



ANNUAL REPORT 2013



CENTRAL RESERVE BANK OF PERU

Introduction

In 2013 the Peruvian economy grew 5.8 percent, a lower rate than in 2012 (6.0 percent). This slower pace of growth resulted mostly from the lower external impulse associated with a less favorable international scenario, a high degree of uncertainty, and a slowdown of growth in the major emerging economies.

The rate of annual inflation increased slightly, from 2.65 percent in 2012 to 2.86 percent in 2013. Despite this, the average rate of annual inflation in the period 2001-2013 was 2.5 percent, the lowest inflation rate in Latin America. At the level of products, inflation in 2013 is explained by rises in the prices of services such as meals outside the home, education, urban fares, and electricity. The depreciation of the sol against the dollar also influenced an increase in the purchase prices of vehicles, medicines, and house rents.

During the year, the world economy registered a slowdown in growth –from 3.2 percent in 2012 to 2.9 percent in 2013– due to the decline of economic activity in both the developed economies and the emerging economies. This was associated with the adjustment of fiscal policy in the case of the former, while in the case of the latter China's slower growth in the first quarter of the year generated fears of a sharp slowdown even though such fears decreased in the following months with favorable indicators of activity. The emerging economies with external imbalances were particularly affected by expectations that the Federal Reserve of the United States (Fed) would reduce its monetary stimulus.

In this scenario of lower dynamism of economic activity associated with the slower economic growth of our trading partners and lower export prices, the BCRP reduced its monetary policy rate from 4.25 to 4.00 percent in November 2013 to ensure inflation's convergence to the target range. Monetary policy actions were preventive and aimed at ensuring that inflation expectations remained within the inflation target range.



Other monetary policy measures such as changing the rate of required reserves were also applied to temper the credit cycle and promote a rapid de-dollarization of credit. Moreover, the rate of interest for corporate loans in nuevos soles showed a slight decreasing trend in 2013, in line with the conduct of the monetary policy rate.

The foreign exchange market showed high volatility over the year due to changes in the international context associated both with the beginning of the FED's withdrawal of its asset purchase program and with the evolution of the Chinese economy and the slow recovery of the world economy. The nuevo sol depreciated 9.6 percent in nominal terms. The exchange rate showed a mixed behavior during the year, a period of lower volatility being observed between January and April when the domestic currency depreciated 3.7 percent. In May, the Nuevo Sol depreciated 3 percent as a result of the Fed announcement that it would start reducing the amount of its purchases of assets, which increased risk aversion and led investors to shift their investments towards increasing their portfolio positions in securities of developed economies.

Affected by an international environment marked by uncertainty, the terms of trade recorded an average decline of 4.7 percent concentrated in the first half of the year, when the international prices of our main export products dropped. Together with a higher growth of domestic demand than the growth of the output, the latter explains the increase in the deficit of the current account of the balance of payments from 3.3 percent of GDP in 2012 to 4.5 percent in 2013. On the other hand, the financial account showed a surplus of over US\$ 11 billion (5.6 percent of GDP) mainly as a result of the long-term operations of the private sector (7.4 percent of GDP), including the placement of bonds in external markets (by local banks and local companies operating in the oil and manufacturing sectors), foreign direct investment (mining companies and companies that provide non-financial services), and long term loans (energy, mining, and hydrocarbons companies).

The non-financial public sector in 2013 continued showing a countercyclical position and recorded a surplus of 0.9 percent of GDP, a lower balance than the one recorded in 2012 (2.3 percent of GDP), in a context in which economic activity slowed down relative to the previous year and the lower prices of mineral exports was reflected in tax collection. The 2013 balance complies with the fiscal rule set for this year according to which the balance of the non-financial sector cannot show a deficit.