



Summary Inflation Report

December 2020

This **Inflation Report** has been prepared using data on the balance of payments and the gross domestic product as of the third quarter of 2020, data on the monthly GDP, the trade balance, and monetary accounts as of October 2020, and data on inflation, the operations of the non-financial public sector, financial markets, and the exchange rate as of November 2020.

Global economic activity has continued to recover, as observed particularly in consumption and employment, which reflects the relaxation of social distancing measures and the application of monetary and fiscal stimuli. In this context, the estimated contraction of global GDP in 2020 has been revised from 5.0 percent forecast in September to 4.9 percent, with prospects of less contraction in the United States and greater growth in China standing out. Despite this, however, the recovery projection for 2021 is revised slightly down, from 5.5 to 5.4 percent, due to the temporary impact that the new COVID-19 outbreak would have. World economic growth would continue to pick up in 2022 with a growth rate of 4.0 percent.

The progress achieved in developing vaccines against COVID-19 and the outlook for economic recovery have led to lower global risk aversion that has driven financial markets and commodity prices. In particular, the price of copper has reached maximum values not observed since 2012. In this context, the projection of the **terms of trade** for 2020 (5.7 percent) and 2021 (5.3 percent) has been revised significantly up from the rates estimated in September, after which the terms of trade are expected to stabilize in 2022 at favorable levels.

GLOBAL GDP GROWTH (Annual % change)

	PPP	2019	2020*		2021*		2022*
			IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	IR Dec.20
Developed economies	40.3	1.7	-6.5	-6.4	4.7	4.6	3.1
Of which							
1. USA	15.1	2.3	-3.7	-3.4	4.0	4.0	3.3
2. Eurozone	11.2	1.2	-8.8	-8.9	6.0	5.8	3.3
3. Japan	4.1	0.7	-6.1	-5.6	2.4	2.4	2.0
4. United Kingdom	2.2	1.4	-10.4	-10.4	6.0	5.7	2.2
5. Canada	1.3	1.6	-6.1	-5.7	4.0	4.0	3.5
6. Other	6.4	1.7	-8.0	-8.1	5.1	4.6	3.1
Developing economies	59.7	3.7	-4.0	-3.9	5.9	5.9	4.5
Of which							
1. China	19.3	6.1	1.5	1.7	8.1	8.1	5.7
2. India	8.0	4.2	-10.2	-10.2	10.5	10.5	6.5
3. Russia	3.1	1.3	-6.0	-5.5	3.5	3.2	2.4
4. Latin America and the Caribbean	7.3	0.1	-7.9	-7.7	3.8	3.8	2.7
5. Other	18.2	3.1	-6.2	-6.2	4.2	4.2	4.5
World Economy	100.0	2.9	-5.0	-4.9	5.5	5.4	4.0

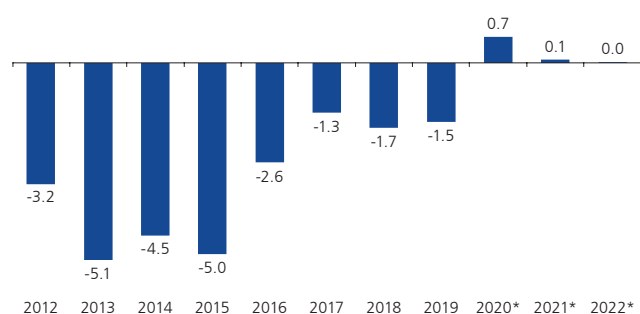
* Forecast.
Source: IMF and Consensus Forecast.

TERMS OF TRADE: 2019 - 2022

	2019	2020*		2021*		2022*	
		Jan.-Sep.	IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	
Terms of Trade							
Annual average % chg.	<u>-1.8</u>	<u>3.4</u>	<u>3.7</u>	<u>5.7</u>	<u>-1.7</u>	<u>5.3</u>	<u>0.1</u>
Price of exports							
Annual average % chg.	<u>-3.4</u>	<u>-2.3</u>	<u>-1.3</u>	<u>0.4</u>	<u>2.1</u>	<u>9.3</u>	<u>1.0</u>
Copper (US\$ cents per pound)	272	265	269	278	286	329	329
Zinc (US\$ cents per pound)	116	97	98	102	100	123	124
Lead (US\$ cents per pound)	91	82	82	83	84	90	91
Gold (US\$ per troy ounce)	1,392	1,735	1,789	1,768	1,900	1,850	1,873
Price of imports							
Annual average % chg.	<u>-1.7</u>	<u>-5.6</u>	<u>-4.8</u>	<u>-5.0</u>	<u>3.9</u>	<u>3.8</u>	<u>0.9</u>
Oil (US\$ per barrel)	57	38	40	39	44	43	44
Wheat (US\$ per ton)	168	200	168	185	171	209	211
Maize (US\$ per ton)	145	127	129	137	141	165	159

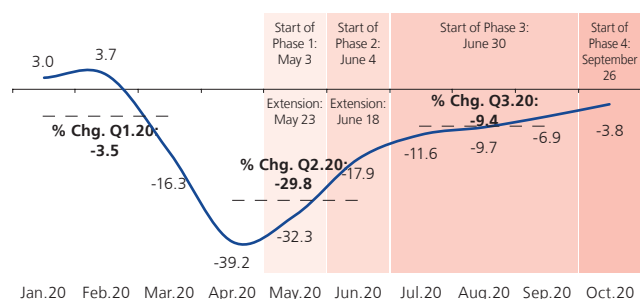
* Forecast.
IR: Inflation Report.

CURRENT ACCOUNT: 2012-2022
(% GDP)



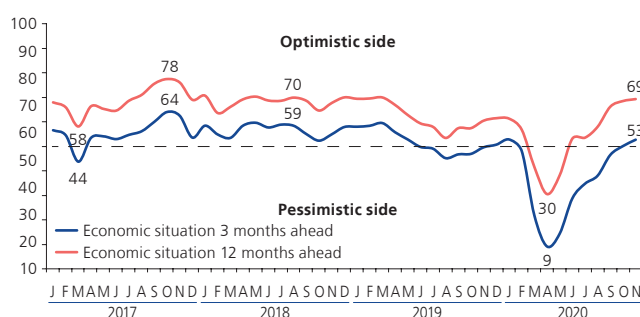
* Forecast.

REAL GDP
(Annual % chg.)



Memo: The beginning of the phases is based on the publication of the corresponding Supreme Decree. Extension refers to the date on which other activities came into operation.

**EXPECTATION ABOUT THE ECONOMIC SITUATION
IN 3 AND 12 MONTHS AHEAD**



Source: BCRP.

GDP BY PRODUCTION SECTOR
(Real % change)

	2019	2020*			2021*		2022*
		Jan.-Sep.	IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	IR Dec.20
Primary GDP	-1.2	-10.3	-7.0	-8.0	9.6	9.5	4.6
Agriculture and livestock	3.4	0.8	1.3	0.7	3.6	2.7	3.0
Fishing	-25.9	-8.8	3.0	3.0	8.5	8.5	4.7
Metallic mining	-0.8	-17.6	-12.5	-14.1	14.4	14.4	4.8
Hydrocarbons	4.6	-10.6	-11.4	-11.1	5.9	6.8	9.0
Based on raw materials	-8.8	-5.6	-1.3	-1.7	7.7	8.0	4.8
Non-Primary GDP	3.2	-15.7	-14.4	-12.4	11.5	12.0	3.8
Non-primary industries	1.2	-22.4	-18.5	-17.2	16.9	16.9	2.0
Electricity and water	3.9	-8.2	-6.0	-6.1	12.6	7.9	2.3
Construction	1.5	-28.5	-22.2	-15.6	23.2	17.4	3.8
Commerce	3.0	-20.6	-17.8	-16.2	17.4	18.4	3.3
Services	3.8	-12.3	-12.3	-10.6	8.2	9.5	4.3
GDP	2.2	-14.5	-12.7	-11.5	11.0	11.5	4.0

IR: Inflation Report.

* Forecast.

The **current account** of the balance of payments would show a surplus of 0.7 percent in 2020 (a deficit of 0.1 percent was projected in September) due to the impact of the contraction of local production on the profits of foreign direct investment companies, the effect of weak domestic demand, and the recovery of the terms of trade. This current account surplus would fall to 0.1 and 0.0 percent of GDP in 2021 and 2022, respectively, in line with the projected reactivation of activity and domestic demand, amid an external scenario with higher terms of trade.

After recording one of the sharpest GDP contractions in the second quarter of the year due to the implementation of some of the strictest social confinement measures in the world, the Peruvian economy has recovered at a faster rate than expected in the third quarter and the leading indicators show a similar evolution in the months of October and November. Since May, the **GDP** has shown lower year-on-year rates of decline due to the easing of the quarantine, the significant expansion of liquidity and credit to the private sector at lower interest rates, and the recovery of public spending, especially in recent months. In addition, there has been an additional boost on activity in the fourth quarter due to the progress of the last phase of the economic reopening of activities, the execution of the second universal bond, and the year-on-year growth of public investment for the first time since the pandemic began.

In this context, there has been less deterioration in the labor market while consumer and business expectations show advances. In addition, exports have been driven by better prospects for global demand and by the resumption of local production.

As a result of this, the GDP in 2020 is now estimated to register a fall of 11.5 percent, a contraction more than one percentage point lower than that estimated in the previous Report (-12.7 percent). This revision is mainly explained by

greater activity in the construction sector due to households' higher spending in self-construction projects.

The growth projection for 2021 is also revised up, from 11.0 to 11.5 percent, due to the better external scenario anticipated with quite favorable terms of trade. The recovery of the economy projected for 2021 and the growth forecast for 2022 (4.0 percent) would be supported by the positive effect of the stimulus measures on private spending, expansionary credit conditions, the resumption of investment projects, and the recovery of confidence and employment. The current projection considers a scenario of adequate, flexible, and focused health control measures, if required, without significant rebounds in the COVID-19 contagion rates. An orderly efficient vaccination program of the population is expected in 2021, which would allow economic activity to recover to the pre-pandemic levels by the first quarter of 2022. The baseline scenario also assumes an environment of social and political stability, with which households and businesses' decisions of investment and job creation would not be postponed.

Fiscal policy measures to face the effects of COVID-19 have continued, in general, in line with what was expected in September, while revenues have shown a faster recovery, both due to lower requests to split tax payments as well as due to the lower contraction of economic activity. With this, and considering the projection of recovery of activity, the fiscal deficit projection is revised down from 9.2 to 8.6 percent of GDP in 2020 and from 5.1 to 4.4 percent in 2021. The process of fiscal consolidation would continue in 2022 with a deficit of 3.0 percent of GDP in a scenario where the effects of COVID-19 on economic activity, on tax collection, and on current spending would have largely dissipated.

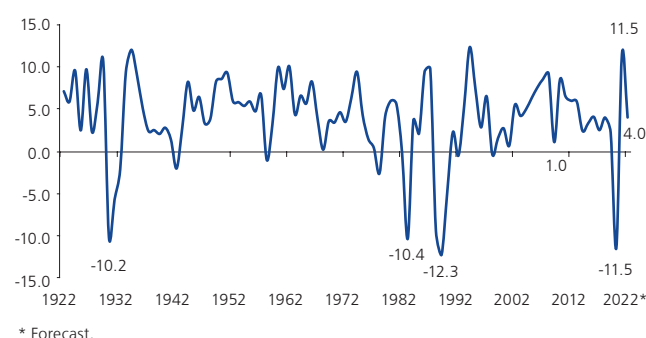
Since March, BCRP has taken unprecedented **monetary and financial** measures to support

DOMESTIC DEMAND AND GDP (Real % change)

	2019	2020*			2021*		2022*
		Jan.-Sep.	IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	IR Dec.20
Domestic demand	2.3	-13.5	-12.3	-10.7	9.5	10.2	4.1
Private consumption	3.0	-11.4	-10.0	-9.8	8.0	8.8	4.7
Public consumption	2.1	0.5	6.1	5.4	4.3	5.7	-0.8
Private investment	4.0	-28.0	-28.5	-20.0	20.0	17.5	4.5
Public investment	-1.4	-33.7	-19.0	-18.0	11.0	14.0	4.0
Change on inventories (contribution)	-0.5	0.7	0.0	-0.2	0.0	0.0	0.0
Exports	0.8	-22.1	-22.0	-18.8	17.8	15.3	5.1
Imports	1.2	-19.2	-21.1	-16.5	11.7	10.1	5.5
GDP	2.2	-14.5	-12.7	-11.5	11.0	11.5	4.0
Memo:							
Public expenditure	1.0	-8.6	-1.1	-1.2	5.9	7.7	0.4
Domestic demand excluding inventories	2.9	-14.1	-12.1	-10.3	9.4	10.0	4.0

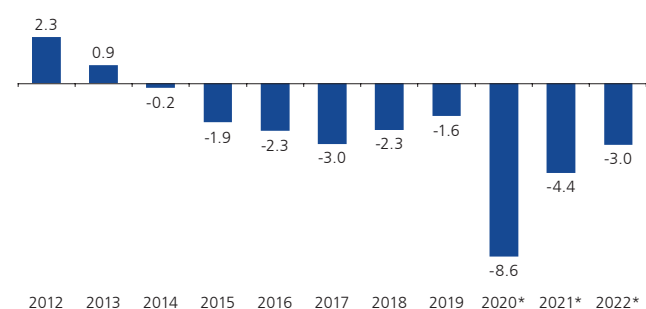
* Forecast.
IR: Inflation Report.

TOTAL GDP, 1922-2022 (Annual % change)



* Forecast.

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2022 (% GDP)



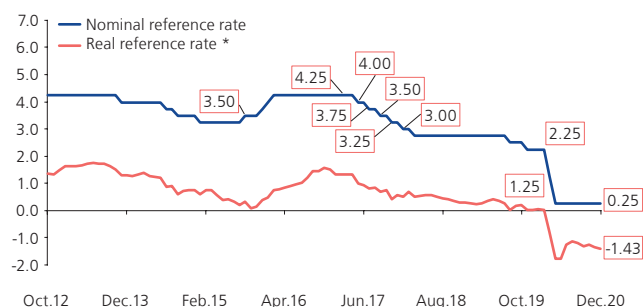
* Forecast.

NON-FINANCIAL PUBLIC SECTOR (% GDP)

	2019	2020*			2021*		2022*
		Jan.-Nov.	IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	IR Dec.20
1. General government current revenues	19.7	18.1	18.0	18.0	18.7	18.8	19.7
Real % change	4.3%	-19.4%	-19.5%	-17.8%	15.3%	17.4%	9.3%
2. General government non-financial expenditure	20.1	23.0	25.1	24.6	22.2	21.6	21.0
Real % change	1.3%	8.3%	10.8%	10.5%	-2.3%	-1.1%	1.6%
Of which:							
Current expenditure	15.5	19.1	20.7	20.2	17.8	17.1	16.4
Real % change	3.3%	15.3%	17.9%	17.3%	-4.4%	-4.7%	0.0%
Gross capital formation	4.0	3.0	3.6	3.7	3.7	3.8	3.9
Real % change	-4.7%	-24.0%	-18.8%	-16.7%	13.7%	16.8%	6.8%
3. Others	0.1	-0.2	-0.4	-0.3	0.1	0.0	0.0
4. Primary balance (1-2+3)	-0.2	-5.1	-7.6	-6.9	-3.4	-2.8	-1.3
5. Interests	1.4	1.8	1.7	1.6	1.7	1.6	1.7
6. Overall Balance	-1.6	-6.9	-9.2	-8.6	-5.1	-4.4	-3.0

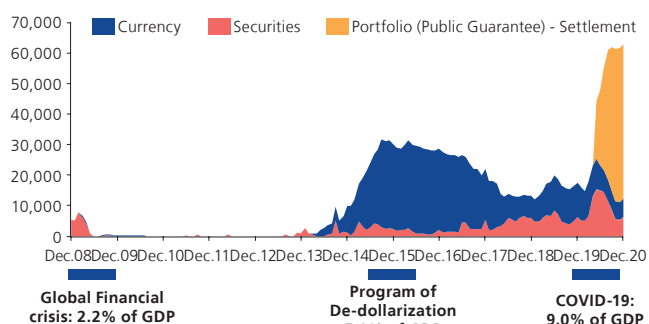
* Forecast.
IR: Inflation Report.

REFERENCE INTEREST RATE (%)



* With expectation on inflation.

BALANCE OF REPO OPERATIONS* (Balance in mill. S/)



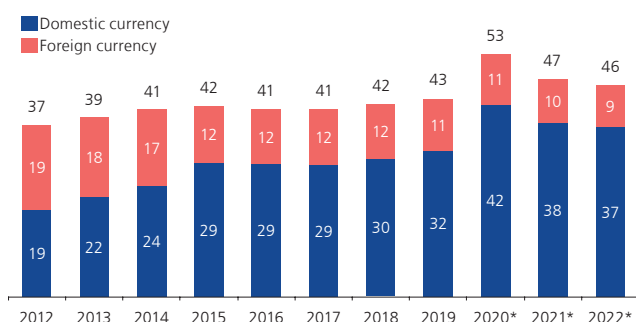
* As of December 16.

CREDIT TO THE PRIVATE SECTOR 1/ (Annual growth rate)

	Dec.18	Mar.19	Jun.19	Sep.19	Dec.19	Mar.20	Jun.20	Sep.20	Oct.20
Businesses	7.0	7.3	5.3	4.9	4.2	7.7	20.1	24.3	22.9
Corporate and large companies	9.1	8.9	6.3	6.4	4.4	11.7	22.0	13.7	10.4
Medium-sized enterprises	3.8	3.9	1.6	0.1	0.5	0.6	21.7	40.2	40.7
Small business and Micro business	5.9	7.0	7.1	6.6	7.7	5.5	13.9	33.8	35.5
Individuals	11.5	11.7	11.4	11.7	11.3	9.3	2.8	-1.3	-1.9
Consumer	13.1	13.5	13.0	13.4	12.8	10.2	1.6	-4.2	-5.0
Car loans	-3.5	2.7	6.9	8.5	11.9	6.9	0.9	-3.1	-3.6
Credit cards	11.9	14.7	14.8	16.0	13.4	8.9	-4.8	-12.6	-13.6
Rest	14.7	13.4	12.3	12.3	12.6	11.0	5.0	0.1	-0.6
Mortgage	9.0	9.1	9.1	9.1	9.0	8.0	4.6	3.1	2.8
TOTAL	8.7	9.0	7.6	7.5	6.9	8.3	13.3	14.1	13.1

1/ Balances are valued at constant exchange rate on December 2019.

RATIO CREDIT/GDP (%)



* Forecast.

the proper functioning of financial markets in an environment of deep economic contraction. These actions have focused mainly on reducing the cost of financing, providing liquidity to the financial system, and reducing the volatility of long-term interest rates and the exchange rate.

BCRP has maintained since April a minimum historical benchmark interest rate of 0.25 percent, equivalent in November to a negative real rate of 1.37 percent. Given the magnitude of the shock associated with the pandemic, BCRP has been expanding monetary impulse through other monetary policy instruments.

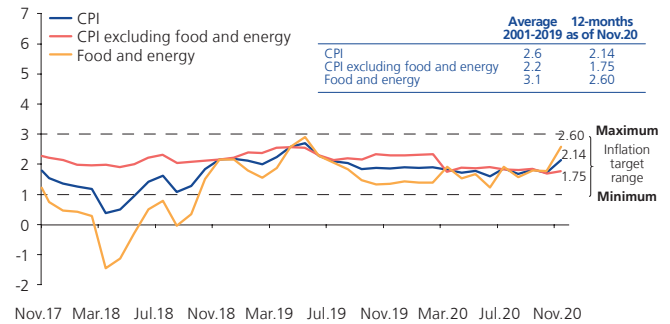
Between September and November, BCRP continued to carry out the necessary actions to sustain the payments system and the flow of credit in the economy. The balance of liquidity injection operations maintained historical levels, increasing from S/ 60.9 billion at the end of August to S/ 61.5 billion as of November 30, with S/ 50.2 billion of the latter figure being Government-backed repo operations. The total balance of liquidity injection operations (S/ 61.5 billion) is almost eight times higher than the maximum balance of these operations during the 2008-2009 international financial crisis (S/ 7.9 billion) and 2.0 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

In line with the expansionary monetary stance, **credit to the private sector** showed a clearly countercyclical behavior with a year-on-year rate of 13.1 percent in October and with higher relative growth rates in medium, small, and micro-enterprises in the context of the Reactiva Peru Program. Therefore, in the forecast horizon, a growth rate of 12.5 percent is projected for 2020, and once the event of exceptional need for financing working capital during the strict quarantine period has been overcome, a more moderate growth rate of credit of 3 percent is projected in 2021 and 2022, in line with an economy in clear recovery. With this,

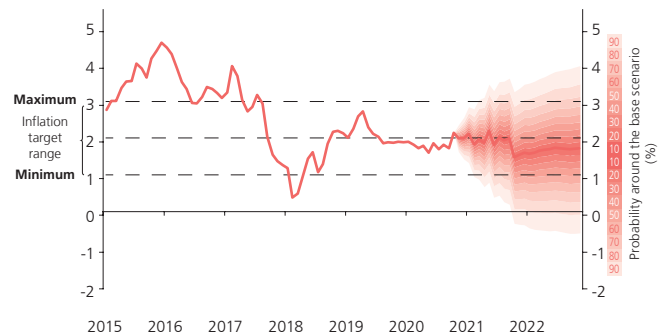
the ratio of credit to the private sector with respect to GDP would increase from 43 percent in 2019 percent to 47 percent in 2022.

Year-on-year **inflation** increased from 1.69 percent in August to 2.14 percent in November, reflecting the increase in the exchange rate, higher costs associated with sanitary control measures, and additional supply factors in some food items. One year-ahead inflation expectations rose from 1.57 percent to 1.68 percent in the same period and all trend inflation indicators remain in the lower part of the target range. In 2021-2022, inflation is projected to be again in the lower part of the target range in a context of moderate imported inflation, a significantly negative output gap (but closing), with lower costs for implementing health control measures being expected at a later stage of the forecast horizon as the pandemic is overcome.

INFLATION
(Last 12-month % change)



INFLATION FORECAST: 2020 - 2022
(Last 12-month % change)

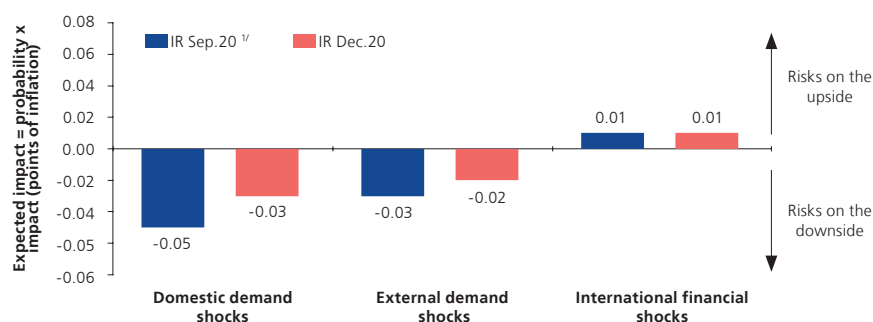


Balance of risks

The balance of **inflation risk factors** is more moderate and less skewed to the downside than in the September Report. The risks in the projection include the contingency of a weak recovery in global and local activity if there are significant outbreaks of COVID-19 or difficulties in the availability of vaccines. The baseline scenario assumes a context that favors the recovery of consumer and business confidence, so situations that generate economic uncertainty can delay the economic recovery process.

Moreover, the likelihood that risks linked to COVID-19 could materialize has decreased in the last month due to the progress achieved in the development of vaccines. At the close of this Report, it has been reported that the vaccines developed by Astrazeneca, Moderna, and Pfizer have reached an effectiveness of more than 95 percent.

BALANCE OF RISKS AGAINST THE BASE SCENARIO



^{1/} Corresponds at balance of risk 2020 - 2021.
IR: Inflation Report.

SUMMARY OF INFLATION REPORT FORECAST

		2019	2020 ^{1/}		2021 ^{1/}		2022 ^{1/}
			IR Sep.20	IR Dec.20	IR Sep.20	IR Dec.20	IR Dec.20
Real % chg.							
1.	Gross Domestic Product	2.2	-12.7	-11.5	11.0	11.5	4.0
2.	Domestic demand	2.3	-12.3	-10.7	9.5	10.2	4.1
	a. Private consumption	3.0	-10.0	-9.8	8.0	8.8	4.7
	b. Public consumption	2.1	6.1	5.4	4.3	5.7	-0.8
	c. Fixed private investment	4.0	-28.5	-20.0	20.0	17.5	4.5
	d. Public investment	-1.4	-19.0	-18.0	11.0	14.0	4.0
3.	Exports (good and services)	0.8	-22.0	-18.8	17.8	15.3	5.1
4.	Imports (good and services)	1.2	-21.1	-16.5	11.7	10.1	5.5
5.	Global economic growth	2.9	-5.0	-4.9	5.5	5.4	4.0
Memo:							
	Output gap ^{2/} (%)	-0.6	-20.0;-10.0	-18.0;-8.0	-13.0;-3.0	-11.0;-1.0	-9.0;0.0
% chg.							
6.	Inflation	1.9	0.8	2.0	1.0	1.5	1.7
7.	Expected inflation ^{3/}	2.3	1.2	1.5	1.8	1.7	2.0
8.	Expected depreciation ^{3/}	-0.3	3.8	5.9	-1.0	-2.0	-1.0
9.	Terms of trade	-1.8	3.7	5.7	-1.7	5.3	0.1
	a. Export prices	-3.4	-1.3	0.4	2.1	9.3	1.0
	b. Import prices	-1.7	-4.8	-5.0	3.9	3.8	0.9
% chg.							
10.	Currency	4.6	25.0	30.0	4.0	4.0	3.0
11.	Credit to the private sector	6.9	15.0	12.5	3.0	3.0	3.0
% GDP							
12.	Gross fixed investment	22.6	19.0	20.5	20.3	21.3	21.3
13.	Current account of the balance of payments	-1.5	-0.1	0.7	-1.6	0.1	0.0
14.	Trade balance	2.9	3.7	3.9	4.3	5.8	5.6
15.	Long-term external financing of the private sector ^{4/}	2.4	-0.5	0.3	-0.6	-1.3	-0.5
16.	Current revenue of the general government	19.7	18.0	18.0	18.7	18.8	19.7
17.	Non-financial expenditure of the general government	20.1	25.1	24.6	22.2	21.6	21.0
18.	Overall balance of the non-financial public sector	-1.6	-9.2	-8.6	-5.1	-4.4	-3.0
19.	Balance of total public debt	26.8	34.3	35.1	34.8	34.4	34.4
20.	Balance of net public debt	13.0	22.8	22.5	25.6	24.0	25.7

IR: Inflation Report

1/ Forecast.

2/ Differential between GDP and potential GDP (%).

3/ Survey on expectations to the analysts and financial entities.

4/ Includes net direct investment, portfolio investment and private sector's long term disbursement.