



HOW THE CURRENT SOCIO-POLITICAL CONTEXT IMPACTS PERU'S ECONOMY AND MINING SECTOR

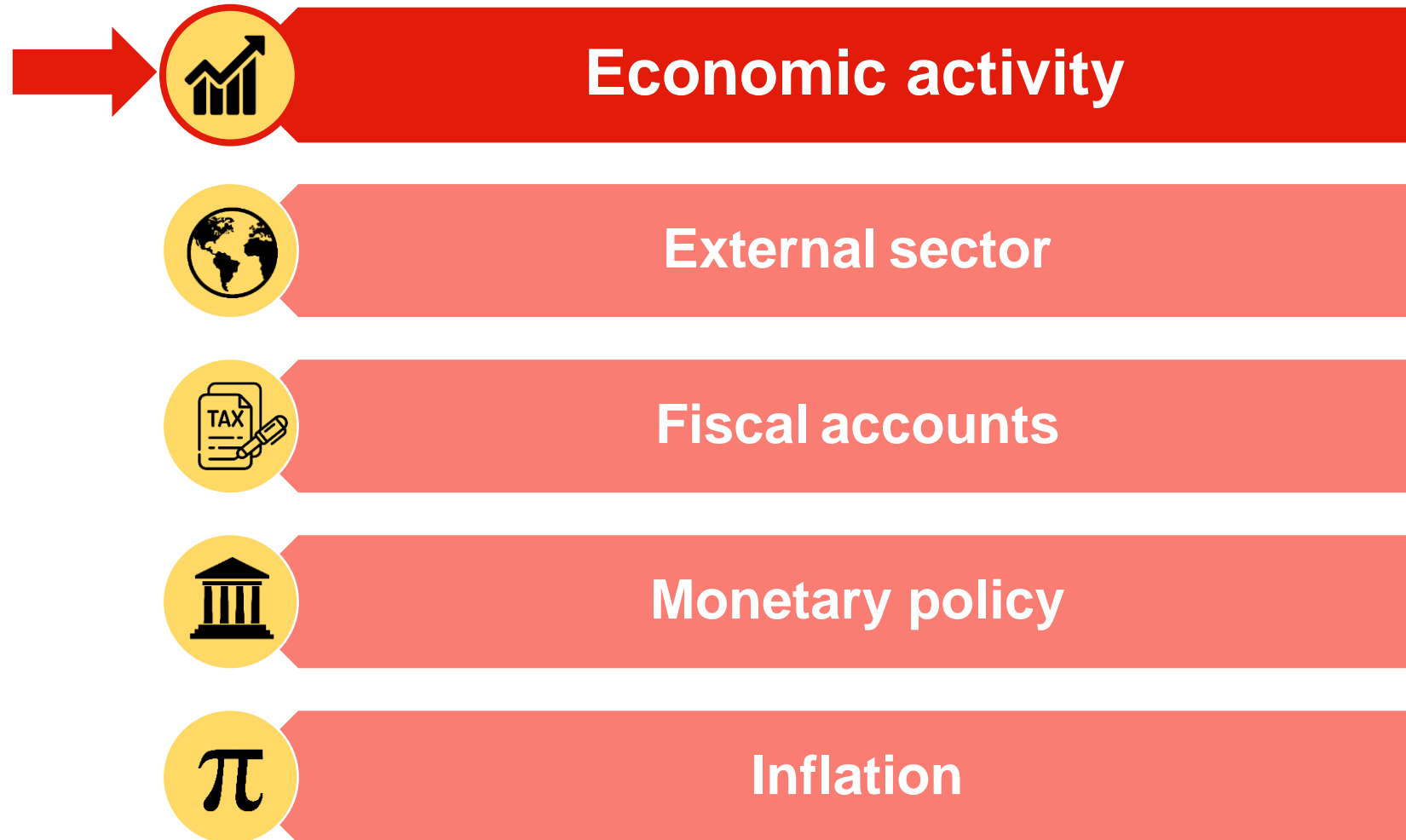
Julio Velarde

Governor, Central Reserve Bank of Peru

March 2023



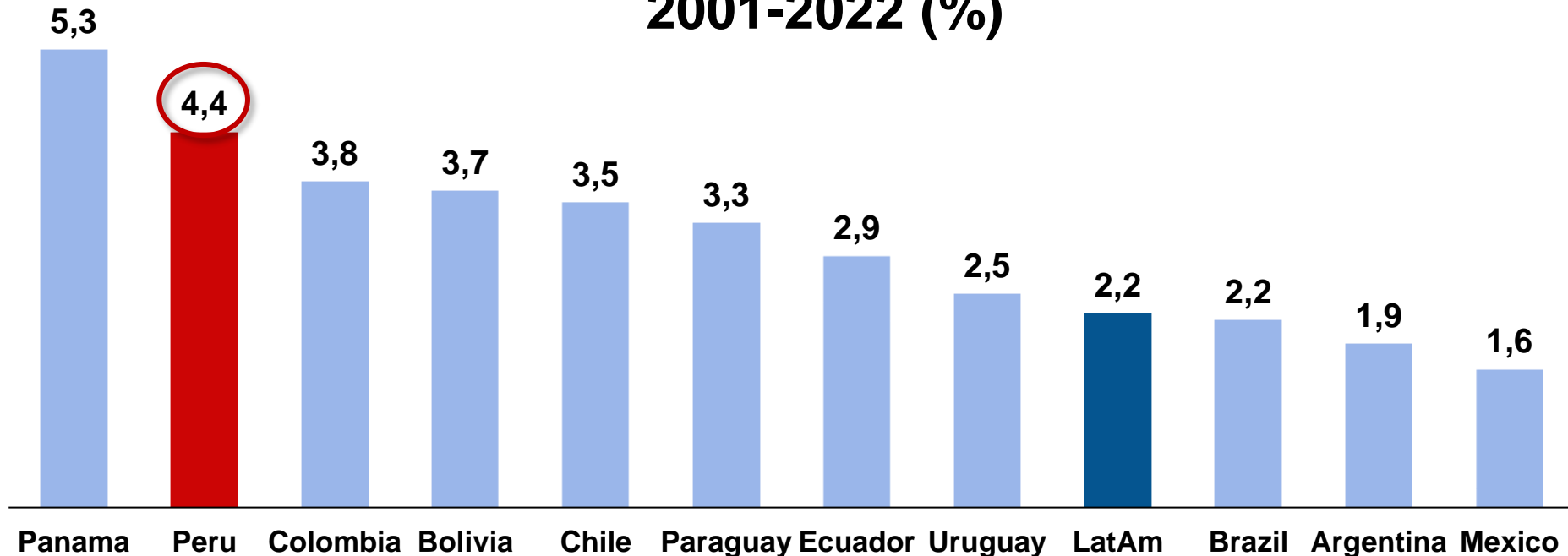
Peru's Economic Outlook



Peru grew 4.4% on average over the last two decades (twice the average for LatAm).



**REAL GDP AVERAGE ANNUAL GROWTH,
2001-2022 (%)**



Standard Deviation

6.4	4.6	3.4	3.1	3.4	3.2	3.4	4.1	3.2	3.0	6.5	3.1
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Source: IMF (World Economic Outlook Database, October 2022) and LatAm Consensus Forecast (January 2023).

Peru's inflation has been among the lowest and less volatile in LatAm since 2001.



AVERAGE ANNUAL INFLATION RATE, 2001-2022 (%)



Note: Calculated with end-of-period CPI.

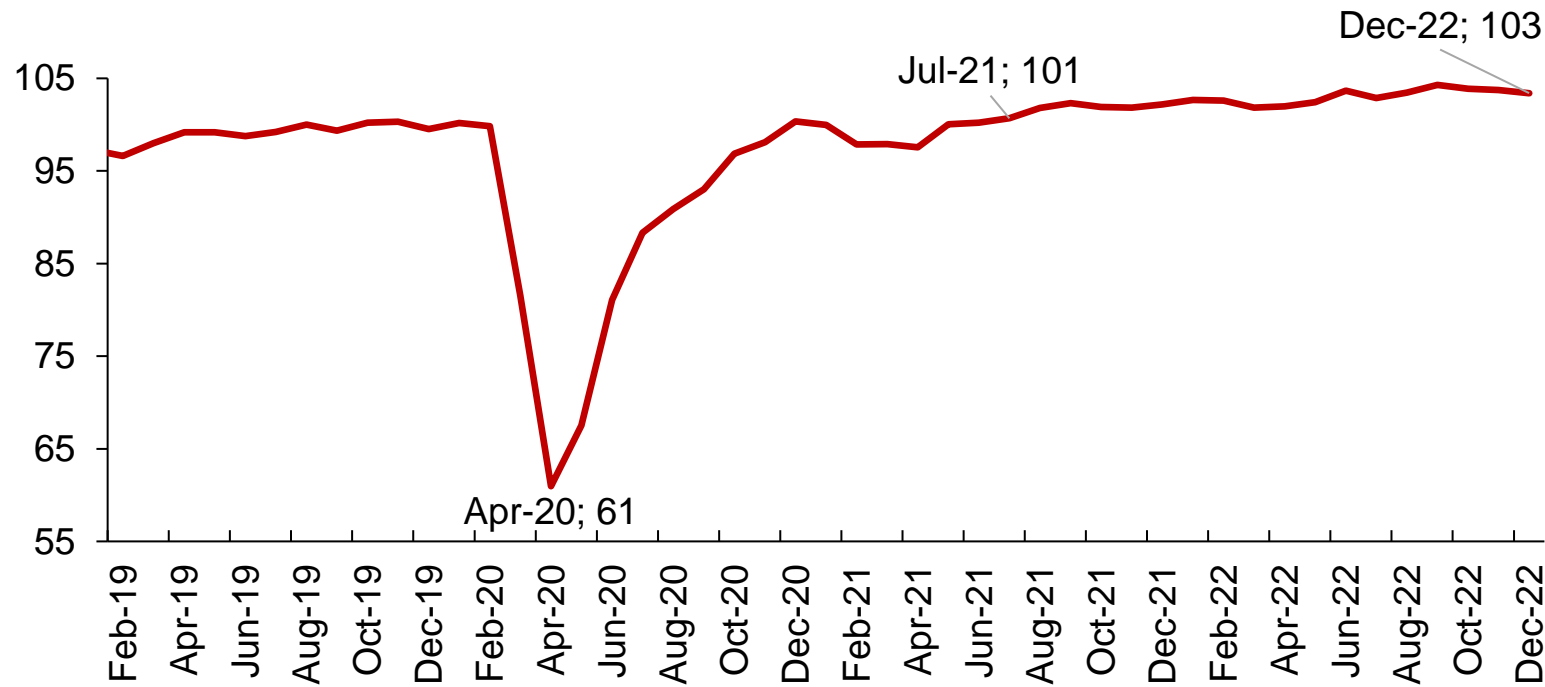
Source: IMF (World Economic Outlook Database, October 2022) and LatAm Consensus Forecast (January 2023).



Following one of the sharpest pandemic-related contractions worldwide, growth recovered at a fast pace in 2021 and then moderated.



SEASONALLY ADJUSTED INDEX OF ECONOMIC ACTIVITY
(Index 100 = 4Q 2019)

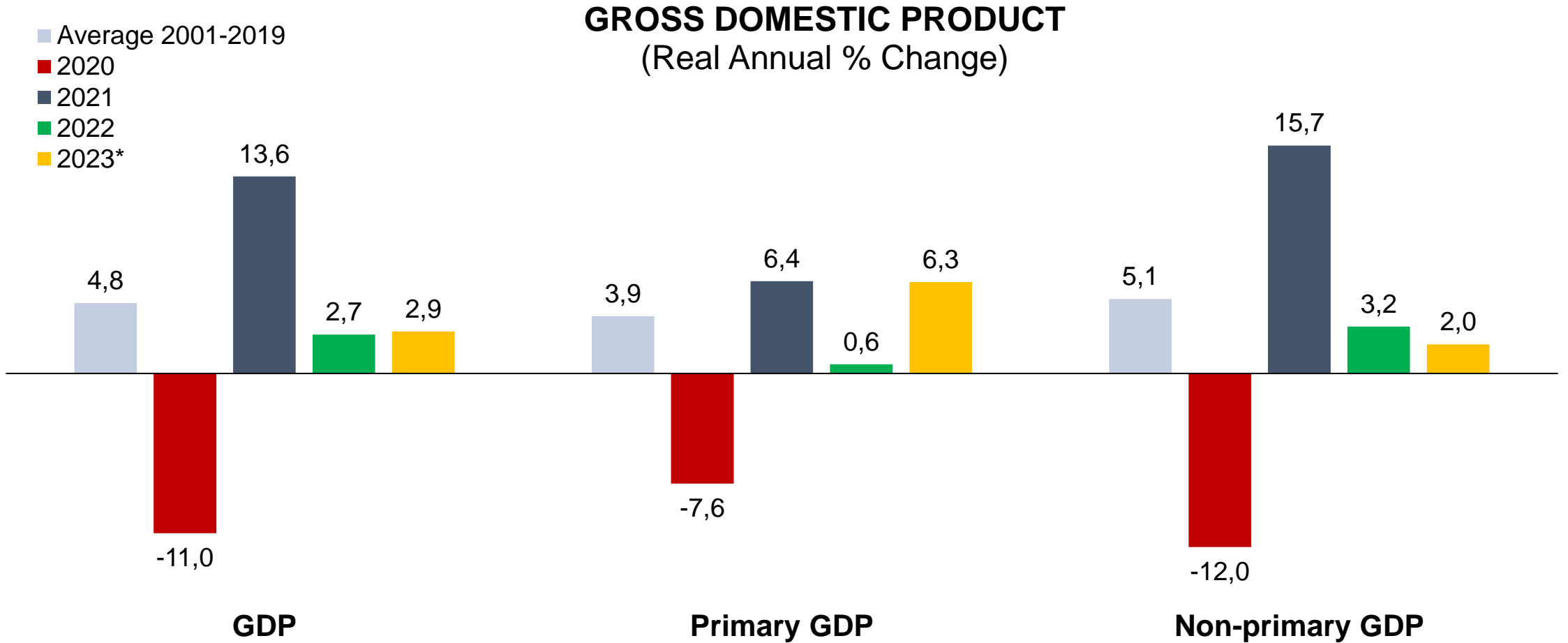


	Dec.21	Dec.22
Primary	98	103
Agro	108	108
Mining	92	101
Non-Primary	104	104
Construction	113	113
Services	102	102
<i>Accommodation & Restaurants</i>	84	90
<i>Financial Services</i>	113	104
Total GDP	102	103

	4Q21	1Q22	2Q22	3Q22	Oct.22	Nov.22	Dec.22	4Q22
Peru	102.0	102.4	102.7	103.5	103.9	103.7	103.4	103.7

Source: INEI and BCRP.

Growth in 2023 will be mainly driven by a recovery in primary sectors.

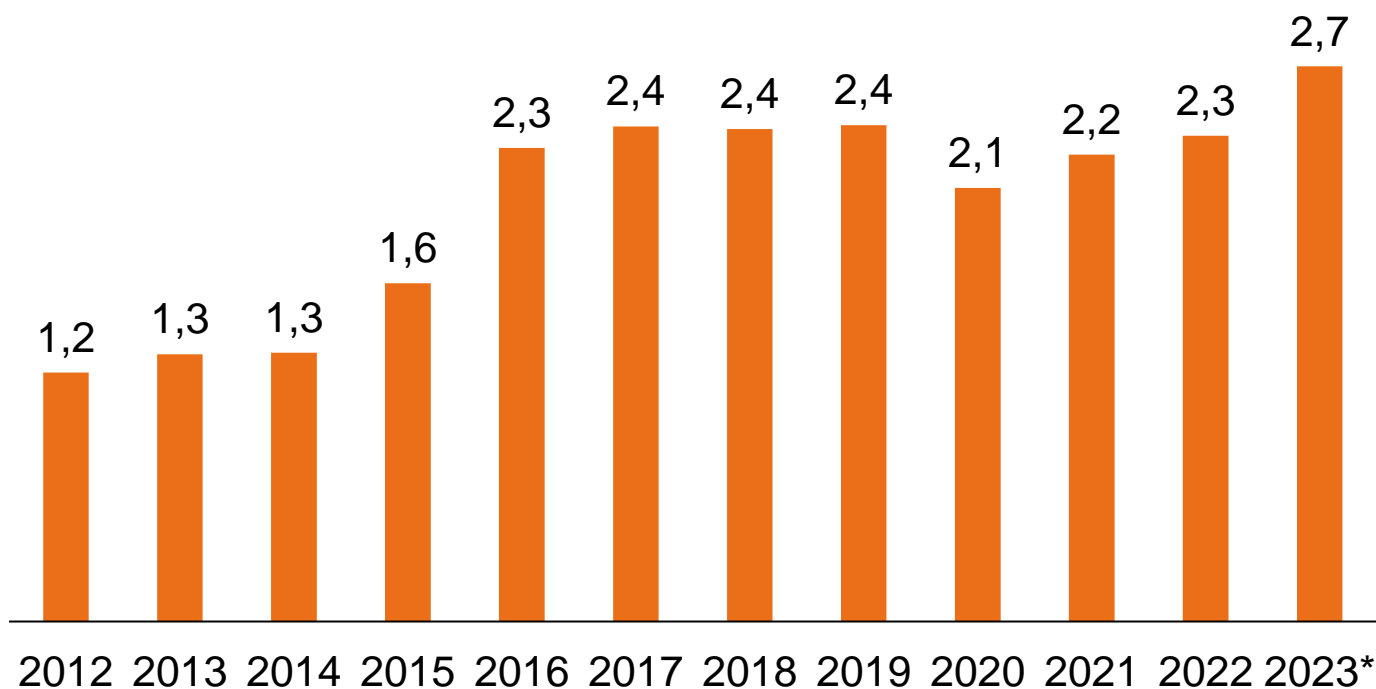


* Forecast IR Dec 2022.
Source: BCRP.

Peru is among the major producers of mineral commodities in the world.



COPPER PRODUCTION, 2012-2023 (millions of tons)



*Forecast (IR December 2022).
Source: BCRP.

	2022 (US\$ million)**	Ranking***
Copper	19 598	2
Silver	90	3
Zinc	2 661	2
Lead	1 671	5
Molybdenum	1 062	4
Tin	767	4
Gold	10 114	9

** 2022 Peru's exports value.

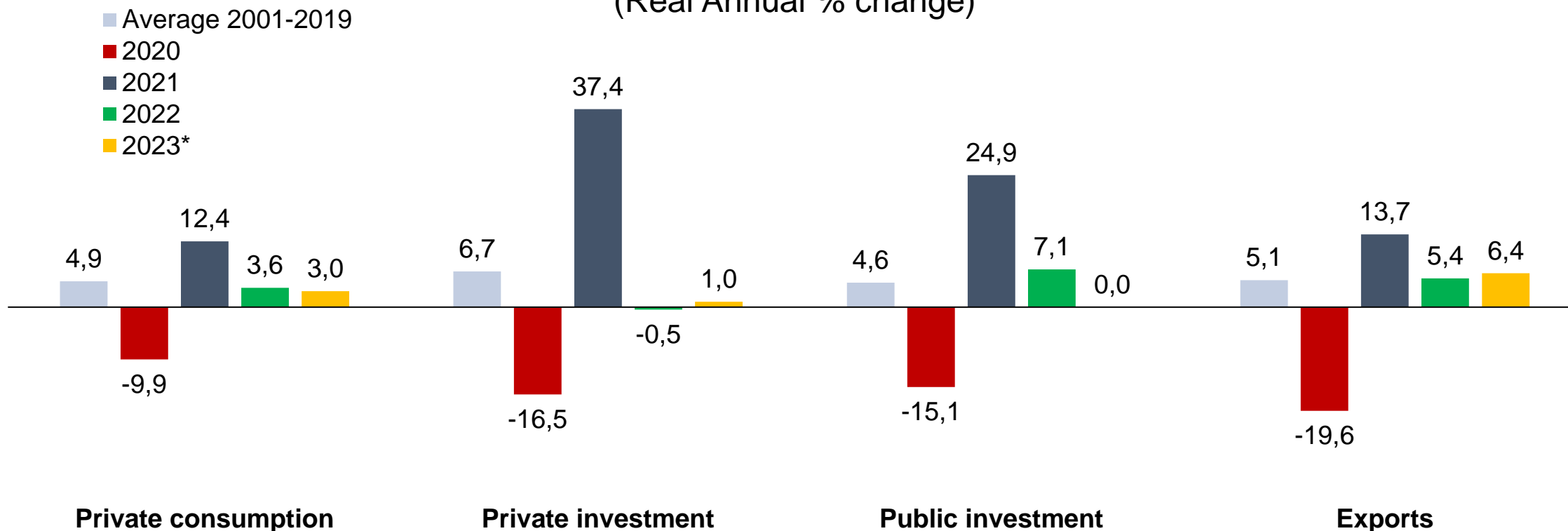
***2022 World Mining Production (e).

Source: BCRP and Mineral Commodity Summaries 2023 - US Geological Survey.

On the expenditure side, private consumption and exports will drive growth in 2023.



GROSS DOMESTIC PRODUCT (Real Annual % change)



* Forecast IR Dec 2022.

Source: BCRP.

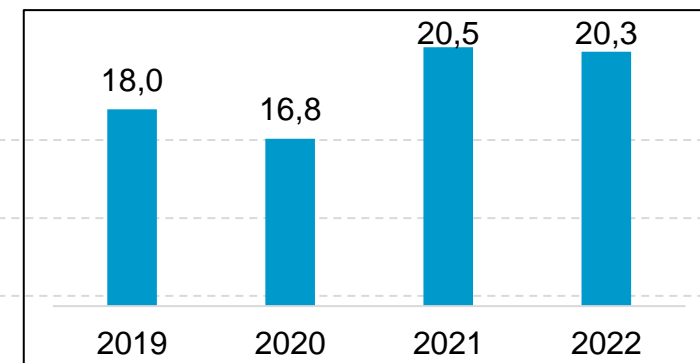
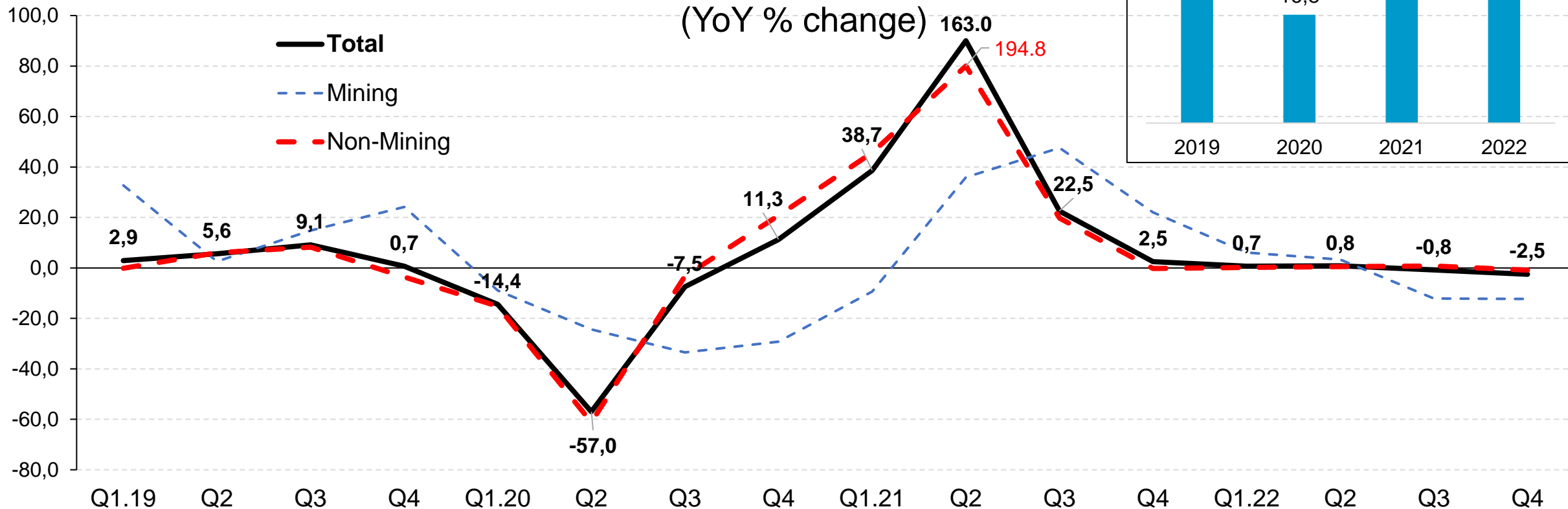
Investment-to-GDP ratio surpassed its pre-crisis levels in 2021.



FIXED PRIVATE INVESTMENT TO GDP RATIO (%)

PRIVATE INVESTMENT, BY SECTOR

(YoY % change)

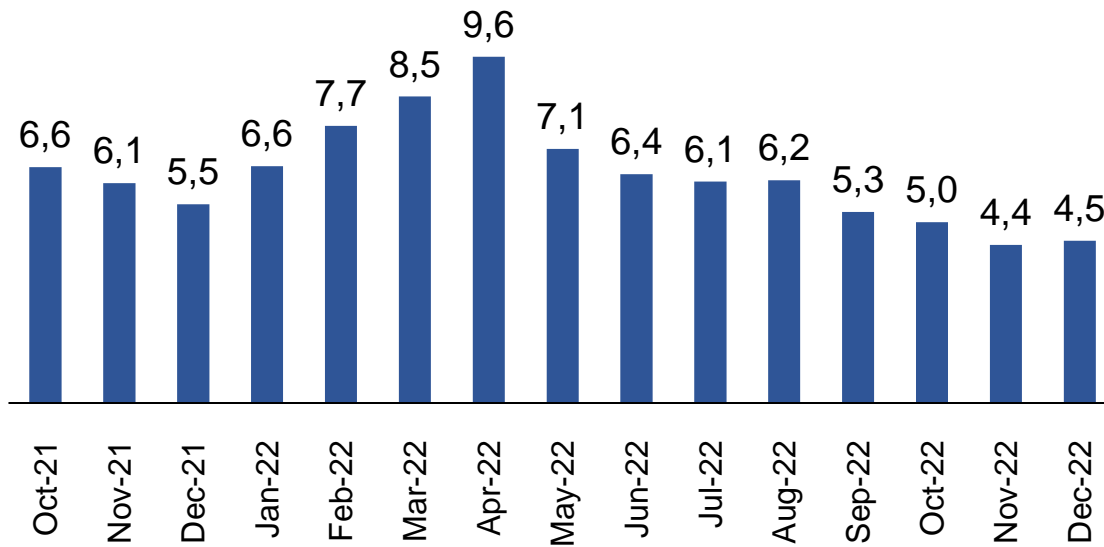


Note: in order to enhance readability, total and non-mining investment data of 2021Q2 has an axis break. Source: BCRP.

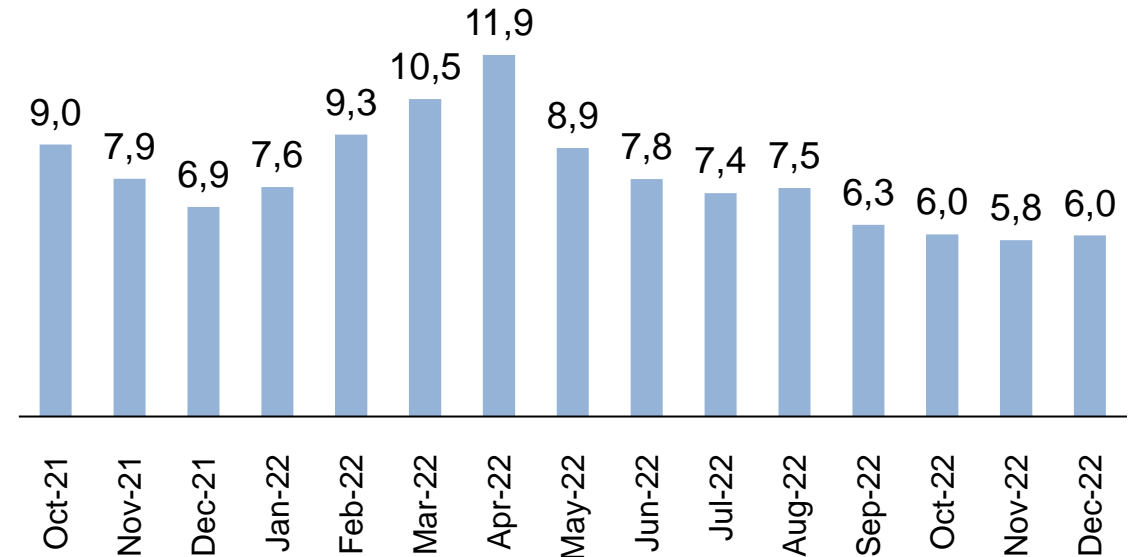
The number of formal workers exceeds pre-crisis levels since August 2021 and is currently 7% higher.



FORMAL WORKERS
(YoY % change)



PRIVATE SECTOR WORKERS
(YoY % change)



Total	Dec.19	Dec.21	Jun.22	Sep.22	Dec.22
Jobs, thousands	5 447	5 556	5 458	5 742	5 807

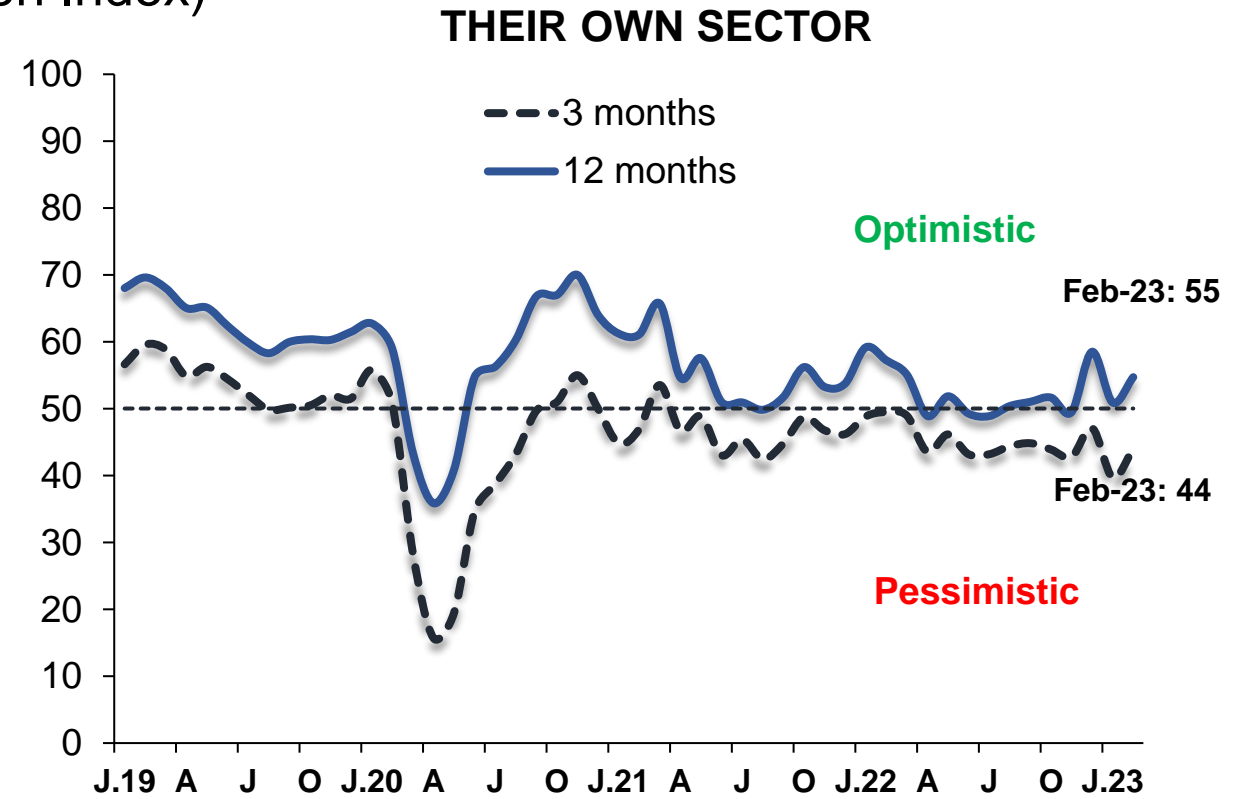
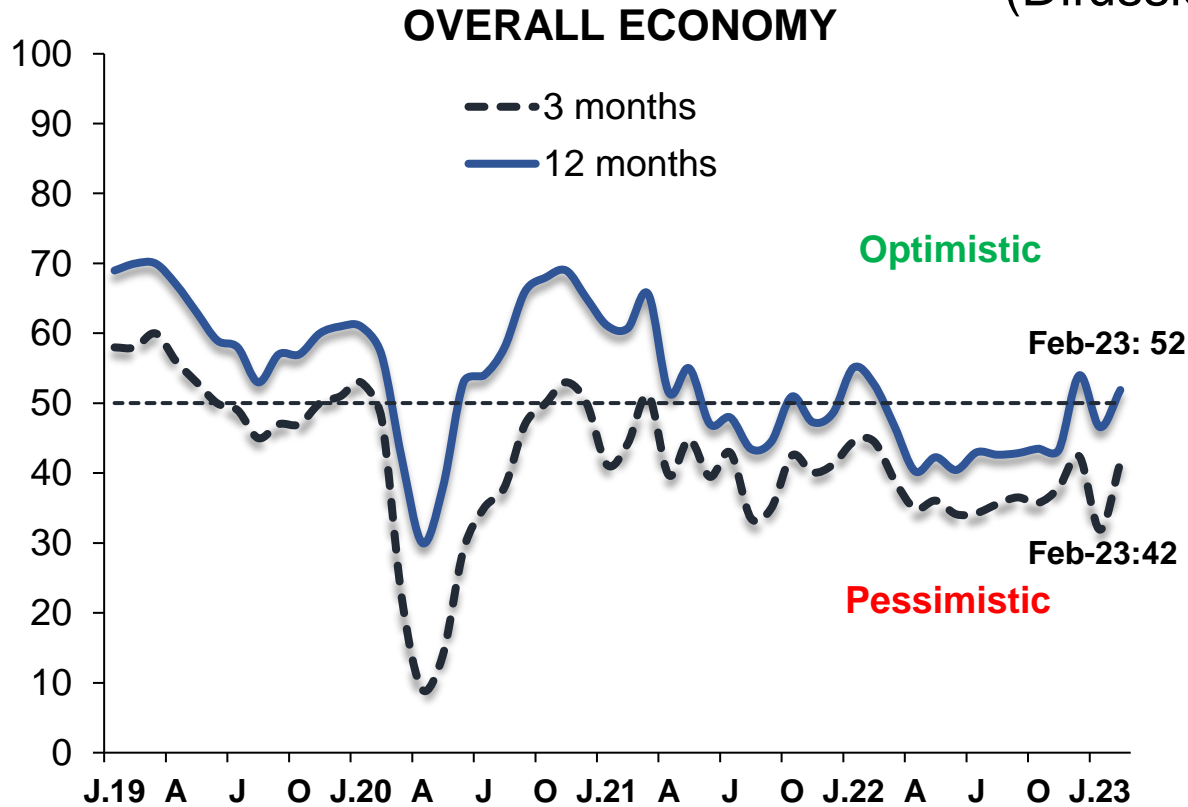
Private Sector	Dec.19	Dec.21	Jun.22	Sep.22	Dec.22
Jobs, thousands	3 921	3 923	3 845	4 117	4 157

Source: SUNAT.

Business confidence improved in February, after being affected by political uncertainty, social unrest and protests



BUSINESS EXPECTATIONS: (Difussion Index)



Source: BCRP.

Peru's Economic Outlook



Economic activity



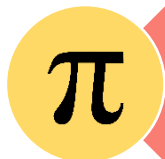
External sector



Fiscal accounts



Monetary policy



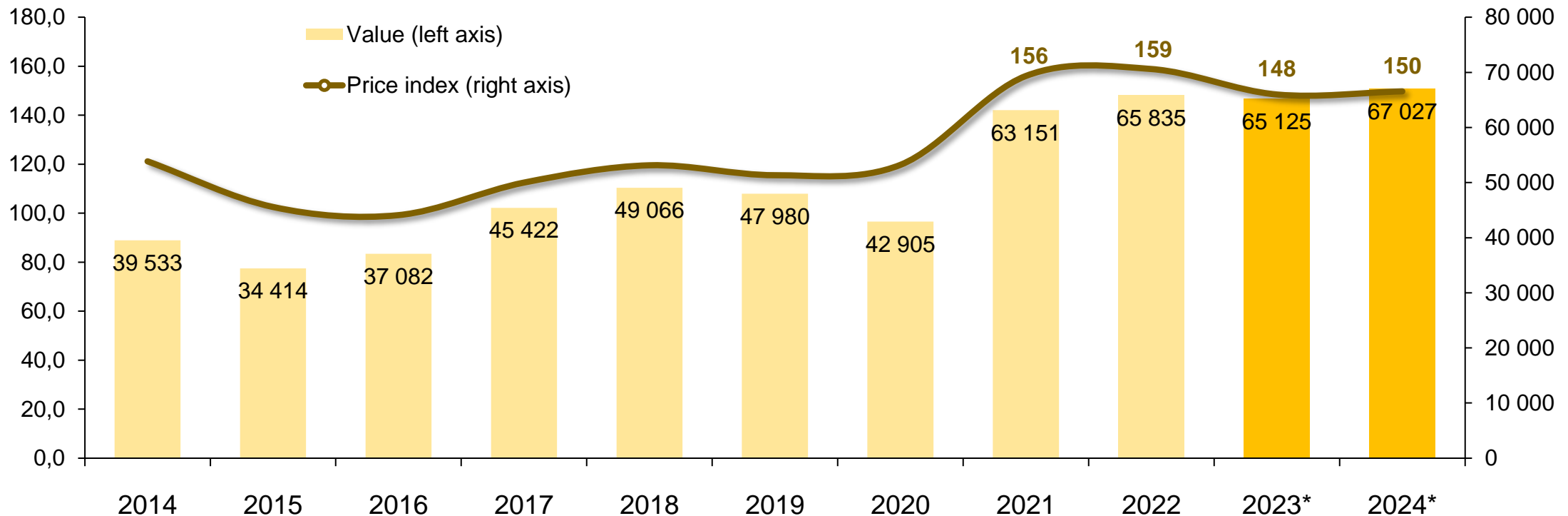
Inflation



Value of exports is at historical level due to an increase in the price of non-commodities and a higher export volume of natural gas, copper, among others.



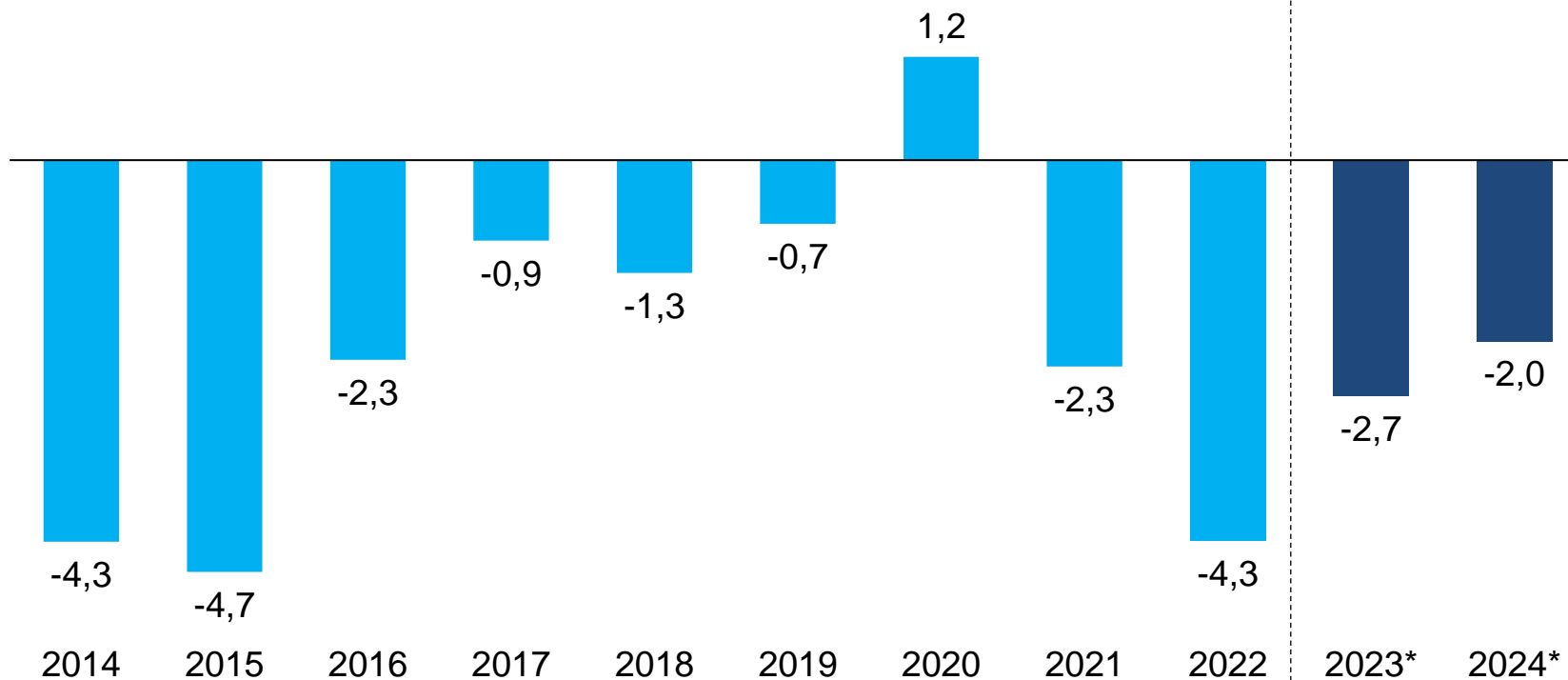
EXPORTS: VALUE AND PRICE INDEX, 2014-2024
(Million USD, Index 2007 = 100, respectively)



The current account deficit is expected to decline gradually due to higher mining production, lower FDI profits, and a recovery in tourism, reflecting Peru's solid external position.



CURRENT ACCOUNT, 2014-2024
(Percentage of GDP)



Current Account (% of GDP)	2020	2021	2022*
Brazil	-1.7	-1.7	-1.5
Uruguay	-0.8	-1.8	-1.2
Colombia	-3.4	-5.7	-5.1
Mexico	2.5	-0.4	-1.2
Peru	1.2	-2.3	-4.3
Chile	-1.7	-6.7	-6.7

*Forecast except for Peru.
Source: IMF (WEO October 2022) and BCRP (Peru).

*Forecast IR Dec 2022.
Source: BCRP.

Peru's Economic Outlook



Economic activity



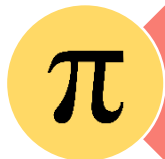
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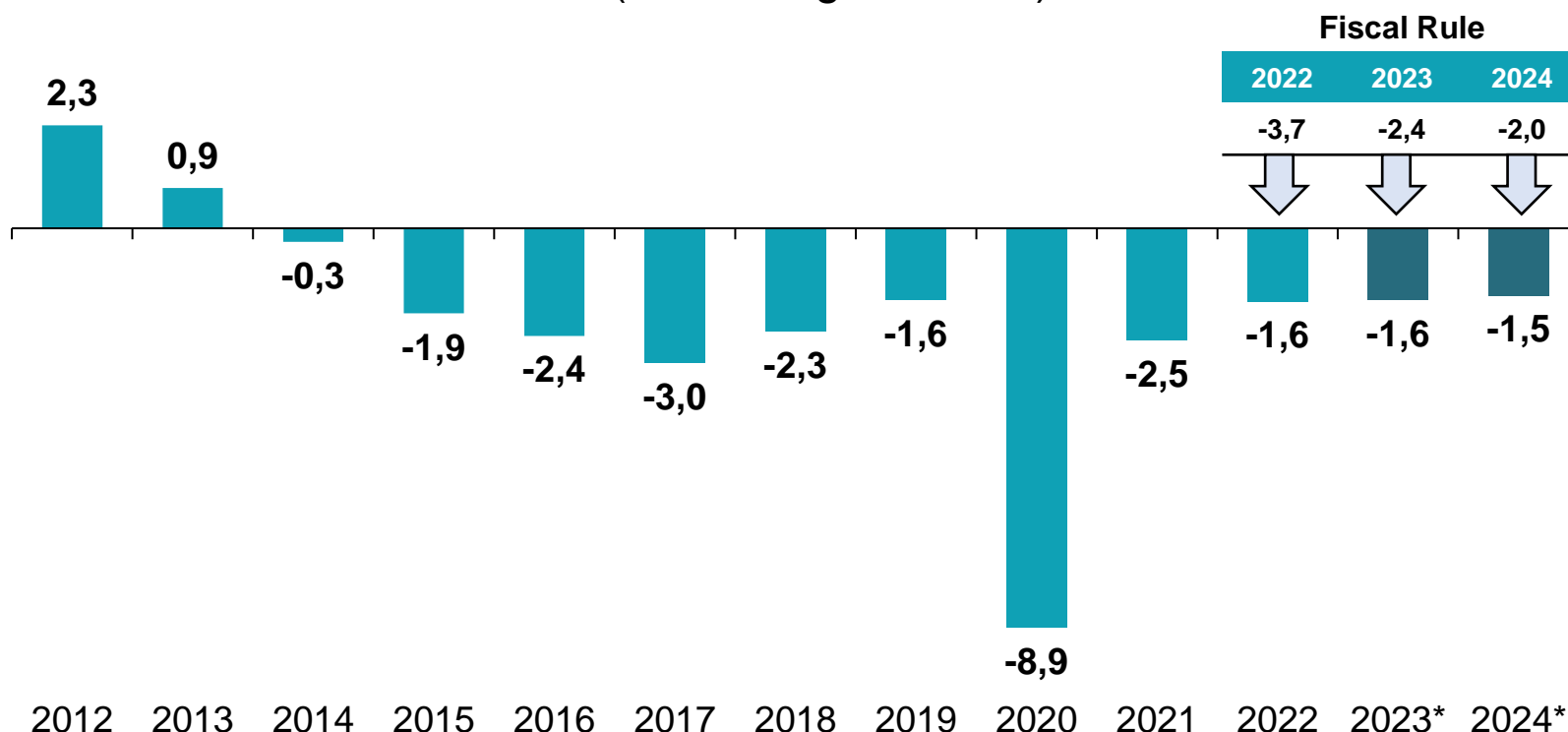
Inflation



The fiscal deficit is expected to remain below 2.0% of GDP in the forecast horizon.



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



Overall balance (% of GDP)	2020	2021	2022*
Ecuador	-7.1	-1.5	0.9
Chile	-7.1	-7.5	0.9
Peru	-8.9	-2.5	-1.6
Uruguay	-4.7	-2.7	-2.9
Mexico	-4.4	-3.8	-3.8
Paraguay	-7.2	-6.2	-5.0
Brazil	-13.3	-4.4	-5.8
Colombia	-7.0	-6.8	-6.4

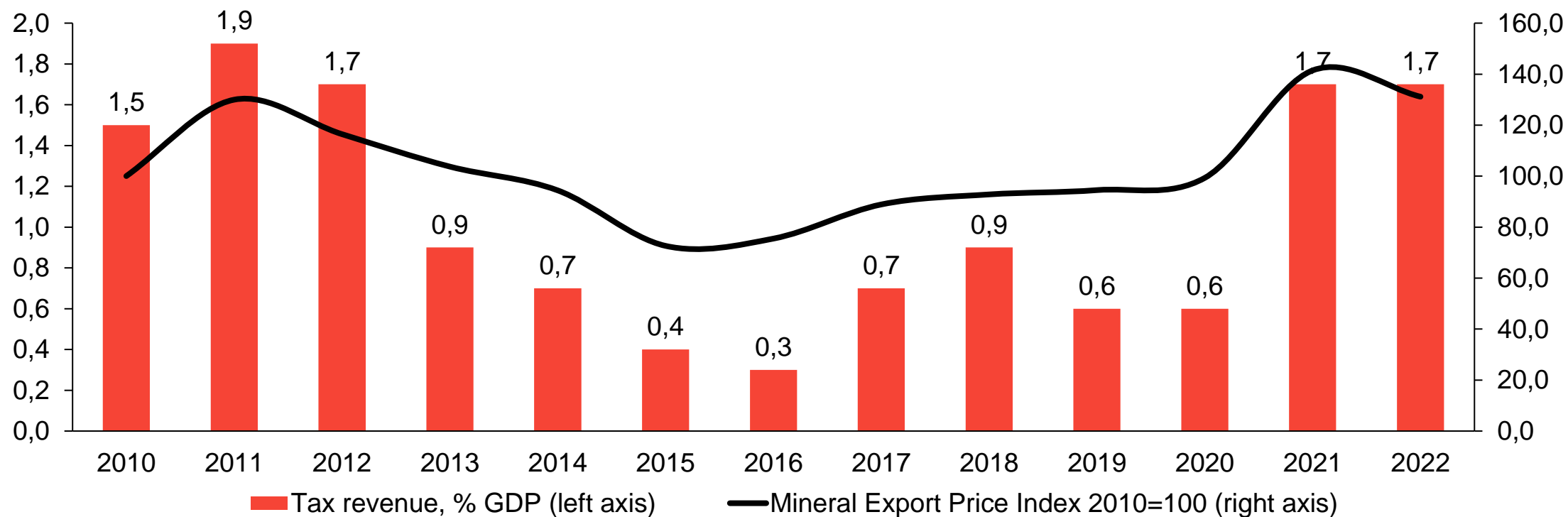
* Forecast, except for Peru.
Source: IMF-World Economic Outlook (October 2022) and BCRP (Peru).

* Forecast IR Dec 2022.
Source: BCRP

Tax revenue from the mining sector recovered to similar levels as those of 2012.



TAX REVENUE FROM THE MINING SECTOR: 2010 – 2022*
(Percentage of GDP)



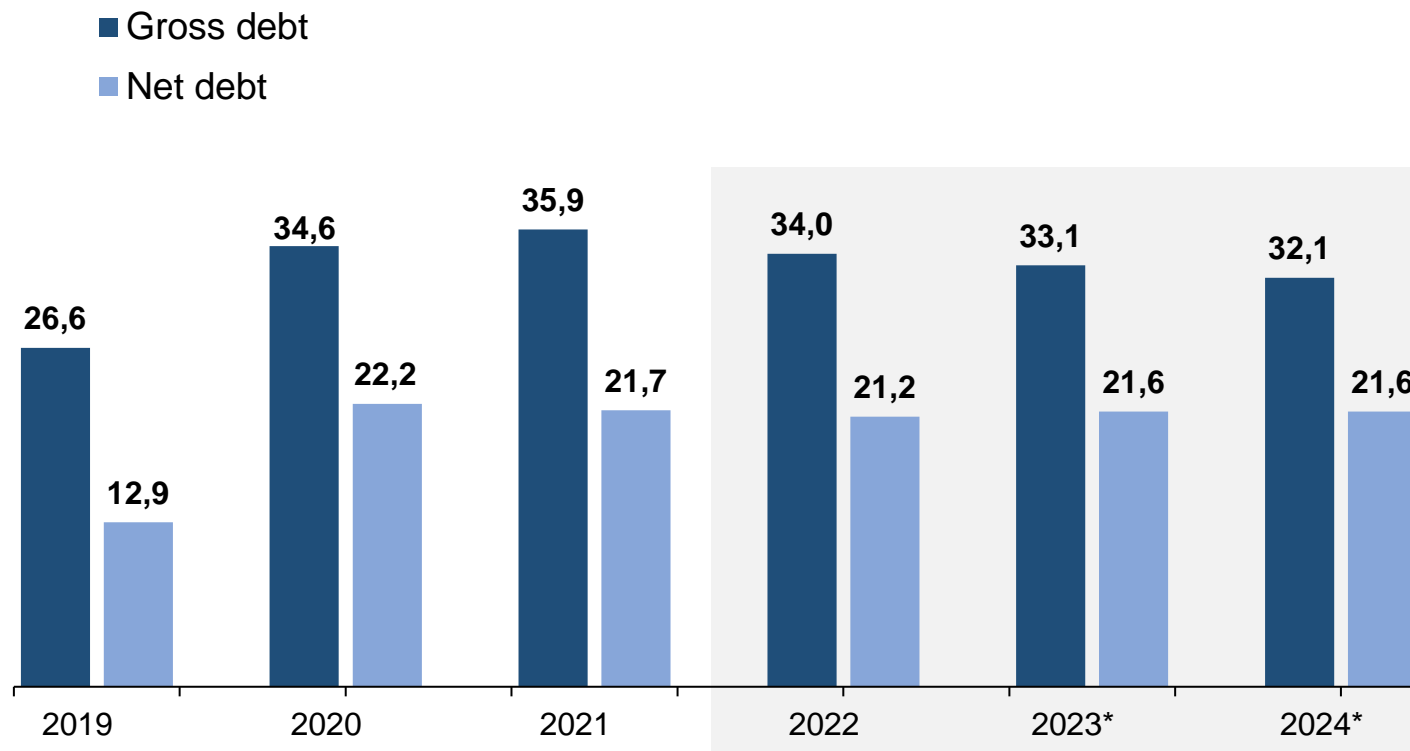
* Tax revenue includes income tax, special mining contribution and mining royalties.

Source: BCRP

Peru's reduced fiscal deficits have resulted in the lowest public debt ratio in the region.



NON FINANCIAL PUBLIC SECTOR DEBT (Percentage of GDP)



Gross Debt (% of GDP)	2019	2020	2021	2022*
Peru	26.6	34.6	35.9	34.0
Chile	28.3	32.6	36.3	36.2
Paraguay	25.8	36.9	37.7	39.3
Mexico	53.3	60.1	57.6	56.8
Ecuador	51.4	60.9	62.2	58.9
Colombia	52.4	65.7	64.6	61.1
Uruguay	61.0	68.3	65.1	61.2
Brazil	87.9	98.7	93.0	88.2

* Forecast, except for Peru.

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

* Forecast IR Dec 2022.
Source: BCRP.

Peru's Economic Outlook



Economic activity



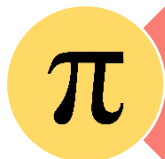
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Fiscal accounts



Monetary policy



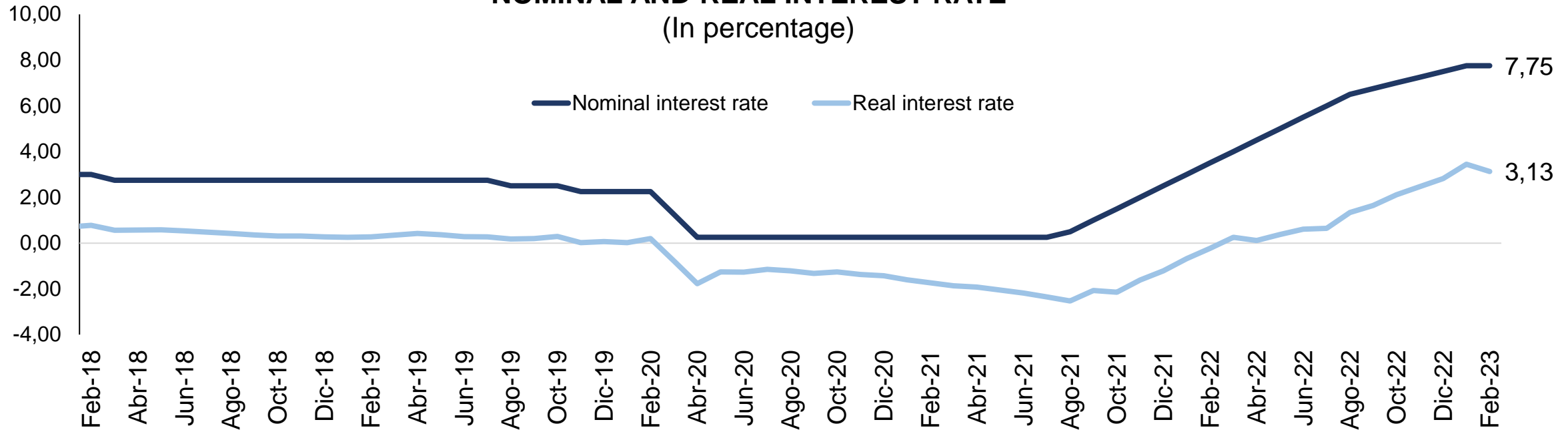
Inflation



In February 2023, the BCRP decided to maintain the reference rate at 7.75%. This pause does not necessarily imply an end to the BCRP's monetary tightening cycle.



NOMINAL AND REAL INTEREST RATE*
(In percentage)



	Dec.20	Jul.21	Aug.21	Sep.21	Dec.21	Mar.22	Jun.22	Sep. 22	Dic. 22	Ene. 23	Feb. 23
(I) Nominal Rate	0.25	0.25	0.50	1,00	2.50	4.00	5.00	6.75	7.50	7.75	7.75
(II) Inflation Expectations	1.68	2.60	3.03	3.07	3.71	3.75	4.89	5.10	4.68	4.30	4.62
(III) Real Rate: (I)-(II)	-1.43	-2.35	-2.53	-2.07	-1.21	0.25	0.61	1.65	2.82	3.45	3.13

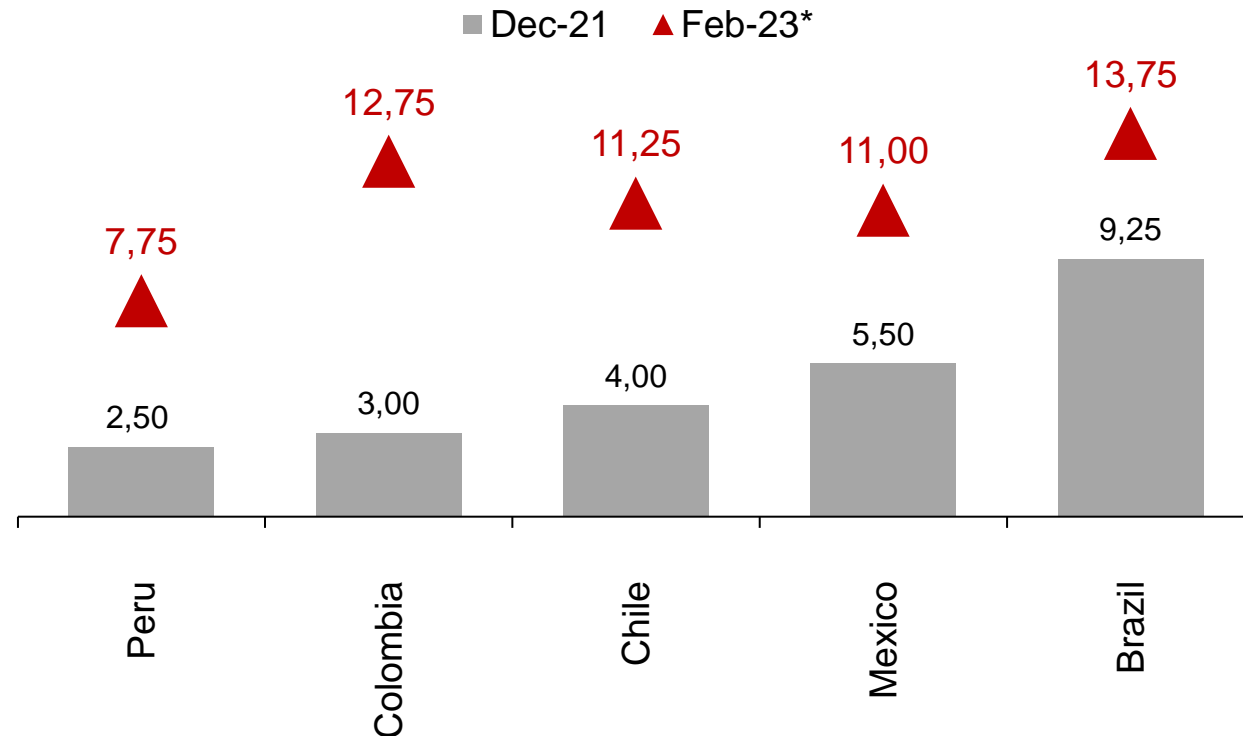
* Real interest rates are computed with 12-months-ahead inflation expectations (ex-ante real interest rates).

Source: BCRP.

Peru's policy interest rate is one of the lowest in the region, with output close to potential and lower inflation expectations.



MONETARY POLICY RATES IN LATAM (%)



	12-M-Ahead Inflation Expectations**	Ex Ante Real Interest Rate
Peru	4,62	3,13
Colombia	7,72	5,03
Chile	5,00	6,25
Mexico	4,98	6,02
Brazil	5,60	8,15

* As of February 28, 2023.

**As of January 2023.

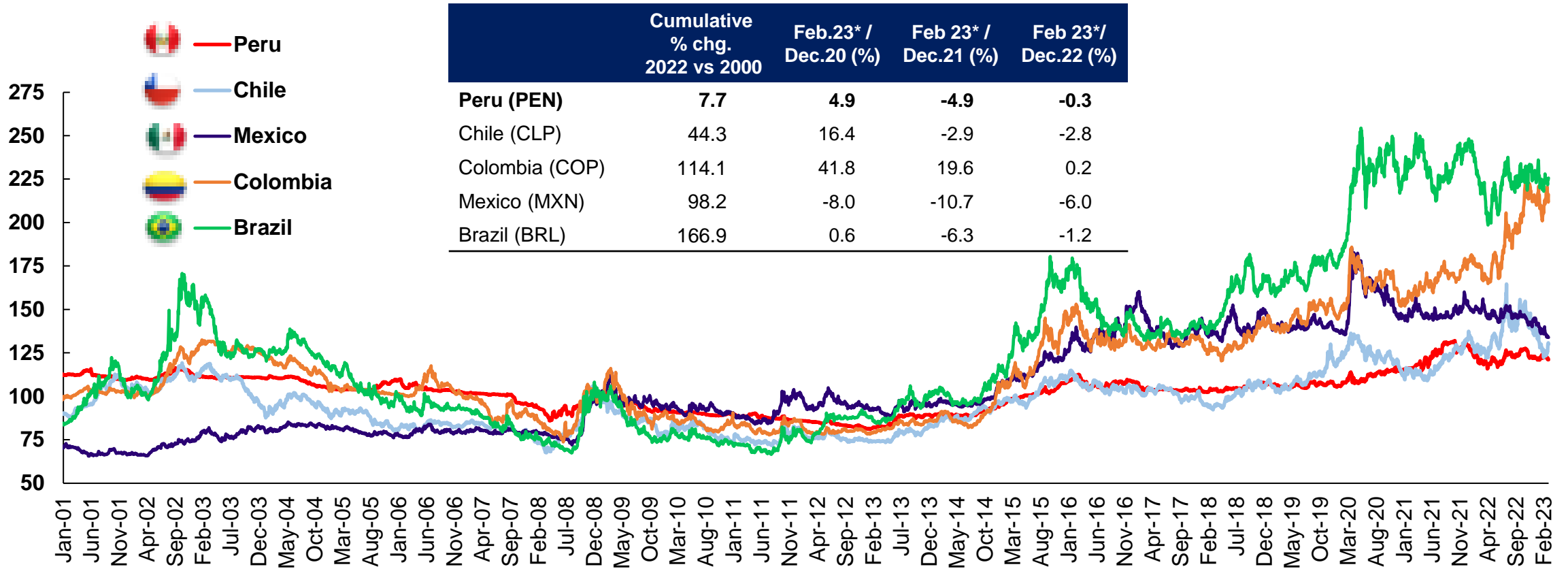
Source: Central Banks.

PEN has appreciated slightly due to less political uncertainty in recent days.



LATAM: EXCHANGE RATE

Monetary unit per dollar, Index 100=31 Dec 2008



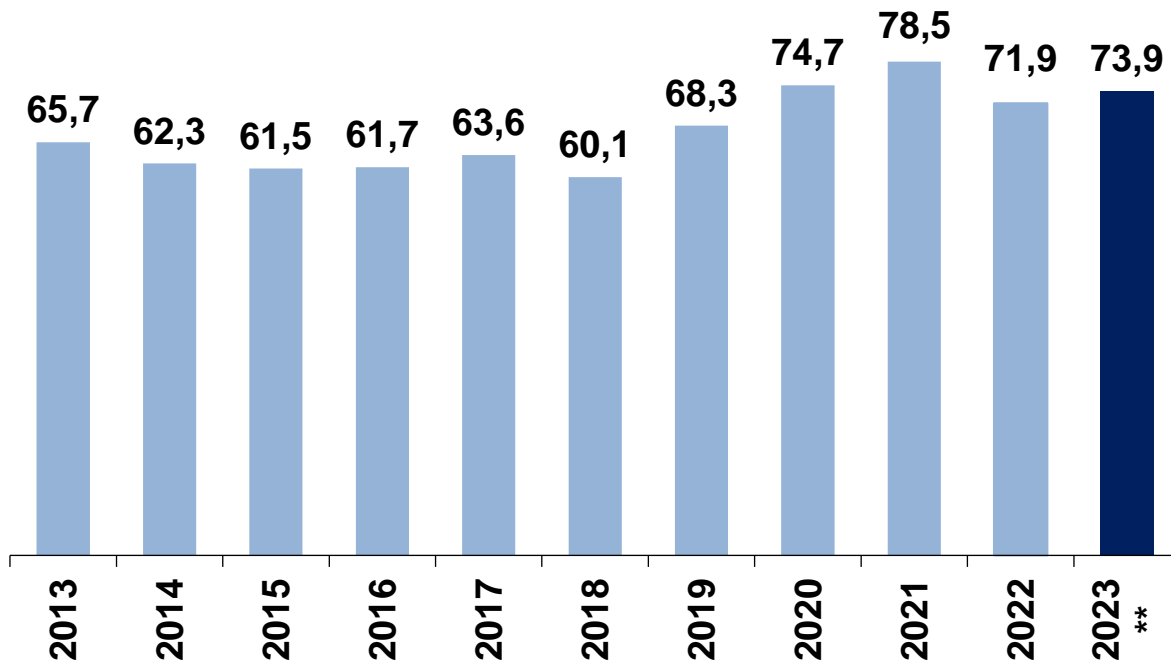
* As of February 28.

Source: Reuters.

Peru's sound external position is underpinned by a considerable FX reserve buffer and a precautionary USD 5.3-billion Flexible Credit Line (FCL) with the IMF.



FOREIGN EXCHANGE RESERVES (Billions of USD)



**As of February 27.
Source: BCRP.

INTERNATIONAL COVERAGE

	2019	2020	2021	2022	2023*
NIR as percentage of:					
a) GDP	29.4	36.3	34.8	29.4	28.0
b) Short term external debt ^{1/}	498	543	558	510*	508
c) Short term external debt + current account deficit	444	657	406	288*	343

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

*Forecast IR Dec 2022.

FX Reserves (% of GDP)	2022
Brazil	17.1
Colombia	16.7
Mexico	14.1
Peru	29.4
Chile	12.6

Source: GDP is obtained from the IMF – WEO (October 2022), except for Peru (BCRP).

Peru's Economic Outlook



Economic activity



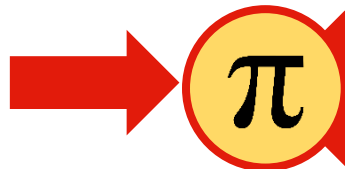
External sector



Fiscal accounts



Monetary policy

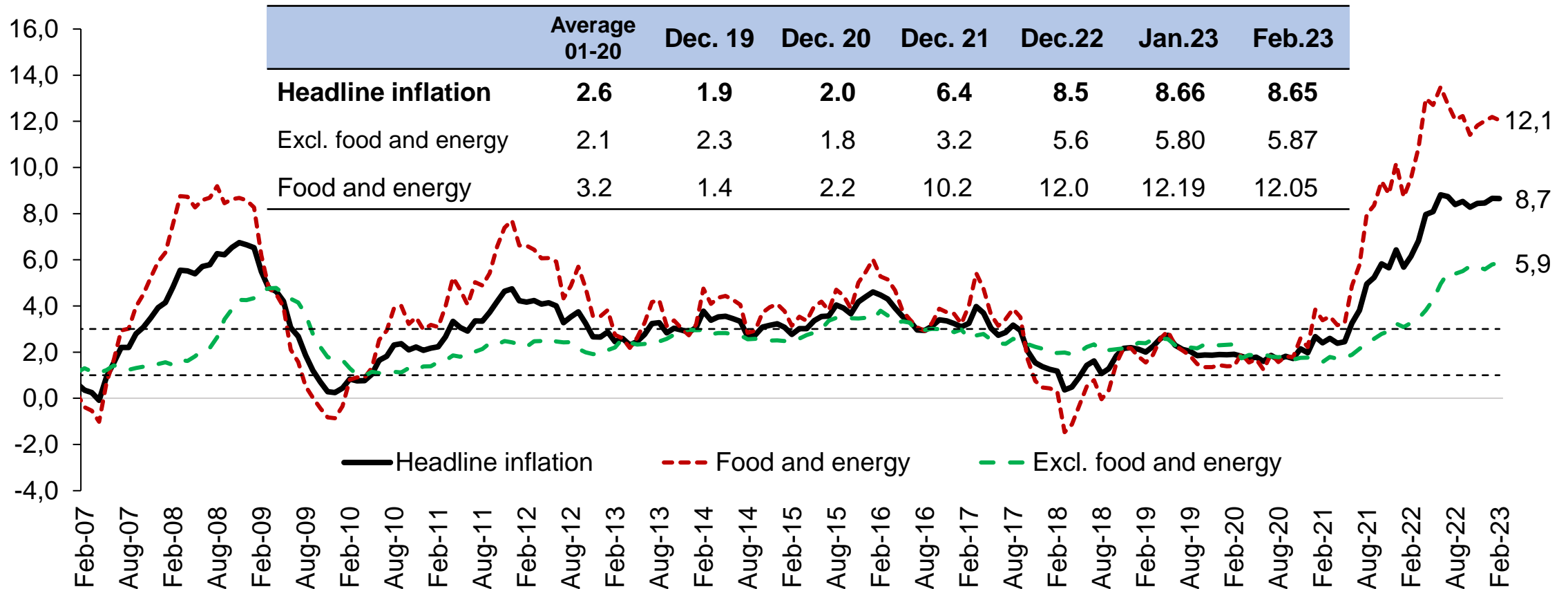


Inflation

After peaking at 8.81% in June 2022, headline inflation fell to 8.65% in February.



HEADLINE INFLATION, 2007 - 2023 (YoY % change)

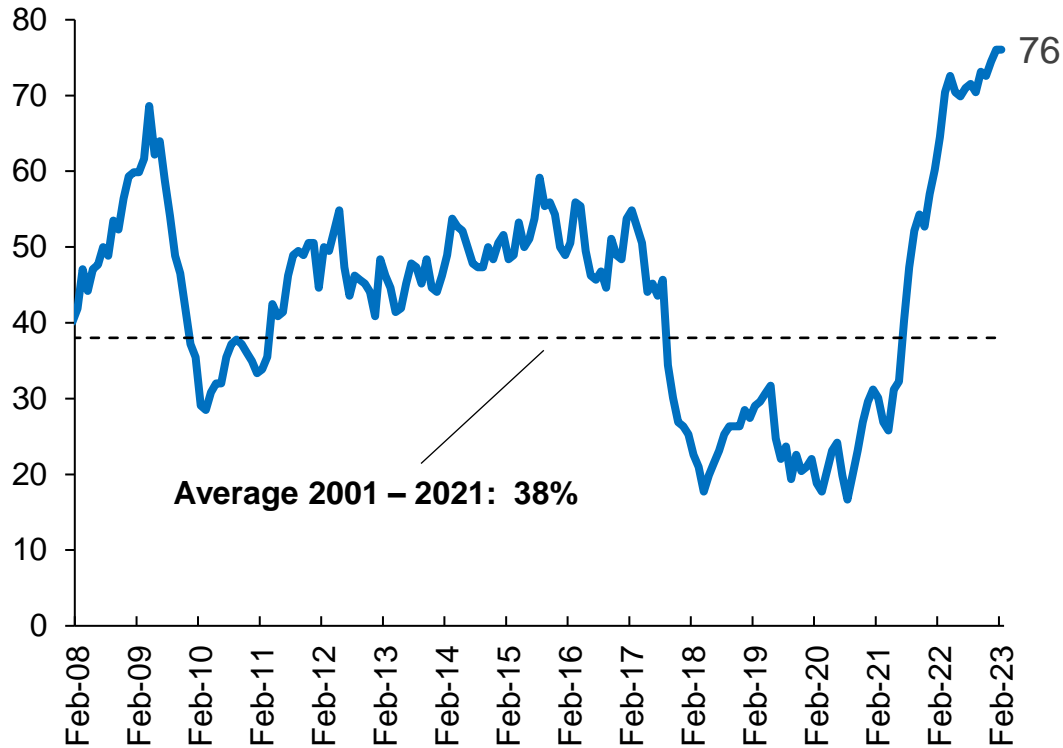


Source: BCRP.

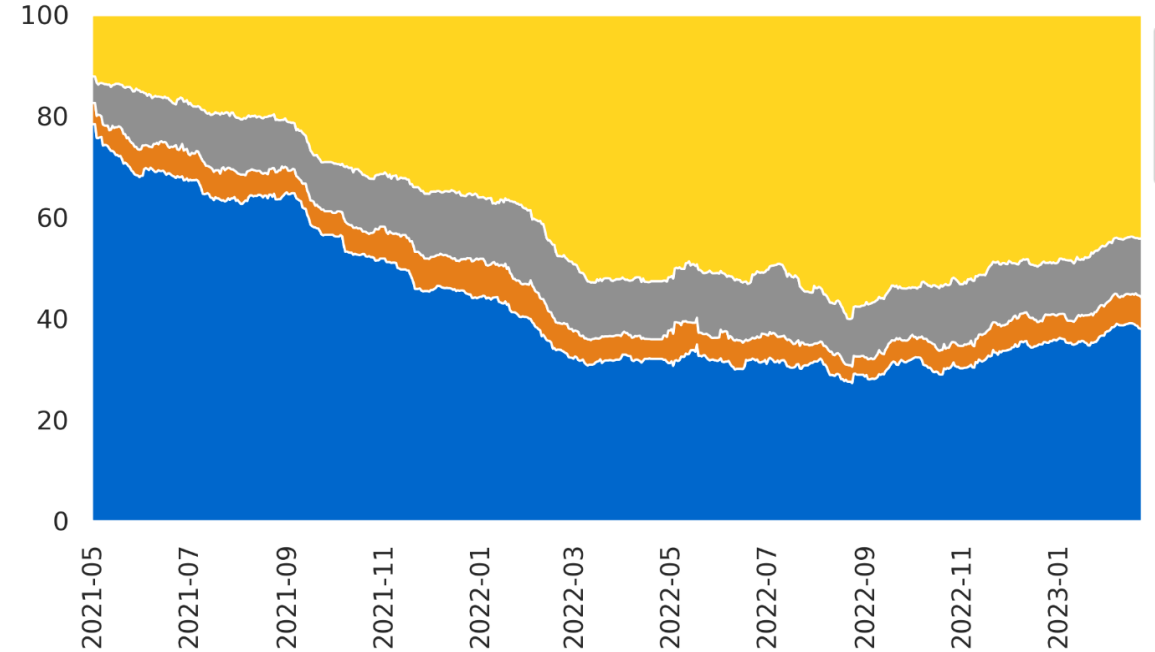
Trend inflation indicators are also above the target band.



% OF CPI ITEMS WITH YOY VARIATION GREATER THAN 3%



SUPERMARKET ITEMS, ACCORDING TO ITS PRICE VARIATION (As % of items)



Date	< 3 %	3% - 5%	5% - 9%	9% >
30-04-2021	78,4%	4,2%	5,2%	12,1%
21-08-2022 (Maximum)	27,6%	3,3%	9,1%	60,0%
22-02-2023	37,8%	6,2%	11,8%	44,1%

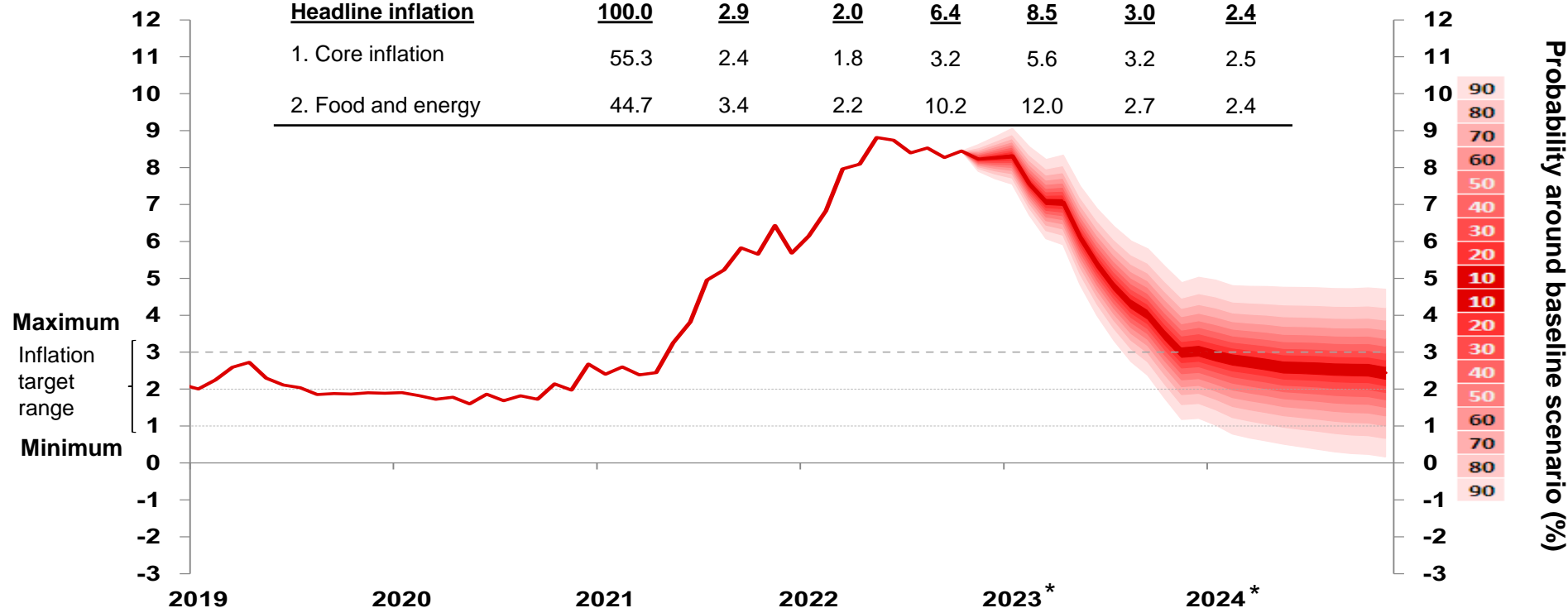
Note: Graph on the right considers daily price of items sold by Metro supermarkets, obtained using webscraping.
Source: BCRP.

Inflation is expected to fall back to target by end-2023, considering the reversal of global supply shocks, low inflationary demand pressures, and the return of inflation expectations within the target band.



HEADLINE INFLATION FORECAST, 2023-2024 (YoY % change)

	Weight	2010-19	2020	2021	2022	2023*	2024*
Headline inflation	100.0	2.9	2.0	6.4	8.5	3.0	2.4
1. Core inflation	55.3	2.4	1.8	3.2	5.6	3.2	2.5
2. Food and energy	44.7	3.4	2.2	10.2	12.0	2.7	2.4



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 base scenario.

Perú

