



INFLATION REPORT

September 2020

**Recent trends
and macroeconomic
forecasts
2020-2021**

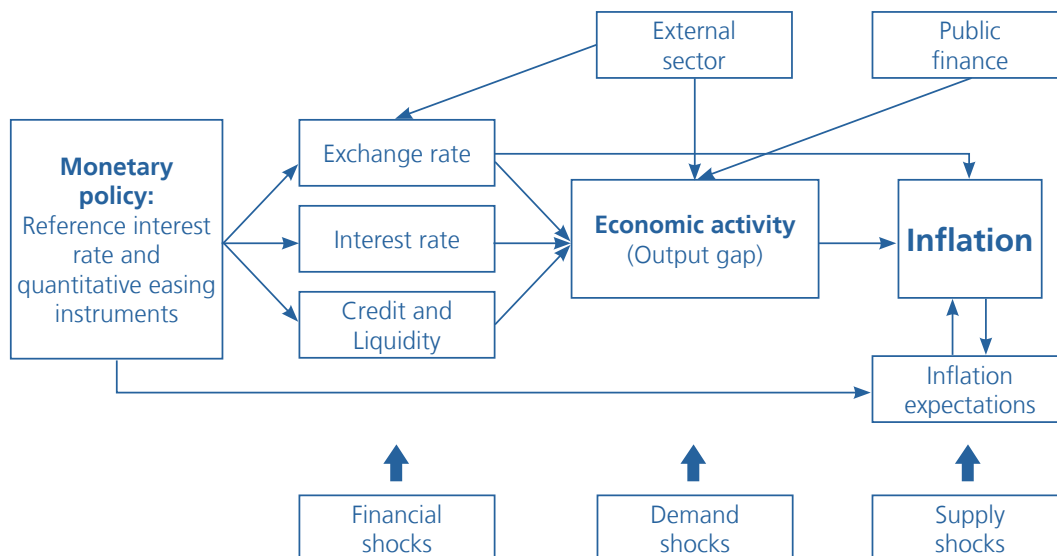


CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2020 - 2021

September 2020



Central Reserve Bank of Peru
441-445 Santa Rosa. Lima 1
Telephone: 613-2000 - Fax: 613-2525
Mail: webmaster@bcrp.gob.pe

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Recent trends and macroeconomic forecasts

INFLATION REPORT:

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

Foreword

- According to the Constitution of Peru, the Central Reserve Bank of Peru (BCRP) is a public autonomous entity whose role is to preserve monetary stability. The BCRP is responsible for regulating the money supply and credit in the financial system, for managing the country's international reserves, and for reporting on the nation's finances.
- In order to consolidate this goal, the Bank's monetary policy is based on an inflation targeting scheme, with an inflation target between 1 and 3 percent. The Central Bank's inflation target is aimed at anchoring inflation expectations at a similar level to the inflation rate observed in developed economies and reflects the BCRP's permanent commitment with monetary stability.
- Since 2003, the Board of BCRP sets a benchmark rate for the interbank lending market each month, according to a previously announced schedule. In March and April of this year, the benchmark rate was modified outside of this schedule due to the economic contraction generated by the confinement measures taken because of the COVID-19 pandemic. Since this interest rate, which is the monetary operational target, affects the rate of inflation through several channels with time lags, this rate is set on the basis of forecasts of inflation and inflation determinants.
- Inflation may transitorily deviate from the target range due to shocks that may temporarily affect the supply of goods and services. It should be pointed out that the effectiveness of monetary policy is also assessed in terms of the success in maintaining inflation expectations within the target range and in returning them to this range within a reasonable timeframe if deviations are recorded as a result of some economic shock.
- Additionally, the Central Bank implements preventive actions to preserve financial stability and monetary policy transmission mechanisms. Thus, the mechanism of the benchmark interest rate is complemented through other instruments such as injection and sterilization operations, reserve requirements, and interventions in the foreign exchange market to ensure the proper operation of markets, reduce excessive volatility in the exchange rate, and prevent excessive variations in the volume and composition of credit in the financial system by currencies and terms.
- In the exceptional case of this year, due to the magnitude of the shocks that the economy is facing, the benchmark rate is close to zero and the use of repo operations with different types of collateral and at longer terms has been significantly expanded.





- This Report includes the macroeconomic forecasts that support the monetary policy decisions of BCRP as well as an analysis of the risk factors that can modify such forecasts.
- This Inflation Report was approved by the Board of Directors of BCRP on September 10, 2020.
- The following Inflation Report will be published on Friday, December 18, 2020.

Summary

- i. After a severe abrupt contraction of **global economic activity** to cope with the expansion of COVID-19 in the world, growth in the main economies has shown signs of a partial recovery as a result of the reopening of economic sectors and of the monetary and fiscal stimuli measures applied. In this context, global economic activity is estimated to contract by 5.0 percent in 2020. Considering a scenario in which the expansion of COVID-19 is controlled and positive vaccine developments are achieved, global GDP would recover by 5.5 percent in 2021
- ii. The recovery of global activity has been accompanied by favorable external financial conditions with the depreciation of the dollar in international financial markets and the recovery of commodity prices. In 2020, the **terms of trade** are projected to rise by 3.7 percent, a smaller reduction in average export prices (1.3 percent) being expected compared to the previous report due to higher prices of copper and gold. On the other hand, in 2021 the terms of trade would register a 1.7 percent reduction due to higher oil prices associated with the recovery of global demand.
- iii. In 2020, the **current account deficit** of the balance of payments would decrease to 0.1 percent of GDP due to the contraction of the profits of foreign direct investment companies (mainly mining, services, and industrial companies) and to the reduction of imports of goods associated with lower local economic activity. On the other hand, in 2021, the current account deficit is expected to increase to 1.6 percent of GDP –a level similar to that observed in recent years–, in line with the recovery of exports and imports of goods and the profits of foreign direct investment companies as a result of the normalization of activities and higher domestic demand.
- iv. Strict sanitary measures were adopted in the country since mid-March to contain the expansion of COVID-19, including mandatory confinement (quarantine) and the shutdown of activities considered non-essential. These measures led to a severe contraction in economic agents' income and to a massive loss of jobs, along with a profound deterioration in consumer and business confidence. As a result, in the first half of the year GDP contracted by 17.4 percent, with disruptions in the production of most economic sectors being noteworthy. On the other hand, domestic demand contracted by 15.1 percent during the same period due to the reduction of household spending and the interruption of private and public investment projects because of the restrictions imposed.





The extended shutdown of the economy from mid-March and throughout April led to an unprecedented drop in GDP in the latter month (-39.9 percent annually). With the beginning of the gradual reopening of the economy in 4 phases –at a rate of one phase per month since May for the first 3 phases– and an approach of more focused quarantines in regions and provinces, the economy began to register lower year-on-year contractions as more sectors restarted activities. As a result of this, the GDP in July was 11.7 percent below its level in the same month of 2019.

Under a synchronized scenario of efficient reopening of the economy, significant fiscal stimulus, maintenance of expansionary financial conditions, and the recovery of consumer and business confidence, GDP growth is expected to show a smaller reduction in the second half of the year (-8.4 percent). Thus, GDP is estimated to contract by 12.7 percent in 2020 and to grow by 11 percent in 2021.

- v. The government continued implementing **fiscal policy** measures to address the effects of COVID-19 and considering the anticipated lower revenues associated with the drop in economic activity, it is estimated that the fiscal deficit for this year would reach 9.2 percent, the highest deficit since 1989. The fiscal deficit forecast for 2020 has been revised down from 9.7 percent (Inflation Report of June) to 9.2 percent of GDP due to a lesser contraction of current income and a lower execution of public investment. Among the new measures adopted since our last Report was published in June, it is worth highlighting the Arranca Peru program, which is aimed at economic reactivation and at providing economic support to the population through current spending and public investment, as well as the second Family Bonus, which will benefit a total of 8.5 million households.

Thus, the projection of non-financial expenditure includes higher current spending associated with the recent fiscal policy measures, offset by lower gross capital formation. It is assumed that the fiscal impulse would be observed in the following months, which is consistent and necessary to continue with the recovery of economic activity. On the other hand, the projection of the deficit for 2021 has been raised to 5.1 percent of GDP from the level foreseen in the previous Report due to lower current income associated with lower company profits.

- vi. Between June and September, BCRP **monetary and financial actions** continued to be aimed at promoting the proper functioning of markets, the focus of these measures being to reduce the cost of financing, provide liquidity to the financial system, and reduce the volatility of long-term interest rates and the exchange rate.

Since April, the Board of Directors of BCRP has maintained the monetary policy interest rate at 0.25 percent, its historical minimum level, emphasizing that “it considers it appropriate to maintain a strong expansionary monetary stance for a prolonged period of time and as long as the negative effects of the pandemic on inflation and its determinants persist”.

To maintain the sustainability of the payment system and the flow of credit in the economy, the balance of liquidity injection operations increased to S/ 60.9 billion between June and August (with a flow of S/ 16.4 billion from June), with S/ 42.4 billion of this amount being repo operations guaranteed by the National Government. The magnitude of this monetary stimulus may be illustrated in that the total balance of liquidity injection operations (S/ 60.9 billion) is almost eight times the balance reached during the 2008-2009 crisis (S/ 7.9 billion million) and 1.9 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion)

- vii. In line with the expansionary monetary stance, **credit to the private sector** showed an anti-cyclical behavior with an interannual rate of 14.2 percent in July, with higher relative growth rates being observed in credit to medium, small, and micro-enterprises in the context of the second phase of the Reactiva Peru Program. It is worth mentioning that the companies that have participated in the program generated 2.8 million jobs at the beginning of the pandemic. In the forecast horizon, credit to the private sector is estimated to grow 15 percent in 2020 and 3 percent in 2021, in line with the recovery of income in companies and families.
- viii. Year-on-year **inflation** has remained in the lower tranche of the target range since September 2019 with a rate of 1.69 percent per year in August, while one-year ahead expected inflation was also in that tranche (1.57 percent in August) in the last few months. Moreover, in the following quarters, year-on year inflation is expected to be temporarily below the lower band of the target range due to the weakening of domestic demand.
- ix. The balance of **inflation risk factors** continues to be significantly skewed downwards, although slightly less than estimated in the June Report. The risks in the projection include the possibility of a further weakening of both domestic demand and global demand due to the effects of COVID-19 and health emergency measures. The base scenario considers a context with a recovery of consumer and business confidence, but situations that generate economic uncertainty may delay the economic recovery process.





SUMMARY OF INFLATION REPORT FORECAST

| | 2018 | 2019 | 2020 ^{1/} | | 2021 ^{1/} | |
|--|------|------|--------------------|-----------|--------------------|--------------|
| | | | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Real % change | | | | | | |
| 1. Gross Domestic Product | 4.0 | 2.2 | -12.5 | -12.7 | 11.5 | 11.0 |
| 2. Domestic demand | 4.2 | 2.3 | -11.9 | -12.3 | 9.9 | 9.5 |
| a. Private consumption | 3.8 | 3.0 | -9.4 | -10.0 | 9.0 | 8.0 |
| b. Public consumption | 0.1 | 2.1 | 4.3 | 6.1 | 2.5 | 4.3 |
| c. Fixed private investment | 4.5 | 4.0 | -30.0 | -28.5 | 20.0 | 20.0 |
| d. Public investment | 5.6 | -1.4 | -8.5 | -19.0 | 9.0 | 11.0 |
| 3. Exports (good and services) | 2.4 | 0.8 | -18.9 | -22.0 | 14.1 | 17.8 |
| 4. Imports (good and services) | 3.2 | 1.2 | -16.9 | -21.1 | 7.5 | 11.7 |
| 5. Global economic growth | 3.6 | 2.9 | -5.5 | -5.0 | 5.5 | 5.5 |
| Memo: | | | | | | |
| Output gap ^{2/} (%) | 0.4 | -0.6 | -20 ; -10 | -20 ; -10 | -13.0 ; -3.0 | -13.0 ; -3.0 |
| % change | | | | | | |
| 6. Inflation | 2.2 | 1.9 | 0.0 | 0.8 | 0.5 | 1.0 |
| 7. Expected inflation ^{3/} | 2.1 | 2.3 | 1.3 | 1.2 | 1.9 | 1.8 |
| 8. Expected depreciation ^{3/} | 3.6 | -0.3 | 1.3 | 3.8 | -0.4 | -1.0 |
| 9. Terms of Trade | -0.4 | -1.8 | 2.2 | 3.7 | 0.1 | -1.7 |
| a. Export prices | 6.3 | -3.4 | -4.0 | -1.3 | 2.1 | 2.1 |
| b. Import prices | 6.7 | -1.7 | -6.0 | -4.8 | 2.0 | 3.9 |
| % change | | | | | | |
| 10. Currency in circulation | 7.9 | 4.6 | 12.0 | 25.0 | 4.0 | 4.0 |
| 11. Credit to the private sector | 8.7 | 6.9 | 15.0 | 15.0 | 0.0 | 3.0 |
| % GDP | | | | | | |
| 12. Gross fixed investment | 22.4 | 22.6 | 19.2 | 19.0 | 20.3 | 20.3 |
| 13. Current account of the balance of payments | -1.7 | -1.5 | -1.4 | -0.1 | -1.4 | -1.6 |
| 14. Trade Balance | 3.2 | 2.9 | 2.8 | 3.7 | 3.7 | 4.3 |
| 15. Long-term external financing of the private sector ^{4/} | 0.4 | 2.4 | 0.4 | -0.5 | 0.2 | -0.6 |
| 16. Current revenue of the general government | 19.3 | 19.7 | 17.5 | 18.0 | 19.5 | 18.7 |
| 17. Non-financial expenditure of the general government | 20.2 | 20.1 | 25.2 | 25.1 | 22.3 | 22.2 |
| 18. Overall balance of the non-financial public sector | -2.3 | -1.6 | -9.7 | -9.2 | -4.2 | -5.1 |
| 19. Balance of total public debt | 25.8 | 26.8 | 33.9 | 34.3 | 33.1 | 34.8 |
| 20. Balance of net public debt | 11.3 | 13.0 | 23.6 | 22.8 | 25.3 | 25.6 |

IR: Inflation Report

1/ Forecast.

2/ Differential between GDP and potential GDP (as a percentage of 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.

I. External sector

1. In recent months, supported by the reopening of the main economies, the application of monetary and fiscal stimuli, and the progress made in the development of a vaccine against COVID-19, the world economy has been showing signs of a recovery that reverse only partially the sharp economic contraction observed between February and May. Since this recovery is expected to continue in the remainder of the year, global economic activity is estimated to contract by around 5.0 percent in 2020 and to recover at a rate of 5.5 percent in 2021.

Recent developments in global economic activity

2. **Preliminary estimates show that global production during the second quarter has dropped approximately 20 percent**, the main factor accounting for this being the implementation of measures to contain the pandemic that were adopted, in most cases, from the second half of March and which lasted for several months. The exception was China, which faced the effects of the pandemic in the previous quarter and grew 56 percent in the second quarter. Excluding China, the decline in global growth in the second quarter is estimated to be about 39 percent.
3. In the developed economies, the United States showed a record annualized seasonally adjusted contraction of 32 percent in the second quarter (a drop unheard of since the international financial crisis). In the Eurozone, where activity contracted 40 percent, the sharp economic slowdown was general, with Spain and France standing out, while the United Kingdom and Japan registered contraction levels of 59 and 30 percent, respectively.





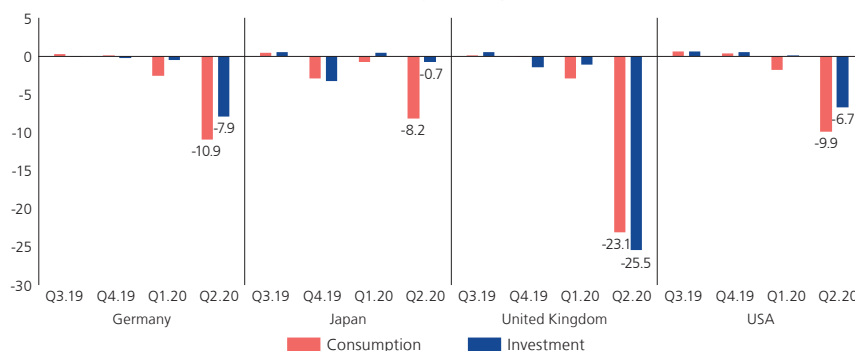
Table 1
USA: GDP
(Annualized seasonally adjusted % change)

| | Q1.19 | Q2.19 | Q3.19 | Q4.19 | Q1.20 | Q2.20 1st rev. | Q2.20 2nd rev. |
|-----------------------------|------------|------------|------------|------------|-------------|-------------------|-------------------|
| GDP | 2.9 | 1.5 | 2.6 | 2.4 | -5.0 | -32.9 | -31.7 |
| Personal consumption | 1.8 | 3.7 | 2.7 | 1.6 | -6.9 | -34.6 | -34.1 |
| Durable | 1.0 | 12.7 | 6.3 | 3.1 | -12.5 | -1.4 | -1.3 |
| Non-Durable | 3.3 | 5.3 | 3.1 | -0.7 | 7.1 | -15.9 | -14.9 |
| Services | 1.5 | 1.9 | 2.0 | 2.0 | -9.8 | -43.5 | -43.1 |
| Gross investment | 3.9 | -5.8 | 1.8 | -3.7 | -9.0 | -49.0 | -46.2 |
| Fixed investment | 2.9 | -0.4 | 2.4 | 1.0 | -1.4 | -29.9 | -28.9 |
| Non-Residencial | 4.2 | 0.0 | 1.9 | -0.3 | -6.7 | -27.0 | -26.0 |
| Residencial | -1.7 | -2.1 | 4.6 | 5.8 | 19.0 | -38.7 | -37.9 |
| Exports | 1.8 | -4.5 | 0.8 | 3.4 | -9.5 | -64.1 | -63.2 |
| Imports | -2.1 | 1.7 | 0.5 | -7.5 | -15.0 | -53.4 | -54.0 |
| Government expenditure | 2.5 | 5.0 | 2.1 | 2.4 | 1.3 | 2.7 | 2.8 |
| Memo | | | | | | | |
| Contribution on inventories | 0.2 | -1.0 | -0.1 | -0.8 | -1.3 | -4.0 | -3.5 |

Source: Bureau of Economic Analysis (BEA).

At the component level, consumption in the developed economies –which tends to fluctuate less than investment– has also shown a greater decline than that observed in other periods of crisis, among other factors due to the direct impact that the measures against the pandemic had on the consumption of services as well as due to high uncertainty about the future income of families.

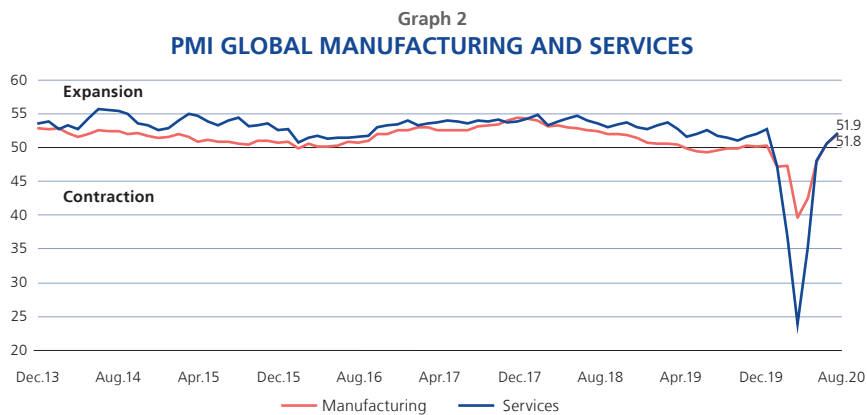
Graph 1
CONSUMPTION AND INVESTMENT
(Quarterly % change)



Source: OCDE.

Despite the recovery in commodity prices and the inflow of capital, the emerging economies were also affected by the containment measures, the deterioration of confidence and, in some cases, by smaller margins for the application of countercyclical policies. Economic contraction was particularly noteworthy in India, the Philippines, Malaysia, South Africa, Hungary, and in the countries of the region.

4. **The world economy registers signs of recovery since June. After reaching historical lows, the global indicators for manufacturing and services (PMI) have shown an improvement in recent months.** Manufacturing, particularly manufacturing associated with durable consumer goods and export orders, shows levels in the expansion zone (above 50) for the second consecutive month, while activity in global services –the activity most affected by the containment measures– has recovered and has exceeded a level of 50 for the first time since January this year. In both cases, the improvement has been generalized at the country level.



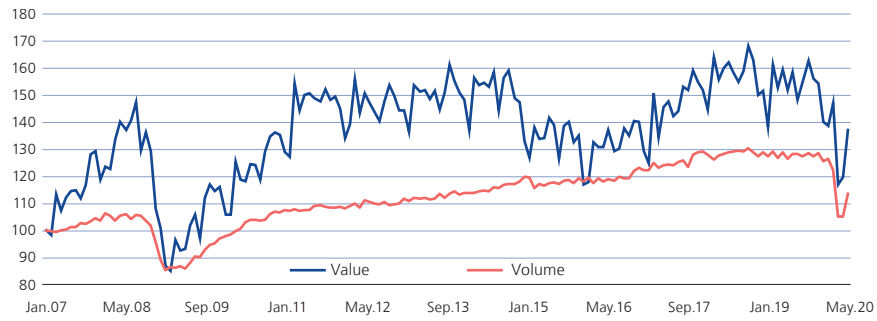
Source: JPMorgan.

The evolution of manufacturing and industrial production reflects a still incipient recovery in global trade. After the sharp drop in trade between April and May, both the volume and the value of global trade have partially recovered in June, in line with economic reopening and with the expansion observed in China. It should be pointed out, however, that trade levels are still below pre-pandemic levels.





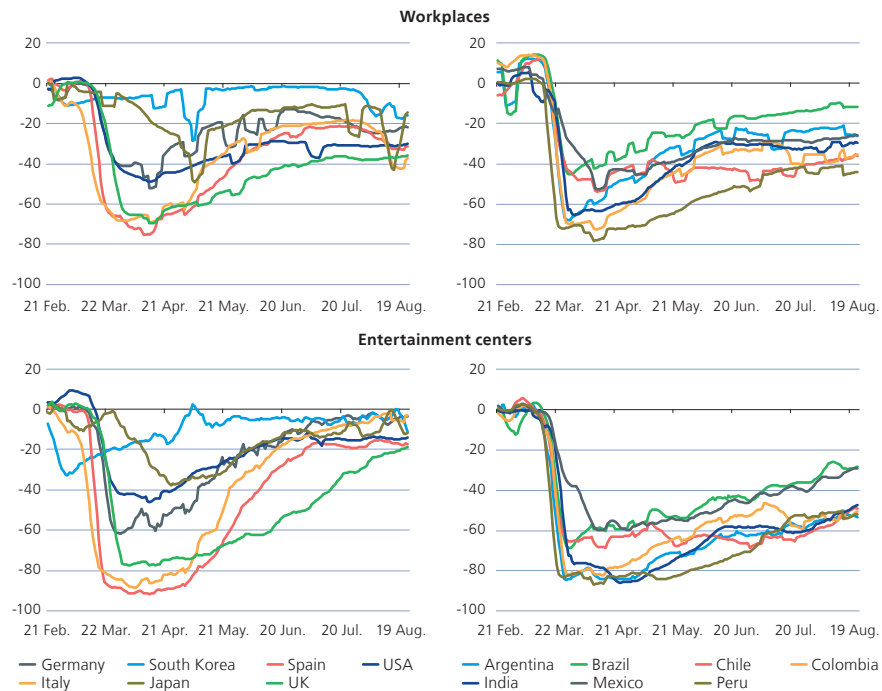
Graph 3
VOLUME AND VALUE OF GLOBAL EXPORTS
(Index base January 2007 = 100)



Source: WTO and World Trade Monitor.

5. **The partial recovery of economic activity reflects the impact of the gradual reopening of the main economies.** Most economies have relaxed isolation measures and partially restarted their activities in recent months. Indicators of mobility towards workplaces and entertainment centers, for example, have shown a sustained recovery since May, particularly in the main developed economies.

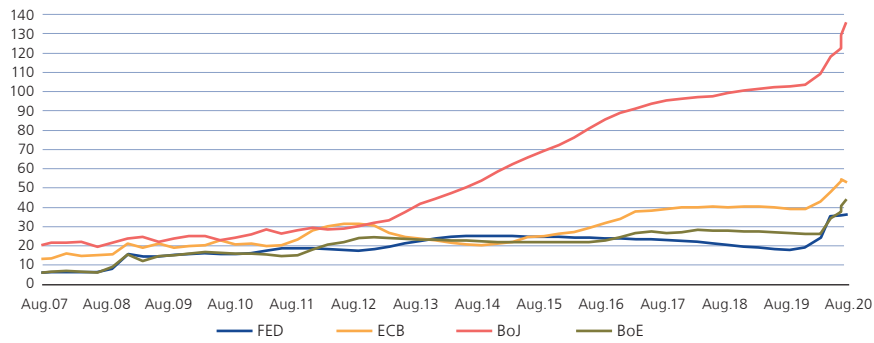
Graph 4
INDICATORS OF MOBILITY



* 7-day moving average of original data. Each figure represents the variation in the number of visits respect to a reference value per day (first 5 weeks of 2020). Information as of August 23.
Source: Google, local mobility reports.

Other factors promoting recovery are the monetary and fiscal policy measures applied since the end of the first quarter. The central banks of the major developed economies maintained their rates at historic lows and continued with credit support and asset purchase programs.

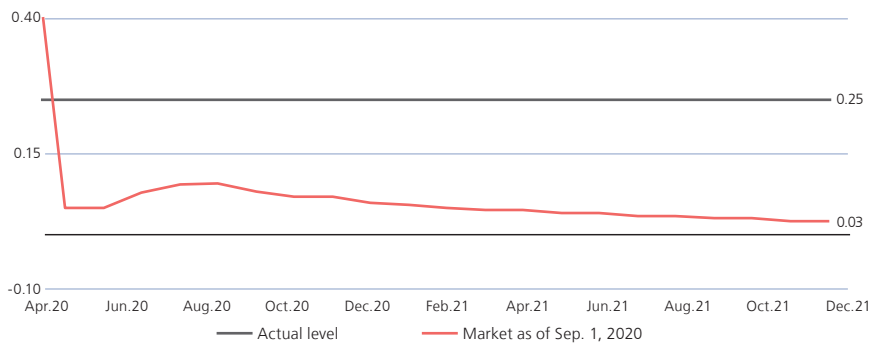
Graph 5
CENTRAL BANKS: TOTAL ASSETS
(% GDP)



Source: Central banks.

In the United States, the Fed increased the extension and coverage of its emergency credit programs and made some changes in its monetary policy framework. In his speech of August 27, Fed Chairman Jerome Powell said that the Fed could temporarily tolerate inflation rates above 2 percent as long as inflation expectations were not affected. This was ratified at the Fed meeting on September 15 and 16 where this new monetary policy framework was reaffirmed. Moreover, the Fed projections also reflect that rates will remain around current levels until 2023.

Graph 6
FED RATE PROJECTIONS AND MARKET EXPECTATIONS



Source: Fed, BCRP and Reuters.





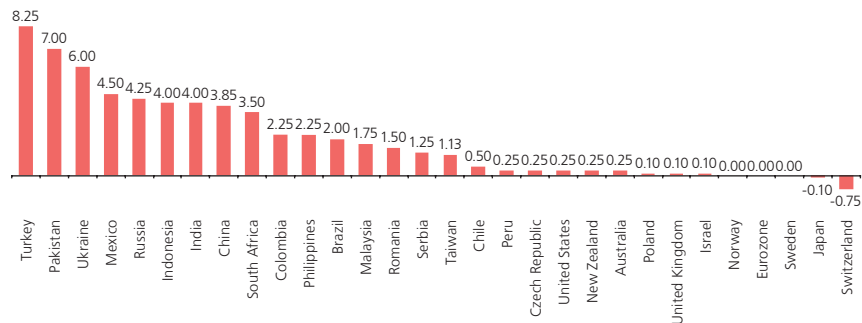
Table 2
FED PROJECTIONS*

| | 2020 | | 2021 | | 2022 | | 2023 | Long-term | | |
|---|--------|--------|--------|--------|---------|---------|---------|-----------|---------|--|
| | Jun.20 | Sep.20 | Jun.20 | Sep.20 | Jun.20 | Sep.20 | Sep.20 | Jun.20 | Sep.20 | |
| Growth | -6.5 | -3.7 | 5.0 | 4.0 | 3.5 | 3.0 | 2.5 | 1.8 | 1.9 | |
| Unemployment rate | 9.3 | 7.6 | 6.5 | 5.5 | 5.5 | 4.6 | 4.0 | 4.1 | 4.1 | |
| Inflation (PCE) | 0.8 | 1.2 | 1.6 | 1.7 | 1.7 | 1.8 | 2.0 | 2.0 | 2.0 | |
| Core inflation (core PCE) | 1.0 | 1.5 | 1.5 | 1.7 | 1.7 | 1.8 | 2.0 | - | - | |
| Memo: Core PCE excluding food and energy. | | | | | | | | | | |
| Interest rate (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 2.5 | 2.5 | |
| Range of interest rates (%) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1-1.1 | 0.1-0.6 | 0.1-1.4 | 2.0-3.0 | 2.0-3.0 | |

* Adds 17 data from individual Fed member projections at the end-of-period.
Source: Fed.

Likewise, a reduction in policy interest rates was also seen in some emerging economies in July and August. Reductions of 50 basis points were made in Mexico and Colombia, while Russia, Indonesia, South Africa, Brazil, and Romania reduced their rates by 25 bps and Hungary reduced its rate by 15 bps. With the exception of the rates in Mexico and Turkey, monetary policy interest rates are at historic lows.

Graph 7
MONETARY POLICY INTEREST RATES
(%)



Source: Central banks.

In terms of fiscal policy, it is worth highlighting the agreement of the European Union countries to borrow funds as a bloc to create a fund of 750 billion euros (US\$ 840 billion) for grants (390 billion euros) and loans (360 billion euros).

In the United States, the lack of agreement in congress on a new fiscal stimulus would result in the approval of measures amounting to approximately US\$ 500 billion (less than the US\$ 3.0 billion proposed by the executive). Fitch cut the

sovereign debt outlook from neutral to negative due to a deterioration in fiscal accounts, but maintained its AAA rating.

Global economic outlook

6. **The recent recovery, which would continue in the remainder of the year, is consistent with an estimated economic contraction of 5.0 percent in 2020 and a recovery of 5.5 percent in 2021.** The contraction estimated for 2020 is lower than that projected in the June Report due to the better outlook for the developed economies and China. Moreover, the United States and the Eurozone would show a smaller contraction, in line with the positive developments observed to date, whereas projected growth rates in some emerging economies –e.g. India and several Latin American countries– are being revised downwards.

Table 3
GLOBAL GDP GROWTH
(Annual % change)

| | PPP | 2019 | 2020* | | 2021* | |
|-----------------------------------|--------------|------------|-------------|-------------|------------|------------|
| | | | IR Jun. | IR Sep. | IR Jun. | IR Sep. |
| Developed economies | 40.3 | 1.7 | -7.9 | -6.5 | 4.7 | 4.7 |
| <i>Of which</i> | | | | | | |
| 1. USA | 15.1 | 2.3 | -6.5 | -3.7 | 4.0 | 4.0 |
| 2. Eurozone | 11.2 | 1.2 | -9.1 | -8.8 | 6.2 | 6.0 |
| 3. Japan | 4.1 | 0.7 | -6.1 | -6.1 | 2.4 | 2.4 |
| 4. United Kingdom | 2.2 | 1.4 | -10.4 | -10.4 | 6.2 | 6.0 |
| 5. Canada | 1.3 | 1.6 | -8.1 | -6.1 | 3.9 | 4.0 |
| 6. Others | 6.4 | 1.7 | -8.8 | -8.0 | 5.1 | 5.1 |
| Developing economies | 59.7 | 3.7 | -3.8 | -4.0 | 5.9 | 5.9 |
| <i>Of which</i> | | | | | | |
| 1. China | 19.3 | 6.1 | 1.0 | 1.5 | 8.1 | 8.1 |
| 2. India | 8.0 | 4.2 | -3.7 | -10.2 | 7.3 | 10.5 |
| 3. Russia | 3.1 | 1.3 | -6.0 | -6.0 | 3.4 | 3.5 |
| 4 Latin America and the Caribbean | 7.3 | 0.1 | -7.7 | -7.9 | 3.6 | 3.8 |
| 5. Others | 18.2 | 3.1 | -7.9 | -6.2 | 5.7 | 4.2 |
| World Economy | 100.0 | 2.9 | -5.5 | -5.0 | 5.5 | 5.5 |

* Forecast.

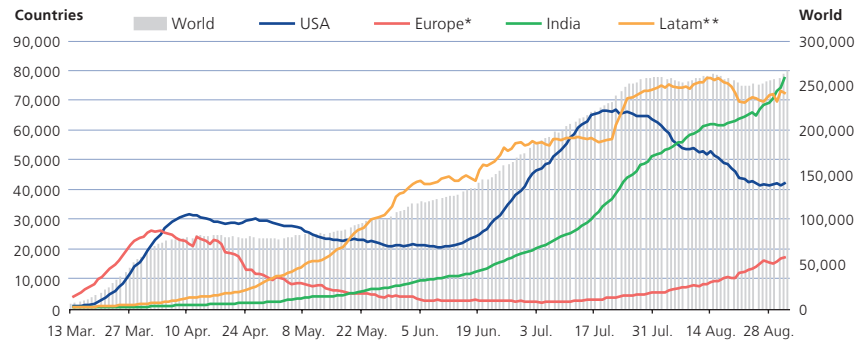
Source: IMF, and Consensus Forecast.

In the case of **India**, the downward revision reflects the greater-than-expected drop in economic activity, the COVID-19 pandemic having severely restricted mobility during the months of May and June and deteriorated growth prospects given the growing number of infections. In addition, the scope for the adoption of anti-cyclical policies is limited by the high inflation rates of recent months and the high level of public debt.





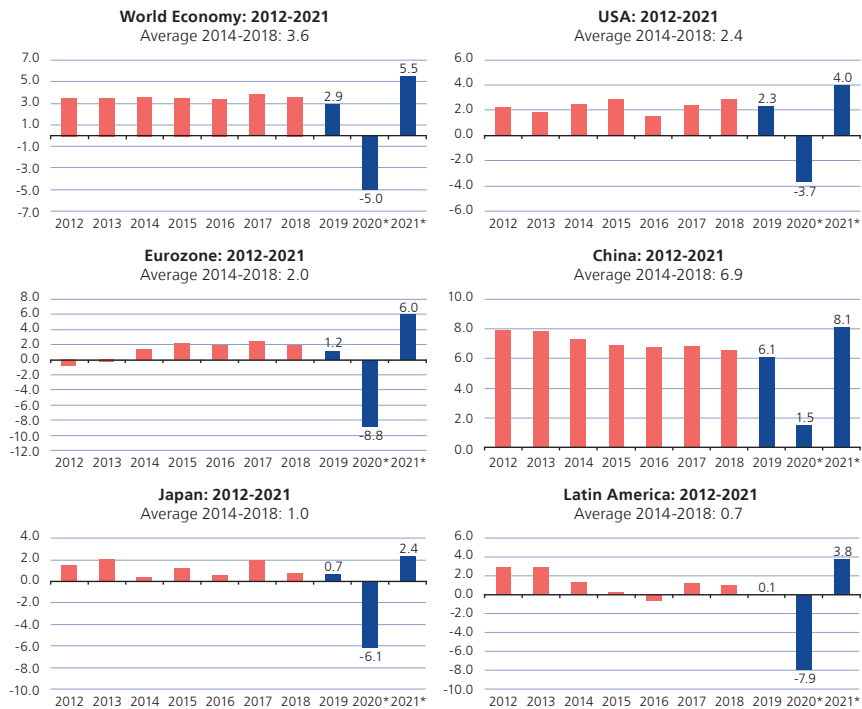
Graph 8
AVERAGE OF DAILY COVID-19 CASES



* Germany, Spain, France, Italy, and the United Kingdom.
 ** Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
 Information as of September 1. 7-day moving average.
 Source: Johns Hopkins University.

In **Latin America**, most countries have revised their growth projections on the down side. The resurgence or increase in COVID-19 cases has limited economic reopening above what was foreseen in the previous Report. The exception has been Brazil, where activity indicators have performed better than expected.

Graph 9
GDP GROWTH
(Real % change)

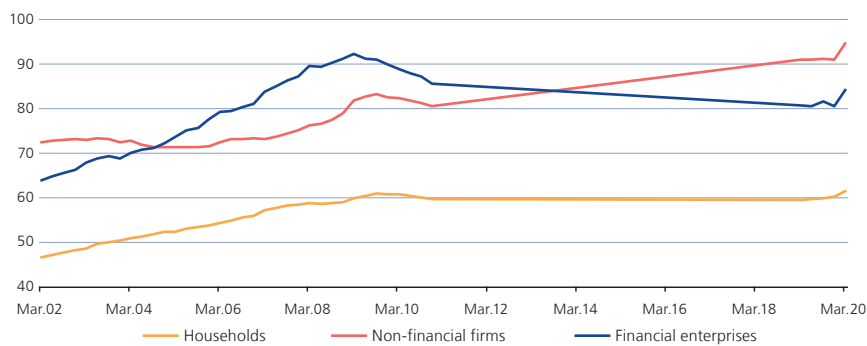


* Forecast.
 Source: IMF, and Consensus Forecast.

7. **As in the previous Report, the risks of the forecast are mostly on the downside.**

- a. The most important factor is how the pandemic will evolve, especially taking into account the possibility of a resurgence of infection cases and developments regarding the vaccine. At the time of closing this Report, several developed economies have registered new outbreaks that could lead to reverting the reopening process and reinforcing containment measures. On the other hand, the development of the vaccine is decisive in order to be able to return to normality in many activities. Therefore, a delay in its application could modify the outlook for 2021.
- b. Other risk factors outlined in the previous Report are the trade tensions between the United States and China, the terms of the United Kingdom's exit from the European Union, and the political cycle in the United States.
- c. Another risk factor is the one related to the high indebtedness of families, companies, and governments. Global private sector debt, which before the pandemic was equivalent to approximately 230 percent of global GDP, remains high as a result of the measures adopted to maintain the payments channel and to finance increased public spending. This higher indebtedness is a potential risk in the medium term, particularly if economic recovery is lower than expected.

Graph 10
GLOBAL PRIVATE SECTOR DEBT AS % OF GDP



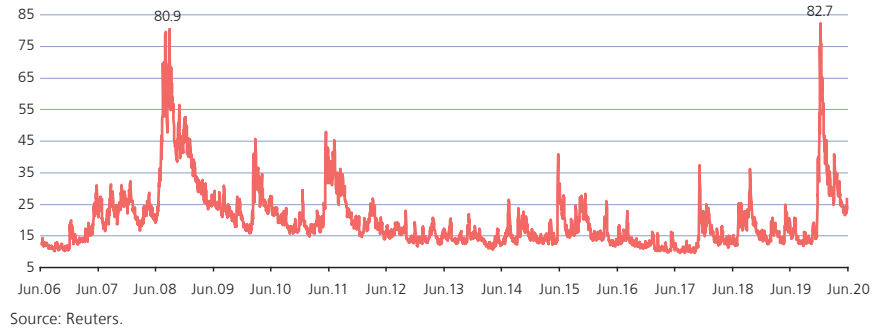
International financial markets

- 8. In general terms, financial markets continued to show the favorable trend observed since April, influenced by the reopening of the major economies, advances in the development of the vaccine against COVID-19, greater fiscal stimuli, and announcements of accommodative monetary policies.



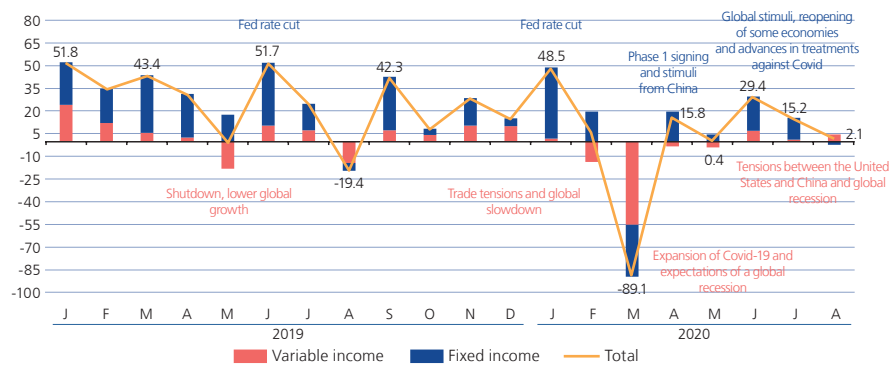


Graph 11
VIX INDEX
(Volatility of USA)



In this context of lower risk aversion, stock markets registered gains, the dollar depreciated against most currencies, and the yields of the sovereign bonds of the main developed economies increased. However, episodes of volatility associated with trade tensions between China and the United States were observed in this period, along with fears of a resurgence of the pandemic that temporarily reduced the flow of capital to the emerging economies.

Graph 12
FLOW OF CAPITAL TO THE EMERGING ECONOMIES
(Billion US\$)



In **fixed income markets**, the yield on the 10-year US bond increased slightly due to the improvement in economic activity and lower risk aversion. Yield increases were also observed in the sovereign bonds of Germany, France, and the United Kingdom (although the first two still register negative yields). On the other hand, the purchases of the European Central Bank (ECB) and greater risk

appetite increased the demand for bonds from countries such as Greece, Italy, and Spain.

In the region, the yields on the sovereign bonds of Colombia and Peru registered reductions, whereas the yields on the bonds of Brazil and Mexico increased.

Graph 13
YIELDS ON THE US SOVEREIGN BONDS
(2017-2020)



Source: Reuters.

Table 4
YIELDS ON 10-YEAR SOVEREIGN BONDS

| | Dec.19 | Jun.20 | Aug.20 | Change Aug/ Jun.2020 (pbs.) | Accumulated change 2020 (pbs.) |
|----------------|-------------|-------------|-------------|--------------------------------|-----------------------------------|
| USA | 1.92 | 0.66 | 0.71 | 5 | -121 |
| Germany | -0.19 | -0.46 | -0.40 | 6 | -21 |
| France | 0.12 | -0.11 | -0.10 | 2 | -21 |
| Italy | 1.41 | 1.26 | 1.09 | -16 | -32 |
| Spain | 0.46 | 0.46 | 0.41 | -6 | -6 |
| Greece | 1.43 | 1.20 | 1.09 | -11 | -34 |
| United Kingdom | 0.82 | 0.17 | 0.31 | 14 | -51 |
| Japan | -0.02 | 0.02 | 0.05 | 3 | 7 |
| Brazil | 6.79 | 6.96 | 7.09 | 12 | 30 |
| Colombia | 6.34 | 6.38 | 5.68 | -69 | -66 |
| Chile | 3.17 | 2.40 | 2.39 | 0 | -77 |
| Mexico | 6.89 | 5.82 | 6.07 | 24 | -82 |
| Peru | 4.21 | 3.78 | 3.31 | -47 | -90 |
| South Africa | 9.02 | 9.24 | 9.27 | 3 | 25 |
| India | 6.56 | 5.89 | 6.12 | 23 | -44 |
| Turkey | 11.97 | 11.49 | 13.51 | 202 | 154 |
| Russia | 6.36 | 5.91 | 6.08 | 18 | -28 |
| China | 3.14 | 2.85 | 3.02 | 17 | -12 |
| South Korea | 1.67 | 1.39 | 1.53 | 14 | -15 |
| Indonesia | 7.04 | 7.18 | 6.85 | -34 | -19 |
| Thailand | 1.47 | 1.19 | 1.41 | 23 | -6 |
| Malaysia | 3.31 | 2.85 | 2.60 | -25 | -71 |
| Philippines | 4.53 | 2.78 | 2.77 | -1 | -176 |

Source: Reuters.





9. **Equity markets** benefited from lower risk aversion. The VIX index fell from 30.4 to 26.4 between June and August, although it still remains above the levels observed at the end of 2019 (13.8).

At the country level, the recovery of the stock market in the United States stands out, this recovery being associated with better-than-expected corporate profits in the second quarter of the year. Stock indices also increased in Germany and Japan, in line with the recovery in economic activity.

Table 5
STOCK EXCHANGE

| | | Dec.19 | Jun.20 | Aug.20 | Change Aug./ Jun.2020 (%) | Accumulated change 2020 (%) |
|----------------|----------------------|---------------|---------------|---------------|------------------------------|--------------------------------|
| VIX* | S&P 500 | 13.78 | 30.43 | 26.41 | -4.0 | 12.6 |
| USA | Dow Jones | 28,538 | 25,813 | 28,430 | 10.1 | -0.4 |
| Germany | DAX | 13,249 | 12,311 | 12,945 | 5.2 | -2.3 |
| France | CAC 40 | 5,978 | 4,936 | 4,947 | 0.2 | -17.2 |
| Italy | FTSE MIB | 23,506 | 19,376 | 19,634 | 1.3 | -16.5 |
| Spain | IBEX 35 | 9,549 | 7,231 | 6,970 | -3.6 | -27.0 |
| Greece | ASE | 917 | 639 | 634 | -0.8 | -30.8 |
| United Kingdom | FTSE 100 | 7,542 | 6,170 | 5,964 | -3.3 | -20.9 |
| Japan | Nikkei 225 | 23,657 | 22,288 | 23,140 | 3.8 | -2.2 |
| Brazil | Ibovespa | 115,645 | 95,056 | 99,369 | 4.5 | -14.1 |
| Colombia | IGBC | 1,662 | 1,112 | 1,216 | 9.4 | -26.9 |
| Chile | IGPA | 4,670 | 3,959 | 3,767 | -4.8 | -19.3 |
| Mexico | IPC | 43,541 | 37,716 | 36,841 | -2.3 | -15.4 |
| Argentina | Merval | 41,671 | 38,687 | 46,835 | 21.1 | 12.4 |
| Peru | General Index | 20,526 | 16,878 | 18,577 | 10.1 | -9.5 |
| South Africa | JSE | 57,084 | 54,362 | 55,476 | 2.0 | -2.8 |
| India | CNX Nifty | 12,168 | 10,302 | 11,388 | 10.5 | -6.4 |
| Turkey | XU100 | 1,144 | 1,165 | 1,079 | -7.4 | -5.7 |
| Russia | RTS | 1,549 | 1,213 | 1,259 | 3.8 | -18.7 |
| China | Shanghai C. | 3,050 | 2,985 | 3,396 | 13.8 | 11.3 |
| South Korea | KOSPI | 2,198 | 2,108 | 2,326 | 10.3 | 5.8 |
| Indonesia | JCI | 6,300 | 4,905 | 5,238 | 6.8 | -16.8 |
| Thailand | SET | 1,580 | 1,339 | 1,311 | -2.1 | -17.0 |
| Malaysia | FTS KLCI | 1,589 | 1,501 | 1,525 | 1.6 | -4.0 |
| Philippines | Psei | 7,815 | 6,208 | 5,884 | -5.2 | -24.7 |

* Variation in basis points.
Source: Reuters.

10. On the other hand, in the **foreign exchange markets**, lower risk aversion and the Fed's expansionary monetary position led the dollar to depreciate against the other major currencies, the appreciation of the euro (fiscal stimulus in the Eurozone), the pound sterling (resumption of post-Brexit UK trade negotiations), and the yen (improvement in economic activity in Japan) standing out.

Table 6
EXCHANGE RATES

| | | Dec.19 | Jun.20 | Aug.20 | Change Aug./ Jun.2020 (%)* | Accumulated change 2020-2019(%)* |
|-----------------|-----------------|--------------|--------------|--------------|-------------------------------|-------------------------------------|
| Dollar Index ** | US Dollar Index | 96.39 | 97.39 | 92.14 | -5.4 | -4.4 |
| Euro | Euro | 1.121 | 1.123 | 1.194 | 6.3 | 6.5 |
| United Kingdom | Pound sterling | 1.326 | 1.240 | 1.337 | 7.8 | 0.8 |
| Japan | Yen | 108.61 | 107.92 | 105.89 | -1.9 | -2.5 |
| Brazil | Real | 4.019 | 5.466 | 5.491 | 0.5 | 36.6 |
| Colombia | Peso | 3285 | 3748 | 3740 | -0.2 | 13.8 |
| Chile | Peso | 752 | 823 | 776 | -5.7 | 3.3 |
| Mexico | Peso | 18.93 | 22.99 | 21.88 | -4.8 | 15.6 |
| Argentina | Peso | 59.86 | 70.31 | 74.02 | 5.3 | 23.7 |
| Peru | Sol | 3.312 | 3.541 | 3.542 | 0.0 | 6.9 |
| South Africa | Rand | 13.99 | 17.32 | 16.94 | -2.2 | 21.0 |
| India | Ruppe | 71.35 | 75.54 | 73.25 | -3.0 | 2.7 |
| Turkey | Lira | 5.95 | 6.85 | 7.35 | 7.2 | 23.5 |
| Russia | Ruble | 61.92 | 71.08 | 73.81 | 3.8 | 19.2 |
| China | Yuan (onshore) | 6.962 | 7.065 | 6.847 | -3.1 | -1.6 |
| South Korea | Won | 1154 | 1199 | 1188 | -0.9 | 2.9 |
| Indonesia | Rupee | 13880 | 14180 | 14560 | 2.7 | 4.9 |
| Thailand | Bath | 29.76 | 30.90 | 31.07 | 0.6 | 4.4 |
| Malaysia | Ringgit | 4.089 | 4.282 | 4.163 | -2.8 | 1.8 |
| Philippines | Peso | 50.65 | 49.74 | 48.48 | -2.5 | -4.3 |

* An increase (fall) in the index means an appreciation (depreciation) of the US dollar, except in the euro and pound.

** An increase (fall) in the index means an appreciation (depreciation) of the US dollar against currency basket (euro, yen pound, canadian dollar, Sweeden krone, Switzerland franc).

Source: Reuters.

The currencies of most emerging economies appreciated following the global trend of lower risk aversion, higher commodity prices, and capital flows. However, some currencies (such as the Turkish lira and the Argentine peso) depreciated due to high external vulnerability, the deterioration of economic activity, and idiosyncratic shocks.

11. Most commodity prices showed an upward trend in July and August, influenced by the gradual reopening of the major economies, the adoption of monetary and fiscal stimulus measures (particularly in China), and the depreciation of the dollar in international markets. In addition, there were supply shocks that accentuated these upward pressures in the case of basic metals.

a. Copper

In August, the price of **copper** reached a monthly average level of US\$ 2.95 the pound, 13 percent higher than that registered in June 2020. With this rise, which reversed the fall observed at the beginning of the pandemic, the price of copper accumulates an increase of 7 percent so far this year.





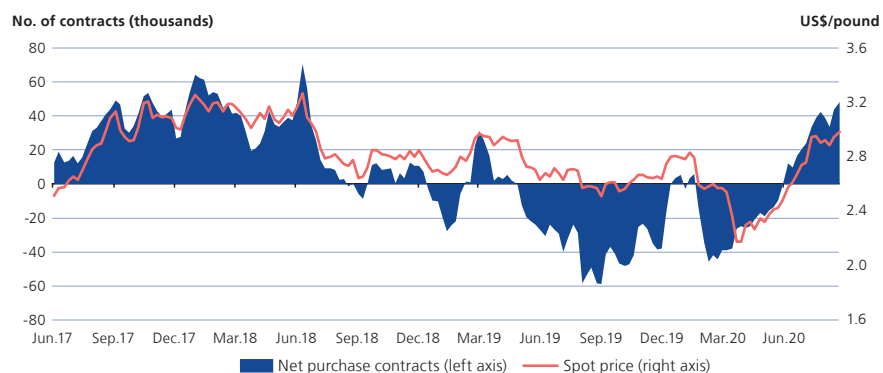
The increase in copper prices is associated with the rapid recovery of Chinese demand and with supply cuts both of copper concentrates (due to stoppages in mines in Peru, Chile, and Panama) and recycled copper (due to environmental restrictions in China and transportation difficulties). This was also reflected in a fall in inventories to their lowest levels in fifteen years. Another important factor in the recovery of the price of copper has been the depreciation of the dollar and the increase in non-commercial positions, which reached net purchase levels not observed since June 2018.

Table 7
SUPPLY AND DEMAND FOR REFINED COPPER
(Thousand metric ton)

| | 2016 | 2017 | 2018 ² | 2019 ² | Jan./May. 2019 | Jan./May. 2020 | % chg. |
|--|--------|--------|-------------------|-------------------|-------------------|-------------------|--------|
| Global Mining Production | 20,401 | 20,080 | 20,575 | 20,531 | 8,248 | 8,065 | -2.2% |
| Global Refining Production (Primary + Secondary) | 23,357 | 23,538 | 24,098 | 24,039 | 9,792 | 9,850 | 0.6% |
| Global Use of Refined Copper | 23,492 | 23,710 | 24,489 | 24,455 | 10,061 | 9,849 | -2.1% |
| Refined Balance ^{1/} | -136 | -171 | -391 | -416 | -270 | 1 | |

1 / Balance calculated using the total production of refined products minus the use of refining.
2 / Report May 2020.
Source: The International Copper Study Group (ICSG).

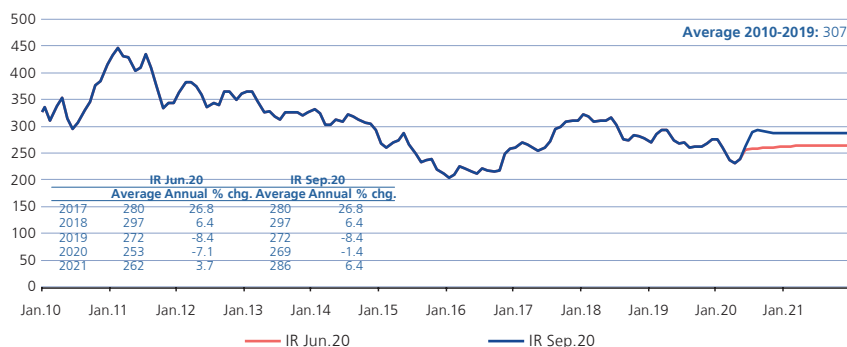
Graph 14
COPPER: NON-COMMERCIAL CONTRACTS



Note: The Copper Speculative Net Positions of the Commodities Futures Trading Commission are reported weekly and reflect the difference between the total volume of the long position (or purchase) and short position (or sale) in the market and opened by non-commercial operators (speculative). This report only includes the future markets in the USA (Chicago and New York Stock Exchanges).
Source: Bloomberg.

These events have led the market to revise upwards the prices projected for 2020 and 2021, assuming that the increase in demand –associated with the recovery of the global economy and the implementation of infrastructure plans– would offset the increase in the supply of concentrates expected for 2021. On the supply side, there is uncertainty about the measures adopted by the Chinese government regarding imports of recycled copper.

Graph 15
COPPER: JANUARY 2010 - DECEMBER 2021
(US\$ cents/pd.)



Source: Reuters and BCRP.

b. Zinc

Since our last Report was published in June, the price of zinc has risen 19 percent and reached an average price of US\$ 1.09 a pound, reversing in this way the fall observed at the beginning of the pandemic. As a result, the price of zinc has accumulated an annual increase of 6 percent.

The increase in the price of zinc was driven by the shortage of concentrates. The International Lead and Zinc Study Group (ILZSG) reported a drop of 7.5 percent in world production in the first half of the year as a result of production cuts in Peru and Bolivia. In addition, a recovery was also observed in Chinese demand, mainly due to the higher production of galvanized steel.

It is estimated that in the forecast horizon the price of zinc will correct slightly downwards, but with price levels above those estimated in the previous Report. The entry of new refining capacity in China, with foundries adapted to the new government regulations, are expected to allow meeting the demand associated with the global recovery. Moreover, it is estimated that the market will begin to register a global surplus after four years of deficit.

Table 8
SUPPLY AND DEMAND FOR REFINED ZINC
(Thousand metric tons)

| | 2016 | 2017 | 2018 | 2019 | Jan.-Jun. | | % chg. |
|--|--------|--------|--------|--------|-----------|-------|--------|
| | | | | | 2019 | 2020 | |
| Global Mining Production | 12,601 | 12,611 | 12,785 | 12,893 | 6,287 | 5,816 | -7.5% |
| Global Refining Production (Primary + Secondary) | 13,559 | 13,486 | 13,102 | 13,494 | 6,582 | 6,628 | 0.7% |
| Global Use of Refined Zinc | 13,665 | 13,953 | 13,648 | 13,691 | 6,669 | 6,423 | -3.7% |
| Refined Balance (in thousands) | -106 | -467 | -546 | -196 | -87 | 205 | |

Source: ILZSG. Report on August 2020.





Graph 16
ZINC: JANUARY 2010 - DECEMBER 2021
(US\$ cents/pd.)



Source: Reuters and BCRP.

c. Gold

In August, the average price of **gold** was US\$ 1,968 a troy ounce, which is equivalent to an increase of 14 percent from June. With this, the price of gold accumulates an increase of 33 percent year-to-date.

Graph 17
GOLD: JANUARY 2010 - DECEMBER 2021
(US\$/tr. ounce)



Source: Reuters and BCRP.

The recent increase is mainly explained by expectations of low interest rates and by the depreciation of the dollar in international markets. The demand for gold has also been propelled by some events that temporarily increased risk aversion, such as the resurgence of COVID-19 cases and tensions between the United States and China. These factors have offset lower physical demand from the emerging economies, particularly the lower demand for jewelry.

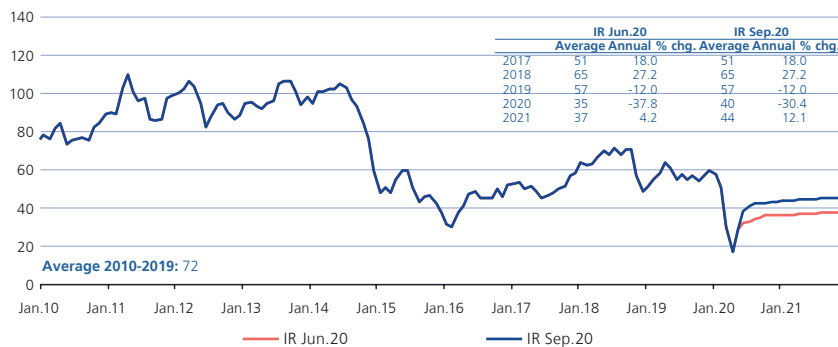
In line with these events, the projection of the price of gold has been revised up with respect to the Inflation Report of June.

d. Oil

The average price of **WTI oil** increased 11 percent compared to June, reaching a monthly average price of US\$ 42 the barrel, as a result of which the price fall so far this year has been reduced to 29 percent.

The recovery in the price of crude is explained by the production cuts made by the OPEC countries and by the drop in the production of shale oil in the United States. Additionally, the gradual lifting of social containment measures has boosted the demand for fuel. Although these factors have balanced the market, global inventories remain at high levels. Therefore, in line with these developments, the projection of oil prices is revised slightly up compared with the levels considered in the previous Report.

Graph 18
WTI OIL: JANUARY 2010 - DECEMBER 2021
(US\$/bl)



Source: Reuters and BCRP.

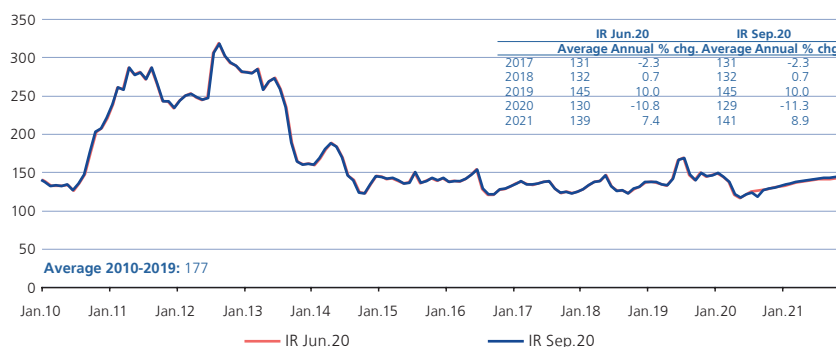
e. Prices of grains

The price of **maize** in August was US\$ 121 per MT, which represents a decrease of 1 percent compared to the June price, this decrease being explained by both lower demand and by prospects of higher production in the 2020/2021 farm year. Demand was affected by a sharp reduction in ethanol production as well as by lower demand from the livestock sector. On the supply side, the projection of a record production for US crops in 2020/21 and an increase in global inventories to their highest level in three decades is maintained. These factors would be offset by the recovery of the global economy and by increased Chinese purchases within the framework of phase 1 of the US-China trade agreement. Thus, maize prices are expected to show a slight recovery towards the end of the forecast horizon.



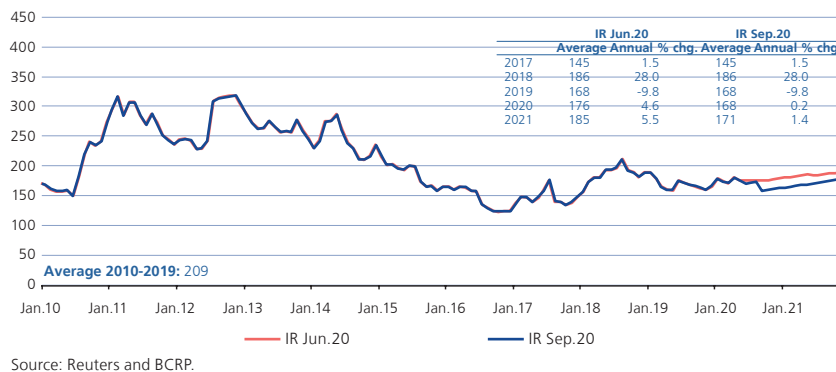


Graph 19
MAIZE: JANUARY 2010 - DECEMBER 2021
(US\$/ton)



The price of **wheat** registered a monthly average level of US\$ 173 per MT in August 2020, 2 percent higher than the price of June.

Graph 20
WHEAT: JANUARY 2010 - DECEMBER 2021
(US\$/ton)

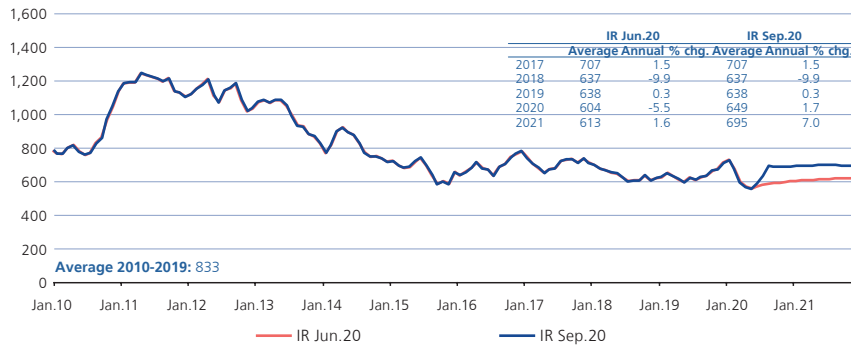


In contrast with what happened with the price of maize, the supply shocks pushed wheat prices up. In the United States, areas cultivated with wheat fell to a century-low level due to the low relative profitability of the grain, and inventories are expected to decline to a six-season low. Furthermore, several countries of the European Union register the negative impact of the drought. In this context, after the fall observed in the first half of the year, it is estimated that the price of wheat will gradually recover over the forecast horizon.

In the last two months, the average price of **soybean oil** has increased 20 percent. Despite this increase, however, the average price of soybean oil accumulates a fall of 2 percent compared to December 2019.

The price of soybean oil increased significantly in response to the reopening of the world economy and to production restrictions in the main exporting countries (particularly Brazil). In addition, the increase in the price of palm oil due to lower production added on to this. Taking these recent developments into account, it is estimated that the prices of soybean oil will be above those estimated in the previous Report.

Graph 21
SOYBEAN OIL: JANUARY 2010 - DECEMBER 2021
 (US\$/ton)



Source: Reuters and BCRP.



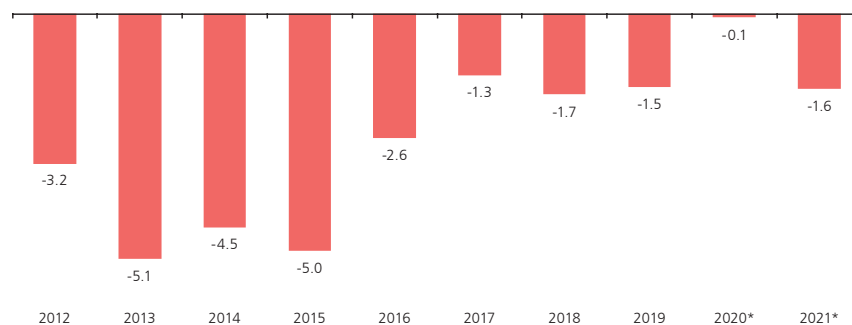


II. Balance of payments

Current account

12. With the COVID-19 crisis, in the first half of 2020 the **current account** of the balance of payments registered a deficit equivalent to 0.6 percent of GDP, significantly lower than the deficit recorded in the same period in 2019 (2.3 percent of GDP). This result reflected the reduction in factor income as a result of the lower profits of foreign direct investment companies (mainly mining, services, and industrial companies), in line with the contraction of local production. Other factors that contributed to this result to a lesser extent were lower imports of goods and services as a result of the contraction of domestic demand and the significant drop in the price of oil, on the one hand, and higher current transfers associated with income tax to non-residents as a result of the sale of Luz del Sur shares to China Three Gorges Corporation.
13. In the rest of the year, the gradual recovery of local activity and weak domestic demand would imply **a reduction in the current account deficit to 0.1 percent of GDP this year.**

Graph 22
CURRENT ACCOUNT: 2012-2021
(% GDP)



* Forecast.

In 2021, the growth of local activity and domestic demand will result in higher levels of current account deficit (given the recovery of the profits of foreign direct investment companies and the recovery of imports), **the current account deficit being estimated to rise to 1.6 percent of GDP** (a level similar to those registered in previous years). On the other hand, the opening of borders is expected to have lesser impact on the entry of travelers to the country than previously estimated in the June report.

Table 9
BALANCE OF PAYMENTS
(Million US\$)

| | 2019 | 2020* | | | 2021* | |
|-----------------------------------|---------------|--------------|---------------|--------------|---------------|---------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| I. CURRENT ACCOUNT BALANCE | -3,531 | -568 | -2,781 | -154 | -3,166 | -3,512 |
| % GDP | -1.5 | -0.6 | -1.4 | -0.1 | -1.4 | -1.6 |
| 1. Trade Balance | 6,614 | 975 | 5,540 | 7,368 | 8,428 | 9,687 |
| a. Exports | 47,688 | 16,930 | 39,051 | 39,384 | 44,793 | 46,720 |
| Of which: | | | | | | |
| i) Traditional | 33,751 | 11,707 | 28,064 | 27,892 | 31,885 | 33,662 |
| ii) Non-Traditional | 13,783 | 5,161 | 10,871 | 11,339 | 12,812 | 12,899 |
| b. Imports | -41,074 | -15,954 | -33,512 | -32,016 | -36,365 | -37,032 |
| 2. Services | -3,114 | -1,884 | -3,317 | -3,970 | -3,129 | -4,080 |
| 3. Investment income | -10,749 | -1,868 | -8,234 | -7,034 | -11,089 | -11,740 |
| 4. Current transfers | 3,718 | 2,208 | 3,230 | 3,482 | 2,624 | 2,620 |
| Of which: Remittances | 3,326 | 1269 | 2,067 | 2,318 | 2,274 | 2,274 |
| II. FINANCIAL ACCOUNT | 11,726 | 3,702 | 9,481 | 7,254 | 4,091 | 4,437 |
| 1. Private Sector | 7,309 | -375 | 1,564 | -135 | 466 | -1,336 |
| a. Long-term | 5,512 | 642 | 759 | -958 | 466 | -1,336 |
| b. Short-term ^{1/} | 1,796 | -1,016 | 805 | 823 | 0 | 0 |
| 2. Sector público ^{2/} | 4,417 | 4,077 | 7,917 | 7,390 | 3,625 | 5,773 |
| III. CHANGE ON NIRs | 8,195 | 3,134 | 6,700 | 7,100 | 925 | 925 |

1/ Includes net errors and omissions, and NIR's effect valuation.

2/ Includes portfolio investment in sovereign bonds by non-residents.

IR: Inflation Report.

* Forecast.

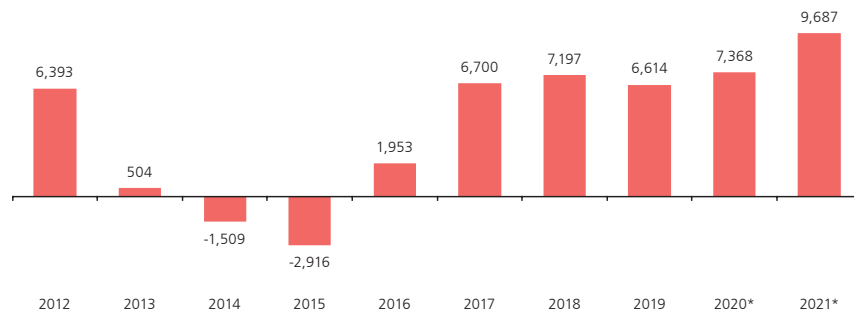
14. With a surplus of US\$ 975 million, the **trade balance** for the first half of 2020 was US\$ 1.68 billion lower than that recorded in the same period of 2019 (US\$ 2.66 billion) due to lower exports –especially mining exports– in a context marked by a drastic contraction of domestic production.

The trade surplus is expected to increase in the remainder of the year due to the greater-than-expected normalization of domestic production, as observed since May and particularly in July. In **2020**, the trade balance would reach a surplus of US\$ 7.37 billion –US\$ 754 million higher than the surplus observed in the previous year– as a result of the impact of the contraction of domestic demand on imports, while in **2021**, the trade surplus is expected to increase to US\$ 9.69 billion, reflecting a higher growth in the volume of exports as a result of an increased mining supply and international demand in a context with less impact from COVID-19.





Graph 23
TRADE BALANCE
(Million US\$)



* Forecast.

15. In the first half of 2020, **exports** amounted to US\$ 16.93 billion –which represented a decline of 25.9 percent compared to the balance achieved in the same period of 2019– due to the lower volume of traditional exports, especially mining exports (copper, gold, zinc), oil and derivatives, and fishmeal, amid a drastic contraction of local production. Mining exports showed a greater-than-expected reduction, in line with lower production in the sector, while exports of non-traditional products showed a smaller fall and exports of farming goods even registered a slight growth.

The projection of the value of exports in **2020** has been revised up due to the lower reduction expected in export prices (from -4.0 percent to -1.3 percent) and in non-traditional exports, despite the higher reduction estimated in the volume of traditional exports, in line with the greater expected contraction of the mining output.

In **2021**, on the other hand, the value of exports would recover, driven mainly by a greater mining supply and a greater external demand in a context of normalization of activities as the impact of the pandemic is mitigated.

16. In the first half of the year, **imports** totaled US\$ 15.95 billion –21.0 percent less than in the same period in 2019– in a context marked by a contraction in domestic demand and a significant reduction in the price of oil. The volume of imports dropped 16.1 percent due mostly to lower purchases of capital goods (22.5 percent) and consumer goods (16.9 percent), in line with the reduction registered in private investment, with lower household income, and with the sharp drop observed in formal employment. On the other hand, the price of imports of inputs fell 13.0 percent reflecting the international reduction in the price of oil and derivatives (35.1 percent).

The volume of imports is expected to recover in the rest of the year, as observed in June and July, although the pace of recovery would be slower than expected given the greater negative impact of the domestic demand shock. Therefore, the value of imports projected for 2020 has been revised down from the June projection, whereas the growth of imports projected for **2021** has been revised up, in line with the recovery foreseen in domestic demand.

Table 10
TRADE BALANCE
(% change)

| | 2019 | 2020* | | | 2021* | |
|---------------------------------|------|--------|-----------|-----------|-----------|-----------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| 1. Value: | | | | | | |
| Exports | -2.8 | -25.9 | -18.1 | -17.4 | 14.7 | 18.6 |
| <i>Traditional products</i> | -5.3 | -28.0 | -16.8 | -17.4 | 13.6 | 20.7 |
| <i>Non-traditional products</i> | 4.1 | -20.5 | -21.1 | -17.7 | 17.8 | 13.8 |
| Imports | -1.9 | -21.0 | -18.4 | -22.1 | 8.5 | 15.7 |
| 2. Volume: | | | | | | |
| Exports | 0.7 | -22.9 | -14.7 | -16.4 | 12.4 | 16.2 |
| <i>Traditional products</i> | -1.2 | -25.1 | -13.2 | -17.7 | 12.9 | 17.3 |
| <i>Non-traditional products</i> | 5.7 | -17.9 | -19.1 | -13.6 | 14.8 | 11.8 |
| Imports | -0.2 | -16.1 | -13.2 | -18.2 | 6.4 | 11.4 |
| 3. Price: | | | | | | |
| Exports | -3.4 | -4.8 | -4.0 | -1.3 | 2.1 | 2.1 |
| <i>Traditional products</i> | -4.1 | -5.1 | -4.2 | 0.4 | 0.7 | 2.8 |
| <i>Non-traditional products</i> | -1.6 | -3.4 | -2.5 | -4.7 | 2.6 | 1.8 |
| Imports | -1.7 | -5.7 | -6.0 | -4.8 | 2.0 | 3.9 |

* Forecast.

Terms of trade

17. As of July 2020, the terms of trade registered an increase of 2.2 percent year-on-year since the fall in the price of imports was greater than that of exports. Moreover, after reaching its historical low in April, the price of oil has reversed its downward trend since then, although it still remains at lower levels than those observed at the beginning of the year. The prices of our export metals, on the other hand, have shown a greater recovery. This is particularly noteworthy in the price of copper, which since July has reached values higher than those observed at the beginning of the year, and in the price of gold, which exceeded US\$ 1,900 per troy ounce in August.

Therefore, the terms of trade are projected to rise in **2020** (3.7 percent) given that import prices showed a greater decrease (4.8 percent) than export prices (1.3 percent), reflecting the increase in the international prices of gold and copper.





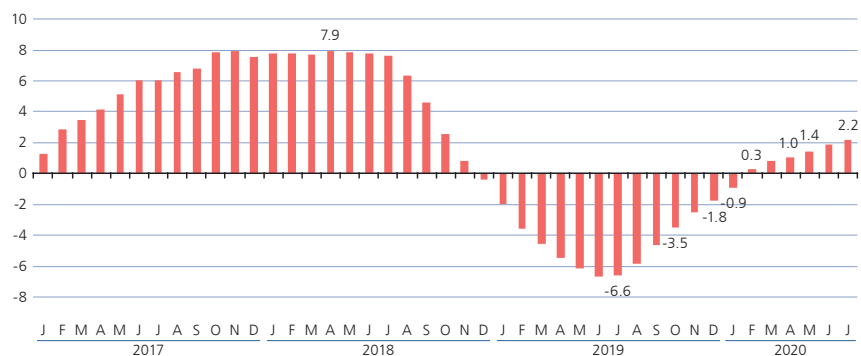
On the other hand, in **2021** the terms of trade would decrease (1.7 percent) given that export prices would grow 2.1 percent while import prices would grow 3.9 percent. This situation would be supported by a greater recovery in the price of oil amid a context in which the supply chain would show a better performance and world demand would register an increased recovery.

Table 11
TERMS OF TRADE: 2019-2021

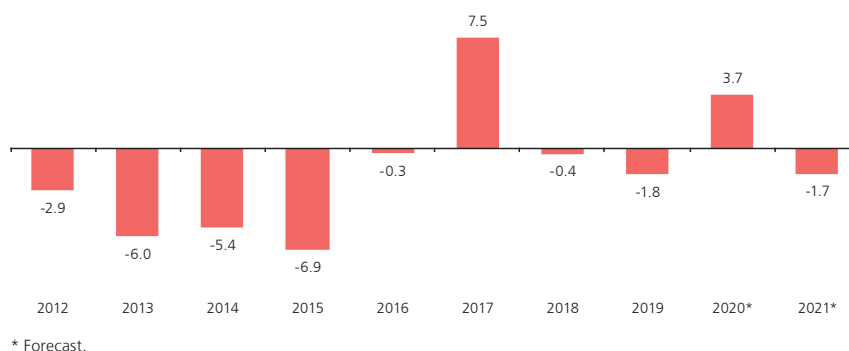
| | 2019 | 2020* | | | 2021* | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Terms of Trade | | | | | | |
| <i>Annual average % chg.</i> | -1.8 | 1.0 | 2.2 | 3.7 | 0.1 | -1.7 |
| Price of exports | | | | | | |
| <i>Annual average % chg.</i> | -3.4 | -4.8 | -4.0 | -1.3 | 2.1 | 2.1 |
| Copper (US\$ cents per pound) | 272 | 249 | 253 | 269 | 262 | 286 |
| Zinc (US\$ cents per pound) | 116 | 93 | 91 | 98 | 91 | 100 |
| Lead (US\$ cents per pound) | 91 | 80 | 77 | 82 | 76 | 84 |
| Gold (US\$ per troy ounce) | 1,392 | 1,647 | 1,667 | 1,789 | 1,690 | 1,900 |
| Price of imports | | | | | | |
| <i>Annual average % chg.</i> | -1.7 | -5.7 | -6.0 | -4.8 | -2.0 | 3.9 |
| Oil (US\$ per barrel) | 57 | 37 | 35 | 40 | 37 | 44 |
| Wheat (US\$ per ton) | 168 | 174 | 176 | 168 | 185 | 171 |
| Maize (US\$ per ton) | 145 | 132 | 130 | 129 | 139 | 141 |

* Forecast.
IR: Inflation Report.

Graph 24
TERMS OF TRADE
(Accumulated 12 month % change)



Graph 25
TERMS OF TRADE: 2012-2021
 (Annual average % change)



External financing

18. After the more restrictive global financial conditions observed in March (with led to record capital outflows from the emerging economies), global financial markets have seen a progressive recovery thanks to the expansionary policies adopted in the developed and the emerging economies in response to the crisis generated by COVID-19. Although international interest rates remain low and depreciation pressures have declined, capital flows to the emerging economies have not recovered significantly. The reduction in the growth differential (and interest rates) between the emerging and developed economies, together with the less favorable outlook for the former, explain the preference for assets in developed economies.
19. On the domestic side, the significant reduction in investment reduced the demand for loans, including external funding. The impact of containment measures on local activity and on the profits of foreign direct investment companies that added onto this implied less reinvestment.

In this context, the **private financial account** for the first half of the year registered a negative net flow. Lower long-term capital inflows were also recorded, together with lower foreign direct investment, in line with the reduction in domestic private investment and profits and, given the greater preference for stocks from developed markets, in line with non-residents' sales of local fixed income assets. On the other hand, private administrators of pension funds (AFPs) sold external assets to cover the approved withdrawals of their affiliates' funds.





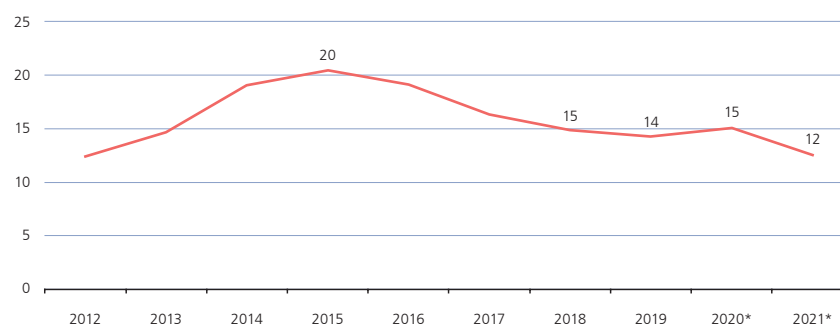
Taking into account the projected contraction in private investment, a lower foreign direct investment and lower net loans are expected in **2020**. On the other hand, greater preference for domestic and local currency financing are expected to remain in **2021** so external indebtedness would maintain its downward trend at the end of the forecast horizon.

Table 12
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR
(Million US\$)

| | 2019 | 2020* | | | 2021* | |
|--|---------------|---------------|---------------|-------------|--------------|---------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Private Sector (A + B) | 7,309 | -375 | 1,564 | -135 | 466 | -1,336 |
| % GDP | 3.2 | -0.4 | 0.8 | -0.1 | 0.2 | -0.6 |
| A. Long-term | 5,512 | 642 | 759 | -958 | 466 | -1,336 |
| 1. Assets | -2,424 | 1,085 | 2,417 | 12 | -974 | -2,089 |
| 2. Liabilities | 7,936 | -443 | -1,659 | -971 | 1,440 | 753 |
| Foreign direct investment in the country | 8,892 | 1,265 | 1,552 | 2,109 | 2,460 | 2,539 |
| Long-term loans | -2,224 | -1,355 | -2,876 | -2,348 | -1,765 | -2,090 |
| Portfolio investment | 1,268 | -353 | -335 | -732 | 744 | 304 |
| B. Short-term ^{1/} | 1,796 | -1,016 | 805 | 823 | 0 | 0 |

^{1/} Includes net errors and omissions.
* Forecast.

Graph 26
BALANCE OF MEDIUM- AND LONG-TERM PRIVATE EXTERNAL DEBT: 2012-2021
(% GDP)



* Forecast.

20. The **public financial account** for the first half of the year reflected the higher fiscal financing requirements, the issuance of global bonds for a total of US\$ 3 billion in April of this year at a rate of 2.39 percent for Global Bond 2026 and

a rate of 2.78 percent for the Global Bond 2031 standing out in this period. Higher purchases of sovereign bonds by non-residents were also noteworthy.

In the forecast horizon, higher disbursements are expected for the remainder of the year, in line with the fiscal deficit levels projected for 2020 and 2021 and the expected share of external debt. Moreover, a reallocation of indebtedness from this year to next year is considered to meet the greater investment required in the Talara Refinery. In addition, non-residents' demand for our sovereign securities would show a greater recovery, as has been observed in recent months.

Table 13
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR
(Million US\$)

| | 2019 | 2020* | | | 2021* | |
|--|---------------|--------------|--------------|--------------|--------------|--------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| I. Disbursements ^{1/} | 1,863 | 3,402 | 6,781 | 6,033 | 1,771 | 2,444 |
| II. Amortization | -2,205 | -179 | -323 | -324 | -547 | -551 |
| III. Net external assets | 214 | 11 | 16 | -137 | -140 | -140 |
| IV. Other transactions with Treasury bonds (IV=a-b) | 4,545 | 843 | 1,443 | 1,818 | 2,541 | 4,019 |
| a. Sovereign Bonds held by non-residentes | 4,190 | 905 | 1,467 | 1,930 | 2,541 | 4,019 |
| b. Global Bonds held by residentes | -355 | 61 | 24 | 112 | 0 | 0 |
| V. TOTAL (V = I+II+III+IV) | 4,417 | 4,077 | 7,917 | 7,390 | 3,625 | 5,773 |

^{1/} Includes bonds.

* Forecast.

21. The soundness of the balance of payments to face negative external events is reflected in the position of Peru's international reserves relative to the balance of its short term external liabilities or comparing the total of these liabilities with the country's current account deficit. The Peruvian economy shows high-levels in these indicators thanks to the preemptive accumulation of international reserves and the availability of an automatic credit line of US\$ 11 billion from the IMF (FCL).

Table 14
NIR INDICATORS

| | 2017 | 2018 | 2019 | 2020* | 2021* |
|--|------|------|------|-------|-------|
| NIR as a % of: | | | | | |
| a. GDP | 29.7 | 26.7 | 29.6 | 37.8 | 34.2 |
| b. Short-term external debt ^{1/} | 405 | 347 | 604 | 666 | 674 |
| c. Short-term external debt plus current account deficit | 344 | 285 | 460 | 657 | 514 |

^{1/} Includes short-term debt balance plus redemption (1-year) of private and public sector.

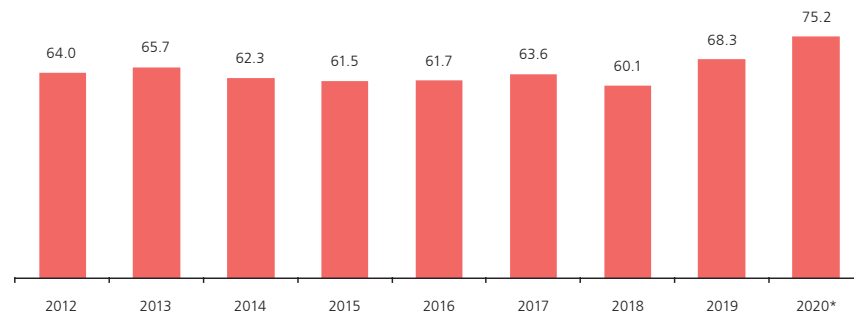
* Forecast.





22. As of September 15, the country's **net international reserves** (NIRs) have increased by US\$ 6.84 billion to US\$ 75.16 billion compared to the end of 2019. This increase is mainly explained by higher bank deposits at BCRP (up from US\$ 16.61 billion to US\$ 17.02 billion). During the same period, the exchange position of BCRP increased from US\$ 42.62 billion to US\$ 55.29 billion.

Graph 27
NET INTERNATIONAL RESERVES: 2012-2020
(Billion US\$)



* As of September 15.

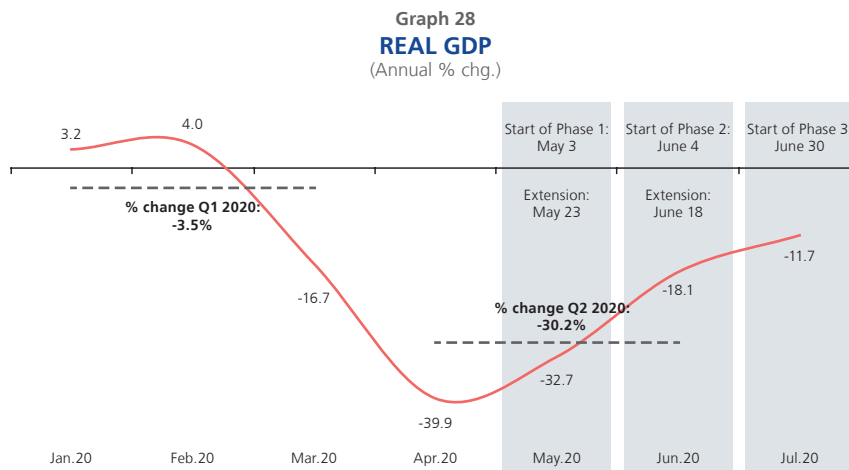
23. On July 17, 2020, BCRP agreed to participate in the temporary repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility) established by the Federal Reserve in March. The FIMA repo facility allows central banks to temporarily exchange their holdings of U.S. Treasury bonds for U.S. dollars through short-term repo operations. In this way, the BCRP has a contingent credit facility as an alternative to obtain liquidity in dollars.

Similarly, on August 14, 2020, BCRP signed an agreement with the Bank for International Settlements (BIS) to participate in the liquidity facility called "Uncommitted Collateralized Credit Facility". This facility, which operates on the basis of the BIS assets held by BCRP at the time when credit is requested, is a contingent line of credit for up to US\$ 2 billion.

III. Economic Activity

Sector GDP

24. The health emergency caused by COVID-19 has brought about the largest annual contraction in the Peruvian economy in the last 100 years. The first measures implemented by the government were strict confinement nationwide and the lockdown of all activity considered non-essential from March 15 to the end of June, which materialized as a large supply shock on local activity. During this period, the output experienced its most critical moment in April, when it registered a drop of 39.9 percent. In May, this contraction moderated to 32.7 percent following the start of the plan for the resumption of activities. The subsequent phases of the plan have allowed the reversal to continue in June and July.



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.





25. The containment measures implemented in the country in response to the COVID-19 outbreak are among the strictest taken in the world, which largely explains why the drop in activity in Peru has been significantly greater than in its peers in Latin America. In addition to this, the resumption of activities allowed during the economic recovery phases has been more gradual than in other countries in the region.

Phase 1 of the resumption of activities began on May 3 with the reactivation of the subsectors of large mining, industrial fishing, metalworking, inputs for agriculture, construction, delivery restaurants, e-commerce, among others. As of June 4, Phase 2 included the subsectors of small and medium mining, food manufacturing, wholesale of goods, lodging, interprovincial transportation, among others, while Phase 3, which started on June 30, included the reopening of activities in the rest of the following sectors: mining, agriculture, construction, metalworking, commercial stores, restaurants, domestic flights, among others. Along with the restart of international flights announced by the government, it is assumed that Phase 4 will authorize the reopening of gyms, cinemas, recreation centers with adequate sanitary controls, among other services.

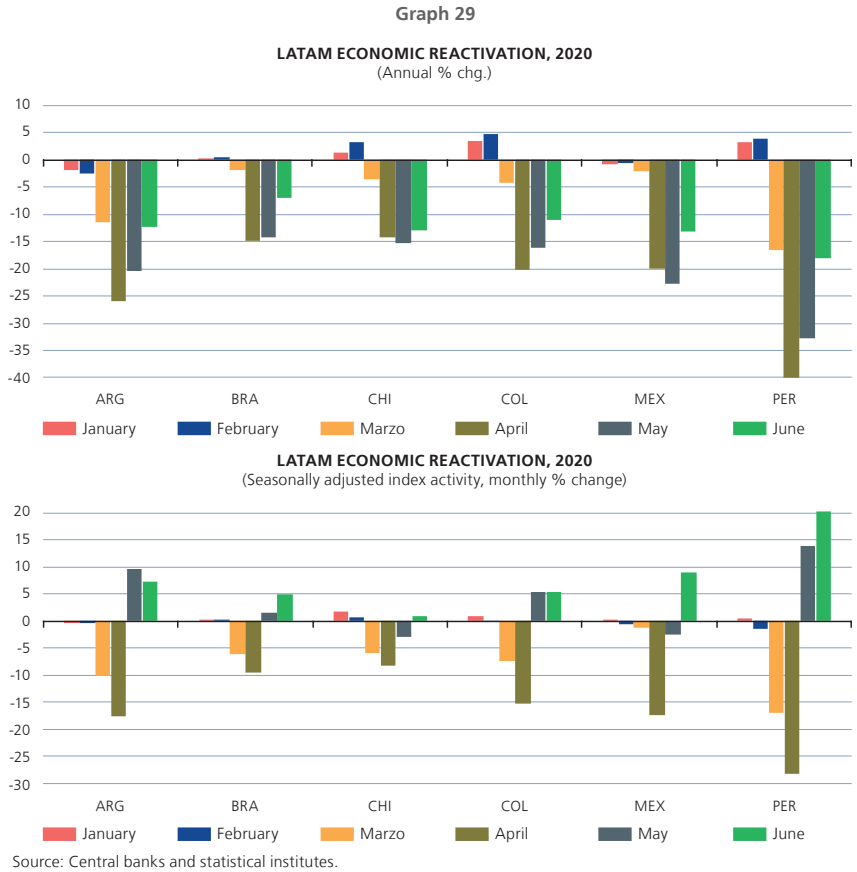
The lockdown of a large number of economic sectors directly affected the employed population, which together with the strict social immobilization measures, made it even more difficult for people to find a job, hindering the reincorporation of the unemployed into the labor force as well. As a result, the drop registered in terms of the employed population and, at the same time, in the participation rate, was significantly higher in Peru than in Colombia, Chile, or Brazil, because fewer activities were restricted and social mobilization was greater in these countries.

Table 15
INDICATORS OF NATINAL EMPLOYMENT, QUATERLY APRIL-MAY-JUNE
(In thousands of people)

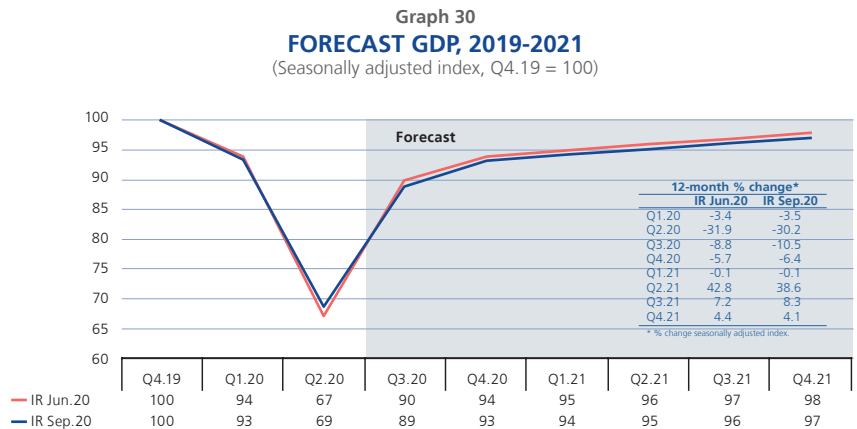
| | Peru | | | Colombia | | | Chile | | | Brazil | | |
|-------------------------------------|--------|--------|-------|----------|--------|-------|--------|--------|-------|---------|---------|-------|
| | 2019 | 2020 | % | 2019 | 2020 | % | 2019 | 2020 | % | 2019 | 2020 | % |
| A. Población en edad de trabajar | 24,480 | 24,850 | 1.5 | 39,292 | 39,792 | 1.3 | 15,351 | 15,679 | 2.1 | 170,864 | 173,918 | 1.8 |
| B. Fuerza laboral | 17,631 | 11,267 | -36.1 | 24,723 | 21,813 | -11.8 | 9,620 | 8,139 | -15.4 | 106,108 | 96,138 | -9.4 |
| C. Tasa de participación (B/A) | 72.0 | 45.3 | -26.7 | 62.9 | 54.8 | -8.1 | 62.7 | 51.9 | -10.8 | 62.1 | 55.3 | -6.8 |
| D. Ocupados | 16,992 | 10,272 | -39.5 | 22,226 | 17,377 | -21.8 | 8,923 | 7,142 | -20.0 | 93,342 | 83,347 | -10.7 |
| J. Tasa de Ocupación (D/A) | 69.4 | 41.3 | -28.1 | 56.6 | 43.7 | -12.9 | 58.1 | 45.6 | -12.6 | 54.6 | 47.9 | -6.7 |
| F. Desocupados (B-D) | 638 | 994 | 55.8 | 2,497 | 4,436 | 77.7 | 698 | 997 | 42.9 | 12,766 | 12,791 | 0.2 |
| G. Unemployment rate (F/B) | 3.6 | 8.8 | 5.2 | 10.1 | 20.3 | 10.2 | 7.3 | 12.2 | 5.0 | 12.0 | 13.3 | 1.3 |
| H. Fuera de la fuerza laboral (A-B) | 6,850 | 13,584 | 98.3 | 14,569 | 17,979 | 23.4 | 5,731 | 7,540 | 31.6 | 64,756 | 77,780 | 20.1 |

Source: INEI, DANE, INE, IBGE.

The deterioration in the labor market, together with other factors such as the degree of informality in the Peruvian economy and the difficulties in implementing telework, largely explains the greater drop in activity registered in Peru compared to its Latin American peers.



The GDP growth projection in this report has been revised slightly downwards, from a 12.5 percent GDP drop to a 12.7 percent GDP drop, taking into account that the last phase of the resumption of activities will begin later than expected and that the immobilization measures are still being maintained. Moreover, public investment has been registering lower levels of execution than expected.





26. In the forecast horizon, the economy is expected to continue showing a gradual recovery both in the primary and non-primary sectors, reaching a growth rate of 11.0 percent in 2021. These projections consider a scenario of preservation of macroeconomic and financial stability and an adequate business environment that promotes the recovery of employment and investment.

Graph 31
TOTAL GDP, 1922-2021
 (Annual % change)

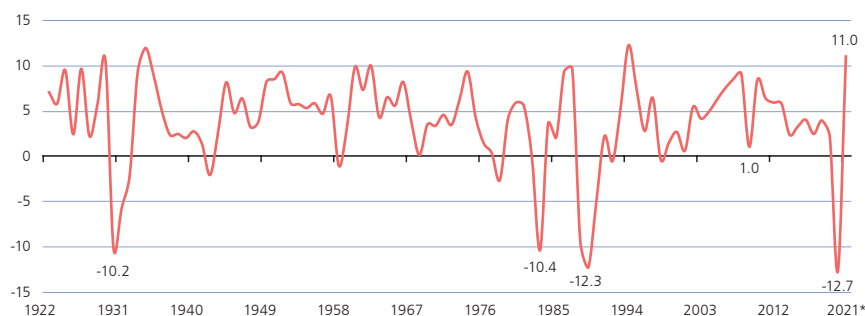


Table 16
GDP BY ECONOMIC SECTORS
 (Real % change)

| | 2019 | 2020* | | | 2021* | |
|-------------------------------|-------------|--------------|--------------|--------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Primary GDP | -1.2 | -12.2 | -5.5 | -7.0 | 8.0 | 9.6 |
| Agriculture | 3.4 | 2.1 | 1.3 | 1.3 | 3.6 | 3.6 |
| Fishing | -25.9 | -15.6 | 9.5 | 3.0 | 8.5 | 8.5 |
| Mining | -0.8 | -22.1 | -10.2 | -12.5 | 10.7 | 14.4 |
| Hydrocarbons | 4.6 | -8.8 | -14.4 | -11.4 | 6.9 | 5.9 |
| Manufacturing | -8.8 | -7.6 | 2.1 | -1.3 | 7.7 | 7.7 |
| Non-primariy GDP | 3.2 | -18.9 | -14.5 | -14.4 | 12.6 | 11.5 |
| Manufacturing | 1.2 | -27.9 | -23.8 | -18.5 | 16.9 | 16.9 |
| Electricity and water | 3.9 | -10.7 | -7.9 | -6.0 | 12.6 | 12.6 |
| Construction | 1.5 | -42.0 | -25.4 | -22.2 | 23.2 | 23.2 |
| Commerce | 3.0 | -27.5 | -23.6 | -17.8 | 17.4 | 17.4 |
| Services | 3.8 | -13.3 | -9.9 | -12.3 | 10.1 | 8.2 |
| Gross Domestic Product | 2.2 | -17.4 | -12.5 | -12.7 | 11.5 | 11.0 |

IR: Inflation Report.
 * Forecast.

- a) **Agriculture** was the only sector that registered positive growth (2.1 percent) during the first half of the year, mainly as a result of the larger harvests of products for the domestic market (rice and potatoes). This was in part offset by a lower production of coffee –associated with transportation difficulties in the jungle region during the quarantine– and seed cotton.

In 2020 the sector is expected to grow 1.3 percent due to good rice and potato yields in the first half of the year and to a projected increase in the harvested areas of asparagus, avocados, cocoa, grapes, and blueberries in the second semester.

In 2021, anticipating improvements in the pandemic scenario, the sector is expected to grow 3.6 percent as a result of the recovery of activity in both the subsectors of agriculture and livestock.

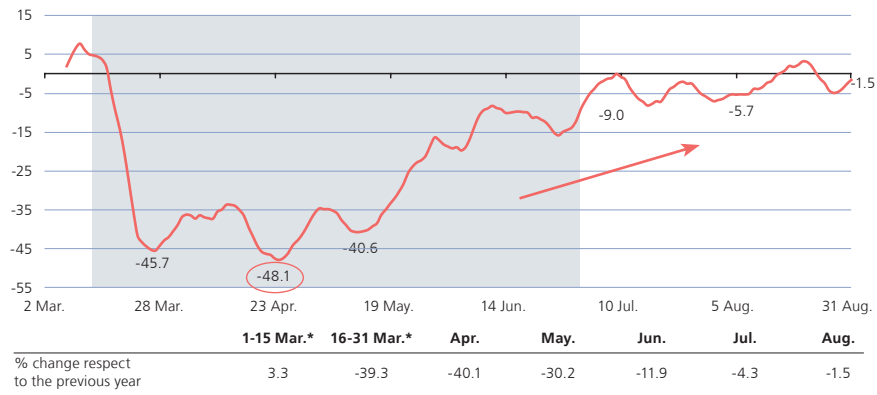
- b) Output in the **fishing** sector during the first half of 2020 dropped 15.6 percent due to the cancellation in January of the 2019 second anchovy fishing season in the North-Central Zone and due to lower artisanal fishing because of quarantine. Considering normal weather conditions, this sector is expected to grow 3.0 percent in 2020 and 8.5 percent next year.
- c) The GDP of the **metal mining** sector fell 22.1 percent in the first half of the year due to the interruption of activities since mid-March. The deepest drop in the sector occurred in May due to the lockdown of activities in some mines because of the increase in infections. The metals most affected were: (i) iron, due to a delay in the restart of medium-sized mining operations; (ii) gold, due to the lower output of large, medium, and small mining, and (iii) zinc, mainly due to the lower production of large and medium-scale mining. Furthermore, copper production was also affected and fell 21 percent due to the lower output of large and medium-sized mining associated with an increase in the number of infections registered in the second quarter as well as with the fact that most of the companies were not operating at full capacity because of strict security protocols.

The sector's electricity consumption has gradually recovered since April due to the gradual restart of large-scale mining operations within the framework of Phase 1 of the resumption of activities program. The operations of medium and small formal mining were resumed in June (Phase 2) and the rest of the mining activities were reactivated in July with Phase 3.





Graph 32
MINING COMPANIES' DAILY ELECTRICITY CONSUMPTION
 (% change respect to same comparable day of the previous year)



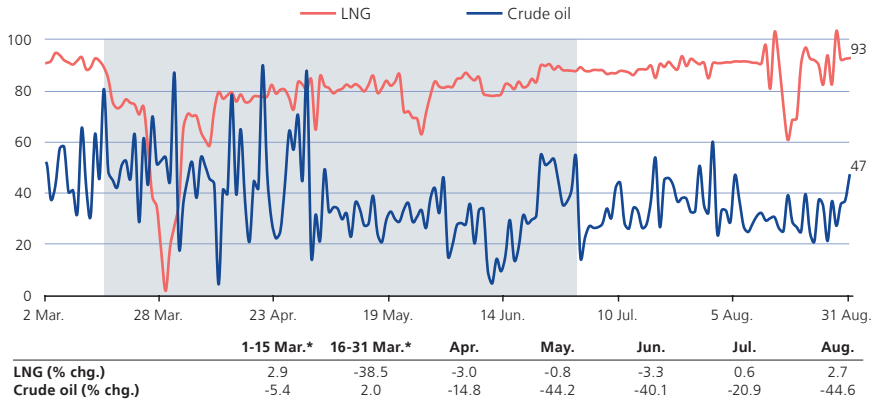
* Calculated respect to the comparable days of the previous year.

In **2020**, the sector is expected to show a drop of 12.5 percent, which implies a moderate recovery of the sector during the third and fourth quarters, coupled with the fact that large and medium-sized mining companies have announced lower production plans. The growth rate projected for 2021 (14.4 percent) is explained by the normalization of mining production and the entry into operation of Mina Justa and the expansion of Toromocho.

- d) In the first half of 2020, output in the **hydrocarbons** sector fell 8.8 percent due to lower oil production (5.7 percent). Moreover, the decline in oil production during the second quarter was associated with lower production in the lots located in Loreto –particularly Lot 95– which halted operations due to the suspension of activities of the North Peruvian Pipeline. On the other hand, the production of natural gas and natural gas liquids dropped by 17.5 percent and 6 percent, respectively, as a result of the lower production of Lot 88 –due to lower domestic demand– and Lot 56, due to lower production of gas liquids for exports.

During the State of Emergency, hydrocarbon production has remained below its normal levels. In April Petroperú announced the suspension of oil transportation through the North Peruvian Pipeline as of May 1. In the period from May to August, oil production has averaged 32 thousand barrels per day (which represents a drop of 38.4 percent compared to the same period of the previous year), mainly due to the stoppage of lots 8, 95, 67, and 192. Even though lot 95 had resumed operations together with the North Peruvian Pipeline by mid-July, operations had to be stopped in the first week of August due to conflicts with the communities.

Graph 33
LIQUID HYDROCARBON PRODUCTION
(Thousand of barrels)



* Calculated respect to the monthly average of the month.

Graph 34
NATURAL GAS PRODUCTION
(Million cubic feet)



* Calculated respect to the monthly average of the month.

The production of natural gas and natural gas liquids has fallen during the quarantine mainly due to lower activity in lot 88 (production for the domestic market). However, after hitting a floor of decline in March, the contraction observed in the extraction of natural gas and natural gas liquids moderated in the following months and finally the latter increased 0.6 percent and 2.7 percent in July and August, respectively. Therefore, a drop in the hydrocarbons subsector of 11.4 percent is expected for **2020**, while a growth of 5.9 percent is expected in **2021** due to an anticipated recovery in demand compared to the previous year.

- e) Output in the **primary manufacturing** subsector decreased 7.6 percent in the first half of 2020, mostly as a result of lower refining of non-





ferrous metals and oil in the second quarter. Oil refining was affected by the quarantine as well as by the closure of the Talara refinery due to modernization works. It is worth mentioning that the subsector's result was partially offset by higher production in the branches that were authorized to continue operating –e.g. rice and sugar milling– and by a greater availability of raw materials for the production of fishmeal and fish oil.

In **2020**, the subsector would show a reduction of 1.3 percent due to lower oil refining and lower production of both canned and frozen fish products and sugar. In **2021**, the subsector is expected to grow 7.7 percent, favored by the reopening of the Talara refinery and by the gradual rebound of growth in the branches affected by the lockdown.

- f) Containment measures both in the country and in our main trading partners affected activity in **non-primary manufacturing** significantly. Output in this subsector fell 27.9 percent in the first half of 2020 due to the lower production of investment-oriented goods and products for the foreign market during the second quarter. The negative results of the iron and steel industry, as well as construction materials, stood out among the former, while the branches of synthetic fibers and yarns, fabrics and finishes registered the lower rates among the latter. It should be pointed out that the latter was one of the first branches to resume activities, but the sector results were also affected by lower external demand.

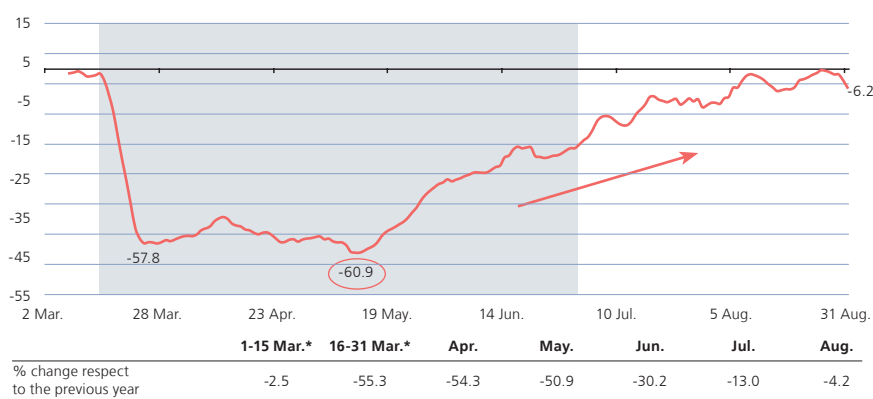
In **2020**, the fall in the subsector is expected to moderate to 18.5 percent as its production should recover gradually with the gradual reopening of the economy and with the supply of the health goods needed by the Government and the population, including supplies for the construction of temporary hospitals, oxygen balloons, among others. In 2021 non-primary manufacturing would continue recovering (16.9 percent), but without reaching the pre-pandemic levels yet.

Moreover, a gradual recovery is observed in the daily electricity consumption of manufacturing companies with the start of each reactivation phase. After having hit a floor of decline in the first third of the month, there has been a sustained recovery in manufacturing companies' consumption of electricity since mid-May.

The branches that were authorized to resume activities in Phase 1 included textiles, processed wood, paper and cardboard, basic chemicals, plastics, pesticides, glass, cement, construction materials, metal products, machinery and equipment, and some industrial services, while the following branches were authorized to restart production in Phase 2: manufacturing of processed animal foods, beer and alcoholic

beverages, footwear, printing, repair of transport material and other equipment.

Graph 35
MANUFACTURING COMPANIES' DAILY ELECTRICITY CONSUMPTION
 (% chg., 12 months del promedio móvil, 7 días)



* Calculated respect to the comparable days of the previous year.

- g) The GDP of the **construction sector** fell 42 percent in the first half of 2020 after the suspension of activities. After the sector was paralyzed in April, a restart of 25 percent of operations was authorized in May and then construction operations at 75 percent were authorized in June. A gradual recovery of activities is expected for the coming months, so the construction sector is estimated to register a decrease of 22.2 percent in 2020.

In **2021**, the construction sector is expected to grow 23.2 percent, driven by greater public and private investment, although it would still not register the levels it had prior to the start of the quarantine.

- h) In the first half of 2020, activity in the **commerce** sector fell 27.5 percent due to lower wholesale, retail, and motor vehicle sales, but showed a recovery in the months of May and June with the first 3 phases of economic reopening.

In **2020**, this sector will register a drop of 17.8 percent due to lower domestic demand and due to the implementation of targeted quarantines and social immobilization on Sundays. In 2021, the commerce sector would grow 17.4 percent as a result of the gradual recovery in domestic demand.

- i) The **services sector** fell 13.3 percent in the first half of 2020, mainly due to lower activity in the (i) hotels and restaurants sector (-51.7 percent),





which is estimated to have been the most affected sector because of the drop in tourism and because of the high degree of interaction between people required by the sector, (ii) transportation and storage (-29.8 percent), and (iii) the lower services provided to companies (-24 , 4 percent).

In **2020**, the high degree of personal interaction that most of the sector requires would result in a 12.3 percent drop in the year. On the other hand, in 2021 the sector is expected to show a recovery of 8.2 percent.

Expenditure-side GDP

27. As for expenditure-side GDP, **the evolution of domestic demand in the first half of 2020 was determined by the negative economic effects derived from mandatory confinement (quarantine), the interruption of activity, and increased uncertainty, while exports fell due to lower local production and depressed global demand.**

The supply shock caused by economic lockdown and mandatory confinement brought about a significant deterioration in employment and income that affected households' spending capacity and materialized as a demand shock. Furthermore, public and private investment projects were suspended after the State of Emergency was declared and uncertainty derived from the impact of the pandemic on the local and international arenas increased significantly. On the other hand, public consumption showed an increase due to the greater resources used to contain the spread of the virus, safeguard the health of the population, and offset the economic effects of the crisis.

The Central Bank's provision of liquidity and the measures adopted by the government to support households and companies have allowed to maintain the flow of payments and the stability of the financial system, thus easing the contraction of private spending. Together with the reopening of activity in the sectors included in phases 3 and 4, this boost on domestic demand will imply an improvement in activity in the second half of the year. Despite this, however, the economic balance in the semester is expected to be negative due to the fact that some activities will still remain closed while the risk of COVID-19 contagion persists, which would keep employment and income still below their pre-crisis levels .

In sum, **domestic demand is expected to register an average contraction of 12.3 percent in 2020, which will imply a drop of 12.7 percent in GDP. The contraction currently projected is slightly higher than that foreseen in the previous report due to the lower execution of public investment observed in the first half of the year and due to the delay in restarting activities in phase 4, which would imply a more gradual recovery in employment.** In 2021, GDP would grow 11.0 percent, supported by the positive

effect of the stimulus measures on private spending, the resumption of public investment projects, the recovery of confidence, and the better conditions of the labor market and global demand.

Graph 36
DOMESTIC DEMAND AND GDP: 2012-2021
(Real % change)

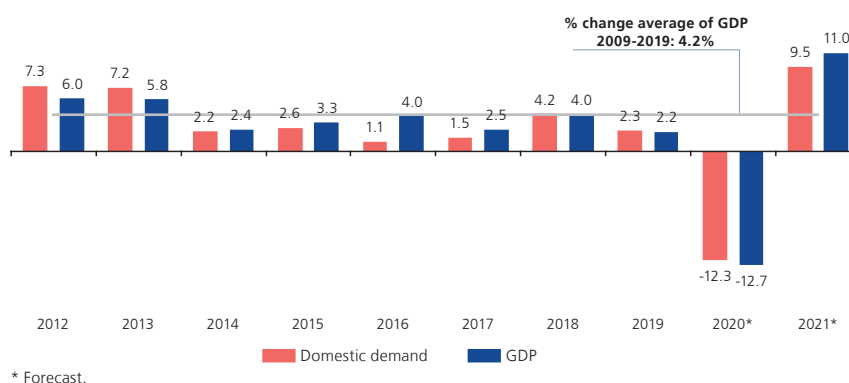


Table 17
DOMESTIC DEMAND AND GDP
(Real % change)

| | 2019 | 2020* | | | 2021* | |
|---------------------------------------|------------|--------------|--------------|--------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Domestic demand | 2.3 | -15.1 | -11.9 | -12.3 | 9.9 | 9.5 |
| Private consumption | 3.0 | -12.2 | -9.4 | -10.0 | 9.0 | 8.0 |
| Public consumption | 2.1 | 0.8 | 4.3 | 6.1 | 2.5 | 4.3 |
| Private investment | 4.0 | -39.1 | -30.0 | -28.5 | 20.0 | 20.0 |
| Public investment | -1.4 | -39.2 | -8.5 | -19.0 | 9.0 | 11.0 |
| Change on inventories (contribution) | -0.5 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exports | 0.8 | -26.1 | -18.9 | -22.0 | 14.1 | 17.8 |
| Imports | 1.2 | -18.2 | -16.9 | -21.1 | 7.5 | 11.7 |
| Gross Domestic Product | 2.2 | -17.4 | -12.5 | -12.7 | 11.5 | 11.0 |
| Memo: | | | | | | |
| Public expenditure | 1.0 | -9.4 | 0.7 | -1.1 | 4.2 | 5.9 |
| Domestic demand excluding inventories | 2.9 | -16.9 | -11.7 | -12.1 | 9.8 | 9.4 |

* Forecast.
IR: Inflation Report.

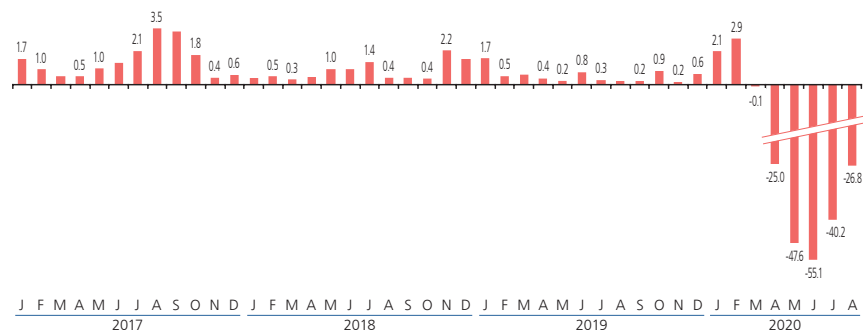
28. The containment measures generated a lockdown in most companies, which brought about a sharp decrease in purchases of goods and services as well as a major deterioration in the indicators related to **private consumption**. However, driven by the fiscal and monetary stimuli measures and the gradual reopening of the economy, a reversal has been observed in the fall of the highest frequency consumption indicators since May.





- a) The 26.8 percent fall in the employed population of Metropolitan Lima in the moving quarter of June-August was equivalent to a loss of 1.3 million jobs. This drop occurred mainly in the sector of services and in small companies (businesses with 1 to 10 workers).

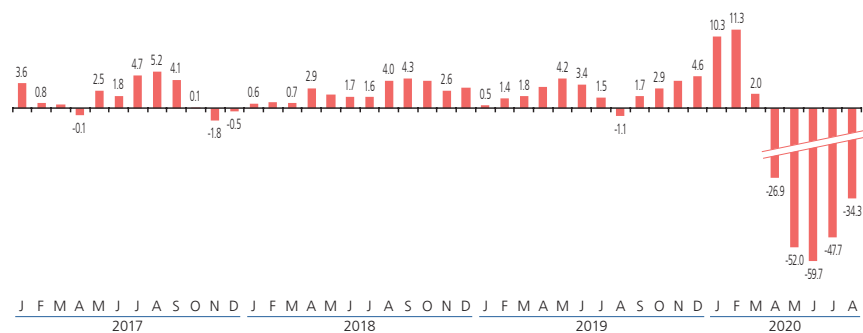
Graph 37
EMPLOYED POPULATION OF METROPOLITAN LIMA, MOVING QUARTER
 (Annual % change)



Source: INEI.

- b) The drop in employment and income led the nominal wage mass in Metropolitan Lima to register a 34.3 percent contraction in the June-August moving quarter.

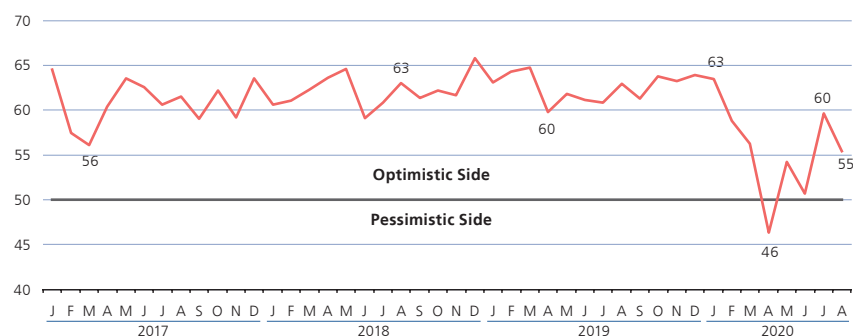
Graph 38
WAGE MASS OF METROPOLITAN LIMA, MOVING QUARTER
 (Annual % change)



Source: INEI.

- c) Consumer confidence, measured as agents' expectations about their family economic situation for the next 12 months, turned pessimistic in April, reflecting the deterioration seen in the labor market. However, the deterioration of this index showed a reversal in the following months.

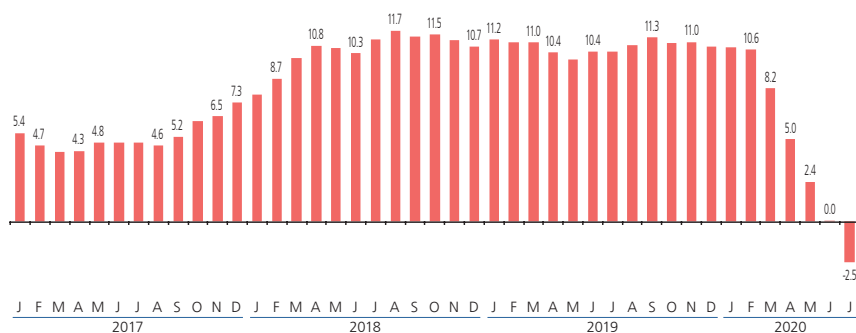
Graph 39
EXPECTATION ABOUT ECONOMIC SITUATION OF THE HOUSEHOLD IN 12 MONTHS, INDICCA METROPOLITAN LIMA
 (Diffusion index)



Source: Apoyo.

- d) There has been a sharp deceleration in the annual growth of consumer loans in real terms since March and in July this indicator fell for the first time since July 2002. This is explained by the lower use of credit cards and by the decline of car loans as a result of the restriction on the sale of cars during the quarantine, as well as due to families' uncertainty about the future evolution of the economy.

Graph 40
REAL CONSUMER LOANS
 (Annual % change)



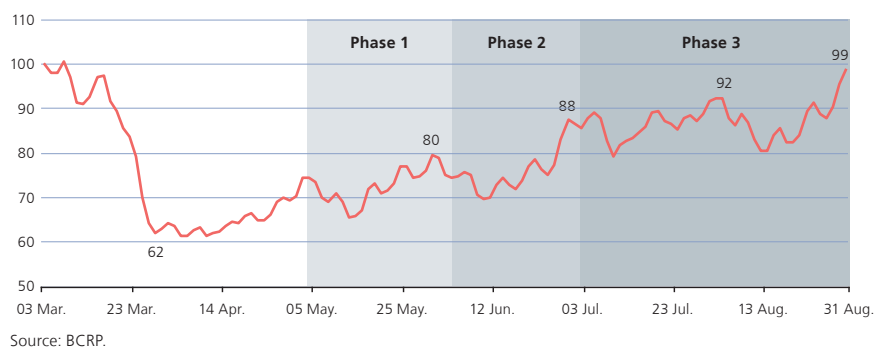
Source: BCRP.

- e) After the start of the quarantine, the number of customer transactions carried out through the Real Time Gross Settlement System (RTGS) registered a contraction of up to 38 percent compared to the number registered at the beginning of March. This indicator has recovered with the smoothing of immobilization and production restrictions.





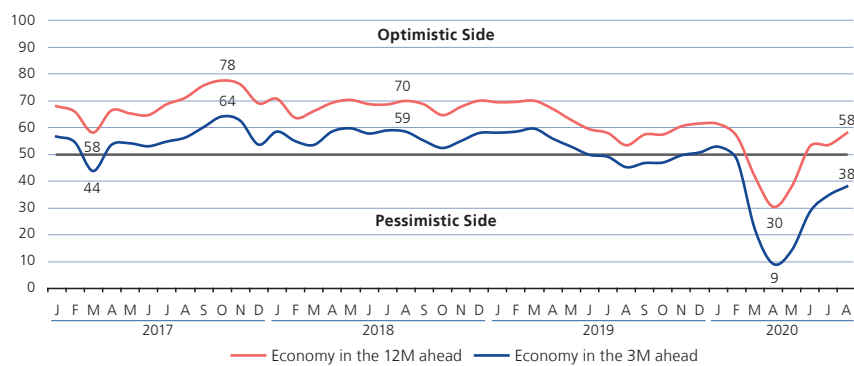
Graph 41
NUMBER OF CUSTOMER TRANSACTIONS IN THE LBTR
(7-day moving average, index 100 = March 3)



29. Contemporary and leading indicators related to private investment also show a reversal as of May, after some reached historic lows.

a) After business expectations about the future of the economy reached their lowest level in May since they are recorded in the BCRP's Survey on Macroeconomic Expectations (April 2004), the indices have begun to recover in the subsequent months. Thus, since June, expectations of one-year ahead conditions are once again on the optimistic side.

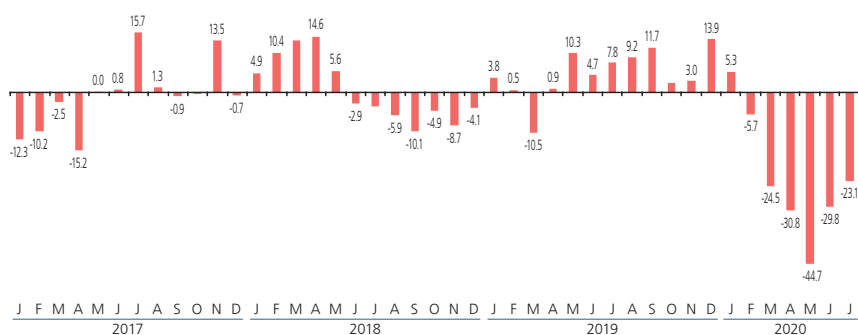
Graph 42
EXPECTATIONS ABOUT THE ECONOMY IN 3 AND 12 MONTHS AHEAD
(Index)



b) As a result of the economic lockdown and uncertainty about the future of the economy, imports of capital goods, excluding construction materials and cell phones, have suffered a sharp contraction in recent months.

Thus, in May they recorded a drop of 44.7 percent –the worst in the year–, reversing gradually thereafter in June and July.

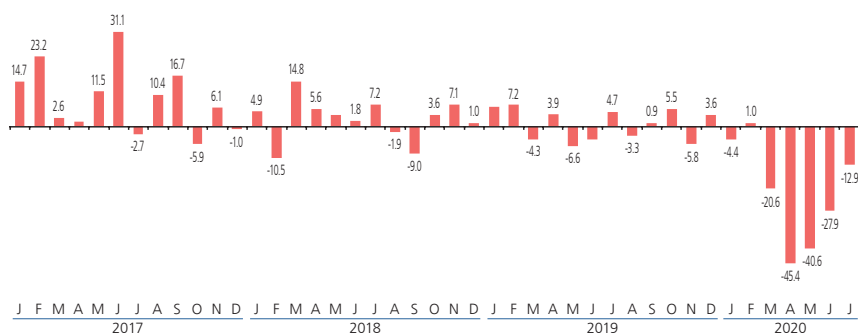
Graph 43
VOLUME OF IMPORTS OF CAPITAL GOODS*
(Annual % change)



* Excluding materials of construction and mobile phones.
Source: SUNAT.

30. The volume of exports registered its steepest fall in April (-45.4 percent), in line with the paralysis of local production in non-essential sectors and with the drop in global demand. However, due to the gradual reopening of the economy, this indicator has reversed in May (-40.6 percent), June (-27.9 percent), and July (-12.9 percent).

Graph 44
VOLUME OF TOTAL EXPORTS
(Annual % change)



Source: SUNAT-Aduanas.

31. Private sector expectations about GDP growth have been updated in line with economic performance in the first half of the year. According to the latest **BCRP Survey on Macroeconomic Expectations**, agents project a contraction of





between 11.5 and 13.0 percent for this year and a recovery of between 3.8 and 8.0 percent for 2021.

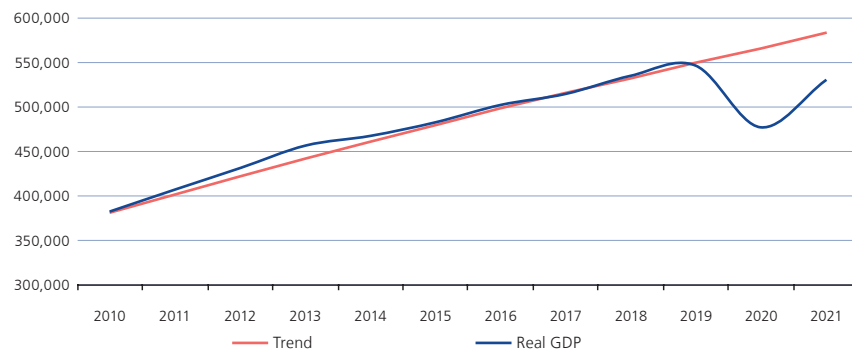
Table 18
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(% change)

| | IR Dec.19 | IR Jun.20 | IR Sep.20* |
|----------------------------|-----------|-----------|------------|
| Financial entities | | | |
| 2020 | 3.0 | -9.5 | -13.0 |
| 2021 | 3.3 | 5.3 | 8.0 |
| Economic analysts | | | |
| 2020 | 3.0 | -9.0 | -13.0 |
| 2021 | 3.5 | 6.0 | 8.0 |
| Non-financial firms | | | |
| 2020 | 3.2 | -1.8 | -11.5 |
| 2021 | 3.5 | 3.0 | 3.8 |

* Survey conducted on August 31.
Source: BCRP.

32. The shocks to aggregate demand and supply have been generating an unprecedented contraction of the output gap –the difference between GDP and its long-term trend–, which has reached 15.7 percent in 2020, its worst historical record. Supply shocks (partial or total suspension of activities, and disruption in supply chains) will be less persistent than demand shocks (increase in unemployment, fall in income, halt of investment projects, lower external demand, changes in consumption patterns, and consumers and investors’ pessimism).

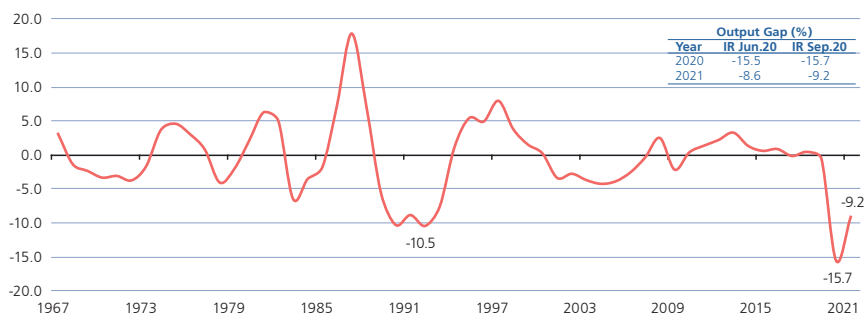
Graph 45
REAL GDP AND TREND*
(Millions of Soles of 2007)



* Long-term trend of GDP is calculated using Hodrick-Prescott filter in annual frequency.

Graph 46
OUTPUT GAP*

(As a percentage of potential GDP prior to the COVID-19 shock)



* Long-term trend of GDP is calculated using Hodrick-Prescot filter in annual frequency.

33. **Private consumption** in the first half of 2020 decreased 12.2 percent due to the restrictions implemented to contain the expansion of the pandemic. However, the economic measures to face the COVID-19 crisis, which include bond transfers, subsidies, the withdrawal of AFP funds and the use of the CTS, are estimated to continue having a positive impact on family spending and to reverse the fall in the second half of the year. Therefore, private consumption in 2020 is estimated to show an average fall of 10.0 percent.

In 2021, private consumption is projected to show a growth rate of 8.0 percent in a context of recovery in employment and income, driven by the resumption of activities, the monetary impulse, and the recovery of public investment.

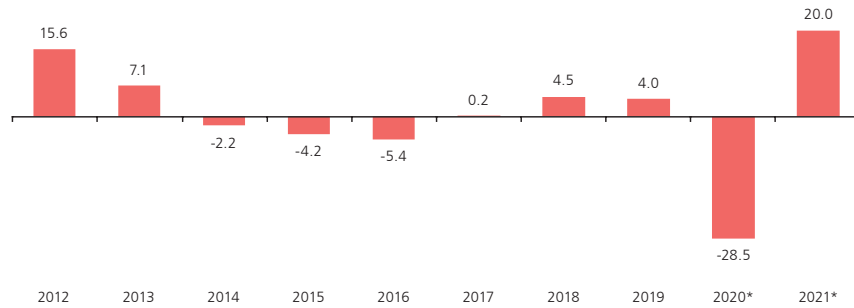
34. **Private investment**, which fell 39.1 percent in the first semester, is foreseen to show a partial recovery in the forecast horizon, so it would register a contraction of 28.5 percent in 2020 and grow 20.0 percent in 2021.

This projection assumes the continuity of the infrastructure investment plans and the fiscal, monetary and regulatory measures aimed at sustaining the flow of payments and the credit market. Under these assumptions, an acceleration of the execution rates of large projects in the mining and infrastructure sector is anticipated in 2021. As a result of this impulse private investment would grow 20.0 percent, although it would not reach pre-crisis levels yet. The general elections that will take place in the country in 2021 could become an additional factor of uncertainty in the investment projection.





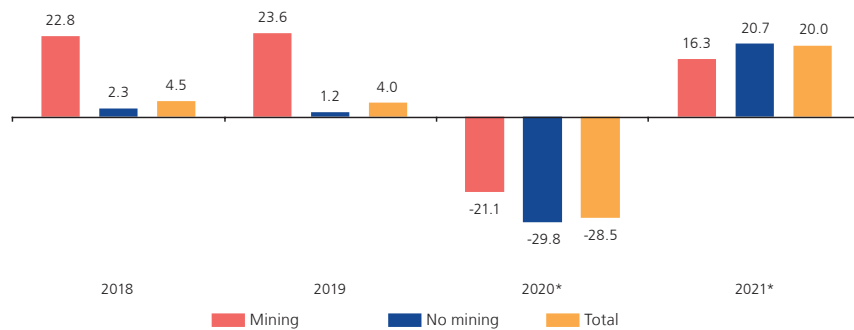
Graph 47
PRIVATE INVESTMENT: 2012-2021*
(Real % change)



* Forecast.

- a. **Mining investment** was sustained during the quarantine largely due to payments already agreed by mining companies, especially in connection with mining equipment. As of July, mining investment for 2020 amounted to US\$ 2.27 billion, explained mainly by the investment of companies Anglo American Quellaveco (US\$ 854 million), Marcobre (US\$ 264 million), and Chinalco (US\$ 165 million). The projection considers the completion of the construction of the Quellaveco projects (with a total investment of US\$ 5.3 billion), Mina Justa (US\$ 1.6 billion), and the Expansion of Toromocho (US\$ 1.3 billion). Additionally, projects such as Corani (US\$ 0.6 billion), Integración Coroccohuayco (US\$ 0.6 billion), and San Gabriel (US \$ 0.4 billion) are expected to begin construction in the forecast horizon.

Graph 48
PRIVATE INVESTMENT
(Annual Real % change)



* Forecast.

- b. In **infrastructure**, several projects would be resumed with the gradual restart of activities in the construction sector, with Line 2 of the Lima Metro standing out. According to OSITRAN, this project shows a level of execution of 31.7 percent as of July. On the other hand, the expansion works of the Jorge Chávez International Airport were resumed in July and it is estimated that the new control tower will be ready in 2021 and the second runway, in 2022. Moreover, the construction of the San Martín Port Terminal is expected to be completed in the first half of 2021, while the modernization of the Callao North Pier will continue during the year and is expected to be completed in 2022 with a capacity of 2.9 million containers and 9.9 million tons of freight per year. Finally, the modernization works of the Port of Salaverry (a project with a total investment of US\$ 270 million) started at the beginning of 2020. In June the company announced that this year's investment would be around US\$ 113 million.

Table 19
MAIN INVESTMENT PROJECTS: 2021-2021

| SECTOR | INVESTOR | PROJECTS |
|------------------------|------------------------------------|---|
| MINING | Angloamerican | Quellaveco |
| | Marcobre | Justa Mine |
| | Chinalco | Expansion of Toromocho Mine |
| | Antapaccay | Coroccohuayco |
| | Bear Creek | Corani |
| INDUSTRY | Corporación Aceros Arequipa | Expansion of Pisco Plant |
| | Precor | Mega factory in Chilca |
| INFRAESTRUCTURE | Consorcio Nuevo Metro de Lima | Line 2 of the Metro network of Lima and Callao |
| | Lima Airport Partners | Expansion of International Airport (Jorge Chavez) |
| | Consorcio Transportadora Salaverry | Salaverry Port |
| | Grupo Volcan | Chancay Port Terminal |
| | Consorcio Paracas | San Martín Port Terminal |
| | APM Terminals | Modernization of Muelle Norte |
| Covi Peru | Pucusana-Ica road network | |

Source: Information on companies, newspaper and specialized media.

Proinversión reports a portfolio of US\$ 6.1 billion of investment projects to be awarded in the 2020-2021 period.





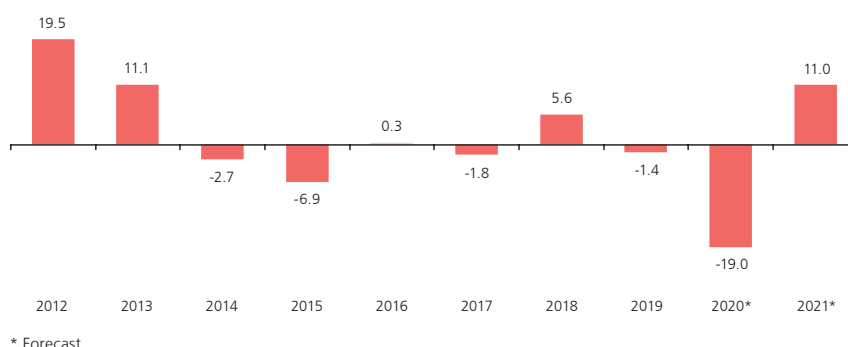
Table 20
MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2020-2021
(Million US\$)

| | Estimated investment |
|---|----------------------|
| To be called | 6,129 |
| Peripheral Ring Road | 2,049 |
| Ancon Industrial Park | 650 |
| Headworks and Conduction for the Drinking Water Supply in Lima | 600 |
| Algarrobo Mining Project | 512 |
| Broadband AWS-3 and 2.3 GHz | 291 |
| Longitudinal of the Sierra road project, Section 4 | 280 |
| Huancayo - Huancavelica Railway | 232 |
| Schools in risk: Metropolitan Lima | 227 |
| Wide-Scale Use of Natural Gas in Central and South Region | 200 |
| Treatment system for wastewater Huancayo | 165 |
| 500 kV Transmission Line and Piura Nueva - Frontera Substation | 163 |
| Schools in Risk: Ate-San Juan de Lurigancho | 148 |
| Essalud Piura | 144 |
| Essalud Chimbote | 110 |
| Schools at Risk: Comas - San Martín de Porres | 95 |
| Schools at Risk: Villa María del Triunfo | 72 |
| High Performance Schools: COAR Centro | 60 |
| Puerto Maldonado Wastewater Treatment Plant | 58 |
| Chincha Nueva 220/60 KV Substation, Nazca Nueva 220/60 KV Substation | 38 |
| 138 KV Puerto Maldonado-Iberia Transmission Line and Valle del Chira Substation | 34 |

Source: Proinversión.

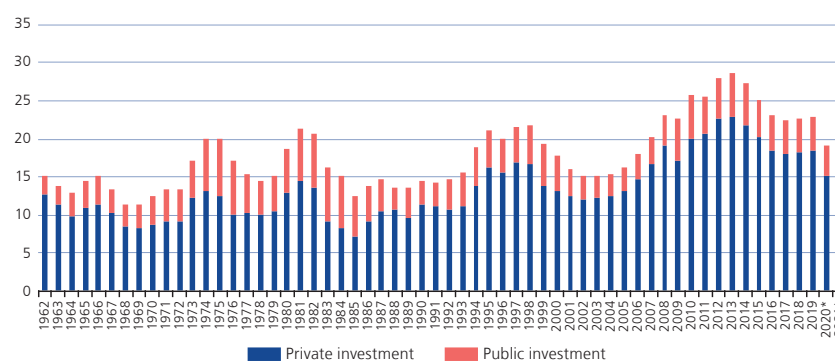
35. **Public investment** registered a contraction of 39.2 percent in the first half of 2020, mainly as a result of the interruption of projects during the quarantine period. A significant recovery is expected in public investment in the forecast horizon to contribute to reverse the decline in economic activity, especially in the fourth quarter, resuming the performance observed in the pre-quarantine period. In 2020, public investment would show a 19.0 percent drop, while in 2021 it is expected to grow 11.0 percent as a result of higher spending on the Reconstruction Program works, the projects of the National Infrastructure Plan for Competitiveness, the implementation of Special Public Investment Projects, and the reactivation of halted projects, among other projects.

Graph 49
PUBLIC INVESTMENT: 2012-2021
(Real % change)



36. **Gross fixed investment**, as a percentage of real GDP, would drop by 2.4 percentage points of output in 2021 from its level in 2019, reaching levels similar to those recorded in 2007. Investment is expected to continue growing in the following years once the economy recovers the levels of economic activity prior to the crisis, which requires preserving macroeconomic stability, consolidating an adequate business environment, and carrying out reforms that support productivity in the economy.

Graph 50
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2021
(% of real GDP)



37. Domestic saving would decline from 19.9 percent of GDP in 2019 to 17.5 percent this year, its lowest level since 2005. This contraction is explained by the fact that public saving is estimated to show a negative rate 5.0 percentage





points of GDP (the lowest rate since 1990) due to the use of State resources to face the pandemic and due to the fall in tax revenues as a result of lower economic activity. Notwithstanding, the contraction in public saving would be offset in part by the increase in private saving, since the fall in family income is projected to be less than that of consumption. In addition to the contraction in domestic saving in 2020, gross domestic investment would also show a contraction due to lower private investment after the economic lockdown and due to high uncertainty in terms of business conditions.

In 2021, the use of external resources would increase to 1.6 percent of nominal GDP, driven by the recovery of gross domestic investment.

Table 21
SAVING-INVESTMENT GAP
(% of nominal GDP)

| | 2019 | 2020* | | | 2021* | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| 1. Domestic Saving | 19.9 | 16.6 | 16.5 | 17.5 | 17.6 | 17.5 |
| 1.1 Public Saving | 3.0 | -1.0 | -4.9 | -5.0 | 0.5 | -0.9 |
| 1.2 Private Saving | 16.9 | 17.6 | 21.3 | 22.5 | 17.1 | 18.4 |
| 2. External Saving | 1.5 | 0.6 | 1.4 | 0.1 | 1.4 | 1.6 |
| 3. Domestic Gross Investment^{1/} | 21.4 | 17.2 | 17.8 | 17.6 | 19.0 | 19.0 |
| 3.1 Private Domestic Gross Investment ^{1/} | 16.8 | 14.6 | 13.0 | 13.4 | 14.3 | 14.8 |
| 3.2 Public Investment | 4.6 | 2.6 | 4.8 | 4.2 | 4.7 | 4.2 |

* Forecast.

^{1/} Includes change on inventories.

Source: BCRP.

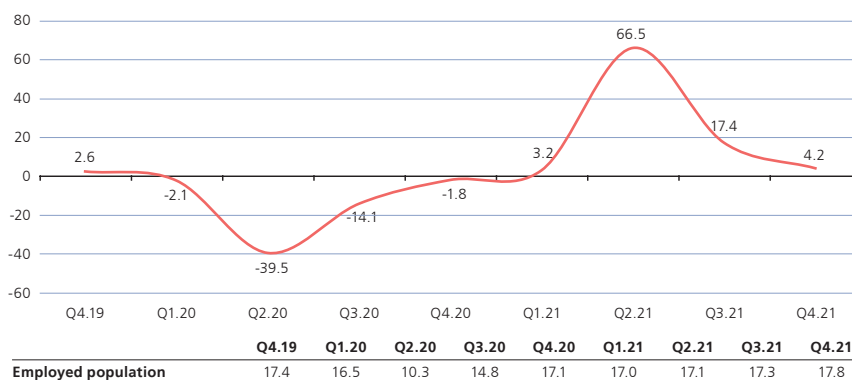
Employment

38. **Employment** was strongly affected by the severe social confinement established in March. In the second quarter of the year, the employed population fell 39.5 percent; that is, 6.7 million people stopped working compared to the same period of the previous year. This drop in employment occurred mainly in urban areas, where the employed population fell by 6.5 million. Employment in rural areas, on the other hand, was slightly affected (6.7 percent) by the containment measures since it is linked mainly to agricultural activities.

Since most of the activities not allowed during the quarantine belong to the non-primary sectors (services, commerce, manufacturing, and construction), employment in these sectors registered a reduction of more than 50 percent, affecting particularly informal independent and dependent workers.

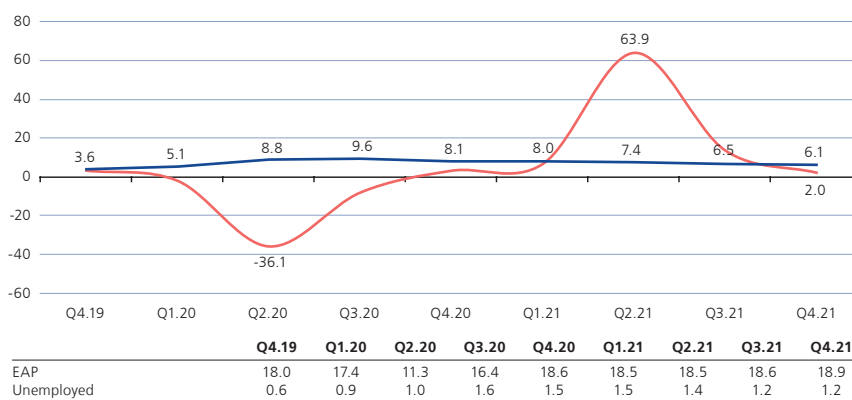
39. Employment is expected to recover in the second half of the year as confinement restrictions loosen, so by the end of 2020 the employed population is projected to reach 17.1 million people, even though a great number of the people who return to the labor market would do so mainly in the informal sector. Moreover, in 2021 employment would show an average growth rate of 18 percent.

Graph 51
EVOLUTION OF EMPLOYED POPULATION
(Growth rate)



It should be pointed out that the workers that lost their job during the quarantine did not go to unemployment, but to inactivity due to the strong immobility measures, so the EAP decreased to 36.1 percent. Moreover, in the fourth quarter of 2020, the unemployment rate is projected to be 8.1 percent, which is equivalent to 1.5 million people looking for a job. In 2021 it will average 7 percent.

Graph 52
ECONOMICALLY ACTIVE POPULATION (EAP) AND UNEMPLOYMENT RATE
(Annual percentage change of the EAP)





Box 1

**NEW MEASURES TAKEN IN FIGHTING COVID-19 AND
LESSONS FROM INTERNATIONAL EXPERIENCES**

After the strict confinement with restrictions on the production sectors that was established since March 16, 2020, the Government authorized a process of gradual resumption of economic activities as from May. The economy reopening strategy has been divided into four phases, of which the first three have already been implemented.

An account of the recent measures taken by the Government to contain the pandemic and restart economic activities as well as some lessons from international experience is provided herein.

1. Economic reopening in phases

The procedures for resuming business activities have been gradually simplified. In Phase 1 (May), each production unit of the sectors allowed to resume business had to present its “Plan for the surveillance, prevention and control of COVID-19 at work”. Each case was evaluated individually.

Then, Phase 2 (June) authorized activities in other sectors to reopen. In this phase, each company included in the business lines in the authorized regions was automatically allowed to restart activities simply through the presentation of their Plan. No individual evaluation was required. However, this did not apply to all of the companies. The production units located in the urban areas of the departments with a high risk of contagion required a Ministerial Resolution of the corresponding ministry to resume activities.

In July, Phase 3 allowed the automatic restart of the activities previously authorized in Phases 1 and 2 throughout the national territory. However, the restart of the production units operating in the new activities authorized by Phase 3 which were located in the urban areas of the departments with a high risk of contagion required the authorization of the corresponding ministry through a Ministerial Resolution. This restriction is still in force in the departments of Arequipa, Ica, Junín, Huánuco, San Martín, Madre de Dios, and Áncash.

Phase 4 has not been implemented yet. The main activities that are still not authorized to operate are those related to international air travel; bars, cinemas, and convention centers; face-to-face education; casinos; amusement parks, and the face-to-face activities carried by professional, religious, or political associations, among other associations.

In order to slow down the faster pace of infections registered in July, the Government decreed an expansion of the areas with targeted quarantine (S.D. No. 129-2020-PCM of July 25), modifying these areas thereafter on July 31, August 12 and 28, and September 17, the most recent modification maintaining a focused quarantine in 4 departments: Cusco, Moquegua, Puno, and Tacna, as well as in 25 provinces of 12 departments. These areas have

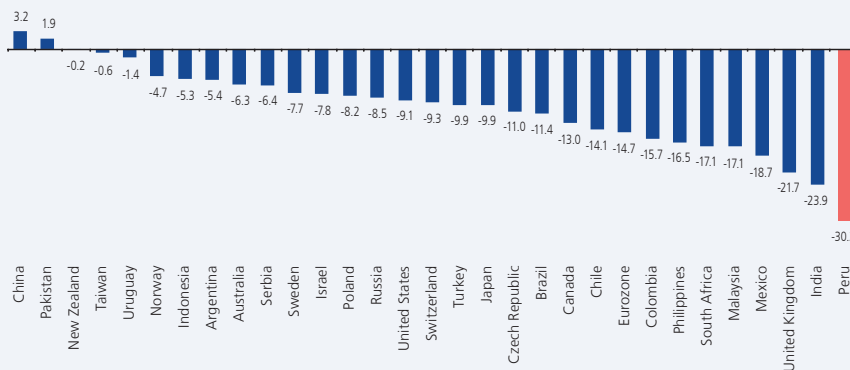
a total population of 3.8 million inhabitants, so the restriction applies to 12.3 percent of the country's population. On the other hand, the Government allowed social mobilization again on Sundays, with the prohibition of circulating using private vehicles, and maintained the prohibition of family and social gatherings.

2. Lessons from international experience

Economic recovery, in a context in which the pandemic has not yet been controlled, requires living with the virus. International experience shows that strict confinements have a very high economic cost. Best practices to mitigate the spread of COVID-19 contagion include a combination of measures, such as encouraging discipline in social distancing, hand washing, good ventilation of environments, using masks and face shields, implementing a good contact tracing system, isolating infected people, and carrying out massive awareness campaigns about the mechanisms of contagion, as has been carried out in countries such as New Zealand, Thailand, and Taiwan.

In some countries, confinement did not necessarily imply a drastic drop in GDP, whereas in other countries with strict containment measures, other factors such as high informality may have enhanced the drop in GDP, as in the cases of India and Peru. In addition, containment measures may involve an economic lockdown, but control is easier when there is a set of prohibited activities –a “negative list”– than when there is a list of authorized activities –a “positive list”– since the former may be determined on the basis of general knowledge of the potential sources of contagion. On the other hand, a positive list, such as the one administered in Peru, requires a broad knowledge of all existing economic activities and of their characteristics to be considered “safe”, which is quite complex in a highly informal economy such as the Peruvian economy. For example, Spain and Peru declared a state of emergency for the COVID-19 pandemic on March 14 and 15, 2020, respectively, but Spain, whose output dropped less than Peru’s output in the second quarter of the year, established a negative list.

GDP: SECOND QUARTER OF 2020
(Annual % change)





The countries that have been able to cope with the pandemic have strong public health systems. For this reason, it is crucial to continue improving our public health system, strengthening primary care with early diagnosis and treatment of COVID-19 through molecular tests, expanding the supply of beds in Intensive Care Units (ICU), and expanding teleconsultation care for other diseases.

International evidence also shows that it is necessary to massively carry out rapid molecular tests for diagnosis. Peruvian scientists have developed a low-cost rapid molecular test, which would allow making tests with the speed of serological tests with a lower margin of error. The regulatory framework for the last phase of testing was completed by Ministerial Resolution No. 687-2020-MINSA, which approved the SARS-CoV-2 diagnostic procedures validation guidelines. In this line, it is very important to continue providing the necessary facilities for the development and application of national molecular tests.

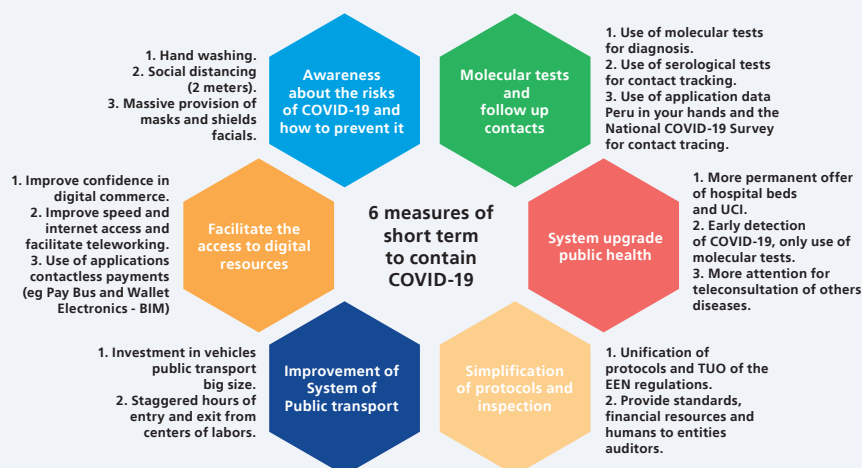
International best practices also include a strict contact tracking system, which is particularly important in the case of COVID-19 due to the high presence of asymptomatic patients. Contact tracing includes mechanisms for the population to provide personal information and emphasizes the use of digital media to apply diagnostic tests and to quarantine potential infected persons. Epidemiological intelligence in Peru could take advantage of the data from the “Peru in your hands” application and the “National COVID-19 Survey” and expand it.

This could be coupled by the correct use of serological tests, as recommended by the World Health Organization, that is, focusing on the follow-up of the contacts of confirmed COVID-19 patients, which could be complemented with probabilistic surveys in the most affected geographic areas and timely seroprevalence studies to identify people who have developed antibodies against the infection. This could help determine the immediate demand for immunizations once the vaccine is available, and help to identify the population that has developed the infection without symptoms in order to track possible sequelae.

Ensuring a safe service of public transport and the supervision of transport activities is particularly important since this is the most important transport means used in the country. Government regulations on transportation could improve its effectiveness if they are complemented with additional measures. For example, the Inter-American Development Bank and the guidelines for work protocols in the United States and the United Kingdom suggest the use of staggered work schedules, these measures also being in force in countries such as Germany, Chile, Colombia, Italy, and Singapore, among other countries, as this measure avoids crowding both at work centers and at bus stops and means of transport at peak hours, especially in large cities. This requires a greater promotion of differentiated work hours in the private sector, which implies a coordination effort for establishments, as well as strict compliance with work shifts at defined hours in the workplace.

It is also important to encourage electronic payment options, contactless payments, and e-commerce.¹ For example, the use of contactless payment apps, such as “PagaBus” (developed through the Ministry of Production’s program Innóvate Perú) could be promoted and expanded for transport services. In addition, the use of the Electronic Wallet (BIM) or financial institutions’ mobile payment apps could also be fostered for daily transactions. Finally, it is important to create mechanisms to strengthen consumer confidence in e-commerce to prevent crowding in physical stores and establishments.

MAIN MEASURES TO CONTAIN THE PANDEMIC IN THE SHORT TERM



In the labor field, it is important to accelerate the approval of requests for a *perfect suspension of business* for all company sizes to prevent the breakdown of employment relationships. It is also important to prevent the loss of human capital due to long periods of unemployment, facilitating rehiring practices, and whenever possible, efforts should be made to keep people with remote work, without bureaucratic obstacles. The latter requires not only extending the respective legislation, which is currently associated with the state of health emergency, but also improving internet services in terms of speed and access at the national level.

Finally, further administrative simplification and the improvement and standardization of inspection practices is also necessary to improve the business environment, which may

¹ These recommendations are in line with those proposed by researchers of the University of Cambridge for the control of the pandemic in general: Stutt et al. (2020), “A modeling framework to assess the likely effectiveness of facemasks in combination with ‘lock-down ‘in managing the COVID-19 pandemic” and by Olivera and Ghurra (2020) “El camino hacia una nueva normalidad” for the Peruvian context.





require providing greater financial and human resources to the control entities. The basic guidelines must be simple and common to all sectors. In addition to this, all the regulations implemented in matters of focused quarantine, restarting of activities, protocols, among other topics, should be contained in a single document (*Texto Único Ordenado*) to facilitate their compliance by the private sector, as well as supervision by the corresponding entities.

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Olivera, L. & Ghurra, O. (2020). "El camino hacia una nueva normalidad". Banco Central de Reserva del Perú, Revista Moneda 182.

Stutt, R. O., Retkute, R., Bradley, M., Gilligan, C. A., and Colvin, J. (2020). "A modelling framework to assess the likely effectiveness of facemasks in combination with 'lock-down' in managing the COVID-19 pandemic".

**Box 2
PROGRESS IN THE DEVELOPMENT
OF COVID-19 VACCINES**

The coronavirus disease 2019 (COVID-19), caused by the SARS-CoV-2 virus, was declared a pandemic on March 11 of this year by the World Health Organization (WHO). Since then, there have been numerous initiatives promoted by many governments, international organizations, biopharmaceutical companies, universities, and research teams have sought to develop one or more vaccines against this virus. To date, the WHO has recognized 182 vaccine candidates, 36 of which are currently in the clinical stage and, so far, only 9 have reached the last phase of the process prior to their approval for use in the general population².

The most advanced COVID-19 vaccines are of 3 types: viral vector, inactivated virus, and RNA. Viral vector vaccines use another virus to carry coronavirus genes into human cells, thereby eliciting an immune response. For their part, inactivated virus vaccines use a weakened version of the virus to elicit this response while RNA vaccines use one or more coronavirus genes to elicit the immune response.

During its development, a vaccine must go through a preclinical stage and a clinical stage, which consists of 4 phases. However, the vaccine can be approved after phase 3. In order to approve a vaccine, the agencies governing clinical trials in each country analyze the results obtained, but they may grant an authorization for emergency use while this occurs.

DEVELOPMENT PHASES OF A VACCINE

| Stage | Phase | Description |
|-------------|-------|--|
| Preclinical | | The vaccine is administered to animals (rodents or monkeys) to explore tolerance and capacity to elicit an immune response. |
| Clinic | I | A small group of people, usually fewer than 100 adults, are vaccinated to find out the safety and biological effects of the vaccine, including the immune response. |
| | II | Safe phase I vaccines are given to a larger group of people (between 200 and 500). This phase seeks to evaluate the safety of the vaccine, its ability to generate a response immunological, the proposed doses and the method of administration. |
| | III | It is the step prior to the approval of the vaccine. The experimental vaccine is administered and compared to a placebo (control) in hundreds or thousands of people in one or more countries, to fully evaluate the efficacy and safety of the vaccine. |
| | IV | After approval, effectiveness studies continue in one or more countries, monitoring the appearance of possible adverse events. |

Source: Pan American Health Organization.

2 <https://www.who.int/publications/m/item/draft-landscape-of-covid-19-candidate-vaccines>.





Candidate vaccines

According to the WHO, there are 36 vaccines against COVID-19 that have already started human trials. Moreover, 9 of them are already in phase III, although 2 vaccines have already been approved without completing this last phase.

MOST ADVANCED CANDIDATE VACCINES AGAINST COVID-19

| Developer / Producer | Country | Type | Number dose | Frequency dose | Clinical phase |
|---|-------------------------|---------------------------------------|-------------|---------------------------|---|
| Investigation Institute Gamaleya | Russia | Viral vector, adenovirus type 5 (Bd5) | 2 | At 0 and 21 days | Approved (although Phase III not finished yet) |
| CanSino Biological Inc. / Institute Beijing Biotechnology | China | Viral vector, adenovirus type 5 (Bd5) | 1 | | With limited approval for military use (although the Phase III is not finished yet) |
| Oxford University / AstraZeneca | United Kingdom | Viral Vector | 1 | | Phase III |
| Sinovac Biotech | China | Virus Inactivated | 2 | At 0 and 14 days | Phase III |
| Institute of Biological Products from Wuhan / Sinopharm | China | Virus Inactivated | 2 | At (0,14) or (0, 21) days | Phase III |
| Institute of Biological Products from Beijing / Sinopharm | China | Virus Inactivated | 2 | At (0,14) or (0, 21) days | Phase III |
| Moderna / NIAID | USA | RNA | 2 | At 0 and 28 days | Phase III |
| BioNTech / Fosun Pharma / Pfizer | Germany, United States | RNA | 2 | At 0 and 28 days | Phase III |
| Janssen Pharmaceutical Company (from Johnson & Johnson) | Belgium / United States | Viral vector | 2 | At 0 and 56 days | Phase III |

Source: OMS.

Studies are also underway in Peru to develop a vaccine against COVID-19 in a project led by Universidad Peruana Cayetano Heredia (UPCH), in partnership with FARVET Laboratory. The vaccine, which is still in the preclinical phase, is based on a method that has already proven successful in fighting other types of coronavirus in birds. The researchers hope to begin human testing in October and to have the vaccine ready by next year.

Vaccine purchases

Although no candidate vaccine against COVID-19 has concluded the clinical phase, and despite the fact that the efficacy and safety of each vaccine is yet unknown, many countries have already purchased vaccines in advance. It is estimated that more than 5 billion doses have already been sold worldwide, the United States being the main buyer.

Not all advance purchase contracts have been made public and many are still being negotiated, but the following table is indicative of how advance purchases would fare globally:

PURCHASE OF CANDIDATE VACCINES AGAINST COVID-19

| Country / Organization | Millions of doses purchased | Company |
|------------------------|-----------------------------|---|
| USA | 800 | Astra Zeneca, Sanofi / GlaxoSmithKline, Pzifer / BioNTech, Novavax, Johnson & Johnson, Modern |
| European Union | 700 | Astra Zeneca, Sanofi / GlaxoSmithKline |
| COVAX | 300 | Astra Zeneca |
| United Kingdom | 250 | Astra Zeneca, Sanofi / GlaxoSmithKline, Pzifer / BioNTech, Valneva |
| Japan | 120 | Pzifer / BioNTech, Novavax |
| Brazil | 100 | Astra Zeneca |

Source: The Economist Press.

The Russian vaccine is already on sale through the Russian Fund for Direct Investments. Despite the initial lack of scientific data related to phases I and II³ and the fact that the vaccine was approved without concluding the clinical phase, this Fund already registers requests for more than one billion doses from 20 countries. Russia is currently conducting clinical trials of "Sputnik V" with 40 thousand people living in Russia's capital city.

The price of the vaccines is still uncertain as they are still being developed and the final price will depend on the amount negotiated. According to some companies, the price of the vaccine would range between 2.5 euros (Oxford/AstraZeneca) and 144 dollars (Sinopharm). On the other hand, the price of Moderna's vaccine would range between US\$ 32 and US\$ 37, while BioNTech/Pfizer project a cost of US\$ 19.5 per vaccine dose. AstraZeneca and Johnson & Johnson laboratories have stated that they will forego the proceeds from the commercialization of the vaccine.

The WHO has spoken out against vaccine nationalism and in favor of fair and equitable access to immunization against COVID-19 in all countries. The organization says that the response to the pandemic must be collective, since the optimal strategy is to protect the most vulnerable population in all countries rather than immunizing all the inhabitants of one nation. Consequently, WHO proposes to allocate vaccines in two phases. In the first phase, the doses will be assigned simultaneously and proportionally to all participating countries, which will cover approximately 20 percent of their inhabitants (mainly health workers and vulnerable populations). In the second phase, more vaccines will be assigned to countries according to the situation and vulnerability of each country after examining these factors.

To ensure universal and equitable access to vaccines, WHO is promoting the Global Vaccine Mechanism COVAX, which would allow for acquisitions to be made jointly and to diversify risk between various vaccines. The goal of COVAX, which is also led by Gavi

3 The results of phases I and II of the Russian vaccine were published in The Lancet on Friday, September 4





and the Coalition for Epidemic Preparedness Innovations (CEPI), is to develop, produce, and allocate 2 billion doses of the COVID-19 vaccine by the end of 2021. It has been announced that 80 high-income countries, joined thereafter by 92 low-income countries, have already declared their intention to belong to COVAX, so this mechanism would include 172 member countries, which represent more than 70 percent of the world's population.

Peru Strategy

Peru has at least 3 strategies to obtain the coronavirus vaccine: (i) participate in the international COVAX alliance and in regional initiatives; (ii) establish direct agreements with foreign laboratories, and (iii) establish agreements for the laboratories to carry out their clinical trials in the country. Through these measures, the Peruvian government plans to implement the COVID-19 vaccination campaign to immunize 20 million Peruvians over 18 years of age for free.

It is expected that 6.6 million Peruvians (20 percent of the population) will be vaccinated through COVAX. Peru has already expressed its interest in participating in the alliance, but signing the agreement and making an advance payment of 15 percent of the cost of the doses⁴ is still pending.

On the other hand, since the only countries with the capacity to produce and distribute a possible vaccine against COVID-19 at the regional level are Brazil, Argentina, and Mexico, Peru has contacted the latter two countries, which have already reached an agreement with AstraZeneca/Oxford for private companies to distribute and produce their vaccine⁵.

In order to immunize more population, Peru is also negotiating direct purchase of vaccines with 16 laboratories, including Moderna, Merck, Pfizer/BioNTech, Novavax, and Sinovac. Moreover, an agreement will also be signed with the Gamaleya Institute to facilitate the purchase of its vaccine. However, the final purchase will be determined based on the results of the clinical phase of these vaccines.

Finally, it is worth pointing out that negotiations have been made with 4 laboratories to include the participation of Peruvian volunteers in clinical trials (phase III) in order to obtain preferential prices and lots of these vaccines. According to the Foreign Minister, the interest of these laboratories in Peru is due to its multiethnic population and the geographical diversity of the country.

Sinopharm's intervention began on August 24, but immunizations, for which 3,000 volunteers were recruited first, began on September 9 at the UPCH. A total of 3,000 more volunteers will be recruited in a next phase and vaccinated at the facilities of Universidad

4 <https://gestion.pe/peru/vacuna-covid-19-laboratorios-cancilleria-paso-a-paso-los-16-laboratorios-con-los-que-negocia-peru-para-la-vacuna-contra-el-covid-19-noticia/?ref=gesr>

5 Argentine company mAbxience will allocate one of its plants in the country for the production of the active principle of the vaccine, which would then be taken to Mexico for the finishing process and packaging.

Mayor de San Marcos. The only requirements to be part of the clinical trials are to be over 18 years old and not having tested positive for any coronavirus test. The participants, who will have a health insurance of US\$ 500,000 that will cover any medical complications related to the application of the vaccine, will be monitored by phone every day for a year.

For their part, AstraZeneca/Oxford and Johnson & Johnson will begin their clinical trials in Peru in September, although there is still no set date⁶. The government has also announced that the date for the clinical trials of the vaccine developed by Imperial College London in the United Kingdom will be set in October.

A Multisectoral Commission has been established to manage and obtain the immunization doses and extraordinary powers have been granted to MINSA to speed up the vaccine purchase process.

The Multisectoral Commission in charge of monitoring actions aimed at the development, production, acquisition, donation, and distribution of vaccines and/or treatments against COVID-19 was established at the beginning of August. This commission, which is led by the Ministry of Foreign Affairs, is made up of representatives of the Executive, CONCYTEC, the National Institute of Health, EsSalud, and universities (UPCH and San Marcos).

Moreover, in order to be able to quickly acquire the vaccine against COVID-19, MINSA has been allowed to sign contracts directly with the private sector and to establish partnership agreements with international organizations, as well as to transfer money to them from its institutional budget.

With the actions taken, MINSA estimates that the vaccine will arrive in the country between March and May 2021, although the WHO announced that mass vaccinations would probably begin in 2022. Although it is true that there are multiple vaccines in advanced stages of development, many would end phase III between October and December 2020. After this, they must seek approval to start mass production. In the most optimistic scenario of the WHO, vaccines would reach various countries in mid-2021, at which time priority should be given to the highest-risk groups.

⁶ AstraZeneca/Oxford vaccine tests were halted globally after a volunteer developed “unexplained” illness. The tests were resumed after approximately 4 days. The pharmaceutical company has stated that the recruitment of Peruvian volunteers will start soon.





Box 3

THE COVID-19 SHOCK: DECOMPOSITION BETWEEN SUPPLY AND DEMAND

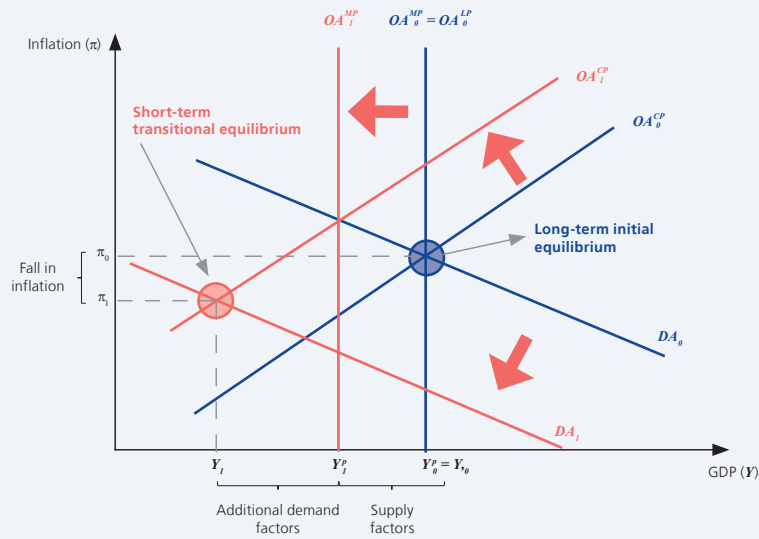
The event associated with the COVID-19 pandemic in macroeconomic terms can be interpreted as a set of sector supply shocks characterized by sanitary measures, confinement, temporary and permanent layoffs, as well as by the exit of companies from the market. These shocks subsequently generate significant reductions in aggregate demand, which may even be greater than the initial supply shocks.

The particularity of the COVID-19 event lies in the temporary closure of production sectors in which there is an intensive personal interaction that is observed both on the side of the production of goods (industrial factories with a mass production of goods) and on the side of services (shopping centers, restaurants, etc.). Since mandatory confinement produces the temporary closure of some production sectors, the workers in these sectors cannot receive their income from work regularly and the workers who have been laid off cannot search for a job. Moreover, if the factories and shopping centers close, even the workers who continue to receive their income –without being laid off– are not able to buy a part of the basic consumption basket due to confinement. If, in addition, workers are laid off, the reduction in the economy's aggregate labor income causes changes in consumption, investment, and production patterns, which expand the initial supply shock through a significant reduction in aggregate demand.

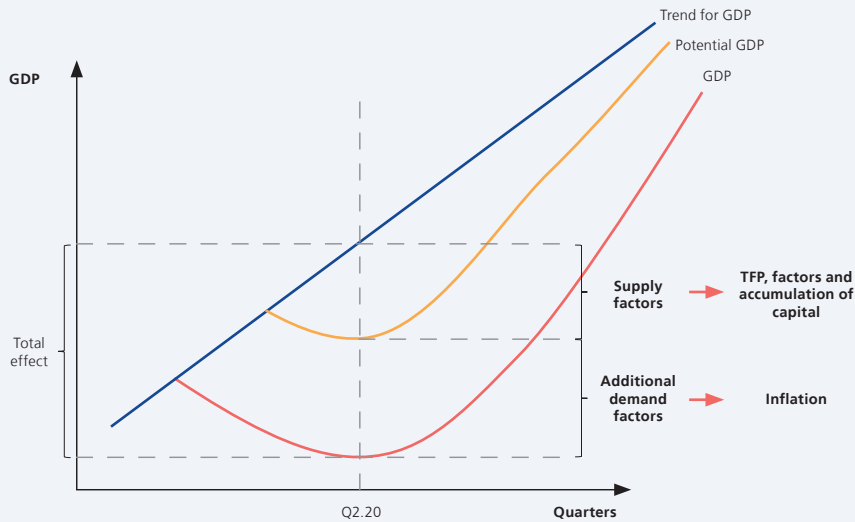
In this context, the concepts of potential GDP growth and the output gap provide a way to identify and isolate the impact of the factors that explain the decline in GDP, both in supply and in demand. First, however, it is important to establish the difference between the definitions of potential output and trend GDP growth. On the one hand, the potential output measures the economy's medium-term production capacity, which is subject to real frictions associated with the degree of use of production factors. On the other hand, the concept of trend GDP growth describes the frontier of the production possibilities of an economy along the path of balanced growth in the long term, in a context in which short- and medium-term shocks have dissipated and production factors operate efficiently. Moreover, the difference or gap between the observed GDP rate (data) and the trend GDP growth rate measures the total effect of the COVID-19 event; that is, it includes both demand and supply factors. On the other hand, the difference between the observed GDP rate and the potential GDP rate measures the additional demand factors associated with this shock.

The following graph shows the effect of the COVID-19 shock on GDP (red line), trend GDP growth (blue line), and the potential output (green line). Sanitary measures and quarantine have reduced GDP, the lowest point of which is observed in the second quarter of this year. In order to simplify the analysis, in the graph following the one below we assume that the effect of the pandemic does not significantly modify trend growth or long-term growth, while medium-term production capacity, measured by potential GDP, decreases and therefore it is separated from trend GDP. The latter occurs because the degree of utilization of capital and the labor factor, as well as total factor productivity,

falls in the short- and medium-term due to confinement and to the sanitary measures adopted.



THE COVID-19 SHOCK: DECOMPOSITION BETWEEN SUPPLY AND DEMAND

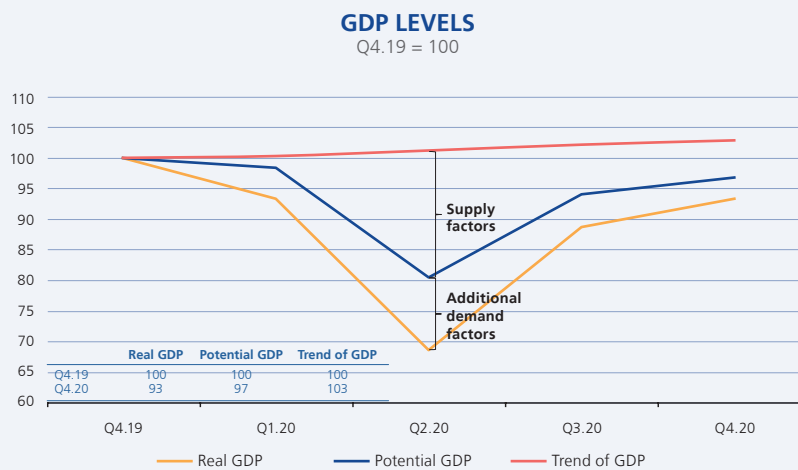


The Quarterly Forecasting Model (MPT) of BCRP, which is used to quantify these effects in the case of the Peruvian economy, fulfills the function of being a multivariate filter that allows decomposing the annual GDP growth into demand factors (change in the output gap) and supply factors (potential growth). The results obtained suggest that lower demand would explain more than 50 percent of the decline in GDP in 2020. The impact of supply





factors on GDP is understood both as a result of the temporary closure of some sectors during 3 months of quarantine and as a result of the limited supply of companies due to the restrictions adopted (government measures that limit production capacity after the reopening of several sectors). The following graph shows the decomposition of the GDP level in terms of trend growth and potential output.



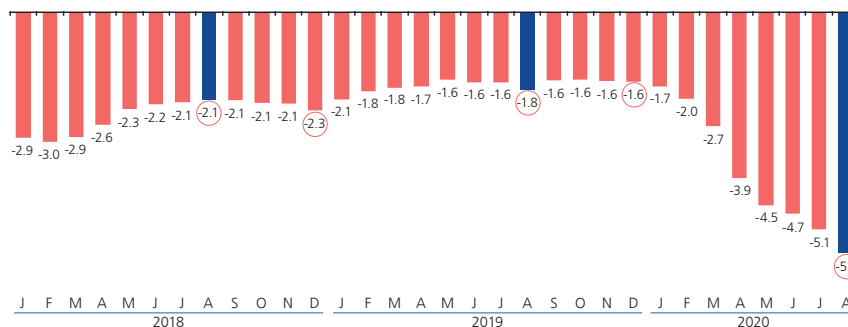
In sum, the COVID-19 shock has effects on both supply and demand, and the separation and identification of these two forces continues to be a challenge to be solved. It can be concluded that, although there is a stable long-term trend for GDP, potential growth has also been affected by the pandemic. What is illustrated in this box allows us to have a better understanding of the direction of the shock that has severely affected the Peruvian economy this year.

IV. Public Finances

Recent developments

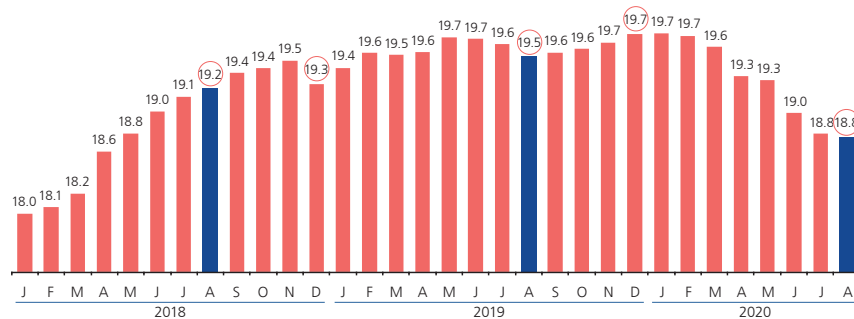
40. After registering 1.6 percent of GDP in 2019, the **fiscal deficit** rose to 5.7 percent of GDP in August 2020. This increase is explained mainly by a drop in revenues, and to a lesser extent, by an increase in expenditure. The contraction in revenues is due both to the lower dynamism of economic activity in the second quarter of this year and to the measures that defer tax obligations. Expenditure rose due to the current component as a result of the measures taken –monetary transfers to households and support to companies–, as well as of expenses to attend the health emergency. Likewise, another element that contributed to increase the deficit was the primary balance of the state-owned companies in a context of lower income.

Graph 53
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2018 - 2020
 (Accumulated last 12 months - % GDP)

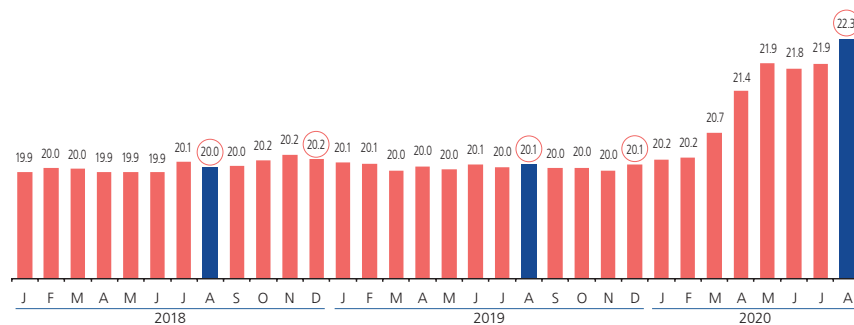




Graph 54
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2018 - 2020
(Accumulated last 12 months - % GDP)



Graph 55
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2018 - 2020
(Accumulated last 12 months - % GDP)



Forecasts

- One of the actions that stands out among the measures taken since our last Inflation Report was published in June is the **Arranca Perú** program which is aimed at supporting economic reactivation through current expenditure and public investment (S/ 6.79 billion). This program includes: i) the maintenance of the national and community road network; ii) investments to optimize, expand, rehabilitate and replace urban and rural sanitation infrastructure and improve access to housing in an adequate urban environment; iii) immediate intervention activities and investments through the “Trabaja Perú” program; iv) infrastructure interventions through executing agencies; v) the delivery of the Family Housing Bonus, and vi) other actions that include interventions in agriculture, education, and culture. This program will be carried out during the second half of 2020 and the first half of 2021.

In addition, among the family protection measures, the government approved the expansion of households benefiting from the Universal Bond as well as the delivery of a **second Universal Family Bond** (E.D. 098-2020). This second S/760 bond, which will be delivered as from October, will benefit a total of 8.5 million households.

42. Taking into account the previous measures and the execution observed, the projection of the **fiscal deficit** has been lowered from 9.7 to 9.2 percent of GDP in 2020 with respect to our previous Report. The upward revision of revenues (by 0.5 percent of GDP) reflects the higher tax revenues and the lower requests for tax fractionation observed in comparison to what was projected, as well as the higher terms of trade expected. Non-financial expenditure is estimated to be slightly lower, with current spending being estimated to show a higher real growth associated with the recent fiscal policy measures, and with a lower execution of public investment.

In 2021 the fiscal deficit would be 5.1 percent of GDP, 0.9 percentage points of GDP higher than estimated in the June Report, mainly due to lower current income. The projection of non-financial expenditure has been revised slightly downwards.

Table 22
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

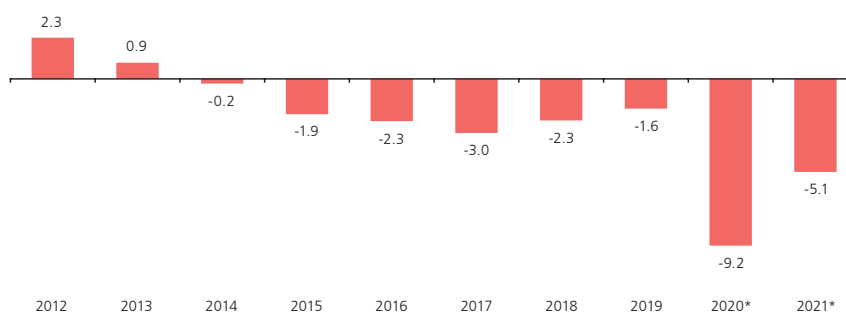
| | 2019 | 2020* | | | 2021* | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.19 | IR Jun.20 | IR Sep.20 |
| 1. General government current revenues | 19.7 | 20.2 | 17.5 | 18.0 | 19.5 | 18.7 |
| <i>Real % change</i> | 4.3% | -22.3% | -21.9% | -19.5% | 24.0% | 15.3% |
| 2. General government non-financial expenditure | 20.1 | 21.1 | 25.2 | 25.1 | 22.3 | 22.2 |
| <i>Real % change</i> | 1.3% | -0.5% | 10.6% | 10.8% | -1.8% | -2.3% |
| Of which: | | | | | | |
| Current expenditure | 15.5 | 18.5 | 20.3 | 20.7 | 17.4 | 17.8 |
| <i>Real % change</i> | 3.3% | 7.9% | 15.1% | 17.9% | -4.3% | -4.4% |
| Gross capital formation | 4.0 | 2.1 | 4.2 | 3.6 | 4.2 | 3.7 |
| <i>Real % change</i> | -4.7% | -43.4% | -7.8% | -18.8% | 12.6% | 13.7% |
| 3. Others | 0.1 | -0.9 | -0.3 | -0.4 | 0.2 | 0.1 |
| 4. Primary balance (1-2+3) | -0.2 | -1.8 | -8.0 | -7.6 | -2.5 | -3.4 |
| 5. Interests | 1.4 | 1.8 | 1.7 | 1.7 | 1.6 | 1.7 |
| 6. Overall Balance | -1.6 | -3.7 | -9.7 | -9.2 | -4.2 | -5.1 |

* Forecast.
IR: Inflation Report.





Graph 56
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2021
(% GDP)



* Forecast.

Current revenues

43. **Current revenues** would decrease 19.5 percent in real terms in 2020 –22.3 percent in the first semester– as a result of lower economic activity, from 19.7 to 18.0 percent of GDP. However, this reduction would be lower than foreseen in the previous Report (17.5 percent of GDP), in line with the companies' lower disposition to the tax split compared to what was expected in June as well as with the higher terms of trade projected.

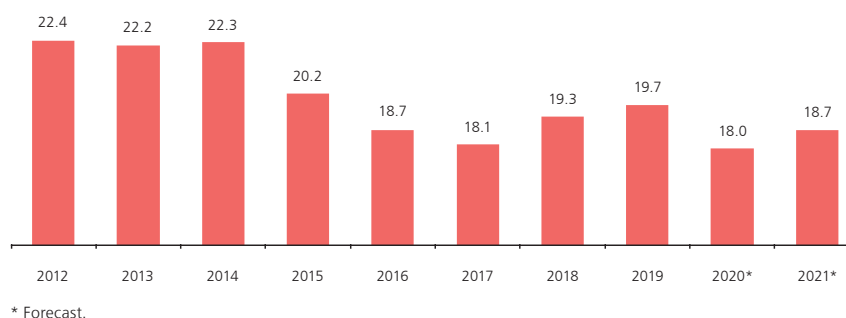
Table 23
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

| | 2019 | 2020* | | | 2021* | |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | R.I. Sep.20 |
| TAX REVENUES | 14.8 | 15.3 | 13.1 | 13.3 | 15.0 | 14.1 |
| Income tax | 5.7 | 7.1 | 5.1 | 5.4 | 5.4 | 5.3 |
| Value Added Tax | 8.2 | 8.1 | 7.2 | 7.6 | 8.1 | 7.9 |
| Excise tax | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Import duties | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other tax revenues | 1.9 | 1.5 | 1.9 | 1.7 | 2.3 | 1.9 |
| Tax returns | -2.3 | -2.6 | -2.2 | -2.4 | -2.1 | -2.2 |
| NON-TAX REVENUES | 5.0 | 4.8 | 4.4 | 4.6 | 4.5 | 4.6 |
| Contributions to social security | 2.2 | 2.4 | 1.8 | 2.1 | 2.2 | 2.1 |
| Own resources and transfers | 1.7 | 1.8 | 1.8 | 1.7 | 1.6 | 1.6 |
| Royalties and likely | 0.6 | 0.5 | 0.5 | 0.5 | 0.4 | 0.5 |
| Other | 0.5 | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 |
| TOTAL | 19.7 | 20.2 | 17.5 | 18.0 | 19.5 | 18.7 |

* Forecast.
IR: Inflation Report.

In 2021, current revenues would grow 15.3 percent due to the recovery of economic activity and the payment of tax installments granted as an extraordinary measure this year. Current revenues would also show a more moderate recovery than expected in the previous report due to the lower profits that companies would obtain this year and lower other income from tax fractioning, as well as due to higher tax refunds.

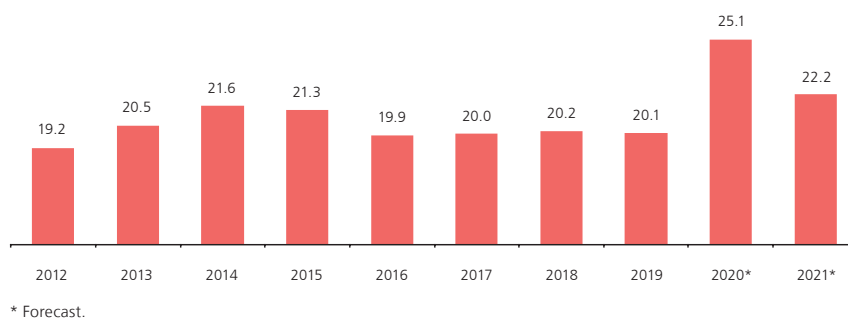
Graph 57
CURRENT REVENUES OF THE GENERAL GOVERNMENT: 2012 - 2021
 (% GDP)



Non-financial expenditure

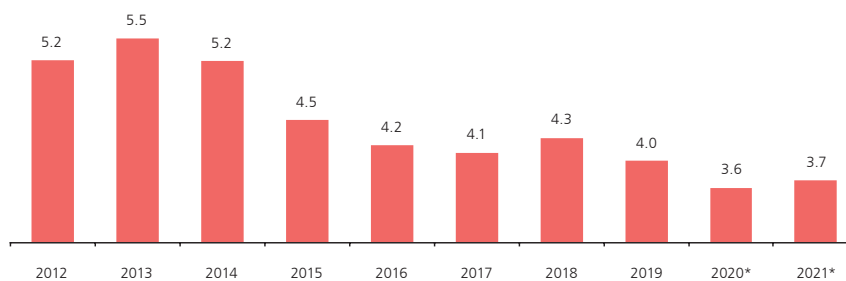
44. In 2020, **non-financial expenditure** would grow 10.8 percent in real terms, which implies speed in the execution of public spending in the remainder of the year. Moreover, non-financial spending would fall from 25.2 to 25.1 percent of GDP compared to the June Report, with a higher relative share of current spending, offset by lower levels of gross capital formation, in line with the evolution observed as of August.

Graph 58
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT: 2012 - 2021
 (% GDP)





Graph 59
GROSS CAPITAL FORMATION OF THE GENERAL GOVERNMENT: 2012 - 2021
(% GDP)



* Forecast.

On the other hand, in 2021 non-financial expenditure would decrease 2.3 percent as a result of the reversal of the extraordinary measures given this year, such as the bonds granted to face COVID-19. Higher-than-previously estimated levels of current spending are projected due, in part, to the execution of spending programs that are not completed this year and due to the extension of health spending, including the acquisition of vaccines against COVID-19 .

Table 24
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(% GDP)

| | 2019 | 2020* | | | 2021* | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| Current expenditure | 15.5 | 18.5 | 20.3 | 20.7 | 17.4 | 17.8 |
| National Government | 10.5 | 12.8 | 14.2 | 14.3 | 11.7 | 12.1 |
| Regional Governments | 3.5 | 4.0 | 4.3 | 4.3 | 4.0 | 3.9 |
| Local Governments | 1.6 | 1.6 | 1.8 | 2.1 | 1.7 | 1.9 |
| Capital expenditure | 4.6 | 2.6 | 4.9 | 4.5 | 4.8 | 4.3 |
| Gross capital formation | 4.0 | 2.1 | 4.2 | 3.6 | 4.2 | 3.7 |
| National Government | 1.5 | 0.8 | 1.6 | 1.4 | 1.7 | 1.5 |
| Regional Governments | 0.8 | 0.4 | 0.9 | 0.8 | 0.9 | 0.8 |
| Local Governments | 1.6 | 0.8 | 1.7 | 1.4 | 1.7 | 1.4 |
| Others | 0.6 | 0.6 | 0.8 | 0.8 | 0.6 | 0.6 |
| TOTAL | 20.1 | 21.1 | 25.2 | 25.1 | 22.3 | 22.2 |
| National Government | 12.6 | 14.2 | 16.5 | 16.5 | 14.0 | 14.1 |
| Regional Governments | 4.3 | 4.5 | 5.1 | 5.1 | 4.8 | 4.7 |
| Local Governments | 3.2 | 2.5 | 3.6 | 3.6 | 3.4 | 3.3 |

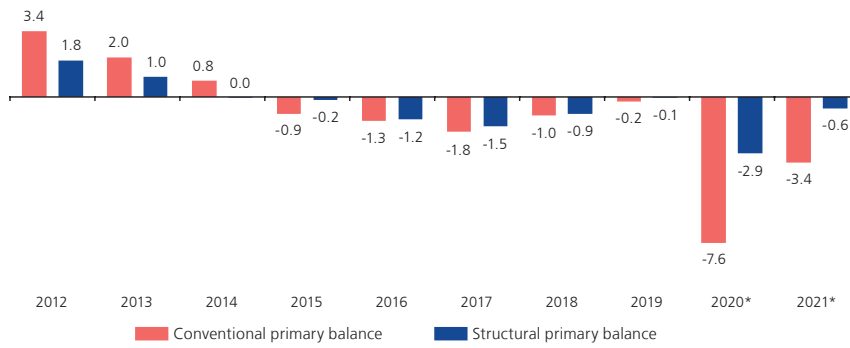
* Forecast.
IR: Inflation Report.

Fiscal Stance

45. The **primary structural balance** is an indicator that isolates the effects of factors outside the government's control, such as export prices or the stage of

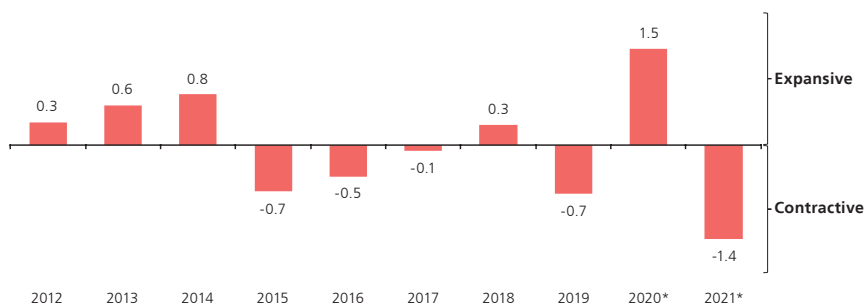
the business cycle, on fiscal aggregates, particularly on tax revenues. A primary fiscal deficit of 2.9 percent of the potential output is estimated for 2020 and a primary fiscal deficit of 0.6 percent is estimated for 2021.

Graph 60
CONVENTIONAL AND STRUCTURAL PRIMARY BALANCE
OF THE NON-FINANCIAL PUBLIC SECTOR: 2012 - 2021
 (% GDP and Trend GDP)



46. If the changes in structural incomes, current and capital expenditures are weighted by their respective multipliers, we obtain the weighted fiscal impulse, which shows qualitatively similar results to the percentage change in the primary structural balance. In this case, the conclusion remains unchanged: the fiscal policy is contractionary in 2019 and expansionary in 2020 (1.5 percent of potential output), which together with an expansionary monetary policy stance, would contribute to offset the negative shock of COVID-19. The fiscal position in 2021 would be contractionary (1.4 percent of the potential output).

Graph 61
FISCAL WEIGHTED IMPULSE 1/
 (% Trend GDP)



1/ The weighted impulse takes account the multiplier model of changes in the incomes, current expenses and public investment.





Financing and debt

47. The revision of the projection of the fiscal deficit, with respect to the forecast in June, is reflected in the **projected financing requirements**, which are revised down for 2020 due to the lower projected fiscal deficit and revised up for 2021.

Table 25
FINANCIAL REQUIREMENTS OF THE NON-FINANCIAL PUBLIC SECTOR AND ITS FUNDING
(Million S/)

| | 2019 | 2020* | | | 2021* | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | | I Sem. | IR Jun.20 | IR Sep.20 | IR Jun.20 | IR Sep.20 |
| I. USES | 32,022 | 12,591 | 68,924 | 66,347 | 34,656 | 42,545 |
| 1. Amortization | 19,491 | 1,113 | 2,655 | 2,658 | 2,839 | 2,883 |
| a. External | 4,524 | 557 | 986 | 1,005 | 1,741 | 1,783 |
| b. Domestic | 14,967 | 556 | 1,669 | 1,653 | 1,098 | 1,100 |
| <i>Of which: Recognition bonds</i> | 622 | 233 | 479 | 462 | 550 | 550 |
| 2. Overall balance (Negative sign indicates surplus) | 12,531 | 11,477 | 66,269 | 63,689 | 31,817 | 39,662 |
| II. SOURCES | 32,022 | 12,591 | 68,924 | 66,347 | 34,656 | 42,545 |
| 1. Disbursements and other | 36,704 | 11,703 | 28,501 | 29,600 | 23,618 | 34,655 |
| a. External | 3,709 | 1,368 | 12,898 | 10,700 | 6,021 | 7,119 |
| b. Bonds | 32,995 | 10,335 | 15,603 | 18,900 | 17,597 | 27,536 |
| 2. Change on deposits and other ^{1/} | -4,682 | 888 | 40,423 | 36,747 | 11,038 | 7,890 |
| Memo: | | | | | | |
| <u>% GDP</u> | | | | | | |
| Gross public debt balance | 26.8 | 30.2 | 33.9 | 34.3 | 33.1 | 34.8 |
| Net public debt balance | 13.0 | 15.1 | 23.6 | 22.8 | 25.3 | 25.6 |
| Public deposits balance | 13.8 | 15.1 | 10.3 | 11.4 | 7.8 | 9.2 |

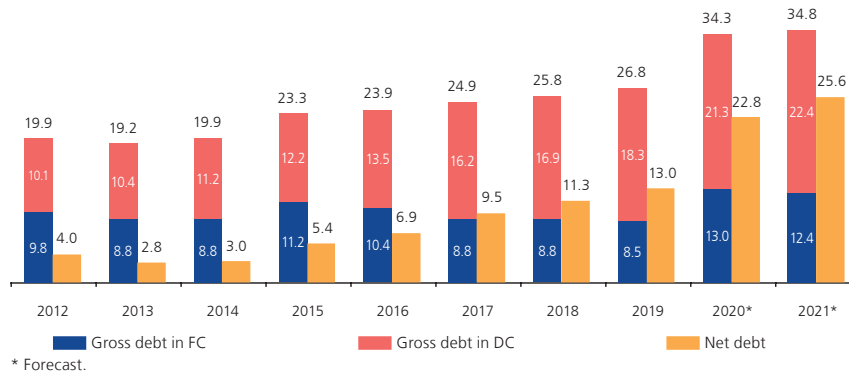
^{1/} A positive sign indicates a reduction of deposits.

* Forecast.

IR: Inflation Report.

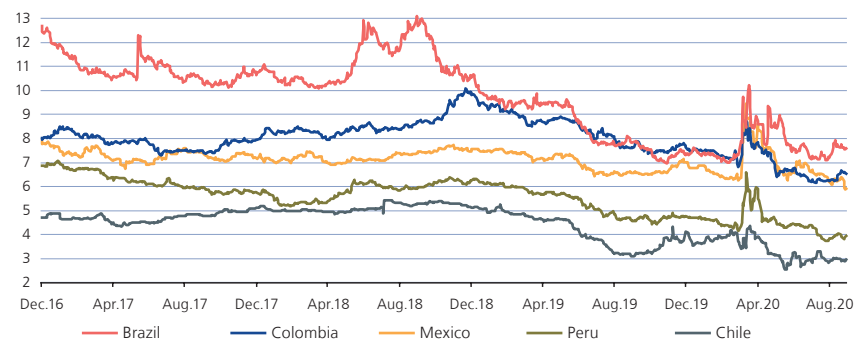
The debt of the non-financial public sector would increase from 26.8 to 34.3 percent of GDP between 2019 and 2020, recording a level of 34.8 percent of GDP in 2021. The **net debt** would increase from 13.0 to 22.8 percent of the output between 2019 and 2020, and would register 25.6 percent of the output in 2021. At the end of June, the level of assets of the non-financial public sector represented 15.1 percent of GDP, with the deposits in the financial system (13.2 percent of GDP) standing out.

Graph 62
NON-FINANCIAL PUBLIC SECTOR DEBT: 2012 - 2021
(% GDP)



48. After the high volatility registered in March following the intensification of the health crisis in the region, the interest rates on 10-year government bonds in domestic currency in Brazil, Chile, Colombia, Mexico, and Peru showed greater stability in the third quarter of 2020. Between June and September 2020, interest rates in Colombia and Peru decreased by 34 and 100 basis points, respectively, whereas in Mexico, Brazil, and Chile they increased by 20, 11, and 5 basis points, respectively.

Graph 63
10-YEARS SOVEREIGN BOND YIELDS IN LOCAL CURRENCY
(In %)



The bond market has benefited from the improvement in risk aversion and the high global liquidity that encourages investors to demand assets from the



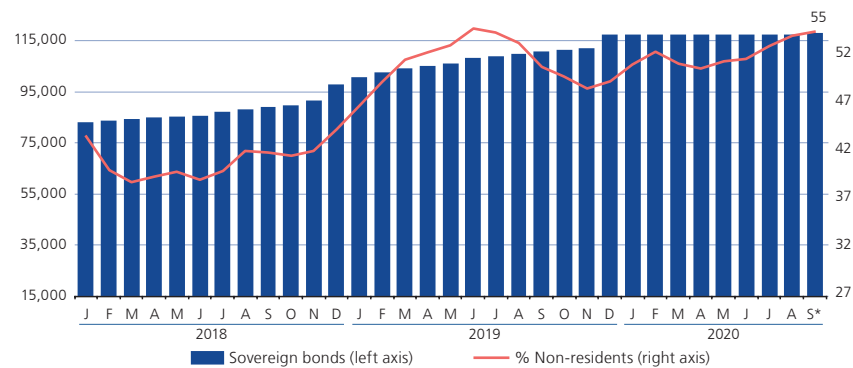


emerging economies. In Peru, the interest rate on the 10-year bond fell from 3.77 to 3.43 percent between June and September 2020, reaching its historical minimum value since January 2005 (3.20 percent) in August 2020. Non-resident investors' demand for Peruvian securities remains high in the third quarter.

The demand for debt securities in the region is expected to maintain a stable trend in the coming months and greater dynamism in the economies is expected to encourage the reduction of interest rates on these securities. On the other hand, a possible resurgence of COVID-19, trade tensions between the United States and China, and the presidential elections in the United States could constrain the appreciation of the region's bonds.

The balance of **sovereign bonds** amounted to S / 117,999 million as of September 16, 2020. On the demand side, the participation of non-resident investors increased from 52 to 55 percent of the bond balance between May and September 16 of this year, that is, from S/ 60.54 to S/ 64.48 billion.

Graph 64
**BALANCE OF SOVEREIGN BONDS AND SHARE
OF NON-RESIDENT INVESTORS**
(Amounts in million S/ and shares in %)



* Preliminary data as of September 16.
Memo: Excludes inflation-indexed bonds and GDNs and transactions in Euroclear from residents.
Source: MEF and BCRP.

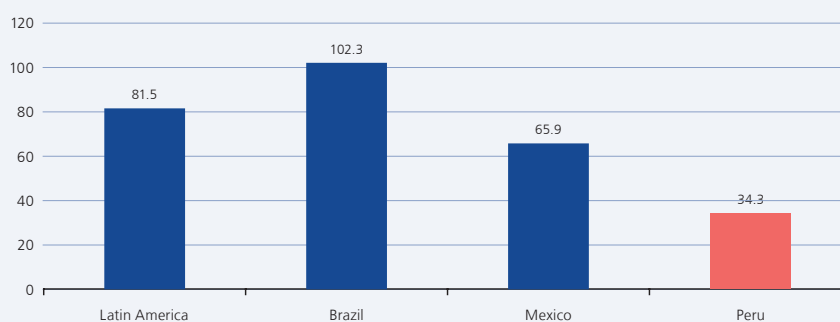
Box 4
MEDIUM-TERM FISCAL OUTLOOK

The fiscal scenario in this Inflation Report considers a fiscal deficit of 9.2 percent of GDP in 2000 which would decline to 5.1 percent of GDP in 2021. This implies that the gross public debt would increase from 26.8 percent of GDP at the end of 2019 to 34.3 in December 2020 and to 34.8 percent of GDP at the end of 2021.

The level of public debt foreseen is higher than the limit considered in the fiscal rule established in the legal framework of the Fiscal Responsibility and Transparency Framework Law (Legislative Decree 1276) and consistent with the suspension of fiscal rules for the period 2020-2021 approved by Legislative Decree 1457.

Although this increase in public debt is high compared to Peru’s recent record, the expected level of debt is low compared to that of other countries in the region. The recent update of the IMF’s World Economic Outlook (June 2020) anticipates a gross public debt ratio of 81.5 percent of GDP for Latin America in 2020, with countries like Brazil showing levels above 100 percent of GDP, as seen in the graph below.

LATIN AMERICA: GROSS PUBLIC DEBT 2020
(% GDP)



Source: BCRP and IMF, WEO Update. As of June 2020.

In this context, this box presents a medium-term fiscal outlook with scenarios of fiscal consolidation (period 2021-2030) that allow maintaining a non-explosive path for the public debt-to-GDP ratio, conditional on the expected evolution of economic activity and the State’s tax collection capacity.

The base scenario is based on the assumption that the Peruvian economy’s trend growth rate is around 4 percent per year and that the economy would converge towards this rate as from 2022 after going through the recovery foreseen for 2021 in this Report. Another assumption in the base scenario is that inflation is controlled and in the middle of the Central Bank’s target range, so the nominal exchange rate also remains stable over the forecast horizon.



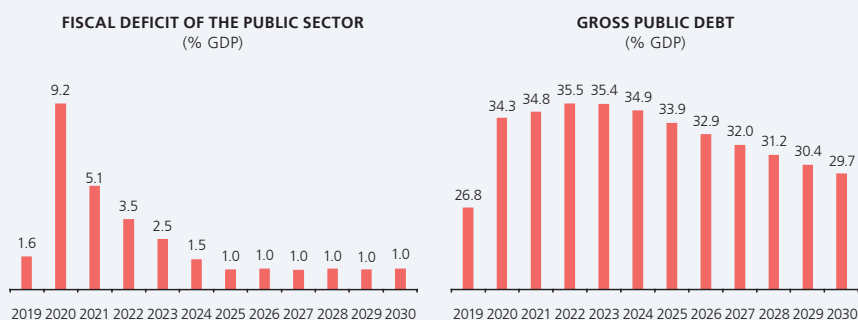


In the fiscal arena, this scenario assumes a gradual process of consolidation of the deficit that would reach the limit of 1 percent established in the legal framework of the Fiscal Responsibility and Transparency Law as from year 2025. The duration and magnitude of this adjustment is similar to the one observed between 2000 and 2005, when the public deficit was reduced by around 3 percentage points of the output at a time when the country was recovering from domestic shocks (the 1997 El Niño event, the political crisis of 2001) and international shocks (the Asian and the Russian crises) that had a negative impact on its macroeconomic performance.

The baseline scenario also assumes that the cost of the debt (measured by the implicit interest rate on the debt) remains stable, at around 5 percent per year, and that the nominal level of public assets remains unchanged in the 2024-2030 period.

In general terms, the management of government debt and financial assets should focus on covering the treasury's operations, reducing the vulnerability of fiscal accounts to market risks associated with a high level of debt. Thus, although the government will use the resources of the Fiscal Stabilization Fund (which as of June 2020 represented 17 percent of total fiscal assets) to cover expenses associated with the Covid-19 crisis, there is still a significant amount of public resources that at the end of 2020 was estimated at 11.4 percent of GDP. On the side of public liabilities, the debt issuance strategy must take into account the rate structure so that debt is issued at terms that allow the Treasury to benefit from a context in which the market of public debt offers very low rates in short terms. This would improve the gradual adjustment of the primary balance during the fiscal consolidation process.

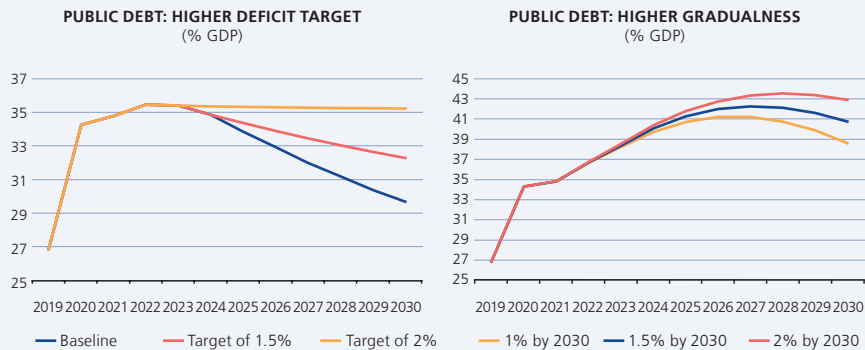
The graph below shows the evolution of the fiscal deficit and gross public debt in this scenario.



The graph shows that the gross public debt would remain above 32 percent of GDP until 2027 and fall thereafter below 30 percent of GDP at the end of the forecast horizon.

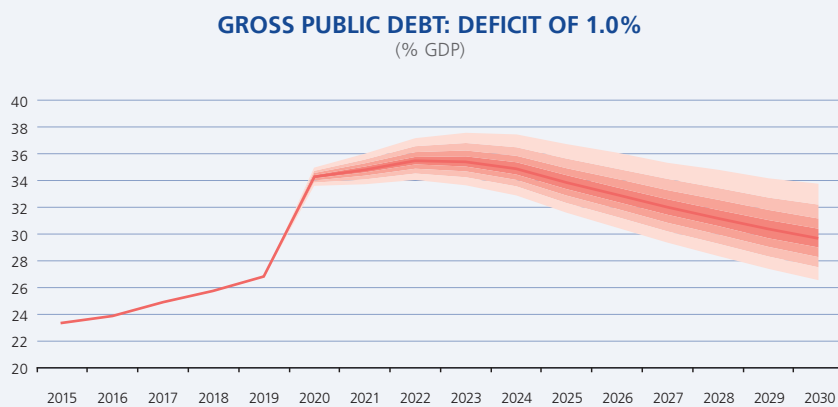
This path of public debt clearly depends on the magnitude and gradualness of the adjustment made in the fiscal accounts. The following graph shows the paths for the gross debt if a

higher deficit target (1.5 or 2.0 percent of GDP) is considered or if a more gradual adjustment (linear convergence to the deficit target which is reached in 2030) is considered.



This exercise shows that a gradual adjustment of the fiscal deficit is necessary to avoid a growing debt path and that a too high deficit target (2.0 percent of GDP) would imply a public debt path that would stabilize above 40 percent of GDP.

An important assumption of the central scenario is the economy's growth rate in the forecast horizon. The following graph presents a "fan chart" of the public debt generated with the historical volatility of the real GDP growth rate.



The graph shows the uncertainty observed regarding the path of the public debt conditional on the sequence of fiscal deficit considered in the baseline scenario. Although the uncertainty is high, what the graph shows is that there is a high probability that the Peruvian government will not reduce the public debt at a level consistent with the current fiscal rule (30 percent of GDP) before 2027.





As mentioned in the June Report, an efficient way to promote fiscal sustainability is by increasing the economy's trend growth rate through structural reforms that improve the functioning of the factor market and financial markets as well as by reducing logistics costs and the regulatory burden to encourage private investment. A scenario of higher growth accompanied by prudent fiscal management provides the treasury with resources in the form of higher tax revenues and a lower cost of borrowing, which allows consolidating the deficit and maintaining a low level of public debt without compromising the expansion of provision of goods and services to citizens.

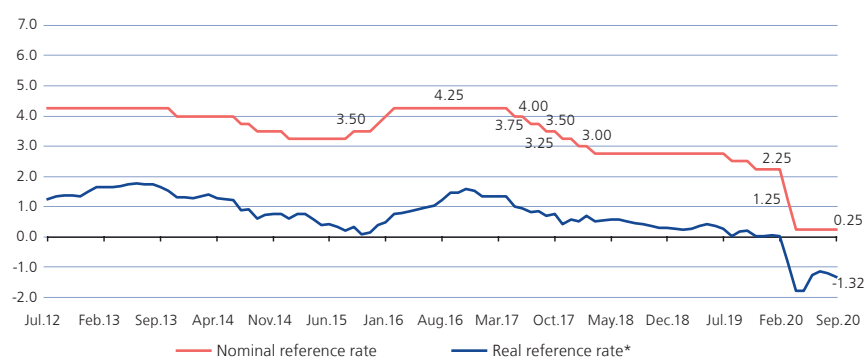
V. Monetary Policy and Financial Conditions

Monetary policy actions

49. Since March, BCRP has taken unprecedented monetary and financial measures to contribute to ensure the proper functioning of markets amid a deep economic contraction associated with the application of extreme confinement in response to COVID-19. The focus of these measures has been reducing the cost of financing, providing liquidity to the financial system, and reducing the volatility of long-term interest rates and the exchange rate.

Thus, since April BCRP has maintained a record low benchmark interest rate of 0.25 percent, which is equivalent to a negative real rate of 1.32 percent. Given the magnitude of the shock associated with the pandemic, other monetary policy instruments have also been used to expand the monetary impulse.

Graph 65
REFERENCE INTEREST RATE
(In %)



* Ex ante real rate with expectation of inflation.

50. These decisions have been made in light of the following factors:
- Inflation forecasts below the target range due to the significant weakening of domestic demand.





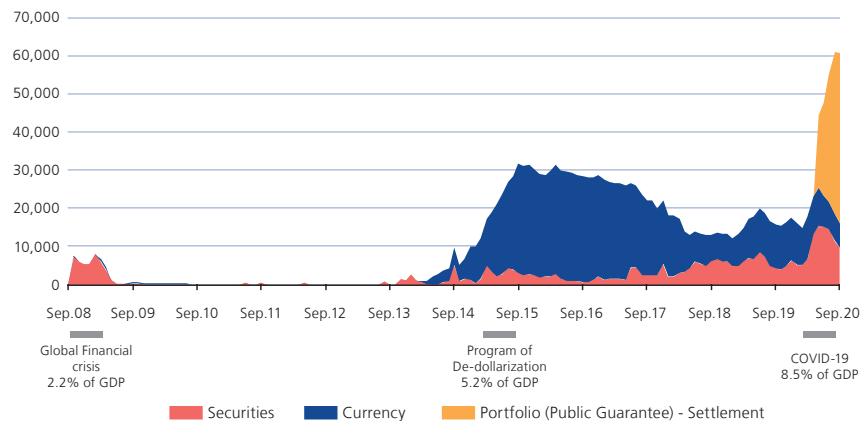
- One-year ahead inflation expectations and indicators of trend inflation show levels in the lower band of the target range (below 2.0 percent).
- Even though economic activity recovered in June and leading indicators point to a recovery in July and August as well, they remain significantly below the levels they registered in 2019. Moreover, indicators of business expectations about GDP growth continued to recover in August, although most of them still remain on the pessimistic side.
- Global economic activity has been improving so far in the second half of the year, but remains at lower levels than those observed last year.

51. In terms of communication, the BCRP Board of Directors has emphasized that *“it considers it appropriate to maintain a strongly expansionary monetary stance for a prolonged period of time and while the negative effects of the pandemic on inflation and its determinants persist.”* In this way, BCRP has given guidelines on the future monetary policy stance, providing more information to the market for the formation of expectations. BCRP has also indicated that *“it stands ready to extend the monetary stimulus under different modalities.”*

Additional measures of BCRP in response to the COVID-19 pandemic

52. As of September 17, BCRP’s injection operations totaled S/ 60.7 billion (8.5 percent of GDP), of which S/ 15.9 billion are security repos, currency repos, and portfolio repos, and S/ 44.8 billion is the liquidated amount of government-backed credit repos.

Graph 66
BALANCE OF REPO OPERATIONS*
(Balance in mill. S/)



* As of September 17.

53. Between June and September, 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 increased from S/ 44.5 billion at the end of May to S/ 60.7 billion as of September 17. It is worth mentioning that S/ 44.8 billion of the latter corresponds to repo operations guaranteed by the National Government. Moreover, the total balance of liquidity injection operations (S/ 60.7 billion) is almost eight times higher than the maximum balance that these operations reached during the international financial crisis of 2008-2009 (S/ 7.9 billion) and 1.9 times the balance reached during the period of falling commodity prices (2013-2016) and the de-dollarization program (S/ 31.8 billion).

Table 26
BALANCE OF BCRP REPO OPERATIONS*
(Million S/)

| Episodie | Date | Values | Currency (Regular) | Currency (Expansion) | Currency (Substitution) | Portfolio (General and Alternative) | Government- backed portfolio repo liquidation | Total |
|---------------------------------------|--------|--------|-----------------------|-------------------------|----------------------------|---|--|--------|
| Financial crisis 2008-2009 | Oct-08 | 7,383 | 300 | 0 | 0 | 0 | 0 | 7,683 |
| | Nov-08 | 5,959 | 30 | 0 | 0 | 0 | 0 | 5,989 |
| | Dec-08 | 5,412 | 0 | 0 | 0 | 0 | 0 | 5,412 |
| | Jan-09 | 5,239 | 0 | 0 | 0 | 0 | 0 | 5,239 |
| | Feb-09 | 7,877 | 0 | 0 | 0 | 0 | 0 | 7,877 |
| | Mar-09 | 5,989 | 735 | 0 | 0 | 0 | 0 | 6,724 |
| De-dollarization program | Dec-14 | 1,300 | 8,600 | 0 | 0 | 0 | 0 | 9,900 |
| | Mar-15 | 4,900 | 8,600 | 2,200 | 1,500 | 0 | 0 | 17,200 |
| | Jun-15 | 2,631 | 11,500 | 5,100 | 4,305 | 0 | 0 | 23,536 |
| | Sep-15 | 3,034 | 16,050 | 7,900 | 4,805 | 0 | 0 | 31,789 |
| | Dec-15 | 2,500 | 14,900 | 7,900 | 4,805 | 0 | 0 | 30,105 |
| Covid-19 crisis | Feb-20 | 5,100 | 9,650 | 0 | 0 | 0 | 0 | 14,750 |
| | Mar-20 | 6,675 | 11,150 | 0 | 0 | 0 | 0 | 17,825 |
| | Apr-20 | 13,015 | 10,030 | 0 | 0 | 250 | 0 | 23,295 |
| | May-20 | 15,060 | 10,145 | 0 | 0 | 260 | 19,017 | 44,482 |
| | Jun-20 | 14,947 | 8,095 | 0 | 0 | 260 | 24,338 | 47,640 |
| | Jul-20 | 14,452 | 7,195 | 0 | 0 | 154 | 33,090 | 54,891 |
| | Aug-20 | 11,379 | 6,895 | 0 | 0 | 250 | 42,363 | 60,886 |
| | Sep-20 | 9,484 | 6,095 | 0 | 0 | 302 | 44,839 | 60,719 |

* As of September 17.

54. As of to September 17, the second phase of the Reactiva Peru program, which started on June 30, has auctioned funds for a total of S/ 24.8 billion at an average interest rate of 1.70 percent in 25 auction sessions. Considering the two phases of the Reactiva Peru program, the average interest rate on the funds auctioned is 1.39 percent.





Table 27
REPOS OF PORTFOLIO WITH GOVERNMENT GUARANTEE PHASE 2

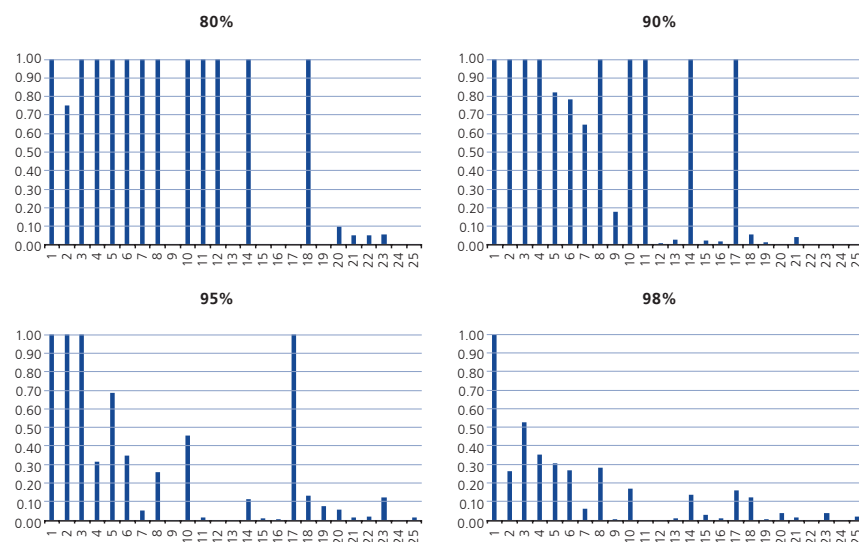
| Government guarantee (%) | Auctioned (Millions S/) | Amount Allocated (*) (Million S/) | Interest rate for clients (%) | | | Amount Allocated (percentage) |
|--------------------------|-------------------------|-----------------------------------|-------------------------------|---------|---------|-------------------------------|
| | | | Minimum | Maximum | Average | |
| 80 | 2,550 | 875 | 1.25 | 2.15 | 1.66 | 3.5 |
| 90 | 15,850 | 10,236 | 0.99 | 2.50 | 1.38 | 41.2 |
| 95 | 21,800 | 7,995 | 0.60 | 2.50 | 1.41 | 32.2 |
| 98 | 29,450 | 5,736 | 0.55 | 5.00 | 2.69 | 23.1 |
| Total | 69,650 | 24,843 | 0.55 | 5.00 | 1.70 | 100 |

* As of September 17.

55. In all of the 25 auctions of funds of the Reactiva Perú-Phase 2 program, the sum offered has exceeded the amount placed in each auction, especially in the case of funds for loans backed by the higher guarantees (95 and 98 percent). In addition to this, the amounts awarded for loans to the segments of small and micro enterprises (SMEs) have been higher than those awarded in the first stage of the program.

Thus, the nature of the Reactiva Peru program has been massive and, since this second phase started, there has been no week in which auctions have not been held. On the contrary, most of the time there have been two auctions each week. Corporations and large companies have been the segment with the lowest participation, probably due to the fact that these companies have other sources of financing and therefore do not have to be restricted to the conditions of the program (no dividends distribution, for example). In addition to this, the maximum amount for a loan under this program (S/ 10 million) may be low for the volume of operations in this segment.

Graph 67
RATIO: AWARDED / CALLED BY AUCTION SESSION



The demand for financial resources has been decreasing as the Reactiva Peru program progressed, this being especially noticeable in the last seven sessions of auctions (between August 27 and September 17). Thus, in Phase 2 of Reactiva Peru, the amount offered in the auctions was S/ 69.7 billion and the amount awarded was S/ 24.8 billion. Moreover, the ratio observed in all the segments between the amount offered and the amount awarded has been equal to or less than 20 percent.

Since August 28, BCRP has established the direct award window facility for the 98 percent guarantee tranche, at interest rates that reflect the results of the auctions carried out during the month of August. Thus, regardless of whether an auction session for the program has been called or not, financial entities can be awarded funds directly at a previously set rate.

A maximum interest rate of 3.80 percent has been established for direct operations in the regular scheme (government backed loan portfolios for loans of S/ 10,000 or more). On the other hand, a maximum rate of 3.93 percent has been established for operations in the special scheme (participation certificates guaranteed by securitization trusts from government backed loans of less than S/ 10,000). The first direct operations, carried out on September 15, amounted to S/ 10 million, of which S/ 8 million were carried out under the regular scheme.

56. Since the mandatory confinement period started, with the consequent significant drop in income, the need to reprogram loans from the financial system has increased substantially. Financial institutions have rescheduled many of the loans automatically, which has helped to prevent disruptions in the flow of payments in the economy by easing the cash flow of the affected population.

Debt rescheduling may include an extension of the repayment term so that the new payment terms represent less of a burden for debtors. Therefore, rescheduling prevents debtors from incurring a default on payments because their income has temporarily decreased, so rescheduling not only relieves the financial burden of debtors, but it also makes these credits viable, which benefits the stability of the financial system.

57. According to SBS information, as of July 31, 2020, depository companies –which include commercial banks, financial companies, municipal savings banks, and rural savings banks– have already rescheduled loans for around S/ 142 billion, which represents 40 percent of the total portfolio of depository companies. Thus, Peru is one of the countries with the largest ratio of loan rescheduling in the region⁷, with 68 percent of the small business portfolio, 58 percent of the micro-business portfolio, and 56 percent of the consumer portfolio having been

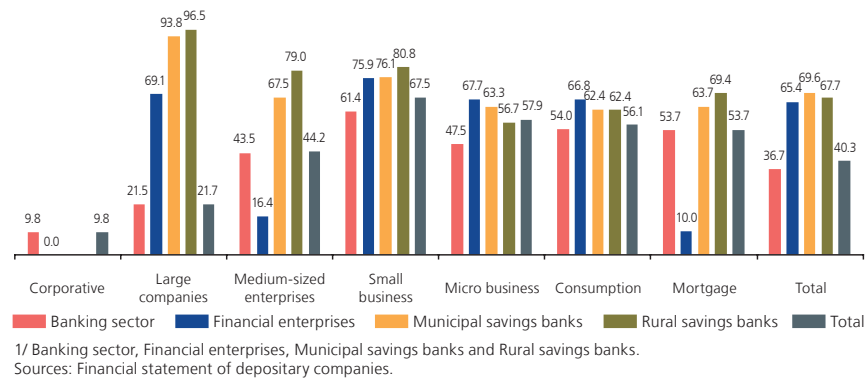
⁷ J.P. Morgan (2020). Latin America Banks. Widespread Renegotiated Loans- Comparing and Contrasting- Brazil not as bad, Latin America Research 07 Jul 2020.





reprogrammed. Moreover, entities specialized in microfinance have rescheduled more than 65 percent of their portfolio.

Graph 68
RESCHEDULED CREDITS OF DEPOSITORY COMPANIES 1/: JULY 2020
(As % of total credits)



58. Since rescheduling are changes in the payment conditions of loans already granted, the financial institutions that grant this benefit to their clients do not necessarily require greater liquidity. However, when rescheduling involves a significant extension of the loan term, financial institutions may require financing at maturity terms that are consistent with rescheduling.
59. With the aim of supporting the rescheduling of loan repayments and providing liquidity to the financial system if necessary, the Board of Directors of BCRP approved the creation of repo operations with rescheduling of loan portfolios at the beginning of June 2020. Financial institutions can obtain liquidity with long terms and under favorable conditions through these operations when they reschedule their clients' loans in terms of between 6 and 48 months and at lower interest rates than those initially agreed. In these operations, which are voluntary and carried out at the request of financial institutions, the latter obtain liquidity from BCRP provided that the interest rate of the rescheduled loans is reduced by at least 20 percent or 200 basis points of the original interest rate of the loan (whichever is higher).

The first repo with credit rescheduling was made on July 15. As of September 15, the balance of rescheduling repos amounted to S/ 241 million, of which S/ 207 million were agreed through portfolio repos and S/ 33 million through security repos.

BCRP Monetary operations

60. The **operations of the Central Bank** continued to focus on ensuring adequate levels of liquidity in the interbank market because given the severe

contraction of economic activity, the focus was on maintaining the flow of payments and credit by injecting liquidity to term through a wide range of monetary instruments, including government backed portfolio repo operations associated with the Reactiva Peru program. In the June-August period, BCRP injected liquidity through the settlement of government backed portfolio repo operations (S/ 23.08 billion). These operations were offset by the net expiration of currency repos (S/ 3.25 billion), security repos (S/ 3.68 billion) and portfolio repos (S/ 10 million), as well as by the increase in the balances of CDBCRP (S/ 9.21 billion) and CDRBCRP (S/ 2.38 billion).

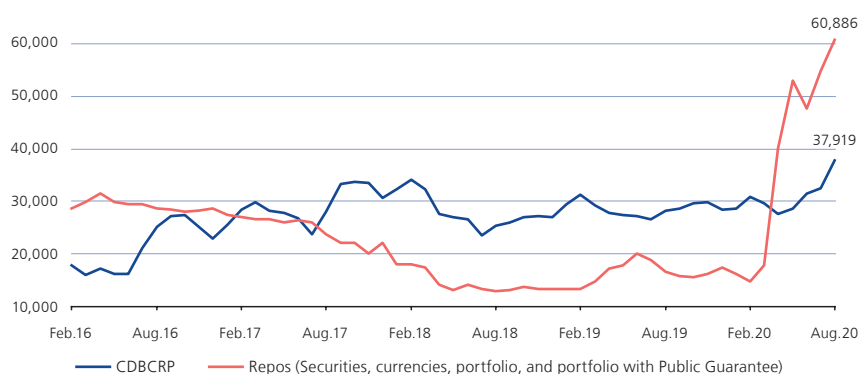
On the other hand, excess liquidity was sterilized through the net placement of time and overnight deposits (S/ 10.43 billion). As a result, the balance of repo operations increased from S/ 44.75 billion in May 2020 to S/ 60.89 billion at the end of August 2020, while the balance of CDBCRP and CDRBCRP increased from S/ 29.34 billion in May to S/ 40.93 billion in August.

Table 28
BALANCE OF BCRP MONETARY OPERATIONS

| | Balance (Mill. S/) | | | Average interest rate of the balance (%) | | |
|--|--------------------|--------|--------|--|--------|--------|
| | Dec.19 | May.20 | Aug.20 | Dec.19 | May.20 | Aug.20 |
| Monetary sterilization | | | | | | |
| 1. CDBCRP | 28,365 | 28,711 | 37,919 | 2.50 | 2.01 | 1.17 |
| 2. CDRBCRP | 0 | 630 | 3,010 | 1.00 | 0.10 | 0.03 |
| 3. Term and overnight deposits | 2,115 | 26,691 | 37,125 | 1.00 | 0.24 | 0.23 |
| Monetary injection | | | | | | |
| 4. Currency repos | 11,050 | 10,145 | 6,895 | 3.85 | 3.13 | 2.99 |
| 5. Security repos | 6,350 | 15,060 | 11,379 | 3.31 | 1.87 | 1.49 |
| 6. Portfolio repos | 0 | 260 | 250 | n.d. | 0.62 | 0.62 |
| 7. Government-backed portfolio repos * | 0 | 19,284 | 42,363 | n.d. | 0.50 | 1.38 |
| 8. Public Treasury fund auctions | 4,100 | 4,100 | 2,500 | 3.85 | 3.64 | 3.51 |

* The disbursed amount of the instrument to date is considered.

Graph 69
BALANCE OF REPO OPERATIONS AND CDBCRP
(Balance in mill. S/)





Thus, the balance of repo transactions increased to 18.7 percent of the BCRP's net assets in August, from 15.1 percent in May 2020. On the side of the BCRP liabilities, the share of public sector deposits decreased from 26.6 percent in May 2020 to 23.0 percent in August, while the share of BCRP instruments (CDBCRP, CDRBCRP, and time and overnight deposits) increased their participation in the BCRP's net liabilities from 18.9 percent in May to 24.0 percent in August 2020. As a result of this increase, the latter have become the BCRP's most important liability.

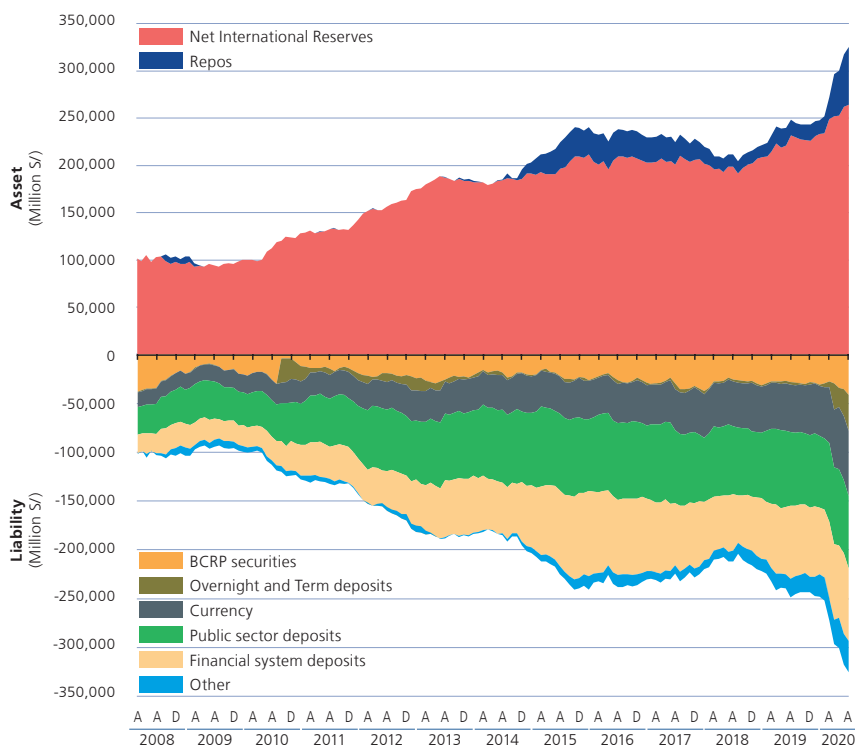
Table 29
SIMPLIFIED BALANCE SHEET OF THE BCRP*
(As % of Net Assets)

| | Dec.19 | May.20 | 31 Aug.20 |
|---|----------------------|----------------------|----------------------|
| I. Net assets | 100% | 100% | 100% |
| Net International Reserves | 92.9% | 84.9% | 81.3% |
| | (US\$ 68,315 mills.) | (US\$ 73,439 mills.) | (US\$ 74,662 mills.) |
| Repos | 7.1% | 15.1% | 18.7% |
| II. Net liabilities | 100% | 100% | 100% |
| 1. Total public sector deposits | 30.5% | 26.6% | 23.0% |
| In domestic currency | 18.8% | 13.8% | 20.3% |
| In foreign currency | 11.7% | 12.8% | 2.7% |
| 2. Total financial system deposits | 29.1% | 26.0% | 22.8% |
| In domestic currency | 5.1% | 4.2% | 3.8% |
| In foreign currency | 24.0% | 21.7% | 19.0% |
| 3. BCRP instruments | 12.5% | 18.9% | 24.0% |
| CD BCRP | 11.6% | 9.7% | 11.7% |
| CDR BCRP | 0.0% | 0.2% | 0.9% |
| Term deposits | 0.0% | 7.9% | 8.6% |
| Overnight deposits | 0.9% | 1.1% | 2.8% |
| 4. Currency | 21.4% | 20.0% | 20.5% |
| 5. Others* | 6.5% | 8.5% | 9.8% |

* Includes assets and other accounts.

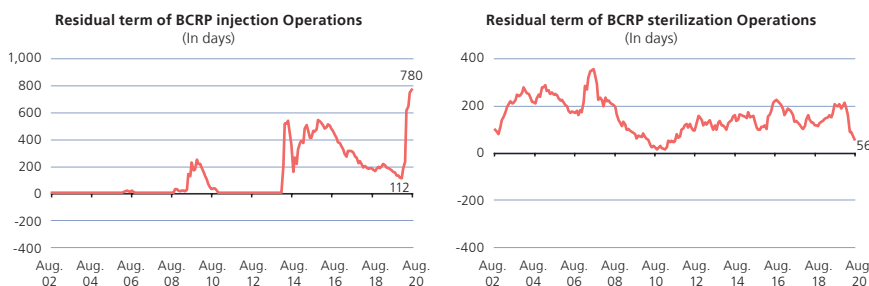
The result of these operations is reflected in the change observed in the size and composition of the BCRP's balance sheet. Thus, in August 2020, the BCRP assets amounted to S/ 325.19 billion, a sum equivalent to 45.8 percent of GDP and higher than that observed in 2015 during the de-dollarization program (39.3 percent of GDP). The increased liquidity injection carried out in recent months is reflected in the growing contribution of repo operations to the BCRP assets.

Graph 70
EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2020



Moreover, the higher term injection is reflected in the increase in the residual term of these operations from 112 days in February to 780 days in August. Along the same lines, with the purpose of increasing liquidity in the financial system, the Central Bank has been carrying out sterilization operations at shorter terms. Thus, the residual term of sterilization operations has decreased from 214 days in February to 56 days in August.

Graph 71





The net residual term of BCRP operations⁸ captures the expansionary stance of BCRP in the yield curve. When long-term liquidity is injected and is sterilized at short-terms, the flattening of the yield curve is boosted and the net residual term is higher. Thus, a high net residual term denotes greater liquidity in the financial system since there are liquid assets close to maturity (CDBCRP) and there is the obligation of repurchasing the repo assets in the long term. As of August, the net residual term of the BCRP operations is 637 days.

Graph 72
NET WEIGHTED RESIDUAL TERM OF BCRP OPERATIONS
(In days)



Liquidity management during the state of emergency

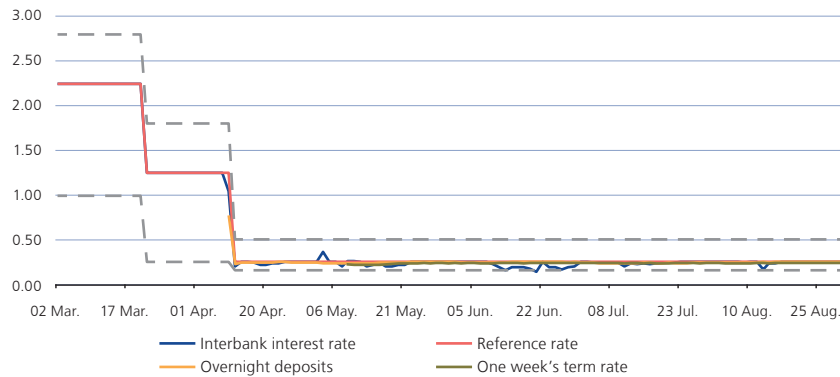
61. Since the state of emergency was established, BCRP has applied expansionary monetary policy actions in different dimensions, with strong injections of liquidity through security and currency repos and with the settlement of government backed portfolio repos associated with the Reactiva Peru program. The resulting increase in the current account balance before operations has led the Central Bank to carry out short-term sterilization operations –mainly overnight– as from April and even one week operations as from May. It is worth mentioning that BCRP has also resumed placements of CDBCRP in terms of one year or less, but mainly in 30-day terms, as from May.

At the beginning of the state of emergency, the demand for liquidity increased significantly, so it was not necessary to carry out further sterilization operations. Over the weeks, after making a long-term liquidity injection, it became necessary to sterilize this excess liquidity, firstly, through one-day operations via auction (term deposits) and through window operations. Subsequently, one week sterilization operations have been carried out since May.

⁸ The net residual term is the difference between the residual term of injection and sterilization operations, weighted by the balance of each instrument. It is calculated according to the following formula: $Plazo\ Residual\ Neto = \frac{Saldo\ Inyección}{Saldo\ Esterilización} * PR\ Inyección - PR\ Esterilización$, where RT refers to the residual terms of the injection and sterilization operations, respectively.

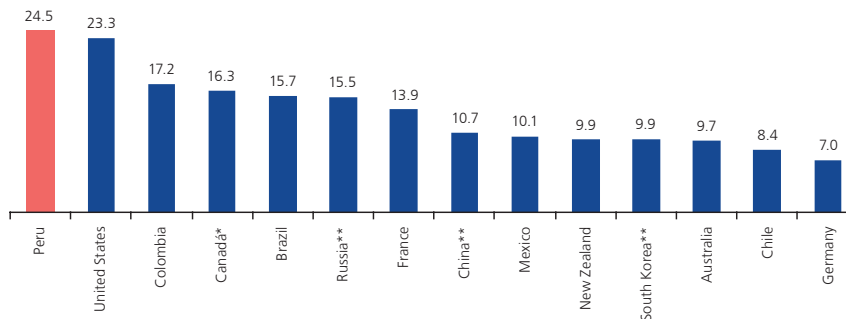
The interest rates on these operations are in line with the benchmark interest rate (0.25 percent). Thus, auctions of overnight and one-week term deposits register placement rates very close to 0.25 percent, while the interest rate for the window facility is 0.15 percent, as established in the monetary policy statement. After some deviations of the interbank interest rate from the benchmark rate in June, the interbank rate has been much closer to the benchmark rate on average during July and August (although on some days the interbank rate fell below 0.25 percent).

Graph 73
INTERBANK INTEREST RATE AND CORRIDOR
(%)



62. At the international level, many central banks also implemented monetary stimulus measures that resulted in significant increases in liquidity. Peru's July 2020 total liquidity annual growth rate is the highest internationally (24.5 percent).

Graph 74
LIQUIDITY (M3): JULY 2020
(%)



* June 2020.
** M2.
Source: Central banks.





Financial markets

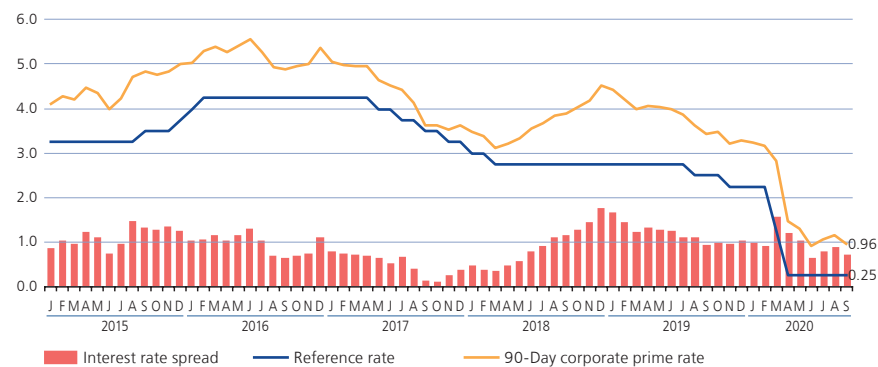
63. The sell-off associated with the COVID-19 pandemic that began in March 2020 continues to affect local financial markets in different degrees. Although the market of government debt securities has recovered rapidly, this has not been the case for the foreign exchange markets and equity markets, which still show higher volatility. Moreover, in addition to external conditions, local factors have also contributed to expand volatility in local financial markets.

In this context, BCRP has been providing the necessary liquidity to the financial system in order to mitigate the effects on market volatility.

Interest rates

64. The BCRP monetary policy expansionary actions have been reflected in the reduction of interest rates to historical minimum levels in the second quarter of 2020. In the money market, the interbank interest rate registered its reference level, showing slight downward deviations from the benchmark rate. The high availability of liquidity in the financial system explains the reduction in the amounts traded in the interbank market from a daily average of S/ 1.12 billion in 2019 to S/ 253 million in June, to S/ 111 million in July, to S/ 85 million in August, and to S/ 44 million as of September 17, 2020. Moreover, the prime lending interest rates on overnight and twelve-month terms have increased 4 basis points on average between June and September due to higher credit risk, while prime deposit rates have decreased on average 19 basis points and currently register their historical minimum levels since September 2010. In the credit market, rates have been influenced by the low interest rates of the two phases of the Reactiva Peru program, among which the reduction in the small and micro-business segments stands out.

Graph 75
INTEREST RATE IN S/: 90-DAY CORPORATE PRIME AND REFERENCE RATE
(%)



* As of September 17.
Source: BCRP and SBS.

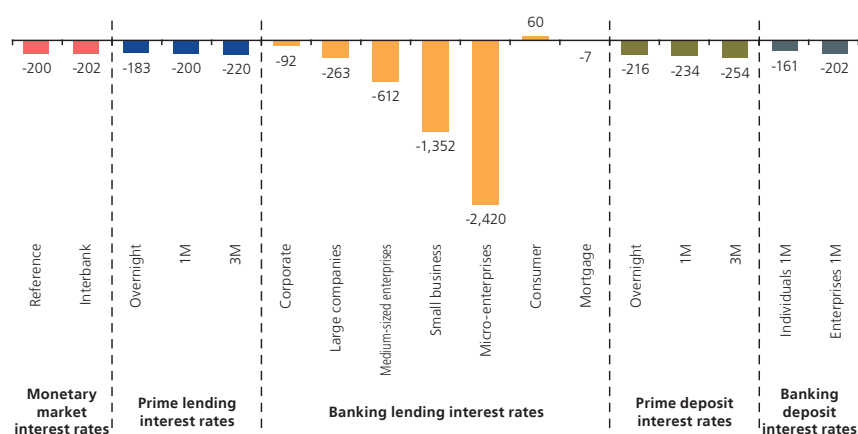
Liquidity injection operations to the financial system in domestic currency for up to 3 years, reserve requirements reduction measures, the reduction of the benchmark interest rate, government-backed portfolio repos, and rescheduling repo operations have not only boosted credit to the private sector, but also accelerated the pas-through of the reduction in the benchmark interest rate to the rest of rates in the financial system.

Table 30
INTEREST RATE IN DOMESTIC CURRENCY
(In %)

| | Dec.18 | Dec.19 | Mar.20 | Apr.20 | Jun.20 | Jul.20 | Aug.20 | Sep.20* |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|
| Passive | | | | | | | | |
| Deposits up to 30-day | 3.1 | 2.3 | 2.0 | 1.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| On 31 to 180-day term deposits | 4.0 | 2.8 | 2.6 | 2.4 | 0.9 | 0.5 | 0.4 | 0.4 |
| On 181 to 360-day term deposits | 4.2 | 3.3 | 3.0 | 3.0 | 1.8 | 1.3 | 1.1 | 1.1 |
| Active | | | | | | | | |
| 90-day corporate prime | 4.5 | 3.3 | 2.8 | 1.5 | 0.9 | 1.0 | 1.2 | 1.0 |
| Corporates | 4.9 | 3.8 | 3.6 | 4.0 | 3.0 | 2.8 | 2.7 | 2.5 |
| Large companies | 6.4 | 6.0 | 5.9 | 5.6 | 2.6 | 3.6 | 3.1 | 3.5 |
| Medium-sized enterprises | 9.8 | 9.3 | 8.9 | 8.1 | 3.9 | 4.0 | 2.6 | 3.5 |
| Small business | 18.5 | 18.0 | 18.1 | 18.2 | 4.3 | 4.9 | 3.3 | 4.8 |
| Micro business | 32.7 | 31.3 | 32.6 | 33.1 | 3.8 | 4.3 | 4.4 | 7.2 |
| Consumer | 44.9 | 40.9 | 39.3 | 41.4 | 38.6 | 39.8 | 39.5 | 38.7 |
| Mortgage | 7.6 | 7.0 | 6.7 | 6.8 | 6.8 | 6.9 | 6.9 | 6.8 |

Memo: Annual rates for operations in the last 30 working days.
* As of September 17.
Source: BCRP and SBS.

Graph 76
CHANGE OF INTEREST RATES IN SOLES: FEB. TO SEP*. 2020
(Basis points)



* As of September 17.
Source: BCRP and SBS.

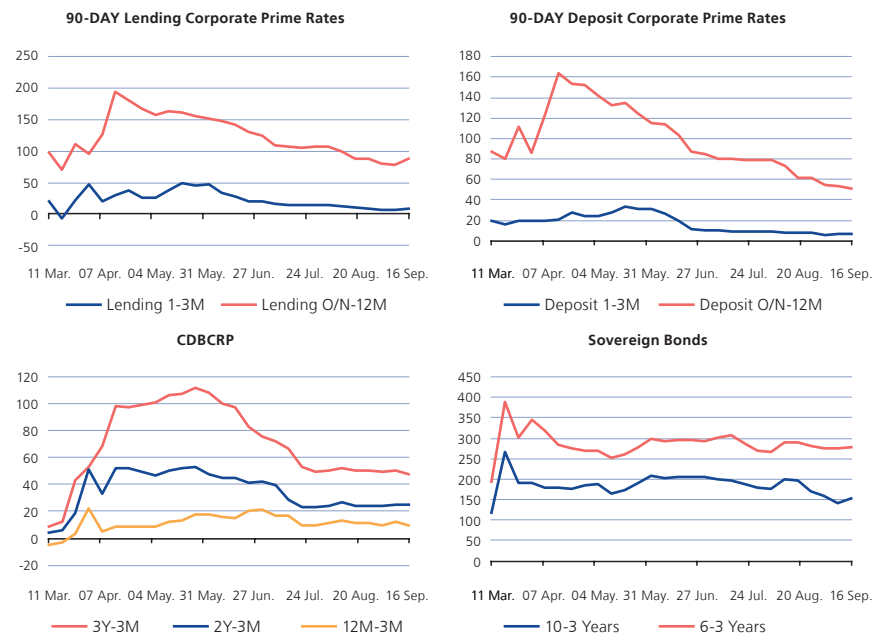
65. In addition, the spreads between long-term and short-term interest rates have narrowed considerably. The spread between the lending and deposit prime interest rates for 12 months and overnight operations has narrowed to pre-pandemic levels. On the other hand, the slope of the yield curve of BCRP





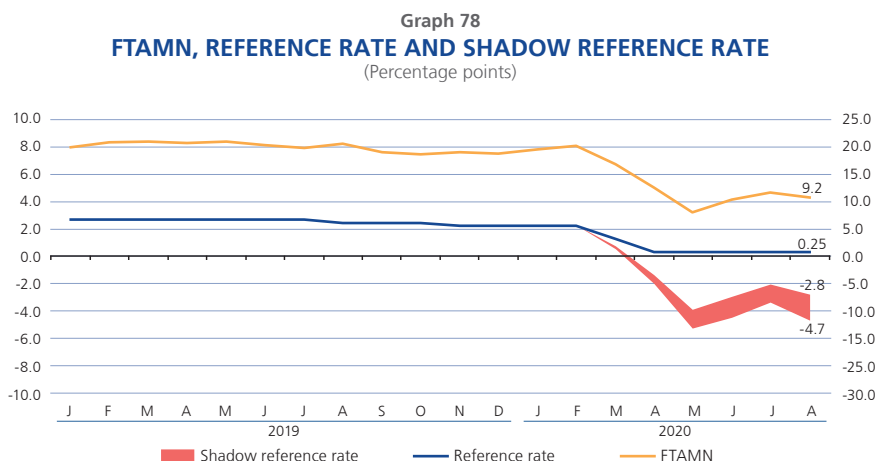
securities with maturity terms between 3 years and 3 months has decreased more slowly than that of Treasury bonds with maturity terms between 6 and 3 years.

Graph 77
INTEREST RATE SPREAD
(Basis points)

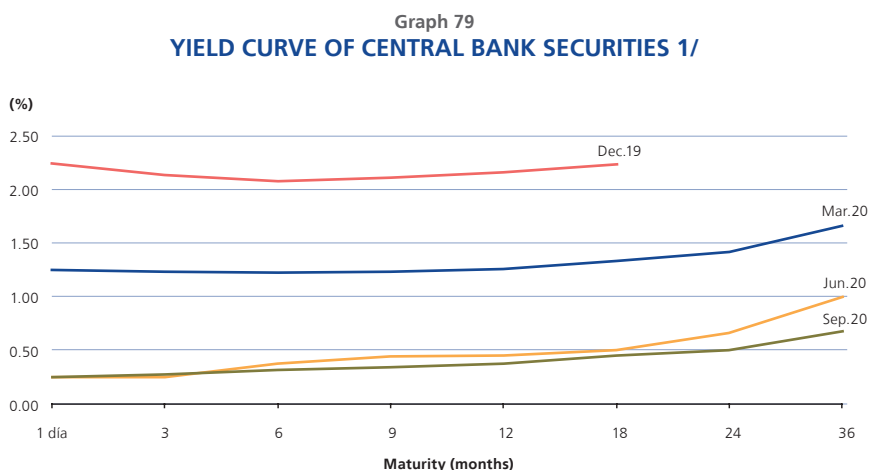


*As of September 9.
Source: BCRP and SBS.

66. The average interest rate on lending operations in domestic currency carried out in the last 30 days (FTAMN) decreased to 9.2 percent in August 2020 from 19.8 percent in February 2020, recording its minimum low in May (6.0 percent). This reduction in the FTAMN reflects the effect of the set of monetary easing measures implemented by BCRP, which includes the reduction of the policy interest rate and liquidity injection measures. According to preliminary estimates, this reduction observed in the FTAMN is consistent with a reduction in the “shadow” reference interest rate to negative levels in the range of [-4.7; -2.8] in the month of August. The “shadow” reference interest rate is defined as the equivalent of the policy interest rate –without restricting that it may have negative values– that is generated by the same monetary stimulus taking into account all its modalities, including quantitative non-conventional monetary policy measures.



67. The yield curve of the BCRP securities shows a more flattened shape in September 2020, in line with expectations regarding the future path of interest rates. Thus, the interest rates on 6-month and 36-month bonds have decreased by an average of 13 basis points between June and September 2020. It is worth pointing out that the issuance of 2-year and 3-year securities was resumed since January 2020 to complete the short section of the yield curve of long-term securities, thereby promoting the development of the fixed-income market.



1/ Yield rate in the primary and secondary market.
As of September 18.
Source: BCRP.

68. Interest rates in dollars have also continued to show their downward trend so far in the third quarter, in line with central banks' easing of monetary conditions. Thus, between June and September 2020, the interbank rate in foreign currency





has decreased from 0.25 to 0.07 percent, a level similar to the overnight Libor rate in dollars.

In the money market, the prime lending rates charged by banks to their main clients increased by an average of 5 basis points in terms between 1 and 6 months, while the prime deposit interest rates decreased by an average of 30 basis points. Similarly, the interest rates paid on time deposits decreased by an average of 19 basis points between June and September 2020.

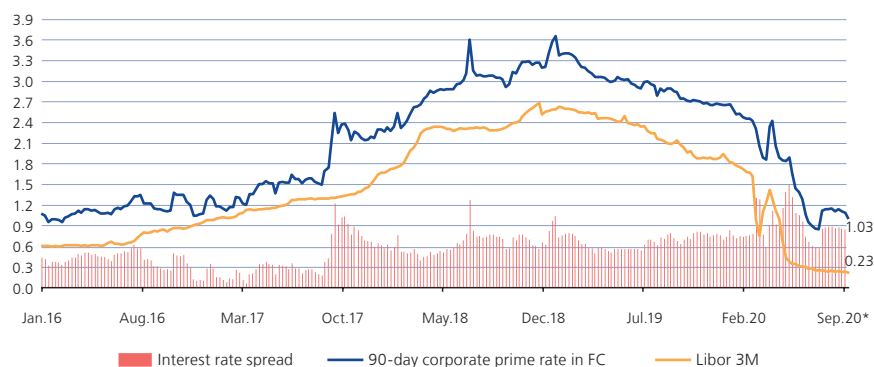
In the credit market, interest rates showed mixed behaviors, with the reduction in the interest rate on loans to the micro businesses segment standing out (down from 15.6 percent in June to 7.8 percent in September).

Table 31
INTEREST RATE IN FOREIGN CURRENCY
(In %)

| | Dec.18 | Dec.19 | Mar.20 | Apr.20 | Jun.20 | Jul.20 | Aug.20 | Sep.20* |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|
| Passive | | | | | | | | |
| Deposits up to 30-day | 1.9 | 1.4 | 1.0 | 0.6 | 0.1 | 0.0 | 0.0 | 0.0 |
| On 31 to 180-day term deposits | 2.0 | 1.3 | 1.1 | 1.2 | 0.5 | 0.4 | 0.3 | 0.2 |
| On 181 to 360-day term deposits | 1.9 | 1.4 | 1.0 | 1.2 | 0.8 | 0.6 | 0.5 | 0.4 |
| Active | | | | | | | | |
| 90-day corporate prime | 3.6 | 2.7 | 1.9 | 1.9 | 1.0 | 1.2 | 1.2 | 1.0 |
| Corporates | 4.0 | 3.2 | 2.7 | 3.1 | 2.8 | 2.2 | 2.6 | 2.4 |
| Large companies | 5.5 | 5.5 | 4.8 | 4.7 | 5.2 | 5.2 | 5.3 | 4.9 |
| Medium-sized enterprises | 6.9 | 6.6 | 6.7 | 6.6 | 6.3 | 6.5 | 6.8 | 6.8 |
| Small business | 9.9 | 8.8 | 7.7 | 8.3 | 4.8 | 6.8 | 7.4 | 6.8 |
| Micro business | 7.1 | 11.0 | 12.3 | 9.8 | 15.6 | 13.9 | 10.3 | 7.8 |
| Consumer | 36.1 | 36.1 | 36.1 | 37.3 | 36.6 | 35.2 | 35.1 | 34.9 |
| Mortgage | 6.1 | 5.6 | 5.9 | 5.6 | 6.0 | 6.3 | 6.2 | 6.1 |

Memo: Annual rates for operations in the last 30 working days.
* As of September 17.
Source: BCRP and SBS.

Graph 80
INTEREST RATE IN US\$: 90-DAY CORPORATE PRIME AND LIBOR 3-MONTH
(In %)



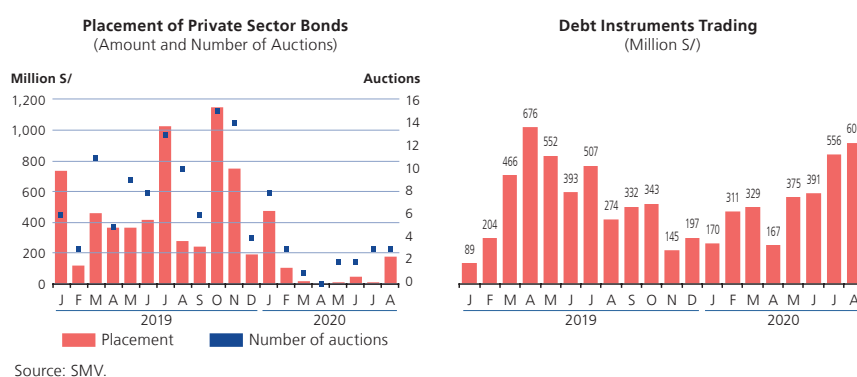
* As of September 17.
Source: BCRP.

Private Sector Fixed-Income Market

69. In the private sector debt market, companies have placed debt instruments for S/ 234 million between June and August 2020, of which S/ 128 million is debt in soles. The fact that many sectors have not yet resumed activity continues to affect the private fixed income market, which is reflected in the low amounts auctioned as well as in short terms of the debt instruments (up to 12 months). Peruvian companies have preferred to carry out liability restructuring operations.

In the secondary market, the trading of debt instruments at the Lima Stock Exchange (LSE) recovered in August 2020 (S/ 606 million), reaching its highest level since April 2019 (S/ 676 million). In addition, the participation of non-resident investors in local securities in dollars showed no variation between June and September 2020.

Graph 81
FIXED INCOME MARKET OF THE PRIVATE SECTOR



On the other hand, greater dynamism has been observed in the debt issued by Peruvian companies in the foreign market, with debt instruments for a total of US\$ 2.15 billion having been placed between June and September at terms between 5 and 10 years. Moreover, the monthly average placed so far in 2020 (US\$ 281 million) is the highest since 2017 and US\$ 114 million in securities from Peruvian company will mature in the coming months.

Furthermore, international placements in soles by non-resident entities have also been observed in recent months. This includes 22 issuances for a total of S/ 1.34 billion, which have been encouraged by factors such as the low cost of coverage, investors' demand for securities in soles that offer higher coupons than other emerging countries, confidence in the strength of the PEN, and expectations that the Peruvian economy will recover in 2021.

Foreign exchange market

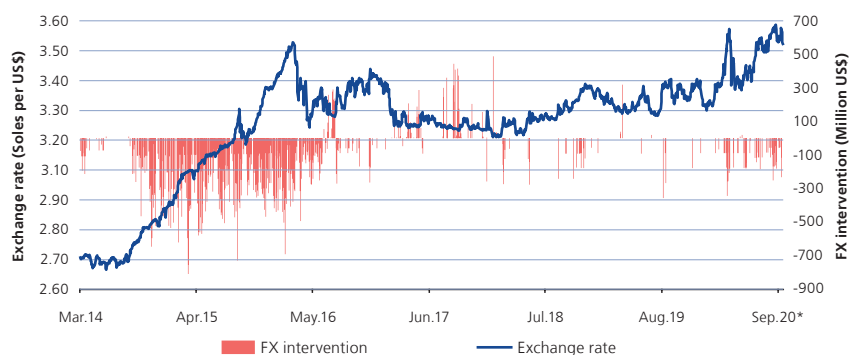
70. The currencies of emerging economies have been affected by uncertainty regarding the duration of global recession and the COVID-19 outbreaks in the





world. In Peru, even though the PEN has also been affected by local factors such as tensions between the Executive and the Congress, the local currency continues to be one of the least volatile in the region. Between June and September 2020, the PEN appreciated slightly (0.5 percent), from S/ 3.542 to S/ 3.525 per dollar.

Graph 82
EXCHANGE RATE AND FX INTERVENTION 1/



1/ Includes Net purchases of US\$ in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
* As of September 18.

BCRP has intervened in the foreign exchange market through auctions of FX swaps-sell and placements of Indexed Certificates of Deposit (CDRBCRP) to mitigate depreciation pressures on the PEN. Thus, between June and September, BCRP placed 2-month and 6-month FX swaps-sell for a total of S/ 5.89 billion, while instruments amounting to S/ 4.75 billion matured on a regular basis and S/ 2.01 billion matured earlier. As a result, the balance of this instrument as of September 18 was S/ 4.08 billion. In the case of CDR-BCRP, S/ 5.68 billion was placed in terms of between 2 and 3 months and a total of S/ 2.04 billion matured, bringing the balance of this instrument to S/ 3.73 billion as of September 18.

Table 32
FOREIGN EXCHANGE INTERVENTION

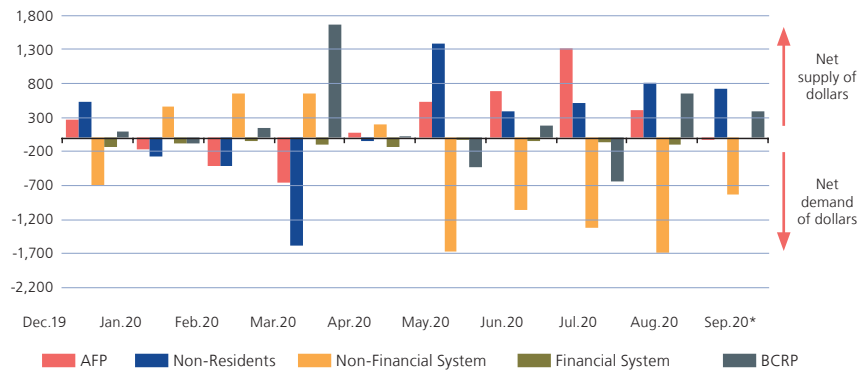
| | Trading days | Number of intervention days | | | | | | SD of the Exchange Rate (Annual % change) |
|-------|--------------|-----------------------------|--|----------------------------------|-----------------------------|-------------|-------|--|
| | | Spot Market | Placement of derivatives and indexed instruments | Total (spot and/or placement) | % of days with intervention | | | |
| | | | | | Spot | Instruments | Total | |
| 2016 | 250 | 50 | 119 | 134 | 20% | 48% | 54% | 7.3% |
| 2017 | 249 | 55 | 26 | 64 | 22% | 10% | 26% | 4.5% |
| 2018 | 245 | 4 | 27 | 30 | 2% | 11% | 12% | 3.4% |
| 2019 | 249 | 4 | 6 | 10 | 2% | 2% | 4% | 4.4% |
| 2020* | 182 | 4 | 53 | 55 | 2% | 29% | 30% | 7.8% |

* As of September 18.

In March, the net demand for dollars in the spot market and the demand for derivatives of the AFPs and non-resident investors totaled US\$ 1.58 billion, the supply being provided by BCRP and companies of the non-financial system. In

April, the net exchange flow of the dollar supply (US\$ 76 million) came mainly from the sales of dollars that the AFPs made in the spot market to have the necessary liquidity to cover the withdrawal of funds approved through two emergency decrees (E.D. 034-2020 and E.D. 038-2020) and Law 31017, which authorized the extraordinary withdrawal of up to 25 percent of the CIC. Since May, the main suppliers of foreign currency have been the AFPs (US\$ 2.90 billion) and non-residents (US\$ 3.79 billion), with non-financial companies standing out on the demand side (US\$ 6.58 billion).

Graph 83
FLows TO THE EXCHANGE MARKET (SPOT AND DERIVATIVES) - MILLIONS US\$

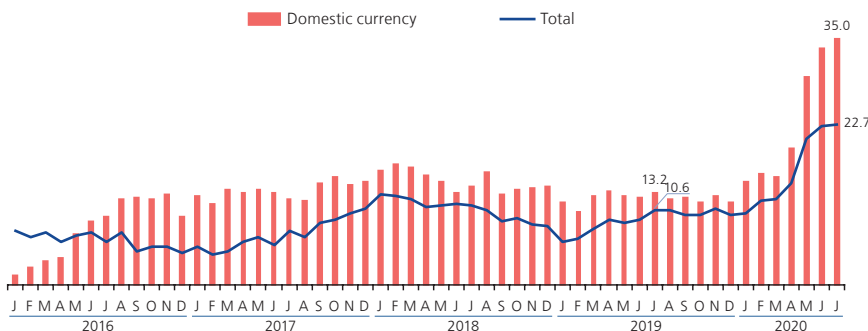


* As of September 17.
 Source: BCRP.

Liquidity

71. Private sector deposits showed a year-on-year growth rate of 22.7 percent in July 2020. By currencies, deposits in soles grew 35.0 percent year-on-year, while deposits in dollars grew 2.0 percent, reflecting people’s greater preference for saving in domestic currency.

Graph 84
DEPOSITS OF THE PRIVATE SECTOR BY CURRENCY
 (Annual % change)





The dollarization ratio of deposits fell from 35.8 percent in 2019 to 30.9 percent in July 2020, this fall being explained by a decrease in the dollarization ratio of both personal deposits (from 30.1 to 26.8 percent) and corporate deposits (from 45.9 to 37.7 percent).

In the rest of the year, deposits are expected to continue growing at a rate higher than that of credit to the private sector.

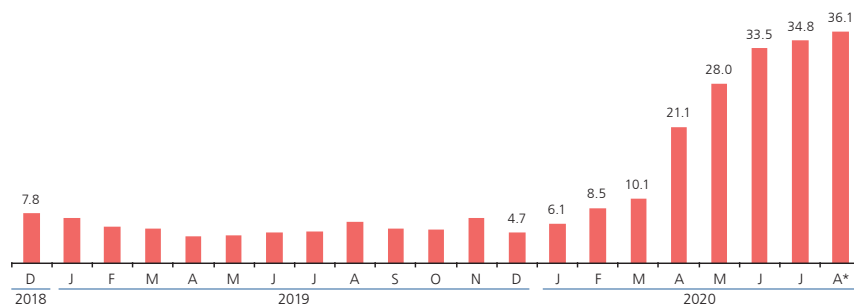
Table 33
MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS
(END-OF-PERIOD) 1/
 (Annual % change)

| | Dec.18 | Mar.19 | Jun.19 | Sep.19 | Dec.19 | Mar.20 | Jun.20 | Jul.20 | Dec.20* | Dec.21* |
|---|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|------------|
| Currency in circulation (End-of-period) | 7.8 | 5.3 | 4.8 | 5.4 | 4.7 | 10.1 | 33.5 | 34.8 | 25.0 | 4.0 |
| Deposits in domestic currency | 14.1 | 12.7 | 12.5 | 12.4 | 11.9 | 15.4 | 33.6 | 35.0 | 35.2 | 1.8 |
| Total deposits 1/ | 8.4 | 7.9 | 9.3 | 10.0 | 10.0 | 12.2 | 22.5 | 22.7 | 23.8 | 1.7 |
| Broad money in domestic currency | 12.2 | 11.3 | 10.7 | 10.8 | 10.2 | 13.3 | 32.2 | 33.6 | 33.0 | 2.2 |
| Total broad money 1/ | 8.2 | 7.4 | 8.5 | 9.3 | 9.4 | 11.5 | 24.1 | 24.5 | 24.0 | 2.0 |
| Credit to the private sector in domestic currency | 11.6 | 11.7 | 10.7 | 10.4 | 9.8 | 9.7 | 19.0 | 21.0 | 20.2 | 3.8 |
| Credit to the private sector 1/ | 8.7 | 9.0 | 7.6 | 7.5 | 6.9 | 8.3 | 13.3 | 14.2 | 15.0 | 3.0 |

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

72. **Currency in circulation** would grow 25 percent in 2020 and 4 percent in 2021, the faster pace of growth in 2020 being explained by people’s precautionary greater accumulation of banknotes and coins. This increase would correspond to the greater transactional and precautionary demand originated by the effects of the state of emergency because of the COVID-19 pandemic. Restrictions on economic activity and the implementation of monetary subsidies for low-income people to cover their basic needs would have led a significant segment of the population to use cash in their transactions and also keep it for precautionary reasons in the current context.

Graph 85
CURRENCY
 (Annual % change)



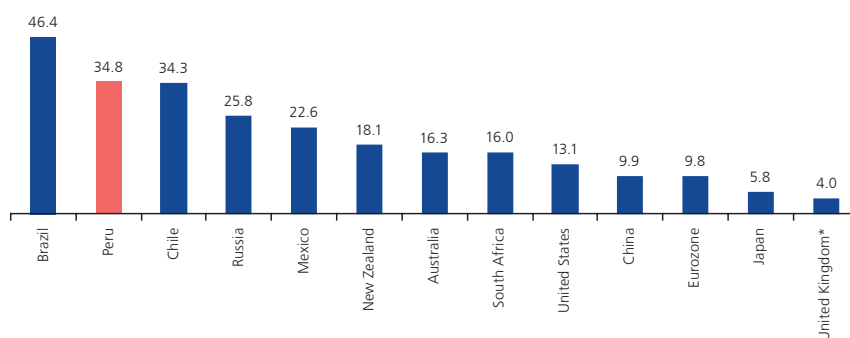
* Preliminary.

However, it is worth highlighting that the beginning of the economic reactivation phases has contributed to normalize the behavior of currency in circulation, which has had a slight increase in its annual rate in July and August.

73. In Peru, the annual growth rate of currency in circulation in August 2020 was 36.1 percent, higher than the growth rate observed in March 2020 (10.1 percent), whereas the annual growth rate of currency in circulation in Japan, Australia, and the United States in July 2020 doubled compared to the months prior to the pandemic.

These increases in money do not generate inflationary pressures given that, in times of crisis, the speed of money circulation decreases due to the precautionary increase in demand for currency. In Peru, the annual growth rate of the speed in the second quarter of 2020 was -42.4 percent, lower than the growth rate recorded in the first quarter (-12.3 percent). In this sense, despite the growing use of alternative payment methods (given technological improvements), the demand for cash has been exceptionally high.

Graph 86
CURRENCY GROWTH BY COUNTRIES: JULY 2020
(% change)



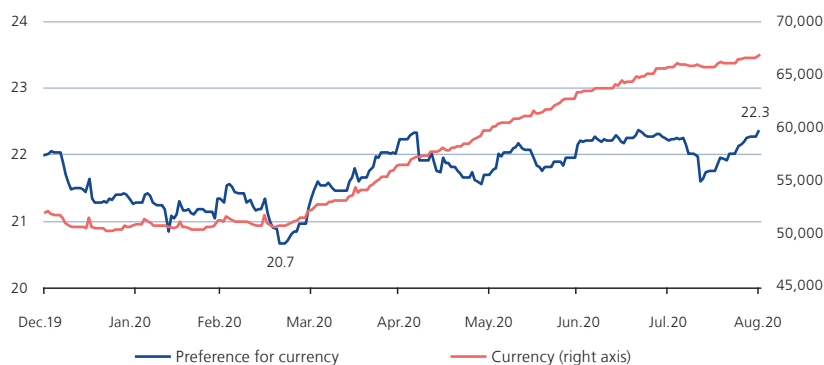
* June 2020.
Source: OECD and Central banks.

74. At the beginning of the quarantine, the preference for currency had reached historical minimum levels (20.7 percent). Then, a sustained growth was observed until the first week of May, after which it remained slightly above 22 percent.





Graph 87
CURRENCY AND PREFERENCE FOR CURRENCY
(In millions of soles and in %)



Credit to the private sector

75. **Credit to the private sector** showed a faster pace of growth, accelerating from a rate of 6.9 percent in 2019 to a year-on-year rate of 14.2 percent in July, driven by the Reactiva Peru program. By segments, credit to companies grew 22.6 percent, showing a higher than the rate observed in December 2019 (4.2 percent). On the other hand, credit to individuals slowed from 11.3 percent in 2019 to 1.2 percent in July. Moreover, in credit to individuals, car loans and credit cards decreased (1.2 and 7.6 percent, respectively). On the other hand, on the side of loans to companies, the segments that showed the highest growth rates were medium-sized companies (31.4 percent), followed by small and micro-companies (21.8 percent), and by corporations and large companies (19.3 percent). In addition, less external funding and less funding from the local capital market –resources typically accessed by the corporate sector and by large companies– was also observed in the period.

Credit in soles continues to grow at rates close to two-digits, driven mainly by the Reactiva Peru program. On the other hand, the growth of credit in dollars has slowed down due to the greater preference for local funding and for interest rates in soles, which have remained below their historical average levels. Thus, as of July, credit in soles has grown 21.0 percent, while credit in dollars has fallen 4.2 percent in the same period.

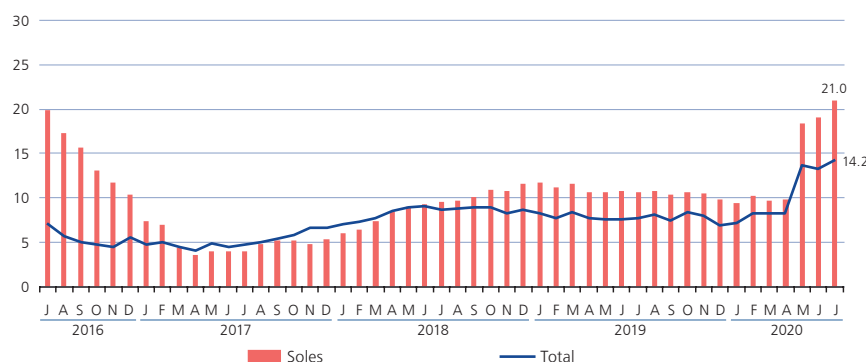
76. The measures taken by BCRP, which allow for more flexible financial conditions in different modalities, have caused credit to show an anti-cyclical behavior, counterbalancing the negative effects of the pandemic on economic activity.

Table 34
CREDIT TO THE PRIVATE SECTOR 1/
 (Annual growth rate)

| | Dec.18 | Mar.19 | Jun.19 | Sep.19 | Dec.19 | Mar.20 | Jun.20 | Jul.20 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| Businesses | 7.0 | 7.3 | 5.3 | 4.9 | 4.2 | 7.7 | 20.1 | 22.6 |
| Corporate and large companies | 9.1 | 8.9 | 6.3 | 6.4 | 4.4 | 11.7 | 22.0 | 19.3 |
| Medium-sized enterprises | 3.8 | 3.9 | 1.6 | 0.1 | 0.5 | 0.6 | 21.7 | 31.4 |
| Small business and Micro business | 5.9 | 7.0 | 7.1 | 6.6 | 7.7 | 5.5 | 13.9 | 21.8 |
| Individuals | 11.5 | 11.7 | 11.4 | 11.7 | 11.3 | 9.3 | 2.8 | 1.2 |
| Consumer | 13.1 | 13.5 | 13.0 | 13.4 | 12.8 | 10.2 | 1.6 | -0.7 |
| Car loans | -3.5 | 2.7 | 6.9 | 8.5 | 11.9 | 6.9 | 0.9 | -1.2 |
| Credit cards | 11.9 | 14.7 | 14.8 | 16.0 | 13.4 | 8.9 | -4.8 | -7.6 |
| Rest | 14.7 | 13.4 | 12.3 | 12.3 | 12.6 | 11.0 | 5.0 | 3.0 |
| Mortgage | 9.0 | 9.1 | 9.1 | 9.1 | 9.0 | 8.0 | 4.6 | 4.0 |
| TOTAL | 8.7 | 9.0 | 7.6 | 7.5 | 6.9 | 8.3 | 13.3 | 14.2 |

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

Graph 88
CREDIT TO THE PRIVATE SECTOR
 (Annual % change)



77. The balance of total credit to the private sector has registered a trend above its long-term trend, in line with the start of the Reactiva Peru program and the easing of financial conditions to safeguard the flow of payments.

Table 35
CREDIT TO THE PRIVATE SECTOR 1/
 (Annual % change)

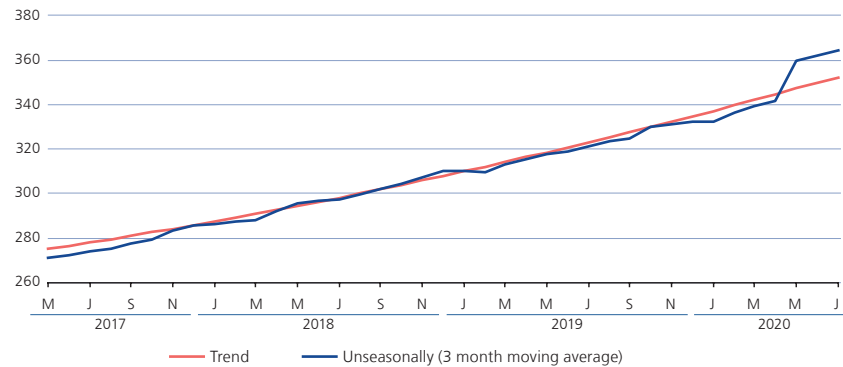
| | Dec.18 | Mar.19 | Jun.19 | Sep.19 | Dec.19 | Mar.20 | Jun.20 | Jul.20 |
|-------------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Domestic Currency | 11.6 | 11.7 | 10.7 | 10.4 | 9.8 | 9.7 | 19.0 | 21.0 |
| Foreign Currency | 1.9 | 2.4 | 0.2 | 0.3 | -0.4 | 4.6 | -2.3 | -4.2 |
| Total | 8.7 | 9.0 | 7.6 | 7.5 | 6.9 | 8.3 | 13.3 | 14.2 |

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



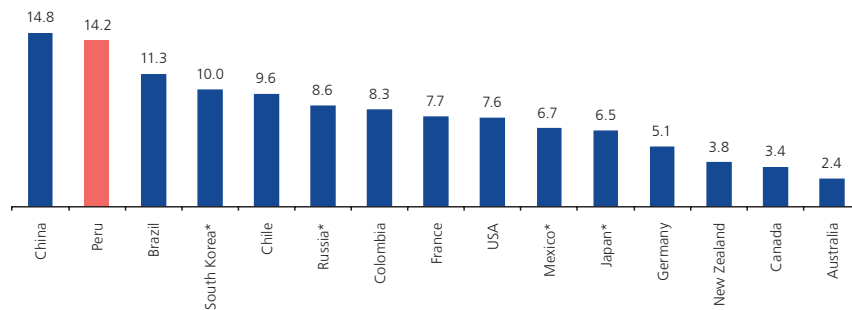


Graph 89
UNSEASONALLY CREDIT TO THE PRIVATE SECTOR AND TREND
(Current Mill. S/)



78. At the international level, credit to the private sector has responded to the monetary stimulus measures adopted by central banks. In July 2020, Peru registers the highest annual growth rates of total credit to the private sector and to companies worldwide (14.2 percent and 22.6 percent, respectively).

Graph 90
CREDIT TO THE PRIVATE SECTOR: JULY 2020
(Annual % change)



* June 2020.
Source: Central banks.

Dollarization of credit and liquidity

79. The ratio of dollarization of credit measured at a constant exchange rate was 22.7 percent in July, lower than in December 2019 (25.9 percent). This reduction results mainly from a lower dollarization of credit to companies, which decreased from 37.3 to 30.4 percent in this period, while the dollarization of credit to individuals continued to show its downward trend. Thus, the dollarization ratio

in the segment of mortgage loans went from 13.3 percent to 12.4 percent in July, while the dollarization ratio of consumer loans decreased from 6.0 percent to 5.5 percent in the same period.

Table 36
RATIO OF DOLLARIZATION OF CREDIT TO THE PRIVATE SECTOR 1/
 (%)

| | Dec.18 | Mar.19 | Jun.19 | Sep.19 | Dec.19 | Mar.20 | Jun.20 | Jul.20 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Businesses | 38.7 | 38.2 | 38.4 | 38.1 | 37.3 | 37.8 | 31.7 | 30.4 |
| Corporate and large companies | 51.9 | 51.2 | 51.8 | 51.3 | 50.5 | 50.4 | 43.2 | 43.0 |
| Medium-sized enterprises | 40.1 | 39.9 | 39.7 | 39.4 | 38.5 | 38.7 | 30.0 | 27.3 |
| Small business and Micro business | 6.2 | 5.9 | 5.7 | 5.7 | 5.7 | 5.6 | 4.9 | 4.3 |
| Individuals | 10.4 | 10.0 | 9.7 | 9.4 | 8.9 | 8.5 | 8.3 | 8.3 |
| Consumer | 6.4 | 6.2 | 6.2 | 6.2 | 6.0 | 5.7 | 5.5 | 5.5 |
| Car loans | 13.9 | 13.4 | 14.2 | 14.8 | 14.8 | 14.9 | 14.9 | 15.3 |
| Credit cards | 7.1 | 7.2 | 7.4 | 7.4 | 7.1 | 6.6 | 5.6 | 5.5 |
| Rest | 5.6 | 5.4 | 5.3 | 5.1 | 5.0 | 4.9 | 5.0 | 5.1 |
| Mortgage | 16.3 | 15.5 | 14.9 | 14.2 | 13.3 | 12.7 | 12.5 | 12.4 |
| TOTAL | 27.8 | 27.2 | 27.1 | 26.7 | 25.9 | 26.3 | 23.4 | 22.7 |

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

Graph 91
RATIO OF DOLLARIZATION OF CREDIT AND LIQUIDITY: 2002 - 2020
 (%)



Non-Performing Loans

80. The ratio of non-performing loans was 3.28 percent in July, similar to that recorded in December 2019. This evolution of delinquency would reflect not only that repayment rescheduling and government backed credit programs include grace periods, but also that government backed credit programs have contributed to the expansion of existing credits, which also help to reduce the delinquency ratio.





Table 37
NON-PERFORMING LOANS INDEX
 (%)

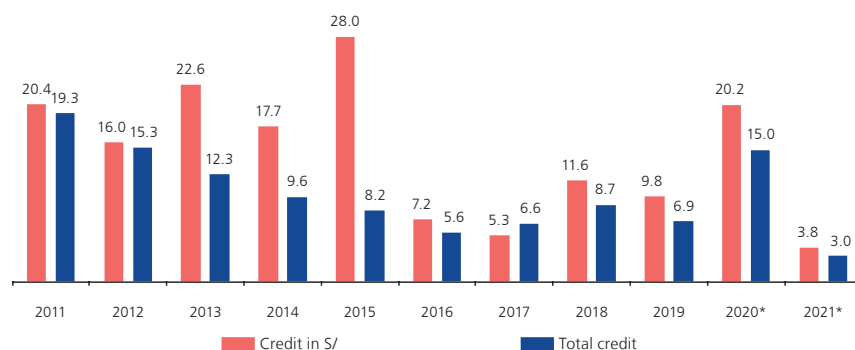
| | Dec.18 | Mar.19 | Jun.19 | Sep.19 | Dec.19 | Mar.20 | Jun.20 | Jul.20 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Businesses | 3.59 | 3.66 | 3.68 | 3.70 | 3.57 | 3.68 | 3.40 | 3.32 |
| Corporate and large companies | 0.58 | 0.61 | 0.64 | 0.57 | 0.62 | 0.63 | 0.66 | 0.70 |
| Medium-sized enterprises | 7.84 | 8.10 | 8.25 | 8.67 | 8.24 | 9.00 | 7.53 | 7.12 |
| Small business and Micro business | 7.60 | 7.52 | 7.57 | 7.52 | 7.13 | 7.41 | 6.97 | 6.39 |
| Individuals | 3.18 | 3.10 | 3.24 | 3.17 | 3.15 | 3.33 | 3.77 | 3.50 |
| Consumer | 3.32 | 3.19 | 3.37 | 3.28 | 3.27 | 3.47 | 3.91 | 3.64 |
| Credit cards | 5.32 | 5.27 | 5.52 | 5.49 | 5.47 | 5.79 | 6.21 | 6.22 |
| Vehicular | 4.45 | 3.92 | 3.97 | 3.97 | 3.75 | 3.86 | 4.78 | 4.65 |
| Rest | 1.54 | 1.56 | 1.59 | 1.66 | 1.68 | 1.83 | 2.55 | 2.11 |
| Mortgage | 3.01 | 2.98 | 3.07 | 3.02 | 2.98 | 3.15 | 3.59 | 3.33 |
| AVERAGE | 3.44 | 3.46 | 3.52 | 3.50 | 3.28 | 3.41 | 3.38 | 3.28 |

Projection of credit to the private sector

81. In the forecast horizon (2020-2021), credit to the private sector is expected to grow at higher rates than the nominal output, with which the ratio of credit to the private sector-to-GDP would increase from 43 in 2019 to 51 percent in 2021. This projection also assumes that economic activity would recover and reach pre-pandemic levels in 2022.

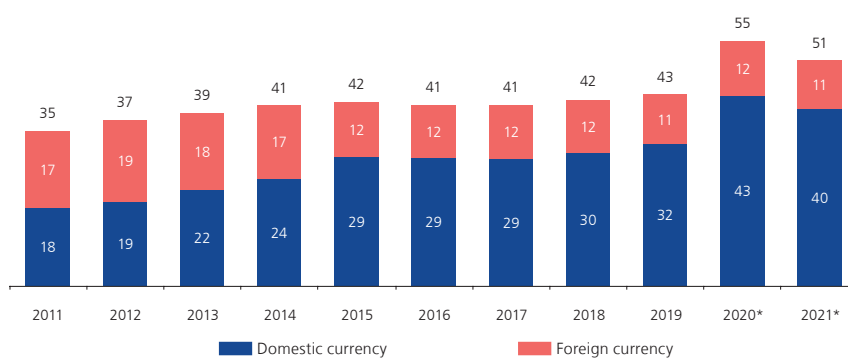
Credit to the private sector in domestic currency is projected to grow 20.2 percent in 2020 and 3.8 percent in 2021, taking into account the statistical effect of the strong increase in 2020 and the beginning of the amortization of loans granted under the Reactiva Perú program. Thus, total credit would grow 15.0 percent in 2020 and 3.0 percent in 2021. As a result, the dollarization ratio of credit would continue to decrease, reaching a level of 22 percent at the end of 2021.

Graph 92
CREDIT TO THE PRIVATE SECTOR
 (% change)



* Forecast.

Graph 93
RATIO CREDIT/GDP
 (%)





Box 5 THE REACTIVA PERÚ PROGRAM

The effects of the Covid-19 pandemic on supply and demand have caused an important decrease in the income of families and in the cash flow of companies, which, in turn, has limited their ability to fulfill the financial obligations they had already acquired. The Reactiva Perú program was implemented in response to these impacts as a mechanism to inject liquidity and support credit in order to prevent the breakdown of the chain of payments, and, at the same time, provide liquidity to the financial system. The program has mitigated in part the negative effects of the crisis that could have led to an economic recession (a deep and long depression) and damage the stability of the financial system.

Reactiva Perú is a S/ 60 billion program –initially S/ 30 billion– of government guarantees to support credit to business, in which the size of the loans provided to firms is related to the needs of work capital. At first, the loan amount was determined by a company's contributions to the Employees Health System (EsSalud, 3 months) or by the sales declared to the National Superintendency of Taxation (SUNAT, 1 month) for 2019. Later on, because of the extension of the quarantine, the amount was raised in a second stage of the program to 3 months of declared sales or, in the case of micro enterprises, to 2 times the average debt of 2019. In both cases, the amount for loans was topped at S/ 10 million, so that the larger companies would have less relative access. These measures modifying the amount of loans mainly favored the smaller companies which had access to larger loans according to their credit history.

The guarantee of the National Government is given as a percentage (between 98 and 80 percent) that is negatively related to the amount of the loan. Hence, the guarantee percentage is higher for the smaller loans, which are also associated with the smaller businesses. The guarantee acts as a mechanism of risk absorption given the exceptional conditions of economic recession and high uncertainty. On June 1, the program amount was increased and the guarantee coverage was expanded.

| Guarantee percentage | Credit by company (in soles) | |
|----------------------|------------------------------|------------------------------|
| | Reactiva 1 ^{1/} | Reactiva 2 ^{2/} |
| 98% | Up to 30,000 | Up to 90,000 |
| 95% | From 30,001 to 300,000 | From 90,001 to 750,000 |
| 90% | From 300,001 to 5,000,000 | From 750,001 to 7,500,000 |
| 80% | From 5,000,001 to 10,000,000 | From 7,500,001 to 10,000,000 |

1/ Before June 1, 2020.

2/ After June 1, 2020.

The program is aimed at companies that were in good standing before the COVID-19 shock, including being good taxpayers and debtors. Other verifiable requisites included not having links to the financial entity extending the credit, not being involved in activities specified in a List of Exclusion, and not being included in cases of corruption under Law 30737, nor being

processed for crimes of corruption or related crimes. BCRP carries out 3-year repo operations at a 0.50 percent rate with the portfolio guaranteed by the program through an auction mechanism by which the repos are assigned to the financial entities that offer the lowest interest rates to their client firms.

Results of the Program

In the first phase of Reactiva Perú, BCRP assigned government-backed repos for a total of S/ 30 billion at an average interest rate of 1.12 percent in seventeen auction sessions.

OPERATIONS AUCTION OF PORTFOLIO REPO WITH NATIONAL GOVERNMENT GUARANTEE - PHASE 1

| Guarantee percentage | Settled (Million S/) | Placed amounts* (Million S/) | Placement interest rate (%) | | | Placed amounts* (%) |
|----------------------|----------------------|------------------------------|-----------------------------|-------------|-------------|---------------------|
| | | | Minimum | Maximum | Average | |
| 80 | 10,250 | 8,718 | 0.79 | 1.49 | 1.11 | 29.1 |
| 90 | 18,000 | 14,006 | 0.90 | 2.00 | 1.08 | 46.7 |
| 95 | 7,400 | 6,098 | 0.54 | 2.50 | 1.13 | 20.3 |
| 98 | 1,629 | 1,178 | 0.50 | 3.60 | 1.78 | 3.9 |
| Total | 37,279 | 30,000 | 0.50 | 3.60 | 1.12 | 100.0 |

* As of June 11.

As of September 17, within the framework of the second phase of Reactiva Perú, BCRP assigned government-backed repos for a total of S/ 24.8 billion at an average interest rate of 1.7 percent in twenty-five auction sessions.

OPERATIONS AUCTION OF PORTFOLIO REPO WITH NATIONAL GOVERNMENT GUARANTEE - PHASE 2

| Guarantee percentage | Settled (Million S/) | Placed amounts* (Million S/) | Placement interest rate (%) | | | Placed amounts* (%) |
|----------------------|----------------------|------------------------------|-----------------------------|-------------|-------------|---------------------|
| | | | Minimum | Maximum | Average | |
| 80 | 2,550 | 875 | 1.25 | 2.15 | 1.66 | 3.5 |
| 90 | 15,850 | 10,236 | 0.99 | 2.50 | 1.38 | 41.2 |
| 95 | 21,800 | 7,995 | 0.60 | 2.50 | 1.41 | 32.2 |
| 98 | 29,450 | 5,736 | 0.55 | 5.00 | 2.69 | 23.1 |
| Total | 69,650 | 24,843 | 0.55 | 5.00 | 1.70 | 100 |

* As of September 17.

The results of the auctions in the second phase show that the amounts involving higher government guarantees, received by the smaller companies, are clearly higher than the amounts assigned in the first phase.

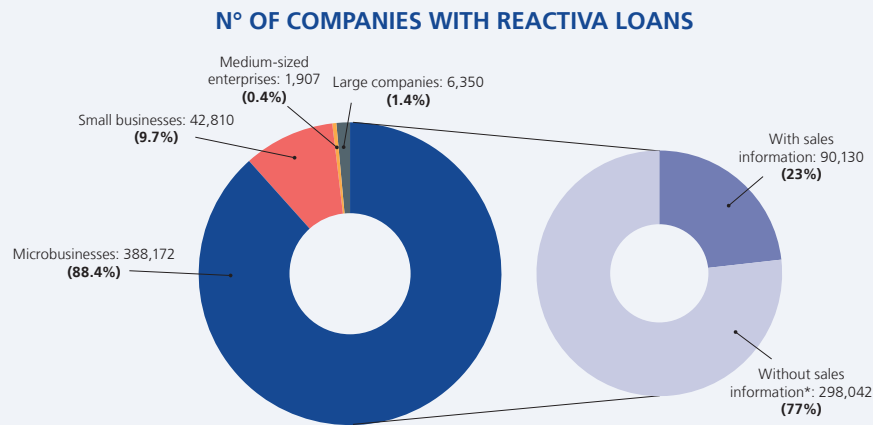
It is worth mentioning that the program resources were assigned to 28 financial entities (9 banks, 7 financial companies, 10 municipal savings banks, and 2 rural savings banks) that comprise 98 percent of the credit given to companies by the financial system institutions.

According to information provided by the Financial Corporation for Development (COFIDE), on September 15 the sum of total government-guaranteed loans was 53,696 million, which have benefited 439,239 companies of which 98.1 percent are small and micro enterprises (SME). Out





of the total of micro businesses (388,172 companies), 23 percent –that is, 90,103 companies– are enterprises that register information about their sales (formal), while 77 percent –298,042 enterprises– do not. Most of the latter (295,421) applied for their loans with their National Identification Document (DNI).



* From this group 295 421 applied for a loan with ID.

By size of company, the participation of small, medium-sized and large companies in the total of the loans provided by Reactiva Perú is proportional to their total sales. Thus, large companies, which contribute with 65.6 percent of total sales, have received 51.4 percent of the money loaned, while small and micro-enterprises, which contribute with 31.3 percent of total sales, have received 43.6 of the loans.

REACTIVA LOANS BY COMPANY SIZE 1/

| | Amount | | Average sales 2/ | |
|--------------------------------------|---------------|-------------------|------------------|-------------------|
| | (Million S/) | Participation (%) | (Million S/) | Participation (%) |
| Corporate and large companies | 27,603 | 51.4 | 27,805 | 65.6 |
| Medium-sized enterprises | 2,656 | 4.9 | 1,316 | 3.1 |
| Small businesses and Microbusinesses | 23,437 | 43.6 | 13,254 | 31.3 |
| Total | 53,696 | 100.0 | 42,375 | 100.0 |

1/ With information from the guarantee certificates issued by COFIDE as of September 15, 2020. For the classification of the size of company uses the amount of annual sales according to information from SUNAT. For companies that do not register a number of sales, it was estimated according to the median of the segment to which it belongs.

2/ Sales amounts are consolidated in the case of companies with more than one Reactive credit, that is, the sales amounts are considered only once registered of those companies with more than one Reactive credit.

Memo: The criteria for classifying the loans to companies by credit segment according to the SUNAT:

Microbusinesses: Annual sale between 0 to 150 UIT.

Small companies: Annual sale between 150 to 1700 UIT.

Medium-sized enterprises: Annual ventilation between 1,700 and 2,300 UIT.

Large Company: Annual sale greater than 2,300 UIT.

The program has an important bearing on direct employment. The group of companies that has benefited from the Reactiva Perú program sustain 2.8 million jobs, of which 2 million are registered in the electronic payroll (52.4 percent of private formal employment). On the other hand, it is estimated that 347 thousand enterprises sustain 711 thousand jobs that are not registered in the electronic payroll.

COMPANIES AND EMPLOYMENT IN REACTIVA PERU 1/

| | Companies in Reactiva | | Electronic payroll | |
|--|-----------------------|-------------------|--------------------|-------------------|
| | Number | Participation (%) | (Thousand) | Participation (%) |
| Total | 439,239 | 100.0 | 2,759 | 100.0 |
| With information in payroll | 92,048 | 21.0 | 2,048 | 74.2 |
| Without information in payroll ^{2/} | 347,191 | 79.0 | 711 | 25.8 |
| With Ruc | 48,948 | 11.1 | 114 | 4.1 |
| Without Ruc | 298,243 | 67.9 | 597 | 21.6 |

1/ Elaborated with the information from the Electronic Payroll as of March 2020 and the guarantee issued by COFIDE as of September 15, 2020.

2/ Mainly microbusiness and small companies that do not declare workers in the payroll. For these, the number of jobs has been estimated according to the median of those microbusiness and small companies that do register information on the payroll (2 and 5 positions, respectively).

Source: Sunat and Datamart.

Moreover, it is estimated that the companies that have participated most in the Reactiva Perú program are companies with up to 10 workers (which represent 95.8 percent of those enterprises and 38.3 percent of the total sum of loans), these companies accounting for 949 thousand jobs (34.4 percent of the total). On the other hand, companies with more than 500 workers, which account for the other third of the total number of jobs, are the ones showing the lower participation in the Reactiva Perú program (0.1 percent of all companies and 8.4 percent of the total sum of loans).

REACTIVE CREDITS BY NUMBER OF COMPANY'S WORKERS 1/

| | Amount of loans | | Number of companies | | Jobs | |
|-----------------------------|-----------------|-------------------|---------------------|-------------------|--------------|-------------------|
| | (Million S/) | Participation (%) | (Units) | Participation (%) | (Thousand) | Participation (%) |
| Up to 10 workers | 20,557 | 38.3 | 420,614 | 95.8 | 949 | 34.4 |
| Between 11 and 50 workers | 13,335 | 24.8 | 13,711 | 3.1 | 280 | 10.1 |
| Between 51 and 100 workers | 5,175 | 9.6 | 2,162 | 0.5 | 153 | 5.5 |
| Between 101 and 500 workers | 10,110 | 18.8 | 2,206 | 0.5 | 446 | 16.2 |
| More than 500 workers | 4,520 | 8.4 | 546 | 0.1 | 931 | 33.7 |
| Total | 53,696 | 100 | 439,239 | 100 | 2,759 | 100 |

1/ Elaborated with information from the guarantee issued by COFIDE as of September 15, 2020. Information from the Electronic Payroll corresponding to March 2020 is used for the number of workers. Includes 347 thousand companies without information in the Electronic Payroll. For these companies, 711 thousand workers have been estimated based on the median employment according to company size.

Source: Sunat and Datamart.

Impact on the cost and volume of loans

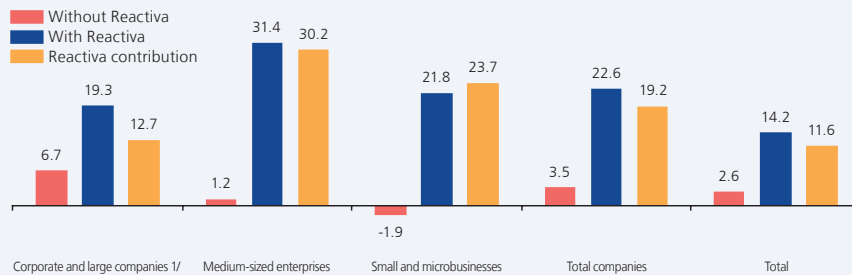
The Reactiva Perú program has allowed for a higher expansion of credit in all of the entrepreneurial segments. As of July 2020, credit to companies has grown 22.6 percent in the last twelve months. Without the program, it would have grown 3.5 percent. Hence, under the definition of the Superintendency of Banking and Insurance (SBS), credit for small and micro enterprises has grown 21.8 percent (-1.9 percent without Reactiva Perú), while credit for medium-sized companies has grown 31.4 percent (1.2 percent excluding the effect of the program), and credit for large companies and corporations has grown 19.3 percent (6.7 percent if the effect of Reactiva Perú is excluded)





CREDIT GROWTH IN JULY 2020

(Annual % change)

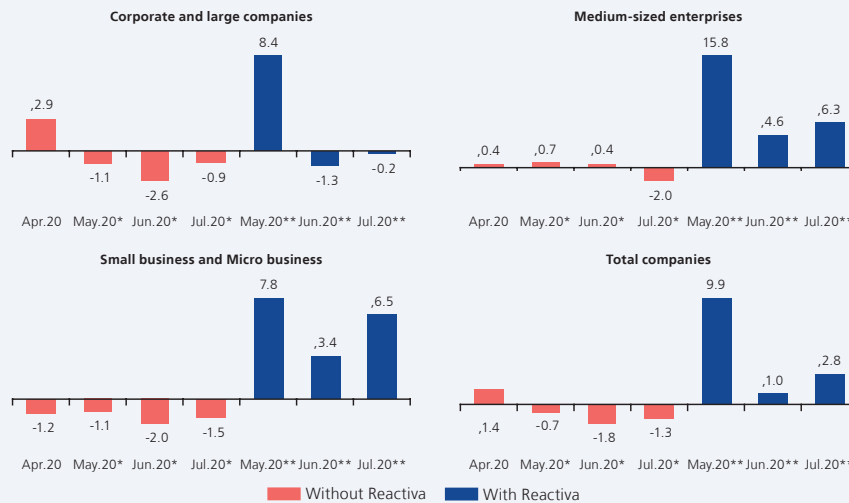


Note: The criteria for classifying business loans by credit segment according to the SBS is as follows:
Corporate: Annual sales over S / 200 million.
Large companies: Annual sales between S / 20 million and S / 200 million; or maintain issues in the capital market for the last year.
Medium-sized companies: Total debt greater than S / 300 thousand and annual sales not greater than S / 20 million.
Small business: Total debt between S / 20 thousand and S / 300 thousand.
Microenterprises: Total debt no greater than S / 20 thousand.

Credit to companies would have decreased during the last three months, where it not for the effects of the Reactiva Perú program. Most of the expansion of credit in July has favored SMEs (6.5 percent) and mid-size enterprises (6.3 percent). Had the loans not been issued through the Reactiva Peru program, lower rates of growth would have been attained in all segments.

LOANS TO BUSINESS

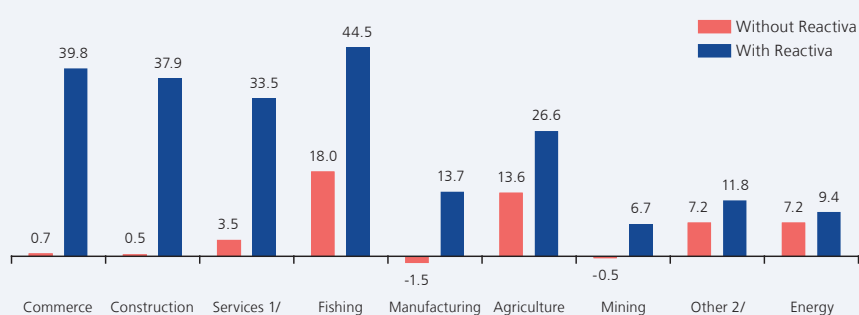
(Annual % change)



* Not includes Reactiva Peru loans.
 ** Includes Reactiva Peru loans.

The sectors most affected by the measures of social confinement due to Covid-19 are among those where credit has expanded most. Thus, the largest growth in credit in year-on-year terms was observed in the sectors of commerce (39.8 percent), construction (37.9 percent), services (33.5 percent), and fisheries (44.5 percent). Had Reactiva Perú not extended such credit, these sectors would have had significantly lower growth.

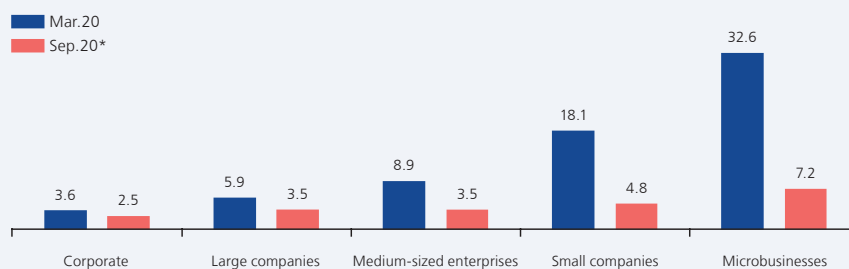
GROWTH OF BUSINESS LOANS BY ECONOMIC SECTOR (Annual % change)



1/ Includes hotels and restaurants, transportation, Real estate, business, education and social services.
2/ Includes credit to households for business purposes, not sectorized, serv. community and non-profit.
Source: BSI and Datamart.

It is worth pointing out that the auction mechanism has helped to accelerate the pass-through of cuts in the benchmark rate (currently at its historical minimum of 0.25 percent) to the other interest rates. As of September, the smaller businesses have seen their interest rates reduced to levels that are much below their historical averages.

INTEREST RATE IN DOMESTIC CURRENCY 1/ (In %)



1 Lending rates in annual terms of operations carried out in the last 30 business days for banking companies.
* Information as of September 15, 2020.
Source: SBS.

The debt balance of beneficiaries of the program

According to the SBS Reporte Crediticio Consolidado (RCC)⁹, between May and July 2020, the total of Reactiva Peru loans was equivalent, on average, to 55 percent of the total debt balance of the companies at the time when they received their loan, which implies that, on average, companies doubled their credit balance as they participated in the program. Specifically, the program made a larger contribution to the debt balance of small and micro

9 Reporte Crediticio Consolidado (RCC) is a monthly report that contains the debt balances owed by natural and corporate persons to entities of the financial system under supervision of the Superintendency of Banking and Insurance (SBS).





enterprises (60 percent), including, in several cases, companies that had not previously had credit in the financial system

AMOUNT OF REACTIVA LOANS OVER DEBT BALANCE IN THE FINANCIAL SYSTEM 1/

| Segment 2/ | N° of companies | Amount Reactiva (million S/) | Balance of debt as of July | Ratio: Amount of Reactiva loans over total debt balance | |
|-------------------------------|-----------------|------------------------------|----------------------------|---|-------------|
| | | | | Average | Median |
| Corporate and large companies | 2,725 | 16,641 | 75,706 | 0.54 | 0.51 |
| Medium-sized enterprises | 24,327 | 15,970 | 36,847 | 0.42 | 0.35 |
| Small and microbusinesses | 161,707 | 10,338 | 15,398 | 0.60 | 0.65 |
| Total | 188,759 | 42,949 | 127,951 | 0.55 | 0.56 |

1 / Information on Reactiva Peru loans and Consolidated Credit Report as of July 2020. The companies in the RCC are considered.

2 / According to the SBS classification.

Source: Datamart and RCC.

Credit inclusion and loans granted by Reactiva Peru

As of July 2020, 32,804 loans from Reactiva Peru (15.4 percent of the total) have been granted by financial entities to companies that were not their clients over the last two years. The companies that have taken Reactiva loans from a new financial entity can be divided in two groups: (i) those that have not had credit under any entity, at least over the last two years (8.0 percent of the loans taken within the Reactiva Perú program), and (ii) those that have had loans in the same period, but from a financial entity different from the one that granted the Reactiva loan (7.4 percent of the Reactiva loans).

It can be observed that some 16,989 loans from Reactiva Perú were extended by a financial entity to companies that had not obtained loans in the financial system, at least during the last two years. These loans were extended mainly by banks (53 percent), followed by municipal savings banks (26 percent), financial companies (17 percent), and rural savings banks (4 percent).

FINANCIAL INCLUSION OF REACTIVA PERU

| Entities | Credit inclusion by Reactiva Perú 1/ | | Credit Reactiva Perú in new entities 2/ | | Total | |
|--------------------------|--------------------------------------|-------------------|---|-------------------|---------------|-------------------|
| | N° loans | Participation (%) | N° loans | Participation (%) | N° loans | Participation (%) |
| Banks | 9,044 | 53 | 13,538 | 86 | 22,582 | 69 |
| Financial entities | 2,869 | 17 | 18 | 0 | 2,887 | 9 |
| CMAC | 4,366 | 26 | 2,130 | 13 | 6,496 | 20 |
| CRAC | 710 | 4 | 129 | 1 | 839 | 3 |
| First loans | 16,989 | 100 | 15,815 | 100 | 32,804 | 100 |
| (% total Reactiva loans) | 8.0 | | 7.4 | | 15.4 | |

1/ Reactiva loans are considered from companies that have had no credit in the financial system in the last two years.

2/ Reactiva loans are considered from companies that have had some credit in the last two years, but not in the same entity where they obtained the Reactiva loans.

Memo: Information on Reactiva loans and Consolidated Credit Report (RCC) as of July 2020.

On the other hand, 15,815 loans were extended by a financial entity different from those to which the company usually goes to obtain credit. In other words, between May and July, 7.4 percent of the loans under the program were made to companies that had some loan from the financial system (in the last two years), but applied for a loan under Reactiva Peru in a different entity than that holding the previous loan. Specifically, 86 percent of these loans were extended by banks, followed by municipal savings banks (13 percent)

Loans from Reactiva Perú and amount of sales

For loans under Reactiva Perú extended until the end of May, following the rules of the first stage of the program, the ratio of the program loans over the sales (monthly average) was 1. In the case of loans extended between June and September 15, under the rules of the second stage of the program, the average of that ratio increased to 2.5. It should be mentioned that a sizeable number of companies, mainly micro enterprises, do not register information on sales.

By amounts of Reactiva loans, the segments of smaller loans –extended mainly to SMEs– are the ones with the higher ratios of loans over sales. On the other hand, such a ratio is significantly below one in the case of larger amount loans.

REACTIVA LOANS 1/

| Amount of loans | May 2020 | | From June to September 2020 | | | |
|------------------------------------|---------------|-------------------------------------|-----------------------------|-------------------------------------|------------|------------|
| | N° companies | Amount of loans/ amount of sales | N° companies | Amount of loans/ amount of sales | | Median |
| | | Average | | Average | Median | |
| Between 0 and 10 thousand | 8,072 | 1.1 | 1.0 | 24,922 | 2.5 | 3.0 |
| Between 10 and 30 thousand | 15,354 | 1.0 | 1.0 | 22,666 | 2.5 | 3.0 |
| Between 30 and 300 thousand | 34,883 | 1.0 | 1.0 | 21,005 | 2.5 | 3.0 |
| Between 300 thousand and 1 million | 7,391 | 1.1 | 1.1 | 1,938 | 2.0 | 1.9 |
| Between 1 and 5 million | 3,660 | 1.1 | 1.1 | 506 | 1.7 | 1.2 |
| Between 5 and 9 million | 491 | 1.0 | 1.2 | 52 | 1.1 | 1.2 |
| Between 9 and 10 million | 64 | 0.9 | 1.0 | 3 | 0.8 | 1.0 |
| Equal to 10 million | 490 | 0.5 | 0.5 | 28 | 0.5 | 0.5 |
| Sales not available | 1,148 | | | 296,566 | | |
| TOTAL | 71,553 | 1.0 | 1.0 | 367,686 | 2.5 | 3.0 |

1/ Loans guaranteed under the Reactiva Peru program, disbursed between May 5 and September 15.

To conclude, the Reactiva Perú program has prevented discontinuity in the chain of payments and has helped to provide liquidity to the financial system. The program has been useful in providing significant impulse to credit for the private sector and, at the same time, in reducing financial costs, especially for the smaller companies. In addition, the program has also contributed to more financial inclusion, which can be seen in the emergence of new entities for new clients as well as in new financial profiles that now have more access to credit.





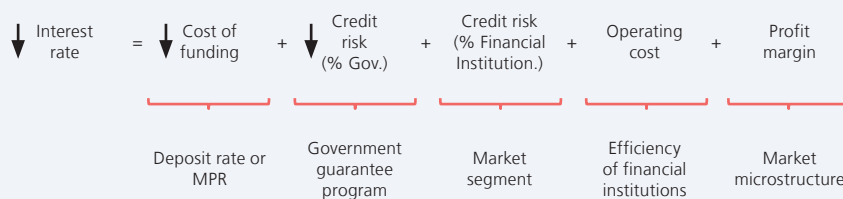
Box 6 INTERNATIONAL EXPERIENCE OF CREDIT SUPPORT PROGRAMS DURING THE COVID-19 PANDEMIC

The main objective of the credit support programs is to provide the financial institutions in the financial system (FSIs) with the liquidity they require to grant loans to the firms affected by the economic lockdown caused by the COVID-19 pandemic. This has generally required a government guarantee for the loans granted, so governments have assumed, either completely or in part, the greater credit risk of companies to FSIs encourage FSIs to grant loans in these exceptional circumstances and avoid a generalized credit crunch.

Greater credit risk

In scenarios of high uncertainty (such as the pandemic today), FSIs may find it difficult to determine with accuracy the probabilities of recovering their loans, so they tend to increase their interest rates or to grant fewer loans. The interest rates charged by financial institutions for their loans vary according to the credit segments, but, in general, the interest rates include the cost of funding (borrowing rates or money market rates) and credit risk (the probability of default on repayment), as well as the operating costs (linked to the generation and administration of the loan) and the profit margin (which depends on the elasticity of demand and on market competition).

With a lower cost of funding –due to the reduction of monetary policy rates (MPR)– and a credit risk transferred to the government (totally or partially), financial institutions can charge lower interest rates for their loans. The former element supports the usual transmission mechanism of monetary policy (with the provision of additional liquidity) and the latter is an element incorporated to induce higher loans from FSIs given the increased credit risk that exists due to the health crisis. Schematically, these effects on customer interest rates can be represented as follows:



Forms of credit support

The most widely used form of credit support programs has been that governments guarantee loans, directly or through a public entity, according to the size of companies (for example, by

level of sales or by labor contribution).¹⁰ The more extensive the funds and the extension of loans (with concessional interest rates), the greater the probability that the support will be effective and that it will reduce the number of companies that are no longer viable. Loss of sales revenue can quickly turn companies' illiquidity into solvency problems.

These programs are significantly accompanied by liquidity facilities from the central banks. To provide liquidity, central banks use repo operations, accepting the FSI loans (or other eligible assets) as collateral. In addition, among other measures, they include in their liquidity facilities the extension of terms and the expansion of participating FSIs and collateral assets. The funds are placed (i) through direct allocations, at the request of a FSI (in accordance with customers' requests), or (ii) through auctions where the allocation variable may correspond to the interest rate or the percentage of guarantee.

Conditions for credit

Credit has been offered to companies that did not have significant defaults on their obligations to the financial system before the pandemic. A usual condition is that the borrowed funds are used to cover working capital and not for structural investments of the business. However, the extensive duration of the pandemic has made it necessary to make this condition more flexible and to allow that the funds be used, for example, to reconvert the business, make the workforce more flexible, or strengthen capital.

Small companies have been the most affected businesses by the pandemic insofar as they cannot operate remotely, do not have credit lines, do not have real or liquid collateral, and face higher funding costs. Therefore, the highest percentages of government guarantee of credit support programs have been allocated to the smallest companies. One way to encourage financial institutions' loans to smaller companies is to condition the additional provision of funds to FSIs to the increase in credit to these businesses (Chile and England, for example).

International experience

Several cases of countries that have implemented liquidity provision and credit support programs through government guarantee, either jointly with the central bank or independently,¹¹ are described below. Detailed information on the main cases in the region is provided in the following two tables. The first table contains information on government-backed loan programs and the second table offers information on loan financing.

10 Dreyer and Nygaard (2020) report that, according to the World Bank, 41 countries have started 57 credit schemes with guarantee for small and medium-sized companies this year.

11 Some databases on the measures taken against COVID-19 worth pointing out are the databases of the International Monetary Fund (2020), the Institute of International Finance (2020), and the Yale Program on Financial Stability (2020).





Programs in the region

In Latin America, Brazil, Chile, and Colombia have also implemented government-backed credit programs, the amount of credit disbursed to date by these programs ranging between 0.8 and 4.2 percent of GDP. In Peru, the loans disbursed amount to 7.9 percent of GDP (7.5 percent by Reactiva Peru), with 7.1 percent of GDP corresponding to the guaranteed tranche. It is worth mentioning that the greater relative size of government guarantees in our country is consistent with the greater economic contraction generated by the strict confinement measures and the economic lockdown established.

The guarantees of these programs range between 60 and 100 percent, the loans have terms of between 1 and 5 years, and the loans are used to finance working capital or payroll. The programs in Chile and Colombia are associated with the use of liquidity injection lines provided by their own central banks, while in Brazil they are financed by development banks.

MAIN CREDIT SUPPORT PROGRAMS WITH GOVERNMENT GUARANTEE

| Country | Institution in charge | Program | Procedure | Finance | Term (Grace period) | % Guarantee threshold in US\$* | Amount: % GDP** (Progress: % GDP) | Customer Interest Rate |
|-------------|---|--|--|--|--|---|---|---|
| Brazil | Brazilian Development Bank (BNDES) | Emergency Employment Support Program (PESE) | Request to the Financial Entity (Direct payment to the worker) | Payroll for 2 months | 3 years (6 months) | Small and medium enterprises 85% (between 66 thousand and 1.8 million) | 3.7 thousand: 0.3% (918: 0.1%) | Bank Deposit Certificate (3.75%) |
| | Investment Guarantee Fund (IGF) | Emergency Credit Access Program (PEAC) | Request to the Financial Entity | Free use (like reinforce work capital) | 1 - 5 years (6 - 12 months) | 80% between 900 thousand and 1.8 million | 18.3 thousand: 1.4% (5.6 thousand 0.4%) | Bank sets (<1% monthly) |
| | Operations Guarantee Fund (OGF) | National Support Program for Micro and Small Business (PRONAMPE) | Request to the Financial Entity | Work capital | 3 years (8 months) | 30% of Annual Sales 100% Micro < 20 thousand 100% Small < 263 thousand | 6 thousand: 0.5% (5.2 thousand: 0.4%) | SELIC (2%) + 1.25% |
| Chile | The Guarantee Fund for Small Entrepreneurs (FOGAPE) | Covid-19 credits | Auction % of guarantee | Work capital | 2 - 4 years (> 6 months) | 25% of Annual Sales 85% SME < 230 thousand 80% Medium sized enterprises < 919 thousand 70% Corporate and large companies I < 5.5 million 60% Corporate and large companies II < 9.2 million | 24 thousand: 9.3% (10.7 thousand: 4.2%) | 3.5% (Policy rate + 3%) |
| Colombia 1/ | National Guarantee Fund (FNG) | United for Colombia | Request to the Financial Entity | Arrangement: work capital, payroll (and other) | 1 - 3 years (> 4 months: Work capital > 6 months: Payroll) | Work capital (SMEs): 80% < 1.2 million Payroll (SMEs): 90% < 1.2 million | 6.4 thousand: 2.3% (2.1 thousand: 0.8%) | Bank sets |
| Peru | The Development Bank of Peru (COFIDE) | Enterprise Fund Program for Micro and Small Companies (FAE-MYPE) | Request by the SME | Work capital | 9 - 36 months (3 - 12 months) | 98% < 2.8 thousand 90% < 8.4 thousand | 2.1 thousand: 1.1% (816: 0.4%) (Includes Tourism and Agro Programs) | Cofide Auction Rate to Financial Institutions |
| | | Reactiva Peru Program | Request by the entity and auction awarded by Central Bank | Work capital | 3 years (< 1 year) | Reactiva I (II): 98% < 8 (25) thousand 95% < 85 (212) thousand 90% < 1.4 (2.1) million 80% < 2.8 (2.8) million | 16.9 thousand: 8.4% (15 thousand: 7.5%) Reactiva I + II | Central Bank Auction Rate |

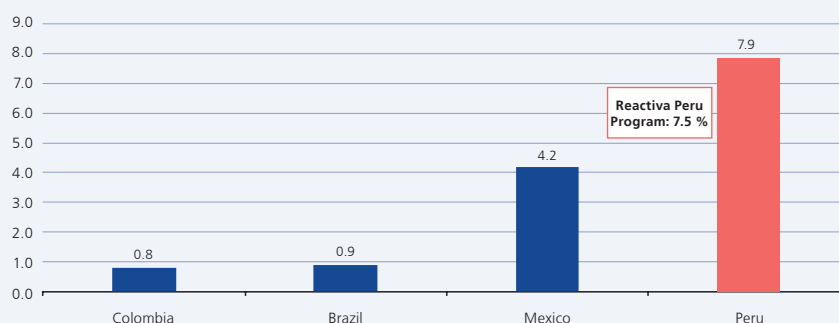
* Exchange rates as of August 31.

** GDP percentages were measured in domestic currency. Amounts's progress correspond to credits disbursed, including guaranteed and non-guaranteed tranches.

1/ Additionally, through the Emergency Mitigation Fund (FOME), direct financing can be granted to private companies that carry out activities considered to be of national interest, for example Avianca Holding for up to US\$ 370 million.

Sources: Central banks and program regulations; IMF (2020), Policy Responses to COVID-19 - Policy Tracker; YPFS (2020), Covid-19 Financial Response Tracker.

DISBURSED CREDITS - GUARANTEE PROGRAMS *
(% GDP)



* As of September 15.
Source: Central banks, BCRP and MEF.

a) Brazil

Brazil’s main government-backed credit support programs are not directly linked to the central bank’s provision of liquidity. The Emergency Credit Access Program, which offers an 80 percent guarantee, is associated with the Investment Guarantee Fund and with the Brazilian Development Bank (BNDES). In addition, the Emergency Employment Support Program (PESE), also associated with BNDES, offers an 85 percent guarantee for payroll payment, while the National Support Program for Micro and Small Business (PRONAMPE), associated with the Operations Guarantee Fund and the (state) Bank of Brazil, offers a 100 percent guarantee. The total funds managed by these programs is US\$ 27.9 billion (2.1 percent of GDP), of which US\$ 11.7 billion (0.9 percent of GDP) have been disbursed to date.

b) Chile

The Facility for Conditional Credit to Increase Loans (FCIC) was established by the central bank to provide liquidity to the FSIs. This is an independent mechanism that complements the government guarantee program.¹² In a first stage, the facility included funds for up to US\$ 24 billion, but these funds were expanded in a second stage by up to US\$ 16 billion. Based on their commercial and consumer loans as of February 2020, the participating FSIs have access to an initial credit line equivalent to US\$ 4.8 billion, but this line can be extended depending on how much each entity increases its credits and on how much is credit to small companies.

Moreover, based on a pre-existing scheme, an additional line of government backed credit was created as “COVID-19 Credit Line”. The Guarantee Fund for Small Entrepreneurs (FOGAPE) has tendered the guarantee that will back the loans granted by the participating

12 See Banco Central de Chile (2020) and Comisión para el Mercado Financiero (2020).





FSIs, which include banks as well as savings and credit cooperatives. The guarantee percentage is between 60 and 85 percent. To date, this program has placed funds for a total of US\$ 10.7 billion (4.2 percent of GDP).

c) Colombia

Colombia’s Banco de la República has implemented various measures to provide liquidity to the FSIs (extending the terms, collaterals, and the number of entities participating in their repos). Like Chile, Colombia used a pre-existing infrastructure to create a government-guaranteed credit line for FSIs’ loans due to COVID-19, capitalizing the National Guarantee Fund (Fondo Nacional de Garantías - FNG) so that this organization could extend new credit lines mainly to small and medium-sized companies to help them with working capital and payroll payments. These loans have state guarantee percentages of between 80 and 90 percent. To date, this program has allocated US\$ 2.1 billion (0.8 percent of GDP).

In addition, the government established the Emergency Mitigation Fund (FOME). Among other purposes, its resources can be used to grant direct financing to private companies that carry out activities considered to be of national interest, such as airline services. On August 29, the government approved support for the restructuring of Avianca Holdings through a loan of up to US\$ 370 million for 18 months.

REGION: LOAN FINANCING

| Country | Institution in charge | Program | Procedure | Guarantee Program Properties |
|-------------|---------------------------------------|--|---|-------------------------------------|
| Brazil | Brazilian Development Bank (BNDES) | Emergency Employment Support Program (PESE) BNDES 85%, Bank 15% | Financial entity's request (Direct payment to the worker) | Combined |
| | | Emergency Credit Access Program (PEAC) | Financial entity's request | Combined |
| | Bank of Brazil | National Support Program for Micro and Small Business (PRONAMPE) | Financial entity's request | Combined |
| Chile | Central bank | The Facility for Conditional Credit to Increase Loans (FCIC) | Repos Immediate start line Expansion for credit to SMEs | Independent |
| Colombia 1/ | Central bank | Various liquidity facilities | Repos | Independent |
| Peru | The Development Bank of Peru (COFIDE) | Enterprise Fund Program for Micro and Small Companies (FAE-MYPE) | Auction by amounts Interest rate allocation | Same program (guarantee and credit) |
| | Central bank | Reactiva Peru Program | Repos Amounts auction Interest rate allocation | Combined |

Sources: Central banks and program regulations; IMF (2020) Policy Tracker; and YPFS (2020) Financial Response Tracker.

d) Perú

In the Reactiva Peru program, the government extends guarantees of 80 to 98 percent to loans granted by the FSIs to finance firms' working capital. The participating financial entities enter into a BCRP liquidity injection operation using the guaranteed part of the credit as collateral through an auction mechanism in which the funds are assigned to the financial entity that charges the lowest rates to their clients. This government guarantee program, which amounts to US\$ 16.9 billion (8.4 percent of GDP), has allowed credit disbursements for US\$ 15.2 billion (7.5 percent of GDP), of which 7.1 percent of GDP corresponds to the guaranteed tranche.

REACTIVA PERU PROGRAM

| | | |
|--|--|--|
| Creation of the National Government Guarantee Program | LD N° 1455 (modified by LD N° 1457 and LD N° 1508) | |
| Beneficiary enterprise | All companies 1/ | |
| Target | Grant credit with government guarantee | |
| Credit sources of Financial Institutions to companies | Repos with BCRP for the proportion of the credit with Reactiva Peru guarantee | |
| Credit destination | Work capital | |
| Maximum credit | S/ 10 million | S/ 10 million |
| Maximum credit term | 36 months, with 12 grace months | |
| Global threshold of government guarantee | S/ 60 billion (includes S/ 30 billion increase by LD N° 1485 from May 10, 2020) | |
| Hedge | Less than S/ 30,000; 98% Between S/ 30,001 and S/ 300,000; 95% Between S/ 300,001 and S/ 5,000,000; 90% Between S/ 5,000,001 and S/ 10,000,000; 80% | Up to S/ 90,000; 98% Between S/ 90,001 and S/ 750,000; 95% Between S/ 750,001 and S/ 7,500,000; 90% Between S/ 7,500,001 and S/ 10,000,000; 80% |

1/ In Reactiva Peru Program, enterprises must not engage in illegal activities or activities with negative social connotations, and must satisfy additional restrictions that are detailed in the Operating Regulations.
Source: Legal norms.

In addition to the Reactiva Peru Program, the government has implemented various support programs for small and medium-sized businesses and the sectors affected by the pandemic, such as the tourism sector and family farming, for example. The FAE-MYPE was established at the beginning of the pandemic and financing was authorized, with guarantees of up to S/ 1.5 billion for working capital and loan rescheduling for small and medium-sized companies, with guarantee percentages of between 30 and 70 percent. The program was then modified in May, expanding it by an additional S/ 2.5 billion and restricting it only to financing working capital. The percentages of guarantees were expanded to between 90 and 98 percent, and a fund auction mechanism related to the interest rates that the FSIs charge their clients, similar to that of Reactiva Peru, was included. The government has also created two other credit programs, FAE-Turismo and FAE-Agro, with guarantees of up to S/ 1.5 billion and S/ 2.0 billion, respectively, which are in the process of implementation. The total amount of guarantees for these programs is US\$ 2.1 billion (1.1 percent of GDP), with credits disbursed to date through these guarantees amounts to US\$ 817 million (0.4 percent of GDP).





| | FAE-MYPE | | FAE-TURISMO | FAE-AGRO |
|--|--|---|---|---|
| Creation rule | ED N° 029-2020 | ED N° 049-2020 | ED N° 076-2020 | ED N° 082-2020 (modified by ED N° 096-2020) |
| Beneficiary enterprise | MYPE 1/ | | MYPE Turismo | Family farming (Law N° 30355) |
| Target | Grant credit with government guarantee; restructure and refinance debts | Grant credit with government guarantee | Grant credit with government guarantee | Grant credit with government guarantee |
| Credit sources of Financial Institutions to companies 2/ | COFIDE funding with FAE-MYPE guarantee | COFIDE funding with FAE-MYPE guarantee based on benefits granted to companies | COFIDE funding with FAE-Tourism guarantee, based on benefits granted to companies | COFIDE funding with FAE-Agro guarantee, based on benefits granted to small farmers |
| Credit destination | Work capital; credit refinancing | Work capital | Work capital | Work capital to guarantee the Agricultural Campaign for Transitory and Permanent Crops and the Promotion of Livestock Activity 2020-2021. |
| Maximum credit | S/ 90 thousand | S/ 30 thousand | S/ 750 thousand | S/ 30 thousand |
| Maximum credit term | 36 months, with 6 grace months | 36 months, with 12 grace months | 60 months, with 18 grace months | <= 12 months, with 1 or more grace periods, as long as they do not exceed the term of the credit |
| Global threshold of government guarantee | S/ 1,500 million | S/ 2,500 million additional | S/ 1,500 million | S/ 2,000 million |
| Hedge | Less than S/ 30,000; 70% Between S/ 30,001 and S/ 60,000; 50% Between S/ 60,001 and S/ 90,000; 30% | Less than S/ 10,000; 98% Between S/ 10,001 and S/ 30,000; 90% | Less than S/ 90,000; 98% Between S/ 90,001 and S/ 750,000; 95% | Up to S/ 15,000; 98% From S/15,001 to S/ 30,000; 95% |

1/ In FAE-MYPE, the beneficiary company is that natural or legal person, qualified as a micro and small company, that develops production, tourism, trade and related services activities. The microenterprise is one that has indebtedness in the financial system less than S/ 20 thousand in the last 6 months; small company, one that has indebtedness in the financial system between S/ 20 thousand and S/ 300 thousand in the last 6 months. In both cases, mortgage loans are excluded.

2/ In FAE-MYPE, companies can receive credit from the Financial System Entities (ESF) and also from the Savings and Credit Cooperatives not authorized to attract resources from the public (COOPAC).

Source: Legal norms.

Other programs¹³

a) United Kingdom

The Bank of England (BoE) has implemented a number of conventional and unconventional monetary policy measures to offset the economic impact of COVID-19 while the government has created several credit support programs through its guarantee to the loans granted by financial entities. According to an IMF report¹⁴, the liquidity provision and credit support programs in the United Kingdom are the following:

The objective of the BoE's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) is to strengthen the transmission mechanism of its monetary policy rate cut to the real economy. The scheme defines groups of participants to whom an initial lump sum is assigned. This sum can be increased by five times (5x1) conditional on the expansion of loans to medium and small companies (but only once for other clients). The term of the loan is 4 years, but may be repaid either partially or totally earlier. The interest rate the Bank of England will charge for the funds is equal to the interbank rate plus a fee (which can be zero if the FSIs expand their credit). The program does not refer to the interest rate that the participating entities will charge their clients for the credits granted as this still depends on each financial institution.

13 For more information on the programs mentioned in this section, see the Yale Program on Financial Stability (2020a and 2020b) and the references of other country-specific sources listed at the end of this box.

14 See International Monetary Fund (2020), COVID-19 Policy Tracker.

The Coronavirus Business Interruption Loan Scheme (CBILS) targets small and medium-sized businesses with loans of up to £ 5 million. In this program, which is operated by the British Business Bank –a state development bank–, the government guarantees 80 percent of the loan amount to the financial institution and pays interest and any service fees for the first 12 months. The loan term can be up to 3 years for overdraft and bill advance loans and up to 6 years for other loans. The financial institution sets the interest rates charged to companies (the scheme does not establish maximum rates). On the other hand, the Bounce Back Loan Scheme (BBLs) is also aimed at small and medium-sized companies, but for loans of up to £ 50,000. In these cases the state guarantee is 100 percent. There is no interest or fee payment in the first year, but then the interest rate will be 2.5 percent. The term is 6 years, with no cost for early repayment. The government promotes low interest rates for these loans with the FSIs.

UNITED KINGDOM: LIQUIDITY PROVISION AND CREDIT SUPPORT PROGRAMS

| Measurements | Description |
|--|---|
| TFSME financing facility (Bank of England) | Funding with additional incentives for small and medium-sized enterprises, to reinforce the transmission of the policy rate cut. |
| CCFF Financing Facility (Bank of England) | Aimed at providing liquidity to the largest companies through short-term debt purchase operations (commercial papers of up to one year) |
| CBILS Credit Support Program | Provides 80% government guarantee for credit to small and medium-sized businesses (up to £ 5 million). |
| CLBILS Credit Support Program | Provides 80% government guarantee for corporate loans (up to £ 300 million). |
| BBLs Credit Support Program | Provides 100% government guarantee for credits to small and medium-sized businesses for restarting activities (up to £ 50,000). |

Source: IMF COVID-19 Tracker.

b) Sweden

Sweden's central bank has implemented a series of measures to provide liquidity to the financial system. It established a loan program to FSIs for about US\$ 60 billion (SEK 500 billion) in which the funds are awarded in auctions according to the amounts requested by the FSIs. The funds are allocated at the interest rate of repos with the central bank (currently zero), but if the FSIs do not show an expansion of their loans to non-financial companies by at least 20 percent of the amount lent by the central bank, these funds are subject to a penalty (up to 0.2 percentage points). FSIs are free to determine the interest rates that they will charge for their loans to clients.

On the other hand, the government has also established a guarantee scheme for FSI loans, offering a 70 percent guarantee to ESFs that provide loans preferably to small and medium-sized companies –formally there is no limit to the size of the company– through the National Debt Office. The term of the loans is up to three years and can be amortized free of charge during their maturity. Grace periods are included for up to the first year. The fee for the guarantee is determined based on the cost of administering the scheme and a proportion of the credit risk of the respective segment, as estimated by the financial entity.





c) Switzerland

The credit support scheme implemented in Switzerland was one of the credit programs most rapidly implemented. The central bank's liquidity provision is complemented by federal government guarantees for financial entities' loans to companies. The government guarantee for smaller loans (which do not require a credit evaluation) is 100 percent and the interest rate is zero percent, while the guarantee for larger loans is 85 percent and the interest rate is 0.5 percent. Credit applications are virtual and do not require further documentation. The term of the loans is up to 5 years.

Program modifications and program extensions

The percentage of government guarantee has been increased in several cases. According to the Yale Program on Financial Stability (YPFS), only Japan, South Korea, and Hong Kong offered a 100 percent guarantee initially. The European Commission then allowed the approved percentage for member countries to increase from 90 to 100 percent, while other countries also increased the guarantee percentage, although not to 100 percent (e.g. the Netherlands increased the percentage from 50 to 90 percent and Finland increased it from 80 to 90 percent).

Moreover, according to the YPFS assessment, increasing the debt of small and medium-sized companies is not necessarily optimal given the extent of the pandemic. For this reason, several countries have provided funds through concessional schemes such as subsidized or forgivable loans (Austria, Denmark, and the Netherlands). Some countries have adopted direct forms of support, such as wage subsidies or temporary employment (the Philippines and Nepal), while other countries have adopted variants aimed at providing business support in the form of hybrid credits, with longer terms and convertible to bonds or forms of equity participation (Germany, France, Hungary, and Ireland). FSIs are also encouraged to extend credit lines (instead of fixed amounts) so that companies can use these credit lines according to their requirements (Australia).

Some other modalities of support to small businesses provide concessional (or even free) funds to establish digital platforms for various services (Greece, Italy) or consulting services (Germany), as well as vouchers for remote operational solutions (Japan), adoption of payment technologies (Singapore), and facilities to purchase or rent digital equipment and services (Malaysia, Spain). Other characteristics that differ among the business support programs or that have been modified are the distribution channels of funds (see table below).

CHANNELS IN CREDIT SUPPORT PROGRAMS

| | |
|---|---|
| Existing entities can provide funds immediately | - Development Bank (Germany) - Credit Guarantee Fund (South Korea) |
| Various financial entities expand funding sources to SMEs | - Syndicated loans in guarantee programs (France) - Non-bank Fintech companies (US) |
| Online requests facilitate access | - Switzerland most efficient case (hours for disbursement) - Accelerated procedure with minimum requirements (Austria) |
| Outreach the informal sector | - Suspension of rent, security and other payments (Burkina Faso) - Banking loans to informal SMEs (Gabon) |
| Tax changes | - Reduction of corporate taxes (Indonesia) - Postponement of 6 months various tax payments (Spain) - Exemptions, reductions, postponements of various taxes, payroll and social security (Sweden, Vietnam and others) |

Source: Yale YPS, Government Interventions to Support SMEs during COVID-19 Pandemic.

An important variant of credit support programs is the mixed scheme implemented in Ireland by Enterprise Ireland, a government organization. In addition to providing short-term liquidity, this program also finances (and advises on) business sustainability plans (manufacturing and international trade) in the medium term. The funds are available in the form of credit advances (repayable) and through equity instruments (redeemable preferred shares) in cooperation with other investors. The program targets companies with 10 or more employees, whose profits have been reduced by more than 15 percent in the wake of the pandemic. There are no scheme administering costs for the first 6 months, but it has an effective cost of 2 percent in the first year and a cost of 4 percent annually thereafter. Loans in a range of £ 100,000 to £ 800,000 are given per company.

Challenges and perspectives

The success of credit support programs depends crucially on their capability of expansion if the pandemic persists, but this increases the macroeconomic cost and conditions economic reactivation, which is necessary precisely to reverse the impact on companies. Greater bankruptcies of businesses would deteriorate the economy's productive capacity and bring about a permanent impact on employment, which in turn would contract aggregate demand. Reallocating resources in these circumstances is not a quick process.

An expansion of business bankruptcies would also put pressure on the stability of FSIs, particularly on those specialized in the micro and small business segment. However, this result would not so much be consequence of the inability of firms to repay their loans (this possibility is covered precisely by the government guarantee), but rather a consequence of the important base of their financial business that FSIs would lose, which could lead eventually to a restructuring of financial systems through mergers or acquisitions. Reduced income for FSIs due to economic constraints, loan rescheduling (often lowering interest rates), and loss of clients increase the risk of the financial system.

In the current circumstances, companies face the challenge of sustaining their level of sales and adjusting to the reactivation of their markets. Moreover, once the support of credit programs ends, the interest rates for new loans will surely increase (without the government guarantee). Therefore, the efficient use of the financing resources obtained by a business to maintain its operations and the adequate management of its debt ratios should allow a sustained recovery of this business.

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Box 7

RESULTS OF THE SURVEY OF FINANCIAL CONDITIONS AND ACCESS TO REACTIVA PERÚ LOANS¹⁵

Between August 12 and August 18, staff of the main office and the seven branches of BCRP surveyed 1,181 representatives of private sector business, asking them about their perception of financial conditions and access to the Reactiva Peru program. A total of 62.4 percent of entrepreneurs said that conditions of access to credit had become moderate and considerably more restrictive in the last 3 months, the segment that perceived a greater tightening being the segment of SMEs (35.1 percent). Moreover, 52.4 percent said they had increased their demand for loans from slightly to considerably, and 38.6 percent said they had rescheduled some of their credits with the financial system during the mandatory confinement period, the chosen term being up to 3 months (41.2 percent). As for Reactiva Peru, 54.8 percent said that they had had at least one loan from the program; 22.0 percent had not requested one mainly because they had other sources of financing (35.8 percent), and 70.5 percent of those who accessed Reactiva Peru loans said that the credit process had taken less than four weeks. The broad access to Reactiva Peru reflected in the answers is similar to that registered in the survey conducted by the INEI¹⁶ where 57.7 percent of the companies surveyed said that they had accessed or intended to access at least one program implemented by the government, and 78.4 percent of this group had already had or intended to request a loan specifically from the Reactiva Peru program.

The main results of the survey¹⁷ are presented below:

A total of 62.4 percent of the entrepreneurs surveyed said that the credit conditions offered by the financial system had become moderate and considerably more restrictive in the last 3 months. The highest percentage of these responses are observed in the segment of micro and small enterprises - SMEs (63.5 percent), followed by corporations and large companies (61.5 percent), which reflects that the most affected segment is the segment of SMEs (35.1 percent), for which the conditions would have been considerably more restrictive. Moreover, by type of economic activity, the perception of tightening of credit supply conditions is higher in the sectors of hotels and restaurants (66.3 percent), other services (67.6 percent), and construction (71.2 percent). The answers indicate that conditions would have been considerably more restrictive for companies offering accommodation and restaurant services (41.3 percent) and other services (37.8 percent), as well as in agriculture (37.5 percent) and construction (36.4 percent).

15 Survey prepared by staff of the Department of Economic Activity Indicators and the branches of Arequipa, Cusco, Huancayo, Iquitos, Piura, Puno, and Trujillo. The classification of the size of companies was based on the level of annual sales equivalent to the tax unit (UIT): companies with sales equivalent to up to 1700 UIT were considered SMEs, while medium-sized companies were firms with sales equal to a range from more than 1,700 UIT to 2,300 UIT, and corporate and large company had sales equivalent to over 2,300 UIT.

16 Opinion Survey on the Impact of Covid-19 on Firms in Metropolitan Lima, carried out with a sample of 929 companies in Metropolitan Lima and Callao between July and August 2020.

17 The survey was applied to 1,181 companies, of which 678 are micro and small companies (MSEs), 467 are corporations and large companies, and 36 are medium-sized companies.





IN THE LAST 3 MONTHS, HOW DO YOU THINK THE CONDITIONS HAVE CHANGED OF ACCESS TO CREDIT THAT THE FINANCIAL SYSTEM OFFERS YOU?

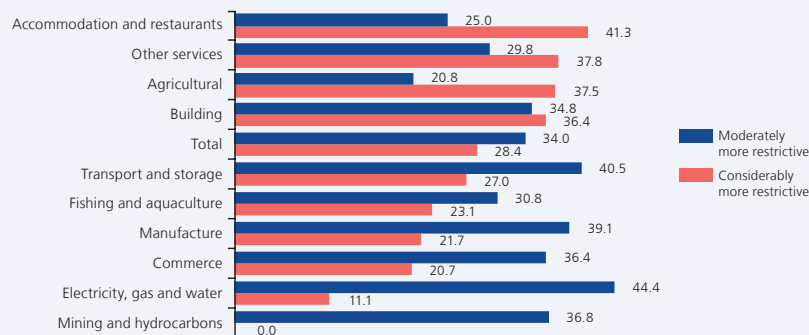
(%)

| | Corporate and big company | Medium company | MYPE | Total |
|-------------------------------|---------------------------|----------------|--------------|--------------|
| Considerably more restrictive | 19.3 | 21.2 | 35.1 | 28.4 |
| Moderately more restrictive | 42.2 | 33.3 | 28.4 | 34.0 |
| Unchanged | 26.9 | 21.2 | 23.5 | 24.8 |
| Moderately more relaxed | 10.0 | 15.2 | 10.0 | 10.1 |
| Considerably more relaxed | 1.6 | 9.1 | 3.0 | 2.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

PERCEPTION OF THE CHANGE IN THE CONDITIONS OF ACCESS TO CREDIT THAT OFFERS THE FINANCIAL SYSTEM, ACCORDING TO SECTOR

(%)



On the other hand, **52.4 percent** of those surveyed said that their demand for loans had **increased between slightly and considerably** in the last 3 months. This was reflected in the segment of medium-sized companies (54.6 percent) and SMEs (54.1 percent), the increases being considerably higher in the case of SMEs (30.8 percent).

IN THE LAST 3 MONTHS, HOW HAS YOUR DEMAND FOR CREDITS CHANGED?

(%)

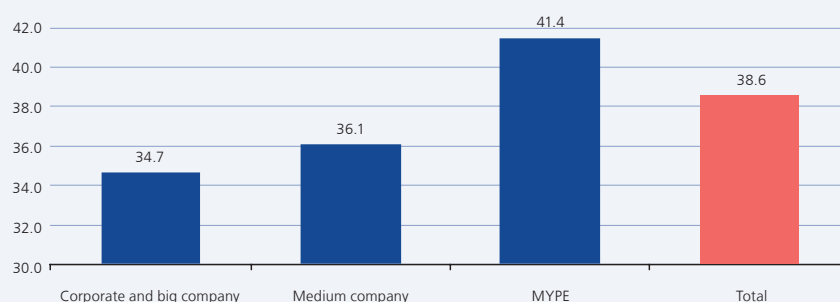
| | Corporate and big company | Medium company | MYPE | Total |
|------------------------|---------------------------|----------------|--------------|--------------|
| Increased considerably | 21.8 | 27.3 | 30.8 | 27.2 |
| Slightly increased | 27.8 | 27.3 | 23.3 | 25.2 |
| Remained stable | 30.4 | 21.2 | 23.7 | 26.3 |
| Slightly decreased | 12.8 | 15.2 | 6.9 | 9.5 |
| Decreased considerably | 7.2 | 9.1 | 15.3 | 11.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

About 4 out of 10 executives said that their company had carried out some credit rescheduling with financial entities since mandatory confinement was established. The highest percentage is observed in the SME segment (41.4 percent), while the lowest

percentage is observed in the segment of corporations and large companies (34.7 percent). By economic activity, credit rescheduling has been higher in hotel and restaurant services (50.0 percent), construction (48.5 percent) and commerce (44.1 percent), transportation and storage (42.5 percent), and manufacturing (40.2 percent), whereas credit rescheduling was lower in the sectors of mining and hydrocarbons (3.8 percent) and in electricity supply (22.2 percent).

PERCENTAGE OF COMPANIES THAT HAVE REPROGRAMMED SOME CREDIT WITH THE FINANCIAL SYSTEM SINCE THE BEGINNING OF THE PERIOD OF SOCIAL ISOLATION
(% GDP)



The survey results also show that 41.2 percent of companies rescheduled their loans for a term of up to 3 months, while 33.3 percent of the companies rescheduled their loans for more than 3 months to 6 months. Only 1 in 10 entrepreneurs said that they had rescheduled their loans for a term greater than one year.

DEADLINE FOR THE REPROGRAMMING OF THE CREDIT
(%)

| | Corporate and big company | Medium company | MYPE | Total |
|-------------------------------------|---------------------------|----------------|--------------|--------------|
| Up to 3 months | 38.3 | 46.2 | 42.7 | 41.2 |
| From more than 3 months to 6 months | 35.2 | 38.5 | 32.0 | 33.3 |
| From more than 6 months to 1 year | 15.4 | 7.7 | 12.8 | 13.6 |
| More than one year | 11.1 | 7.7 | 12.5 | 11.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

In addition, **54.8 percent of the executives surveyed had at least one loan from the Reactiva Perú program. The highest percentages were observed in the segments of medium-sized companies (75.0 percent) and corporations and large companies (63.3 percent) segments, while the percentage of surveyed MSEs that had had a loan from this program was also high, but lower than the one recorded in other segments (47.8 percent).**

Furthermore, 22.0 percent said that they did not request a loan from the program because of the availability of other financing sources, this being more noticeable in the segment of





corporations and large companies (48.9 percent). Other reasons given for not requesting a loan were the time the procedures took, which was a reason observed mainly in the case of SMEs (8.7 percent), and not meeting the requirements, which was a response observed mainly in the case of medium-sized companies (25.0 percent) and SMEs (19.1 percent).

On the other hand, 14.9 percent of respondents said that they had applied for a loan from Reactiva Peru, but it had been rejected. This situation was mainly observed in the case of MSEs, where 24.2 percent of companies had unsuccessfully applied for a loan.

ACCESS TO CREDIT REACTIVA PERÚ

(%)

| | Corporate and big company | Medium company | MYPE | Total |
|-------------------------------|---------------------------|----------------|--------------|--------------|
| Accessed a loan | 50.7 | 52.8 | 35.3 | 41.9 |
| Accessed two credits | 12.6 | 22.2 | 12.5 | 12.9 |
| Applied for and is in process | 3.9 | 13.9 | 11.1 | 8.3 |
| Requested but did not agree | 2.6 | 0.0 | 24.2 | 14.9 |
| Did not request | 30.2 | 11.1 | 17.0 | 22.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

MAIN REASONS FOR NOT HAVING APPLIED FOR CREDITS FROM REACTIVA PERÚ

(%)

| | Corporate and big company | Medium company | MYPE | Total |
|-----------------------------------|---------------------------|----------------|--------------|--------------|
| Did not meet the requirements | 5.0 | 25.0 | 19.1 | 11.5 |
| Very small loan amounts | 5.0 | 0.0 | 4.3 | 4.6 |
| Delay in procedures | 1.4 | 0.0 | 8.7 | 4.6 |
| It has other sources of financing | 48.9 | 25.0 | 20.0 | 35.8 |
| Others | 39.7 | 50.0 | 47.8 | 43.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

On the other hand, **70.5 percent of respondents said that the Reactiva Peru's credit process took less than four weeks**. Moreover, for 27.6 percent of companies, the process took less than two weeks.

TIME IN WHICH REACTIVA PERÚ CREDIT PROCESSING DELAYED

(%)

| | Corporate and big company | Medium company | MYPE | Total |
|--------------------------------------|---------------------------|----------------|--------------|--------------|
| Less than a week | 4.7 | 3.7 | 5.0 | 4.8 |
| Between one and less than two weeks | 27.0 | 29.6 | 18.3 | 22.8 |
| Between two and less than four weeks | 48.0 | 37.0 | 38.8 | 42.9 |
| Between one and less than two months | 18.9 | 22.2 | 28.6 | 23.9 |
| Between two or more months | 1.4 | 7.4 | 9.3 | 5.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Survey of financial conditions and access to Reactiva Peru.

IN THE LAST 3 MONTHS, HOW DO YOU THINK THE CONDITIONS HAVE CHANGED OF ACCESS TO CREDIT THAT THE FINANCIAL SYSTEM OFFERS YOU?

(%)

| Economic sector | Considerably more restrictive | Moderately more restrictive | Without changes | Moderately more relaxed | Considerably more relaxed | Total |
|--------------------------------|-------------------------------|-----------------------------|-----------------|-------------------------|---------------------------|--------------|
| Agricultural | 37.5 | 20.8 | 29.2 | 8.3 | 4.2 | 100.0 |
| Fisheries and aquaculture | 23.1 | 30.8 | 30.8 | 15.4 | 0.0 | 100.0 |
| Mining | 0.0 | 36.8 | 47.4 | 15.8 | 0.0 | 100.0 |
| Electricity, gas and water | 11.1 | 44.4 | 22.2 | 22.2 | 0.0 | 100.0 |
| Manufacturing | 21.7 | 39.1 | 27.0 | 10.4 | 1.7 | 100.0 |
| Construction | 36.4 | 34.8 | 22.7 | 4.5 | 1.5 | 100.0 |
| Commerce | 20.7 | 36.4 | 27.9 | 12.9 | 2.1 | 100.0 |
| Accommodation and restaurants | 41.3 | 25.0 | 26.3 | 5.0 | 2.5 | 100.0 |
| Transportation and storage 1 / | 27.0 | 40.5 | 13.5 | 17.6 | 1.4 | 100.0 |
| Other services | 37.8 | 29.8 | 20.4 | 7.3 | 4.7 | 100.0 |
| Total | 28.4 | 34.0 | 24.8 | 10.1 | 2.7 | 100.0 |

1 / Also includes mail and courier.

Source: Survey of financial conditions and access to Reactiva Peru.

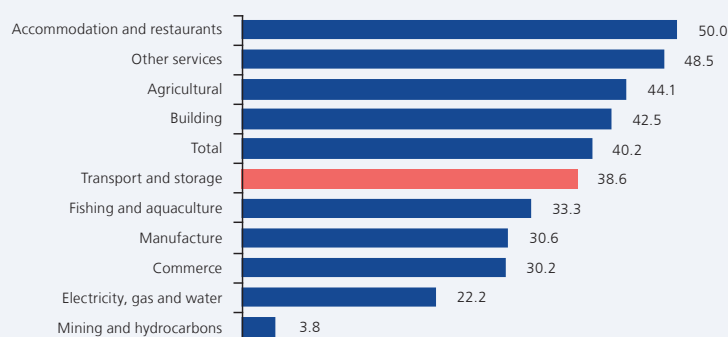
IN THE LAST 3 MONTHS, HOW HAS YOUR DEMAND FOR CREDITS CHANGED?

(%)

| Economic sector | Increased considerably | Slightly increased | Remained stable | Slightly decreased | Considerably Decreased | Total |
|--------------------------------|------------------------|--------------------|-----------------|--------------------|------------------------|--------------|
| Agricultural | 29.4 | 27.5 | 27.5 | 7.8 | 7.8 | 100.0 |
| Fisheries and aquaculture | 15.4 | 23.1 | 15.4 | 15.4 | 30.8 | 100.0 |
| Mining | 9.5 | 28.6 | 47.6 | 9.5 | 4.8 | 100.0 |
| Electricity, gas and water | 33.3 | 11.1 | 44.4 | 11.1 | 0.0 | 100.0 |
| Manufacturing | 26.3 | 31.0 | 26.3 | 6.0 | 10.3 | 100.0 |
| Construction | 37.5 | 20.3 | 18.8 | 9.4 | 14.1 | 100.0 |
| Commerce | 20.6 | 22.7 | 29.7 | 16.1 | 10.8 | 100.0 |
| Accommodation and restaurants | 26.0 | 18.2 | 27.3 | 5.2 | 23.4 | 100.0 |
| Transportation and storage 1 / | 18.2 | 29.9 | 27.3 | 10.4 | 14.3 | 100.0 |
| Other services | 36.7 | 24.4 | 21.9 | 6.3 | 10.7 | 100.0 |
| Total | 27.2 | 25.2 | 26.3 | 9.5 | 11.9 | 100.0 |

1 / Also includes mail and courier.

Source: Survey of financial conditions and access to Reactiva Peru.

PERCENTAGE OF COMPANIES THAT HAVE REPROGRAMMED SOME CREDIT WITH THE FINANCIAL SYSTEM SINCE THE BEGINNING OF THE PERIOD OF SOCIAL ISOLATION, ACCORDING TO ECONOMIC SECTOR




ACCESS TO CREDIT REACTIVA PERÚ, ACCORDING TO SECTOR
(%)

| Economic sector | Up to 3 months | More than 3 to 6 months | More than 6 to 1 year | More than 1 year | Total |
|--------------------------------|----------------|-------------------------|-----------------------|------------------|--------------|
| Agricultural | 50.0 | 25.0 | 6.3 | 18.8 | 100.0 |
| Fisheries and aquaculture | 80.0 | 20.0 | 0.0 | 0.0 | 100.0 |
| Mining | 0.0 | 0.0 | 100.0 | 0.0 | 100.0 |
| Electricity, gas and water | 50.0 | 0.0 | 0.0 | 50.0 | 100.0 |
| Manufacturing | 48.5 | 27.3 | 16.2 | 8.1 | 100.0 |
| Construction | 30.3 | 45.5 | 6.1 | 18.2 | 100.0 |
| Commerce | 45.0 | 34.4 | 12.2 | 8.4 | 100.0 |
| Accommodation and restaurants | 20.9 | 46.5 | 23.3 | 9.3 | 100.0 |
| Transportation and storage 1 / | 41.2 | 26.5 | 20.6 | 11.8 | 100.0 |
| Other services | 38.0 | 33.7 | 9.8 | 18.5 | 100.0 |
| Total | 41.2 | 33.3 | 13.6 | 11.8 | 100.0 |

1 / Also includes mail and courier.
Source: Survey of financial conditions and access to Reactiva Peru.

ACCESS TO CREDIT REACTIVA PERÚ, ACCORDING TO SECTOR
(%)

| Economic sector | Accessed one credit | Accessed two credits | Requested and is in process | Requested but did not agree | Not request it | Total |
|--------------------------------|---------------------|----------------------|-----------------------------|-----------------------------|----------------|--------------|
| Agricultural | 49.1 | 11.3 | 3.8 | 15.1 | 20.8 | 100.0 |
| Fisheries and aquaculture | 53.3 | 13.3 | 6.7 | 6.7 | 20.0 | 100.0 |
| Mining | 23.1 | 3.8 | 0.0 | 0.0 | 73.1 | 100.0 |
| Electricity, gas and water | 11.1 | 11.1 | 0.0 | 22.2 | 55.6 | 100.0 |
| Manufacturing | 43.1 | 17.5 | 6.9 | 10.2 | 22.4 | 100.0 |
| Commerce | 53.9 | 11.4 | 7.4 | 9.8 | 17.5 | 100.0 |
| Construction | 38.2 | 14.7 | 11.8 | 19.1 | 16.2 | 100.0 |
| Accommodation and restaurants | 29.1 | 9.3 | 19.8 | 22.1 | 19.8 | 100.0 |
| Transportation and storage 1 / | 43.8 | 13.8 | 10.0 | 13.8 | 18.8 | 100.0 |
| Other services | 33.9 | 12.0 | 7.6 | 22.6 | 23.9 | 100.0 |
| Total | 41.9 | 12.9 | 8.3 | 14.9 | 22.0 | 100.0 |

1 / Also includes mail and courier.
Source: Survey of financial conditions and access to Reactiva Peru.

MAIN REASONS FOR NOT HAVING APPLIED FOR CREDITS FROM REACTIVA PERÚ, ACCORDING TO SECTOR
(%)

| Economic sector | Did not meet the requirements | Very small loan amounts | Delay in procedures | It has other sources of financing | Other | Total |
|--------------------------------|-------------------------------|-------------------------|---------------------|-----------------------------------|-------------|--------------|
| Agricultural | 9.1 | 18.2 | 0.0 | 27.3 | 45.5 | 100.0 |
| Fisheries and aquaculture | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 100.0 |
| Mining | 0.0 | 10.5 | 0.0 | 42.1 | 47.4 | 100.0 |
| Electricity, gas and water | 0.0 | 0.0 | 0.0 | 80.0 | 20.0 | 100.0 |
| Manufacturing | 9.1 | 7.3 | 0.0 | 45.5 | 38.2 | 100.0 |
| Construction | 18.2 | 0.0 | 9.1 | 18.2 | 54.5 | 100.0 |
| Commerce | 19.2 | 0.0 | 5.8 | 44.2 | 30.8 | 100.0 |
| Accommodation and restaurants | 11.8 | 0.0 | 11.8 | 11.8 | 64.7 | 100.0 |
| Transportation and storage 1 / | 6.7 | 6.7 | 0.0 | 40.0 | 46.7 | 100.0 |
| Other services | 12.5 | 4.2 | 8.3 | 27.8 | 47.2 | 100.0 |
| Total | 11.5 | 4.6 | 4.6 | 35.8 | 43.5 | 100.0 |

1 / Also includes mail and courier.
Source: Survey of financial conditions and access to Reactiva Peru.

TIME IT DELAYED THE PROCESSING OF THE CREDIT OF REACTIVA PERÚ, ACCORDING TO SECTOR
(%)

| Economic sector | Less than one week | Between one and less than two weeks | Between two and less than four weeks | Between one and less than two months | Between two or more months | Total |
|-------------------------------|--------------------|-------------------------------------|--------------------------------------|--------------------------------------|----------------------------|--------------|
| Agricultural | 6.3 | 18.8 | 40.6 | 34.4 | 0.0 | 100.0 |
| Fisheries and aquaculture | 0.0 | 40.0 | 30.0 | 20.0 | 10.0 | 100.0 |
| Mining | 0.0 | 28.6 | 42.9 | 14.3 | 14.3 | 100.0 |
| Electricity, gas and water | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 | 100.0 |
| Manufacturing | 6.0 | 28.2 | 41.6 | 20.8 | 3.4 | 100.0 |
| Construction | 5.6 | 11.1 | 55.6 | 22.2 | 5.6 | 100.0 |
| Commerce | 3.6 | 24.7 | 44.8 | 23.2 | 3.6 | 100.0 |
| Accommodation and restaurants | 3.0 | 6.1 | 45.5 | 30.3 | 15.2 | 100.0 |
| Transportation and storage 1/ | 8.7 | 15.2 | 43.5 | 32.6 | 0.0 | 100.0 |
| Other services | 4.4 | 23.5 | 39.7 | 21.3 | 11.0 | 100.0 |
| Total | 4.8 | 22.8 | 42.9 | 23.9 | 5.6 | 100.0 |

1 / Also includes mail and courier.

Source: Survey of financial conditions and access to Reactiva Peru.





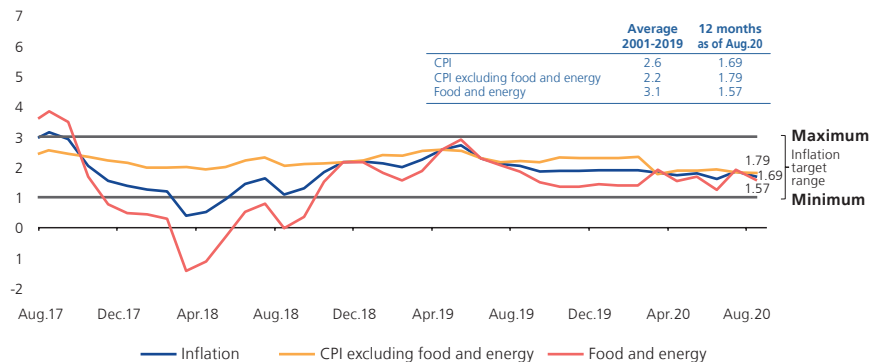
VI. Inflation and Balance of Inflation Risks

Recent Inflation Trends

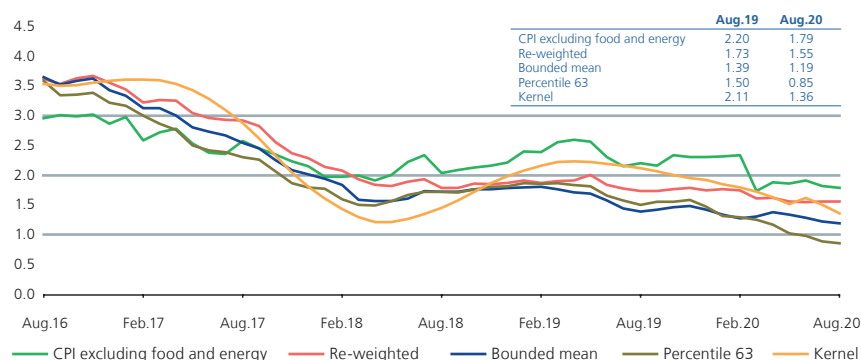
82. The annual CPI inflation rate decreased from 1.78 percent in May to 1.69 percent in August, while core inflation (CPI excluding food and energy prices) fell from 1.86 percent to 1.79 percent in the same period. In general, the annual growth rate of the CPI as well as all the inflation trend indicators showed values in the lower part of the target range.

Annual inflation is projected to decrease in the following months due to the negative negative impact of demand shocks, falling below the target range in late 2020 (0.8 percent).

Graph 94
INFLATION
(Last 12-month % change)



Graph 95
MEASUREMENTS OF THE INFLATIONARY TREND
 (Last 12 months % change)



Memo:

- 1. CPI excluding food and energy:** CPI excluding food, fuel and electricity.
- 2. Re-weighted:** Reduces the weight of items with greater volatility, considers the original weights of each item between the standard deviation of their monthly percentage changes.
- 3. Bounded mean:** Weighted average of the percentage change of prices between the 34th and 84th percentiles.
- 4. Percentil 63:** Corresponds to the percentage changes of the item located in the 63th percentile.
- 5. Kernel:** Corresponds with the trend from a weighted moving average of current, past and forecast inflation, where the weights are calculated from an inverted parabolic function called kernel. Weights are obtained for 6 periods of past inflation and 6 periods of forecast inflation.

83. Since March, the dynamics of prices has largely responded to the measures taken to contain the COVID-19 outbreak. Compulsory confinement, the lockdown of the economy and the consequent lower production led to a decrease in income and to less demand pressure on prices, bringing inflation down to a negative monthly rate in June (-0.27 percent). Increases were observed thereafter in items whose supply contracted due to the low prices of the previous months, which led inflation to register a monthly rise of 0.46 percent in July. In August, inflation was negative again (-0.11 percent) mainly due to the recovery of the supply of some food products in a context of lower purchasing power.
84. In the period from January to August 2020, the general level of prices increased 1.24 percent, at an average monthly rate of 0.15 percent. The CPI without food and energy grew 1.17 percent, while the food and energy items increased 1.33 percent. Moreover, the prices of food and beverages increased by 1.81 percent, while energy prices fell 1.74 percent.





Table 38
INFLATION
(% change)

| | Weight | 2019 | 2020 | |
|---|--------------|-------------|-------------|-------------|
| | | | Jan. - Aug. | 12 months |
| CPI | 100.0 | 1.90 | 1.24 | 1.69 |
| 1. CPI excluding food and energy | 56.4 | 2.30 | 1.17 | 1.79 |
| a. Goods | 21.7 | 1.39 | 1.09 | 1.34 |
| b. Services | 34.8 | 2.86 | 1.21 | 2.05 |
| 2. Food and energy | 43.6 | 1.43 | 1.33 | 1.57 |
| a. Food and beverages | 37.8 | 1.00 | 1.81 | 1.74 |
| b. Fuel and electricity | 5.7 | 4.32 | -1.74 | 0.50 |
| Fuel | 2.8 | -0.39 | -7.33 | -8.87 |
| Electricity | 2.9 | 8.04 | 2.33 | 7.81 |

85. In the last twelve months, the services that showed the highest price increases were education services (2.0 percent), although they registered a lower rate than the annual average rate of the last ten years (4.6 percent). The prices in other services, such as health, meals outside the home, and “other personal services”, which includes the services of household employees and cleaning, among others, also showed lower rates than those registered in the 2010-2019 period.

Table 39
INFLATION
(Annual % change)

| | Weight | 2019 | Aug.20 | 2010-19 |
|--------------------------------------|--------------|-------------|-------------|----------------|
| | | | | Annual Average |
| CPI | 100.0 | 1.90 | 1.69 | 2.86 |
| Education | 9.1 | 5.22 | 1.99 | 4.62 |
| Health | 1.1 | 1.47 | 0.78 | 3.22 |
| Meals outside the home | 11.7 | 1.69 | 0.89 | 4.40 |
| Other personal services | 3.3 | 1.35 | 0.74 | 1.80 |
| <i>Of which:</i> | | | | |
| Household employees | 2.1 | 0.81 | 0.28 | 0.78 |
| Housekeeping | 0.2 | 1.45 | 0.38 | 2.49 |
| Various repair | 0.1 | 0.52 | -0.28 | 3.02 |
| Home repair and maintenance services | 0.1 | 1.21 | 1.30 | 3.01 |

86. At a disaggregate level, the items with the greatest positive contribution to inflation from January to August were education (tuition and fees), chicken meat, urban fares, and sugar, while the items with the greatest negative contribution to inflation were potatoes and gasoline.

Table 40

ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - AUGUST 2020

| Positive | Weight | % chg. | Contribution | Negative | Weight | % chg. | Contribution |
|------------------------------------|---------------|---------------|---------------------|--------------------------|---------------|---------------|---------------------|
| Education costs (tuition and fees) | 8.8 | 2.0 | 0.21 | Potato | 0.9 | -19.3 | -0.21 |
| Chicken meat | 3.0 | 6.8 | 0.17 | Gasoline and lubricants | 1.3 | -13.7 | -0.17 |
| Urban fare | 8.5 | 1.8 | 0.14 | Avocado | 0.1 | -34.9 | -0.08 |
| Sugar | 0.5 | 20.8 | 0.10 | Tangerine | 0.2 | -28.6 | -0.06 |
| Beef | 1.2 | 7.3 | 0.10 | National transport | 0.3 | -12.5 | -0.05 |
| Show tickets | 1.7 | 5.9 | 0.09 | Olluco and other similar | 0.1 | -27.6 | -0.03 |
| Fresh and frozen fish | 0.7 | 13.8 | 0.09 | Airplane tickets | 0.4 | -8.2 | -0.03 |
| Medicinal products | 2.1 | 4.4 | 0.09 | Gas | 1.4 | -1.9 | -0.02 |
| Electricity | 2.9 | 2.3 | 0.08 | Other vegetable | 0.2 | -6.2 | -0.02 |
| Banana | 0.3 | 17.6 | 0.07 | Grape | 0.1 | -8.5 | -0.01 |
| Total | | | 1.14 | Total | | | -0.68 |

Services

The increase in the category “education – tuition and fees” (2.0 percent) reflected the rise of education prices made at the beginning of the school year, which was offset by the reduction of tuition and fees of some schools after mandatory confinement was established.

Electricity rates have registered successive increases since June, once the regulatory processes suspended during the quarantine resumed.

The Electricity Generation Price was updated in mid-June as a result of the quarterly settlement of the compensation mechanism between regulated users, while a series of parameters included in the distribution component were adjusted, including the Fondo de Compensación Social Eléctrica (FOSE) as well as the transmission component for the collection of the 220 kV Montalvo-Los Héroes line toll. In July, the adjustment took into account the increase in the exchange rate with respect to February and charges included in the main transmission component were updated. In August, the increase was mainly associated with the update of a series of charges for the transmission component aimed at ensuring the continuity of the service.

Food

Chicken meat was one of the foodstuffs with the greatest positive contribution to inflation mainly due to the rise registered in July, which largely offset the price reduction seen in the previous months. In April, the price of chicken registered a decrease of 18 percent as a result of the economic lockdown and the consequent drop in purchases by chicken shops and restaurants. On





the other hand, in July the subsequent reopening of restaurants reactivated demand, contributing to a price increase of 29 percent, but in August the level of supply exceeded the demand requirement, which led the price of chicken to a new decline of 3 percent.

The rise in the price of beef is explained by supply problems. The quarantine not only made it more difficult to transfer the cattle from the mountain areas to Lima, but also more expensive. Livestock production was also affected by the increase in frosts in the high Andean areas since this brought about a higher mortality of cattle and a lower availability of pastures. In addition to this, the rise in the exchange rate made imported inputs for the fattening of national cattle more expensive.

On the other hand, the rise in the price of sugar at the beginning of the quarantine is mainly attributed to an increase in demand. First, the declaration of the state of health emergency and the initiation of social confinement measures led to a sharp increase in the demand for food that could be stored, like sugar. Then, the increases were more related to the difficulties of marketing and transit, which added onto the difficulties in obtaining inputs used in the production process that some sugar mills encountered.

Moreover, potatoes stand out among the foodstuffs with the greatest negative contribution to inflation. Despite the decrease in supply, almost all varieties of potatoes showed lower prices over the period, which would reflect the contraction in demand given the lower income of the informal sector and the closure of restaurants. Furthermore, farm prices in regions such as Junín and Huánuco decreased with respect to the levels reached in 2019, reflecting farmers' difficulty in placing their products in the absence of transporters.

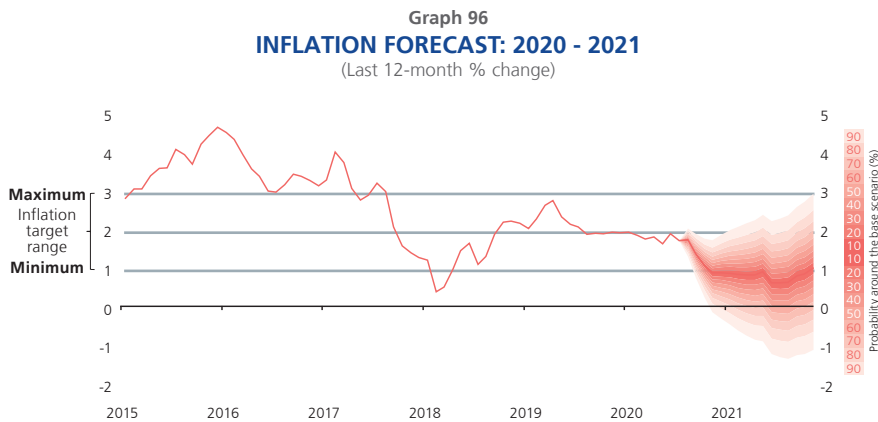
Fuel

The *ex-plant* prices of local refineries decreased –albeit with lags– in response to the decrease in the international price of oil. Moreover, the variations were also in line with the decrease in the international price of crude on the Gulf Coast of the United States, in line with the import parity price.

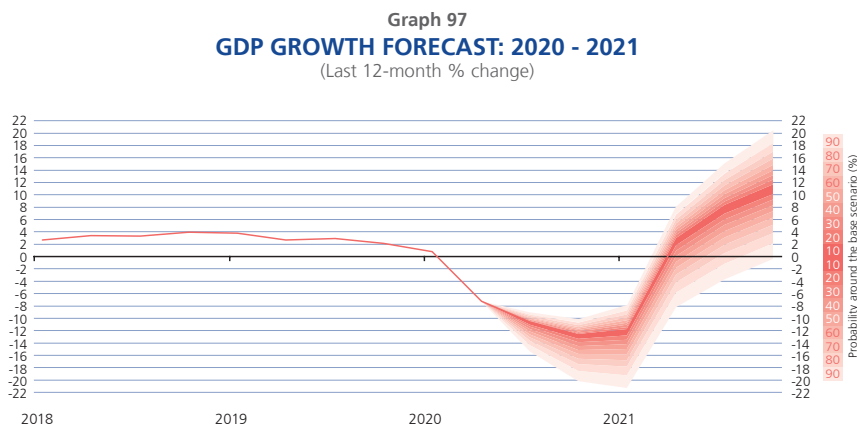
Forecasts

87. BCRP monetary policy actions are taken on the basis of inflation forecasts and projections of inflation determinants elaborated using all the macroeconomic information available at the time of decision making. Key indicators include inflation expectations, imported inflation (including the impact of the foreign exchange rate), and inflationary pressures on the side of both demand and supply.
88. Based on the information available and taking into account the extension of the state of health emergency and consequent weakening of domestic

demand, year-on-year inflation is expected to be temporarily below 1.0 percent (lower band of the target range) during the forecast horizon. This forecast is mainly explained by lower imported inflation and by a negative output gap, which is expected to gradually close as the economic activity rebounds. In line with this, inflation expectations would remain within the inflation target range.



89. In 2020 economic activity is foreseen to register a contraction sustained by the weakening of our trading partners' economies, by lower business confidence, and by the contracting effects of quarantine, offset in part by expansionary fiscal and monetary policy measures. On the other hand, a gradual improvement in economic growth is expected for 2021, mainly due to an improvement in business confidence and in the pace of growth of our main trading partners. Thus, a gradual but steady economic recovery is expected in the level of economic activity.





90. Inflation expectations, estimated on the basis of surveys conducted with financial and non-financial firms and economic analysts, reveal that inflation is expected to show rates between 0.9 and 2.0 percent in 2020 and rates between 1.6 and 2.0 percent in 2021, which indicate that expectations remain around the midpoint of the target range. Moreover, one-year-ahead expected inflation registered 1.57 percent in August 2020.

Graph 98
EXPECTATIONS OF INFLATION FOR THE NEXT YEAR
(% points)



Table 41
SURVEY ON INFLATION EXPECTATIONS
(% change)

| | IR Sep.19 | RI Dec.19 | IR Jun.20 | IR Sep.20* |
|----------------------------|-----------|-----------|-----------|------------|
| Financial entities | | | | |
| 2019 | 2.20 | 2.00 | | |
| 2020 | 2.30 | 2.20 | 1.00 | 0.90 |
| 2021 | | 2.30 | 1.80 | 1.55 |
| Economic analysts | | | | |
| 2019 | 2.20 | 2.00 | | |
| 2020 | 2.40 | 2.20 | 1.50 | 1.40 |
| 2021 | | 2.50 | 2.00 | 2.00 |
| Non-financial firms | | | | |
| 2019 | 2.40 | 2.20 | | |
| 2020 | 2.50 | 2.40 | 2.00 | 2.00 |
| 2021 | | 2.50 | 2.20 | 2.00 |

* Survey conducted during August 31.
IR: Inflation Report.

91. Another determinant of inflation is its imported component, which combines the effect of the international prices of goods we import –such as crude, wheat, soybean and maize, among other products– with the effect of exchange rate variations.

Average import prices are projected to fall by 4.8 percent in 2020, mainly due to the lower prices of food commodities as well as the prices of crude, whereas a

3.9 percent increase is expected in these prices in 2021. Moreover, the surveys on expectations about the US/PEN exchange rate show expected levels between S/ 3.47 and S/ 3.50 per dollar for 2020 and levels between S/ 3.40 and S/ 3.50 for 2021.

Table 42
SURVEY ON MACROECONOMIC EXPECTATIONS: EXCHANGE RATE
(S/ per US\$)

| | IR Sep.19 | RI Dec.19 | IR Jun.20 | IR Sep.20* |
|----------------------------|-----------|-----------|-----------|------------|
| Financial entities | | | | |
| 2019 | 3.37 | 3.38 | | |
| 2020 | 3.35 | 3.37 | 3.40 | 3.47 |
| 2021 | | 3.35 | 3.37 | 3.40 |
| Economic analysts | | | | |
| 2019 | 3.40 | 3.36 | | |
| 2020 | 3.40 | 3.38 | 3.40 | 3.50 |
| 2021 | | 3.37 | 3.40 | 3.50 |
| Non-financial firms | | | | |
| 2019 | 3.35 | 3.37 | | |
| 2020 | 3.38 | 3.40 | 3.40 | 3.50 |
| 2021 | | 3.40 | 3.40 | 3.46 |

* Survey conducted during August 31.
IR: Inflation Report.

92. Taking the projections of economic activity and inflation into account, the Taylor rule suggests a more expansionary monetary impulse, which in this case is reflected in a negative trajectory for the benchmark interest rate. However, given that there is an effective lower limit for the benchmark rate, this implies that monetary impulse must materialize through non-conventional monetary policy quantitative measures.

Balance of Risks of the Inflation Forecast

93. The balance of risks in this Report remains skewed to the down side, although the risk is lower than that estimated in June 2020.

- **Domestic demand shocks**

A recovery in domestic demand is considered in all its components in the forecast horizon under a scenario favorable to investment and job creation, which includes both political and social stability. This recovery will also depend on the finding and subsequent access to the vaccine against COVID-19, as well as on the evolution of the COVID-19 contagion curve in the forecast horizon. Some of the risks that could delay this recovery are: i) potential delays in restarting activities in different sectors, and ii) the execution of both public and private investment. Thus, lower public and private spending would imply a more negative output gap.





- **External demand shocks**

The disruption of trade flows due to the spread of COVID-19 has been reducing global production capacity significantly. Specifically, there is a latent uncertainty regarding the development of a vaccine, as well as regarding the logistical difficulties of its distribution, both in the developed and the emerging countries. There is also the possibility of new outbreaks of the disease, which would negatively affect world growth. This would materialize in a fall in the demand for Peruvian exports, and particularly, in the demand for minerals, which would be reflected in a contraction in the prices of commodities such as copper. The greater perception of risk on world growth, and particularly on the performance of the emerging economies, could motivate a greater demand for safe assets and favor an appreciation of the dollar.

- **External financial shocks**

This risk is mainly associated with the greater uncertainty observed in financial markets during this year, which leads investors to search for safe assets as well as to the strengthening of hard currencies to the detriment of emerging currencies, such as the PEN. An additional effect of this risk on the emerging economies would be associated with an outflow of capital and the resulting rise in debt spreads, which would imply more restrictive financial conditions for these economies and make it difficult to access external financing to recover from the crisis. Moreover, a strengthening of the dollar would push inflation up due to the effect of higher imported inflation. After the spread of COVID-19, part of this risk has decreased due to the expansionary monetary policy response adopted in developed countries and particularly due to the recent change observed in the U.S. monetary policy strategy according to which interest rates would remain low for a much longer period of time, as it has been indicated.

