.4	-0.5*	2.6*	1.9*
Andes highlands	14.7	19.2	22.3	17.3	-2.6*	1.9	5.0*
Amazon rainforest	11.8	10.6	7.8	8.7	3.2*	1.9	-0.9

* Significant difference: $p < 0.05$.
Note: The analysis horizon is from 2004 to the third quarter of 2023. Data from April to September 2020 are not considered due to lack of information. The data for 2023 are advances from the quarterly ENAHO and may change when the annual base is published
Source: INEI - ENAHO

The reason why coastal El Niño and La Niña can lead to a differentiated increase in the incidence of adverse natural events is that they tend to develop in different ways.[12] Coastal El Niño involves an increase in sea surface temperature in the Pacific Ocean off the Peruvian coast. This is a climatic phenomenon that has negative repercussions for households. Fish production decreases as important species, such as anchoveta, are displaced away from the Peruvian coast or to the south. Higher temperatures may also affect the flowering of certain agricultural fruit products.

In addition, coastal El Niño may manifest itself in increased rainfall in coastal areas (as in 2017 and 2023), damaging infrastructure and crops,[13] especially if it involves the floods and landslides. Damaged transportation and production infrastructure increases costs along the supply chain, hampers economic activity and increases prices of affected produce. The loss of crops generates income losses for agriculture sector workers and increases the prices of agricultural products due to shortages. Elsewhere, scarce rainfall and higher temperatures affect agricultural output.[14] In addition, changes in rainfall patterns and higher temperatures often lead to the proliferation of pests and diseases (such as dengue fever), which further affect households.

In the case of coastal La Niña, although in climatic terms it is the opposite of El Niño (relatively cooler surface waters), its effects on economic activity, inflation and even health are not sufficiently documented. In general, the phenomenon tends to increase rainfall in the highlands and rainforest, which can cause landslides and flooding. In addition, it cold snaps in the southern region of the country aggravate poor health conditions due to the cold temperatures.

Natural events and economic vulnerability

As preliminary evidence of the greater household vulnerability resulting from adverse natural events, between 2004 and 2022, an average of 96.9 percent of households suffering from these adverse events reported having lost income or assets due to the occurrence of these events each year. Reduced income is the problem that most affects households facing adverse natural events (in several years affecting half of all households). In contrast, few households do not

12 For more information on the impact of the El Niño phenomenon with emphasis on the coast, review Contreras, A et al. (2017). Impact of the El Niño Phenomenon on the Peruvian Economy. Peruvian Economic Association. For more information on the impact of the El Niño Phenomenon with emphasis on the highlands, review Instituto de la Naturaleza, Tierra y Energía de la PUCP (2023). The other El Niño: Peru's central and southern highlands suffer from drought. For more information on the impact of the La Niña event, see ESAN Business School (2013). The effects of the La Niña event on agriculture.

13 Rice production, which is concentrated in the departments of Tumbes, Piura, and Lambayeque (41.1 percent), is the most affected by FEN. In the rest of the coast, the most affected export crops are mango, grapes, and olives, due to their thermal requirements to stimulate flowering and adequate temperatures for subsequent fruiting. The industrial crops affected are sugarcane and cotton, due to the tropicalization of the crop and very warm temperatures for flowering. In addition, the lack of cold on the coast generates a drop in installed potato yields, as well as in its size (Contreras, A. et al.,2017).

14 In the case of the central and southern highlands, the lack of rainfall affects agricultural production, especially in the departments of Arequipa, Cusco, Apurimac, Huancavelica and Junín.

experience any economic impact from these events (less than 6 percent over the entire analysis horizon).

EFFECTS ON INCOME AND WEALTH OF HOUSEHOLDS FACING ADVERSE NATURAL EVENTS
(As a percentage of total households facing adverse natural events)

	2004	2008	2012	2016	2017	2018	2019	2020	2021	2022	2023*
Income decreased	56.2	57.5	50.7	64.6	50.5	48.7	44.9	48.6	59.7	59.9	52.6
Loss of assets/equity	23.1	13.5	19.0	10.6	15.9	22.2	17.5	16.5	18.2	13.2	12.5
Both	18.7	25.8	27.1	21.5	28.1	25.5	34.6	32.2	20.1	23.8	31.3
No one	2.0	3.2	3.2	3.3	5.5	3.7	2.9	2.6	2.0	3.0	3.6

Note: Data from April to September 2020 are not considered due to lack of information.
*Data for 2023 are advance data through the third quarter, and may change when the annual basis is published.
Source: INEI - ENAHO

The incidence of adverse natural events is disproportionately skewed toward the poorest households. On average, 21.5 percent of extremely poor households face adverse natural events each year, compared to only 5.4 percent of non-poor households. This reveals a close link between climate and economic vulnerability: poorer households are more susceptible to losing income and assets due to climatic or exogenous natural factors.

HOUSEHOLDS FACING ADVERSE NATURAL EVENTS BY POVERTY LEVEL
(As a percentage of total households at each poverty level)

	2004	2008	2012	2016	2017	2018	2019	2020	2021	2022
Extreme poverty	19.5	32.3	25.8	23.2	19.0	18.2	18.3	19.1	19.6	18.0
No extreme poverty	8.7	16.8	16.8	16.6	17.3	15.2	14.4	12.6	11.9	11.1
No poverty	2.2	5.8	5.7	6.6	9.6	6.8	6.6	5.6	6.3	6.7

Note: Data from April to September 2020 are not available, nor on poverty situation for 2023.
Source: INEI - ENAHO

The above relationship would be linked to the main activity of the affected households. In 2022, more than 80 percent of the heads of households affected by an adverse natural event worked in agriculture.[15]

Finally, the loss of income and assets not only translates into reduced purchasing power and reduced wealth, but can also lead households to respond with strategies that may be detrimental to their well-being. For example, 20.5 percent of households facing declining income or assets in 2023 chose to cut back on food in response to adverse natural events. This percentage represents one of the highest in the sample, standing almost 5 p.p. above that recorded in 2017 (when there was another moderate coastal El Niño event).

15 In line with this, the incidence of adverse natural events is disproportionately given to households whose heads are employed in the agriculture sector. On average, between 2004 and 2022, 21.6 percent of households whose heads are employed in that sector reported facing adverse natural events in the last 12 months. For household heads employed in all other sectors, the percentage does not exceed 7.5 percent on average per year.

ACTIVITIES TO ADDRESS THE DECREASE IN INCOME OR LOSS OF ASSETS DUE TO THE OCCURRENCE OF ADVERSE NATURAL EVENTS
(As a percentage of total households at each poverty level)

	2004	2008	2012	2016	2017	2018	2019	2020	2021	2022	2023*
Food/consumption decreased	20.1	18.0	10.2	11.5	15.9	15.6	14.3	7.7	13.1	13.5	20.5
Spent their savings or capital	6.4	7.8	9.2	10.6	11.9	10.7	8.7	14.8	15.5	12.0	16.9
Received support from family	0.0	0.0	4.7	6.9	12.4	12.3	7.9	60.4	56.1	8.6	9.1
Received help from the government	2.4	6.5	4.0	4.0	4.9	4.4	4.0	7.3	7.1	6.3	5.1
Got other jobs	23.4	8.0	8.1	8.4	8.3	7.7	5.5	5.1	5.0	4.7	5.5
Got loans	4.0	6.4	5.0	4.7	7.7	7.5	3.0	3.9	3.9	3.6	5.3
Pawned or sold goods	3.9	1.8	2.0	2.2	1.4	1.0	1.3	1.9	1.1	1.1	1.1

Note: Data from April to September 2020 are not available
* Data for 2023 are anticipated data through the third quarter, and may change when the annual figures are published.
Source: INEI - ENAHO.

Final comments

This box shows that a significant percentage of Peruvian households face adverse natural events each year. The incidence of these shocks has increased due to certain events such as coastal El Niño and La Niña, probably linked to their impact on the climate. Examining the sensitivity of households to negative natural events shows that rural, highland and rainforest households are particularly exposed, although urban and coastal households also suffer when there is a coastal El Niño of at least moderate intensity.

One problem with adverse natural events is that they lead to income losses and costly responses among households. In addition, they disproportionately expose poor households. The consequences on economic activities, income and health may be aggravated in the context of climate change, which would increase the frequency of adverse natural events. Therefore, disaster prevention measures and investment are needed to mitigate the damage to these households' welfare.

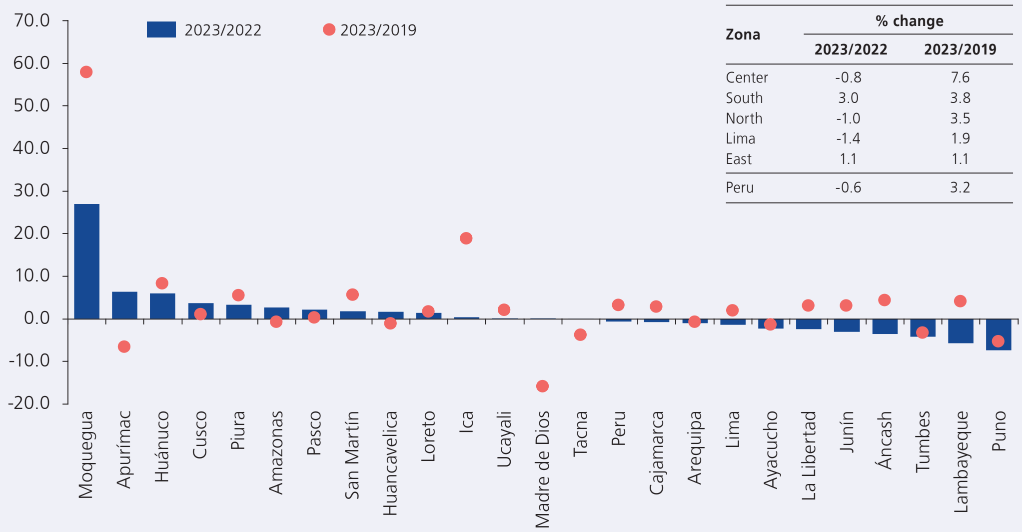
Box 3
DEPARTMENTS' ECONOMIC RECOVERY: DEVELOPMENTS AND CHALLENGES

This box presents the recent evolution of economic activity in Peru's departments, as well as the outlook for economic agents in the country's major geographic areas and the productive potential and challenges that constrain their use.

Departmental economic activity

The recent evolution of economic activity shows a heterogeneous performance across the country's departments. Nationwide, gross domestic product contracted 0.6 percent year-on-year in 2023 but was 3.2 percent above pre-pandemic levels (2019). Likewise, the departmental productive activity indicator decreased in 11 departments in 2023 (at rates between -7.4 and -0.1 percent), with respect to 2022. The largest contraction was recorded in the south, particularly in Puno, while the smallest was in Tacna. The largest increases occurred in Moquegua, Apurímac and Huánuco, while economic activity was below the pre-pandemic level in 9 departments, particularly in Madre de Dios, Apurimac and Puno.

PERU: DEPARTMENTAL PRODUCTIVE ACTIVITY, 2023
(Real % change 1/)



Zona	% change 2023/2022	% change 2023/2019
Center	-0.8	7.6
South	3.0	3.8
North	-1.0	3.5
Lima	-1.4	1.9
East	1.1	1.1
Peru	-0.6	3.2

% change																									
2023/2022	27.0	6.4	6.1	3.7	3.3	2.7	2.2	1.8	1.7	1.4	0.4	0.2	0.1	-0.1	-0.6	-0.8	-1.0	-1.4	-2.2	-2.4	-3.0	-3.5	-4.1	-5.7	-7.4
2023/2019	57.9	-6.6	8.3	1.1	5.5	-0.8	0.2	5.6	-1.1	1.6	18.9	2.0	-15.9	-3.8	3.2	2.9	-0.7	1.9	-1.3	3.1	3.1	4.3	-3.3	4.1	-5.3

1/ At 2007 prices.
Note: **The northern zone** includes Tumbes, Piura, Lambayeque, La Libertad, Cajamarca and Amazonas; **the central zone**, Ancash, Huanuco, Pasco, Junin, Ica and Huancavelica; **the southern zone**, Ayacucho, Arequipa, Apurimac, Moquegua, Tacna, Cusco and Puno; **the eastern zone**, Loreto, San Martin, Ucayali and Madre de Dios.
Source: National Institute of Statistics and Informatics.

Business expectations

Companies in Peru's northern, central, and southern departments report a better economic outlook at the beginning of 2024 than a year earlier, which was characterized by a cycle of social unrest. This is in contrast with deterioration in the eastern zone, where economic activity shows the least improvement with respect to the pre-pandemic level.

Most indicators point to improved expectations about the future in all zones, except in the east. Noteworthy are improved outlook perceptions in the northern, southern and central regions regarding the economy, product demand, job creation and 12-month business investment.

By zone, all selected indicators improved in the first two months of 2024 in the south, north and center. In the south, improvements ranged between 14 and 20 points; in the north, between 10 and 28 points; and in the center, between 1 and 14 points. For its part, in the east, changes ranged between -10 and +6 points.

PERU: REGIONAL EXPECTATIONS SURVEY, JANUARY-FEBRUARY 2023 AND 2024
(Average diffusion indexes) 1/

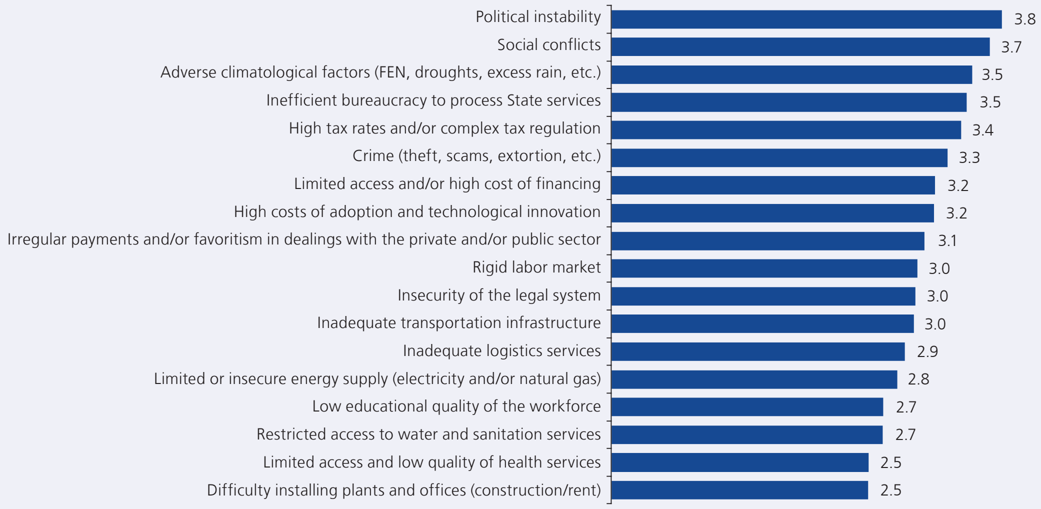
Indicator	North		Center		South		East	
	Jan-Feb. 2023	Jan-Feb. 2024	Jan-Feb. 2023	Jan-Feb. 2024	Jan-Feb. 2023	Jan-Feb. 2024	Jan-Feb. 2023	Jan-Feb. 2024
Current situation								
1. Current business situation	47	63	43	48	33	49	56	50
2. Sales level	39	49	41	42	31	49	50	43
3 month expectations								
3. The economy	36	64	37	48	33	51	40	47
4. The demand for your products	43	68	45	58	46	66	52	58
5. Hiring of personnel	48	62	45	51	41	55	50	47
6. Investment of your company	46	64	49	56	42	59	51	53
12 month expectations								
7. The economy	47	75	46	60	46	60	59	51
8. The demand for your products	52	78	57	69	60	77	67	69
9. Hiring of personnel	55	75	53	62	49	65	59	49
10. Investment of your company	53	74	52	63	54	67	60	55

1/ Difference between the proportion of positive and negative responses, adding 1 and multiplying it by 50. A value greater than 50 points reflects that the percentage of those who expect a better situation exceeds that of those who expect a worse one, and conversely if below 50; while a value of 50 points represents a neutral position. Colors in the cells (heat map) stand for the following: the more intense the shade of blue or red, the more optimistic or pessimistic the business perception, respectively. The regional survey of expectations for January and February 2024 was carried out among 362 companies across the country.
Source: BCRP - Regional Expectations Survey.

Business perceptions on the challenges for growth

In the regional survey of expectations conducted by the BCRP in October 2023, embracing 278 companies (excluding Lima), the survey asked about the factors that most limit the growth of companies in the short and medium term. The most frequent answers pointed to political instability, social unrest, adverse weather events, inefficient bureaucracy to process government services and high tax rates or complex tax regulations, among others.

FACTORS LIMITING COMPANY GROWTH 1/
(Average of responses)



1/ The score ranges from 0 (no limiting factor) to 5 (very important limiting factor).
Source: BCRP - Regional Expectations Survey.

By sector, climate, inefficient bureaucracy, and social unrest emerge as the main limiting factors for companies in the primary sector. Service, commerce and construction companies consider that the main factor limiting growth is political instability, while manufacturing outfits point to inefficient bureaucracy in processing government services.

MAIN CONSTRAINTS TO GROWTH BY SECTOR

Primary	Adverse weather factors (4.5)	Inefficient bureaucracy to process State services (4.1)	Social conflicts (3.8)
Services	Political instability (4.2)	Social conflicts (4.1)	Inefficient bureaucracy to process State services (3.5)
Manufacture	Inefficient bureaucracy to process State services (3.6)	Political instability (3.5)	High tax rates and/or complex tax regulation (3.5)
Commerce	Political instability (3.7)	Social conflicts (3.5)	High tax rates and/or complex tax regulation (3.4)
Construction	Political instability (3.7)	Social conflicts (3,3)	Limited access and/or high cost of financing (3.3)

Note: The average scores for each indicator for each sector are in parentheses.

Productive potentials and coordination spaces[16]

Regions across the country exhibit significant productive potential in industries such as mining and hydrocarbons, agro-exports, fishing and aquaculture, tourism, forestry and its byproducts, and energy, among others, as concluded from interviews with the private sector and qualitative information

16 This section was prepared based on interviews with the private sector conducted by the BCRP and its bureaus in the cities of Arequipa, Cusco, Huancayo, Iquitos, Piura, Puno and Trujillo.

reported by local companies to BCRP bureaus.[17] In the **north**, important sectors are agriculture[18] and agroindustry for export, mining[19] (e.g. gold and copper), tourism (e.g. archaeological and beach tourism), fishing and aquaculture, and renewable energy (e.g. wind power[20]); in the **center**, mining (e.g. iron, zinc, silver and lead),[21] fishing and aquaculture, agroindustry for export, manufacturing (e.g. metal mechanics and textiles), tourism; in the **south,** mining[22] (e.g. copper) and hydrocarbons (e.g. gas), tourism (e.g. experience, ecotourism, adventure), manufacturing (e.g. machine making, ore refining, textiles), aquaculture, forestry, energy (gas and renewables including sun and wind power[23]) and mining-related; and in the **east**, forestry (timber and non-timber products), tourism (e.g. ecotourism and adventure), aquaculture, agriculture (e.g. coffee, cocoa and exotic fruits) and mining.

In order to take advantage of these sectoral potentials and promote sustained growth, it is necessary to implement cross-cutting measures to reduce the institutional capacity gap,[24] infrastructure to enable integration within and across departments,[25] water infrastructure, and human capital (health and education), all needed to take advantage of the productive complementarity across territories and increase their competitiveness and productivity.

Likewise, to guarantee respect for the rule of law and private property to promote economic development and social peace, particularly in the most remote and isolated areas of the country, and to reduce the presence of illegal economies (drug trafficking, illegal timber trafficking and logging, illegal mining, etc.), which generate negative externalities such as environmental pollution, forest depredation, citizen insecurity, and others.

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17 In addition, it is consistent with different World Bank and Inter-American Development Bank documents, including World Bank (2023a), Emerging Stronger: Poverty and Equity Assessment. International Finance Corporation (2023). Country diagnosis of the private sector: Creating markets in Peru. New opportunities from the regions. Castilleja, L., Gutiérrez, P., Laura, L. and Serrudo, L. (2023). Betting on agriculture to achieve productive diversification. Inter-American Development Bank-IDB. De Camino, R. (2023). Diagnosis of the sustainable forestry chain in Peru. Discussion Paper No. IDB-DP-01044. IDB. Manzano, O., Valdivia, D., Balza, L., Díaz, L., Andrian, L. and Chávez A. (2023). The extractive sector as a lever for productive transformation. Inter-American Development Bank. Beverinotti, J., García, P., Gonzalez Saldarriaga, S. and Grosman, N. (2023). Sustainable value chains: opportunities and challenges of productive integration and decarbonization in Colombia, Peru and Ecuador. IDB.

18 The north accounts for 30 percent of the country's agricultural area, followed by the east (25 percent), center (23 percent) and south (21 percent) (Midagri, 2021). It is estimated that the northern zone accounted for 45 percent of the value of agroexports in 2023, followed by the center (25 percent) (Mincetur, 2024).

19 By 2021, it represents 45 percent of the country's total proven and probable gold reserves. By 2022, 45.5 percent of Peru's mining investment project portfolio (Minem, 2023a; Minem, 2023b).

20 An estimated usable wind power capacity of 22,452 MW is estimated, in which the northern zone represents 53.2 percent, followed by the center (41.6 percent) and south (5.2 percent). See: Minem (2015). National Energy Plan 2014-2025. Working Document.

21 It represents 99 percent of the probable and proven iron reserves, 83 percent of zinc, 61 percent of lead and 56 percent of silver to 2021.

22 By 2021, it represents 82 percent of the country's proven and probable copper reserves. By 2022, 45 percent of Peru's mining investment project portfolio (Minem, 2023aMinem, 2023b).

23 Los proyectos de energía solar fotovoltaica con estudios de pre operatividad aprobados en el país por el COES durante el periodo 2020-2024 suman una potencia instalada de 8 671 MW, de la cual la zona sur representa el 92,1 por ciento, el centro 5,6 por ciento y el norte 2,3 por ciento (Osinergmin, 2024).

24 These measures include improving governance and civil service, administrative simplification, improving regulatory quality, e-government, prioritization of high-impact investment projects that enable efficiency gains through economies of scale and favor the quality of public goods and services, etc.

25 Some measures include the improvement of road, telecommunications and airport infrastructure, through the promotion of public-private partnerships, works for taxes and conventional public works, among others, to gain efficiencies in economic corridors.

To take advantage of this productive potential, it is necessary to improve territorial governance.[26] Territorial development[27] requires consensus that allows building a shared, participatory and collective vision, through collaboration, coordination and reciprocity (Morales et al., 2020).[28] This is crucial to set priorities and timely carry out public investment projects and to foster private investment. Coordination spaces, such as the Regional Development Agencies (ARD)[29] and the regional sectoral roundtables led mainly by regional governments (regional sectoral export and innovation committees, tourism advisory committees, etc.) are an opportunity to leverage this process by aligning priorities from the territory's standpoint. The ARDs were implemented since 2018, after the Presidency of the Council of Ministers included them in its Regulation of Organization and Functions (ROF)[30] as mechanisms for intersectoral and intergovernmental coordination and articulation. For these agencies to have a greater impact, stronger institutions, resources and integration with other agents are required to assist in the development and monitoring of compliance with regional development plans.

Final comments

The recovery of departmental economic activity is disparate, with some departments still below pre-pandemic levels. To accelerate the recovery of the productive sectors and take advantage of territorial potential, it is necessary to strengthen coordination spaces and build agreements between the State, the private sector, academia, and civil society organizations to foster an environment of trust and predictability to foster investment.

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26 See: Molina, R., Trivelli, C., Zegarra, D. and Bustamante, P. (2023). Territorial Development and Mining. Institute of Mining Engineers of Peru.

27 Molina et al. (2023) point out that territorial development is a process of evolution of a territory in all its dimensions: economic, social, environmental and physical, with the collaboration of its inhabitants to improve their living conditions.

28 Morales, C., Pérez, R., Riffo, L. and Williner, A. (2020). Sustainable territorial development and new citizenships. Public policy considerations for a changing world. Project Documents. Economic Commission for Latin America and the Caribbean - ECLAC.

29 The Secretariat for Decentralization of the Presidency of the Council of Ministers (SD-PCM), in coordination with the regional governments, promotes creating and implementing the ARDs and, in turn connects them with national government agencies for the sustainable territorial, economic and productive development, competitiveness and innovation of the department (SD-PCM, n.d.). Since 2018, ARDs were formed in 7 pilot regions (Piura, La Libertad, Cajamarca, San Martín, Ayacucho, Apurímac and Cusco). In addition, 6 others (Ancash, Tacna, Tumbes, Huanuco, Loreto and Huancavelica) have been implemented by the Inter-American Development Bank (IDB), and 2 receive technical assistance and are in the process of implementation (Arequipa and Ucayali), totaling 15 ARDs in the country.

30 Supreme Decree N°022-2017-PCM as amended.

Box 4
MINIMUM WAGE AND INFORMALITY

The minimum wage or minimum living wage (RMV) plays an important role not only in protecting the purchasing power of workers, but also in the dynamics of the labor market. This box, through an international comparison, shows Peru's relative position within the region in terms of minimum wage, as well as the potential relationship it could have with labor informality. In addition, it explains the criteria defined by the National Council for Labor and Employment Promotion (CNTPE) for updating the RMV in Peru, based on economic criteria that seek to strike a balance between an efficient labor market and social equity.

The International Labor Organization (ILO) points out that the main objective of the minimum wage is to protect workers against unduly low wages.[31] It could contribute to reducing some existing disparities in the labor market. However, economic theory warns that, in order to minimize labor market distortions, the remuneration for work should be proportional to the value of its productivity. This implies that revising the minimum wage is not an easy task, since setting a very low level could result in workers not being adequately protected, while setting a very high level could have adverse effects on employment. Therefore, these revisions must find a compromise between sustaining workers' welfare and minimizing distortions on the labor market.

CURRENT MINIMUM WAGES AND GDP PER CAPITA IN LATIN AMERICA

Country	Current RMV (local currency)	RMV (current USD)	GDP per capita 2023 (current USD)	Ratio between RMV and GDP per capita per month	Ratio between RMV and average income 2022
Honduras	8,134	330	3,245	122%	n.d.
Bolivia	2,362	342	3,858	106%	73%
Guatemala	3,266	418	5,407	93%	96%
Ecuador	460	460	6.500	85%	85%
El Salvador	365	365	5.558	79%	n.d.
Paraguay	2,680,373	367	5,843	75%	95%
Colombia	1,300,000	333	6,976	57%	54%
Costa Rica	358,610	695	16,213	51%	69%
Peru	1,025	267	7,947	40%	60%
Mexico	7,468	438	13,804	38%	51%
Chile	460,000	474	17,254	33%	49%
Brazil	1,412	284	10,413	33%	46%
Uruguay	22,268	569	21,378	32%	49%
Dominican Republic	14,232	243	11,249	26%	53%
Panama	326	326	18,493	21%	39%
Argentina	156,000	145	13,297	13%	75%

The exchange rate used corresponds to the closing of February 15, 2024. In the case of Argentina, the Blue exchange rate is considered. GDP per capita considers IMF estimates included in the October 2023 WEO, except for Peru (BCRP). For OECD countries, the average income corresponds to a full-time worker, while for the rest of the countries in the region it corresponds to dependent workers. In Peru, the average income comes from the main job of a dependent worker who works 40 hours or more per week. The ratio between RMV and average income for Uruguay corresponds to the year 2020.
Source: BCRP, IMF, OECD, ILO, and Bloomberg.

In Peru, the current RMV amounts to S/ 1,025 and is equivalent to USD 267 (exchange rate to February 15, 2024). Although the RMV in dollars lags that of other countries in the region, such a comparison ignores the relative level of income in each country. A more appropriate comparison would consider GDP per capita, or GDP divided by a country's population. In Peru, the minimum wage covers 40 percent of the monthly GDP per capita, a value close to the median of the sample

31 International Labour Organization - ILO (2016). Minimum wage policy guide.

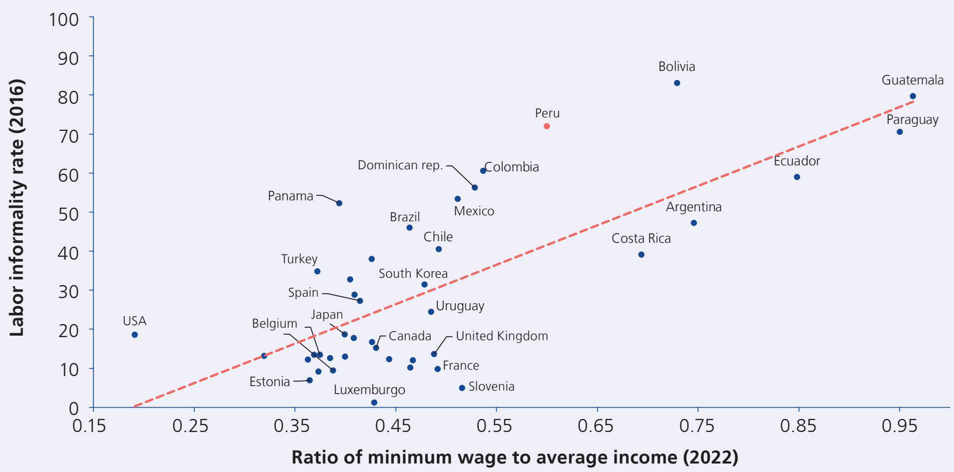
(46 percent). Peru is also close to the median (57 percent) when comparing the ratio between the minimum wage and the average income for the sample countries.

For its part, and as previously indicated in Box 4 of the June 2023 Inflation Report ("Employment around the minimum wage: main characteristics of formal and informal workers in Peru"[32]), the minimum wage represented 60 percent of the average income in Peru in 2022. This percentage is higher than in Chile, Mexico and other Organization for Economic Cooperation and Development (OECD) countries[33] and it is the highest value recorded in the previous 10 years (the ratio stood at 50 to 60 percent between 2013 and 2022). A minimum wage level close to the average income could make companies or activities with low productivity levels less viable and, therefore, fewer workers would be formally hired. Consequently, having an RMV close to the average income could result in higher levels of labor informality, lower social benefits, and higher unemployment of less qualified workers.

A recent study[34] shows that a relatively high minimum wage is directly related to the informality rate across a country's economic sectors. Information from the National Household Survey (ENAHO) shows those sectors where the RMV represents a higher proportion of average income exhibit a higher rate of labor informality. This evidence is also verified when a similar analysis is carried out at country level: those countries with higher ratios of RMV to average income also tend to record higher rates of labor informality.

INTERNATIONAL EVIDENCE: RELATIONSHIP BETWEEN THE MINIMUM WAGE AND LABOR INFORMALITY

(In number of times with respect to the average income and as a percentage of the employed EAP, respectively)



The graph considers 41 selected OECD and regional countries. In the case of OECD countries that publish information on their minimum wage to average income ratios, New Zealand is excluded due to lack of information on its labor informality rate. In the case of the countries of the region, the same countries considered in the previous table on current minimum wages and GDP per capita are included, except Honduras and El Salvador, due to the lack of information on their average income. Among the OECD countries selected, there are four countries in the region: Chile, Mexico, Colombia and Costa Rica. The ratio between minimum wage and average income for Uruguay corresponds to 2020.
Source: World Bank, OECD, ILO, and INEI.

32 https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2023/junio/reporte-de-inflacion-junio-2023-recuadro-4.pdf

33 The RMV ratio is 79 percent for Peru when considering the median income of a worker working 40 hours and is also among the highest compared to OECD countries, only below Costa Rica and Colombia.

34 Castellares, R., Ghurra, O., Mendiburu, C., & Toma, H. (2022). Minimum wage, informality and employment.

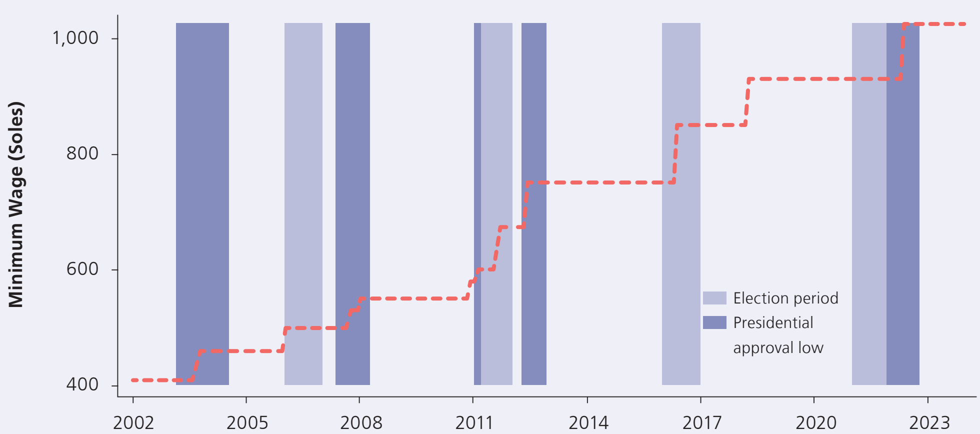
Minimum wage update

International evidence is heterogeneous regarding the methodology for updating the minimum wage.[35] For example, in Brazil, RMV adjustments are set based on past inflation and GDP growth. In Costa Rica, the formula has an inflation component and another related to GDP per capita growth. Malaysia combines various socioeconomic indicators (poverty line, median income, inflation, productivity and unemployment). In France, adjustments are linked to the evolution of the consumer price index, as well as to the increase in the purchasing power of the basic hourly wage of workers.

Currently, Peru already has an agreed methodology for updating the RMV, detailed in the "Productivity Growth and Minimum Wage Adjustment" report and approved by the National Council of Labor and Employment Promotion (CNTPE) in 2007.[36] This methodology states that the revision of the RMV should consider the expected underlying inflation plus the variation in total factor productivity. The report further requires that the methodology for updating the RMV would be applied in periods of normality, where none of the following events are expected, namely: (i) a deep recession; (ii) a sharp increase in the open unemployment rate; (iii) a sharp increase in the labor informality rate; or (iv) an excessive increase of the minimum wage to average wage ratio. However, the operational definition of these criteria using economic variables has not been formalized.

Despite having an established methodology, according to Castellares, Ghurra and Toma (2022),[37] in recent decades, minimum wage increases in Peru show having been related to political and not necessarily technical factors. In a wider time window for such analysis, it can be observed that, between 2002 and 2023, 11 of the 13 RMV increases (85 percent) have coincided with electoral periods (defined as 6 months before and after the elections) or periods of low presidential approval (when the approval percentage was below the average of the last 12 months).

EVOLUTION OF THE MINIMUM WAGE IN PERU
(S/ 2002-2023)



Source: BCRP, IPSOS.

35 International Labour Organization - ILO (2016). Guide on minimum wage policies.
36 Second Resolution of the CNTPE Extraordinary Session No. 25 (August 23, 2007).
37 Castellares, R., Ghurra, O., & Toma, H. (2022). Effects of the Minimum Wage on Prices and Household Purchasing Power.

The latter highlights the need to strengthen the formal mechanism for setting minimum wage levels in Peru. This would provide greater predictability regarding future adjustments and allow companies and workers to make better decisions. Finally, a formal mechanism would reduce the use of the RMV for political purposes.

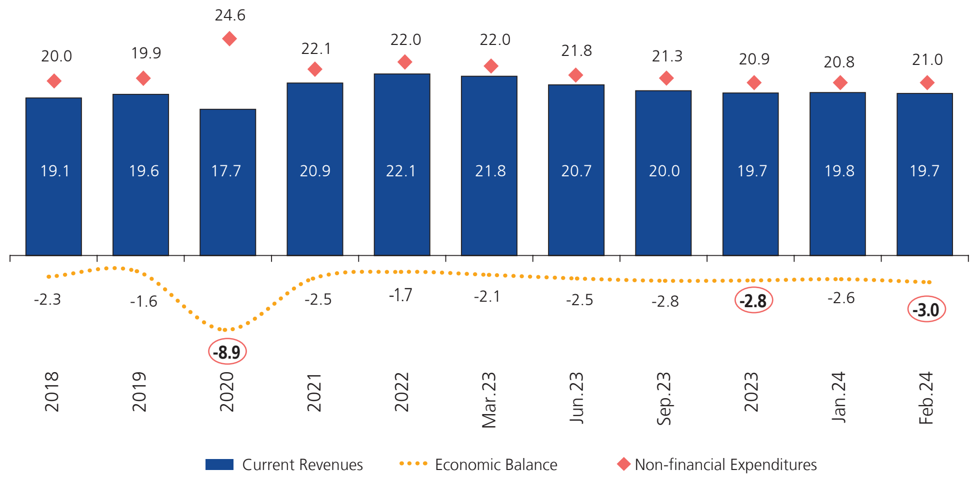
Given that there is already a technical formula for updating the RMV, but that the periodicity of evaluation has not yet been formalized, it would be appropriate to define a frequency for evaluating the validity of the RMV, to periodically determine whether it is justified to modify the minimum wage. For its part, the determination of the technical criteria for evaluating whether the economic and labor market context justifies updating the RMV, as well as its verification including socioeconomic variables, should result from tripartite dialogue (workers, employers and government), considering the potential impacts on all actors involved.

IV. Public finances

56. The **fiscal deficit** increased from 1.7 to 2.8 percent of GDP between 2022 and 2023, due to the contraction in current income, related in turn to the decline in economic activity, the fall in imports and lower export prices.

The cumulative fiscal deficit over the last twelve months increased from 2.8 to 3.0 percent of output between December 2023 and February 2024. This increase was mainly due to higher non-financial spending as a percentage of GDP, particularly in gross capital formation, and to a lesser extent, in compensations, as well as higher interest payments on domestic debt.

Graph 52
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2018-2024
(Accumulated last 12 months - % GDP)



Memo: The economic balance is calculated as current revenues - non-financial expenditure + others (capital income and primary result of state-owned companies) – payment of debt service.
Source: MEF, SUNAT and BCRP.

Although the General Government's current income remained at a similar level as a percentage of GDP, it increased in nominal terms. The nominal increase was mainly due to higher non-tax revenues, especially social benefits, reflecting the increase in the wage bill; mining royalties (due to a higher operating profit in the last quarter of 2023), revenues from airport concessions and interest on Public Treasury deposits. Likewise, an increase in tax revenues was recorded, especially in value added tax (IGV), as well as in income tax for individuals -for fifth category payroll income- and for non-domiciled legal entities. These developments occurred in the context of gradual economic recovery.

The increase in non-financial expenditures as a percentage of GDP was due to higher expenses in: (i) gross capital formation of the three levels of government; (ii) remunerations, due to the salary raises to teachers and health personnel in 2023 and under various labor regimes of the public sector in January 2024; and (iii) goods and services, mainly of local governments, as a result of higher expenditures in maintenance, conditioning and repair services, professional and technical services and services leasing.

The increase in interest service on domestic debt is explained by the payment of coupons on sovereign bonds, especially the bond maturing in 2033 issued under the 2023 Debt Management Operation (DMO). This operation allowed the debt service to be rescheduled through the retirement of sovereign and global bonds maturing between 2023 and 2031 with coupon payments in February.

57. The **fiscal deficit** is projected to decline from 2.8 to 2.0 percent of GDP between 2023 and 2024, eventually settling at 1.5 percent of GDP by the end of the projection horizon. Both forecasts are in line with the ceiling set forth by the fiscal rule (Law No. 31541).

The 2024 projection considers an increase in current income, favored by the recovery of domestic demand and larger value of imports. Non-financial expenditures as a percentage of GDP are expected to fall, due to ending of extraordinary expenses for transitory programs.

Table 24
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2023	2024*			2025*	
		February[1/]	IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
1. General government current revenues	**19.7**	**19.7**	**20.3**	**20.2**	**20.5**	**20.7**
Real % change	*-10.3%*	*-10.1%*	*4.5%*	*4.9%*	*4.6%*	*6.5%*
2. General government non-financial expenditure	**20.9**	**21.0**	**20.7**	**20.5**	**20.5**	**20.5**
Real % change	*-4.4%*	*-4.1%*	*2.7%*	*1.0%*	*2.7%*	*4.0%*
Of wich:						
Current expenditure	*15.5*	*15.6*	*15.3*	*15.3*	*15.0*	*15.2*
Real % change	*-1.8%*	*-1.4%*	*2.1%*	*1.1%*	*2.0%*	*2.8%*
Gross capital formation	*4.7*	*4.8*	*4.7*	*4.7*	*4.8*	*4.8*
Real % change	*0.5%*	*4.7%*	*4.9%*	*4.5%*	*4.9%*	*4.9%*
3. Other 2/	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**	**0.1**
4. Primary balance (1-2+3)	**-1.1**	**-1.3**	**-0.3**	**-0.3**	**0.2**	**0.3**
5. Interests	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
6. Overall Balance	**-2.8**	**-3.0**	**-2.0**	**-2.0**	**-1.5**	**-1.5**

1 / Ratios on % of GDP and real % changes represent accumulated in the last 12 months as of February.
2 / Includes capital income of the general government and primary balance from state-owned companies.
* Forecast.
IR: Inflation Report.

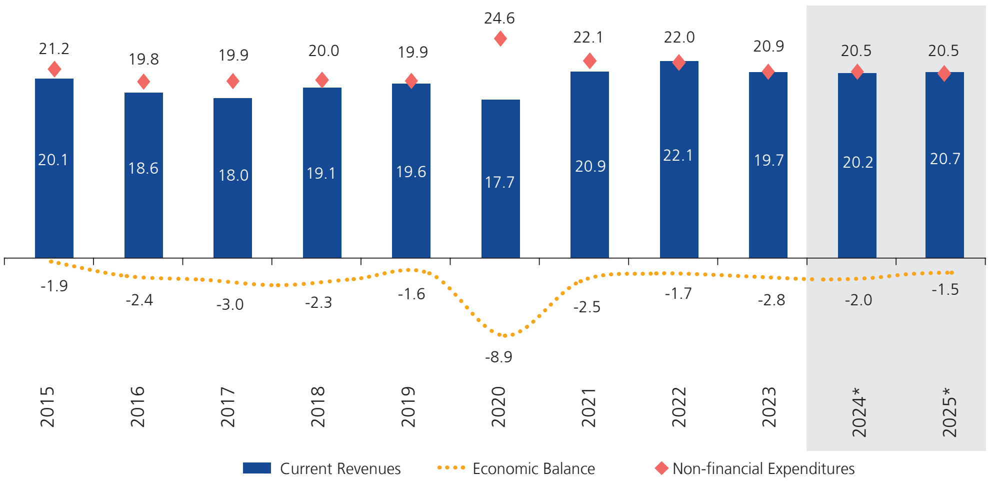
The lower deficit in 2025 is explained by higher current income, driven by higher export prices, combined with the projected growth of the economy. Likewise, this projection contemplates a higher primary result of state-owned companies, partly explained by the expansion of the commercial operation of the Talara oil refinery.

Compared to the December Report, the fiscal deficit projection remains at 2.0 and 1.5 percent of output for 2024 and 2025, respectively. Given the baseline scenario for current income, expenditure programming is assumed to be in line with the fiscal deficit ceilings.

Graph 53

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015 - 2025

(% GDP)



Memo: The economic balance is calculated as current revenues - non-financial expenditure + others (capital income and primary result of state-owned companies) – payment of debt service.
* Forecast.
Source: BCRP.

Current income

58. **Current income** is expected to grow 4.9 percent in real terms in 2024 and will amount to 20.2 percent of GDP, 0.5 percentage points higher than at 2023-end.

This increase in revenues is due, in the first place, to the recovery of economic activity, resulting in higher collection of third category income tax, domestic value added tax (IGV) and Selective Consumption Tax (ISC excise tax). Secondly, the higher value of imports, especially of capital and consumer goods, would result in an increase in IGV on imports. Third, the readjustment of the ISC on alcoholic beverages and tobacco would also contribute to an increase in collection under this heading. Finally, higher revenues from social contributions are expected, reflecting the recovery of employment as the economy bounces back.

The revision on the downside of the forecasts for 2024 -from 20.3 to 20.2 percent of GDP- considers a lower starting point in 2023 with respect to that foreseen in the December Report. In addition, the revision on the downside reflects the downward correction of export mineral and hydrocarbon prices, together with lower income tax payment coefficients, which would translate into lower projected revenues from the mining and hydrocarbon sectors, mainly.

Current income is projected to increase by 6.5 percent in real terms in 2025 to reach 20.7 percent of GDP. This evolution will respond to a greater extent to the increase in export mineral prices and faster economic activity, which will translate into higher income tax, IGV and ISC collections. Likewise, considering the recovery of economic activity in 2024, a higher income tax regularization is assumed for the 2025 campaign.

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

	2023	2024*			2025*	
		February1/	IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
TAX REVENUES	**15.1**	**15.0**	**15.5**	**15.5**	**15.7**	**15.9**
Income tax	6.3	6.2	6.3	6.2	6.4	6.6
Value Added Tax (VAT)	8.3	8.3	8.6	8.7	8.7	8.7
Excise tax	0.9	0.9	1.0	1.0	1.0	1.0
Import duties	0.2	0.2	0.2	0.2	0.2	0.2
Other tax revenues	1.8	1.8	1.8	1.8	1.8	1.8
Tax returns	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
NON-TAX REVENUES	**4.7**	**4.7**	**4.8**	**4.7**	**4.8**	**4.8**
Contributions to social security	2.0	2.0	2.0	2.0	2.1	2.1
Own resources and transfers	1.5	1.5	1.4	1.4	1.5	1.5
Royalties and likely	0.7	0.7	0.8	0.7	0.8	0.7
Other	0.0	0.6	0.5	0.5	0.5	0.5
TOTAL	**19.7**	**19.7**	**20.3**	**20.2**	**20.5**	**20.7**

1 / Represents accumulated in the last 12 months as of February.
* Forecast.
IR: Inflation Report.

Non-financial expenditure

59. Non-financial expenditure is expected to grow by 1.0 percent in real terms in 2024 to 20.5 percent of GDP, 0.4 percentage points below 2023. This real growth includes an increase in current expenditures, especially in remunerations (due to the salary increases foreseen in the 2024 Budget Law), as well as in gross capital formation of the national and local governments. This evolution would be partially offset by lower spending on transfers and other capital expenditures, associated with the withdrawal of temporary measures implemented in 2023 (in programs such as *Con Punche Peru* and *Emergencia-FEN*). The projected expenditure growth complies with the limits foreseen in the fiscal rule.

Non-financial expenditures are projected to record a real expansion of 4.0 percent in 2025, and as a percentage of GDP to stand at 20.5 percent, similar to projections for 2024. This increase is mainly attributed to higher estimated spending on gross capital formation and other capital expenditures.

Expenditure forecasts for 2024, as compared to the previous report, fall from 20.7 to 20.5 percent of output. This drop is explained by lower expenditures on current transfers and other capital expenditures, as well as a higher starting point of 2023. For 2025, the forecasts remain at 20.5 percent of GDP. Expenditures are projected higher than before the pandemic (average level 2015-2019: 20.2 percent of GDP).

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

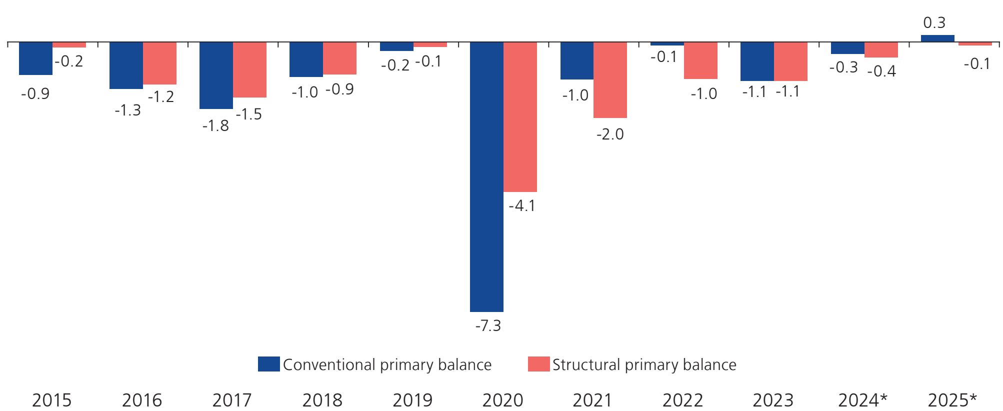
	2023	2024*			2025*	
		February[1/]	IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
CURRENT EXPENDITURE	**15.5**	**15.6**	**15.3**	**15.3**	**15.0**	**15.2**
National Government	10.0	9.9	10.1	9.8	9.9	9.8
Regional Governments	3.8	3.9	3.5	3.8	3.4	3.7
Local Governments	1.7	1.8	1.7	1.7	1.7	1.6
CAPITAL EXPENDITURE	**5.3**	**5.4**	**5.4**	**5.2**	**5.4**	**5.4**
Gross capital formation	**4.7**	**4.8**	**4.7**	**4.7**	**4.8**	**4.8**
National Government	1.8	1.9	1.8	1.8	1.9	1.9
Regional Governments	1.1	1.1	1.0	1.0	1.0	1.0
Local Governments	1.8	1.9	1.9	1.8	1.9	1.9
Other	**0.7**	**0.6**	**0.7**	**0.5**	**0.7**	**0.6**
TOTAL	**20.9**	**21.0**	**20.7**	**20.5**	**20.5**	**20.5**
National Government	12.3	12.2	12.5	12.0	12.4	12.2
Regional Governments	5.0	5.1	4.6	4.9	4.5	4.8
Local Governments	3.6	3.7	3.6	3.6	3.6	3.6

1 / It represents the figure accumulated in the last 12 months as of February.
* Forecast.
IR: Inflation Report.

Fiscal stance

60. The **structural primary balance** is a measure that deducts from the fiscal accounts the impact of cyclical, transitory and extraordinary components affecting the economy to thereby assess changes in the fiscal balance associated with discretionary fiscal policy measures. The structural primary deficit is estimated to be 0.4 and 0.1 percent of potential GDP by 2024 and 2025, respectively. This trend reflects a gradual reduction in the expansionary fiscal stance, which is consistent with the gradual closing of the output gap over the projection horizon.

Graph 54
CONVENTIONAL AND STRUCTURAL PRIMARY BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015-2025
(% GDP and Trend GDP)



* Forecast.
Memo: For 2020, the structural primary balance is calculated using trend GDP.

Financing and debt

61. **Financing requirements** are expected to decrease in 2024 compared to the previous year, due to lower amortization of internal and external debt. The latter development is partly explained by the 2023 OAD, which implies a lower financial burden in coming years.

Compared to the December Report, the projection of financing requirements for 2024 remains relatively constant, while for 2025 it is revised downward, mainly due to the expected lower nominal fiscal deficit. Regarding the **sources of financing**, a higher accumulation of public deposits is expected for 2025 with respect to the previous report.

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

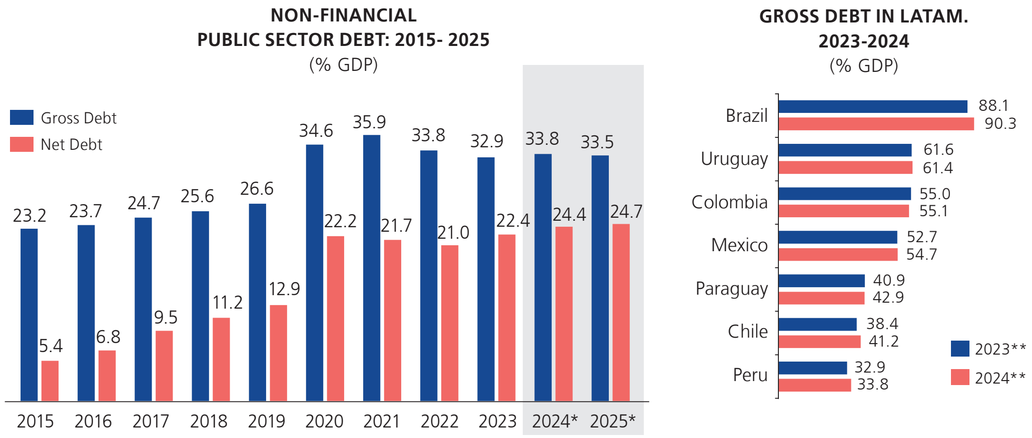
	2023	2024*			2025*	
		Jan-Feb	IR Dec.23	IR Mar.24	IR Dec.23	IR Mar.24
I. USES	**53,002**	**1,127**	**32,075**	**32,023**	**26,003**	**25,379**
1. Amortization	25,396	328	10,482	10,472	8,796	9,100
a. External	9,916	218	3,856	3,859	8,099	8,365
b. Domestic	15,480	110	6,626	6,613	697	735
Of which: recognition bond	*596*	*85*	*550*	*496*	*550*	*550*
2. Economic balance 1/	27,606	799	21.593	21.551	17,207	16,279
II. SOURCES	**53,002**	**1,127**	**32,075**	**32,023**	**26,003**	**25,379**
1. Disbursements and others	37,691	3,055	32,664	30,783	26,676	26,908
a. External credits	7,214	1,012	10,664	8,783	8,676	8,908
b. Global and Sovereign bonds	30,477	2,043	22,000	22,000	18,000	18,000
2. Variation in deposits and others 2/	15,311	-1,928	-589	1,240	-673	-1.529
Nota:						
Percentage of GDP						
Gross public debt balance	32.9	32.5	33.3	33.8	33.1	33.5
Net public debt balance	22.4	22.9	23.5	24.4	23.9	24.7
Balance of public deposits	10.5	9.6	9.8	9.4	9.2	8.9

1/ Negative sign indicates surplus.
2/ Positive sign indicates reduction of deposits.
* Forecast.
IR: Inflation Report.

62. **Debt net** of non-financial Public Sector deposits is projected to increase from 22.4 to 24.4 percent of GDP between 2023 and 2024 and to stand at 24.7 percent of GDP by the end of the projection horizon. **Gross debt** of the Non-Financial Public Sector is projected to rise from 32.9 to 33.8 percent of GDP between 2023 and 2024, and to decline to 33.5 percent of GDP by 2025. Gross debt forecasts for 2024 and 2025 would be lower than the maximum established by the macro-fiscal debt rule of 38.0 percent of GDP, mandated by Law No. 31541.

The difference between the increase in net debt and gross debt projected to 2025 is due to the expected management of public deposits, which are expected to fall as a percentage of GDP. The fiscal and debt forecasts show that a solid fiscal position will be maintained together with one of the lowest public debt levels in the region.

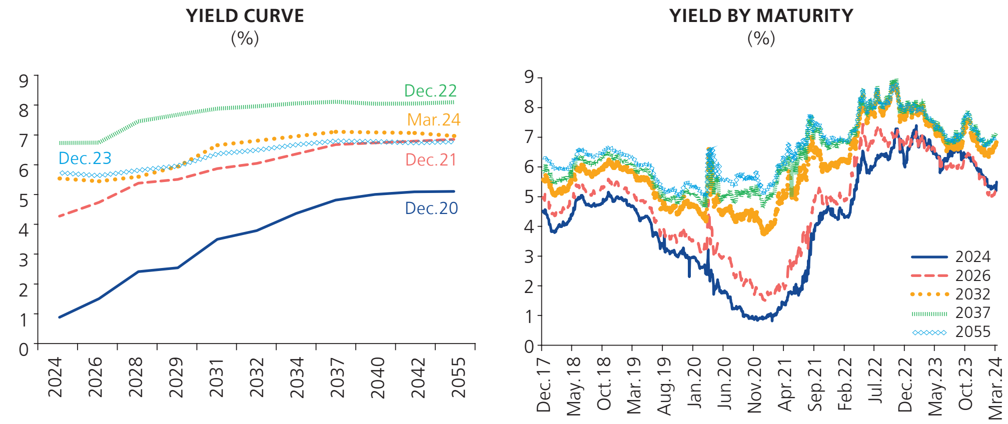
Graph 55



* Forecast.
** Forecast without Peru (2023).
Source: BCRP and WEO (October 2023).

63. Between December 29, 2023, and March 11, 2024, the yield curve of Public Treasury Bonds (BTP) with fixed interest rate in sol Peruvian currency, presents mixed behaviors by tranches. In the short tranche, rates accumulated a reduction of 20 basis points, influenced by the reduction in the BCRP's monetary policy rate (50 basis points). In the medium and long tranches, interest rates increased 30 basis points on average, in line with the rise in the yield rates of long-term bonds in the United States (21 basis points), and the expected slower normalization of the monetary policy than previously foreseen in that country.

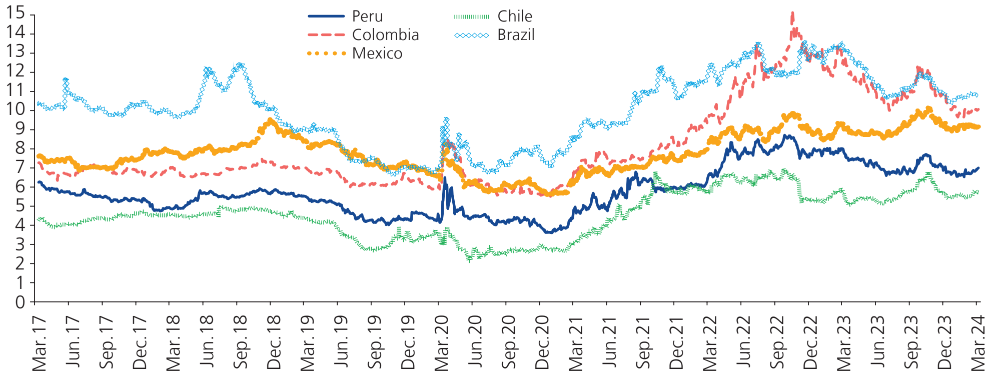
Graph 56



As of March 11.
Source: MEF.

In the period under review, an increase in 10-year government bond yields in local currency was observed in all countries in the region. Thus, the bonds of Brazil, Chile, Mexico, and Colombia increased by 45, 26, 26 and 3 basis points, respectively. Peruvian bonds' yield rate has increased from 6.69 to 7.02 percent so far in the first quarter of 2024.

Graph 57
10 YEAR SOVEREIGN BOND YIELDS IN LOCAL CURRENCY
(%)

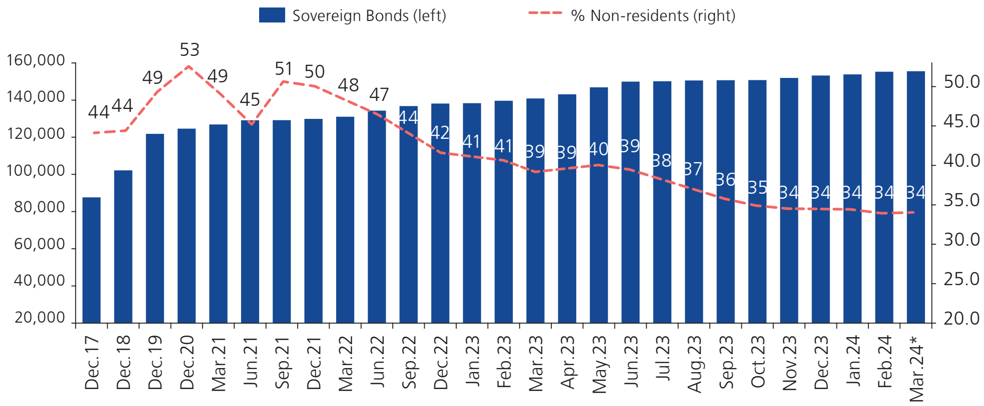


As of March 11.
Source: MEF and Reuters.

Peruvian global dollar bond yields have experienced an increase across all tranches of the yield curve so far in the first quarter, accumulating an average devaluation of 33 basis points. In particular, the yield on the Peruvian 10-year bond rose from 5.07 to 5.45 percent, while the yield on the U.S. bond increased from 3.88 to 4.10 percent. For its part, the EMBIG Peru decreased from 160 to 157 basis points during the period under review.

The balance of sovereign bonds, as of March 11, 2024, stood at S/ 155.2 billion, S/ 2.3 billion higher than the balance at the end of 2023. In the first quarter, AFPs emerged as the main bond bidders, while on the demand side, banks took the lead. Non-resident investors remained in a decreasing trend to 33.7 percent of total bonds as of March 11, slightly below their participation in December 2023 (34.1 percent).

Graph 58
SOVEREIGN BONDS BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS
(Amounts in millions soles and participation in %)



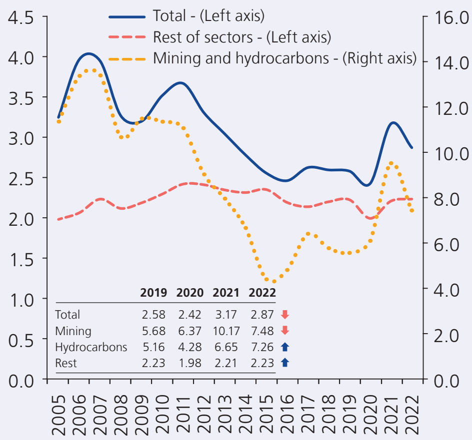
* Data as of March 11.
Note: To calculate the participation of Non-Residents investors in sovereign bond holdings, as of February 2021, excludes inflation-linked bonds, Global Depositary Notes (GDN) and Euroclear transactions of non-residents. As of March 2021, nominal sovereign bonds and VAC are included and GDN are excluded.
Source: BCRP, CAVALI, MEF, and SBS.

Box 5
DETERMINING FACTORS FOR THIRD CATEGORY INCOME TAX PAYMENTS ON ACCOUNT

The third category income tax is levied on business income. Those taxpayers who are in the general regime (RG) or the MYPE (SMEs) tax regime (RMT) are obliged to make monthly payments on account as part of the annual tax payable for each fiscal year.[38] Since April 2023, the collection of payments on account of third category income tax has dropped in view of a slowdown in economic activity, a downward adjustment in foreign prices, higher balances in favor of the taxpayer[39] and lower payment on account coefficients.

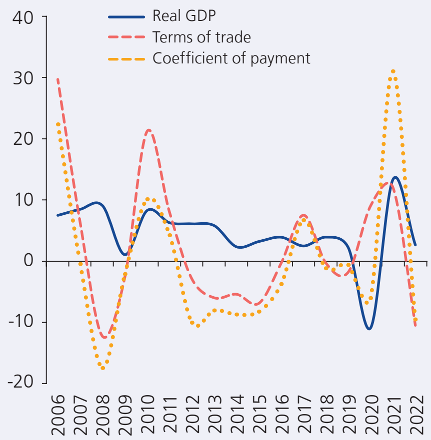
The payment on account coefficients are calculated by dividing the income tax payment[40] over the net taxable income (both from the previous year and in the annual tax return) once the results of the regularization campaign are available (between March and April), and are applied for the rest of the months in the current year and between January and February of the following year.[41,42] Payments on account result from applying the coefficients on the declared income, although credit balances and the payment of the ITAN can also be credited, as well as other deductions allowed by the regulations, factors that, together, may reduce the effective amount of tax payable.

Coefficient of payment on account



	2019	2020	2021	2022
Total	2.58	2.42	3.17	2.87 ↓
Mining	5.68	6.37	10.17	7.48 ↓
Hydrocarbons	5.16	4.28	6.65	7.26 ↑
Rest	2.23	1.98	2.21	2.23 ↑

Main determinants of the coefficient of payment
(Percentage changes)



38 In the RG, a rate of 30 percent was applied until 2014; 28 percent between 2015 and 2016; and 29.5 percent from 2017 onwards. In the RMT, a reduced rate of 10 percent applies for the first 15 ITUs of earnings. Excess earnings are taxed at the general rate of 29.5 percent.

39 Balances in favor of the taxpayer are generated when the payments on account of income tax made outweighs the annual amount declared. Likewise, in the case of exporting companies, they are generated by the IGV paid for the acquisition of goods and services, and may be credited against other taxes or refunded.

40 Corresponds to the total amount of income tax, i.e., it includes the cash payment and the different forms of payment such as the crediting of credit balances and the Temporary Tax on Net Assets-ITAN against payments on account.

41 It should be pointed out that the calculation of the coefficient is per company and that some companies file their tax returns before the due date of the annual income tax campaign; therefore, the new coefficient calculated for these companies may be applied before March and April, depending on the start of the tax return indicated by Sunat.

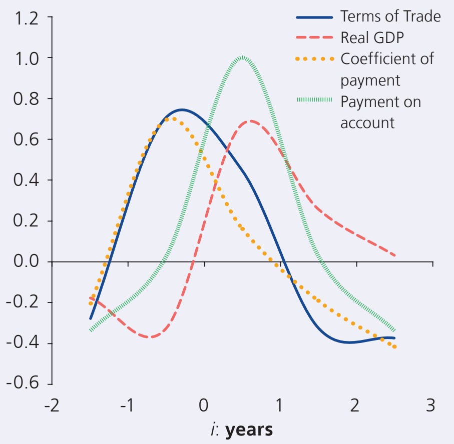
42 In the RG, monthly income tax payments on account may be suspended or modified under certain requirements contemplated in the Income Tax Law (Supreme Decree No. 179-2004-EF), in order to adjust the payments to the evolution of the current year, based on the results observed by the company.

The payment ratio fell between 2012 and 2016, mainly in the mining and hydrocarbon sectors, given lower external prices and growth compared to previous years, excluding 2009. In 2020, it fell by 6.0 percent due to the contraction in economic activity prompted by COVID-19; while in 2021 it increased by 31.1 percent due to higher external prices and a recovering economy. In 2022, it decreased by 9.5 percent, due to a drop in external prices, resulting in lower revenues in 2023.

As for payments on account, the maximum correlation with their determinants is with the payment coefficient of the previous year, because in the current year the coefficients calculated with information from the previous year are applied, with the external prices of the previous year and with the economic activity of the same year. The evolution of payments on account and their determinants for certain periods appears below.

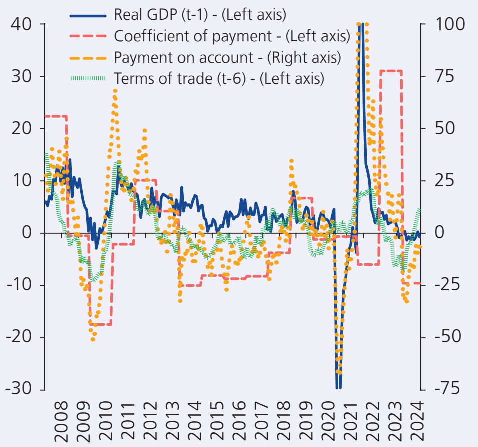
- Between 2012 and 2016 the terms of trade (TT) fell by 4.3 percent on average, while real GDP grew at a lower rate than in previous years (4.3 percent on average). As a result, the payment ratio declined by 7.7 percent on average. This caused payments on account in real terms to fall by 8.6 percent on average between 2013 and 2017.
- In 2020, payments on account decreased by 23.3 percent in real terms, mainly affected by the fall in real GDP due to the negative effects of COVID-19; meanwhile, in 2021, they increased by 58.5 percent in real terms due to the recovery in activity after the pandemic. The following year, they grew 20.7 percent mainly due to the increase in the payout ratio from 2021 operations (31.1 percent, as a result of the increase in TT and real GDP in the same year), which was applied in 2022, counterbalanced by the reduction in TT (10.5 percent) and lower real GDP growth (2.7 percent) in 2022.
- Between April 2023 and January 2024, payments on account decreased by 18.3 percent on average, due to the lower payment coefficient applied, the drop in TT at the end of 2022 and the slowdown in economic activity.

Dynamic correlations: Payment on account and its main determinants in *t + i*



Note: In the calculation of dynamic correlations, the payment coefficient corresponds to the fiscal year and does not include information from 2019 and 2020 since its effects were reflected during the COVID-19 pandemic (2020 and 2021).

Main determinants of Payments on account
(Interannual percentage changes)



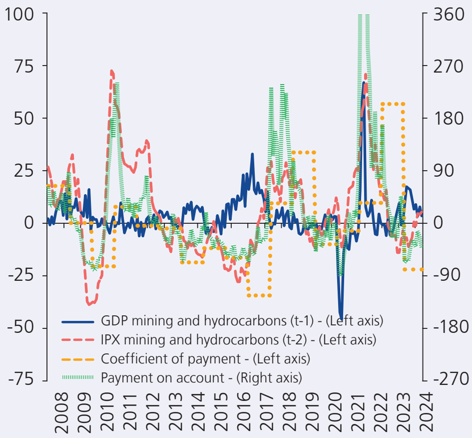
Note: From April of a given year until March of the following year, the value of the coefficient calculated in the previous year has been repeated since its application is in the subsequent year.

Payment coefficients have a direct impact on payments on account. For its part, TT and real GDP evolve along two channels: (i) direct channel, where they influence sales revenues in a given year (with a certain time lag) and therefore payments on account in the same year, and (ii) indirect channel, via payment coefficients, since their effects on the coefficient in a given year would have an impact on payments on account in the following year, reinforcing the direct impact.

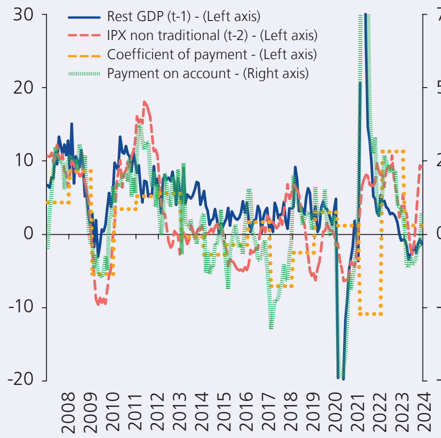
Variations in the payment coefficient have implications only on the distribution of tax collection, mainly in two consecutive years (intertemporal implications), and not on the aggregate tax collection level of such periods. This is because regularizations of such payments are then made based on whether overpayments or underpayments were made according to the final annual results of the companies' operations.

By sectors, the payments on account coming from the mining and hydrocarbons activity and the rest of the sectors are determined by their own payment on account coefficients, levels of economic activity and representative prices. However, the payments on account of the mining and hydrocarbons sector would be more affected by external prices, particularly the export prices of the mining and hydrocarbons sectors, than by the evolution of the sector's economic activity. This is in contrast with the payments on account of the rest of the sectors, which would be influenced by both economic activity and external prices.

Mining and hydrocarbons
(Interannual percentage changes)



Rest of sectors
(Interannual percentage changes)

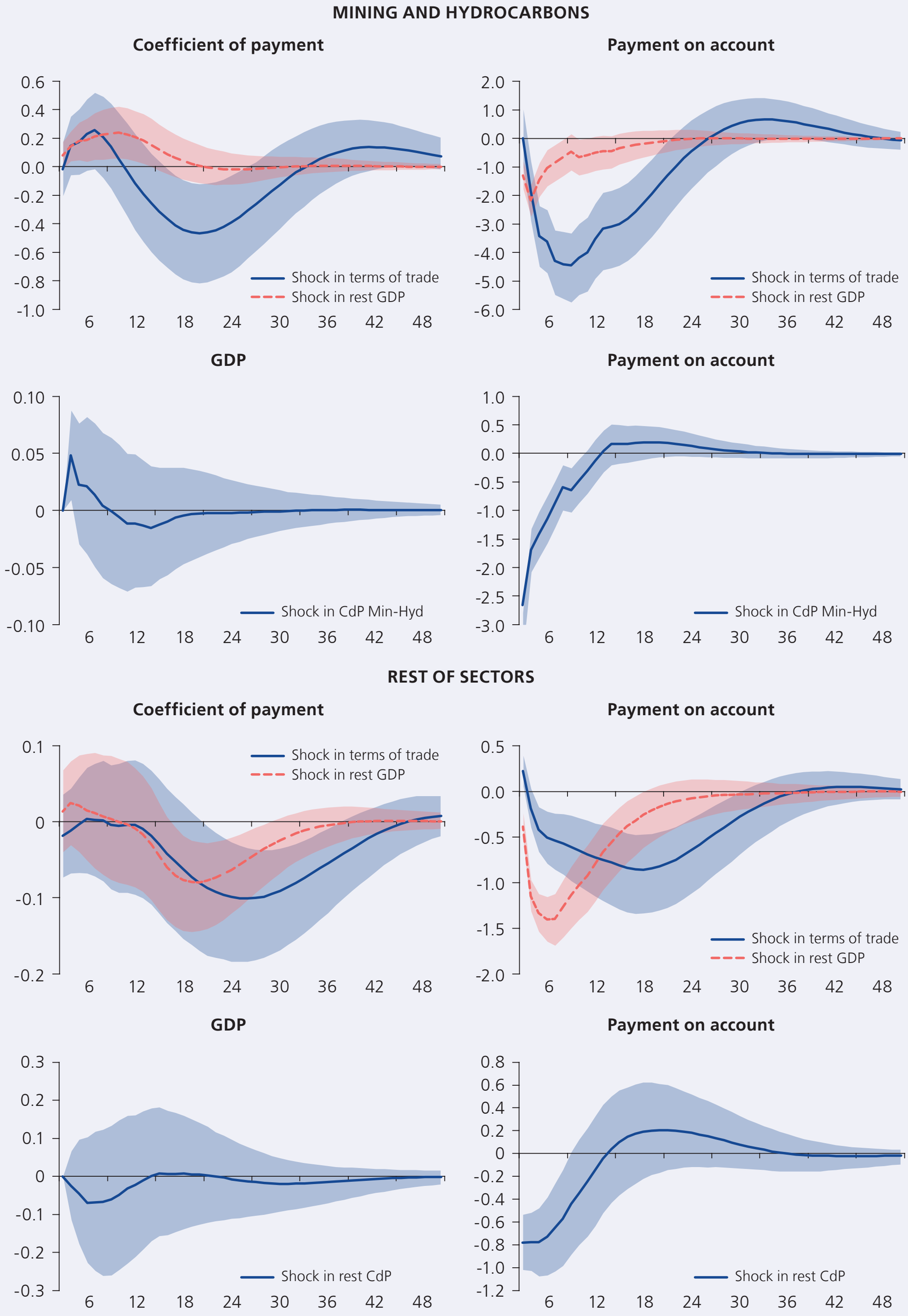


Using a Bayesian structural autoregressive vector model with an exogenous block, we estimate the response of payments on account by sector to shocks in their determinants, and the historical decomposition of total payments on account. Monthly information is used between April 2007 and December 2023. The exogenous block is composed of TT; while the domestic block includes the mining-hydrocarbons GDP, GDP of other sectors, the coefficient of payments on account of the mining-hydrocarbons and other sectors; and the payments on account (real) of the mining-hydrocarbons and other sectors. The variables are expressed in year-on-year percentage changes and include a constant and 13 time lags.

In the face of lower TT, the response of the payment coefficient would be observed as of the second year,[43] recording significant effects as of one year for the mining-hydrocarbon sectors, and one and a half years for the rest of the sectors, falling by 0.50 and 0.10 p.p. in the face of a 1.0 p.p. reduction in TT, respectively. The response of payments on account is slow at first for both groups of sectors, but persistent in the rest of the sectors, and reaches a trough value after 6 and 14 months, decreasing by 4.17 and 0.64 p.p., respectively, after one year. This reduction is reinforced in the second year by the drop in the payment coefficient applied in that period.

43 This is because in year t the coefficient determined in year t-1 is used, a coefficient that has been influenced by foreign prices and GDP in year t-1. Therefore, the effects of an increase in year t of external prices and GDP on the payment coefficient will be seen in year t+1.

RESPONSE IN THE COEFFICIENT OF PAYMENT AND IN THE PAYMENTS ON ACCOUNT TO AN IMPULSE IN THEIR DETERMINANTS



Note: Response to a 1.0 percentage point reduction in the determinants. The responses in the variables of a sector correspond to a shock in the GDP and the payment on account of the same sector. The confidence bands correspond to a significance level of 68 percent. An independent Normal-Wishart prior is used and the model has been estimated with the BEAR package. Regarding the hyperparameters, it is assumed that the series are stationary since they are in variations, so the coefficient of the first lag of each variable is calibrated at δ_i=0.8; the global fit is calibrated at π_i=0.1; while to guarantee the exogenous block, π_5=0.001 is calibrated and for the coefficients of the deterministic variables, π_4=100 is calibrated. Regarding the estimation of the variance matrix, α_0=9 is considered for the degrees of freedom and a diagonal scale matrix S_0.

In the face of a 1.0 p.p. reduction in GDP, corresponding to each group of sectors, the response in payments on account is less persistent and reaches its minimum value after 2 and 4 months, decreasing by 2.63 and 2.32 p.p., respectively, after one year. The response of the payment coefficient of the mining-hydrocarbon sectors is not significant to a shock in the GDP of the same sectors; however, in the case of the group of other sectors, the payment on account coefficient after the second year falls by 0.15 p.p. following the contraction in the GDP of the rest of sectors. Finally, a decrease in the payment coefficient, corresponding to each group of sectors, of 1.0 p.p. has an instantaneous effect on payments on account and they fall by 1.72 p.p. and 0.94 after one year. GDP is not affected.

In relation to the above, the payments on account of the rest of the sectors react more to changes in GDP than in external prices; however, they show greater persistence in the face of external price shocks, and are therefore influenced by both determinants. On the other hand, the payments on account of the mining-hydrocarbon sectors respond to a larger extent and persistence to external price shocks than to GDP shocks, so they are more influenced by the terms of trade.

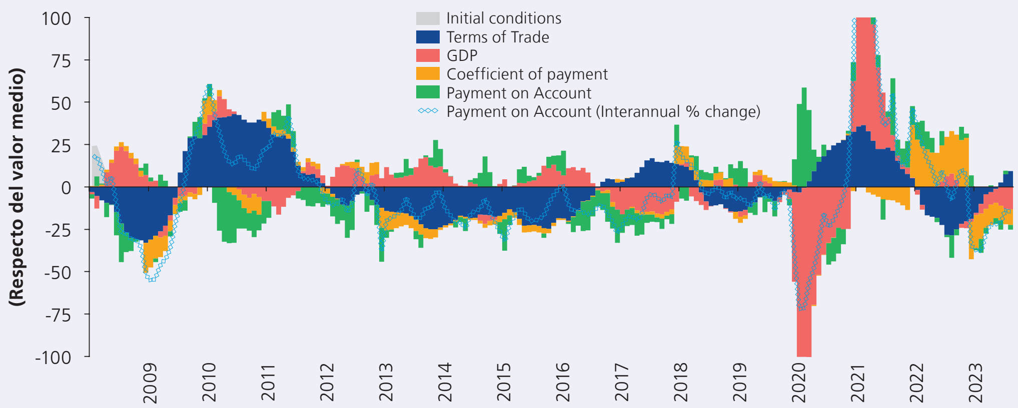
TRANSFER EFFECT

Impulse	Year	Mining and hydrocarbons		Rest of sectors	
		Coefficient of payment	Payment on account	Coefficient of payment	Payment on account
Terms of Trade	1st year	-0.50	-4.17	-0.10	-0.64
	2nd year	-0.52	-5.63	-0.18	-1.47
GDP 1/	1st year	0.06	-2.63	-0.15	-2.32
	2nd year	0.07	-3.22	-0.20	-2.80
Coefficient of payment	1st year	-1.00	-1.72	-1.00	-0.94
	2nd year	-1.00	-1.34	-1.00	-0.58

1/ The responses in the variables of a sector correspond to an impulse in the GDP of the same sector. Note: Pass-through effects for a 1 percent reduction. Regarding the response of the coefficient of payment to the impulse of external prices and GDP, the pass-through effect is considered from the twelfth month since the coefficient of payment is registered in the month in which it is applied.

Regarding the historical decomposition of total payments on account, between 2012 and 2016 lower TTs contributed negatively and determined lower payment coefficients that were applied between 2013 and 2017. In addition, the contribution of payment coefficients during 2022 stands out (31.1 percent higher), offsetting the negative contribution of TT. In 2023, payments on account were affected by lower TT, the economic slowdown and lower coefficients since April 2023 (9.5 percent smaller). At the end of 2023, a positive contribution of TT to payments on account is observed; however, they continue to be affected by lower coefficients and economic activity.

HISTORICAL BREAKDOWN OF THE EVOLUTION OF PAYMENTS ON ACCOUNT



Note: The vertical axis of the graph is bounded between -100 and 100 to improve data visualization.

Box 6
RIGIDITIES IN GOVERNMENT SPENDING GENERAL BUDGETARY

This box explores the concept of budgetary rigidity as applied to budgetary general government expenditures in 2018-2023.[44] Although there is no single definition of rigid spending in the literature, the intuitive idea refers to the set of expenditures that cannot be modified discretionally by the fiscal authority in the short term, typically in a budget period.[45] An assessment for the case of Peru shows that "rigid" spending reached 47.1 percent of non-financial expenditure until before the beginning of the pandemic (2019); however, in 2022 and 2023 it would have increased to a level close to 50 percent, which is mainly explained by the increase in the items of remunerations and pensions by government. This is evidence of the need to improve the way in which qualified personnel are recruited and retained on the government payroll, as well as to increase permanent government revenues to mitigate the adverse impacts of budgetary rigidities.

Budgetary rigidity

The rigidity in the structure of the expenditure budget may be, to some extent, the result of the operation of financial management systems: given a level of efficiency in public services,[46] there is a payroll of government workers whose salaries must be met: reducing salaries or public employment is a decision that cannot be taken in the short term without reducing services to citizens unless efficiency in the service increases and therefore fewer personnel are required.

Likewise, given the social security benefits system, there is a payroll of pensioners that must also be covered with budgetary resources to comply with the constitutional mandate to provide access to social security to citizens. In addition, service of public debt reflects past decisions regarding the financing of public spending, which cannot be reversed without incurring high economic costs. Finally, given the set of investment projects executed by government entities, there are multi-year spending commitments that cannot be affected in any period without denouncing the agreements signed with contractors.

The literature[47] identifies some other causes of budget rigidities. For example, demographic changes may increase certain types of spending such as pensions as the proportion of older adults increases in the population, while increases in productivity may be reflected in higher salaries in both the private and public sectors, raising payroll spending. Spending rigidities can also emerge when there is fragmentation or opacity in the budget process. If the budget process is not unified and transparent, parties have the incentive to use mechanisms to secure their share of resources such as extra-budgetary allocations. Likewise, in some countries there are external restrictions to the budget process that limit its flexibility, such as norms that establish minimum floors for certain types of expenditures.

44 This box uses General Government data on budget coverage (national, regional and local governments) provided by the Integrated Financial Administration System (SIAF) of the MEF.

45 Echeverry, J., Bonilla, J., and Mora, A. (2006) "Institutional Rigidities and Budgetary Flexibility: The Cases of Argentina, Colombia, Mexico and Peru". CEDE Document 2006-33. September 2006.

46 In other words, entities may have more staff than is strictly necessary for the services they provide.

47 Herrera, S. and Olaberría, E. (2020) "Budget Rigidity in Latin America and the Caribbean: Causes, Consequences, and Policy Implications". International Development in Focus. World Bank Group. 2020

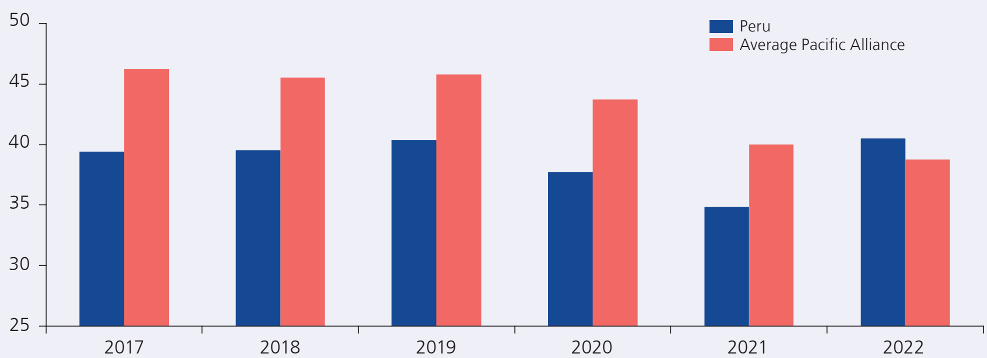
In empirical terms, the economic literature has given different operational contents to the intuitive idea of rigid expenditure. Cetrángolo and Jiménez (2009)[48] estimate rigid expenditure at the central government level based on expert judgment (typically by finance ministry officials) including all budgetary items of expenditure, although at different levels of rigidity. In Peru, with data from 2006, the experts estimate a rigidity percentage of 100 percent for salaries, pensions and debt service. Transfers to subnational governments are rigid at 98.5 percent, while goods and services and gross capital formation exhibit even lower percentages (79.5 and 77.5 percent, respectively).

In more recent works, such as Herrera and Olaberría (2020), the concept of rigid expenditure concentrates on the items of remunerations, pensions, intergovernmental transfers and interest on public debt, but estimates for each item a "structural" component that is a function of the country's demographic and economic characteristics (population, GDP per capita, dependency ratio, trade openness, inequality, degree of urbanization, population density, labor force participation rate, among others). The part of remunerations, transfers and pensions that is explained by these variables is called "structural" and it is assumed that it does not depend on current public policies, so it constitutes rigid expenditure. In the case of Peru, in 2017 they find that about 60 percent of remunerations, 68 percent of transfers and more than 90 percent of pensions would be rigid ("structural"). They also find that the percentage of rigidity in public remunerations and pensions would have risen substantially since 2000. This paper finds that, on average, rigid spending in Latin America and the Caribbean is between 60 and 70 percent of total spending in the region for the period 2000-2017.

Application to countries in the region

A first approximation to the concept of rigid expenditure, which allows international comparisons, is achieved by applying a very strict definition: it is assumed that rigid expenditure reflects employee compensation and social benefits (including pensions, but excluding social assistance). This definition was applied to the non-financial spending of the general government of a group of countries in the region (the members of the Pacific Alliance).[49] At the level of the general government of each country, a common sample covering the period 2017-2022 yielded the following results:

PACIFIC ALLIANCE: "RIGID" EXPENDITURE OVER GENERAL GOVERNMENT EXPENDITURE
(Percentage)



48 Cetrángolo, O. and Jiménez, J. (2009) "Rigidities and fiscal spaces in Latin America". ECLAC. Collection of Project Documents. 2009.

49 Data for Colombia were taken from the Departamento Administrativo Nacional de Estadísticas (DANE) website, for Chile from the Anuario de Estadísticas de las Finanzas Públicas de la Dirección de Presupuesto, and for Mexico from the IMF's Public Finance Statistics website for 2017-2021 and the November 2023 Staff Report. Peru data are from the BCRP's Weekly Note.

As can be seen in the graph, with this institutional coverage and definition of rigid (restricted) spending, it is found that the weight of rigid spending in Peru would be lower than the average weight observed in Chile, Colombia, and Mexico in the period 2017-2021, and was higher in 2022. In Peru this measure of rigid spending increased from 2017 to 2019 and fell during the pandemic, due to higher health spending and transfers to families and businesses to mitigate the impact of such event. In 2022, rigid spending would have increased, due in part to the end of transitional spending for COVID-19 and changes in CAS contracts, which became open-ended.

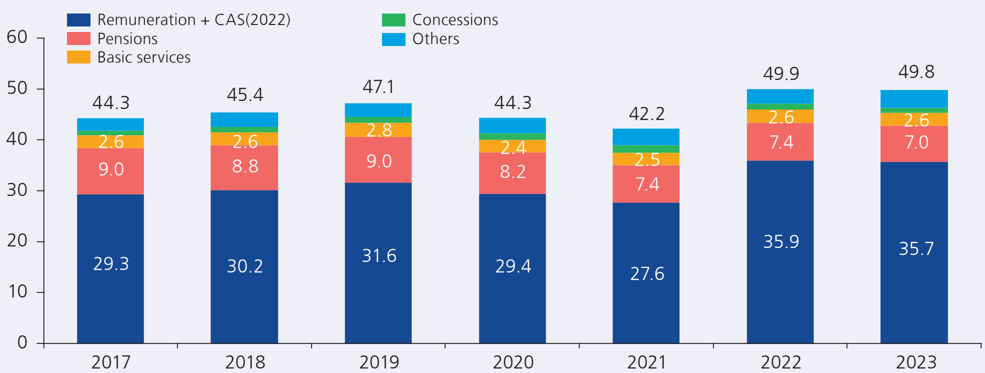
An extended measure applied to Peru

It is possible to expand the definition of rigid expenditure to use the information contained in the Integrated System of Financial Administration of the State (SIAF). We will assume, as before, that all salaries and pensions are rigid, but we will also consider as rigid spending maintenance, spending on basic services necessary to operate government entities (utilities, rents, cleaning, and insurance) as well as the return on capital invested in PPP projects and the obligations paid by the Fuel Price Stabilization Fund (FEPC). The latter expenditure items are considered rigid as they are the result of previous public policy decisions regarding the financing of investment projects and the stabilization of domestic fuel prices.

The unit of analysis (in contrast with the previous section) is the General Budgetary Government, so it is not within the scope of this box to assess the rigidity of intergovernmental transfers. Also, the period of analysis is extended to 2017-2023.

As can be seen in the following graph, the two most important components of the most rigid expenditure are salaries and pensions, which together explain, on average, around 40 percent of the nonfinancial expenditure of the budgetary general government in the sample period; basic services account for, also on average, around 3 percent of the expenditure, with the rest of the items having a lower quantitative weight.

PERU: GENERAL GOVERNMENT RIGID BUDGETARY EXPENDITURE
(Percentage of total accrued non-financial expenses)



The graph shows that the rigid component of spending would have reached 47.1 percent of nonfinancial expenditure until before the pandemic (2019). The discretionary measures implemented in response to the pandemic would have reduced the percentage of rigid spending basically due to the increase in current spending associated with the health emergency and the effects of the quarantine (more spending on health and bonuses to families) as mentioned above. However, in 2022 and 2023, the rigid expenditure would have increased to a level close to half of the budgetary non-financial expenditure, which is mainly explained by the increase in remunerations and pensions by government and the change in the treatment of CAS contracts.

According to the literature, increased rigidities in the expenditure budget may lead to suboptimal fiscal policies. For example, after adverse revenue shocks it may be necessary to consolidate spending to avoid an excessive expansion of public debt, which becomes difficult if spending rigidities are high. This increases the risk that the level of debt will approach unsustainable levels or that the markets' perception of risk will increase, thus raising the cost of financing for the public sector and, to the extent that sovereign risk affects the risk of private issuers, of the rest of the economy.

To prevent budget rigidity from affecting the State's ability to provide services to the people, it is necessary to improve the way in which qualified personnel are recruited and retained on the government's payroll, so as to increase efficiency in the use of public resources. An increase in permanent government revenues would also mitigate the adverse impacts of budgetary rigidity on the government's ability to sustainably provide public goods.

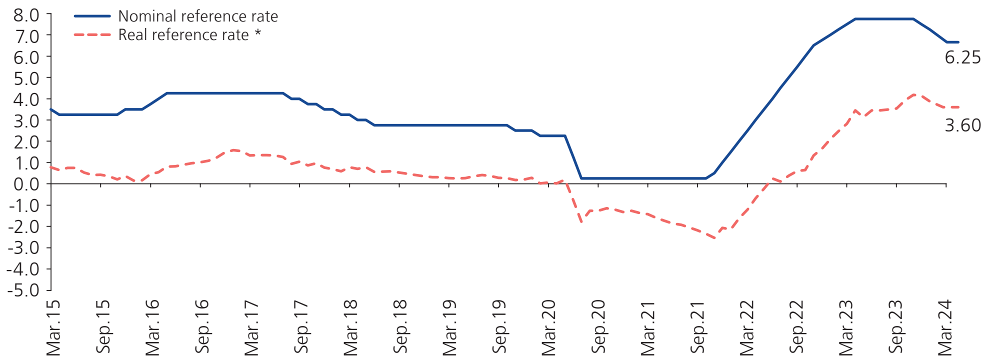
V. Monetary policy and financial conditions

Monetary policy actions

64. Between January and February 2024, the Board of Directors of BCRP decided to reduce the benchmark rate by 25 basis points each time, bringing the benchmark rate from 6.75 to 6.25 percent. The communication of these decisions emphasized that this does not necessarily imply a cycle of successive interest rate reductions. Subsequently, in March 2024, the Board agreed to maintain the benchmark rate at 6.25 percent. Likewise, it was approved to reduce the reserve requirement rate in domestic currency from 6.0 to 5.5 percent as of April, with the role of complementing the monetary easing initiated in September last year. In all the information notes between January and March, it was stated that future adjustments in the benchmark rate will be conditioned to new information on inflation and its determinants.

    By way of background, the Board of Directors of BCRP raised the benchmark rate between August 2021 and January 2023, from 0.25 percent to 7.75 percent, while between February and August 2023 it decided to keep the benchmark rate unchanged. From September 2023 to March 2024, the benchmark rate accumulated a reduction of 150 basis points.

Graph 59
REFERENCE INTEREST RATE
(%)



* With expectation on inflation.
Source: BCRP.

65. Monetary policy decisions between January and March 2024 took into consideration that:

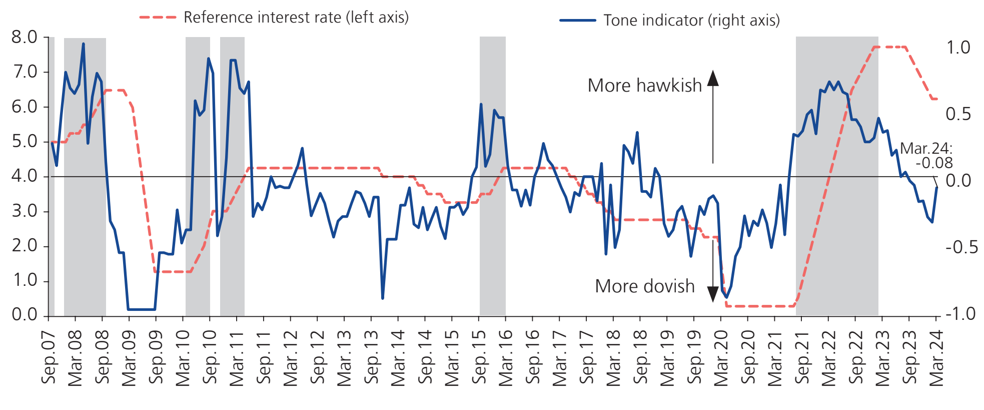
- Between December 2023 and February 2024, the twelve-month inflation rate rose from 3.24 to 3.29 percent. For its part, the twelve-month non-food and energy inflation rate increased from 2.90 to 3.10 percent.
- Subsequent to the significant increase of global inflation rates since the second half of 2021, a downward trend was observed in most countries. In Peru, the decline has been steeper between June 2023 and January 2024, as some of the transitorily effects on inflation due to restrictions in the supply of certain foodstuffs have dissipated.
- Year-over-year inflation is projected to continue declining over the projection horizon and to remain within the target range in coming months. The risks associated with climatic factors stemming from the El Niño oscillation have been downgraded with respect to the beginning of the year.
- Between December 2023 and February 2024, twelve-month inflation expectations declined from 2.83 percent to 2.65 percent, and remained within the inflation target range for the third consecutive month.
- In February, most leading indicators of economic activity and expectations bounced back. However, most indicators remain in the pessimistic range.
- The outlook for world economic activity points to moderate growth with lower inflationary pressures. However, there are still risks associated with international conflicts, with adverse effects on fuel and freight prices.
- The Board is particularly attentive to new information on inflation and its determinants, including the evolution of inflation expectations and economic activity, to consider, if necessary, further modifications to the monetary policy stance. The Board reaffirms its commitment to take the necessary actions to ensure the return of inflation to the target range over the projection horizon.

66. With respect to the tone and communication signals of monetary policy, the tone indicator used by the BCRP in the first quarter continued with values consistent with a dovish monetary policy stance.

Graph 60

REFERENCE INTEREST RATE AND MONETARY POLICY TONE INDICATOR*

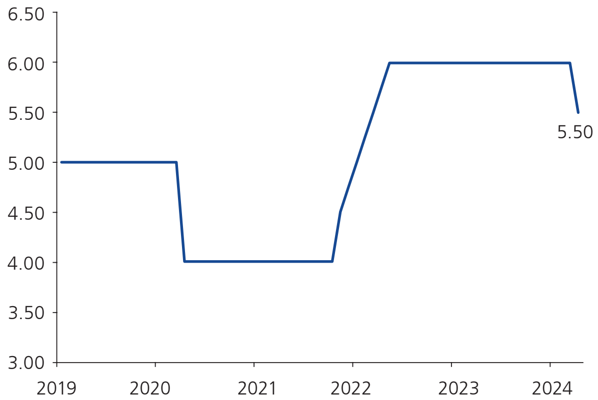
(% and index value)



* For the monetary policy tone indicator, the positive values of the index mean a tone in favor of a contractionary position (hawkish), while negative values imply communication with an expansive position (dovish). Shaded areas correspond to periods of rising interest rates.
Source: BCRP. The methodology is based on Vega, M. and Lahura, E. (2020). "Assessing central bank communication through monetary policy statements: Results for Colombia, Chile and Peru", DT. N°. 2020-017, BCRP.

67. BCRP adopts changes in the reserve requirement rate as a complementary measure to the decisions it makes on its benchmark rate. The reserve requirement rate regulates liquidity, through the monetary base and its multiplier, and the credit cycle of the financial system. Additionally, this type of measure indirectly influences interest rates by affecting the cost of financial intermediation and the margin between the financial system's lending and deposit rates.

Graph 61
LEGAL MINIMUM RESERVE REQUIREMENT RATE IN SOLES*
(%)



Start month of application of the extent	Legal minimum RR rate in soles
April 2017	5.00%
April 2020	4.00%
September 2021	4.00%
October 2021	4.00%
November 2021	4.50%
December 2021	4.75%
January 2022	5.00%
February 2022	5.25%
March 2022	5.50%
April 2022	5.75%
May 2022	6.00%
April 2024	5.50%

* The graph includes the latest update of the reserve requirement rate, which applies from April 2024.
Source: BCRP.

68. The reduction in the reserve requirement rate as of April would mean a release of loanable funds for S/. 1,253 million, which will induce a reduction in the lending rate and thus contribute to the recovery of credit to the private sector in local currency.

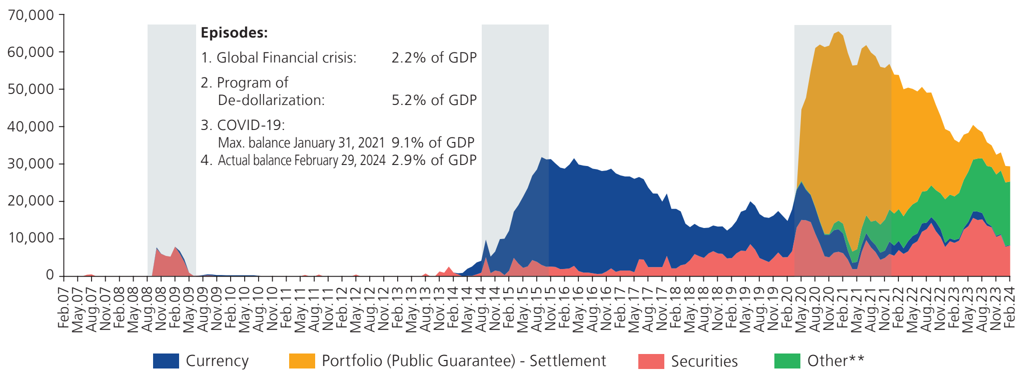
Monetary operations

69. The BCRP's operations were aimed at ensuring adequate liquidity in the interbank market. To this end, between January 1 and February 29, 2024, the BCRP sterilized net liquidity totaling S/ 10,843 million, including the net placement of Overnight and Over-the-Counter Term Deposits (S/ 3,876 million), the net maturity of Securities Repos (S/ 2,846 million), the net placement of BCRP CDs (S/ 2,049 million), the net maturity of auctions of Public Treasury term deposits (S/ 1,672 million), the amortization of government-secured repos of credit term deposits (S/ 754 million), the maturity of currency repos (S/ 82 million) and the maturity of loan repos (S/ 30 million). This sterilization was partially offset by the net maturity of BCRP CDRs (S/ 465 million).

As a result of the foregoing, the total balance of injection operations was S/ 29,341 million as of February 29, 2024, while the balance of BCRP Certificates of Deposit (BCRP CDs and BCRP CDRs) reached S/ 37,200 million as of the same date. GDP-wise, as of February 29, the balance of liquidity injection operations amounted to

2.9 percent of GDP, of which S/ 4,083 million are government-secured repos of credit portfolio repos guaranteed by the national government.

Graph 62
BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP
(In mill. S/)



* As of February 29, 2024
** 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.

For monetary regulation purposes, between March and December 2023, the BCRP purchased Public Treasury Bonds (BTP) in the secondary market with maturities up to 2040 for S/ 5,379 million valued at acquisition price. Thus, the increase in 2023 of the holdings of securities issued by the Public Treasury in the secondary market amounted to S/ 4,573 million. This amount considers the settlement of global bonds in June 2023 (S/ 806 million). The maximum amount for the annual increase in holdings of these securities is determined in Article 61 of the BCRP's Organic Law and is equivalent to 5 percent of the monetary base at the close of the preceding year.

70. As for the BCRP's balance sheet, changes in both composition and size were observed. On the one hand, the balance of repo operations decreased from 7.5 to 6.0 percent of the BCRP's net assets between the end of December and February 29, 2024. The share of Public Sector deposits in BCRP's net liabilities decreased from 23.0 percent in December 2023 to 22.0 percent as of February 2024, while that of financial system deposits increased from 20.8 percent to 23.4 percent in the same period. Finally, BCRP sterilization instruments (BCRP CDs, BCRP CDRs, BCRP CDVs, and overnight and over-the-counter term deposits) increased their share of BCRP net liabilities from 14.0 percent in December 2023 to 15.2 percent in February 2024; currency in circulation decreased its share from 25.4 to 23.7 percent over the same period.

In addition, the size of the BCRP's balance sheet also increased. In February 2024, the BCRP's assets amounted to S/ 309,097 million, equivalent to 30.9 percent of GDP, higher than at the end of 2023 (29.6 percent).

Table 28

SIMPLIFIED BALANCE SHEET OF THE BCRP

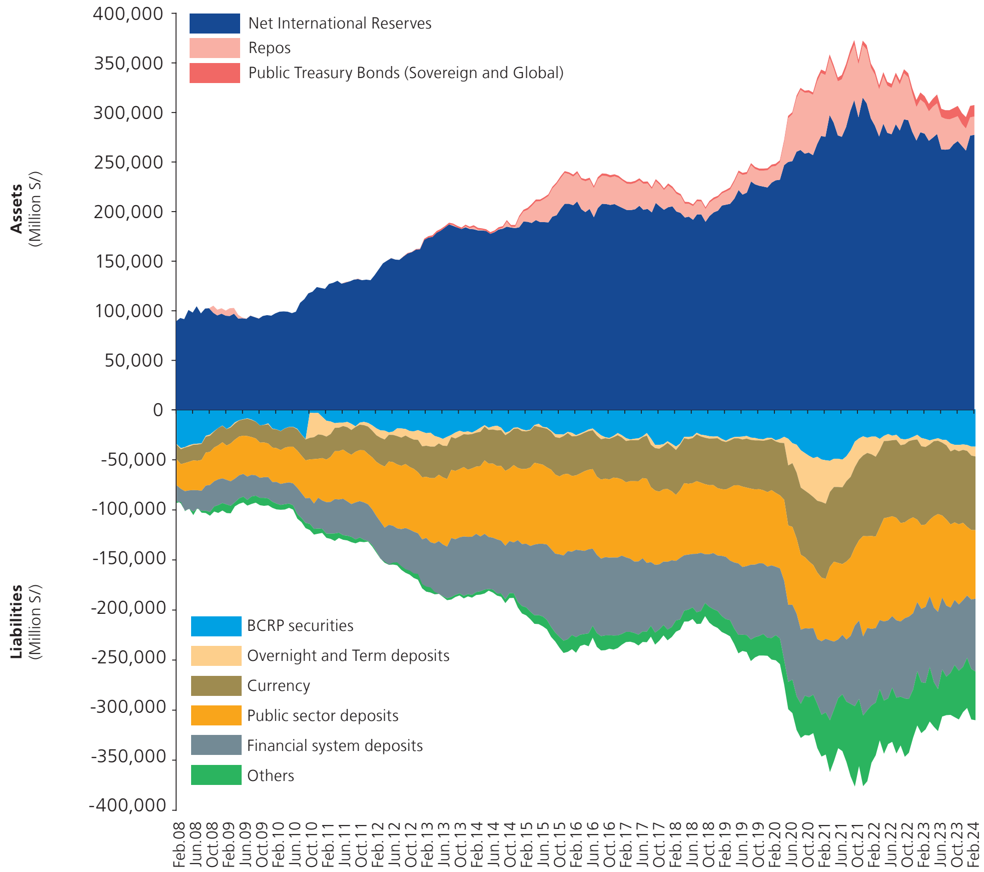
(As % of Net Assets)

	Dec.22	Dec.23	Feb.24
I. Net assets	**100%**	**100%**	**100%**
Net International Reserves	**87.0%**	**88.6%**	**90.2%**
	(USD 71,883 mills.)	(USD 71,033 mills.)	(USD 73,943 mills.)
Repos	10.8%	7.5%	6.0%
Sovereign bonds	2.3%	3.9%	3.8%
II. Net liabilities	**100%**	**100%**	**100%**
1. Total public sector deposits	**26.1%**	**23.0%**	**22.0%**
In domestic currency	23.1%	17.3%	16.6%
In foreign currency	3.0%	5.7%	5.4%
2. Total financial system deposits	**21.8%**	**20.8%**	**23.4%**
In domestic currency	4.3%	5.0%	4.2%
In foreign currency	17.6%	15.8%	19.2%
3. BCRP instruments	**9.6%**	**14.0%**	**15.2%**
CD BCRP	4.0%	11.8%	12.0%
CDR BCRP	0.0%	0.2%	0.0%
CDV BCRP	4.1%	0.0%	0.0%
Term deposits	1.1%	1.1%	2.9%
Overnight deposits	0.4%	0.9%	0.2%
4. Currency	**25.4%**	**25.4%**	**23.7%**
5. Other*	**17.2%**	**16.8%**	**15.7%**

* Includes assets and other accounts.
** Information as of 29 February, 2024.
Source: BCRP.

Graph 63

EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2024



Source: BCRP.

Financial markets

71. Most interest rates in domestic currency reflect the easing of monetary conditions underway since September 2023. Interest rates for banks' term deposits over 30 days and for sectors with lower credit risk show the largest reductions between December 2023 and March 2024.

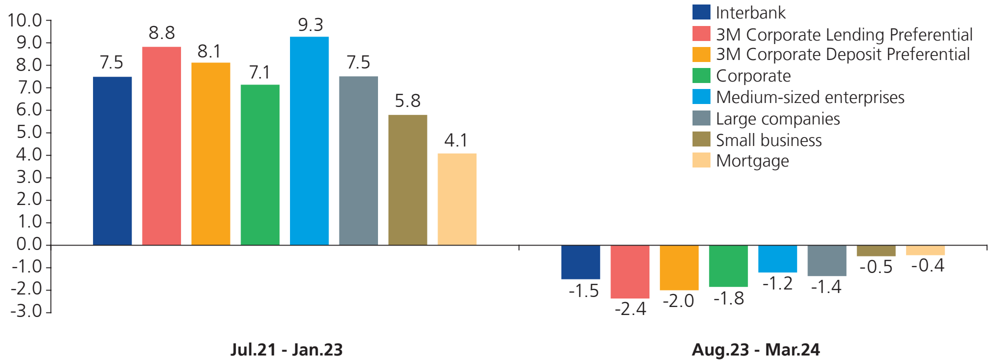
Table 29
INTEREST RATE IN DOMESTIC CURRENCY 1/
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Sep.23	Dec.23	Mar.24	Historical average 2/
Pasive								
90-day corporate prime	2.8	0.2	2.6	8.1	7.6	6.7	6.0	3.8
TIPMN	2.3	1.0	1.1	3.0	4.0	3.5	3.3	2.3
FTIPMN	1.5	0.1	1.0	3.7	3.6	3.1	3.1	2.3
Deposits up to 30-day	2.3	0.0	1.9	7.4	7.4	6.7	5.7	3.5
Individuals	1.6	0.2	0.7	3.7	2.8	3.3	3.8	2.4
Business	2.3	0.0	1.9	7.4	7.4	6.7	5.7	3.5
On 31 to 90-day term deposits	2.7	0.2	2.2	7.5	7.7	6.6	5.8	3.7
Individuals	1.8	0.5	0.8	3.7	7.1	6.1	5.2	2.2
Business	2.8	0.2	2.2	7.8	7.9	6.8	6.1	3.8
On 91 to 180-day term deposits	3.0	0.4	2.4	7.6	7.5	6.2	5.2	3.9
Individuals	2.3	0.5	0.9	4.8	7.2	5.9	5.0	2.8
Business	3.1	0.3	2.6	8.5	7.9	6.9	5.7	4.1
On 181 to 360-day term deposits	3.3	0.7	2.9	7.6	7.1	5.7	5.2	4.1
Individuals	3.3	1.3	2.9	6.9	6.2	5.0	4.6	3.8
Business	3.3	0.4	2.9	7.8	7.7	6.2	5.7	4.2
CTS	2.2	1.9	2.3	2.6	2.5	2.0	3.7	3.1
Active								
90-day corporate prime	3.3	0.7	3.1	9.2	8.6	7.5	6.6	4.6
TAMN	14.4	12.1	11.2	14.5	16.0	15.9	15.7	15.7
FTAMN	18.2	17.6	20.9	28.3	28.7	28.4	29.3	21.2
Corporates	3.8	2.5	3.2	8.9	8.7	8.1	7.3	5.4
Large companies	6.0	4.6	5.7	10.6	10.6	10.2	9.3	7.0
Medium-sized enterprises	9.3	6.1	8.8	14.1	14.0	13.3	13.3	10.3
Small business	18.0	17.2	19.3	22.5	22.5	22.9	23.0	20.4
Micro business	31.3	30.1	32.3	36.3	38.3	37.7	43.8	33.0
Micro business 3/	44.5	22.6	38.8	39.3	42.7	43.9	46.1	40.2
Consumer	40.9	39.5	41.8	49.6	54.5	56.9	55.9	42.8
Consumer 3/	43.1	41.5	40.4	47.7	52.7	54.3	55.2	45.4
Mortgage	7.0	6.4	6.9	9.9	9.2	9.1	8.9	8.4

1/ Rates in annual terms of banks' transactions in the last 30 days.
2/ Average since September 2010. In the case of consumer credit, it is the average since October 2019.
3/ Corresponds to the average of the financial system.
As of March 11.
Source: BCRP and SBS.

Lending and deposit prime rates, which are highly representative of the market and the financial condition of banks, and which absorb changes in the benchmark rate more quickly, decreased less in the first quarter of 2024 than in the fourth quarter of 2023. Thus, between December 2023 and March 2024, lending and deposit interest rates for terms between overnight and twelve months accumulated average reductions of 84 and 77 basis points, respectively. By maturity, the largest reduction in the quarter was in the one-month lending and deposit rates (101 and 95 basis points, respectively). The spreads between the 3, 6 and 12-month prime lending rate and the reference rate are below pre-pandemic levels.

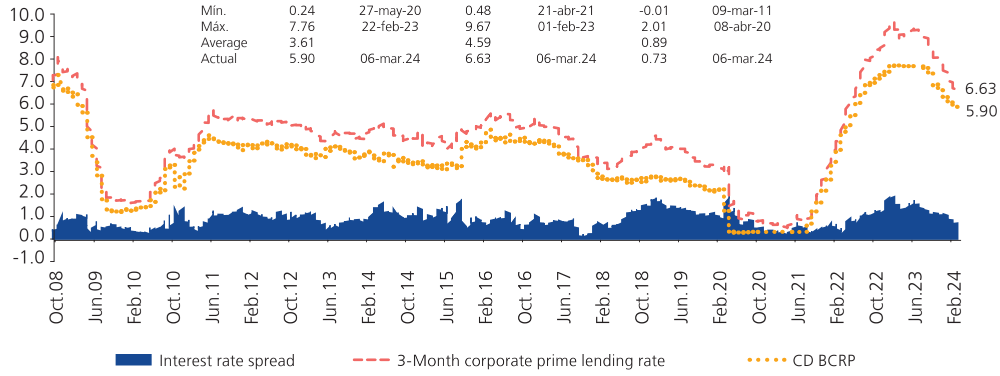
Graph 64
VARIATION IN INTEREST RATES IN SOLES
(In basis points)



As of March 11.
Source: BCRP and SBS.

The spread between the corporate prime lending rate and the 3-month BCRP CDs in March 2024 (73 basis points) continues to slide from its peak of the last two years (193 basis points in February 2023). BCRP continues to make placements of longer maturity BCRP CDs and undertake repo operations.

Graph 65
3-MONTH CORPORATE PRIME LENDING AND 3-MONTH CD-BCRP RATES
(%)



	CDBCRP		3-Month corporate prime lending rate		Interest rate spread	
Mín.	0.24	27-may-20	0.48	21-abr-21	-0.01	09-mar-11
Máx.	7.76	22-feb-23	9.67	01-feb-23	2.01	08-abr-20
Average	3.61		4.59		0.89	
Actual	5.90	06-mar.24	6.63	06-mar.24	0.73	06-mar.24

Al,6 de marzo.
Source: BCRP and SBS.

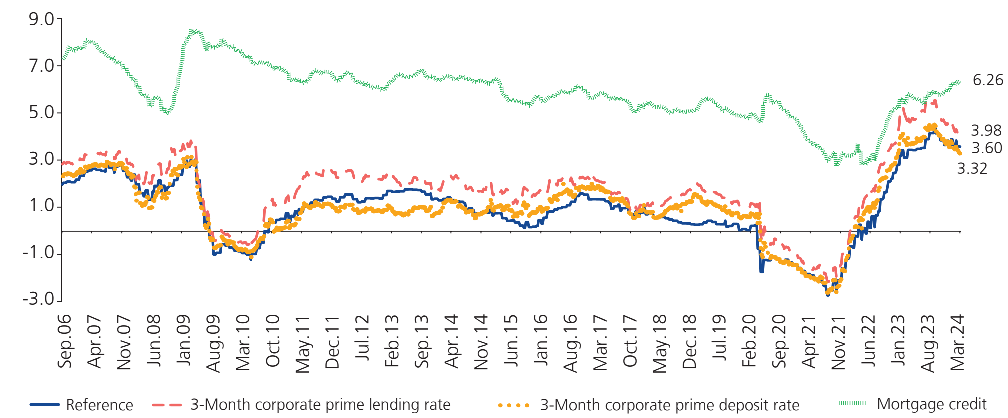
By credit segment, interest rates evidenced mixed behavior in the first quarter of 2024. The rates of the corporate and large companies sector, characterized by their lower credit risk, evidenced reductions of 80 and 90 basis points over the analysis horizon. In the consumer segment, the banks' interest rate dropped by 99 basis points, while the financial system's rate increased by 90 basis points, the latter reflecting the increase in the maximum interest rates applicable as of November 1, 2023 (from 82.94 to 101.96 percent). Over the same horizon, the mortgage sector interest rate decreased from 9.1

to 8.9 percent, respectively, while the 10-year sovereign bond yield rate increased from 6.7 percent in December 2023 to 7.0 percent in March 2024, in line with the increase in the U.S. 10-year bond yield rate (22 basis points).

Most passive interest rates of banks decreased in the first quarter of 2024, mainly interest rates paid to companies. By type of depositor, interest rates paid to individuals and companies decreased on average 36 and 85 basis points, respectively. Corporate prime rates for terms between overnight and twelve months also slipped (average of 77 basis points). The interest rate on CTS deposits increased from 2.0 percent in December 2023 to 3.7 percent in March 2024 due to the demand to capture this type of funds, while the balance decreased by S/ 53 million between December 2023 and January 2024, associated to the release of the saved funds that was approved during the pandemic and available until December 2023.

Lower inflation expectations in the first quarter of 2024 moderated the reduction in real interest rates of the monetary and financial system compared to nominal interest rates. On the one hand, in real terms, 3-month corporate lending and deposit rates showed reductions of 37 and 26 basis points, respectively. On the other, the mortgage loan rate increased by 30 basis points. The reference rate in real terms remained at 3.60 percent in the first quarter of 2024.

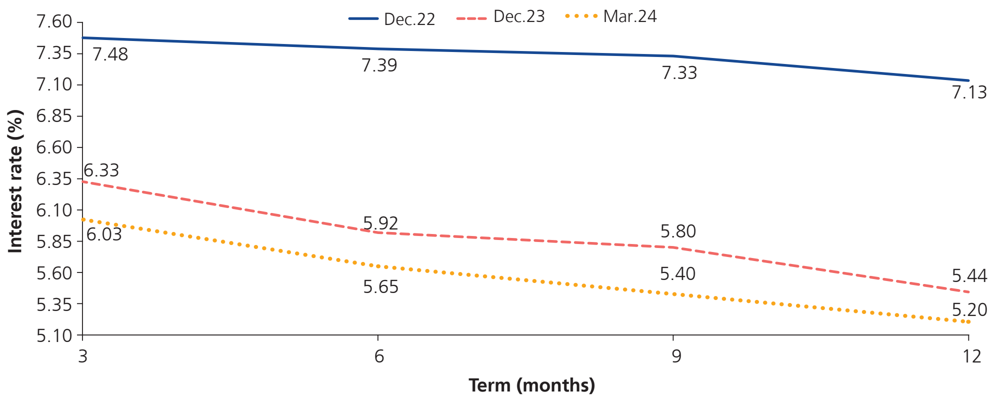
Graph 66
REAL EX-ANTE INTEREST RATES IN SOLES
(%)



As of March 11. Nominal interest rates are deflated using inflation expectations.
Source: BCRP and SBS.

72. Yield rates on the yield curve of Certificates of Deposit (BCRP CD securities) decreased in the first quarter of 2024, incorporating the 50-basis point reduction in the benchmark rate. The yield curve remains inverted, reflecting the market's expectation of benchmark rate movements in the coming months. Thus, interest rates between December 2023 and March 2024 have fallen by 30, 27, 40 and 24 basis points at 3-, 6-, 9- and 12-month terms, respectively.

Graph 67
YIELD CURVE OF CD-BCRP SECURITIES 1/
(%)

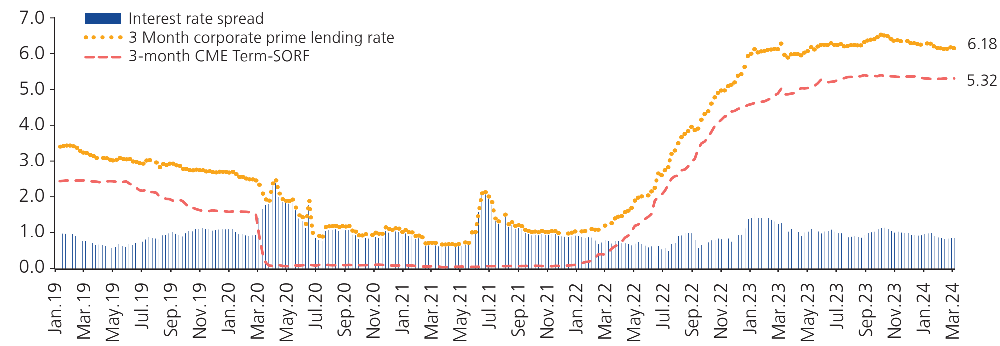


1/ Yield rate of the primary and secondary market of BCRP CDs.
As of March 11.
Source: BCRP.

73. In the US dollar-denominated money market, interest rates were influenced by the expectation of cuts in the US Federal Reserve's policy rate in the second half of 2024. In the case of the prime lending and deposit rates, they decreased for terms between 1 and 6 months by an average of 11 and 9 basis points, respectively. Meanwhile, the 3-month Term SOFR decreased by 1 basis point. The spread between the prime lending rate and the 3-month Term SOFR decreased from 0.93 percent in December 2023 to 0.85 percent in March 2024.

The average overnight interbank interest rate remains at 5.50 percent in the first quarter of 2024, a similar level to the Federal Funds Rate.

Graph 68
INTEREST RATE IN DOLLARS: CORPORATE PREFERENTIAL LIABILITY AND 3-MONTH CME TERM-SOFR
(%)



As of March 11.
Source: Chicago Mercantile Exchange and BCRP.

In the banking credit market, in the first quarter of 2024, the segment with the lowest credit risk (corporate) presented a lower interest rate, in response to the anticipation of an upcoming reduction in the U.S. policy rate in 2024. In addition, the consumer segment of the financial system stands out because of the highest increase experienced by its interest rate (477 basis points), which may have been influenced by the increase in the maximum interest rates applicable as of November 1, 2023 (from 77.5 to 82.94 percent). The mortgage interest rate decreased from 7.9 percent in December 2023 to 7.8 percent in March 2024, while the yield on the 10-year global bond increased from 5.1 percent to 5.4 percent over the same horizon.

Most individual and corporate dollar deposit rates declined in the first quarter of 2024. Thus, in the case of interest rates for individuals, they decreased by an average of 29 basis points for terms up to 360 days; for companies, lower interest rates were observed for terms between 31 and 90 days (7 basis points); and between 181 and 360 days (-69 basis points). This trend could respond to market expectations of a reduction in the U.S. monetary policy rate in coming months. The CTS deposit interest rate increased from 0.9 percent in December 2023 to 1.2 percent in March 2024, while the balance of this type of deposit stood at USD 532 million in January 2024, the lowest level since January 2010.

Table 30

INTEREST RATE IN FOREIGN CURRENCY 1/

(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Sep.23	Dec.23	Mar.24	Historical average 2/
Pasive								
90-day corporate prime	1.6	0.2	0.3	4.7	5.4	5.3	5.2	1.4
TIPMEX	0.8	0.3	0.2	1.2	1.9	1.9	1.9	0.7
FTIPMEX	1.2	0.1	0.1	2.3	3.1	3.3	3.4	0.9
Deposits up to 30-day	1.4	0.1	0.1	3.6	4.8	5.1	5.1	1.1
Individuals	1.3	0.0	0.1	1.1	3.3	3.4	3.1	0.8
Business	1.4	0.1	0.1	3.6	4.9	5.1	5.1	1.1
On 31 to 90-day term deposits	1.5	0.3	0.2	3.3	4.9	4.8	4.7	1.3
Individuals	1.0	0.2	0.2	1.7	3.5	3.8	3.3	0.8
Business	1.6	0.3	0.2	3.4	5.2	5.1	5.1	1.4
On 91 to 180-day term deposits	1.3	0.3	0.5	3.4	4.2	3.6	3.8	1.3
Individuals	1.0	0.2	0.3	2.1	3.8	3.2	3.0	1.0
Business	1.6	0.3	0.6	4.6	5.0	5.0	5.2	1.5
On 181 to 360-day term deposits	1.4	0.3	0.6	3.8	4.3	3.5	3.3	1.4
Individuals	1.2	0.3	0.4	3.2	3.4	2.7	2.6	1.3
Business	1.8	0.3	0.7	4.9	5.7	5.5	4.8	1.6
CTS	1.3	1.0	0.9	1.1	1.1	0.9	1.2	1.5
Active								
90-day corporate prime	2.7	1.0	1.0	6.0	6.5	6.3	6.2	2.4
TAMEX	7.6	6.1	6.7	9.3	10.8	10.9	11.1	7.9
FTAMEX	7.1	6.3	7.6	10.9	13.0	13.0	13.9	8.1
Corporates	3.2	2.0	2.1	6.1	7.6	7.5	7.2	3.4
Large companies	6.0	4.6	5.7	7.8	8.8	8.8	8.7	6.8
Medium-sized enterprises	6.6	5.9	5.9	8.8	10.2	9.8	10.0	7.9
Small business	8.8	5.3	10.3	12.2	13.3	13.2	13.7	11.7
Micro business	11.0	8.5	7.4	12.7	19.0	15.5	16.7	16.1
Micro business 3/	7.7	4.8	17.1	9.4	11.9	16.1	12.6	13.2
Consumer	36.1	35.1	33.4	41.0	42.5	45.9	46.3	31.8
Consumer 3/	35.3	33.5	33.9	37.1	41.5	40.8	45.6	36.7
Mortgage	5.6	5.4	5.0	8.3	7.9	7.9	7.8	7.0

1/ Rates in annual terms of banks' transactions in the last 30 days.
2/ Average since September 2010. In the case of consumer credit, it is the average since October 2019.
3/ Corresponds to the average of the financial system.
As of March 11.
Source: BCRP and SBS.

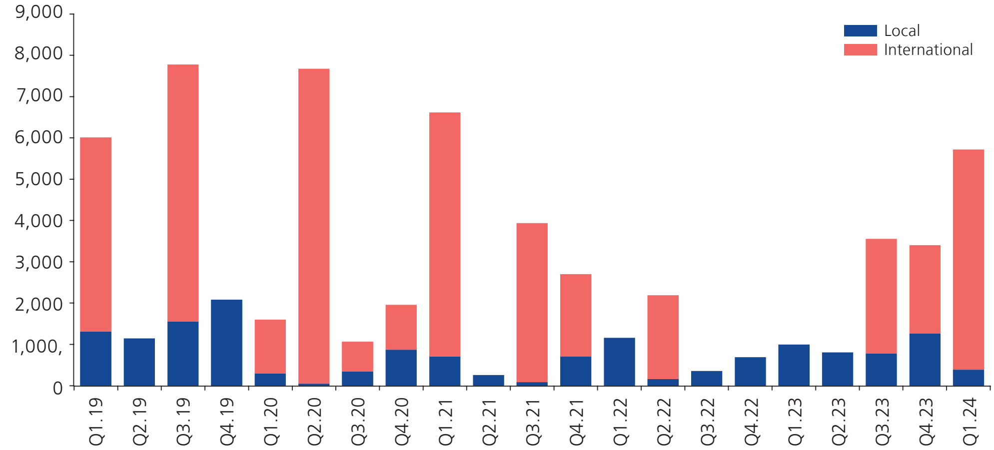
Fixed income market

74. Securities issued by Peruvian companies in the capital market have shown greater dynamism in the first quarter of 2024, although the amounts placed are still at pre-

COVID levels. In the local market, a total of S/ 391 million were placed through public offerings between January and March 2024, below the level of the fourth quarter of 2023 (S/ 1,263 million). In the international market, placements were made worth S/ 5,325 million (S/ 1,150 million and USD 1,100 million) at maturities between 5 and 10 years.

Non-resident entities have issued Sol-denominated securities worth S/ 160 million in the first quarter of 2024 at maturities between 4 and 15 years, above the total placed in the fourth quarter of 2023 (S/ 137 million). In 2023, securities were issued for S/ 1,427 million, below the 2022 total (S/ 1,883 million).

Graph 69
PRIVATE SECTOR BOND PLACEMENTS
(In millions S/)



As of March 11.
Source: Reuters and SMV.

75. On the demand side of securities placements, the value of portfolios managed by institutional investors bounced back in the first quarter of 2024.

AFPs' investment portfolio increased from S/ 122.8 billion to S/ 127.1 billion between December 29, 2023 and March 8, 2024, mainly due to the valuation of local equity investments and foreign mutual funds. In 2023, the investment portfolio increased by S/ 13.7 billion due to an increase in the contribution of members, net purchases of securities and valuation of the assets in the portfolio.

For mutual funds, assets under management increased from S/ 32.9 billion in December 2023 to S/ 34.2 billion in January 2024. The number of participants increased from 341.4 to 350.5 thousand in the same period, which is the highest of the last twelve months. Individuals represent 97 percent of participation in local mutual funds as of January 2024. In the case of insurance companies, their managed portfolio increased from S/ 61.6 billion to S/ 62.7 billion between September 2023 and December 2023.

Foreign exchange market

76. The exchange rate rose in the first quarter of 2024 between January and the second half of February (4.8 percent depreciation), mainly due to: (i) the strengthening of the

dollar worldwide (3.6 percent); (ii) the high demand for dollars in the local exchange market from non-resident investors and companies in the corporate sector; (iii) the expectation that the U.S. monetary policy rate will be maintained during the first half of 2024 and as a consequence, policy rate differentials in most emerging countries have decreased; (iv) concerns about the Chinese financial sector; and (v) tensions in the Middle East.

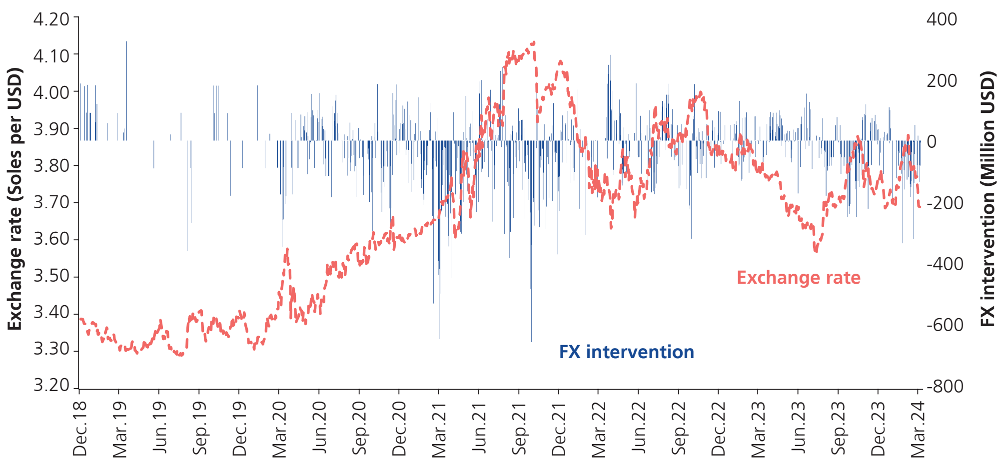
Since the second week of February, the Sol accumulated an appreciation of 5.0 percent between February 13 and March 11, in a period characterized by an improvement in the appetite for risk assets due to: (i) the weakening of the dollar at globally (2.0 percent) after the publication of data on the US economy and labor market that showed slower growth; (ii) the stimulus measures in China; and (iii) the positive corporate results in the United States that boosted its stock markets.

Thus, between December 29, 2023, and March 11, 2024, the exchange rate fell from S/ 3.707 to S/ 3.688 per dollar, respectively, or a quarterly appreciation of 0.5 percent.

BCRP interventions in the foreign exchange market in this scenario sought to mitigate exchange rate volatility. In the first quarter of 2024, uncertainty in the financial markets remains and, with it, a high variability in the appetite for risk assets.

Graph 70

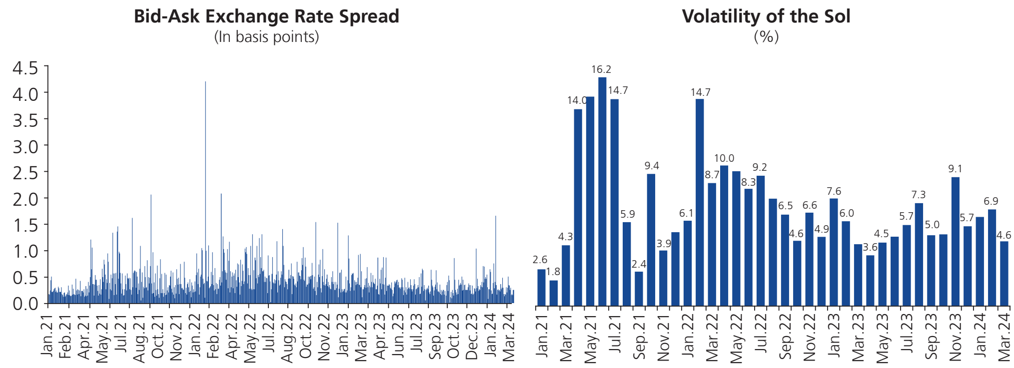
EXCHANGE RATE AND FX INTERVENTION 1/



1/ Includes Net purchases of USD in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
As of March 11.
Source: BCRP.

Sol volatility stood at 6.3, 6.9 and 4.6 percent in January, February, and March 2024, respectively, bringing volatility for the first quarter to 6.7 percent, below the regional average (9.1 percent). This was not reflected in the exchange rate bid-ask spreads, which fluctuated between 0 and 1.16 basis points in January and March 2024, below the range of the fourth quarter of 2023 (0.08 and 1.65 basis points).

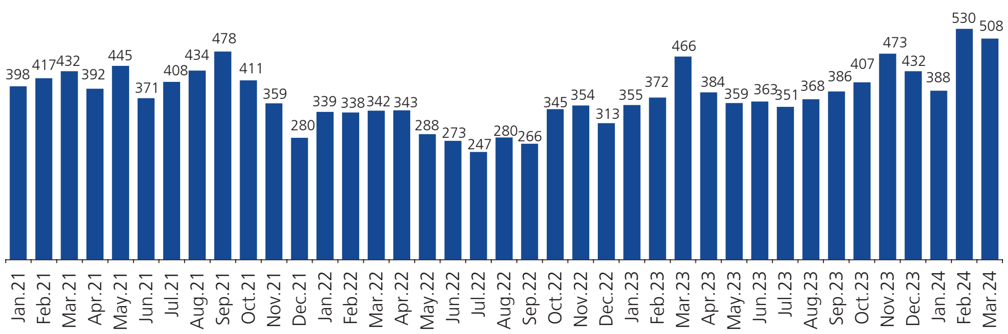
Graph 71
SPREAD AND EXCHANGE RATE VOLATILITY



Monthly annualized daily standard deviation.
As of March 11.
Source: Reuters and BCRP.

Average daily trading in the interbank spot exchange market so far in the first quarter of 2024 (USD 475 million) is higher than in the first, second, third and fourth quarters of 2023 (USD 398 million, USD 369 million, USD 368 million, and USD 437 million, respectively).

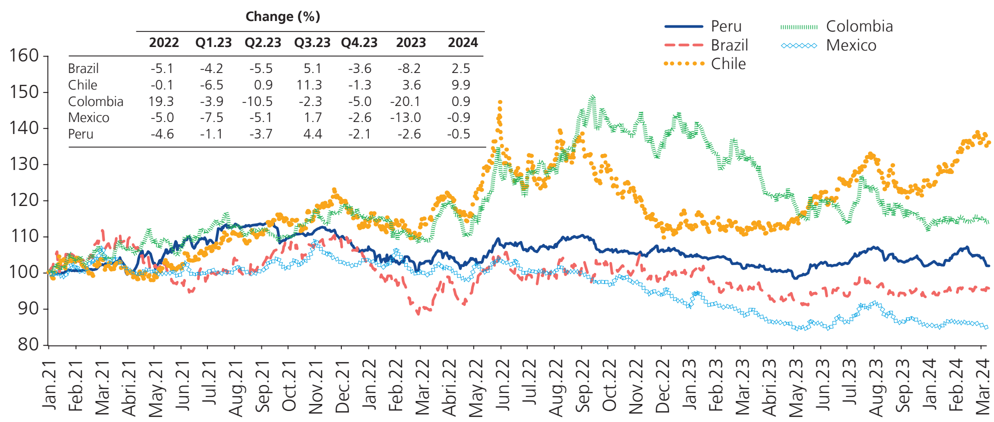
Graph 72
AVERAGE AMOUNT TRADED IN INTERBANK SPOT MARKET
(Million USD)



As of March 11.
Source: BCRP.

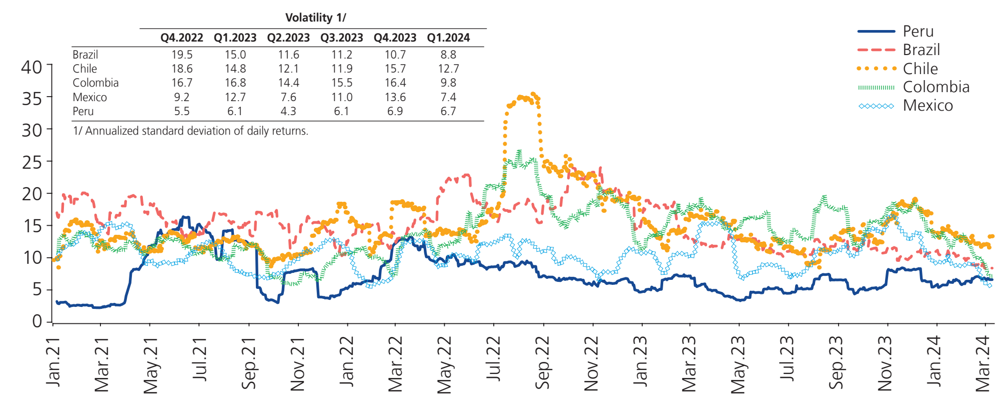
The region's currencies evidenced a mixed performance in the first quarter of 2024. The reduction of policy rates in the region and the strengthening of the dollar globally in January and February 2024 has been affecting currencies to different degrees. Among Latin American currencies, the quarterly depreciation of Chile (9.9 percent) stands out, which is above the regional average (2.4 percent). The stability of the Peruvian Sol is associated with currency confidence.

Graph 73
EXCHANGE RATE INDEX 1/
(31 Dec.2020=100)



1/ A higher index signals currency depreciation.
As of March 11.
Source: BCRP and Reuters.

Graph 74
EXCHANGE RATE VOLATILITY *



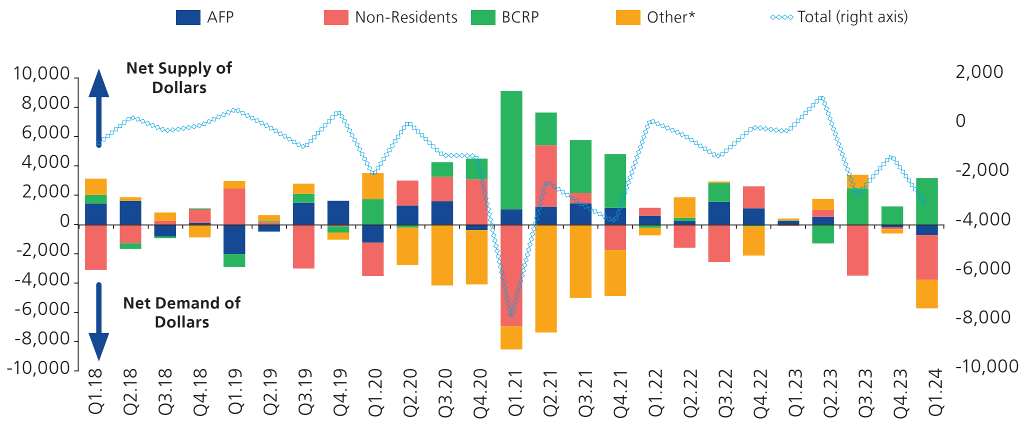
* Standard deviation of the annualized daily return over the last 30 days.
As of March 11.
Source: Reuters.

77. Market participants' exchange flows in the first quarter of 2024, as of March 8, are of net dollar demand (USD 3,194 million), higher than the net dollar demand for the fourth quarter of 2023 (USD 1,144 million). The spot market recorded net dollar demand (USD 209 million), mainly driven by the corporate sector and AFPs. In the derivatives market there was net demand (USD 2,985 million) from non-resident investors.

Graph 75

FLOWS TO THE FOREIGN EXCHANGE MARKET: (SPOT AND DERIVATIVES)

(Million USD)



	2021	Q1.22	Q2.22	Q3.22	Q4.22	2022	Q1.23	Q2.23	Q3.23	Q4.23	2023	Q1.24
Spot	-6,892	-1,482	2,017	2,816	-2,071	1,281	104	1,448	-1,157	-466	-71	-209
Derivatives	-10,288	1,787	-2,340	-4,062	2,085	-2.531	-275	-140	-1,672	-678	-2,765	-2,895
Total	-17,180	305	-323	-1,246	14	-1,250	-171	1,309	-2,829	-1,144	-2,836	-3,194
Change in Global Exchange Position of Banks	-326	-76	110	-27	108	115	138	-19	370	-86	403	37
BCRP intervention	17.506	-229	213	1,273	-123	1,134	33	-1,290	2,460	1,230	2,433	3,157

* Other includes companies in the corporate sector, mining and retail sectors.
** As of March 8.
Source: BCRP.

Net dollar demand from non-resident investors totaled USD 3,047 million in the first quarter of 2024, above the net demand of the fourth quarter of 2023 (USD 118 million). In the spot market they demanded dollars for USD 320 million, mainly in February (USD 599 million), the highest monthly demand since March 2022 (USD 721 million), and below the net demand for dollars in the fourth quarter of 2023 (USD 340 million). In the derivatives market, net demand in the first quarter reached USD 2,727 million, a change from the net supply in the fourth quarter of 2023 (USD 222 million). Net derivatives demand in January 2024 (USD 1,893 million) is the highest since September 2022 (USD 2,055 million).

On February 9, 2024, coupon payments on nominal bonds (2024, 2026, 2028, 2029, 2031, 2032, 2033, 2034, 2037, 2040, 2042 and 2055) and VAC (2030, 2040, 2046 and 2054) reached about S/ 5 billion, of which about S/ 1.8 billion corresponded to non-resident investors. This interest payment also pressured the exchange rate in February 2024, as there was no reinvestment of the coupons of foreign investors in government bonds in domestic currency. Thus, between December 29, 2023, and February 29, 2024, foreign investors sold net S/ 28 million of BTPs, and in the first week of March, on the 11th, they bought net bonds worth S/ 250 million.

AFPs demanded around USD 719 million in the first quarter of 2024 (as of March 8), above the net demand in the fourth quarter of 2023 (USD 205 million). In the spot and derivatives markets, they demanded USD 665 million and USD 54 million, respectively. Net purchases of external securities by AFPs in the period amounted to USD 573 million, above the net purchases in the fourth quarter of 2023 (USD 331 million).

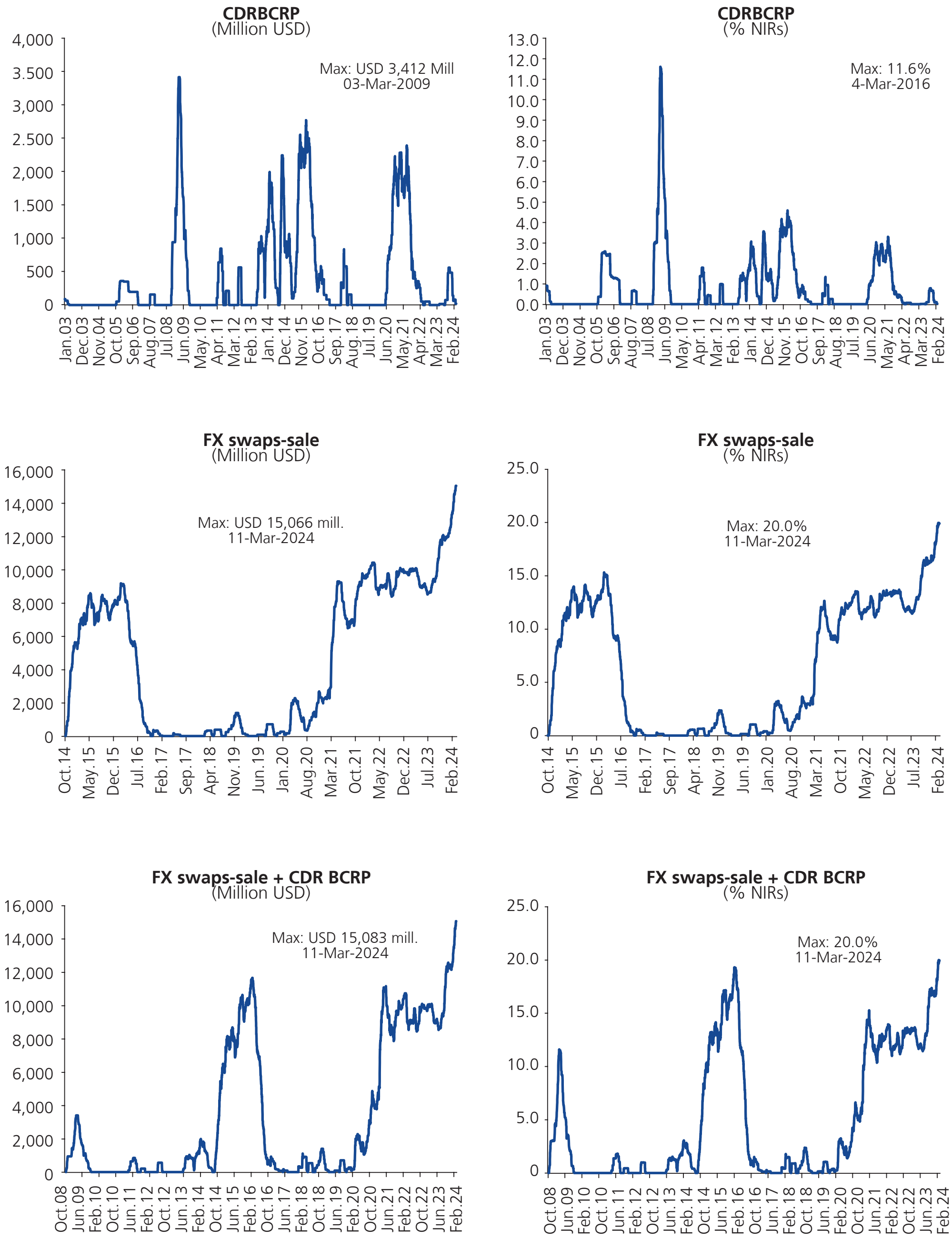
In the non-financial sector, between December 2023 and March 2024 entities present a net supply of USD 960 million: (i) companies in the corporate sector: net demand of USD 1,945 million, mainly in the spot market (USD 1,908 million), below the total for the fourth quarter (USD 3,971 million), which is reflected in reduced in dollarization by economic agents for precautionary reasons; (ii) companies in the mining sector: net supply of USD 1,982 million (USD 1,976 million in the spot market), below the net supply in the fourth quarter (USD 2,472 million), associated with the sale of dollars due to the start of income tax regularization; (iii) retail sector: net supply of USD 922 million in the spot market, below the net supply in the fourth quarter (USD 1,207 million).

Banks' overall position fell further from - USD 291 million in December 2023 to - USD 329 million in March 2024; and on February 16, 2024 this balance reached its lowest historical low since 2010 (- USD 613 million). The Non-Delivery Forward (NDF) balance of net bank sales with non-resident investors increased from USD 2,817 million between the fourth quarter of 2023 and the first quarter of 2024. The NDF balance of banks' net sales to the public reached new historical highs in February 2024.

In this context, the BCRP has intervened to a greater extent in the exchange market during the first quarter of 2024, through FX swaps-sale auctions in the fixed and variable rate modalities; with the placement of adjustable certificates of deposit (BCRP CDRs); and with the sale of spot dollars on the trading desk, in order to mitigate volatility in the price of the sol against the dollar, as the dollar strengthens in international markets and demand for dollars in the local market increases. FX swaps-sales worth S/ 22,936 million (USD 6,040 million) were placed for 3, 6, 9 and 12 months at fixed and variable rates, and S/ 11,256 million (USD 2,994 million) at fixed and variable rates matured. Additionally, BCRP CDRs were placed for S/ 65 million (USD 17 million) at 3-month maturities, and S/ 530 million (USD 140 million) matured. Finally, USD 235 million were sold in the spot market.

The total balance of FX instruments (FX swaps-sale and BCRP CDRs) as of March 11 stood at USD 15,083 million, equivalent to 20.0 percent of Net International Reserves (NIRs), a new high in dollars and as a percentage of NIRs. Most of this balance corresponds to FX swaps-sale, which in March 7 reached a new high in dollars (USD 15,066 million) and as a percentage of NIRs (20.0 percent).

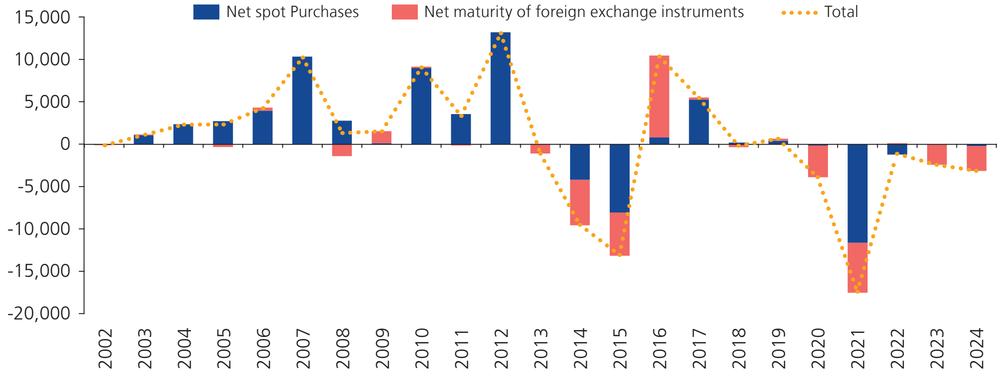
Graph 76
BCRP BALANCE OF FOREIGN EXCHANGE INSTRUMENTS
(Million USD and % of NIRs)



* As of March 11.
Source: BCRP.

As of March 11, in the first quarter, the BCRP bid net USD 3,157 million in the foreign exchange market through the net placement of foreign exchange swaps (USD 3,046 million), net maturity of BCRP CDRs (USD 124 million) and the sale of dollars in the spot market for USD 235 million.

Graph 77
BCRP INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET
(Million USD)



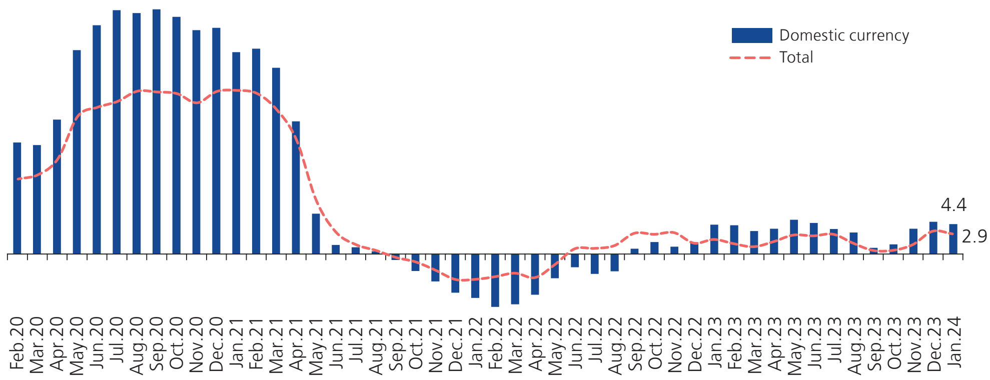
	2021	Q1.22	Q2.22	Q3.22	Q4.22	2022	Q1.23	Q2.23	Q3.23	Q4.23	2023	Q1.24*
Net spot Purchases	-11,626	-371	-641	-214	-10	-1,236	-1	0	-13	-67	-81	-235
Net maturity of foreign exchange instruments	-5,880	600	428	-1,059	133	102	-32	1,290	-2,447	-1,163	-2,352	-2,922
Total	**-17.506**	**229**	**-213**	**-1,273**	**123**	**-1,134**	**-33**	**1,290**	**-2,460**	**-1,230**	**-2,433**	**-3,157**

*As of March 11. Includes the net maturities of CDR BCRP and foreign exchange swap sales; CDLD placements and exchange purchase swaps.
Source: BCRP.

Liquidity

78. The year-on-year growth rate of private sector deposits stood at 2.9 percent per year in January 2024. By currency, deposits in Sol increased by 4.4 percent year-on-year, while dollar-denominated deposits showed a negative variation of 0.2 percent year-on-year in the same period.

Graph 78
PRIVATE SECTOR DEPOSITS BY CURRENCY*
(Annual % change)



* Total at constant exchange rate of S/ 3.71 per USD as of December 2023.
Source: BCRP.

The dollarization ratio for private sector deposits in January 2024 is 34.0 percent, slightly below the 34.1 percent recorded in December 2023.

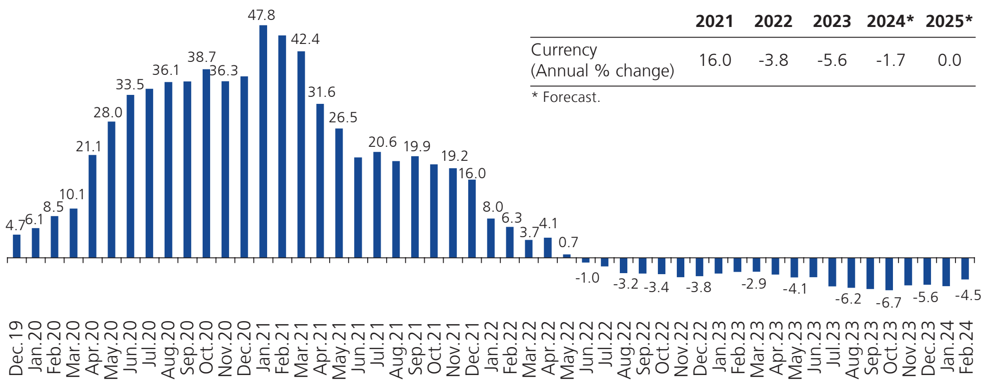
Table 31
MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS (END-OF-PERIOD)
(Annual % change)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jan.24	Dec.24*	Dec.25*
Currency in circulation (End-of-period)	4.7	37.3	16.0	-3.8	-5.6	-5.9	-1.7	0.0
Deposits in domestic currency	12.3	33.0	-5.6	1.7	4.7	4.4	9.4	7.7
Total deposits 1/	10.1	23.8	-3.8	1.6	3.3	2.9	6.3	5.3
Broad money in domestic currency	10.6	32.2	-0.9	0.6	3.5	3.3	6.8	6.0
Total broad money 1/	9.6	25.2	-0.4	0.9	2.7	2.2	5.0	4.5
Credit to the private sector in domestic currency	10.1	19.4	5.5	2.5	0.7	0.7	4.1	6.0
Total credit to the private sector 1/	7.0	10.9	4.1	4.5	1.3	1.0	3.5	5.0
Total credit to the private sector (without Reactiva Peru Program) 1/	7.0	-6.2	8.8	11.3	5.1	4.4	5.1	5.0

1/ The December 2023 constant exchange rate is maintained.
* Forecast.
Source: BCRP.

79. Currency in circulation declined 5.6 percent year-on-year in December 2023, and 4.5 percent in February 2024. The level of **currency in circulation** is expected to remain on this path in 2024. In addition, unprecedented growth during the state of emergency[50] would be reversed, in addition to recent innovations in electronic means of payment. Year-on-year growth rates of -1.7 percent in 2024 and 0 percent in 2025 are projected.

Graph 79
CURRENCY IN CIRCULATION
(Annual % change)



	2021	2022	2023	2024*	2025*
Currency (Annual % change)	16.0	-3.8	-5.6	-1.7	0.0

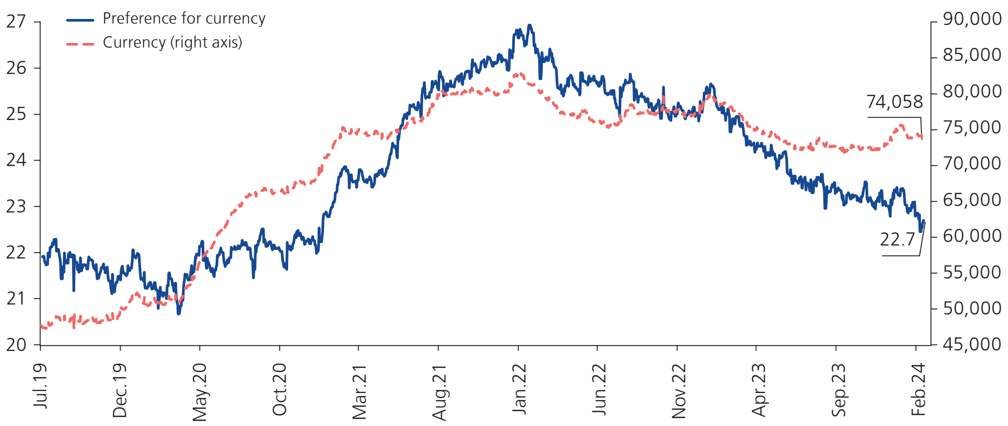
* Forecast.

* Forecast.
Source: BCRP.

80. The preference for currency in circulation has decreased during 2023 and early 2024, after growing continuously between April 2020 and December 2021. Thus, as of February 2024 it stands at 22.7, and this would also be associated with the increased use of debit cards and other digital payment methods.

50 Precautionary cash savings would have been driven mainly by transfers to families through the bonds granted by the State.

Graph 80
CURRENCY IN CIRCULATION AND PREFERENCE FOR CURRENCY IN CIRCULATION
(In millions of Soles and in %)



Source: BCRP.

Credit to the private sector

81. **Credit to the private sector** grew by 1.0 percent in annual terms in January 2024 (1.3 percent in 2023). Excluding credits from the *Reactiva Peru* program, the year-on-year credit growth rate amounted to 4.4 percent in the same period (5.1 percent in 2023). Credit to the private sector has slowed down since March 2022. This phenomenon is explained by i) the increase in loan repayments associated with the *Reactiva Perú* program; and ii) aggregate supply and demand factors that explain the lower pace of economic activity.

82. The year-on-year growth of credit to individuals remains positive, although at lower growth rates. It grew 6.5 percent in January 2024 (7.1 percent in 2023). This slowdown in credit to individuals is mainly due to slower consumer credit (7.3 percent in January 2024). On the other hand, mortgage lending has held up in recent months, recording a year-on-year growth rate of 5.3 percent in January 2024.

83. Credit to companies shows a contraction mainly associated with amortizations of the *Reactiva Peru* program and partially due to a drop in demand given the evolution of economic activity. In January 2024, credit to companies decreased 2.5 percent (2.3 percent drop in December 2023), while excluding *Reactiva Peru* loans it increased by 2.9 percent (3.7 percent in December 2023). The medium-size companies segment recorded the largest contraction (11.2 percent), while the corporate and large companies segment showed a 1.3 percent drop.

Table 32

CREDIT TO THE PRIVATE SECTOR 1/

(Annual growth rates)

	Dec.19	Dec.20	Dec.21	Dec.22	Jun.23	Sep.23	Dec.23	Jan.24
Businesses	**4.3**	**20.0**	**3.7**	**-1.5**	**-4.4**	**-4.0**	**-2.3**	**-2.5**
Corporate and large companies	4.3	6.6	8.1	1.0	-3.7	-2.8	-0.3	-1.3
Medium-sized enterprises	0.3	47.9	0.1	-13.8	-15.0	-14.1	-11.7	-11.2
Small business and Micro business	8.4	24.1	-1.0	7.7	5.0	3.5	2.2	3.2
Individuals	**11.5**	**-3.2**	**4.8**	**15.9**	**10.2**	**9.7**	**7.1**	**6.5**
Consumer	13.3	-7.1	3.1	21.8	13.7	12.7	8.3	7.3
Car loans	12.0	-2.2	7.5	16.0	18.4	13.0	11.4	10.1
Credit cards	13.4	-20.3	-41.1	32.7	20.9	16.5	10.4	9.3
Rest	13.4	-0.5	21.5	19.8	12.0	11.8	7.7	6.7
Mortgage	8.7	3.0	7.2	8.0	5.2	5.3	5.4	5.3
TOTAL	**7.0**	**10.9**	**4.1**	**4.5**	**0.9**	**1.1**	**1.3**	**1.0**
Memo:								
Businesses without Reactiva	**4.3**	**-6.9**	**11.5**	**8.4**	**4.3**	**3.5**	**3.7**	**2.9**
Total without Reactiva Peru	**7.0**	**-6.2**	**8.8**	**11.3**	**6.8**	**6.0**	**5.1**	**4.4**

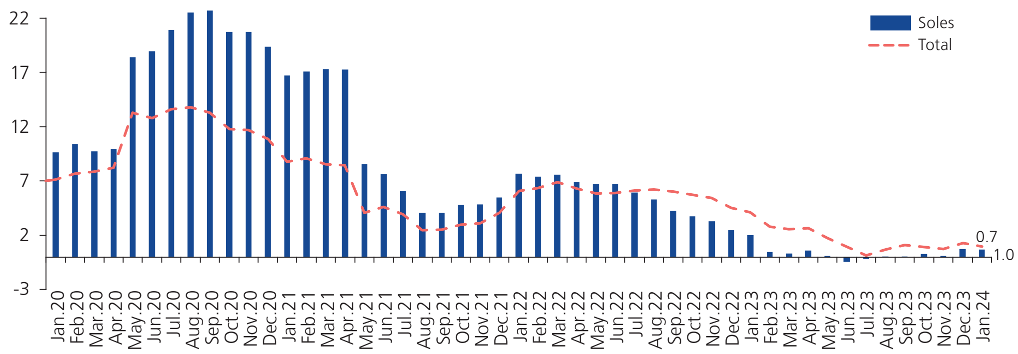
Note: The criteria for classifying corporate loans by credit segment are in accordance with the SBS definition valid until June 2023. 2023. In July 2023, by means of SBS Resolution N° 02368-2023, a change in the classification of loans is made. Corporate: Annual sales of more than S/ 200 million (idem).
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 of more than S/ 300 thousand or annual sales of no more than S/ 20 million).
Small companies: Annual sales less than S/ 5 million and total indebtedness greater than S/ 20 thousand (Total indebtedness between S/ 20 thousand and S/ 300 thousand).
Micro enterprises: Annual sales of less than S/ 5 million and total indebtedness of less than S/ 20 thousand (Total indebtedness of no more than S/ 20 thousand).
1/ The constant exchange rate as of December 2023 is maintained.
Source: BCRP.

84. Since the beginning of 2022, sol-denominated credit has slowed down, to a lesser extent, also dollar-denominated credit so far this year. As of January 2024, sol-denominated credit grew 0.7 percent, while dollar-denominated credit increased 2.0 percent in the same period.

Graph 81

CREDIT TO THE PRIVATE SECTOR: TOTAL AND IN DOMESTIC CURRENCY

(Annual growth rates)



	Dec.19	Dec.20	Dec.21	Dec.22	Jun.23	Sep.23	Dec.23	Jan.24
Domestic currency	10.1	19.4	5.5	2.5	-0.5	0.0	0.7	0.7
Foreign currency	-0.3	-11.0	-0.8	12.1	5.8	4.8	3.1	2.0
Total	7.0	10.9	4.1	4.5	0.9	1.1	1.3	1.0

1/ The constant exchange rate as of December 2023 is maintained.
Source: BCRP.

Non-performing loans

85. The **non-performing loans ratio** in January 2024 stood at 4.48 percent, slightly higher than in December 2023 (4.30 percent). This result would be explained by higher non-performing loans to companies, mainly due to the increase in the medium-sized companies segment and, to a lesser extent, in the micro and small companies segment. Non-performing loans to individuals also increased in the same period, particularly vehicle loans. The increase in non-performing loans reflects the performance of economic activity during the past year, including more flexible financial conditions towards the end of 2023.

Table 33
NON-PERFORMING LOANS DELINQUENCY RATE
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Jun.23	Sep.23	Dec.23	Jan.24
Businesses	**3.71**	**3.73**	**4.60**	**5.09**	**5.29**	**5.41**	**5.27**	**5.50**
Corporate and large companies	0.62	1.04	1.08	1.39	1.11	1.08	1.01	1.10
Medium-sized enterprises	8.24	6.27	9.49	11.65	12.89	13.80	13.42	13.68
Small business and Micro business	6.29	6.06	6.54	6.37	6.94	7.03	6.91	7.30
Individuals	**2.85**	**4.91**	**2.57**	**2.54**	**2.74**	**3.02**	**3.21**	**3.30**
Consumer	2.81	5.92	2.23	2.51	2.80	3.21	3.55	3.67
Credit cards	5.33	12.70	6.28	6.58	7.50	7.94	8.46	8.66
Car loans	3.75	5.85	3.72	3.37	3.14	3.36	3.64	3.85
Rest	1.46	3.07	1.35	1.57	1.69	2.15	2.41	2.52
Mortgage	2.91	3.51	3.01	2.57	2.64	2.73	2.69	2.74
Average 1/	**3.24**	**4.00**	**3.76**	**3.97**	**4.12**	**4.33**	**4.30**	**4.48**

1/ The non-performing loans ratio is the percentage of direct loans that are past due or in judicial collection. This indicator also includes loans to companies, individuals, sovereign loans, loans to multilateral organizations, and loans to public sector companies and organizations.
Source: BCRP.

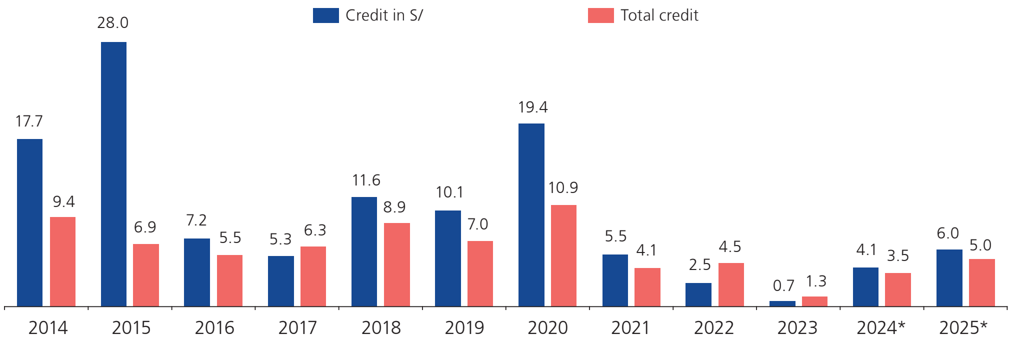
Projected credit to the private sector

86. Credit in domestic currency is expected to increase in line with the evolution of economic activity. The projected growth of credit to the private sector in domestic currency would amount to 4.1 percent in 2024; and 6.0 percent in 2025, considering the completion of the amortization of loans granted under the *Reactiva Peru* program. Thus, total credit would grow 3.5 percent in 2024 (5.1 percent excluding *Reactiva Peru*). By 2025, total credit growth is estimated to stand at 5.0 percent.

Similarly, in 2024 and 2025, credit to the private sector is expected to grow at a slower pace than nominal GDP, following a significant increase in the credit-to-GDP ratio in 2020 which was almost reversed in 2023. Thus, the credit ratio is expected to stand at 41.1 and 40.8 percent of GDP in 2024 and 2025, respectively (after having stood at 52.7 percent in 2020).

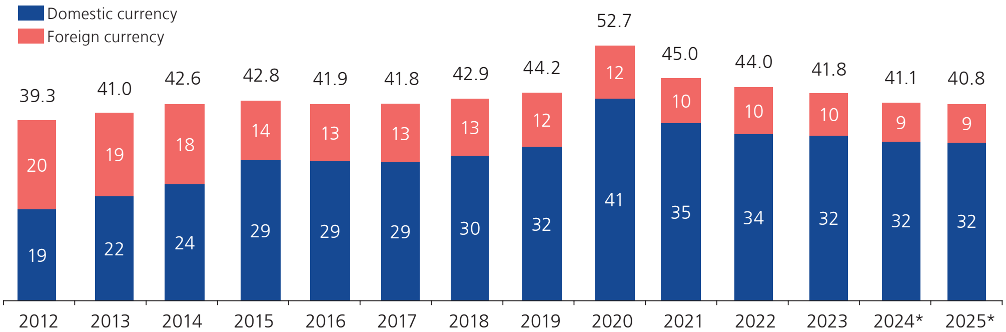
Likewise, the growth rates of total liquidity and currency in circulation would be lower than those of nominal GDP in 2023 and 2024 more normal financial conditions, with growth in domestic currency liquidity close to that of nominal GDP in 2025. The ratio of liquidity to GDP would decline from 45.3 percent in 2023, to 45.2 percent in 2024 (reaching pre-pandemic level), and to 44.6 percent in 2025. Meanwhile, the depository corporations' currency in circulation ratio to GDP would contract from 7.5 percent in 2023 to 7.0 percent in 2024, and to 6.6 percent in 2025, as before the COVID-19 pandemic.

Graph 82
CREDIT TO THE PRIVATE SECTOR
(% change)



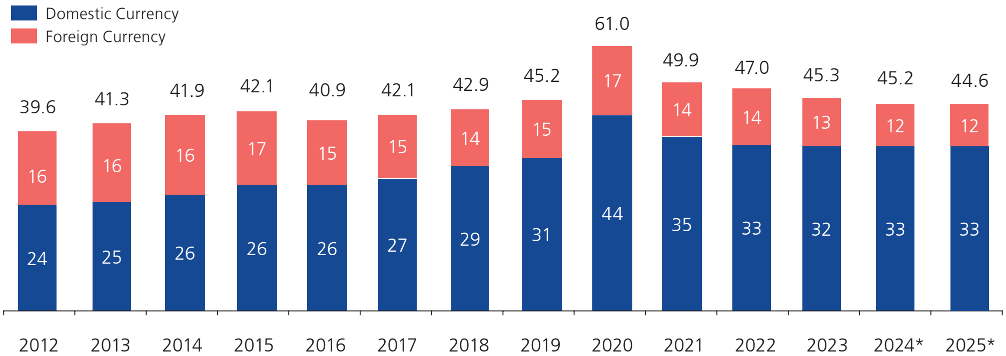
* Forecast.
Source: BCRP.

Graph 83
CREDIT / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2023).
* Forecast.
Source: BCRP.

Graph 84
LIQUIDITY / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2023).
* Forecast.
Source: BCRP.

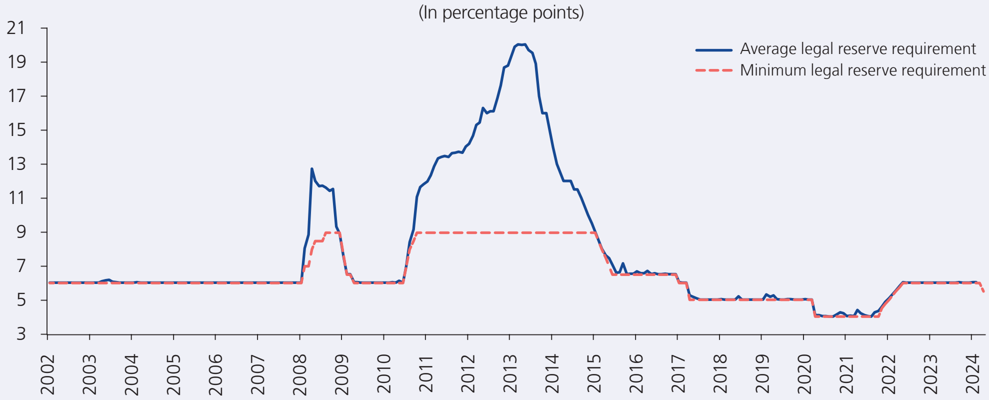
Box 7
RESERVE REQUIREMENTS AS A COMPLEMENTARY INSTRUMENT OF MONETARY POLICY

The reserve requirement rate is a traditional monetary policy instrument, which has been used since the beginning of central banking worldwide.[51] The reserve requirement rate is defined as the proportion of deposits collected that banks cannot grant as loans and, rather, must keep in reserve, either as vault cash or in their current account at the central bank.

In Peru, where financial dollarization exists to a certain degree, reserves are required in sols and dollars, the latter being higher than in domestic currency (35 versus 5.5 percent), given higher foreign currency liquidity risk. Likewise, since 2007, the BCRP has used reserve requirements in both currencies in a countercyclical manner and as a macroprudential measure, thus complementing monetary policy actions carried out through the modification of its benchmark rate. BCRP has also used this instrument, applying additional reserve requirements, to promote the de-dollarization of credit and limit excessive volatility in the foreign exchange market through reserve requirements on foreign exchange derivatives.

Other countries have also applied reserve requirements in a countercyclical manner, especially during periods of significant fluctuations in capital flows, as in Colombia and Brazil. The use of reserve requirements has the capacity, in the first place, to adjust financial conditions, as do benchmark rates. However, in contrast with the latter, the use of reserve requirements does not induce movements in capital flows or exchange market positions. Secondly, the use of reserve requirements strengthens the effectiveness of the benchmark rate as an instrument of monetary policy and allows meeting objectives related to financial stability or macroprudential policies.[52]

MINIMUM LEGAL RESERVE REQUIREMENT AND AVERAGE RESERVE REQUIREMENT IN DOMESTIC CURRENCY*
(In percentage points)



*The graph includes the latest update of the minimum legal reserve requirement, which applies as of April 2024.
Source: BCRP.

The transmission mechanism of changes in the reserve requirement rate in the aggregate economy operates through the effect on deposits (lendable funds) and, consequently, on the level of credit. We define the financial margin as:

$$m_t = (i_t^a)(1 - e_t) + (e_t - e_t^{min})(r_t) - i_t^p$$

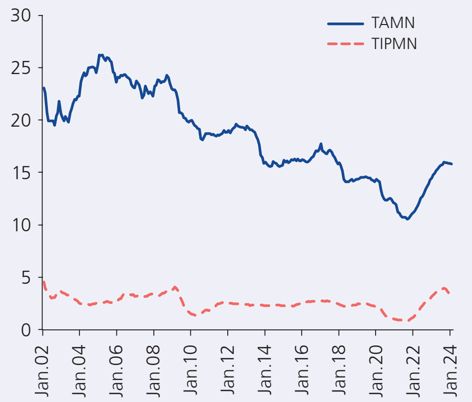
51 BCRP has required legal reerves since its foundation and, later, after the Kemmerer mission in 1931. See: Pereyra (2022) and Pérez Forero (2022).

52 See Montoro and Moreno (2011), "The use of reserve requirements as a policy instrument in Latin America", BIS Quarterly Review, March 2011.

where, m_t corresponds to the financial margin per intermediated monetary unit (sol or dollars), i_t^a is the lending interest rate at which the bank places the loan, e_t is the bank's average reserve requirement rate, e_t^{min} is the minimum legal reserve requirement rate on which the additional reserve requirement is remunerated, r_t is the rate of remuneration of the additional reserve requirement, and i_t^p corresponds to the deposit rate set by the financial institution.

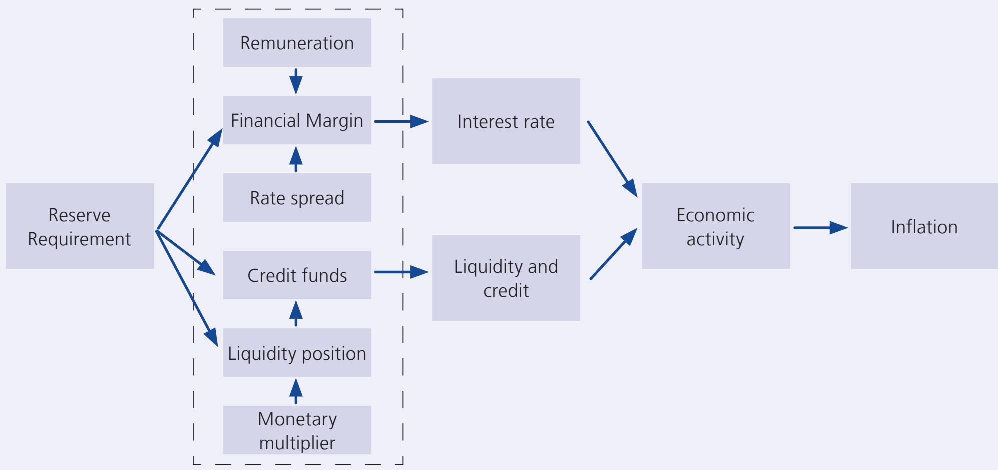
INTEREST RATES IN DOMESTIC CURRENCY AND SPREAD

(In percentage points)



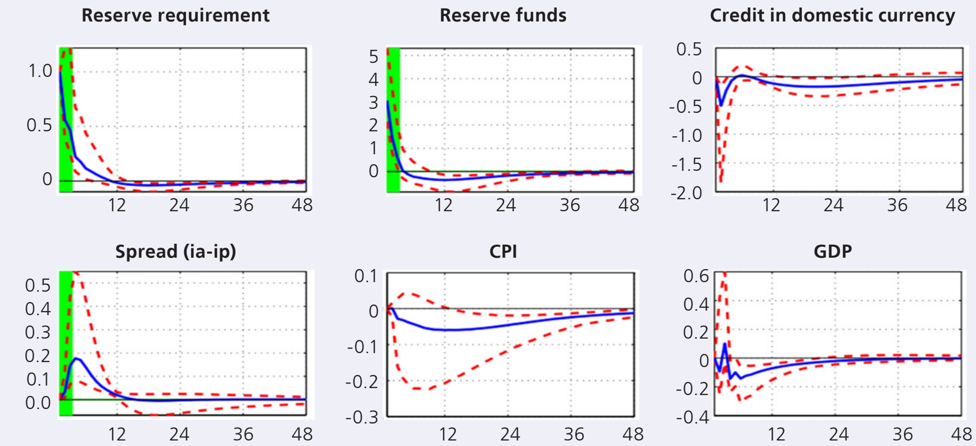
Thus, if the financial margin m_t is kept constant, changes in the reserve requirement rate e_t will be passed on to lending and deposit interest rates. The empirical evidence associated with the behavior of interest rates indicates that deposit rates record a much more inertial and persistent behavior than lending rates (see graph above). Thus, it can be assumed that the initial effect of the change in the reserve requirement rate is transferred mainly to the lending rate i_t^a. Given these effects, an increase (reduction) in the reserve requirement rate will also cause an increase (fall) in the lending rate, thus affecting the rate of credit expansion and with it, economic activity and inflation. An important qualitative difference in the transmission channel, with respect to the interest rate, is that the reserve requirement does not have a direct impact on the exchange rate since it does not affect the rate differential between currencies in the money market.

MECHANISMS OF TRANSMISSION OF RESERVE REQUIREMENTS



Source: Armas, A. Castillo, P. and Vega, M. (2014): "Inflation Targeting and Quantitative Tightening: Effects of Reserve Requirements in Peru," Economía Journal, The Latin American and Caribbean Economic Association - LACEA, vol. 0 (Fall 2014), pages 133-175, June.

DYNAMIC EFFECTS OF RAISING THE RESERVE REQUIREMENT BY 1%



Source: Pérez Forero, F. and Vega, M. (2014): "Dynamic effects of interest rates and reserve requirements." BCRP Working Document 2014-018.
Green bars show 3 month sign restrictions

According to empirical evidence, Pérez Forero and Vega (2014)[53] and Armas, Castillo and Vega (2014)[54] estimate that an increase in the reserve requirement rate in domestic currency, by increasing reserve requirements, raises the spread between lending and deposit rates and reduces the level of credit in domestic currency (MN). Thus, similarly to the interest rate, but to a lesser extent, an increase in the reserve requirement rate also affects the level of economic activity and inflation.

EPISODES OF RISE AND DROP IN RESERVE REQUIREMENTS IN DOMESTIC CURRENCY

EPISODES OF RISE IN RESERVE REQUIREMENTS

Episode	Initial-final minimum legal reserve requirement (%)	Initial-final marginal reserve requirement (%)	Initial-final average reserve requirement (%)	Episode description
Jan.08-May.08	6-8.5	6-25	6-12	Inflow of foreign capital and international turmoil
Jun.10-Oct.10	6-9	6-25	6-11.1	Normalization of monetary policy
Apr.12-May.12	9-9	25-30	15.4-16.3	Normalization of monetary policy

EPISODES OF DROP IN RESERVE REQUIREMENTS

Episode	Initial-final minimum legal reserve requirement (%)	Initial-final marginal reserve requirement (%)	Initial-final average reserve requirement (%)	Episode description
Sep.08-Mar.09	9-6.5	25-6.5	11.4-6.5	Global Financial Crisis
Jul.13-Jun.15	9-6.5	30-6.5	19.6-7.1	*Outflow of foreign capital and fall in commodity prices*
Dec-16-Apr.17	6.5-5	6.5-5	6.5-5.3	The Niño coastal
Mar.20-Apr.20	5-4	5-4	5-4.1	COVID-19

As part of the monetary policy scheme, BCRP has on several occasions relaxed the reserve requirement regime in domestic currency as a complement to the reduction of the reference rate. For example, between September 2008 and March 2009, as a result of the global financial crisis; between July 2013

53 By means of a structural autoregressive vector model identified with sign and zero constraints.

54 Armas, A., Castillo, P. and Vega, M. (2014) "Inflation Targeting and Quantitative Tightening: Effects of Reserve Requirements in Peru," Economía Journal, The Latin American and Caribbean Economic Association - LACEA, vol. 0 (Fall 2014), pp. 133-175, June. These authors perform a counterfactual exercise following Pesaran and Smith (2016), "Counterfactual analysis in macroeconometrics: An empirical investigation into the effects of quantitative easing," Research in Economics, Volume 70, Issue 2, June 2016, pp. 262-280. They find that raising reserve requirements has the desired effects on interest rates and credit levels in both banks and smaller financial institutions.

and June 2015, in the episode of capital outflows from emerging economies and falling commodity prices; between December 2016 and April 2017, due to coastal El Niño shocks; and in April 2020, due to the COVID-19 pandemic. BCRP increased the reserve requirement on several occasions in episodes associated with capital inflows and low international interest rates (for example, between January and May 2008; between June and October 2010; and between April and May 2012) and in the post-pandemic inflation increase episode (between September 2021 and May 2022).

Thus, the reserve requirement regime in domestic currency was relaxed in April 2020 as a result of the COVID-19 pandemic, in order to complement the expansionary monetary policy implemented at that time. That month, the minimum legal reserve requirement rate and the reserve requirement rate that applied to obligations subject to the general regime were reduced from 5.0 to 4.0 percent. At the same time, the minimum current account deposits that institutions subject to reserve requirements must maintain as reserve funds were reduced from 1.0 to 0.75 percent of total obligations subject to reserve requirements (TOSE).

By September 2021, reserve requirements began to be raised again. That month, a marginal reserve requirement rate of 25 percent was introduced for obligations subject to the general regime that exceed the average level of the base period (July 2021). In addition, a minimum average reserve requirement rate of 4.0 percent was set for obligations subject to the general regime, which was increased to 4.25 percent in October 2021 and to 4.50 percent as of November 2021.

As of October 2021, the minimum level of current account deposits that institutions subject to reserve requirements must maintain as reserve funds rose from 0.75 to 1.0 percent of TOSE, the ongoing rate. The minimum reserve requirement increased from 4.0 to 4.5 percent in November 2021, to 4.75 percent in December 2021 and to 5.0 percent as of January 2022. Subsequently, the minimum legal reserve requirement rose from 5.0 to 5.25 percent in February, to 5.5 percent in March 2022, to 5.75 percent in April 2022 and to 6.0 percent as of May 2022, which is the current requirement. In addition, as of November 2021, a maximum 6 percent average was set as reserve requirement rate for obligations subject to the general regime.

Given ongoing macroeconomic and financial conditions, BCRP reduced the reserve requirement rate in soles as of April 2024 as a complement to the reduction of the reference rate in force since September 2023. With this modification, the minimum legal reserve requirement rate of 5.5 percent would be below its most frequent value of 6.0 percent observed between 2002 and January 2024, although above the minimum legal reserve requirement rate of 5.0 percent set forth in March 2020, before the COVID-19 pandemic.

RECENT RESERVE REQUIREMENT MEASURES IN DOMESTIC CURRENCY*

Start month of application of the measure	Minimum legal reserve requirement in soles	Minimum reserve requirement for the current account level in soles	Marginal reserve requirement in soles	Minimum average reserve requirement in soles	Maximum average reserve requirement of the General Regime
April 2017	5.00%	1.00%		-	
April 2020	4.00%	0.75%	-	-	-
September 2021	4.00%	0.75%	25%	4.00%	-
Octubre 2021	4.00%	1.00%	25%	4.25%	-
November 2021	4.50%	1.00%	25%	-	6.0%
December 2021	4.75%	1.00%	25%	-	6.0%
January 2022	5.00%	1.00%	25%	-	6.0%
February 2022	5.25%	1.00%	25%	-	6.0%
March 2022	5.50%	1.00%	25%	-	6.0%
April 2022	5.75%	1.00%	25%	-	6.0%
May 2022	6.00%	1.00%	25%	-	6.0%
April 2024	5.50%	1.00%	-	-	-

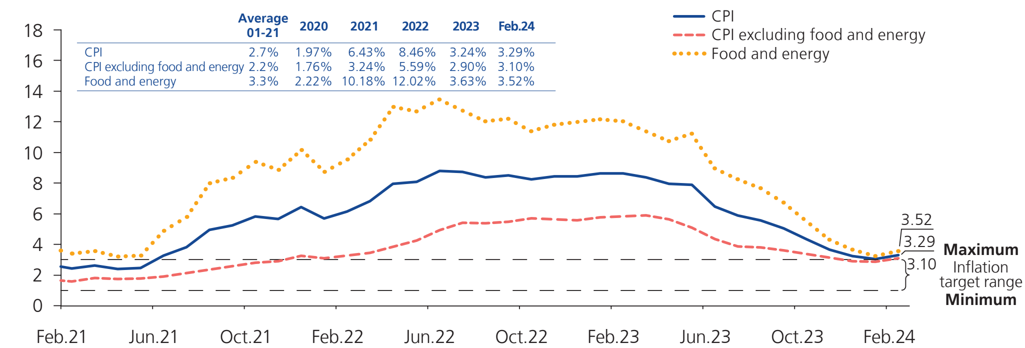
* The reserve requirement rate as of April 2024 will be 5.50%, which coincides with the minimum legal reserve requirement.

VI. Inflation and balance of inflation risks

Recent inflation trends

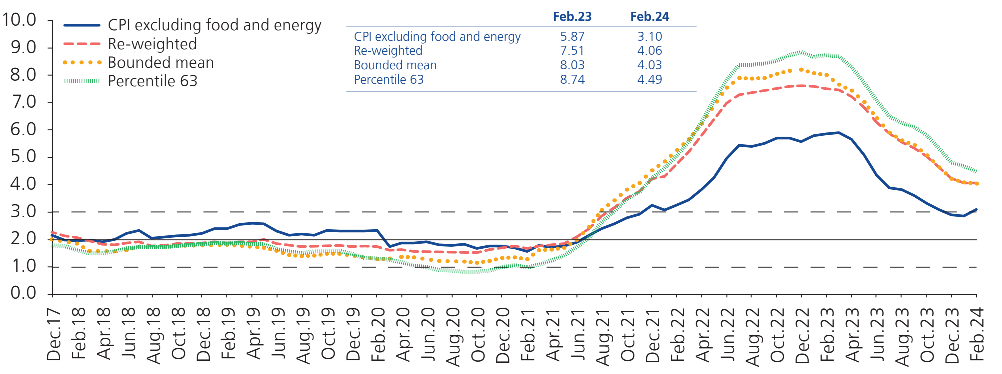
87. The year-on-year **inflation** rate continued to decline since November, from 3.64 percent in November 2023 to 3.02 percent in January 2024. The drop is due to the correction in some food prices such as onions and, in recent months, lemons, as well as meals away from home and local transportation. Inflation excluding food and energy fell from 3.09 to 2.86 percent in the same period, within the target range. In February and due to one-off supply factors (water tariffs and some food items), total and non-food and energy inflation rose to 3.29 and 3.10 percent, respectively. The different trend inflation indicators also slipped between November 2023 and January 2024.

Graph 85
INFLATION
(Last 12-month % change)



Source: BCRP.

Graph 86
INFLATIONARY TREND INDICATORS
(Last 12 months % change)

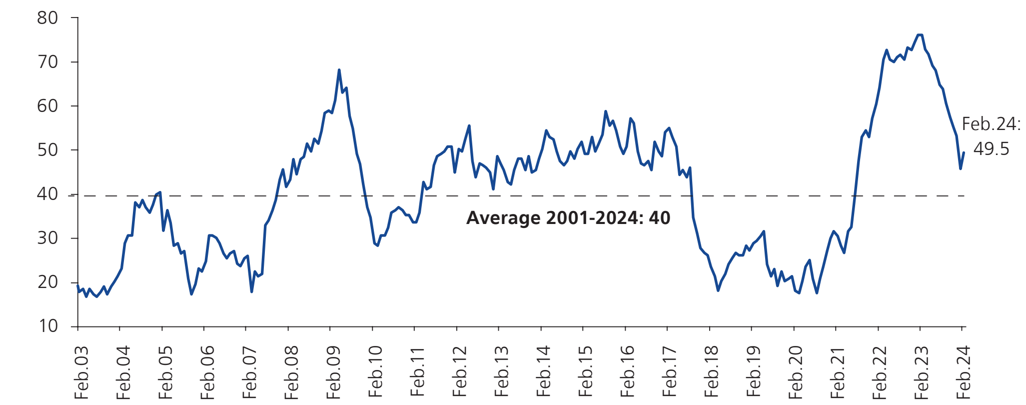


Memo:
1. **CPI excluding food and energy:** CPI excluding food, fuel and electricity.
2. **Re-weighted:** Reduces the weight of items with greater volatility, considers the original weights of each item over the standard deviation of their monthly percentage changes.
3. **Bounded mean:** Weighted average of the percentage change of prices between the 34th and 84th percentiles.
4. **Percentil 63:** Corresponds to the percentage changes of the item placed in the 63th percentile.

88. Out of 188 items in the Consumer Price Index, 49 percent recorded a year-on-year variation above 3 percent. This indicator peaked at 76 percent in February 2023 and has been declining since March. However, it continues to be above its long-term average.

Graph 87

PERCENTAGE OF CPI ITEMS WITH YEAR-ON-YEAR PRICE CHANGE HIGHER THAN 3%



	Feb.23	Mar.23	Apr.23	May.23	Jun.23	Jul.23	Aug.23	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24	Feb.24
Index	76	73	72	69	68	65	64	61	57	55	53	46	49
Number of items:													
Items with variation higher than 3%	143	137	135	130	128	122	120	114	108	104	100	86	93
Items with variation lower than 3%	45	51	53	58	60	66	68	74	80	84	88	102	95

Source: BCRP.

89. The items most closely linked to the exchange rate, international prices and contracts linked to the Wholesale Price Index (WPI) contributed 0.16 percentage points to cumulative inflation between January and February (0.58 percent).

Table 34

ITEMS LINKED TO THE EXCHANGE RATE, INTERNATIONAL PRICES AND TO THE WHOLESALE PRICE INDEX (WPI)

	Weight 2021=100	% chg. 12 m. Dec.21	Weighted contribution	% chg. 12 m. Dec.22	Weighted contribution	% chg. 12 m. Dec.23	Weighted contribution	% chg. 12 m. Jan-Feb.24	Weighted contribution
CPI	100.00	6.43	6.43	8.46	8.46	3.24	3.24	0.58	0.58
Items linked to the exchange rate	14.58	4.25	0.54	5.19	0.76	1.92	0.27	0.26	0.04
Items linked to international prices and exchange rate	7.99	28.52	2.51	11.40	0.91	1.44	0.12	0.66	0.05
Linked to food commodities	5.84	21.32	1.35	15.21	0.89	3.96	0.25	1.28	0.08
Linked to Fuels	2.15	47.20	1.15	1.05	0.02	-6.36	-0.13	-1.48	-0.03
Items related to WPI	1.37	11.57	0.22	7.90	0.11	1.32	0.02	7.48	0.10
Items related to the exchange rate, WPI and international prices	2.62	9.50	0.35	11.46	0.30	-7.11	-0.19	-1.13	-0.03
Total items linked to the exchange rate, WPI and international prices	26.56	13.31	3.63	7.82	2.08	0.82	0.22	0.63	0.16
Rest	73.44	3.86	2.81	8.69	6.38	4.10	3.02	0.56	0.41

Source: BCRP.

90. As for the evolution of inflation in 2024, between January and February, the general price level increased 0.58 percent. This result is mainly explained by the increase in food and beverages prices (0.8 percent), which contributed 0.35 percentage points to inflation in the period. This was partly offset by the 1.3 percent decrease in fuel and electricity prices (-0.05 percentage points to inflation).

Table 35
INFLATION
(% change)

	Weight	Dec.20	Dec.21	Dec.22	Dec.23	2024	
						Feb.24-Dec.23*	Feb.24/Feb.23
CPI	**100.0**	**1.97**	**6.43**	**8.46**	**3.24**	**0.58**	**3.29**
1. CPI excluding food and energy	**55.3**	**1.76**	**3.24**	**5.59**	**2.90**	**0.52**	**3.10**
a. Goods	**17.4**	**1.5**	**2.6**	**5.3**	**2.7**	**0.4**	**2.5**
b. Services	**37.9**	**1.9**	**3.6**	**5.7**	**3.0**	**0.6**	**3.4**
Education	8.6	2.0	1.6	3.9	6.4	0.3	5.9
Health	1.5	1.2	2.8	7.3	3.3	0.6	3.5
Local transportation	9.1	2.5	3.7	12.3	2.9	0.1	3.8
Water supply	1.4	3.0	11.6	7.9	1.3	7.5	7.5
Other	17.3	1.6	1.7	2.8	1.5	0.4	1.6
2. Food and energy	**44.7**	**2.22**	**10.18**	**12.02**	**3.63**	**0.64**	**3.52**
a. Food and beverages	**40.0**	**2.2**	**8.0**	**12.6**	**4.8**	**0.8**	**4.4**
Meals inside the home	24.5	2.9	9.8	14.5	3.7	1.0	3.5
Meals outside the home	15.5	1.0	4.5	9.7	6.6	0.6	6.0
b. Fuel and electricity	**4.8**	**2.1**	**24.4**	**6.8**	**-6.8**	**-1.3**	**-5.0**
Fuel	2.1	-4.2	47.2	1.0	-6.4	-1.5	-5.8
Electricity	2.6	6.7	9.5	11.5	-7.1	-1.1	-4.4

* Cumulative percentage change.
Source: BCRP.

91. The items with the highest positive contribution to inflation in the January-February period were chicken meat, other fresh fruits, water supply, meals away from home, and tangerines (0.51 percentage points to inflation). The items with the highest negative contribution were potatoes, corn, avocado, eggs, and fuel for vehicles (-0.30 percentage points of inflation).

Table 36
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - FEBRUARY 2024

Positive	Weight	% chg.	Contr.	Negative	Weight	% chg.	Contr.
Chicken meat	2.7	5.0	0.13	Potatoes	0.7	-10.5	-0.10
Other fresh fruits	0.6	14.8	0.11	Corn	0.1	-36.2	-0.08
Water supply	1.4	7.5	0.10	Avocado	0.2	-15.6	-0.04
Meals outside the home	15.5	0.6	0.10	Eggs	0.7	-4.1	-0.04
Tangerines	0.3	25.0	0.07	Vehicle fuels	1.1	-4.0	-0.04
Local transportation	8.1	0.6	0.05	Electricity	2.6	-1.1	-0.03
Beer	1.0	3.6	0.04	Carrot	0.1	-15.8	-0.02
Leaves or stems	0.2	23.5	0.04	National air transport	0.2	-10.1	-0.02
Papaya	0.2	12.5	0.03	Banana	0.4	-3.6	-0.02
Fresh fish maritime	0.7	4.4	0.02	Tomato	0.2	-8.4	-0.01
Total			**0.69**	**Total**			**-0.41**

Source: BCRP.

Food

The variations in food prices in the January-February period related to climatic changes that affected production processes and supply.

The price of chicken rose 5.0 percent due to supply problems caused by higher summer temperatures and their negative impact on poultry feed (lower feed intake due to heat and lower yields). The volume of chicken marketed in February was lower than in January and the same period of the previous year (-1.1 and -4.6 percent, respectively), due to the lower weight of birds. Also contributing was the lower availability of fish, its main substitute product, mainly jack mackerel, due to warm sea temperature and higher water salinity, which drove this species away and hampered catch.

The price of fruits such as mango rose due smaller supply from Piura, as a result of the high temperatures of the coastal El Niño that altered the trees' flowering. In the case of papaya, a product from the jungle, lower shipments in January from Ucayali and Huánuco were due to unusual rainfall that affected the crops, in addition to higher seasonal demand.

Higher temperatures in Lima's countryside resulted in a lower supply of mandarin oranges, which was also influenced by the end of the season for some varieties. Prices of vegetables such as celery and lettuce, which also come from the Lima region, increased in response to a lower supply of the best quality product, due to the higher temperatures. In addition,, losses during marketing increased due to the effect of heat as produce traveled from the field to the city. In contrast, the price of tomatoes, which also come mainly from the valleys of Lima, decreased due to greater supply. The supply of this vegetable recovered with respect to the same period of the previous year, when the higher costs of fertilizers and pesticides, and their consequent lower use, affected crop yields.

The prices of produce such as potatoes, corn and carrots, which in the months of January and February come mainly from the central highlands, decreased due to a greater supply, mainly because of increased plantings in Junín further favored more rainfall in October and November of the current crop year.

Meals away from home, an item that was affected by lower restaurant attendance during the pandemic, continued to show better prices, with an increase of 6.0 percent over the last 12 months, higher than that of meals at home (3.5 percent).

Services

Safe water and sewerage service rate rose 7.5 percent in February, following the increase scheduled in Sedapal's five-year plan for the 2022-2026 period, approved by the Sunass regulator and conditioned to the fulfillment of management goals.

Local transportation recorded increases in the January-February period due to the increase in bus, minibus and motorcycle cab fares. In February, the Urban Transportation Authority for Lima and Callao -ATU- authorized an increase in the half fare for school children, university students and high school students on Metropolitano (rapid transit) buses from S/1.25 to S/1.75 (trunk plus feeder) and from S/1.25 to S/1.60 (trunk route only).

Energy

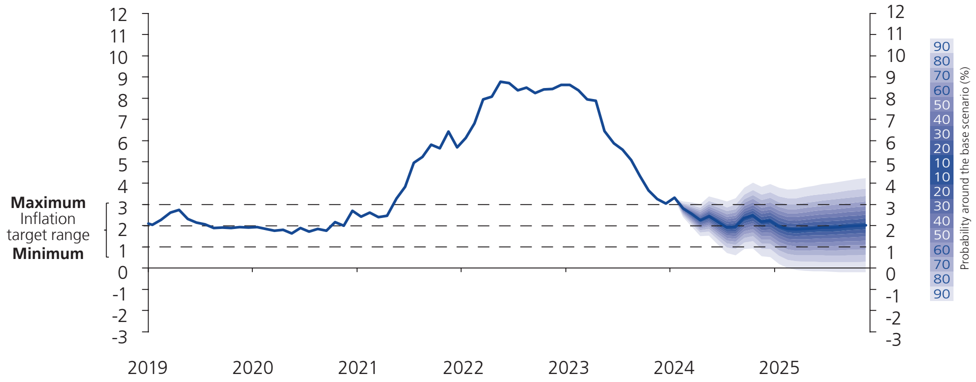
The price of motor fuels decreased by an average 4.0 percent in the January-February period reflecting the lower price of gasohol due to the downward trend in the international parity price, which was passed on to the refinery price; nonetheless, this was partially offset by recovering retail margins.

Monthly electricity rates fell 1.2 percent in February, mainly due to a reduction in the generation component, which resulted from the quarterly review of the rate schedules, pursuant to existing legislation. The adjustment was made for compensation mechanisms, resulting from the differences between the price at generation level, defined ex ante by Osinergmin regulator, and the realized prices of long-term bidding contracts. The decrease in the exchange rate was also considered. These adjustments were mitigated by the increase in the Renewable Energy Resources Premium (RER premium), due to a lower spot price in the short-term electricity generation market (contribution of 0.1 percentage points). With this result, the year-on-year variation of electricity rates reached -4.4 percent in February 2024, due lower payments to finance the Electricity Social Compensation Fund (FOSE), as well as lower transmission rates.

Forecasts

92. The BCRP designs and implements its monetary policy actions in response to the f inflation forecasts and determinants over an 18-to-24 month horizon. All available macroeconomic and financial information is considered when preparing such projection. The determinants of inflation include inflation expectations, imported inflation (which brings with it the effect of the exchange rate) and inflationary pressures associated with both demand and supply factors. Likewise, preparing inflation forecasts requires quantifying uncertainty using different tools and models and, subsequently, the specification of risk scenarios together with their likely occurrence. The following is the baseline scenario for the inflation projection of this Report, and the balance of risks that could cause an eventual deviation from said scenario, considering both the magnitude of the deviation and the probability of its occurrence.

Graph 88
INFLATION FORECAST: 2024 - 2025
(% change last twelve months)



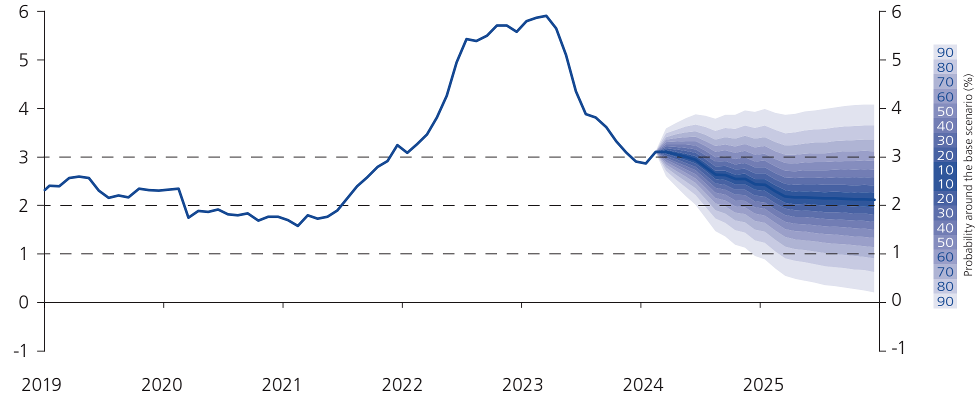
Note: This Fanchart presents the distribution of possible inflation projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10% probability and indicates the possible values for the evolution of inflation over the projection horizon associated with this confidence level.
Source: BCRP.

Inflation is expected to reach 2.2 percent by the end of 2024, which implies a revision on the downside with respect to the December Report's expectations (2.3 percent). This revision is due to the lower incidence, observed in recent months, of weather phenomena on food prices. Trend inflation, measured by the year-on-year change in non-food and energy prices, is expected to continue its downward slide. As a result, total inflation is expected to be in the middle of the target range (2.0 percent) during the second half of 2025.

Graph 89

INFLATION EXCLUDING FOOFD AND ENERGY FORECAST (SAE): 2024 - 2025

(% change last twelve months)



Note: This Fanchart presents the distribution of possible inflation excluding food and energy projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10% probability and indicates the possible values for the evolution of inflation without food and energy over the projection horizon associated with this confidence level.
Source: BCRP.

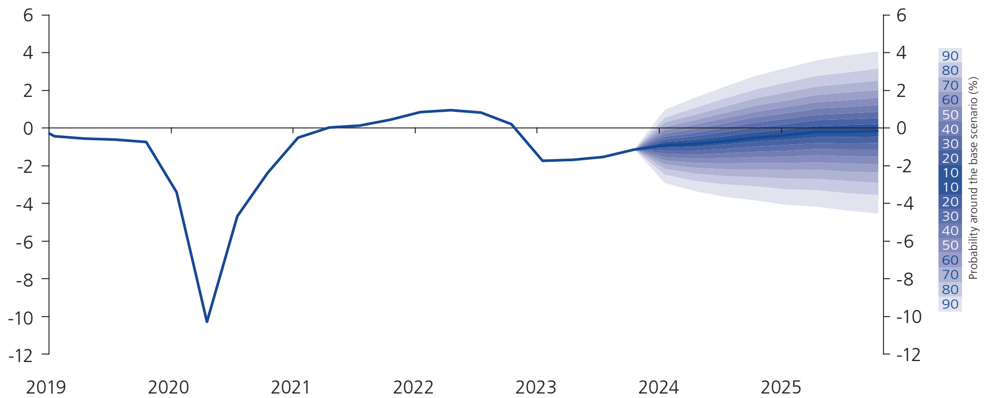
In addition to the reversal of the effects of supply shocks, this forecast assumes that the effects of transitory factors such as the exchange rate, international fuel and grain prices will dissipate, in a scenario where economic activity is approaching its potential level, and inflation expectations slide towards the middle of the target range.

93. The low business confidence recorded during the previous year will gradually abate while the terms of trade are expected to remain in positive ground. As a result, the output gap is expected to close over the projection horizon.

Graph 90

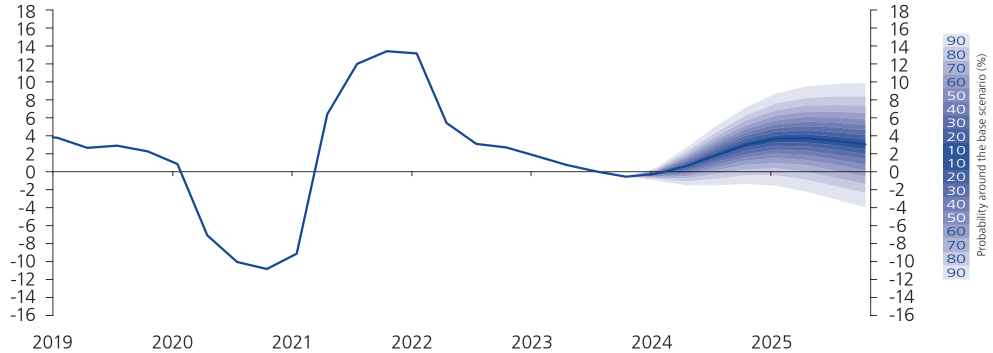
PROJECTED OUTPUT GAP: 2024-2025

(Percentage of potential output, quarterly average)



Note: This Fanchart presents the distribution of the possible values of the output gap projection over the projection horizon. Its center line, the mode of the distribution, shows the baseline scenario projection presented in this Inflation Report. Each pair of bands of the fan (each shade) accumulates a 10% probability and indicates the possible values for the evolution of the output gap over the projection horizon associated with this confidence level.
Source: BCRP.

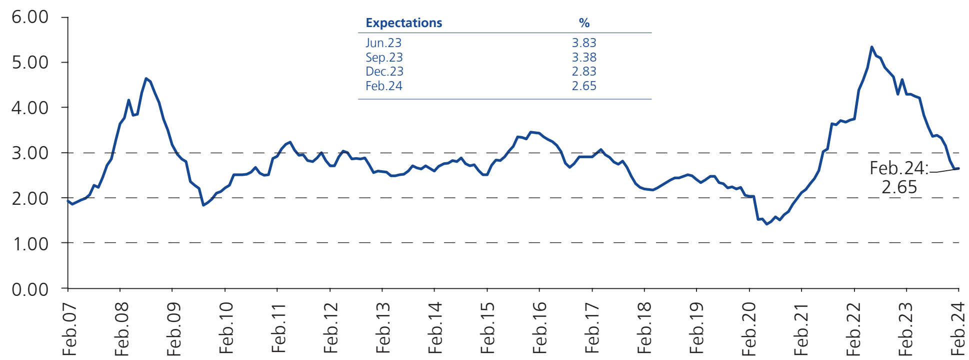
Graph 91
PROJECTED OUTPUT GROWTH: 2024-2025
(Percentage change, 4 quarters moving average)



Note: This Fanchart presents the distribution of possible values of projected output growth over the projection horizon. Its center line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10% probability and indicates the possible values for the evolution of output growth over the projection horizon associated with this confidence level.
Source: BCRP.

94. Calculated on the basis of surveys among financial and non-financial firms, as well as among economic analysts, the expected inflation rate should fall between 2.6 and 3.0 percent for 2024 (between 3.0 and 4.0 percent in the December 2023 Inflation Report), and between 2.5 and 3.0 percent for 2025. Twelve-month inflation expectations in February 2024 declined to 2.65 percent, temporarily at the upper limit of the inflation target range.

Graph 92
TWELVE-MONTH INFLATION EXPECTATIONS
(% points)



Source: BCRP.

Table 37
INFLATION EXPECTATIONS SURVEY
(%)

	IR Sep.23	IR Dec.23	IR Mar.24
Financial entities			
2024	3.00	3.15	2.60
2025		2.50	2.50
Economic analysts			
2024	2.95	3.00	2.75
2025		2.50	2.50
Non-financial firms			
2024	4.00	4.00	3.00
2025		3.00	3.00

* Survey conducted as of February 29.
Source: BCRP.

95. An additional determinant of inflation is the imported component, which combines the effect of the international prices of the products Peru buys abroad (such as oil, wheat, soybeans, and maize) with the effect of the variation of the exchange rate (Sol against the U.S. dollar).

Table 38
EXCHANGE RATE EXPECTATIONS SURVEY
(S/ per USD)

	IR Sep.23	IR Dec.23	IR Mar.24
Financial entities			
2024	3.70	3.80	3.80
2025		3.82	3.78
Economic analysts			
2024	3.80	3.80	3.75
2025		3.85	3.73
Non-financial firms			
2024	3.80	3.80	3.80
2025		3.80	3.80

* Survey conducted as of February 29.
Source: BCRP.

Thus, average import prices are projected to decrease by 0.5 percent in 2024, mainly due to lower prices of oil and some foodstuffs such as maize, wheat and soybeans. For 2025, a 1.2 percent increase in the prices of these products is expected. The expected exchange rate surveys as of February show levels between S/ 3.75 and S/ 3.80 for 2024 and between S/ 3.73 and S/ 3.80 for 2025.

The effects mentioned above are expected to help inflation return to the target range in coming months, and to continue to decline toward the middle of the target range (2.0 percent) over the forecasting horizon.

Risks to the inflation projection

96. Risks to the inflation projection continue to be skewed to the upside with respect to the December Report, which is supported by the following shocks:

- **Food, energy and freight price shocks**
  There are still risks that global supply chains could be affected by climatic factors that impact maritime transportation (for example, the low water level in the Panama Canal). In addition, relatively intense natural phenomena could hamper some economic activities, movements of perishable goods and supply of domestic markets. Such events would raise food prices and transportation costs. However, the expected impact of this risk in the forecast horizon is reduced compared to that shared in the December Report, in line with the lower probability of the occurrence of a strong or extraordinary coastal FEN.

  In addition, geopolitical tensions remain in Eastern Europe, China and the Middle East with a moderate risk of escalation, which still triggers fears of global food and energy shortages. Furthermore, trade tensions between the United

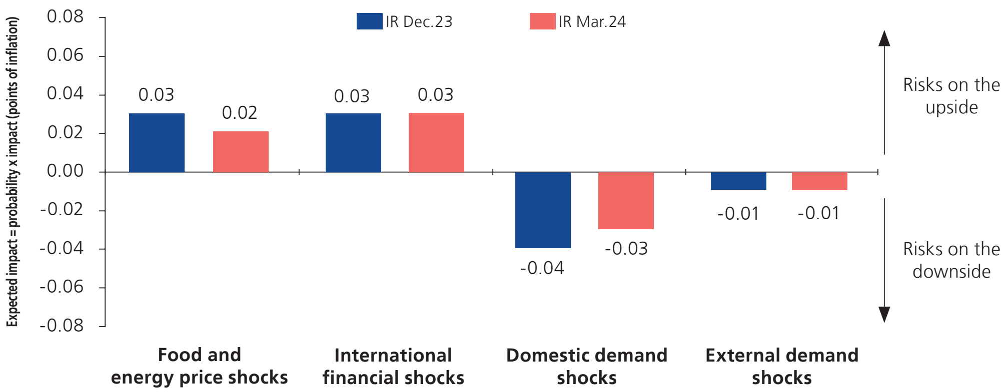
States, China and other economies could generate new risks of supply chain disruptions.

- **Financial shocks**
At the global level, increased volatility in international financial markets could generate an episode of capital outflows in emerging economies, particularly associated with the postponement of the easing of monetary policy in developed economies, the consequent response of international financial markets and greater global risk aversion due to geopolitical tensions. At the domestic level, episodes of greater political uncertainty and social unrest could increase country risk, thus amplifying the eventual outflow of capital. Both factors could generate upward pressure on the exchange rate, thus contributing to higher inflation. The expected impact of this risk remains the same as reported in December.

- **Domestic demand shocks**
Episodes of political instability and social unrest could deteriorate expected growth in consumption and private investment, and slow down public spending. Lower public and private investment spending would lead to lower capital accumulation and, therefore, to lower potential growth in economic activity. The expected impact of this risk would be lower compared to December expectations.

- **External demand shocks**
There is still a risk of a slowdown in global growth, which would imply a lower demand for our main export products (external demand). This contingent scenario could be generated by (i) greater geopolitical tensions; (ii) new disruptions in global supply chains (technological war between China and the United States), trade tensions between the United States, China and other advanced economies, and higher logistics costs associated with foreign trade; (iii) the impact of inflation on consumption; and (iv) the probable slowdown in China's economic growth. The impact of this risk remains the same as presented in the previous Inflation Report.

Graph 93
INFLATION RISKS BALANCE SHEET



Source: BCRP.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PRESIDENTE DEL DIRECTORIO
GERENTE