

Peru's Economic Outlook

Julio Velarde

Governor

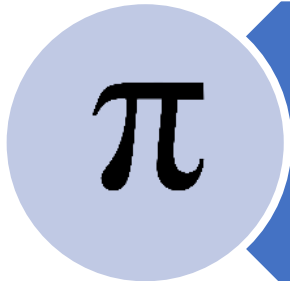
Central Reserve Bank of Peru

June 2022

Contents:



Economic performance

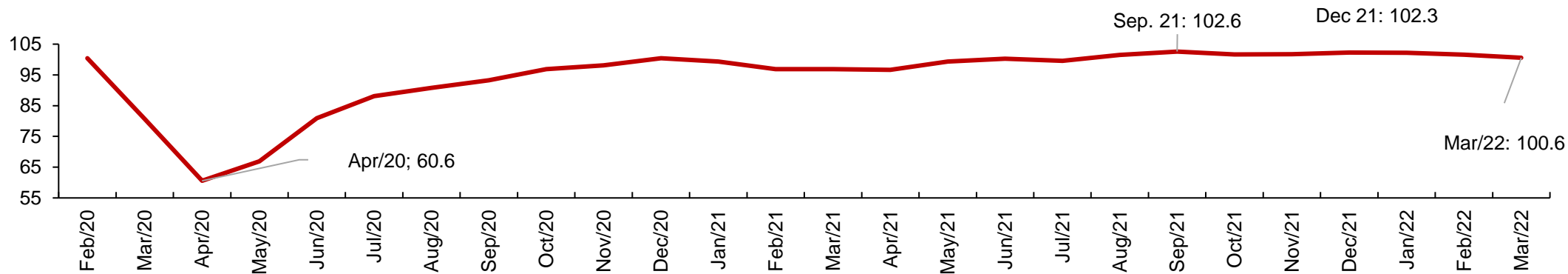


Inflation and monetary policy actions

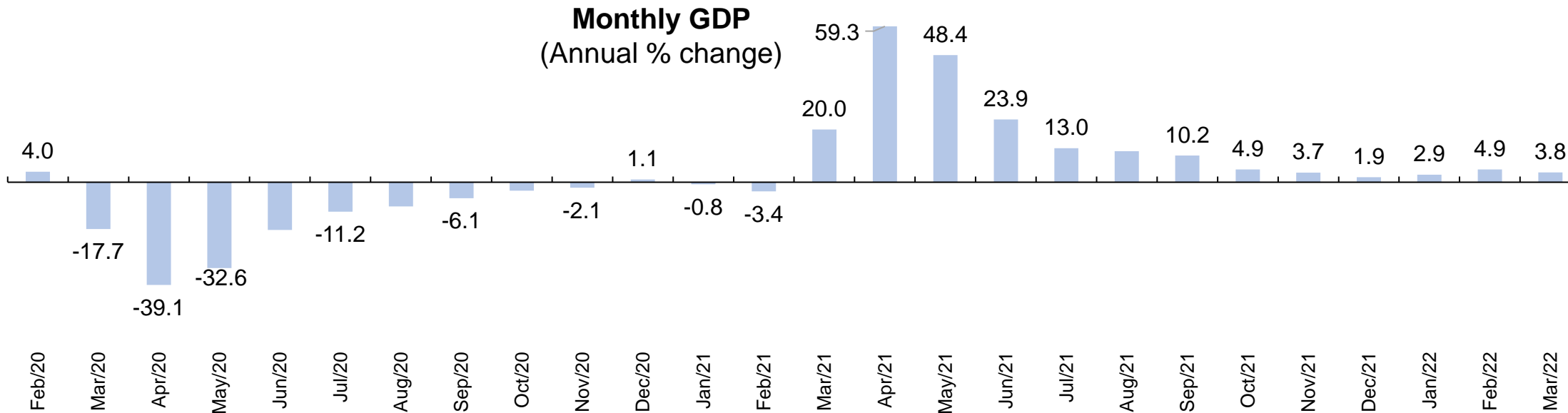
The Peruvian economy has remained above its pre-pandemic level since mid-2021.

Seasonally adjusted index of economic activity

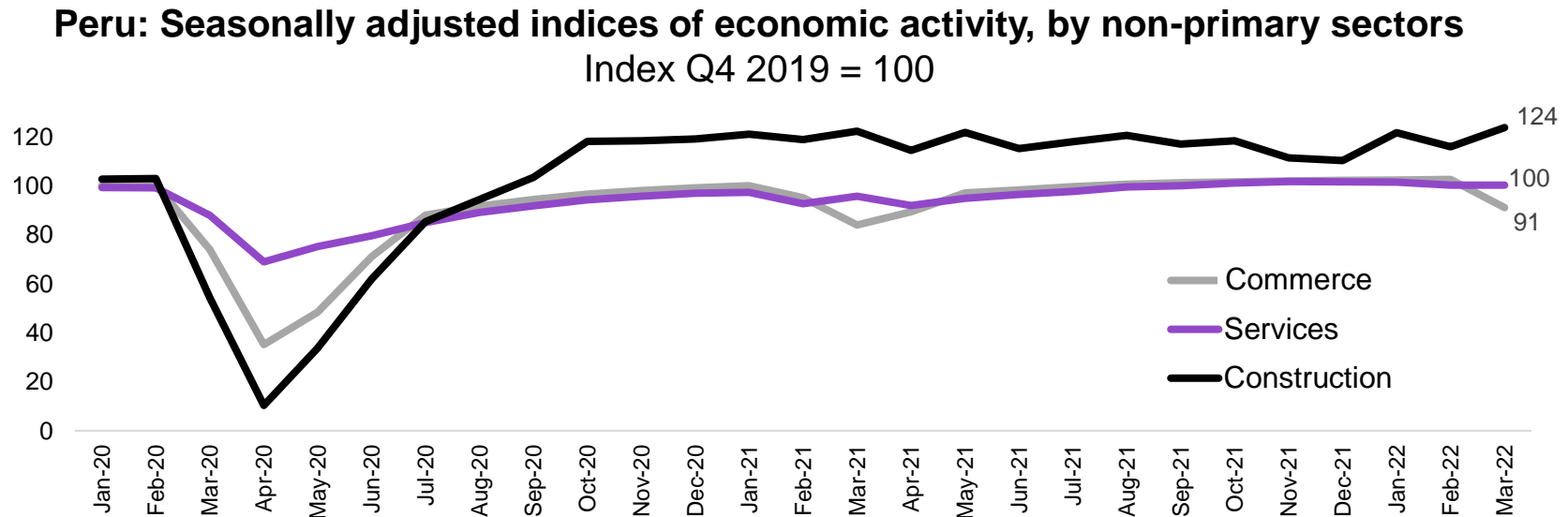
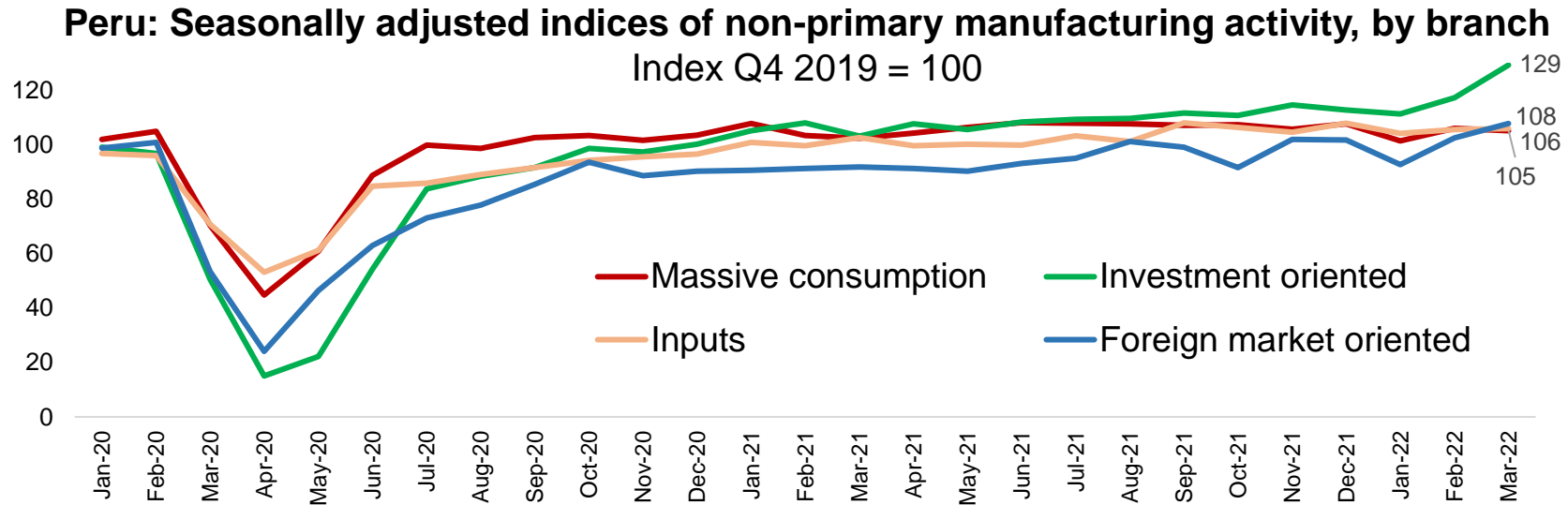
Index Q4 2019 = 100



Monthly GDP (Annual % change)



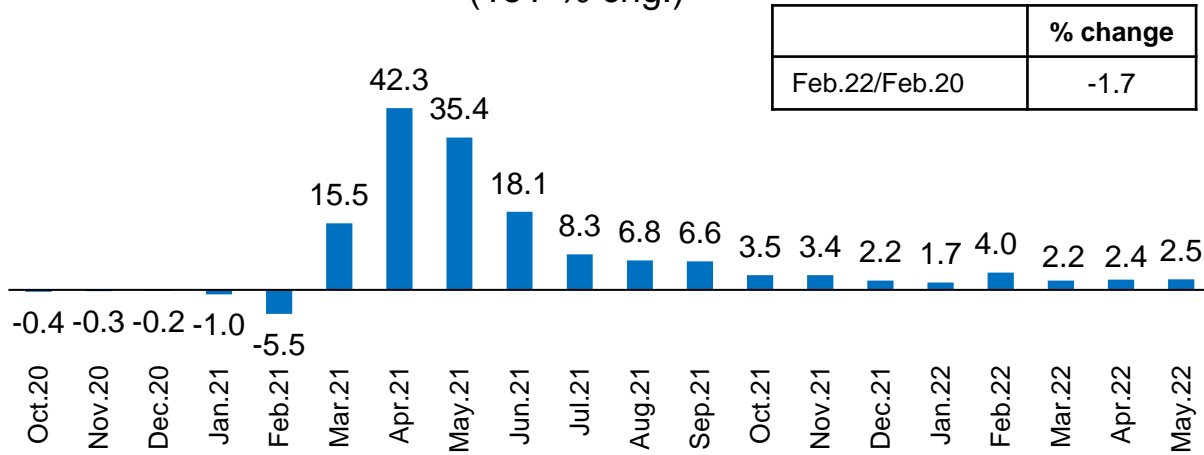
In March, seasonally adjusted non-primary manufacturing activity grew 1.6 percent with respect to February (10.1 percent year-on-year).



Leading indicators show a good performance of those related to private consumption.

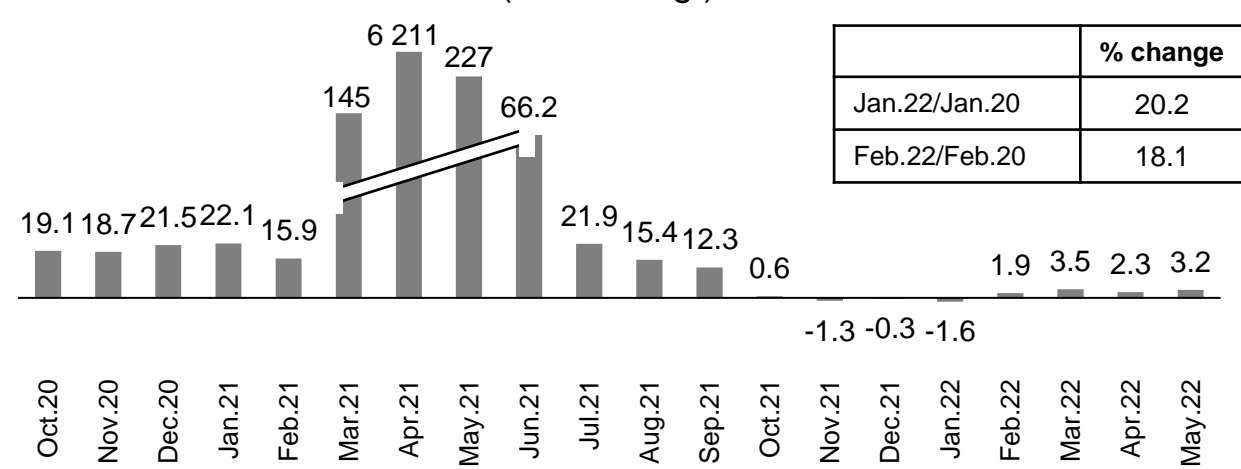
ELECTRICITY DEMAND

(YoY % chg.)



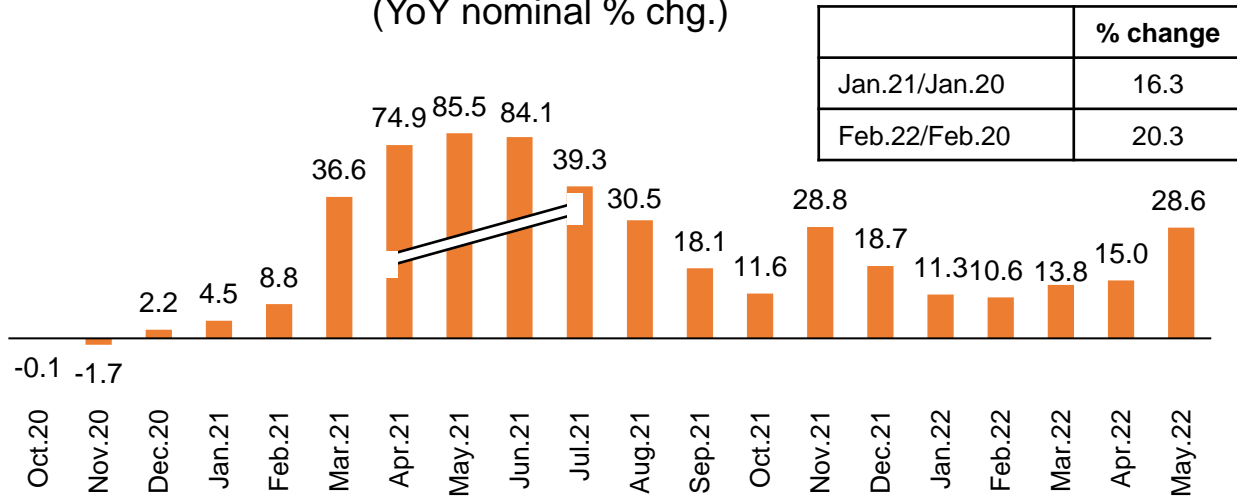
DOMESTIC CONSUMPTION OF CEMENT

(YoY % chg.)



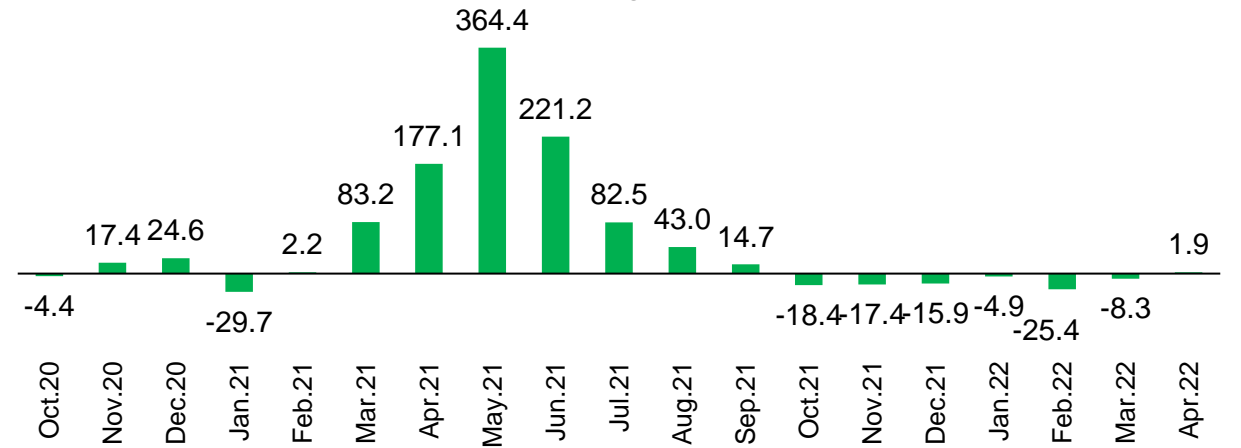
DOMESTIC VALUE-ADDED TAX

(YoY nominal % chg.)



NON-FINANCIAL PUBLIC INVESTMENT

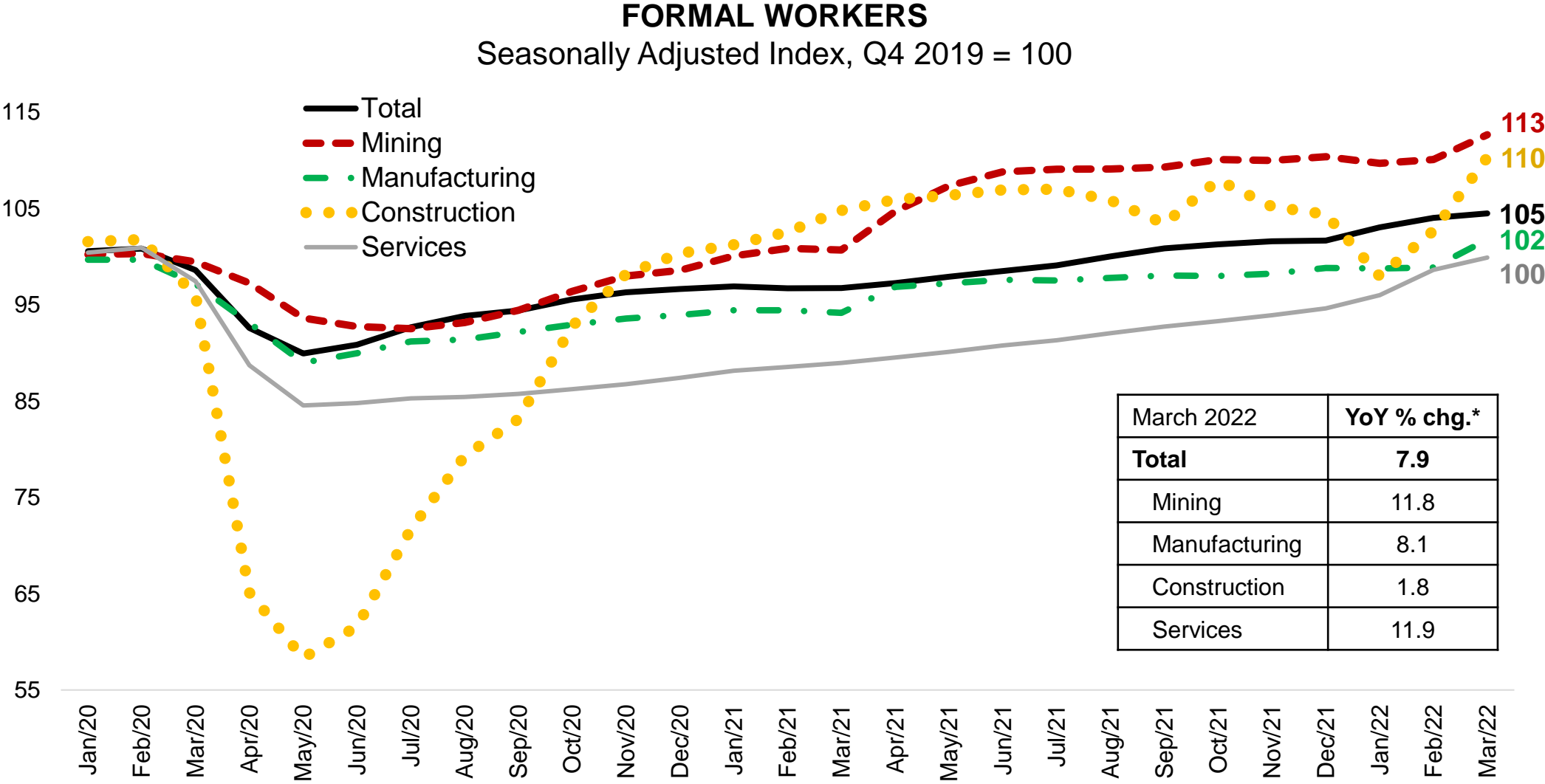
(YoY % chg.)



100 años

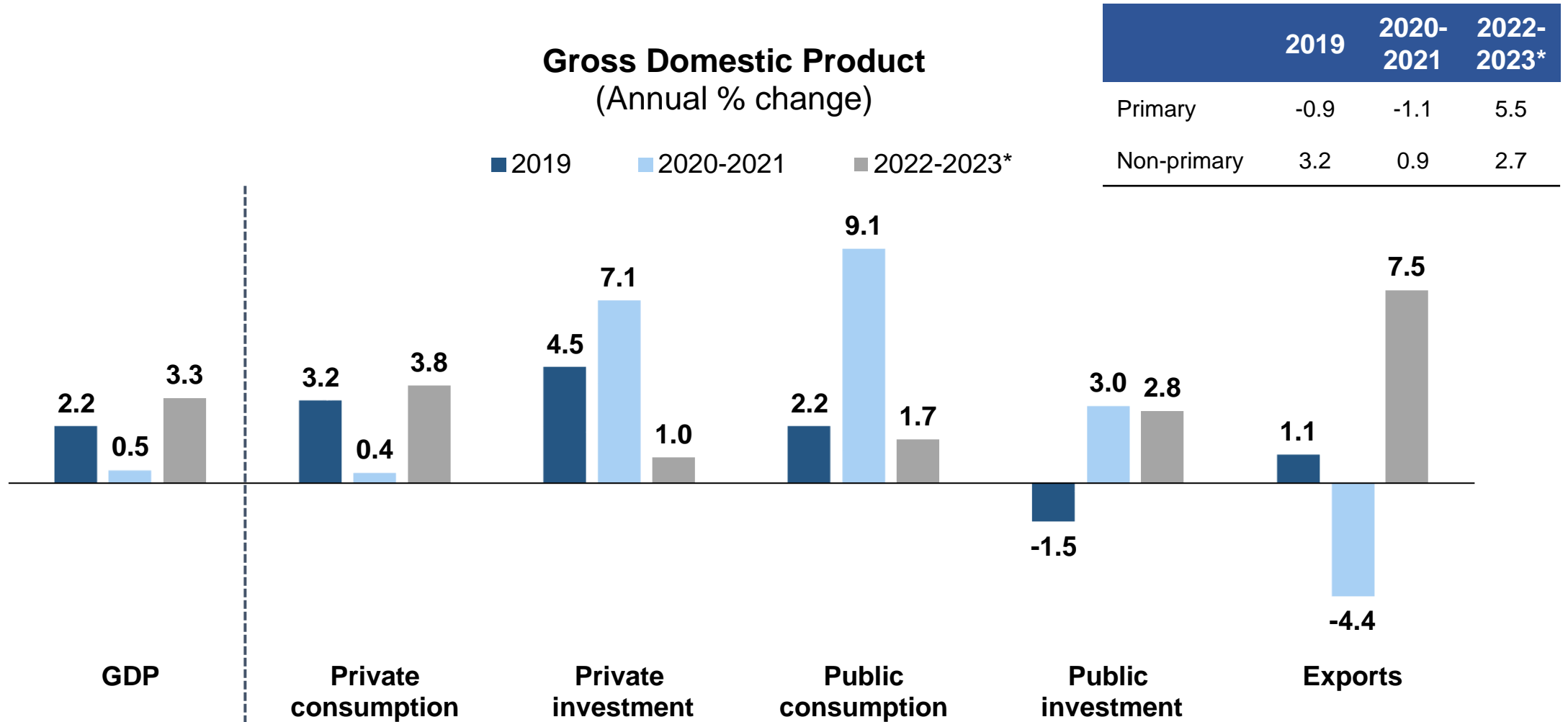
*Preliminar. Source: COES, INEI, SUNAT-Aduanas, MEF.

Formal employment has recovered its pre-pandemic levels. In March, total employment rose 7.9% yoy, while private sector employment increased 10.0%.



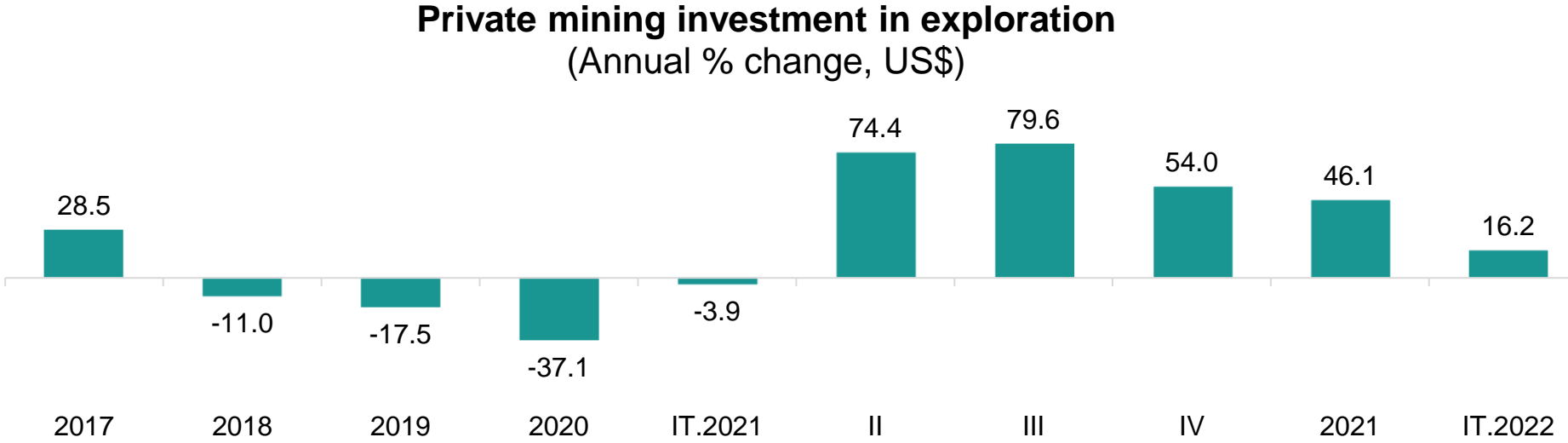
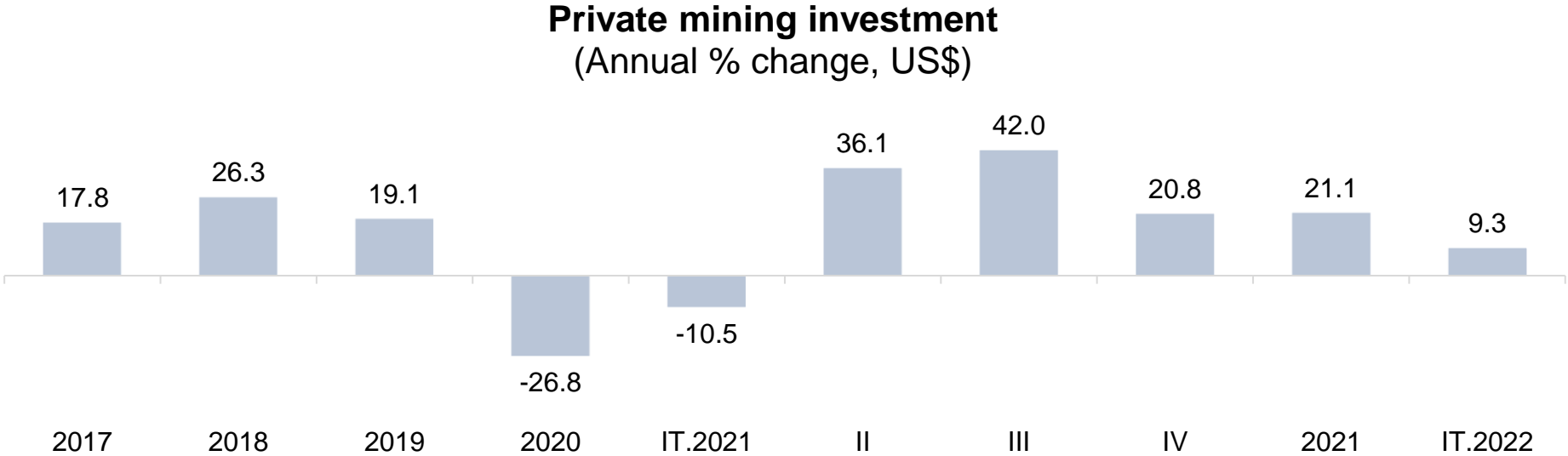
* Year-on-Year % change of the original series.
Source: SUNAT.

GDP growth in the next 2 years will be driven by private consumption and exports.



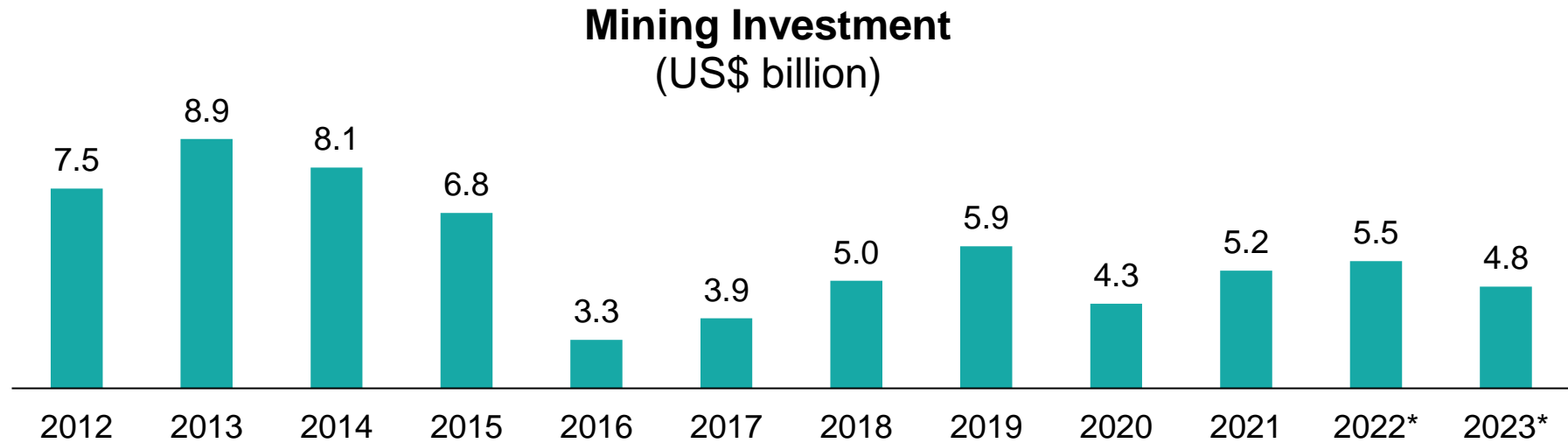
*Forecast.
Source: BCRP

The recovery of metal prices has favoured the evolution of mining investment.



Source: Ministry of Energy and Mines.

Private investment will continue growing by ongoing projects and the construction of new mining projects.



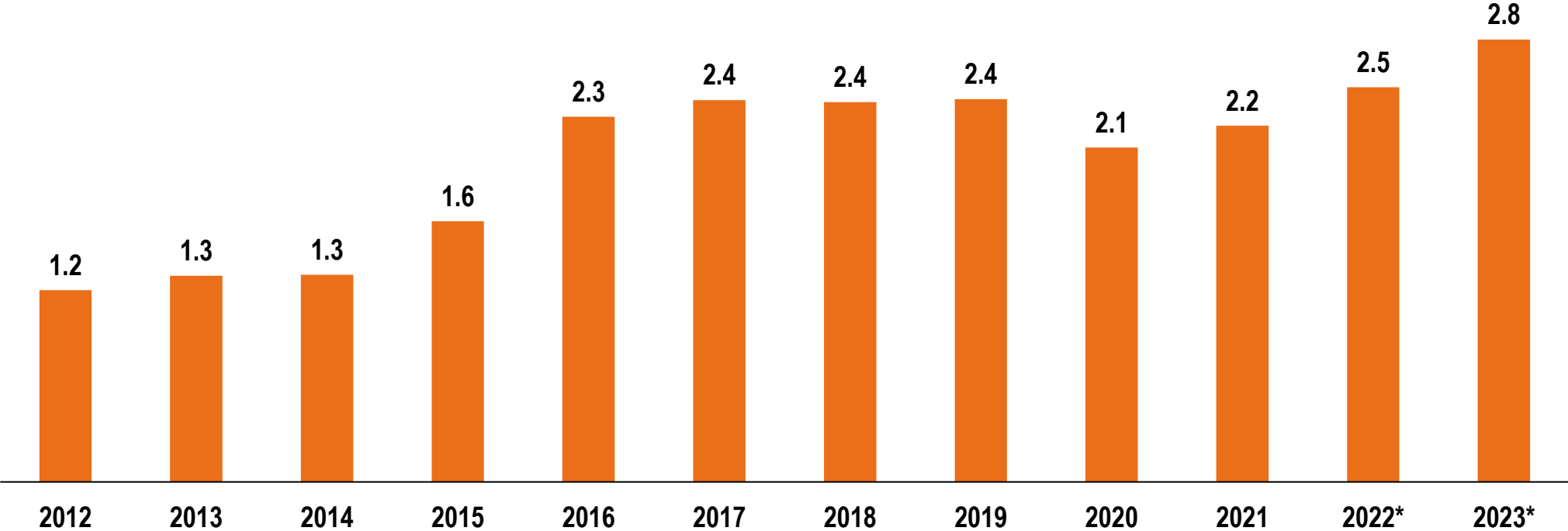
Mining Project Pipeline, US\$ Billion

Companies	Project	Region	Estimated investment
AngloAmerican	Quellaveco	Moquegua	5.3
Yanacocha (Newmont)	Yanacocha Sulfuros	Cajamarca	2.1
Chinalco	Toromocho Expansion	Junín	1.4
Bear Creek Mining Corporation	Corani	Puno	0.6
Buenaventura	San Gabriel	Moquegua	0.4
Shougang	Shouxin Expansion	Ica	0.1

Source: Proinversión

New mines in operation have increased copper production as cash cost remains low.

COPPER PRODUCTION, 2012-2023
(millions of tons)



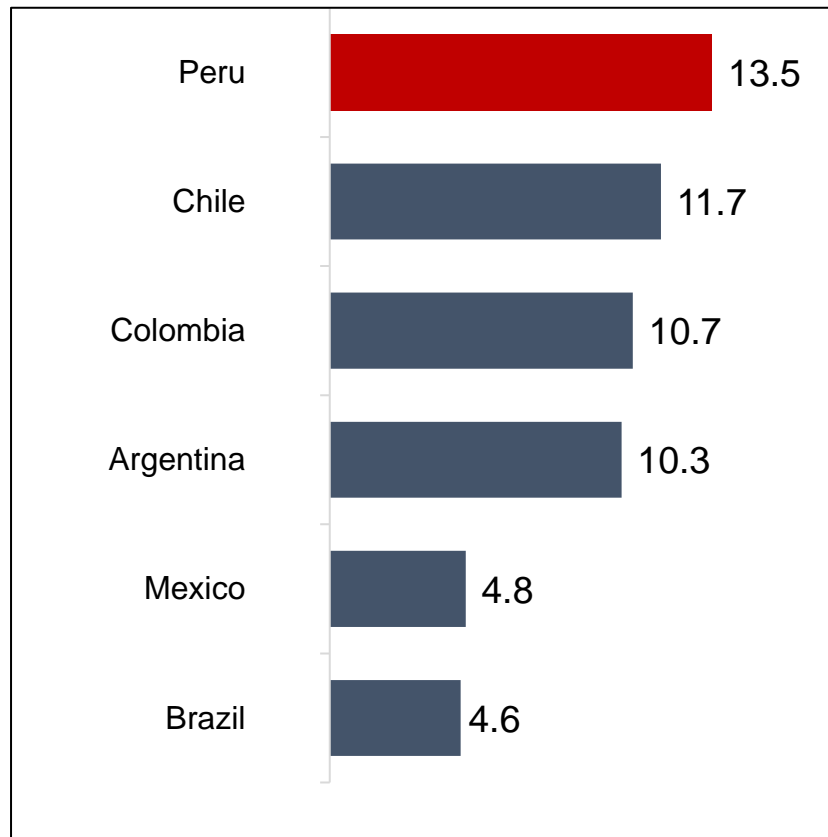
*Forecast.
Source: BCRP.

Peru is expected to maintain growth above the regional average in 2022 and 2023.

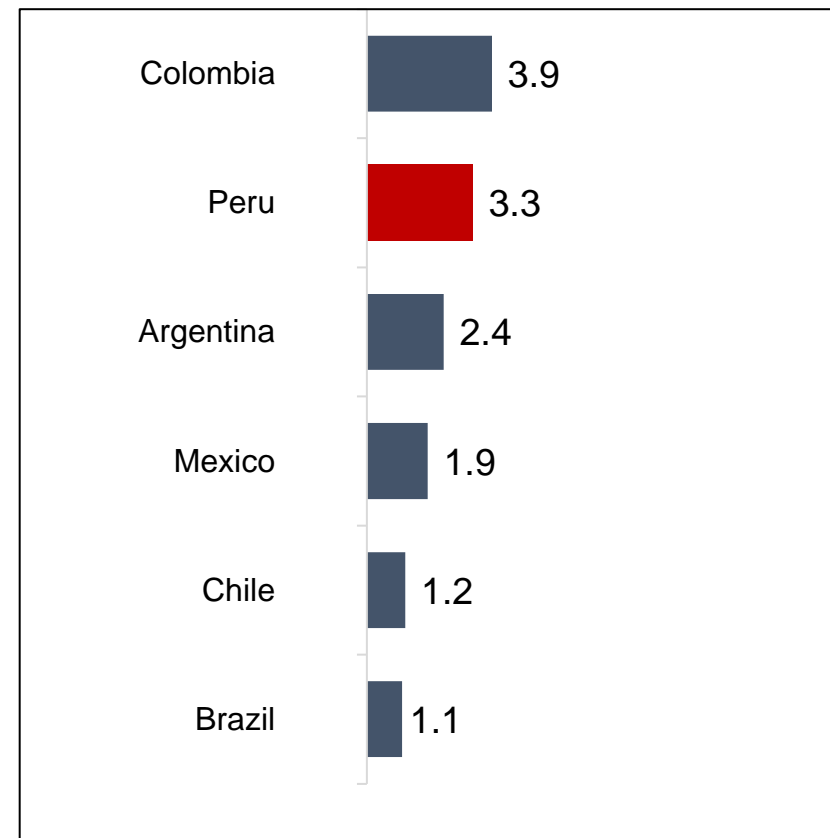
GDP GROWTH IN LATIN AMERICA (Real % change)

LatAm Growth			
2020	2021	2022*	2023*
-7,0	6,9	2,1	2,0

2021



Average 2022-2023*



*Forecast.

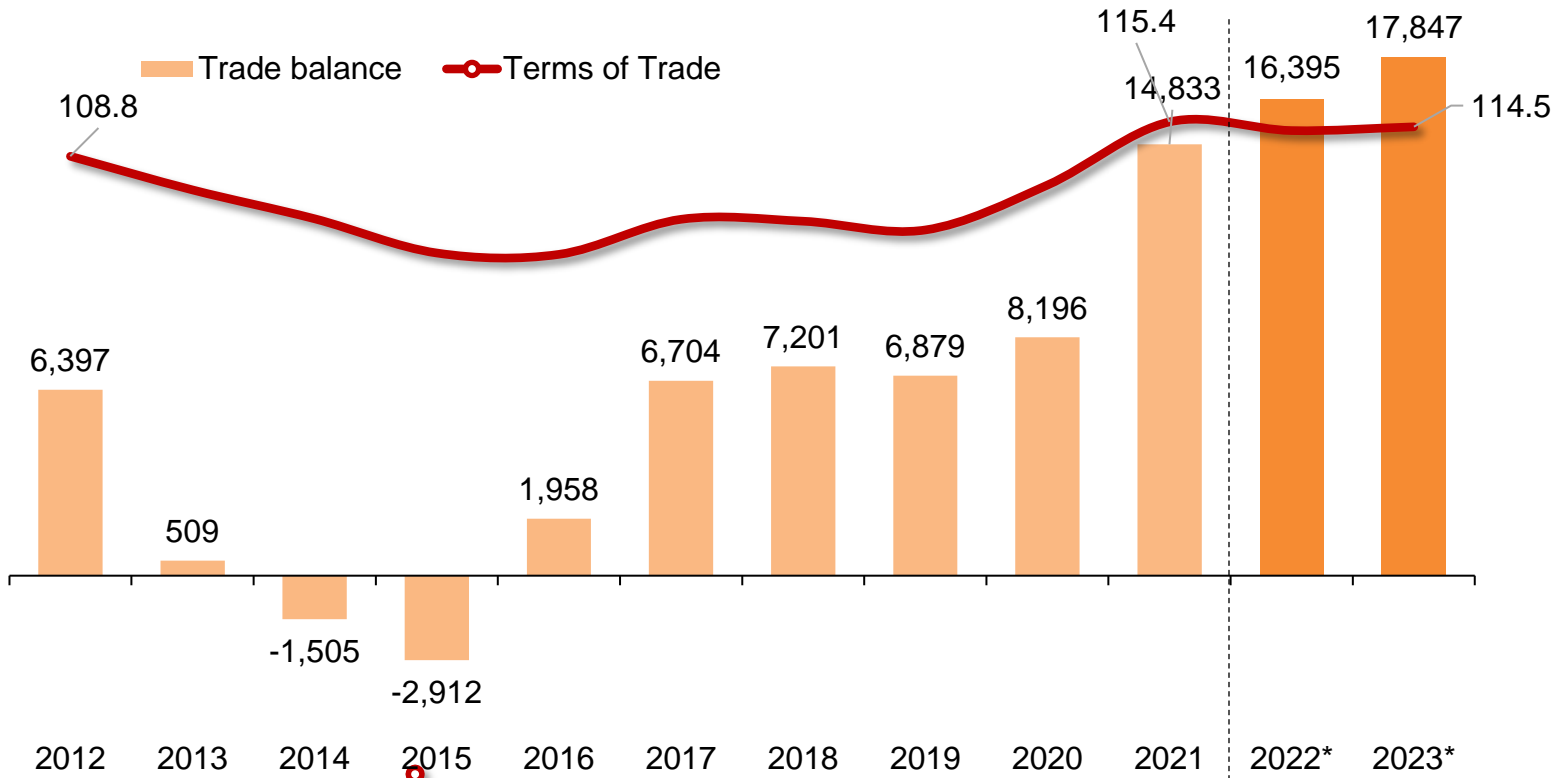
Source: LatAm Consensus Forecast (May 2022) and BCRP (Peru).

A new record trade surplus was reached in 2021. A similar result is expected for 2022 and 2023 despite higher fuel and food prices. The trade surplus would increase in 2023 with the normalization of import prices and the recovery of primary production.

Annual % change	2021	2022*	2022*
1. Value:			
Exports	47.2	12.7	5.0
<i>Traditional products</i>	55.2	13.3	4.1
<i>Non-traditional products</i>	28.2	10.9	7.8
Imports	39.2	13.3	3.9
2. Volume:			
Exports	12.9	5.7	5.9
<i>Traditional products</i>	10.5	5.5	6.4
<i>Non-traditional products</i>	20.2	6.4	5.0
Imports	19.4	4.7	5.4
3. Price:			
Exports	30.3	6.6	-0.9
Imports	16.6	8.1	-1.5

*Forecast, Inflation Report March 2022.
Source: BCRP.

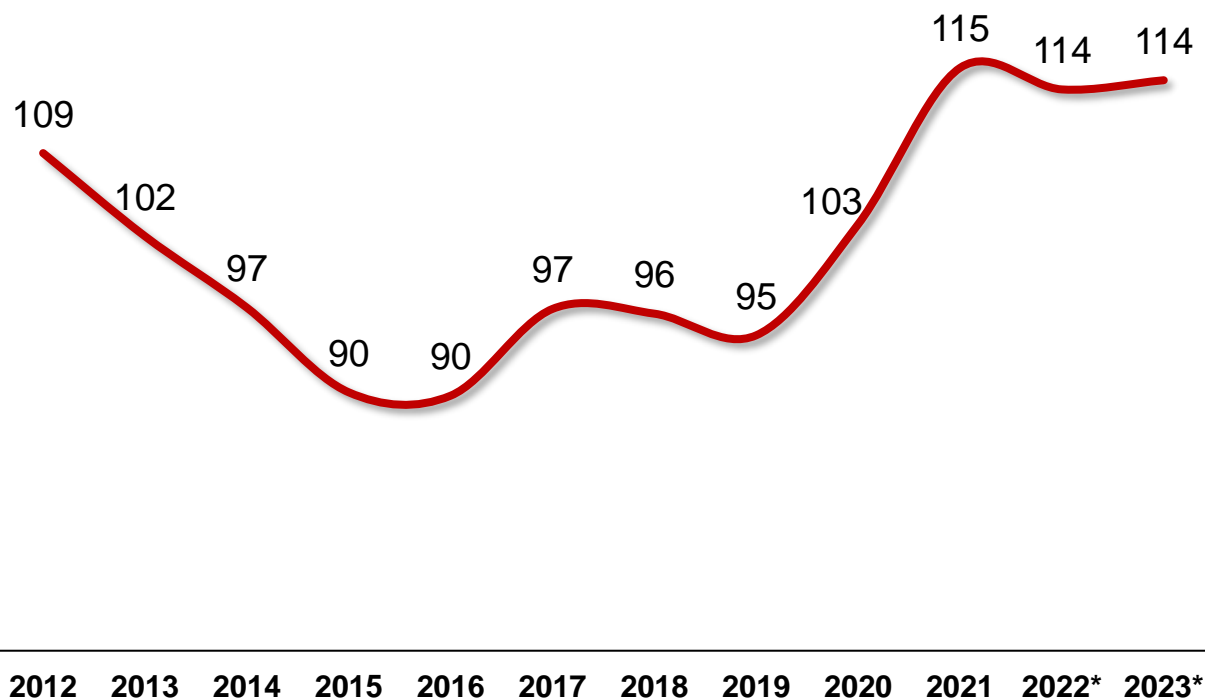
TRADE BALANCE AND TERMS OF TRADE, 2012-2023
(Million US\$ and Index 2007 = 100, respectively)



*Forecast, Inflation Report March 2022.
Source: BCRP.

The terms of trade will remain as the highest of the last 10 years.

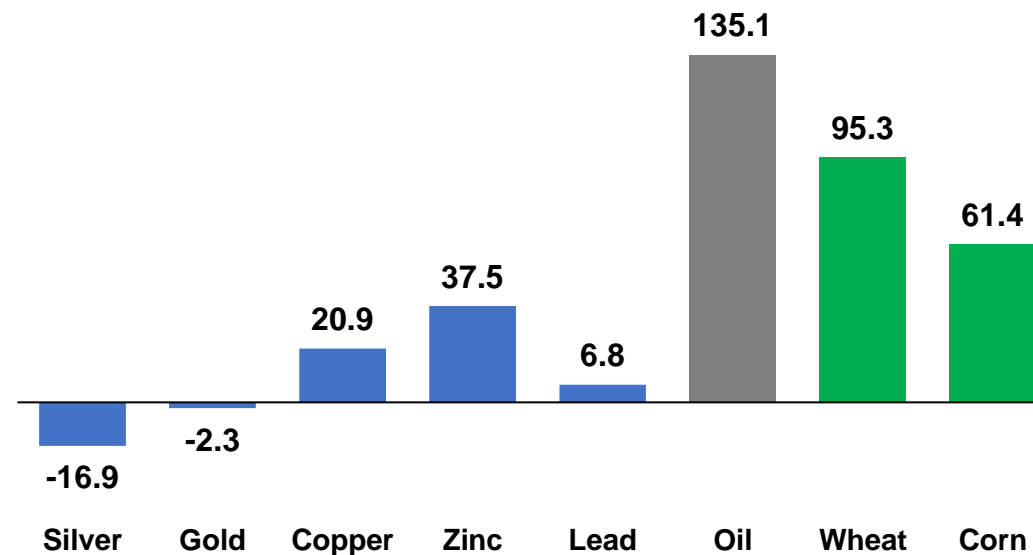
Terms of Trade
(Index, 2007 = 100)



* Forecast.

Commodity prices
(end of period % change^{1/})

End of period	2020	2021	2022**
Gold (US\$/Oz. t.)	1 891	1 820	1 848
Copper (US\$/lb.)	3,51	4,40	4,28
Zinc (US\$/lb.)	1,24	1,65	1,68



^{1/} May 2022 with respect to December 31 2020.

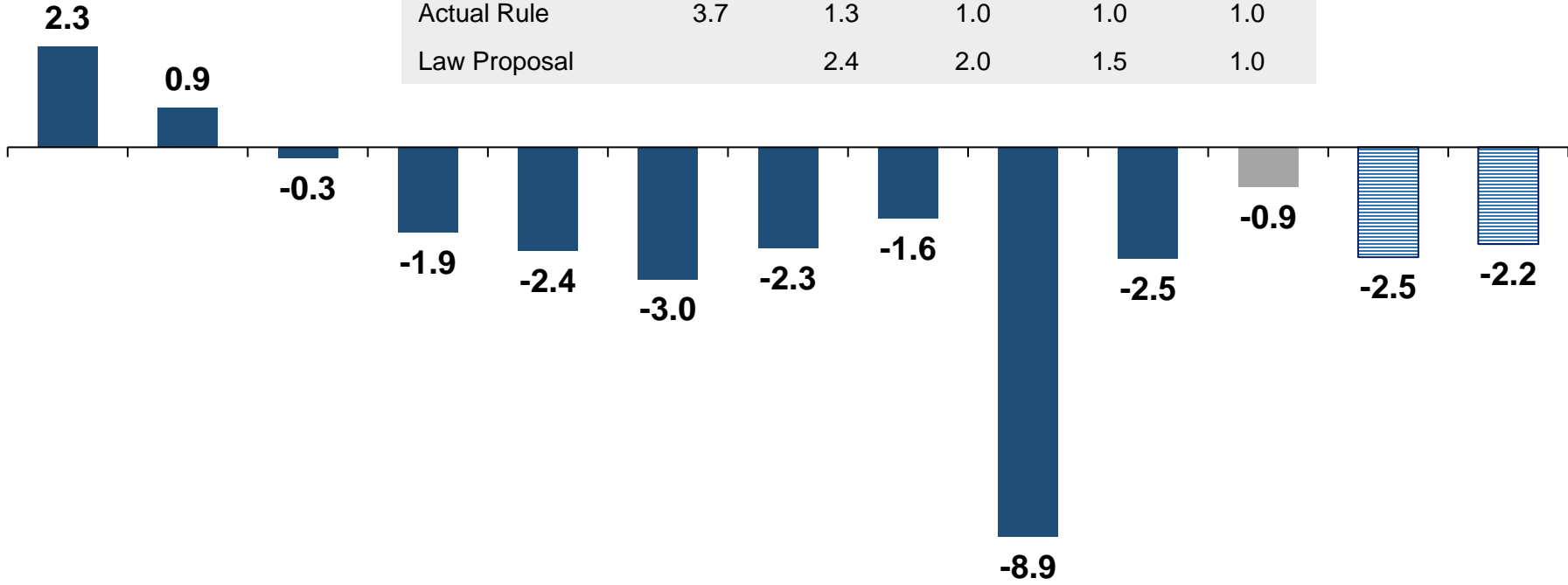
**December future prices for the respective years (on May 26 2022).

The fiscal deficit is expected to decrease throughout the forecast horizon, to 2.2% of GDP in 2023, reflecting a recovery in current revenues and non-financial expenditure consolidation relative to 2020.

NON-FINANCIAL PUBLIC SECTOR: OVERALL BALANCE
(Percentage of GDP)

FISCAL RULE

	2022	2023	2024	2025	2026
Actual Rule	3.7	1.3	1.0	1.0	1.0
Law Proposal		2.4	2.0	1.5	1.0



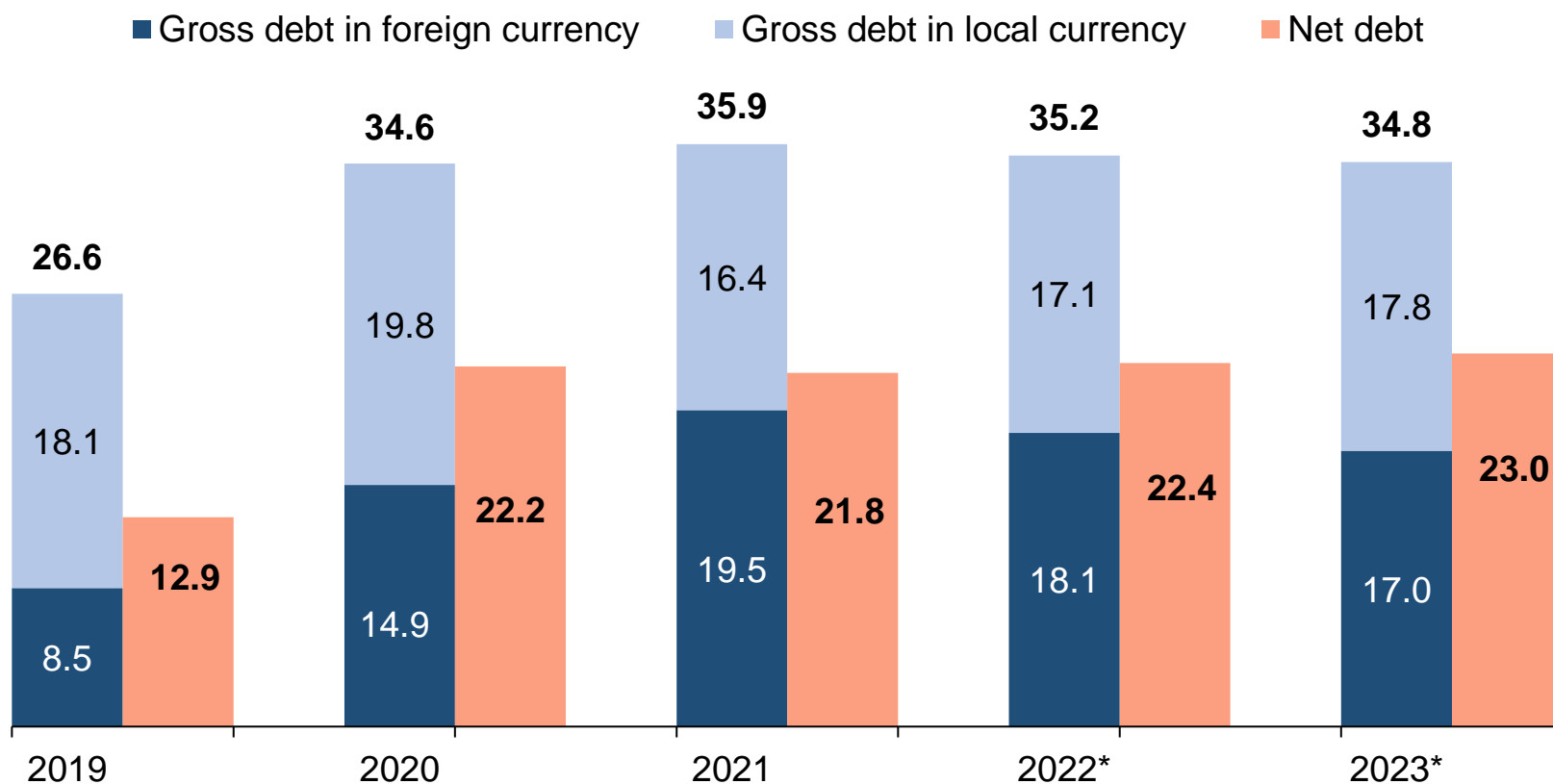
Overall balance (% of GDP)	2020	2021	2022*
Brazil	-13.3	-4.4	-7.6
Uruguay	-4.7	-2.6	-2.5
Colombia	-7.0	-6.8	-4.6
Mexico	-4.4	-3.8	-3.2
Paraguay	-7.2	-6.2	-5.0
Peru	-8.9	-2.5	-2.5
Chile	-7.2	-7.5	-1.5

* Forecast
Source: IMF-World Economic Outlook (April 2022) for all countries but Peru (BCRP).

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 May-22 2022* 2023*
* Forecast. Source: BCRP

Public gross debt will reach 34.8% of GDP by 2023. Net debt will increase to 23.0% of GDP in 2023.

NON-FINANCIAL PUBLIC SECTOR DEBT (Percentage of GDP)



* Forecast. Source: BCRP.

Gross Debt (% of GDP)	2020	2021*	2022*
Brazil	98.7	93.0	91.9
Uruguay	68.1	67.5	65.7
Colombia	65.7	64.6	60.6
Mexico	60.3	57.6	58.4
Paraguay	36.9	37.0	39.4
Peru	34.7	35.9	35.2
Chile	32.6	36.3	38.3

Source: IMF-World Economic Outlook (April 2022) and BCRP (Peru).

% of GDP	2022*	2023*
Non-financial public sector debt	34.7	34.3

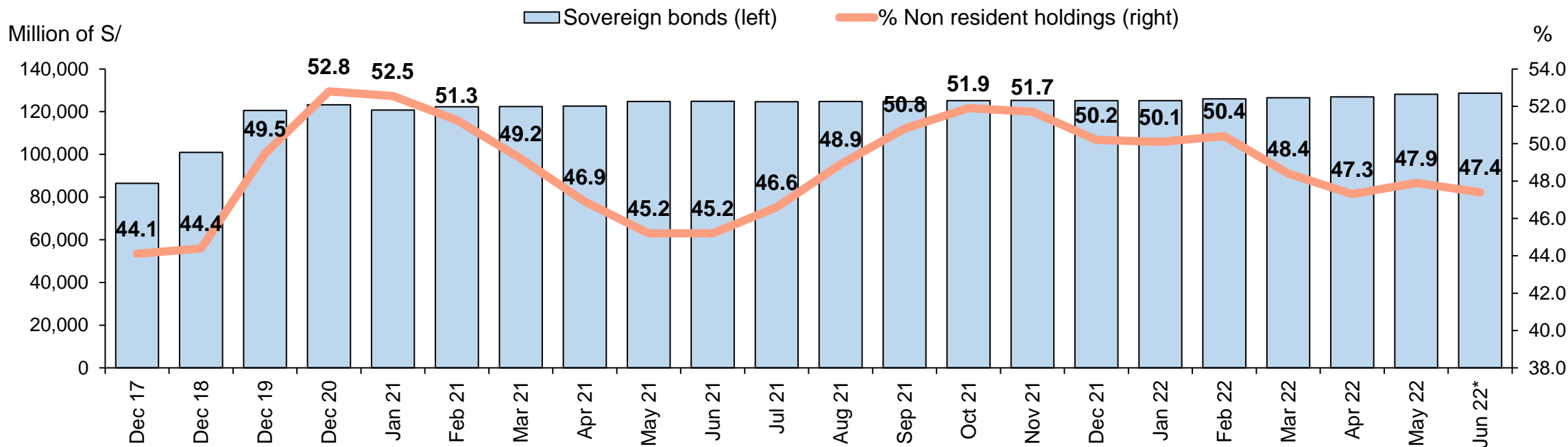
*Forecast
Source: Macroeconomic Projections Update Report, April 2022, Ministry of Finance

After the increase in non-resident bond holdings between June and December 2021, it has decreased in 2022, from 50.1 percent in January to 47.4 percent in June.

STOCK OF SOVEREIGN BONDS AND NON-RESIDENT BOND HOLDINGS

(Stock in million of S/ and holdings in %)

Sovereign bond stock (In million of S/)	Jun 2022*
Non resident (Nominal)	61 004
Total	128 700



* Preliminary information. As of June 8.
Source: BCRP, CAVALI, MEF, SBS.

Sovereign yields in LatAm increased between December 2021 and June 2022 due to the tightening of monetary policy worldwide and higher risk aversion due to the conflict between Russia and Ukraine. Peru's sovereign yield remains as one of the lowest in the region.

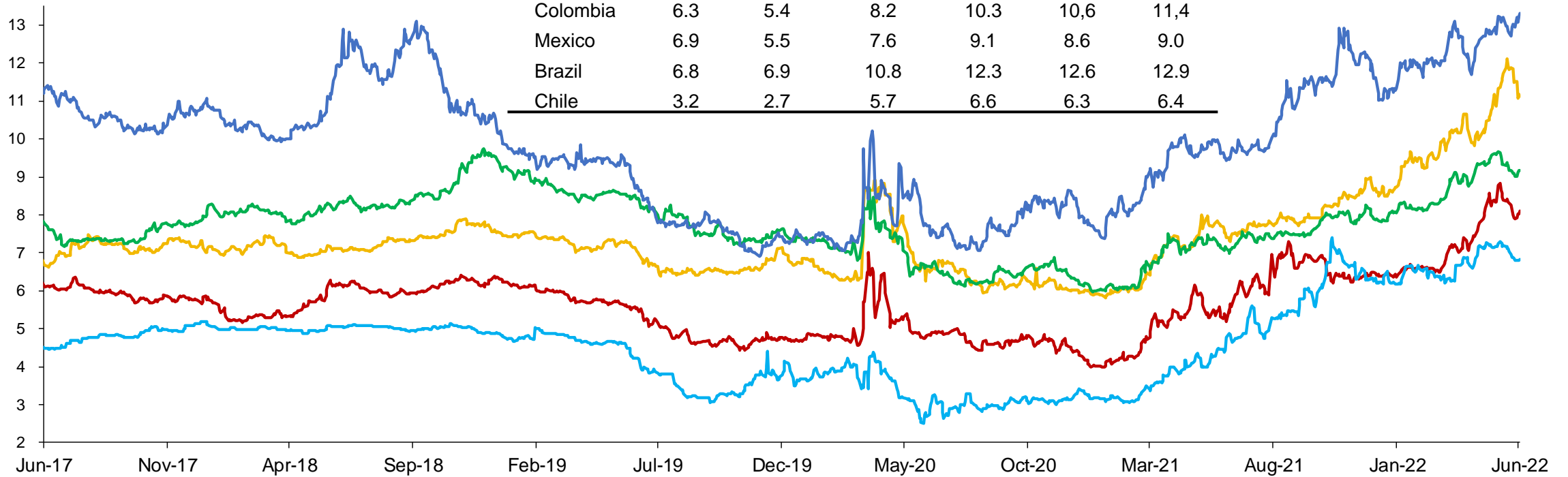
10 YEAR SOVEREIGN BOND YIELDS (Percentage, end of period)

LONG RUN FOREIGN SOVEREIGN DEBT CREDIT RATING

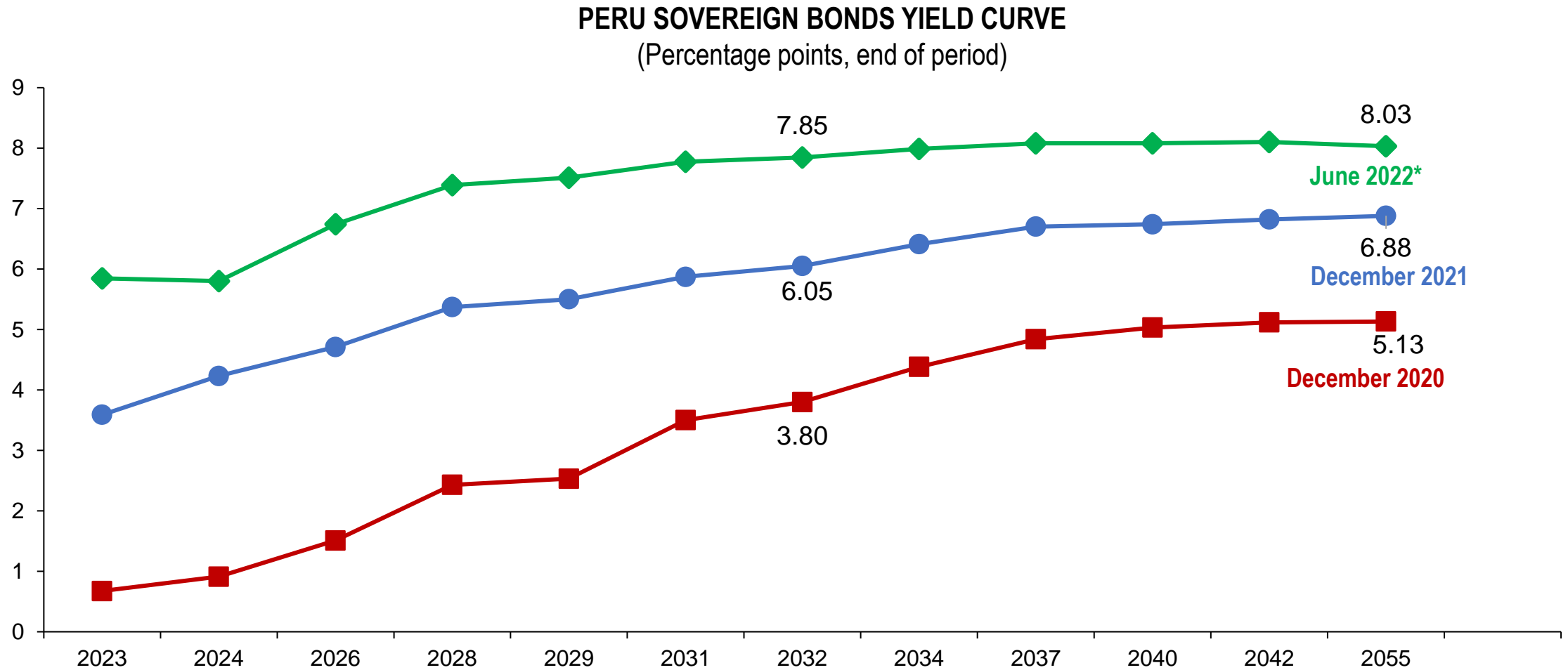
	S&P	Moody's	Fitch
Peru	BBB	Baa1	BBB
Chile	A	A1	A-
Colombia	BB+	Baa2	BB+
Mexico	BBB	Baa1	BBB-
Brazil	BB-	Ba2	BB-



	Dec. 19	Dec. 20	Dec. 21	Apr. 22	May. 22	Jun. 22*
Peru	4.2	3.5	5.9	7.9	7.5	7.8
Colombia	6.3	5.4	8.2	10.3	10.6	11.4
Mexico	6.9	5.5	7.6	9.1	8.6	9.0
Brazil	6.8	6.9	10.8	12.3	12.6	12.9
Chile	3.2	2.7	5.7	6.6	6.3	6.4



Peru's sovereign yield curve has moved upwards in recent months, reflecting the recent increases in the monetary policy interest rate.

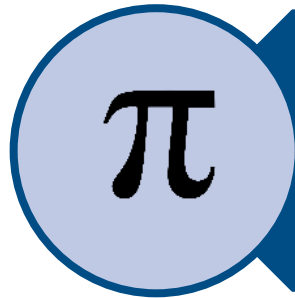


*As of June 8.
Source: MEF.

Contents:



Economic performance



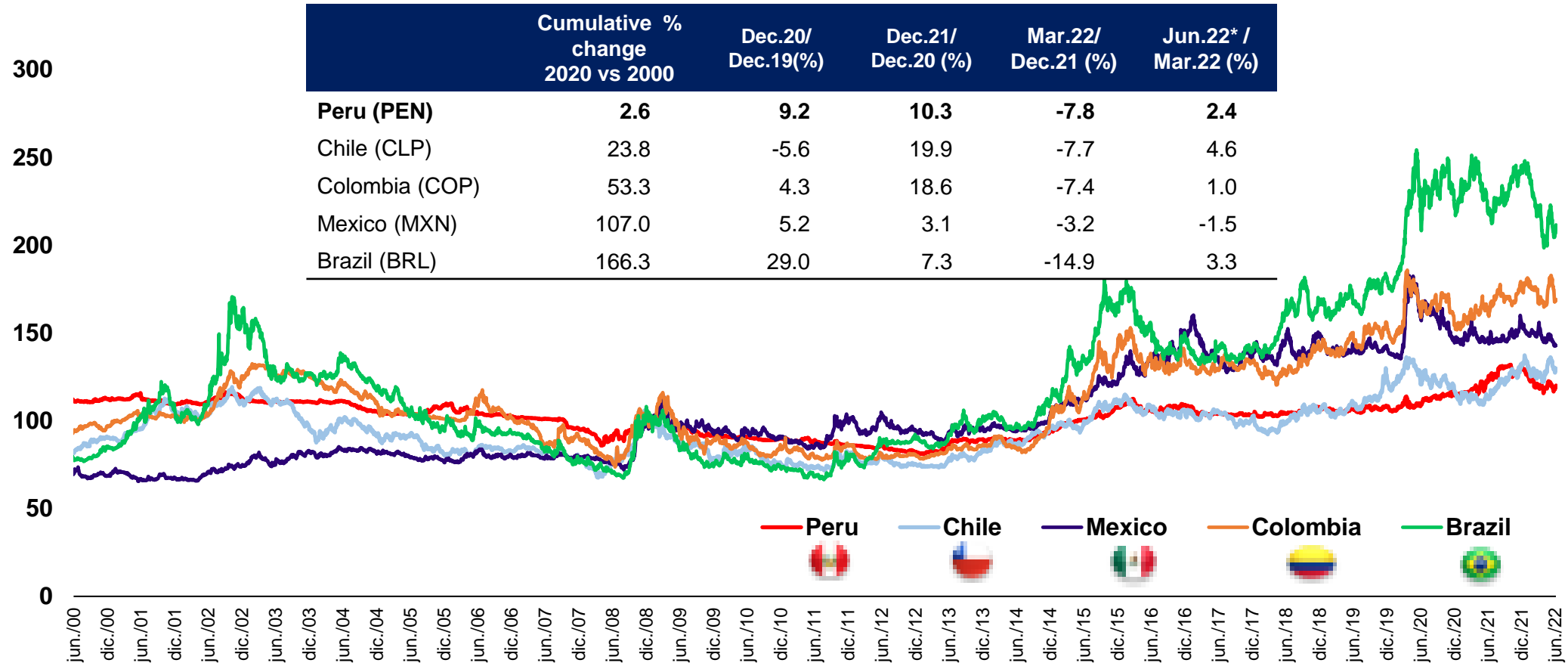
Inflation and monetary policy actions

Until March 2022, most currencies in the region appreciated in a scenario of withdrawal of the monetary policy stimulus and after 2 years of depreciatory pressures. However, there has been a mild depreciation of PEN in the last 2 months.

LATAM: EXCHANGE RATE

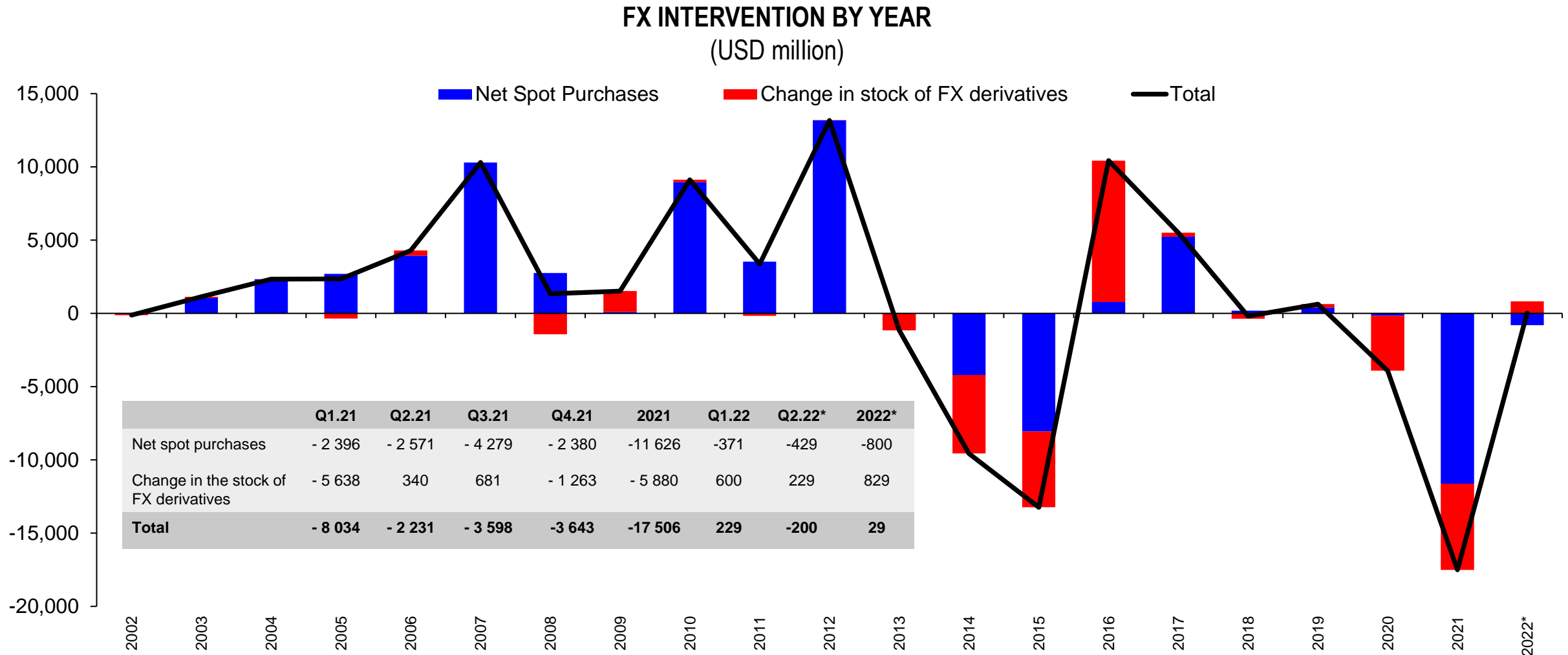
Monetary unit per dollar

(Index 100=31 Dec 2008)



* As of June 8.
Source: Reuters.

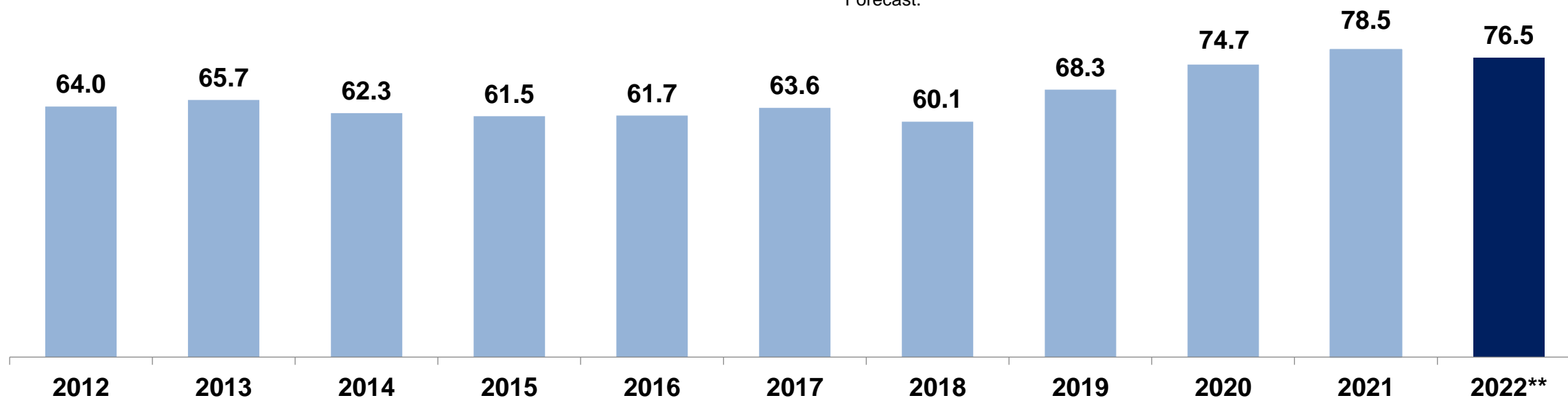
The BCRP intervened through sales in the spot market and foreign exchange derivatives. In 2021, the BCRP supplied USD 17.5 billion to the FX market (a historic high).



*As of June 8.
Source: BCRP.

Peru's external position is strong due to a considerable FX reserve buffer; and is reinforced by a precautionary US \$ 5.4-billion Flexible Credit Line (FCL) with the IMF for the next two years.

FOREIGN EXCHANGE RESERVES (Billions of US\$)



INTERNATIONAL COVERAGE INDICATORS

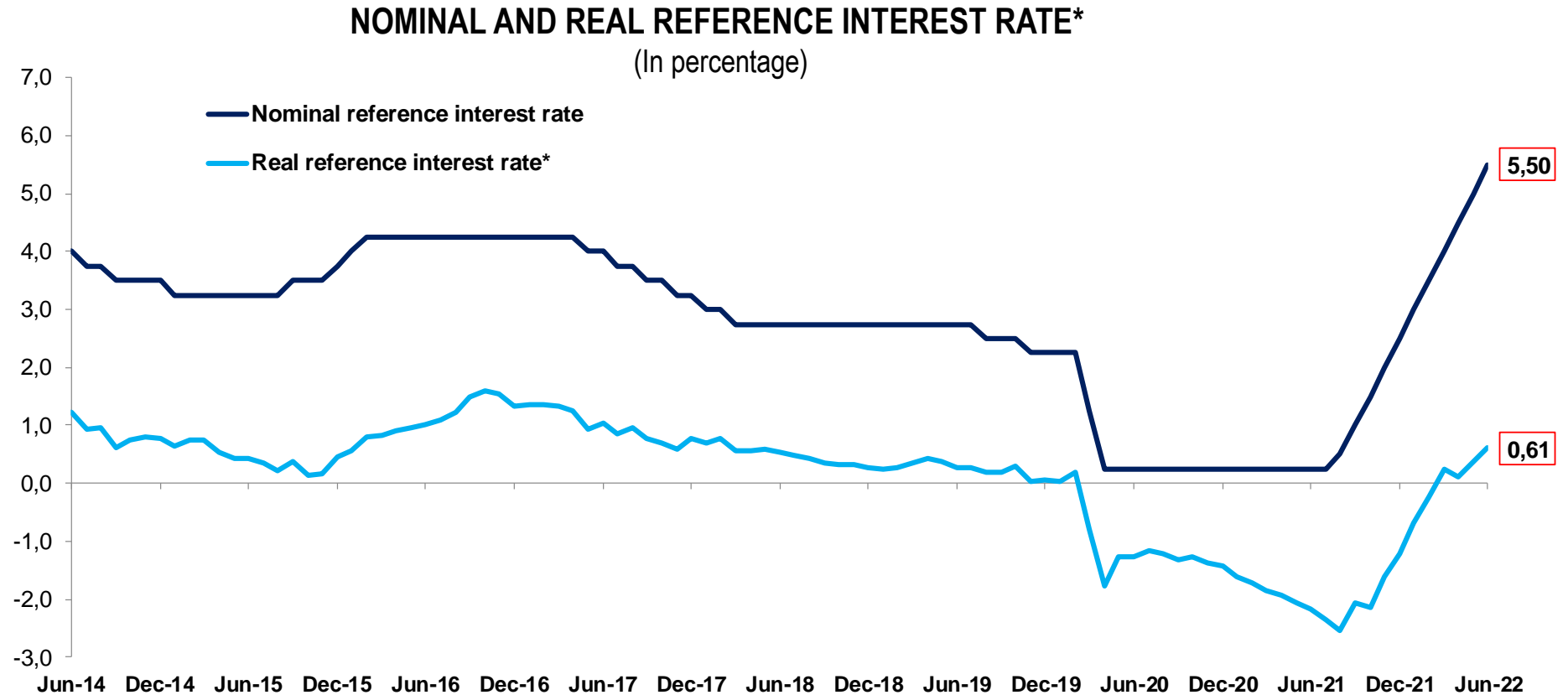
	2019	2020	2021	2022*
NIR as percentage of:				
a) GDP	29,4	36,3	34,8	32,1
b) Short term external debt ^{1/}	498	543	523	502
c) Short term external debt + current account deficit	444	657	387	401

^{1/} Includes the stock of short-term debt plus 1 year ahead amortization of private and public debt.

*Forecast.

**As of June 7. Source: BCRP.

Monetary policy operates opportunely. The central bank lowered its policy interest rate to 0.25 percent in March 2020 just at the start of the pandemic. Then, since August of last year, the Central Bank has been raising its monetary policy rate in 11 occasions up to 5.50 percent in June 2022.



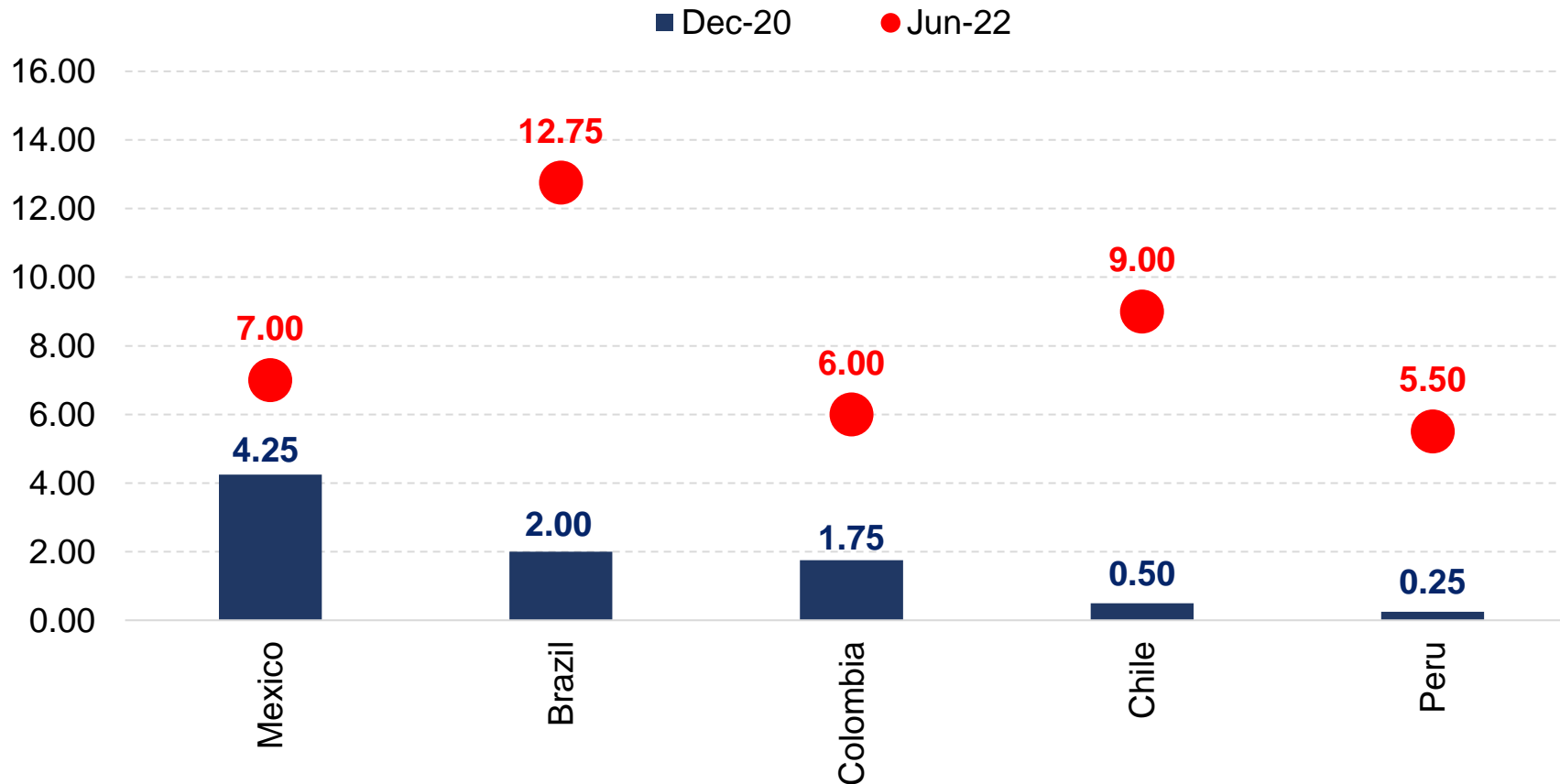
*With inflation expectations.

	Jul. 21	Ago. 21	Sep. 21	Oct. 21	Nov. 21	Dic. 21	Ene. 22	Feb. 22	Mar. 22	Abr. 22	May. 22	Jun. 22
(I) Nominal rate	0,25	0,50	1,00	1,50	2,00	2,50	3,00	3,50	4,00	4,50	5,00	5,50
(II) Inflation expectations	2,60	3,03	3,07	3,64	3,61	3,71	3,68	3,73	3,75	4,39	4,62	4,89
(III) Real rate: (I)-(II)	-2,35	-2,53	-2,07	-2,14	-1,61	-1,21	-0,68	-0,23	0,25	0,11	0,38	0,61

Source: BCRP.

Central banks in the region have raised their policy rates since August 2021.

MONETARY POLICY INTEREST RATES (%)

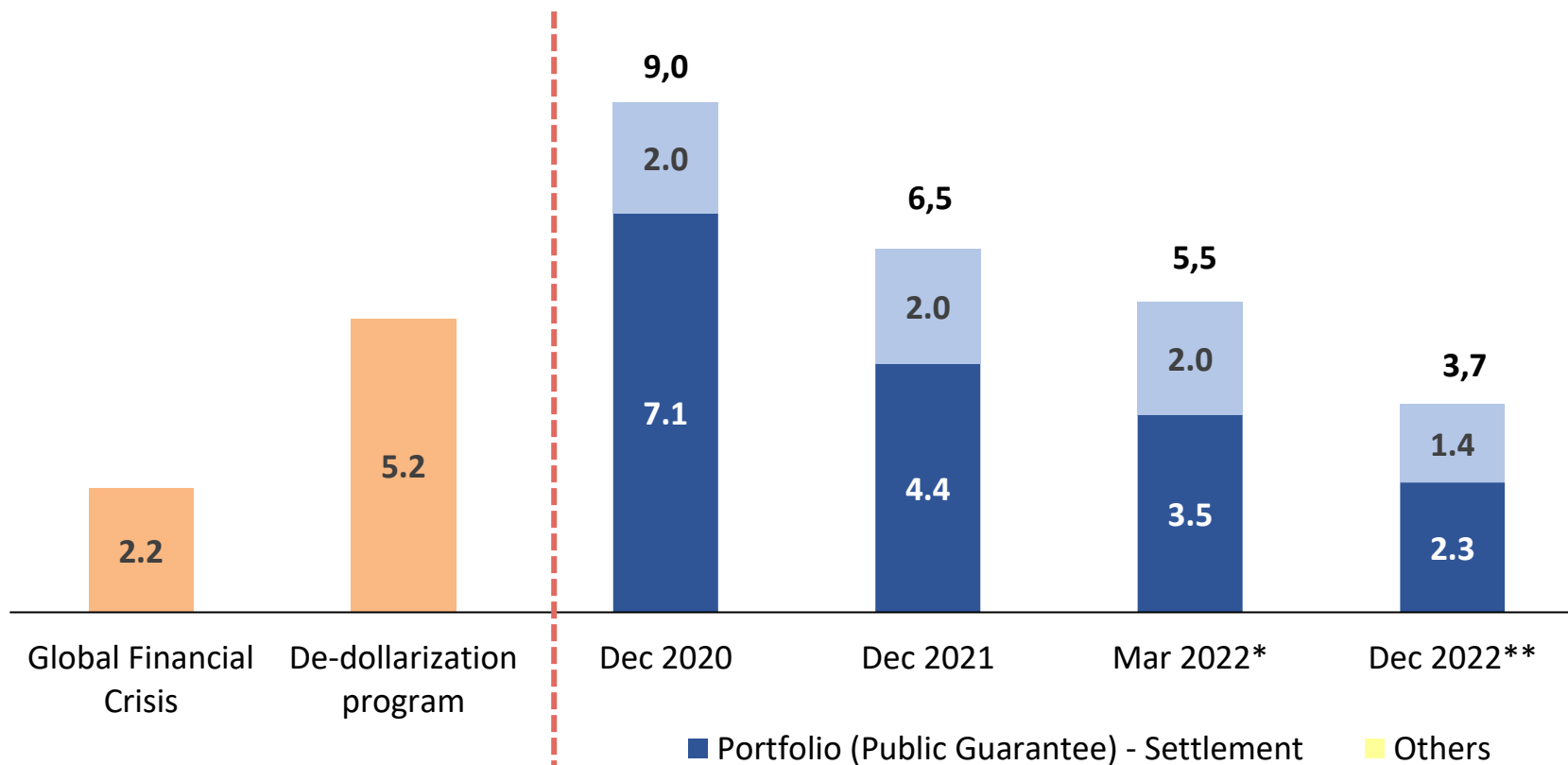


Country	Ex ante real reference rate*
Mexico	1,22
Brazil	5.74
Colombia	0,77
Chile	2.80
Peru	0.61

*Nominal reference rate as of June 9. Inflation expectations as of May.
Source: Central Banks.

Currently, the balance of liquidity operations of the Central Bank represents 5.5 percent of GDP (more than a third lower than the level at the end of 2020) and is expected to reduce below 4.0 percent of GDP at the end of the year.

**BALANCE OF BCRP LIQUIDITY INJECTION OPERATIONS
(% of GDP)**

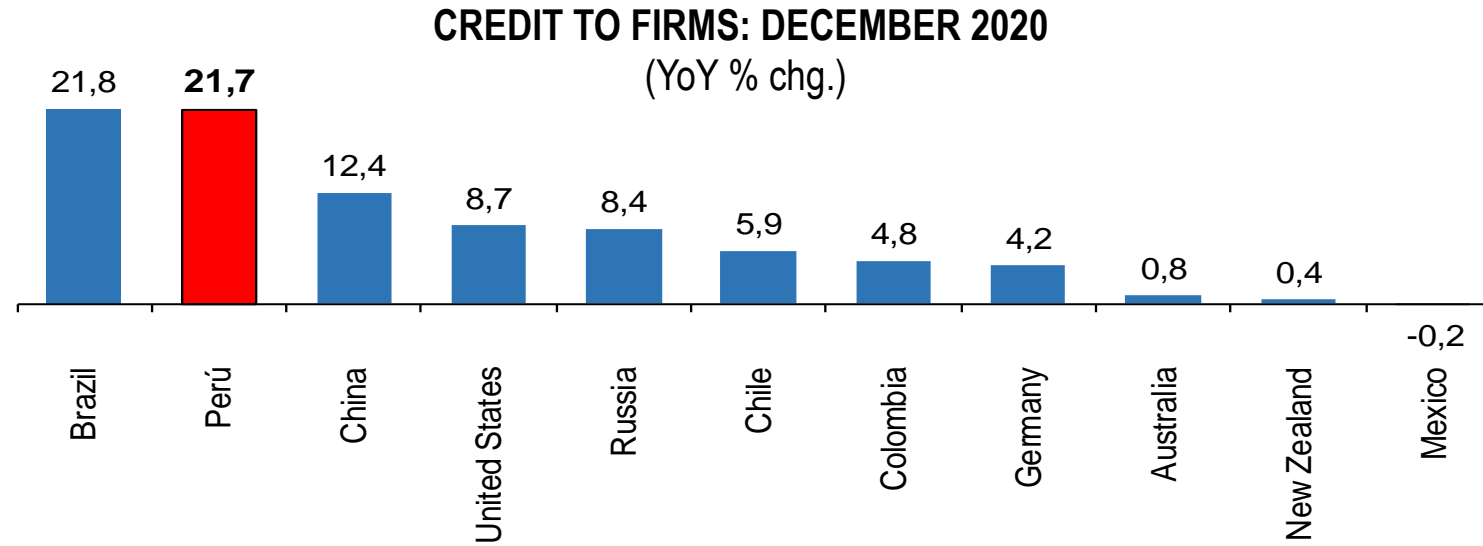


*As of May 30, 2022.

** Forecast, Inflation Report March 2022.

Source: BCRP.

Liquidity injection through BCRP operations, including under the *Reactiva Perú* government-guaranteed loan program, promoted countercyclical credit growth.



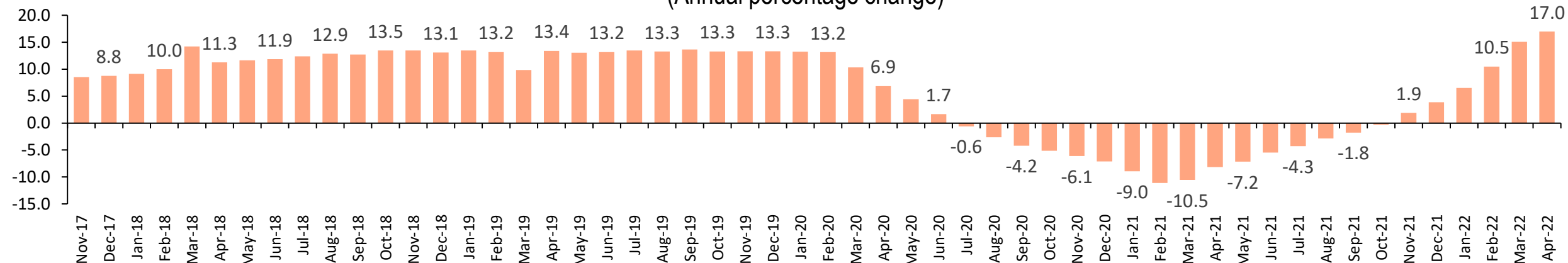
* As of March 2022.

** Excluding amortization payments of the Govm. Guarantee Loan Program.

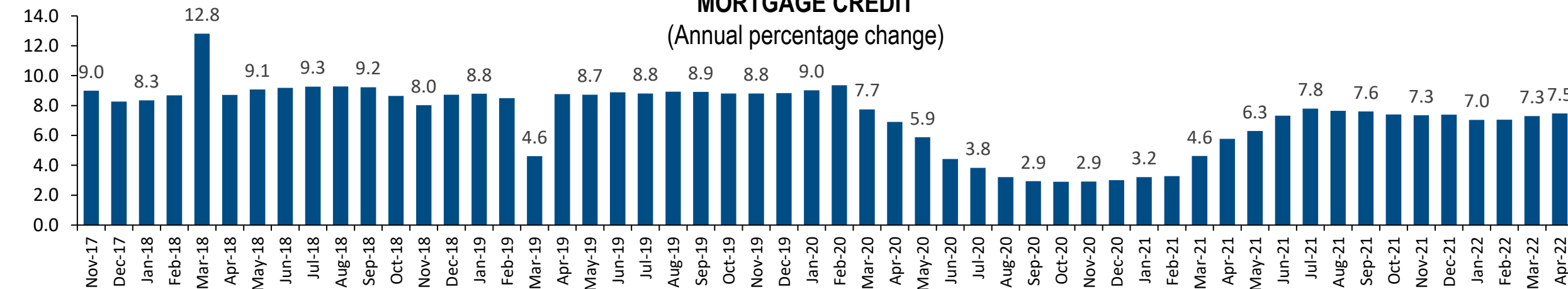
Source: Central Banks.

Mortgage credit has maintained a relatively stable growth rate since July 2021. In contrast, consumption credit showed a negative evolution in the first semester of 2021, beginning its recovery in November 2021. In April 2022 consumption credit grew 17.0 percent, whereas mortgage credit grew 7.5 percent.

CONSUMPTION CREDIT (Annual percentage change)

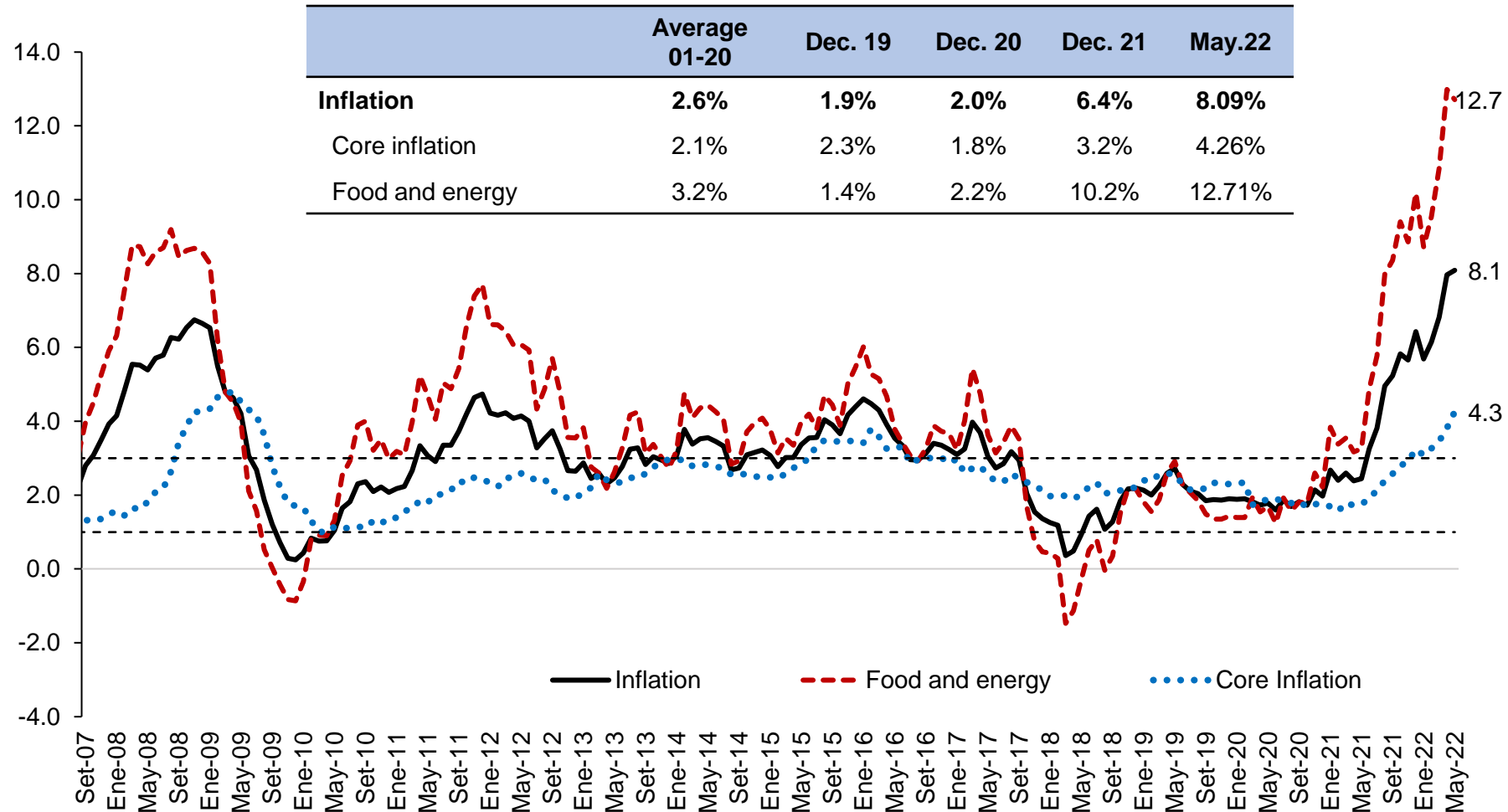


MORTGAGE CREDIT (Annual percentage change)



The dynamics of headline inflation in 2021 was highly affected by the external component: prices of food, oil and the exchange rate. Headline inflation increased from 6.82 percent in March to 8.09 percent in May, standing above the target range due to the significant increases in international prices.

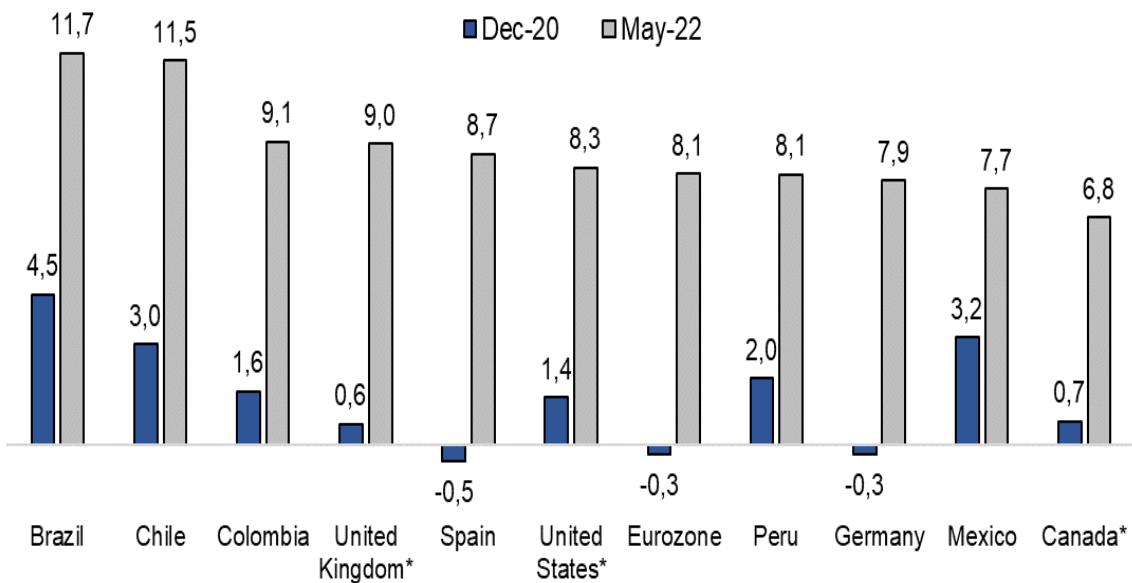
INFLATION, 2007-2022
(YoY % chg.)



Source: INEI, BCRP.

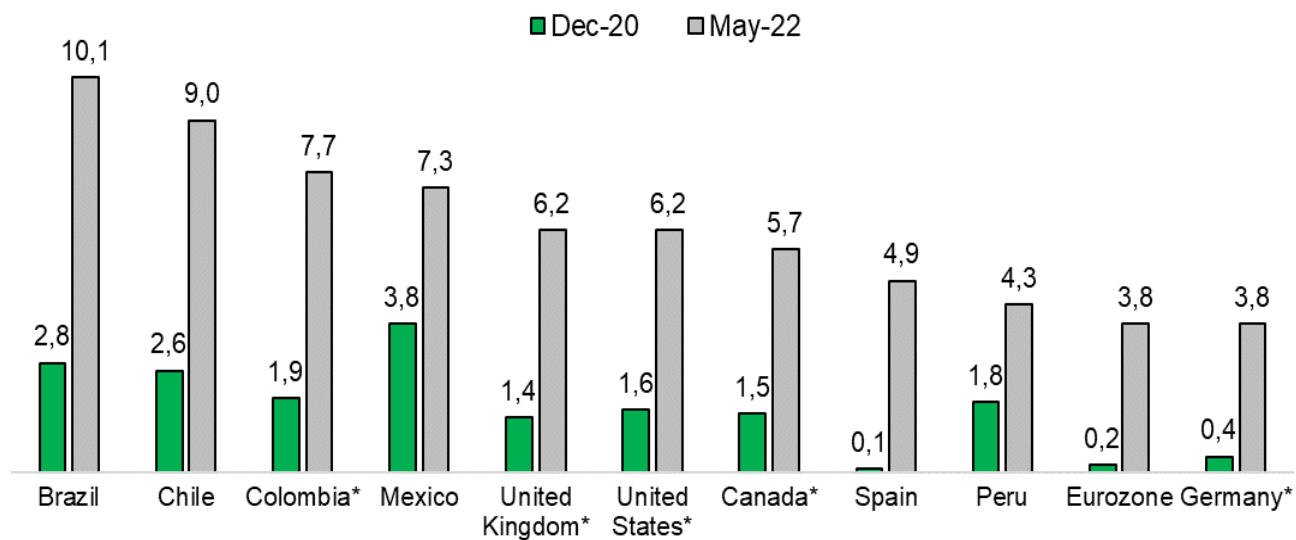
The increase in inflation has been generalized worldwide. The inflation rate in several European countries is the highest since the 80s.

Inflation (YoY % chg.), May 2022



* As of April 2022.

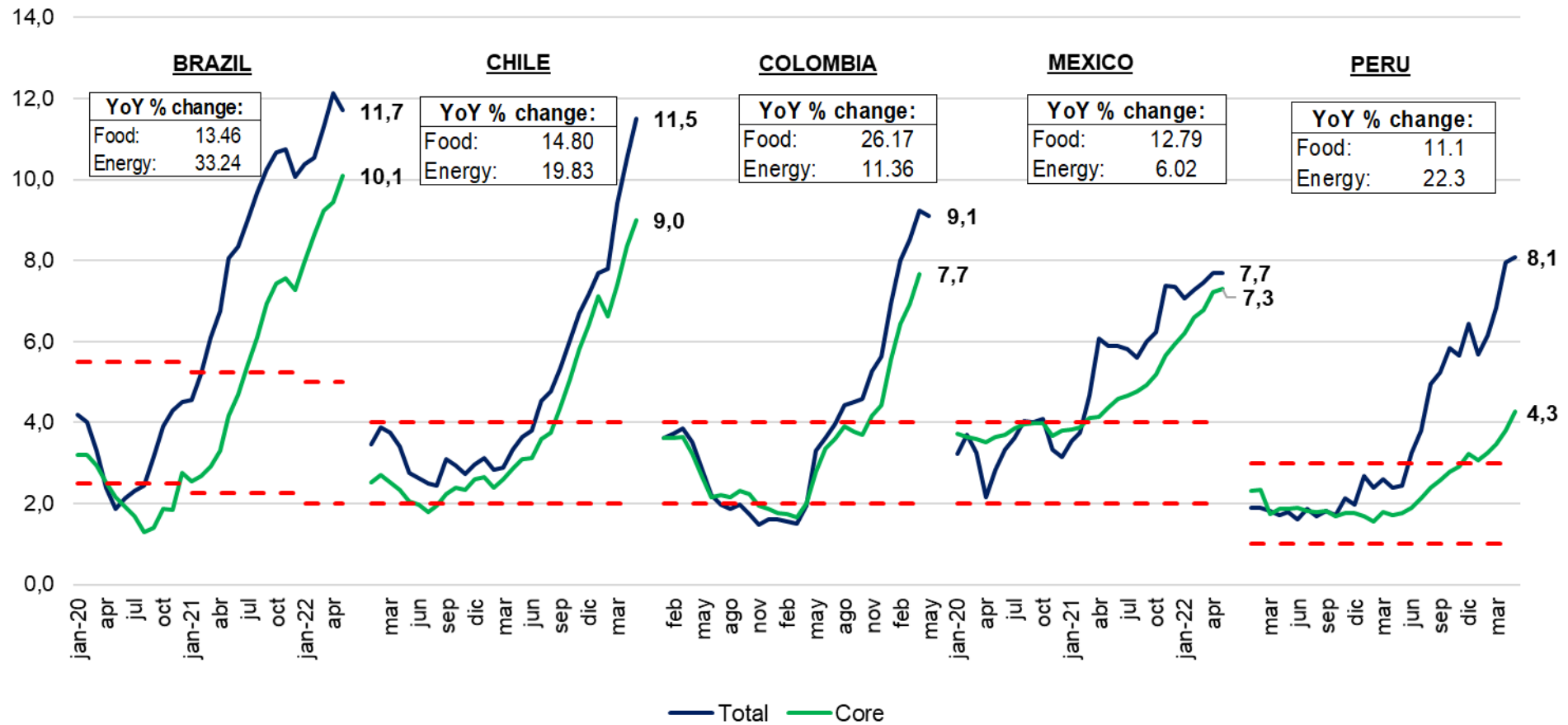
Core inflation (YoY % chg.), May 2022



* As of April 2022.

The increase in inflation has been generalized worldwide. As of May 2022, Peru registers one of the lowest headline and core inflation rates in Latin America.

INFLATION IN LATIN AMERICA, 2020-2022 (YoY % chg.)

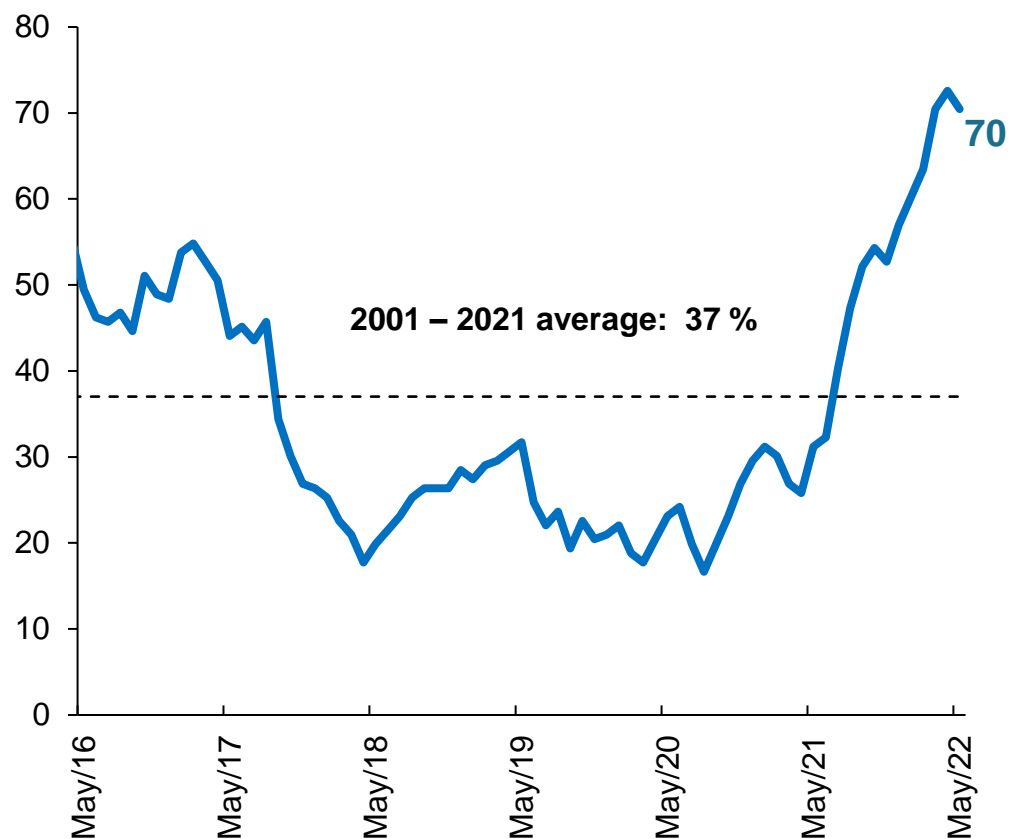


Note: the energy component of Brazil's inflation corresponds to energy within home. Data as of May 2022, except core inflation for Colombia as of April 2022.

Source: central banks and statistical institutes of each country.

Trend inflation indicators were above the target range in May.

DISPERSION INDEX: % OF BASKET ITEMS WITH VARIATION GREATER THAN 3%

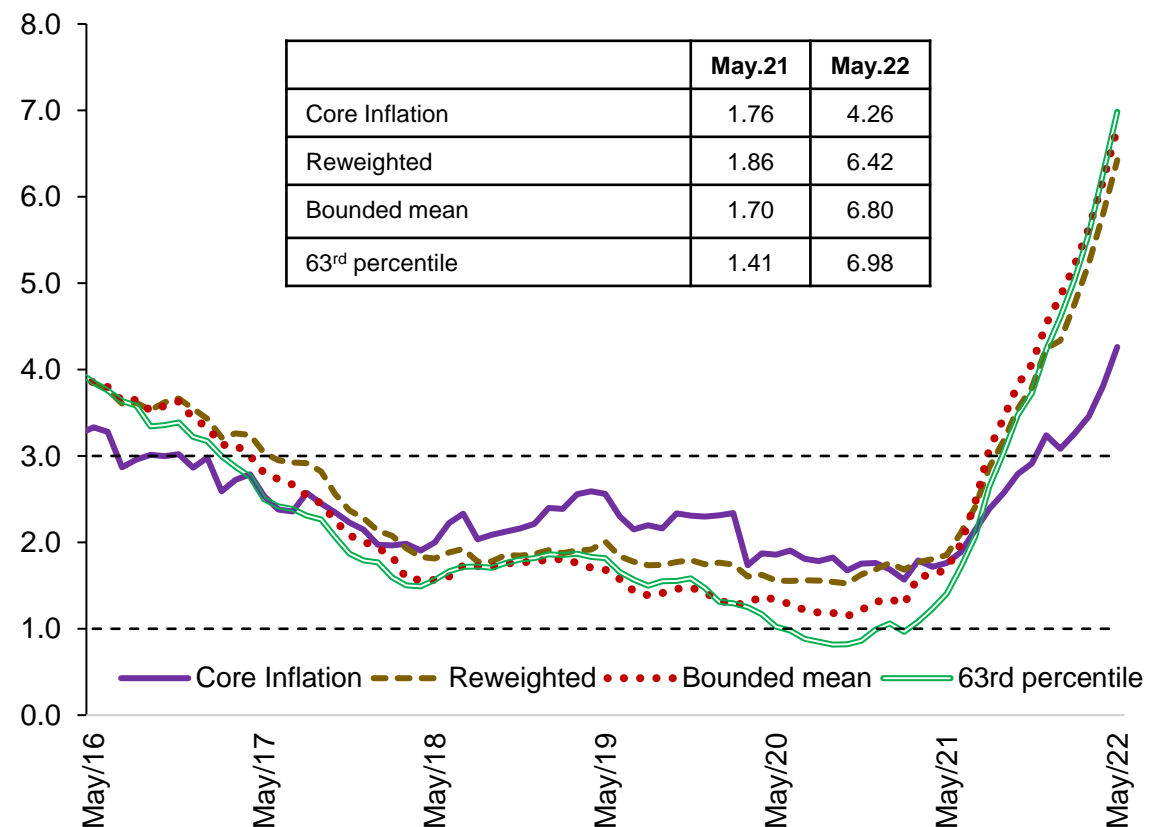


Source: BCRP.

Note:

1. CPI excluding food and energy: CPI excluding food, fuel and electricity.
2. Reweighted: Reduces the weight of items with greater volatility, dividing the original weights of each item by the standard deviation of their monthly percentage variations.
3. Bounded mean: Weighted average of the percentage variations in prices located between the 34th and 84th percentiles.
4. 63rd percentile: Corresponds to the percentage variation of the item located in the 63rd percentile.

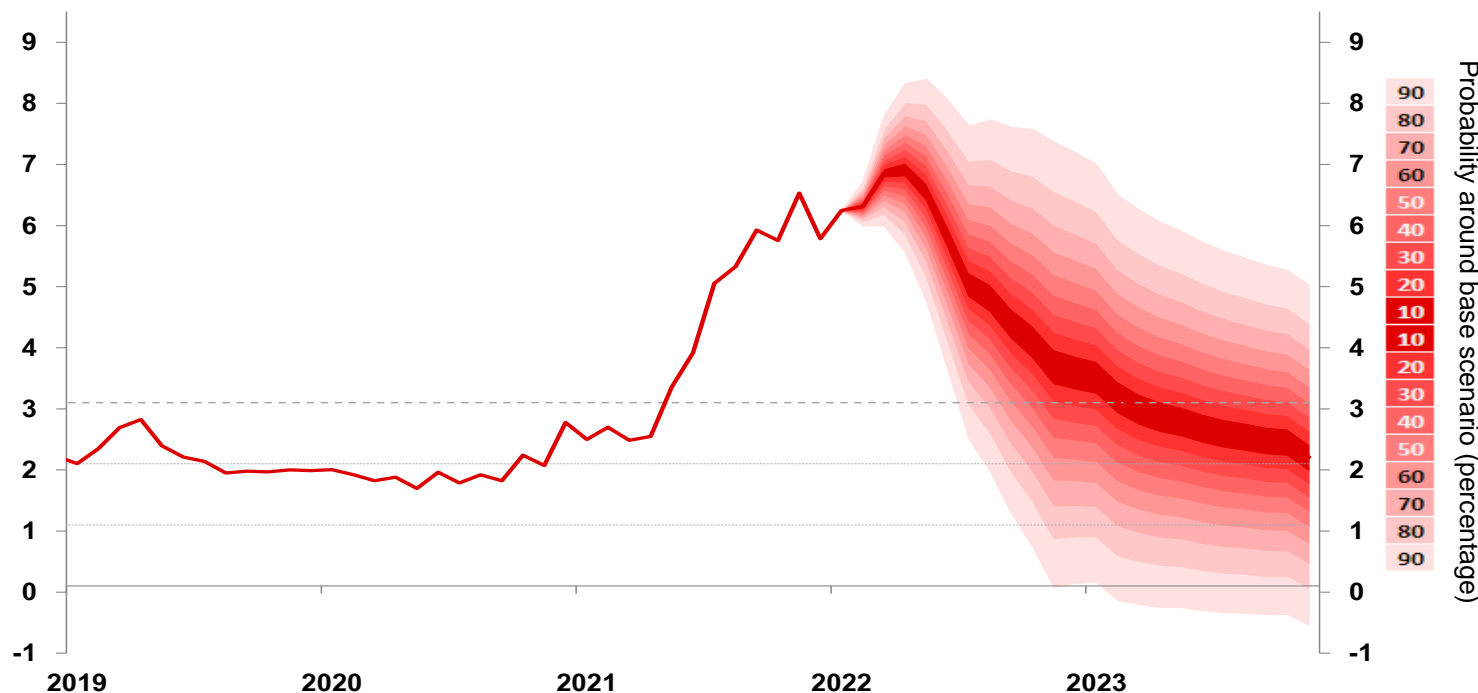
INFLATION TREND MEASURES (YoY % chg.)



Inflation is expected to start its downward trend by July 2022 and converge towards the target range in the second or third quarter of 2023.

INFLATION FORECAST, 2022-2023 (YoY % chg.)

	Weight	2010-19	2018	2019	2020	2021
<u>Inflation</u>	<u>100.0</u>	<u>2.9</u>	<u>2.2</u>	<u>1.9</u>	<u>2.0</u>	<u>6.4</u>
1. Core inflation	55.3	2.4	2.2	2.3	1.8	3.2
2. Food and energy	44.7	3.4	2.2	1.4	2.2	10.2



Note: The graph shows the probability of occurrence of inflation values in the future, according to the combination of statistical analysis and the balance of risks. Each band concentrates 5% of probability and the total of bands cover 90% of probability. The darkest bands contain the trajectory of the baseline scenario.
Source: BCRP.

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