INFLATION REPORT

September 2024

Recent trends and macroeconomic forecasts 2024-2025

CENTRAL RESERVE BANK OF PERU

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Recent Trends and Macroeconomic Forecasts 2024 - 2025

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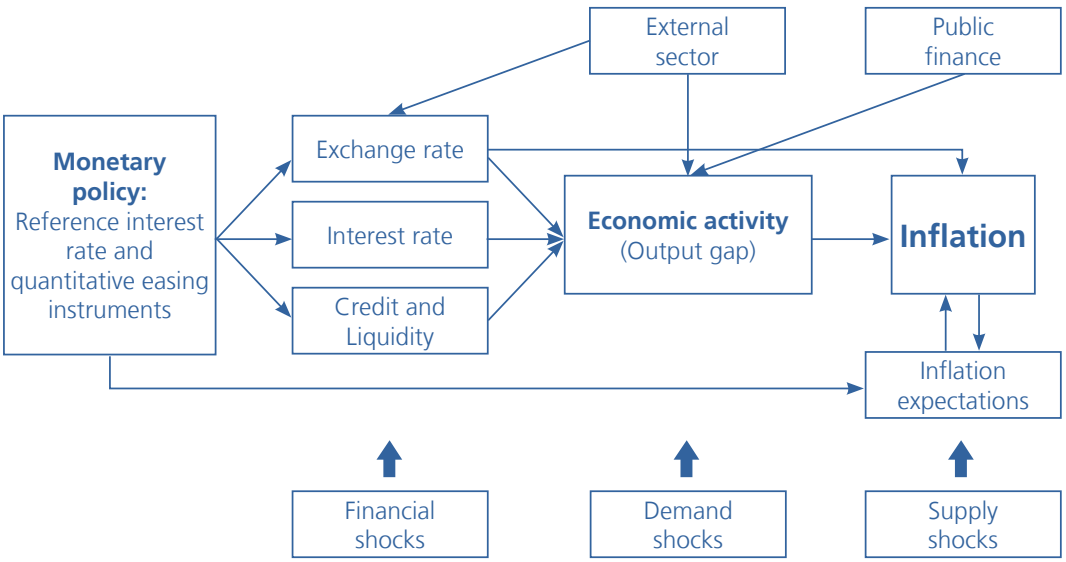

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Boxes

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.

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 next Inflation Report will be released on Friday, December 20, 2024.

Summary

i. 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.

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

iii. 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.

iv. 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 percent, 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.

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.

v. 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 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.

vi. 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.

vii. **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 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.

viii. 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).

ix. **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.

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.

I. External sector

1. The global economy has been characterized by a moderate tempo of economic expansion, differential slower inflation among regions, and initial flexible monetary policy in the primary economies since the most recent inflation report in June.

2. Economic activity in most developed economies recorded higher-than-expected GDP growth in the second quarter before slowing down in the first months of the third quarter, particularly the manufacturing sector. Thus, leading economic indicators for July and August in the United States show that the probability of a recession remains low, while in the eurozone, due to the situation in Germany, the recovery has lost momentum. In developing economies, China's growth has been moderate in recent months, led mainly by exports, while the main Latin American economies continue to grow in seasonally adjusted terms, with the exception of Chile.

3. At the start of the third quarter, inflation in most economies—both developed and developing—slowed down somewhat. Lower inflation in goods drove this trend, whereas inflation in services persisted somewhat. Inflation rates in the US, the UK, and the Eurozone started to drop in August and seem to be gradually approaching the 2 percent target. Emerging economies have shown a different pattern. Low rates of inflation have been noted in Asian nations, while Latin America, inflation has somewhat resisted to decline.

4. Against this backdrop, the main economies have begun to ease their monetary policies. In the Eurozone and the United Kingdom, the European Central Bank (ECB) and the Bank of England (BoE), respectively, lowered their policy interest rates during this period. In the United States, the market internalized the first interest rate cut in September. Most emerging economies pursued their cycle of interest rate cuts.

5. As discussed in the June Report, the world economy is projected to grow 3.0 percent during 2024, following last year's 3.2 percent expansion, while the pace of expansion should slightly pick up to 3.1 percent in 2025. These developments are explained by the resilience of the economy in the first half of the year, the slowdown in inflation and the start of looser monetary policy amid geopolitical uncertainty (Middle East and Ukraine), following the depletion of private sector savings surpluses and lower wage income.

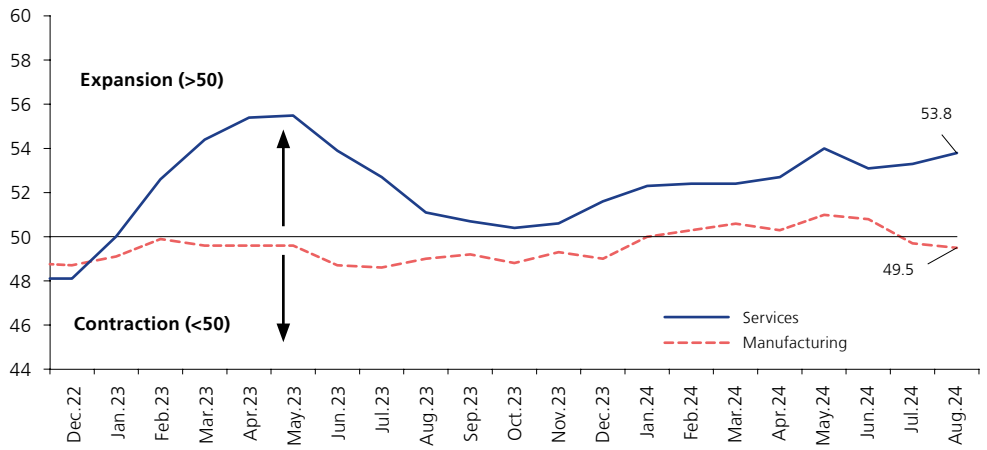
6. The baseline scenario is susceptible to downside risks, as mentioned in previous editions of the Report: a prolonged and larger than expected impact of past interest rate hikes in advanced economies; risks of a sharp slowdown in China; and increased geopolitical uncertainty (in Ukraine and the Middle East), U.S.-China trade tensions, and polarization of positions in the U.S. elections.

Recent developments in global economic activity

7. **The global economy's PMI leading indicators exhibited divergent trends, with the manufacturing sector contracting and the services sector slowly expanding.** The manufacturing sector indicator revealed a deeper contraction during the last few months, accounted for slower new orders and purchases given degrading operating conditions, no change in job creation and lower output volumes. By sector, the production of capital goods recorded the largest drop. At country level, the weakening of the manufacturing sector was observed in the main economies including the United States, Japan and the Eurozone.

8. The global PMI for the services sector strengthened in August after the drop in June, placing it in the expansion zone for the year. The result was due to the dynamism generated by the entry of new businesses and favorable expectations regarding the sector's future. However, at the country level, only the improvement in the business services subsector offset the slowdown in the consumer services and financial services subsectors.

Graph 1
GLOBAL PMI : WORLD ECONOMIC ACTIVITY INDEX FOR THE MANUFACTURING AND SERVICES SECTORS
(Diffusion index)



Source: S&P Global.

9. Divergence was also observed between developed and emerging countries. Among the former, the United Kingdom, Spain and Italy continued to expand; and among the latter,

the favorable evolution of India, where both the manufacturing and services sectors continued to expand.

Table 1
MANUFACTURING AND SERVICES PMI
(Diffusion index)

	Dec.22	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24
Manufacturing PMI										
India	57.8	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5
Japan	48.9	48.0	48.0	47.2	48.2	49.6	50.4	50.0	49.1	49.8
China	49.0	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4
USA	46.2	47.9	50.7	52.2	51.9	50.0	51.3	51.6	49.6	47.9
Brazil	44.2	48.4	52.8	54.1	53.6	55.9	52.1	52.5	54.0	50.4
UK	45.3	46.2	47.0	47.5	50.3	49.1	51.2	50.9	52.1	52.5
France	49.2	42.1	43.1	47.1	46.2	45.3	46.4	45.4	44.0	43.9
Italy	48.5	45.3	48.5	48.7	50.4	47.3	45.6	45.7	47.4	49.4
Germany	47.1	43.3	45.5	42.5	41.9	42.5	45.4	43.5	43.2	42.4
Services PMI										
India	58.5	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9
Japan	51.1	51.5	53.1	52.9	54.1	54.3	53.8	49.4	53.7	53.7
China	48.0	52.9	52.7	52.5	52.7	52.5	54.0	51.2	52.1	51.6
USA	44.7	51.4	52.5	52.3	51.7	51.3	54.8	55.3	55.0	55.7
Brazil	51.0	50.5	53.1	54.6	54.8	53.7	55.3	54.8	56.4	54.2
UK	49.9	53.4	54.3	53.8	53.1	55.0	52.9	52.1	52.5	53.7
France	49.5	45.7	45.4	48.4	48.3	51.3	49.3	49.6	50.1	55.0
Italy	49.9	49.8	51.2	52.2	54.6	54.3	54.2	53.7	51.7	51.4
Germany	49.2	49.3	47.7	48.3	50.1	53.2	54.2	53.1	52.5	51.2

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

10. Global economic activity among **developed economies** recorded mixed performance, in the second quarter. The United States, the United Kingdom and Japan advanced during this period outweighing expectations. In Japan, the observed expansion made up for the contraction in the first quarter. Meanwhile, Germany failed to meet market expectations, and the expected consolidation of the recovery in the first quarter did not occur.

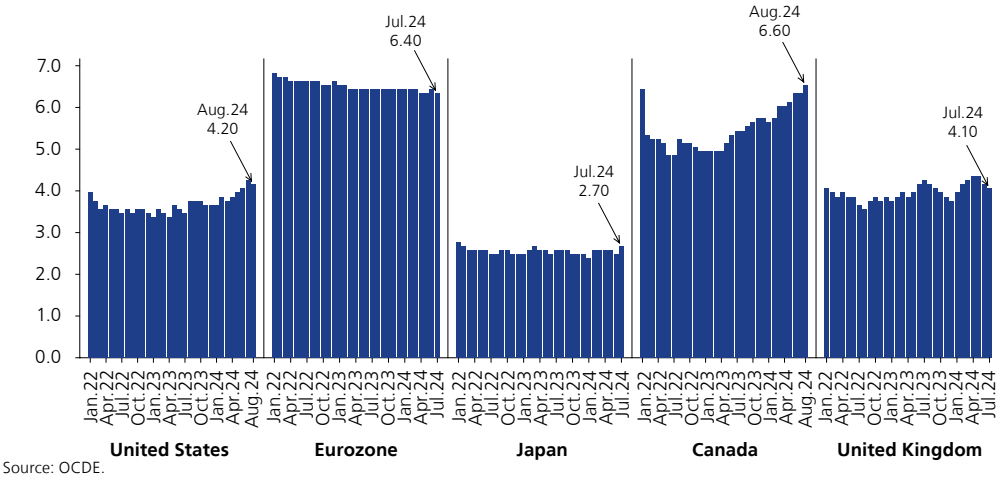
Table 2
MAIN ECONOMIES: QUATERLY GROWTH
(% Chg. Seasonally adjusted series)

	2022				2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	-0.5	-0.1	0.7	0.6	0.6	0.5	1.2	0.8	0.4	0.7
Germany	1.0	0.0	0.6	-0.5	0.1	-0.1	0.2	-0.4	0.2	-0.1
United Kingdom	0.5	0.1	-0.1	0.1	0.2	0.0	-0.1	-0.3	0.7	0.6
Japan	-0.6	1.1	-0.3	0.4	1.3	0.6	-1.0	0.1	-0.6	0.8
China	0.4	-2.1	4.0	0.8	1.8	0.8	1.5	1.2	1.5	0.7

Source: OCDE and Trading Economics.

The pace of economic activity in the main developed economies was not reflected in improved labor market indicators. With the exception of the United Kingdom and some Eurozone countries, the unemployment rate increased.

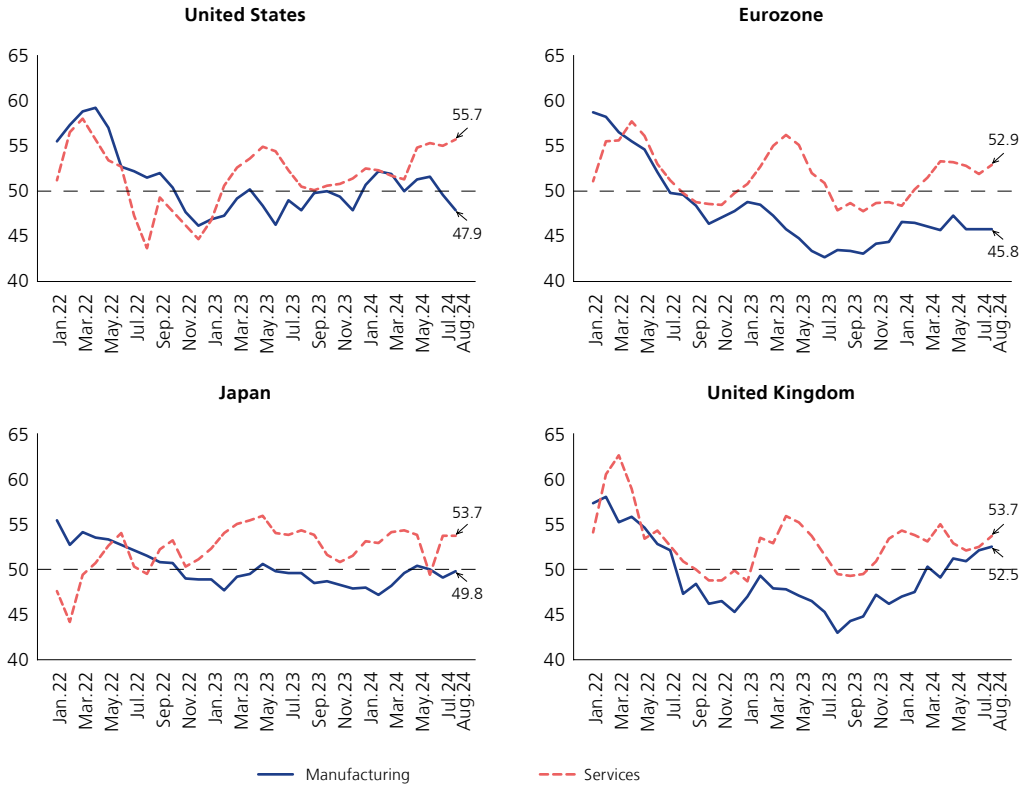
Graph 2
UNEMPLOYMENT RATE IN DEVELOPED ECONOMIES, 2022-2024
(%)



Source: OCDE.

11. The PMIs of the developed economies, except for the United Kingdom, reflect a degrading manufacturing sector and slower services sector.

Graph 3
DEVELOPED ECONOMIES: PMI MANUFACTURING AND SERVICES INDICATORS, 2022-2024
(Diffusion index)

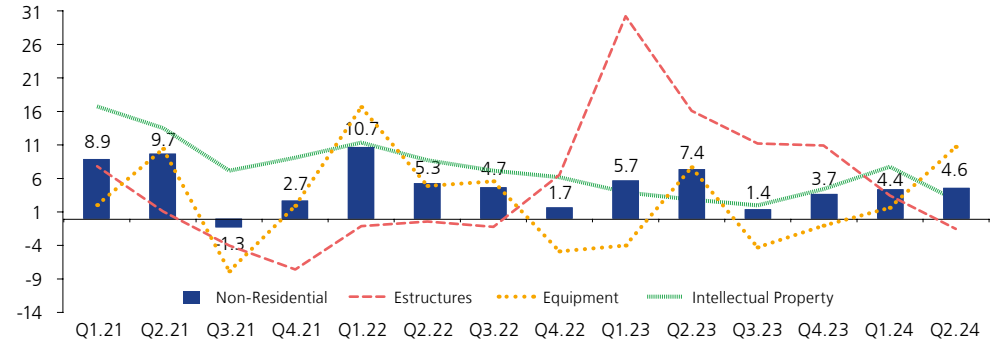


Source: PMI S&P.

12. In the **United States**, GDP growth for the second quarter was 3.0 percent (annualized quarterly rate), higher than expected (2.8 percent) and the previous

period (1.4 percent). The result was explained by the increase in private consumption (2.3 to 2.9 percent), driven by higher demand for vehicles. In addition, private inventories added 0.78 percentage points (p.p.) to growth, after recording a negative contribution in the previous two quarters, both in wholesale and retail trade.

Graph 4
UNITED STATES: NON-RESIDENTIAL INVESTMENT
(Annualized quaterly % chg.)

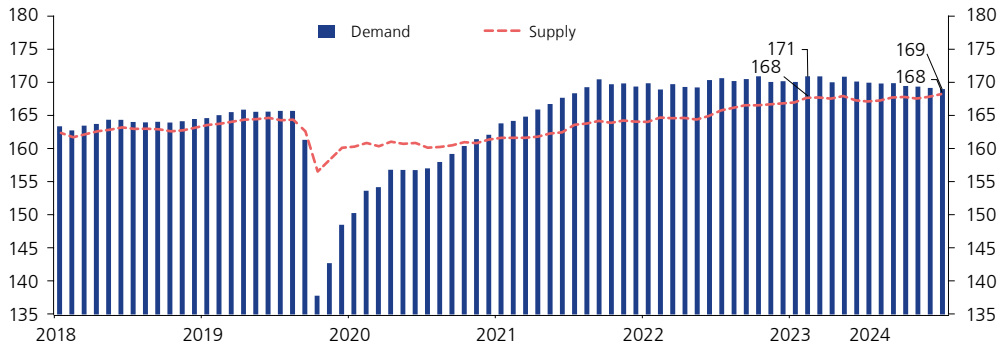


Source: U.S. Bureau of Economic Analysis (BEA).

13. Likewise, non-residential investment accelerated from 4.4 to 4.6 percent and public spending from 1.8 to 2.7 percent, mainly due to higher defense spending. Investment in gross capital formation in machinery and intangibles picked up while there was also progress in state and federal public goods and services.

14. However, recent high-frequency indicators (PMI, retail sales, durable goods orders, building permits, industrial production) have slowed down, particularly in manufacturing.

Graph 5
UNITED STATES: LABOR SUPPLY AND DEMAND
(In million people)



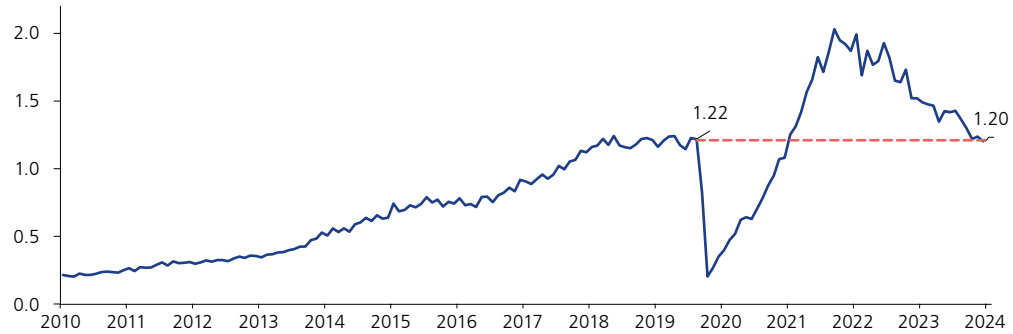
Source: U.S. Bureau of Economic Analysis (BEA).

Likewise, indicators pointed to a slower labor market. Demand for labor, measured as JOLTS vacancies, decreased in July to a moderate pace due to lower demand for workers

in the manufacturing and public (federal) sectors. July created 114,000 jobs, below the 175,000 forecast, while joblessness rose from 4.1 percent in June to 4.2 percent in August.

Vacancies per job seeker remained similar to levels before the pandemic.

Graph 6
UNITED STATES: LABOR MARKET JOLTS / UNEMPLOYED RATIO



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

15. **Eurozone's** second quarter GDP grew 0.3 percent quarter-on-quarter, as expected. The result highlighted advance in France (0.3 percent), Italy (0.2 percent) and Spain (0.8 percent), recovery in the Netherlands (from - 0.3 to 1.0 percent). Germany recorded 0.1 percent contraction and Austria remained stagnant.

The **United Kingdom's** preliminary GDP growth figure for the second quarter was 0.6 percent (previously 0.7 percent) driven by services, which grew 0.8 percent, but counterbalanced by a -0.1 percent decline in the construction industry and a -1.8 percent fall in transport equipment manufacturing.

Japan's GDP climbed 0.7 percent quarter-on-quarter, which reversed the 0.6 percent slide in the first quarter and outweighed market expectations of only 0.5 percent increase. This growth was mainly due to a 0.9 percent increase in private consumption, which accounts for more than half of GDP, and which outweighed forecasts of 0.5 percent after four quarters of contraction. In addition, private investment recovered 0.8 percent, in line with expectations, driven by the recovery of the automotive industry following stronger domestic and international demand, while large automakers adopt measures to improve their quality control.

16. Among emerging economies, **China** grew 4.7 percent in the second quarter of 2024, a steeper slowdown than expected (5.1 percent), resulting from weak domestic demand, trade frictions with the West, a continued slump in the real estate market, low consumer and investor confidence, and high private sector debt. The risks of lower growth have increased in the face of a series of trade restrictions adopted by the United States and the Eurozone.

Table 3
CHINA: SELECTED INDICATORS

Indicadores	2023												2024						
	F	M	A	M	J	J	A	S	O	N	D	J	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
PMI services - S&P 1/													52.7	52.5	52.7	52.5	54.0	51.2	52.1
PMI non-manufacturing - official 1/													50.7	51.4	53.0	51.2	51.1	50.5	50.2
Manufacturing PMI - S&P 1/													50.8	50.9	51.1	51.4	51.7	51.8	49.8
Manufacturing PMI - official 1/													49.2	49.1	50.8	50.4	49.5	49.5	49.4
Industrial Production 2/													7.0		4.5	6.7	5.6	5.3	5.1
Fixed asset investment 3/													4.2		4.5	4.2	4.0	3.9	3.6
Retail sales 2/													5.5		3.1	2.3	3.7	2.0	2.7
Exports 2/													7.1		-7.5	1.5	7.6	8.6	7.0
Imports 2/													3.5		-1.9	8.4	1.8	-2.3	7.2
Bank loans 2/													10.4	10.1	9.6	9.6	9.3	8.8	8.7
Consumer price index 2/													-0.8	0.7	0.1	0.3	0.3	0.2	0.5
Housing price index 2/													-0.7	-1.4	-2.2	-3.1	-3.9	-4.5	-4.9
Producer price index 2/													-2.5	-2.7	-2.8	-2.5	-1.4	-0.8	-0.8

1/ Diffusion index: 50 = neutral level.
2/ Annual % chg.
3/ Annual acummulated % chg.
Source: Trading Economics.

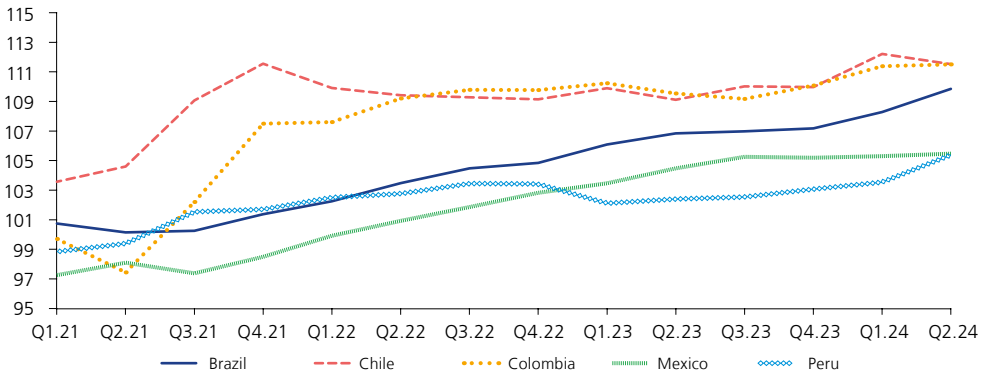
The Chinese government held the Third Plenary Session of the Central Committee of the Communist Party of China in July, which pronounced the modernization of industry, debt reduction and expansion of domestic demand as economic policy objectives. The Plenum highlighted risks in the real estate sector and the concept of "new productive forces", implying greater state intervention and emphasizing "high quality growth" to shift the economy from dependence on the real estate sector to artificial intelligence or computer chips.

In addition, the Chinese government detailed some policies to reverse the country's economic slowdown including (i) proposals to strengthen Chinese local government finances, which, says government, mark the "third major tax and fiscal reform"; these measures seek to transfer more revenue from the central government to local governments, for example, allowing regional governments to earn a larger share of the consumption tax; and (ii) a larger and more flexible program to foster renewal of the country's stock of industrial and household equipment to encourage consumer spending, among others.

In September, the government announced that it will offer USD 562 million (4 billion RMB, China's official currency) in subsidies to boost weak domestic demand for consumer goods, to be financed mainly through issuing special treasury bonds. Other measures include subsidies of up to 15,000 yuan for consumers to substitute electric vehicles for conventional cars.

17. In Latin America, economic activity in the region's main economies was more dynamic compared to the first quarter of 2024, except for Chile. Chile's lower activity is attributed to the slowdown in services and transitory effects such as the decrease in fish stocks and ongoing maintenance of mining facilities Brazil and Colombia's economies were driven by higher consumption.

Graph 7
LATIN AMERICA: QUATERLY GDP*
(Index 100 = Q4.19)

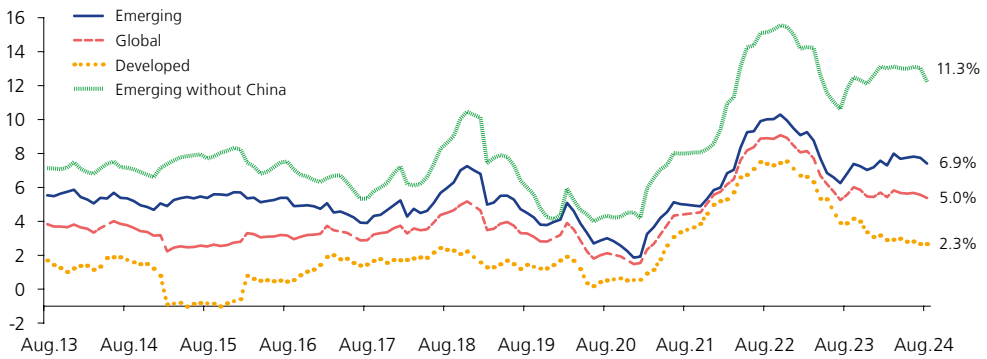


* Seasonally adjusted series.
Source: Statistical institutes and central banks.

Recent inflation trends

18. **Inflation worldwide** slipped from 5.6 percent in June to 5.0 percent in August reflecting slower price rises in developed economies from 2.7 to 2.3 percent (average inflation in 2023 was 4.5 percent) and in emerging economies from 7.7 to 6.9 percent (average inflation in 2023 was 6.1 percent).

Graph 8
INFLATION: GLOBAL, DEVELOPED COUNTRIES AND EMERGING ECONOMIES
(12-month % chg.)



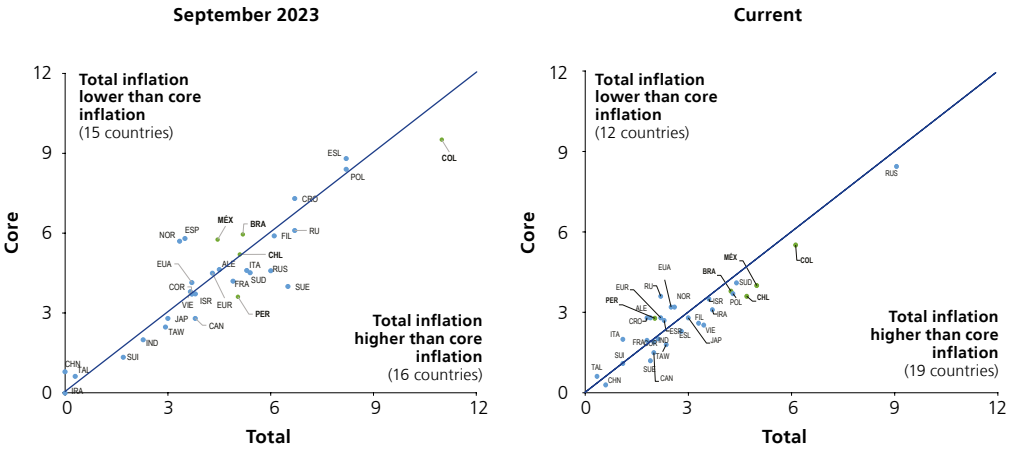
Inflation (12-month % chg.)

	Sep.22	Dec.22	Mar.23	Jun.23	Sep.23	Dec.23	Mar.24	Jun.24	Jul.24	Aug.24
Global	9.1	8.1	6.7	5.3	5.9	5.7	5.7	5.6	5.4	5.0
Developed	7.4	6.7	5.3	3.9	4.0	3.2	3.0	2.7	2.7	2.3
Emerging	10.3	9.1	7.7	6.3	7.2	7.6	7.7	7.7	7.4	6.9
Developed without USA	6.9	6.9	5.6	4.6	4.2	3.0	2.6	2.4	2.5	2.2
Emerging without China	15.6	14.2	12.6	10.6	12.3	13.1	13.0	13.0	12.2	11.3

Source: Reuters.

19. As shown below, inflationary pressures have lowered in most countries over the last twelve months, both in terms of total inflation and the various core inflation indicators. However, in most cases, core inflation recorded a smaller reduction.

Graph 9
TOTAL AND CORE INFLATION

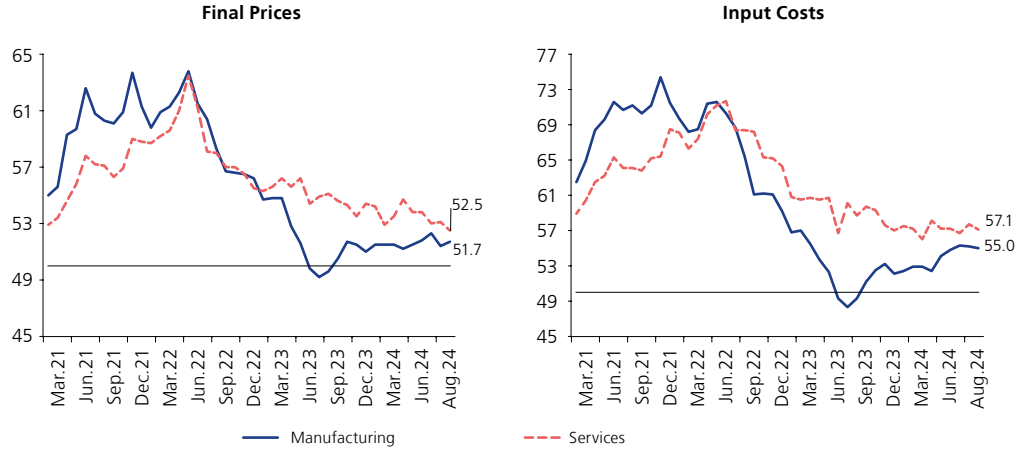


Source: Trading Economics.

20. This smaller reduction in core inflation is largely explained by the rigidity in the pace of price declines in the service sectors.

Inflationary pressures in the services sector have been driven by the cost of inputs required for the sector's activities, as well as by final prices. Thus, the trajectory of final price and input cost inflation has slowed and even increased, respectively.

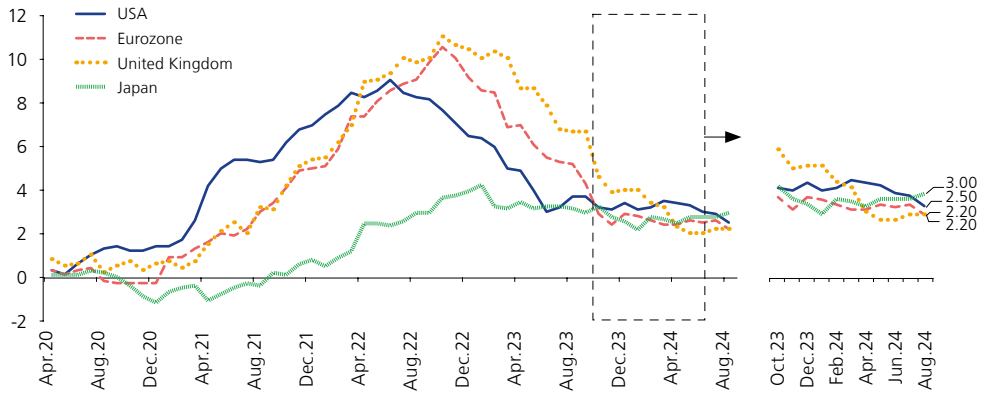
Graph 10
GLOBAL MANUFACTURING AND SERVICES PMI, 2021-2024



Source: S&P Markit.

In **developed economies**, inflation rates have fallen slowly slow at varied rates in recent months. Thus, it slowed down in the United States but increased slightly in the Eurozone, the United Kingdom and Japan.

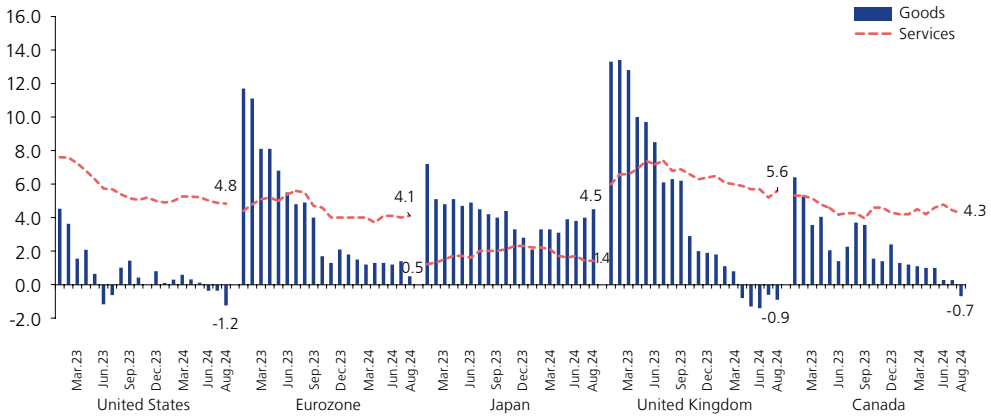
Graph 11
TOTAL INFLATION IN DEVELOPED COUNTRIES
(12-month % chg.)



Source: Reuters.

Inflation persists mostly in services prices, with the exception of Japan.

Graph 12
DEVELOPED ECONOMIES: PRICES OF GOODS AND SERVICES
(%)

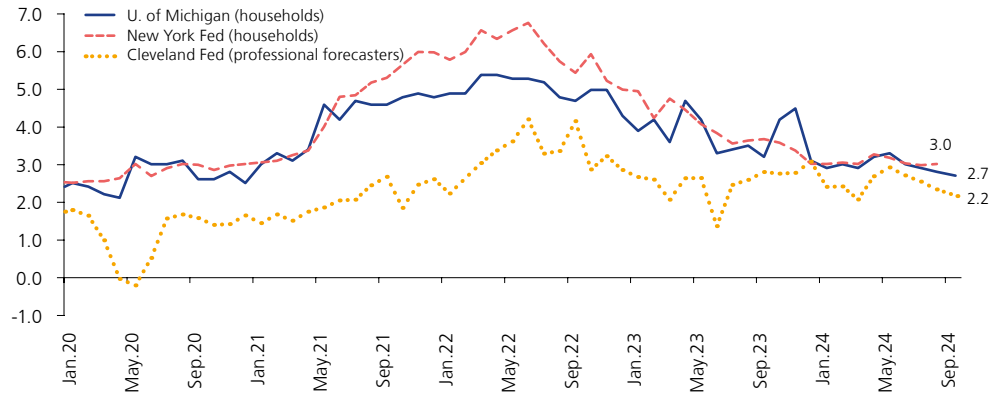


Source: Statistical institutes and central banks.

21. In the **United States**, August inflation slipped more than expected (from 3.0 to 2.5 percent) to a minimum since February 2021, reflecting lower core inflation that slipped from 3.3 to 3.2 percent (the lowest since March 2021), reflecting the slower pace of price increases in some services, such as transportation (from 9.4 to 7.9 percent) and medical services (from 3.3 to 3.2 percent). Rental inflation remained at 5.2 percent.

Inflation expectations for the next 12 months are on a downward trend, although still far from the Federal Reserve's (Fed) inflation target. Consumer expectations were below 3 percent. Remarkably, the New York Fed survey reveals consumers expect higher rates of services inflation, specifically in health care and rents.

Graph 13
USA 12-MONTH INFLATION EXPECTATIONS
(%)



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

Eurozone inflation was 2.2 percent year-on-year in August, lower than two months ago (2.5 percent), reflecting falling energy costs (from 0.2 to -3.0 percent) and slower food, beverages and tobacco price hikes (from 1.8 to 1.7 percent).

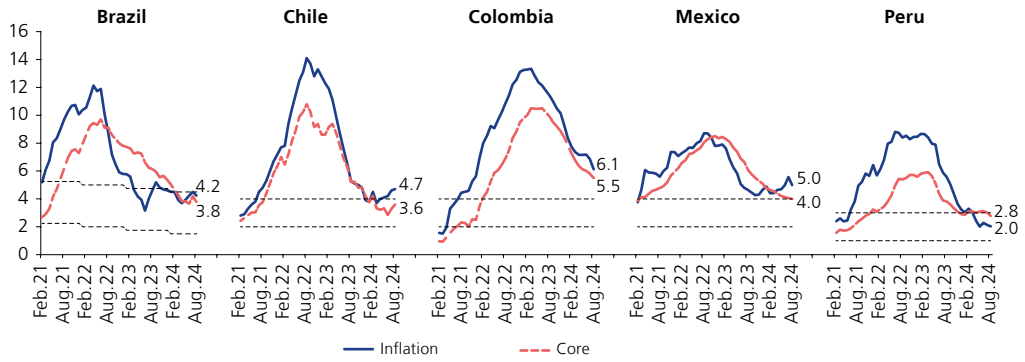
In the **United Kingdom**, total inflation picked up to 2.2 percent year-on-year in August from 2.0 percent in June. Costs associated with housing and household services; and clothing and footwear accelerated. Core inflation accelerated from 3.5 percent in June to 3.6 percent in August (vs the expected 3.5 percent).

22. In **emerging economies**, uncertainty continued in China regarding the evolution of prices in the economy. In August, the year-on-year inflation rate rose to 0.6 percent, the highest since February, resulting from higher food prices amid supply problems due to torrential rains and high temperatures. However, the underlying inflation rate was 0.3 percent, the lowest in nearly 3.5 years.

In **Latin America**, total inflation slowed down in August in most countries, except for Chile. Core inflation recorded a similar performance to total inflation. Inflation remained within the target range in Brazil and Peru.

In Chile, inflationary pressures are expected to continue to increase as adjustments in electricity prices - due to higher electricity rates - continue to be passed on to tradable goods.

Graph 14
INFLATION IN LATIN AMERICA 2020-2024
(12-month % chg.)

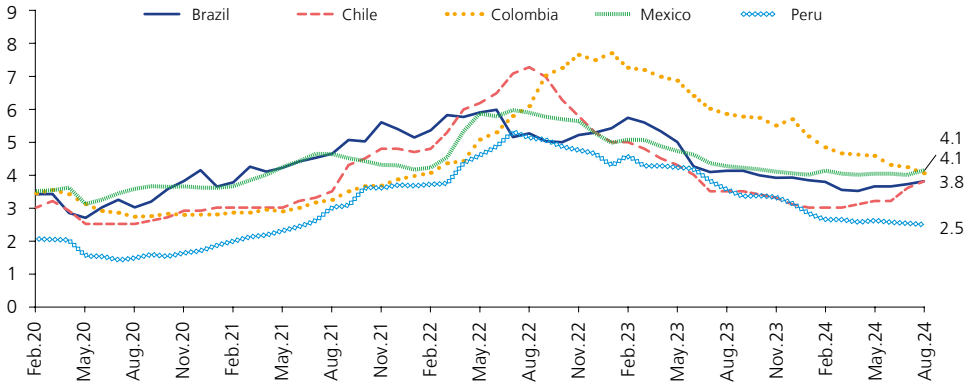


	Jul.24	Aug.24	Maximum	Jul.24	Aug.24	Maximum	Jul.24	Aug.24	Maximum	Jul.24	Aug.24	Maximum	Jul.24	Aug.24	Maximum
Total	4.5	4.2	12.1 (Apr.22)	4.6	4.7	14.1 (Aug.22)	6.9	6.1	13.3 (Mar.23)	5.6	5.0	8.7 (Sep.22)	2.1	2.0	8.8 (Jun.22)
Core	4.2	3.8	9.7 (Jun.22)	3.3	3.6	10.9 (Aug.22)	5.8	5.5	10.5 (Mar.23)	4.1	4.0	8.5 (Nov.22)	3.0	2.8	5.9 (Mar.23)

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

The evolution of inflation expectations for the next 12 months has slowed down after peaking between 2022 and 2023. In Brazil, Chile and Mexico, expectations rose slightly in August, but in Mexico and Colombia they were above their respective target ranges.

Graph 15
INFLATION EXPECTATIONS 12 MONTHS
(% chg.)



Memo: 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

23. With the exception of the Bank of Japan (BoJ), most **central banks kicked off the interest rate cutting cycle in the second quarter of 2024.** The ECB and BoE began lowering interest rates in June and August of this year, respectively.

In the same vein, the Fed, as expected, initiated its tapering cycle in September. The reduction was 50 bps. to 4.75-5.00 percent. This decision considered a sluggish labor market and slipping inflation, as well as the expectation that inflation will converge to the target. The Fed revised its inflation forecasts downward and unemployment forecasts upward from June, and estimated a further rate cut over the projection horizon to 2027.

Table 4
FED PROJECTIONS*

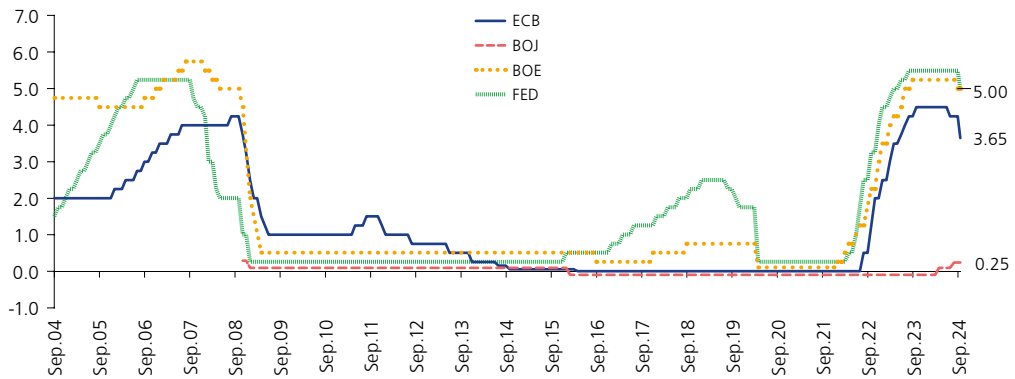
	2024		2025		2026		2027	Long-term	
	Jun.24	Sep.24	Jun.24	Sep.24	Jun.24	Sep.24	Sep.24	Jun.24	Sep.24
Growth**	2.1	2.0	2.0	2.0	2.0	2.0	2.0	1.8	1.8
Unemployment **	4.0	4.4	4.2	4.4	4.1	4.3	4.2	4.2	4.2
Inflation (PCE)**	2.6	2.3	2.3	2.1	2.0	2.0	2.0	2.0	2.0
Core inflation (PCE Core)**	2.8	2.6	2.3	2.2	2.0	2.0	2.0	-	-
Note: Underlying PCE excludes food and energy.									
Interest rate (%)***	5.1	4.4	4.1	3.4	3.1	2.9	2.9	2.8	2.9
Range of interest rates (%)	4.9-5.4	4.1-4.9	2.9-5.4	2.9-4.1	2.4-4.9	2.4-3.9	2.4-3.9	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.

Other central banks followed the trend: the Riksbank (Central Bank of Sweden) and the Bank of Canada reduced their rates between July and early September by 25 and 50 bps, respectively, but had already reduced them once in the previous months. Meanwhile, while the Swiss National Bank kept its rates in July and August unchanged. Switzerland already cut rates by 50 bps. in the first half.

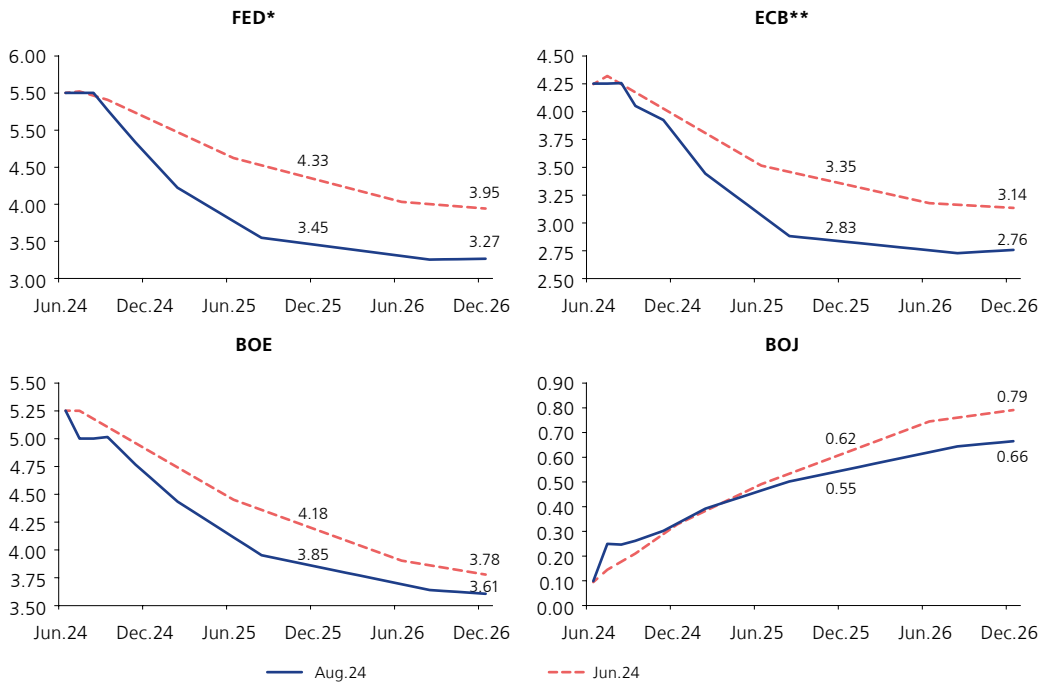
In contrast, the BoJ raised its interest rate again in July and began normalizing its expansionary stance. In addition, it signaled that further rate hikes are possible and announced that it will be tapering asset purchases until the first quarter of 2026.

Graph 16
POLICY INTEREST RATE
(%)



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

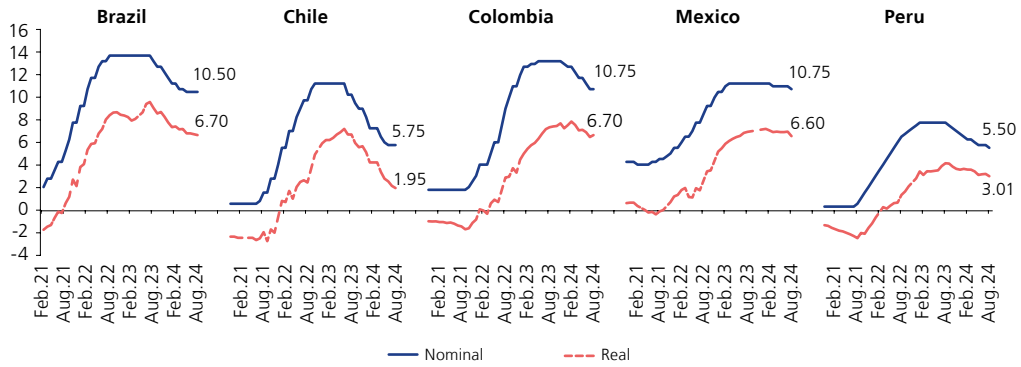
Graph 17
INTEREST RATE EXPECTATIONS ACCORDING TO THE FORWARDS MARKET
(%)



* Upper limit of monetary policy interest rates.
** Rate of main maintenance operations.
Source: Reuters.

Among **emerging economies**, in August Peru and Mexico cut their rates by 25 bps, while Brazil, Chile and Colombia maintained theirs. Considering the reduction of inflationary expectations in several countries, real rates show relative stability for most countries. Additionally, as of September 20, the central banks of Chile and Peru reduced their interest rates by 25 bps to 5.50 percent and 5.25 percent, respectively. In contrast, Brazil's central bank raised its interest rate by 25 bps. to 10.75 percent, initiating its rate hike cycle.

Graph 18
MONETARY POLICY INTEREST RATES IN LATIN AMERICA 2020-2024
(%)



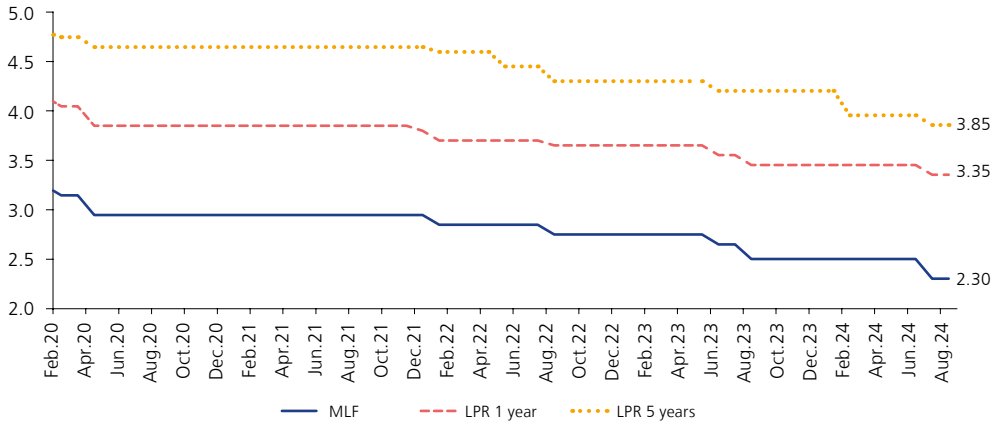
Memo: Real rates based on 12-month inflation expectations. For Colombia and Mexico, the latest data corresponds to July.
Source: Statistical institutes and central banks of each country.

For its part, in July, **China**'s central bank (PBoC) unexpectedly reduced its main interest rates. The head of the PBoC's monetary policy department declared there is room to reduce the reserve requirement rate considering that it stands at around 7 percent. In January 2024 and July 2023, he made similar comments days before this rate was to be reduced.

He also highlighted the bank's objective to create a market-aligned interest rate system and bridge the gap with official rates. This includes the use of the seven-day repo rate as the main monetary policy rate, which implies a change in its policy since short-term rates will be the most important tool to guide market behavior instead of the 1-year MLF (medium-term lending facility) rate.

As of September 20, the PBoC maintained 1-year and 5-year LPR (loan prime rate) rates. Both rates are at historic lows amidst fragile economic recovery.

Graph 19
CHINA: INTEREST RATE
(%)



Memo: 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.

Global economic outlook

24. As noted in the June Report, the global economy is expected to slow down this year compared to 2023 and recover slightly next year. Thus, global growth is expected to reach 3.0 percent in 2024 and 3.1 percent in 2025. As previously mentioned, the evolution of activity so far this year suggests differentiated advances in the larger economies. In that sense, higher growth is expected in the United States and the United Kingdom, and a slower rate of expansion in China.

Table 5
GLOBAL 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**
Of which:						
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**
Of which:						
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**

* Base 2023.
Source: IMF, Consensus Forecast.

25. The likelihood of a sharp slowdown in the global economy remains contained, but several risk factors outlined in recent reports persist:

- The persistence of high inflation in the services sector in the United States, which complicates the rapid convergence of inflation to the target.
- The ineffectiveness of China's economic policies to boost its demand and fragile real estate sector. In addition, the trade war with the United States and Europe hampered the operations of several local firms.
- Possible proliferation of anti-immigration policies in the United States, Europe, Canada and Australia.
- The protracted war between Ukraine and Russia and geopolitical tensions in the Middle East still require caution as these conflicts could escalate and pose significant problems for financial markets and commodity-dependent economies.
- The risk that the United States will prioritize protectionist policies that will aggravate the trade and technology war with China and even start one with its partners in Europe.
- Further sudden and abrupt episodes of yen appreciation due to the BoJ's monetary policy decisions could again destabilize global financial markets.
- New scenarios of substantial corrections in the financial markets because of the high valuations of certain economic sectors, especially the technology and communications industry, are not ruled out.

- Governments do not yet show signs of concern over the impact of climate change on the global economy, although some extreme weather may affect the supply of commodities in some regions.

International financial markets

26. Since the last Report, financial markets have been strongly influenced by changes in expectations regarding U.S. monetary policy, following the evolution of its inflation and labor market data.

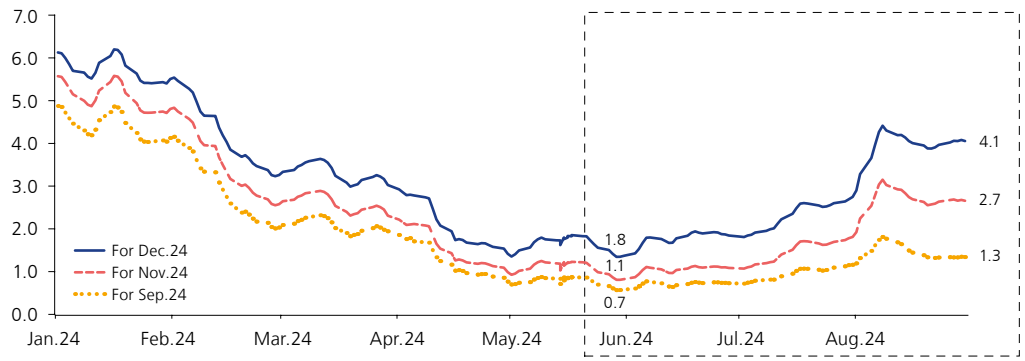
At the beginning of the third quarter and up to the first week of August, risk aversion increased following the deterioration of several economic variables in the United States and China. Other concerns include, uncertainty surrounding the November elections; greater geopolitical tensions in the Middle East; temporary disruptions in the operations of companies after Microsoft's systems went down worldwide; and trade tensions between the United States and Europe and China.

An additional factor to risk aversion came from the unwinding of many carry trade positions against the yen following its sharp appreciation after the BoJ's decision to raise the policy rate and announce the start of the normalization of the expansionary stance.

However, various financial assets recovered in the following weeks and reversed the previous trend after expectations of an aggressive Fed rate-cutting cycle became more pronounced. This perception was triggered by the continued slowdown in U.S. inflation and comments from Fed officials in favor of cutting rates since September. To this was added the revision on the upside of second quarter economic growth in the United States.

Thus, the futures market was discounting the beginning of the Fed's interest rate cutting cycle since September; thus, as mentioned, in that month the Fed made a 50 bps. cut to 4.75-5.00 percent and additional cuts are expected to accumulate to 200 bps. by December 2026.

Graph 20
EXPECTED NUMBER OF FED RATE CUTS AT 25 PBS.
(Accumulated based on the average of the last 5 days)



Source: Reuters.
Own elaboration at the end of August (prior to the Fed meeting in September).

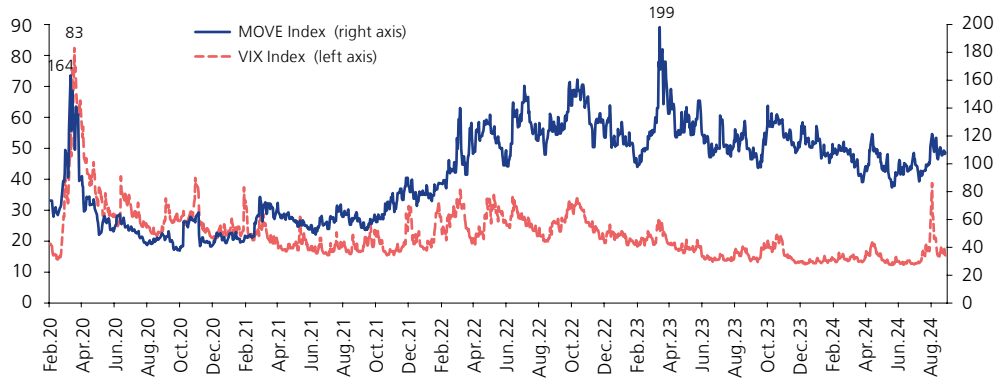
The world's main stock market indexes continued their upward trend and reached new historical highs in mid-July before undergoing partial corrections.

On the other hand, sovereign bond yields declined in line with expectations of aggressive Fed rate cuts in coming months.

Finally, the dollar depreciated almost across the board following expectations of lower interest rate differentials with its developed peers, including the yen, which was the currency that advanced the most in the third quarter.

27. These developments were reflected in the sudden increase in risk aversion until August 5 and its subsequent moderation. The VIX index (U.S. stock market volatility) started the third quarter at 12.4 points and peaked at 38.6 points at the beginning of August and then normalized to 15 points at the end of August. The MOVE index (US bond market volatility) increased from 98.6 points to 107.8 points, jumping to 121.2 points.

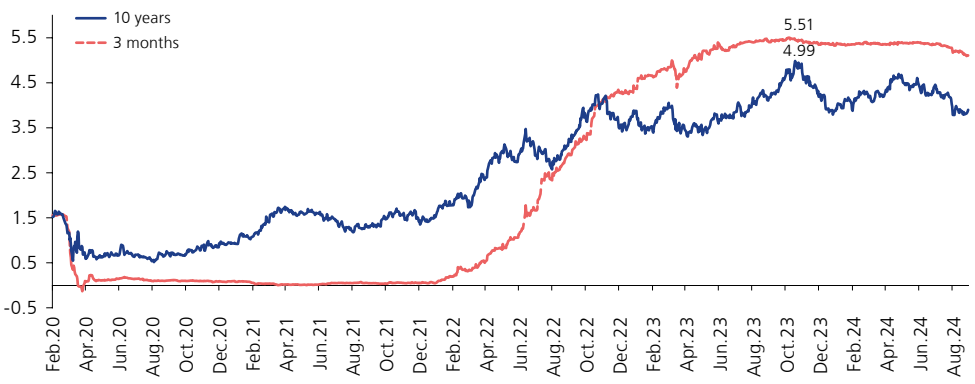
Graph 21
VOLATILITY INDICES: VIX (U.S. STOCK MARKET) AND MOVE (U.S. SOVEREIGN YIELDS)



Source: Reuters.

28. In **fixed income** markets, U.S. sovereign yields declined following a moderation in the pace of labor market expansion and a drop in inflation, which intensified expectations of aggressive interest rate cuts by the Fed.

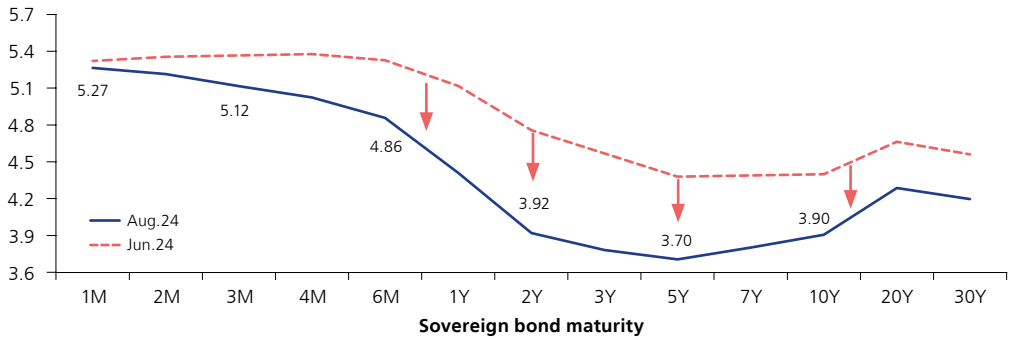
Graph 22
U.S. SOVEREIGN YIELDS
(%)



Source: Reuters.

These factors were compounded by increased noise from the presidential elections and geopolitical tensions in the Middle East. Yields that fell the most were those of short tranches such as the 2-year, which declined 86 bps. to 3.90 percent at the end of August. Likewise, the 10-year yield fell by 53 bps. to 3.87 percent.

Graph 23
U.S. SOVEREIGN YIELD CURVE
(%)



Source: Reuters.

In Europe, yields contracted by a smaller magnitude despite the decisions of the ECB and BoE to start interest rate cuts.

Table 6
10-YEAR SOVEREIGN BOND YIELDS (%)*
(%)

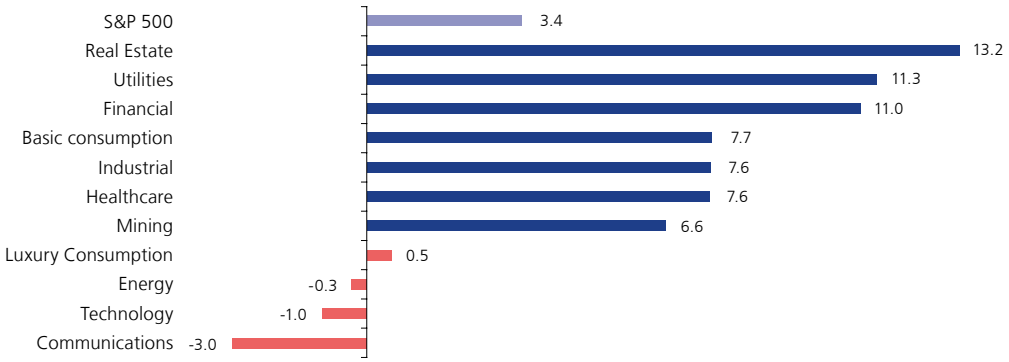
	Dec.23 (a)	Jun.24 (b)	Aug.24 (c)	Difference (pbs)	
				(c) - (b)	(c) - (a)
United States	3.88	4.40	3.90	-49	2
Germany	2.02	2.50	2.30	-20	28
France	2.56	3.30	3.02	-27	47
Italy	3.69	4.07	3.70	-37	1
Spain	2.98	3.42	3.13	-29	15
Greece	3.05	3.74	3.35	-39	30
United Kingdom	3.53	4.17	4.01	-16	48
Japan	0.61	1.05	0.89	-16	28
Brazil	10.37	12.33	12.22	-11	185
Colombia	9.96	10.82	10.13	-69	17
Chile	5.40	6.24	5.63	-62	23
Mexico	8.94	9.89	9.66	-23	72
Peru	**6.68**	**7.07**	**6.55**	**-52**	**-13**
South Africa	11.37	11.39	10.59	-80	-79
India	7.17	7.01	6.86	-15	-31
Turkey	23.66	25.68	26.57	89	291
China	2.56	2.21	2.18	-3	-38
South Korea	3.18	3.26	3.09	-17	-9
Indonesia	6.45	7.05	6.62	-42	17
Thailand	2.68	2.67	2.55	-12	-13
Malaysia	3.73	3.87	3.76	-11	3
Philippines	5.94	6.51	6.02	-49	8

* Prepared as of August 30, 2024.
Source: Reuters.

29. In the **equity markets**, the U.S. stock markets initially rose and then fell and corrected, a behavior derived from the previously mentioned factors. At the sector level, real estate,

utilities and financial stocks led the advance, counterbalancing the negative performance of communications and technology stocks. As a result, the S&P 500 returned to record levels during July.

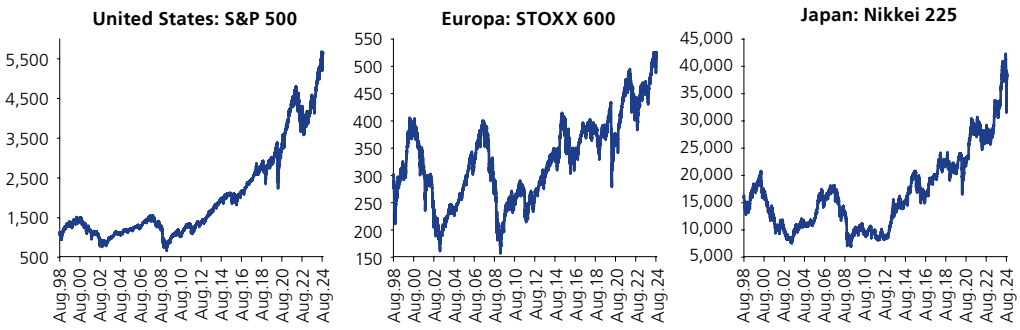
Graph 24
PERFORMANCE OF STOCK INDEX SECTORS S&P 500: AUG.24 / JUN.24
(%)



Source: Reuters.

At the same time, European stock markets also rose. Thus, the Euro Stoxx 600 stock index (Europe) also hit record highs. In Japan, on the other hand, the Nikkei 225 fell against a backdrop of expectations of interest rate hikes by the BoJ and a strong appreciation of the yen (which reduced the earnings expectations of exporting companies).

Graph 25
STOCK INDEXES



Source: Reuters.

Many Latin American stock markets were affected by the rapid escalation of risk aversion at the beginning of the third quarter and high volatility in commodity prices. The rebound of these stock markets was much slower, with exceptions such as the Brazilian stock market, which recovered after falling sharply in the first half of the year because of ongoing concerns about fiscal accounts.

Table 7
WORLD STOCK EXCHANGES*
(In indices)

		Dec.23 (a)	Jun.24 (b)	Aug.24 (c)	% chg.	
					(c) / (b)	(c) / (a)
VIX**	S&P,500	12.45	12.44	15.00	2.6	2.6
United States	Dow Jones	37,690	39,119	41,563	6.2	10.3
United States	S&P,500	4,770	5,460	5,648	3.4	18.4
United States	Nasdaq	15,011	17,733	17,714	-0.1	18.0
Germany	DAX	16,752	18,235	18,907	3.7	12.9
France	CAC,40	7,543	7,479	7,631	2.0	1.2
Italy	FTSE MIB	30,352	33,154	34,373	3.7	13.2
Spain	IBEX 35	10,102	10,944	11,402	4.2	12.9
Greece	ASE	1,293	1,404	1,431	1.9	10.7
United Kingdom	FTSE 100	7,733	8,164	8,377	2.6	8.3
Japan	Nikkei 225	33,464	39,583	38,648	-2.4	15.5
Brazil	Ibovespa	134,185	123,907	136,004	9.8	1.4
Colombia	COLCAP	1,195	1,381	1,362	-1.3	14.0
Chile	IPSA	6,198	6,414	6,460	0.7	4.2
Mexico	IPC	57,386	52,440	51,986	-0.9	-9.4
Argentina	Merval	929,704	1,611,295	1,717,565	6.6	84.7
Peru	**Ind. Gral.**	**25,960**	**29,896**	**28,442**	**-4.9**	**9.6**
South Africa	JSE	76,893	79,707	83,750	5.1	8.9
India	Nifty 50	21,731	24,011	25,236	5.1	16.1
Turkey	XU100	7,470	10,648	9,833	-7.7	31.6
China	Shangai C.	2,975	2,967	2,842	-4.2	-4.5
South Korea	KOSPI	2,655	2,798	2,674	-4.4	0.7
Indonesia	JCI	7,273	7,064	7,671	8.6	5.5
Thailand	SET	1,416	1,301	1,359	4.5	-4.0
Malaysia	KLCI	1,455	1,590	1,679	5.6	15.4
Philippines	Psei	6,450	6,412	6,898	7.6	6.9

* Prepared as of August 30, 2024.
** Data and variations are expressed in points.
Source: Reuters.

30. In **foreign exchange markets**, the dollar depreciated against currencies after expectations of aggressive interest rate cuts by the Fed and louder political noise related to the presidential elections. The dollar's decline was much greater against the yen due to the narrowing of interest rate differentials between the United States and Japan after the BoJ began normalizing its expansionary stance.

Graph 26
CURRENCY INDICES: DXY* (CURRENCIES AGAINST THE US DOLLAR) AND EMCI (EMERGING CURRENCIES AGAINST THE US 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 and JP Morgan.

Several emerging currencies appreciated against the dollar, following the global trend. Nonetheless, the Mexican peso depreciated due to concerns about the incoming administration and judicial reforms.

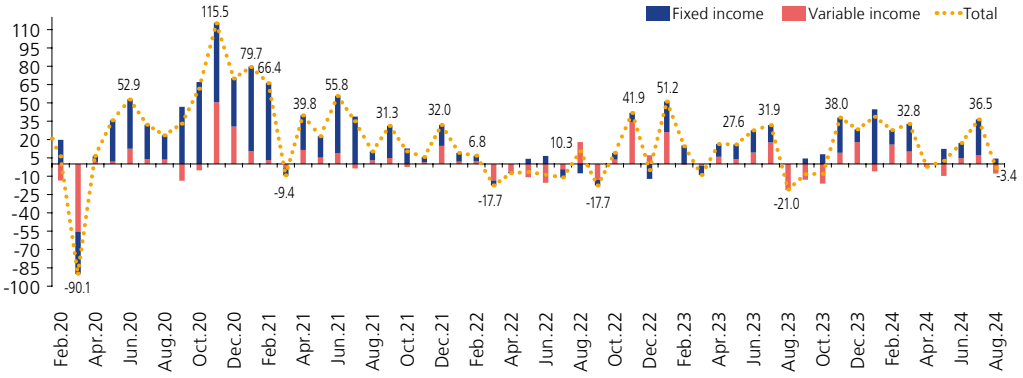
Table 8
EXCHANGE RATES*
(In U.M. per dollar, except euro and pound)

		Dec.23 (a)	Jun.24 (b)	Aug.24 (c)	% chg. **	
					(c) / (b)	(c) / (a)
Dollar index DXY***	US Dollar Index	101.33	105.87	101.70	-3.9	0.4
Euro	Euro	1.104	1.071	1.105	3.1	0.1
United Kingdom	Pound	1.273	1.264	1.313	3.8	3.1
Japan	Yen	141.06	160.83	146.16	-9.1	3.6
Brazil	Real	4.852	5.593	5.610	0.3	15.6
Colombia	Peso	3873	4149	4187	0.9	8.1
Chile	Peso	881	940	913	-2.9	3.7
Mexico	Peso	16.95	18.33	19.71	7.5	16.3
Argentina	Peso	808.45	911.00	950.50	4.3	17.6
Peru	Sol	3.707	3.844	3.750	-2.4	1.2
South Africa	Rand	18.28	18.19	17.82	-2.0	-2.5
India	Rupia	83.19	83.36	83.87	0.6	0.8
Turkey	Lira	29.48	32.65	34.07	4.4	15.6
Russia	Ruble	89.25	85.75	90.65	5.7	1.6
China	Yuan (onshore)	7.098	7.267	7.090	-2.4	-0.1
South Korea	Won	1294	1381	1337	-3.2	3.3
Indonesia	Rupia	15395	16370	15450	-5.6	0.4
Thailand	Bath	34.35	36.76	33.92	-7.7	-1.3
Malaysia	Ringgit	4.590	4.715	4.318	-8.4	-5.9
Philippines	Peso	55.39	58.48	56.22	-3.9	1.5

* Prepared as of August 30, 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.
Source: Reuters.

Non-resident capital outflows from emerging financial markets were recorded for the first time since October 2023. High volatility made equity instruments unattractive between July and August, as all capital withdrawals were in that sector, which was partially made up for by continued capital inflows to fixed income assets.

Graph 27
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.

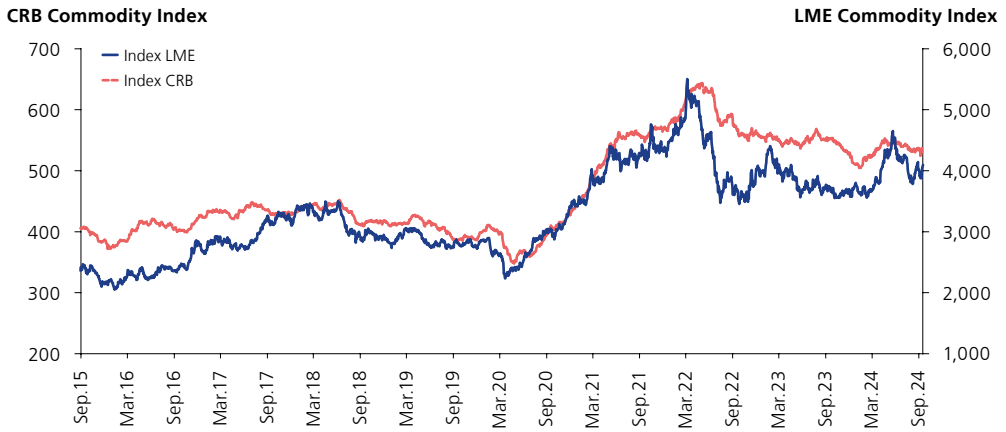
Commodity prices

31. **Industrial metals** have declined significantly since the publication of the previous report. In recent months, commodity prices have been volatile due to the recent turbulence in global financial markets. This is due to the reversal of the yen *carry trade*, investor concerns about weak demand in China and signs of a possible economic slowdown in the United States.

The fall in the price of base metals represents a reversal of the highs reached in May, explained by signs of weakness in Chinese demand for raw materials and market jitters about the U.S. economy. However, prospects of increased demand for critical minerals for the energy transition offset this trend. In addition to this, there were increased expectations that the central banks of the main economies would reverse their restrictive monetary policies.

Meanwhile, oil prices declined in a well-supplied market, with no significant unplanned disruptions related to the conflicts in the Black Sea and the Middle East. Chinese demand decreased and consumption in the United States was weak. U.S. oil production is expected to grow at a slower pace than in previous years, due to greater discipline among oil companies.

Graph 28
LME AND CRB COMMODITY INDEXES



Source: Reuters.

Copper

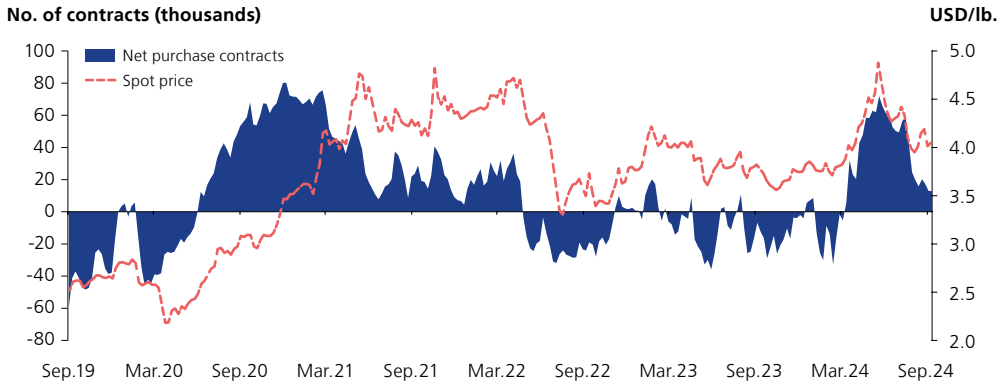
32. The average price of copper decreased 7 percent over the last two months, from USD/lb. 4.37 in June to USD/lb.4.07 in August resulting in copper price advance for the year to 7 percent.

Copper prices fell in the last two months due to fears of lower demand from China and the absence of concrete stimulus measures to boost the economy and address the

prolonged slump in the real estate sector at the Third Plenary Session of the 20th Central Committee of China's Communist Party. Also, slower demand for copper in Europe and the United States results from lower seasonal use in the northern hemisphere.

The increase in the copper price, which reached a historical high of USD/lb. 4,925 on May 20, driven by speculative positions rather than market fundamentals, partially reversed in the last two months, taking the price to its lowest level since early March.

Graph 29
COPPER: NON-COMMERCIAL CONTRACTS



Note: The Commodity Futures Trading Commission's Speculative Net Copper Positions 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 held by non-commercial (speculative) traders. The report only includes the U.S. futures markets (Chicago and New York Exchanges).
Source: Comex.

Likewise, the price drop was supported by the supply surplus in the market. In August, the International Copper Study Group estimated that the world refined copper market recorded a global supply surplus of 488 thousand tons in the first half of 2024, well above the surplus of 115 thousand tons reached in the same period of the previous year.

Table 9
SUPPLY AND DEMAND FOR REFINED COPPER 1/
(Thousands of metric tons of copper)

	2020	2021	2022	2023	Jan.-Jun. 2023	Jan.-Jun. 2024
Global Mine Production	30,196	30,713	31,396	32,228	10,801	11,137
Global Refined Production (Primary and Secondary)	24,656	24,936	25,306	26,547	13,044	13,855
Global Refining Utilization	24,948	25,211	25,830	26,549	12,929	13,366
Refining Balance 2/	-292	-275	-524	-2	115	488

1/ ICSG monthly report for August 2024.
2/ The balance of refined products is calculated as the subtraction between the global production of refined products (supply) and its use (demand).
Source: ICSG.

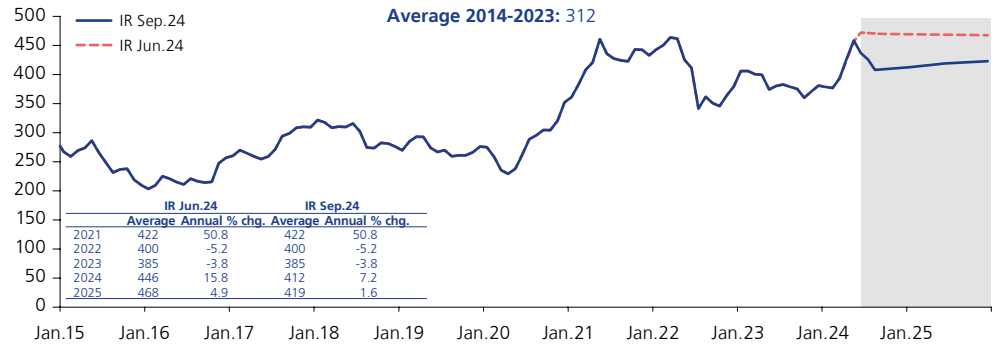
At the same time, there was a restocking of inventories from China to the United States. Refined copper inventories at major global exchanges have risen, driven by deliveries to LME and Comex warehouses. In August, copper inventories at LME reached their highest

level since September 2019. These increases came largely from LME warehouses in Taiwan and South Korea, reflecting unexpected exports from China.

Recently, prices somewhat benefitted from a shortage of recycled copper in China, where new rules will reduce tax subsidies for users of copper scrap in certain Chinese provinces starting in August. Together with the fall in copper prices from historical highs, this has led some producers to suspend production and may lead to higher demand for refined copper as a raw material, as less scrap is available.

In line with the executed data, copper price forecasts were revised downwards with respect to the June Report's estimate. This correction considers the fears of a macroeconomic adjustment. The main downside risk is the fear of a moderation of manufacturing activity in developed economies. Upside risks include mining supply disruptions and changes in economic and environmental policies that could lead to shortages in the global market, as well as a larger-than-expected expansion of renewable energy capacity in China. Prices are expected to be pressured by the surplus in the market in a context of growing mineral supply.

Graph 30
COPPER: JANUARY 2015 - DECEMBER 2025
(ctv. USD/lb.)



	IR Jun.24		IR Sep.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	446	15.8	412	7.2
2025	468	4.9	419	1.6

Source: Reuters and BCRP.

Zinc

33. The average international price of zinc fell 3 percent in the last two months, from USD/lb. 1.28 in June 2024 to USD/lb. 1.23 in August. As a result, the price of zinc accumulated an 8 percent increase over December 2023.

The price of zinc decreased in the last two months due to lower demand, influenced in turn by the crisis in the real estate market in China. The demand for zinc to produce galvanized steel has been affected by the Chinese government's measures to control energy consumption and environmental regulations, which could limit its production. In addition, investors were disappointed by the lack of new stimulus measures in China. This

behavior was supported by the increase in inventories on the London Metal Exchange to levels close to the highs of June 2021. The latest report from the International Zinc and Lead Study Group showed that the market recorded a global surplus of refined zinc supply in the first half of the year.

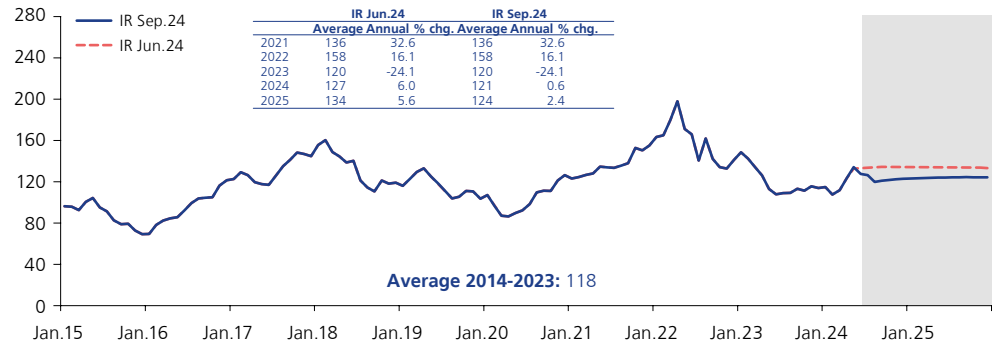
The drop in the price of zinc was limited because the main smelters in China agreed to refined's production cuts due to the shortage of concentrates and the financial losses recorded. In addition, Chinese refiners are evaluating postponing building new zinc refining capacity.

In line with these developments, the price of zinc is revised downward from projections in the previous Report. Weak demand resulting from the tightening of global monetary policy and the current malaise in the Chinese real estate market continue adding to downside risks, together with is the possible reactivation of the current high idle capacity of mining and smelting companies in response to rising prices which could in turn prevent a significant price increase.

Graph 31

ZINC: JANUARY 2015 - DECEMBER 2025

(ctv. USD/lb.)



	IR Jun.24		IR Sep.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	127	6.0	121	0.6
2025	134	5.6	124	2.4

Source: Reuters and BCRP.

Gold

34. The average **gold** price increased 6 percent in the last two months, reaching USD/oz.tr. 2,472 in August 2024. With this, the gold price accumulated an increase of 21 percent over December 2023.

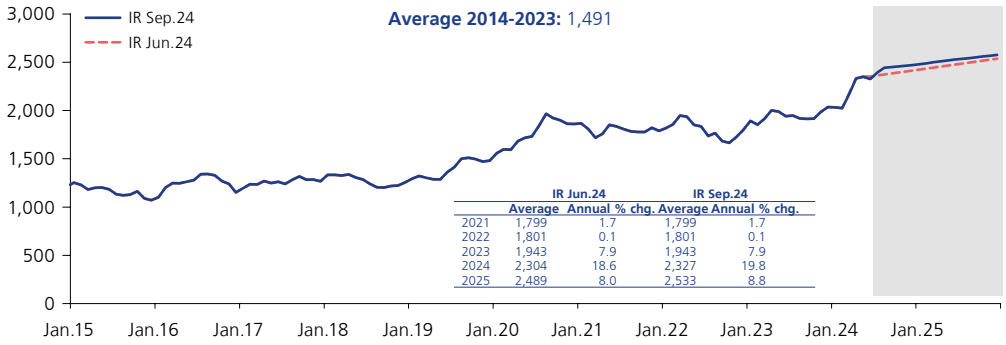
In the last two months, the gold price increased to a historical high of USD/oz.tr. 2,514 on August 20, related to expectations of monetary easing by the Fed and the European Central Bank for the remainder of the year, as well as growing demand for safe-haven assets in the face of heightened geopolitical risks such as Israel's offensive in Gaza, Ukraine's invasion of Russian territory and tensions between the United States and China. Although some investors sold gold to cover losses in other markets, global demand for gold, especially for jewelry and by central banks, remained strong. In addition, gold exchange-traded funds (ETFs) have seen a significant increase in inflows.

In line with the executed data, the gold price forecast is revised upward with respect to the June Report. This revision reflects increased geopolitical risks and expectations that inflows into gold ETFs will increase as monetary policy eases in several developed economies, and that central bank purchases will remain elevated as part of efforts by several non-Western-aligned countries (such as China, Russia and Turkey) to diversify their currency holdings.

Graph 32

GOLD: JANUARY 2015 - DECEMBER 2025

(USD/oz.tr.)



	IR Jun.24		IR Sep.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	2,304	18.6	2,327	19.8
2025	2,489	8.0	2,533	8.8

Source: Reuters and BCRP.

Gas

35. In the last two months, the average **Henry Hub natural gas** price decreased 25 percent. Thus, this quotation decreased by 17 percent compared to December 2023. In contrast, the corresponding quotation for the European market (UK BNP) increased by 9 percent in the last two months, or a 5 percent hike compared to December 2023.

Lower **Henry Hub natural gas price** in the United States is due to oversupply, with high levels of production and inventories. At the end of July, stocks were significantly above year-ago levels and the five-year average. Price fall shock was moderated by higher demand due to the resumption of LNG shipments from Freeport and warmer than expected weather. Freeport LNG halted production due to Hurricane Beryl and shut down on July 7 due to the hurricane's impact on Texas on July 8. In contrast, the increase in **gas** prices **in Europe** was due to fears of supply disruptions due to geopolitical tensions, the temporary production shutdown at Freeport LNG, Ukraine's invasion of Russian territory and strong demand from Asia, particularly China and India. The increase was limited by abundant supply from Norway, increased use of wind and solar sources, and high inventory levels.

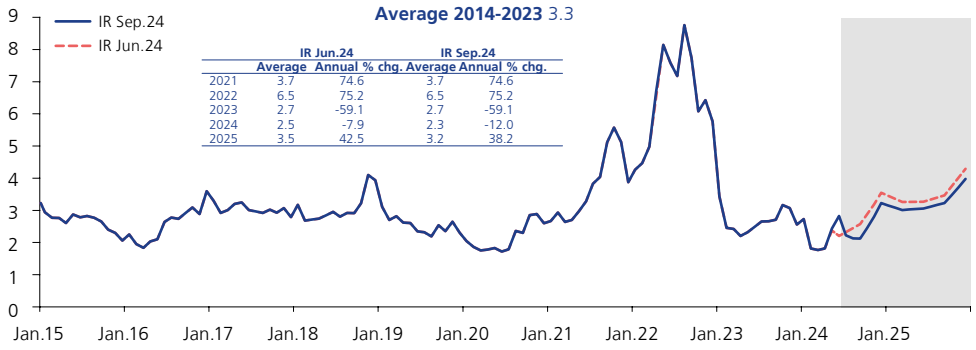
For the forecast horizon, the average Henry Hub natural gas price has been revised slightly downward for 2024 in the face of elevated U.S. inventories.

The main upside risk is that LNG prices will rise sharply if tensions in the Middle East escalate, threatening the security of oil and gas supplies from the Gulf through the Strait of Hormuz. In addition, shipping disruptions in the Red Sea have also affected LNG trade. Also, the US decision to restrict the increase in LNG production capacity for export will provide some support to prices. However, in the medium term, natural gas prices, especially for LNG, will continue to fall as new production capacity comes online in Qatar and the United States.

Graph 33

NATURAL GAS HENRY HUB: JANUARY 2015 - DECEMBER 2025

(USD/MBTU)



	IR Jun.24		IR Sep.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	2.5	-7.9	2.3	-12.0
2025	3.5	42.5	3.2	38.2

Source: Reuters and BCRP.

Oil

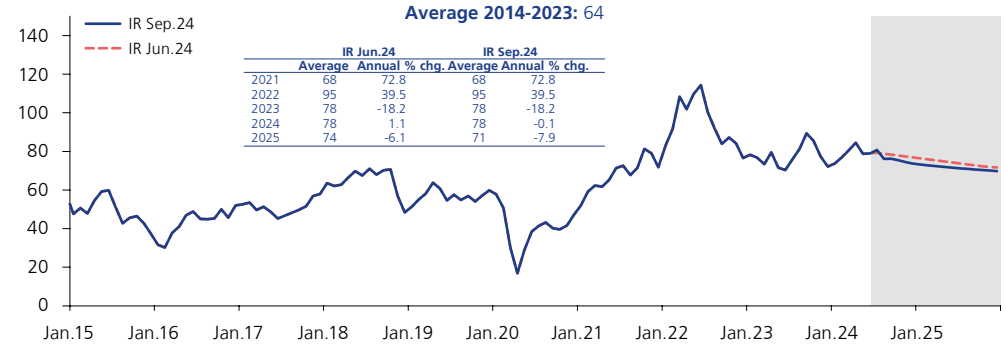
36. In the last two months, the average **WTI oil** price decreased by 4 percent, from USD/br. 80 in June to USD/br. 77 in August 2024. Nevertheless, the oil price accumulated an increase of 7 percent over December 2023.

Over the past two months, oil prices have declined due to concerns about slowing global demand, especially in China and the United States. This evolution was compounded by falling demand in Europe and slower growth in developing countries than in years prior. China's efforts to electrify its vehicle fleet also buttressed this trend, together with higher supply from the reduction of floating inventories built up due to delays in marine deliveries. On-water oil inventories had increased significantly in early 2024 due to outages in the Red Sea and Suez Canal. In addition, OPEC+ announced that it will allow increased crude oil production initially from October and then from January 2025, although it will maintain reduced quotas until the end of 2025. It should be noted that the countries that made voluntary cuts, such as Saudi Arabia, Iraq, United Arab Emirates, Kuwait and Algeria, will increase their production gradually.

The price drop was limited by estimates from the International Energy Agency (IEA) and OPEC of a growth in world demand to new historical maximum levels in the next two years. In addition, OPEC would continue to restrict its production, keeping it below pre-pandemic levels.

For the forecast horizon, the average oil price has been revised down from the June Inflation Report, given the prospects that demand will grow less than previously estimated and that OPEC+ will gradually increase output.

Graph 34
WTI OIL: JANUARY 2015 - DECEMBER 2025
(USD/br.)



	IR Jun.24		IR Sep.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	78	1.1	78	-0.1
2025	74	-6.1	71	-7.9

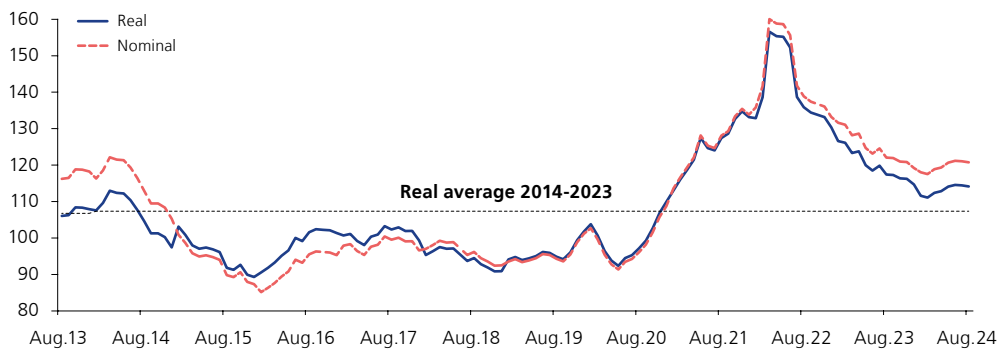
Source: Reuters and BCRP.

Food

37. Agricultural commodity prices will remain on their overall downward trend that began in the second half of 2024. Grain and oilseed prices have been declining due to more normal supply chains. Ukraine continues to export these foods through alternative road and rail routes across the country's western borders and has successfully established a temporary sea corridor across the Black Sea, with the support of Romania and Bulgaria.

According to the FAO index - which includes cereals, sugar, oil, meat and dairy products - food prices decreased 0.4 percent in August compared to June, although they accumulated an increase of 1.3 percent compared to December 2023.

Graph 35
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 fall in food prices occurs amidst stabilizing fertilizer costs with respect to the previous season. However, production costs remain steep compared to previous years and could not slow down price reductions.

Graph 36
GREEN MARKETS NORTH AMERICA FERTILIZER PRICE INDEX
(Index, Jan 07, 2002=100)

Source: Reuters.

Therefore, the forecasts for most food prices are revised downward.

However, the possible return of the La Niña event in late 2024 may limit the decline in agricultural commodity prices as it could adversely impact yields in the U.S. Maize Belt. In addition, the La Niña event may affect South American grain production due to drought in many estates in the region. At the same time, however, it has resulted in bumper crops elsewhere, as in Australia.

There are other risks relevant to the forecasts. One of them is regulatory and related to the possibility of India importing wheat after several years out of the international market or Russia imposing restrictive quotas on its exports. The other important factor is the adoption of protectionist measures by the European Union.

(a) The price of **maize** fell by 15 percent in the last two months of the year, reaching an average monthly quotation of USD/MT 138 in August 2024. With this, the maize price accumulated a 20 percent drop with respect to December 2023.

Maize prices declined due to abundant supply and sluggish consumption. In particular, production prospects in the United States improved, due to favorable weather conditions, enhancing the expectation of record yields. In addition, the accumulated inventories of the main exporters (Argentina, Brazil, Ukraine and the United States) are expected to increase to their highest level in five seasons. In the U.S. alone, late-season inventories could increase to the largest amount since the

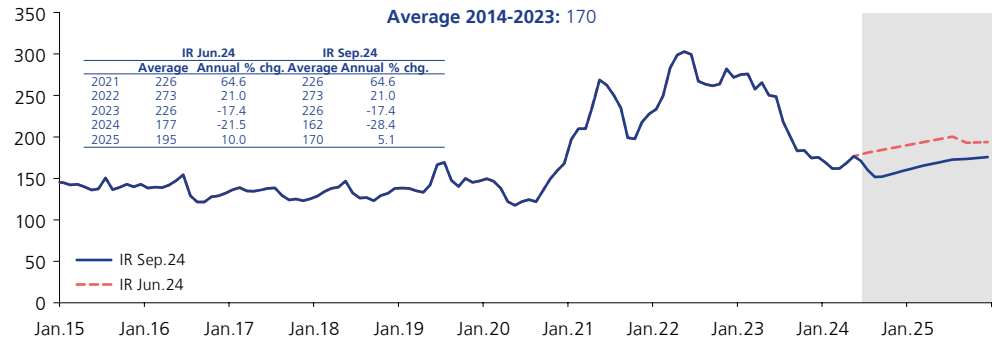
2019/20 season. Also, Ukraine's new temporary grain export corridor continued to operate efficiently. However, the drop in price was limited by lower-than-expected South American crops and tighter supply in the Black Sea region, as well as higher foreign demand, especially from China, and logistical issues in Brazil. Upward price pressures also came from Ukraine due to the depletion of old supplies and extreme heat.

Abundant supply in the U.S. market and intense competition keep downward pressure on the price of maize. In this context, forecasts are revised downward on the projection horizon due to prospects of improved U.S. production for the 2024/2025 marketing year. Expectations that Black Sea logistics will continue to operate efficiently also contribute. The main risk to this forecast is the weather in South America and the possible impact of a La Niña oscillation, should it extend beyond 2024.

Graph 37

MAIZE: JANUARY 2015 - DECEMBER 2025

(USD/ton)



Source: Reuters and BCRP.

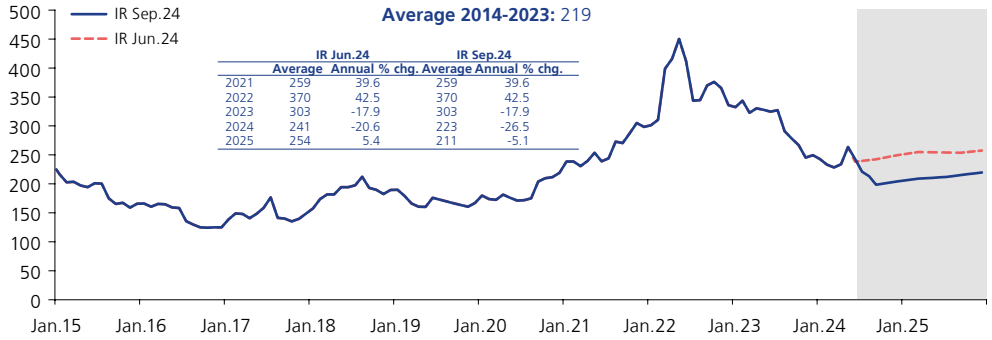
(b) Since the last Report, **wheat** prices fell 10 percent to USD/MT 207 in August 2024, accumulating a 17 percent drop with respect to December 2023.

Wheat prices declined over the past two months due to a well-supplied global market, with higher supply than expected in the previous Inflation Report and a weak outlook for world demand. Seasonal factors, such as the arrival of northern hemisphere crops, also helped to keep the market well supplied. Total U.S. wheat production for the 2024/25 season is expected to be the largest since 2016/17, thanks to improved yield estimates associated with favorable weather conditions. In addition, the Russian winter wheat crop outweighed initial expectations, although it remains lower than last year. Stocks in the United States and Argentina are also expected to reach multi-season highs, although lower production in the European Union and Russia will lead to a decline in global inventories. Another

downward factor was concern about lower demand, especially in the European Union.

Over the forecast horizon, wheat prices are revised downward from the forecasts in the June Inflation Report. While upside risks associated with logistical and transportation issues, such as those related to shipping in the Red Sea, continue, these are mitigated by the continued outflow of Ukrainian exports through the new corridor.

Graph 38
WHEAT: JANUARY 2015 - DECEMBER 2025
(USD/ton)



	IR Jun.24		IR Sep.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	241	-20.6	223	-26.5
2025	254	5.4	211	-5.1

Source: Reuters and BCRP.

(c) **Soybean oil's** price averaged USD/MT 932 in August 2024, down 1 percent from USD/MT 943 in June 2024, thus having accumulated a 19 percent drop with respect to December 2023.

Soybean oil prices continued to slip on expectations of a global oversupply this season, which would be the largest surplus in five seasons, as a consequence of a bumper crop in Latin America, which ended in June, and expectations of a record harvest in the United States starting in September, which would increase inventories in the 2024/25 season. The price of soybean oil also slumped following high U.S. inventories due to larger soybean crushing. The price decline was limited by a trade embargo on Chinese biodiesel in the European Union market, which would favor U.S. biodiesel imports.

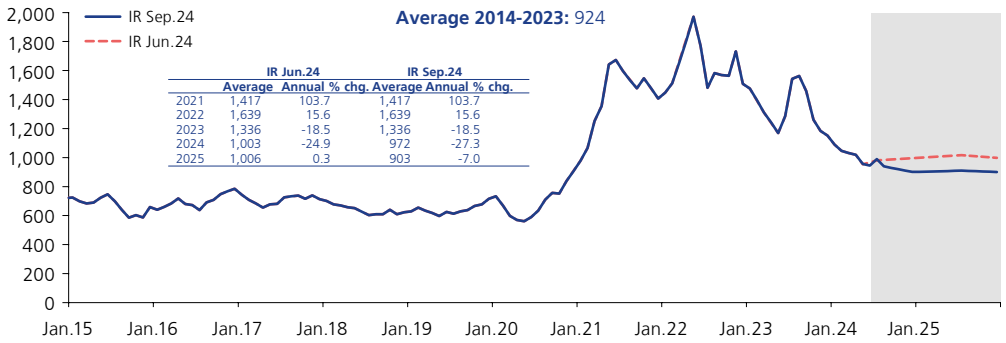
Considering these recent developments, prices are projected to trade below the previous Inflation Report's estimate. The main source of uncertainty in this forecast relates to oil price movements. The possibility of OPEC+ allowing the gradual removal of supply cuts would contribute to lower prices, combined with risks associated with the concentration of the world soybean market in Brazil and

the United States, which makes the market vulnerable to possible interruptions in production.

Graph 39

SOYBEAN OIL: JANUARY 2015 - DECEMBER 2025

(USD/ton)



	IR Jun.24		IR Sep.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	1,003	-24.9	972	-27.3
2025	1,006	0.3	903	-7.0

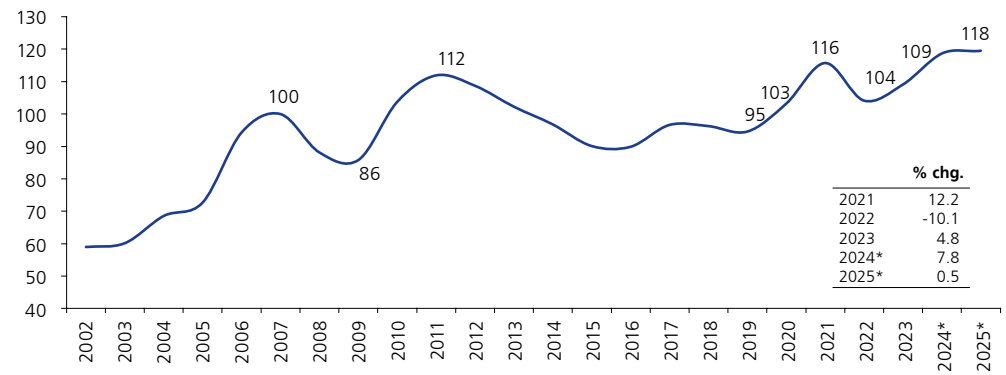
Source: Reuters and BCRP.

II. Balance of payments

Terms of trade and goods trade balance

38. The **terms of trade** increased by 12.5 percent between the second quarter of 2023 and 2024, largely due to an increase in **export prices** (11.5 percent), mainly for mining products such as copper and gold; and non-traditional agriculture and fishing products. These developments were due to prospects of lower world supply of base metals due to insufficient concentrates in smelters, positive indicators in the global industry, greater demand for gold and silver, dollar depreciation, and increases in gold purchases by central banks. Higher export prices were further buttressed by slightly lower import prices (-0.8 percent) due to cheaper industrial inputs and foodstuffs such as wheat, maize and soybeans, in response to better crops.

Graph 40
TERMS OF TRADE, 2002-2025
(Index 100=2007)



* Forecast.
Source: BCRP.

The 2024 terms of trade are revised downward from expected growth by 8.8 percent in the June issue to 7.8 percent in this Report. For 2025, the growth rate of this price ratio is also revised downward, from 1.4 to 0.5 percent. These changes are explained by revisions in the expected evolution of base metal export prices, in line with sliding copper prices.

Prices of imports in 2024 are expected to contract by 1.7 percent, a drop higher than the 0.5 percent drop forecast in June. Still, they may experience a slight recovery in 2025,

reaching 0.5 percent growth, in contrast to the 1.1 percent growth expected in the previous Report. These revisions on the downside are explained by lower industrial and food input prices than expected in June.

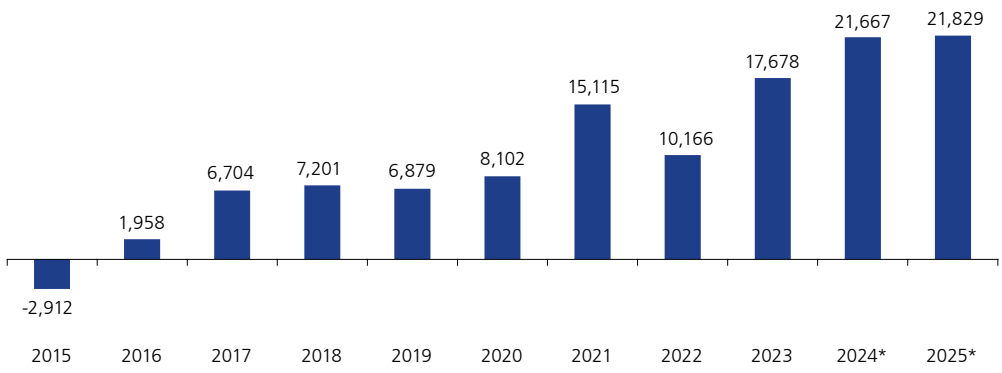
Table 10
TERMS OF TRADE: 2023-2025

	2023	2024*			2025*	
		S1.24	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Terms of trade						
Annual % chg. (average)	**4.8**	**8.8**	**8.8**	**7.8**	**1.4**	**0.5**
Price of exports						
Annual % chg. (average)	**-2.4**	**5.7**	**8.2**	**5.9**	**2.6**	**1.0**
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)	**-6.9**	**-2.8**	**-0.5**	**-1.7**	**1.1**	**0.5**
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.

39. The surplus in the **balance of trade in goods** accumulated in the last 4 quarters reached USD 18,737 million as of June 2024, USD 1,059 million higher than in 2023 due to recovering shipments of traditional products, mainly minerals, and the increase in prices of non-traditional agriculture sector products.

Graph 41
BALANCE OF TRADE IN GOODS, 2015-2025
(Million USD)



* Forecast.
Source: BCRP.

The trade balance is expected to reach a surplus of USD 21,667 million and USD 21,829 million in 2024 and 2025, respectively. The forecast over the projection horizon is basically

based on greater value of exports than imports, in line with the projection of domestic production and expenditure, terms of trade and recovery of the world growth.

Expected surpluses would be lower than in the previous Report, mainly due to a lower expected traditional exports. This change is consistent with both the downward revision of the terms of trade in the forecasts horizon, as well as lower copper shipments for both years and zinc for 2024, related to lower production due to mine maintenance and lower ore grades.

Imports were also revised downward due to lower prices, particularly for food and industrial inputs. Although volume of imports kept on its growth pace, this figure reflects internal adjustments such as an increase in the volume of industrial inputs and capital goods, offset by a decrease in imports of consumer goods, especially durable consumer goods.

Results of external accounts

40. The cumulative **balance of payments** as of the second quarter of 2024 showed a current account surplus of USD 4,682 million and a net purchase of foreign assets from the financial account of USD 4,322 million. Compared to 2023, the current account increased USD 2,462 million, accompanied by a larger increase in the flow of net foreign asset purchases.

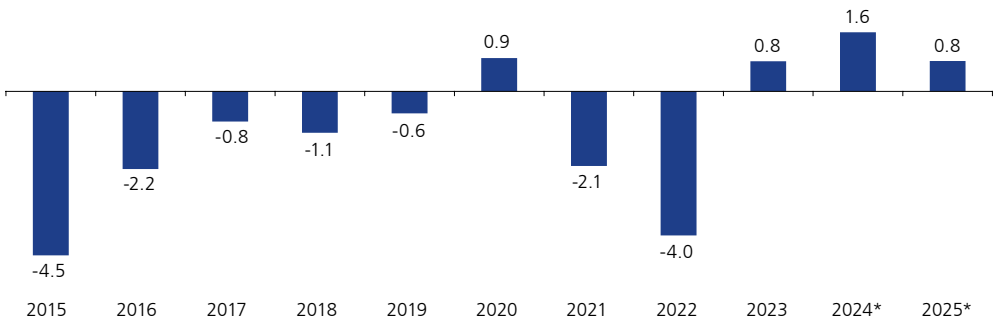
Table 11
BALANCE OF PAYMENTS
(Million USD)

	2023	2024*			2025*	
		S1.24 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 IV= (I+III) - II = (1-2)	**-2,760**	**-3,158**	**5,114**	**9,900**	**2,660**	**2,839**
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 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 two semesters up to the first semester of 2024.
IR: Inflation Report.
* Forecast.
Source: BCRP.

The **current account** is anticipated to record a surplus of 1.6 percent of GDP in 2024, which is attributed to the recovery of inbound tourism, the increase in remittances, and a greater trade surplus. The surplus is expected to decrease to 0.8 percent of GDP in the subsequent year, as a result of the recovery of foreign-owned companies' profits, in line with the evolution of the economic recovery, mineral prices, and production costs (which are linked to lower fuel prices).

Graph 42
CURRENT ACCOUNT, 2015-2025
(% GDP)

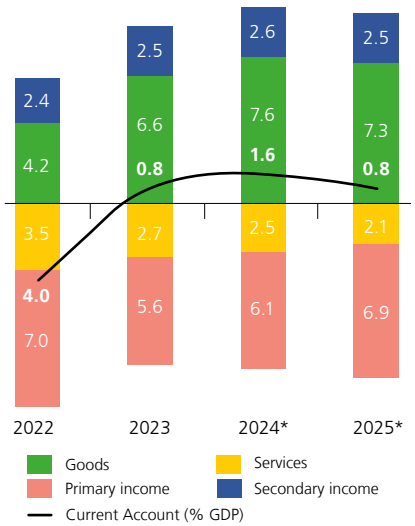


* Forecast.
Source: BCRP.

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

Table 12
DETERMINANTS OF THE VARIATION IN THE CURRENT ACCOUNT RESULT, 2022-2025

Current Account
(% GDP)



Variation in CC result
(p.p. GDP)

	2023/ 2022	2024*/ 2023	2025*/ 2024*
A. Domestic absorption	**3.2**	**1.2**	**0.2**
1. Price Effect	**1.5**	**1.8**	**0.4**
1.1 Terms of trade	0.8	1.7	0.2
1.2 Freight	0.8	0.0	0.2
2. Volume effect	**1.6**	**-0.6**	**-0.2**
2.1 Goods	1.7	-0.8	-0.4
2.2 Services**	-0.1	0.2	0.2
B. Yield paid to external liabilities	**0.5**	**-0.9**	**-0.7**
1. Foreign Direct Investment	**1.0**	**-0.9**	**-0.9**
2. Medium- and long-term debt	**-0.5**	**0.0**	**0.2**
C. Rest* **	**1.1**	**0.5**	**-0.3**
TOTAL (A + B + C)	**4.8**	**0.8**	**-0.8**

* 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.

The surplus pressure on the current account in 2024 will come mainly from domestic absorption (1.2 p.p.), due to the positive impact of the terms of trade (1.7 p.p.), in addition to the effects of higher remittances (0.5 p.p.). This pressure is projected to outweigh the deficit impulse from higher yields paid on FDI liabilities (-0.9 p.p.), due to higher profits, and higher import volumes of goods (-0.8 p.p.). This results in a 0.8 p.p. widening of the current account surplus.

In 2025, the main driver of the surplus contraction will be the increase in the yield paid on FDI (-0.9 percent), as higher profits are projected. This factor would be reinforced by a lower yield on foreign assets, due to lower interest rates. Meanwhile, domestic absorption would exert pressure through surplus, due to the increase in the terms of trade and the reduction in freight rates, which would partially offset these effects.

The forecasts for the period 2024-2025 point to 3 consecutive years of current account surplus, a fact not seen since the period 2004-2007, when 4 consecutive years of surplus were recorded. Particularly, between 2004 and 2006, only increases in the surplus were recorded, totaling 4.9 p.p. of GDP, explained by the lower domestic absorption (9.4 p.p.) in response to higher terms of trade -after the boom in commodity prices-, by the higher yields collected on foreign assets and by the increase in the flow of remittances (both 2.2 p.p.). Meanwhile, the yield paid on foreign liabilities represented a deficit pressure of 6.7 p.p., due to a positive global economic environment that increased profits of companies holding FDI in the country.

42. The current accounts of the countries in the region, except for Brazil, recorded surplus variations as of the second quarter of 2024, compared to end-2023. In Peru and Chile, external accounts dynamic is mainly explained by a widening of the trade surplus, due to lower import prices and higher copper exports, respectively. The main factor behind the reduction in Colombia's deficit was the increase in current transfers, mainly income other than remittances. Likewise, the result of the balance of services contributed to the surplus pressure of the rest of the factors on the current account in Colombia and was the main factor behind the lower deficit in Mexico. The primary income account, basically explained by profits, showed a differentiated behavior: an increase in the deficit in Brazil, Chile and Mexico and a drop in Peru and Colombia.

Table 13
LATIN AMERICA: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
(Annualized, in % GDP)

	2021	2022	2023	Q1.24	Q2.24	2024*	2025*
Brazil	-1.7	-2.1	-1.0	-1.1	-1.5	-2.4	-
Chile	-7.3	-8.7	-3.6	-3.6	-3.1	-2.1	-2.4
Colombia	-5.6	-6.1	-2.5	-2.2	-1.9	-2.8	-3.4
Mexico	-0.3	-1.2	-0.3	-0.1	-0.1	-0.9	-0.9
Peru	-2.1	-4.0	0.8	1.3	1.7	1.6	0.8

* Forecast.
Source: Central banks of each country.

However, individual expectations by country for 2024 differ. Chile projects a lower deficit and Peru a greater surplus. In Chile this is explained by lower imports, in line with expected lower levels of domestic demand. In contrast, Colombia, Brazil and Mexico expect a greater deficit between 2023 and 2024, as they estimate a lower trade balance –reduced exports, due to lower prices of non-traditional products in Colombia and an expected reduction in export prices in Brazil–.

43. The **financial account** is expected to record a net inflow of long-term capital in the second half of 2024, reversing the net outflow seen already in 2023 and so far this year, mainly as portfolio investment in instruments issued by the public sector (increase in the net flow of USD 5,233 million), aiming at covering financing requirements; and, to a lesser extent, in the form of foreign direct investment (increase in the net flow of USD 1,345 million). A lower net inflow of capital is expected in 2025 due to the recovery of the AFPs' acquisition of foreign assets, after attending to members' withdrawals in 2024.

The current forecasts scenario, compared to the previous Report, foresees a higher net capital inflow in 2024, explained by public sector financing dynamics, and a lower inflow in 2025, associated with the lower flow of private sector debt. The revisions reflect an increase in General Government sovereign bond issuance in 2024 and a lower increase in FDI flows than expected in June, due to financing from sources other than FDI, change of ownership in the energy sector, and lower expected profits in line with revisited terms of trade.

44. The accumulated **long-term private financial account** as of the second quarter of 2024 revealed a net acquisition of foreign assets for USD 2,149 million, which is higher than the net purchase of foreign assets for USD 821 million in 2023. This evolution corresponds to a notable expansion of portfolio investment abroad by AFPs and mutual funds, and, to a lesser extent, to a lower increase in FDI liabilities, mainly due to contributions and other capital operations.

It is estimated that the private sector will record a net inflow of long-term capital of USD 1.46 billion in 2024, which will be led by the FDI, higher profits, and by the net disbursements associated with first-half operations by new energy utilities' owners.

For 2025, a net outflow of long-term capital of USD 919 million is projected due to a recovery in portfolio investment abroad by mutual funds and AFPs, after meeting the funds withdrawal requests of their members in 2024 and the base effect of the extraordinary net lending operations in 2024 explained above.

Table 14
FINANCIAL ACCOUNT OF THE PRIVATE SECTOR 1/
(Million USD)

	2023	2024*			2025*	
		S1.24 5/	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Private Sector (A + B)	**593**	**4,798**	**-838**	**199**	**-152**	**1,756**
% GDP	*0.2*	*1.7*	*-0.3*	*0.1*	*-0.1*	*0.6*
A. Long-term (1 -.2)	**821**	**2,149**	**-1,733**	**-1,460**	**-989**	**919**
1. Assets	**5,539**	**8,373**	**5,811**	**5,358**	**6,612**	**6,297**
Direct investment	1,476	-117	1,988	1,016	1,931	1,524
Portfolio investment 2/	4,062	8,490	3,823	4,342	4,681	4,773
2. Liabilities 3/	**4,718**	**6,224**	**7,544**	**6,818**	**7,601**	**5,378**
Direct investment	3,918	3,613	8,569	5,264	8,855	6,771
Portfolio investment 4/	-160	980	225	525	70	42
Préstamos de Long-term	960	1,631	-1,251	1,030	-1,324	-1,435
B. Short-term	**-227**	**2,648**	**895**	**1,659**	**837**	**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 semester of 2024.
* Forecast.
Source: BCRP.

45. The cumulative **public sector financial account** as of the first half of 2024 recorded an increase in net external indebtedness equivalent to USD 476 million, following lower portfolio amortizations. External financing under this account is projected to increase significantly, to USD 5,445 million in 2024 and USD 2,098 million in 2025.

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

	2023	2024*			2025*	
		S1.24 4/	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
I. Assets	**-36**	**-147**	**-11**	**-5**	**140**	**140**
II. Liabilities (1+2) 2/	**-752**	**330**	**1,967**	**5,440**	**1,758**	**2,238**
1. Portfolio investment	**-1,654**	**-765**	**727**	**3,579**	**413**	**1,203**
Issuance	0	300	0	3,300	0	0
Amortizations	-1,801	-553	-387	-2,252	-1,300	-774
Other operations (a - b) 3/	147	-512	1,114	2,531	1,713	1,977
a. Sovereign bonds purchased by non-residents	16	-588	1,005	2,508	1,713	1,977
b. Global bonds purchased by residents	-132	-76	-109	-23	0	0
2. Loans	**902**	**1,095**	**1,240**	**1,861**	**1,345**	**1,035**
Disbursements	2,006	2,166	2,302	2,932	2,682	2,372
Amortizations	-1,103	-1,072	-1,062	-1,071	-1,337	-1,337
III. TOTAL (I - II)	**716**	**-476**	**-1,978**	**-5,445**	**-1,618**	**-2,098**

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 semester of 2024.
* Forecast.
Source: BCRP.

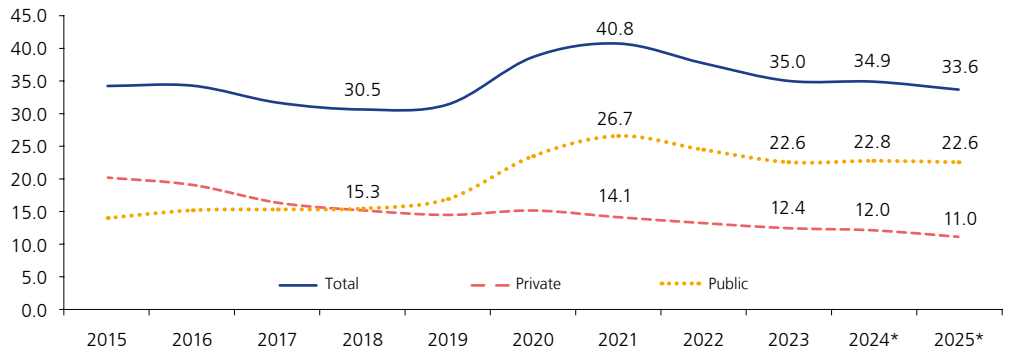
The revision on the upside in the 2024 funding forecast is primarily due to an expected increase in sovereign bond issuance, reflecting the effects of the Debt Management

Operation (DMO) that took place in July 2024. To a lesser extent, also contributed an increase in the pace of purchases of sovereign bonds by non-residents and higher disbursements of loans to the General Government. For its part, the reduction in payments explains the slight revision on the upside in the 2025 public financial account result.

46. In terms of output, the **stock of medium- and long-term external debt** -mainly loans and bonds- declined by 0.4 p.p. of GDP between 2023 and the second quarter of 2024 (34.6 percent), due to the decrease in public sector debt stock (-0.8 p.p.).

The medium- and long-term external debt stock is projected to fall to 33.6 percent of GDP, mainly due to smaller private sector debt from 12.4 percent of GDP in 2023 to 11.0 percent of GDP at the end of the projection horizon. This is in line with the forecasts for amortizations in 2024 and 2025.

Graph 43
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

47. As of September 18, the **Net International Reserves** (NIRs) had grown by USD 11,822 million with respect to the end of last year, to USD 82,855 million.

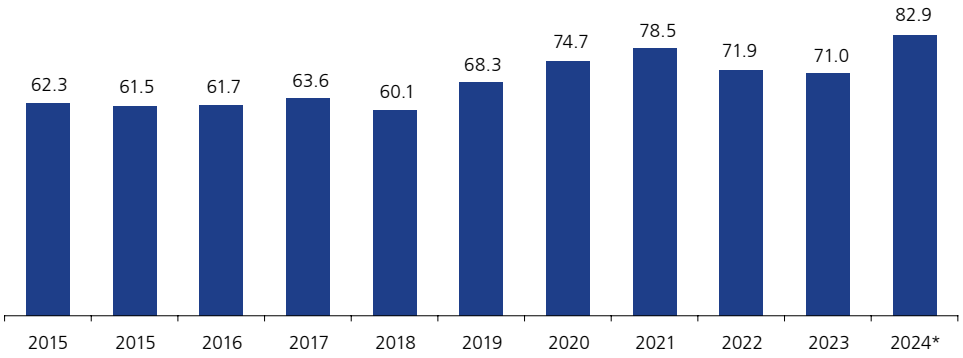
Table 16
NIR INDICATORS, 2015-2024

	2021	2022	2023*	2024*	2025*
International Reserves as a percentage of:					
a. GDP	34.7	29.4	26.6	28.4	28.2
b. Short-term external debt 1/	557	460	376	492	509
c. Short-term external debt plus current account deficit	418	283	426	685	600

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

International reserves stand at 28.2 percent of GDP at the end of the projection horizon and are expected to be able to cover 5 times the balance of short-term external debt and 6 times the sum of these liabilities plus the current account deficit.

Graph 44
NET INTERNATIONAL RESERVES, 2015-2024
(Billion USD)



* As of September 18, 2024.
Source: BCRP.

III. Economic activity

Sectoral GDP

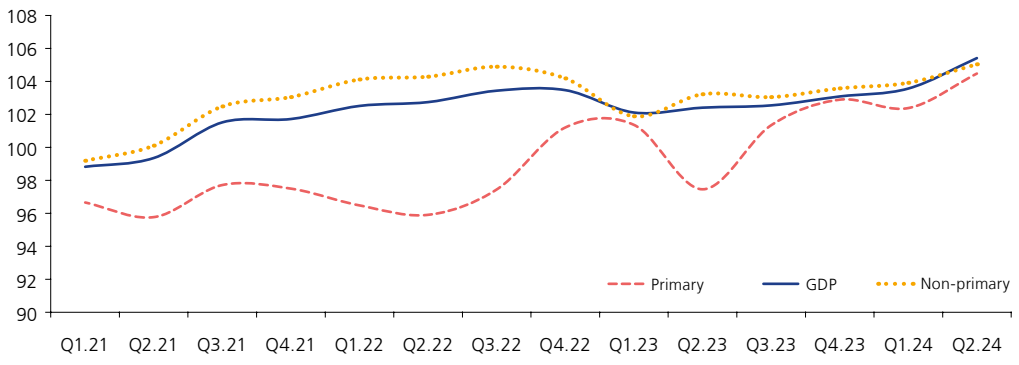
48. Economic activity continued to recover so far this year, particularly in those sectors most affected by last year's supply shocks. Thus, 3.6 percent year-on-year growth was recorded in the second quarter (1.4 percent in the first quarter). The recovery came from both primary (7.2 percent) and non-primary sectors (2.5 percent).

The recovery in the primary sectors was due to year-on-year gains in the fishing (184.2 percent), primary manufacturing (37.5 percent), and agriculture (8.0 percent) industries. The growth in fishing was due, in part, to the return to normal extraction with respect to 2023, when sea anomalies led to the early closing of the fishing season. Greater fishing in the quarter translated into larger fishmeal and fish oil industry output. Farming rebounded after four consecutive decline quarters and recovery from the impact of 2023 weather on crops. Growth in primary activities was limited by shrinking mining and hydrocarbons, due to lower production of copper, moly, oil, natural gas liquids and natural gas.

Growth in non-primary sectors, like services (2.7 percent) and trade (2.5 percent), was driven by the recovery of private consumption. The construction sector recorded a boost from advance in public works and private infrastructure.

The seasonally adjusted GDP indicator continued to recover in the second quarter of 2024 (1.8 percent) from the previous quarter, driven by growth in both primary and non-primary components.

Graph 45
SEASONALLY ADJUSTED ECONOMIC ACTIVITY INDEXES
(Base 100 = Q4.2019)



Source: BCRP.

49. The economy is expected to grow 3.1 percent in 2024. This projection is based, on the primary sectors, on the growth of agriculture, fishing, and associated industry, following the reversal of the climatic anomalies that occurred the previous year.

Non-primary sector growth, on the other hand, would occur primarily in the second half of the year and would be aided by increased dynamism in consumption and private investment, which would reflect an increase in real income and a recovery in private sector confidence, all in a favorable context of sociopolitical and pricing stability. In this approach, increased private demand will promote the expansion of non-primary manufacturing, trade, and services.

In 2025, the economy is predicted to grow by 3.0 percent, which is the same pace estimated 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 agents' trust in the private sector and, consequently, encourage private spending and non-primary activity.

Table 17
GDP BY ECONOMIC SECTORS
(Real % change)

	2023	2024*			2025*	
		Jan.-Jun.	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
Trade	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.

50. Forecasts for each economic sector:

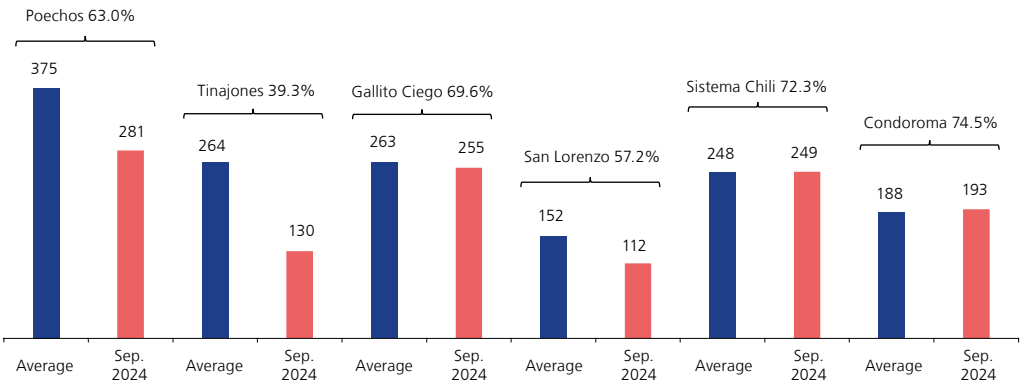
a) The **agriculture and livestock sector** grew 8.0 percent in the second quarter, due to robust crops of products for the domestic market (potato, rice and Andean products) of importance for this industry sector, fostered by better weather (water, temperature and rainfall), compared to the previous year. As a result, it accumulated growth of 4.5 percent in the first half of the year.

Domestic market product growth may decelerate in the second half of the year, while agro-export items will recover. Mango and blueberry output will increase compared to previous year, making up for smaller grape and avocado crops due to early harvesting and poorer yields due to the coastal El Niño. As a result, the yearly growth rate for 2024 and 2025 stays 3.5 percent.

In the third quarter of the year, forest fires were recorded in most of the country's departments, mainly in the Andes and Amazon regions. Based on available data, the short-term economic impact of these events would be limited.

As of September 2, water storage in northern reservoirs exceeds 57 percent, except for Tinajones, which filled to 39 percent total capacity, and levels below the average of the last five years. In the south, storage is above the five-year average and exceeds 72 percent of total capacity.

Graph 46
STORED VOLUME OF MAIN RESERVOIRS 1/
(In million cubic metres)



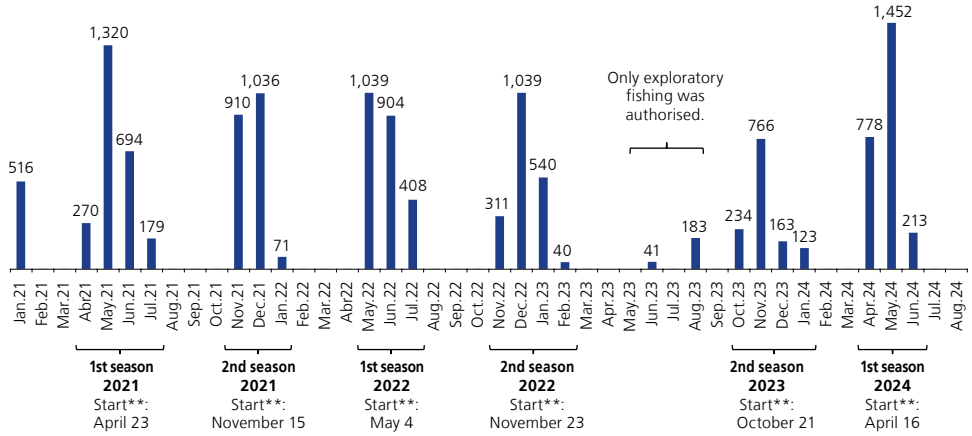
1/ As of September 2, 2024, the average cover the last five years (2019-2023) as of the same date. The percentage listed in each reservoir is the volume stored as a percentage of the total useful volume.
Source: Board of Users and Special Irrigation Projects.

b) In the second quarter of 2024, the **fishing** activity grew 184.2 percent, a rebound after the suspension of anchovy fishery in the first fishing season of 2023. The result in the north-central zone was a catch of 2,444 MT (equivalent to 98.7 percent of the allocated quota). Likewise, catch of direct human consumption species such as bonito, scallops, hake and mahi-mahi grew. Fisheries grew 45.0 percent compared to the first half of the year.

Graph 47

ANCHOVY CATCH FOR INDUSTRIAL CONSUMPTION IN NORTH-CENTRAL ZONE*

(Thousand tons)



* Information as of August 31.
* Date of start of exploratory fishing in the seasons that have taken place.
Source: IMARPE, Ministry of Production.

The sector's activity is expected to grow 22.4 percent in 2024. The revision on the upside with respect to the previous forecasts (20.2 percent) is the result of a higher-than-expected anchoveta catch in the second southern season and the better performance of direct human consumption in the second quarter of the year. For 2025, the growth projection of 4.9 percent is maintained due to the normalization of sea temperature along the coast, which would promote a healthy anchoveta biomass.

c) **Metal mining** declined 3.4 percent in the second quarter, mainly explained by lower copper and zinc extraction. During the first half of the year, this sector grew 2.4 percent.

In the second quarter, **copper** production slipped 7.1 percent due to maintenance works in April and June at Antapaccay, Marcobre, Las Bambas, Chinalco and Cerro Verde, as well as lower ore grades. **Zinc** production recorded a 20.7 percent contraction, mainly due to lower grades at Antamina and lower ore processing at Volcan.

Gold increased 4.8 percent, after higher extraction at Yanacocha, Poderosa and Boroo Misquichilca. The latter was driven by the Carbonaceous Minerals Optimization Project, which aims to extend the mine's useful life. Likewise, higher **moly output** (27.7 percent) was due to higher extraction by Southern, Antamina and Cerro Verde.

For 2024, growth in the sector is revised on the downside from 2.0 to 1.2 percent, mainly due to the lower performance expected in zinc production, as well as revisions in production plans for copper and gold mines. In 2025, output would grow 1.9 percent due to the recovery of zinc and copper grades.

d) **Hydrocarbon** production decreased 2.9 percent in the second quarter of 2024, due to lower extraction of natural gas (-5.3 percent) in lot 88, resulting from slower demand for thermal energy generation; and of oil (-4.2 percent) due to the drop in the production of lots 95 and X. Lot X has been recording lower yields so far this year, compounded by the advent of a new operator since May 18. Overall, this sector fell 1.0 percent in the first half of the year.

For 2024, growth is revised upward from 1.5 to 3.7 percent and for 2025 from 4.2 to 7.1 percent. In both cases, growth would be driven by higher oil production from lot 95 after two new wells come on line, and further drilling scheduled for the rest of the year.

e) Activity in the **primary manufacturing subsector** increased 37.5 percent in the second quarter of 2024, mainly due to higher production of fishmeal and fish oil, consistent with the better performance of anchoveta in the second fishing season of 2024, compared to a near zero catch the previous year. Thus, primary manufacturing accumulated growth of 8.3 percent in the first half of the year.

Sub-sector growth of 5.2 percent is expected for 2024, which considers growth in fishmeal production, due to this year's higher quota. For 2025, as in the previous report, an increase of 3.4 percent is expected.

f) **Non-primary manufacturing output** grew 0.7 percent in the second quarter this year, in particular in branches catering to foreign markets, such as apparel, fabrics and knitted articles, and yarns, fabrics and finishes; mass consumer goods, such as furniture, pharmaceuticals and medicines, toiletries and cleaning products, and food products; and inputs, such as glass, explosives, other textile products, processed wood, and paper and cardboard. Overall, the sector contracted by 0.7 percent in the first half of the year.

Non-primary manufacturing is projected to grow by 2.3 percent in 2024, a lower rate than the 2.7 percent estimated in the previous report. A gradual recovery of the sector is expected for the remainder of the year, after the contraction observed in the first half of the year. The 3.0 percent growth forecast for 2025 is maintained.

g) The **construction sector** expanded 3.3 percent in the second quarter due to advances in public works and private infrastructure, leading to an accumulated increase of 4.0 percent in the first half of the year. For 2024 and 2025, growth of 3.2 and 3.4 percent is expected, respectively, due to recovering public and private investment.

h) During the second quarter of 2024, **commerce** grew 2.5 percent, due to higher wholesale (2.8 percent) and retail (2.7 percent) sales. The sector's growth in the first half of the year was 2.4 percent. By 2024 and 2025, the sector's activity is expected to increase by 3.2 and 2.7 percent, respectively.

i) The **services** industry grew 2.7 percent in the second quarter, particularly transportation services (6.7 percent) due to increased freight transportation associated with a greater flow of agricultural goods, fishing, commerce and construction.

Similarly, between April and June, business services (3.4 percent) and telecommunications services (2.1 percent) increased.

As a result, the sector accumulated growth of 2.1 percent during the first half of the year. For the second half, sector growth should pick up speed, consistent with the recovery of consumption (due to higher real household income) and private investment (due to better business expectations). By 2024 and 2025, services growth is expected to reach 3.3 and 3.0 percent, respectively.

Expenditure-side GDP

51. On the expenditure side, domestic demand picked up from 2.2 to 5.0 percent between the first and second quarters of 2024. The local outlook was characterized by rising real incomes following the recovery in employment and lower inflation, mainly foodstuffs. As a result, private consumption growth accelerated to 2.3 percent year-on-year in the quarter. Likewise, public investment continued to grow at double-digit rates, although at a slower pace than in the previous quarter. Faster execution of projects under the National Sustainable Infrastructure Plan for Competitiveness 2022-2025 (PNISC) stands out. Finally, the build-up of inventories in the second quarter, mainly from fishing, mining and manufacturing companies, contributed to the increase.

Nonetheless, the faster GDP growth rate was attenuated by two factors: the fall in investment and lower external demand. Private investment fell 0.2 percent year-on-year in the second quarter due to sliding residential investment and the lower growth rate of the non-residential component. Exports of goods and services fell 1.8 percent, due to lower shipments of non-traditional agricultural, fishing and non-metallic mining products. Imports grew 3.8 percent, driven by higher purchases of industrial inputs and capital goods, in line with the growth of non-residential private investment.

52. The 3.1 percent expansion of output forecast for 2024 will be supported by the recovery of private sector confidence, following the reversal of the supply shocks from 2023, and a stable socio-political and price environment that will boost private investment and employment, in turn supporting consumption. In the second half of the year, household spending is expected to continue recovering as real incomes rise, interest rates fall together with precautionary savings, availability of AFPs and CTS savings and more jobs in a recovering agro-export sector. Likewise, public investment is expected to make an important contribution during the year, due to the recovery of subnational government spending and advancing public infrastructure works.

The 3.0 percent growth forecast for 2025 will be sustained by the expansion of consumption and private investment, in an environment of socio-political and macroeconomic stability that continues to favor the recovery of business and household confidence. The current baseline scenario incorporates higher private investment in 2025, as construction in Tia Maria mining project gets underway.

Table 18
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.

53. Some **contemporaneous and leading indicators related to private consumption** show favorable signs, although those related to credit have yet to improve.

Labor market indicators continued to grow in June, reflecting higher employment in the construction, commerce and services sectors. For its part, the total nominal wage bill has maintained solid growth so far this year.

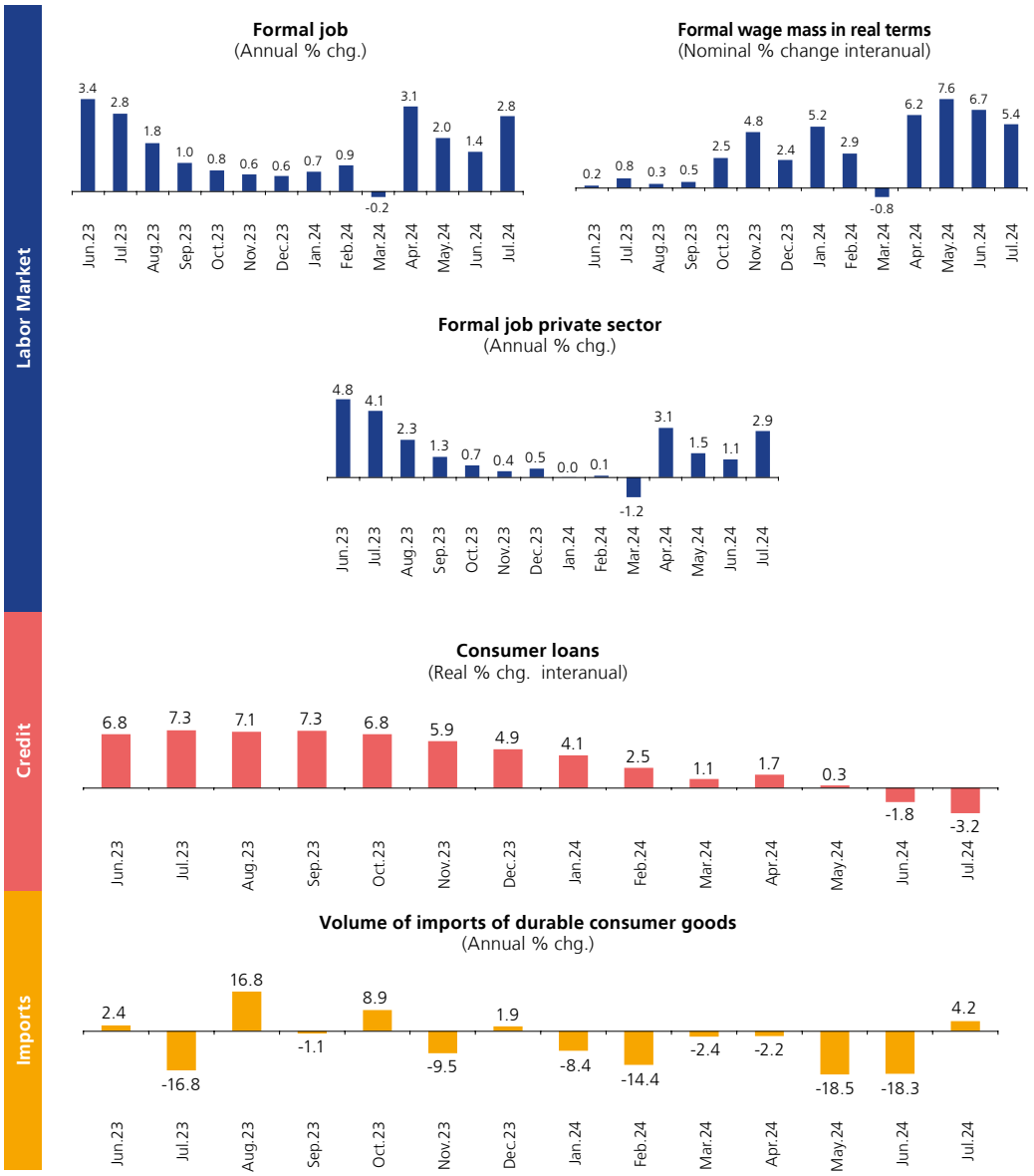
Table 19
FORMAL JOBS IN THE PRIVATE SECTOR
(Thousand jobs)

	2023				2024		Annual % chg. 2023				Annual % chg. 2024	
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2
Total	**4,129**	**4,125**	**4,110**	**4,206**	**4,113**	**4,204**	**5.6**	**5.0**	**2.5**	**0.5**	**-0.4**	**1.9**
Agriculture and livestock 1/	546	439	456	507	448	398	3.2	1.6	-9.7	-17.6	-17.9	-9.3
Fishing	20	19	18	19	16	17	-1.1	-7.7	-4.9	-4.4	-18.7	-5.8
Mining	113	117	118	119	122	124	1.7	4.7	5.7	7.4	7.3	6.1
Manufacturing	505	497	486	488	496	495	4.2	3.4	1.4	0.3	-1.8	-0.5
Electricity	16	16	16	16	16	16	3.5	2.2	-0.9	1.5	-1.2	-1.0
Construction	207	206	219	232	213	222	-6.6	-8.6	-4.5	-0.6	2.6	7.8
Commerce	707	694	689	698	710	714	6.6	4.3	4.2	3.0	0.4	2.9
Services	1,995	2,116	2,082	2,097	2,054	2,171	7.7	7.9	5.8	4.6	3.0	2.6
Not specified	20	22	26	30	38	47	49.6	36.3	41.9	55.7	92.8	116.4
Memo: Total excluding Agriculture and Livestock	3,584	3,686	3,654	3,699	3,664	3,805	5.9	5.4	4.3	3.7	2.3	3.2

1/ Includes fruit and vegetable processing and preservation.
Source: SUNAT.

Graph 48

INDICATORS RELATED TO PRIVATE CONSUMPTION



Source: BCRP, INEI, SUNAT, and APOYO.

On the other hand, consumer credit in real terms contracted for the second consecutive month in July. Interest rates for this type of credit remained above the historical average and did not move downward as these loans are determined by other factors, such as the increase in credit risk associated with more non-performing loans.

54. **Contemporaneous and leading private investment indicators** still do not point to a clear recovery, despite improved business confidence.

While 3- and 12-month economic and industry expectations are in optimistic ground since July, the volume of imported capital goods (excluding construction materials and mobile phones) slipped in May and June to bounce back in July.

Domestic cement consumption declined recently primarily due to the slowdown in the independent construction segment, which grew strongly through 2022. However, current levels of cement consumption are in line with the trend observed before the pandemic, suggesting that the recent contraction responds to market normalization rather than to a structural weakening of demand.

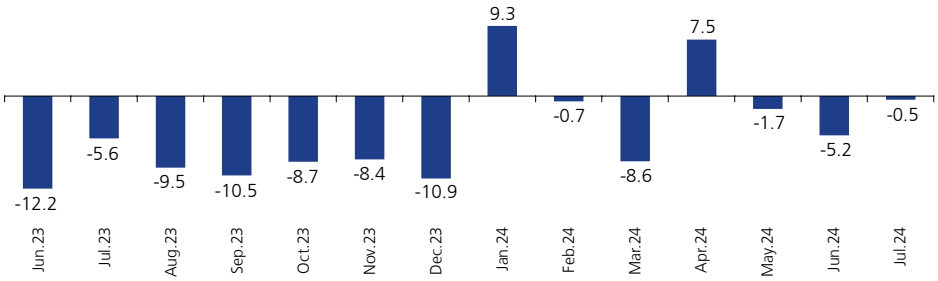
Graph 49

INDICATORS RELATED TO PRIVATE INVESTMENT

Construction

Domestic cement consumption*

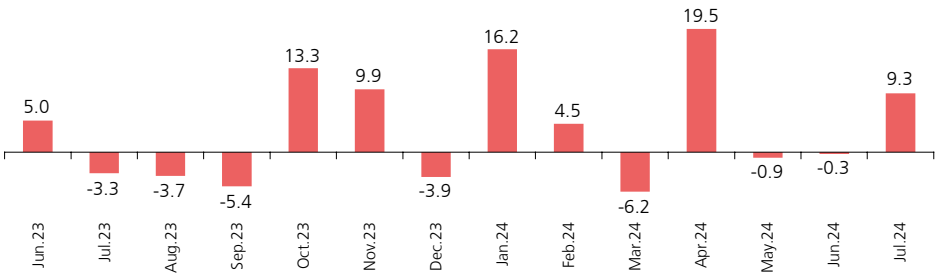
(Annual % chg.)



Imports

Volume of imports of capital goods **

(Annual % chg.)

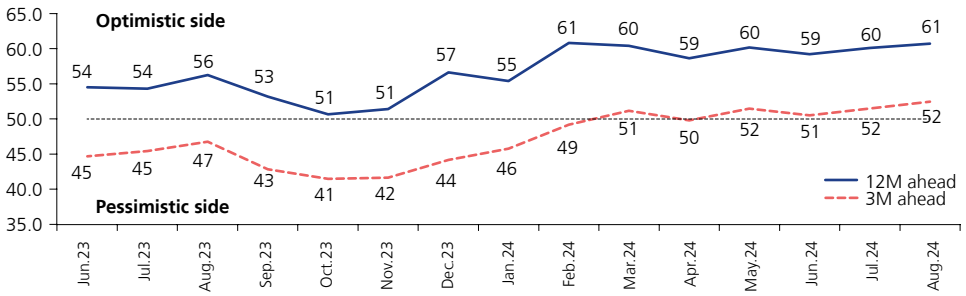


* Excluding materials of construction and mobile phones.

Confidence

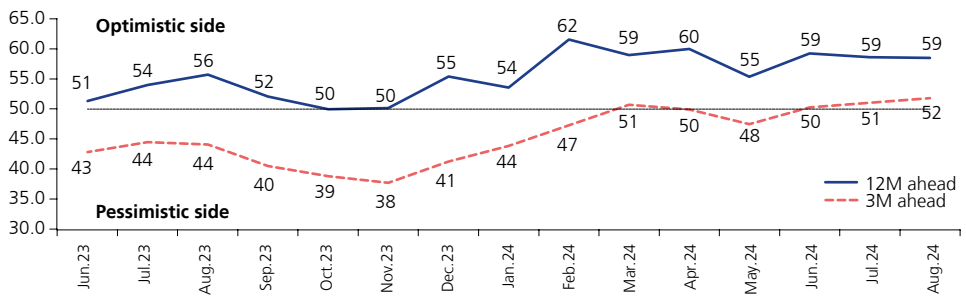
Expectations about the sector in 3 and 12 months ahead

(Diffusion index)



Expectations about the economy in 3 and 12 months ahead

(Diffusion index)



Source: BCRP, SUNAT and cement companies.

55. The August **Survey on Macroeconomic Expectations** shows that GDP growth expected by economy's agents ranges between 2.7 and 3.0 percent for 2024 and between 2.8 and 3.0 percent in 2025.

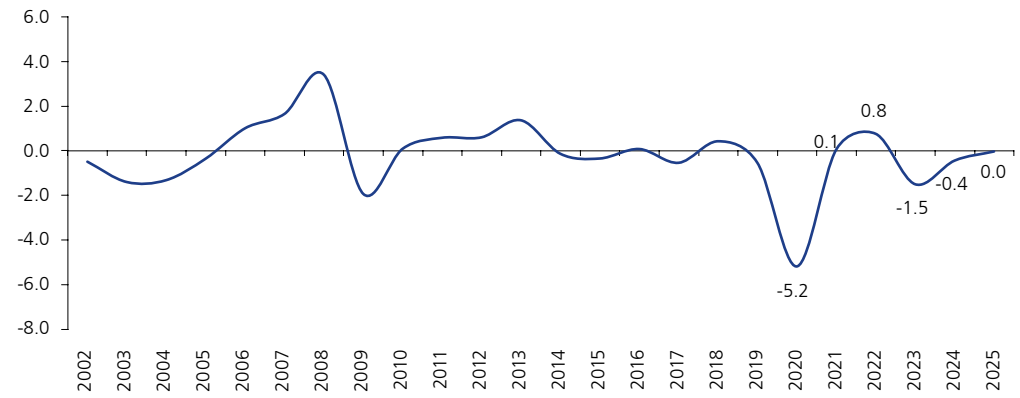
Table 20
MACROECONOMIC EXPECTATIONS SURVEY: GDP GROWTH
(Real % change)

	IR Mar.24	IR Jun.24	IR Sep.24*
Financial entities			
2024	2.0	2.6	3.0
2025	2.5	2.5	2.8
Economic analysts			
2024	2.5	2.6	2.9
2025	3.0	2.5	3.0
Non-financial firms			
2024	2.3	3.0	2.7
2025	3.0	3.0	3.0

* Survey conducted on August 30.
Source: BCRP.

56. The **output gap**, defined as the difference between GDP and potential GDP, is estimated at -1.5 percent of potential GDP in 2023. This negative gap was the result of supply shocks and their second-round impacts on income and business confidence, which has positioned the observed GDP temporarily below its potential. With the partial reversal of these effects, the negative output gap is expected to narrow to 0.4 percent of potential GDP in 2024. This process is expected to continue in 2025 until the gap closes. These forecasts assume potential GDP growth of 2.0 percent in 2024 and 2.6 percent in 2025.

Graph 50
OUTPUT GAP
(% of potential GDP)



Source: BCRP.

57. **Private consumption** accelerated its year-on-year growth from 1.2 to 2.3 percent between the first and second quarters of 2024. The faster growth rate is explained by events in the labor market and lower inflation that both favored real household income growth.

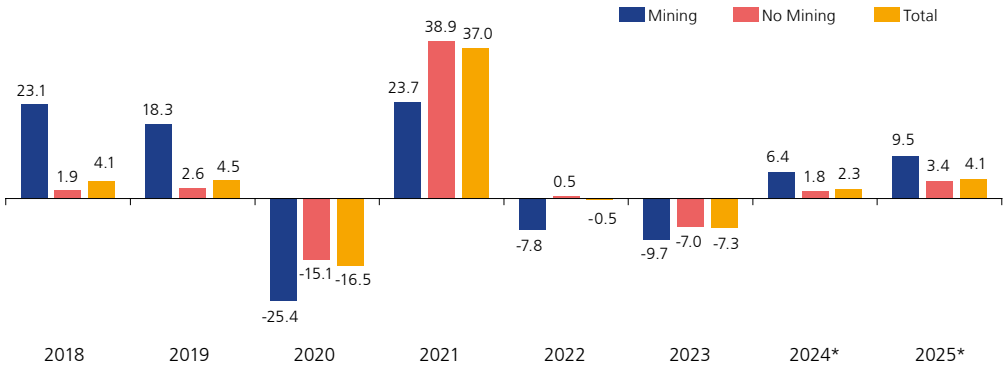
By 2024, private consumption is expected to expand 2.8 percent, like in the June Report, as employment recovers and inflation falls within the target range. By 2025, private

consumption is expected to expand at the same rate as in 2024, in a scenario of political and macroeconomic stability.

58. **Private investment** fell 0.2 percent in the second quarter of 2024. The drop in investment is explained by the decline in residential investment (-9.8 percent). The fall was offset by the increase in mining and non-mining non-residential investment as business confidence recovers, better weather than a year ago and lower corporate interest rates, which encouraged lending to this sector.

Private investment is expected to grow 2.3 percent in 2024, at the same rate projected in the June Report, mainly due to a recovery in the second half of 2024. The forecast assumes an environment of social and political stability, reversal of weather-related supply shocks, and improved financial conditions that encourage lending, which in turn will allow for a recovery in business confidence to invest. Most of these favorable conditions are expected to remain in 2025 when private investment is expected to grow 4.1 percent, which is a revision on the upside from the previous Report. The revision is attributed to the reinstatement of some mining projects such as Tia Maria.

Graph 51
PRIVATE INVESTMENT
(Real % chg.)



PRIVATE INVESTMENT
(Million USD)

	2018	2019	2020	2021	2022	2023	2024*	2025*
Private investment	**39,733**	**41,774**	**34,382**	**46,189**	**49,454**	**47,909**	**49,683**	**52,370**
Mining investment	4,962	5,909	4,325	5,263	5,235	4,931	5,318	5,900
Non-mining investment	34,771	35,865	30,057	40,926	44,219	42,978	44,366	46,470

* Forecast
Source: BCRP.

Table 21
PRIVATE INVESTMENT
(Real % chg.)

	Weight respect to GDP in 2023 1/	2019	2020	2021	2022	2023	2024*		2025*	
							IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Private investment	**19.0**	**4.5**	**-16.5**	**37.0**	**-0.5**	**-7.3**	**2.3**	**2.3**	**3.0**	**4.1**
Residential investment	5.7	4.7	-14.5	35.4	-0.3	-13.3	-0.4	-6.1	2.4	3.0
Non-residential investment	13.2	4.4	-17.5	37.8	-0.5	-4.4	3.5	5.9	3.3	4.5
Mining investment	*2.0*	*18.3*	*-25.4*	*23.7*	*-7.8*	*-9.7*	*6.4*	*6.4*	*5.0*	*9.5*
Non-mining investment	*11.3*	*1.3*	*-15.4*	*41.0*	*1.0*	*-3.5*	*2.9*	*5.8*	*3.0*	*3.6*

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

a. Investment in the **mining sector**, between January and July 2024 reached USD 2,512 million, mainly from Antamina (USD 296 million), Anglo American Quellaveco (USD 220 million) and Las Bambas (USD 197 million). The forecasts for the 2024-2025 period consider both the construction of Phase II of the Toromocho and San Gabriel Expansion projects and the start of construction of the Antamina, Tia Maria, Zafranal and Corani Replacement projects.

b. In the **non-mining sectors**, the progress of works at Jorge Chávez International Airport is significant, with an investment worth USD 2 billion. Work on the second runway and the new control tower has been completed, while 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, after an investment of USD 1.3 billion, while work continues on Line 2[1] (where 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 (with an investment commitment of USD 600 million) and Consorcio Eléctrico Yapay won 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
	Southern Peru CC	Tía María
	Zafranal	Zafranal
	Chinalco	Expansion of Toromocho Mine stage 2
	Bear Creek Mining	Corani
	Buenaventura	San Gabriel
HYDROCARBONS	Cálidda Gas Natural del Perú	Wide-Scale Use of Natural Gas
	Promigas Surtigas	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 Perú	Hydropower plant San Gaban III
	Acciona Energía	San José Solar Power Plant
INDUSTRY	Siderperú	Plant capacity expansion
	Aceros Arequipa	Plant capacity expansion
	Unacem	Environmental Sustainability Program
	Arca continental Lyndley	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 Perú	Marcona Port Terminal (Marcona)
	APM Terminals	Modernization of Muelle Norte
TELECOMUNICATIONS	Viettel Perú	Mobile Services with 4G technology
	América Móvil Perú	Fibre optic networks

Source: Information on companies, newspaper and specialized media.

c. Between 2022 and so far in the third quarter of 2024, Proinversion has awarded projects totaling USD 7,981 million. These projects mainly comprise improvements in the transportation sector (USD 3,961 million) and power transmission lines (USD 1,694 million).

1 Approximately 30 percent of total private investment.

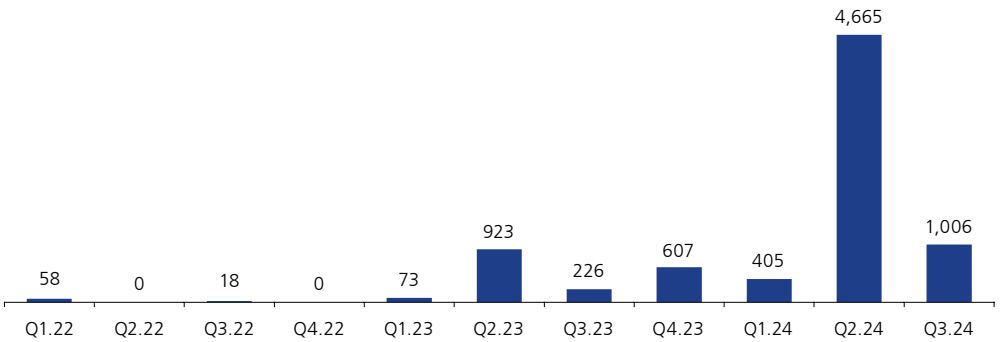
Awards between April and August 2024, included the Lima and Callao beltway (USD 3,396 million), groups 1 and 2 of electricity transmission projects (USD 770 million), the Addendum to the contract for the transfer of the Bayovar mining concession (USD 940 million) and the modernization of the Huancayo - Huancavelica railroad (USD 565 million).

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 Transmission line 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	Ports	Iniciativa Private	405
	II Quarter	Peripheral Road Ring	Transport	Concession	3,396
		Group 1: Transmission Plant Projects (Ica and Arequipa)	Electricity	Concession	329
		Addendum to the transfer contract of the Bayóvar mining concession	Mining	Concession	940
	III Quarter	Modernization of Huancayo - Huancavelica Railway	Transport	Concession	565
		Group 2: Transmission Plant Projects (Lima, Ica and Ayacucho)	Electricity	Concession	441
		Accumulated			**7,981**

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

Graph 52
AWARDED CONCESSIONS BY PROINVERSION, 2022-2024
(Million USD)



Source: Proinversión.

d. As of August 2024, **Proinversion** reports a portfolio of investment projects worth USD 18.7 billion to be awarded in 2024-2025.

Table 24

MAIN PROJECTS TO BE IMPLEMENTED THROUGH CONCESSION ARRANGEMENTS IN 2024 - 2025+

(Million USD)

	Estimated investment
To be called	**18,738**
18 Conservation Projects of the National Road Network	3,726
Longitudinal of the Sierra road project, Section 4	1,542
El Algarrobo Mining Project	1,000
Expansion of Bayóvar phosphates - Piura	1,000
2 Rehabilitation and Conservation Projects of the National Road Network	978
Operation and Maintenance of Backbone Fiber Optic Network	860
Gate of the Pacific Peninsula	767
Ancon Industrial Park	762
Chinecas Project.	750
Integral Water System Chancay Valley - Lambayeque	550
Third Group of Airports (includes Operation and Maintenance of Chinchero)	550
Header works for water supply in Lima (1st stage)	476
Chavimochic projects (3rd stage)	450
IPC- Wastewater Treatment System in Trujillo	398
Chavimochic Special Project	300
Hospital Villa El Salvador - HEVES	290
Treatment system for wastewater Huancayo	267
Schools in risk: Metropolitan Lima	255
National Hospital Hipólito Unanue	250
Chimbote Port Terminal	245
Central Military Hospital	230
Choquequirao Tourism Project	220
Lima Convention Centre	194
Maintenance of the Cajamarca hospital	179
Ilo desalination plant	171
IPC -Wastewater Treatment for effluent dumping or reuse, Cajamarca	159
Sanitation Wash Rural Iquitos	155
Operation and maintenance of Sullana Hospital	154
IPC -Wastewater Treatment for effluent dumping or reuse, Cañete	144
Schools in Risk: Ate-San Juan de Lurigancho	140
Treatment system for wastewater - San Martin	135
Group 3: Transmission Plant Projects	134
Operation and maintenance of the Instituto Nacional del Niño	125
Group 4: Transmission Plant Projects	101
IPC -Wastewater Treatment System for Puerto Maldonado	98
IPC -Wastewater Treatment for effluent dumping or reuse, Chincha province, Ica, Peru	97
Sanitation service in Chanchamayo and Concepción	93
Schools at Risk: Comas - San Martín de Porres	91
Sanitation service in Iquitos	91
New port terminals in Loreto (Saramiza and Iquitos)	86
Sanitation service in Tumbes and Contralmirante Villar	72
Schools at Risk: Villa María del Triunfo	70
IPC- Wastewater Treatment System in Cajamarca	70
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
Pucallpa New Port Terminal	41
Solid Waste Management - GIRSE	30
Sanitation service in San Ignacio	21

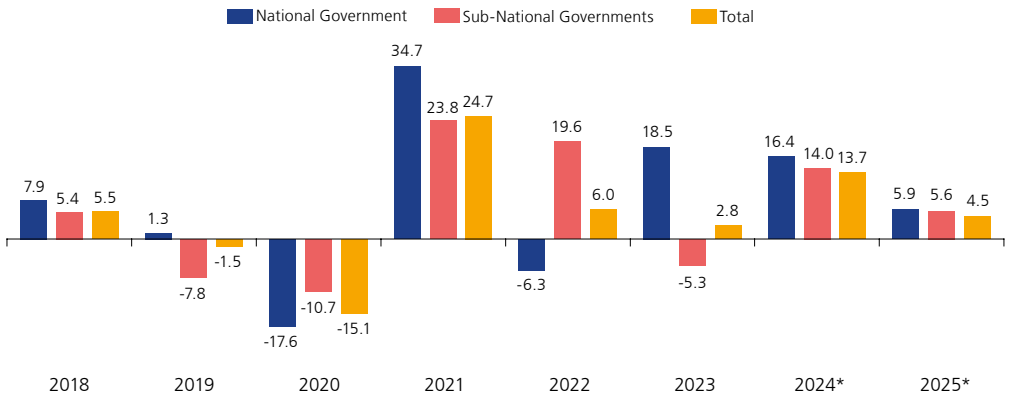
Source: Proinversión.

59. **Public investment** grew 16.1 percent in the second quarter of 2024, accounted for by higher disbursements at all levels of government. At the National Government level, progress in PNISC projects stands out, including the Bicentennial Schools and Line 2 of the Lima and Callao Metro. At the Regional Government level, the execution of projects in Loreto, Piura and Cusco are remarkable, as are projects by function in Education, Planning,

Transportation and Agriculture. Local Governments in 16 of the 25 departments recorded higher investments, in particular governments in Ancash, Cusco and Lima.

Public investment is expected to increase by 13.7 and 4.5 percent in 2024 and 2025, respectively. Compared to the previous Report, public investment growth for 2024 is revised upward, from 12.0 to 13.7 percent, explained by faster pace of work in the second quarter.

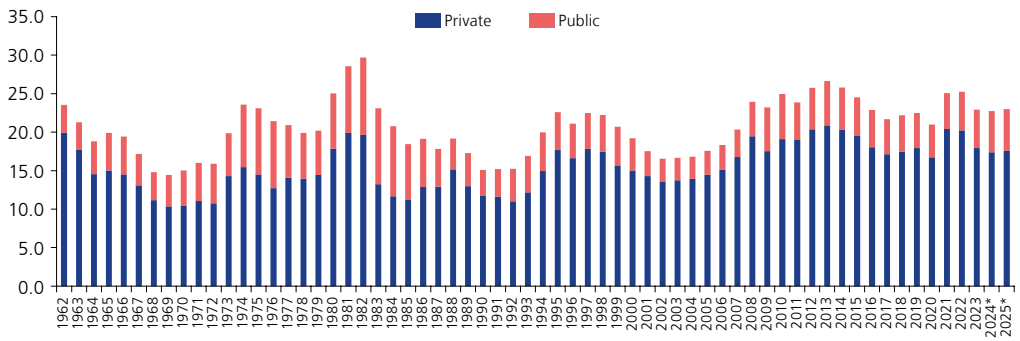
Graph 53
PUBLIC INVESTMENT
(Real % chg.)



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

60. **Gross fixed investment**, in terms of GDP, is projected to remain relatively stable: 22.9 percent in 2023; 22.8 percent in 2024; and 23.0 percent in 2025, close to pre-pandemic levels. For investment to recover, it is necessary to preserve economic and financial stability, consolidate an adequate business environment, and carry out reforms that support the economy's productivity and higher potential GDP growth.

Graph 54
GROSS FIXED INVESTMENT: PRIVATE AND PUBLIC, 1962-2025
(% of real GDP)



* Forecast.
Source: BCRP.

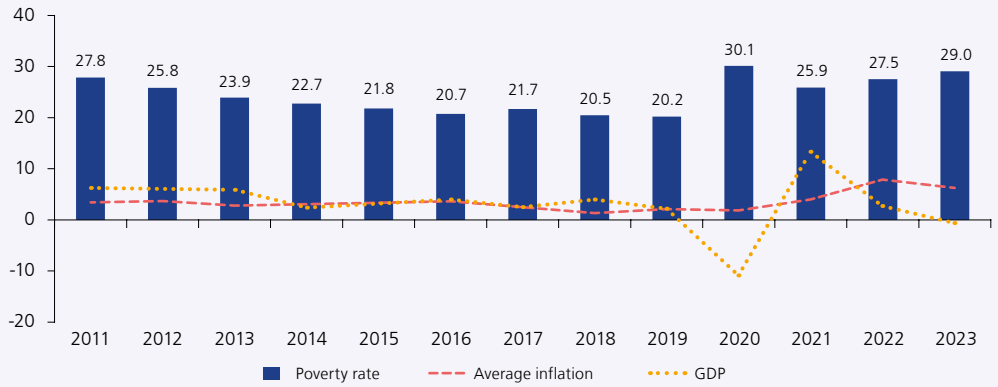
Box 1
INFLATION REDUCTION PERIODS AND EVOLUTION OF MONETARY POVERTY

This Box explores the relationship between the poverty rate and inflation, with a view at identifying poverty patterns in the face of periods of low inflation and recovery of economic growth as projected for 2024. It examines how growth and inflation impact the poverty rate, and perceived inflation across the expenditure distribution in recent years.

Poverty rate breakout

In 2023, the poverty rate increased by 1.5 percentage points (p.p.) with respect to the previous year, simultaneously with contracting economic activity, as well as an inflation rate above the target range since mid-2021[2], mainly in the food and beverages component.

POVERTY RATE, INFLATION AND GDP EVOLUTION
(In percent and percentage change)



Source: INEI-ENAHO.

Kolenikov and Shorrocks (2005)[3] deliver a method to quantify the statistical contributions of changes in the poverty line[4], i.e., the impact of changes in the distribution of expenditure on the poverty rate. This exercise uses per capita expenditure and the poverty line in real terms (in 2023 Sol and Metropolitan

2 The year-on-year inflation rate as of December 2022 stood at 8.5 percent and declined throughout 2023 (6.5 percent in June, for example) closing at 3.2 percent in December. For reference, the year-on-year increase in food prices was significantly higher than total inflation: 12.6 percent in December 2022, 10.9 percent in June 2023 and 4.8 percent in December 2023. Similar behavior is observed in average annual inflation, which was 7.8 percent in 2022, and 6.3 percent in 2023. On the other hand, the average increase in food prices was 10.8 and 10.0 percent in both years.

3 Kolenikov, S. and Shorrocks, A. (2005) A decomposition analysis of regional poverty in Russia. Review of Development Economics.

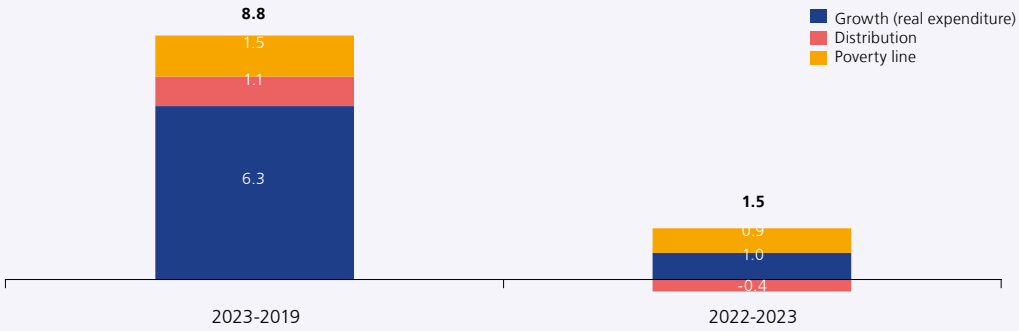
4 The poverty line is the value of a basket composed of a basic food basket and a basic non-food component. The food part includes 110 products defined according to the consumption habits of the population that in 2010 was around the poverty line, ensuring that it meets a minimum caloric requirement. The non-food part includes housing, health, education, among others. Both components are updated annually as the prices of both components evolve. Usually, a generalized price increase is associated with an increase in the poverty line. In 2023, the poverty line stood at S/ 446.

Lima prices) obtained from the National Household Survey (ENAHO). Under this specification, the contribution of the poverty line will be positive (higher poverty) only when the basic consumption basket rises faster than average prices in the economy. That is, when the poverty line grows above the deflator of nominal variables[5] .

According to this methodology, the higher poverty between 2022 and 2023 would be due to the low growth of average expenditure and the relative increase in the price of the basic food basket. In particular, the poverty line component would have contributed 0.9 points to the total increase in the poverty rate (+1.5 p.p.). Similarly, with respect to 2019, it also had a positive and significant contribution, though smaller than the average per capita expenditure.

These results would be associated to higher food prices, since this was the component that pushed up the real poverty line last year. Thus, the food component of the nominal poverty line grew 11.0 percent, compared to 2.9 percent for the non-food component between 2022 and 2023. By comparison, the income deflator grew 6.5 percent. Thus, in 2023, the average real poverty line increased by 0.8 percent, with the food component contributing 2.3 percentage points to its rise (the non-food component decreased in real terms).

POVERTY RATE CHANGE BREAKOUT
(In percentage points)



Note: Axes show the years under review. For example, between 2019 and 2023, the poverty rate increased by 8.8 p.p.
Source: INEI-ENAHO.

Perceived price increases by quintile

In line with the above, an analysis of the composition of the household basket shows how the increase in food prices disproportionately affected the poor more, given that their basket proportionately comprises more of these goods. For example, in 2023, the poorest expenditure quintile spent 54.8 percent of their total expenditure on food, mostly within the household. In contrast, the highest income decile spent only 32.1 percent on food.

5 The income deflator found in the ENAHO is used.

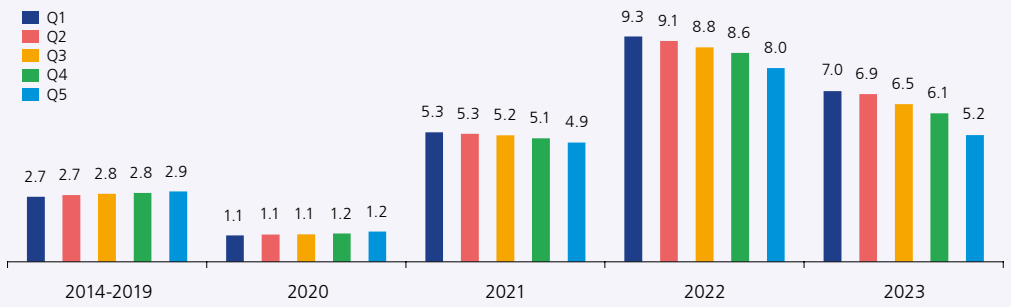
FOOD AND NON-ALCOHOLIC BEVERAGES SHARE IN THE TOTAL BASKET BY EXPENDITURE QUINTILES
(In percent)

	2019					2023				
	I	II	III	IV	V	I	II	III	IV	V
Food and beverages	57.9	52.7	48.1	43.3	31.9	54.8	52.7	48.3	43.3	32.1
Food at home	45.6	38.8	33.5	28.5	19.5	44.9	41.4	35.9	30.6	20.8
Food away from home	12.3	14.0	14.6	14.9	12.5	9.9	11.3	12.3	12.7	11.3

Note: Quintiles calculated by rank of real per capita expenditure. (I) is the poorest expenditure quintile and (V) the highest expenditure quintile.
Source: INEI-ENAHO.

A price increase indicator is built according to the basket of each expenditure quintile based on the average expenditure structure by quintile and the components of the Consumer Price Index (CPI) by expenditure group. In 2022 and 2023, perceived inflation in the poorest quintiles would have been higher than among the highest income quintiles.

AVERAGE PERCEIVED INFLATION BY EXPENDITURE QUINTILE



Source: INEI-ENAHO.

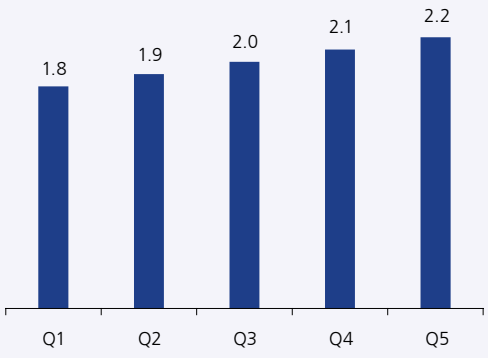
Specifically, average annual inflation was 6.3 percent in 2023. However, the poorest quintile recorded a higher basket price increase (7.0 percent). It is worth noting that, between 2014 to 2019, a period of continuous growth (average of 3.2 percent) and inflation within the target range, this was similar for all quintiles.

Outlook to 2024

Information as of July 2024 shows inflation has been similar by expenditure quintiles, and even slightly higher for higher income quintiles. This is linked to the moderation of the rise in food prices.

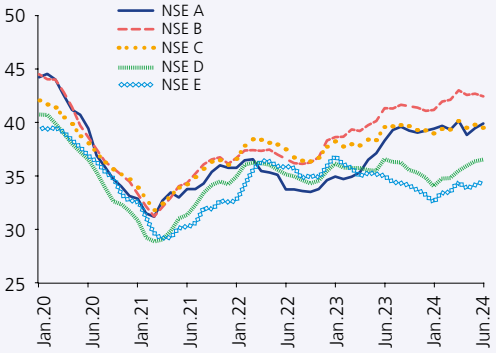
Likewise, the economic recovery is becoming evident in leading indicators for household economies, which show an improvement with respect to 2023. For example, the Consumer Confidence Index (INDICCA) prepared by Apoyo Consultoría shows a recovery in the first half of the year with respect to the previous half, particularly among socioeconomic levels D and E, likely linked to a higher level of household spending and, therefore, to a higher level of household spending in the second half of the year and linked to a higher level of household spending.

AVERAGE INFLATION JANUARY-JULY 2024



Note: In 2024, it is assumed that the spending structure of 2023 is maintained. Average inflation calculated from January to July 2023 and 2024.
Source: INEI, INEI-ENAHO.

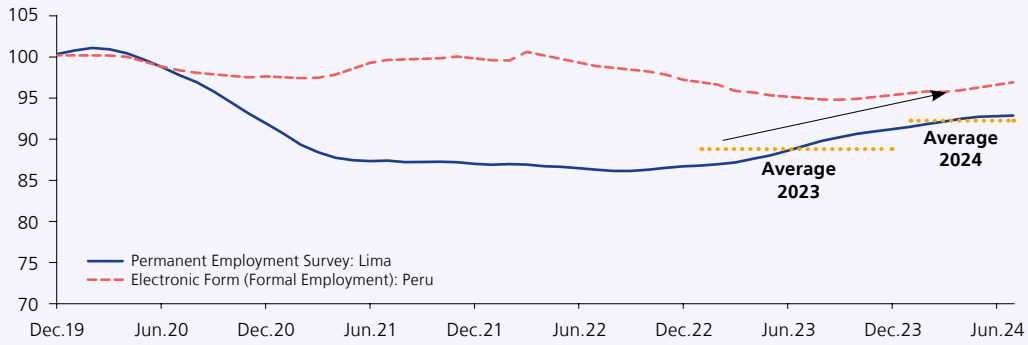
INDICCA - WORK COMPONENT, BY SOCIOECONOMIC LEVEL
(12-month moving average)



Note: A value above 50 is considered optimistic.
Source: Consulting Support.

This would be associated with the recovery of labor income in real terms. According to information from the Permanent National Employment Survey, real income would have grown 4.6 percent between 2023 and 2024 (moving year June-July). Although this survey does not include income data prior to 2023, employment data for Metropolitan Lima is useful for the analysis, given that more than 1 in 3 poor people reside in this area. In the case of Metropolitan Lima, average labor income is currently above that recorded between 2021 and 2023. An analysis of national data from the Electronic Payroll, which collects information on formal employment, also shows an improvement in real income with respect to 2023.

REAL LABOR INCOME, 12-MONTH MOVING AVERAGE
(Index, Base 2019=100)



Source: INEI-EPEN Metropolitan Lima, PLAME.

From 2014 to 2019, GDP grew between 2.0 to 4.0 percent; inflation rates close to the target range (between 1.3 to 3.6 percent), and percentage changes in average food and beverage prices between -0.4 and 4.8 percent. The poverty rate in each of these years declined, except for 2017.

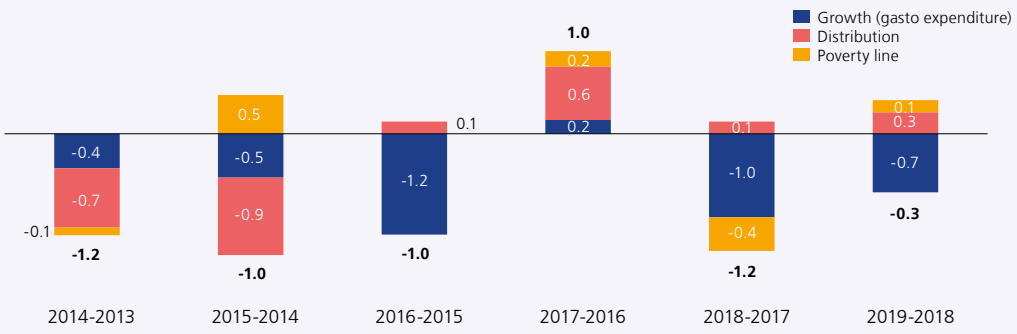
CHANGE IN POVERTY RATE, INFLATION AND GDP GROWTH
(In percentages)

	Change in poverty rate	Average inflation	Average food and beverage inflation	Var.% GDP		Change in poverty rate	Average inflation	Average food and beverage inflation	Var.% GDP
2005	-3.1	1.6	0.9	6.3	**2014**	-1.2	3.2	3.6	2.4
2006	-6.4	2.0	2.4	7.5	**2015**	-1.0	3.5	4.8	3.3
2007	-6.7	1.8	2.5	8.5	**2016**	-1.0	3.6	4.2	4.0
2008	-5.1	5.8	9.2	9.1	**2017**	1.0	2.8	3.2	2.5
2009	-3.8	2.9	4.2	1.1	**2018**	-1.2	1.3	-0.4	4.0
2010	-2.7	1.5	2.1	8.3	**2019**	-0.3	2.1	1.7	2.2
2011	-2.9	3.4	4.9	6.3	**2020**	9.9	1.8	1.9	-10.9
2012	-2.0	3.7	5.6	6.1	**2021**	-4.3	4.0	4.7	13.4
2013	-1.9	2.8	3.3	5.9	**2022**	1.7	7.9	10.8	2.7
					2023	1.5	6.3	10.0	-0.6

Source: INEI, BCRP.

According to the Kolenikov and Shorrocks breakout, poverty reduction between 2014 and 2019 was mostly driven by growth in per-capita spending. In contrast, the inflation-linked component of the poverty line had a limited impact on poverty reduction, considering low inflation in this period. In 2015, a price increase was recorded for the food and beverage item (4.8 percent), which mitigated the poverty reduction effect that year. On the contrary, 2018 reported a reduction in this component, contributing to the fall in the poverty rate.

BREAKOUT OF POVERTY RATE CHANGE, 2013-2019
(In percentage points)



Source: INEI; INEI-ENAHO.

Box 2
CITIZEN INSECURITY AND ITS IMPACT ON THE ECONOMY

This Box characterizes the evolution of different indicators of citizen insecurity in recent years in Peru. In addition, it analyzes the main causes and economic consequences of citizen insecurity in light of the economic literature and gives an approximation to its possible impact on our economy. Finally, it presents some of the best international practices to address the issue under review.

An economic analysis of crime

Gary Becker, a pioneer in the economic study of approach, in a 1968 article[6] argued that criminals evaluate the expected gains from the criminal act, the probability of being caught and the severity of punishment. This approach argues that crime decreases if the expected costs of crime rise, either through harsher penalties or a higher probability of being caught.

Becker also introduced the concept of opportunity costs in crime, suggesting that better economic and educational opportunities can reduce the inclination to commit crimes. This concept has been developed by authors such as Ann D. Witte and Helen Tauchen[7], whose longitudinal studies have shown that education and employment can have a significant impact on crime reduction.

Later studies along the same lines, such as those by David Pyle[8] and Richard Freeman[9], have shown how the relationship between economics and crime is complex. Pyle analyzes the potential gains from legal employment, the returns to crime and the probability of unemployment, to predict in which situations people are more likely to engage in criminal activity. Thus, according to this author, people are more likely to engage in criminal activities when they face adverse economic conditions (circumstances such as high unemployment rates, low potential earnings in the legal labor market) and high criminal profits, as well as a low probability of arrest or punishment. Meanwhile, Freeman found that rising income inequality and declining real wages, especially among lower-skilled workers, led to rising crime rates in the United States during the 1980s, despite increased severity of sentences and the expansion of incarceration[10].

Indicators of citizen insecurity

a. Information on crime victims according to surveys

In INEI's National Survey of Budgetary Programs (ENAPRES), people report if they have been victims of a criminal act in the last 12 months, including theft of motor and non-motor vehicles, auto parts, money,

6 Becker, Gary S. "Crime and Punishment: An Economic Approach." Journal of Political Economy, vol. 76, no. 2, Mar. 1968, pp. 169-217.

7 Witte, A. D., & Tauchen, H. (1994). Work and Crime: An Exploration Using Panel Data. National Bureau of Economic Research.

8 Pyle, David. "Economists, Crime and Punishment." The Economic Dimensions of Crime, 2000, pp. 82-98.

9 Freeman, R. B. (1995). Crime and the Labour Market. The Economic Dimensions of Crime, 149-175.

10 Freeman suggests that falling real incomes and rising inequality may have forced more young people into crime by reducing legitimate job opportunities and increasing the relative gains from criminal activity.

cell phones or wallets, threats or intimidation, kidnappings, extortion, swindles, business robberies, computer crimes, among others. The National Household Survey (ENAHO) collects information that heads of household report on whether their household was burglarized (robbery, assault, among others), permitting to examine the evolution of the incidence of criminal acts among individuals and households[11] .

INDICATORS OF URBAN CITIZEN INSECURITY*

	Indicador	2013	2018	2023
1	Victims of crime (Percentage of total number of people)	35.9	25.7	27.1
2	Victims filing a police report (Percentage of all crime victims)	37.3	63.0	57.6
3	Victims of armed crime (Percentage of all crime victims)	20.1	35.4	46.9
4	Households' victims of asset reduction or loss (As a percentage of households facing criminal shocks)	93.0	89.8	91.8

* Victim indicators for people 15 and over.
Source: INEI - ENAHO. MININTER - Informe situacional de los principales indicadores en seguridad ciudadana, ENAPRES.

The above table shows that, although the percentage of respondents who indicate that they have been victims of criminal acts is lower than it was 10 years ago, there has been an increase in the last five years. In addition, only 57.6 percent of victims formally report criminal acts; in other words, only 5 out of 10 people report the criminal acts of which they are victims to police stations, the Public Prosecutor's Office or other authorities. By type of crime, the percentage of victims of armored crime has more than doubled in the last 10 years. These figures are consistent with the information presented by the AmericasBarometer[12], which indicates that, in 2023, the percentage of crime victims (robbery, theft, assault, fraud, blackmail, extortion, threats or others) nationwide reached 29 percent[13] of the population.

As with individual victims of crime, households reporting decrease or loss of assets due to crime are at lower levels than 10 years ago, but there is a growing trend in more recent years, with an increasing proportion of households approaching 100 percent.

b. Official police report data

Despite a gap in crime reporting, it is also important to consider its evolution, as a proxy of the incidence of crime nationwide. According to the Police Crime Reporting Information System (SIDPOL), crime reports (per 10 thousand inhabitants) in police precincts increased by 47.3 percent between 2018 and 2023. The regions (departments) with the highest reporting rates are Lambayeque, Arequipa, Lima,

11 Both surveys are conducted nationally, in urban and rural areas, in the 24 departments of the country and in the Constitutional Province of Callao. The main source of the sampling framework is the statistical information from the National Population and Housing Censuses, although ENAPRES uses mainly the 2007 Census while ENAHO draws from the 2017 Census. However, Chapter 600 (Citizen Security) of the ENAPRES records only urban data for both individuals and households.

12 In-person survey conducted by IPSOS Peru among 1,535 people aged 18 and over, between March and April 2023.

13 According to the AmericasBarometer, the percentage of the total population who were crime victims in 2018 reached 35.8 percent; in 2021, it dropped to 22 percent and has been rising ever since.

Madre de Dios, Junín, Tumbes, Ica and Callao, with reporting above the national average of 200 per 10 thousand inhabitants in 2023.

c. Other sources of information

The Survey on Macroeconomic Expectations of October 2023[14] reports crime (robberies, swindles, extortion, etc.) ranks fifth among the factors that most limit the growth of the companies in the short and medium term. In line with this, in November 2023, the Private Competitiveness Council (CPC) with support of Apoyo Consultoría and Ipsos, presented a survey to Backus' brewery warehouse owners[15] of which an 83.9 percent declared insecurity, theft and extortion were their main obstacle for business and growth.

The citizens' perception of security is also increasing. For example, the March 2024 Ipsos What Worries the World survey reports that 62 percent of respondents in Peru cite crime and violence as one of their main concerns, the highest figure among 29 countries surveyed. This figure is 11 percentage points higher the in March 2023 survey.

In line with these results, according to ENAHO data, the percentage of the population that considers crime or citizen insecurity to be among the country's main problems increased from 39.2 to 43.6 percent between 2022 and 2023. Likewise, according to a recent IPSOS survey[16], 78 percent of those surveyed disapprove of the current government's management of the fight against crime. The values are similar in Lima (80 percent) and the rest of the country (77 percent).

The economic effects of citizen insecurity

Crime is closely linked to the economy in both direct and indirect ways. The direct effects include the loss of resources and production as a result of theft, robbery, murder, etc., and the resources spent on public and private security costs. Indirect costs include less employment opportunities, weakened institutions and systemic corruption, among others.

The relationship between crime and economic growth is bidirectional. On the one hand, crime can reduce incentives to invest, distort consumption, reduce productivity and create costs for the government. On the other hand, economic growth can help reduce incentives for criminal activities by creating more legitimate economic opportunities.

Empirical measurement of crime and its effects is challenging because definitions of crime differ across countries and over time, complicating any direct comparison; moreover, are often inaccurate and underestimated, particularly in developing economies[17].

14 Special survey of 268 companies conducted in October 2023.

15 Survey conducted among 1,500 Backus winemakers as part of the CPC's Productivity Dashboard 2023.

16 Survey conducted among 1,212 people in urban and rural areas between May 23 and 24, 2024, with a margin of error for the total results of ± 2.8 percent.

17 For example, some studies use criminal deportations as a measurement instrument to quantify homicide crime (Blake, 2015; Lariau et al., 2019; Sviatschi, 2022); and gun ownership to measure robbery (Lariau et al., 2019) in the United States. Others explore reported, sentenced, and prosecuted crimes to measure the effects of crime (Ek Duzul et al., 2021).

Empirical studies have found that, for example, higher crime is associated with slower **economic activity** (Blake, 2015; Carboni and Detotto, 2016; Yusuf and Mohd, 2023) Crimes, including against property, violence, vandalism, fraud, homicides and kidnapping, have a negative impact on **foreign direct investment** (Mukhils, 2017; Brown and Hibbert, 2017). These crimes also impact **consumption**, creating distortions in consumer decision-making. On the one hand, citizens prefer to reduce the consumption of visible goods such as jewelry, for example, to avoid being targeted by crime (Mejía and Restrepo, 2016); and, on the other, they resort to crime avoidance strategies, such as reallocating spending by decreasing their consumption and increasing expenditure on private security and alarms (Di Tella et al., 2010). Crime also impacts **businesses** by creating barriers to entry for new businesses, increasing uncertainty about profitability (Mahofa et al., 2016) and reducing sales of existing businesses (Fe and Sanfelice, 2022). The costs of doing business increase as crime expands, including costs to small businesses, making otherwise profitable businesses unprofitable. **Labor productivity** is another area affected by insecurity: high levels of crime increase the expected cost of attending work, affect worker morale, and increase security costs for businesses (Detotto and Otranto, 2010)[18].

Accounting can also help assess the costs of crime, by adding up the costs associated to crime for (i) the private sector, in terms of business and household expenses on crime prevention, such as security services; and (ii) government costs, which include public spending on the judicial system, police services and prison administration[19]. In particular, following the methodology used by the Inter-American Development Bank (IDB) [20] , if direct observable costs (i.e., private spending on security and costs incurred by the government) are taken into account, the cost of insecurity is estimated to be around 2.2 percent of GDP. In the estimate for Peru, formal private business spending on security (estimated at about 1.5 percent of GDP) was obtained from the Annual Economic Survey (AES) for fiscal year 2019[21]. For its part, the estimated costs incurred by the government (0.7 percent of Expenditure-side GDP) comprise expenditures accrued for the administration of justice linked to criminal offenses, police services and prison administration. This estimate does not consider the indirect costs derived from the loss of income of individuals as a consequence of victimization.

According to a recent study by the International Monetary Fund (IMF: October 2023 Regional Economic Outlook Report), a one standard deviation increase in homicide rates in Latin America would reduce GDP growth by 0.14 percentage points. The homicide rate is used as a proxy for

18 Other studies find that insecurity negatively affects employment, foreign investment, education spending, and channels resources that could be used for other purposes. See, for example, studies for Italy (Carboni and Detotto, 2016), Mexico (Ek Dzul et al., 2021) and Nigeria (Yusuf and Mohd, 2023).

19 In addition, the accounting method includes an estimate of the indirect costs or social costs of crime, linked to the loss of quality of life due to homicides and other violent crimes, and the lost income of the prison population; which has not been included in this case.

20 Jaitman, L. et al. (2017) 'The Costs of Crime and Violence: New Evidence and Findings in Latin America and the Caribbean', IDB. For Peru the paper estimates the costs of crime as a percentage of GDP to be around 2.8 percent (upper bound), which includes indirect effects.

21 The median percentage of total company spending on security is 1 percent, and was imputed for the universe of formal companies. The FSS is prepared by the National Institute of Statistics and Informatics (INEI).

crime[22]. Based on these estimates, if Peru were to reduce its homicide rate per year (from about 8 per 100,000 inhabitants) to the world average level (5 per 100,000 inhabitants), then the potential GDP growth rate could increase by about 0.1 percentage points. It is worth mentioning that other types of crime such as extortion of businesses may have additional adverse effects on output.

International practice

Crime, delinquency and violence seriously affect society and the economy. The recent trend in indicators suggests difficulties in implementing effective policies, so it is necessary to adopt more effective anti-crime practices. It is necessary to apply policies to reduce crime by implementing a comprehensive strategy, increasing police presence, managing relevant information, strengthening institutions to increase the efficiency of security spending, increasing control over the illegal possession of weapons, and providing incentives for people to engage in legal, non-criminal activities[23]. They include vocational training programs, counseling and mentoring, access to mental health services, sports and culture, policies that facilitate the return of people with criminal records to the labor market, among others.

According to the UNODC[24], some general principles can be considered in the struggle against crime. First, to prevent the re-infiltration of crime into communities, the economy and political institutions by strengthening prison programs, rehabilitating offenders, improving public service delivery and transparent governance, among other measures. Second, to pursue criminal groups and their illicit profits, increasing the costs and risks of their operations, which requires adequate legislation and cooperation between different sectors, in addition to the implementation of a joint database containing information on criminals and crimes. Third, to protect vulnerable people and victims from further harm by prioritizing a human rights-based approach and mental health care, as well as effective witness protection programs. Finally, to promote cooperation and partnerships at all levels, facilitating information exchange and international cooperation to effectively combat organized crime.

It is useful to cite some of the best international practices to combat crime. For example, Singapore went from being a country with a high level of violence to one of the safest.[25] This achievement is based on several strategies, including: (i) fighting corruption by increasing salaries through a more meritocratic and results-based scheme, as well as job rotation programs for officials in all public agencies, and the implementation of dawn raids; (ii) judicial reform with harsher penalties; (iii) job creation by attracting investment and training young people in technological and managerial skills; (iv) educational reform focused on fostering critical thinking and problem solving. Among other examples, the United

22 The study estimates regressions with different methodologies for panel data for 97 countries for the period 1993-2019, and takes real GDP growth as the dependent variable and the homicide rate per 100,000 inhabitants as the explanatory variable, together with control variables such as lagged GDP growth, inflation, trade openness, foreign direct investment, population growth rate, terms of trade, among other variables.

23 A step forward in this regard is Legislative Decree No. 1610 (Dec-2023), which establishes the Integrated Statistical Information Subsystem of the Domestic Sector (SIIESI).

24 UNODC (2022), Practical guide for developing high-impact strategies against organized crime.

25 In the Global Peace Index , Singapore ranked 22nd in and 6th in 2023. . Homicides per 100 thousand people fell from 0,56 in 2008 to 0,17 in 2023.

Kingdom[26] implemented a Serious and Organized Crime Strategy, which adopted a comprehensive approach, including targeted and focused disruption of the most serious harms, the most dangerous criminals and criminal networks, preventing them from accessing and acquiring money, assets and infrastructure. In Kenya[27], the National Crime Research Center collects national crime-related data and facilitates its access and use among authorities. In addition, it implemented an anonymous online crime reporting app in 2017. The proper implementation of these strategies could contribute to improving security for individuals and businesses, and thereby also increase the potential growth of the Peruvian economy.

In general, measures that stimulate the growth of potential output would favor the reduction of crime and insecurity through better employment opportunities and a consequent reduction in poverty.

26 In the Global Peace Index, the Uk ranked 50th in 2008 and 37th in 2023. In addition, homicides per 100,000 inhabitants have been reduced from 1.23 in 2008 to 1 in 2023.

27 In the Global Peace Index, Kenya ranked 142nd in 2008 and 117th in 2023.

Box 3
LABOR DYNAMICS: AN ANALYSIS OF CHANGES IN EMPLOYMENT AND FORMALITY

Using the information on the flow of people across labor market categories, we can discern the trends and cycles of key variables for the development of the Peruvian economy, such as employment, unemployment, and formality, among others. In this sense, identifying the flow between these conditions, as well as the probability of transition, makes it possible to anticipate how the labor market may evolve.

A transition matrix in the labor market allows us to understand flows between employment (), unemployment () and inactivity () over time. The importance of this matrix lies in the fact that allows to identify whether unemployment in the economy is a consequence of difficulties in finding work (transitions from unemployment), of difficulties in keeping a job (transitions from employment) or because there are groups that frequently enter and leave the labor market (transitions to and from inactivity).

It is widely documented that, in Peru, around seven out of every 10 workers hold an informal job[28]. Labor informality can be analyzed on two fronts: wage-earners and the self-employed. Labor informality for the first group implies that they do not get any social benefits, such as health insurance or severance pay (CTS). For its part, labor informality among the self-employed implies these workers lack an official taxpayer number (RUC).

The dynamics of the Peruvian labor market have been previously studied using data from the National Household Survey (ENAHO) - Chacaltana (2000) and Rodriguez and Rodriguez (2012), for example - and from the Permanent Employment Survey for Metropolitan Lima (EPE) - Céspedes (2015). At the international level, studies on the labor market dynamics in economies such as Argentina - Pessino (2000), Chile - Jones (2009) and Marcel (2016), and Mexico - Conover (2022) are worth mentioning. Finally, Shimer (2012) analyzes the U.S. labor market and Elsby (2013)[29], OECD countries'.

This box uses Permanent National Employment Survey (EPEN) panel data to estimate the probability of transition between employment, unemployment and inactivity, as well as transitions to formality, and discriminates between payroll and self-employed workers. The advantage of using the EPEN, compared to other databases, is that it allows us to identify labor transitions at a national level with quarterly data, in addition to including around 28 thousand observations in each period[30]. In contrast, the scope of application of the EPE is limited to Metropolitan Lima[31], and ENAHO, though a nationwide survey, includes approximately 9 thousand annual panel data observations. Working with annual data leads to a potential temporal aggregation bias, since it hides flows within a year. Finally, since the EPEN is a relatively new survey (administered since 2022), no previous research was found using it to analyze Peruvian labor market dynamics.

A. Changes in occupational status

The next table shows a transition matrix containing the transition probabilities between different labor market conditions for the years 2022, 2023 and 2024[32]. It is noted that, while the probability of remaining employed the following quarter, on average, is above 85 percent (100 - P_{od} - P_{oi}), the majority of those who do not

28 "Perú: Comportamiento de los indicadores del Mercado Laboral a nivel nacional y en 26 ciudades", INEI.

29 Shimer, R. (2012) "Reassessing the Ins and Outs of Unemployment" Review of Economics Dynamics, 15(2), 127-148 and Elsby, M., Hobijn, B. and Sahin, A. (2008) "Unemployment Dynamics in the OECD" NBER Working Paper No. 14617.

30 In the EPEN, the households that make up the panel group are visited up to four times and most of them provide information in consecutive quarters. For this box, we include respondents providing information for at least two consecutive quarters.

31 Until 2021, monthly employment data published by the INEI were generated from the EPE and the scope was Metropolitan Lima. As of 2022, national statistics come from the EPEN, which allows better monitoring of the Peruvian labor market.

32 The transition probability is defined as: $P_{XY} = (X_t \rightarrow Y_{t+1})/X_t$,, where P_{XY} is "the probability of transitioning from state X to state Y in the next period". $(X_t \rightarrow Y_{t+1})$ is the flow of people transiting from state X to state Y, and X_t is the initial stock of people in state X. Six transition probabilities are generated: P_{od} , P_{oi} , P_{do} , P_{di} , P_{io} y P_{id}.

remain employed transition to inactivity (on average 10.7 percent) and about 3 percent to unemployment. In addition, if a person is unemployed in one period, the probability of obtaining a job is higher, compared to the scenario where people remain unemployed in the following quarter or transition to inactivity.

QUARTERLY LABOR MARKET TRANSITION PROBABILITIES*

	P_{od}	P_{oi}	P_{do}	P_{di}	P_{io}	P_{id}
Total	**3.0**	**10.7**	**49.7**	**30.0**	**22.4**	**4.2**
2022	2.6	10.3	49.1	30.6	21.6	3.8
2023	2.9	11.0	50.1	30.5	22.2	4.0
2024	3.7	11.0	50.1	28.1	23.7	5.2

* The years 2022 and 2024 do not include transition information in all four quarters; 2022 contains information from the second quarter and 2024 through the second quarter.
Note: 2024 includes information for the first half of the year. *P* = probability of moving to another state, o = employed, d = unemployed, i = inactive; thus, P_{od} is the probability of moving from being employed to being unemployed, for example. The sum of the probabilities of moving from state X to any other state, together with the probability of not moving, equals 100 percent.
Source: EPEN.

Job transitions by sex and age

The table below shows the transitions in the labor market, distinguishing by sex and age group. Women are less likely to move from unemployment to employment: 45.1 percent vs. 55.7 percent for men. In addition, the probability of maintaining a job is 82.4 percent for women, vs. 89.9 percent for men, reflecting that, on average, women are more vulnerable to being laid off.

LABOR MARKET TRANSITIONS MATRIX, 2022 -2024
(By gender and age groups)

	P_{od}	P_{oi}	P_{do}	P_{di}	P_{io}	P_{id}
Total, average	**3.0**	**10.7**	**49.7**	**30.0**	**22.4**	**4.2**
By sex						
Men	3.0	7.1	55.7	24.8	22.8	4.3
Women	3.0	14.6	45.1	34.0	22.1	4.2
By age group						
14-19	4.6	37.0	34.3	50.0	15.1	2.8
20-29	4.9	11.9	48.9	28.2	30.4	8.4
30-39	3.0	7.4	56.2	23.3	34.4	7.3
40-49	2.5	6.4	56.5	23.9	37.5	6.6
50-59	2.1	7.5	54.2	25.5	32.3	4.4
60 years and older	1.5	15.1	40.1	43.0	13.9	1.5

Note: 2024 includes information for the first half of the year. P = probability of moving to another condition, o = employed, d = unemployed, i = inactive; thus, P_{od} is the probability of moving from being employed to being unemployed, for example. The sum of the probabilities of moving from condition X to any other condition, together with the probability of not moving, is equal to 100.
Source: EPEN

Following job loss in the analyzed period, the probability of women transitioning to inactivity is twice the probability of transition observed for men (14.6 percent vs. 7.1 percent). This difference is also relevant in the transition from unemployment: the probability that an unemployed woman transitions to inactivity in the following quarter is 34 percent, compared to 24.8 percent for men. This transit to inactivity could be motivated by decisions such as seeking temporary jobs (in a scenario where the wage earned is not the main source of household income), having a high reservation wage, or living with minor children who need care (mainly from mom). Marcel (2016) and Pessino (2000) find similar results for Chile and Argentina, respectively.

By age, young people under 19 recorded the lowest probability of remaining employed in the following quarter. In addition, they are the age group most likely to move from employment to inactivity. According to Pessino (2000), this could be explained in part because, being of school age, many young people may see work as a temporary source of income and once they obtain sufficient income for their short-term needs, they continue studying without needing to seek employment. Thus, on average, the probability of an employed youth (under 19) moving into inactivity is 37 percent. However, possibly associated with a lack of work experience and productivity, this group of young people has the lowest probability of finding a job.

Other characteristics of job transitions

In addition to age and sex, differences in labor transitions could be motivated by other socioeconomic characteristics such as household composition and household income level. The following table shows that the head of household has a lower probability of transitioning to inactivity compared to other household members. This result is to be expected, considering that in general the head of household is the person who supports most of the family income. On the other hand, people living in rural areas have a higher probability of remaining employed (89.1 percent), compared to people living in urban areas. In relation to educational level, it is found that people with a higher university education have the lowest probability of moving from unemployment to employment. This result could be because market salaries do not meet their expectations or the market does not demand jobs that require skilled labor. Finally, taking into account household income[33] , it is possible to sort them by quintiles, where quintile 1 represents households with the lowest income. Employed people living in households in quintile 1 have a high probability of migrating to inactivity; For its part, people living in households with higher incomes have a higher probability of moving from unemployment to employment.

LABOR MARKET TRANSITIONS MATRIX, 2022 -2024

(By stakeholder, in percentages)

	P_{od}	P_{oi}	P_{do}	P_{di}	P_{io}	P_{id}
Total	**3.0**	**10.7**	**49.7**	**30.0**	**22.4**	**4.2**
Relationship to head of household						
Head of household	2.4	6.9	57.2	24.7	26.4	4.0
Non-head of household	3.5	14.8	45.9	32.7	20.9	4.3
- Spouse	2.3	13.9	46.1	35.5	25.4	4.0
- Daughter/children	4.9	16.1	46.2	31.3	19.9	4.8
- Other member	3.6	13.3	43.9	32.7	14.2	3.3
Place of residence						
- Urban	3.3	10.9	49.3	30.1	21.2	4.4
- Rural	1.0	9.9	64.6	27.2	42.5	1.9
Educational level achieved						
- Primary	1.7	12.8	52.3	36.1	21.9	1.7
- Secundary	3.1	12.7	49.9	32.4	20.4	3.6
- Higher Non-University	3.2	8.2	52.5	25.4	26.5	6.3
- Superior University	3.6	8.3	46.6	28.1	25.0	7.8
Household income level						
- Quintile 1 (less income)	3.6	20.9	25.1	41.2	14.6	4.8
- Quintile 2	1.7	8.0	33.3	40.9	17.5	4.9
- Quintile 3	1.5	7.6	35.4	39.4	17.8	4.3
- Quintile 4	1.6	6.6	38.9	36.1	17.5	4.1
- Quintile 5 (higher income)	1.4	4.9	48.0	30.9	17.7	3.7

Note: 2024 includes information for the first half of the year. P = probability of moving to another state, o = employed, d = unemployed, i = inactive; thus, P_{od} is the probability of moving from being employed to being unemployed, for example. The sum of the probabilities of moving from state X to any other state, together with the probability of not moving, equals 100 percent.
Source: EPEN

33 All household members' incomes have been added together to generate this variable.

B. Determinants associated with transitions from informality

To identify the probability of an individual moving from informality to formality or to unemployment/ inactivity, the methodology described in Long (1997) is adopted,[34] based on the use of a multinomial Logit model. Two samples of employed persons are used: those who work as dependents and those who work independently. The dependent variable is categorical, and the independent variables are divided into two groups: demographic (indicative if male, age, indicative if head of household, place of residence, educational level and household income) and those associated with the labor market and economic activity (year-on-year variation in GDP and the sector where the person works). The results are presented in the table below.

MARGINAL EFFECTS OF TRANSITIONS FROM INFORMALITY

	Transitions from informality			
Type of occupation	**Dependents**		**Independent**	
State in t+1	**Formal**	**Unemployed/ Inactive**	**Formal**	**Unemployed/ Inactive**
GDP	0.0003	-0.001**	0.001***	-0.001*
Man	0.011***	-0.036***	0.010***	-0.097***
Age	0.0001**	-0.002***	-0.00003	0.0004***
Head of household	-0.001	-0.072***	0.004**	-0.066***
Urban	0.012***	0.034***	0.013***	0.078***
Education (base category: Primary)				
- Secundary	0.015***	-0.033***	0.019***	0.001
- Non-University Higher education	0.022***	-0.095***	0.048***	-0.009**
- Superior University	0.034***	-0.086***	0.056***	0.001
Economic sector (base category: Extractive)				
- Manufacturing	0.023***	-0.009*	0.021***	-0.035***
- Construction	0.026***	0.033***	0.012***	0.041***
- Commerce	0.035***	0.008**	0.025***	-0.092***
- Services	0.012***	-0.007*	0.008***	-0.046***
Household income (base category: Quintile 1)				
- Quintile 2	-0.008*	-0.095***	0.006**	-0.049***
- Quintile 3	-0.016***	-0.138***	0.013***	-0.052***
- Quintile 4	-0.025***	-0.149***	0.012***	-0.056***
- Quintile 5	-0.026***	-0.177***	0.008***	-0.069***
Remarks	93,811	93,811	68,889	68,889

Note: Quarterly transitions are compared against the base category: Informal / Informal Occupation.
Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

In periods with higher economic growth, the probability of transitioning from informality to formality, for self-employed workers, is higher than the probability of maintaining informal employment in both periods. This result is not observed for dependent workers, where economic growth, In the analyzed period, does not seem to be associated with a greater transition to formality.

With respect to demographic variables, it is found that being male, living in an urban area and having a higher level of education increase the probability of transitioning from informal to formal employment, both for dependent and independent workers. Educational level is found to have a greater effect on the probability of transition for self-employed workers. Household income shows mixed results: if the worker is a dependent, the higher the household income, the lower the probability of transitioning

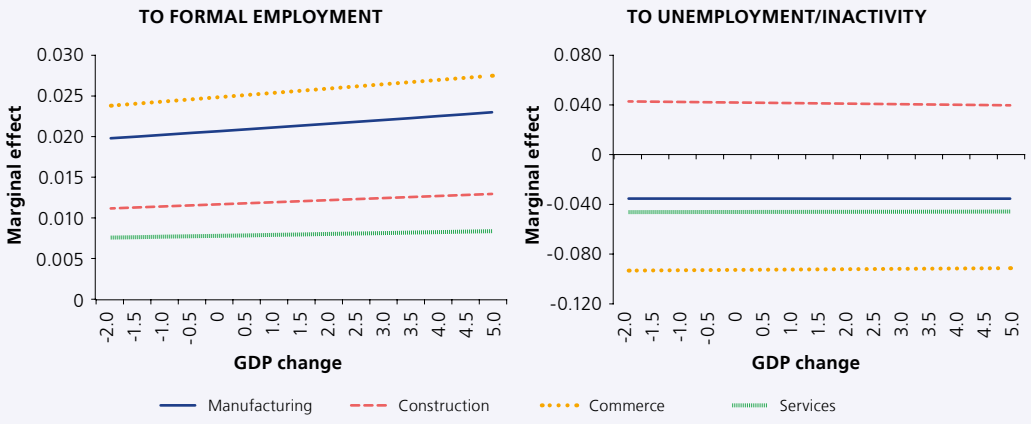
34 Long J. Scott (1997). Regression Models for Categorical and Limited Dependent Variables. Advanced Quantitative Techniques in the Social Sciences. Number 7. Sage Publications: Thousand Oaks, CA.

from informal to formal employment. The opposite case is observed in the group of self-employed workers, where an increase in household income is associated with a higher probability of migrating to formal employment. It should be pointed out that self-employed workers in the household surveys highlight that one of the main reasons for not applying for a RUC is having a low income, which is consistent with the results found.

By economic sector, it is found that people working in the services, manufacturing, construction and commerce sectors are more likely than people working in extractive activities to transition from informal to formal employment. The effect on transition probabilities is greater in the group of dependent workers.

With regard to the transition from informal employment to unemployment and inactivity, we find that: greater economic growth reduces the probability of transition, both for dependent and independent workers; similar results are found for men and heads of household. Finally, the higher the household income, the lower the probability of ending up unemployed or inactive from informality, compared to a scenario where people maintain their (informal) employment in both periods. This probability of not leaving employment is higher in the group of dependent workers. The probability of transition, based on the economic sector in which one works, shows mixed results.

TRANSITIONS FROM INFORMAL EMPLOYMENT (SELF-EMPLOYED WORKERS)
(Marginal effect of GDP according to economic sector)



TRANSITIONS FROM INFORMAL EMPLOYMENT (SELF-EMPLOYED)
(Marginal effect of GDP by economic sector)

C. **Conclusion**

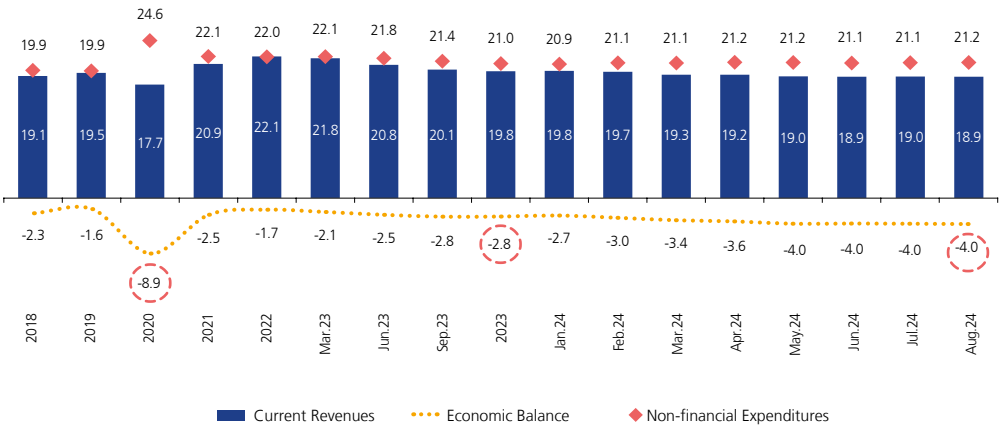
The transition to inactivity is relevant for women and young people; while for heads of households and people living in rural areas, the transition to inactivity is less likely, observing mainly flows between unemployment and employment. With respect to the type of employment, it is found that economic growth facilitates the transition to formality for workers who start from the informal labor market and who are self-employed.

The analysis with demographic variables shows that men who live in urban areas and have a higher level of education are more likely to move from informal to formal employment. This result holds for both dependent and self-employed workers.

IV. Public finances

61. The **cumulative fiscal deficit over the last twelve months** increased from 2.8 to 4.0 percent of GDP between December 2023 and August 2024. This increase was mainly due to a drop in current income, affected by the lower level of economic activity and the fall in export prices in 2023. These factors resulted in a lower income tax (IR) regularization balance, lower payment on account coefficients and greater taxpayers' credit balances. In addition, lower prices of copper, zinc, oil and natural gas in the first quarter of 2024 reduced revenues from the mining and hydrocarbons sector. To a lesser extent, higher non-financial expenditures as a percentage of GDP, lower primary results of state-owned enterprises, and higher interest payments on domestic debt also contributed to the deficit.

Graph 55
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.

The contraction of current income in terms of product, according to components, was mainly due to tax revenues, especially income tax on regularization, income tax for domiciled legal entities and general sales tax (IGV). To a lesser extent, the reduction in non-tax revenues as a percentage of GDP was influenced by the reduction in interest, transfers from public entities, royalties, oil and gas royalties and mining royalties.

The increase in non-financial expenditures as a percentage of GDP was mainly due to higher expenditures in: (i) gross capital formation at the three levels of government; and (ii) salaries, due to the salary increases granted to the education and health sectors at the end of 2023, as well as to the different labor regimes of the public sector at the beginning of this year.

62. The **fiscal deficit** is projected to increase from 2.8 to 3.3 percent of GDP between 2023 and 2024, outweighing by 0.5 p.p. the limit set by the new fiscal rule of D.L. No. 1621. By the end of the projection horizon, the deficit is expected to stand at 2.0 percent of GDP, 0.2 percentage points lower than the ceiling set by the fiscal rule for that year.

The 2024 forecast considers a reduction in current income as a percentage of GDP with respect to 2023, due to its slower growth compared to nominal GDP. This drop is expected to be contributed, in addition to the aforementioned, by lower income tax coefficients, as well as a lower collection in the hydrocarbon sector, as a result of the lower price of crude oil and natural gas. On the other hand, there would be recorded an increase in non-financial expenditure, due to higher spending on gross capital formation, remuneration and the recording of the capital contribution to Petroperu of 0.6 p.p. of GDP, which in turn raises the result of state-owned companies. Discounting support provided to Petroperú, there would have been a deterioration of 0.2 p.p. in the primary result of state-owned companies.

The reduction of the fiscal deficit between 2024 and 2025 considers the return to the consolidation process of public finances, in a context of current income recovery, driven by higher payment on account ratios and export mineral prices, and the greater dynamism of domestic demand. Non-financial expenditures as a percentage of GDP are also projected to decline.

Compared to the June Report, the fiscal deficit forecasts are raised from 2.8 to 3.3 percent of output by 2024 and from 1.6 to 2.0 percent of GDP by 2025. The revision is mainly due to the lower progress in revenue collection and the increase in Non-financial expenditures until August, the latter factor mainly explained by the current dynamics of public investment. On the other hand, the revision on the upside in the 2025 deficit is due to lower commodity prices with respect to the June Report, as well as a revision in spending.

The fiscal deficit has been rising from 1.7 percent in 2022 to 2.8 percent in 2023 and 4.0 percent as of August 2024. In that period current income as a percentage of GDP has declined from 22.1 in 2022 to 18.9 in August 2024 (last 12 months). In turn, this reduction in revenues mainly reflects the impact of the fall in 2023 output, and to a lesser extent the application of measures to reduce tax revenues (equivalent to 0.1 percent of GDP) and extraordinary revenues from the 2022 regularization for 0.8 percent of GDP.

Public spending as a percentage of output was reduced by 0.8 p.p. of GDP between 2022 and August 2024, however, the gap left by transitory expenditures for Covid-19, *Con Punche* and support to Petroperu in 2022 was 1 percentage point, which was partially offset by the upward impact of the measures adopted by Congress estimated at 0.3 percent of GDP. In other words, public spending could have been reduced more rapidly.

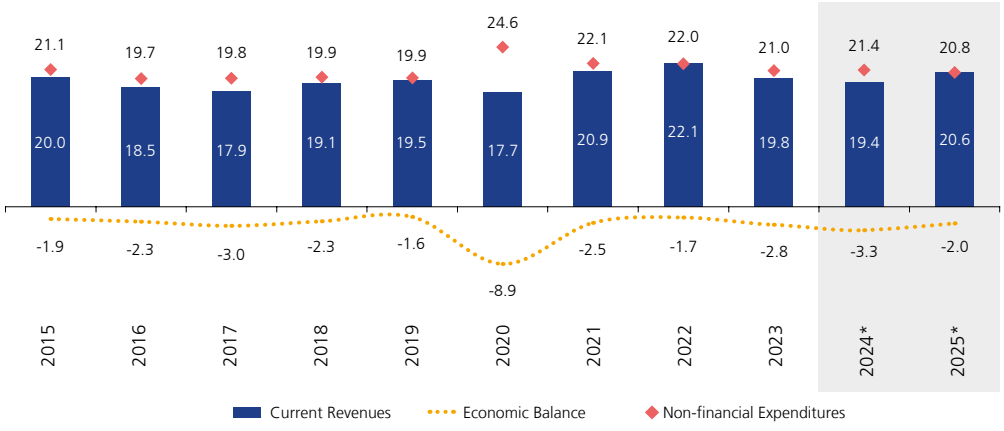
Going forward, fiscal consolidation is projected to begin with higher fiscal revenues due to the recovery of economic activity, higher mineral prices (including the lagged effect of these variables); extraordinary revenues (especially from income in 2025); an expected cautious management of tax policy and public spending; and better management of state-owned enterprises (Petroperu). Under these assumptions, the fiscal deficit in the last 12 months would fall from 4.0 percent of GDP in August to 3.3 percent in 2024 and 2.0 percent in 2025, remaining one of the economies with the lowest public debt in the region.

Table 25
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.

Graph 56
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

63. **Current income** is expected to show a real expansion of 2.9 percent in 2024 and as a percentage of GDP to represent 19.4 percent, 0.4 percentage points lower than recorded at the end of 2023.

The real increase in revenues is estimated to be due, in the first place, to the greater dynamism of economic activity, which will be reflected in a higher collection of corporate income tax (IR), domestic VAT and selective consumption tax (ISC). Secondly, higher revenues related to the mining sector are expected, due to a higher forecast for the prices of export minerals, such as copper, gold and zinc. Third, an increase in the fifth category IR and in social contributions is considered, reflecting the expected recovery of employment, supported by the higher level of economic activity. Fourth, the higher value of imports of capital goods and inputs will result in an increase in the IGV applied to these items. Finally, an impact is expected from the tax and control measures that have been implemented this year, such as the application of the IGV to digital services, and the control of subjects without operational capacity.

The revision on the downside of the forecast for 2024 -from 19.6 to 19.4 percent of GDP- considers the lower advance recorded up to August of the IR from the mining and hydrocarbons sectors, as well as the increase in tax refunds. In addition, towards the end of the year, lower IGV revenues are expected, especially those applied to imports, because of the revision on the downside of the value of imports of inputs and consumer goods. Finally, this revision on the downside also responds to a lower forecast for export prices.

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

	2023	2024*			2025*	
		August[1/]	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
TAX REVENUES	**15.1**	**14.5**	**15.0**	**14.9**	**16.0**	**15.9**
Income tax	6.3	6.1	6.2	6.2	7.2	6.9
Value Added Tax (VAT)	8.4	8.2	8.3	8.2	8.3	8.3
Excise tax	0.9	0.9	0.9	0.9	0.9	0.9
Import duties	0.2	0.1	0.1	0.1	0.2	0.2
Others tax revenues	1.8	1.7	1.8	1.8	1.8	1.9
Tax returns	-2.4	-2.4	-2.2	-2.4	-2.3	-2.3
NON-TAX REVENUES	**4.7**	**4.4**	**4.6**	**4.6**	**4.7**	**4.6**
Contributions to social security	2.0	2.0	2.0	2.0	2.0	2.0
Own resources and transfers	1.0	1.0	1.0	1.0	1.0	1.0
Royalties and likely	0.7	0.6	0.7	0.6	0.7	0.7
Rest	1.0	0.9	1.0	0.9	0.9	0.9
TOTAL	**19.8**	**18.9**	**19.6**	**19.4**	**20.7**	**20.6**

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

Current income is projected to increase by 9.5 percent in real terms in 2025 to 20.6 percent of GDP. This evolution considers an increase in the collection of payments on account and IR regularization, as well as higher revenues from IGV and ISC, consistent with the greater dynamism of domestic demand and higher export prices. Finally, this forecast includes revenues from the sale of companies in the electricity sector. Meanwhile, the revision on

the downside, as a percentage of GDP, from 20.7 to 20.6 percent, responds to a lower starting point of 2024 and the downside revision of export prices.

Non-financial expenditure

64. By 2024, **non-financial expenditure** is expected to grow by 7.0 percent in real terms and to reach 21.4 percent of GDP, 0.4 percentage points higher than in 2023. This real growth includes an increase in gross capital formation expenditures, in line with the executed data, where subnational governments have been reaching historical figures in execution, as well as the recording of the capital contribution to Petroperu provided for by the DU 013-2024. Regarding current expenditures, an increase in remunerations is expected, due to the salary increases approved. This evolution would be partially offset by lower expenditures 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).

Non-financial expenditure is projected to record a real expansion of 0.8 percent in 2025, and as a percentage of GDP to stand at 20.8 percent, 0.6 percentage points lower than projected for 2024.

The forecasts for 2024 and 2025, with respect to the previous Report, increase in terms of output from 20.6 to 21.4 percent for 2024 and from 20.7 to 20.8 percent for 2025. The revision on the upside for 2024 is due to the aforementioned capital contribution, as well as the progress recorded in gross capital formation expenditures and current transfers from the National Government. For 2025, the adjustment is based on the greater dynamism of investment at the three levels of government, driven by the high levels of execution observed this year.

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

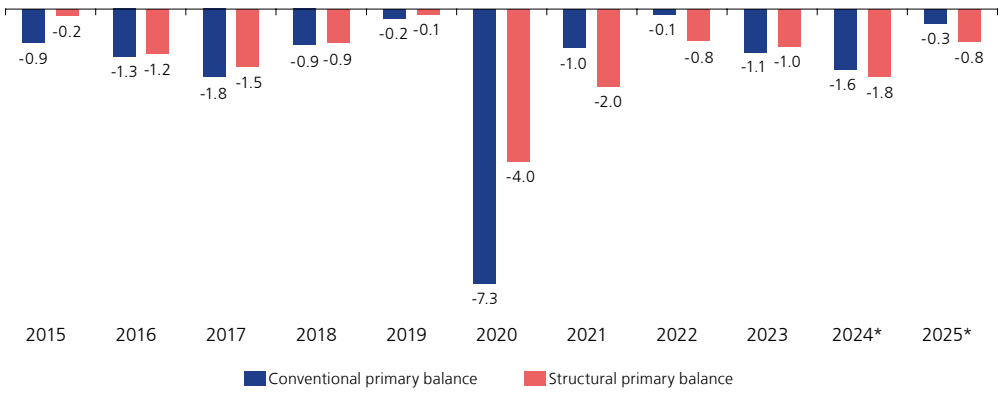
	2023	2024*			2025*	
		August[1/]	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
Current expenditure	**15.7**	**15.4**	**15.1**	**15.2**	**15.0**	**15.0**
National Government	10.0	9.7	9.6	9.6	9.7	9.7
Regional Governments	3.9	3.9	3.8	3.8	3.6	3.6
Local Governments	1.8	1.8	1.8	1.8	1.7	1.7
Capital expenditure	**5.3**	**5.7**	**5.5**	**6.2**	**5.7**	**5.8**
Gross capital formation	**4.6**	**5.1**	**5.0**	**5.0**	**5.0**	**5.2**
National Government	1.7	1.9	1.9	1.9	1.9	2.0
Regional Governments	1.1	1.3	1.2	1.3	1.2	1.2
Local Governments	1.8	1.9	1.9	1.8	1.9	2.0
Others	**0.7**	**0.6**	**0.6**	**1.2**	**0.6**	**0.6**
TOTAL	**21.0**	**21.2**	**20.6**	**21.4**	**20.7**	**20.8**
National Government	12.4	12.2	11.9	12.6	12.3	12.3
Regional Governments	5.0	5.2	5.0	5.1	4.8	4.8
Local Governments	3.6	3.7	3.7	3.7	3.6	3.7

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

Fiscal Stance

65. The **structural primary balance** is a measure that deducts from the fiscal accounts the impact of cyclical, transitory and extraordinary components affecting the economy, in order to be able to assess changes in the fiscal balance associated with discretionary fiscal policy measures. The structural primary deficit is estimated to be 1.8 and 0.8 percent of potential GDP by 2024 and 2025, respectively. The evolution of the structural primary deficit reflects a fiscal stimulus for 2024, higher by 0.8 p.p. than in the previous year, due to a rebound in spending on gross capital formation. By 2025, this trend is expected to slow down, in line with the recovery of structural revenues and the control of current spending.

Graph 57
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.
Source: BCRP.

Financing and debt

66. **Financing requirements** are expected to increase in 2024 with respect to the previous year, due to the higher fiscal deficit and the amortization of domestic debt. The latter factor is related to the Debt Management Operation (DMO) carried out in June-July 2024.

Compared to the June Report, the projection of financing requirements over the projection horizon is revised upward, albeit by a larger amount for 2024. This revision is due to the effect of the June-July OAD on 2024 amortizations and the revision on the upside of the nominal fiscal deficit for 2024 and 2025. Regarding **sources of financing**, this includes the effect of the recent OAD, which involved the issuance of a sovereign bond maturing in 2039, as well as the global bond placements made in August.

Table 28

FINANCIAL REQUIREMENT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

(Million S/)

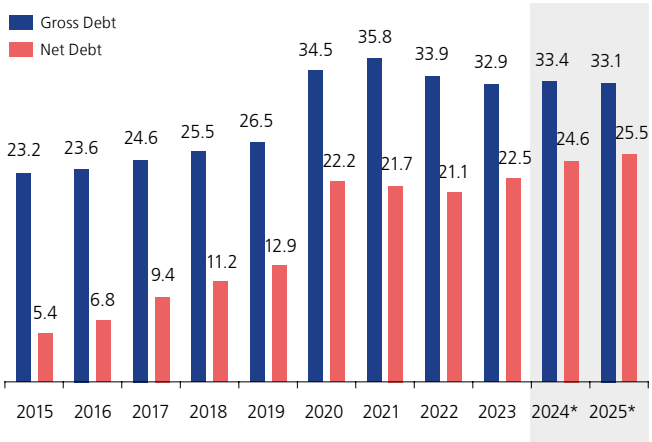
	2023	2024*			2025*	
		Jan.-Aug.	IR Jun.24	IR Sep.24	IR Jun.24	IR Sep.24
I. USES	**53,593**	**43,431**	**41,257**	**64,269**	**27,497**	**29,553**
1. Amortization	25,419	25,155	10,597	28,772	8,943	7,052
a. External	9,910	7,900	3,811	9,630	8,170	6,311
b. Domestic	15,509	17,255	6,785	19,142	773	741
Of which: recognition bond	*596*	*367*	*494*	*510*	*550*	*550*
2. Economic Balance 1/	28,174	18,276	30,661	35,497	18,554	22,501
II. SOURCES	**53,593**	**43,431**	**41,257**	**64,269**	**27,497**	**29,553**
1. Disbursements and others	37,882	39,726	26,584	49,419	28,540	28,040
a. External credits	7,402	5,735	8,584	10,978	10,240	8,940
b. Global and Sovereign bonds	30,480	33,992	18,000	38,442	18,300	19,100
2. Variation in deposits and others 2/	15,711	3,704	14,673	14,849	-1,043	1,512
Memo:						
% GDP						
Gross public debt balance	32.9	32.7	32.5	33.4	32.9	33.1
Net public debt balance	22.5	22.9	24.0	24.6	24.8	25.5
Balance of public deposits	10.4	9.7	8.4	8.8	8.1	7.6

1/ Negative sign indicates surplus.
2/ Positive sign indicates reduction of deposits.
* Forecast.
RI: Reporte de Inflation.

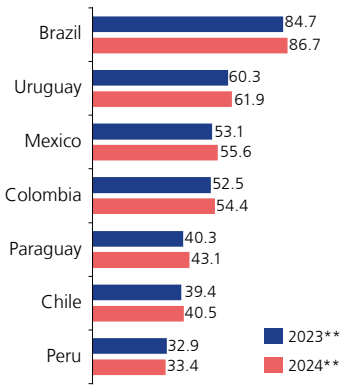
67. The **debt net** of non-financial Public Sector deposits is projected to increase from 22.5 to 24.6 percent of GDP between 2023 and 2024 and to reach 25.5 percent of GDP by the end of the projection horizon. For its part, the gross debt of the Non-Financial Public Sector is projected to increase from 32.9 to 33.4 percent of GDP between 2023 and 2024, and to reach 33.1 percent of GDP by 2025.

Graph 58

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



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

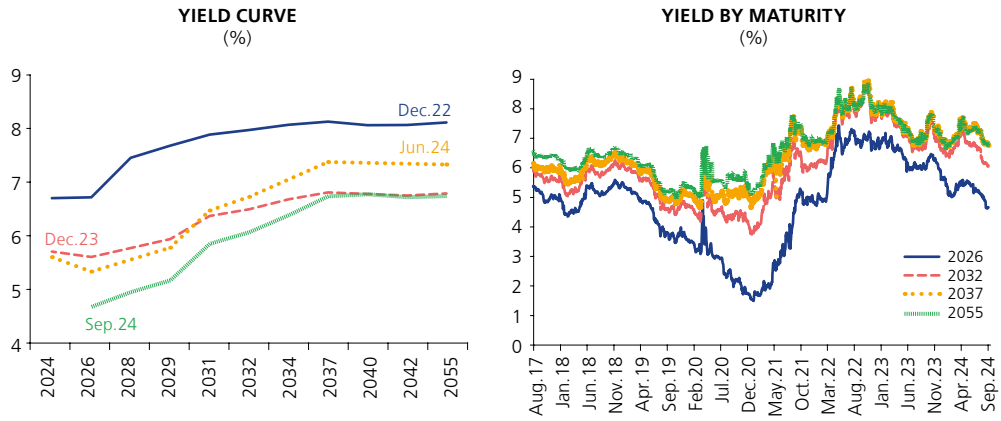


* Forecast
** Forecats for Uruguay and Mexico in 2023, and for all countries in 2024.
Source: BCRP and WEO (April 2024).

The difference between the variation in net debt and gross debt projected to 2025 is due to the expected management of public deposits, which are projected to decrease as a percentage of GDP. For its part, the public debt projection will continue to be among the lowest in the region.

68. Yield rates of Public Treasury Bonds (BTP) with fixed interest rate in Sol have decreased in all maturities between June and September 2024, mainly in those bonds in the short end of the yield curve. This behavior was influenced by the reduction in the BCRP benchmark rate in August and September, and by the reduction in the short-term yield rates of US Treasury bonds, which are at the lowest levels in the last two years. The positive performance in BTPs occurred in an environment of high volatility in global fixed income financial markets and a DMO in which short-term BTPs were repurchased and exchanged. Thus, in the short tranche the interest rate of the BTP 2026 accumulated a reduction of 65 basis points; while in the medium and long tranches interest rates decreased by an average of 63 basis points, associated with the demand from non-resident investors. Particularly, on June 18, after the ADO's announcement, the highest daily appreciations of the BTPs participating in the operation were recorded.

Graph 59

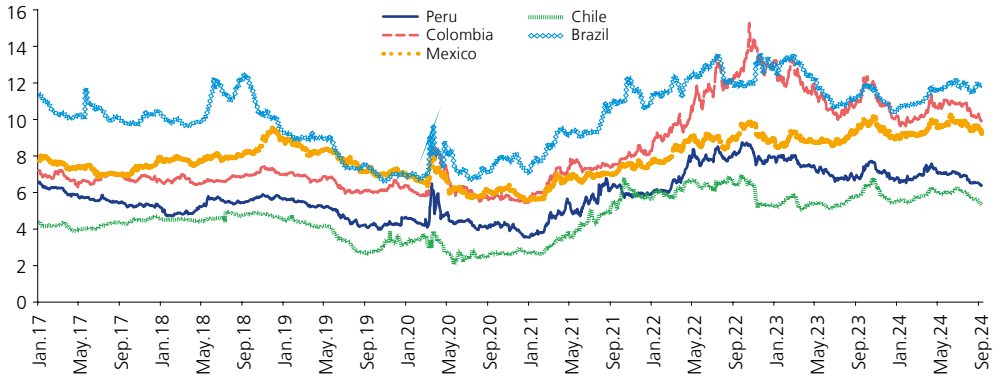


* As of September 13.
Source: MEF.

Between June 28 and September 13, 2024, yields on 10-year local currency government bonds declined in all countries in the region. Thus, the bonds of Brazil, Mexico, Chile and Colombia decreased by 41, 64, 91, and 96 basis points, respectively. In the case of the Peruvian bond, the yield rate decreased from 7.06 to 6.39 percent so far in the third quarter of 2024.

Similarly, Peruvian global dollar bond yields have experienced reductions in all tranches of the yield curve so far in the third quarter, accumulating an average appreciation of 58 basis points. In particular, the yield rate of the Peruvian 10-year bond decreased from 5.63 to 4.99 percent, while the yield rate of the U.S. bond fell from 4.40 to 3.65 percent. On the other hand, the EMBIG Peru rose from 154 to 168 basis points during the period analyzed.

Graph 60
10 YEAR SOVEREIGN BOND YIELDS IN LOCAL CURRENCY
(%)



* As of September 13.
Source: MEF and Reuters.

69. On June 18, 2024, the Ministry of Economy and Finance (MEF) announced the completion of an ADO that included:

(i) The issuance of a new sustainable sovereign bond[35] maturing in 2039 for S/ 7 billion at a coupon rate of 7.60 percent, yield rate of 7.65 percent and BBB credit rating[36]. The spread of the BTP 2039 with respect to the Peruvian global bond and the U.S. Treasury bond, of similar term, amounted to 194 and 298 basis points, respectively.

(ii) The exchange of sovereign bonds maturing in 2024, 2026, 2028 and 2029, including Global Depositary Notes (GDN) for the new 2039 sovereign bond; and the repurchase of global dollar bonds maturing in 2025, 2026, 2027, 2030 and 2031; and euros maturing in 2026 and 2030. The offer began on June 18 and ended on June 25. A total of S/ 15,345 million of sovereign bonds were accepted (S/ 8,236 million for the exchange of the recently issued BTP 2039 and S/ 7,109 million for the repurchase of bonds in exchange for cash).

(iii) The repurchase for cash of global dollar bonds maturing in 2025, 2026, 2027, 2030 and 2031 for a total of USD 1,185 million.

Table 29
RESULT OF THE EXCHANGE OPERATION AND REPURCHASE BY CASH OF SOVEREIGN BONDS
(Million S/)

Bond	Coupon rate (%)	Balance as of June 18	Repurchase price*		Exchange			Repurchase			Nominal Amount Accepted	% Offer Accepted on Balance as of June 18		
			BTP	GDN	BTP	GDN	Total	BTP	GDN	Total		Exchange	Repurchase	Total
BTP 12Aug2024	5.70	4,238	1,002.6	1,001.6	1,350	8	1,358	1,831	0	1,831	3,190	32	43	75
BTP 12Ago2026	8.20	7,042	1,060.0	1,059.0	1,406	193	1,598	1,465	41	1,506	3,105	23	21	44
BTP 12Ago2028	6.35	11,519	1,028.9	1,027.9	2,195	0	2,195	1,855	243	2,098	4,293	19	18	37
BTP 12Feb2029	5.94	17,934	1,006.3	1,005.3	3,084	0	3,084	1,249	424	1,674	4,758	17	9	27
Total		**40,732**			**8,035**	**201**	**8,236**	**6,400**	**709**	**7,109**	**15,345**	**20**	**17**	**38**

* For each S/ 1,000 of nominal value.

35 These are bonds that mix the possibility of financing green projects with eligible social projects. These bonds follow the standards presented in the Sustainable Bond Guide.

36 Fitch rating.

(iv) The repurchase for cash of global bonds in euros for a total of EUR 316 million of bonds maturing in 2026 and 2030.

Table 30
RESULT OF THE REPURCHASE OPERATION BY CASH OF GLOBAL BONDS
(Million USD and EUR)

Bond	Coupon rate (%)	Balance as of June 18	Repurchase price*	Repurchase in cash	% Accepted Offer on June 18
Global 21Jul2025	7.35	888	1,022.4	464	52
Global 23Jan 2026	2.39	614	956.4	268	44
Global 25Aug2027	4.13	752	971.0	134	18
Global 20Jun2030	2.84	694	877.8	49	7
Global 23Jan2031	2.78	3,478	859.4	271	8
Total USD		**6,426**		**1,185**	**18**
Global 30Jan2026		1,097	984.4	253	23
Global 01Mar2030		998	988.3	63	6
Total EUR		**2,096**		**316**	**15**

* For each S/ 1,000 of nominal value.

(v) Therefore, considering the amounts of the issues for the repurchase and exchange, a total of S/ 15,436 million BTP 2039 was issued. The balance of government bonds, because of the operation, was a net increase of S/ 91 million, and a decrease in the balance of global bonds in dollars and euros of USD 1,185 million and EUR 316 million, respectively.

70. On August 1, 2024, the Peruvian government made two placements for a total of USD 3 billion with maturities of 11 and 30 years: (i) USD 1.25 billion of a global bond maturing in 2035 issued with a coupon and yield rate of 5.375 and 5.384 percent, respectively; and (ii) USD 1.75 billion of a global bond maturing in 2054 with a coupon and yield rate of 5.875 and 5.939 percent, respectively. Total demand for bonds reached USD 18 billion.

Table 31
PLACEMENTS IN THE INTERNATIONAL MARKET
(Million USD)

	Global 2035		Global 2054
Auction Date	1-Aug-24		1-Aug-24
Issue Date	8-Aug-24		8-Aug-24
Expiration Date	8-Feb-35		8-Aug-54
Term	11 years		30 years
Issue Amount	1,250		1,750
Demand	8,000		10,000
Coupon Rate	5.375		5.875
Price	99.929		99.109
Performance Rate	5.384		5.939
Spread	140		165
Credit Rating			
- Moodys		Baa1	
- Fitch		BBB-	
- S&P		BBB	
	Global 2035		**Global 2054**
Guide Rate*	Treasury + 180 p.b.		Treasury + 205 p.b.
Treasury Rate	3.98		4.29
Global Bonus Rate**	5.32		5.52
Sovereign Bond Rate	6.90		7.15
Spread			
Spread About Treasury	140		165

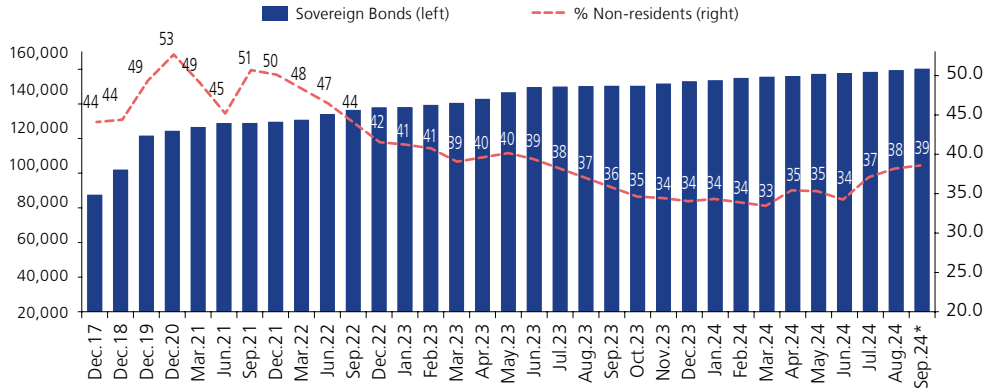
* The initial guide rate or Initial Price Talk (IPT) is the rate that the issuer considers that investors should bid. It is the maximum rate that the issuer is willing to pay. It can be expressed as a rate or a spread.
Source: MEF and Reuters.

71. The balance of sovereign bonds as of September 16 was S/ 160.2 billion, S/ 2.5 billion higher than in June 2024, mainly explained by the OAD of June 2024 in which the new BTP 2039 was issued and the BTPs of the short tranche were repurchased. In the third quarter, banks and AFPs were the main bond bidders, while on the demand side, non-resident investors stood out. The participation of non-resident investors increased from 34 to 39 percent between June and September, reversing the decreasing trend observed in 2023.

Graph 61

SOVEREIGN BOND BALANCE AND PARTICIPATION OF NON-RESIDENT INVESTORS

(Amounts in millions of soles and participation in %)



Note: For the participation of Non-Residents in the holdings of sovereign bonds, 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.
* As of September 16.
Source: BCRP, CAVALI, MEF and SBS.

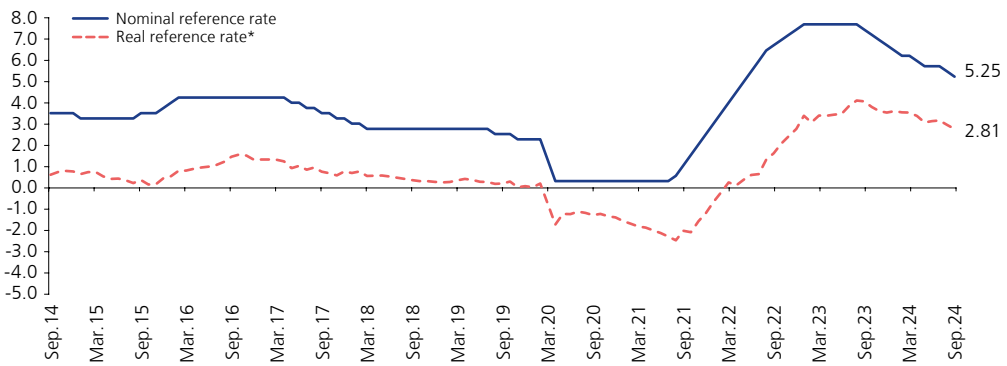
V. Monetary policy and financial conditions

Monetary policy actions

72. During 2024, the Board of Directors of BCRP reduced the monetary policy benchmark rate by 25 basis points in the meetings of January, February, April, May, August, and September, while keeping it unchanged in the months of March, June, and July. As a result, the benchmark rate stood at 5.25 percent at the close of this Inflation Report.

In the July, August and September releases, the Bank reiterated the message that future adjustments in the benchmark rate will be conditioned to new information on inflation and its determinants. In the September communiqué, it was also mentioned that the 25 basis points cut in that month does not necessarily imply successive reductions in the interest rate. From September 2023 to September 2024, the benchmark rate accumulated a reduction of 250 basis points. In this period, the twelve-month inflation rate decreased from 5.6 percent in August 2023 to 2.0 percent in August 2024, a period in which at all times the BCRP's real monetary policy interest rate remained one of the lowest among the largest countries in the region.

Graph 62
REFERENCE INTEREST RATE
(%)

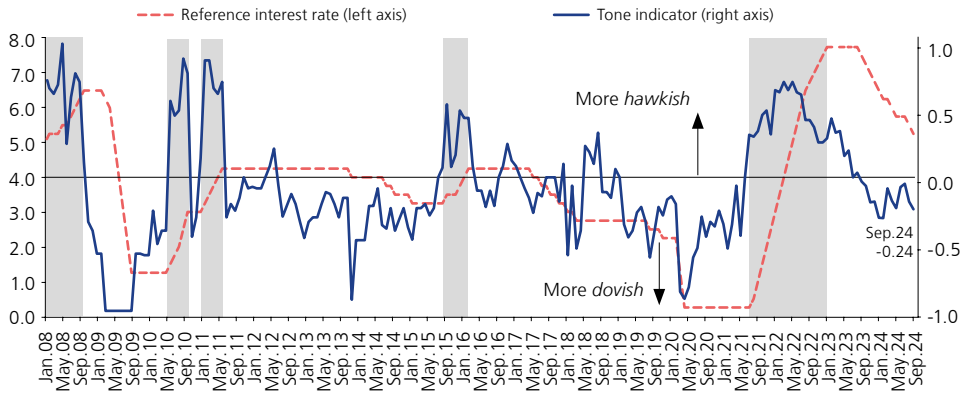


* With expectation on inflation.
Source: BCRP.

73. The latest monetary policy communiqués highlighted that the Board will be attentive to new information on inflation and its determinants, including the evolution of inflation excluding food and energy (SAE), in a context in which this variable remained close to the upper limit of the target range between late 2023 and mid-2024. This indicator has declined in the last two months, standing at 2.8 percent in August. In particular, year-on-year inflation excluding food and energy has the characteristic of: (i) reflecting more clearly the demand components on which monetary policy acts, and (ii) being more persistent than the rest of the components of the Consumer Price Index (CPI), so that if it records a more inertial behavior, it could affect inflation expectations. For these reasons, if SAE inflation is persistently above headline inflation, and even above the upper limit of the 3.0 percent target range, it may be necessary to maintain a restrictive monetary policy stance for a longer period of time.

74. With respect to the tone and communication signals of monetary policy, the tone indicator used by the BCRP remained in the dovish zone, which is consistent with the gradual easing of the monetary policy stance since the third quarter of last year.

Graph 63
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.

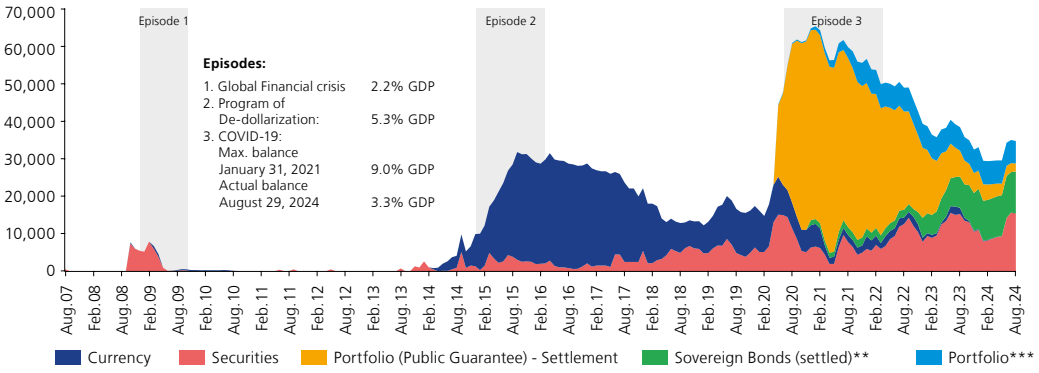
Monetary Operations

75. The BCRP's operations sought to ensure adequate liquidity levels in the interbank market. To this end, between the beginning of June and the end of August 2024, the BCRP sterilized net liquidity for S/ 4,250 million, which includes the net placement of term deposits and over-the-counter deposits (S/ 4,535 million), the net placement of BCRP CDs (S/ 3,069 million), the net maturity of auctions of Public Treasury term deposits (S/ 1,800

million), the amortization of government-secured repos of credit repos (S/ 925 million) and the maturity of alternative repos (S/ 226 million) . This sterilization was partially offset by the net placement of Securities Repo (S/ 6,098 million) and the net liquidation of BTP holdings (S/ 206 million)[37].

As a result of the above, the total balance of injection operations was S/ 34,707 million at the end of August 2024, while the balance of BCRP Certificates of Deposit (BCRP CD) was S/ 38,299 million at the same date. In terms of GDP, at the end of August, the balance of liquidity injection operations was equivalent to 3.3 percent of GDP, of which S/ 2,127 million corresponded to government-secured repos of credit portfolio repos guaranteed by the National Government-.

Graph 64
BALANCE OF MONETARY INJECTION OPERATIONS OF BCRP
(Million S/)



* As of August 29, 2024.
**Purchase of Public Treasury Bonds, in line with article 61 of the Organic Law of the BCRP.
*** Credit Portfolio reporting operations.
Source: BCRP.

Between June and August 2024, BCRP purchased Public Treasury Bonds (BTP) in the secondary market. These operations are part of the group of instruments available to the BCRP to regulate the liquidity of the financial system. Thus, so far in 2024, the BCRP has purchased BTPs with maturities between 2029 and 2040 for a total value of S/ 1,245 million and sold BTPs in net under the Debt Management Operation (OAD) for a total value of S/ 739 million. This value, added to the purchases made between 2020 and 2023, implies a balance of BTP purchases by the BCRP of S/ 11,197 million at acquisition value at the end of August 2024. It should be pointed out that the maximum amount for the annual increase in holdings of these securities is established in Article 61 of the BCRP's Organic Law and is equivalent to 5 percent of the monetary base at the close of the preceding year[38].

37 Between the beginning of June and the end of August 2024, the BCRP increased its BTP holdings by S/ 206 million (increased by S/ 945 million due to the liquidation of BTP purchases and decreased by S/ 739 million due to the net sale of BTP under the Debt Management Operation (DMO)).

38 At the end of August, the increase in BTP holdings at acquisition value for the year amounted to S/ 505 million.

76. Regarding the composition of the BCRP's balance sheet, the balance of BCRP's injection operations increased from 6.8 to 7.1 percent of BCRP's net assets between the end of May and the end of August 2024, mainly due to an increase in the share of Securities Repo (from 3.1 to 4.5 percent). In the same period, the share of Public Sector deposits in BCRP's net liabilities decreased from 23.4 to 20.9 percent, while financial system deposits rose from 22.9 to 24.2 percent. Finally, BCRP sterilization instruments (BCRP CD and, overnight and over-the-counter term deposits) increased their share in BCRP net liabilities from 13.8 percent in May 2024 to 14.8 percent in August 2024; and currency in circulation fell from 23.8 to 23.4 percent in the same period.

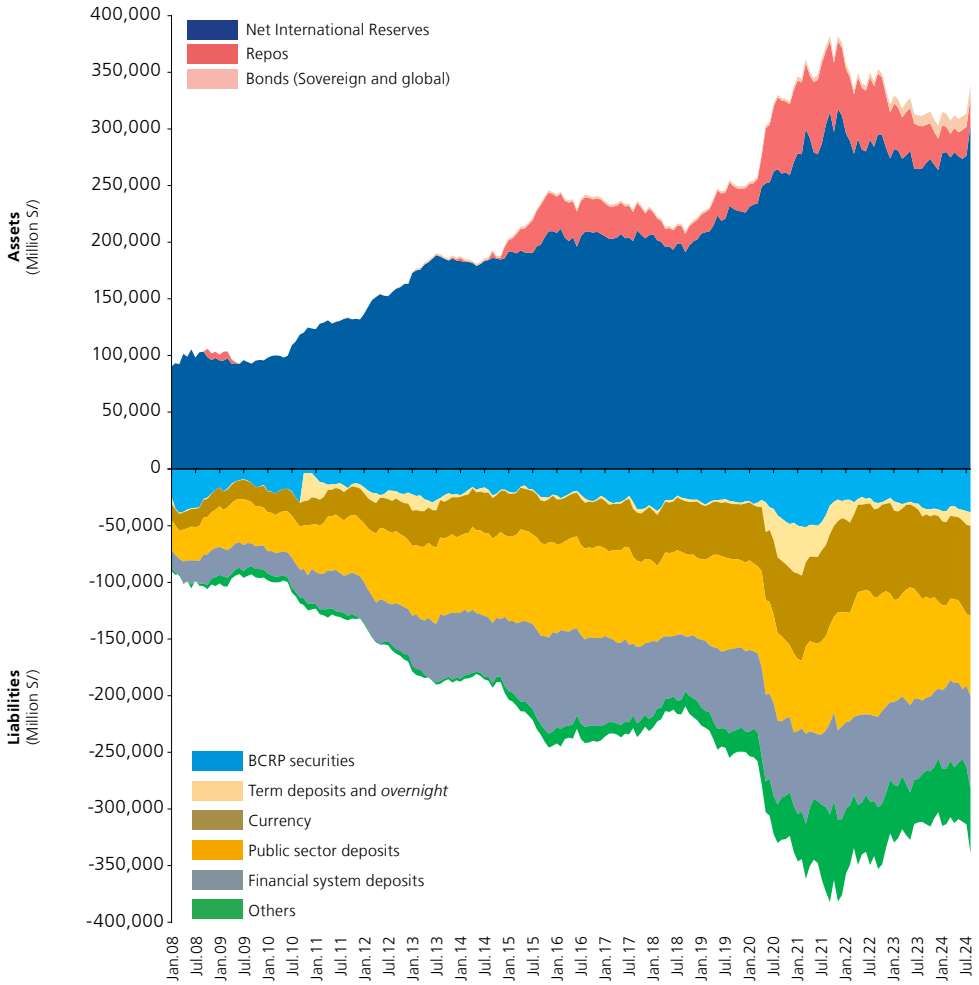
Table 32
SIMPLIFIED BALANCE SHEET OF THE BCRP**
(As % of Net Assets)

	Dec.22	Dec.23	May.24	Aug.24
I. Net assets	**100%**	**100%**	**100%**	**100%**
1. Net International Reserves	85.2%	87.1%	89.3%	89.3%
	(USD 71,883 mills.)	(USD 71,033 mills.)	(USD 73,920 mills.)	(USD 80,771 mills.)
2. Repo	**12.6%**	**9.1%**	**6.8%**	**7.1%**
Security repos	2.4%	3.6%	3.1%	4.5%
Currency repos	0.3%	0.1%	0.0%	0.0%
Temporary Purchase of Portfolio	2.0%	2.1%	2.0%	1.8%
Temporary Purchase of Portfolio with Public Guarantee	5.8%	1.6%	1.0%	0.6%
Auction of Public Sector Funds	2.0%	1.7%	0.8%	0.2%
3. Bonds (Sovereign and global)	**2.2%**	**3.8%**	**3.9%**	**3.6%**
II. Net liabilities	**100%**	**100%**	**100%**	**100%**
1. Total public sector deposits	29.8%	25.4%	23.4%	20.9%
In domestic currency	26.2%	19.9%	17.6%	14.2%
In foreign currency	3.5%	5.5%	5.8%	6.8%
2. Total financial system deposits	**21.3%**	**20.3%**	**22.9%**	**24.2%**
In domestic currency	4.1%	4.8%	4.2%	4.3%
In foreign currency	17.2%	15.5%	18.7%	19.9%
3. BCRP instruments	**9.4%**	**13.7%**	**13.8%**	**14.8%**
CD BCRP	3.9%	11.6%	11.4%	11.3%
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%	1.9%	3.3%
Overnight deposits	0.4%	0.9%	0.5%	0.3%
4. Currency	**24.9%**	**24.9%**	**23.8%**	**23.4%**
5. Others*	**14.7%**	**15.7%**	**16.1%**	**16.7%**

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

Regarding the size of the BCRP's balance sheet, in August 2024 the BCRP's assets amounted to S/ 339,162 million, equivalent to 32.4 percent of GDP, higher than that observed at the end of May 2024 (30.0 percent).

Graph 65
EVOLUTION OF THE BCRP BALANCE SHEET: 2008 - 2024



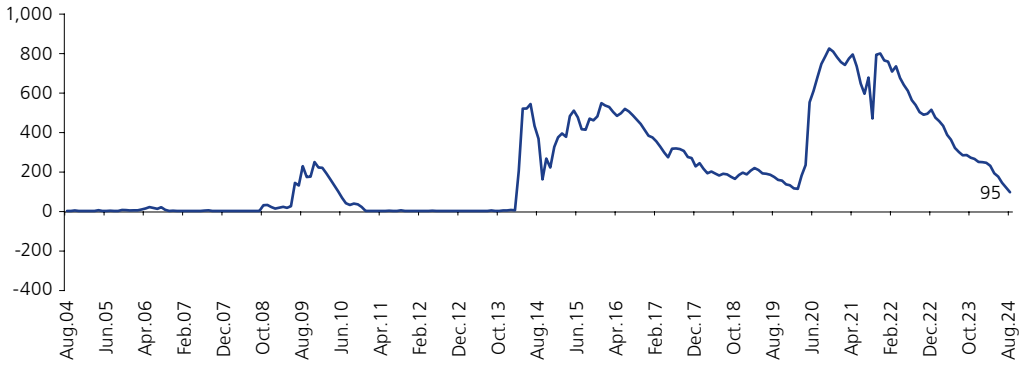
Source: BCRP.

77. Between the end of May and the end of August 2024, the residual term of the injection operations was reduced by 80 days (from 175 days to 95 days), continuing the decreasing trend observed since the end of January 2023. This reduction is mainly explained by the amortization of Loan portfolio repos guaranteed by the National Government- and the maturity of Loan portfolio repos. In this line, between the end of May and the end of August, the balance of government-backed *Repo de Cartera* and *Repo Cartera Alternativo* transactions fell by S/ 925 million and S/ 226 million, respectively.

Between the end of May and the end of August 2024, the residual term of sterilization operations was reduced by 19 days (from 88 days to 69 days). In the months of June and July, it was reduced by 29 days, mainly due to the net maturity of BCRP CDs at the 6-month term. In August it increased by 10 days, halting the downward trend recorded since the end of April. This change in the trend is explained by the higher amount of placements of BCRP CDs at terms between 9 and 18 months since July, in order to establish references in the short end of the yield curve.

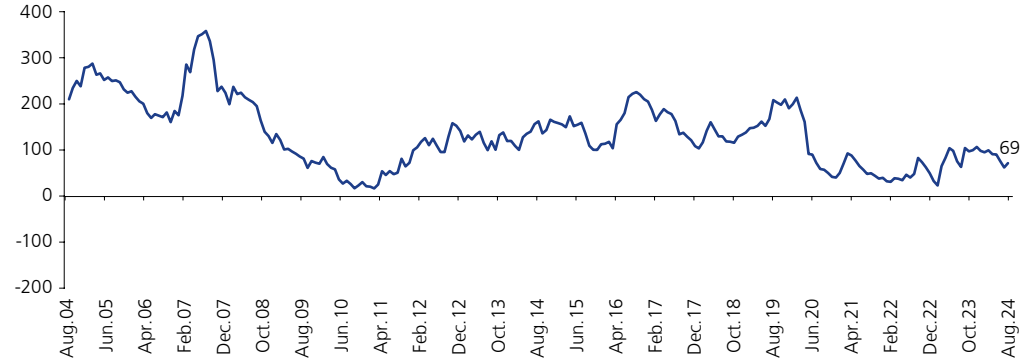
As a result of the greater reduction in the residual term of injection operations than sterilization operations, between the end of May and the end of August 2024, the BCRP's net weighted residual term of operations[39] was reduced by 15 days (from a negative level of 1 day to a negative level of 16 days).

Graph 66
RESIDUAL TERM OF BCRP INJECTION OPERATIONS
(In days)



As of August 29.
Source: BCRP.

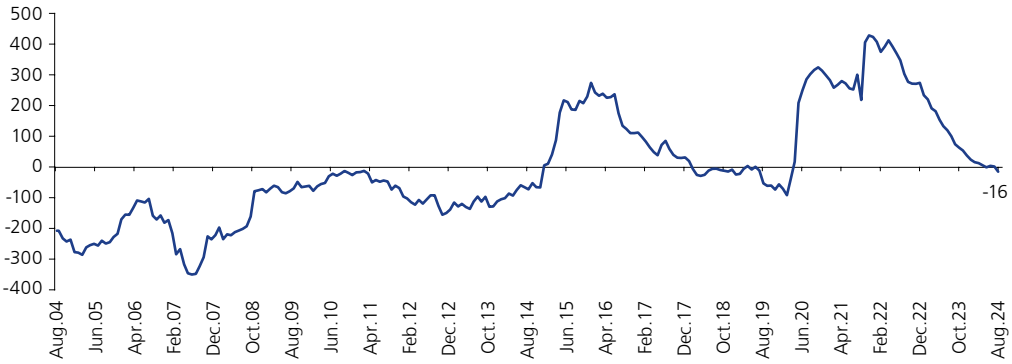
Graph 67
RESIDUAL TERM OF BCRP STERILIZATION OPERATIONS
(In days)



As of August 29.
Source: BCRP.

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

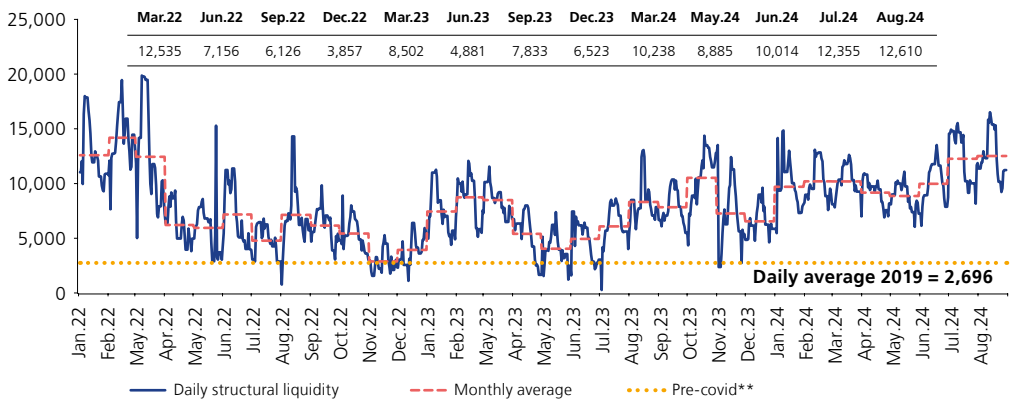
Graph 68
WEIGHTED NET RESIDUAL TERM OF BCRP OPERATIONS
(In days)



As of August 29.
Source: BCRP.

For its part, between the end of May and the end of August 2024, the average daily structural liquidity of the banks[40] increased from S/ 8,885 million to S/ 12,610 million. In the month of July, the higher structural liquidity was associated to the Debt Management Operation (OAD is the Spanish acronym) and in August, to the payment of BTP coupons and principal.

Graph 69
STRUCTURAL LIQUIDITY OF BANKS
(Million S/)



As of August 29.
Source: BCRP.

40 It considers the aggregate current account of banks at the BCRP at the beginning of the day. Specifically, it considers the balance before operations with the issuing entity, after incorporating the net maturities of injection and sterilization instruments of the previous day, and the effect of other exogenous factors.

Financial markets

78. Interest rates in Sol in the money market, loans and deposits of banks continued to decrease in the third quarter of 2024 due to the reduction in the BCRP benchmark rate in August and September; and the greater structural liquidity of banks. In the uncollateralized interbank loan market, the overnight interbank interest rate presented downward pressures and a lower average daily amount was traded in the third quarter (S/ 1,270 million), compared to the amount traded in the second quarter (S/ 1,432 million).

Table 33
INTEREST RATE IN DOMESTIC CURRENCY 1/
(%)

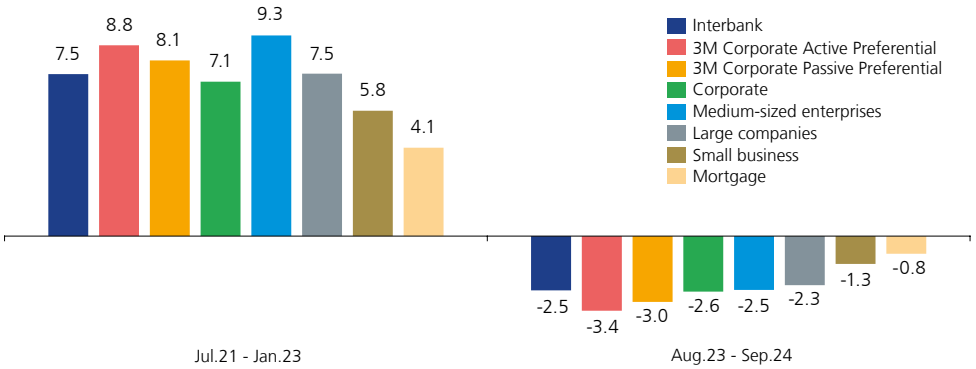
	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Jun.24	Sep.24	Historical average 2/
Passive									
90-day corporate prime	2.8	0.2	2.6	8.1	6.7	5.9	5.5	4.9	3.9
TIPMN	2.3	1.0	1.1	3.0	3.5	3.2	2.9	2.6	2.4
FTIPMN	1.5	0.1	1.0	3.7	3.1	2.9	2.9	2.7	2.3
Deposits up to 30-day	2.3	0.0	1.9	7.4	6.7	5.5	5.3	4.6	3.6
Individuals	1.6	0.2	0.7	3.7	3.3	3.3	3.4	2.7	2.4
Business	2.3	0.0	1.9	7.4	6.7	5.5	5.3	4.6	3.6
On 31 to 90-day term deposits	2.7	0.2	2.2	7.5	6.6	5.7	5.4	4.8	3.8
Individuals	1.8	0.5	0.8	3.7	6.1	5.0	4.6	4.4	2.2
Business	2.8	0.2	2.2	7.8	6.8	6.0	5.8	5.0	3.9
On 91 to 180-day term deposits	3.0	0.4	2.4	7.6	6.2	5.1	4.7	4.5	3.9
Individuals	2.3	0.5	0.9	4.8	5.9	4.9	4.3	4.4	2.8
Business	3.1	0.3	2.6	8.5	6.9	5.6	5.5	5.0	4.1
On 181 to 360-day term deposits	3.3	0.7	2.9	7.6	5.7	4.9	4.5	4.6	4.1
Individuals	3.3	1.3	2.9	6.9	5.0	4.5	4.1	4.0	3.9
Business	3.3	0.4	2.9	7.8	6.2	5.5	4.9	4.9	4.3
On more than 360-day term desposits	3.5	1.1	3.2	6.8	5.4	4.7	4.5	4.6	4.3
Individuals	3.5	2.0	3.1	5.9	5.0	4.3	4.2	4.3	4.3
Business	3.5	0.6	3.4	7.8	6.0	5.5	5.2	5.0	4.3
CTS	2.2	1.9	2.3	2.6	2.0	3.5	2.4	3.0	3.0
Active									
90-day corporate prime	3.3	0.7	3.1	9.2	7.5	6.5	6.1	5.5	4.6
TAMN	14.4	12.1	11.2	14.5	15.9	15.7	15.5	14.8	15.7
FTAMN	18.2	17.6	20.9	28.3	28.4	28.3	25.3	29.3	21.4
Corporates	3.8	2.5	3.2	8.9	8.1	7.1	6.5	6.6	5.4
Large companies	6.0	4.6	5.7	10.6	10.2	9.1	8.8	8.4	7.1
Medium-sized enterprises	9.3	6.1	8.8	14.1	13.3	12.6	12.2	12.0	10.4
Small business	18.0	17.2	19.3	22.5	22.9	22.6	22.1	22.2	20.4
MicroBusiness	31.3	30.1	32.3	36.3	37.7	43.7	43.2	42.9	33.3
MicroBusiness 3/	44.5	22.6	38.8	39.3	43.9	47.6	47.7	47.6	40.4
Consumer	40.9	39.5	41.8	49.6	56.9	56.0	58.7	57.5	43.4
Consumer 3/	43.1	41.5	40.4	47.7	54.3	57.4	55.9	57.4	46.6
Mortgage	7.0	6.4	6.9	9.9	9.1	8.9	8.8	8.5	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 September 13.
Source: BCRP and SBS.

Since August 2023, the reductions in the benchmark rate have been transmitted to most interest rates, mainly in corporate prime rates and those of lower credit risk credit such as corporate. For its part, the reduction of the benchmark rate from 5.75

percent in June to 5.25 percent in September was reflected in greater magnitude in most interest rates, incorporating the expectation of future cuts in the benchmark rate.

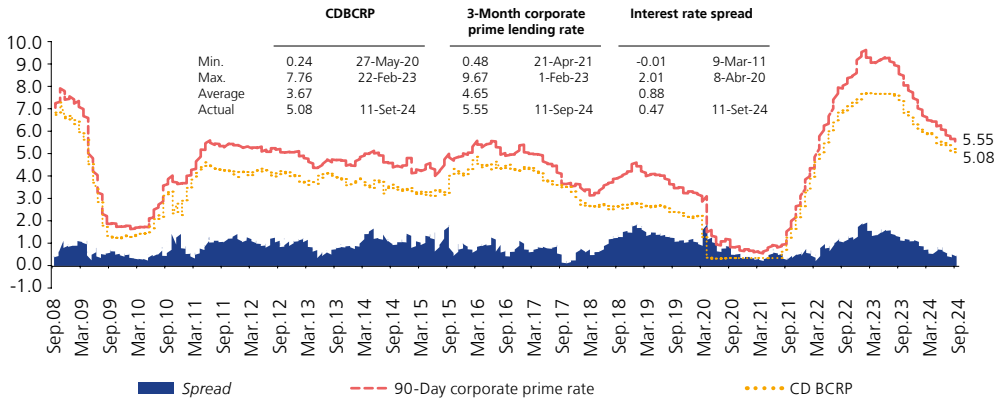
Graph 70
VARIATION IN INTEREST RATES IN SOLES
(In basis points)



As of September 13.
Source: BCRP and SBS.

In the case of lending and deposit prime interest rates, which are highly representative of the market and the financial conditions of banks, and which absorb changes in the benchmark rate more rapidly, decreased by a greater magnitude in the third quarter compared to the second quarter of 2024. Thus, between June and September 2024, lending rates for overnight and 12-month terms accumulated reductions between 34 and 60 basis points, respectively. For its part, the overnight and 12-month term deposit rates accumulated reductions between 41 and 73 basis points. For its part, the term premiums of prime lending rates with respect to the reference rate are below their historical averages at 1, 3, 6 and 12 months.

Graph 71
3-MONTH CORPORATE PRIME LENDING AND 3-MONTH CD-BCRP RATES
(%)



As of September 13.
Source: BCRP and SBS.

The spread between the corporate prime lending rate and the 3-month CD BCRP in September 2024 (47 basis points) continues to decrease from one of the highest levels reached in the last two years (193 basis points in February 2023).

79. By credit segment, most banks' domestic currency lending rates declined during the third quarter of 2024. The consumer segment of banks stands out with the largest quarterly reduction (119 basis points). On the other hand, the consumer segment of the financial system stands out with the largest increase in its interest rate (156 basis points), while the level of non-performing loans in this sector (4.08 percent in July) has declined since June 2024.

Over the same horizon, the mortgage sector interest rate decreased from 8.83 to 8.53 percent, influenced by the quarterly reduction in the 10-year sovereign bond yield (67 basis points) and the 10-year U.S. bond yield (74 basis points). The mortgage credit balance of banks increased from S/ 58.4 billion in December 2023 to S/ 60.2 billion in July 2024.

In the case of passive interest rates of banks, the vast majority continued to decline in the third quarter of 2024, mainly corporate prime rates. By type of depositor, interest rates paid to companies decreased on average 43 basis points, while interest rates paid to individuals decreased in most of their terms, with the exception of rates between 31 and 90 days; and over 360 days (average reduction of 16 basis points). Corporate prime rates for terms between overnight and twelve months also recorded a reduction (average of 57 basis points). On the other hand, the interest rate on CTS deposits increased from 2.41 percent in June to 2.99 percent in September. The balance of this type of deposits increased from S/ 4,681 million in December 2023 to S/ 4,701 million in July 2024, associated with the liberalization of accumulated funds in accordance with Law No. 32027, which allows new withdrawals of CTS funds until December 2024.

80. The BCRP and Federal Reserve (Fed) monetary policy rate differential has decreased from 2.25 percent in August 2023 to 0.25 percent in September 2024. In that period, the Fed rate decreased from 5.50 to 5.00 percent, while the BCRP benchmark rate decreased from 7.75 percent in August 2023 to 5.25 percent in September 2024. This reduction in the policy rate differential was passed through to some financial system interest rates as of June 2024. The cases of negative spreads are mainly explained by larger reductions in Sol interest rates with respect to dollar rates.

Thus, during 2024, the spread of prime lending rates has been negative at 1 and 3 months since June; meanwhile, in the credit market, the corporate segment presented a negative spread in March and since May 2024. For individual bank deposits, 1-month interest rates presented a negative spread in May, June and September. Corporate deposits recorded a negative differential in July for term deposits longer than 360 days.

Table 34

INTEREST RATE DIFFERENTIALS IN SOLES AND US DOLLARS

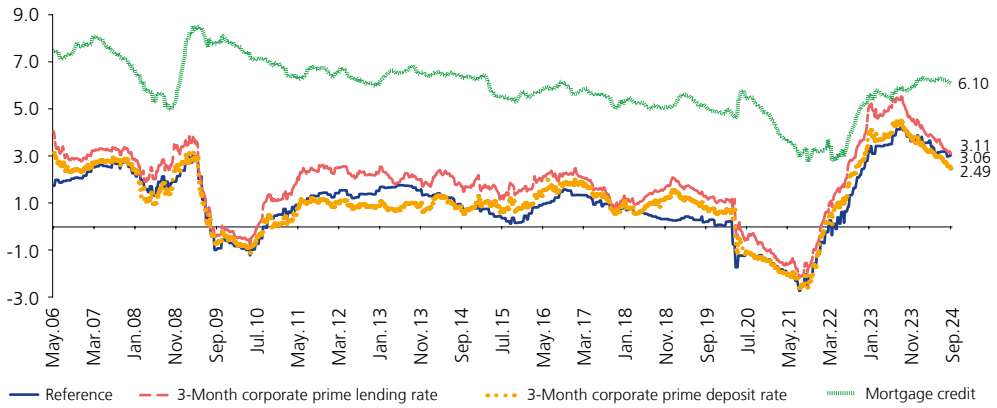
(%)

MONEY MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24
Monetary Policy	2.25	3.00	2.25	1.25	0.75	0.50	0.25	0.25	0.25	0.00	0.25
Interbank	2.25	2.60	2.25	1.25	0.75	0.50	0.25	-0.08	0.25	0.00	0.25
Active Corporate Preference											
1 Month	2.10	3.39	2.90	1.26	0.57	0.39	0.19	-0.05	-0.08	-0.16	-0.28
3 Months	2.08	3.25	2.63	1.22	0.41	0.30	0.10	-0.01	-0.18	-0.10	-0.18
6 Months	2.15	3.10	2.29	1.16	0.33	0.16	0.02	-0.16	-0.16	-0.03	0.02
Corporate Passive Preference											
1 Month	2.26	3.49	2.89	1.58	0.85	0.80	0.59	0.41	0.36	0.17	0.12
3 Months	2.29	3.43	2.65	1.45	0.67	0.62	0.43	0.35	0.21	0.25	0.16
6 Months	2.35	3.37	2.47	1.32	0.60	0.49	0.38	0.26	0.24	0.30	0.28
CREDIT MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24
Credit											
Corporate	1.17	2.76	1.86	0.58	-0.18	0.19	-0.20	-0.80	-0.53	-0.43	-0.24
Large companies	1.33	1.82	2.08	1.39	0.60	0.59	0.52	0.58	0.49	0.28	0.43
Medium-sized enterprises	2.88	5.34	4.56	3.50	3.16	2.80	2.27	2.04	2.79	2.16	2.30
Small business	9.00	10.31	10.07	9.61	8.84	9.58	8.51	8.35	8.94	8.51	8.41
MicroBusiness	24.93	23.02	21.96	22.21	29.94	34.21	35.45	30.41	28.51	29.19	32.26
MicroBusiness 1/	21.72	29.93	29.14	27.77	34.97	32.06	31.73	35.00	33.06	32.68	32.68
Consumer	8.43	8.58	10.52	10.95	9.63	9.24	10.29	11.61	12.18	10.08	8.60
Consumer 1/	6.50	10.63	10.47	13.48	11.78	7.18	9.41	9.78	8.40	10.53	10.53
Mortgage	1.83	1.61	1.36	1.20	1.17	1.27	1.24	1.34	1.24	1.29	1.51
TAMN-TAMEX	4.49	5.19	5.29	5.00	4.68	5.02	4.95	4.68	4.12	4.09	3.92
FTAMN-FTAMEX	13.27	17.43	17.05	15.48	14.84	14.48	14.96	12.40	14.78	15.42	14.76
DEPOSIT MARKETS											
	Dec.21	Dec.22	Aug.23	Dec.23	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24
Persons											
Up to 30 days	0.54	2.59	1.14	-0.11	0.05	0.20	-0.10	-0.17	0.47	0.20	-0.55
31-90 days	0.63	1.97	3.52	2.22	1.86	1.67	1.41	1.32	1.18	1.10	1.07
91-180 days	0.67	2.68	3.36	2.64	1.73	1.34	1.14	1.02	1.11	1.12	1.01
181-360 days	2.45	3.64	3.21	2.31	1.98	1.21	1.09	1.35	1.22	1.29	0.90
More than 360 days	2.33	2.99	3.23	1.99	1.99	1.93	1.68	1.35	1.32	1.40	1.45
Legal Entities											
Up to 30 days	1.74	3.79	2.80	1.62	0.60	0.85	0.88	0.43	0.22	0.24	0.17
31-90 days	2.03	4.33	3.25	1.63	0.93	1.06	1.00	0.70	0.46	0.25	0.15
91-180 days	1.97	3.87	3.31	1.86	0.64	0.87	0.60	0.44	0.48	0.24	0.22
181-360 days	2.14	2.96	2.71	0.71	0.63	0.72	0.72	-0.05	1.49	1.43	0.86
More than 360 days	2.46	3.07	2.96	0.74	0.52	0.57	0.80	0.22	-0.09	0.50	0.40
Total											
Saving	0.10	0.06	0.49	0.04	-0.01	0.11	0.08	-0.02	0.15	0.26	0.25
Up to 30 days	1.74	3.79	2.80	1.62	0.60	0.85	0.89	0.44	0.22	0.24	0.17
31-90 days	1.97	4.19	3.25	1.81	1.05	1.11	1.00	0.82	0.60	0.35	0.31
91-180 days	1.92	4.26	3.57	2.64	1.51	1.43	1.01	0.53	0.74	0.71	0.63
181-360 days	2.30	3.79	3.37	2.28	1.68	1.19	1.23	0.89	1.38	1.52	1.19
More than 360 days	2.38	3.25	3.19	1.25	1.50	1.80	1.79	1.10	0.72	1.29	1.23
In terms	1.79	3.80	2.84	1.63	0.64	0.88	0.89	0.47	0.26	0.28	0.21
CTS	1.35	1.53	1.38	1.13	2.37	1.20	1.45	1.36	0.98	1.73	1.35
TIPMN - TIPMEX	0.87	1.88	2.06	1.61	1.24	1.22	1.04	0.91	0.78	0.58	0.65
FTIPMN-FTIPMEX	0.89	1.40	0.85	-0.18	-0.36	-0.33	-0.32	-0.78	-1.00	-0.74	-0.67

As of September 19.
Source: BCRP and SBS.

81. Real interest rates also decreased during the third quarter of 2024, in line with the reduction in nominal interest rates and stable inflation expectations within the target range. Thus, the 3-month corporate prime lending and deposit rates fell 41 and 48 basis points, respectively. The reference rate in real terms also fell from 3.19 percent in June to 3.06 percent in September. Mortgage credit rate in real terms decreased from 6.29 percent in June to 6.10 percent in September.

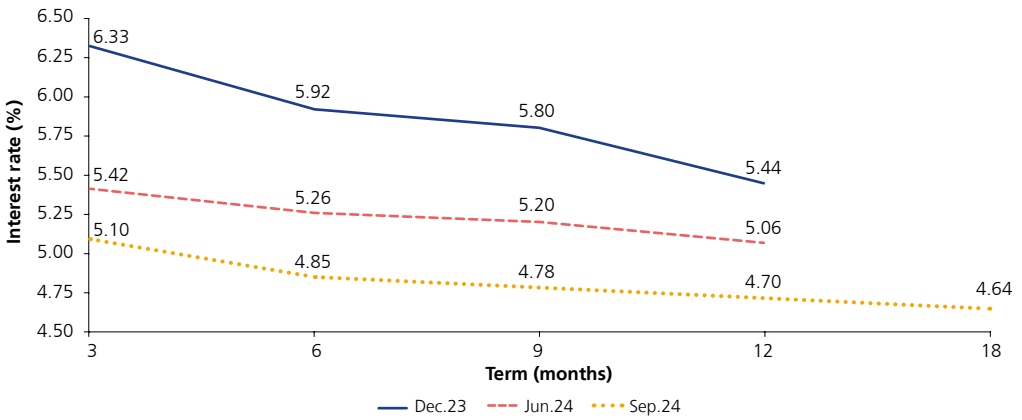
Graph 72
REAL EX-ANTE INTEREST RATES IN SOLES
(%)



As of September 11. Nominal interest rates are deflated using inflation expectations.
Source: BCRP and SBS.

82. The yield curve of Certificates of Deposit (CD BCRP) incorporated the reduction of 50 basis points in the benchmark rate between August and September. Since the second half of July, the BCRP has auctioned CDBCRPs for the 18-month term, thus the new benchmark contributes to creating a short-term curve for the private sector. The inverted shape of the yield curve continues to reflect the market's expectation of expected movements in the benchmark rate in the coming months. Thus, interest rates between June and September 2024 have fallen by 32, 41, 42 and 36 basis points at the 3-, 6-, 9- and 12-month terms, respectively.

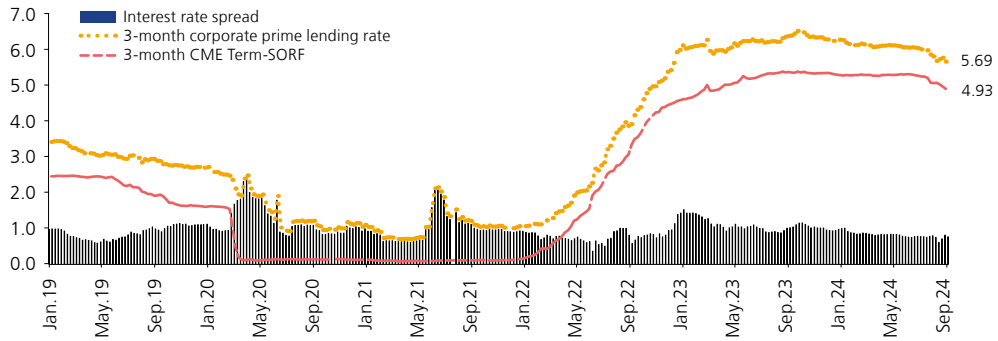
Graph 73
YIELD CURVE OF CD-BCRP SECURITIES 1/
(%)



1/ Yield rate of the primary and secondary market of BCRP CDs.
As of September 13.
Source: BCRP.

83. In the dollar money market, interest rates decreased, in line with the market's expectation of an upcoming cut in the US monetary policy rate, and greater liquidity in the financial system. In the interbank market, the overnight interest rate has remained at 5.50 percent since July 2023, in line with the U.S. monetary policy rate. In the case of the 1-, 3-, and 6-month prime lending and deposit rates, they decreased on average by 45 and 44 basis points, respectively, while the 3-month Term SOFR decreased by 40 basis points. The spread between the prime lending rate and the 3-month Term SOFR remained at 0.76 percent in September 2024.

Graph 74
INTEREST RATE IN DOLLARS: CORPORATE PREFERENTIAL LIABILITY AND 3-MONTH CME TERM-SOFR
(%)



As of September 11.
Source: Chicago Mercantile Exchange and BCRP.

In the third quarter of 2024, interest rates the banking credit market in foreign currency exhibited mixed behaviors, as those segments with lower credit risk such as corporate, large companies and medium-sized companies are under stronger influence of external conditions. On the other hand, the micro-enterprise segment of the financial system and the consumer segment of the banks and the financial system stand out with the highest interest rate increases (223, 176 and 81 basis points, respectively). The mortgage credit interest rate decreased from 7.49 percent in June to 7.12 percent in September 2024, while the yield rate of the 10-year global bond decreased from 5.63 percent to 4.99 percent in the same period.

For its part, most dollar deposit rates decreased in the third quarter of 2024, mainly those remunerated to companies. These rates decreased in all terms between 22 and 97 basis points. On the other hand, interest rates paid to individuals showed mixed behavior by terms, among which the reduction of 31 basis points up to 30 days stands out. In the case of the interest rate on CTS deposits in banks, it increased from 1.05 percent in June to 1.09 percent in September, while the balance of this type of deposit stood at USD 511 million in July 2024.

Table 35
INTEREST RATE IN FOREIGN CURRENCY 1/
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Mar.24	Jun.24	Sep.24	Historical average 2/
Passive									
90-day corporate prime	1.6	0.2	0.3	4.7	5.3	5.2	5.2	4.7	1.5
TIPMEX	0.8	0.3	0.2	1.2	1.9	2.0	2.0	2.0	0.7
FTIPMEX	1.2	0.1	0.1	2.3	3.3	3.3	3.7	3.4	1.0
Deposits up to 30-day	1.4	0.1	0.1	3.6	5.1	4.9	4.8	4.4	1.2
Individuals	1.3	0.0	0.1	1.1	3.4	3.3	3.6	3.3	0.9
Business	1.4	0.1	0.1	3.6	5.1	4.9	4.8	4.4	1.2
On 31 to 90-day term deposits	1.5	0.3	0.2	3.3	4.8	4.6	4.6	4.4	1.4
Individuals	1.0	0.2	0.2	1.7	3.8	3.2	3.3	3.3	0.9
Business	1.6	0.3	0.2	3.4	5.1	5.0	5.1	4.8	1.5
On 91 to 180-day term deposits	1.3	0.3	0.5	3.4	3.6	3.6	4.1	3.8	1.3
Individuals	1.0	0.2	0.3	2.1	3.2	3.1	3.3	3.3	1.0
Business	1.6	0.3	0.6	4.6	5.0	5.0	5.0	4.7	1.6
On 181 to 360-day term deposits	1.4	0.3	0.6	3.8	3.5	3.2	3.6	3.3	1.5
Individuals	1.2	0.3	0.4	3.2	2.7	2.5	2.7	3.0	1.3
Business	1.8	0.3	0.7	4.9	5.5	4.9	5.0	4.0	1.7
On more than 360-day term desposits	1.6	0.5	0.8	3.5	4.1	3.2	3.4	3.4	1.6
Individuals	1.3	0.5	0.8	2.9	3.0	2.3	2.9	2.8	1.5
Business	1.9	0.6	0.9	4.8	5.2	5.0	5.0	4.6	1.8
CTS	1.3	1.0	0.9	1.1	0.9	1.1	1.1	1.1	1.5
Active									
90-day corporate prime	2.7	1.0	1.0	6.0	6.3	6.1	6.1	5.7	2.5
TAMEX	7.6	6.1	6.7	9.3	10.9	11.0	10.8	10.8	8.0
FTAMEX	7.1	6.3	7.6	10.9	13.0	13.5	12.9	13.0	8.2
Corporates	3.2	2.0	2.1	6.1	7.5	7.3	7.3	6.8	3.5
Large companies	5.5	4.5	4.3	7.8	8.8	8.5	8.2	8.0	5.7
Medium-sized enterprises	6.6	5.9	5.9	8.8	9.8	9.4	10.2	9.6	8.0
Small business	8.8	5.3	10.3	12.2	13.2	13.7	13.7	13.6	11.7
MicroBusiness	11.0	8.5	7.4	12.7	15.5	13.7	12.8	10.9	15.9
MicroBusiness 3/	7.7	4.8	17.1	9.4	16.1	12.7	12.7	14.9	13.2
Consumer	36.1	35.1	33.4	41.0	45.9	46.4	47.1	48.9	32.3
Consumer 3/	35.3	33.5	33.9	37.1	40.8	45.6	46.1	46.9	37.8
Mortgage	5.6	5.4	5.0	8.3	7.9	7.7	7.5	7.1	7.0

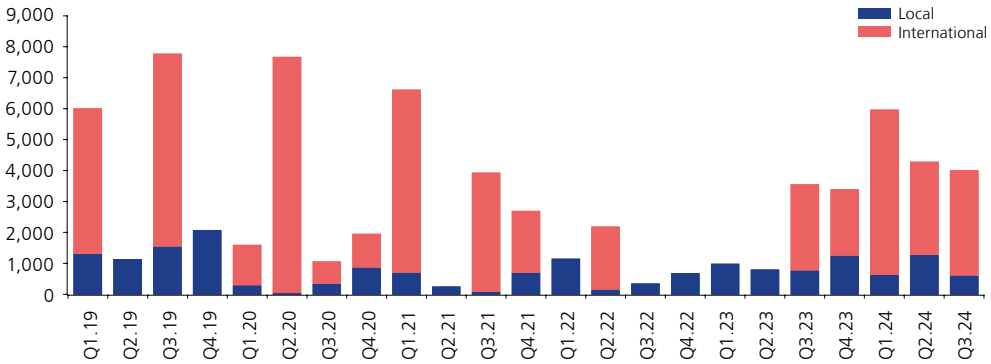
1/Rates in annual terms of banks' transactions in the last 30 days.
2/ Average since September 2010. In the case of consumer credit, it is the average since October 2019.
3/ Corresponds to the average of the financial system.
As of September 13.
Source: BCRP and SBS.

Fixed income market

84. During the third quarter of 2024 we recorded a slight reduction in the amounts placed in the capital markets, compared to the second quarter. The greater volatility in international markets and the uncertainty, until the first week of August, regarding the beginning of the cycle of monetary policy rate cuts in the United States, may have influenced the lower level of securities placements. In the local market, a total of S/ 620 million were placed through public offerings between July and September 2024, below the level of the second quarter (S/ 1,286 million). In the international market, USD 900 million were placed (USD 600 million at 11 years and USD 300 million at 6 years).

On the other hand, non-resident entities have issued securities in Sol for S/ 402 million in the third quarter of 2024 at terms between 3 months and 10 years, above the total placed in the first and second quarters (S/ 273 million and S/ 237 million, respectively). The total placed in 2024 (S/ 911 million) is below the total placed in 2023 (S/ 1,347 million) and 2022 (S/ 1,883 million).

Graph 75
PRIVATE SECTOR BOND PLACEMENTS
(In millions S/)



As of September 13.
Source: Reuters and SMV.

85. The value of the portfolios managed by institutional investors continues to decrease, mainly associated with the liquidation of investments due to Law No. 32002 "Law that authorizes the extraordinary and optional withdrawal of the funds of members of the private pension system up to the amount of four tax units (UIT)".

Table 36
AFP MANAGED PORTFOLIO
(In millions)

	Balance			Variation	
	Dec.19	Jun.24	Sep.24	Sep.24 - Jun.24	Sep.24 - Dec.19
A. Local Investments	**95,347**	**75,333**	**66,202**	**-9,131**	**-29,145**
1. Fixed income	66,309	38,661	35,123	-3,538	-31,186
Government Bonds	40,431	28,452	23,919	-4,533	-16,512
Private Sector Bonds	25,878	10,142	10,485	343	-15,393
Financial entities	8,232	3,342	3,934	592	-4,298
Non-Financial System	17,647	6,800	6,551	-248	-11,095
2. Variable income	19,589	21,388	19,213	-2,175	-375
3. Current Accounts	884	1,609	99	-1,510	-785
4. Deposits in the financial system	2,969	6,076	4,772	-1,304	1,803
5. Mutual and Investment Funds	5,336	4,458	4,187	-271	-1,149
6. Short Term (CD, Commercial Paper)	0	2,137	1,906	-231	1,906
7. Others	261	1,003	903	-100	642
B. Investments Abroad	**78,448**	**57,551**	**47,174**	**-10,377**	**-31,273**
1. Fixed income	7,237	12,338	7,804	-4,534	568
2. Variable income	32	354	322	-32	290
3. Deposits	151	386	145	-241	-.5
4. Mutual and Investment Funds	70,705	43,830	38,447	-5,382	-32,258
5. Checking Accounts	.0	643	455	-188	455
6. Others	323	.0	.0	.0	-323
Operations in transit	1,028	-10,388	-6,830	3,558	-7,858
Managed Portfolio	**174,823**	**122,496**	**106,547**	**-15,949**	**-68,276**
Inv. Abroad / Adm. Portfolio	*44.9%*	*47.0%*	*44.3%*	*-2.7%*	*-0.6%*
Degree of portfolio dollarization	*56.5%*	*61.3%*	*58.8%*	*-2.5%*	*2.3%*
Deposits in the local and ext SF. / Adm Portfolio	*1.8%*	*5.3%*	*4.6%*	*-0.7%*	*2.8%*
Exchange rate (Soles per dollar)	*3.384*	*3.831*	*3.777*		

As of September 11, 2024.
Source: SBS.

In the case of AFPs, the investment portfolio decreased from S/ 122.5 billion to S/ 106.5 billion between June 28 and September 11, 2024, mainly due to the liquidation of local and external investments to comply with withdrawal requests. In this regard, between May 20 and August 29, around 4.1 million members have requested the seventh withdrawal of funds. The amount requested and disbursed, as of August 9, amounted to S/ 26.5 and S/ 18.9 billion, respectively. Therefore, to avoid the clearing significant amounts of securities over a short period of time, which could have undesirable impacts on BTP interest rates, considering the environment of devaluation of equity securities at the global level, the BCRP carried out repo transactions with AFPs for 1 and 3 months between June and September, as of the 13th, for S/ 11,469 million.

For mutual funds, assets under management increased from S/ 32.9 billion in December 2023 to S/ 43.3 billion in August 2024. The number of participants rose from 347.6 to 392.9 thousand in the same period, which is the highest level in the last thirty-five months. Individuals accounted for 84 percent of participation in local mutual funds as of July 2024. In the case of insurance companies, their managed portfolio increased from S/ 61.8 billion to S/ 65.1 billion between December 2023 and July 2024.

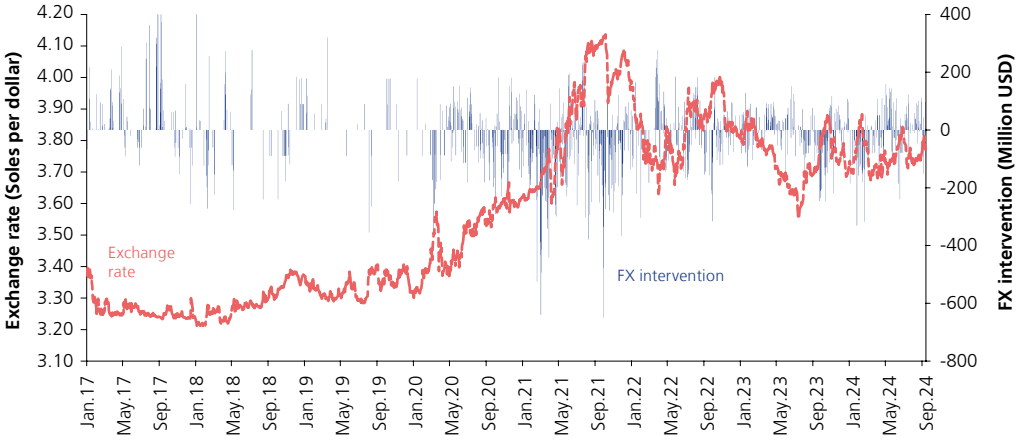
Foreign Exchange Market

86. In the third quarter of 2024, the exchange rate presented a downward trend, accumulating an appreciation of 1.7 percent. In July, the Peruvian Sol decreased from S/ 3.844 to S/ 3.730 per dollar, thus appreciating by 3.0 percent, while the dollar at the global level weakened by 1.7 percent, due to the publication of employment data and US economic activity that indicated a slowdown, in this context, the Sol stood out with the best monthly regional performance, driven by the positive differential with respect to the US policy rate; and by the net supply of dollars from local exchange market participants. Additionally, after the clearance of the Debt Management Operation (OAD is the Spanish acronym) at the beginning of July, upward pressures on the exchange rate decreased.

In August, the exchange rate depreciated by 0.5 percent, in a month of high volatility in global financial markets. On August 5, stocks at the global level fell due to the massive sell-off of carry trade positions financed with Japanese yen, the change in the monetary policy stance in Japan affected the strategy in which investors borrow in a low-yielding currency and invest for a higher interest rate one. At the end of the month, the Fed Chairman's message indicating a **dovish** monetary policy boosted emerging currencies, including the Sol, and weakened the dollar (2.6 percent in the month). In September, the Peruvian Sol increased from S/ 3.750 to S/ 3.779 per dollar, depreciating 0.8 percent.

Graph 76

EXCHANGE RATE AND FX INTERVENTION 1/



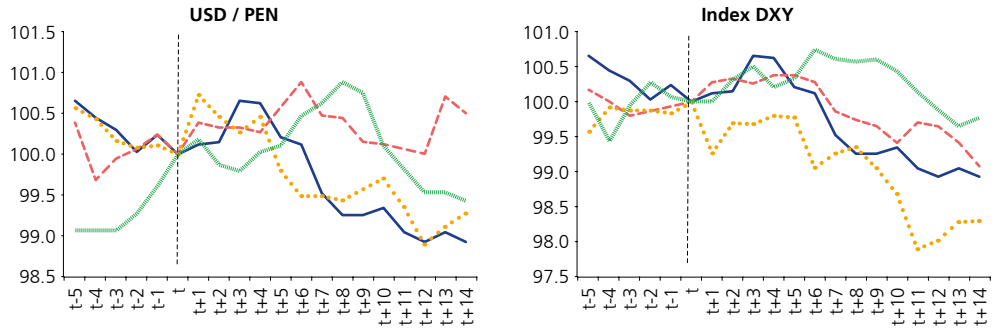
1/ Includes Net purchases of USD in the spot market and placement of CDLD BCRP, CDR BCRP, and FX swaps.
As of September 13.
Source: BCRP.

Regarding the June 2024 OAD, it should be noted that in recent transactions (June 2019, November 2019 and June 2023 and June 2024), the exchange rate has been under upward pressure between the announcement and settlement dates. With a high participation of foreign investors in BTP issues, they tend to increase their forward demand for foreign exchange hedges. For its part, with cash payments in Sol, investors could opt to trade in the spot market[41] . Thus, on the one hand, in November 2019, June 2023 and June 2024, the Sol depreciated by 0.44, 2.81 and 0.61 percent, respectively, while in June 2019 the Sol appreciated by 0.48 percent. While in each of the periods there have been other factors explaining the exchange rate trend, a common element is that after the ADO announcement in all four cases the Sol depreciated on the day, but by different magnitude (June 2019: 0.12 percent; November 2019: 0.39 percent; June 2023: 0.74 percent and June 2024: 0.18 percent).

Graph 77

EXCHANGE RATE

(Announcement date =100)



	June 2019			November 2019			June 2023			June 2024		
	11-Jun	20-Jun	Var.	21-Nov	3-Dec	Var.	31-May	12-Jun	Var.	18-Jun	1-Jul	Var.
USD-PEN Exchange Rate	3.327	3.311	-0.5	3.376	3.391	0.4	3.671	3.774	2.8	3.81	3.839	0.8
DXY index	96.7	96.6	-0.1	98.0	97.7	-0.3	104.3	103.7	-0.6	105.3	105.9	0.6

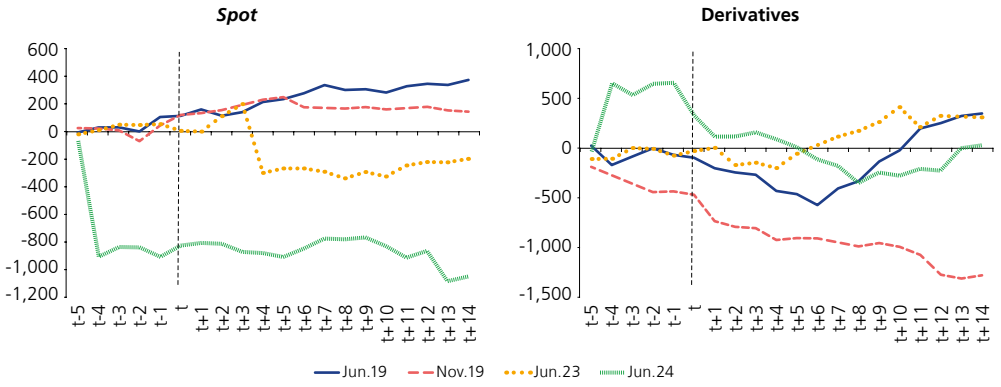
Jun.19 Nov.19 Jun.23 Jun.24

Source: BCRP and Bloomberg.

41 In the June 2019, November 2019 and June 2024 operations, non-resident investors accounted for most of the variation in the balance of BTPs that were part of the operation by 79, 77 and 25 percent, respectively. In those periods the net demand for dollars by non-residents was USD 107 million, USD 434 million and USD 147 million, respectively. In addition, in recent ADOs the preference for cash repurchase was significant (49 and 46 percent in June 2023 and 2024, respectively), suggesting a lower demand for swapping longer duration bonds.

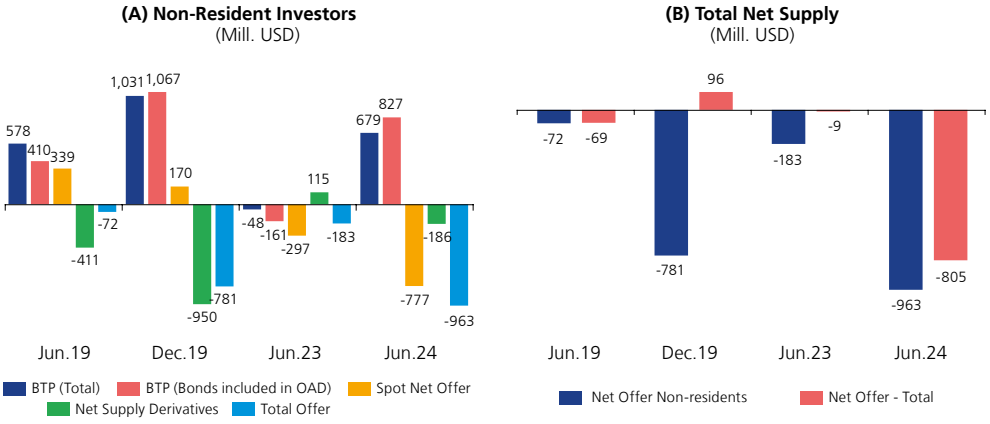
In the case of foreign exchange flows, between the announcement and clearance date of each OAD non-resident investors presented: (i) net supply in the spot market in the 2019 OADs (USD 339 million in June and USD 168 million in November) but of net demand in the June 2023 and 2024 OAD (USD 347 million in 2023 and USD 768 million in 2024); and (ii) net forward demand in the 2019 and 2024 OADs (USD 411 million in June 2019, USD 991 million in November 2019 and USD 255 million in June 2024); and of net supply in the 2023 OAD (USD 174 million). A common element is that in all four OADs foreign investors registered net demand for dollars, mainly in June 2024 (USD 1,023 million).

Graph 78
ACCUMULATED EXCHANGE FLOWS OF NON-RESIDENT INVESTORS*
(In millions USD)



* Accumulated flows 5 days before the OAD announcement. Positive sign indicates supply and negative sign indicates demand.
Source: BCRP.

Graph 79
OAD IMPACT 2019 AND 2024*
(In millions)

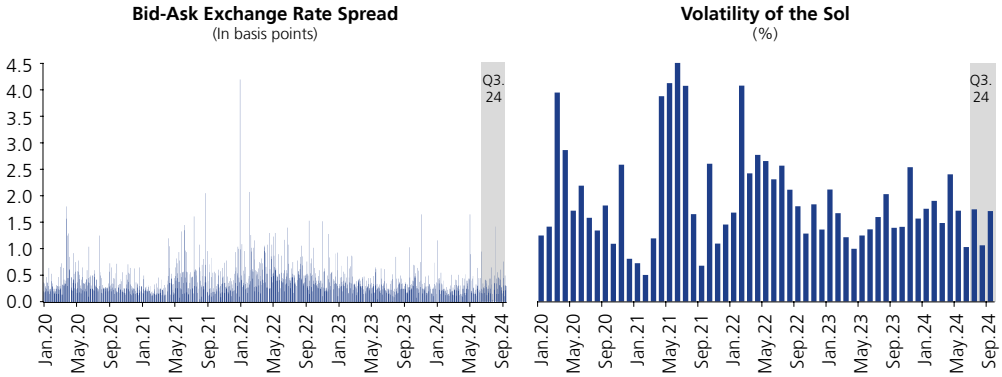


* The four episodes consider the period between the announcement and settlement date of each OAD: June 2019 (June 11 to 20); November 2019 (November 21 to December 3); June 2023 (May 31 to June 12); and June 2024 (June 18 to July 1). In (A) the variation in dollars of the total balance of BTP and the bonds that made up each OAD for non-resident investors, and the net spot supply, derivatives and total for foreign investors; and in (B) the total net supply in dollars of all participants in the exchange market and non resident investors.
Source: BCRP and MEF.

In terms of Sol volatility, it stood at 6.3, 3.8 and 6.2 percent in July, August and September 2024, respectively. During the third quarter, the exchange rate fluctuated between S/ 3.712 and S/ 3.839 per dollar, and appreciated daily in 50 percent of the days (daily

maximum of 0.88 percent), while in the second quarter there were daily appreciations in 37 percent of the days (daily maximum of 1.31 percent). In quarterly terms, volatility in the third quarter amounted to 5.5 percent, below the regional average (12.5 percent). Exchange rate bid-ask spreads fluctuated between 0.04 and 1.42 basis points between July and August 2024, below the second quarter range (0.10 and 1.65 basis points).

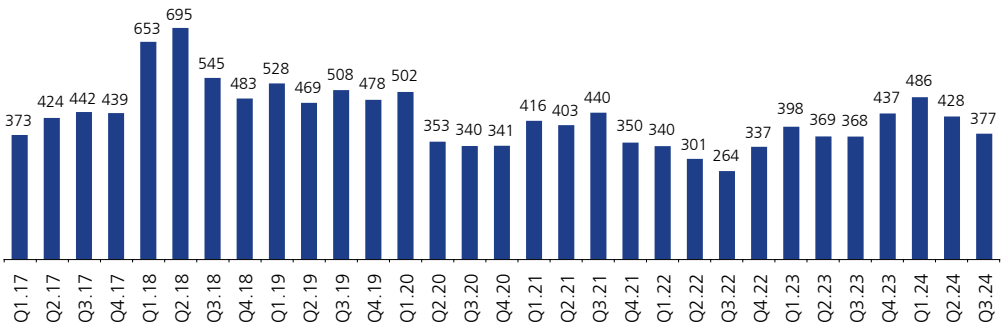
Graph 80
SPREAD AND EXCHANGE RATE VOLATILITY



Monthly annualized daily standard deviation.
As of September 13.
Source: Reuters and BCRP.

Average daily trading in the interbank spot exchange market so far in the third quarter of 2024 (USD 377 million) is lower than in the second quarter of 2024 (USD 428 million).

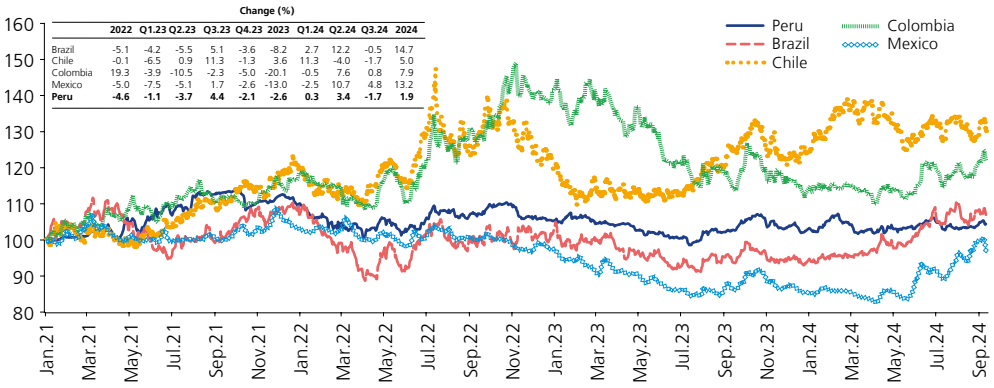
Graph 81
AVERAGE AMOUNT TRADED IN INTERBANK SPOT MARKET
(Million USD)



As of September 13.
Source: BCRP.

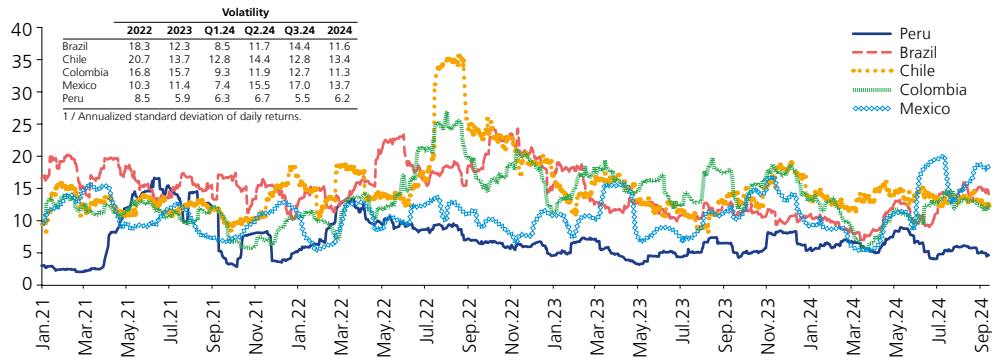
The region's currencies presented a mixed performance in the third quarter of 2024. Chile and Peru stand out with the best quarterly performances. In the financial turbulence of August 5, the currencies of Mexico and Colombia presented the worst daily performances, while in Peru and Brazil currencies appreciated by 0.5 and 0.1 percent, respectively.

Graph 82
EXCHANGE RATE INDEX 1/
(31 Dec.2020=100)



1/ A higher index signals currency depreciation.
As of September 13.
Source: BCRP and Reuters.

Graph 83
EXCHANGE RATE VOLATILITY*



*Standard deviation of the annualized daily return over the last 30 days.
As of September 13.
Source: Reuters.

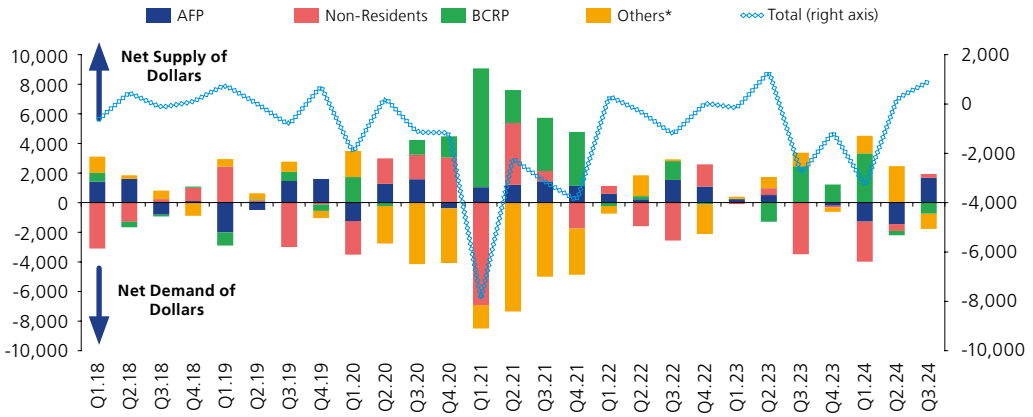
87. Exchange flows of market participants in the third quarter of 2024, as of September 13, are of net dollar supply (USD 909 million), higher than the net dollar supply observed in the second quarter (USD 204 million). In the spot market, net dollar supply was recorded (USD 2,293 million), mainly driven by AFPs (USD 2,328 million) and mining companies (USD 2,067 million). In the derivatives market there was net demand (USD 1,383 million) from AFPs (USD 640 million), non-resident investors (USD 425 million) and corporate sector companies (USD 343 million).

Non-resident investors presented a net dollar supply of USD 252 million in the third quarter of 2024, a change with respect to the net demand of the second quarter (USD 475 million). In the *spot* market, they bid dollars for USD 677 million, while in the derivatives market, they net demanded around USD 425 million in the third quarter, lower than the demand of the second quarter (USD 520 million). Between June 28 and September 13, foreign investors bought net S/ 7,431 million BTPs, mainly due to the purchase of the new BTP 2039, which was part of the OAD cleared on July 1.

Graph 84

FLOWS TO THE FOREIGN EXCHANGE MARKET: (SPOT AND DERIVATIVES)

(Million USD)



	2021	2022	2023	Q1.24	Q2.24	Q3.24*	2024*
Spot	-6,892	1,281	-71	730	928	2,293	3,950
Derivatives	-10,288	-2,535	-2,766	-4,040	-723	-1,383	-6,146
Total	**-17,180**	**-1,254**	**-2,837**	**-3,310**	**204**	**909**	**-2,196**
Change in Global Exchange Position of Banks	-326	120	405	-25	83	-164	-106
BCRP intervention	17,506	1,134	2,433	3,334	-288	-745	2,302

* Other includes companies from the corporate sector, mining and retail sectors. Positive sign indicates supply and negative sign indicates demand. In the case of the bank's exchange position, the positive sign indicates a decrease in the position.
** As of September 13.
Source: BCRP.

In the third quarter of 2024 (as of September 13), the AFPs bid around USD 1,688 million, in contrast to the net demand in the second quarter (USD 1,439 million). In the spot market they bid USD 2,328 million, due to the liquidation of external investments to make the payment to affiliates of the requested withdrawals, while in the derivatives market they demanded in net USD 640 million. Net sales of external securities by AFPs in the period amounted to USD 2,216 million, the highest level of sales since the third quarter of 2022 (USD 2,644 million).

In the case of the non-financial sector, between July and September 2024, entities presented a net demand of USD 816 million: (i) corporate sector companies: net demand of USD 3,404 million, mainly in the spot market (USD 3,061 million), above the total recorded in the second quarter (USD 1,952 million); (ii) mining sector companies: net supply of USD 2,067 million in the spot market, below the net supply in the second quarter (USD 2,524 million); (iii) retail sector: net supply of USD 518 million in the spot market, below the net supply in the second quarter (USD 1,901 million).

For banks, the overall position increased from -USD 357 million in June to -USD 193 million in September 2024. The Non-Delivery Forward (NDF) balance of net bank sales with non-resident investors increased from USD 12,326 million in June to USD 12,569 million in September 2024.

In this context, the BCRP has intervened in the foreign exchange market given the maturities of foreign exchange instruments during the third quarter of 2024, only through FX Swaps-sale auctions in the variable rate modality; with the objective of reducing the volatility in

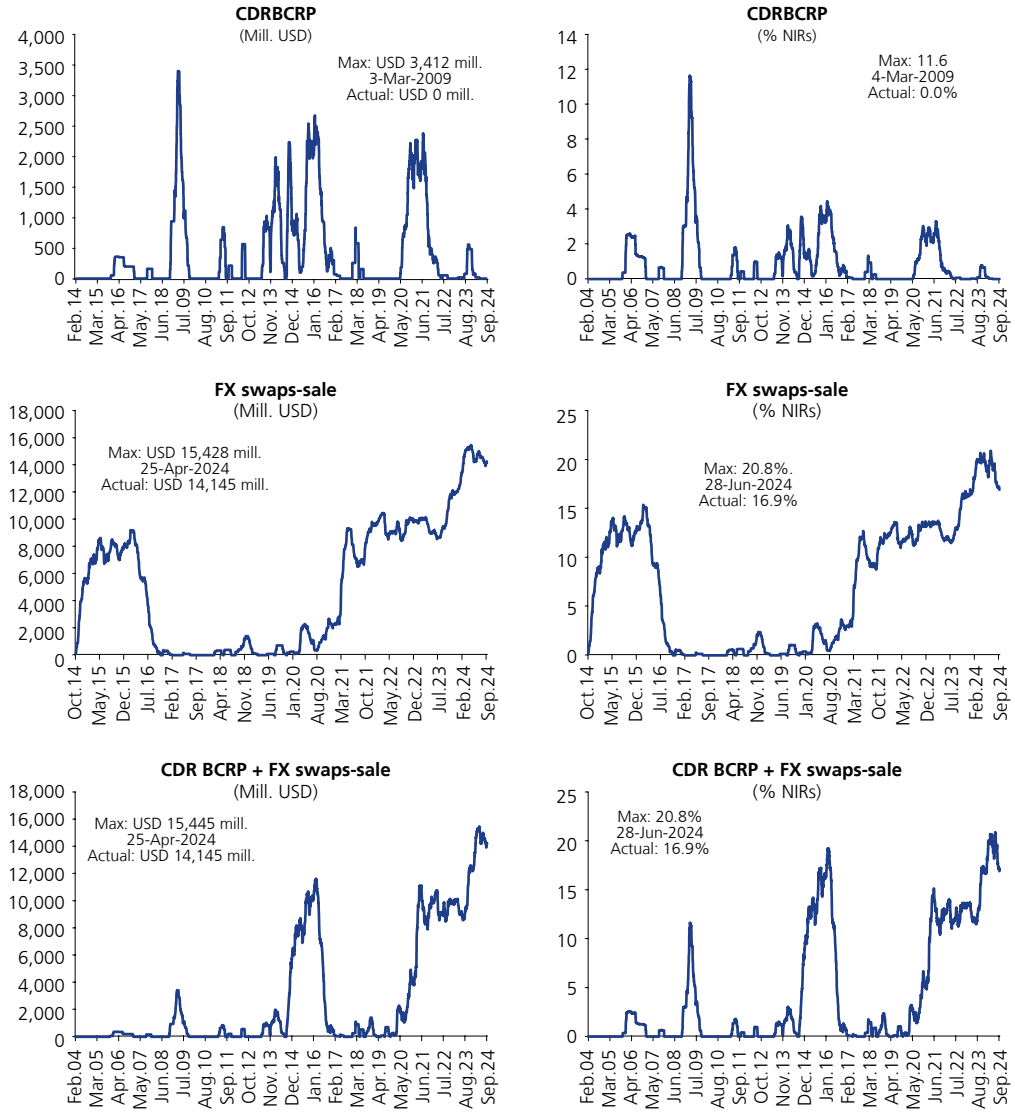
the price of the Sol against the dollar, in a context of uncertainty in international financial markets. Thus, FX Swaps-sales for S/ 24,387 million (USD 6,480 million) were placed for terms of 3, 6, 9 and 12 months at variable rates, and S/ 27,021 million (USD 7,224 million) matured at fixed and variable rates.

The total balance of FX swaps-sale as of September 13 stood at USD 14,145 million, equivalent to 16.9 percent of Net International Reserves (NIRs), lower than the level of June 30 (USD 14,889 million and 20.9 percent of NIRs). The BCRP CDRs balance as of September 13 is nil, after maturing on May 7. SCV and CDR maturities led to a smaller balance of foreign exchange instruments from the maximum levels recorded in March and April 2024, which was associated to the high demand for dollars in the foreign exchange market by non-resident investors during the first quarter of 2024.

Graph 85

BCRP BALANCE OF FOREIGN EXCHANGE INSTRUMENTS

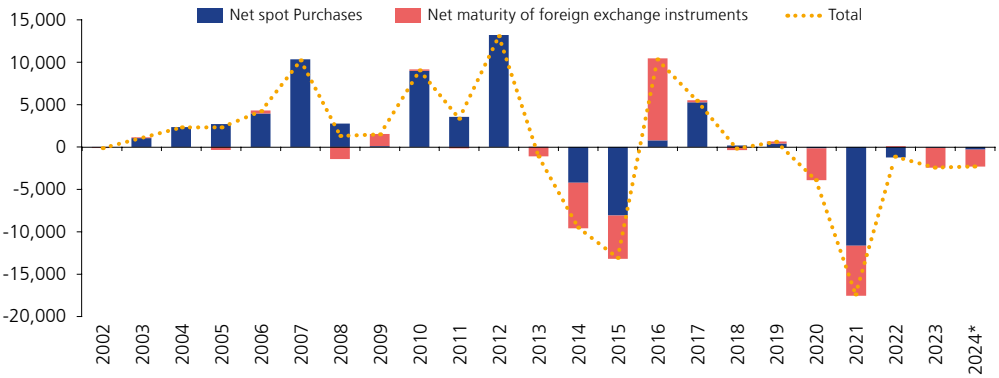
(In million USD and % of NIRs)



* As of September 13.
Source: BCRP.

As of September 13, in the third quarter, the BCRP has net demanded USD 745 million in the foreign exchange market as the net maturity of FX swaps (USD 7,224 million) is higher than the net placement of FX Swaps-sale (USD 6,480 million).

Graph 86
BCRP INTERVENTIONS IN THE FOREIGN EXCHANGE MARKET
(Million USD)



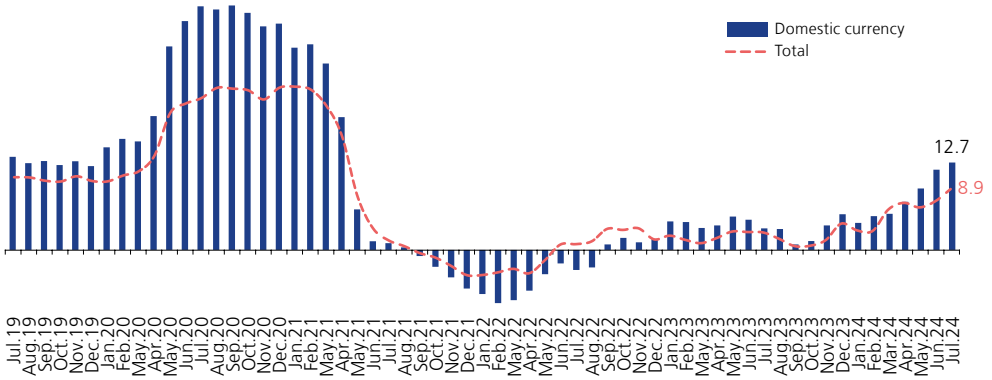
	2021	2022	2023	Q1.24	Q2.24	Q3.24	2024
Net spot Purchases	-11,626	-1,236	-81	-235	-83	0	-318
Net maturity of foreign exchange instruments	-5,880	102	-2,352	-3,099	371	745	-1,984
Total	**-17,506**	**-1,134**	**-2,433**	**-3,334**	**288**	**745**	**-2,302**

Includes the net maturities of CDR BCRP and foreign exchange swap sales; CDLD net placements and exchange purchase swaps.
* As of September 13.
Source: BCRP.

Liquidity

88. The year-on-year growth rate of private sector deposits stood at 8.9 percent in July 2024. By currency, deposits in Sol increased by 12.7 percent year-on-year, while dollar-denominated deposits increased by 1.9 percent year-on-year in the same period.

Graph 87
PRIVATE SECTOR DEPOSITS BY CURRENCY*
(Annual % chg.)



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

The dollarization ratio for private sector deposits in July 2024 is 33.2 percent, down from 34.1 percent recorded in December 2023.

Table 37
MONETARY AND CREDIT ACCOUNTS OF THE DEPOSITORY CORPORATIONS (END-OF-PERIOD)
(Annual % chg.)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jul.24	Dec.24*	Dec.25*
Currency in circulation (End-of-period)	4.7	37.3	16.0	-3.8	-5.6	6.2	4.0	0.0
Deposits in domestic currency	12.2	33.0	-5.6	1.6	5.2	12.7	9.6	7.3
Total deposits 1/	10.1	23.8	-3.8	1.5	3.8	8.9	7.0	5.4
Broad money in domestic currency	10.5	32.2	-0.9	0.5	3.9	11.4	8.3	5.7
Total broad money 1/	9.6	25.2	-0.4	0.9	3.0	8.9	6.5	4.5
Credit to the private sector in domestic currency	10.1	19.4	5.5	2.4	0.8	1.0	3.4	6.0
Credit to the private sector total 1/	7.0	10.9	4.1	4.5	1.3	0.8	3.0	5.0
Credit to the private sector total (without Reactiva Peru) 1/	7.0	-5.5	8.9	11.2	5.0	2.5	4.2	5.4

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

89. The financial savings ratio increased from 66.7 percent in 2019 to 81.4 percent in 2020, driven by social immobilization constraints stemming from the health crisis. Subsequently, the ratio decreased below the figures observed prior to the COVID-19 pandemic, mainly influenced by the approval of the availability of CTS and AFPs contributions, as well as by the capital outflows observed in 2021 (7.3 percent of GDP). Thus, the ratio stood at 54.9 percent in July 2024.

Table 38
FINANCIAL SAVINGS/GDP RATIO
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jul.24
Deposits	37.5	50.0	39.5	37.6	36.6	37.3
Of which: CTS	3.0	3.1	1.4	1.2	0.9	0.9
AFPs	22.0	22.2	14.5	11.2	12.2	10.7
Mutual Funds	4.5	6.0	3.3	2.8	3.0	3.7
Rest 1/	2.7	3.2	2.8	2.6	3.1	3.2
TOTAL	**66.7**	**81.4**	**60.2**	**54.2**	**54.9**	**54.9**

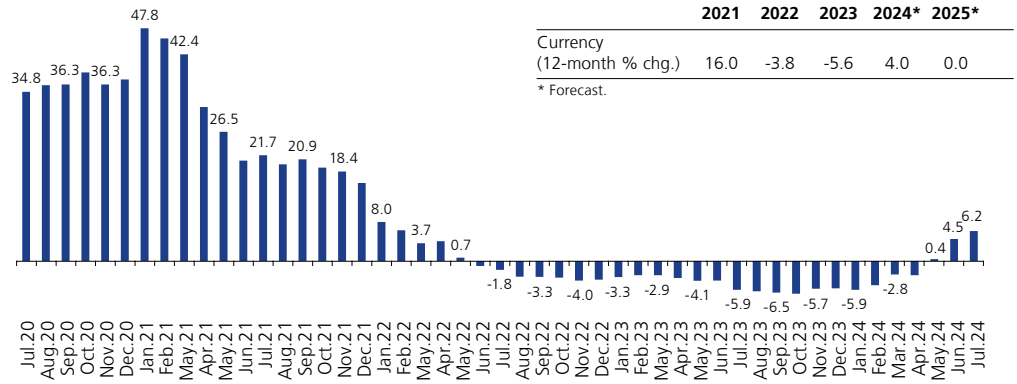
1/ Includes technical reserves of insurance, securities and other obligations with the private sector.
Source: BCRP.

90. **Currency in circulation** decreased 5.6 percent year-on-year in December 2023 and increased 6.2 percent in July 2024. Since June there has been a change in behavior compared to previous months, with increases in currency in circulation, especially in higher denomination banknotes. A moderation in the growth rates of the currency in circulation is foreseen for the coming months. In addition, the historical growth during the state of emergency[42] will be reversed, considering recent innovations in electronic

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

means of payment. In particular, year-on-year growth rates of 4.0 percent in 2024 and 0 percent in 2025 are projected.

Graph 88
CURRENCY IN CIRCULATION
(12-month % chg.)



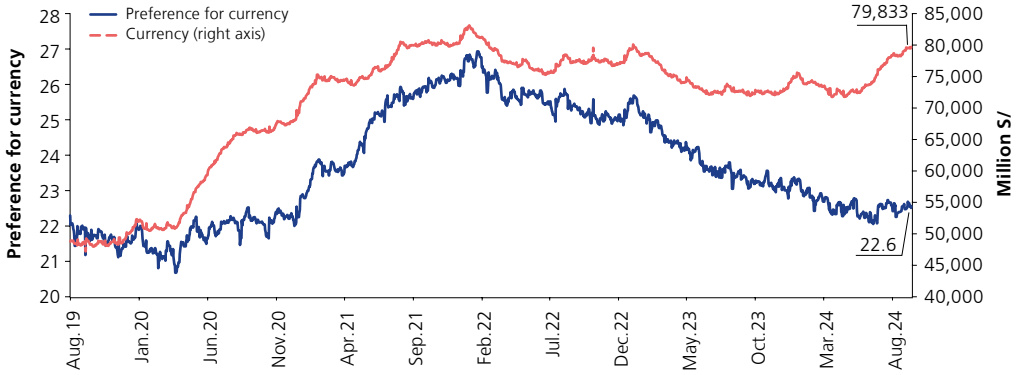
	2021	2022	2023	2024*	2025*
Currency (12-month % chg.)	16.0	-3.8	-5.6	4.0	0.0

* Forecast.

* Forecast.
Source: BCRP.

91. The preference for currency in circulation has decreased during 2023 and 2024, after growing continuously between April 2020 and December 2021. As of September 13, 2024, it stands at 22.6, likely associated with the greater use of bank cards and other digital payment methods.

Graph 89
CURRENCY IN CIRCULATION AND PREFERENCE FOR CURRENCY IN CIRCULATION*
(Million S/ and %)

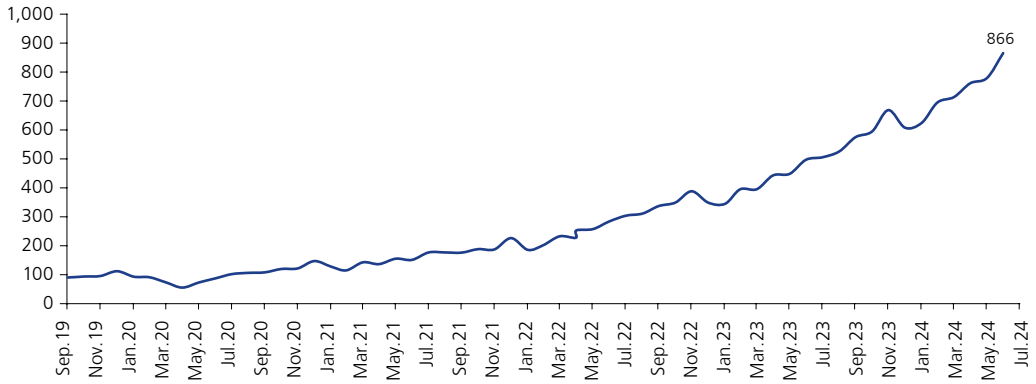


Note: Preference for currency is equal to currency of depository business divided by liquidity in domestic currency of depository business.
* As of September 13.
Source: BCRP.

92. Part of the explanation for the reduction in the preference for currency in circulation is related to the significant increase in the use of digital payments. These

continued on their upward trend and reached 866 million transactions in July 2024.

Graph 90
DIGITAL PAYMENTS INDICATOR
(Millions of operations)



Memo: Indicator of total digital payments for the month refers to transfers from RTGS clients, intrabank transfers, interbank transfers via Visa Direct, interbank transfers via CCE, direct debits, card payments and payments with electronic money (BIM).
Source: BCRP.

Credit to the private sector

93. **Credit to the private sector** grew 0.8 percent in annual terms in July 2024 (1.3 percent in 2023). Excluding credits from the *Reactiva Peru* program, the year-on-year credit growth rate amounted to 2.5 percent in the same period (5.0 percent in 2023). Credit to the private sector has recovered slightly since April 2024, which could be explained by the normalization of monetary policy and the recovery of economic activity.

94. The year-on-year growth of credit to individuals remains positive, although with lower growth rates. It grew 1.4 percent in July 2024 (7.1 percent in 2023). This slowdown in credit to individuals is mainly due to the fall in consumer credit (-1.2 percent in July 2024). On the other hand, mortgage credit growth has been sustained over the last few months, recording a year-on-year growth rate of 5.3 percent in July 2024.

95. Corporate credit has recovered slightly in the last two months, which would be associated with the improvement in activity, after the year-on-year contractions since October 2022, mainly due to the Reactiva Peru program repayments. In July 2024, credit to companies grew 0.5 percent (different from the 2.3 percent drop in December 2023), while excluding Reactiva Peru loans it increased by 3.2 percent (3.6 percent in December 2023). The corporate and large companies segment showed an increase of 2.8 percent, while medium-sized companies contracted by 3.8 percent.

Table 39

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**

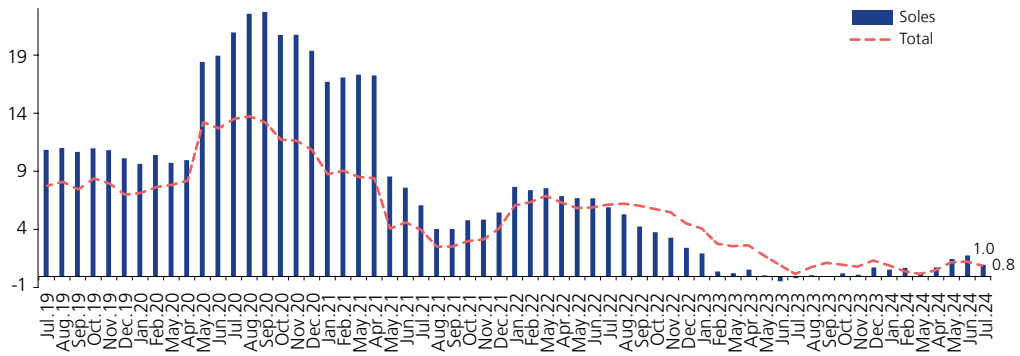
Note: The criteria for classifying corporate loans by credit segment are in accordance with the SBS definition valid until June 2023. 2023. In July 2023, by means of SBS Resolution N° 02368-2023, a change in the classification of loans is made.
Corporate: Annual sales of more than S/ 200 million (idem).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

96. There has been a recovery in both Sol-denominated and dollar-denominated credit over the last 3 months. As of July 2024, Sol-denominated credit grew by 1.0 percent, while dollar-denominated credit increased by 0.4 percent in the same period.

Graph 91

CREDIT TO THE PRIVATE SECTOR: TOTAL AND IN DOMESTIC CURRENCY

(Annual growth rates)



Credit to the private sector 1/

(Annual % chg.)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jun.24	Jul.24
Domestic currency	10.1	19.4	5.5	2.4	0.8	1.8	1.0
Foreign currency	-0.3	-11.0	-0.8	12.1	3.1	-0.7	0.4
Total 1/	7.0	10.9	4.1	4.5	1.3	1.2	0.8

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

Non-performing loans

97. The **non-performing loans ratio** in July 2024 stood at 4.58 percent, higher than that recorded in December 2023 (4.30 percent). This result would be explained 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 medium-sized companies segment. For its part, non-performing loans to individuals also increased in the same period, particularly in the case of car loans. The increase in non-performing loans reflects the performance of economic activity in recent months.

Table 40
NON-PERFORMING LOANS DELINQUENCY RATE
(%)

	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jun.24	Jul.24
Businesses	**3.71**	**3.73**	**4.60**	**5.09**	**5.27**	**5.64**	**5.69**
Corporativo and Large companies	0.62	1.04	1.08	1.39	1.01	1.26	1.17
Medium-sized enterprises	8.24	6.27	9.49	11.65	13.42	13.36	14.03
Micro and Small business	6.29	6.06	6.54	6.37	6.91	8.15	8.13
Individuals	**2.85**	**4.91**	**2.57**	**2.54**	**3.21**	**3.38**	**3.34**
Consumer	2.81	5.92	2.23	2.51	3.55	3.72	3.65
Credit cards	*5.33*	*12.70*	*6.28*	*6.58*	*8.46*	*8.36*	*7.94*
Vehicular	*3.75*	*5.85*	*3.72*	*3.37*	*3.64*	*4.45*	*4.55*
Rest	*1.46*	*3.07*	*1.35*	*1.57*	*2.41*	*2.66*	*2.67*
Mortgage	2.91	3.51	3.01	2.57	2.69	2.87	2.89
TOTAL	**3.24**	**4.00**	**3.76**	**3.97**	**4.30**	**4.56**	**4.58**

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

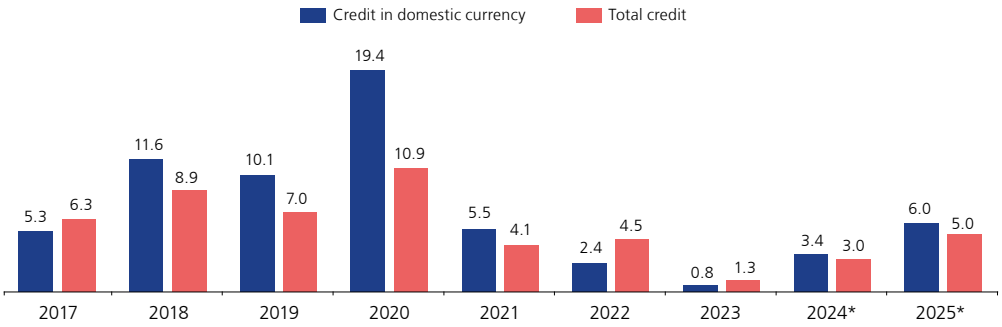
98. Credit in domestic currency is expected to increase in line with the evolution of economic activity. Thus, the projected growth of credit to the private sector in domestic currency would amount to 3.4 percent in 2024; and 6.0 percent in 2025, considering the completion of the amortization of loans granted under the Reactiva Peru program. Thus, total credit would grow 3.0 percent in 2024 (4.2 percent without the Reactiva Peru program), while by 2025 it is estimated to grow 5.0 percent.

Similarly, in 2024 and 2025, credit to the private sector is expected to grow at a slower pace than nominal GDP, following a significant increase in the credit-to-GDP ratio in 2020, which was reversed in 2023. Thus, the credit ratio is expected to stand at 40.1 and 39.9 percent of GDP in 2024 and 2025, respectively (after standing at 52.6 percent in 2020).

Currency in circulation growth rates would be lower than those of nominal GDP in 2024 and 2025, due to further normalization of financial conditions, and total liquidity growth rates would be close to those of nominal GDP in the same years, mainly due to higher deposits. The ratio of liquidity to GDP would decline from 45.5 percent in 2023, to 45.1 percent in 2024 (slightly below the pre-pandemic level), and to 44.6 percent in 2025. This considers the withdrawal of deposits from C.T.S. and AFPs funds, which has been affecting liquidity since May 2024.

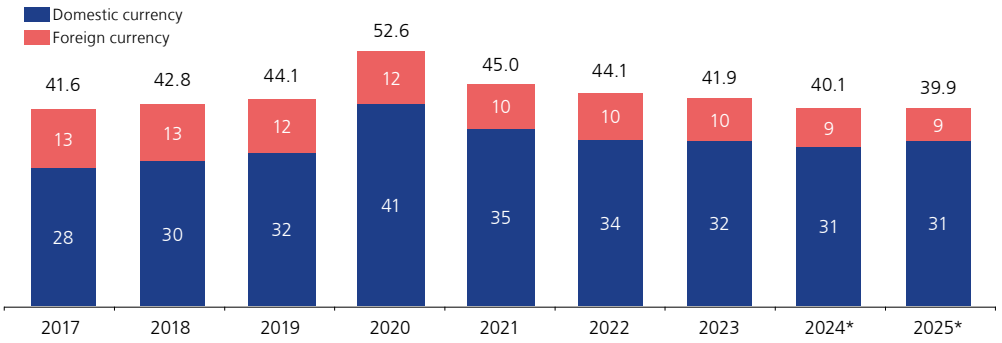
Meanwhile, the depository corporations' currency in circulation to GDP ratio would contract from 7.5 percent in 2023 to 7.3 percent in 2024, and to 6.9 percent in 2025, a level similar to that recorded prior to the pandemic.

Graph 92
CREDIT TO THE PRIVATE SECTOR
(% change)



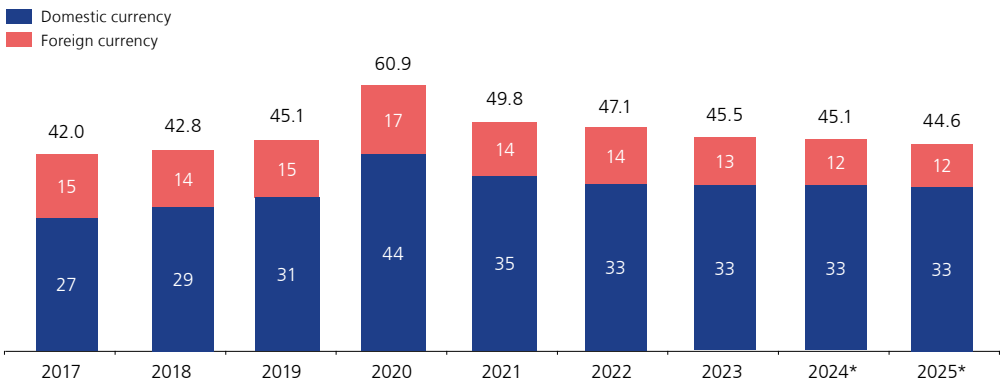
Note: calculated at constant exchange rate (December 2023).
* Forecast.
Source: BCRP.

Graph 93
CREDIT / GDP RATIO
(%)



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

Graph 94
LIQUIDITY / GDP RATIO
(%)



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

Box 4
NEW FINANCIAL CONDITION INDEXES FOR PERU[43]

The measurement of financial conditions through different indicators is highly relevant for different economic agents. This is especially true for consumption and investment decisions, as well as for the design of economic policies such as monetary and macroprudential policies, among others. These indicators are a signal or thermometer of the current state of the financial system, especially with regard to the cost of financing and the availability of liquidity. However, since financial conditions encompass different dimensions (short and long-term interest rates and spreads such as country risk), it is necessary to summarize this information in a clear and intuitive index. This box constructs a new financial conditions index for Peru for the period 2005-2024.

The index is estimated considering observable variables in real time and with high frequency, so that the resulting indicator can be updated immediately, and interested users can interpret it easily. In contrast with Nivín and Pérez (2018), who rely on the methodology of Koop and Korobilis (2014), the proposed index is simpler to calculate and does not require data that are published with a considerable time lag. The following table mentions the main references that serve as a guide for the analysis shown in this box, where the most commonly used methodology is the principal component methodology, both for advanced and emerging countries[44].

MAIN REFERENCES AND METHODOLOGIES FOR THE CALCULATION OF FINANCIAL CONDITION INDEXES

Document	Country	Methodology
Hatzius, J., Hooper, P., Mishkin, F. S., Schoenholtz, K. L. and Watson, M. W. (2010). Financial Conditions Indexes: A Fresh Look after the Financial Crisis. NBER Working Papers 16150, National Bureau of Economic Research, Inc.	United States	Main Components
Koop, G. & Korobilis, D. (2014). A new index of financial conditions. European Economic Review, 71, 101-116.	United States	State space - Kalman filter
Nivin, R. & Pérez, F. (2019). Estimación de un Índice de Condiciones Financieras para el Perú. Estudios Económicos Journal, 1 (37), 49-64.	Peru	State space - Kalman filter
Arrigoni, S., Bobasu, A. and Venditti, F. (2021). The simpler, the better : measuring financial conditions for monetary policy and financial stability. European Investment Bank - Publications Office of the European Union.	European Union	Main Components
Gauthier, C., Graham, C. and Liu, Y. (2004). Financial Conditions Indexes for Canada. Staff Working Papers 04-22, Bank of Canada.	Canada	Principal Components / Autoregressive Vectors
Manning, M. J. F. and Shamloo, M. (2015). A Financial Conditions Index for Greece. IMF Working Papers 2015/220, International Monetary Fund.	Greece	Main Components
Ho, G. and Lu, M. Y. (2013). A Financial Conditions Index for Poland. IMF Working Papers 2013/252, International Monetary Fund.	Poland	Main Components / Autoregressive Vectors
Khundrakpam, J. K., Kavediya, R. and Anthony, J. M. (2017). Estimating Financial Conditions Index for India. Journal of Emerging Market Finance, 16 (1), 61-89.	India	Main Components / Autoregressive Vectors
Armendáriz, T. and Ramírez, C. (2015). Estimación de un Índice de Condiciones Financieras para México. Research Papers 2015-17, Banco de México.	Mexico	Main Components
Auer, S. (2017). A Financial Conditions Index for the CEE economies. Temi di discussione (Economic working papers) 1145, Bank of Italy, Economic Research and International Relations..	Czech Republic, Hungary and Poland	State space - Kalman filter

43 Based on "Estimación de nuevos Indices de Condiciones Financieras para la economía peruana" by Pérez, Fernando (2024).

44 In Peru, the principal components methodology has also been used to construct a financial stress index (Nivín, R.; Morán, M. and Quintana, D. (2021): "Índice de Estrés Financiero para el Perú", Revista Moneda N°188), published every six months in the BCRP's Financial Stability Report, and which mainly includes risk, non-performing loans, volatility and solvency variables.

Likewise, as for financial conditions in both currencies, the variables considered for monthly frequency appear in the following table and figures:

FINANCIAL CONDITION INDICATORS

Domestic currency			Foreign currency		
Indicator	**Label**	**Financial conditions dimension**	**Indicator**	**Label**	**Financial conditions dimension**
Corporate prime lending rate (90 days) in soles	APrime3m	Level of short-term interest rates	Interbank interest rate in dollars	INT_{USD}	Level of short-term interest rates
10-year Sovereign Bond Yield in soles	Sovereigns10Y	Level of long-term interest rates	Corporate Prime Corporate Lending Rate (90 days) in US dollars	APrime3m_{USD}	Level of short-term interest rates
Spread of the interbank interest rate with respect to the federal funds interest rate (Fed Funds).	Spread_{INT-FFR}	Short-term depreciatory exchange rate pressures - Uncovered interest rate parity	10-year Global Bond Yield	Global10Y	Level of long-term interest rates
Spread of the 10-year Sovereign Bond Yield and the yield of U.S. government bonds (Treasuries) at the same maturity.	Spread_{Sovereigns10Y-Treasury 10Y}	Long-term depreciatory exchange rate pressures - Uncovered interest rate parity	Spread of the corporate prime lending rate (90-day) over the interbank interest rate in dollars	Spread_{APrime3m-INT}	Liquidity availability pressures in the short term
Spread of the corporate prime lending rate (90 days) with respect to the 3-month CDBCRP rate.	Spread_{APrime3m-CD3m}	Liquidity availability pressures in the short term	Spread of the 10-year Global Bond Yield and the yield of U.S. government bonds (Treasuries) at the same maturity.	Spread_{Global10Y-Treasury10Y}	Country risk
Spread of the 10-year Sovereign Bond Yield over the 3-month CDBCRP.	Spread_{Sovereigns10Y-CD3m}	Slope of the yield curve			

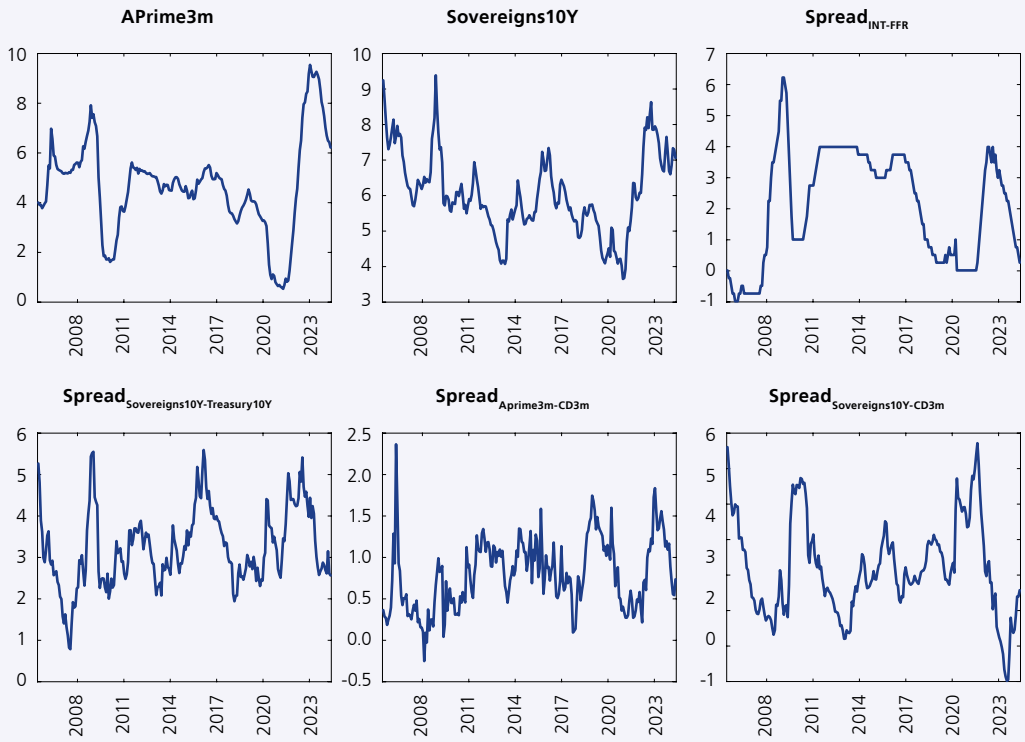
The indicators capture both the level of interest rates and the spreads associated with the availability of liquidity, expectations of depreciation of the Sol, and the slope of the yield curve, among other factors. Using these data, we capture for each currency the first principal component associated with these variables, whose interpretation is associated with that level and is analogous to the simple average of variables standardized to scale. Also, measuring financial conditions in both currencies is based on the existence of partial financial dollarization. See for example Winkelried (2013)[45] and Aguirre et al. (2022)[46].

45 Winkelried, D. (2013), "BCRP Quarterly Projection Model - Update and new developments". BCRP Economic Studies Journal N°26.

46 Aguirre, J.; Arrieta, J.; Castillo, L.; Florián, D.; Ledesma, A.; Martínez, J.; Morales, V.; Vélez, A. (2022): "Quarterly Projection Model: An update until 2019". BCRP Economic Studies Journal N°42-9.

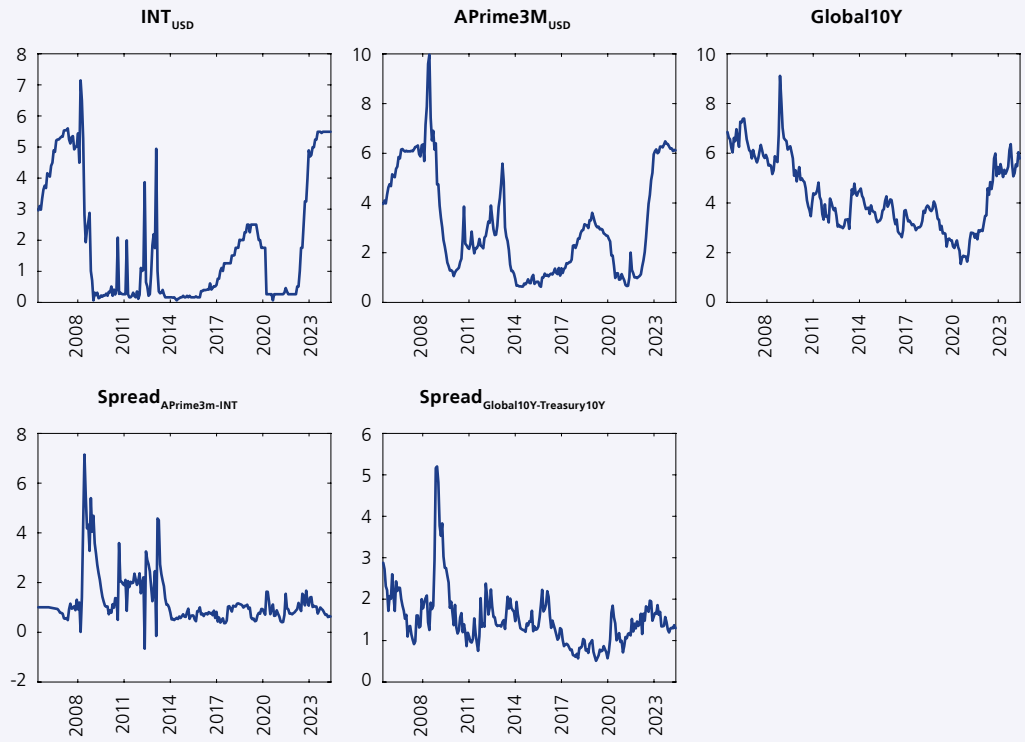
PERU: FINANCIAL CONDITIONS INDICATORS IN DOMESTIC CURRENCY

(2005-2024)



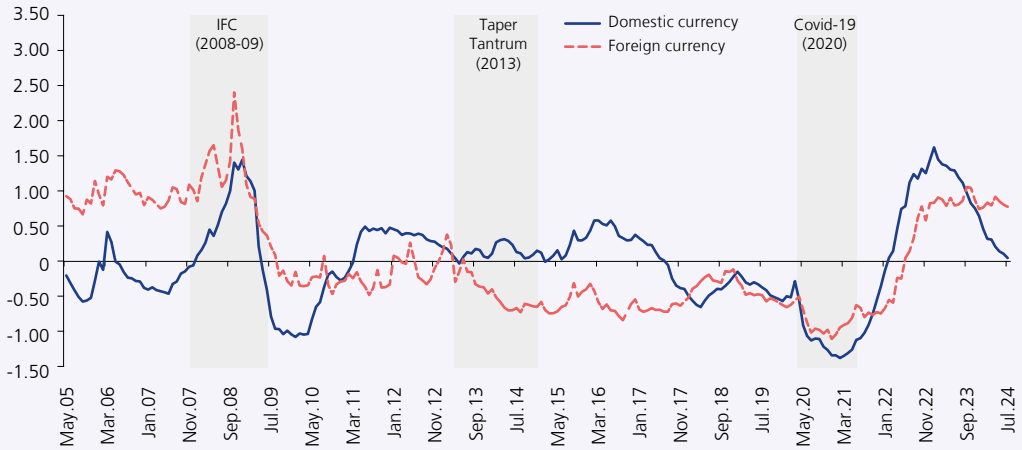
PERU: FINANCIAL CONDITIONS INDICATORS IN FOREIGN CURRENCIES

(2005-2024)



The results show the identification of the common factor of financial conditions for each currency. A tightening (+) of financial conditions in domestic and foreign currencies is observed during the period of the International Financial Crisis (2008-2009) and, to a lesser extent, in the Taper Tantrum (2013). Likewise, an easing of (-) financial conditions is observed at the beginning of the Covid 19 pandemic period (2020), which is associated with the policy response, mainly through the reduction of short and long-term interest rates, and the expansion of monetary aggregates and liquidity. Subsequently, as of 2021, a gradual reversal of this effect is associated with the normalization and tightening of financial conditions, in line with evolutions globally and in other emerging countries. By the end of the sample period (2024), financial conditions in Sol relax gradually, and financial conditions in foreign currency are more restrictive than those in domestic currency[47].

PERU: FINANCIAL CONDITION INDEXES (2005-2024)

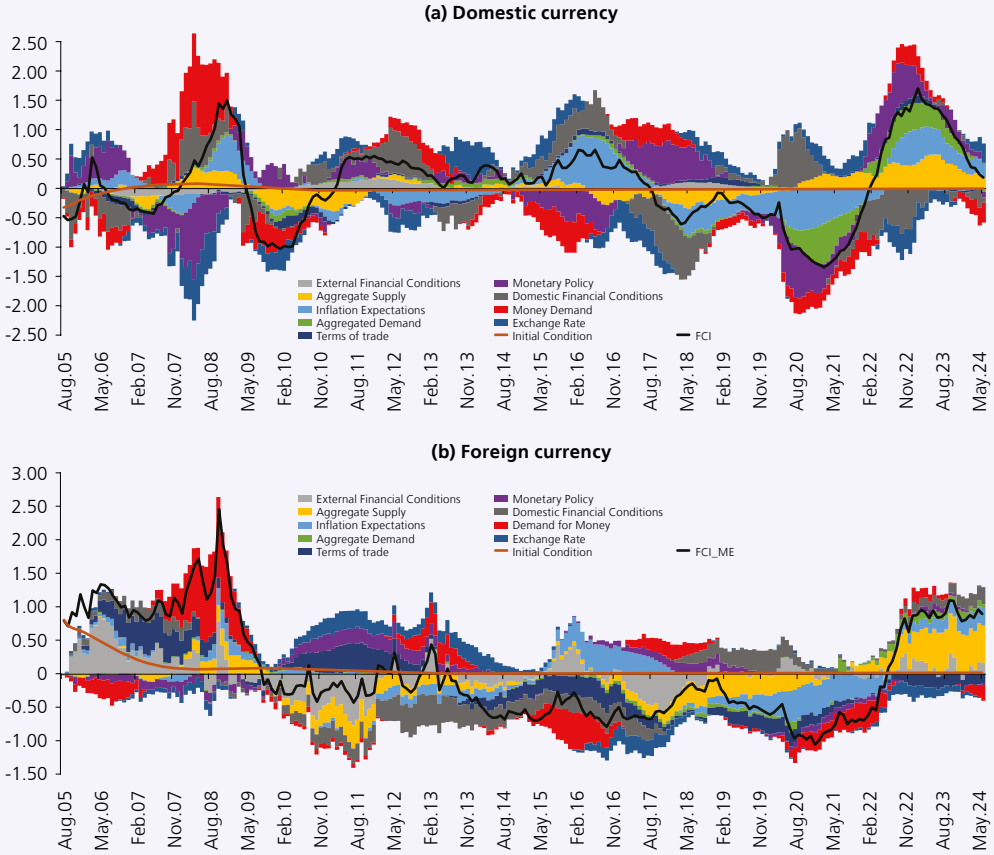


Finally, through a Bayesian structural autoregressive vector (BVAR) model, it is possible to obtain the historical breakdown of the estimated Financial Conditions Indices, as a function of the identified structural shocks[48]. In particular, the easing of financial conditions in domestic currency in 2020 and early 2021 is explained by monetary policy actions (interest rate reduction and liquidity injection) and also by aggregate and money demand factors, and inflation expectations, partially counterbalanced by exchange rate shocks. This effect was reversed towards 2021 (mainly due to supply factors and higher inflation expectations), thus tightening financial conditions that peaked towards the end of 2022. In 2023, the easing of financial conditions is explained by the gradual fading of supply and demand shocks, and by the subsequent interest rate cut. Foreign currency financial conditions remain in the restrictive tranche due to both the Federal Reserve's monetary policy stance and the persistence of the effect of supply factors.

47 The units are referential, since the index was obtained after expressing all the variables in such a way that they have a null average and a standard deviation equivalent to 1.

48 Structural shocks in this BVAR model were identified through sign and zero restrictions, using traditional assumptions for monetary policy, demand and aggregate supply shocks.

HISTORICAL BREAKDOWN OF THE FINANCIAL CONDITIONS INDEX



In conclusion, the estimated Financial Conditions Indexes (FCI) are representative variables for the Peruvian economy, which serve as a sign or thermometer, since they summarize the information contained in different indicators associated with financial markets. Financial conditions have different dimensions in a small and open economy with partial dollarization, so the inclusion of this indicator as part of the relevant information set is key to its study. Furthermore, the simple methodology (principal components) and the rapid availability of data make this type of indicators even more attractive, since they can be updated in real time.

Box 5
IMPORTANCE OF THE SOVEREIGN YIELD CURVE FOR DEVELOPING THE FIXED INCOME MARKET

This Box discusses the importance of forming a risk-free yield curve in Sol for the development of the local fixed income market. The growth of the primary and secondary markets for government securities, such as the Certificates of Deposit of the Central Reserve Bank of Peru (CDBCRP) and Public Treasury Bonds (BTP), has increased the liquidity and depth of the local fixed income market, both public and private, and has allowed the creation of a risk-free sovereign yield curve.

Risk-free yield curve

The level and slope of a risk-free yield curve is of particular importance to central banks because it provides information on the condition and outlook of economic agents regarding economic activity, market expectations on inflation, and interest rate expectations. For example, a steepening of the yield curve could reflect a more contractionary monetary policy stance or a change in the liquidity risk premium.

A risk-free yield curve provides benchmark interest rates for private companies to make longer-term placements, and thus benefit from better financing conditions in the capital market compared to other sources of financing, such as banks. Therefore, adequate liquidity in each tranche of the sovereign yield curve would allow potential private sector issuers to scrutinize their financing options, considering the relevant term risk premium reflecting market conditions.

In Peru, having a long-tranche sovereign yield curve has also made it possible to build a private sector securities curve. Thus, the greater balance-weighted average term of nominal BTPs, from 1.7 years in 2003 to 10.4 years at present, has been in line with the increase in the average life of private sector securities, reaching 8.9 years in 2008 (4.4 years as of July 2024).

In recent years, the Ministry of Economy and Finance (MEF) has carried out several Debt Management Operations (OAD in Spanish)[49], which achieved several objectives included in the debt management strategy. Pursuant to the General Law of the National Debt System of June 2005, an OAD's objective is " to renegotiate the conditions of public debt". Likewise, the "Strategy for the Integral Management of Assets and Liabilities (EGIAP) 2024-2027"[50] holds an OAD seeks to optimize the structure of the public debt and reduce the exposure to the financial risks associated with it.

Between 2019 and 2024, four ADOs have been conducted through Euroclear[51] (June 2019, November 2019, June 2023 and June 2024). These transactions consisted of cash repurchase and/or exchange

49 According to a survey conducted by the OECD (2023), governments implement ODTIs to smooth the maturity profile; manage refinancing risk; increase liquidity in the secondary market for sovereign bonds; reduce the cost of debt service; reduce the number of bonds outstanding; and mitigate liquidity inflows.

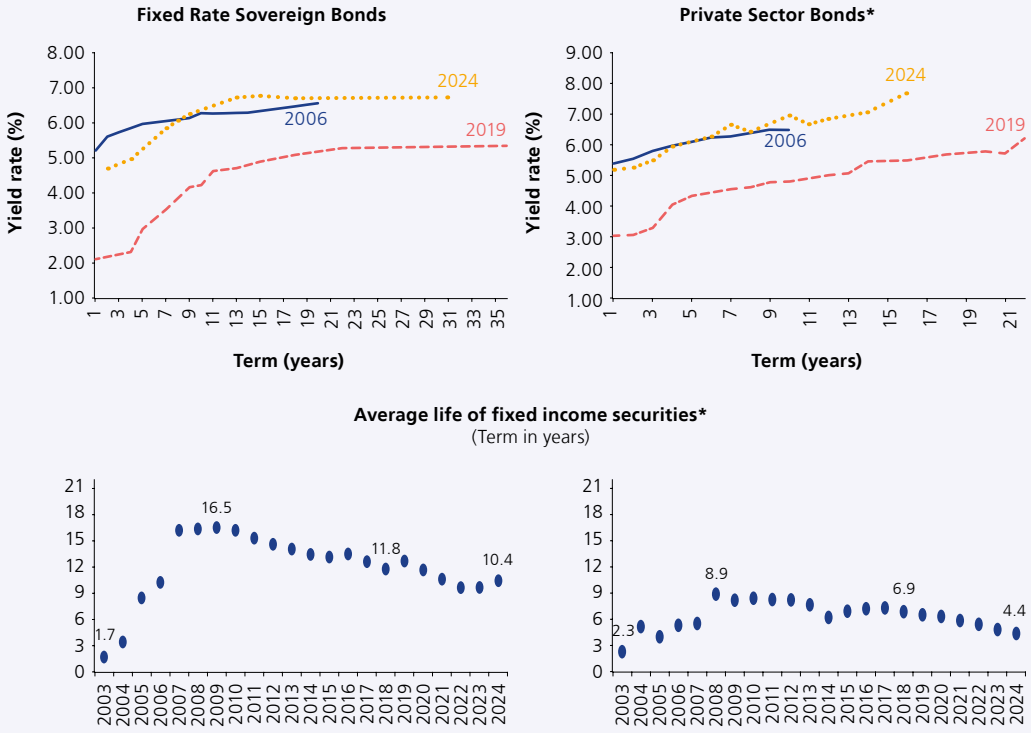
50 This document presents guidelines on the financial strategy for developing the public debt securities market that contribute to the responsible and sustainable management of public finances.

51 In 2015, an agreement was signed with the Central Depository of International Securities Euroclear in order to diversify the participation of investors and increase the liquidity and depth of the debt securities market in Sol.

offers of BTPs and global bonds, which have been partially financed through the issuance of long-term bonds (BTPs and global bonds in dollars and euros) in the international market.

Thus, the MDOs have improved the maturity profile of the bonds by increasing the average life of the bonds in each of the OADs (increase of 0.5 years in June 2019; 1.0 year in November 2019; 0.7 years in June 2023; and 2.3 years in June 2024). However, the balance of shorter maturity BTPs that served as a reference to building a short-term yield curve (less than 5 years), useful in forming expectations and contributing to develop a capitals market, has been reduced. This reduction in the balance of short-term BTPs would continue, considering that in the EGIAP (2024-2027) it is estimated that debt maturities greater than 5 years would reach 71.7 percent by December 2027, mainly due to projected OADs, which imply the additional issuance of medium-term sovereign bonds.

YIELD CURVES AND AVERAGE LIFE OF FIXED INCOME SECURITIES

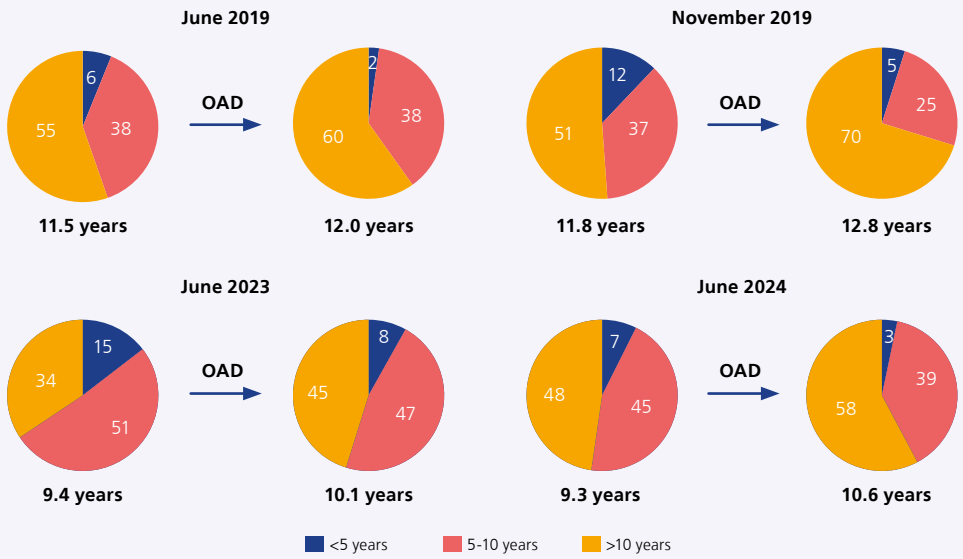


* Weighted average of the balance of securities, Data as of August 2024. For private sector bonds, includes securities with a credit rating A, AA and AAA.
Source: MEF and SMV.

Thus, the balance of BTPs with maturities of less than 5 years decreased by S/ 34.8 billion between December 2018 and July 2024, while the balance of BTPs in the medium and long tranches (greater than 10 years) increased by S/ 47.7 billion. Moreover, the maturity profile after each ODTI shows a marked reduction in the share of bonds maturing in the short tranche (less than 5 years) with respect to the total balance. Thus, in the 2019 OAD, the share of short-tranche BTPs decreased from 6 to 2 percentage points in June; and from 12 to 5 percentage points in November. Similarly, in the June 2023 and June 2024 OADs, the share of BTPs with terms under 5 years decreased from 15 to 8 percentage points; and from 7 to 3 percentage points, respectively.

This change in the structure of BTPs was reflected in the lower trading of short-term bonds in the secondary market. Thus, the turnover ratio[52] of shorter-duration BTPs (up to 5 years) decreased from an average ratio of 2.3x in December 2018 to 0.8x in July 2024. Additionally, this reduced depth in the short-term debt market was also reflected in private sector placements. Specifically, total placements in Sol at maturities between 1 and 5 years[53] declined from S/ 846 million in 2019 to zero so far in 2024.

EFFECT OF THE ODA IN THE NOMINAL BTP TERM STRUCTURE
(In % points)



Source: MEF.

Government bond interest rates provide valuable information about the level of risk-free return prevailing in the market. Therefore, a reliable yield curve is constructed by having sufficient depth across the maturity spectrum (short-, medium- and long-term tranches)[54]. By decreasing the balance of short-term BTPs, OADs reduce liquidity in these segments of the sovereign yield curve. As a result, with fewer transactions in the secondary market and less frequent trading, bond prices may not reflect current market conditions by becoming unrepresentative. At the extreme, when the bond is withdrawn from the market, the benchmark disappears. In this way, private agents lose access to valuable public information for debt and investment decisions, to the detriment of the development of the local securities market[55] [56].

Moreover, the reduction in the size and liquidity of the short end of the yield curve (up to five years) has created distortions in short-term risk-free securities. As of September 2024, the yield of the two-

52 Ratio of the annual amount traded in the secondary market over the end-of-period balance of each BTP.
53 In 2020, 2021 and 2023, total placements amounted to S/ 172 million, S/ 70 million and S/ 30 million, respectively.
54 Grundy et al (2024).
55 In this regard, the literature associates the existence of a sovereign bond yield curve with a higher issuance capacity of private sector fixed income securities (Grundy et al., 2024).
56 BIS (2001).

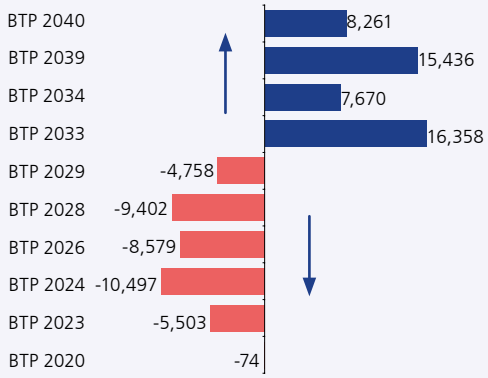
year BTP (4.68 percent) is lower than that of an 18-month CDBCRP (4.77 percent). This may affect the valuation of new fixed income instruments by the private sector.

VARIATION IN THE BALANCE OF NOMINAL BTP AND TURNOVER RATIO

(In millions S/)

Changes in Nominal BTP Balance

(Millions S/)



Source: MEF.

Turnover Ratio

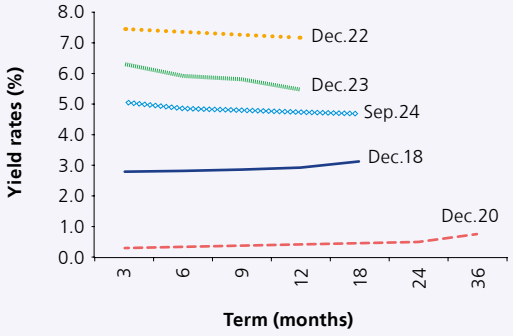
	Dec.18	Dec.19	Dec.20	Dec.21	Dec.22	Dec.23	Jul.24
BTP 2020	4.8	4.1					
BTP 2023	2.1	7.7	0.7	0.0	0.2		
BTP 2024	1.7	3.7	1.6	1.0	0.5	0.4	1.1
BTP 2026	1.4	1.5	2.0	1.1	0.4	0.5	0.6
BTP 2028	1.2	1.5	2.0	1.4	1.4	0.1	0.7
BTP 2029	0.3	1.7	1.8	1.5	1.7	1.9	0.9
BTP 2031	0.9	1.3	1.9	2.2	1.7	2.3	1.3
BTP 2032	1.1	1.7	1.3	2.0	2.1	2.3	1.3
BTP 2033						1.8	1.5
BTP 2034		1.8	2.0	2.8	2.3	2.3	1.4
BTP 2037	0.9	1.6	1.6	2.2	1.9	2.7	1.5
BTP 2039							0.6
BTP 2040		0.4	2.2	1.4	1.1	2.2	0.9
BTP 2042	0.2	0.4	0.7	0.3	0.2	0.3	0.0
BTP 2055	0.3	0.2	0.1	0.1	0.0	0.5	0.1

CDBCRP Yield Curve

Therefore, considering that the short end of the BTP curve is currently illiquid, CDBCRP primary placements can complement and cover market participants' demand for short-term risk-free securities. CDBCRP placements at terms longer than 6 months have been aimed at contributing to the formation of a securities yield curve, and thus boosting the secondary market for these liquid assets. Demand for these securities is high since they can be used both as collateral in securities repo operations and as high-quality liquid assets (ALAC in Spanish) for the calculation of the Liquidity Coverage Ratio (RCL in Spanish) required by the Superintendency of Banking, Insurance and AFPs (SBS). In this way, CDBCRP yield rates benchmark the determination of the cost of financing in the short tranche for private sector securities.

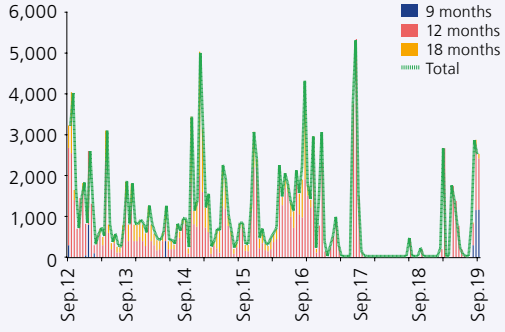
CDBCRP*

Yield Curve



Placements for Terms greater than 6 months

(In millions S/)



The interest rates of the yield curve are calculated from the prices of the primary and secondary CDBCRP markets of the day prior business (https://www.bcrp.gob.pe/estadisticas/curva-de-rendimiento-de-cd-bcrp.html).
As of September 13.
Source: BCRP.

Before the Covid-19 pandemic, the balance of medium and long-term CDBCRP (between 6 months and 3 years) was significant. Then, at the onset of the health crisis in March 2020, and with it the increased need to inject liquidity on a permanent basis, the practice of placing CDBCRP regularly was dropped. Since the beginning of the easing of the benchmark rate (September 2023), the CDBCRP yield curve shows an inverted shape that signals the market's expectation of the evolution of the policy rate.

Recently, since the second half of July 2024, the BCRP resumed placements at 9-, 12- and 18-month terms, points on the yield curve that had not been referenced since July 2015, April 2024 and December 2019, respectively. Based on this new placement strategy, there is information on yield rates at terms between 3 and 18 months, which contributes build expectations associated with monetary policy and serves as a reference for the financial market in domestic currency.

CDBCRP PLACEMENTS – JULY – SEPTEMBER 2024
(In millions S/)

	Term (In months)	Offer	Allocation	Average interest rate	Participation in Total (%)
July	3	4,091	4,091	5.36	76.5
	6	400	400	5.22	7.5
	9	300	300	5.04	5.6
	12	525	525	4.98	9.8
	18	45	29	4.87	0.5
	Total	**5,361**	**5,345**		**100.0**
August	1	400	400	5.36	4.0
	3	5,497	5,497	5.19	54.7
	6	1,275	1,275	4.97	12.7
	9	1,158	1,158	4.94	11.5
	12	1,561	1,561	4.87	15.5
	18	154	154	4.71	1.5
	Total	**10,046**	**10,046**		**100.0**
September	3	871	871	5.04	23.5
	6	311	311	4.85	8.4
	9	1,170	1,170	4.81	31.5
	12	1,250	1,250	4.70	33.7
	18	110	110	4.67	3.0
	Total	**3,712**	**3,712**		**100.0**

As of September 13.
Source: BCRP.

In conclusion, given that the recent OADs have diluted the secondary market for the short sovereign tranche (up to 5 years), the issuance of CDBCRP at extended maturities will facilitate the development of the short-term yield curve, invigorate the secondary market for these instruments, and thereby enhance the signaling of monetary policy within the projection horizon.

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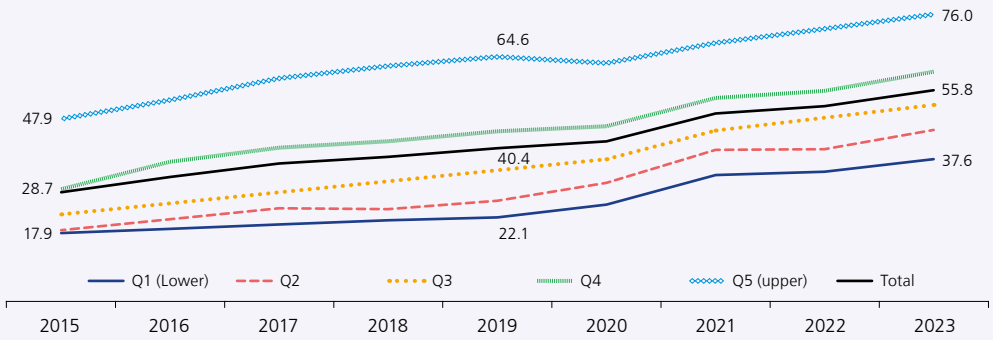
Box 6
FINANCIAL INCLUSION OF VULNERABLE HOUSEHOLDS

This Box analyzes and compares the evolution of financial inclusion along the per capita expenditure distribution, according to information from the National Household Survey (ENAHO). It identifies that the most vulnerable individuals have limited access to the formal financial sector and that the lack of financial instruments is linked to certain characteristics related to their vulnerability. However, there is a positive trend in the digitalization and use of information technologies that offer the possibility of innovating in the field to promote financial inclusion.

Evolution of financial inclusion

For the purposes of this analysis, the concept of financial inclusion is approximated as the holding of accounts in a financial institution (simple savings, fixed-term or current), guiding the discussion toward access to basic financial products. From this standpoint, the financial inclusion ratio for adults would have almost doubled between 2015 and 2023, from 28.7 to 55.8 percent. This phenomenon occurs across the per capita expenditure distribution, with both the bottom and top quintiles showing gains in access to financial products. However, this evolution masks particular differences. In particular, while 8 in 10 of adults in the top spending quintile had access to accounts at financial institutions, only 4 in 10 in the bottom quintile had access in 2023. Although the bottom income quintile improved (19.8 percentage points) it did so below the national average (27.1 percentage points) and the top quintile's (27.1 percentage points).

ACCESS TO ACCOUNTS IN FINANCIAL INSTITUTIONS, BY QUINTILE OF EXPENDITURE
(Percentage of total population aged 18 and over)



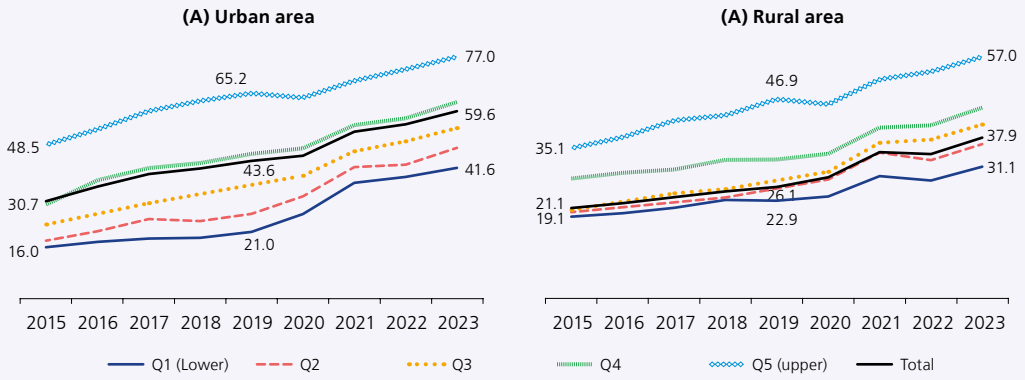
Source: INEI - ENAHO. Note: The bars show the 95% confidence intervals. Expenditure quintiles are calculated on the basis of total gross per capita household income.

This difference in access is replicated for each geographic area, with certain particularities. In urban areas, the gap in the financial inclusion ratio between households belonging to the top and bottom quintile at the national level was 35.4 points, compared to 25.9 points in rural areas. However, even though the dispersion is greater in urban areas, lower-income households have wider access to financial products than their rural counterparts in the same expenditure quintile. Thus, 41.6 percent of people in the lowest quintile in urban areas recorded accounts in financial institutions, a percentage significantly higher than the overall rural average. When comparing urban and rural households in the same bottom quintile, the gap is 10 percentage points or larger in favor of the former.

All of this suggests that there is an opportunity for financial inclusion for poorer households (who enjoy more limited access than wealthier households), and particularly for rural households, which lag their urban peers of the same expenditure level.

In geographic terms, the department of Lima plays an important role in the urban average. In 2023, 66.4 percent of Lima residents aged 18 and over had an account in a financial institution. In urban areas outside Lima, this percentage reached 54.6 percent. Thus, although the advantage over rural areas remains, the gap narrows significantly when considering urban areas outside Lima.

ACCESS TO ACCOUNTS IN FINANCIAL INSTITUTIONS, BY AREA AND EXPENDITURE QUINTILE
(As a percentage of the total number of persons 18 years of age and older in each group)



Note: Bars show 95% confidence intervals. Expenditure quintiles are calculated based on total gross per capita income of all households at the national level.
Source: INEI - ENAHO.

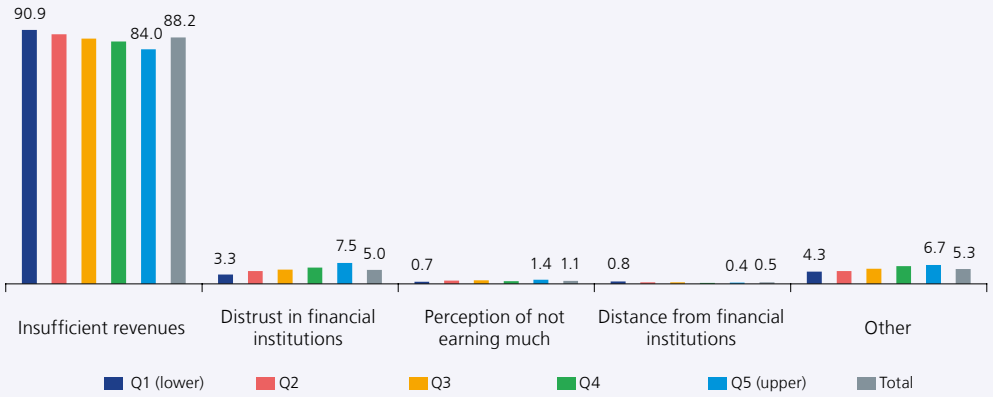
One aspect to highlight about the evolution of financial inclusion is that access to accounts has accelerated in the wake of the pandemic, benefiting the lower expenditure quintiles. Thus, between 2015 and 2019, the financial inclusion ratio for the bottom quintile in urban areas grew at a rate of 1.2 percentage points on average per year, and then increased to 5.1 percentage points between 2019 and 2023. In rural areas, this change was from 1.0 to only 2.0 percentage points. This reveals significant progress in the wake of the pandemic in cities, versus slower progress in less dense population centers.

On the other hand, the ENAHO asks people without accounts in financial institutions the main reason why they have not opened one. Throughout the expenditure distribution, the prominent reason is lack of income, being more important among the lower quintiles.

Considering that several financial institutions offer accounts without maintenance fees, this reason could be understood in part as the perception that the income saved does not merit being transferred to the formal financial sector, or that, given the savings/debt and consumption ratios, opening an account is not considered necessary or viable. In this regard, between 2015 and 2023, an average of 19.1 percent of people without savings accounts did report saving outside the financial system (through juntas, *panderos*, relatives, friends, or keeping money at home). If those people had moved their savings to bank or similar accounts, the financial inclusion ratio in 2023 would have gone from 55.8 to 62.9 percent; and in the lowest expenditure quintile, from 37.6 to 44.2 percent, based on ENAHO calculations[57].

57 The estimate of the counterfactual ratio of access to accounts in financial institutions considers that those individuals without accounts, but with savings through other means, would have reported having a savings account in 2023.

REASONS FOR NOT HAVING ONE SAVINGS ACCOUNT IN THE FINANCIAL SYSTEM, 2023
(As a percentage of persons aged 18 and over without an account)



Note: Expenditure quintiles are calculated based on total gross per capita household income.
Source: INEI - ENAHO.

Factors associated with financial inclusion

In addition to the direct relationship between per capita expenditure and financial inclusion, other individual characteristics that may be associated with access to financial services.

ACCESS TO ACCOUNTS IN FINANCIAL INSTITUTIONS DEMOGRAPHICS
(As a percentage of the total number of persons 18 years of age and older in each group)

	Urban			Rural			National		
	2015	2023	Dif. (p.p.)	2015	2023	Dif. (p.p.)	2015	2023	Diff. (p.p.)
Total	**30.7**	**59.6**	**28.9**	**21.1**	**37.9**	**16.8**	**28.7**	**55.8**	**27.1**
Sex									
Man	34.4	**61.9**	27.5	14.5	33.1	**18.5**	30.0	**56.4**	26.4
Woman	27.1	57.4	**30.3**	28.6	**43.5**	15.0	27.4	55.2	**27.8**
Age									
Under 30	27.9	64.3	**36.4**	16.6	39.8	**23.2**	25.7	60.0	**34.2**
30 to 45	33.3	**64.8**	31.6	24.8	40.9	16.1	31.4	**60.5**	29.1
45 to 65	29.7	52.0	22.3	17.3	26.8	9.5	27.3	48.0	20.7
Over 65	34.1	49.6	15.6	30.6	**48.5**	17.8	33.3	49.4	16.1
Educational level									
No education	16.4	25.5	9.1	26.2	37.8	11.7	21.4	30.4	9.0
Primary	16.6	33.8	17.1	19.8	31.5	11.7	18.0	33.0	15.0
Secundary	22.5	52.5	30.0	17.6	35.6	18.0	21.7	49.7	28.1
Superior	47.6	**80.2**	**32.5**	33.2	**62.3**	**29.1**	46.7	**78.9**	**32.2**
Employment									
Independent	22.0	50.5	28.6	16.8	32.7	15.9	20.4	46.0	25.6
Informal Dependent	21.3	55.8	**34.5**	15.2	35.5	**20.2**	20.3	52.8	**32.4**
Formal Dependent	70.2	**97.2**	27.0	82.8	**94.8**	12.0	70.7	**97.1**	26.4
TFNR	17.0	41.8	24.8	26.2	36.2	10.0	22.4	38.9	16.6

* TFNR: Unpaid Family Worker.
Source: INEI – ENAHO.

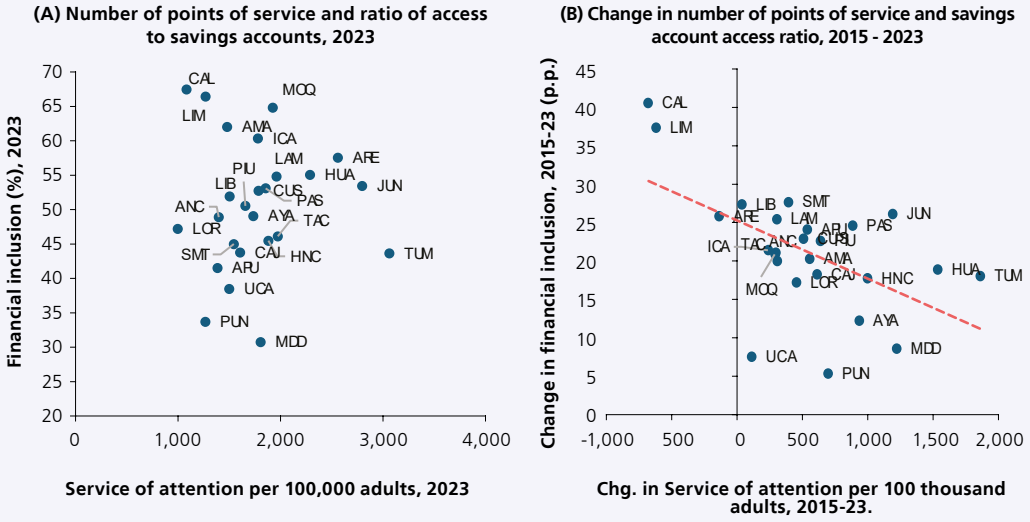
First, financial inclusion is similar between men and women at the national level, although dynamics differ between urban and rural areas. Thus, in the former, it is men who have greater access to savings

accounts, while in rural areas it is women. By age, people under 45 years of age are most included financially, but this basically follows the urban dynamic, since in rural areas those over 65 years of age have more access[58].

Formal work and higher educational attainment are directly linked to financial inclusion. Formal work likely encourages access to savings accounts, given the regular payments to workers (typically through transfers) and the opening of CTS and AFP accounts, which would bring employees closer to financial institutions. By educational level, higher education is directly associated with formal employment and higher income. However, there is also a relationship between educational level and financial literacy. On this link between educational attainment and financial literacy, PISA 2022 results indicated that 82 percent of the variance in performance on the financial literacy test was explained by math and reading scores for Peruvian 15-year-old students[59].

Another factor that could affect the levels of financial inclusion is the availability of financial system service points. The SBS publishes data on points of service per 100,000 inhabitants at the regional level. However, no significant correlation is found between the level of coverage of service points and the level of financial inclusion in 2023. This suggests that the role of physical contact with the financial system is not an obvious factor in explaining the increase in financial inclusion.

RELATIONSHIP BETWEEN FINANCIAL SYSTEM SERVICE POINTS AND FINANCIAL INCLUSION



Note: Service points include branches, ATMs, correspondent ATMs (POS) and EOBs.
Source: INEI - ENAHO and SBS (2023) Peru: Report on Financial Inclusion Indicators of the Financial, Insurance and Pension Systems.

58 In both cases, this disparity could partially respond to the role of social programs outside the cities. The Juntos conditional cash transfer program identifies the mother as the user, and promotes the use of savings accounts for payments. Similarly, Pensión 65 focuses on the elderly. In rural areas, about 80 percent of the beneficiaries of these programs report accounts in financial institutions.

59 OECD (2024), PISA 2022 Results (Volume IV): How Financially Smart Are Students?, PISA, OECD Publishing, Paris, https://doi.org/10.1787/5a849c2a-en.

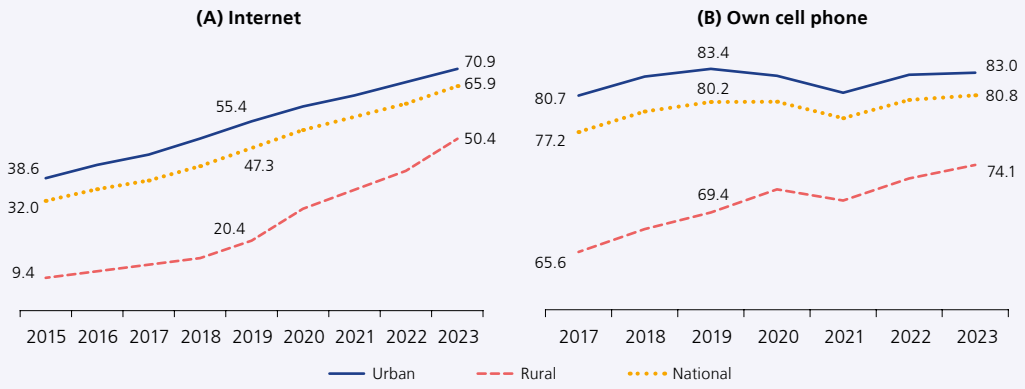
Positive trends and opportunities

The above analysis reveals that there are still significant gaps in the coverage of the financial system for the most vulnerable individuals. This is particularly important in rural areas, where lower access coincides with lower income and welfare achievements (education, health, basic services, etc.). Thus, the lack of financial inclusion could be a limiting factor to meet basic needs and the development of individual projects. This condition would be aggravated by the fact that lower financial inclusion is associated with fewer years of schooling and working in jobs without access to the formal social safety net. In addition, in urban areas (where most of the population live), there are time lags for women and older adults.

In view of this, it is desirable to identify opportunities for innovation in strategies for the financial inclusion of the most vulnerable individuals. In the existing context, these opportunities are related to a notorious expansion of digitalization and the use of information technologies. Specifically, when analyzing the population without access to accounts in financial institutions, most own a cell phone and use the internet. According to ENAHO, 74.1 percent of people in rural areas and outside the financial system had used their own cell phone in the month prior to the survey in 2023. The percentage rises to 83.0 percent in urban areas. Half of the people without financial products in rural areas had used the internet in the month prior to the survey, and 70.9 percent would have done the same in urban areas.

INTERNET AND OWN CELL PHONE USAGE IN THE MONTH PRIOR TO THE SURVEY

(As a percentage of the total number of 18-year-olds without bank accounts in each group)



Nota: The bars show the 95% confidence intervals.
Source: INEI – ENAHO.

Parallel to this trend, the use of the Internet to purchase goods or services or to carry out financial transactions has increased significantly in recent years. This increase is also observed for the lowest quintile of expenditure. Mobile telephony and the internet offer an opportunity for the financial inclusion of vulnerable individuals, and public policy strategies could incorporate them, also taking into account the particular characteristics of each geographic area and socioeconomic stratum of the target population.

USE OF THE INTERNET FOR PURCHASING GOODS OR SERVICES, OR FINANCIAL TRANSACTIONS
(As a percentage of the total number of 18 year-olds in each group)

	National			Urban			Rural		
	Q1 (Lower)	Q5 (Upper)	Total	Q1 (Lower)	Q5 (Upper)	Total	Q1 (Lower)	Q5 (Upper)	Total
2015	0.1	14.3	4.9	0.3	14.8	6.2	0.0	2.8	0.4
2016	0.2	16.5	5.7	0.5	17.0	7.1	0.0	3.4	0.3
2017	0.2	17.5	6.1	0.4	18.0	7.6	0.1	3.3	0.4
2018	0.5	23.9	8.9	1.0	24.4	11.0	0.1	5.5	0.7
2019	1.3	29.3	11.7	2.4	30.0	14.2	0.5	10.3	1.5
2020	0.5	18.1	6.8	0.9	18.7	8.2	0.1	6.0	1.0
2021	2.8	29.9	13.6	4.5	30.9	16.1	0.5	12.2	2.7
2022	5.5	36.3	18.3	8.7	37.4	21.7	0.8	15.8	3.6
2023	8.0	44.1	24.0	11.6	45.4	28.1	2.0	20.1	5.6

Source: INEI – ENAHO.

Finally, these strategies could also help bring Peruvian households in line with their regional peers in terms of financial inclusion. Among comparable indicators, Credicorp's Financial Inclusion Index[60] shows Peru lagging other countries in the region, including Chile, Argentina, Ecuador, Panama and Colombia. Specifically, it scored 46.1 in 2024, below the average of 47.6 (which considers only two countries below Peru: Bolivia and Mexico). This position is mainly explained by below-average scores in the measures of access (financial infrastructure, product knowledge, and product ownership) and use of financial instruments (transfers, remittances and saving in the financial system, among others) [61].

60 Results by country were obtained from https://grupocredicorp.com/indice-inclusion-financiera/resultados-por-pais/ on 03/09/24.

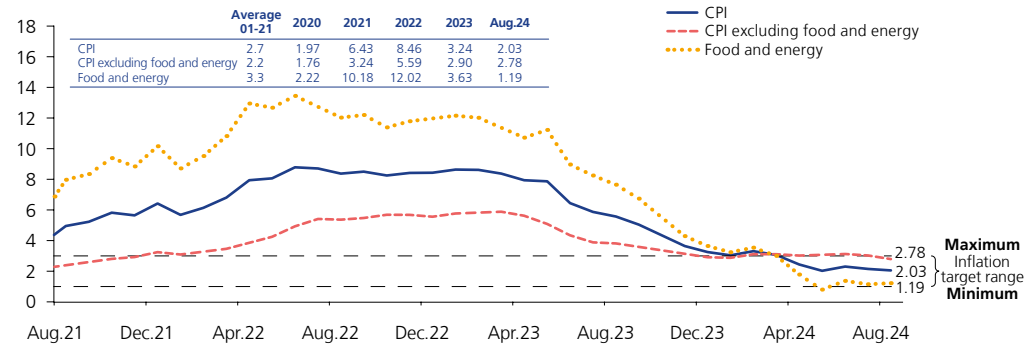
61 However, on holding at least one savings or insurance instrument, Peru is above average (46 versus 39 percent).

VI. Inflation and balance of inflation risks

Recent developments

99. Year-on-year **inflation** persisted at the midpoint of the target range, increasing from 2.00 percent in May to 2.03 percent in August 2024. The primary factors contributing to the increase throughout these months were chicken, whole and ground garlic, potatoes, and electricity. The increases were mostly linked to supply considerations, including weather conditions during planting periods and hygienic issues. The factors that mitigated the increase were onions, lemons, and dining out. Non-food and energy inflation (SAES) declined from 3.10 to 2.78 percent during the same period, with diminished influence from local transportation, cultural services, and education. In SAE inflation, the goods component has swiftly returned to the target band, whilst the services component has experienced a more gradual reversion in the initial months of the year, although it resumed its downward trend in July. Inflation indicators had a declining year-on-year trend from May to August, remaining within the target range, except for the 63rd percentile indicator.

Graph 95
INFLATION
(Last 12-month % change)

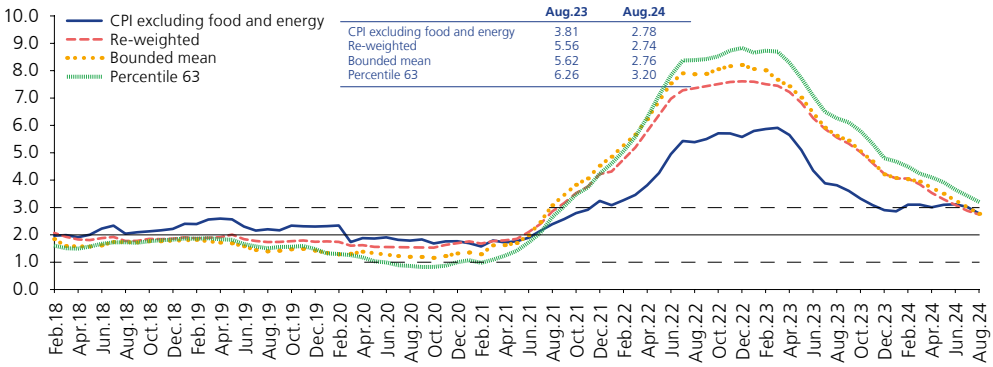


Source: BCRP.

Graph 96

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.

100. The year 2023 concluded within the target range, as inflation, excluding food and energy, demonstrated a distinct downward trend from April to December. It has remained in the upper limit of the range in 2024, sliding within it in August. The decrease in August is indicative of a decrease in the prices of local transportation, education, motor vehicles, and cultural services.

Table 41

SERVICES INFLATION

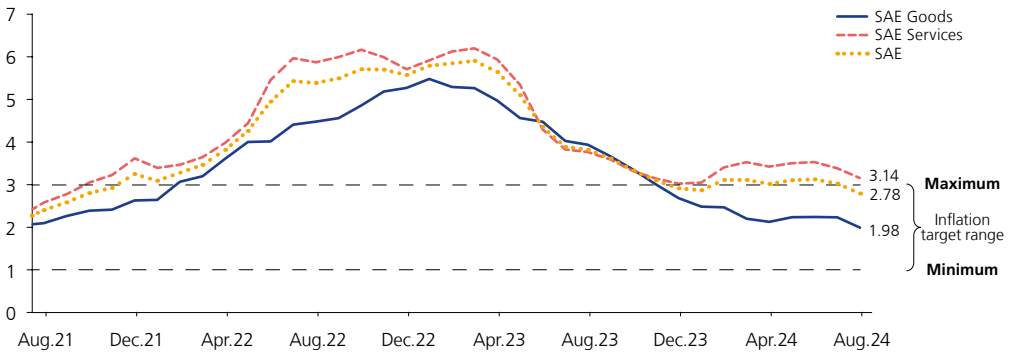
(12-months % change)

	Weight	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24
Services	**37.89**	**3.01**	**3.04**	**3.40**	**3.52**	**3.42**	**3.50**	**3.52**	**3.38**	**3.14**
Education	**8.61**	**6.40**	**6.40**	**5.89**	**5.29**	**5.37**	**5.48**	**5.38**	**5.36**	**4.99**
Of which:										
Primary	*1.55*	*10.39*	*10.39*	*9.34*	*6.31*	*6.31*	*6.31*	*6.31*	*6.31*	*6.31*
Secundary	*1.26*	*10.74*	*10.74*	*9.75*	*6.42*	*6.42*	*6.42*	*6.42*	*6.42*	*6.42*
Higher	*4.26*	*3.86*	*3.86*	*3.55*	*4.92*	*5.04*	*4.91*	*4.69*	*4.52*	*3.98*
Transportation	**9.14**	**2.89**	**3.39**	**3.77**	**4.82**	**4.50**	**4.68**	**4.81**	**4.72**	**4.33**
Of which:										
National ground	*0.27*	*-5.23*	*2.09*	*1.63*	*7.16*	*-10.25*	*-2.41*	*-0.26*	*0.36*	*2.23*
Domestic	*8.08*	*3.51*	*3.70*	*4.00*	*4.54*	*5.01*	*5.06*	*4.93*	*4.86*	*4.40*
National air	*0.24*	*24.20*	*25.28*	*20.13*	*29.29*	*6.59*	*2.24*	*9.64*	*-1.97*	*2.58*
International air	*0.55*	*-9.05*	*-6.72*	*-3.82*	*1.46*	*2.12*	*2.05*	*3.48*	*6.84*	*4.80*
Health	**1.48**	**3.28**	**3.09**	**3.50**	**3.73**	**3.22**	**3.02**	**2.68**	**2.41**	**2.23**
Other services	**5.03**	**3.23**	**2.99**	**3.29**	**2.93**	**2.76**	**2.65**	**2.75**	**2.26**	**2.06**
Other personal services	**3.37**	**2.39**	**2.44**	**2.41**	**2.42**	**2.29**	**2.16**	**2.04**	**1.82**	**1.71**
Public services	**5.81**	**0.71**	**0.25**	**2.21**	**2.18**	**2.18**	**2.18**	**2.18**	**1.85**	**2.01**
Of which:										
Water	*1.37*	*1.32*	*0.00*	*7.48*	*7.48*	*7.48*	*7.48*	*7.48*	*7.48*	*7.47*
Rentals	**4.45**	**-0.19**	**-0.19**	**0.06**	**0.16**	**0.28**	**0.64**	**0.88**	**1.10**	**0.82**

Graph 97

CPI EXCLUDING FOOD AND ENERGY

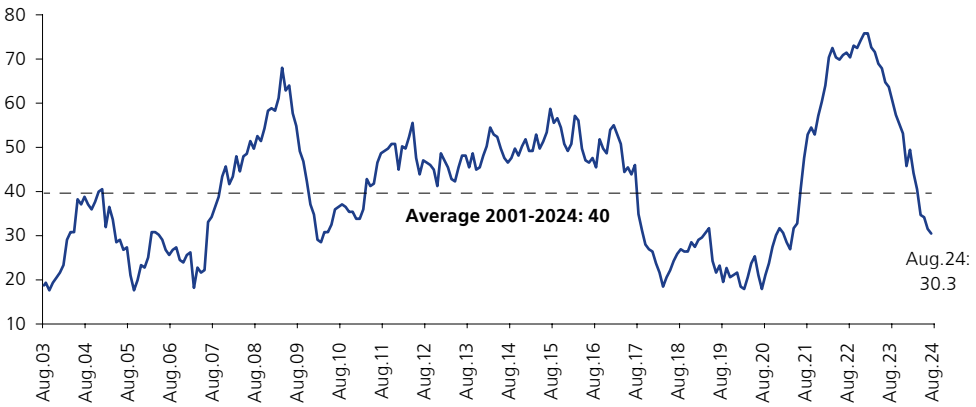
(Last 12 months % change)



101. Of the 188 items in the Consumer Price Index, 30 percent had a year-on-year fluctuation above 3 percent. This indicator peaked at 76 percent in February 2023 and has been falling since March, ending in August at its lowest level since April 2021 and below its long-term average (40 percent).

Graph 98

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



	Aug.23	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24
Index	64	61	57	55	53	46	49	44	40	35	34	31	30
Number of items:													
Items with variation higher than 3%	120	114	108	104	100	86	93	83	76	65	64	59	57
Items with variation lower than 3%	68	74	80	84	88	102	95	105	112	123	124	129	131

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

102. The items most closely linked to the exchange rate, international prices and contracts linked to the Wholesale Price Index (WPI) contributed 0.40 percentage points to cumulative inflation between January and August (2.10 percent).

Table 42

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

	Weight 2021=100	% chg. 12 months Dec.22	Weighted contribution	% chg. 12 months Dec.23	Weighted contribution	% chg. 12 months Jan.-Aug.24	Weighted contribution
CPI	**100.00**	**8.46**	**8.46**	**3.24**	**3.24**	**2.10**	**2.10**
Items linked to the exchange rate	**14.58**	**5.19**	**0.76**	**1.92**	**0.27**	**1.57**	**0.22**
Items linked to international prices and exchange rate	**7.99**	**11.40**	**0.91**	**1.44**	**0.12**	**1.56**	**0.13**
Linked to food commodities	5.84	15.21	0.89	3.96	0.25	0.69	0.04
Linked to Fuels	2.15	1.05	0.02	-6.36	-0.13	4.55	0.08
Items related to WPI	**1.37**	**7.90**	**0.11**	**1.32**	**0.02**	**7.47**	**0.10**
Items related to the exchange rate, WPI and international prices	**2.62**	**11.46**	**0.30**	**-7.11**	**-0.19**	**-1.84**	**-0.04**
Total items linked to the exchange rate, WPI and international prices	**26.56**	**7.82**	**2.08**	**0.82**	**0.22**	**1.55**	**0.40**
Rest	**73.44**	**8.69**	**6.38**	**4.10**	**3.02**	**2.29**	**1.70**

103. In 2024, inflation climbed by 2.10 percent from January to August. This result is mostly explained by a 2.3 percent increase in service prices, which accounted for 0.87 percentage points, with education services (5.0 percent), local transportation (1.9 percent), and water (7.5 percent) standing out. Price rises for meals out of the home (2.3 percent) contributed 0.35 percentage points, while fuel price growth (4.5 percent) provided 0.10 percentage point. This was partially offset by the 1.8 percent drop in electricity prices (-0.05 percentage point impact). Food prices in the household grew 2.3 percent, accounting for 0.56 percentage points.

Table 43

INFLATION

(Year-on-year % changes)

	Weight	Dec.20	Dec.21	Dec.22	Dec.23	2024	
						Aug.24/Dec.23*	Aug.24/Aug.23
CPI	**100.0**	**1.97**	**6.43**	**8.46**	**3.24**	**2.10**	**2.03**
1. CPI excluding food and energy	**55.3**	**1.76**	**3.24**	**5.59**	**2.90**	**2.05**	**2.78**
a. Goods	**17.4**	**1.5**	**2.6**	**5.3**	**2.7**	**1.5**	**2.0**
b. Services	**37.9**	**1.9**	**3.6**	**5.7**	**3.0**	**2.3**	**3.1**
Education	8.6	2.0	1.6	3.9	6.4	5.0	5.0
Health	1.5	1.2	2.8	7.3	3.3	1.5	2.2
Transportation	9.1	2.5	3.7	12.3	2.9	1.9	4.3
Water	1.4	3.0	11.6	7.9	1.3	7.5	7.5
Others	17.3	1.6	1.7	2.8	1.5	0.8	1.2
2. Food and energy	**44.7**	**2.22**	**10.18**	**12.02**	**3.63**	**2.16**	**1.19**
a. Food and beverages	**40.0**	**2.2**	**8.0**	**12.6**	**4.8**	**2.3**	**1.0**
Meals inside the home	24.5	2.9	9.8	14.5	3.7	2.3	-0.6
Meals outside the home	15.5	1.0	4.5	9.7	6.6	2.3	3.6
b. Fuel and electricity	**4.8**	**2.1**	**24.4**	**6.8**	**-6.8**	**0.9**	**3.5**
Fuel	2.1	-4.2	47.2	1.0	-6.4	4.5	4.0
Electricity	2.6	6.7	9.5	11.5	-7.1	-1.8	3.2

* Cumulative percentage change.

104. Education, meals away from home, local transportation, and whole and ground garlic had the largest beneficial impact on inflation from January to August (1.17 percentage points). Avocado, other tubers, and electricity made the most negative contributions (-0.19 percentage points).

Table 44
WEIGHTED CONTRIBUTION TO INFLATION: JANUARY - AUGUST 2024

Positive	Weight	% chg.	Contribution	Negative	Weight	% chg.	Contribution
Education	8.6	5.0	0.42	Avocado	0.2	-36.7	-0.10
Meals outside the home	15.5	2.3	0.36	Other tubers	0.1	-35.1	-0.05
Local transportation	8.1	2.2	0.19	Electricity	2.6	-1.8	-0.04
Whole and ground garlic	0.1	146.8	0.20	Tangerine	0.3	-15.1	-0.04
Water supply	1.4	7.5	0.10	National air transport	0.2	-17.7	-0.04
Eggs	0.7	10.4	0.10	Vegetable oil	0.4	-8.3	-0.03
Other fresh fruits	0.6	12.9	0.09	Corn	0.1	-12.5	-0.03
Motor vehicles	1.6	4.8	0.07	Papaya	0.2	-9.0	-0.02
Toiletries	4.0	1.7	0.07	Whole chili	0.1	-26.4	-0.02
Domestic gas	0.8	10.4	0.07	National land transport	0.3	-6.0	-0.01
Total			**1.67**	**Total**			**-0.38**

Food

The item "food away from home" increased 2.3 percent so far this year, recording an increase over the last twelve months (3.6 percent), in contrast to the fall in the price of food inside the home (-0.6 percent). This evolution reflected the higher demand for this service.

Prices of agricultural foodstuffs including avocado, *olluco* and corn improved degrading in the previous season by higher input prices and climate variability. Strong increases were recorded in products such as garlic due to lower planting and yields in the producing areas.

The price of whole and ground garlic accumulated 146.8 percent growth to August, reflecting declining production in Arequipa, the main source of garlic. Garlic cultivation in the last crop year was affected by lower water availability, higher temperatures and consequent phytosanitary problems. These factors continued to have an impact on supplies in August, a month in which whole garlic recorded the highest price increase (56.8 percent), while the price of ground garlic rose 37.7 percent due to the increase in the price of its main input, whole garlic.

The increase in the price of "other fresh fruit" (12.9 percent accumulated to August) was mainly due to the higher price of mangos and strawberries in the January-May period, a rise that was reversed as of June. Mango prices in the first months of the year rose due to lower supplies from Piura, as a result of the high temperatures that altered plant flowering

and yields. The price subsequently decreased due to the arrival of different varieties from the Cajamarca and Amazonas regions. The price of strawberries increased from February to April due to the seasonal factor. Subsequently, the arrival of the "San Andreas" and "Sabrina" strawberry varieties (grown in Lima), contributed to the price decrease in the rest of the period.

Avocado prices recorded successive declines from January to June. The price decline at the beginning of the year was due to increased harvesting in Lima where most of the "fuerte" variety is grown, and in Ica, as well as increased shipments from Arequipa, Ancash and Ayacucho. However, the price increased in July and August due to a lower supply of the better-quality product, which resulted in higher wholesale price (21.1 and 19.0 percent, respectively).

"Other tubers" prices fell 35.1 percent in January-August due to the lower price of *olluco*, as a result of greater plantings in Junín compared to the previous season, and increased rainfall. Likewise, the price of corn decreased 12.5 percent, mainly due to lower prices from January to April, also higher arrivals from Junín, the main supplying region at that time of the year. Subsequently, corn prices increased in June and July due to lower supplies from Ancash, where crops were affected by changes in rainfall patterns and by hailstorms and frosts. Subsequent to these hikes, prices fell again in August due to higher supplies from Arequipa.

Egg prices rose 10.4 percent, reflecting increases in February through April. Warm weather, mainly in February and March, hampered poultry productivity and increased the decline of product reaching markets. In addition, demand for eggs increased to prepare school lunch boxes in March and April. The price decrease in the following months was in line with seasonal demand.

Services

The price of education services, local transportation and water supply recorded the highest increases in January-August.

Education rose 5.0 percent, reflecting the increase in private schools and universities tuition at the beginning of the school year. In addition, tuition at universities and institutes of higher education increased for the rest of the period, as well as an increase in private tutoring to support schoolwork.

Local transportation (2.2 percent) recorded the highest increases in the months of February to April, which was influenced by the increase in motorcycle cab (tuk tuk) fares. Other factors driving the increase were higher private transportation to schools at the beginning of the school year and the readjustment of some Metropolitano fares (half fares for school children, university students and high school students).

The rate for potable water and sewerage service rose 7.5 percent in February, pursuant to the increase included in Sedapal's five-year plan for the period 2022-2026. This increase was approved by the Sunass regulator, based on the fulfillment of the utility's management goals.

Energy

Electricity rates fell 1.8 percent in the January-August period, partly driven by rate resetting in February and May (-1.2 percent in both months), which counterbalanced the August rise (0.6 percent). Cuts were mainly due a smaller generation component, after the quarterly revision of the tariff schedules pursuant to current legislation that includes adjustments to the compensation mechanism, which results from the differences between the price at generation level, defined ex ante by Osinergmin, and the prices set in long-term bidding contracts. The price rise in August was mainly due to the revision of the transmission component. The quarterly update of the stability of supply charges took into account changes in the exchange rate during the May-July 2024 period and other factors such as the variation of the wholesale price index and the lower projected peak demand, which increased fixed costs.

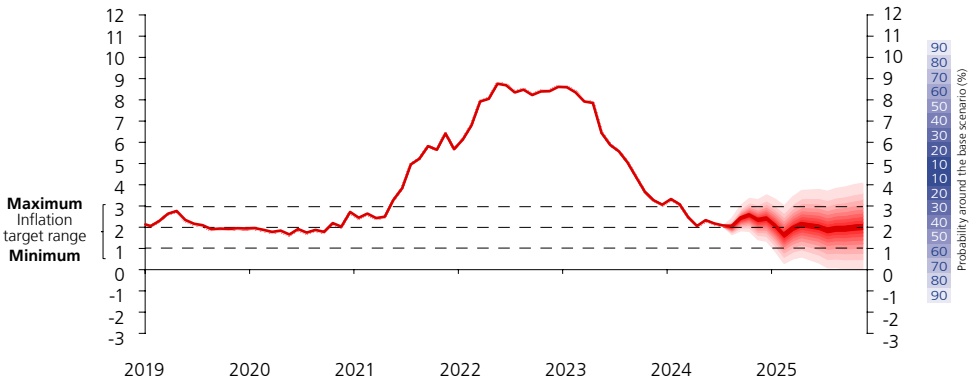
Forecasts

105. The BCRP designs and implements its monetary policy actions in response to inflation forecasts and inflation determinants over an 18 to 24-month horizon. For this purpose, all available macroeconomic and financial information is considered when preparing the projection. Inflation determinants include inflation expectations, imported inflation (which brings with it the effect of the exchange rate), non-food and energy inflation, and inflationary pressures associated with both demand and supply factors. Likewise, part of the process of preparing inflation forecasts includes quantifying uncertainty through different macroeconomic tools and models and, subsequently, the specification of risk scenarios together with their probabilities of occurrence. The following is the baseline scenario for the inflation projection of this Report, and the balance of risks that could cause an eventual deviation of the inflation trajectory with respect to said scenario, considering both the magnitude of the deviation and the probability of its occurrence.

Graph 99

INFLATION FORECAST: 2024 - 2025

(% change last twelve months)

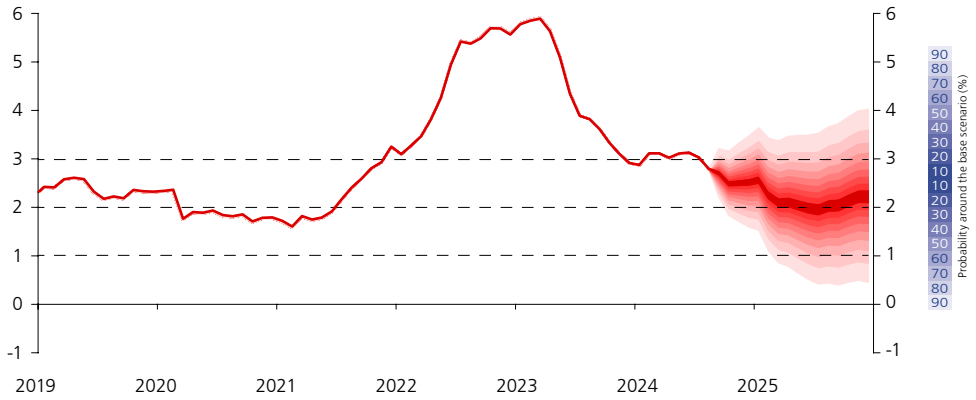


Note: This Fanchart presents the distribution of possible inflation projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates a 10%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

It is worth noting that the inflation projection includes the forecasts for several of its items, among which inflation excluding food and energy stands out. This component of inflation is important because it better reflects the demand components on which monetary policy operates; and, being the most persistent component of inflation, it behaves as its trend. Thus, the design of monetary policy also takes into account the gradual convergence of this indicator by considering that, over the projection horizon, the different inflation metrics converge to the same point.

An inflation rate of 2.3 percent is expected for 2024 (up from 2.2 percent in the June Inflation Report, due to a slower reversal of supply shocks) and 2.0 percent in 2025, as expected in the previous Inflation Report.

Graph 100
INFLATION EXCLUDING FOOD AND ENERGY FORECAST (SAE): 2024 - 2025
(% change last twelve months)

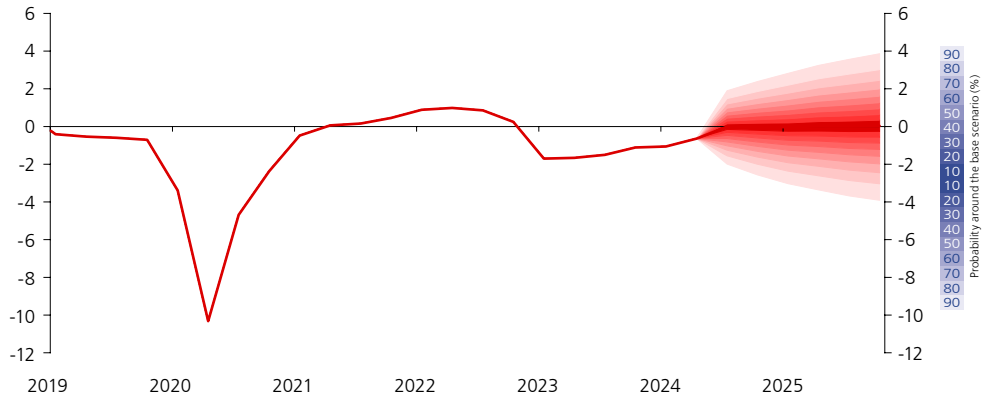


Note: This Fanchart presents the distribution of possible inflation excluding food and energy projection values over the projection horizon. Its central line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each 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.

In addition to the reversal of the effects of supply shocks, this forecast assumes the dissipation of transitory factors such as the exchange rate, international fuel and grain prices as economic activity approaches its potential level, and inflation expectations slip towards the middle of the target range.

106. Business confidence is gradually recovering from its low points in recent years, and it is assumed that this trend will continue over the forecasts horizon. Terms of trade are expected to remain favorable. As a result, the output gap is expected to close over the projection horizon.

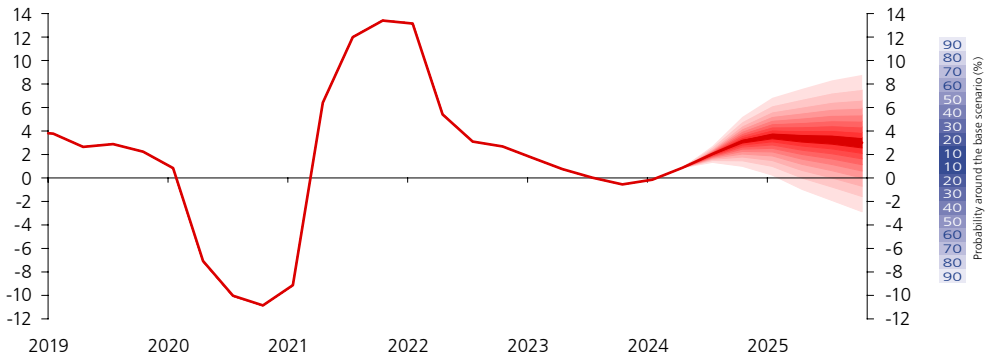
Graph 101
PROJECTED OUTPUT GAP: 2024-2025
(Percentage of potential output, quarterly average)



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.

107. In line with the evolution of the output gap and the estimated potential GDP, a moderate improvement of economic activity is expected.

Graph 102
PROJECTED OUTPUT GROWTH: 2024-2025
(Percentage change, 4 quarters moving average)

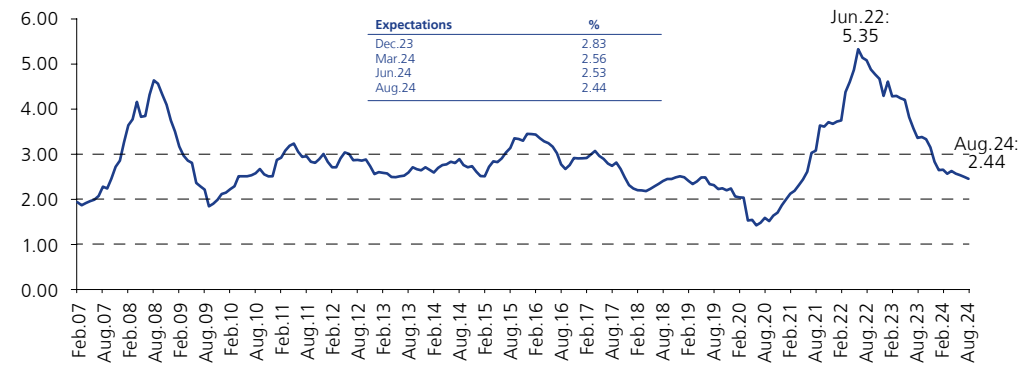


Note: This Fanchart presents the distribution of possible values of projected output growth over the projection horizon. Its center line is the mode of the distribution and shows the baseline scenario projection presented in this Inflation Report. Each pair of Fanchart bands (each shade) accumulates 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.

108. Inflation expectations, calculated based on surveys administered to financial and non-financial companies, as well as economic analysts, reveal a range for the expected inflation rate lower than the June Inflation Report, namely for 2024 between 2.45 and 3.0

percent, and for 2025 between 2.4 and 3.0 percent. Twelve-month inflation expectations in August 2024 fall to 2.44 percent.

Graph 103
TWELVE-MONTH INFLATION EXPECTATIONS
(% points)



Source: BCRP.

Table 45
INFLATION EXPECTATIONS SURVEY
(%)

	IR Mar.24	IR Jun.24	IR Sep.24
Financial entities			
2024	2.60	2.60	2.50
2025	2.50	2.50	2.40
Economic analysts			
2024	2.75	2.60	2.45
2025	2.50	2.50	2.45
Non-financial firms			
2024	3.00	3.00	3.00
2025	3.00	3.00	3.00

* Survey conducted as of August 30.
Source: BCRP.

109. Peru's inflation rate is also influenced by imported products (e.g., oil, wheat, soybeans, and maize) and exchange rate fluctuations (Sol vs. USD).

Thus, average import prices are expected to fall by 1.7 percent in 2024, owing to lower prices for some raw materials such as maize, wheat, and soybeans. By 2025, average import prices are predicted to rise by 0.5 percent. For its part, predicted exchange rate surveys as of August show levels ranging from S/ 3.76 to S/ 3.77 in 2024 and S/ 3.76 to S/ 3.80 in 2025.

The above-mentioned effects are expected to contribute to inflation's ongoing slide toward the middle of the target range (2.0 percent) over the forecast horizon.

Table 46
EXCHANGE RATE EXPECTATIONS SURVEY
(S/ per USD)

	IR Mar.24	IR Jun.24	IR Sep.24
Financial entities			
2024	3.80	3.75	3.77
2025	3.78	3.75	3.76
Economic analysts			
2024	3.75	3.75	3.76
2025	3.73	3.80	3.80
Non-financial firms			
2024	3.80	3.76	3.77
2025	3.80	3.80	3.80

* Survey conducted as of August 30.
Source: BCRP.

Risks to the inflation projection

110. The neutral bias in the risks to the inflation projection balance is maintained with respect to the previous Inflation Report, reflecting the following shocks:

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

  The occurrence of relatively intense natural phenomena could disturb some economic activities, the transport of perishable goods and the supply of domestic markets. These potential events could hike food prices and transportation costs. Worldwide, risks subsist that supply chains could be harmed by climatic or geopolitical factors disturbing maritime transportation, such as those that have reduced water levels in the Panama Canal or hampered transportation across the Red Sea.

  These risks would be counterbalanced by a likely further reversal of the shocks that affected the food and energy components in the consumer basket, maintaining its neutral balance similar to the previous Inflation Report.

- **Financial shocks**

  Greater volatility in international financial markets could trigger episodes of capital outflows in both advanced and emerging economies, as investors seek to recompose their portfolios based on new perceived profitability and risk. This greater volatility would be associated with high indebtedness in many of the world's economies, low economic growth prospects, uncertainty regarding the pace of monetary policy interest rate cuts in developed economies and the consequent response of international financial markets, and greater global risk aversion due to geopolitical tensions. On the domestic front, episodes of greater political uncertainty and social unrest could increase country risk, and thus amplify the eventual outflow of capital. Both factors could generate an upward pressure on the exchange rate, thus

contributing to higher inflation. The expected impact of this risk remains low (as reported in June).

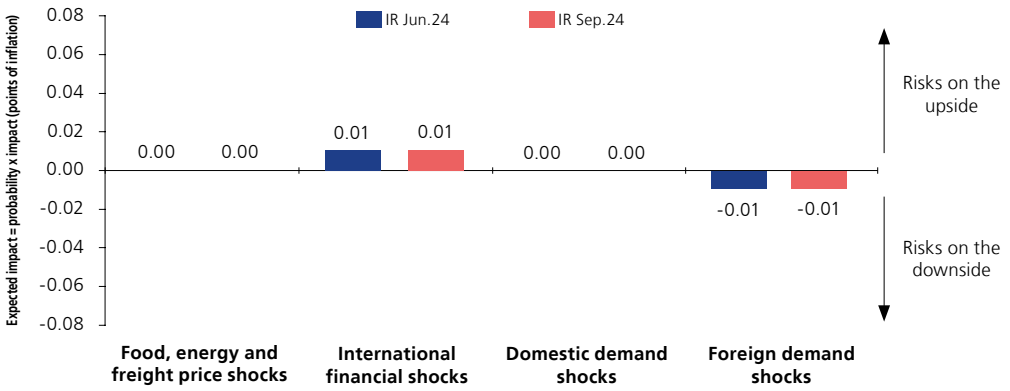
- **Domestic demand shocks**

  Political instability and societal discontent could have a negative impact on consumption and private investment growth. Lower private investment spending would result in less capital accumulation and thus less potential increase in economic activity. On the contrary, a speedier recovery in business confidence, greater dynamism in investment processes, and increased governmental spending (current and capital) might boost aggregate demand and promote higher economic growth, putting pressure on inflation. The projected impact of this risk remains neutral.

- **External demand shocks**

  There is still a possibility that global growth may decline, resulting in weaker demand for our key export products (external demand). This contingent scenario could be caused by: (i) increased geopolitical tensions; (ii) new disruptions in global supply chains (technological war between China and the United States), trade tensions between the United States, China, and other advanced economies, and higher logistics costs associated with foreign trade; (iii) the impact of persistent inflation on consumption; and (iv) the likely slowdown in China's economic growth. These dangers are largely offset by the potential for increased commerce as a result of higher commodity prices. The impact of this risk is the same as in the last Inflation Report.

Graph 104
INFLATION RISKS BALANCE SHEET

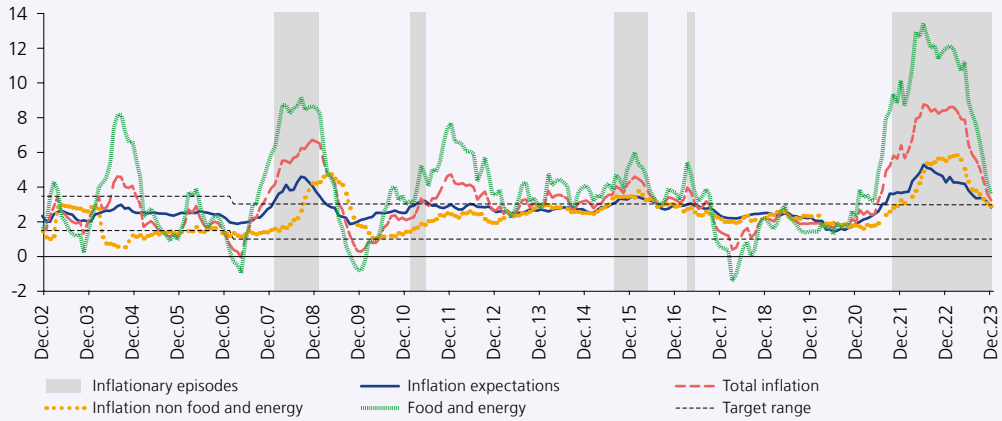


Source: BCRP.

Box 7
ANALYSIS OF THE INTER-TEMPORAL RELATIONSHIP BETWEEN INFLATION AND RELATED EXPECTATIONS.

Peru has been able to maintain low and stable inflation as part of its explicit inflation targeting (EIT) framework. As shown in the table below, inflation expectations have remained within the target range most of the time. However, in five episodes expectations outweighed the upper limit of the target range, the last one being the longest lasting. This box reviews the process of expectation formation, considering two factors, namely the contributions of new inflation data and the inflation forecasts published in the BCRP's Inflation Reports (IR).

INFLATIONARY EPISODES
(12-month % chg.)



Episodes	Date	Duration 1/	Max. Inflation Expectations	Max. Total Inflation	Max. Inflation SAE	Max. Inflation AE	Max. Exchange Rate	Max. Depreciation 12 months
Episode 1	Jan08-Feb09	14 months (21 months)	4.6	6.7	4.6	9.2	3.2	11.4
Episode 2	Mar11-Jun11	4 months (16 months)	3.2	4.7	2.6	7.7	2.8	-0.9
Episode 3	Jul15-Jul16	13 months (16 months)	3.5	4.6	3.8	6.0	3.5	15.1
Episode 4	Mar17-Apr17	2 months (9 months)	3.1	4.0	2.8	5.4	3.3	-1.6
Episode 5	Jul21-Nov23	29 months (33 months)	5.4	8.8	5.9	13.5	4.1	15.5

1/ The time during which inflation remains outside the target range is presented in parentheses.
Note: An inflationary episode is defined as those months in which inflation expectations outweigh the upper limit of the target range.
Source: BCRP.

To explore both factors we administer the Granger Causality test in two stages: first, a VAR is estimated with the variables of interest; and second, a joint null test on the equation of a variable of interest for the coefficients associated with the time lags of another selected variable. If joint nullity is rejected, it is concluded that the selected variable is a good predictor of the variable of interest, indicating the direction of the relationship between them.

First, we assess the relationship between different inflation indicators and 12-month inflation expectations using Granger causality tests. The sample includes data from the establishment of MEI in 2002 to July 2024. Furthermore, to explore potential nonlinearities, we also show the results after excluding the two longest inflationary periods in the sample: 2008 and 2021-2023.

Since all inflation measures are correlated, possibly because they share fundamental components, a vector autoregressive model (VAR) is estimated with SAE, AE, Goods, Services and inflation expectations,

so Granger tests will be performed on coefficients that consider the conditional effect of shocks relative to the other types of inflation.

As shown in the following table, Granger causality tests show evidence of double causality. Agents' expectations are formed based on past inflation, and inflation is explained by past values of expectations. This is true for both total, SAE and AE inflation. In addition, goods inflation is not a good predictor of expectations, while expectations formation does consider services inflation.

The previous exercise is repeated after excluding the two longest periods of expectations above the target range: 2008 and 2021-2023 to evaluate whether the generation of expectations differs between periods of stable or pronounced inflation. The results show that, in more stable periods, the formation of expectations does not consider SAE inflation, but does consider the most volatile measure, AE inflation, as well as total inflation. Also, information on goods and services inflation does not improve the capacity to predict inflation expectations. This is consistent with the hypothesis that, in periods of high inflation, agents form their expectations by looking more closely at current inflation values[62].

GRANGER CAUSALITY TEST RESULTS

Direction of Granger causality*		Granger test					
		Total Sample			Sample without strong inflationary episodes****		
		Statistical $\chi 2$	Prob.	Rejects H0 at 95% confidence	Statistical $\chi 2$	Prob.	Rejects H0 at 95% confidence
CPI***	From Expectations to Total Inflation	15.8	**0.00**	Yes	3.1	0.21	No
	From Total Inflation to Expectations	48.2	**0.00**	Yes	40.2	**0.00**	Yes
SAE	From Expectations to Inflation SAE	9.1	**0.01**	Yes	3.7	0.16	No
	From Inflation SAE to Expectations	8.5	**0.02**	Yes	5.9	0.05	No
AE	From Expectations to Inflation AE	9.7	**0.01**	Yes	1.3	0.53	No
	From Inflation AE to Expectations	48.3	**0.00**	Yes	37.8	**0.00**	Yes
Goods	From Expectations to Inflation Goods	8.3	**0.02**	Yes	7.7	**0.02**	Yes
	From Inflation Goods to Expectations	5.3	0.07	No	5.2	0.07	No
Services	From Expectations to Inflation Services	5.7	0.06	No	2.0	0.37	No
	From Inflation Services to Expectations	6.6	**0.04**	Yes	4.4	0.11	No

* Variable A "Granger-causes" variable B if evidence is found that A helps to predict B. In that sense, the null hypothesis, H0, is "time lags of variable A do not help predict the current values of variable B; therefore, Granger causality is identified when the null hypothesis is rejected.
** The strong inflationary episodes occurred between January 2008 and February 2009 and between July 2021 and November 2023.
*** The results are Granger tests on a multivariate VAR of variables: inflation of the total basket, that which excludes food and energy (SAE), goods and services items.

Second, the relationship between inflation expectations and inflation forecasts published in each IR is framed by BCRP's communication theory. Through its forecasts, BCRP's communication should have an impact on the formation of agents' expectations by anchoring them and facilitating the monetary policy function. Among the studies done for the Peruvian case we have Armas et al. (2011)[63] and Rossini et al.

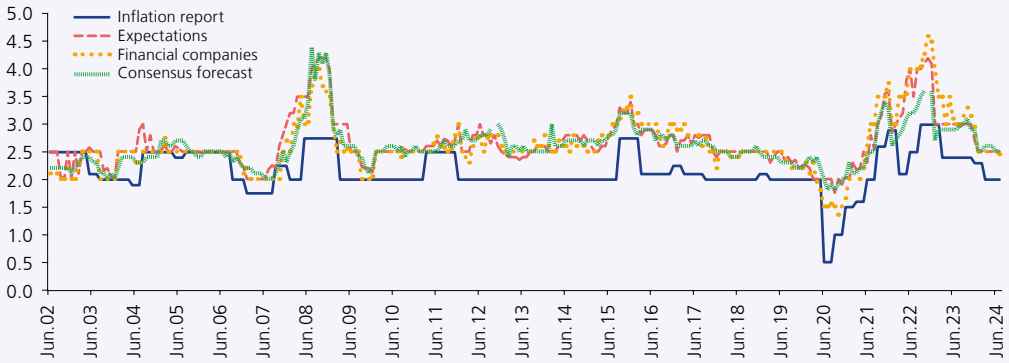
62 As a robustness exercise, it has been verified that these results hold when performing Granger tests on bivariate VARs between different types of inflation and inflation expectations. As well as when these tests are performed with more disaggregated inflation expectations metrics. These metrics include expectations from the BCRP survey of economic agents, financial institutions and non-financial firms, as well as from the Consensus Forecast surveys.

63 Armas A., L. Vallejo and M. Vega (2011), "Trend inflation indicators and their relevance as indicative monetary policy variables." Revista de Estudios Económicos 20, 27-56. BCRP.

(2016).[64] In line with Armas et al. (2011), we present the results of Granger tests between IR forecasts and inflation expectations by type of economic agent.

The surveys and the IR's forecasts both forecast similar expected inflation for the end of the current year and the following year. The forecasts and reported expectations for the end of the following year are shown in the graph where the IR forecasts tend to be closer to the inflation target and the survey expectations tend to be more volatile, although close to the target range.

INFLATION EXPECTATIONS OF ECONOMIC ANALYSTS VERSUS BCRP FORECASTS



Note: The chart reports the forecasts for December of the following year published in each BCRP Inflation Report. Between publications, the forecasts of the last published report are maintained. Agents' expectations also correspond to their inflation forecasts for December of the following year.

The table below reports the results of the Granger causality tests for expectations about the following year[65]. Regarding economic analysts, we find that IR forecasts predict expectations by agents but that the opposite is not true. This result is consistent with the hypothesis that analysts consider IR forecasts when forming their expectations as discussed in Armas et al (2011). Thus, there is evidence that the BCRP's communication is credible, and therefore, serves as an important mechanism to anchor expectations.

GRANGER CAUSALITY TEST RESULTS

Direction of Granger causality**		Granger Test - Total Sample		
		Statistical $\chi 2$	Prob.	Rejects H0 at 95% confidence
Economic analysts	From Projection Expectations to Projection IR	4.0	0.26	No
	From Projection IR to Projection Expectations	13.8	**0.00**	Yes
Financial Companies	From Projection Expectations to Projection IR	1.7	0.19	No
	From Projection IR to Projection Expectations	2.7	0.10	No
Consensus Forecast	From Projection Expectations to Projection IR	0.0	0.86	No
	From Projection IR to Projection Expectations	3.6	0.06	No

* Variable A "Granger causes" variable B if evidence is found that A helps predict variable B.

64 Rossini R., M. Vega, Z. Quispe and F. Perez (2016), "Inflation expectations and dollarization in Peru." Revista de Estudios Económicos 31, 71-84. BCRP.

65 Given the current year is nearly over, the simultaneity between IR forecasts and expectations (by agent type) means that the Granger causality test diagnoses that both forecasts and expectations significantly predict each other.

As in Armas et al. (2011), results vary for the rest of survey responding economic agents. This is a consequence of heterogeneity in the formation of expectations and the different ways of processing new information. The most outstanding case is that of non-financial companies, which more persistently update their expectations.

Keeping inflation expectations within the target range is fundamental for monetary stability, pursuant to the BCRP's constitutional mandate. This analysis of the direction in the relationship between relevant variables provides useful information for monetary policy formulation. Understanding how inflation expectations are formed and relate to various economic shocks allows designing more effective and timely monetary policy responses.

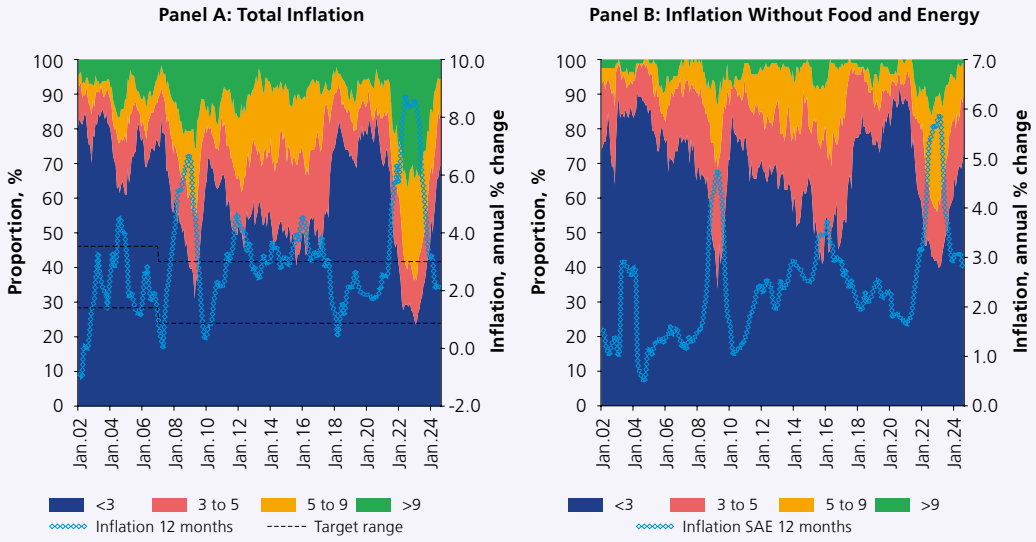
Box 8
RECENT EVOLUTION OF INFLATION DISTRIBUTION BY CATEGORY

Inflation is defined as a general increase in the prices of the consumer basket. However, it is a non-uniform phenomenon because prices per item change at different rates. This is a reflection of idiosyncratic supply and demand dynamics by productive sector. Heterogeneity stems from technological innovations, changes in consumer preferences, external fluctuations in supply and energy chains, among others[66]. In line with this, this box shows how the distribution of inflation by item impacts aggregate inflation and exposes the role of this distribution in price stability.

The following graph shows the behavior of inflation and the distribution of price variations of its components between January 2002 and August 2024. Four groups are considered: items with year-on-year percentage changes below 3 percent, between 3 and 5 percent, between 5 and 9 percent, and more than 9 percent. Both total inflation and its trends, inflation excluding food and energy (SAE inflation), fluctuated proportionately to group components, reflecting the underlying dynamics of inflation.

In general, the distribution of these variation groups is more stable in SAE inflation due to the high volatility of the food and energy inflation components (AE inflation) that make up total inflation.

INFLATION AND THE DISTRIBUTION OF THE SHARE OF CPI ITEMS BY YEAR-ON-YEAR PERCENTAGE CHANGE GROUPS



Note: In each figure, the right-hand axis corresponds to the 12-month inflation measure, and the left-hand axis refers to the proportion of CPI items that make up each 12-month percentage change group: below 3%, between 3% and 5%, between 5% and 9%, and above 9%.

66 For example, see the Box "Cumulative Inflation and Relative Price Change" of the March 2018 Inflation Report (https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2018/marzo/ri-marzo-2018-recuadro-6.pdf) and the Box "Relative Prices and Inflation in the Peruvian Economy" of the June 2024 Inflation Report for a stylized factual account of relative prices in Peru (https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2024/junio/reporte-de-inflacion-junio-2024-recuadro-5.pdf).

In periods of high inflation, there is a greater proportion of items in higher variation groups. Of note are the periods after 2008, when inflation experienced several supply shocks and outweighed the target range more frequently. These periods include the five episodes in recent history in which inflation expectations exceeded the upper limit of the target range[67].

This graph also shows that in periods of low inflation there is a high proportion of items in low variation groups. This indicates that prices in the consumer basket remained more stable. The periods before 2008 and between mid-2017 and 2020 stand out, when inflation remained at lower levels and around the center of the target range.

In the transition from periods of low and stable inflation to periods of high inflation, the items in groups of higher SAE inflation variation respond more slowly. The rates of change are mainly in the groups between 3 and 5 percent and between 5 and 9 percent. In periods of low inflation, the components of SAE inflation mostly show variations below 3 percent, within BCRP's inflation target range.

To appreciate the relative importance of price changes of CPI components, the following chart shows the contribution to inflation of different ranges of variation. The focus is on percentage changes around 3 percent, for the various categories of the non-food and energy CPI (CPI SAE) and food and energy CPI (CPI AE)[68]. Blue items are those whose prices fluctuate below 3 percent, and red items show variations above 3 percent. The light shades of red and blue correspond to CPI AE items, while the dark shades correspond to CPI SAE items. Likewise, the graph shows in vertical shades of gray the periods when inflation expectations exceed the target range. To the extent that the dynamics of the SAE items contribute more to the increase in inflation in such episodes, these are consistent with supply shocks.

Overall, over the 2002-2024 period, the CPI AE components show a higher proportion of items growing more than 3 percent. This contributes significantly to total inflation, especially in periods of high inflation. In inflationary episodes, CPI AE items drove the higher inflation episode. This is most evident in the inflationary periods starting in 2007 and 2021. Subsequently, these supply shocks spread, and after synchronization with the other inflation components, an increase in the contribution of SAE CPI items with variations greater than 3 percent is observed with a time lag[69].

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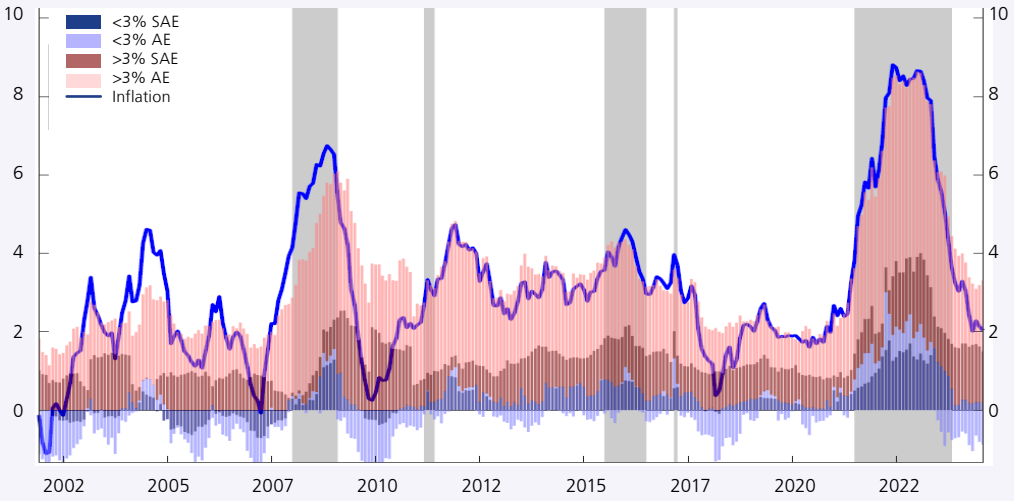
67 For details of Peru's historical experience with inflation shocks, see: the Box "Monetary Policy Response to Supply Shocks" of the March 2022 Inflation Report (see: https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2022/marzo/ri-marzo-2022-recuadro-6.pdf) and the Box "The Peruvian and International 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) and the Box "Relative Prices and Inflation in the Peruvian Economy" of the June 2024 Inflation Report (https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2024/junio/reporte-de-inflacion-junio-2024-recuadro-5.pdf).

68 For the 12-month inflation contribution between groups, we consider the weighted sum of the year-on-year variation of each item considering its weight in the CPI basket. Although this formula does not perfectly reproduce CPI inflation, the approximation is generally quite close and has the advantage of allowing simple decompositions for our analysis.

69 For an analysis of the price synchronization of CPI components in periods of high inflation, see Box "Disaggregated inflation analysis: changes in level, persistence and volatility over time" of the June 2024 Inflation Report (https://www.bcrp.gob.pe/docs/Publicaciones/Reporte-Inflacion/2024/junio/reporte-de-inflacion-junio-2024-recuadro-6.pdf).

It should be noted that the duration of these inflationary episodes is linked to the persistence of shocks to the CPI AE. Typically, after the reversion of expectations to the target range, a reversal is also observed in the CPI AE items, with negative contributions to inflation. This is followed by a time-lagged reduction in the positive contributions of the SAE CPI components.

CONTRIBUTION TO INFLATION BY AE AND SAE ITEM GROUPS WITH YEAR-ON-YEAR VARIATION ABOVE AND BELOW 3%



Note: The gray shaded areas indicate periods of inflation expectations above the target range. For the 12-month inflation contribution between groups, we consider the weighted sum of the year-on-year change of each item considering its weight in the CPI basket.

The graph below shows how the price variation distribution of CPI components has behaved at four different moments around the inflationary period 2021-2023. These moments are two periods prior to the Covid-19 pandemic crisis, when inflation was stable and around 2 percent (January 2019 and December 2019); June 2022 which corresponds to the highest inflation month of the last inflationary episode (8.8 percent); and August 2024 as the representative month of the ongoing normalization period.

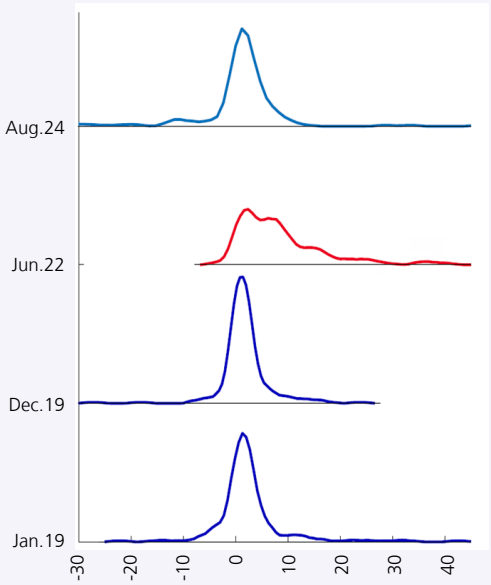
In the two months of low inflation (January 2019 and December 2019), the distributions of inflation, total and SAE, by items are similar. This is also observed in the localization moments (mean and median). Variations are concentrated in a defined way around a center value, and although there are extreme variations, these are not very influential.

On the other hand, when inflation is high, as in June 2022, the distributions become more dispersed, develop a marked bias towards very positive variations and, in the case of total inflation, multiple modes emerge. After the inflationary episode, the August 2024 distribution more closely resembles that of periods of stable inflation, especially in the case of SAE inflation. However, the central moments of the two distributions differ. The distribution for total inflation continues to exhibit two broad tails, indicating the presence of extreme positive and negative variations, with a steeper tail towards the latter. This could indicate the presence of multiple factors of relative price changes that still affect the dynamics of aggregate inflation, resulting in high uncertainty about its evolution in upcoming months.

This account shows the remarkable heterogeneity in the price variation of the different components of the consumer basket. In periods of high and low inflation, these components vary in their importance for the evolution of aggregate and trend inflation and, therefore, in the monetary policy decisions of BCRP.

PRICE VARIATION DISTRIBUTION OF CPI COMPONENTS FOR SELECTED POINTS IN TIME AROUND THE INFLATIONARY PERIOD 2021-2023

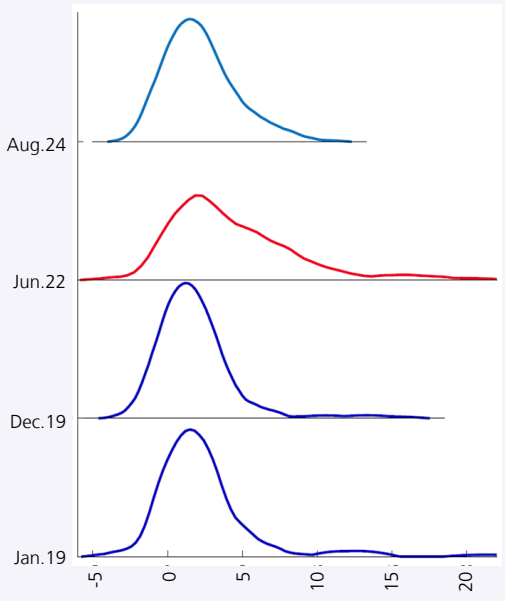
Panel A: Total Inflation



12 months % change

	Jan.19	Dec.19	Jun.22	Aug.24
Median	1.5	1.3	6.4	1.5
Mean	2.6	1.8	9.1	1.3
Standard Deviation	6.8	4.7	10.0	11.3
Skewness	2.2	-0.4	2.4	1.9

Panel B: Inflation Without Food and Energy



12 months % change

	Jan.19	Dec.19	Jun.22	Aug.24
Median	1.5	1.4	3.5	1.7
Mean	2.4	1.8	4.9	2.2
Standard Deviation	3.3	2.4	5.7	2.1
Skewness	3.1	2.9	2.8	1.1

Memo: Non-parametric densities of 12-month price variations of the CPI components, using the Epanechnikov kernel with amplitude 1.3 band.

When inflation is low and stable, differences in the inflation rates of CPI items do not significantly impact aggregate variables or the design of monetary policy because supply and demand factors between CPI components generate mutually offsetting changes in relative prices. In contrast, when inflation exceeds the target range, the distribution of price changes across categories is crucial for the BCRP. If high inflation is due to categories of little relevance in the consumer basket, it could be reversed by normalizing supply and demand factors within each category. However, if high inflation is generated by higher weighted items, it is more likely that the BCRP will need to adopt additional adjustments to regulate inflation.

In addition to constantly monitoring new information on inflation and its determinants, it is therefore important for the BCRP to pay attention to the dynamics of the distribution of variations within the CPI headings. This improves its ability to propose timely and adequate responses to possible inflationary risks.