



Summary Inflation Report

September 2024

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

With more moderate growth and a declining inflation rate approaching its ultimate stretch towards its objective, the prognosis for a gentle landing in the United States persists; meanwhile, most developed nations achieved a higher GDP growth rate than projected during the second quarter. Generally, the process of slowing down world inflation persisted, and with it the relaxing of monetary policy started in rich nations and progressed in underdeveloped ones. China has, for their part, slowed down their economic expansion. Under these conditions, in a climate of reduced inflation and lower interest rates, the **world economy** is expected to grow 3.0 percent in 2024 and to accelerate somewhat to 3.1 percent in 2025.

The global environment is still conducive to the economic growth of our nation. In the second quarter of 2024, the **terms of trade** increased by 12.5 percent year over year. This increase was mostly caused by higher mineral prices, which were supported by a decrease in global supply, positive demand indicators, a decline in the value of the dollar, and increased demand for gold and silver. Expected terms of trade growth for 2024 and 2025 are revised down from 8.8 to 7.8 percent, and from 1.4 to 0.5 percent, respectively. This revision accounts for

GLOBAL GDP GROWTH (Annual % chg.)

	PPP*	2023	2024		2025	
			IR Jun.	IR Sep.	IR Jun.	IR Sep.
Developed economies	41.1	1.6	1.6	1.6	1.8	1.7
<i>Of which:</i>						
1. United States	15.4	2.5	2.2	2.4	1.8	1.7
2. Eurozone	11.7	0.4	0.7	0.7	1.6	1.5
3. Japan	3.7	1.9	0.5	0.2	1.1	1.1
4. United Kingdom	2.2	0.1	0.5	0.8	1.2	1.2
5. Canada	1.4	1.1	0.9	0.9	2.0	1.8
Developing economies	58.9	4.3	4.1	4.0	4.1	4.1
<i>Of which:</i>						
1. China	18.8	5.2	5.0	4.8	4.4	4.4
2. India	7.5	7.8	6.8	7.0	6.5	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	1.7	1.6	2.5	2.4
World Economy	100.0	3.2	3.0	3.0	3.1	3.1

* 2023.

Source: FMI, Consensus Forecast.

TERMS OF TRADE: 2023-2025

	2023	2024*			2025*	
		H1.24	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Terms of trade						
Annual % chg. (average)	<u>4.8</u>	<u>8.8</u>	<u>8.8</u>	<u>7.8</u>	<u>1.4</u>	<u>0.5</u>
Price of exports						
Annual % chg. (average)	<u>-2.4</u>	<u>5.7</u>	<u>8.2</u>	<u>5.9</u>	<u>2.6</u>	<u>1.0</u>
Copper (USD cents per pound)	385	412	446	412	468	419
Zinc (USD cents per pound)	120	120	127	121	134	124
Lead (USD cents per pound)	97	96	100	94	104	95
Gold (USD per troy ounce)	1,943	2,206	2,304	2,327	2,489	2,533
Price of imports						
Annual % chg. (average)	<u>-6.9</u>	<u>-2.8</u>	<u>-0.5</u>	<u>-1.7</u>	<u>1.1</u>	<u>0.5</u>
Oil (USD per barrel)	78	79	78	78	74	71
Wheat (USD per ton)	303	240	241	223	254	211
Maize (USD per ton)	226	168	177	162	195	170
Soybean Oil (USD per ton)	1,336	1,013	1,003	972	1,006	903

* Forecast.

Source: BCRP.

base metal prices in third-quarter futures markets, due to decreased Chinese demand and growing supply surpluses.

The balance of payments position has continued to strengthen. The annualized **current account** surplus increased from 0.8 percent of GDP in 2023 to 1.7 percent as of the second quarter of 2024. This performance reflected: (i) a fall in import prices; (ii) lower profits of foreign-owned companies; (iii) an increase in remittances, due to a strong job market in the United States; and (iv) growing arrivals of foreign tourists to the country and the fall in the price of freight which reduced the deficit for transportation services.

The current account surplus is projected to stand at 1.6 percent of GDP in 2024 and decline to 0.8 percent in 2025. The reduction of the surplus in 2025 is explained by the recovery of foreign-owned companies' profits, in line with the projection of local production, mineral prices and production costs.

The rate of expansion of **domestic economic activity** increased from 1.4 percent year-on-year in the first quarter of 2024 to 3.6 percent in the second quarter. Agents' confidence in the economy was enhanced by improved weather conditions and increased real revenues in the wake of inflation's decline, which in turn favored private consumption. In the same vein, public investment continued to expand at double-digit rates.

In 2024, GDP growth is predicted to be 3.1%, which is consistent with the estimate from the preceding Inflation Report. On the one hand, the improvement of the fishing industry, agriculture, and related manufacturing will help the year-over-year recovery. On the other hand, the reversal of the 2023 anomalies in weather patterns will help normalize conditions.

BALANCE OF PAYMENTS (Million USD)

	2023	2024*			2025*	
		H1.24 3/	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
I. CURRENT ACCOUNT BALANCE	2,219	4,682	2,299	4,654	891	2,497
% GDP	0.8	1.7	0.8	1.6	0.3	0.8
1. Trade balance	17,678	18,737	22,611	21,667	24,189	21,829
a. Exports	67,518	68,899	74,550	72,946	78,479	75,682
Of which:						
i) Traditional	48,853	50,347	55,966	53,177	58,785	55,111
ii) Non-Traditional	18,448	18,329	18,368	19,552	19,511	20,401
b. Imports	49,840	50,163	51,939	51,279	54,290	53,853
2. Services	-7,341	-7,027	-6,607	-7,105	-6,089	-6,152
3. Primary income (factor income)	-14,902	-14,295	-21,037	-17,323	-24,665	-20,710
4. Secondary income (transfers)	6,785	7,267	7,333	7,416	7,455	7,530
Of which: Remittances	4,446	4,757	4,748	4,828	4,891	4,973
II. FINANCIAL ACCOUNT 1/	1,309	4,322	-2,816	-5,246	-1,770	-342
% GDP	0.5	1.6	-1.0	-1.8	-0.6	-0.1
1. Private Sector	593	4,798	-838	199	-152	1,756
a. Long-term	821	2,149	-1,733	-1,460	-989	919
b. Short-term	-227	2,648	895	1,659	837	837
2. Public Sector 2/	716	-476	-1,978	-5,445	-1,618	-2,098
III. NET ERRORS AND OMISSIONS	-3,671	-3,518	0	0	0	0
IV. BALANCE OF PAYMENTS	-2,760	-3,158	5,114	9,904	2,660	2,839
IV= (I+III) - II = (1-2)						
1. Change in NIR balance	-850	-1,527	5,220	10,194	2,660	2,839
2. Valuation effect	1,910	1,630	106	294	0	0

1/ The financial account and its components (private and public sector) are expressed as assets net of liabilities. Therefore, a negative sign means 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.

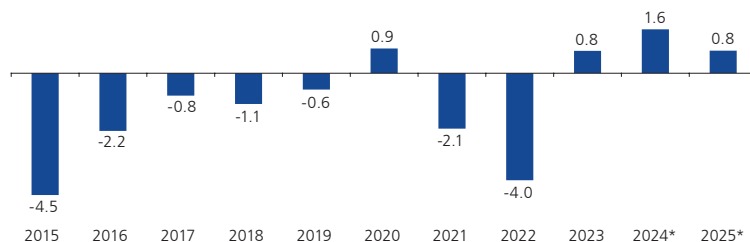
3/ Shows the accumulated annual result for the first half of 2024.

IR: Inflation Report.

* Forecast.

Source: BCRP.

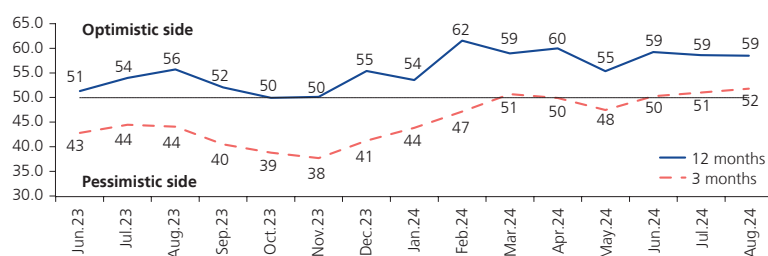
CURRENT ACCOUNT, 2015-2025 (% GDP)



* Forecast.

Source: BCRP.

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



Source: BCRP.

GDP BY ECONOMIC SECTORS (Real % change)

	2023	2024*			2025*	
		Jan.-Jul.	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Primary GDP	2.8	4.2	3.0	2.9	2.9	3.0
Agriculture and livestock	-2.5	4.5	3.5	3.5	3.5	3.5
Fishing	-21.2	45.0	20.2	22.4	4.9	4.9
Metallic mining	9.2	2.4	2.0	1.2	2.2	1.9
Hydrocarbons	0.7	-1.0	1.5	3.7	4.2	7.1
Manufacturing	-2.3	8.3	4.5	5.2	3.4	3.4
Non-Primary GDP	-1.4	2.0	3.1	3.2	3.0	3.0
Manufacturing	-8.0	-0.7	2.7	2.3	3.0	3.0
Electricity and water	3.7	2.5	3.3	3.1	3.0	3.0
Construction	-7.8	4.0	3.2	3.2	3.4	3.4
Commerce	2.4	2.4	3.2	3.2	2.7	2.7
Services	-0.4	2.1	3.1	3.3	3.0	3.0
Gross Domestic Product	-0.6	2.5	3.1	3.1	3.0	3.0

IR: Inflation Report.

* Forecast.

Source: BCRP.

The expected higher dynamism of consumption and private investment in the second half of the year, which will reflect the rise in real income, due to the recovery of employment and the availability of AFPs and CTS savings, and the increase in economic agents' confidence, in a favorable context of socio-political and price stability will help the non-primary sectors to grow. Thus, the higher dynamism of private consumption will be represented in a rise in non-primary manufacturing, commerce and services; however, private investment, coupled with that of the public sector, will stimulate construction.

Output is expected to rise at a 3.0 percent yearly rate in 2025. This projection considers normal weather, the beginning of several mining and infrastructure projects, and a climate that helps private spending to be constantly recovered.

Between December 2023 and August 2024, the **cumulative fiscal deficit** increased from 2.8 to 4.0 percent of GDP. This increase was mostly caused by the decline in current income, which was impacted by lower income tax payment coefficients, and, to a lesser degree, by the rapid increase in public investment. This growth in the deficit was also impacted by Petroperu's primary deficit (0.2 percent of GDP), tax measures (0.1 percent of GDP), and greater current spending (0.3 percent) that were approved in recent years.

Fiscal consolidation is expected to start considering: (i) higher fiscal revenues from the recovery of economic activity and higher mineral prices (including the lagged effect of both variables); (ii) higher extraordinary revenues, especially from income in 2025; (iii) a cautious management of tax policy and public spending; and (iv) better management of public enterprises (Petroperu). Under these assumptions, the total budget deficit over the past 12 months would drop from 4.0 percent of GDP in

DOMESTIC DEMAND AND GDP

(Real % change)

	2023	2024*		2025*		
		Jan.-Jun.	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Domestic demand	-2.1	3.7	3.5	3.6	3.0	3.2
Private consumption	0.1	1.8	2.8	2.8	2.8	2.8
Public consumption	4.6	4.6	2.0	2.0	2.0	2.0
Private investment	-7.3	0.0	2.3	2.3	3.0	4.1
Public investment	2.8	25.5	12.0	13.7	4.5	4.5
Change on inventories (contribution)	-1.5	0.8	0.3	0.3	0.0	0.0
Exports	4.9	0.0	2.9	2.9	3.3	3.3
Imports	-1.4	4.6	4.6	4.7	3.3	4.1
Gross Domestic Product	-0.6	2.5	3.1	3.1	3.0	3.0

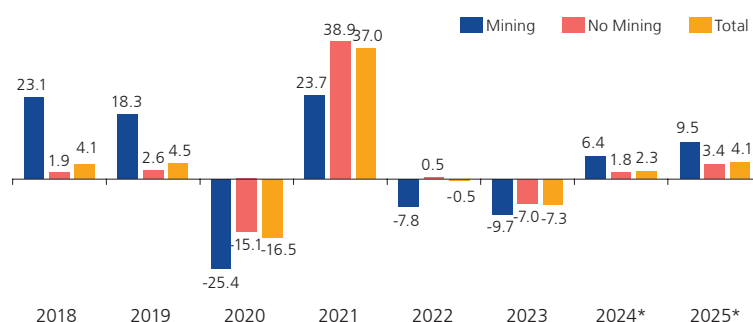
IR: Inflation Report

*Forecast.

Source: BCRP.

PRIVATE INVESTMENT

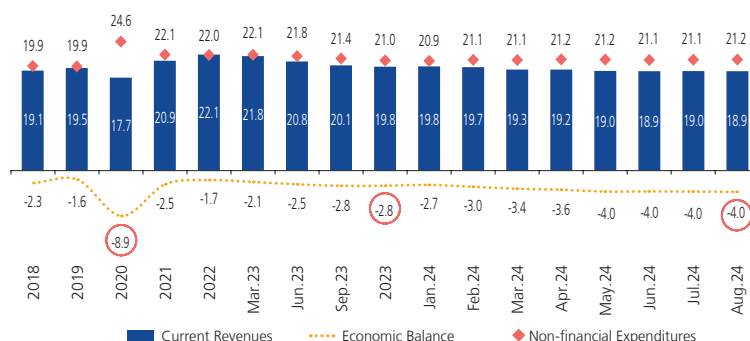
(Real % change)



* Forecast.
Source: BCRP.

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 NonFinancial Public Sector.
Source: MEF, SUNAT and BCRP.

NON-FINANCIAL PUBLIC SECTOR

(% GDP)

	2023	2024*			2025*	
		August 1'	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
1. General government current revenues	19.8	18.9	19.6	19.4	20.7	20.6
Real % change	-10.2%	-3.6%	4.4%	2.9%	9.4%	9.5%
2. General government non-financial expenditure	21.0	21.2	20.6	21.4	20.7	20.8
Real % change	-4.1%	2.2%	3.5%	7.0%	4.0%	0.8%
Of which:						
Current expenditure	15.7	15.4	15.1	15.2	15.0	15.0
Real % change	-1.4%	2.4%	1.5%	1.8%	3.2%	2.6%
Gross capital formation	4.6	5.1	5.0	5.0	5.0	5.2
Real % change	0.2%	16.9%	13.0%	14.4%	5.5%	5.7%
3. Others 2/	0.0	-0.1	-0.2	0.4	0.0	0.0
4. Primary balance (1-2+3)	-1.1	-2.3	-1.2	-1.6	0.1	-0.3
5. Interests	1.7	1.7	1.7	1.7	1.7	1.7
6. Economic Balance	-2.8	-4.0	-2.8	-3.3	-1.6	-2.0

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.

August to 3.3 percent by the end of 2024 and 2.0 percent in 2025, therefore enabling Peru to remain among the nations with the lowest public debt in the region.

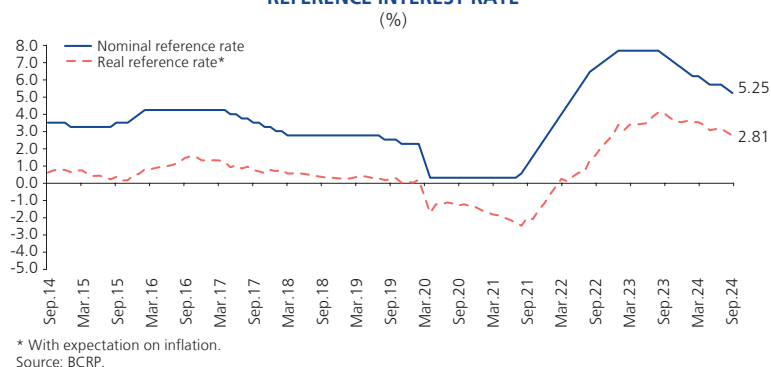
Between 2023 and 2025, it is anticipated that **debt** net of non-financial public sector financial assets will rise from 22.5 to 25.5 percent of GDP. During the same time frame, **gross** debt is expected to rise from 32.9 to 33.1 percent of GDP. It is because of the assumption of a smaller balance of Public Sector deposits as a proportion of GDP that there is a disparity between the increase in gross and net debt.

The BCRP continued with the easing of monetary policy initiated in September 2023, with cuts of 25 basis points in the **benchmark rate**. These reductions were consecutive until February 2024, with pauses in March, June and July, and two additional cuts in August and September. As a result, the interest rate stood at 5.25 percent at the close of this Inflation Report and accumulated a reduction of 250 basis points. The latest statement specified that the decision does not necessarily imply successive cuts and reiterated, as in previous statements, that future adjustments in the benchmark rate will be conditioned to new information on inflation and its determinants, particularly the evolution of core inflation, inflation expectations and economic activity.

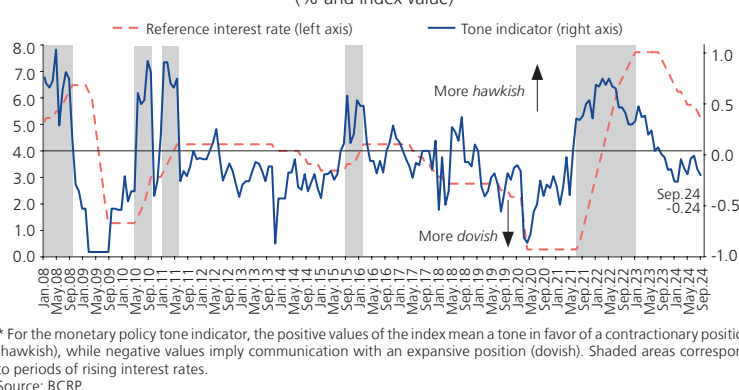
Interest rates in domestic currency continued to evolve in line with the benchmark rate, particularly in the lower credit risk and shorter-term segments.

Liquidity in domestic currency (currency in circulation plus deposits) continued to show significant signs of recovery: its year-on-year growth rate rose from 4.8 percent in April to 11.4 percent in July 2024. For its part, over the same period, the rate of expansion of **credit to the private sector** rose from 0.4 to 0.8 percent. Private sector credit growth would recover from a rate of 1.3 percent at

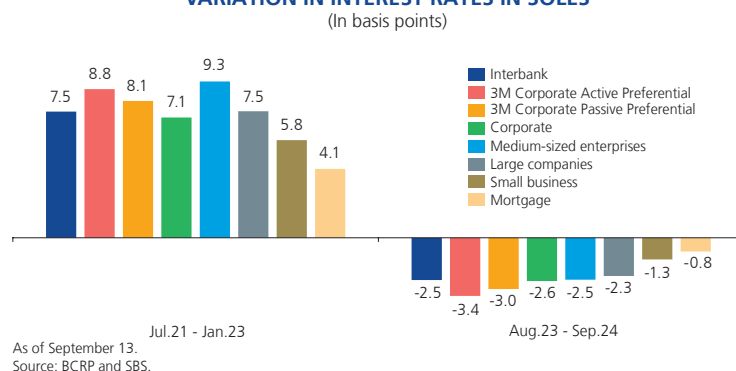
REFERENCE INTEREST RATE



REFERENCE INTEREST RATE AND MONETARY POLICY TONE INDICATOR*



VARIATION IN INTEREST RATES IN SOLES



CREDIT TO THE PRIVATE SECTOR 1/

(Annual growth rates)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jun.24	Jul.24
Businesses	4.3	20.0	3.7	-1.5	-2.3	0.4	0.5
Corporate and large companies	4.3	6.6	8.1	0.9	-0.3	2.2	2.8
Medium-sized enterprises	0.3	47.9	0.1	-13.8	-11.7	-3.7	-3.8
Small business and Micro business	8.4	24.1	-1.0	7.7	2.2	0.2	-0.7
Individuals	11.5	-3.2	4.8	15.9	7.1	2.4	1.4
Consumer	13.3	-7.1	3.1	21.8	8.3	0.4	-1.2
Car loans	12.0	-2.2	7.5	16.0	11.4	5.9	4.6
Credit cards	13.4	-20.3	-41.1	32.7	10.4	-2.7	-5.4
Rest	13.4	-0.5	21.5	19.8	7.7	0.9	-0.4
Mortgage	8.7	3.0	7.2	8.0	5.4	5.5	5.3
TOTAL	7.0	10.9	4.1	4.5	1.3	1.2	0.8
Memo:							
Businesses without Reactiva	4.3	-6.9	11.6	8.3	3.6	3.4	3.2
Total without Reactiva Peru	7.0	-5.5	8.9	11.2	5.0	3.0	2.5

Nota: The criteria for classifying corporate loans by credit segment are in accordance with the SBS definition valid until June 2023. 2023. In July 2023, by means of SBS Resolution N° 02368-2023, a change in the classification of loans is made.

Corporate: Annual sales of more than S/ 200 million (idem).

Large companies: Annual sales between S/ 20 million and S/ 200 million (Annual sales between S/ 20 million and S/ 200 million; or maintaining issues in the capital market in the last year).

Medium-sized companies: Annual sales between S/ 5 million and S/ 20 million (Total indebtedness of more than S/ 300 thousand or annual sales of no more than S/ 20 million).

Small companies: Annual sales less than S/ 5 million and total indebtedness greater than S/ 20 thousand (Total indebtedness between S/ 20 thousand and S/ 300 thousand).

Micro enterprises: Annual sales of less than S/ 5 million and total indebtedness of less than S/ 20 thousand (Total indebtedness of no more than S/ 20 thousand).

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

Source: BCRP.

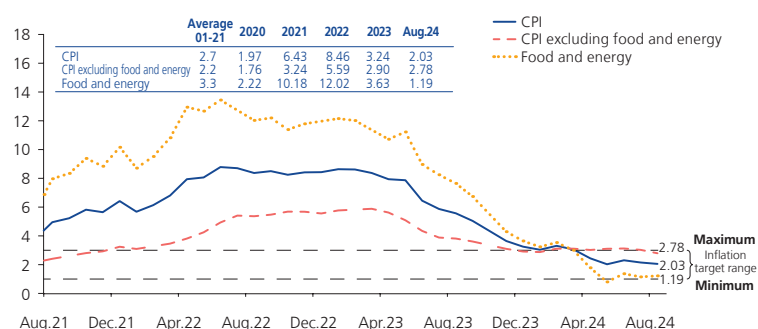
the end of 2023 to rates of 3.0 and 5.0 percent in 2024 and 2025, respectively, in line with projected domestic demand and output.

At 2.00 percent in May and 2.03 percent in August 2024, year-on-year **inflation** stayed around the center of the goal range, placing our nation among the few in the continent having already attained their inflation target. With local transportation, cultural services and education having less influence, inflation excluding food and energy dropped from 3.10 to 2.78 percent in the same period.

Inflation remains projected to be within the target range in 2024 and 2025, with a slower reversal in food prices and a faster reversal in services during 2024. An inflation rate of 2.3 percent is expected for 2024, slightly higher than the 2.2 percent estimated in the June Inflation Report, due to the slower reversal of supply shocks in food, and 2.0 percent in 2025, like the previous forecast. In contrast, the projection for inflation excluding food and energy is revised downward, from 2.7 to 2.5 percent for 2024 (unchanged at 2.2 percent for 2025).

INFLATION

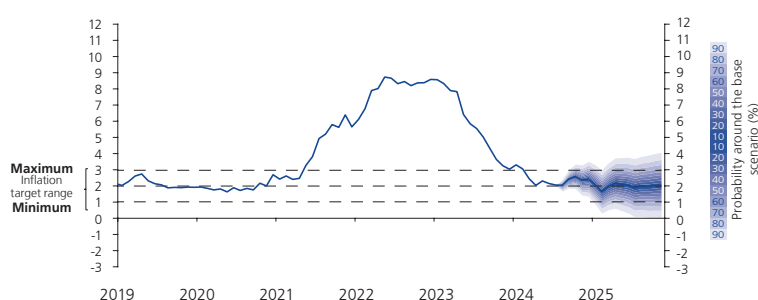
(Last 12-month % change)



Source: BCRP.

INFLATION FORECAST: 2024 - 2025

(% chg. last 12 months)



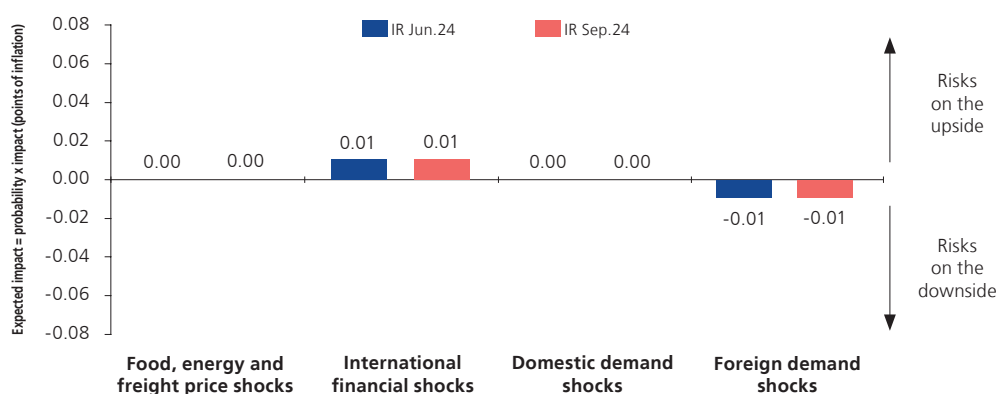
Note: This Fanchart presents the distribution of possible inflation projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10%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

Source: BCRP.

Balance of risks

Risks to the inflation projection remain neutral. Risks to the projection include mainly the following contingencies: (i) financial shocks from upward pressure on the exchange rate, capital outflows and greater volatility in financial markets due to episodes of greater political uncertainty or increased volatility in international financial markets due to geopolitical tensions; and (ii) external demand shocks from a slowdown in global growth, which would imply lower demand for our exports.

INFLATION RISKS BALANCE SHEET



Source: BCRP.

SUMMARY OF INFLATION REPORT FORECAST

		2023	2024*		2025*	
			IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Real % chg.						
1.	Gross Domestic Product	-0.6	3.1	3.1	3.0	3.0
2.	Domestic demand	-2.1	3.5	3.6	3.0	3.2
	a. Private consumption	0.1	2.8	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	4.1
	d. Public investment	2.8	12.0	13.7	4.5	4.5
3.	Exports of goods and services	4.9	2.9	2.9	3.3	3.3
4.	Imports of goods and services	-1.4	4.6	4.7	3.3	4.1
5.	World GDP growth	3.2	3.0	3.0	3.1	3.1
Memo:						
	Output gap ^{1/} (%)	-1.5	-1.0 ; 0.0	-1.0 ; 0.0	-0.5 ; 0.5	-0.5 ; 0.5
% chg.						
6.	Inflation (end of period)	3.2	2.2	2.3	2.0	2.0
7.	Expected inflation ^{2/}	4.4	2.6	2.5	2.5	2.4
8.	Expected depreciation ^{2/}	-2.5	0.3	0.7	0.7	0.4
9.	Terms of trade	4.8	8.8	7.8	1.4	0.5
	a. Export prices	-2.4	8.2	5.9	2.6	1.0
	b. Import prices	-6.9	-0.5	-1.7	1.1	0.5
Nominal % change						
10.	Currency	-5.6	-1.2	4.0	0.0	0.0
11.	Credit to the private sector	1.3	3.5	3.0	5.0	5.0
% GDP						
12.	Gross fixed investment	22.9	22.6	22.8	22.7	23.0
13.	Current account of the balance of payments	0.8	0.8	1.6	0.3	0.8
14.	Trade balance	6.6	7.9	7.6	8.2	7.3
15.	Long-term external financing of the private sector ^{3/}	12.4	11.1	12.0	10.2	11.0
16.	Current revenue of the general government	19.8	19.6	19.4	20.7	20.6
17.	Non-financial expenditure of the general government	21.0	20.6	21.4	20.7	20.8
18.	Overall balance of the non-financial public sector	-2.8	-2.8	-3.3	-1.6	-2.0
19.	Balance of total public debt	32.9	32.5	33.4	32.9	33.1
20.	Balance of net public debt	22.5	24.0	24.6	24.8	25.5

RI: Reporte de Inflation.

* 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 obligations in domestic currency with non-residents.