



Summary Inflation Report

December 2023

This **Inflation Report** has been prepared with information as of the third quarter of 2023 on the Balance of Payments and Gross Domestic Product; as of October 2023 on the monetary accounts and monthly GDP; and as of November 2023 on inflation, Non-Financial Public Sector operations, financial markets and exchange rates.

In the third quarter of the year, **global economic activity** performed better than anticipated in the September Inflation Report, particularly in the services industry. In this context, the projections for worldwide economic expansion in 2023 have been adjusted upwards, from 2.8 to 3.0 percent. Nevertheless, commencing in the fourth quarter of this year, global economic activity started to slow down, likely throughout 2024. Consequently, the global economic growth rate will drop to 2.7 percent that year, followed by a recovery to 3.0 percent in 2025. This will occur in the context of lower inflation and interest rates.

The **terms of trade** recorded a year-on-year growth of 2.8 percent during the January-September 2023 period, due to a greater drop in import prices than export prices. This evolution is the result of increased food supply in the main producing countries, and prospects for a more balanced global oil market.

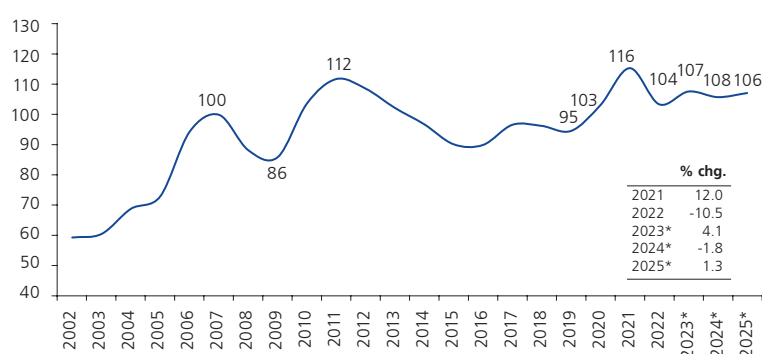
Over the next two years, lower prices are expected deteriorated demand prospects and the expected higher supply. Thus, the terms of trade are forecast to increase by

GLOBAL GROWTH (Annual % changes)

	PPP*	2022	2023		2024		2025
			IR Sep.	IR Dec.	IR Sep.	IR Dec.	IR Dec.
Developed economies	41.7	2.7	1.5	1.7	1.1	1.1	1.9
<i>Of wich</i>							
1. United States	15.5	2.1	1.8	2.4	1.0	1.2	2.0
2. Eurozone	12.0	3.5	0.5	0.5	0.9	0.7	2.0
3. Japan	3.8	1.1	1.2	1.6	0.9	0.9	0.8
4. United Kingdom	2.3	4.0	0.3	0.5	0.4	0.4	1.5
5. Canada	1.4	3.4	1.4	1.4	1.1	0.9	2.3
Developing economies	58.2	4.0	3.7	3.9	3.9	3.9	3.9
<i>Of wich</i>							
1. China	18.6	3.0	4.9	5.0	4.8	4.8	4.5
2. India	7.2	6.8	6.0	6.3	6.0	6.0	6.0
3. Russia	2.9	-2.2	0.1	2.0	1.3	1.3	1.0
4 Latin America and the Caribbean	7.2	3.9	1.6	2.0	1.7	1.7	2.4
Argentina	0.7	5.2	-2.0	-2.5	0.6	-1.0	2.5
Brazil	2.3	2.9	2.0	3.0	1.5	1.5	2.0
Chile	0.4	2.4	-0.5	-0.5	2.0	2.0	2.0
Colombia	0.6	7.5	1.0	1.3	1.7	2.0	3.0
Mexico	1.8	3.1	2.5	3.2	1.4	1.8	2.0
Peru	0.3	2.7	0.9	-0.5	3.0	3.0	3.0
World Economy	100.0	3.4	2.8	3.0	2.7	2.7	3.0

* Base 2022.
Source: IMF, Consensus Forecast and BCRP.

TERMS OF TRADE, 2002-2025 (Index 100 = 2007)



* Forecast.
Source: BCRP.

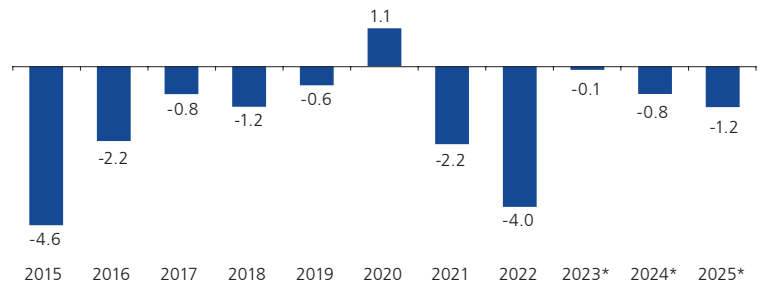
4.1 percent in 2023 (previously 3.0 percent), decrease by 1.8 percent in 2024 (previously 1.3 percent increase), and end the forecast horizon with 1.3 percent growth.

The accumulated **current account** in the last four quarters went from a deficit of 4.0 percent of GDP in 2022 to a deficit of 0.7 percent in the third quarter of 2023. This evolution responded to the fall in import volumes -due to the decline in domestic demand-, to the favorable evolution of the terms of trade, to the reduction in the profits of companies receiving Foreign Direct Investment and, to a lesser extent, to a smaller balance of services deficit -due to lower maritime freight prices- and to higher transfer shipments from abroad. The current account deficit is expected to remain on the decreasing trend observed during the year and close 2023 at 0.1 percent of GDP, rise to 0.8 percent in 2024 and reaching 1.2 percent of GDP in 2025, in line with greater demand for imports supporting a recovering economic activity.

National economic activity shrank by 0.7 percent in January-October 2023 period. Social conflicts and negative weather conditions (which continued throughout the year) at the start of the contraction period and impaired productive capacity, income and confidence in the private sector. Such adverse shocks went hand in hand with deteriorating household budgets resulting from persistent and significant increases in food prices (international grain price hikes, followed by higher fertilizer costs, droughts and the El Niño event) and lower demand for non-traditional products in the North American market.

On the expenditure side, this evolution was mainly characterized by the contraction

CURRENT ACCOUNT: 2015-2025
(% GDP)



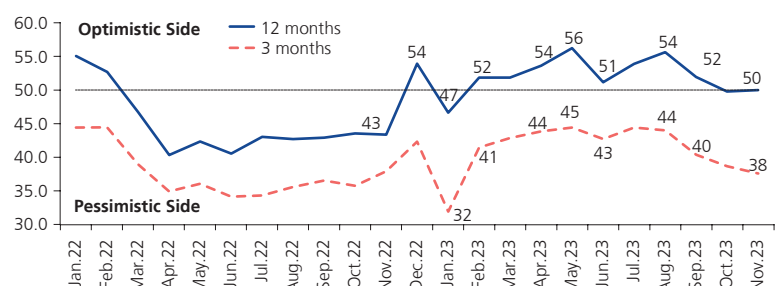
* Forecast.
Source: BCRP.

BALANCE OF PAYMENTS
(Million USD)

	2022	2023*		2024*		2025*	
		Q3.23 ^{1/}	IR Sep.23	IR Dec.23	IR Sep.23	IR Dec.23	IR Dec.23
I. CURRENT ACCOUNT							
BALANCE	-9,908	-1,831	-3,430	-286	-3,375	-2,213	-3,419
% GDP	-4.0	-0.7	-1.3	-0.1	-1.2	-0.8	-1.2
1. Trade Balance	10,333	15,083	15,771	16,185	16,402	14,994	16,392
a. Exports	66,235	65,555	65,438	66,179	68,301	66,771	70,383
Of which:							
i) Traditional	47,760	47,408	47,190	47,704	48,946	47,802	49,577
ii) Non-Traditional	18,221	17,919	18,032	18,274	19,138	18,762	20,631
b. Imports	55,902	50,473	49,667	49,994	51,899	51,777	53,991
2. Services	-8,642	-7,780	-7,685	-7,755	-6,548	-6,884	-6,008
3. Primary income (factor income)	-17,373	-15,618	-18,126	-15,390	-19,770	-17,019	-20,463
4. Secondary income (transfers)	5,773	6,484	6,610	6,675	6,540	6,696	6,660
Of which: Remittances	3,708	4,226	4,169	4,374	4,294	4,505	4,640
II. FINANCIAL ACCOUNT^{1/}	-9,246	-1,873	-4,124	236	-6,875	-4,913	-5,959
% GDP	-3.8	-0.4	-1.5	0.1	-2.4	-1.8	-2.1
1. Private Sector	-10,203	-3,431	-3,087	-656	-3,689	-2,241	-4,747
a. Long-term	-14,587	-4,673	-3,087	-1,619	-3,689	-2,241	-4,747
b. Short-term	4,385	1,242	0	963	0	0	0
2. Public Sector^{2/}	957	1,558	-1,037	892	-3,186	-2,672	-1,213
III. NET ERRORS AND OMISSIONS	-4,427	-4,454	0	66	0	0	0
IV. BALANCE OF PAYMENTS	-5,089	-4,411	695	-456	3,500	2,700	2,540
IV=(I+III)-II=(1-2)							
1. Change in NIR balance	-6,612	-2,967	1,268	250	3,500	2,700	2,540
2. Valuation effect	-1,523	1,444	573	707	0	0	0

1/ The financial account and its components (private and public sector) are expressed as assets net of liabilities. Therefore, a negative sign implies an inflow of external capital.
2/ Considers the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.
3/ Shows the cumulative last four quarters to the third quarter of 2023.
I.R.: Inflation Report.
* Forecast.

EXPECTATIONS ABOUT THE ECONOMY IN 3 AND 12 MONTHS AHEAD
(Diffusion index)



Source: BCRP.

of private and subnational government investment and a steep slowdown in private consumption. On the supply side, non-primary sectors were affected by shrinking private spending, mainly manufacturing, construction and services activities. Primary activities, especially agriculture, fishing and associated manufacturing, were adversely affected by weather anomalies that hurt crop yields and the availability of anchovy (Peruvian pilchard). In addition, unscheduled maintenance operations by mining companies will hurt copper and molybdenum outputs.

Economic activity is expected to fall by 0.5 percent in 2023, in contrast to the 0.9 percent growth forecast announced in the September Report. As the transitory events of 2023 are not expected to recur in the same magnitude, economic activity is bound to recover in 2024 -especially in the second half of the year- and in 2025, with a growth rate of 3.0 percent in both years. This would make projected rates for the Peruvian economy some of the highest region wide. The baseline scenario assumes a moderate coastal El Niño event, forecast in the latest ENFEN report as the most likely scenario.

The cumulative **fiscal deficit** over the last 12 months increased from 1.7 percent in 2022 to 2.7 percent of GDP in November 2023, as a consequence of deteriorating current incomes. Slower economic activity and lower *commodity* prices account for the upside revision of the fiscal deficit projection to 2.5 percent of GDP in 2023, expected however to fall within the fiscal rule of 2.0 and 1.5 percent of GDP in 2024 and 2025, respectively.

Consistent with these fiscal deficit forecasts, **debt** -net of non-financial Public Sector

GDP BY ECONOMIC SECTORS

(Real % change)

	2022	2023*			2024*		2025*
		Jan.-Oct.	IR Sep.23	IR Dec.23	IR Sep.23	IR Dec.23	IR Dec.23
Primary GDP	0.9	3.1	2.5	2.5	2.8	2.8	3.1
Agriculture and livestock	4.5	-4.0	-2.0	-3.0	2.6	3.5	3.5
Fishing	-11.4	-21.3	-26.4	-17.6	10.5	10.5	14.4
Metallic mining	0.0	10.0	8.8	8.4	2.4	2.0	2.2
Hydrocarbons	4.0	1.7	2.2	0.9	3.6	2.9	3.8
Manufacture	-2.5	-0.3	-4.2	-1.7	3.2	3.9	4.1
Non-Primary GDP	3.2	-1.6	0.4	-1.3	3.1	3.1	3.0
Manufacture	2.2	-8.8	-3.5	-8.0	2.9	3.1	3.0
Electricity and water	3.9	4.3	4.3	3.7	3.9	3.9	3.0
Construction	3.0	-9.3	-3.7	-8.0	3.2	3.2	3.4
Commerce	3.3	2.5	3.0	2.5	3.5	3.2	2.7
Services	3.3	-0.4	1.0	-0.2	2.9	3.0	3.0
GDP	2.7	-0.7	0.9	-0.5	3.0	3.0	3.0

IR: Inflation Report.
* Forecast.
Source: BCRP.

DOMESTIC DEMAND AND GDP

(Real % change)

	2022	2023*			2024*		2025*
		Jan.-Sep.	IR Sep.23	IR Dec.23	IR Sep.23	IR Dec.23	IR Dec.23
Domestic demand	2.3	-2.2	-0.3	-1.6	3.0	2.9	2.9
Private consumption	3.6	0.2	1.2	0.2	3.0	2.7	2.8
Public consumption	-3.4	-0.1	2.0	2.0	2.0	2.0	2.0
Private investment	-0.4	-8.9	-5.3	-7.3	1.8	1.8	3.0
Public investment	7.7	-1.0	1.5	1.0	4.0	4.0	4.5
Change on inventories (contribution)	0.1	-0.4	-0.3	-0.5	0.2	0.3	0.0
Exports	6.1	3.6	2.8	3.0	3.3	3.1	3.8
Imports	4.4	-2.7	-2.0	-1.2	3.4	2.7	3.3
Gross Domestic Product	2.7	-0.6	0.9	-0.5	3.0	3.0	3.0

IR: Inflation Report.
* Forecast.
Source: BCRP.

ESTIMATED PROBABILITIES OF COASTAL EL NIÑO DURING THE SUMMER 2024

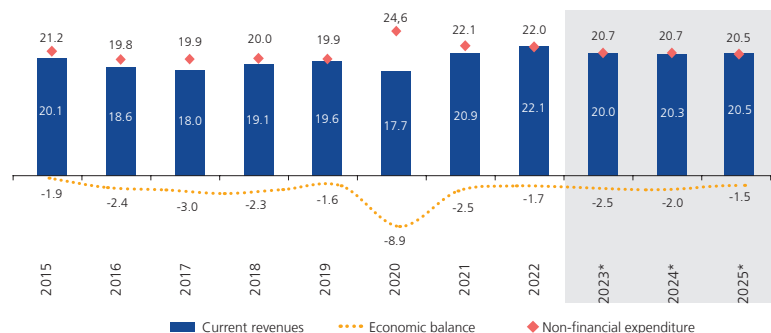
(In %)

Date of communiqué ENFEN	Region	Probability	Of which:		
			Weak	Moderate	Strong or very strong
September 14	Eastern Pacific (Niño 1+2)	98	16	56	26
October 27		100	3	47	50
November 24		95	17	38	40
December 15		97	20	54	23
September 14	Central Pacific (Niño 3.4)	100	16	67	17
October 27		100	2	48	50
November 24		100	4	31	65
December 15		100	3	41	56

Memo: The shaded number indicates the most likely scenario.
Source: ENFEN.

ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015 - 2025

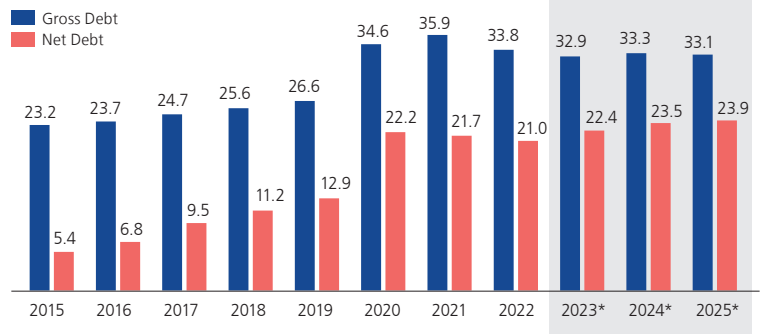
(% GDP)



Memo: The economic balance is calculated as current revenues - non-financial expenditure + others (capital income and primary result of state-owned companies) - payment of debt service.
* Forecast.
Source: BCRP.

deposits- is expected to increase from 21.0 to 23.9 percent of GDP between 2022 and 2025. **Gross debt** is projected to remain stable, assuming greater use of Public Sector deposits to finance the fiscal deficit. Thus, public debt would increase from 33.8 to 33.1 percent of GDP between 2022 and 2025.

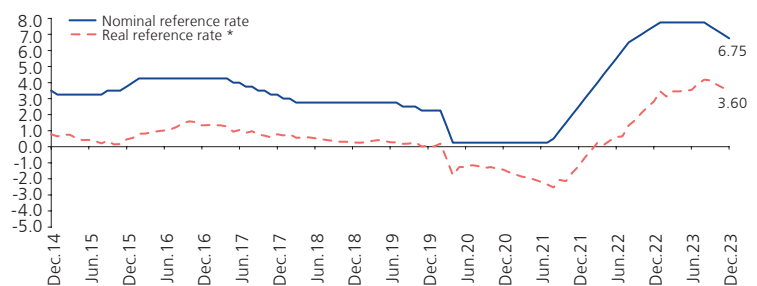
NON-FINANCIAL PUBLIC SECTOR DEBT: 2015- 2025
(% GDP)



* Forecast.
Source: BCRP.

Between September and December 2023, the Board of Directors of BCRP decided to cut the **benchmark rate** by 25 basis points four times, thus lowering the benchmark rate from 7.75 to 6.75 percent. The announcements of these decisions emphasized that not necessarily would they imply a cycle of successive interest rate reductions and that future adjustments in the benchmark rate will be conditioned to new information on inflation and its determinants.

REFERENCE INTEREST RATE
(In %)



* With expectation on inflation.
Source: BCRP.

Credit to the private sector grew by 0.7 percent in annual terms in November 2023 (4.6 percent in 2022), mainly reflecting the evolution of economic activity. In the future, there is an anticipation that the demand for credit will improve in accordance with the projected growth of the Gross Domestic Product (GDP). Therefore, it is anticipated that the rate of credit growth to the private sector will increase to 3.5 and 5.0 percent in 2024 and 2025, respectively.

CREDIT TO THE PRIVATE SECTOR ^{1/}
(Annual growth rates)

	Dec.19	Dec.20	Dec.21	Dec.22	Jun.23	Sep.23	Nov.23
Businesses	4.2	19.7	3.6	-1.4	-4.4	-3.9	-3.7
Corporate and large companies	4.3	6.4	8.0	1.2	-3.5	-2.7	-2.2
Medium-sized enterprises,	0.3	47.2	0.0	-13.7	-14.9	-14.1	-13.3
Small business and Micro business	8.4	24.0	-1.1	7.7	5.0	3.5	2.5
Individuals	11.4	-3.2	4.8	15.9	10.2	9.6	8.0
Consumer	13.3	-7.2	3.1	21.8	13.7	12.7	9.8
Car loans	12.0	-2.2	7.3	15.9	18.4	12.9	8.4
Credit cards	13.4	-20.3	-41.0	32.6	20.9	16.5	12.9
Rest	13.3	-0.5	21.4	19.8	12.0	11.8	9.1
Mortgage	8.6	2.9	7.1	8.0	5.2	5.2	5.4
TOTAL	6.9	10.7	4.0	4.6	1.0	1.1	0.7
Memo:							
Businesses without Reactiva	4.2	-7.0	11.5	8.4	4.3	3.5	2.6
Total without Reactiva Peru	6.9	-5.5	8.8	11.3	6.9	6.0	4.8

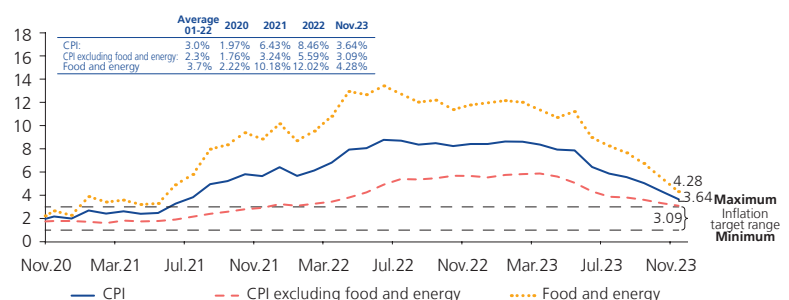
Note: The criteria for classifying corporate loans by credit segment are in accordance with the SBS definition valid until June 2023. 2023. In July 2023, by means of SBS Resolution N° 02368-2023, a change in the classification of loans is made.
Corporate: Annual sales of more than S/ 200 million (idem).
Large companies: Annual sales between S/ 20 million and S/ 200 million (Annual sales between S/ 20 million and S/ 200 million; or maintaining issues in the capital market in the last year).
Medium-sized companies: Annual sales between S/ 5 million and S/ 20 million (Total indebtedness of more than S/ 300 thousand or annual sales of no more than S/ 20 million).
Small companies: Annual sales less than S/ 5 million and total indebtedness greater than S/ 20 thousand (Total indebtedness between S/ 20 thousand and S/ 300 thousand).
Micro enterprises: Annual sales of less than S/ 5 million and total indebtedness of less than S/ 20 thousand (Total indebtedness of no more than S/ 20 thousand).

^{1/} The constant exchange rate as of December 2022 is maintained.
Source: BCRP.

The year-on-year **inflation** rate continued to decrease significantly since June, from 7.89 percent in May to 3.64 percent in November. The drop is due to the correction in some food prices such as onions and, in recent months, lemons, as well as meals away from home and local transportation. Inflation excluding food and energy fell from 5.11 to 3.09 percent in the same period, very close to the target range.

INFLATION

(Last 12-month % change)

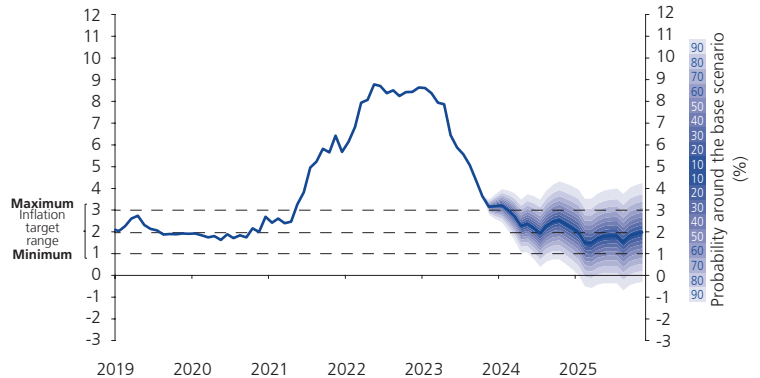


Source: BCRP.

An inflation rate of 3.1 percent is expected in 2023, or a downward revision with respect to the 3.8 percent expected in the September Report. This change is due to the faster reversal of the impact of supply shocks on food prices experienced in recent months. Year-on-year inflation is expected to remain relatively stable in the first quarter, return to the target range at the beginning of the second quarter of 2024 and close that year at 2.3 percent and 2.0 percent in 2025.

This would make Peru one of the first economies in the region to bring inflation, particularly non-food and energy inflation (core inflation), back within its target range.

INFLATION FORECAST: 2023 - 2025
(% change last twelve months)

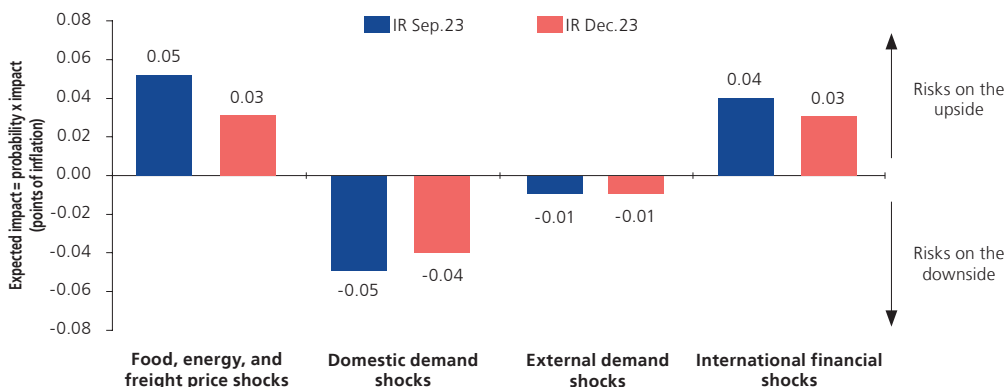


Note: This Fanchart presents the distribution of possible inflation projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10% probability and indicates the possible values for the evolution of inflation over the projection horizon associated with this confidence level.
Source: BCRP.

Balance of risks

The upward bias of the **balance of risks to the inflation projection** slipped down relative to the previous Report. Risks to the forecasts include mainly the following contingencies: (i) internal supply shocks such as a strong or severe coastal El Niño southern in the summer of 2024, which could disrupt certain economic activities, the transport of perishable goods and the supply of domestic markets, and translate into higher food prices and transportation costs; or external supply shocks such as higher transportation costs due to restrictions in access to maritime routes (Panama Canal due to global El Niño or in the Suez Canal due to geopolitical conflicts); (ii) domestic demand shocks due slower recovery of consumer and business confidence, which could deteriorate the outlook for private spending; (iii) external demand shocks due to a slowdown in global growth, which would imply lower demand for our main export products; and (iv) financial shocks due to upward pressure on the exchange rate, capital outflows and greater volatility in international markets due to episodes of greater political uncertainty or increased volatility in international financial markets.

INFLATION RISKS BALANCE



Source: BCRP.

SUMMARY OF INFLATION REPORT FORECAST

	2022	2023*		2024*		2025*
		IR Sep.23	IR Dec.23	IR Sep.23	IR Dec.23	IR Dec.23
Real % change						
1. Gross Domestic Product	2.7	0.9	-0.5	3.0	3.0	3.0
2. Domestic demand	2.3	-0.3	-1.6	3.0	2.9	2.9
a. Private consumption	3.6	1.2	0.2	3.0	2.7	2.8
b. Public consumption	-3.4	2.0	2.0	2.0	2.0	2.0
c. Fixed private investment	-0.4	-5.3	-7.3	1.8	1.8	3.0
d. Public investment	7.7	1.5	1.0	4.0	4.0	4.5
3. Exports (good and services)	6.1	2.8	3.0	3.3	3.1	3.8
4. Imports (good and services)	4.4	-2.0	-1.2	3.4	2.7	3.3
5. Global economic growth	3.4	2.8	3.0	2.7	2.7	3.0
Note:						
Output gap ^{1/} (%)	0.8	-1.5 ; -0.5	-1.8 ; -0.8	-1.0 ; 0.0	-1.3 ; -0.3	-0.7 ; 0.3
% change						
6. Inflation (end-of-period)	8.5	3.8	3.1	2.4	2.3	2.0
7. Expected inflation ^{2/}	6.3	4.1	3.9	3.0	3.1	2.5
8. Expected depreciation ^{2/}	-5.1	-3.1	-1.3	0.9	0.4	0.9
9. Terms of Trade	-10.5	3.0	4.1	1.3	-1.8	1.3
a. Export prices	1.8	-3.6	-2.7	2.2	-1.0	1.8
b. Import prices	13.7	-6.5	-6.6	0.9	0.7	0.5
Nominal % change						
10. Currency in circulation	-3.8	-5.0	-7.2	-1.0	-2.5	0.0
11. Credit to the private sector	4.6	1.0	0.7	4.0	3.5	5.0
% GDP						
12. Gross fixed investment	25.3	23.3	23.0	22.8	22.9	23.0
13. Current account of the balance of payments	-4.0	-1.3	-0.1	-1.2	-0.8	-1.2
14. Trade Balance	4.2	5.8	6.1	5.7	5.4	5.6
15. Long-term external financing of the private sector ^{3/}	5.9	1.1	0.6	1.3	0.8	1.6
16. Current revenue of the general government	22.1	20.2	20.0	20.3	20.3	20.5
17. Non-financial expenditure of the general government	22.0	20.9	20.7	20.8	20.7	20.5
18. Overall balance of the non-financial public sector	-1.7	-2.4	-2.5	-2.0	-2.0	-1.5
19. Balance of total public debt	33.8	32.9	32.9	32.8	33.3	33.1
20. Balance of net public debt	21.0	21.7	22.4	22.4	23.5	23.9

IR: Inflation Report

* Forecasts.

1/ Differential between GDP and trend GDP (in % of trend GDP).

2/ Survey on expectations to the analysts and financial entities carried out at the time of publication of the respective Inflation Report. Data observed in the case of depreciation for 2022, and the average of expectations throughout year in case of inflation has been considered.

3/ Includes net direct investment, foreign assets investment from residents (AFP), foreign net portfolio investment, and private sector's long term disbursement. Positive sign indicates net inflow of foreign capital.