# Introduction

The recovery of Peru's gross domestic product (GDP) in 2015, whose growth rate increased from 2.4 percent in 2014 to 3.3 percent, is explained by increased activity in the primary sectors. The dynamic growth of output in the primary sectors (6.6 percent) was associated with the onset of the production stage of some new mega mining projects as well as with the partial reversal of the supply shocks observed during 2014.

The rate of inflation rate rose from 3.2 percent in 2014 to 4.4 percent in 2015, the acceleration of the depreciation rate of the PEN (14.6 percent) and a series of supply factors associated with El Niño accounting for this trend.

Banco Central de Reserva del Perú (BCRP) maintained an expansionary monetary policy stance during most of 2015, although it raised its policy interest rate by 25 basis points on two occasions towards the end of the year. The aim of these interest rate rises was to maintain inflation expectations anchored within the target range in a context affected by temporary supply shocks, an increased depreciation of the Sol, and the rise of some utility rates –e.g. electricity rates– since all of these factors led inflation expectations to rise to the upper band of the target range (1 percent – 3 percent) by the end of the year. The rate rises took place also amid a gradual recovery of domestic economic activity and high volatility in external financial and foreign exchange markets.

As in previous years, the substitution of credit in dollars for credit in soles was an ongoing process in 2015: while credit in domestic currency grew 28.6 percent, credit in foreign currency dropped 20.7 percent, reflecting the effectiveness of the reserve requirement measures taken to encourage the dedollarization of credit to the private sector. On the other hand, the preference for deposits in dollars increased 13.4 percent in 2015, whereas deposits in soles grew only 2.6 percent. As a result of this, banks had to face a lower availability of financing sources for credit in domestic currency, which was offset by liquidity injection measures through long term monetary operations carried out by the Central Bank. In the same line, BCRP lowered the rate of reserve requirements in domestic currency from 9.5 percent in 2014 to 6.5 percent in June 2015 and the current account requirement from 2.5 percent to 0.75 percent between December 2014 and April 2015 in order to provide enough liquidity to meet the demand for credit in domestic currency. As a result of this, about S/ 2.681 billion was injected into the financial system.

The country's terms of trade continued deteriorating, driven by China's economic slowdown and by uncertainty about when the Federal Reserve would start raising its interest rates. Accumulating a decline of 18.2 percent since 2012, the terms of trade dropped 6.3 percent on average in 2015. This deterioration in the terms of trade was offset by the increased volume of the main mineral exports, and there was also a lower factor income deficit associated with the decline of mining companies' profits. In addition to this, there were lower external current transfers and, although there was a decline of imports in the year, the current account deficit of the balance of payments increased from 4.0 percent of GDP in 2014 to 4.4 percent of GDP in 2015. Gross financing of long term capital to the private sector –foreign direct investment, bond placements in external markets, and long term loans– which amounted to 5.3 percent of GDP, continued financing the balance in the current account of the balance of payments.

The evolution of the Sol in the foreign exchange market was marked by the signals of economic recovery in the United States, by expectations that the Federal Reserve would raise its interest rates, and by uncertainty about China's economic growth and its impact on the demand for commodities. The Sol depreciated 14.6 percent in nominal terms. The Central Bank continued with its interventions in the foreign exchange market to prevent exchange fluctuations that could cause financial disruptions in the economy, this policy being supported by an appropriate level of net international reserves (US$ 61.49 billion at year end).

In 2015, the deficit in the operations of the non-financial public sector was equivalent to 2.1 percent of GDP, 1.8 percentage points higher than in 2014 (0.3 percent of GDP). This lower economic balance is explained mainly by the decline of the current revenues of the General Government as a result of the drop of commodity prices, the slowdown of economic growth, and the effect of the tax reduction measures implemented at end 2014.