INFLATION REPORT

June 2024

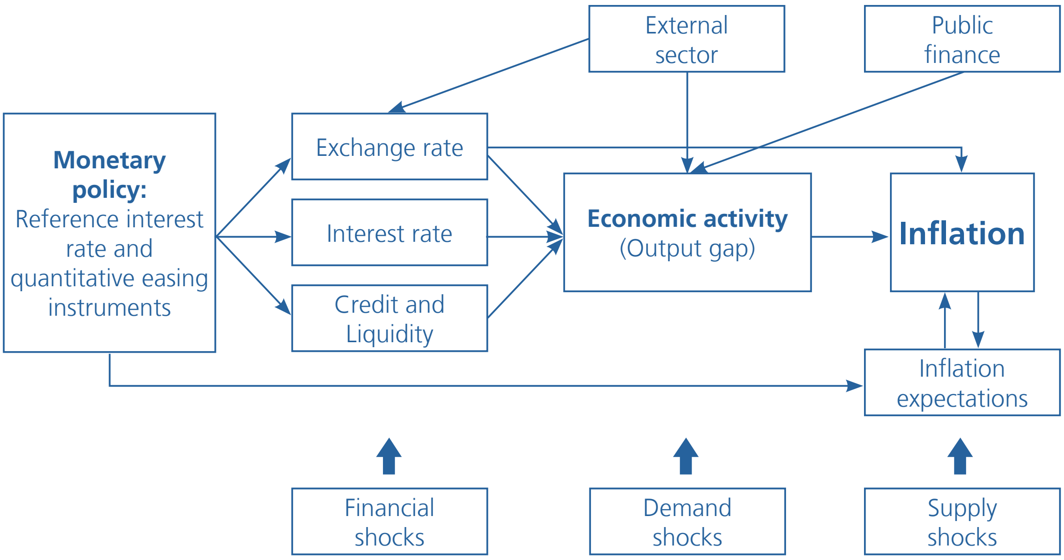
Recent trends and macroeconomic forecasts 2024-2025

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT

Recent Trends and Macroeconomic Forecasts 2024 - 2025

June 2024



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

INFLATION REPORT

Recent trends and macroeconomic forecasts

CENTRAL RESERVE BANK OF PERU

INFLATION REPORT:

Recent Trends and Macroeconomic Forecasts 2024-2025

June 2024

CONTENT

This ***Inflation Report*** has been prepared with information as of the first quarter of 2024 on the Balance of Payments and Gross Domestic Product; as of April 2024 on monthly GDP; and as of May 2024 on Non-Financial Public Sector operations, monetary accounts, inflation, financial markets and exchange rate.

Foreword

- As per the Peruvian Constitution, the Central Reserve Bank of Peru (BCRP) is an autonomous public agency tasked with maintaining monetary stability. Its primary responsibilities include controlling credit and money supply, managing foreign reserves, issuing coins and banknotes, and providing financial reporting for the country.

- The Bank bases its monetary policy on an inflation targeting plan in order to carry out this function. The goal of the inflation target, which has a range of 1 to 3 percent, is to permanently commit to monetary stability while stabilizing inflation expectations at a level comparable to that of advanced economies.

- Since 2003, the Board of Directors of BCRP has set the monthly benchmark rate for the interbank lending market within a predetermined timeframe. The monetary operational target, or interest rate, influences the inflation rate through several mechanisms and with time lags. As a result, projections and factors influencing inflation are used to estimate this interest rate.

- Shocks that momentarily disrupt the supply of goods and services could cause inflation to briefly go outside of the desired range. Furthermore, it should be noted that the success of monetary policy is measured by how well it keeps inflation expectations within the target range and gets them back to it in a reasonable amount of time when deviations from it are noted because of an economic shock.

- Furthermore, the BCRP carries out preventive measures to maintain macro-financial stability and, consequently, the transmission mechanisms of monetary policy. Thus, in addition to the benchmark rate, other monetary policy tools like reserve requirements, exchange rate interventions, and injection and sterilization operations are also used to maintain market integrity, lessen excessive exchange rate volatility, and prevent notable changes in the amount and make-up of credit in the financial system across currencies and terms.

- The macroeconomic projections for the years 2024–2025 that back up BCRP's monetary policy decisions are included in the Inflation Report, along with risk factors that could cause them to diverge from these forecasts.

- The Inflation Report was approved at the Board of Directors' meeting held on June 13, 2024.

- The next Inflation Report will be released on Friday, September 20, 2024.

Summary

i. The lagged impact of rising global interest rates and the dissipation of time lags on aggregate demand from cyclical factors like the fiscal impulse and the use of private sector savings surpluses, primarily in the US, are expected to determine the global outlook in 2024. **Global growth** may decelerate from 3.2 percent in 2023 to 3.0 percent in 2024. This estimate is an increase above the March forecast (2.8 percent) because of China's and the United States' better-than-expected performance thus far this year. The growth rate estimate of 3.1 percent for 2025 remains unchanged, in accordance with reduced international interest rates and already controlled global inflation.

ii. The favorable **terms of trade** for the Peruvian economy persisted; in the first quarter of 2024, they grew by 5.0 percent year over year as a result of the decline in import prices. This outcome can be explained by improved circumstances and promising future developments in the food supply, including maize and soybeans, as well as a more balanced oil market. In contrast to the decline predicted in the March Report (-1.7 percent), an 8.8 percent growth in terms of trade is expected in 2024. This revision reflects increased demand for the energy transition and is a reaction to rising prices for main export metals. In 2025, the terms of trade are expected to contract by 1.4 percent.

iii. Because of decreased imports as a result of weak domestic demand and higher terms of trade, the balance of payments continued to reflect a surplus position in its current account. In the first quarter of 2024, the annualized **current account** surplus increased from 0.8 percent of GDP in 2023 to 1.4 percent. This performance was indicative of the following: (i) reduced profits for foreign-owned businesses; (ii) a decline in the services deficit as a result of increased travel arrivals and decreased freight costs; and (iii) an increase in remittance flows as a result of positive job trends in the US.

The current account surplus is projected to remain at 0.8 percent of output in 2024 and narrow to 0.3 percent in 2025, in line with the recovery in domestic demand and the outlook for the terms of trade.

iv. After four consecutive quarters of year-over-year reductions, **domestic economic activity** increased by 1.4 percent in the first quarter of 2024. Agents' confidence in the economy was bolstered by better weather and increased real incomes after inflation declined, which encouraged private spending. Additionally, public investment at all levels of government saw a notable rebound.

The GDP is estimated to grow by 3.1 percent in 2024, which is the greatest growth rate since 2021 and more than the 3.0 percent growth predicted in March. Due to the normalization of the weather after the anomalies recorded the previous year, the agriculture sector, and fishing, and the manufacturing related with it, will help the recovery relative to the previous year. The recovery of agents' confidence and the rise in real income will help non-primary industries including manufacturing, commerce, and services, while increased public investment will prop up the building industry. The current projections assume that there will be price, sociopolitical, and employment stability, which will increase private investment and domestic demand. It is predicted that the improvement in terms of trade will have a limited effect on private investment due to the persistently low business confidence.

According to projections, output will increase by 3.0 percent in 2025, considering typical weather, the start of some mining operations, and an environment that supports the ongoing recovery of private spending.

v. Between December 2023 and May 2024, the cumulative **fiscal deficit** increased from 2.8 to 3.9 percent of GDP. This increase was mostly caused by a decline in current revenues because of a reduction in yearly income tax (IR) regularization. It is anticipated that fiscal revenues will rebound in tandem with the anticipated trajectory of the GDP, elevated metal prices, and exceptional income revenues in 2025, linked to the sales of electricity-related businesses. To reduce the budget deficit to 1.6 percent of production by 2025 and 2.8 percent of GDP in 2024 —a level comparable to that of 2023— strict expenditure control is also assumed. This forecast assumes that the fiscal rule trajectory will change in accordance with the executive power's request for legislative authority.

Debt net of non-financial Public Sector deposits is expected to increase from 22.5 to 24.8 percent of GDP between 2023 and 2025. Meanwhile, **gross debt** is projected to remain at 32.9 percent of GDP during the same period, implying a greater use of Public Sector deposits to finance the deficit.

vi. The BCRP kept lowering the monetary policy interest rate gradually. The BCRP Board of Directors voted in April and May of 2024 to lower the **benchmark rate** by 25 basis points, resulting in a rate of 5.75 percent in June. To supplement the monetary easing that was started in September of last year, a move to lower the reserve requirement rate in domestic currency from 6.0 to 5.5 percent was authorized in March and will take effect in April. It was also mentioned that any changes to the benchmark rate in the future will depend on fresh data regarding inflation and its causes, namely the development of core inflation, inflation expectations, and economic activity.

vii. Interest rates in local currency, especially in the lending rates of lower credit risk categories, kept changing in step with the evolution of the benchmark rate. The domestic currency liquidity, which includes both deposits and currency in circulation, started to show indications of improvement. From December 2023 to April 2024, its annual growth rate increased from 3.9 percent to 5.2 percent. In April 2024, **credit to the private sector as a whole** increased by 0.4 percent compared to the same a year earlier(1.3 percent in 2023). This change is a reaction to the Reactiva Perú program's advancement in loan repayments as well as the decline in credit demand brought about by changes in the financial and economic landscape. In line with expected domestic demand and production, private sector loan growth will rebound to 3.5 and 5.0 percent in 2024 and 2025, respectively.

viii. The inflation rate decreased year over year as well; from 3.29 percent in February to 2.00 percent in May, reaching the mid-point of the target range. The primary causes of the year-over-year inflation slowdown that occurred between February and May were lower prices of fish, chicken, fish dinners away from home, leaves or stems, and other fresh fruits. After being at the upper end of the target range in December 2023 and January 2024, inflation excluding food and energy exceeded the target range for the fourth consecutive month, averaging 3.10 percent.

The 2.2 percent inflation estimate for 2024 is still in place, and its decrease from 2023 will be a result of the recent decrease in the frequency of weather-related events that drive food prices up. In this situation, it is anticipated that inflation will start to decline again, excluding food and energy, and therefore, at 2.0 percent, overall inflation in 2025 will be in the middle point of the target range.

ix. The **inflation projection's risk balance** in this report changes from an upward bias to a neutral bias. The following events pose the greatest risks to the forecast: (i) financial shocks brought on by exchange rate pressure rising, capital outflows, and increased market volatility as a result of periods of increased political unpredictability or increased market volatility as a result of geopolitical tensions; and (ii) external demand shocks brought on by a slowdown in global growth, which would imply lower demand for our export products.

SUMMARY OF INFLATION REPORT FORECAST

	2023	2024*		2025*	
		IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Real % chg.					
1. Gross Domestic Product	-0.6	3.0	3.1	3.0	3.0
2. Domestic demand	-2.1	3.1	3.5	3.0	3.0
a. Private consumption	0.1	2.7	2.8	2.8	2.8
b. Public consumption	4.6	2.0	2.0	2.0	2.0
c. Fixed private investment	-7.3	2.3	2.3	3.0	3.0
d. Public investment	2.8	4.0	12.0	4.5	4.5
3. Exports of goods and services	4.9	2.7	2.9	3.3	3.3
4. Imports of goods and services	-1.4	3.0	4.6	3.1	3.3
5. World GDP growth	3.2	2.8	3.0	3.1	3.1
Memo:					
Output gap 1/ (%)	-1.5	-1.3 ; -0.3	-1.0 ; 0.0	-0.7 ; 0.3	-0.5 ; 0.5
% chg.					
6. Inflation (end of period)	3.2	2.2	2.2	2.0	2.0
7. Expected inflation 2/	4.4	2.7	2.6	2.5	2.5
8. Expected depreciation 2/	-2.5	1.0	0.3	-0.5	0.7
9. Terms of trade	4.8	-1.7	8.8	1.0	1.4
a. Export prices	-2.4	-2.2	8.2	2.2	2.6
b. Import prices	-6.9	-0.5	-0.5	1.2	1.1
Nominal % change					
10. Currency	-5.6	-1.7	-1.2	0.0	0.0
11. Credit to the private sector	1.3	3.5	3.5	5.0	5.0
% GDP					
12. Gross fixed investment	22.9	23.0	22.6	23.0	22.7
13. Current account of the balance of payments	0.8	-0.5	0.8	-0.9	0.3
14. Trade Balance	6.6	5.6	7.9	5.9	8.2
15. Long-term external financing of the private sector 3/	-0.3	0.7	0.6	1.4	0.3
16. Current revenue of the general government	19.8	20.2	19.6	20.7	20.7
17. Non-financial expenditure of the general government	21.0	20.5	20.6	20.5	20.7
18. Overall balance of the non-financial public sector	-2.8	-2.0	-2.8	-1.5	-1.6
19. Balance of total public debt	32.9	33.8	32.5	33.5	32.9
20. Balance of net public debt	22.5	24.4	24.0	24.7	24.8

IR: Inflation Report

* Forecast.

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

2/ Expectations survey to analysts and financial entities carried out at the time of publication of the respective Report on Inflation. For 2023, the information observed in the case of depreciation and the average of the expectations to throughout the year in the case of inflation.

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

I. External sector

1. In general, the global economy has continued to grow moderately, in keeping with the March Inflation Report's projections. The US economy is not as active as it was a year ago, and there is little chance of a recession. Moderate growth was observed in other developed economies, while in China, expectations have strengthened in response to the statistics and stimulus announcements made in recent months.

   Simultaneously, the decline in inflation has been influenced by changes in service prices, especially in the US. As a result of this conduct, expectations for the Federal Reserve (Fed) rate have been revised upward. Following other central banks like those of the Eurozone, the UK, and Canada, where inflation has decreased more rapidly, the relaxation of monetary policy is anticipated to start in the fourth quarter.

2. Given this, it is anticipated that in 2024, the world economy will expand by 3.0 percent. The factors detailed in previous Reports, such as the impact of monetary policy tightening on credit conditions, the depletion of savings surpluses in the private sector (particularly in the United States), and diminishing gains in the labor market, account for this rate, which is lower than that of the previous year and below the average growth in the decade prior to the pandemic. For 2025, a growth rate of 3.1 percent is projected.

3. A variety of risks, primarily on the negative end, have been described in prior Inflation Reports and affect the baseline scenario. Compared to the UK and the Eurozone, there is a slight rise in the probability of slower Fed easing. On the other hand, there is less chance of a severe slowdown in China.

   On the other hand, there is a risk that geopolitical shocks in Ukraine and the Middle East, as well as trade tensions between the United States and China, may increase and, among other aspects, affect the price of some commodities, the freight market and the supply chain, particularly in the semiconductor market.

Recent developments in global economic activity

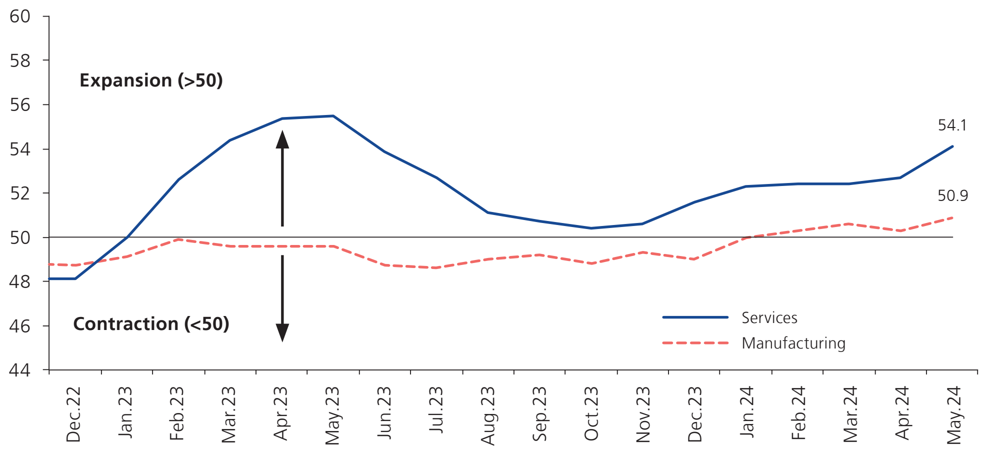
4. There has been a slight downturn in the global economy in recent months, with evidence of less divergence at the sector and national levels. Services is still the most dynamic sector, although sector-wise manufacturing has significantly improved.

The recovery of manufacturing in recent months, associated in part with reduced logistical restrictions in world trade, is reflected in the global PMI index for the sector, which, after remaining in the contraction zone during the past year, increased and recorded levels above 50 (expansion zone). The main developed economies, except for Germany, showed an improvement mainly explained by production volumes, new orders, employment and input costs.

Graph 1

GLOBAL PMI : WORLD ECONOMIC ACTIVITY INDEX FOR THE MANUFACTURING AND SERVICES SECTORS

(Diffusion index)



Source: S&P Global.

5. Compared to other quarters, there was a greater uniformity in global economic activity within **developed economies** during the first quarter. Thus, the seasonally adjusted output index showed growth rates in the first quarter for the three major economies —the United States, Germany, and the United Kingdom— aside from Japan. In Germany and the United Kingdom, this signifies a reversal of the contraction seen in earlier months.

Table 1

MAJOR ECONOMIES: QUATERLY GROWTH

(% Chg. Seasonally adjusted series)

	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
USA	-0.5	-0.1	0.7	0.6	0.6	0.5	1.2	0.8	0.3
Germany	1.0	-0.1	0.4	-0.4	0.3	-0.1	0.1	-0.5	0.2
UK	0.5	0.1	-0.1	0.1	0.2	0.0	-0.1	-0.3	0.6
Japan	-0.6	1.2	-0.2	0.3	1.2	1.0	-0.9	0.0	-0.5
China	0.8	-2.3	3.7	0.8	2.3	0.5	1.5	1.0	1.6

Source: OCDE and Trading Economics

This reduced divergence in the performance of economies, especially developed economies, appears to have persisted in April and May, according to monthly activity measures (PMI indices).

Table 2

MANUFACTURING AND SERVICES PMI

(Diffusion index)

	Dec.22	Mar.23	Jun.23	Sep.23	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24
PMI Manufacturing										
India	57.8	56.4	57.8	57.5	54.9	56.5	56.9	59.1	58.8	57.5
Japan	48.9	49.2	49.8	48.5	48.0	48.0	47.2	48.2	49.6	50.4
China	49.0	50.0	50.5	50.6	50.8	50.8	50.9	51.1	51.4	51.7
USA	46.2	49.2	46.3	49.8	47.9	50.7	52.2	51.9	50.0	51.3
Brazil	44.2	47.0	46.6	49.0	48.4	52.8	54.1	53.6	55.9	52.1
UK	45.3	47.9	46.5	44.3	46.2	47.0	47.5	50.3	49.1	51.2
France	49.2	47.3	46.0	44.2	42.1	43.1	47.1	46.2	45.3	46.4
Italy	48.5	51.1	43.8	46.8	45.3	48.5	48.7	50.4	47.3	45.6
Germany	47.1	44.7	40.6	39.6	43.3	45.5	42.5	41.9	42.5	45.4
PMI Services										
India	58.5	57.8	58.5	61.0	59.0	61.8	60.6	61.2	60.8	60.2
Japan	51.1	55.0	54.0	53.8	51.5	53.1	52.9	54.1	54.3	53.6
China	48.0	57.8	53.9	50.2	52.9	52.7	52.5	52.7	52.5	54.0
USA	44.7	52.6	54.4	50.1	51.4	52.5	52.3	51.7	51.3	54.8
Brazil	51.0	51.8	53.3	48.7	50.5	53.1	54.6	54.8	53.7	55.3
UK	49.9	52.9	53.7	49.3	53.4	54.3	53.8	53.1	55.0	52.9
France	49.5	53.9	48.0	44.4	45.7	45.4	48.4	48.3	51.3	49.4
Italy	49.9	55.7	52.2	49.9	49.8	51.2	52.2	54.6	54.3	54.2
Germany	49.2	53.7	54.1	50.3	49.3	47.7	48.3	50.1	53.2	53.9

Source: PMI S&P. Expansion > 50 Contraction < 50

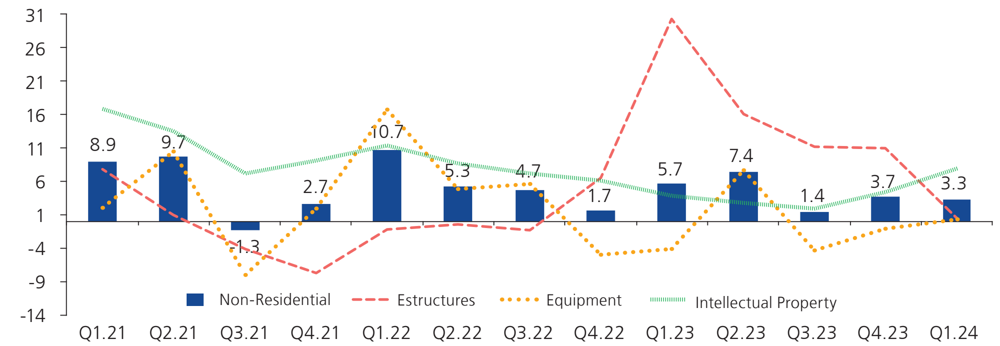
6. The **United States** GDP increased in the first quarter at a slower rate than anticipated, although it was expected to slow down gradually in 2024. The slower pace is a result of both the substantial decline in durable goods, which has caused a contraction in products output of -0.4 percent, and the robust growth in services output of 4.0 percent.

On the expenditure side, consumption slowed down (from 3.3 to 2.0 percent) due to the contraction in the consumption of goods, particularly consumer durables (-4.1 percent), which counterbalanced the higher consumption of services (3.9 percent).

Graph 2

UNITED STATES: NON-RESIDENTIAL INVESTMENT

(Annualized quaterly % chg.)



Source: U.S. Bureau of Economic Analysis (BEA).

The increase in non-residential investment, whose initial estimate of 2.9 percent was revised up to 3.3 percent, indicates a significant reorganization in the investment side. The structures item, which had been the most dynamic in recent quarters, increased at a slower rate while the intellectual property and machinery items accelerated their rates of expansion.

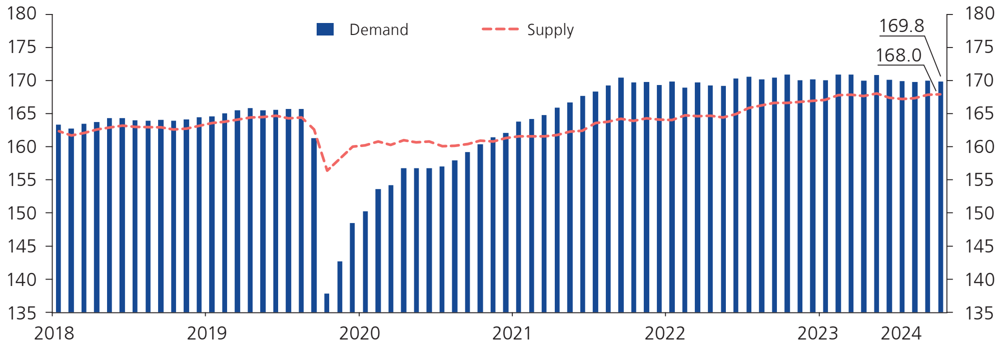
Certain monthly frequency indicators would show that in April and May, the slower rate of expansion persisted. This slower growth is a result of tightening credit standards, declining labor market dynamism, and the depletion of excess private savings, especially in consumption, where retail sales have not expanded at a faster rate since February.

In terms of the labor market, job creation is below historical average, with the notable exception of the robust growth in March brought about by the expansion of employment in the public sector. Although at slower rates than in 2022 and 2023, services still account for the majority of new job creation. This is especially true for professional, business, and information technology services.

These changes align with the evidence of a less pronounced labor market imbalance. When comparing the whole labor supply (represented by the labor force) to the total labor demand (represented by observed employment plus unfilled job applications), as of April, we find that this difference has been closing, which is consistent with lessening wage pressures.

Although job creation in May exceeded expectations, the unemployment rate rose, and the number of jobless claims continued to rise, indicating a gradual cooling of the labor market.

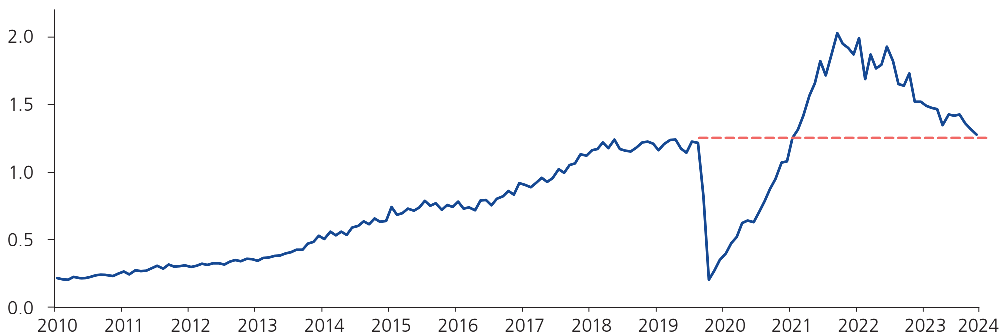
Graph 3
USA: LABOR MARKET SUPPLY AND DEMAND
(In millions of people)



Source: U.S. Bureau of Economic Analysis (BEA).

In a similar vein, the ratio of open positions to workers seeking employment has approached pre-pandemic levels.

Graph 4
USA: VACANCY/UNEMPLOYMENT RATIO



Source: U.S. Bureau of Economic Analysis (BEA).

7. The GDP growth in the **Eurozone** rebounded in the first quarter of 2023 (0.3 percent), however it is still below its potential growth, following the recession in the second half of 2023. Major economies like Germany (from -0.5 to 0.2 percent), France (from 0.1 to 0.2 percent), and Italy (from 0.1 to 0.3 percent) saw improvements from the previous quarter, while Spain —one of the most dynamic economies— stayed at 0.7 percent. Regarding spending, the recovery of GDP varied by nation: in Germany, net export growth was notable, while in France, gross capital creation and private consumption were the main drivers.

   In contrast, the **United Kingdom** saw a notable recovery (from -0.3 to 0.6 percent) following two quarters of recession, mostly attributable to the success of the manufacturing and transportation services sectors.

   Following a notable rise in the first half of the previous year, **Japan's** economy was hurt by stalled investment and a decline in private consumption. The economy shrank by 0.5 percent in the first quarter of 2024, more than expected, indicating a further decrease in household expenditure. The economy stalled in the fourth quarter.

8. Among emerging economies, **China** recorded a growth rate of 5.3 percent in the first quarter of 2024. However, the Chinese economy has recently been characterized by a differentiated dynamism: while consumption shows some time lags, industrial activity and manufacturing production recorded improvements. This is taking place against a backdrop of a shrinking real estate sector, low consumer and investor confidence and high private sector debt. On the external front, the risks of lower growth have increased due to a series of trade restrictions implemented by the United States.

   However, there was still uncertainty about how the economy's pricing would change. Although at rates approaching zero, consumer prices increased for the fourth time in a row in May. While new home prices had their sharpest reduction since June 2015, producer prices continued to fall and accumulated 20 straight months of contraction.

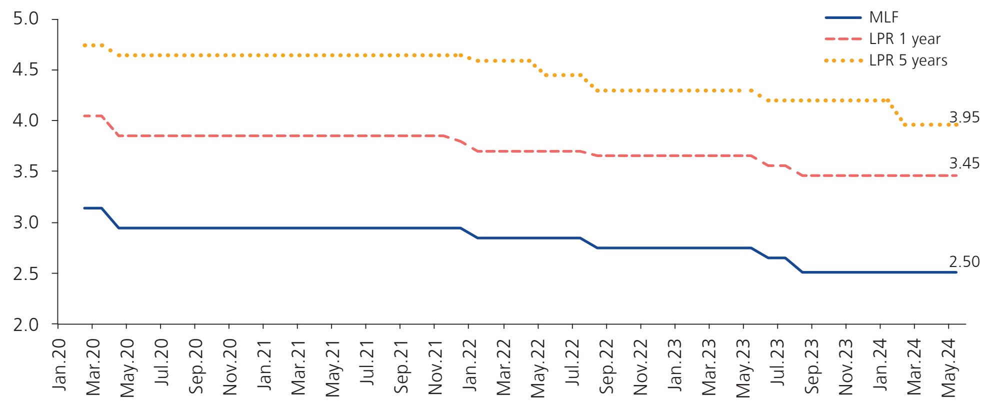
Table 3
CHINA: SELECTED INDICATORS

Indicators	2021	2022	2023				2024				
			Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.	Apr.	May.
PMI services - S&P 1/			57.8	53.9	50.2	52.9	52.7	52.5	52.7	52.5	54.0
PMI non-manufacturing - official 1/			58.2	53.2	51.7	50.4	50.7	51.4	53.0	51.2	51.1
Manufacturing PMI - S&P 1/			50.0	50.5	50.6	50.8	50.8	50.9	51.1	51.4	51.7
Manufacturing PMI - official 1/			51.9	49.0	50.2	49.0	49.2	49.1	50.8	50.4	49.5
Industrial Production 2/			3.9	4.4	4.5	6.8	7.0		4.5	6.7	5.6
Fixed asset investment 3/			5.1	3.8	3.1	3.0	4.2		4.5	4.2	4.0
Retail sales 2/			10.6	3.1	5.5	7.4	5.5		3.1	2.3	3.7
Exports 2/			14.8	-12.4	-6.2	2.3	7.1		-7.5	1.5	7.6
Imports 2/			-1.4	-6.8	-6.2	0.2	3.5		-1.9	8.4	1.8
Bank loans 2/			11.8	11.3	10.9	10.6	10.4	10.1	9.6	9.6	9.3
Consumer price index 2/			0.7	0.0	0.0	-0.3	-0.8	0.7	0.1	0.3	0.3
Housing price index 2/			-0.8	0.0	-0.1	-0.4	-0.7	-1.4	-2.2	-3.1	-3.9
Producer price index 2/			-2.5	-5.4	-2.5	-2.7	-2.5	-2.7	-2.8	-2.5	-1.4

1/ Diffusion index: 50 = neutral level
2/ annual % chg.
3/ annual acummulated % chg.
Memo: Some indicators are reported considering their evolution in the first two months of the year to take into account the Lunar New Year holiday.
Source: Trading Economics.

Considering this, the Chinese government unveiled stimulus plans aimed at offsetting the real estate industry's decline. A nationwide lending program for state-owned enterprises to buy unsold homes is one of the initiatives, along with a decrease in the minimum down payment requirement for home purchases. Furthermore, the government has started to issue special, very long-term sovereign bonds (with maturities ranging from 20 to 50 years) to boost the economy, primarily in the areas of high-end manufacturing and infrastructure. In light of the possibility of yuan depreciation, the central bank, for its part, kept the major interest rates unchanged.

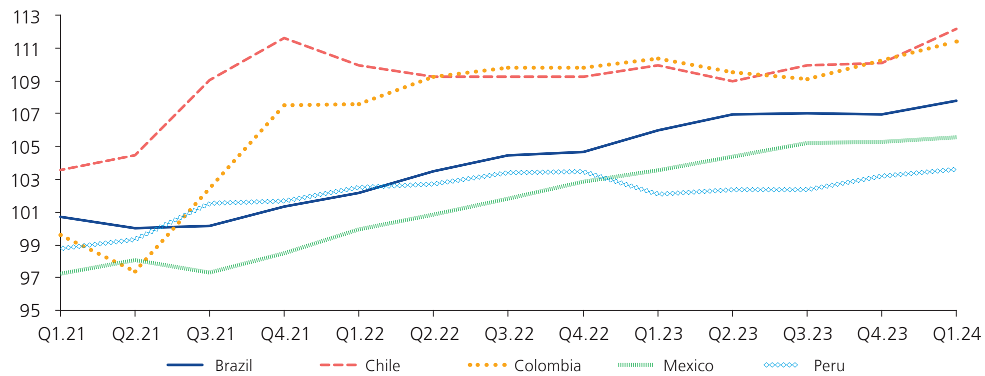
Graph 5
CHINA: INTERES RATE
(%)



Note: the MLF (medium-term lending facility) rate is the policy rate at which the PBoC lends to large commercial banks. LPR (loan prime rates) serve as a benchmark for new loans: 1-year for corporate and household loans; 5-year for mortgages. These are based on a weighted average of the lending rates of 18 commercial banks.
Source: Trading Economics.

9. Compared to the final quarter of 2023, economic activity in the major economies of **Latin America** was more vigorous. Real wage growth has increased spending in countries like Brazil and Mexico. In some instances, like Chile and Colombia, the primary sector has had positive development. Nonetheless, a number of monthly indicators point to a reduced level of dynamism for the remainder of the year, including retail sales, confidence indicators, and PMI indices.

Graph 6
LATIN AMERICA: QUATERLY GDP*
(Index 100 = Q4 2019)



* Seasonally adjusted series.
Source: Statistical institutes and central banks.

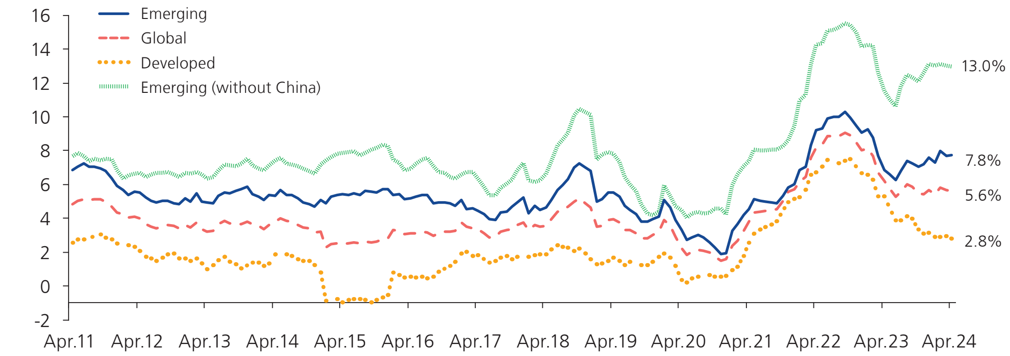
Recent inflation trends

10. Between March and April 2024, **global inflation** dropped somewhat from 5.7 to 5.6 percent, as compared to the previous Report. This outcome shows that inflation in developing economies slightly increased (from 7.7 to 7.8) while in developed economies it decreased (from 3.0 to 2.8 percent).

Graph 7

INFLATION: GLOBAL, DEVELOPED COUNTRIES AND EMERGING ECONOMIES

(12-month % chg.)



Inflation (12-month % chg.)

	Sep.22	Dec.22	Mar.23	Jun.23	Sep.23	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24
Global	9.1	8.1	6.7	5.3	5.9	5.7	5.4	5.8	5.7	5.6
Developed	7.4	6.7	5.3	3.9	4.0	3.2	2.9	2.9	3.0	2.8
Emerging	10.3	9.1	7.7	6.3	7.2	7.6	7.3	8.0	7.7	7.8
Developed without USA	6.9	6.9	5.6	4.6	4.2	3.0	2.8	2.7	2.6	2.4
Emerging without China	15.6	14.2	12.6	10.6	12.3	13.1	13.0	13.1	13.0	13.0

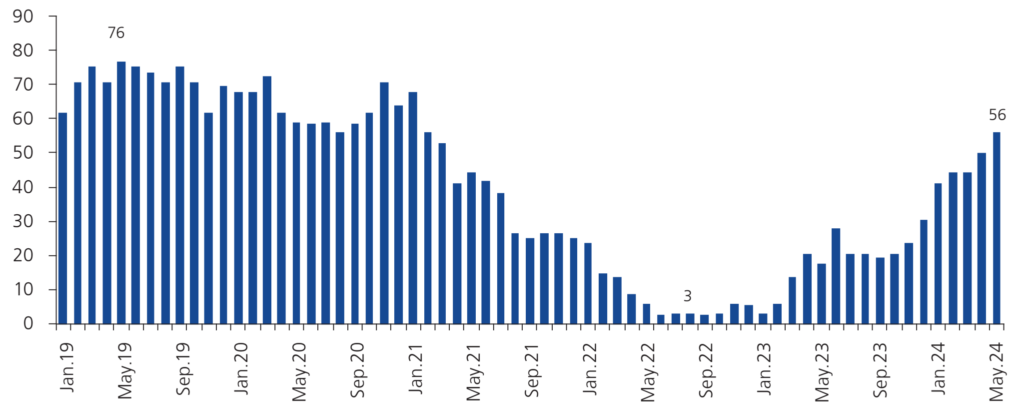
Source: Reuters.

About half of the countries are predicted to still fall short of their individual inflation targets even with the notable decline in inflation compared to the highest levels of 2022. Therefore, 19 (56 percent) of the sample of 34 countries or regions as of May are meeting the inflation target.

Graph 8

COUNTRIES THAT HAVE MET THEIR INFLATION TARGET

(%)



Note: The sample of 34 countries is expanded to 36 at each end of quarter to consider data released by Australia and New Zealand.
Source: Statistical institutes and central banks.

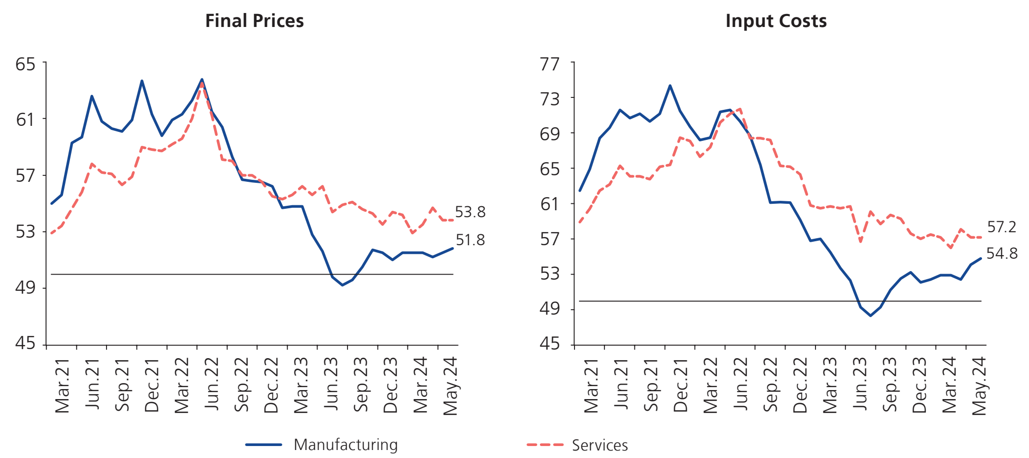
Table 4
INFLATION IN COUNTRIES THAT HAVE MET THEIR INFLATION TARGET
(12-month % chg.)

Region / Country	Dec.2023	Jan.2024	Mar.2024	Apr.2024	May.2024	Target
Canada	3.4	2.9	2.9	2.7	-.-	2.0+/-1.0
Brazil	4.6	4.5	3.9	3.7	3.9	3.0+/-1.5
Peru	3.2	3.0	3.0	2.4	2.0	2.0+/-1.0
Paraguay	3.7	3.4	3.6	4.0	4.4	4.0+/-2.0
Uruguay	5.1	5.1	3.8	3.7	4.1	3.0-6.0
China	-1.8	-1.9	-1.2	0.3	0.3	3.0
Indonesia	2.6	2.6	3.1	3.0	2.8	3.0+/-1.0
India	5.7	5.1	4.9	4.8	4.8	4.0+/-2.0
Philipinnes	3.9	2.8	3.7	3.8	3.9	3.0+/-1.0
Thailand	-0.8	-1.1	-0.5	0.2	1.5	2.5+/-1.5
Israel	3.0	2.6	2.7	2.8	2.8	1.0-3.0
Serbia	7.6	6.4	5.0	5.0	4.5	3.0+/-1.5
Hungary	5.5	3.8	3.6	3.7	4.0	3.0+/-1.0
Czech Republic	6.9	2.3	2.0	2.9	2.6	2.0+/-1.0
United Kingdom	4.0	4.0	3.2	2.3	2.0	2.0
Poland	6.2	3.9	2.0	2.4	2.5	2.5+/-1.0
Ukraine	5.1	4.7	3.2	3.2	3.3	5.0
Switzerland	1.7	1.3	1.0	1.4	1.4	2.0
South Africa	5.1	5.3	5.3	5.2	-.-	3.0-6.0

Note: -.- indicates that the data is not available.
Source: Statistical institutes, central banks and others.

In the manufacturing sector, inflationary pressures have also intensified, in contradiction to what was mentioned in earlier Reports. As a result, the sector's PMI index at the worldwide level has been growing recently due to rising input costs and final goods prices. The same indicators for services point to the continuation of input cost pressures in this industry.

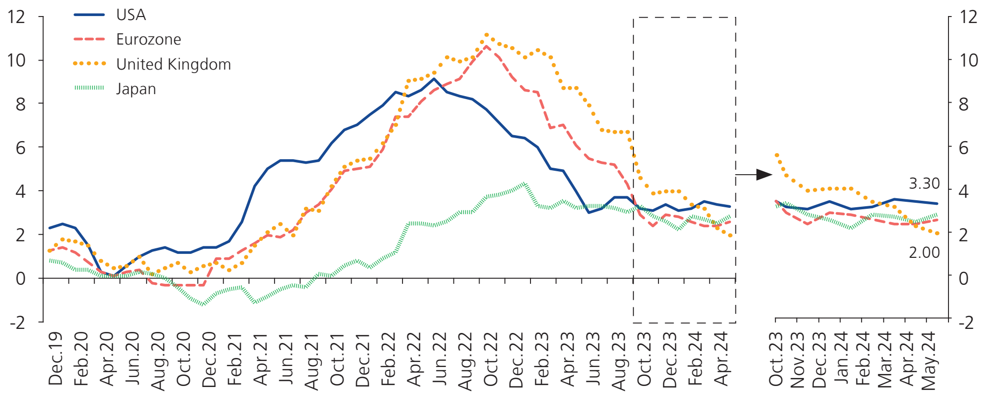
Graph 9
GLOBAL MANUFACTURING AND SERVICES PMI, 2021-2024



Source: S&P Markit.

Since the previous Inflation Report, **developed economies** have continued to see fewer notable decreases in the inflation rate since the fourth quarter of last year. Thus, in Japan and the Eurozone, the downward trend has greatly reduced with the exception of the United Kingdom, while in the United States, inflation has remained above the Fed's objective and essentially unaltered.

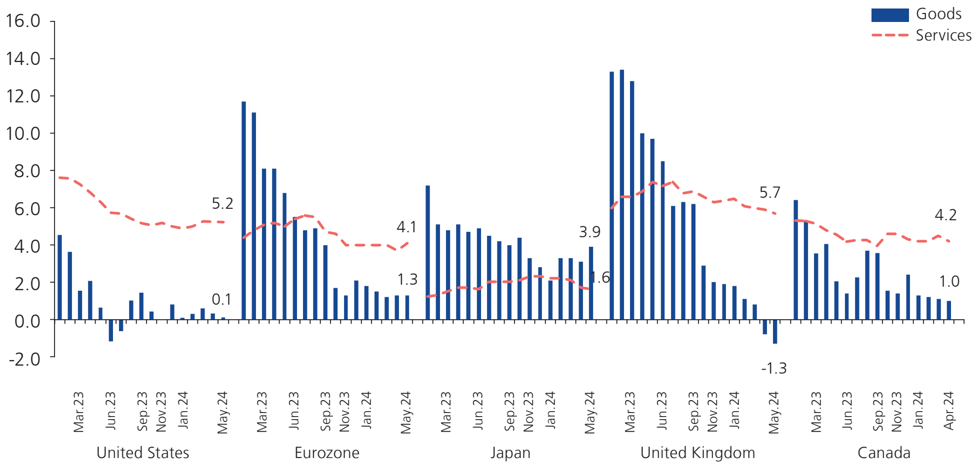
Graph 10
INFLATION IN DEVELOPED COUNTRIES
(% chg. 12-months)



Source: Reuters.

The slower downward trend of inflation is mainly explained by stubborn service prices. Rents, whose participation in the PCE and CPI reached 16 and 36 percent, respectively, are a notable example of persistently high prices; in the case of the United States, for instance, these costs showed an aggregate increase of 5.3 percent while goods inflation was just 0.3 percent (see Box 1).

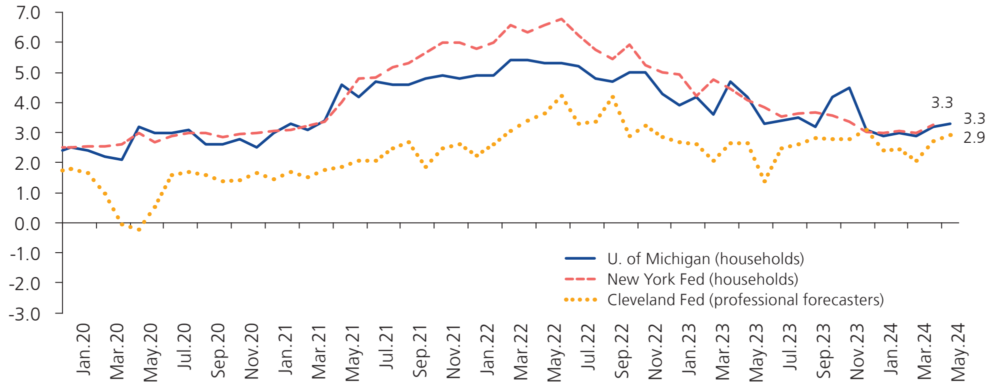
Graph 11
DEVELOPED ECONOMIES: PRICES OF GOODS AND SERVICES
(%)



Source: Statistical institutes and central banks.

Inflation expectations for the next 12 months, as has been the case with actual inflation, have moderated their downward trend of recent months and even showed slight increases. US consumer expectations have once again outweighed 3 percent, similarly to analyst surveys' recorded increases in April and May.

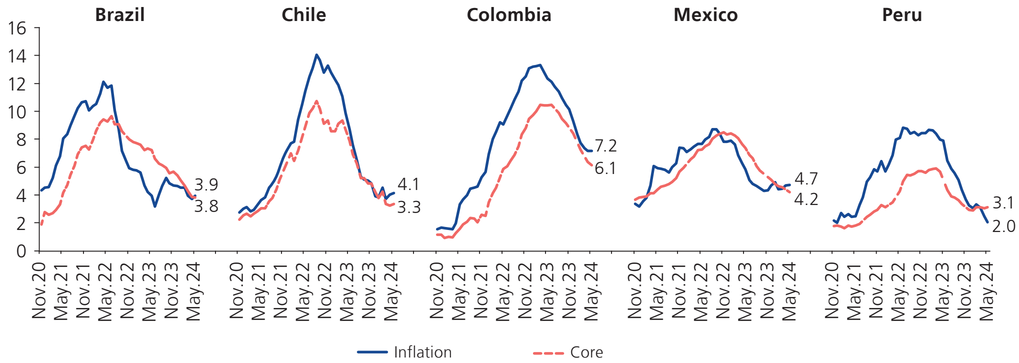
Graph 12
USA 12-MONTH INFLATION EXPECTATIONS
(%)



Source: U. of Michigan, New York Fed and Cleveland Fed.

11. In **emerging economies**, inflationary pressures also declined, although, in several cases, less sharply. Total inflation declined in Peru, remained unchanged in Colombia, but increased in Brazil, Mexico and Chile.

Graph 13
INFLATION IN LATIN AMERICA
(12-month % chg.)

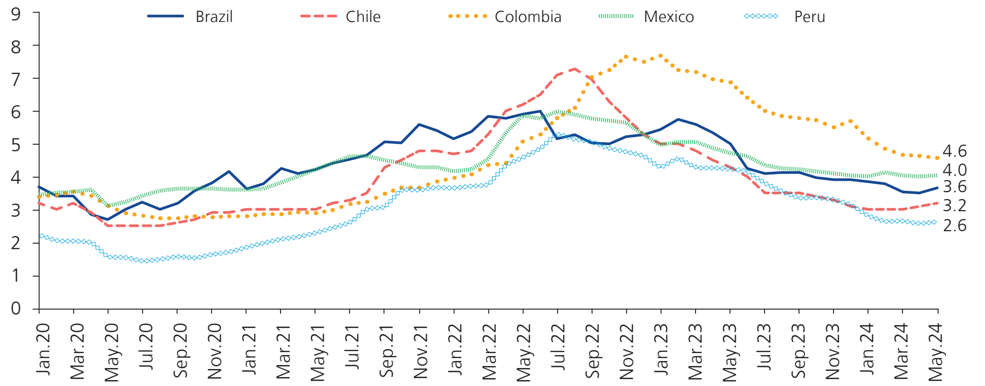


	Mar.24	Apr.24	Maximum	Mar.24	Apr.24	Maximum	Mar.24	Apr.24	Maximum	Mar.24	Apr.24	Maximum	Mar.24	Apr.24	Maximum
Inflation	3.9	3.7	12.1 (Apr.22)	3.7	4.0	14.1 (Aug.22)	7.4	7.2	13.3 (Mar.23)	4.4	4.7	8.7 (Sep.22)	3.0	2.4	8.8 (Jun.22)
Core	4.3	3.8	9.7 (Jun.22)	3.3	3.2	10.9 (Aug.22)	6.8	6.4	10.5 (Mar.23)	4.6	4.4	8.5 (Nov.22)	3.1	3.0	5.9 (Mar.23)

Note: The graph shows the latest data (May, 2024).
Source: Statistical institutes and central banks.

In most of the region's countries, inflation forecasts for the upcoming year have steadied around pre-pandemic levels following persistent declines during 2023. Although May saw a minor increase in expectations, they are still within their respective target bands for Brazil, Chile, and Peru.

Graph 14
INFLATION EXPECTATIONS 12 MONTHS
(% change)



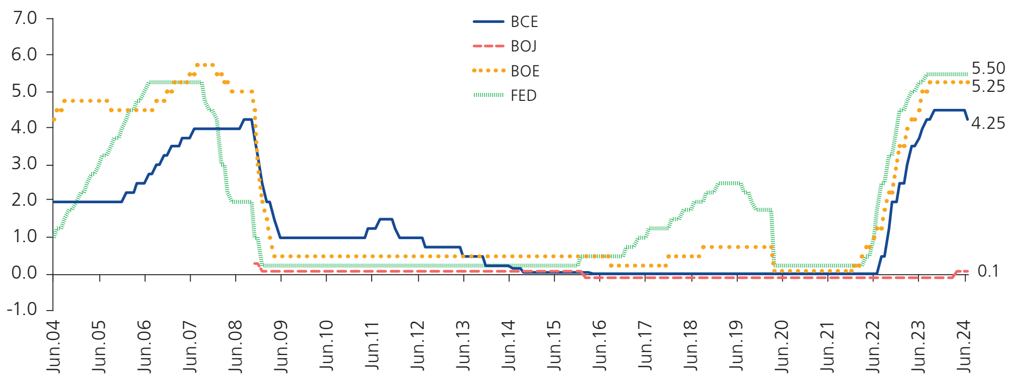
Note: For Brazil, corresponds to the 12-month average inflation expectation recorded in the reference month. For Mexico, it is obtained by interpolation based on expectations as of December 2024 and 2025.
Source: Central banks of each country.

Monetary policy responses

12. Within the **developed economies**, the Fed and the Bank of England (BoE) maintained their interest rates at the highest levels reached during the current tightening cycle. Japan, after the adjustment announced in March, maintained its expansionary monetary policy.

In contrast, the European Central Bank (ECB) cut its interest rate on June 6. Previously, the Swedish Central Bank (Riksbank) and the Canadian Central Bank lowered their interest rates by 25 bps, as did Switzerland after its first rate cut in March (to a total 50 bps reduction).

Graph 15
POLICY INTEREST RATE
(%)



FED = Federal Reserve, ECB = European Central Bank, BOJ = Bank of Japan, BOE = Bank of England.
Source: Central banks.

Future economic data will determine if monetary policy is changed, the central banks of the US, the UK, and the Eurozone reaffirmed. Accordingly, anticipations surrounding the start of the rate-reduction cycle were adjusted in response to the release of fresh data on employment, activity, and prices, among other factors.

Therefore, as this Inflation Report was being drafted, it was anticipated that the Fed would delay the beginning of the rate reduction cycle until the end of the year. The Fed updated its rate projection for 2024–2025 in June, aligning with forecasts of greater core inflation than anticipated in March, reinforcing this notion.

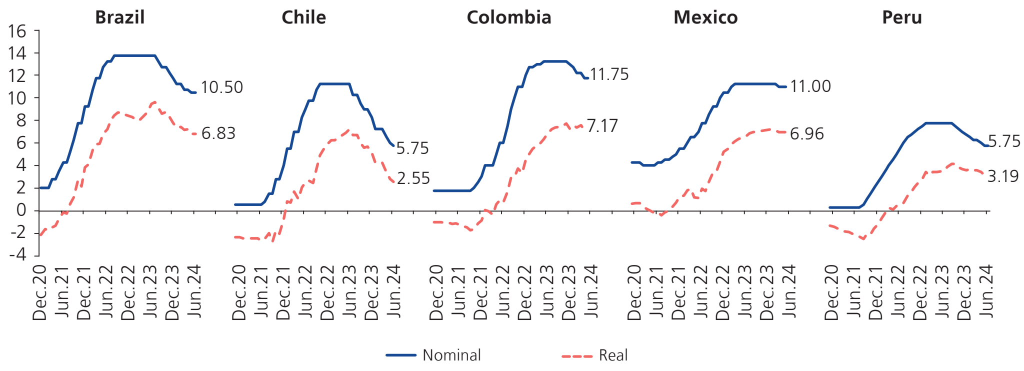
Table 5
FED PROJECTIONS*

	2024		2025		2026		Long-term	
	Mar.24	Jun.24	Mar.24	Jun.24	Mar.24	Jun.24	Mar24	Jun.24
Growth**	2.1	2.1	2.0	2.0	2.0	2.0	1.8	1.8
Unemployment rate**	4.0	4.0	4.1	4.2	4.0	4.1	4.1	4.2
Inflation (PCE)**	2.4	2.6	2.2	2.3	2.0	2.0	2.0	2.0
Core inflation (core PCE)**	2.6	2.8	2.2	2.3	2.0	2.0	-	-
Note: Underlying PCE excludes food and energy.								
Interes rate (%)***	4.6	5.1	3.9	4.1	3.1	3.1	2.6	2.8
Range of interest rates (%)	4.4-5.4	4.9-5.4	2.6-5.4	2.9-5.4	2.4-4.9	2.4-4.9	2.4-3.8	2.4-3.8

* Incorporates 19 data from individual Fed members' end-of-period projections.
** Growth and inflation projections are for the fourth quarter of the year indicated versus the same period of the previous year.
Unemployment rate projection is the average of the fourth quarter of the year indicated.
*** The interest rate corresponds to the midpoint of the Fed's benchmark rates.
Source: FED.

Throughout the period, the majority of the region's economies decreased their monetary policy rates, with the exception of Mexico, which kept its rate unchanged following a 25 basis point decrease in March. Real interest rates reflect relative stability for most countries when taking into account the decline in inflationary expectations. With these reductions in nominal interest rates (125 basis points in Chile, 50 basis points in Colombia and Peru, and 25 basis points in Brazil), the differential with respect to those of the United States and other developed economies has decreased.

Graph 16
MONETARY POLICY INTEREST RATES IN LATIN AMERICA 2020-2024
(%)



Note: Real rates based on 12-month inflation expectations. For Colombia and Mexico, the latest data corresponds to May.
Source: Statistical institutes and central banks of each country.

Global economic outlook

13. After growing 3.2 percent in 2023, the global economy is estimated to record an expansion rate of 3.0 percent in 2024. This is a revision on the upside from the March estimate, due to the better performance expected in the United States, where a moderate slowdown is expected, and in China, where higher growth reflects executed data and the expected impact of economic stimulus. Growth for 2025 is estimated at 3.1 percent.

Table 6
GLOBAL GROWTH
(Annual % chg.)

	PPP*	2023	2024		2025	
			IR Mar.	IR Jun.	IR Mar.	IR Jun.
Developed economies	**41.1**	**1.6**	**1.4**	**1.6**	**1.8**	**1.8**
Of wich:						
1. United States	15.4	2.5	2.0	2.2	1.8	1.8
2. Eurozone	11.7	0.4	0.6	0.7	1.8	1.6
3. Japan	3.7	1.9	0.7	0.5	0.8	1.1
4. United Kingdom	2.2	0.1	0.3	0.5	1.2	1.2
5. Canada	1.4	1.1	0.9	0.9	2.0	2.0
Developing economies	**58.9**	**4.3**	**3.8**	**4.1**	**4.1**	**4.1**
Of wich:						
1. China	18.8	5.2	4.6	5.0	4.3	4.4
2. India	7.5	7.8	6.2	6.8	6.2	6.5
3. Russia	2.9	3.6	1.3	1.3	1.0	1.0
4. Latin America and the Caribbean	7.3	2.3	1.5	1.7	2.5	2.5
Argentina	0.7	-1.6	-2.5	-3.0	3.5	3.5
Brazil	2.3	2.9	1.5	1.9	2.0	2.0
Chile	0.3	0.2	2.0	2.4	2.0	2.0
Colombia	0.6	0.6	1.6	1.2	3.0	2.7
Mexico	1.9	3.2	2.0	2.4	2.0	2.0
Peru	0.3	-0.6	3.0	3.1	3.0	3.0
World Economy	**100.0**	**3.2**	**2.8**	**3.0**	**3.1**	**3.1**

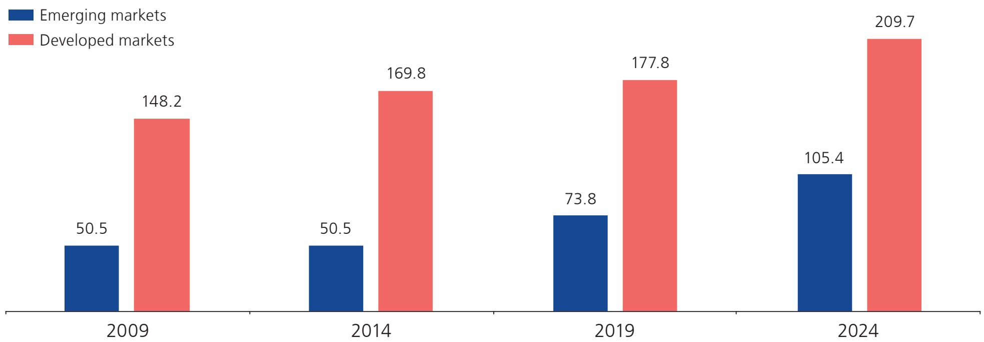
* Base 2022.
Source: FMI, Consensus Forecast.

14. While there is little chance of a severe slowdown, a few of the risk indicators listed in the most recent Inflation Reports are still present:

- The continuation of elevated inflation in the services sector could postpone the inflation's convergence towards its objective, which could therefore delay or attenuate the cycle of rate reduction, especially concerning the United States.

- The banking system may experience periods of instability, especially because of the exposure of banks to real estate and other forms of debt (where non-performing loans have been growing) and the high levels of private debt in the US and other major economies (China included).

Graph 17
TOTAL DEBT LEVEL
(Billions of USD, 1st quarter of each year)



Source: IIF.

- In the United States, the outcome of the presidential election in November may have an impact on the public debt limit talks, which are set for early 2025. Taking into account the US debt levels and expansionary fiscal policies, this could also push long-term rates higher.

- The ongoing hostilities in Russia, Ukraine, and the Middle East increase the possibility of these conflicts being worse and possibly even spreading to other nations. This might have an impact on the price of grain and oil, as well as investor and consumer sentiment and confidence.

  Furthermore, by requiring to use alternate routes to the Suez Canal or disrupting the container market, these conflicts may increase pressure on transportation prices.

- Trade disputes, specifically between China and the US, may impact global trade, particularly with regard to high-tech goods like semiconductors. The United States raised duties on a number of Chinese goods in April, including steel, aluminum, semiconductors, and electric cars.

International financial markets

15. The ongoing shifts in expectations about when and how much the Fed will reduce interest rates have had a significant impact on the financial markets since the previous Report.

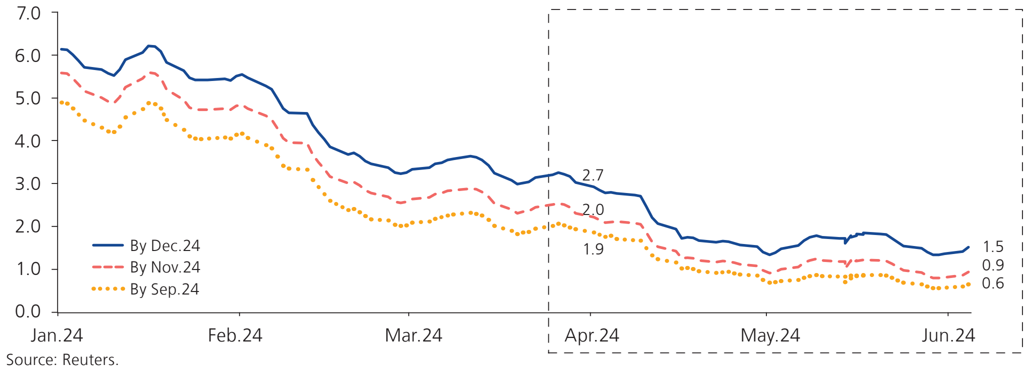
    Evidence continued to show that the job market and the economy were doing well at the start of the second quarter, and that inflation had stopped falling. This resulted in anticipations that the cycle of interest rate reductions that began in the middle to end of the year would be delayed.

    As a result, the futures market has internalized fewer Fed rate cuts so far this quarter. In March, it was internalized that there would be roughly two rate cuts of 25 basis points each through the September meeting and somewhat less than three cuts of 25 basis points each through the December meeting.

Graph 18

EXPECTED NUMBER OF FED RATE CUTS BY 25 BPS.

(Accumulated based on the average of the last 5 days)



Source: Reuters.

A fresh upward trend in global stock prices was triggered by the stronger U.S. economic indicators at the start of the current quarter and the announcement of encouraging company results for the first quarter of 2024.

Consequently, around May, the primary global stock market indices hit fresh all-time highs. Profit-taking in an environment of uncertainty about the future course of inflation and the Fed's interest rate policy explain the correction that followed. Geopolitical tensions in the Middle East and between Russia and Ukraine also increased in addition to this.

Conversely, concerns over a potential postponement of US interest rate decreases drove an increase in sovereign bond yields in most situations. Meanwhile, the dollar slipped vis-à-vis the euro and the pound, primarily as a result of Europe's economic recovery, but an increase versus the yen was due to the difference in monetary policies between the Fed and the BoJ.

16. A moderation of risk appetite mirrored these developments. After reaching a peak of 19.2 points in mid-April, the VIX index, which measures the volatility of the US stock market, fell to levels comparable to those recorded at the end of March (13.0 points). The MOVE, a gauge of the American bond market's volatility, rose from 86.4 at the end of March to 91.1 points at the end of May before reaching 121.2 points.

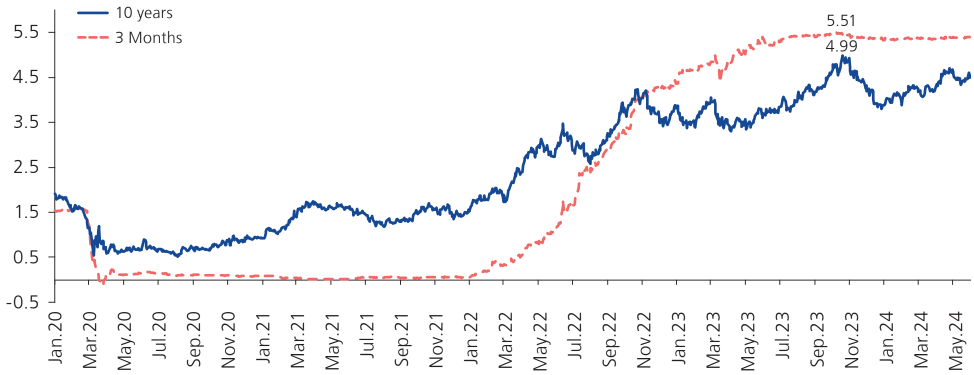
Graph 19

VOLATILITY INDICES: VIX (U.S. STOCK MARKET) AND MOVE (U.S. SOVEREIGN YIELDS)

Source: Reuters.

17. In **fixed income markets**, U.S. sovereign yields increased as a result of the Fed's decision to postpone the cycle of interest rate reductions, the robustness of the U.S. economy at the start of the current quarter, and the stop in the decline in inflation.

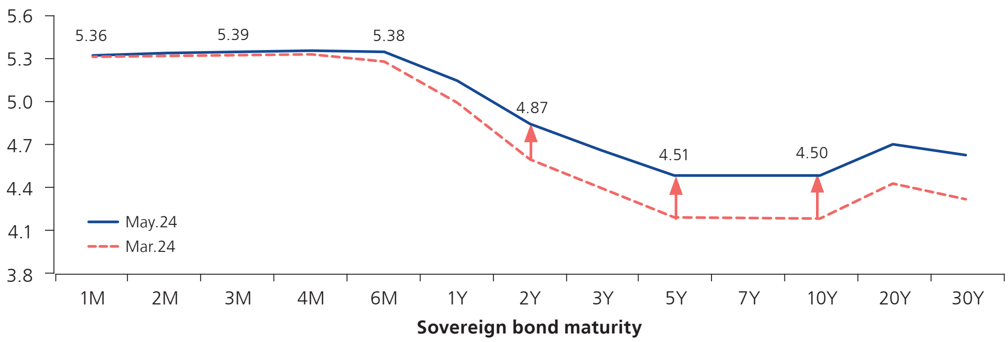
Graph 20
U.S. SOVEREIGN YIELDS
(%)



Source: Reuters.

Higher US Treasury debt issuance to finance expanding budget deficits and the Fed's ongoing reduction in the size of its balance sheet were contributing reasons. Longer tranche yields, like the 10-year, had the biggest increases, rising 30 basis points during the period to reach the 4.50 percent mark.

Graph 21
U.S. SOVEREIGN YIELD CURVE
(%)



Source: Reuters.

In Europe, yields increased in response to better economic conditions following recessions in a number of nations during the latter part of 2023. China also introduced fresh stimulus plans to support the real estate and other sectors of the economy.

Table 7
10-YEAR SOVEREIGN BOND YIELDS (%)*
(%)

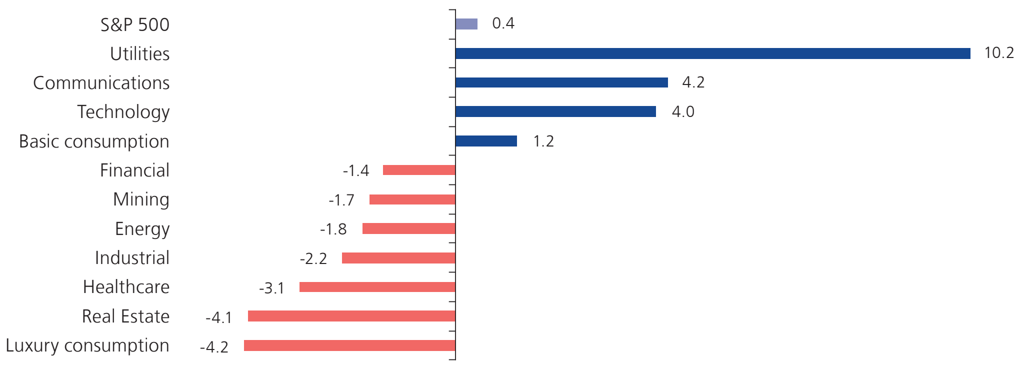
	Dec.23 (a)	Mar.24 (b)	May.24 (c)	Difference (pbs)	
				(c) - (b)	(c) - (a)
United States	3.88	4.20	4.50	30	62
Germany	2.02	2.30	2.66	37	64
France	2.56	2.81	3.14	33	58
Italy	3.69	3.68	3.98	30	29
Spain	2.98	3.16	3.39	23	41
Greece	3.05	3.38	3.67	30	62
United Kingdom	3.53	3.93	4.32	39	79
Japan	0.61	0.72	1.06	34	46
Brazil	10.37	11.09	11.89	79	152
Colombia	9.96	10.18	11.00	83	105
Chile	5.40	5.75	5.90	15	50
Mexico	8.94	9.27	9.75	49	82
Peru	**6.68**	**7.35**	**7.07**	**-27**	**39**
South Africa	11.37	12.28	12.22	-6	85
India	7.17	7.06	6.98	-8	-20
Turkey	23.66	24.23	25.49	126	183
Russia	10.95	12.31	14.08	177	313
China	2.56	2.30	2.32	2	-24
South Korea	3.18	3.40	3.58	18	41
Indonesia	6.45	6.69	6.91	22	46
Thailand	2.68	2.50	2.81	31	14
Malaysia	3.73	3.85	3.89	4	16
Philipinnes	5.94	6.22	6.54	32	60

* Prepared as of May 31, 2024.
Source: Reuters.

18. Thanks to strong business performance and a resilient economy, **US equity markets** saw gains at the start of the second quarter. Utilities, communications, and technology stocks saw the biggest increases at the sector level; the latter were particularly strong due to bullish forecasts for the advancement of artificial intelligence. Consequently, during May, the S&P 500 hit new highs again.

Afterwards, profit-taking and a lack of confidence in the direction of inflation (and hence, Fed interest rates) restrained this rising trend. The industries severely damaged by this correction were healthcare, real estate, and luxury consumer goods.

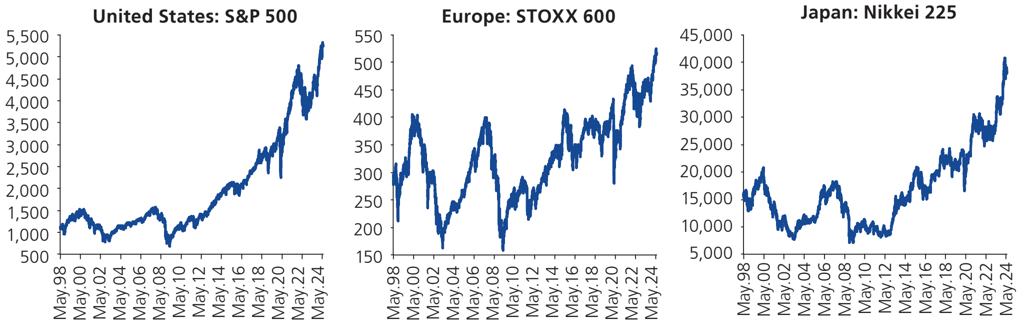
Graph 22
PERFORMANCE OF STOCK INDEX SECTORS S&P 500: MAY-24/MAR-24
(%)



Source: Reuters.

Simultaneously, several Asian stock markets saw increases, as did the European stock markets. Additionally, the Nikkei 225 (Japan) and Euro Stoxx 600 (Europe) stock indexes hit fresh all-time highs. In Japan, the yen's depreciation (which benefits export industries), low financing costs, and rising pricing (which allow them to maintain their profit margins) all contributed to the Nikkei surpassing its December 1989 peak.

Graph 23
STOCK INDEXES



Source: Reuters.

Likewise, other Latin American stock markets saw gains due to the cycle of interest rate reductions in a number of economies as well as the high prices of most commodities. It should be noted that the new Argentinian government's reform measures have made some headway, and fresh payments within the parameters of the accord being discussed with the IMF are anticipated, which contributed to a 36 percent surge in Argentina's stock market index.

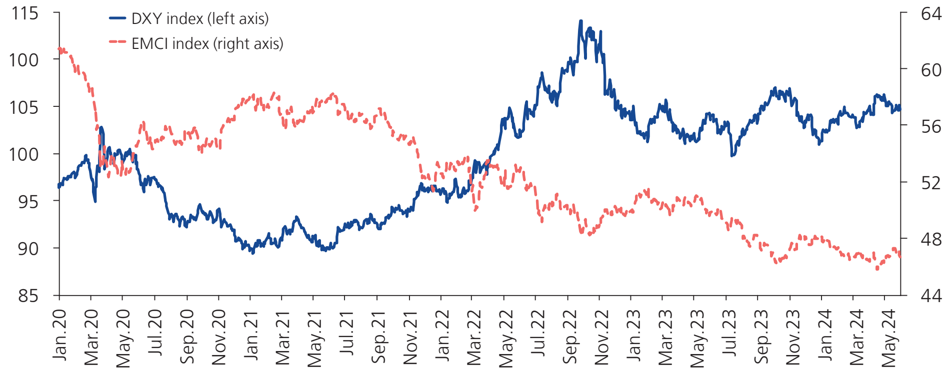
Table 8
WORLD STOCK EXCHANGES*
(In indexes)

		Dec.23 (a)	Mar.24 (b)	May.24 (c)	% chg. (c) / (b)	% chg. (c) / (a)
VIX**	S&P 500	12.45	13.01	12.92	-0.1	0.5
United States	Dow Jones	37,690	39,807	38,686	-2.8	2.6
United States	S&P 500	4,770	5,254	5,278	0.4	10.6
United States	Nasdaq	15,011	16,379	16,735	2.2	11.5
Germany	DAX	16,752	18,492	18,498	0.0	10.4
France	CAC 40	7,543	8,206	7,993	-2.6	6.0
Italy	FTSE MIB	30,352	34,750	34,492	-0.7	13.6
Spain	IBEX 35	10,102	11,075	11,322	2.2	12.1
Greece	ASE	1,293	1,422	1,432	0.7	10.7
United Kingdom	FTSE 100	7,733	7,953	8,275	4.1	7.0
Japan	Nikkei 225	33,464	40,369	38,488	-4.7	15.0
Brazil	Ibovespa	134,185	128,106	122,098	-4.7	-9.0
Colombia	COLCAP	1,195	1,333	1,400	5.0	17.1
Chile	IPSA	6,198	6,644	6,633	-0.2	7.0
Mexico	IPC	57,386	57,369	55,179	-3.8	-3.8
Argentina	Merval	929,704	1,213,485	1,651,417	36.1	77.6
Peru	**Ind. Gral.**	**25,960**	**28,367**	**30,220**	**6.5**	**16.4**
South Africa	JSE	76,893	74,536	76,704	2.9	-0.2
India	Nifty 50	21,731	22,327	22,531	0.9	3.7
Turkey	XU100	7,470	9,142	10,400	13.8	39.2
Russia	RTS	1,083	1,137	1,126	-1.0	3.9
China	Shangai C.	2,975	3,041	3,087	1.5	3.8
South Korea	KOSPI	2,655	2,747	2,637	-4.0	-0.7
Indonesia	JCI	7,273	7,289	6,971	-4.4	-4.2
Thailand	SET	1,416	1,378	1,346	-2.3	-5.0
Malaysia	KLCI	1,455	1,536	1,597	3.9	9.8
Philipinnes	Psei	6,450	6,904	6,433	-6.8	-0.3

* Prepared as of May 31, 2024.
** Data and variations are expressed in points.
Source: Reuters.

19. The dollar has lost value in the **foreign exchange markets** relative to the euro and the pound, especially since May, as a result of the United States' economy slowing down and Europe's prospects improving. On the other hand, the dollar gained value relative to the yen as a result of the Fed and BoJ's differing monetary policies. This led to conjecture that the Japanese government had intervened in the foreign currency market to prevent sharp fluctuations in the value of the currencies. The exchange markets saw significant volatility as a result of the high level of uncertainty about the future course of US inflation.

Graph 24
CURRENCY INDEXES: DXY* (CURRENCIES AGAINST THE DOLLAR) AND EMCI (EMERGING CURRENCIES AGAINST THE DOLLAR)**



* A rise (fall) in the DXY index implies an appreciation (depreciation) of the U.S. dollar against currencies.
** A rise (fall) in the EMCI index implies an appreciation (depreciation) of the US dollar against emerging currencies.
Source: Reuters, JP Morgan.

Globally, a number of emerging currencies lost value in relation to the US dollar. The substantial rise of copper to historical levels and the slower than anticipated local interest rate-cutting process (because of the recent evolution of inflation) helped the Chilean peso gain value in the Latin American region despite this.

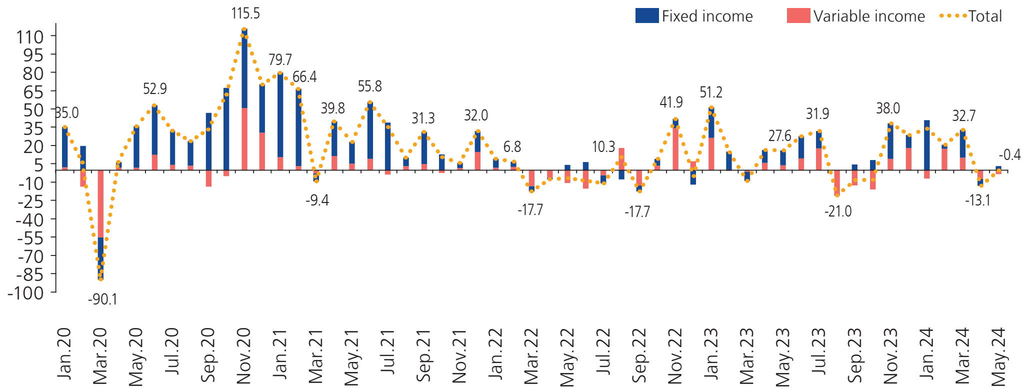
Table 9
EXCHANGE RATES*
(In U.M. per dollar, except euro and pound)

		Dec.23 (a)	Mar.24 (b)	May.24 (c)	% chg. **	
					(c) / (b)	(c) / (a)
Dollar index DXY***	US Dollar Index	101.33	104.55	104.67	0.1	3.3
Euro	Euro	1.104	1.079	1.084	0.4	-1.8
United Kingdom	Pound	1.273	1.262	1.274	0.9	0.1
Japan	Yen	141.06	151.31	157.31	4.0	11.5
Brazil	Real	4.852	5.015	5.244	4.6	8.1
Colombia	Peso	3,873	3,857	3,855	0.0	-0.5
Chile	Peso	881	979	918	-6.2	4.3
Mexico	Peso	16.95	16.53	16.99	2.8	0.2
Argentina	Peso	808.45	857.49	895.50	4.4	10.8
Peru	Sol	3.707	3.718	3.726	0.2	0.5
South Africa	Rand	18.28	18.92	18.81	-0.6	2.9
India	Rupee	83.19	83.35	83.42	0.1	0.3
Turkey	Lira	29.48	32.35	32.23	-0.4	9.3
Russia	Rublo	89.25	92.57	90.38	-2.4	1.3
China	Yuan (onshore)	7.098	7.220	7.242	0.3	2.0
South Korea	Won	1,294	1,345	1,382	2.7	6.7
Indonesia	Rupia	15,395	15,850	16,245	2.5	5.5
Thailand	Bath	34.35	36.37	36.77	1.1	7.0
Malaysia	Ringgit	4.590	4.723	4.704	-0.4	2.5
Philipinnes	Peso	55.39	56.16	58.58	4.3	5.8

* Prepared as of May 31, 2024.
** A rise (fall) in the index implies an appreciation (depreciation) of the dollar, except for the euro and the pound.
*** A rise (fall) in the index implies an appreciation (depreciation) of the dollar against the basket of currencies consisting of the euro, yen and the pound. The index is composed of the euro, the yen, the pound, the Canadian dollar, the Swedish krona and the Swiss franc.

In April and May of this year, there were capital outflows that contributed to the depreciation of emerging currencies. This pattern can be partially explained by shifts in expectations regarding the Fed's interest rate policy. This behavior is a far cry from the significant capital inflows observed over the previous two quarters.

Graph 25
NON-RESIDENT CAPITAL FLOWS TO EMERGING MARKETS
(Billion USD)



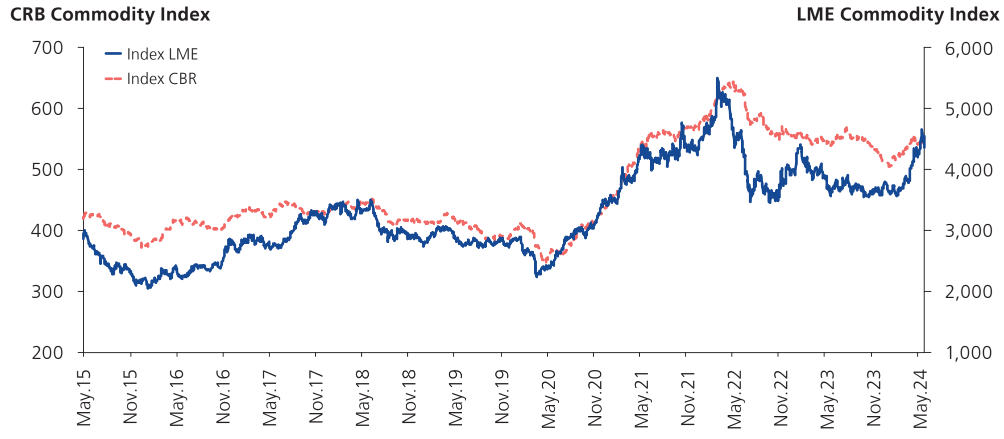
Note: Positive (negative) data implies a net inflow (outflow) of capital to emerging markets.
Source: IIF.

Commodity prices

20. **Industrial metal** prices have increased dramatically since the last Inflation Report. The likelihood of increased demand for essential minerals for the energy transition, which would offset decreased demand from traditional sectors, has encouraged this development.

Insufficient concentrates output has resulted in a deficit in the production of certain metals, which impacts the supply side. The new restrictions placed on Russian shipments of copper and other metals by the US and the UK have made matters worse.

Graph 26
LME AND CRB COMMODITY INDEXES



Source: Reuters.

As for **oil** prices, they fell since the market was well-supplied and there were no notable production disruptions brought on by the hostilities in the Middle East and the Black Sea. A tighter market is anticipated in the projection period, nonetheless, given the slower growth in US output and the rising global demand (especially from developed economies).

Copper

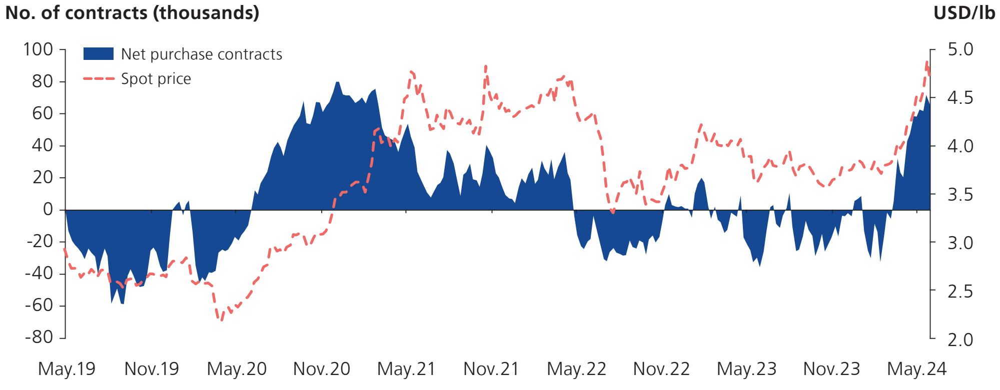
21. The average price of copper increased 17 percent in the last two months, from USD/lb. 3.94 in March to USD/lb.4.59 in May 2024. With this, the copper price accumulated an increase of 20 percent with respect to December 2023.

The copper price reached a historical high on the London Metal Exchange of USD/lb. 4,925 on May 20. The price increase recorded in the last two months was supported by the prospects of lower supply. Notable announcements included the standstill of Panama mining operations, the lower production profile of Chile's Anglo American for 2024 and the announcement of the main smelters in China to cut their production between 5 percent and 10 percent in 2024 due to the shortage of concentrates.

Signs of a resurgence in demand were seen alongside fears of a reduced supply, as evidenced by the release of favorable worldwide industry statistics. Even though China's construction industry is still experiencing slow development and stringent global monetary policy, the decarbonization program is keeping copper demand growth above forecast.

Pressures on a tight market were exacerbated by an increase in non-commercial positions, particularly in the North American market (Comex). The amount of non-commercial net purchase contracts for copper reversed the persistent negative values it showed during the last year.

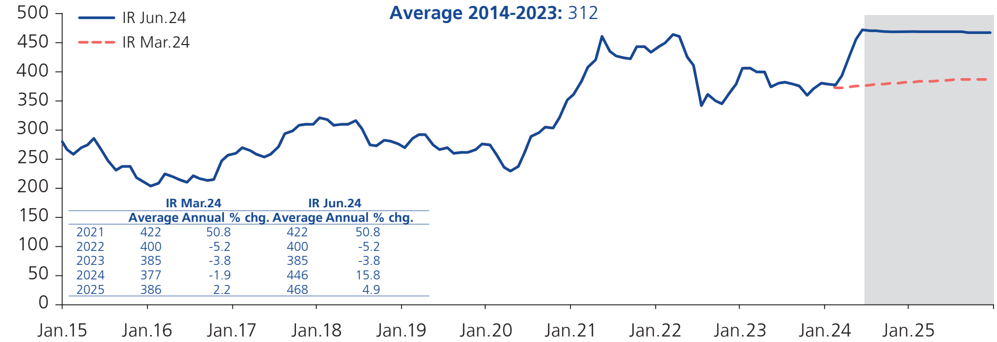
Graph 27
COPPER: NON-COMMERCIAL CONTRACTS



Note: The Commodity Futures Trading Commission's Speculative Net Copper Positions is a weekly report reflecting the difference between the total volume of long (or buy) and short (or buy) copper positions Commission is a weekly report that reflects the difference between the total volume of long (or buy) and short (or sell) copper positions in the market opened by non-commercial traders (or short (or sell) positions in the market opened by non-commercial (speculative) traders. The report only includes the U.S. futures markets futures markets in the United States (Chicago and New York Stock Exchanges).
Source: Comex.

Accordingly, the copper price estimate has been raised in comparison to the March Inflation Report estimate, in accordance with the actual data. The anticipated prices, which are higher than the past ten-year average, are predicated on a tighter market than was previously thought. The predicted horizon's supply limits and the green industries' ongoing demand are to blame for this.

Graph 28
COPPER: JANUARY 2015 - DECEMBER 2025
(ctv. USD/lb.)



	IR Mar.24		IR Jun.24	
	Average Annual	% chg.	Average Annual	% chg.
2021	422	50.8	422	50.8
2022	400	-5.2	400	-5.2
2023	385	-3.8	385	-3.8
2024	377	-1.9	446	15.8
2025	386	2.2	468	4.9

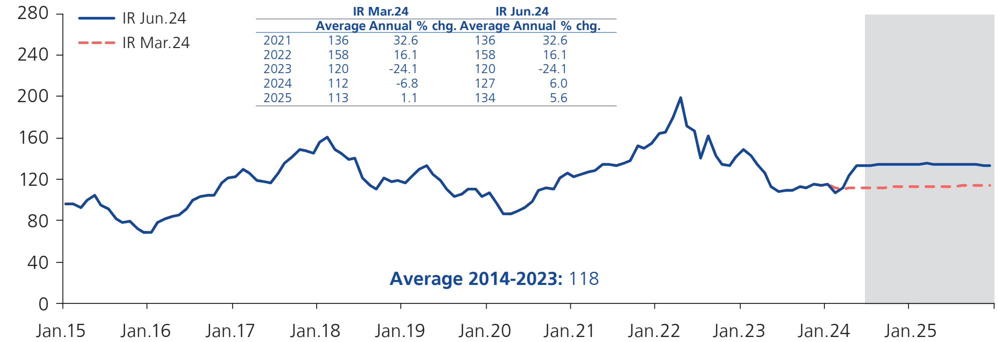
Source: Reuters and BCRP.

Zinc

22. In May 2024, the average global price of zinc rose to USD/lb. 1.34, which is a 20 percent increase over the previous two months. As a result, it experienced an 18 percent growth from December 2023 onward.

Because of numerous European smelters that are idle or running at reduced capacity due to unfavorable margins, the supply forecast for zinc has deteriorated, which has led to a rise in price. Additionally, the lack of concentrates has impacted refining activity.

Graph 29
ZINC: JANUARY 2015 - DECEMBER 2025
(ctv. USD/lb.)



	IR Mar.24		IR Jun.24	
	Average Annual	% chg.	Average Annual	% chg.
2021	136	32.6	136	32.6
2022	158	16.1	158	16.1
2023	120	-24.1	120	-24.1
2024	112	-6.8	127	6.0
2025	113	1.1	134	5.6

Source: Reuters and BCRP.

High-frequency indicators indicated a slight increase in the supply of zinc mines for the concentrate market. Near-term shortages are being exacerbated by recent mining outages in South Africa and Peru, which compound the predicted 500,000 tons of lower production in 2023 owing to low pricing.

As a result of these developments, the price of zinc has been revised upward, and it is anticipated that the supply deficit will subside as refining capacity increases in tandem with falling energy prices and concentrate availability normalizes as a result of both new mine openings and the resumption of operations at existing mines.

Gold

23. Over the past two months, the average gold price has climbed by 8 percent, and in May 2024, it reached a level of USD/oz.tr. 2,351. As a result, it saw a 15 percent hike from December 2023 onward.

The price of gold has risen over the past two months, reaching a record high of USD/oz.tr. 2,354 on May 20. This surge was mostly attributed to rising demand for safe-haven assets brought on by geopolitical dangers throughout the world (such as Iran's attacks on Israel, Israel's offensive in Gaza, and the escalating tensions between the US and China). In addition, following two years of decline, the physical market for gold jewelry is expanding in 2024.

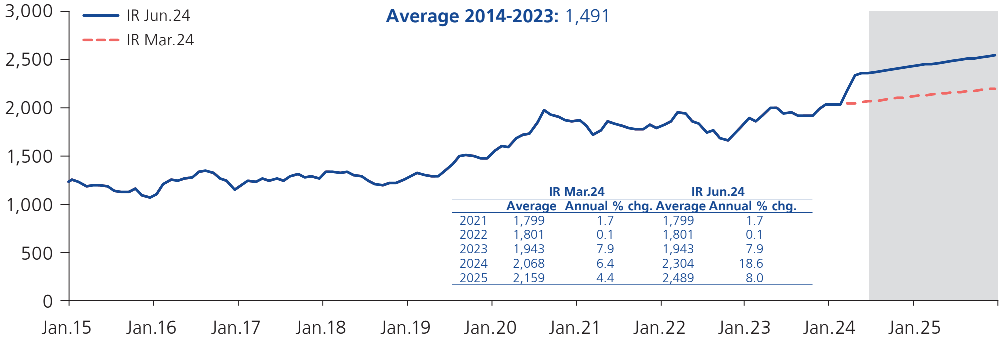
The expectation that interest rates at major central banks will stay high for a longer period of time than anticipated did not prevent the surge in gold prices.

The gold price estimate shown in he March Inflation Report has been updated to reflect recent evolutions. The increase in geopolitical threats and predictions of relative dollar stability (after the significant appreciation seen for the majority of 2021–2023) are reflected in this change.

Graph 30

GOLD: JANUARY 2015 - DECEMBER 2025

(USD/oz.tr.)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	1,799	1.7	1,799	1.7
2022	1,801	0.1	1,801	0.1
2023	1,943	7.9	1,943	7.9
2024	2,068	6.4	2,304	18.6
2025	2,159	4.4	2,489	8.0

Source: Reuters and BCRP.

Gas

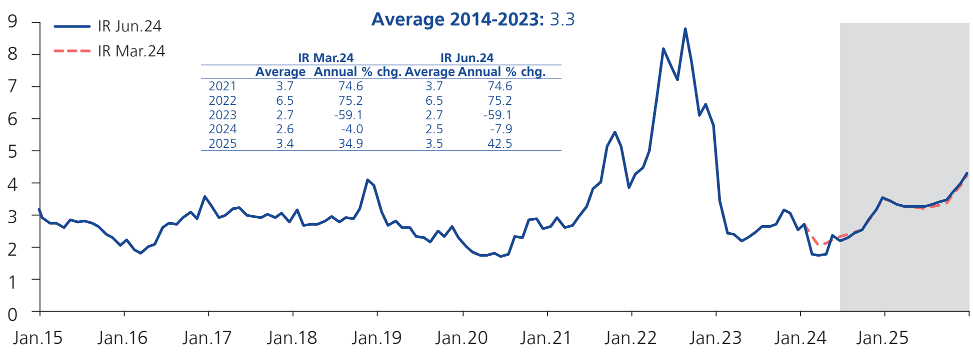
24. The average **Henry Hub natural gas** price jumped by 42 percent over the previous two months. That being said, this quote dropped by sixteen percent from December 2023. Regarding the European market, the UK BNP saw a 24 percent increase in price over the previous two months, but a 21 percent decline from December 2023. The price of natural gas on the European market is still higher than the Henry Hub price, as it was in earlier Inflation Reports.

    Lower production as a result of well completion delays that lowered drilling activities is the cause of the increase in the Henry Hub natural gas price. Furthermore, increased natural gas flows were observed to liquefaction plants in an effort to boost exports of liquefied natural gas (LNG), especially after the US plant at Freeport began operating again. There is less natural gas available for the domestic market in the United States due to the growing availability of liquefied natural gas for export.

    In a similar line, **Europe's gas** prices rose as a result of a lower than anticipated supply following production halts in Norway for maintenance. Russia is no longer Europe's primary gas supplier—Norway has taken over. Furthermore, there has been a sporadic decrease in wind power generation, which has increased the need for gas in the production of energy. High inventories, which are still at historically high levels in both Europe and the US, are limiting the growth.

    Due to rising supplies from Qatar and Australia as well as large stocks, the average Henry Hub natural gas price has been somewhat reduced for the forecast period ending in 2024. The market for natural gas is predicted to rebound globally after two years of decline, but notable price hikes will be constrained by the ongoing downturn in demand in Europe and Asia. Prices will, however, receive some support from the US decision to limit the expansion of LNG production capacity for export.

Graph 31
NATURAL GAS HENRY HUB: JANUARY 2015 - DECEMBER 2025
(USD/MBTU)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	3.7	74.6	3.7	74.6
2022	6.5	75.2	6.5	75.2
2023	2.7	-59.1	2.7	-59.1
2024	2.6	-4.0	2.5	-7.9
2025	3.4	34.9	3.5	42.5

Source: Reuters and BCRP.

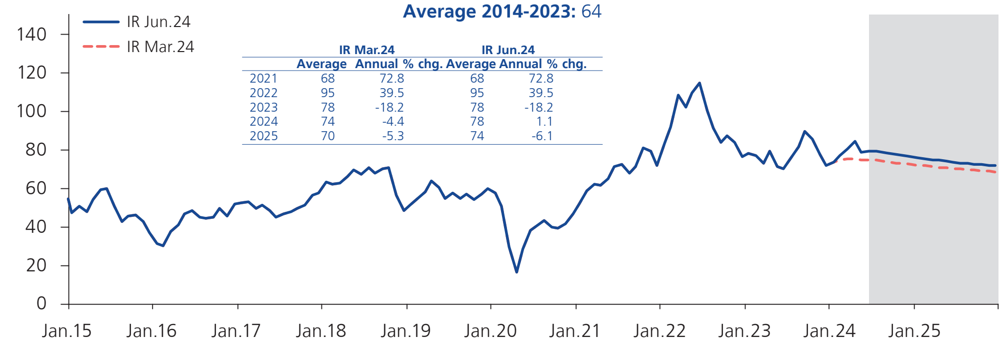
Oil

25. The average price of **WTI oil** dropped by 3 percent over the previous two months (USD/bl. 81 in March to USD/bl. 79 in May 2024). Nonetheless, there was an accumulated 9 percent increase in comparison to December 2023.

The drop in oil prices in the last two months was explained by the increase in inventories, mainly in China and the United States, which reflected a well-supplied market. During this period, there was less concern regarding world supply due to the fact that geopolitical conflicts in the Middle East have not affected oil supply. In addition, the International Energy Agency reported that non-OPEC supply, excluding Russia, will continue to grow this year. In the same vein, Russia continued to export crude at levels well above the OPEC+ commitment, in the face of the partial standstill of some refineries attacked by Ukraine. These downward pressures occur in a context of high idle capacity in OPEC countries due to production cuts.

Given the likelihood that demand will remain at record highs and that supply growth will be constrained by US production curbs and the prolongation of OPEC+ cuts, the average oil price has been revised upward over the forecast horizon. Furthermore, there would be more upward pressure since the US government would keep adding to its strategic reserves. The primary risks are related to concerns about potential supply disruptions brought on by heightened Middle East tensions and additional decisions made by OPEC+.

Graph 32
WTI OIL: JANUARY 2015 - DECEMBER 2025
(USD/bl)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	68	72.8	68	72.8
2022	95	39.5	95	39.5
2023	78	-18.2	78	-18.2
2024	74	-4.4	78	1.1
2025	70	-5.3	74	-6.1

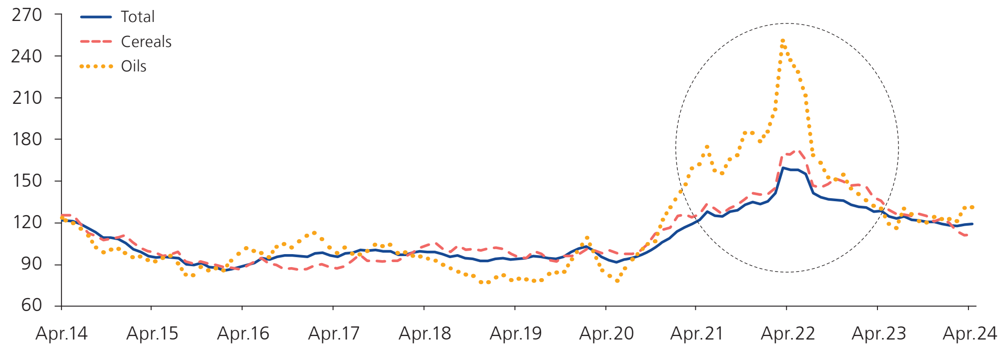
Source: Reuters and BCRP.

Food

26. As a result of the worsening supply picture, grain prices rose, somewhat reversing the first quarter's declining trend. Conversely, a rise in U.S. supply and a slowdown in the demand for biodiesel have caused soybean oil prices to continue falling during the past two months.

The FAO index, which considers food items like grains, sugar, oil, meat, and dairy, shows that food prices rose 1.4 percent in April over February, reversing a decline that had occurred in the first two months of the year. The decrease in the price of vegetable oils was offset by the rise in cereal costs.

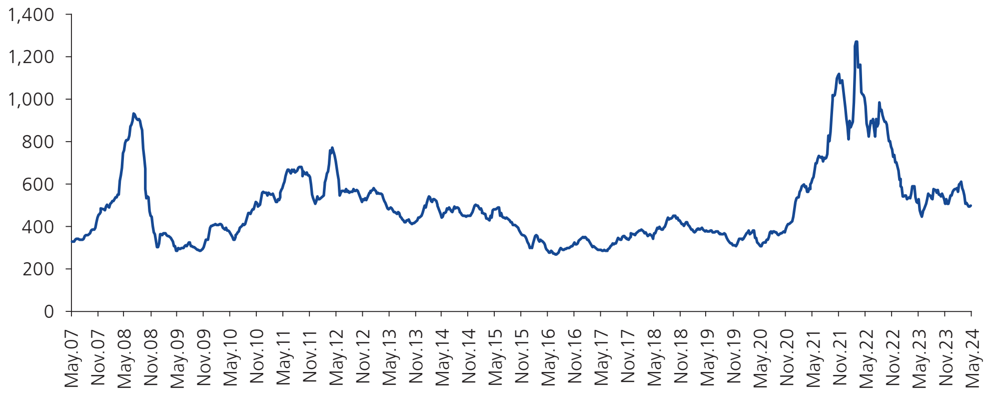
Graph 33
FAO FOOD PRICE INDEX*
(Base 2014 - 2016 = 100)



* The real price index is the nominal price index deflated by the World Bank's manufacturing unit value index.
Source: FAO.

The price rise in food prices is limited by lower fertilizer costs compared to the previous season. However, production costs remain high compared to those recorded in previous years and prevent further price reductions.

Graph 34
GREEN MARKETS NORTH AMERICA FERTILIZER PRICE INDEX
(Index, Jan 07, 2002=100)



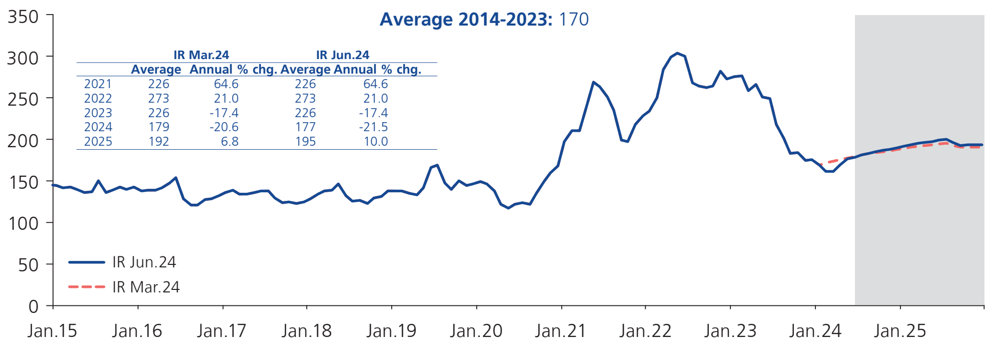
Source: Reuters.

(a) The price of **maize** increased by 9 percent in the last two months of the year, reaching an average monthly quotation of USD/MT 176 in May 2024. With this, the maize price accumulated an increase of 2 percent with respect to December 2023.

Since Argentina's crop yields are being reduced by a pest, and Brazil has been absent from the market until the start of the second harvest, the price of maize has risen in the last two months due to lower than projected supplies. Furthermore, reduced maize shipments from Ukraine have been documented thus far in the 2023/2024 cycle, which has been impacted by recent attacks on railroad and sea infrastructure. Though predictions indicate that inventories will rise to a five-year high in the current 2023/2024 season, the U.S. market is still well supplied.

Excess supply and fierce rivalry maintain the price of maize under pressure. Given the potential for increased output in China and Brazil for the 2024–2025 season, forecasts in this area are still mostly steady over the projection horizon. The primary danger to this prediction is the South American weather and the potential consequences of a La Niña event, particularly if it lasts into 2024.

Graph 35
MAIZE: JANUARY 2015 - DECEMBER 2025
(USD/MT)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	226	64.6	226	64.6
2022	273	21.0	273	21.0
2023	226	-17.4	226	-17.4
2024	179	-20.6	177	-21.5
2025	192	6.8	195	10.0

Source: Reuters and BCRP.

(b) **Wheat** prices have risen by 16 percent since the last Report, and in May 2024 they reached a level of USD/MT 264. This undoes the decline of the first few months of the year and adds up to a 6 percent rise from December 2023.

Due to more severe weather than anticipated, wheat supply prospects in the northern hemisphere for the 2024–2025 season —primarily in Europe and Russia— have deteriorated, leading to a rise in wheat prices over the past two months. Because of the uncertainty these cuts created regarding export surpluses, speculative funds covered net short positions that they had built up in the wheat futures markets during the previous few months.

This performance was further bolstered by heightened geopolitical concerns related to the circumstances in the Middle East and the Black Sea. The decreased supply was accompanied by growing concerns that India might need to import wheat, as the country's strategic wheat reserves dropped to their lowest level in sixteen years.

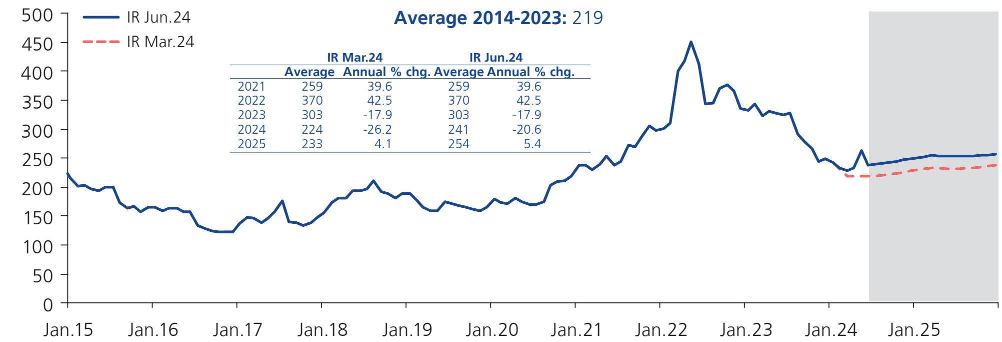
Since the odds are still stacked in favor of the upside, the estimated wheat price is updated. Transport and logistical issues, like the previously mentioned Red Sea shipping issues, could impede wheat supplies to foreign markets. Similar to maize, there is an upside risk to the price due to the possibility of a La

Niña event. Another source of uncertainty is Russia's trade and political policies. Since global inventories are at their lowest point in five years, the effects of these factors may be amplified.

Graph 36

WHEAT: JANUARY 2015 - DECEMBER 2025

(USD/MT)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	259	39.6	259	39.6
2022	370	42.5	370	42.5
2023	303	-17.9	303	-17.9
2024	224	-26.2	241	-20.6
2025	233	4.1	254	5.4

Note: It corresponds to the first position of the CBoT quote.
Source: Reuters and BCRP.

(c) **Soybean oil** prices averaged USD/MT 955 in May 2024, 7 percent lower than the March 2024 price of USD/MT 1,031. With this, the soybean oil price accumulated a 17 percent drop with respect to December 2023.

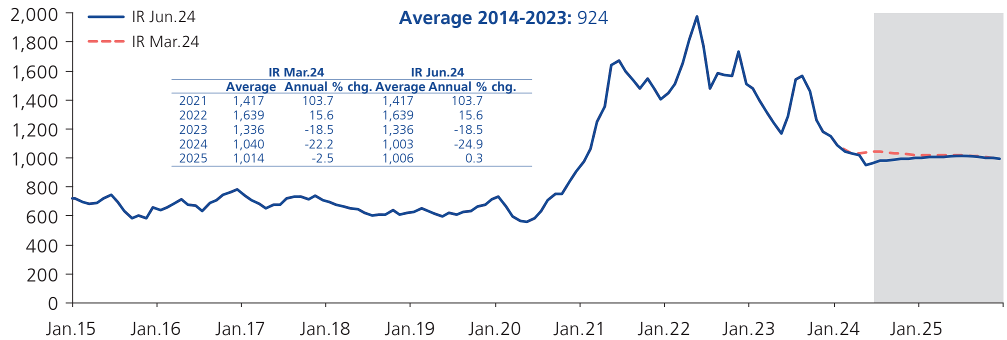
As soybean crush growth reached all-time highs, soybean oil prices continued to fall as a result of high US stocks. Furthermore, the US biodiesel market's slower-than-expected expansion has drawn concerns. Increased seasonal rivalry brought about by the introduction of the South American soybean crop, especially from Brazil, also accompanied this imbalance.

Considering these recent developments, prices are projected to trade below the previous Inflation Report estimate. The main sources of uncertainty relate to oil price movements, regulatory changes on the use of biofuels in the United States, and low global inventory levels.

Graph 37

SOYBEAN OIL: JANUARY 2015 - DECEMBER 2025

(USD/MT)



	IR Mar.24		IR Jun.24	
	Average	Annual % chg.	Average	Annual % chg.
2021	1,417	103.7	1,417	103.7
2022	1,639	15.6	1,639	15.6
2023	1,336	-18.5	1,336	-18.5
2024	1,040	-22.2	1,003	-24.9
2025	1,014	-2.5	1,006	0.3

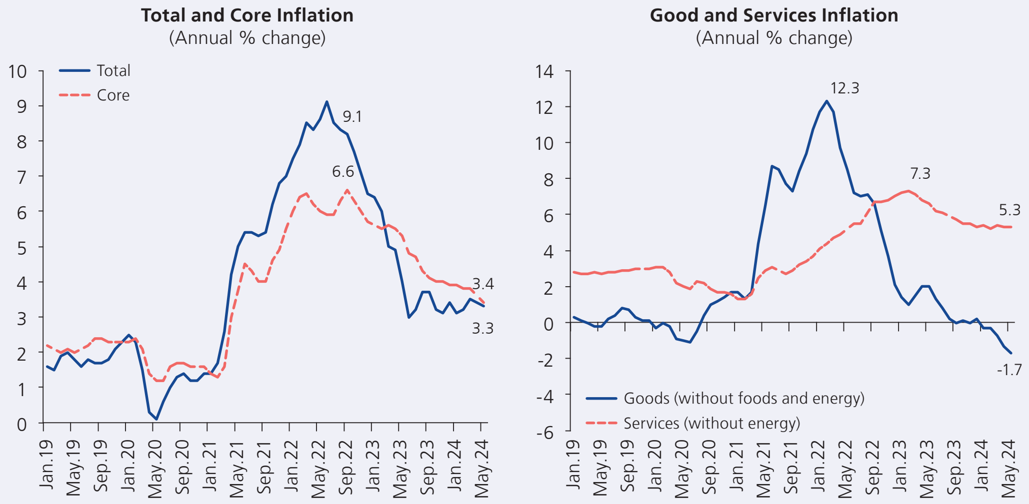
Source: Reuters and BCRP.

Box 1
EPISODES OF SERVICE PRICE RISES
IN THE U.S., 1985-2024

In 2022, total and core inflation in the United States reached levels not seen in approximately 40 years: 9.1 percent in June and 6.6 percent in September, respectively. Subsequently, inflation began to decline, reflecting, among other factors, the tightening of monetary policy, the reversal of supply shocks, and the decline in private sector excess savings.

Only slight decreases in inflation have occurred recently, though, which indicates that the prices of goods and services have behaved differently. Prices for goods (apart from food and energy) increased by 12.3 percent at their highest point in February 2022 and decreased by 1.7 percent in May 2024, but prices for services (apart from energy) increased by 7.3 percent in February 2023 and 5.3 percent in May 2024.

U.S. INFLATION YEAR-TO-YEAR EVOLUTION



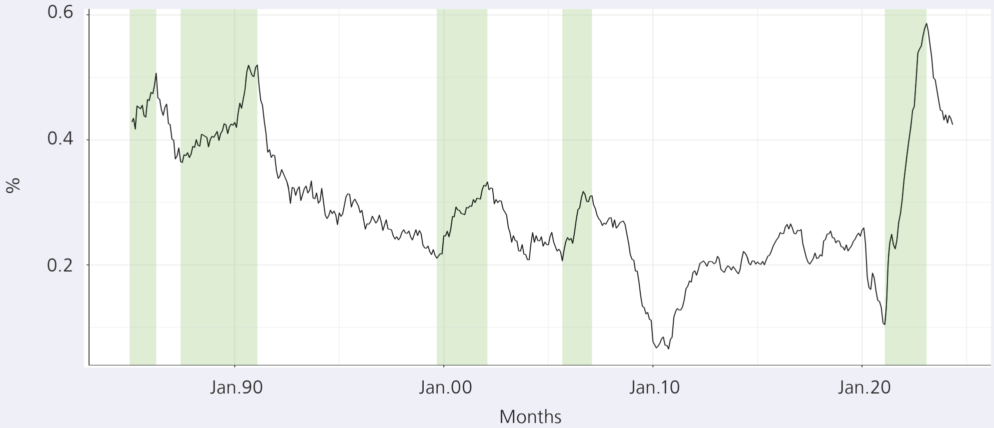
Source: Bureau of Labor Statistics.

This Box contrasts previous price increases that occurred between 1985 and 2024 with the current dynamics of service prices. It is more difficult for inflation to converge to its 2 percent target when stylized data demonstrate that the maximum fluctuation in services prices has been larger in the current episode and that the correction of the previous few months has not completely reversed the increase. It is noteworthy that 61 percent of the U.S. CPI basket is made up of services, excluding energy.

Identification of the episodes of service price rises

The graph below displays the inflation of services from April 1985 to April 2024. Monthly inflation is shown as a moving average of the previous twelve months in order to smooth the series and capture the pattern of the past year. Five instances of sustained increases in service prices were noted over this time.

PRICES OF SERVICES (WITHOUT ENERGY)
12-MONTH MOVING AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)



Source: Bureau of Labor Statistics.

The following chart compares these episodes where t=0 is taken as the time when monthly services inflation (excluding energy) peaks. It is observed that the last episode is the one recording the highest level of inflation.

EPISODES OF SUSTAINED INCREASES IN SERVICE PRICES (WITHOUT ENERGY)
12-MONTH MOVING AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)

Source: Bureau of Labor Statistics.

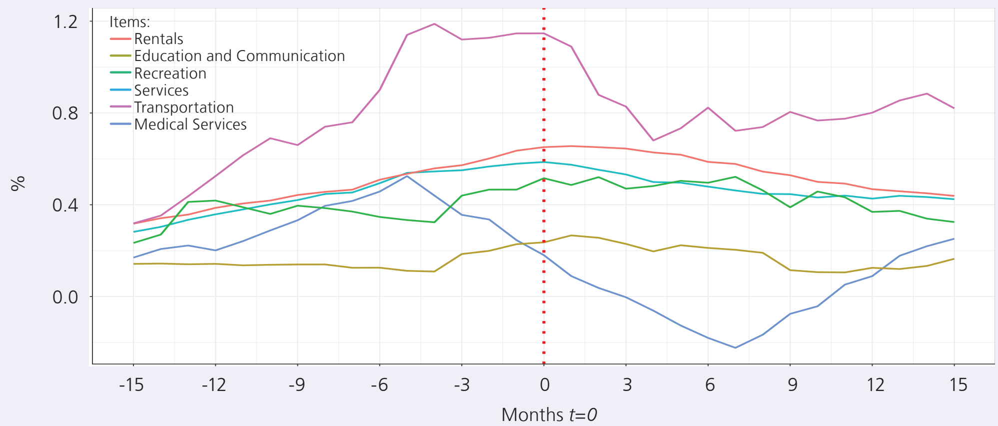
The duration, maximum increase and the number of months it took for services inflation to return to previous levels are shown for these five episodes. The current episode has the largest increase and that, after 15 months of reaching the peak, it still remains above previous levels and episodes.

Date	Duration	Maximum lift	Number of months before return to previous levels
Feb.85 - Apr.86	15 months	0.51	7 months
Jul.87 - Feb.91	44 months	0.52	11 months
Sep.99 - Sep.02	37 months	0.30	16 months
Sep.05 - Sep.07	25 months	0.27	18 months
Feb.21 - Feb.23	25 months	0.59	-

Component analysis

The following graph shows the comparative evolution of the present episode at the level of several service items where t=0 refers to the maximum level reached for the aggregate services item in February 2023. Two components stand out: transportation services whose prices have been increasing above the sector's prices and have shown increasing rates in the last months. For its part, rental services stand out for having higher rates than the sector average, recording a slow reduction and for having the highest weight within the CPI basket.

COMPARATIVE EVOLUTION OF THE PRICES OF SERVICE ITEMS
12-MONTH MOVING AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)



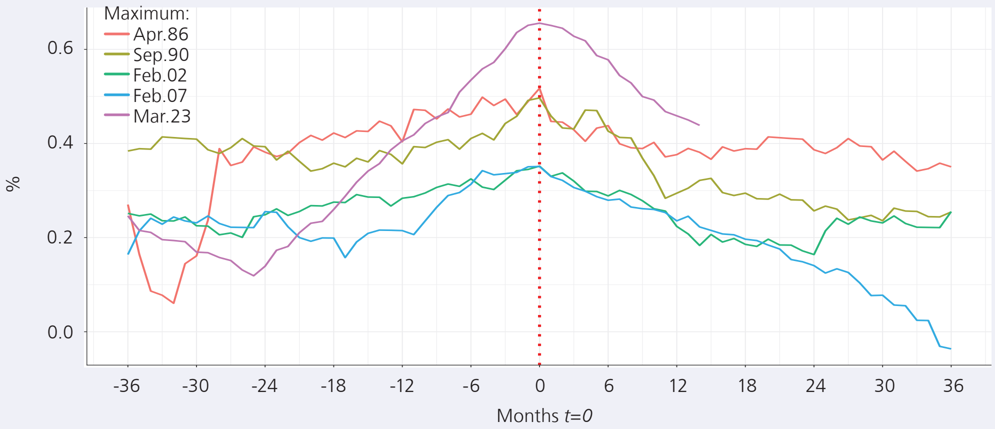
Source: Bureau of Labor Statistics.

Rents

Rents (lodging) represent 36.2 percent of the U.S. CPI and, as shown in the graph, their behavior exhibits some downward resistance. Thus, comparing the episodes of sustained monthly rises, indicating as t=0 the maximum point reached, it is confirmed that:

The price spike that culminated in the most recent episode had the greatest rate (0.66 percent). It now stands at 0.44 percent, 14 months after peaking, representing a greater rate than that of the other events and higher than the monthly rates of about 0.2 percent reported at the start of 2021.

EPISODES OF SUSTAINED INCREASES IN RENT PRICES, 12-MONTH MOVING AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)



Source: Bureau of Labor Statistics.

Some determinants in the price of rents

The next two graphs assess whether monthly rent inflation (12-month moving average) is correlated with any real estate market-related variables using a basic correlation analysis.

- The yield on 30-year U.S. Treasury bonds and rents: Presumably, as long-term rates rise, so does the cost of mortgage financing and, consequently, so does the demand for rent. The graph that follows demonstrates a positive correlation between the two variables, particularly during the previous four years (although with some temporal lags), when the correlation increased to 0.63 significant at 95 percent.

MONTHLY VARIATION IN RENT PRICES AND 30-YEAR TREASURY BOND YIELDS (SEASONALLY ADJUSTED SERIES)

Source: Bureau of Labor Statistics and Federal Reserve Economic Data.

- Rents and home prices: Rents are directly impacted by home prices through two channels:

a. As with interest rates, higher home prices discourage buying and create incentives to rent a home.

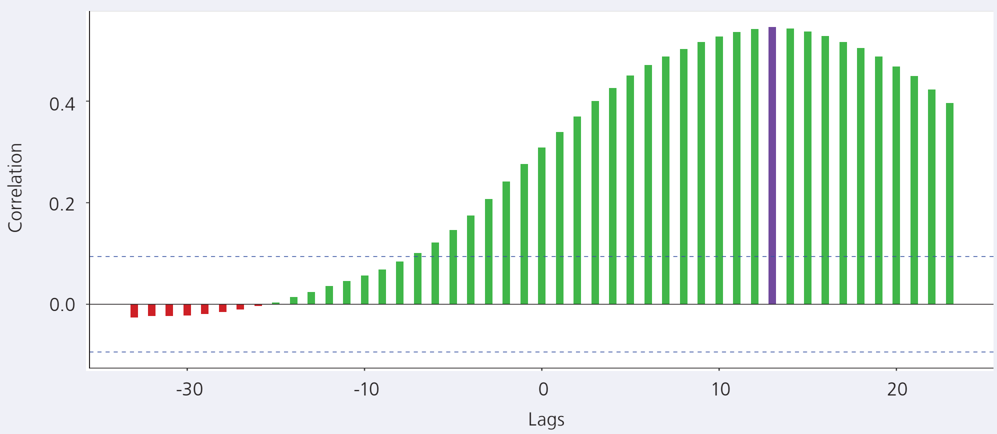
b. According to methodology, "imputed rent" is one of the components of rents, accounting for 75 percent of this item and, consequently, 27 percent of overall inflation. The word "imputed rent" refers to the rent that property owners would typically charge, even if they don't actually rent their home. Imputed rent may decrease if housing values drop, albeit slowly until leases are renegotiated.

RENT PRICES AND HOUSING PRICES
(MONTHLY VAR., SEASONALLY ADJUSTED)

Source: Bureau of Labor Statistics and Federal Reserve Economic Data.

Accordingly, the graph below illustrates that, with 13 months of time lags, there is the highest correlation between rental inflation and variations in home prices.

CORRELATION BETWEEN % VAR. OF RENT PRICES AND % VAR. OF HOUSING PRICES,
(MONTHLY VAR., SEASONALLY ADJUSTED)

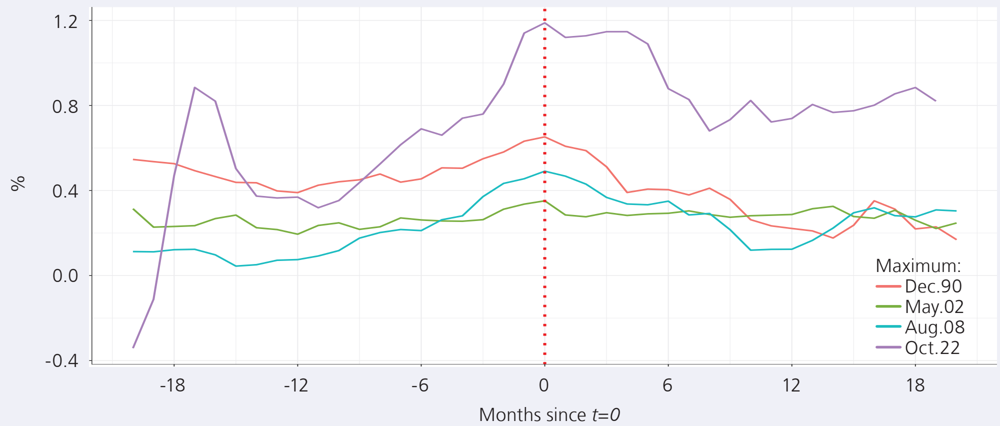


Source: Bureau of Labor Statistics.

Transportation

Transportation services make up 6.4 percent of the US CPI. The graph that follows contrasts periods of consistent monthly price rises for transportation, with the peak at t=0. When compared to earlier episodes, this one is notable for its high level and persistence.

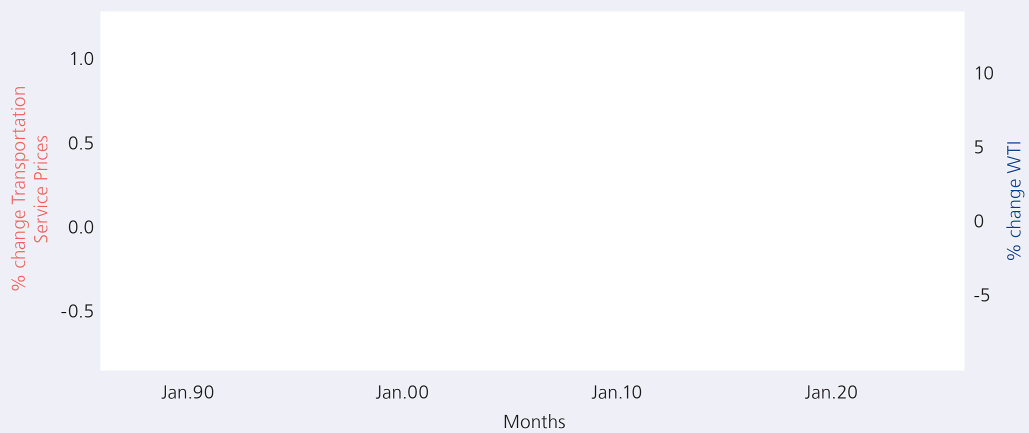
EPISODES OF SUSTAINED INCREASES IN PRICES OF TRANSPORTATION SERVICES 12-MONTH MOBILE AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)



Source: Bureau of Labor Statistics.

Transportation services' prices follow in part the evolution of the price of oil (WTI). The following chart shows that the increase in January 2020 would be associated with the increase in the price of oil. The recent resistance of this item to fall would be associated with the increase in the price of oil in recent months. Another factor putting upward pressure on this item is the increase in motor vehicle insurance prices, which in May reached an annual increase of 20.3 percent.

MONTHLY VARIATION IN PRICES OF TRANSPORTATION SERVICES AND PRICE OF OIL (WTI) (12-MONTH MOVING AVERAGE)

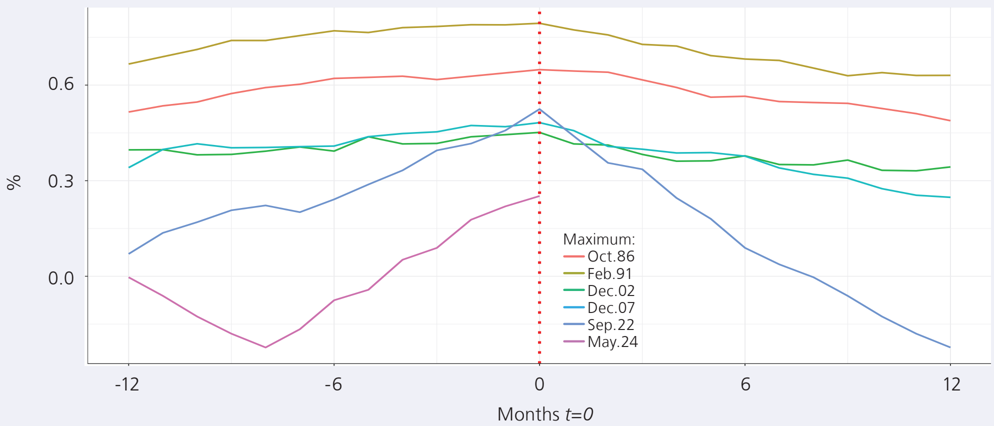


Source: Bureau of Labor Statistics and Federal Reserve Economic Data.

Other items

Whether due to the magnitude of the increase or to their weight within the CPI, rents and transportation services are the variables that, to a large extent, explain stubborn inflation. However, some services have shown price rises that do not fit the aggregate patterns of previous episodes. In this group, the prices of medical services, which represent 6.5 percent of the U.S. CPI, have risen in recent months, including during the current episode, a new peak in May; albeit at lower rates than in previous episodes.

EPISODES OF SUSTAINED INCREASES IN PRICES OF MEDICAL SERVICES 12-MONTH MOVING AVERAGE (MONTHLY VAR., SEASONALLY ADJUSTED SERIES)



Source: Bureau of Labor Statistics.

II. Balance of payments

Terms of trade and goods trade balance

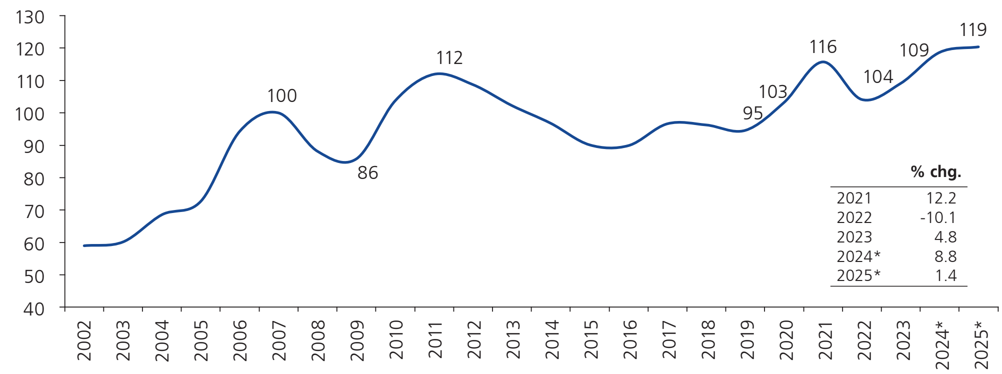
27. Between the first quarter of 2023 and 2024, the terms of trade grew by 5.0 percent, mostly as a result of a decrease in import prices (-4.8 percent), primarily for oil, industrial inputs, and food items like wheat, soybeans, and maize. These changes resulted from favorable crop and production seasons, hopeful outlooks for maize supplies, and a more stable oil market. A tiny drop in export prices (-0.1 percent) as a result of lower metal prices, along with a slowdown in the global manufacturing sector, a decline in Chinese real estate investment, supply surpluses, and higher inventories, moderated the growth.

The 2024 terms of trade are revised by a significant magnitude, from a 1.7 percent decline in the March issue to an expansion of 8.8 percent. For 2025, the growth rate of this price ratio is also revised upward, from 1.0 to 1.4 percent. These changes are explained by revisions in the expected evolution of export prices, which respond to the latest developments in the industrial metals and gold market.

The projections for export prices reflect the recent increase in the price of industrial metals, particularly copper, in response to worries about potential supply refining cuts and potential increased demand from green industries. The increase in zinc prices can also be explained by shortages of concentrate and restricted refined supplies. In the medium run, these variables should continue to have an impact, which would push up metal prices in 2025. Furthermore, the perceived loosening of monetary policy by central banks in advanced nations and an enhanced geopolitical risk premium are congruent with the rising price of gold.

The import price growth estimate for 2024, on the other hand, stays at -0.5 percent. This estimate takes into account a decrease in the primary import food costs compared to 2023 (-15.8 percent) and a minor increase in 2025 (3.7 percent). The Report's baseline scenario calls for increased oil prices over the projection horizon in response to sharp increases in demand and constrained growth in supply. This would be compensated by lower anticipated prices for soybean oil and certain other foods, such wheat.

Graph 38
TERMS OF TRADE, 2002-2025
(Index 100=2007)



* Forecast.
Source: BCRP.

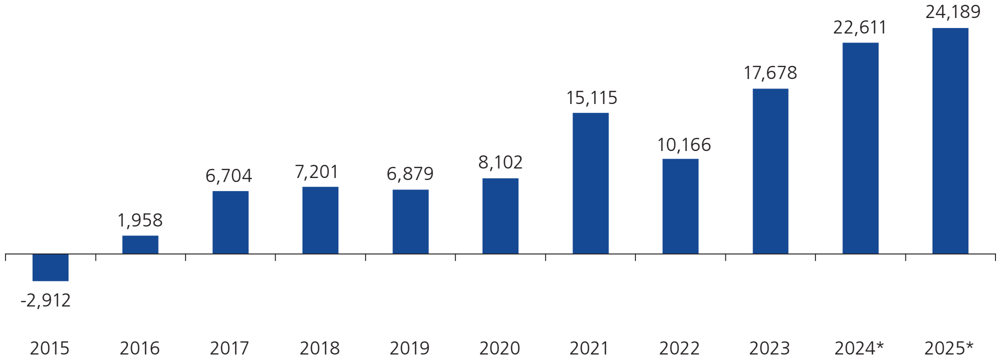
Table 10
TERMS OF TRADE: 2023 - 2025

	2023	2024*			2025*	
		Q1.24	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Terms of Trade						
Annual % chg. (average)	**4.8**	**5.0**	**-1.7**	**8.8**	**1.0**	**1.4**
Price of exports						
Annual % chg. (average)	**-2.4**	**-0.1**	**-2.2**	**8.2**	**2.2**	**2.6**
Copper (US$ cents per pound)	385	383	377	446	386	468
Zinc (US$ cents per pound)	120	111	112	127	113	134
Lead (US$ cents per pound)	97	94	96	100	98	104
Gold (US$ per troy ounce)	1,943	2,075	2,068	2,304	2,159	2,489
Price of imports						
Annual % chg. (average)	**-6.9**	**-4.8**	**-0.5**	**-0.5**	**1.2**	**1.1**
Oil (US$ per barrel)	78	78	74	78	70	74
Wheat (US$ per ton)	303	234	224	241	233	254
Maize (US$ per ton)	226	164	179	177	192	195
Soybean Oil (US$ per ton)	1,336	1,048	1,040	1,003	1,014	1,006

* Forecast.
Source: BCRP.

28. The **goods trade** surplus reached USD 4,542 million in the first quarter of 2024, USD 188 million higher than the amount recorded in the same period of the previous year. The year-on-year expansion was due to the increase in the volume of exports of traditional products such as gold, copper and coffee, and to the higher prices of gold and non-traditional agriculture sector products. To a lesser extent, the fall in the price of imports of inputs, mainly for industry and the main foodstuffs, contributed to the increase.

Graph 39
BALANCE OF TRADE IN GOODS, 2015-2025
(Million USD)



* Forecast.
Source: BCRP.

A trade balance surplus of USD 22,611 million and USD 24,189 million is anticipated in 2024 and 2025, respectively. According to projections of domestic production and spending, terms of trade, and the recovery of global growth, the predicted dynamics of international trade in goods reflects an expected increase in the value of exports above imports.

Because of a higher level of exports, expected surpluses would be higher than projected in the preceding Report. This adjustment is in line with the upward revision of the terms of trade over the projection period and increased exports of precious metals and conventional fisheries products.

29. The first quarter of 2024 saw **exports** of USD 16,384 million, USD 150 million (0.9 percent) more than the same period in 2023. The increase is attributed to increased mining output throughout the quarter, which resulted in higher export volumes of copper and gold. The price increase of gold and agricultural sector products sold overseas has strengthened this dynamic.

    Exports are expected to rise by 10.4 and 5.3 percent in 2024 and 2025, respectively, to reach USD 74,550 million and USD 78,479 million. The anticipated rise in global copper and gold prices throughout the projection horizon supports the forecast evolution of exports. Increased exports of fish oil and fishmeal are anticipated to help, albeit to a lesser degree.

30. Between January and March 2024, **imports** reached USD 11,842 million, a decrease of USD 38 million (-0.3 percent) over the previous year. Reduced prices for food items like maize and soybeans, industrial inputs, and oil and its derivatives were the cause of this decline. Reduced imports of food and consumer durables bolstered this tendency.

    It is anticipated that imports will rise by 4.2 and 4.5 percent in 2024 and 2025, respectively, to reach USD 51,939 million and USD 54,290 million. Increased purchases of consumer goods and inputs will be the primary driver of the predicted evolution of imports, in line with projections of both domestic demand and local activities.

Table 11
TRADE BALANCE
(%)

	2023	2024*			2025*	
		Q1.24	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
1. **Value:**						
Exports	2.0	0.9	-0.8	10.4	5.3	5.3
Traditional Products	*2.3*	*3.3*	*-2.6*	*14.6*	*3.4*	*5.0*
Non-Tradicional Products	*1.6*	*-4.9*	*4.2*	*-0.4*	*10.1*	*6.2*
Imports	-11.0	-0.3	2.7	4.2	4.7	4.5
2. **Volume:**						
Exports	4.6	1.0	1.4	2.0	3.0	2.6
Traditional Products	*7.4*	*6.6*	*1.2*	*3.7*	*1.6*	*0.0*
Non-Tradicional Products	*-2.0*	*-11.8*	*2.2*	*-1.9*	*6.4*	*10.6*
Imports	-4.4	4.7	3.2	4.7	3.4	3.4
3. **Price:**						
Exports	-2.4	-0.1	-2.2	8.2	2.2	2.6
Traditional Products	*-4.8*	*-3.1*	*-3.8*	*10.5*	*1.8*	*5.0*
Non-Tradicional Products	*3.7*	*7.8*	*2.0*	*1.5*	*3.4*	*-3.9*
Imports	-6.9	-4.8	-0.5	-0.5	1.2	1.1

* Forecast.
Source: BCRP.

External accounts

31. The total balance of payments from the previous four quarters to the first quarter of 2024 revealed a USD 3,748 million current account surplus and USD 1,497 million wort net purchase of external assets from the financial account. Compared to 2023, both outcomes are higher.

Table 12
BALANCE OF PAYMENTS
(Million USD)

	2023	2024*			2025*	
		Q1.24 3/	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
I. CURRENT ACCOUNT BALANCE	**2,219**	**3,748**	**-1,385**	**2,299**	**-2,440**	**891**
% GDP	*0.8*	*1.4*	*-0.5*	*0.8*	*-0.9*	*0.3*
1. Trade Balance	17,678	17,866	15,527	22,611	16,643	24,189
a. Exports	67,518	67,668	66,720	74,550	70,254	78,479
Of wich:						
i) Traditional	48,853	49,233	47,316	55,966	48,944	58,785
ii) Non-Traditional	18,448	18,225	19,203	18,368	21,140	19,511
b. Imports	49,840	49,802	51,193	51,939	53,611	54,290
2. Services	-7,341	-7,146	-6,876	-6,607	-6,149	-6,089
3. Primary income (factor income)	-14,902	-14,037	-16,921	-21,037	-19,745	-24,665
4. Secondary income (transfers)	6,785	7,065	6,884	7,333	6,812	7,455
Of which: Remittances	4,446	4,645	4,580	4,748	4,717	4,891
II. FINANCIAL ACCOUNT 1/	**1,309**	**1,497**	**-4,085**	**-2,816**	**-4,980**	**-1,770**
% GDP	0.5	0.6	-1.5	-1.0	-1.8	-0.6
1. Private Sector	593	1,492	-1,937	-838	-3,863	-152
a. Long-term	821	120	-1,937	-1,733	-3,863	-989
b. Short-term	-227	1,372	0	895	0	837
2. Public Sector 2/	716	5	-2,148	-1,978	-1,117	-1,618
III. NET ERRORS AND OMISSIONS	**-3,671**	**-2,410**	**0**	**0**	**0**	**0**
IV. BALANCE OF PAYMENTS	**-2,760**	**-160**	**2,700**	**5,114**	**2,540**	**2,660**
IV= (I+III) - II = (1-2)						
1. Change in NIR balance	-850	1,094	2,700	5,220	2,540	2,660
2. Valuation effect	1,910	1,253	0	106	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.
Source: BCRP.

In comparison to 2023, the current account surplus has increased. This can be attributed to several factors, including reduced earnings for foreign-invested enterprises, larger foreign remittances, a decrease in the deficit for transportation and travel services, and an increase in the trade surplus. For their part, residents' purchases of short-term foreign assets and mutual funds' and AFPs' resumed international investments account for the increased outflow of money (higher expansion of the financial account's net creditor position).

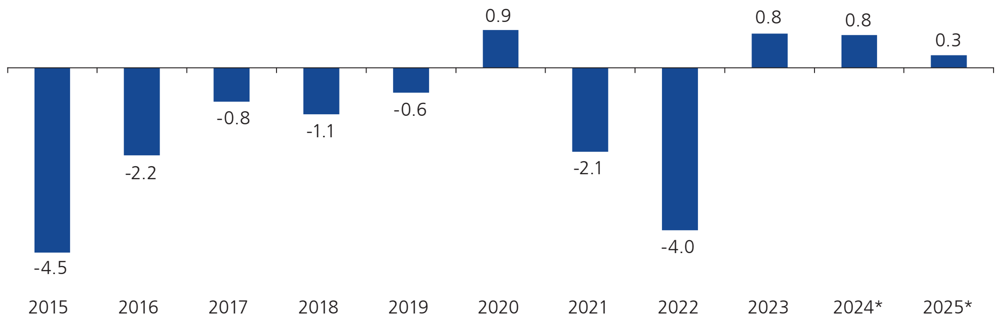
A greater net inflow of long-term capital than in the prior year is expected to be reflected in the 2024 financial account, mostly in the form of direct investment (nett inflows will accelerate from USD 3,918 million in 2023 to USD 8,569 million in 2024). Because the speed at which the private sector is acquiring overseas assets has grown, decreased capital inflows are anticipated for 2025.

Current Account

32. Between 2023 and the first quarter of 2024, the **total current account surplus** for the previous four quarters rose from 0.8 to 1.4 percent of GDP. Nominally speaking, this development was primarily caused by a decline in the primary income deficit, which was maintained by a decline in the profits of foreign-capitalized enterprises, mostly in the mining and hydrocarbon sectors as a result of lower prices for copper, zinc, and gas. In addition, as employment in the US has recovered, the growth of secondary income has helped to raise remittances and the amount of income tax collected from non-residents. Lastly, there was a decline in the transportation and travel services deficits as a result of decreased freight rates, a rise in the products trade surplus, and an increase in non-resident visitor arrivals.

    The recovery of profits and the lower flow of remittances projected for the remaining three quarters of the year would counterbalance the main factors that explained the widening of the surplus in the first quarter, bringing the surplus to 0.8 percent of GDP by the end of 2024, the same result as in 2023. Along these lines, the expected increase in the price of minerals would explain the increase in profits during the projection horizon, which will increase the primary income deficit. As a result, the current account surplus is expected to contract to 0.3 percent of GDP by 2025.

Graph 40
CURRENT ACCOUNT: 2015-2025
(% GDP)

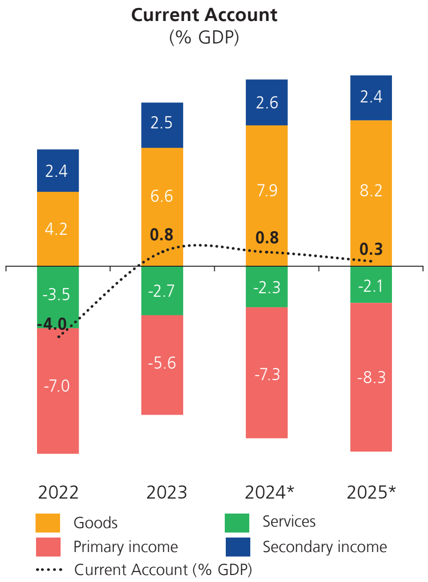


* Forecast.
Source: BCRP.

In 2024 and 2025, respectively, remittances are expected to rise by 7.0 and 3.0 percent annually, along with a decrease in the services deficit as a result of rising foreign travel and falling freight costs. This baseline scenario considers global inflation, mining exports, terms of trade, and the evolution of local and global economic activity.

The two main causes of the variations in the current account result are the return paid to the factors of production (capital) and Peru's foreign liabilities (debt instruments). The first is related to domestic absorption, which is higher net nominal demand for goods and services from abroad.

Table 13
DETERMINANTS OF THE VARIATION IN THE CURRENT ACCOUNT RESULT, 2021-2025



Variation in CC result (p.p GDP)

	Average 2004-2006	2023/ 2022	2024*/ 2023	2025*/ 2024*
A. Domestic absorption	**3.1**	**3.2**	**1.7**	**0.5**
1. Price Effect	**3.6**	**1.5**	**2.2**	**0.6**
1.1 Terms of Trade	3.7	0.8	2.1	0.5
1.2 Freight	-0.1	0.8	0.2	0.1
2. Volume effect	**-0.4**	**1.6**	**-0.5**	**0.0**
2.1 Goods	-0.8	1.7	-0.8	-0.2
2.2 Services**	0.4	-0.1	0.3	0.1
B. Yield paid to external liabilities	**-2.2**	**0.5**	**-2.2**	**-0.8**
1. Foreign Direct Investment	**-2.1**	**1.0**	**-2.2**	**-0.9**
2. Medium- and long-term debt	**-0.2**	**-0.5**	**0.0**	**0.1**
C. Rest* **	**0.7**	**1.1**	**0.5**	**-0.2**
TOTAL (A + B + C)	**1.6**	**4.8**	**0.0**	**-0.5**

* Forecast
** Includes changes in the volume of transportation and the volume and price of services that are not transportation.
*** Includes changes of current transfers and yield payed for external assets.
Source: BCRP.

In 2024, higher returns on foreign direct investment (-2.2 p.p.) resulting from higher profits (7.2 percent) and higher volumes of imported goods (-0.8 p.p.) would fully offset the surplus pressure of domestic absorption (1.7 p.p.) caused by the positive impact of the terms of trade (2.1 p.p.) and higher volumes of transport and travel services (0.3 p.p.). This would keep the current account balance at 0.8 percent of output.

The increase in the yield paid on FDI (-0.9 p.p.) in 2025 will be the primary cause of the surplus shrinkage, since greater profits of 8.3 percent are anticipated, in line with both GDP growth and the anticipated price of minerals. A lower yield on foreign assets and a lower level of secondary income relative to GDP would support this factor. Reduced domestic absorption, on the other hand, would partially counteract these impacts because of reduced freight prices and greater terms of trade.

According to these projections, the 2024–2025 era will have three years of current account surplus —a reality not seen since the 2004–2007 period, which saw four years of current account surplus—. In particular, only increases in the surplus —which averaged 1.6 percentage points— between 2004 and 2006 were noted.

These were attributed to the following: higher yields on foreign assets, an increase in remittance flows, and lower domestic absorption (3.1 percentage points) in response to higher terms of trade —all of which were caused by the boom in commodity prices—. However, because of a favorable global economic climate that increased the profitability of businesses with foreign direct investment (FDI) in the nation, the yield paid on foreign liabilities made a negative contribution.

34. Several factors that contributed to the region's 2022 and 2023 current account deficits —including the recovery of domestic demand, high fuel and food prices, and growing profits for foreign-owned businesses— were reversed in 2023, resulting in a significant decline in the current account deficit (the largest reduction was 5.1 percentage points in Chile). For the first quarter of 2024, the majority of the countries under analysis —with the exception of Brazil and Chile— kept up this declining tendency.

The countries that showed a higher current account result as of the first quarter of 2024 had in common a lower deficit in primary income and a reduction in the deficit in the balance of services. The evolution of the primary income account reflects lower profits of companies with foreign capital and the increase in investment income of residents abroad due to the context of high interest rates. For its part, higher travel revenues, as well as the reduction in the cost of maritime, air and other means of transportation freight, explain the change in the services balance. In addition to the aforementioned factors. In Colombia and Peru, the increase in the flow of remittances from workers abroad contributed to the change, while in Mexico, another relevant element was the decrease in the deficit of the oil goods balance.

Table 14
LATIN AMERICA: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Annualized, in % GDP)

	2021	2022	2023	Q1.24*	2024*	2025*
Brazil	-1.9	-2.5	-1.4	-1.5	-2.2	-.-
Chile	-7.3	-8.7	-3.6	-3.7	-3.4	-3.4
Colombia	-5.6	-6.2	-2.7	-2.1	-3.1	-.-
Mexico	-0.3	-1.2	-0.3	0.1	-1.0	-1.1
Peru	-2.1	-4.0	0.8	1.4	0.8	0.3

* Forecast.
Source: Central banks of each country.

But there's no obvious convergence in the expectations of each nation for 2024. On the one hand, Chile anticipates a decrease in the deficit, a weakening of the currency, increased export demand from outside, and low domestic consumption. However, because they anticipate a worsening of the trade balance (an increase in imports in Colombia and a decrease in export prices in Brazil and Colombia), Colombia, Brazil, and Mexico predict a rise in the deficit between 2023 and 2024.

Financial account

35. The increased purchase of net short-term foreign assets, mostly from banks, resulted in an annual net capital outflow of USD 1,492 million, or 0.5 percent of GDP, according to the **private sector's financial accounts** as of the first quarter of 2024.

It is anticipated that net private capital inflows, in the form of foreign direct investment through profit reinvestment, will total USD 838 million by 2024. The finance flow is anticipated to decline to USD 152 million in 2025 as AFPs and mutual funds acquire a larger share of foreign assets.

Table 15
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR 1/
(Million USD)

	2023	2024*			2025*	
		Q1.24 5/	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
PRIVATE SECTOR (A + B)	**593**	**1,492**	**-1,937**	**-838**	**-3,863**	**-152**
% GDP	*0.2*	*0.5*	*-0.7*	*-0.3*	*-1.4*	*-0.1*
A. LONG-TERM (1-2)	**821**	**120**	**-1,937**	**-1,733**	**-3,863**	**-989**
1. ASSETS	**5,539**	**6,127**	**5,487**	**5,811**	**4,752**	**6,612**
Direct investment	1,476	803	1,515	1,988	1,436	1,931
Portfolio investment 2/	4,062	5,324	3,972	3,823	3,315	4,681
2. LIABILITIES 3/	**4,718**	**6,006**	**7,424**	**7,544**	**8,614**	**7,601**
Direct investment	3,918	5,201	8,615	8,569	9,716	8,855
Portfolio investment 4/	-160	709	-246	225	59	70
Long-term loans	960	96	-945	-1,251	-1,161	-1,324
B. SHORT-TERM	**-227**	**1,372**	**0**	**895**	**0**	**837**

1/ Expressed in terms of assets net of liabilities. Therefore, an inflow of capital has a negative sign. An increase (a fall) in an external asset has a positive (negative) sign.
2/ Includes equities and other foreign assets of the financial and non-financial sector. Includes financial derivatives.
3/ A positive sign corresponds to an increase in external liabilities.
4/ Considers the net purchase of shares by non-residents through the Lima Stock Exchange (BVL), registered by CAVALI. Includes bonds and similar.
5/ Shows the cumulative last two semesters up to the first quarter of 2024.
* Forecast.
Source: BCRP.

36. Positive net financing of USD 1,978 million is anticipated for **the public sector financial account** in 2024, and USD 1,618 million in 2025. The estimate of financing obtained by the public sector for 2024 has been revised downward since it is anticipated that non-residents would buy sovereign bonds at a slower rate and that financial companies will receive fewer loans.

Table 16
FINANCIAL ACCOUNT OF THE PUBLIC SECTOR 1/
(Million USD)

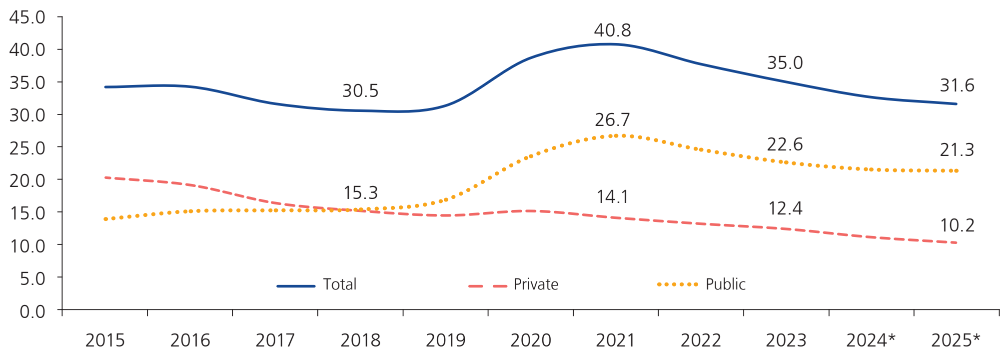
	2023	2024*			2025*	
		Q1.24 4/	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
I. ASSETS	**36**	**-94**	**102**	**-11**	**140**	**140**
II. LIABILITIES (1+2) 2/	**-752**	**-100**	**2,250**	**1,967**	**1,257**	**1,758**
1. Portfolio investment	-1,654	-1,181	968	727	332	413
Issuance	0	0	0	0	0	0
Amortizations	-1,801	-2,015	-397	-387	-1,300	-1,300
Other operations (a - b) 3/	147	835	1,365	1,114	1,632	1,713
a. Sovereign bonds purchased by non-residents	16	516	1,352	1,005	1,632	1,713
b. Global bonds purchased by residents	-132	-318	-12	-109	0	0
2. Loans	902	1,081	1,282	1,240	925	1,345
Disbursements	2,006	2,179	2,342	2,302	2,262	2,682
Amortizations	-1,103	-1,098	-1,060	-1,062	-1,337	-1,337
III. TOTAL (I - II)	**716**	**5**	**-2,148**	**-1,978**	**-1,117**	**-1,618**

1/ Expressed in terms of assets net of liabilities. Therefore, an inflow of capital has a negative sign. An increase (a fall) in an external asset has a positive (negative) sign.
2/ A positive sign corresponds to an increase in external liabilities.
3/ For the purchase and sale between residents and non-residents of government bonds issued abroad or in the local market.
4/ Shows the cumulative last two semesters up to the first quarter of 2024.
* Forecast.
Source: BCRP.

37. As a result of the drop in the stock of public sector debt, the stock of medium- and long-term foreign debt, which mostly consists of loans and bonds, decreased by 0.6 percentage points of GDP to 34.4 percent in terms of output between 2023 and the first quarter of 2024.

The reduction in private sector debt from 12.4 percent of GDP in 2023 to 10.2 percent of GDP by the end of the projection horizon is the primary reason for the predicted decline in the medium- and long-term external debt stock, which is expected to reach 31.6 percent of GDP.

Graph 41
BALANCE OF MEDIUM- AND LONG-TERM EXTERNAL DEBT
(% GDP)



* Forecast.
Memo: the stock of external public debt is the gross public sector debt held abroad, to which is added the holding of BTPs held by non-residents and subtracted the holding of global bonds held by residents.
Source: BCRP.

Net International Reserves

38. Net international reserves (NIRs) as of June 17 increased by USD 3,138 million from the end of the previous year to USD 74,171 million.

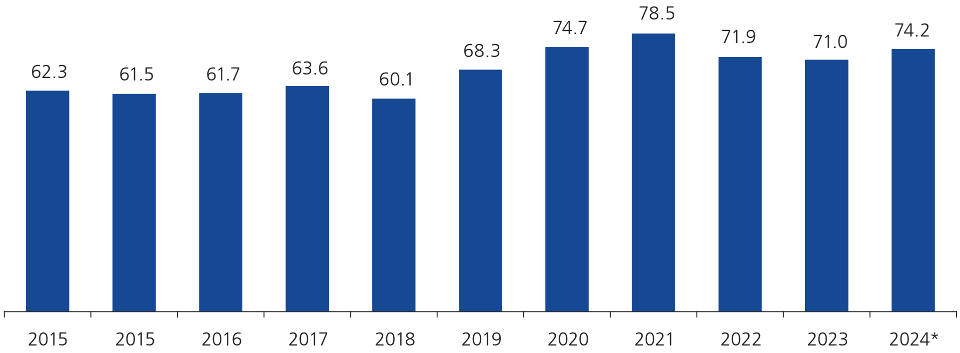
At the end of the projection period, the estimated level of international reserves would account for 26.6 percent of GDP and be sufficient to cover more than four times the short-term external debt balance and nearly five times the total of these obligations plus the current account deficit.

Table 17
NIR INDICATORS

	2021	2022	2023*	2024*	2025*
International Reserves as a percentage of:					
a. GDP	34.7	29.4	26.6	26.6	26.6
b. Short-term external debt 1/	557	460	423	449	464
c. Short-term external debt plus current account deficit	418	283	487	519	490

1/ Includes short-term debt balance plus redemption (1-year) of private and public sector.
* Forecast.

Graph 42
NET INTERNATIONAL RESERVES, 2015-2024
(Billion USD)



* As of June 17, 2024.
Source: BCRP.

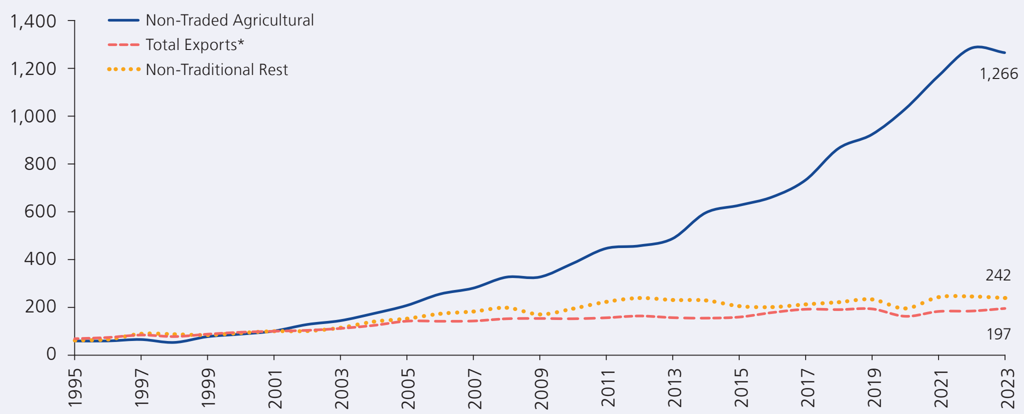
Box 2
EVOLUTION AND DEVELOPMENT OF THE AGROEXPORT SECTOR

The amount of non-traditional agroexports has grown by almost 13 times since 2001. A number of causes, including public policy, the ratification of free trade agreements, and investments in irrigation infrastructure, have contributed to this astounding growth. Growth has not, however, been without difficulties. Unfavorable weather in 2023 reduced the yield of various commodities, including mangoes, asparagus, and blueberries, which decreased shipments abroad and the number of jobs in the industry.

Non-traditional agro-exports, formal employment and income

Non-traditional agro-exports increased in value from USD 435 million to USD 9.18 billion in 2023, an almost 13-fold increase from 2001. Other producers have been forced out of the market as a result of this expansion, which has exceeded the increase in exports of other non-traditional items and has outpaced the rise in global demand for similar products (Zegarra, 2019)[1]. Favorable climate and an off-season crop calendar —ideal circumstances found along the Peruvian coast— have greatly contributed to this development (Cano, 2017)[2]. Fresh grape and blueberry exports increased from 8.5 percent to 37.5 percent of all exports from the non-traditional agriculture sector between 2010 and 2023, making Peru now the world's top exporter of such produce.

EXPORT VOLUME
(2001=100)



*Excludes non-traditional agricultural exports
Source: BCRP.

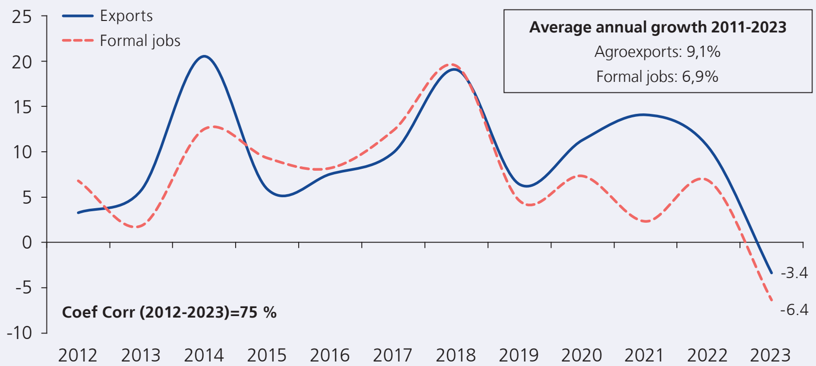
Numerous trade agreements have helped the industry, and since 2010, exports of non-traditional agricultural goods to nations covered by the accords have increased by an average of 16.8 percent annually (11.7 percent overall).

Labor-intensive goods have seen the greatest rise in non-traditional agroexports, which has increased access to formal employment and better wages. Between 2011 and 2023, the number

1 Zegarra, E. (2019). Agroexport boom in Peru: an analysis of product and firm survival. CIES.
2 Cano, A and Ugarte, D. (2017). "Competitiveness and sustainability of water management in the Peruvian agroexport coast".

of jobs in the agriculture industry increased by 6.9 percent year on average, from 218,000 to 489,000. Not only was this employment increase more than that of the private sector as a whole, but it was also the greatest growth of any economic sector. Furthermore, over the same time, the wage bill —the total salaries paid to workers in the sector— saw an average annual growth rate of 11.6 percent (7.8 percent in real terms), which was larger than the increase in the value of the sector's exports. Notably, throughout the 2011–2023 period, workers' average pay increased by 4.5 percent annually on average, from S/ 896 to S/ 1,514 (or 0.9 percent annually on average in real terms). This growth in the wage bill was mostly the result of increased employment.

AGROEXPORTS AND FORMAL JOBS
(% change of volume and jobs index)

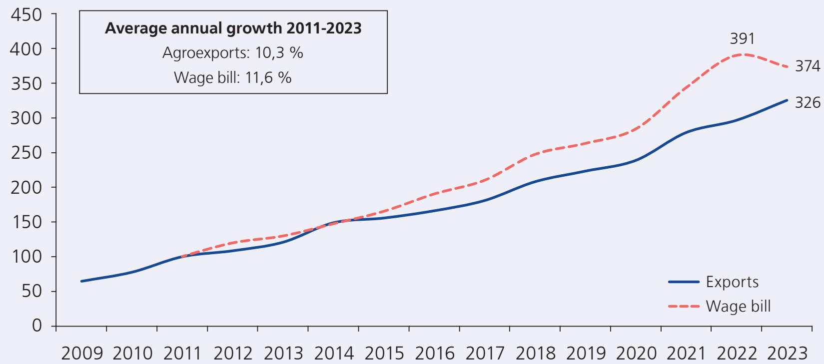


Formal jobs (In thousands)	
2011	218
2012	233
2013	237
2014	267
2015	292
2016	316
2017	355
2018	424
2019	445
2020	477
2021	488
2022	522
2023	489

% chg.	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Exports (volumen)	3.2	5.8	20.6	5.9	7.5	9.9	19.1	6.4	11.3	14.1	10.5	-3.4
Formal jobs 1/	6.8	1.8	12.5	9.3	8.2	12.4	19.5	4.6	7.3	2.3	6.8	-6.4

1/ Includes processing and conservation of fruits and vegetables.
Source: Sunat.

AGROEXPORTS AND FORMAL WAGE BILL 1/
(Nominal index 2011=100)

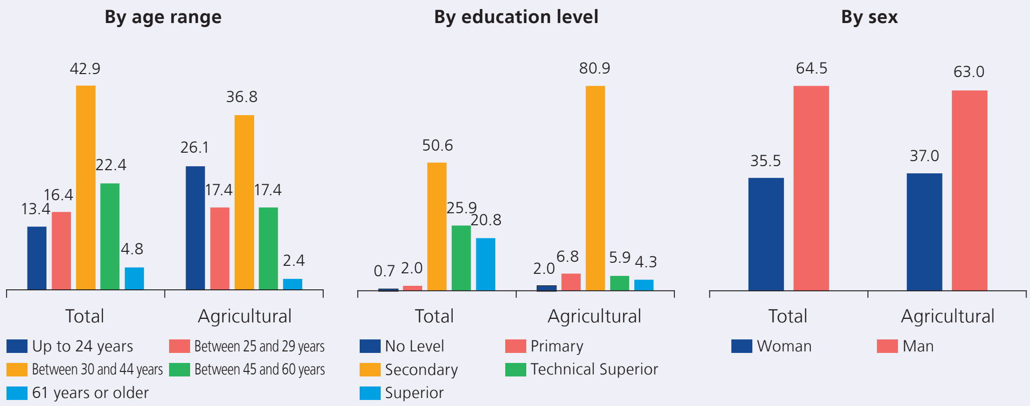


Formal average income (In current soles)	
2011	896
2012	1,004
2013	1,071
2014	1,081
2015	1,110
2016	1,180
2017	1,162
2018	1,145
2019	1,168
2020	1,173
2021	1,388
2022	1,478
2023	1,514

1/ Index based on exports in millions of USD.

A higher percentage of young high school graduates has joined the formal market thanks to the growth in jobs in the agriculture industry. The agriculture sector employs more people with a secondary school degree or less (53.3 percent vs. 89.7 percent) and up to 24 years of age (13.4 percent vs. 26.1 percent) than the official labor market in the overall private sector.

FORMAL EMPLOYMENT
(Percentage share by segment)

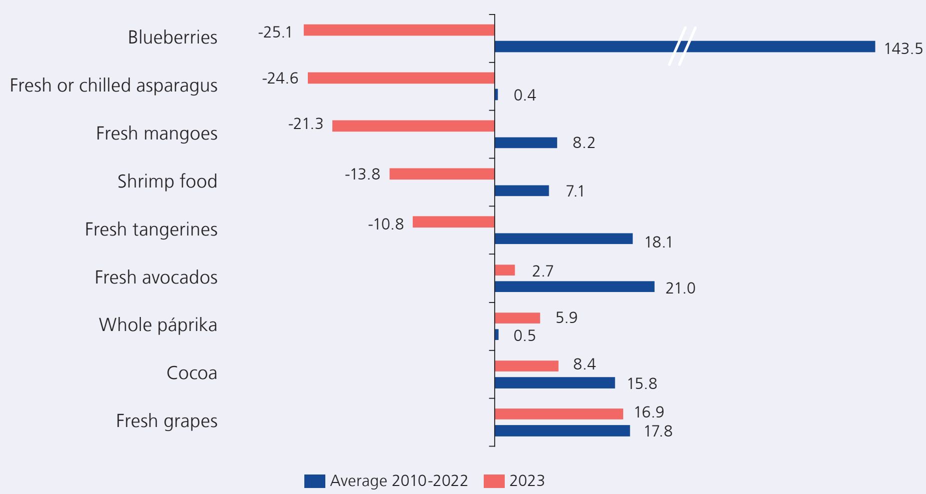


Source: MTPE.

Recent development and outlook for the sector

During 2023, warm weather conditions reduced crop productivity, due to lower flowering, crop tropicalization and increased pest presence; blueberries, asparagus and mangoes were particularly affected, which had a significant impact on employment in the sector. Export volumes decreased mainly in blueberries (25.1 percent), asparagus (24.6 percent) and mangoes (21.3 percent). Grapes exports increased due to the decision to bring forward crops and export as much as possible in the last quarter of 2023, in anticipation of an El Niño southern oscillation (ENSO) in 2024. The lower production of the main agriculture sector products caused significant job cuts by as much as 109 thousand jobs lost in the fourth quarter of 2023.

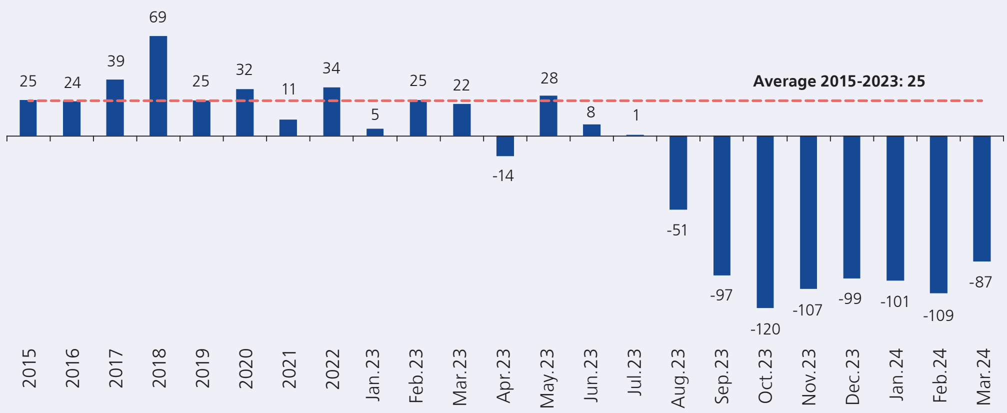
MAIN NON-TRADITIONAL AGRICULTURAL EXPORT PRODUCTS
(Var. % of volume index)



This sharp decline in employment, which is related to the significance of blueberry exports, has not been seen during past bad weather episodes. These saw a real average annual growth of 143.5

percent between 2010 and 2022, going from being nearly nonexistent in 2010 to contributing 18.3 percent of the value of non-traditional agricultural exports. Blueberries generate a high demand for labor, especially during the harvest season.

FORMAL JOBS IN THE PRIVATE AGRICULTURAL SECTOR 1/
(Interannual change in thousands of workers)



1/ Includes the agro-export sector: Processing and conservation of fruits and vegetables.
Source: Sunat - Monthly Payment Form.

Once typical weather returns, businesses in the agriculture industry anticipate a recovery in employment in the sector in the second half of 2024. Employers interviewed in the agriculture industry in La Libertad, Lambayeque, and Piura predicted a rise in employment in the second half of 2024. According to the firms, returning to regular weather patterns is essential to regularizing harvests and, consequently, employment levels for the upcoming season.

The normalization of weather conditions in recent months and temporarily cold conditions could have favorable effects. In the agroexport sector, cold weather favors the flowering of fruit trees; then, neutral conditions foster fruit development. However, in some cases, longer cold temperatures after flowering delays grape and avocado crops. On the other hand, crops grown for the domestic market such as tomatoes, hard yellow maize and sugar cane could be negatively affected by cold temperatures.

Reactivating irrigation projects that would enhance agricultural area devoted to agro-exports is one way to boost potential GDP development. One the one hand, a contract to hand over control of the Majes Siguas II project to the Central Government is being inked. Furthermore, the contract discussions between Peru and Canada to establish the first phase of the Chavimochic III project have been officially started by signing the corresponding minutes. Meanwhile, Chavimochic III would use the Santa River to improve irrigation of 48 thousand hectares and add 63 thousand hectares of agricultural land in the Chao, Viru, Moche, and Chicama valleys, and Majes Siguas II aims to add 60 thousand hectares of agricultural land (23 thousand already added in Majes Siguas I).

III. Economic activity

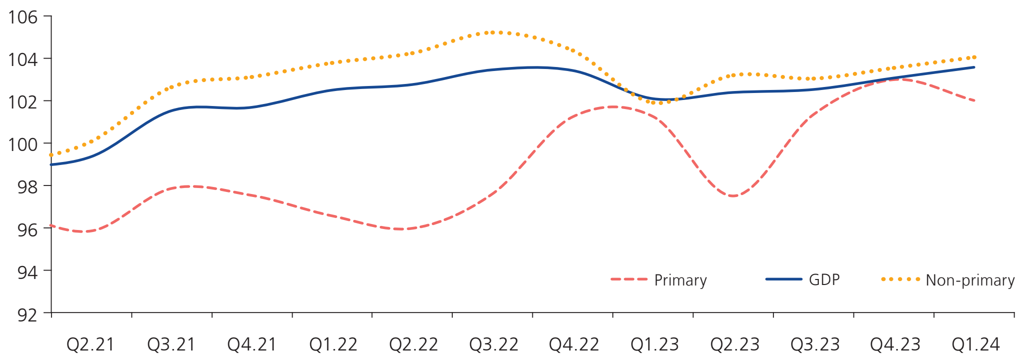
Sectoral GDP

39. The first quarter's economic activity increased by 1.4 percent on an annual basis. The rebound of private expenditure, which increased activity in non-primary sectors including commerce and services, was the main driver of this success. The completion of government infrastructure projects gave the construction industry a boost. Additionally, the leap year effect —which results in one extra day of output compared to the prior year— benefited the quarter's activity.

In the primary sectors, mining production increased in all metals, although the increase in tin, molybdenum and gold is noteworthy. Mining was favored by a greater number of operating days, compared to the same quarter of the previous year, when blockades and standstills were recorded due to social conflicts.

The adverse impact of the El Niño phenomenon on the fishing and agricultural industries hindered growth throughout the quarter. The first quarter of 2024 had a recovery of 0.5 percent according to the seasonally adjusted GDP index.

Graph 43
SEASONALLY ADJUSTED ECONOMIC ACTIVITY INDEXES
(Base 100 = 4Q-2019)



Source: BCRP.

40. In 2024, the economy is projected to expand by 3.1 percent. The recovery of fishing, agriculture, and related industries following the reversal of the previous year's climatic

anomalies, together with the modest influence of the Coastal El Niño, will help this growth recovery with regard to 2023 (-0.6 percent) on the primary sector side. As per the Multisectoral Commission responsible for overseeing the National Study of the El Niño Phenomenon (ENFEN), the cold sea and coastal conditions would endure until September. The most likely scenario is the emergence of a mild Coastal La Niña event in the third quarter and the return to normal conditions in the fourth quarter of 2024 (ENFEN Communiqué N°09-2024 of June 14, 2024).

In a favorable environment of socio-political and price stability, the non-primary sectors' advancement will be aided by the growth in real income and the resurgence of agents' confidence, both of which will have a good effect on private expenditure. Thus, non-primary manufacturing, commerce, and services will grow in response to the higher dynamism of private consumption, while building will be driven by private investment.

The growth estimate for 2024 has been revised up from 3.0 to 3.1 percent, as growth estimates of several main and non-primary industries have been reviewed. On the one hand, a larger increase in the primary GDP is anticipated, since the fishing industry and related industries will benefit from the increased fishing quota. Taking into account the lower level of output in the first quarter, the adjustment on the negative of manufacturing stands out among the non-primary sectors. Considering the stronger rise in private consumption projected for the year, the services sector's growth is revised upward.

In 2025, the economy is predicted to grow by 3.0 percent, the same as in the previous Report. This prediction is predicated on favorable weather that will support the growth of the agricultural, fishing, and related industries as well as a stable sociopolitical and economic climate that will boost private sector agents' trust and, consequently, encourage private spending and non-primary activity.

Table 18
GDP BY ECONOMIC SECTORS
(Real % change)

	2023	2024*			2025*	
		Q1	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Primary GDP	**2.8**	**0.5**	**2.8**	**3.0**	**3.1**	**2.9**
Agriculture and livestock	-2.4	-0.7	3.5	3.5	3.5	3.5
Fishing	-19.7	-29.5	10.5	20.2	14.4	4.9
Metallic mining	9.2	8.8	2.0	2.0	2.2	2.2
Hydrocarbons	0.7	0.9	1.5	1.5	4.2	4.2
Manufacture	-2.4	-17.7	3.9	4.5	4.1	3.4
Non-Primary GDP	**-1.4**	**1.6**	**3.1**	**3.1**	**3.0**	**3.0**
Manufacture	-7.9	-1.8	3.1	2.7	3.0	3.0
Electricity and water	3.7	3.9	3.9	3.3	3.0	3.0
Construction	-7.9	5.1	3.2	3.2	3.4	3.4
Commerce	2.4	2.4	3.2	3.2	2.7	2.7
Services	-0.4	1.6	3.0	3.1	3.0	3.0
GDP	**-0.6**	**1.4**	**3.0**	**3.1**	**3.0**	**3.0**

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

41. Regarding forecasts for each economic sector:

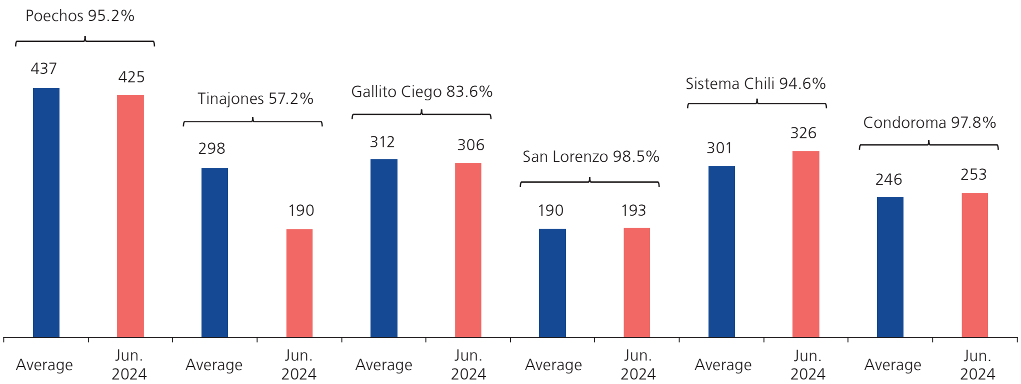
a) The **agriculture industry** is expected to develop at a rate of 3.5 percent annually between 2024 and 2025.

The industry had a decline of 0.7 percent in Q1 of this year. Warm anomalies on the coast, caused by coastal El Niño from March 2023, harmed the production of grapes, mangos, asparagus, and chicken in the first few months of 2024. On the other hand, better water conditions in the second quarter would result in increased production of pasture, fodder, quinoa, and potatoes in the highlands (as opposed to last year). Higher rice output would also be noted; this is a product that would carry significant weight in the second quarter[3].

Growth would be less rapid in the second half of the year than predicted in the prior report, because chilly weather along the coast has delayed the crop calendars, resulting in a lower than projected yield of fruit produce like avocado and grape.[4]

On June 3, there is a lot of water stored. Except for Tinajones, which holds 57 percent of its total capacity, all significant reservoirs hold more than 83 percent of total capacity.

Graph 44
STORED VOLUME OF MAIN RESERVOIRS 1/
(In million cubic metres)



1/ As of June 3, 2023, the average cover the last five years (2019-2023) as of the same date. The percentage listed in each reservoir is the volume stored as a percentage of the total useful volume.
Source: Board of Users and Special Irrigation Projects.

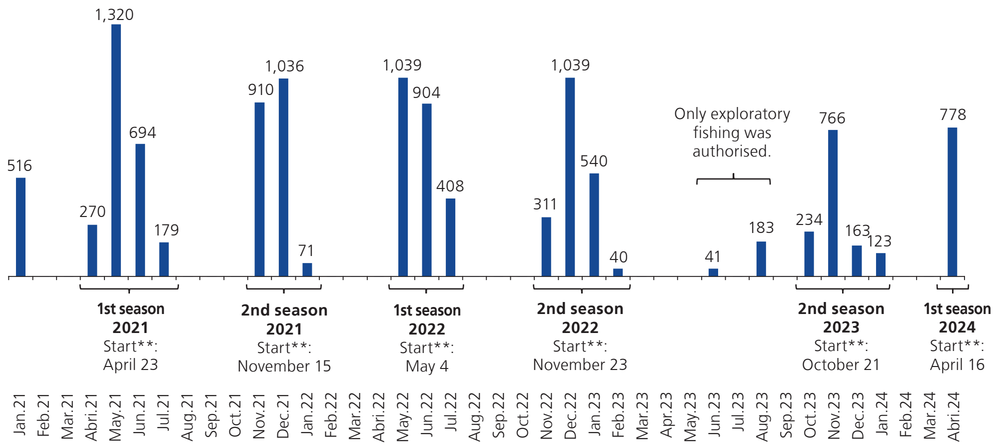
b) The smaller catch of anchoveta (Peruvian pilchard) due to the lower quota set in the second anchoveta season (1.7 million MT in 2023, compared to 2.3 million MT in 2022) and an earlier end to that season (January 12, 2024, compared to February 4, 2023) resulted in a 29.5 percent decline in **fishing sector** output in the first quarter of the year. Furthermore, less squid (80.7 percent) and jack mackerel (93,3 percent) were caught for frozen goods manufacturing, which was linked to the presence of high winds and unusual swells along the coast.

3 It is the second most important product in production for the domestic market, second only to potatoes.
4 That are advanced during warm periods and delayed during cold periods.

Graph 45

ANCHOVY CATCH FOR INDUSTRIAL CONSUMPTION IN NORTH-CENTRAL ZONE*

(Thousands tons)



* Information as of April 30.

** Date of start of exploratory fishing in the seasons that have taken place.

Source: Ministry of Production.

In 2024, it is anticipated that the sector's activity would increase by 20.2 percent. The greater accessible biomass of anchoveta in the north-central zone (about 10.0 million MT), as noted by the Hydroacoustic Assessment Cruise, prompted the upward adjustment to the prior projections (10.5 percent), and led to the authorization of the first anchoveta fishing season in the designated region, with a 2.5 million MT quota. A robust anchoveta biomass would be encouraged by decreasing anomalous sea temperature along the coastline, and by 2025, a 4.9 percent growth in the industry is anticipated.

c) The first quarter of 2024 saw an 8.8 percent growth in the **metal mining** industry as a result of increased extraction of all metals, which was fueled by the base impact of social disturbances that transpired over the same period the year before, as well as increased molybdenum output from Quellaveco.

With higher grades at Toquepala, Southern extracted more copper, which led to a 4.4 percent rise in output. Furthermore, Antamina recorded increased output since it had to halt operations in March of last year owing to severe rains in the Ancash department, which resulted in the temporary shutdown of the ore pipeline. In a similar vein, output rose at Antapaccay, which experienced social unrest in the first quarter of the preceding year.

Likewise, greater extraction by Quellaveco, Antamina, and Southern resulted in increased molybdenum output (26.2 percent). Increased mining by Boroo Misquichilca and Yanacocha was behind the 22.1 percent rise in gold production. The latter was driven by the extending the mine's usable life —the Carbonaceous Minerals Optimization Project—.

In addition, tin output increased by 279.9 percent due to a base effect. Activities had ceased due to social turmoil in the first quarter of 2023.

The industry is expected to expand by 2.0 percent by 2024, mostly due to Quellaveco's increased output of molybdenum. Production is expected to increase by 2.2 percent in 2025 as a result of improved grades from Antamina and increased output from Toromocho.

d) Activity in the **hydrocarbons** sector grew by 0.9 percent in the first quarter of 2024 as a result of more drilling and improved barge transportation, which led to an increase in oil extraction from lot 95. On the other hand, because of reduced output from lot 88 in the face of decreasing thermal energy-based power generation, natural gas production and natural gas liquids fell by 6.2 and 0.2 percent, respectively.

Growth estimates are kept at 1.5 percent for 2024 and 4.2 percent for 2025. Higher oil output from lot 95 would be the main growth driver in 2024. Similarly, it is anticipated that oil output from the rainforest lots would rebound by 2025.

e) Activity in the **primary manufacturing subsector** saw a 17.7 percent decline in the first quarter of 2024, primarily because of decreased production of fishmeal, fish oil, and canned and frozen fish products. These decreases were consistent with the lower quotas for anchoveta and squid in the second season of 2023, respectively.

Forecasts for the sub-sector's growth in 2024 have been updated from 3.9 percent to 4.5 percent, considering the greater fishmeal output increase as a result of this year's higher quota. For 2025, a rise of 3.4 percent is anticipated.

f) The first quarter of the year saw a 1.8 percent decrease in output in **non-primary manufacturing**. The production branches that saw the biggest decreases were those focused on investment, like paints, metal products, and minerals for building; goods intended for export, like knitted items, fabrics, and yarns; and inputs, like glass, explosives, wheat flour, paper and cardboard packaging, and animal feed.

A slower growth rate of 2.7 percent is anticipated for non-primary manufacturing in 2024 compared to 3.1 percent in the previous report, as the industry is expected to recover more gradually in the latter part of the year.

g) Better development in public works led to a 5.1 percent growth in the **construction** industry in the first quarter of 2024. The rebound in both public and private investment should contribute to growth of 3.2 and 3.4 percent in 2024 and 2025.

h) Higher wholesale (2.6 percent) and retail (2.7 percent) sales drove the **trade** sector's 2.4 percent growth in the first quarter of 2024. The sector's activity is predicted to grow by 3.2 and 2.7 percent by 2024 and 2025, respectively.

i) The **services** sector grew 1.6 percent during the first 3 months of the year. In this period, the growth of transportation services (4.3 percent) stands out, associated with the increase in demand for flights and ground transportation, linked to the summer season and Easter Week.

Similarly, the first quarter of the year's holidays contributed to a 3.6 percent rise in lodging and restaurant services, and a 2.8 percent increase in business services, mostly from faster activities of travel agencies and tour operators. It is anticipated that growth in 2024 and 2025 will be 3.1 percent and 3.0 percent, respectively.

Expenditure-side GDP

42. In terms of spending, domestic demand increased by 2.1 percent in the first quarter of 2024 following year-over-year decreases in every quarter of 2023. A minor improvement in private agents' confidence was indicative of the local outlook, given the improved weather and the increasing real salaries due to decreased inflation. However, societal tensions that were noted in the first quarter of the previous year had an impact on household spending and business investment choices; these events did not recur in the first quarter of 2024. These factors helped the private sector, which saw increases in consumption and investment of 1.2 and 0.3 percent, respectively. The acceleration of public investment in comparison to the fourth quarter of 2023 (39.9 vs. 6.4 percent) also helped the GDP result.

Nonetheless, exports increased at a slower pace due to slower shipments of non-traditional goods. Finally, imports increased at a higher rate compared to the previous quarter, as a result of higher purchases of industrial inputs and oil, in line with the recovery of domestic demand.

43. Following the reversal of the supply shocks that occurred in 2023, the private sector's confidence will rebound, supporting the projected 3.1 percent output expansion for 2024. Additionally, a stable socio-political and price environment will encourage private investment and employment, which will support consumption. In the setting of greater real earnings, lower interest rates, less precautionary savings, and the availability of previously intangible sources of liquidity, including pension funds, household spending is predicted to rise. Furthermore, it is

anticipated that businesses would top up the inventory they depleted in 2022 and 2023.

The growth projection for 2024 is revised upwards from 3.0 to 3.1 percent, due to the higher-than-expected increase in public investment in the March Report. A slight positive impact of the release of the AFPs and the CTS accounts funds on private consumption is estimated, unforeseen in the previous Inflation Report. Thus, the current forecasts consider a rebalancing of domestic and external demand.

Even though business confidence is predicted to rise, it is now low and will do so more slowly than anticipated in the March Report. Since company confidence tends to magnify the benefit of high terms of trade, the projections for private investment are kept intact despite the higher Sol. On the other hand, high terms of trade have less of an effect on private investment during times of low business confidence.

The forecasted growth rate of 3.0 percent for 2025 is upheld, supported by the increase of private investment and consumption in a macroeconomic and socio-political climate that will continue to support the resurgence of household and business confidence.

Table 19

DOMESTIC DEMAND AND GDP

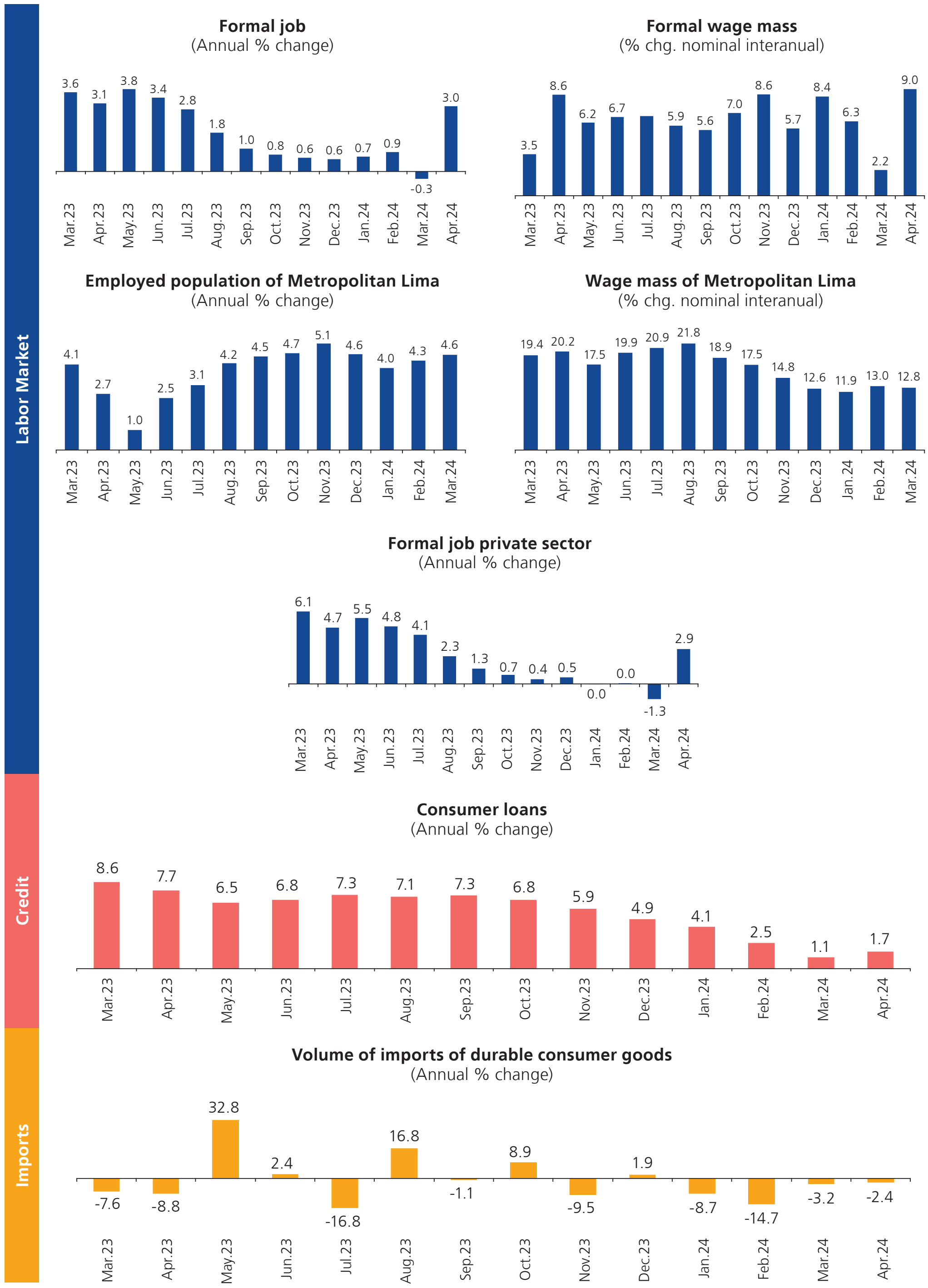
(Real % change)

	2023	2024*			2025*	
		Q1	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Domestic demand	**-2.1**	**2.1**	**3.1**	**3.5**	**3.0**	**3.0**
Private consumption	0.1	1.2	2.7	2.8	2.8	2.8
Public consumption	4.6	3.2	2.0	2.0	2.0	2.0
Private investment	-7.3	0.3	2.3	2.3	3.0	3.0
Public investment	2.8	39.9	4.0	12.0	4.5	4.5
Change on inventories (contribution)	-1.5	-0.5	0.4	0.3	0.0	0.0
Exports	**4.9**	**2.5**	**2.7**	**2.9**	**3.3**	**3.3**
Imports	**-1.4**	**5.4**	**3.0**	**4.6**	**,3.1**	**3.3**
GDP	**-0.6**	**1.4**	**3.0**	**3.1**	**,3.0**	**3.0**

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

44. Most of the **contemporaneous and leading indicators related to private consumption** were mostly positive. In April, labor market indicators picked up as a response to higher employment in the mining, commerce, construction, trade and services sectors; moreover, consumer credit in real terms accelerated, after six sluggish months For its part, growth of the total nominal wage bill remained solid so far this year.

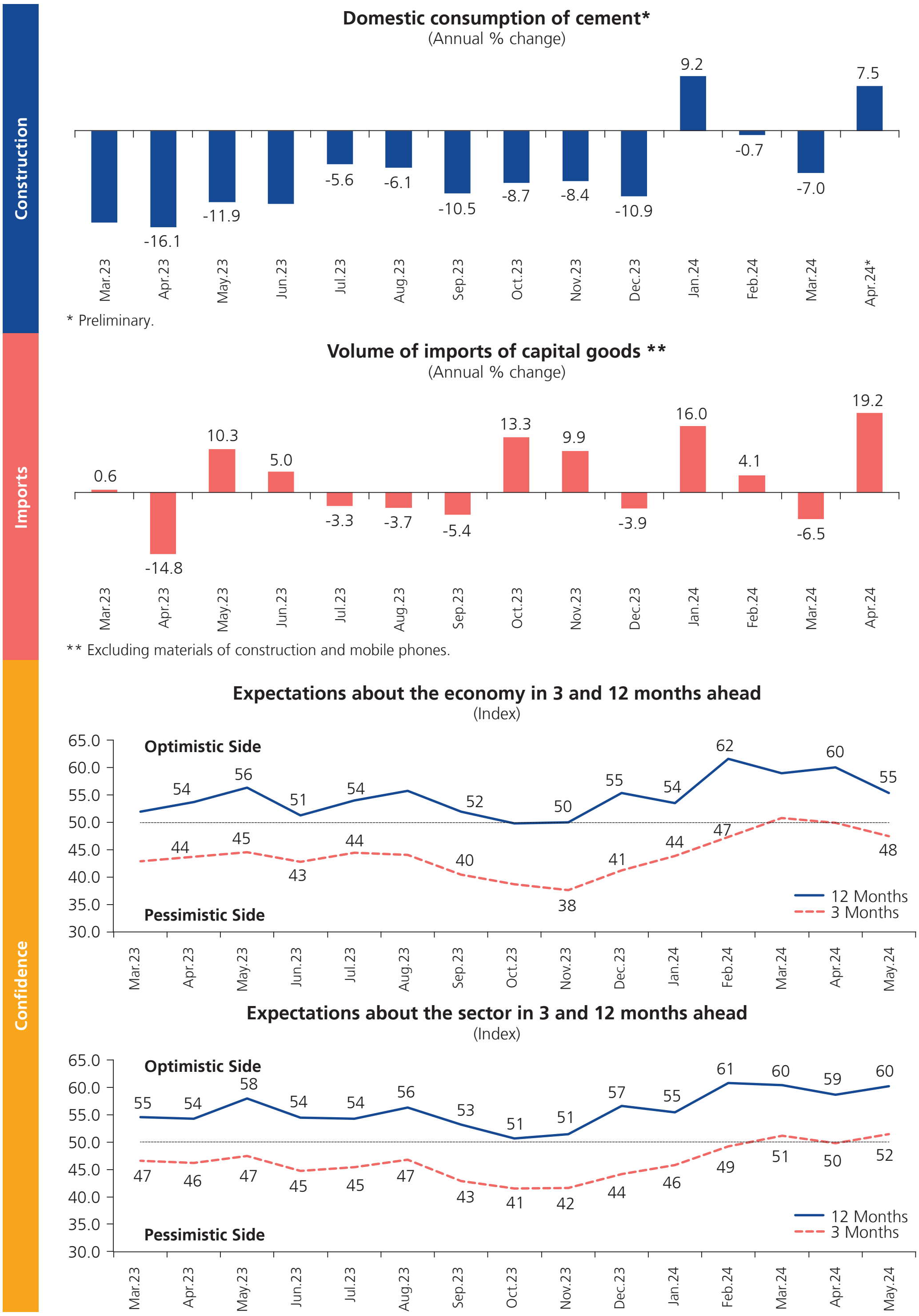
Graph 46
INDICATORS RELATED TO PRIVATE CONSUMPTION



Source: BCRP, INEI, SUNAT and Apoyo Consultoría.

45. **Leading and current indicators of private investment** also point to a generally upward trend. The amount of cement consumed domestically fell in February and March but increased in April; in the same month, imports of capital goods other than mobile phones and building supplies increased. While 3- and 12-month sector expectations increased from April and were in positive territory, 3- and 12-month economic expectations, on the other hand, moderated in May.

Graph 47
INDICATORS RELATED TO PRIVATE INVESTMENT



Source: BCRP, SUNAT and cement companies.

46. The **May Survey on Macroeconomic Expectations** revealed the GDP growth predicted in this report for 2024 and 2025 is within the range of expectations of economic agents, which is 2.6 percent to 3.0 percent and 2.5 percent to 3.0 percent, respectively.

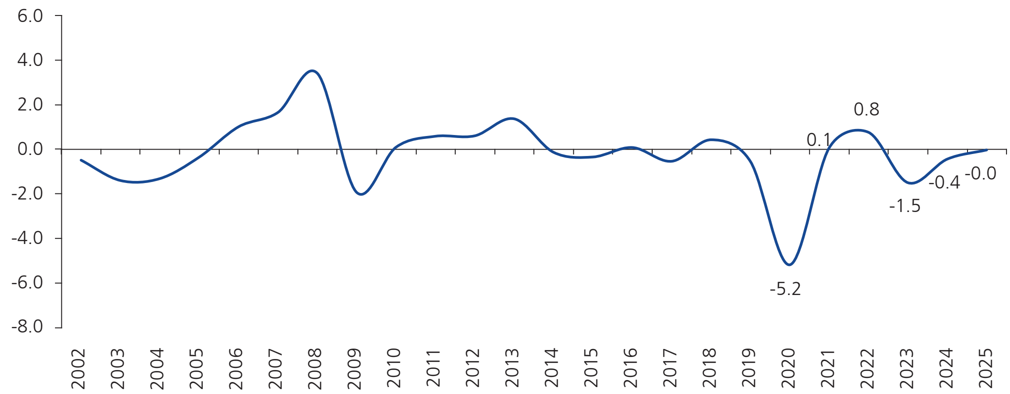
Table 20
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(Real % change)

	IR Dec.23	IR Mar.24	IR Jun.24*
Financial entities			
2024	2.0	2.0	2.6
2025	2.5	2.5	2.5
Economic analysts			
2024	2.5	2.5	2.6
2025	3.0	3.0	2.5
Non-financial firms			
2024	2.3	2.3	3.0
2025	3.0	3.0	3.0

* Survey conducted on May 31.
Source: BCRP.

47. In 2023, the **output gap** —that is, the difference between GDP and potential GDP— is projected to be -1.5 percent. The observed GDP is momentarily below its potential due to supply shocks and their subsequent effects on income and company confidence, resulting in this negative gap. The negative output gap is anticipated to shrink to -0.4 percent of potential GDP in 2024 because of the partial reversal of these impacts. This process is anticipated to continue in 2025 until the gap closes. Potential GDP growth of 2.0 percent for 2024 and 2.6 percent for 2025 is assumed in these predictions.

Graph 48
OUTPUT GAP
(% of potential GDP)



Source: BCRP.

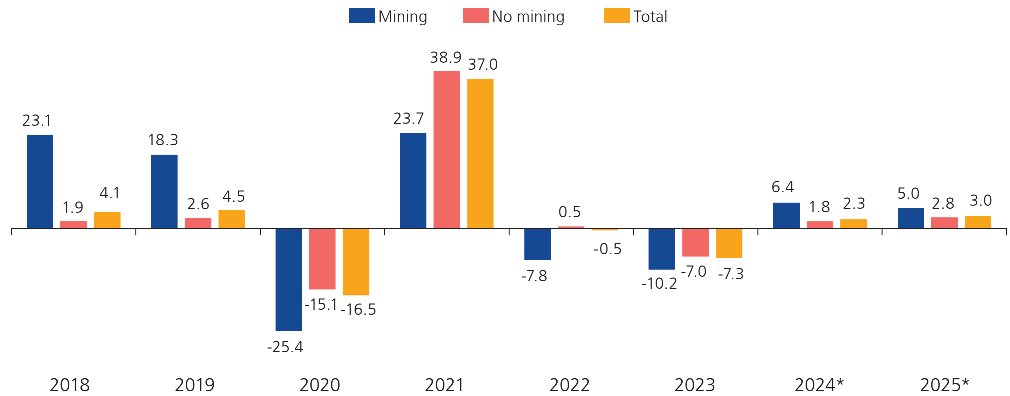
48. **Private consumption** in the first quarter of 2024 increased 1.2 percent year-on-year. The acceleration of its growth rate with respect to the fourth quarter of 2023 (0.2 percent) is explained by the recovery in household confidence, at a time when real incomes are recovering.

Private consumption is predicted to grow by 2.8 percent by 2024 on the assumption of low inflation and a recovering labor market. This growth rate is larger than anticipated in the last Report since the effect of authorized pension fund withdrawals and the availability of CTS deposits are included in the current prediction.

49. In the first quarter of 2024, **private investment** grew by 0.3 percent, helped by the expansion of the non-residential mining and non-mining components. The rise in funding to mining firms Las Bambas, Quellaveco, and Chinalco projects, along with the resurgence of corporate confidence amid improved weather and financial circumstances, account for the outcome. Nonetheless, the decline in independent construction contributed to the decline in residential investment.

In 2024, growth in private investment is anticipated to reach 2.3 percent due to social and political stability, a reversal of supply shocks caused by weather, and more credit-friendly financial conditions buttressing company confidence. Most of these advantageous circumstances are anticipated to hold true by 2025, when 3.0 percent growth in private investment is anticipated, which is consistent with the March prediction.

Graph 49
PRIVATE INVESTMENT
(Real % change)



* Forecast.
Source: BCRP.

Table 21
PRIVATE INVESTMENT
(Real % change)

	Weight with respect to GDP in 2022 1/	2019	2020	2021	2022	2023	2024*		2025*	
							IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Private investment	**20.3**	**4.5**	**-16.5**	**37.0**	**-0.5**	**-7.3**	**2.3**	**2.3**	**3.0**	**3.0**
Residential investment	6.6	4.7	-14.5	35.4	-0.3	-13.3	1.1	-0.4	2.9	2.4
Non-residential investment	13.8	4.4	-17.5	37.8	-0.5	-4.4	2.8	3.5	3.1	3.3
Mining investment	2.1	18.3	-25.4	23.7	-7.8	-10.2	7.8	6.4	5.7	5.0
Non mining investment	11.6	1.3	-15.4	41.0	1.0	-3.4	2.0	2.9	2.6	3.0

1/ To price 2007.
* Forecast.
Source: BCRP.

a. In the **mining sector**, investments between January and March 2024 amounted to USD 995 million, mainly from Anglo American Quellaveco (USD 142 million), Antamina (USD 93 million) and Las Bambas (USD 75 million). The projection for the 2024-2025 period considers both the construction of Phase II of the Toromocho and San Gabriel Expansion projects and the start of construction of the Antamina, Zafranal and Corani Replenishment projects.

b. Regarding **non-mining sectors**, the progress of works at Jorge Chávez International Airport stands out, with an investment of USD 2 billion. The construction of the new passenger terminal will be completed by the end of 2024.

The first phase of the Chancay Port Terminal will be commissioned in November 2024, at an investment of USD 1.3 billion. This year, the expansion of the south pier of Callao port (Bicentennial Pier) was completed at an investment of USD 350 million. Work continues on Line 2 (of which Section I has been completed and is in the testing stage) and on a branch of Line 4 of the Lima Metro. In addition, Viettel won the concession for the 2.3 GHz and AWS-3 bands (investment commitment of USD 600 million) and Consorcio Eléctrico Yapay obtained the concession for the Enlace 500 kV Huánuco - Tocache - Celendín - Trujillo transmission line (investment commitment of USD 335 million).

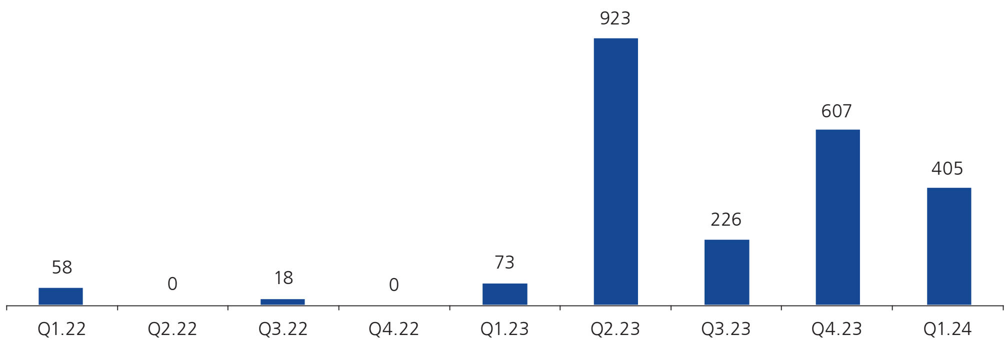
Table 22
MAIN ANNOUNCEMENTS OF PRIVATE INVESTMENT PROJECTS: 2024-2025

SECTOR	INVESTOR	PROJECTS
MINING	Antamina	Replacement of Antamina
	Zafranal	Zafranal
	Chinalco	Expansion of Toromocho Mine stage 2
	Bear Creek Mining	Corani
	Buenaventura	San Gabriel
HYDROCARBONS	Cálidda Gas Natural del Peru	Wide-Scale Use of Natural Gas
	Promigas Peru	Distribution of Natural Gas
ELECTRICTY	Huallaga Hydro	Hydropower plant Huallaga I
	Luz del Sur	Hydropower plant Santa Teresa II
	Consorcio Eléctrico Yapay	Transmission Line 500 Kv Huanuco-tocache-Celendin-Trujillo
	Hydro Global Peru	Hydropower plant San Gaban III
	Acciona Energía	San José Solar Power Plant
INDUSTRY	Siderperu	Plant capacity expansion
	Aceros Arequipa	Plant capacity expansion
	Unacem	Environmental Sustainability Program
	Arca Continental Lindley	Environmental Sustainability Program
TRANSPORT	Consorcio Nuevo Metro de Lima	Line 2 of the Metro network of Lima and Callao
	Cosco Shipping Ports Chancay	Chancay I Port Terminal
	Lima Airport Partners	Expansion of International Airport (Jorge Chavez)
	Shougang Hierro Peru	Marcona Port Terminal (Marcona)
	APM Terminals	Modernization of Muelle Norte
TELECOMUNICATIONS	Viettel Peru	Mobile Services with 4G technology
	América Móvil Peru	Fibre optic networks

Source: Information on companies, newspaper and specialized media.

c. Proinversion has awarded projects worth USD 2,310 million between 2022 and the first quarter of 2024, mostly electricity transmission lines (USD 924 million) and telecommunications concessions (USD 600 million). The USD 405 million New San Juan de Marcona Port Terminal was awarded in March 2024.

Graph 50
AWARDED CONCESSIONS BY PROINVERSION, 2022-2024
(Million USD)



Source: Proinversión.

Table 23
PROJECTS AWARDED BY PROINVERSIÓN
(Million USD)

Year	Quarter	Project	Sector	Modality	Projected Investment (Without VAT)
2022	I Quarter	High Performance Schools in Pasco, Huancavelica, and Cusco regions	Education	Private initiative	58
	II Quarter	-.-			
	III Quarter	Transmission line 220 kv Reque – Nueva Carhuaquero, substations, lines and extensions and SE Nueva Tumbes 220/60 kv – 75 MVA and LT 60 kv Nueva Tumbes – Tumbes	Electricity	Concession	18
	IV Quarter	-.-			
2023	I Quarter	Transmission line 220 kv Ica – Poroma, extensions and substations and transmission line ITC 220 kv Caclic – Jaén Norte (2 circuits), extensions and substations	Electricity	Concession	73
	II Quarter	Concession of the public telecommunications service at the national level in the frequency ranges 1,750–1,780 MHz and 2,150–2,180 MHz and 2,300–2,330 MHz	Communications	FITEL Projects	600
		Specialized Hospital in the Piura Care Network of ESSALUD, district of Veintiseis de Octubre, province of Piura, department of Piura and Specialized Hospital Chimbote in the Ancash Care Network of ESSALUD, district of Nuevo Chimbote, province of Santa, department of Ancash	Health	Concession	323
	III Quarter	Transmission Line 500 kv Piura Nueva-Frontera Substation (Second Call)	Electricity	Concession	108
		Transmission line 500 kv San José – Yarabamba, extensions and substations, transmission line ITC 220 kv Piura Nueva – Colán, extensions and substations, transmission line ITC 220 kv Belaúnde Terry – Tarapoto Norte (2 circuits), extensions and substations and ITC SE Lambayeque Norte 220 kv with sectioning of the transmission line 220 kv Chiclayo Oeste – La Niña/ Felam, expansions and substations, Piura Este 220/60/22.9 kv	Electricity	Concession	118
	IV Quarter	Transmission line 500 kv Huánuco – Tocache – Celendín – Trujillo, extensions and substations and transmission line 500 kv Celendín – Piura, extensions and substations	Electricity	Concession	607
2024	I Quarter	New Port Terminal of San Juan de Marcona	Transport	Private initiative	405
		Accumulated			**2,310**

Memo: Projected investment corresponds to the investment offered by the company/consortium that was awarded the project.
Source: Proinversión.

d. As of June 2024, Proinversion reported its investment initiatives for the 2024–2025 period totaled USD 16,787 million.

Table 24
MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2024 - 2025+
(Million USD)

	Estimated investment
To be called	**16,787**
18 Conservation Projects of the National Road Network	2,436
Frequency Band 3.5 GHz (3,300 – 3,400 MHz y 3,600 – 3,800 MHz)	1,468
Longitudinal of the Sierra road project, Section 4	1,180
2 Rehabilitation and Conservation Projects of the National Road Network	1,113
Expansion of Bayóvar phosphates	940
Gate of the Pacific Peninsula	767
Ancon Industrial Park	762
Chinecas Project	650
Integral Water System Chancay Valley - Lambayeque	619
Third Group of Airports (includes Operation and Maintenance of Chinchero)	550
El Algarrobo Mining Project	512
Header works for water supply in Lima (1st stage)	476
Huancayo - Huancavelica Railway	394
Group 1: Transmission Plant Projects	329
IPC- Wastewater Treatment System in Trujillo	312
Chimbote Port Terminal	288
Schools in risk: Metropolitan Lima	255
National Hospital Hipólito Unanue	250
Operation and Maintenance of Backbone Fiber Optic Network	233
Central Military Hospital	230
Choquequirao Tourism Project	220
Maintenance of the Cajamarca hospital	179
Treatment system for wastewater Huancayo	172
IPC- Wastewater Treatment System in Cajamarca	159
Hospital Villa El Salvador - HEVES	154
Treatment System for wastewater - Desalination Plant Paita and Talara	150
Schools in Risk: Ate-San Juan de Lurigancho	140
Group 3: Transmission Plant Projects	137
Ilo desalination plant	106
Treatment system for wastewater - San Martin	105
Group 4: Transmission Plant Projects	101
IPC -Wastewater Treatment System for Puerto Maldonado	98
Sanitation service in Chanchamayo and Concepción	93
IPC -Wastewater Treatment for effluent dumping or reuse, Chincha province, Ica, Peru	92
Schools at Risk: Comas - San Martín de Porres	91
Sanitation service in Iquitos	91
Frequency Band 26 GHz (25.9 – 26.7 GHz)	87
Lima Convention Centre	78
Sanitation service in Tumbes and Contralmirante Villar	72
Schools at Risk: Villa María del Triunfo	70
New port terminals in Loreto (Saramiza and Iquitos)	68
IPC -Wastewater Treatment for effluent dumping or reuse, Cajamarca	66
Wide-scale use of natural gas - Southwest Concession	60
Reinforcement of infrastructure, equipment and maintenance of Cusco School	59
IPC -Wastewater Treatment for effluent dumping or reuse, Cusco	53
Desalination Plant - Lambayeque	49
Sanitation service in Huaura and Barranca	44
Pucallpa New Port Terminal	41
Group 2: Transmission Plant Projects	37
IPC -Wastewater Treatment for effluent dumping or reuse, Cañete	33
Operation and maintenance of the Instituto Nacional del Niño	31
Sanitation Wash Rural Iquitos	26
Solid Waste Management - GIRSE	24
Sanitation service in San Ignacio	21
Cable Car - Historic Centre of Lima - Cerro San Cristobal	16

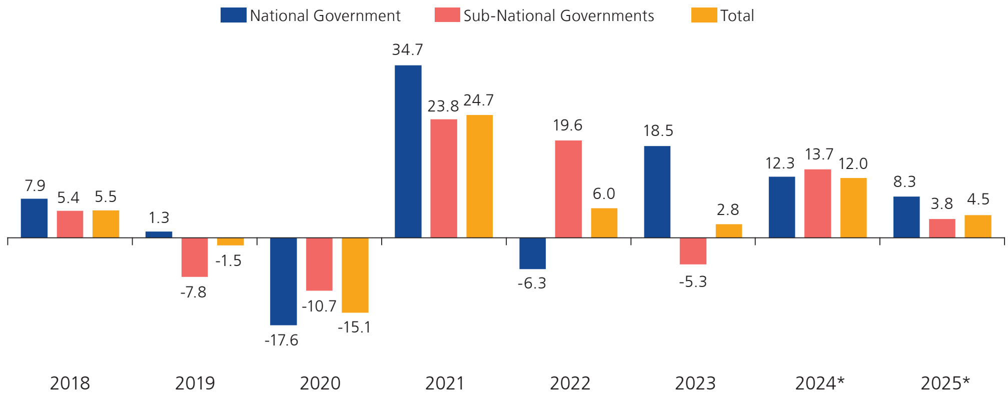
Source: Proinversión.

50. The growth in **public investment** in the first quarter of 2024 was 39.9 percent, which may be attributed to increased government disbursements across the board, with subnational examples standing out. Infrastructure projects related to education, transportation, and integrated solutions were the most notable at the national

government level. The latter was carried out under the Reconstruction program under the framework of the Government-to-Government Agreement with the United Kingdom. Regionally, Junín, Ayacucho, and Loreto were notable for their executions; locally, 22 out of 25 departments had larger investments, with Cusco, Lima, Ancash, and Loreto governments having the most notable operations.

In 2024 and 2025, public investment is projected to rise by 12.0 and 4.5 percent, respectively. The faster progress of works recorded in the first quarter explains why the public investment increase for 2024 is revised upward from 4.0 to 12.0 percent compared to the previous report.

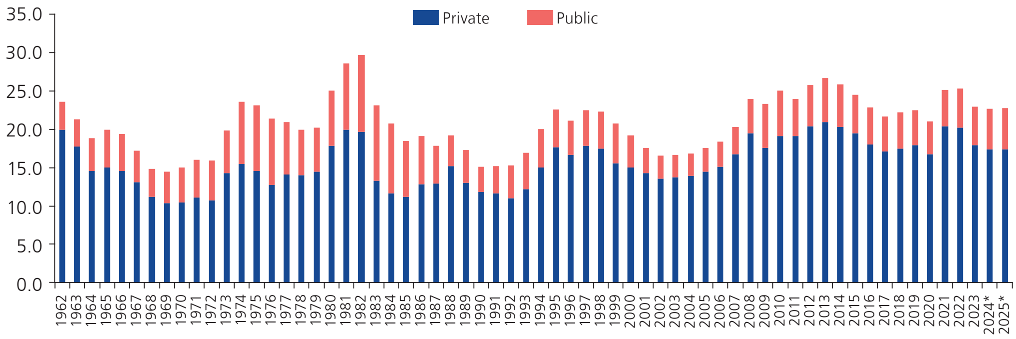
Graph 51
PUBLIC INVESTMENT
(Real % change)



Memo: Public investment is made up of investment by the National Government, Subnational Governments and investment by public companies.
*Forecast.
Source: BCRP.

51. Between 2023 and 2024, **gross fixed investment** as a percentage of GDP is likely to decrease from 22.9 to 22.6 percent, as growth in private investment is not anticipated to outpace growth in overall production. Around 22.7 percent of GDP will be invested by the time the forecasted period ends. Maintaining financial and economic stability, building a suitable business climate, and implementing changes that support the economy's productivity and greater potential GDP growth are all essential for investment to rebound.

Graph 52
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2025
(% GDP)



* Forecast.
Source: BCRP.

Box 3
THE ROLE OF BUSINESS EXPECTATIONS IN RESIDENTIAL AND NONRESIDENTIAL INVESTMENT

Company confidence as determined by company expectations is a characteristic that often identifies private investment. These expectations, because they are readily available, allow one to predict the behavior of private investment and, by extension, GDP. What kind of investment would be most impacted by a shock to the previously described assumptions is one route that has to be examined. It would intuitively make sense to argue that business confidence more strongly influences investments that directly benefit local businesses.

Private investment is examined in this box by breaking it down into its non-residential and residential components. The identification of each segment's contribution to the overall increase of private investment is made easier by this breakdown. Furthermore, we calculate how private investment would react to a shift in business expectations and determine to what extent expectations changes influence non-residential investment unrelated to mining enterprises.

Residential investment calculation methodology

The resources devoted by individuals or businesses to the building of new homes, or the renovation of preexisting residential infrastructure are included in the national accounts as residential investment. On the other hand, commercial operations pertaining to the procurement of technology, building of non-residential infrastructure, and the purchase of machinery are referred to as non-residential investment. Different factors affect the two sorts of investments. Residential investment would be impacted by variables like income, demographics, credit availability, or housing costs, whereas non-residential investment would depend, among other things, on business expectations and the cost of borrowing.

The yearly quantities of investment in residential structures from the Supply and Use Tables (COU) computed by INEI are referred to as residential investment in this context. The difference between total and residential investment is used to calculate non-residential investment based on this data. Furthermore, we estimate the non-residential investment of mining firms and, by difference, the non-residential investment corresponding to non-mining enterprises using data on investment by mining companies from the Ministry of Energy and Mines.

Evolution of residential and non-residential investment

Over the past fifteen years, the elements of private investment have had varying effects on the overall investment's progress. The trajectory of private investment between 2008 and 2013 was mostly driven by mining investment, which profited from the rise in metal prices[5]. Mining investment accounted for 6.7 percentage points of the average 11.8 percent growth in private investment throughout this time. Between 2014 and 2019, the average amount of private investment fell by 0.5 percent. This decline was primarily caused by lower mining investment, which was negatively impacted by 1.0 percentage point. Other contributing factors included the reversal of metal prices and the increase in permits and paperwork needed to begin a mining project[6]. Despite a decrease

5 The metal price index increased on average 10.0 percent average per year between 2008 and 2011 and 3.6 percent in the 2008-2013 period. After 2013, metal prices reversed, decreasing by an average of 2.1 percent per year on average in the 2014-2019 period.

6 The number of administrative processes in the mining sector increased from 12 to 265 between 2001 and 2021. Article "Minería 2021: tramitología o consenso" by the president of the Instituto de Ingenieros de Minas del Perú (IIMP) 2021.

in business confidence compared to prior years, non-residential non-mining investment contributed positively (by 0.7 percentage points) over these years.

The non-residential non-mining investment (3.7 percentage points) and residential investment (1.6 percentage points) contributed to the average rise of 4.4 percent in private investment between 2019 and 2022. During this period, the solid growth shown by residential investment during 2021 stands out, driven by teleworking, low interest rates, perceived higher profitability of residential investment and the excess savings generated by the extraordinary income from AFPs and CTS funds withdrawals as well as bonds. Regarding the last point, the COVID-19 restrictions played an important role in reducing the proportion of disposable income that could be used for consumption.

The investments that were not related to mining or residential construction had the least decline in 2023. Due to a decline in business confidence, this form of investment had the worst decline in the first quarter (12.1 percent). However, starting in the fourth quarter (6.4 percent), it began to show improvement and positive growth rates. Additionally, from the second quarter, mining investment has improved, with positive rates since the fourth quarter (0.5 percent). As of 2022, residential investment slowed down (-0.3 percent) as a result of declining home demand, growing expenses, increased interest rates, and the depletion of savings.

Even during periods of downturn in private investment, residential investment has generally continued to expand at positive rates. During the 2008–2023 study period, private and residential investment fell at the same time in 2015, 2020, 2022, and 2023.

PRIVATE INVESTMENT
(Real percentage change)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Private investment	**23.9**	**-8.8**	**25.8**	**11.0**	**15.6**	**7.1**	**-2.0**	**-4.3**	**-5.0**	**0.0**	**4.1**	**4.5**	**-16.5**	**37.0**	**-0.5**	**-7.3**
Residential investment	9.2	4.2	15.6	4.3	14.7	8.2	2.3	-2.3	1.5	0.1	1.8	4.7	-14.5	35.4	-0.3	-13.3
Non-residential investment	31.0	-14.1	30.7	13.9	16.0	6.7	-3.7	-5.2	-7.9	0.0	5.2	4.4	-17.5	37.8	-0.5	-4.4
Mining investment	25.5	80.1	38.3	84.8	13.0	18.0	-8.5	-11.1	-50.8	12.4	23.1	18.3	-25.4	23.7	-7.8	-10.2
Non-mining investment	31.5	-21.8	29.3	-0.4	17.1	2.6	-1.8	-2.9	7.3	-2.0	1.9	1.3	-15.4	41.0	1.0	-3.4

1/ At 2007 prices.

Evolution of investment and business confidence

The trajectory of private investment is intimately associated with the confidence of businesses. According to Box 3 of the June 2023 Inflation Report, shifts in company confidence have a significant role in illuminating how economic activity has changed over time. For instance, in the quarter after a shock, private investment decreases by 0.68 percent for every five percentage point drop in the index of the three-month outlook of the economy[7].

The correlation coefficients of private investment for the various investment kinds are displayed in the following table. Significantly, between 2008 and 2019, there was a strong association between

7 In the box: "Business Confidence and Economic Activity" https://www.bcrp.gob.pe/docs/Publicaciones/Report e -Inflation/2023/june/report-of-inflation-june-2023.pdf.

the percentage change in non-residential investment and company optimism, with two-period lag. However, there is less of an association between company confidence and residential investment and mining non-residential investment. It should be noted that when the Covid-19 pandemic (2020–2023) is taken into account, these associations are much weaker.

CORRELATION WITH BUSINESS CONFIDENCE
(Sector 3 months)

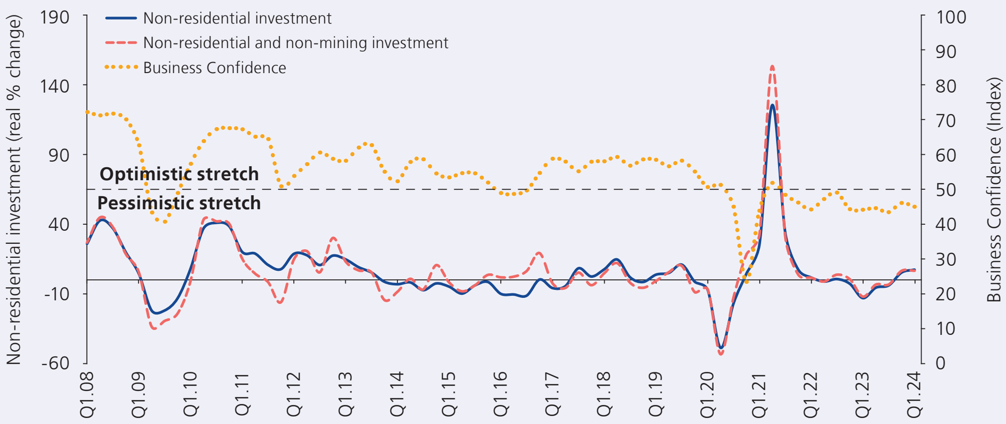
	Q1.2008 - Q4.2019	Q1.2008 - Q1.2024
Private investment (T+1)	0.81	0.28
Residential investment (T)	0.51	0.08
Non-residential investment (T+2)	0.84	0.38
Non-residential mining investment (T)	0.19	0.32
Non-residential non-mining investment (T+2)	0.74	0.27

Note: Calculated correlation between business confidence and the lag of the maximum correlation investment type.

During the examined period, non-residential investment showed a negative rate 60 percent of the times when business confidence lagged two periods in negative territory. This finding lends credence to the theory that non-residential and non-mining investment would also benefit from elements that boost company confidence, such as institutional and political stability, ease of doing business, and predictability of economic policy.

After 2022, non-residential investment growth rates have been negative, and business confidence has stayed in the pessimistic zone. Non-residential investment didn't record positive rates until the third quarter of 2022, during which time predictions indicated a modest rebound that nonetheless didn't cross into the positive range. Business confidence and non-residential investment saw a minor uptick in the last quarters of 2023.

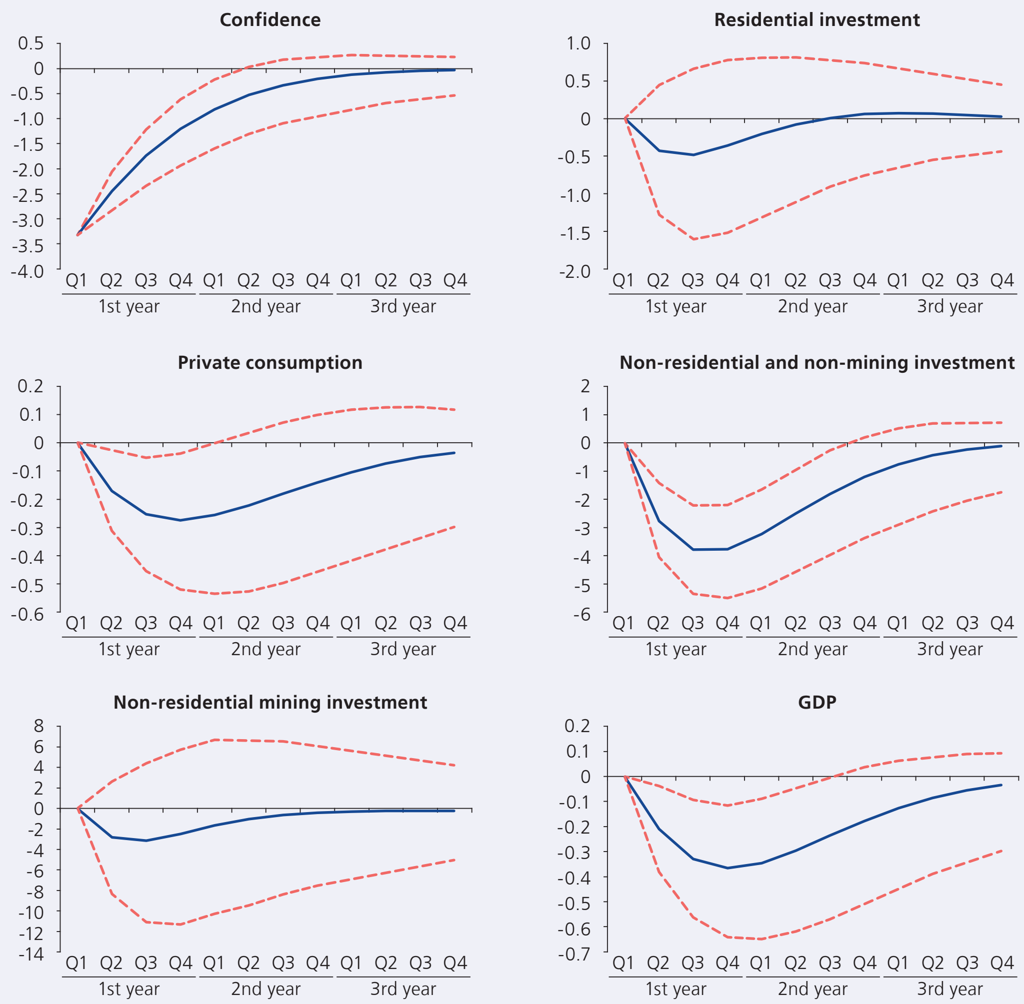
NON-RESIDENTIAL INVESTMENT AND BUSINESS CONFIDENCE
(Real percentage changes and index)



Effect of a business confidence shock on private investment.

To estimate the response of residential and non-residential, mining and non-mining private investment to a change in expectations, a structural autoregressive vector SVAR model with recursive (or Choleski) identification is estimated. The variables ordered from most exogenous to endogenous correspond to residential investment, non-residential mining investment, non-residential non-mining investment, GDP, private consumption and business confidence. The terms of trade variable is included as an exogenous variable[8]. The estimation was carried out with quarterly information from 2002 to 2019.

The consequences of a decline in the business confidence index are displayed in the following graphs. It is evident that, in the face of a shock to company expectations, non-mining non-residential investment is the only one with a statistically significant impact; mining and residential investment, on the other hand, often do not register statistically significant changes. Likewise, domestic production and private consumption are negatively impacted by the decline in confidence.



Impulse responses to a one standard deviation negative shock in business sector confidence. The bands represent an interval confidence of 68 percent.

8 In general, domestic shocks in a small open economy have little impact on international variables. Therefore, the terms of trade are considered as an exogenous variable in a system of equations representing the domestic economy.

In conclusion

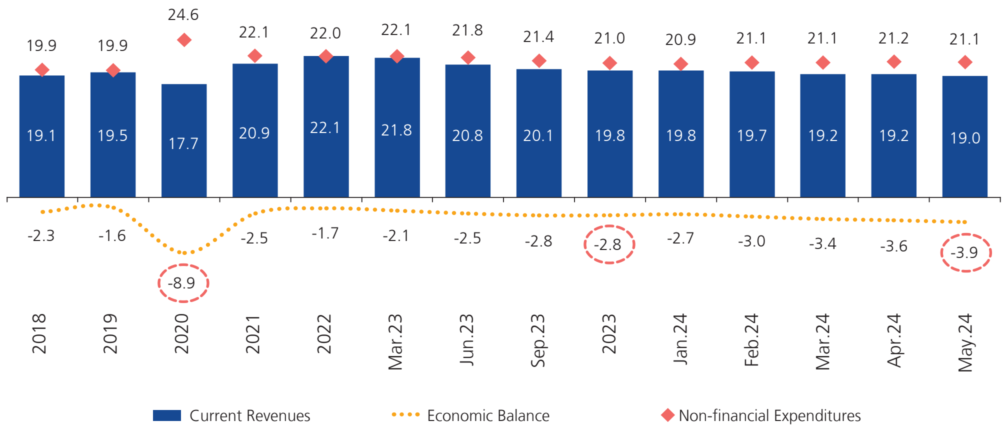
The present analysis suggests that there is a relationship between business expectations and investment by non-mining companies in private non-residential projects. This would be associated with events in the years 2021-2023 when expectations were below their level of optimism, as reflected in negative private investment that persisted until the end of 2024. Since 2021 business confidence has deteriorated, the longest period in which business confidence has dwelt in negative territory. This has coincided with the slowdown and fall in non-residential investment that continued until the third quarter of 2023 although with a slight improvement in business confidence. In contrast, in periods such as 2014-2019, despite the fall in mining investment, non-mining non-residential investment increased because business confidence remained positive.

A one standard deviation negative shock to businessmen's expectations reduces non-residential non-mining investment by 3.8 percentage points over a five-quarter period, according to an impulse-response exercise.

IV. Public finances

52. As a result of the decline in current revenue, the **cumulative fiscal deficit over the previous 12 months** grew from 2.8 to 3.9 percent of GDP between December 2023 and May 2024. The lower annual income tax (IR) regularization, which was brought about by lower export prices and economic activity, as well as the extension of the deadline for filing annual tax returns and regularization of individuals and MSEs returns from March to May of 2024, had an impact on revenues. Lower primary results for state-owned enterprises and greater non-financial expenditures as a proportion of GDP both had less of an impact.

Graph 53
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2018-2024
(Accumulated last 12 months - % GDP)



Memo: The economic result is calculated as current income of the General Government - Non-financial expenditures of the General Government + other (capital income of the General Government and primary result of state-owned enterprises) - interest payment on debt of the Non-Financial Public Sector.
Source: MEF, SUNAT, and BCRP.

According to components, tax revenues —particularly income taxes on regularization and income taxes for domiciled legal entities— as well as the value added (general sales tax, IGV) on imports were the primary causes of the decline in current income in terms of output. Reduced non-tax income had a role as well, with royalties, oil and gas royalties, and interest on deposits made with the Public Treasury standing out as particularly significant.

The primary causes of the rise in non-financial expenditures as a percentage of GDP were: (i) higher gross capital formation at all three levels of government (which, in the case of the Regional Governments, reached historically high levels); and (ii) higher salaries because of pay increases granted to the health and education workers and other government workers under various labor regimes at the end of the previous year.

53. The **fiscal deficit** is projected to remain at 2.8 percent of GDP between 2023 and 2024, in line with the ceiling set by the text approved in the first vote by Congress on the fiscal balance legislative powers bill. By the end of the projection horizon, the deficit is expected to narrow to 1.6 percent of GDP.

The projection for 2024 reflects a decline in non-financial expenditure as a share of GDP, primarily in current spending, as a result of extraordinary costs incurred in short-term programs (Con Punche Perú and Emergencia-FEN) being partially offset by the adoption of policies restricting non-essential spending (Emergency Decree No. 006-2024). Concurrently, real current income is predicted to rise by 4.4 percent, following a sharp decline in the previous year (the largest since 2009, excluding the years of the Covid 19 pandemic). However, as a proportion of GDP, this income would have decreased. Higher interest payments on domestic debt and a lower main result for state-owned businesses would both reinforce this evolution of the deficit.

With a rebound in current income due to better export prices and increased economic activity, the smaller deficit in 2025 anticipates a return to the consolidation of public finances. Similarly, this estimate considers a partial recovery of the primary result of state-owned businesses, mostly explained by Petroperu's figures.

Compared to the March Report, the fiscal deficit forecasts are revised upward from 2.0 to 2.8 percent of output for 2024 and from 1.5 to 1.6 percent of GDP for 2025. The upside revision for 2024 is mainly explained by slower revenue collection to May, the downside revision on the primary result of state-owned enterprises and higher expenditures on gross capital formation. The latter factor implies a higher starting point for 2025, which explains the revision on the upside of the projected fiscal deficit for that year.

The level of fiscal deficit attained as of May is incompatible with the fiscal responsibility framework's sustainability concept, which has been implemented nationwide over the last few decades and is one of the pillars of macroeconomic stability. In order to reach this year's target of 2.8 percent of GDP, both a rebound in income in accordance with predicted assumptions and stringent spending management for the balance of the year are taken into account. The latter is significant since, in order to achieve this deficit level, the budget covering spending would need to be less than anticipated in the Opening Institutional Budget.

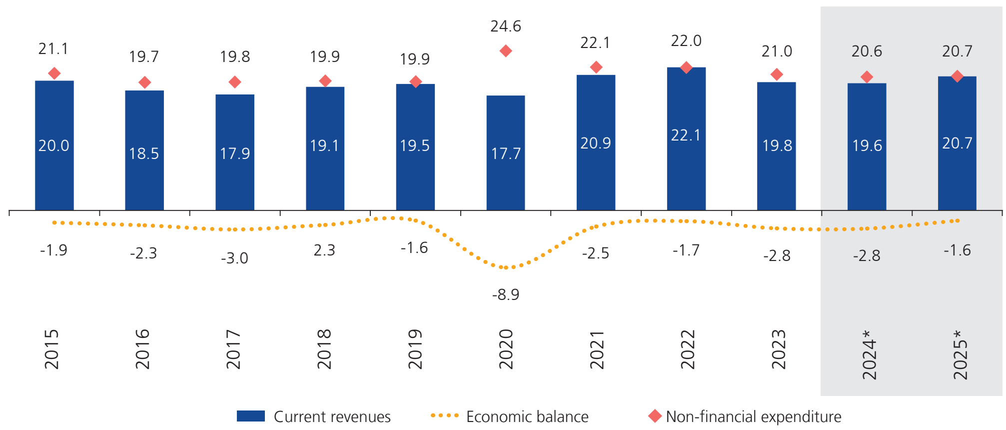
Revenue projections and conservative public spending growth (actual increase of 4.0 percent) by 2025 would enable substantial fiscal consolidation progress (deficit of 1.6 percent). Given that rising global prices may only be temporary, caution in public expenditure is especially important in this situation.

Table 25
NON-FINANCIAL PUBLIC SECTOR
(% GDP)

	2023	2024*			2025*	
		May [1/]	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
1. General government current revenues	**19.8**	**19.0**	**20.2**	**19.6**	**20.7**	**20.7**
Real % change	*-10.2%*	*-7.2%*	*4.9%*	*4.4%*	*6.5%*	*9.4%*
2. General government non-financial expenditure	**21.0**	**21.1**	**20.5**	**20.6**	**20.5**	**20.7**
Real % change	*-4.1%*	*-0.4%*	*1.0%*	*3.5%*	*4.0%*	*4.0%*
Of which:						
Current expenditure	*15.7*	*15.6*	*15.3*	*15.1*	*15.2*	*15.0*
Real % change	*-1.4%*	*1.8%*	*1.1%*	*1.5%*	*2.8%*	*3.2%*
Gross capital formation	*4.6*	*5.0*	*4.7*	*5.0*	*4.8*	*5.0*
Real % change	*0.2%*	*10.9%*	*4.5%*	*13.0%*	*4.9%*	*5.5%*
3. Others [2/]	**0.0**	**-0.1**	**0.0**	**-0.2**	**0.1**	**0.0**
4. Primary balance (1-2+3)	**-1.1**	**-2.2**	**-0.3**	**-1.2**	**0.3**	**0.1**
5. Interests	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**
6. Overall Balance	**-2.8**	**-3.9**	**-2.0**	**-2.8**	**-1.5**	**-1.6**

1 / Ratios on % of GDP and real % changes represent accumulated in the last 12 months as of May.
2 / Includes capital income of the general government and primary balance from state-owned companies.
* Forecast.
IR: Inflation Report.

Graph 54
ECONOMIC BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015 - 2025
(% GDP)



Memo: The economic result is calculated as current income of the General Government - Non-financial expenditures of the General Government + other (capital income of the General Government and primary result of state-owned enterprises) - interest payment on debt of the Non-Financial Public Sector.
*Forecast.
Source: BCRP.

Current income

54. Current income is expected to increase by 4.4 percent in real terms in 2024 to 19.6 percent of GDP, or 0.2 percentage points less than at year- end 2023.

According to estimates, faster economic activity will lead to higher income tax, domestic VAT (IGV), and ISC excise tax collections, which will be the primary cause of the real rise in revenues. Then, given the improved outlook for export mineral prices, more revenues from corporate income tax, mining royalties, and special mining tax are anticipated. Thirdly, IGV on these products will rise in response to the growth in the value of imports, particularly capital goods and inputs. Fourth, more sales of gasoline and other items subject to the ISC tax will result in larger collections on this item. Lastly, a rise in social (payroll) contributions is taken into account, which reflects the anticipated job recovery.

The revision on the downside of the forecasts for 2024 —from 20.2 to 19.6 percent of GDP— considers the lower growth to May compared to the March Report, mainly in income tax and IGV.

In real terms, current income is expected to rise by 9.4 percent in 2025 to represent 20.7 percent of GDP (like in the preceding Report). This development considers elements that would result in increased IR (income tax) and IGV collection, as well as higher excise tax and mining royalties. It also considers higher export mineral prices within the projection horizon and the anticipated economic recovery. It is also anticipated that there would be a greater rate of IR regularization in the 2025 campaign due to the anticipated rebound of economic activity in 2024, as well as proceeds from the sale of electricity sector assets.

Table 26
CURRENT REVENUES OF THE GENERAL GOVERNMENT
(% GDP)

	2023	2024*			2025*	
		May [1/]	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
TAX REVENUES	**15.1**	**14.5**	**15.5**	**15.0**	**15.9**	**16.0**
Income tax	6.3	6.0	6.2	6.2	6.6	7.2
Value Added Tax (VAT)	8.4	8.2	8.7	8.3	8.7	8.3
Excise tax	0.9	0.9	1.0	0.9	1.0	0.9
Import duties	0.2	0.1	0.2	0.1	0.2	0.2
Other tax revenues	1.8	1.7	1.8	1.8	1.8	1.8
Tax returns	-2.4	-2.4	-2.4	-2.2	-2.4	-2.3
NON-TAX REVENUES	**4.7**	**4.5**	**4.7**	**4.6**	**4.8**	**4.7**
Contributions to social security	2.0	2.0	2.0	2.0	2.1	2.0
Own resources and transfers	1.0	1.0	1.4	1.0	1.5	1.0
Royalties and likely	0.7	0.6	0.7	0.7	0.7	0.7
Rest	1.0	0.9	0.5	1.0	0.5	0.9
TOTAL	**19.8**	**19.0**	**20.2**	**19.6**	**20.7**	**20.7**

1 / Represents accumulated in the last 12 months as of May.
* Forecast.
IR: Inflation Report.

Non-financial expenditure

55. **Non-financial expenditure** is expected to grow by 3.5 percent in real terms in 2024 and to reach 20.6 percent of GDP, 0.4 percentage points lower than in 2023. This real growth contemplates an increase in current expenditure, especially in remunerations, as well as in gross capital formation (in line with executed data). However, this evolution would be partially offset by lower disbursements in current transfers and other capital expenditures, associated with the withdrawal of temporary measures implemented in 2023 (in programs such as Con Punche Perú and Emergencia-FEN); it would also be explained, in part, by measures that limit spending growth in budget items considered non-critical (Emergency Decree No. 006-2024).

In 2025, non-financial spending is expected to grow by 4.0 percent in real terms. As a percentage of GDP, it is expected to be 20.7 percent, 0.1 percentage points above 2024. This rise is mostly attributable to higher expected gross capital formation spending in the context of current expenditure consolidation, which would enable a larger reallocation of resources to investment.

The higher dynamism of investment at the three levels of government is the reason for the higher output predictions for 2024 and 2025 in comparison to those in the previous Report: from 20.5 to 20.6 percent for 2024 and from 20.5 to 20.7 percent for 2025.

Table 27
NON-FINANCIAL EXPENDITURE OF THE GENERAL GOVERNMENT
(% GDP)

	2023	2024*			2025*	
		May [1/]	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
Current expenditure	**15.7**	**15.6**	**15.3**	**15.1**	**15.2**	**15.0**
National Government	10.0	9.8	9.8	9.6	9.8	9.7
Regional Governments	3.9	3.9	3.8	3.8	3.7	3.6
Local Governments	1.8	1.8	1.7	1.8	1.6	1.7
Capital expenditure	**5.3**	**5.5**	**5.2**	**5.5**	**5.4**	**5.7**
Gross capital formation	**4.6**	**5.0**	**4.7**	**5.0**	**4.8**	**5.0**
National Government	1.7	1.9	1.8	1.9	1.9	1.9
Regional Governments	1.1	1.2	1.0	1.2	1.0	1.2
Local Governments	1.8	1.9	1.8	1.9	1.9	1.9
Other	**0.7**	**0.6**	**0.5**	**0.6**	**0.6**	**0.6**
TOTAL	**21.0**	**21.1**	**20.5**	**20.6**	**20.5**	**20.7**
National Government	12.4	12.1	12.0	11.9	12.2	12.3
Regional Governments	5.0	5.2	4.9	5.0	4.8	4.8
Local Governments	3.6	3.8	3.6	3.7	3.6	3.6

1 / Represents accumulated in the last 12 months as of May.
* Forecast.
IR: Inflation Report.

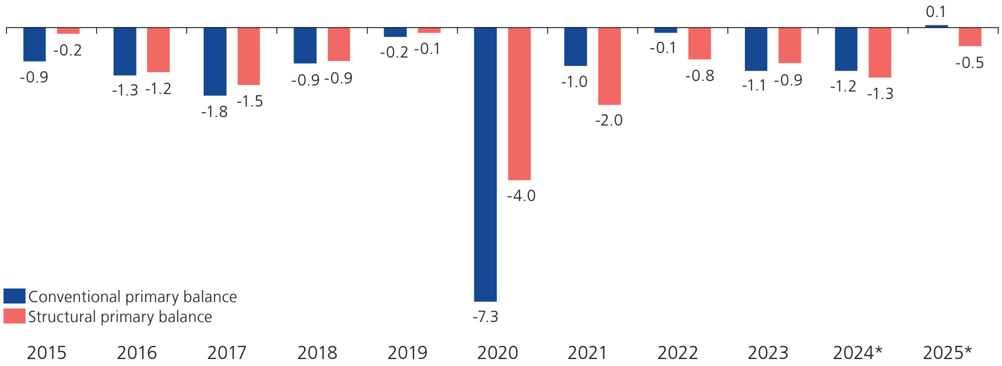
Fiscal stance

56. To evaluate changes in the fiscal balance related to discretionary fiscal policy initiatives, the structural primary balance metric subtracts from the fiscal accounts the influence of cyclical, transitory, and extraordinary components impacting the economy. By 2024 and 2025, respectively, the structural primary deficit is projected to reach 1.3 and 0.5 percent of potential GDP. The structural primary deficit's development indicates a fiscal stimulus for 2024 that is marginally higher than the year before because of an increase in expenditure on gross capital creation. This tendency is anticipated to slow down by 2025 as a result of increased structural revenues and tighter control over governmental spending.

Graph 55

CONVENTIONAL AND STRUCTURAL PRIMARY BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR: 2015-2025

(% GDP and Trend GDP)



* Forecast.
Memo: For 2020, the structural primary balance is calculated using trend GDP.

Financing and debt

57. Because of a reduction in the amortization of both internal and external debt, **financing requirements** are anticipated to be lower in 2024 than the previous year. The latter development can be partially explained by the predicted lower financial burden of the Debt Management Operation (DMO) of 2023. It is important to note that a DMO is being prepared as of the Report's publication date; its outcomes will not be known for some time, hence it is not included in the forecast estimates.

Table 28

FINANCIAL REQUIREMENT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

(Million soles)

	2023	2024*			2025*	
		Jan-May	IR Mar.24	IR Jun.24	IR Mar.24	IR Jun.24
I. USES	**53,593**	**4,500**	**32,023**	**41,257**	**25,379**	**27,497**
1. Amortization	25,419	1,843	10,472	10,597	9,100	8,943
a. External	9,910	1,363	3,859	3,811	8,365	8,170
b. Domestic	15,509	480	6,613	6,785	735	773
Of which: recognition bond	*596*	*218*	*496*	*494*	*550*	*550*
2. Economic balance 1/	28,174	2,656	21,551	30,661	16,279	18,554
II. SOURCES	**53,593**	**4,500**	**32,023**	**41,257**	**25,379**	**27,497**
1. Disbursements and others	37,882	8,422	30,783	26,584	26,908	28,540
a. External credits	7,402	4,210	8,783	8,584	8,908	10,240
b. Global and Sovereign bonds	30,480	4,212	22,000	18,000	18,000	18,300
2. Variation in deposits and others 2/	15,711	-3,922	1,240	14,673	-1,529	-1,043
Note:						
Percentage of GDP						
Gross public debt balance	32.9	32.4	33.8	32.5	33.5	32.9
Net public debt balance	22.5	22.3	24.4	24.0	24.7	24.8
Balance of public deposits	10.4	10.0	9.4	8.4	8.9	8.1

1/ Negative sign indicates surplus.
2/ Positive sign indicates reduction of deposits.
* Forecast.
IR: Inflation Report.
Note: These projections do not include the debt management operation in progress (R.M. No. 205-2024-EF/52) at the time of publication of this Report.

The March Report's estimate of financing requirements for the projected horizon has been revised upward, albeit more so for 2024 due to the higher-than-expected nominal budget deficit for both years. In terms of **funding sources**, compared to the preceding Report, bigger disbursements of foreign loans are anticipated for 2025 and a larger utilization of public deposits for 2024.

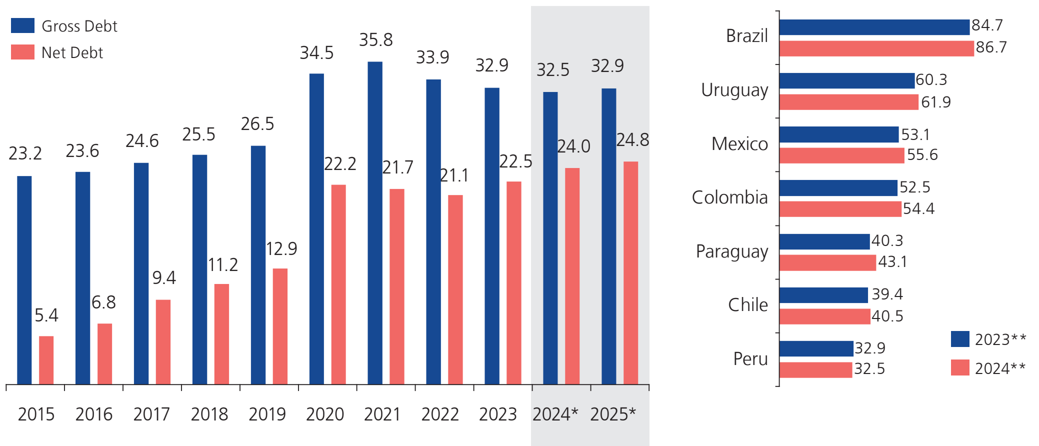
58. It is anticipated that between 2023 and 2024, **debt net** of non-financial Public Sector deposits would rise from 22.5 to 24.0 percent of GDP, and by the end of the projection horizon, it will have reached 24.8 percent of GDP. The non-financial public sector's gross debt is expected to rise from 32.9 to 32.5 percent of GDP between 2023 and 2024 before falling back to 32.9 percent by 2025.

The forecast reduction in public deposits as a proportion of GDP is the reason for the discrepancy between the variance in net debt and gross debt estimated for 2025. The projected level of governmental debt would be among the lowest in the region.

Graph 56

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

GROSS DEBT IN LATAM. 2023-2024
(% GDP)



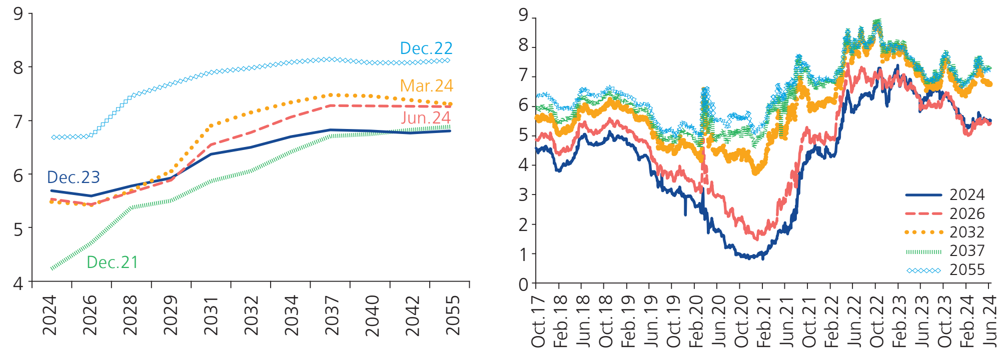
* Forecast.
** Forecasts for Uruguay and Mexico in 2023, and for all countries in 2024.
Source: BCRP and WEO (April 2024).

59. Yield rates of the Public Treasury Bonds (BTP) with fixed interest rate in Sol have shown mixed behavior by tranches during the second quarter, until June 2024. In the short tranche, the interest rate of the BTP 2024 accumulated an increase of 5 basis points; while in the medium and long tranches, interest rates decreased by an average of 21 basis points, associated to demand by non-resident investors. On April 25, S&P Global Rating Agency downgraded its long-term foreign currency credit rating from BBB to BBB- and its local currency credit rating from BBB+ to BBB due to the political uncertainty that constrains economic growth.

Graph 57

YIELD CURVE
(%)

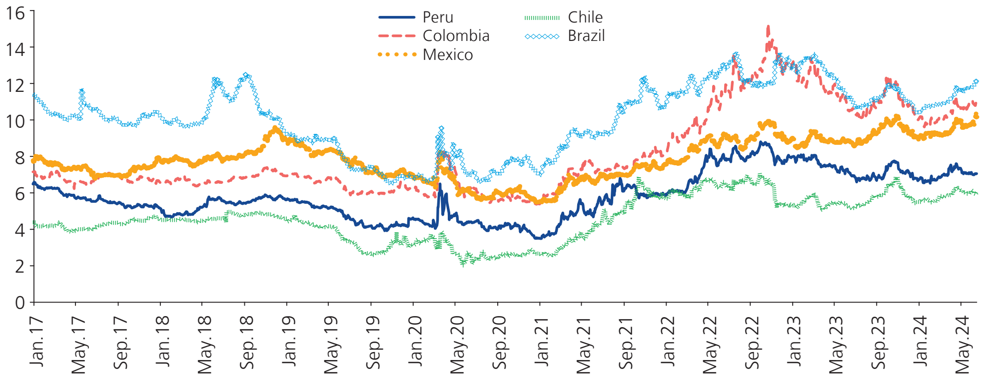
YIELD BY MATURITY
(%)



* As of June 14.
Source: MEF.

Between March 27 and June 14, 2024, yields on 10-year government bonds in local currency increased in all countries across the region except Peru. Brazil, Mexico, Colombia and Chile's bonds rose 92, 90, 79 and 13 basis points, respectively. The Peruvian bond's yield rate slipped from 7.34 to 7.06 percent so far in the second quarter of 2024.

Graph 58
10 YEAR SOVEREIGN BOND YIELDS IN LOCAL CURRENCY
(%)



* As of June 14.
Source: MEF and Reuters.

In the second quarter, Peruvian global dollar bond rates have increased across all yield curve tranches, resulting in an average cumulative devaluation of 14 basis points. Specifically, the yield on the 10-year bond issued in Peru grew from 5.48 to 5.62 percent, while the yield on the bond issued in the United States increased from 4.19

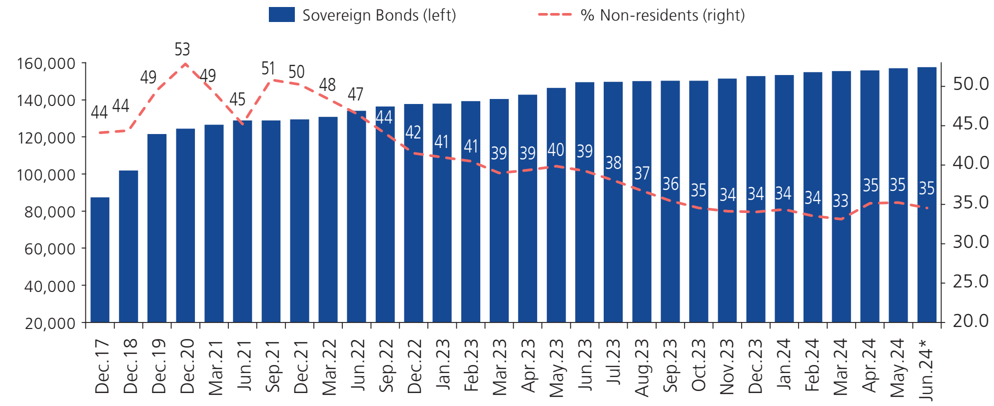
to 4.22 percent. In contrast, throughout the period under review, the EMBIG Peru climbed from 151 to 166 basis points.

The balance of sovereign bonds, as of June 14, stood at S/ 157,739 million, S/ 2,175 million higher than in March 2024. In the second quarter, AFPs were the main bond bidders, while on the demand side, non-resident investors and banks stood out. The participation of non-resident investors increased from 33.4 percent in March to 34.6 percent in June, reversing the downward trend of previous months.

Graph 59

SOVEREIGN BOND BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS

(Amounts in millions of soles and participation in %)



Note: As of February 2021, excludes inflation-linked bonds, Global Depositary Notes (GDN) and Euroclear transactions of non-residents. As of March 2021, nominal sovereign bonds and VAC are included and GDN are excluded.
* Data as of June 14.
Source: BCRP, CAVALI, MEF, and SBS.

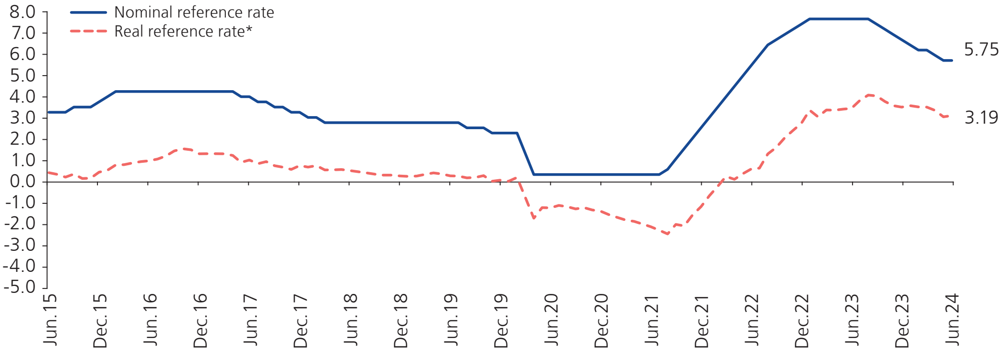
V. Monetary policy and financial conditions

Monetary policy actions

60. The Board of Directors of BCRP agreed to lower the benchmark rate by 25 basis points each time between April and May 2024, after keeping it at 6.25 percent in March. In June, they chose to keep it at the same level. As a result, at the closing of this Inflation Report, the benchmark rate was 5.75 percent. In March, a move to supplement the monetary easing that was started in September of last year was approved to lower the reserve requirement rate in domestic currency from 6.0 to 5.5 percent, effective April.

Briefing notes for this quarter emphasized that any changes to the benchmark rate in the future would depend on fresh data about inflation and its causes. Between September 2023 and June 2024, there was a 200 basis point decline in the benchmark rate. During this time, the BCRP's real monetary policy interest rate remained among the lowest among the larger nations in the region at all times, with the twelve-month inflation target rate falling from 5.58 percent in August 2023 to 2.0 percent in May 2024.

Graph 60
REFERENCE INTEREST RATE
(%)



* With expectation on inflation.
Source: BCRP.

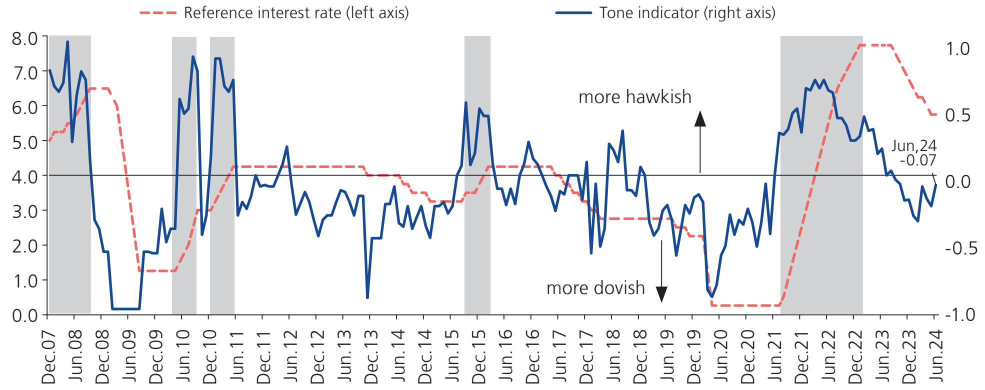
61. The following factors were considered while making monetary policy choices between April and June 2024:

- The twelve-month inflation rate dropped from 3.0 to 2.0 percent between March and May 2024, falling within the target range. In March and May, the non-food and energy inflation rate for a year was 3.1 percent, above the goal range's upper bound. There is some persistence in non-food and energy inflation related to some service products.
- In certain economies, year-over-year inflation rates are persisting after the global inflation rate fell significantly between the second quarter of 2022 and the end of 2023. Nonetheless, it is anticipated that inflation would progressively decrease during the course of the year.
- Over the projection horizon, annual inflation is expected to stay close to the target range's midpoint.
- Expectations for twelve-month inflation fell below the inflation target range, from 2.62 percent in May, remaining within the inflation target range.
- While the expectations indicator showed mixed results in May, the majority of the present situation indicators showed improvement. The majority of economic activity expectations indicators fall into the positive category.
- The global economic activity prognosis indicates modest growth in an environment where inflationary pressures diminish. Nonetheless, there is still a degree of uncertainty about the rate at which advanced nations may decrease interest rates as part of their monetary policy, which contributes to market volatility. Furthermore, there are still hazards associated with foreign wars.
- To evaluate, if required, any adjustments in the stance of monetary policy, the Board is especially aware of fresh data on inflation and its drivers, such as the evolution of core inflation, inflation expectations, and economic activity. The Board restates its commitment to implementing the required measures to maintain inflation within the intended range.

62. It should be noted that the BCRP sets its benchmark rate and keeps an eye on inflation in both the overall and non-food and energy sectors (SAE) in order to carry out its monetary policy. Specifically, annual inflation that excludes food and energy has the following characteristics: (i) it more accurately reflects the demand components that monetary policy influences; (ii) it is more stable than the other components of the Consumer Price Index (CPI), which means that if it exhibits more inertial behavior, it may have an impact on inflation expectations; and (iii) it shows the trend toward which overall inflation converges. For these reasons, it could be essential to stick with a restrictive monetary policy stance for a longer amount of time if SAE inflation is consistently higher than headline inflation and even higher than the upper bound of the 3.0 percent goal range.

63. In terms of the monetary policy communication signals and tone, the BCRP's tone indicator stayed in the dovish range, although it is currently approaching a neutral tone, which is in line with the monetary policy stance's steady loosening since last year.

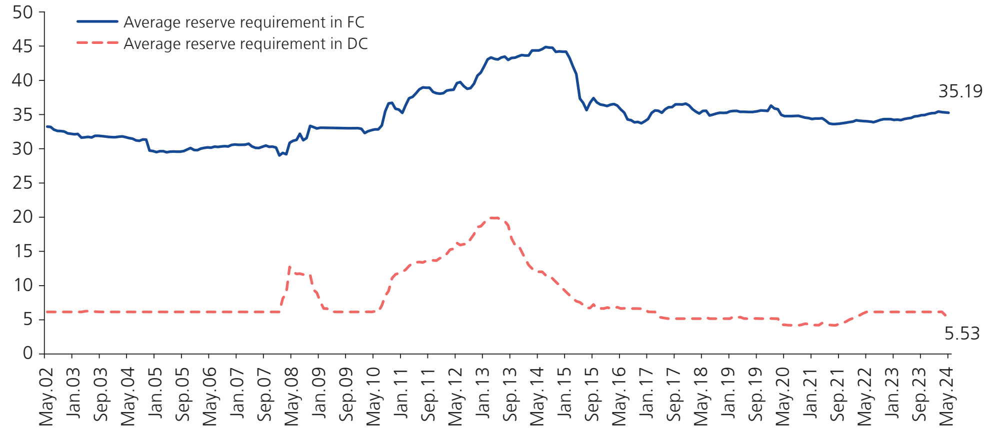
Graph 61
REFERENCE INTEREST RATE AND MONETARY POLICY TONE INDICATOR*
(% and index value)



* For the monetary policy tone indicator, the positive values of the index mean a tone in favor of a contractionary position (hawkish), while negative values imply communication with an expansive position (dovish). Shaded areas correspond to periods of rising interest rates.
Source: BCRP.

64. In addition to its benchmark rate choices, the BCRP employs shifts in the reserve requirement rate as a supplementary measure. Therefore, between May 2022 and March 2024, the minimum legal reserve requirement rate in local currency was kept at 6 percent in the context of a progressive reduction of the monetary easing linked to the COVID-19 epidemic. This rate was lowered to 5.5 percent in April of this year in order to increase the amount of money that may be lent out and to supplement monetary easing. This measure estimates that during March and April, the change in banks', savings banks', and financial institutions' reserve requirements in Sol will be around S/ 1.47 billion.

Graph 62
AVERAGE RESERVE REQUIREMENT RATES IN DOMESTIC CURRENCY (DC) AND FOREIGN CURRENCY (FC)
(%)



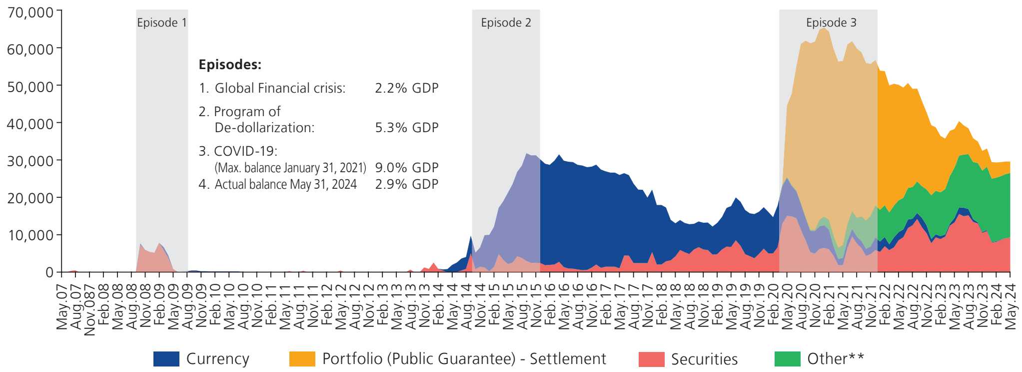
Monetary operations

65. The BCRP's operations were oriented to ensure adequate liquidity levels in the interbank market. To this end, between March 1 and May 31, 2024, the BCRP injected net liquidity of S/ 3,497 million, including the net maturity of term deposits and over-the-counter deposits (S/ 2,389 million), the net maturity of BCRP CDs (S/ 1,904 million),

the net placement of Securities Repos (S/ 1,120 million), purchases of Public Treasury Bonds (BTP) in the secondary market (S/ 299 million) and the maturity of BCRP CDRs (S/ 65 million). This injection was partially offset by the net maturity of auctions of Public Treasury term deposits (S/ 1,073 million), the amortization of government-secured repos of credit repos (S/ 1,031 million), the maturity of coin repos (S/ 145 million) and the maturity of loan portfolio repos (S/ 31 million).

As a result of the foregoing, the total balance of injection operations was S/ 29,553 million as of May 31, 2024, while the balance of BCRP Certificates of Deposit (BCRP CDs and BCRP CDRs) was S/ 35,231 million as of the same date. In terms of GDP, at the end of May, the balance of liquidity injection operations was equivalent to 2.9 percent of GDP, of which S/ 3,052 million corresponded to government-secured repos of credit portfolio, guaranteed by the National Government.

Graph 63
BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP
(In mill. S/)



* As of May 31, 2024.
** The item "Other" includes the purchase of Public Treasury bonds, in line with article 61 of the BCRP Organic Law, and Repos operations of portfolio loans.
Source: BCRP.

Between March and May of 2024, the BCRP bought Public Treasury Bonds (BTP) with maturities as long as 2040 on the secondary market. These activities fall within the category of tools that the BCRP has at its disposal to control the financial system's liquidity. By the end of May 2024, the BCRP had already spent S/ 299 million on BTPs with maturities ranging from 2029 to 2040. This amount indicates a balance of S/ 10,991 million in BTP purchases by the BCRP at acquisition value as of May 31, 2024, when added to the purchases made between 2020 and 2023. Significantly, Article 61 of the BCRP's Organic Law sets a maximum yearly growth in holdings of these instruments, which is equal to 5 percent of the monetary base at the end of the previous year.

On May 31 of this year, the BCRP revived the repo operations in exchange for foreign currency, which had previously been completed in February 2022, as an extra step to fulfill the liquidity requirements in dollars. As a result, a total of USD 250 million was placed, for a 1-week term for all these operations. The balance of these operations is zero as of June 14, 2024.

66. Law No. 32002, passed in the second quarter, authorized the seventh extraordinary and discretionary withdrawal from the funds accrued in each participant's individual capitalization account, up to a maximum of 4 Tax Units (UIT), or S/ 20,600. Pursuant to Law No. 31478 of May 2022, about three million members were able to access the sixth withdrawal, totaling S/ 22 billion in pension fund withdrawals from their AFPs[9].

    The BCRP may provide AFPs with liquidity in local currency in order to reduce excessive volatility in the price of BTPs; this is mostly accomplished through the temporary purchase of BTPs (repo operations). Securities repos for a total of S/ 3,039 million were conducted with AFPs for three-month terms between June 5 and June 14, 2024, in connection with withdrawals from members' capitalization accounts. To prevent the liquidation of significant amounts of securities over a short period, which would negatively affect interest rates and the stability of the financial markets, the BCRP has provided certain facilities for authorized pension fund withdrawals.

67. In terms of the balance sheet's composition, between the end of February 2024 and May 31, 2024, the balance of repo operations grew from 6.0 to 6.1 percent of BCRP's net assets. Between February 2024 and May 2024, the proportion of public sector deposits in BCRP's net liabilities climbed from 22.0 percent to 22.8 percent, while the proportion of financial system deposits fell from 23.4 percent to 23.2 percent within the same period. Lastly, the percentage of BCRP net liabilities attributed to sterilization instruments (BCRP CDs, BCRP CDRs, BCRP CDVs, and overnight and over-the-counter term deposits) dropped from 15.2 percent in February 2024 to 13.9 percent in May 2024, while the percentage attributed to currency in circulation increased from 23.7 to 23.9 percent during the same period.

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

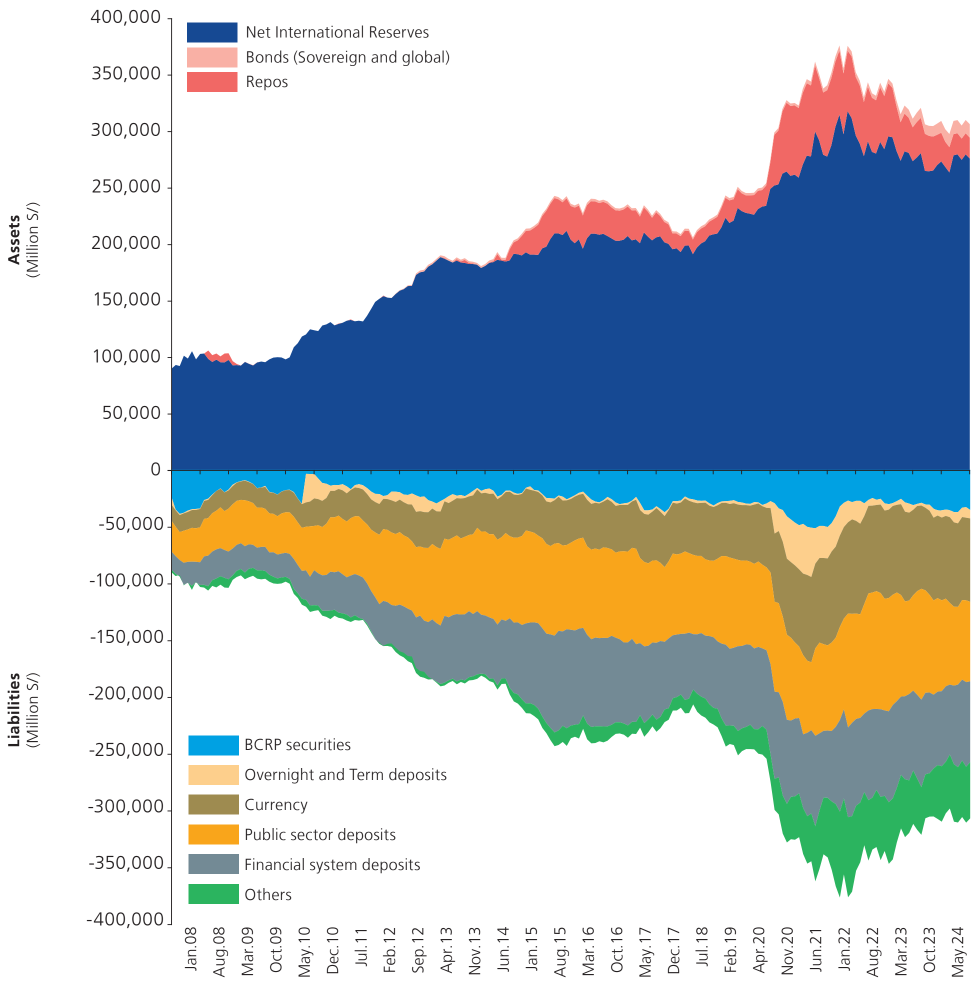
	Dec.22	Dec.23	Feb.24	May.24
I. Net assets	**100%**	**100%**	**100%**	**100%**
Net International Reserves	87.0%	88.6%	90.2%	90.0%
	(USD 71,883 mills.)	(USD 71,033 mills.)	(USD 73,943 mills.)	(USD 73,920 mills.)
Repos	**10.8%**	**7.5%**	**6.0%**	**6.1%**
Bonds (Sovereign and Global)	**2.3%**	**3.9%**	**3.8%**	**3.9%**
II. Net liabilities	**100%**	**100%**	**100%**	**100%**
1. Total public sector deposits	**26.1%**	**20.2%**	**22.0%**	**22.8%**
In domestic currency	23.1%	15.0%	16.6%	17.0%
In foreign currency	3.0%	5.3%	5.4%	5.8%
2. Total financial system deposits	**21.7%**	**20.7%**	**23.4%**	**23.2%**
In domestic currency	4.2%	4.9%	4.2%	4.3%
In foreign currency	17.6%	15.8%	19.2%	18.9%
3. BCRP instruments	**9.6%**	**14.0%**	**15.2%**	**13.9%**
CD BCRP	4.0%	11.8%	12.0%	11.5%
CDR BCRP	0.0%	0.2%	0.0%	0.0%
CDV BCRP	4.1%	0.0%	0.0%	0.0%
Term deposits	1.1%	1.1%	2.9%	1.9%
Overnight deposits	0.4%	0.9%	0.2%	0.5%
4. Currency	**25.4%**	**25.3%**	**23.7%**	**23.9%**
5. Others*	**17.3%**	**19.8%**	**15.7%**	**16.1%**

* Includes assets and other accounts.
** Information as of 31 May, 2024.
Source: BCRP.

9 In total, the six previous withdrawals have affected the pension fund for an accumulated S/ 88 billion withdrawn by nearly six million members.

In terms of the size of the BCRP's balance sheet, as of May 2024, the assets of the BCRP totaled S/ 306,192 million, or 29.8 percent of GDP, similar to the amount at the end of December 2023.

Graph 64
EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2024



Source: BCRP.

Financial markets

68. Domestic currency interest rates continued to decline in the second quarter of 2024, in line with the reduction of the BCRP benchmark rate from 6.25 percent in March to 5.75 percent in June; and by the reduction of the minimum legal reserve requirement rate from 6.00 percent to 5.50 percent since April. The easing of financial conditions is reflected in higher liquidity levels at banks, and in the reduction of the main money market interest rates. The interbank interest rate quickly converged to its new benchmark levels (6.00 percent in April and 5.75 percent in June).

Table 30

INTEREST RATE IN DOMESTIC CURRENCY 1/

(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Jun.24	Historical average 2/
Passive								
90-day corporate prime	2.8	0.2	2.6	8.1	6.7	5.9	5.6	3.8
TIPMN	2.3	1.0	1.1	3.0	3.5	3.2	3.0	2.4
FTIPMN	1.5	0.1	1.0	3.7	3.1	2.9	3.1	2.3
Deposits up to 30-day	2.3	0.0	1.9	7.4	6.7	5.5	5.4	3.5
Individuals	1.6	0.2	0.7	3.7	3.3	3.3	3.2	2.4
Business	2.3	0.0	1.9	7.4	6.7	5.5	5.4	3.5
On 31 to 90-day term deposits	2.7	0.2	2.2	7.5	6.6	5.7	5.5	3.8
Individuals	1.8	0.5	0.8	3.7	6.1	5.0	4.6	2.2
Business	2.8	0.2	2.2	7.8	6.8	6.0	5.9	3.9
On 91 to 180-day term deposits	3.0	0.4	2.4	7.6	6.2	5.1	4.7	3.9
Individuals	2.3	0.5	0.9	4.8	5.9	4.9	4.3	2.8
Business	3.1	0.3	2.6	8.5	6.9	5.6	5.5	4.1
On 181 to 360-day term deposits	3.3	0.7	2.9	7.6	5.7	4.9	4.4	4.1
Individuals	3.3	1.3	2.9	6.9	5.0	4.5	4.0	3.8
Business	3.3	0.4	2.9	7.8	6.2	5.5	5.0	4.3
Term deposits of more than 360 days	3.5	1.1	3.2	6.8	5.4	4.7	4.6	4.3
Individuals	3.5	2.0	3.1	5.9	5.0	4.3	4.3	4.3
Business	3.5	0.6	3.4	7.8	6.0	5.5	5.4	4.3
CTS	2.2	1.9	2.3	2.6	2.0	3.5	2.4	3.1
Active								
90-day corporate prime	3.3	0.7	3.1	9.2	7.5	6.5	6.3	4.6
TAMN	14.4	12.1	11.2	14.5	15.9	15.7	15.7	15.7
FTAMN	18.2	17.6	20.9	28.3	28.4	28.3	27.7	21.3
Corporates	3.8	2.5	3.2	8.9	8.1	7.1	6.4	5.4
Large companies	6.0	4.6	5.7	10.6	10.2	9.1	8.9	7.0
Medium-sized enterprises	9.3	6.1	8.8	14.1	13.3	12.6	12.4	10.3
Small business	18.0	17.2	19.3	22.5	22.9	22.6	22.8	20.4
Micro business	31.3	30.1	32.3	36.3	37.7	43.7	44.2	33.2
Micro business 3/	44.5	22.6	38.8	39.3	43.9	47.6	47.7	40.3
Consumer	40.9	39.5	41.8	49.6	56.9	56.0	58.8	43.1
Consumer 3/	43.1	41.5	40.4	47.7	54.3	57.4	55.0	46.0
Mortgage	7.0	6.4	6.9	9.9	9.1	8.9	8.9	8.4

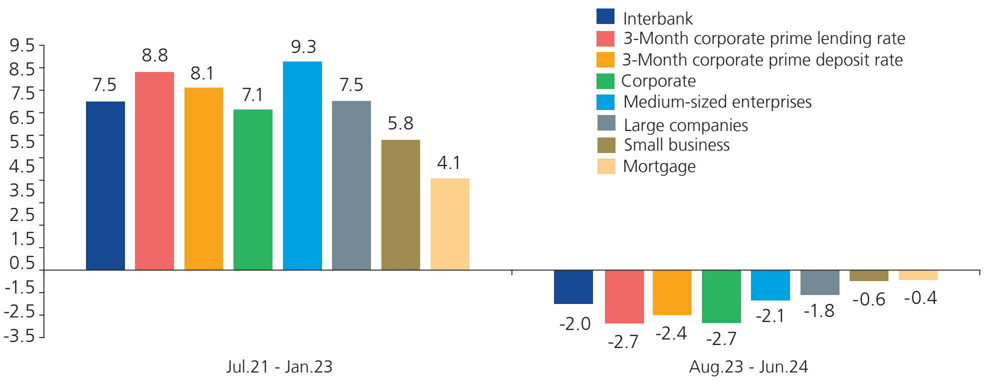
1/ Rates in annual terms of banks' transactions in the last 30 days.
2/ Average since September 2010. In the case of consumer credit, it is the average since October 2019.
3/ Corresponds to the average of the financial system.
As of June 14.
Source: BCRP and SBS.

Since August 2023, the lower benchmark rate impacted most interest rates, mainly corporate prime rates and those of lower credit risk credit such as corporate.

Graph 65

VARIATION IN INTEREST RATES IN SOLES

(In basis points)



As of June 14.
Source: BCRP and SBS.

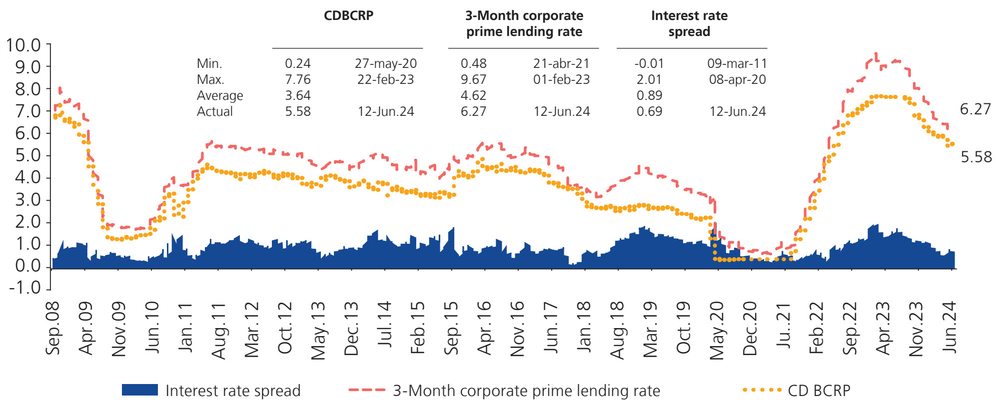
Prime lending and deposit interest rates declined in the second quarter of 2024 compared to the first, albeit to a smaller amount. These rates are highly indicative of the market and the financial health of banks, which swiftly adjust to changes in the benchmark rate. As a result, loan rates for both 12-month and overnight durations decreased by an average of 8 and 29 basis points between March and June of 2024. Meanwhile, prime lending rates slipped 13 and 28 basis points for both the overnight and twelve-month rates. The spreads between 3, 6, and 12-month prime lending rates and the reference rate remain below pre-pandemic levels.

The spread between the corporate prime lending rate and the 3-month CD BCRP in June 2024 (69 basis points) continued to decrease from one of the highest levels it reached in the last two years (193 basis points in February 2023).

Graph 66

3-MONTH CORPORATE PRIME LENDING AND 3-MONTH CD-BCRP RATES

(%)



* As of June 14, 2024.
Source: BCRP and SBS.

69. At the close of this report, the differential between the BCRP benchmark rates and the US Federal Reserve (Fed Funds) rate is 25 basis points. Between the end of March and mid-June, the implied curve based on the Fed Funds rate futures valuation reflects that the expected cut for September went from 34 to 9 basis points. Based on contracts starting between December 2024 and December 2025, there is also a decrease in the risk of a negative rate differential[10], but the implied expectation is for a U.S. rate cut of 38 basis points by December.

10 Between late March and mid-June, the average cut has slipped from 109 to 95 basis points reflecting expectations of higher rates for longer terms in line with pronouncements by some Fed officials.

Table 31

IMPLIED RATES OF THE YIELD CURVE IN DOLLARS

(%)

	Fed Funds Mar.24	*Fed Funds* Jun.24	As of 06/14/2024							Fed Funds Change -5.50%	
			2m	3m	6m	9m	1year	15m	18m	Jun.24	Mar.24
Sep.24	5.16	5.41	5.37	5.34	5.21	5.07	4.95	4.83	4.71	-0.09	-0.34
Dec.24	4.86	5.12	5.07	5.01	4.88	4.76	4.66	4.57	4.48	-0.38	-0.64
Mar.25	4.58	4.78	4.74	4.70	4.58	4.49	4.42	4.36	4.31	-0.72	-0.92
Jun.25	4.31	4.47	4.45	4.41	4.34	4.28	4.23	4.22	4.21	-1.03	-1.19
Sep.25	4.14	4.27	4.24	4.22	4.16	4.13	4.13	4.15	4.16	-1.23	-1.36
Dec.25	4.16	4.11	4.10	4.07	4.05	4.06	4.10	4.13	4.16	-1.39	-1.34

Source: Reuters. Own estimates based on data as of June 14.

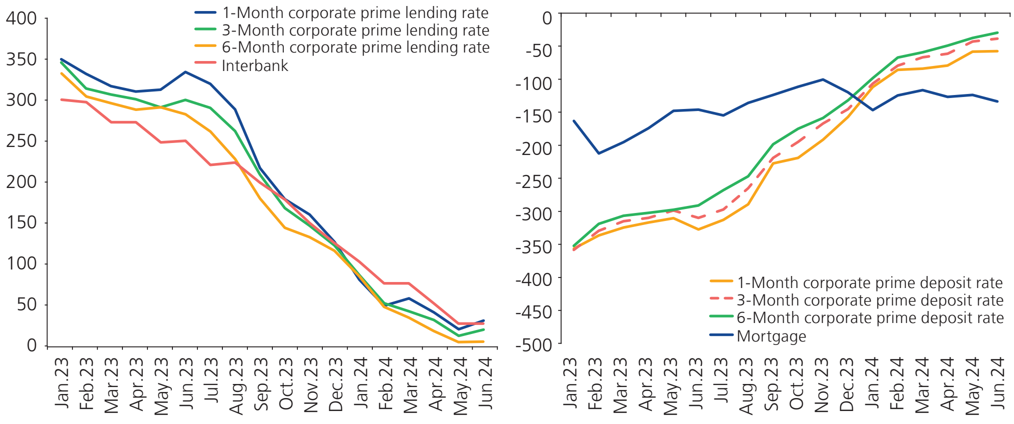
In the past, this spread was solely negative from June 2005 to August 2007, which had minor impact on the Sol's upward trajectory amid capital inflows and strong economic fundamentals. For a longer duration, this negative difference was mirrored in the spread between the rates on 10-year sovereign bonds and the prime rates for lending and borrowing. In addition, Peru benefited from favorable external conditions brought about by the start of the commodity super-cycle and from faster economic pace, with average growth of 7.6 percent.

70. Recently, there has been a narrowing of interest rate spreads (Sol minus dollars), mostly in the corporate prime lending rate range. As a result, as of June 14, the difference between the 1, 3, and 6-month corporate prime lending rates was 29, 18, and 3 basis points, respectively. The robustness of the monetary policy transmission mechanism was demonstrated by the 25-basis point difference in interbank rates. In the 2024–2025 period, interest rate reductions are anticipated from the Federal Reserve and the BCRP, albeit with moderate uncertainty in the latter case. Remarkably, BCRP has earned high credibility over time, which enables it to implement a countercyclical monetary policy that is consistent with controlling inflation.

Graph 67

SPREAD OF INTEREST RATES IN SOLES AND DOLLARS

(In basis points)



As of June 14, 2024.
Source: BCRP and SBS.

In the second quarter of 2024, banks' domestic currency lending rates trended inconsistently by loan type. Over the course of the horizon under review, lower credit risk sectors —corporate, big, and medium-sized companies— decreased by 65, 23 and 20 basis points, respectively. The rise in non-performing loans —which reached a record high of 4.22 percent in April— was linked to a 275-basis point increase in bank interest rates in the consumer segment.

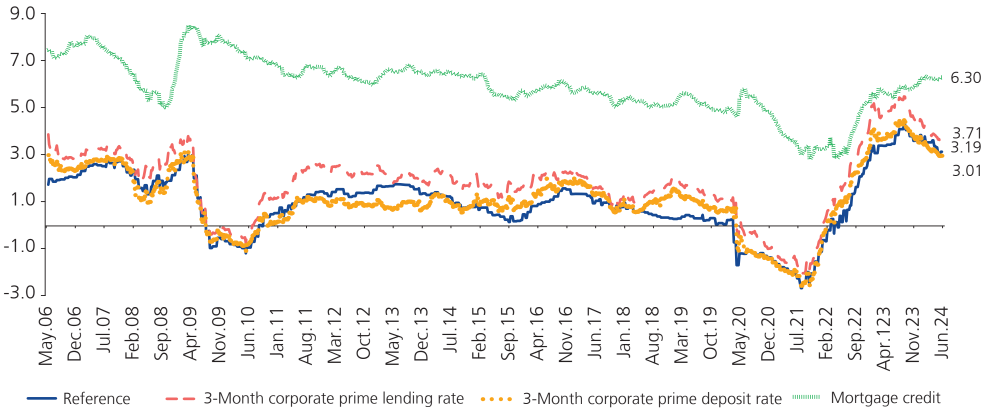
The yield on the 10-year national bond dropped from 7.3 percent in March to 7.1 percent in June 2024, while the interest rate for the mortgage sector grew only from 8.89 to 8.90 percent over the same period. Conversely, the yield on the 10-year U.S. bond rose by 3 basis points. Banks' mortgage credit balance grew from S/ 58.4 billion in December 2023 to S/ 59.4 billion in April 2024.

Although at a slower rate than in the first quarter, the majority of banks' passive interest rates —primarily interest rates paid to individuals— remained on their downward trend in the second quarter of 2024. Interest rates given to businesses decreased by an average of 19 basis points and to individuals by an average of 31 basis points, depending on the type of depositor. Corporate prime rates decreased (on average by 21 basis points) for durations ranging from overnight to twelve months. In March, the interest rate on CTS deposits was 3.45 percent; by June, it was 2.37 percent. This kind of deposit's balance dropped from S/ 4,681 million in December 2023 to S/ 4,487 million in April 2024, linked to the release of the accumulated funds authorized during the epidemic. Following the passage of Law No. 32027, which permits fresh CTS fund withdrawals through December 2024, the balance may continue to decline in coming months.

Graph 68

REAL EX-ANTE INTEREST RATES IN SOLES

(%)

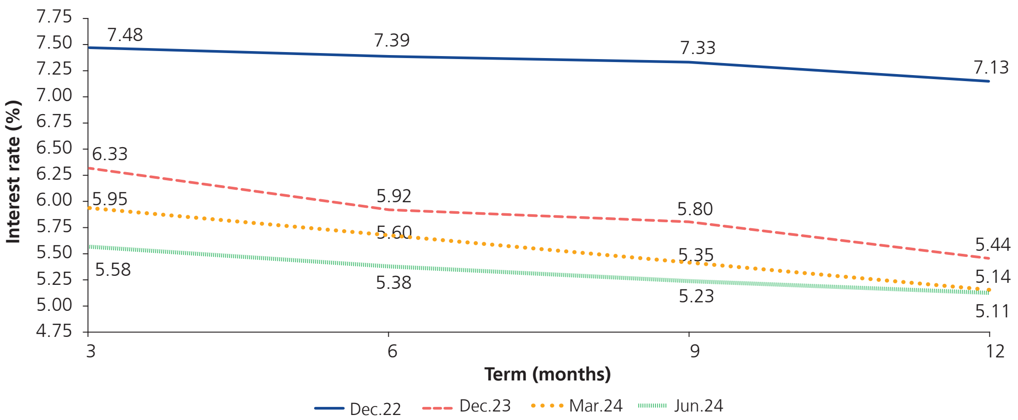


As of June 14. Nominal interest rates are deflated using inflation expectations.
Source: BCRP and SBS.

In keeping with the decline in nominal interest rates and steady inflation forecasts within the target range, real interest rates likewise fell in the second quarter of 2024. Consequently, decreases of 14 and 19 basis points were seen in the 3-month corporate prime loan and deposit rates, respectively. Real terms reference rate also showed a decline from 3.60 percent in March to 3.19 percent in June. The actual mortgage loan rate rose from 6.24 percent in March to 6.30 percent in June.

71. The yield curve for CD BCRP certificates of deposit captured the 50-basis point drop in the benchmark rate. The yield curve's inverted form is still a reflection of how the market anticipates the benchmark rate to move over the next few months. As a result, for the 3-, 6-, 9-, and 12-month term maturities, interest rates decreased by 37, 22, 12, and 3 basis points between March and June 2024.

Graph 69
YIELD CURVE OF CD-BCRP SECURITIES 1/
(%)

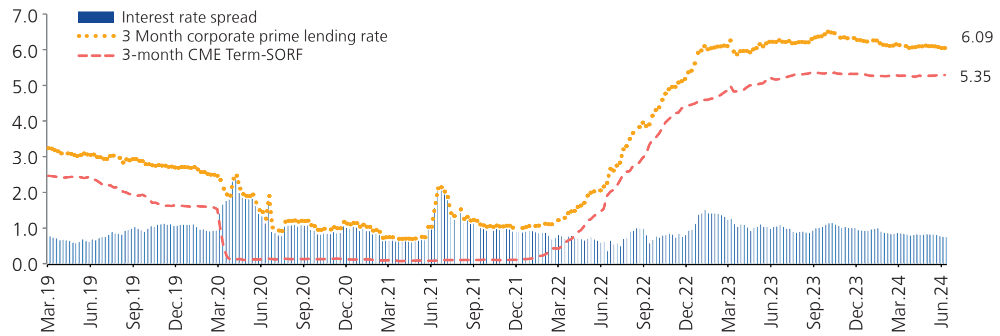


1/ Yield rate of the primary and secondary market of BCRP CDs.
As of June 14.
Source: BCRP.

72. Short-term dollar interest rates are still impacted by expectations of a 2024 reduction in the U.S. monetary policy rate. Since July 2023, the overnight interest rate in the interbank market has remained at 5.50 percent, reflecting the US monetary policy rate. The prime loan and deposit rates for maturities of 1, 3, and 6 months increased by an average of 1 and 2 basis points, respectively; in contrast, the 3-month Term SOFR jumped by 4 basis points. In March 2024, the spread between the prime lending

rate and the 3-month Term SOFR was 0.79 percent; by June 2024, it had dropped to 0.75 percent.

Graph 70
INTEREST RATE IN DOLLARS: CORPORATE PREFERENTIAL LIABILITY AND 3-MONTH CME TERM-SOFR
(%)



As of June 14.
Source: Chicago Mercantile Exchange and BCRP.

Changes in expectations on the start of the U.S. monetary policy rate drop cycle were a factor in the varied behavior of interest rates in the foreign currency bank lending market during the second quarter of 2024. Interest rates fell for the corporate and big company groups, which exhibit lower credit risk (6 and 19 basis points, respectively). However, the financial system's microbusiness sector and the banks' consumer segment both experienced the largest interest rate hikes (333 and 144 basis points, respectively), probably due to the increase in the maximum interest rates that will be in effect starting on May 1, 2024 (from 82.94 to 87.56 percent). In June 2024, the mortgage interest rate dropped from 7.7 percent in March to 7.6 percent, but during the same period, the yield on the 10-year global bond rose from 5.5 percent to 5.6 percent.

In the second quarter of 2024, corporate dollar deposit rates fell for the most part. Except for the 91 to 180-day interest rate, their interest rates dropped by an average of 11 basis points across all of their periods. The market's anticipation of a decrease in the U.S. monetary policy rate in the upcoming months may cause this trend to react. Interest rates rose by an average of 23 basis points for individual deposits. The sum of these kinds of deposits reached USD 485 million in April 2024, while the interest rate on CTS deposits in banks dropped from 1.1 percent in March to 0.9 percent in June.

Table 32
INTEREST RATE IN FOREIGN CURRENCY 1/
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Jun.24	Average Hist.2/
Passive								
90-day corporate prime	1.6	0.2	0.3	4.7	5.3	5.2	5.2	1.4
TIPMEX	0.8	0.3	0.2	1.2	1.9	2.0	2.0	0.7
FTIPMEX	1.2	0.1	0.1	2.3	3.3	3.3	3.5	0.9
Deposits up to 30-day	1.4	0.1	0.1	3.6	5.1	4.9	4.7	1.2
Individuals	1.3	0.0	0.1	1.1	3.4	3.3	3.5	0.8
Business	1.4	0.1	0.1	3.6	5.1	4.9	4.7	1.2
On 31 to 90-day term deposits	1.5	0.3	0.2	3.3	4.8	4.6	4.6	1.4
Individuals	1.0	0.2	0.2	1.7	3.8	3.2	3.3	0.9
Business	1.6	0.3	0.2	3.4	5.1	5.0	5.0	1.5
On 91 to 180-day term deposits	1.3	0.3	0.5	3.4	3.6	3.6	4.0	1.3
Individuals	1.0	0.2	0.3	2.1	3.2	3.1	3.2	1.0
Business	1.6	0.3	0.6	4.6	5.0	5.0	5.1	1.6
On 181 to 360-day term deposits	1.4	0.3	0.6	3.8	3.5	3.2	3.6	1.4
Individuals	1.2	0.3	0.4	3.2	2.7	2.5	2.8	1.3
Business	1.8	0.3	0.7	4.9	5.5	4.9	4.8	1.7
Term deposits of more than 360 days	1.6	0.5	0.8	3.5	4.1	3.2	3.0	1.5
Individuals	1.3	0.5	0.8	2.9	3.0	2.3	2.7	1.4
Business	1.9	0.6	0.9	4.8	5.2	5.0	4.9	1.8
CTS	1.3	1.0	0.9	1.1	0.9	1.1	0.9	1.5
Active								
90-day corporate prime	2.7	1.0	1.0	6.0	6.3	6.1	6.1	2.5
TAMEX	7.6	6.1	6.7	9.3	10.9	11.0	10.9	7.9
FTAMEX	7.1	6.3	7.6	10.9	13.0	13.5	13.2	8.1
Corporates	3.2	2.0	2.1	6.1	7.5	7.3	7.2	3.5
Large companies	6.0	4.6	5.7	7.8	8.8	8.5	8.3	6.8
Medium-sized enterprises	6.6	5.9	5.9	8.8	9.8	9.4	10.2	7.9
Small business	8.8	5.3	10.3	12.2	13.2	13.7	14.2	11.7
Micro business	11.0	8.5	7.4	12.7	15.5	13.7	8.9	15.9
Micro business 3/	7.7	4.8	17.1	9.4	16.1	12.7	16.0	13.2
Consumer	36.1	35.1	33.4	41.0	45.9	46.4	47.8	32.0
Consumer 3/	35.3	33.5	33.9	37.1	40.8	45.6	45.6	37.3
Mortgage	5.6	5.4	5.0	8.3	7.9	7.7	7.6	7.0

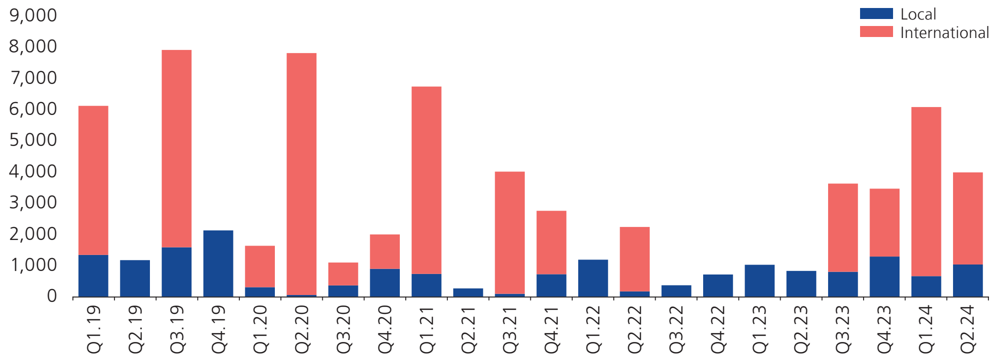
1/Rates in annual terms of banks' transactions in the last 30 days.
2/ Average since September 2010. In the case of consumer credit, it is the average since October 2019.
3/ Corresponds to the average of the financial system.
As of June 14.
Source: BCRP and SBS.

Fixed income market

73. Placements of Peruvian corporate securities in the capital market decreased so far in the second quarter of 2024, compared to first quarter issues, mainly due to lower placements in the international market. In the local market, a total of S/ 1,012 million were placed through public offerings between April and June 2024, above the level of the first quarter (S/ 645 million). In the international market, a placement was made for S/ 781 million (USD 210 million) for a 5-year term, below the first quarter (S/ 1,408 million).

Non-resident entities have issued securities for S/ 128 million in the second quarter of 2024 at maturities between 1 and 10 years, below the total placed in the first quarter (S/ 261 million). In 2023 securities were issued for S/ 1,347 million, below the 2022 total (S/ 1,883 million).

Graph 71
PRIVATE SECTOR BOND PLACEMENTS
(In millions S/)



As of June 14.
Source: Reuters and SMV.

74. In the second quarter of 2024, the value of the institutional investor-managed portfolios rose. The value of the AFPs portfolio would decline in the upcoming months, after the passing of Law No. 32002 that authorizes the extraordinary and discretionary withdrawal of the funds of members of the private pension system up to the amount of four tax units (UIT).

For AFPs, the valuation of assets in foreign mutual funds was the primary factor in the portfolio's growth from S/ 126.6 billion to S/ 127.3 billion between March 27 and June 12, 2024. About 3.1 million affiliates have sought the withdrawal of funds authorized by Law No. 32002 between May 20 and June 14. In June, the BCRP conducted repo operations with AFPs for a period of three months, ending on June 14, for S/ 3,039 million in an effort to prevent the liquidation of significant amounts of securities in a short amount of time, which could have an unfavorable effect on BTP interest rates given the current global environment of fixed income securities devaluation.

Assets under management for mutual funds rose from S/ 36.1 billion in March. May 2024 will see 38.7 billion. In the same time frame, the number of participants increased from 359.4 to 370.0 thousand, marking the largest figure in the previous 30 months. As of April 2024, individuals made up 85 percent of participants in local mutual funds. Between December 2023 and March 2024, insurance firms' managed portfolio grew from S/ 61.8 billion to S/ 62.9 billion.

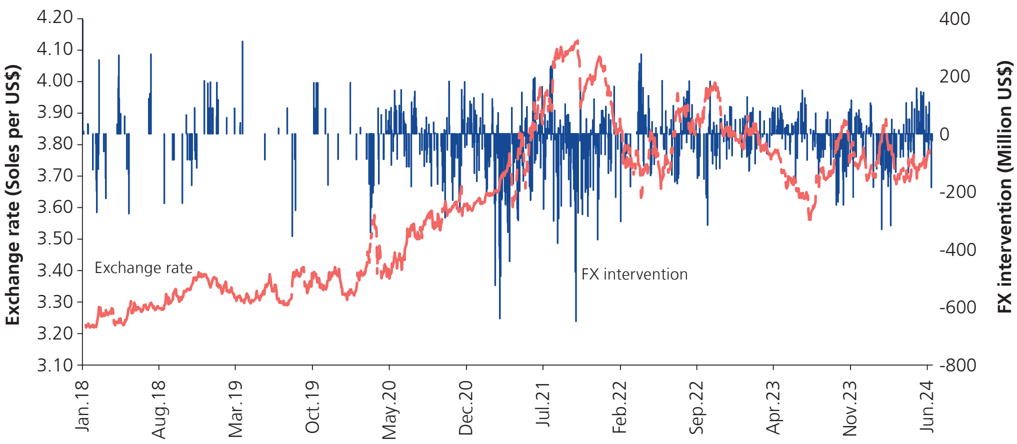
Foreign exchange market

75. In the second quarter of 2024, the exchange rate depreciated by 1.7 percent (1.5 percent in June). On the one hand, in March, April and May the exchange rate trended downward, in an environment of a weaker dollar worldwide. In June, high volatility in international financial markets drove the exchange rate up from S/ 3.726 per dollar on May 31 to S/ 3.782 per dollar on June 14.

The evolution of the exchange rate during the analysis horizon was influenced by changes in risk sentiment in global markets that affected the appetite for risky assets, mainly in the month of June, due to: (i) changes in market expectations regarding the possible start date of interest rate cuts following the publication of inflation and economic growth data in the United States; (ii) the strengthening of the dollar worldwide until the first half of April (1.8 percent); (iii) a smaller monetary policy rate differential between the United States and Peru; (iv) higher price of copper (12.4 percent); (v) the greater demand for dollars from the non-financial sector (mainly in April); (vi) geopolitical tensions in the Middle East; (vii) the increase in government bond yields in the United States and Europe; (viii) the greater political uncertainty in the Eurozone, especially after the call for legislative elections in France; and (ix) the lower industrial production in China, which influences the price of copper.

Graph 72

EXCHANGE RATE AND FX INTERVENTION 1/

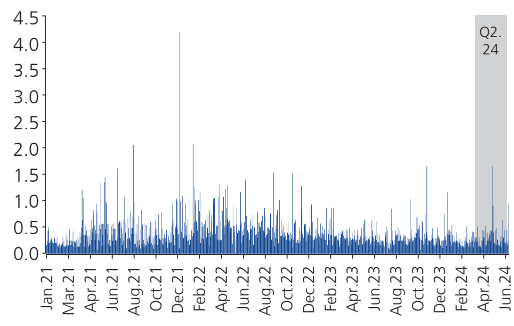


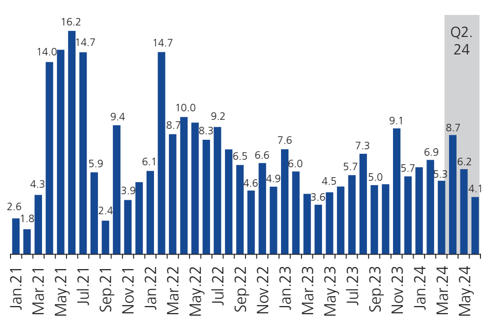
1/ Includes Net purchases of US$ in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
As of June 14.
Source: BCRP.

Peruvian Sol volatility is expected to be 8.7 percent in April 2024, 6.2 percent in May 2024, and 4.1 percent in June 2024. The currency rate exhibited daily appreciations on 43 percent of days during the second quarter (with a daily maximum of 1.31 percent), compared to 44 percent of days during the first quarter (with a daily maximum of 0.90 percent). The second quarter's volatility, measured in quarterly terms, was 7.1 percent, which was less than the 9.7 percent regional average. Between April and June 2024, exchange rate bid-ask spreads varied from 0.10 to 1.65 basis points, higher than in the first quarter (0.12 to 1.16 basis points).

Graph 73

SPREAD AND EXCHANGE RATE VOLATILITY





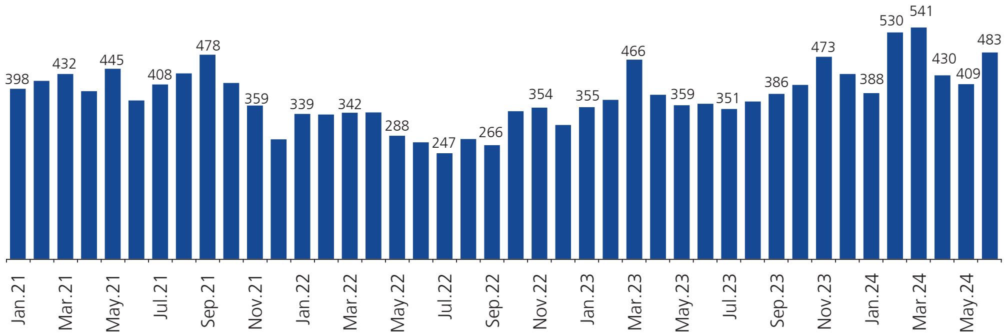
Monthly annualized daily standard deviation.
As of June 14.
Source: Reuters and BCRP.

The second quarter of 2024 has seen an average daily trade in the interbank spot foreign currency market worth USD 440 million, higher than QIV 2023 (USD 437 million) but lower than QI 2024 (USD 486 million).

Graph 74

AVERAGE AMOUNT TRADED IN INTERBANK SPOT MARKET

(Million USD)



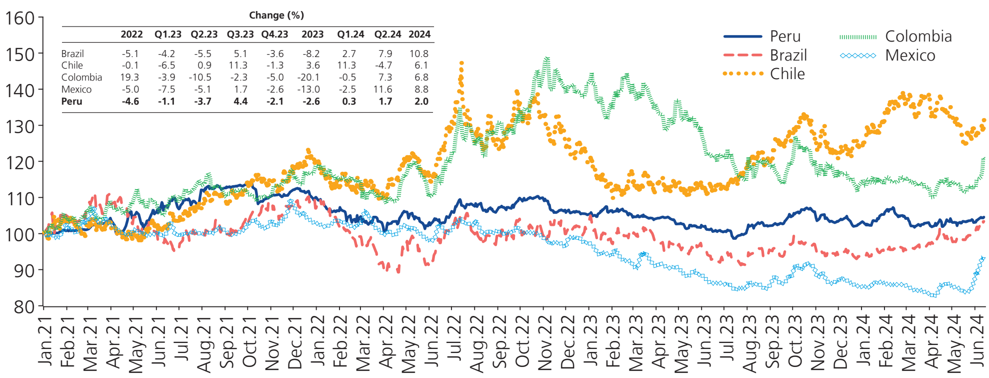
As of June 14.
Source: BCRP.

With the exception of Chile, the majority of the currencies in the area had a poor performance in the second quarter of 2024. Peru showed the second-best performance. Different currencies have been impacted to varying degrees by the regional policy interest rate decrease and the worldwide dollar strengthening during QII 2024. Mexico's currency depreciation stands out in Latin America as it is 11.6 percent, larger than the regional 4.8 percent average.

Graph 75

EXCHANGE RATE INDEX 1/

(31 Dec.2020=100)

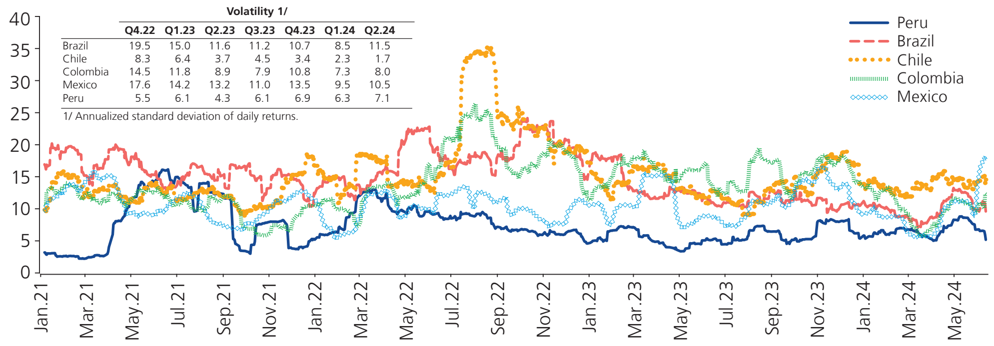


Change (%)

	2022	Q1.23	Q2.23	Q3.23	Q4.23	2023	Q1.24	Q2.24	2024
Brazil	-5.1	-4.2	-5.5	5.1	-3.6	-8.2	2.7	7.9	10.8
Chile	-0.1	-6.5	0.9	11.3	-1.3	3.6	11.3	-4.7	6.1
Colombia	19.3	-3.9	-10.5	-2.3	-5.0	-20.1	-0.5	7.3	6.8
Mexico	-5.0	-7.5	-5.1	1.7	-2.6	-13.0	-2.5	11.6	8.8
Peru	**-4.6**	**-1.1**	**-3.7**	**4.4**	**-2.1**	**-2.6**	**0.3**	**1.7**	**2.0**

1 / Annualized standard deviation of daily returns.
As of June 14.
Source: BCRP and Reuters.

Graph 76
EXCHANGE RATE VOLATILITY *



Volatility 1/

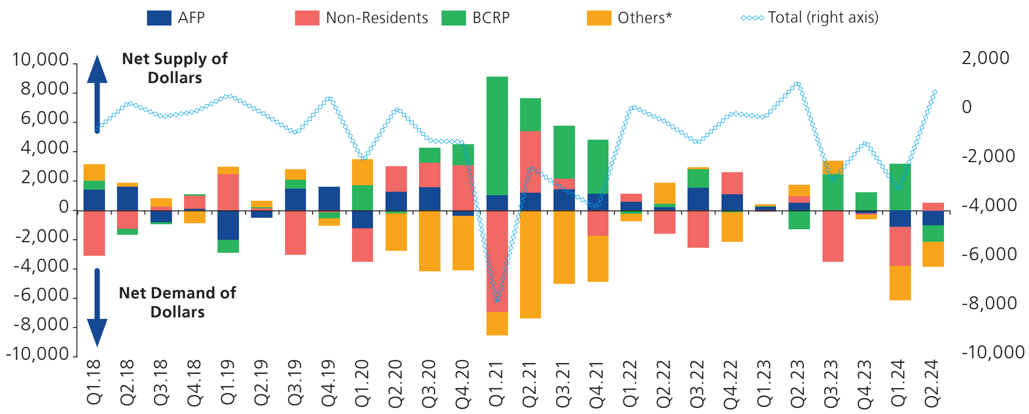
	Q4.22	Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24
Brazil	19.5	15.0	11.6	11.2	10.7	8.5	11.5
Chile	8.3	6.4	3.7	4.5	3.4	2.3	1.7
Colombia	14.5	11.8	8.9	7.9	10.8	7.3	8.0
Mexico	17.6	14.2	13.2	11.0	13.5	9.5	10.5
Peru	5.5	6.1	4.3	6.1	6.9	6.3	7.1

1/ Annualized standard deviation of daily returns.

* Standard deviation of the annualized daily return over the last 30 days.
As of June 14.
Source: Reuters.

76. As of June 14, 2024, market players showed net dollar supply (USD 697 million) exchange flows, compared to net dollar demand (USD 3,310 million) in the first quarter. On the supply side, mining firms (USD 2,160 million) and retailers (USD 1,470 million) stand out. In the spot market, net dollar demand was reported at USD 247 million, mostly driven by the corporate sector (USD 1,898 million) and AFPs (USD 1,653 million). The derivatives market showed a net supply of USD 944 million, consisting of USD 495 million from non-resident investors and USD 328 million from AFPs.

Graph 77
FLOWS TO THE FOREIGN EXCHANGE MARKET: (SPOT AND DERIVATIVES)
(Million USD)



	2021	2022	Q1.23	Q2.23	Q3.23	Q4.23	2023	Q1.24	Q2.24*	2024
Spot	-6,892	1,281	104	1,448	-1,157	-466	-71	730	-247	483
Derivatives	-10,288	-2,535	-275	-140	-1,674	-678	-2,767	-4,040	944	-3,096
Total	**-17,180**	**-1,254**	**-171**	**1,309**	**-2,831**	**-1,144**	**-2,838**	**-3,310**	**697**	**-2,612**
Change in Global Exchange Position of Banks	-326	120	138	-19	371	-85	405	-25	55	30
BCRP intervention	17,506	1,134	33	-1,290	2,460	1,230	2,433	3,334	-752	2,582

* Other includes companies in the corporate sector, mining and retail sectors.
** As of June 14.
Source: BCRP.

In QII 2024, non-resident investors showed a net dollar supply of USD 479 million, a change from the high net demand in the first quarter (USD 2,707 million). They demanded USD 15 million in the spot market (in April they bid USD 912 million, the highest supply since January 2019 (USD 1,218 million). In the second quarter's derivatives market, they net bid around USD 495 million, in contrast to their demand in the first quarter (USD 2,584 million). Between March 27 and June 14, foreign investors bought net S/ 2,611 million of BTP.

In the second quarter of 2024 (as of June 14), the AFPs demanded around USD 1,325 million, above the net demand of the first quarter (USD 1,277 million). They offered USD 328 million in the futures market and requested USD 1,653 million in the spot market. AFPs made net purchases of foreign securities during the period totaling USD 2,027 million, which is a bigger amount than during the first quarter (USD 766 million).

Regarding the non-financial sector, from March to June 2024, the following entities reported a net supply of USD 1,862 million: (i) corporations: net demand of USD 1,766 million, primarily in the spot market (USD 1,898 million), below the total recorded in the first quarter (USD 2,761 million), which is reflected in a reduction in dollarization by economic agents for precautionary reasons; (ii) mining companies: net supply of USD 2,158 million (USD 2,160 million in the spot market), below the first quarter's net supply (USD 3,013 million), related to the completion of income tax regularization; (iii) retail sector: net supply of USD 1,470 million in the spot market, above the net supply in the first quarter (USD 940 million)

The total position for banks fell from - USD 274 million in March 2024 to - USD 328 million in June that year. Between March 2024 and June 2024, the Non-Delivery Forward (NDF) balance of net bank sales with non-resident investors dropped from USD 11,643 million to USD 11,293 million.

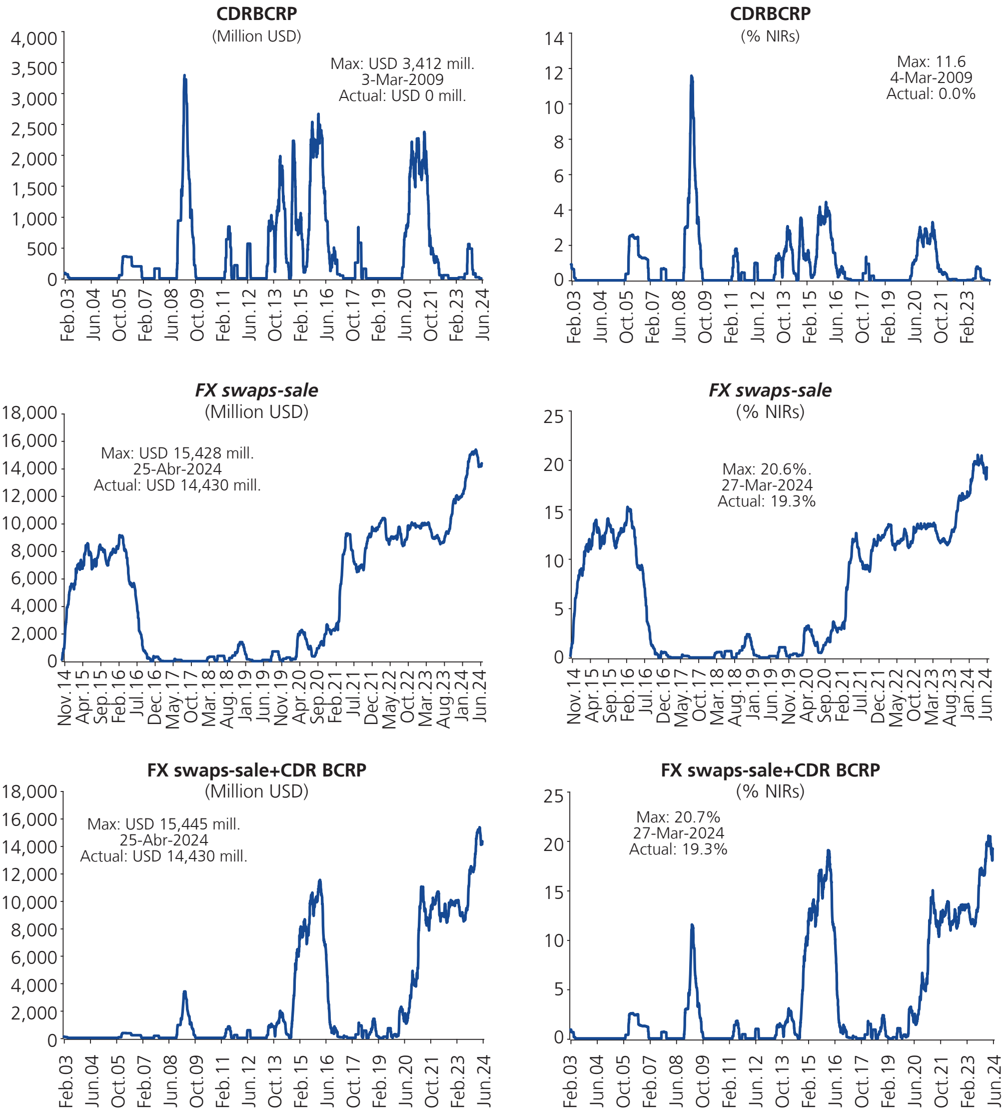
Given the exchange instruments' maturities in QII2024, the BCRP stepped in to reduce volatility in the price of Peruvian Sol relative to the dollar in an environment of uncertainty in financial markets worldwide, primarily through FX Swaps-sale auctions at fixed and variable rates and by selling spot dollars on the trading desk. As a result, FX swaps were sold worth S/ 20,293 million (USD 5,440 million) at fixed and variable rates for 3, 6, 9, and 12 months, while fixed and variable rates were applied to S/ 23,599 million (USD 6,253 million) until maturity. Furthermore, S/ 65 million (USD 17 million) of BCRP CDRs matured. Ultimately, USD 78 million were sold in the spot market.

As of June 14, the entire balance of foreign exchange swaps and sales is USD 14.43 billion, or 19.3 percent of Net International Reserves (NIRs), less than on March 27 (USD 15.26 billion, or 20.7 percent of NIRs). As of June 14, there is no remaining balance of BCRP CDRs due to the securities' maturity date of May 7. The high demand for dollars by non-resident investors in the foreign exchange market during the first quarter of 2024 has been linked to the maturities of SCVs and CDRs, which have allowed the balance of foreign exchange instruments to decline from the highest levels recorded in March and April 2024.

Graph 78

BCRP BALANCE OF FOREIGN EXCHANGE INSTRUMENTS

(Million USD and % of NIRs)



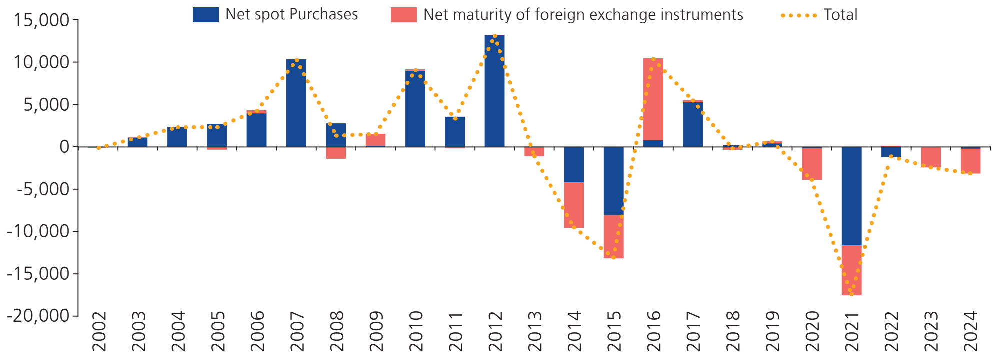
* As of June 14.
Source: BCRP.

As of June 14, in the second quarter, the BCRP has net demanded USD 752 million in the foreign exchange market through the net maturity of foreign exchange swaps (USD 813 million), net maturity of BCRP CDRs (USD 17 million) and the sale of dollars in the spot market for USD 78 million.

Graph 79

BCRP INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET

(Million USD)



	2021	2022	Q1.23	Q2.23	Q3.23	Q4.23	2023	Q1.24	Q2.24	2024*
Net spot Purchases	-11.626	-1,236	-1	0	-13	-67	-81	-235	-78	-313
Net maturity of foreign exchange instruments	-5,880	102	-32	1,290	-2,447	-1,163	-2,352	-3,099	830	-2,269
Total	**-17,506**	**-1,134**	**-33**	**1,290**	**-2,460**	**-1,230**	**-2,433**	**-3,334**	**752**	**-2,582**

Includes the net maturities of CDR BCRP and foreign exchange swap sales; CDLD net placements and exchange purchase swaps.
* As of June 14.
Source: BCRP.

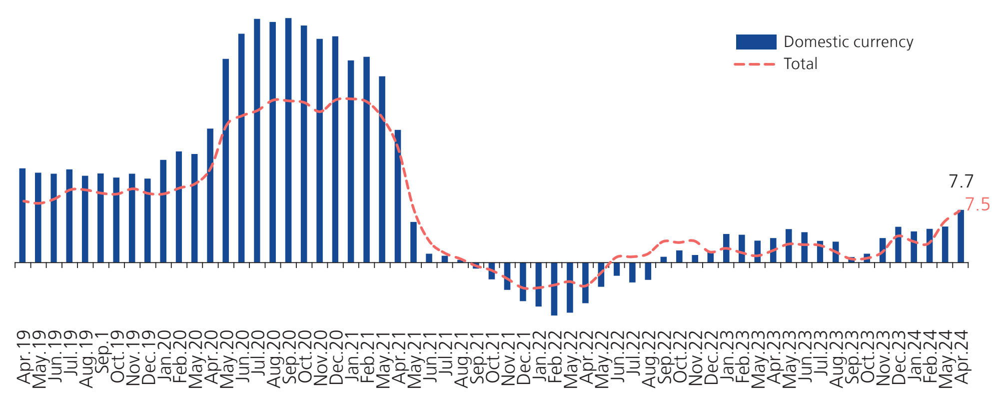
Liquidity

77. In April 2024, the year-on-year growth rate of deposits in the private sector was 7.5 percent. By currency, Sol deposits rose 7.7 percent annually during the period, while deposits denominated in dollars climbed by 7.2 percent.

Graph 80

PRIVATE SECTOR DEPOSITS BY CURRENCY*

(Annual % change)



* Total at constant exchange rate of S/ 3.71 per USD as of December 2023.
Source: BCRP.

In April 2024, the private sector deposit dollarization ratio rose to 35.7 percent against 34.1 percent in December 2023.

Law No. 32027 authorizes a one-off withdrawal until December 31, 2024 of individual time of service compensation accounts funds (CTS). It is worth mentioning this is the fourth time the withdrawal of CTS deposits is authorized. The first one was through Emergency Decree No. 033-2020, which authorized the withdrawal of a maximum amount of S/ 2,400. Subsequent measures authorized the total withdrawal of these funds until the end of 2021 (Law No. 31171) and the end of 2023 (Law No. 31480). Thus, because of these measures, CTS deposits of depository corporations fell 62.5 percent between December 2019 and April 2024 (S/ 14,586 million)[11]. The balance of CTS deposits as of April 2024 reaches S/ 8,744 million.

Table 33

MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS (END-OF-PERIOD)

(Annual % change)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Apr.24	Dec.24*	Dec.25*
Currency in circulation (End-of-period)	4.7	37.3	16.0	-3.8	-5.6	-3.0	-1.2	0.0
Deposits in domestic currency	12.2	33.0	-5.6	1.6	5.2	7.7	10.0	7.6
Total deposits 1/	10.1	23.8	-3.8	1.5	3.8	7.5	8.0	5.3
Broad money in domestic currency	10.5	32.2	-0.9	0.5	3.9	5.2	7.4	6.0
Total broad money 1/	9.6	25.2	-0.4	0.9	3.0	5.7	6.5	4.5
Credit to the private sector in domestic currency	10.1	19.4	5.5	2.4	0.8	0.7	4.1	6.0
Total credit to the private sector 1/	7.0	10.9	4.1	4.5	1.3	0.4	3.5	5.0
Total credit to the private sector (without Reactiva Peru Program)1/	7.0	-5.5	8.9	11.2	5.0	2.7	5.0	5.0

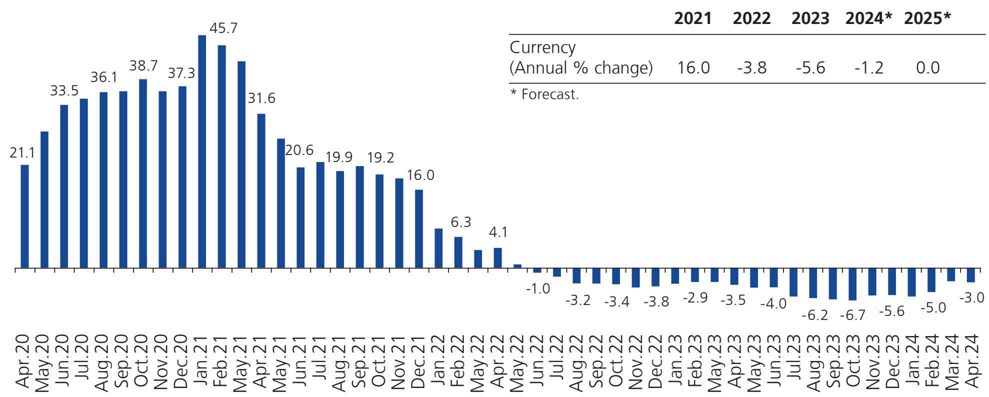
1/ The December 2023 constant exchange rate is maintained.
* Forecast.
Source: BCRP.

In December 2023 and April 2024, the amount of currency in circulation decreased by 5.6 percent and 3.0 percent, respectively, year over year. In 2024, the amount of money in circulation is anticipated to keep falling. In addition, given current advancements in electronic payment methods, the historical rise under the state of emergency[12] would be reversed. Specifically, it is anticipated that growth rates would be -1.2 percent in 2024 and 0 percent in 2025.

Graph 81

CURRENCY IN CIRCULATION

(Annual % change)



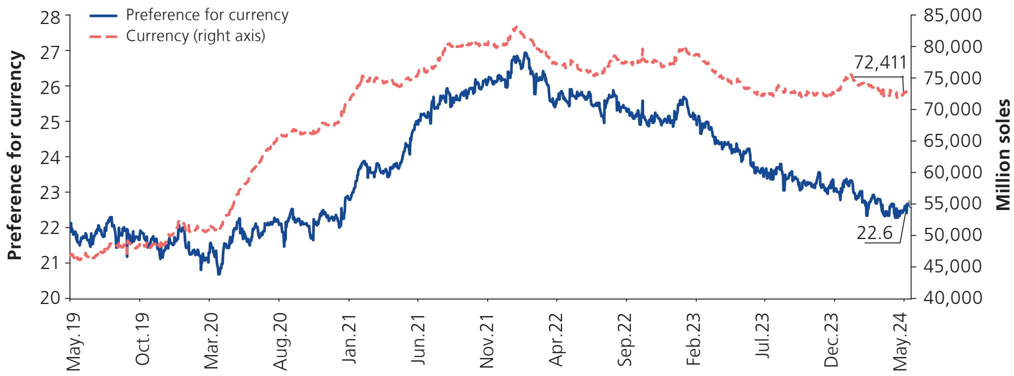
* Forecast.
Source: BCRP.

11 The constant exchange rate of December 2023 is maintained.

12 Precautionary cash savings would have been driven mainly by cash transfers to families granted by the State.

79. After rising steadily between April 2020 and December 2021, the preference for money in circulation declined in 2023 and 2024. Consequently, it stands at 22.6 as of May 2024, which is also related to the rise in the usage of debit cards and other electronic payment systems.

Graph 82
CURRENCY IN CIRCULATION AND PREFERENCE FOR CURRENCY IN CIRCULATION
(In millions of Soles and in %)



Note: Preference for currency is equal to currency of depository business divided by liquidity in domestic currency of depository business.
Source: BCRP.

Credit to the private sector

80. In April 2024, credit to the private sector increased by 0.4 percent annually (compared to 1.3 percent in 2023). With loans from the Reactiva Peru program excluded, the credit growth rate increased by 2.7 percent year over year (and by 5.0 percent in 2023). The private sector has been receiving less credit. The Reactiva Peru program's increased loan repayments and overall supply and demand considerations that account for the slower economic activity both explain this situation.

81. Despite at a lower pace, loans to people are nevertheless increasing year over year. April 2024 saw 4.6 percent growth (compared to 7.1 percent in 2023). The primary cause of this pause in loan expansion to individuals is the reduced rate of growth in consumer credit (4.1 percent in April 2024). Mortgage credit, on the other hand, has kept steady over the past several months, with a 5.3 percent annual growth rate recorded in April 2024.

82. Due in part to a decline in demand given the direction of economic activity, credit to enterprises has contracted, mostly as a result of the Reactiva Peru program's loan repayments. Credit to businesses fell by 2.3 percent in April 2024 (as it did in December 2023), but when Reactiva Peru loans were phased out, credit rose by 1.4 percent (as in December 2023). The corporate and large enterprises group experienced a 1.1 percent decline, while the medium-sized companies segment saw the worst reduction (9.1 percent).

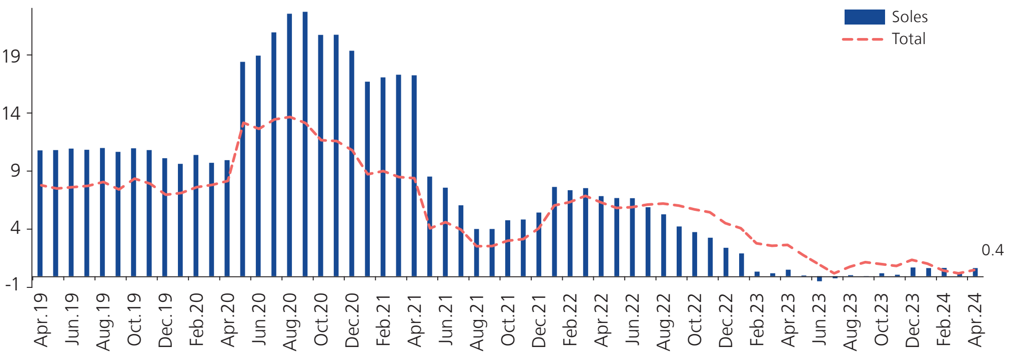
Table 34
CREDIT TO THE PRIVATE SECTOR 1/
(Annual growth rates)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Apr.24
Businesses	**4.3**	**20.0**	**3.7**	**-1.5**	**-2.3**	**-2.8**	**-2.3**
Corporate and large companies	4.3	6.6	8.1	0.9	-0.3	-1.7	-1.1
Medium-sized enterprises	0.3	47.9	0.1	-13.8	-11.7	-10.2	-9.1
Small business and Micro business	8.4	24.1	-1.0	7.7	2.2	1.5	1.3
Individuals	**11.5**	**-3.2**	**4.8**	**15.9**	**7.1**	**4.6**	**4.6**
Consumer	13.3	-7.1	3.1	21.8	8.3	4.2	4.1
Car loans	12.0	-2.2	7.5	16.0	11.4	6.9	6.2
Credit cards	13.4	-20.3	-41.1	32.7	10.4	3.1	1.7
Rest	13.4	-0.5	21.5	19.8	7.7	4.3	4.6
Mortgage	8.7	3.0	7.2	8.0	5.4	5.3	5.3
TOTAL	**7.0**	**10.9**	**4.1**	**4.5**	**1.3**	**0.1**	**0.4**
Memo:							
Businesses without Reactiva	**4.3**	**-6.9**	**11.6**	**8.3**	**3.6**	**1.4**	**1.4**
Total without Reactiva Peru	**7.0**	**-5.5**	**8.9**	**11.2**	**5.0**	**2.7**	**2.7**

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 December 2023 constant exchange rate is maintained.
Source: BCRP.

83. So far this year, there has been a slowdown in lending denominated in dollars and Sol. Credit denominated in Sol increased by 0.7 percent in April 2024, while credit denominated in foreign currencies decreased by 0.6 percent over the same time.

Graph 83
CREDIT TO THE PRIVATE SECTOR: TOTAL AND IN DOMESTIC CURRENCY
(Annual growth rates)



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

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Apr.24
Domestic currency	10.1	19.4	5.5	2.4	0.8	0.3	0.7
Foreign currency	-0.3	-11.0	-0.8	12.1	3.1	-0.5	-0.6
Total	7.0	10.9	4.1	4.5	1.3	0.1	0.4

1/ The constant exchange rate as of December 2023 is maintained.
Source: BCRP.

Non-performing loans

84. The non-performing loans ratio in April 2024 stood at 4.60 percent, higher than in December 2023 (4.30 percent), a fact accounted for by higher non-performing loans to companies, mainly due to the increase in the micro and small companies segment and, to a lesser extent, in the corporate and large companies segment. Non-performing loans to individuals also increased in the same period, particularly vehicle loans. The increase in non-performing loans reflects the performance of economic activity so far in 2024.

Table 35

NON-PERFORMING LOANS DELINQUENCY RATE

(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Apr.24
Business	**3.71**	**3.73**	**4.60**	**5.09**	**5.27**	**5.72**	**5.69**
Corporate and large companies	0.62	1.04	1.08	1.39	1.01	1.19	1.22
Medium-sized enterprises	8.24	6.27	9.49	11.65	13.42	13.99	13.83
Micro and Small business	6.29	6.06	6.54	6.37	6.91	7.81	7.94
Individuals	**2.85**	**4.91**	**2.57**	**2.54**	**3.21**	**3.32**	**3.41**
Consumer	2.81	5.92	2.23	2.51	3.55	3.65	3.75
Credit cards	*5.33*	*12.70*	*6.28*	*6.58*	*8.46*	*8.62*	*8.47*
Car loans	*3.75*	*5.85*	*3.72*	*3.37*	*3.64*	*4.20*	*4.36*
Rest	*1.46*	*3.07*	*1.35*	*1.57*	*2.41*	*2.52*	*2.68*
Mortgage	2.91	3.51	3.01	2.57	2.69	2.82	2.89
TOTAL	**3.24**	**4.00**	**3.76**	**3.97**	**4.30**	**4.60**	**4.60**

1/ The non-performing loans ratio is the percentage of direct loans that are past due or in judicial collection. This indicator also includes loans to companies, individuals, sovereign loans, loans to multilateral organizations, and loans to public sector companies and organizations.
Source: BCRP.

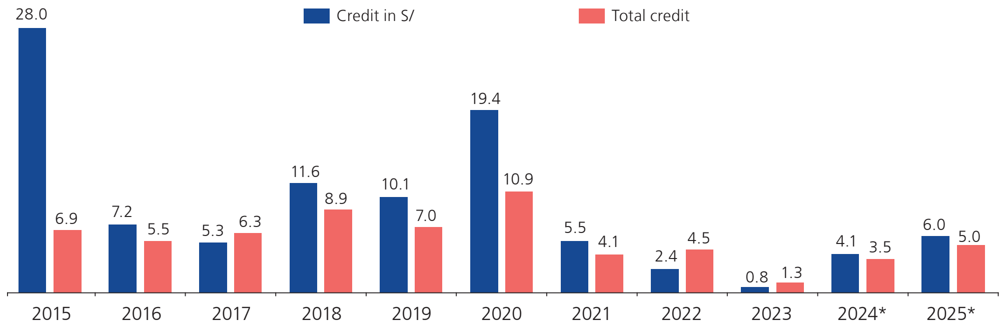
Projected credit to the private sector

85. It is anticipated that credit in local currency would rise in tandem with the expansion of economic activity. As a result, the anticipated increase in domestic currency lending to the private sector would be 4.1 percent in 2024 and 6.0 percent in 2025, respectively, when the Reactiva Peru program's loans are fully paid back, increasing total credit by 3.5 percent in 2024 (or 5.0 percent in the absence of the Reactiva Peru program), and by 5.0 percent in 2025, according to estimates.

Similarly, after a notable increase in the credit-to-GDP ratio in 2020 that was nearly reversed in 2023, credit to the private sector is predicted to grow at a slower rate than nominal GDP in 2024 and 2025. As a result, it is anticipated that the credit ratio would drop from 52.6 percent of GDP in 2020 to 40.2 and 39.9 percent in 2024 and 2025, respectively.

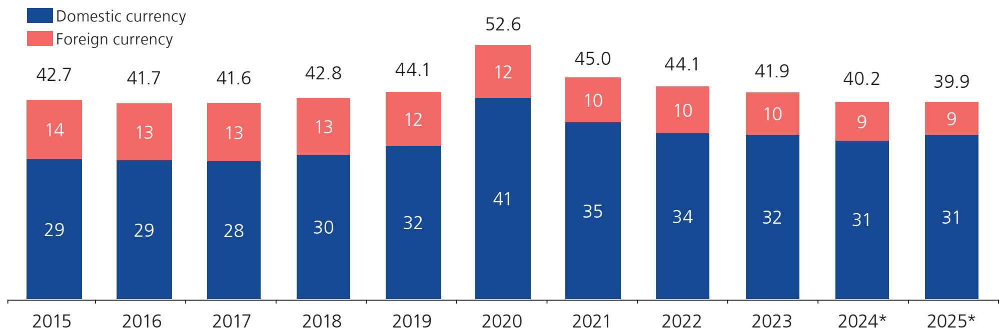
Similarly, as financial conditions continue to normalize, the growth rates of total liquidity and currency in circulation will be lower in 2023 and 2024 than the nominal GDP, with the growth of domestic currency liquidity approaching the nominal GDP in 2025. The ratio of liquidity to GDP would decrease from 45.5 percent in 2023 to 44.9 percent in 2024 (a little less than the pre-pandemic level), and 44.4 percent in 2025. This considers the withdrawal of CTS and AFPs funds, which will impact liquidity starting at the end of 2024's second quarter. Concurrently, depository companies' currency in circulation ratio would decrease from 7.5 percent in 2023 to 6.9 percent in 2024 and 6.5 percent in 2025, similar to COVID-19 levels.

Graph 84
CREDIT TO THE PRIVATE SECTOR
(% change)



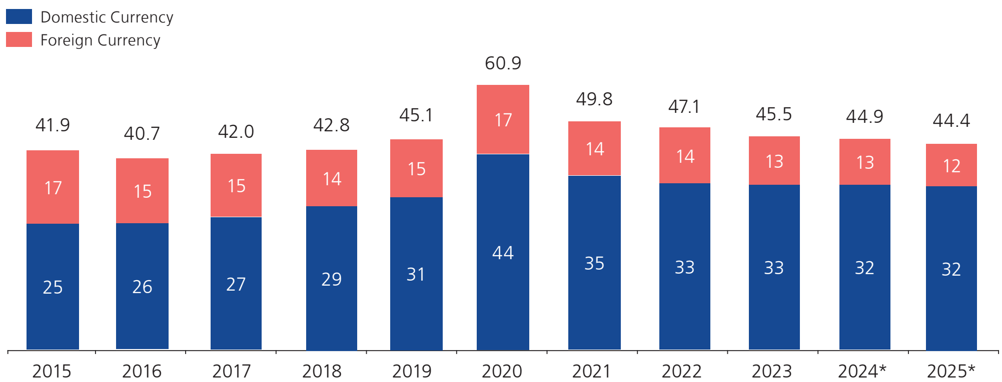
Note: calculated at constant exchange rate (December 2023).
*Forecast.
Source: BCRP.

Graph 85
CREDIT / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2023).
* Forecast.
Source: BCRP.

Graph 86
LIQUIDITY / GDP RATIO
(%)



Note: Calculated at constant exchange rate (December 2023).
* Forecast.
Source: BCRP.

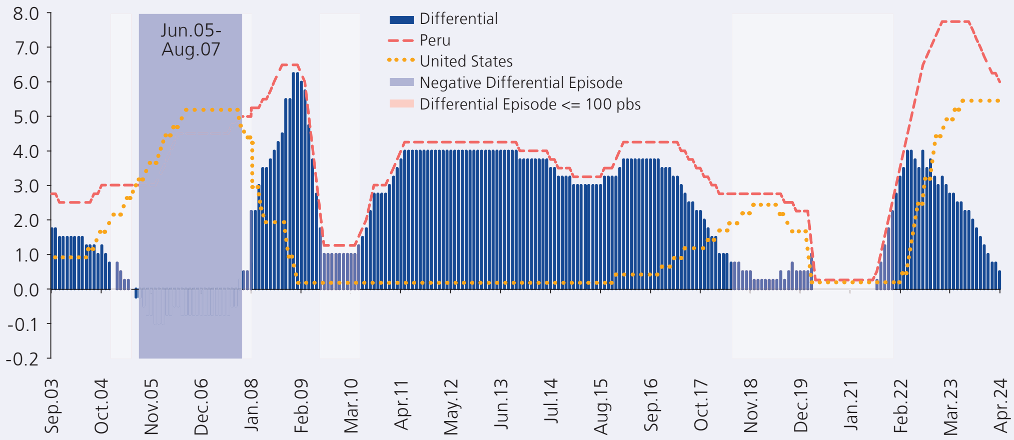
Box 4
NEGATIVE MONETARY POLICY RATE DIFFERENTIAL BETWEEN PERU AND THE UNITED STATES IN 2005-2007

In August of 2007, the BCRP benchmark rate dropped below the Fed's monetary policy rate for the first time since the benchmark rate scheme was adopted in Peru in September 2003. This Box reviews the financial and exchange rate environment during that period. From November 2005 to January 2006, this difference increased to 100 basis points.

The negative differential between policy interest rates occurred in a context of Fed rate hikes and solid growth in the United States and retail prices hit by higher oil and other commodity prices. Given the commodity boom episode, Peru saw a strong capital inflow and a consequent appreciation of the local currency, as well as high economic growth. During this period of negative differential, the average inflation rate over the last twelve months in Peru was 1.5 percent and the average annual GDP growth was 7.2 percent.

The difference in monetary policy interest rates between Peru and the US as of June is positive, at 0.25 percent; how this difference changes over time will depend on the macroeconomic circumstances unique to each nation. On the other hand, the baseline scenario assumes that during the forecast horizon, the size of this rate disparity will be minimal.

MONETARY POLICY RATES IN PERU AND THE UNITED STATES
(%)



Source: BCRP.

a. Interest rates

During this episode, the benchmark rate rose from 3.00 to 4.75 percent. This variation (175 bps.) was quickly absorbed by most of the short-term interest rates in Sol, among which overnight interbank loans (178 bps.), term deposits of banks (156 bps.) and 3-month corporate prime lending (142 bps.)[13].

13 However, the mortgage interest rate decreased by 368 bps, influenced by the reduction in the yield rate of the 10-year sovereign bond (170 bps), the increase in the participation of non-resident investors in the local bond market (9 to 24 percent) and the improvement in the sovereign rating during 2006.

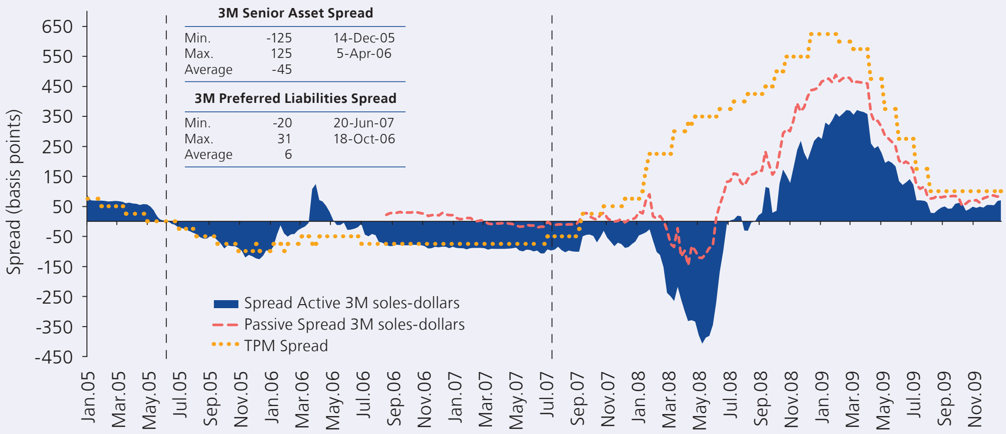
The increase in the Federal Reserve rate from 3.25 percent in June 2005 to 5.25 percent in August 2007 (200 basis points) also affected local dollar interest rates. This was particularly the case for the 3-month corporate prime lending rate (231 basis points), overnight interbank loans (226 basis points), and term deposits (191 basis points).

b. Interest rate currency differential

Interest rates in the financial sector swiftly adopted the negative or almost zero spread. Initially, between June 2005 and March 2006, as well as between May 2006 and June 2008, a negative spread (Sol minus dollars) was noted between 3-month prime loan rates. A month later, in July 2008, the spread became positive once more when the Fed started to lower its policy rate and the BCRP began a fresh round of rate rises.

In addition, there was a negative spread (Sol minus dollars) from February to September 2007 and briefly in December 2007. Then, between March and May 2008, amid the subprime crisis, this spread also became negative.

3-MONTH PRIME LENDING AND DEPOSIT RATE DIFFERENTIAL (SOLES MINUS DOLLARS) AND 3-MONTH (SOLES MINUS DOLLARS) AND MONETARY POLICY RATE DIFFERENTIAL



Source: BCRP.

Spreads were also negative in other interest rates. The spread between the term deposits rate of banks and the reference rate had a mixed behavior, but was negative between September and December 2005 and between January and September 2007. The spread between the 10-year sovereign and global bond yields was negative for a short period of time between May 10 and July 11, 2007 [14].

c. Foreign exchange market

Over the course of the time, the Sol showed a tendency to appreciate correlated with strong external factors. Nonetheless, a few instances of pressures for exchange rate depreciation

14 For its part, the average interest rates for mortgage loans in Sol and dollars showed a negative differential in some short periods.

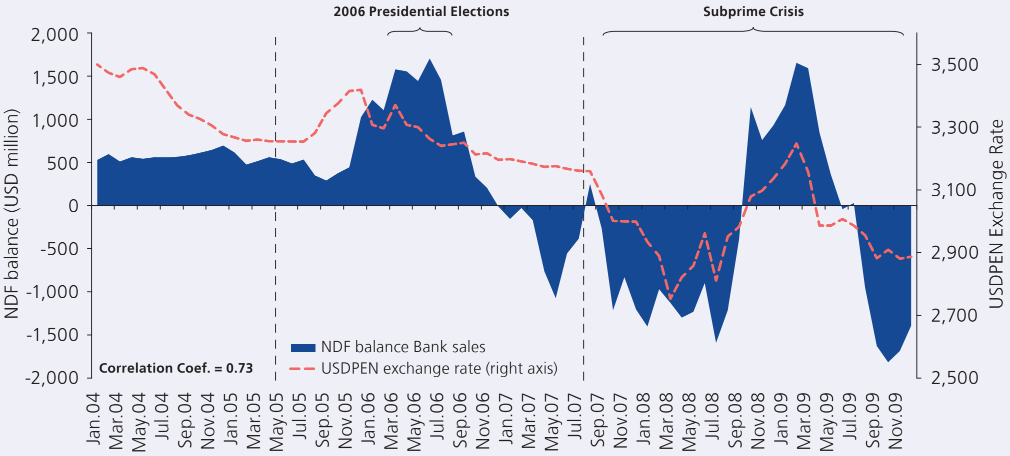
and volatility were noted linked to AFPs' increasing appetite for dollars and heightened political unpredictability.

In the first half of 2005, the Sol appreciated due to the positive trend in the balance of payments[15] , the de-dollarization of the banking system and AFPs, and falling sovereign risk. At the beginning of the negative spread period (May and June 2005), the volatility of the Sol was low (0.5 percentage points). However, since August 2005, the exchange rate started to climb up due to the greater demand for dollars from banks and AFPs, who bought back their portfolios[16] , as well as the uncertainty generated by the beginning of the 2006 elections campaign. Thus, between August and December 2005, exchange rate volatility rose to 4.2 percentage points.

Since July 2006, the value of the Sol has increased once more, as seen by the decline in banks' net forward sales balances from a positive balance of USD 1,027 million at the end of 2005 to a USD 9 million negative balance at the end of 2006. In a setting where the dollar was declining globally (7.09 percent) as a result of the subprime crisis, worries of an American recession, and consecutive Fed policy rate decreases, the exchange rate increased by 3.47 percent between December 2006 and September 2007.

NET BALANCE OF FORWARD SALES OF BANKING COMPANIES AND USD/PEN EXCHANGE RATES NET BALANCE NDF SALES OF BANKING COMPANIES

(Million USD)



Source: BCRP.

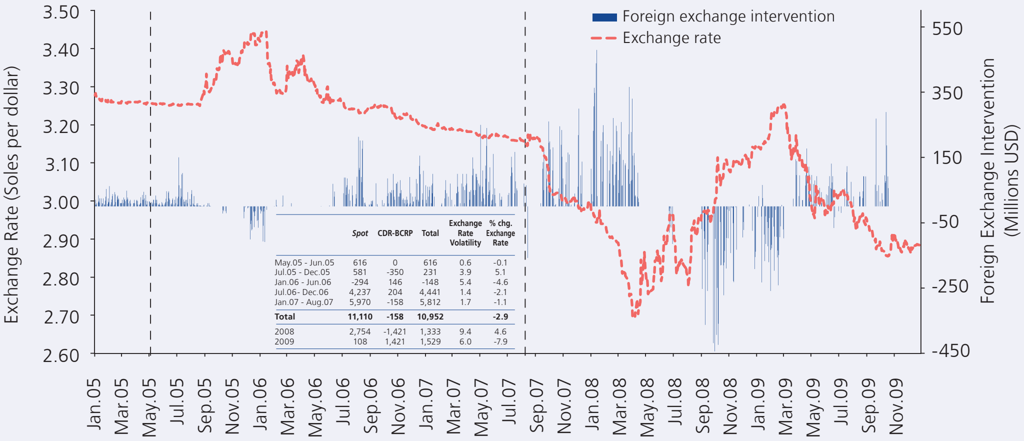
In this context, the BCRP intervened in the exchange market through spot operations and BCRP CDRs placements to moderate exchange rate volatility. Between May and July 2005, the BCRP intervened through spot market purchases (USD 1,381 million). Then, between August 2005 and June 2006, the BCRP made net sales in the spot market

15 The price of copper showed an upward trend until April 2006.

16 The rapid rise in the exchange rate as of August 24 was due to spot dollar demand from AFPs (USD 284 million), mainly for the acquisition of structured bonds. Between August 2005 and January 2006, the AFPs demanded USD 543 million in the spot market. Since November 2004 (SBS Resolution No. 1738-2004), the AFPs have used currency forward contracts as an alternative for managing the portfolio's foreign exchange risk. Previously, the exchange rate risk was assumed by the portfolio, which reflected this situation in the returns it generated, and it was stated that the AFPs could not use hedging instruments to manage this risk banned by regulations.

for USD 478 million and net placements of BCRP CDRs for USD 204 million. Subsequently, between July 2006 and August 2007, the BCRP's position returned to net dollar demand.

EXCHANGE RATE AND BCRP FOREIGN EXCHANGE INTERVENTION 1/



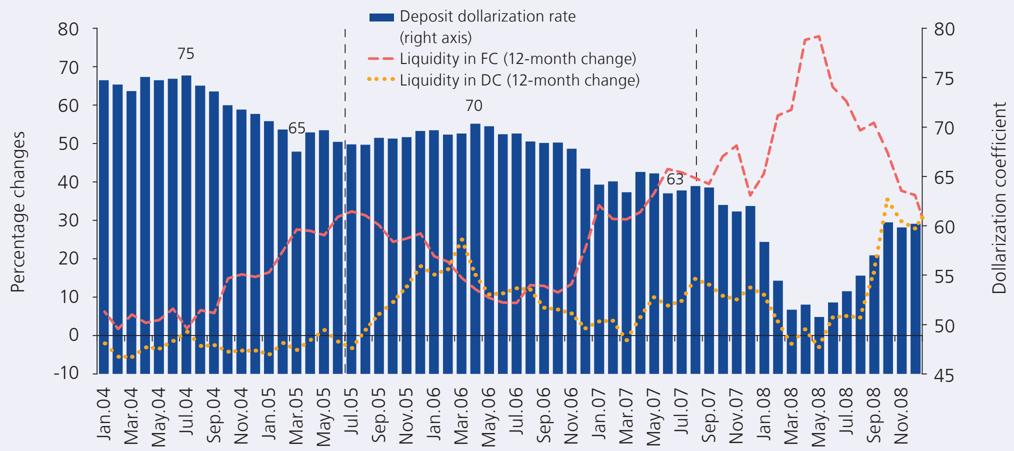
	Spot	CDR-BCRP	Total	Exchange Rate Volatility	% chg. Exchange Rate
May.05 - Jun.05	616	0	616	0.6	-0.1
Jul.05 - Dec.05	581	-350	231	3.9	5.1
Jan.06 - Jun.06	-294	146	-148	5.4	-4.6
Jul.06- Dec.06	4,237	204	4,441	1.4	-2.1
Jan.07 - Aug.07	5,970	-158	5,812	1.7	-1.1
Total	**11,110**	**-158**	**10,952**		**-2.9**
2008	2,754	-1,421	1,333	9.4	4.6
2009	108	1,421	1,529	6.0	-7.9

1/ Includes purchases/sales of dollars in the spot market and net placement of BCRP CDRs.
Source: BCRP.

d. Dollarization

In the money market, liquidity in Sol maintained higher growth rates than liquidity in dollars throughout most of the period. An initial slowdown in Sol liquidity since mid-2005 was followed by a period of high growth starting in late 2006, which coincided with a pause in the increases in the BCRP benchmark rate and a negative rate differential of 75 bps, which continued for thirteen consecutive months.

DOLLARIZATION OF THE DEPOSITS OF BANKING COMPANIES



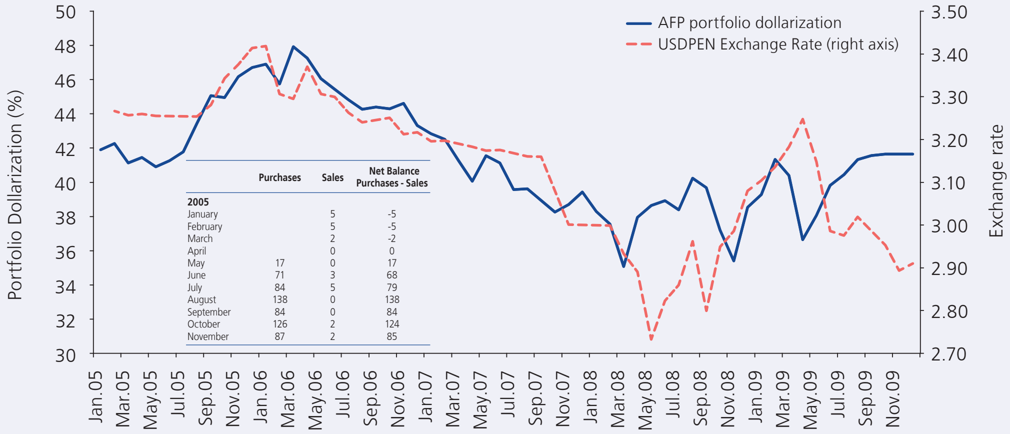
Source: BCRP.

Similarly, despite the increasing trend in dollar liquidity, bank deposits were becoming less dollarized. Dollarization fell from 75.2 to 67.5 percent between July 2004 and March 2005, when the rate difference was starting to shrink. Consequently, dollarization decreased from

70.1 percent to 63.3 percent between June 2006 and June 2007. This decline persisted until May of 2008.

In 2005, the activities of AFPs with local banks grew progressively, matching the rise in the permitted foreign investment limit. This led to fluctuations in the currency rate. As a result, pension funds sought dollars for transfers and foreign investments on the spot market[17]. Up to March 2006, the investment portfolio's dollarization trended higher[18].

DOLLARIZATION OF THE AFP PORTFOLIO AND EXCHANGE RATE



	Purchases	Sales	Net Balance Purchases - Sales
2005			
January		5	-5
February		5	-5
March		2	-2
April		0	0
May	17	0	17
June	71	3	68
July	84	5	79
August	138	0	138
September	84	0	84
October	126	2	124
November	87	2	85

Source: BCRP and SBS.

Final comments

Money market interest rates were impacted by changes in the Fed benchmark rate and the BCRP during the period of negative monetary policy interest rate difference between 2005 and 2007. The gap between them was reflected in the other financial system rates. The robustness of the monetary policy transmission mechanism was demonstrated by the continuation of the pass-through of changes in the reference rate to short-term interest rates in Sol during this phase.

Likewise, episodes of higher exchange rate volatility, increased demand for dollars by AFPs in the spot market, and increased demand for forward dollars by non-resident investors, despite the local currency's overall appreciating trend supported by strong macroeconomic fundamentals were documented. Nor did dollarization of deposits increase despite the negative rate differential.

At the current juncture, it is expected that the Fed would start its rate cutting cycle in the last quarter of the year. Given the proximity of BCRP and Fed policy rates, the evolution of these

17 AFPs also usually offer dollars in the derivatives market to hedge their investments.

18 On the other hand, non-resident investors progressively increased their participation in the Public Treasury Bonds (BTP) market, as well as their operations in the local exchange market. This increased participation was the result of the improvement in the sovereign debt credit rating and the reduction of country risk. Thus, between May 2005 and September 2007, the participation of non-resident investors increased from 9 to 24 percent.

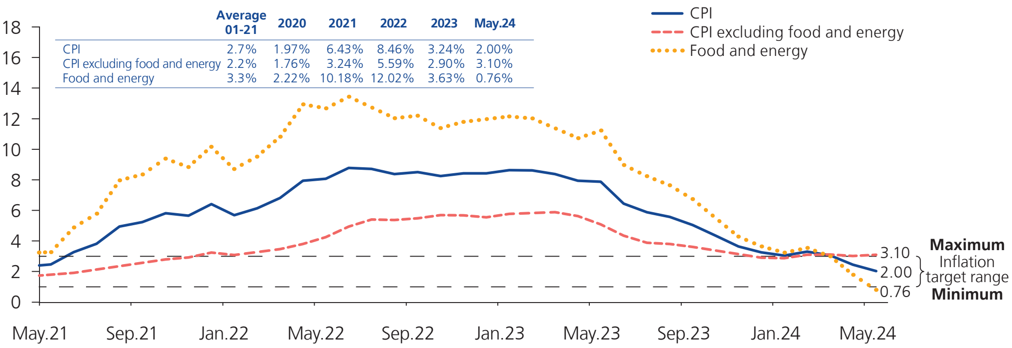
rates could result in a negative interest rate differential in coming months. The baseline scenario considers the size of the interest rate differential would be small over the forecast horizon. In the region, there are countries that are also reducing their spread, such as Chile (from 175 to 25 bps. since June 2024) or making it more negative, such as Costa Rica (from -25 to -75 bps. since the end of April 2024). In Peru, BCRP's high credibility gives it room to engage in a countercyclical monetary policy that will depend on relevant information on inflation and its determinants, with the commitment to keep inflation within the target range.

VI. Inflation and balance of inflation risks

Recent developments

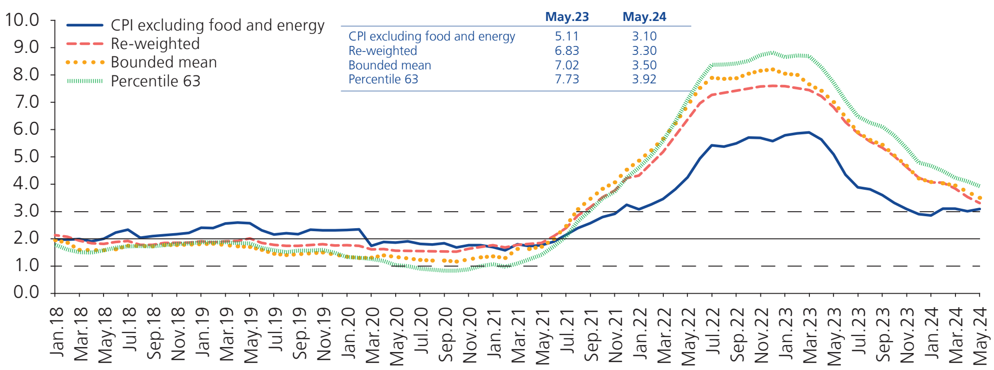
86. From 3.29 percent in February 2024 to 2.00 percent in May 2024, year-over-year **inflation** continued to drop, landing in the center of the target range.

Graph 87
INFLATION
(Last 12-month % change)



Source: BCRP.

Graph 88
INFLATIONARY TREND INDICATORS
(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 over 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 placed in the 63th percentile.

The items that most contributed to the slowdown in year-on-year inflation between February and May were chicken, meals away from home, fish, leaves or stems, and other fresh fruits. Inflation excluding food and energy remained at 3.10 percent in the same period, with local transportation, international air travel and motor vehicles up, offset by a slowdown in domestic air travel, personal care items and tuition. The different trends in core inflation indicators slipped year-on-year trend between February and May, but remained above the target range.

87. Between April and December 2023, there was a discernible decline in the core inflation rate (SAE), resulting in the year ending within the target range. But from February to May 2024, it crossed the range's top bound once again, to then stabilize at 3.1 percent annual pace. The services component, in particular local transportation, water rates, and foreign air travel, picked up between February and May. The biggest factor influencing the year-over-year rate is education, which has stayed high since the rise in school fees and tuition in March 2023.

Graph 89
CPI EXCLUDING FOOD AND ENERGY
(Last 12 months % change)

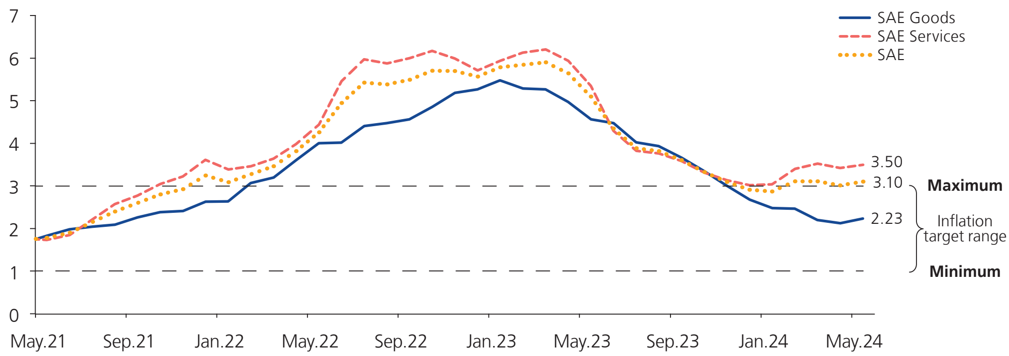
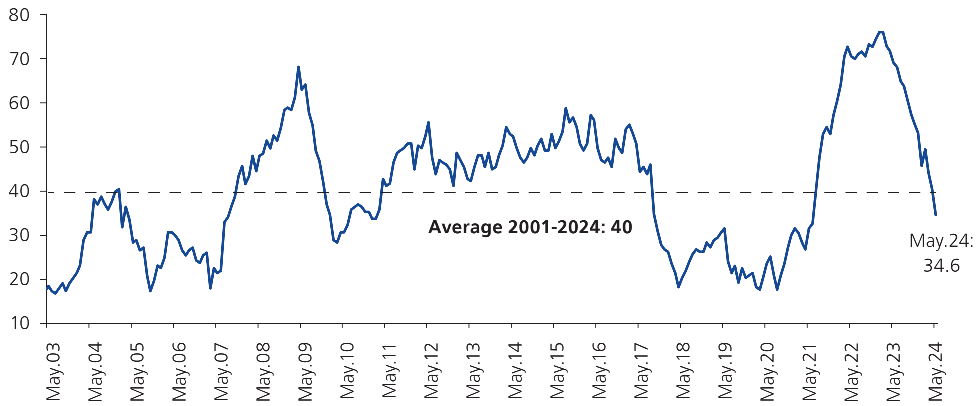


Table 36
SERVICES INFLATION
(Percentage change last 12 months)

	Weight	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24
Services	**37.89**	**3.01**	**3.04**	**3.40**	**3.52**	**3.42**	**3.50**
Education	**8.61**	**6.40**	**6.40**	**5.89**	**5.29**	**5.37**	**5.48**
Which one:							
Primary	*1.55*	*10.39*	*10.39*	*9.34*	*6.31*	*6.31*	*6.31*
Secondary	*1.26*	*10.74*	*10.74*	*9.75*	*6.42*	*6.42*	*6.42*
Higher	*4.26*	*3.86*	*3.86*	*3.55*	*4.92*	*5.04*	*4.91*
Transportation	**9.14**	**2.89**	**3.39**	**3.77**	**4.82**	**4.50**	**4.68**
Which one:							
National ground	*0.27*	*-5.23*	*2.09*	*1.63*	*7.16*	*-10.25*	*-2.41*
Domestic	*8.08*	*3.51*	*3.70*	*4.00*	*4.54*	*5.01*	*5.06*
National air	*0.24*	*24.20*	*25.28*	*20.13*	*29.29*	*6.59*	*2.24*
International air	*0.55*	*-9.05*	*-6.72*	*-3.82*	*1.46*	*2.12*	*2.05*
Health	**1.48**	**3.28**	**3.09**	**3.50**	**3.73**	**3.22**	**3.02**
Others services	**5.03**	**3.23**	**2.99**	**3.29**	**2.93**	**2.76**	**2.65**
Other personal services	**3.37**	**2.39**	**2.44**	**2.41**	**2.42**	**2.29**	**2.16**
Public services	**5.81**	**0.71**	**0.25**	**2.21**	**2.18**	**2.18**	**2.18**
Which one:							
Water	*1.37*	*1.32*	*0.00*	*7.48*	*7.48*	*7.48*	*7.48*
Rentals	**4.45**	**-0.19**	**-0.19**	**0.06**	**0.16**	**0.28**	**0.64**

88. Thirty-five percent of the 188 items that comprise the Consumer Price Index showed a fluctuation in value from year-to-year over three percent. This indicator peaked in February 2023 at 76 percent. Since then, it has been dropping, and in May it settled at a level below its long-term threshold of 40 percent and at its lowest since June 2021.

Graph 90
PERCENTAGE OF CPI ITEMS WITH YEAR-ON-YEAR PRICE CHANGE HIGHER THAN 3%



	May.23	Jun.23	Jul.23	Aug.23	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24
Percentage	69	68	65	64	61	57	55	53	46	49	44	40	35
Number of items:													
Items with variation higher than 3%	130	128	122	120	114	108	104	100	86	93	83	76	65
Items with variation lower than 3%	58	60	66	68	74	80	84	88	102	95	105	112	123

Note: The average annual inflation corresponding to the period 2001-2024 is 3.01 percent.

89. The items most closely linked to the exchange rate, international prices and contracts linked to the Wholesale Price Index (WPI) contributed 0.21 percentage points to cumulative inflation between January and May (1.45 percent).

Table 37
ITEMS LINKED TO THE EXCHANGE RATE, INTERNATIONAL PRICES AND TO THE WHOLESALE PRICE INDEX (WPI)

	Weight Dec.21	% chg 12 months Dec.22	Weighted contribution	% chg 12 months Dec.23	Weighted contribution	% chg 12 months Jan-May.24	Weighted contribution
CPI	**100.00**	**8.46**	**8.46**	**3.24**	**3.24**	**1.45**	**1.45**
Items linked to the exchange rate	**14.58**	**5.19**	**0.76**	**1.92**	**0.27**	**0.78**	**0.11**
Items linked to international prices and exchange rate	**7.99**	**11.40**	**0.91**	**1.44**	**0.12**	**0.72**	**0.06**
Linked to food commodities	5.84	15.21	0.89	3.96	0.25	-0.34	-0.02
Linked to Fuels	2.15	1.05	0.02	-6.36	-0.13	4.34	0.08
Items related to WPI	**1.37**	**7.90**	**0.11**	**1.32**	**0.02**	**7.48**	**0.10**
Items related to the exchange rate, WPI and international prices	**2.62**	**11.46**	**0.30**	**-7.11**	**-0.19**	**-2.46**	**-0.06**
Total items linked to the exchange rate, WPI and international prices	**26.56**	**7.82**	**2.08**	**0.82**	**0.22**	**0.81**	**0.21**
Rest	**73.44**	**8.69**	**6.38**	**4.10**	**3.02**	**1.67**	**1.24**

90. Between January and May 2024, the general price level rose 1.45 percent, mainly accounted for by raising services prices (2.0 percent), which contributed 0.73 percentage points to inflation for the period, most remarkably education services (4.9 percent), local transportation (2.1 percent) and water (7.5 percent). For its part, price increases for meals away from home (1.7 percent) contributed 0.27 percentage points, while fuel price growth (4.3 percent) contributed 0.08 percentage points. This was partly counterbalanced by the 2.5 percent decline in electricity prices (-0.06 percentage points to inflation). Prices of food at home grew 1.0 percent, contributing 0.26 percentage points to inflation for the period.

Table 38
INFLATION
(%)

	Weight	Dec.20	Dec.21	Dec.22	Dec.23	2024	
						May.24/Dec.23*	May.24/May.23
CPI	**100.0**	**1.97**	**6.43**	**8.46**	**3.24**	**1.45**	**2.00**
1. CPI excluding food and energy	**55.3**	**1.76**	**3.24**	**5.59**	**2.90**	**1.68**	**3.10**
a. Goods	**17.4**	**1.5**	**2.6**	**5.3**	**2.7**	**1.0**	**2.2**
b. Services	**37.9**	**1.9**	**3.6**	**5.7**	**3.0**	**2.0**	**3.5**
Education	8.6	2.0	1.6	3.9	6.4	4.9	5.5
Health	1.5	1.2	2.8	7.3	3.3	1.5	3.0
Local transportation	9.1	2.5	3.7	12.3	2.9	1.2	4.7
Others	18.7	1.6	1.7	3.2	1.5	1.1	1.9
2. Food and energy	**44.7**	**2.22**	**10.18**	**12.02**	**3.63**	**1.18**	**0.76**
a. Food and beverages	**40.0**	**2.2**	**8.0**	**12.6**	**4.8**	**1.3**	**0.8**
Meals inside the home	24.5	2.9	9.8	14.5	3.7	1.0	-1.5
Meals outside the home	15.5	1.0	4.5	9.7	6.6	1.7	4.8
b. Fuel and electricity	**4.8**	**2.1**	**24.4**	**6.8**	**-6.8**	**0.5**	**0.1**
Fuel	2.1	-4.2	47.2	1.0	-6.4	4.3	3.3
Electricity	2.6	6.7	9.5	11.5	-7.1	-2.5	-2.4

* Cumulative percentage change.
Source: BCRP.

91. During the January-May period, education, meals away from home, fresh fruits, local transportation, and eggs most contributed to inflation (1.20 percentage points). Potatoes, avocados, maize, poultry, and electricity made the most negative contributions (-0.55 percentage points of inflation).

Table 39
ITEM WITH THE HIGHEST WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - MAY 2024

Positive	Weight	% chg.	Contr.	Negative	Weight	% chg.	Contr.
Education	8.6	4.9	0.41	Potatoes	0.7	-20.9	-0.20
Meals outside the home	15.5	1.7	0.27	Avocado	0.2	-36.9	-0.10
Other fresh fruits	0.6	29.4	0.22	Corn	0.1	-48.2	-0.10
Local transportation	8.1	2.1	0.18	Chicken meat	2.7	-3.2	-0.08
Eggs	0.7	12.2	0.12	Electricity	2.6	-2.5	-0.06
Onion	0.2	45.9	0.11	National air transport	0.2	-26.6	-0.05
Water supply	1.4	7.5	0.10	Other tubers	0.1	-31.0	-0.05
Fresh legumes	0.2	35.0	0.07	Vegetable oil	0.4	-10.0	-0.03
Domestic gas	0.8	9.7	0.06	National ground transportation	0.3	-13.7	-0.03
Leaves or stems	0.2	34.8	0.05	Carrot	0.1	-17.6	-0.03
Total			**1.59**	**Total**			**-0.75**

Source: BCRP.

Food

The variations in food prices in the January-May period were related to climate changes that affected production processes and supply, mainly for "other fresh fruit", eggs, onions and peas. The higher rainfall in the central highlands during the current agricultural season and the greater availability of agricultural inputs favored planting of potatoes, corn, carrots and olluco, with a consequent improvement in their supply and a decrease in their prices.

Prices for meals consumed outside the house, an item impacted by fewer patrons visiting restaurants during the epidemic, have continued to rise. The item's variance over the last 12 months was 4.8 percent, which was more than the variation of food consumed at home (-1.5 percent).

The price increase of strawberries and mangoes was the primary cause of the 29.4 percent increase in "other fresh fruit".

Due to lower supplies from Piura during the agricultural season on the northern coast, which resulted in altered plant flowering and yields, the price of mango increased 64.9 percent between January and May of last year compared to the same period the previous year. Meanwhile, the price of strawberries increased 47.5 percent during that period, reflecting increases in the months of February through April due to lower seasonal supplies from Lima valleys.

The price of eggs increased by 12.2 percent, which was in line with rises from February to April. Warm weather, particularly in February and March, reduced the chicken production and hampered product marketing; in addition, demand for eggs for school lunches surged in March and April.

The price of onion increased throughout the period due to issues with the crop in Arequipa, including less access to water in September to December 2023, as well as heavy rainfall and flooding in February and March 2024, resulting in lower income from this produce.

Price of green peas increased and led to higher prices overall for fresh vegetables. Due to low temperatures that impacted crops in the high Andean highlands of Junín, the supply of this legume dropped in April and May.

On the other hand, because there was an abundance of the "white" potato variety —which is grown in Junín— potato prices decreased during the period. In this instance, improved weather (more rainfall beginning in October) benefitted and more of grain coming from that area, which brought down the price (-48.2 percent). Similarly, "other tubers," which include olluco, saw a 31.0 percent negative change because of increased shipments from Junín. The previous season's output was impacted by higher input costs and unpredictable weather (mostly dry). Due to increased plantings of carrots in Junín, the primary source during the first half of the year, carrot prices slipped (-17.6 percent).

The April and May sales (-11.6 and -1.3 percent, respectively) had an impact on the 3.2 percent drop in chicken prices. Fresher weather, which had an impact on the birds' diet and performance in February and March, contributed to this outcome. Then in April volumes rose again. In January-May, the prices of their primary substitute food options, namely bonito and jack mackerel, fell by 8.4 and 3.7 percent, respectively.

The price of vegetable oil fell 10.0 percent, which is consistent with the decline in the global price of soybean oil, its primary input. Accumulated drop reached -16.9 percent from January to May.

Services

The provision of water, local transit, and educational services was the primary driver of the 2.0 percent rise in the Services component during the January–May period.

Education service fees were readjusted in March, at the beginning of the new school year at all levels. Higher education rose 3.4 percent on average, as a result of increases in tuition and fees at private universities (4.2 and 3.8 percent, respectively), and at non-state higher learning (vocational) schools (2.7 and 2.9 percent, respectively). Regarding primary education, an average increase of 5.7 percent was recorded in March (8.7 percent in March 2023, after the return to face-to-face classes). Private school' tuition rose 6.3 percent, while associated expenses grew 2.9 percent. High school education tuition rose 5.9 percent on average compared to 9.2 percent in March 2023). Overall, tuition in private schools increased by 6.4 percent, and related expenses by 2.7 percent.

Local transportation recorded successive increases in the January-May period. The Urban Transport Authority for Lima and Callao (ATU) authorized in February an increase in the half fare for school children, university students and high school students on Metropolitano BRT buses. Motorcycle cab fares increased in February, March and April (0.9, 1.9 and 3.5 percent, respectively), and private transportation to schools increased at the beginning of the school year (8.0 percent).

Potable water and sewerage service rates increased by 7.5 percent in February in line with the hike called for in Sedapal's five-year plan for the years 2022–2026. The regulatory body Sunass authorized this increase after determining that the management objectives of the firm had been met.

Energy

The revision in February and May (-1.2 percent in both months) had an impact on the 2.5 percent drop in electricity rates in January–May. According to legislation in force, the reductions were mostly caused by the lowering of the generating component, which came about as a result of the tariff schedules' quarterly adjustment using the compensation method based on the discrepancies between the realized prices of long-term bidding contracts and the price at the generation level, which Osinergmin regulator defines ex ante.

Within the framework of Supreme Decree N°001-2024-EF, the price of domestic gas cylinders increased by 9.7 percent between January and May. This increase was primarily caused by updates to the band for bottled LPG, a product included in the Petroleum Fuels Price Stabilization Fund (FEPC). The band's calculation method was changed by this regulation, which was based on the import parity price instead of the export parity price as it was previously done.

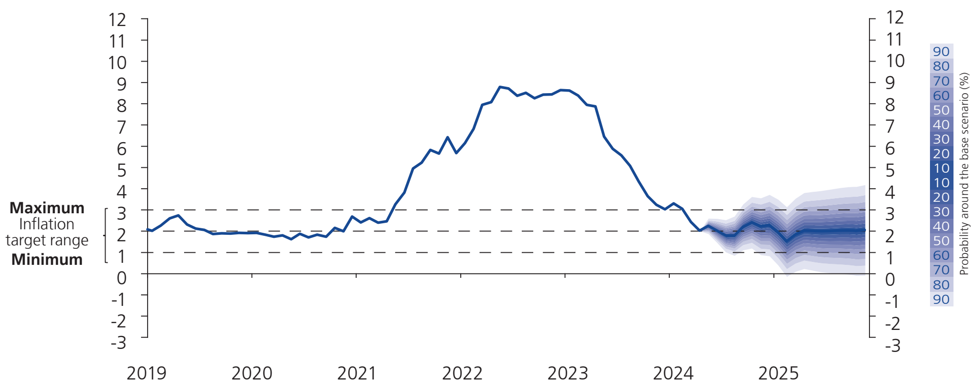
Forecasts

92. The projection of inflation forecasts and inflation drivers over an 18–24 month horizon informs the design and implementation of the BCRP's monetary policy measures. When creating such a prediction, all available macroeconomic and financial data is considered. Expectations of inflation, import inflation (which includes the influence of the currency rate), and inflationary pressures resulting from supply and demand issues are some of the elements that determine inflation. Similarly, a step in creating inflation projections is quantifying uncertainty using various instruments and models, followed by the creation of risk scenarios and their respective likelihoods of happening. The baseline scenario for this report's inflation prediction is as follows, along with the risk balance that may arise from a divergence from it in the future, accounting for both the size of the deviation and its likelihood.

Graph 91

INFLATION FORECAST: 2024 - 2025

(% change last twelve months)

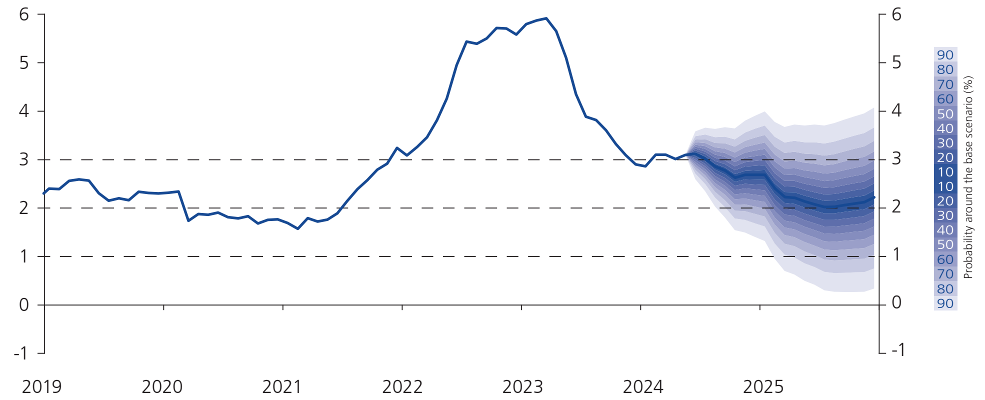


Note: This Fanchart presents the distribution of possible inflation projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10%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

It should be mentioned that the inflation prediction considers a number of factors, the most notable of them being the inflation of non-food products and energy. Being the most consistent component of inflation, it reflects its trend and better represents the demand factors that monetary policy is based on. For these reasons, this component of inflation is particularly significant. Because the various inflation measurements converge to the same point over the projection horizon, the formulation of monetary policy thereby accounts for the gradual convergence of this indicator.

Over the course of the projection period, inflation is anticipated to be close to the target range's midpoint. The forecast rates of inflation for 2024 and 2025 are 2.0 percent and 2.2 percent, respectively, in line with the March Report's expectations.

Graph 92
INFLATION EXCLUDING FOOFD AND ENERGY FORECAST (SAE): 2024 - 2025
(% change last twelve months)

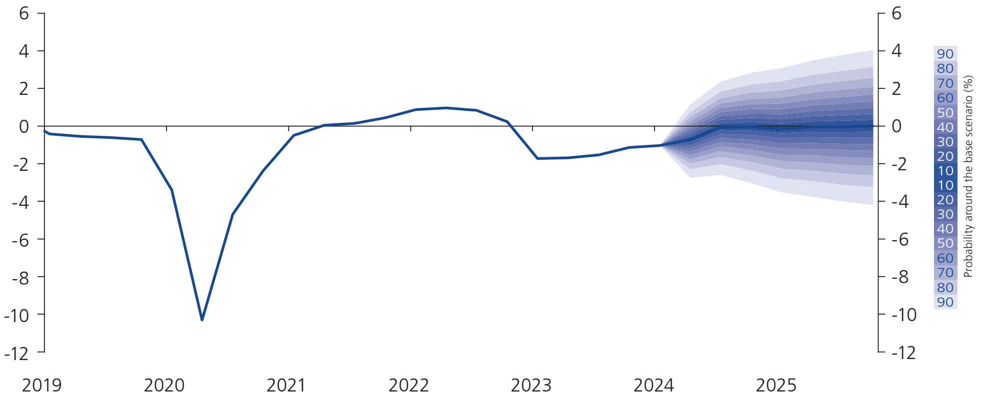


Note: This Fanchart presents the distribution of possible inflation excluding food and energy projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10% probability and indicates the possible values for the evolution of inflation without food and energy over the projection horizon associated with this confidence level.
Source: BCRP.

This projection also assumes that the impact of transitory factors like the currency exchange rate, international gas costs, and grain prices fade, in addition to the reversal of supply shocks. This is occurring in an environment where economic activity is getting close to its potential and inflation expectations are trending downward and toward the center of the target range.

93. On the other hand, it is anticipated that the terms of trade will continue to be at advantageous levels and that the poor business confidence of the previous year will gradually reverse. Consequently, it is anticipated that the production gap would close during the projection horizon.

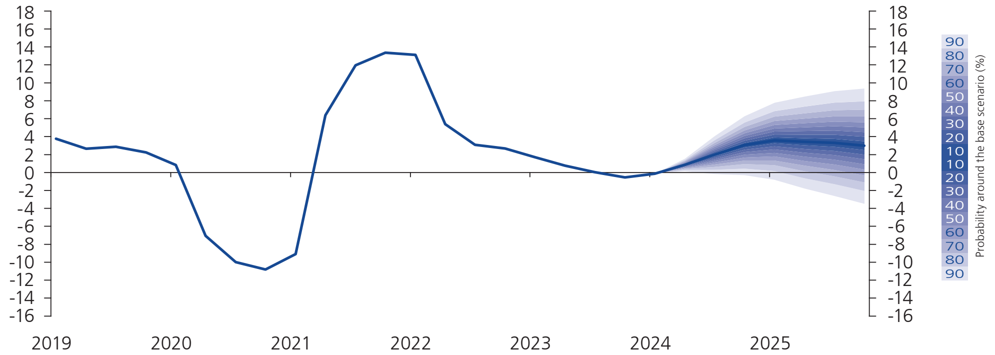
Graph 93
PROJECTED OUTPUT GAP: 2024-2025
(Percentage of potential output, quarterly average)



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

94. A small increase in the level of economic activity is anticipated, matching the evolution of the production gap and the projected potential GDP.

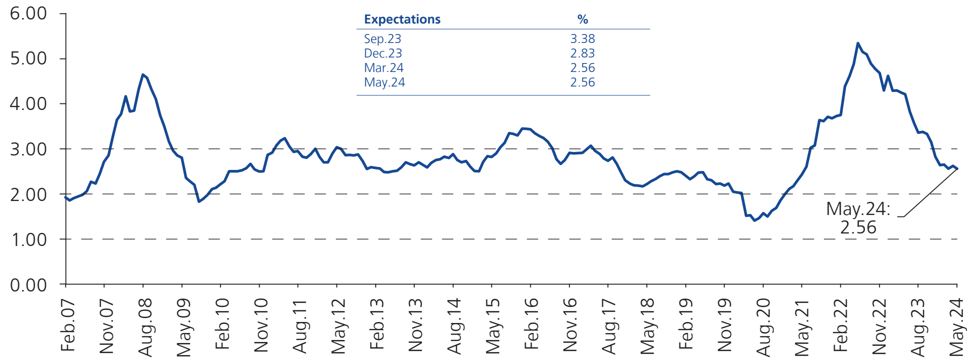
Graph 94
PROJECTED OUTPUT GROWTH: 2024-2025
(Percentage change, 4 quarters moving average)



Note: This Fanchart presents the distribution of possible values of projected output growth over the projection horizon. Its center 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 output growth over the projection horizon associated with this confidence level.
Source: BCRP.

95. Inflation expectations are computed Based on surveys among both financial and non-financial firms and economic analysts, , and the results show a range for the anticipated inflation rate that is comparable to the March Inflation Report. Between 2.6 and 3.0 percent for 2024 and 2.5 to 3.0 percent for 2025. Expectations for 12-month inflation in May 2024 are now 2.56 percent, which is momentarily at the top threshold of the target range.

Graph 95
TWELVE-MONTH INFLATION EXPECTATIONS
(% points)



Expectations	%
Sep.23	3.38
Dec.23	2.83
Mar.24	2.56
May.24	2.56

Source: BCRP.

Table 40
INFLATION EXPECTATIONS SURVEY
(%)

	IR Dec.23	IR Mar.24	IR Jun.24
Financial entities			
2024	3.15	2.60	2.60
2025	2.50	2.50	2.50
Economic analysts			
2024	3.00	2.75	2.60
2025	2.50	2.50	2.50
Non-financial firms			
2024	4.00	3.00	3.00
2025	3.00	3.00	3.00

* Survey conducted as of May 31.
Source: BCRP.

96. A further factor influencing inflation is the imported component, which combines the impact of fluctuations in the exchange rate (Sol versus the US dollar) with the foreign prices of goods that our nation imports, such as wheat, soybeans, corn, and oil.

As a result, it is anticipated that average import prices will rise by 1.1 percent by 2025 after declining by 0.5 percent in 2024, mostly as a result of lower prices for some raw commodities including maize, wheat, and soybeans. According to projected exchange rate surveys conducted as of May, the ranges for 2024 and 2025 are S/ 3.75 and S/ 3.76 and S/ 3.75 and S/ 3.80, respectively.

Table 41
EXCHANGE RATE EXPECTATIONS SURVEY
(S/ per US$)

	IR Dec.23	IR Mar.24	IR Jun.24
Financial entities			
2024	3.80	3.80	3.75
2025	3.82	3.78	3.75
Economic analysts			
2024	3.80	3.75	3.75
2025	3.85	3.73	3.80
Non-financial firms			
2024	3.80	3.80	3.76
2025	3.80	3.80	3.80

* Survey conducted as of May 31.
Source: BCRP.

Over the course of the projection horizon, it is anticipated that the aforementioned impacts will help keep inflation at the center of the target range (2.0 percent).

Risks to the inflation projection

97. In light of the March data, there are less risks to the inflation estimate. While a neutral bias is presented in the current report, an upward bias was taken into consideration in the prior one. The shocks listed below corroborate this:

- **Food, energy and freight price shocks**

  Relatively intense environmental events might impede the growth of some economic endeavors, the flow of perishable items, and the supply of home markets. Although the projected impact of this risk in the forecasts horizon is lower than what was stated in the March Report, since the coastal El Niño did not materialize under strong or exceptional conditions, these potential events could result in higher food prices and transportation costs. There is still a chance that geopolitical or climatic conditions that influence marine transportation —such as low water levels in the Panama Canal or transit challenges in the Red Sea— will have an impact on global supply chains.

  A probable additional reversal of the shocks that impacted the food and energy goods in the consumer basket balances these risks. For this reason, the Inflation Report rates this risk as neutral.

- **Financial shocks**

  Globally, rising market volatility may spark a period of capital flight from emerging economies. This is especially likely to be linked to concerns about the speed at which developed economies will cut interest rates as part of their monetary policy, the reaction of international financial markets to these developments, and an increase in risk aversion overall as a result of geopolitical tensions. Periods of increased social upheaval and political unpredictability at home might heighten national risk and ultimately drive faster capital flight. Both elements may put pressure on the currency rate to rise, which would raise inflation. In comparison to the March report, this risk is likely to have a smaller impact.

  The impact is lessened because many advanced nations have already started cutting their monetary policy rates; yet, there is still a concern because the US economy is still expected to show high interest rates for some time to come.

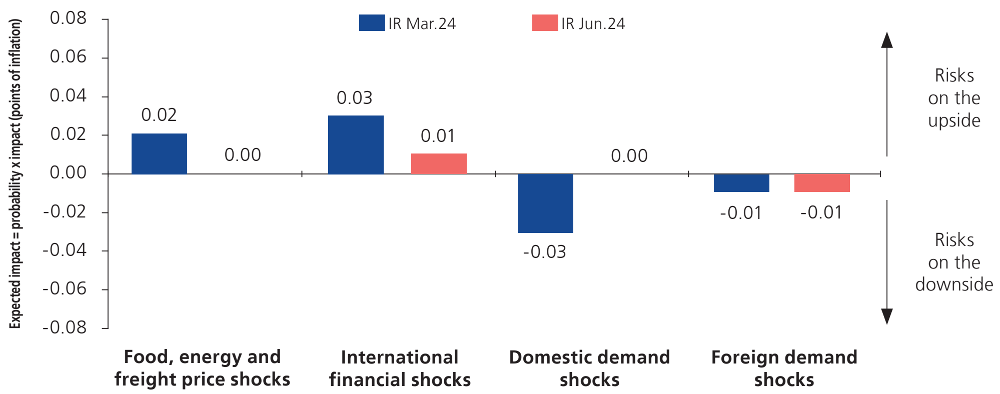
- **Domestic demand shocks**

  Events of social discontent and political instability may make it more difficult for private investment and consumption to expand. Reduced private investment spending would result in less capital accumulation and, consequently, less potential economic activity growth. However, increased public investments may counteract this. This risk would have had a lessened projected impact placing it in neutral ground compared to March predictions.

- **External demand shocks**

There is still a chance that global economy would slow down, which would mean that there will be less of an external demand for our primary exports. A number of factors could lead to this contingent scenario, including: (i) increased geopolitical tensions; (ii) new disruptions in global supply chains (a technological war between China and the United States); (iii) trade tensions between the United States, China, and other advanced economies; (iv) the impact of persistent inflation on consumption; and (v) a recession in China's economy. The possible improvement in terms of trade brought about by increased prices for the goods we export somewhat offsets these concerns. This risk still has the same impact as it had in the previous Inflation Report.

Graph 96
INFLATION RISKS BALANCE SHEET



Source: BCRP.

Box 5
RELATIVE PRICES AND INFLATION IN THE PERUVIAN ECONOMY

Inflation is defined as the generalized and sustained increase in prices in the economy, which results in a loss of purchasing power of money. However, agents often confuse the concept of inflation by associating it with the prices that are most relevant to them. For example, households tend to associate inflation with the price of food, while businessmen associate it with the price of their inputs.

A broad and persistent rise in prices across the economy that reduces money's buying power is referred to as inflation. Agents, however, frequently misunderstand inflation because they associate it with the prices that are most pertinent to them. For instance, although businesspeople prefer to identify inflation with the cost of their inputs, families typically associate it with the price of food.

In practice, inflation does not manifest itself as generalized and proportional price increases, but rather as price increases at different rates by type of good or service. That is, relative prices in the economy evolve according to different characteristics. Accordingly, this Box seeks to show the main stylized facts of relative prices in the Peruvian economy.

In actuality, inflation takes the form of price rises that vary depending on the kind of commodity or service, rather than generic, proportionate price increases. In other words, the economy's relative prices change based on many factors. In light of this, this Box aims to present the key stylized data on relative pricing in the Peruvian economy.

The left panel of the graph below shows the relative price indexes of the various items in the Consumer Price Index (CPI) basket for Metropolitan Lima with respect to the same CPI, where the units were normalized to one in December 2000. The CPI shows the price of all goods and services purchased by a consumer. The "Food and Beverages" line represents the prices of perishable foods, processed foods, soft drinks and food away from home as a ratio to the CPI level. The "Health" line indicates the price of various medical services also as a ratio to the CPI. Thus, since the CPI represents the general price level, the lines in the graph are the relative prices. Values of a relative price greater (less) than 1 indicate that the price of the corresponding item has grown faster (slower) than the value of the CPI basket, i.e., 3.0 percent per year on average between 2001 and 2023.

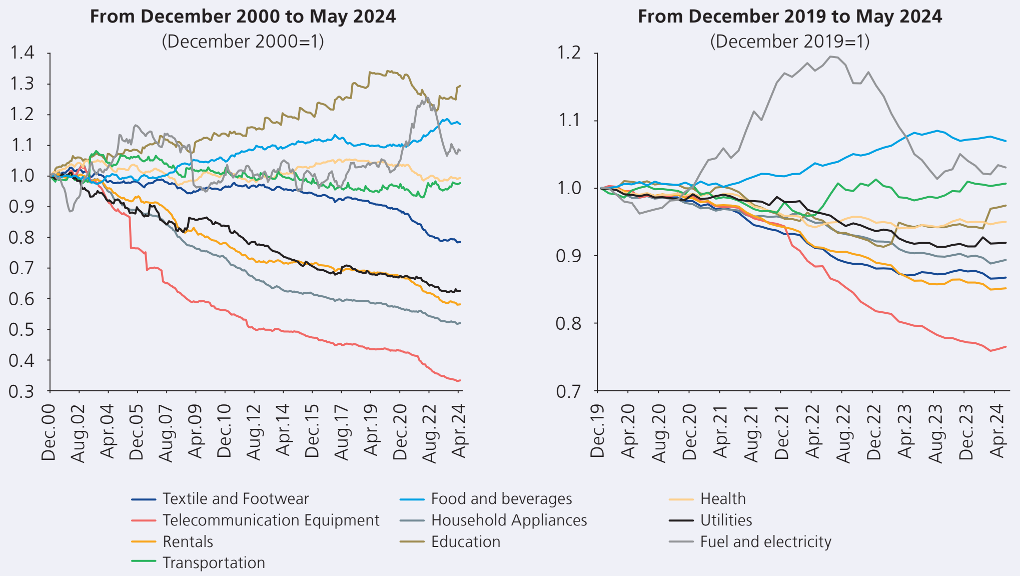
The graph below's left panel displays the relative price indices of the different products in Metropolitan Lima's Consumer Price Index (CPI) basket in relation to the same CPI, where the units were normalized to one in December 2000. The cost of every item and service a customer purchases is displayed in the CPI. The costs of soft drinks, processed foods, food that is eaten away from home, and perishable goods are shown as a percentage of the CPI level on the "Food and Beverages" line. The cost of different medical services is shown in the "Health" line along with a relation to the CPI. Consequently, the lines on the graph show the relative prices because the CPI represents the overall level of prices. Relative price values larger (less) than 1 show that the associated item's price has increased more quickly (or more slowly) than the CPI basket's average annual growth rate of 3.0 percent from 2001 to 2023.

Different industries have different pricing trends. The education, energy, and food sectors represent the extremes of price increases, with average annual growth rates of 3.9, 3.7, and 3.4 percent between 2001 and 2023, respectively. The cost of telecom equipment, on the other hand, has decreased, with an average annual rate of -1.8 percent in 2021–2023. Certain industries, including health and transportation, have seen price increases comparable to the CPI in the middle of these two extremes.

The right panel of the previous chart shows the same exercise, but with onset and normalization in December 2019. This graph highlights the dynamics of energy and food spending during the recent inflationary episode of 2021-2023[19]. Although the energy sector has shown higher growth than the CPI since 2002, this pattern has been more salient between December 2020 and April 2023 in the context of high inflation. Similarly, food expenses experienced the strongest growth from January 2020 to May 2024. During this same interval, the transportation sector was the only sector that grew at the same rate as the overall CPI. The other sector' rates grew below inflation.

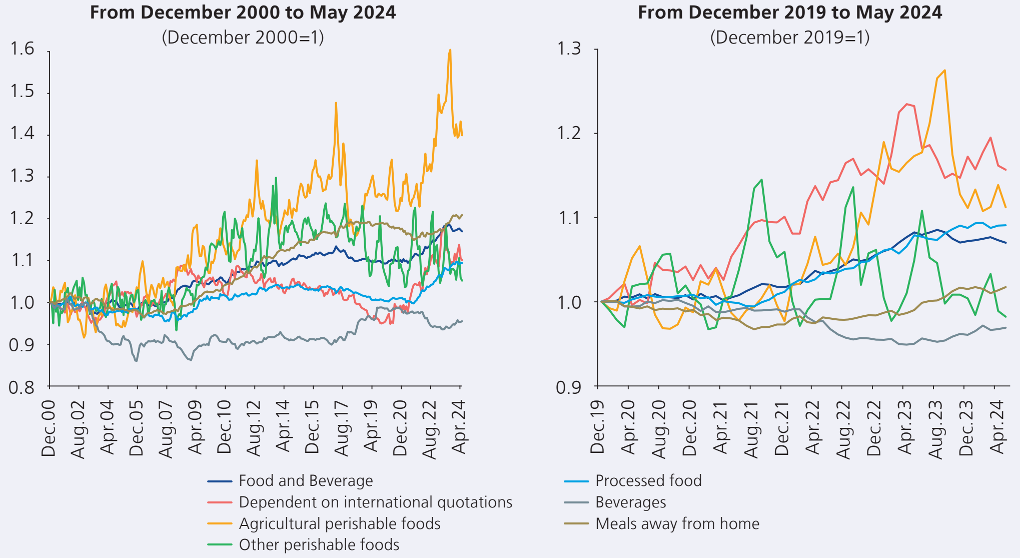
19 The Box "Monetary Policy Response to Supply Shocks" of the March 2022 Inflation Report (see: https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2022/marzo/ri-marzo-2022-recuadro-6.pdf) and the Box "Peruvian and International Historical Experience with Inflation Shocks" of the December 2023 Inflation Report (see: https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2023/diciembre/reporte-de-inflacion-diciembre-2023-recuadro-5.pdf) present the Peruvian historical experience with inflation shocks.

PRICES RELATIVE TO THE CONSUMER PRICE INDEX



A closer look at the food and beverage CPI components, as shown in the following graph, reveals that, between 2001-2023, with the exception of the price of beverages, food prices grew at a rate above average inflation, with higher increases in the prices of agricultural perishable foods and meals away from home sin particular. However, in the 2021-2023 inflationary period, the increase in the prices of food outside the home was less relevant, while the higher prices of food items dependent on international prices, such as noodles, sugar, eggs and chicken were instead preponderant; agricultural food items, were influenced by climatic factors and fertilizer prices; as were processed foods.

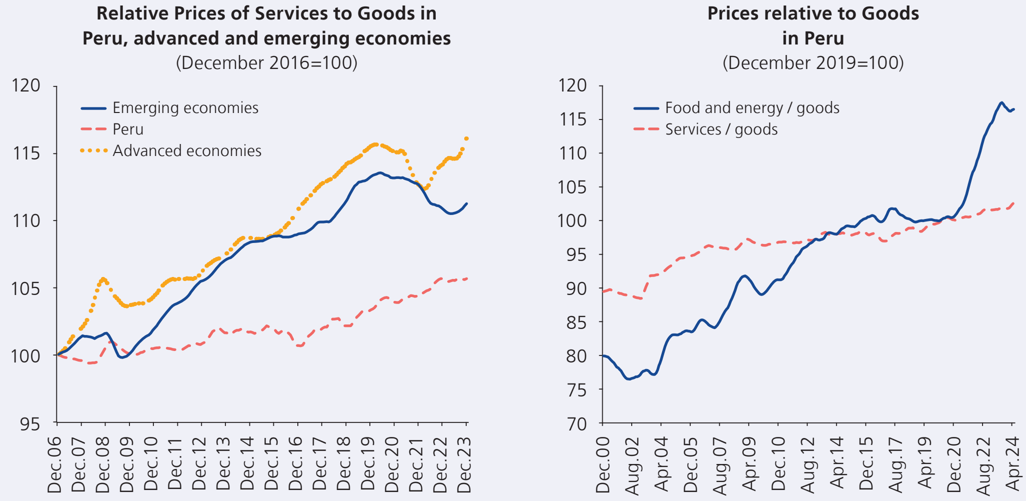
RELATIVE FOOD PRICES WITH RESPECT TO THE CONSUMER PRICE INDEX



These graphs show the impressive variation in inflation trends amongst . Since relative prices arise in particular markets and reflect relative supply and demand situations, changes in relative pricing are a sign of significant changes in the economic structure. An increase in a good's relative price, for instance, indicates that demand outpaces supply, which encourages producers to boost output of the good and customers to look for substitutes. Relative pricing in this context offers important insights into how resources are distributed throughout the production of products and services across different marketplaces.

For instance, the link between relative prices and goods since 2002 is seen in the chart below. The common consensus is that technical advancements that have affected relative productive capacity are to blame for the increased trend in the relative pricing of services versus products. Over several decades, the manufacturing industry has increasingly embraced innovation and technology, which has resulted in increased productivity, decreased marginal costs, and subsequently lower inflation. Over time, the relative price of services is likely to climb higher than that of products due to the service sector's tendency to slower productivity improvements. The graph illustrates how, through 2021, this rising trend in the relative costs of services has been witnessed not only in Peru but in all economies—established and developing alike.

Globally, in the pre-pandemic era, advanced and developing economies showed a more markedly positive trend in the relative pricing of services, as reported by the Bank for International Settlements [20]. The pandemic halted this tendency, and from 2021 to 2023, it is shown that the costs of things increased quickly—in some circumstances, even more quickly than the prices of services. Specifically, in emerging economies, the relative cost of services compared to products is significantly lower than it was before the epidemic, but in industrialized economies, it has largely recovered. But compared to other economies, Peru's relative pricing behavior has been distinct. In the 2021–2023 timeframe, the price of services relative to the price of goods has stayed more constant and has a smaller slope, following a pattern that is very similar to the pre–pandemic period.



Note: Relative prices are presented as a 6-month moving average. Relative prices Services/Goods in advanced and emerging economies are from BIS Quarterly Review, 04 March 2024. Emerging economies are from the BIS Quarterly Review, 04 March 2024. These relative prices are calculated as weighted averages, with weights corresponding to GDP at Purchasing Power Parity, for 11 advanced economies and 12 emerging economies (excluding China).

20 As discussed in the article by the name "Sectoral Price Dynamics in the Last Mile of Post-Covid-19 Disinflation" in the BIS Quarterly Review, published on March 04, 2024 (see https://www.bis.org/publ/qtrpdf/r_qt2403.pdf).

In Peru, on the other hand, food and energy costs have been steadily rising in relation to other products; this trend has suddenly steepened since 2021. This consistent pattern of behavior may be attributed to the stronger global economy's growth since 2004 in both developed and developing nations. The increased demand for resources led to higher prices for international energy and agricultural commodities.

The BCRP can affect relative prices, but not inflation, via its tools for monetary policy. During the 2021–2023 period of high inflation, global supply problems related to fertilizer, oil output, and weather conditions resulted in relative food and energy costs growing steadily faster than other economic prices. It was harder for the central bank to manage inflation in this situation. The trade-off between inflation and decreased output grew as these relative pricing changes affected inflation expectations and other economic sectors.[21]

To preserve price stability at this point, monetary policy action has to be more resolute. Therefore, the BCRP switched from an expansionary monetary policy stance it had adopted during the pandemic to a contractionary stance in the event that these persistent relative price shocks continued between 2021 and 2023. This resulted in an increase in the benchmark rate from 0.25 percent prior to August 2021 to 7.75 percent in January 2023.

The shocks that maintained the relative costs of energy and food, however, have been reversing. The CPI for food and energy increased at an average annual rate of 11.4 percent throughout the 2021–2022 period. This rate of change decreased to 3.6 percent in 2023 and then to 1.2 percent in December 2023 to May 2024. Because of the supply shocks' reversal and the BCRP's prompt action, as of May 2024, both total inflation and inflation expectations fell inside the target range for inflation.

Understanding the evolution of relative pricing in the economy is crucial because of their relationship to the productive structure. It should be highlighted that relative prices are not the focus of monetary policy formulation, unless they skew inflation expectations. Instead, the focus is on aggregate inflation. This is due to the fact that the benchmark rate serves as a tool for managing inflation and it is challenging to predict and regulate how differently the policy rate would affect the different productive sectors. Preserving low and steady inflation is necessary to ensure that relative prices change in accordance with the structural dynamics of the economy, hence reducing the likelihood of new frictions. To ensure price stability, however, prompt central bank action is required when ongoing shifts in relative prices taint inflation expectations. This consensus partially grunds the rationale for preserving clear inflation targeting programs like the ones the BCRP has enforced since 2002.

21 See Box "Monetary Policy Response to Supply Shocks" of the March 2022 Inflation Report (see: https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2022/marzo/ri-marzo-2022-recuadro-6.pdf).

Box 6
DISAGGREGATED ANALYSIS OF INFLATION: CHANGES IN LEVEL, PERSISTENCE AND VOLATILITY OVER TIME[22]

The rise in global inflation recorded between 2021 and 2023, lead to inflation rates, especially in advanced countries, similar to those observed more than 40 years ago. In Peru, the inflation rate peaked at 8.81 in June 2022, to then slide, in particular in 2023. A double-digit inflation episode has not been recorded since January 1997, with clear advantages to our country's macroeconomic stability.

Despite the increase recorded between 2021 and 2023, inflation dynamics during the explicit targeting period (since 2002) are very different from those observed in the 1990s, a period of greater volatility and persistence, as well as greater amplification and feedback between sectors. Although the recent upward episode activated some of these mechanisms and feedback, the magnitude recorded is still much smaller than that observed between 1991 and 2001[23]. Including new components in the consumers' basket since 2009, and also at the end of 2021, together with the change in relative prices due to greater demand in the services sector with respect to food and beverages, suggests that this last episode from 2021 onwards should be examined separately.

In order to achieve this goal, we examine such inflation dynamics utilizing the various Consumer Price Index components in an aggregated fashion. In particular, the base data for our analysis will be the more than 150 items in the Metropolitan Lima Consumer Price Index (CPI) with a specific weighting, taking into consideration the year-over-year inflation rates for the episodes from 1992 to 2001, from 2002 to 2020, and from 2021 to 2024 (May). The dynamics of overall inflation, in particular, involve the interaction and feedback between its many components or economic sectors since they may result in complementary strategic effects that might increase the volatility, amplification, and persistence of aggregate inflation.

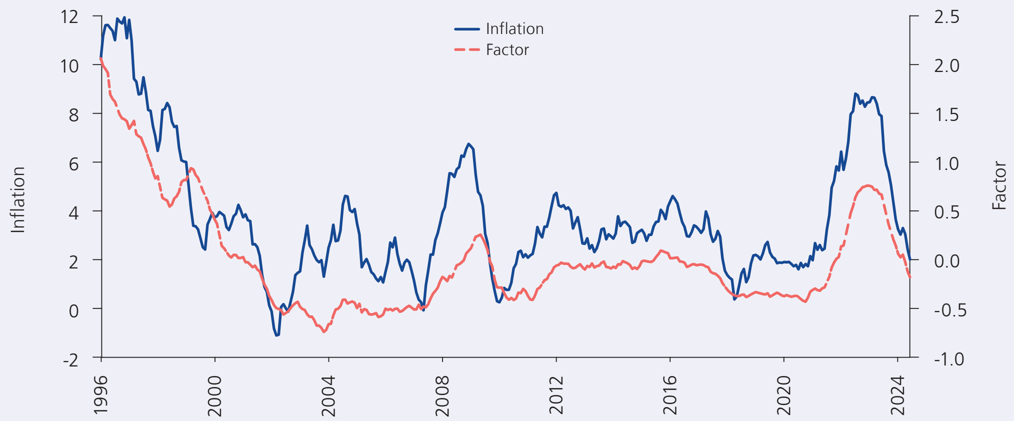
We can determine the common or level factor linked to all Consumer Price Index components by doing a first principal component analysis. With a correlation of 93 percent, it is a strong depiction of the aggregate dynamics that can function as a trend component, but it only explains 30 percent of the entire variation in inflation. Put otherwise, a far more thorough and in-depth investigation of this is needed since, on average, there is a meaningful second and higher order component, over and above the level represented by each CPI item individually.

---

22 This Box is based on Chapter II of the Bank for International Settlements (BIS) Annual Economic Report (2022) entitled "Inflation: a look under the hood".

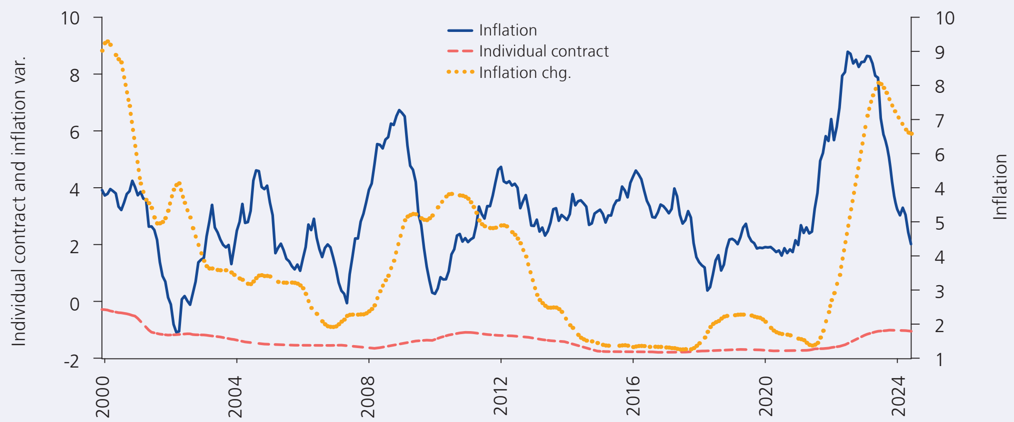
23 See also Armas, A; Grippa, F.; Quispe, Z. and Valdivia, Luis. "From monetary targets to inflation targets in an economy with partial dollarization: the Peruvian case". Estudios Económicos, Central Reserve Bank of Peru, No. 7.

YEAR ON YEAR INFLATION AND ESTIMATED LEVEL FACTOR
(%)



After that, we examine the inflation's variation or volatility. This is explained by the covariances that exist between each of the items as well as the variability of each (individual) item[24], with due account taken for its weighting. Therefore, the correlation, synchronization, and even amplification between these components increase with inflation. In other words, the contribution of each component to volatility decreases as inflation increases. This is in line with the individual component's reduced relative contribution from 2021 until mid-2022, when the global inflation trend began to pick up steam, and its subsequent decline in 2023. This rise in covariance contribution, however, is not greater than that observed in the early 2000s.

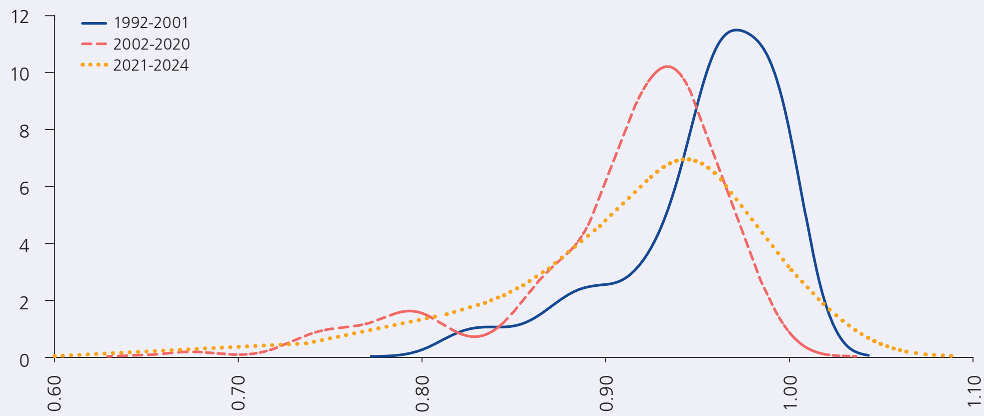
YEAR-ON-YEAR INFLATION, INFLATION VARIANCE AND INDIVIDUAL CONTRIBUTIONS
(%)



24 We define the total variance of inflation as $Var(\pi_t) = \sum_{i=1}^{N} w_i^2 Var(\pi_{i,t}) + A$, where the first term captures the effect of individual variances weighted by the weight they have in the CPI, and A corresponds to the effect of covariances between items.

Second, we explore the persistence of inflation rates in the different items that make up the CPI. To do so, we follow Dias and Marques (2010)[25] and construct the persistence indicator for the previously mentioned episodes[26]. Thus, a lower persistence is found for the 2002-2020 episode in the more than 150 items, where it is worth noting that the probability of being in the unstable region, i.e., with persistence equal to or greater than 1, is significantly smaller. Although a slight increase in the modal value of persistence appears in 2021-2024 (and in the dispersion among items), it does not reach the levels seen in the 1990s. This result is a clear reflection of the effect of the adoption of the inflation targeting scheme, recording on average a reduction in inflation persistence at the individual level, and where particularly the anchoring of expectations plays a key role.

PERSISTENCE OF INFLATION ITEMS: DAYS AND MARQUES (2010)
(Histogram of the persistence indicator)



The results of the research indicate that there are three distinct episodes with distinct inflation dynamics: the disinflation episode (1992–2001), the pre–2021 inflation targeting period (2002–2020), and the worldwide episode of greater inflation (2021–2024). Comparing the 2002–2020 episode to the 2021–2024 episode, however, reveals a negligible difference with 1992-2001.

In conclusion, the advantages of low and steady inflation are evidenced in the variations in level, volatility, and persistence. We can better understand the dynamics of inflation at the aggregate level and throw more light on how the method of obtaining inflation statistics has changed thanks to the disaggregated study of inflation. This same research draws attention to the structural alteration brought about by the adoption of the inflation scheme.

25 Dias, Daniel A. and Marques, Carlos Robalo (2010): "Using Mean Reversion as a Measure of Persistence" Economic Modelling, Volume 27, Issue 1, January 2010, Pages 262-273.

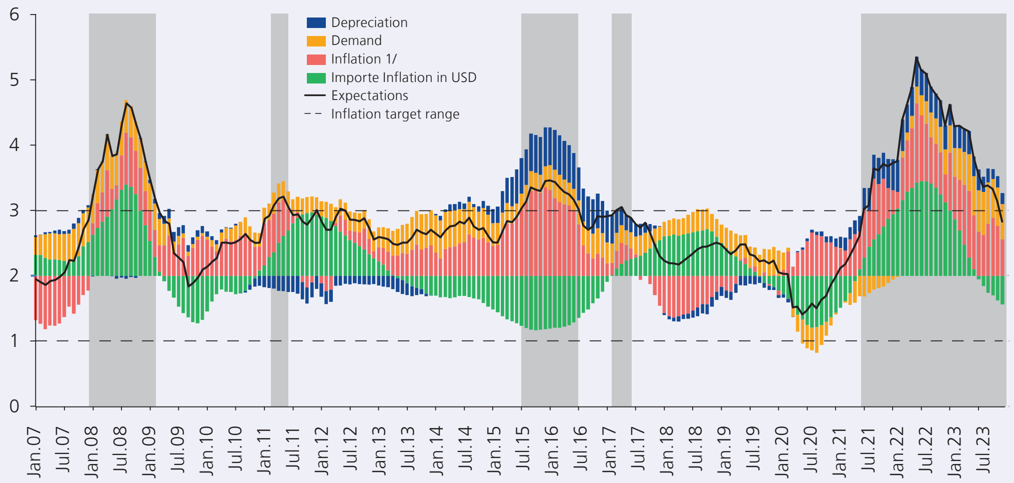
26 Persistence is calculated with the indicator $\gamma = P\{[(y_t - \mu) > 0 \cap (y_{t-1} - \mu) > 0] \cup [(y_t - \mu) < 0 \cap (y_{t-1} - \mu) < 0]\}$, where μ is the estimated mean of an AR(1) model. Thus, the estimated persistence is the percentage of frequencies in which $\gamma = 1$ over the sample of observations T observations.

Box 7
HISTORICAL DECOMPOSITION OF INFLATION EXPECTATIONS

After being outside of the inflation target range for 29 months, inflation expectations were back within it in December 2023. This is the longest inflationary period the Peruvian economy has had since the BCRP implemented the Explicit Inflation Targeting (EIT) program[27]. A number of ongoing supply shocks that have occurred since late 2021 are connected to this incident[28]. This Box examines how different macroeconomic shocks contribute to the construction of expectations because of the significant influence these shocks have on inflation expectations.

Since the EIT was implemented in 2002, there have been five documented instances of inflation. We break down the dynamics of expectations among their determinants —demand, inflation, imported inflation in dollars, and nominal depreciation— in order to assess the determination of inflationary expectations in these events[29]. For this purpose, a Bayesian Structural Autoregressive Vector model is estimated to calculate the historical contribution of each of these determinants.

HISTORICAL DECOMPOSITION OF INFLATION EXPECTATIONS, 2007-2023
(In year-on-year % change and percentage contribution)



1/ Inflation shocks are all components that affect inflation independent of demand, imported inflation in USD and nominal depreciation. An additional important component to these are the conditions of domestic aggregate supply.
Note: Gray shaded areas refer to inflationary episodes (periods in which inflation expectations exceed the upper limit of the inflation target range).

The identification of structural shocks in the model is based on two assumptions: First, the dynamics of imported inflation in dollars is considered independent of the other variables[30]. Second, it is assumed that there is recursive causation, with inflation expectations serving as the most endogenous variable. As a result, expectations are impacted simultaneously by the remaining model factors.

27 Inflationary episodes are defined as periods in which inflation expectations outweigh the upper limit of the inflation target range. A Box in the 2023 Annual Report provides an account of such episodes.

28 At the end of 2021, a desynchronization between the recovery of supply and demand was observed as pandemic containment measures were relaxed, because of the weakening of supply chains. Subsequently, the conflict between Russia and Ukraine increased international energy and grain prices. Then, in 2023, the Peruvian economy experienced higher costs associated with the El Niño event and social unrest.

29 Demand is measured with the output gap used in the Quarterly Projection Model. Likewise, inflation includes SAE and AE inflation separately.

30 This implies that domestic variables have no impact on the evolution of this variable. This, in turn, refers to the fact that this variable is mainly determined by the variation of international prices of commodities.

Two presumptions underpin the model's recognition of structural shocks: First, it is thought that the dynamics of imported inflation in dollars are unrelated to the other factors.

The graph above displays the historical decomposition's findings. The majority of the fluctuation in inflation expectations is often explained by inflation shocks. This might mean that local supply shocks —like the El Niño oscillation— have a bigger impact on the long-term fluctuations in certain food prices. In a similar vein, it is noted that variations in inflation predictions are significantly influenced by imported inflation measured in US dollars. It is possible to understand these shocks as the result of outside inflationary events that have an influence on the Peruvian economy.

CONTRIBUTION TO DEVIATIONS FROM INFLATION EXPECTATIONS IN INFLATIONARY EPISODES

(Percentage contribution)

Episodes	Duration (Months)	Imported inflation in USD	Inflation 1/	Demand	Nominal depreciation	Deviation of expectations with respect to 2 percent
Jan-08-Feb-09	14	0.94	0.50	0.47	0.00	1.92
Mar-11-May-11	3	0.49	0.59	0.30	-0.22	1.16
Aug-15-Jun-16	11	-0.80	1.20	0.34	0.58	1.32
Mar-17-Abr-17	2	0.15	0.29	0.27	0.31	1.03
Jul-21-Nov-23	29	0.72	0.74	0.26	0.36	2.09
Within the target range	**192**	**0.11**	**0.16**	**0.18**	**0.02**	**0.47**

1/ Shocks to inflation are all the components that affect inflation independent of demand, imported inflation in USD and nominal depreciation. An additional important component to these are the conditions of domestic aggregate supply.

The most recent and the one that preceded the financial crisis are the two longest periods of inflation. The most significant factors in both events were domestic inflation and imported inflation measured in dollars. This makes sense given the substantial foreign origin volatility seen in both instances, which are thought to be long-lasting external supply shocks.

When it comes to explaining departures from inflation expectations during the most recent inflationary period, the contribution of shocks to inflation is marginally larger than imported inflation. This aligns with the supply chain disruptions brought on by the demonstrations that took place during this time, as well as the domestic supply shocks linked to the La Niña oscillation. The impact of these shocks has been greater than that of the domestic supply shocks that occurred in 2008.

Similar to how shocks persisted longer during the financial crisis, so too did they throughout this most recent inflationary cycle. The nation has consistently experienced the El Niño oscillation and internal instability, both of which have the potential to disrupt the supply chain and ultimately affect final pricing. The most recent instance, on the other hand, involved both sorts of shocks, that were both more intense and prolonged. Considering that the latest event was negatively impacted by the production gap, and that in 2008 there were far stronger positive demand pressures on inflation, this contribution has become even more pertinent. Lastly, in both periods, demand shocks and the nominal devaluation of the Sol favorably influenced economic actors' expectations.

In order to achieve the constitutional mandate of the BCRP, which is to ensure monetary stability, it is imperative that inflation expectations remain within the target range. Therefore, it is critical to comprehend how expectations are formed and how they relate to the many shocks that frequently impact the economy. Thus, depending on the features of the shock encountered, suitable and prompt monetary policy measures might be suggested.