



Weekly Economic Report

June 13, 2019

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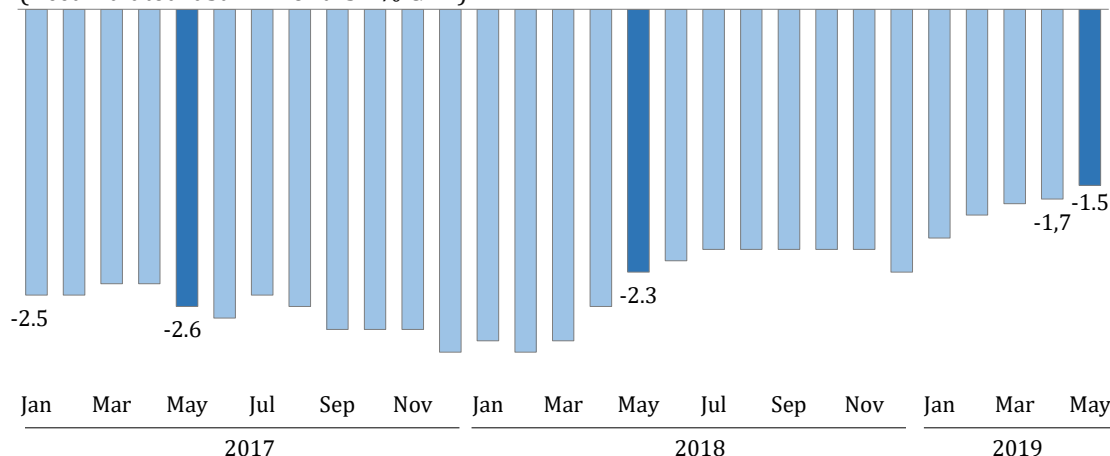
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ANNUAL FISCAL DEFICIT DECREASED TO 1.5 PERCENT OF GDP IN MAY

The accumulated **annual fiscal deficit** at May 2019 declined to 1.5 percent of GDP from the 1.7 percent deficit registered in the previous month. This improvement in the country's public finances results from higher tax and non-tax revenues as well as from lower non-financial expenditures.

Overall balance of the non-financial public sector

(Accumulated last 12 months - % GDP)



In monthly terms, the non-financial public sector showed a surplus of S / 1.10 billion in **May**, a balance S/ 867 million higher than the balance in May 2018. This higher surplus is explained mainly by the higher current revenues of the general government, due to both higher tax and non-tax revenues, as well as by the lower non-financial expenditure in gross capital formation.

Operations of the Non-Financial Public Sector 1/

(Million S/)

	May			January-May		
	2018	2019	% Change	2018	2019	% Change
1. General government current revenues	12,198	13,499	10.7	63,184	68,236	8.0
a. Tax revenues	8,462	9,177	8.5	47,488	51,054	7.5
<i>Of which:</i>						
i. Income tax	2,766	3,406	23.1	21,438	22,529	5.1
ii. Value Added Tax	5,077	5,214	2.7	24,747	26,172	5.8
b. Non-tax revenues	3,736	4,322	15.7	15,695	17,182	9.5
2. General government non-financial expenditure	11,801	11,567	-2.0	52,137	52,101	-0.1
a. Current	8,853	9,418	6.4	41,749	42,716	2.3
b. Gross Capital Formation	2,270	2,021	-11.0	8,640	8,277	-4.2
<i>National government</i>	839	926	10.3	3,399	3,208	-5.6
<i>Regional governments</i>	501	442	-11.6	1,702	1,538	-9.6
<i>Local governments</i>	930	653	-29.7	3,538	3,530	-0.2
<i>Other capital expenditure</i>	678	127	-81.2	1,748	1,109	-36.6
3. Other 2/	444	-134		-452	245	
4. Primary Balance (=1-2+3)	841	1,798		10,595	16,379	
5. Interests	612	702		4,645	5,018	
6. Overall Balance (=4-5)	229	1,096		5,950	11,361	

1/ Preliminary.

2/ includes capital income of the general government and primary balance of state enterprises.

Source: MEF, SUNAT, Banco de la Nación, Sunat, EsSalud, public charities, public institutions and companies.

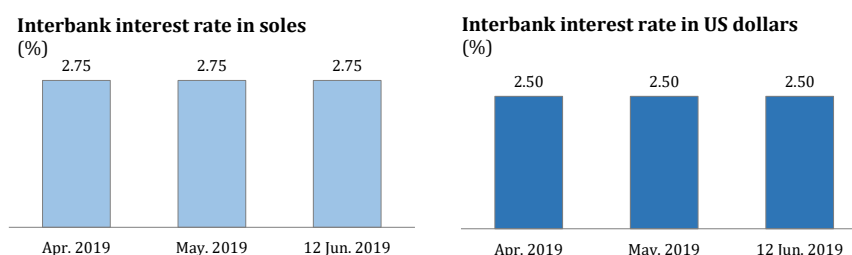
It is worth mentioning that surpluses are usually observed in economic balances in the first months of each year due to the seasonality of public finances.

In May, **current revenues** increased by 10.7 percent compared to the same month in 2018, showing an increase in both tax revenues (8.5 percent) and non-tax revenues (15.7 percent). The increase in the former was associated mainly with higher extraordinary income from the income tax paid by non-domiciled taxpayers, while the increase in the latter resulted from greater transfers of profits and payments of royalties.

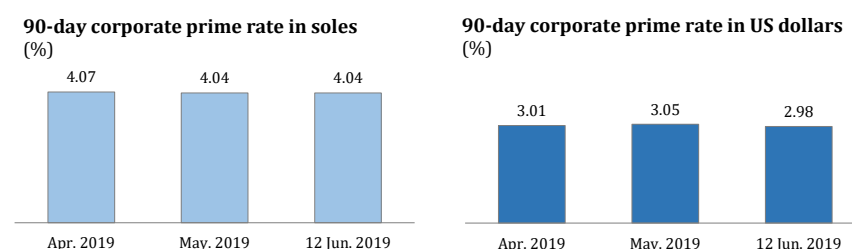
In addition, **non-financial expenditure** decreased by 2.0 percent compared to May 2018. Current expenditure increased by 6.4 percent, showing an increase in all the government levels, especially in terms of wages, goods, and services, whereas expenditure in gross capital formation and other capital expenditure decreased by 11.0 and 81.2 percent, respectively.

INTERBANK INTEREST RATE IN SOLES AT 2.75 PERCENT

On June 12, the **interbank interest rate** in soles showed an annual rate of 2.75 percent and this rate in dollars registered 2.50 percent.



On the same date, the average **90-day corporate prime rate** –the interest rate charged by commercial banks to lower risk businesses– in soles was 4.04 percent, while the prime rate in dollars was 2.98 percent.



BCRP MONETARY OPERATIONS

At June 12, BCRP has made the following **monetary operations**:

- i. CD BCRP: The balance of BCRP certificates of deposit on June 12 was S/ 27.40 billion, with an average interest rate of 2.7 percent, while this balance at end-May was S/ 27.50 billion, with an average interest rate of 2.8 percent.

	Term (Months)			
	3	6	12	18
13 May.		2,53-2,55	2.69	
14 May.			2.69	
15 May.				2.79
16 May.			2.69	
20 May.	2.56			
22 May.				2.77
23 May.			2.68	
27 May.	2.57			
29 May.				2.74
30 May.			2.65	
3 Jun.	2.56			
5 Jun.				2.70
6 Jun.		2,60-2,62	2.68	
7 Jun.			2.58	2.67
10 Jun.	2.50			
11 Jun.			2.62	
12 Jun.	2.57		2.64	2.64

- ii. Overnight deposits: The balance of this instrument on June 12 was S/ 772 million, with an average interest rate of 1.5 percent. At end-May the balance was S/ 1.48 billion, with the same average interest rate.
- iii. Currency repos: On June 12, the balance of regular currency repos was S/ 11.43 billion, with an interest rate of 4.0 percent, while the balance at end May was S/ 10.95 billion, with a similar interest rate.

Like at the end of May, credit expansion repos and credit substitution repos showed zero balances on June 12.

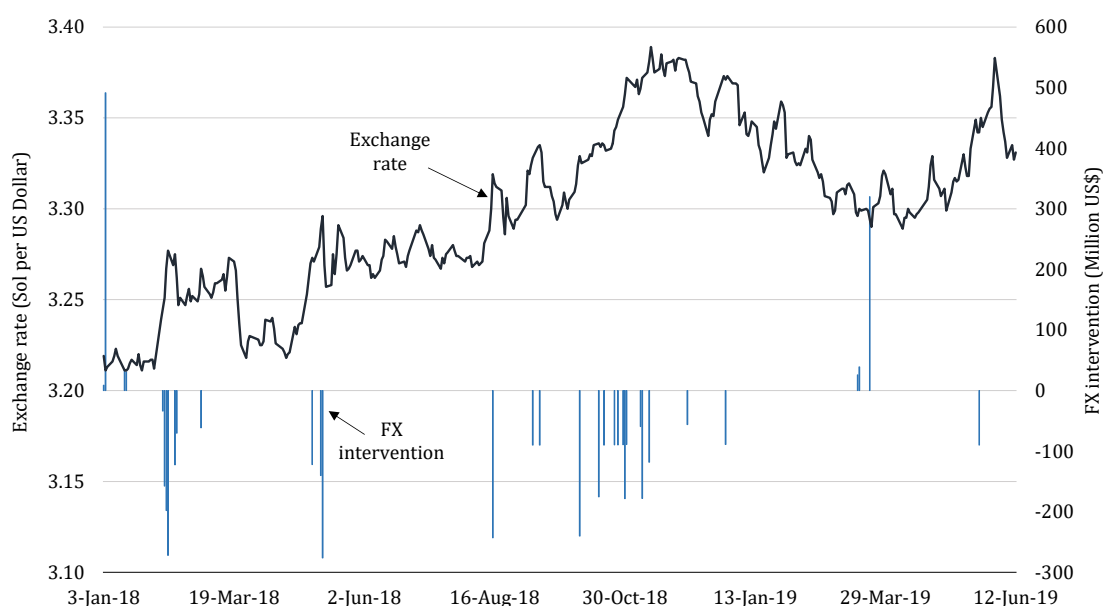
- iv. Security repos: The balance of security repos on June 12 was S/ 5.75 billion with an average interest rate of 4.0 percent, while this balance at the end of May was S/ 6.75 billion, with an average interest rate of 3.9 percent.
- v. Term deposits: The balance of term deposits at June 12 was S/ 1.18 billion, with an average interest rate of 2.6 percent, while at the end of May this instrument showed a zero balance.
- vi. Auctions of Treasury funds: Like at the end of May, on June 12 this instrument showed a balance of S/ 4.40 billion with an average interest rate of 4.3 percent.

As regards its **foreign exchange operations**, BCRP has not intervened in the foreign exchange market at June 12:

- i. BCRP has not intervened in the spot market.
- ii. FX Swaps-sell: The balance of this instrument on June 12 was S/ 300 million (US\$ 90 million), with an average interest rate of 1.3 percent. At the end of May, this instrument showed the same balance.
- iii. CDLD BCRP, CDR BCRP, and FX Swaps-buy: Like at the end of May, these instruments showed zero balances on June 12.

On June 12, the **interbank selling price of the dollar** closed at S/ 3.31 per dollar, a result 1.5 percent lower than at end-May. With this, the sol accumulates an appreciation of 1.1 percent so far this year.

Exchange rate and FX intervention of BCRP ^{1/}



^{1/} Includes sell / purchases of US\$, placements of CDR BCRP and FX-Swaps, and CDLD BCRP.

At June 12, the monetary base has increased by S/ 515 million compared to the end of May due to banks' higher demand for banknotes and coins associated with the beginning of a new period of reserve requirements. In this context, BCRP injected liquidity through the net placement of currency repos (S/ 478 million), the net maturity of CDBCRP (S/ 13 million), and the decline of public sector deposits at BCRP (S/ 1.19 billion). These operations were in part offset by net placements of term deposits (US\$ 473 million) and the net maturity of security repos (S/ 1.00 billion).

In the last 12 months, the monetary base grew 4.2 percent, mainly as a result of the 5.0 increase observed in the banknotes and coins issued in the same period, in line with the expansion of economic activity.

Monetary balance of the Central Reserve Bank of Peru

(Million S/)

	Balance			Flows	
	Dec 31, 18	May 31, 19	Jun 12, 19	2019	Jun 12, 19
I. NET INTERNATIONAL RESERVES	<u>202,609</u>	<u>223,463</u>	<u>219,057</u>	<u>18,683</u>	<u>-1,738</u>
<i>(Millions US\$)</i>	<i>60,121</i>	<i>66,309</i>	<i>65,783</i>	<i>5,662</i>	<i>-527</i>
1. Foreign Exchange Position	39,548	40,924	41,088	1,540	164
2. Deposits of the Commercial Banks	12,898	17,626	16,957	4,059	-669
3. Deposits of the Public Sector	8,202	8,313	8,302	100	-11
II. NET DOMESTIC ASSETS	<u>-141,242</u>	<u>-165,515</u>	<u>-160,594</u>	<u>-21,587</u>	<u>2,253</u>
1. Credit to the financial sector in soles	-9,017	-4,424	-5,406	3,611	-982
a. Security repos	5,950	6,750	5,750	-200	-1,000
b. Currency repos	7,358	10,953	11,431	4,073	478
c. Securities issued	-24,523	-25,049	-25,036	-513	13
i. CDBCRP	-24,523	-25,049	-25,036	-513	13
d. Auctions of funds of PT and BN	4,000	4,400	4,400	400	0
e. Other deposits in soles	-1,802	-1,478	-1,951	-149	-473
2. Net assets public sector in soles ^{1/}	-45,439	-56,580	-55,387	-9,949	1,192
Holding of CDBCRP by Banco de la Nación	-2,538	-2,455	-2,365	183	90
3. Credit to the financial sector in dollars	-43,465	-59,399	-56,466	-13,396	2,207
<i>(Millions US\$)</i>	<i>-12,898</i>	<i>-17,626</i>	<i>-16,957</i>	<i>-4,059</i>	<i>669</i>
a. Deposits in foreign currency	-12,898	-17,626	-16,957	-4,059	669
4. Net assets public sector in dollars	-25,749	-26,028	-25,658	-212	61
<i>(Millions US\$)</i>	<i>-7,641</i>	<i>-7,723</i>	<i>-7,705</i>	<i>-64</i>	<i>18</i>
5. Other Net Accounts	-17,572	-19,084	-17,676	-1,641	-225
III. MONETARY BASE (I+II) ^{2/}	<u>61,367</u>	<u>57,948</u>	<u>58,464</u>	<u>-2,904</u>	<u>515</u>
<i>(% change 12 months)</i>	<i>7.3%</i>	<i>6.8%</i>	<i>4.2%</i>		

1/ Public sector excluding auctions of funds of PT and BN

2/ Currency plus reserve requirement in domestic currency.

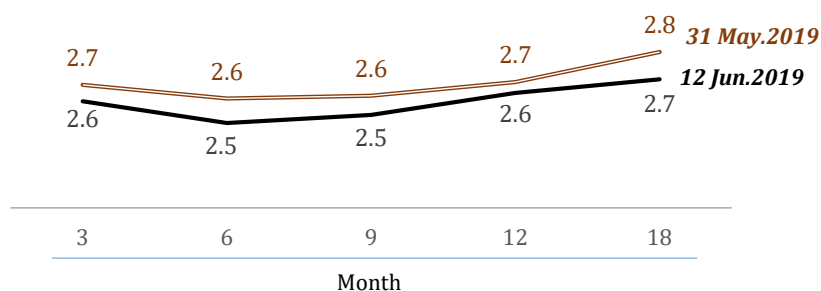
SHORT-TERM YIELD CURVES

So far in June (at June 12), the yield curve of CD BCRP is below the one observed in December 2018.

BCRP Certificates of Deposit (CD BCRP) are a monetary sterilization instrument that can be traded in the market or used in interbank repos or in repos with BCRP. The yields in

the representative terms –3 months to 18 months– provide a guide for short-term financial operations. The shape of this yield curve is influenced by expectations of future monetary policy rates and by liquidity conditions in the market.

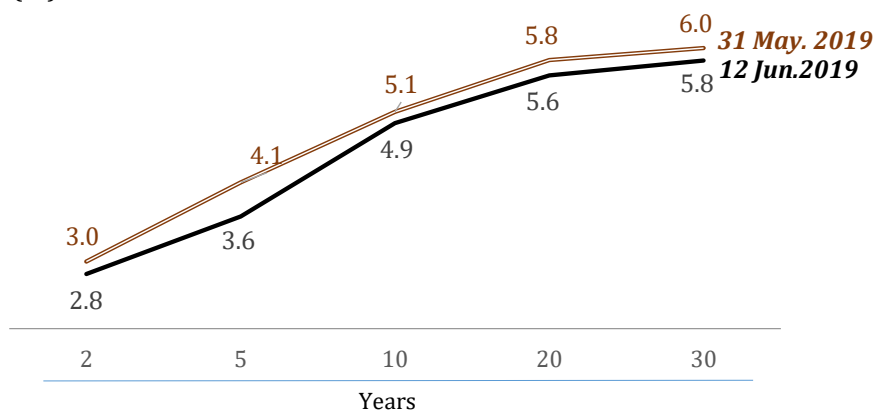
Yield curve of CDBCRP
(%)



PUBLIC TREASURY BONDS

Markets use the yield on the Public Treasury bonds as a benchmark for terms of 2 years or more. At June 12, 2019, the yield curve of sovereign bonds shows slightly lower values to those observed in December 2017.

Yield curve of BTP
(%)

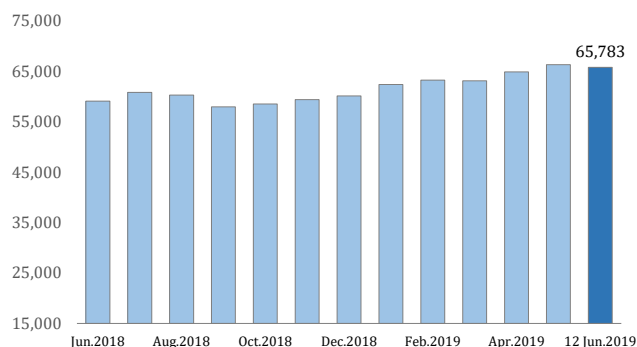


INTERNATIONAL RESERVES AT US\$ 65.78 BILLION ON JUNE 12

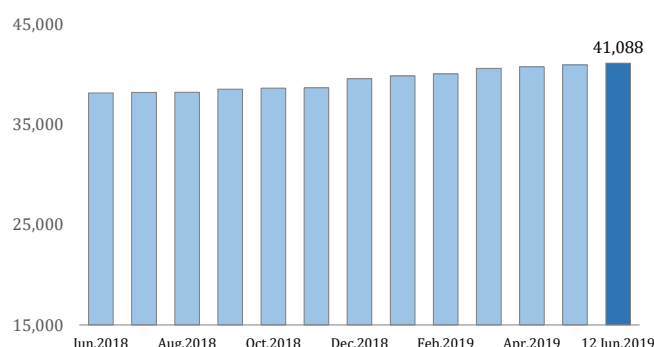
On June 12, Peru’s net international reserves –made up mainly by liquid international assets– amounted to US\$ 65.78 billion. This level of reserves, which is US\$ 5.66 billion higher than the amount of NIRs at end December 2018, is equivalent to 29 percent of GDP.

The foreign exchange position of BCRP on June 12 was US\$ 41.09 billion, a figure US\$ 1.54 billion higher than the balance at the end of 2018.

Net International Reserves
(Million US\$)



Exchange Position
(Million US\$)



INTERNATIONAL MARKETS

Price of zinc rose in international markets

In June 5 - 12, the price of **zinc** increased 1.3 percent to US\$ 1.20 the pound.

China's postponed implementation of new refining capacity in the country and the agreement reached between the United States and Mexico influenced this price rise.

Zinc Price
(ctv. US\$/lb.)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 1.20/pound	1.3	-1.7	5.2

Gold Price
(US\$/tr. ounce)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 1,332.4/troy oz.	-0.2	2.8	4.0

In June 5-June 12, the price of **gold** fell 0.2 percent to US\$ 1,332.4 the troy ounce.

The price of gold declined in line with the recovery of stock exchange markets.

In the same period the price of **copper** fell 0.1 percent to US\$ 2.64 the pound.

This decline is associated with China's lower imports of refined copper as well as copper alloys and products.

Copper Price

(cUS\$/pound)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 2.64/pound	-0.1	0.8	-2.3

The price of **WTI oil** fell 1 percent to US\$ 51.1 the barrel in the week of June 5-June 12.

The increase in US oil inventories explain this decline in the price of crude.

WTI Oil Price

(US\$/barrel)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 51.1/barrel	-1.0	-4.4	12.6

International prices of food commodities up

In June 5-12, the price of **wheat** climbed 4.8 percent to US\$ 175.3 the ton.

The price of wheat increased, favored by the USDA's report of lower inventories.

Wheat price

(US\$/ton.)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 175.3/ton.	4.8	-1.0	-5.4

In the same period, the price of **soybean oil** rose 1.2 percent to US\$ 615.3 a ton.

This price rise is explained by the presence of rains which could delay sowings of this crop and affect yields.

Soybean oil price (US\$/ton.)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 615.3/ton.	1.2	-0.6	2.2

The price of **maize** climbed 5.1 percent to US\$ 162.6 a ton.

Lower expected yields as a result of sowing delays in the United States account for this price rise.

Maize price (US\$/ton.)

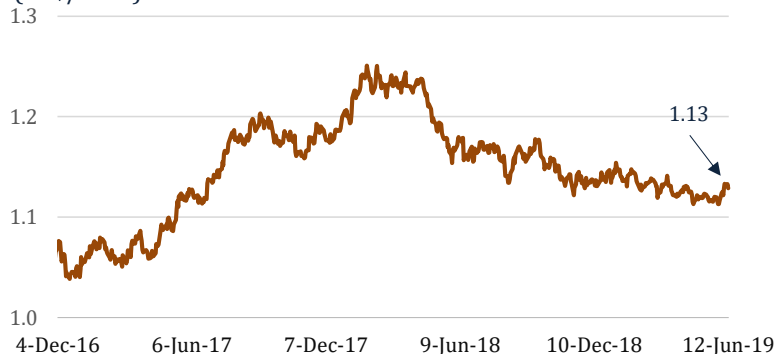


% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
US\$ 162.6/ton.	5.1	2.2	20.4

Dollar depreciated in international markets

In June 5 - 12, the **dollar** depreciated 0.6 percent against the **euro**, amid indicators of a slowdown in the job market in the United States.

Evolution of US\$ per Euro (US\$/Euro)



% change			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
1.13 US\$/euro	0.6	1.1	-1.6

The US dollar has been appreciating against most other currencies in recent years, as reflected in the evolution of the **FED index**. This appreciation of the dollar is associated with expectations that the Federal Reserve (FED) will start normalizing its interest rates.

FED index

(January 06=100)



Variation in basis points			
7 Jun.2019	31 May.2019	29 Abr.2019	31 Dec.2018
114.2	-0.8	0.4	0.1

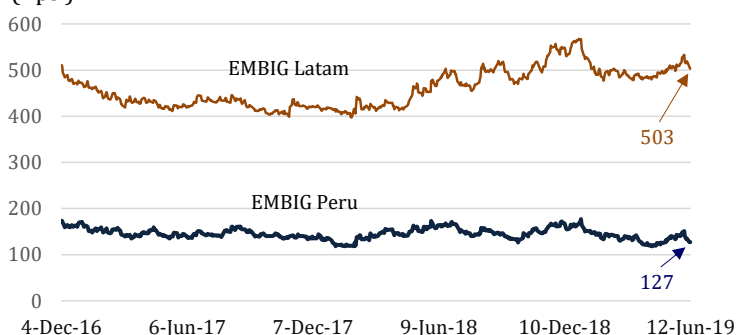
Country risk fell to 130 basis points

In June 5-June 12, the country risk indicator, measured by the **EMBIG Peru** spread, fell 10 bps to 127 bps.

On the other hand, in the same period the **EMBIG LatinAmerica** spread fell to 503 bps amid higher-than-expected indicators of activity in the Eurozone and the impact of the trade and migratory agreement reached between the US and Mexico.

Country Risk Indicator

(Bps.)



	Variation in basis points			
	12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
EMBIG Peru (bps)	127	-10	-21	-41
EMBIG Latam (bps)	503	-12	-24	-65

Yield on 10-year US Treasuries fell to 2.12 percent

In the week of June 5-June 12, the yield on the 10-year **Treasury bonds** fell 2 bps to 2.12 percent in a context of risks of a slowdown due to commercial tensions.

10-Year US Treasury rate

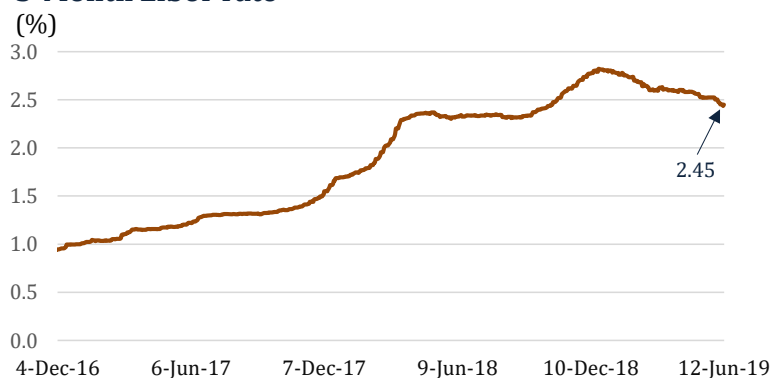
(%)



	Variation in basis points			
	12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
	2.12%	-2	0	-56

In the same period, the **3-month Libor** fell 2 bps to 2.45 percent, influenced by expectations about May's succession in the conservative party.

3-Month Libor rate



Variation in basis points			
12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
2.45%	-2	-5	-36

INDICES OF THE LSE ROSE IN JUNE 5-JUNE 12

In the week of June 5 to 12, the **General Index** (IGBVL-Peru General) of the Lima Stock Exchange (LSE) rose 1.5 percent while the **Selective Index** (ISBVL-Lima 25) rose 2.1 percent.

This rise in the LSE indices is consistent with the increase of stock prices in the financial and industrial sectors.

Year-to-date, the General Index has risen 5.5 percent, while the Selective Index has fallen 1.9 percent.

Peru General index of the LSE



	As of:	% change compared to:		
	12 Jun.2019	5 Jun.2019	31 May.2018	31 Dec.2018
Peru General	20,408	1.5	-2.3	5.5
Lima 25	26,015	2.1	-4.9	-1.9

