Introduction

In 2020, the world economy faced a severe unforeseen shock: the COVID-19 pandemic. The virus, which first broke out in the city of Wuhan, China, in late 2019, spread rapidly to Europe and to the rest of the world. After the coronavirus was detected in a large number of countries in March 2020, the World Health Organization declared the coronavirus outbreak a global pandemic.

Most governments took measures with varying degrees of stringency to contain the spread of infections, including quarantines, border closures, the lockdown of activities with a high degree of human interaction, among other actions. Although such restrictions were gradually relaxed with the cyclical decline in the rate of contagion and mortality, the strong impact of the pandemic on economic activity in the first half of the year led **global economic activity** to drop 3.3 percent on average, the worst fall observed since World War II.

Our country implemented one of the most severe lockdowns in the world at the beginning of the pandemic. In order to contain the spread of the virus, on March 16 the Peruvian government decreed strict sanitary measures, which included mandatory confinement at the national level and the lockdown of sectors considered non-essential, including the execution of public works and e-commerce services. As a result, Peru's gross domestic product (GDP) contracted by 17.3 percent during the first half of the year (30.0 percent in the second quarter). Since the beginning of the pandemic, the Central Reserve Bank of Peru (BCRP) adopted an unprecedented expansionary monetary policy, made possible due to the high credibility achieved by the entity. The fiscal policy implemented by the Government also considered stimulus measures, with transfers to families (2.0 percent of GDP) standing out together with the return to positive growth rates in public investment towards the fourth quarter. These actions boosted a higher than expected recovery of economic activity during the last quarter of the year (-1.7 percent), which allowed the Peruvian economy to reach one of the closest levels to those registered prior to the pandemic in the continent.

With this clear divergence in the quarterly evolution of 2020, **economic activity** in our country contracted 11.1 percent during the year after 21 consecutive years of growth. Such a rate of GDP contraction had not been observed since 1989 (-12.3 percent).

The rapid recovery of economic activity was also driven by a favorable context of **terms of trade**, which increased by 8.2 percent in 2020. This expansion –the largest in the last 10 years– was associated with the increase in the price of the main export commodities and with the fall in the price of oil and industrial inputs, which led to a reduction in import prices.

The increase in relative export prices with respect to import prices had a positive impact on the trade balance which, together with the reduction in the volume of imports due to weak domestic demand, led the **current account of the balance of payments** to register a surplus of 0.7 percent of GDP. This outturn was also explained by the impact of the COVID-19 crisis on local activity, which translated into lower profits of foreign companies with direct investment in the country. The financial account showed a level equivalent to 3.6 percent of GDP, mainly due to higher net portfolio investment in public assets, which offset lower private sector financing. In addition, net international reserves, which increased by US$ 6,391 million between the end of 2019 and 2020, recorded a balance of US$ 74,707 million, a sum equivalent to 37 percent of GDP.

The expansionary fiscal policy included supporting households through different monetary transfers as well as supporting businesses through the reduction or suspension of tax payments. These measures, along with the reduction of tax revenues due to the contraction of local activity, led to a non-financial public sector **fiscal deficit** of 8.9 percent of GDP in 2020, 7.3 percentage points higher than in the previous year, and the highest deficit recorded since 1990. Public debt rose by 8.0 percentage points to 34.8 percent of GDP at the end of 2020, this increase being mostly explained by the issuance of global bonds and by loans from international organizations and, to a lesser extent, by the increase in the balance of sovereign bonds.

Monetary policy was aimed at preserving the flow of payments in the economy and at supporting the recovery of economic activity. To this end, BCRP reduced the benchmark interest rate in 200 basis point between March 19 and April 9 from 2.25 percent to 0.25 percent, its lowest level in history and the lowest policy rate in the region. In addition, BCRP increased the provision of liquidity for terms of up to 3 years to 9.1 percent of GDP through different instruments, with Government Guaranteed Portfolio Repos associated with the Reactiva Peru program standing out among them.

As a result of the expansionary monetary policy and the government-guaranteed credit program, the growth rate of **credit to the private sector** rose from 6.9 percent in 2019 to 11.8 percent in 2020. Moreover, as a percentage of GDP, the balance of credit to the private sector rose from 43.1 percent of GDP in 2019 to 52.9 percent in 2020. The expasion of credit was higher in local currency due to the loans granted through the Reactiva Peru program.

The **inflation** rate rose slightly between 2019 and 2020, from 1.90 to 1.97 percent, around the middle of the BCRP's inflation target range (between 1 and 3 percent), the upward determinants of inflation being mainly the higher costs derived from the health measures, supply factors affecting some food products, and the rise in the exchange rate. The evolution of economic activity below its potential was reflected in lower inflation excluding food and energy prices, which declined from 2.30 percent in 2019 to 1.76 percent in 2020.